Orient Press Limited

February 22, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	26.27 (Reduced from 28.36)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	14.50	CARE BBB-; Negative / CARE A3 (Triple B Minus; Outlook: Negative / A Three)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	21.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**61.77 (Rs. Sixty-One Crore and Seventy-Seven Lakhs Only)**		
Fixed Deposit	8.00	CARE BBB- (FD); Negative [Triple B Minus (Fixed Deposit); Outlook: Negative]	Reaffirmed; Outlook revised from Stable
Total Medium-Term Instruments	**8.00 (Rs. Eight Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the ratings assigned to the bank facilities & instrument of Orient Press Limited and revised the outlook to Negative.

The operations of the company were impacted in the past couple of years on account of the pandemic. The printing division was impacted since schools were shut and printing requirement of IPO forms, annual reports, schoolbooks, notebooks declined. In the flexible packaging division, the company was not able to completely pass on the increase in input prices. The ratings factor in continuing decline in revenue and profitability of the company during FY21 as well as in 9MFY22. The company even posted cash losses during 9MFY22. However, the company had sold a land parcel during H2FY22 and mobilized around 6.5 crore. Further the promoter and related parties has infused some funds as unsecured loan during FY21 to support the operations. Term Loan repayments are minimal with outstanding term loan of 1.2 crore as on January end 2022.

The ratings, however, continue to derive strength from extensive experience of the promoters in printing industry and established client base. The rating continues to be constrained by moderate scale of operations, exposure to volatility in input prices and exposure to regulatory risk in flexible packaging division.

The outlook revision is due to continuation of subdued operational performance. The outlook will be revised to stable once the performance starts to return to pre-covid level.

Rating Sensitivities

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

- Improvement in scale of operations with the operating performance and profitability returning to pre covid level
- Improvement in operating cycle below 90 days on sustained basis

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

- Further decline in scale of operations with continuing cash losses
- Overall gearing deteriorating beyond 1.00x on a sustained basis
- Further deterioration in operating cycle beyond current level

Detailed description of the key rating drivers

Key Rating Weaknesses

Declining scale of operations in FY21 and in 9MFY22

OPL operates in 3 segments, namely printing, flexible packaging and paper boards, with flexible packaging being the largest contributor to revenue. Out of total revenue, printing segment contributed around 30% revenue during FY21 and 70% came from packaging segment. In an intensely competitive and largely unorganized market, OPL's scale of operations continues to remain moderate. Moderate size of OPL may restrict it in making timely revision of product prices as these companies are generally price takers in the market, and thus any revision in price can be done only after the market leaders revise their product prices.

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

In FY21, OPL reported decline in income by 15% on a y-o-y basis led by weak performance in both the segments. In particular, revenue from packaging division declined by more than 19% and printing division reported a decline in revenue by 5.95% during FY21 on a y-o-y basis. In the printing segment, OPL is primarily present in education segment and in printing documents for the capital markets such as annual reports, IPO forms, IPO prospectus, forms for mutual fund schemes etc.

Deterioration in PBILDT margins in FY21 which continued in 9MFY22 as well
Profitability margin has been witnessing decline in both the segment, however, losses at PBIT level in Packaging segment has been impacting overall margins of the company.

	PBIT				PBIT margin (%)			
	FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY21
Printing	10.99	11.96	7.00	4.87	12.46	16.60	15.43	14.91
Packaging	-0.69	-3.04	-1.62	-2.76	-0.50	-2.00	-1.32	-2.97

Loss in the paper board segment continues on the back of stiff competition resulting in non-remunerative prices thereby resulting in underutilization of the manufacturing capacity. Increase in polymer prices (a key raw material for flexible packaging) had also adversely impacted the operating margins from the flexible packaging segment.
Shutdown of operations due to CoVID-19 and gradual commencement of operations led to reduced capacity utilization levels across product segments. Printing division was impacted as most activities became online and contactless resulting in reduced printing requirements. As fewer annual reports were printed, there were fewer capital market offerings, banking and investment transactions were mostly carried out online requiring fewer cheques and slips to be printed and even exams have been conducted online as such question paper printing was also reduced. Operating profitability in the flexible packaging division was impacted due to increase in raw material prices which could not be passed to the customers and underutilization of capacities in the paper cardboard division led to continued losses in this segment.

Despite comfortable gearing levels, debt coverage indicators remain strained
Overall gearing level stood at 0.74 times as on March 31, 2021 (0.72 times as on March 31, 2020). Despite this, debt coverage indicators continue to remain strained on account of decline in operating profits and cash accruals. Comfort can be derived from the fact that the promoters have supported the entity by way of infusing funds in form of loans.
Moreover, company has sale a land parcel in greater Noida for Rs. 6.50 cr. Company had received Rs. 1.5 crore in parts during H1FY22 while the remaining Rs. 5 cr. were received during January-22.

Elongated operating cycle
OPL's operating cycle has elongated further to 174 days in FY21 (145 days in FY20). The stretch in operating cycle is mainly attributed to significant inventory of raw materials (Polymer Granules, inks, various grades of paper etc.) required for production. Polymer Granules are crude oil derivatives and thus their prices are inherently volatile. Thus, OPL maintains significant inventory of raw materials to mitigate the risk of raw material price fluctuations.

