Tamil Nadu Newsprint & Papers Ltd.

Sensex	35,547
Nifty	10,772

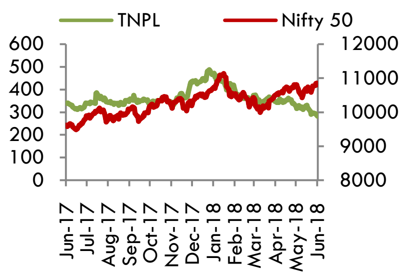
Key Stock Data

CMP	₹281.7/-
Market Cap (₹crs)	₹1955
52W High/ Low	499/276
Shares o/s (crs)	6.94
Bloomberg	TNNP.IN
NSE Code	TNPL
BSE Code	531426

Shareholding Pattern

Promoters	35.32
FIIs & DIIs	42.93
Public &Govt	21.75

Comparison Chart



Year	FY18	FY19E	FY20E
Revenue	3,098.3	3,421.2	3,592.2
Growth%	4.8%	10.4%	5.0%
EBITDA	404.9	519.8	598.1
EBITDA Margins %	13.1%	15.2%	16.7%
PAT	(42.1)	98.5	182.5
EPS (₹)*	(6.1)	14.2	26.3
P/E (x)		19.8	10.7

As per IndAS

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Financials

TNPL recently declared its Q4FY18 & FY18 results. Key highlights are as follows:

- TNPL reported topline growth of ~27.3% yoy in Q4 with reported net sales at ₹1017crs. vs. ₹799crs. in the corresponding quarter, last year. This quarter saw the company come back from the plant shutdown with capacity utilisations up at peak levels (100%+ for paper & 85%+ in the paper board segment.
- It has been a tough year for the company with the plant shutdown due to lack of water availability. With a stoppage of production at paper machine 2 between April 2017 & July 2017 the company lost out of 46,041 MT of paper production (i.e. ~11.5% of its total paper capacity). For FY18, the company registered a net sales growth of ~4.8% with sales at ~₹3098 crs. vs. ~₹2958crs. Growth in topline was on the back of ramp up of paper board facility. Sales volume for paper board rose by ~27% in FY18 to 143,000 MT. Paper sales volume was lower by ~15% at 353,000 MT. Net sale realisation was at ₹57,100/MT for the paper segment up 4.7% yoy while paper board realisations were at ₹51,000/MT.
- EBITDA for Q4FY18 stood at ₹161 crs, which translates to an ~12% Y-O-Y de-growth from Q4FY17 (₹183.3crs). Usage of high cost pulp and drop in paper production were the major reasons for the loss during the quarter. EBITDA margins for Q4FY18 stood at 15.3% vs. 22.7% in Q4FY17. FY18 EBIDTA de-grew by 44.5% to ₹405 crs. This impact was due to rise in global pulp prices. The company's Unit II (paperboard plant) imports hardwood & softwood pulp. Approximately 72% of the plant requirement (24% of company's total requirement) is imported. Average pulp prices for FY18 stood at $750/T up 25% YOY. This is what led to gross margin contraction. The paper plant shutdown added to the woe's as the mix of output from paper board plant was higher (lower gross margins) hence putting pressure on overall margins. Apart from that coal is the main fuel for company's power requirement. The company imports its full requirement from Indonesia. This year the volatility in Indonesian coal prices (range between $67- 100/T) has also been a dampener on margins. The EBIDTA margins for FY18 stood at 13.1% vs. 24.6%.
- Interest cost for Q4 stood at ₹57.9crs vs. ₹68.5crs. in the corresponding quarter last year and ₹65.3crs. in Q3. Depreciation stood at ₹57crs vs. ₹54crs increased by 5.2% yoy, however, it grew by 2% on QoQ basis. For FY18 interest cost de-grew by 3% to ₹245 crs., while depreciation inched up to ₹222 crs., up 6.8%. Gross debt for the year was reduced from ₹2823 crs to ₹2425 crs. in FY18. Cost of debt stood at 8.35%.
- PAT for the quarter stood at ₹33.1crs. down from ₹63.4crs in Q4FY17. Net loss for the full year was at ₹42.2crs vs net profit of ₹264crs.
- Paper & Paper board (~87% of sales) grew by 20.2% in Q4. PBIT stood at ₹78.5crs vs. ₹130.4crs. Packaging Board quality is well accepted in the market. Paper production during the year was at 353959 MT. against the capacity of 400000 MT. Packaging Board production was 141815 MT vs. against the capacity of 200000. For the year the segment sales de-grew by 1.5% to ₹2963 crs. During the year, the company suffered production loss of 46041MT. This was due to failure of monsoon and water shortage which impacted both Hard Wood Pulp line and Paper machine were stopped during April to July 2017. FY18 EBIT for the segment was significantly lower by 66.2% at ₹185 crs. with margins contracting by 1210 bps to 6.3%.
- Energy segment sale are fully netted off with inter-segment sales as the company internally consumes all it produces. Cement segment (~2.5% of sales) stood at ₹28.5crs in Q4 vs. ₹36.8crs with an EBIT loss of ₹4.9 crs. vs. 1.4crs loss in the corresponding quarter last year. For FY18 the segment topline de-grew by 13.4% to ₹114.7 crs. With EBIT loss of ₹12.7 crs. vs. an EBIT profit of ₹11.5crs. This year the cement segment was impacted due to lack of availability of lime stone. TN govt ban on lime stone mining impacted this segment. The company tried to source limestone from neighbouring AP but that was not economically viable, hence the loss.

