Star Paper Mills Limited

January 10, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facility	19.00	**CARE BB+; ISSUER NOT COOPERATING* (Double B Plus; ISSUER NOT COOPERATING)**	Issuer not cooperating; Based on best available information
Short term Bank Facility	10.00	**CARE A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING)**	
Total	**29.00 (Rs. Twenty Nine crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Star Paper Mills Limited (SPML) to monitor the ratings vide e-mail communications/letters dated July 28, 2017, August 9, 2017, November 2, 2017, November 24, 2017, December 1, 2017 and December 12, 2017 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, Star Paper Mills Limited has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Star Paper Mills Ltd.'s bank facilities now be denoted as **CARE BB+/CARE A4+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The ratings takes into account the volatility in raw material prices, exposure to group companies and liquidity stress in one of the group companies. However, the ratings derive strength from long track record of the company, diversified products with established client base, reduced dependency on grid power, comfortable leverage parameters and improved financial performance in FY17 (refers to the period from April 01 to March 31).

Detailed description of the key rating drivers

At the time of last rating on September 19, 2016 the following were the rating strengths and weaknesses (updated for the information available from Stock Exchange):

Key Rating Strengths

Long track record

The "Duncans" brand dates back to 1860s when a Scottish businessman, Walter Duncans, set up tea business in India. Goenka family took-over the business in early 1950s. Shri G.P. Goenka has been spearheading the business since 1979. He is currently supported by his son Shri S. V. Goenka in managing day-to-day operations of the group, who also has an experience of over a decade. The group took the management and control of Star Paper Mills in 1986 thereby having a track record of around three decades in the paper industry.

Diversified products with established client base

SPML manufactures different types of paper and paper products catering to different segments of the market. Furthermore, the company is one of the largest manufacturers in the Absorbent Kraft and Virgin Kraft segment and also enjoys a leading market share.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

**Issuer did not cooperate; Based on best available information*

Reduced dependence on grid power, with reduction in fuel price and usage of pet coke

Paper industry is power intensive, with power cost accounting for 26% of the cost of sales in FY16 vis-à-vis 29% in FY15. The company's operation requires around 13 MW of power. The company has two captive power plants of 5 MW each (one diesel based and other coal based). With decline in diesel prices coupled with usage of pet coke in place of coal, has led to reduction in the power cost of SPML in FY16 vis-à-vis FY15. Accordingly, power consumption from own generation increased from 48% in FY15 to 90% in FY16. Hence for sourcing the balance power (10%), the company is dependent on the grid which costs around Rs.8.50 per unit (Rs.8.15/unit in FY15).

Comfortable leverage parameters

Debt equity & overall gearing ratio of the company improved and stood at 0.07x & 0.10x as on March 31, 2017 vis-à-vis 0.12x & 0.23x as on March 31 2016. The improvement was mainly on account of accretion of profit to reserves.

Improved financial performance

In FY17, total operating income of SPML improved to Rs.324.12 crore as compared to Rs.271.97 crore in FY16. The PBILDT level and margin of the company showed a drastic improvement and stood at Rs. 70.97 crore and 21.90% in FY17 vis-à-vis Rs. 26.03 crore and 9.57% in FY16. The interest coverage ratio of the company also improved and stood at 55.88x in FY17 vis-à-vis 10.20x in FY16. GCA of the company stood at Rs.71.21 crore vis-à-vis nil debt repayment obligation in FY17.
In H1FY18, the company has reported PAT of Rs.13.52 crore on total operating income of Rs.88.93 crore.

Key Rating Weaknesses

Volatility in raw material prices

Raw material is the single largest cost of paper manufacturers. The supply of wood to domestic paper industry from natural forest resources is restricted by strict government regulations and causes raw material availability issues. Though the company is increasing its emphasis on development and plantation of clonal saplings, dependence of external wood/ bamboo supplies is still high, thereby exposing the company to the risk of raw material availability and volatility in raw material prices.

Exposure to group companies

As on March 31, 2017, the net exposure of SPML to its associate company (ISG Traders Ltd) continues to be at Rs.32.3 crore (net of provision for diminution in the value of investment of Rs.3.5 cr). The exposure accounted for 29% of networth as on March 31, 2017 (51% of networth as on March 31, 2016).

Analytical approach: For arriving at the ratings, CARE has taken standalone view of the financials of SPML.

Applicable Criteria

Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments

About the Company

Incorporated in 1936, Star Paper Mills Limited is an integrated pulp and paper mill, the management and control of which was taken over by Duncan Goenka Group in the year 1986. The company produces a wide range of industrial, packaging and cultural papers catering to almost all segments of the market. The company sells its paper under 'Star Brand' with a distribution network throughout the country besides exporting products to neighboring countries.

The Duncan Goenka group is headed by Shri G. P. Goenka who is currently supported by his son Shri S. V. Goenka. The group has interest across diverse business segments like paper, engineering, ply, tea, etc.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	271.97	324.12
PBILDT	26.03	70.97
PAT	16.50	59.94
Overall gearing (times)	0.23	0.10
Interest coverage (times)	10.20	55.88

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Ishan Marda
Tel: 033-4018 1604
Mobile: +91 9831984640
Email: ishan.marda@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	19.00	CARE BB+; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A4+; ISSUER NOT COOPERATING*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	19.00	CARE BB+; ISSUER NOT COOPERATING*	-	1)CARE BB+ (19-Sep-16)	1)CARE BB+ (15-Sep-15)	1)CARE BB- (13-Mar-15)
2.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A4+ (19-Sep-16)	1)CARE A4+ (15-Sep-15)	1)CARE A4 (13-Mar-15)

* *Issuer did not cooperate; Based on best available information*

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691