

Press Release

Sun Paper Mill Limited

December 11, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Proposed Facility – Proposed Term Loan	165.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)
2.	Long Term Proposed Facility – Proposed Cash Credit	50.75	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)
3.	Long Term Fund Based Facility – OCC	4.25	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)
4.	Short Term Non Fund Based Facility – Letter of Credit	15.00	IVR A3+ (IVR A Three Plus)
	Total	235.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from Operational synergies with its flagship publication and established relations with other regional players albeit with concentration risk, healthy financial risk profile and established in-house facilities with state-of-art infrastructure. However, the rating strengths are partially offset by fluctuation in sales & profitability margins, stiff competition with profitability exposed to volatility in raw material prices and project implementation risk.

Key Rating Sensitivities:

- **Upward Factor**
 - Improvement in scale of operation
 - Improvement in net operating margins
- **Downward Factor**
 - Fall in scale of operation
 - Significant time taken for planned acquisition
 - Deterioration in debt protection metrics

List of key rating drivers with detailed description

Key Rating Strengths

Operational synergies with its flagship publication and established relations with other regional players albeit with concentration risk

SPML was incorporated in the year 1961 as a backward integration unit to manufacture and supply newsprint paper to its flagship publication, The Daily Thanthi (TDT – also known as Dina Thanthi), a leading Tamil newspaper, with an average daily circulation of 16-18 lakh copies. It is India's largest daily printed in the Tamil language and the ninth largest among all dailies in India by circulation and is printed in 16 cities across India and also prints an international edition.

Healthy financial risk profile

The financial risk profile of the company is healthy marked by tangible net worth of Rs. 56.15 crore as on March 31, 2019 as against Rs. 49.49 crore in the previous year (includes unsecured loans subordinated to bank borrowings). The overall gearing stood at 0.02x as on March 31, 2019 as against 0.14x as on March 31, 2018. The total debt of Rs. 1.38 crore as on March 31, 2019 includes working capital funds of Rs. 1.26 crore and term loan outstanding of Rs. 0.11 crore. The coverage indicators are healthy with the interest coverage (ICR) at 9.62x in FY19 compared to 7.08x in FY18.

Established in-house facilities with state-of-art infrastructure

SPML's manufacturing unit is strategically located at Cheranmahadevi, Tamil Nadu, by the side of the river Tamaravarni. The facility is spread across an area of 185 acres of land with a built infrastructure of more than 3 lakh sq. ft. The present manufacturing capacity of SPML is 100 MT per day (installed). In addition to this, the company also operates a co-generation plant with an installed capacity of 6 Mega-watt (MW). This particular Co-Gen Plant generates steam as a by-product along with power generation for paper production, which also leads to reduction of power cost. Furthermore, the company has an in-house de-inking unit for recovery of pulp from Old Newspapers (ONP) with an installed capacity of 120 MT per day. Water and Power being the major requirement for a paper manufacturing unit is amply available because of its location.

Key Rating Weakness

Fluctuation in sales and profitability margins

The sales of SPML has been fluctuating in the last three years as reflected in the topline of Rs. 87.81 crore in FY17, Rs. 259.21 crore in FY18 and Rs. 204.56 crore in FY19. This trend is

largely because of the company's desire to expand operations and increased exposure towards trading of paper which had a subsequent effect in the operating margins of the company.

Stiff competition with profitability exposed to volatility in raw material prices

The paper manufacturing industry is highly fragmented with presence of large number of players. Major raw materials used are globally traded commodities and so prices are volatile in nature. Hence, significant changes in raw material prices can have an impact on the margins of the company.

Project Implementation Risk

SPML is in advanced stages of acquiring another newsprint paper manufacturing unit. SPML intends to fund 75% of the acquisition through debt. The timely completion of the acquisition and overhauling the plant of the acquired unit to quickly stabilize its operation would be a key monitorable.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The liquidity position is Adequate with an average utilisation of ~82% for the last 6 months ended on October 2019. The fixed deposit balance kept against the W.C limits for the month of October 2019 had been at Rs. 13.35 crore. Despite its high cost plant acquisition, the liquidity is expected to be comfortable given the envisaged revenues and profitability margins.

About the Company

Sun Paper Mill Limited (SPML) was incorporated in the year 1961, being the 1st private sector paper manufacturing mill in India, by Dr. S.B. Adityan. Initially, he promoted the company as a backward-integration unit to manufacture and supply newsprint-grade paper to the group's flagship company, The Daily Thanthi (TDT – also known as Dina Thanthi), a leading Tamil newspaper. Its manufacturing unit is located at Cheranmahadevi, Tamil Nadu.

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	259.21	204.57
EBITDA	12.13	11.53
PAT	6.70	6.66
Total Debt	6.95	1.38
Tangible Net worth	49.49	56.15
EBITDA Margin (%)	4.68	5.64
PAT Margin (%)	2.59	3.26
Overall Gearing Ratio (x)	0.14	0.02

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Acuite has moved the rating of Sun Paper Mill Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 28, 2019.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Proposed Facility – Proposed Term Loan	Long Term	165.00	IVR BBB/ Stable outlook	--	--	--
2.	Long Term Proposed Facility – Proposed Cash Credit	Long Term	50.75	IVR BBB/ Stable outlook	--	--	--
3.	Long Term Fund Based Facility – OCC	Long Term	4.25	IVR BBB/ Stable outlook	--	--	--
4.	Short Term Non Fund Based Facility – Letter of Credit	Short Term	15.00	IVR A3+	--	--	--

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Proposed Facility – Proposed Term Loan	--	--	--	165.00	IVR BBB/ Stable outlook
Long Term Proposed Facility – Proposed Cash Credit	--	--	--	50.75	IVR BBB/ Stable outlook
Long Term Fund Based Facility – OCC	--	--	--	4.25	IVR BBB/ Stable outlook
Short Term Non Fund Based Facility – Letter of Credit	--	--	--	15.00	IVR A3+