

## Press Release

### Star Paper Mills Limited

09 March, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 29.00 Cr.
<b>Long Term Rating</b>	SMERA A-/ Outlook: Stable
<b>Short Term Rating</b>	SMERA A2+

\* Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA A- (read as SMERA A minus)**' and short term rating of '**SMERA A2+ (read as SMERA A two plus)**' on the Rs. 29.00 crore bank facilities of Star Paper Mills Limited (SPML). The outlook is '**Stable**'.

Incorporated in 1936- Star Paper Mills Limited (SPML) is an integrated pulp and paper mill, located in Saharanpur, Uttar Pradesh. The company was originally promoted by Seth Baldeodass Bajoria which was later it was taken over by Duncan Goenka Group in 1986 having interest across diverse business segments like paper, engineering, ply, tea, etc. The company produces writing, printing and packaging paper with an installed capacity of 75000 tons per annum. The company sells its products under the 'Star' brand.

### Key Rating Drivers

#### Strengths

#### **Experienced management and long track record of operations**

Incorporated in 1935 the company has a long track record of 8 decades in the paper manufacturing industry. The company was originally promoted by Seth Baldeodass Bajoria, later it was taken over by Duncan Goenka Group in 1986.

#### **Improvement in scale and profitability**

SPML has witnessed an improvement in scale of operations where the company has registered revenue of Rs 322.05 crore in FY 17 as against Rs 271.14 crore in FY 16. The rise in the topline is on account of better utilization of the installed capacity in FY 17 coupled by improvement in realization of bleached products. The capacity utilization level improved to 88 per cent in FY 17 as compare to 74 per cent in FY 16. The realization also improved for bleached items (writing and printing papers) improved to Rs 53,197.96 per MT from Rs 52,154 in FY 16. During the current year the company has achieved revenue of Rs 249.78 crs till Dec'17 (provisional).

Backed by improvement in realization, fall in wood chips prices and reduction in the power cost has led to improvement in operating margins in FY 17 to 21.38 per cent as compare to 9.46 per cent in FY 16. Going forward, maintenance of the profitability margins would remain a key rating sensitivity.

#### **Robust Financial risk profile**

SMPL's healthy financial risk profile is marked by healthy net worth base, comfortable gearing and robust debt protection metrics. The net-worth base of the company stands healthy at Rs 123.51 crs in FY 2017 as against Rs 63.56 crs in FY 2016. The gearing stood comfortable at 0.03 times in FY 17 as against 0.10 times in FY16. The low gearing is on account of reliance on internal accruals to fund its working capital requirement.

The total debt of Rs 4.25 crs as on 31st March'17 consists of Rs 3.13 crs of unsecured loans from related parties and Rs 1.12 crs of working capital facility. The debt protection metrics stands robust with interest coverage and debt service coverage ratios of 56.91 times and 51.30 times respectively in FY2017 as compared to 10.79 times and 9.13 times respectively in FY2016. SMERA believes SPML will continue to maintain a healthy financial risk profile in the medium term with no long term repayment obligations in the medium term.

### **Comfortable liquidity**

SPML has a healthy liquidity profile marked by mutual fund investment of Rs 30.03 crore as on 31st March'17 which increased to Rs 54.13 crore as on 31st December'17 (provisional). Further the cash flow from operations too had been positive during the period under review (FY15-FY17) on the back of healthy cash flow generated from the business and in the absence of any long term repayment.

### **Prudent Working Capital Cycle**

SPML has a prudent working capital cycle marked by Gross Current Asset (GCA) days of 84 in FY 17 as against 74 days in FY 16. The debtors have been in the range of 7-15 days during the period under review (FY 15-17). The low debtor days are on account of strong network of 60 dealers having pan India presence with whom SPML has a healthy relationship. The inventory days during the period under the review were ~ 33-47 days, where majority of the inventory are for stores and spares which constituents ~ 40-45 per cent. Being close to Yamuna Nagar the procurement hub of wood chips which is 30-35 kms from the plant location gives easy and relatively quick access to raw materials resulting in lower inventory holding and transportation cost.

Being present in the business for last eight decades has resulted in strong bargaining power with the suppliers as envisaged from high creditor days of 123 days in FY 17 as compare to 181 days in FY 16. The prudent working capital cycle has resulted in minimum dependence on external borrowings to fund its working capital requirement. Average utilization in the 12 months ending Sept'17 has been 12.81 per cent.

### **Weaknesses**

#### **Exposure to cyclicity inherent in the industry**

The demand for paper industry is subject to cyclicity in the economy. Furthermore, the industry is highly fragmented and intensely competitive due to the presence of more than 350 paper mills.

#### **Exposure to group company**

SPML has exposure to group company via non-current investments worth Rs.32.29 crore which is ~26.14 per cent of SPMLs tangible net worth. As indicated by the management, the exposure to group companies is not likely to increase in the near to medium term.

### **Analytical Approach**

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of SPML.

### **Outlook: Stable**

SMERA believes that the outlook on SPML will remain stable over the medium term on account of the company's established position in the paper industry. The outlook may be revised to 'Positive' in case of increase in its scale of operations and sustainability of its profitability and further improvement in the financial risk profile. The outlook may be revised to 'Negative' in case the company fails to increase its scale of operations or deterioration in the profitability and any deterioration in the financial risk profile would lead to 'Negative' outlook.

### About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	322.05	271.64	271.79
EBITDA	Rs. Cr.	68.86	25.70	15.15
PAT	Rs. Cr.	59.94	16.50	15.54
EBITDA Margin	(%)	21.38	9.46	5.57
PAT Margin	(%)	18.61	6.07	5.72
ROCE	(%)	59.91	30.74	31.61
Total Debt/Tangible Net Worth	Times	0.03	0.10	0.29
PBDIT/Interest	Times	56.91	10.79	4.68
Total Debt/PBDIT	Times	0.06	0.24	0.87
Gross Current Assets (Days)	Days	84	76	68

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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>

### 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	19.00	SMERA A-/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.95	SMERA A2+
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.05	SMERA A2+

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## ABOUT SMERA

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