Emami Paper Mills Limited

August 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	1,231.00 (reduced from 1,310.45)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A; Stable (Single A; Outlook: Stable)**
Short-term Bank Facilities	480.00	**CARE A2 (A Two)**	**Revised from CARE A1 (A One)**
Total Facilities	**1,711.00 (Rupees One Thousand Seven Hundred and Eleven crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Emami Paper Mills Limited (EPML) is on account of moderation in financial flexibility of the promoter due to decline in market capitalization and high level of pledging of shares by the promoters' in their flagship company, high debt repayment obligation of EPML over the period of next three years resulting in weak coverage ratios, and current declining trend in Newsprint prices. However, CARE factors in the financial support from the group and its promoters and willingness of continuity in the future as and when required. The ratings favorably factor in the diversified product basket in paper with flexibility to change product mix resulting in diversified customer base with presence in diverse end-user industries and improvement in the financial performance in FY19 (refers to the period April 01 to March 31) due to increasing newsprint price which has moderated significantly in Q1FY20. The ratings also take into account the withdrawal of the planned greenfield project for setting up of Board plant of 2,00,000 MTPA in Gujarat.

The ratings continue to draw strength from the long track record of the company, EPML's leadership position in the newsprint (NP) industry, satisfactory capacity utilisation of the plant. The ratings are, however, constrained by high leverage position, working capital intensive nature of business, forex risks, and susceptibility of business to volatility in input and finished goods prices.

The ability to improve profitability level of the company by changing its product mix, improve gearing ratio and debt protection metrics and management of working capital effectively along with continued financial support from Emami group and its promoters would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established group

Emami Group is a leading industrial group with major interest in cosmetics, healthcare, edible oil, paper, retail, and real estate sectors. The flagship company of the group, Emami Ltd. (rated CARE AA+; Negative/ CARE A1+), has presence in personal and healthcare products. The promoters of the group, Shri R. S. Agarwal and Shri R. S. Goenka, are qualified professionals with business experience of over three decades.

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

Long track record of the company, along with demonstrated financial support from the group and its promoters albeit moderation in financial flexibility of the group

EPML is engaged in paper manufacturing business since three decades and enjoys a dominant position in the market for Newsprint paper. It is one of the largest newsprint manufacturers in India and also has established presence in board paper market. Further it has appointed 39 dealers across country for marketing its packaging & board paper.

Emami group has demonstrated support and infused funds to meet various fund requirements of the company, including working capital and capex. The promoters /group companies had infused money in the form of non-cumulative redeemable preference shares towards setting up of its board plant (BV: Rs.298.7 crore as on March 31, 2019).

The financial flexibility available to the group has reduced in view of declining market capitalisation of listed Emami group companies as well as reduced promoter holding in Emami Ltd, post-sale of 20% stake in the Company by its promoters. The promoter group currently holds 52.74% stake in Emami Ltd (vis-à-vis earlier 72.74%) out of which 46.8% is pledged or encumbered against debt of Rs.2,400 crore as on July 24, 2019 (vis-à-vis Rs.4,000 crore in December 2018), restricting the financial flexibility of the promoters to raise resources. However, paring of promoter debt provides comfort from group leverage perspective.

Diversified product basket with flexibility to change product mix

EPML has diversified paper product portfolio with manufacturing facilities for Newsprint (NP), Printing and Writing paper (PWP) and multi-layer coated board paper of both recycled and virgin grade catering to diverse end-user segments. Due to volatility in Newsprint prices the company is under the process of converting part of its Newsprint production capacity into Kraft Paper (KP) plant. The installed capacity of NP is 1,50,000 MTPA which will have a fungible capacity to produce 70,000 MTPA of PWP and Kraft Paper ensuring better profitability as compared to NP. Under KP, EPML plans to produce décor paper for laminates and light weight paper for shopping bag.

Over the years the Company has developed strong operational capabilities by undertaking continuous debottlenecking, expansion and up gradation in its plants to achieve optimum production as well as flexibility to shift between products. Hence, EPML was able to reap benefits of rise in NP price from Q3FY18 by quickly shifting to NP from PWP. This flexibility to change product mix provides cushion against downturn in any particular industry.

Diversified customer base with presence in diverse end-user industries

EPML has an established position in the domestic paper industry, supported by its strong brand image and superior quality product. Given EPML's diversified product basket, the Company has diversified customer base from diverse end-user industries. Board Paper is used for packaging in various customer facing industries including pharmaceutical, health care, food and cosmetics etc. NP is used by print media for printing newspapers. PWP finds application in notebooks, textbooks, and copier paper (education sector).

