Tamil Nadu Newsprint and Papers Limited

January 04, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	1717.94 (reduced from 1944.85)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	1500.00 (enhanced from 325.00)	CARE A1 (A One)	Reaffirmed
Long-term/ Short-term Bank Facilities	550.00 (enhanced from 425.00)	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Total Facilities	**3767.94 (Rupees Three Thousand Seven Hundred Sixty Seven crore and Ninety Four Lakh 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 the strong operational track record of the company with TNPL being one of the largest integrated players in the paper industry with a well-established distribution network and strong raw material sourcing capabilities The ratings also take note of the scaling up of operations on the recently ventured paper board business with improving volumes on the higher margin products.

The ratings are, however, constrained by drop in profitability in the FY18 and 6MFY19. Dependence on imported pulp for the paper board plant and higher open market purchases for raw material which have led to a sharp drop in operating profitability. This combined with high capital costs and absence of production for a few months in the beginning of FY18 has led to the company reporting losses in FY18. While the production levels have improved at both the units in 6MFY19, the profitability remains subdued, with board unit still reporting losses at net levels.

The ratings are also constrained by the moderate capital structure and higher dependence on refinancing of debt obligations on account of the less than expected accruals. Nevertheless, comfort is drawn financial flexibility that TNPL enjoys, with access to working capital lines which are minimally utilised and track record of availing debt of longer tenures to ease out repayments.

Going forward, ability of the company to improve on the overall profitability levels and ensure healthy cash generation, maintain a comfortable capital structure would be key rating sensitivities.

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 three decades and has emerged as one of the leading manufacturers of PWP in India. PWP accounts for 65% of TNPL's total income in FY18. 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, 2018.

The company also developed captive power plants along with its units and the plant at Unit I has a capacity of 138.62 MW as on March 31, 2018. 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 35.5 MW located in Tirunelveli district of Tamil Nadu.

The PWP unit has been operating at consistently high capacity utilisations over the last few years and the unit achieved 100% capacity utilisation during FY16 and FY17. However during Q1FY18, due to the drought situation prevalent in Tamil Nadu, the mill was shut down from April 2017 to July 2017 resulting in a lower capacity utilisation of 88% during FY18. Utilisation levels have picked up and the plant operated at 105% levels during H1FY19.

Well-established distribution network in PWP industry and strong raw material sourcing capabilities

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

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 also the largest exporter of PWP in the country and exports constituted about 17% of the net sales volume during FY18.
In terms of raw material requirements, bagasse is the primary source of raw material for the company and TNPL sources bagasse from local sugar mills on barter basis in exchange for coal which is used to produce steam used in these sugar mills. 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).

Improving capacity utilisation at the Paper board unit
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 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. During FY18, the capacity utilisation has improved to 71% as against 46% during FY17. TNPL has also utilised 94% of their unit II capacity during H1FY19. With better utilisation levels, the MCB unit reported a total sale of Rs.717.07 crore during FY18 as against a total sale of Rs.415.77 crore during FY17. The MCB unit reported a sale of Rs. 503 crore in H1FY19.

Key Rating Weaknesses
Exposure to volatility in raw material prices and foreign exchange rates
The company is exposed to volatility associated with the raw material prices, fuel prices and forex risk. While the raw material price fluctuations are passed on to customers to an extent, the company has to absorb the fluctuations related to fuel prices and forex fluctuations

Net Loss reported during FY18
Tamil Nadu, where the company's production facilities are located, had witnessed severe drought and water shortage during FY18. This resulted in the company losing a production equivalent to 46041 MT of paper. Further, the company had to purchase bagasse from open market, at a higher cost, rather than from its barter arrangement with the sugar mills. On the paperboard front, the plant was operating entirely on imported virgin pulp whose cost had increased. As a consequence of these reasons, the PBILDT margin declined to 13.82% during FY18 from 25.36% during FY17. With lower PBILDT of Rs.431.73 crore during FY18 and higher depreciation and interest costs, the company incurred a net loss of Rs.42.14 crore during the same period.
During H1FY19, the PWP plant was operating at 105% capacity utilisation and the paper board plant was operating at 94% capacity utilisation. However, TNPL continued facing issue with availability of bagasse and dependence on high cost imported pulp. TNPL had generated revenue of Rs.1931.01 crore during H1FY19 at a PBILDT margin of 13.65%. The company reported a PAT of Rs. 31.21cr for H1FY19.

