

**Press Release**

**Star Paper Mills Limited**

May 03, 2019

**Rating Reaffirmed**



<b>Total Bank Facilities Rated*</b>	Rs. 29.00 Cr.
<b>Long Term Rating</b>	ACUITE A-/Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A2+ (Reaffirmed)

\* Refer Annexure for details

**Rating Rationale**

Acuite has reaffirmed long term rating of '**ACUITE A-** (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) to 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 promoted by Seth Baldeodass Bajoria which was later 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.

**Analytical Approach**

Acuite has considered the standalone business and financial risk profile of SPML to arrive at the rating.

**Key Rating Drivers:**

**Strengths**

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

Incorporated in 1936, the company has a long track record of 8 decades in the paper manufacturing industry. The company was promoted by Seth Baldeodass Bajoria, later it was taken over by Duncan Goenka Group in 1986. Over the years, the company has been able to establish comfortable relationships with their key suppliers and customers.

**Improvement in scale of operation**

The company's revenues have increased in FY2018 to Rs.339.03 crore when compared to Rs.322.05 crore in FY2017. The company has reported revenues of around Rs. 291 crore till December 31, 2018 (provisional). The improvement in the turnover levels of the company have been primarily on account of improvement in realization of both bleached and unbleached paper. Moreover, the capacity utilization levels have also witnessed improvement to 97 percent in FY'2019 (provisional) from 88 percent in the previous year.

**Robust financial risk profile**

The robust financial risk profile of the company is marked by strong net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stands healthy at Rs.406.01 crore in FY2018 as increased from Rs.352.82 crore in FY2017, mainly due to retention of annual profit. The networth stands healthy at Rs.419.08 as on 30<sup>th</sup> September 2018 (Prov.) Due to negligible utilization levels of fund based debt, the gearing stood at NIL as on March 31, 2018 as compared to 0.01 times in the preceding year .The debt profile of Rs.1.53 crore consist of short term debt from bank. Interest coverage ratio (ICR) is strong and stands at 76.27 times in FY 2018 as against 56.91 times in FY 2017. The debt service coverage ratio (DSCR) also stands robust at 59.17 times in FY2018 as against of 51.30 times in FY2017. The net cash accruals to total debt (NCA/TD) stand comfortable at 39.82 times in FY2018 as compared to 15.08 times in the previous year.

### Prudent Working capital cycle

SPML has a prudent working capital cycle marked by Gross Current Asset (GCA) days of 44 in FY 18 as against 56 days in FY 2017. The debtors have been in the range of 8-13 days during the period under review (FY 16-18). The low debtor days are on account of healthy relationships with their customers coupled with continuous monitoring by the company. The inventory days during the period under review were ~ 40-59 days, where majority of the inventory are for stores and spares. 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 117 days in FY 18 as compared to 127 days in FY 17. 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 March'19 has been only 6.05 per cent.

### Weaknesses

#### Decline in profitability

The profitability margins of SPML has dipped in FY 2018-19 and for the 9M ended December'18, the company registered operating margins of ~12.84 percent (prov) as against 19.09 percent in the corresponding period a year earlier. The dip in margins is mainly on account of rise in power & fuel cost.

#### Exposure to inherent cyclicity 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.

#### Liquidity Position

The company has strong liquidity marked by healthy net cash accruals of Rs.61.02 crore as against nil debt obligation. The working capital is efficiently managed as reflected by gross current asset (GCA) days of 64 in FY 2018. The liquidity also marked by 6.05 per cent utilization in working capital limit. SMPL's healthy liquidity profile is also marked by mutual fund investment of Rs 61.57 crs, investment in unquoted share of Rs 16.90 crs and free cash of Rs.2.83 crore in FY2018.

#### Outlook: Stable

Acuite 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 while improving its profitability. The outlook may be revised to 'Negative' in case the company fails to increase its scale of operations or further deterioration in the profitability.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	339.03	322.05	271.64
EBITDA	Rs. Cr.	64.73	68.86	25.70
PAT	Rs. Cr.	56.95	59.94	16.50
EBITDA Margin	(%)	19.09	21.38	9.46
PAT Margin	(%)	16.80	18.61	6.07
ROCE	(%)	16.46	16.68	10.28
Total Debt/Tangible Net Worth	Times	0.00	0.01	0.02
PBDIT/Interest	Times	76.27	56.91	10.79
Total Debt/PBDIT	Times	0.02	0.06	0.24
Gross Current Assets (Days)	Days	64	56	59

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

None

**Any other information**

None

**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/criteria-fin-ratios.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
09-Mar-2018	Cash Credit	Long Term	19.00	ACUITE A-/Stable (Assigned)
	Bank Guarantee	Short Term	4.95	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	5.05	ACUITE A2+ (Assigned)

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

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.14	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.86	ACUITE A-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.85	ACUITE A2+ (Reaffirmed)

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**About Acuité Ratings & Research:**

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