Orient Paper and Industries Limited

October 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	145.07 (Enhanced from 107.41)	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed
Long Term / Short Term (LT/ST) Bank Facilities	182.50 (Enhanced from 160.00)	CARE A+; Negative / CARE A1+ (Single A Plus; Outlook: Negative/ A One Plus)	Reaffirmed
Short Term Bank Facilities	1.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**328.57 (Rs. Three hundred twenty-eight crore and fifty-seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Orient Paper and Industries Limited (OPIL) draw significant strength from it being a part of the established C.K. Birla group and the financial flexibility it derives by virtue of it. The ratings also factor its comfortable capital structure and strong liquidity profile with availability of surplus liquid investments amidst low debt repayment obligations in the near term and cushion in the fund-based working capital limits utilisation. The available liquidity is also expected to meet the equity contribution requirement towards the ongoing capex project for increasing the pulping capacity, elemental chlorine free (ECF) bleaching and new recovery boiler to improve process efficiencies.

The ratings are, however, constrained by significant moderation in its performance during FY21 (refers to the period from April 01 to March 31) and Q1FY22 due to adverse impact of Covid-19 pandemic leading to decline in sales volume and sales realisation of its paper products. The capacity utilisation of OPIL declined to 60% in FY21 as against 70% in FY20 and remained impacted at 45% in Q1FY22 owing to contraction in demand for Printing and Writing Paper (PWP) and tissue paper which are the major products manufactured by the company. This is due to reduced usage of such paper on account of Covid-19 related shut down of educational establishments, offices, hotels, restaurants etc. and adoption of Work from Home (WFH) practice. The total operating income (TOI) declined by 26% y-o-y in FY21 and with under-absorption of fixed overheads, the company incurred operating loss. However, after witnessing significant operating loss in Q1FY21, the losses witnessed a reducing trend in the remaining quarters of the year and the company reported marginal operating profit in Q4FY21. However, due to the outbreak of the second wave of the pandemic, Q1FY22 was again impacted, though the losses remained lower than in Q1FY21.

The uncertainty with respect to timing of the improvement in demand remains although it is expected to improve going forward on the back of ongoing vaccination program and people adapting to Covid-19 norms and environment which could aid the gradual opening of offices, educational institutions and restaurants.

The ratings further continue to remain constrained by its exposure to volatility in raw material and finished goods prices, cyclicality attached to the paper industry; and project risk associated with its large ongoing capex coinciding with the downturn in its business. The ratings also take note of significant contingent liabilities in the books of the company relating to water tax and cess on captive power consumption which are under dispute.

Outlook: Negative

The outlook remains 'Negative' on account of the expected weak operating performance of the company in the near term due to the subdued demand scenario for OPIL's products. The outlook may be revised to 'Stable' in case OPIL's performance improves significantly with increase in sales realization and pick up of demand leading to turnaround in its operations and consequent operating profit.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial volume-driven growth in its scale of operation along with improvement in its PBILDT margin above 15% on a sustained basis.
- Improvement in its Total Debt/PBILDT to below unity along with ROCE and RONW above 12% on a sustained basis

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

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Continued inability to generate operating profit and improve debt coverage indicators
- Deterioration in cash & liquid investments below Rs.200 crore.
- Significant increase in debt level resulting in deterioration in overall gearing beyond 0.5x and Total Debt/PBILDT beyond 5x on a sustained basis.
- Crystallisation of significant contingent liabilities exerting strain on its liquidity.

Detailed description of the key rating drivers
Key Rating Strengths
Part of the established C. K. Birla group
OPIL, belonging to the established C K Birla group, was incorporated in July 1936. Shri C. K. Birla, at the helm of the affairs of the company, has been associated with the company since 1978. The C.K. Birla group is a leading industrial group of the country and has established presence in diverse businesses like auto ancillary products, dealership of earthmoving equipment, engineering products, building products, cement, paper, fan and consumer electrical items, and IT solutions and services through its various group entities. Being part of the C. K. Birla group provides significant financial flexibility to OPIL.

