

Andhra Paper Limited (Revised)

November 10, 2021

Ratings

Facilities/Instruments	Amount (Rs. Crore)	Rating ^[1]	Rating Action
Long-term Bank Facilities	160.00 (Enhanced from 10.00)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	45.00	CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	205.00 (Rs. Two hundred five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Andhra Paper Limited (APL) continue to derive strength from experienced promoters, 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 against low debt levels and cushion in the fund-based working capital limits utilisation. The ratings also take into cognizance of the considerable improvement in the performance of the company during Q1FY22 (refers to the period April 01 to June 30) with demand picking up slowly through the quarters. The ratings are, however, constrained by significant moderation in the total operating income and profitability during FY21 (refers to the period April 01 to March 31) due to adverse impact of Covid-19 pandemic leading to decline in sales volume and sales realisation of its paper products. The ratings continue to remain constrained by exposure to volatility in raw material prices and cyclicity attached to the paper industry. The uncertainty with respect to timing of the improvement in demand remains although it is expected to improve going forward on the back of ongoing vaccination program and people adapting to Covid-19 norms and environment, which could aid the gradual opening of offices and educational institutions.

Key Rating Sensitivities**Positive Factors- Factors that could lead to positive rating action/upgrade**

- Significant increase in the scale of operation with TOI increasing to Rs.2,500 crore and above while maintaining a PBILDT margin of minimum 25% on 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.

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

Detailed description of the key rating drivers

Key Rating Strengths

Long-standing presence in the Indian Paper Industry with integrated nature of operations

Andhra Paper Limited (erstwhile known as International Paper APPM Ltd. and The Andhra Pradesh Paper Mills Ltd.) was incorporated in 1964 at Rajahmundry in Andhra Pradesh for the manufacturing of paper by the L.N. Bangur group. The total installed capacity for the manufacturing of the 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, colored 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 requirement, the company has coal linkages in place from Mahanadi Coal Fields and Singareni Collieries Company Ltd. Any steep fluctuations in the coal prices may 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 Rs.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 the manufacturing of writing and printing papers, cup stock paper board, optic fibre cable, etc., and has an installed paper manufacturing capacity of 3.20 lakhs 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.

Comfortable financial risk profile marked by comfortable capital structure and debt coverage indicators along with satisfactory operating cycle

Capital structure of APL continues to remain comfortable with overall gearing of 0.04x as on March 31, 2021 (0.03x as on March 31, 2020). The debt structure as on March 31, 2021, consisted of working capital

borrowings (50%), finance lease liability (30%) and sales tax deferral loan (20%) which is an interest-free loan availed by the company from the Government of Andhra Pradesh.

Although the debt coverage indicators have moderated during FY21 due to significant decline in profitability and cash accruals, the interest coverage ratio and total debt/GCA stood comfortable at 16.57x (PY-59.44x) and 0.71x (PY-0.11x), respectively, during FY21.

The company has a favourable working capital cycle. Although the inventory holding days increased, the operating cycle stood comfortable at 53 days in FY21 (PY-32 days) on account of comfortable collection days and creditor days which stood at 24 days and 57 days in FY21 vis-à-vis 16 days and 56 days, respectively, in FY20.

Key Rating Weaknesses

Subdued performance in FY21 albeit improvement in Q1FY22

Operational performance of the company was weak during FY21 with the capacity utilisation (CU) moderating to 66% vis-à-vis 92% during FY20. The demand contraction coupled with operational constraints in operating the production facilities due to Covid -19 restrictions led to significant drop in capacity utilisation. The demand contraction and the supply overhang led to substantial decline in the price in the first three quarters, before it picked up in Q4FY21.

With the demand picking up significantly, the production facilities operated at 100% and 95% capacity during Q4FY21 and Q1FY22, respectively. The average sales realisations have also improved during Q1FY22. 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.

Moderation in total operating income (TOI) and profitability during FY21 albeit improvement in Q1FY22

During FY21, the revenue from operations was Rs.900.44 crore, a decrease of 30% compared with Rs.1,281.98 crore of previous year. The significant fall in revenue was on account of decrease in sales volume (by 18%) which got impacted due to sluggish economic activities because of Covid 19 and lower price realisation (decline by 15%). The PBILDT was Rs.74.77 crore during FY21 vis-à-vis Rs.316.50 crore during FY20, a decrease of 76%. The company reported a net loss of Rs.4.60 crore during FY21 compared with a net profit of Rs.212.92 crore during FY20. Consequently, the PBILDT margin stood at 8.30% during FY21 (PY-24.69%).

