Bommidala Enterprises Private Limited

Instruments	Amounts (Rs. Crore*)	Rating Action
Long-term - Fund based facilities (sub-limit)	(5.00)	[ICRA]BBB+ (Stable) / reaffirmed
Short-term - Fund based facilities	20.00	[ICRA]A2+ / reaffirmed
Short-term - Fund based facilities (sub-limit)	(25.00) [revised from (20.00)]	
Short-term - Non-fund based facilities	30.00	
Short-term - Non-fund based facilities (sub-limit)	(50.00) [revised from (5.00)]	
Short-term - Proposed facilities	6.36 [revised from 0.15]	

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)† outstanding on the Rs.5.00 crore fund based (sub-limit) facilities of Bommidala Enterprises Private Limited ("BEPL" / "the Company"). ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs.20.00 crore fund based facilities, the Rs.25.00 crore fund based (sub-limit) facilities (revised from Rs.20.00 crore), the Rs.30.00 crore non-fund based facilities, the Rs.50.00 crore non-fund based (sub-limit) facilities (revised from Rs.5.00 crore) and the Rs.6.36 crore proposed facilities (revised from Rs.0.15 crore) of the Company. The outlook on the long-term rating is stable.

While arriving at the ratings, ICRA has taken a consolidated view of BEPL along with the other group entity, Premier Tobacco Packers Private Limited ("PTPPL"), considering the common management and close operational linkages.

The ratings consider the established presence of the BBM Bommidala Group ("BBM group"/ "the group") in the tobacco industry, the competitive advantages arising from its fairly integrated presence across the tobacco chain (comprising tobacco leaf sourcing, processing and cigarette manufacturing) and the group's geographically diversified customer base. ICRA also considers the group's tie-up with business houses like Philip Morris, Kraft Foods, Fashion TV (FTV) and Edrington Group for distribution of their products with established brand name (Marlboro cigarettes, Cadbury's confectionery, FTV Vodka and Edrington's scotch whiskey brands) in duty free outlets in South Asian countries.

ICRA takes note of the healthy growth in tobacco exports from India in 2013-14 in value terms on account of increase in realization aided by depreciation of rupee, which has also benefited the group, with increased sales of raw/processed tobacco. ICRA also takes note of the healthy growth witnessed in sale of traded goods from SEZ unit in 2013-14. However, due to the relatively high cost of production, Indian tobacco exports remains vulnerable to intense cost competition from other tobacco producing countries and while the group is currently operating in regions with relatively lower regulatory risks; tightening of government regulations could have adverse impact on operations. The ratings are also constrained by the group's thin operating margins on the back of limited pricing flexibility and its susceptibility to sharp fluctuations in tobacco prices (which are dependent on Government policy and agro- climatic risks) / foreign exchange rates. While, the growth in sales from SEZ unit is expected to result in improved margins, the increase in selling and distribution expenses to promote these products have restricted the margin expansion.

The group had recently undertaken aggressive expansion for setting up a filter manufacturing unit (as a JV with Essentra PTE) in Saudi Arabia with an investment of Rs.13.4 crore in November 2013. The group has also invested Rs.22.9 crore in a real estate property in Chennai and all the investments are funded through internal sources. While, there is no adverse impact on the capital structure, the expansion had contracted the group's cash reserves. Hence, the ability to achieve early stabilization of the units commenced in foreign countries would be critical in improving its reserves profile.

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* 100 lakhs = 1 crore = 10 millions

† For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Company Profile

BEPL is part of the BBM Bommidala group, which is based in Guntur (Andhra Pradesh). The BBM 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 at present managed by Mr. B. Bhanu Murthy and his family.

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 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) 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, BEPL reported net profit of Rs.15.0 crore on an operating income of Rs.259.7 crore during 2013-14. The Company reported net profit of Rs.9.3 crore on an operating income of Rs.246.4 crore during 2012-13 as against net profit of Rs.4.2 crore on an operating income of Rs.191.2 crore during 2011-12.

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