January 13, 2025

Tamil Nadu Newsprint & Papers Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term loans	1,623.11	1,245.59	[ICRA]A+ (Stable); reaffirmed
Long-term/ Short-term, Fund/ Non-fund Based Limits	775.00	775.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Long-term - Unallocated limits	311.89	689.41	[ICRA]A+ (Stable); reaffirmed
Long-term/ Short-term - Unallocated limits	223.00	223.00	[ICRA]A+ (Stable)/ [ICRA]A1; reaffirmed
Total	**2,933.00**	**2,933.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings for Tamil Nadu Newsprint & Papers Limited (TNPL) takes into account its long operating history, strong management profile, dominant market position in the domestic printing and writing paper (PWP) segment, diversified sales and distribution network, healthy financial flexibility with lenders, its integrated operations with adequate in-house capacity to manufacture pulp from diversified sources and the availability of captive power plants, thus providing cost advantages. The ratings also factor in the favourable long-term demand outlook for paper in the domestic market because of its low per-capita usage as on date, compared to global standards and increasing usage of packaging products.

The ratings are, however, constrained by the susceptibility of the company's revenues and margins to volatility in the net sales realisation of paper, which has been under pressure recently, as well as to wood, pulp, wastepaper and fuel prices (primarily coal). The company reported a YoY decline of 9.4% and 8.4% in revenues in FY2024 and H1 FY2025, respectively. This was primarily due to 6.7% and 16.5% reduction in sales realisation in FY2024 and H1 FY2025, respectively, and 4.9% YoY decline in sales volume in FY2024 for the PWP and board segments amid pressure from low-priced imports from countries like China, Vietnam and Indonesia. Coupled with an increase in raw material costs, this resulted in a 260-bps decline in TNPL's operating profit margin (OPM) to 16.1% in FY2024 and 13.5% in H1 FY2025. ICRA notes that the domestic availability of wood has been impacted in the current fiscal due to inadequate plantations in the last few years, which led to a sharp rise in pulpwood prices in FY2024 and H1 FY2025. The company's financial profile is thus expected to moderate in FY2025. However, it will gradually improve once the sales realisation picks up and remains a key monitorable.

ICRA notes that TNPL has deferred its capital expenditure (capex) plan for phase 2 expansion of its PWP/ board segment. However, the company is expected to incur a capex of ~Rs. 600-650 crore over FY2025 and FY2026 towards setting up of a tissue plant, revamping of power plants and undertaking regular maintenance. The same will be funded partly through debt of Rs. 240 crore. ICRA will continue to monitor the development related to capex plans and will assess the impact once definite clarity emerges on the same.

The Stable outlook on the long-term rating reflects ICRA's opinion that TNPL will maintain its credit profile with gradual improvement in its operating profits, and benefits arising from its established position, competitive advantages in the PWP segment and healthy financial flexibility with the lenders.

Key rating drivers and their description

Credit strengths

Leading market position in the domestic PWP segment - The company has an operating track record of more than three decades and an established brand name in the domestic PWP segment. It has a well-diversified sales and distribution network across India, comprising non-exclusive dealers who accounted for ~45% of its PWP sales PWP in FY2024. While the sales are directly handled by TNPL for Government and private sector corporations, which accounted for ~35% of the FY2024 PWP sales, exports accounted for the remaining ~20% of sales. The company commenced board production in May 2016, which drove ~26% of its revenues in FY2024.

Access to diversified raw material sources and integrated production facility – The company has a long-term tie-up with several sugar mills near its manufacturing unit/s for the supply of bagasse against commensurate exchange of steam or coal. Additionally, TNPL enters into short-term tie-ups with other sugar mills during periods of reduced bagasse availability. Bagasse prices are dependent on sugarcane production in Tamil Nadu and cost of coal, which is mainly imported. It has also been using wood for pulping. TNPL initiated farm forestry and captive plantation schemes in FY2005 to ensure wood availability. Apart from the farm forestry programme and captive sources, significant quantities of wood are currently being procured from the two State Government of Tamil Nadu entities— Tamil Nadu Forest Plantation Corporation Limited (TAFCORN) and Principal Chief Conservator of Forests (PCCF). Raw material procurement from diversified sources mitigates availability risks. The company enjoys stronger profitability than some of its peers, mainly because of predominant bagasse usage as a key raw material, which is cheaper than wood or imported pulp. Further, the availability of wood from captive sources at competitive rates also aids raw material procurement costs.

High financial flexibility and competitive borrowing costs from healthy standing among lenders – Given its established presence in the domestic PWP segment and its strong management profile, TNPL continues to enjoy high financial flexibility with lenders, evident from the competitive borrowing costs and general corporate loans availed at short notice to support its liquidity profile.

