



Tamil Nadu Newsprint and Papers Limited

(A Govt. of Tamil Nadu Enterprise)

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TNPL - The Corporate Identity Number : L22121TN1979PLC007799

Date: 3rd June, 2020

To BSE Limited (BSE) Corporate Relationship Department Phiroze Jeejeebhoy Towers 25th Floor, Dalal Street, Mumbai- 400001	To National Stock Exchange of India Limited (NSE) Listing Department Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400051
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Dear Sir,

Sub: Compliance under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015

The Company has received rating from CRISIL (a leading rating agency). A summary of the rated facilities is as under:

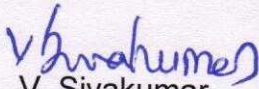
Fund-based Bank Facilities of Tamil Nadu Newsprint and Papers Limited	Rs. 880 crore
Long Term Rating	CRISIL A/Stable (Reaffirmed)

This is for your information and record.

Thanking you,

Yours faithfully,

For Tamil Nadu Newsprint and Papers Ltd.



V. Sivakumar

Company Secretary

Rating Rationale

June 02, 2020 | Mumbai

Tamil Nadu Newsprint and Papers Limited

Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.880 Crore
Long Term Rating	CRISIL A/Stable (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL A/Stable' rating on the long-term bank facilities of Tamil Nadu Newsprint and Papers Limited (TNPL).

Despite lower revenues due to a weak fourth quarter and tepid demand for writing and printing paper (WPP) and multi layered coated paper board (MCPB), TNPL's operating profits were almost in line with expectations, with operating profitability in fact improving in fiscal 2020. This was as the company benefited from lower raw material costs, especially imported wood pulp (key raw material for MCPB) prices. Consequently, while TNPL's revenues are estimated to decline by about 15% in fiscal 2020 compared to the previous fiscal, the operating margins are better at an estimated 18% (14% in fiscal 2019).

However, with COVID-19 outbreak severely impacting retail demand for both WPP and MCPB and current sluggish economic outlook, TNPL's performance is expected to moderate in fiscal 2021. Besides, the company had also temporarily shut down its operations in both the plants for three weeks in March ' April 2020, to comply with the requirements imposed by the nationwide lockdown. While operations have subsequently resumed in both the units with adequate precautionary measures; capacity utilization in both units are at below 70%, lower than the normal levels. Further, with demand and prices for both WPP and MCPB expected to remain muted in the near term, TNPL's performance is also expected to be impacted in the first six months of fiscal 2021, and gradually recover thereafter. CRISIL expects the company's revenues to decline by ~20% to less than Rs 3,000 Cr for fiscal 2021, before rebounding in fiscal 2022. Operating margins are also expected to moderate to around 15-16% in fiscal 2021, before recovering back to the historical levels of 19-21% from next fiscal.

Furthermore, the company is undertaking large capacity expansion at its MCPB facility for setting up a captive pulping unit and a WPP manufacturing unit. Total capital expenditure (capex) is about Rs 2520 crore and is being implemented in phased manner between fiscals 2020 and 2024. While the project is 80% debt funded, progressive large repayments of existing debt will enable TNPL to sustain its leverage at less than 1.5 times over the medium term. Furthermore, CRISIL also believes that TNPL's strong refinancing capabilities and established relationship with lenders, will enable it to tide over any cash flow mismatches.

The rating continues to reflect TNPL's leading position in the domestic WPP market, strong operating capabilities, product diversity with presence in both WPP and MCPB. These strengths are partially offset by TNPL's moderate financial risk profile, as reflected in modest debt protection ratios. Further, the company also has sizeable long-term debt obligations over the medium term, which may require part refinancing. Also, the company's operating profitability is partially susceptible to volatility in imported pulp prices. Besides, the company is also exposed to project implementation risks.