However, during Q1FY22, the company was able to register a TOI of Rs.270.55 crore as against Rs.124.08 crore during Q1FY21, a growth of over 118%. The growth is attributable to increasing economic activities with demand picking up slowly through the quarters coupled with improvement in realisation which is mostly driven by international paper pulp prices.

Volatility in raw material prices

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 total raw material consumption cost declined significantly during FY21. Prices of hardwood and

wastepaper are highly volatile in nature and in turn affect the profitability of the companies in the paper industry. The average price of wastepaper and hardwood declined by 6% each to Rs.17,245/MT and 3857/MT during FY21 as against Rs.18,382/MT and 4083/MT, respectively, during FY20.

Significant impact of the pandemic on the paper industry; however, demand expected to improve going forward

The paper industry is one of the worst-affected industries due to the outbreak of Covid-19 pandemic. The lockdown imposed in the last week of March 2020 resulted in closure of operations of paper industry in the initial phase. Even while paper industry's operations resumed with reduced capacities as restrictions eased, challenges remained in terms of logistics disruption and migration of labour. In addition to this, subdued demand from consumers due to shut down of educational establishments, offices, etc., and adoption of work-from-home (WFH) practice also impacted sales. The overall Wholesale Price Index (WPI) of paper and paper products segment declined by 2.1% y-o-y in the June 2020 quarter. The September 2020 quarter and the December 2020 quarter, however, saw some impact of easing of lockdown restrictions. With unlocking of economy, some workplaces had resumed work from office (though at reduced capacities and in a gradual way) which aided the revenues of paper industry's printing and writing segment. Another major consumer of printing and writing segment, education institutions like schools and coaching centres that had remained physically shut till September 2020 since lockdown was lifted from October 2020 onwards in a phased manner with states being given the authority. This, in turn, supported the industry's revenues in the December 2020 quarter. As a result, the y-o-y fall in sales narrowed down for the overall paper and paper products industry from 49.8% in the June 2020 quarter to 26.8% in the September 2020 quarter and 18.5% in the December 2020 quarter. The subdued demand also had an impact on prices of paper and paper products which further affected the revenues and profitability of the industry during the period April-December 2020.

With the ongoing vaccination program in India and abroad and with people now adapting to Covid-19 norms and environment, it is expected that the sales of paper and paper products industry will witness an uptick during FY22 on y-o-y basis backed by better paper demand and increase in its prices. The education institutions are likely to begin physically at least for higher class students if not for all the students. This is expected to result in better demand for papers like printing and writing that find their usage in education institutions and offices. In addition to this, more employees are expected to work from office going forward. Considering these factors, the demand for paper and paper products is expected to improve. The paper industry is also likely to see further price increases during FY22 on account of returning demand and higher input prices.

Liquidity: Strong

Liquidity is marked by strong accruals against negligible repayment obligations. The company does not have any major capex plans in near-medium term and its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next few years. Average working capital utilisation was 45% for the

last twelve months ended in August 2021. Furthermore, the company had positive cash flow from operations amounting to Rs.92.18 crore and liquid funds to the tune of Rs.190.52 crore as on as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

[Rating methodology – Paper Industry](#)

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 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.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,281.98	900.44	629.20
PBILDT	316.50	74.77	98.54
PAT	212.92	-4.60	45.01
Overall gearing (times)	0.03	0.04	-
Interest coverage (times)	59.44	16.57	46.70

A: Audited UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Annexure 2

Covenants of rated instrument / facility: 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 / Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (20-Dec-19)2)CARE A1+ (SO) (CWD) (07-Jun-19)	1)CARE A1+ (SO) (09-Nov-18)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (20-Dec-19)2)CARE AA (SO) (CWD) (07-Jun-19)	1)CARE AA (SO); Stable (09-Nov-18)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (09-Nov-18)
4	Fund-based - LT-Cash Credit	LT	160.00	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Dec-20)	1)CARE AA-; Stable (20-Dec-19)	-
5	Non-fund-based - LT/ST-BG/LC	LT/ST	45.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (04-Dec-20)	1)CARE AA-; Stable / CARE A1+ (20-Dec-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : Not Applicable
Annexure 4: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: CARE Ratings 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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