# Emami Paper Mills Limited

**January 08, 2019**

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 1,310.45 (enhanced from 1,293.15) | **CARE A; Stable (Single A; Outlook: Stable)** | Reaffirmed |
| Short-term Bank Facilities | 480.00 (enhanced from 430.0) | **CARE A1 (A One)** | Reaffirmed |
| **Total Facilities** | **1,790.45 (Rupees One Thousand Seven Hundred Ninety crore and Forty- Five lakh only)** | | |

*Details of facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The ratings assigned to the Bank Facilities of Emami Paper Mills Limited (EPML) continue to draw strength from the long track record of the company, considerable experience of its promoters, financial flexibility available to the company by virtue of it being part of the Emami group, alongwith demonstrated financial support from the group and its promoters and willingness of continuity of the same as and when required. The ratings also factors in EPML's leadership position in the newsprint (NP) industry, satisfactory capacity utilisation of the plant and moderate financial performance in FY18 (refers to the period April 01 to March 31) with improvement in H1FY19 mainly due to turnaround in the performance of Newsprint business. The ratings continue to be constrained by high leverage ratios, moderate debt coverage indicators, working capital intensive nature of business, foreign exchange fluctuation risks, and susceptibility of profitability to volatility in input, and finished goods prices. The ratings also factor in the announcement of a greenfield project for setting up of a packaging board plant (2,00,000 MTPA) in Gujarat.*

*CARE believes that the support from the Emami group will continues in the future and the same is also a key rating sensitivity alongwith the ability to improve profitability level and effective management of working capital. Any major debt funded capex without adequate equity, impacting the capital structure would also remain as one of the key rating sensitivities.*

**Detailed description of the key rating drivers**

***Key Rating Strengths***

***Experienced promoters, financial flexibility available to the company by virtue of it being part of the Emami group, alongwith demonstrated financial support from the group and its promoters***

Emami Group is a leading industrial group with major interest in cosmetics, healthcare, edible oil, paper, cement, education, pharmacy, retail, and real estate sectors. The flagship company of the group, Emami Ltd. (rated CARE AA+; Stable/ CARE A1+), has presence in personal and healthcare products. The promoters of the group, Mr. R. S. Agarwal and Mr. R. S. Goenka, are qualified professionals with business experience of over three decades. The promoters /group companies had infused money in the form of non-cumulative redeemable preference shares for funding the setting up of its first board plant. As on March 31, 2018 the amount o/s of preference shares is Rs.288.75 crore.

***Leadership position in NP industry***

EPML is the largest NP manufacturer in India. EPML has an established position in the domestic NP industry, supported by its strong brand image and superior quality NP. The company caters to majority of the NP buyers in Eastern India.

***Satisfactory capacity utilisation***

The company has been able to maintain its capacity utilisation of the plant at around 90% for the last three years (FY16-FY18), driven by stable demand and established market position. The company has enhanced its board plant capacity from 1,32,000 MTPA to 1,80,000 MTPA w.e.f from January 01, 2018. The capacity utilization moderated to 88.0% in FY18 vis-à-vis 98.1% in FY17 due to increase in production capacity of board plant in January 2018. Further, in H1FY19 the overall capacity utilization has improved to 97.1%. Out of the total installed capacity of 1,50,000 MTPA of Newsprint, the company has made fungible capacity of 48,000 MTPA for PWP enabling the company to change the product mix depending upon the market conditions.

***Moderate financial performance in FY18 with improvement in H1FY19***

Net sales of the company grew by 17% in FY18 over FY17 and 30% in H1FY19 over H1FY18 in view of increase in average realization of NP and board paper. The PBILDT margin, though remained moderate in FY18, witnessed improvement in H1FY19 because of increase in average sales realization of newsprint without corresponding increase in waste paper

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

price. PAT margin, however, witnessed moderation in FY18 due to higher capital charge. Interest coverage remained satisfactory at over 2x in FY18.

Global newsprint industry had been suffering from surplus capacities and low demand scenario resulting in dumping of NP in India at low cost over last few years. However, since 2018, there has been a radical shift in the prices & demand of Newsprint due to implementation of pollution control policies resulting in the ban of import of waste paper in China which impacted the production of Newsprint in China. This has benefitted the domestic NP players with low waste paper cost and improved realizations of NP.

***Industry outlook***

The domestic paper industry is expected to grow at a CAGR of 6.7% during the period FY17-20 and is expected to reach 20.7 million tonnes in FY20. The prospects for the paper industry is positive considering factors such as rising income levels, growing per capita expenditure, growing literacy rates, increasing ecommerce sales, better quality packaging of FMCG products. Demand for Packaging Paper & Board segment is expected to grow at a CAGR of 8.9% and reach 11.1 million tonnes in FY21 due to rise of e-commerce, requirement of better quality packaging of FMCG products marketed through organized retail, increasing demand for consumer durables, and increasing preference for packaged food.

**Key Rating Weakness**

***High leverage ratio and sizeable long-term debt obligations in FY19-FY20***

The debt equity ratio deteriorated as on March 31, 2018 on the back of increase of term debt to fund long-term working capital requirement and refinancing of existing loans, despite accretion of profit to reserves. The adjusted overall gearing ratio remained high at 2.43x as on March 31, 2018 vis-à-vis 2.27x as on March 31, 2017. EPML's long term debt repayment obligations are sizeable at around Rs.154 Crore in FY19 and Rs.207 crore in FY20. The Company expects higher cash accruals going forward to meet the debt repayment obligation. Furthermore, CARE also derives comfort from EPML being a part of Emami group, strong financial flexibility and established relationship with lenders, which will enable it to arrange for financing to service any shortfalls in accruals for servicing debt obligations, as has been adequately demonstrated in the past.

