

Sri Annapoorna Enterprises

April 17, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	8.50	CARE B+; Stable (Single B Plus, Outlook: Stable)	Assigned
Total	8.50 (Rupees Eight crore and fifty lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sri Annapoorna Enterprises (SAE) are tempered by short track record with small scale of operations, weak debt coverage indicators, working capital intensive nature of operations due to high inventory holding period, vulnerability to government regulations and partnership nature of constitution with inherent risk of withdrawal of capital. The rating, however, derives strength by experience of the partners for more than a decade in tobacco business, growth in total operating income during the review period, satisfactory profitability margins, comfortable capital structure and stable outlook of tobacco industry.

Going forward, ability of the firm to increase its scale of operations and improve profitability margins and to manage working capital requirements efficiently would be the key rating sensitivities.

Detailed Description of the key rating drivers

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. The interest coverage ratio and TD/GCA has deteriorated from 1.55x and 19.88x respectively in FY15 to 1.31x 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.

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

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 is 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.

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 3.49% in FY15 to 5.04% in FY17 due to increase in selling price of tobacco and increase in sales volume. The PAT margin of the firm remained 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 high 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

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

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

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

[Rating Methodology - Wholesale Trading](#)

About the Company

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
PBILD	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 for 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.

Analyst Contact:

Name: Mr Manish Kumar

Tel: 040-69000500

Mobile: +91 9949547551

Email: manish.kumar@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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

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	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi

Cell: + 91 98190 09839

 E-mail: meenal.sikchi@careratings.com
Ms. Rashmi Narvankar

Cell: + 91 99675 70636

 E-mail: rashmi.narvankar@careratings.com
Mr. Ankur Sachdeva

Cell: + 91 98196 98985

 E-mail: ankur.sachdeva@careratings.com
Mr. Saikat Roy

Cell: + 91 98209 98779

 E-mail: saiikat.roy@careratings.com
CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com
AHMEDABAD
Mr. Deepak Prajapati

 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

 E-mail: deepak.prajapati@careratings.com
BENGALURU
Mr. V Pradeep Kumar

 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

 Email: pradeep.kumar@careratings.com
CHANDIGARH
Mr. Anand Jha

 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

 Email: anand.jha@careratings.com
CHENNAI
Mr. V Pradeep Kumar

 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

 Email: pradeep.kumar@careratings.com
COIMBATORE
Mr. V Pradeep Kumar

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

 Email: pradeep.kumar@careratings.com
HYDERABAD
Mr. Ramesh Bob

 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

 E-mail: ramesh.bob@careratings.com
JAIPUR
Mr. Nikhil Soni

 304, PashupatiAkshatHeights, Plot No. D-91,
 Madho Singh Road, NearCollectorateCircle,
 Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

 E-mail: nikhil.soni@careratings.com
KOLKATA
Ms. Priti Agarwal

 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

 E-mail: priti.agarwal@careratings.com
NEW DELHI
Ms. Swati Agrawal

 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

 E-mail: swati.agrawal@careratings.com
PUNE
Mr. Pratim Banerjee

 9th Floor, Pride KumarSenate,
 Plot No. 970, Bhamburda, SenapatiBapat Road,
 ShivajiNagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

 E-mail: pratim.banerjee@careratings.com

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