Press Release

Ori Plast Limited

April 28, 2020

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	50.61 (enhanced from 36.00)	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Short term Bank Facilities	32.00 (enhancedfrom 18.00)	IVR A2+ (IVR A two Plus)	Reaffirmed
Total	**82.61 (Rupees eighty two crore and sixty one lakhs only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Ori Plast Limited (OPL) continues to derive comfort from its established track record of operations in the plastic pipes business, vast experience of the promoters, diversified product portfolio and its strong brand name and marketing arrangements. The ratings further takes into account its satisfactory working capital management, stable operating performance with increase in scale of operation in FY19 and 9MFY20 albeit moderation in profitability and healthy financial risk profile marked by satisfactory gearing and debt protection metrics. These rating strengths however are tempered by intense competition is its operating spectrum and susceptibility of profitability to fluctuation in raw material prices.

.**Key Rating Sensitivities**

Upward Factor:

- Substantial and sustained growth in operating income and profitability leading to improvement in cash accruals and debt protection metrics
- Sustenance of the capital structure
- Effective working capital management leading to improvement in liquidity

Downward factor:

- Moderation in operating income and/or deterioration in operating margin impacting cash accruals

- Any stretch in the working capital cycle driven by stretch in receivables affecting the financial risk profile, particularly liquidity.
- Withdrawal of subordinated unsecured loan and/or deterioration in overall gearing to over 1.5x and interest coverage to below 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations in the plastic pipes business and vast experience of the promoters**

  OPL has been in the manufacturing of Polyvinyl chloride (PVC) Pipes, Polyethylene (PE) pipes and fittings for over six decades under the guidance of the current promoters, one Agarwal family based in Kolkata.
- **Diversified product portfolio**

  OPL has a diversified product profile with large and diverse end-user segments. Around 93 percent of its revenue is from sales of PVC and high-density poly-ethylene (HDPE) pipes and fittings for the industrial construction and real estate sectors. During FY20, the company introduced PVC-O pipes which is first of its kind in India and is expected to gain popularity in water infrastructure segment.
- **Strong brand name and marketing arrangements**

  Over the years of its operations, the company has been has successfully built a strong brand name owing to the delivery of high quality products. The company has a strong distribution network, with around 67 dealers. Around 80% of its sales is through this dealer network, while the rest is from project specific/institutional sales. The company has a strong hold in the Eastern India as ~90 percent of OPL's revenue is generated from West Bengal and Odisha and the rest from other eastern and southern states.
- **Stable operating performance with increase in scale of operation in FY19 and 9MFY20 albeit moderation in profitability**

  The total operating income of the company has witnessed a y-o-y growth of ~9% in FY19 to Rs.262.79crore from Rs.241.95crore in FY18 mainly driven by higher sales realisations. However, the EBITDA margin of the company though continued to remain satisfactory, moderated from 7.14% in FY18 to 6.14% in FY19 as the company had to sacrifice on its margin to increase its scale of operation. The PAT margin moved in line with EBITDA margin and has moderated from 2.84% in FY18 to 2.52% in FY19.During 9MFY20, the total operating income stood at Rs.202.80 crorewith an EBITDA of Rs.12.08 crore.

- **Satisfactory working capital management**

  The company has managed is working capital requirements efficientlymarked by low working capital cycle at 38 days in FY19. The company managed its receivable cycle well which got reflected in the average debtor days of around 21 days in FY19, on account of majority of sales being made on cash-and-carry basis. The average inventory holding period remained moderate at around 58 days in FY19.The average working capital utilization of the company at ~65% remained moderate during the 12 months ended December,2019.