Comfortable capital structure and availability of healthy liquid investments providing significant financial flexibility
The overall gearing ratio of OPIL continued to remain comfortable at 0.07x as on March 31, 2021 (0.04x as on March 31, 2020) with a healthy networth base and low debt levels. The company is undertaking a capex project to be funded out of a mix of debt and equity. Even after the debt availed to fund this capex, the capital structure is expected to remain comfortable.
OPIL holds investment in some listed companies having strong credit quality with a market value of around Rs.433 crore as on March 31, 2021, which improved further to approximately Rs.716 crore as on August 30, 2021. OPIL has necessary approval from its Board of Directors to dispose-off these investments whenever required which provides significant financial flexibility to the company.
With losses incurred in FY21 and Q1FY22, the company had liquidated part of these investments to meet its funding requirements (Rs.6.20 crore during FY21 and Rs.15 crore till September in the current financial year). OPIL also holds about 850 acres of land at Brajrajnagar, Odisha where its first paper factory was set up which is currently not in use and other land banks and investment properties.

Long track record in the paper industry and initiatives to improve operational efficiency
OPIL has a long track record of operations in the paper industry with presence in both tissue paper and PWP, whereby it is amongst the leading domestic players in the tissue paper segment. Over the years, the company has taken various initiatives to improve operational efficiency. In the past, the company has got approval to create a concrete barrage on river Sone to ensure complete water security and has also constructed a permanent RCC barrage to increase water storage capacity to 4.546 million cubic meters, which is expected to eliminate the risk of water scarcity related plant stoppage. The company has planted saplings to support its raw material requirement. The total plantation area was 478 acres in FY21. In FY21 around 40% of the raw material requirement was sourced through the local farmers and the company is planning that within next 4-5 years around 100% of its wood requirement will be sourced through local farmers ensuring availability of raw material and better profitability through reduction in cost.
Currently, the company is implementing a project to increase its pulping capacity, ECF bleaching and setting up a new recovery boiler (600 TPD) /evaporator (150 TPD) to improve its operating efficiency. Once implemented, the project is expected to lead to substantial savings in manufacturing cost.

Liquidity: Strong
OPIL derives financial flexibility by virtue of being part of the C. K. Birla group as well as due to its investments in listed equity shares valued at Rs.716 crore as on August 30, 2021 which provides strong liquidity comfort to the company. Despite incurring cash losses of Rs.30.37 crore in FY21 and Rs.9.26 crore during Q1FY22, OPIL was able to successfully fund its losses apart from meeting its debt repayment obligations and funding its capex by liquidating part of its investments and availing term loan of Rs.50 crore in FY21, aided by its strong financial flexibility. In the current fiscal (i.e. FY22), though its profit and cash accruals are expected to remain impacted, the liquidity position is likely to remain comfortable, with low debt repayment obligation of Rs.2.40 crore. The average month-end utilization of its fund-based working capital limits during the trailing 12 months ended June 30, 2021, stood at 63% which, too, provides cushion to its liquidity. The company has already tied up the debt portion to meet its ongoing capex requirement and the value of liquid investments is sufficient to meet the balance funding requirement.

Key Rating Weaknesses

Decline in capacity utilization (CU) and sales volume because of adverse impact of Covid-19 pandemic

The overall CU of the company witnessed a decline in FY21 to 60% as against 70% in FY20 which remained further impacted at 45% in Q1FY22 because of the pandemic. The decline in CU during FY21 was more pronounced for PWP at 68% as against 82% in FY20, while tissue paper CU declined to 52% as against 60% in FY20.

