Tamilnadu Newsprint & Papers Limited

January 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,817.94	CARE A; Positive	Reaffirmed
Long-term / Short-term bank facilities	350.00	CARE A; Positive / CARE A1	Reaffirmed
Short-term bank facilities	1,600.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Tamilnadu Newsprint & Papers Limited (TNPL) continue to 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 utilisation at PWP mill on year-over-year (y-o-y) basis.

However, ratings are constrained by the subdued performance of the company in H2FY24 and H1FY25. The paper industry in the last and current fiscal year has been exposed to raw material price volatility and the persistent threat posed by imports. These factors collectively lead to a considerable obstacle, potentially impacting market prices of paper and paper board and adversely affecting TNPL's total operating income (TOI) and profitability margins. TNPL's capital structure remains leveraged, and is exposed to forex fluctuation. Ratings also factor in the major debt funded capex planned of ₹600 crore in the next two to three years towards the tissue paper machine and revamping of steam and power systems, apart from the routine capex. CARE Ratings Limited (CARE Ratings) notes the financial flexibility that TNPL enjoys with track record of raising debt at competitive rates and high refinancing capability.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) below 2.75x on a continued basis.
- Sustained growth in TOI above 5% while maintaining PBILDT levels of 15-17%.

Negative factors

- Moderation in profitability leading to lower accruals resulting in TD/PBILDT of above 3.50x on a continued basis.
- Material capex beyond ₹600 crore resulting in significant increase in debt levels.
- Deterioration of total outside liabilities to tangible net worth (TOL/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 TNPL's long-term rating continues at 'Positive' on anticipation of a better performance in the forthcoming quarters with improvement in realisations due to price hikes aided by recovery in demand. CARE Ratings expects the cost savings from the imported pulp mill to enable the company to maintain a PBILDT margin in the range of 14-16% 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 key rating drivers:

Key strengths

Strong operational track record in PWP industry with integrated 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, Tamil Nadu with three paper machines aggregating to a total installed capacity of 4.4 lakh tonne per annum (LTPA). Unit-I has a pulping capacity of 1,580 tonne per day (tpd) as on March 31, 2024, including hardwood pulping capacity of 730 tpd, chemical bagasse pulping capacity of 550 tpd and deinking pulp plant with a

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

capacity of 300 tpd. The company also developed captive power plants at its units and the plant at Unit I has a capacity of 103.62 MW as on March 31, 2024. Unit I is self-sufficient in terms of pulp and power requirements. The unit I also has an in-house cement plant which uses lime sludge waste and fly ash produced in the paper production to produce cement. The company also has wind farms with a capacity of 35.50 MW in Tirunelveli, 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 with long track record, TNPL has been able to establish strong relationship with its customers. TNPL also acts as a key supplier for paper for textbooks and other material to the Government of Tamil Nadu, which accounts for ~20% of the total sales. The PWP mill was ~96% and ~98% utilised in FY24 and H1FY25, respectively. As informed, the company's plants can produce up to 4.8 lakh TPA from its existing facilities without undergoing major capex.

Optimisation of product mix and backward integration in paperboard segment

TNPL has two lakh TPA capacity in paperboard segment. The company optimises its product mix based on the market requirement and production varies according to the demand. The paper boards segment (majorly Folding box board [FBB] and Solid Bleached sulphate [SBS]) is predominantly end user specified. These are used for packaging in customer facing industries including pharmaceutical, health care, food and cosmetics among others.

Overall capacity utilisation in board plant had increased from 84% in FY23 to 98% in FY24. Post the commissioning of pulp mill at unit ll, the product mix of the board segment has changed significantly. The company has shifted its production from grey black to solid bleached sulphate board due to higher margins. Grey black board is a lower margin product as it uses recycled fibers. The company is also focusing on increasing its market share in the higher value adding virgin fiber boards business (folding box boards, sbs boards, cup stock and other specialty grades). However, the realisation from board plant decreased in FY24 owing to decrease in sales price.

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 with six sugar mills in Tamil Nadu for sourcing bagasse in exchange for coal supplied for steam generation. 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 ~50-60% in the past three years. The other major raw material for PWP is wood pulp which constituted ~30%. In the board segment, wood pulp constitutes ~65-70% raw material and balance is imported pulp. In FY24, ~58% of the total wood pulp consumed was procured directly from farmers, 32% from government sources like Tamil Nadu Forest Plantation Corporation Limited (TAFCORN) and remaining 10% 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, 2024, the company had established pulpwood plantations in total of 256,756 acres from 2004-2024 under its captive plantation and farm forestry scheme.

Key weaknesses

Moderation in performance in FY24 and H1FY25

The company's TOI in FY23 improved by 29% and surpassed the ₹5000 crore mark considering improved demand in PWP segment, higher price realisations and implementation of inhouse pulp mill. However, TOI declined by ~9% in FY24, dropping to ₹4,720 crore against ₹5,199 crore in FY23. PBILDT margin also fell from 18.79% in FY23 to 16.47% in FY24. In 2024, the market for paper faced challenges due to increase in import of paper. Consequently, the realisation of paper was lower than the previous year. The prices of raw materials especially, wood has also increased significantly impacting the the company's profitability. FY23 had been an exceptional year with revenue and profitability margins benefiting from an unprecedented surge in sales realisation. However, this surge began to normalise from Q3FY24 onwards. As anticipated, such inflated prices were not expected to persist, and therefore, revenue for FY24 was lower than that of FY23. The TOI for H1FY25 declined to ₹2,058 crore, compared to ₹2,252 crore in H1FY24, while the PBILDT margin dropped to 14.54% from 22.27% in H1FY24. This decline was primarily due to the steep drop in market prices of Paper & Paper Board which adversely impacted the company's turnover and profits. Going forward, CARE Ratings expects that with expected price hike and recovery in demand, the TOI and margins to improve in H2FY25.

