



Press Release

February 21, 2024

**STAR PAPER MILLS LIMITED
Rating Assigned**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITEA+ Stable Assigned	-
Total Outstanding	100.00	-	-

Rating Rationale

Acuite has assigned its long term rating of ‘**ACUITEA+**’ (read as **ACUITE A plus**) on the Rs.100.00 Crore bank facilities of Star Paper Mills Limited (SPML). The Outlook is '**Stable**'.

Rationale for Rating

The rating assigned reflects the established track record and experience of the promoters of more than three decades in the manufacturing of papers. Further, the rating factors in the strong growth in the scale of operations over the past years, wherein SPML has achieved a revenue of Rs.492.69 Crore in FY23 against Rs.330.54 Crore in FY22 supported by better margins over the period of time. EBIDTA margins stood at 16.40% in FY 2023 as against 9.68% in FY 2022. Also, capital structure is healthy owing to no reliance on external funds with total outside liabilities to adjusted net-worth ratio of 0.23 times as on 31st March 2023 and highly comfortable debt protection metrics with a debt service coverage ratio of 127.83 times. Further, the company has a longstanding relationship with reputed clients namely Akshaydeep papers private limited, Esskay impex, Raghav Trading corporation etc. However, the rating is constrained due to the intensive working capital operations with a high GCA days of xxx. Further, the volatility in operating margins is a constraint owing to fluctuating input material prices, as also, the company operates in a highly competitive industry.

About the Company

Star Paper Mills Limited (SPML) is an integrated Pulp and Paper Mill located at Saharanpur, U.P. The company was incorporated in 1936. It is part of Kolkata based Duncan-Goenka Group owned by Mr. G.P. Goneka. The company produces a wide range of Industrial, Packaging and Cultural Papers catering to almost all segments of the market. The company is currently managed by Mr. Madhukar Mishra. The company is based in West Bengal.

Unsupported Rating

Not applicable.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of Star Paper Mills Limited to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations of the company

The company was incorporated in 1936 and integrated pulp and paper mill located at Saharanpur. It is a part of Kolkata based Ducon-Goenka Group owned by Mr. G.P. Goenka. The family took-over the business and Shri G.P. Goenka has been spearheading the business since 1979. It is engaged into wide range of Industrial, Packaging and Cultural Papers catering to almost all segments of the market. The company also operates two turbines of 5 megawatts and 6 megawatts each. The extensive experience of the promoters and the management has helped the company build strong presence in the market. Further, the company is able to maintain a long-standing relationship with its supplier and customer.

Acuite believes that the company will continue to benefit from its extensive experience and longstanding relationship with its customers and suppliers in the paper industry.

Healthy Financial Risk Profile

The company has a healthy financial risk profile marked by healthy tangible net-worth and healthy debt protection metrics. The tangible net worth of the group stood at Rs.594.42 Cr as on March 31, 2023 against Rs.534.82 Crore as on 31st March 2022. The net-worth has improved sequentially due to accretion of profits in reserves. The capital structure is healthy owing to no reliance on external funds with total outside liabilities to adjusted net-worth ratio of 0.23 times as on 31st March 2023 against 0.26 times as on 31st March 2022 and highly comfortable debt protection metrics. The coverage ratios of the company remained strong with Interest Coverage Ratio (ICR) of 159.42 times for FY23 as against 105.66 times for FY22. The Debt Service Coverage Ratio (DSCR) stood at 127.83 times for FY23 as against 89.72 times for FY22. Going forward, the company is going for capital expenditure worth Rs.84 Crore, out of which Rs.63 Crore will be funded through term loans and rest will be funded through sufficient internal accruals. While the capex will be funded partly through debt, financial risk profile will remain healthy with TOL/TNW and Gearing expected to remain below unity in near term. Acuite believes that the financial risk profile of the company is likely to remain healthy in near to medium term with healthy net worth.

Improvement in the scale of operations

The company have achieved a revenue of Rs. 492.69 Crore in FY23 against Rs.330.54 Crore in FY22 and Rs.233.37 Crore in FY21. The higher realisation has come on the back of sharp rise in raw material prices. The company was able to pass on part of the increase in raw material prices to the customers and realization of prices grew by 32% in FY23 against 9% in FY22. Further, the margins of the company also improved backed by same reason which stood at 16.40% in FY23 against 9.68% in FY22 and the PAT margins of the company stood at 13.33% in FY23 against 11.09% in FY22. Wastepaper prices and pulp and paper prices have seen a steep reduction in global market in current financial year, which may impact profitability and will remain a key rating sensitivity factor. While margin was moderate, significant rise in operating income ensured steady net cash accrual. In addition, the company have achieved the turnover of Rs.344.04 Crore till December 2023. Going forward, the company is expected to generate the top-line under the same range of FY23.

Weaknesses

Working capital intensive operations

The working capital operations of the company is moderately intensive marked by GCA days which stood at 87 days as on 31st March 2023 against 106 days as on 31st March 2022. The Debtor and inventory days of the company stood at 2 days and 85 days respectively as on 31st March 2023 against 7 days and 92 days respectively as on 31st March 2022. The duration from conversion of raw material into finished product takes 12 hrs and on an average company keeps an inventory for four-five months as it is a demand based product and SPML gets an order on monthly basis. On the other hand, the creditor days of the company stood at 53 days as on 31st March 2023 against 68 days as on 31st March 2022.

Acuite believes that working capital operations of the company may continue to remain in the same range in near to medium term considering the nature of operations.

Operations in a highly competitive industry & susceptibility of margins to fluctuations in raw material prices

The Company is operating in highly competitive and fragmented industry. It is exposed to intense competition from several players operating in the industry. The kraft paper manufacturers in India are exposed to the risk of volatility in waste paper prices, largely due to intense competition. On account of competitive pressures, players face challenges in passing on increased costs to end users. Business risk profile will remain constrained by exposure to the downturn in the paper industry. The rise in the prices of duplex paper over that of waste paper is expected to be gradual, rendering the profitability susceptible to volatility in the price of paper. Furthermore, any abrupt change in raw material prices due to supply-demand scenario can lead to distortion of prices and affect the profitability of the company.

Rating Sensitivities

- Significant improvement in operating performance while maintaining the margins
- Elongation of working capital cycle
- Fluctuation in raw material prices impacting the operating income and profitability.

Liquidity Position

Strong

The liquidity profile of the company is Strong. The company has generated net cash accruals which stood at Rs.70.95 Crore as on 31st March 2023 against the debt repayment obligation of almost nil. Going forward, the company is expected to generate sufficient net cash accruals against the debt repayment obligation of almost nil in near to medium term. The current ratio of the company stood at 4.28 times as on 31st March 2023 against 2.17 times as on 31st March 2022. The unencumbered cash and bank balance of the company stood at Rs.3.47 Crore as on 31st March 2023 against Rs.4.33 Crore as on 31st March 2022 and Investments worth Rs.177.85 Crore as on 31st March 2023 against Rs.141.20 Crore as on 31st March 2022.

Outlook: Stable

Acuité believes that the company will maintain a 'stable' outlook over the near to medium term owing to its experienced management and established market position of the group. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while maintaining profitability margins, improvement in capital structure and efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenue, profit margins or deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital or capex requirements.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	492.69	330.54
PAT	Rs. Cr.	65.67	36.65
PAT Margin	(%)	13.33	11.09
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	159.42	105.66

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

None.

Any other information

None.

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	100.00	Simple	ACUITE A+ Stable Assigned

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About Acuité Ratings & Research

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