

## Mangalore Ganesh Beedi Works

December 04, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-based- Working Capital Facilities	40.00	60.00	Revised to [ICRA]A (Stable) from [ICRA]A+ (Stable)
Short-Term Non-Fund Based	20.00	0.00	-
Short-Term Interchangeable	0.00	(0.10)	Revised to [ICRA]A1 from [ICRA]A1+
<b>Total</b>	<b>60.00</b>	<b>60.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has revised the long-term rating from [ICRA]A+ (pronounced as ICRA A plus) to [ICRA]A (pronounced as ICRA A) for Rs. 60.00-crore (revised from Rs. 40.00 crore) long-term fund-based limits of Mangalore Ganesh Beedi Works (MGBW/the firm). The outlook on the long-term rating is Stable. ICRA has also revised the short-term rating from [ICRA]A1+ (pronounced as ICRA A one plus) to [ICRA]A1 (pronounced as ICRA A one) for Rs. 0.10 crore short-term interchangeable limits of MGBW.

### Rationale

The ratings revision takes into account the increase in debt levels and working capital intensity in FY2018 and H1 FY2019 due to increased inventory holdings. The revision also factors in the decline in margins due to an increase in the minimum wage rates of the labourers and a rise in the prices of tendu leaves, one of the key raw materials required for manufacturing beedis. Further, Mangalore Ganesh Beedi Works' (MGBW) volume has declined over the last few years given the restrictions on sales promotions, increasing public awareness about the ill-effects of tobacco products, change in consumer smoking habits and competition from other tobacco products. In FY2018, the volume declined by 14% primarily due to higher beedi prices post GST implementation. Additionally, the periodic drawings by the promoters continue to limit growth in the firm's net worth.

However, the ratings continue to draw comfort from the firm's healthy financial profile characterised by healthy margins, comfortable capital structure and healthy coverage indicators, notwithstanding the deterioration in FY2018. The ratings also continue to factor the vast experience of the partners in the industry and MGBW's extensive track record of operations, established brand presence with continued leading market position in South India with a wide distribution network.

### Outlook: Stable

ICRA believes MGBW will continue to benefit from its established track record, strong brand recall and a robust distribution network in the South Indian market. The outlook may be revised to Positive if there is substantial growth in its revenue and profitability along with an improvement in the firm's working capital intensity. The outlook may be revised to Negative if there is any adverse regulatory change or volatility in raw material prices, which results in weakening of the liquidity position and further increase in debt levels.

## Key rating drivers

### Credit strengths

**Extensive experience of partners in the industry** - The firm was incorporated in 1940 and has an extensive track record of operations. The partners also have vast experience in handling the operations of the business. Further, the partners have a healthy net-worth position and support the funding requirements of the business whenever required.

**Established brand and strong distribution network in South India** - MGBW is one of the major players in the fragmented beedi manufacturing industry and enjoys a strong brand presence in Karnataka, Tamil Nadu and Andhra Pradesh. The firm has been able to maintain its market position in these markets despite competition from the unorganised beedi segment, other tobacco products and restrictions on sales promotions for tobacco products owing to established distribution network.

**Favourable financial profile** - The firm's financial profile is characterised by healthy operating margins of 23.00% in FY2018, although the same declined from 27.95% in FY2017. Moreover, it has a comfortable capital structure with a low gearing level of 0.81 times as on March 31, 2018 and healthy coverage indicators with interest coverage of 7.47 times and DSCR of 5.55 times in FY2018.

### Credit challenges

**Business remains vulnerable to Government policies, regulations and growing health awareness** - Being a health hazard, like other tobacco products, the beedi industry remains tightly regulated in terms of advertising and tax structure. India's tobacco-product manufacturers need to comply with pictorial warnings on packages, which have been potentially affecting volume growth for the industry. Further, the procurement of major raw material i.e. tendu leaves is regulated by the Government.

**De-growth in sales volume coupled with decline in margins in FY2018** - The firm was impacted by GST implementation as the effective tax rate increased to 28% from 5-6% earlier under the VAT regime. It was able to pass on the increased tax rates only partially to its customers by increasing the beedi rates, impacting its realisation. The volume witnessed ~14% de-growth owing to higher prices, coupled with increasing awareness with anti-tobacco measures. The operating margins were also impacted in FY2018 due to a rise in the minimum wages of the labourers. Increase in the price of tendu leaves is likely to impact the margins further in FY2019.

**Increase in working capital intensity and debt levels** - The working capital intensity increased to 33% in FY2018 owing to increased inventory levels due to a sharp rise in the prices of tendu leaves, coupled with increased procurement. The yield of tendu leaves in the unit allocated to the firm in FY2018 auctions was higher than anticipated and it had to purchase the increased yield as was mandated by the terms of the auction. This also resulted in higher debt levels, with MGBW availing short-term loans to fund the increased working capital requirements in FY2018.

### Liquidity position

The firm's liquidity profile is comfortable with a buffer from undrawn working capital limits of Rs. 23.00 crore and cash and liquid investments of Rs. 35.55 crore as on March 31, 2018. Further, there are no outstanding long-term loans with scheduled repayments. The short-term loan of Rs. 80.0 crore outstanding as on March 31, 2018 has been refinanced by MGBW with a Rs. 60.0 crore loan in November 2018 and the rest has been repaid from its internal accruals. Going forward, the repayment on this loan is expected to be funded by internal accruals as well as cash flow from reduction in inventory levels. With healthy cash accruals and sufficient financial flexibility to refinance its loans, the firm's liquidity profile remains healthy. It has no major capital expenditure planned for FY2019.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements of the issuer.

## About the company

MGBW was established in 1940 by Mr. Madhav Shenoy and Mr. B. Raghuram Prabhu at Bantwal village in South Canara district of Karnataka. At present, the firm is controlled by the Shenoy family with the three brothers – Mr. Jagannath Shenoi, Mr. M. Gopinath Shenoy and Mr. M. Ramanath Shenoy being equal partners. The firm is involved in manufacturing beedis, which are sold under the brand – “501 Ganesh beedi” and is one of the largest beedi players in the country. Its manufacturing facilities are located in South Canara and old Mysore regions (in Karnataka), Tirunelveli (in Tamil Nadu) and Karimnagar (Andhra Pradesh). Apart from these, it also gets some part manufacturing done on a job-work basis from Kolkata to cater to the regions of North India. While, the firm supplies across the country, its revenue is mainly driven from the southern states of Karnataka, Tamil Nadu and Andhra Pradesh.

In FY2018, the firm reported a net profit of Rs. 71.11 crore on an operating income (OI) of Rs. 519.40 crore, as compared to a net profit of Rs. 130.92 crore on an OI of Rs. 581.60 crore in the previous year.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	581.60	519.40
PAT (Rs. crore)	130.92	71.11
OPBDIT/OI (%)	27.95%	23.00%
RoCE (%)	264.39%	79.20%
Total Debt/TNW (times)	0.09	0.81
Total Debt/OPBDIT (times)	0.07	1.08
Interest coverage (times)	12.69	7.47

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating December 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Jan 2018	March 2017	Dec 2015
1 Cash Credit	Long Term	60.00	-	[ICRA]A (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A- (Stable)
2 Interchangeable - Bank Guarantee	Short Term	(0.10)	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A2+

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: 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	60.00	[ICRA]A (Stable)
NA	Interchangeable - Bank Guarantee	NA	NA	NA	(0.10)	[ICRA]A1

Source: Mangalore Ganesh Beedi Works

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