# Abdos Oils Private Limited

January 04, 2022

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 21.83<br>(Enhanced from 17.97) | CARE BBB+; Stable<br>(Triple B Plus; Outlook: Stable) | Reaffirmed |
| Short Term Bank Facilities | 10.00<br>(Enhanced from 2.00) | CARE A2<br>(A Two) | Reaffirmed |
| **Total Bank Facilities** | **31.83<br>(Rs. Thirty-One Crore and Eighty-Three Lakhs Only)** | | |

Details of instruments/facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The reaffirmation in rating of Abdos Oils Private Limited (AOPL) considers satisfactory financial performance of the company marked by stable performance in FY21 (refers to period April 01 to March 31) coupled with improvement in profitability margins in FY21 and H1FY22 which was primarily attributable to commercialization of detergent business from Q4FY21 onwards which also led to diversification of product profile for the company. This apart, the ratings also draw strength from long established track record supported by experienced promoters, long association with a leading Fast-Moving Consumer Goods (FMCG) player and comfortable capital structure. The rating, however, is constrained by high dependence on a single customer, modest scale of operations and exposure to group companies.

**Rating Sensitivities**

**Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Improvement in total operating income and PBILDT margin above Rs 300 crore and 7% respectively on a sustained basis.
- Improvement in overall gearing and TD/GCA below 0.50x and 2x respectively on a sustained basis.

**Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Any un-envisaged debt funded capex leading to deterioration in overall gearing above unity or TD/GCA above 3.5x on a sustained basis.
- Discontinuance/termination of contract with its major customer viz Hindustan Unilever Limited.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Long established track record supported by experienced promoters**

The Abdos group had been set up by Mr Ram Gopal Agarwal in 1967. AOPL was formed in 1996 for contract manufacturing of Nihaar Oil for Hindustan Unilever Limited (HUL) and has been associated with HUL ever since. The second generation of promoters- Mr Kamal Agarwal (son of Mr Ram Gopal Agarwal), Mr Sanjay Agarwal and Mr Rajesh Agarwal (cousins of Mr Kamal Agarwal) have been a part of the family business and have experience of more than two decades through various business verticals of the Abdos group, contract manufacturing in particular.

**Long association with leading FMCG client**

AOPL manufactured and packed coconut oil for HUL from 1998-2007 until the oil brand was taken over by Marico. It entered into sachet-based shampoos from 2013 for brands like Clinic Plus, Sunsilk, Dove and Tresseme for HUL. Such a long association highlights AOPL's ability to timely execute its orders while maintaining the strict quality guidelines required by the client. The association with a reputed client reduces the receivables' risk.

**Satisfactory financial performance in FY21 and H1FY22**

The total operating income (TOI) of the company in FY21 has moderated to Rs 160.65 crore from Rs 170.84 crore on account of lower sales of shampoos in H1FY21 on the back of disruptions caused by COVID-19. However, the PBILDT and PAT margins have improved marginally. The company has reported GCA of Rs 6.75 crore as against debt repayment obligations of Rs 6.08 crore in FY21.

In H1FY22, the company has reported PBILDT and PAT of Rs 6.21 crore and Rs 2.85 crore on TOI of Rs 100.00 crore. The improvement in scale and profitability margin in the current year is mainly attributable to the commencement of production of detergents which has also led to diversification of product profile of the company.

**Comfortable capital structure**

The overall gearing and TOL/TNW remained stable at 1.00x and 2.01x as on March 31, 2021 as against 0.91x 2.05x as on March 31, 2020. However, TD/GCA has marginally deteriorated from 3.51x in FY20 to 4.09x in FY21 on account of new ECB loan availed by the company of Rs 12 cr in Q4FY21 to fund incremental capex cost of both shampoo and detergent business. Despite such increase, capital structure and debt protection metrics continued to remain comfortable. Further, interest coverage ratio has improved from 8.03x in FY20 to 11.97x in FY21 on the back of increase in operating profit and reduction in finance cost.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

**Efficient management of working capital cycle**
AOPL's comfortable working capital of negative 19 days can be attributed to high credit period it avails from its suppliers which usually ranges between 45-60 days. Around 99% of AOPL's sale is to HUL wherein money is received within 14 days. The negative operating cycle supports the company's liquidity position. Going forward, the working capital cycle is expected to elongate with the ramping up of detergent business and change in payment terms with its suppliers in the current year.

**Key Rating Weaknesses**
**High dependence on a single customer**
Despite its advantages, AOPL is exposed to customer concentration risk with 99% of its revenue streams arising from shampoo sales to HUL. AOPL initially had a master agreement for 7 years with HUL, post which it is now renewed on an annual basis and the next renewal being due in February'22. Continuation of the contract would be critical for sustenance of its operations. However, considering the long association with HUL and satisfactory track record of the group, it had been regularly renewed. Further, with the commercialization of detergent segment, its dependence on HUL has reduced as AOPL sells detergent to its group company Abdos Consumer Care Limited which in turn sells it under its own brand "Tao" in the open market.

