

January 27, 2021

## Mangalore Ganesh Beedi Works: Ratings Reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Cash Credit	60.00	60.00	[ICRA]A (Stable); reaffirmed
Short Term - Interchangeable	(0.10)	(0.10)	[ICRA]A1; reaffirmed
<b>Total</b>	<b>60.00</b>	<b>60.00</b>	

\*Instrument details are provided in Annexure-1

## Rationale

The reaffirmation of the ratings draws comfort from Mangalore Ganesh Beedi Works' (MGBW or the firm) healthy return metrics, low gearing and comfortable coverage indicators. The ratings continue to factor in the extensive track record of the partners and the firm's established brand presence in South India, supported by a wide distribution network.

However, the ratings are constrained due to continued decline in the operating profits owing to rising labour rates and tendu leaf prices. Moreover, there were substantial capital withdrawals in FY2020, demonstrating risks related to the partnership constitution of the firm. The said capital withdrawals can also be attributed to the retirement of partners, and is thus expected to be one-time in nature. The firm also received capital from the existing partner in FY2020 and a newly inducted partner in Q1 FY2021. Apart from the above factors, the beedi manufacturing industry has been highly regulated on the back of health-related concerns and consequent restrictions on sales promotions. Further, the procurement of the key input, tendu leaves, is subject to state government intervention. Intense competition from other tobacco products and a change in consumers' smoking habits also remain rating concerns.

ICRA notes that the firm did not face any major adverse impact of the Covid-19 pandemic and was able to ramp up volumes to healthy levels from Q2 FY2021. Thus, the Stable outlook reflects ICRA's expectation that MGBW will continue to leverage its brand strength and maintain comfortable return and debt coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of partners in industry** – The firm was incorporated in 1940 and has an extensive track record of operations, particularly in Karnataka. In addition to the vast operating experience, the partners have a healthy net worth position, which lends comfort.

**Established brand and strong distribution network in South India** – MGBW is one of the leading organised players in the fragmented beedi manufacturing industry and enjoys a strong brand presence in Karnataka, Tamil Nadu and Andhra Pradesh. An established distribution network and good brand loyalty have enabled the firm to maintain its market position amid competition from the unorganised beedi segment, other tobacco products and restrictions on sales promotions for tobacco products. Post the pandemic, the firm was able to revive its operation and sales, as evident in the healthy top line in 8M FY2021 (Rs. 308 crore compared to Rs. 280 crore in FY2020), which reflects the aforementioned strengths.

**Favourable financial profile** – The firm's financial profile is characterised by a healthy RoCE of 32.10% in FY2020, up from 29.71% in FY2019. Modest debt profile, as reflected in a gearing of 0.36 times as on March 31, 2020, improved from 0.56 times as on March 31, 2019 and low debt repayment obligations have resulted in comfortable coverage indicators. MGBW's interest coverage, Total Outside Liabilities/Tangible Net Worth and DSCR stood at 6.4 times, 1.51 times and 3.88 times in FY2020, improved from 3.50 times, 1.31 times and 2.60 times in FY2019.

### Credit challenges

**Business 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, that is, tendu leaves, is regulated by the Government and is available only through auctions.

**Operating profits declining owing to rising input costs** – MGBW’s volumes witnessed a ~4% de-growth in FY2020 owing to the lockdown that started in end of March 2020. Moreover, labour costs, which form ~50 to 60% of the firm’s input cost, have been rising in Karnataka, in which MGBW’s labour force is concentrated. The firm’s profitability is also contingent upon the price of its major raw material, tendu leaves, which is a government-regulated item and tobacco. The operating margins deteriorated to 11.32% in FY2020 from 13.74% in FY2019.

**Risk associated with a partnership firm** – The partners have a track record of withdrawing capital from the firm. In FY2020, two retiring partners withdrew Rs. 123 crore, which was partially offset by new capital infusion of Rs. 85 crore by the existing and a new partner till Q1 FY2021. Such large capital withdrawal is expected to be one-time affair, given the retirement of the said partners.

### Liquidity position: Adequate

The firm’s liquidity profile is adequate with cash flow from operations of Rs. 100.56 crore in FY2020 and a buffer from undrawn working capital limits of Rs. 25 crore. Further, it has minimal outstanding long-term loans and no major capital expenditure requirements in FY2021 and the near term. Cash levels have been moderate. ICRA notes that the firm has been making provisions towards the announced wage increases in FY2018, though it obtained a legal stay on the same and the matter remains pending. In case of a required payout or any additional working capital requirement, the firm can utilise its bank limits and also receive capital infusion from the partners.

### Rating sensitivities

**Positive factors** – ICRA could upgrade MGBW’s rating if the firm is able to increase its scale of operations and profitability, while increasing its net worth base, aided by limited withdrawals by the partners. Additionally, an increase in the cash balance, which would lead to an improvement in the liquidity position, would also trigger ratings upgrade.

