TNPL

Tamil Nadu Newsprint and Papers Limited

(A Govt. of Tamil Nadu Enterprise)

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TNPL - The Corporate Identity Number : L22121TN1979PLC007799

Dated: September 17, 2019

To BSE Limited (BSE) Corporate Relationship Department PhirozeJeejeebhoy Towers 25th Floor, Dalal Street, Mumbai- 400001	To National Stock Exchange of India Limited (NSE) Listing Department Exchange Plaza, 5th Floor, Plot No. C/1, G Block, BandraKurla Complex, Bandra (East), Mumbai – 400051

Dear Sir,

Sub: Compliance under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

The Company has receivedthe rating from ICRA (a leading rating agency). A summary of the rated facilities is as under:

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Fund – Based – Term Loan	1858.00	1732.75	[ICRA] A reaffirmed; outlook revised to Stable from Negative
Long Term – Unallocated Limits	0.00	202.25	[ICRA] A (Stable) reaffirmed
Fund – Based/Non Fund Based – Working Capital Facilities	1075.00	998.00	[ICRA] A reaffirmed; outlook revised to Stable from Negative; [ICRA] A1 revised from [ICRA]A2+
Total	**2933.00**	**2933.00**	

This is for your information and record.

Thanking you,

Yours faithfully,

For Tamil Nadu Newsprint and Papers Ltd.

V. Sivakumar
Company Secretary

September 16, 2019

Tamil Nadu Newsprint & Papers Limited (TNPL): Long-term ratings reaffirmed at [ICRA]A; short-term rating upgraded to [ICRA]A1 and outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Term Loan	1858.00	1732.75	[ICRA]A reaffirmed; outlook revised to Stable from Negative
Long-term, Unallocated Limits	-	202.25	[ICRA]A (Stable) reaffirmed
Long-term/ Short-term, Fund-based/Non-fund Based Working Capital Facilities	1075.00	998.00	[ICRA]A reaffirmed; outlook revised to Stable from Negative; [ICRA]A1 revised from [ICRA]A2+
Total	**2933.00**	**2933.00**	

Rationale

The revision in ratings and outlook takes into consideration the improved financial performance of the company in FY2019, on the back of production ramp up in the printing and writing segment (PWP) and the paper board segment. In FY2018, the company witnessed subdued revenue growth and significant moderation in profitability because of acute water shortage in H1FY2018 (which constrained production), increase in raw material prices and drag on margin from the new board plant that is still in the stabilisation phase. Further, while the margin improvement was partly constrained by higher imported coal prices and lower availability of bagasse during H1FY2019, for the full year, FY2019, the profitability improved with increase in realisation, moderation in imported coal prices and better availability of bagasse. The profitability of the board segment, however, continued to drag the margins due to high dependence on costlier imported pulp. The long-term demand outlook for PWP and board segment remains favorable, although there may be some impact on board segment in the near term due to slowdown in economy.

TNPL's capital structure was under pressure in the last few years because of the debt-funded capex undertaken to set up the board plant. Moreover, the coverage indicators have been subdued due to weakened profitability. ICRA further takes note of the company's current expansion plans of setting up a captive pulping unit and a PWP capacity at unit-2 (board plant) for an overall expected capital expenditure of Rs. 2500 crore. The company has already commenced work on the captive pulping plant with planned capital expenditure of Rs. 1100 crore and is expected to be completed by FY2022. The pulping unit project will be funded through a debt of Rs 880 crore and the remaining through internal sources. The debt contribution for the PWP capacity addition is yet to be finalised and the project will be undertaken subsequent to completion of the pulping unit project. While TNPL's capital structure witnessed moderate improvement as on March 2019, following healthy cash accruals and consistent debt repayment in FY2019, the ratings remained constrained by the moderately high gearing. Further, large repayment obligation in the medium term exposes the company to refinancing risk. However, improvement in cash flows and healthy flexibility with lenders are expected to mitigate the risk to some extent. The liquidity profile has also been supported by partial refinancing of the board plant loan and availment of general corporate loans in FY2019.Further, despite the large debt-funded capex plans in the next three years, the gearing levels are expected to witness some moderation due to large repayments and expected cash accruals.

