

May 29, 2020

Burger King India Limited: Long-term rating reaffirmed, short term rating assigned; outlook revised to Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term Loan	150.00	210.00	[ICRA]BBB+ reaffirmed; Outlook revised from Stable to Negative
Long-term - Bank Overdraft	0.00	20.00	[ICRA]BBB+(Negative); assigned
Short-term - Bank Guarantee	0.00	10.00	[ICRA]A2; assigned
Long-term - Unallocated amount	25.00	0.00	-
Total	175.00	240.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook to Negative follows the impact of the novel coronavirus (Covid-19) pandemic on Burger King India Limited's (BKIL) operations. Since India reported its first coronavirus patient towards the end of January 2020, the company could identify the reduction in the footfall across all its restaurants. The situation aggravated following the pan-India lockdown announced by the Government of India on March 24, 2020. Even before the lockdown, temporary shutdown of malls was initiated by various state governments in March, thereby affecting the company's revenues for the month.

The restaurants have high operating as well as financial leverage, and are highly susceptible to any reduction in revenues. While, the delivery business has been ongoing for some stores and the company is attempting to optimise its variable and fixed operating expenses, suboptimal operations of stores are expected to lead to a sharp reduction in cash accruals and losses in Q1FY2021. BKIL will have interest obligation of Rs. 18.00 to Rs. 20.00 crore on term loans worth Rs. 210.00 crore in FY2021, with an estimated additional drawdown of Rs. 29.00 crore during the year.

The company was in the advanced stages of closing the initial public offering (IPO) by the end of FY2020, however, it was unable to complete the IPO process, following Covid-19 pandemic. This resulted in higher-than-expected debt levels as on March 31, 2020, as in anticipation of an IPO in March 2020, the management went aggressive on opening new stores, thereby pushing the total debt as on March 31, 2020. BKIL's ability to successfully complete the IPO will remain critical for its growth in terms of store expansion, reduction in debt levels and thereby in marking an improvement in its credit profile.

As present, the company plans to complete the ongoing capex of 23 stores which will be funded through Rs. 29.00 crore of undrawn term loan and remaining from internal accruals. Additionally, there is an incremental equity infusion Rs. 58.08 crore in BKIL in May 2020 to manage liquidity going forward. With no debt repayments due in FY2021 and adequate liquidity in the company, ICRA does not see any stress on repayments in the near term. However, prolonged decline in sales or slower-than-expected ramp-up in revenues post resumption of operations can result in a moderation in its credit profile. ICRA will continue to monitor the situation as it evolves over the coming weeks and take appropriate rating action wherever required.

The ratings, however, continue to be constrained by the company's exposure to execution risk owing to aggressive expansion plans over the medium term and its muted return on capital employed (RoCE) due to under absorption of

fixed costs as stabilisation of the new stores remains a work in process, given the rapid expansion. ICRA notes that the judicious funding plan for the aggressive expansion plan and compliance with the terms and conditions laid out in the master franchise development agreement (MFDA) for ongoing operations, remains critical from the credit perspective. The ratings are further constrained by BKIL's high dependence on a third-party distributor, ColdEx Logistic Private Limited (ColdEx), for its supply chain management (where in ColdEx is an aggregator) and increasing competition from players in the Indian organised and unorganised markets.

The ratings, however, consider the strong recognition of the Burger King brand worldwide as well as in the domestic market, the demonstrated support by promoter, QSR Asia Pte. Ltd. (QSR Asia)¹ through healthy capital infusion over the years and its experienced management team. ICRA draws comfort from the diversified product portfolio designed as per Indian consumer taste and BKIL's geographical presence across India. Furthermore, the ratings consider its healthy financial profile characterised by robust revenue growth over the years, comfortable capital structure and low working capital intensity of operations in 9MFY2020.

Key rating drivers and their description

Credit strengths

Well-recognised brand with multiple product offerings and geographically diversified presence in India – BKIL is operating as the national master franchisee of the Burger King brand in India, which is the second largest fast food burger brand globally based on the total number of restaurants. BKIL has a wide product portfolio comprising a requisite mix of vegetarian as well as non-vegetarian burgers, along with desserts and snacks designed as per the Indian consumer taste. It enjoys pan-India presence through a chain of 260 restaurants as on March 31, 2020.

Demonstrated support through capital infusion by promoter and experienced management team – From its incorporation till date, QSR Asia has infused funds of Rs. 668.53 crore (Rs. 58.08 crore in May 2020) in the company. The day-to-day operations are spearheaded by an experienced management team, who has an experience of more than a decade in running similar businesses.

