Orient Paper and Industries Limited

September 10, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	57.41 (Reduced from 61.02)	**CARE A+; Stable (Single A plus; Outlook: Stable)**	Revised from CARE AA-; Stable (Double A minus; Outlook: Stable)
Short-term Bank Facilities	1.00	**CARE A1+ (A One plus)**	Reaffirmed
Long/Short-term Bank Facilities	160.00	**CARE A+; Stable / CARE A1+ (Single A plus; Outlook: Stable/ A One plus)**	Revised from CARE AA-; Stable / CARE A1+ (Double A minus; Outlook: Stable/ A One plus)
Total	**218.41 (Rs. Two Hundred Eighteen crore and Forty One Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the Long-term Bank Facilities of Orient Paper and Industries Limited (OPIL) is on account of moderation in financial performance of the Company in FY20 (refers to the period from April 01 to March 31) and Q1FY21 due to significant decline in sales realizations and subdued demand of OPIL's products. Further, the revision in the rating also takes into account the tepid near-term demand conditions on the back of a weak macroeconomic outlook following the Covid-19 pandemic, which is likely to have an impact on the company's scale of operations and consequently the level of profits and cash accruals. Sub-optimal utilization of assets is also likely to adversely impact the business returns of the company. Nonetheless, given the strong liquidity profile coupled with a conservative capital structure, CARE expects OPIL's debt coverage indicators to remain healthy in FY2021.

The ratings, further, continue to draw strength from long experience of the promoters; OPIL being part of established C.K. Birla group, strong financial flexibility with almost nil overall gearing ratio, strong debt protection matrix and availability of surplus liquid investments. The ratings continue to be constrained by modest scale of operation, volatility in raw material prices, cyclicality attached to the paper industry and project stabilization risk with revised funding and implementation schedule. The ratings also factor in the uncertainty regarding the timing of the on-going Covid-19 pandemic clearing out, which further impacted the Q1FY21 operational performance of the company.

Rating Sensitivities

Positive Factors

- Increase in scale of operation.
- Improvement in PBILDT margin above 15% and ROCE and RONW above 12% on a sustained basis.

Negative Factors

- Deterioration in debt coverage indicators by debt funded capex with overall gearing ratio over 0.60x.
- Deterioration in cash & liquid investments below Rs.100 crore.

Detailed description of the 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.

Strong financial flexibility with almost nil overall gearing ratio, strong debt protection matrix and availability of surplus liquid investments

The Company has strong financial flexibility as evident from its high net worth base and low debt position and sound liquidity position. The overall gearing ratio stood at 0.03x as on March 31, 2020 and March 31, 2019. The interest coverage ratio,

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

though deteriorated from 16.31x in FY19 to 9.90x in FY20 on account of decline in PBILDT level, remained comfortable. The interest coverage ratio, however, turned negative with operating loss in Q1FY21. Total debt/GCA stood comfortable at 0.74x as on March 31, 2020.

OPIL holds investment in listed entities which had a market value of around Rs.145 crore as on March 31, 2020 which improved to approximately Rs.250 crore as on August 19, 2020. 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.

Initiatives to improve operational efficiency

The company has taken various & continuous initiatives to control cost & improve operational efficiency. In FY19, the company has got approval to create a concrete barrage on river Sone to ensure complete water security. Further in FY20, the company constructed a permanent RCC barrage to increase their water storage capacity to 4.546 million cubic meters, which is expected to eliminate the risk of water scarcity related plant stoppage in future. OPIL has planted 0.94 crore saplings in FY19. The total plantation area was 478 acres in FY19 and FY20.

Key Rating Weaknesses

Weak financial performance in FY20 and Q1FY21

During FY20, the total operating income registered de-growth of 15% on a y-o-y basis. The decline was mainly on account of decline in capacity utilization, subdued demand scenario for finished goods coupled with a pressure on average sales price realizations of finished products. The PBILDT margin of the company declined significantly to 8.43% in FY20 from 20.12% in FY19, due to increase in cost of raw material being pulpwood and bamboo, levy of electricity duty on own power consumption (which was exempted till December 2019) and decline in sales realization of PWP and TP. Consequently, the company reported profit of Rs.19.93crore in FY20 vis-à-vis Rs.101.65crore in FY19. GCA of the company declined to Rs.51.82crore (Rs.132.05crore in FY19) vis-à-vis debt repayment obligation of Rs.14.02crore in FY20.

In Q1FY21, the company reported decline in income from operations by ~40% both on Y-o-Y and Q-o-Q and stood at Rs.80.64crore. The Company incurred operating loss and cash loss of Rs.14crore and Rs.15crore respectively in Q1FY21. The weak performance in Q1FY21 was due to disruption in demand and supply chain caused on account of COVID-19. In view of the same, the overall performance for FY21 is expected to remain modest.

Decline in Capacity Utilization (CU)

The capacity utilization of the PWP and TP units deteriorated in FY20 to 71% as against 76% in FY19 (80% in FY20) due to decline in CU in Q4FY20. Break down in recovery boiler for 10 days, planned maintenance shut for 11 days and nation-wide lockdown from last week of March 2020 led to decline in CU in Q4FY20. The capacity utilization stood at 39% in Q1FY21. However, the capacity utilization is expected to pick up post recovery of demand from the on-set of festive season.

