

April 30, 2024

BBM Travel Retail Limited: Ratings reaffirmed; 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- Cash Credit	27.00	50.0	[ICRA]A-(CE) (Stable); reaffirmed; assigned for enhanced amount
Short-term- Non fund based facilities	23.00	30.0	[ICRA]A2+(CE); reaffirmed; assigned for enhanced amount
Total	50.00	80.00	

Rating Without Explicit Credit Enhancement

[ICRA]BB+/[ICRA]A4+

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The [ICRA]A- (CE)(Stable)/[ICRA]A2+ (CE) ratings are based on the strength of the corporate guarantee provided by Bommidala Enterprises Private Limited (BEPL) for the rated borrowing programme. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, BEPL.

Adequacy of credit enhancement

For the ratings, ICRA has assessed the attributes of the guarantee issued by BEPL in favour of the said instrument. The guarantee is legally enforceable, irrevocable, has a well-defined invocation and payment mechanism, is unconditional and covers the entire amount and tenor of the rated instrument. Taking cognisance of the above, ICRA has assigned [ICRA]A-(CE)/[ICRA]A2+ (CE) ratings to the said instrument against the unsupported ratings of [ICRA]BB+/[ICRA]A4+. In case the ratings of the guarantor were to undergo a change in future, the same would be reflected in the ratings of the aforesaid instrument. The ratings of this instrument may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor. Further, any significant deterioration in the financial risk profile of BBM Travel Retail Limited (BTRL) would also result in a change in BTRL's ratings.

Salient covenants of the rated facility

- » In case of overdue with the bank the company cannot declare dividends nor any withdrawal in the form of salary/incentive/commission to the directors or promoters can be paid.
- » The company is prohibited from paying interest on unsecured loans in case of overdue with the bank.
- » Unsecured loans have to be converted into equity as and when required to maintain positive net worth.
- » Guarantors cannot issue a personal guarantee for any other loans without prior written permission of the bank. Exceptions to this clause are - car loans, personal loans, home or educational loans for self or family members.

Key rating drivers and their description

Credit strengths

Corporate guarantee from the parent company BEPL – The rating draws comfort from the irrevocable and unconditional corporate guarantee for its Rs. 80.0 crore sanctioned bank facilities from its parent, Bommidala Enterprises Private Limited (rated [ICRA]A(Stable)/[ICRA]A2+). The parent also extended working capital support in the form of a favourable credit period for the purchases made by BTRL in the past. ICRA also notes the undertaking by the promoters to extend support to BTRL whenever required and has also extended financial support in the past through unsecured loans.

Moderately diverse geographical base with presence across several South Asian countries – The company operates from a special economic zone (SEZ) in Cochin where it imports goods, repackages them with modest value additions (added warning, new packaging etc.) and then exports it to customers. The company caters to duty-free shops in airports and seaports, ship chandlers, border shops and military establishments. It has a moderate level of geographical diversification and client base operating in several Asian countries, including India, Maldives, Sri Lanka, Nepal, Bangladesh and Singapore. The company's product portfolio and revenue streams are diversified, as it trades in liquor, cigarettes, confectionary items, travel and fashion accessories.

Credit challenges

Modest scale of operations – BTRL's revenues improved significantly in FY2023 to Rs. 196 crore and further to Rs. 180 crore in the 9M FY2024. The increase in the scale of operations is primarily due to the uptick in international travel as the impact of the pandemic subsided. Sales are highly intertwined with air travel, as its end users are primarily retail outlets in various airports in the South Asian region. Despite experiencing healthy growth, the company operates on a modest scale, which limits the benefits that could arise from economies of scale. Additionally, the company has a modest net worth base due to the thin margins inherent to the nature of operations.

Margins are expected to remain modest going forward, due to limited product value addition – The company imports products to its warehouse in the SEZ in Cochin, repackages the same with modest value additions (added warning, new packaging, etc.), and then exports them. BTRL acts as an agent between the supplier and customer in this segment. It is a low-margin segment, and the company engages in this trade primarily to acquire new customers for its tobacco segment. Margins are expected to remain modest in this business going forward.

Liquidity position: Adequate

For the [ICRA]A-(CE) (Stable) / [ICRA]A2+(CE) ratings: Adequate

Bommidala Group's is adequate with a buffer of Rs. 100.0 – 120.0 crore in the working capital limits and expected retained cash flows of Rs.70.0 - 72.0 crore against repayment obligations of Rs.10.0 – 11.0 crore in the period of FY2025 and the expected capex of ~Rs. 18.0 – 20.0 crore. Given the seasonality in tobacco availability (which peaks during the auction season), the liquidity buffer is lower during the peak procurement season. As of December 2023, the company had stocked up a sizeable inventory, which led to moderation in cash balances.

