

Press Release

Akshera Papers

August 16, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.75	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	6.25	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	38.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 reaffirmed favourably factors in its established market position and experienced promoters over two decades in the Kraft Paper industry and long standing relationship with its leading customers ensuring repeated order. The rating however is constrained by declined margins and exposure to volatile raw material prices and highly fragmented and competitive industry.

About the Company

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

Acuite 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.

Average Financial Risk Profile:

Akshera Papers (AP) financial risk profile is average marked by moderate net worth, healthy gearing (debt-to equity), and moderate total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics. Firm's net worth is moderate at Rs. 22.28 Cr as on March 31, 2022(Provisionals). Gearing is healthy at 0.98 times as on March 31, 2022. TOL/TNW is moderate at 1.55 times as on March 31, 2022 against 8.79 times as on March 31, 2021. Interest coverage ratio improved to 2.25 times as on March 31, 2022 from 2.24 times on March 31, 2021. Debt service coverage ratio (DSCR) stood at 1.18 times as on March 31, 2022. Acuite believes that financial risk position of the firm will improve over the medium term.

Moderate intensive working capital:

Akshera Papers (AP) working capital management is efficient marked by its GCA of 87 days as on March 31, 2022 (Provisionals) against 149 days as on March 31, 2021. Debtor days stood at 43 days as on March 31, 2022 (Provisionals) against 76 days as on March 31, 2021. Creditor days are at 37 as on March 31, 2022(Provisional) against 105 days as on March 31, 2021. The current ratio of the firm stood at 1.07 times. Inventory days stood at 39 days as on March 31, 2022(Provisionals). Acuite believes that working capital management of the firm will remain moderate intensive over the medium term.

Weaknesses

Declined Margins

Akshera Papers reported growth in revenue of Rs.129Cr in FY22 against Rs.74.86Cr in FY21. This is mainly due to improved utilization of production capacity (35057 tonnes in FY22 from 26507 tonnes in FY21). Decline in margins due to increased raw material Prices. Firm's margins in FY22 declined due to increased raw material prices as waste paper prices increased to Rs.20,500 per tonne from pre-covid price of Rs.10,500 per tonne. Coal price doubled (currently at Rs.11,500 per tonne) during financial year 2021-2022. EBITDA and PAT margin stood at 4.38 percent and 0.20 percent in FY22 against 8.53 percent and 0.81 percent in FY21, respectively.

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 Sensitivities

- 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.

Material covenants

None

Liquidity: Adequate

AKshera Papers (AP) has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.3.18Cr for FY22, with debt repayment obligations of Rs.2.30Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.3.20Cr – Rs.4.40Cr over the medium term. The firm's working capital operations are moderate, marked by GCA of 87 days for FY22. Unencumbered cash and bank balances stood at Rs.0.08 crore as on March 31, 2022. The current ratio of the firm stood at 1.07 times in FY22. Bank limits utilization of the group stood below average at ~89 percent, over the past 12 months ending 30 April, 2022. Acuité believes that the liquidity position of the firm is likely to remain adequate because of adequate cash accruals against its debt repayments 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	74.86	99.74
PAT	Rs. Cr.	0.61	3.38
PAT Margin	(%)	0.81	3.39
Total Debt/Tangible Net Worth	Times	6.60	1.08
PBDIT/Interest	Times	2.24	3.39

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 May 2021	Proposed Bank Facility	Long Term	7.65	ACUITE BB+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	4.00	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	4.60	ACUITE BB+ Stable (Reaffirmed)
	Bills Discounting	Short Term	1.50	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	15.50	ACUITE BB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
24 Mar 2020	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	15.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	6.38	ACUITE BB+ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	8.37	ACUITE BB+ Stable (Reaffirmed)
	Bills Discounting	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	0.65	ACUITE BB+ (Withdrawn)
25 Feb 2019	Cash Credit	Long Term	15.50	ACUITE BB+ Negative (Reaffirmed)
	Term Loan	Long Term	0.65	ACUITE BB+ Negative (Reaffirmed)
	Letter of Credit	Short Term	4.75	ACUITE A4+ (Reaffirmed)
	Proposed Cash Credit	Long Term	4.15	ACUITE BB+ Negative (Reaffirmed)
	Term Loan	Long Term	8.79	ACUITE BB+ Negative (Reaffirmed)
	Proposed Long Term Loan	Long Term	4.16	ACUITE BB+ Negative (Assigned)
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)
		Long		

05 Aug 2015	Term Loan	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE BB+ Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.65	ACUITE BB+ Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Term Loan	20-03-2017	9.60	30-04-2023	4.60	ACUITE BB+ Stable Reaffirmed
Karur Vysya Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	4.00	ACUITE BB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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