

July 29, 2010

BUY

Price Rs 122	Target Price Rs 143
Sensex	17,992

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	20	44	57
Rel. to Sensex	3	18	30	34

Source: Bloomberg

Stock Details

Sector	Paper
Reuters	TNNP.BO
Bloomberg	TNNP@IN
Equity Capital (Rs mn)	692
Face Value(Rs)	10
No of shares o/s (mn)	69
52 Week H/L	126/71
Market Cap (Rs bn/USD mn)	8/171
Daily Avg Volume (No of sh)	289103
Daily Avg Turnover (US\$m)	0.7

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	35.3	35.3	35.3
FII/NRI	5.3	11.0	10.5
Institutions	31.8	25.9	26.8
Private Corp	8.9	8.2	8.4
Public	18.7	19.6	19.1

Source: Capitaline

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- Tamilnadu Newsprint and Papers (TNPL) Q1FY11 results were ahead of our est
- Revenues increased by 62% YoY to Rs 3 bn driven by 54% volume growth and 6% realisation growth
- PAT increased by 4.6x to Rs 399 mn on low base and was higher than our est
- Capex to increase paper capacity on schedule, we maintain our BUY reco on the stock

Revenue growth of 62% on low base, ahead of est

TNPL's Q1FY11 revenues increased by 62% YoY to 3 Rs bn (16% above est) driven by 54% volume growth to 63 thousand MT while average realisations increased by 6% YoY to Rs 44,640 / MT. Strong growth is mainly driven on low base since last year the company was adversely affected due to slow down in demand and inventory de-stocking happening at dealers level. During the quarter the company benefited from increase in paper prices by approx Rs 2,500 – 3,000 / MT in Apr '10. QoQ revenues however declined by 16% since in Q4FY10 the company liquidated surplus inventory of approx 20,000 MT.

EBITDA margin expansion by 230bps

EBITDA margins improved by 230bps to 30.2% however were marginally below our est of 32.5%. On the back of strong revenue growth and margin expansion, EBITDA increased by 76% YoY to Rs 899 mn and was ahead of est of Rs 835 mn. Revenue and EBIT contribution from energy business remained subdued at 13% and 8% respectively. EBIT margins from the paper business improved significantly by 810 bps YoY to 21.9%. EBITDA / MT for the quarter at Rs 14,100 / MT is marginally higher than our estimates of Rs 13,300 / MT for FY11E and Rs 13,000 / MT for FY12E.

PAT growth of 4.6x, ahead of est

On account of lower debt, interest declined sharply by 43% YoY to Rs 78 mn while depreciation remained stable at Rs 273 mn and was below our est. Resulting PAT for the quarter increased sharply by 4.6x to Rs 399 mn on low base. EPS for the quarter stood at Rs 5.7 as against mere Re 1.0 in the previous year.

Ongoing capex to increase paper capacity by 55% is on schedule

In FY10 the company completed its plans to increase pulp capacity from 170 thousand MT to 260 thousand MT. Its plan to increase paper capacity from 255 thousand MT to 400 thousand MT with capex of Rs 10 bn is expected to complete by Q3FY11. This will drive the company's revenues and earnings going forward. This capex is fully funded and will help the company utilize its surplus captively.

We maintain our BUY

We believe that the ongoing capex will drive TNPL's revenue and PAT by 26% and 18%, respectively (FY10-12E CAGR). We reiterate our BUY recommendation on the stock with price target of Rs 143. At the current price, the stock also offers attractive dividend yield of 3.7%.

Financial Snapshot

Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY2009	10,968	2,859	26.1	894	12.9	(20.9)	13.2	9.5	5.3	1.2
FY2010	10,687	3,067	28.7	1,200	17.3	34.3	15.9	7.1	5.8	1.1
FY2011E	12,590	3,978	31.6	1,317	19.0	10.0	15.6	6.4	4.7	0.9
FY2012E	17,056	5,159	30.3	1,660	23.9	25.8	17.3	5.1	3.4	0.8

