

Tamilnadu Newsprint & Papers Limited

October 9, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,817.94 (Enhanced from 1,672.53)	CARE A; Positive	Reaffirmed; Outlook revised from Stable
Long-term/Short-term bank facilities	350.00	CARE A; Positive / CARE A1	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	1,600.00 (Reduced from 1,745.41)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Tamilnadu Newsprint & Papers Limited (TNPL) positively factors in the improved operational and financial performance of TNPL during FY23 with recovery in demand and the cost savings from the backward integration achieved at Unit-II with operationalisation of the pulp mill.

The ratings further derive strength from the strong operational track record with TNPL being one of the largest integrated players with a well-established distribution network in the Print and Writing Paper (PWP) segment, strong raw material sourcing capabilities and improving capacity utilization at PWP mill Y-o-y.

The ability of TNPL to maintain the sales growth and PBILDT (Profit Before Interest, lease rentals, depreciation and taxation) levels will be a key monitorable going forward.

The rating also factors in improved debt metrics and with no major capex planned for the next 2 years, debt metrics are expected to improve further.

The ratings are, however, constrained by the highly leveraged capital structure 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Reduction in leverage levels with overall gearing around unity
- Sustained growth in Total Operating Income (TOI) at above 5% while maintaining PBILDT levels of 15-17%

Negative factors

- Any moderation in profitability, leading to lower accruals, or undertaking of high debt-funded capex, resulting in total debt (TD) to PBILDT of above 3.50x on a continued basis.
- Underutilisation of capacity at both, the PWP and board paper mills below 80% on a continued basis.
- Deterioration of total outside liabilities (TOL)/tangible net worth (TNW) above 1.8x.

Analytical approach: Standalone

CARE Ratings has adopted a standalone approach for rating the facilities of TNPL.

Outlook: Positive

The outlook on the long-term rating of TNPL has been revised from 'Stable' to 'Positive' on the improved operational and financial performance of TNPL during FY23, with recovery in demand and operationalisation of the pulp mill in FY23. CARE Ratings expects the cost savings from the imported pulp mill to enable the company to maintain a PBILDT margin in the range of 15-16% in the near future. The outlook may be revised to 'Stable' if there is a sizeable decline in the company's profitability or a significant deterioration in the debt metrics.

Detailed description of the key rating drivers:

Key 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 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 4.4 lakh tonne per annum (TPA). Unit-I has a pulping capacity

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

of 1,180 tpd as on March 31, 2023, including hardwood pulping capacity of 330 tpd, chemical bagasse pulping capacity of 550 tpd and deinking pulp plant with a capacity of 300 tpd. The company also developed captive power plants with a capacity of 103.69 MW as on March 31, 2023. 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 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, which accounts for ~20% of FY23 sales. During FY23, due to improved demand on account of opening of school/offices and major consumption centers for the company, the PWP mills were utilized to their maximum capacity as against 97% utilization in FY22.

Established raw material sourcing capabilities:

TNPL sources bagasse which is the primary raw material from local sugar mills on barter basis in exchange for steam/coal (coal is used to produce steam) used in these sugar mills. Long-term agreements have been entered into with six sugar mills in Tamil Nadu for sourcing bagasse in exchange for coal supplied for generation of steam. The 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 for PWP has remained fairly stable around 50% in the past three years. The other major raw material for PWP is wood pulp (30%). In the board segment wood pulp constitutes 65% of the raw material and balance is imported pulp. Around 60% of the total wood pulp consumed is procured directly from farmers, 34% from government sources like Tamil Nadu Forest Plantation Corporation Limited (TAFCON) and remaining through open market sources.

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, 2023, the company had established pulpwood plantations in total of 233774 acres from 2004-05 (211,280 acres as on March 31, 2022) under its captive plantation and farm forestry scheme.

Improving capacity utilisation and profit margins in PWP segment:

The company was able to utilize the PWP mills at their maximum capacity during FY23 as compared to 97% as utilization during FY22 on account of recovery in demand. The reopening of offices and schools post COVID related lockdowns increased the demand for printing & writing paper. In FY23, to capture the increased demand for PWP products, TNPL had undertaken debottlenecking and other minor modifications to its existing plant to increase the capacity by 10% to 4.4 lakh TPA after obtaining the necessary licenses from the government in FY23. The sales realizations also increased by 42% compared to FY22 owing to an industry-wide uptrend. CARE Ratings expects the realisations and PBILDT margin to moderate in FY24.

Robust FY23 performance and cost savings from past capex spends:

TOI of the company during FY23 has improved by 29% and has surpassed the ₹5000 crore mark and stood at ₹5199 crores) as against ₹4036 crore in FY22 on account of improved demand in PWP segment, higher price realizations and implementation of inhouse pulp mill. Post the commissioning of pulp mill at unit II, the product mix of the board segment has changed significantly. The company has shifted its production from grey black to Solid Bleached Sulphate Board and cup stock which have higher margins.

The overall price advantage of the inhouse pulp mill was a benefit of ~Rs 320 crores in FY23. The Q1FY24 revenue increased from ₹1136 crs in Q1FY23 to ₹1273 crores. Prices have started to stabilize and it is expected that there will be moderate in prices by 7-8% YoY in FY24.

