

## Rating Rationale

Ethnic Agros Ltd [EAL]

27 Sep 2018

Brickwork Ratings reaffirms 'BBB-' for the bank loan facilities of Rs 67.00 Crs of Ethnic Agros Ltd (EAL or the 'Company')

### Particulars:

| Facilities#               | Amount<br>(Rs Crs) | Amount<br>(Rs Crs) | Tenure                                | Ratings <sup>1</sup>  |  |
|---------------------------|--------------------|--------------------|---------------------------------------|---|--|
|                           | Previous           | Present            |                                       | Previous<br>(28-June-2017)  | Present  |
| <b>Fund based:</b>        |                    |                    |                                       |   |  |
| Cash Credit               | 62.00              | 62.00              | Long term                             | BWR BBB-<br>[Pronounced<br>BWR Triple B Minus]<br>(Outlook: Stable) | <b>BWR BBB-</b><br>[Pronounced<br>BWR Triple B Minus]<br><b>(Outlook: Stable)</b><br><b>Reaffirmed</b> |
| Standby Line of<br>Credit | 5.00               | 5.00               |                                       |   |  |
| <b>Total</b>              | <b>67.00</b>       | <b>67.00</b>       | <b>Rupees Sixty Seven Crores Only</b> |   |  |

#Annexure I shows details of bank loan facilities

<sup>1</sup>For definitions of the rating symbol please visit our website [www.brickworkratings.com](http://www.brickworkratings.com)

### Rating Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY17, FY18 Provisionals, publicly available information and information/ clarifications provided by the Company's management.

The reaffirmation of ratings takes into consideration the established track record of the Guntur based Ethnic Group in the tobacco processing industry, experienced management, reputed & diversified clientele and Group's average financial risk profile marked by its modest net worth, moderate gearing and debt protection metrics. The ratings, however, continue to remain constrained by the susceptibility of the profitability margins to volatility in tobacco prices, stretched operating cycle of the business owing to higher inventory levels, significant intra-Group transactions, highly regulated nature of the tobacco industry and intense industry competition.

Going forward, the ability of the company to increase the scale of operations, improve profitability, reduce intra-group transactions and manage its working capital efficiently would remain the key rating sensitivities.

### **Rating Outlook: Stable**

BWR believes **Ethnic Agros Ltd [EAL]**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **Key rating drivers**

**Established track record of operations & experienced management** - Ethnic Agros Ltd (EAL) is a part of the Guntur based Ethnic Group, which is engaged in the manufacturing & trading of tobacco. The Group is established for around 13 years now. The management has extensive experience in tobacco processing industry.

**Reputed & diversified clientele and modest order book** - The Company mainly sells to ITC, VST and God Frey Phillips India Ltd, apart from making sales to Ethnic Tobacco (India) Ltd. The Company generally has a running and repetitive order book from ETIL, ITC, God Frey Phillips India Ltd and VST Industries. At present, the Company has an order book of ~ Rs 194 Crs for execution.

**Average financial risk profile**- The Company has an average financial risk profile marked by its modest net worth (FY17 Audited: Rs 42.23 Crs), moderate gearing (FY17 Audited: 1.58 times) and debt protection metrics [FY17 Audited: ISCR- 1.17 times; DSCR: 1.11 times].

**Competitive advantage from presence of the group across the tobacco value chain**—The promoters, through four group entities –Ethnic Tobacco (India) Ltd [ETIL], Ethnic Agros Ltd (EAL), Ethnic Spices Pvt Ltd (ESPL) and Indtob International Pvt Ltd (ITIPL), have presence across the tobacco value chain. ETIL is the flagship Company of the Group, where the manufacturing of tobacco takes place. While tobacco is manufactured mostly in ETIL, the trading of tobacco takes place in EAL, ESPL and ITIPL, for facilitating purchase of tobacco from Tobacco Board Auction Platforms, which is further sold to ETIL. The integrated presence provides operational and cost advantages.

**Govt. regulation on tobacco industry**- Given the health hazards associated with the products, any changes in regulations on procurement policies by the foreign countries and duties laid down by the World Health Organization (WHO) can impact revenues for the company.

**Stagnant demand outlook for tobacco industry**- With increasing health awareness and various initiated programmes curbing the consumption of tobacco, the demand growth for tobacco products is expected to remain subdued in the medium term.

**Agro-climatic risk**- Availability of raw tobacco is susceptible to climate-related risks and Government (tobacco board) policy on production. This gives rise to volatility in supply and consequently, raw tobacco prices.

**Stretched operating cycle of the business owing to higher inventory levels-** The Company's operating cycle was stretched at 215 days in FY18 owing to high inventory holding days, due to the nature of tobacco processing business. There is seasonality of sales in Tobacco industry. The peak season of sales starts from March and ends in September. Hence, the Company is required to stock high inventories during the peak season, which results in higher inventories at the end of the financial year.

### **Analytical approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **About the Company**

Established in 2006 at Guntur, Andhra Pradesh, Ethnic Agros Ltd (EAL) is engaged in the processing and trading of raw tobacco. The Company deals in all kinds of Tobacco products such as FCV (Flue-Cured Virginia) [contributed 64% to total revenues in FY18], Non FCV (36%) and all grades of Tobacco varieties. The Company purchases various types of Tobacco (FCV and Non FCV) from Andhra Pradesh and Karnataka auction platforms which are operated by Tobacco Board, Govt. of India and other local dealers who purchase from farmers. The processed tobacco is then sold mostly to domestic Customers such as ITC, VST (Vazir Sultan Tobacco), Godfrey Phillips India Ltd etc. EAL deals in only domestic trading of tobacco.

