



Rating Rationale

2 July 2020

VENKATA SAI TOBACCO

Brickwork Ratings Reaffirms the rating for the bank loan facilities of Rs. 25.00 Crore of Venkata Sai Tobacco (“the Proprietorship Entity”)

Particulars

Facilities#	Amount (Rs. Crs)		Tenure	Ratings ¹	
	Previous	Present		Previous [^]	Present
Fund Based Secured overdraft	2.00	1.00	Long Term	BWR BB/Stable Assigned	BWR BB/Stable Reaffirm
Fund Based Packing Credit Limit	11.50	15.00	Short Term	BWRA4 Assigned	BWRA4 Reaffirm
Foreign Discounting/Purchase Bill	11.50	9.00			
Total	25.00	Rs. 25.00 Crore (Rupees Twenty Five Crore Only)			

[^] Not Reviewed the outstanding ratings of BWR BB (Stable)/A4 on 19th February 2020;

1 Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Note: Details of Bank facilities are provided in Annexure I

Ratings Action/Outlook

The rating reaffirmation is on account of experienced proprietors in the tobacco processing and trading, moderate capital structure, adequate liquidity position and locational advantages. However, the ratings are constrained by the small scale of operations, vulnerable to regulatory risks pertaining to tobacco cultivation, constitution of the entity, the Covid 19 outbreak may also constrain the business and working capital intensive nature of operations

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Venkata Sai Tobacco**’ business risk profile will be maintained over the medium term. The outlook may be revised to ‘Positive’ if the entity records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to ‘Negative’ if the entity reports significantly lower than expected performance, resulting in lower than estimated coverage indicators, and a weaker liquidity position. Further, any major



debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the rating.

Key Rating Drivers

Credit Strengths:

- **Experienced proprietor:** The proprietor has more than two decades of experience in trading and processing of tobacco leaves, which has helped him to understand local market dynamics and establish relationships with customers and suppliers.
- **Moderate capital structure:** Moderate capital structure marked by, Proprietor's capital and gearing were around Rs.5.39 Crs and 1.16 times, respectively as on 31st March 2019.
- **Locational Advantage:** Entity's unit located at Guntur, Andhra Pradesh which is close to the tobacco growing belt and ensures easy availability of raw material (Tobacco) from the dealers.

Credit Challenges:

- **Small scale of operations:** Revenue remains small at around Rs 30.39 Crs for FY19 as against Rs.32.23 Crs for FY18. On a provisional basis, the entity has reported the revenue of around Rs.33 Crs for FY20.
- **Vulnerable to regulatory risks pertaining to tobacco cultivation:** The entity's performance remains exposed to regulatory risks as the Tobacco Board dictates the price and quantity to be produced in a given year. As India is a signatory of WHO's Framework Convention on Tobacco Control (FCTC), it needs to reduce production of tobacco over the long term.
- **Constitution of the entity:** Constitution as a proprietorship entity has the inherent risk of a possible withdrawal of the capital by proprietor which can adversely affect its capital structure.

Analytical Approach and Applicable Rating Criteria

As it is an entity, a standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The ability of the entity to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

Positive:

- Sustained improvement in scale of operations with improved profitability margins, capital structure and improvement in the liquidity position.
- Specific credit metrics that could lead to an upgrade of VST's rating include (1) Total Debt/Proprietor's capital below 1.0 time on a continuous basis, (2) DSCR and ISCR greater than 3.0 times on a continuous basis.

Negative:

- Specific credit metrics that could lead to a downgrade if there is a decline in profitability margins, Total Debt/Proprietor's capital exceeding 2.0 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.00 times.
- The Covid 19 outbreak may also constrain the regular business also.

Liquidity Position: Adequate

- Current ratio was 1.27 times as on 31st March 2019. The entity does not have debt repayment obligations, as on 31 Mar 2019. Though, the entity's average cash credit limit utilisation stood at around 100%.

About the Proprietorship Entity

Venkata Sai Tobacco (VST) was established as a proprietorship entity in 2007, Guntur, Andhra Pradesh. The proprietorship entity is engaged in processing (grading, stripping and packing) and trading of tobacco. The entity has a well established customers base. Tobacco Board dictates the price and quantity to be produced in a given year.

Mr. M Subba Rao is the proprietor and has more than two decades of experience in the same line of business.

Key Financial Indicators

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Operating Revenue	Rs. Cr	32.23	30.39
EBITDA	Rs. Cr	1.86	0.54
Profit After Tax	Rs. Cr	0.89	0.92
Proprietor's Capital	Rs. Cr	5.10	5.39
Total Debt/Proprietor's Capital	Times	1.88	1.16
Current Ratio	Times	1.28	1.27

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA – Acuite ratings Research published the ratings of ACUITE BB- (Stable)/A4 in May 2018 under the category as non accepted ratings.

Rating History for the last three years (Including Withdrawn/Suspended)

Sl. No	Facilities	Current Rating (2020)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2019 [Feb 18, 2019]	2018	2017
1	Fund Based Secured Overdraft	Long Term	1.00	BWR BB Stable Reaffirm	BWR BB Stable Assigned	-	-
2	Fund Based Packing Credit Limit	Short Term	15.00	BWR A4 Reaffirm	BWR A4 Assigned	-	-
3	Foreign Discounting/Purchase Bill		9.00				
Total		Rs. 25.00 Crore (Rupees Twenty Five Crores Only)					

^ Not Reviewed the outstanding ratings of BWR BB (Stable)/A4 on 19th February 2020;

Existing Rating From any other CRA: Acuite ratings Research published the ratings of ACUITE BB- (Stable)/A4 in May 2018 under the category as non accepted ratings.

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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

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Venkata Sai Tobacco

Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	Syndicate Bank	Secured Overdraft	1.00	-	1.00
		Packing Credit Limit	-	5.00	5.00
		Proposed Packing Credit Limit	-	10.00	10.00
		Foreign Discounting/Purchase Bill	-	9.00	9.00
TOTAL - Rupees Twenty Five Crores Only					25.00



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