

November 20, 2020

Davat Beverages Pvt. Ltd.: Ratings assigned to the enhanced amount

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]BBB-(Stable); outstanding
Fund-based – Term Loan	15.27	39.17	[ICRA]BBB-(Stable); assigned/outstanding
Non-fund Based – Bank Guarantee	0.50	0.50	[ICRA]A3; outstanding
Total	19.02	42.92	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the significant scale up of operation of Davat Beverages Pvt. Ltd. (DBPL)—the FY2020 revenue was ~Rs. 121.58 crore as against Rs. 71.38 crore in FY2019—supported by healthy product demand and expansion in distribution network. The rating assigned also factors in the improvement in the operating margins by ~230 bps (basis points) in FY2020, backed by a reduction in key raw material cost, mainly sugar and preform. The ratings also factor in the healthy return indicators, the comfortable debt coverage metrics and the efficient working capital management. Further, the ratings positively factor in the extensive experience of the promoters in the soft drinks industry and the adequate brand presence in the Gujarat region.

The ratings, however, remain constrained by DBPL's moderately leveraged capital structure due to the recent debt-funded capex. The ratings are further constrained by the high product concentration risk—a significant revenue share (~80%) is derived from a single product (Jeeru soda)—and the intense competition due to the presence of various organised and unorganised players in the industry. ICRA also takes into account the vulnerability of DBPL's profitability to adverse fluctuations in key raw material prices

The stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that DBPL will continue to benefit from the extensive experience of the promoters in the soft drinks industry and the adequate brand presence in the Gujarat region.

Key rating drivers and their description

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 manufactures fruit juices and carbonated drinks in various flavours. The promoter enjoys over two-decade experience in the soft drinks industry through his association with other Group companies involved in similar businesses. Till March 2018, the operations were carried out through its Group company, Bhavya Beverages, which has an established distribution network and adequate brand presence in Gujarat.

Adequate brand presence in Gujarat; growth in distribution network and expansion of product portfolio – DBPL is a regional player with adequate brand presence in the Gujarat region. The company sells its products under the brand

name 'Davat'. Over the years, its network has expanded to include more than ~300 dealers/distributors in Gujarat, Maharashtra, Rajasthan and Madhya Pradesh. Further, DBPL also expanded its product portfolio by entering the energy drink segment and introduced carbonated drinks in tin can in June 2019. The company's growing distribution network and its wider product portfolio are expected to support future revenue growth.

Healthy revenue growth and return indicators— DBPL's revenue grew notably by ~70% to Rs. 121.58 in FY2020 from Rs. 71.38 crore in FY2019. The revenue growth was attributed to the healthy demand of its products and the expansion of distribution network into newer geographies. The operating margin improved by ~230 bps (basis points) to 13.88% in FY2020 from 11.52% in FY2019 owing to a reduction in key raw material prices, mainly sugar and preform. In line with the operating profitability, the net margin also improved to 7.26% in FY2020 from 4.01% in FY2019. With the improvement in the profitability, the return indicators remained healthy as evident from RoCE of 41.85% in FY2020 as compared to 21.09% in FY2019. The debt-coverage indicators were also comfortable as evident from the interest coverage of 7.34 times, Total Debt/OPBDITA of 1.67 times and DSCR of 3.29 times as on March 31, 2020. The working capital intensity continued to be low since the last two fiscals (NWC/OI of ~1-4%) owing to the lower receivable cycle and the efficient inventory management.

DBPL's operations were adversely impacted in Q1FY2021 by logistic disruption and constrained movement of end-consumers. However, the operations scaled up in Q2FY2021, driven by healthy demand of its product. The company achieved revenue of Rs. 54 crore in H1FY2021. With the commencement of the new facility from October 2021, the production capacity for carbonated drinks has increased by 650 bpm to 1,700 bpm. This is estimated to enable DBPL to adequately meet the incremental demand and scale up its operations. Going forward, DBPL is estimated to achieve revenue growth of ~30% in FY2021 on YoY, amid capacity enhancement and growing demand of its products.

Credit challenges

Moderately leveraged capital structure – DBPL's capital structure remained moderately leveraged, as reflected from the gearing of 1.35 times and TOL/TNW of 2.44 as on March 31, 2020. The capital structure (estimated gearing of 1.50 times as on March 31, 2021) and the debt-coverage indicators are estimated to moderate slightly in FY2021 due to the recently concluded debt-funded capex. However, strengthening of net worth base, due to healthy estimated cash accruals and gradual reduction in debt levels, is likely to improve the financial risk profile over FY2022-23.

Intense industry competition— DBPL's revenue continued to witness growth in the current fiscal, supported by healthy product demand; albeit, it continues to be relatively moderate. 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. The high product concentration (~80% contribution from jeeru soda) further intensifies the said risk. Nevertheless, DBPL's strong brand image in jeeru soda and its expanded product portfolio mitigate the competition risk to some extent.

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.

Liquidity position: Adequate

DBPL's liquidity position is adequate, supported by healthy cash accruals, undrawn working capital facility of Rs. 2.00 crore and free cash and liquid investments of Rs. 2.30 crore as on September 30, 2020. Due to the large debt-funded capex incurred over FY2020 and H1FY2021, the repayments are estimated to increase to ~Rs. 10 crore over FY2022-23.

However, the envisaged cash accruals of Rs. 20-24 crore over FY2022-23 are likely to remain adequate against the debt repayment obligations. The average working capital utilisation stood modest, at ~54% of the sanctioned limits in the past 12 months (October 2019 to September 2020).

Rating sensitivities

Positive triggers:

- Significant improvement in scale of operations backed by healthy capacity utilisation from a newly set up unit along with sustenance of profit margins.
- Strengthening of net worth leading to improvement in capital structure and debt-coverage metrics.

Negative triggers:

- Any substantial decline in scale of operations or profitability, leading to erosion in key profitability metrics.
- Any further large debt-funded capex or stretch in working capital cycle adversely impacting liquidity profile and other key credit metrics can exert downward pressure on the ratings.

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 standalone financial statements of DBPL.

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, in Rajkot (Gujarat) and Nasik (Maharashtra), which have a combined manufacturing capacity of 120 BPM of juice line and 1700 BPM of carbonated drinks. It sells the products under the brand name of 'Davat'.

In FY2020, the company reported a net profit of Rs. 8.83 crore on an OI of Rs. 121.58 crore, as compared to a net profit of Rs. 2.86 crore on an OI of Rs. 71.38 crore in FY2019.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	71.38	121.58
PAT (Rs. crore)	2.86	8.83
OPBDITA/OI (%)	11.52%	13.88%
ROCE (%)	21.09%	41.85%
Total Outside Liabilities/Tangible Net Worth (times)	2.55	2.44
Total Debt/OPBDITA (times)	2.36	1.67
Interest Coverage (times)	3.00	7.34

Source: Company financials and ICRA research;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

All figures in Rs. Crore

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2021	FY2020	FY2020
					20-Nov-20	05-Nov-20	29-Nov-19	17-Jul-19
1	Cash Credit	Long Term	3.25	1.78^	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB (Positive)
2	Term Loan	Long Term	39.17	12.34^	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB (Positive)
3	Bank Guarantee	Short Term	0.50	0.50^	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+

^Outstanding as March 31, 2020; Source: DBPL financials

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	NA	3.25	[ICRA]BBB- (Stable)
NA	Term Loan	FY2018	NA	FY2027	39.17	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A3

Source: Davat Beverages Pvt. Ltd.

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