July 28, 2022

Restaurant Brands Asia Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term /Short-term-Unallocated amount	100.00	100.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings continues to factor in the strong recognition of Restaurant Brand Asia Limited's (RBAL) (erstwhile Burger King India Limited) operative as a national franchise for 'Burger King' in the domestic market. Further, the ratings continue to favourably consider RBAL's expanding geographic reach with a PAN-India presence and its recent entry into the Asian market through the acquisition of PT Sari Burger, a national franchise operator of the 'Burger King' brand in Indonesia. The ratings also continue to draw comfort from the company's well experienced management team and the demonstrated track record of the promotor, QSR Asia Pte. Ltd in infusing funds over the years. This apart, the company has undertaken rounds of successful fund-raising programme in the market in the past through initial public offerings (IPO) in December 2020, and its proceeds were chiefly used to repay its external debt and fund capex, and later qualified institutional placement (QIP) in February 2022 to fund its overseas acquisition in the last fiscal. The ratings continue to draw comfort from the diversified product portfolio designed to meet the Indian consumer taste and its recent entry into the café business, which is expected to be margin-accretive compared to the conventional burger business. The waning pandemic and consequent relaxation of restrictions have resulted in smart recovery in average daily sales of it dine-in and delivery operations, which surpassed the pre-Covid levels in May 2022, indicating normalcy in the business environment. Further, the absence of external debt in the Indian operations (other than lease liability) and controlled debt level in its newly acquired subsidiary, along with a strong net worth base have resulted in a favourable capital structure as on March 31, 2022. ICRA also takes note of the company's adequate liquidity profile with sizeable cash and liquid investments on a consolidated level.

The ratings, however, remain constrained by the company's exposure to execution risks owing to aggressive expansion plans over the medium term and its muted return on capital employed (RoCE), along with continued losses at the net level due to sizeable depreciation costs. This apart, the company's ability to quickly ramp-up the scale of operations and improve the earning levels in the new acquired Indonesian entity will be critical from the rating perspective and hence will be a key monitorable. The business also remains vulnerable to external shocks such as the outbreak of Covid-19 which the industry faced, as well as general demand issues which are linked to performance of the economy. ICRA also notes that the judicious funding plan for the aggressive expansion plans and compliance with the terms and conditions laid out in the master franchise development agreement (MFDA) for ongoing operations, remains critical from a credit perspective. The ratings are further constrained by RBAL's presence in a highly competitive market, characterised by the presence of established brands and the local unorganised market.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that RBAL will continue to benefit from healthy growth prospects of the QSR industry and acceptability as a well-recognised burger brand with a wide range of offerings in India.

Key rating drivers and their description

Credit strengths

Well-recognised brand in QSR segment with multiple product offerings and geographically diversified presence - RBAL is operating as the national master franchisee of the 'Burger King' brand in India, which is the second-largest fast food burger brand globally, based on the total number of restaurants. RBAL has a wide product portfolio comprising a requisite mix of vegetarian as well as non-vegetarian burgers, along with desserts and snacks designed as per the Indian consumer taste. It enjoys a pan-India presence through a chain of 315 restaurants as on March 31, 2022. In Q4 FY2022, the company completed the acquisition of PT Sari Burger, a national franchise operator of the 'Burger King' brand in Indonesia, thereby enhancing its geographical presence in Asia. As on March 31, 2022, PT Sari Burger, operates 177 stores in Indonesia. Thus, the aggregate store count considering Indian and Indonesian operation stands at 492 stores as on March 31, 2022.

Demonstrated support through capital infusion by promoter and experienced management team - Since its incorporation till date, QSR Asia has infused sizeable funds in the company to support capex and other business requirements, which limit dependence on external debt. The company has successfully undertaken rounds of successful fund-raising programme in market in past through initial public offerings (IPO) in December 2020, and its proceeds were chiefly used to repay its external debt and fund capex, and later qualified institutional placement (QIP) in February 2022 to fund its overseas acquisition in the last fiscal. The day-to-day operations are spearheaded by an experienced management team, who has an experience of more than a decade in running similar businesses.

