Orient Paper and Industries Limited

October 09, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	188.75 (Reduced from 200.00)	CARE A+; Stable	Reaffirmed
Long-term/Short-term bank facilities	201.00 (Reduced from 210.00)	CARE A+; Stable/CARE A1+	Reaffirmed
Short-term bank facilities	1.00	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Orient Paper and Industries Limited (OPIL) continue to 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 consider the comfortable capital structure and the strong liquidity profile, with availability of surplus liquid investments and cushion in utilisation of working capital limits. The ratings also take note of the improvement in the operating profitability (profit before interest, lease rentals, depreciation and taxation [PBILDT]) of the company in FY23 (FY refers to the period from April 1 to March 31) and Q1FY24 as compared to FY22, in which OPIL reported a net loss due to the impact of the COVID pandemic mainly in the first half of the year, and the significant increase in coal prices. The ratings also factor in the long track record of the company in the paper industry and the completion of the ongoing capex plan to improve its operational efficiency, albeit with a time and cost overrun and a change in the funding mix. Furthermore, the improvement in operating cash flows and the available surplus liquidity in the form of quoted equity investments provide significant support to the debt protection metrics of OPIL.

The recently completed project for increasing the pulping capacity, elemental chlorine-free (ECF) bleaching and new recovery boiler to improve process efficiencies is expected to result in significant savings in cost for OPIL and drive improvement in the operating profitability.

However, the company's ratings remain exposed to the risk associated with the ongoing large debt-funded capex of modernising, debottlenecking, and renovating its production capacity. The ratings continue to remain constrained by OPIL's exposure to the volatility in the prices of raw materials and finished goods and the cyclicality attached to the paper industry. The ratings also take note of the significant contingent liabilities in the books of the company mainly relating to water tax and cess on captive power consumption, which are under dispute.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial volume-driven growth in the scale of operations along with improvement in the PBILDT margin above 15% on a sustained basis.
- Completion of the ongoing projects and deriving benefits out of the recently undertaken capex plan.
- Improvement in its total debt (TD)/PBILDT to below unity along with the return on capital employed (ROCE) and return on net worth (RONW) above 12% on a sustained basis.

Negative factors

- Inability to sustain improvement in the operating profitability and debt coverage indicators.
- Deterioration in the cash and liquid investments below ₹200 crore.
- Significant increase in the debt level, resulting in deterioration in the overall gearing increasing beyond 0.5x and TD/PBILDT beyond 3x on a sustained basis.
- Crystallisation of significant contingent liabilities exerting strain on the liquidity.

Analytical approach: Standalone

Outlook: Stable

OPIL is expected to continue to benefit from its established market position in tissue paper and the long track record in the paper industry.

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

Detailed description of the key rating drivers

Key strengths

Part of the established CK Birla group

OPIL, belonging to the established C. K. Birla group, was incorporated in July 1936. 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 an established presence in diverse businesses like auto ancillary products, dealership of earthmoving equipment, engineering products, building products, cement, paper, fans and consumer electrical items, and Information Technology (IT) solutions and services through its various group entities. Being part of the C. K. Birla group provides significant financial flexibility to OPIL.

Conservative capital structure and availability of healthy liquid investments

The overall gearing ratio of OPIL continued to remain comfortable at 0.19x as on March 31, 2023 (0.14x as on March 31, 2022). The debt level increased as on March 31, 2023, and is further expected to increase in the near term, as OPIL is planning to avail a term debt of around ₹280 crore to fund its proposed capex. However, with a healthy net worth base of ₹1,515 crore as on March 31, 2023, even after considering the proposed debt, the overall gearing is expected to remain comfortable. OPIL holds investments in some listed companies having strong credit quality with a market value of around ₹505 crore as on September 11, 2023. OPIL has the necessary approval from its Board of Directors to dispose-off these investments whenever required, which provides significant financial flexibility and liquidity support to the company. OPIL also holds about 850 acre of land at Brajrajnagar, Odisha, where its first paper factory was set up, which is currently not in use, and other land 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 printing and writing paper (PWP), whereby it is among 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 had received approval to create a concrete barrage on river Sone to ensure complete water security and the same is also constructed to increase water storage capacity to 4.546 million cubic metre, which is expected to eliminate the risk of water scarcity-related plant stoppage. The company has planted saplings to support its raw material requirements. It is planning to source its entire wood requirement through local farmers within the next four to five years, ensuring the availability of raw materials and better profitability through reduction in cost. The company implemented a project to increase its pulping capacity, ECF bleaching, and is setting up a new recovery boiler (600 tonne per day [TPD])/evaporator [150 TPD]) to improve its operating efficiency. It is also planning to modernise, debottleneck its production capacity to improve the production efficiency with a capex of around ₹475 crore, which is to be incurred in the next two years.

Improvement in scale and profitability in FY23 and Q1FY24

During FY23, OPIL's total operating income (TOI) registered a growth of 61% on a y-o-y basis and stood at ₹942.95 crore vis-à-vis ₹585.65 crore in FY22. The increase was both, on account of the increase in sales volume as well as realisations. With improvement in demand due to the receding impact of the pandemic, the capacity utilisation improved to 74% in FY23 from 66% in FY22. On the back of higher sales realisations, the PBILDT margin of the company also improved to 17.18% in FY23 as compared to -2.87% in FY22.

