Orient Press Limited

October 31, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	40.41	**CARE BBB (Triple B) (Under credit watch with negative implications)**	Placed on credit watch with negative implications
Long term/Short term Bank Facilities	14.50	**CARE BBB /CARE A3+ (Triple B/A Three Plus) (Under credit watch with negative implications)**	Placed on credit watch with negative implications
Short term Bank Facilities	21.00	**CARE A3+ (A Three Plus) (Under credit watch with negative implications)**	Placed on credit watch with negative implications
Medium-term Fixed Deposits	8.00	**CARE BBB (FD) [Triple B (Fixed Deposit)] (Under credit watch with negative implications)**	Placed on credit watch with negative implications
Total Facilities	**83.91 (Eighty Three Crore and Ninety One Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Orient Press Limited (OPL) are placed under 'credit watch with negative implications' owing to directions received from Maharashtra Pollution Control Board (MPCB) for the closure of manufacturing activities at its plant located at Tarapur, Maharashtra for non-compliance of certain conditions/provisions of Water (Preventions & Control of Pollution) Act, 1974 and the Air (Prevention & Control of Pollution) Act 1981. CARE will continue to closely monitor the progress relating to the above development, the possible extent of adverse impact on the credit profile of the company and will take a final rating action on receipt of clarity on the outcome of this event.

The ratings continue to derive strength from the long track record of the company along with extensive experience of its promoters, having well-established relationship with its clients, steady operational performance along with moderate capital structure in FY18 (refers to the period from April 01 to March 31).

However, the rating strengths are tempered by OPL's modest scale of operations, subdued operating performance in Q1FY19 (refers to the period from April 01 to June 30), working capital intensive nature of operations leading to higher utilisation of working capital sanctioned limits, profit margins susceptible to volatile raw material prices/ forex fluctuations, sensitivity to any adverse government regulations along with high competition in the flexible packaging (plastic) industry.

Going forward, significant delay in resolution of issues with MPCB is a key rating monitorable. Furthermore, OPL's ability to achieve the envisaged scalability in operations, whilst improving profit margins along with efficient working capital management are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the company along with experienced promoters

Incorporated in 1987, the company has an established track record of over three decades in the field of printing and packaging. Under the present management and able guidance of Mr. Ramvilas Maheshwari (Chairman and Managing Director), having rich experience of more than three decades, the company has been able to move from a primary printing company to a packaging and printing company. They are further supported by qualified management having substantial experience in their respective fields.

Well established relationships with reputed clientele

Being in business for more than three decades, OPL has created a long-standing relationship with many of its reputed companies helping it to procure repeat orders from these clients ensuring steady demand. The company is one of the leading players in the capital market offering print segment. OPL has tie-ups with state education boards, schools and universities for their stationery printing requirements. The company is also engaged in printing annual reports, office stationery, diaries etc. for many corporates.

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

Steady operational performance in FY18 albeit subdued performance in Q1FY19

The company's income from operations remained fairly stable at Rs. 203.58 crore in FY18 as compared to Rs.190.83 crore in FY17. The profitability levels remained steady with PBILDT at Rs.15.40 crore (P.Y.~Rs.16.34 crore) and PAT at Rs.3.73 (P.Y.~Rs.2.49 crore).

However, OPL's performance in Q1FY19 remained subdued as despite stable revenues reported at Rs.54.17 crore (P.Y.~Rs.52.24 crore), the company incurred losses at Rs.0.45 crore as compared to PAT of Rs.0.69 crore in Q1FY18. However, the company reported positive cash accruals for Q1FY19.

Going forward, growth in revenues as envisaged from the printing as well as from the expanded packaging facility along with improvement in profitability and cash flows is critical from credit perspective.

Moderate capital structure

Despite increase in bank borrowings, OPL's overall gearing continues to remain at moderate levels at 0.69x owing to infusion of funds by way of equity and repayment of debt obligations. The promoters have been infusing funds in the form of unsecured loans whenever necessary to support the operations of the company. Furthermore, PBILDT interest coverage ratio stood at 3.17x.

Key Rating Weaknesses

Directive from MPCB for closure of manufacturing facility

MPCB has directed OPL to close the manufacturing activities at its plant located at Tarapur, Maharashtra for non-compliance of certain conditions/provisions of Water (Preventions & Control of Pollution) Act, 1974 and the Air (Prevention & Control of Pollution) Act 1981. As OPL derives 46% of its revenues from this plant, any inordinate delay in the resolution of the issue leading to prolonged closure of the manufacturing activities may adversely impact the credit profile of the company.

Modest scale of operations

With operating income of Rs. 203.58 crore during FY18 and tangible net worth of Rs.81.73 crore as on March 31, 2018, OPL is a relatively modest sized entity.

Working capital intensive business

Being in a highly competitive packaging industry, OPL's working capital requirements are substantial in order to support extension of longer credit period to its customers and inventory management. OPL's operating cycle remained higher at 109 days in FY18 as against 115 days in FY17.

Profit margins susceptible to raw material price volatility and forex fluctuations

The principle raw materials required for flexible packaging is plastic granules which is crude derivative. The key raw material is price sensitive and highly volatile. Thus, OPL's profitability is susceptible to volatility in prices of raw materials. Besides, the company's profit margins is susceptible to currency fluctuations owing to un-hedged position.

Flexible packaging operations susceptible to government regulations

Given the environment hazards of plastics, the flexible packaging operation of OPL remains sensitive to any government regulations or actions which could negatively impact demand for its products. OPL is shifting its focus to increase exports in flexible packaging division and increase revenue share of paper board carton in order to protect itself from the risk. However, the company will continue to be prone to such regulations until satisfactory level of geographical as well as product diversification is attained.

Analytical approach: Standalone

Applicable Criteria

[Criteria for placing rating on credit watch]
[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 (1) printing of capital market stationery such as IPO offer documents, RHPs etc. (2) commercial printing such as text books, annual reports, diaries etc. and (3) security printing like MICR cheques, dividend warrants, etc. Presently, OPL has manufacturing facilities at Tarapur in Maharashtra and Silvassa in Union Territory of Dadra & Nagar Haveli. The company also has set up its flexible packaging facilities at Noida in Uttar Pradesh.

Brief Financials (Rs. crore)	FY17 (A) (Ind AS)	FY18 (A) (Ind AS)
Total operating income	190.83	203.58
PBILDT	16.34	15.40
PAT	2.49	3.73
Overall gearing (times)	1.05	*0.69
Interest coverage (times)	2.61	3.17

*A: Audited *excluding acceptances*

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	-	-	October-2021	18.91	CARE BBB (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	21.50	CARE BBB (Under Credit watch with Negative Implications)
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	14.50	CARE BBB / CARE A3+ (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	21.00	CARE A3+ (Under Credit watch with Negative Implications)
Fixed Deposit	-	-	December-2020	8.00	CARE BBB (FD) (Under Credit watch with Negative Implications)

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	18.91	CARE BBB (Under Credit watch with Negative Implications)	-	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 (Under Credit watch with Negative Implications)	-	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 / CARE A3+ (Under Credit watch with Negative Implications)	-	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+ (Under Credit watch with Negative Implications)	-	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) (Under Credit watch with Negative Implications)	-	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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