November 24, 2022

Premier Tobacco Packers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based facilities (sub-limit)	(5.00)	(5.00)	[ICRA]A (Stable) Reaffirmed
Short term – Fund based facilities	60.00	60.00	[ICRA]A1 Reaffirmed
Short term – Non-fund-based facilities	5.00	5.00	[ICRA]A1 Reaffirmed
Total	**65.00**	**65.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Bommidala Enterprises Private Limited (BEPL) and Premier Tobacco Packers Private Limited (PTPPL), given the close operational, financial and management linkages between the Group entities. This apart, ICRA has also consolidated the financials of BBM Estates Private Limited (BBM Estates) and BBM Travel Retail Limited (BBM Travel), given the support extended by BEPL. BEPL, PTPPL, BBM Travel and BBM Estates, together, are hereby referred in as 'the Bommidala Group'/'The Group'.

The ratings consider PTPPL's competitive advantage by virtue of the Group's presence across the tobacco value chain and its diversified revenue base. The tobacco segment revenues are derived from multiple products and geographies. The Group sells unmanufactured tobacco, cut-rag tobacco and cigarettes under the tobacco division. The export of tobacco products is spread across 40 countries. The Operating Income (OI) from the tobacco segment moderated marginally by ~5% in FY2022 because of lower supply of tobacco. However, the segment is expected to witness a strong growth of ~20% in FY2023, on the back of healthy global demand, supported by healthy stocking of tobacco by the Group during this year's tobacco auction season. Despite healthy revenue growth, high raw material (tobacco) costs would limit the earnings' growth.

The Group's SEZ business (part of BBM Travel), which involves trading of cigarettes, liquor, and other products to retail outlets in airports, was impacted over the past two years given the impact of the Covid-19 pandemic on air travel. However, revenues recovered since H2 FY2022, which supported over 100% growth for this segment in FY2022. The company's revenues from the SEZ segment are expected to double in FY2023, on the back of improved demand. However, this is a low-margin segment, hence, earnings and accruals from this segment are expected to remain small despite healthy growth in the top-line.

The Group owns two commercial real-estate properties under BBM Estates and both properties have occupancy of 100%. The company acquired a new property in Peenya Industrial Area, Bengaluru, which is used as a factory-cum-warehouse with leasable area of ~2,30,032 sq.ft. (excluding vacant land). The property was purchased at Rs. 148.5 crore (excluding registration) with total monthly rental of Rs. 1.11 crore from this property. This purchase was funded by Rs. 90-crore LRD against Chennai property rentals, Rs. 31.9- crore unsecured loans from the promoters, and the rest from internal accruals of the Group. The financial position of the real estate segment remains comfortable, with low leverage and healthy DSCR. However, customer concentration in this segment remains high with the top-five customers accounting for 100% of the rentals and a single tenant for its Chennai property.

The Group's financial profile remains healthy with comfortable capital structure and coverage indicators, despite a temporary moderation in FY2022 on account of debt availed to fund the purchase of a new property in Bengaluru. The Group's overall debt increased to Rs. 169.2 crore as on March 31, 2022 (includes Rs. 43.0 crore of promoter loans) from Rs. 65.3 crore as on March 31, 2021, leading to increase in Total debt/OPBITDA to 2.6 times in FY2022 from 1 times in FY2021. However, with rentals from the new property expected to support the overall OPBITDA, ICRA expects Total debt/OPBITDA to improve to less than 2 times in FY2023. The Bommidala Group's interest coverage and DSCR are also expected to be comfortable in the range of 6 to 7 times and 3.5 to 4.5 times, respectively, in FY2023.

The ratings are also capped by the moderate brand equity for the in-house manufactured cigarette brands and high customer concentration in the tobacco and real-estate businesses. The revenues and margins under the tobacco division are susceptible to any impact on raw tobacco prices and supply constraints due to agro-climatic risks and regulatory policies by virtue of the products' health hazards.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will maintain healthy debt protection metrics, despite higher debt levels, supported by healthy growth in earnings.

