

West Coast Paper Mills Limited

April 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities (Term Loan)	43.75 (reduced from 75)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE BBB+ (Triple B Plus)
Long term Bank Facilities (Term Loan)	- (reduced from 96.61)	-	Withdrawn
Long-Term Bank Facilities (Fund Based)	290.00	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE BBB+ (Triple B Plus); Rating placed on Notice of Withdrawal for 90 days
Short-term Bank Facilities (Non-Fund Based)	235.00	CARE A1 (A One)	Revised from CARE A3+ (A Three Plus); Rating placed on Notice of Withdrawal for 90 days
Total Facilities	568.75 (Rs. Five hundred Sixty Eight crore and Seventy five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to West Coast Paper Mills Limited (WCPML) is on account of improvement in the financial performance of the company marked by improvement in the profitability margins of the company in FY16 & M9FY17 coupled with improvement in the debt coverage indicators. The rating also factors in disinvestment of stake and release of corporate guarantee extended towards Shree Rama Newsprint Limited.

The ratings continues to derive strength from experience of the promoters and established position of the company in the paper industry, integrated nature of its manufacturing facility, strategic location of the plant and stable operation performance of the paper division and cable division in FY16. The ratings are however constrained by susceptible to volatility in input process and unhedged forex exposures.

Ability of the company to sustain its profitability amid volatile raw material cost and forex fluctuations and any significant debt funded capex would be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

WCPML, a flagship company of the S. K. Bangur Group, is one of the largest paper manufacturer in India with a capacity of 3,20,000 MTPA. Mr. S. K. Bangur, the Chairman and Managing Director of the company has served as President of the Indian Paper Manufacturers Association, an apex body of large and integrated paper mills from 2001 to 2003.

Fully Integrated manufacturing facility

The company has a fully integrated manufacturing facility based out of a single location at Dandeli in Karnataka. In addition to chips/ Wood, imported pulp and paper cuttings are also used. Pulp is also manufactured internally from wood & chips and from waste paper. It also has achieved self-sufficiency on power front- having 4 turbines with capacity totaling to 74.8 MW and 3 multi-fuel based power plants of 11.84 MW. There are three waste heat recovery boilers of 2 TPH capacity each to recover waste heat from multi-fuel based power plants.

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

Stable operating performance of the paper and cable division in FY16

Company's paper plant capacity utilization level has increased from 93.9% during FY15 to 95.9% during FY16. Though the paper (Writing and Printing paper) production has improved and stood at 96.1% in FY16 vis-à-vis 93.3% in FY15, paperboard production has reduced marginally and stood at 95.2% in FY16 vis-à-vis 96.6% in FY15.

Company's optical fibre unit also saw significant improvement in FY16. The production and sales of optical fibre cable in terms of quantity was 42989 km and 40545 km during FY16 as against 30438 km and 30368 km in the previous year, respectively.

Financial performance marked with improvement in the profitability margins (during FY16 & 9MFY17) and improvement in debt coverage indicators

The total operating income of the company increased by 3.61% and stood at Rs. 1709.57 crore in FY16 vis-à-vis Rs. 1650.02 crore in FY15. PBILDT improved on account of reduction in power & fuel cost. In 9MFY17 (refers to the period April 01 to December 31), total operating income of WCMPL increased by around 4% vis-à-vis 9MFY16. The PBILDT level and margin of the company also improved mainly on account of improvement in realization coupled with decline in wood chips cost. The interest coverage ratio of WCPML also improved and stood at 3.65x in FY16 vis-à-vis 3.53x in FY15. The interest coverage ratio of the company further improved and stood 5.32x in 9MFY17 vis-à-vis 3.40x in 9MFY16. The improvement was on account of higher PBILDT level coupled with decline in the interest cost of the company

Debt equity and overall gearing ratio of the company also improved and stood at 0.92x & 1.29x as on March 31, 2016 vis-à-vis 1.07x & 1.57x respectively as on March 31, 2015. The improvement in the leverage ratios was mainly on account of repayment of term loan coupled with lower utilization of working capital and accretion of profit to reserves.

