Emami Paper Mills Limited

January 20, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB+; Positive (Triple B Plus; Outlook: Positive) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A2 (A Two) and Withdrawn
Total Bank Facilities	**-**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB+; Positive/CARE A2' [Triple B Plus; Outlook: Positive/A Two] assigned to the bank facilities of Emami Paper Mills Ltd (EPML) with immediate effect. The above action has been taken at the request of EPML and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings Ltd.

CARE Ratings Ltd. has also withdrawn the rating assigned to the proposed bank facilities of EPML with immediate effect at the request of the company as the company has not availed the aforementioned proposed bank facilities and there is no amount outstanding under the proposed facilities as on date. Furthermore, CARE Ratings Ltd. has withdrawn the rating assigned to certain bank facility of EPML with immediate effect, as the company has repaid the facility in full and there is no amount outstanding under the facility as on date.

The ratings assigned to the bank facilities of EPML derive strength from its long operational track record in the paper industry and it being part of the established Kolkata-based Emami group. The Emami group has demonstrated timely need-based support to EPML in the past and the same is expected to continue as and when required in the future.

EPML has a diversified portfolio of paper products with presence in Newsprint (NP), Printing & Writing Paper (PWP), Kraft Paper (KP) and paper board. The ratings favorably factor in the flexibility available to EPML to change the product mix amongst NP, KP and PWP depending upon market conditions which mitigates the risk of adverse impact of significant dip in demand of a particular product to an extent. The company also has a diversified customer base across diverse end-user industries.

The ratings also take note of the continuous healthy Capacity Utilisation (CU) in the paper board unit of the company and improvement in overall CU of NP/PWP segment in Q4FY21 (FY refers to the period April 1 to March 31) and H1FY22 after having remained subdued in 9MFY21. The total operating income (TOI) of the company which had been adversely impacted by the Covid-19 pandemic during H1FY21 witnessed y-o-y growth of 77% in H1FY22 on the back of increase in both sales volume and realizations with improved demand for paper board and NP/PWP. The paper board demand remained healthy driven by good demand from the packaging industry while NP/PWP demand which had witnessed improvement during Q4FY21 and Q1FY22 was again impacted during Q2FY22 due to delay in opening of educational institutes. Although, profitability in Q2FY22 witnessed some moderation due to subdued performance in the NP/PWP segment and impact of higher raw material costs in the paper board segment, however, it improved on y-o-y basis during H1FY22 on the back of higher revenue and better spread of fixed costs.

Going forward, the demand for paper board is expected to remain healthy, while the demand for NP and PWP is expected to improve only gradually with revival of the economy, more employees working from office and increase in demand from educational institutions. Moderate utilisation of the company's fund-based working capital limits provides adequate liquidity buffer.

However, the overall gearing of EPML continues to remain high with moderate debt coverage indicators and tightly matched accruals for sizeable long-term debt repayment obligations in the medium term, despite scheduled reduction in overall debt level as on September 30, 2021. The ratings further continue to remain constrained by the susceptibility of its profitability to volatile raw material and finished goods prices and exposure to forex risk.

Outlook: Positive

The outlook on the long-term rating is 'Positive' on the expectation that going forward EPML would sustain the improvement in its profitability witnessed in H1FY22 on the back of its operating efficiency and better demand for its products. The same is likely to result in sustained improvement in its debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Established promoter group with demonstrated financial support to EPML

Emami group is a leading industrial group with major interest in cosmetics, healthcare, edible oil, paper, retail, and real estate sectors. The flagship company of the group, Emami Ltd (EL; rated CARE AA+; Stable/ CARE A1+), has established presence in personal and healthcare products. The promoters of the group, Mr R. S. Agarwal and Mr R. S. Goenka, are qualified professionals with business experience of over four decades.

Emami group has demonstrated support and infused funds as required to meet working capital and capex requirements of EPML. Further, the company derives financial flexibility by virtue of being a part of an established promoter group.

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Long track record of the company in paper industry
EPML is engaged in the paper manufacturing business since three decades and has an established position in the domestic paper industry supported by its strong brand image and superior quality product. Further, the company has presence in the export market. The company has an installed capacity of NP/PWP/KP of 1,60,000 MTPA (entirely fungible amongst the three) and that of paper board of 2,00,000 MTPA.

