Mittapalli Agro Products Private Limited

November 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	32.50 (Reduced from 39.00)	CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)	Reaffirmed
Short Term Bank Facilities	7.00 (Enhanced from 0.50)	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**39.50** **(₹ Thirty-Nine Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The re-affirmation in the ratings assigned to the bank facilities of Mittapalli Agro Products Private Limited (MAPPL) continue to remain tempered by leveraged capital structure of the Mittapalli Agro group with moderate coverage indicators, thin profitability with susceptibility to fluctuations in raw material prices, elongated operating cycle, partnership nature of few entities in the group, stretched liquidity and susceptibility to adverse regulatory changes and climatic conditions. The ratings, however, derive strength from experienced promoters with long track record of operations, presence of unit in proximity to raw material sources and stable industry outlook. The ratings also take cognizance of improved profitability margins albeit decline in total operating income (TOI) during FY22 (refers to the period April 1 to March 31).

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Increase in total operating income at a combined level to Rs 200 crore or above while sustaining PBILDT margin at 5% or above in future years.
- ✓ Overall gearing improving to less than 2x, on a sustained basis.
- ✓ Operating cycle improving to less than 150 days.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- × Deterioration in overall gearing above 5x going forward.
- × Notable decline in scale or profit levels by more than 30% y-o-y

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure and moderate coverage indicators

The group's debt profile consists of working capital borrowings, unsecured loans from the related parties and COVID loans. Given the working capital-intensive nature of operations, the requirement for the working capital borrowings remains high. Furthermore, the net worth base of the group is relatively small and stood at Rs 24.04 crore as on March 31, 2022. Accordingly, the capital structure of the group marked by overall gearing has remained leverage at 3.98x as on March 31, 2022; although improved from 4.52x as on March 31, 2021. Moreover, the debt coverage indicators have deteriorated marked by the interest coverage ratio at 1.16x in FY22 as against 1.26x in FY21 on account of higher interest cost at the back of higher WC utilization. The TDGCA has also deteriorated and stood weak in FY22 compared to FY21, due to lower GCA. Nevertheless, comfort is drawn from funds infused by promoters in the form of unsecured loans to support operations and liquidity (unsecured loan accounts for~21% of the total debt as on March 31, 2022).

Elongated operating cycle given the working capital-intensive nature of operations

Group operates in a working capital-intensive industry and the operating cycle continues to remain stretched at 323 days in FY22 (FY21: 259 days) primarily because of high collection period of 280 days for FY22 (FY21: 263 days) and significant increase in

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

inventory holding period to 120 days during FY22 as against 77 days in FY21. The group had orders in hand but due to congestion at the port during H1FY22 the shipments were delayed. The average shipment time increased to 2-3 months as against 30 days which led to high inventory as on March 31, 2022. Also, in view of seasonality associated with cultivation of tobacco owing to which the group needs to maintain adequate stocks to ensure availability for processing and trading throughout the year. This apart, the group holds finished stocks at its warehouse and the products are shipped to client's location only when demanded and the complete payment is received only when the order is received by the customer. This leads to elongated operating cycle and high dependency on working capital limits.

Thin profitability with susceptibility to fluctuations in raw material prices
Group's business is characterized by low profit margin due to trading nature of operation with very limited value addition. The input price for tobacco is fluctuating and is generally market driven. The raw material is subject to price volatility since the availability FCV being a high grade tobacco is highly regulated, and time bound with limited quantity being available for Medium/small players as cash rich buyers can plan and procure desired quantities and qualities at the right time. However, the government keeps a check and restricts the decline in prices of tobacco by way of Minimum Support Price (MSP) mechanism to safeguard farmers' interest. Furthermore, the selling prices are subject to heavy international competition from countries like Brazil, China, Zimbabwe, etc. thereby limiting the price flexibility of finished product. Accordingly, the profit margins tend to remain on the lower side.

