

Orient Paper & Ind.

Q3FY12 Result update

31 Jan 2012

Result above estimates, maintain Buy

Orient Paper & Industries' (OPIL) Q3FY12 result was above expectations with Revenue at Rs5,757mn (est. Rs5,396mn), EBITDA at Rs892mn (est. Rs774mn), operating margin at 15.5% (est. 14.3%) and profits at Rs424mn (est. Rs358mn). The reason for higher-than-estimated Revenue and EBITDA was higher cement sales volume of 0.98mt against estimated 0.92mt. We remain positive on the company considering attractive valuations and expected increase in profits of the Electricals segment led by higher revenues. We maintain Buy on the company with a target price of Rs70, which gives an upside of 38% from the CMP.

- **Strong revenue growth led by cement division:** Revenues of the company increased 31.3% YoY To Rs5,757mn driven by 50.9% YoY revenue growth of the cement segment. Cement division's stellar run was due to significant 25% YoY improvement in sales volume to 0.98mt and 20.7% YoY growth in realization to Rs3,525/tonne. Higher sales volume was due to increase in sales volume in the Maharashtra region. EBITDA of the company increased 20.4% YoY to Rs892mn; however, EBITDA margin declined 141bps YoY to 15.5% primarily due to a) 526bps YoY decline in Electrical segment's margin to 3.2% and b) EBIT level loss of Rs153mn in the Paper segment against profit of Rs24mn in Q3FY11. Profit of the company increased 27.2% YoY to Rs424mn.

Y/E Mar (Rsmn)	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)	Q3FY12E	Var (%)
Net Sales	5,757	4,384	31.3	5,066	13.6	5,396	6.7
EBITDA	892	741	20.4	556	60.4	774	15.4
<i>EBITDA margin (%)</i>	<i>15.5</i>	<i>16.9</i>	<i>(141bps)</i>	<i>11.0</i>	<i>452bps</i>	<i>14.3</i>	<i>116bps</i>
Adjusted PAT	424	309	37.2	241	76.2	358	18.5
<i>Adj PAT margin (%)</i>	<i>7.4</i>	<i>7.0</i>	<i>32bps</i>	<i>4.8</i>	<i>261bps</i>	<i>6.6</i>	<i>74bps</i>

Source: Company, Centrum Research

- **Stellar performance of the cement segment:** On the back of 20.7% YoY increase in realization and 25% YoY growth in sales volume, revenue of the cement segment increased 50.9% YoY to Rs3,451mn. EBIT of the segment increased 79.8% YoY to Rs839mn. EBIT margin improved 309bps YoY (and 510bps QoQ) to 24.3%. Sequential improvement in margin was on the back of a) 17.8% QoQ volume growth and b) lower energy costs in the quarter as coal production in Singareni coal mines stabilized after the strike by employees in Q2FY12. EBIT/tonne of the segment increased 43.9% YoY (and 26.7% QoQ) to Rs857.
- **Margins of Electrical division under pressure:** Despite 13% YoY increase in revenues of the Electrical division, EBIT declined significantly by 57.5% YoY to Rs43mn mainly due to cost pressures. Revenue growth of the segment was driven by 3% YoY increase in Fan sales volume and 19% YoY increase in Lighting volume. EBIT margin of the division declined 526bps YoY to 3.2% due to a rise in input costs and Rs79mn incurred on a new initiative which is expected to yield substantial long term investments as per the management. During 9MFY12, EBIT margin of this division stands at 4.3% vs. 6.9% in 9MFY11. For FY12E, we believe that margins will be at 7% vs. 8.9% in FY11 as Q4 is seasonally the strongest quarter for this segment.
- **Paper division's dismal show continues:** Though the revenue from paper division grew 5.7% YoY to Rs941mn, it reported an EBIT loss of Rs153mn against profit of Rs24mn in Q3FY11 due to higher pulp prices and rise in coal costs. The segment reported negative EBIT margin of -16.2% against 2.7% in Q3FY11.
- **Valuations attractive, maintain Buy:** The stock trades at 5.6x FY13E EPS, 3.5x EV/EBIDTA, and EV/tonne of US\$42.3. We maintain Buy on the stock with price target of Rs70.

