

18 January 2008

BUY

Price	Target Price
Rs707	Rs950

Sensex	19701
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Price Performance

(%)	1M	3M	6M	12M
Absolute	2	31	53	24
Rel. to Sensex	(1)	24	21	(11)

Source: Capitaline

Stock Details

Sector	Cement
Reuters	ORPP.BO
Bloomberg	OPI@IN
Equity Capital (Rs mn)	193
Face Value (Rs)	10
52 Week H/L	850/348
Market Cap (Rs bn)	13.6
Daily Avg Vol. (No of shares)	56218
Daily Avg Turnover (US\$m)	1.0

Shareholding Pattern (%)

(30 Sep.'07)	
Promoters	35.2
FII/NRI	4.1
Institutions	32.4
Private Corp.	14.3
Public	13.9

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Orient Paper and Industries

Strong performance

Result
Update

Orient paper & Industries Ltd (OPIL) Q3FY2008 net profit at Rs535 millions is ahead of our expectations primarily because of better than expected performance of the cement and paper division. Revenues for the quarter grew by 17% to Rs3.21 billion driven by 36.4% growth in revenues of cement division. Revenues of the paper division were flat at Rs733 mn. The operating profit for the quarter grew by 39.5% to Rs915 million driven by 53.9% and 49.8% growth in EBIT of cement and paper division respectively. On back of stellar performance of the cement division and strong profitability of the paper division, OPIL's OPM improved by 458 bps to 28.5%. Other income showed a marginal fall of 5.8% yoy to Rs14.5 mn on account of absence of contribution from CER (certified emission reduction units). Interest costs reflected a huge decline of 25.2% on account of debt repayment. This boosted the net profit of OPIL by a strong 46.5% yoy to Rs535 mn. We are upgrading our earnings estimates for OPIL by 7% for FY2008 and by 13% for FY2009. Our EPS now stands at Rs107 for FY2008 and Rs126 for FY2009. We are also introducing our FY2010 earnings estimates for OPIL which stands at Rs155. The stock currently trades at compelling valuations of 6.6X its FY2008 earnings and 5.6X its FY2009 earnings. Consequently we are upgrading our price target for OPIL to Rs950 based on FY2010 earnings and cement capacity of 5 million tonne. We believe OPIL now has shun the tag of erratic quarterly performance and going forward the profitability for all the divisions will be fairly consistent. Also valuation of the cement business, which is available at extremely cheap valuations of USD 74 per ton for FY2009 and USD 34 per ton for FY2010 capacity, would improve significantly once it commissions its 50 MW captive power plant in October 2008. Hence we believe that OPIL is due for a re-rating. We maintain our BUY recommendation with a price target price of Rs950 which is a very decent upside of 35% from current levels.

Result Highlights

- OPIL Q3FY2008 net profit at Rs535 million was ahead of our expectation primarily because of better than expected performance of the cement and paper division.
- Revenues for Q3FY08 grew by 17% to Rs3.21 billion driven by a 36.4% rise in revenues of cement division. Cement revenues growth of 36.4% was driven by 21.5% growth in cement volumes (6.78 lac tons) and 12.2% improvement in cement realisation (Rs2867 per ton). The Revenues of the paper division were flat at Rs733 mn as the 10.7% yoy increase in paper prices (Rs36860 per ton) was negated by 9.6% drop in paper volumes (19896 tons).
- Operating profit for the quarter grew by 39.5% yoy to Rs915 mn which is ahead of our expectations, driven by 53.9% yoy increase in EBIT of cement division and 49.8% increase in EBIT of paper division. The Electric fans division too chipped in with EBIT of Rs32.1 mn, a 78.6% yoy increase. This strong all round performance led to operating margin rising by 458 bps to 28.5%.
- Other income showed a marginal fall of 5.8% yoy to Rs14.5 mn on account of absence of contribution from CER (certified emission reduction units). Interest charge for the quarter showed a huge fall of around 25.2% primarily on account of debt repayment.
- Net profit for the quarter jumped 46.5% to Rs535 million which is ahead of our expectations.