Quarterly and Annual Results

Rs Mn

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	1,834	2,709	2,587	3,556	2,972	62.1	(16.4)
Expenditure	1,323	1,872	1,765	2,646	2,074	56.7	(21.6)
<i>as % of sales</i>	<i>72.1</i>	<i>69.1</i>	<i>68.2</i>	<i>74.4</i>	<i>69.8</i>		
Consumption of RM	-214	706	529	1,227	609	(384.9)	(50.3)
<i>as % of sales</i>	<i>-11.7</i>	<i>26.0</i>	<i>20.4</i>	<i>34.5</i>	<i>20.5</i>		
Power & Fuel	838	490	478	643	703	(16.1)	9.4
<i>as % of sales</i>	<i>45.7</i>	<i>18.1</i>	<i>18.5</i>	<i>18.1</i>	<i>23.6</i>		
Employee Cost	217	213	218	228	271	25.3	19.1
<i>as % of sales</i>	<i>11.8</i>	<i>7.8</i>	<i>8.4</i>	<i>6.4</i>	<i>9.1</i>		
Other expenditure	482	464	539	548	490	1.6	(10.6)
<i>as % of sales</i>	<i>26.3</i>	<i>17.1</i>	<i>20.8</i>	<i>15.4</i>	<i>16.5</i>		
EBITDA	511	837	823	911	899	75.9	(1.3)
Depreciation	268	285	281	321	273	1.5	(15.2)
EBIT	242	552	542	589	626	158.3	6.2
Other Income	3	11	3	33	4	19.4	
Interest	137	148	129	63	78		
PBT	109	415	415	560	552	406.2	(1.4)
Total Tax	37	133	141	(12)	153	309.4	(1,334.7)
Adjusted PAT	72	282	274	572	399	456.8	(30.3)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	72	282	274	572	399	456.8	(30.3)
Extra ordinary items	0	0	36	10	0		
Reported PAT	72	282	310	582	399	456.8	(31.5)
Reported EPS	1.0	4.1	4.5	8.4	5.7	456.8	(31.5)

Margins (%)						(bps)	(bps)
EBIDTA	27.9	30.9	31.8	25.6	30.2	238	463
EBIT	13.2	20.4	20.9	16.6	21.1	785	450
EBT	5.8	14.9	16.0	14.8	18.4	1,267	363
PAT	3.9	10.4	10.6	16.1	13.4	951	(267)
Effective Tax rate	34.3	32.1	34.0	(2.2)	27.7	(657)	2,996

Source: Company, Emkay Research

Segmental Analysis					Rs Mn	
Y/E Mar	Q1FY10	Q4FY10	Q1FY11A	% YoY	% QoQ	
Revenues						
Paper	1726	3409	2803	62.4	(17.8)	
Energy	446	332	419	(6.1)	26.4	
Total	2172	3740	3222	48.3	(13.9)	
Inter segment	384	279	321	(16.6)	14.8	
Total net sales	1788	3461	2901	62.3	(16.2)	
Segment Results						
Paper	238	644	614	158.1	(4.7)	
Energy	35	14	52	48.9	262.2	
Total	273	658	665	144.1	1.1	
- interest	137	63	78	(42.8)	24.4	
- Other unallocable exp	27	36	36	33.8	2.0	
Total PBT	109	560	551	406.3	(1.6)	
EBIT %					(chng bps)	(chng bps)
Paper	13.8	18.9	21.9	812	300	
Energy	7.8	4.3	12.4	457	805	
Total	12.5	17.6	20.7	811	305	

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	10,968	10,687	12,590	17,056
Growth (%)	16.9	(2.6)	17.8	35.5
Expenditure	8,109	7,620	8,612	11,897
Materials Consumed	2,401	2,248	2,568	3,582
Power & Fuel	2,963	2,449	2,833	3,957
Employee Cost	814	875	1,007	1,364
Other Exp	1,931	2,049	2,203	2,993
EBITDA	2,859	3,067	3,978	5,159
Growth (%)	23.3	7.3	29.7	29.7
EBITDA margin (%)	26.1	28.7	31.6	30.3
Depreciation	1,008	1,156	1,510	1,920
EBIT	1,851	1,911	2,468	3,239
EBIT margin (%)	16.9	17.9	19.6	19.0
Other Income	35	50	12	12
Interest expenses	493	462	560	880
PBT	1,393	1,499	1,920	2,371
Tax	500	299	603	711
Effective tax rate (%)	35.9	20.0	31.4	30.0
Adjusted PAT	894	1,200	1,317	1,660
Growth (%)	(20.9)	34.2	9.8	26.1
Net Margin (%)	8.1	11.2	10.5	9.7
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	894	1,200	1,317	1,660
E/O items	180	61	-	-
Reported PAT	1,074	1,261	1,317	1,660
PAT after MI	894	1,200	1,317	1,660
Growth (%)	(20.9)	34.2	9.8	26.1