Smart recovery in ADS level supported by waning pandemic and consequent relaxation of restrictions - The ADS recovery for dining stood at 81% in March 2022 over ADS of March 2020 (pre-Covid level), while delivery ADS surpassed the pre-Covid level at 152% indicating near to normalcy in the business fueled by the waning pandemic and resultant lifting of restrictions by the Government. This apart, the food delivery segment of QSR chains like 'Burger King' have grown substantially during the pandemic. User-friendly delivery apps and tech-enabled networks have triggered the growth for this segment. Consequently, the company's operating income on a standalone basis surged at a YoY growth of 91% to Rs. Rs. 944.2 crore in FY2022 from Rs. 494.9 crore in FY2021, when the business was marred by Covid-induced disruptions. The ramp-up in the scale of operations has led to better absorption of fixed overhead costs and improvement in the operating margin to 9.6% in FY2022 from 3.1% in FY2021. On a consolidated level, the operating income of the company stood at Rs. 1490.3 crore in FY2022 against Rs. 1004.0 crore in FY2021. The operating margin on a consolidated level improved to 6.5% against 2.5% in FY2021. The company had completed the acquisition of the Indonesian entity in March 2022, while full-year financial consolidation was reported in FY2022 to meet regulatory requirements. The actual impact of the acquisition of the Indonesian entity at a consolidated level will be seen from FY2023 onwards.

Favourable capital structure and adequate liquidity profile – The company's net worth in FY2022 at a consolidated level remained strong at Rs. 1040 crore, boosted by recent QIP placement of Rs. 1402.14 crore in March 2022. The external debt is only for the Indonesian subsidiary, which remains limited at Rs. 141.9 crore. The capital structure at an aggregate level remained strong, depicted by low gearing of 0.8 times as of March 31, 2022. The liquidity position also remained comfortable, aided by healthy unencumbered cash balances and considerable liquid investments of Rs.679.5 crore at a consolidated level as on March 31, 2022.

Credit challenges

Continued losses at net level and muted ROCE; ability to ramp up revenues and improve earnings at consolidated level, including for its newly acquired Indonesian subsidiary remains critical from credit perspective – On a standalone level, the company incurred losses of Rs. 92.9 crore owing to high depreciation and interest costs on its lease debt. Also, on a consolidated level, the company reported loss of Rs. 235.2 crore. While there has been an improvement in the operating profitability in the Indian operations owing to the waning pandemic, the Indonesia entity's operating profit has dipped due to more pronounced effect of the pandemic in FY2022 in Indonesia compared to India. The ROCE at both standalone and consolidated levels has also been muted due to under absorption of fixed costs as stabilisation of the new stores remains a work-in-progress, given the rapid expansion. Going forward, the company`s ability to quickly ramp-up the scale of operations and improve the earning at a consolidated level including the newly acquired Indonesian entity, will be critical from the rating perspective and hence will remain a key monitorable.

Compliance with terms and conditions mentioned in MFDA remains critical for ongoing operations - RBAL has received exclusive rights to develop, establish, operate and franchise Burger King (BK) restaurants in India pursuant to an MFDA among BK AsiaPac, QSR and RBAL. As per terms and conditions mentioned in the MFDA, RBAL must open at least 700 restaurants by December 31, 2026 and maintain a debt-to-equity ratio below 2 times, among others. In case of any non-compliance with the terms and conditions laid out in the MFDA, BK AsiaPac holds the right to terminate the developmental rights given to the company. Therefore, compliance with all terms and conditions in the MFDA remains critical for its ongoing operations. This apart, the MFDA in the recently acquired Indonesian 'Burger King' franchise operator is due for renewal and under discussion, and it is expected to be rolled out in the near term. The terms and conditions after renewal of the MFDA should be favourable which in turn will enable the future growth and earnings for the entity and thus will remain monitorable.

Intense competition from organised and unorganised markets ; operation exposed to inherent industry risk of disease outbreak - RBAL faces intense competition from unorganised as well as organised QSR players like Dominos, McDonald's and KFC. The company's ability to sustain its growth and improve its profit margin amid the intense competition will remain critical. Also, its sales are exposed to uncontrollable factors like outbreak of diseases such as Avian Influenza (bird flu), which may impact both supply and consumption of chicken-related products.

