Orient Press Limited

March 20, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long term Bank Facilities	29.83 (reduced from 38.02)	**CARE BBB; Negative (Triple B; Outlook: Negative)**	Reaffirmed; Outlook revised from Stable to Negative
Long term/ Short term Bank Facilities	14.50	**CARE BBB; Negative/ CARE A3 [(Triple B; Outlook: Negative)/ A Three]**	Long term rating reaffirmed; Outlook revised from Stable to Negative; Short term rating revised from CARE A3+ to CARE A3
Short term Bank Facilities	21.00	**CARE A3 (A Three)**	Revised from CARE A3+ to CARE A3
Total	**65.33 (Sixty Five Crore and Thirty Three Lakhs Only)**		
Medium-term Fixed Deposits	8.00	**CARE BBB; Negative (Triple B; Outlook: Negative)**	Reaffirmed Outlook revised from Stable to Negative

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the short term rating assigned to the bank facilities of Orient Press Limited (OPL; CIN: L22219MH1987PLC042083) factors in the significant decline in its Total Operating Income (TOI) during 9MFY20 and PAT loss of Rs.1.40 crore which resulted in weakening of debt coverage indicators.

The decline in income was primarily on account of decline in revenue from the printing segment. In the printing segment, OPL was primarily present in printing documents/stationary for the capital markets, with fewer IPO's and new fund offers in 9MFY20 as compared to the previous year led to the decline in revenue from this segment.

CARE notes that in order to protect itself against the fluctuations in orders from the capital market, OPL has increased its focus towards printing of education related documents. CARE also notes that revenue from the education segment in Q4FY20 is likely to boost overall revenue from printing for FY20. Further, as printing segment has higher operating margins vis- a- vis packaging segment, increase in revenue from printing in Q4FY20 is likely to support the overall cash accruals for FY20.

The revision in the short term rating also factors in the high utilization of the working capital limits which is likely to put pressure on the cash flows of OPL in the near term.

The reaffirmation of the long term rating assigned to the bank facilities and the fixed deposits of OPL continues to derive strength from extensive experience of the promoters in printing industry and established client base.

The above rating strengths are however, tempered by OPL's moderate scale and elongated working capital cycle, 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.

Rating Sensitivities

Positive Factors:

- Return on capital employed increasing above 13% on a sustained basis
- PBILDT/ Interest coverage improving above 4.00x on a sustained basis

Negative Factors:

- Interest Cover (PBILDT/Interest) declining below 1.65x for any quarter going forward
- Overall gearing deteriorating beyond 1.00x on a sustained basis
- Operating profitability declining below 7% on a sustained basis

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

Outlook: Revised to Negative

The revision in outlook factors in the CARE's belief that the operating performance marked by TOI and PBILDT margin would remain subdued for FY20 on back of weaker performance in printing segment. CARE notes that company has some order that would generate sufficient margins to improve upon the operating margin during Q4FY20. However, sustainability of envisaged improvement in PBILDT margin is yet to be ascertained.

CARE would revise the outlook to stable, once the PBILDT margin improve beyond 8% on sustained basis coupled with sustained improvement in its debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Extensive experience of the promoters in the industry

OPL 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 directors are assisted by a team of experienced professionals.

Established customer base

OPL supplies its products to some of the well reputed brands in the FMCG industry. Moreover, it is amongst leader in the capital market stationary printing category. Through its long existence in the business, OPL 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 36.39% of total sales in FY19.

Key Rating Weaknesses

Moderate scale of operations with packaging segment contributing to the majority share, however, PBIT margins are higher in the printing segment

OPL operates in 3 segments, namely printing, flexible packaging and Paper boards with flexible packaging being the largest contributor to revenue. Out of Total Operating Income (TOI) of Rs. 199.32 Crore in FY19 (Rs. 203.58 Crore in FY18) 63.82% was contributed by packaging segment (flexible packaging and paper board packaging) and 36.18% by printing division. In an intensely competitive and largely unorganized market, OPL's scale of operations continues to remain moderate. Moderate size of OPL may restrict it in making timely revision of product prices as these companies are generally price takers in the market, and thus any revision in price can be done only after the market leaders revise their product prices.

In 9MFY20, OPL reported decline in operating income by 16% on a yoy basis led by weak performance of both the segments. In particular, revenue from printing division declined by 36% and paper board division reported a decline in revenue by 31% in 9MFY20 on a yoy basis. In the printing segment, OPL is primarily present in education segment and in printing documents for the capital markets such as annual reports, IPO forms, IPO prospectus, forms for mutual fund schemes etc. Typically, in the education segment, volumes pick up in the fourth quarter as education boards, schools and universities prepare for the new session. Major decline in volume in the printing segment was seen in capital markets segment as there were very few IPO's, new offers etc. in the first 9 months in FY20. Packaging segment was adversely impacted on the back of overall economic slowdown wherein elongated payment cycle has led the company to selectively accept orders.

