

## Star Paper Mills Limited

June 17, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	19.00	CARE BB+; ISSUER NOT COOPERATING* (Double B Plus; ISSUER NOT COOPERATING)	ISSUER NOT COOPERATING*; Based on best available information
Short-term Bank Facilities	10.00	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING)	
<b>Total</b>	<b>29.00</b> <b>(Rupees Twenty nine crore only)</b>		

*Details of facilities in Annexure-1*

*\*Issuer did not cooperate; based on best available information*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Star Paper Mills Limited (SPML) to monitor the ratings vide letter dated May 29, 2019 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 of SPML'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 take 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 satisfactory financial performance, though deterioration in FY19 (refers to the period from April 01 to March 31).

### Detailed description of the key rating drivers

At the time of last rating on January 10, 2018 the following were the rating strengths and weaknesses (updated from the information available from Stock Exchange):

#### Key Rating Strengths

##### Long track record of operations of the company

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.

##### 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 29% of the total sales in FY19 vis-à-vis 24% in FY18. The company's operation requires around 13 MW of power (as per the data shared in FY16). The

<sup>1</sup> Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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). This apart the power costs increased by about 30% over the previous year even though the sales grew by 9%.

#### **Comfortable leverage parameters**

Debt equity & overall gearing ratio of the company stood at 0.01x & 0.02x respectively as on March 31, 2019. The comfortable leverage position is due to low debts and healthy net-worth position of the company.

#### **Satisfactory, financial performance, though deterioration witnessed in FY19**

In FY19, total operating income of SPML improved to Rs.377.74 crore as compared to Rs.345.87 crore in FY18. The PBILDT level and margin of the company, however, declined to Rs.49 crore and 13.05% respectively in FY19 from Rs.67 crore and 19.42% respectively in FY18. The interest coverage ratio was comfortable in FY19. GCA of the company stood at Rs.38.96 crore in FY19 (FY18: Rs.59.05 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, 2018, the net exposure of SPML to its associate company (ISG Traders Ltd) was at Rs.16.89 crore. The exposure accounted for 4.17% of the total net-worth as on March 31, 2018 (3.91% of the net-worth as on March 31, 2017).

**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, SPML 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.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (Abridged)</b>
Total operating income	345.87	377.74
PBILDT	67.16	49.29
PAT	54.26	53.19
Overall gearing (times)	0.02	0.02

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

**Annexure-1: Details of 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* Issuer not cooperating; Based on best available information
Non-fund-based - ST-BG/LC	-	-	-	10.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	19.00	CARE BB+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	-	1)CARE BB+; ISSUER NOT COOPERATING* (10-Jan-18)	1)CARE BB+ (19-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	-	1)CARE A4+; ISSUER NOT COOPERATING* (10-Jan-18)	1)CARE A4+ (19-Sep-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**