



Press Release

Mittapalli Audinarayana Enterprises Private Limited (MAEPL)

May 28, 2024

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term /Short Term Fund Based Bank Facilities- CC/PC/PCFC/ FDBP/FUBD	49.00	IVR BB/Stable/ IVR A4 (IVR Double B with Stable Outlook / IVR A Four)	Assigned	Simple
Total	Rs.49.00 (Forty-Nine Crores Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment of ratings to the bank facilities of Mittapalli Audinarayana Enterprises Private Limited takes into account extensive experience of promoters in the tobacco industry, strong growth in revenues during FY24 (provisional basis) albeit with high customer concentration and locational advantages accruing due to the presence of the unit in prime tobacco cultivating areas. The rating is however constrained by small scale of operations, working capital intensive nature of company's operations, leveraged capital structure and susceptibility of profitability to volatility in raw tobacco prices and forex rates.

The stable outlook reflects the fact that the entity will continue to benefit from its established relationship with international customers and vast experience of the promoters in the niche tobacco industry.

Key Rating Sensitivities:

Upward Factors

- Significant & Sustained increase in revenue and profitability along with improvement in working capital cycle will lead to a rating upgrade.

Downward Factors

- Significant decline in revenue and profitability leading to lower net cash accrual and deterioration in debt coverage indicators and/or any further stretch in operating cycle impacting the company's liquidity position will lead to a rating downgrade.

List of Key Rating Drivers with Detailed Description



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A. Key Rating Strengths

Extensive experience of promoters in tobacco industry

Mr.Mittapalli Uma Maheswara Rao, Director of Mittapalli Audinarayana Enterprises Private Limited has more than four decades experience in tobacco export business. He looks after the overall management of the Company. Being in the business for more than four decades helps them to understand price trends, effect of climatic variation on tobacco production and develop a strong relationship with clientele. As such a strong reputation and experience will support the business.

Strong growth in revenues during FY24 (Provisional) albeit with high customer concentration.

The Company reported strong growth in revenues in FY24 at Rs.101.41 crores (FY23: Rs.79.58 crores) which is a growth of ~ 27% mainly driven by overall demand for tobacco in international markets. But during the same period customer concentration continues to be higher with single largest customer contributing to more than 81% of the total revenue in fiscal 2024. High customer concentration can jeopardize the Company's revenues. A loss of single client can have a major impact on the Company's revenues.

Locational advantages accruing due to the presence of the unit in prime tobacco cultivating area

The company's facility is situated at Guntur, Andhra Pradesh which is one of the prime markets for tobacco in the country with proximity to the tobacco growing belt. Almost all tobacco exporters in the country have their processing factories or trading centres in and around Guntur. The head office of the tobacco board is also located in Guntur. This logistically helps the Company to source the tobacco at best prices. The firm purchases raw tobacco from the tobacco board, local farmers, and dealers and gets it processed on job-work basis.



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B. Key Rating Weaknesses

Small scale of operations of the company's business

The company's scale of operations remains small despite revenue growth at a CAGR of ~ 34% during FY2022-FY2024. In FY24, the Company's operating revenues stood at Rs.101.41 crores. (FY23: Rs.79.58 crores). Besides, the net worth base of the Company is on lower side at Rs16.23 crores in FY24 (FY23: 15.07). The small scale of operation exposes the company to the risk of business downturn and restricts its ability to absorb any temporary disruption and fixed costs. Small scale of operations is also expected to limit the Company's pricing flexibility, and its bargaining power vis a vis its customers and suppliers.

Working capital intensive nature of the Company's operations

The Company operates in highly working capital-intensive industry. The company maintains high inventory due to seasonality in availability of the tobacco. Whereas the inventory holding decreased in FY24 to 237 days compared to 288 days in FY23, it remains very high. The operating cycle of the Company is on higher side and remains at 248 days in FY24. The working capital intensity is expected to remain high in the near term, given the seasonality in procurement of tobacco.

Moderate financial risk profile

Given the high requirement of working capital lines versus the low net worth basis, the company's capital structure is leveraged. As of March 31, 2024, the company's debt profile consisted of working capital borrowings, and unsecured (unsubordinated) loans from related parties. As of 31st March 2024, the company's overall gearing, remained high at 3.60x. Compared to the same Company's net worth base is low at Rs.16.23 cr. as of 31st March 2024. The Company had moderate interest coverage ratio of 1.23x in FY24 (FY23: 1.14x).

Susceptibility of profitability to volatility in raw tobacco prices and forex rates

MAEPL procures tobacco from tobacco platforms during Andhra Pradesh and Karnataka seasons and export to various countries. Thus, on one side the Company's raw material is subject to price fluctuations since tobacco is highly regulated agricultural commodity and on the other side the Company is exposed to forex risks as 90% revenue denominated in foreign exchange. Any adverse movement in raw material prices and forex rates can affect the Company's profitability and its debt servicing capabilities. The Company mitigates price risks



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by procuring tobacco in both the seasons to average out any volatility in pricing of raw materials. Also, to mitigate forex risks the Company takes forward cover for ~ 50% of the forex exposure.

Analytical Approach: Standalone

Applicable Criteria:

[Rating methodology for manufacturing companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

[Criteria on default recognition and Post-Default Curing Period](#)

[Complexity Level of Rated Instruments/Facilities](#)

Liquidity: Adequate

MAEPL's liquidity remains adequate as evidenced by the MAEPL's working capital utilization which stood at an average of ~ 77% for the last 12-month period ending in March 2024. Also, in FY24 the Company's pre finance cost gross cash accruals remained at Rs.6.65 crores compared to finance costs of Rs.5.44. As of March 31, 2024 the Company's current ratio and cash & cash equivalents stood at 1.38x (March 31, 2023:1.34x) and Rs.0.39 Cr. (March 31, 2023:Rs.0.27 Cr.) respectively.

About the company

Mittapalli Audinarayana Enterprises Private Limited is a part of Mittapalli Group and is based out of Guntur, Andhra Pradesh. Mittapalli Group was established by Sri Mittapalli Rama Rao during the year 1964 and is engaged in tobacco processing and exports since inception. The company provides an optimum range of all varieties of tobacco. The company procures tobacco from tobacco auction platforms during Andhra and Karnataka seasons and exports to various countries depending on the clients' requirements and export orders. The company has state-of-the-art infrastructural base that comprises vast storage houses and modern testing equipment. After buying from the farmers, the tobacco is shifted to the company's warehouses spread across the state. The warehouses provide safe storage of the tobacco.



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Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	56.76	79.58
EBITDA	7.00	6.82
PAT	0.45	0.78
Total Debt	69.95	56.95
Tangible Net worth	14.29	15.07
Ratios		
EBITDA Margin (%)	12.33	8.57
PAT Margin (%)	0.79	0.97
Overall Gearing Ratio (x)	4.90	3.78

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Rating History for last three years:

Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
Long Term /Short Term Fund Based Bank Facilities - Cash Credit / Packing Credit/Packing Credit in Foreign Currency/Foreign Documentary Bills Purchase/ Foreign Usance Bill Discounting	Long Term/ Short Term	49.00	IVR BB/ Stable/ IVR A4	--	--	--

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term /Short Term Fund Based Bank Facilities - Cash Credit / Packing Credit/Packing Credit in Foreign Currency/Foreign Documentary Bills Purchase/ Foreign Usance Bill Discounting	--	--	--	49.00	IVR BB/ Stable/ IVR A4

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-MAEPL-may24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.