The company caters to majority of the NP buyers in Eastern India. BP and PWP are sold through a network of dealers and distributors.

Satisfactory capacity utilization

EPML is one of the established players in the paper industry having state of the art manufacturing facility of NP 1,50,000 MTPA fungible with PWP of 48,000 MTPA and board Plant of 2,00,000 MTPA as on March 31, 2019. The capacity of packaging board plant has increased from 1,80,000 MTPA to 2,00,000 MTPA in FY19. In addition to this EPML has Captive Power plants (CPP) with an aggregate installed capacity of 33.5 MW which is sufficient to cater to entire power requirement for manufacturing paper. The capacity utilization improved to 97% in FY19 vis-à-vis 88% in FY18.

Improvement in financial performance in FY19 due to increasing newsprint price which has moderated significantly in Q1FY20.

The total operating income of the company witnessed a growth of 12.8% on y-o-y basis on account of increase in sales volume and ANSPR of NP in FY19 compared to FY18. This was mainly due to ban on import of several varieties of waste paper in China leading to reduced NP production by China. This reduction in NP production led to reduced exports of NP by China to India leading to favourable demand supply situation for NP in India. The PBILDT margin improved to 15.59% in FY19 from 12.43% in FY18 because of increase in realisation of its finished products vis-à-vis decline in wastepaper prices and lower increase in pulp prices. The PAT level and PAT margin have improved significantly.

The company earned a GCA of Rs.139.3 crore in FY19 against a debt repayment obligation of Rs.154.4 crore. The shortfall in debt repayment was met through availment of additional term loan crore during the year.

The interest coverage ratio remained stable at 2.10x in FY19 vis-à-vis 2.00x in FY18 despite increase in finance cost from Rs.84.9 crore in FY18 to Rs.114.4 crore in FY19 due to increase in PBILDT.

Further, in Q1FY20 income from continuing operation de-grew from Q1FY19 by 7% due to decline in revenue from sale of NP while the BP sale remained stable. Lower NP sale was in view of decline in NP price as well as moderation in NP sales volume (by 4%). Decline in sales realisation of NP led to decline in PBILDT margin in Q1FY20 vis-à-vis Q1FY19. The PAT level and margin also witnessed moderation.

Key Rating Weakness

Absence of own plantation exposing the company to volatile pulp prices and paper price

Wastepaper and pulp are the most critical raw materials for NP and BP, constituting around 65% of cost of sales, followed by power & fuel cost (12%) and chemicals (10%). These raw materials are globally traded commodities and so prices are volatile in nature. EPML procures wastepaper mainly through indigenous sources and imports entire pulp requirement. EPML procures coal requirement through linkage and e-auction route. Further, EPML does not have its own plantation and pulping capacity and is dependent on the market for procurement of its pulp requirements. Any shortage in the pulp market might lead to plant shutdown which would impact the profitability of the company.

Any increase/decrease in price of raw materials is generally passed on to the customers, albeit with a time lag.

Domestic NP prices are based on import price parity given majority of domestic NP industry demand (60%) are met through imports. However, after witnessing increasing trend from FY05 till FY17, NP import declined in FY18 & FY19. There was significant fluctuation in newsprint prices from Rs.36,000/MT in FY18 to Rs.54,000/MT in FY19. However, company witnessed improvement in average realization of newsprint prices from Rs.35,485/MT in Q1FY18 to Rs.48,106/MT in Q3FY19, which again declined to Rs.37,458/MT in Q1FY20.

The prices of packaging board has been in the range of Rs.54,000/MT to Rs.50,000/MT during the period for FY18,FY19 & Q1FY20.

High leverage ratio and sizeable long-term debt repayment obligations in FY20-22

The debt equity ratio and overall gearing ratio though improved, continues to remain high at 4.14x and 6.17x respectively as on March 31, 2019 vis-à-vis 4.60x and 6.51x respectively as on

March 31, 2018. The TD/GCA improved from 16.19x as on March 31, 2018 to 11.41x as on March 31, 2019 mainly due to increase in GCA in FY19 vis-à-vis FY18. Further, the adjusted debt equity ratio and overall gearing ratio (considering preference shares neither as a part of net worth nor debt) stood at 2.98x and 5.01x respectively as on March 31, 2019 vis-à-vis 3.41x and 5.32x as on March 31, 2018. This is excluding the preference shares from debt as it is held by Emami group companies. Also, adjusted debt/GCA improved from 13.23x as on March 31, 2018 to 9.26x as on March 31, 2019 on account of increase in GCA in FY19.

