



## Research



### RESEARCH:: COMPANY: TAMIL NADU NEWSPRINT & PAPERS LTD (SMALL CAP)

20<sup>TH</sup> April 2010

#### Long Term Buy

CMP	Rs 94
Target price	Rs 115
Estimated EPS	Rs 17
Projected PE	6-8
Investment period	6-9 months

#### Stock Info (TTM Basis)

Sector	Paper
Market cap (Rs Cr)	655
Face value	10
Book value	Rs 96
EPS	Rs 13
Cash EPS	Rs 29
Dividend	45%
Sales Growth	(6.3%)
Debt to equity	0.88
52 week H/L	103/62
Avg. Daily Vol	418000(2wk)
Managing Director	Md. Nasimuddin
Incorporation	1979
Listed At	NSE/BSE
Equity capital	69.38 cr
Promoters holding	35%

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Tamil Nadu Newsprint and Papers Ltd (TNPL) is the largest bagasse (a sugar By-product) based paper unit in India with the production capacity of 245,000 tonnes. The company is in the business of manufacturing and marketing of newsprint and printing & writing papers.

#### Key Highlights:

- ✓ Mill Expansion plan to raise production capacity from 245,000 tons to 400,000 to be completed before the first half of FY11E
- ✓ Highest production and sale of 254903 MT of paper. Both were higher by 9432 MT over the previous year.
- ✓ “Zero Stock” of finished goods at the end of the financial year for the 18th time.
- ✓ With complete Implementation of the Mill Development plan in all respects, the company has moved from conventional bleaching to Elemental Chlorine Free (ECF) Bleaching making it environment compliant, operationally efficient and cost effective.

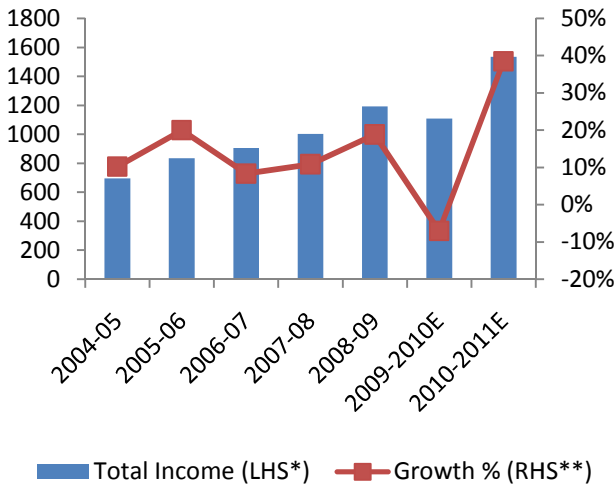
#### Future Outlook

At the current price of Rs 94, the stock is available at 5.52x of its FY10E earnings & 2.23x of its FY11E earnings. We recommend BUY with a price target of Rs 115, given that the company's future shows potential.

Particulars	(Cr)	FY09	FY10E*	FY11E*
Total Income		1192	1097	1591
Expenditure		870.16	753	971
PBIDT		322.08	344	619
Interest		63.25	59	32
Depreciation		100.97	113	158
PBT		157.86	171	429
Tax		50.47	51	133
PAT		107.39	120	296
EPS		15.47	17	42
CEPS		30.03	33	59
OPM (%)		30%	31%	39%
NPM (%)		10%	11%	19%

Source: Company Reports, Fairwealth Research Estimate  
\*Estimated

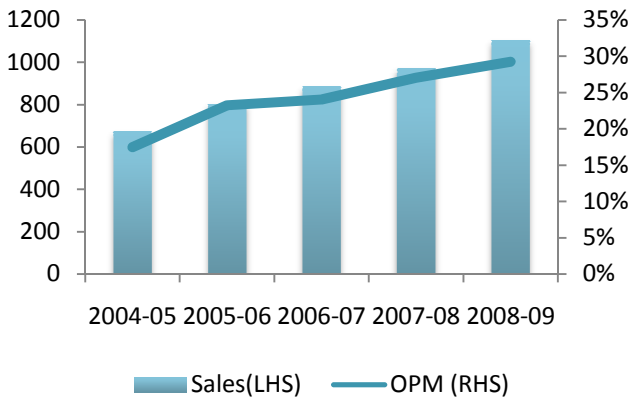
**Income Growth**



The Total Income of the company is expected to grow at a CAGR of 14% from Rs 696 cr to Rs 1591 over FY 2005-06 to FY 2010-11E respectively.

