



Press Release

AKSHERA PAPERS

February 25, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 38.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Negative (Rating Reaffirmed, Outlook revised from Stable to Negative)
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 38.00 crore bank facilities of AKSHERA PAPERS (AP). The outlook is changed from '**Stable**' to '**Negative**'.

The revision in the outlook reflects steady decline in the profitability margins and cash accruals. The cash accruals declined to Rs.8.07 crore in FY2018 against Rs.9.80 crore in FY2016. Decline in accruals are owing to increasing fixed overheads as reflected by the dip in operating margins (OPM) and Net profit margin (NPM). OPM and NPM deteriorated to 8.97 and 3.40 percent in FY2018 against 11.61 and 7.96 percent in FY2016. However, the rating continues to reflect AP's improving scale of operations, its promoters' extensive experience in the paper industry and efficient working capital management. These strengths are partially offset by moderate scale of operations, volatility in waste paper prices and stiff competition in the kraft paper industry.

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 50,750 metric tonnes per annum. Kraft paper is used for many industrial and commercial applications. It also has a captive power plant with capacity of 1.2 megawatt which produces around 55 lakhs units of power per annum.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of AP to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of the promoters in the paper industry**

AP's operations are overseen by its promoters who have been involved in the Paper industry for over two decades. The promoters' extensive experience, coupled with established relations with suppliers, distributors, and customers have resulted in repeat orders from clients. There has been a steady growth in scale of operations since inception supported by capacity addition, steady increase in production, and healthy demand for kraft paper. AP has reported a healthy growth of 20 per cent in operating income to Rs.130.28 crore in FY2018 from Rs.108.20 crore in FY2017 and registered compound annual growth rate of 11.5 per cent over the last three fiscals ended FY2018. AP has reported revenues of Rs.105.38 crore for 9MFY2018 and the revenue profile is expected to be in the range of Rs.135-155 crore over the medium term. Acuité believes that with diversified clientele, experienced management and operational track record, AP continues to enjoy the benefit of its business risk profile over the medium term.

- Moderate financial risk profile**

AP's financial risk profile is moderate marked by moderate capital structure (gearing), total outside

liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. AP's gearing and TOL/TNW are moderate at 1.64 and 2.52 times as on March 31, 2018 against 2.10 and 2.79 times as on March 31, 2017. AP's net worth is modest at Rs.21.89 crore as on March 31, 2018 as compared to Rs.19.72 crore as on March 31, 2017. Debt protection metrics of interest coverage ratio (ICR) has partly deteriorated to 3.15 times in FY2018 against 4.26 times in FY2017. Net cash accruals to total debt are moderate at 0.23 times in FY2018 in line with the past trend. AP's cash accruals are in the range of Rs.9-11 crore against Rs.2.50 crore repayment obligations over the medium term. Acuite believes that the financial risk profile is expected to improve marginally over the medium term supported by repayment of term loan obligations, moderate accruals and efficient working capital management.

• Efficient working capital management

AP's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 91-96 days over the three years ended March 31, 2018, driven by efficient receivables (45-65 days) and prudent inventory (26-44 days) respectively. Further, its working capital requirement is supported by creditors (43-67 days). The bank limit of Rs.15.50 crore was utilised at an average of around 85 percent over the 6 months ended December 2018. Acuite believes that AP's operation continues to be efficiently managed by moderate net worth, efficient collection mechanism and in time inventory levels.

Weaknesses

• Susceptibility of operating margin to volatility in raw material prices and cyclical in the economy

Kraft paper is used primarily for packaging by varied end-user industries. The demand for packaging paper is subject to cyclical in the economy. The firm produces kraft paper by recycling waste paper, which is mainly procured from domestic sources and a small portion is imported. The firm's profitability is likely to remain susceptible to volatility in the prices of waste paper. Furthermore, the industry is highly fragmented and intensely competitive. The key raw material i.e. waste paper prices have been highly volatile in the past resulted in decline in OPM to 8.97 percent in FY2018 against 11.61 percent in FY2016 and Net profit margin (NPM) deteriorated to 3.40 percent in FY2018 against 7.96 percent in FY2016. Acuite believes that the operating margin is likely to remain susceptible to volatility in raw material prices and cyclical in the economy over the medium term.

