Andhra Paper Limited (Erstwhile International Paper Appm Limited)

December 04, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	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	**55.00 (Rupee Fifty 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, well established distribution network and other initiatives ensuring raw material self-sufficiency, satisfactory operational performance in FY20 (refers to the period April 01 to March 31) with improved profitability margins, favorable capital structure with minimal debt and strong debt coverage indicators and healthy liquidity position. The ratings strengths are, however, partially offset by volatile input prices faced by the industry and cyclical nature of the pulp and paper industry.

The ratings also take cognizance of subdued demand post COVID-19 scenario which had a significant impact on the operations and financial performance of the company during H1FY21 along with lukewarm industry growth prospects in the near term.

Rating Sensitivities:

Positive Factors:

- ✓ Notable improvement in scale of operations while sustaining the current level of PBILDT margins and capital structure

Negative Factors:

- × Deterioration in the adjusted gearing (post netting of loans and advances to group entities from net worth) beyond 0.45x, in future.
- × Any significant decline in the liquidity position, going forward.
- × Further deterioration in the operational and financial performance of the company in the coming quarters.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters with significant experience in 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 day to day operations of the company. West Coast Paper Mills Limited (WCPM) had acquired 72.2% 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 Kolkata based SK Bangur Group.

Long standing presence in 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 manufacturing of paper by L.N. Bangur group. The total installed capacity for the manufacturing of the paper is 248,000 Metric Tonnes Per Annum (MTPA). 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 Kadiyam unit has a rated capacity to produce 71,000 MT per annum of finished paper using recycled fibre and pulp from Rajahmundry unit as base raw materials.

The units have been operating at consistently high capacity utilisations over the last few years and have achieved 92% capacity utilisation during FY20. Capacity utilisation however dropped to 40% during H1FY21 on account of lower demand of paper owing to shutdown of schools and colleges with the ongoing pandemic.

Well established distribution network and other initiatives ensuring raw material self-sufficiency

The company has significant presence in the domestic PWP market supported by network of dealers across India. Being one of the prominent players in the domestic paper industry along with long track record, APL has been able to establish strong relationship with its customers. Raw material, namely wood pulp sourced from Andhra Pradesh Agricultural Market

Committee (AP AMC) and from Open Market. The company has captive power plants to meet majority of its power requirement. For Rajahmundry unit power is sourced from the captive 34 MW coal powered steam turbine and for the Kadayam unit, power is sourced from 5.74 MW coal-fired boiler, remaining requirement if any is met from the grid and through DG set. The company has long term coal linkages in place from Mahanadi Coal Fields and Singareni Collieries Company Ltd for supply of coal.

Satisfactory operational performance along with improvement in PAT level during FY20
The operational performance of the company remained satisfactory during FY20 with capacity utilization levels at 92% (96% in FY19). Although, there was a tad moderation in the revenue and PBILDT level, the net profits of the company remained steady with a growth of 6.5% over FY19 backed by lower capital charge. Accordingly, the PAT margin also improved to 16% in FY20 from 13% in FY19.

Favorable capital structure and strong debt coverage indicators
The capital structure of the company continues to remain favorable marked by overall gearing of 0.03x as on March 31, 2020 (0.03x as on March 31, 2019). Overall gearing of the company has been improving y-o-y since March 31, 2016. Strong cash accruals with low debt levels have also resulted in strong debt coverage indicators. Total Debt to GCA stood at 0.11 times for FY20 while PBILDT interest coverage was 59.44 times for FY20. The average working capital utilization was NIL for the last 12 months ended October, 2020.

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 unutilized bank lines are more than adequate to meet its incremental working capital needs over the next few years. Average working capital utilization was NIL for the last twelve months ended in October, 2020. Further, the company had positive cash flow of operations amounting to Rs 174 crore as on March 31, 2020 and liquid funds to the tune of Rs. 158.76 crore as on September 30, 2020. The company has not availed moratorium for debt servicing.

Key Rating Weaknesses
Moderation in total operating income in FY20 and H1FY21
Total Operating Income (TOI) of APL has been increasing y-o-y from FY16-FY19 at CAGR of 5.44%. However, TOI witnessed a y-o-y decline of 10.85% during FY20 due to a twenty five days loss of production in view of scheduled maintenance, also sales in the month of March, 2020 were low on account of COVID. Moreover, during H1FY21, the impact of COVID was significant on the company's operations and demand wherein APL was able to generate a TOI of only Rs.283 crore as against Rs.647 crore during H1FY20. This was primarily on account decrease in demand of P&W (printing & writing) papers from the schools and colleges which continue to remain closed and many offices adopting work from home culture.

Volatility in raw material prices
Hardwood and waste paper 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 used mainly waste paper and purchased pulp. The total raw material consumption cost declined during FY20. The price of waste paper declined by 11% while that of hardwood marginally declined during FY20 by 2% as against FY19.

Cyclical nature of the paper industry
The paper industry has a positive correlation to economic development and lower GDP growth could affect business fortunes of the players in the industry. The demand for paper in India depends upon government spending on literacy and general economic activity in the country (primarily white collar job growth rate). APPM derives its revenue from sale of paper and has de-risked its business by being an integrated manufacturer.

Subdued Industry outlook given significant impact of COVID
The demand-supply situation of paper and paper products industry has been hit hard post COVID scenario. With educational institutions closed and many offices adopting work from home culture, the consumption of P&W (printing & writing) segment remains affected. Though pulp prices have come off their highs and waste paper prices have declined further, the raw material prices are expected to remain stable. However, despite the eased out cost side pressures, the margins of the players are expected to be affected by subdued market conditions, lower realizations of finished goods, imports of finished paper and disruption in supply chain and production due to COVID-19.

Analytical approach: Standalone

Applicable criteria -
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating methodology – Manufacturing Companies]
[Rating methodology – Paper Industry]
[Financial ratios - Non Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Factoring linkages in rating]

About the Company
Andhra Paper Limited (APL) was incorporated in 1964 by 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, the flagship company of Kolkata based SK Bangur Group acquired 72.2% 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 at 248,000 Metric Tonnes Per Annum (MTPA) as of September, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1438.04	1281.98
PBILDT	391.03	316.50
PAT	200.08	212.92
Overall gearing (times)	0.03	0.03
Interest coverage (times)	45.78	59.44

A: Audited

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*

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (20-Dec-19) 2)CARE A1+ (SO) (Under Credit watch with Developing Implications) (07-Jun-19)	1)CARE A1+ (SO) (09-Nov-18)	1)CARE A1+ (SO) (03-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (20-Dec-19) 2)CARE AA (SO) (Under Credit watch with Developing Implications) (07-Jun-19)	1)CARE AA (SO); Stable (09-Nov-18)	1)CARE AA (SO); Stable (03-Oct-17)
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (09-Nov-18)	1)CARE AA- (SO); Stable (03-Oct-17)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA-; Stable	-	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+ (20-Dec-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

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

Sr. No.	Name of the Instrument	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 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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Ms. Nivedita Ghayal
Group Head Contact no. - +91-40-40102030
Group Head Email ID - nivedita.ghayal@careratings.com

Relationship Contact
Name: Ramesh Bob
Contact no. : +91 90520 00521
Email ID: ramesh.bob@careratings.com

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