

Company Details

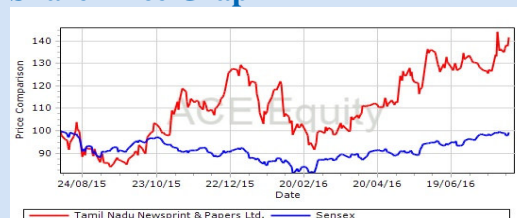
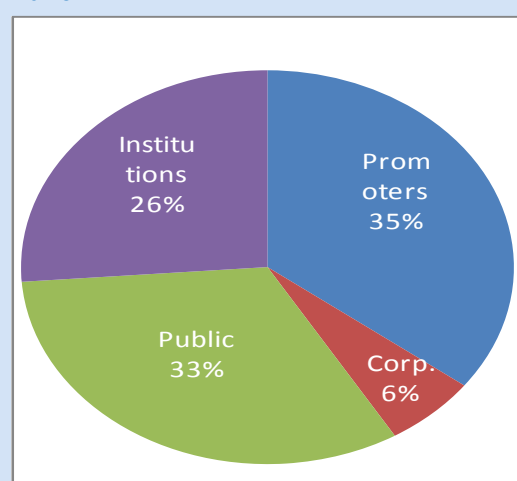
CMP:	Rs.295.30
Face value:	Rs.10.00
Market cap:	Rs.1995.00Cr.
TTM EPS	Rs.39.27
52 week high:	Rs.308.00
52 week low:	Rs.174.20
NSE Code	TNPL
BSE Code:	531426
Sector	Paper & Paper Products

Financial Highlights (YoY)

Rs. In crores			
	FY16	FY15	% Var
Net Sales	2417.54	2135.73	13.20
Total Expend	1838.30	1629.99	12.78
PBDIT	579.24	505.74	14.53
Op.Profit	596.01	522.38	14.10
PBT	317.24	230.13	37.85
PAT	253.93	166.73	52.30
EPS (Rs.)	36.69	24.09	52.30
Equity	69.21	69.21	0.00

Quarterly Performance (YoY)

Rs. In crores			
	Q1FY17	Q1FY16	% Var
Net Slaes	756.42	647.63	16.80
Total Expend	576.47	512.08	12.57
PBDIT	179.95	135.55	32.76
Op.Profit	188.68	139.79	34.97
PBT	77.69	66.38	17.04
PAT	69.51	52.25	33.03
EPS (Rs.)	10.04	7.55	33.03

Share Price Graph**Shareholding pattern as on June 30, 2016****Company Background**

Tamil Nadu Newsprint & Papers Ltd. (TNPL), promoted by the Government of Tamil Nadu in 1979, is engaged in the manufacture of newsprint and writing paper by using bagasse as a raw material. It operates under 3 segments, viz., Paper, Energy and Cement. The product range of the company includes ultra white maplitho, elegant maplitho, hi-tech maplitho, creamwove, copy crown and copier paper. It also manufactures eco-friendly notebooks writing paper and markets them under the name Eezee Write. The Company also manufactures cement from solid waste. It has got three manufacturing plants in Tamil Nadu. The company exports to more than 40 countries and exports account for about 20% of its revenue.

Financial Performance

The net sales and PAT of Company during FY16 at Rs.2417.54 crores and Rs.253.93 crores were up by 13.2% and 52.3%, respectively, compared to those during FY15. **The EPS had increased from Rs.24.09 for FY15 to Rs.36.69 for FY16. The Company has declared dividend of 75% for FY16 against 60% FY15.**

The Company has also reported improved performance during Q1FY17 where its net sales and PAT at Rs.756.42 crores and Rs.69.51 crores, respectively, are up by 16.8% and 33% over those during Q1FY16. The EPS has gone up from Rs.7.55 for Q1FY16 to Rs.10.04 for Q1FY17.

Investment Rationale

- The paper industry in India has become more promising as the domestic demand is on the rise. Despite being second most populated country in the world after China, India consumes less than 11 kilograms of paper per capita as against global average of 56 kilogram, this means that there is huge potential of growth for the sector.
- The Company is the largest producer of paper from bagasse (a waste product in the sugar industry) and uses about 1 million tonnes of depithed bagasse for producing 4,00,000 MT of Printing & Writing Paper. It sources bagasse from sugar mills on barter basis in exchange of steam. Further, to improve the availability of pulpwood, it has implemented two plantation programmes, i.e., Farm Forestry & Captive Plantation. It has added 5,783 acres of plantations during FY15.
- The Company has increased the paper manufacturing capacity from 4 lakh to 6 lakh tones p.a. by setting up a new 2 lakh MT state of the art multi-layer double coated board plant at Mandipatti village in Trichy. The plant was inaugurated in January, 2016 and is fully operational. The facility has cost Rs.1650 crores.
- The Kagithapuram plant of the Company use solid waste such as lime mud to produce high-quality cement. It has expanded the Cement production capacity from 600 MT per day to 900 MT at a capital cost of Rs.50 Crores. This enhanced production has been commissioned in January 2016. Besides, the Company has also started recently 18MW power generation unit at Chengalvarayan plant at Villupuram.
- With the changing macro-economic environment, its raw material prices are likely to come down which will improve its margins. Further, the reduction in costs coupled with renewed demand conditions is likely to improve the profitability of the Company.
- The entire power requirements for the plants are met through captive power plants with a capacity of 103.62 MW in Unit I and 30 MW in Unit II. The surplus power around 7 MW is supplied to the State grid. In addition, it has wind farm capacity of 35.5 MW which is also exported to the State grid.
- The latest book value of share is Rs.181.06 and it is trading at P/BV of 1.3x. **The share of the Company is trading-cum-final dividend of Rs.7.5 per share and the share provides tax free dividend yield of 2.6%.**
- The promoters hold 35.3% equity capital of the Company, followed by institutions and non-promoter corporates that hold 26.2% and 6.1%, respectively, and only the balance 32.4% shares are held by the public.

Concerns

Slowdown in domestic economy and policy changes are some of the main concerns.

Valuation

The share of the Company is trading at a lower TTM P/E of 7.3x against that of industry at 11.9x. We expect the Company to report EPS of over Rs.50 for FY17. Based on this, the share is trading at an attractive PE of less than 6x. Keeping in view the positive outlook for paper industry, **improved financial performance of the Company**, expansion of capacity in all business segments, higher dividend yield, use of waste material in producing paper and cement **and lower TTM PE**, we recommend a buy on share of this Company with an expected price appreciation of over 40% over the next 12 months.