

Press Release

Akshera Papers

23 November, 2017



Rating Upgraded and Reaffirmed

| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs. Cr. 38.00 (enhanced from Rs.24.25 crore) |
| Long Term Rating | SMERA BB+/ Outlook: Stable (upgraded from SMERA BB and Assigned) |
| Short Term Rating | SMERA A4+ (Reaffirmed) |

* Refer Annexure for details

Rating Rationale

SMERA has upgraded the long term rating to '**SMERA BB+**' (read as **SMERA double B plus**) from '**SMERA BB**' (read as **SMERA double B**) and reaffirmed the short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 20.33 crore bank facilities of Akshera Papers. Further, SMERA has assigned long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) on the Rs.17.67 crore bank facilities. The outlook is '**Stable**'.

The upgrade is in view of the increase in production capacity which is expected to scale up operations and help maintain profitability. SMERA believes that going ahead, the firm will sustain growth in revenues along with profitability margins over the medium term.

Akshera Papers (AP), established in 2001 is a Tamil Nadu-based firm promoted by Mr. K. Ramesh Krishnan and Mrs. Uma Maheshwari. The firm is engaged in the manufacturing of Kraft paper in the range of 12 to 30 burst factor with grams per square meter (GSM) of 150 to 300 GSM. The firm has two manufacturing units with installed capacity of 57,120 metric tonnes per annum. The raw materials are procured from traders in Tamil Nadu and Karnataka and also imported (around 20 per cent) from Sri Lanka and other European countries. The finished product is sold to traders and paper manufacturers in south India.

The products find application in the packaging industry. AP has put up a wind mill of 2 megawatt along with back pressure Turbine of 1.2 Megawatt which produces around 63.00 lakhs units of power per annum. The power generated from wind mills and turbine will partially take care of the power requirement of the firm.

Key rating drivers

Strengths

Established track record of operations and experienced management: AP has established operational track record of around two decades which has helped maintain long standing relations with customers and suppliers. The firm also benefits from its experienced promoters, Mr. Ramesh Krishnan and Mrs. R. Uma Maheshwari who possess around two decades of experience in the paper manufacturing business.

Moderate financial risk profile: AP has a moderate financial risk profile marked by net worth of Rs. 19.72 crore as on 31 March, 2017 compared to Rs. 12.09 crore as on 31 March, 2016. The gearing improved to 2.10 times as on 31 March, 2017 from 2.75 times as on 31 March, 2016. This is due to fresh equity infusion of Rs.1.08 crore apart from internal accruals of Rs.6.55 crore. The total debt of Rs. 41.45 crore comprises term loan of Rs. 14.81 crore from banks, interest free unsecured loans from related parties of Rs.10.45 crore and working capital funds of Rs. 16.19 crore as on 31 March, 2017. The interest coverage ratio stood at 4.26 times in FY2017 as against 4.77 times in FY2016. This is mainly due to decline in profitability in FY2017. The net cash accruals stood at Rs.9.23 crore as against repayment obligation of Rs.2.54 crore in FY2017. Going forward, SMERA expects the firm to maintain its financial risk profile and improve its networth in the absence of major debt funded capex plan.

Efficient working capital management and adequate liquidity: The firm continues to efficiently manage its working capital requirement with working capital cycle days of 30 for FY2017 compared to 33 days in the previous year. Further, the liquidity remains adequate because of comfortable cash accruals against debt repayment obligation and absence of any debt funded capex over the medium term. The average cash credit utilisation for the last six months stood at around 87 per cent ended 31 October, 2017.

Weaknesses

Susceptibility of profit margins to volatility in raw material prices, forex rates: The main raw material - waste paper constituted around 57 percent of total sales in FY2017 as against 55 percent in the previous year. Adverse movements in raw material prices can impact profitability. Further, AP imports around 20 percent of its total purchases from suppliers in Sri Lanka and European countries. Hence, the firm is exposed to forex losses in the absence of adequate hedging mechanism.

Highly fragmented and competitive industry: AP is exposed to intense competition from organised and unorganised players in the industry.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Akshera Papers to arrive at the rating.

Outlook – Stable

SMERA believes that AP will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers significant growth in revenue while achieving improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position.

About the Rated Entity – Key Financials

In FY2016-17, the firm reported net profit of Rs.6.55 crore on operating income of Rs.108.27 crore as against net profit of Rs.8.33 crore on operating income of Rs.104.73 crore in the previous year. The tangible net worth stood at Rs. 19.72 crore as on 31 March, 2017 as against Rs. 12.09 crore a year earlier.

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

None

Rating History (Upto last three years)

| Date | Name of Instrument/ Facilities | Term | Amount (Rs. Crore) | Ratings/Outlook |
|------------------|-----------------------------------|------------|-----------------------|---------------------------------|
| 9 December, 2016 | Cash Credit | Long Term | 13.50 | SMERA BB/Stable (Upgraded) |
| | Term Loan | Long Term | 6.00 | SMERA BB/Stable (Upgraded) |
| | Inland/Foreign Letter of Credit | Short Term | 4.75 | SMERA A4+ (Upgraded) |
| 5 August, 2015 | Cash Credit | Long Term | 13.50 | SMERA B+/Stable (Reaffirmed) |
| | Term Loan | Long Term | 6.00 | SMERA B+/Stable (Assigned) |
| | Inland/Foreign Letter of Credit | Short Term | 4.75 | SMERA A4 (Reaffirmed) |
| 6 January, 2014 | Cash Credit | Long Term | 7.50# | SMERA B+/Stable (Assigned) |
| | Term Loan | Long Term | 0.88* | SMERA B+/Stable (Assigned) |
| | Inland/Foreign Letter of Credit | Short Term | 4.75 | SMERA A4 (Assigned) |
| | Bill Purchase | Short Term | 0.20 | SMERA A4 (Assigned) |

#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

*Term loan balance outstanding as on September 30, 2013

Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|---------------------------------|------------------|----------------|----------------|--|--------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 15.50^ (enhanced from Rs.13.50 crore) | SMERA BB+/Stable (Upgraded) |
| Term loan I | Not Applicable | Not Applicable | Not Applicable | 2.08 (reduced from Rs.6.00 crore) | SMERA BB+/Stable (Upgraded) |
| Term loan II | Not Applicable | Not Applicable | Not Applicable | 11.52 | SMERA BB+/Stable (Assigned) |
| Inland/Foreign Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 4.75* | SMERA A4+ (Reaffirmed) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 4.15 | SMERA BB+/Stable (Assigned) |

^Includes Sub limit of OCC to the tune of Rs. 3.50 crore from Tirupur OBS Branch and Rs. 0.25 crore from Sathyamangalam Branch.

*Includes Sub limit of FLC/ILC to the tune of Rs. 2.50 crore from Tirupur OBS Branch.

SMERA Ratings Limited

Contacts:

| Analytical | Rating Desk |
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| Vinayak Nayak, Head – Ratings Operations Tel: +91-22-6714 1190 Email: vinayak.nayak@smera.in Aishwarya Phalke, Rating Analyst, Tel: +91-22-6714 1156 Email: aishwarya.phalke@smera.in | Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in |

ABOUT SMERA

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