Press Release

Ori Plast Limited

October 20, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	34.78 (reduced from Rs.40.65 crore)	IVR A-; Negative (IVR Single A Minus with Negative Outlook)	Reaffirmed with revision in outlook from stable to negative	Simple
Short Term Bank Facilities	41.00	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**75.78 (Rupees seventy-five crore and seventy-eight lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Ori Plast Limited (OPL) continues to derive comfort from the established track record of operations of the company in the plastic pipes business and vast experience of its promoters and diversified product portfolio with strong brand name in Eastern India and established marketing arrangements. The ratings further consider its satisfactory capital structure with comfortable debt protection metrics. These rating strengths continue to remain partially offset by the susceptibility of its profitability to fluctuation in raw material prices leading to moderation in profitability and exposure to intense competition. The outlook of the company has been revised from stable to negative due to the continuous dip in its profit margins and expected further impact of raw material price volatility on the profitability.

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 cash accrual or further deterioration in operating margin
- Any stretch in the working capital cycle driven by stretch in receivables affecting the financial risk profile, particularly liquidity.
- 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, Agarwal family.
- **Diversified product portfolio**
  OPL has a diversified product profile with large and diverse end-user segments. Majority of its revenue is from sales of PVC and high-density polyethylene (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 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 companies, while the rest is from project specific/institutional sales. The company has a strong hold in the Eastern India as ~60 percent of OPL's revenue is generated from West Bengal , North-East India and Odisha and the rest from other eastern and southern states.
- **Satisfactory working capital management**
  Working capital management is efficient, backed by low working capital cycle (52 days in FY23). The company managed its receivable cycle well which got reflected in the average debtor days of around 23 in FY23 (improved from 30 days in FY22) on account of majority of sales being made on cash-and-carry basis. The average inventory holding period also

remained comfortable at 55 days in FY23.The average working capital utilization of the company at ~75% remained moderate during the 12 months ended August 2023.

- **Satisfactory capital structure with comfortable debt protection metrics**

  The capital structure of OPL had remained satisfactory over the past three account closing dates. Further, with gradual repayment of term loan and accretion of profit to reserve both the long-term debt equity and overall gearing ratio have improved further from 0.23x and 0.85x respectively as on March 31, 2022 to 0.18x and 0.77x as on March 31, 2023. OPL has maintained its total indebtedness at a satisfactory level though moderated as indicated by its TOL/TNW at 1.70x as on March 31, 2023, against 1.45x as on March 31, 2022. The debt protection metrics as indicated by interest coverage ratio continued to remain satisfactory at 2.46x in FY23 as against 2.96x in FY22.The moderation in interest coverage is driven by lower absolute EBITDA. Total Debt/GCA has deteriorated but remain comfortable at 5.90 years as on March 31, 2023 against 4.91 years as on March 31, 2022 due to lower cash accrual.

Key Rating Weaknesses

- **Moderation in profitability**

  The total operating income (TOI) of the company had witnessed improvement over the past two years with improvement in covid scenarios and as the covid restrictions got relaxed, OPL witnessed higher market demand of its products leading to better capacity utilization and higher average realisations and the top line stood at Rs. 363.79 crore in FY23 as against Rs.311.40 crore in FY22 registering an y-o-y growth of 16.82%. Notwithstanding the rise in topline, absolute EBITDA continuously moderated in FY22 and in FY23 due to higher cost of production precisely attributable to increase in raw material (mainly PVC Resin) cost and inability of the company to pass on the same. Further, the company has also faced inventory loss in FY23, due to adverse movement in raw material prices in Q4F23. During FY21 and in FY22 the volume sales of the company was also impacted which further aided the dip in EBITDA margin. Raw material cost of the company remained highly erratic due to volatility in crude oil prices as the prices of PVC Resin is linked to crude oil prices coupled with its demand supply mechanism. With dip in absolute EBITDA, the EBITDA margin of the company had moderated from 4.87% in FY22 to 3.46% in FY23. Further, with dip in EBITDA, PAT margin has also moderated from 1.25% in FY22 to 0.53% in FY23. Moderation in PAT also resulted in moderation in gross cash accruals in FY23. Due to erratic price movements the raw material prices will remain key monitorable.

- **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:

Criteria of assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accrual as against debt repayment obligation during the projected period. With a gearing of 0.77 times as on March 31, 2023, the company has healthy gearing headroom. Further, average working capital utilisation of fund-based facilities of the company also remain moderate at ~75% during the last 12 months ended August 2023 which indicates adequate liquidity buffer.

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 proprietorship entity.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	311.40	363.79
EBITDA	15.16	12.59
PAT	3.91	1.92
Total Debt	49.16	44.46
Tangible Net worth	57.58	57.67
EBITDA Margin (%)	4.87	3.46
PAT Margin (%)	1.25	0.53
Overall Gearing Ratio (x)	0.85	0.77
Interest Coverage Ratio	2.96	2.46

*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 Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Term Loan	Long Term	6.58	IVR A-; Negative	IVR A-; Stable (July 27, 2022)	IVR A-; Stable (April 29, 2021)	IVR A-; Stable (April 28, 2020)
2	Cash Credit	Long Term	28.20	IVR A-; Negative	IVR A-; Stable (July 27, 2022)	IVR A-; Stable (April 29, 2021)	IVR A-; Stable (April 28, 2020)
3	Bill Discounting	Short Term	6.00	IVR A2+	IVR A2+ (July 27, 2022)	IVR A2+ (April 29, 2021)	IVR A2+ (April 28, 2020)
4	Bank Guarantee	Short Term	10.50	IVR A2+	IVR A2+ (July 27, 2022)	IVR A2+ (April 29, 2021)	IVR A2+ (April 28, 2020)
5	Letter of Credit	Short Term	24.50	IVR A2+	IVR A2+ (July 27, 2022)	IVR A2+ (April 29, 2021)	IVR A2+ (April 28, 2020)

Name and Contact Details of the Rating Heads:

Press Release

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook

				(Rs. Cr)	
Long Term Fund Based Limits – Term Loan	-	-	July 2026	6.58	IVR A-; Negative
Long Term Fund Based Limits – Cash Credit	-	-	-	28.20	IVR A-; Negative
Short Term Fund Based Limits – Bill Discounting	-	-	-	6.00	IVR A2+
Short Term Non Fund Based Limits – Bank Guarantee	-	-	-	10.50	IVR A2+
Short Term Non Fund Based Limits – Letter of Credit	-	-	-	24.50	IVR A2+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-Ori-oct23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.