

## International Paper Appm Limited

December 20, 2019

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities (i)	10.00	CARE AA-; Stable (Double A Minus; Outlook : Stable)	Assigned
Long term/Short term Bank Facilities (ii)	45.00	CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook : Stable / A One Plus)	Assigned
Long-term Bank Facilities (iii)	-	-	Withdrawn
Long term/Short term Bank Facilities (iv)	-	-	Withdrawn
<b>Total</b>	<b>55.00</b> (Rupee Fifty Five crore only)		

*Details of instruments/facilities in Annexure-1; The earlier ratings of facilities (iii) & (iv) have been withdrawn as the characteristics of the facilities have substantially changed as the same are no longer based on credit enhancement in the form of Letter of Comfort extended by International Paper Company (IPC); USA subsequent to majority stake sale by IPC to West Coast Paper Mills Limited (WCPM).*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of International Paper APPM Limited (IPAPPM) derive strength from experienced promoters, long-standing track record of IPAPPM in the Indian paper industry with integrated nature of operations, well established distribution network and other initiatives ensuring raw material self-sufficiency, consistent scaling up of operations during FY16-19 (refers to the period April 01 to March 31) with improved profitability margins, favorable capital structure with minimal debt and strong debt coverage indicators. The ratings also take into account recent acquisition of majority stake in IPAPPM by WCPM and strong liquidity profile of the company.

The ratings are, however, constrained by volatile input prices faced by the industry and cyclical nature of the pulp and paper industry. Further, CARE has withdrawn the rating assigned to the bank facilities (iii & iv) with immediate effect as the characteristics of the facilities have substantially changed as the same are now not backed by letter of comfort from International Paper Company (IPC); USA.

### 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 0.4x

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced Promoters with significant experience in Indian Paper Industry:**

West Coast Paper Mills Limited (WCPM) has acquired 55% equity stake in IPAPPM from IP group for a total consideration of Rs. 601.52 crore pursuant to Share Purchase Agreement dated May 29, 2019. With this, WCPM has acquired control of the Company. Further, WCPM has also acquired 17.20% equity stake by way of open offer for a consideration of Rs. 309.57 crore. Thus, WCPM has acquired 72.2% equity stake in IPAPPM.

West Coast Paper Mills Limited (WCPM) was established in the year 1955 and is the flagship company of Kolkata based SK Bangur Group. The company is engaged in manufacturing writing and printing papers, cupstocks, etc and has an installed paper manufacturing capacity of 3.2 lakhs metric tonne per annum at its manufacturing plant located in Dandeli, Karnataka. The company is backward integrated with 2.47 lakh metric tonne per annum in house pulp production capacity and 75 MW of captive power plants. WCPM sells its products across India through its dealer network. The acquisition of IPAPPM is expected to result in increased market share and wider reach for both the companies and also provide operational synergies.

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

***Long standing presence in Indian Paper Industry with integrated nature of operations***

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. IPAPPM has been operational for over four decades and is one of the prominent players in the Indian Paper Industry. 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 96% capacity utilisation during FY19 which further increased to 98% during Q1FY20. Capacity utilisation however dropped to 73% during Q2FY20 due to outage of 37 days at its Rajamundry unit as against the routine maintenance of 12-15 days.

***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, IPAPPM has been able to establish strong relationship with its customers.

In terms of raw material requirement, the wood pulp for Rajamundry unit is mainly sourced from Open Market (which includes the Farm Forestry Program) and from Andhra Pradesh Agricultural Market Committee (AP AMC).

In terms of power consumption; for the Rajamundry unit, the company mainly sources power from its captive 34 MW coal powered steam turbine and balance from the grid. For the Kadayam unit, power is sourced from 5.74 MW coal-fired boiler, from grid and also through DG set. The power consumption per ton of paper produced was lower by 5.86% in FY19 as compared to FY18. For the coal requirement, the company has coal linkages in place from Mahanadi Coal Fields and Singareni Collieries Company Ltd.

