

Press Release**Akshat Papers Limited**

27 April, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 45.00 crore bank facilities of Akshat Papers Limited. The outlook is '**Stable**'.

The Gujarat based Akshat Papers Limited (APL) was incorporated in 1996 by Mr. Suresh Chajuram Singal. The company is engaged in the manufacturing of kraft paper with a GSM range of 120-480 from 100 per cent recycled materials. The company has a paper mill with installed capacity of 160 tonnes per day and utilization of 88 per cent. The waste paper used in manufacturing of kraft paper is imported from U.S, Europe and Middle-east. Imports comprise of 20 per cent of the total purchases and the balance is procured locally. APL mainly caters to SME customers in the domestic market.

Key Rating Drivers**Strengths**

- **Experienced management and long track-record of operations**

The main promoter, Mr. Suresh Singhal has more than two decades of experience in the paper industry. Other directors, Mr. Akshat Singhal and Mr. Arav Singhal assist in the day to day operations of the company. The extensive track record of operations of APL has helped the company in establishing healthy relations with its customers and suppliers in the domestic market.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by healthy network, comfortable gearing and moderate coverage indicators. The network stood at Rs.37.25 crore as on 31 March, 2017 as against Rs.32.93 crore as on 31 March, 2016. SMERA has treated the non-convertible redeemable preference shares of Rs.5.30 crore, non-convertible unsecured debentures of Rs.5.85 crore and unsecured loans from promoters of Rs. 6.58 crore as quasi equity based on an undertaking from the company that the amount would be maintained in the business and the same is subordinated to bank debt. The company reported comfortable gearing of 0.75 times as on 31 March, 2017 against 0.62 times in the previous year. The total debt of Rs.27.97 crore includes long term borrowings of Rs.6.37 crore and short term working capital borrowings of Rs.21.60 crore as on 31 March, 2017. Moreover, the interest coverage ratio (ICR) stood moderate at 1.81 times and net cash accrual to total debt (NCA/TD) at 0.11 times in FY2017. The debt service coverage ratio (DSCR) stood at 1.34 times in FY2017. SMERA believes that any decline or non-improvement in debt protection metrics or/and further increase in debt to equity ratio on account of large debt funded capex would be a key credit monitoring factor.

Weaknesses

- **Working capital intensive operations**

APL has working capital intensive operations reflected in high gross current assets (GCA) of 167 days in FY2017 as against 140 days in FY2016. The high GCA emanates from the high inventory holding of 107 days in FY2017 as against 90 days in FY2016. The receivable days increased from 52 in FY2016 to 61 in FY2017.

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The average working capital limit utilisation stood at ~90 per cent in the last six months ended March, 2018.

• **Uneven profitability margins**

The operating margins declined to 6.44 per cent in FY2017 as against 7.12 per cent in FY2016 and 7.53 per cent in FY2015 on account of fluctuation in raw material prices. PAT margins stood at 0.73 per cent in FY2017 as against 0.70 per cent FY2016.

• **Highly fragmented and competitive industry**

The recycling industry is highly fragmented with several organised and unorganised players thereby impacting company's margins.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of APL to arrive at the rating.

Outlook: Stable

SMERA believes that APL will maintain a 'Stable' outlook over the medium term on account of its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of sustained and significant growth in operating income while improving its profitability margins. The outlook may be revised to 'Negative' in case of sustained decline in profitability metrics and/or further increase in financial leverage metrics of the company.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	117.66	99.68	97.26
EBITDA	Rs. Cr.	7.57	7.10	7.32
PAT	Rs. Cr.	0.86	0.69	0.67
EBITDA Margin	(%)	6.44	7.12	7.53
PAT Margin	(%)	0.73	0.70	0.69
ROCE	(%)	9.04	8.95	18.19
Total Debt/Tangible Net Worth	Times	1.20	1.03	1.11
PBDIT/Interest	Times	1.81	1.95	1.95
Total Debt/PBDIT	Times	4.88	3.81	3.82
Gross Current Assets (Days)	Days	167	140	142

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA BBB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.98	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA A3
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.45	SMERA A3
Proposed	Not Applicable	Not Applicable	Not Applicable	4.57	SMERA A3

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ABOUT SMERA

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