

Press Release

Star Paper Mills Limited

September 16, 2020

Rating Withdrawn



Total Bank Facilities Rated*	Rs. 29.00 Cr.
Long Term Rating	ACUITE A- (Withdrawn)
Short Term Rating	ACUITE A2+ (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reviewed and withdrawn the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.29.00 crore bank facilities of Star Paper Mills Limited (SPML).

The withdrawal is on account of client's request and receipt of NOC from the banker. The withdrawal is in accordance with Acuite's policy on withdrawal.

Incorporated in 1936, Star Paper Mills Limited (SPML) is an integrated pulp and paper mill, located in Saharanpur, Uttar Pradesh. The unit is integrated into nature where the company manufactures pulp to paper. The company has a captive power plant of 14 MW. 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 profiles of SPML to arrive at this 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. The company is backed by a team of well-educated and experienced professionals. Acuite believes that the vast experience of the promoter and the long track record has helped the company to establish long-standing relations with its customers and suppliers.

- **Comfortable financial risk profile**

The financial risk profile of the company is marked by high net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at Rs. 488.30 Cr. as on 31 March, 2020 as against Rs.455.29 Cr. as on 31st March, 2019. The increase in net worth is mainly due to the accretion of profit to reserves. The gearing (debt-equity) stood nil in FY2020 due to no debt in the books. The company has neither long term borrowings nor short term borrowings in FY20. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood healthy at 84.84 times and 66.50 times in FY2020 as compared to 86.88 times and 89.43 times in FY2019, respectively. The NCA/TD stood at 40.92 times in FY2020.

- **Prudent working capital operations**

The company's working capital operations are prudent, marked by Gross Current Asset (GCA) days of 101 days in FY2020 as against 63 days in FY2019. High GCA days in FY2020 is majorly on account of the high inventory holding period of 99 days in FY2020 as against 55 days in FY2019. The receivable days stood at 4 days in FY2020 against 7 days in FY2019. The low debtor days are on account of healthy relationships with their customers, coupled with continuous monitoring by the company. Being present in the business for the last eight decades has resulted in strong bargaining power with the suppliers as envisaged from high creditor days of 115 days in FY20 as compared to 94 days in FY19. The prudent working capital cycle has resulted in nil dependence on external borrowings to fund its working capital requirement.

Weaknesses

• Flattish Revenues

The revenues of the company have remained largely flattish in the past two years until FY2020. The revenues stood at Rs. 347.86 crore in FY2020 against Rs. 377.53 crore in FY2019, which marks a marginal decline of 7.8 per cent in FY2020. The marginal decline in revenues is mainly on account of lower volume in FY2020 driven by subdued demand for paper. Moreover, the company has achieved revenues of Rs.26.02 crore in Q1FY2021, lower than previous quarter majorly impacted by Covid-19 pandemic. Though the company witnessed a slight decline in revenues, the company is still operating at a healthy scale.

• Highly fragmented and competitive industry

The paper industry is highly fragmented and competitive due to the presence of several organized and unorganized players. The industrial paper industry is subject to stringent environmental and pollution control norms as paper mills contribute significantly to air and water pollution. Players in the industry have to comply with stringent effluent treatment norms of pollution control boards and complete discretion of the government, which led to high compliance risks. However, most of the pulp-based paper mills have adopted environment-friendly technologies to minimize wastage and maximize recycling/reuse materials to produce eco-friendly paper. Acuite believes that adherence to several environmental regulations and continuous investments are required to comply with the norms, which is likely to impact the profit.

Material Covenants

None

Rating Sensitivity

Not Applicable

Liquidity Profile: Strong

The company's liquidity is strong, marked by net cash accruals of Rs.42.43 crore in FY2020 against no long term debt obligations. Moreover, the company's operations are moderately working capital intensive marked by Gross Current Asset (GCA) days of 104 days in FY2020 (Provisional) as against 82 days in FY2019. The current ratio stood at 1.59 times as on March 31, 2020. Also, the company has surrendered its working capital limits in 2019. The company maintained unencumbered cash and bank balances of Rs.5.66 crore as on March 31, 2020.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	347.86	377.53
PAT	Rs. Cr.	37.27	53.20
PAT Margin	(%)	10.71	14.09
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	84.84	86.88

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-May-2019	Cash Credit	Long Term	10.14	ACUITE A-/ Stable (Reaffirmed)
	Cash Credit	Long Term	8.86	ACUITE A-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.75	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	2.20	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	2.20	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	2.85	ACUITE A2+ (Reaffirmed)
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 (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.14	ACUITE A- (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.86	ACUITE A- (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE A2+ (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE A2+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.20	ACUITE A2+ (Withdrawn)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.85	ACUITE A2+ (Withdrawn)

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About Acuité Ratings & Research:

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