Abdos Lamitubes Pvt Ltd

February 23, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term bank facilities	60.52 (Reduced from 80.30)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long-term / short-term bank facilities	24.00	CARE BBB+; Positive / CARE A2 (Triple B Plus; Outlook: Positive/ A Two)	Reaffirmed; Outlook revised from Stable
Total bank facilities	**84.52 (Rs. Eighty-Four Crore and Fifty-Two Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of Abdos Lamitubes Pvt Ltd (ALPL) derives its strength from ALPL's experienced promoters and the company's established presence in the laminated tubes industry, its reputed client base with presence in diversified segment, strategic location of manufacturing facilities entitling it for government subsidy improvement in financial performance, reduction in debt levels leading to improved capital structure and efficient management of working capital. The ratings are, however, constrained by exposure to customer concentration and foreign currency fluctuation risk, limited bargaining power with customers, volatility in raw material prices and exposure to group companies.

Outlook: Positive

The revision in the outlook from stable to positive factors in the reduced debt levels and interest costs following efficient management of working capital by the company. Moreover, with loan repayments and no major planned debt funded capex, the profitability and debt protection metrics are further expected to improve going forward. This apart, increase in scale of operations with enhanced capacity utilization is also expected to lead to higher cash accruals over the medium term. The outlook may be revised to stable if there is a significant deviation in the envisaged profit levels or capital structure.

Key rating sensitivities

Positive factors

- Increase in capacity utilization along-with sustenance of profit margins.
- Improvement in capital structure while managing working capital and liquidity efficiently.

Negative factors

- Deterioration in overall gearing ratio (>1.5x) on a sustained basis
- Deterioration in PBILDT margin (<15%) on a sustained basis.
- Deterioration in working capital cycle above 45 days on a sustained basis
- Any significant debt funded capex or significant increase in group company exposure.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established presence in the laminated tubes industry:

ALPL incorporated in 2004, manufactures multilayer lamitubes for skincare and oral care tubes for leading FMCG clients. It is one of the leading manufacturers of lamitubes in India and provides innovative design and packaging solutions to meet the clients evolving needs. The overall operations are handled by promoter- Mr Kamal Agarwal

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

having experience of more than two decades in trading, contract manufacturing and packaging who is also supported by an experienced team of professionals.

Reputed client base albeit customer concentration:
ALPL caters to a reputed client base for meeting their continuous packaging requirements. The company has established long relationship with a leading FMCG company which highlight satisfactory product delivery, leading to repeat orders. In addition, long term association with large players augur well for the company, with opportunity to grow with the growing market. Although, ALPL has been trying to reduce customer concentration with share of the main customer remaining at around 85% by adding other customers/ sectors in its basket, its sales are still exposed to the risk of customer concentration.

Strategic location of manufacturing facilities for government subsidy:
ALPL has installed its manufacturing facilities in North East India and thereby receives subsidy. ALPL's PBILDT margin continues to receive support by various subsidies which include indirect tax refund of 100% of SGST and 29%/58% of the IGST/CGST amount up to 10 years from date of inception (DOI: Unit I -2004, Unit II-2015 and Unit III-2017). ALPL usually receives it in a time span of one year from application as stated by the company.

Catering to diversified segment:
ALPL caters to oral care, skin/personal care and pharmaceutical segments which are unrelated segments by and large, hence reduces the risk of sales/profits being adversely impacted by a particular product segment/category. On account of higher volumes in the oral care segment, it contributed the maximum revenue followed by the skincare/personal care segment.

Improvement in financial performance
The total operating income of ALPL grew by ~12% year on year on account of higher sales volumes. The capacity utilization remained similar to that in last year, however, production increased on account of enhancement in capacity. The PBILDT margin improved from 18.01% in FY19 to 19.35% in FY20 on account of economies of scale. In 9MFY21, even with higher capacity as against last year, ALPL's revenue decreased by 17% y-o-y on account lower utilization due to COVID related shutdowns. The PBILDT margin however, improved from 17.89% in 9MFY20 to 19.80% during 9MFY21.

