July 17, 2019 Revised

Davat Beverages Pvt. Ltd.: Ratings upgraded to [ICRA]BB/[ICRA]A4+; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	3.25	3.25	[ICRA]BB(Positive); upgraded from [ICRA]BB-(Stable)
Fund-based - Term Loan	15.27	15.27	[ICRA]BB(Positive); upgraded from [ICRA]BB-(Stable)
Non-fund Based -Bank Guarantee	0.50	0.50	[ICRA]A4+; upgraded from [ICRA]A4
Total	**19.02**	**19.02**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors the significant scale up of operation of Davat Beverages Pvt. Ltd. (DBPL) in FY2019 and Q1 FY2020, supported by stabilisation of operations and expansion in distribution network. The company reported sales of Rs. 71.55 crore in FY2019, its first full year of operations. It registered robust growth in Q1 FY2020, with sales increasing by ~2.30 times on a YoY basis. ICRA takes note of the equity infusion worth Rs. 3.50 crore in FY2019, which improved the capital structure. Further, the ratings positively factor in the extensive experience of the promoters in the soft drinks industry and the reasonable brand presence in the Gujarat region.

The ratings, however, are constrained by DBPL's modest scale of operation and its average financial risk, marked by average profit margins, modest 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 a single product (Jeeru soda). However, the company's effort to expand the product portfolio by launching of new flavours in the juice segment and entering the energy drinks market is likely to diversify the revenue base. ICRA also takes into account the vulnerability of DBPL's profitability to adverse fluctuations in key raw material prices and its exposure to stiff competition in the soft drinks industry due to the presence of various organised and unorganised players.

Outlook: Positive

ICRA believes DBPL's revenue will grow at a healthy rate over the next two years, supported by robust volume growth, enhancement in production capacity and growth in distribution network and reasonable brand presence in the Gujarat region. Further, healthy growth in scale and improvement in debt protection metrics and overall financial risk profile could result in a rating upgrade. The outlook may be revised to Stable if revenues and cash accruals are lower than expected, or if any major debt-funded capital expenditure or stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of promoters in soft drinks industry – DBPL was promoted in 2017 by Mr. Chetanbhai Khanpara and Mr. Chandulal Khanpara. The company manufacture mango fruit juice and 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 a growing distribution network and reasonable brand presence in Gujarat.

Successful scale up of operations in FY2019; healthy revenue growth expected in FY2020 – DBPL commenced its operations on March 19, 2018, after it took over business operations from Bhavya Beverages and augmented its own capacity. The company's revenue grew significantly to Rs. 71.55 crore in FY2019, which marked its first full year of operation, supported by healthy demand for its product, mainly Jeeru soda. ICRA expects the company to report revenue of Rs. 100-110 crore in FY2020, supported by capacity enhancement and volume growth. In Q1 FY2020, DBPL achieved revenue of Rs. 42.70 crore as against Rs. 18.71 crore in Q1 FY2019. Its operating margins remained moderate at 11.48% in FY2019.

Reasonable brand presence in Gujarat; growth in distribution network – DBPL is a regional player with reasonable brand presence in the Gujarat region. The company sells its products under the brand name of 'Davat'. The dealer/distribution network has increased over the period, with ~300 dealers/distributors in Gujarat and some parts of Maharashtra, Rajasthan and Madhya Pradesh. Further, DBPL is expanding its product portfolio by introducing new flavours in the fruit juice segment and entering the energy drinks segment.

Credit challenges

Average financial risk profile – The company's financial risk profile remains average, with a moderately leveraged capital structure as reflected from gearing of 1.51 times as on March 31, 2019, although it improved from 3.36 times as on March 31, 2018 owing to equity infusion to the tune of Rs. 3.50 crore and accretion to reserves. The debt coverage indicators remained average, with interest coverage of 3.00 times and TD/OPBDITA of 2.26 times in FY2019. DBPL's capital structure and coverage indicators are expected to improve in FY2020, with likely improvement in profitability, following increase in scale and scheduled debt repayments.

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

Intense industry competition– The company faces stiff competition from numerous organised as well as unorganised manufacturers of soft drinks. This limits DBPL's pricing flexibility and bargaining power with its customers, thereby putting pressure on its revenue and margins. However, improvement in brand presence and introduction of new product are likely to mitigate the risk to some extent.

Liquidity position

The working capital intensity stood low at 5% as on March 31, 2019 owing to a lower receivable period against a higher creditor period. Term loan repayments are in the range of Rs. 2.30-2.60 crore over FY2020-FY2022, against which net cash accruals are expected to remain sufficient at ~Rs. 8-10 crore. The company's overall liquidity position remains moderate, given the low cash and liquid investments of Rs. 0.17 crore as on March 31, 2019 and the moderate cushion available in working capital limit (~65% utilised during April 2018 to June 2019).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not applicable.
Consolidation/Standalone	The assigned ratings are based on the issuer's standalone financial statements.

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. The company has two manufacturing facilities, at Moviya, Rajkot (Gujarat) and Nasik (Maharashtra), with the combined manufacturing capacity of 120 BPM of mango juice and 1050 BPM of carbonated drinks. It sells the products under the brand name of 'Davat'.

The company reported a net profit of Rs. 2.86 crore on an operating income (OI) of Rs. 71.55 crore in FY2019 i.e. first full year of operation.

Key financial indicators-Audited

	FY2018*	**FY2019**
Operating Income (Rs. crore)	2.79	71.55
PAT (Rs. crore)	0.01	2.86
OPBDITA/OI(%)	19.19%	11.48%
Total Debt/TNW (times)	3.36	1.51
Total Debt/OPBDITA (times)	1.46	2.36
Interest Coverage (times)	1.45	3.00
NWC/OI (%)	8%	5%

*Source: DBPL financials and ICRA research; *13 days of operation.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating July 2019	Date & Rating in FY2019 September 2018	Date & Rating in FY2018	Date & Rating in FY2017
1	Cash Credit	Long Term	3.25	**1.16***	**[ICRA]BB (Positive); upgraded**	**[ICRA]BB- (Stable); reaffirmed**	-	-
2	Term Loan	Long Term	15.27	**14.28***	**[ICRA]BB (Positive); upgraded**	**[ICRA]BB- (Stable); reaffirmed**	-	-
4	Bank Guarantee	Short Term	0.50	**NA**	**[ICRA]A4+; upgraded**	**[ICRA]A4; reaffirmed**	-	-

**Outstanding as on March 31, 2019; Source: Davat Beverages Pvt. Ltd.data and ICRA research*

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	3.25	[ICRA]BB (Positive)
NA	Term Loan	FY2018	NA	FY2025	15.27	[ICRA]BB (Positive)
NA	Bank Guarantee	-	NA	NA	0.50	[ICRA]A4+

Source: Davat Beverages Pvt. Ltd.

Corrigendum

Document dated July 17, 2019 has been corrected with revision as details below.

In rating history table (Page no. 4), rating on Term Loan has been corrected to [ICRA] BB (Positive) from [ICRA]BB+ (Positive) for July, 2019.

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