Alliance One Industries India Private Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3.41	CARE BBB; Stable	Assigned
Long-term / short-term bank facilities	380.59 (Enhanced from 240.00)	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Alliance One Industries India Private Limited (AOIIPL) is driven by consistent growth in total operating income (TOI) and profitability in FY24 [Audited; FY refers to April 01 to March 31], and strong order book of over ₹950 crore to be executed in FY25. Ratings continue to be supported by the experienced promoters, locational advantage, adherence to Environmental, Social, and Governance (ESG) practices, and adequate liquidity position.

However, there has been a significant increase in tobacco crop prices since H1FY24. This, and a negligible credit window for procurement of tobacco crops and increased scale of operations, has led to a substantial reliance on bank borrowings for working capital purposes, resulting in moderation of the financial risk profile. Rating strengths are further partially offset by complete off-take dependence on the parent company, elongated working capital cycle, volatility in tobacco prices, negative cash flow from operations, and susceptibility to adverse regulatory changes and climatic conditions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- TOI improving beyond ₹1,000 crore y-o-y while maintaining a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of above 9% on a sustained basis.
- Overall gearing improving to less than 1x.
- Working capital cycle shortening to less than 120 days on a consistent basis.

Negative factors

- Significantly declining TOI and profits by more than 25% y-o-y.
- Total outside liabilities to tangible net worth (TOL/TNW) deteriorating to more than 2x, on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from the extensive experience of the promoters and improved order book position.

Detailed description of key rating drivers:

Key strengths

Significant growth in revenue with stable profitability

Revenue from operations has grown at a compounded annual growth rate (CAGR) of 43% over last four years. In FY24, revenue increased from ₹509.51 crore in FY23 to ₹642.64 crore considering 8% growth in sales volume and improvement in average realisations from ₹244.21/kg in FY23 to ₹284.70/kg in FY24, resulting in a 26% y-o-y growth in revenue for FY24. The company has recognised a revenue of over ₹388 crore in 5M-FY25, with a growth of 21% compared to 5M-FY24 considering improved order book position. The rise in input prices is passed on to the customers, and with better absorption of fixed overheads, the company was able improve its operating profitability margins, with a PBILDT margin improving from 7.77% in FY23 to 8.40% in FY24.

Experienced promoter group with established presence in industry

C Narendranath is the Chairman of the company and has a vast experience of over 30 years in the tobacco industry. He had also served as the Vice Chairman of the Tobacco Board and as the President of the Indian Tobacco Association for two terms between 2002 and 2006. AOIIPL has successfully introduced agronomy practices to increase the productivity of Indian tobacco farmers. AOIIPL's promoters have ensured strict adherence to ESG practices. Through contract farming of Vinukonda burley, the company supports over 5,000 farmers by providing essential infrastructure and training on tobacco quality requirements and good

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

agricultural practices. In addition to agricultural support, AOIIPL offers educational assistance to the children of farmers and enforces a strict no-child-labour policy.

Strategic sourcing of raw materials and marquee clientele
Based on orders received, AOIIPL processes and exports green leaf tobacco to PYX, which in turn, supplies the products to major cigarette and other tobacco products manufacturers across the globe through its established network. The company's key customers include Philip Morris International, Korea Tobacco & Ginseng Corporation, Japan Tobacco International, China Tobacco International, and Imperial and Eastern Brands, among others. AOIIPL's strategic sourcing of non-regulated tobacco leaves from farmers at efficient cost and the ability to control manufacturing cost with majority of the process being mechanised helps in the improvement of the overall business performance. Also, in-house systems implemented by the company, such as the Grower Management System (GMS) and the Integrated Inventory System (ToPS), help it maintain the quality of the threshed tobacco manufactured by it.

Assured off-take despite dependence on parent company
AOIIPL generates more than 95% of its revenue by supplying products to its parent and group entities, which, in turn, receive orders from renowned cigarette manufacturing companies. While the tobacco off-take is assured, AOIIPL faces concentration risk due to this reliance. However, AOIIPL's operational and financial performance does not depend entirely on the parent company, as it engages directly with end customers. The company communicates and negotiates independently, allowing for a degree of operational autonomy. As on July 15, 2024, the company has an outstanding order book of approximately ₹950 crore for supplying varieties of tobacco in FY25.

Stable industry outlook
India is the second-largest exporter of tobacco globally, supplying a variety of tobacco types and products, including stemmed and stripped tobacco, flue-cured and sun-cured varieties, and manufactured tobacco products. In FY24 (up to February), the country's tobacco exports reached approximately USD 1.33 billion. Recently, reduced supplies from major producers such as Zimbabwe and Brazil have driven stronger demand for Indian tobacco in the international market, which is expected to continue going forward. This heightened demand has led to a notable rise in tobacco prices in the ongoing auction season in Andhra Pradesh, the largest tobacco-producing state, where average prices have surged by 27% compared to the previous year.

