Andhra Paper Limited

May 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	91.00	CARE AA; Stable	Reaffirmed and removed from Rating Watch with Developing Implications ; Stable outlook assigned
Long Term / Short Term Bank Facilities	35.00	CARE AA; Stable / CARE A1+	Reaffirmed and removed from Rating Watch with Developing Implications ; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to the bank facilities of Andhra Paper Limited (APL) are removed from 'rating watch with developing implications' (RWD). Earlier, the ratings of APL were placed on RWD following the company's announcement on April 16, 2024 that the operations of the manufacturing plant situated at Kadiyam unit has been shut down on April 15, 2024 owing to non-availability of pulp from manufacturing unit at Rajahmundry where the strike by workmen called by workers union was continuing since April 02, 2024. However, the company has announced on April 26, 2024 that the management has withdrawn lockout at the company's manufacturing unit at Rajahmundry with effect from April 25, 2024 and the workers have also started reporting to work as per shift schedules. Consequently, the Kadiyam unit has also resumed its manufacturing activities with pulp supply now restored. CARE Ratings Limited (CARE Ratings) acknowledging the above fact has removed the ratings from RWD.

Ratings assigned to bank facilities of APL continues to factor in significant improvement in its financial performance in FY23 and 9MFY24. Ratings continue to derive strength from 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. Ratings also factor in APL's comfortable capital structure and strong liquidity profile with availability of surplus liquid investments amid low debt levels and cushion in the fund-based working capital limits utilisation. However, ratings are constrained by cyclicality of the paper industry and raw material price volatility . Given the company's latest capex plans, which is around ₹530 crore (33% of the FY23 net worth), the ratings are further tempered due to project exposure risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly increasing scale of operations, with the total operating income (TOI) increasing by 10-15% y-o-y, while maintaining profit before interest, lease rentals, depreciation, and taxes (PBILDT) margin of a minimum of 25% on a sustained basis.
- Improving total debt to PBILDT (TD/PBILDT) below 0.30x.

Negative factors

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

Analytical approach

Standalone, while factoring in linkages with the parent by way of common management. 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

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

Longstanding industry presence with integrated operations

APL (erstwhile International Paper APPM Limited and The Andhra Pradesh Paper Mills Limited) was incorporated in 1964 by the L.N Bangur group at Rajahmundry, Andhra Pradesh for manufacturing paper. The total installed capacity for paper 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 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 balance from the grid. For the Kadiyam unit, power is sourced from the 5.74-MW coal-fired boiler and balance from the grid. APL salvages 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 the coal-fired boiler. For its coal requirements, APL has coal linkages in place with Mahanadi Coal Fields and Singareni Collieries Company Limited. Steep fluctuations in coal prices may have an impact on the company's operational cost.

Experienced promoters in the Indian paper industry

APL's management 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 its day-to-day operations. WCPM had acquired 72.20% of equity stake in APL for a consideration of ₹911.09 crore in FY19. WCPM was established 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, and optic fibre cables, among others and has an installed paper manufacturing capacity of 3.20 lakh MTPA at its manufacturing plant 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. WCPM and APL also share common promoters-cum-management, and treasury functions for both entities are centralised.

Significant improvement in financial performance in FY23 and 9MFY24

APL's operational performance improved significantly in FY23 compared to FY22. 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 considering favourable market conditions and buoyancy in the paper market throughout the year, driven by higher sales volumes, and higher sales price realisations. Higher sales volumes were ably supported by the production vertical, which posted the highest production in the year, with improved performance of pulp mill and recovery operations. Benefits from these factors were partially neutralised by considerable increase in cost of most input materials such as wood, chemicals, wastepaper, imported pulp, and coal.

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

However, 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 exceptionally high net sales revenue (NSR) observed in FY23. The market experienced an unprecedented surge in NSR in 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. Revenue from operations in H1FY24 stood at ₹959.62 crore (H1FY23: ₹936.64 crore).

