

Davat Beverages Pvt. Ltd.

September 25, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long-term— Fund-based	18.52	[ICRA]BB- (Stable); assigned
Short-term— Non-fund based	0.50	[ICRA]A4; assigned
Total	19.02	

Rating action

ICRA has assigned the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 18.52-crore¹ fund-based limits of Davat Beverages Pvt. Ltd. (DBPL or the company)². ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 0.50-crore non-fund based limits of DBPL. The outlook on the long-term rating is Stable.

Rationale

The assigned rating takes into account the extensive experience of the promoters in the soft drinks industry and the company's established distribution network and reasonable brand presence in the Gujarat region. ICRA also positively factors in the healthy ramp up of operations in 5M FY2019 post new capacity additions in FY2018.

The ratings, however, are constrained by DBPL's relatively small scale of operations and its average financial risk profile as marked by moderate profit margins, leveraged capital structure and average debt coverage indicators. The ratings are further constrained by the high product concentration risk as a major part (~70%) the revenue is derived from the sale of Jeeru soda. ICRA also takes into account the vulnerability of its profitability to fluctuations in key raw material prices and the company's exposure to stiff competition in the soft drinks industry due to the presence of various organised and unorganised players.

Outlook: Stable

ICRA believes that DBPL will continue to benefit from the extensive experience of its promoters and its established distribution network. The outlook may be revised to Positive if substantial growth in revenue and profitability and better working capital management strengthens the financial risk profile. The outlook may be revised to Negative if any major debt-funded capital expenditure, or lower-than-anticipated cash accruals, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in soft drinks industry with an established distribution network – DBPL was promoted in 2017 by Mr. Chetanbhai Khanpara and Mr. Chandulal Khanpara to manufacture mango fruit juice and

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

carbonated drinks in various flavours. Mr. Chetanbhai Khanpara enjoys over two-decade experience in the soft drinks industry by virtue of his association with other Group companies involved in similar business. Till March 2018, the operations were carried out through its Group company, Bhavya Beverages, which has established a strong distribution network and reasonable brand presence in Gujarat over the years.

Healthy ramp up of operations in the current fiscal – Earlier, the operations were carried out in Bhavya Beverages. DBPL commenced its operations from March 19, 2018 after the business take over from Bhavya Beverages as well as capacity augmentation in FY2018. It reported an operating income (OI) of Rs. 2.79 crore in FY2018, however, the revenue improved significantly in the current fiscal with the company reporting Rs. 28.92 crore in 5M FY2019, although the scale of operations remains relatively small.

Credit challenges

Average financial risk profile – The company's profit margins remained moderate with an operating margin of 19.39% and a net margin of 0.53% in FY2018. Owing to its high debt level, because of the debt-funded capex and the relatively lower net-worth base, DBPL's capital structure remained leveraged with a gearing of 3.36 times and TOL/ TNW of 4.26 times in FY2018. The debt protection metrics also stood moderate as depicted by the interest coverage of 1.47 times and Total Debt/ OPBDITA of 1.44 times in FY2018. The gearing and Total Debt/ OPBDITA are likely to remain in the range of ~2.80-3.00 times in FY2019. Owing to raw material inventory requirements, DBPL's working capital intensity remains moderate in the range of ~9-12%.

Vulnerability of profitability to fluctuations in raw material prices – Sugar, concentrates, water, and preform of PET bottles are the key raw material needed to manufacture soft drinks. Hence, the company's profitability remains exposed to fluctuations in the raw material prices (mainly preform), which in turn depend on the price of crude oil.

Industry competition – The company faces competition from numerous organised as well as unorganised players manufacturing soft drinks. This limits DBPL's pricing flexibility and bargaining power with its customers, thereby putting pressure on its revenue and margins.

Analytical approach: ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

DBPL was incorporated in 2017 by Mr. Chetanbhai Khanpara and Mr. Chandulal Khanpara to take over the business of Bhavya Beverages (established in 2015). It manufactures mango fruit juice and carbonated drinks in various flavours such as cola, orange, lemon, Jeeru, apple and plain soda in various sizes such as 200 ml, 300 ml, 600 ml, 1.25 litre and 2.25 litre. Bhavya Beverages had its manufacturing facility in Moviya, Rajkot (Gujarat) with a manufacturing capacity of 400 bottle per minute (BPM) of carbonated drinks and 150 BPM for mango juice. DBPL took over its business w.e.f. March 19, 2018 and also set up a new unit at Nasik (Maharashtra). It also imported a new manufacturing line from Germany for carbonated drinks manufacturing having the capacity of 500 BPM. Hence, at present, it has two manufacturing facilities, at Moviya, Rajkot (Gujarat) and Nasik (Maharashtra), with the combined manufacturing capacity of 150 BPM of mango juice and 900 BPM of carbonated drinks. It sells the products under the brand name of 'Davat'.

In FY2018 (13 days of operation), the company reported a net profit of Rs. 0.01 crore on an OI of Rs. 2.79 crore.

Key financial indicators (Audited)

	FY2018*
Operating Income (Rs. crore)	2.79
PAT (Rs. crore)	0.01
OPBDIT/ OI (%)	19.39%
RoCE (%)	-
Total Debt/ TNW (times)	3.36
Total Debt/ OPBDIT (times)	1.44
Interest Coverage (times)	1.47
NWC/ OI (%)	4%

Source: Group companies' financials and ICRA research; *13 days of operations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Cash Credit	Long Term	3.25	-	[ICRA]BB-(Stable)	-	-
2	Term Loan	Long Term	15.27	15.27	[ICRA]BB-(Stable)	-	-
3	Bank Guarantee	Short Term	0.50	-	[ICRA]A4	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	3.25	[ICRA]BB- (Stable)
NA	Term Loan	FY2018	NA	FY2025	15.27	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A4

Source: Davat Beverages Pvt. Ltd.

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