During Q1FY24, the company reported an increase in its TOI on a y-o-y basis to ₹243.27 crore as compared to ₹211.22 crore in Q1FY23. Although, there is slight decline in the TOI in Q1FY24 as compared to Q4FY23 due to the moderation in demand after a pent-up demand scenario witnessed in FY23. However, the demand is expected to pick up in the coming quarters once the printing cycle for textbooks and notebooks publishing starts picking up for the new academic session.

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 ₹505 crore as on September 11, 2023, which provides strong liquidity comfort to the company. OPIL reported gross cash accruals (GCA) of ₹155 crore in FY23 due to improvement in the operating profitability. The average month-end utilisation of its fund-based working capital limits during the trailing 12 months ended July 31, 2023, stood at about 34%, which too, provides cushion to its liquidity. Given the healthy liquid investment profile, the moderate debt repayment obligation and the sufficient unutilised line of credit, the company has sufficient liquidity to fund the operational expenditure and equity portion for the capex planned in the next two years.

Key weaknesses

Susceptibility of profitability to volatility in input prices

Raw material is the largest cost component for paper manufacturers. Although the company is increasing its emphasis on development and plantation of clonal saplings, the dependence of external wood and 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, will impact the profitability of the company.

Power cost is another significant portion of cost for OPIL. The company requires uninterrupted supply of coal for its power plant and remains exposed to the volatility in the prices of coal and its availability. OPIL has commissioned a new recovery boiler with an enhanced capacity from 450 TPD to 600 TPD in November 2022, which will generate surplus steam and reduce the coal requirement.

Risk associated with the ongoing large-sized capex project

The company has completed the implementation of recovery boiler in November 2022, enhanced pulping capacity, and ECF bleaching in FY23. Furthermore, it has a proposed capex of ₹475 crore to modernise, debottleneck, and renovate its production capacity, which will improve the efficiency and improve the production capacity to 135,000 tonne per annum (TPA) from 110,000 TPA and improve the pulping capacity from 225 TPD to 300 TPD. As per the tentative plan indicated by the management, the company is proposing to avail term loans of around ₹240 crore for the project and the balance to be funded through internal accruals and the selling of quoted equity investments to an extent.

Large contingent liabilities

OPIL has significant amount of contingent liabilities as on March 31, 2023 (₹2,407 crore). A large part of its contingent liabilities comprises demands contested by the company with respect to levy of water tax (₹2,136 crore including interest and penalty of ₹1,676 crore) and cess on captive power consumption (₹182 crore). Crystallisation of such liabilities might impact the liquidity profile of the company. Company has received the offer of one-time settlement of water tax claims at Rs.79 crore and withdrawal of Writ petition from the High Court for which the Company has not given any consent. As articulated by the management, the final outgo in this regard is not likely to be significant.

Environment, social, and governance (ESG) risks

The Company conducted its ESG profiling in FY23 which served as the foundation for developing a comprehensive framework for its ESG strategy. The company is developing plans on reducing the eco-system carbon footprints, soil and water conservation to ensure sustainability of operations. The Board of Directors comprises of six members out of which four are independent directors. OPIL spent Rs.0.97 crore in FY23 as against nil obligation on its Corporate Social Responsibility (CSR).

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Paper Industry
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest materials	Paper, forest and jute products	Paper and paper products

OPIL, incorporated in 1936, belongs to the C.K. Birla group. It is currently engaged in the manufacturing of paper, with a paper unit located in Amlai, Madhya Pradesh, having a capacity of 110,000 tonne per annum (PWP – 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 (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24(UA)
Total operating income	585.65	942.96	243.27
PBILDT	-16.79	161.96	54.39
PAT	-28.88	99.25	32.18
Overall gearing (times)	0.14	0.19	NA
Interest coverage (times)	NM	15.59	10.88

A: Audited, UA: Unaudited; NA: Not available; NM: Not meaningful. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of the various facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	July 2028	173.75	CARE A+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	74.00	CARE A+; Stable / CARE A1+
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	53.50	CARE A+; Stable / CARE A1+
Non-fund-based - LT-Letter of credit		-	-	-	15.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	73.50	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	1.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	73.50	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (23-Sep-22)	1)CARE A+; Negative / CARE A1+ (06-Oct-21)	1)CARE A+; Negative / CARE A1+ (15-Feb-21) 2)CARE A+; Stable / CARE A1+ (10-Sep-20)

2	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	-	1)CARE A1+ (23-Sep-22)	1)CARE A1+ (06-Oct-21)	1)CARE A1+ (15-Feb-21) 2)CARE A1+ (10-Sep-20)
3	Fund-based - LT/ ST-Cash Credit	LT/ST*	74.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (23-Sep-22)	1)CARE A+; Negative / CARE A1+ (06-Oct-21)	1)CARE A+; Negative / CARE A1+ (15-Feb-21) 2)CARE A+; Stable / CARE A1+ (10-Sep-20)
4	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	53.50	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (23-Sep-22)	1)CARE A+; Negative / CARE A1+ (06-Oct-21)	1)CARE A+; Negative / CARE A1+ (15-Feb-21) 2)CARE A+; Stable / CARE A1+ (10-Sep-20)
5	Fund-based - LT-Term Loan	LT	173.75	CARE A+; Stable	-	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Negative (06-Oct-21)	1)CARE A+; Negative (15-Feb-21) 2)CARE A+; Stable (10-Sep-20)
6	Non-fund-based - LT-Letter of credit	LT	15.00	CARE A+; Stable	-	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Negative (06-Oct-21)	1)CARE A+; Negative (15-Feb-21) 2)CARE A+; Stable (10-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Facilities	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: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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