**Negative factors** – Pressure on the firm’s ratings could arise if there is a significant / sustained decline in the revenues or margins. Specific credit metrics that could lead to a downgrade of rating include interest coverage below 4.00 times. Further, substantial withdrawals by the partners, leading to negative retained cash flows, may also warrant a rating downgrade.

### 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 of beedis, which are sold under the brand, 501 Ganesh Beedi. It is one of the largest beedi players in the country. Its manufacturing facilities are located in South Canara and old Mysore regions (Karnataka), Tirunelveli (Tamil Nadu) and Karimnagar (Andhra Pradesh). Apart from these, it gets some part of the manufacturing done on a job-work basis from Kolkata to cater to North India. While the firm supplies across the country, its revenue is mainly generated from Karnataka, Tamil Nadu and Andhra Pradesh.

### Key financial indicators (audited)

MGBW Standalone	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	519.40	472.23	452.82
PAT (Rs. crore)	71.11	27.77	21.3
OPBDIT/OI (%)	23.00%	13.74%	11.32%
RoCE (%)	79.20%	29.71%	32.10%
Total Outside Liabilities/Tangible Net Worth (times)	1.48	1.31	1.51
Total Debt/OPBDIT (times)	1.08	1.43	0.88
Interest Coverage (times)	7.47	3.50	6.37
DSCR (times)	5.55	2.60	3.88

\*Source company data

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					27-Jan-2021	07-Jan-2020	04-Dec-2018	22-Jan-2018	
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]A1+	

&= Under watch with developing implications

### 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 [click here](#)

*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	9%	NA	60.0	[ICRA]A (Stable)
NA	Bank Guarantee	NA	NA	NA	0.1	[ICRA]A1

**Source:** Company

*Annexure-2: List of entities considered for consolidated analysis*

Company Name	Ownership	Consolidation Approach
NA		

**Source:** firm data

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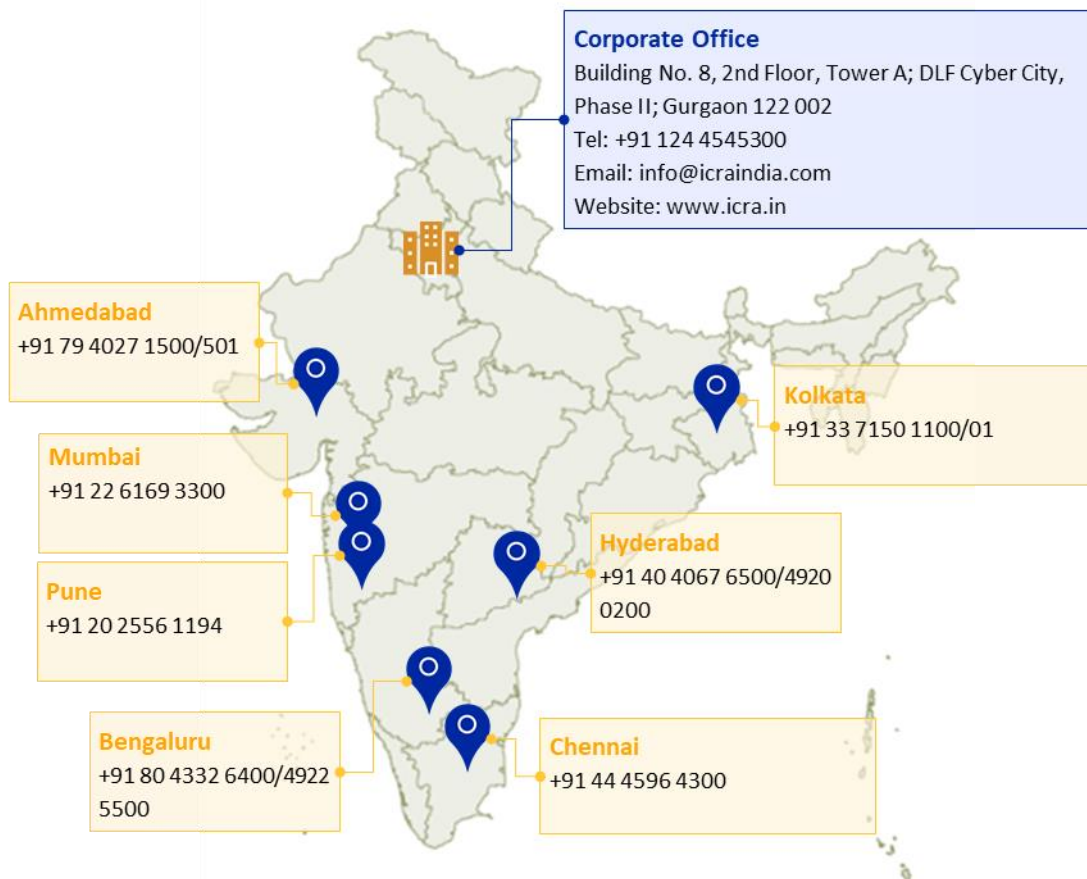
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