Long-term demand outlook for paper remains favourable – The long-term demand outlook for paper in the domestic market remains favourable because of its low per-capita usage as on date compared to global standards and increasing usage of packaging products. The growing demand for packaging from e-commerce, food and food products, FMCG, textiles and pharmaceutical sectors augurs well for the company. However, rising digitisation remains a threat to the PWP segment’s growth.

Credit challenges

Expected moderation in coverage indicators in FY2025 – TNPL witnessed a moderation in coverage indicators in FY2024, as reflected by total debt/ OPBITDA of 2.4 times as on March 31, 2024, against 1.9 times as on March 31, 2023. The interest coverage also moderated to 3.4 times in FY2024 from 5.4 times in FY2023. This was due to a 6.7% and 4.9% decline in sales realisation and sales volume in FY2024 for the PWP and board segments. The coverage indicators are further expected to moderate in FY2025, given the pressure on OPM amid a further dip in realisation levels and higher raw material costs, especially wood. However, the same are expected to improve gradually from FY2026 with the expectation of improvement in sales realisation and the same remains a key monitorable.

Susceptibility of cash flows to cyclicality in paper industry – Paper, being a commodity, is exposed to economic cycles. Its demand is expected to be favourable in India because of paper’s low per-capita consumption in domestic markets compared to global standards. However, there could be aberrant years, given the cyclical nature of the paper industry. The domestic paper industry is small compared to the global industry and prices in India are largely determined by international trends. Hence, the global demand-supply balance impacts the health of the domestic industry and, accordingly, its profit margins remain vulnerable to the cyclicality in the global paper demand-supply scenario. However, an integrated nature of operations keeps TNPL well placed in absorbing any price shocks relative to other players in the industry. Steep volatility in imported coal prices or reduced availability of wood or bagasse at competitive rates could lead to erosion of the competitive advantage the entity enjoys and adversely impact its margins, as witnessed recently.

Profit margins remain exposed to fluctuations in input costs, primarily bagasse, wood, pulp and coal – The company's earnings remain vulnerable to volatility in sales realisation, availability of water and raw materials and volatility in bagasse, pulp, chemicals and international coal prices, as well as foreign exchange rates. The net sales realisation for both PWP and board segments witnessed a decline of 6.7% in FY2024 and 16.5% in H1 FY2025, owing to higher low-priced imports. In addition, the domestic wood availability has been impacted due to inadequate plantations in the last few years, which led to a sharp rise in wood prices in FY2024 and H1 FY2025, resulting in a decline in OPM to 16.1% in FY2024 and 13.5% in H1 FY2025 from 18.8% in FY2023. However, the margins were supported by in-house pulp manufacturing, lower prices for bagasse, wastepaper and value-added product mix in the board segment.

Exposed to project execution risk related to tissue paper and revamping of power plants – TNPL is in the midst of setting up a tissue manufacturing plant at a cost of ~Rs. 300 crore and capex for revamping its steam and power system at an estimated cost of Rs. 150 crore for phase I, and Rs. 350 crore for Phase II, which are to be completed over FY2025 to FY2027. Hence, it remains exposed to project execution risk. Further, the timely commencement of the project without any cost overrun remains a key rating monitorable. The project cost is proposed to be funded through a mix of term loans and internal accruals. The company's ability to achieve financial closure at favourable terms to keep capital structure and coverage indicators under check will remain a key rating sensitivity. ICRA also notes that the phase II expansion for PWP/ board plant is on hold. ICRA, however, will continue to monitor the development in this regard and will assess the impact on credit metrics once clarity emerges on the same.

Environmental and Social Risks

Environmental considerations: The paper manufacturing industry is exposed to environmental risks of air, water and land pollution, as discarded paper and paperboard make up a sizeable portion of solid municipal waste in landfills. Pulp and paper generate a notable amount of industrial air, water and land emissions. While these risks have not resulted in any material implications so far, any breaches in waste management or higher-than-permissible emissions could have cost implications for the company. Also, water treatment is extremely important because the pulping and bleaching process can release complex organic and inorganic pollutants, which need to be properly treated. However, the waste generated in the co-processing is effectively utilised in the production of value-added products, such as cement and fly ash bricks. TNPL has built a mini cement plant to convert the waste into value-added products. The pulpwood sourced by TNPL is certified by both the Forest Stewardship Council Forest Management (FSC-FM) and Forest Stewardship Council Chain of Custody (FSC-COC), which ensures that paper manufactured from wood is managed socially and environmentally in a responsible manner. The mill has implemented several water-conservation measures and reduced water consumption to 28 KL per tonne of paper during FY2024 from 30 KL during FY2023.

