Orient Press Limited

March 01, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	28.35 (Reduced from 29.83)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long term/ Short term Bank Facilities	14.50	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
Short term Bank Facilities	21.00	CARE A3 (A Three)	Reaffirmed
Total	**63.85 (Rs. Sixty-Three Crore and Eighty-Five Lakhs Only)**		
Medium-term Fixed Deposits	28.35 (Reduced from 29.83)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Orient Press Limited (OPL; CIN: L22219MH1987PLC042083) factors in the decline in its Total Operating Income (TOI) during 9MFY21 and PAT loss of Rs.3.94 crore which resulted in weakening of debt coverage indicators. The decline in income was primarily on account of decline in revenue from the printing segment. In the printing segment, OPL was primarily present in printing of annual reports, calendars, diaries, text books and exam sheets and printing documents/stationary for the capital markets. In 9MFY21, the pandemic had a long lasting impact on OPL's revenue from this segment. With schools being shut, revenue from the education segment had dried up, further, this year most of the companies refrained or reduced the printing of annual reports, calendars and diaries. Further, with fewer IPO's and new fund offers in 9MFY21 as compared to the previous year, led to the decline in revenue from this segment. However, with schools commencing in certain states, printing from the education segment is likely to resume going forward. Also, as IPO/NFO market picks up, security printing will also commence. Outstanding orders/ orders executed yet to be realized for Q4FY21 aggregate Rs. 46.34 crore which provides revenue visibility in the near term.

Decline in revenue from the printing segment led to decline in PBILDT margins during 9MFY21. This apart, increase in raw material cost for flexible packaging segment coupled with underutilization of the manufacturing facilities of the paper board segment added to the decline in PBILDT margins over the same period. Reduced scale of operations coupled with deterioration in the PBILDT margins led to deterioration in the debt coverage indicators as well.

The ratings also factor in the high utilization of the working capital limits primarily on the back of stretched inventory days. OPL had purchased raw material required for the printing and paper board segments and underutilization of the manufacturing facilities on the back of lower demand led to pilling up of the stock, thereby resulting in high inventory holding period. Further, towards the end of March 2020, the company experienced delayed collection of receivables, which also added to liquidity pressure in the initial few months of the financial year.

The ratings however, continue to derive strength from extensive experience of the promoters in printing industry and established client base.

Rating Sensitivities

Positive Factors:

- Return on capital employed increasing above 12% on a sustained basis
- PBILDT/ Interest coverage improving above 3.50x on a sustained basis

Negative Factors:

- Overall gearing deteriorating beyond 1.00x on a sustained basis
- Operating profitability declining below 5% on a sustained basis

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters in the industry

OPL is managed by its founding promoters Mr. Ramvilas Maheshwari (Chairman and Managing Director) and Rajaram Maheshwari (Executive director) each having around four decades in the industry. The directors are assisted by a team of experienced professionals.

Established customer base

OPL supplies its products to some of the well reputed brands in the FMCG industry. Moreover, it is one of the leading companies in the capital market stationary printing category. Through its long existence in the business, OPL has established healthy relationship with its clientele base, ensuring repeat orders from them.

Key Rating Weaknesses

Declining scale of operations in FY20 and in 9MFY21

OPL operates in 3 segments, namely printing, flexible packaging and Paper boards with flexible packaging being the largest contributor to revenue. Out of Total Operating Income (TOI) of Rs. 169.32 Crore in FY20 (Rs. 199.32 Crore in FY19) 73% was contributed by packaging segment (flexible packaging and paper board packaging) and 27% by printing division. In an intensely competitive and largely unorganized market, OPL's scale of operations continues to remain moderate. Moderate size of OPL may restrict it in making timely revision of product prices as these companies are generally price takers in the market, and thus any revision in price can be done only after the market leaders revise their product prices.

In FY20, OPL reported decline in income by 15% on a YoY basis led by weak performance in both printing and packaging segments. In particular, revenue from printing division declined by 37% and packaging division reported a decline in revenue by 19% FY20 on a yoy basis. Major decline in volume in the printing segment was seen in capital markets segment as there were very few IPO's, new offers etc. Further, OPL consciously reduced the quantum of security printing for banks on account of high security requirements as well as development of in- house printing capabilities by several banks thus, reducing margins in this segment. Packaging segment was adversely impacted on the back of overall economic slowdown wherein elongated payment cycle has led the company to selectively accept orders.

