

Press Release

Astron Paper And Board Mill Limited

November 22, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 113.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative (Outlook revised from 'Stable')
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité 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**) on the Rs. 113.00 crore bank facilities of ASTRON PAPER AND BOARD MILL LIMITED. The outlook is revised to '**Negative**' from '**Stable**'.

Outlook Revised to Negative

The revision in outlook is on account of deterioration in group's operating performance in half year ended September, 2019. The company reported revenues of Rs.167.75 crore for half year ended September, 2019 as against Rs.182.04 crore for half year ended September, 2018. The profitability margins declined to 11.71 percent for half year ended September, 2019 as against 14.24 percent for half year ended September, 2018. Acuité had expected significant improvement in revenues in FY2020 on account of capacity expansion. Further, Acuité also factors in increasing gross current asset (GCA) to 178 days crore for half year ended September, 2019.

About the company

Gujarat-based, Astron Paper and Board Mill Limited (APBL) was incorporated in December 2010 and started its commercial operations from December 2012. The company is promoted by Mr. Kirit Patel, Mr. Karshanbhai Patel, Mr. Ramakant Patel and Asian Granito India Limited. The company is engaged in manufacturing of 'manufacturing paper', known as kraft paper used in packaging industries. The company has 3 plants in Gujarat, Halvad and Bhuj. The product line of the company is from 12 BF to 40 BF and 80 GSM to 350 GSM. The company currently has an installed capacity of 1,38,000 MT per annum. The company imports its raw materials from different countries such as Switzerland, USA, Dubai, among others. In addition, the company also has 3MW thermal power plant at its manufacturing plant

Analytical Approach

Acuité has consolidated the business and financial risk profile of Astron Paper and Board Mill Limited and Balaram Papers Private Limited together referred to as 'Astron Group' to arrive at the rating. Astron Paper and Board Mill Limited has taken over Balaram Paper Private Limited in July, 2018 and BPPL has been classified as 100 per cent subsidiary of Astron Paper and Board Mill Limited. The consolidation is mainly on account of similarity in the line of business strong operational and financial synergies and common management. Extent of Consolidation: Full

About the Group

Gujarat-based, Astron Group (AG) was incorporated in December 2010 and started its commercial operations from December 2012. The group comprises of two companies, mainly, Astron Paper and Board Mill Limited and Balaram Papers Private Limited. Astron Paper Board Private Limited has taken over Balaram Papers Private Limited in July, 2018 as a wholly-owned subsidiary. The group is promoted by Mr. Kirit Patel, Mr. Karshanbhai Patel and Asian Granito India Limited. The group is engaged in manufacturing of manufacturing paper, known as kraft paper used in FMCG products.

Key Rating Drivers

Strengths

- **Experienced management**

AG was incorporated in 2010 by Mr. Kirit Patel, Mr. Ramakant Patel and Mr. Karshanbhai Patel among others. The company is engaged in manufacturing of kraft paper using waste paper as its major raw

material. APBL started its commercial operations in December 2012, while BPPL was taken over by APBL as a part of brown field expansion in July 2018. The promoters possess industry experience of over two decades. Before incorporation of APBL, Mr. Kirit Patel possesses industry experience via proprietorship concern, namely, Mitul Enterprises that was engaged in paper packing from 1997 till 2015. Mr. Kirit Patel currently looks after the entire operations including strategic initiatives of the company. Mr. Ramakant Patel also has industry experience of two decades in paper packaging industry and looks after the marketing strategies of the company. Acuité believes that the company will benefit from its experienced management, which helps the company maintain long-standing relations with its customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile of AG marked by moderate net worth and debt protection metrics of the group. The tangible net worth of the group stood at Rs.149.86 crore as on 31 March, 2019 as against Rs.128.10 crore as on 31 March, 2018. The improvement in the net worth is majorly on account of accretion to reserve. Gearing (Debt-equity) stood at 0.46 times as on 31 March, 2019 as against 0.69 times in the previous year. The total debt of Rs.68.23 crore as on 31 March, 2019 majorly comprises term loan of Rs.24.24 crore, unsecured loans from directors and promoters Rs. 2.33 crore and working capital facility of Rs.41.65 crore. The coverage indicators and the leverage ratios of the group are moderate marked by interest coverage ratio (ICR) at 4.86 times for FY2019 as against 2.94 times for FY2018. DSCR stood at 2.05 times for FY2019 as against 1.73 times for FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.04 times as on 31 March, 2019 as against 0.97 times as on 31 March, 2017. The increase in TOL/TNW is majorly on account of increase in trade payables as on 31 March, 2019. Acuité believes that the financial risk profile of the company will remain moderate over the medium term in absence of any major debt funded capital expenditure and moderate generation of cash accruals. Fixed Asset turnover stood at 2.73 times for FY2019 as against 2.39 times in the previous year. Acuité expects the ratio to be in a range of 2.5 - 3.0 times in near to medium term.