***Proposed plan of setting up packaging board plant in Gujarat***

EPML is in the process of setting up a green filed project for manufacturing of multi-layered coated board paper in Gujarat, having installed capacity of 2,00,000 MTPA. The project cost of the plant is estimated to be Rs.980.0 crore to be funded in debt equity ratio of 2.26:1. Financial closure for the project is yet to be achieved. While project land has been acquired, EPML is going slow with the project execution till the financial closure (debt and equity portion) is achieved. Proposed commencement of debt repayment of new project loan after repayment of majority of existing debt shall remain crucial from debt coverage perspective.

***Working capital intensive nature of operations***

EPML has a policy to keep inventory of about 2-2.5 months. The company generally allows credit of 45 days to its dealers/ retailers and accordingly, its average collection period stood at 33-49 days during FY16- FY18. EMPL utilises FCNRB demand loans with fixed tenure for meeting its working capital utilization instead of cash credit limits.

***Volatility in newsprint prices & raw material prices***

The paper manufacturing requires raw materials such as waste paper (WP), pulp, chemicals and coal for production of the same. The WP & Pulp which is a major raw material constitutes around 65-70% of total raw material requirement. EPML uses wastepaper and imported pulp as its raw materials for production of newsprint and packaging board paper. These raw material are globally traded commodities and so prices are volatile in nature.

The Chinese Government restricting the import of significant levels of waste paper due to environmental concerns has resulted in a decline in global waste paper prices. However, international pulp prices remained elevated due to factors such as continued steady demand, low inventories and lower waste paper availability in China due to import restrictions.

Domestic NP prices are based on import price parity given majority of domestic NP industry demand (60%) was met through imports. However, after witnessing increasing trend from FY05 till FY17, NP import declined in FY18. However, import continues to account for over 55% of domestic NP requirement.

***Forex fluctuation risk***

Given the fact that the company avails loans in foreign currency which are kept un-hedged (approximately USD 122 million as on March 31, 2018) and imports raw materials and chemicals, it is exposed to the foreign exchange fluctuation risk. However, since the newsprint prices move in tandem with the landed cost of imported newsprint, hence, it acts as natural hedge against un-hedged foreign currency payables.

**Liquidity analysis**

EMPL has free cash and cash equivalent of Rs.16.07 crore in FY18 vis-à-vis Rs.33.58 crore in FY17. The average monthly utilisation of fund-based limits remained moderate at around 80%-90% as the company uses FCNRB loans. Further, the company enjoys financial flexibility as it is a part of Emami group.

**Analytical approach:** Standalone

**Applicable Criteria**
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Factoring Linkages in Ratings]
[CARE's methodology for manufacturing companies]
[Criteria for Short Term Instruments]

**About the Company**

Emami Paper Mills Ltd (EPML) is engaged in manufacturing of Newsprint (NP) and Printing & Writing Paper (PWP), with an aggregate installed capacity of 1,50,000 MT per annum (MTPA) and captive power plant of 20 MW. It belongs to the Kolkata-based Emami group. EPML has also set up a state-of-the-art multi-layer coated board paper plant with an installed capacity of 1,80,000 MTPA and captive power plant (10.5 MW), near its existing plant in Odisha (Balasore). The plant was commissioned on March 25, 2016. Emami Group is a leading industrial group with major interest in cosmetics, ayurvedic medicines, pharmaceuticals, hospital, edible oil, paper, retail and real estate sectors. The flagship company of the group, Emami Ltd. has presence in personal and healthcare products.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|---|---|---|
| Total operating income | 1,165.23 | 1,366.17 |
| PBILDT | 153.47 | 171.14 |
| PAT | 19.08 | 16.38 |
| Adjusted Overall gearing (times) | 2.27 | 2.43 |
| Interest coverage (times) | 2.07 | 2.02 |

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

## Annexure-1: Details of Facilities

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 410.00 | CARE A; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 480.00 | CARE A1 |
| Fund-based - LT-Term Loan | - | - | March-2024 | 850.45 | CARE A; Stable |
| Non-fund-based - LT-Letter of credit | - | - | - | 30.00 | CARE A; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 20.00 | CARE A; Stable |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Ratings | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Cash Credit | LT | 410.00 | CARE A; Stable | - | 1)CARE A; Stable (15-Dec-17) | 1)CARE A (18-Oct-16) | 1)CARE A (20-Aug-15) |
| 2. | Non-fund-based - ST-BG/LC | ST | 480.00 | CARE A1 | - | 1)CARE A1 (15-Dec-17) | 1)CARE A1 (18-Oct-16) | 1)CARE A1 (20-Aug-15) |
| 3. | Fund-based - LT-Term Loan | LT | 850.45 | CARE A; Stable | - | 1)CARE A; Stable (15-Dec-17) | 1)CARE A (18-Oct-16) | 1)CARE A (20-Aug-15) |
| 4. | Non-fund-based - LT-Letter of credit | LT | 30.00 | CARE A; Stable | - | 1)CARE A; Stable (15-Dec-17) | 1)CARE A (18-Oct-16) | 1)CARE A (20-Aug-15) |
| 5. | Fund-based - LT-Cash Credit | LT | 20.00 | CARE A; Stable | - | 1)CARE A; Stable (15-Dec-17) | - | - |

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