Y/E Mar (Rs bn)	Rev	YoY (%)	EBITDA	YoY (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)	EV/Tonne (US\$)
FY10	16.2	7.6	3.1	19.0	1.6	(36.3)	7.8	22.3	13.0	6.5	4.5	53.2
FY11	19.6	21.0	3.0	15.1	1.4	(10.2)	7.0	17.0	10.8	7.3	4.7	46.5
FY12E	23.0	17.6	3.4	14.6	1.8	25.0	8.7	18.3	12.0	5.8	4.0	44.8
FY13E	25.0	8.6	3.7	14.7	1.9	4.2	9.1	16.3	11.6	5.6	3.5	42.3
FY14E	27.4	9.5	4.2	15.2	2.2	19.3	10.8	16.8	12.9	4.7	2.9	38.2

Source: Company, Centrum Research Estimates

Key Data

Recco (Prev)	Buy (Buy)	Bloomberg Code	OPO IN
Target (Prev)	Rs70 (Rs70)	Reuters Code	ORPP.BO
CMP	Rs51	Current Shares O/S (mn)	192.9
Upside (%)	38%	Diluted Shares O/S(mn)	192.9
		Mkt Cap (Rsbn/USDmn)	9.8/198.1
Price Performance (%)		52 Wk H / L (Rs)	66/44
	1M	6M	1Yr
OPI	1.3	(14.1)	3.7
NIFTY	12.3	(5.3)	(5.7)
		Daily Vol. (3M NSE Avg.)	123,903
		Face Value (Rs)	1
		USD = Rs49.4	

Source: Bloomberg, Centrum Research
*as on 30 January 2012

Cement business summary: strong volume and realization growth leads to strong performance

Particulars	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Sales Vol. (mt)	0.98	0.78	25.0	0.83	17.8
Realization/tonne (Rs)	3,525	2,920	20.7	3,521	0.1
Revenue (Rs mn)	3,451	2,286	50.9	2,926	17.9
EBITDA (Rs mn)	839	466	79.8	562	49.2
EBITDA margin (%)	24.3	20.4	390bps	19.2	510bps
EBITDA/tonne (Rs)	857	596	43.9	676	26.7

Source: Company, Centrum Research

Electricals business summary: dismal show due to higher costs and seasonal impact

Particulars	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Revenue	1,344	1,189	13.0	1,352	(0.6)
EBIT	43	100	(57.5)	25	68.9
EBIT margins (%)	3.2	8.4	(526bps)	1.9	131bps

Source: Company, Centrum Research

Paper business summary: continues to bleed due to higher input costs

Particulars	Q3FY12	Q3FY11	YoY (%)	Q2FY12	QoQ (%)
Revenue	941	891	5.7	766	22.8
EBIT	(153)	24		(149)	
EBIT margins (%)	(16.2)	2.7	(18.9pp)	(19.5)	326bps

Source: Company, Centrum Research

Sanjeev Kumar Singh
Sanjeev.singh@centrum.co.in
+91 22 4215 9643

Please refer to important disclosures/disclaimers inside

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Financials

Exhibit 1: Income Statement

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	16,180	19,574	23,010	24,996	27,362
Total Expenditure	13,107	16,623	19,649	21,329	23,190
Raw Materials	5,641	6,999	7,973	8,770	9,568
Power & Fuel	2,680	3,299	4,105	4,308	4,618
Staff Cost	1,066	1,174	1,519	1,600	1,724
Freight costs	1,887	2,568	3,106	3,374	3,694
Selling and Admin expenses	634	873	966	1,125	1,231
Other expenses	1,494	1,684	1,980	2,151	2,355
EBITDA	3,074	2,951	3,361	3,668	4,172
EBITDA margin (%)	19.0	15.1	14.6	14.7	15.2
Other Income	163	377	443	205	205
Depreciation	550	815	841	913	970
Interest	345	418	345	299	233
PBT	2,341	2,095	2,618	2,661	3,174
PBT margin (%)	14.5	10.7	11.4	10.6	11.6
Tax	748	664	830	798	952
Adj PAT	1,593	1,431	1,788	1,863	2,222
PAT margin (%)	9.8	7.3	7.8	7.5	8.1
Diluted EPS (Rs)	7.8	7.0	8.7	9.1	10.8

