

August 26, 2019

## Kali Aerated Water Works Private Limited: Ratings reaffirmed

### Summary of rated instruments

Instrument@	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Term loans	10.00	10.00	[ICRA]BBB- (Stable); reaffirmed
Long-term, Fund based facilities	7.00	7.00	[ICRA]BBB- (Stable); reaffirmed
Short-term, Interchangeable*	(3.00)	(3.00)	[ICRA]A3; reaffirmed
<b>Total</b>	<b>17.00</b>	<b>17.00</b>	

\* Sub-limit of long-term facilities @ Instrument details are provided in Annexure-1

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of KAPL along with its Group company – Kalis Sparkling Water (Private) Limited (rated [ICRA]BBB- (Stable)), as both the companies operate in the same line of business, have operational linkages and share a common management. Both the companies together are henceforth referred to as the Group.

The reaffirmation of the ratings considers the established market position and strong brand recall of the Group's products, Bovonto and Kalimark, especially in Tamil Nadu. The brands have been in existence for over 60 years and 100 years, respectively. The Group has a strong distribution network with over 370 distributors, mainly across Tamil Nadu, which has enabled it to have a strong presence in the Tamil Nadu market. ICRA further notes the completion of a new manufacturing plant at Sri City Industrial Park, which is closer to the major market, Chennai. The new plant will likely enable the Group to have better access to Andhra Pradesh and Karnataka markets as well. The ratings also take comfort from the company's adequate liquidity profile and healthy debt protection metrics, amid high debt repayment schedule in the near term.

The ratings are, however, constrained by the decline in the Group's revenue and profitability in FY2019 due to lower-than-expected demand. The profitability metrics were also lower than expected because of higher discount provided to suppliers and higher reliance on job-work unit (on account of shifting of the old unit). The ratings also factor in the intense competition from fruit-based beverages and carbonated soft drink (CSD) majors like Coca Cola and PepsiCo that limit pricing flexibility and restrict the scope for any major scaling up of operations. ICRA further notes the geographical concentration risks for being a regional player with almost the entire revenues generated from Tamil Nadu at present. The ratings further factors in KSPL's exposure to adverse changes in the Government policies and regulations.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that Kalis Sparkling Water (Private) Limited will benefit from the established market position and strong brand recall of the Group's products, supported by the extensive experience of its promoters in manufacturing of CSD. The outlook may be revised to Positive if a considerable growth in revenue and profitability, and better accruals, strengthen the financial risk profile. Conversely, the outlook may be revised to Negative

if the profitability declines or if there is a further weakening in the capital structure caused by increased working capital requirements or any large debt-funded capital expenditure.

## Key rating drivers

### Credit strengths

**Long track record of promoters in CSD business and established market position** – The Kali Group of Companies under the same promoter Group has been involved in the bottling and marketing of CSDs since 1916 under the brand, Kalimark. Run by the fourth generation scions at present, the Group's products have an established presence, especially in southern markets.

**Established brand image of the Group's products and strong distribution channels** – The Group benefits from its position as an indigenous household brand with a heritage of almost 100 years. It enjoys strong brand loyalty especially in traditional southern markets such as Madurai, Coimbatore, Salem and Kumbakonam, among others. Over the years, the Group has developed a strong working relationship with the retailers spread across Tamil Nadu through its network of over 370 distributors.

**Completion of Sri City plant in FY2020** – Commissioning of the new manufacturing plant at Sri City in Chittoor district of Andhra Pradesh will aid the Group in considerably lowering its logistics costs and cater to new geographies such as Andhra Pradesh and Karnataka. The new plant has an installed capacity of 300bpm/ 150bpm (200 ml and 500 ml/1500ml respectively) and going forward, the company may gradually reduce outsourcing.

**Comfortable liquidity and debt protection metrics** – The Group's cash and cash equivalents of Rs. 26 crore as on March 31, 2019 and healthy debt protection metrics on account of higher net cash accruals, in spite of higher debt repayment in the near term, are comfortable.

### Credit challenges

**De-growth of revenue and margins in FY2019 at consolidated level** – In FY2019, the Group's revenue de-grew by 13% because of subdued demand and intense competition from organised and unorganised players in Tamil Nadu in the CSD market. The Group's operating margin declined to 13.2% in FY2019 from 17.5% in FY2018 because of higher job work expense, higher discount to distributors and higher rate of GST at 40% which is not passed on to the end consumers. The company's ability to scale up its revenue and margins while catering to the new geographical segments such as Andhra Pradesh and Karnataka remains to be seen.

**Intense competition from soft drink majors** – Being a relatively small-scale player compared to brands like Coca-Cola and Pepsi, the Kali Group faces intense competition that limits its pricing flexibility and restricts its scope for scaling up of operations. Despite having an established presence in Tamil Nadu, the market share is likely to be lower than the two major brands. Also, unlike these majors, the Group's revenue is primarily driven by sales of its Bovonto products and any future competition from Coca Cola and/or Pepsi in this product segment might hinder the company's growth prospects.

**High geographical concentration of the market segment** – The Group's presence outside Tamil Nadu is primarily limited, as its products have been launched in Andhra Pradesh and Karnataka only recently. Going forward, ICRA expects the Group to undertake considerable branding and marketing efforts to diversify its geographical presence.

