

September 19, 2011
BUY
MEDIUM RISK
PRICE Rs. 104
TARGET Rs. 147

PAPER

EARLIER RECO

Buy	
Price	Rs. 125
Target	Rs. 178
Date	Feb. 23, 2011

SHARE HOLDING (%)

Promoters	35.32
FII	2.54
FI/MF	36.55
Govt. Holdings	4.06
Body Corporates	6.05
Public & Others	15.48

STOCK DATA

Reuters Code	TNNP.BO	
Bloomberg Code	TNNP@IN	
BSE Code	531426	
NSE Symbol	TNPL	
Market Capitalization*	Rs. 7197.8 mn US\$ 151.5 mn	
Shares Outstanding*	69.21 mn	
52 Weeks (H/L)	Rs.163 / 95	
Avg. Daily Volume (6m)	20,714 Shares	
Price Performance (%)		
1M	3M	6M
-	(15)	(17)
200 Days EMA: Rs.121		

*On fully diluted equity shares

 Part of  **Bonanza**


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Tamil Nadu Newsprint & Papers Ltd. (TNPL) is the largest bagasse (an agricultural residue) based paper unit in India. It is engaged in manufacturing and marketing of newsprint, printing and writing papers. The Company pioneered the concept of using Bagasse-sugarcane waste as a raw material for manufacturing paper. It has also been exporting paper. **We recently had a telecon with the Management of the Company to discuss its financial performance during Q1FY12 and outlook for ensuing period. We present key takeaways of the Telecon hereunder:**

- During Q1FY12, its revenues grew by 15.8% YoY to Rs. 3441 mn. Its EBIDTA was flattish at Rs.897 mn, while the EBIDTA margins decreased by 420 bps to 26.1%. Its Profit before Tax (including Other Income) decreased by 69% to Rs. 171 mn. It's APAT decreased by 67.8% at Rs. 128 mn. It registered an AEPS of Rs.1.9 during Q1FY12.
- TNPL has sold 73,925 MT of Printing & Writing paper in Q1FY12 as compared to 62,775 MT in Q1FY11. The average realization was Rs. 43,400 per tonne of paper as compared to the average realization of Rs. 42,887 per tonne for the full year FY11.
- The main reason for the fall in margins during Q1FY12 was due to increase in power & fuel cost due to steep increase in coal prices.
- The company will have to buy Pulp from the market to feed the additional production requirement; we do not expect any sharp improvement in its margins till the de-inking plant is commissioned by March 2012 (benefits expected from FY13 onwards).
- TNPL's Mill Expansion Plan for increasing the production capacity from 2,45,000 Mts to 4,00,000 Mts per annum has been completed & the machine has started its commercial production on January 19, 2011. This is expected to drive volumes for TNPL and help TNPL mitigate the impact of sharp rise in coal cost till the time its 300 tpd de-inking project gets commissioned.
- TNPL's other expansion projects viz. (1) Revamping of power & steam system is expected to be completed by April 2012 and (2) Setting up of a 600 tpd cement plant under lime sludge and fly ash management system is expected to be completed by December 2011.

OUTLOOK & VALUATION

TNPL is one of India's largest paper manufacturers with one of the lowest cost structures. Considering the dynamics of the Indian Paper Industry, it has been executing a very strong growth strategy involving consistent growth in capacities, high focus on energy conservation, own plantations, efficient cost management & focus on high quality products. TNPL requires 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 by Rs.2000 to 4000/tonne as compared to companies producing paper purely from wood pulp.

After incorporating Q1FY12 numbers and considering the sharp rise in its coal costs, we have reduced our FY12 estimates and also introduce our FY13 numbers. We now expect its Revenues to grow by 36.7% & 14.6% in FY12 & FY13 respectively. While we expect it's APAT to be flattish in FY12 (mainly because of a sharp 215% rise in its interest cost to Rs. 1393.9 mn post the commissioning of its capacity expansion plan), we expect its APAT to grow by 16.5% in FY13 (considering the full impact of expansion plan & commissioning of de-inking project). At the CMP of Rs.104, the stock is available at an attractive valuation of 5x its FY13E earnings of Rs.21. We retain our "BUY" on the stock with the reduced Target price of Rs.147 (7x FY13E Earnings).

KEY FINANCIALS

Y/E	Revenue	APAT	AEPS	AEPS	P/E	ROCE	ROE	P/BV	Div.Yield
Mar.	(Rs mn)	(Rs mn)	(Rs)	(% Ch.)	(x)	(%)	(%)	(x)	(%)
FY10	10686.5	1178.9	17.0	32.7	6.1	7.6	16.1	0.9	4.3
FY11	12225.1	1282.5	18.5	8.8	5.6	6.5	14.9	0.8	4.8
FY12E	16709.2	1246.7	18.0	(2.8)	5.8	8.6	13.0	0.7	5.3
FY13E	19152.0	1452.8	21.0	16.5	5.0	9.6	13.9	0.7	5.8

