Orient Paper & Industries Limited

July 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	8.43 (reduced from 84.05)	**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	160.00 (enhanced from 131.00)	**CARE AA-; Stable / CARE A1+ (Double A minus; Outlook: Stable/ A One plus)**	
Total Bank Facilities	**169.43 (One hundred Sixty Nine crore and Forty Three lakh only)**		

Details of facilities in Annexure-1

*** *Reclassification Rs.34.0 crore from long term to long/short term facilities.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Orient Paper & Industries Limited (OPIL) continue to draw support from long experience of the promoters; OPIL being part of established C.K. Birla group, robust financial performance with marked improvement in FY19 (refers to the period April 01 to March 31), almost nil overall gearing ratio, strong debt protection matrix and superior liquidity position. The ratings, however, are constrained by volatility in raw material prices, cyclicality attached to the paper industry and project implementation and stabilization risk.

Ability to sustain the operating performance of the company in the long run while maintaining 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 the 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. 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 has a market value of around Rs.284 crore as on March 31, 2019. 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. OPIL holds about 850 acres of land at Brajrajnagar, Odisha where its first paper factory was set up which is currently not in use and other land banks and investment properties in Delhi.

In FY19, OPIL has sold some of its property, plant equipment and assets which were held for sale at profit of Rs.15.9 crore. Further, the company has also disposed of one of its investment properties at a net profit of Rs.6.02 crore.

Improvement in the operational performance

During the last three fiscals, the performance of the paper division has improved mainly due to various cost saving initiatives adopted by the company. There has been a gradual reduction in wood purchase cost coupled with operating efficiency gains arising out of higher captive pulp production (~40% in FY19) due to sustained plantation efforts over the last few years and other operational initiatives which had led to better economies of scale. OPIL has planted 0.94 crore saplings in FY19 vis-à-vis 0.70 crore in FY18. The total plantation area was 478 acres in FY19 vis-à-vis 405 acres in FY18. The capacity utilization has remained satisfactory at 76% in FY19 vis-à-vis 80% in FY18.

The company has gradually constructed four reservoirs (375mn gallons) in order to mitigate plant shutdown owing to water shortage. In FY19 the company has got approval for the local government for creation of a concrete barrage on river Sone thus ensuring there will be not water shortage in the future. All this coupled

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

with favorable market dynamics (demand-supply equation) has helped the company to improve its operating margins significantly in FY19. 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 FY19 coupled with comfortable gearing and debt coverage indicators

The total operating income of the company witnessed a y-o-y increase of ~7% in FY19 on account of improved market scenario for tissue paper segment coupled with decline in overall cost of wood (major raw material), lower power & fuel cost followed by higher realization of PWP and tissue paper and increase in the sales of high margin tissue paper, led to a significant improvement in the PBILDT margin to 20.12 % in FY19 vis-à-vis 17.47% in FY18. The PAT has improved significantly from Rs.49.29 crore in FY18 to Rs.101.65 crore in FY19 due to increase in PBILDT coupled with reduction in interest expenses by around 37% on y-o-y basis from Rs.14.09 crore in FY18 to Rs.8.84 crore in FY19 and increase in other non-operating income from Rs.6.61 crore in FY18 to Rs.27.54 crore in FY19.

The overall gearing ratio, has improved from 0.08x as on March 31, 2018 to 0.03x as on March 31, 2019 mainly because of reduction in long term loans and lower working capital utilization. The debt equity ratio improved to 0.01x as on March 31, 2019 vis-à-vis 0.05x as on March 31, 2018 mainly due prepayment of long term loans of Rs.23 crore in FY19. The interest coverage ratio improved from 8.27x in FY18 to 16.31x in FY19.

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 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.

Industry cyclicality

The paper industry is cyclical in nature and is exposed to volatility in raw material prices as well as threat of imports, which could prevent companies to pass on the increase in raw material prices. Also, capacity additions that are not commensurate with the demand growth could simultaneously exert upward pressure on raw material prices and downward pressure on finished product prices, leading to weakening of profit margins.