The ratings continue to draw comfort from the long operating history of the company, its dominant market position in the domestic PWP segment, the diversified sales and distribution network, the integrated operations with adequate in-house capacity to manufacture pulp from diversified sources, and the availability of captive power plants. The company has also undertaken periodic efficiency improvement projects, which provide cost advantages. While in the past, use of baggase was a significant source of cost advantage for the company, in the last two years there has been an increase in the price of bagasse due to availability constraints and impact of fluctuation on imported coal prices, although there has been some moderation in Q1FY2019. Nonetheless, the company's ability to source wood from its farm forestry programme at competitive prices is a source of cost advantage. With healthy increase in plantation acreage in recent years, the company is well placed with regard to access to raw materials at competitive prices. The profitability of board plant is also expected to witness improvement once the pulping unit becomes operational. However, timely completion and stabilisation of project remains a sensitivity factor. ICRA, notes that profitability remains vulnerable to cyclicality in the paper business, availability of water and raw materials, and volatility in international coal prices and exchange rates.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that TNPL will continue to benefit from its established position and competitive advantages in the PWP segment. With the completion of planned pulping unit, the board plant should also witness improvement in profitability.

Key rating drivers and their description

Credit strengths

Leading market position in PWP segment – The company has an operating track record of more than three decades and an established brand name in the printing and writing paper segment. The company has a well-diversified sales and distribution network across India, consisting of non-exclusive dealers that account for ~55-60% of sales (of PWP), while the sales are directly handled by TNPL for Government and private sector entities which account for~18-20% of PWP sales. The company also exports PWP, which accounts for the remaining 18-23% of PWP sales. The company also started board production from May 2016, which accounted for ~24% of operating income in FY2019.

Access to diversified raw material sources and integrated production facility – The company has a long-term tie-up with several sugar mills in the vicinity for the supply of bagasse, for commensurate exchange of steam or coal. Along with this, the company enters into short-term tie-ups with other sugar mills during periods of reduced availability of bagasse. The prices of bagasse are dependent on sugar cane production in Tamil Nadu and cost of coal, mainly imported. The company has also been using wood for pulping. To ensure availability of wood, TNPL initiated farm forestry and captive plantation schemes in FY2005. By the end of FY2019, the company had 1,46,436 acres under these schemes. Apart from the farm forestry programme and captive sources, significant quantities of wood are currently being procured from the two Government of Tamil Nadu entities—TAFCORN and PCCF. procurement of raw materials from diversified sources mitigates raw material availability risks for the company.

In the past, the company has enjoyed stronger profitability compared to its peer group, mainly on account of predominant usage of bagasse as a key raw material, which is cheaper than wood or imported pulp. However, during FY2019, following the increase in bagasse procurement prices over wood prices due to lower sugar cultivation in Tamil Nadu, the profitability benefit associated with bagasse use has eroded. Although, the bagasse prices witnessed some moderation during Q1FY2020 due to reduction in coal prices and improved bagasse availability, it remains higher than wood pulp. Nonetheless, availability of wood from captive sources at competitive rates, mitigates the impact.

High financial flexibility and competitive borrowing costs arising from good standing among lenders – TNPL enjoys high financial flexibility due to its good standing with the lenders as reflected by competitive borrowing costs and its ability to borrow ad hoc working capital limits, over and above the sanctioned facilities.

Track record of positive cash flow from operations – The company's cash flows witnessed considerable rebound in FY2019 on the back of improved profit margins. Despite some weakening of margins during FY2018 on account of acute water shortage, the company has a consistent track record of positive cash flows from operations in the last few years.

Credit challenges

Debt-funded capex impacts capital structure and coverage indicators; high repayment obligation exposes TNPL to refinancing risks – The company had undertaken debt-funded capex in the last few years for setting up new board plant, and expanding its cement plant and other projects, which increased the gearing to 1.7x as on March 31, 2017 from 1.3x as on March 31, 2014. Though the gearing moderated to 1.2x as on March 31, 2019 from ~1.5x as on March 31, 2018 due to debt repayments, the gearing levels still remains moderately high. While, the company has large debt-funded capex plans in the next three years, the gearing levels are expected to witness further moderation due to large repayments and improvement in cash accruals. The coverage indicators and debt protection metrics of 2.9x (previous year: 1.7x) and 2.9x (previous year: 5.7x) also witnessed rebound during FY2019 on the back of increase in profit margins. Nonetheless, with high repayment obligations in the near to medium term, the company remains exposed to refinancing risk. However, its flexibility with lenders mitigates the risk to some extent.

Susceptibility to cyclicality in paper industry – Paper being a commodity, is exposed to economic cycles. While demand for it is expected to be favorable in India because of a low per-capita consumption of paper in domestic markets compared to global standards, there could be aberrant years, given the cyclical nature of the industry

Any increase in imported coal prices and reduced availability of bagasse and wood at competitive rates can offset the advantage enjoyed by TNPL with respect to its operating profit margins. Steep volatility in imported coal prices or reduced availability of wood or bagasse at competitive rates could lead to erosion of competitive advantage enjoyed by the company and adversely impact margins as witnessed in the recent period.

