Orient Press Limited

March 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	38.02 (reduced from 40.41)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB; Credit watch with Negative implications [Triple B ; Under Credit watch with Negative implications]**
Long term/Short term Bank Facilities	14.50	**CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A Three Plus)**	**Revised from CARE BBB; Credit watch with Negative implications/CARE A3+ Credit watch with Negative implications [Triple B; Under Credit watch with Negative implications]**
Short term Bank Facilities	21.00	**CARE A3+ (A Three Plus)**	**Revised from CARE A3+; Credit watch with Negative implications [A Three Plus; Under Credit watch with Negative implications]**
Medium-term Fixed Deposits	8.00	**CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook:Stable]**	**Revised from CARE BBB (FD); Credit watch with Negative implications [Triple B (Fixed Deposit); Under Credit watch with Negative implications]**
Total	**81.52 (Eighty One Crore and Fifty two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the ratings from 'credit watch with negative implication' on account of its Plot No. G-73, Tarapur(Maharashtra) plant resuming operations after getting conditional approval from Maharashtra pollution control board and clarity on the possible impact of the closure of the plant on the credit risk profile of the company.

The reaffirmation in the ratings assigned to the bank facilities and the fixed deposits of OPL continue to derive its strength from extensive experience of the promoters in the industry, established clientele base of OPL, and marginal improvement in the company's capital structure due to infusion of funds through issue of equity shares on preferential basis and partial repayment of unsecured loans.

The above rating strengths are however tempered by OPL's moderate scale and working capital intensive nature of operations, decline in profit margins and debt coverage indicators, susceptibility of the profit margins to volatile raw material prices/forex fluctuations, exposure to regulatory risk and intense competition in the flexible packaging division.

Going forward, the company's ability to improve its scale of operations, profit margins, debt coverage indicators and sustenance of capital structure at comfortable levels shall remain the key rating sensitivities. Moreover, any change in the environment regulations or non-compliance with the conditions put forward by MPCB affecting the operations of the company will remain the key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters in the industry

The company is managed by its founding promoters Mr. Ramvilas Maheshwari (Chairman and Managing Director) and Rajaram Maheshwari (Executive director) each having around four decades in the industry. The company has well experienced board of directors which includes four independent directors and four executive directors.

Established customer base

The company supplies its products to some of the well reputed brands in the FMCG industry. Moreover, the company is amongst leader in the capital market stationary printing category. Through its long existence in the business, the company has established healthy relationship with its clientele base, ensuring repeat orders from them. Additionally, the company's client profile is fairly diversified with top ten customers accounting for 33.33% of total sales in FY18.

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

Marginal improvement in the capital structure

Issue of equity shares on preferential basis to the promoters as well as public shareholders resulted into aggregate addition of Rs.11.46 crore (excluding share issue expenses) to the company's tangible networth. This fresh equity issue coupled with plough back of profits to the company's reserves helped the company to improve its tangible net worth from Rs.67.63 crore as on March 31, 2017 to Rs.81.73 crore as on march 31, 2018. On the other hand, partial repayment of unsecured loans from promoters resulted in marginal decline in the company's debt. As a result, the company's capital structure also improved as indicated by overall gearing of 0.84 times as on March 31, 2018 from 1.03 times as on March 31, 2017.

Key Rating Weaknesses

Scale of operations continues to be moderate

With total operating income of Rs.203.58 crore and tangible net worth of Rs.81.73 crore, OPL continues to be moderate sized entity. Moderate size of the company may restrict the company in timely revision of product prices as these companies are generally price takers in the market, and thus any revision in price is largely done only after the market leaders revise their product prices.

Decline in profit margins and debt coverage indicators

During FY18, OPL derived around 46.87% of its revenues from flexible packaging division. Flexible packaging division has polymer granules as one of its major raw materials. Increase in price of polymer granules resulted in decline in the PBILDT margins from 8.56% in FY17 to 7.56% in FY18. However, decline in the interest and finance charges (due to capitalization of interest relating to borrowings related to capex) led to improvement in the PAT margin from 1.30% in FY17 to 1.83% in FY18. Hence, the company's gross cash accruals also increased during FY18 to Rs.11.18 crore from Rs.7.84 crore in FY17. Nonetheless, the gross cash accruals declined during 9MFY19 to Rs.5.93 crore from Rs.8.62 crore reported during 9MFY18.

Working capital intensive nature of operations

The company's average inventory days increased to 103 days as on March 31, 2018 from 98 days as on March 31, 2017. The increase in inventory days is partially on account of the company's Noida plant starting operations which required the company to maintain raw material stock at its different plant locations. However, owing to higher credit period availed from its suppliers, the company's average working capital improved marginally from 115 days as on March 31, 2017 to 109 days as on March 31, 2018. The increase in payable days can be largely attributed to higher purchases by the printing division relating in the Month of March for catering to an upcoming IPO at that time.

