Orient Paper and Industries Limited (Revised)

October 01, 2024

S. No.	Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
1.	Long Term Bank Facilities	133.75 (Reduced from 177.50)	CARE A+; Negative	Reaffirmed; Outlook revised from Stable
2.	Long Term / Short Term Bank Facilities	221.00	CARE A+; Negative / CARE A1+	Reaffirmed; Outlook revised from Stable
3.	Short Term Bank Facilities	60.00	CARE A1+	Assigned
4.	Short Term Bank Facilities	1.00	CARE A1+	Reaffirmed
5.	Long Term Bank Facilities	-	-	Withdrawn

Details of 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 by being a 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 continue to remain constrained by OPIL's exposure to raw material and finished goods price volatility and cyclicality attached to the paper industry, sub-optimal capacity utilisation of tissue paper plant, significant contingent liabilities in the company's books, mainly relating to water tax and cess on captive power consumption, which are under dispute. Ratings are further constrained by more than expected moderation in the company's financial performance over Q2FY24-Q1FY25, after witnessing strong performance over Q3FY23-Q1FY24. The subdued performance is attributed 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, higher repair and maintenance cost, and recent increase in input costs (wood and bamboo). The performance for caustic soda also remained impacted in FY24 in view of demand slowdown from user industries and increased supply considering higher capacities and imports.
CARE Ratings Ltd (CARE Ratings) notes that OPIL has decided to slow down its large capex plan of modernization, debottlenecking, renovation of its plant and machinery, and improving its paper and pulping capacity at an estimated cost of ₹475 crore. However, the company will carry on with a reduced capex program of ₹85 crore in the current year.
CARE Ratings has withdrawn the rating assigned to the long-term bank facilities (S. No. 5) with immediate effect as the company has surrendered the aforementioned bank facilities rated by CARE Ratings and there is no amount outstanding against the same.

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 return on capital employed (ROCE) and return on net worth (RONW) above 12% on a sustained basis.

Negative factors

- Inability to sustain operating margin above 7% and improve debt coverage indicators.
- Deteriorating cash and liquid investments below ₹200 crore and significant increase in debt level resulting in deterioration in overall gearing increasing beyond 0.5x and TD/PBILDT beyond 4x on a sustained basis.
- Crystallising significant contingent liabilities exerting strain on the liquidity.

Analytical approach: Standalone

Outlook: Negative

The outlook has been revised from 'Stable' to 'Negative' in view of expected weak performance of the company due to significant decline in sales realizations and increase in wood/bamboo prices. The outlook may be revised to 'Stable' if there is an improvement

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

in the profitability with various efficiency improvement measures being undertaken by the company along with improvement in sales realisation.

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 0.21x as on March 31, 2024 (0.19x as on March 31, 2023). The debt level increased as on March 31, 2024, and is further expected to increase in FY25, as OPIL is planning to avail term debt to fund its proposed capex in the current year. However, the company plans to go slow with its current capex, considering the current industry scenario. Nevertheless, with a healthy net worth base of ₹1,619 crore as on March 31, 2024, even after considering the proposed debt, overall gearing is expected to remain comfortable. OPIL holds investments in few listed companies, having strong credit quality with a market value of around ₹610 crore as on September 22, 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 and enhance water storage capacity. The company is undertaking plantation activities to support its future 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.

Liquidity: Strong

OPIL derives significant financial flexibility as part of the C. K. Birla group and due to its investments in listed equity shares valued at ₹610 crore as on September 22, 2024, which provides strong liquidity comfort to the company. The gross cash accruals (GCA) of OPIL moderated to ₹53.73 crore in FY24 and ₹2.50 crore in Q1FY25 due to deterioration in operating profitability. Given subdued accruals, large part of ongoing capex was funded out of sale of investments and non-core assets and availment of debt. The average month-end utilisation of its fund-based working capital limits in 12-months ended July 31, 2024, stood at 82%. The debt repayment obligations of the company in the next two years are expected to be funded out of a mix of internal accruals, selling of quoted equity investment in Century Textile & Industries limited and Ultratech Cement Limited or sale of non-core asset, while the capex in FY25 would be funded completely out of debt.