Key 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 1.26x as on March 31, 2023 compared with 1.77x as on March 31, 2022. Debt funded capacity expansions in the recent past have impacted debt protection metrics. However, with improved FY23 performance debt metrics have improved as compared to previous year, although it is still highly leveraged. The company's Total debt/GCA improved significantly from 11.33x as on March 31, 2022 to 3.19x as on March 31, 2023 owing to significant improvement in GCA resulting from increased top line. Interest coverage ratio improved from 2.39x as in FY22 to 5.63x in FY23 on the back of robust FY23 results. The company has put a pause on the phase ii of the expansion for the next 1-2 years. Enhancement in debt levels for funding any major capex 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. 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 prices of raw materials and fuel. The company obtains bagasse through barter arrangement with sugar mills in exchange for steam/coal. 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 ₹300- 360 crore in FY24 and FY25 against which the company is expected to generate cash accruals of ₹600-700 crores. The company has repaid around ₹150 crores of principal repayments in H1FY24. The company's average working capital utilization was moderate at 47% for the past twelve months ended June 2023. The company has invested around ₹1300 crores of capital expenditure in the recent past towards the hardwood pulp plant which commenced operations in FY23. For FY24-FY26, currently the company does not have any major planned capex, except the maintenance and sustenance capex of ₹200 – 300 crores for the next 2 years. Also, the company has ₹300 crores of term loans for general corporate purposes sanctioned in September 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: For the paper industry, the main factor of ESG affecting the sector is the environmental factors like deforestation, biodiversity and land use, water stress and emissions. Human Capital also is a vital component in the capital intense paper industry. Governance remains a universal concept affecting the Indian companies across all sectors.

Environment:

The company uses bagasse (residue of the sugar cane industry) as its primary raw material and reused wastepaper (around 10-15% of total raw materials) to produce paper. All raw materials are sourced from sustainable sources.

Deforestation: Only 45% of the raw material is hardwood pulp, which is also sourced from captive, farm forestry operations and not from forests. As per the management, TNPL saves over 40,000 acres of forest land from depletion every year.

Water usage: TNPL implemented various water conservation programmes like rainwater harvesting, wastewater treatment and reduce etc. The company's water usage is amongst the lowest with 32 kilolitre per tonne used for paper production. TNPL is also exploring other options to move towards zero liquid discharge.

Waste disposal and reduction: To minimise the waste generated, the company has established a cement factory to convert the inorganic solid waste including lime sludge and fly ash generated from pulp, paper and paper board mill into high grade cement.

Social:

Occupational hazard: TNPL has adopted a clearly defined Occupational Health and Safety Policy. Suitable Personal Protective Equipment's (PPE) are provided to all employees. Periodical Training Programs are conducted on handling of hazardous chemicals, material handling, usage of PPEs, electrical safety, road safety, first aid, firefighting etc. to improve safety awareness among the employees including contract workmen.

The company also has a farm forestry scheme which targets local and marginalised farmers.

Governance:

Board qualification: The Government of Tamil Nadu (with 35.32% shareholding as on June 30, 2023) appoints the Chairman and Managing Director and nominates two other non-executive directors of TNPL. Presently, Dr. M. Sai Kumar, IAS is the Chairman and MD of the company with effect from July 2022. The board and management of TNPL are assisted by an experienced team of highly qualified professionals across various functions to manage the day-to-day affairs of the company.

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 and industry

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & Paper Products

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, 2023. 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 chairman and managing director is appointed by the Government of Tamil Nadu and he is supported by well-experienced executives handling key functions in the organisation.

Brief Financials - Consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	4036.29	5199.23	1273.44
PBILDT	374.38	1022.87	324.84
PAT	14.33	387.87	128.66
Overall gearing (times)	1.77	1.26	NA
Interest coverage (times)	2.39	5.63	5.91

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results 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 - Independent Director

V. Chandrasekaran, who is Non-Executive Independent Director on the Board of Tamilnadu Newsprint & Papers Ltd., is Non-Executive Independent Director of CARE Ratings. Independent/Non-executive directors of CARE Ratings are not a part of CARE Ratings' 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: Annexure-4

Lender details: Annexure-5

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	1817.94	CARE A; Positive
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	350.00	CARE A; Positive / CARE A1
Fund-based/Non-		-	-	-	375.00	CARE A1

fund-based-Short Term						
Fund-based/Non-fund-based-Short Term		-	-	-	800.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	425.00	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Term Loan	LT	1817.94	CARE A; Positive	-	1)CARE A; Stable (03-Oct-22)	1)CARE A; Negative (09-Sep-21)	1)CARE A; Stable (07-Dec-20)
2	Fund-based - LT/ST-CC/PC/Bill Discounting	LT/ST*	350.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable / CARE A1 (03-Oct-22)	1)CARE A; Negative / CARE A1 (09-Sep-21)	1)CARE A; Stable / CARE A1 (07-Dec-20)
3	Non-fund-based - ST-BG/LC	ST	425.00	CARE A1	-	1)CARE A1 (03-Oct-22)	1)CARE A1 (09-Sep-21)	1)CARE A1 (07-Dec-20)
4	Fund-based/Non-fund-based-Short Term	ST	375.00	CARE A1	-	1)CARE A1 (03-Oct-22)	1)CARE A1 (09-Sep-21)	1)CARE A1 (07-Dec-20)
5	Fund-based/Non-fund-based-Short Term	ST	800.00	CARE A1	-	1)CARE A1 (03-Oct-22)	1)CARE A1 (09-Sep-21)	1)CARE A1 (07-Dec-20)

*Long term / Short term

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

Annexure-4: Complexity level of various instruments rated

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/Non-fund-based-Short Term	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

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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.

Disclaimer:

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