

## Orient Paper & Industries Limited

February 20, 2018

### Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long Term Bank Facilities	91.31 (reduced from 248.29)	CARE AA-; Stable (Double A minus; Outlook: Stable)	Revised from CARE A (Single A) (Under Credit watch with Developing Implications) and removal of credit watch
Short-term Bank Facilities	1.00 (reduced from 4.30)	CARE A1+ (A One plus)	Revised from CARE A1 (A One) (Under Credit watch with Developing Implications) ) and removal of credit watch
Long/Short Term Bank Facilities	131.0 (reduced from 319.50)	CARE AA-; Stable / CARE A1+ (Double A minus; Outlook: Stable/ A One plus)	Revised from CARE A/CARE A1 (Single A /A One) (Under Credit watch with Developing Implications) and removal of credit watch
<b>Total Facilities</b>	<b>223.31<sup>#</sup></b> <b>(Two hundred twenty three crore and thirty one lacs only)</b>		

Details of instruments/facilities in Annexure-1

*#as per the scheme of demerger, the total bank limits have been segregated between the two entities (Orient Paper & Industries Ltd. & Orient Electric Ltd); however bank wise allocation is yet to be finalized by the bankers*

### Detailed Rationale & Key Rating Drivers

The revision in rating takes into account the improvement in the financial risk profile of the company (paper division) marked by generation of operational profits in FY17 & 9MFY18 vis-à-vis losses prior to that fiscal and liquidation of investments in listed equity shares (partially) which has led to improvement in the debt coverage indicators.

Further the rating has been removed from credit watch due to approval of demerger of company's consumer electric business into a new company named 'Orient Electric Ltd.' by the National Company Law Tribunal on November 09, 2017 (effective date being March 01, 2017).

The above ratings continue to draw support from long experience of the promoters, OPIL being part of established C.K. Birla group. The ratings also factors in the OPIL's investment in group companies held at a nominal value but having high market value.

The ratings, however, are constrained by volatility in raw material prices of paper division and cyclicity attached to the paper industry.

Ability to further improve the operating performance of the paper division in the long run while maintaining the overall capital structure shall remain the key rating sensitivities.

### Detailed description of key rating drivers

#### Key rating strengths

##### **Established group with long experience of the promoters & managerial team**

OPIL, belonging to G.P. - C.K. Birla group, was incorporated in July, 1936. Shri C. K. Birla, at the helm of the affairs of the company, has been associated with the company since 1978. G.P. - C.K. Birla group, established by late Shri B.M. Birla, is a leading industrial group of the country and has major interest in diverse range of products like automobiles, auto ancillary products, earthmoving equipment, engineering products, chemical, cement, paper, fan and consumer electrical items.

##### **Sizeable portfolio of surplus liquids funds and land banks**

OPIL holds investment in listed securities and other group entities (listed) which as on date has a market value of around Rs.350 crore. Further, the investments in listed securities (other than group entities) are liquid in nature as OPIL has the necessary approval of the Board of Directors to dispose of the investment at any time. During the current fiscal (FY18) the Company has already diluted a portion of its investment for a net consideration of ~Rs.31 crore.

This apart, OPIL also holds a good chunk of land bank and real estate properties worth valuing more than Rs.450 crores.

##### **Improvement in the performance of paper division**

The performance of the paper division has improved significantly during the last two fiscals and it has generated a PBILDT of Rs.50.0 crore in FY17 vis-à-vis Rs.31.4 crore in FY16 and as against loss of Rs.11.9 crore in FY15. Further during 9MFY18, on the back of sustained improvement, the paper division reported a PBILDT of Rs.77.6 crore.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

The improvement is attributable to operational initiatives undertaken by the Management to reduce cost and improve the operational efficiencies coupled with the affirmative change in the industry dynamics (i.e. demand-supply equation) followed by change in the product mix with expansion in the high margin tissue paper segment. OPIL has successfully completed the expansion of its tissue paper unit (aggregate capacity of 50,000 MTPA) in May 2017.

**Financial risk profile marked by improvement in the profitability and debt coverage indicators during FY17 & 9MFY18**

The paper division, though reported a lower sales in FY17, came out with a complete turnaround with profits multiplied more than 3x on the back of various cost reduction initiatives undertaken by the management during the last two fiscals. This coupled with lower power & fuel costs on account of decline in coal cost per ton led to improvement in overall PBILDT margin to 5.90% in FY17 vis-à-vis 2.77% in FY16. The Paper division though incurred losses at the PAT level due to deferred tax adjustment, GCA however remained positive and at satisfactory levels as against the debt repayment obligation.

