

Tamil Nadu Newsprint

₹ 111

*Low cost in Paper not on it***Buy**

Dec 14, 2012

Company Background

Tamil Nadu Newsprint & Papers Limited (TNPL) was established by the Government of Tamil Nadu during early eighties to produce Newsprint and Printing & Writing Paper using bagasse, a sugarcane residue, as primary raw material. It commenced production in the year 1984 with a initial capacity of 90,000 tn per annum (tpa). Over the years, production capacity has been increased to 2,45,000 tpa & TNPL has emerged as the largest bagasse based Paper Mill in the world consuming about 1 mn tonnes of bagasse every year.

Key Highlights

- ➔ The new 600 tpd Cement Plant has commenced production in June 2012. Two other projects viz. setting up a 300 tpd de-inking plant and revamping of steam and power system for increasing the power generation capacity from 81.12 MW to 103.62 MW with higher efficiency new boiler and Turbo Generator has commissioned during September 2012.
- ➔ TNPL will set up a 200 tpd Precipitated Calcium Carbonate (PCC) & 120 tpd Wet Ground Calcium Carbonate (WGCC) plant during the year under Built Own Operate (BOO) basis. The construction works will be taken up during the year & the project will be completed in 12 months. These on-going projects, when implemented, would help it to improve revenue & reduce the input costs.
- ➔ TNPL has produced 3,43,306 Mts. of printing & writing paper. It has raised pulpwood plantation in 82,025 acres under Farm Forestry Scheme upto 31.03.2012 involving 15,018 farmers. The target of 1,00,000 acres will be reached during the current year.
- ➔ The 300 tpd capacity De-inking Plant has commissioned during second quarter of 2012. By commissioning de-inking facility TNPL is reducing its future dependence on high cost imported pulp.
- ➔ For the power generated using the steam produced in the recovery boiler, the company has received 27,680 Renewable Energy Certificates for the period from 19.01.2012 to 31.03.2012 and realised Rs. 4.55 cr as sale proceeds of the RECs. The company is likely to generate revenue of about Rs 20 Cr. per annum on this account every year.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	11,185.1	12,921.9	17,447.0
Rev. growth (%)	(3.68)	15.53	35.02
EBITDA (INR mn)	3,218.9	3,602.3	4,462.9
Net profit (INR mn)	1,260.6	1,490.0	1,089.4
Shares outstanding (mn)	69.2	69.2	69.2
EPS (INR)	18.2	21.5	15.7
EPS growth (%)	17.39	18.20	(26.89)
P/E (x)	4.9	6.1	6.1
RONW (%)	15.6	13.8	(0.4)
ROCE (%)	6.3	5.2	(0.1)

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Info Codes

Reuters	: TNNP.BO
Bloomberg	: TNNP@IN
NSE	: TNPL
BSE	: 531426

Market Data

52 Wk Range (₹)	: 122 / 76
Shares in Issue (mn)	: 69.2
Mkt. Cap (₹ bn)	: 7.68
BSE 2 Wk Avg Vol	: 10312

Share Holding Pattern (%)

Promoters	: 35.32
DII's	: 37.29
FII's	: 04.44
Others	: 22.95

Investment Theme

TNPL exports 20% of its production to 30+ countries. Manufacturing of quality paper for past two and half decades from bagasse is an index of it's technological competence. A strong record in adopting low impact best process technology, responsible waste management, reduced pollution load and commitment to the corporate social responsibility make it a most environmentally compliant paper mills in the world. TNPL has signed a MoU with Switzerland based Omya International AG, for setting up on-site precipitated calcium carbonate plant in its premises. The plant would have a production capacity of 60,000 units of precipitated calcium carbonate. The project is under Environment clearance and expected to be commissioned during FY13. It rewards shareholders with regular dividends & currently the stock is fetching dividend yield of 4.8%.

Still Thinking Wood Prices Rise?

