Tamilnadu Newsprint & Papers Limited

October 03, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,672.53 (Enhanced from 1,638.70)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	350.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	1,745.41 (Enhanced from 1,275.00)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**3,767.94 (₹ Three Thousand Seven Hundred Sixty-Seven Crore and Ninety-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Tamil Nadu Newsprint and Papers Limited (TNPL) continue to factor in the strong operational track record with TNPL being one of the largest integrated players with a well-established distribution network in Print and Writing Paper (PWP) segment, strong raw material sourcing capabilities and improving capacity utilization at paper board plant every year. The ratings further derive strength from improved operational and financial performance of TNPL during FY22 (refers to the period April 1 to March 31) with recovery in demand from major consumption centres and the backward integration achieved at unit II with operationalization of pulp mill in Q1FY23. The rating also factors in prepayment of debt done in FY22 and Q1FY23 which improved debt metrics moderately and with no major capex planned in FY23, debt metrics are expected to improve further. Care ratings expects profitability margins of TNPL to improve in packaging board segment going forward with the commissioning of new pulp mill at unit-2 which is expected to reduce the dependency on high cost imported pulp. The ratings are however constrained by the leveraged capital structure with a large debt funded capital expenditure undertaken in the recent past and exposure of TNPL to volatility in raw material prices and forex rates. Nevertheless, CARE Ratings notes the financial flexibility that TNPL enjoys, with track record of raising debt at competitive rates to ease out repayments.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Deriving benefits from the capital expenditure that is being incurred with resultant improvement in profitability of the paper board segment to above 15% on continuous basis
- Reduction in leverage levels with overall gearing around unity

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any moderation in profitability leading to lower accruals resulting in Total debt to PBILDT of above 4.75x on continuous basis
- Underutilization of capacity at paper mill below 80% on continuous basis

Detailed description of the key rating drivers

Key rating strengths

Strong operational track record in PWP industry with integrated nature of operations

TNPL has been operational for over four decades and has emerged as one of the leading manufacturers of Printing and Writing Paper (PWP) in India. TNPL operates an integrated pulp and paper mill (Unit I) at Karur District of Tamil Nadu with three paper machines aggregating to a total installed capacity of 4 lakh Tonnes Per Annum (TPA). Unit I has a pulping capacity of 1,180 tpd as on March 31, 2022, including hardwood pulping capacity of 330 tpd, chemical bagasse pulping capacity of 550 tpd and de-inking pulp plant with a capacity of 300 tpd. The company also developed captive power plants along with this unit with a capacity of 103.62 MW as on March 31, 2022. Unit I is self-sufficient in terms of both its pulp and power requirements. This unit also has an in-house cement plant which uses lime sludge waste and fly ash produced during the paper production to produce

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

cement. Besides this, the company also has wind farms with a capacity of 35.50 MW located in Tirunelveli district of Tamil Nadu. The company has significant presence in the domestic PWP market supported by network of dealers across India. Being one of the largest players in the domestic paper industry along with long track record, TNPL has been able to establish strong relationship with its customers. TNPL also acts a key supplier for paper for textbooks and other material to the Government of Tamil Nadu.
During FY22, due to improved demand on account of opening of school/offices and major consumption centers for the company, capacity utilization at Unit I improved to 97% as against 81% in FY21. Careedge expects the improved demand to sustain in the medium term.

Strong raw material sourcing capabilities
TNPL sources bagasse which is the primary raw material from local sugar mills on barter basis in exchange for coal which is used to produce steam used in these sugar mills. Long-term agreements have been entered into with eight sugar mills in Tamil Nadu for sourcing bagasse in exchange for coal supplied for generation of steam. Shortfall is met through open market purchases and temporary tie-up arrangements with sugar mills. The share of bagasse in the overall raw material mix has remained fairly stable around 50% in the past three years. Wood pulp contributes to the remaining share in the overall raw material mix and the company procures a major share of pulpwood from Tamil Nadu Forest Plantation Corporation Limited (TAFCON). TNPL has entered into an MOU with TAFCON for pulpwood supplies for 15 years, and the balance pulpwood requirement is generally met through private purchases and contract farming/farm forestry. TNPL also has in-house biotechnology and bio-energy research centres to develop tissue culture seedlings, which are used as mother plants in its plantation schemes. As on March 31, 2022, the company had established pulpwood plantations in total of 211280 acres from 2004-05 (1,87,680 acres as on March 31, 2021) under its captive plantation and farm forestry scheme.

Improving capacity utilization and profit margins in paperboard segment
TNPL operates a multilayer double coated board plant (Unit II) with an annual capacity of 2 lakh TPA which was set up as a green field project in Manaparai taluk, Trichy district. In Q1FY23, the pulp mill at Unit II became fully operational with a capacity of 1.45 lakh tpa equivalent to almost 400 tpd. This is expected to bring down TNPL's dependency on imported pulp requirement as well as maintain consistency in raw material quality. Overall capacity utilization in board plant during FY22 has improved to 92% as against 86% in FY21 due to healthy demand. Sales realization from board plant stood at Rs. 1128 crore in FY22 as against Rs. 837 crore in FY21. However, PBILDT margins in paper board segment moderated to 8.9% in FY22 (PY: 14.5%) due to increase in variable costs (raw materials, power & fuel etc.) from 75% of revenues in FY21 to 80% of revenues in FY22. However, in Q1FY23, paper board segment witnessed improved PBILDT margins of 20.9% mainly due to the in-house pulp which was used from the new pulp mill

Improvement in business performance in FY22 due to recovery in demand
TOI of the company during FY22 has improved by 45% to Rs. 4036 crore as against Rs. 2784 crore in FY21 on account of recovery in demand both domestic and export. Overall capacity utilization in paper mill has improved to 97% in FY22 (PY: 81%) and capacity utilization in board plant stood at 92% (PY: 86%). Though PBILDT margin moderated in FY22 by 64 bps in absolute terms PBILDT level has improved owing to 45% increase in TOI. This led to increased cash accruals of the company in FY22. The company reported significant Y-o-Y improvement in Q1FY23 performance by reporting TOI of Rs. 1128 crore as compared to Rs. 632 crore reported in Q1FY22.

