

7 August 2013

CMP: Rs.7.11

Industry: Paper

BSE group/index: B

Promoters

Shrivardhan Goenka, family and Group companies ISG traders Ltd

Year of incorporation

1938

Corporate office

2nd Floor , Duncan House,
31, Netaji Subhas Road
Kolkata
West Bengal - 700001

Company website

<http://www.starpapers.com>

Key Data (as on 7-Aug-13)

BSE	516022	ISIN	INE733A01018
Face Value	10.0	Mkt Cap (Rs. mn)	99.3
Current P/E	negative	Current P/BV	0.2
52 week low-high	7.50-19.00	30 day daily trading	764nos
Equity capital (Rs. mn)	156.1	Net worth (Rs. mn)	839.0

Company business

Star Paper Mills Limited ('SPML') is an integrated paper manufacturer of Industrial and Cultural paper. Its client base includes Hindustan Unilever Ltd, Greenply, Eveready, Golden Laminates, Pearson Education (Singapore) Pte. Ltd., Century Laminating and Modacor-Saudi Arabia.

SPML is a part of the Duncan Goenka Group, headed by Mr. G.P. Goenka. The Company's mill at Saharanpur (Uttar Pradesh) has four paper machines, with an aggregate capacity of 75,000 tonnes per annum (tpa).

Peer group analysis

The Company is loss-making and its performance is lower than the peer set.

FY12, Rs in million	Star Paper Mills	Rainbow Papers	Ruchira Papers
Total income	2,390.5	4,598.3	2,845.6
EBIDTA	(281.2)	949.5	418.5
EBIDTA margin	negative	20.6%	14.7%
PAT	(424.1)	327.6	75.8
PAT margin	negative	7.1%	2.7%
EPS	negative	3.59	3.38
Cash accruals	(309.4)	584.6	182.3
Debt/EBIDTA	negative	4.96	2.97
Debt/Equity	0.24	1.49	1.78
ROANW	negative	10.7%	10.8%
ROACE	negative	8.8%	16.0%
P/E	negative	18.80	2.96
P/BV	0.31	2.00	0.32

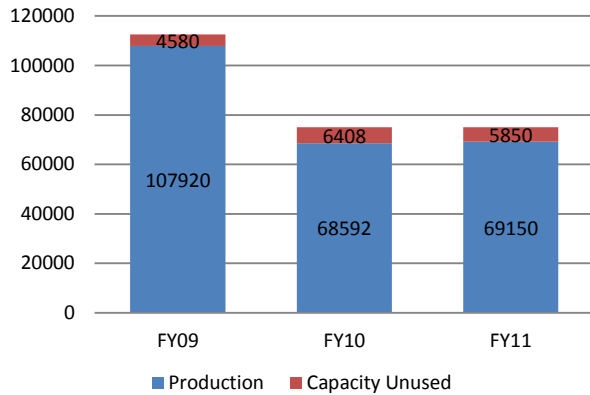
Source: Money control, Company

Write to us at:

equityresearch@outlookindia.com

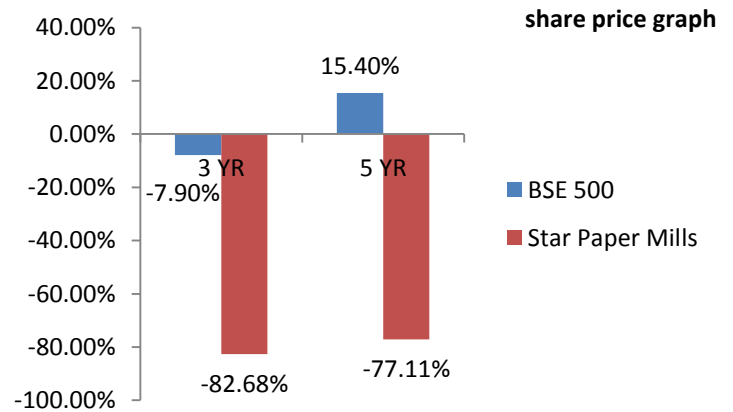
Star Paper Mills Limited

Business Capacities* (in metric tonnes)



*FY12 data not available

Price Performance (vs BSE 500)



