

**International Paper APPM Limited**

October 03, 2017

**Ratings**

Facilities	Amount (Rs. crore)	@Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities – Fund Based Working Capital Limits	43.00	CARE AA (SO); Stable (Double A [Structured Obligation]); Outlook: Stable	Reaffirmed
Long-term Bank Facilities – Term Loans	220.00 (enhanced from 70.00)	CARE AA- (SO); Stable (Double A Minus [Structured Obligation]); Outlook: Stable	Reaffirmed
Short term Bank Facilities	63.50	CARE A1+ (SO) (A One Plus [Structured Obligation])	Reaffirmed
<b>Total Facilities</b>	<b>326.50</b> <b>(Rs. Three Hundred and Twenty Six crore and Fifty lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

**@ The above ratings are based on credit enhancement in the form of Letter of Comfort extended by International Paper Company, USA (IPC) to the bank facilities of International Paper APPM Limited**

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of International Paper APPM Limited (IPAPPM) continue to derive strength from IPC's established global presence and expertise in the Paper and Pulp industry, strong financial position of the parent company, long-standing track record of IPAPPM in the Indian paper industry, diversified product-mix of the company, expanding scale of operation and several initiatives undertaken to ensure raw material self-sufficiency. The ratings also factor in growth in total operating income during FY17 (refers to the period April 01 to March 31) along with an improvement in the profit margins and capital structure during the year. The ratings are, however, constrained by industry risk associated with input price volatility, capital expenditure plans and cyclical nature of the pulp and paper industry.

The ability of the company to continue to expand the scale of operation and improve the profit margin while managing the volatility in input prices amidst intense competition in the industry and maintain the capital structure are the key rating sensitivities.

**Detailed description of the key rating drivers**
**Key rating Strengths**

**Strong credit profile of IPC:** Incorporated in 1941, IPC is a global paper and packaging company that is complemented by an extensive North American merchant distribution system, with primary markets and manufacturing operations in North America, Europe, Latin America, Russia, Asia, Africa and the Middle East. In the United States, as on December 31, 2016, the company operated 29 pulp, paper and packaging mills, 170 converting and packaging plants, 16 recycling plants and three bag facilities. As on December 31, 2016, IPC owns/manages approximately 329,000 acres of forestland in Brazil and has through licenses and forest management agreement, harvesting rights on government-owned forest lands in Russia.

The net sales of IPC for the year ended December 31, 2016 (CY16) was \$21,079 million with PAT of \$904 million as against net sales of \$22,365 million with PAT of \$938 million in CY15.

**Long track record of IPAPPM:** Incorporated in 1964, International Paper APPM Ltd. (formerly known as The Andhra Pradesh Paper Mills Ltd.) has more than five decades of experience in paper industry.

**Satisfactory operational performance of IPAPPM during FY17:** The company continued to report satisfactory operational performance and the capacity utilisation for finished paper production remained at almost similar level in FY17 as in FY16 (about 90%) with marginal reduction due to outages and employee strikes during the year.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Improvement in financial performance in FY17 and Q1FY18:** The financial performance improved in FY17 and while the total operating income registered a y-o-y growth of only 4% in FY17 over FY16; the PBLIDT level and margin improved significantly (by about 25% and 228 bps respectively) during the year on account of reduced input cost (along with savings on power consumption) and overhead reduction. The company made a one-time provision related to electricity duty dues which however resulted in reduction in PAT by about 15% in FY17 from FY16

The performance continued to improve in Q1FY18 and the company reported PBILDT of Rs.58.44 crore (Rs.41.25 crore in Q1FY17) and PAT of Rs.23.85 crore (Rs.15.38 crore in Q1FY17) on a total operating income of Rs.327.22 crore (Rs.300.74 crore in Q1FY17).

**Improved capital structure and debt coverage indicators:** The overall gearing ratio improved at below unity as on Mar.31 2017 particularly led by reduced debt level. Further, the interest coverage of the company has improved from FY16 to FY17 on account of improvement in PBILDT level and decrease in finance expenses. The other debt coverage indicators, total debt/GCA and term debt/GCA have also improved during the year.

#### Key rating Weaknesses

**Cyclical nature of the paper and pulp 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. However, IPAPPM derives its revenue from sale of both paper and pulp and has de-risked its business by being an integrated manufacturer.

**Volatility in input prices:** Prices of hardwood and wastepaper are highly volatile in nature and in turn affect the profitability of the companies in the paper industry. While the company has been undertaking measures to attain raw material self-sufficiency, over the years, it still remains exposed to changes in market dynamics with respect to same.

**Intense competition in the industry:** The paper board industry is highly fragmented in nature with stiff competition from large number of organized as well as unorganized players.

**Analytical approach:** The rating of IPAPPM is based on credit enhancement in the form of letter of comfort extended by International Paper Company.

#### Applicable Criteria

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

[Criteria for Short Term Instruments](#)

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

[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 manufacturing facilities comprise two mills at Rajahmundry and Kadiyam, both located in East Godavari, and a conversion center at SN Palem in Krishna District, all located in the state of Andhra Pradesh.

IP Holding Asia Singapore Pte Ltd, a subsidiary of International Paper Company (IPC), USA, held 75% of the equity stake in IPAPPM. During FY17, International Paper Investments (Luxembourg) S.a.r.l. (54.96%) and IPC International Holdings Inc (20.04%), also subsidiaries of International Paper Company (IPC), USA, have acquired entire 75% stake of IP Holding Asia Singapore Pte Ltd.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1163.41	1213.68
PBILDT	137.09	170.68
PAT	36.89	31.31
Overall gearing (times)	1.21	0.84
Interest coverage (times)	3.40	5.24

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Ms Puja Jalan

Tel: 040 40102030

Cell: +91 9160001511

Email: [puja.jalan@careratings.com](mailto:puja.jalan@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.

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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	-	-	December 2019	220.00	CARE AA- (SO); Stable

**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	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in

					in 2017-2018	2016-2017	2015-2016	2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (11-Jan-16)	1)CARE AA (SO) (09-Jan-15)
2.	Non-fund-based - ST-BG/LC	ST	63.50	CARE A1+ (SO)	-	1)CARE A1+ (SO) (11-Jan-17) 2)CARE A1+ (SO) (07-Oct-16)	1)CARE A1+ (SO) (11-Jan-16)	1)CARE A1+ (SO) (09-Jan-15)
3.	Fund-based - LT-Cash Credit	LT	43.00	CARE AA (SO); Stable	-	1)CARE AA (SO); Stable (11-Jan-17) 2)CARE AA (SO) (07-Oct-16)	1)CARE AA (SO) (11-Jan-16)	1)CARE AA (SO) (09-Jan-15)
4.	Fund-based - LT-Term Loan	LT	220.00	CARE AA- (SO); Stable	-	1)CARE AA- (SO); Stable (11-Jan-17)	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

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](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@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](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@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](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 99888 05650  
Tel: +91-172-5171 100 / 09  
Email: [anand.jha@careratings.com](mailto:anand.jha@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](mailto:swati.agrawal@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](mailto:pradeep.kumar@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](mailto:pratim.banerjee@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](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**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](mailto:ramesh.bob@careratings.com)