**Exposure to regulatory risk** – The company's top line and profitability remain vulnerable to the Central and State Governments' policies, especially with regard to the CSD segment, water usage and sugar pricing. As the operations are highly water intensive, the same will be adversely impacted in case of continued drought. The risk is expected to be mitigated to an extent with part shifting of manufacturing operations to Sri City (based out of Andhra Pradesh)

### Liquidity Position:

The Group's liquidity is expected to remain healthy, going forward as well, supported by cash and cash equivalents of Rs. 26 crore as on March 31, 2019. Despite an expected increase in the repayment obligation from FY2020, the company's liquidity is likely to be comfortable on account of an expected improvement in cash accruals.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Financial Consolidation and Rating approach</a>
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has taken a consolidated view of KAPL along with its Group company – Kalis Sparkling Water (Private) Limited (rated [ICRA]BBB-(Stable)) – since both operate in the same line of business, have operational linkages and share a common management. Both the companies together are henceforth referred to as the Group.

### About the Group and the companies

**Group Profile** - The Kali Group of Companies has been involved in the bottling and marketing of CSDs since 1916 under the brand, Kalimark. Subsequent to the introduction of Bovonto in 1959, the Group has continued expanding its portfolio through the addition of Kalimark Solo, Kalimark Ginger, Kalimark Trio, Kalimark Panneer, and Kali's Club Soda.

Kalis Sparkling Water (Private) Limited (KSPL), incorporated in 2010, manufactures CSD. The company is entirely held by the promoter family. KSPL traces its roots to the business set up by Mr. P.V.S. Kaliappan Palaniappa Nadar in 1916, commencing commercial production from Virudhunagar, Tamil Nadu. The brand, Bovonto, the Group's largest selling product, was introduced in 1959 by the Group's second-generation promoters. Currently run by the fourth-generation scions, KSPL functions largely as a manufacturing company, making its entire sales to the Group company, Kali Aerated Water Works (Private) Limited.

KSPL operates a fully automated, ISO 22000:2005 certified manufacturing facility in Nilakottai, Dindigul, with an installed bottling capacity of 260 bottles per minute (bpm) for 200 to 500 ml, 90 bpm for 1.5 litres and 60 bpm for tin cans. The new manufacturing plant at Sri City has an installed capacity of 300 bpm/ 150 bpm (200 ml and 500 ml/1,500 ml, respectively), which will aid the company in considerably lowering its logistics costs and cater to new geographies. The plant will manufacture the Group's famous brands, Bovonto and Vibro. Apart from its existing plant, KSPL has an agreement with an external job worker, M/s Asian Beverage, in Villupuram, for additional capacity. The third party has a capacity of 250 BPM, of which 80% will be utilised for 500 ml pet bottle production alone. In August 2017, the company had transferred one of its bottling facility from KAPL to KSPL's Sricity plant. Hence, the job work will discontinue going forward due to lower logistics cost from Sri City plant compared to Villupuram.

**Kali Aerated Water Works (Private) Limited (KAPL)** was incorporated in 2013 through the amalgamation of several proprietorship concerns held individually by the Group's promoters. KAPL with its multiple branches across Tamil Nadu effects sales of CSD sourced from KSPL. At present, there is no manufacturing activity undertaken in KAPL and it is only a marketing company for the Group.

### Key Financial Indicators – Kalis group (Consolidated)

	<b>FY 2017</b>	<b>FY 2018</b>
Operating Income (Rs. crore)	167.8	198.4
PAT (Rs. crore)	4.8	6.4
OPBDIT/ OI (%)	15.5%	17.5%
RoCE (%)	20.5%	24.0%
Total Debt/ TNW (times)	0.9	1.3
Total Debt/ OPBDIT (times)	1.5	2.1
Interest coverage (times)	5.6	6.6
NWC/ OI (%)	8.6%	13.4%

### Key Financial Indicators - KAPL (Audited)

	<b>FY 2017</b>	<b>FY 2018</b>
Operating Income (Rs. crore)	201.7	198.5
PAT (Rs. crore)	4.2	8.1
OPBDIT/ OI (%)	6.0%	9.7%
RoCE (%)	26.7%	35.5%
Total Debt/ TNW (times)	1.3	1.1
Total Debt/ OPBDIT (times)	1.6	1.3
Interest coverage (times)	5.5	8.0
NWC/ OI (%)	2.4%	8.2%

**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 as on March 2019 (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				Aug 2019	Apr 2018		Dec 2016
1	Term Loans	10.00	6.80	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)
2	Cash credit	7.00	6.80	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)
3	Buyers Credit	(3.00)	-	[ICRA] A3	[ICRA] A3	-	[ICRA] A3

### 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
NA	Cash Credit facilities	-	NA	-	7.00	[ICRA]BBB- (Stable)
NA	Term loans	FY2017	NA	FY2022	10.00	[ICRA]BBB- (Stable)
NA	Buyers Credit	-	NA	-	(3.00)	[ICRA] A3

Source: KAPL

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

Company Name	Ownership	Consolidation Approach
Kalis Sparkling Water (Private) Limited	0%	Full Consolidation

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