October 19, 2020

DS Drinks and Beverages Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based bank facilities (Cash Credit)	6.00	6.00	[ICRA]BB+ (Stable); reaffirmed
Long-term fund-based bank facilities (Term Loan)	40.00	36.22	[ICRA]BB+ (Stable); reaffirmed
Long-term fund-based (Proposed) bank facilities	4.00	4.00	[ICRA]BB+ (Stable); reaffirmed
Long-term/ Short-term – Unallocated Limits	10.00	13.78	[ICRA]BB+ (Stable)/ A4+; reaffirmed
Total	**60.00**	**60.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to draw strength 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 reaffirming the ratings, ICRA has also derived comfort from the company's favourable market position 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 dependent on regular funding support from the promoters. Further, there have been incremental pressures on the company's performance since March 2020 owing to the Covid-19 led demand side pressures as well as operational disruptions due to national and regional lockdowns imposed in the country.

ICRA notes that to expand its reach and address some of the operational bottlenecks, the company had set up a greenfield unit at Baddi, Himachal Pradesh, which commenced its operations from June 2019. However, the stabilisation of operations has been delayed by the commencement of operations coinciding with the end of the peak season (summer) in FY2020, along with the Covid-19 led pressures faced during the peak season in FY2021. While scaling up operations of the new unit is expected to help DS Drinks strengthen its presence in the more profitable product segments while addressing locational disadvantages of its old units, high reliance on debt for part funding of the capex has increased the leverage and weakened the coverage metrics over the last two years. Together with continued operating losses in the subsidiary, this has translated into modest capitalisation and coverage metrics for the company, as reflected in Total Debt/ OPBDITA of 41.6 times (6.6 times in FY2018) and an interest cover of 0.6 time (3.1 times in FY2018) in FY2020 (Estimated, E). Further, repayment obligations have significantly increased from FY2020 onwards, which together with lower cash accruals is keeping Debt Service Coverage Ratio (DSCR) weak at less than 0.5 time. The repayments, however, have been supported by the regular and timely infusion of funds by the promoters. The ratings also remain constrained by 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.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's belief that DS Drinks will continue to benefit from the strong financial flexibility it has being a part of the DS Group, and timely infusion of funds by the promoters to fund its repayment obligations as well as other cash flow requirements.

Key rating drivers and their description

Credit strengths

Financial flexibility as 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* and dairy products under the brands, 'Rajnigandha' and 'Ksheer'. In addition to these products and sizeable investments in hotels and real estate, the Group manufactures chewing tobacco, mouth fresheners, confectionery 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+ (CE) (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, the promoters have infused more than Rs. 53 crore in the company till FY2020 (E) in the form of unsecured loans, deposits and preference capital.

Access to renowned brand name and strong distribution network - The company sells its products under the Group's umbrella brand, 'Catch'. The brand is owned by the 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 operates in. Further, the company has built a strong distribution network of dealers as well as direct channel partners under the HORECA (Hotel/Restaurant/Caterers) segment, with the direct channel mainly driving revenues.

Credit challenges

Modest scale of operations and exposure to intense competition - The company's scale of operations remains modest with a consolidated operating income of Rs. 82.3 crore in FY2020 (E), despite ~11% revenue growth in the year. This is owing to the company's focus on a 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 as well as unorganised players across its product segments.

Delay in ramp up of operations of new unit and continued operating losses in subsidiary - The company had set up a new unit in Baddi (Himachal Pradesh) at an estimated cost of Rs. 60 crore over FY2019-FY2020. Although the company commenced its operations at the new unit from June 2019, as planned, the stabilisation of operations has been delayed by the commencement of operations coinciding with the end of the peak season (summer) in FY2020, and Covid-19 led pressures faced during the peak season in FY2021. This led to lower than anticipated revenues and accruals from the new unit, which together with increase in debt levels to fund the capex and increased repayment obligations, resulted in significant weakening of coverage metrics in FY2020. Further, the consolidated profitability of the company has also been constrained by the continued operating losses reported by its subsidiary company, Himachal Plywoods Private Limited (HPPL), due to low scale of operations and locational disadvantages.