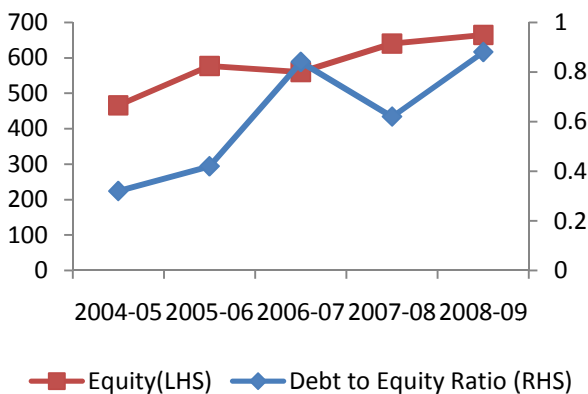
Completion of mill expansion plan by FY11E will boost the revenues and further improve the operating margins.

**Sales & OPM**



With the company's advantage of using bagasse as primary raw material, company's operating margin has been the highest among its peers. Raw material cost as a percentage (%) of sales stood at 16% for FY09 (lowest in the industry) resulting in high OPM.

**Debt Equity Ratio**

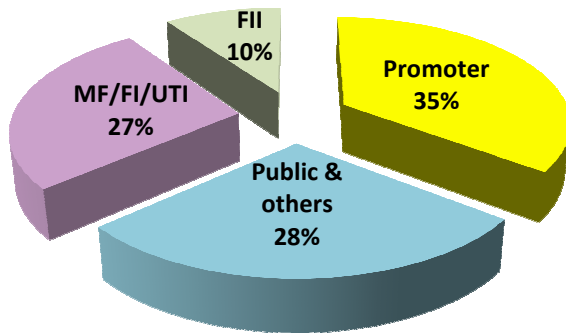


**Debt To Equity Ratio:-**

Capital expenditure undertaken for the purpose of mill expansion plan has led to increased levels of debt. As a result, debt to equity ratio for FY09 stands at 0.88:1. Interest cost increased by 160% to Rs 63.25 cr.

However, going forward we expect the company to reduce its debt to industry levels by FY11E as expansion is completed.

**Share Holding pattern as on 31st Dec, 2009**



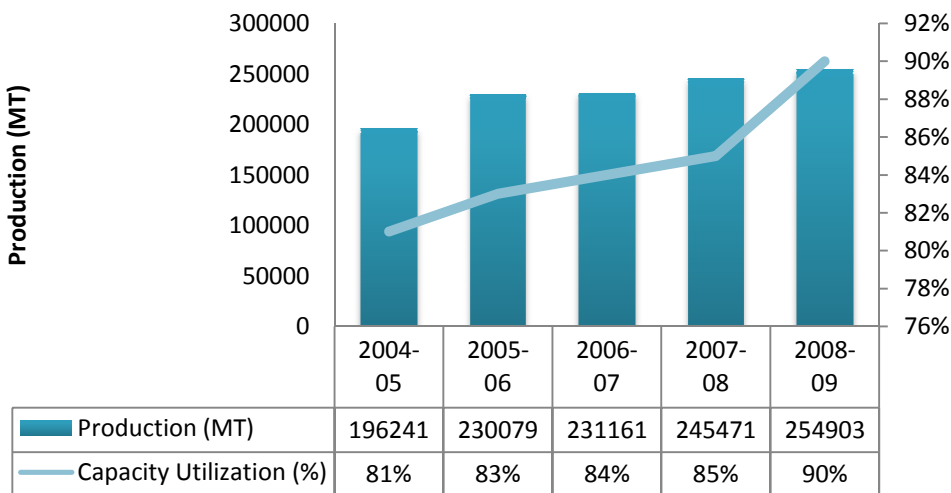
**Company Profile**

Tamil Nadu Newsprint and Papers Ltd (TNPL) is the largest bagasse (a sugar By-product) based paper unit in India with the production capacity of 245,000 tonnes p.a. The company is functioning in two divisions , namely, Paper & Energy

