



Yarlagadda Exports Private Limited

ICRA has assigned A4 (pronounced A four) rating† to Rs. 280.0 million fund based facilities of Yarlagadda Exports Private Limited (YEPL)†.

The assigned rating factors in company's weak financial profile characterized by low profitability due to trading nature of the business, high gearing and customer concentration. The small scale of operations makes the company vulnerable to intense competition given the commoditized nature of the tobacco. The rating however, favourably factors in promoters' experience in the tobacco industry, company's established relationship with the international buying agent and financial support from the promoters in the form of regular equity infusion and unsecured loans.

YEPL was incorporated in 1990 in Guntur (Andhra Pradesh) under the name of Jaya Tulasi Rice Mills Pvt. Ltd. with an intent of carrying on the business of rice milling & trading. The company however did not operate for a long time. During FY 2002, the name of the company was changed to Yarlagadda Exports Private Limited for carrying out the business of tobacco exports. YEPL is promoted by Mr. Y. A. Chowdary who has more than two decades of experience in tobacco trading.

YEPL is engaged in merchant export of tobacco and sells the entire quantity through Associated Tobacco Company (ATC), a Luxembourg based buying agent for a number of international cigarette manufacturers. Although the client concentration risk is high, YEPL has stable relation ship with ATC. Any movement in market

price of tobacco is borne by ATC and any major movement in foreign exchange is adjusted mutually. Exports account for over 90% of the total revenues of YEPL and only by-products such as stem, excess purchases and rejects by the customers are sold in the domestic market. As the production and selling of FCV‡ tobacco is regulated by the Tobacco Board in India, YEPL purchases FCV tobacco from the auction platforms of the Tobacco Board of India which accounts for around 80% of the tobacco traded by YEPL. The remaining 20% is of the type of VAC§ which is not regulated by the Tobacco Board and is purchased directly from the farmers. YEPL gets processing of raw tobacco leaves involving threshing and drying from third parties on job work basis.

The operating income of YEPL increased from Rs. 74.0 million in 2004-05 to Rs. 545.0 million in 2008-09**. The growth in the operating income was on account of increase in volume and average price of the tobacco exported by the company. The volume and average price of the tobacco increased at a CAGR of 14% and 49% respectively during the period from 2006-07 to 2008-09. The operating profit margin increased from 2.8% in 2005-06 to 4.6 % in 2007-08 and has been stable in 2008-09. YEPL has been able to improve its operating margin by establishing its credibility as a reliable sourcing partner for ATC. As a result ATC has started sourcing tobacco for large customers such as Japan Tobacco International from YEPL which offer higher margin. The working capital intensity for YEPL has been 31% on an average during the period from 2004-05 to 2007-08.

However it increased to 52% during 2008-09 due to the shipment of around Rs. 120.0 million of tobacco towards the end of March 2009 which increased the debtor days as on March 31, 2009. The gearing of YEPL has increased as the scale of operations increased due to working capital intensive nature of business. Total debt which consists primarily of working capital finance increased from Rs. 9.9 million as on March 31, 2005 to Rs. 237.6 million as on March 31, 2009. Although the promoters infused equity of Rs. 22.5 million during 2008-09, which reduced the gearing from 6.3 times as on March 31, 2008 to 5.1 times as on March 31, 2009, the gearing is still high. The fund flow from operations has been negative for the company due to incremental working capital requirements.

Company Profile:

Yarlagadda Exports Private Limited (YEPL) was incorporated in 1990 and is engaged in merchant exports of tobacco since FY 2000. The company is promoted by Mr. Y. A. Chowdary who has been in this line of business for over two decades. YEPL was awarded the 'Strivers Award' during FY2006 & FY2007 from the Tobacco Board of India for its highest compound growth in exports and is also a recognized Export House by the Ministry of Commerce.

In 2008-09, YEPL reported an operating income of Rs. 545.5 million, net profit of Rs. 6.2 million, operating profit margin of 4.6% and a net profit margin of 1.1% as per the provisional numbers provided by the company.

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

‡ FCV:Flue Cured Virginia

§ VAC: Virginia Air Cured

** Based on Provisional numbers

**Key Financials:**

		2006-07	2007-08	2008-09*
Operating Income		237.8	363.3	545.0
OPBDITA		6.4	16.6	25.0
PAT		1.3	2.7	6.2
Net Worth		15.7	18.4	47.1
Total Debt		55.3	114.8	237.6
OPBDITA/Operating Income (%)		2.7%	4.6%	4.6%
PAT/Operating Income (%)		0.6%	0.7%	1.1%
ROCE		10.9%	15.9%	11.7%
OPBDITA/(Interest and Finance Charges) (Times)		1.7	1.4	1.6
Net Cash Accruals/Total Debt (%)		3%	3%	3%
Total Debt/Net Worth (Times)		3.5	6.2	5.1

*Provisional numbers

Note: Amounts in Rs. million

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