

Press Release

Akshat Papers Limited

February 10, 2023



Rating Reaffirmed & Withdrawn

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Bank Loan Ratings	26.32	ACUITE BB Reaffirmed & Withdrawn	-
Bank Loan Ratings	18.68	-	ACUITE A4+ Reaffirmed & Withdrawn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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.45.00 Cr. bank facilities of AKSHAT PAPERS LIMITED. (APL).

The rating has been withdrawn on Acuite's policy of withdrawal of ratings. The rating has been withdrawn on account of the request received from the company, and the NOC received from the banker.

Rationale for the reaffirmation

The rating reaffirmation takes into account of the improvement in the operating income of the company, the rating also draws comfort from experienced promoter and the company's long track record in the industry. These strengths are however, offset by the working capital intensive in nature of operations along with average financial risk profile.

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.

Rating Sensitivities

None

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:

Not Applicable

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Oct 2022	Proposed Bank Facility	Short Term	9.23	ACUITE A4+ (Upgraded from ACUITE D)
	Letter of Credit	Short Term	9.00	ACUITE A4+ (Upgraded from ACUITE D)
	Working Capital Demand Loan	Long Term	0.32	ACUITE BB Stable (Upgraded from ACUITE D)
	Cash Credit	Long Term	13.00	ACUITE BB Stable (Upgraded from ACUITE D)
	Bank Guarantee	Short Term	0.45	ACUITE A4+ (Upgraded from ACUITE D)
	Cash Credit	Long Term	13.00	ACUITE BB Stable (Upgraded from ACUITE D)
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	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)
	Term Loan	Long Term	1.78	ACUITE BBB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.45	ACUITE A4+ Reaffirmed & Withdrawn
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE BB Reaffirmed & Withdrawn
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE BB Reaffirmed & Withdrawn
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A4+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	9.23	ACUITE A4+ Reaffirmed & Withdrawn
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	0.32	ACUITE BB Reaffirmed & Withdrawn

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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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