Susceptibility of the profit margins to raw material volatility and forex fluctuation

The company's major raw materials polymers granules are derivatives of crude oil which is volatile in nature. Moreover, owing to the presence of large numbers of players in the flexible packaging industry, passing on changing raw material prices becomes difficult, resulting into lag in the price revisions when the input prices are on rising trend. Moreover, as the raw materials form around 70% of the company's lag in passing of raw materials may have significant impact on the company's profit margins.

Furthermore, being the net exporter OPL's profit margins are also exposed to forex fluctuation. OPL's management hedges its forex exposure as per market situation and if the forex exposure goes above certain threshold. Nonetheless, some portion of the forex exposure still remains unhedged. In FY18 the company earned Rs.19.39 crore from exports and the import of raw materials, stores and spares and capital goods accounted for Rs.11.26 crore of foreign exchange outflow. As on March 31, 2018 the company had net un-hedged forex exposure of Rs.0.83 crore.

Exposure to regulatory risk in flexible packaging division

Complexities involved in recycling of multilayer plastics used in packing the processed foods as well as other FMCG products make them one of the major sources of soil and water pollution. Increasing level of soil and water pollution has led to growing environmental concerns, especially in the countries like India, which is also one of the fastest growing markets for the plastic packaging. This exposes the companies in flexible packaging to high regulatory risk. In order to reduce the plastic waste, ministry of environment forest and climate change had enacted "plastic waste management" rules in March 2016. Non-compliance of these regulations may result in closure of the manufacturing plants.

Nevertheless, growing population and increasing demand of processed foods augurs well for the players in the packaging industry. Moreover, high durability, flexibility, and cost effectiveness of flexible packaging make them as a preferred choice for various user industries ranging from food and beverages, healthcare, cosmetics, transportation etc. Hence, owing to growing demand from user industries the flexible packaging growth is expected to remain healthy over a medium term. However, larger players in the industry will be better placed to adopt changing environment regulations with their innovative biodegradable solutions and recyclable products.

Thin liquidity position
Owing to the recent capacity addition and increase in working capital requirements, the company has thin liquidity position as on March 31, 2018 with cash and bank balances (excluding lien marked) of Rs.1.22 crore. Moreover, the company's fund based utilization also remained on higher side with average utilization levels at around 89.50% for the last twelve months ending December 31, 2018.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Company
Incorporated on January 02, 1987 as a private limited company, Orient Press Limited (OPL) is promoted by the Maheshwari family - Mr. R. V. Maheshwari and Mr. R. R. Maheshwari. The company is engaged in the segments of packaging and printing. Under packaging, the company manufactures flexible packaging material of multi-layer film laminates and paper board cartons; while under its Printing segment, it is involved in several activities such as printing of capital market stationeries like IPO offer documents, RHPs etc.; commercial printing such as text books, annual reports, diaries etc., and security printing like MICR cheques, dividend warrants, etc. OPL has manufacturing facilities at Tarapur in Maharashtra, Silvassa in Union Territory of Dadra & Nagar Haveli, and Noida in Uttar Pradesh.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	190.83	203.58
PBILDT	16.34	15.40
PAT	2.49	3.73
Overall gearing (times)	1.03	0.84
Interest coverage (times)	2.61	3.17

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 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
Fund-based - LT-Term Loan	-	-	-	16.52	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	21.50	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	14.50	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	21.00	CARE A3+
Fixed Deposit	-	-	-	8.00	CARE BBB (FD); 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.	Fund-based - LT-Term Loan	LT	16.52	CARE BBB; Stable	1)CARE BBB (Under Credit watch with Negative Implications) (31-Oct-18)	1)CARE BBB; Stable (21-Mar-18)	1)CARE BBB; Stable (28-Feb-17)	1)CARE BBB (13-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	21.50	CARE BBB; Stable	1)CARE BBB (Under Credit watch with Negative Implications) (31-Oct-18)	1)CARE BBB; Stable (21-Mar-18)	1)CARE BBB; Stable (28-Feb-17)	1)CARE BBB (13-Jan-16)
3.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	14.50	CARE BBB; Stable / CARE A3+	1)CARE BBB / CARE A3+ (Under Credit watch with Negative Implications) (31-Oct-18)	1)CARE BBB; Stable / CARE A3+ (21-Mar-18)	1)CARE BBB; Stable / CARE A3+ (28-Feb-17)	1)CARE BBB / CARE A3+ (13-Jan-16)
4.	Non-fund-based - ST-BG/LC	ST	21.00	CARE A3+	1)CARE A3+ (Under Credit watch with Negative Implications) (31-Oct-18)	1)CARE A3+ (21-Mar-18)	1)CARE A3+ (28-Feb-17)	1)CARE A3+ (13-Jan-16)
5.	Fixed Deposit	LT	8.00	CARE BBB (FD); Stable	1)CARE BBB (FD) (Under Credit watch with Negative Implications) (31-Oct-18)	1)CARE BBB (FD); Stable (21-Mar-18)	1)CARE BBB (FD); Stable (28-Feb-17)	1)CARE BBB (FD) (13-Jan-16)

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