Diversified product basket and customer base with flexibility to change product mix
EPML has a diversified product portfolio with manufacturing facilities for NP, PWP, KP and multi-layer coated paper board of both recycled and virgin grade catering to diverse end-user segments.
Over the years, the company has developed strong operational capabilities by undertaking continuous de-bottlenecking, expansion and up-gradation in its plants to achieve optimum production as well as flexibility to shift amongst products. The company has upgraded all its plants (except packaging board) to be fungible for manufacturing of all types of paper and paper products (NP, PWP and KP) in FY21. Hence, currently, the entire 1,60,000 MT capacity of the company is fungible for production of NP, PWP as well as KP.
Given EPML's diversified product basket, the company has diversified customer base from varied end-user industries. The company caters to majority of the NP buyers in Eastern India. Paper board and PWP are sold through a network of 39 dealers and distributors. The company also has presence in the export markets like Vietnam and Malaysia and export sales comprised about 24% of sales in FY21 (about 9% in FY20).

Improvement in CU in H1FY22
EPML has manufacturing facility with five plants - four at Balasore and one in Kolkata (Gulmohar plant). In addition to this, EPML has Captive Power plants (CPP) with an aggregate installed capacity of 33.5 MW. Due to the pandemic, the Gulmohar plant was shut down for entire FY21.
The effective overall CU witnessed an improvement from 60% in H1FY21 to 88% in H1FY22 on account of improvement in CU for both paper board plant as well as NP/PWP with improvement in demand as well as realisation for both paper board as well as NP/PWP. However, during Q2FY22, CU for both paper board as well as NP/PWP witnessed a decline compared to Q1FY22 due to significant increase in raw material prices vis-à-vis NP/PWP realisation leading to lower production of NP by the company. Also, demand for NP remained lower during Q2FY22 compared to Q1FY22. However, the CU for paper board has continued to remain healthy at above 95% since Q2FY21.

Improvement in profitability in FY21 and H1FY22; albeit moderation in Q2FY22
The total operating income of the company witnessed de-growth of about 19% y-o-y in FY21 on account of disruptions caused by Covid-induced lockdowns and impact of the pandemic on demand, especially for NP and PWP. Sales realisation also witnessed decline during the year impacting sales level. However, profitability margins witnessed an improvement on account of consistent reduction in power & fuel cost, company earning mark-to-market forex fluctuation gain instead of forex loss and significant reduction in interest expense. Power and fuel cost as a % of cost of sales reduced from 9.96% in FY20 to 8.80% in FY21 with better management of procurement cost.
Excluding the impact of exceptional income on reclassification of preference shares, the PBT increased to Rs.30.16 crore in FY21 as against Rs.22.48 crore in FY20.
In H1FY22, the revenue witnessed a growth of 77% y-o-y on account of improvement in demand and company operating for the entire period as compared to the scale down of operations in H1FY21 owing to nation-wide lockdown due to Covid-19 pandemic. PBILDT margin has also witnessed an improvement with better absorption of fixed overheads and reduction in power and fuel cost as a percentage of net sales. The PBILDT margin stood improved from 16.77% in H1FY21 to 17.02% in H1FY22.
Apart from the improvement in demand and realisations, the profitability in Q1FY22 was also higher on account of some amount of inventory gain on lower priced raw material inventory. The same has normalised in Q2FY22. Consequently, PBILDT margin has moderated in Q2FY22 to 15.17%.

Key Rating Weaknesses
High leverage and sizeable long-term debt repayment obligations in the medium-term
Despite continued improvement in its overall gearing ratio from 4.22x as on March 31, 2021 to 3.45x as on September 30, 2021 on account of accretion of profit to reserves and lower cash credit utilization, EPML's overall gearing continues to remain high. Even after considering the OCPS infused by the promoters as neither debt nor equity, the adjusted overall gearing still remained high at 2.78x as on September 30, 2021.
The company had availed fresh term loan of Rs.200 crore in FY21 for meeting its long-term working capital requirements which has led to lower utilisation of fund based working capital limits. Adjusted Total Debt/PBILDT, improved to a moderate level of 3.37x as on September 30, 2021 as against 5.07x as on March 31, 2021.
The company earned GCA (adjusted for non-cash expense/income such as interest on preference shares, exceptional gain, reversal of MAT credit entitlement and unrealized forex gain) of about Rs.102 crore vis-à-vis debt repayment obligation of Rs.176 crore in FY21. The shortfall in debt repayment was met out of new working capital term loans availed and healthy cash flows generated from operations in FY21.
The company continues to have sizeable portion of debt repayment obligation in the range of Rs.170 crore - Rs.200 crore during FY22-FY23. With improvement in profitability, the company earned GCA of Rs.90 crore vis-à-vis debt repayment obligation of Rs.96 crore in H1FY22. The marginal shortfall in debt repayment was met out of utilisation of working capital borrowings where adequate cushion was available. The cash accruals continue to remain tightly matched as against debt repayments in the medium-term.

