



## Press Release

Unisource Papers Private Limited

May 24, 2023

## Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	44.00	ACUITE BB+   Negative   Downgraded   Stable to Negative	-
Bank Loan Ratings	16.00	-	ACUITE A4+   Downgraded
Total Outstanding Quantum (Rs. Cr)	60.00	-	-

### Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE Double B Plus**) from '**ACUITE BBB-**' (read as **ACUITE Triple B minus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A Four Plus**) from '**ACUITE A3+**' (read as **ACUITE A Three Plus**) to the Rs.60 crore bank facilities of Unisource Papers Private Limited (UPPL). The outlook is revised from '**Stable**' to '**Negative**'.

### Rationale for revision in outlook and rating Downgrade

The downgrade in the rating and revision in outlook is on account of deterioration in operating performance of the company. The company reported negative EBITDA and PAT margins in FY2023 (Prov) due to increase in costs on account of shortage in supply of input materials and decline in the prices of paper and paperboards. Further, the financial risk profile stood below average with low net-worth, moderate gearing & moderate debt protection metrics. Also, the company faced intense competition in the industry along with supplier concentration risk.

### About the Company

Unisource Papers Private Limited (UPPL) incorporated in 2005 and is promoted by Mr. Inder Aurora. The company imports, trades in, and processes a variety of paper, including kraft, test liner, and virgin. The company imports 20% of its material requirement from US, Europe, and Australia whereas remaining requirements are fulfilled from domestic markets. UPPL has three units located at Pune and two units at Sonipat with a total installed capacity of 1,26,200 MT. The company has an agreement with ITC Limited and has two units specifically dedicated for them on a Job-work model basis.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Unisource Papers Private Limited (UPPL) to arrive at the rating

### Key Rating Drivers

#### Strengths

>Established track record and experienced management

UPPL has an established track record of more than a decade in this line of business with an experienced management. The company is managed by Aurora family since its inception. The experience of the promoters has helped the company to maintain a healthy relationship with its customers and suppliers. The experience of the promoters is also reflected through stable revenue generation over the last three years. The revenue of the company improved to Rs.207.41 Cr in FY2023 (Prov) as against Rs.190.82 Cr in FY2022. Further, the Company is expecting to close this fiscal year of FY24 at ~Rs.250-Rs.270 crore.

Acuité believes that the company will benefit from the long track record of operations along with a healthy relationship with its customer and suppliers.

### **>Efficient Working Capital Cycle**

The working capital management of the company is efficient marked by GCA days of 72 days in FY2023 (Prov) as against 61 days in FY2022. The GCA days are driven by debtor and inventory days. The debtor days stood at 41 days in FY2023 (Prov) as against 33 days in FY2022. The average credit period allowed to customers of 25-40 days. The increase in debtor days is on the account of delay in the payment from an unorganized segment. The creditor days stood at 02 days in FY2023 (Prov) as against 06 days in FY2022. The average credit period allowed by suppliers is of 40 days. The inventory holding period of the company stood at 19 days in FY2023 (Prov) as against 23 days in FY2022. The average inventory holding period is 60-90 days. The average fund-based bank limit utilization for last eight months ended March 2023 stood at ~81 percent.

Acuité expects the working capital management to remain efficient over the medium term.

### **Weaknesses**

#### **>Below Average Financial Risk Profile**

The financial risk profile of the company stood below average, marked by low net worth, moderate gearing and moderate debt protection metrics. The tangible net worth stood at Rs.14.87 crore as on 31 March, 2023 (Prov) as against Rs.21.09 crore as on 31 March, 2022. The total debt of the company stood at Rs.44.78 crore includes Rs.3.72 crore of long term debt, Rs.38.55 crore of short term debt and Rs.2.51 crore of CPLTD as on 31 March, 2023 (Prov). The gearing (debt-equity) stood at 3.01 times as on 31 March, 2023 (Prov) as compared to 1.49 times as on 31 March, 2022. Interest Coverage Ratio stood at (0.10) times for FY2023 (prov) as against 3.31 times for FY2022. Debt Service Coverage Ratio (DSCR) stood at (0.06) times in FY2023 (prov) as against 1.65 times in FY2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 3.28 times as on 31 March, 2023 (Prov) as against 1.84 times as on 31 March, 2022. Net Cash Accruals to Total Debt (NCA/TD) stood at (0.09) times for FY2023 (Prov) as against 0.18 times for FY2022.

Acuité believes the financial risk profile of the company will be the key rating sensitivity with no major debt-funded capex in the near to medium term.

#### **>Fluctuating Profitability Margins**

The EBITDA margins of the company are fluctuating and has declined to (0.18) percent in FY2023 (Prov) as against 4.53 percent in FY2022 and 4.29 percent in FY2021. Similarly, the PAT margin also declined to (3.00) percent in FY2023 (Prov) as against 1.95 percent in FY2022 and 1.63 percent in FY2021. The company's ability to sustain revenues while improving the profitability will be a key rating sensitive.

#### **>Highly competitive and fragmented industry with Supplier Concentration risk**

The paper industry is highly competitive and fragmented marked by the presence of many organized and unorganized players in this industry, thus putting pressure on the profitability margins of the company. However, this risk is partially mitigated by company's experienced management and long-standing relationships with its reputed clientele. UPPL also faces a supplier concentration risk as more than 50% of its raw material requirements are being procured from ITC Limited.

### **Rating Sensitivities**

- Improving profitability margins while maintaining its scale of operations
- Any further deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

### **Material covenants**

None.

### **Liquidity Position**

## **Stretched**

The company's liquidity position is stretched marked by modest net cash accruals against its maturing debt obligations. The company has net cash accruals in the range of (Rs.4.15)-Rs.5.66 Crore from FY 2021- 2023 (Prov) against its maturing debt obligations in the range of Rs.2.35-Rs.2.73 crore in the same tenure. In addition, it is expected to generate cash accrual in the range of Rs. 2.66 to 5.10 Cr against the maturing repayment obligations of around Rs.1.09-2.51 crore over the medium term. The working capital management of the company is efficient marked by GCA days of 72 days in FY2023 (Prov) as against 61 days in FY2022. The company maintains unencumbered cash and bank balances of Rs.4.05 crore as on March 31, 2023 (Prov). The current ratio stands at 1.00 times as on March 31, 2023 (Prov) as against 1.13 times as on March 31, 2022. The average fund-based bank limit utilization for the past 08 months ending March 2023 is ~81% of the sanctioned amount.

Acuité believes that the liquidity of the company is likely to remain a key sensitivity over the medium term.

## **Outlook: Negative**

Acuité has revised the outlook of UPPL from 'Stable' to 'Negative' due to deterioration in the profitability margins of the company in FY2023 (Prov) along with below average financial risk profile. The outlook may be revised to 'Stable' in case of improvement in the operating performance of the company marked by improving the profitability margins while maintaining its scale of operations and working capital cycle. The rating may be downgraded in case of deterioration in the operating performance or financial risk profile of the company.

## **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	207.41	190.82
PAT	Rs. Cr.	(6.22)	3.73
PAT Margin	(%)	(3.00)	1.95
Total Debt/Tangible Net Worth	Times	3.01	1.49
PBDIT/Interest	Times	(0.10)	3.31

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

Not Applicable.

### 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>
- Trading Entity: <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, 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](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Apr 2022	Letter of Credit	Short Term	2.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	4.50	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	5.97	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	16.03	ACUITE BBB-   Stable (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	7.50	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	2.33	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	0.17	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
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A4+   Downgraded
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A4+   Downgraded
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.50	ACUITE BB+   Negative   Downgraded   Stable to Negative
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE BB+   Negative   Downgraded   Stable to Negative
State Bank of India	Not Applicable	Channel/Dealer/Vendor Financing	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE BB+   Negative   Downgraded   Stable to Negative
Indusind Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE A4+   Downgraded
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A4+   Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.01	ACUITE BB+   Negative   Downgraded   Stable to Negative
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.33	ACUITE BB+   Negative   Downgraded   Stable to Negative
ICICI Bank Ltd	Not Applicable	Term Loan	01 Apr 2021	8.5	30 Apr 2026	Simple	1.66	ACUITE BB+   Negative   Downgraded   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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