Press Release

Fasta Pizza Private Limited

February 28, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non-Convertible Debentures (NCD)	4980.00	Provisional | ACUITE BBB | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	4980.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**PROVISIONAL ACUITE BBB**' **(read as Provisional ACUITE Triple B)** on the Rs. 4,980.00 Cr Proposed Non-Convertible Debentures (NCDs) of Fasta Pizza Private Limited (FPPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation considers the extensive experience of the promoters, commencement of the project as planned and setup of outlets as planned, positive developments in project underway, progressively and conservatively planned capex with a need-based infusion of capital, low funding risk and favorable outlook of the industry. These rating strengths are partly offset by moderate implementation risk and susceptibility of profitability to competitive intensity and cost pressures.

Additional Disclosures

The rating on the Rs. 4,980.00 Cr NCDs is provisional and the final rating is subject to (pending steps/ documentation):

1. Appointment of a SEBI registered Debenture Trustee
2. Receipt of the executed Debenture Trust Deed
3. Receipt of final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions

About the Company

Based in Chennai (Tamil Nadu), Fasta Pizza Private Limited (FPPL) was incorporated in July, 2020. It is a 100 percent wholly-owned subsidiary of Reliance Capital LLC (RCL) situated in Delaware, United States. FPPL has been established to undertake the business of setting-up state-of-the-art manufacturing facilities pan India for manufacturing of frozen pizzas and pizza bases and cater through its company owned outlets, company owned Pizza containers, Franchisees, retail supermarkets and restaurants.
The company has in plan an investment proposal of Rs. 7,534 crores (USD 1.032 billion; assuming Rs.73/USD) to be funded by debt-to-equity ratio of 66:34. The plan envisages setting up of fully Automated Pizza Production Lines; Pizza Outlets both traditional and in the form of

Containerized Outlets strategically positioned in 29 of the 31 states and union territories of India accompanied by a 10 year forecast plan.
Reliance Delaware LLC (RCL) was floated in June, 2020 at Delaware (United State of America). RCL will raise equity and Non-convertible debentures (NCDs) from investors based in Europe and USA, for undertaking the proposed capital expenditure in its Indian based Subsidiary, Fasta Pizza Private Limited.

Analytical Approach:

Acuité has considered the standalone business and financial risk profiles of the FPPL to arrive at this rating. The rating has been notched up by support of presence of Debt service reserve account (DSRA) and T-structure in the drafted version of the term sheet.

Key Rating Driver

Strengths

- **Extensive industry experience of the management**

FPPL is the subsidiary company of Reliance Capital LLC. FPPL is managed by the directors of the company - Mr. Vijay Raman, representing Reliance Capital LLC and Mrs. Punitha Senthil Kumar and a strong management team comprising Mr. Thanga K and Mr. Ajmal Hussain. Mr. Vijay Raman, has 30 plus years of industry experience across India, West Africa and UAE/Oman with industry exposure in various segments like Manufacturing - Energy Meters/ Magnets /Automobile and Defense Ancillary, Timber/ Logging Operations, Travel and Tourism, Construction, Software Development and Consulting. Few company names related to his work experience are India meters ltd, Chennai, India; MSG Liberia Shipping & Stevedoring, Liberia, West Africa; Administration Sharjah National Travel & Tourist Agency, Dubai, UAE; KCPC Construction (Kuwait), Dubai, UAE; 1001 Events Tourism LLC, UAE & Oman; Succevo GMBH, DUBAI, UAE and C2C Innovations / RTTS / Quadrant 4 Software Solutions Pvt Ltd in Chennai / Bangalore, India. He has been a vital part in establishing FPPL since 2019. Mr. Thanga Kannaiah, Business Unit Head of FPPL, is a food service expert with over 30 plus years of working with industry leaders in hospitality and food production houses such as Le Meridien, Trident, Westin and Taj Coromandel in Chennai; Intercontinental Grand Resort in Goa; Westin Casuarina Resort and Spa in Cayman Islands. He has worked in an array of food service areas in New product development, Enhancing existing product and production lines, New equipment development, Facility planning, Turnkey food service facilities, Recipe development and Conceptualizing new food service businesses. Chef Ajmal Hussain from Chennai, has 21 years of experience in culinary. He has extensive experience in kitchen operations in Mediterranean, Arabic, Indian, Continental, Caribbean cuisine. He has worked across geographies of North America, Caribbean, Middle East, Bermuda and India and has been associated with Taj Connemara, Le Royal Meridian, Carnival Cruise lines, Copper Falls steak House, Fairmont Hotel, Gulf Hotel, Amara Hotel, SAF Hotel, Bundl Technologies amongst others. Mrs. Punitha Senthil Kumar, has 10 plus years' experience in Trade Finance and Banking. Acuité believes that extensive industry experience of the management will aid in smooth implementation of the undergoing capex over the medium to long term.