Key rating drivers and their description

Credit strengths

Competitive advantage with the Group's presence across the tobacco value chain – The promoters, through three Group entities – BEPL, PTPPL and Hilton Tobaccos Private Limited (HTPL), have presence across the tobacco value chain. While unmanufactured tobacco is produced in PTPPL, HTPL has the manufacturing facility to produce cigarettes and cut-rag tobacco. BEPL in turn is the export arm for cigarettes and cut-rag tobacco for the Group. The integrated presence continues to provide operational and cost advantages.

Comfortable capital structure and coverage metrics – The Group has maintained a strong capital structure over the years, led by healthy accruals and minimal debt levels. However, the debt levels increased as the company purchased a new property in Bengaluru at an estimated cost of Rs. 148.5 crore (excluding taxes and other charges), which was funded through LRD loan of Rs. 96 crore, promoter loans of Rs. 43 crore and realisation of intercorporate deposits. Despite the increase in debt levels, capitalisation and coverage metrics remained strong for the company, with gearing of 0.4 times as on March 31, 2022, interest coverage of 7.3 times and DSCR of 4.3 times for FY2022. With increased debt, Total debt/OPBITDA increased to 2.6 times in FY2022 from 1 times in FY2021. However, with rentals from the new property expected to support the overall OPBITDA, ICRA expects Total debt/OPBITDA to improve to less than 2 times in FY2023.

Locational advantage of BBM Estates' property – The real-estate entity of the Group, BBM Estates, has a property in Old Mahabalipuram Road, Chennai's prime IT corridor and is located next to World Trade Centre. The newly acquired property is also located in a key industrial area in Bengaluru. The rental payments for both its properties have been timely.

Diverse revenue and geography mix – The Group's revenues are relatively diversified across segments. Within the tobacco segment, the company manufactures various products such as unmanufactured tobacco, cut-rag tobacco, cigarettes and trades tobacco products, liquor and confectionary items to duty-free shops in airports, along with its rental income.

The Group's revenues are also diversified across forty countries including Georgia, UAE, Ethiopia, Singapore, Hong Kong, Colombo, to name a few. The global presence mitigates region-related risks and policy-related volume uncertainties, to an extent.

Credit challenges

High customer concentration in both tobacco and real-estate businesses – The Group witnesses high customer concentration with the top-five customers of the tobacco business contributing to ~65% of tobacco revenues for FY2022. Further, the BBM Estates' Chennai property is rented out to a single tenant, M/s. Trimble Information Technologies India Private Limited, thereby exposing the revenues to risks arising from loss of customer to competitive properties. However, the prime location of the property mitigates the risk to an extent.

Moderate brand equity - The company manufactures tobacco products for third parties as well as in-house brands. About 60 brands including 'Ruby', 'Winston', 'Waiden', 'Miles', 'Vertus' and 'Deal' are manufactured for the export markets. Although these brands are known in the respective markets, the brand strength is lower compared with the other established brands like 'Philip Morris'.

Being an agri-commodity, availability of raw tobacco is susceptible to agro-climatic risks – The availability of raw tobacco is susceptible to climate-related risks and the Government's (tobacco board) policy on production. This gives rise to volatility in supply and consequently, raw tobacco prices. The company has the ability to pass on the increases in raw material prices only through negotiations, impacting profits temporarily during price rises. Moreover, given the seasonality in tobacco availability, the company needs to stock up the raw material during the peak seasons, exposing it to costs and risks of inventory holding. The company is also exposed to regulatory risks, given the products' health hazards.

Liquidity position: Strong

The Group's liquidity position is strong. It had free cash of Rs. 32.7 crore and liquid investments of Rs. 87.1 crore as on March 31, 2022, apart from buffer in working capital limits of ~Rs. 58-59 crore, against repayment obligations of Rs. 9.7 crore in FY2023. However, given the seasonality in tobacco procurement, liquidity buffer reduces during the peak procurement season (March-July and October–January). The liquidity improves as the inventory is used up during the non-peak season. This apart, the Group has Rs. 105-crore LRD loan available to be drawn down, if required.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if the Group demonstrates any sustained improvement in scale of operations and earnings profile, while maintaining its liquidity profile, along with capitalisation and coverage metrics.