A.P. based Ethnic Group comprises four main operating entities- Ethnic Tobacco (India) Ltd [engaged in trading and manufacturing of Indian Tobacco products; rated BWR BBB (Stable)/ BWR A3+], Ethnic Spices Pvt Ltd [set up in 2006 to trade in spices ; however, it currently trades only in raw tobacco; rated BWR BBB- (Stable)], Ethnic Agros Ltd, IndTob International Pvt Ltd [set up in 2010, trades in raw tobacco; rated BWR BBB- (Stable)]. The Group has a significant presence in A.P. & other Southern states. At Consolidated Group level, on a provisional basis, Net sales was around Rs 644 Crs for FY18 (after netting off the intra-Group sales made to Ethnic Tobacco (India) Ltd by the other three Group entities).

Mr T. Venkata Rao is the Managing Director. Mr T. Murali Mohan and Mr J. Vidyath are the other Directors.

### **Financial Performance**

Total operating income was almost stagnant at Rs 195.51 Crs in FY17 compared to Rs 190.67 Crs in FY16. However, PAT marginally declined to Rs 0.64 Crs in FY17 as against Rs 1.04 Crs in FY16 mainly due to higher operating expenses. The company's sales has been almost stagnant, mainly due to stagnation of demand in the traditional markets. Tangible net worth was Rs 42.23 Crs as on March 31 2017. Total debt was Rs 66.90 Crs as on March 31 2017 and Total debt/ Tangible net worth stood at 1.58 times as on March 31 2017. ISCR and DSCR were adequate at 1.17 times and 1.11 times respectively for FY17. Current ratio at 1.56 times was also adequate for FY17. On a provisional basis, the Company has reported total operating income and PAT of Rs 196.17 Crs and Rs 0.73 Crs respectively for FY18.

Further, on a provisional basis, the Company has achieved net sales of ~ Rs 98 Crs till date in FY19. The key financial indicators are summarized in Annexure II.

**Status of non-cooperation with other CRA:** CRISIL Ratings, vide its rating rationale dated March 19 2018, has continued its rating on the bank facilities of Ethnic Agros Ltd [EAL] in the 'Issuer Not Cooperating' category and has also simultaneously withdrawn its ratings on all the bank loan facilities of the company.

**Any other information:** Not applicable.

**Rating History for the last three years:**

| Sl. No. | Facility     | Current Rating (2018) |                 |  | Rating History                     |                                  |      |
|---------|--------------|-----------------------|-----------------|--|------------------------------------|----------------------------------|------|
|         |              | Tenure                | Amount (Rs Crs) | Rating   | 28-June-2017<br>^                  | 03-May-2016<br>^                 | 2015 |
| 1.      | Fund based   | Long term             | 67.00           | BWR BBB-<br>[Pronounced as<br>BWR Triple B<br>Minus]<br>(Stable)<br>Reaffirmed | BWR BBB-<br>(Stable)<br>Reaffirmed | BWR BBB-<br>(Stable)<br>Assigned | -    |
|         | <b>Total</b> |                       | <b>67.00</b>    | <b>Rupees Sixty Seven Crores Only</b>  |                                    |                                  |      |

^Amount rated: Rs 67 Crs

**Hyperlink/Reference to applicable Rating Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Trading Entities](#)

| Analytical Contacts  | Media   |
|--|---|
| <b>Rajee R</b><br>General Manager- Ratings<br><a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a> | <a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>                          |
|  | <b>Relationship Contact</b><br><a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a> |
| <b>Phone: 1-860-425-2742</b>   |   |

**Ethnic Agros Ltd (EAL)**

**Annexure I: Details of the Bank Loan facilities rated**

| <b>Facilities</b>      | <b>Bank Name</b>                 | <b>Amount(Rs Crs)</b> |
|------------------------|----------------------------------|-----------------------|
| <b>Fund based:</b>     |                                  |                       |
| Cash Credit            | State Bank of India, Specialized | 62.00                 |
| Standby Line of Credit | Commercial branch, Guntur        | 5.00                  |
| <b>Total</b>           |                                  | <b>67.00</b>          |

**Ethnic Agros Ltd (EAL)**

**Annexure II**

**Key Financial Parameters**

| <b>Particulars</b>              | <b>31/Mar/2016</b> | <b>31/Mar/2017</b> |
|---------------------------------|--------------------|--------------------|
| <b>Result Type</b>              | <b>Audited</b>     | <b>Audited</b>     |
| Total Operating Income (Rs Crs) | 190.67             | 195.51             |
| EBITDA (Rs Crs)                 | 10.49              | 9.89               |
| PAT (Rs Crs)                    | 1.04               | 0.64               |
| Tangible Net Worth (Rs Crs)     | 41.58              | 42.23              |
| Total Debt/TNW (Times)          | 1.61               | 1.58               |
| Current ratio (Times)           | 1.52               | 1.56               |

**For print and digital media**

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI



and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

#### **DISCLAIMER**

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.