



Press Release

Stark Ridge Paper Pvt. Ltd.

October 15, 2020

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long term Bank Facilities	35.00	IVR BB-; Stable (IVR Double B Minus with Stable outlook)	Reaffirmed
	Total	35.00 (Rs Thirty Five crore Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Stark Ridge Paper Pvt. Ltd. (SRPPL) continues to derive comfort from its experienced promoters, commencement of commercial production and positive outlook for the paper industry. These rating strengths are however, remain constrained by its nascent stage of operations with limited operational track record, small scale of operations limiting economies of scale and flexibility in pricing, presence in highly fragmented industry and its leveraged capital structure coupled with moderate coverage indicators.

Rating Sensitivities

Upward factors

- Sharp growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in the capital structure with TOL/ANW to remain below 1x on a sustained basis

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics further
- Deterioration in working capital management affecting the liquidity.



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Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

The promoters of the company have long-standing business experience in trading of papers along with experience in other industries like steel and mining. However, they lack experience in paper manufacturing sector.

- **Commencement of commercial production**

After witnessing several changes in its scope and envisaged cost, the project has completed and the commercial operation has started from October 01, 2019. During first six months of its operation upto March 2020 the capacity utilisation remained satisfactory at about ~79%.

- **Positive outlook for Paper industry**

Increasing urbanization and middle-class population with surge in literacy rates in India, is expected to create huge demand for paper products such as newsprint, packaging, and writing paper. Also, changing consumer preferences towards convenient packaging solutions along with sustainability in mind will diminish the demand for plastic packaging and hence fuel the paper and paperboard industry.

Key Rating Weaknesses

- **Nascent stage of operations with limited operational track record**

With operations commencing in October 2019, the company is in its nascent stage of operations. However, the company is expected to get benefits from the longstanding entrepreneurial experience of the promoters having diversified businesses.

- **Small scale of operations limiting economies of scale and flexibility in pricing**

SRPPL's scale of operation continues to remain small. At its first year of operation, the company has achieved a TOI of Rs.37.00 crore in FY20 (provisional) with an operating profit margin of 2.76%. Small scale of operations limits the economics of scale benefits and pricing flexibility.



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- **Highly fragmented Industry**

The kraft paper industry is highly fragmented with presence of several organised and unorganized players. Intense competition limits the bargaining power of the companies and restricts its profitability to an extent.

- **Leveraged capital structure, coupled with moderate coverage indicators**

SRPPL's capital structure remains leveraged on account of the debt-funded capex undertaken in the past. The overall gearing ratio stood high at of 6.18 times as on March 31, 2020 (Prov.). However, the debt profile of the company also comprises unsubordinated unsecured loan from the promoters aggregating to Rs.35.20 crore treating the same as quasi equity and the overall gearing stood at 0.89x as on March 31, 2020. The debt coverage indicators, marked by interest coverage ratio, stood below unity at 0.43 times in fiscal FY20. The company repaid balance of interest from the unsecured loans infused by the promoters as and when required. TOL/ANW remained comfortable at 1.11x as on March 31,2020 (Prov.).

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stressed

The liquidity position of SRPPL is stressed. The company, in its first year of operation in FY20 (prov.), has witnessed a cash loss.

About the Company

Kolkata based Stark Ridge Papers Private Limited (SRPPL, SRPPL erstwhile Vanachal Metals Private Limited, name changed in July, 2014) was incorporated on July 1, 2005. SRPPL is promoted by, Mr. Saroj Kumar Patnaik along with Mr. Dwipayana Patnaik and Mr. Bharti Bhusan Ray. The company has installed a plant for manufacturing of "Kraft paper" (Absorbent & Corrugated type) at East Singhbhum near Jamshedpur, Jharkhand, with a processing capacity of about 48,000 tonne per annum. Initially the plant was proposed to commence operation from July, 2017. However, it has witnessed several changes in the



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scope and consequent changes in the project cost. Lastly during October 01, 2019, the company commenced its commercial production.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2020
	Provisional
Total Operating Income	37.01
EBITDA	1.02
PAT	-9.70
Total Debt	77.88
Tangible Net worth	12.61
Adjusted Tangible Net worth	47.81
EBITDA Margin (%)	2.76
PAT Margin (%)	-26.20
Overall Gearing Ratio (x)	6.18
Adjusted Overall Gearing Ratio (x)	0.89

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL has moved the rating to issuer non cooperating category vide its PR dated July 29, 2019 due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)		Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Fund Based Revolving loan*	Long Term	35.00	IVR BB-/ Stable	IVR BB-/Stable (July 29, 2019)	-	-

*reclassified from term loan to fund based revolving loan as per the sanction letter and request from client.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Revolving loan*	-	-	-	35.00	IVR BB-/Stable

**reclassified from term loan to fund based revolving loan as per sanction letter and request from client.*