The company is in the business of manufacturing and marketing of newsprint and printing & writing papers. The products are being marketed throughout the country and also being exported to 30 countries around the world. Its manufacturing facility is located at Kagithapuram in Karur District of Tamil Nadu.

BRANDS	FEATURES
Copy Crown	Laser, Inkjet, Plain Paper Fax printing and Digital copying for sharp contrast and image clarity.
TNPL Copier	Dimensional Stability And Curl Resistance Capabilities To Give Clear And Hi-Speed Copies.
Eezee Write	Ready-To-Use, Packaged Writing Paper.
TNPL Commander	High Speed high Volume Photocopying And For Common Desktop Printers.
Eco-Friendly Exercise Notebooks	Premium quality soft-bound notebooks

**Production & Capacity Utilization**



The Production of the company is growing at a CAGR of 6.8% to 254,471 tonnes from 196,241 tonnes over FY 2004-05 to FY2008-09 respectively.

Capacity utilization has also improved from 81% in FY2005 to 90% in FY2009 reflecting efficiency in production and a indicating revenue growth in future

Peer Comparison: (TTM Basis)

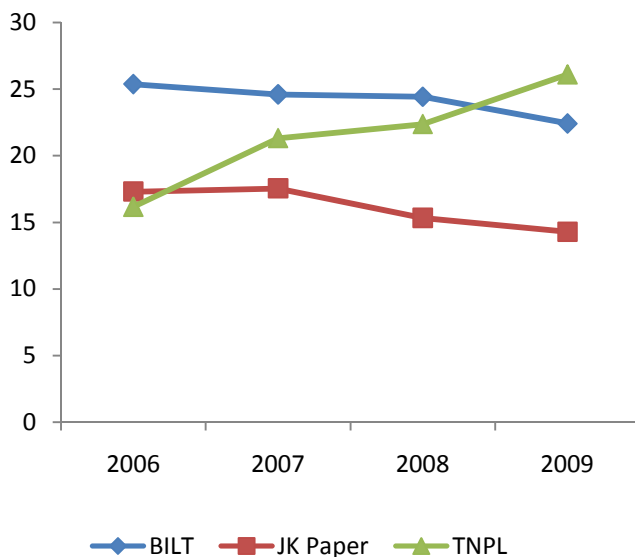
Particulars (In Crores)	TN News Print	JK Paper	BILT	West Coast Paper	AP Paper
Market Cap	692.1	429.8	2178	483.17	307.85
Sales	965.85	1074.84	3092.09	608.76	578.71
PBIDT	290.24	226.97	686.9	119.97	138.91
Net Profit	74.62	79.01	142.4	79.38	54
EPS	10.78	10.11	2.37	12.65	16.49
P/E	9.27	5.49	15.18	6.08	5.7
OPM %	30%	21%	22%	20%	24%
EV/PBIDT	4.73	4.54	8.56	10.53	5.81
P/BV	1.04	1.06	4.69	0.96	0.67
Dividend (%)	45%	17.50%	25%	100%	5%

