

December 30, 2020

Borosil Limited: Ratings upgraded and rated amount enhanced, rating watch removed and Stable outlook assigned

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|-----------------------------------|----------------------------------|--|
| Long-term: Fund-based | 25.00 | 25.00 | [ICRA]A+(Stable); upgraded from [ICRA]BB&; Rating watch removed and Stable outlook assigned |
| Long-term/Short-term: Fund-based | - | 60.00 | [ICRA]A+(Stable)/[ICRA]A1+; assigned |
| Long-term/Short-term: Non fund-based | - | 6.00 | [ICRA]A+(Stable)/[ICRA]A1+; upgraded from [ICRA]BB&/[ICRA]A4+&; Rating watch removed and Stable outlook assigned |
| Long-term/Short-term: Unallocated | 5.00 | - | - |
| Total | 30.00 | 91.00 | |

*Instrument details are provided in Annexure-1

Rationale

While arriving at the rating, ICRA has consolidated the operational and financial profiles of Borosil Limited (BL or the company) and its subsidiaries - Klasspack Limited (Klasspack), Borosil Technologies Limited (BTL) and Acalypha Realty Limited (ARL) given the significant shareholding and substantial financial linkages between them.

The rating upgrade with assignment of Stable outlook takes into account the resolution of the developing watch on the bank facilities of BL post the successful implementation of the scheme of amalgamation within the Borosil Group, which in turn has significantly strengthened the financial risk profile of the company following the de-merger of Scientific Industrial Products (SIP) division and Consumer Products (CP) division of the erstwhile Borosil Glass Works Ltd. (BGWL) (rated A+(stable)/A1+; presently withdrawn) with BL, resulting in notable expansion in scale of operations, strengthening of the capital structure and debt coverage indicators. The liquidity position has also got a significant boost, with healthy free cash and liquid investments of ~Rs. 77.96 crore as on September 30, 2020 at a consolidated level, coupled with fund-based limits to the extent of Rs. 85 Cr, which is sparingly utilized. The ratings continue to favourably consider the established brand presence and the leading market position of BL in the domestic laboratory and scientific ware market along with its strong distribution network, its presence in diversified product categories and high entry barriers in the borosilicate scientific glassware segment, where the company maintains its stronghold in the industry.

The ratings, however, remain constrained by the high working capital intensive nature of operations given its high inventory requirements on the backdrop of its wide product profile and presence of substitution risks in the consumer ware segment. The ratings also remain constrained by the moderate return indicators along with relatively lower operating profitability particularly in the consumer ware segment given the high competitive pressures and the

vulnerability to foreign currency fluctuations. Further, ICRA expects that BL's revenue in the current year is expected to moderate due to the pandemic-led disruptions, and the recovery will primarily depend upon the normalisation of economic activities, and growth of trade in general, given dependence on its consumer segment.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company will benefit from an established brand presence and its healthy market share, as well as its strong liquidity position over the medium term. Operational synergies from the merger of SIP & CP businesses and its expanding product range shall benefit the company in the medium-to-long term.

Key rating drivers and their description

Credit strengths

Established brand name and a market leader in the domestic laboratory and scientific ware segment – BL is a supplier of laboratory glassware and microwaveable kitchenware in India, with a strong brand presence in the domestic market due to its established track record and high-quality products that command a market share of ~65% in the laboratory and scientific ware segment.

Presence in wide and diversified product segment - Following the scheme of amalgamation, BL now caters to all segments of the tableware industry including opal ware, glass bakeware, tumblers, etc. Additionally, it is the market leader in the supply of labware/scientific glassware. It has also diversified into small home appliances range in the recent times.

Strong distribution network; established and diversified customer base - BL has a healthy network of about 300 distributors and 15,000 retailers across the country. It also engages in institutional and business-to-business (B2B) sales, which drive about 15% of its total sales. The customer concentration risk is low, with its top five customers accounting for 26% of total sales in FY2020. Moreover, it has an established customer base with several repeat customers owing to its established brand presence over the years.

High entry barriers in the borosilicate scientific glassware industry - The borosilicate scientific glassware industry has high entry barriers, especially in the laboratory and scientific ware segment, because of the requirement of high technical knowhow, skilled labor, high capital, capacity constraints and regulatory requirements that enable BL to maintain its stronghold in the industry.

