Tamil Nadu Newsprint and Papers Limited

November 15, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long-term Bank Facilities	1561.17 (reduced from 1717.94)	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	1500	**CARE A1 (A One)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	550	**CARE A; Stable/CARE A1 (Single A; Outlook: Stable/ A One)**	**Reaffirmed**
Total Facilities	3611.17 **(Rupees Three Thousand Six Hundred and Eleven crore and Seventeen lakh only)**		

Details of 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 with TNPL being one of the largest integrated players with a well-established distribution network in PWP industry and strong raw material sourcing capabilities. The ratings take note of the scaling up operations on the board business and improvement in profitability aided by improved realisations.

The ratings are, however, constrained by subdued profitability margins with board unit still reporting losses at net levels even with ramp up of productions. The ratings are also constrained by the moderate capital structure and dependence on refinancing of debt obligations. Nevertheless, comfort is drawn financial flexibility that TNPL enjoys, with access to minimally utilised working capital lines and track record of availing debt of longer tenures to ease out repayments.

Rating Sensitivities

Positive Factors

- *Improvement in overall profitability*
- *The company is taking up a large capital expenditure to establish in-house pulping capacity and enhancing PWP capacity in its unit II. Ability to complete the project in time and realizing desired benefits out of the same*

Negative Factors

- *Any moderation in profitability leading to lower accruals thereby affecting capital structure*
- *Any significant cost or time overrun in the above mentioned project*

Detailed description of 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 69% of TNPL's total income in FY19. 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, 2019.

The company also developed captive power plants along with its units and the plant at Unit I and Unit II have a capacity of 103.62 MW and 30 MW respectively as on March 31, 2019. 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. The company markets the cement produced under the brand name of "TNPL cement" in Karur and its vicinity. Such high level of integration has enabled the company to consistently keep its costs under control over the years. 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 in the past four financial years except during FY18 where utilisation dropped to 88% due to drought situation prevalent in Tamil Nadu, resulting in shortage of water. However, utilisation has picked up during FY19 to 108% with normal availability water.

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 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 export constituted about 19% of the net sales during FY19 (17% 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).

Improved operational performance in FY19

The company's capacity utilisation in the unit I has come to 108% in FY19 compared to the lower utilisation of 88% in FY18. Increased sales volume and realisation in both PWP and paper board segment has helped the company to report 32% growth in total operating income. Elevated realisation and reduction in dependence of imported pulp has slightly improved the operating margins in FY19.

Key Rating Weaknesses:

Change in raw material profile

The share of Bagasse in the raw material mix has been broadly stable at around 61%-63% during the past years ended March 2016. However, towards the end of FY17 (March 2017) and during Q1FY18, the company had to rely more on imported pulp and imported waste paper (used in DIP), on account of water shortage leading to shut down of its pulping units. Commencement of paper board plant has also increased the dependence on imported pulp as it does not have in-house pulping facility. Since FY17, the share of bagasse in the raw material mix has come down and during FY19 the same was at 47%. Increased dependence on imported pulp and relatively lower profitability margins from the paper board segment have led to pressure on the overall profitability of TNPL.

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.

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 of the company has improved to 1.58x as on March 31, 2019 from 1.67x as on March 31, 2018. On the healthy accruals during FY19, the company's debt coverage indicators has improved. The company had a TD/GCA of 7.85 years and interest coverage of 2.90 times during FY19.

Liquidity – Adequate

The company's liquidity is adequate with Rs.818.88 crore of cash flow from operation in FY19, minimally utilised working capital limits and the refinancing of the near term loans with longer tenor debt. The company had cash credit limit of Rs.550 crore and the average utilisation on the same was around 50% for the past twelve months ended May 2019. Though the operation is working capital intensive, the company's fund-based working capital limit utilization was around 50% aided by favorable operating cycle at 17 days. The company had a cash balance of Rs.50.21 crore as on March 31, 2019. Expected tightly matched accruals in the ensuing year might pose refinancing risk for the company. However, the comfort is drawn from the ability of the company to raise longer tenor loans at competitive rates.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook and credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments

CARE's Methodology for 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, 2019. 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)	FY18 (A)	FY19 (A)
Total operating income	3151.66	4110.05
PBILDT	431.73	676.51
PAT	-42.16	94.37
Overall gearing (times)	1.67	1.58
Interest coverage (times)	1.76	2.90

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 of CARE. 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

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	-	-	December 2034	1561.17	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	1561.17	CARE A; Stable	-	1)CARE A; Stable (04-Jan-19)	1)CARE A; Stable (09-Oct-17)	1)CARE A+ (18-Oct-16)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	550.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (04-Jan-19)	1)CARE A; Stable / CARE A1 (09-Oct-17)	1)CARE A+ / CARE A1 (18-Oct-16)
3.	Non-fund-based - ST-BG/LC	ST	685.00	CARE A1	-	1)CARE A1 (04-Jan-19)	1)CARE A1 (09-Oct-17)	1)CARE A1 (18-Oct-16)
4.	Fund-based/Non-fund-based-Short Term	ST	320.00	CARE A1	-	1)CARE A1 (04-Jan-19)	-	-
5.	Fund-based - ST-Working Capital Limits	ST	495.00	CARE A1	-	1)CARE A1 (04-Jan-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments - NA

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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