November 24, 2023

West Coast Paper Mills Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	245.00	245.00	[ICRA]AA(Stable); reaffirmed
Long-term/ Short-term – Unallocated	105.00	105.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings outstanding on the various debt instruments of West Coast Paper Mills Ltd. (WCPL) considers the expectation of a stable financial performance in FY2024. This is supported by factors like the strong market position WCPL and its subsidiary, Andhra Paper Limited (APL), in the domestic writing and printing paper (PWP) industry. The ratings also consider WCPL's capabilities in manufacturing a variety of wood-free paper, cupstocks, special grade papers, etc, and its integrated nature of operations with adequate in-house capacity to manufacture virgin pulp, along with their captive power plants.

The company's consolidated top line grew by 46% with operating margins of 33.5% in FY2023 (against OPM of 19% in FY2022) owing to high-capacity utilisation amid favourable demand and higher sales realisations. As the average realisations are expected to be lower in FY2024 over FY2023, the margins are likely to be affected; although lower raw material prices partially mitigates the impact. Given the strong cash accruals, its net debt was negative at the consolidated level in FY2023 and the cash reserves (net of debt) stood at over Rs. 1,500 crore as of September 2023. Going forward, a stable demand environment and integrated nature of operations shall aid WCPL in sustaining its overall financial profile.

The ratings, however, remain constrained by the vulnerability of revenues and margins to net sales realisation of paper, which has been volatile recently, along with susceptibility of margins to raw material and fuel prices. Also, with imports accounting for a portion of domestic demand, domestic prices are largely determined by global trends in paper prices. While the long-term demand environment remains favourable as a result of lower per-capita domestic paper consumption (compared to global standards), rising digitisation remains a key headwind for the sector.

ICRA notes that both WCPL and APL are running at near-full capacity, and expansion in capacities is imminent in the near to medium term. APL has announced a capex plan for setting up a new manufacturing facility for paper boards at an investment of over Rs. 2,000 crore. Given the sizeable capex in relation to the gross block, it is exposed to project execution risk over the medium term. The phasing of the capex is expected to go beyond FY2025 and is in its nascent stages currently. ICRA will continue to monitor the funding mix and its impact on the credit profile, going forward, as and when further clarity emerge on the actual capex value as well as timelines, along with the final funding mix. ICRA also notes that the resolution plan for the acquisition of Uniply Décor Limited by WCPL has been approved. The ability of the company to turn around the business and profitably scale up in the segment, remains critical from a product and earnings diversification angle.

The ratings also consider the raw material risks in the paper manufacturing business because of the environmental regulations on availability and industrial usages of wood and water, which are two critical inputs in the manufacturing process. ICRA notes that domestic availability of wood has improved due to adequate plantations in the last few years, which have in turn resulted in a steady decrease in WCPL's consumption of high-cost imported wood. Moreover, WCPL's paper manufacturing unit is in proximity to the Kali River (Karnataka) and APL's unit to the Godavari River (Andhra Pradesh), which provide adequate supply of water to the respective plants. Over the years, WCPL has undertaken various technological initiatives, which resulted in a decrease in water consumption per unit of paper produced. Moreover, APL undertakes large and regular plantations, which will continue to provide adequate raw material security to the consolidated entity in the future.

The Stable outlook factors in the expectation that WCPL's credit profile will remain supported by its strong market position of in the domestic paper industry along with steady demand for its product portfolio and its strong liquidity levels.

Key rating drivers and their description

Credit strengths

Strong market position in the domestic PWP industry – WCPL has cemented a strong market position in the domestic PWP industry owing to its long industry presence, extensive dealership network across the country and technical capabilities to manufacture a wide variety of writing paper, cupstocks and specialised paper from its 3.2-lakh MTPA paper manufacturing plant at Dandeli, Karnataka, and the 2.4-lakh MTPA paper manufacturing plant under APL.