Figures on TTM Basis, \* Consolidated

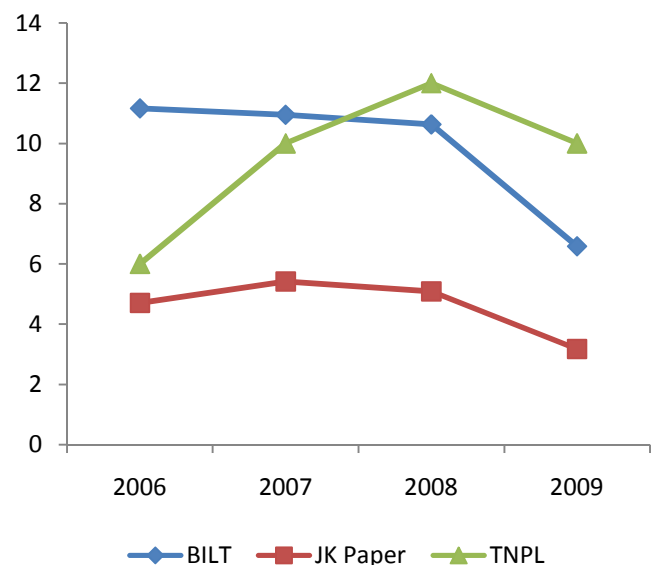
**TNPL has the highest Operating Profit Margin within the Industry reflecting that company is operationally efficient and cost effective.** Whenever the prices of Paper rises, price of wood pulp also rises which gets reflected in the operating profit margin (OPM) of companies in the industry. However for TNPL the cost of bagasse is mostly fixed and the entire rise in paper prices will get reflected in the profit margin.

TNPL is the only player among its peers using bagasse, sugar By-Product, as a major raw material while rest of the players majorly produce paper by only using hardwood/bamboo/wood pulp. TNPL overtakes its peers for maintaining Zero inventory at the end of each year.

**Operating Profit Margin (%)**



**Net Profit Margin (%)**



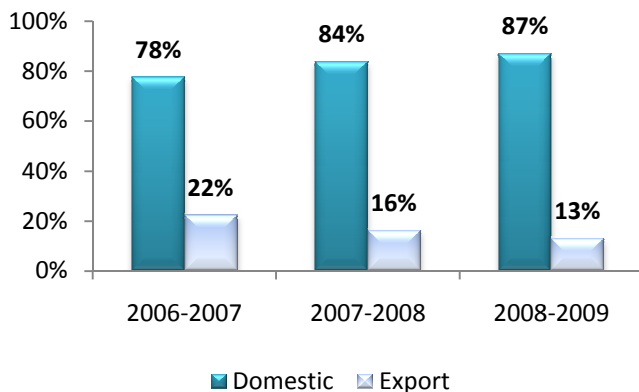
**QUARTERLY ANALYSIS:**

Particulars	(Cr)	Dec-09	Dec-08	Var% Y-o-Y	Sep-09	Var% Q-o-Q
Net Sales		239.62	242.93	-1%	261.15	-8%
Other Operating Income		19.11	4.95	286%	9.79	95%
Add: Other Income		3.86	1.14	239%	2.55	51%
Total Income		262.59	249.02	5%	273.49	-4%
Less: Expenditure		176.46	173.37	2%	187.2	-6%
PBIDT		86.13	75.65	14%	86.29	0%
Less: Interest		12.93	18.54	-30%	14.79	-13%
PBDT		73.2	57.11	28%	71.5	2%
Less: Depreciation		28.07	25.77	9%	28.53	-2%
PBT		45.13	31.34	44%	42.97	5%
Less: Tax		14.11	10.11	40%	13.31	6%
PAT		31.02	21.23	46%	29.66	5%
EPS		4.5	3.1	46%	4.3	5%
CEPS		8.52	6.77	26%	8.39	2%
OPM%		36%	31%	-	33%	-
NPM%		13%	9%	-	11%	-

During the quarter ended 31<sup>st</sup> Dec, 2010, Tamil Nadu Newsprint Ltd net sales declined by 1% (y-o-y basis) Rs 239.62 cr from Rs 242.93 cr during the corresponding period last year. The operating profit of the company witnessed a growth of 14% to Rs 176.46 cr as against Rs 173.37 cr last year, largely on account of fall in raw material cost as a % of sales which managed to stay down by 400bps to 27% as against 23% during the Dec quarter last year.

The Operating profit margin of the company surged 500bps to 36% against 31% during the same quarter last year. The bottom line of the company grew by 46% for the quarter ended on 31<sup>st</sup> Dec, 2010 to Rs 31 cr as against Rs 21.23 cr during the corresponding period last year. Appreciation in PAT is due to decline in interest cost of the company by 30% to Rs 13 cr against Rs 18 cr.