In 9MFY21, the company's performance was severely impacted with both the printing and packaging segments registering decline of 23% and 19% respectively on a YoY basis. In the printing segment, OPL was primarily present in printing of annual reports, calendars, diaries, text books and exam sheets and printing documents/stationary for the capital markets. In 9MFY21, the pandemic had a long lasting impact on OPL's revenue from this segment. With schools being shut, revenue from the education segment had dried up, further, this year most of the companies refrained or reduced the printing of annual reports, calendars and diaries. Further, with fewer IPO's and new fund offers in 9MFY21 as compared to the previous year, led to the decline in revenue from this segment. However, with schools commencing in certain states, printing from the education segment is likely to resume going forward. Also, as IPO/NFO market picks up, security printing will also commence.

Deterioration in PBILDT margins in FY20 which continued in 9MFY21 as well

In FY20, PBILDT margins declined primarily on account of reduced share of revenue of the printing segment which has higher margins as compared to the packaging segment.

	PBIT					PBIT margin (%)				
	FY18	FY19	FY20	9MFY20	9MFY21	FY18	FY19	FY20	9MFY20	9MFY21
Printing	10.99	11.96	7.00	4.88	2.75	12.46	16.60	15.43	14.93	10.93
Packaging	-0.69	(3.04)	(1.62)	(1.54)	(2.22)	(0.50)	-2.00	(1.32)	-1.66	(2.95)

Loss in the paper board segment continues on the back of stiff competition resulting in non-remunerative prices thereby resulting in underutilization of the manufacturing capacity. Increase in polymer prices (a key raw material for flexible packaging) had also adversely impacted the operating margins from the flexible packaging segment.

In 9MFY21, shutdown of operations due to CoVID-19 and gradual commencement of operations once the lockdown relaxations were announced led to reduced capacity utilization levels across product segments. Printing division was most impacted as most activities became online and contactless resulting in reduced printing requirements. During the 9 months FY21, fewer annual reports, calendars and diaries were printed, there were fewer capital market offerings, banking and investment transactions were mostly carried out online requiring fewer cheques and slips to be printed and even exams have been conducted online as such question paper printing was also reduced. Operating profitability in the flexible packaging division was impacted due to increase in raw material prices which could not be passed to the customers and underutilization of capacities in the paper cardboard division led to continued losses in this segment.

Consequently, PBILDT margins declined to 4.45% in 9MFY21 from 6.35% in 9MFY20. High depreciation and interest expense coupled with decline in operating profits led to OPL reporting PAT loss in 9MFY21.

Elongated operating cycle
OPL's operating cycle has elongated further to 145 days in FY20 (118 days in FY19). The stretch in operating cycle is mainly attributed to significant inventory of raw materials (Polymer Granules, inks, various grades of paper etc.) required for production. Polymer Granules are crude oil derivatives and thus their prices are inherently volatile. Thus, OPL maintains significant inventory of raw materials to mitigate the risk of raw material price fluctuations. Further, underutilization of capacities both in the printing and paper board segments, led to piling up of inventory thus, resulting in high inventory holding period in the 9MFY21 as well.

Despite comfortable gearing levels, debt coverage indicators continue to remain strained
Overall gearing level stood at 0.88 times as on March 31,2020 (0.88 times as on March 31,2019). Despite this, debt coverage indicators continue to remain strained on account of decline in operating profits and cash accruals.
Comfort can be derived from the fact that the promoters have supported the entity by way of short term loans. In FY20, short term loans from the promoters stood at Rs 5.68 Crore (Rs. 4.68 Crore in FY19).

Susceptibility of the profitability margins to raw material volatility
As mentioned previously, OPL's major raw material, polymers granules are derivatives of crude oil which is volatile in nature. Moreover, owing to the presence of large numbers of players in the flexible packaging industry, passing on raw material price hike becomes difficult, resulting into lag in the price revisions when the input prices are on rising trend. Since raw materials constitute the major proportion of OPL's cost structure (67% on average from FY18-FY20), limited ability of OPL to pass on price hikes may impact operating profit margins.
On the other hand, volatility on account of foreign exchange is largely mitigated as OPL is net exporter of goods. In FY20, exports accounted for 13.23% of total sales and OPL earned Rs. 20.75 Crore on account of exports (Rs. 21.58 Crore in FY19). The company enters into forward contracts to mitigate risks associated with adverse foreign currency movement.

