Andhra Paper Limited

December 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	71.00 (Reduced from 91.00)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	55.00 (Enhanced from 35.00)	CARE AA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Andhra Paper Limited (APL) 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. Ratings factor in APL's comfortable capital structure and strong liquidity profile with the availability of surplus liquid investments amid low debt levels and cushion in the fund-based working capital limits utilisation.

However, ratings are constrained by decline in total operating income (TOI) and profit before interest, lease liabilities, depreciation and tax (PBILDT) margins in FY24 and H1FY25 owing to extended 41-day planned maintenance shutdown at the end of FY24, which involved rebuilding and upgrading certain units in manufacturing facilities to enhance efficiency and reliability and also due to increase in raw material prices and lower realisations. Ratings are also tempered considering the cyclicality attached to the paper industry and raw material price volatility. Given the company's latest capex plans, which is ~₹790 crore (42% of the FY24 net worth) for upgradation of pulp mill and building tissue paper plant, ratings are tempered due to the exposure to project risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Deterioration in the overall gearing beyond 0.50x.
- Deterioration in the TD/PBILDT beyond 1.50x on a sustained basis.
- Failure to complete the project in the stipulated time, resulting in a material cost overruns.

Analytical approach

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

Outlook: Stable

CARE Ratings believes APL will continue to benefit from the experienced and common promoters for APL and WCPM, longstanding track record in the Indian paper industry with the integrated 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 key rating drivers:

Key strengths

Long standing presence in the Indian paper industry with integrated 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. APL's total installed capacity is 2,55,550 metric tonnes per annum (MTPA) finished paper and 2,00,000 MTPA virgin pulp as on September 30, 2024. 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 1,82,400 MT of finished paper and 2,00,000 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

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

unit has a rated capacity to produce 73,150 MTPA 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 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 6.8-MW coal-fired boiler and balance from grid and also through DG set. 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 with Mahanadi Coal Fields and Singareni Collieries Company Limited. Steep fluctuations in the prices of coal 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. Due to its long presence in the industry, the company has an established and qualified team of professionals at different levels to ably handle the company's day-to-day operations. WCPM had acquired 72.20% equity stake in APL for a consideration of ₹911.09 crore in FY19. WCPM was established in 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 and cables among others, and has an installed paper manufacturing capacity of 3.20 lakh MTPA at its manufacturing plant in Dandeli, Karnataka. WCPM sells its products across India through its dealer network. WCPM and APL share common promoters-cum-management, and the treasury functioning for the entities are centralised.

Comfortable financial risk profile marked by comfortable capital structure and satisfactory operating cycle
APL's capital structure continues to remain comfortable with an overall gearing of 0.06x as on March 31, 2024 (0.03x as on March 31, 2023). The debt structure as on March 31, 2024, comprised term loans (48%) working capital borrowings (44%), finance lease liability (6%), and sales tax deferral loans (2%), which is an interest-free loan availed by the company from the Government of Andhra Pradesh. With availment of term loan and decline in overall profitability in FY24, debt coverage ratios moderated although this remains comfortable. Interest coverage ratio (ICR) and total debt/gross cash accruals (TD/GCA) stood comfortable at 99.37x (PY: 146.43x) and 0.28x (PY: 0.10x), respectively, in FY24. The company has a favourable working capital cycle. Operating cycle stood comfortable at 20 days in FY24 (PY: 17 days). Going forward, the total debt is expected to increase to ~₹300 crore as on March 31, 2025, 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 ~₹1,099 crore as on September 30, 2024.

Key weaknesses

Moderation in financial performance in FY24 and H1FY25
The TOI declined by ~14% in FY24, dropping to ₹1,801 crore compared to ₹2,098 crore in FY23. The PBILDT margin also fell from 35.22% in FY23 to 24.03% in FY24. This decline was primarily due to an extended 41-day planned maintenance shutdown at the end of FY24, which involved rebuilding and upgrading certain units within the manufacturing facilities to enhance efficiency and reliability. Additionally, the company's profitability was adversely impacted by rising costs of raw materials such as pulp, wood, coal, and chemicals, and the volatility in imported materials, reduced production volumes, and lower realisations. FY23 had been an exceptional year with revenue and profitability margins benefiting from an unprecedented surge in net sales revenue (NSR). However, this surge began to normalise from Q3FY24 onwards. As anticipated by CARE Ratings, such inflated prices were not expected to persist, therefore, aligned with FY24 estimates, revenue in FY24 was lower than FY23.
The TOI for H1FY25 declined to ₹748 crore compared to ₹960 crore in H1FY24, while the PBILDT margin dropped to 11.49% from 29.81% in H1FY24. This decline was primarily due to the disruption of operations at the manufacturing plant at Unit: Rajahmundry, caused by a workers' strike organised by the Workers' Trade Unions from April 02, 2024, to April 25, 2024. The strike resulted in an estimated production loss of ₹1.6 crore per day. Additionally, operations at Unit: Kadiyam were also affected due to a shortage of pulp, the primary input sourced from the Rajahmundry unit. Both the units resumed operations once the strike was called off by Rajahmundry unit workers. Therefore, the overall TOI for entire FY25 is expected to be lower than FY24.