The company has sizeable portion of debt repayment obligation of around Rs.200 crore in FY20-FY22 each. The Company expects higher cash accruals going forward to meet the debt repayment obligation. CARE believes EPML shall continue to depend on the promoter group support for funding part of its debt repayment obligation, pending sale of Gujarat land and disbursement of refinance loan.

Exposed to foreign exchange fluctuation risk

The company has availed ECB's and avails loans in foreign currency for working capital requirements. EPML imports raw materials which are kept unhedged and ECB's are also unhedged in nature so it is exposed to the foreign exchange fluctuation risk. However, since the newsprint prices move in tandem with landed cost of imported newsprint due to import parity prices, it act as a natural hedge against unhedged foreign currency payables. In FY19 EPML had USD 120 million payables against USD 97 million of sale of NP and export of board paper. Further, due to rupee depreciation in FY19 EPML incurred forex loss of Rs.75 crore in FY19 (cash loss of Rs.51 crore and MTM loss of Rs.24 crore which is capitalised in fixed assets) vis-à-vis forex loss of Rs.11 crore in FY18 (cash gain of Rs.2 crore and MTM losses of Rs.13 crore).

Project implementation plan stalled

EPML had announced setting up a green field project for manufacturing multi layered coated board (capacity of 2,00,000 MTPA) at Bharuch, Gujarat. However, the company has dropped its plan for setting up the project and is under process to return the project land to Gujarat Industrial Development Corporation (GIDC) at estimated value of Rs.100 crore-Rs.110 crore. The management has further stated that EPML does not plan to go for any capex/acquisition in next 3 years.

Liquidity Position: Stretched

EPML earned GCA of Rs.139 crore vis-à-vis debt repayment obligation of Rs.154 crore in FY19. The shortfall was met through availment of additional term loan during the year. In addition, EPML has paid dividend of Rs.14.6 crore in FY19 on its equity shares and preference shares. EPML's working capital borrowing remained high and was around 80%-85% during the twelve month period June 2019.

During FY20-FY22, the Company has high debt repayments of around Rs.200 crore each year. Further, in Q1FY20 EPML has earned GCA of Rs.23 crore vis-à-vis debt repayment of Rs.55 crore in Q1FY20, which was met out of fund support from promoters.This apart, a short-term loan of Rs.100 crore is due for repayment in October 2019, which is proposed to be repaid out of the proceeds from surrender of land to GIDC. Given the high debt repayments, and time taken for sale of land, the promoters have stated to infuse funds to meet the shortfall in repayment of debt obligation of the company.

Current ratio has perennially been low and stood at 0.74x as on March 31, 2019 vis-à-vis 0.86x as on March 31, 2018 mainly because of higher working capital requirement and significant term loan repayment obligation. Further, the company has modest cash and bank balance of Rs.9 crore as on March 31, 2019.

Analytical approach: Standalone considering support from Emami group and its promoters.

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), Printing & Writing Paper (PWP), with an aggregate installed capacity of 1,50,000 MT per annum (MTPA), packaging board of 2,00,000 MTPA and captive power plant of 33.5 MW. It belongs to the Kolkata-based Emami group. 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)	FY18 (A)	FY19 (A)
Total operating income	1,364.66	1,539.68
PBILDT	169.63	240.05
PAT	16.38	43.99
Adjusted Overall gearing (times)	5.32	5.01
Interest coverage (times)	2.00	2.10

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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 BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	480.00	CARE A2
Fund-based - LT-Term Loan	-	-	Jan-2025	771.00	CARE BBB+; Stable
Non-fund-based - LT-Letter of credit	-	-	-	30.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BBB+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	410.00	CARE BBB+; Stable	-	1)CARE A; Stable (08-Jan-19)	1)CARE A; Stable (15-Dec-17)	1)CARE A (18-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	480.00	CARE A2	-	1)CARE A1 (08-Jan-19)	1)CARE A1 (15-Dec-17)	1)CARE A1 (18-Oct-16)
3.	Fund-based - LT-Term Loan	LT	771.00	CARE BBB+; Stable	-	1)CARE A; Stable (08-Jan-19)	1)CARE A; Stable (15-Dec-17)	1)CARE A (18-Oct-16)
4.	Non-fund-based - LT-Letter of credit	LT	30.00	CARE BBB+; Stable	-	1)CARE A; Stable (08-Jan-19)	1)CARE A; Stable (15-Dec-17)	1)CARE A (18-Oct-16)
5.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable	-	1)CARE A; Stable (08-Jan-19)	1)CARE A; Stable (15-Dec-17)	-

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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