Andhra Paper Limited

January 03, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	160.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Long-term / Short-term bank facilities	45.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Revised from CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)
Total bank facilities	**205.00 (₹ Two hundred five crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Andhra Paper Limited (APL) takes into account the considerable improvement in the performance of the company during FY22 along with robust H1FY23 financial performance and positive industry outlook in the near term. The ratings continue to derive strength from experienced and common promoters for APL and West Coast Paper Mills Ltd (WCPM; holding company of APL), with long-standing track record in the Indian paper industry with integrated nature of operations and well-established distribution network and other initiatives taken by the management ensuring raw material self-sufficiency. The ratings factor the comfortable capital structure and strong liquidity profile with availability of surplus liquid investments amidst low debt levels and cushion in the fund-based working capital limits utilisation. The ratings are, however, constrained by the cyclicality attached to broader economy. Also, given the company's latest capex plans, which is around ₹450 crore (41% of FY22 net worth), ratings are strained by the associated project risks like cost overruns, failure to achieve anticipated sales from the project and unanticipated delay in execution.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant increase in the scale of operation with the total operating income (TOI) increasing by 10%-15% Y-o-Y while maintaining a PBILDT margin of minimum 25% on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing beyond 0.50x.
- Decrease in PBILDT margin below 8% in future years.
- Failure to complete the project within the stipulated time resulting in a material cost overrun.

Detailed description of the key rating drivers

Key rating strengths

Long-standing presence in the Indian paper industry with integrated nature of operations: APL (erstwhile known as International Paper APPM Ltd. and The Andhra Pradesh Paper Mills Ltd.) was incorporated in 1964 by L.N. Bangur group at Rajahmundry in Andhra Pradesh for the manufacturing of paper. The total installed capacity for the manufacturing of paper is 248,000 Metric Tonnes Per Annum (MTPA). APL has been operational for over five decades and is one of the prominent players in the Indian paper industry. The company's Rajahmundry unit is an integrated wood-based paper mill with a rated capacity to produce 177,000 MT of finished paper and 191,000 MT of bleached pulp annually. The unit manufactures uncoated writing and printing paper - mainly cut-sizes, industrial grade papers and posters using Casuarina, Eucalyptus and Subabul as main sources of pulp wood. The Kadiyam unit has a rated capacity to produce 71,000 MT per annum of finished paper, such as cream woven, azure laid, coloured cut-sizes and industrial grade papers using recycled fibre and purchased pulp as base raw materials. In terms of power consumption, for the Rajamundry unit, the company mainly sources power from its captive 34-MW coal powered steam turbine and balance from the grid. For the Kadayam unit, power is sourced from 5.74-MW coal-fired boiler, from grid and also through DG set. The company salvages the residual lignin in wood in its pulping process to fire the boiler and hence uses every part of the wood. The company achieved coal savings by using bark as a fuel in coal fired boiler. For the coal

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

requirement, the company has coal linkages in place from Mahanadi Coal Fields and Singareni Collieries Company Ltd. Any steep fluctuations in the coal prices might have an impact on the operational cost of the company.

Experienced promoters with significant experience in the Indian paper industry: The management of APL is well qualified with significant experience in the industry. By virtue of its long presence in the industry, the company has an established and qualified team of professionals at various levels to ably handle the day-to-day operations of the company. West Coast Paper Mills Limited (WCPM) had acquired 72.20% of equity stake in APL for a consideration of ₹911.09 crore during FY19. West Coast Paper Mills Limited (WCPM) was established in the year 1955 and is the flagship company of the Kolkata-based SK Bangur Group. The company is engaged in manufacturing writing and printing papers, cup stock paper board, optic fibre cable, etc, and has an installed paper manufacturing capacity of 3.20 lakh metric tonne per annum at its manufacturing plant located in Dandeli, Karnataka. The company is backward integrated with 2.47 lakh metric tonne per annum in house pulp production capacity and 1.75 MW of captive power plants. WCPM sells its products across India through its dealer network. Apart from above, WCPM and APL share common promoters-cum-management, and the treasury functions for both the entities are centralised.