Improved but moderately leveraged capital structure; however, the company enjoys high refinancing capability

Although the company's capital structure improved, it continues to remain moderately leveraged with an overall gearing of 1.13x as on March 31, 2024, compared to 1.32x as on March 31, 2023. Decrease in long-term borrowings have resulted in overall decrease in debt levels, although there has been an increase in short-term working capital borrowings. With decrease in profitability amidst rising interest cost, debt protection metrics have deteriorated in FY24. The company's total debt to gross cash accrual (TD/GCA) deteriorated from 3.35x as on March 31, 2023, to 4.14x as on March 31, 2024, owing to decrease in GCA resulting from decline in profitability levels. Interest coverage ratio decreased from 5.38x in FY23 to 3.48x in FY24, considering

decrease in PBILDT levels and increase in finance cost. Going forward, increase in debt levels beyond the estimated debt for funding the capex and its impact on the company's debt metrics 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 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 company's power boilers. The company imports coal and volatility in coal price can affect 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 steep fluctuations could affect the company's profitability levels.

Major debt funded capital expenditure undertaken
Considering the market potential for tissue paper, a 100 tpd capacity, state-of-the art tissue paper machine and its auxiliaries is proposed to be installed at TNPL Unit-II at an estimated project cost of ₹340 crore. The procurement action was initiated in February 2024 and is expected to be commissioned before March 2026. This project is expected to be funded through debt of ₹270 crore and the balance through internal accruals. Also, revamping of the existing steam and power system in unit I is taken up in phases to retire and replace the old low-pressure boilers installed since the mill inception in 1985. The instalation of two high pressure boilers with steam generation of 125 tph each and a 42 MW turbo generator is being taken up in phases. As part of Phase I, procurement of one high pressure boiler is under progress and is likely to be completed by end of March 2026. The total project cost is estimated to be at ₹150 crore, which is expected to be funded through debt of ₹120 crore. Aligned with the company's commitment to environment and renewable energy, 1 MW each rooftop solar power plants are under instalation on building at both units. The project is likely to be completed by July 2026. The total project cost is estimated to be at ₹12 crore, which will be funded through internal accruals.

Liquidity: Adequate
TNPL's liquidity is expected to be adequate mainly due to its financial flexibility which is evident from the company's ability to raise longer tenure loans from different lenders at competitive interest rates. TNPL's long-term debt repayment obligations are sizeable at ₹350- 360 crore in FY25 and FY26 against which the company is expected to generate cash accruals of ₹470-550 crores. The company has repaid ~₹175 crore of principal repayments in H1FY25. The company's average working capital utilisation was moderate at 55-60% for the last twelve months ended June 2024. The company has capital expenditure planned of ₹600 crore in the next two to three years towards the tissue paper machine and revamping of steam and power systems, apart from the routine capex. These are expected to be funded through a mix of debt and internal accruals in the ratio of 80:20. TNPL is expected to generate sufficient cash accruals to fund the additional debt repayments and the ICR is expected to be comfortable at over 3x going forward. In the near-medium term, the company's accruals and unutilised bank lines are expected to be adequate to meet incremental working capital needs. In FY24, the company had net cash flow from operations amounting to ~₹390 crore.

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 (~10-15% of total raw materials) to produce paper. All raw materials are sourced from sustainable sources.
Deforestation: Only 45% raw material is hardwood pulp, which is also sourced from captive, farm forestry operations and not from forests. Per the management, TNPL saves over 40,000 acres forest land from depletion every year.
Water usage: TNPL implemented water conservation programmes like rainwater harvesting, wastewater treatment and reduce among others. The company's water usage is among 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 & 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, and firefighting among others 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 September 30, 2024) appoints the chairman and managing director and nominates two other non-executive directors of TNPL. Presently, Dr Sandeep Saxena, IAS is the chairman and MD of the company from August 2024. TNPL's board and management are assisted by an experienced team of highly qualified professionals across functions to manage the company's day-to-day affairs of the company.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Paper & Paper Products
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Forest materials	Paper, forest and jute products	Paper and 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 September 30, 2024. The company 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, where the chairman and managing director is appointed by the Government of Tamil Nadu and is supported by well-experienced executives handling key functions in the organisation.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	5,199.23	4,719.89	2057.71
PBILDT	977.00	777.14	299.28
PAT	387.87	208.16	24.49
Overall gearing (times)	1.32	1.13	NA
Interest coverage (times)	5.38	3.48	NA

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and 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-fund-based-Short Term		-	-	-	375.00	CARE A1
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 for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	1817.94	CARE A; Positive	-	1)CARE A; Positive (09-Oct-23)	1)CARE A; Stable (03-Oct-22)	1)CARE A; Negative (09-Sep-21)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	350.00	CARE A; Positive / CARE A1	-	1)CARE A; Positive / CARE A1 (09-Oct-23)	1)CARE A; Stable / CARE A1 (03-Oct-22)	1)CARE A; Negative / CARE A1 (09-Sep-21)
3	Non-fund-based - ST-BG/LC	ST	425.00	CARE A1	-	1)CARE A1 (09-Oct-23)	1)CARE A1 (03-Oct-22)	1)CARE A1 (09-Sep-21)
4	Fund-based/Non-fund-based-Short Term	ST	375.00	CARE A1	-	1)CARE A1 (09-Oct-23)	1)CARE A1 (03-Oct-22)	1)CARE A1 (09-Sep-21)
5	Fund-based/Non-fund-based-Short Term	ST	800.00	CARE A1	-	1)CARE A1 (09-Oct-23)	1)CARE A1 (03-Oct-22)	1)CARE A1 (09-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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

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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.

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