February 29, 2024

Premier Tobacco Packers Private Limited: Placed on rating watch with developing implications; rated amount enhanced

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)	(0.00)	-
Long term – Fund based facilities - Cash Credit	-	70.00	[ICRA]A; Placed on Rating Watch with Developing Implications; assigned
Short term – Fund based facilities	60.00	75.00	[ICRA]A1; Placed on Rating Watch with Developing Implications; assigned for enhanced amount
Short term –Non-fund-based facilities	5.00	5.00	[ICRA]A1; Placed on Rating Watch with Developing Implications
Total	**65.00**	**150.00**	

**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. ICRA has also consolidated the financials of BBM Estates Private Limited (BBM Estates) and BBM Travel Retail Limited (BBM Travel), given the support extended to them by BEPL in the form of corporate guarantees. BEPL, PTPPL, BBM Travel and BBM Estates are hereby together referred to as the 'Bommidala Group' or 'The Group'.

The ratings outstanding on BEPL and PTPPL have been placed on watch with developing implications given the delay in receipt of audited financials for one of the entities and audit report for two entities. ICRA understands that the two entities are migrating to Ind AS from IGAAP reporting, which has caused the delay, and will accordingly review the ratings once the audited financials and reports become available.

The ratings outstanding considers ICRA's expectation that Bommidala Group will maintain a healthy credit profile with healthy growth in revenues and earnings on the back of healthy global demand for tobacco products, leading to comfortable debt metrics. The ratings factor in the competitive advantage by virtue of the Group's presence across the tobacco value chain and its diversified revenue base. The tobacco and trading segment witnessed a strong consolidated revenue growth of ~62% in FY2023 (provisional) on the back of healthy demand for tobacco-based products and doubling of BBM Travel's (which supplies products to duty-free zones in airports) revenues on the back of recovery in air passenger traffic after the Covid-19 pandemic.

The revenue growth is expected to remain strong for the tobacco and trading segment at 22-26% in FY2024, and mid-to-high single-digit growth in FY2025 on the back of continued healthy demand. Operating margin from this segment have moderated to 8.2% in FY2023 (in line with pre-Covid-19 levels), after peaking in FY2021 and FY2022, owing to increase in tobacco prices, which could not be passed on to customers for select products. Margins are expected to be at similar levels, going forward.

The Group owns two commercial real estate properties under BBM Estates and both enjoy 100% occupancy. The financial profile 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 its Chennai property being leased by a single tenant.

The Group's overall financial profile remains healthy with comfortable capital structure and coverage indicators, despite an increase in debt levels in FY2023 and FY2024 owing to high inventory holding to cater to high demand in the tobacco segment, and lower creditors. Nevertheless, net debt/ OPBITDA is expected to be comfortable at 1.1-1.6 times. The Bommidala Group's interest coverage and DSCR are expected to be comfortable at 5.0–6.0 times and 2.0–2.5 times, respectively, in FY2024 and FY2025. The Group is estimated to incur capex of ~Rs. 40-60 crore in FY2024 and ~Rs. 15-20 crore in FY2025. Any material increase in capex and its impact on the Group's leverage metrics remain a key monitorable.

The ratings also consider the moderate brand equity for 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 of raw tobacco prices and supply constraints due to agro-climatic risks and regulatory policies by virtue of the product's health hazards.

Key rating drivers and their description

Credit strengths

Competitive advantage with the Group's presence across the tobacco value chain – The promoter group is present across the tobacco value chain through three Group entities—BEPL, Premier Tobacco Packers Private Limited (PTPPL) and Hilton Tobaccos Private Limited (HTPL). While unmanufactured tobacco is sold by PTPPL, HTPL's manufacturing facility produces 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) in FY2022, along with higher working capital intensity in FY2023. 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, 2023, interest coverage of 5.4 times and DSCR of 1.4 times for FY2023. Leverage and coverage metrics are expected to improve, going forward.

Locational advantage of BBM Estates' property – The real estate entity of the Group, BBM Estates, has a property on Old Mahabalipuram Road (OMR), Chennai's prime IT corridor, next to the World Trade Centre. The recently 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. The company's tobacco division sells various products such as unmanufactured tobacco, cut-rag tobacco and cigarettes, and trades tobacco products, liquor and confectionary items to duty-free shops in airports. The Group's revenues are also diversified across several countries including Georgia, The UAE, Ethiopia, Singapore, China and Sri Lanks, to name a few. Its global presence mitigates region-related risks and policy-related volume uncertainties, to an extent.

Credit challenges

High customer concentration risk in both tobacco and real estate businesses – The Group witnesses high customer concentration with its top two customers generating ~86% of its revenues from cigarettes and cut-rag tobacco in FY2023. Its customer base for unmanufactured tobacco is relatively more diversified with the top five customers accounting for ~56% of its revenues from unmanufactured tobacco. Further, BBM Estates' Chennai property is rented out to a single tenant, thereby exposing its 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 their respective markets, their brand strength is lower than 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 on 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 company's liquidity is strong with buffer of Rs. 148-180 crore as on December 31, 2023, against capex plans of ~Rs. 20-40 crore in the next 12 months, and repayment obligations of ~Rs. 8-12 crore. Given the seasonality in tobacco procurement, liquidity buffer reduces during the peak procurement season (March–July and November–March). The liquidity improves as the inventory is used up during the non-peak season. Moreover, the Group has a Rs. 105-crore LRD loan available to be drawn down, if required.

Rating sensitivities

Positive factors – The rating watch could be resolved upon receipt of FY2023 audited financials and audit report of all the consolidated entities. ICRA could upgrade the ratings if the Group demonstrates sustained improvement in scale of operations and earnings profile, while maintaining its liquidity profile, along with capitalisation and coverage metrics.

