

September 14, 2017

Bommidala Enterprises Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long term – Term loan	9.64	[ICRA]A- (Stable); Assigned
Long term – Fund based facilities (sub-limit)	(10.00)	[ICRA]A- (Stable); Outstanding
Long term – Proposed/ unallocated	0.36	[ICRA]A- (Stable); Assigned
Short term – Fund based facilities	25.00	[ICRA]A2+; Outstanding
Short term – Fund based facilities (sub-limit)	(35.00)	[ICRA]A2+; Outstanding
Short term – Non fund based facilities	34.06	[ICRA]A2+; Outstanding
Short term – Non fund based facilities (sub-limit)	(35.00)	[ICRA]A2+; Outstanding
Total	69.06	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]A- (pronounced ICRA A minus)¹ to the Rs. 9.64 crore² term loan facility and 0.36 crore long term proposed facility of Bommidala Enterprises Private Limited ('BEPL' / 'the company'). The outlook on the long-term rating is stable.

ICRA also has ratings of [ICRA]A- (Stable)/ [ICRA]A2+ outstanding on other bank facilities of BEPL.

Rationale

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. Hereby both the entities BEPL and PTPPL will together be called as 'the group'.

The ratings favourably factor in the group's competitive advantage due to its presence across the value chain and its product, customer and geographic diversity with exports constituting to ~80% of the revenues. The ratings also draw comfort from the company's strong capital structure and coverage indicators. The promoters have been in the business for more than three decades.

However, the ratings are constrained by the risks arising from high regulations on import of tobacco in the export markets. While this could impact revenues, the limited pricing power and volatility in raw tobacco prices can impact the profit margins. The group is also exposed to agro climatic risks pertaining to raw tobacco and Government policies relating to its production and marketing. The group has seen a ~50% decline in sales for the cut rag tobacco and the cigarettes segments in FY2017. However, the same has been compensated by the growth in other segments, helping the group to maintain the revenues.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Competitive advantage from fairly integrated presence across the tobacco chain** – The group has notable presence across the tobacco chain from raw tobacco procurement to manufacture of cut rag tobacco blends and cigarettes which provides competitive advantage for the company in terms of pricing and availability of raw materials.
- **Diverse revenue mix across the products, customer base and geographies** – The group's revenues are diversified across different segments like raw and processed tobacco, cut rag tobacco, cigarettes and trading of tobacco products to duty free shops in airports. These segments have contributed to ~38%, 5%, 17% and 38% of revenues in FY2017. The drop in sales for cut rag tobacco and cigarettes segments sold by BEPL has been compensated by growth in other segments which had helped the group to maintain the revenues in FY2017. The group exports its products to ~60 countries, lending geographic and customer diversification.
- **Comfortable debt metrics**– The group has been maintaining comfortable capital structure over the past few years. With low utilisation on working capital facilities given the healthy liquidity and minimal capex related debt, gearing of the group was at 0.1 as on March 31, 2017. The group had invested on Capex ~20 crores for installation of two 2MW windmills in FY2017.

Credit weaknesses

- **Stringent regulations on imports/ production in the export and domestic markets; could lead to revenue susceptibility** – Akin to most other industry players, the group's revenues largely depend on Government regulations in the domestic and export markets. Any changes in regulations on the imports/ production policies by the foreign countries could impact the revenues for the group. Import restrictions by the countries the company exports to have led to decline in sales for the cut rag tobacco and cigarettes segments.
- **Availability of raw tobacco susceptible to agro climatic risks** – Availability of raw tobacco is subject to agro climatic risks and Governments (tobacco board) policy on production. This leads to volatility on supply and in the raw tobacco prices.
- **Limited pricing flexibility amidst volatile raw tobacco prices** – Owing to intense competition, the group has limited pricing flexibility on the products. Any adverse movements in the raw tobacco prices could impact the margins of the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. 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.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

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 is largely focused on the export markets and derives its revenues from sales to over 60 countries. BEPL markets its own cigarettes under the brands such as Lucky Gold, Lucky 9 and Lucky Star to name a few. BEPL also does contract manufacturing for third party cigarette brands.

The company outsources the cigarette manufacturing to another group company, Hilton Tobaccos Private Limited (HTPL). 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), perfumes and energy drinks in the duty-free export establishments in South Asian countries.

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.

Key Financial Indicators

	FY2016	FY2017
	Audited	Unaudited
Operating Income (Rs. crore)	330.7	272.9
PAT (Rs. crore)	26.0	15.1
OPBDIT/ OI (%)	13.4%	11.7%
RoCE (%)	32.1%	15.0%
Total Debt/ TNW (times)	0.03	0.1
Total Debt/ OPBDIT (times)	0.1	0.5
Interest coverage (times)	51.3	34.6
NWC/ OI (%)	19%	24%

OI: Operating Income; 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); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2016	
				September 2017	December 2016	July 2016	August 2015	
1	Fund based facilities	Long term	9.64	[ICRA]A-(Stable)	-	-	-	
2	Fund based facilities (sublimit)	Long term	(10.00)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	
3	Fund based facilities	Short term	25.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
4	Fund based facilities (sublimit)	Short term	(35.00)	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
5	Non fund based facilities	Short term	34.06	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
6	Non fund based facilities (sublimit)	Short term	(35.00)	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
7	Proposed facilities	Long term	0.36	[ICRA]A-(Stable)	-	-	-	

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

**Annexure-1
Instrument Details**

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan	-	-	-	9.64	[ICRA]A- (Stable)
Cash credit (as sublimit of EPC/ PCFC)	-	-	-	(10.00)	[ICRA]A- (Stable)
EPC/ PCFC	-	-	-	25.00	[ICRA]A2+
FUBD/ PSCFC (as a sublimit of EPC/ PCFC)	-	-	-	(25.00)	[ICRA]A2+
FCNR (B) (as a sublimit of EPC/ PCFC)	-	-	-	(10.00)	[ICRA]A2+
Bank guarantee	-	-	-	34.06	[ICRA]A2+
Letter of credit - 1(as a sublimit of BG)	-	-	-	(5.00)	[ICRA]A2+
Letter of credit – 2 (as a sublimit of EPC/ PCFC)	-	-	-	(5.00)	[ICRA]A2+
Bank guarantee – 2 (as a sublimit of EPC/ PCFC)	-	-	-	(25.00)	[ICRA]A2+
Proposed facilities	-	-	-	0.36	[ICRA]A-(Stable)

Source: Bommidala Enterprises Private Limited

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