

November 12, 2021

Bbm Travel Retail Limited: Ratings assigned at [ICRA]A- (CE)(Stable)/[ICRA]A2+ (CE)

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	27.00	[ICRA]A- (CE)(Stable); assigned
Non-fund based facilities (LC/BG)	23.00	[ICRA]A2+ (CE); assigned
Total	50.00	

Rating Without Explicit Credit Enhancement	[ICRA]BB+
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*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 is 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 assigning the rating, ICRA has assessed the attributes of the guarantee issued by BEPL in favour of the said instrument. While the guarantee is legally enforceable, irrevocable and unconditional and covers the entire amount and tenor of the rated instrument, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned a rating of [ICRA]A- (CE) to the said instrument against the unsupported rating of [ICRA]BB+. In case the rating of the guarantor were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well. The rating 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 or there is 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 (Bbm Travel) would also result in a change in rating of Bbm Travel.

Salient covenants of the rated facility

- » Additional funds cannot be raised by the company without prior approval from the existing lender
- » Repay subordinated loans availed from directors/group companies without prior approval from the existing lender
- » External rating to be maintained at a minimum of "A- ". Any downgrade in external rating/internal rating would lead to review of credit facilities and would require credit enhancement by the way of additional collateral security
- » Cross default: The three companies: BEPL, Bbm Travel and Bio Pharma Laboratories Pvt. Ltd. are considered as a Group

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. 50.0 crore sanctioned bank facilities from its parent, Bommidala Enterprises Private Limited (rated [ICRA]A(Stable)/[ICRA]A1).

Moderately diverse geographical and customer base with presence across several South Asian countries – The company exports traded goods to several Asian countries. Any regulatory changes in these countries could impact the revenues of the company to an extent. However, the company's demonstrated ability to enter into new markets over the years, mitigates this risk to an extent. The company has moderate customer concentration with top five customers contributing to ~49% of the revenues in FY2021 (top five customers contributed to ~85% of the revenues in FY2020). The revenues from the customers are order driven and had exhibited high volatility in the past.

Credit challenges

Modest scale of operations – Bbm Travel's revenues witnessed a steep decline of 67.8% in FY2021 to Rs. 46.7 crore. The decline is primarily due to restriction of international travel due to the outbreak of the pandemic. SEZ sales has started to improve in FY2022 with revenues of Rs. 18.8 crore in 4M FY2022, a 20.7% revenue growth on an annualized basis. However, revenues are expected to remain modest in FY2022 as well. SEZ sales is dependent on resumption and normalization of air travel, as its end users are primarily retail outlets in various airports in the South Asian region. The company has a modest scale of operations that limits the benefits arising from economies of scale.

Operating loss in FY2021 and margins are expected to remain modest going forward, due to limited product value addition – The company imports products to its warehouse in the Special Economic Zone, Cochin and repackages the same with modest value additions (added warning, new packaging, etc.), and exports the same. Bbm Travel acts as an agent between the supplier and customer in this segment. It is a low margin segment and the company engages in the trade to gain new customers for its tobacco segment. Margins are expected to remain modest in the business going forward.

Liquidity position: Stretched

For the [ICRA]A (Stable) rating: Strong

Bommidals group's liquidity is **strong** with healthy retained cash flows, cash and liquid investments of ~Rs. 125 crore, working capital buffer of ~Rs. 116 crore. With respect to these sources of cash, the company has maintenance capex of ~Rs. 7 crore per annum and debt repayment obligations of ~Rs. 11 – 12 crore per annum during the period FY2022 - FY2024. This apart, the group also has undrawn LRD loan of over Rs. 70 crore as on March 31, 2021. Overall, ICRA expects BBM group to be able to meet its near-term commitments through internal sources of cash and yet be left with cash surplus.

For the [ICRA]BB+ rating: Stretched

The company's liquidity position is **stretched** with negative retained cash flows since operations began in FY2020. Timely support from the promoters / group entities through unsecured loans or extended credit terms for meeting any shortfall in fixed cost requirements of the company is crucial for its liquidity position.