Susceptibility to adverse regulatory changes and climatic conditions
Tobacco industry is highly susceptible to adverse regulatory changes due to restrictive government policies in the form of excise duties and imposition of multiple taxes. Moreover, in order to maintain acceptable level of quality of processed tobacco, sourcing of quality tobacco is prerequisite. The availability of quality tobacco depends on the climatic conditions and in an event of any adverse climatic events like untimely rains, drought, etc. may limit the availability of the same. Relatively lower quality tobacco from the Indian market has also aggravated international competition and has adversely impacted tobacco exports from the country.

Partnership constitution of few entities
Two entities in the group i.e. Mittapalli Agro Exports (MAEX) and Mittapalli Agro Enterprises (MAE) has been constituted as partnership firm which has the risk of withdrawal of capital and may also restrict the financial flexibility at times of stress. However, the partners have been infusing USL as and when required to support operations.

Key Rating Strengths

Experienced promoters with established presence in the industry
Mr. Mittapalli Panduranga Rao is the founder of the group and has a vast experience of over four decades in the tobacco industry. Group is currently managed by the next generation of the Mitapalli family; Mr. Mittapalli Ramesh (Managing Director) of one of the group companies Mittapalli Agro Products Pvt Ltd (MAPPL) has over two decades of experience in Tobacco processing and exports. Mr. Mittapalli Chandra Mohan, Director of the company also has around two decades of experience. Promoters of the group participate actively in day-to-day operations of the group and are ably supported by technically efficient and experienced staff.

Improved profitability margins albeit decline in TOI during FY22
The Total operating income (TOI) has declined at combined level during FY22 amounting to Rs. 121.68 crore as against Rs. 156.05 crore in FY21, due to the impact of pandemic, which majorly affected H1FY22 performance of the group. There was also increase in the freight shipment rates from India, due to which the demand for tobacco was impacted. Also, due to shortages of containers at the port there was delay in shipment which led to lower TOI. However, the group's PBILDT levels and margins improved during FY22 at Rs. 7.45 crore and 6.12% from Rs. 6.30 crore and 4.04% during FY21 majorly due to higher proportion increase in sales realization compared to increase in the cost of raw materials. Whereas the PAT levels have decreased from Rs 0.87 crore in FY22 compared to Rs 0.73 crore in FY21 due to higher interest expenses, with thin margin yet improved.

Location advantage with the presence of the unit in prime tobacco cultivating area
The group operates from Guntur, which is a prime area for the Indian tobacco Industry. Andhra Pradesh state (especially areas around Guntur) is the major hub for tobacco cultivation. The group benefits from the locational advantage for logistics with respect to raw material procurement as well as shipment of finished products. The products are shipped from the nearby ports to the export destinations. Processing unit is located near National Highway- 5 and is well connected with road, rail and sea. The tobacco leaves after procurement are processed by way of threshing and re-drying which the group gets done on job-work basis.

There are many threshing units present in Guntur area with sufficient capacities for processing and grading of tobacco. The group has own warehouses to keep the tobaccos and is capable of handling and exporting around 7000 Tons of Tobacco annually. The group also exports to countries like USA, Europe and UAE with around ~35-40% of the total sales for the last 3 years ended FY22.

Stable Industry Outlook

India is the 2nd largest exporter of tobacco behind Brazil. It exports various types of tobacco and tobacco products such as stripped, wholly stemmed, cigar cheroots, smoking tobacco, homogenized, flue-cured, sun-cured, extract and essence, FCV tobacco, unmanufactured tobacco and various tobacco products.

During 2021-22, India exported FCV tobacco amounting to 1.11 lakh tonne. The quantity of total exports in April 2022 was 15,047 tonnes (valued at US$ 52 million), a 61% increase from the same period in the previous year. The value of the total FCV tobacco exports during 2021-22 was Rs. 2,858 crore (US$ 359 million). In the same year, the country exported 27,742 tonne. The exports of the products in April 2022 increased by 55% to 2,501 tonne from April 2021. And the overall demand for the tobacco is expected to increase further.