***Consistent scaling up of operations and improved profitability margins***

Total Operating Income (TOI) of IPAPPM has been increasing y-o-y from FY16 at CAGR of 5.44%. Income witnessed a y-o-y growth of 11.8% during FY19 backed by increased sales volumes and improved sales realisations. PBILDT Margin of the company has also been improving y-o-y. PBILDT margin has improved from 12% during FY16 to 27% during FY19. This has been on account of higher sales volume, higher selling prices, record production levels, improved efficiency and lower manufacturing cost. There has been savings in costs related to power consumption, freight, fiber, chemicals and overhead reduction.

Net profits for the company has also increased significantly during FY19 backed by increased sales, improved PBILDT margins and lower capital charge. IPAPPM recorded net profit of Rs. 200 crore for FY19 (Rs. 83 crore for FY18).

However, during H1FY20, the company was able to register TOI of Rs. 647 crore as against Rs. 681 crore during H1FY19 primarily on account of outage of around 37 days undertaken in Q2FY20. Despite of outage during Q2FY20, the PBILDT margin of the company remained healthy at around 23% during H1FY20 (24% during H1FY19). PAT margin stood at around 11% for H1FY20 (12% for H1FY19).

***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, 2019 (0.39x as on March 31, 2018). 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 0.08 times for FY19 while PBILDT interest coverage was 45.78 times for FY19.

***Key Rating Weaknesses******Volatility in raw material prices***

Hardwood and waste paper are the major raw materials used by APPM 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 FY19. The price of waste paper increased by 14% while that of hardwood marginally declined during FY19 by 3% as against FY18.

***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.

***Industry outlook; overall outlook to remain subdued***

The growth in the Indian paper industry is largely dependent on the rate of growth of the economy (GDP growth rate) and emphasis on education and literacy by the government. The changing lifestyles of the people in India have also fostered growth in the packaging

segment of the sector. The growth rate of the Indian paper industry has been one of the highest in the world. Despite increasing digitization, CARE Ratings expects that the overall paper demand to grow at 6 -7%.

#### **Liquidity – Strong**

Liquidity is marked by strong accruals against negligible repayment obligations and liquid funds to the tune of Rs. 64.65 crore as on March 31, 2019. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Average working capital utilization was low at around 28% for the 12 months ended in Nov. 2019. Further, the company had cash and bank balance to the tune of Rs. 100.25 crore as on Sept. 30, 2019.

#### **Analytical approach: Standalone**

Change in approach: The earlier ratings of facilities have been withdrawn as the characteristics of the facilities have substantially changed as the same are no longer based on credit enhancement in the form of Letter of Comfort extended by International Paper Company (IPC); USA subsequent to majority stake sale by IPC to West Coast Paper Mills Limited (WCPM)

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Policy on Withdrawal of 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 248,000 Metric Tonnes Per Annum (MTPA). The Company produces 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 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.

WCPM in October 2019 acquired 72.2% stake in IPAPPM. WCPM was established in the year 1955 and is the flagship company of Kolkata based SK Bangur Group. WCPM is one of the leading manufacturers of writing and printing paper in India.

With the change in the management, the Board of Directors of the Company has approved the proposal for Change of Name from "International Paper APPM Limited" to "Andhra Paper Limited" subject to the consent of Shareholders of the Company.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	1267.83	1438.04
PBILDT	228.82	391.03
PAT	83.07	200.08
Overall gearing (times)	0.39	0.03
Interest coverage (times)	8.77	45.78

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
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	-	-	1)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)	1)CARE A1+ (SO) (11-Jan-17) 2)CARE A1+ (SO) (07-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	-	-	1)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)	1)CARE AA (SO); Stable (11-Jan-17) 2)CARE AA (SO) (07-Oct-16)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (09-Nov-18)	1)CARE AA-(SO); Stable (03-Oct-17)	1)CARE AA-(SO); Stable (11-Jan-17)
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE AA-; Stable	-	-	-	-
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	45.00	CARE AA-; Stable / CARE A1+	-	-	-	-

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

**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.

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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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