CARE Ratings has also observed that both APL plants, situated in Rajahmundry and Kadiyam, are anticipated to be non-operational for 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 with 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 in 9MFY24, mitigating the impact on the PBILDT% in Q4FY24 for the full year. Once executed, this project will result in cost savings and aid in improving 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

APL's capital structure 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. Debt coverage ratios continue to improve due to higher profits and cash accruals. The interest coverage ratio (ICR) and total debt (TD) to gross cash accruals (GCA) stood comfortable at 146.43x (PY: 50.61x) and 0.10x (PY: 0.29x), respectively, in FY23. The company has a favourable working capital cycle. The operating cycle stood comfortable at 17 days in FY23 (PY: 27 days). Going forward, 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

Raw material price volatility

Hardwood and wastepaper are 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 in FY23 as against ₹25,607/MT in FY22. Wastepaper prices shot up significantly in the last year, led by lower collections due to the pandemic. However, this has started to normalise and, on an average, stood at ₹26,111/MT in H1FY24.

Risks associated with 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 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 in 2006 with an installed capacity of 550 BPTPD pulp production. The current pulp production is insufficient to meet pulp requirements for both 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 paper production to fetch additional paper volume with a small modification. The company has undertaken capex to cater to the future demand for pulp for both mills.

This project cost was envisaged to be funded through term debt of ₹260.00 crore and balance ₹263.00 crore through internal accruals (debt-to-equity ratio of approximately 1:1). The project achieved financial closure from IDBI Bank and Axis Bank to the extent of around ₹175 crore each, however, it 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 ₹391crore towards the project, which is entirely from internal accruals.

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

Cyclical industry

The paper industry exhibits cyclical patterns, characterised by inherent fluctuations in the market. Established players in this industry face challenges of navigating through raw material price volatility and persistent threat posed by imports. These factors collectively pose a considerable obstacle, potentially hindering companies from effectively passing on 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 this through debt of ₹260 crore and remaining through internal accruals. APL is expected to generate sufficient cash accruals to fund additional debt repayments and the ICR is expected to be comfortable at over 20x going forward. In the near-to-medium term, the company's accruals and its unutilised bank lines are expected to be more than adequate to meet incremental working capital needs. In 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:

The main factor of ESG affecting the paper industry is the environmental factors such as 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: In 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 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 acres, offering a vital economic lifeline to 80,683 farmers. The precipitated calcium carbonate (PCC) unit is under construction, where CO_2 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 majority back to the environment following the treatment using industry best practices. Wastepaper is reused in paper production, which consumes less energy, less water, and 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 safety systems. Some initiatives undertaken in 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 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. Independent directors constitute 50% of the board's strength.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Paper & Paper Products
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & 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. In 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. In 2019, WCPM, the flagship company of the Kolkata-based SK Bangur group, acquired 72.20% stake in International Paper APPM Limited. Subsequently, the company's name was changed to the current nomenclature.

APL is engaged in manufacturing 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. Papers are available in best-in-class brightness and produced with elemental chlorine-free (ECF) pulp technology. APL's manufacturing facilities comprise two mills at Rajahmundry and Kadiyam, both in East Godavari district, and a conversion centre at SN Palem in Krishna district, all 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)	9MFY24 (UA)
Total operating income	1,382.44	2,098.49	1,436.20
PBILDT	226.20	739.03	395.72
PAT	139.73	522.46	301.32
Overall gearing (times)	0.05	0.03	NA
Interest coverage (times)	50.61	146.43	

A: Audited, UA: Unaudited, NA: Not available; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer 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: 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	91.00	CARE AA; Stable	1)CARE AA (RWD) (25-Apr-24)	1)CARE AA; Stable (21-Dec-23)	1)CARE AA; Stable (03-Jan-23)	1)CARE AA-; Stable (10-Nov-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	35.00	CARE AA; Stable / CARE A1+	1)CARE AA / CARE A1+ (RWD) (25-Apr-24)	1)CARE AA; Stable / CARE A1+ (21-Dec-23)	1)CARE AA; Stable / CARE A1+ (03-Jan-23)	1)CARE AA-; Stable / CARE A1+ (10-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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