November 27, 2024

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 – Fund based – Term Loan	131.25	131.25	[ICRA]AA (Stable); reaffirmed
Long term – unallocated	113.75	113.75	[ICRA]AA (Stable); reaffirmed
Long term/ Short term-unallocated	105.00	105.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long term – Interchangeable	(106.00)	(106.00)	[ICRA]AA (Stable); reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of West Coast Paper Mills Ltd. (WCPL) considers the expectation that the company's satisfactory credit profile would continue in FY2025, led by its strong liquidity position and healthy debt coverage indicators. The ratings also factor in the strong market position of WCPL and its subsidiary, Andhra Paper Limited (APL), in the domestic writing and printing paper (WPP) industry, WCPL's capabilities in manufacturing a variety of wood-free paper, cupstocks, special grade papers, among others. Besides, its integrated nature of operations with adequate in-house capacity to manufacture virgin pulp, along with their captive power plants provide comfort. The ratings also consider the comfortable financial profile of WCPL, marked by low dependence on debt and large cash and liquid investments, translating into continued cash surplus position for the company.

The company's consolidated top line declined by 10% on a YoY basis with an operating profit margin (OPM) of 24.7% in FY2024 (against 33.5% in FY2023) owing to a fall in net sales realisation levels. In H1 FY2025, the top line further fell by 14% on a YoY basis, with the OPM moderating to 15.8% from 30.2% in H1 FY2024 due to increased raw material costs, especially wood, and pressure on net sales realisation owing to higher supply from cheap import. Notwithstanding this, WCPL's net debt remained negative at the consolidated level in FY2024 and H1 FY2025 and the cash reserves (net of debt) stood at over Rs. 1,500 crore as of September 2024. Going forward, a stable demand environment and integrated nature of operations would aid WCPL in sustaining its overall financial profile.

The ratings, however, remain constrained by the vulnerability of revenues and profit margins to net sales realisation of paper, which has been volatile recently, along with the susceptibility of margins to raw material and fuel prices. Also, with imports accounting for a large portion of domestic demand, local prices are largely determined by global trends in paper prices. While the long-term demand remains favourable because 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 in-principle approval to explore opportunities for setting up a new manufacturing facility for paper board, WPP, chemical wood pulp mill 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 FY2026 and is in the nascent stage at present. ICRA will continue to monitor the funding mix and its impact on the credit profile, going forward, as and when further clarity emerges on the actual capex value as well as timelines, along with the final funding mix.

ICRA also notes that the company had acquired Uniply Décor Limited in September 2023. The ability of the company to turn around the business and profitably scale up in the segment remains critical from product and earnings diversification angle.

The ratings also consider the risk related to raw materials 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 been impacted in the current fiscal due to inadequate plantations in the last few years, which in turn is expected to increase WCPL's consumption of high-cost imported wood. 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 steady demand for its products and its strong liquidity levels, which will limit its dependence on debt.

Key rating drivers and their description

Credit strengths

Strong market position in the domestic WPP industry – WCPL has cemented a strong market position in the domestic WPP 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 2.5-lakh MTPA paper manufacturing plant under APL.

Large scale of operations – Although the company's top line moderated 9.6% to Rs. 4,453.5 crore in FY2024, its scale of operations continues to remain large. The decline in revenues is largely due to lower net sales realisation amid pressure from cheap imports into India. However, WCPL's manufacturing capacity utilisation remained healthy at more than 95% in FY2024 and H1 FY2025. Further, the company derives more than 75% of its revenue from the WPP segment, which attracts better realisations compared to the board segment.

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 making pulp as well as captive power plants. Moreover, backward-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 local 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 WPP segment on a long-term basis.

Credit challenges

Earnings remain vulnerable to volatility in demand and fluctuations in input prices – The earnings of the company remain 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, as seen in the last two years. In FY2024, the company's operating margins declined to 24.7% from 33.5% in FY2023 owing to fall in net sales realisation. The operating margins further declined to 15.8% in H1 FY2025 (30.2% in H1 FY2024) owing to increase in raw material prices coupled with further decline in realisation prices amid pressure from cheap imports into India.

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 industry 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 profit margins remain vulnerable to the cyclicality in the global paper demand-supply scenario. However, an integrated nature of operations keeps WCPL well placed in absorbing any price shocks relative to other players in the industry.