Outlook

- **Topline –** Growth will return in FY19 on the back of higher utilisation compared to last year. The paper plant is expected to run at 100% capacity while the paperboard is expected to ramp-up to 95% capacity utilisation. Hence,we expect a volume growth of 12-15% in FY19. Pricing environment is stable currently and the market is and will be ready to accept price increases. Over the next 2 years we expect the pricing growth of 3-5%. Cement segment will continue to be under pressure in the next 6-9 months.
- **Raw Material Outlook –** The pulp prices are seen unprecedented increase over the last year. The reason pulp prices rose were numerous. To name a few, the industry witnessed no capacity expansion rather some capacity shutdowns and higher unscheduled down time, the hurricanes in the US lead to capacity shutdowns, and on the demand front pulp demand went up significantly as China banned use of waste paper for paper production. Pulp prices have risen in the range of 25-35% globally. An interesting note is thatpulp companies globally have seen great margin improvement. For example Fibiria one of the largest wood pulp manufacturers globally saw margins go up from 37% (Q1CY17) to 45% in Q2CY17, 49% in Q3CY17, 57% in Q4CY17 & finally at 55% in Q1CY18.Note margins have started to inch downwards (rather stabilise from Q1CY18). The management of TNPL maintained that imported pulp price will remain high these levels this year as well. Coming to coal, TNPL's main fuel for power generation, prices continue to be volatile. TNPL imports its requirement from Asia's largest coal exporter Indonesia. Prices have been volatile last year and peaked at $ 109/T recently, highest since 2013. The company stated that the current procurement price is ~$75-77/T. Election in Indonesia next year lead the government to cap domestic coal prices at $70/T in March 2018 but import prices continue to be volatile. TNPL is comfortable in its fuel position and buys it at strategic opportunities.
- **Profitability & Margins –** There will be 2 key drivers for profitability improvement going into FY19 will be a) mix & b) raw material prices. On account of water shortage, the company has shut down one of its paper lines and pulp lines between April 2017 and July 2017. Hence the mix of paper and paperboard was tilted towards higher paperboard sales in FY18. Paper board imports it ~70% of its pulp requirement and the recent price increases adversely impacted gross margins. The mix paper (better gross margins since internally consumed pulp) will support margin improvement in FY19. As can be seen in Q4 results raw material cost as a percentage of sales came down ~500 bps qoq. One should note variable costs will rise as last year production was impacted due to plant shutdown hence power and fuel cost will rise in FY19 & 20. We expect EBITDTA margins to improve from 13% in FY18 to 15-18% in FY19/20. Interest cost should taper off with better cash flow generation. Weestimate interest cost to be around ₹175-185crs in FY20 down from ₹222 crs in FY18. Depreciation will continue to be high and a cash level breakeven at the paper board plant will add to profitability.