Top public shareholders

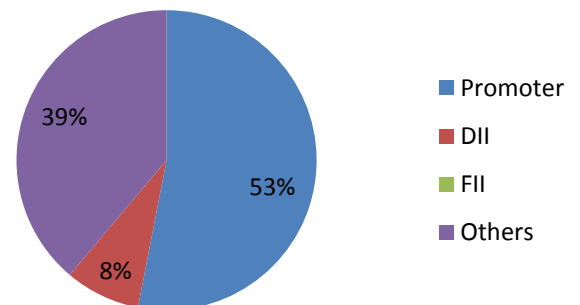
No.	Name of the Shareholder	Total Shares held (in 000)	Shares as % of Total No. of Shares
1	IFCI Ltd	701.6	4.50
2	General Insurance Corporation of India	558.1	3.58
3	Abhay Krishi Udyog Pvt Ltd	362.9	2.33
4	Muktilal Ganulal Paldiwal	240.8	1.54
5	Hitesh Ramji Javeri	200	1.28
6	Harsha Hitesh Javeri	164	1.05
7	Taradevi Muktilal Paldiwal	161.9	1.04
Total		2389.6	15.32

Change in Shareholding Pattern (%)

Year	Promoter	DII	FII	Others
Mar-13	53.1	8.1	0.0	38.8
Dec-12	53.1	8.1	0.0	38.8
Sep-12	53.1	8.1	0.0	38.8
Mar-12	53.1	8.1	0.0	38.8
Mar-11	53.3	8.1	0.0	38.6
Mar-10	54.8	9.4	0.0	35.8
Mar-09	54.8	9.4	0.0	35.8
Mar-08	54.8	9.4	0.0	35.8

Source: BSE

Shareholding Pattern



Source: BSE

	Key strengths
Diversified Product Portfolio	<p>The Company produces a wide range of Industrial papers such as Absorbent Kraft, Poster ARSR, Ribbed Kraft and Cultural paper like SS Maplitho paper, MG cover paper pulp, Pulp Board and business communication papers like Azurelaid and copier variety.</p> <p>The diversified profile enables the company to cater to various customer segments and neutralize the demand risk for individual varieties.</p>
	Key concerns
Deterioration of operating efficiency	<p>The raw material costs for the company, which includes wood/wood waste, crude oil and waste paper, accounts for ~40% of the overall revenues. During the year, the company was negatively impacted by a steep increase in wood prices due to sustained demand coming out of the other sectors. The volatility in crude oil prices also led to an increase in the average cost of fuel to Rs 38 thousand per MT in FY 12 from Rs 29 thousand per MT in FY 11. Any further adverse movements in the prices of raw materials may put further pressure on the company's margins.</p>
Debt funded capex programs	<p>Due to insufficient cash flows from its operating activities, the company frequently funds its capex and growth programs through additional debt. The total borrowings of the company increased by 34% in FY12 to Rs.204.5 mn, which has in turn resulted in a 43% increase in finance charges to Rs.28.1 mn. In January 2013, CRISIL downgraded the company's long term rating to CRISIL B (negative) from CRISIL BB- (negative). In this high interest-rate environment, the high leverage may affect the company's operations.</p>
Increasing coal costs	<p>Availability of coal at reasonable rates is a key requirement for SPML as it is used to run its boilers for generating steam. The company consumes around 0.80 metric tonne (MT) of coal per unit of production and the total coal consumption during FY12 stood at 45080 MT.</p> <p>A combination of uncertain regulatory policies, shortage of supply from Coal India and reliance on imports to meet industrial demand together drove up the average rate of coal from Rs.4581/MT in FY11 to Rs.6512/MT in FY12. The 42% surge in prices has reduced the profits substantially and any further rise in coal rates will put additional pressure on the margins.</p>
	Industry overview
Highly fragmented Industry	<p>In terms of paper production India ranks 15th in the world with more than 700 organized and unorganized units and paper mills. The top five producers account for only 15% of the total paper capacity in the country. This results in poor pricing power for these players.</p>
Low Per Capita Consumption	<p>India consumes only 1% of the world paper production. Per capita consumption is a meager 9.6 kg as compared to some of the developed countries wherein the consumption is closer to 350 kg. It is also lower than the world average of 55 kg and Asia average of 45 kg. This provides a significant growth opportunity for existing paper mills.</p>
Industry Segmentation	<p>The paper industry is categorized into four segments based on its end-usage. The paperboard (packaging material) segment accounts for almost 42% of the overall paper industry closely followed by writing and printing (W&P) paper which contributes 37%. The rest of the market is made up of newsprints (13%) and specialty paper (8%).</p>