Large scale of operations, with healthy operating margin as well as return metrics – The company reported strong revenue growth of 46% to Rs. 4926.6 crore in FY2023 at a consolidated level owing to favourable demand and high average sales realisation levels for the PWP segment in FY2023. WCPL's manufacturing capacity utilisation remained healthy at more than 95% for the manufacturing plant in FY2023. Despite the increase in raw material prices, the company reported healthy operating margins of 33.5% in FY2023 owing to its ability to pass on its input cost in a timely manner with healthy realisation levels. However, the margins are expected to moderate in FY2024 as reflected by operating margins of 30.2% in H1 FY2024 due to decline in realisation levels. The top line in H1 FY2024 also remained flat compared to H1 FY2023, given decline in sales realisations and is expected to remain stable or decline from FY2023 levels. The return indicators remained strong as reflected by return on capital employed (RoCE) at 52.2% in FY2023. Given the strong cash accruals, its net debt continued to remain negative in FY2023 and the cash reserves (net of debt) stood at over Rs. 1,500 crore as of September 2023.

Integrated nature of operations with adequate pulp manufacturing capacity and captive power plants – WCPL has an integrated manufacturing set-up with adequate in-house capacity for manufacturing pulp as well as captive power plants. Moreover, the integrated operations help the company recover a substantial portion of chemicals used in the manufacturing process and generate energy from waste, which in turn results in a competitive cost structure vis-á-vis its domestic peers, thus supporting its margin profile.

Favourable outlook for domestic paper demand because of lower per-capita domestic consumption than global standards – Long-term demand outlook for paper in the domestic market remains favourable because of its low per-capita usage as on date, compared to global standards and increasing usage of packaging products. However, rising digitisation remains a threat for the growth of the PWP segment on a longer-term basis.

Credit challenges

Earnings remain vulnerable to vagaries in demand and fluctuations in input prices – The earnings profile of the company remains vulnerable to cyclicality in the paper business (in term of realisations), availability of water and raw materials, and volatility in pulp, chemicals and international coal prices. However, ICRA takes comfort from WCPL's ability to pass on its input cost in a timely manner amid a competitive environment as reflected by healthy realisation levels and favourable demand, which also supported the operating margins for the company in FY2023 and H1 FY2024.

Susceptibility of cash flows to cyclicality in the paper industry – WCPL's cash flows are exposed to the cyclicality in the paper industry. The domestic paper industry is small compared to the global scale and prices in India are largely determined by international trends. Hence, the global demand–supply balance impacts the health of the domestic industry and, accordingly, its margins remain vulnerable to the cyclicality in the global paper demand–supply scenario. However, an integrated nature of operations keep it well placed in absorbing any price shocks relative to other players in the industry. Further, domestic paper prices are largely determined by global trends. Hence, WCPL is a price taker in the industry despite its large market share.

Large capex under subsidiary exposes WCPL, at consolidated level, to project execution risks over medium term – APL is planning to set up a greenfield project for board, tissue and pulp units at an estimated cost of over Rs. 2,000 crore over FY2025–FY2027. Through this capacity expansion, WCPL intends to enhance its production capacity by ~1.5-2.0 lakh MTPA, which will enable it to cater to the growing domestic demand and increase its market share in the paper industry. Given the sizeable capex in relation to the gross block, it is exposed to project execution risk over the medium term. The company's ability to achieve financial closure at favourable terms to keep its capital structure and coverage indicators under check, will remain a key rating sensitivity, going forward.

Environmental and Social Risks

Environmental considerations: The paper manufacturing industry is exposed to environmental risks of air, water and land pollution, as discarded paper and paperboard make up a sizeable portion of solid municipal waste in landfills. Pulp and paper generate a notable amount of industrial air, water, and land emissions. While these risks have not resulted in any material implications so far, any breaches in waste management or higher-than-permissible emissions could have cost implications for the company. Any adverse climatic conditions resulting in challenges in supply of any raw materials could also impact the operations of the company. Also, water treatment is extremely important because the pulping and bleaching process can release complex organic and inorganic pollutants that need to be properly treated. The company has implemented actions to reduce water consumption in its mills. Water consumption per tonne of production has decreased by 11% YoY in FY2023. It sources pulp wood through private parties, the captive plantation and farm forestry model, and the State Government of Karnataka. Pulp wood is certified by Forest Stewardship Council Chain of Custody and Forest Stewardship Council Controlled Wood certification, which ensures that the paper manufactured from wood is managed socially and environmentally.

