Orient Paper and Industries Limited

June 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	192.50 (Enhanced from 172.50)	CARE A+; Stable	Reaffirmed
Long-term / short-term bank facilities	221.00	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	1.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Orient Paper and Industries Limited (OPIL) continue to draw significant strength from the company's long track record in the paper industry and the financial flexibility derived as part of the established C. K. Birla group. Ratings also derive strength from its comfortable capital structure and strong liquidity in the form of quoted equity investments, which provides significant support to OPIL's debt metrics.

Ratings also take note of the significant moderation in the company's operating profitability (profit before interest, lease rentals, depreciation and taxation [PBILDT]) in Q2FY24 (refers to April 01 to March 31) after witnessing strong performance over Q3FY23-Q1FY24, mainly due to shut down of plant for about 30 days in Q2FY24 for alignment of enhanced pulping capacity with existing unit, coinciding with lower average sales price realisation of printing and writing paper (PWP) due to cheaper imports. Commissioning of increased pulping capacity, elemental chlorine-free (ECF) bleaching and new recovery boiler resulted in cost savings and process efficiencies, enabling the entity to post improved profitability in Q3FY24 over Q2FY24. The performance for caustic soda also remained impacted in 9MFY24 in view of demand slowdown from user industries and increased supply considering higher capacities and imports.

Ratings continue to remain exposed to the risk associated with the ongoing large debt-funded capex of modernising, debottlenecking, and renovating production capacity. Ratings continue to remain constrained by OPIL's exposure to raw material and finished good price volatility and cyclicality attached to the paper industry, significant contingent liabilities in the company's books, 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

- Substantially volume-driven growth in the scale of operations and improving PBILDT margin above 15% on a sustained basis.
- Completing ongoing projects and deriving benefits of the recently undertaken capex plan.
- Improving total debt (TD)/PBILDT to below unity and return on capital employed (ROCE) and return on net worth (RONW) above 12% on a sustained basis.

Negative factors

- Inability to sustain improving operating profitability and debt coverage indicators.
- Deteriorating cash and liquid investments below ₹200 crore.
- Significantly increasing debt level, resulting in deteriorating overall gearing increasing beyond 0.5x and TD/PBILDT beyond 3x on a sustained basis.
- Crystallising significant contingent liabilities exerting strain on the liquidity.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') belief that OPIL is likely to continue benefitting from its established market position in tissue paper and long track record in the paper industry. OPIL is likely to sustain its comfortable financial risk profile with strong liquidity, notwithstanding the ongoing capex plan.

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

Detailed description of key rating drivers:

Key strengths

Part of the established CK Birla group

Incorporated in July 1936, OPIL belongs to the established C. K. Birla group. C. K. Birla, at the helm of the company's affairs, 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 such as 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 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

OPIL's overall gearing ratio 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 ₹240 crore to fund its proposed capex. However, the company has not taken term debts in FY24 to fund its capex as planned earlier and plans to go slow with its current capex, considering the current industry scenario. However, with a healthy net worth base of ₹1,515 crore as on March 31, 2023, even after considering the proposed debt, overall gearing is expected to remain comfortable. OPIL holds investments in some listed companies, having strong credit quality with a market value of around ₹490 crore as on March 31, 2024. OPIL has the necessary approval from its Board of Directors to dispose-off these investments when required, which provides significant financial flexibility and liquidity support to the company. 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 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, tissue paper, and printing and writing paper (PWP); it is among the leading domestic players in the tissue paper segment. Over the years, the company has taken initiatives to improve operational efficiency. In the past, the company received approval to create a concrete barrage on river Sone to ensure complete water security, and 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 raw material availability and better profitability through cost reduction. The company implemented a project to increase its pulping capacity, ECF bleaching, 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 production efficiency with a capex of around ₹475 crore, which is to be incurred in the next two years.

Moderating financial performance in 9MFY24 after improving significantly in FY23

In FY23, OPIL's total operating income (TOI) registered a growth of 61% y-o-y and stood at ₹942.96 crore against ₹585.65 crore in FY22. The increase was due to increase in sales volume and realisations. With improvement in demand due to receding impact of the pandemic, capacity utilisation improved to 74% in FY23 from 66% in FY22. On the back of higher sales realisations, the company's PBILDT margin also improved to 17.18% in FY23 as compared to -2.87% in FY22. However, in 9MFY24, the company reported decline in its TOI Y-o-Y to ₹589.58 crore as compared to ₹684.48 crore in 9MFY23. This decline was due to subdued demand and plant shut-down of about 30 days for alignment of enhanced pulping capacity with existing unit and lower sales price realisation for PWP due to cheaper imports. The performance for caustic soda also remained modest in 9MFY24 in view of demand slowdown from the user industries and increased supply considering higher capacities and imports.