	Government policy
Initiatives of the government to promote the industry	The government has granted the status of a priority sector to the newsprint and paper industry. This allows foreign collaboration and foreign equity participation upto 100% in Indian paper mills through the automatic route under the Reserve Bank of India. The influx of foreign capital and technical knowhow in the industry is expected to help improve the quality of products and create additional capacities.
Stringent emission Standards	State pollution control boards in India have imposed stringent emission standards relating to the effluent discharge process of paper mills under the Corporate Responsibility for Environmental Protection (CREP). Compliance costs for such standards are usually high as companies need to invest in efficient waste treatment plants and processes.
	Company fundamentals
Social Forestry Program	In the year 2009-2010, 40mn saplings, raised in and around Saharanpur (U.P), were distributed covering about 70000 hectare land to date stretched in seven districts of western Uttar Pradesh and two districts of Uttaranchal. This Social Forestry Program helps to augment availability of wood in and around the plant.
Clonal Technology Initiative	In order to increase the yield per unit, SPML initiated the Clonal Technology Program. For production of clonal plants company has developed necessary infrastructural like fully automatic green houses, hardening chambers etc. near Saharanpur. There is a plan to expand the capacity from 3 lakh clonal plant per annum to 64 lakh clonal plant per annum in next four to five years .For this purpose, three high yielding clones of Eucalyptus have been developed which are in good demand. The company's productivity is almost two times higher than ordinary seedling plantation. Starting with 6000 MT/annum, it has come a long way and produced 72000 MT in 2008-09.
Shift to bagasse-based production	Due to an a steep surge in prices of key raw materials like wood and wood pulp, the company has declared its intentions to move to a bagasse-based production system. Agri by-products like bagasse are likely to be a more efficient fuel and the company has plans to invest around Rs 700 mn as capital expenditure to make its unit and machinery adaptable to bagasse. SPML expects that nearly, 50% of the company's raw material requirements will be sourced through bagasse after the shift.
	Key financial indicators
Continuing losses and erosion of net worth	<p>The total income has decreased by11.4% to Rs 2.4bn in FY 12 from Rs 2.7 bn in FY 2011. The losses before interest, depreciation and tax increased to Rs 281mn in FY 12 from Rs64.6mn in FY 11. There has been a loss after tax which amounts to Rs 424mn in FY 2012 from Rs 101.5mn in FY 11. On account of losses during the year FY 12 Reserves & Surplus have been eroded to 682mn in FY 12 from Rs1107mn in FY 11. The borrowings of the company have also increased to Rs 205mn in FY 12 from Rs 152mn in FY 11.</p> <p>For FY 12 the company's investment has remained unchanged from the previous year. The market value of company's quoted investments in ISG Traders Ltd amounts for Rs 357.9 mn book value. The company has made a huge cash loss and the company's obligations have been met through part borrowings and deferment of payment of the current liabilities.</p>

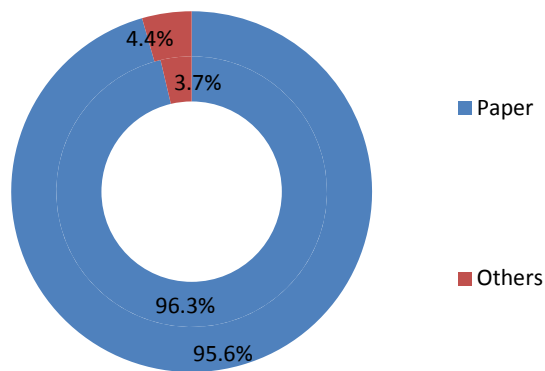
Quarterly results

Particulars (Rs in mn)	Jan '13 to Mar '13	Jan '12 to Mar '12	% Change ¹	Oct '12 to Dec '12	% Change ²
Total income	697.8	683.4	2.1%	687.1	1.6%
Total expenditure(excl. depreciation)	751.8	769.6	(2.3%)	765.2	(1.8%)
EBIDTA	(13.0)	(50.6)	-	(78.1)	-
PBT	(54.0)	(86.2)	-	(104.7)	-
PAT	(33.9)	(86.2)	-	(104.7)	-
EPS	(2.2)	(5.5)	-	(6.7)	-

