

## Universal Corporation Limited

November 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	78.50	CARE A-; Negative	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Outlook has been revised to 'Negative' considering declining trend of profitability margin over the years, which is expected to continue, considering envisaged increase in advertising cost to increase sales of products sold under own brand names of Universal Corporation Limited (UCL). Revision is also considering increasing exposure in group companies for funding their capital expenditure and working capital requirements.

Reaffirmation in the rating assigned to bank facilities of UCL derives strength from experienced promoters with long track record of operations, diversified product portfolio and exclusive distributorship agreement with reputed principals. The rating derives further comfort from established sales market and distribution network, increasing scale of operations in FY24 and comfortable capital structure and debt coverage indicators.

However, the rating is constrained by high and increasing exposure in group companies, inherent low operating margin business and non-existence of bargaining power with principals. The rating is also tempered by dependence on third parties for warehousing and logistics and exposure to foreign exchange fluctuation risk.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in total operating income (TOI) of the group above ₹4,000 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 5.00% on a sustained basis.

#### Negative factors

- Decline in TOI of the group below ₹3000 crore and in PBILDT margin below 2.50% on a sustained basis.
- Disruption/termination of contract with major principals Procter & Gamble (P&G) and Duracell.
- Deterioration in overall gearing above 0.70x and total debt to gross cash accruals (TD/GCA) above 3.75x on a sustained basis.
- Increase in exposure to group companies beyond 60% of the combined tangible net worth on a sustained basis.

#### Analytical approach: Combined

CARE Ratings Limited (CARE Ratings) has combined business and financial risk profiles of UCL and Amazon Distributors Private Limited (ADPL). Both companies (hereinafter referred to as the group) are engaged in trading with common management and shareholding. UCL and ADPL have also provided cross-corporate guarantee to each other.

#### Outlook: Negative

Outlook has been revised to 'Negative' considering declining trend of profitability margin over the years, which is expected to continue, considering envisaged increase in advertising cost to increase sales of products sold under own brand names of UCL. Revision is also considering increasing exposure in group companies for funding their capital expenditure and working capital requirements.

Outlook shall be revised to 'Stable' on improvement in profitability margins and reduction in exposure as a percentage of tangible net worth to group companies.

### Detailed description of key rating drivers:

#### Key strengths

##### Experienced promoters with long track record of operations

The group is promoted by Dayanand Agarwal and managed by his four sons, Nitin Agarwal, Nishant Agarwal, (jointly managing UCL and Myra Hygiene Products Private Limited [MHPPL]), Naveen Agarwal (managing Bengal Pipe Industries) and Nilesh Agarwal (managing ADPL) from Kolkata having an experience of over two decades. The group is engaged in exclusive distributorship of brands through ADPL, selling FMCG products under own brands and dealerships of brands through UCL, manufacturing black steel pipes through Bengal Pipe Industries (BPI).

##### Diversified product portfolio and exclusive distributorship agreement with reputed principals

The group has a diversified product portfolio with UCL having exclusive distributorship of Duracell batteries for India, Sri Lanka, Maldives and Nepal. It also markets a wide variety of products under its own brand names, which includes KareIn (diapers, pullups and underpads), Luvlap (mother and baby care products), Disano (food products), Agaro (personal care, healthcare, home and

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

kitchen appliances) and Evereve (period care, intimate care and toilet hygiene products). These goods are mostly imported from China and Spain and sold mainly on e-commerce platform. ADPL also has distributorship of P&G's entire product portfolio (which encompasses popular brands such as Whisper, Tide, Ariel, Olay, Old Spice, Oral B, Pantene, Pampers among others) for Karnataka and Delhi region. ADPL also has distributorship of Mars chocolate bars, Jockey, Kelloggs and Samsonite for Karnataka region.

### **Established sales market and distribution network albeit dependence on third parties for warehousing and logistics**

UCL has a network of 1,838 sub-distributors, 1,11,324 direct retailers and 1971 employees. UCL supplies products to online portals and large multi-chain retail stores. ADPL has a network of 32 sub-distributors, 2,40,882 retailers, and 3950 employees to market its products. The company distributes its products to small retailers and large retail chains. The group's warehouse and logistics depend on third parties due to lack of ownership. However, a small portion of their warehouse requirement is met by group companies, which are engaged in renting warehouses. UCL and ADPL operates 28 and 70 warehouses on a rental basis, respectively. Majority warehouses are owned by third parties.