Overall gearing ratio of paper division remained comfortable at around 0.50 times as against the combined gearing ratio of 0.87 times as on Mar'17. Debt coverage indicators have improved significantly during the current year (FY18) on account of reduction in term loans & working capital borrowings arising out of improved profitability and liquidation of investments.

During nine months ended Dec.31, 2017, the performance of the company has improved significantly. Increase in sales of high margin tissue paper, higher realization of PWP, improvement in operational efficiency (lower power consumed, better yield) has led to significantly improvement in PBILDT level and margins. PBILDT level increased from Rs.18.9 crore in 9MFY17 to Rs.80.1 crore in 9MFY18.

**Key Rating Weaknesses**

**Volatility in raw material (Bamboo and wood) prices of paper division**

Raw material is the single largest cost of paper manufactures. 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. The mismatch in increase in raw material prices vis-a-vis final product price leads to losses in last few years prior to FY16.

**Analytical approach:** Standalone

**Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

**About the Company**

Incorporated in July, 1936, Orient Paper & Industries Ltd. (OPIL) belonging to G.P. - C.K. Birla group is currently engaged in manufacturing of paper with a paper unit at Madhya Pradesh, having a capacity of 1,35,000 tonnes p.a. (printing and writing paper 85,000 tpa and tissue paper 50,000 tpa).

The Consumer Electric Division of Orient Paper & Industries Limited (OPIL) has been demerged into a separate company (i.e. Orient Electric Limited) with effect from 1st March 2017; vide the scheme of Demerger, approved by the National Company Law Tribunal (NCLT), Kolkata on November 09, 2017.

Brief Financials (Rs. crore)	FY17 (A)	9MFY18 (P)
	Merged	De-merged
Total operating income	1878.1	492.7
PBILDT	135.4	80.1
PBT	67.5	54.5
PAT	50.6	33.5
Overall gearing (times)	0.87	0.38
Interest coverage (times)	3.05	7.09

A: Audited P: Provisional

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	87.50	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	1.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	34.00	CARE AA-; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	43.50	CARE AA-; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	-	57.31	CARE AA-; 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 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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	87.50	CARE AA-; Stable / CARE A1+	1)CARE A / CARE A1 (Under Credit watch with Developing Implications) (11-Jul-17)	1)CARE A / CARE A1 (Under Credit Watch) (02-Nov-16) 2)CARE A / CARE A1 (08-Jul-16)	1)CARE A- / CARE A1 (14-Jul-15)	1)CARE A- / CARE A1 (15-Jul-14)
2.	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	1)CARE A1 (Under Credit watch with Developing Implications) (11-Jul-17)	1)CARE A1 (Under Credit Watch) (02-Nov-16) 2)CARE A1 (08-Jul-16)	1)CARE A1 (14-Jul-15)	1)CARE A1 (15-Jul-14)
3.	Fund-based - LT-Cash Credit	LT	34.00	CARE AA-; Stable	1)CARE A (Under Credit watch with Developing Implications) (11-Jul-17)	1)CARE A (Under Credit Watch) (02-Nov-16) 2)CARE A (08-Jul-16)	1)CARE A- (14-Jul-15)	1)CARE A- (15-Jul-14)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	43.50	CARE AA-; Stable / CARE A1+	1)CARE A / CARE A1 (Under Credit watch with Developing Implications) (11-Jul-17)	1)CARE A / CARE A1 (Under Credit Watch) (02-Nov-16) 2)CARE A / CARE A1 (08-Jul-16)	1)CARE A- / CARE A1 (14-Jul-15)	1)CARE A- / CARE A1 (15-Jul-14)
5.	Fund-based - LT-Term Loan	LT	57.31	CARE AA-; Stable	1)CARE A (Under Credit watch with Developing Implications) (11-Jul-17)	1)CARE A (Under Credit Watch) (02-Nov-16) 2)CARE A (08-Jul-16)	1)CARE A- (14-Jul-15)	1)CARE A- (15-Jul-14)
6.	Commercial Paper	ST	-	-	1)Withdrawn (11-Jul-17)	1)CARE A1 (Under Credit Watch) (02-Nov-16) 2)CARE A1 (08-Jul-16)	1)CARE A1 (14-Jul-15)	1)CARE A1 (12-Jan-15) 2)CARE A1 (06-Oct-14)

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