- **Progressively and conservatively planned capex with a need-based infusion of capital vis-à-vis a one-time incurrence**

FPPL has plans to have a total of 82 Automated Pizza Production and Commissary Facilities, 1,140 Company Owned Pizza Outlets, 640 Company Owned Pizza Container Outlets, 665 franchisees along with supplying to 8,825 Retail Super Markets and Restaurants (Frozen Pizzas, pizza bases and pizza ovens) covering all major states in India over a period of 10 years as per the envisaged plan. The distribution channels are expected to be the Company Owned Pizza Outlets, Company Owned Pizza Container Outlets, Retail Super Markets and Restaurants and franchisee model. For Company Owned Pizza Outlets, FPPL plans fully equipped outlets with an investment plan approx. USD 67,000/- (INR 43 lakhs) per outlet. The Company plans to have outlets in Malls, Commercial areas and other prime locations in Tier 1, Tier 2 and Tier 3 cities in the various states / regions of India on leased basis with average lease assumed at Rs.60k-100k per month. Each of these outlets will be equipped with its own transport truck and 5 delivery staffs. For company owned pizza container outlets, FPPL plans to have outlets housed in 20 feet containers, specially branded, in National Highway's to capture the business of the mobile population. These outlets will essentially use the Frozen Pizza's delivered from the Production Line to effect a quick turnaround for travelling customers. Each of these containerized outlets will be equipped with the necessary machinery to make pizzas and accompaniments and will also use the partly frozen pizzas supplied from the commissaries.

FPPL is expected to set-up the production facilities and outlets in a systematic, selective and progressive way. At present, FPPL has set-up a small-scale pizza production unit in Chennai by incurring an amount of around Rs.2.5 Cr on pilot basis to test the mass feedback. Moreover, to initiate the project, FPPL has identified a land in Siruseri, Chennai, to set-up its first state of art facility.

FPPL plans to first start in Chennai, Tamil Nadu and thereafter expand into newer territories across India by replicating its proven model. Acuité believes that a progressive way of undertaking capex will expose the company to lower risk in terms of investment cost incurred vis-à-vis its return on investments.

- **Low funding risk; Self-funded by its existing Investor group outlining assured financial support**

