

DS Drinks and Beverages Pvt. Ltd.

May 06, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities (Cash Credit)	10.00	[ICRA]BB+ (Stable); assigned
Long-term fund-based bank facilities (Term Loans)	40.00	[ICRA]BB+ (Stable); assigned
Long-term/ Short-term- Unallocated Limits	10.00	[ICRA]BB+ (Stable)/ A4+; assigned
Total	60.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings derive comfort from the financial flexibility available to DS Drinks and Beverages Pvt. Ltd. (DS Drinks) as a part of the established Dharampal Satyapal (DS) Group as well as the demonstrated track record of regular and timely funding support received from the promoter group over the years. While assigning the ratings, ICRA has also derived comfort from the company's favourable market positioning in the premium bottled water segment, its association with the renowned umbrella brand of the group, 'Catch', as well as its access to an established distribution network. Even though the company has a favourable operating profile, its performance in terms of capacity utilisation, growth rates and profitability has been constrained by machinery obsolescence, intense competitive pressures, locational constraints and presence in limited geographies that limits volumes. As a result, the company has a modest financial risk profile characterised by low profitability and weak debt coverage metrics, which keeps it dependant on regular funding support from the promoters. To expand its reach and address some of the operational bottlenecks, the company is in the process of setting up a greenfield unit, at an estimated cost of ~Rs. 60 crore, proposed to be completed by June 2019. While this would help DS Drinks significantly scale up operations in the more profitable product segments, its ability to complete the project and obtain requisite approvals in a timely manner as well as achieve healthy capacity utilisation post commissioning by getting the products absorbed in the market, would remain critical for its credit profile. This is more so given the large scale of expansion as well as reliance on debt for part funding of the capex, because of which the repayment obligations are scheduled to increase significantly from FY2020 onwards. ICRA also considers the vulnerability of the company's profitability to any fluctuations in raw material prices (mainly preforms) and its exposure to any regulatory risks, given compliance requirements with safety, health and environment laws, the state's involvement in regulating water resources, as well as increasing restrictions on use/ recycle of polyethylene (PET) bottles.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that DS Drinks will continue to benefit from the strong financial flexibility it has being a part of the DS Group as well as its access to a renowned brand and an established distribution network. ICRA also expects DS Drinks to complete and commission the greenfield capacity in a timely manner, which should help it achieve a significant growth in scale as well as a gradual, yet consistent, improvement in profitability supported by economies of scale and increase in the share of more profitable product segments. The outlook may be revised to Positive if the company achieves a higher-than-anticipated improvement in scale and profitability, which makes it self-reliant in terms of debt servicing. The outlook may be revised to Negative in case of any delay in commissioning or stabilising the new unit, or in case of lower-than- envisaged cash accruals, which significantly increases the extent of reliance on promoters for funding support. Alternatively, any development which increases the support expectations

from the promoter group or reduces the likelihood of continued support from the promoters may warrant a revision in outlook to Negative.

Key rating drivers

Credit strengths

Financial flexibility emanating from being a part of the established DS Group - The key promoter of DS Drinks, Mr. Ravinder Kumar, is the chairman of the DS Group, with extensive experience in the tobacco and beverages industry. The Group enjoys a leadership position in the domestic *pan masala* and flavoured chewing tobacco industry with an experience of over eight decades. The flagship entity of the Group, Dharampal Satyapal Limited (DSL, rated [ICRA]AA-(Stable)/A1+), manufactures and markets *pan masala*, sweetened betelnuts, dairy products and confectionaries under the brands, 'Rajnigandha', 'Toofani', 'Royal Gold', 'Pass Pass', 'Chingles', 'Ksheer', 'Tansen', 'Pulse', etc. In addition to these products and sizeable investments in hotels and real estate, the Group manufactures chewing tobacco and rubber thread products. It also has a presence in the food and beverage (F&B) segment through a wide range of products under the umbrella brand, 'Catch'. While the beverages business under the Catch brand is housed under DS Drinks, the spices business is run by DS Spiceco Private Limited (rated [ICRA]A+(SO)(Stable)). Besides strong operational interlinkages resulting from a common brand name across entities in the DS Group, there is a demonstrated track record of regular and timely funding support from the promoters to fund cash shortfalls and repayment obligations, which renders healthy financial flexibility to DS Drinks. Over the years, promoters have infused more than Rs. 34 crore in the company (till FY2019) in the form of unsecured loans, deposits and preference capital.

Access to a renowned brand name and strong distribution network - The company sells its products under the Group's umbrella brand, 'Catch'. The brand is owned by a Group company, Dharampal Satyapal Sons Private Limited, for which DS Drinks pays royalty on an annual basis. Although present in limited regions (primarily North India) in the beverages segment, the brand has an established presence and recall value in the markets it is present in. Further, the company has built a strong distribution network of dealers as well as direct channel partners under the HORECA (Hotel/Restaurant/Cafe) segment, with the direct channel mainly driving revenues.

Credit challenges

Moderate scale of operations and exposure to intense competition - The company's scale of operations is moderate at ~Rs. 72 crore (in FY2019E). Further, its revenue has grown at a subdued rate of ~6-8% over the past few years (CAGR of ~8% in FY2015-FY2019) amid focus on the niche premium product segment (natural mineral water), capacity constraints owing to machinery obsolescence, presence in limited geographies and intense competitive pressures. The company faces competition from several large and established, organised (prominent competing brands in the natural mineral water segment being Himalayan and Vedica) as well as unorganised players across its product segments.

