

## Press Release

### NEPA Limited (NEPA)

01 March, 2018



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs.178.00 Cr.
<b>Long Term Rating</b>	SMERA Provisional BBB/Stable (Assigned)

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long term rating of **Provisional 'SMERA BBB' (read as SMERA triple B)** on the Rs. 178.00 crore bank facilities of NEPA Limited (NEPA). The outlook is '**Stable**'.

National Newsprint & Paper Mills Limited (NEPA) was incorporated in 1947 and commenced commercial operations in 1956. It was taken over by the Government of India (GOI) in 1958 and changed to NEPA Limited in February 1989. The company has been under the Revival & Mill Development Plan of BIFR since 2014 and is in the process of revamping its existing newsprint manufacturing unit at Neapanagar, Madhya Pradesh.

The rating is provisional and the final rating is subject to receiving of guarantee from Government of India for the proposed bank facilities. The validity of the assigned provisional rating will be 180 days.

### Key rating drivers

#### Strengths

**Ownership and support from the Government of India (under revival plan):** The Government of India (GOI) holds 94.06 per cent and Government of Madhya Pradesh holds 5.82 per cent stake in NEPA. The boards of directors are appointed by Central and the State Government. Since 2013, the government has been supporting NEPA financially as part of its revival plan under BIFR scheme. The company receives financial aid for its planned (capital expenditure) and non-planned expenditure (operational expenses). Under the scheme of BIFR, the company has converted the Govt. of India's loan and interest of ~Rs.259.37 crore into share capital in FY2016 and Govt. of Madhya Pradesh' dues into equity capital in FY2017. The planned expenditure grant for project implementation (CAPEX) for revamping of the existing plant (new projects) is Rs.285.00 crore of which Rs.157.00 crore has been infused by GOI in the form of fresh equity in FY2014-15. Further, the GOI has also infused preference shares of Rs.60.00 crore for settlement of voluntarily retirement scheme (VRS). NEPA has approached GOI to issue a letter of comfort/guarantee to bankers for proposed debt obligations of the company.

The ownership and management of GOI and continued support will remain key rating sensitivity.

### Weaknesses

**Project implementation risk:** NEPA's revival plan was approved by GOI in 2012 and BIFR sanctioned the scheme in 2014. NEPA under Rehabilitation/Revival & Mill Development Plan is revamping the entire newsprint manufacturing plant by installing 300 TPD De-inking plant, refurbishment of both paper machines, renovation of 12.27 MW captive power plant and installing a new 9MW captive power plant. The proposed production at optimum level would be 40000 MTPA of newsprint per year and 60000 MTPA of writing & printing paper. After renovation, NEPA will continue with the brand name with higher brightness newsprint and variety of grades of White paper.

The initial project cost was around Rs.285.00 crore expected to be funded through equity of Rs.157.00 crore and term loan of Rs.128.00 crore. However, the project experienced delays related to environment clearances from Department of Heavy Industries (DHI) and non availability of funds. The delay has led to escalation in project cost by Rs.149 crore resulting in revision to Rs.434 crore, which will partially be funded by Government of India and the balance through proceeds of sale of land in Udham Singh Nagar, Uttarakhand. The company is yet to achieve the financial closure of Rs.128.00 crore. As on date, the project cost incurred is around Rs.157.00 crore (~36.00 per cent) through infusion of equity capital from GOI. The project is scheduled to be completed by November, 2018.

Timely completion of the project without further cost overruns and financial closure would remain the key rating sensitivities.

**Weak financial and liquidity profile:** The company discontinued its operations from July 2016 for revamping of the plant. The company has negative networth of Rs.109.42 crore as on March 31, 2017. The total debt of Rs.235.55 crore includes cumulative preference shares from Government of India of Rs.60.00 crore, unsecured loans from Government of India of Rs.113.59 crore and Rs.61.69 crore of overdraft against term deposits with the bank.

The company has missed its repayment of loan to the Central Government to the tune of Rs.108.74 crore as per the audit report of March 31, 2017. The company has sought waiver of the same as per the terms & conditions of BIFR sanctioned scheme.

**Intense competition and augmentation of digital media:** The growth of the Indian paper industry is dependent on economic growth and literacy rate. However, the company faces intense competition in the domestic market as well as from imported paper which constitutes around 60 per cent of the total newspaper requirement. Growth of the newsprint segment is also impacted by shift towards digital media.

## About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	35.02	73.48	106.09
EBITDA	Rs. Cr.	(53.88)	(53.92)	(40.45)
PAT	Rs. Cr.	(68.62)	(70.12)	(48.71)
EBITDA Margin	(%)	(153.87)	(73.38)	(38.13)
PAT Margin	(%)	(195.95)	(95.43)	(45.91)
ROCE	(%)	(29.48)	(37.05)	(41.42)
Total Debt/Tangible Net Worth	Times	(2.15)	(5.57)	(7.75)
PBDIT/Interest	Times	(1.65)	(2.34)	(2.27)
Total Debt/PBDIT	Times	-4.37	-3.75	-2.86
Gross Current Assets (Days)	Days	514	499	157

**Analytical approach:** SMERA has considered the standalone financial and business risk profiles of the company and factored in GOI support while arriving at the rating.

**Any other information:** Not Applicable

## Outlook – Stable

SMERA believes that NEPA will maintain a stable outlook over the medium term on account of support from the Government of India. The outlook may be revised to 'Positive' in case the company successfully implements the project as per the expected commercial operations date (COD) and generates cash flows which will be adequate to service the debt obligations of the company. Conversely, the outlook may be revised to 'Negative' in case of further delay in project implementation and/or delays in receipt of approvals for revision in repayment schedule thereby impacting NEPA's debt servicing ability.

## Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Government Support - <https://www.smera.in/criteria-gov.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
Proposed Term Loan	NA	NA	NA	128.00	SMERA Provisional BBB/Stable (Assigned)
Proposed Cash Credit	NA	NA	NA	50.00	SMERA Provisional BBB/Stable (Assigned)

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## ABOUT SMERA

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