

INITIATING COVERAGE

BUY

Date	4 th June 2010
CMP*	Rs 107
Target Price	Rs 144
52 week High / Low	Rs 110/71
Equity	Rs 69cr
Face Value	Rs 10
Mkt. Capitalization	Rs 742cr
Avg. Daily Vol. (12 M)	22654

BSE – SENSEX	17117
NSE – NIFTY	5135
NSE Code	TNPL
Bloomberg Code	TNNPIN
BSE Code	531426

SHAREHOLDING PATTERN @ 31-03-10

Promoters	35.32%
DI/MFs	25.8%
Foreign Institutions	10.9%
Public & Others	15.5%
Govt Holding	4%

RETURNS	3-MTS	6-MTS	1-YR
TNPL	3%	20%	14%
Nifty	0%	(2%)	20%
Sensex	0%	(2%)	19%

(Rs cr)

Y/E Mar	FY09	FY10	FY11E	FY12E
Net Sales	1,101.6	1025	1,372	1,813
EBIDTA	322.1	317	460	562
PAT	93.2	126	167	216
EPS	13.4	18.2	24.1	31.2
PE	7.2	6.6	4.0	3.1
ROCE(%)	12.9%	13.4%	16.6%	18%
ROE(%)	14.3%	14.2%	18%	18.8%

*E – Estimated, A – Audited

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TAMIL NADU NEWSPRINT AND PAPERS LIMITED (TNPL)

Tamil Nadu Newsprint and Papers Limited (TNPL) commenced production in the year 1984 with an initial capacity of 90,000 tonnes per annum. Over the years, the production capacity has been increased to 2,45,000 tonnes per annum and the company has emerged as the largest bagasse based paper mill in the world consuming about one million tones of bagasse every year. The company is in the process of implementing the mill expansion plan for increasing the capacity to 4,00,000 tonnes per annum from September 2010.

INVESTMENT RATIONALE

- **Paper cycle on an upmove; demand expected to outstrip supply:** Paper cycle is seeing an upmove and India is among the fast growing markets representing huge opportunity for players. In India paper production is likely to grow at a CAGR of over 8% while consumption will grow at a CAGR of 10%-12% till 2012-13.
- Also growth in the Asian region and other developing countries is expected to far outweigh the sluggishness in more matured markets of North America, Europe and Japan. Asia's consumption is estimated to grow to 45 percent of the global demand by 2012 as compared to 34 percent in 2002.
- **Hardening paper prices:** High solid wood and pulp prices at the end of 2009 and the start of 2010 have kept the paper prices firm. The pulp prices are up almost 50% from one year ago. Since January, hardwood pulp prices have gone up by about 20% softwood pulp has appreciated by about 25%. In March, domestic manufacturers have hiked prices of printing and writing paper by about Rs 1,000-1,500 a tonne. We believe the prices will further harden by about 5-10% going ahead.
- **Capacity expansion from 245,000 Mts to 400,000 Mts:** The company's business model is unique as it manufactures paper from bagasse, which is the waste from production of sugar. It has an arrangement with sugar mills in Tamil Nadu for procurement of bagasse. This insulates TNPL from the fluctuations in prices of wood pulp. Also, the company is expanding its capacity by 60% from 245,000 to 400,000 tpa. The project will be completed by September 2010 with a capex of Rs.1000 crore.
- **Strong operational efficiencies:** It has the best operating margins in the industry and we believe that it will be able to sustain margins at the higher levels going ahead. This because it is an integrated player and is more or less insulated from the rising raw material prices.

The company has achieved a dividend yield of over 4% we believe this will further increase with increase in profitability of the company. It has strong return ratios including the return on equity and capital employed that have shown improvement over the last three years and will further rise going ahead.

CONCERNS:

The major concern is decline in paper realisations could severely dent profitability and growth. However, we believe that demand will outstrip supply over the next few years which will keep paper prices higher.

VALUATION:

The paper cycle is seeing an upturn we believe that growth will be seen in the sector in tandem with the GDP growth. TNPL's EPS is seen at Rs 24.1 in FY011E and at Rs 31.2 in FY12E. **At the current price of Rs 107, the stock is trading at a multiple of 4x FY11E and 3x FY12E. It will see capacity addition in the first of FY11, which will boost its topline as well as bottomline. We recommend, "BUY" on the stock with a target price of Rs 144 over one year period.**

FINANCIALS

(Rs. cr)

