September 01, 2020

Barbeque Nation Hospitality Limited: Ratings downgraded to [ICRA]BBB+ (Negative)/ [ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	101.50	101.50	[ICRA]BBB+ (Negative); Revised from [ICRA]A- (Negative)
Short-term fund-based limits	30.00	30.00	[ICRA]A2; Revised from [ICRA]A2+
Total	**131.50**	**131.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action is based on the continuous and prolonged impact of the Covid-19 pandemic on Barbeque Nation Hospitality Limited's (BNHL) operations. Since India reported its first coronavirus patient towards the end of January 2020, the impact on the restaurant segment has been severe. The pan-India lockdown announced by the Government of India (GoI) on March 24, 2020 and its further extension adversely impacted the restaurant segment's revenues. ICRA expects the revival in the industry to be prolonged, given the discretionary nature of spend, the widespread economic slowdown and the mandatory/voluntary social distancing norms in the country. Certain restrictions like a seating capacity limit of 50%, state-wise localised lockdowns/curfews, and restriction on the serving of liquor across most states continue to hamper the sector's operations.

BNHL is seeking a moratorium on payments from its lenders as a part of the COVID-19 – Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. Accordingly, some of the scheduled payment obligations that were due in March 2020, pertaining to the rated Rs. 101.50-crore term loan facilities, were deferred by the company. However, despite the missed payment and the absence of a formal approval from the lenders allowing a payment relief, ICRA has not recognised this instance as a Default. This is based on ICRA's expectation that a formal approval for rescheduling the loan would be received soon, as permitted by the RBI, as a part of the relief measures announced recently. The non-recognition of default in this case is as per the guidance provided by the SEBI circular (SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53) dated March 30, 2020. It may, however, be noted that if the lenders do not approve of the moratorium in due course, ICRA would review the above stance on default recognition.

BNHL has significant operating and financial leverage, making it highly susceptible to a reduction in its revenues. While the company has been providing home delivery services under its brand name, UBQ by Barbeque Nation, and is witnessing healthy traction in the home delivery segment compared to pre-Covid levels, the segment is still a small part of its average monthly revenues. In terms of cash outflow, with the moratorium in place, the company does not have any debt repayment obligations till the end of August 2020. While ICRA understands that BNHL is optimising its expenses, its fixed obligations (employee costs, rentals and other fixed overheads) are stretching its liquidity, given the sharp reduction in cash accruals. BNHL is deferring a part of employee salaries and is in talks with its landlords to defer/waive off the rent obligation for the period of closure, which is expected to reduce its immediate cash outflow.

With sizeable leverage and debt-servicing requirements post moratorium (principal and interest of Rs. 53-57 crore between September 1, 2020 and March 31, 2021), the sharp contraction in revenues will have a detrimental impact on the company's ability to service its debt. Consequently, BNHL is expected to remain dependent on timely fund raising from the promoters/investors/lenders to support its debt obligations and to fund losses. The company expects some equity infusion by early September 2020 to support its operations and is also exploring other fund-raising options. Further, it is expecting a tax refund of ~Rs. 8.0 crore in the near term. While ICRA understands that BNHL intends to apply for the one-time restructuring plan permitted by the RBI, it is yet to submit a formal application as RBI guidelines on the same are awaited. ICRA will continue to monitor the situation as it evolves.

BNHL's standalone operating margins contracted to 10.8% in FY2020 (provisional; adjusted for AS 116 rentals) from 15.0% in FY2018 owing to the loss of the GST input tax credit (ITC) availed by the company earlier as well as its inability to raise the prices of its offerings adequately due to intense competition and the general slowdown in the economy. The standalone margins were further impacted by the significant drop in footfalls in Q4 FY2020 owing to the pandemic.

On a consolidated basis, the operating margins fell to 10.0% in FY2019 from 13.4% in FY2018 due to lower operating margins in India and losses from the international operations. While the international operations incurred an EBITDA loss of ~Rs. 23.3 crore in FY2019, ICRA understands that the company was able to turn around the operations and posted an operating margin of 12.3% (adjusted for AS 116 rentals) in 9M FY2020, up from 10.0% in FY2019 on a consolidated basis. Going forward, BNHL is likely to put a hold on expansion and will focus on profitability in the international market.

The ratings continue to factor in BNHL's strong brand image in the restaurant segment along with its healthy YoY revenue growth of 26% in FY2019. The company's strong brand image facilitates its entry in new markets at competitive rentals, supporting its revenues and operating margins. While the company witnessed healthy same store sales growth (Indian operations) in FY2019, the increase in the number of outlets to 126 in FY2019 from 102 in FY2018 also supported higher footfalls. The growth continued in 9M FY2020 with BNHL witnessing a revenue growth of 18.6% on a consolidated basis though the growth was impacted by the pandemic in Q4 FY2020.

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 operating margins. 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, 2020, the company had 150 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. BNHL has raised nearly Rs. 300 crore of equity since FY2013 from various private equity players to fund its growth capital.