Liquidity position: Adequate

The company`s liquidity position remains adequate, given at a standalone level RBAL does not have external borrowings (except lease liabilities) and, thus, has no scheduled repayment obligations while on a consolidated basis there is term debt of Rs. 141.9 crore on its subsidiary's books. Further, on a consolidated level, the company has healthy liquid investments in the form of liquid mutual funds and unencumbered cash and bank balances which aggregated to ~Rs. 679 crore as on March 31, 2022. The company has aggressive expansion plans for its India operations, however, the same is expected to be funded by internal accruals and liquid investments available on books.

Rating sensitivities

Positive factors – Healthy ramp-up in scale of operations along with improvement in profitability levels, coupled with improvement in ROCE, which strengthens the overall credit metrics will be key factors for any rating upgrade.

Negative factors – Any material decline in revenue growth and weakening of profit margins, or delay in ramp-up in store expansions or any debt-funded capex which impacts the credit metrics materially, will be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2022, RBAL had one subsidiary and a step-down, who are enlisted in Annexure 2.

About the company

Burger King India Private Limited was incorporated on November 11, 2013, and in December 2020, it's constitution was changed to a public listed company and was renamed as Burger King India Limited (BKIL). On February 02, 2022, the company changed its name from 'Burger King India Limited' to 'Restaurant Brands Asia Limited' (RBAL).

At present, it is one of the fastest growing international QSR brands in India to reach 200 restaurants during the first five years of operations. As of March 31, 2022, RBAL had 315 restaurants, including nine sub-franchised restaurants, across India. RBAL is the national master franchisee of the 'Burger King' brand in India, which is the second-largest fast food burger brand globally, based on the total number of restaurants.

On March 09, 2022, the company has completed the purchase transaction of PT Sari Burger Indonesia. The transaction included purchase of 416,796 equity shares from the erstwhile promoters QSR Indoburger Pte. Ltd and PT Mitra Adiperkasa TBK at IDR 3,369,328.80 per equity share for an aggregate amount of IDR 1,404,322,766,525 (Rs. 750.1 crore) and subscribing to 184,346 fresh equity shares of BK Indo at IDR 3,369,328.80 per equity share, for an aggregate amount of IDR 621,122,286,965 (Rs. 332.4 crore). Consequent to the above, BK Indonesia has become a subsidiary of the company, wherein RBAL holds the controlling stake of 87.75% of the equity shares in BK Indonesia.

Key financial indicators (audited) - Consolidated

	FY2021	FY2022
Operating Income (Rs. crore)	1,004.0	1,490.3
PAT (Rs. crore)	-282.1	-235.2
OPBDIT/OI (%)	2.5%	6.5%
PAT/OI (%)	-28.1%	-15.8%
Total Outside Liabilities/Tangible Net Worth (times)	16.8	1.2
Total Debt/OPBDIT (times)	36.1	9.2
Interest Coverage (times)	0.2	1.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Key financial indicators (audited) - Standalone

	FY2021	FY2022
Operating Income (Rs. crore)	494.9	944.2
PAT (Rs. crore)	-173.9	-92.9
OPBDIT/OI (%)	3.1%	9.6%
PAT/OI (%)	-35.1%	-9.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.5
^Total Debt/OPBDIT (times)	38.6	7.9
Interest Coverage (times)	0.2	1.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
^Debt in standalone comprise only lease liability.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022			Date & Rating in FY2021	Date & Rating in FY2020
					July-28, 2022	Nov-25-2021	Sept-7-2021	Apr-5-2021	29-May-2020	5-Dec-2019
1	Unallocated amount	Long-term and Short-term	100.00	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-	-
2	Term Loan	Long-Term	-	-	-	-	-	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
3	Bank Overdraft	Long-Term	-	-	-	-	-	-	[ICRA]BBB+ (Negative)	-
4	Bank Guarantee	Short-Term	-	-	-	-	-	-	[ICRA]A2	-
5	Unallocated Limits	Long-term	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term and short term -Unallocated	Not applicable

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 No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term and Short-term - Unallocated	-	-	-	100.00	[ICRA]A- (Stable) / [ICRA]A2+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
PT Sari Burger Indonesia	87.75%	Full Consolidation
PT Sari Chicken Indonesia- (Subsidiary of PT Sari Burger Indonesia)	87.75%	Full Consolidation

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