Risks associated with the planned capex
Currently, APL is undertaking two major capex projects. The first project is to upgrade the existing pulp and recovery island, replace the existing obsolete size press with modern automated film press and upgrade the Kadiyam paper machine with a combined capital outlay of ~₹520 crore. The above project cost was envisaged to be funded through term debt of ₹260.00 crore and the balance ₹260.00 crore through internal accruals (debt-to-equity ratio of ~1:1). The project has achieved financial closure, and the company has utilised term debt of ~₹202 crore as on September 30, 2024. The project is at an advanced stage and is expected to be completed in March 2025. The company has already undergone 41 day planned maintenance shutdown in Q4FY24 at Rajahmundry plant and 22 day planned maintenance shutdown in Q3FY25 at Kadiyam plant to replace obsolete equipment

and upgrade machinery aligned for rebuilding and upgrading pulp mill. As on September 30, 2024, the company has already incurred ~₹412 crore towards the project, ₹202 crore of term debt and balance ₹210 crore from internal accruals.
The second project is installation of tissue paper plant at Kadiyam with a capacity to produce maximum 129 tons per day with state-of-the art technology to extend product portfolio through production of different grades of tissue paper including facial tissue, toilet tissue, napkin, and towel grade tissue. The proposed capex for this is project is ₹270 crore. The tissue paper machine capacity is proposed at 35,000 TPA. The tissue paper project is expected to be funded through mix of debt and internal accruals. The tissue paper machine is expected to get installed by the end of Q3FY26 and the project is expected to commercialise in Q4FY26.
Although APL has adequate experience in the paper manufacturing field and has enough liquidity combined with external debt to fund this, 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.

Volatility in raw material prices
Hardwood is the major raw material used by APL for paper manufacturing followed by waste paper and imported pulp. 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 for APL increased significantly by ~46% in FY24 compared to FY23 and for H1FY25, this has increased further. However, the average price of wastepaper declined by ~31% in FY24 compared to FY23. The volatility in these raw material prices is an industry scenario and has significantly impacted the PBILDT margins of the industry players in H1FY25.

Liquidity: Strong
APL's liquidity is marked by strong accruals, combined cash balances and investments of ~₹1,099 crore as on September 30, 2024. The company has undertaken a total capital expenditure (capex) of ~₹790 crore, comprising ₹520 crore for upgrading machinery and the pulp mill, and ₹270 crore for a tissue paper plant at Kadiyam. Funding for these projects is planned through a mix of debt and internal accruals, with ₹260 crore and ₹160 crore of debt allocated to the respective projects, while the remaining amounts will be financed 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 10x going forward. In the near-medium term, the company's accruals and unutilised bank lines are expected to be over adequate to meet incremental working capital needs. In FY24, the company had net cash flow from operations amounting to ~₹319 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: In FY24, the company has planted 906 lakh saplings to support farm forestry. APL has committed a capex of over ₹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 ~ 690,442 acre, offering a vital economic lifeline over 86,000 farmers. 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 initiatives undertaken include five 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 November 30, 2024, the board comprised nine members, consisting of one chairman, one managing director, one executive director (whole-time), one non-executive non-independent director, five independent directors, including one independent woman director. The independent directors constitute over 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

Macroeconomic 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. In 2011, International Paper Company, through its subsidiary, acquired a controlling stake of 75% in APPM, and subsequently, in 2014-15, APPM's name 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. Subsequent to this acquisition, the company's name was changed to the current nomenclature. As on September 30, 2024, WCPM holds 72.45% stake in APL.
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 in east Godavari district, and a conversion centre at SN Palem in Krishna district, all in Andhra Pradesh. APL's total installed capacity is 2,55,550 MTPA finished paper and 2,00,000 MTPA virgin pulp as on September 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	2,098.49	1,801.17	748.17
PBILDT	739.03	432.82	85.98
PAT	522.46	339.74	69.41
Overall gearing (times)	0.03	0.06	NA
Interest coverage (times)	146.43	99.37	

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

Status of non-cooperation with previous CRA: Not available

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	71.00	CARE AA; Stable

Non-fund-based - LT/ ST-BG/LC	-	-	-	-	55.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for 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	71.00	CARE AA; Stable	1)CARE AA; Stable (03-May-24) 2)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	55.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (03-May-24) 2)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; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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