TamilNadu Newsprint & Papers Limited (Revised)

September 09, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,638.70	CARE A; Negative (Single A; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	350.00	CARE A; Negative / CARE A1 (Single A ; Outlook: Negative/ A One)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	1,275.00	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**3,263.70 (Rs. Three Thousand Two Hundred Sixty-Three Crore and Seventy Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & 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 are, however, constrained by subdued financial performance during FY21 (refers to the period April 1 to March 31) due to sluggish demand from major consumption centres in PWP segment resulting in moderate debt protection metrics. The ratings are also constrained by the leveraged capital structure with a large debt funded capital expenditure program being undertaken and associated implementation and stabilization risks and refinancing risk on account of sizeable term debt obligations over the medium term. 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 PBILDT margin on the paper board segment to above 18% on continuous basis
- Reduction in leverage levels with overall gearing to around unity

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

- Moderation in profitability leading to lower accruals resulting in Total debt to PBILDT of above 4.75x on continuous basis
- Any prolonged impact of the COVID-19 pandemic on the demand outlook resulting in underutilization of capacity at paper mill below 80% on continuous basis

Outlook: Negative

The revision in the outlook from ‘Stable’ to ‘Negative’ reflects slower than envisaged recovery in TNPL’s business performance due to impact of the second wave of the pandemic, and continued subdued demand outlook for PWP segment from major consumption centres. Further, prevalence of elevated level of debt and addition of debt to fund Phase-II of the expansion project at board plant is expected to result in relatively high leveraged capital structure and moderate debt metrics in the medium term. The outlook may be revised to ‘Stable’ once the demand situation normalizes with turnaround in business performance and cash accruals resulting in improved debt protection metrics for the company.

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 (PWP Unit) at Karur District of Tamil Nadu with three paper machines aggregating to a total installed capacity of 4 lakh Tonnes Per Annum (TPA). The unit has a pulping capacity of 1,180 tpd as on March 31, 2021, 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, 2021. The unit is self-sufficient in terms of both its pulp and power requirements. The unit has been operating at consistently high capacity utilizations over the last few years except during FY18 where utilization dropped to 88%. 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 text books and other material to the Government of Tamil Nadu. TNPL is the largest exporter of PWP in the country and has exported 70,873 MT (PY: 71,603 MT) of PWP during FY21.

However, during FY21, due to sluggish demand on account of COVID impact, capacity utilization at PWP unit has moderated to 81% as against 98% in FY20. Hence, revenue contribution from PWP segment has moderated to 59% of TNPL’s net sales in FY21 as against 68% contribution in FY20. Notwithstanding the same, demand is expected to improve once the economy reopens fully from the COVID impact and the same will contribute to the improved sales volume in PWP segment.

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 bio-technology and bio-energy research centres to develop tissue culture seedlings, which are used as mother plants in its plantation schemes. As on March 31, 2021, the company had established pulpwood plantations in total of 1,87,680 acres (1,67,615 acres as on March 31, 2020) under its captive plantation and farm forestry scheme.

Improving capacity utilization and profit margins in paperboard segment

TNPL successfully completed its green field Multilayer Double Coated Board Plant (MCB unit) with an installed capacity of 2 lakh TPA and commercial operations commenced from May 2016. The unit also has a captive power capacity of 30 MW as on March 31, 2021. The unit produces high grade paper board for usage in pharmaceutical, health care, food, cosmetics and other consumer product industries in various GSM ranging from 170 to 450. The major products from this segments are Grey Black, White Line Chip Board (WLC), Folding Box Board (FBB), Solid Bleached Sulphate Board and Cup Stock. The paper boards segment (majorly FBB and SBS) is predominantly end-user specified. These are used for packaging in various customer-facing industries including pharmaceutical, health care, food and cosmetics, etc. FBB is the higher margin product amongst the four major varieties produced and the company has been able to establish a market for the same.

During FY21, the capacity utilization has improved to 86% as against 83% in FY20. Hence revenue contribution from paper board segment has improved to 30% in FY21 from 25% in FY20. The higher dependence on imported virgin pulp has been impacting the profitability of the unit which acts as a drag on the overall profitability of the company despite improving capacity utilization. However due to improved utilization and favorable prices of imported pulp, EBITDA margin of the paper board segment has improved from 7.31% in FY20 to 13.49% in FY21.

Key Rating Weaknesses

Debt funded capital expenditure plans

The company is undertaking a large capital expenditure with a capital outlay of Rs.2,520 crore which is being executed in two phases in unit II. The first phase of the project involves establishing an in-house chemical hardwood pulp production unit with a capacity of 400 tpd along with chemical recovery facility and augmentation of service utilities, viz., captive power plant and waste water treatment plant with a total cost of Rs.1,100 crore. The second phase of the expansion involves establishing a paper machine with a capacity to produce 165,000 MTPA paper with a total cost of Rs.1,420 crore after the competition of the first phase. It is expected that Phase-I will be commissioned by December 2021 (revised from May 2021). With this, the company expected to focus on increasing its market share in the higher value adding products like Virgin Fiber Boards business which includes Cup Stocks. Furthermore, in-house pulp will provide the company an input cost advantage as well as consistency in raw material quality which will improve the operating margins of the paperboard segment. Hence achieving stable operations at this unit is essential for improving operating margin of the company.

