

April 05, 2021

Burger King India Limited: Ratings upgraded to [ICRA]A-/ [ICRA]A2+; outlook on long-term rating revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term /Short Term-Unallocated amount	0.00	100.00	[ICRA]A-/ [ICRA]A2+, upgraded from [ICRA]BBB+/ [ICRA]A2; outlook revised to Stable from Negative
Long-term - Term Loan	210.00	0.00	-
Long-term - Bank Overdraft	20.00	0.00	-
Short-term - Bank Guarantee	10.00	0.00	-
Total	240.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade takes into account significant improvement credit metrics of Burger King India Limited's (BKIL or the company) due to prepayment of entire debt on its balance sheet following successful completion of IPO in Dec 2020. The company raised fresh equity of Rs.600.0 crore (including Rs.150.0 crore through private placement) during the year, which in ICRA's opinion will allow BKIL to fund its planned capex in the near to medium term with minimal reliance on borrowings, if any, and hence has provided notable boost to the capitalisation profile over the medium term. The ratings upgrade also considers the recovery witnessed in sales with break-even achieved for the quarter Q3FY2021. The company reported an operating profit of Rs.0.3 crore on an operating income of Rs. 163.2 crore in Q3FY2021 compared to an operating loss of Rs. 52.4 crore and Rs. 10.2 crore on an operating income of Rs.38.3 crore and 96.7 crore in Q1FY2021 and Q2FY2021, respectively. Nevertheless, the company's ability to sustain the revenue growth trajectory and thereby the profit margin will remain a key monitorable. The ratings continue to take into account the strong recognition of the Burger King brand worldwide as well as in the domestic market, the company's demonstrated ability to raise funds from investors and market and its experienced management team. In addition, ICRA draws comfort from the diversified product portfolio designed as per Indian consumer taste and BKIL's geographical presence across India.

The ratings however, is 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) given the under absorption of fixed costs on account of stabilisation of new stores still a work in process. The business also remains vulnerable to external shocks such as outbreak of Covid-19 which the industry faced, as well as general demand scenario issues which are linked to performance of the economy. ICRA also 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 credit perspective. The rating is further constrained by BKIL's dependence on a single third-party distributor, ColdEx Logistic Private Limited (ColdEx), for its supply chain management and increasing competition from players in Indian organised and unorganised market.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that BKIL will continue to benefit from healthy growth prospects of the QSR industry and acceptability as a well-recognised burger brand with wide range of offerings in India.

Key rating drivers and their description

Credit strengths

Well recognised brand with wide range of product offerings and geographically diversified presence in India - BKIL is operating as the national master franchisee of the “Burger King” brand in India. The company has a wide product portfolio comprising requisite mix of veg/non-veg burgers along with desserts and snacks, which are designed considering Indian consumer taste. BKIL has a pan India presence through a chain of 270 restaurants including franchise stores as on December 31, 2020.

Demonstrated ability to raise capital from investors and market and experienced management - The company is promoted by QSR Asia Pte Ltd (QSR Asia). From incorporation till FY2020, the promoter has infused funds in the company in the form of equity of Rs. 510.5 crore and compulsorily convertible preference shares (CCPS) of Rs. 100.0 crore, totaling to Rs. 610.5 crore. Furthermore, QSR Asia infused Rs. 58.1 crore in May 2020 to support the firm’s liquidity amid covid-19 pandemic. In addition, the company was able to raise Rs. 91.9 crore through preferential allotment to Amansa Investment Limited; thereby, raising Rs. 150.0 crore through pre-IPO allotment. 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.

Recovery witnessed in sales with break-even achieved for Q3FY2021- After witnessing robust revenue growth during the period from FY2016 to FY2020, the operating income (OI) has been adversely impacted in FY2021 due to the pandemic and measures undertaken by the GoI to combat it. As the QSR (Quick Service Restaurant) business have high operating leverage and are highly susceptible to any reduction in revenues, the company reported an operating loss of Rs. 52.4 crore on an operating income of Rs.38.3 crore in Q1FY2021. While the sales picked up from Q2FY2021, supported by delivery business and dine-in allowed in certain parts of the country, the losses at operating level continued. The company achieved break-even for Q3FY2021 and reported an operating profit of Rs. 0.3 crore on an operating income of Rs.163.2 crore in Q3FY2021. While the company has witnessed recovery in its financial profile in Q3FY2021, the probability of lockdowns in certain parts of the country to curb the increasing number of COVID-19 infections remains and will be key monitorable in the near term. The company’s ability to sustain the revenue growth trajectory and thereby grow its profit margin will remain a key monitorable.

Significant improvement in credit metrics on fund infusion through successful completion of IPO resulting in prepayment of debt - The company received equity infusion to the extent of Rs.150.0 crore through pre- IPO placement and Rs. 450.0 crore through IPO in FY2021. The company had an outstanding debt of Rs. 198.6 crore as on March 31, 2020 (excluding lease liabilities), which the company repaid from the IPO proceedings; thus, becoming a debt-free company. The company has allocated Rs. 177.0 crore for the capex and the estimated annual capex stands in the range of Rs.140.0 crore to Rs. 200.0 crore in FY2022 and FY2023. ICRA believes that the available funds and internal accruals will be sufficient to fund its planned capex with limited reliance on borrowings if any and hence has provided necessary boost to the capitalization profile over the medium term.