Threat from imports, though limited in tissue paper segment

The threat of imports will keep domestic paper prices firm and the profitability is expected to be moderate. In this regard, ASEAN free trade agreement, which has been effective from January 2014, allows duty free paper imports into India from ASEAN countries. However, OPIL derives a significant share of its revenue from tissue paper and is one of the largest producer of tissue paper in India. No other major players are involved in tissue paper manufacturing, thus eliminating this risk to a large extent.

Project stabilization risk

OPIL is planning a capital expenditure of Rs.225 crore for enhancement in its pulping capacity and boiler enhancement which will lead to better operational efficiency in future. In FY19, the company has incurred Rs.15 crore for the capex through its internal accruals and the COD of the project is expected by March 2021. Further, as per the management majority of the capex is planned through internal accruals of the company. However, until the capex is successfully implemented there exists a project stabilisation risk.

Liquidity position: Strong

OPIL has free liquid investments of Rs.283.8 crore as on March 31, 2019 vis-à-vis Rs.293 crore as on March 31, 2018 in its group companies. Also, as on March 31, 2019 the cash & cash equivalents stood at Rs.2.97 crore vis-à-vis Rs.3.77 crore as on March 31, 2018. The TD/GCA is highly comfortable at 0.29x as on March 31, 2019 vis-à-vis 1.12x as on March 31, 2018 mainly due to high cash accruals against negligible repayment obligations. In FY19 the company earned GCA of Rs.132.05 crore vis-à-vis debt repayment obligation of Rs.20.57 crore in FY19. In addition to the scheduled repayment obligation, the company has prepaid its long term borrowings by around Rs.23.0 crore in FY19. Also, the working capital utilisation remained low at Rs.10.89 crore as on March 31, 2019 FY19 vis-à-vis 30.74 as on March 31, 2018.

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 C.K. Birla group is currently engaged in manufacturing of paper with a paper unit at Madhya Pradesh, having a capacity of 1,10,000 tonnes p.a. (printing and writing paper 55,000 tpa and tissue paper 55,000 tpa) and caustic soda and derivatives.
The paper products are sold under the brand names 'DIAMOND TOUCH', 'ORIENT' and 'FIRST CHOICE'.

Brief Financials of OPIL (Rs. in crore)	FY18 (Audited)	FY19 (Audited)
Total Operating Income	667.04	716.22
PBILDT	116.50	144.10
PAT	49.29	101.65
Overall Gearing	0.08	0.03
Interest Coverage	8.27	16.31

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 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	-	-	-	82.50	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	1.00	CARE A1+
Fund-based - LT/ ST-Cash Credit*	-	-	-	34.00	CARE AA-; Stable / CARE A1+
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	43.50	CARE AA-; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	-	8.43	CARE AA-; Stable

** Reclassification Rs.34.0 crore from long term to long/short term facilities.*

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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	82.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (05-Jul-18)	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)
2.	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	-	1)CARE A1+ (05-Jul-18)	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)
3.	Fund-based - LT/ ST-Cash Credit*	LT/ST	34.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable (05-Jul-18)	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)
4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	43.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (05-Jul-18)	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)
5.	Fund-based - LT-Term Loan	LT	8.43	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Jul-18)	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)

6.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (11-Jul-17)	1)CARE A1 (Under Credit Watch) (02-Nov-16) 2)CARE A1 (08-Jul-16)

*****Reclassification of Rs.34.0 crore from long term to long/short term facilities.*

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-68374424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Richa Bagaria
Group Head Contact no. – 033-40181653
Group Head Email ID- richa.jain@careratings.com

Business Development Contact
Name: Lalit Sikaria
Contact no. : 033-40181607
Email ID - lalit.sikaria@careratings.com

About CARE Ratings:

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