Press Release

Akshera Papers

May 19, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.38.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)
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 (Akshera). The outlook is **'Stable'**.

The rating is reaffirmed taking cognizance of improvement in profitability, which is expected to sustain over the medium term. The ratings continue to reflect the company's established market position and experienced promoters over two decades in the Kraft Paper industry and long standing relationship with its leading customers ensuring repeated orders. The ratings also factors in its comfortable financial profile and adequate liquidity position. The rating is constrained by the firm's modest scale of operations; declined revenues in FY2021 by 25-26 percent due to the pandemic, working capital intensive operations fragmented nature of the industry and the vulnerability of the company's profitability to adverse fluctuations in raw material prices and improvement in revenues and profitability over the medium term will be key monitorable.

Akshera Papers is an Erode (Tamil Nadu) based partnership firm was established in 2001, 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 an installed capacity of 51,000 metric tonnes per annum. It also has a captive power plant with capacity of 1.2 megawatt.

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**
  Established in 2001, Akshera manufactures kraft paper, which is primarily used in the production of corrugated boxes and paperboards. The promoters of the company, Mr. K. Ramesh Krishnan and Mrs. Uma Maheshwari have more than 2 decades of experience in the paper industry. The extensive experience of the management and long standing relationship with its customers ensuring repeated orders. Acuité believes that Akshera continues to enjoy the benefit of the promoters' longstanding presence in the industry and improving its business risk profile over the medium term.

- **Moderate financial risk profile**
  Akshera's financial risk profile is moderate, marked by moderate networth and moderate capital structure and debt protection metrics. Akshera's has moderate net worth at Rs. 28.09 Cr as on March 31, 2020 against Rs. 27.12 Cr as on March 31, 2019. Company has moderate capital structure marked by moderate gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 1.08 times and 1.61 times respectively, as on March 31, 2020 vis-à-vis 1.19 times and 1.69 times March 31, 2019. Debt protection metrics is moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 3.39 times and 0.11 times, respectively, in FY2020 vis-à-vis 3.36 times and 0.23 times for FY2019. Its accruals are expected in the range of Rs. 4.50-6.50 Cr over the medium term, against repayment obligations of Rs.2.00-3.50 Cr. Acuité believes that in absence of any

major debt-funded capital expenditure; the financial risk profile is expected to remain at similar levels over the medium term.

- **Efficient working capital management**
  Akshera's working capital operations are efficiently managed as evident from Gross Current Assets (GCA) of 93-112 days over the three years ended March 31, 2020, driven by efficient receivables (53-70 days) and prudent inventory (26-44 days) respectively. Further, its working capital requirement is moderately supported by creditors (48-75 days). Its working capital limit of Rs.15.50 crore was utilised at an average of around 85 percent over the 6 months ended March 2021. Acuité believes that Akshera's operation continues to be efficiently managed by moderate net worth, efficient collection mechanism and in time inventory levels.

Weaknesses

- **Moderate scale of operations and declined revenues**
  The revenue trend of the firm is declining during the period FY2018 to FY2020. The operating income stood at Rs.99.74 Cr in FY2020 as against Rs.121.59 Cr in FY2019 and Rs.130.38 Cr in FY2017. The revenues declined on account of fall in waste paper prices impacting the realisations The average sales price in FY2020 declined to around Rs.19/kg from Rs.24/kg in FY2019. Akshera has booked the revenue of ~Rs.74 Cr for the period of FY2021 (provisional). The firm's operating margins improved to 11.96 in FY2020 as against 10.98 per cent in FY2019 as against 8.97 per cent in FY2018. Despite decline in revenue in FY2020, the firm managed to improve the margins. This is majorly on account of the firm's ability to pass the increased cost to the customers. 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.

- **Exposure to volatile raw material prices and highly fragmented and competitive industry**
  Operating margin remains susceptible to volatile raw material (waste paper) prices, which are linked directly to international prices. Any adverse fluctuation in raw material prices can impact profitability. Kraft paper is used for tertiary packaging; thus, offtake depends on industrial production and other macroeconomic factors. The recycling industry is highly intense competition and highly fragmented industrial paper industry constrains scalability, pricing power, and product differentiation.

Rating Sensitivity

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile.

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 Cr during the last three years through 2018-20, while its maturing debt obligations were in the range of Rs.2.00-2.50 Cr over the same period. The cash accruals are estimated to remain around Rs.4.00–6.75 Cr during 2021-23 while its repayment obligation are estimated to be around Rs. 2.00-3.50 Cr. Akshera's operations are efficiently managed marked by gross current asset (GCA) days of 93-112 over the three years ended March 31, 2020. Its working capital borrowings utilized at 85 percent during the last 6 months period ended March 2021. The Akshera maintains low unencumbered cash and bank balances of Rs.0.05 Cr as on March 31, 2020 and current ratio stands weak below 1.00 times during the last three years through fiscal 2018-20. 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 continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in revenues and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case Akshera registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	99.74	121.59
PAT	Rs. Cr.	3.38	3.96
PAT Margin	(%)	3.39	3.26
Total Debt/Tangible Net Worth	Times	1.08	1.19
PBDIT/Interest	Times	3.39	3.36

Status of non-cooperation with previous CRA (if applicable)
None
Any other information
None

Material covenants
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-59.htm
- 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
24-March-2020	Cash Credit	Long Term	15.50	ACUITE BB+/Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')
	Term Loan	Long Term	6.38	ACUITE BB+/Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')
	Term Loan	Long Term	0.65	ACUITE BB+ (Withdrawn)
	Proposed Bank facility	Long Term	8.37	ACUITE BB+/Stable (Reaffirmed, Outlook revised to 'Stable' from 'Negative')
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Bill discounting limit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
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	11.52	ACUITE BB+ / Stable

		Term		(Assigned)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Proposed Cash Credit	Long Term	4.15	ACUITE BB+ / Stable (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+/Stable (Reaffirmed)
Term Loan	23-03-2017	Not Applicable	23-04-2023	4.60	ACUITE BB+/Stable (Reaffirmed)
Working Capital Term Loan	Not Available	Not Applicable	Not Available	4.00	ACUITE BB+/Stable (Reaffirmed)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	7.65	ACUITE BB+/Stable (Reaffirmed)
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	1.50	ACUITE A4+ (Reaffirmed)

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