Zen Tobacco Private Limited

October 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.50	CARE BB-; Stable	Downgraded from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to the bank facilities of Zen Tobacco Private Limited (ZTPL) is on account of deteriorating financial risk profile marked by decline in profitability, increase in leverage and moderation in debt coverage in FY24 (Audited; period refers from April 01 to March 31). The rating continues to remain constrained owing to large amount of advances to its group entities which continues to increase on a yearly basis. The rating continues to take into consideration moderate scale of operations albeit improved, its nature of operations which are susceptible to adverse changes in government regulations as well as profitability to fluctuations in raw material prices and seasonality associated with raw material availability.

The rating, however, continues to derive comfort from vast experience of promoters in tobacco industry and ZTPL being part of Zen group as well as established sourcing arrangements along with wide distribution network.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining scale of operations marked by Total operating income (TOI) above Rs.70 crore and PBILDT margin above 10%
- Decline in advances to group entities below Rs.40 crore on sustained basis
- Improving Total outside liabilities/Tangible net worth (TOL/TNW) to below 1.5x

Negative factors

- Decline in scale of operations to below Rs.50 crore and PBILDT margin below 5%
- Deterioration in capital structure owing to debt funded capex or otherwise leading to overall gearing above 1.5x

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that ZTPL is likely to sustain its overall moderate financial risk profile marked by scale of operation, profitability margins and capital structure.

Detailed description of key rating drivers:

Key weaknesses

Decline in profitability albeit moderate scale of operations

Total Operating Income (TOI) grew at a compounded annual growth rate (CAGR) of 7.1% in last 5 years ended FY24. TOI grew by 15% to Rs.66.84 crore in FY24 over FY23. ZTPL's operating profitability exhibited a volatile trend with a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin within the range of 11-31% in the past five years ended FY24. It stood moderate at 11.27% during FY24, with a y-o-y decline of 1946 bps on account of increase in raw material prices as well higher legal expenses pertaining to acquisition of intangible asset. ZTPL had acquired "Amber" brand in FY24 that will assist company with higher revenues. Till H1FY25, ZTPL had achieved ~Rs.52 crore of TOI.

Moderation in leverage and debt coverage indicators

The capital structure of ZTPL deteriorated as marked by overall gearing ratio at 0.45 times as on March 31, 2024 (0.15 times as on March 31, 2023). Leverage position of the company deteriorated marked by TOL/TNW at 2.05x as on March 31, 2024 (March 31, 2023: 0.87x). The deterioration is due to an increase in total debt levels, statutory liabilities and creditors for intangible assets. The debt coverage indicators stood moderate marked by increased TDGCA of 2.35 years during FY24 (0.43 years during FY23). Interest coverage ratio declined to 8.54 times during FY24 (28.22 times during FY23) owing to higher debt and lower profitability.

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

Large amount of advances extended to group companies
Zen Fincorp Private Limited (ZFPL) is a group company and RBI registered Non-Banking Financial Company (NBFC). Mr. Rashmin Majithia and Mr. Jay Majithia holds directorship in ZFPL. ZFPL is engaged in the business of lending. Mr. Rashmin Majithia also holds directorship in ZTPL. ZTPL lends the excess funds during the year to ZFPL and Zen Exim Private Limited. However, there is no specific terms and conditions for the repayment of loans and as such repayable on demand. Loan outstanding as on March 31, 2024, is Rs.63.97 crore as against Rs.58.75 crore as on March 31, 2023.

Business operations susceptible to adverse changes in government regulations
Tobacco products have been the major source of revenue in the form of taxes to both central as well as state governments, and hence there are regular modifications in taxation laws/tax rates with respect to the same. However, the demand for tobacco products is highly inelastic and the manufacturers are able to transfer the additional cost to the end customers. Due to the hazardous nature of tobacco, the shops or kiosks selling tobacco products are required to display warnings such as "tobacco causes cancer" or "tobacco kills" prominently on their advertisement boards.