Result Table

(Y/E Mar, Rs mn)	Q308	Q307	Change
Net Sales	3208.5	2740.8	17.1%
Total Expenditure	2293.4	2084.9	10.0%
Raw Material Consumed	912.7	828.4	10.2%
Power, Oil & Fuel	426.0	372.5	14.4%
Employee Expenses	204.3	219.6	-7.0%
Freight and selling exp	397.4	370.0	7.4%
Provisions & Write Offs	13.2	16.0	-17.5%
Other Expenses	431.0	358.0	20.4%
Stock Adjustments	-91.3	-79.6	14.6%
Operating Profit	915.1	655.9	39.5%
Other Income	14.5	15.4	-5.8%
PBIDT	929.6	671.3	38.5%
Interest	42.4	56.7	-25.2%
PBDT	887.2	614.6	44.4%
Depreciation	68.8	62.5	10.1%
PBT	818.4	552.1	48.2%
Tax	283.6	187.0	51.7%
PAT	534.8	365.1	46.5%
EPS	27.68	24.61	
Margins			
OPM's	28.5%	23.9%	
EBIDTA	28.8%	24.4%	
EBDT	27.5%	22.3%	
PBT	25.4%	20.0%	
PAT	0.0%	0.0%	
Tax rate	34.7%	33.9%	

Segmental Results

	Q308	Q307	Change
Revenue	3208.5	2740.7	17%
Paper & Board	733.4	733.4	0%
Cement	1943.7	1425.3	36%
Electric Fans	529.6	541.0	-2%
Know -How & Service Fees	1.9	41.0	-95%
EBIT	911.5	624.2	46%
Paper & Board	87.5	58.4	50%
Cement	791.9	514.5	54%
Electric Fans	32.1	18.0	79%
Know -How & Service Fees	-0.1	33.3	-100%
EBIT margin			
Paper & Board	11.9%	8.0%	50%
Cement	40.7%	36.1%	13%
Electric Fans	6.1%	3.3%	82%
Know -How & Service Fees	-6.0%	0.0%	

OPIL completes 1st phase of its capex

OPIL is expanding its cement capacity from the current 2.4 mtpa to 5 mtpa by FY09. The first phase of the expansion (from 2.4 mtpa to 2.7 mtpa) has been completed and is fully operational. The second phase where the capacity will be expanded to 3.4 mtpa would be operation by end Q4FY2008. The last phase where the capacity would be expanded to 5 mtpa will be operational by Q4FY2009. Further, the 50 MW captive power project at Devapur is expected to be completed by Q3FY2009. To maintain its leadership in the tissue paper segment, OPIL is planning to expand its tissue paper capacity to 20,000 tonnes by FY09. To tap the fast growing market of CFL lamps, OPIL is planning to setup a project to manufacture and market CFL lamps and allied lighting accessories at a cost of Rs50 mn. The company is in advance stage of launching CFL and lighting products within the next few weeks.

Upgrading earnings, rating and price target

As mentioned earlier, OPIL profitability in Q3FY2008 as well as 9MFY2008 has been ahead of our expectation. We are upgrading our earnings estimates for OPIL by 7% for FY2008 and by 13% for FY2009. Our EPS now stands at Rs107 for FY2008 and Rs126 for FY2009. We are also introducing our FY2010 earnings estimates for OPIL which stands at Rs155. The stock currently trades at compelling valuations of 6.6X its FY2008 earnings and 5.6X its FY2009 earnings. Consequently we are upgrading our price target for OPIL to Rs950 based on FY2010 earnings and cement capacity of 5 million tonne. We believe OPIL now has shun the tag of erratic quarterly performance and going forward the profitability for all the divisions will be fairly consistent. Also valuation of the cement business, which is available at extremely cheap valuations of USD 74 per ton for FY2009 and USD 34 per ton for FY2010 capacity, would improve significantly once it commissions its 50 MW captive power plant in October 2008. Hence we believe that OPIL is due for a re-rating. We maintain our BUY recommendation with a price target price of Rs950 which is a very decent upside of 35% from current levels.

Replacement Cost Workings

Cost of setting up a new cement plant	75
Capacity (FY2010)	5.0
Value	3750
Value Rs mn	15000
PV of Free Cash	6060
Replacement Cost (5 years)	21060
Brand & Distribution	0
Fiscal Benefits	0
Total	21060
Replacement cost	21060
EV/Tonne	105
Premium	-20%
Cement EV	16850
Target Cement EV/Tonne	84
Add Value of non cement business	2480
Investments	990
Target EV	20320
Less:	
Debt	2000
Target Mcap	18330
Equity Shares in issue	19.3
Fair Value	950

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