April 30, 2024(Revised)

Premier Tobacco Packers Private Limited: Long-term rating reaffirmed at [ICRA]A; Short-term rating downgraded to [ICRA]A2+; Ratings removed from watch; Stable Outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based facilities-Cash Credit	70.00	70.00	[ICRA]A reaffirmed; Stable outlook assigned and removed from Rating Watch with Developing Implications
Short -term – Fund based facilities	75.00	75.00	Downgraded to [ICRA]A2+ from [ICRA]A1 and removed from Rating Watch with Developing Implications
Short-term- Non fund based facilities	5.00	5.00	Downgraded to [ICRA]A2+ from [ICRA]A1 and removed from Rating Watch with Developing Implications
Total	**150.00**	**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. This apart, ICRA has also consolidated the financials of BBM Estates Private Limited (BBM Estates), Bio-Pharma Laboratories Private Limited (Bio-Pharma), and BBM Travel Retail Limited (BBM Travel), given the support extended by BEPL. BEPL, PTPPL, BBM Travel, BBM Estates and Bio-Pharma Laboratories are hereby together referred to as the 'Bommidala Group' or 'The Group'.

The ratings outstanding on PTPPL were placed on Watch with developing implications in February 2024 due to delays in receiving audited financials for one of the entities and audit reports for two entities. BEPL's ratings have now been removed from rating Watch with developing implications since the audited financials (including audit reports) have been received and are consistent with provisional financials.

The downgrade of the short-term rating reflects a moderation in the Group's liquidity profile, evidenced by a in decline in cash balances owing to higher inventory holding and increased receivables. The company had stocked up a high inventory during the procurement season in anticipation of robust revenue growth on the back of strong global demand for tobacco products. Nevertheless, ICRA notes that the company has enhanced its working capital limits and continues to maintain an adequate buffer of undrawn working capital limits.

The ratings continue to derive comfort from the Group's competitive advantage, stemming from its 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 driven by healthy demand for tobacco-based products and the doubling of BBM Travel's (which supplies products to duty-free zones in airports) revenues owing to the recovery in air passenger traffic following the Covid-19 pandemic.

The revenue growth is expected to remain strong for the tobacco and trading segment at 22-26% in FY2024, on the back of continued healthy demand. Operating margins from this segment moderated to 8.2% in FY2023 (in line with pre-Covid-19 levels) from peak levels in FY2021 and FY2022 due to increased tobacco prices that the entity was unable to pass on to customers for selected products. Margins are expected to remain 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 a healthy debt service coverage ratio (DSCR). However, customer concentration in this segment remains high, with the top five customers accounting for 100% of the rentals and the Chennai property being leased by a single tenant.

The Group's overall financial profile remains healthy with a comfortable capital structure and coverage indicators, despite an increase in debt levels in FY2023 and FY2024 due to higher inventory holdings to meet strong demand in the tobacco segment and lower creditors. Nevertheless, net debt/ OPBITDA is expected to be comfortable at 1.1-2.0 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 a 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 the high customer concentration in the tobacco and real estate businesses. Revenues and margins within the tobacco division are vulnerable to fluctuations in raw tobacco prices and supply constraints caused by agro-climatic risks and regulatory policies related to health hazards associated with tobacco products.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will maintain its competitive advantage, which along with global demand is expected to result in healthy growth in revenues and margins, supporting the improvement in its debt protection metrics.

Key rating drivers and their description

Credit strengths

Competitive advantage with the Group's presence across the tobacco value chain – The promoter group is involved across the tobacco value chain through three Group entities—BEPL, 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 serves as the export arm for cigarettes and cut-rag tobacco for the Group. This 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 due to the company's acquisition of a new property in Bengaluru with 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, the company's capitalisation and coverage metrics are expected to remain strong, with estimated gearing of 0.2-0.5 times as on March 31, 2024, interest coverage of 7-8 times and a DSCR of 2.0-2.5 times for FY2024. The leverage and coverage metrics are expected to improve going forward.

Locational advantage of BBM Estates' property – The Group's real estate entity, BBM Estates, has a property on Old Mahabalipuram Road (OMR), which is Chennai's prime IT corridor and adjacent to the World Trade Centre. The recently acquired property is also located in a key industrial area in Bengaluru. The rental payments for both 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 also 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 Lanka, among others. This global presence helps mitigate risks associated with specific regions and policy-related volume uncertainties to an extent.

Credit challenges

High customer concentration risk– 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. The customer concentration in the nutraceutical division is also high as the top two customers account for most of the company's revenues. Further, BBM Estates' Chennai property is rented out to a single tenant, thereby exposing its revenues to risks arising from losing the customer to other 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 vulnerable 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 inventory holding risk and increased costs. The company is also exposed to regulatory risks related to health hazards associated with tobacco products.

Liquidity position: Adequate

Bommidala Group's liquidity 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.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings, if the Group demonstrates sustained improvement in the 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 the 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 Realty - Lease Rental Discounting (LRD) Rating Methodology for Pharmaceutical entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of BEPL and PTPPL, given the close operational, financial and management linkages between the Group entities. This apart, ICRA has also consolidated the financials of BBM Estates, Bio-Pharma, and 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. PTPPL is part of the Bommidala Group and is involved in the processing of raw tobacco catering to BEPL and export markets.

In January 2020, BEPL 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 Southeast Asian markets. 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 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 a vacant land of 41,400 sq. ft. leased out to four different tenants.

Key financial indicators (audited)

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

Source: Company

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 (FY2025)				Chronology of rating history for past 3 years		
		Type	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	Feb 29,2024	Nov 24,2022	Aug 31,2021
1	Fund based facilities (sub-limit)	Long term	(0.00)	--	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based facilities – Cash Credit	Long term	70.00		[ICRA]A(Stable)	[ICRA]A; Rating watch with developing implications	-	-
3	Fund based facilities	Short term	75.00	--	[ICRA]A(Stable)	[ICRA]A1; Rating watch with developing implications	[ICRA]A1	[ICRA]A1
4	Non-fund-based facilities	Short term	5.00	--	[ICRA]A2+	[ICRA]A1; Rating watch with developing implications	[ICRA]A1	[ICRA]A1

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]A2+
NA	Cash Credit	NA	NA	NA	70.00	[ICRA]A(Stable)
NA	IBG/ FBG	NA	NA	NA	4.00	[ICRA]A2+
NA	ILC/ FLC	NA	NA	NA	1.00	[ICRA]A2+

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 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
Bio-Pharma Laboratories	NA	Full Consolidation

Source: Company

Corrigendum

Document dated April 30, 2024 has been corrected with revisions as detailed below:
● Rating Methodology for Pharmaceuticals has been included in the Analytical approach table.

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