Press Release

Universal Cartons Solutions Private Limited

November 03, 2020

Rating Assigned

Total Facilities Rated*	Rs.40.00 crore
Long Term Rating	ACUITE BBB-/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.40.00 crore bank facilities of Universal Cartons Solutions Private Limited (UCSPL). The outlook is **'Stable'**.

Universal Carton Solutions Private Limited (UCSPL) was incorporated on August 04, 1995 and primarily engaged in the printing of cartons, labels, aluminum foils and others packaging materials by way of the art printing and color printing. The company is wholly owned subsidiary of BPPL and has its own manufacturing unit located at Nalagarh. Himachal Pradesh with a total installed capacity of manufacturing 720 lakh sheets per annum.

About the Group

The Borkar Group was first established in the year 1910 by late Mr. Shripad Borkar, who was the first generation of the Borkar family and started its business operations by starting a few retail outlets of packaging materials. Later, in the year 1944, the second generation of the family expanded the business by setting up its own printing unit. Later on, the business of the Borkar Group was expanded into different businesses like Packaging/Printing and Retailing. However, the core competence of the group is in the area of Printing and Packaging. The Borkar Group comprises of two companies, i.e. Borkar Packaging Private Limited and its wholly owned subsidiary Universal Carton Solutions Private Limited (UCSPL).

Borkar Packaging Private Limited (BPPL) was incorporated in the year 1994 by Mr. Vinay P. Borkar and Mr. Deepak P. Borkar, who are the third generation of the Borkar family. The company a flagship company of the Borkar Group which is primarily engaged in the business of manufacturing and printing of Laminated / Coated Duplex Board Cartons. The currently has four manufacturing units located across different regions of the country with a total installed capacity of manufacturing 1,860 lakh sheets per annum.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Borkar Packaging Private Limited (BPPL) and its wholly own subsidiary Universal Carton Solutions Private Limited (UCSPL) together referred to as the 'Borkar Group' (BG). The consolidation is in view of the common management, same line of business and financial synergies between these entities. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced Management with established track record of operations**
  The Borkar Group was established in the year 1910 by late Mr. Shripad Borkar, thus having an established brand position for over a century. Later in 1994, the third generation of the Borkar family diversified its core competency business by establishing its flagship company BPPL. The operations of the group are currently managed by Mr. Vinay P. Borkar, Mr. Deepak P. Borkar, Mr. Nikhil A. Borkar and Mr. Amol A. Borkar. The promoters of the group have an experience of over three decades in the aforementioned line of business. The promoters are supported by an experienced and qualified second line of management. The long track record of operations of over 100 years, coupled with the experience of management, have helped the group to forge healthy relationships with reputed clients and suppliers.

Acuité believes that BG will sustain its existing business profile on the back of established track record of operations, experienced management and reputed clientele base.

- **Well diversified geographical operations along with reputed clientele**

  The Borkar group caters to various industries such as FMCG, Liquor, pharmaceutical, to name a few. The group caters around 55 percent of its business to FMCG industry and 20-25 percent to the Liquor industry in FY2020. The group caters to reputed players such as Hindustan Unilever Ltd., Nestle India Ltd., Reckitt Benckiser (India) Pvt. Ltd., United Spirits Ltd., to name a few. The group has set up various manufacturing plants located across different locations such as Goa, Daman, Himachal Pradesh and Kolkata. Going ahead, Acuité believes the business profile of the group will significantly improve on account of the presence in diversifies locations along with reputed clientele base.

- **Moderate financial risk profile**

  The financial risk profile of the group is moderate marked by moderate net worth, debt protection metrics and debt coverage indicators. The net worth of group stood at Rs.175.46 crore (includes quasi equity of Rs.31.11 crore) as on 31 March, 2020 (provisional) as against Rs.174.74 crore (includes Rs.32.25 crore of quasi equity) as on 31 March, 2019. The gearing (debt-equity) stood at 1.13 times as on 31 March, 2020 (provisional) as against 1.32 times as on 31 March, 2019. The total debt outstanding as on 31 March 2020 (provisional) has decreased to Rs.198.84 crore compared to Rs.231.35 crore previous year. The coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) of 1.66 times for FY2020 (provisional) as against 1.84 times for FY2019. The NCA/TD (Net Cash Accruals to Total Debt) ratio remain same at 0.07 times in FY2020 (provisional) and Debt to EBITDA stood at 4.79 times in FY2020 (provisional) as against 5.52 times in FY2019. Further, the DSCR stood low at 0.98 times for FY2020 as against 1.22 times for FY2019. However, the group has repaid the long term debt from receipt of loans and advances extended to its group companies. Further, TOL/TNW stood at 1.41 times as on 31 March 2020 (provisional).

