OCTOBER 28, 2015

CARE REMOVES THE RATING FROM CREDIT WATCH AND REVISES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF WEST COAST PAPER MILLS LTD.

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Remarks**
Long term Bank Facilities	461.61	CARE BBB+ (Triple B Plus)	Revised from CARE BBB (Triple B) and ratings removed from credit watch
Short term Bank Facilities	235.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three) and ratings removed from credit watch
Total Facilities	**696.61 (Rupees Six Hundred Ninety Six crore and Sixty one lakh only)**		

Rating Rationale

The above ratings had been placed in "credit watch", in view of The West Coast Paper Mills Ltd (WCPM) entering into share purchase agreement with Riddhi Siddhi Gluco Biols Ltd (RSGB) for sale of its entire 36.32% stake in Shree Rama News Print Ltd (SRNP). The sale of share was subject to release of corporate guarantees of Rs.246.25 crore given to various lenders of SRNP by WCPM. With completion of process of transfer of shares from WCPM to RSGB and prepayment of entire debt against which corporate guarantee was extended, ratings have been removed from "credit watch".

The revision in ratings assigned to company takes into account disinvestment of entire stake in its loss making subsidiary company SRNP and consequent release of considerable corporate guarantee extended and marked improvement in financial performance during FY15 and Q1FY16 with strong recovery in profitability. The rating also takes note of company availing corporate loan which was used to retire some early maturing debt and help improve its liquidity position. The rating continues to derive strength from the experience of company's promoters in the paper industry, fully integrated nature of its manufacturing facility, strategic location of its plant, stable operational performance of the paper division and improved operational performance in cable division during FY15.

The ratings, however, continues to be constrained by moderate debt coverage indicators, leveraged capital structure, concern on adequate domestic availability of raw material (wood) notwithstanding company's effort to address the issue through captive plantation initiatives, and imports, exposure of margins to volatility in input costs and forex rates particularly arising from significant import of materials and cyclicality of paper industry.

The ability of the company to sustain the improvement in profitability amid volatile material cost and forex fluctuations and any new debt funded capex impacting its leverage would be the key rating sensitivities.

Background

Incorporated in 1955, WCPM is the flagship company of the SK Bangur group and is engaged in the manufacturing and marketing of paper and telecom cables and owns six windmills. WCPM's integrated paper plant is located at Dandeli, Karnataka and telecom cable manufacturing plant at Mysore, Karnataka. In order to foray into the newspaper segment, WCPM acquired a 36.32% stake in SRNP in 2004 and then divested its stake from it in Q1FY16 by writing off the investment and selling it to strategic investor.

During FY15, WCPM reported net sales of Rs 1,648.4 crore up 5.5% y-o-y as compared to Rs. 1,562.3 crore in FY14 and PAT of Rs. 1.1 crore (PY: Rs. 6.6 crore). During Q1FY16, the company reported total income of Rs. 391.9 crore and net loss of Rs. 23.9 crore.

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

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

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