

Press Release

Universal Cartons Solutions Private Limited

December 06, 2022

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---------------------------------------|---------------------|---|---------------------------|
| Bank Loan Ratings | 30.00 | ACUITE BBB- Negative Reaffirmed Stable to Negative | - |
| Bank Loan Ratings | 10.00 | - | ACUITE A3 Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 40.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed 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 revised from 'Stable' to '**Negative**'.

Rationale for revision in outlook

The outlook revision takes into account the stagnating scale of operations marked by average consolidated revenue of Rs. 410 Cr through FY2020-22 period. Despite stable operating margins of 9-10 percent, the net profit remains modest at 0.5-1 percent during the same period due to high interest cost. In addition, coverage indicators remain weak with debt service coverage ratio below unity. Besides, the outlook revision also factors in the working capital intensive nature of operations marked by high GCA days of 190 and bank limit utilization in the range of 90-100 percent. Further, the company has substantial investments in-group companies adversely impacting cash flow management and the financial risk profile. However, the group has well established operations of more than 100 years with well diversified geographical presence and reputed clientele.

The ability of the company to improve its scale of operations by way of capital addition, improvement in liquidity and coverage indicators and adequate cash management between group companies will be a key rating sensitivity.

About the Company

Universal Carton Solutions Private Limited (UCSPL) was incorporated on August 04, 1995 and is involved in the same line of business as BPPL such as printing of cartons, labels, aluminum foils and others packaging materials by way of art printing and color printing. The company has its own manufacturing unit located at Nalagarh, Himachal Pradesh.

About the Group

Borkar Group was established in the year 1910 with retail stores and over decades has evolved as a business conglomerate with business interest in various sectors such as

Packaging, Retail, Real Estate and Financial Consultancy. The group ventured into printing & packaging business in 1984 under the company (Borkar Industries) and later it was amalgamated into Borkar Packaging Private Limited. Borkar group acquired.

Goa based Borkar Packaging Private Limited (BPPL) incorporated in 1994 is the flagship company of the Borkar Group and manufacturers printed cartons for FMCG, Food & Beverage, Pharmaceuticals and Liquor industries. The company has four state of the art manufacturing plants at Goa, Nalagarh (HP), Daman and Kolkata providing access to PAN India customers. Mr. Amol Borker currently spearheads the company and Mr. Nikhil Borker is guided under the leadership of Mr. Vinay Borker and Mr. Deepak Borker and has more than 3 decades of strong relationship with large MNCs like HUL, Nestle, P & G, Mondelez, Colgate Palmolive, Diageo, Pernod Recard, Abbott, etc. The company also has a wholly owned subsidiary Universal Cartons Solutions Pvt. Ltd. which has one manufacturing plant at Nalagarh (HP).

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 experienced and qualified second line of management. The long track record of operations of over 100 years coupled with 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. 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 with more than three decades of relationship. The group has set up various manufacturing plants located across different locations such as Goa, Daman, Himachal Pradesh and Kolkata.

Acuite believes the group will be able to maintain its exiting level of operations in the absence of any capital expansion.

Weaknesses

- **Moderate financial risk profile along with weak coverage indicators:**

The financial risk profile of the group is moderate marked by moderate net worth, moderate debt and weak coverage indicators. The company follows moderate leverage policy marked by average gearing (debt to equity) of 1.37 times through FY2020-22. The net worth and aggregate debt of the group stood at Rs. 152.36 Cr and Rs. 234.70 Cr as on March 31, 2022 against Rs. 147.70 Cr and Rs. 225.92 Cr in the previous year.

Further, the coverage indicators remains weak with interest coverage ratio of 1.53 times and debt service coverage ratio of 0.82 times in FY2022. However; the financial risk profile is expected to improve on the back of debt repayment of ~Rs. 35 Cr until Nov 2022 by availing inter corporate deposits from group companies.