Key weaknesses

Moderation in financial performance in FY24 and Q1FY25

The subdued performance in FY24 is on account of 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, and higher repair and maintenance cost. The performance for caustic soda also remained impacted in FY24 in view of demand slowdown from user industries and increased supply considering higher capacities and imports.

In Q1FY25, the company incurred net loss of ₹6.42 crore as against PAT of ₹32.18 crore in Q1FY24, while revenue decreased slightly from ₹243 crore in Q1FY24 to ₹238 crore in Q1FY25. The losses are attributed to continued pricing pressure in PWP along with the significant increase in input (bamboo and wood) costs compared to previous year. The overall performance for FY25 is expected to remain moderate with unlikely easing of input cost and continued pricing pressure for PWP. Any likelihood of imposition of custom duty on cheap imports may provide some relief in terms of realization.

Sub-optimal capacity utilisation (CU) of tissue paper plant
The CU of tissue paper plant remained moderate at 63% in FY24 (66% in FY23) and 68% in Q1FY15 due to various process bottlenecks. As a result, the return indicators have remained impacted. CU of PWP improved from 81% in FY23 to 88% in FY24 and further to 109% in Q1FY25.

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, have impacted its profitability in Q1FY25.
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 commissioned a new recovery boiler with an enhanced capacity from 450 TPD to 600 TPD in November 2022, which generates surplus steam and reduce coal requirement. Accordingly, power cost reduced in FY24 as compared to FY23.

Large contingent liabilities
OPIL has significant amount of contingent liabilities as on March 31, 2024 (₹3,019 crore). A large part of its contingent liabilities comprises demands contested by the company with respect to levy of water tax (₹2,714 crore including interest and penalty of ₹2,133 crore) and cess on captive power consumption (₹218 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. Paper imports in India grew by 34% y-o-y in FY24, following a 25% increase y-o-y in FY23. 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. 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 paper manufacturing industry faces significant environmental risks, including air, water, and land pollution. Discarded paper and paperboard contribute substantially to municipal solid waste in landfills. The pulp and paper production process emits considerable industrial pollutants into the air, water, and land. Further, paper production also requires significant amount of water. Additionally, water treatment is crucial, as the pulping and bleaching processes release complex organic and inorganic pollutants that must be adequately treated.
The company is developing plans on reducing eco-system carbon footprints, soil and water conservation to ensure sustainability of operations. OPIL achieved 8% reduction in energy consumption and 15% reduction in emission in paper business in FY24. The Board of Directors comprises six members, of which, four are independent directors. OPIL spent ₹3.03 crore in FY24 as against ₹0.08 crore 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
Withdrawal Policy

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)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	942.96	831.94	238.29
PBILDT	161.96	61.08	8.22
PAT	99.25	6.23	-6.42
Overall gearing (times)	0.19	0.21	NA
Interest coverage (times)	15.58	2.11	1.05

A: Audited; UA: Unaudited; 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 facilities: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	July 2028	133.75	CARE A+; Negative
Fund-based - LT/ ST-Cash Credit		-	-	-	74.00	CARE A+; Negative / CARE A1+
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	66.00	CARE A+; Negative / CARE A1+
Fund-based - ST-Term loan		-	-	June 2025	60.00	CARE A1+
Non-fund-based - LT-Letter of credit		-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-BG/LC		-	-	-	81.00	CARE A+; Negative / 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 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+; Negative / CARE A1+	1)CARE A+; Stable / CARE A1+ (04-Jun-24) 2)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+ (04-Jun-24) 2)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+; Negative / CARE A1+	1)CARE A+; Stable / CARE A1+ (04-Jun-24) 2)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+; Negative / CARE A1+	1)CARE A+; Stable / CARE A1+ (04-Jun-24) 2)CARE A+; Stable / CARE A1+	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)

					(05-Apr-24)			
5	Fund-based - LT-Term Loan	LT	133.75	CARE A+; Negative	1)CARE A+; Stable (04-Jun-24) 2)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	-	-	1)CARE A+; Stable (04-Jun-24) 2)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)
7	Fund-based - ST-Term loan	ST	60.00	CARE A1+	-	-	-	-

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 facilities 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	Fund-based - ST-Term loan	Simple
5	Non-fund-based - LT-Letter of credit	Simple
6	Non-fund-based - LT/ ST-BG/LC	Simple
7	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 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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