Orient Paper & Industries Limited

January 07, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long-term Bank Facilities	61.02 (enhanced from 8.43)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank Facilities	160.00	**CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**	
Short-term Bank Facilities	1.00	**CARE A1+ (A One Plus)**	
Total	**222.02 (Rupees Two Hundred Twenty Two crore and two lakh only)**		

Details of facilities in Annexure-1

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, satisfactory operational performance, robust financial performance with marked improvement in FY19 (refers to the period April 01 to March 31) albeit deterioration witnessed in H1FY20, almost nil overall gearing ratio, strong debt protection matrix and superior liquidity position. The ratings, however, are constrained by susceptibility of profitability to volatility in raw material prices, cyclicality attached to the paper industry and project implementation and stabilization risk.

Key Rating Sensitivities

Positive Factors

- Improvement in scale of operations with growth in revenue to over Rs.500 crore on a sustained basis
- Improvement in PBILDT margin above 20% and ROCE and RONW above 12% on a sustained basis

Negative Factors

- Sustained decline in PBILDT margin below 10%
- Deterioration in cash & liquid investments below Rs.200 crore.

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 other group entities (listed) which has a market value of around Rs.284 crore as on March 31, 2019. The value of investments as on Sept 30, 2019 is Rs.234 crore. 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.

Improvement in the operational performance in FY19

During the last three fiscals (FY17-19), the performance has improved mainly due to various cost saving initiatives adopted by the company. In FY19 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

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

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. Further, in H1FY20 the capacity utilization stood at 71%.
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 with favorable market dynamics (demand-supply equation) has helped the company to improve its operating margins significantly in FY19.

Robust financial performance in FY19 albeit deterioration witnessed in H1FY20
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 from sale of some of investment properties, and plant & machinery which was not in use.
However, In H1FY20 revenue from operation declined from Rs.322 crore in H1FY19 to Rs.308 cr in H1FY20 (4.28% Y-o-Y basis) due to decline in sales realization in Printing & Writing (PWP) paper. The PBILDT margin declined from 20.03% in H1FY19 to 11.79% in H1FY20 due to decline in sales realization, and higher pulp prices. OPIL earned PAT of Rs.19.57 crore in H1FY20 vis-à-vis Rs.48.37 crore in H1FY19. The PAT for H1FY19 was higher due to higher PBILDT coupled with profit from sale of property & investment of ~Rs.20 crore.

Robust gearing and debt coverage indicators
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. In H1FY20 the debt equity ratio & overall gearing ratio remained comfortable at 0.01x and 0.03x respectively. The PBILDT interest coverage ratio improved to 14.61x in H1FY20 from 12.39x in H1FY19, despite decline in PBILDT due to decrease in finance cost by ~52% on y-o-y basis.

Key Rating Weakness
Susceptibility of profitabilityto 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. 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. Further, there has been a significant increase in wood & bamboo price in H1FY20 vis-à-vis FY19 due to demand & supply factors leading to increase in pulp cost. 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 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 undergoing 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.

Industry cyclicality & Outlook

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.

Overall global demand is expected to remain subdued, with only demand in the packaging paper & board segment slated to increase, while other segments are expected to either grow slowly or remain at similar levels. For the Indian paper and paper products industry, growth is expected to be driven by a combination of factors such as 1) rising income levels, 2) growing per capita expenditure, 3) rapid urbanization and 4) a larger proportion of earning population which is expected to lead consumption. Despite increasing digitization, CARE Ratings expects that the overall paper demand to grow at 6 -7%.

Going forward, wood prices and waste paper prices are expected to remain stable. The profitability of the players is expected to be healthy in the medium term due to 1) eased out cost side pressures, 2) improved realizations of finished goods, 3) comparatively lower imports of finished paper due to higher pulp prices, and 4) the ability of larger players to source local pulp at a competitive rate. Further, with healthy balance sheets of most players, capex plans have been announced which would commit internal accruals of the companies towards their capex plans and increase debt levels; though the capital structure and cashflow position for most players is expected to be comfortable. But it is also crucial that the industry dynamics remains favourable in the next 2-3 years as it will determine how the absorption of the enhanced capacities happens as they come on-stream. Also the continuation of the favourable pricing environment in the Indian context would enable a healthy generation of internal accruals that are required to be committed for the capex.

Liquidity position: Superior

OPIL has free cash & liquid investments of Rs.287 crore as on March 31, 2019 vis-à-vis Rs.297 crore as on March 31, 2018 in its group companies. 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. In H1FY20 OPIL earned GCA of Rs.36 crore vis-à-vis debt repayment obligation of ~Rs.5 crore during the period.

Analytical approach: Standalone.

Applicable criteria:

Criteria on assigning Outlook & Credit Watch 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 Ratio	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	-	-	Dec-2020	6.02	CARE AA-; Stable
Non-fund-based - LT-Letter of credit	-	-	-	55.00	CARE AA-

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-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)	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-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)	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 / 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)	1)CARE A (Under Credit Watch) (02-Nov-16) 2)CARE A (08-Jul-16)
4.	Fund-based - LT/	LT/ST	43.50	CARE AA-	1)CARE	1)CARE	1)CARE AA-;	1)CARE A / CARE

	ST-CC/Packing Credit			; Stable / CARE A1+	AA-; Stable / CARE A1+ (05-Jul-19)	AA-; Stable / CARE A1+ (05-Jul-18)	Stable / CARE A1+ (20-Feb-18) 2)CARE A / CARE A1 (Under Credit watch with Developing Implications) (11-Jul-17)	A1 (Under Credit Watch) (02-Nov-16) 2)CARE A / CARE A1 (08-Jul-16)
5.	Fund-based - LT-Term Loan	LT	6.02	CARE AA-; Stable	1)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)	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)
7.	Non-fund-based - LT-Letter of credit	LT	55.00	CARE AA-	-	-	-	-

***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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