### **Comfortable capital structure and debt coverage indicators**

The group's overall gearing remained stable at 0.41x as on March 31, 2024, against 0.47x as on March 31, 2023. TD/GCA moderated from 2.75x in FY23 to 3.31x in FY24 in view of decline in cash profits, however it continued to remain comfortable.

On a standalone basis, ADPL's overall gearing remained stable at 0.19x as on March 31, 2024, (0.24x as on March 31, 2023) and TD/GCA also stood stable at 1.33x in FY24 (FY23: 1.31x).

On a standalone basis, UCL's overall gearing has improved to 0.62x as on March 31, 2024, (0.95x as on March 31, 2023) considering repayment of unsecured loans from related parties and accretion of profits to reserve. TD/GCA stood stable at 6.42x in FY24 (FY23: 6.16x).

### **Increase in scale of operations in FY24 albeit moderation in profitability margin**

The group's combined TOI increased by ~17% y-o-y to ₹3957.09 crore in FY24 (FY23: ₹3375.72 crore) considering higher sales of products under own brands (especially Agaro and Luvlap) of UCL. Increase in sales by 7% in ADPL also contributed towards higher combined TOI. PBILDT margins moderated from 2.95% in FY23 to 2.51% in FY24 considering higher advertising and marketing costs incurred by UCL to create awareness of own brands among customers and boost demand for its products. Margins were also impacted considering decline in gross margins passed on by P&G to ADPL in some products.

ADPL's TOI has improved to ₹2472.59 crore in FY24 (FY23: ₹2312.08 crore). However, PBILDT margin moderated by 40 bps from 2.14% in FY23 to 1.74% in FY24.

UCL's TOI improved significantly by 40% y-o-y to ₹1484.51 crore in FY24 (FY23: ₹1063.64). However, PBILDT margins declined from 4.70% in FY23 to 3.78% in FY24.

### **Key weaknesses**

#### **High and increasing exposure in group companies**

ADPL and UCL have exposure in its group companies in the form of investments, loans and advances, and corporate guarantees. The exposure constituted 48.06% (Fund-based: 27.74% and Non Fund-based: 20.31%) of the group's combined tangible net worth as on March 31, 2024, against 49.08% (Fund-based: 21.42% and Non Fund-based: 27.67%) as on March 31, 2023. Total exposure in absolute terms has increased from ₹230.64 crore as on March 31, 2023, to ₹ 251.86 crore as on March 31, 2024. Fund based exposure increased from ₹100.64 crore as on March 31, 2023, to ₹145.40 crore as on March 31, 2024, considering increase in unsecured loans given by UCL to its subsidiaries Purplestar Manufacturing Private Limited (PMPL) and Purplestar Hygiene Private Limited (PHPL) for funding their working capital and capital expenditure requirements. However, non fund-based exposure reduced from ₹130 crore as on March 31, 2023, to ₹106.46 crore as on March 31, 2024 considering scheduled repayment of term loans availed by subsidiaries (PMPL and MHPPL) and a group company (New Era Dealcom Private Limited), for which, ADPL and UCL had extended corporate guarantees.

Fund-based exposure will increase further in FY25 to fund PHPL's remaining capital expenditure requirement and PMPL's working capital requirement. ADPL will also be extending loans to other group companies to fund construction of new warehouses, which are expected to be used for captive purposes by ADPL and UCL. Similarly, non fund-based exposure will increase in FY25 considering corporate guarantee extended by UCL and ADPL for bank facilities sanctioned to PHPL in October 2024.

Given that ADPL and UCL do not have term debts in their books, they utilise their combined cash accruals to set up manufacturing facilities for products such as charger cables, power banks, olive oil, baby garments, diapers, pull ups among others through its subsidiaries. MHPPL (one of the subsidiaries) commenced operations in FY21 and is making profits from its first year of operations. It also started repaying back loans and advances taken from UCL to fund its capital expenditure requirements in the past.