- **Improvement in capital structure and satisfactory debt protection metrics though moderated in FY19**

  The capital structure of OPL witnessed steady improvement marked by improvement inLong-term Debt equity ratio and overall gearing ratio from 0.33x and 0.81x as on March 31, 2018 to 0.15x and 0.68x as on March 31, 2019 respectively with accretion of profit to reservesand scheduled repayment of its term loan. To arrive at the net worth, Infomerics has considered Rs.3.00 crore of unsecured loans from the promoters and associates as quasi-equity as the same is subordinated to the bank facilities. Total indebtedness of the company as reflected by TOL/ANW also continued to remain comfortable at 1.47x as on March 31, 2019 (1.25x as on March 31, 2018). Further, the debt protection metrics as indicated by interest coverage ratio and Total debt/GCA though remained satisfactory at 3.86xand 3.97 years respectively in FY19 moderated as compared to 5.08x and 3.63 years in FY18 due to increase in interest outgo attributable to higher utilisation of bank borrowings during the year. Going forward, Infomerics believes that the capital structure though expected to deteriorate marginally with long term debt availed for commencing Raipur plant operations will continue to remain comfortable with satisfactory debt protection metrics.

- **Huge opportunity for shift of trade to organized players**

  With GST being implemented, the organized segment is well poised to confront the high presence of unorganized(informal) players. This will cause a shift in the competitive landscape of the industry and the company, with its strong brand recall, established sales network and introduction of innovative products, is expectedto take advantage of this opportunity well.

Key Rating Weaknesses

- **Susceptibility of profitability to fluctuation in raw material prices**
  Ethylene is the raw material required for production of polyvinyl chloride. PVC is subject to high volatility in prices on account of price changes in Crude oil, Ethylene etc. However, given that the company's production is usually order backed, it does not take any open position to build inventory helping it to shield itself from volatility in raw material prices.
- **Intense competition**
  The pipes industry is marked by intense competition. Entry barriers are low, with low capital intensity, no technological barriers and supportive government schemes. As a result, there is a large unorganized sector in the industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accrual in the range of ~Rs.15-16 crore during FY21-22 as against debt repayment obligation in the range of ~Rs.1-2 crore during the aforesaid period.With a gearing of 0.68 times as of March 31, 2019, the company has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year.

About the Company

Incorporated in 1988, Kolkata based Ori Plast Limited (OPL) is engaged in the manufacturing of Polyvinyl chloride (PVC) Pipes, Polyethylene (PE) pipes and fittings. The company was initially founded by, Mr. SR Agarwal in 1965as proprietorshipentity. Gradually with growth in operation, the business was divided under three companies, namely, Ori Plast Limited (OPL), Adventec Polymers Pvt Ltd (APPL) and Param Polymers Pvt Ltd (PPPL). APPL and PPPL were formed majorly to get the benefit of SME schemes, from where most State Governments encourage the procurement of PVC piping for water supply and irrigation projects.All these three companies were in the same line of business under the same management. To reduce administrative costs, manpower expenses, overhead and reap the benefit of synergies of amalgamation, the promoters took the strategic decision of amalgamating, APPL and PPPL with OPL. The NCLT order for the same was received in March 2019.

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	**Audited**
Total Operating Income	241.95	262.79
EBITDA	17.27	16.14
PAT	6.87	6.65
Total Debt	38.46	39.36
Tangible Net worth	50.67	57.97
EBITDA Margin (%)	7.14	6.14
PAT Margin (%)	2.84	2.52
Overall Gearing Ratio (x)	0.81	0.68

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Crore)**	**Ratings**	**Date(s)& Rating(s) assigned in 2019-20**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**
1.	Cash Credit	Long Term	34.00	IVR A-/ Stable Outlook	-	IVR A-/ Stable Outlook (February 18, 2019	-

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s)& Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
2.	Term Loan	Long Term	16.61	IVR A-/ Stable Outlook	-	IVR A-/ Stable Outlook (February 18, 2019)	-
3.	Bank Guarantee	Short Term	7.50	IVR A2+	-	IVR A2+ (February 18, 2019)	-
4.	Letter of Credit	Short Term	24.50	IVR A2+	-	IVR A2+ (February 18, 2019)	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Nidhi Sukhani Tel: (033) 46022266 Email: nsukhani@infomerics.com	Name: Mr. AvikPodder Tel: (033) 46022266 Email: apodder@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	34.00	IVR A- / Stable Outlook
Long Term Bank Facilities- Term Loan	-	-	January 2026	16.61	IVR A-/ Stable Outlook
Short Term Bank Facilities- Bank Guarantee	-	-	-	7.50	IVR A2+
Short Term Bank Facilities- Letter of Credit	-	-	-	24.50	IVR A2+
Total				**82.61**	