Considerable improvement in performance for the period FY22 and H1FY23: The operational performance improved significantly compared to FY21. The revenue stood at ₹1,366.92 crore in FY22 as compared with ₹879.68 lakh in FY21, registering a robust growth of 55%. The increase was on the back of revival of demand buoyed by reopening of schools and other educational institutions post the pandemic, strong customer focus, cost competitiveness, optimisation of machines and operational efficiencies, which increased the production, coupled with an excellent serviceability. Export sales, though are less than 20% of the total sales, have doubled in FY22. Value-added products like the cup stock, pharma print sales increased 38% and 110%, respectively, in FY22. In H1FY23, the revenue increased 52% to ₹958 crore as compared with H1FY22, mainly on account of higher price realisations. The improvement in realisation is mostly driven by shortage of wastepaper and increased demand.
The capacity utilisations was also significantly higher than the previous year at 95% (PY: 66%). The company has been taking consistent efforts in improving pulp productivity and overall paper machine efficiency (OME). APL makes its entire sales through distributors and has a strong distribution network with more than 50 distributors.

Comfortable financial risk profile marked by comfortable capital structure and debt coverage indicators along with satisfactory operating cycle: The capital structure of APL continues to remain comfortable with overall gearing of 0.05x as on March 31, 2022 (0.05x as on March 31, 2021). The debt structure as on March 31, 2022, comprised working capital borrowings (69%), finance lease liability (18%) and sales tax deferral loan (13%), which is an interest free loan availed by the company from the Government of Andhra Pradesh. The debt coverage ratios improved substantially due to higher profits and cash accruals, the interest coverage ratio and total debt/gross cash accruals (GCA) stood comfortable at 56.57x (PY-16.57x) and 0.29x (PY-0.71x), respectively, during FY22.
The company has a favourable working capital cycle. The inventory holding days reduced from 85 days in FY21 to 49 days in FY22 due to higher cost of sales resulting from increased activity levels. The operating cycle stood comfortable at 27 days in FY22 (PY-52 days) on account of the same.

Key rating weaknesses
Volatility in raw material prices and the company's efforts to ensure raw material availability: Hardwood and wastepaper are the major raw materials used by APL for manufacturing of paper. Hardwood is used at the company's Rajamundry unit, while the Kadayam unit mainly uses wastepaper and purchased pulp. The wood pulp costs maintained at the FY21 levels at ₹3,836 in FY22 (FY21: ₹3,857). APL has implemented a farm-forestry strategy that collaborates with private nurseries and research organisations, develops free saplings in partnership with farmers to sustain 100% consistent supply of company's fibre needs with a long-term vision to bring down haulage radius within 150 km from mills in the state of Andhra Pradesh. The prices of hardwood and wastepaper are generally highly volatile in nature and given that they are not the major raw material source for APL, their prices do not affect the profits materially. The average price of wastepaper increased by 48% to ₹25,607/MT during FY22 as against ₹17,245/MT in FY21. Wastepaper has shot up significantly in the recent past led by lower collections due to the pandemic.

Risks associated with the planned capex: The company has plans to rebuild and upgrade of existing Pulp and Recovery Island from 550 TPD to 630 TPD and to improve the reliability and efficiency of the mill with a capital outlay of approximately ₹450 crore. The existing pulp mill in APL was commissioned during the year 2006 with an installed capacity of 550 TPD (Bleached Pulp Ton Per Day) pulp production. Current pulp production is insufficient to meet the pulp requirement for both the units and partial requirement of the Kadiyam unit is catered through recycled fibre and purchased pulp.