**Domestic and Export Contribution to Topline**



Contribution of Domestic Sales to Topline has been increasing since three years while there has been declining trend in the contribution of exports to sales

However Exports are expected to increase in FY10E as company has exported 5200 Mts in Aug 2009, which is a record for the company

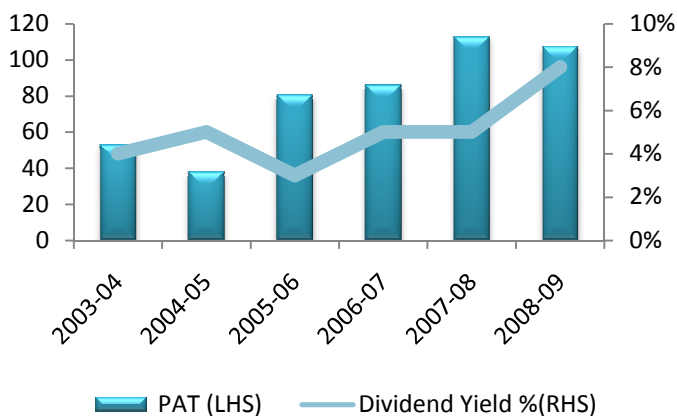
**HISTORICAL PERFORMANCE**

Particulars	(Cr)	2008-09	2007-08	2006-07	2005-06	2004-05
Net Sales		1101.55	971.86	884.42	801.82	671.29
Other income		53.87	31.13	25.56	30.08	27.17
Stock Adjustments		36.82	0.2	-5.29	3.18	-2.44
Total Income		1192.24	1003.19	904.69	835.08	696.02
Less: Expenditure		870.16	740.35	692.12	648.55	578.76
PBIDT		322.08	262.84	212.57	186.53	117.26
Less: Interest		63.25	24.24	20.82	20.29	16.21
PBDT		258.83	238.6	191.75	166.24	101.05
Less: Depreciation		100.97	75.53	66.73	64.77	61.88
PBT		157.86	163.07	125.02	101.47	39.17
Less: Tax		50.47	50.24	38.96	20.92	1.22
Net Profit		107.39	112.83	86.06	80.55	37.95
Less: Extraordinary items		14.23	-1.26	-1.56	-3.37	1.92
Adj. Net Profit		93.16	114.09	87.62	83.92	36.03
Equity Share capital		69.38	69.38	69.38	69.38	69.36
EPS		15.5	16.3	12.4	11.6	5.5
Cash EPS		30.03	27.15	22.02	20.95	14.39
Operating Profit Margins%		30%	27%	24%	23%	17%
Net Profit margins%		10%	12%	10%	10%	6%
Book Value		95.75	92.25	83.09	75.31	67.1

During the Financial Year 2009 the Net sales of the company witnessed an increment of 13.34% to Rs1101.55 cr as against Rs 971 cr during the corresponding period last year. Correspondingly the PBIDT of the company worked out to be Rs 322 cr increased by 22% as against Rs 263 cr over last year, as the raw material as % of sales fell by 300bps to 15% against 18%, resulting in the increment of operating profit margin by 300bps to 30% over last year.

However, Net profit after tax registered a De-growth of 5% to Rs 107 cr as against Rs 113 cr over the corresponding period last year, due to increased interest and depreciation cost. The interest cost of the company witnessed an increment of over 160% to Rs 63.25 cr as against Rs 24.24 cr, while depreciation rose by 33% to Rs 101 cr against Rs 75 cr over last year. The effective tax rate for the FY09 stood out at 32% almost in parity with last year.

