

November 19, 2020

Kali Aerated Water Works Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term Loan	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
Total	17.00	17.00	

*Instrument details are provided in Annexure-1; ^Sub-limit of long-term facilities

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Kalis Sparkling Water (Private) Limited (KSPL) along with its Group company, Kali Aerated Water Works (Private) Limited (KAPL), 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 rating reaffirmation considers the established market position and brand of the Group's products, Bovonto and Kalimark, especially in Tamil Nadu. The Group has a strong distribution network, mainly across Tamil Nadu, which has enabled it to have a strong presence in the Tamil Nadu market. The rating takes comfort from the company's adequate liquidity profile and healthy profitability.

The rating is, however, constrained by the likely decline in the Group's scale of operations due to the Covid-19 pandemic. The rating also factors in the intense competition from fruit-based beverages and carbonated soft drink (CSD) majors such as Coca Cola and PepsiCo that limit pricing flexibility and restrict the scope for any major scaling up of operations or margin expansion. ICRA further notes the geographical concentration risks for being a regional player with most of the revenues generated from Tamil Nadu at present. However, with penetration into new geographies such as Andhra Pradesh and Karnataka, the geographical concentration risk is likely to be mitigated gradually. The rating also considers KSPL's exposure to adverse changes in the Government policies and regulations.

The Stable outlook reflects ICRA's expectations that the Group will continue to benefit from its established operational track record in Tamil Nadu and the extensive experience of the management.

Key rating drivers and their description

Credit strengths

Extensive experience of management in soft drinks 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. The brands –

Bovonto and Kalimark have been in existence for over 60 years and 100 years, respectively. Over the years, the Group has developed a strong working relationship with the retailers spread across Tamil Nadu through its network of over 540 distributors. Further, with the commencement of operations in the Sricity plant in July 2019, the Group is gradually penetrating into new geographies such as Andhra Pradesh and Karnataka.

Healthy operating margins – The Group’s margin improved to 15.0% in FY2020 compared to 13.2% in FY2019 on account of lower dependence on job work with commencement of operations of the Sricity plant in July 2019, re-negotiation of cost with the logistics vendors, etc. However, the likely decline in scale of operations is expected to keep pressure on the margin in the current fiscal. Nonetheless, the cost cutting measures adopted by the Group will support its near-term margin. On account of healthy profitability, despite high term loan repayments, the Group’s interest coverage and DSCR remained healthy at 3.5 times, 2.0 times in FY2020 against 3.6 times, 1.5 times in FY2019.

Credit challenges

Impact of Covid-19 pandemic on scale of operations – In FY2020, the company’s revenue declined by 3% to Rs. 167.3 crore in FY2020 from Rs. 173.1 crore in FY2019 on account of negative market sentiments due to the pandemic, lower-than-expected sales from new markets such as Andhra and Karnataka and impact of monsoon. In the current fiscal, the scale is likely to be impacted by the subdued demand caused by the pandemic. In Q1 FY2021 (peak season), it recorded a 55% YoY reduction in sales affected by the lockdown. Nonetheless, ICRA expects the company’s revenue growth will stabilise on account of its established brand in Tamil Nadu market.

Intense competition from soft drink majors – Being a relatively small-scale player compared to brands such as 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. Unlike these majors, the Group’s revenues are 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 – The Group’s revenue is primarily derived from the Tamil Nadu market exposing it to geographical concentration risk. However, the geographical diversification to new markets, such as Andhra Pradesh and Karnataka, will likely mitigate the risk to some extent in the long term.

Exposure to regulatory risk – The industry is susceptible to regulatory risks, especially with regard to taxation policy and increased environmental compliance related to bottling operations.

Liquidity position: Adequate

The Group’s liquidity is **adequate**, as reflected by healthy cash balance as well as fixed deposits and the buffer in the working capital limit utilisation. In the recent past, the Group had sparsely used the bank cash credit limits totalling Rs. 12.00 crore. ICRA notes that the Group has high term loan repayment obligations. Nonetheless, the expectation of healthy cash flow from operations and undrawn limits available with the Group provides comfort.

Rating sensitivities

Positive triggers – The rating may be upgraded if there is an improvement in scale of operations and geographical diversification, while sustaining healthy profitability and debt coverage indicators.

Negative triggers – The rating may be downgraded if there is any material decline in revenues or deterioration in profitability and coverage indicators with weakening of DSCR to less than 1.4 times on a sustained basis. Further, the rating may be downgraded if there is any deterioration in the company’s capital structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on the consolidated financial statements of Kalis Sparkling Water (P) Ltd and Kali Aerated Water Works Private Limited, given the close business and managerial linkages among them.

About the company

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, KalimarkPanneer, and Kali's Club Soda.

Kalis Sparkling Water (Private) Limited (KSPL), incorporated in 2010, manufactures CSD. At present run by the fourth-generation scions, KSPL functions mainly 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 recently added manufacturing plant at Sri City has an installed capacity of 300 bpm/ 150 bpm (200 ml and 500 ml/1,500 ml, respectively). 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.

Key financial indicators – Consolidated (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	173.1	167.3
PAT (Rs. crore)	5.9	5.8
OPBDIT/OI (%)	13.2%	15.0%
PAT/OI (%)	3.4%	3.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	1.5
Total Debt/OPBDIT (times)	3.7	3.1
Interest Coverage (times)	3.6	3.5

Key financial indicators – Standalone(audited)

	FY2019	FY2020
Operating Income (Rs. crore)	173.1	164.7
PAT (Rs. crore)	4.7	5.9
OPBDIT/OI (%)	7.8%	7.2%
PAT/OI (%)	2.7%	3.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	0.8
Total Debt/OPBDIT (times)	1.5	1.4
Interest Coverage (times)	6.9	8.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years	
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar-31-2020 (Rs.crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				Nov-19-2020	Aug-26-2019	Apr-19-2018	-
1 Term Loan	Long term	10.00	3.32	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
2 Fund based facility	Long term	7.00	6.79	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
3 Sub-limit	Short term	(3.00)	(3.00)				-

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	FY2017	-	FY2022	10.00	[ICRA]BBB-(Stable)
NA	Cash Credit facility	-	-	-	7.00	[ICRA]BBB- (Stable)
NA	Buyer's credit	-	NA	-	(3.00)	[ICRA]A3

Source:Kali Aerated Water Works Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Kalis Sparkling Water (P) Ltd.	-	Full Consolidation
Kali Aerated Water Works Private Limited	-	Full Consolidation

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