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

Hardwood and waste paper are the major raw materials used by WCPM for manufacturing of paper. Of which, hardwood constitutes around 95% of the input requirement. The availability of the raw material domestically has always been a matter of concern for the industry. Paper mills in India have to necessarily depend upon small and scattered plantations. In the process, the cost of collection and transportation at times works out to be greater than cost of the pulpwood itself which may affect the profitability of the company.

Company sources the wood from cultivators in Karnataka, Andhra Pradesh and Tamil Nadu. Company has also started importing wood chips since 2013 to supplement the raw material availability. Proximity of the Goa port gives it an edge over other mills located in the interiors. Currently, the company meets approximately 50-60% of its total requirement by way of imports. WCPM has entered into a fixed price contract for import of raw materials which is renewed annually. During FY16, the domestic wood prices declined, however, the imported prices remained the same due to fixed price nature of contract. During FY17, the company has renegotiated the price with its imported supplier which has led to improvement in margins in 9MFY17.

Un-hedged Forex exposures

The company is exposed to significant forex risk as it does not hedge its foreign currency exposure. As on March 31, 2016, the total un-hedged long term foreign loans were at USD 11.3 million. Further, company imports around 50-60% of its raw material and consumable requirement. Any adverse movement in the in the foreign currency may impact the profitability of the company in future. However, the company has incurred negligible forex loss of Rs.3.8 crore and Rs.2.8 crore during FY16 & FY15 respectively.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[CARE's methodology for manufacturing companies](#)

[Criteria for Short Term Instruments](#)

About the Company

WCPM, incorporated in 1955, is the flagship company of the S. K. Bangur group and is engaged in the manufacturing and marketing of paper and telecom cables.

Company has an integrated paper plant in Dandeli, Karnataka for capacity of 3,20,000 MTPA. It manufactures writing and printing paper (capacity- 2,62,500 MTPA) and paperboard (capacity- 57,500 MTPA).

Further, company also manufactures optical fiber cables at Mysuru, Karnataka having installed capacity of 83,500 km. Other than the captive power plant, it also has set up 6 wind mills totaling to 1.75MW in Tamil Nadu and the power generated is sold to TNEB/ other company.

In FY16 (refers to the period April 01 to March 31), WCPML reported PAT of Rs. 8.86 crore (FY15- Rs. 1.12 crore) on a total operating income of Rs. 1709.57 crore (FY15- Rs. 1650.02 crore).

In 9MFY17 (refers to the period April 01 to December 31), the company reported PAT of Rs. 77.78 crore on a total operating income of Rs. 1363.86 crore.

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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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
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Non-fund-based-Short Term	-	-	-	235.00	CARE A1 ; placed notice of withdrawal
Fund-based-Long Term	-	-	-	290.00	CARE A; Stable Placed on notice of withdrawal
Fund-based - LT-Term Loan	-	-	May 2018	43.75	CARE A; 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 in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	-	-	-	-	1)CARE BBB+ (28-Oct-15) 2)CARE BBB (Under Credit Watch) (29-May-15)	1)CARE BBB (20-Jan-15)
2.	Non-fund-based-Short Term	ST	235.00	CARE A1	-	-	1)CARE A3+ (28-Oct-15) 2)CARE A3 (Under Credit Watch) (29-May-15)	1)CARE A3 (20-Jan-15)
3.	Fund-based-Long Term	LT	290.00	CARE A; Stable	-	-	1)CARE BBB+ (28-Oct-15) 2)CARE BBB (Under Credit Watch) (29-May-15)	1)CARE BBB (20-Jan-15)
4.	Fund-based - LT-Term Loan	LT	43.75	CARE A; Stable	-	-	-	-

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