FPPL has plans to incur a capex of Rs. 7,534 Cr (USD 1.032 billion; assuming Rs.73/USD) to be funded by debt-to-equity ratio of 66:34 (Rs. 4,972 Cr of NCDs and Rs. 2,562 Cr of promoter's equity capital). The entire capex of Rs. 7,534 Cr is self-funded by the investor group with no reliance any external debt per se. The project would be funded either by equity infusion or funds raised through NCDs either by its parent RCL or FPPL. RCL will consecutively do need-based infusion by way of investing in the equity shares of FPPL. Around 23 percent i.e. ~Rs. 1715.5 Cr (USD 235 million) of the total project cost has already been infused by the investor group into RCL through NCDs and in-turn some portion amounting to Rs.3.44 Cr has been invested in the equity shares of FPPL till date as per need basis. Additionally, infusion of ~Rs. 2920 Cr (USD 400 Million) by the investor group is underway. This will result in aggregate amount of Rs. 4,635.5 Cr (USD 635 million) i.e. 61.5 percent of total contribution to be infused in the project. The balance portion of the equity portion is expected to be coming in as and when required from the investor group. The residual portion of the project would be funded through the NCDs being raised by the parent company or/and FPPL at an annual coupon rate of 5 percent and these are proposed to be privately placed with the existing investors, who have shown strong support to fund this project. Thus, FPPL is insulated from the risks arising from delayed financial closure for the proposed project. The NCDs are being issued on pro-rata basis and would be would be aligned to the progress of the expansion. These NCDs will be redeemable at the end 9th and 10th year in 2 equal portions i.e. in FY2029 and FY2030. Furthermore, Acuité derives comfort from the board resolution submitted by the investor group stating a commitment of assured investment by way of subscribing/investing/infusing an amount of not exceeding USD 600 million in form of equity share capital or/and NCD into RCL or/and FPPL to undertake the project. Acuité believes that FPPL carries low funding risk as 23 percent of the equity been infused upright in its holding company – RCL and project being self-funded by the investor group with no involvement of any lender for external debt.

- **Management's philosophy of ownership model and divergent marketing strategies**

Out of the total project cost of Rs. 7,534 Cr, around Rs. 5,174 Cr (~69 percent) is expected to be the land cost to be utilized for setting up the automated pizza production lines. Management's philosophy of ownership rather than rental/lease model signifies it intent to protect the capital of the investor group and simultaneously provide risk adjusted returns too. The management believes in ownership model underpinning the thought process of the investor group; hence, the project cost is higher as allocation is higher towards land. Secondly, the management has a divergent market strategy in place with belief of the exponential growth envisaged in the near future for the pizza industry in India. It is believed that the existence of disruption in Pizza industry at present is not due to pricing but driven by value for money, health conscious citizens, rising demand for vegan/Jain Pizzas, sorted pizza wedges and others. To count on, the management is aiming at marketing strategy of offering larger pizzas (12" inches and above) at economical rates to cater all class of individuals. Acuité believes that the ideology of ownership model will be one of the key risk mitigators to the project over the medium to long term.

- **Growth prospects related to the Indian Pizza Industry**

India Pizza Market was worth USD546.2 Million in 2019 and the market is expected to record strong growth of CAGR 16-17 percent throughout next 10 years of time. The growth in the near future is expected to be driven by multiple factors like huge surge in consumerism, changing lifestyles, steady growth of incomes among the middle class, large share of young population i.e. >45% of population <25 years age, growing demand of serving the food through food delivery apps, quick service restaurants (QSR's), takeaway outlets, increasing investments in the pizza industry amongst others. Pizza Industry can be categorized by way of crust type (Thick and thin), toppings (Veg and non-veg) and distribution channels (retail and online). Thick crust remained the leading submarket, and in 2019 held 58.8 percent of the India Pizza market, followed by the Thin Crust submarket with a share of 41.2 percent. Veg toppings pizzas remained the leading submarket, and in 2019 held 59.9 percent of the India Pizza market, followed by the non-veg submarket with a share of 40.1 percent. Distribution-wise, retail contributed 61 percent followed by 39 percent of online sales. With respect to the frozen pizza market, the India frozen pizza market accounted to USD 550.0 thousand in 2018. FPPL will be present in both thick and thin crust type; but restricted to only veg toppings. Acuité believes that the aforesaid growth prospects will aid FPPL in penetrating deeper in the Indian Pizza market over the long term.