Key Rating Drivers & Detailed Description

Strengths:

* **Leading position in the domestic WPP market:** TNPL is the second largest player in the domestic WPP segment, with an installed capacity of 400,000 tonne per annum (tpa). Despite intense competition, the company has sustained its strong market position backed by its established brand, diversified product portfolio and customer base, robust distribution network and regular capacity expansions

* **Strong operating capabilities resulting from integrated operations:** TNPL's operating margins in WPP are among the highest in the industry owing to strong efficiencies arising out of backward integration, long-term supply tie-ups and captive power plant. Furthermore, operating from the country's largest single location paper plant gives TNPL significant economies of scale.

* **Expanded product portfolio, with presence in both WPP and MCPB:** TNPL has presence in both WPP and MCPB which provides diversity to its revenue profile. TNPL's greenfield MCPB plant has a capacity of 200,000 tpa and caters to diverse end-user segments - MCPB is used by industrial players for packaging consumer products, while WPP is used for

making notebooks, textbooks, copier paper and diaries. TNPL has also leveraged on its existing dealer network and established a foothold in the MCPB segment. The MCPB unit has achieved cash breakeven in fiscal 2019. As the pulping unit is commissioned by fiscal 2022, profitability from the board unit will increase and support overall cash generation.

Weaknesses:

* **Moderate financial risk profile, reflected by moderate leverage and debt protection ratios:** TNPL's financial risk profile is marked by moderate gearing and debt protection metrics, even as net worth remains healthy at about Rs 1800 crore estimated as on March 31, 2020. Debt funded capacity expansions in the past have resulted in moderate gearing; however, the ratio has improved to 1.1 times estimated as on March 31, 2020 from a peak of 1.8 times as on March 31, 2016, while debt/EBITDA ratio too improved to 3 times from 4.4 times during the same period.

The ongoing capex of Rs 2520 crore from fiscal 2020 is ~80% debt funded. However, progressive sizeable debt repayments (of about Rs 490 crore in fiscal 2021), will help mitigate the net debt addition due to the proposed capex. This coupled with gradual improvement in cash accruals from fiscal 2022, will lead to moderate improvement in company's credit metrics over the medium term.

* **High dependence on imported pulp for MCPB:** As TNPL currently doesn't have adequate captive pulping capacity to cater to both its units, it imports pulp to meet a large portion of the raw material requirement in the MCPB unit. This exposes the company to volatility in the movement of global pulp prices, which were on an increasing trajectory till first half of fiscal 2019, before moderating thereafter. While TNPL is taking measures to address the same with the proposed captive pulping unit expected to be commissioned by fiscal 2022, profitability in this segment will remain partially susceptible to imported pulp prices and forex movements till such time.

* **Exposure to risks related to project implementation and stabilization:** The company is undertaking a large capex of Rs 2,520 Cr. Phase I involves a capex of Rs 1100 crore towards expansion of its pulp capacity by 140,000 tonnes per annum (tpa) and is being implemented between fiscal 2020 and 2022. Capex in phase II will be Rs 1420 crore towards setting up new WPP capacity of 165,000 tpa with additional captive pulp capacity and will be implemented between fiscals 2022 and 2024 (post commencement of phase I). This large project in turn exposes TNPL to project-related risks over the medium term; pre-commissioning risks will include time or cost overruns, while post commissioning risks will include stabilization and ramp up in operations.

These risks however are partly offset by the company's prudent execution plan to phase out project spend and its spaced-out debt obligations, with plans to take long maturity loans.

While COVID-19 outbreak has led to temporary delays in project implementation in April-May 2020, the same is not expected to significantly affect overall progress of the project and commissioning of phase I is still expected by October 2021. Nevertheless, any significant delays in project implementation and stabilization can impact ability to generate cash flows and will remain a key rating sensitivity factor.

Liquidity Adequate

TNPL's liquidity is adequate driven largely by its strong financial flexibility and refinancing capabilities. TNPL's long term debt repayment obligations are sizeable estimated at ~Rs 490 crore in fiscal 2021 and ~Rs 400 crore in fiscal 2022. Internal accruals may be insufficient to service the obligations for fiscal 2021, which in turn will lead to part dependence on refinancing or freeing funds by reducing the working capital cycle. However, refinancing risk is not expected to be significant given the company's strong franchise with lenders and ability to raise General Corporate Loans (GCL) to bridge any shortfalls in accruals for servicing debt obligations, as has been amply demonstrated in the past. Besides, these GCLs have been raised at extremely competitive interest rates. TNPL also has headroom in its fund based working capital limits, which have been utilized on average at about 65-70% over the past 12 months ended April 2020.

