Orient Paper & Industries Limited

July 05, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long Term Bank Facilities	84.05 (reduced from 91.31)	**CARE AA-; Stable (Double A minus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	1.00	**CARE A1+ (A One plus)**	
Long/Short Term Bank Facilities	131.0	**CARE AA-; Stable / CARE A1+ (Double A minus; Outlook: Stable/ A One plus)**	
Total Bank Facilities	**216.05# (Two hundred sixteen crore and five lacs only)**		

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 vise allocation is yet to be finalized by the bankers

Detailed Rationale & Key Rating Drivers

The above ratings continue to draw support from long experience of the promoters; OPIL being part of established C.K. Birla group, satisfactory financial position of the company (paper division) with comfortable gearing and strong debt protection matrix. 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 cyclicality attached to the paper industry.

Ability to further improve the operating performance of the company in the long run while maintaining the profitability and 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.274 crore. Further, the investments in listed securities (other than group entities) are liquid in nature as the company has the 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 worth valuing more than Rs.940 crores.

Improvement in the performance of paper division

During the last three fiscals, the performance of the paper division has improved with the gradual reduction in wood purchase cost coupled with operating efficiency gains arising out of higher captive pulp production due to sustained plantation efforts over the last few years and other operational initiatives which had led to better economies of scale. The company has gradually constructed four reservoirs (375mn gallons) in order to mitigate plant shutdown owing to water shortage. In May 2017, OPLI has successfully completed the capacity enhancement (25,000 MTPA) for its high margin tissue paper segment which had a steady capacity utilization of ~66% in FY18. All this coupled with favorable market dynamics (demand-supply equation) has helped the company to improve its operating margins significantly in FY18. Additionally, the Chinese Government has banned the import of several varieties of waste paper, which is the primary raw material for finished paper. Consequently, the production of finished paper is expected to be hampered in China which in turn is expected to improve realizations for domestic players.

Financial risk profile marked by improvement in the profitability during FY18 coupled with comfortable gearing and debt coverage indicators

The total operating income of the company (paper segment) witnessed a y-o-y increase of ~29% in FY18 on account of improved market scenario for PWP and tissue paper segments coupled with capacity addition for the tissue paper segment. Decline in overall cost of wood (major raw material), lower power & fuel cost followed by higher realization of

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

PWP and increase in the sales of high margin tissue paper, led to a significant improvement in the PBILDT margin (17.64% in FY18 vis-à-vis 7.61% in FY17). In line with the improvement in the PBILDT margin followed by reduction in the interest cost, PAT margins also improved in FY18. Overall gearing ratio, as on March 31, 2018, remained comfortable at around 0.08 times as against 0.17 times as on March 31,2017. 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. Further the debt coverage indicators also remained comfortable with total debt to GCA at 1.12 times as on Mar.31, 2018.

Key Rating Weakness

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 is one of the major reasons for losses in the years prior to FY16. 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.

Threat from imports, though limited in tissue paper segment

Imports of paper and paper board from ASEAN countries have grown almost 43% in volume in the last six years. Since 2014 there has been no import duty on paper and paperboard from ASEAN countries under the free trade agreements. Cheaper import is facilitated by the preferential tariffs extended under Free Trade Agreements. Domestic manufacturers are struggling to do so at competitive prices — on account of high raw material and energy cost. Hence all though the profitability of domestic paper manufacturers has improved in the past 3 years, the threat from imports will always be prevalent. However, OPIL derives a significant share of its revenue from of tissue paper and with the recent capacity enhancement it is now the highest producer of tissue paper in India. Also around 53% of its total tissue paper production is exported, thus eliminating the above risk to a greater extent.

Analytical approach: Standalone.

Applicable criteria:

[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE's Policy on Default Recognition]
[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 paper products are sold under the brand names 'DIAMOND TOUCH', 'ORIENT' and 'FIRST CHOICE'.

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 of OPIL(Rs. in crore)	FY17(Audited)	FY18(Audited)
Total Operating Income	519.28	668.50
PBILDT	39.49	117.96
PAT from continuing operations	10.87	49.29
Profit from Discontinuing operations*	27.04	-
Adjusted Profit after tax and discontinuing operations	37.92	49.29
Overall Gearing	0.17	0.08
Interest Coverage	1.92	8.37

**refers to profit from discontinued operations of the electric division (demerged into Orient Electric Ltd.) for the period 1st April 2016 to 28th Feb 2017*

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 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	-	-	Feb 2023	50.05	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 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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	87.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (20-Feb-18) 2)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)
2.	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	-	1)CARE A1+ (20-Feb-18) 2)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)
3.	Fund-based - LT-Cash Credit	LT	34.00	CARE AA-; Stable	-	1)CARE AA-; Stable (20-Feb-18) 2)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)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	43.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (20-Feb-18) 2)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)
5.	Fund-based - LT-Term Loan	LT	50.05	CARE AA-; Stable	-	1)CARE AA-; Stable (20-Feb-18) 2)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)
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)

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