Large capex under subsidiary exposes WCPL to project execution risk over medium term at consolidated level – APL has in-principle approval to explore opportunities for setting up a new manufacturing facility for paper board, WPP, chemical wood pulp mill at an investment of over Rs. 2,000 crore. The phasing of the capex is expected to go beyond FY2026 and is in its nascent stage at present. 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 pollution. While these risks have not resulted in any material implications so far, any breach in waste management or higher-than-permissible emissions could have cost implications for the company. Any adverse climatic conditions, resulting in challenges in the supply of any raw materials, could also impact the company's operations. Also, water treatment is extremely important because 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 2% on a YoY basis in FY2024 and by 37% compared to FY2016. It sources pulp wood from private parties, the captive plantation and farm forestry model, and the Government of Karnataka. Pulp wood is certified by the Forest Stewardship Council Chain of Custody and the Forest Stewardship Council Controlled Wood, which ensure 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 rise in wage rates, adversely impacting the cost structure of paper manufacturing companies, can reduce 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 of ~Rs. 2,000 crore (deployed largely in bonds, commercial papers, non-convertible debentures and mutual funds) as of September 30, 2024, and low working capital limit utilisation of around 0.2% in the last 12 months ending in September 2024. Overall, ICRA expects WCPL to comfortably meet its near-term commitments through internal accruals and yet be left with sufficient cash surpluses. The company has a repayment obligation of ~Rs. 79 crore and capex plans of ~Rs. 400 crore in FY2025 on a consolidated basis towards modernisation of plant and machinery, fibre plant, part capex for tissue plant and regular maintenance capex, which is expected to sufficiently met by undrawn term loans of ~Rs. 220 crore, internal accruals and cash and liquid investments.

Rating sensitivities

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

Negative factors – Pressure on WCPL's ratings could arise if the company witnesses a significant fall in its top line or margins, resulting in weakening of Net Debt/OPBITDA of over 1.0 times on a sustained basis. Any large, debt-funded capex at the 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 at the 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, 2024, the company had four operating subsidiaries, which 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 involved 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 2,55,550 MTPA for writing, printing and cut-size papers for foreign and domestic markets.

Key financial indicators (audited)

LTHL Consolidated	FY2023	FY2024	H1 FY2025
Operating income	4,926.6	4,453.5	2,005.2
PAT	1,087.0	786.1	222.1
OPBDIT/OI	33.5%	24.7%	15.8%
PAT/OI	22.1%	17.7%	11.1%
Total outside liabilities/Tangible net worth (times)	0.36	0.34	0.38
Total debt/OPBDIT (times)	0.1	0.3	1.3
Interest coverage (times)	44.6	46.1	20.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Nov 27, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based- Term Loan	Long term	131.25	[ICRA]AA (Stable)	12-Jan-24	[ICRA]AA (Stable)	-	-	25-Nov-21	[ICRA]AA- (Stable)
				-	-	-	-	10-Feb-22	[ICRA]AA- (Stable)
Unallocated	Long term	113.75	[ICRA]AA (Stable)	24-Nov-23	[ICRA]AA (Stable)	23-Nov-22	[ICRA]AA (Stable)	25-Nov-21	[ICRA]AA- (Stable)
				12-Jan-24	[ICRA]AA (Stable)	-	-	10-Feb-22	[ICRA]AA- (Stable)
Unallocated	Long term/ Short term	105.00	[ICRA]AA (Stable)/ [ICRA]A1+	24-Nov-23	[ICRA]AA (Stable)/ [ICRA]A1+	23-Nov-22	[ICRA]AA (Stable)/ [ICRA]A1+	-	-
			-	12-Jan-24	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-	-
Fund-based/Non-Fund based facilities	Long term/ Short term	-	-	-	-	-	-	25-Nov-21	[ICRA]AA (Stable)/ [ICRA]A1+
			-	-	-	-	-	10-Feb-22	[ICRA]AA (Stable)/ [ICRA]A1+
Commercial Paper*	Short term	50.00	[ICRA]A1+	24-Nov-23	[ICRA]A1+	23-Nov-22	[ICRA]A1+	25-Nov-21	[ICRA]A1+
				12-Jan-24	[ICRA]A1+	-	-	10-Feb-22	[ICRA]A1+
NCD	Long term	-	-	-	-	-	-	25-Nov-21	[ICRA]AA- (Stable); Withdrawn
			-	-	-	-	-	10-Feb-22	[ICRA]AA- (Stable)
Interchangeable	Long term	(106.00)	[ICRA]AA (Stable)	12-Jan-24	[ICRA]AA (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term Loan	Simple
Long-term/ Short-term, Unallocated	Not Applicable

