November 25, 2021

West Coast Paper Mills Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	200.00	200.00	[ICRA]AA-(Stable); Reaffirmed
Long term- Fund based- Term Loan	245.00	100.00	[ICRA]AA-(Stable); Reaffirmed
Long term -fund based - unallocated	0.00	145.00	[ICRA]AA-(Stable); Reaffirmed
Fund-based/Non-Fund based facilities	105.00	105.00	[ICRA]AA-(Stable)/[ICRA]A1+; Reaffirmed
Commercial Paper	50.00	50.00	[ICRA]A1+; Reaffirmed
Total	**600.00**	**600.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in the strong market position of West Coast Paper Mills Ltd. (WCPL) and its subsidiary, Andhra Paper Limited (APL), in the domestic writing and printing paper industry. ICRA notes their technical capabilities in manufacturing a wide variety of wood free paper, cupstocks, special grade papers, etc, and their integrated nature of operations with adequate in-house capacity to manufacture virgin pulp, along with their captive power plants. Integrated operations along with a large scale helps the consolidated entity maintain cost competitiveness vis-à-vis its peers and provide some resilience to price shocks. The ratings also positively take into account the recovery witnessed in WCPL's top line and operating margins in H1 FY2022 with gradual opening up of the economy, leading to an improving demand scenario. Following a challenging FY2021, the company's consolidated revenues for H1 FY2022 stood at Rs. 1441.0 crore with operating margins of 17.0% (over 11.9% in FY2021). With healthy earnings, its debt protection metrics also improved with net debt to OPBDITA at 1.5x as of September 2021.

The ratings, however, remain constrained by the inherent cyclicality in the domestic paper industry, with consequent impact on profitability and cash flows (as witnessed in the past). The profit margins are vulnerable to key raw material and fuel price fluctuations, given the rise in cost of coal and chemicals. While the company has managed to effect price revisions, its ability to fully pass on the cost inflation in a timely manner remains to be seen. Also, with imports accounting for a substantial portion of the domestic demand, prices in India are largely determined by global trends. Despite the near-term uncertainties, the long-term demand outlook for paper in India remains favourable as a result of lower per-capita domestic consumption of paper than global standards. However, rising digitisation remains a threat for the growth of the writing and printing paper segment on a long-term basis, which was further accelerated by the Covid-19 disruption. ICRA notes that both WCPL and APL run at near full capacity and their need for enhancing capacity is imminent and, accordingly, their capex and funding plans remain to be seen.

The ratings also take into account 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 in turn resulted in a steady decrease in WCPL's consumption of imported wood at high costs. Moreover, WCPL's paper manufacturing unit is in proximity to the Kali River (Karnataka), and APL's manufacturing 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 into the future.

The Stable outlook factors in the strong market position of the company in the domestic paper industry and expected recovery in demand for the writing and printing segment from the corporate as well as educational sectors.

Key rating drivers and their description

Credit strengths

Strong market position in the domestic writing and printing paper industry – WCPL has developed a strong market position in the domestic writing and printing paper industry owing to its long presence in the industry, extensive dealer network across the country and technical capabilities to manufacture a wide variety of writing paper, cupstocks and specialised paper from its 3.2- lakh metric tonne per annum (MTPA) paper manufacturing plant located in Dandeli, Karnataka.

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 to manufacture pulp and 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-a-vis its domestic peers, thus supporting its margin profile.

Favourable outlook for domestic paper demand because of low per-capita domestic consumption compared to 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 the global standards and increasing usage of packaging products. However, rising digitization remains a threat for the growth for writing and printing paper segment on a longer-term basis, which was further accelerated due to Covid-19 related disruption. While the near-term demand is likely to be strong supported by re-opening of educational institutions, post Covid-led restrictions, possibility of further waves of pandemic and its impact remains a monitorable.

Revenue diversified to an extent through sale of optical fibre cables – WCPL's revenue and cash flows are somewhat diversified through its optical fibre business. Although the scale of operations of the optical fibre division is small, it generates a steady revenue to the company. A favourable outlook on digital communication and high-speed fibre network provide a healthy demand outlook to the optical fibre division of the company. WCPL procures optical fibre and manufactures cables. Going forward, the company is likely to backward integrate into manufacturing pre-formed optical fibres, which may increase the overall scale of this business to an extent.

Credit challenges

Significant decline in top line witnessed in FY2021, due to Covid related disruptions; gradual recovery expected in FY2022 – The company witnessed 10% decline in the operating income in FY2021 owing to moderation in consolidated capacity utilisation to 70% in FY2021 from 97% in FY2020 due lower demand for writing and printing paper, triggered by the shutdown of schools and colleges during the pandemic in FY2021. With lower demand, the realisation for writing and printing paper as well as the duplex board segment was also under pressure. Although the demand recovered in Q4 FY2021, it was again impacted by the second wave of the Covid-19 pandemic in Q1 FY2022. For Q2 FY2022, the company reported operating income of Rs. 900.5 crore with opening up of end markets. Further, the pace of recovery will depend on the re-opening and normalisation of schools, colleges, courts, etc, and all related end-consumer segments; hence, remaining a key rating monitorable.

