

August 31, 2021

Bommidala Enterprises Private Limited: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Term loan	9.45	9.45	[ICRA]A (Stable); Ratings upgraded from [ICRA]A- (Stable)
Fund Based facilities interchangeable	(10.00)	33.00	[ICRA]A (Stable); Ratings upgraded from [ICRA]A- (Stable)
Short term – Fund based facilities	25.00	0.00	-
Short term – Fund based facilities (sublimit)	(35.00)	0.00	-
Short term – Non-fund-based facilities	34.61	2.00	[ICRA]A1; Ratings upgraded from [ICRA]A2+
Short term – Non-fund-based facilities (sublimit)	(10.00)	0.00	-
Total	69.06	44.45	

*Instrument details are provided in Annexure-1

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 upgrade in ratings favourably factors in the group's consistent operational and financial profile with healthy accruals which has resulted in comfortable capital structure and coverage indicators, and strong liquidity position. Supported by its healthy accruals in the last several years, and working capital and capex funding from internal accruals, the group had relatively modest debt of Rs. 65.3 crore (Rs. 11.8 crore of promoter loans) as on March 31, 2021. Moreover, the group's cash balances improved to Rs. 125.1 crore as on March 31, 2021 from Rs. 34.9 crore as on March 31, 2020, leading to negative debt levels. Apart from healthy cash balances, the group also has undrawn working capital lines of ~Rs. 116 crore as on March 31, 2021, indicating a strong liquidity position. The Bommidala Group's interest coverage and DSCR also remained comfortable at 14.5 times and 5.6 times for FY2021.

The ratings also take into account BEPL'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. Operating Income (OI) from the tobacco segments witnessed minor moderation to Rs. 376.1 crore in FY2021 from Rs. 380.1 crore in FY2020 because of lower supply of tobacco. The segment is expected to witness a mid-single digit growth as supply improves and demand normalises with relaxation of Covid-19 related restrictions. The segment recorded a revenue growth of 6.6% on an annualised basis in 4M FY2022

However, group's revenues declined in FY2021, on YoY basis, with decline in SEZ sale (now part of BBM Travel) to Rs. 46.7 crore in FY2021 from Rs. 145.2 crore in FY2020. The end-user segment for this business is primarily retail outlets in airports.

As the pandemic reduced air travel drastically in FY2021 and continues to do so till date, revenues from this segment are expected to be muted in the medium term as well. While BBM Estates derives its income from renting its property in the OMR area, Chennai's prime IT corridor and adjacent to the World Trade Center, it has high geographic concentration risk and high customer concentration risk with single tenant occupancy. Lease period of the existing agreement will expire by end of August 2021; however, a new tenant is expected to move in by September 2021. However, ICRA notes that the agreement is yet to be signed.

Nevertheless, the group's scale of operations is expected to improve in FY2022 as Covid-19 related restrictions reduce at a global level – this is seen with revenues of Rs. 156.5 crore in 4M FY2022, a 9.4% YoY revenue growth on an annualised basis. 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 business. 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.

Key rating drivers and their description

Credit strengths

Comfortable capital structure and coverage metrics and strong liquidity position – The Group has reported healthy accruals over the last several years and these have been used to fund capex and working capital requirements. Moreover, the group's cash balances improved to Rs. 125.1 crore as on March 31, 2021 from Rs. 34.9 crore as on March 31, 2020, leading to negative debt levels, comfortable capital structure and coverage metrics. The Group had a net gearing of -0.1x (PY: 0.1x) and net debt/OPBITDA of -0.9x (PY: 0.4x) as on March 31, 2021 (as per unaudited financials). Its interest coverage and DSCR were also comfortable at 14.5 times and 5.6 times, respectively, for FY2021. Further, the group enjoyed several short-term positive developments (increase in realisation and product yields, and lower administrative expenses) which resulted in OPM improving by 380 bps to 14.7% in FY2021.

Competitive advantage from presence of the group across the tobacco value chain – The promoters, through three group entities – BEPL, Premier Tobacco Packers Private Limited (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.

Locational advantage of BBM Estates' property – The real estate entity of the Group, BBM Estates, has a single property which is located in Old Mahabalipuram Road, Chennai's prime IT corridor and is located next to upcoming World Trade Center, Chennai. The company has rented out its property (Varalakshmi Tech Park) entirely to M/s. Cognizant Technology Solutions India Private Limited since 2006. While the locational advantage has resulted in pricing power for the group, CTS (current tenant) has expressed its desire to vacate the premises and will be doing so by the end of August 2021. BBM Estates has already negotiated terms with a new tenant and the tenant is expected to move in on September 01, 2021; however, ICRA notes that the agreement is yet to be signed.

