

## ABC Oil Industries Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	270.18	CARE-NP BB- [Double B Minus]	Assigned
Short Term Bank Facilities	730.00	CARE-NP A4 [A Four]	Assigned
<b>Total Facilities</b>	<b>1,000.18</b> <b>(One billion and one hundred eighty thousands only)</b>		

*Details of Facilities in Annexure 1*

Care Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB-' to the long-term bank facilities and the rating of 'CARE-NP A4' to the short-term bank facilities of ABC Oil Industries Private Limited (ABC).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of ABC are constrained by the company's limited track record of operations along with inherent operations stabilization risk and salability risk in the initial years of operations, working capital intensive nature of business leading to reliance on bank borrowings, raw materials price volatility risk and foreign exchange fluctuation risk, competitive nature of industry, exposure to regulatory risk, and exposure to volatile interest rates. The ratings also factor in the reliance of majority of revenues from exports to India which is dependent on tariff arbitrage between direct imports vis-à-vis imports from Nepal exposing ABC to changes in tariff regimes of India for direct imports of various edible oils/crude. The ratings, however, derive strength from experienced promoters and management team, locational advantage for both imports and exports, and otherwise stable demand outlook for edible oil over the medium term offset to some extent by the volatility in export opportunities for Nepalese refiners.

*Going forward, the ability of the company to manage growth in operations while improving profit margins, rationalize its debt through efficient working capital management, and pass through changes in raw material prices to the customers while managing the foreign exchange fluctuation risks will be the key rating sensitivities. Furthermore, any change in the regulatory framework pertaining to trade regulations and tariff differential with India impacting exports prospects will also be a key rating sensitivity.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### Short track record of operations and operational stabilization risk in the initial years of operations

ABC completed the installation of its manufacturing facility and started commercial operations from mid-May 2022. Capacity utilization was low at 13.80% during its first two months of operations in FY22 (FY refers to the twelve-months period ended mid-July), with total income of only Rs. 237 Mn via sale of palmolein oil only. With PBILDT margin modest at 3.65% leading to a net loss of Rs. 8 Mn, the company's cash accruals from operations were modest in the early months of operations. Total debt to gross cash accruals (annualized) stood high at 16.79x at the end of FY22.

However, during 4MFY23 (Unaudited, refers to the four-months period ended mid-November 2022), ABC was able to generate total income of Rs. 1,441 Mn via sale of palmolein and refined soyabean oil, with capacity utilization of 52.89% and 12.04% respectively. Ramp up of operations is on progress, however, with 12,000 MTPA sunflower oil unit yet to commence operations, the stabilization/streamlining of operations remains to be seen for a sustained period. This will remain critical from analytical perspective.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications.

**High reliance on bank borrowings leading to leveraged capital structure though moderate operating cycle**

ABC's operations are working capital intensive in nature as the company imports its raw materials from various countries such as Argentina, Brazil, Malaysia, Indonesia etc through Letter of Credit. The company needs to keep enough inventory for smooth operations which leads to reliance on working capital borrowings. The lead time for the procurement of crude palm oil is upto one month, whereas for soyabean and sunflower oil is upto three months. Company occasionally receives advance payment for exports; however, the majority of sales are done by extending credit where the company generally receives payment within two weeks. With average collection period of 16 days, average inventory period of 34 days and average creditor period of 36 days, the operating cycle of ABC in FY22 stood at 36 days. As on mid-July 2022, the company had its short-term borrowings only in form of LC payables. However, to cater the growing scale of operations, which are working capital intensive, the company will further need to increase its reliance on the bank borrowings for working capital requirements. The company had a leveraged capital structure at the end of FY22, with overall gearing ratio of 3.06x and debt-equity ratio of 1.57x. The company had leveraged capital structure on account of newly setup debt funded manufacturing facilities and high working capital requirements. ABC's ability to rationalize its debt levels while supporting growth is crucial in view of having existing leveraged capital structure.

