

# Tamil Nadu Newsprint

₹ 103

*Make Money out of Paper***Buy**

May 04, 2012

## Company Background

Tamil Nadu Newsprint and Papers Limited (TNPL) was established by the Government of Tami Nadu in the early eighties to produce Newsprint and Printing & Writing Paper using bagasse, a sugarcane residue, as primary raw material. The Company commenced production in the year 1984 with a initial capacity of 90,000 tonnes per annum (tpa). Over the years, the production capacity has been increased to 2,45,000 tpa and the Company has emerged as the largest bagasse based Paper Mill in the world consuming about one million tonnes of bagasse every year. The Company completed a Mill Expansion Plan during December 2010 to increase the mill capacity to 4,00,000 tpa.

## Investment Rationale

- ➔ A 600 tpd Mini-cement plant set up by TNPL for producing high grade cement from lime sludge & fly ash (byproducts) has been commissioned in 2012.
- ➔ A 300 tpd capacity De-inking Plant will be commissioned during Q2 of 2012. By which TNPL is reducing its future dependence on high cost imported pulp. This will result in margin improvement FY13 onwards.
- ➔ Revamping of power and steam systems by replacing three 60 tph boilers with one 125 tph boiler is to be completed by June 2012.
- ➔ 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 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 0.4mn MT & it is expected to increase further in H2 of FY13. Realizations are expected to improve as 50% of the new capacity will be used to produce the new line of high-end pigment printing paper for multicolour printing applications, which is a good substitute for Light Weight Coated Paper used in the premium segment of colour printing.
- ➔ TNPL is also continuously following Environment Friendly Technologies and has won many accolades for it.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (INR mn)	11229.5	11141.2	12921.6
<b>Rev. growth (%)</b>	<b>12.19</b>	<b>(0.79)</b>	<b>15.98</b>
EBITDA (INR mn)	2761.7	2957.7	3497.4
Net profit (INR mn)	1073.9	1260.6	1490.0
Shares outstanding (mn)	693.8	693.8	693.8
EPS (INR)	1.5	1.8	2.1
<b>EPS growth (%)</b>	<b>(4.82)</b>	<b>17.39</b>	<b>18.20</b>
P/E (x)	37.0	49.3	61.3
<b>ROCE (%)</b>	<b>8.06</b>	<b>6.93</b>	<b>6.52</b>

Arpit Jain

aj@indiratrade.com

## Previous Report

Date	: Oct 05, 2007
Recommendation	: Buy
Price	: ₹ 103
Target Reached	: 16 Nov, 2007

## Market Data

52 Wk Range (₹)	: 94 / 110
Shares in Issue (mn)	: 693.8
Mkt. Cap (₹ bn)	: 7.05
BSE 2 Wk Avg Vol	: 18412

## Share Holding Pattern (%)

Promoters	: 35.32
DII's	: 39.44
FII's	: 3.62
Others	: 21.62

## Investment Theme

TNPL exports 20% of its production to more than 30 countries. Manufacturing quality paper for the past two and half decades from bagasse is an index of it's technological competence. A strong record in adopting minimum impact best process technology, responsible waste management, reduced pollution load and commitment to the corporate social responsibility make the company one of the most environmentally compliant paper mills in the world.

TNPL has been rewarding shareholders with regular dividends and currently the stock is fetching dividend yield of 4.8%. TNPL has bagged many awards for better Environmental Measures and imbibed many technologies which can help it grow further. We therefore remain bullish on the stock and recommend a buy on it.

**Dont keep your Demat Paperless!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	11781.0	11250.0	(4.51)	12725.0	13.11
Other Income	362.0	238.0	(34.25)	521.0	118.91
Change in Stocks	50.0	171.0	242.00	(41.0)	(123.98)
Raw Material Con.	2621.0	2648.0	1.03	2808.0	6.04
Employee Exp.	809.0	870.0	7.54	1119.0	28.62
Indirect Taxes	559.0	344.0	(38.46)	352.0	2.33
Other Exp.	5040.0	4581.0	(9.11)	5315.0	16.02
Operating Exp.	8979.0	8272.0	(7.87)	9635.0	16.48
Operating Profit	2802.0	2978.0	6.28	3090.0	3.76
Total Interest	689.0	485.0	(29.61)	443.0	(8.66)
Gross Profit	2475.0	2731.0	10.34	3168.0	16.00
Net Dep.	1031.0	1158.0	12.32	1229.0	6.13
Total Taxation	369.0	315.0	(14.63)	448.0	42.22
Net Profit/Loss	1075.0	1258.0	17.02	1491.0	18.52

