

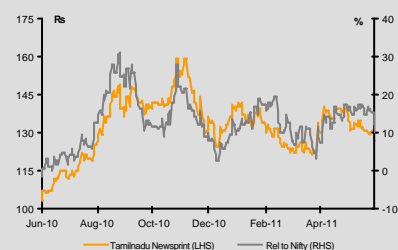
May 31, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 127	Rs 180
EPS change FY12E/13E (%)	-24 / NA
Target Price change (%)	-10
Nifty	5,560
Sensex	18,503

Price Performance (%)	1M	3M	6M	12M
Absolute	(10)	3	(3)	21
Rel. to Nifty	(4)	2	5	14

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Paper
Bloomberg	TNNP@IN
Equity Capital (Rs mn)	692
Face Value(Rs)	10
No of shares o/s (mn)	69
52 Week H/L	163/100
Market Cap (Rs bn/USD mn)	9/200
Daily Avg Volume (No of sh)	65054
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	35.3	35.3	35.3
FII/NRI	2.7	2.7	2.8
Institutions	36.8	35.2	35.5
Private Corp	5.6	6.6	6.9
Public	19.6	20.2	19.5

Source: Capitaline

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- Q4FY11 results disappointed due to lower margins. Revenues of Rs 3.5 bn, flat yoy, EBITDA of Rs 743mn, -18% yoy, APAT Rs 196 mn, -66% yoy
- EBITDA margins at 21.0% (-450 bps yoy / -510 bps qoq) were below estimates due to higher raw material, fuel and other expenses
- Margin pressure is likely to continue in near future despite increase in paper prices by ~4% in the quarter since pulp and coal prices remain at elevated level
- Downgrade FY12E estimates by 24% to Rs 18.9. Introduce FY13E estimates (Rs 25.6) and roll over valuations to FY13E with 7x FY13E EPS to Rs 180 (previous Rs 200)

Results disappoint owing to margin pressure

TNPL's Q4FY11 results disappointed on account of lower margins. Revenues of Rs3.5bn, flat yoy, were in line with our estimates of Rs 3.4bn. However, EBITDA of Rs743mn, -18% yoy, was significantly lower than our estimates of Rs 1.1bn. EBITDA margin shrunk ~450bps yoy/510bps qoq to 21% and was below our expectation of 33%.

Higher raw material & P&F costs drag margins

EBITDA margins declined to 21% during the quarter owing to increase in raw material costs & power & fuel costs. Company's raw material costs increased to 24.6% of sales as compared to 16% last year. Similarly, P&F costs increased to 35% of sales as compared to 18% last year and 23% last quarter due to the commissioning of the new paper machine. Consequently, paper margins declined to 12.2% (-670bps yoy/-360bps qoq) and was below our expectation of 18% due to lower operating leverage. We expect input cost pressure to remain in FY12E due to recent increase in coal costs and firm pulp prices.

APAT declined to Rs 196mn, below estimates

TNPL commissioned its paper machine during the quarter. Consequently, interest cost increased 240% yoy/150% qoq to Rs 213mn. Resulting PBT declined by 72% yoy to Rs159mn and was lower than our estimates of Rs 406mn. However, due to accounting tax benefit related to its captive power plant the company reported tax credit for the quarter. APAT declined by 66% yoy to Rs 196mn and was lower than our estimates of Rs333mn. AEPS for the quarter stood at Rs 2.8, -66% yoy against our expectation of Rs5.6.

Downgrade FY12E estimates, maintain BUY

We believe margin pressures would continue in the near term due to higher coal and pulp prices as a result we have downgraded our FY12E estimates by 24% to Rs 18.9. We are introducing FY13E estimates and roll over valuations to FY13E. Based on 7x FY13E, we have reduced our target price to Rs 180 (from Rs 200) however with 4% upside we maintain BUY recommendation on the stock.

Financial Snapshot

	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
YE-Mar										
FY10	10,567	2,947	27.9	1,127	15.6	20.8	14.7	8.1	7.4	1.1
FY11	12,225	3,301	27.0	1,289	22.3	43.5	15.2	5.7	7.0	1.0
FY12E	15,555	4,875	31.3	1,313	18.9	(15.2)	13.9	6.7	4.7	0.9
FY13E	16,400	5,536	33.8	1,777	25.6	35.2	16.8	4.9	4.2	0.8