Weaknesses

- **Moderate implementation risk and high demand risk with foray into an unexplored segment of Pizza Industry (specially Frozen Pizzas)**

FPPL has already in place, the latest International Organization for Standardization (ISO) and Food Safety and Standards Authority of India (FSSAI) certificate in place. FPPL has identified a land in Siruseri, Chennai, TN to set-up its first state of art facility. Further, Implementation risk is moderate due to phased manner of capex to be undertaken; majorly being land. Demand risk is moderate as FPPL is exposed to the competition from existing established pizza makers like Dominos, Pizzahut, Smokin Joe's amongst others who have long standing presence in the fresh pizza segment. Moreover, FPPL plans to foray into the relatively unexplored frozen pizza segment in India which exposes the company to risk of slow-moving demand in the initial phas. To build on, would be FPPL's strategy of targeting only the pizzas with Veg toppings. It is perceived that the Indian Pizza market (USD 546.2 Million in 2019) was predominantly led by the Veg toppings with a share of 59.9 percent in 2019 followed by 40.1 percent of Non-Veg toppings. The variety of veg toppings and the dominant population of vegetarian is expected to dominate the veg toppings segment in the India pizza market over the medium to long term though; yet FPPL's growth will be restricted to veg toppings only, limiting the scope to capture the growth in the non-veg toppings segment. Acuité believes that FPPL would remain susceptible to the implementation and demand risks during the project execution cycle.

- **Susceptibility of profitability to competitive intensity and cost pressures**

The Indian Food and beverage market is highly competitive with players in both the organized segment and in the huge un-organized market, which may result in loss of market share and reduced profitability. Fixed costs (mainly lease rentals for outlets, employee cost, and electricity charges) form a significant portion of the operating cost, resulting in high operating leverage. Hence, timely execution of the growth plan without any cost overrun, and improvement in the operating margin with sustained focus on cost optimization, technology, low leverage, and economies of scale, remain key monitorables. Acuité believes that FPPL will remain exposed to susceptibility of profitability to competitive intensity and cost pressures.

Rating Sensitivity

- Timely execution of the planned capex over the near to medium term
- Any dependence on external debt leading to stretch in the financial risk profile and liquidity
- Timely infusion of financial support from the investor group as envisaged in the 10 year plan

Material Covenants

None

Liquidity Position: Adequate

FPPL's liquidity is adequate with entire project being self-funded by the investor group by way of equity and NCD issuance. Out of the Rs. 7,534 Cr of the project cost, 23 percent has been infused in RCL towards the equity portion. To add, as per the indicative term sheet submitted by the company, DSRA is to be maintained for amount equivalent to 15 percent of outstanding principal amount along with fixed deposits equivalent to 3 quarters of interest obligations to be maintained at all point of time. Acuité believes that FPPL's liquidity will remain adequate based on the self-funding of the investor group.

Outlook: Stable

Acuité believes that FPPL will continue to benefit over the medium term due to its experienced management and assured financial support from the investor group. The outlook may be revised to 'Positive', in case of timely execution of its capex leading to higher-than-expected revenues and profitability with improvement in financial metrics. Conversely, the outlook may be revised to 'Negative' in case FPPL registers lower-than-expected revenues and profitability or any significant delay in the planned capex or infusion of equity or reliance on external debt leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.57)	0.00
PAT Margin	(%)	(45616.92)	0.00
Total Debt/Tangible Net Worth	Times	0.08	0.00
PBDIT/Interest	Times	0.00	0.00

Status of Non-cooperation with previous CRA (If Applicable)

Not Applicable

Supplementary disclosures for Provisional Ratings

Risks associated with the provisional nature of the credit rating

1. Absence of any third party entity to take appropriate measures to protect the interest of the debenture holders in case of any breach of the trust deed or law.
2. Lack of finalized terms in absence of final term sheet.

3. In case, there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued), Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE BBB / Stable

Timeline for conversion to Final Rating for a debt instrument proposed to be issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.htm
• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
09 Mar 2021	Proposed Non Convertible Debentures	Long Term	4980.00	ACUITE Provisional BBB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	750.00	Provisional | ACUITE BBB | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	4230.00	Provisional | ACUITE BBB | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.