

## Press Release

**Nepa Limited**

May 23, 2019



### Rating Review

<b>Total Bank Facilities Rated*</b>	Rs. 178.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable (Converted to final rating from ACUITE BBB / Stable (Provisional))

\* Refer Annexure for details

### Rating Rationale

Acuite has converted the provisional rating of 'ACUITE Provisional BBB (read as ACUITE triple B) to final rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 178.00 crore bank facilities of NEPA Limited (NL). The outlook is '**Stable**'.

National Newsprint & Paper Mills (NEPA) Limited 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 converted to final rating on account of support from GOI for Revival plan and payment of employee in form of capital infusion and interest free loans. The company does not plan to raise any bank debt in near to medium term.

#### Analytical Approach

Acuite has considered standalone business and financial risk profile of the company and factoring in the support from GOI while arriving at the final rating.

### 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 has received 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 capital expenditure 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.

NEPA has also been granted budgetary support of Rs.469.41 crore from GOI as on dated 12<sup>th</sup> October, 2018. Out of the total funds, ~Rs.277 crore shall be towards financing RMDP, Rs.101.58 crore towards funds required for payment of salary and wages and statutory dues of employees and other payments of the company and Rs.90.83 crore in form of 7% non-cumulative preference shares towards funding VRS for about 400 employees of NEPA Ltd.

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. The same is funded by Government of India in form of infusion of equity of Rs.157 crore and remaining Rs.277 crore.

The company has also brought Rs.94.22 crore as proceeds of sale of land in Udham Singh Nagar, Uttarakhand. As on date, the project cost incurred is around Rs.180.73 crore (~42.00 per cent) through infusion of equity capital from GOI. The project is scheduled to be completed by December, 2019. 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.19.29 crore as on March 31, 2018. The total debt of Rs.148.58 crore includes unsecured loans from Government of India of Rs.17.29 crore and Rs.34.99 crore of overdraft against fixed deposits with the bank. The company has sought waiver of the repayment of principal and interest of government loan 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.

### Liquidity position

NL has adequate liquidity due to government support for reviving the commercial operations and payment of salaries and wages to employees. The Government of India has approved the proposal of company and sanctioned infusion of additional equity of Rs.277 crore towards financing the Revival & Mill Development Plan, sanction of loan of Rs.101.58 crore towards funds required for payments of salary and wages and statutory dues of employees and Rs.90.83 crore in form of 7% non-cumulative preference shares towards funding of Voluntary Retirement Scheme. The company currently does not avail any long term debt from bank. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of government support.

### Outlook: Stable

Acuite 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.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	16.68	35.02	73.48

EBITDA	Rs. Cr.	(40.50)	(53.88)	(53.92)
PAT	Rs. Cr.	30.12	(68.62)	(70.12)
EBITDA Margin	(%)	(242.79)	(153.87)	(73.38)
PAT Margin	(%)	180.58	(195.95)	(95.43)
ROCE	(%)	44.48	(29.48)	(37.05)
Total Debt/Tangible Net Worth	Times	(7.70)	(3.55)	7.86
PBDIT/Interest	Times	2.16	(1.65)	(2.34)
Total Debt/PBDIT	Times	2.58	(4.17)	(3.04)
Gross Current Assets (Days)	Days	1,482	514	499

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

None

#### Any other information

Not Applicable

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Government Support - <https://www.acuite.in/view-rating-criteria-26.htm>

#### Note on complexity levels of the rated instrument

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

#### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
1-3-2018	Proposed Term Loan	Long Term	128.00	ACUITE Provisional BBB / Stable (Assigned)
	Proposed Cash credit	Long Term	50.00	ACUITE Provisional BBB / Stable (Assigned)

#### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	178.00	ACUITE BBB / Stable (Reaffirmed)

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