Orient Paper And Industries Limited

September 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	200.00 (enhanced from 145.07)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	210.00 (enhanced from 182.50)	CARE A+; Stable/CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	1.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**411.00 (₹ Four hundred eleven crore only)**		

Details of facilities in Annexure-1.

Detailed rationale & 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 factor OPIL's comfortable capital structure and 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 (PBILDT) of the company on a sequential basis from Q3FY22 (FY refers to the period April 1 to March 31) onwards. The company had incurred substantial losses in FY21 (refers to the period April 1 to March 31) due to the disruptions caused by the pandemic and impact on the demand for printing and writing paper (PWP) and tissue paper. While the company continued to report losses in FY22 due to the ongoing impact of the pandemic mainly in the first half of the year and significant increase in coal prices, the quantum of losses reduced during the year with overall improvement in demand and sales realisation. The capacity utilization of OPIL increased from 60% in FY21 to 66% in FY22 and stood at 67% in Q1FY23 owing to increase in demand for its products.

The improvement in demand is expected to be sustained going forward with the opening up of educational institutions, offices and restaurants.

The ratings also factor in the near completion of the ongoing capex plan of the company, albeit with a time and cost overrun and change in funding mix. The 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 once completed and drive improvement in operating profitability. Nevertheless, the company remains exposed to the project stabilisation risk.

Debt repayment obligations are expected to increase significantly from FY23 due to higher than envisaged debt availed for funding the project. Apart from the expected improvement in operating cash flows, the available surplus liquidity provides significant support to the debt protection metrics.

The ratings continue to remain constrained by OPIL's exposure to volatility in raw material and finished goods prices and cyclicality attached to the paper industry. The ratings also take note of significant contingent liabilities in the books of the company mainly relating to water tax and cess on captive power consumption which are under dispute.

Outlook: Stable

The outlook has been revised from 'Negative' to 'Stable' considering the gradual improvement in the operating profitability of OPIL from Q3FY22 onwards with revival in demand for its products leading to increase in sales volume and higher realisations. Against operating loss incurred in H1FY22, the PBILDT has turned positive from Q3FY22 and witnessed sequential improvement till Q1FY23.

Rating Sensitivities

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

- Substantial volume-driven growth in scale of operations along with improvement in PBILDT margin above 15% on a sustained basis
- Improvement in its Total Debt/PBILDT to below unity along with return on capital employed (ROCE) and return on networth

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

(RONW) above 12% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:
- Inability to sustain improvement in operating profitability and debt coverage indicators
- Deterioration in cash & liquid investments below ₹200 crore.
- Significant increase in debt level resulting in deterioration in overall gearing increasing beyond 0.5x and total debt/PBILDT beyond 5x on a sustained basis.
- Crystallisation of significant contingent liabilities exerting strain on liquidity.

Detailed description of the key rating drivers
Key Rating Strengths
Part of the established CK Birla group: OPIL, belonging to the established C. K. Birla group, was incorporated in July 1936. Mr 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 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 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 0.14x as on March 31, 2022 (0.07x as on March 31, 2021). Debt level increased as on March 31, 2022 and further in the current year due to availment of term debt of about ₹145 crore to fund the ongoing capex. However, with a healthy networth base of ₹1553 crore as on March 31, 2022, the overall gearing is expected to remain comfortable despite debt availed to fund the capex.
OPIL holds investment in some listed companies having strong credit quality with a market value of around Rs.508 crore as on September 12, 2022. OPIL has 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.
With losses incurred in FY21 and FY22, the company has liquidated part of these investments to meet its funding requirements (₹6.2 crore during FY21 and ₹31.6 crore during FY22). 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 banks 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 PWP, whereby it is amongst 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 has got approval to create a concrete barrage on river Sone to ensure complete water security and has also constructed a permanent RCC barrage to increase water storage capacity to 4.546 million cubic meters, which is expected to eliminate the risk of water scarcity related plant stoppage. The company has planted saplings to support its raw material requirement. In FY22 around 45% of the raw material requirement was sourced through the local farmers and the company is planning that within next 4-5 years around 100% of its wood requirement will be sourced through local farmers ensuring availability of raw material and better profitability through reduction in cost.
Currently, the company is implementing a project to increase its pulping capacity, ECF bleaching and setting up a new recovery boiler (600 TPD) /evaporator (150 TPD) to improve its operating efficiency. Once implemented, the project is expected to lead to substantial savings in manufacturing cost.

Reduction in losses in FY22 and improvement in profitability in Q1FY23: During FY22, OPIL's total operating income (TOI) registered growth of 32% on a y-o-y basis and stood at ₹585.65 crore vis-à-vis ₹443.36 crore in FY21. The increase was both on account of increase in sales volume as well as realisations. With improvement in demand due to the receding impact of the pandemic, the capacity utilization improved to 66% in FY22 from 60% in FY21. Though the company continued to incur loss due to under-absorption of fixed overheads and significant increase in input cost including coal prices, the quantum of net loss reduced in FY22 to ₹28.88 crore from ₹46.55 crore in FY21. The company started generating operating profit from Q3FY22 which has increased further in Q4FY22 and Q1FY23.
During Q1FY23, the company reported a substantial increase in its TOI on a y-o-y basis from ₹90.80 crore in Q1FY22 to ₹211.22 crore in Q1FY23. The sales volume and realisation improved significantly, resulting in profit after taxes of ₹2.23 crore in Q1FY23 as against losses after taxes of ₹11.47 crore in Q1FY22.