Robust revenue growth, comfortable capital structure and low working capital requirements in 9MFY2020 – BKIL's operating income (OI) stood at Rs. 136.84 crore in FY2016, being a new entrant with growing penetration in the Indian market. However, it witnessed a robust revenue growth of 66%, 64% and 67% in FY2017, FY2018 and FY2019, respectively, on the back of increasing market penetration and its acceptability by the consumers in the Indian market. BKIL's OI stood at Rs. 632.74 crore in FY2019, and further registered over 32% growth in FY2020 with an OI in the range of Rs.835.00 crore to Rs.840.00 crore. It had zero-debt on its books since its incorporation to FY2019. As on December 31, 2019, the company reported external borrowing of Rs. 98.53 crore (excluding lease liabilities) against net worth of Rs. 315.58 crore as per INDAS. Therefore, BKIL's adjusted gearing (adjusting lease liabilities from total debt) stood at 0.31 time as on December 31, 2019. Furthermore, the equity infusion of Rs. 58.08 crore in May 2020 provides comfort to its capital structure. Its inventory and debtor days have historically remained low due to the nature of its business. In addition, the company receives an extended credit period from its suppliers due to high bargaining power, which has always kept its working capital intensity negative.

¹ Promoted by F&B Asia Ventures (Singapore) Pte. Ltd. (86.93%) and BK AsiaPac (11%). F&B Singapore is 100% owned (ordinary shares) by F&B Asia Ventures Ltd. (Mauritius) and Ajay Kaul holds 100% of the class A preference shares in F&B Singapore. Further, Everstone Capital Partners II LLC holds 45.91% of the class A shares of F&B Asia Ventures Ltd. (Mauritius) and Everstone Capital Management serves as the investment manager of Everstone Capital Partners II LLC. Everstone Capital Management does not hold any Equity Shares in BKIL. However, Everstone Capital Management through its role as the investment managers of Everstone Capital Partners II LLC, indirectly control voting rights of F&B Singapore. The mentioned shareholding is as on December 31, 2019.

Credit challenges

Government's measures towards containment of Covid-19 pandemic likely to impact credit risk profile due to high overheads in form of rentals and employee cost – BKIL's most outlets across the country have been closed since March 24, 2020, following the nationwide lockdown announced by the GoI. The company, currently, is operating some stores for delivery and takeaway. With significant decline in revenues in Q1FY2021 and high overheads in form of rentals and employee overheads, the company's credit profile is expected to be impacted adversely. The revival of the growth in footfalls and management's ability to manage its overheads during the year will be crucial.

Rise in borrowings in H2FY2020 resulting in higher than anticipated gearing level and deterioration in coverage indicators in FY2020 – BKIL had no debt in its balance sheet as on March 31, 2019, which increased to Rs. 200.60 crore as on March 31, 2020. While, ICRA projected lower incremental debt in FY2020, the cash accruals stood lower than the estimated level, thus resulting in higher-than-anticipated gearing. The significant increase in debt in H2 FY2020 was owing to aggressive capex undertaken by the management in anticipation of upcoming IPO in March 2020, with which it intends to repay Rs. 150.00 crore of debt. ICRA notes that deterioration in coverage indicators compared to projected level in FY2020 due to increase in debt and lower-than-projected profit which was impacted further in Q4FY2020 following the pandemic.

Compliance with terms and conditions mentioned in MFDA remain critical for ongoing operations – BKIL has received exclusive rights to develop, establish, operate and franchise Burger King (BK) restaurants in India pursuant to MFDA among BK AsiaPac, QSR and BKIL. As per terms and conditions mentioned in MFDA, BKIL must open at least 700 restaurants by December 31, 2025 and should maintain debt to equity ratio below 2 times always, among others. In case of any non-compliance with the terms and conditions laid out in the MFDA, BK AsiaPac holds the right to terminate the developmental rights given to BKIL. Therefore, complying with all terms and conditions laid out in the MFDA remains critical for its ongoing operations.

High dependence on ColdEx for supply chain management – BKIL relies majorly on ColdEx for procurement of ingredients and packaging materials, primary logistics from supplier facilities to distribution centres, warehousing, inventory management and secondary logistics to the restaurants. Any disruption in its distribution channel might have an adverse impact on BKIL's supply chain operations. However, it is noted that since ColdEx is just as aggregator of the services/products for BKIL, the disruption will be limited till BKIL finds a suitable alternative supplier in case of discontinuation of service from ColdEx.

Increasing competition from organised and unorganised market – BKIL faces increasing competition from other international QSR brands such as McDonald's, KFC and several local players from the unorganised market in India, which limit its operating profitability to a certain extent.

Liquidity position: Adequate

BKIL's liquidity is **adequate** with Rs. 40.00 crore of funds including liquid investments as on March 31, 2020 and equity infusion of Rs. 58.08 crore by the investor in May 2020. The company also has undrawn bank limits of Rs. 29.00 crore, which can partially fund the impending capex of remaining stores. The management has decided to cap the total debt at Rs. 240.00 crore (term loan and working capital). The company has not availed the moratorium extended by the Reserve Bank of India. It has no repayment obligation and interest payment in the range of Rs. 18.00 to Rs. 20.00 crore on term loans in FY2021.