**Modest scale of operations**
The scale of operations of AOPL at ~Rs 160 crore is modest. However, considering the capacity utilization of 76% of shampoo segment in FY21 coupled with ramping up of production of homecare segment and further capacity addition in the existing shampoo plant in the current year; the scale of operation of the company is expected to increase on account of volume growth.

**High exposure to group companies, albeit reduced in H1FY22**
AOPL's exposure to group companies was high and constituted 55% of tangible net worth as on March 31, 2021 (64% of the tangible net worth as on March 31, 2020). The exposure mainly existed in the form of loans & advances and investments. However, AOPL has recovered loans to the tune of Rs 5 crore from Abdos Labtech Private Limited, thereby leading to reduction in exposure to 34% of tangible networth as on September 30, 2021.

**Industry Outlook**
According to IBEF, Fast Moving Consumer Goods (FMCG) sector is India's fourth-largest sector with household and personal care accounting for 50% of FMCG sales in India. The FMCG market in India is expected to increase at a CAGR of 14.9% to reach US$ 220 billion by 2025, from US$ 110 billion in 2020. The Government has allowed 100% Foreign Direct Investment (FDI) in food processing and single-brand retail and 51% in multi-brand retail. This would bolster employment, supply chain and high visibility for FMCG brands across organized retail markets thereby bolstering consumer spending and encouraging more product launches. Growing awareness, easier access, and changing lifestyle are the key growth drivers for the consumer market. Initiatives undertaken by the Government to increase the disposable income in the hands of common man, especially from rural areas are expected to be beneficial for the sector.

**Liquidity: Adequate**
The liquidity position of the company is adequate marked free cash and liquid investments of Rs.4.78 cr as on March 31, 2021. The average utilization of fund-based limits stood at 36% for the last 12 months ended Nov'21. Going ahead the cash accruals along with recovery of loans from group entities are expected to be sufficient to meet the repayment obligations.

**Analytical approach:** Standalone
**Applicable Criteria**
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities

**About the Company**
Abdos Oils Private Limited (AOPL) was set up in 1996 and is engaged in contract manufacturing of FMCG products ever since. From 2013, it manufactures shampoo and packs them in sachets for Hindustan Unilever Limited (HUL) under the 2P model of contract manufacturing wherein raw material is purchased by AOPL instead of the principal. For this, it has an installed capacity of 37,840 MTPA in Howrah, West Bengal. The shampoo manufactured by AOPL is ISO 22716: 2007 certified. This apart, from FY21 onwards, the company has also started manufacturing of homecare products like detergents, dishwash bars, etc which has an installed capacity of 19,200 MTPA. AOPL is a part of the Abdos Group and is managed by promoter directors and cousins- Mr Kamal Agarwal, Mr Sanjay Agarwal and Mr Rajesh Agarwal.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) | H1FY22 (UA) |
|---|---|---|---|
| Total operating income | 170.84 | 160.65 | 100.00 |
| PBILDT | 7.48 | 8.31 | 6.21 |
| PAT | 3.14 | 3.55 | 2.85 |
| Overall gearing (times) | 0.91 | 1.00 | 0.83 |
| Interest coverage (times) | 8.03 | 11.97 | 7.33 |

*A: Audited, UA: Unaudited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | Feb'27 | 21.83 | CARE BBB+; Stable |
| Fund-based - ST-Bank Overdraft | | - | - | - | 10.00 | CARE A2 |

**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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based - LT-Term Loan | LT | 21.83 | CARE BBB+; Stable | - | 1)CARE BBB+; Stable (05-Jan-21) | 1)CARE BBB+; Stable (09-Dec-19) | 1)CARE BBB+; Stable (21-Jan-19)<br><br>2)CARE BBB+; Stable (28-Nov-18) |
| 2 | Fund-based - ST-Bank Overdraft | ST | 10.00 | CARE A2 | - | 1)CARE A2 (05-Jan-21) | 1)CARE BBB+; Stable (09-Dec-19) | 1)CARE BBB+; Stable (21-Jan-19)<br><br>2)CARE BBB+; Stable (28-Nov-18) |
| 3 | Fund-based - ST-Bill Foreign Discounting | ST | - | - | - | 1)Withdrawn (05-Jan-21) | 1)CARE A2 (09-Dec-19) | 1)CARE A2 (21-Jan-19)<br><br>2)CARE A2 (28-Nov-18) |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based - ST-Bank Overdraft | Simple |

**Annexure 5: Bank Lender Details for this Company**
To view the lender wise details of bank facilities please click here

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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**About CARE Ratings Limited:**
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