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	11250.1	12724.6	13.11	16692.5	31.18
Other Income	234.4	506.7	116.17	1273.8	151.39
Change in Stocks	170.6	(40.7)	(123.86)	540.1	(1427.03)
Raw Material Con.	2647.5	2808.1	6.07	4247.4	51.26
Employee Exp.	870.3	1119.3	28.61	1253.3	11.97
Indirect Taxes	344.1	352.3	2.38	559.6	58.84
Other Exp.	4574.3	5308.6	16.05	7983.2	50.38
Operating Exp.	8265.6	9629.0	16.49	13503.4	40.24
Operating Profit	2984.5	3095.6	3.72	3189.1	3.02
Total Interest	485.4	442.6	(8.82)	1412.7	219.18
Gross Profit	2733.5	3159.7	15.59	3050.2	(3.47)
Net Dep.	1157.7	1221.6	5.52	1675.5	37.16
Total Taxation	315.2	448.1	42.16	285.3	(36.33)
Net Profit/Loss	1260.6	1490.0	18.20	1089.4	(26.89)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	14,707.7	21,674.2	24,039.1	27,044.8
Equity Share capital	693.8	693.8	693.8	693.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	5,949.4	7,351.2	8,464.2	9,013.0
Long Term Loans	5,874.4	10,055.9	12,426.2	13,246.6
Short Term Loans	2,190.1	3,573.3	2,454.9	4,091.4
USES OF FUNDS	14,707.7	21,674.2	24,039.1	27,044.8
Gross Block	21,772.1	22,987.8	33,644.6	35,168.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	9,559.4	10,546.8	11,705.5	13,389.6
Net Block	12,212.7	12,441.0	21,939.1	21,779.3
Capital Work in Progress	2,627.0	8,525.0	1,127.1	3,359.5
Investments	11.4	114.0	11.4	11.4
Current Assets	5,323.7	6,270.1	7,957.3	10,721.7
Less : Current Liabilities	5,467.1	5,675.9	6,995.8	8,827.1
Total Net Current Assets	(143.4)	594.2	961.5	1,894.6
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	0.0	0.0	0.0	0.0
Mkt Val. Quoted Investments	6.5	119.0	20.3	14.9
Contingent Liabilities	7,673.4	3,562.7	4,009.3	4,761.3
Dividend (%)	45	45	50	50

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	3,095.90	5,631.80	3,456.40	4,645.60
Cost Of Sales	2,506.10	4,731.40	2,563.50	3,646.90
Operating Profit	589.80	900.40	892.90	998.70
Recurring Income	2.30	81.80	14.60	23.60
Adjusted PBDIT	592.10	982.20	907.50	1,022.30
Financial Expenses	393.60	338.20	333.50	278.50
Depreciation	450.90	423.00	423.80	439.40
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	(252.40)	221.00	150.20	304.40
Tax Charges	111.50	16.50	38.50	91.60
Adjusted PAT	(363.90)	204.50	111.70	212.80
Non Recurring Items	998.80	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	634.90	204.50	111.70	212.80

52 Week Index Relative Percentage Appreciation



TNPL vs SENSEX

Points to Ponder

Forest Stewardship Council (FSC), an independent, non-governmental, non-profitable organization, has awarded the prestigious Forest Management and Chain of Custody Certificate (RA-FSC-FM/CoC-006000) to TNPL. The certificate covers 19561 Ha comprising 8260 units, which is the largest area certified by FSC in India. This constitutes about 50% of the total area certified by FSC in India. TNPL can use FSC label on all its products made out of FSC certified wood. This certificate is valid for five years from 6th July, 2012 to 5th July 2017. The Emergent Ventures India Green Business Survey has ranked TNPL number 5 amongst the High Energy Intensive Industries in adopting better technologies for value addition beyond compliance and achieving all-round performance in all aspects of sustainability. TNPL is the only company selected from Pulp and Paper Sector in the survey.

Risks Associated

Rise in minimum support price of wood can adversely affect the margins. TNPL's operating margin may shrink further if the deployment of de-inking facility gets delayed. Environmental issues related to sourcing of raw material, affluent discharge can seriously impact the company's business. Macroeconomic factors like slowdown in economy, reduction in advertising spend by corporates especially in print media can cast serious impact on the business of TNPL. Any shift in raw material to feed the paper mills towards imported pulp will negatively impact our margin assumptions.

In a Nutshell

TNPL is one of India's largest paper manufacturer's with one of the lowest cost structures. Considering the dynamics of the Indian Paper Industry, it has been executing a very strong strategy involving consistent growth in capacities, high focus on energy conservation, own plantations, efficient cost management & focus on high quality products. TNPL is an acknowledged leader in the technology of manufacture of paper from bagasse – the sugar cane residue. TNPL require bagasse & wood pulp in the ratio of 60 : 40 to produce 1 tonne of paper. Being bagasse based paper unit, TNPL's cost of producing paper is less compared to companies. TNPL continues to enjoy its relatively lower reliance on wood because of its vision to make paper primarily from bagasse (a sugarcane waste product) which is abundant and cheap, as compared to wood, which is scarce and expensive. By 2018 the company expects the farm forestry to supply 400,000 MT of hardwood annually. TNPL has signed a MoU with Switzerland based Omya International AG, for setting up on-site precipitated calcium carbonate plant of 60,000 units in its premises. The project is under Environment clearance and expected to be commissioned during FY13. TNPL is continuing its focus on uncoated paper, thereby being shielded from international finished product prices (excluding the copier portfolio). TNPL is latest player which augmented its capacity. The current capacity stands at 400,000 MT and it is expected to increase further in second half of FY13.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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