Long-term, Unallocated Limits	Not Applicable
Commercial Paper	Very Simple
Long term – Interchangeable	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	**Fund based – Term Loan I**	**FY2023**	-	**FY2029**	90.00	[ICRA]AA(Stable)
NA	**Fund based – Term Loan II**	**FY2024**	-	**FY2029**	41.25	[ICRA]AA(Stable)
NA	**Unallocated**	-	-	-	113.75	[ICRA]AA(Stable)
NA	**Unallocated**	-	-	-	105.00	[ICRA]AA(Stable)/[ICRA]A1+
NA	**Commercial Paper***	-	-	-	50.00	[ICRA]A1+
NA	**Interchangeable**	-	-	-	(106.00)	[ICRA]AA(Stable)

*Source: Company, *yet to be 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	72.31%	Full Consolidation
Uniply Décor Ltd.	100%	Full Consolidation
Wesco Defence Systems Ltd.	100%	Full Consolidation

*Source: Annual report, *As on March 31, 2024*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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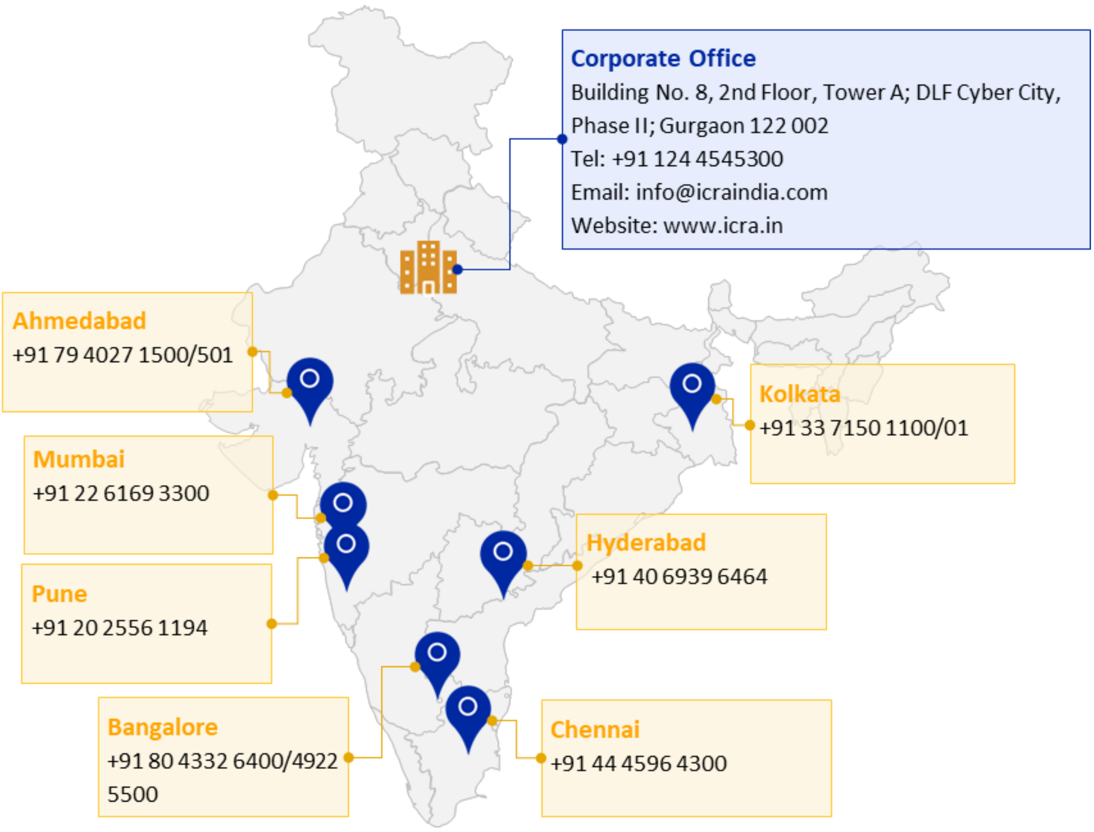

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