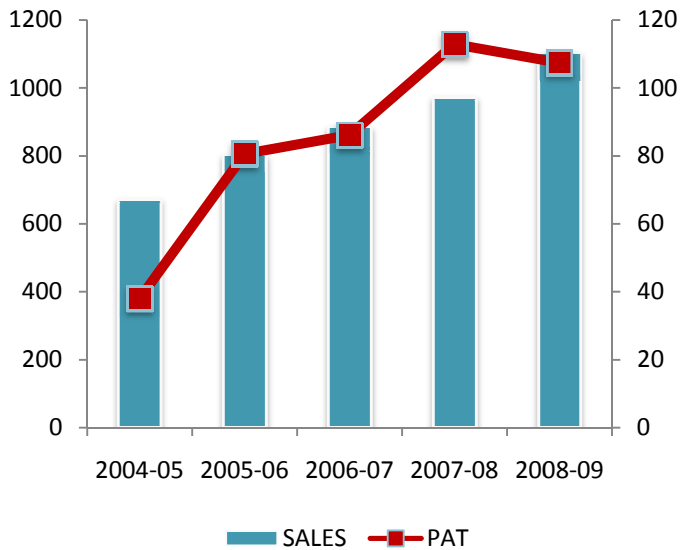
**Dividend Yield**



Company has been paying attractive dividends since last 5 years. The dividend yield of the company has grown from 4% to ~8% for the last 6 years, while the average dividend yield for last 10 years is 6%.

This gives a positive signal of the management's focus on shareholders wealth creation.

Net Sales & PAT

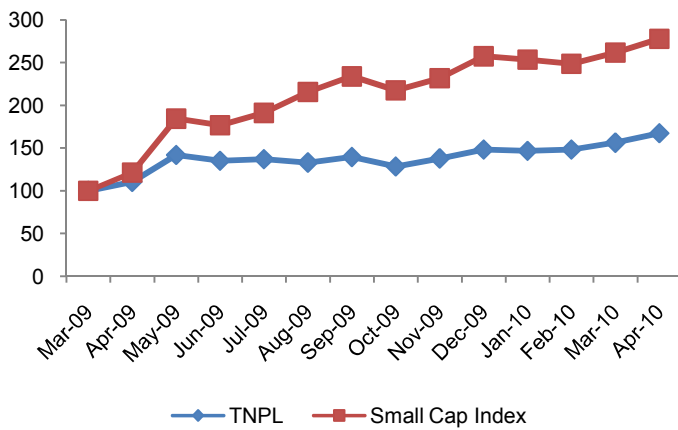


Net Sales for first time in history of company has breached the 1000 mark. Revenue and PAT has grown at decent CAGRs of 12% and 30% respectively.

**BALANCE SHEET: TAMIL NADU NEWSPRINT AND PAPER LTD (Rs Cr)**

	Mar 2009	Mar 2008	Mar 2007	2006	2005
<b>Net Worth</b>	664.32	640.01	576.5	522.52	465.43
<b>Loans- Term</b>	663.08	433.93	544.46	274.43	196.78
<b>Loans - Working Capital</b>	143.37	120.4	14.93	33.7	52.95
<b>Deferred Tax Liability</b>	219.85	188.35	152.84	154.76	168.57
<b>Total</b>	<b>1690.62</b>	<b>1382.69</b>	<b>1288.73</b>	<b>985.41</b>	<b>883.73</b>
<b>Net Block Including WIP</b>	1483.96	1283.61	1177.94	817.52	728.62
<b>Investments</b>	1.14	17.15	1.14	1.14	1.14
<b>Net Working Capital</b>	205.52	81.93	109.58	166.62	153.77
<b>Deferred Revenue Expenses</b>	0	0	0.07	0.13	0.2
<b>Total</b>	<b>1690.62</b>	<b>1382.69</b>	<b>1288.73</b>	<b>985.41</b>	<b>883.73</b>

**Stock Performance**



TNPL has underperformed with respect to Small Cap Index. In the time span of April 2009 to April 2010, Small Cap scaled up from 3238 to 9000, return of around 177%, while TNPL has grown from 53 to 94, return of around 77%. However as a result of strong fundamentals and future potential, we expect the company to outperform industry