- **Favorable industry conditions**

Paper demand is driven by growing consumerism and e-commerce, ban on plastic usage in several states, rising literacy and continued government spending on education is likely to outpace the planned supply additions during the next couple of years. Also, growth in packaging paper/board requirement in various sectors such as pharma, FMCG, e-commerce, etc. will drive demand of industrial paper going ahead. Acuité believes that rising urbanization, increasing penetration of organized retail, growth in FMCG, pharmaceutical and processed food industries are likely to be the major growth drivers for the segment going ahead.

Weaknesses

- **Moderate working capital operations**

AG's operates in moderate working capital nature of operations marked by Gross Current Assets (GCA) days of 150 for FY2019 as against 164 days in previous year. This is majorly on account of inventory and debtor days of 65 and 82 respectively for FY2019. Further, the average cash credit limit utilization for past six months ending July 2019 stood fully utilized. Going ahead, the ability of the group to efficiently manage its working capital requirements will remain key rating sensitivity.

- **Highly fragmented and competitive industry**

The recycling industry is highly fragmented with several organized and unorganized players, thereby impacting the company's profitability. The industrial paper industry is subject to stringent environmental and pollution control norms as paper mills contribute significantly to air and water pollution. Players in the industry have to comply with stringent effluent treatment norms of pollution control boards and complete discretion of the government, which led to high compliance risks. However, most of the pulp-based paper mills has adopted environment friendly technologies to minimize wastage and maximize recycling/reuse materials to produce eco-friendly paper. Also, the domestic industry faces immense competition of imports from ASEAN countries, which are of superior quality and of lower prices. Acuité believes that adherence to several environmental regulations and continuous investments are required to comply with the norms, which is likely to impact the profitability.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) to 170-200 days.
- Substantial improvement in scale of operation (~Rs.420.00-450.00 crore), while maintaining profitability margin of around 14.50-16.50 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

AG has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.13.3 to Rs.31.5 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.8.3–9.4 crore over the same period. The cash accruals of the company are estimated to remain around Rs.35.0-45.0 crore during 2020-22, while its repayment obligations are expected to be Rs.3.00-8.8 crore over the same period. The group's operations are moderate working capital as marked by gross current asset (GCA) days of 150 in FY2019. The cash credit limit in AG remains utilized fully during the last 6 months period ended July, 2019. The group maintains unencumbered cash and bank balances of Rs.0.16 crore as on March 31, 2019. The current ratio of the group stood moderate at 1.23 times as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of expected healthy cash accruals over the medium term.

Outlook: Negative

Acuité believes that the outlook on the group will remain 'Negative' over the medium term owing to decline in profitability and elongation in working capital cycle. The rating may be further downgraded in case of further decline in the operating margins or further deterioration in the working capital cycle. Conversely, the outlook may be revised to 'Stable' in case the group registers sustained growth in revenues while improving margins and working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	383.20	253.65	183.39
EBITDA	Rs. Cr.	55.68	31.93	21.73
PAT	Rs. Cr.	25.91	18.91	10.07
EBITDA Margin	(%)	14.53	12.59	11.85
PAT Margin	(%)	6.76	7.46	5.49
ROCE	(%)	22.56	15.41	14.01
Total Debt/Tangible Net Worth	Times	0.46	0.69	2.03
PBDIT/Interest	Times	4.86	2.94	2.03
Total Debt/PBDIT	Times	1.23	2.73	4.31
Gross Current Assets (Days)	Days	150	164	177

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
01-Oct-2019	Cash Credit	Long Term	17.00*	ACUITE BBB- / Stable (Reaffirmed)

	Term Loan	Long Term	1.33	ACUITE BBB- / Stable (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	10.99	ACUITE BBB- / Stable (Reaffirmed)
	Bill Discounting	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	18.00#	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Proposed Fund Based Facility	Long Term	13.14	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Non-Fund Based Facility	Short Term	1.54	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	28.00	ACUITE BBB- / Stable (Reaffirmed)
09-Jan-2019	Term Loan	Long Term	19.35	ACUITE BBB- / Stable (Reaffirmed)
	Bills Discounting	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	17.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	4.34	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.77	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	17.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Short Term Loan	Short Term	1.54	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	18.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	4.34	ACUITE BBB- / Stable (Assigned)
27-Jun-2018	Proposed Long Term Loan	Long Term	10.50	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	14.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	21.12	ACUITE BBB- / Stable (Assigned)
	Bills Discounting	Short Term	3.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Assigned)
	Proposed Short Term Loan	Short Term	15.54	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	22.50	ACUITE BBB- / Stable (Assigned)
	Cash Credit	Long Term	12.00	ACUITE BBB- / Stable

				(Assigned)
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*Sublimit - Rs. 2.00 crore EPC/FBD sublimit to cash credit

#Sublimit - Rs. 18.00 crore SBLC sublimit to LC/BG

*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	17.00*	ACUITE BBB- / Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.33	ACUITE BBB- / Negative (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BBB- / Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.99	ACUITE BBB- / Negative (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	18.00#	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	13.14	ACUITE BBB- / Negative (Reaffirmed)
Proposed Non-Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	1.54	ACUITE A3 (Reaffirmed)

*Sublimit - Rs. 2.00 crore EPC/FBD sublimit to cash credit

#Sublimit - Rs. 18.00 crore SBLC sublimit to LC/BG

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About Acuité Ratings & Research:

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