Liquidity: Strong

OPIL derives financial flexibility as part of the C. K. Birla group and due to its investments in listed equity shares valued at ₹490 crore as on March 31, 2024, which provides strong liquidity comfort to the company. OPIL reported gross cash accruals (GCA) of ₹154.84 crore in FY23 due to improvement in the operating profitability which moderated to ₹53.80 in 9MFY24. The average month-end utilisation of its fund-based working capital limits in 12-months ended April 30, 2024, stood comfortable at about 72%, which also, provides cushion to its liquidity. Given the healthy liquid investment profile, moderate debt repayment obligation and the sufficient unutilised line of credit, the company has sufficient liquidity to fund operational expenditure and equity portion for the capex planned in the next two years.

Key weaknesses

Profitability susceptible to input price volatility

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, exposing the company to risk of raw material availability and price volatility. 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. Adverse change in raw material prices, which the company is not able to pass on to its customers, will impact its profitability. 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 price volatility 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 generate surplus steam and reduce coal requirement. Accordingly, power cost reduced in 9MFY24 as compared to 9MFY23.

Risk associated with ongoing large-sized capex project

The company has completed implementation of recovery boiler in November 2022, enhanced pulping capacity (225 TPD to 300 TPD), and ECF bleaching in FY23. 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 increase pulping capacity of the company from 300 TPD to 400 TPD. According to 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 selling 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 company's liquidity. The company received the offer of one-time settlement of water tax claims at ₹79 crore and withdrawal of writ petition from the High Court, for which, the company has not given consent. As articulated by the management, the final outgo in this regard is not likely to be significant.

Competition from imports impacting paper industry

Rising imports of paper (excluding newsprint) are expected to discourage paper production. The industry is facing stiff competition from imports, particularly from the Association of Southeast Asian Nations (ASEAN) and China. Free-trade agreements and concessions offered on imports of paper are keeping domestic paper industry on the back foot. A rapid rise in imports seems to be creating a situation of oversupply, which is expected to restrict production and effect realisations of domestic manufacturers. Domestic industry is urging the government to take steps to reduce imports. The Indian Paper Manufacturers Association (IPMA) is seeking an increase in basic customs duty on paper and paper board. It is also seeking the issuance of quality control orders for different grades of paper. This can curb imports of inferior products into country, ensuring domestic consumer gets quality products. The association is also pitching to keep paper and paperboard on the negative list, while reviewing existing FTAs and formulating new ones. A negative list consists of products and services, on which the terms of FTA are not applicable. Excessive imports and government measures to curb it would remain a key monitorable for the company's credit profile.

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 eco-system carbon footprints, soil and water conservation to ensure sustainability of operations. The Board of Directors comprises six members, of which, four are independent directors. OPIL spent ₹0.97 crore in FY23 as against nil obligation on its corporate social responsibility (CSR).

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Paper & Paper Products
Financial Ratios – Non financial Sector
Short Term Instruments

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

Incorporated in 1936, OPIL belongs to the C.K. Birla group. It is currently engaged in manufacturing paper, with a paper unit in Amlai, Madhya Pradesh, having a capacity of 110,000 tonne per annum (PWP – 55,000 TPA and tissue paper – 55,000 TPA) and caustic soda and its derivatives. The paper products are sold under brand names 'Diamond Touch', 'orient', and 'first choice'.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	585.65	942.96	589.58
PBILDT	-16.79	161.96	60.32
PAT	-28.88	99.25	12.64
Overall gearing (times)	0.14	0.19	NA
Interest coverage (times)	NM	15.59	2.84

A: Audited; UA: Unaudited; NM: Not Meaningful; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	July 2028	177.50	CARE A+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	74.00	CARE A+; Stable / CARE A1+
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	66.00	CARE A+; Stable / CARE A1+
Non-fund-based - LT-Letter of credit		-	-	-	15.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	81.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	1.00	CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Non-fund-based - LT/ ST-BG/LC	LT/ST	81.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (05-Apr-24)	1)CARE A+; Stable / CARE A1+ (09-Oct-23)	1)CARE A+; Stable / CARE A1+ (23-Sep-22)	1)CARE A+; Negative / CARE A1+ (06-Oct-21)
2	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	1)CARE A1+ (05-Apr-24)	1)CARE A1+ (09-Oct-23)	1)CARE A1+ (23-Sep-22)	1)CARE A1+ (06-Oct-21)
3	Fund-based - LT/ ST-Cash Credit	LT/ST	74.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (05-Apr-24)	1)CARE A+; Stable / CARE A1+ (09-Oct-23)	1)CARE A+; Stable / CARE A1+ (23-Sep-22)	1)CARE A+; Negative / CARE A1+ (06-Oct-21)
4	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	66.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (05-Apr-24)	1)CARE A+; Stable / CARE A1+ (09-Oct-23)	1)CARE A+; Stable / CARE A1+ (23-Sep-22)	1)CARE A+; Negative / CARE A1+ (06-Oct-21)
5	Fund-based - LT-Term Loan	LT	177.50	CARE A+; Stable	1)CARE A+; Stable (05-Apr-24)	1)CARE A+; Stable (09-Oct-23)	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Negative (06-Oct-21)
6	Non-fund-based - LT-Letter of credit	LT	15.00	CARE A+; Stable	1)CARE A+; Stable (05-Apr-24)	1)CARE A+; Stable (09-Oct-23)	1)CARE A+; Stable (23-Sep-22)	1)CARE A+; Negative (06-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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