

Rating Rationale

Brickwork Ratings assigns 'BWR C+' & 'BWR A4' for the Bank Loan facilities amounting to ₹ 8.12 Cr of Aura Paper Industries India Private Limited

Brickwork Ratings has assigned the following **Rating**¹ for the Bank Loan facilities sanctioned/availed from *State Bank of India* amounting to ₹ 8.12 Crores of *Aura Paper Industries India Private Limited* ("APIIPL" or "the Company")

Facilities	Limits (₹ Cr)	Tenure	Rating
Fund Based: Cash Credit	2.00	Long Term	BWR C+ (Pronounced BWR C Plus)
Fund Based: Corporate Loan	4.42		
Non Fund Based: Letter of Credit	1.20	Short Term	BWR A4 (Pronounced BWR A Four)
Non Fund Based: Bank Guarantee	0.50		
Total	8.12	INR Eight Crores Twelve Lakhs Only	

BWR has principally relied upon the audited financial results for the period FY11, FY12, FY13 and FY14 of *Aura Paper Industries India Private Limited* and publicly available information and information/clarification provided by the Company's management.

The rating factors in the promoter's experience, Tomoegawa Co. Ltd.'s continued technical assistance and increasing financial support to APIIPL, reduced gearing level and improved liquidity position in FY14, product diversification and its ongoing strategies to meet economies of scale by reducing its fixed cost and improving the customer base. However, the rating is constrained by small scale of operations due to weak order book position, concentrated customer base, deteriorating operational efficiency, acute losses since the commencement of its operations, negative cash accruals and stretched liquidity from increasing payable and receivable days.

Business Overview:

Aura Paper Industries (India) Private Limited (APIIPL) was incorporated in December 2006 and commercial production was started in 2010, promoted by Mr Kiran Chitturi. The Company is involved in manufacturing of Electrical grade Insulation Kraft Paper (IKP),

¹ Please refer to www.brickworkratings.com for definition of the Ratings

which is used in transformers conductor insulation, coil insulation, bushing insulation and crepe base paper.

The Company's manufacturing unit is located at Patancheru, Hyderabad. It has an installed capacity of 4500 tonnes per annum. During January 2012, Tomoegawa Co. Ltd (a 100-year-old Japanese company, which manufactures various papers including insulation paper) has acquired equity stake in the Company. The strategic investment and technical assistance by

Tomoegawa Co. Ltd, has helped APIIPL to ease its financial profile in terms of liquidity, gearing and, Also by acquiring the technology to manufacture superior grades of paper. APIIPL proposes to manufacture other functional papers from October 2014 to diversify its product line.

Operational Performance:

APIIPL commenced its operations in March 2010 with a limited product portfolio to manufacture insulation paper in dual-ply (twin layer). The insulation paper is mainly used in transformers, which predominantly depends on power sector. During FY12 & FY13, due to slow down in the economy and power sector issues, the growth of the industry and thereby of the Company has been adversely affected. The Company has been incurring acute losses since FY11 on account of high fixed cost and weak order book position. The installed capacity of the Company is ~4500 tonnes per annum. However, the utilisation levels are lower at 10% to 15% since the last four years with limited orders in a niche market. The capacity utilization levels have dipped from 12% in FY13 to 10% in FY14, due to reduction in orders from one of its key customer Vijai Electricals Limited.

Financial Performance:

Declining operational efficiency and increasing net losses has drained the Company's financial profile. The Company has reported a net loss of ₹ 4.72 Cr on a net sale of ₹ 5.18 Cr in FY14, as against net loss of ₹ 1.90 Cr on a net sale of ₹ 7.34 Cr in FY13. The reason for decline in revenues is also due to increased employee cost from ₹ 1.13 Cr in FY13 to ₹ 2.32 Cr in FY14, increased interest and finance charges from ₹ 1.90 Cr in FY13 to ₹ 2.26 Cr, apart from the order book position. The operating profit margins has drastically reduced from 23.20% in FY11 to 13.21% in FY13 and become negative of 30.24% in FY14. The Company's total debt has reduced from ₹ 19.66 Cr in FY13 to ₹ 6.54 Cr in FY14, which shall assist in reducing its interest cost going forward.

The accumulated losses of the Company which erodes a significant portion of the tangible net-worth has been overcome with infusion of funds to the tune of ₹ 20.83 Cr, majorly from its Japanese investor. The tangible net-worth has increased from ₹ 6.72 Cr in FY13 to ₹ 22.13 Cr in FY14 and the gearing level has reduced from 2.93 times in FY13 to 0.30 times in FY14.

Rating Outlook:

Going forward, the Company’s ability to stabilize and scale up its operations by improving the order book position, expanding customer base, reach its economies of scale by improving its capacity utilization levels and reducing the fixed cost and efficiently manage working capital for the timely servicing of its debt obligation will remain the key rating sensitivities.

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