International Paper APPM Limited

June 07, 2019

Ratings

Facilities	Amount (Rs. crore)	@Rating[1]	Rating Action
Long term Bank Facilities	30.00	**CARE AA (SO); (Double A [Structured Obligation]) (Credit watch with developing implications)**	Placed on credit watch with developing implications
Short term Bank Facilities	50.00	**CARE A1+(SO); (A One Plus [Structured Obligation]) (Credit watch with developing implications)**	Placed on credit watch with developing implications
Total	**80.00 (Rs. Eighty crore only)**		

Details of instruments/facilities in Annexure-1

@ The above ratings are based on credit enhancement in the form of Letter of Comfort extended by International Paper Company, USA (IPC) to the bank facilities of International Paper APPM Limited

CARE has placed the ratings assigned to the bank facilities of International Paper APPM Limited (IPAPPM) on 'Credit watch with developing implications' following proposed sale of International Paper Co.'s controlling stake in IPAPPM to West Coast Paper Mills Limited.

CARE is in the process of evaluating the impact of the above developments on the credit quality of IPAPPM and would take a view on the rating when the exact implications of the above are clear.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of International Paper APPM Limited (IPAPPM) factor in improved operational and financial performance resulting in improved Capacity Utilization (CU) levels resulting in increase in income and profits with improved profitability margins during FY18 (refers to the period April 01 to March 31) and H1FY19 (refers to the period April 01 to September 30) and improved capital structure along with other debt coverage indicators as on March 31, 2018 and September 30, 2018 on account of prepayment of term loans. The ratings continue to derive strength from IPC's established global presence and expertise in the industry and its strong financial position, long-standing track record of IPAPPM in the Indian paper industry characterized by a diversified product-mix and other initiatives ensuring raw material self-sufficiency. The ratings are, however, tempered by volatile input prices faced by the industry and cyclical nature of the pulp and paper industry. The ability of the company to further improve its financial performance and manage the volatility in input prices amidst intense competition in the industry are the key rating sensitivities.

Further, CARE has withdrawn the rating assigned to the term loans of IPAPPM with immediate effect, as the company has repaid the aforementioned term loan in full and there is no amount outstanding under the loan as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance of IPAPPM during FY18: The capacity utilisation for finished paper production improved to 95% in FY18 (90% in FY17) on account of enhanced productivity and overall machine efficiency (OME).The production volume increased by 6% to 2,28,900 MT in FY18 from 2,15,743 MT in FY17.

Improvement in total operating income, profits and margins during FY18 and H1FY19: The total operating income of IPAPPM improved by 7.65% in FY18 on account of increase in price realization and sale volume of paper. The PBLIDT level and margin, improved by about 31% and 319 bps respectively in FY18 over FY17 on account of reduced input cost (along with savings on power consumption) and overhead reduction. Further, the PAT level improved by about 156% in FY18 on account lower capital charges during FY18. Further during H1FY19, the total operating income of the company improved by 13% to Rs. 681.36 crore during the half year. The company's PBILDT margin improved by 925 bps in H1FY19 (to 24.41%) in comparison to H1FY18 at the back of better operational efficiencies, favourable selling prices supported by lower cost of raw material consumed and other operational costs. PAT margin of the company improved by 713 bps in H1FY19 (12.08%) in comparison to H1FY18 (4.95%) on account of lower interest charges. As per published FY19 financials, the company has recorded total income of Rs. 1441.92 crore with a PAT of Rs. 200.08 crore.

Improved capital structure and debt coverage indicators: The overall gearing ratio of the company has remained comfortable and further improved to 0.40x as on March 31, 2018 vis-à-vis 0.81x as on March 31, 2017 at the back of

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

decrease in debt levels owing to repayment of term loan along with plough back of profits to reserves. Overall gearing further improved to 0.13x as on September 30, 2018. The interest coverage of the company has also improved from 5.21x in FY17 to 8.77x in FY18 on account of improvement in PBILDT level and decrease in finance expenses. Further Interest coverage improved significantly during H1FY19 to 27.49x vis-à-vis 6.78x in H1FY18 led by lower interest cost and improved PBILDT level.