Key rating weaknesses
Improved but leveraged capital structure; however, the company enjoys high refinancing capability
The company's capital structure though improved but continues to remain leveraged with an overall gearing of 1.77x as on March 31, 2022 compared with 1.92x as on March 31, 2021. Debt funded capacity expansions in the recent past have impacted debt protection metrics. However, with improved FY22 performance and debt prepayment in FY22 and Q1FY23, debt metrics have improved as comparison to previous year, though still highly leveraged. The company's Total debt/GCA was 11.33x as on March 31, 2022 as against 22.42x as on March 31, 2021. Interest coverage ratio stood at 2.39x as on in FY22 as against 1.55x in FY21. The company is contemplating about the phase II of the expansion plan and no major capex is expected to be carried out in FY23. Enhancement in debt levels associated with implementation of phase II capex in the future and its impact on debt metrics of the company would remain a key monitorable in the future.
TNPL enjoys strong financial flexibility with track record of availing debt of longer tenures to ease out repayments. High cost loans are replaced with lower cost loans on regular basis. Continuous monitoring and readjusting of loan portfolio have enabled the company to keep the cost of borrowing at the minimum level. Apart from regular Repayment, TNPL has prepaid Rs 391 Cr during FY22. The company has strong refinancing capability to raise fresh term loans to fund any shortfalls.

Exposure to volatility in raw material and fuel prices
The company is exposed to volatility associated with the raw material prices and fuel prices. The company obtains bagasse through barter arrangement with sugar mills in exchange for steam. The steam is produced in the power boilers of the company. The company imports coal and any volatility in coal price can affect the profitability margins and to partially offset this risk, the company had started utilising internally generated agro fuels such as pith wood dust bark as fuel in power boilers reducing dependency on imported coal. The company also imports pulp, and any steep fluctuations could affect the profitability levels of the company.

Liquidity: Adequate

TNPL's liquidity is expected to be adequate mainly due to its financial flexibility which is evident from the ability of the company to raise longer tenure loans from various lender at competitive interest rates. TNPL's long term debt repayment obligations are sizeable at Rs. 243 crore in FY23 and Rs. 316 crore in FY24 against which the company is expected to generate cash accruals in excess of Rs. 300 crore in the coming years. The company's average working capital utilization was moderate at 65% for the past twelve months ended June 2022. The company had a moderate cash balance of Rs. 12 crore as on March 31, 2022.

Analytical approach

Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Paper Industry
Policy on Withdrawal of Ratings

About the company

TNPL was promoted by the Government of Tamil Nadu (GoTN) and the Industrial Development Bank of India (IDBI) in 1979 to manufacture Newsprint / Printing & Writing paper (PWP) using bagasse as the primary raw material. In 2004, IDBI offloaded its stake in TNPL and since then GoTN has become the single largest stake holder in the company. GoTN holds 35.32% stake as on June 30, 2022. The company now operates two plants and has presence in the PWP and packaging board business and is one of the largest players in the domestic paper and paper products industry. The company has a strong management team wherein the CMD is appointed by the Government of Tamil Nadu and he is supported by well-experienced executives handling key functions in the organization.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	2,784.18	4,036.29	1128.29
PBILDT	276.62	374.38	176.39
PAT	-65.11	14.33	60.40
Overall gearing (times)	1.92	1.77	NA
Interest coverage (times)	1.43	2.39	6.58

A: Audited, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.:

Name of Director	Designation of Director
V. Chandrasekaran	Non-Executive -Non-Independent Director

Mr. V. Chandrasekaran who is Non-Executive Independent Director on the Board of Tamilnadu Newsprint & Papers Limited is Non-Executive, Non-Independent Director of CARE. Independent/Non-executive Directors of CARE are not a part of CARE's Rating Committee and do not participate in the rating process.

Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	01/11/2029	1672.53	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	350.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	350.00	CARE A1
Fund-based/Non-fund-based-Short Term	-	-	-	-	375.00	CARE A1
Fund-based/Non-fund-based-Short Term	-	-	-	-	1020.41	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	1672.53	CARE A; Stable	-	1)CARE A; Negative (09-Sep-21)	1)CARE A; Stable (07-Dec-20)	1)CARE A; Stable (15-Nov-19)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	350.00	CARE A; Stable / CARE A1	-	1)CARE A; Negative / CARE A1 (09-Sep-21)	1)CARE A; Stable / CARE A1 (07-Dec-20)	1)CARE A; Stable / CARE A1 (15-Nov-19)
3	Non-fund-based - ST-BG/LC	ST	350.00	CARE A1	-	1)CARE A1 (09-Sep-21)	1)CARE A1 (07-Dec-20)	1)CARE A1 (15-Nov-19)
4	Fund-based/Non-fund-based-Short Term	ST	375.00	CARE A1	-	1)CARE A1 (09-Sep-21)	1)CARE A1 (07-Dec-20)	1)CARE A1 (15-Nov-19)
5	Fund-based/Non-fund-based-Short Term	ST	1020.41	CARE A1	-	1)CARE A1 (09-Sep-21)	1)CARE A1 (07-Dec-20)	1)CARE A1 (15-Nov-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-Short Term	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Naveen Kumar Dhondy
Phone: 8886097382
E-mail: dnaveen.kumar@careedge.in

Relationship contact
Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in