Emami Paper Mills Limited

December 15, 2017

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1,293.15 (enhanced from 1,160.1)	**CARE A; Stable (Single A; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	430.0 (enhanced from 295.0)	**CARE A1 (A One)**	Reaffirmed
Total Facilities	**1,723.15 (Rupees One Thousand Seven Hundred Twenty Three crore and Fifteen 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 EPML's long track record of operations, considerable experience of its promoters, financial flexibility available to the company by virtue of it being part of the Emami group, along with demonstrated financial support from the group and its promoters, EPML's leadership position in the newsprint (NP) industry in Eastern India, and satisfactory capacity utilisation of the plant. The ratings also factor in successful commissioning of the multi-layer paper board mill resulting in considerable improvement in the financial risk profile in FY17 (refers to the period from April 01 to March 31), though moderation in financial performance was witnessed in H1FY18 due to regulatory changes and shifting of the one of the NP facilities to NP and Printing & Writing Paper (PWP) to improve operating margin.

The ratings continue to be constrained by high leverage ratios, moderate debt coverage indicators, working capital intensive nature of business, susceptibility of profitability to volatility in input & finished goods prices and foreign exchange fluctuation risk.

CARE believes that the support from the Emami group will continue in the future and the same is also a key rating sensitivity along with the ability of the company to improve profitability with changing product mix and effective management of working capital. The ratings are also sensitive to any major debt funded capex going forward impacting the capital structure.

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

The Emami Group is one of the leading industrial group with major interest in cosmetics, healthcare, edible oil, paper, retail, cement, power and real estate sectors. The flagship company of the group, Emami Ltd (rated CARE AA+; Stable/ CARE A1+), is a prominent player 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. CARE also notes the financial flexibility available to the company by virtue of it being part of the Emami group.

Largest NP producer in Eastern India, with intent to gradually shift to PWP

EPML is the largest NP manufacturer in Eastern 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, with steady flow of orders for its NP which also reduces counterparty risk to a certain extent.

However, the company is gradually reducing the production of newsprint and shifting its NP facilities to PWP and NP, which will enable it to shift to PWP and help in improving operating margin. Global newsprint industry is suffering from surplus capacities and low demand scenario resulting in dumping of NP in India at low cost. This has negatively impacted the domestic NP players despite growth in domestic NP demand.

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

Satisfactory capacity utilisation

The company has been able to maintain the capacity utilisation of the plant at around 100% for the last three years (FY15-FY17), which has been driven by demand of the products. Established market position of the newsprint has led to healthy utilisation. The company has successfully established its product in the board paper segment, in which it is a new entrant, thereby enabling it to achieve superior utilization of its board plant capacity in FY17 (92%) and H1FY18 (over 100%).

Improvement in financial performance in FY17, though moderation witnessed in H1FY18

Net sales of the company more than doubled in FY17 vis-à-vis FY16 on the back of commercial operation of the board plant. The sales realization of newsprint and PWP also improved in FY17 vis-à-vis FY16. However, demonetization of currency notes in November 2016 led to shortage of wastepaper resulting in higher increase in wastepaper prices vis-à-vis increase in PWP and NP realization. This led to decline in operating margin from PWP and NP. However, overall PBILDT margin of the company improved in FY17 due to higher margin from board paper segment.

Though the PBILDT level and margin increased, high capital charge along with deferred tax asset led to decline in the PAT level and margin in FY17. The company earned cash accrual of Rs.87.84 crore in FY17 vis-à-vis Rs.37.48 crore in FY16. The company has achieved a topline of Rs.592 crore in H1FY18 vis-à-vis Rs.557 crore in H1FY17. However, transition to Goods & Service Tax (GST) w.e.f. July 2017, along with shut down of one newsprint machinery for a month due to its conversion to PWP and NP facility impacted the performance in H1FY18.

The profitability margin is expected to improve going forward with higher sale of higher margin board paper and also focus of the management to shift from low margin NP segment to PWP.

Key Rating Weaknesses

High leverage ratio and moderate debt protection metrics; though improved in FY17

The overall gearing ratio remained high and deteriorated to 2.48x as on March 31, 2017 vis-à-vis 2.39x as on March 31, 2016 due to high working capital borrowings to support the enhanced scale of operations. The debt protection metrics, though improved on the back of higher cash accrual generated by the company in FY17, remained moderate. The interest coverage ratio of the company remained stable at 2.38x in FY17 vis-à-vis 2.42x in FY16. The overall gearing ratios as well as the debt coverage indicator are expected to improve going forward with stabilisation of board paper and change in product mix.

Working capital intensive nature of operations

Operating cycle improved from 131 days in FY16 to 88 days in FY17. The improvement in the operating cycle was on account of improvement in the average collection period and inventory holding period due to substantial increase in turnover of the company in FY17. Current ratio has perennially been low in view of low internal accruals, financing working capital requirement through bank borrowing and significant term loan repayment obligation. Furthermore, the average utilisation of fund-based limit remained high at about 90% during the 12 months ending October 2017.

Volatility in raw material and finished goods prices

Major raw materials (wastepaper, pulp, chemicals and coal) prices, being globally traded commodity, have inherently been volatile. Furthermore, EPML is dependent on imports for procurement of entire pulp requirement for the board paper. NP industry demand (55%-60%) is met through imports. EPML resets NP prices on a quarterly basis based on international prices and the exchange rate (Rs./USD) prevailing during the last week of the previous quarter. The price of board paper is generally market determined based on the demand supply scenario.

Forex fluctuation risk

Given the fact that the company avails loans in foreign currency which are kept un-hedged (approximately USD 160 million as on March 31, 2017) 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. Going forward, export from board paper would also provide natural hedge against foreign currency payables.

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 1,45,000 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 1,32,000 MTPA and captive power plant (10.5 MW), near its existing plant in Odisha (Balasore). The plant was commissioned on March 25, 2016. In FY17, the installed capacity of board plant and CPP was enhanced to 1,50,000 MTPA and 13.5 MW respectively through various debottlenecking and up-gradation activities.

Financials of Emami Paper Mills Limited

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	546.12	1157.25
PBILDT	54.72	145.29
PAT	27.92	25.94
Overall gearing (times)	2.39	2.48
Interest coverage (times)	2.42	2.38

A: Audited

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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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-Term Loan	-	-	Jan-25	908.15	CARE A; Stable
Non-fund-based - LT-Letter of credit	-	-	-	30.00	CARE A; Stable
Fund-based - LT-Buyers Credit	-	-	-	20.00	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	335.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	430.00	CARE A1

Annexure-2: Rating History of last three years

S. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Ratings	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	335.00	CARE A; Stable	-	1) CARE A (18-Oct-16)	1)CARE A (20-Aug-15)	1)CARE A (04-Sep-14)
2.	Non-fund-based - ST-BG/LC	ST	430.00	CARE A1	-	1)CARE A1 (18-Oct-16)	1)CARE A1 (20-Aug-15)	1)CARE A1 (04-Sep-14)
3.	Fund-based - LT-Term Loan	LT	908.15	CARE A; Stable	-	1)CARE A (18-Oct-16)	1)CARE A (20-Aug-15)	1)CARE A (04-Sep-14)
4.	Non-fund-based - LT-Letter of credit	LT	30.00	CARE A; Stable	-	1)CARE A (18-Oct-16)	1)CARE A (20-Aug-15)	1)CARE A (04-Sep-14)
5.	Fund-based - LT-Buyers Credit	LT	20.00	CARE A; Stable	-	-	-	-

CARE Ratings
Professional Risk Opinion

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