Rating sensitivities

Positive triggers – The outlook might be revised to stable in case of an earlier than anticipated recovery in operations leading to improvement in debt protection metrics. The successful completion of IPO, leading to reduction in debt levels and betterment in debt coverage indicators will also be a credit positive.

Negative triggers – Prolonged decline in sales or slower than expected ramp-up in revenues post resumption of operations, resulting in moderation in company’s financial profile might result in rating downgrade. Further, higher than anticipated debt level may negatively impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	No
Consolidation/Standalone	Standalone

About the company

BKIL was incorporated as a private limited company on November 11, 2013 and then later in September 2019, its constitution was changed to a public limited company and was renamed as Burger King India Limited (BKIL). BKIL is operating as the national master franchisee of the Burger King brand in India, which is the second largest fast food burger brand globally based on the total number of restaurants. As on March 31, 2020, BKIL operated 260 restaurants across India, including eight sub-franchised restaurants.

BKIL is promoted by QSR Asia Pte Ltd (QSR Asia), which is promoted by F&B Asia Ventures (Singapore) Pte. Ltd. (86.93%) and BK AsiaPac (11%)². F&B Singapore is 100% owned (ordinary shares) by F&B Asia Ventures Ltd. (Mauritius) and Ajay Kaul holds 100% of the class A preference shares in F&B Singapore. Further, Everstone Capital Partners II LLC holds 45.91% of the class A shares of F&B Asia Ventures Ltd. (Mauritius) and Everstone Capital Management serves as the investment manager of Everstone Capital Partners II LLC. Everstone Capital Management does not hold any equity shares in the company. However, Everstone Capital Management through its role as the investment managers of Everstone Capital Partners II LLC indirectly controls voting rights of F&B Singapore as on December 31, 2019.

Founded in 2006, Everstone Capital is a leading private equity and real estate investment firm focused on investing in companies across India and Southeast Asia, in healthcare, retail, F&B, financial services, education and business services, among others.

In FY2019, the company reported a net loss of Rs. 38.28 crore on an OI of Rs. 632.74 crore compared to a net loss of Rs. 82.23 crore on an OI of Rs. 378.12 crore in the previous year. It reported a net loss of Rs. 39.16 crore on an OI of Rs. 651.19 crore in 9M FY2020.

² Shareholding as on December 31, 2019 and numbers are post Ind AS -116 Lease accounting
www.icra.in

Key financial indicators³

	FY2018		FY2019		9M FY2020
	Audited – Pre-116	Audited – Post 116*	Audited – Pre-116	Audited – Post-116*	Audited – INDAS*
Operating Income (Rs. crore)	378.12	378.12	632.74	632.74	651.19
PAT (Rs. crore)	-62.59	-82.23	-15.59	-38.28	-39.16
OPBDIT/OI (%)	-10.99%	2.15%	2.01%	12.48%	12.91%
RoCE (%)	-17.91%	-7.01%	-4.34%	1.13%	0.70%
Total Outside Liabilities/Tangible Net Worth (times)	0.22	1.54	0.23	1.63	2.78
Total Debt/OPBDIT (times)	0.00	45.54	0.00	6.00	6.32
Interest Coverage (times)	-145.29	1.54	51.16	1.70	1.92
DSCR	-122.60	0.30	96.93	1.40	1.42

Source: BKIL

* BKIL had no debt as on March 31, 2018 and March 31, 2019. Lease liabilities are included in total liabilities/debt.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
	Type	Amount Rated	Amount Outstanding	Rating 29-May-2020	Rating 05-Dec-2019	FY2019	FY2018	FY2017
1 Term Loan	Long-Term	210.00	181.00*	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-	-	-
2 Bank Overdraft	Long-Term	20.00	-	[ICRA]BBB+ (Negative)	-	-	-	-
3 Bank Guarantee	Short-Term	10.00	-	[ICRA]A2	-	-	-	-
4 Unallocated amount	Long-Term	0.00	-	-	[ICRA]BBB+ (Stable)	-	-	-

Amount in Rs. crore; *O/s as on March 31, 2020

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

³ Numbers are post Ind AS -116 Lease accounting

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	FY2020	9.97%-10.42%	FY2026	150.00	[ICRA]BBB+(Negative)
NA	Term Loan II	FY2020	9.92%	FY2026	60.00	[ICRA]BBB+(Negative)
NA	Bank Overdraft	FY2020	NA	NA	20.00	[ICRA]BBB+(Negative)
NA	Bank Guarantee	FY2020	NA	NA	10.00	[ICRA]A2

Source: BKIL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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