Valuations

The company has faced many headwinds the year gone by given the rising prices of raw material and plant shutdown impacting volumes. Higher capital cost & fixed costs weigh down on profitability. We believe that the next two years the company will witness improvement in performance given the resumption of its production facility leading to ramp up in volume and stability in raw material costs. We expect a CAGR growth of 8-10% on the topline and ~20% CAGR growth in EBIDTA. At the CMP of ₹281.7/- the stock trades at 19.8x 10.7x its FY19E & FY20E EPS of ₹14.2/- & ₹26.3/- respectively. The short-term challenges are a blip in the long-term potential of the company. We believe the long-term growth levers for the stock continue to remain strong. We advise investors with a long-term investment horizon to *ACCUMULATE* the stock. We advise investors to be cognizant of the fact that the counter is illiquid hence the impact cost of investing in this counter is high.

NOTE TO INVESTORS: *The stock is highly illiquid hence the impact cost of investing in this counter is high.*

Standalone Financials

(₹ Crs)

	Q4FY18	Q4FY17	VAR[%]	Q3FY18	VAR[%]	FY18	FY17	VAR[%]
Net Sales	**1,017.2**	**799.3**	**27.3%**	**929.5**	**9.4%**	**3,037.0**	**2,912.3**	**4.3%**
Other Operating Income	33.3	8.3	301.4%	12.0	**178.1%**	61.3	45.2	35.5%
Other Income	11.6	11.0	6.2%	8.1	**43.5%**	33.6	37.0	-9.1%
TOTAL INCOME	**1,062.2**	**818.6**	**29.8%**	**949.6**	**11.9%**	**3,131.9**	**2,994.5**	**4.6%**
Raw Material Consumed	423.2	315.7	34.1%	342.1	**23.7%**	1,333.2	1,082.5	23.2%
Purchase of stock in trade	9.9	9.6	3.2%	23.9	**-58.5%**	168.3	94.5	78.2%
Stock Adjustment	94.2	(35.1)	-368.3%	156.4	**-39.8%**	111.0	(113.1)	-198.1%
RMC as a %age of sales	*50.2%*	*35.9%*		*55.5%*		*52.0%*	*36.0%*	
Employee Expenses	67.8	60.5	12.0%	60.3	**12.4%**	246.3	246.9	-0.2%
EPC as a %age of sales	*6.5%*	*7.5%*		*6.4%*		*8.0%*	*8.3%*	
Power, Fuel and Water Charges	173.1	163.3	6.0%	117.4	**47.4%**	456.6	520.4	-12.3%
power, fuel and water chrgsas a %age of sales	*16.5%*	*20.2%*		*12.5%*		*14.7%*	*17.6%*	
Repairs & Maintenance	*52.4*	*47.61*	10.1%	*40.44*	**29.6%**	170.2	181.2	-6.1%
Repairs & Maintenance as a %age of sales	*5.0%*	*5.9%*		*4.3%*		*5.5%*	*6.1%*	
Other Expenses	69.0	62.7	10.1%	55.6	**24.1%**	207.9	216.3	-3.9%
Other Expenses as a %age of sales	*6.6%*	*7.8%*		*5.9%*		*6.7%*	*7.3%*	
TOTAL EXPENDITURE	**889.6**	**624.3**	**42.5%**	**796.2**	**11.7%**	**2,693.5**	**2,228.6**	**20.9%**
EBIDTA	**160.9**	**183.3**	**-12.2%**	**145.3**	**10.7%**	**404.9**	**728.9**	**-44.5%**
EBITDA Margins %	***15.3%***	***22.7%***		***15.4%***		***13.1%***	***24.6%***	
Interest	57.9	68.5	-15.4%	65.3	**-11.4%**	244.7	252.0	-2.9%
Interest	57.9	68.5	-15.4%	65.3	**-11.4%**	244.7	252.0	-2.9%
Loss/(Gain) in Forex			-		-	0.0	0.0	-
PBDT	**114.7**	**125.8**	**-8.8%**	**88.1**	**30.2%**	**193.8**	**513.9**	**-62.3%**
Depreciation	57.0	54.2	5.2%	55.8	**2.1%**	221.8	207.7	6.8%
Minority Interest Before NP			-		-	0.0	0.0	-
PBT before exceptional items	**57.6**	**71.6**	**-19.5%**	**32.3**	**78.8%**	**(28.0)**	**306.2**	**-109.1%**
Exceptional items			-		**-**	0.0	0.0	-
PBT	**57.6**	**71.6**	**-19.5%**	**32.3**	**78.8%**	**(28.0)**	**306.2**	**-109.1%**
Tax	0.0	15.8	-100.0%	0.0	-	0.0	65.9	-100.0%
Income tax related to previous year	0.0	0.0	0.0%	0.0	**0.0%**	0.0	(2.2)	-100.5%
Deferred Tax	24.6	(7.6)	-423.0%	5.1	**378.6%**	14.2	(22.1)	-164.2%
Tax Rate	*42.6%*	*11.5%*		*15.9%*		*-50.6%*	*13.6%*	
Reported Profit After Tax	**33.1**	**63.4**	**-47.8%**	**27.1**	**22.1%**	**(42.2)**	**264.5**	**-115.9%**
PATM %	***3.1%***	***7.9%***		***2.9%***		***-1.4%***	***8.9%***	
Basic:								
EPS	**4.8**	**9.2**	**-47.8%**	**3.9**	**133.9%**	**(6.1)**	**38.2**	**-115.9%**
Equity	69.2	69.2		69.2	69.2	69.2	69.2	
Face Value	10.0	10.0		10.0		10.0	10.0	