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	1,358	1,449	1,911	2,359
Depreciation	1,008	1,156	1,510	1,920
Interest Provided	493	462	560	880
Other Non-Cash items	180	61	-	-
Chg in working cap	(993)	352	(351)	(824)
Tax paid	-500	-299	-603	-711
Operating Cashflow	1,546	3,181	3,026	3,624
Capital expenditure	(2,500)	(5,000)	(3,000)	(1,000)
Free Cash Flow	-954	-1,819	26	2,624
Other income	35	50	12	12
Investments	-	-	-	-
Investing Cashflow	35	50	12	12
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	2,526	3,000	-	-
Interest Paid	(493)	(462)	(560)	(880)
Dividend paid (incl tax)	(365)	(365)	(365)	(365)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	1,668	2,173	-925	-1,245
Net chg in cash	749	403	-887	1,391
Opening cash position	230	979	1,383	495
Closing cash position	979	1,383	495	1,886

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	694	694	694	694
Reserves & surplus	6,415	7,311	8,265	9,559
Net worth	7,109	8,005	8,959	10,253
Minority Interest	0	0	0	0
Secured Loans	6,850	9,850	9,850	9,850
Unsecured Loans	1,200	1,200	1,200	1,200
Loan Funds	8,050	11,050	11,050	11,050
Net deferred tax liabilities	1,884	1,884	1,884	1,884
Total Liabilities	17,043	20,938	21,892	23,186
Gross Block	21,516	24,016	29,016	32,016
Less: Depreciation	9,688	10,844	12,354	14,274
Net block	11,828	13,172	16,662	17,742
Capital work in progress	2,500	5,000	3,000	1,000
Investments	172	172	172	172
Current Assets	6,007	5,988	5,921	9,237
Inventories	1,953	1,757	2,070	2,804
Sundry debtors	1,653	1,464	1,725	2,336
Cash & bank balance	979	1,383	495	1,886
Loans & advances	1,422	1,385	1,632	2,211
Other current assets	-	-	-	-
Current lia & Prov	3,464	3,395	3,864	4,965
Current liabilities	2,704	2,635	3,104	4,206
Provisions	760	760	760	760
Net current assets	2,542	2,593	2,057	4,272
Misc. exp	1	1	1	1
Total Assets	17,043	20,938	21,892	23,186

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	26.1	28.7	31.6	30.2
Net Margin	8.1	11.2	10.5	9.7
ROCE	30.8	26.5	30.2	37.3
ROE	13.2	15.9	15.6	17.3
RoIC	15.5	13.8	15.2	16.9
Per Share Data (Rs)				
EPS	12.9	17.3	19.0	23.9
CEPS	27.4	33.9	40.8	51.6
BVPS	102	115	129	148
DPS	4.5	4.5	4.5	4.5
Valuations (x)				
PER	9.5	7.1	6.4	5.1
P/CEPS	4.5	3.6	3.0	2.4
P/BV	1.2	1.1	0.9	0.8
EV / Sales	1.4	1.7	1.5	1.0
EV / EBITDA	5.3	5.8	4.7	3.4
Dividend Yield (%)	3.7	3.7	3.7	3.7
Gearing Ratio (x)				
Net Debt/ Equity	1.0	1.2	1.2	0.9
Net Debt/EBITDA	2.4	3.1	2.6	1.7
Working Cap Cycle (days)	30	20	20	20

Recommendation History: Tamilnadu Newsprint – TNNPL IN

Date	Reports	Reco	CMP	Target
27.05.2010	Tamilnadu Newsprint Q4FY10 Result Update	Buy	102	143
04.02.2010	Tamilnadu Newsprint Q3FY10 Result Update	Hold	84	84
05.11.2009	Tamilnadu Newsprint Q2FY10 Result Update	Hold	72	84
24.07.2009	Tamilnadu Newsprint Q1FY10 Result Update	Hold	75	84

Recent Research Reports

Date	Reports	Reco	CMP	Target
26.07.2010	United Phosphorus Q1FY11 Result Update	Buy	179	230
23.07.2010	Deepak Fertilisers Q1FY11 Result Update	Buy	152	175
22.07.2010	JK Paper Q1FY11 Result Update	Buy	57	84
19.07.2010	Rallis India Q1FY11 Result Update	Buy	1177	1440

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