Improvement in demand: The Indian paper industry in general and PWP segment was particularly badly hit by the COVID-19 pandemic in FY21 and major part of FY22 because of shut down of educational establishments, offices, hotels, restaurants etc. and adoption of Work-from-Home practice. As COVID cases have reduced considerably and restrictions have been lifted, the industry is seeing healthy revival in demand which is expected to be sustained going forward.

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 ₹508 crore as on September 12, 2022, which provides strong liquidity comfort to the company. Despite incurring cash losses of ₹30.37 crore in FY21 and ₹11.95 crore during FY22, OPIL was able to successfully fund its losses apart from meeting its debt repayment obligations and funding its capex by liquidating part of its investments and availing term loan of Rs.145 crore, aided by its strong financial flexibility. In the current fiscal (i.e. FY23), its profit and cash accruals are expected to improve (Rs.9.94 crore cash accruals were recorded in Q1FY23) and are likely to be sufficient to meet its debt repayment obligations. The average month-end utilization of its fund-based working capital limits during the trailing 12 months ended August 31, 2022, stood at about 65% which, too, provides cushion to its liquidity. The company has already tied up the debt portion to meet its ongoing capex requirement and the value of liquid investments is sufficient to meet the balance funding requirement.

Key Rating Weaknesses

Susceptibility of profitability to volatility in input prices: Raw material is the single largest cost component for paper manufacturers. Though the company is increasing its emphasis on development and plantation of clonal saplings, dependence of external wood/ 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 would 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 volatility in price of coal and its availability. The profitability of the company has been significantly impacted in FY22 due to increase in cost of coal.

Risk associated with the ongoing large size capex project: OPIL is undertaking a capital expenditure of ₹265 crore (increased from ₹225 crore envisaged earlier) for enhancement in its pulping capacity, ECF bleaching and new recovery boiler for achieving higher efficiency. The project cost has increased mainly due to the increase in the cost of steel equipment. The project which was expected to be completed by March 2022 is now nearing completion. The delay was on account of the impact of the third wave of the pandemic and delay in supply of machinery. The boiler is expected to commission in October 2022 and the pulping capacity is expected to be operational by end of Q3FY23.
As against envisaged debt of ₹75 crore for the project, the company plans to avail ₹150 crore term debt due to the increase in cost and shortfall in cash accruals. The debt is already sanctioned. OPIL has incurred ₹245 crore on the project till September 14, 2022. The company remains exposed to the further delay in commissioning and stabilisation risk associated with the project.

Large contingent liabilities: OPIL has significant amount of contingent liabilities as on March 31, 2022 (₹592 crore). A large part of its contingent liabilities comprises demands contested by the company with respect to levy of water tax (₹351 crore as on March 31, 2022) and cess on captive power consumption (₹154 crore as on March 31, 2022). Crystallisation of such liabilities might impact the liquidity profile of the company. However, as articulated by the management, the final outgo in this regard is not likely to be significant.

Analytical approach: Standalone

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

About the Company

OPIL, incorporated in 1936, belongs to the C.K. Birla group. It is currently engaged in manufacturing of paper with a paper unit located in Amlai, Madhya Pradesh, having a capacity of 1,10,000 tonnes p.a. (printing and writing paper 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)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	443.36	585.65	211.22
PBILDT	-33.38	-16.79	9.87
PAT	-46.55	-28.88	2.23
Overall gearing (times)	0.07	0.14	NA
Interest coverage (times)	-5.06	-3.37	8.44

A: Audited, UA: Unaudited, NA: Not Available
Financials have been classified as per CARE Ratings standards.

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 (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC		-	-	-	82.50	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	1.00	CARE A1+
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+
Fund-based - LT-Term Loan		-	-	July 2028	195.00	CARE A+; Stable
Non-fund-based - LT-Letter of credit		-	-	-	5.00	CARE A+; Stable

Annexure-2: Rating History of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	82.50	CARE A+; Stable / CARE A1+	-	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)	1)CARE AA-; Stable / CARE A1+ (07-Jan-20) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)
2	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	-	1)CARE A1+ (06-Oct-21)	1)CARE A1+ (15-Feb-21) 2)CARE A1+	1)CARE A1+ (07-Jan-20) 2)CARE A1+

							(10-Sep-20)	(05-Jul-19)
3	Fund-based - LT/ ST-Cash Credit	LT/ST*	74.00	CARE A+; Stable / CARE A1+	-	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)	1)CARE AA-; Stable / CARE A1+ (07-Jan-20) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)
4	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	53.50	CARE A+; Stable / CARE A1+	-	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)	1)CARE AA-; Stable / CARE A1+ (07-Jan-20) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)
5	Fund-based - LT-Term Loan	LT	195.00	CARE A+; Stable	-	1)CARE A+; Negative (06-Oct-21)	1)CARE A+; Negative (15-Feb-21) 2)CARE A+; Stable (10-Sep-20)	1)CARE AA-; Stable (07-Jan-20) 2)CARE AA-; Stable (05-Jul-19)
6	Non-fund-based - LT-Letter of credit	LT	5.00	CARE A+; Stable	-	1)CARE A+; Negative (06-Oct-21)	1)CARE A+; Negative (15-Feb-21) 2)CARE A+; Stable (10-Sep-20)	1)CARE AA- (07-Jan-20)

*Long term/ Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of 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: Bank Lender Details

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

Note on complexity levels of the rated instrument: *CARE 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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