

## BBM Estates Private Limited

Instruments	Amounts (Rs. Crore <sup>1</sup> )	Rating Action (December 2016)
Term loan facility, backed by Corporate Guarantee from Bommidala Enterprises Private Limited	80.00	[ICRA]A- (SO) (Stable) / reaffirmed

ICRA has reaffirmed the long-term rating of [ICRA]A- (SO) [pronounced as ICRA A minus structured obligation] outstanding the Rs.80.00 crore term loan facilities of BBM Estates Private Limited (BBMEPL/the company)<sup>2</sup>. An 'SO' rating is specific to the rated issue, its terms and its structure. 'SO' rating does not represent ICRA's opinion on the general credit quality of the issuers concerned. The outlook on the long-term rating is stable.

The [ICRA]A- (SO) rating is assigned solely based on the strength of the corporate guarantee extended by Bommidala Enterprises Private Limited (BEPL), the bank facilities of which are rated at [ICRA]A-/Stable/[ICRA]A2+. The rating address the servicing of the rated facilities to happen as per the terms of the underlying loan and the guarantee arrangement and the rating assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower.

The rating assigned factors in the attractive location of BBMEPL's property along the IT corridor in Chennai, reputed tenant, presence of credit enhancement features like deposit of rentals in the escrow account and debt servicing reserve account (DSRA) with three months peak Equated Monthly Installment (EMI) and adequate liquidity reserve in the form of investments in liquid instruments. The rating also considers the company being part of the larger BBM Bommidala group which can lend financial support. The rating is, however, constrained by high tenant concentration risk with single tenant occupancy. The rating also takes note of vulnerability of timely debt servicing to delays in rentals as rentals continue to be the only source of income for the company currently, sensitivity of cash flows to interest rate movements and limited track record of the promoter in leasing commercial properties. ICRA also factors in exposure of BBMEPL's revenues to lease renewal risk with current renewed lease term expiring in September 2020 and entire area up for renewal.

### Company Profile

BBMEPL is part of the BBM Bommidala group (the group), which is based out of Guntur, Andhra Pradesh. The group is one of India's leading exporters of unmanufactured tobacco. The group, which was founded in 1950 by Mr. Bommidala Bhanu Murthy for the export of unmanufactured tobacco, has diversified across the tobacco chain over the years, i.e., from leaf growing to the manufacture of cigarettes and other by-products. The group primarily exports its products to various countries in Europe, Asia, Africa and America. The group is currently managed by Mr. Bommidala Bhanu Murthy and his family.

BBM Estates Private Limited (erstwhile GMR Estates Private Limited) was incorporated in the year 1993 and currently owns a 56.8 ground commercial property with G+7 floors. The property was acquired from GMR Group by BBM Bommidala group during FY2014 and subsequently rechristened to BBM Estates Private Limited. The entire rental space with built up area of 320,645 sq. ft. has been leased out to Cognizant Technology Solutions India Private Limited since 2006. The renewed lease period ends on September 30, 2020.

### Guarantor's Profile

BEPL, established in 1996, is primarily engaged in the manufacture, marketing and distribution of cigarettes and cut-rag tobacco blends, apart from trading in unmanufactured tobacco. The Company's product range includes various types of cigarettes in sizes ranging from 59 mm through 100 mm with regular or flavored filters. BEPL, largely focused on the export markets, derives its revenues from sales to over 60 countries. Its customer profile includes various cigarette manufacturers/ distributors and tobacco leaf dealers. The Company markets its own cigarette brands, such as Lucky Gold, Lucky 9, Lucky Star, Smart, Wilson, Premier Club, Mast, Dart, Soft, Ruby, Miles, Bright, Little Cigars and Super Slim, which account for nearly 65% of the Company's cigarette sales. The Company also does contract manufacturing for third party cigarette brands which account

<sup>1</sup> 100 lakhs = 1 crore = 10 millions

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications



for remaining cigarette sales. The Company has around 360 cut-rag tobacco blends catering to premier, mainstream and low-value cigarette segments as well as 'roll-your-own' products.

The Company outsources the cigarette manufacturing to another group company, Hilton Tobaccos Private Limited (HTPL), which was established in 1984 to perform contract manufacturing for Godfrey Philips India Limited (GPI). However, with GPI commencing own manufacture since 1996, HTPL commenced performing job work for BEPL. BEPL is also engaged in distribution of premium brands of cigarettes (for Philip Morris Group), cigars, confectionery items (for Kraft Foods), liquor (FTV and Edrington Group), perfumes and energy drinks in the duty-free export establishments in South Asian Countries; these operations are carried out through the Company's facility in an SEZ at Cochin (Kerala). BEPL enjoys a "Two star Export house" status.

#### **Recent Results**

According to un-audited results, BBMEPL reported net profit of Rs. 2.6 crore on an operating income of Rs. 9.7 crore during the seven months ended October 2016. The company has reported net profit of Rs. 4.0 crore on an operating income of Rs. 16.1 crore during FY2016 as against net profit of Rs. 2.2 crore on an operating income of Rs. 15.6 crore during FY2015.

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