Liquidity Analysis- Stretched

The liquidity position of the group is stretched characterized by elongated operating cycle and highly utilised working capital limits to the extent of ~98% for all 3 entities during the last 12 month period ended on September 2022. However, the group has no major debt repayment obligation other than COVID loans. Liquidity is supported by an above unity current ratio (1.55x as on March 31, 2022) and regular infusion of funds from promoters to support the operations. Also, promoters have been supporting the liquidity of the group by regular infusion of funds.

Analytical approach: Combined

CARE in its analysis has considered the combined financials of Mittapalli Agro Products Private Limited (MAPPL) and its group companies namely Mittapalli Agro Exports (MAEX) and Mittapalli Agro Enterprises (MAE) as these entities operate in the same line of business and are managed by the same promoters along with having operational and financial linkages.

Applicable Criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

Mittapalli Agro Group (MAG) is primarily engaged in the business of exporting of green leaf tobacco since past twenty two years, it is a closely held group by the Mittapalli family of Guntur. The group has been promoted by Mr. Panduranga Rao, the entities of the group include, Mittapalli Agro Products Pvt Ltd (MAPPL), Mittapalli Agro Exports (MAEX) and Mittapalli Agro Enterprises (MAE). The group is currently managed by the promoter's sons, Mr. Mittapalli Ramesh (Managing Director) and Mr. Mittapalli Chandra Mohan (Director). Mittapalli Agro Group has a track record of over two decades and is engaged in the business of exporting green leaf tobacco. It procures different varieties of tobacco leaves namely Flue Cured Virginia (FCV) from the tobacco auction board and other varieties like Burely, Light Soil Burely, Air Cured, Sun Cured etc. locally from the farmers and the exports are primarily to countries like USA, Europe and Saudi Arabia. The tobacco leaves after procurement are processed by way of threshing and re-drying which the group gets done on job-work basis. There are many threshing units present in Guntur area with sufficient capacities for processing and grading of tobacco.

Brief Financials (₹ crore)*	31-03-2021 (UA)	31-03-2022 (UA)	H1FY23 (UA)
Total operating income	156.05	121.68	60.00
PBILDT	6.30	7.45	NA
PAT	0.87	0.73	NA
Overall gearing (times)	4.52	3.98	NA
Interest coverage (times)	1.26	1.16	NA

**Un-audited, combined financials*

About the company: Mittapalli Agro Products Private Limited (MAPPL)
Mittapalli Agro Products Pvt Ltd, incorporated in 2005 by Mr. Panduranga Rao is the flagship company of the Mittapalli Agro Group. MAPPL is engaged in the exporting and trading of green leaf tobacco leaves.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (Prov.)	H1FY23
Total operating income	86.36	69.13	NA
PBILDT	3.05	4.46	NA
PAT	0.46	0.43	NA
Overall gearing (times)	5.75	5.37	NA
Interest coverage (times)	1.30	1.18	NA

**Prov.: Provisional*

Status of non-cooperation with previous CRA: Ratings of MAPPL continue to remain under "Issuer Non-Co-operation" (INC) by CRISIL vide its PR dated January 27, 2022 due to lack of adequate information.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities:

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-EPC/PSC		-	-	-	32.50	CARE BB; Stable / CARE A4
Fund-based - ST-Working Capital Demand loan		-	-	-	7.00	CARE A4

Annexure-2: Rating History of last three years:

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-EPC/PSC	LT/ST*	32.50	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (07-Oct-21)	1)CARE BB; Stable / CARE A4 (07-Oct-20)	1)CARE BB; Stable / CARE A4 (02-Aug-19)
2	Fund-based - ST-Working Capital Demand loan	ST	7.00	CARE A4	-	1)CARE A4 (07-Oct-21)	1)CARE A4 (07-Oct-20)	1)CARE A4 (02-Aug-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this firm:

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-EPC/PSC	Simple
2	Fund-based - ST-Working Capital Demand loan	Simple

Annexure-5: Bank lender details for this firm:
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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