Social considerations: Being a labour-intensive segment, entities operating in the paper industry are exposed to the risk of disruption from their inability to efficiently manage human capital in terms of their safety and overall well-being. Further, any significant wage rates adversely impacting the cost structure of paper manufacturing companies can impact their margins. TNPL is also exposed to the shortage of a skilled workforce and exposure to hazardous chemicals, which can impact operations. However, TNPL has adopted a clearly defined occupational health and safety policy. Periodic training programmes are conducted on the handling of hazardous chemicals, material handling, usage of PPE, electrical safety, road safety, first aid, firefighting, etc, to improve safety awareness among employees, including contract workmen.

Liquidity position: Adequate

TNPL's liquidity is adequate, as reflected by a sufficient buffer of Rs. 778 crore as on November 30, 2024 in working capital borrowings. The company's average fund-based working capital utilisation remained moderate at 28% over the last 12 months ending November 2024. Further, the company has a repayment obligation of ~Rs. 354 crore in FY2025 and ~Rs. 301 crore in FY2026 and capex plans of Rs. 600-650 crore over FY2025 and FY2026 towards tissue plant set-up, revamping of power plans and normal maintenance capex, which is expected to be funded by undrawn corporate loans, new term loans and internal accruals. The company had free cash and bank balances of Rs. 6.5 crore as on September 30, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade TNPL's rating if the company demonstrates improvement in its operating profit margins along with growth in the top line on a sustained basis, leading to an improvement in capital structure and coverage indicators.

Negative factors – Pressure on TNPL's rating could arise if there is a significant moderation in revenue and profitability on a sustained basis. Any large, debt-funded capex leading to sustained pressure on profitability and credit metrics, or material moderation in liquidity levels on a sustained basis will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

TNPL was promoted by the State Government of Tamil Nadu and the Industrial Development Bank of India (IDBI) in 1979 to manufacture newsprint and PWP, using bagasse as the principal fibre source. Following the sale of IDBI's stake, the Tamil Nadu government is now the single largest shareholder with a stake of 35.32%. TNPL has three production units with a total manufacturing capacity of 4.40 lakh MTPA for the PWP segment. The plant is the largest single-location paper plant in India. The company has also set up a paper board plant near Trichy, with an annual capacity of 2.00 lakh MTPA, which commenced production from May 2016.

Key financial indicators (audited)

	FY2023	FY2024	H1 FY2025*
Operating income	5,179.9	4,692.8	2,033.4
PAT	387.9	208.2	24.5
OPBDIT/OI	18.8%	16.1%	13.5%
PAT/OI	7.5%	4.4%	1.2%
Total outside liabilities/Tangible net worth (times)	2.2	1.9	1.9
Total debt/OPBDIT (times)	1.9	2.4	3.3
Interest coverage (times)	5.4	3.4	2.5

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, *Limited audit*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Jan 13, 2025	Date	Rating	Date	Rating	Date	Rating
Term loans	Long Term	1245.59	[ICRA]A+ (Stable)	27-Oct-23	[ICRA]A+ (Stable)	24-Aug-22	[ICRA]A (Stable)	09-Sep-21	[ICRA]A (Negative)
Fund /Non fund Based- Limits	Long Term and Short Term	775.00	[ICRA]A+ (Stable)/ [ICRA]A1	27-Oct-23	[ICRA]A+ (Stable)/ [ICRA]A1	24-Aug-22	[ICRA]A (Stable)/ [ICRA]A1	09-Sep-21	[ICRA]A (Negative)/ [ICRA]A1
Unallocated Limits	Long Term	689.41	[ICRA]A+ (Stable)	27-Oct-23	[ICRA]A+ (Stable)	24-Aug-22	[ICRA]A (Stable)	09-Sep-21	[ICRA]A (Negative)
Unallocated Limits	Long Term and Short Term	223.00	[ICRA]A+ (Stable)/ [ICRA]A1	27-Oct-23	[ICRA]A+ (Stable)/ [ICRA]A1	24-Aug-22	[ICRA]A (Stable)/ [ICRA]A1	09-Sep-21	[ICRA]A (Negative)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Term Loans	Simple
Long-term/ Short-term, Fund/Non fund-Based Limits	Simple
Long-term, Unallocated Limits	Not applicable
Long-term/Short-term, Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2018	NA	FY2030	1,245.59	[ICRA]A+ (Stable)
NA	Fund/Non fund-Based Limits	NA	NA	NA	775.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Unallocated	NA	NA	NA	689.41	[ICRA]A+ (Stable)
NA	Unallocated	NA	NA	NA	223.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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