July 12, 2021

Barbeque Nation Hospitality Limited: Ratings upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based – Term Loan	101.50	6.50	[ICRA]A-; Upgraded from [ICRA]BBB+ and outlook revised to Stable from Negative
Short Term – Fund-based Working Capital	30.00	20.00	[ICRA]A2+; Upgraded from [ICRA]A2
Total	**131.50**	**26.50**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view on Barbeque Nation Hospitality Limited (BNHL), which includes its subsidiaries, step-down subsidiaries and associate companies, while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The upgrade in the ratings follows the equity infusion of Rs. 330 crore from the initial public offering (IPO) proceeds (including Pre IPO), thereby strengthening the company's financial profile. BNHL used a part of the funds for the retirement of high-cost unsecured loans, immediate term debt prepayment and for its working capital needs, thereby supporting the liquidity profile. It has earmarked Rs. 54.6 crore of the IPO proceeds for capex, providing it with growth capital to open restaurants across the country. While BNHL's operations were significantly impacted in H1 FY2021 by the Covid-19-induced disruptions, the operations recovered quickly in H2 FY2021, recording a YoY revenue degrowth of only 3.5%. The company also undertook various cost control measures to support its operating margins (OPMs) like waivers on rental obligations, rationalisation of manpower requirement, temporary reduction in senior management salaries, and realignment of store operating costs among others. This helped it record an OPM of 9.2% in FY2021 against an operating loss in 8M FY2021.

The ratings continue to favourably factor in BNHL's strong brand image in the restaurant segment along with its healthy revenue growth before the onset of the Covid-19 pandemic. While the company witnessed healthy same store sales growth (Indian operations) in pre-Covid times, the increase in the number of outlets every year also supported higher footfalls and revenues. The company's strong brand image facilitates its entry in new markets at competitive rentals, supporting its revenues and OPMs.

The rating strengths are, however, partially offset by the company's presence in a highly competitive market with a large number of players in the organised as well as unorganised segment restricting pricing flexibility. Furthermore, the food service industry remains vulnerable to discretionary consumer spending, inflationary pressures and exogenous shocks. The ratings also continue to factor in the negative free cash flow position of the company on account of the ongoing and planned expansion to set up new stores across India.

Key rating drivers and their description

Credit strengths

Strong brand image – The company has a strong brand image in the restaurant segment, which facilitates its entry in new markets at competitive rentals, supporting its revenues and OPMs. BNHL has diverse product offerings comprising a healthy mix of vegetarian as well as non-vegetarian dishes, offering a live on-the-grill experience. As on March 31, 2021, the company had 147 restaurants across India under the brand name, Barbeque Nation, making it the largest single brand chain of barbeque-themed restaurants and one of the leading players in the fine dine segment.

Healthy recovery in H2 FY2021 aided by delivery business and strong revival of footfalls – The company's top line was significantly impacted in H1 FY2021 (YoY decline of more than 80%) with minimal revenues recorded in Q1 FY2021 due to the Covid-19-related disruptions. The operations recovered sharply from Q3 FY2021 with BNHL recording a YoY revenue decline of only 3.5% in H2 FY2021 despite localised lockdowns and operational restrictions (restrictions on operating hours, serving liquor and operational capacity). The company introduced a new product called 'Barbeque in a Box' to provide barbeque experience to customers at their doorstep, tapping into the delivery business model. The delivery business supported the top line in FY2021 with a remarkable 195% YoY growth in revenues from this segment.

Reduction in debt levels on the back of equity infusions in Q4 FY2021 and FY2022 – The company went public in 2021 leading to healthy cash inflows of Rs. 330 crore from reputed investors (Xponentia Capital and Jubilant FoodWorks Ltd. among others). This has helped BNHL maintain a healthy net worth level while reducing its total debt, thereby leading to a comfortable capital structure. With the reduction in the total debt, the annual interest and repayment obligation has reduced considerably, leading to the availability of internal accruals for opening new outlets and for funding losses in FY2022 following the impact of the second wave of the pandemic. Further, the company has demonstrated the ability to raise capital from prominent investors in the past like Alchemy Capital and CX Partners among others.

Credit challenges

Exposure to exogenous shocks – Following the nationwide lockdown since March 25, 2020, BNHL's outlets across the country were closed till June 8, 2020. The footfalls across the outlets started witnessing a downward trend from the beginning of March 2020 due to the pandemic. Even after the relaxation of the lockdown restrictions, BNHL's operations were hampered due to the 50% seating capacity restrictions, localised lockdowns/curfews (state-wise lockdowns in Maharashtra and Tamil Nadu) and restriction on serving liquor. The country again went into localised lockdowns in Q1 FY2022 due to the second wave. With the uncertainty regarding restrictions going forward and the evolving nature of the pandemic, the trend in footfalls will be a key monitorable.

Debt-funded capex/investment impacting net margins – BNHL's debt levels were high till FY2020 on account of the continuous addition of new restaurants, funded partially through debt, and the debt-funded acquisition of Red Apple Kitchen Consultancy Private Limited (Toscano Restaurant) in December 2019. This led to high interest costs, resulting in relatively lower net margins. Nevertheless, the company raised equity of Rs. 330 crore from its IPO and prepaid/will prepay the majority of its debt from the IPO proceeds, which will reduce its interest expense going forward. BNHL's total debt (excluding lease liability) reduced to Rs. 152.8 crore as on March 31, 2021 from Rs. 245 crore as on March 31, 2020. The same is expected to decline further in Q1 FY2022 as Rs. 75 crore of the IPO proceeds is earmarked for debt repayment as per the draft red herring prospectus (DRHP).