High dependence on imported pulp for board plant adversely impacts margin; expected to witness improvement by FY2022 post commissioning of captive pulping unit – The company had set up a multi-layer double-coated board plant with a capacity of 2 lakh tpa in the Trichy district, which commenced operations from May 2016. The project was envisaged to provide benefits such as diversification into the high-end packaging board segment and increase in the scale of operations. However, given the lack of in-house pulping capacity at the new unit, the company must depend on imported pulp to meet a major share of its raw material requirement. The price of imported pulp has increased in the last few years and have adversely impacted the profit margin of the unit. The company has tried to partly address the impact by making changes in product mix, moderating the requirement of imported pulp to some extent. The capacity utilisation has also gradually improved and was at 89% in FY2019. Nonetheless, the company is yet to achieve break even and early achievement of the same remains a sensitivity. The company is currently in the process of setting-up a captive pulping unit. Post successful completion of pulp unit by FY2022, the profit margin of the board plant is expected to improve on the back of lower dependence on expensive imported pulp. Timely completion of capex and stabilisation of project will be a sensitivity factor.

Liquidity position: Adequate

TNPL's liquidity is adequate with healthy annual FFO of nearly Rs. 380-440 crore, liquid cash and cash equivalent balance of Rs. 51.4 crore as on March 31, 2019 and availability of unutilised working capital limits, with average utilisation of sanctioned limits of only around 50%. Due to the planned debt-funded capex and large repayment obligations in the medium term, the company will need refinancing; however, the healthy financial flexibility with the lenders as reflected by competitive borrowing costs and its ability to borrow ad hoc working capital limits, over and above the sanctioned facilities provides adequate comfort.

Rating sensitivities

Positive triggers – ICRA could upgrade TNPL's rating if there is sustained improvement in revenue and profitability and improvement in capital structure and coverage indicators, following the timely implementation of new projects.

Negative triggers – Negative pressure on TNPL's rating could emerge if there is significant moderation in revenue and profitability, stretch in working capital intensity and delay in project implementation and stabilisation, leading to sustained pressure on profitability and credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Rating is based on standalone financial statements

About the company

TNPL was promoted by the State Government of Tamil Nadu and the Industrial Development Bank of India (IDBI) in 1979 to manufacture newsprint and PWP using bagasse as the principal fibre source. Its plant is at Kagithapuram in Tamil Nadu has a production capacity of 4.00 lakh tonne per annum (tpa). The plant is the largest single location paper plant in India. Following the sale of IDBI's stake, the Tamil Nadu Government is the single largest shareholder with a stake of 35.32%. Though the company has the manufacturing capability for newsprint too, owing to unfavourable economics of manufacturing newsprint in India and the significant cyclicality witnessed in newsprint prices, currently PWP accounts for 100% of TNPL's total production. In January 2011, TNPL commissioned a Rs 1,000-crore Mill Expansion Plan (MEP), which increased its annual production capacity from 2.45 lakh tpa to 4.00 lakh tpa. The company has also set up a new board plant near Trichy, with an annual capacity of 2.00 lakh MTPA, which commenced production from May 2016.

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	3098.3	4082.7
PAT (Rs. crore)	-42.2	94.4
OPBDIT/OI (%)	13.8%	16.4%
RoCE (%)	4.9%	9.6%
Total Debt/TNW (times)	1.51	1.19
Total Debt/OPBDIT (times)	5.69	2.92
Interest Coverage (times)	1.74	2.87

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

			Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years				
					Date & Rating	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	16-September 2019	07-Dec 2018	30-Nov 2018	24-Aug 2017	12-April 2017	28-Jan 2016
1	Term Loans	Long Term	1732.75	1732.75	[ICRA]A (stable)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (stable)	[ICRA]A (stable)
2	Unallocated	Long Term	202.25	202.25	[ICRA]A (stable)	-				
3	Fund Based/Non Fund Based Working Capital	Long Term/ Short Term	998.00	998.00	[ICRA]A (stable)/ [ICRA]A1	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+	[ICRA]A (stable)/ [ICRA]A1	[ICRA]A (stable)/ [ICRA]A1

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	NA	NA	Sep 2017-Sep 2021*	1732.75	[ICRA]A (stable)
NA	Fund Based/Non Fund Based	NA	NA	NA	988.00	[ICRA]A (stable)/ [ICRA]A1
NA	Unallocated fund based	NA	NA	NA	202.25	[ICRA]A (stable)

Source: TNPL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

ICRA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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