**ANALYSIS & REPORT**

**Why to invest in shares of Tamil Nadu Newsprint & Papers Limited?**

**SECTOR:-**

- ✓ India is the fastest growing market for paper globally. From the last few years, the Indian Paper Industry has grown at an average rate of 6-7% whereas the paper market in developed countries has been stagnant at 2%. During the period 2002-07, newsprint, writing & printing, containerboard, carton board and others registered growth of 13%, 5%, 11%, 9% and 1% respectively.
- ✓ The Indian Paper Industry accounts for about 1.6% of the world's production of paper and paperboard. The estimated turnover of the industry is Rs 25,000 crore (USD 5.95 billion) approximately. The industry provides employment to more than 1.2 lakh people directly and 3.4 lakh people indirectly. The industry was delicensed effective from July, 1997 by the Government of India.
- ✓ For manufacturing of paper, 35% of chemical pulp, 44% of recycled fibre and 21% of agro-residues are used.
- ✓ As per industry estimates, paper production is likely to grow at a CAGR of 8.4% while paper consumption is expected to grow at a CAGR of 9% till 2012-13. The import of pulp & paper products is likely to show a growing trend.
- ✓ Foreign funds interest in the Indian paper sector is also growing. IFC, the investment arm of World Bank is already associated with at least three of the IPMA member mills.
- ✓ Demand for paper products like tissue paper, tea bags, filter paper, light weight online coated paper and medical grade coated paper, etc. is growing. These developments are expected to give fillip to the industry. Current consumption of Paper is at 8.50 million tonnes a year. The Paper industry is expected to grow to 10 million tonnes by 2010 and to 15 million tonnes by 2015. Factors favoring growth are increased spending on education, higher literacy levels, improved standards of living, a booming retail sector etc.
- ✓ The future growth is dependent upon imported market pulp due to serious shortage of wood in the country. Strengthening of Indian rupee is favoring the paper manufacturers as they can import the raw material at lower prices.



## COMPANY:

- ✓ Company is undergoing Mill Expansion Plan to the tune of Rs 1000 cr so as to enhance the present production capacity from 245000 tpa to 400000 tpa. Mill Expansion Plan involves installation of paper machine with the production capacity of 155,000 tpa Of fine paper & multi-fuel boiler with steam generation capacity of 125 tph and Backward integration Chemical bagasse pulp line.
- ✓ Company has increased its Wind farm capacity from 15 MW in 1993-94 to 35.5 MW in 2008-09 which is exported to the state grid. It has generated Rs 63.44 lakh during FY09 through generation of 526.60 lakh units of wind power. Two phases of wind farm with a total capacity of 6.75 MW were registered with UNFCCC. The project has generated 55905 CERs up to 30.6.08.
- ✓ Company is planning to install De-Inking Plant of a capacity of 300 tpd post-implementation of Mill Expansion Plan
- ✓ TNPL is in the process of installing a 400 tpd cement plant worth Rs 45 crore for converting the mill generated lime sludge and fly ash generated into high grade cement. This conversion will reduce environmental hazards caused by lime sludge & Fly ash.
- ✓ The company for the second time received the prestigious "IPMA Paper Mill of the year award for the year 2007-08".

## FUNDAMENTALS:

- ✓ For past four years in a row, TNPL has proved its efficiency and competence within the industry with Return on equity and Return on capital employed sustaining around 15%. We believe that company will generate better returns for its stakeholders.
- ✓ TNPL has reported sales growth of 12% CAGR while net profits have grown by 30% CAGR since 2005. Exports remained around 13% of the total turnover.
- ✓ For the next three years to come, company has a commitment of Rs 876 cr towards capex, loan repayment and other growth plans.
- ✓ The dividend yield has reached 8% in FY09 grown from over 4% since 2000. We expect further surge in dividend yield for FY11E & FY12E.
- ✓ The Bio-methanation Plant generated 46.89 lakh cubic meters of methane gas in FY09 it enabled the company to reduce consumption of 2790 KL of furnace oil in the lime kilns saving Rs 30.39 cr. As a result of substitution effect company is enjoying cost advantage.

*Notes: Figures are sourced from [www.bseindia.com](http://www.bseindia.com), capital market and annual report (2008-09).*

END

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