  Acuité believes that the financial risk profile of the company is expected to remain moderate backed by moderate net cash accruals, in the absence of any major debt-funded capex in near to medium term and receipt of loans and advances extended to its group companies.

Weaknesses

- **Working capital intensive operations**

  The operations of the group are working capital intensive in nature marked by high Gross Current Assets (GCA) of 185 days for FY2020 (provisional). However, the GCA of the group in FY2020 (provisional) has marginally improved as compared to the GCA of 205 days for FY2019. These high GCA days was mostly driven by high inventory holding period of 108 days for FY2020 as against 112 days same period last year. Subsequently, the debtor's days has increased to 62 days for FY2020 (provisional) from 49 days for FY2019. High GCA days has led to higher reliance over external borrowings marked by average bank limit utilization of ~90 percent for the last six months ended September, 2020.

  Acuité believes that the company's ability to maintain its working capital efficiently will remain a key rating sensitivity.

- **Extension of funds in loans and advances**

  The company has a tangible net worth of Rs.175.46 crore as on 31 March, 2020 (provisional) as against Rs.174.74 crore same period last year. The group has extended loans and advances to its other group companies to the tune of Rs.5.88 crore, and also holds the investment in non-core assets to the tune of Rs.36.80 crore as on 31 March, 2020 (provisional) as against Rs.38.49 Crore and Rs.34.52 crore respectively as on 31 March, 2019. The adjusted tangible net worth stood at Rs.132.78 crore as on 31 March, 2020 (provisional) as against Rs.101.73 crore same period last year. The adjusted gearing stood at 1.50 times as on 31 March, 2020 (provisional) as against 2.27 times as on 31 March, 2019. The adjusted TOL/TNW stood at 1.86 times as on 31 March, 2020 (provisional) as against 2.72 times as on 31 March, 2019. Any further extension of loans and advances or investment in non-core asset will impinge a negative bias towards the rating.

Rating Sensitivities

- Improvement in scale of operations and profitability
- Any further deterioration in the working capital cycle
- Any further extension of loans and advances or investment in non-core asset

Material Covenants

None

Liquidity position: Adequate

The group has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.14.47 crore for FY2020 (provisional) while its maturing debt obligations were Rs.11.17 crore for the same period. The cash accruals of the group are estimated to remain in the range of around Rs.12.93 crore to Rs.19.11 crore during 2021-23 period against repayment obligation of around Rs.12.00 crore to Rs.14.00 crore during the same period. The group had extended loans and advances to other group companies in the past, however, the group has received from its group companies to the tune of ~Rs.20 Cr. in FY2020, which has further eased the liquidity position of the group. However, the group has working capital intensive operations as marked by high GCA days of 185 days as on 31 March, FY2020 (provisional) which has led to high bank limit utilization ~90 percent for last six months ended September, 2020. The group maintains unencumbered cash and bank balances of Rs.3.51 crore as on 31, March, 2020 (provisional). The current ratio stood at 1.49 times as on 31 March, 2020 (provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group further extends loans and advances or investment in non-core asset or deterioration in the group's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	428.37	430.05
PAT	Rs. Cr.	2.90	3.65
PAT Margin	(%)	0.68	0.85
Total Debt/Tangible Net Worth	Times	1.13	1.32
PBDIT/Interest	Times	1.66	1.84

Status of non-cooperation with previous CRA (if applicable)

CRISIL ratings via its press release on 26 May 2020 had denoted the rating of Universal Cartons Solutions Private Limited as 'CRISIL BB+/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Name of the Bank	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	Saraswat Bank	ACUITE BBB- /Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	Aditya Birla Finance Limited	ACUITE BBB- /Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	Saraswat Bank	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:
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