

Press Release

Jai Beverages Private Limited

August 05, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.24.00 Cr. (Enhanced from Rs.21.00 Cr.)
Long Term Rating	ACUITE A+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A+** (read as ACUITE A-plus) on the Rs.14.00 crore bank facilities of Jai Beverages Private Limited. The outlook is '**Stable**'.

Further, Acuité has assigned the long-term rating of '**ACUITE A+** (read as ACUITE A-plus) on the Rs.10.00 crore bank facilities of Jai Beverages Private Limited. The outlook is '**Stable**'.

Reason for reaffirmation:

The rating continues to reflect the benefits that the company derives from its exclusive franchise agreement with PepsiCo India Holding Private Limited for the J&K region. The rating also factors in the company's strong financial risk profile and liquidity and low debt levels. These strengths are partially offset by moderate operating levels and impact of lockdown on the operations of the company in April, 2020 and June, 2020. Going forward, Acuité believes that the operating income will reduce by 10-15 percent in FY2021 which will impact the profitability.

About the company

New Delhi-based Jai Beverages Private Limited (JBPL) is part of Jaipuria Group of companies and was incorporated in 1999 by Jai Drinks Private Limited and Jaipuria Foods and Beverages Private Limited. JBPL has a franchisee bottling agreement with PepsiCo India Holdings Private Limited for Jammu & Kashmir region and it manufactures and distributes sweetened aerated water (soft drinks), non-sweetened aerated water (soda), packaged drinking water and juice-based drinks. The company also undertakes sales and distribution of products by Frito Lay (a division of PepsiCo India) - Lays, Kurkure, and Quaker Oats among others.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of Jai Beverages Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

• **Experience Management and Long-standing agreement with PepsiCo India**

JBPL is headed by Mr. Anuraag Jaipuria and Mr. Razdan, with more than two decades of experience in the beverage bottling industry. They are assisted by directors, Mr. M.P Jaipuria and Mr. C.K Jaipuria, who have more than five decades of experience in the aforementioned industry. The company has long-standing agreement with PepsiCo India since 2000, through the franchise agreement for bottling and distribution of its soft drinks, juice, soda and packaged drinking water for Jammu and Kashmir region. The agreement is expected to be again renewed in 2021 for a further 10 years. In the last three years company has increased its production capacity and this coupled with an increase in demand due to higher disposable income and change in lifestyle has helped the company to maintain healthy and stable revenue growth. The revenue of the company has grown at a compounded-annual-growth rate of ~16 percent for the last five years ended FY2020. The operating income has increased to Rs.302.64 crore in FY2020 (Provisional) from Rs.288.90 crore in FY2019. Further, the company operates at healthy profitability marked by an operating margin in the range of 16.00-18.00 percent.

Acuité believes that the company will continue to derive benefit from its promoter's experience, and its exclusive franchise agreement with PepsiCo India for Jammu and Kashmir region gives healthy

revenue visibility in the medium term.

- **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The net worth of the company improved to Rs.133.42 crore as on 31 March, 2020 (Provisional) from Rs.96.34 crore as on 31 March, 2019. The improvement is backed by accretion of profit to reserves.

The company has followed a conservative financial policy in the past; the same is reflected through its gearing levels. The gearing level (debt-equity) stands at 0.09 times as on 31 March, 2020 (Provisional) as against 0.23 times as on 31 March, 2019, the improvement is on account of repayment of term loan and accretion of reserves. TOL/TNW (Total outside liabilities- Total net worth) stands low at 0.53 times as on 31 March, 2020 (Provisional). The total debt of Rs.11.43 crore as on 31 March, 2020 (Provisional) consist of long-term debt of Rs.4.69 crore, unsecured loans of Rs.2.98 crore and working capital borrowings of Rs.3.76 crore. Improvement in profitability has led to an improvement in the debt protection metrics. The Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood healthy at 47.19 times and 7.26 times, respectively, in FY2020 (Provisional). NCA/TD (Net cash accruals to total debt) stands low at 4.14 times in FY2020 (Provisional) as against 1.68 times in FY2019.

Acuité believes that the financial risk profile of the company is expected to remain financial backed by healthy net cash accruals and no major debt-funded capex in near to medium term.

- **Working capital efficient nature of operations**

The operations of the company are working capital efficient in nature marked by Gross Current Assets (GCA) of 79 days in FY2020 (Provisional) as against 79 days in the previous year. This is majorly on the account of the inventory holding period of 33 days in FY2020 (Provisional) as against 26 days in FY2019 and debtors collection period of 22 days in FY2020 (Provisional) as against 26 days in FY2019. The company gets a credit period of around 30-35 days from its suppliers. JBPL's average bank limit utilization has remained negative for the past last fifteen-month period ended June, 2020. Current ratio stood healthy 2.08 times as on 31 March 2020 (Provisional) as against 1.65 times as on 31 March 2019.

Weaknesses

- **Susceptibility to changes in regulations and customer preferences**

The beverage industry remains susceptible to changes in government regulations regarding the content of soft drinks and to increasing environmental concerns in India about groundwater depletion and discharge of effluents by bottling plants. Further, the beverage industry is susceptible to changes in consumer preferences. Since the company generates ~80 percent of its sales from aerated drinks, the cash flows may be impacted by consumers shifting their preference to non-aerated drinks for health reasons.

Rating Sensitivities

- Lower than expected operating performance leading to a significant decline in margins
- Any deterioration in the working capital cycle and liquidity profile of the company

Material Covenants

None

Liquidity Position: Strong

JBPL has strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. Company generated net cash accruals of Rs.47.32 crore in FY2020 (Provisional) as against debt obligations of Rs.5.41 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.38.32 crore to Rs.46.90 crore during FY2020-23 against repayment obligation in the range of Rs.4.69 crore in FY2021. JBPL's average bank limit utilisation has remained negative for past last fifteen-month period ended June, 2020. Company maintained unencumbered cash and bank balances of Rs.9.55 crore as on 31 March, 2020 (provisional). The current ratio stands healthy at 2.08 times as on 31 March, 2020 (Provisional).

Acuité believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accruals and working capital requirements been funded by net cash accruals.

Outlook: Stable

Acuité believes that JBPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and longstanding agreement with PepsiCo. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company's liquidity is deteriorated or significant deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	302.64	288.90
PAT	Rs. Cr.	37.00	27.22
PAT Margin	(%)	12.23	9.42
Total Debt/Tangible Net Worth	Times	0.09	0.23
PBDIT/Interest	Times	47.19	20.77

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-May-2019	Cash Credit	Long Term	6.00	ACUITE A+/Stable (Upgraded)
	Term Loans	Long Term	15.00	ACUITE A+/Stable (Upgraded)
31-Mar-2018	Cash Credit	Long Term	6.00	ACUITE A/Stable (Assigned)
	Term Loans	Long Term	15.00	ACUITE A/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00 (enhance from Rs.6.00 Cr.)	ACUITE A+/Stable (Reaffirmed)
Term Loans	Not Available	Not Applicable	Not Available	4.00 (Reduced from Rs.15.00 Cr.)	ACUITE A+/Stable (Reaffirmed)
Term Loans	Not Available	Not Applicable	Not Available	10.00	ACUITE A+/Stable (Assigned)

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About Acuité Ratings & Research:

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