PARTICULARS	FY08	FY09	FY10	FY11E	FY12E
Net Operating Sales	971.9	1,101.6	1025.6	1,372.1	1,813.8
Operating Income	971.9	1,101.6	42.9	1,372.1	1,813.8
Total Income	1,003.0	1,155.4	1079.7	1,472.1	1,913.8
Raw Materials Cost	195.7	174.6	227.43	301.9	399.0
Stock Adjustment	(0.2)	(36.8)	(2.67)	(123.5)	(163.2)
Employee Cost	67.8	81.0	87.51	130.3	176.8
Power & Fuel Cost	194.5	296.3	244.88	329.3	435.3
Other Manufacturing Expenses	182.4	214.1	204.85	257.3	340.1
Cost of Goods Sold	640.1	729.2	762	895.3	1,188.0
Total Expenses	740.2	833.3	762	1,011.9	1,351.3
Operating Profit	231.7	268.2	317.7	360.2	462.5
Interest	24.2	63.3	46.18	90.0	105.0
PBDT	238.6	258.8	271.5	370.2	457.5
Depreciation	75.5	101.0	115.0	127.0	143.8
PBT	163.1	157.9	156	243.2	313.7
Current Tax	7.5	18.2	29.9	73.0	94.1
Ajusted PAT	114.1	93.2	120.3	167.4	216.4

(Rs. cr)

PARTICULARS	FY08	FY09	FY10E	FY11E	FY12E
Equity Share Capital	69.4	69.4	69.4	69.4	69.4
Preference Share Capital	-	-	-	-	-
Reserves & Surplus	570.6	594.9	696.8	864.2	1,080.6
Networth	640.0	664.3	766.2	933.6	1,150.0
Secured Loans	470.6	685.0	795.0	885.0	960.0
Unsecured Loans	83.7	121.4	151.4	181.4	211.4
Total Debt	554.3	806.5	946.5	1,066.5	1,171.5
SOURCES OF FUNDS	1,400.9	1,713.3	1,716.6	2,004.6	2,326.4
Gross Block	1,860.9	2,177.2	2,439.9	2,789.9	3,164.9
Less: Accumulated Depreciation	868.0	955.9	1,056.9	1,168.0	1,294.9
Net Block	992.9	1,221.3	1,383.0	1,621.9	1,870.0
Capital Work - in - Progress	290.7	262.7	250	275	300
Investments	17.2	1.1	10.0	10.0	10.0
Cash	23.0	17.7	51.0	56.2	70.2
Inventories	147.3	196.4	199.6	225.2	249.4
Debtors	98.6	169.7	175.2	193.3	210.4
Loans & Advances	115.6	117.0	100.0	125.0	145.0
Other Current Assets	6.1	26.7			
Total Current Assets	390.5	527.5	525.8	599.7	675.1
Current Liabilities	232.6	221.1	320.5	334.7	341.3
Sundry Creditors	207.8	176.7	245.5	244.7	241.3
Other Current Liabilities	24.9	44.4	75.0	90.0	100.0
Other Provisions	58.7	69.8	90.0	110.0	120.0
Total Current Liabilities	308.6	322.0	452.2	502.1	528.6
Net Current Assets	81.9	205.5	73.6	97.6	146.5
APPLICATION OF FUNDS	1,400.9	1,713.3	1,716.6	2,004.6	2,326.4

BALANCE SHEET RATIOS	FY08	FY09	FY10	FY11E	FY12E
Return on Capital employed	13.4%	12.9%	13.4%	16.6%	18.0%
Return on Networth	17.8%	14.0%	13.3%	17.9%	18.8%
Return on Avg. Networth	18.8%	14.3%	14.2%	19.7%	20.8%
Fixed Asset Turnover Ratio	1.0	0.9	0.7	0.8	1.0
Inventory Turnover	6.6	5.6	4.5	6.1	7.3
Inventory Turnover (Avg.)	6.4	6.4	4.6	6.5	7.6
Debtors Turnover Ratio	10.7	6.8	6.6	7.5	9.1
Debtors Turnover Ratio (Avg.)	10.3	8.6	6.7	7.9	9.5
Debt Equity Ratio	0.9	1.2	1.2	1.1	1.0
Net working capital/ Total Debt	0.1	0.3	0.1	0.1	0.1
Current Ratio	1.3	1.6	1.2	1.2	1.3
Interest Coverage Ratio	10.8	5.1	4.5	5.1	5.4
OPERATING RATIOS					
GPM	34.1%	33.8%	34.5%	34.8%	34.5%
OPM	23.8%	24.3%	26.5%	26.3%	25.5%
EBIDTAM	27.0%	29.2%	37.7%	33.5%	31.0%
PBDTM	24.6%	23.5%	29.4%	27.0%	25.2%
PBTM	16.8%	14.3%	17.1%	17.7%	17.3%
PATM	11.7%	8.5%	11.3%	12.2%	11.9%
EPS	16.4	13.4	18.2	24.1	31.2
P/E	5.9	7.2	6.6	4.0	3.1
CEPS	27.1	30.0	3.1	4.2	5.2
P/CEPS	3.6	3.2	31.0	22.9	18.7
BV per share	92	96	11	13	17
P/BV	1.1	1.0	8.8	7.2	5.9
EV/OP	5.3	5.5	32.0	21.7	17.1
EV/Sales	1.3	1.3	8.5	5.7	4.4
Market cap/ Sales	0.7	0.6	7.4	4.9	3.7

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