Exposure to regulatory risk in flexible packaging division
Complexities involved in recycling of Multilayer plastics used in packing the processed foods as well as other FMCG products make them one of the major sources of soil and water pollution. Increasing level of soil and water pollution has led to growing environmental concerns, especially in countries like India, which is one of the fastest growing markets for plastic packaging. This exposes the companies in flexible packaging industry to high regulatory risk. Nevertheless, growing population and increasing demand of processed foods augurs well for the players in the packaging industry. Moreover, high durability, flexibility, and cost effectiveness of flexible packaging make them as a preferred choice for various user industries ranging from Food and beverages, healthcare, cosmetics, transportation etc. Hence, owing to growing demand from user industries the flexible packaging growth is expected to remain healthy over a medium term. However, leaders in the industry will be better placed to adopt changing environment regulations with their innovative biodegradable solutions and recyclable products.

Liquidity: Stretched
OPL has stretched liquidity profile as indicated by high working capital utilization in the 12 months ending Dec 2020 with average utilization being 86%. Higher utilization is on account of stretched operating cycle, in particular on account of inventory build-up at the three manufacturing locations. Low cash generation coupled with very high utilization of working capital limits leaves very little headroom for future debt repayment obligations.

Analytical approach: Standalone

Analytical criteria
[Criteria on assigning Outlook and Credit Watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[CARE's methodology for manufacturing companies]
[Financial ratios – Non-Financial Sector]
[Liquidity analysis of non- financial sector entities]

About the Company
Incorporated on January 02, 1987 as a private limited company, Orient Press Limited (OPL) is promoted by the Maheshwari family - Mr. R. V. Maheshwari and Mr. R. R. Maheshwari. The company is engaged in the segments of packaging and printing. Under packaging, the company manufactures flexible packaging material of multi-layer film laminates and paper board cartons; while under its Printing segment, it is involved in several activities such as printing of capital market stationeries like IPO offer documents, RHPs etc.; commercial printing such as text books, annual reports, diaries etc., and security printing like

MICR cheques, dividend warrants, etc. OPL has manufacturing facilities at Tarapur in Maharashtra, Silvassa in Union Territory of Dadra & Nagar Haveli, and Noida in Uttar Pradesh.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	199.32	169.32	101.50
PBILDT	15.59	11.17	4.52
PAT	0.99	(1.40)	(3.94)
Overall gearing (times)	0.88	0.88	Not available
Interest coverage (times)	2.26	1.75	0.98

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	6.85	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	21.50	CARE BBB-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	14.50	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	-	21.00	CARE A3
Fixed Deposit	-	-	-	-	8.00	CARE BBB- (FD); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	6.85	CARE BBB-; Stable	1)CARE BBB-; Stable (23-Feb-21)	1)CARE BBB; Negative (20-Mar-20)	1)CARE BBB; Stable (08-Mar-19) 2)CARE BBB (CWN) (31-Oct-18)	1)CARE BBB; Stable (21-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	21.50	CARE BBB-; Stable	1)CARE BBB-; Stable (23-Feb-21)	1)CARE BBB; Negative (20-Mar-20)	1)CARE BBB; Stable (08-Mar-19) 2)CARE BBB (CWN) (31-Oct-18)	1)CARE BBB; Stable (21-Mar-18)
3.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	14.50	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (23-Feb-21)	1)CARE BBB; Negative / CARE A3 (20-Mar-20)	1)CARE BBB; Stable / CARE A3+ (08-Mar-19) 2)CARE BBB / CARE A3+ (CWN) (31-Oct-18)	1)CARE BBB; Stable / CARE A3+ (21-Mar-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
4.	Non-fund-based - ST-BG/LC	ST	21.00	CARE A3	1)CARE A3 (23-Feb-21)	1)CARE A3 (20-Mar-20)	1)CARE A3+ (08-Mar-19) 2)CARE A3+ (CWN) (31-Oct-18)	1)CARE A3+ (21-Mar-18)
5.	Fixed Deposit	LT	8.00	CARE BBB- (FD); Stable	1)CARE BBB- (FD); Stable (23-Feb-21)	1)CARE BBB (FD); Negative (20-Mar-20)	1)CARE BBB (FD); Stable (08-Mar-19) 2)CARE BBB (FD) (CWN) (31-Oct-18)	1)CARE BBB (FD); Stable (21-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT/ ST-CC/Packing Credit	Simple
5.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *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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