Seasonality associated with the raw material availability and susceptibility of its profitability to fluctuations in raw material prices
The prices of raw tobacco have been moderately volatile in the past depending upon the availability in the market; however, the prices of silver (as coating on zarda) and flavours have been highly volatile. Since there is a long-time lag between raw material procurement and liquidation of inventory, the company is exposed to the risk of adverse price movement resulting in lower realization than expected. However, due to the demand of chewing tobacco having very low level of price elasticity, the company is in a position to pass-on the increased cost to its final consumers which lowers the risk of raw material price fluctuations.

Key strengths

Vast experience of promoters in tobacco industry and ZTPL being part of ZEN Group
ZTPL is promoted by two individuals led by Mr. Rashmin Majithia, who is acting as a Managing Director and has an experience of more than two decades in the business of chewing tobacco. Mr. Pinakin Gor is acting as the director and has an experience of almost two decades in the business. ZTPL has operational track record of almost two decades; the promoters have been able to establish their own reputation. Also, over the years of operation, the company has developed strong relationships with the suppliers. ZTPL is part of reputed ZEN Group, having associate entities namely Zen Exim Private Limited (ZEPL) (CARE BB+; Stable/CARE A4+), Zen Fincorp Private Limited (ZFPL) is a RBI registered Non-Banking Financial Company (NBFC), Zen Industries Private Limited (ZIPL) engaged in manufacturing of non-addictive mouth fresheners. Director of ZTPL, Mr Rashmin Majithia is also Director in all other companies of the group.

Established sourcing arrangement and wide distribution network
ZTPL sources various grades of tobacco required for its products from Gujarat. The company has developed long-term relationship with tobacco vendors in the state. For other raw materials like flavour, perfumes, saffron, packaging material, etc., the company has established vendors and has long-term relationships with them as well. On the distribution front, the company has a vast dealer network spread across the country. The company has established its own distribution depots and had appointed more than 150 dealers across major cities of India.

Liquidity: Stretched

The liquidity of the company remained stretched as large amount of advances are extended to its group entities. The current ratio remained comfortable at 1.39 times as on March 31, 2024, considering advances to group entity, as against 2.13 times as on March 31, 2023. Average utilisation of the fund-based working capital limits also remained high at ~85% for the past twelve months. Further, owing to higher credit period from trade payables, working capital cycle remained negative at 61 days. However, GCA remained comfortable at Rs.9.14 crore during FY24 as against principal debt repayments of Rs.3.19 crore arising in FY25.

Applicable criteria

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

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

Ahmedabad (Gujarat) based ZTPL was incorporated in the year 2003. The main products of ZTPL include Chewing Tobacco (Zarda). Mr. Rashmin Majithia, Managing Director, manages the day-to-day operations of ZTPL. The company markets its products under the brand 'Mazaa', 'Hero' and 'Eagle' across India. Further, in FY24, company had added "Amber" brand to its product portfolio. Its plant, located at Daskroi, Ahmedabad has a total installed capacity of 1500 Metric Tonnes Per Annum (MTPA) of Chewing Tobacco as on March 31, 2024. The finished product of ZTPL is distributed pan-India via well-established dealer channel which comprises of more than 150 dealers.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	58.27	66.84
PBILDT	17.90	7.53
PAT	14.14	4.74
Overall gearing (times)	0.15	0.45
Interest coverage (times)	28.22	8.54

A: Audited; 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-Bank Overdraft		-	-	-	4.00	CARE BB-; Stable
Fund-based - LT-Bank Overdraft		-	-	-	1.50	CARE BB-; Stable

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-Bank Overdraft	LT	4.00	CARE BB-; Stable	-	1)CARE BB; Stable (03-Nov-23)	1)CARE BB; Stable (11-Nov-22)	1)CARE BB; Stable (02-Dec-21)
2	Fund-based - LT-Bank Overdraft	LT	1.50	CARE BB-; Stable	-	1)CARE BB; Stable (03-Nov-23)	1)CARE BB; Stable (11-Nov-22)	1)CARE BB; Stable (02-Dec-21)

LT: Long 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-Bank Overdraft	Simple

Annexure-5: Lender details

To view the 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.

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