Quarterly and Annual Results

Rs Mn

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenue	3,556	2,972	2,972	2,749	3,532	(0.7)	28.4	12,225	10,567	15.7
Expenditure	2,646	2,074	2,032	2,030	2,789	5.4	37.4	8,925	7,605	17.3
as % of sales	74.4	69.8	68.4	73.8	79.0			73.0	72.0	
Consumption of RM	1,227	609	810	662	556	(54.7)	(15.9)	2,637	2,248	17.3
as % of sales	34.5	20.5	27.3	24.1	15.7			21.6	21.3	
Power & Fuel	643	703	477	632	1,244	93.5	96.6	3,055	2,449	24.8
as % of sales	18.1	23.6	16.0	23.0	35.2			25.0	23.2	
Employee Cost	228	271	285	287	284	24.6	(1.1)	1,127	875	28.8
as % of sales	6.4	9.1	9.6	10.4	8.0			9.2	8.3	
Other expenditure	548	490	461	449	705	28.7	57.1	2,105	2,034	3.5
as % of sales	15.4	16.5	15.5	16.3	20.0			17.2	19.2	
EBITDA	911	899	940	720	743	(18.4)	3.2	3,301	2,962	11.5
Depreciation	321	273	291	284	387	20.5	36.5	1,234	1,156	6.8
EBIT	589	626	649	436	356	(39.7)	(18.4)	2,067	1,806	14.5
Other Income	33	4	3	3	16	(52.3)	532.0	25	50	(48.9)
Interest	63	78	66	85	213	239.0	149.6	442	477	(7.2)
PBT	560	552	587	353	159	(71.7)	(55.1)	1,650	1,379	19.6
Total Tax	(12)	153	179	67	(38)	204.0	(156.3)	361	252	43.1
Adjusted PAT	572	399	408	286	196	(65.7)	(31.4)	1,289	1,127	14.4
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	572	399	408	286	196	(65.7)	(31.4)	1,289	1,127	14.4
Extra ordinary items	10	0	123	78	-1			201	120	
Reported PAT	582	399	531	365	196	(66.4)	(46.4)	1,490	1,246	19.6
Reported EPS	8.4	5.7	7.7	5.3	2.8	(66.4)	(46.4)	21.5	18.0	19.6

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	25.6	30.2	31.6	26.2	21.0	(457)	(514)	27.0	28.0	(3.7)	
EBIT	16.6	21.1	21.8	15.9	10.1	(650)	(579)	16.9	17.1	(1.1)	
EBT	14.8	18.4	19.6	12.8	4.0	(1,077)	(871)	13.3	12.6	5.6	
PAT	16.1	13.4	13.7	10.4	5.6	(1,053)	(485)	10.5	10.7	(1.1)	
Effective Tax rate	(2.2)	27.7	30.5	19.0	(23.8)	(2,157)	(4,276)	21.9	18.3	19.6	

Source: Company, Emkay Research

Segmental Analysis

Rs Mn

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Revenues										
Paper	3409	2803	2797	2603	3331	(2.3)	28.0	11,534	10,045	14.8
Energy	332	419	469	437	530	59.8	21.3	1,854	1,509	22.8
Total	3740	3222	3265	3040	3861	3.2	27.0	13,388	11,554	15.9
Segment Results										
Paper	644	614	644	412	405	(37.1)	(1.6)	2,074	2,006	3.4
Energy	14	52	53	46	0	NA	(100.9)	150	103	45.7
Total	658	665	697	458	405	(38.5)	(11.6)	2,224	2,109	5.5
EBIT %										
Paper	18.9	21.9	23.0	15.8	12.2	(673)	(365)	18.0	20.0	(199)
Energy	4.3	12.4	11.2	10.6	-0.1	(439)	(1,063)	8.1	6.8	127
Total	17.6	20.7	21.3	15.1	10.5	(711)	(457)	16.6	18.3	(164)

Source: Company, Emkay Research

Revision in estimates

We have revised our estimates for FY12E to reflect continued margin pressure. We have downgraded our EBITDA estimates by 11% for FY12E while keeping revenues unchanged. Our revised EPS for FY12E stands at Rs 18.9 against previous estimate of Rs 24.8 due to decline in EBITDA margins. We have also introduced FY13E estimates and expect company to report EPS of Rs 25.6.

Rs mn	FY12E			FY13E	
	Old Estimates	New Estimates	% Change	Introducing Estimates	% yoy
Net sales	15555	15,555	NA	16,400	5.4
EBITDA	5,456	4,875	-10.7	5,536	13.6
EBITDA %	35.1	31.3	-374 bps	33.8	242 pbs
PAT	1720	1313	-23.6	1,777	35.3
EPS	24.8	18.9	-23.7	25.6	35.2

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	10,567	12,225	15,555	16,400
Growth (%)	(3.7)	15.7	27.2	5.4
Expenditure	7,620	8,925	10,680	10,864
Materials Consumed	2,248	2,637	3,422	3,608
Power & Fuel	2,449	3,055	3,951	4,264
Employee Cost	875	1,127	1,400	1,378
Other Exp	2,049	2,105	1,907	1,614
EBITDA	2,947	3,301	4,875	5,536
Growth (%)	3.1	12.0	47.7	13.6
EBITDA margin (%)	27.9	27.0	31.3	33.8
Depreciation	1,156	1,234	1,920	1,920
EBIT	1,791	2,067	2,955	3,616
EBIT margin (%)	17.0	16.9	19.0	22.0
Other Income	50	25	12	12
Interest expenses	462	442	1,090	1,090
PBT	1,379	1,650	1,876	2,538
Tax	252	361	563	761
Effective tax rate (%)	18.3	21.9	30.0	30.0
Adjusted PAT	1,127	1,289	1,313	1,776
Growth (%)	26.1	14.4	1.9	35.2
Net Margin (%)	10.7	10.5	8.4	10.8
(Profit)/loss from JVs/Ass/MI	-	-	-	1.0
Adj. PAT After JVs/Ass/MI	1,127	1,289	1,313	1,777
E/O items	120	201	-	-
Reported PAT	1,246	1,490	1,313	1,777
PAT after MI	1,127	1,289	1,313	1,777
Growth (%)	26.1	14.4	1.9	35.3

