

Bommidala Enterprises Private Limited

Instruments	Amounts (Rs. Crore ¹)	Rating Action (December 2016)
Long-term - Fund based facilities (sub-limit)	(10.00)	[ICRA]A- (Stable) / reaffirmed [ICRA]A2+ / reaffirmed
Short-term - Fund based facilities	25.00	
Short-term - Fund based facilities (sub-limit)	(35.00)	
Short-term - Non-fund based facilities	34.06	
Short-term - Non-fund based facilities (sub-limit)	(35.00)	

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) outstanding on the Rs. 10.00 crore fund based (sub-limit) facilities of Bommidala Enterprises Private Limited (BEPL / the Company)². ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 25.00 crore fund based facilities, the Rs. 35.00 crore fund based (sub-limit) facilities, the Rs. 34.06 crore non-fund based facilities and the Rs. 35.00 crore non-fund based (sub-limit) facilities 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 reaffirmation in ratings factor in steady revenues and healthy margins witnessed in FY2016 aided by favorable product and market diversification measures undertaken by the BBM Bommidala Group (BBM group/ "the group"). The capital structure and coverage indicators of the group remain healthy on the back of healthy accruals and low debt levels. The ratings also consider the established presence of the group in the tobacco industry for more than six decades, 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 takes into account 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.

The ratings are, however, constrained by the vulnerability of Indian tobacco exports to intense cost competition from other tobacco producing countries due to the relatively high cost of production 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 margins remain susceptible to sharp fluctuations in tobacco prices (which are dependent on Government policy and agro-climatic risks) / foreign exchange rates. While the healthy revenue share from SEZ unit aided by continuous addition of new product lines is expected to mitigate volatility in revenues to an extent, the increase in selling and distribution expenses to promote these products is expected to restrict the margin expansion. The group's liquidity profile remains comfortable given the significant buffer in the working capital limits.

Company Profile

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.

¹ 100 lakhs = 1 crore = 10 millions

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

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), perfumes 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.

Group 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.

Recent Results

The company has reported net profit of Rs. 26.0 crore on an operating income of Rs. 330.7 crore during FY2016 as against net profit of Rs. 21.2 crore on an operating income of Rs. 321.5 crore during FY2015.

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