

July 13, 2010

**CARE ASSIGNS 'CARE BB+' AND 'PR4' TO THE BANK FACILITIES OF THE SIRPUR PAPER MILLS LIMITED****Ratings Assigned**

<b>Facilities/Instruments</b>	<b>Amount (Rs. crore)</b>	<b>Ratings<sup>1</sup></b>	<b>Remarks</b>
Long-term Bank Facilities	318	<b>'CARE BB+' (Double B Plus)</b>	Assigned
Short-term Bank Facilities	12	<b>'PR4' (PR Four)</b>	Assigned
<b>Total Facilities</b>	<b>330</b>		

**Rating Rationale**

The ratings take into account the risks arising due to low profitability margins, high gearing and the delay in completion of the expansion project. The ratings also factor in the cyclical nature of the paper industry.

The ratings are however, underpinned by the track record of Sirpur in the industry, experienced promoters and management, strong brand presence in the paper industry, integrated pulp and paper manufacturing facility and the completion of the capacity expansion project. The ability of the company to successfully venture into copier paper manufacturing and improve its market share remain the key rating sensitivities.

**Company Profile**

The Sirpur Paper Mills Limited (Sirpur) was incorporated in 1938 and commenced commercial production in 1942. Sirpur is an integrated pulp and paper manufacturer with its sole manufacturing facility in Kaghaznagar, Andhra Pradesh. In FY08, the company undertook a Mill Development Programme (MDP) to increase its capacity from 83,550 MTA to 1,38,300 MTA. Due to technical reasons involved in the stabilization of the machinery, Sirpur was able to use the augmented capacity for commercial production only from November 2008 onwards as against the scheduled date of May, 2008. The delay also resulted in Sirpur restructuring its term loans.

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<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

Sirpur is involved in the production of printing and writing paper, industrial paper and kraft board. The company has a wide product portfolio that enables it to have a presence in all the segments of the industry. Improvement in realisations in the printing and writing paper segment coupled with additional capacity available for production in FY09 resulted in total operating income increasing to Rs.346 crore in FY09. However, higher interest costs coupled with the higher depreciation costs attributed to the MDP resulted in the company positing a loss of Rs.2 cr in FY09.

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