Improvement in capital structure
The gearing improved significantly from 1.55x as on Mar'19 to 0.83x as on Mar'20 due to lower working capital utilization, repayment of term debt and accretion of profits. On account of lower debt, TD GCA also improved from 4.82x as on Mar'19 to 2.84x as on Mar'20. As on December 31, 2020, gearing had further improved from 1.21x as on Dec'19 to 0.61x and TD/GCA from 4.31x as on Dec'19 to 2.49x on account of lower debt.
The company also has exposure in group companies, comprising around 39% of the net-worth. Factoring in the above fund based exposure, adjusted gearing was 1.37x as on Mar'20 which had improved from 2.92x as on Mar'19.

Efficient management of working capital:
ALPL has large list of SKUs due to varying product categories and sizes. ALPL maintains an inventory of 45 days and has a raw material in transit for another 7-10 days. This resulted in inventory period in the range of 55-48 days in the last three years. ALPL's receives payment from its major customer in a timely manner and collection period varied from 26-47 days in the last three years. On the supply side, ALPL received a credit of 1-2 months and accordingly the creditors period ranged between 48-65 days in the last three years. The operating cycle in FY20 had however, improved from 34 days in FY19 to 26 days majorly due to averaging effect in FY19 in receivable and creditor days. It is expected to be in the range of 37-40 days in the future.

Industry prospect:

The boom in the global packaging sector hinges on both the growth in the global economy as well as the performance of the diverse range of industries that this sector caters to –pharmaceuticals, food and beverages, cosmetics, and other consumer goods. Additionally, exponentially expanding e-commerce market and rising demand for packaged foods have a direct bearing on the packaging sector. Emerging markets in South America, Eastern Europe, and Asia have demonstrated rapid growth of packaging industry, thanks to the booming consumer goods sector in these regions offering a foray of new opportunities to packaging suppliers globally. The trending demand in convenient and sustainable packaging has galvanized the robust growth in tube packaging market over the last few years. In Pharmaceuticals, use of high barrier, safe laminated tubes with features like tamper evidence, anti -counterfeit & innovative dispensing tubes are replacing age old aluminium tubes. Categories like foods & home are now seeing tubes as replacement to bottles & other traditional packaging for a range of products like condensed milk, wasabi sauce, cheese spread. These ensure huge growth opportunity for the company. The sector has become highly competitive owing to the presence of a large number of manufacturers in the industry. Innovative packaging, flexible packaging, and lower cost high quality printing are the key drivers of tube packaging market. However, packaging industry especially personal care segment is expected to experience low demand growth on account of COVID-19 outbreak.

Key Rating Weaknesses

Limited bargaining power with customers:

ALPL caters to a reputed client base having a large market and association with wide network of suppliers for its packaging needs. ALPL must be competitive both in terms of quality and pricing in order to get repeat orders. This limits its ability to increase its margins. In addition, ALPL has to undertake continuous capex in order to cater to the evolving needs of its customers, which also entails higher capital charges.

Foreign currency fluctuation risk:

For its expansion activities ALPL has relied on external commercial borrowings loans and majority of the such borrowings is unhedged. The company does not import raw materials but only machinery and its exports are also negligible. Thus, the scheduled interest and principal repayments of the unhedged loans, expose the company's profitability to forex fluctuation risks.

Exposure to volatility in raw material prices:

The principal raw material consumed is polymer granules which is a derivative of crude oil and is highly sensitive to any volatility in crude oil prices. However, the company is able to mitigate such risk as contracts with its customers have a raw material cost escalation clause. This is also noted in the operating performance of the companies where the PBILDT margin has been by and large stable and in the range of 18-19.5% in the last three years.