**Raw material price volatility risk and foreign exchange fluctuation risk**

ABC's major raw materials include crude soyabean oil, crude sunflower oil and crude palm oil which are imported from various countries. The prices of ABC's raw materials are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. The raw material cost contributed around 88% of the total operating income of the company during FY22. Furthermore, the total raw material requirement is met through imports and the prices of the same are linked to USD, for which the company is exposed to the foreign exchange fluctuation risk. The ability of the company to pass through changes in raw material prices to the customers and managing the foreign exchange fluctuation risks related to raw materials will be crucial from its profitability perspective.

**Competitive nature of industry**

Import and processing/refining of edible oils is highly fragmented due to presence of several organized/ unorganized players owing to low entry barrier and low technology and capital requirement. Low product differentiation of ABC's product results in high competition from other players including traders. Considering the competitive nature of industry, the millers have low pricing power. Agro products are also seasonal in nature with production dependent on various factors such as monsoon and climatic condition, exposing the fate of the company's operation to vagaries of nature.

**Exposure to regulatory risk**

The operations of ABC is vulnerable to regulatory risk arising from various laws and policies of the importing and exporting countries coupled with the domestic policies of Nepal. ABC's exports revenue relies on the tariff arbitrage in India between direct imports of crude by Indian millers vis-à-vis imports of refined edible oil from Nepal. ABC, like many millers in Nepal, try to exploit any substantial tariff differential in India, which keep changing for different edible oils every year. Over the past few years, there have been changes in government policies, either domestic or international regarding import/export of edible crude. ABC's revenue is susceptible to regulatory policies relating to tariff barriers (differential trade tariffs among South Asian Free Trade Area), non-tariffs barriers (restriction on the quality of imports), international freight rates etc. Any unfavorable change in policy could impact the financial profiles of entities operating in the importing of crude edible oil and exporting to India.

## Key Rating Strengths

### Experienced promoters and management team

Despite short track record of less than one full year of operations, the company is managed under the overall guidance of its five-member Board of Directors (BoD) which includes experienced businessmen/industrialists with long experience in various sectors. Mr. Sanjay Koirala, the company's Chairman, has an experience of more than two decades in industrial sector of Nepal, which includes trading of oil, manufacturing of soap and packaging materials. He is also an advocate under Nepal Bar Council. Other directors also have upto ten years of experience ranging from trading and manufacturing to financial sectors. The board is aptly supported by experienced management team across various departments.

### Essential part of cooking leading to stable demand prospects

ABC is involved in processing/refining crude oils into refined oils. The demand prospect of oil industry is growing as oil is one of essential commodity for cooking. Furthermore, with demand being higher than domestic production and slowdown in domestic agriculture production, large volume of edible as well as crude oil is being imported in Nepal giving importers like ABC a favourable business environment.

### Locational advantage for both imports and exports

The manufacturing facility of the company is located in Duhabi, Sunsari District which is around 13 km from Jogbani, a major custom point between India and Nepal. Since all of the raw materials requirements of ABC imported from various countries are unloaded on Indian ports, the factory's proximity to the border leads to savings in freight cost. Close proximity to Indian border is also beneficial from the company's export perspective as the entirety of its revenue is derived through exports to India.

### About the Company

ABC Oil Industries Private Limited (ABC) was incorporated on July 25, 2021 for processing/refining of edible oils, and has manufacturing facility in Duhabi, Sunsari, Nepal. The company commenced its operations from May 15, 2022. The total installed capacity of the plant is 60,000 Metric Tons Per Annum (MTPA) that includes 36,000 MTPA capacity for refining of crude palm oil, and 12,000 MTPA capacity each for refining of Soyabean Oil and Sunflower Oil.

### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Fixed Term Loan	270.18	CARE-NP BB-
Short Term Bank Facilities	Fund Based/ Non Fund Based Limits	730.00	CARE-NP A4
<b>Total</b>		<b>1,000.18</b>	

### Contact us

#### Analyst Contact

Mr. Prashiddha Sharma Gaire

Contact No.: +977 9802335865

Email: prashiddhas@careratingsnepal.com

Mr. Santosh Pudasaini

Contact No.: +977 9802312855

Email: pudasaini.santosh@careratingsnepal.com

**Relationship Contact**

Mr. Achin Nirwani

Contact No.: +977 9818832909

Email: achin.nirwani@careratingsnepal.com

**About CARE Ratings:**

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

**Disclaimer**

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.