Susceptibility of profitability to volatility in raw material prices

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. 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. Further, the company also experienced an unexpected increase in the cost of pulpwood, following NGO activism against the movement of wood in Madhya Pradesh during the Q2FY20 and Q3FY20, compelling the company to increase sourcing from distant locations, which, in turn, increased procurement costs. Any adverse change in the raw material prices which the company is not able to pass on to its customers will impact the profitability of the company.

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 producers of tissue paper in India.

Project stabilization risk with revised funding and implementation schedule

OPIL is undergoing a capital expenditure of Rs.225crore for enhancement in its pulping capacity, ECF bleaching and new recovery boiler of higher efficiency. Due to disruption on account of COVID-19, the project implementation has been delayed by 1 year and revised commissioning date is March 2022. Furthermore, the project is expected to be financed through term loan of Rs.110crore and balance through internal accruals, revised from earlier plan of majority funding through internal accruals. The company has spent Rs.44crore (out of internal accruals). However, until the capex is successfully implemented there exists a project stabilization risk, and risk of cost overrun due to delay in project implementation.

Industry cyclicality & Outlook

The Indian paper and paper industry has continued to witness steady growth in FY20, and the domestic demand grew from 9.3 million tonnes in FY08 to 18.6 million tonnes in FY20 at a CAGR of 6.4%. However, subdued and diverse trading conditions caused by geopolitical uncertainties including the current coronavirus outbreak have impacted the overall global demand. Further, the industry is grappling with weak demand, shortage of raw material and limited availability of labour, which is affecting capacity utilization. Demand for paper and cardboards to contract 10-15 per cent on-year, affecting all categories of products. The shutdown of schools, colleges and majority of offices has crimped demand for writing and printing (W&P) paper. Though pulp prices have come off their highs and waste paper prices have declined further, the raw material prices are expected to remain stable. However, despite the eased out cost side pressures, the margins of the players are expected to be affected by subdued market conditions, lower realizations of finished goods, imports of finished paper and disruption in supply chain and production due to COVID-19.

Liquidity: Strong

GCA stood at Rs.53crore in FY20 vis-à-vis low debt repayment obligations. OPIL has cash & liquid investments in listed equity shares of Rs.152crore as on March 31, 2020. In the current fiscal, though the absolute profits and cash accruals are expected to decline, the liquidity position is likely to remain comfortable, given the limited debt repayment. In FY21, the company has negligible debt repayment obligation of Rs.3.56crore, out of which company has repaid Rs.1.16crore in Q1FY21 and remaining shall be paid by December'2020. Further, as confirmed by the banker and management, OPIL has not sought moratorium for its bank facilities from its lenders as part of the Covid-19 Regulatory Package announced by RBI. The average month-end utilization of fund based facility for last 12 months ended June'2020 stood low at 29%. With Nil debt-equity ratio as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its capex in FY21 and FY22

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Liquidity analysis of Non-financial sector entities.

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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	716.22	610.38
PBILDT	144.10	51.48
PAT	101.65	19.93
Overall gearing (times)	0.03	0.03
Interest coverage (times)	16.31	9.90

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

Covenants of rated facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Annexure-1: Details of Facilities

Name of the Bank Facilities	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 A+; Stable / CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	1.00	CARE A1+
Fund-based - LT/ ST-Cash Credit	-	-	-	34.00	CARE A+; Stable / CARE A1+
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	43.50	CARE A+; Stable / CARE A1+
Fund-based - LT-Term Loan	-	-	Dec-2020	2.41	CARE A+; Stable
Non-fund-based - LT-Letter of credit	-	-	-	55.00	CARE A+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ ST-BG/LC	LT/ST	82.50	CARE A+; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (07-Jan-20) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	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)
2.	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A1+	-	1)CARE A1+ (07-Jan-20) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (05-Jul-18)	1)CARE A1+ (20-Feb-18) 2)CARE A1 (Under Credit watch with Developing Implications) (11-Jul-17)
3.	Fund-based - LT/ ST-Cash Credit	LT/ST	34.00	CARE A+; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (07-Jan-20) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	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)
4.	Fund-based - LT/ ST-CC/Packing	LT/ST	43.50	CARE A+; Stable /	-	1)CARE AA-; Stable / CARE	1)CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+

	Credit			CARE A1+		A1+ (07-Jan-20) 2)CARE AA-; Stable / CARE A1+ (05-Jul-19)	(05-Jul-18)	(20-Feb-18) 2)CARE A / CARE A1 (Under Credit watch with Developing Implications) (11-Jul-17)
5.	Fund-based - LT-Term Loan	LT	2.41	CARE A+; Stable	-	1)CARE AA-; Stable (07-Jan-20) 2)CARE AA-; Stable (05-Jul-19)	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)
6.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (11-Jul-17)
7.	Non-fund-based - LT-Letter of credit	LT	55.00	CARE A+; Stable	-	1)CARE AA- ; Stable (07-Jan-20)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Fund-based - LT/ ST-CC/Packing Credit	Simple
4.	Non-fund-based - LT-Letter of credit	Simple
5.	Non-fund-based - LT/ ST-BG/LC	Simple
6.	Non-fund-based - ST-Forward Contract	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no. – 022-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name - Arindam Saha
Contact no. - 033-40181631
Email ID- arindam.saha@careratings.com

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

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