Negative factors – Pressure on ratings may arise, if any significant reduction in the Group's revenues and profitability weakens its debt metrics, resulting in deterioration of Total debt/OPBITDA over 2.0 times, on a sustained basis. The ratings may also be downgraded if any debt-funded acquisitions weaken the debt coverage indicators, or if any sizeable repatriation of funds to the promoters or other Group entities impacts the Group's liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Debt backed by Lease Rentals (LRD-Lease Rental Discounting Loans)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Bommidala Enterprises Private Limited (BEPL) and Premier Tobacco Packers Private Limited (PTPPL), given the close operational, financial and management linkages between the Group entities. This apart, ICRA has also consolidated the financials of BBM Estates Private Limited (BBM Estates) and BBM Travel Retail Limited (BBM Travel), given the support extended by BEPL.

About the company

Premier Tobacco Packers Private Limited is part of the Bommidala Group which has interests in tobacco, real estate, and logistics businesses. PTPPL is involved in processing of raw tobacco and caters to BEPL and export markets. BEPL is primarily involved in the sale of cigarettes and cut-rag tobacco blends targeted for export markets. The company sells under 60 own brands including 'Ruby', 'Winston' and 'Lucky Gold'. Apart from this, BEPL also does contract manufacturing for players in foreign destinations. BEPL does not own any manufacturing facilities and the manufacturing is outsourced to a Group company, Hilton Tobacco Packers Private Limited.

In January 2020, BEPL had decided to separate its SEZ operations and operate under BBM Travel Retail Limited (BBM Travel). BBM Travel is involved in the distribution of cigarettes ('Marlboro' brand owned by Philip Morris), liquor ('FVodka' from FTV and brands of the Edrington Group) and confectionery items ('Kraft Foods') to retail shops and distributors, mainly in the Indian sub-continent and some Southeast Asian markets through a Special Economic Zone - SEZ unit at Cochin.

BBM Estates Private Limited is a 57% subsidiary of Bommidala Enterprises Private Limited and owns a commercial property under the name Varalakshmi Tech Park in Chennai's OMR with seven floors and a built-up area of 2,90,000 sq. ft. It acquired an industrial property in Bengaluru in January 2022, which has total leasable area of 230,032 sq. ft., apart from vacant land of 41,400 sq. ft. leased out to four different tenants.

Key financial indicators (audited)

Consolidated	FY2021	FY2022**
Operating income	453.7	479.0
PAT	48.0	43.7
OPBDIT/OI	14.7%	13.4%
PAT/OI	10.6%	9.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.8
Total debt/OPBDIT (times)	1.0	2.6
Interest coverage (times)	14.5	7.3

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore **Provisional financials*
Source: Company, ICRA Research

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 as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 24, 2022	Aug 31, 2021	15-May-2020	05-Apr-2019
1	Fund based facilities (sub-limit)	Long Term	(5.00)	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**
2	Fund based facilities	Short term	60.00	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**
3	Non-fund-based facilities	Short term	5.00	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
OCC (sublimit)	Simple
PC/ PCFC/ FDBP/ REBA	Very Simple

IBG/ FBG	Very Simple
ILC/ FLC	Very Simple

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: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	OCC (sublimit)	NA	NA	NA	(5.00)	[ICRA]A (Stable)
NA	PC/ PCFC/ FDBP/ REBA	NA	NA	NA	60.00	[ICRA]A1
NA	IBG/ FBG				4.00	[ICRA]A1
NA	ILC/ FLC	NA	NA	NA	1.00	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	PTPPL's Ownership	Consolidation Approach
Bommidala Enterprises Private Limited	NA	Full Consolidation
Premier Tobacco Packers Private Limited	100.0%	Full Consolidation
BBM Estates Private Limited	NA	Full Consolidation
Bbm Travel Retail Limited	NA	Full Consolidation

Source: Company

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