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT (Ex-Other income)	1,329	1,625	1,864	2,526
Depreciation	1,156	1,234	1,920	1,920
Interest Provided	462	442	1,090	1,090
Other Non-Cash items	456	-	-	-
Chg in working cap	(659)	(288)	(294)	(671)
Tax paid	-299	-361	-563	-761
Operating Cashflow	2,444	2,651	4,018	4,104
Capital expenditure	(7,114)	(3,000)	(2,500)	(2,500)
Free Cash Flow	-4,670	-349	1,518	1,604
Other income	50	25	12	12
Investments	(103)	-	-	-
Investing Cashflow	-53	25	12	12
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	5,565	1,000	-	-
Interest Paid	(462)	(442)	(1,090)	(1,090)
Dividend paid (incl tax)	(363)	(365)	(406)	(406)
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	4,740	192	-1,496	-1,496
Net chg in cash	17	-131	34	120
Opening cash position	177	194	63	97
Closing cash position	194	63	97	216

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	694	694	694	694
Reserves & surplus	7,351	8,275	9,183	10,553
Net worth	8,045	8,969	9,876	11,247
Minority Interest	0	0	0	0
Secured Loans	10,549	10,549	10,549	10,549
Unsecured Loans	3,080	4,080	4,080	4,080
Loan Funds	13,629	14,629	14,629	14,629
Net deferred tax liabilities	2,101	2,101	2,101	2,101
Total Liabilities	23,775	25,699	26,607	27,977
Gross Block	23,084	31,609	34,609	37,109
Less: Depreciation	10,547	11,781	13,701	15,621
Net block	12,537	19,828	20,908	21,488
Capital work in progress	8,525	3,000	2,500	2,500
Investments	114	114	114	114
Current Assets	5,940	6,527	7,584	8,560
Inventories	1,691	2,010	2,344	2,696
Sundry debtors	1,996	2,010	2,344	2,696
Cash & bank balance	194	63	97	216
Loans & advances	2,059	2,445	2,800	2,952
Other current assets	-	-	-	-
Current lia & Prov	3,341	3,770	4,500	4,685
Current liabilities	2,250	2,679	3,409	3,595
Provisions	1,091	1,091	1,091	1,091
Net current assets	2,599	2,757	3,084	3,875
Misc. exp	-	-	-	-
Total Assets	23,775	25,699	26,607	27,977

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
EBITDA Margin	27.9	27.0	31.3	33.8
Net Margin	10.2	10.5	8.4	10.8
ROCE	9.0	8.5	11.3	13.3
ROE	14.7	15.2	13.9	16.8
RoIC	12.3	11.0	12.7	14.7
Per Share Data (Rs)				
EPS	15.6	22.3	18.9	25.6
CEPS	32.2	41.3	46.6	53.3
BVPS	116.0	129.3	142.4	162.1
DPS	4.5	4.5	5.0	5.0
Valuations (x)				
PER	8.1	5.7	6.7	4.9
P/CEPS	3.9	3.1	2.7	2.4
P/BV	1.1	1.0	0.9	0.8
EV / Sales	2.1	1.9	1.5	1.4
EV / EBITDA	7.4	7.0	4.7	4.2
Dividend Yield (%)	3.5	3.6	4.0	4.0
Gearing Ratio (x)				
Net Debt/ Equity	1.7	1.6	1.5	1.3
Net Debt/EBIDTA	4.5	4.4	3.0	2.6
Working Cap Cycle (days)	50	40	30	40

Recommendation History: Tamilnadu Newsprint – TNNPL IN

Date	Reports	Reco	CMP	Target
15/02/2011	Tamilnadu Newsprint Q3FY11 Result Update	Buy	128	200
22/10/2010	Tamilnadu Newsprint Q2FY11 Result Update	Buy	149	200
29/07/2010	Tamilnadu Newsprint Q1FY11 Result Update	Buy	122	143
27/05/2010	Tamilnadu Newsprint Q4FY10 Result Update	Buy	102	143

Recent Research Reports

Date	Reports	Reco	CMP	Target
30/05/2011	GNFC Q4FY11 Result Update	Buy	103	157
30/05/2011	GSFC Q4FY11 Result Update	Buy	356	530
24/05/2011	Tata Chemicals Q4FY11 Result Update	Accumulate	352	400
12/05/2011	Deepak Fertilisers Q4FY11 Result Update	Buy	167	250

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