OCTOBER 07, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF INTERNATIONAL PAPER APPM LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities- Cash Credit	43.00	**CARE AA(SO) (Double A [Structured Obligation])**	**Reaffirmed**
Short-term Bank Facilities	63.50	**CARE A1+(SO) (A One Plus [Structured Obligation])**	**Reaffirmed**
Total Facilitates	**106.50 (Rupees One Hundred Six crore and Fifty lakh only)**		

CARE Ratings uses the EIC (Economy-Industry-Company) approach to assess the overall credit profile of manufacturing companies. Credit analysis of an entity begins with a review of the Economy/Industry risk in which the entity operates along with an assessment of the business risk factors specific to the entity. This is followed by an assessment of the financial risk factors (current and future financial performance) and evaluation of management's strategy/policies and risk appetite. CARE also examines the risk related to any new project implementation, expansions and diversifications undertaken by the company. Furthermore, off-balance sheet exposures are also critically examined in assessing the credit profile of the entity under review.

Rating Rationale

The ratings assigned to the bank facilities of International Paper APPM Limited (IPAPPM) continues to factor in credit enhancement in the form of a letter of comfort extended by International Paper Company (IPC), USA to IPAPPM. The ratings also derives its strength from IPC's established global presence and expertise in the industry and its strong financial position, long-standing track record of IPAPPM in the Indian paper industry characterized by a diversified product-mix, improved operational performance and other initiatives ensuring raw material self-sufficiency. The ratings also factors in improvement in profitability margins albeit marginal decline in operating income during FY16 (refers to the period April 01 to March 31) and improved capital structure as on March 31, 2016. The ratings are, however, constrained by volatile input prices faced by the industry, future capex plans and cyclical nature of the pulp and paper industry.

The ability of the company to further improve its financial performance and manage the volatility in input prices amidst the cyclical nature and intense competition in the industry are the key rating sensitivities.

Background

International Paper APPM Ltd. (formerly known as 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 241,000 Metric Tonnes Per Annum (MTPA). The Company produces a range of premium grade writing, printing, copier and industrial papers for domestic and export markets. The company has two manufacturing facilities located at Rajahmundry and Kadiyam respectively in Andhra Pradesh.

IP Holding Asia Singapore Pte Ltd, a subsidiary of International Paper Company (IPC), USA, has acquired entire stake (53.46%) held by the previous promoters of IPAPPM. In addition, IP Holding Asia Singapore Pte Ltd has acquired an additional 21.5% in IPAPPM in a public tender offer (Open Offer), which was completed in October, 2011. Presently 54.96% stake is held by International Paper Investments Luxembourg, sarl and 20.04% IP International Holdings, Inc. With this, IPC holds 75% of the IPAPPM through its subsidiaries

During FY16, IP APPM registered total operating income of Rs.1163.41 crore (Rs.1166.94 crore in FY15) with PAT of Rs.36.89 crore (Rs.0.25 crore in FY15). Furthermore, during Q1FY17 (UA), the company registered total operating income of Rs.300.74 crore with PAT of Rs.15.38 crore.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Analyst Contact
Name: Ms Radhika Ramabhadran
Tel: 040- 6900-0516
Cell: + 91 8008883012
Email: radhika.ramabhadran@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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