Moderately leveraged capital structure
The capex projects undertaken by TNPL in the past were predominantly debt funded and hence the leverage levels of the company are moderately high. The overall gearing has improved from 1.73 times as on March 31, 2017 to 1.67 times as on March 31, 2018. The company had a TD/GCA of 13.56 years and interest coverage of 1.76 times during FY18.
TNPL had funded construction of MCB unit through bank borrowings & medium term general corporate loans and repayment for the same began from June 2017. In light of the losses in Fy18 and lower than expected cash accruals, the company has resorted to refinancing a few of its debt obligation and availing new debt to ease out payments in the near term.

Satisfactory Liquidity position
While the cash generation has been lower than expected in FY18 and H1FY19, the company's liquidity position remained satisfactory with access to unutilized working capital lines and refinancing of near term debt obligations with longer tenor debt. As on December 2018, the company had cash credit limit of Rs. 550 crore. The company has maintained an average utilization of 27% in the above mentioned limits for the period between November 2017 and October 2018. The company had a cash balance of Rs.14.02 crore and liquid investments of Rs.0.71 crore as on Sept 30,2018. The company's operating cycle has remained stable at 53 days for FY18.

Industry
As per CARE's research, the Indian paper and paper products industry has continued to witness steady growth and in FY18 and the domestic demand grew from 9.3 million tonnes in FY08 to 17.1 million tonnes in FY18 at a CAGR of 6.3%.
Growing e-commerce space and increasing presence of the FMCG and packaged food industries contributed to the growth in the sector. The Printing and Writing (P&W) paper segment forms 30% of domestic paper market.. Packaging paper & board segment accounting for 51% of the total paper demand in India and is the largest segment in the industry. It grew at a CAGR of 7.4% from 4.3 mn tonnes during FY08 to 8.7 mn tonnes in FY18. Rising urbanization, increasing

penetration of organized retail, higher growth in FMCG, pharmaceutical and processed food industries etc. are the growth drivers of the segment.
China continues to remain the largest nation for paper imports as it accounted for a 26% share (by volume) of paper imports in FY18, while Russia accounted for a 35% share (by volume) of newsprint imports in FY18.

Analytical approach:
Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

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, 2017. The company now operates two plant 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)	FY17 (A)	FY18 (A)
Total operating income	2,985.85	3,124.89
PBILDT	757.24	431.73
PAT	264.60	-42.14
Overall gearing (times)	1.73	1.67
Interest coverage (times)	3.00	1.76

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 Director (Additional Director) of CARE. 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

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

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About CARE Ratings:
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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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2026	1717.94	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	550.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	685.00	CARE A1
Fund-based/Non-fund-based-Short Term	-	-	-	320.00	CARE A1
Fund-based - ST-Working Capital Limits	-	-	-	495.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1717.94	CARE A; Stable	-	1)CARE A; Stable (09-Oct-17)	1)CARE A+ (18-Oct-16)	1)CARE A+ (20-Nov-15) 2)CARE A+ (14-Oct-15)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	550.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (09-Oct-17)	1)CARE A+ / CARE A1 (18-Oct-16)	1)CARE A+ / CARE A1 (20-Nov-15) 2)CARE A+ / CARE A1 (14-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	685.00	CARE A1	-	1)CARE A1 (09-Oct-17)	1)CARE A1 (18-Oct-16)	1)CARE A1 (20-Nov-15) 2)CARE A1 (14-Oct-15)
4.	Fund-based/Non-fund-based-Short Term	ST	320.00	CARE A1	-	-	-	-
5.	Fund-based - ST-Working Capital Limits	ST	495.00	CARE A1	-	-	-	-

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