Key weaknesses

Moderation in financial risk profile
The company's financial risk profile has moderated due to increased reliance on bank borrowings for working capital. This was driven by a sharp rise in tobacco crop prices, expansion in scale of operations, and limited credit period for payments to the tobacco board and farmers. Consequently, the overall gearing has increased to 1.26x as on March 31, 2024, and further to 1.69x as on August 31, 2024 (PYE: 1.05x). Despite the moderation, the financial risk profile remains comfortable. Increase in the interest expense on the elevated debt levels have led to deterioration in the other coverage indicators in FY24 marked by interest coverage ratio of 4.86x (PY: 6.54x) and total debt to gross cash accruals (TD/GCA) of 5.53x (PY: 4.99x).

Elongated working capital cycle
The working capital cycle extended from 110 days in FY23 to 132 days in FY24 due to a longer inventory holding period, which resulted in a negative cash flow from operations of over ₹73 crore in FY24. The shipment delivery time increased from approximately 30 days to 45 days due to the Red Sea crisis, leading to a significant rise in finished goods inventory. Additionally, inventory levels were further impacted by a rise in tobacco crop prices, resulting in higher inventory as on August 31, 2024. However, the inventory is expected to be liquidated within the next two to three months.

Susceptibility to adverse regulatory changes and climatic conditions
The tobacco industry is inherently exposed to adverse regulatory changes due to the health hazards associated with tobacco consumption. Regulatory bodies across the globe are increasingly implementing stringent policies such as higher excise duties, plain packaging laws, bans on flavoured tobacco, advertising restrictions, and prohibitions on smoking in public spaces. Such measures can significantly impact the demand and profitability of tobacco products. Additionally, unexpected regulatory shifts can disrupt production and distribution, leading to financial and operational challenges for the company. Moreover, climatic conditions play a crucial role in the tobacco manufacturing business as they directly impact the cultivation of tobacco leaves, a key raw material. Extreme weather events, such as droughts, excessive rainfall, or temperature fluctuations, can adversely affect crop yield and quality. This, in turn, can lead to increased raw material costs and supply chain disruptions, affecting the company's overall profitability and operational stability.

Liquidity: Adequate
The company's cash accruals are sufficient to cover interest payments. However, rising tobacco prices, increased sales volumes and negligible credit period have resulted in an increased reliance on bank borrowings for working capital purposes marked by high average working capital utilisation of 77% over the 12-month period ending July 31, 2024. Liquidity position is supported by cash and liquid investments of over ₹22 crore as on June 30, 2024 and current ratio of over 1.3x.

Assumptions/Covenants - Not applicable

Environment, social, and governance (ESG) risks - Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast-moving consumer goods	Fast-moving consumer goods	Cigarettes & tobacco products	Cigarettes & tobacco products

Incorporated in 1994, AOIIPL is a joint venture (JV) between Narendranath (and family) and PYX, with a shareholding proportion of 51:49. AOIIPL is engaged in threshing and re-drying green leaf tobacco. The company has two threshing units at Guntur in Andhra Pradesh, which is spread across an area of 1,66,250 sq. ft.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	5M-FY25 (UA)
Total operating income	509.91	642.64	388.28
PBILDT	39.62	53.99	38.56
PAT	22.71	31.15	27.33
Overall gearing (times)	1.05	1.26	1.69
Interest coverage (times)	6.54	4.86	5.27

A: Audited, UA: Unaudited. Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Term loan		-	-	March 2028	3.41	CARE BBB; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	379.59	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-Loan equivalent risk		-	-	-	1.00	CARE BBB; Stable / CARE A3+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ ST-EPC/PSC	LT/ST	379.59	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (27-Sep-23)	1)CARE BBB-; Stable / CARE A3 (22-Aug-22)	1)CARE BBB-; Stable / CARE A3 (22-Sep-21)
2	Non-fund-based - LT/ ST-Loan equivalent risk	LT/ST	1.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (27-Sep-23)	1)CARE BBB-; Stable / CARE A3 (22-Aug-22)	1)CARE BBB-; Stable / CARE A3 (22-Sep-21)
3	Fund-based - LT-Term loan	LT	3.41	CARE BBB; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities - Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT/ ST-EPC/PSC	Simple
3	Non-fund-based - LT/ ST-Loan equivalent risk	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: 080 46625555 E-mail: karthik.raj@careedge.in Y Tejeshwar Reddy Assistant Director **CARE Ratings Limited** Phone: 914040102030 E-mail: Tejeshwar.Reddy@careedge.in Sainandan S Pavansri Analyst **CARE Ratings Limited** E-mail: sainandan.pavansri@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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