CARE derives comfort from EPML being a part of Emami group and established relationship with lenders, which is likely to enable it to arrange for timely financing to fund any shortfalls in accruals for servicing debt obligations, as has been adequately demonstrated in the past.

Volatile raw materials and finished goods price
Wastepaper and pulp are the most critical raw materials for NP and paper board, constituting around 57% of cost of sales. This is followed by power & fuel cost and chemicals. The major raw materials and finished goods are globally traded commodities with volatile prices. EPML procures around 40% of wastepaper through indigenous sources and imports around 60% of its requirement while pulp is entirely imported as EPML does not have its own plantation and pulping capacity.
The import of wastepaper had been impacted by the second wave of covid-19 pandemic. Further, the non-availability of charter ships in the international markets impacted the supply of wastepaper. This dearth in supply of wastepaper along with significant increase in logistics costs (due to shortage of container ships) had led to significant increase in wastepaper prices in FY21 and H1FY22. Also, the increase in shipping costs have led to increase in the landed price of pulp in H1FY22. In Q2FY22, the company has not been able to pass on its entire increase in raw material prices since the realisations for NP remained almost in line with Q1FY22 prices while the realisation for PWP witnessed a decline in Q2FY22 compared with Q1FY22.

Exposure to foreign exchange fluctuation risk
The company has availed ECB's, foreign currency working capital loans and imports certain raw materials and chemicals. Since the NP prices move in line with landed cost of imported NP due to import parity prices, it acts as a natural hedge. However, with the reduction in newsprint production, the natural hedge available to the company for its forex liabilities has reduced. Hence, the company changed its forex policy wherein the short-term forex liability is kept open to the extent of export sales and for the balance, the company avails 100% forward cover. Also, the company has shifted some of its working capital loans from foreign currency loans to rupee loan in FY21.
Over the years, the gap has moved unfavourably with increase in foreign currency payables vis-à-vis lower foreign currency receivables. However, in FY21, the company was able to reverse notional loss position into notional gain by recording foreign exchange gain of Rs.16.11 crore as against loss of Rs.35.55 crore in FY20; albeit in H1FY22 it incurred forex loss of Rs.0.15 crore.

Significant impact of the pandemic on the paper industry, albeit improving industry outlook
The paper industry has been significantly affected due to the pandemic, especially in the NP and PWP segment. After disruptions in FY21, several states in India witnessed curfews, partial lockdown, and complete lockdown mainly during April-May 2021 as the second wave of Covid-19 hit the country. However, in the month of June 2021, various states withdrew lockdown restrictions on account of receding covid-19 cases. Thus, more employees are expected to resume work from offices, though in a graded way, which is likely to augur well for paper segments that are used in offices like PWP, maplitho paper among others. Though the demand from education institutions remains impacted, the usage of PWP for education purpose (printed worksheets, text-books and note books) has resumed, although the sessions are held online.
With the ongoing vaccination program in India and with people now adapting to Covid-19 norms and environment, it is likely that the economic activities will pick up during FY22. This, in turn, is expected to improve production of paper & paper products industry during the year.
The resumption of economic activities in a phased manner is likely to support circulation of newspapers and advertisement spends of businesses which, in turn, is expected to improve the demand for newsprint to an extent. Challenges though will exist as cost-cutting measures by various businesses will restrict advertisement spends. Also, use of digital platforms is a cause of concern for newsprint segment.
Nevertheless, demand from packaging segment continues to provide respite to industry players as reopening of economic activities support purchase of various products including essential and non-essential items. Moreover, online buying by consumers will continue to support demand of the packaging segment.