Social considerations: Being a labour-intensive segment, entities operating in the paper industry are exposed to the risk of disruption from their inability to properly manage human capital in terms of their safety and overall well-being. Further, any significant wage rates adversely impacting the cost structure of paper manufacturing companies can impact their margins. WCPL is also exposed to the shortage of a skilled workforce and exposure to hazardous chemicals, which can impact operations. However, the company mandates all employees to compulsorily undergo safety trainings.

Liquidity position: Strong

WCPL's liquidity is strong, as reflected by healthy cash flow from operations, strong cash and liquid balances as of September 30, 2023, and moderate working capital limit utilisation levels of around 8% for the last 12 months ending October 2023. Overall, ICRA expects WCPL to comfortably meet its near-term commitments through internal accruals and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – ICRA could upgrade WCPL's rating if it demonstrates sustained growth in its top line and margins, leading to improvement in its debt coverage metrics and liquidity profile.

Negative factors – Pressure on WCPL's ratings could arise if the company witnesses significant degrowth in its top line or margins, resulting in Net Debt/OPBITDA of over 1.0 time on a sustained basis. Any large, debt-funded capex at a consolidated level, any operational challenges like inadequate supply of raw materials /water availability and/or any fund infusion into any other group companies impacting its credit profile, or materially moderating its liquidity levels at a consolidated level will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the company. As on March 31, 2023, the company had two operating subsidiaries, who are enlisted in Annexure 2.

About the company

Incorporated in 1955, West Coast Paper Mills Limited (WCPL) is the flagship entity of the SK Bangur Group, based in Kolkata. WCPL is engaged in manufacturing writing and printing papers and cupstocks from its 3.2-lakh MTPA paper manufacturing plant at Dandeli, Karnataka. The company is backward integrated with a 2.65-lakh MTPA in-house pulp production capacity and 75-MW captive power plants. WCPL sells its products across India through its dealer network. The company acquired a 72% stake in International Paper APPM Limited in FY2020 and subsequently renamed the company to Andhra Paper Mills Limited. Following the completion of the acquisition, WCPL now has one of the largest, consolidated writing and printing paper manufacturing capacities in India. APL has a manufacturing capacity of 241,000 MTPA for writing, printing and cut-size papers for foreign and domestic markets.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	3,383.5	4,926.6
PAT	345.9	1,087.0
OPBDIT/OI	19.0%	33.5%
PAT/OI	10.2%	22.1%
Total outside liabilities/Tangible net worth (times)	0.60	0.36
Total debt/OPBDIT (times)	0.8	0.1
Interest coverage (times)	10.3	44.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Nov 24, 2023	Nov 23, 2022	10 Feb, 2022	25 Nov, 2021	27 Nov, 2020
1	Fund based-Term Loan	Long term	-	-			[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Unallocated	Long term	245.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-
3	Unallocated	Long term/ Short term	105.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-
4	Fund-based/Non-Fund based facilities	Long term/ Short term	-	-	-	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
5	Commercial Paper*	Short term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	NCD	Long term	-	-	-	-	[ICRA]AA-(Stable); Withdrawn	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)

*Yet to be placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term, Unallocated	Not Applicable
Long-term, Unallocated Limits	Not Applicable
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Unallocated**	-	-	-	245.00	[ICRA]AA(Stable)
NA	**Unallocated**	-	-	-	105.00	[ICRA]AA(Stable)/[ICRA]A1+
NA	**Commercial Paper***	-	-	-	50.00	[ICRA]A1+

*Source: Company, *not yet placed*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
West Coast Opticables Limited	100.00%	Full Consolidation
Andhra Paper Limited	72.24%	Full Consolidation

*Source: Annual report, *As on March 31, 2023*

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About ICRA Limited:

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