Strengthening of the financial profile subsequent to the merger of SIP and CP business of erstwhile BGWL – Implementation of scheme of amalgamation and the subsequent de-merger of SIP and CP business of erstwhile BGWL with BL has led to healthy increase in scale of operations as well as strengthening of the net worth leading to a comfortable capital structure with gearing of 0.02 time as on September 30, 2020 (0.08 time as on March 31, 2020) and robust debt coverage indicators, with interest cover of 10.27 times in H1 FY2021 (17.12 times in FY2020) and Total debt/OPBDITA of 0.38 times as on September 30, 2020 (0.53 times as on March 31, 2020).

Credit challenges

High working capital intensive nature of operations because of high inventory requirements - The operations of the company remain highly working capital intensive as reflected by NWC/OI of 42% as on September 30, 2020 (33% as on March 31, 2020) owing to high inventory requirements as well as inventory buildup to cater to the festive demand. With over 1,500 types of products sold under the Borosil brand, the company has to maintain high levels of inventory at its

warehouses to promptly service its customer requirements. Further, the inventory levels also remain high owing to the high lead time involved in importing borosilicate glass tubes.

Low return on capital employed; moderate operating profitability in the consumer-ware segment – BL’s operating profitability for the consumer ware segment remains moderate at 12-13% levels as compared to its competition, mainly due to high overheads related to sales and promotion. Further, given the sizeable capital trapped in non-current investments, BL’s return indicators at a consolidated level continue to remain modest as reflected by RoCE of 7.29% for FY2020.

Substitution risks from alternative products and exposure to high competition, especially in the consumer ware segment - Although borosilicate glass is superior for making consumer ware because of its favourable properties, it faces stiff competition from other substitutes like plastic, ceramic, bone China, thermo plastic, soda-lime glass ware, etc. BL remains exposed to competition from several unorganised players in the laboratory ware segment as well as from large players in the consumer ware segment.

Exposure to foreign currency fluctuation risk - About 35-40% of BL’s raw material/traded goods is imported, primarily from China and the Czech Republic. Hence, the company faces foreign currency fluctuation risks.

Potential impact of pandemic induced disruptions on the revenues and profitability in current fiscal, long-term growth potential relatively unaffected due to pandemic - The overall revenues and profitability for FY2021 are expected to remain under pressure given the impact of pandemic during H1 FY2021, wherein it reported sales of Rs. 195.97 crore compared to Rs. 304.02 crore during H1 FY2020 with operating margins of 7.70% (15.65% in H1 FY2020). Although the revenues are expected to improve in H2 FY2021 supported by festive demand, the revenue growth may remain subdued at consolidated levels. Ability of the company to ramp up its revenues in H2 FY2021 as well as in future fiscals, remains critical from the credit perspective and will remain a key monitorable.

Liquidity position: Strong

BL’s liquidity position is **strong**, supported by free cash and bank balance of Rs. 20.79 crore, liquid investments of Rs. 55.25 crore and healthy buffer of Rs. 75.23 crore in fund-based working capital limits as on September 30, 2020. At a consolidated level, the company had Rs. 1.60 crore of outstanding term loans towards which it has limited debt repayments of Rs. 0.67 crore over next two fiscals, which remain comfortable given its healthy cash accruals. The utilization of fund-based limits remained low with average fund based utilization of 28% during the 16-month period ended November 2020.

Rating sensitivities

Positive triggers – ICRA could upgrade BL’s rating if the company demonstrates sustained revenue growth while maintaining healthy profitability and debt coverage indicators. Other factors that may lead to a rating upgrade include improvement in its working capital cycle and significant improvement in RoCE on a sustained basis.

Negative triggers – Downward pressure on the rating could emerge if lower than expected cash accruals from significant decline in revenues and/or profitability or any large unanticipated debt-funded capex weakens the overall financial profile. Any sizeable reduction in the liquidity available as cash and bank balance, and liquid investments, due to stretch in working capital could also trigger a lower rating.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not applicable. |
| Consolidation/Standalone | The rating is based on the consolidated financial statements of the issuer. |

About the company

Established in 1962 as BGWL, BL is a supplier of laboratory glassware, microwaveable kitchenware and opal ware in India. It sells and markets microwavable and flameproof kitchenware and glass tumblers through more than 15,000 retail outlets, and has three manufacturing facilities at Bharuch (Gujarat), Tarapur (Maharashtra) and Jaipur (Rajasthan). BL conducts its operations in two business segments—namely, scientific and industrial products (SIP; including laboratory glassware, laboratory instruments and pharma packaging) and consumer products (CP; including microwaveable, kitchenware as well as opal ware products). While the microwaveable and kitchenware products are sold under the flagship ‘Borosil’ brand, opal ware products are sold under ‘Larah’ brand, and the laboratory instrument is sold under the ‘Labquest’ brand. The company’s shares were listed on the BSE/NSE stock exchange on July 11, 2020.

