Press Release

Borkar Trading Company Private Limited

February 22, 2023

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	37.04	ACUITE BB+ | Stable | Downgraded	-
Bank Loan Ratings	11.00	-	ACUITE A4+ | Downgraded
Total Outstanding Quantum (Rs. Cr)	48.04	-	-

Rating Rationale

Acuité has downgraded its long-term rating to **'ACUITE BB+' (read as ACUITE double B plus)** from **'ACUITE BBB-' (read as ACUITE t riple B minus)** and its short-term rating to **'ACUITE A4+ (read as Acuite A four plus)' from 'ACUITE A3' (read as ACUITE A three)** on the Rs.48.04 Cr. bank facilities of Borkar Trading Company Private Limited (BTCPL). The outlook is **'Stable'.**

Rationale for rating downgrade

The rating downgrade reflects the deterioration in financial risk profile coupled with stretched liquidity position of the company. The moderately aggressive leverage policy of the Company has led to deterioration in the overall gearing and debt protection metrics. Further, the operations continue to be working capital intensive marked by high gross current asset days and increasing reliance on bank limits. The rating factors in the long track record of operations, experienced management and stable operating performance of the Company. The operating income of the company stood at Rs.123.23 crore in FY2022 compared to revenue of Rs.130.68 crore in FY2021. In 10MFY23, the company has generated revenue of Rs.124.57 crore. Going forward, the Company's ability to improve its financial risk profile and restrict the elongation of its working capital cycle will remain a key rating monitorable.

About the Company

Goa based Borkar Trading Company Private Limited (BTCPL) incorporated in 1990 is the flagship company of the Borkar Group. BTCPL is engaged in trading of papers and in operating retail stores of household items and garments. The Company currently has 14 self-service shops located across Goa in the name of "Borkar Super Stores" and operates three garment stores on franchisee basis. Borkar Group was established in the year 1910 by late Mr. Shripad Borkar 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. BTCPL is currently managed by Mr. Rohit Borkar, Mr. Nihaal Borkar and Mr. Nikhil Borkar.

Analytical Approach

Acuité has considered the standalone financial and business risk profiles of BTCPL to arrive at the rating.

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 1990, the third generation of the Borkar family established BTCPL which is currently operating in the retail trading industry with a track record of operations of more than three decades. The operations of the company are currently managed by Mr.Rahul Borkar, Mr. Nihaal Borkar and Mr. Nikhil Borkar. The promoters of the company 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 the Group coupled with experience of management have helped the company to forge healthy relationships with reputed clients and local customers for their retail trading business. Acuité believes that the company is likely to sustain its existing business profile on the back of established track record of operations and experienced management.

Stable operating performance
The company deals in both retail and trading business of which the trading business generates around 70 percent of the revenues of the company. The Company's revenue stood at Rs.123.23 crore in FY2022 compared to revenue of Rs.130.68 crore in FY2021. Till January 2023, the company's revenue stood at Rs.124.57 crore. The operating profit margin of the company improved and stood at 6.43 percent in FY2022 compared against 6.39 percent in FY2021. The operating margin of the company improved due to the decline in the raw material costs. The PAT margin of the company stood at 0.66 percent in FY2022 compared to 1.00 percent in FY2021. Acuité believes that the company is likely to sustain its existing business risk profile on account of established management and long track record of operations.

Weaknesses

Below Average financial risk profile
The financial risk profile of the company is below average marked by modest tangible net worth, high gearing and below average debt protection metrics. The tangible net worth of the company stood at Rs.35.99 crore as on 31 March 2022 as against Rs.34.90 crore as on 31 March 2021. The management follows a moderately aggressive leverage policy reflected by its peak gearing levels at 1.83 times as on 31 March 2022 as against 1.39 times as on 31 March 2021. The high gearing levels in FY2022 are on account of addition of working capital loans. The total debt of the company stood at Rs.65.94 crore as on 31 March 2022. It comprised of long-term debt of Rs.21.88 crore, unsecured loans of Rs.16.11 crore and short-term debt of Rs.24.77 crore as on 31 March 2022. The coverage ratios of the company stood modest with Interest Coverage Ratio (ICR) of 1.66 times for FY2022 against 1.67 times for FY2021. The Debt Service Coverage Ratio (DSCR) stood below unity at 0.95 times for FY2022 against 1.19 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.33 times for FY2022 as against 1.38 times in FY2021. Acuité believes that the ability of the company to improve its financial risk profile will remain a key sensitivity in the near to medium term.

Working capital intensive operations
The company's operations are working capital intensive as evident from Gross Current Asset (GCA) of 258 days as on March 31, 2022, as against 193 days as on March 31, 2021. The high GCA days are majorly on account of high inventory levels as well as high debtor levels. The inventory levels stood at 135 days for FY2022 compared against 122 days for FY2021. Average inventory holding period is around 120 days. The debtor days stood at 105 days for FY2022 against 67 days for FY2021. The average credit period allowed to the customers is around 90-

120 days. The creditor days of the company stood at 53 days for FY2022 as against 47 days for FY2021. The average credit period received from the customers is around 40-50 days. The working capital intensive nature of operations has led to higher reliance over external borrowings marked by average bank limit utilization of ~98 percent for the last six months ended December 2022. Acuité believes that the company's ability to maintain its working capital efficiently will remain a key rating sensitivity.

Highly fragmented and competitive industry
The Indian retail industry is fragmented with presence of large number of unorganized players, e-retailers and funding from foreign players has boosted entry of new players. BTCPL would face high competition from the existing retailers and new entrants, both organized and unorganized, thereby impacting pricing power.

Rating Sensitivities

> Improvement in scale of operations and profitability
> Any further deterioration in the working capital cycle leading to deterioration in financial risk profile and liquidity position

Material covenants

None

Liquidity position:
Stretched

The company has a stretched liquidity position marked by modest net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.2.93 crore in FY2022 compared against maturing debt obligations of Rs.3.36 crore over the same period. The gap was funded through infusion of funds by promoters. The cash accruals of the company are estimated to remain in the range of Rs.3.55-4.25 crore during 2023-25 period while its maturing debt obligations is estimated to be in the range of Rs.3.12-6.67 crore during the same period. The gross current asset days of the company stood at 258 days as on March 31, 2022. The average bank limit utilization stood at ~98 percent for the last six months ended December 2022. The company maintains unencumbered cash and bank balances of Rs.2.87 crore as on March 31, 2022. The current ratio stood at 1.90 times as on March 31, 2022. Acuite believes the liquidity position of the Company would remain stretched on account of modest net cash accruals against its maturing debt obligations and elongated working capital cycle.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company 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 of any further deterioration in the company's financial risk profile or significant elongation in working capital cycle.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	123.23	130.68
PAT	Rs. Cr.	0.81	1.31
PAT Margin	(%)	0.66	1.00
Total Debt/Tangible Net Worth	Times	1.83	1.39
PBDIT/Interest	Times	1.66	1.67

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

Crisil vide its press release dated 25.03.2022, had downgraded the company to CRISIL B/A4; INC

Any other information

None

Applicable Criteria

- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité 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
24 Nov 2021	Cash Credit	Long Term	22.00	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	16.04	ACUITE BBB- | Stable (Assigned)
	Proposed Bank Facility	Short Term	10.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
The Saraswat Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BB+ | Stable | Downgraded
The Saraswat Cooperative Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE A4+ | Downgraded
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.54	ACUITE BB+ | Stable | Downgraded
The Saraswat Cooperative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.50	ACUITE BB+ | Stable | Downgraded

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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.