

Devi Tobacco Exports

October 14, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	1.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	14.00	CARE B+; Stable / CARE A4 (Single B Plus ; Outlook: Stable/ A Four)	Assigned
Total Bank Facilities	15.00 (₹ Fifteen Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Devi Tobacco Exports (DTE) are tempered by short track record and small sized entity, capital structure projected to remain leveraged because of low net worth and relatively higher proposed working capital limits, constitution of entity as partnership, highly fragmented and competitive nature of industry, forex risk, business operations being vulnerable to government regulations. The ratings, however, derive comfort from experienced promoters, favourable location of the unit and stable industry outlook.

Rating Sensitivities

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

- Improvement in TOI by more than Rs. 50 crore and PAT margins by more than 2.5% on sustained basis
- Notable improvement in net worth base.

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

- Overall gearing increasing to more than 2.5x
- Increase in operating cycle by more than 75 days
- Significant decline in TOI or profitability margins, going forward.

Detailed description of the key rating drivers

Key Rating Weakness

Short track record and Small scale of operations with low net worth base

The firm was established in 2019 and FY21 was its first full year of commercial operations. Hence, the firm has a short track record of business operations. Accordingly, the scale of operations of the firm although improved during the review period i.e, from Rs.29.78 crore in FY20 to Rs.41.25 crore in FY22, it remained moderate. Furthermore, the networth base also remained small at Rs.2.83 crore as on March 31, 2022.

Working capital intensive business

The firm is operating in working capital intensive nature of business. The operating cycle of the firm remained moderate at 20 days on account of moderately stretched average creditors at 92 days as the promoters are well known and have market experience enables the firm to get credit period from suppliers. The firm receives the payment from its debtor on an average of 45-90 days depending on the customer. During FY22, the average debtor days stood at 86 days.. The firm approached the banks for working capital limits to support the business operations, till now the working capital requirement met through creditors.

Highly fragmented and competitive nature of industry

The firm is engaged in trading of tobacco which is highly fragmented business due to presence of large number of organized and un-organized players in the industry resulting in high competition.

Profitability margins are susceptible to fluctuation in foreign exchange prices

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

The firm derives around 95% of revenue from export market which is exposed to foreign exchange fluctuation risk a phenomenon common to the players in the industry. However, the firm earned foreign exchange gain of Rs.0.20 crore in FY22 (PY:Rs.0.34 crore).

Business operations are vulnerable to government regulations

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.

Constitution of entity as partnership with inherent risk of withdrawal of capital

DTE constitution as a partnership firm with low net worth base restricts its overall financial flexibility in terms of limited access to external funds for any future expansion plans. At the same time, there is inherent risk of withdrawal of capital and dissolution of the firm in case of death/insolvency of partner. However, over the review period the partners have infused funds in the business to support operations.

Key Rating Strengths

Experienced promoters

DTE promoted and managed by Mr Naresh (Managing Partner), is qualified M.S who have experience of around six years and the business operations are supported by Ms Lakshmi Priyanka (Partner) has six years of experience and qualified graduate. The partners gained experienced through its family business which is into tobacco industry for around two decades.

Favourable location of the unit

The firm's facility is situated at Guntur which is close to tobacco growing belt. Local set -up gives the advantage of tightly managed logistics and forwarding arrangements and elimination of intermediaries. The firm purchase the raw tobacco from local farmers and dealers and get it processed through job work basis.

Stable industry outlook

The global tobacco market is expected to grow by a CAGR of 6.7% from 2021 to 2027. India is the second largest producer and third largest exporter of tobacco in the world. Post the latest budget, cost of cigarettes spiked as government increased duty rates. Therefore, high tax rates make cigarettes unaffordable to a large section of consumers. Hence, the overall tobacco market experiences slow growth. Nevertheless, relatively higher income growth compensates for the increasing price of cigarettes, leading to greater consumption. Moreover, societal influences such as peer pressure also aids in driving the demand for tobacco products. These are the crucial factors propelling market growth.

Liquidity: Adequate

The liquidity position of the firm remained adequate marked by minimal amount of repayment obligation. This apart, the partners are resourceful and will bring need based funds to support the business operations. As on March 31, 2022, unsecured loans from partners stood at Rs. 1.50 crore.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the Company

Guntur, based Devi Tobacco Exports (DTE) was established on November 30, 2019 as partnership firm by Mr. Amirineni Naresh (Managing Partner) and Ms Amirineni Lakshmi Priyanka (Partner). The firm is engaged in trading of tobacco. DTE purchases

tobacco from local dealers and farmers located in and around Guntur and 95% of the sales made through exports to Dubai, Mauritius, USA, and Bulgaria. The firm has started commercial operations in the end of December 2019.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	5MFY23(Prov.)
Total operating income	43.29	41.25	39.00
PBILDT	0.38	0.99	NA
PAT	0.24	0.82	NA
Overall gearing (times)	0.13	0.61	NA
Interest coverage (times)	4.84	15.31	NA

A-Audited; Prov.-Provisional; NA-Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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-Cash Credit		-	-	-	1.00	CARE B+; Stable
Fund-based - LT/ST-EPC/PSC		-	-	-	14.00	CARE B+; Stable / CARE A4

Annexure-2: Rating history for the 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-Cash Credit	LT	1.00	CARE B+; Stable				
2	Fund-based - LT/ST-EPC/PSC	LT/ST*	14.00	CARE B+; Stable / CARE A4				

*Long term/Short term.

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-EPC/PSC	Simple

Annexure-5: Bank lender details for this company

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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