Tamil Nadu Newsprint and Papers Limited

December 7, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,638.70	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	350.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable / A One)	Reaffirmed
Short Term Bank Facilities	1,275.00	CARE A1 (A One)	Reaffirmed
Total 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 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 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 leveraged capital structure with a large debt funded capital expenditure program being undertaken and dependence on refinancing of debt obligations. Nevertheless, CARE notes the financial flexibility that TNPL enjoys, with track record of raising debt at competitive rates to ease out repayments.

Rating Sensitivities

Positive factors

- Timely completion of the capital expenditure program without any time and cost overrun.
- Deriving benefits from the capital expenditure that is being incurred with resultant improvement in profitability on the paper board segment
- Reduction in leverage levels with overall gearing around unity

Negative factors

- Any moderation in profitability leading to lower accruals thereby affecting capital structure
- Any significant cost or time overrun in the projects
- Any prolonged impact of the COVID-19 pandemic on the demand outlook

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 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, 2020. The company also developed captive power plants along with this unit with a capacity of 103.62 MW as on March 31, 2020. The Unit 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.

PWP accounts for 68% of TNPL's net sales in FY20 and the unit has been operating at consistently higher capacity utilisations over the last few years except during FY18. The utilisation dropped to 88% in FY18 due to drought situation prevalent in Tamil Nadu, leading to a shortage of water for operations. The capacity utilisation in PWP segment was stable at 98% in FY20.

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

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

of Tamil Nadu. TNPL is also the largest exporter of PWP in the country and export constituted about 19% of the net sales during FY20 (19% during FY19).
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).

Stable capacity utilization in board plant in FY20
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. Paper board accounts for 29% of TNPL's net sales in FY20. The capacity utilisation has remained stable at 86% in FY20 against 88% in FY19.

Key Rating Weaknesses
Subdued profitability margins with board unit
A small part of MCB unit's pulp requirement is sourced from PWP unit, while the major share is procured externally. 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. However, with improved utilisation levels and other cost control measures the company's overall PBILDT margins have improved over the last three years from 13.70% in FY18 to 18.10% in FY20.

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 high. The overall gearing of the company stood at 1.56x as on March 31, 2020. Going forward, with the company is undertaking a debt funded capital expenditure and with the shortfall in accruals on account of the subdued performance in the current year, the leverage levels are expected to remain elevated.

Capital expenditure plans
The company is undertaking a large capital expenditure with a capital outlay of Rs.2520 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.1100 crore. The second phase of the expansion involves establishing a paper machine with a capacity to produce 1,65,000 MTPA paper with a total cost of Rs.1420 crore after the competition of the first phase. The phase 1 of the project commenced in FY20 and the pulping unit is expected to be commissioned by February 2021 against the earlier envisaged time line of May 2021.

Exposure to volatility in raw material 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. The company also imports pulp and any steep fluctuations could affect the profitability levels of the company.

Impact of Covid – 19
As a result of Covid-19 outbreak and nation-wide lockdown announced by the Government, operations of the company were temporarily suspended from March 25, 2020. On April 15, 2020, the company has resumed its operation in a phased manner while following government guidelines. The company's capacity utilisation was 80.49% and 71% respectively in PWP and MCB unit in H1FY21. In H1FY21 the company reported total operating income of Rs.1108.34 crore with PBIDT of Rs.171.81 crore PBIDT margin: 15.5%) when compared with a total operating income of Rs.1744.52 crore with PBIDT of Rs.369.81 (PBIDT margin: 21.20%) crore in H1FY20. Due to moderation in total operating income and under-absorption of fixed costs, TNPL reported net loss of Rs.29.58 crore in H1FY21. However, it is noted that the company's performance has improved quarter on quarter with total operating income of Rs.607.05 crore reported in Q2FY21 against the total operating income reported of Rs.501.29 reported in Q1FY21. Further, Board business has shown improved performance in Q2 as compared to Q1 with utilisations improving and the company reporting sales of Rs.202.69 crore in Q2FY21 vis a vis Rs.141.22 cr in Q1FY21.

Industry and prospects
The Indian paper and paper board industry has continued to witness steady growth in FY20, and the domestic demand grew from 9.3 million tonnes in FY08 to 18.6 million tonnes in FY20 at a CAGR of 6.4%. However, subdued and diverse trading

conditions caused by geopolitical uncertainties including the current coronavirus outbreak have impacted the overall global demand.
Further, the industry is grappling with weak demand, shortage of raw material and limited availability of labour, which is affecting capacity utilization. Demand for paper and cardboards is expected to contract 10-15 per cent year on-year, affecting all categories of products. The shutdown of schools, colleges and majority of offices has crimped demand for writing and printing (W&P) paper. Though pulp prices have come off their highs and waste paper prices have declined further, the raw material prices are expected to remain stable. However, despite the eased out cost side pressures, the margins of the players are expected to be affected by subdued market conditions, lower realizations of finished goods, imports of finished paper and disruption in supply chain and production due to COVID-19.
Given the extant operating environment, TNPL's cash generation from operations are also expected to be tempered. Further, in the midst of this muted operating environment, the company is also undertaking a debt funded capital expenditure program where the first phase involves amongst other things a pulp plant. The largely debt funded capital expenditure and lower cash generation is expected to keep the leverage levels elevated and moderate the debt coverage indicators. At the same time, the pulp plant is expected to aid the improvement in margins of the paper board division and hence the ability of the company to the complete the project within time and cost estimates, stabilize operations would be key to its prospects. Further, demand revival in the PWP segment would also aid the prospects of the company.

Liquidity analysis: 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 lenders at competitive interest rates. In order to aid liquidity, apart from availing covid-19 relief moratorium, TNPL also has been sanctioned with general corporate loan. The company has 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. Logistical issues have constrained the off-take related to government orders thereby resulting in increased inventory in H1FY21. Further, creditor has been extended in H1FY21 with lower cash generation amidst covid-19 pandemic and increase in inventory. The company's average working capital utilization was moderate at 76% for the past twelve months ended September 2020. The company had a moderate cash balance of Rs.4.41 crore and Rs.6.8 crore as on March 31, 2020 and September 30, 2020 respectively.

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
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 35.3% stake as on September 30, 2020. 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)	FY19 (A)	FY20 (A)
Total operating income	4110.05	3493.91
PBILDT	676.51	632.45
PAT	94.38	130.03
Overall gearing (times)	1.58	1.56
Interest coverage (times)	2.90	2.84

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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	-	-	June 2027	1638.70	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting	-	-	-	350.00	CARE A; Stable / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1638.70	CARE A; Stable	-	1)CARE A; Stable (15-Nov-19)	1)CARE A; Stable (04-Jan-19)	1)CARE A; Stable (09-Oct-17)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	350.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (15-Nov-19)	1)CARE A; Stable / CARE A1 (04-Jan-19)	1)CARE A; Stable / CARE A1 (09-Oct-17)
3.	Non-fund-based - ST-BG/LC	ST	510.00	CARE A1	-	1)CARE A1 (15-Nov-19)	1)CARE A1 (04-Jan-19)	1)CARE A1 (09-Oct-17)
4.	Fund-based/Non-fund-based-Short Term	ST	375.00	CARE A1	-	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 (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.*

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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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