Stable operating margins in FY19 however, operating profitability declined in 9MFY20 on the back of lower operating margins in the printing and flexible packaging segments and continued loss reported in the paper board packaging segment

In FY19, profitability was largely stable on the back of improved profitability of the printing division which, compensated for the loss in the packaging segment. Further, within the packaging segment flexible packaging reported decline in operating margin from 4.15% in FY18 to 2.14% in FY19 whereas paper board packaging segment reported loss margin of -17.96% in FY19. This loss was primarily on account of underutilization of capacities of rigid boxes and the new flexible packaging unit in Noida and also increase in polymer prices (a key raw material for flexible packaging).

However substantial dip is seen at the PAT levels on account of increased depreciation, post completion of capital expenditure at Noida.

In 9MFY20, operating profitability declined to 6.35% from 7.32% in 9MFY19 on the back of declined operating profitability in the all the segments as well as lower than optimum capacity utilization of the its Noida facility. High depreciation and interest expense coupled with decline in operating profits led to OPL reporting PAT loss in 9MFY20.

Elongated operating cycle

OPL's operating cycle has elongated further to 118 days in FY19 (109 days in FY18). The stretch in operating cycle is mainly attributed to significant inventory of raw materials (Polymer Granules, inks, various grades of paper etc.) required for production. Polymer Granules are crude oil derivatives and thus their prices are inherently volatile. Thus, OPL maintains significant inventory of raw materials to mitigate the risk of raw material price fluctuations. OPL caters to large and organized clients thus, leading to limited bargaining power against customers which ultimately leads to higher collection period.

Despite comfortable gearing levels, debt coverage indicators continue to remain strained
Overall gearing level stood at 0.88 times as on March 31,2019 (0.84 times as on March 31,2018). The gearing level remains comfortable on account of equity infusion by promoters amounting to Rs. 9.53 crore in FY18 which helped improve the Networth base. Despite this, debt coverage indicators continue to remain strained on account of decline in operating profits and cash accruals.
Comfort can be derived from the fact that the promoters have supported the entity by way of equity fund infusion and short term loans. In FY19, short term loans from the promoters stood at Rs. 2.68 Crore (Rs. 2.92 Crore in FY18).

Susceptibility of the profitability margins to raw material volatility
As mentioned previously, OPL's major raw material, 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 raw material price hike becomes difficult, resulting into lag in the price revisions when the input prices are on rising trend. Since raw materials constitute the major proportion of OPL's cost structure (61.5% on average from FY17-FY19), limited ability of OPL to pass on price hikes may impact operating profit margins.
On the other hand, volatility on account of foreign exchange is largely mitigated as OPL is net exporter of goods. In FY19, OPL earned Rs. 20.76 Crore on account of exports (Rs. 19.39 Crore in FY18) and foreign exchange outgo was Rs. 10.14 Crore (Rs. 11.46 Crore in FY18). Thus foreign exchange risk is largely mitigated as the exposure is not material.

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 countries like India, which is one of the fastest growing markets for plastic packaging. This exposes the companies in flexible packaging industry 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, leaders in the industry will be better placed to adopt changing environment regulations with their innovative biodegradable solutions and recyclable products.

Liquidity: Stretched
OPL has stretched liquidity profile as indicated by high working capital utilization in the 12 months ending Jan 2020 with average utilization being 94%. Higher utilization is on account of stretched operating cycle, in particular on account of inventory build-up at the three manufacturing locations. OPL generated cash flow from operations of Rs. 3.27 Crore in 9MFY20 which was just enough to meet the debt servicing obligations. Low cash generation coupled with very high utilization of working capital limits leaves very little headroom for future debt repayment obligations.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

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.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	203.58	199.32	126.55
PBILDT	15.40	15.59	8.04
PAT	3.73	0.99	(1.40)
Overall gearing (times)	0.84	0.88	Not available
Interest coverage (times)	3.17	2.26	1.71

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	-	8.33	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	-	21.50	CARE BBB; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	14.50	CARE BBB; Negative / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	-	21.00	CARE A3
Fixed Deposit	-	-	-	-	8.00	CARE BBB (FD); Negative

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.	Fund-based - LT-Term Loan	LT	8.33	CARE BBB; Negative	-	1)CARE BBB; Stable (08-Mar-19) 2)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)
2.	Fund-based - LT-Cash Credit	LT	21.50	CARE BBB; Negative	-	1)CARE BBB; Stable (08-Mar-19) 2)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)
3.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	14.50	CARE BBB; Negative / CARE A3	-	1)CARE BBB; Stable / CARE A3+ (08-Mar-19) 2)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)
4.	Non-fund-based - ST-BG/LC	ST	21.00	CARE A3	-	1)CARE A3+ (08-Mar-19)	1)CARE A3+ (21-Mar-18)	1)CARE A3+ (28-Feb-17)

						2)CARE A3+ (Under Credit watch with Negative Implications) (31-Oct-18)		
5.	Fixed Deposit	LT	8.00	CARE BBB (FD); Negative	-	1)CARE BBB (FD); Stable (08-Mar-19) 2)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)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available

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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