Continuous expansion through addition of outlets over the past several years, leading to revenue growth in Indian operations – In India, BNHL opened 23 new stores in FY2018, 24 in FY2019 and 24 in FY2020, significantly increasing its footprint across the country. Continuous expansion has supported BNHL's revenue growth over the years. The company posted a healthy revenue growth of 23.2% in FY2019 to Rs. 703.5 crore under its standalone (Indian) operations, supported by healthy same store sales growth and continuous expansion in the number of outlets. Consolidated revenues, which include 7 restaurants outside India, grew by 26.0% in FY2019 to Rs. 739.0 crore. While the revenue growth remained healthy in 9M FY2020 at 17.8% (standalone), it was impacted in Q4 FY2020 by the pandemic. In Q4 FY2020, the company reported a 4.7% reduction in standalone revenues. Given the government-enforced lockdowns, restrictions on dining out and the continuous spread of the pandemic across the country, FY2021 revenues are expected to be severely impacted. The company started its home delivery business in FY2019 and has seen a ramp-up in revenues from this segment over the past few months.

Credit challenges

Severe disruption in business operations on account of the pandemic – 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 lockdown in Maharashtra and Tamil Nadu) and restriction on serving liquor. Given the uncertainty around restrictions going forward and the falling discretionary spend, the revival prospects continue to be significantly impacted.

Stretched liquidity position owing to sharp revenue decline – BNHL is witnessing a sharp contraction in its cash accruals due to a significant decline in its revenue without a commensurate decline in expenses. While the company does not have any debt repayment obligations till the end of August 2020 since it has availed of the RBI-provided moratorium, fixed expenses pertaining to salaries and rentals and other fixed overheads continue to weigh on its liquidity.

Debt-funded capex/investment impacting net margins – BNHL's debt levels were impacted over the last 2-3 years by 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 compared to the rating category benchmarks.

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 H1 FY2020. This, in turn, impacted its revenue growth across locations. 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: Stretched

BNHL's liquidity position is **stretched**. While the cash and undrawn overdraft facility buffer is limited, the management is exploring fund-raising options and expects a tax refund of ~Rs. 8 crore in the near term. However, fixed obligations pertaining to employee costs and rentals and other fixed overheads are expected to adversely impact the liquidity in the near term. Post moratorium, the company has a scheduled debt repayment obligation of principal and interest of Rs. 53-57 crore between September 1, 2020 and March 31, 2021, for which it will apply for a restructuring plan. Timely funding support from the promoters and/or lenders would be crucial for meeting BNHL's obligations.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade is unlikely in the near term. ICRA could upgrade BNHL's ratings if it demonstrates a significant improvement in its operating and net margins along with a reduction in its debt levels and an improvement in its liquidity and coverage metrics.

Negative triggers – Continued pressure on earnings, leading to a further deterioration in the company's liquidity and credit metrics, may lead to a rating downgrade. The ratings can also be downgraded in case of a delay in equity infusion and debt raise or if the same is inadequate to support the company's commitments.

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

BNHL was incorporated in October 2006 as a wholly-owned subsidiary of Sayaji Hotels Limited (SHL; rated [ICRA] BBB-(Negative)). As of September 2019, SHL had a 45.1% share in BNHL through its wholly-owned subsidiary – Sayaji Housekeeping Services Limited. The balance is held by CX Partners, Alchemy Capital and other individual promoters. In FY2017, BNHL acquired Prime Gourmet Private Limited (PGPL), which owns and operates the fast food franchisees of Johnny Rockets, an international QSR chain offering burgers, shakes and rolls at its outlets. However, the same 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, 2020, BNHL operated through 150 restaurants across India and 7 restaurants in the international market.

Key financial indicators (consolidated, audited)

	FY2018	FY2019
Operating Income (Rs. crore)	586.3	739.0
PAT (Rs. crore)	3.5	-29.9
OPBDIT/OI (%)	13.4%	10.0%
PAT/OI (%)	0.6%	-4.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.4
Total Debt/OPBDIT (times)	1.6	2.1
Interest Coverage (times)	4.2	4.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)					Rating History for the Past 3 Years						
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2020	FY2019		FY2018			
					01-Sep-2020	20-Apr-2020	19-Feb-2020	21-Jan-2019	14-Jan-2019	19-Jan-2018	28-Dec-2017	02-Nov-2017	07-Jul-2017
1	Fund Based – Term Loans	Long Term	101.50	NA	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund- based Limits	Short Term	30.00	NA	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1+	-	-	-	-	-
3	Unallocated Limits	Long Term	-	-	-	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Commercial Paper Programme	Short Term	-	-	-	-	-	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

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 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	9.25-9.70%	NA	101.50	[ICRA]BBB+ (Negative)
NA	Fund-based limits	NA	9.05-9.50%	NA	30.00	[ICRA]A2

Source: BNHL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prime Gourmet Private Limited	100%	Full consolidation
Barbeque Nation Mena Holding Limited	100%	Full consolidation
Barbeque-Nation Restaurant LLC	49%	Full consolidation
Barbeque Nation (Malaysia) Sdn Bhd	100%	Full consolidation
Barbeque Nation Holdings Pvt Ltd	100%	Full consolidation
Barbeque Holdings Pvt Ltd	100%	Full consolidation
Barbeque Nation International LLC	49%	Full consolidation

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Shivam Nagpal
+91 80 4332 6418
shivam.nagpal@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

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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