The company faced widespread demand disruption due to lockdowns on account of COVID-19 from March 22, 2020. Post lock-down, even while the operations resumed with reduced capacities as restrictions eased, challenges remained in terms of logistics disruption and migration of labour. The Indian paper industry in general and PWP segment in particular was particularly badly hit in FY21 because of shut down of educational establishments, offices, hotels, restaurants etc. and adoption of WFH practice. Further, there was reduction in price realization for all categories of paper in both domestic and export markets. As COVID cases reduced considerably and restrictions were gradually relaxed the industry saw recovery in both demand as well as sales realization during last quarter of FY21 which again got impacted in Q1FY22 on account of second wave of Covid.

Moderation in financial performance in FY21 and Q1FY22

During FY21, OPIL's TOI registered de-growth of 26% on a y-o-y basis and stood at Rs.448.69 crore vis-à-vis Rs.610.39 crore in FY20. The decline was mainly on account of decline in capacity utilization, subdued demand scenario for finished goods coupled with a pressure on average sales price realizations of finished products. The company booked cash losses during FY21 and Q1FY22 due to underutilization of capacities leading to low fixed cost absorption along with levy of electricity duty on own power consumption (which was exempted till December 2019) and decline in sales realisations.

During Q1FY22, the company reported a marginal increase in its TOI by around 13% on a y-o-y basis. The sales volume continued to remain under pressure but the price realization witnessed an improvement resulting in lower cash losses on y-o-y basis.

Large ongoing project coinciding with downturn in its business

OPIL is undertaking a capital expenditure of Rs.225 crore for enhancement in its pulping capacity, ECF bleaching and new recovery boiler for achieving higher efficiency. Due to disruption on account of Covid-19 which has already adversely impacted its business cash flows, the project implementation has also been delayed by more than one year and the revised commissioning date is March 2022. The company has already tied up for required term loan of Rs.75 crore. It has spent Rs.94 crore on the project till September 14, 2021 (out of internal accruals/sale of investments and debt funding). However, until the capex is successfully implemented there exists the risk of cost overrun due to delay in project implementation as well as project stabilization risk.

Susceptibility of profitability to volatility in raw material prices

Raw material is the single largest cost for paper manufacturers. Though, the company is increasing its emphasis on development and plantation of clonal saplings, dependence of external wood/ bamboo supplies is still high thereby exposing the company to the risk of raw material availability and volatility in prices. Initiatives undertaken by the company towards farm forestry and captive plantations are expected to mitigate such risks to a greater extent over the medium to long term. Any adverse change in the raw material prices which the company is not able to pass on to its customers is expected to impact the profitability of the company.

Significant adverse impact of the pandemic on demand for PWP and tissue paper

The paper industry is one of the worst affected industries due to the outbreak of Covid-19 pandemic. The lockdown imposed in the last week of March 2020 resulted in closure of operations of paper industry in the initial phase. Even while paper industry's operations resumed with reduced capacities as restrictions eased, challenges remained in terms of logistics disruption and migration of labour. In addition to this, subdued demand from consumers due to shut down of educational establishments, offices, hotels, restaurants etc. and adoption of WFH practice also impacted sales.

With the ongoing vaccination program in India and abroad and with people now adapting to Covid-19 norms and environment, it is expected that the sales of paper and paper products will witness an improvement going forward backed by better paper demand and increase in its prices. The education institutions are likely to begin physically at least for higher class students if not for all the students. This is expected to result in better demand for papers like PWP and maplitho that find their usage in education institutions and offices. In addition to this, more employees are expected to work from office going forward. However, the uncertainty on timing of the demand recovery continues to remain. The demand for tissue paper has also been impacted adversely due to the impact of the pandemic on hospitality and tourism industry.

Large contingent liabilities

OPIL has significant amount of contingent liabilities as on March 31, 2021 (Rs.493 crore), a large part of which comprises demands contested by the company with respect to levy of water tax (Rs.277 crore) and cess on captive power consumption

(Rs.129 crore). Crystallisation of such liabilities might impact the liquidity profile of the company. However, as articulated by the management, the final outgo in this regard is not likely to be significant.