• Moderate scale of operations

Despite stable revenue growth over the past three fiscals, the scale remains moderate as reflected in revenue of around Rs.130.38 crore in FY2018, further its revenues are estimated at Rs.135.00 crore in FY 2019. Scale of operations remains moderate with revenue profile at around Rs.140-160 crore over the medium term, restricted by the capacity which is highly utilised at about 92 per cent.

Liquidity Position:

AP has moderate liquidity marked by moderate net cash accruals though partly constrained by moderate bank limit utilisation. AP has reported cash accruals of Rs.8.07 crore, while its maturing debt obligations are about Rs.2.50 crore in FY2018. The cash accruals of the AP's are estimated to remain at around Rs.9-11 crore during 2019-21, against which its repayment obligations are about Rs.2.50 crore during 2019-21. Utilisation of its bank limits at over 85 percent for six months through December 2018. The current ratio is weak stood at below 1.00 past three years through March 31, 2018. Acuite believes that the liquidity of AP's is likely to remain moderate over the medium term.

Outlook: Negative

Acuite believes that AP's operations continue to moderate in the liquidity, weak current ratio and volatile profit margins. The ratings may be downgraded in case of further decline on its liquidity or any significant volatility in profitability margins. Conversely, the outlook may be revised to 'Stable' in the event of the company reporting significantly better than expected cash accruals while improving the revenues. The outlook may be revised to 'Stable' in case of higher-than-expected improvement in revenues and accruals, while improving its profitability margins and working capital management.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	130.38	108.27	104.73
EBITDA	Rs. Cr.	11.69	11.88	12.16
PAT	Rs. Cr.	4.43	6.55	8.33

EBITDA Margin	(%)	8.97	10.98	11.61
PAT Margin	(%)	3.40	6.05	7.96
ROCE	(%)	13.78	17.62	48.23
Total Debt/Tangible Net Worth	Times	1.64	2.10	2.75
PBDIT/Interest	Times	3.15	4.26	4.77
Total Debt/PBDIT	Times	3.03	3.44	2.68
Gross Current Assets (Days)	Days	96	92	91

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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>

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
23-Nov-2017	Cash Credit	Long Term	15.50	ACUITE BB+ / Stable (Upgraded)
	Term Loan	Long Term	2.08	ACUITE BB+ / Stable (Upgraded)
	Term Loan	Long Term	11.52	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Proposed Cash Credit	Long Term	4.15	ACUITE BB+ / Stable (Assigned)
09-Dec-2016	Cash Credit	Long Term	13.50	ACUITE BB / Stable (Upgraded)
	Term Loan	Long Term	6.00	ACUITE BB / Stable (Upgraded)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Upgraded)
05-Aug-2015	Term Loan	Long Term	6.00	ACUITE B+ / Stable (Assigned)
	Letter of Credit	Short Term	4.75	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	13.50	ACUITE B+ / Stable (Reaffirmed)
06-Jan-2014	Cash Credit	Long Term	7.50	ACUITE B+ / Stable (Assigned)
	Term Loan	Long Term	0.88	ACUITE B+ / Stable (Assigned)
	Bills Discounting	Short Term	0.20	ACUITE A4 (Assigned)
	Letter of Credit	Short Term	4.75	ACUITE A4 (Assigned)

***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	15.50 [^]	ACUITE BB+ / (Reaffirmed, Outlook revised to Negative)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.65	ACUITE BB+ / (Reaffirmed, Outlook revised to Negative)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.79	ACUITE BB+ / (Reaffirmed, Outlook revised to Negative)
Proposed Long Term Long	Not Applicable	Not Applicable	Not Applicable	4.16	ACUITE BB+ / Negative (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.15	ACUITE BB+ / (Reaffirmed, Outlook revised to Negative)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.75*	ACUITE A4+ (Reaffirmed)

[^]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

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About Acuite Ratings & Research:

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