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>11924.5</b>	<b>14707.7</b>	<b>21674.1</b>	<b>24038.9</b>
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	5706.3	5949.4	7351.2	8464.1
Loan Funds	4880.6	6850.4	10549.0	11692.4
Unsecured Loans	643.8	1214.1	3080.1	3188.6
<b>USES OF FUNDS</b>	<b>11924.5</b>	<b>14707.7</b>	<b>21674.1</b>	<b>24038.9</b>
Gross Block	18609.1	21772.0	22987.8	33644.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	8680.0	9559.4	10546.9	11705.6
Net Block	9929.1	12212.6	12440.9	21939.0
Capital Work in Progress	2907.0	2627.0	8525.0	1437.1
Investments	171.5	11.4	114.0	11.4
Current Assets	4250.9	5501.8	6270.1	7647.1
Less : Current Liabilities	5334.0	5645.1	5675.9	6995.7
Total Net Current Assets	(1083.1)	(143.3)	594.2	651.4
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	0.0	0.0	0.0	0.0
Mkt Val. Quoted Investments	173.0	70.0	119.0	20.0
Contingent Liabilities	1365.7	7569.4	3562.0	2995.3
Dividend (%)	25	45	45	50

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Mar 11	Jun 11	Sep 11	Dec 11
Net Sales	35316.00	34407.00	31325.00	30959.0
Cost Of Sales	27888.00	25438.00	22530.00	25061.00
Operating Profit	7428.00	8969.00	8795.00	5898.00
Recurring Income	158.00	24.00	23.00	23.00
Adjusted PBDIT	7586.00	8993.00	8818.00	5921.00
Financial Expenses	2129.00	3246.00	3562.00	3936.00
Depreciation	3872.00	4039.00	4127.00	4509.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	1585.00	1708.00	1129.00	(2524.00)
Tax Charges	0.00	426.00	0.00	1115.00
Adjusted PAT	1585.00	1282.00	1129.00	(3639.00)
Non Recurring Items	370.00	0.00	89.00	9988.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	1955.00	1282.00	1218.00	6349.00

**52 Week Index Relative Percentage Appreciation**

**TNPL vs SENSEX**
**Outlook of the Paper Sector**

- ➔ Demand for paper industry is expected to grow at 8% on the back of fast growing economy and increasing government spent aimed at improving literacy & education levels.
- ➔ Increase in spending by the Government on Education is likely to boost demand for writing paper from the academic segment. With the economic growth, demand for packaging paper will also show improvement.
- ➔ Per capita consumption in India is expected to rise from the current consumption levels of 9.2 kg per person per annum, which is way below world and Asia average. One kilogram addition to per capita consumption means an addition of one mn tones of demand in a country of our size.

**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 TNPL's margin assumptions.

## Raymond 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, captive 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 producing paper purely from wood pulp. 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. The company is also constantly investing in new technologies an environment friendly initiatives which will help it in future growth. It has also managed to put to use the byproducts generated during paper. Looking at this proactive approach we believe that TNPL has a bright future and so we recommend to buy this stock.

### Indira Group Offices

<b>Registered Office</b>	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	<b>Tel :</b> +91-22-22656812 <b>Fax :</b> +91-22-22656985 <b>Email :</b> <a href="mailto:im@indiratrade.com">im@indiratrade.com</a>
<b>Administrative Office</b>	: Ramavat House, E-15 Saket Nagar, Indore 452018
	<b>Tel :</b> +91-731-2566361 <b>Fax :</b> +91-731-2562117 <b>Email :</b> <a href="mailto:ii@indiratrade.com">ii@indiratrade.com</a>
<b>Institutional Dealing Unit</b>	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	<b>Tel :</b> +91-22-30080675 <b>Fax :</b> +91-22-23870767 <b>Email :</b> <a href="mailto:ie@indiratrade.com">ie@indiratrade.com</a>

### Rating Interpretation

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

### Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.