



**Press Release**  
**AKSHERA PAPERS**  
**November 14, 2023**

**Rating Downgraded and Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.75	ACUITE BB   Stable   Downgraded	-
Bank Loan Ratings	5.25	-	ACUITE A4+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	38.00	-	-

**Rating Rationale**

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed its 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**'.

**Rationale for rating downgrade:**

The rating downgrade considers sharp decline in revenue in FY23 to Rs.88.84Cr on account of sluggish demand, deterioration in financial risk profile and liquidity. The firm's EBITDA margins has declined to 2.62 percent in FY23 from 3.64 percent of previous year on account of high raw material costs and low realisations. Decline in EBITDA also led to deterioration in financial risk profile during FY23. Further the liquidity position is stretched with low Net cash accruals against debt repayment obligations for FY23. However, as per the YTD figures till August 2023, the firm has registered improvement in EBITDA margin to ~7.8 percent on account of lower raw material prices. Going forward, improvement in scale of operations and profitability margins will be a key monitorable

**About the Firm**

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.

**Unsupported Rating**

Not Applicable

**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. Acuite 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 working capital operations:

Akshera Papers working capital operations are moderate marked by its GCA of 110 days as on March 31, 2023 against 87 days as on March 31, 2022. Debtor days stood at 41 days as on March 31, 2023 against 43 days as on March 31, 2022. Creditor days are at 71 as on March 31, 2023 against 51 days as on March 31, 2022. The firm has to maintain raw material inventory for 2-3 months to ensure smooth flow of production, this has led to full utilization of its fund based facilities at ~98 percent in past 12 months ending August, 2023. The current ratio of the firm stood at 0.97 times as on March 31, 2023. Acuite believes that working capital management of the firm will remain moderate intensive over the medium term.

## Weaknesses

### Decline in revenue and profitability:

AP reported revenue of Rs.88.64Cr in FY23 against Rs.127.83Cr of FY22. This sharp decline in revenue is primarily on account of sluggish demand in the market coupled by decrease in orders. AP majorly caters its products to garment manufacturing and other packaging companies, whose exports are on lower side during FY23 and low demand has led to decrease in realizations. Raw material costs was high during FY23 on account of scarcity of raw material (Waste paper). Due to low demand AP was unable to pass on the burden to its customers which led to decline in EBITDA margins to 2.62 percent against 3.64 of previous year. The firm has suffered net loss in FY23 on account of high depreciation cost. However, as per the YTD figures till August 31, 2023 the firm has shown improvement in EBITDA margins at ~7.8 percent and expected to close the year in the range of 5-6 percent. This improvement in revenue is on account of low raw material prices in the current year. But, revenue is expected to be in the range of Rs.75-80Cr as demand for Kraft papers still continued to be weak.

### Below average financial Risk Profile:

AP's financial risk profile is below average marked by declined net worth, moderate gearing (debt-to equity), and moderate total outside liabilities to total net worth (TOL/TNW). AP's net worth is moderate at Rs. 24.29 Cr as on March 31, 2023 against Rs.26.80Cr of previous year. Decline in net worth is on account of loss suffered by the company during FY23. Gearing is moderate at 1.01 times as on March 31, 2023. TOL/TNW is moderate at 1.60 times as on March 31, 2023 against 1.58 times as on March 31, 2022. Interest coverage ratio and Debt service coverage ratio's deteriorated to 1.29 times and 0.53 times respectively as on March 31, 2023 from 2.33 times and 1.27 times of previous year. Debt to EBITDA has increased to 7.28 times on account deterioration absolute EBITDA. Acuite believes that financial risk position of AP's will improve 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 Sensitivities

- Improvement in the scale of operations while improving profitability
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile

### **All Covenants**

None

### **Liquidity Position: Stretched**

Akshera papers liquidity position is stretched with inadequate net cash accruals to meet its maturing debt obligations. The firm generated cash accruals of Rs.0.76Cr for FY23, with debt repayment obligations of Rs.3.76Cr for the same period. The gap in funding was met through infusion of funds by promoters in the form of unsecured loans, which were withdrawn later. Further to this the firm's unencumbered cash and bank balances stood at Rs.0.04Cr as on March 31, 2023. The net cash accruals of the firm are estimated to be in the range of around Rs.3.5Cr – Rs.4.0Cr over the medium term against repayment obligations ranging between Rs.1.5Cr to Rs.2.5Cr.. The firm's working capital operations are moderate, marked by GCA of 110 days for FY23. The current ratio of the firm stood at 0.97 times in FY23. Bank limits utilization of the company were highly utilized at average of ~98 percent, over the past 12 months ending 31 August, 2023. Acuité believes that the firm's liquidity position is likely to improve in the medium term with 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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	88.84	127.83
PAT	Rs. Cr.	(1.90)	0.45
PAT Margin	(%)	(2.14)	0.35
Total Debt/Tangible Net Worth	Times	1.01	1.00
PBDIT/Interest	Times	1.29	2.33

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Aug 2022	Proposed Bank Facility	Long Term	7.65	ACUITE BB+   Stable (Reaffirmed)
	Term Loan	Long Term	4.60	ACUITE BB+   Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	4.00	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)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Karur Vysya Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE A4+   Reaffirmed
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	16.50	ACUITE BB   Stable   Downgraded
Karur Vysya Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.75	ACUITE A4+   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	11.45	ACUITE BB   Stable   Downgraded
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.45	ACUITE BB   Stable   Downgraded
Karur Vysya Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.35	ACUITE BB   Stable   Downgraded

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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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