Earnings remains vulnerable to vagaries in demand and fluctuations in input prices – The company's operating margins contracted sharply to 11.9% in FY2021 against 25.0% in FY2020 as a result of lower volume of sales on the back of muted demand conditions. The company reported operating margins of 17.0% in H1 FY2022. Although it has improved from FY2021 levels, the margins expansion was limited by high raw materials, fuel and power expenses and full demand recovery. While

the operating margins remain vulnerable to raw material prices, the company has taken price hikes in October 2021. WCPL's ability to fully pass on its input cost in a timely manner amid a competitive environment remains to seen.
Susceptibility of cash flows to the 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, global the 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. The same is also reflected by volatility in RoCE (return on capital employed) in recent years (from 27.6% in FY2019 to 1.8% in FY2021). However, an integrated nature of operations keep it well placed in absorbing any price shock relative to other players in the industry.

Status of being a price taker as domestic paper prices are largely determined by international trends – Domestic paper prices are largely determined by global trends. Hence, WCPL is a price taker in the industry despite its large market share.

Liquidity position: Strong

WCPL's liquidity is **strong** with healthy annual cash flow from operations, a liquid investment balance of ~Rs. 273.4 crore as on September 30, 2021 (on a consolidated basis) and moderate working capital limit utilisation levels of 42% for the last 12 months ending September 2021. WCPL has met a significant portion of its debt repayment liabilities for FY2022, while the balance repayment liabilities for the year are to be met from its own internal generation. Overall, ICRA expects WCPL to comfortably meet its near-term commitments through internal accruals.

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. Specific credit metrics that could trigger an upgrade include net debt/ OPBITDA lower than 1.0 time and RoCE above 20% on a sustained basis at a consolidated level.

Negative factors - Pressure on WCPL's ratings could arise if the company witnesses degrowth in its top line or moderations in margins, resulting in Net Debt/OPBITDA over 1.5 times on a sustained basis. Any large debt-funded capex at a consolidated level, or material moderation in liquidity levels at a consolidated level due to operational challenges and / or any fund infusion into any other Group companies 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 rating is based on the consolidated financial profile of the company. As on March 31, 2021, the company had two operating subsidiaries, who are enlisted in Annexure 2.

About the company

Incorporated in 1955, West Coast Paper Mills Ltd. (WCPL) is the flagship entity of the SK Bangur Group, based out of Kolkata. WCPL manufactures writing and printing papers, among other products, from its 3.2-lakh metric tonne per annum (MTPA) paper manufacturing plant at Dandeli, Karnataka. The company is backward integrated with a 2.47-lakh MTPA, in-house pulp production capacity and 75-MW captive power plants. WCPL sells its products across India through its dealership network. The company acquired the majority stake in APL in FY2020. APL has a manufacturing capacity of 2.41-lakh MPTA and also manufactures writing, printing and cut-size papers for overseas and domestic markets.

As per provisional results, in H1 FY2022, WCPL reported a consolidated net profit of Rs. 116.9 crore on an operating income of Rs. 1,441.0 crore.

Key financial indicators (Consolidated)

	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	2498.5	2249.7	1441.0
PAT (Rs. crore)	406.5	-4.4	116.9
OPBDIT/OI (%)	25.0%	11.9%	17.0%
PAT/OI (%)	16.3%	-0.2%	8.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8	0.8
Total Debt/OPBDIT (times)	1.2	2.6	1.4
Interest Coverage (times)	8.3	3.8	8.3

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations, *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Nov 25, 2021	27-Nov-2020	23-Oct-2019	30-Aug-2019	-
1	NCD	Long term	200.0	158.40	[ICRA]AA-(Stable)	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-
2	Fund based-Term Loan	Long term	100.00	70.83	[ICRA]AA-(Stable)	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	-	-
3	Fund based-Unallocated	Long term	145.00	-	[ICRA]AA-(Stable)	[ICRA]AA- (Stable)	[ICRA]AA-(Stable)	-	-
4	Fund-based/Non-Fund based Working Capital Limits	Long term/ Short term	105.00	-	[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+	-	-

*Yet to be placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Simple
Fund based- Term Loan	Simple
Fund based- Unallocated	Not applicable
Fund-based/Non-Fund based Working Capital 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Bank name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE976A07028	NCD	18/20/2019	10.30%	18/10/2024	198.00	[ICRA]AA- (Stable)
NA	NCD[1]	-	-	-	2.00	[ICRA]AA- (Stable)
Axis Bank	Term Loan	FY2020	6M MCLR + 0.65%	FY2025	100.00	[ICRA]AA- (Stable)
NA	Unallocated	-	-	-	145.00	[ICRA]AA- (Stable)
NA	Fund-based/Non-Fund based Working Capital Limits	-	-	-	105.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Commercial Paper[1]	-	-	-	50.00	[ICRA] A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
West Coast Opticables Limited	100.00%	Full Consolidation
Andhra Paper Limited	72.20%	Full Consolidation

*Source: Annual report, *As on March 31, 2021*

[1] *Yet to be placed*

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About ICRA Limited:

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