

International Paper APPM Limited

January 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities- Term Loan	70.00	CARE AA-(SO); Stable [Double A Minus (Structured Obligation); Outlook: Stable]	Assigned
Long-term Bank Facilities- Cash Credit	43.00	CARE AA(SO); Stable [Double A (Structured Obligation); Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	63.50	CARE A1+(SO) [A One Plus (Structured Obligation)]	Reaffirmed
Total Facilities@	176.50 (Rupees One Hundred Seventy Six crore and Fifty lakh only)		

@ The facilities are backed by credit enhancement in the form of Letter of Comforts provided by International Paper Company, USA

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of International Paper APPM Limited (IPAPPM) continue to factor in the credit enhancement in the form of Letter of Comforts (LOC) extended by International Paper Company (IPC), USA to IPAPPM. The ratings also derive 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 factor 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 intense competition in the industry are the key rating sensitivities.

Detailed description of the key rating drivers

International Paper Company (IPC), USA continues to own 75% stake in IPAPPM. The company has established global presence and expertise in the industry and strong financial position. The net sales of IPC for the year ended December 31, 2015 (CY15) was USD 22365 Million with PAT of USD 938 Million.

Operational performance of IPAPPM improved during FY16 with a capacity utilisation of over 90% for finished paper production.

The total operating income of IPAPPM declined by 0.30% to Rs.1163 crore in FY16 as market demand for uncoated free sheet (UFS) paper remained soft during most part of the year. However, the profit margins improved during the year. Prices of hardwood and wastepaper are highly volatile in nature and in turn affect the profitability of the companies in the paper industry.

The capital structure improved during the year with an overall gearing ratio of 1.2x as on March 31, 2016. The debt coverage indicators also improved during the year. Furthermore, the company has future capex plans which are expected to be funded through debt as well as internal accruals.

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

Analytical approach: CARE has analyzed the standalone performance of IPAPPM and has factored in the credit enhancement in the form of Letter of Comfort from the parent, IPC.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

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% by IP International Holdings, Inc. With this, IPC holds 75% of the IPAPPM through its subsidiaries.

During FY16 (refers to the period April 1 to March 31), IPAPPM has reported a PAT of Rs.36.89 crore on a total operating income of Rs.1163.41 crore as against a PAT of Rs.0.25 crore on a total operating income of Rs. 1166.94 crore in FY15

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

***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.*

Analyst Contact

Name : Ms Radhika Ramabhadran

Tel : +91-40-6900-0516

Mobile : 8008883012

Email : radhika.ramabhadran@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form

an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Non-fund-based - ST-BG/LC	-	-	-	63.50	CARE A1+ (SO)
Fund-based - LT-Cash Credit	-	-	-	43.00	CARE AA (SO); Stable
Fund-based - LT-Term Loan	-	-	Dec 2019	70.00	CARE AA- (SO); Stable

Annexure-2**Rating History (Last three years)**

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Chronology of Rating history for past three years		
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	0.00	Withdrawn	1)Withdrawn (January 11, 2016)	1)CARE AA (SO) (January 09, 2015)	1)CARE AA (SO) (October 08, 2013)
2.	Non-fund-based - ST-BG/LC	ST	63.50	CARE A1+ (SO)	1)CARE A1+ (SO) (January 11, 2016)	1)CARE A1+ (SO) (January 09, 2015)	1)CARE A1+ (SO) (October 08, 2013)
3.	Fund-based - LT-Cash Credit	LT	43.00	CARE AA (SO); Stable	1)CARE AA (SO) (January 11, 2016)	1)CARE AA (SO) (January 09, 2015)	1)CARE AA (SO) (October 08, 2013)
4.	Fund-based - LT/ ST- Stand by Line of Credit	LT/ST	0.00	Withdrawn			
5.	Fund-based - LT-Term Loan	LT	70.00	CARE AA- (SO); Stable			

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 9819084000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 9198209 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

CIN - L67190MH1993PLC071691