

Press Release

Akshat Papers Limited

April 11, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.62	-	ACUITE D Downgraded
Bank Loan Ratings	30.38	ACUITE D Downgraded	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE D**' (read as ACUITE D) from 'ACUITE BBB-' (read as ACUITE triple B minus) and the short-term rating to 'ACUITE D' (read as ACUITE D) from 'ACUITE A3' (read as ACUITE A3) on the Rs. 45.00 Cr bank facilities of Akshat Papers Limited (APL).

Rationale for rating downgrade

The rating downgrade reflects instances of delay in servicing of term debt and some instance of LC devolvement by APL for the months of December-21, January, February and March 2022. The pending dues have been serviced only in the month of March 2022 by the entity as confirmed by the bankers. Confirmation of curing of default as per Acuite's default recognition criteria will remain a key rating sensitivity.

About the Company

APL was established in the year 1996 by Mr Suresh .C. Singhal. 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 56,000 tons per annum (TPA) in Gujarat. Currently, APL is being managed by Mr Akshat Singhal and Mr. Arnav Singhal. The Company has a manufacturing plant in Gujarat.

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

Incorporated in 1966, APL manufactures kraft paper, which is primarily used in the production of corrugated boxes and paperboards. The promoter of the company, Mr. Suresh Singhal has

more than two decades of experience in the paper industry. The promoter is assisted by his sons - Mr. Akshat Singhal and Mr. Arnav Singhal who take care of day to day operations of the company. The extensive experience of the management has helped the company build a strong presence in the market. Acuité believes that APL continues to enjoy the benefit of the promoters' longstanding presence in the industry and improving its business risk profile over the medium term.

Improved Operating income albeit deteriorated operating and profitability margins

The company reported revenues of Rs.100 Cr. for FY2021 against Rs.88 Cr. during FY2020. Further for FY2022 (Prov.) the company has reported revenues of around Rs.109Cr. The YoY growth in the revenues can be linked to increase in the selling prices of kraft papers and APL's focus on higher production of thin kraft paper which has lower mass & weight and higher strength which results in lower capacity utilisation while is sold at a higher price. The average selling price during FY2018-FY2020 ranged from Rs 14 per kg to Rs 26 per kg. However, during FY2021 the prices ranged between Rs. 32-35 per kg which has helped APL is securing better scale of operations. However, the operating margins for FY2021 stood at 9.90 percent against 10.59 per cent during FY2020. The margins have deteriorated due to increase in the raw material prices which the company is not able to pass on to its customers. Additionally, company had availed an emergency credit line to the tune of Rs.1.63 Cr. which had to be paid off during FY2021. The same has further affected the profitability margins which stood at 0.89 percent in FY2021 against 1.87 percent for FY2020. The profitability margin for FY2022(Prov.) has stood at 1.39 percent.

Weaknesses

Exposure to volatile raw material prices and highly fragmented and competitive industry

Operating margin remains susceptible to volatile raw material (waste paper) prices, which are linked directly to international prices. Any adverse fluctuation in raw material prices can impact profitability. Kraft paper is used for tertiary packaging; thus, offtake depends on industrial production and other macroeconomic factors. The recycling industry is highly intense competition and highly fragmented industrial paper industry constrains scalability, pricing power, and product differentiation.

Delays in servicing of debt obligations

The latest feedback received from the bankers confirm that APL has been delaying the servicing of its debt obligations for the month of January, February and March 2022. The payments have been regularized only in the month of March 2022. The stretch in liquidity is due to lower net cash accruals causing cash flow mismatches vis-à-vis repayment obligations. This has also caused devolvement in LC for the month January & February 2022 which have been regularised within 30 days as confirmed by the banker

Rating Sensitivities

- Confirmation of curing of default as per Acuite default recognition criteria.

Material covenants

None

Liquidity Position: Stretched

The company has stretched liquidity profile marked by recent instances of delays in servicing of debt obligations. The fund-based working capital limits for APL are utilised fully at almost 95 percent for the latest six months ended March 2022. Also, the term loan obligations for the month of January February and March 2022 are serviced only in March 2022.

Outlook: Not Applicable

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	100.17	88.62
PAT	Rs. Cr.	0.89	1.66
PAT Margin	(%)	0.89	1.87
Total Debt/Tangible Net Worth	Times	0.76	0.73
PBDIT/Interest	Times	1.85	2.01

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jan 2021	Term Loan	Long Term	1.78	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	2.60	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.45	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	9.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	5.17	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
17 May 2019	Letter of Credit	Short Term	9.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	6.25	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	13.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.30	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.45	ACUITE A3 (Reaffirmed)

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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE D Downgraded (from ACUITE A3)
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE D Downgraded (from ACUITE BBB-)
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE D Downgraded (from ACUITE BBB-)
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE D Downgraded (from ACUITE A3)
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.17	ACUITE D Downgraded (from ACUITE A3)
Bank of India	Not Applicable	Term Loan	23-12-2016	Not available	31-03-2023	1.78	ACUITE D Downgraded (from ACUITE BBB-)
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	2.60	ACUITE D Downgraded (from ACUITE BBB-)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Jaitashree Hukerikar Analyst-Rating Operations Tel: 022-49294065 jaitashree.hukerikar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité