Andhra Paper Limited

December 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	91.00 (Reduced from 160.00)	CARE AA; Stable	Reaffirmed
Long-term/short-term bank facilities	35.00 (Reduced from 45.00)	CARE AA; Stable/CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings of the bank facilities of Andhra Paper Limited (APL) continues to factor in the significant improvement in its financial performance during FY23 and H1FY24. The ratings continue to derive strength from the experienced and common promoters for APL and West Coast Paper Mills Limited (WCPM; holding company of APL), with a longstanding track record in the Indian paper industry with integrated nature of operations and well-established distribution. Furthermore, the ratings factor in APL's comfortable capital structure and strong liquidity profile with the availability of surplus liquid investments amid the low debt levels and cushion in the fund-based working capital limits utilisation.

The ratings are, however, constrained by the cyclicality attached to the paper industry. Also, given the company's latest capex plans, which is around ₹530 crore (33% of the FY23 net worth), the ratings are tempered due to the exposure to project risk.

CARE Ratings Limited (CARE Ratings) notes that both of APL's plants, located in Rajahmundry and Kadiyam, are anticipated to be non-operational for a period ranging from 30-45 days in the fourth quarter of FY24. This downtime is attributed to the company's commitment to integrating recent capital expenditures, specifically focused on processing raw materials and upgrading certain units within the existing facilities. While this event is expected to have an adverse impact on the APL's total operating income (TOI) and profitability for Q4FY24, CARE Ratings anticipates the profit before interest, lease rentals, depreciation and taxation (PBILDT)% to remain robust throughout the first nine months of FY24, allowing for the absorption of the decline during Q4FY24.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in the scale of operations, with the TOI increasing by 10-15% y-o-y while maintaining a PBILDT margin of a minimum of 25% on a sustained basis.
- Improvement in the total debt (TD)/PBILDT below 0.30x.

Negative factors

- Deterioration in the overall gearing beyond 0.50x.
- Deterioration in the TD/PBILDT beyond 1.5x on a sustained basis.
- Failure to complete the project within the stipulated time, resulting in a material cost overruns.

Analytical approach

Standalone, while factoring in the linkages with the parent by way of common management. The treasury functions of WCPM and APL are centralised.

Outlook: Stable

CARE Ratings believes that APL will continue to benefit from the experienced and common promoters for APL and WCPM, with a longstanding track record in the Indian paper industry with the integrated nature of operations and a well-established distribution network, a comfortable capital structure, and strong liquidity profile with the availability of surplus liquid investments.

Detailed description of the key rating drivers

Key strengths

Longstanding industry presence with integrated nature of operations

APL (erstwhile known as International Paper APPM Limited and The Andhra Pradesh Paper Mills Limited) was incorporated in 1964 by the L.N Bangur group at Rajahmundry in Andhra Pradesh for manufacturing paper. The total installed capacity for paper

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

manufacturing is 248,000 metric tonne 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 the main sources of pulp wood. The Kadiyam unit has a rated capacity to produce 71,000 MTPA of finished paper such as cream woven, azure laid, coloured cut-sizes, and industrial grade papers using recycled fibre and purchased pulp the as base raw materials.

In terms of power consumption, for the Rajahmundry unit, the company mainly sources power from its captive 34-megawatt (MW) coal powered steam turbine and the balance from the grid. For the Kadiyam unit, power is sourced from the 5.74-MW coal-fired boiler and the balance from grid. APL salvages the residual lignin in wood in its pulping process to fire the boiler, and hence, uses every part of the wood. The company has achieved coal savings by using bark as a fuel in the coal-fired boiler. For its coal requirements, APL has coal linkages in place with Mahanadi Coal Fields and Singareni Collieries Company Limited. Any steep fluctuations in the prices of coal may have an impact on the operational cost of the company.

Experienced promoters 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. WCPM had acquired 72.20% of equity stake in APL for a consideration of ₹911.09 crore during FY19. 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 cables, etc, and has an installed paper manufacturing capacity of 3.20 lakh MTPA at its manufacturing plant located in Dandeli, Karnataka. The company is backward integrated with a 2.47-lakh MTPA in-house pulp production capacity and 1.75-MW of captive power plants (CPPs). WCPM sells its products across India through its dealer network. This apart, WCPM and APL share common promoters-cum-management, and the treasury functions for both the entities are centralised.

Significant improvement in financial performance in FY23 and H1FY24

The operational performance of APL improved significantly during FY23 compared to FY22. The TOI stood at ₹2,098 crore in FY23 as compared to ₹1,382 crore in FY22, registering a robust growth of around 52%. The increase was on the back of the favourable market conditions and the buoyancy in the paper market throughout the year, driven by higher sales volumes and higher sales price realisations. The higher sales volumes were ably supported by the production vertical, which posted the highest production during the year, with improved performance of pulp mill and recovery operations. The benefits from the above factors were partially neutralised by the considerable increase in the cost of the most input materials such as wood, chemicals, wastepaper, imported pulp, coal.

During FY23, APL was able to use its strength in changing the product mix across machines to meet the need of the hour as per customer preferences, thereby bringing in swinging capability from writing and printing to industrial application products. The PBILDT during FY23 improved significantly to ₹739.03 crore as against ₹226.20 crore during FY22. The profit-after-tax (PAT) during FY23 was ₹522.46 crore as against ₹139.73 crores during FY22, thereby witnessing a multi-fold increase of 274% y-o-y.

However, the projected sales for FY24 are expected to show a decline as compared to FY23, followed by a recovery in FY25 and FY26. This shift is primarily due to the exceptionally high net sales revenue (NSR) observed in FY23. The market experienced an unprecedented surge in NSR during FY23, which has since normalised from Q3FY24. CARE Ratings anticipates that such inflated prices will not persist in the near future, resulting in projected revenues lower than those in FY23, despite an increase in sales quantity. The revenue from operations during H1FY24 stood at ₹959.62 crore (H1FY23: ₹936.64 crore).

CARE Ratings has also observed that both of APL's plants, situated in Rajahmundry and Kadiyam, are anticipated to be non-operational for a period ranging from 30-45 days in Q4FY24. This temporary cessation is attributed to the company's focus on integrating its recent capital expenditures intended for processing raw materials and upgrading certain units alongside the existing ones. Although this development is expected to have an adverse impact on the company's TOI and profitability for Q4FY24, care Ratings anticipates the PBILDT percentage to sustain at healthy levels during 9MFY24, mitigating the impact on the PBILDT% in Q4FY24 for the full year. Furthermore, once executed, this project will result in cost savings and aid in improving the realisations and profitability margins. 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 and satisfactory operating cycle

The capital structure of APL continues to remain comfortable with an overall gearing of 0.03x as on March 31, 2023 (0.05x as on March 31, 2022). The debt structure as on March 31, 2023, comprised working capital borrowings (73%), finance lease liability (15%), and sales tax deferral loans (12%), which is an interest-free loan availed by the company from the Government of Andhra

Pradesh. The debt coverage ratios continue to improve due to higher profits and cash accruals. The interest coverage ratio (ICR) and total debt (TD)/gross cash accruals (GCA) stood comfortable at 146.43x (PY: 50.61x) and 0.10x (PY: 0.29x), respectively, during FY23. The company has a favourable working capital cycle. The operating cycle stood comfortable at 17 days in FY23 (PY: 27 days). Going forward, the TD is expected to increase to around ₹300 crore as on March 31, 2024, and the overall gearing is expected to be at 0.15x, despite which the company will continue to have negative net debt given the substantial cash and liquid investments of ₹1,076.98 crore as on October 31, 2023.

Key weaknesses

Volatility in raw material prices

Hardwood and wastepaper are the major raw materials used by APL for paper manufacturing. Hardwood is used at the company's Rajamundry unit, while the Kadiyam unit mainly uses wastepaper and purchased pulp. The average wood pulp cost rate increased to ₹4,171/MT in FY23 (FY22: ₹3,836). APL has implemented a farm-forestry strategy that collaborates with private nurseries and research organisations and develops free saplings in partnership with farmers to sustain 100% consistent supply of the company's fibre needs with a long-term vision to bring down the haulage radius within 150 km from the mills in Andhra Pradesh. The average price of wastepaper increased by 42% to ₹36,236/MT during FY23 as against ₹25,607/MT in FY22. Wastepaper prices shot up significantly during the past year, led by lower collections due to the pandemic. However, the same has started to normalise and on an average stood at ₹26,111/MT during H1FY24.

Risks associated with the planned capex

The company plans to upgrade the existing pulp and recovery island from 550 bleached pulp tonne per day (BPTPD) to an average of 600 BPTPD bleached pulp production, replace the existing obsolete size press with modern automated film press on RJ5 (paper machine), and upgrade the Kadiyam Paper Machine 3 (KA3) with a combined capital outlay of approximately ₹523 crore. The existing pulp mill in APL was commissioned during the year 2006 with an installed capacity of 550 BPTPD pulp production. The current pulp production is insufficient to meet the pulp requirements for both the units and a partial requirement of the Kadiyam unit is catered through recycled fiber and purchased pulp. Both Rajahmundry and Kadiyam mills have the potential to enhance the paper production to fetch an additional paper volume with a small modification. To cater to the future demand for pulp for both mills, the company has undertaken capex.

The above project cost was envisaged to be funded through term debt of ₹260.00 crore and the balance ₹263.00 crore through internal accruals (debt-to-equity ratio of approximately 1:1). The project has achieved financial closure from IDBI Bank and Axis Bank to the extent of around ₹175 crore each, however, the same was not availed up to October 2023. The project is at an advanced stage and is expected to be commercialised in March 2024. As on October 31, 2023, the company has already incurred around ₹391crores towards the project, which is entirely from internal accruals.

Although APL has adequate experience in the paper manufacturing field and has enough liquidity combined with external debt to fund the same, there exists inherent risks associated with the capex, such as the timely completion with no major cost overruns and the ability to achieve the anticipated capacity remains.

Cyclical industry

The paper industry exhibits cyclical patterns, characterised by inherent fluctuations in the market. Established players in this industry face the challenges of navigating through the volatility in raw material prices and the persistent threat posed by imports. These factors collectively pose a considerable obstacle, potentially hindering companies from effectively passing on the escalated costs of raw materials to consumers.

Liquidity: Strong

The liquidity is marked by strong accruals against negligible repayment obligations. The company has undertaken a capex amounting to ₹523 crore and has envisaged to fund the same through debt of ₹260 crore and the remaining through internal accruals. APL is expected to generate sufficient cash accruals to fund the additional debt repayments and the ICR is expected to be comfortable at over 20x going forward. In the 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. Furthermore, during FY23, the company had net cash flow from operations amounting to ₹500 crore. As on October 31, 2023, APL had combined cash balances and investments to the tune of ₹1,076.98 crore.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

For the paper industry, the main factor of ESG affecting the sector is the environmental factors like deforestation, biodiversity and land use, water stress and emissions. Human capital also is a vital component in the capital-intensive paper industry. Governance remains a universal concept affecting Indian companies across all sectors.

Environment: During FY23, the company has planted 673 lakh saplings to support farm forestry. APL has committed a capex of more than ₹500 crore to revamp and upgrade its plants in order to make them energy-efficient, reduce emissions associated with operations, and reduce waste. The company's farm forestry programme is designed to make them wood positive. The initiative spans approximately over 690,442 acre, offering a vital economic lifeline for 80,683 farmers. The precipitated calcium carbonate (PCC) unit is under construction, wherein Co2 for lime kiln stack flue gas is proposed to be recycled as raw material to produce PCC. It will significantly reduce greenhouse gas emission and is an eco-friendly technology. The company strives to recycle and use a significant amount of water in its manufacturing processes, returning the majority back to the environment following, the treatment using industry best practices. Wastepaper is reused in paper production, which consumes less energy, less water, reduces emission and landfill.

Social: APL has developed comprehensive safety systems with a focus on ensuring employee health and well-being. Along with providing safety training to handle emergencies and prevent incidents at the workplace, APL constantly makes changes to the existing policies and upgrades the safety systems. Some of the initiatives undertaken during the year include 5 minute 5S (programme for maintaining the workplace as clean and safe for working), job safety analysis and communications, and fire safety week celebrations.

Governance: APL board has an appropriate mix of executive, non-executive, and independent directors to maintain its independence and separate its functions of governance and management. As on March 31, 2023, the board comprised 10 members, consisting of one chairman and managing director, one joint managing director, one executive director (whole-time), two non-executive non-independent directors, five non-executive independent directors, including one independent woman director. The independent directors constitute 50% of the board's strength.

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest materials	Paper, forest and jute products	Paper and paper products

APL was incorporated in 1964 by the L.N. Bangur group as The Andhra Pradesh Paper Mills Limited (APPM) in Andhra Pradesh for paper manufacturing. 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 Limited. Thereafter, during 2019, WCPM, the flagship company of the Kolkata-based SK Bangur group acquired 72.20% stake in International Paper APPM Limited. 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 located in Andhra Pradesh. The total installed capacity for paper manufacturing is 248,000 MTPA as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,382.44	2,098.49	959.62
PBILDT	226.20	739.03	286.08
PAT	139.73	522.46	218.86
Overall gearing (times)	0.05	0.03	0.01
Interest coverage (times)	50.61	146.43	104.03

A: Audited; UA: Unaudited. Note: The above results are the latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	91.00	CARE AA; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	35.00	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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	91.00	CARE AA; Stable	-	1)CARE AA; Stable (03-Jan-23)	1)CARE AA-; Stable (10-Nov-21)	1)CARE AA-; Stable (04-Dec-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	35.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (03-Jan-23)	1)CARE AA-; Stable / CARE A1+ (10-Nov-21)	1)CARE AA-; Stable / CARE A1+ (04-Dec-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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About us:

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