

International Paper APPM Limited

November 09, 2018

Ratings

Facilities	Amount (Rs. crore)	@Rating ¹	Rating Action
Long term Bank Facilities- Cash Credit	30.00 (reduced from Rs. 43 crore)	CARE AA (SO); Stable (Double A (Structured Obligation); Outlook: Stable)	Reaffirmed
Short term Bank Facilities	50.00 (reduced from Rs.63.50 crore)	CARE A1+(SO) (A One Plus[Structured Obligation])	Reaffirmed
Total	80 (Rs. Eighty crore only)		
Long term Bank Facilities- Term loan	0.00	-	Withdrawn

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) factor in improved operational and financial performance resulting in improved Capacity Utilisation (CU) levels resulting in increase in income and profits with improved profitability margins during FY18 (refers to the period April 01 to March 31) and H1FY19 (refers to the period April 01 to September 30) and improved capital structure along with other debt coverage indicators as on March 31, 2018 and September 30, 2018 on account of prepayment of term loans. The ratings continue to 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 and other initiatives ensuring raw material self-sufficiency. The ratings are, however, tempered by volatile input prices faced by the industry 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.

Further, CARE has withdrawn the rating assigned to the term loans of IPAPPM with immediate effect, as the company has repaid the aforementioned term loan in full and there is no amount outstanding under the loan as on date.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance of IPAPPM during FY18: The capacity utilisation for finished paper production improved to 95% in FY18 (90% in FY17) on account of enhanced productivity and overall machine efficiency (OME). The production volume increased by 6% to 2,28,900 MT in FY18 from 2,15,743 MT in FY17.

Improvement in total operating income, profits and margins during FY18 and H1FY19: The total operating income of IPAPPM improved by 7.65% in FY18 on account of increase in price realization and sale volume of paper. The PBLIDT level and margin, improved by about 31% and 319 bps respectively in FY18 over FY17 on account of reduced input cost (along with savings on power consumption) and overhead reduction. Further, the PAT level improved by about 156% in FY18 on account lower capital charges during FY18. Further during H1FY19, the total operating income of the company improved by 13% to Rs. 681.36 crore during the half year. The company's PBILDT margin improved by 925 bps in H1FY19 (to 24.41%) in comparison to H1FY18 at the back of better operational efficiencies, favourable selling prices supported by lower cost of raw material consumed and other operational costs. PAT margin of the company improved by 713 bps in H1FY19 (12.08%) in comparison to H1FY18 (4.95%) on account of lower interest charges.

Improved capital structure and debt coverage indicators: The overall gearing ratio of the company has remained comfortable and further improved to 0.40x as on March 31, 2018 vis-à-vis 0.81x as on March 31, 2017 at the back of decrease in debt levels owing to repayment of term loan along with plough back of profits to reserves. Overall gearing further improved to 0.13x as on September 30, 2018. The interest coverage of the company has also improved from 5.21x in FY17 to 8.77x in FY18 on account of improvement in PBILDT level and decrease in finance expenses. Further Interest

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

coverage improved significantly during H1FY19 to 27.49x vis-à-vis 6.78x in H1FY18 led by lower interest cost and improved PBILDT level.

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, 2017, the Company operated 29 pulp, paper and packaging mills, 170 converting and packaging plants, 16 recycling plants and three bag facilities. Production facilities as on December 31, 2017 in Canada, Europe, Asia, Africa, India and Latin America included 17 pulp, paper and packaging mills, 68 converting and packaging plants, and two recycling plants. As on December 31, 2017, IPC also 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 Dec. 31, 2017 (CY17) was \$21,743 million with PAT of \$2144 million as against net sales of \$19,495 million with PAT of \$904 million in CY16.

Key Rating Weaknesses

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. The price of raw materials cost of waste paper increased by 4%, the same was offset by reduced raw material price of hardwood by 7% in FY18. This has eased pressure on the availability of raw material and subsequently on the raw material prices and resulting in improved margins.

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 (primarily white collar job growth rate). However, IPAPPM derives its revenue from sale of both paper and pulp and has de-risked its business by being an integrated manufacturer.

Moderate industry prospects: The overall paper demand growing at a CAGR of 6.7% to touch 20.7 million tonnes in FY20. Tight markets, low Chinese pulp inventories, lack of supply coming to the market, and healthy demand are the primary factors that provide an upside to the prices in 2018. The waste paper prices, however, may fluctuate on account of volatility in international waste paper prices, healthy demand, and forex fluctuations.

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

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[Policy on Withdrawal of 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. 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, also a subsidiary of IPC.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1177.69	1267.83
PBILDT	175.03	228.82
PAT	32.40	83.07
Overall gearing (times)	0.81	0.40
Interest coverage (times)	5.21	8.77

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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	-	-	-	50.00	CARE A1+ (SO)
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE AA (SO); Stable
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (11-Jan-16)
2.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A1+ (SO)	-	1)CARE A1+ (SO) (03-Oct-17)	1)CARE A1+ (SO) (11-Jan-17) 2)CARE A1+ (SO) (07-Oct-16)	1)CARE A1+ (SO) (11-Jan-16)
3.	Fund-based - LT-Cash Credit	LT	30.00	CARE AA (SO); Stable	-	1)CARE AA (SO); Stable (03-Oct-17)	1)CARE AA (SO); Stable (11-Jan-17) 2)CARE AA (SO) (07-Oct-16)	1)CARE AA (SO) (11-Jan-16)
4.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA-(SO); Stable (03-Oct-17)	1)CARE AA-(SO); Stable (11-Jan-17)	-

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