Liquidity: Adequate
In FY22, the company has large term debt repayment obligation of Rs.203 crore (out of which Rs.96 crore is already repaid in H1FY22) against which the company is expected to generate tightly matched cash accruals despite improvement in its likely accruals on a y-o-y basis.
The current ratio has perennially been low and stood at 0.81x as on March 31, 2021 mainly because of significant current portion of long-term loan repayment obligations. The average fund-based utilization stood at 66% during the trailing 12 months ended September 2021. The company had unutilized cash credit limit of Rs.94 crore (against drawing power of Rs.307 crore) as on September 30, 2021 which further provides liquidity comfort to the company against its tightly matched annual cash accruals vis-à-vis its long-term debt repayment obligations. Besides, the company enjoys financial flexibility by virtue of being part of Emami group. In case of any shortfall, the promoters (Emami group) are expected to infuse funds to meet the shortfall in debt repayment obligations as already demonstrated in the past.

Analytical approach: Standalone. Ratings additionally factor in the financial flexibility of the Emami group in raising resources and demonstrated fund support to EPML.

Applicable Criteria
[Policy on Withdrawal of ratings]
[Policy on default recognition]
[Factoring Linkages Parent Sub JV Group]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Manufacturing Companies]
[Paper Industry]

About the Company
EPML, incorporated in 1983, belongs to Kolkata based Emami group. The company is engaged in manufacturing of NP, PWP, KP with an aggregate installed capacity of 1,60,000 MTPA and packaging paper & board with a capacity of 2,00,000 MTPA at its manufacturing facility located in Balasore (Odisha) and Dakshineshwar (West Bengal). Furthermore, EPML has a de-inking plant (350 TPD) to produce pulp from waste-paper and captive power plant of 33.5 MW.
Emami Group is a leading industrial group with major interest in cosmetics, ayurvedic medicines, pharmaceuticals, hospital, edible oil, paper, writing instruments, retail and real estate sectors. The flagship company of the group, EL, has presence in personal and healthcare products.

Brief Financials of EPML (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,524.00	1,236.12	870.38
PBILDT	217.26	197.89	148.14
PAT	-10.45	51.06	54.90
Adjusted Overall gearing (times)	5.49	3.39	2.78
Interest coverage (times)	1.75	2.06	3.79

A: Audited; UA: Unaudited
Note: Adjusted overall gearing has been calculated considering OCPS as neither debt nor equity.

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

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-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Non-fund-based - LT-Letter of credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Demand loan		-	-	-	0.00	Withdrawn

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	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB+; Positive (20-Dec-21) 2)CARE BBB+; Positive (06-Sep-21)	1)CARE BBB+; Stable (26-Nov-20) 2)CARE BBB+; Stable (17-Nov-20)	1)CARE BBB+; Stable (19-Aug-19)	1)CARE A; Stable (08-Jan-19)
2	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A2 (20-Dec-21) 2)CARE A2 (06-Sep-21)	1)CARE A2 (26-Nov-20) 2)CARE A2 (17-Nov-20)	1)CARE A2 (19-Aug-19)	1)CARE A1 (08-Jan-19)
3	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB+; Positive (20-Dec-21) 2)CARE BBB+; Positive (06-Sep-21)	1)CARE BBB+; Stable (26-Nov-20) 2)CARE BBB+; Stable (17-Nov-20)	1)CARE BBB+; Stable (19-Aug-19)	1)CARE A; Stable (08-Jan-19)
4	Non-fund-based - LT-Letter of credit	LT	-	-	1)CARE BBB+; Positive (20-Dec-21) 2)CARE BBB+; Positive (06-Sep-21)	1)CARE BBB+; Stable (26-Nov-20) 2)CARE BBB+; Stable (17-Nov-20)	1)CARE BBB+; Stable (19-Aug-19)	1)CARE A; Stable (08-Jan-19)
5	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB+; Positive (20-Dec-21) 2)CARE BBB+; Positive (06-Sep-21)	1)CARE BBB+; Stable (26-Nov-20) 2)CARE BBB+; Stable (17-Nov-20)	1)CARE BBB+; Stable (19-Aug-19)	1)CARE A; Stable (08-Jan-19)
6	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A2 (20-Dec-21) 2)CARE A2 (06-Sep-21)	1)CARE A2 (26-Nov-20) 2)CARE A2 (17-Nov-20)	-	-
7	Fund-based - LT-Working Capital Demand loan	LT	-	-	1)CARE BBB+; Positive (20-Dec-21) 2)CARE BBB+; Positive (06-Sep-21)	1)CARE BBB+; Stable (26-Nov-20) 2)CARE BBB+; Stable (17-Nov-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Letter of credit	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Non-fund-based - ST-Letter of credit	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 Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**