Repayment obligations on the new project debt are expected to have a two-year moratorium, enabling gradual ramp up of utilizations levels.

Outlook: Stable

CRISIL believes that TNPL's credit profile will remain stable over the medium term driven by its established market position in its product segments and strong operating efficiencies. While COVID-19 led disruptions may cause temporary impact, performance is expected to recover over the medium term. Further, its currently moderate financial risk profile will gradually improve over the medium term, supported by progressive debt repayment, which will help it absorb impact of large proposed capex.

Rating Sensitivity factors

Upward factors:

- * Better than expected cash generation due to stronger business performance
- * Improvement in credit metrics, for instance, debt to EBITDA correcting to less than 2.5 times, and gearing to less than 1 time
- * Smooth implementation of project

Downward factors:

- * Lower than expected profitability and accruals
- * Delays in project implementation leading to cost overruns and increase in leverage
- * Moderation in credit metrics; debt to EBITDA deteriorating to more than 3.75 times and gearing to over 2 times on sustained basis

About the Company

TNPL was promoted by the Government of Tamil Nadu (GoTN) and the Industrial Development Bank of India (IDBI) in 1979 to manufacture newsprint and WPP using bagasse as the principal fibre source. GoTN is currently the single largest shareholder with a stake of 35.3% stake.

TNPL has a production capacity of 400,000 tpa at its plant at Pugalur in Kagithapuram (TN), which is the largest single location paper plant in India. The company possesses manufacturing capability for both newsprint and WPP; however, because of better cost economics, TNPL has been manufacturing only WPP. The Pugalur plant is backward integrated, and has a pulp production capacity of 880 tonnes per day (tpd). Furthermore, TNPL has a 300-tpd de-inking pulp plant to produce pulp from waste paper. Also, the residue generated from the Pugalur plant is combined with limestone to produce cement at its 900-tpd cement plant. The company also has captive power facilities of 103.62 megawatts (MW), of which about 7 MW is available to be sold to the state grid after meeting its entire in-house requirement. Besides, the company also has wind farms with a capacity of 35.5 MW (as on March 31, 2016) in Tirunelveli district of TN. TNPL has also established a 200,000-tpa greenfield capacity in the value-added coated board segment. This plant, established at Mondipatti in Trichy, sources a part of its pulping requirements from the Pugalur unit.

For the first nine months of fiscal 2020, the company reported net profit of Rs 128 Cr on total revenues of Rs 2570 Cr, as compared to net profit of Rs 81 Cr on revenues of Rs 3034 Cr during the previous corresponding period.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs. Cr.	4,083	3,156
Profit After Tax (PAT)	Rs. Cr.	94	-42
PAT Margins	%	2.3	-1.3
Adjusted Debt/ Adjusted Net worth	Times	1.2	1.5
Interest coverage	Times	3.0	1.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr.)	Rating Assigned with Outlook
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	880.0	CRISIL A/Stable

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Commercial Paper	ST		--		--	08-08-19	Withdrawal	31-08-18	CRISIL A1 CRISIL A1+(SO)	23-08-17	CRISIL A1 CRISIL A1+(SO)	CRISIL A1 CRISIL A1+(SO)
						01-08-19	CRISIL A1			04-01-17	CRISIL A1 CRISIL A1+(SO)	
Fund-based Bank Facilities	LT/ST	880.00	CRISIL A/Stable			08-08-19	CRISIL A/Stable		--		--	--
						01-08-19	CRISIL A/Stable					

All amounts are in Rs. Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
	880			880	

Proposed Long Term Bank Loan Facility		CRISIL A/Stable	Proposed Long Term Bank Loan Facility		CRISIL A/Stable
Total	880	--	Total	880	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Paper Industry](#)

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