



COMPANY NAME : **International Paper APPM**

BSE Code : **502330**

Time Duration : **1 year**

CMP : **₹385.45 (as on 16 May., 2019)**

Target Price : **₹501**

International Paper APPM is our Mid-Bridge recommendation for month of May. The company is engaged in manufacturing and selling of paper and pulp. The product mix of paper contains paper for writing, printing and copier. The company has presence in domestic as well as international markets. It was established in 1964 and was earlier named as Andhra Pradesh Paper Mills Limited. In 2011, 75% stake of the company was acquired by International Paper, USA. Hence, it was named as International Paper APPM. The company has manufacturing plant located in Kadiyam and Rajahmundry in Andhra Pradesh. It has total production capacity of 241,000 tonnes per annum.

Strong parentage

International Paper APPM is led by its parent organisation International Paper Company (IPC), USA, which gives it an edge due to its established presence and expertise in the industry. IPC operates in highly efficient market such as America, Europe, Latin America, Russia, Africa, etc. Its presence in such diverse locations drives consumption as it creates larger scope with different consumer requirements and needs. The strong parent organisation gives extra edge to IPAPPM as any slowdown in the domestic market can be taken care of by the global markets. In addition, when the raw material prices are down in the domestic market, it may push the global demand by parent organisation.

Raw material procurement

Fibre is the key raw material component in paper manufacturing. To cater to the larger need of raw material at a cost-effective rate, the company has made long term engagements with farmers with a view to getting good quality raw material. It also improves strength of seedlings and farming techniques. The company has ensured that its raw material need is taken care of within a radius of 300 km from the mill so as to procure it as a low cost. The company has made ensured that the procurement radius comes down from 400 km to 300 km.

Investment Rationale

B2C nature of business: The company's product mix tar-

gets the potential customer base in sectors such as education, business and corporate etc. The B2C nature in this business has a distinct advantage as the credit days are less, which also ensures low working capital needs. For an established player such as IPAPPM, higher manufacturing costs can also be passed on to the clients, minimising the operational risk of the company. Educational material has a larger need during the first and second quarters. The B2C nature of the business of the company creates larger scope to gain higher market share in such seasonal markets.

Operational strength- Key driver for growth : The company improved its capacity utilisation in FY18 to 95 per cent from 90 per cent during earlier years. For FY19 too, the company continued to achieve utilisation rate in the same range. During FY18 and a major part of FY19, though, the pulp prices were on the higher side but its operating margins showed large expansion on account of well planned consumption of resources. Going ahead, the company may get more benefits of higher production fuel by higher demand.

Stable business environment : The company is well-placed to benefit from its current industry dynamics. The price realisation remained staggered till FY16. After long consolidation, the prices were increased by 5-6 per cent in FY19. For FY19 and FY20, the prices are expected to remain higher. Being backward integrated, IPAPPM benefits from higher price realisations. IP-APPM has not made any major capacity addition during the last many years which is the same trend in the industry. We expect that there may be new capacity addition as China is shutting its plants rapidly due to stricter environmental norms.

Robust financial position : The company had reduced its debt significantly over the last few years. The company's total borrowings till end of FY18 were at Rs 208 crore, which it had reduced from as high as Rs. 564 crore in FY15. As per the balance sheet dated March 2019, the total debt was as low as Rs 12.55 crore. The debt-to-equity ratio came down to 0.02. The finance costs for Q4FY19 came down to Rs 0.86 crore as against Rs 6.25 crore for same quarter last year.

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Financial Performance

High debt, rupee depreciation, longer outage at its plants and muted market demand created huge pressure on the financial performance of the company and the company had to face losses during FY13-14. On account of stronger operational performance and better realisations, the company made a robust comeback to register profit growth of 52 per cent CAGR between FY15 to FY19. On the margin front, EBITDA for FY19 improved to 26 per cent mostly due to decline in finance costs. For third and fourth quarter of FY2018-19, the company posted robust revenue growth, despite a slowdown in the market.

Valuation and Outlook

The stock is currently trading at TTM EPS of Rs. 50 and TTM PE multiple of 7.75x. The company's debt-to-equity ratio stands at 0.02. We expect that the price realisations will continue to trend upward. High pricing, coupled with better margins due to backward integration of the company, will lead to growth in earnings in the future. Any delay in capacity addition will curtail revenue growth going ahead. But looking at robust business environment and strong operational efficiency, we recommend our investors to **BUY** the scrip and accumulate more on dips.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201903	201803	201703	201603	201503
Net Sales	1427.33	1264.01	1172.36	1159.81	1163.24
Total Income	1441.92	1269.30	1178.32	1166.64	1173.94
Total Expenditure	1048.76	1042.57	1002.28	1029.51	1067.78
PBIDT	393.17	226.73	176.04	137.13	106.16
PAT	200.08	83.07	32.40	36.89	0.25
Dividend %	0.00				
Adj. EPS(Rs)	50.31	20.89	8.15	9.28	0.06

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201903	201812	Q on Q Var%	201803	Y on Y Var%
Net Sales	375.39	376.18	-0.21	339.73	10.50
Total Expenditure	266.34	267.38	-0.39	262.45	1.48
PBIDT (Excl OI)	109.05	108.80	0.23	77.29	41.11
PAT	59.91	57.87	3.52	32.73	83.03
PBIDTM% (Excl OI)	29.05	28.92	0.45	22.75	27.69
PBIDTM%	29.80	30.56	-2.49	22.97	29.73
PATM%	15.96	15.38	3.77	9.63	65.73
Adj. EPS(Rs)	15.06	14.55	3.51	8.23	82.99



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