Diverse revenue mix; geographic diversification – The Group's revenues are relatively diversified across segments. Within the tobacco segment, the company manufactures various products such as unmanufactured tobacco (34.9% of the total revenues in FY2021), cut rag tobacco (11.3%), cigarettes (36.7%) and trading of tobacco products, liquor and confectionary items to duty free shops in airports (10.3%) and rental income (4.4%).

The Group's revenues are also diversified across forty countries including Georgia, UAE, Ethiopia, Singapore, Hong Kong, Colombo to name a few. While ~55% of revenues for the Group was derived from exports in FY2021, the remaining ~45% was from the domestic market. 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 top five customers of tobacco business contributing to 55% of tobacco revenues for FY2021. Further, the BBM Estates' property is rented out to single tenant, M/s. Cognizant Technology Solutions 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. Lease period of the existing agreement will expire by end of August 2021; however, a new tenant is expected to move in by September 2021, with a contracted lock-in period of five years. However, ICRA notes that the agreement is yet to be signed.

Moderate brand equity - The company manufactures tobacco products for a 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 to the other established brands like Philip Morris.

Being an agri-commodity, the availability of raw tobacco is susceptible to agro climatic risks – Availability of raw tobacco is susceptible to climate-related risks and Governments (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 increases in raw material prices only through negotiations, impacting profits temporarily during prices rises. The company is also exposed to regulatory risks given the products' health hazards.

Liquidity position: Strong

Bommidals group's liquidity is **strong** with healthy retained cash flows, cash and liquid investments of ~Rs. 125 crore, working capital buffer of ~Rs. 116 crore. With respect to these sources of cash, the company has maintenance capex of ~Rs. 7 crore per annum and debt repayment obligations of ~Rs. 11 – 12 crore per annum during the period FY2022 - FY2024. This apart, the group also has undrawn LRD loan of over Rs. 70 crore as on March 31, 2021. Overall, ICRA expects BBM group to be able to meet its near-term commitments through internal sources of cash and yet be left with cash surplus.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the group demonstrates a sustained improvement in scale of operations and earnings profile, while maintaining its liquidity profile, and capitalisation and coverage metrics.

Negative factors – Negative 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 a 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) Rating Approach - Explicit third-party support
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

BEPL is primarily engaged in 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

BEPL is part of the Bommidala group which has interests in tobacco, IT, health foods and logistics business. Premier Tobacco Packers Private Limited (rated [ICRA]A (Stable)/ [ICRA]A1) is the other group entity engaged in processing of raw tobacco and caters to BEPL and export markets. In January 2020, BEPL had decided to separate its SEZ operations and operate under Bbm Travel Retail Limited (BBM Travel). BBM Travel is engaged in 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 Indian sub-continent and some South East Asian markets through a Special Economic Zone - SEZ unit at Cochin.

BBM Estates Private Limited (rated [ICRA]A (CE) (Stable)) is a 57% subsidiary of Bommidala Enterprises Private Limited and owns a single commercial property under the name Varalakshmi Tech Park in Chennai's OMR with 7 floors and a built-up area of 320,645 sq. ft. It has been leased out to Cognizant Technology Solutions India Private Limited since 2006.

Key financial indicators

Bommidala Group Consolidated	FY2020	FY2021*
Operating Income (Rs. crore)	553.0	453.7
PAT (Rs. crore)	42.8	48.0
OPBDIT/OI (%)	10.9%	14.7%
PAT/OI (%)	7.7%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	0.9	1.0
Interest Coverage (times)	10.1	14.5

*Provisional Financials

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					Aug 31, 2021				
					15-May-2020	05-Apr-2019	-		
1	Term Loan	Long Term	9.45	5.4	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	
2	Fund Based facilities interchangeable	Long term	33.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	
3	Fund based facilities	Short term	0.00	-	-	[ICRA]A2+	[ICRA]A2+	-	
4	Fund based facilities (sublimit)	Short term	0.00	-	-	[ICRA]A2+	[ICRA]A2+	-	
5	Non-fund-based facilities	Short term	2.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-	
6	Non-fund-based facilities (sublimit)	Short term	0.00	-	-	[ICRA]A2+	[ICRA]A2+	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	Simple
LC / BG	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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	July 2018	NA	March 2025	9.45	[ICRA]A (Stable)
NA	Cash Credit	NA	NA	NA	33.00	[ICRA]A (Stable)
NA	LC / BG	NA	NA	NA	2.00	[ICRA]A1

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bommidala Enterprises Private Limited	NA	Full Consolidation
Premier Tobacco Packers Private Limited	NA	Full Consolidation
BBM Estates Private Limited	57.6%	Full Consolidation
Bbm Travel Retail Limited	NA	Full Consolidation

Source: Company

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