

Press Release
Akshat Papers Limited

October 17, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	18.68	-	ACUITE A4+ Upgraded
Bank Loan Ratings	26.32	ACUITE BB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to 'ACUITE BB' (read as ACUITE double B) and short-term rating of 'ACUITE A4+' (read as ACUITE A four plus) on the Rs. 45. Cr bank facilities of Akshat Papers Limited (APL). The outlook is 'Stable'.

Reason for Rating Upgrade

The rating takes cognizance of the regularisation of the repayment obligations and written feedback confirming the same by the lender. Further, the rating considers company's steady revenue growth and moderate business risk profile supported by its established market position and extensive experience of its promoters and long-standing relationship with its leading customers ensuring repeated orders. The rating is however constrained by the company's working capital intensive operations, deteriorating profitability despite increase in the revenue levels resulting in lower cash accruals and almost fully utilised working capital limits. Further, the rating is also constrained because of the fragmented nature of the industry and the vulnerability of the company's profitability to adverse fluctuations in raw material prices.

Acuite believes that the ability of the company to improve its operating performance and manage its cash flows efficiently will be key monitorable.

About the Company

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 56,000 tons per annum (TPA).

Analytical Approach

Acuite has considered 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 2 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.

Moderate financial risk profile

APL's financial risk profile is moderate marked by comfortable gearing (debt to equity) and comfortable TOL/TNW, along with moderate networth and moderate debt protection metrics. The gearing and TOL/TNW stood at 0.65 and 1.15 times as on March 31, 2022, against 0.76 and 1.20 times as on March 31, 2021. The net worth is moderate at Rs.43.90 Cr as on March 31, 2022, as against Rs.43.28 Cr as on March 31, 2021. Acuité has treated the unsecured loans from promoters of Rs.9.92 Cr and Rs. 5.85 of NCD redeemable in 2027 as quasi-equity. APL has been investing regularly on modernisation of its machinery by incurring routine capex of about Rs.1-2 Cr every year. The debt protection metrics are moderate with interest coverage ratio and net cash accruals to total debt at 2.03 times and 0.16 times, respectively in FY2022 vis-à-vis 1.85 times and 0.13 times in FY2021. The DSCR stood at 0.99 times in FY2022 against 1.51 times in FY2021 owing to larger repayments during FY2022. The net cash accruals of APL are in the range of Rs.4.63– Rs. 4.58 crore for the last three years through FY2020 – FY2022 against its debt repayment obligations of Rs. 0.94–4.72 Cr during the same period. Going forward, APL's liquidity is expected to improve (in absence of additional debt) given the fact that many of its long-term loans are on the verge of closure.

Acuité believes that with moderate accruals to repayment obligations and absence of any long-term borrowings, the financial risk profile is expected to be at similar level over the medium term.

Weaknesses

Deteriorating profitability albeit improvement in revenues

APL reported revenues of around Rs. 107 Cr in FY2022 against Rs. 100 Cr in FY2021 and Rs. 88 Cr in FY2020. The growth is however largely driven by increase in the selling prices. While the operating margins for FY2022 stood at 8.95 percent against 9.90 per cent during FY2021. APL manufactured around 32,970 TPA (58.88% capacity utilisation) of paper during FY2022. This has deteriorated significantly from previous two years' production levels of 46213 TPA (82.53%) in FY2021 and 48514 TPA (86.63%) in FY2020 respectively. However, due to increase in selling prices of Kraft Paper, the revenues have not been negatively impacted despite lower production levels. The average selling price during FY2020-FY2022 has increased from Rs 19250 per tonne in FY2020 to around Rs 32000 per tonne in FY2022. The margins have reduced due to increase in the raw material prices which the company has not been able to pass on to its customers. However, APL has reported revenues of around Rs. 70 Cr. along with improvement in its production levels (73% capacity utilisation) during 6MFY2023 as per the YTD data.

Working capital intensive operations

APL's operations are working capital intensive as evident from although improving but higher Gross Current Assets (GCA) of 206 days as on March 31, 2022, as against 224 days as on March 31, 2021. This is primarily due to high inventory days (FY2022: 138; FY2021: 140) which is emanated by holding of wastepaper as some portion of wastepaper is also imported and storage of variety of waste paper for manufacturing various GSM range. It offers credit period of about 3 months to its clientele (FY2022: 80 days; FY2021: 91 days); and avails credit of about a month and a half (FY2022: 48 days; FY2021: 39 days). High inventory and receivables have led to high utilisation of its bank lines at about 95 per cent over past 12 months through August 2022.

Acuité believes that working capital management will be crucial to APL in order to maintain a stable credit profile.

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

Operating margin remains susceptible to volatile raw material (wastepaper) 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.

Rating Sensitivities

- Improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Improvement in the overall liquidity profile

Material covenants

None

Liquidity Position Stretched

APL has reported stretched liquidity marked by the net cash accruals of Rs.4.58 Cr. against the debt obligations of around Rs.4.72 Cr. during FY2022. However, going forward, the liquidity is expected to improve since the long-term loans are on the verge of closure. The debt obligations for FY2023 are expected at around Rs. 1.50 Cr. in absence of additional debt, while the accruals are expected at around Rs. 6.00 Cr. which is expected to provide a sufficient cushion between the accruals and repayments. The NCA/TD although improved stood low at 0.16 times as on March 31, 2022, against 0.13 times as on March 31, 2021. Further, the working capital cycle has been intensive in nature marked by GCA of 206 days during FY2022 against 224 days in FY2021. This is mainly due to higher inventory days and elongated collections which have stood at around 138-140 days and 80-91 days respectively during the two financial years ended FY2022. The working capital limits have stood highly utilised for latest 12 months ended Aug 2022 at 95%. Further, the current ratio stood moderate at 1.24 times as on March 31, 2022.

Outlook: Stable

Acuité believes that the APL will maintain a stable outlook over the near to medium term owing to its experienced management and established market position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while maintaining profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenue, profit margins or deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital or capex requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	107.34	100.17
PAT	Rs. Cr.	1.00	0.89
PAT Margin	(%)	0.93	0.89
Total Debt/Tangible Net Worth	Times	0.65	0.76
PBDIT/Interest	Times	2.03	1.85

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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
11 Apr 2022	Term Loan	Long Term	1.78	ACUITE D (Downgraded from ACUITE BBB- Stable)
	Working Capital Demand Loan	Long Term	2.60	ACUITE D (Downgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	0.45	ACUITE D (Downgraded from ACUITE A3)
	Cash Credit	Long Term	13.00	ACUITE D (Downgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	13.00	ACUITE D (Downgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	9.00	ACUITE D (Downgraded from ACUITE A3)
	Proposed Bank Facility	Short Term	5.17	ACUITE D (Downgraded from ACUITE A3)
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 A4+ Upgraded (from ACUITE D)
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB Stable Upgraded (from ACUITE D)
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB Stable Upgraded (from ACUITE D)
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ Upgraded (from ACUITE D)
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.23	ACUITE A4+ Upgraded (from ACUITE D)
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	0.32	ACUITE BB Stable Upgraded (from ACUITE D)

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 is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

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