The company has two wholly-owned subsidiaries – Borosil Technologies Limited (designing, developing and assembling laboratory bench top equipment and instruments based in Pune (Maharashtra)) and Acalypha Realty Limited (ARL; engaged in real estate development with no operation as on date); and 79.53% shareholding in Klass Pack Limited (manufacturer and supplier of pharmaceutical vials and ampoules, with its manufacturing facility at Nashik, Maharashtra).

In FY2020, at a consolidated level, BL reported a profit after tax (PAT) of Rs. 35.32 crore on an OI of Rs. 637.15 crore. During H1 FY2021, it reported PAT of Rs. 1.99 crore on an OI of Rs. 195.97 crore.

Key financial indicators

| | FY2018* (Audited) | FY2019** (Audited) | FY2020 (Audited) | H1 FY2021 (Audited) |
|--|------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|
| Operating Income (Rs. crore) | 101.57 | 365.80 | 637.15 | 195.97 |
| PAT (Rs. crore) | -6.78 | 24.97 | 35.32 | 1.99 |
| OPBDIT/ OI (%) | 6.71% | 15.29% | 14.94% | 7.70% |
| RoCE (%) | -1.00% | 10.85% | 7.29% | 1.17% |
| Total Outside Liabilities/Tangible Net Worth (times) | -10.69 | 0.31 | 0.28 | 0.21 |
| Total Debt/ OPBDIT (times) | 22.30 | 1.29 | 0.53 | 0.38 |
| Interest Coverage (times) | 1.02 | 5.66 | 17.12 | 10.27 |
| DSCR | 0.52 | 3.15 | 5.90 | 9.41 |

* FY2018 financials are for Borosil Limited prior to the scheme of amalgamation

** FY2019 financials are reinstated upon implementation of scheme of amalgamation which was implemented with the record date of October 2019, hence FY2019 reflects partial consolidation

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years

| | Instrument | Current Rating (FY2021) | | | | Chronology of Rating History for the past 3 years | | | | |
|---|----------------|-------------------------|--------------|--------------------|-------------------------------|---|--------------------|-------------|--------------------|--|
| | | Type | Amount Rated | Amount Outstanding | Rating Dec-30-2020 | FY2020 Oct-07-2019 | FY2019 Dec-18-2018 | Jun-26-2018 | FY2018 Aug-14-2017 | |
| 1 | Fund based | Long Term | 25.00 | - | [ICRA]A+ (Stable) | [ICRA]BB & | [ICRA]BB & | [ICRA]BB & | [ICRA]BB (Stable) | |
| 2 | Fund based | Long Term / Short Term | 60.00 | - | [ICRA]A+ (Stable) / [ICRA]A1+ | - | - | - | - | |
| 3 | Non-fund Based | Long Term / Short Term | 6.00 | - | [ICRA]A+ (Stable) / [ICRA]A1+ | - | - | - | - | |
| 4 | Unallocated | Long Term / Short Term | - | - | - | [ICRA]BB & / [ICRA]A4+ & | - | - | - | |

Amount in Rs. crore

& Ratings on watch with developing implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance/Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|---------------------------------|---------------------------|-------------|---------------|--------------------------|-----------------------------|
| NA | Cash Credit | - | - | - | 25.00 | [ICRA]A+ (Stable) |
| NA | Fund based* | - | - | - | 60.00 | [ICRA]A+ (Stable)/[ICRA]A1+ |
| NA | Letter of credit/Bank Guarantee | - | - | - | 6.00 | [ICRA]A+ (Stable)/[ICRA]A1+ |

Source: BL

* CC, WCDL, EPC/PCFC, Overdraft interchangeable limits upto a maximum of Rs. 60 crore.

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|------------------------------|-----------|------------------------|
| Klasspack Limited | 79.53% | Full consolidation |
| Borosil Technologies Limited | 100.00% | Full consolidation |
| Acalypha Realty Limited | 100.00% | Full consolidation |

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