

## Mangalore Ganesh Beedi Works

January 22, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore) <sup>1</sup>	Current Rated Amount (Rs. crore)	Rating Action
Fund Based facilities	70.00	40.00	[ICRA]A+ (Stable); Reaffirmed
Non-Fund Based facilities	0.50	20.00	[ICRA]A1+; Reaffirmed

### Rating action

ICRA has reaffirmed the long term rating of [ICRA]A+ (pronounced as ICRA A plus) outstanding on the Rs.40.00 crore (revised from Rs.70.00 crore) long-term fund based limits of Mangalore Ganesh Beedi Works (MGBW / the firm)<sup>2</sup>. The outlook on the long term rating is Stable. ICRA has also reaffirmed the short term rating of [ICRA]A1+ (pronounced as ICRA A one plus) outstanding on the Rs.20.00 crore (revised from Rs.0.50 crore) short-term non-fund based limits of MGBW.

### Rationale

The reaffirmation of ratings takes into account improvement in MGBW's operating margins to 28.2% in FY2017 from 25.3% in FY2016 primarily on the back of increase in realizations to the tune of 16.1% despite decline in its volumes. The firm's healthy financial profile characterized by robust capital structure, strong coverage indicators and moderate working capital intensity continues to support the rating. The ratings also continue to factor MGBW's long standing presence, continued leading market position in south India, wide distribution network, and fully-integrated nature of operations.

The ratings also factor in the sharp increase in the price of tendu leaves (one of the key raw materials) and the increase in yield of the same in the unit allocated to the firm during the FY2018 auctions. This is expected to result in high inventory holdings as on March 31, 2018 and is expected to adversely impact the margins of the firm during FY2019. ICRA also notes that the debt levels have increased as on December 31, 2017 with the firm availing a short term loan of Rs.80.0 crore to cater to the increased working capital requirements. The raw material procurement and sales of tobacco products is heavily regulated because of health-related concerns and the firm remains exposed to the same. Even while the firm's operating margins are expected to decline on account of the inability of the firm to pass on the 28% increase in prices post GST implementation to the customers, we expect the margins to remain healthy during FY2018. MGBW's volumes have largely followed a declining trend over the last few years given restrictions on sales promotions, increasing awareness and competition from other tobacco products in addition to change in consumer smoking habits. Nevertheless, the firm has been able to maintain margins by passing on raw material price increases to its customers. Going forward, the ability of the firm to improve its scale of operations and sustain profitability amidst rising input costs and intense competition and improve liquidity through better cash retention in the business would be key rating sensitivities.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

ICRA believes MGBW will continue to benefit from its established track record, strong brand recall and a robust distribution network in the South-Indian market. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if any weakness / adverse regulatory changes or volatility in raw material prices results in weakened liquidity and debt being higher than ICRA's expectations.

## Key rating drivers

### Credit strengths

- **Long standing presence and strong distribution network in South-Indian market:** MGBW is one of the major players in fragmented beedi manufacturing industry and enjoys a strong brand presence in Karnataka, Tamil Nadu and Andhra Pradesh. The firm has been able to maintain its market position in these markets despite competition from un-organized beedi segment, other tobacco products and restrictions on sales promotions for tobacco products owing to established distribution network and strong brand loyalty.
- **Favourable financial profile:** The firm's financial profile is characterized by robust capital structure, strong coverage indicators and moderate working capital intensity. The firm has been maintaining low financial leverage for the past two years.

### Credit weaknesses

- **Business remains vulnerable to government policies, regulations and growing health awareness:** Being a health hazard, like other tobacco products, beedi industry too remains tightly regulated in terms of advertising and tax structure. Nevertheless, MGBW has been able to improve its operating margins to 28.2% in FY2017 from 25.3% during FY2016 primarily on the back of 16.1% increase in realizations during FY2017.
- **Recent changes in tax structure post GST implementation expected to affect the firm's margins:** Going forward, ICRA expects decline in operating margins on account of the inability of the firm to pass on the 28% increase in prices post GST implementation to the customers. However, we expect the margins to remain healthy during FY2018 as Q1FY2018 was shielded from GST impact.
- **Margins and debt levels remain susceptible to volatility in raw material prices:** The prices of tendu leaves increased sharply by ~60.0% and the yield of the same increased in the unit allocated to the firm during FY2018 auctions. This is expected to result in high inventory holdings for the firm as on March 31, 2018 and is expected to adversely impact the margins of the firm during FY2019. The firm has availed a short term loan of Rs.80.0 crore to cater to the increased working capital requirements during FY2018.
- **Beedi manufacturing is a labor intensive process and availability of labor could be an issue, going forward.** Many traditional beedi labourers have been switching to other occupations on account of government initiatives like MNREGA<sup>3</sup> in addition to increasing education levels and awareness among workers. However, MGBW is not expected to face any serious labor shortages in the near term.

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

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<sup>3</sup> The Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) is an Indian job guarantee scheme, enacted by legislation on August 25, 2005. The scheme provides a legal guarantee for one hundred days of employment in every financial year to adult members of any rural household willing to do public work-related unskilled manual work at the statutory minimum wage of 100 (US\$2.22) per day in 2009 prices

**Links to applicable criteria:**

[Corporate Credit Rating methodology](#)

**About the firm:**

Mangalore Ganesh Beedi Works was established in 1940 by Mr. Madhav Shenoy and Mr. B Raghuram Prabhu at Bantwal village in South Canara district of Karnataka. Currently, the firm is controlled by Shenoy family with the three brothers – Mr. Jagannath Shenoi, Mr. M Gopinath Shenoy and Mr. M Ramanath Shenoy being equal partners. The firm is engaged in manufacture of beedis, which are sold under the brand – “501 Ganesh beedi” and is one of the largest beedi players in the country. The firm’s manufacturing facilities are located in South Canara and old Mysore regions (in Karnataka), Tirunelveli (in Tamil Nadu) and Karimnagar (Andhra Pradesh). Apart from these, the firm also gets some part manufacturing done on job work basis from Kolkata to cater to regions of North India. While, the firm supplies across the country and also has modest exports, its revenue is mainly driven from Southern states of Karnataka, Tamil Nadu and Andhra Pradesh.

**Key Financial Indicators (Audited)**

	<b>FY 2016</b>	<b>FY 2017</b>
Operating Income (Rs. crore)	587.9	581.6
PAT (Rs. crore)	72.4	124.7
OPBDIT/ OI (%)	25.3%	28.2%
RoCE (%)	147.2%	213.4%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.1	0.1
Interest coverage (times)	7.2	8.6
NWC/ OI (%)	6.5%	16.0%

Source: the firm

**Status of non-cooperation with previous CRA: Not applicable**
**Any other information: None**

### Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31,2017 (Rs Crore)	Date & Rating Jan 2018	Date & Rating in	Date & Rating in	Date & Rating in
					FY2017	FY2016	FY2015
1 Fund based facilities	Long Term	40.00	0.00	[ICRA] A+ (Stable)	[ICRA] A+ (Stable)	[ICRA]A- (Stable)	[ICRA] BBB(Stable)
2 Non- fund based facilities	Short Term	20.00	3.14	[ICRA] A1+	[ICRA]A1+	[ICRA]A2+	[ICRA] A3+

### 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](http://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	Fund based facilities	Nov 16,2017	8.7%	NA	40.00	[ICRA]A+ (Stable)
NA	Non fund based facilities	Nov 16,2017	8.7%	NA	20.00	[ICRA]A1+

Source: the firm

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