Rating sensitivities

Positive factors: The ratings could be upgraded if there is an improvement in the credit profile of the guarantor, Bommidala Enterprises Private Limited or the company's credit profile improves with rebound in revenues and margins and improvement in receivables cycle.

Negative factors: The ratings may be downgraded if there is a deterioration in the credit profile of the guarantor or weakening of the form of support extended by the guarantor, Bommidala Enterprises Private Limited. Further negative pressure on the rating could emerge with sharp deterioration in the earnings or significant rise in debt beyond the estimates, resulting in 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's flagship company: Bommidala Enterprises Private Limited (rated [ICRA]A (Stable)/ [ICRA]A1. 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) and Bbm Travel Retail Limited (BBM Travel) given the support extended by BEPL. The assigned rating for Bbm Travel Retail Limited is based on an unconditional, irrevocable corporate guarantee extended by BEPL.
Consolidation/Standalone	The rating is based on the company's standalone financials

About the company

The Bommidala group in a bid to enhance business growth/volumes started the distribution of the Marlboro brand (owned by Philip Morris) of cigarettes, in duty-free shops in Indian sub-continent, in 2005. These operations were carried out through BEPL's unit located in SEZ in Cochin (Kerala) and have been shifted to BBM Travel Retail Limited (BBM Travel) in FY2020. BBM Travel caters to duty free shops in airports and sea ports, 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 the same with modest value additions (added warning, new packaging etc.), and exports the same. It is a low margin segment and the group engages in the trade to gain new customers.

Key financial indicators

Bommidala Group Consolidated	FY2020	FY2021*
Operating Income (Rs. crore)	21.8	44.5
PAT (Rs. crore)	-0.1	-0.3
OPBDIT/OI (%)	-1.2%	-1.8%
PAT/OI (%)	-0.5%	-0.8%
Total Outside Liabilities/Tangible Net Worth (times)	-893.8	-146.4
Total Debt/OPBDIT (times)	-60.7	-27.4
Interest Coverage (times)	-3.3	-0.4

*Provisional Financials

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

About the guarantor

BEPL is primarily engaged in sale of cigarettes and cut rag tobacco blends targeted for export markets. The company sells under 60 own brands including Ruby, Winston and Lucky Gold. Apart from this, BEPL also does contract manufacturing for players in foreign destinations. BEPL does not own any 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]A1) is the other group entity engaged in processing of raw tobacco and caters to BEPL and export markets. In January 2020, BEPL had decided to separate its SEZ operations and operate under Bbm Travel Retail Limited (BBM Travel). BBM Travel is engaged in distribution of cigarettes (Marlboro brand owned by Philip Morris), liquor (FVodka from FTV and brands of the Edrington group) and confectionery items (Kraft Foods) to retail shops and distributors, mainly in Indian sub-continent and some South East Asian markets through a Special Economic Zone - SEZ unit at Cochin.

Key financial indicators of the Group (BEPL + PTPPL + BBM Estates + Bbm Travel)

Bommidala Group Consolidated	FY2020	FY2021*
Operating Income (Rs. crore)	553.0	453.7
PAT (Rs. crore)	42.8	48.0
OPBDIT/OI (%)	10.9%	14.7%
PAT/OI (%)	7.7%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	0.9	1.0
Interest Coverage (times)	10.1	14.5

*Provisional Financials

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in Nov 12, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Cash Credit	Long-term	27.00	-	[ICRA]A-(CE)(Stable)	-	-	-
2	Non-fund based facilities (LC/BG)	Short-term	23.00	-	[ICRA]A2+(CE)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Non-fund based facilities (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 analyzing 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: 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	27.00	[ICRA]A- (CE)(Stable)
NA	Non-fund based facilities (LC/BG)	NA	NA	NA	23.00	[ICRA]A2+ (CE)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	-	-

Source: Company

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Srikumar K

+91 44 4596 4318

ksrikumar@icraindia.com

Nithya Debbadi

+91 40 4067 6515

nithya.Debbadi@icraindia.com

Nareshkumar N

+91 95972 60257

nareshkumar.n@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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