Strong credit profile of IPC: Incorporated in 1941, IPC is a global paper and packaging company that is complemented by an extensive North American merchant distribution system, with primary markets and manufacturing operations in North America, Europe, Latin America, Russia, Asia, Africa and the Middle East. In the United States, as on December 31, 2018, the Company operated 27 pulp, paper and packaging mills, 166 converting and packaging plants, 16 recycling plants and three bag facilities. Production facilities as on December 31, 2018 in Canada, Europe, Asia, Africa, India and Latin America included 16 pulp, paper and packaging mills, 43 converting and packaging plants, and two recycling plants. As on December 31, 2017, IPC also owns/manages approximately 329,000 acres of forestland in Brazil and has through licenses and forest management agreement, harvesting rights on government-owned forest lands in Russia. The net sales of IPC for the year ended Dec. 31, 2017 (CY17) was $21,743 million with PAT of $2144 million as against net sales of $19,495 million with PAT of $904 million in CY16.

Key Rating Weaknesses

Volatility in input prices: Prices of hardwood and wastepaper are highly volatile in nature and in turn affect the profitability of the companies in the paper industry. The price of raw materials cost of waste paper increased by 4%, the same was offset by reduced raw material price of hardwood by 7% in FY18. This has eased pressure on the availability of raw material and subsequently on the raw material prices and resulting in improved margins.

Cyclical nature of the paper and pulp industry: The paper industry has a positive correlation to economic development and lower GDP growth could affect business fortunes of the players in the industry. The demand for paper in India depends upon government spending on literacy and general economic activity in the country (primarily white collar job growth rate). However, IPAPPM derives its revenue from sale of paper and has de-risked its business by being an integrated manufacturer.

Moderate industry prospects: The overall paper demand growing at a CAGR of 6.7% to touch 20.7 million tonnes in FY20. Tight markets, low Chinese pulp inventories, lack of supply coming to the market, and healthy demand are the primary factors that provide an upside to the prices in 2018. The waste paper prices, however, may fluctuate on account of volatility in international waste paper prices, healthy demand, and forex fluctuations.

Analytical approach: The rating of IPAPPM is based on credit enhancement in the form of letter of comfort extended by International Paper Company (IPC).

Applicable Criteria

Criteria for placing rating on credit watch
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial Ratios - Non-Financial Sector

About the Company

International Paper APPM Ltd. (formerly known as The Andhra Pradesh Paper Mills Ltd.) was incorporated in 1964 at Rajahmundry in Andhra Pradesh for manufacturing of paper by L.N. Bangur group. The total installed capacity for the manufacturing of the paper is 241,000 Metric Tonnes Per Annum (MTPA). The company produces a range of premium grade writing, printing, copier and industrial papers for domestic and export markets. The manufacturing facilities comprise two mills at Rajahmundry and Kadiyam, both located in East Godavari, and a conversion center at SN Palem in Krishna District, all located in the state of Andhra Pradesh.

IP Holding Asia Singapore Pte Ltd, a subsidiary of International Paper Company (IPC), USA, held 75% of the equity stake in IPAPPM. Later, International Paper Investments (Luxembourg) S.a.r.l. (54.96%) and IPC International Holdings Inc (20.04%), also subsidiaries of International Paper Company (IPC), USA, have acquired the entire 75% stake.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1177.69	1267.83
PBILDT	175.03	228.82
PAT	32.40	83.07
Overall gearing (times)	0.81	0.40
Interest coverage (times)	5.21	8.77

A: Audited;

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 - ST-BG/LC	-	-	-	50.00	CARE A1+ (SO) (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE AA (SO) (Under Credit watch with Developing 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 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 - ST-BG/LC	ST	50.00	CARE A1+ (SO) (Under Credit watch with Developing Implications)	-	1)CARE A1+ (SO) (09-Nov-18)	1)CARE A1+ (SO) (03-Oct-17)	1)CARE A1+ (SO) (11-Jan-17) 2)CARE A1+ (SO) (07-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	30.00	CARE AA (SO) (Under Credit watch with Developing Implications)	-	1)CARE AA (SO); Stable (09-Nov-18)	1)CARE AA (SO); Stable (03-Oct-17)	1)CARE AA (SO); Stable (11-Jan-17) 2)CARE AA (SO) (07-Oct-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (09-Nov-18)	1)CARE AA- (SO); Stable (03-Oct-17)	1)CARE AA- (SO); Stable (11-Jan-17)

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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About CARE Ratings:
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