



SMERA RATINGS LIMITED

The Mysore Paper Mills Limited (MPL)

Rating Rationale

August 19, 2015

Facilities	Amount (Rs. Crore)	Rating
Non Convertible Debenture (NCD) Issue*	50.00	SMERA Provisional AA- (SO)/ Stable (Reaffirmed)
Non Convertible Debenture (NCD) Issue*	40.00	SMERA Provisional AA- (SO)/ Stable (Reaffirmed)

**Credit enhancement on account of an unconditional and irrevocable guarantee given by the Government of Karnataka (GoK)*

SMERA has reaffirmed the ratings of '**SMERA Provisional AA- (SO)**' (read as provisional double A minus structured obligation) on the abovementioned Non Convertible Debenture (NCD) issue of The Mysore Paper Mills Limited (MPM). The outlook is '**Stable**'. The rating continues to draw core support from the GoK's unconditional and irrevocable guarantee extended towards the timely payment of principal and interest on the NCDs. The ratings accordingly reflect GoK's credit risk profile.

The ratings are provisional in nature and the final rating is subject to the execution of an unconditional and irrevocable guarantee from the GoK for the timely payment of dues related to the instrument, and the execution of a trust deed (with a SEBI registered trustee) which clearly outlines the payment mechanism, escrow mechanism and rights and obligations of various parties involved in the issuance. The trustees of the abovementioned issues have listed MPM as a defaulter. However, the trustees have intimated SMERA that the listing is on account of non-execution of key documents such as trust deed and tripartite agreement. The trustees confirm that MPM has been regular in making the payments due to the debenture holders.

The ratings centrally factor in adherence to a specific legal payment mechanism administered by the trustee of the NCD. The payment mechanism is as follows:

- At least seven days prior to the forthcoming due date (T) for interest or principal payment (T- 7), MPM shall either credit the requisite funds (for servicing the debenture holders) in the Trust & Retention Account (TRA) on the forthcoming due date 'T', or put the requisite funds in a fixed deposit with a designated bank.
- If MPM fails to do so, it will inform the GoK about the same.
- In case MPM fails to intimate the GoK as required, the trustee shall intimate the GoK.

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- iv. If the shortfall in the TRA persists for three days before the due date, the trustee will invoke the guarantee.
- v. On invocation of the guarantee, GoK must promptly deposit clear funds to the extent of shortfall into the TRA.

SMERA believes GoK's credit profile benefits from healthy fiscal and economic parameters. The state's deficit and indebtedness levels are within the targets laid down by the Thirteenth Finance Commission (ThFC). Karnataka has successfully maintained a revenue surplus throughout the last three years despite economic slowdown and pay commission revisions.

Outlook: Stable

In SMERA's opinion, GoK's credit profile is underscored by healthy economic parameters and sound fiscal profile. A consistent improvement or deterioration in the fiscal and economic ratios of the state may lead to a revision of its rating outlook to either positive or negative.

Rating sensitivity factors

- GOK's unconditional and irrevocable guarantee
- Adverse implications of the reference made by MPM in BIFR

About the company

MPM was founded in 1937 by Sri. Krishnaraja Wodeyar Bahadur, Maharaja of the erstwhile Mysore State. MPM became a government company in 1977 under Section 617 of the Companies Act, 1956.

MPM's registered office is located in Bangalore. The company has a manufacturing unit in Shimoga, Karnataka. MPM is currently owned by GoK (65 per cent shareholding), financial institutions (18 per cent shareholding) and general public (17 per cent shareholding). The company has 4,000 employees.

MPM is an ISO-14001-certified company engaged in manufacturing of newsprint and writing, printing and packaging (WPP) paper. The company also manufactures white sugar. MPM has newsprint production capacity 75,000 tonnes per annum (tpa) and WPP production capacity of 30,000 tpa. The company has sugarcane crushing capacity of 2,500 tonnes per day. MPM has a sugar factory as an integrated part of the paper mill in which bagasse (a by-product) is used as a raw material for manufacturing WPP. The company also has a captive power plant.

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The company has made a reference to the Board for Industrial Financial Reconstruction (BIFR) in 2011, following significant amount of accumulated losses and erosion of net worth.

For FY2013-14 (refers to financial year, April 01 to March 31), MPM reported net loss of Rs.78.16 crore on total income of Rs.397.05 crore as compared with net loss of Rs.76.89 crore on total income of Rs.416.98 crore in FY2012-13

Contact List:

Media/Business Development	Analytical Contact	Rating Desk
Antony Jose Vice President – Business Development, Mid Corporate Tel: +91-22-6714 1191 Cell: +91 9820802479 Email : antony.jose@smera.in Web: www.smera.in	Parimal Thakker Associate Vice President – Corporate Ratings Tel: +91-11-41806663 Email: parimal.thakker@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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