Abdos Lamitubes Private Limited
March 30, 2020

Ratings

Facilities	Amount (Rs crore)	Ratings[1]	Rating Action
Long-term Bank Facility	44.3 (Reduced from 62.37)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long Term/Short-term Bank Facility	24.0	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Reaffirmed**
Total facility	**68.3 (Rs. Sixty eight crore and Thirty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Abdos Lamitubes Pvt Ltd (ALPL) derives its strength from its experienced promoters with established presence in the laminated tubes industry, reputed client base, strategic location of manufacturing facility for government subsidy, healthy profit margins in FY19 (refers to the period from April 01 to March 31) and efficient management of working capital cycle supported with adequate liquidity. The ratings are, however, constrained by customer concentration risk, limited bargaining power with customers, foreign currency fluctuation risk, exposure to volatility in raw material prices, moderate capital structure on account of debt funded capex and exposure to group companies.

Key rating sensitivities

Positive factors

- Growth in revenue with increase in PBILDT margin beyond 20% on a sustained basis along with improvement in total debt/GCA below 2x

Negative factors

- Increase in overall gearing ratio beyond 1.7x on a sustained basis.
- Increase in working capital cycle above 60 days on a sustained basis.

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. Such R&D efforts and consistent quality products have helped ALPL make an established brand in India. The overall operations are handled by promoter- Mr Kamal Agarwal 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 its clients – 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 facility 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 records its subsidies on cash basis, and 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 being adversely impacted by a particular product

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

segment/category. The y-o-y sales growth across all categories was close to 26% except the specialty category. Skin care/personal care category continued to contribute the maximum revenue followed by the oral care category.

Healthy profit margins in FY19: The total operating income of ALPL witnessed a growth of ~21% y-o-y in FY19 on account of higher units sold for all product categories with capacity utilisation improving from 68%in FY18 to 79% in FY19. PBILDT margin, though witnessed deterioration from 19.53% in FY18 to 18.01% in FY19 on account of higher cost of material consumed, continued to remain comfortable. PAT margin also witnessed a slight deterioration from 6.87% in FY18 to 6.49% in FY19 on account of increase in capital charges. The company earned a GCA of Rs.20.87 crore vis-à-vis debt repayment obligation of Rs.12.68 crore in FY19.

In 9MFY20, ALPL earned a PBILDT of Rs.23.45 crore on a total operating income of Rs.154.63 crore.

Efficient management of working capital cycle: ALPL has large list of SKUs due to varying product categories and sizes. ALPL maintains an inventory of 14 days and has a raw material in transit for another 14 days. ALPL's receives payment from its major customer in around 2 weeks. For its other customers it has a higher receivables period. The operating cycle in FY19 improved marginally to 34 days from 37 days in FY18. In addition, the company also stocks inventory due to fluctuation in crude prices which may affect the cost of acquiring raw materials and hence the cost of production which led to higher inventory period of 54 days in FY19.

Stable 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. 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.

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 has to 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 finance cost.

Foreign currency fluctuation risk: For its expansion activities ALPL has relied on ECB loans. The group has started exports in Nigeria (until the subsidiary commences operations) and Sri Lanka in FY19, however, such amount is still small. Although, the company has earned exchange rate profit of Rs.0.008 crore in FY19, the scheduled interest and principal repayments of the unhedged loans, expose the company 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, thereby exposing the operating performance of the company. To mitigate such risk, the contracts executed with the company's customers have a raw material cost escalation clause in the contract.

Moderate capital structure on account of debt funded capex: The capital structure remained moderate with overall gearing ratio of the company deteriorating from 1.20x as on March 31, 2018 to 1.55x as on March 31, 2019 on account of term loan taken for purchase of advanced printing and tubing machines. However, the same improved again to 1.21x as on December 31, 2019 on account of scheduled repayment of term loan and accretion of profits to reserves. TDGCA also witnessed deterioration from 3.76x as on March 31, 2018 to 4.82x as on March 31, 2019 on account of increase in debt levels. However, the same improved slightly to

The total debt/GCA mirrored gearing, and deteriorated as on March 31, 2019 with improvement as on December 31, 2019.

Exposure to group companies: ALPL has exposure towards group companies in the form of investment and loans and advances which account for a substantial part of its net worth. Group exposure (investments and loans and advances) accounted for 47% of the networth amounting to Rs.30 crore as on March 31, 2019 as against Rs.27 crore as on March 31, 2018 (i.e 48.7% of networth).

Liquidity - Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and more than adequate cash and bank balance of around Rs.1.10 crore and liquid investment worth Rs.36.37 crore as on March 31, 2019. The company earned a GCA of Rs.16 crore in 9MFY20 against debt repayment obligation of Rs.17.67 crore for entire FY20. The utilization of the fund based facilities remained moderate providing liquidity cushion

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies

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 with an installed capacity of 895 million tubes per annum as on Dec.31, 2019. The company is certified for BRCIOP (Grade A; Global Standard for packaging) certified. The company has also set up a 100% subsidiary in Nigeria- Abdos Lamitubes Nigeria Limited, with an installed capacity of 60 million tubes per annum to cater to the packaging needs of the region. The company conducted a dry run of the plant in Nigeria in October 2019 and has commenced full operations in December 2019. 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, manufacture of plastic labwares, and trading & distributorship.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	119.16	150.86
PBILDT	23.28	27.16
PAT	8.19	9.79
Overall gearing (times)	1.20	1.55
Interest coverage (times)	4.70	4.74

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review based on the basis of best available information and has classified ALPL as "Non-cooperating" vide its Press Release dated August 02, 2019.

Any other information: Not Applicable

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

Annexure-1: Details of 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+; Stable / CARE A2
Fund-based - LT-Bank Overdraft	-	-	-	6.00	CARE BBB+; Stable
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	19.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term	-	-	December 2022	38.30	CARE BBB+; Stable

Annexure-2: Rating History for last three years

Sr.	Name of the	Current Ratings	Rating history

No.	Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	5.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (28-Nov-18)	-	-
2.	Fund-based - LT-Bank Overdraft	LT	6.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Nov-18)	-	-
3.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	19.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (28-Nov-18)	-	-
4.	Term Loan-Long Term	LT	38.30	CARE BBB+; Stable	-	1)CARE BBB+; Stable (28-Nov-18)	-	-

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

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