

Press Release

Sun Paper Mill Limited

05 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 175.00Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

** Refer Annexure for details*

Rating Rationale

SMERA has assigned the long term rating to '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 175.00 cr. bank facilities of Sun Paper Mill Limited (SPML). The outlook is '**Stable**'.

Sun Paper Mill Limited (SPML), incorporated in 1961, is engaged in manufacturing of newsprint for publication houses. The company has also started trading of finished newsprint paper in FY2018. The company was promoted by Dr. S B Adityan as a backward integration to supply newsprint-grade paper to the group's flagship company, The Daily Thanthi (TDT), a leading Tamil newspaper. Currently the directors of the company are Mrs. Ananda Kala Krishnadas, Mr. Mohan Shivraman Nair, Mrs. Chandahas Moolya and Mrs. V. Anbalagan. SMPL has manufacturing facility at Cheranmahadevi (Tamil Nadu) with its capacity being 100 tons per day utilized to the tune of 85 per cent in the current year.

Key rating drivers

Strengths

Experienced management and established track record

Incorporated in 1961, SPML is in the business of manufacturing newsprint for over 5 decades. Mr. V S Rajan is the CEO of the company who is a paper technologist handling day to day operations of the business. The company has an established track record of 56 years and has an expert team of professionals with a long experience in paper industry.

Superior operating efficiencies

SPML has in house facilities including co – generation (Co-Gen) of power along with de-inking plant for recovery of pulp from ONP (Old Newspapers) for manufacturing of newsprint from 100% wood free and recycled paper raw materials. The 6 MW Co-Gen Plant generates steam as a by-product along with power generation for paper production. This leads to a reduction in power cost to a great extent. The de-inking plant helps the company to recycle already printed newspaper. However, an increased proportion of trading may constrain the operating margins in the near to medium term.

Healthy Financial Risk Profile

The healthy financial risk profile is marked by healthy network, comfortable gearing and and healthy debt protection measures. The network stood at Rs 37.36 crore as on 31 March, 2017 as compared to Rs. 20.67 crore as on 31 March, 2016. The debt equity stood at 0.51 in FY2017 times as compared to 0.95 in the previous year. The total debt of Rs.18.94 crore consists of unsecured loans from directors to the tune of Rs.5.42 crore, long term debt of Rs. 9.02 Crore and short term debt of Rs. 4.50 crore. Moreover, the Net Cash Accruals to Total Debt (NCA/TD) stood at 0.41 times while Debt Service Coverage (DSCR) stood at 4.51 times as on March 31, 2017. The Interest Coverage Ratio stood comfortable at 4.68 times in FY2017.

Weaknesses

Working Capital Intensive

The company has working capital intensive operations with GCA of 152 days in FY2017 which mainly constitutes of inventory holding of 40 days and debtors of 93 days in FY2017. The company also has high creditor days of 121 days in FY2017 which has marginally increased from 119 days in FY2016.

Susceptibility of profitability to fluctuations in raw material prices

SPML is exposed to risks emanating from adverse movements in waste paper prices in the domestic and international markets. SMERA believes that SPML's ability to pass on increase in waste paper prices to the end customer shall be critical towards maintaining its credit risk profile. Adverse movements in waste paper prices on account of global demand- supply mismatches may result in downward pressure on SPML's profitability margins over the near to medium term.

Highly competitive and fragmented industry

The company operates in a highly competitive paper industry with several organized and unorganized players which limits the bargaining power of SPML.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of SPML to arrive at the rating.

Outlook – Stable

SMERA believes that SPML will maintain a stable outlook over the medium term on account of its good operating efficiency and healthy financial profile. The outlook may be revised to 'Positive' in case of better management of working capital over the medium term.

Conversely, the outlook may be revised to 'Negative' in case of substantial deterioration in profitability margins or working capital management over the medium term.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	86.88	101.57	78.53
EBITDA	Rs. Cr.	9.49	10.42	6.71
PAT	Rs. Cr.	4.69	4.63	1.92
EBITDA Margin	(%)	10.93	10.26	8.55
PAT Margin	(%)	5.39	4.56	2.45
ROCE	(%)	14.91	18.68	26.58
Total Debt/Tangible Net Worth	Times	0.51	0.95	1.52
PBDIT/Interest	Times	4.68	3.58	2.37
Total Debt/PBDIT	Times	2.00	1.88	3.64
Gross Current Assets (Days)	Days	152	135	149

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

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

None

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.25	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.75	SMERA BBB- / Stable
FLC	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A3
Proposed (FLC/Buyers Credit)	Not Applicable	Not Applicable	Not Applicable	150.00	SMERA A3

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ABOUT SMERA

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