Analytical approach: Standalone

Applicable Criteria
Rating Outlook and Credit Watch
Policy on default recognition
Short term instruments
Manufacturing Companies
Rating methodology – Paper industry
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities

About the Company
OPIL, incorporated in 1936, belongs to the C.K. Birla group. It is currently engaged in manufacturing of paper with a paper unit at Madhya Pradesh, having a capacity of 1,10,000 tonnes p.a. (printing and writing paper 55,000 tpa and tissue paper 55,000 tpa) along with caustic soda and its derivatives. The paper products are sold under the brand names 'DIAMOND TOUCH', 'ORIENT' and 'FIRST CHOICE'.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	610.39	448.69
PBILDT	51.48	-28.05
PAT	19.93	-46.55
Overall gearing (times)	0.04	0.07
Interest coverage (times)	9.90	-4.25

A: Audited
As per its Q1FY22 results, OPIL incurred a net loss of Rs.11.47 crore on a TOI of Rs.90.80 crore as against a net loss of Rs.17.43 crore on a TOI of Rs.80.64 crore during Q1FY21.
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure 4
Bank Lender details: Annexure 5

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
Non-fund-based - LT/ ST-BG/LC		-	-	-	82.50	CARE A+; Negative / CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	1.00	CARE A1+
Fund-based - LT/ ST-Cash Credit		-	-	-	46.50	CARE A+; Negative / CARE A1+
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	53.50	CARE A+; Negative / CARE A1+
Fund-based - LT-Term Loan		-	-	September 2027	125.00	CARE A+; Negative
Non-fund-based - LT-Letter of credit		-	-	-	20.07	CARE A+; Negative

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	82.50	CARE A+; Negative / CARE A1+	-	1)CARE A+; Negative / CARE A1+ (15-Feb-21)2)CARE A+; Stable / CARE A1+ (10-Sep-20)	1)CARE AA-; Stable / CARE A1+ (07-Jan-20)2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	1)CARE AA-; Stable / CARE A1+ (05-Jul-18)
2	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	-	1)CARE A1+ (15-Feb-21)2)CARE A1+ (10-Sep-20)	1)CARE A1+ (07-Jan-20)2)CARE A1+ (05-Jul-19)	1)CARE A1+ (05-Jul-18)
3	Fund-based - LT/ ST-Cash Credit	LT/ST*	46.50	CARE A+; Negative / CARE A1+	-	1)CARE A+; Negative / CARE A1+ (15-Feb-21)2)CARE A+; Stable / CARE A1+ (10-Sep-20)	1)CARE AA-; Stable / CARE A1+ (07-Jan-20)2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	1)CARE AA-; Stable (05-Jul-18)
4	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	53.50	CARE A+; Negative / CARE A1+	-	1)CARE A+; Negative / CARE A1+ (15-Feb-21)2)CARE A+; Stable / CARE A1+ (10-Sep-20)	1)CARE AA-; Stable / CARE A1+ (07-Jan-20)2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	1)CARE AA-; Stable / CARE A1+ (05-Jul-18)
5	Fund-based - LT-Term Loan	LT	125.00	CARE A+; Negative	-	1)CARE A+; Negative (15-Feb-21)2)CARE A+; Stable (10-Sep-20)	1)CARE AA-; Stable (07-Jan-20)2)CARE AA-; Stable (05-Jul-19)	1)CARE AA-; Stable (05-Jul-18)
6	Non-fund-based - LT-Letter of credit	LT	20.07	CARE A+; Negative	-	1)CARE A+; Negative (15-Feb-21)2)CARE A+; Stable (10-Sep-20)	1)CARE AA- (07-Jan-20)	-

* Long Term / Short Term

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 instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Fund-based - LT/ ST-CC/Packing Credit	Simple
4	Non-fund-based - LT-Letter of credit	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple
6	Non-fund-based - ST-Forward Contract	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please: Click Here

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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