Credit challenges

Losses at net level and low RoCE since inception - BKIL has been incurring high expansion capex since its incorporation to achieve the targeted store count of 700 by December 2026 and desired sales growth, which clubbed with high overheads has kept the margin expansion under check and thereby losses at net level. ICRA notes that the business remains vulnerable external factors which are linked to performance of the economy. After reporting operating profit in FY2019 and FY2020, the company’s operations have been adversely impacted in FY2021 following Covid-19 pandemic, thus resulting in operating loss for 9M FY2021. The RoCE has remained suppressed given the gestation period involved for a new store to generate commensurate returns.

Compliance with terms and conditions laid out in the MFDA remains 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, 2026 (revised from 2025) and should maintain debt to equity ratio below 2x 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 BKIL’s ongoing operations.

Single third-party distributor dependency on Coldex Logistic Private Limited for supply chain management - BKIL relies on a single third-party distributor for procurement of ingredients and packaging materials, primary logistics from supplier facilities to distribution centers, warehousing, inventory management and secondary logistics to the restaurants. Any disruption in ColdEx's distribution channel might have an adverse impact on BKIL's supply chain operations. However, it is also 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.

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

Liquidity position: Adequate

BKIL's liquidity is **adequate** with free cash balance of ~Rs.338.0 crore and liquid investment of ~Rs.49.0 crore as on December 31, 2020. While the company has no debt repayment obligation, it has significant annual capex in the range of ~Rs. 140.0 crore to Rs. 200.0 crore in FY2022 and FY2023. Of the total proceeds received from the IPO of Rs.450.0 crore, Rs.177.0 crore is allocated towards the capex. The company's ability to sustain its recovery growth and improve the same store sales growth will remain critical maintain liquidity and coverage profile at comfortable level.

Rating sensitivities

Positive factors – Scale up in operations along improvement in profit margin will remain critical for rating upgrade.

Negative factors – Delay in sales recovery thereby impacting the profit margin on a sustained basis will exert downgrade pressure on the company's 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. As on December 31, 2020, BKIL operated 270 restaurants across India, including nine sub-franchised restaurants.

BKIL is promoted by QSR Asia Pte Ltd (QSR Asia), which is held by F&B Asia Ventures (Singapore) Pte. Ltd. (83.3%) and BK AsiaPac (14.8%)¹. The company came with an IPO in December 2020 and share of QSR Asia was diluted to 52.9% as on December 31, 2020 from 99.4% stake in September 30, 2020. The remaining stake of 47.1% is owned by public.

In FY2020, the company reported a net loss of Rs. 50.3 crore on an OI of Rs. 841.2 crore compared to a net loss of Rs. 15.6 crore on an OI of Rs. 632.7 crore in the previous year. It reported a net loss of Rs. 128.1 crore on an OI of Rs. 298.4 crore in 9M FY2021.

¹ Shareholding as on December 31, 2020

Key financial indicators (audited)

	FY2019		FY2020		9M FY2021	
	Audited – Pre-116	Audited – Post-116*	Audited – Pre-116	Audited – Post-116*	Audited – Pre-116	Audited – Post-116*
Operating Income (Rs. crore)	632.7	632.7	841.2	841.2	298.4	320.1^
PAT (Rs. crore)	-15.6	-38.3	-50.3	-76.6	-128.1	-148.0
OPBDIT/OI (%)	2.0%	12.5%	2.1%	12.4%	-20.9%	2.5%
PAT/OI (%)	-2.5%	-6.1%	-6.0%	-9.1%	-42.9%	-46.2%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	1.6	0.9	3.4	-	1.2
Total Debt/OPBDIT (times)	0.0	6.0	11.3	7.7	0.00	55.7
Interest Coverage (times)	51.2	1.7	2.6	1.6	-3.6	0.1

Note: The figures and comments mentioned in the rationale are excluding INDAS 116; ^ Includes lease concession of Rs.21.65 crore as other related income

* BKIL had no debt as on March 31, 2019 and at end of 9MFY2021. Lease liabilities are included in total liabilities/debt.

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: BKIL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr-5-2021			
1	Unallocated amount	Long-term and Short-term	100.00	-	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-
2	Term Loan	Long-Term	0.00	-	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	-
3	Bank Overdraft	Long-Term	0.00	-	-	[ICRA]BBB+ (Negative)	-	-
4	Bank Guarantee	Short-Term	0.00	-	-	[ICRA]A2	-	-
5	Unallocated Limits	Long-term	0.00	-	-	-	[ICRA]BBB+ (Stable)	-

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	Unallocated Amount	NA	NA	NA	100.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5328
shamsherd@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Rupa Pandey
+91 22 6114 3456
rupa.pandey@icraindia.com

Pragya Sharma
+91 22 6114 3454
pragya.sharma@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.