

## Bindu Recepties Private Limited

December 06, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-NCD	20.00	20.00	[ICRA]BB (Stable); outstanding
Long term-NCD	-	5.00	[ICRA]BB (Stable); assigned
<b>Total</b>	<b>20.00</b>	<b>25.00</b>	

\* Instrument details mentioned in Annexure-1

### Rationale

The assigned rating factors in the extensive experience and track record of the promoters in the bakery industry; Just Bake's strong brand presence and widespread distribution network of the company in its key operating markets of South India, and its shift to the hub and spoke model of manufacturing from FY2017 onwards, which has enabled scalability and expansion beyond the vicinity of manufacturing unit while following the asset light franchise model. The assigned rating also takes into account the future revenue potential by expansion in eastern markets, tie up with food aggregators in addition to undertaking various cost saving measures that will help the company in margin growth.

The rating is, however, constrained by the highly leveraged capital structure of the company due to low networth base and high debt levels availed for the capacity expansion of manufacturing facility and setting up of additional finishing units; its exposure to high competition in the domestic bakery market given the presence of several dominant and well-known players; and high geographic concentration given the company's large presence in South India especially in Karnataka. Going forward, the company's ability to scale up in a profitable manner by achieving optimal capacity utilization levels at the earliest and generate commensurate returns to support its capitalisation and debt coverage indicators will be critical from the credit perspective.

### Outlook: Stable

ICRA believes BRPL will continue to benefit from its established business relations with its clientele and expanding footprint in the new geographies. The outlook may be revised to 'Positive' if there is substantial improvement in the profitability indicators while increasing the scale of operations. The outlook may be revised to 'Negative' if the reliance on external borrowings increases further resulting in further deterioration of the capital structure, or lack of commensurate returns from the proposed capex impacts the financial profile and overall liquidity position.

### Key rating drivers

#### Credit strengths

**Experienced promoters with long track record of operations; established presence of 'Just Bake' brand in South India with 181 retail outlets across key cities--** BRPL manufactures and sells cakes, desserts, cookies and savouries such as 'samosa' and puffs under the brand name 'Just Bake' which has grown over the years due to its popularity in the South India. As on date, BRPL has 181 outlets across key cities with maximum outlets in Karnataka, where it has its centralized manufacturing facility in Bangalore.

**Healthy scale up of operations supported by asset light franchise-based operations and hub and spoke model of manufacturing** – From FY2017 onwards, BRPL started following a hub and spoke model of manufacturing wherein semi-finished products from the centralised manufacturing facility in Bengaluru are sent to finishing units in Hyderabad and Kerala, from where the final products are dispatched to various outlets. All the outlets of the company are managed by franchises under the COFO (Company Owned Franchisee Operated) model. The entire store infrastructure is set up by BRPL using the security deposits collected from franchise which is then handed over the ready to operate outlet. The asset light model of operation reduces the capital requirement and has enabled BRPL to expand its operations at a healthy pace, as reflected by 23% growth in revenues in FY2018. The operating profitability of the company has witnessed improvement in the last three fiscals on the back of automation and streamlining of the manufacturing processes. The operating profit margins stood at 10.18% in FY2018 as compared to 9.40% in FY2017.

**Established relationships with suppliers and centralised procurement helps to benefit from bulk discounts-** BRPL has long standing relations with its major suppliers which form about 35-40% of its total purchases. The company has started following centralized procurement at Bengaluru from FY2017 onwards in order to get the bulk discounts, remove the presence of middlemen in procurement, and reduce the transportation and delivery cost. Due to the long-standing relations with the vendors, BRPL enjoys several benefits in terms of customisation of the product as per their requirement and pricing.

## Credit challenges

**Leveraged capital structure due to debt funded capex and low net worth base** – The total debt of the company increased to Rs. 29.80 crore as on March 31, 2018 from Rs. 8.91 crore as on March 31, 2017 and comprised Rs 20.00 crore of NCD availed for funding the capacity expansion of the manufacturing facility and setting up of additional finishing units, Rs. 6.92 crore of term loan and Rs 2.88 crore of working capital borrowings. Given the low net worth base of Rs. 0.80 crore and high debt levels, the company's capital structure remained leveraged as reflected by a gearing of 37.20 times as on March 31, 2018, increased from 8.02 times as on March 31, 2017. Nonetheless, the debt coverage indicators stood adequate with interest coverage at 3.54 times, NCA/Total Debt of 15% and Total Debt/OPBDITA of 4.88 times as on March 31, 2018 as compared to interest coverage at 5.53 times, NCA/Total Debt of 44% and Total Debt/OPBDITA of 1.94 times as on March 31, 2017.

**Future debt funded capex to exert further pressure on the capital structure in the near term; commensurate returns from the capex with optimal capacity utilization remains to be seen** – The company plans to expand its operations by opening outlets in new and existing markets and accordingly set up finishing units at different locations to support the hub and spoke model of manufacturing. The company has already issued Non-Convertible Debentures (NCD) of Rs 20.00 crore in FY2018 and is looking to issue additional Rs 5.00 crore of NCD, to fund the capex and expansion plans. The same is likely to exert further pressure on the capital structure in FY2019 and will keep the gearing at higher level compared to previous fiscal. The company's ability to complete the envisaged debt-funded capex in a timely manner, scale up in a profitable manner by achieving optimal capacity utilization levels at the earliest to generate commensurate returns remains to be seen and will be critical from the credit perspective.