¹ compared to corresponding quarter in the previous year

² sequential comparison

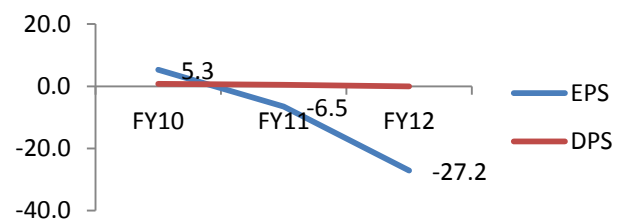
Segment-wise contribution to total revenue



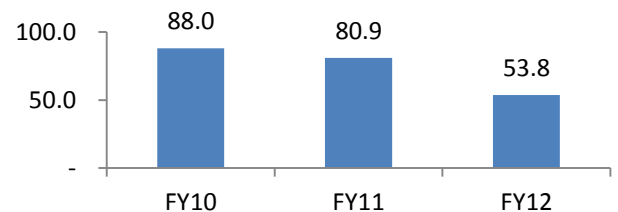
(outer ring shows FY12 data
inner ring shows FY11 data)

Key ratios

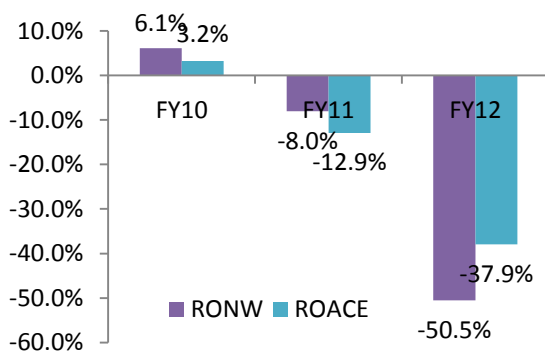
EPS and DPS



BV per share

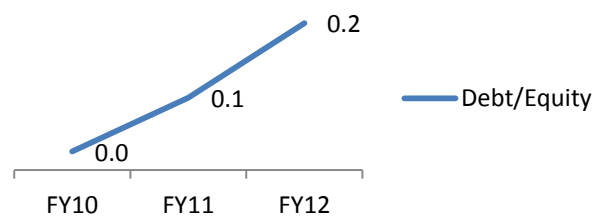


Profitability ratios



Leverage ratios

Debt/Equity



Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total income	2,507.0	2,698.9	2,390.5
EBIDTA	166.9	(64.6)	(281.2)
EBITDA Margin%	6.7%	negative	negative
Depreciation	119.5	117.6	114.7
EBIT	47.4	(182.2)	(395.9)
Interest	32.0	19.6	28.1
PBT(post extraordinary items)	64.6	(150.8)	(424.0)
Tax	(18.8)	(49.3)	-
PAT (excluding minority interest)	83.4	(101.5)	(424.1)
PAT Margin %	3.3%	negative	negative
Dividend (including dividend tax)	13.6	9.1	0

Valuation ratios	FY10	FY11	FY12
P/E	6.03	negative	negative
P/BV	0.37	0.33	0.31

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	156.1	156.1	156.1
Reserves & Surplus (incl. revaluation reserves)	1,217.6	1,107.0	682.9
Net worth	1,373.7	1,263.1	839.0
Borrowings	42.4	151.9	204.5
Current liabilities and provisions	992.0	812.8	953.8
Total liabilities	2,408.1	2,227.8	1,997.3
Net fixed assets	1,305.4	1,212.3	1,115.3
loans and advances (Long term and short term)	294.5	202.3	131.1
Investments	357.9	357.9	357.9
Current assets	413.9	428.4	372.2
Other non-current assets	36.4	26.9	20.8
Total assets	2,408.1	2,227.8	1,997.3

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	66.2	(150.8)	(424.1)
CF from Operations	390.6	(68.2)	(7.9)
CF from Investment	(21.3)	(13.8)	2.6
CF from Financing	(363.8)	76.5	9.2
Inc/(dec) in Cash	5.5	(5.5)	3.9
Closing Balance	16.6	11.2	15.1

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