Negative factors – The rating watch could be resolved upon receipt of FY2023 audited financials and audit report of all the consolidated entities. 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 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

BEPL is primarily involved in the sale of cigarettes and cut-rag tobacco blends targeted for export markets. The company sells around 60 of its own brands, including 'Ruby', 'Winston' and 'Lucky Gold'. Additionally, BEPL undertakes contract manufacturing for overseas entities. BEPL does not own any production facilities and the manufacturing is outsourced to its Group company, Hilton Tobacco Packers Private Limited.

BEPL is part of the Bommidala Group, which has interests in tobacco, real estate, and logistics businesses. Premier Tobacco Packers Private Limited is the other Group entity involved in processing 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. BBM Travel is involved in the distribution of cigarettes ('Marlboro', owned by Philip Morris), liquor ('FVodka' from FTV and other brands of the Edrington Group) and confectionery products ('Kraft Foods') to retail shops and distributors, mainly in the Indian sub-continent and some South East Asian markets.

BBM Estates is a 57% subsidiary of BEPL, and owns a commercial property named, 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, with a total leasable area of 2,30,032 sq. ft., apart from vacant land of 41,400 sq. ft. leased out to four different tenants.

Key financial indicators (audited)

Consolidated	FY2022	FY2023**
Operating income	483.1	793.1
PAT	46.0	60.6
OPBDIT/OI	13.6%	12.1%
PAT/OI	9.5%	7.6%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	2.9	2.2
Interest coverage (times)	7.3	5.4

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; **Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 29, 2024	Nov 24, 2022	Aug 31, 2021	May 15, 2020
1	**Fund based facilities (sub-limit)**	Long term	(0.00)	--	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	**Fund based facilities – Cash Credit**	Long term	70.00		[ICRA]A; Rating watch with developing implications			
3	**Fund based facilities**	Short term	75.00	--	[ICRA]A1; Rating watch with developing implications	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4	**Non-fund-based facilities**	Short term	5.00	--	[ICRA]A1; Rating watch with developing implications	[ICRA]A1	[ICRA]A1	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	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	**PC/ PCFC/ FDBP/ REBA**	NA	NA	NA	75.00	[ICRA]A1; Rating watch with developing implications
NA	**Cash Credit**	NA	NA	NA	70.00	[ICRA]A; Rating watch with developing implications
NA	**IBG/ FBG**	NA	NA	NA	4.00	[ICRA]A1; Rating watch with developing implications
NA	**ILC/ FLC**	NA	NA	NA	1.00	[ICRA]A1; Rating watch with developing implications

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

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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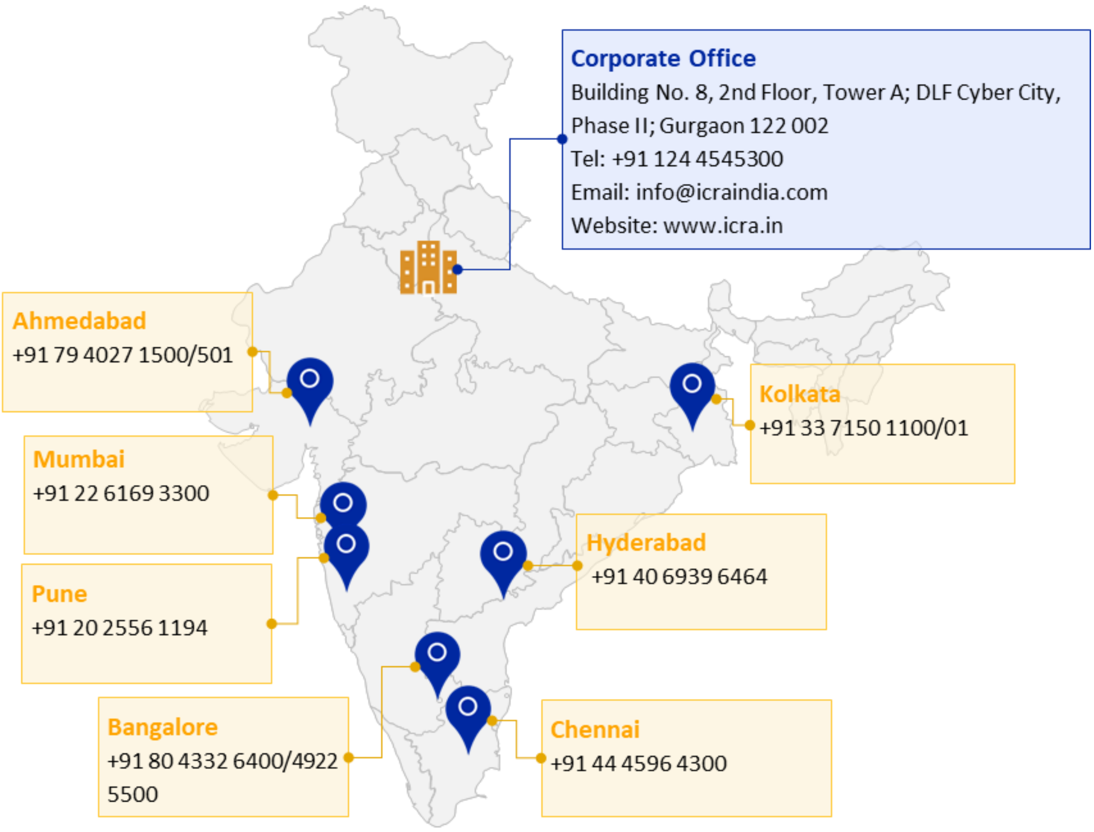

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