**Exposure to strong competition from other established cake brands as well as cafes selling similar items** - BRPL operates in a highly competitive bakery industry with its major competitors including Monginis, Ribbons and Balloons, The French Loaf, Sweet Chariot and Bakers Inn. Apart from these branded outlets, it also competes with unbranded bakeries and cafes offering similar items in Bengaluru and other cities in South India. The same limits the company's ability to attract franchises and raise the prices of its products.

**Geographically concentrated business with majority of stores in Bengaluru-** The operations of the company are mainly concentrated in Karnataka with the central manufacturing facility in Bengaluru. Also, out of the existing 181 stores, maximum number of outlets are located in Karnataka followed by Telangana and Andhra Pradesh and few in Kerala, exposing it to geographic concentration risk.

### Liquidity Position:

The company's liquidity position remains modest with negative free cash flows due to high debt funded capex in FY2018 and is expected to remain under pressure with proposed debt funded capex in FY2019. The company has cash and liquid investments of Rs. 1.65 crore as on September 30, 2018. The company had limited cushion available in the form of unutilised working capital borrowings as reflected by almost full utilisation of limits during the 12-month period ended September 2018; nonetheless, the company's NCD repayment obligations remain limited till FY2020 which provides some comfort.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on consolidated financial statements of the issuer. As on March 31, 2018 the company has 1 fully owned subsidiary

### About the company:

Bindu Recepties Private Limited (BRPL/the company), founded and promoted by Mr. Rami Reddy and Mrs. Himabindu Reddy in 2005, is a Bengaluru-based cake chain, which operates under the brand name "Just Bake" in South India with 181 outlets in towns across Karnataka, Andhra Pradesh, Telangana and Kerala. Its product range comprises cakes and pastries, savouries, cookies, etc. BRPL started its operations in 2005 as a proprietorship firm and was converted into a private limited company on April 28, 2011.

The company's first store was opened in Indira Nagar, Bengaluru in 2006 and in the initial few years it was a key supplier to Café Coffee Day in South India. BRPL has the necessary approvals from Food Safety Standard Association of India (FSSAI) and has additional quality certifications such as ISO 2000:2005.

In FY2018, the company reported a net loss of Rs. 0.31 crore on an operating income of Rs. 59.96 crore, as compared to a net loss of Rs. 0.09 crore on an operating income of Rs. 48.92 crore in the previous year.

### Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	48.92	59.96
PAT (Rs. crore)	(0.09)	(0.31)
OPBDIT/ OI (%)	9.40%	10.18%
RoCE (%)	15.27	5.01%
Total Debt/ TNW (times)	8.02	37.20
Total Debt/ OPBDIT (times)	1.94	4.88
Interest coverage (times)	5.53	3.54

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Sr. No	Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating Dec 2018	Nov 2018	Date & Rating FY2018		Date & Rating FY2016
						Jan 2018	May 2017	-	
1	NCD	Long Term	20.00	20.00*	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2	NCD	Long Term	5.00	0.00#	[ICRA]BB (Stable)	-	-	-	-

\* as on November 30,2018, # proposed

**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](http://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
INE496X07011	NCD	Jun 2017	12%	Jun 2020	1.00	[ICRA]BB(Stable)
INE496X07029	NCD	Jun 2017	12%	Jun 2021	1.50	[ICRA]BB(Stable)
INE496X07037	NCD	Jun 2017	12%	Jun 2022	2.50	[ICRA]BB(Stable)
INE496X07045	NCD	Jun 2017	12%	Jun 2023	2.50	[ICRA]BB(Stable)
INE496X07052	NCD	Jun 2017	12%	Jun 2024	2.50	[ICRA]BB(Stable)
INE496X07060	NCD	Nov 2017	12%	Dec 2020	0.50	[ICRA]BB(Stable)
INE496X07078	NCD	Nov 2017	12%	Dec 2021	0.75	[ICRA]BB(Stable)
INE496X07086	NCD	Nov 2017	12%	Dec 2022	1.25	[ICRA]BB(Stable)
INE496X07094	NCD	Nov 2017	12%	Dec 2023	1.25	[ICRA]BB(Stable)
INE496X07102	NCD	Nov 2017	12%	Dec 2024	1.25	[ICRA]BB(Stable)
INE496X07110	NCD	Feb 2018	12%	Mar 2025	5.00	[ICRA]BB(Stable)
-	NCD*	Dec 2018	12%	Dec 2025	5.00	[ICRA]BB(Stable)

Source: Bindu Recepties Private Limited, \* proposed NCD

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Baketeck Private Limited	100.00%	Full Consolidation

Source: Bindu Recepties Private Limited

## ANALYST CONTACTS

K. Ravichandran  
+44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

Suprio Banerjee  
+022-6114 3443  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

Tushar Bharambe  
+022- 6169 3350  
[tushar.bharambe@icraindia.com](mailto:tushar.bharambe@icraindia.com)

Kunal Dhatingan  
+020- 6606 9924  
[kunal.dhatingan@icraindia.com](mailto:kunal.dhatingan@icraindia.com)

## RELATIONSHIP CONTACT

Jayanta Chatterjee  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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