Segmental Financials

(₹ Crs)

	Q4FY18	Q4FY17	VAR[%]	Q3FY18	VAR[%]	FY18	FY17	VAR[%]
REVENUES								
-Segment Revenue	**1,141.7**	**952.7**	**19.8%**	**1,025.7**	**11.3%**	**3,407.9**	**3,418.8**	**-0.3%**
Paper & Paperboard	987.3	821.5	20.2%	900.8	9.6%	2,936.3	2,982.3	-1.5%
Mix %	*86.5%*	*86.2%*		*87.8%*		*86.2%*	*87.2%*	
Energy	125.8	94.4	33.3%	98.3	27.9%	356.9	304.0	17.4%
Mix %	*11.0%*	*9.9%*		*9.6%*		*10.5%*	*8.9%*	
Cement	28.5	36.8	-22.5%	26.6	7.4%	114.7	132.5	-13.4%
Mix %	*2.5%*	*3.9%*		*2.6%*		*3.4%*	*3.9%*	
Less : Inter Segment Revenues	124.5	109.4	13.7%	96.2	29.4%	350.9	362.6	-3.2%
Total Segment Revenue	**1,017.2**	**843.3**	**20.6%**	**929.5**	**9.4%**	**3,057.0**	**3,056.2**	**0.0%**
Add : Other Unallocable Income			-		-	0.0	0.0	-
Net Revenue from Operations	**1,017.2**	**843.3**	**20.6%**	**929.5**	**9.4%**	**3,057.0**	**3,056.2**	**0.0%**
PROFIT								
Profit/Loss Before Interest and Tax	**70.8**	**128.2**	**-44.8%**	**102.2**	**(0.0)**	**173.0**	**563.4**	**-69.3%**
Margin %	*6.2%*	*13.5%*		*10.0%*		*5.1%*	*16.5%*	
Paper & Paperboard	78.5	130.4	-39.8%	109.7	-28.5%	184.9	547.4	-66.2%
Margin %	*7.9%*	*15.9%*		*12.2%*		*6.3%*	*18.4%*	
Energy	(2.8)	(0.8)	248.1%	(2.1)	37.6%	0.8	4.6	-82.1%
Margin %	*-2.2%*	*-0.9%*		*-2.1%*		*0.2%*	*1.5%*	
Cement	(4.9)	(1.4)	251.4%	(5.5)	-11.5%	(12.7)	11.5	-210.5%
Margin %	*-17.0%*	*-3.8%*		*-20.6%*		*-11.1%*	*8.7%*	
Less : Interest	57.9	68.5	-15.4%	65.3	-11.4%	244.6	252.0	-2.9%
unallocable expenses	(44.8)	(11.9)	275.5%	4.6		(43.7)	5.2	
Add : Other Income					-	0.0	0.0	
Extra-Ordinary Income/Expense					-	0.0	0.0	
Net Profit/Loss Before Tax	**57.7**	**71.6**	**-19.5%**	**32.2**	78.8%	**(28.0)**	**306.2**	**-109.1%**

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Disclosure of Interest Statement in Tamil Nadu Newsprint & Papers Ltd. as on June 20, 2018

Name of the Security	**Tamil Nadu Newsprint & Papers Ltd.**
Name of the analyst	**Shivani Vishwanathan & Ashwini Sonawane**
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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