

Sri Annapoorna Enterprises

March 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	8.50	CARE B; Stable; ISSUER NOT COOPERATING* (Single B, Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Based on best available information Revised from CARE B+; Stable (Single B plus; Outlook: Stable)
Total facilities	8.50 (Rupees Eight Crore fifty lakh Only)		

Details of facilities in Annexure-1

CARE has been seeking information from Sri Annapoorna Enterprises to monitor the rating vide e-mail communications/ letters dated October 01, 2019, February 15, 2019, February 26, 2019, March 09, 2019 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating. **In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating.** The rating on Sri Annapurna Enterprises's bank facilities will now be denoted as **CARE B; Stable; ISSUER NOT COOPERATING***

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

Detailed description of the key rating drivers

At the time of last rating on April 17, 2018 the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Short track record with small scale of operations

The firm has a track record of around four years; however, the total operating income (TOI) of the firm remained low at Rs.26.10 crore in FY17 with a low net worth base of Rs.5.72 crore as on March 31, 2017 as compared to other peers in the industry.

Weak debt coverage indicators during review period

The debt coverage indicators marked by interest coverage and TD/GCA remained weak during the review period due to low cash accruals. The interest coverage ratio and TD/GCA has deteriorated from 1.73x and 19.88x respectively in FY15 to 1.41x and 26.45x in FY17 due to increase in interest cost at back of high utilization of working capital limits.

Vulnerability of the tobacco business to government regulations and to climatic risks affecting tobacco availability

Tobacco products form a major source of revenue in the form of taxes to both central as well as state government and hence there are regular modifications in taxation laws/tax rates with respect to the same. Due to the harmful nature of the product, the various state governments have banned

Manufacture and sale of various tobacco products under the Food Safety and Standards (Prohibition and Restrictions on Sales) Regulations, 2011 and availability of tobacco is highly susceptible to the factors like area under cultivation, Climatic risk, crop yield. Hence, the profitability margins of the firm are vulnerable to government regulations on tobacco products and availability of tobacco.

Working capital intensive nature of operations due to high inventory holding period

The firm has working capital intensive nature of operations due to high inventory holding period. Owing to trading nature of business and availability of tobacco is seasonal in nature (susceptible to climatic risks), the firm has to buy the tobacco depending on availability. Due to market demand fluctuations, the firm holds the inventory till it gets better pricing. Hence, the firm has elongated inventory holding period of 142 days in FY17. The firm receives the payment from its customers within 30-40 days from the date of invoice. The operating cycle of the firm stood at 182 days in FY17. Average working capital utilization of the firm during the last 12 months period ended 28 February 2018 is 80%.

Partnership nature of constitution with inherent risk of withdrawal of capital

Constitution as a partnership has the inherent risk and possibility of withdrawal of capital at a time of personal contingency which can adversely affect the capital structure of the firm..

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

*Issuer did not cooperate, based on best available information

Key Rating Strengths

Experience of the Partners for more than a decade in tobacco business

Mr. Hari Babu, managing partner is a graduate and having 10 years of experience in same line of business. The above factors helped the firm in approaching tobacco boards for purchasing tobacco in auction platforms and to establish relationship with customers.

Growth in total operating income during the review period

The total operating income of the firm increased steadily y-o-y at a CAGR of 13.23% i.e., from Rs.17.98 crore in FY15 to Rs.26.10 crore in FY17, at back of increase in sales volume with repetitive orders from existing customers.

Satisfactory profitability margins and comfortable capital structure during review period

Profitability margins of the firm are seen satisfactory during the review period. The PBILDT margin of the firm has increased from 3.90% in FY15 to 5.37% in FY17 due to increase in selling price of tobacco and increase in sales volume. The PAT margin of the firm has been fluctuating during review period. PAT margin of the firm stood in the range of 1.07%-1.24% due to increase in interest and depreciation costs.

The capital structure of the firm remained comfortable during review period. Debt equity ratio of the firm stood below zero from the past three financial years dated 31 March, 2018. Overall gearing ratio of the firm stood at 1.46x in FY17 due to nominal term debt and moderate utilization of working capital bank borrowings by the firm to manage its day to day operations.

Stable outlook of tobacco industry

Cigarettes currently represent one of the most popular forms of tobacco, accounting for nearly 90% of the global tobacco sales value. The global cigarette market today represents a multi-billion dollar market and according to IMARC group, its total revenues reached values worth US\$ 816 Billion in 2017, representing a CAGR of around 7% during 2009-2017. Despite falling volumes in developed markets as a result of an increasing awareness on the harmful effects of cigarette smoking, manufacturers have been able to increase value growth. Factors driving the cigarette market include a continuous increase in the prices of cigarettes and an increasing popularity of premium products. Another major factor driving the growth is the rising consumption of cigarettes in developing countries. Owing to the aforementioned reasons, the outlook for tobacco industry looks stable for the medium term.

Analytical Approach: Standalone

Applicable criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

About the firm

Andhra Pradesh based, Sri Annapurna Enterprises (SAE) was established in the year 2014 as a partnership firm by Mr. Hari Babu & Mrs. Jayasree. The company is engaged in the trading of tobacco. The company purchases tobacco from local farmers and traders, and sells the same to its clients located across Andhra Pradesh.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	25.52	26.10
PBILDT	1.08	1.40
PAT	0.27	0.30
Overall gearing (times)	1.48	1.46
Interest coverage (times)	1.50	1.41

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporate to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	8.50	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+ on the basis of best available information

**Issuer did not cooperate; Based on best available information*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	8.50	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE B+ on the basis of best available information	1)CARE B+ (17-Apr-18)	-	-	-

**Issuer did not cooperate; Based on best available information*

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