Exposure to group companies:

ALPL has exposure towards group companies in the form of investment and loans and advances which accounted for 39% of the networth amounting to Rs.34 crore as on March 31, 2020 as against 49% of the net worth and Rs.31.55 crore as on March 31, 2019. More than 60% of such exposure was in ALabPL, whose performance had improved y-o-y in FY20 and also in the current year. This apart, recent investments in Abods Lamitubes Nigeria Ltd and Abdos Lamitubes Holding FZCO are a geographic diversification of the packaging business of the group.

Liquidity - Adequate

In FY20, the company earned a GCA of Rs.25 crore against a repayment obligation of Rs. 18 crore. For FY21, the company has met around 70% of the obligations and the cash accruals in the remaining part of the year is expected to be sufficient to meet the balance repayment obligation. The company hadn't availed any moratorium or COVID Emergency Line of Credit from its bank. The company had fund-based limits of Rs.25 crore which was largely unutilized in the last 12 months ended Dec -2020 providing comfort to liquidity.

Analytical approach: Standalone approach factoring linkages with Abdos Group.

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]
[Rating Methodology: Notching by factoring linkages in Ratings]

About the Company
Incorporated in 2004, ALPL, the flagship company of the Abdos Group, is engaged in the manufacture of multilayered laminated tubes. Its tubes are used for packaging in oral care, skin care, pharma and other industrial products. Its manufacturing facilities comprising three units are located in Guwahati, Assam and a unit in Roorkee, Uttarakhand. The collective installed capacity of ALPL is 1240 million tubes per annum as on Dec.31, 2020. The company is BRCIOP certified - Grade A; Global Standard for packaging. The company also has invested in subsidiaries/step down subsidiaries having lamitubes manufacturing facility in Nigeria and UAE.
The over-all operations of the company are managed by Director Mr. Kamal Agarwal.
ALPL is a part of the Abdos Group which also has presence in contract manufacturing for FMCG products, in manufacturing of plastic labwares, and is also engaged in trading & distributorship.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	150.86	169.29
PBILDT	27.16	32.76
PAT	9.79	13.65
Overall gearing (times)	1.55	0.83
Interest coverage (times)	4.74	4.87

Status of non-cooperation with other CRA: CRISIL has conducted the review based on best available information and classified ALPL as "Non-Cooperating" vide press release dated November 6, 2020.

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	5.00	CARE BBB+; Positive / CARE A2
Fund-based - LT-Bank Overdraft	-	-	-	6.00	CARE BBB+; Positive
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	19.00	CARE BBB+; Positive / CARE A2
Term Loan-Long Term	-	-	Dec 2024	54.52	CARE BBB+; Positive

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	5.00	CARE BBB+; Positive / CARE A2	1)CARE BBB+; Stable / CARE A2 (06-Apr-20)	1)CARE BBB+; Stable / CARE A2 (30-Mar-20)	1)CARE BBB+; Stable / CARE A2 (28-Nov-18)	-
2.	Fund-based - LT-Bank Overdraft	LT	6.00	CARE BBB+; Positive	1)CARE BBB+; Stable (06-Apr-20)	1)CARE BBB+; Stable (30-Mar-20)	1)CARE BBB+; Stable (28-Nov-18)	-
3.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	19.00	CARE BBB+; Positive / CARE A2	1)CARE BBB+; Stable / CARE A2 (06-Apr-20)	1)CARE BBB+; Stable / CARE A2 (30-Mar-20)	1)CARE BBB+; Stable / CARE A2 (28-Nov-18)	-
4.	Term Loan-Long Term	LT	54.52	CARE BBB+; Positive	1)CARE BBB+; Stable (06-Apr-20)	1)CARE BBB+; Stable (30-Mar-20)	1)CARE BBB+; Stable (28-Nov-18)	-

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

Annexure 4- Complexity of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
4.	Term Loan-Long Term	Simple

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

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About CARE Ratings:
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