Sizeable debt-funded capital expenditure in progress - The company is currently in the process of undertaking a sizeable capital expenditure, which will increase its manufacturing capacity by 494 million bottles per annum over the next one year, from ~88 million bottles per annum at present. The capex involves setting up a greenfield unit in Baddi (Himachal Pradesh) at an estimated cost of Rs. 60 crore. While the capital expenditure will allow the company to achieve a healthy growth in its scale of operations across product segments, while specifically increasing its focus on the faster-growing flavoured beverage segment in the medium term, the project execution and operational risks remain. The company's ability to commission the project within the scheduled cost and time by obtaining all requisite approvals, as well as profitably scale up operations post commissioning, remains to be seen. This is more so considering the intense competitive pressures in the segment, which would necessitate sizeable marketing spends to gain market share. Further, the capital expenditure is being funded with a long-term debt of Rs. 40 crore, which is repayable over five years. Given

that the company's annual repayment obligations are scheduled to nearly double, the extent of ramp up in scale and profits remains critical and will determine the extent of reliance on funding support from promoters, going forward.

Modest financial risk profile – High competitive intensity in the business necessitates sizeable spending on advertising and marketing. Although the company reported an improvement in operating margins from ~2.7% in FY2017 to ~6.07% in FY2018 with some rationalisation in marketing and distribution expenses, the profitability remains modest. Further, due to inadequacy of cash profits over the years vis-à-vis the debt repayment obligations, the company's coverage metrics have remained weak as reflected by a DSCR of less than 1x and interest cover of less than 2.0 times over the past three years. As a result, the company has remained reliant on funding support from its promoters and associates over the years, which has come mainly in the form of interest-bearing unsecured loans. With high reliance on debt (including interest-bearing debt from the promoter group), the company's capital structure remains leveraged with a gearing of 1.53 times and TOL/TNW of 2.29 times as on March 31, 2018, which is estimated to have increased further in FY2019 due to the ongoing debt-funded capex.

Vulnerability of profitability to fluctuations in raw material prices - Sugar, concentrates, water, and preform of PET bottles are the key raw materials for manufacturing spring water, soda water and flavoured beverages. Although the cost of other inputs is not sizeable, the company's profitability remains exposed to fluctuations in preform prices, which depend on the price of crude oil. This is more so with the company's limited ability to pass on the increase in raw material prices to its customers.

Exposure to regulatory risks - The company sources natural water and, hence, its ability to get continued access to required volume of water at required quality and reasonable costs remains critical, more so as the new unit would be reliant on underground water. Further, it also remains exposed to any regulatory risks, given the compliance requirements with safety, health and environment laws, the state's involvement in regulating water resources, approvals required for commencement of operations and restrictions on the use of PET bottles.

Liquidity position

Although the company has inadequate cash accruals from business to support the scheduled debt obligations, regular infusion of funds by promoters has helped it keep the utilisation of sanctioned working capital limits low and its liquidity position comfortable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Ratings factor in the financial flexibility emanating from being a part of the established DS Group
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of the rated entity. As on March 31, 2018, the company had a subsidiary, which is listed out in Annexure-2.

About the company

Incorporated in 2013, DS Drinks and Beverages Private Limited (DS Drinks) is a part of the DS Group. The company manufactures and bottles natural spring water, soda water, and flavoured beverages (primarily flavoured water) in various flavours (such as mango, lemon, ginger, peach and blackcurrant) and various sizes (mainly 200 ml). The products are sold under the brand, 'Catch'.

At present, the company has two manufacturing units in Kullu (Himachal Pradesh), with a total processing capacity of 36 million bottles per annum for natural mineral water and 51.84 million bottles per annum for soda water and flavoured beverages. The company is also in the process of setting up a greenfield unit in Baddi (Himachal Pradesh) with a total installed capacity of 494 million bottles per annum. On completion of the project, the bottling of flavoured beverages will be moved to Baddi, while the Kullu units will continue processing natural spring water and soda water.

In FY2018, the company reported a net loss of Rs. 1.13 crore on an Operating Income (OI) of Rs. 71.57 crore, as compared to a net loss of Rs. 0.23 crore on an OI of Rs. 64.57 crore in the previous year.

Key financial indicators- Consolidated (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	64.57	71.57
PAT (Rs. crore)	-0.23	-1.13
OPBDIT/ OI (%)	2.70%	6.07%
RoCE (%)*	4.73%	1.19%
Total Debt/ TNW (times)	1.31	1.53
Total Debt/ OPBDIT (times)	14.90	6.57
Interest Coverage (times)*	2.54	3.06

Source: DS Drinks' Annual Reports and ICRA research; *adjusted for intra-group transactions

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loan	40.00	NA	[ICRA]BB+ (Stable)	-	-	-
2	Cash Credit	6.00	NA	[ICRA]BB+ (Stable)	-	-	-
3	Cash Credit (Proposed)	4.00	NA	[ICRA]BB+ (Stable)	-	-	-
4	Unallocated Limits	10.00	NA	[ICRA]BB+ (Stable)/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	Term Loan	FY2019	NA	FY2024	40.00	[ICRA]BB+ (Stable)
NA	Cash Credit	NA	NA	NA	6.00	[ICRA]BB+ (Stable)
NA	Cash Credit (Proposed)	NA	NA	NA	4.00	[ICRA]BB+ (Stable)
NA	Unallocated Limits	NA	NA	NA	10.00	[ICRA]BB+(Stable)/ A4+

Source: DS Drinks and Beverages Pvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Himachal Plywoods Private Limited	100.00%	Full Consolidation

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