Susceptibility of the profitability margins to raw material volatility
As mentioned previously, OPL's major raw material, polymers granules are derivatives of crude oil which is volatile in nature. Moreover, owing to the presence of large numbers of players in the flexible packaging industry, passing on raw material price hike becomes difficult, resulting into lag in the price revisions when the input prices are on rising trend. Since raw materials constitute the major proportion of OPL's cost structure, limited ability of OPL to pass on price hikes may impact operating profit margins.
On the other hand, volatility on account of foreign exchange is largely mitigated as OPL is net exporter of goods. The company enters into forward contracts to mitigate risks associated with adverse foreign currency movement.

Exposure to regulatory risk in flexible packaging division
Complexities involved in recycling of Multilayer plastics used in packing the processed foods as well as other FMCG products make them one of the major sources of soil and water pollution. Increasing level of soil and water pollution has led to growing environmental concerns, especially in countries like India, which is one of the fastest growing markets for plastic packaging. This exposes the companies in flexible packaging industry to high regulatory risk. Nevertheless, growing population and increasing demand of processed foods augurs well for the players in the packaging industry. Moreover, high durability, flexibility, and cost effectiveness of flexible packaging make them as a preferred choice for various user industries ranging from Food and beverages, healthcare, cosmetics, transportation etc. Hence, owing to growing demand from user industries the flexible packaging growth is expected to remain healthy over a medium term. However, leaders in the industry will be better placed to adopt changing environment regulations with their innovative biodegradable solutions and recyclable products.

Key Rating Strengths

Extensive experience of the promoters in the industry
OPL is managed by its founding promoters Mr. Ramvilas Maheshwari (Chairman and Managing Director) and Rajaram Maheshwari (Executive director) each having around four decades in the industry. The directors are assisted by a team of experienced professionals.

Liquidity: Stretched
OPL has stretched liquidity profile as indicated by high working capital utilization in the 12 months ending Dec 2021 with average utilization being 78%. Higher utilization is on account of stretched operating cycle, in particular on account of inventory build-up at the manufacturing locations. Low cash generation coupled with very high utilization of working capital limits leaves very little headroom for future debt repayment obligations.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity analysis of non- financial sector entities

About the Company
Incorporated on January 02, 1987 as a private limited company, Orient Press Limited (OPL) is promoted by the Maheshwari family - Mr. R. V. Maheshwari and Mr. R. R. Maheshwari. The company is engaged in the segments of packaging and printing. Under packaging, the company manufactures flexible packaging material of multi-layer film laminates and paper board cartons; while under its Printing segment, it is involved in several activities such as printing of capital market stationeries like IPO offer documents, RHPs etc.; commercial printing such as text books, annual reports, diaries etc., and security printing like MICR cheques, dividend warrants, etc. OPL has manufacturing facilities at Tarapur in Maharashtra, Silvassa in Union Territory of Dadra & Nagar Haveli, and Noida in Uttar Pradesh.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	169.32	143.19	113.54
PBILDT	11.17	7.16	1.11
PAT	-1.40	-3.47	-6.56
Overall gearing (times)	0.72	0.74	NA
Interest coverage (times)	1.75	1.11	Neg.

A: Audited, UA: Unaudited, NA: Not Applicable, Neg.: Negative
Status of non-cooperation with previous CRA: None

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-Term Loan	-	-	-	31-07-2023	4.77	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	-	21.50	CARE BBB-; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	14.50	CARE BBB-; Negative / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	-	21.00	CARE A3
Fixed Deposit	-	-	-	-	8.00	CARE BBB- (FD); 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	Fund-based - LT-Term Loan	LT	4.77	CARE BBB-; Negative	-	1)CARE BBB-; Stable (01-Mar-21) 2)CARE BBB-; Stable (23-Feb-21)	1)CARE BBB; Negative (20-Mar-20)	1)CARE BBB; Stable (08-Mar-19) 2)CARE BBB (CWN) (31-Oct-18)
2	Fund-based - LT-Cash Credit	LT	21.50	CARE BBB-; Negative	-	1)CARE BBB-; Stable (01-Mar-21) 2)CARE BBB-; Stable (23-Feb-21)	1)CARE BBB; Negative (20-Mar-20)	1)CARE BBB; Stable (08-Mar-19) 2)CARE BBB (CWN) (31-Oct-18)
3	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	14.50	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (01-Mar-21) 2)CARE BBB-; Stable / CARE A3 (23-Feb-21)	1)CARE BBB; Negative / CARE A3 (20-Mar-20)	1)CARE BBB; Stable / CARE A3+ (08-Mar-19) 2)CARE BBB / CARE A3+ (CWN) (31-Oct-18)
4	Non-fund-based - ST-BG/LC	ST	21.00	CARE A3	-	1)CARE A3 (01-Mar-21) 2)CARE A3 (23-Feb-21)	1)CARE A3 (20-Mar-20)	1)CARE A3+ (08-Mar-19) 2)CARE A3+ (CWN) (31-Oct-18)
5	Fixed Deposit	LT	8.00	CARE BBB- (FD); Negative	-	1)CARE BBB- (FD); Stable (01-Mar-21) 2)CARE BBB- (FD); Stable (23-Feb-21)	1)CARE BBB (FD); Negative (20-Mar-20)	1)CARE BBB (FD); Stable (08-Mar-19) 2)CARE BBB (FD) (CWN) (31-Oct-18)

* Long Term / Short Term

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	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT/ ST-CC/Packing Credit	Simple
5	Non-fund-based - ST-BG/LC	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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Arunava Paul
Contact no.: 022-6754 3667
Email ID: arunava.paul@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

About CARE Ratings:
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