

Press Release

Fasta Pizza Private Limited

September 20, 2022



Rating Downgraded & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	4980.00	Provisional ACUITE BB+ Downgraded & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	4980.00	-	-

Rating Rationale

Acuite has downgraded and withdrawn its long-term rating to '**PROVISIONAL ACUITE BB+**' (read as **Provisional ACUITE Double B plus**) from 'PROVISIONAL ACUITE BBB' (read as Provisional ACUITE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 rating withdrawal is in accordance with Acuite's policy on withdrawal of Provisional ratings.

The rating downgrade reflects the slower-than-expected progress of the capex underpinning lower-than-expected promoter fund infusion leading to high implementation and funding risk. The rating continues to consider its extensive experience of the promoters, progressively and conservatively planned capex with a need-based infusion of capital, and favorable outlook of the industry. These rating strengths are partly offset by high implementation risk and susceptibility of profitability to competitive intensity and cost pressures.

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 analytical approach has been revised by removing the notch-up based on structured mechanism which was applied based on Debt service reserve account (DSRA) and T-structure in the drafted version of the term sheet. This revision in analytical approach is in line with Acuité's rating criteria.

Key Rating Drivers

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; Succervo 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.

Self-funded by its existing Investor group out lining 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 needbased 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 prorata basis and 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.

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. Distributionwise, 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

High demand and implementation 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 phase. 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.

ESG Factors Relevant for Rating

Not applicable

Rating Sensitivities

Not Applicable

Material covenants

None

Liquidity: 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

Not Applicable

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)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Feb 2022	Proposed Non Convertible Debentures	Long Term	4230.00	ACUITE Provisional BBB Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	750.00	ACUITE Provisional BBB Stable (Reaffirmed)
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 BB+ Downgraded & Withdrawn (from ACUITE Provisional BBB)
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	4230.00	Provisional ACUITE BB+ Downgraded & Withdrawn (from ACUITE Provisional BBB)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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