• **Moderate profitability margins along with stagnating scale of operations:**

The revenue of the group continues to remain stagnant through FY2020-22 period; the group earned an average consolidated revenue of Rs. 410 Cr through the three years. Further, the operating margins remain stable in the range of 9-10% through 2018-22. However, the net profit margins remain consistently low at 0.5-1% due to high interest cost. The group does not intend to incur capital expenditure and the with exiting capacity utilization of 93 percent the revenue going forward is expected to remain static in the range of Rs. 425-445 Cr albeit improving net profit margins considering reduction in interest cost due to debt repayment.

Rating Sensitivities

- Growth in revenue by way of capacity addition and increased profitability margins.
- Further deterioration in the financial risk profile or liquidity adversely impacting operations of the group.

Material covenants

None.

Liquidity: Stretched

The liquidity of the group is stretched marked by net cash accruals of Rs. 14.38 Cr against repayment obligations of Rs. 22.14 Cr. However, the company in FY2023 has repaid Rs. 40 Cr loan by way of availing inter corporate deposits. Going forward, the repayment obligations are expected to be around Rs. 8.5-10 Cr against NCA of Rs. 15-19 Cr in FY2023 and FY2024 respectively. The liquidity profile is further impacted by the working capital intensive operation increasing dependancy on working capital borrowing as reflected in the average fund based limit utilization stood at 93% for 7 month period ended October 2022 with the utilisation at 100% in some months. However, this is mitigated to some extent on account of unencumbered cash and bank balance and liquid investments stood at Rs. 32.22 Cr. as on March 31, 2022.

Outlook: Negative

Acuité has revised the outlook on BG to 'Negative' due to stagnating operating income, low net profit margins and moderate financial risk profile marked by weakening coverage indicators. Further, the outlook takes into account the stretched liquidity, high bank limit utilization, and substantial investments in-group companies. The rating may be further downgraded in case of further reduction in coverage indicators, margins and deterioration in liquidity. Conversely, the outlook may be revised to 'Stable' if the company is able to improve revenue and profitability as a result improving the coverage indicators, improved working capital thereby reducing dependence on external short term funding and cash flow management by moderating intercompany transactions.

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 420.34 | 407.27 |
| PAT | Rs. Cr. | 4.47 | 2.80 |
| PAT Margin | (%) | 1.06 | 0.69 |
| Total Debt/Tangible Net Worth | Times | 1.54 | 1.53 |
| PBDIT/Interest | Times | 1.53 | 1.47 |

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

CRISIL vide its press release dated October 17, 2022, has classified UCSPL as 'Issuer Not Cooperating' and rated 'CRISIL B/Stable/A4'.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|--------------------------------|------------|-----------------|-----------------------------------|
| 07 Sep 2021 | Cash Credit | Long Term | 25.00 | ACUITE BBB- Stable (Reaffirmed) |
| | Cash Credit | Long Term | 5.00 | ACUITE BBB- Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A3 (Reaffirmed) |
| 03 Nov 2020 | Cash Credit | Long Term | 5.00 | ACUITE BBB- Stable (Assigned) |
| | Letter of Credit | Short Term | 10.00 | ACUITE A3 (Assigned) |
| | Cash Credit | Long Term | 25.00 | ACUITE BBB- Stable (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|------------------------------|----------------|----------------------------------|------------------|----------------|----------------|------------------|-------------------|--|
| Saraswat Bank | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 5.00 | ACUITE BBB- Negative Reaffirmed Stable to Negative |
| Saraswat Bank | Not Applicable | Letter of Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 10.00 | ACUITE A3 Reaffirmed |
| Not Applicable | Not Applicable | Proposed Long Term Bank Facility | Not Applicable | Not Applicable | Not Applicable | Simple | 15.00 | ACUITE BBB- Negative Reaffirmed Stable to Negative |
| Aditya Birla Finance Limited | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 10.00 | ACUITE BBB- Negative Reaffirmed Stable to Negative |

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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