QUARTERLY STATEMENT

Rs.mn

Y/E March	Q4FY10	Q4FY11	Q1FY11	Q1FY12
Net sales	3556.3	3531.6	2972.2	3440.7
Growth %	19.1	(0.7)	62.1	15.8
Total Expense	2644.7	2788.8	2073.5	2543.8
EBITDA	911.6	742.8	898.7	896.9
Growth %	24.6	(18.5)	76.0	(0.2)
Margin %	25.6	21.0	30.2	26.1
Interest	62.8	212.9	78.1	324.6
Depreciation	321.2	387.2	272.5	403.9
Other Income	33.1	15.8	3.7	2.4
PBT	560.7	158.5	551.8	170.8
Margin %	15.8	4.5	18.6	5.0
Tax	(12.4)	(37.7)	153.1	42.6
Rate %	(2.2)	(23.8)	27.7	24.9
APAT	573.1	196.2	398.7	128.2
Non-Recurring Items	(8.9)	0.7	0.0	0.0
RPAT	582.0	195.5	398.7	128.2
Margin %	16.4	5.5	13.4	3.7

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY10	FY11E	FY12E	FY13E
Total Sales	10686.5	12225.1	16709.2	19152.0
Raw Mat Consumed	2836.6	2637.0	3880.8	4463.4
Power, Fuel & Water	2448.8	3055.3	4553.9	5305.3
Staff Cost	875.1	1126.8	1317.6	1515.3
Repair & Maintenance	697.5	689.5	798.6	878.5
Other Expenditure	761.8	1415.8	1482.1	1630.3
Total Expenditure	7619.8	8924.4	12033.0	13792.7
PBIDT	3066.7	3300.7	4676.2	5359.3
Interest	461.8	442.4	1393.9	1603.0
Depreciation	1155.6	1233.7	1656.4	1822.0
Other Income	49.7	25.3	26.3	28.9
PBT incl OI	1499.0	1649.9	1652.2	1963.2
Tax	320.0	367.4	405.6	510.4
APAT	1178.9	1282.5	1246.7	1452.8
Extraordinary items	(81.8)	(207.4)	0.0	0.0
RPAT	1260.8	1489.9	1246.7	1452.8

BALANCE SHEET STATEMENT

Rs.mn

As on 31 st March	FY10	FY11E	FY12E	FY13E
Share Capital	692.1	692.1	692.1	692.1
Shares Forfeited	1.7	1.7	1.7	1.7
Reserves & Surplus	7351.2	8464.1	9266.2	10233.4
Net Worth	8045.0	9157.9	9960.0	10927.2
Secured Loans	10549.0	11692.4	11575.5	11459.7
Unsecured Loans	3080.1	3188.6	3124.8	3062.4
Total Loan funds	13629.1	14881.0	14700.3	14522.1
Deferred Tax Liability	2101.3	2496.1	2496.1	2496.1
Capital Employed	23775.4	26535.0	27156.4	27945.3
Net Block	12440.9	21939.0	22927.8	22945.8
Cap. WIP	8525.0	1305.2	500.0	500.0
Investments	114.0	11.4	11.4	11.4
Captive Implantation	96.2	131.9	200.0	250.0
Sundry Debtors	1995.7	2058.5	2813.5	3224.9
Cash & Bank Bal	193.6	122.2	403.8	655.9
Loans & Advances	2059.4	3135.2	3605.5	4146.3
Inventories	1691.1	2050.0	2460.0	2819.6
Curr Assets	5939.8	7365.9	9282.8	10846.7
Curr Liab & Prov	3340.6	4218.4	5765.7	6608.6
Net Current Assets	2599.3	3147.5	3517.1	4238.1
Miscellaneous Exp	0.0	0.0	0.0	0.0
Total Assets	23775.4	26535.0	27156.4	27945.3

FINANCIAL RATIO STATEMENT

Y/E March	FY10	FY11E	FY12E	FY13E
Growth (%)				
Net Sales	(2.6)	14.4	36.7	14.6
APAT	32.7	8.8	(2.8)	16.5
EBITDA	2.3	7.6	41.7	14.6
Profitability (%)				
EBITDA Margin	28.7	27.0	28.0	28.0
Adj. PAT Margin	11.0	10.5	7.5	7.6
ROCE	7.6	6.5	8.6	9.6
ROE	16.1	14.9	13.0	13.9
Per Share Data (Rs.)				
Adj. EPS	17.0	18.5	18.0	21.0
Adj. CEPS	33.5	39.4	41.9	47.3
BVPS	116.2	132.3	143.9	157.9
Valuations (X)				
PER	6.1	5.6	5.8	5.0
PEG	0.2	0.6	(2.1)	0.3
P/BV	0.9	0.8	0.7	0.7
EV / EBITDA	6.7	6.7	4.6	3.9
EV / Net sales	1.9	1.8	1.3	1.1
Dividend Yield (%)	4.3	4.8	5.3	5.8
Turnover Days				
Debtors days	68	61	61	61
Creditors days	77	88	88	88
Gearing Ratio				
Total Debt to Equity	1.7	1.6	1.5	1.3

Source: Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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