Press Release

Akshera Papers

March 24, 2020

Rating Reaffirmed; Outlook Revised

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its 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)** on the Rs.38.00 crore bank facilities of Akshera Papers (AP or Akshera). The outlook has been revised from **'Negative'** to **'Stable'**.

The outlook revision reflects improvement in profitability, which is expected to sustain over the medium term. The ratings continue to reflect the company's established market position backed by strong track record in the industry and experience of the promoters and management, strong business linkages with customers and suppliers. However, these strengths are partially offset by exposure to volatility in waste paper prices and stiff competition in the Kraft paper industry and sustenance of the improvement in revenues and profitability over the medium term will be key monitorable.

Akshera, 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. It also has a captive power plant with capacity of 1.2 megawatt which produces around 55-60 lakhs units of power per annum.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**
  Akshera'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.
  Acuité believes that with diversified clientele, experienced management and established operational track record, continues to the benefit of its business risk profile over the medium term.

- **Efficient working capital management**
  Akshera's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 92-96 days over the three years ended March 31, 2019, driven by efficient receivables (4565 days) and prudent inventory (26-39 days) respectively. Further, its working capital requirement is moderately supported by creditors (48-56 days). Its working capital limit of Rs.15.50 crore was utilised at an average of around 93 percent over the 12 months ended December 2019.
  Acuité believes that Akshera's operation continues to be efficiently managed by moderate net worth, efficient collection mechanism and in time inventory levels.

- **Moderate financial risk profile**

  Akshera's financial risk profile is moderate marked by modest networth, moderate gearing, total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. It's networth stood at 27.12 crore as on March 31, 2019 and gearing and TOL/TNW are moderate at 1.19 and 1.69 times as on March 31, 2019 against 1.64 and 2.52 times as on March 31, 2018. Debt protection metrics of interest coverage ratio (ICR) and Net cash accruals to total debt (NCA/TD) were marginally improved 3.36 times and 0.23 times in FY2019 against 3.15 times and 0.17 in FY2018. Akshera's cash accruals are in the range of Rs.6.50-8.50 crore against Rs.2.00-2.50 crore repayment obligations over the medium term.

  Acuité 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.

Weaknesses

- **Fluctuating revenues and profitability margins**

  The revenue trend of the company is uneven during the period FY2017 to FY2019. The operating income stood at Rs.121.59 crore in FY2019 as against Rs.130.38 crore in FY2018 and Rs.108.27 crore in FY2017. Further Akshera has booked the revenue of ~Rs.93.00 crores for the period of April to December, 2019 (provisional). The company's operating margins improved to 10.98 per cent in FY2019 as against 8.97 per cent in FY2018. Despite decline in revenue in FY2019 the company managed to improve the margins. This is majorly on account of the company's ability to pass the increased cost to the customers.

  The marginal decline in revenues in FY2019 is on account of decrease in raw material prices thereby reducing the price of the finished product. The key raw material for the company is waste paper procured domestically as well as imported. The prices of the waste paper are fluctuating and highly dependent on the supply of the paper. Further, competitiveness from several organised and unorganised players can adversely impact the operating and profitability profile of the company.

  Acuité believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

Rating Sensitivity

- Increase in scale of operations, while improving its profitability margins.

Material covenants

None

Liquidity Position: Adequate

Akshera has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. It has generated cash accruals of Rs.6.00 to Rs.7.50 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 2.00-2.50 crore over the same period. The cash accruals are estimated to remain around Rs. 6.00–8.50 crore during 2020-22 while its repayment obligation are estimated to be around Rs. 2.00-2.50 crore. Akshera's operations are efficiently managed marked by gross current asset (GCA) days of 92-96 over the three years ended March 31, 2019. Its working capital borrowings utilized at 93 percent during the last 12 months period ended December 2019. The Akshera maintains unencumbered cash and bank balances of Rs.2.18 crore as on March 31, 2019 however, current ratio stands weak below 1.00 times during the last three years through fiscal 2017-19. Acuité believes that the liquidity of Akshera is likely to remain adequate over the medium term on account of moderate net cash accruals to its maturing debt repayments obligations over the medium term.

Outlook: Stable

Acuité believes that Akshera will maintain a 'Stable' outlook over the medium term backed by its experienced management and established track record and strong relationship with its customers and suppliers. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure resulting in deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	121.59	130.38
PAT	Rs. Cr.	3.96	2.36
PAT Margin	(%)	3.26	1.81
Total Debt/Tangible Net Worth	Times	1.19	1.64
PBDIT/Interest	Times	3.36	3.15

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

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Feb-2019	Cash Credit	Long Term	15.50	ACUITE BB+ / Negative (Reaffirmed, Outlook revised to Negative)
	Term Loan	Long Term	0.65	ACUITE BB+ / Negative (Reaffirmed, Outlook revised to Negative
	Term Loan	Long Term	8.79	ACUITE BB+ / Negative (Reaffirmed, Outlook revised to Negative)
	Proposed Long Term Long	Long Term	4.16	ACUITE BB+ / Negative (Assigned)
	Proposed Cash Credit	Long Term	4.15	ACUITE BB+ / Negative (Reaffirmed, Outlook revised to Negative)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
23-Nov-2017	Cash Credit	Long Term	15.50	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	2.08	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
	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 from ACUITE B+/Stable)
	Term Loan	Long Term	6.00	ACUITE BB / Stable (Upgraded from ACUITE B+/Stable)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Upgraded from ACUITE A4)

*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+/Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')
Term Loan	23-03-2017	Not Applicable	23-09-2022	6.38 (Revised from Rs.8.79 Cr)	ACUITE BB+/Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')
Term Loan	Not Available	Not Applicable	Not Available	0.65	ACUITE BB+ (Withdrawn)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	8.37	ACUITE BB+/Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE A4+ (Reaffirmed)
UBDL (Usance Bill Discounting limit)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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