For the [ICRA]BB+ / [ICRA]A4+ ratings: Adequate

The company had a buffer of Rs. 3.8 crore as on December 31, 2023 and the cash balance of Rs. 16.0 – 18.0 crore, with no major capex plans and repayment obligations. It also receives timely support from the promoters/ group entities through unsecured loans or extended credit terms, as and when required.

Rating sensitivities

Positive factors: The ratings could be upgraded if there is an improvement in the credit profile of the guarantor, BEPL, or the company's credit profile improves with the improvement in revenues, earnings, and receivables cycle.

Negative factors: The ratings may be downgraded if there is a deterioration in the credit profile of the guarantor or a weakening of the form of support extended by the guarantor, BEPL. Further, pressure on the ratings could emerge with a sharp deterioration in the earnings or a significant rise in debt beyond the estimates, resulting in the moderation of debt coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach-Explicit third-party support
Parent/Group Support	Group'For arriving at the ratings, ICRA has taken a consolidated view of BEPL and Premier Tobacco Packers Private Limited (PTPPL), given the close operational, financial and management linkages between the group entities. Besides, ICRA has also consolidated the financials of BBM Estates Private Limited (BBM Estates), Bio-pharma Laboratories Private Limited (Bio-Pharma) and BTRL given the support extended by BEPL. The assigned rating for BTRL is based on an unconditional, irrevocable corporate guarantee extended by BEPL.
Consolidation/Standalone	The ratings are based on the standalone financials of the company.

About the company

In 2005, Bommidala Group in a bid to enhance its business growth/volumes started the distribution of the Marlboro brand (owned by Philip Morris) of cigarettes in duty-free shops across the Indian sub-continent. Initially, these operations were carried out through BEPL's unit located in SEZ in Cochin (Kerala) but were later shifted to BBM Travel Retail Limited (BBM Travel) in FY2020. BBM Travel caters to duty-free shops in airports and seaports, ship chandlers, border shops and military establishments. In the past cigarette sales have accounted for ~90-95% of BBM Travel's sales, which declined gradually due to growth in other segments. The company imports the products and repackages with modest value additions (added warning, new packaging etc.) and then exports them.

Key financial indicators (audited)

BBM Travel Retail (Standalone)	FY2022	FY2023
Operating income	89.8	195.9
PAT	0.4	6.8
OPBDIT/OI	1.1%	6.5%
PAT/OI	0.5%	3.5%
Total outside liabilities/Tangible net worth (times)	-231.1	14.1
Total debt/OPBDIT (times)	8.6	5.2
Interest coverage (times)	0.7	4.6

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

About the guarantor

BEPL is primarily involved in the sale of cigarettes and cut rag tobacco blends targeted for export markets. The company sells ~60 own brands, including Ruby, Winston and Lucky Gold. Apart from this, BEPL also does contract manufacturing for players in foreign destinations. BEPL has no 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]A2+) is the other group entity involved in the processing of raw tobacco and caters to BEPL and export markets. In January 2020, BEPL decided to separate its SEZ operations and operate under BTRL. Bio-Pharma is engaged in the extraction of nutraceutical, tocopherol, from soya-based and sunflower-based de-oiled cake (DoC) of sunflower. The company is also planning to sell extracted nicotine. BBM Estates is a 57% subsidiary of BEPL and owns two commercial properties.

Key financial indicators of the group (BEPL+PTPPL+BBM Estates+ BBM Travel +Bio-Pharma)

Consolidated	FY2022	FY2023
Operating income	508.3	873.8
PAT	46.6	63.0
OPBDIT/OI	13.0%	11.1%
PAT/OI	9.2%	7.2%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	2.7	2.9
Interest coverage (times)	7.2	5.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S No	Instrument	Type	Current rating (FY2025)		Chronology of Rating History for the past 3 years			
			Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 30, 2024	-	Jan 25, 2023	Nov 12, 2021
1	Cash Credit	Long term	50.00	-	[ICRA]A-(CE) (Stable)	-	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)
2	Non-fund based	Short term	30.00	-	[ICRA]A2+(CE)	-	[ICRA]A2+(CE)	[ICRA]A2+(CE)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund based (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 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, is available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]A-(CE) (Stable)
NA	Non-fund-based facilities (LC/BG)	NA	NA	NA	30.00	[ICRA]A2+(CE)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

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