#### **Inherent low operating margin business with non-existence of bargaining power in distributorship business**

The group operates on a fixed margin basis in distributorship business, where prices and margins are fixed by principals (brand owners). Profitability is largely linked to distribution margins passed on by principals to distributors. There is a lack of bargaining power due to its dependence on such large principals that set policies, targets and maximum retail price of the products. Low entry level barriers for distributorship keep competition intense and the industry remains fragmented.

### Exposure to foreign exchange fluctuation risk in UCL

Products sold under the own brand name of UCL are largely imported from suppliers in China (mainly for Agaro and Luvlap) and Spain (for Disano), which exposes it to forex risk. Imports accounted for ~48% of its purchases in FY24. However, UCL doesn't hedge its foreign currency exposure. On the other hand, ADPL is not exposed to forex risk as all traded items are procured and sold domestically.

### Working capital intensive nature of UCL's operations

UCL's operations are working capital intensive, considering high inventory holding period mainly due to stocking products sold under its own brands. UCL's operating cycle stood at 89 days in FY24 against 117 days in FY23. Although working capital cycle has shortened in FY24 due to lower inventory period of 79 days in FY24 (FY23: 108 days) in FY23, it continued to remain high.

### Liquidity: Adequate

Liquidity position is adequate marked by combined cash accruals of ₹64.10 crore in FY24 against nil debt repayment obligations. However, the group has extended corporate guarantee for bank facilities availed by subsidiaries of UCL and a group company having combined debt repayment obligation of ₹20.10 crore in FY25. Working capital utilisation of UCL and ADPL for 12-months ended August 2024 stood at 89% and 40% respectively. UCL and ADPL have received enhancement of their working capital limits from ₹170 crore and ₹65 crore to ₹190 crore and ₹85 crore respectively from October 2024 onwards.

### Environment, social, and governance (ESG) risks- Not applicable

### Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services & supplies	Trading & distributors

Incorporated in February 2000, UCL is engaged in trading and distribution of fast moving consumer goods (FMCG) of Duracell and selling of FMCG under its own brands such as Agaro, Luvlap, KareIn, Disano and Evereve.

Incorporated in October 2006, ADPL is an exclusive distributor for FMCG of P&G in Karnataka and Delhi. It also has distributorship for products of Jockey, Kelloggs, Mars and Samsonite in Karnataka.

Brief Financials (₹ crore)-Combined	March 31, 2023 (UA)	March 31, 2024 (UA)	H1FY25 (UA)
Total operating income	3375.72	3957.09	2237.41
PBILDT	99.46	99.26	NA
PAT	68.26	54.20	NA
Overall gearing (times)	0.47	0.41	NA
Interest coverage (times)	5.70	4.38	NA

UA: Unaudited NA: Not Available; Note: these are latest available financial results

Standalone financials of UCL and ADPL have been combined by CARE Ratings.

Brief Financials (₹ crore)-UCL	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1,063.64	1,484.51	929.90
PBILDT	49.99	56.15	NA
PAT	38.96	27.80	NA
Overall gearing (times)	0.95	0.62	NA
Interest coverage (times)	3.02	2.55	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Brief Financials (₹ crore)-ADPL	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	2312.08	2472.59	1307.51
PBILDT	49.47	43.11	NA
PAT	29.30	26.39	NA
Overall gearing (times)	0.24	0.19	NA
Interest coverage (times)	8.48	5.09	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	78.50	CARE A-; Negative

#### Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	78.50	CARE A-; Negative	-	1)CARE A-; Stable (07-Sep-23)	1)CARE A-; Stable (10-Oct-22)	1)CARE A-; Stable (02-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities-** Not applicable

#### Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

#### Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

### Contact us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 912267543444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Arindam Saha Director <b>CARE Ratings Limited</b> Phone: +91-033-4018-1631 E-mail: <a href="mailto:arindam.saha@careedge.in">arindam.saha@careedge.in</a></p> <p>Punit Singhania Associate Director <b>CARE Ratings Limited</b> Phone: +91-033-4018-1620 E-mail: <a href="mailto:punit.singhania@careedge.in">punit.singhania@careedge.in</a></p> <p>Anushikha Kothari Assistant Director <b>CARE Ratings Limited</b> E-mail: <a href="mailto:anushikha.kothari@careedge.in">anushikha.kothari@careedge.in</a></p>
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### About us:

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