

August 12, 2010

CARE ASSIGNS IN-PRINCIPLE 'CARE AA- (SO)' RATING TO THE PROPOSED NCD ISSUE AND REAFFIRMS RATING ASSIGNED TO O/S NCD ISSUE OF THE MYSORE PAPER MILLS LTD

Ratings Assigned

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Non Convertible Debentures (NCD) Series II \$	50	CARE AA- (SO) [Double A Minus (Structured Obligation)] ^	Assigned
NCD Series I #	35	CARE AA- (SO) [Double A Minus (Structured Obligation)]	Reaffirmed

\$ will carry a coupon rate of 8.49% p.a, payable semi-annually and redeemed in equal instalments at the end of 7th, 8th, 9th and 10th year from the date of allotment.

^in-principle rating - This rating is provisional and is subject to the implementation of a Structured Payment Mechanism (SPM) and appointment of Trustees to the bond holders (acceptable to CARE) to operationalise and monitor the SPM

carry a coupon rate of 8.27% p.a, payable semi-annually and will be redeemed in equal instalments at the end of 4th, 5th, 6th and 7th year from the date of allotment (Oct 9, 2009).

Rationale

The rating is primarily based on credit enhancement in the form of an unconditional and irrevocable guarantee from Government of Karnataka (GoK) towards the payment of interest and principal. The rating takes into account the strong fiscal foundations of GoK including the maintenance of reasonable revenue surplus despite of adverse expenditure pressures, comfortable debt and debt-servicing parameters and the achievement of conventional fiscal benchmarks in the context of the current economic slowdown. The rating is however constrained by the relatively low level of capex, the lacunae in revenue-collection efficiency and slippages witnessed in cash balance management.

Company Profile

MPM was founded in May 1936 by the Maharaja of the erstwhile State of Mysore. MPM became a government company in November 1977, when GoK acquired a controlling interest in the company. As on March 31, 2010, GoK held a 64.7% stake in MPM; the remainder is held by financial institutions and the general public.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

MPM is an ISO-1400-certified company, and is engaged in the production of newsprint, writing, printing and speciality paper (WPS) as well as sugar at its plant at Bhadravati in Shimoga district, Karnataka. As on March 31, 2010, the company has an installed capacity to produce 75,000 tonnes per annum (tpa) of newsprint, 30,000 tpa of WPS and a sugar-crushing capacity of 2,500 tonnes per day. The company also has a 41-mega watt captive power plant.

On a total income of Rs.401cr, MPM earned a PAT of Rs.3cr in FY09. During FY10, MPM incurred a net loss of Rs.22cr (un-audited) on the net sales of Rs.322cr.

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

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