

Press Release

Akshat Papers Limited

May 17, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 45.00 crore bank facilities of Akshat Papers Limited (APL). The outlook is '**Stable**'.

The rating reaffirmation is based on moderate business risk profile, and comfortable financial risk profile partly constrained by working capital intensive operations. Its revenues are moderate, though stagnant at about Rs.120 crore for the past three years through FY2019. However, the profitability has significantly improved from 6.4 per cent in FY2017 to about 9 per cent in FY2018 and 2019 (Provisional) led by modernisation of the plant. Its financial risk profile is comfortable marked by debt-to-equity below 1 time and total outside liabilities to tangible net worth (TOL/TNW) below 1.5 times. However, its gross current assets (GCA) are moderate at about 170 days, which lead to high utilisation of its bank lines at about 95 per cent over the past six months through March 2019. Its cash accruals are adequate to pay-off its debt obligations, and to part finance its capex and working capital requirements.

Gujarat based, 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 120-400 from 100 percent recycled materials. The company has a paper mill with an installed capacity of 56000 tons per annum. Waste paper used in the manufacturing process is mostly procured locally, and it also imports on high sea basis from the USA and Middle-east. APL mainly caters to SME customers in the domestic market and has plans to enter into export market.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of APL to arrive at the rating.

Key Rating Drivers

Strengths

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

The main promoter of the company, Mr. Suresh Singhal has more than two decades of experience in the paper industry. Mr. Akshat Singhal and Mr. Arnav Singhal assist in the day to day operations of the company. APL has been investing regularly on modernisation and expanding the production capacity which has led to improvement in the profitability to about 9 per cent from about 6 per cent in FY2017. Also, its revenues are expected to improve to about Rs.140-150 crore over the medium term. Further, the management plans to enter into export market owing to improvement of the quality of the products and its improving relations with its overseas client and suppliers. Acuite believes that APL continues to enjoy the benefit of the promoters' longstanding presence in the industry in improving its business risk profile over the medium term.

- **Comfortable financial risk profile**

The financial risk profile is marked by healthy gearing (debt to equity) and comfortable TOL/TNW, while partly constrained by moderate debt protection metrics. The gearing and TOL/TNW stood at 0.82 and 1.30 times as on March 31, 2018 against 0.75 and 1.23 times as on March 31, 2017. Acuite has treated the non-convertible redeemable preference shares of Rs.5.30 crore, non-

convertible unsecured debentures of Rs.5.85 crore (both redeemable in 2027) and unsecured loans from promoters of Rs.6.62 crore as quasi-equity. The net worth is moderate at Rs.38.88 crore as on March 31, 2018 as against Rs.37.25 crore as on March 31, 2017, an increase owing to accretion to reserves. Of the total debt of Rs.31.97 crore, short term debt consists of Rs.25.89 crore and long term debt of Rs.6.08 crore. The company incurred a capital expenditure of Rs.3.23 crore to enhance the capacity and modernise equipment in FY2019; which was solely funded by internal accruals and promoters funds.

Further, the debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 1.97 times and 0.14 times respectively in FY2018. Net cash accruals for FY2018 stood at Rs.4.32 crore. Further, the company's cash accruals are expected to improve and be in the range of Rs.4.00-6.00 crore with repayment obligations amounting to Rs.1.00-2.00 crore for the period of FY 2020-22. APL does regular capex of about Rs.1 crore every year. Acuite believes that with moderate accruals to repayment obligations and moderate working capital intensive operations, the financial risk profile is expected to be at similar level over the medium term.

Weaknesses

• Moderate working capital operations

APL's operations are moderately working capital intensive as evident from Gross Current Assets (GCA) of 178 days as on March 31, 2018 as against 167 days as on March 31, 2017. It's working capital cycle is stretched (FY18: 129 days; FY17: 110 days); this is primarily due to high inventory days (FY18: 101; FY17: 107) which is emanated by holding of waste paper of nearly 3 months because some of the waste paper is also imported and retaining time is also high due to variety of waste paper being stored for manufacturing various GSM range. It offers credit period of about three months to its clientele (FY2018: 84 days; FY2017: 61 days); and avails credit of about two months. High inventory and receivables lead to high utilisation of its bank lines at about 95 per cent over past six months through March 2019. Acuite believes that APL's operations continue to be working capital intensive basis the business cycle.

• Highly fragmented and competitive industry

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

Liquidity Position:

Liquidity profile of APL is moderate reflected by high bank line utilisation. APL has reported cash accruals of Rs.4.32 crore in FY2018. It is expected to generate cash accruals in the range of Rs.4.00-6.00 crore over the medium term, against which its repayment obligations are about Rs.1.00-2.00 crore and regular annual capex of about Rs.1.00-1.50 crore on account of plant modernisation and capacity enhancement. Its working capital limits are highly utilised at about 95 per cent for the last six months through March 2019. The current ratio stood moderate at 1.25 times in FY2018. Acuite believes that though cash accruals are adequate, however, working capital intensive operations continue to constrain the liquidity.

Outlook: Stable

Acuite believes that APL will maintain a 'Stable' risk profile 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 maintaining its profitability margins. The outlook may be revised to negative in case of any sharp increase in its working capital management, or larger-than-expected debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	118.66	117.66	99.68
EBITDA	Rs. Cr.	10.80	7.57	7.10
PAT	Rs. Cr.	1.58	0.86	0.69
EBITDA Margin	(%)	9.10	6.44	7.12
PAT Margin	(%)	1.34	0.73	0.70
ROCE	(%)	11.95	9.21	8.95
Total Debt/Tangible Net Worth	Times	0.82	0.75	0.62
PBDIT/Interest	Times	1.97	1.81	1.95
Total Debt/PBDIT	Times	2.94	3.69	2.88
Gross Current Assets (Days)	Days	178	167	140

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-Apr-2018	Cash Credit	Long Term	13.00	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	13.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	4.98	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	9.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	0.45	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	4.57	ACUITE A3 (Assigned)

*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	ACUITE BBB- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- / Stable (Reaffirmed)

Term loans	Not Applicable	Not Applicable	Not Applicable	3.30	ACUITE BBB- / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A3 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE A3 (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	6.25	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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