Moderation in operating income during FY21 due to COVID impact and leveraged capital structure

TOI of the company during FY21 has moderated by 20% to Rs. 2,807 crore as against Rs. 3,497 crore in FY20 on account of sluggish demand due to COVID impact. Due to under absorption of fixed costs, PBILDT margin during FY21 has dropped to 10.65% as against 18.17% in FY20. Furthermore, the capital expenditure projects undertaken by TNPL in the past were predominantly debt funded and hence the leverage levels of the company are high. The overall gearing of the company stood at 1.92x as on March 31, 2021 as against 1.56x as on March 31, 2020. Interest coverage ratio stood at 1.55x in FY21 as against 2.85x in FY20. Going forward, debt levels are expected to remain at elevated levels due to on-going capex plans and slow revival in the business performance of the company. However, 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. The average cost of loans outstanding as on March 31, 2021 is 7.24 % (8.33% as on March 31, 2020).

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 utilizing 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.

Industry and prospects

Presently, India holds fifteenth rank among paper producing countries in the world with a total installed capacity of 16 million tonnes. The per capita consumption is around 13 Kg against the Asian average of 26 Kg and World average of 58 Kg. The Indian paper and paper industry had continued to witness steady growth in FY20, and the domestic demand grew from 9.3 million tonne in FY08 to 18.6 million tonne in FY20 at a CAGR of 6.4%. However, the outbreak of COVID pandemic and resultant lockdowns had impacted the industry during FY21 as both inward and outward supply chains of the paper industry were disrupted. High pulp prices in global market and shortage of waste paper (from which pulp is made) has affected the operations and impacted the margins. Due to the lockdown and closing down of educational institutions, commercial establishments and downstream printers, publishers, converters, stationery services among others, the overall demand remained sluggish during the year. Furthermore, import of paper products at cheaper prices have affected the realisations for companies. Among various business segments within the paper industry, the packaging industry has fared relatively better due to stable demand from pharma sector, FMCG and growth of the e-commerce business amidst COVID pandemic. Following recent relaxations in COVID norms and resumption of economic activities, demand has improved slightly. However, it may take few more quarters for the manufacturers to reach stable operations. Sales volume is expected to grow once schools, educational institutions and commercial establishments which are the major consumers of paper products, resume their business operations.

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.430 crore in FY22 and Rs. 274 crore in FY23. The company has met its debt obligations by availing Rs. 100 crore of term loans meant for general corporate purposes. Any shortfall in internal accruals towards debt repayment and capex funding is expected to be met through additional borrowings. The company's average working capital utilization was moderate at 74% for the past twelve months ended July 2021 which provides additional cushion to some extent. The company had a moderate cash balance of Rs. 8 crore as on June 30, 2021.

Earlier, the company had availed moratorium for principal payments under RBI COVID-19 package scheme for its term-loan facilities for the period June 2020 to August 31, 2020.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Rating Outlook](#)
[Rating Methodology- Manufacturing Companies](#)
[Criteria for Short Term Instruments](#)
[Policy on Default Recognition](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)

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, 2021. The company now operates two plants and has presence in the PWP and MCB 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 MD is appointed by the Government of Tamil Nadu and he is supported by well-experienced executives handling key functions in the organization.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	3,497	2,807
PBILDT	635	299
PAT	130	-65
Overall gearing (times)	1.56	1.92
Interest coverage (times)	2.85	1.55

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Mr. V. Chandrasekaran who is on the board of Tamil Nadu Newsprint and Papers Limited is Non-Executive, Non-Independent Director of CARE Ratings. Independent/Non-executive directors of CARE are not part of CARE's rating committee and do not participate in the rating process.
Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	June 2027	1638.70	CARE A; Negative
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	-	350.00	CARE A; Negative / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	510.00	CARE A1
Fund-based/Non-fund-based-Short Term	-	-	-	-	375.00	CARE A1
Fund-based - ST-Working Capital Limits	-	-	-	-	390.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	1638.70	CARE A; Negative	-	1)CARE A; Stable (07-Dec-20)	1)CARE A; Stable (15-Nov-19)	1)CARE A; Stable (04-Jan-19)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	350.00	CARE A; Negative / CARE A1	-	1)CARE A; Stable / CARE A1 (07-Dec-20)	1)CARE A; Stable / CARE A1 (15-Nov-19)	1)CARE A; Stable / CARE A1 (04-Jan-19)
3.	Non-fund-based - ST-BG/LC	ST	510.00	CARE A1	-	1)CARE A1 (07-Dec-20)	1)CARE A1 (15-Nov-19)	1)CARE A1 (04-Jan-19)
4.	Fund-based/Non-fund-based-Short Term	ST	375.00	CARE A1	-	1)CARE A1 (07-Dec-20)	1)CARE A1 (15-Nov-19)	1)CARE A1 (04-Jan-19)
5.	Fund-based - ST-Working Capital Limits	ST	390.00	CARE A1	-	1)CARE A1 (07-Dec-20)	1)CARE A1 (15-Nov-19)	1)CARE A1 (04-Jan-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3.	Fund-based - ST-Working Capital Limits	Simple
4.	Fund-based/Non-fund-based-Short Term	Simple
5.	Non-fund-based - ST-BG/LC	Simple

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

Annexure 5: Bank Lender Details for this Company

Click here to view Bank Lender Details

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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