Intense competition – BNHL's presence in a highly competitive market restricts its pricing flexibility to a certain extent. The company's average price per customer (APC) growth across regions remained subdued in FY2019 and FY2020. This, in turn, impacted its revenue growth across locations. However, with the closure of a number of small players in the food service industry in FY2021 due to the pandemic, established brands like Barbeque Nation are expected to reap the benefit of reduced competition over the medium term.

Liquidity position: Adequate

The company's liquidity position is adequate with free cash and liquid investments of Rs. 140.6 crore (Rs. 54.6 crore earmarked for capex) and an undrawn overdraft facility of Rs. 1.7 crore as on March 31, 2021. Apart from this, the company had net cash inflow of Rs. 80 crore from the IPO proceeds in April 2021. In relation to these sources of cash, BNHL plans to open more than 20 outlets in FY2022, which could entail capex of Rs. 60-70 crore. Based on its debt profile as on March 31, 2021, the company's repayments are expected to be Rs. 38.5 crore in FY2022 and Rs. 31.9 crore in FY2023. However, it has prepaid the majority of its debt from the IPO proceeds received in April 2021. BNHL is also expected to conclude a preferential issue of Rs. 100 crore in July 2021, resulting in further inflows.

Rating sensitivities

Positive factors – ICRA could upgrade BNHL's ratings if the company demonstrates significant growth in its operating and net margins, leading to an improvement in cash accruals, while maintaining its liquidity and coverage metrics.

Negative factors – Pressure on BNHL's ratings could arise for reasons including but not limited to the prolonged impact of the second wave of the pandemic leading to a slower-than-anticipated recovery in the operating metrics and/or a significant increase in the debt levels for capex/acquisition leading to the weakening of BNHL's debt coverage indicators and/or a deterioration in its liquidity position. Any material support to any group company, which would lead to the weakening of BNHL's credit profile, would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the company

About the company

Barbeque Nation Hospitality Limited (BNHL) was incorporated in October 2006 as a wholly-owned subsidiary of Sayaji Hotels Limited (SHL; rated [ICRA]BBB- (Stable)). The company operates under the brand 'Barbeque Nation' offering live on-the-grill experience across India. It launched an IPO in April 2021, following which the promoter stake declined to 35.7% as on April 5, 2021 from 60.2% as on March 31, 2020. The balance is held by prominent players like Jubilant FoodWorks Ltd, CX Partners, and Alchemy Capital among others. The company raised Rs. 330 crore from the IPO and is expected to conclude a preferential issue of Rs. 100 crore in July 2021.

In FY2017, BNHL acquired Prime Gourmet Private Limited (PGPL), which owns and operates the fast food franchisees of Johnny Rockets, an international quick service restaurant (QSR) chain offering burgers, shakes and rolls at its outlets. However, this was wound up in H1 FY2019 and the company wrote off its investment in the same. In December 2019, BNHL purchased a 61.35% stake in Red Apple Kitchen Consultancy Private Limited from Samar Retail Private Limited (promoter group company), which manages Toscano Restaurant & Wine Bar, a fine dining Italian restaurant which has 11 outlets across India. As of March 31, 2021, BNHL operated through 158 restaurants across India (including 11 Toscano restaurants) and 6 restaurants in the international market.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	847.0	507.1
PAT (Rs. crore)	-32.9	-91.9
OPBDIT/OI (%)	19.4%	9.2%
PAT/OI (%)	-3.9%	-18.1%
Total Outside Liabilities/Tangible Net Worth (times)	82.2	3.4
Total Debt/OPBDIT (times)	4.4	13.0
Interest Coverage (times)	2.2	0.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Total debt includes lease liability

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 as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Jul 12, 2021	Sep 01, 2020	Apr 20, 2020	Feb 19, 2020	Jan 21, 2019	Jan 14, 2019
1	Fund Based – Term Loans	Long Term	6.5	130.8	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Negative)**	**[ICRA]A- (Negative)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	Fund-based Limits	Short Term	20.0	--	**[ICRA]A2+**	**[ICRA]A2**	**[ICRA]A2+**	**[ICRA]A1**	**[ICRA]A1+**	-
3	Commercial Paper Programme	Short Term			-	-	-	-	-	**[ICRA]A1+ withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based – Term Loan	Simple
Short-term – Fund-based Working Capital	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

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	NA	NA	NA	6.50	[ICRA]A-(Stable)
NA	Fund-based Working Capital	NA	NA	NA	20.00	[ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Barbeque Nation Mena Holding Limited	100.00%	Full consolidation
Barbeque-Nation Restaurant LLC	49.00%	Full consolidation
Barbeque Nation (Malaysia) Sdn Bhd	100.00%	Full consolidation
Barbeque Nation Holdings Pvt Ltd	100.00%	Full consolidation
Barbeque Holdings Pvt Ltd	100.00%	Full consolidation
Barbeque Nation International LLC	49.00%	Full consolidation
Barbeque Nation Kitchen (LLC)	49.00%	Full consolidation
Red Apple Kitchen Consultancy Private Limited	61.35%	Full Consolidation

Source: *Annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (BNHL), its subsidiaries and associates while assigning the ratings*

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