Modest financial risk profile – High competitive intensity in the business necessitates sizeable spending on advertising and marketing. Together with high freight cost due to the location of its old units in the mountains, this leads to modest profitability for the company with an operating margin of 2.7% in FY2020 (E). Further, due to inadequacy of cash profits vis-à-vis the debt repayment obligations, the company's coverage metrics have remained weak over the past five years. These weakened further in FY2019 and FY2020 (E) amid pressures on profitability and increased repayment obligations, following a Rs. 40-crore term loan availed to fund the capex for the new unit. Interest coverage stood at 0.6 time (3.1 times in FY2018) and Total Debt/ OPBDITA at 41.6 times (6.6 times in FY2018) in FY2020 (E). DSCR stood low at 0.3 time in FY2020 (E). 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.

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, carbonated 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 the required volume of water at the required quality and reasonable costs remains critical, more so as the new unit is 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 and restrictions on the use of PET bottles.

Liquidity position: Adequate

DS Drinks' liquidity profile remains adequate, primarily supported by regular and timely funds infusion by the promoter Group, despite the inadequate cash generation from the business. Further, the company has a comfortable cushion (~Rs. 5.3 crore in August 2020) in its working capital limits with an average utilisation of ~11% during the 6-month period ending August 2020.

Rating sensitivities

Positive triggers – The long-term rating could be upgraded if the company achieves a healthy growth in its scale of operations, along with an improvement in its profitability indicators and coverage metrics on a sustained basis. Further, efficient working capital management, which improves the liquidity position, and reduction in the extent of dependence on the promoter Group to fund its debt repayments and incremental working capital requirements, could be positive rating triggers.

Negative triggers – The ratings could be downgraded in case of sustained inability to turnaround operations and turn cash positive on a consolidated basis. Additionally, any weakening in linkages with the Group, which affects the company's financial flexibility and/or delays in getting adequate support from the promoters in line with expectations, could be negative triggers for the ratings.

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, 2020, 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, carbonated water, flavoured beverages (primarily flavoured water) and fruit juice-based carbonated beverages 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) and one unit in Baddi (Himachal Pradesh), with a total processing capacity of 36 million bottles per annum for natural mineral water and 254 million bottles per annum for soda water, flavoured beverages and fruit juice-based carbonated beverages.

In FY2020, on an estimated basis, the company reported a net loss of Rs. 14.8 crore on an operating income of Rs. 82.3 crore, compared to a net loss of Rs. 4.8 crore on an operating income of Rs. 74.3 crore in the previous year.

Key financial indicators- Consolidated

	FY2019 Audited	FY2020 Estimated
Operating Income (OI) (Rs. crore)	74.3	82.3
PAT (Rs. crore)	(4.8)	(14.8)
OPBDIT/OI (%)	(0.9%)	2.7%
PAT/OI (%)	(6.5%)	(17.9%)
Total Outside Liabilities/Tangible Net Worth (times)	7.0	(96.8)
Total Debt/OPBDIT (times)	(122.7)	41.6
Interest Coverage (times)	(0.2)	0.6

Source: Company's financials, ICRA research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest and tax

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past 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 19-Oct-2020	Date & Rating in FY2020 06-May-2019	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Term Loan	Long Term	36.22	36.22	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2	Cash Credit	Long Term	6.00	NA	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
3	Cash Credit (Proposed)	Long Term	4.00	NA	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
4	Unallocated Limits	Long Term/ Short Term	13.78	NA	[ICRA]BB+ (Stable)/ A4+	[ICRA]BB+ (Stable)/ A4+	-	-

Amount in Rs. crore

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 [click here]

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	36.22	[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	13.78	[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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About ICRA Limited:

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