

January 6, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	7.50#	SMERA B+/Stable(Assigned)
Term Loan	0.88*	SMERA B+/Stable(Assigned)
BPC (Bills Purchase)	0.20	SMERA A4 (Assigned)
ILC/FLC (Letter of Credit)	4.75	SMERA A4 (Assigned)

*Term loan balance outstanding as on September 30, 2013

#Includes sublimit of CCBD to the extent of Rs.2.75 crore and sublimit of OCC to Sathyamangalam branch to the tune of Rs.0.25 crore

SMERA has assigned ratings of '**SMERA B+**' (**read as SMERA B plus**) to the Rs.8.38 crore long-term facilities (fund based) and '**SMERA A4**' (**read as SMERA A four**) to the Rs.4.95 crore short-term facilities (non-fund based) of Akshera Papers (AP). The outlook is '**Stable**'. The ratings are primarily constrained by the firm's small scale of operations with exposure to intense competition and raw material price volatility. The ratings are further constrained by the firm's high leverage and stretched liquidity position. However, the ratings are supported by the firm's long track record of operations and experienced management.

AP, established in 2001, is a Tamil Nadu-based partnership firm engaged in manufacturing of kraft paper. AP has a small scale of operations with revenues of Rs.41.21 crore for FY2012-13 (refers to financial year, April 01 to March 31). The firm operates in a highly competitive packaging industry. AP's raw material cost as a portion of total sales is high at about 54 per cent. The firm's profit margins are thus highly susceptible to volatility in prices of raw materials, which mainly include waste paper.

AP's leverage is high at 6.20 times as on March 31, 2013. The firm's total debt (of Rs.30.98 crore as on March 31, 2013) mainly comprises interest-free unsecured loans (borrowed from related parties) of about Rs.17.69 crore. However, AP's leverage remains beyond comfort levels at 2.66 times as on March 31, 2013 after excluding interest-free unsecured loans from related parties. AP has a stretched liquidity position with average working capital limit utilisation of above 90 per cent during April 2013 to October 2013.

AP benefits from its experienced management. The firm's promoters have over ten years of experience in the packaging industry. AP has also maintained stable operating margins of about 8.4 per cent during the past two years.

Disclaimer: A SMERA 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. SMERA 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, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA 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. SMERA 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.smera.in) for the latest information on any instrument rated by SMERA.

Rating sensitivity factors

- Ability to scale up operations while maintaining a comfortable liquidity position
- Reduction in leverage

Outlook: Stable

SMERA believes the outlook on AP's rated facilities will remain stable over the medium term. The outlook may be revised to 'Negative' in case of a sharp deterioration in the firm's profit margins or leverage. Conversely, the outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues with better working capital management.

About the firm

AP, established in 2001, is a partnership firm promoted by Mr. K. Ramesh Krishnan and Mrs. Uma Maheshwari. AP is engaged in manufacturing of kraft paper (16–30 burst factor and 150–300 grams per square metre) used for packaging. AP has a manufacturing unit in Rajannagar, Erode.

For FY2012–13, AP reported net profit of Rs.0.44 crore on total income of Rs.41.21 crore, as compared with net profit of Rs.0.40 crore on total income of Rs.41.03 crore for FY2011–12. Further, the firm registered revenues of Rs.40.00 crore (provisional) during April 2013 to October 2013. AP's net worth stood at Rs.5.00 crore as on March 31, 2013, as compared with Rs.4.52 crore a year earlier.

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