India Ratings & Research
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India Ratings Downgrades Ballarpur Industries and its NCDs to 'IND A-'; Maintains RWE

15 JUL 2016

By Chandan Sharma

India Ratings and Research (Ind-Ra) has downgraded Ballarpur Industries Limited's (BILT) Long-Term Issuer Rating and its non-convertible debentures (NCDs) to 'IND A-' from 'IND A+' while maintaining the rating on Rating Watch Evolving (RWE). A full list of rating actions is at the end of this commentary.

The downgrade reflects the termination of sale of BILT's step-down subsidiary Sabah Forest Industries Sdn. Bhd. (SFI). As a result, debt levels are likely to remain high. A higher interest outgo along with losses at SFI and the Kamlapuram unit has resulted in deterioration in BILT's consolidated credit profile and liquidity position.

BILT has received a non-binding offer from JK Paper Limited ('IND BBB+'/Positive), proposing the acquisition of its subsidiary's BILT Graphic Paper Products Limited's (BGPPL) Ballarpur and Ashti units. Details of the deal are not available with the rating agency. Ind-Ra continues to maintain the rating on RWE and will resolve the rating watch in the next three months or on the receipt of proceeds from the sale of assets, whichever is earlier. However, Ind-Ra may choose to review the ratings in the interim based on the financial and operational performance of the company. RWE indicates that the rating may be downgraded, upgraded or affirmed.

Ind-Ra continues to take a consolidated view of BILT's and its subsidiaries' business and financial profiles for the ratings. BGPPL has strong operational and strategic linkages with its ultimate parent, BILT, due to their similar business profiles and a common treasury and management team. BILT changed its fiscal year end to March from June in FY15. Therefore, FY15 was a nine-month period.

KEY RATING DRIVERS

Stretched Credit Profile, Delay in deleveraging: BILT's credit profile remained well above Ind-Ra's previous negative rating guideline in FY16 with net adjusted debt/EBITDA exceeding 5x. The stretched credit profile was primarily due to delays in asset monetisation, resulting in an increase in debt on the balance sheet as well as a lower-than-expected operational performance. According to the information provided by the company's management, Ind-Ra estimates BILT consolidated net adjusted debt/EBITDA was 9.2x in FY16 (FY15: 7.9x; FY14: 6.9x) and gross interest coverage was 1.6x (1.7x; 2.1x).

BILT has been focussing on reducing debt through equity infusion or asset sales. In FY15, it received an equity infusion of USD100m from International Finance Corporation in its step-down subsidiary - BILT Paper B.V., which has been used to prepay debt. In September 2015, it signed a share sale agreement with M/s. Pandawa Sakti

(Sabah) Sdn. Bhd., Malaysia (purchaser) for the sale of its entire stake of 98.08% in SFI at an enterprise value of USD500m. However, the deal has been terminated. BILT has now received a non-binding offer from JK Paper, proposing the acquisition of two units under BGPPL. In the absence of deleveraging, the credit profile is likely to remain stretched.

Deterioration in Operational Performance: Continued underperformance of SFI and losses at Kamlapuram unit have resulted in BILT's overall profitability remaining below Ind-Ra' expectations in FY15 and FY16. In FY16, BILT reported consolidated revenue of INR41.8bn (FY15 (9M): INR36.7bn; FY14: INR52.8bn) and EBITDA margin of 17.5% (15.6%; 17.8%). A decline in wood procurement prices due to higher wood availability in the domestic market is likely to benefit the operating margins.

Stable Cash Flow from Operations, Short-term Pressure on Liquidity: BILT reported stable cash flow from operations over FY11-FY15 with cash flow from operations/revenue in the range of 8%-12%. But, the company would require refinancing to fund its debt obligations. Its liquidity has tightened over FY16 due to the operational losses at SFI and Kamlapuram. Reduction in debt remains key to relieving the short-term liquidity pressures being faced by the company. Post the sale of Ballarpur and Ashti units, Ind-Ra expects liquidity to improve with a reduction in debt and interest outgo as well as on higher profitability.

Strong Market Position, Strong Business Profile: BILT is one of the largest producers of writing and printing paper. The company has around 38% market share in the coated wood-free market, 42% market share in blade coated wood-free market and 25% share in the high-end uncoated wood-free market. It has a strong business profile with vertically integrated operations and strong marketing distribution network. It runs a robust farm forestry programme in India which allows it to procure wood for domestic operations.

COMPANY PROFILE

BILT, on a consolidated basis, has one production facility in Malaysia and six production facilities across India, of which Ballarpur, Bhigwan, Sewa and Ashti units are under BGPPL, while Kamplapuram and Shree Gopal units are under BILT. Overall, the company has a paper capacity of around 1 million MT and a pulp capacity of around 0.8 million MT (including rayon grade pulp capacity).

In FY16, BGPPL reported revenue of INR36.5bn in FY16 (FY15 (9M): INR27.8bn) with EBITDA margins of 17.7% (17.7%) and net profit of INR259m (INR28m).

BILT's ratings:
- Long-Term Issuer Rating: downgraded to 'IND A-' from 'IND A+'; maintained on RWE
- INR490m term loan: downgraded to 'IND A-' from 'IND A+'; maintained on RWE
- INR7,520m fund- and non-fund-based working capital limits: downgraded to 'IND A-' from 'IND A+' and to 'IND A1' from 'IND A1+'; maintained on RWE
- INR5,000m NCD programme: downgraded to 'IND A-' from 'IND A+'; maintained on RWE
- INR2,470m commercial paper (reduced from INR5,000m, within working capital limits): downgraded to 'IND A1' from 'IND A1+' maintained on RWE

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating Outstanding

(As on 18/Jul/2016)

Long Term Issuer Rating	IND A- / Rating Watch Evolving	
Commercial Paper	IND A1 / Rating Watch Evolving	INR 2470 m
Fund/Non-Fund Based Working Capital Limit	IND A- / Rating Watch Evolving	INR 7520 m
Fund/Non-Fund Based Working Capital Limit	IND A1 / Rating Watch Evolving	INR 7520 m
Non Convertible Debenture	IND A- / Rating Watch Evolving	INR 5000 m
Term loan	IND A- / Rating Watch Evolving	INR 490 m

Applicable Criteria

Corporate Rating Methodology

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