Both Rajahmundry and Kadiyam units has the potential to enhance the paper production from 2.4 lakh MTPA to 2.7 lakh MTPA to fetch an additional paper volume with a small modification. Availability of pulp is becoming a major constraint in increasing the paper production. In order to cater the pulp for future demands for both mills, the company is planning to commission the said plant.
Out of the total estimated cost of ₹450 crore for the pulp mill project, ₹86.22 crore has to be spent towards improving reliability /repair of the existing equipment in order to sustain to current capacity level and rest of the cost to be spent towards increase in efficiencies and capacity upgrade. With the incremental pulp, APL can overcome the machine downtime because of pulp shortage and subsequently production loss will be avoided. The company is envisaging to complete the project by April 2024. The project has achieved financial closure from IDBI Bank and Axis Bank to the extent of ~₹200 crore, and the same is expected to avail during FY24. With the aforementioned capex, the capacity is expected to increase from existing of 2.4 lakh MT P.A to 2.70 lakh MT P.A.
Though the company has adequate experience in the paper manufacturing field and has enough liquidity combined with external debt to fund the same, the inherent risks associated with the capex like timely completion with no major cost overruns, and ability to achieve the anticipated capacity remain.

Liquidity: Strong

The liquidity is marked by strong accruals against negligible repayment obligations. The company has planned for expansion amounting to ₹450 crore (41% of FY22 net worth) and expects to fund the same through debt of ₹200 crore and the remaining through internal accruals. The company does generate sufficient cash accruals to fund the additional debt repayments (total debt to GCA in FY24 to be 0.65x) and the interest coverage ratios are expected to be comfortable at FY26 and over 10x during going forward. In near-medium term, the company's accruals and its unutilised bank lines are expected to be more than adequate to meet any incremental working capital needs. Average working capital utilisation was 20% for the last 12 months ended in October 2022. Furthermore, the company had positive cash flow from operations amounting to ₹92.18 crore, combined with adequate cash and bank balances to the tune of ₹35.35 crore and investments amounting to ₹734 crore as on as on November 30, 2022.

Analytical approach: Standalone.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Paper Industry
Policy on Withdrawal of Ratings

About the company

Andhra Paper Limited (APL) was incorporated in 1964 by the L.N. Bangur group as 'The Andhra Pradesh Paper Mills Ltd (APPM)' in Andhra Pradesh for manufacturing of paper. During 2011, International Paper Company, through its subsidiary, acquired a controlling stake of 75% in APPM, and subsequently in 2014-15, the name of APPM was changed to International Paper APPM Ltd. Thereafter, during 2019, West Coast Paper Mills Limited (WCPM), the flagship company of Kolkata-based SK Bangur Group acquired 72.20% stake in International Paper APPM Ltd. Subsequent to this acquisition, the company's name was changed to the current nomenclature.

APL is engaged in the manufacturing of writing, printing and cut-size papers for foreign and domestic markets and offers a wide range of high-quality specialty grade products for a diverse range of applications. The papers are available in best-in class brightness and produced with elemental chlorine free (ECF) pulp technology. The manufacturing facilities of APL comprise two mills located at Rajahmundry and Kadiyam, both in East Godavari district, and a conversion centre at SN Palem in Krishna District, all units are located in the state of Andhra Pradesh. The total installed capacity for the manufacturing of the paper is 248,000 Metric Tonnes Per Annum (MTPA) as on March 2021. The company is planning to expand its capacity to 2.7 lakh MTPA by April 2024.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1 FY23 (UA)	Q3 FY23 (UA)
TOI	900.44	1,409.04	958.55	NA
PBILDT	74.77	252.80	291.21	NA
PAT	-4.60	139.73	198.38	NA
Overall gearing (times)	0.04	0.05	NA	NA
Interest coverage (times)	16.57	56.57	122.78	NA

A - Audited; UA – Unaudited; NA - Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	160.00	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	45.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (20-Dec-19) 2)CARE A1+ (SO) (CW with Developing Implications) (07-Jun-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (20-Dec-19) 2)CARE AA (SO) (CW with Developing Implications) (07-Jun-19)

3	Fund-based - LT-Cash Credit	LT	160.00	CARE AA; Stable	-	1)CARE AA-; Stable (10-Nov-21)	1)CARE AA-; Stable (04-Dec-20)	1)CARE AA-; Stable (20-Dec-19)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	45.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (10-Nov-21)	1)CARE AA-; Stable / CARE A1+ (04-Dec-20)	1)CARE AA-; Stable / CARE A1+ (20-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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