Source: Company, Centrum Research Estimates

Exhibit 2: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Share Capital	193	193	193	205	205
Preference Capital	10	10	10	10	10
Reserves	7,564	8,823	10,273	12,160	13,902
Shareholders Fund	7,767	9,026	10,476	12,375	14,117
Debt	5,135	5,440	5,040	4,040	3,040
Net deferred tax	1,130	1,373	1,373	1,373	1,373
Capital employed	14,032	15,839	16,889	17,787	18,530
Gross block	16,365	17,919	20,076	21,176	22,676
Less: Acc depreciation	5,206	5,963	6,804	7,717	8,687
Net block	11,159	11,955	13,272	13,459	13,989
Capital WIP	568	657	100	500	500
Investments	471	663	663	663	663
Inventories	1,503	1,642	2,099	2,279	2,478
Debtors	1,844	2,398	2,522	2,739	2,999
Cash & bank balances	467	588	571	755	669
Loans and Advances	1,077	1,401	1,647	1,790	1,959
Other current assets	96	36	36	36	36
Total current assets	4,987	6,067	6,876	7,599	8,141
Current liabilities	2,346	2,821	3,230	3,506	3,812
Other liabilities and prov.	807	683	792	928	951
Net current assets	1,834	2,564	2,854	3,165	3,377
Total Assets	14,032	15,839	16,889	17,787	18,530

Source: Company, Centrum Research Estimates

Exhibit 3: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
PBT & extraordinary items	2,341	2,095	2,618	2,661	3,174
Depreciation	550	815	841	913	970
Interest	345	418	345	299	233
Others	(16)	(42)	-	-	-
Op profit before WC changes	3,204	3,285	3,804	3,873	4,377
Interest paid	(434)	(448)	(345)	(299)	(233)
Net change - WC	(137)	(378)	(417)	(263)	(322)
Direct taxes	(448)	(564)	(722)	(803)	(929)
Net cash from operations	2,185	1,896	2,320	2,507	2,893
Capital expenditure	(1,919)	(1,795)	(1,600)	(1,500)	(1,500)
Others	(315)	(121)	-	-	-
Net Cash from investing	(2,234)	(1,916)	(1,600)	(1,500)	(1,500)
Net free cash flows	266	101	720	1,007	1,393
Issue of shares	4	0	-	12	-
Warrants proceeds	-	172	-	503	-
Debt change	1,365	(312)	(400)	(1,000)	(1,000)
Dividend paid	(338)	(336)	(337)	(338)	(479)
Others	(850)	617	-	-	-
Net cash from financing	178	141	(737)	(823)	(1,479)
Net change in cash	129	121	(17)	184	(86)
Closing Cash Balance	767	588	571	755	669

Source: Company, Centrum Research Estimates

Exhibit 4: Key Ratios

Y/E March	FY10	FY11	FY12E	FY13E	FY14E
Valuations Metrics (x)					
P/E	6.5	7.3	5.8	5.6	4.7
Price/Cash earnings	4.8	4.6	4.0	3.7	3.3
Price/BV	1.3	1.1	0.9	0.9	0.8
EV/Sales	0.9	0.7	0.6	0.5	0.4
EV/EBITDA	4.5	4.7	4.0	3.5	2.9
EV/ton (USD)	53.2	46.5	44.8	42.3	38.2
Profitability Metrics (%)					
EBITDA margin	19.0	15.1	14.6	14.7	15.2
EBIT margin	15.6	10.9	11.0	11.0	11.7
Adj PAT margin	9.8	7.3	7.8	7.5	8.1
Return Ratios (%)					
RoE	22.3	17.0	18.3	16.3	16.8
RoCE	13.0	10.8	12.0	11.6	12.9
RoIC	14.4	10.7	11.6	12.0	13.3
Growth Metrics (%)					
Net Sales	7.6	21.0	17.6	8.6	9.5
EBITDA	(24.9)	(4.0)	13.9	9.1	13.8
Diluted EPS	(36.3)	(10.2)	25.0	4.2	19.3
Per share (Rs)					
Diluted EPS	7.8	7.0	8.7	9.1	10.8
CEPS	10.5	11.0	12.8	13.5	15.6
BVPS (Rs)	40.2	45.9	53.4	57.1	65.6
Solvency Ratio (x)					
D/E	0.66	0.60	0.48	0.33	0.22
Net D/E	0.59	0.53	0.42	0.26	0.16
Interest coverage	7.3	5.1	7.3	9.2	13.7
Current Ratio	1.6	1.7	1.7	1.7	1.7

Source: Company, Centrum Research Estimates

Appendix A

Disclaimer

Centrum Broking Pvt. Ltd. ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accented accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

This report has not been prepared by Centrum Securities LLC. However, Centrum Securities LLC has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the foregoing limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declaration given by him, Mr Sanjeev Kumar Singh, research analyst and the author of this report and/or any of his family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by them, they have not received any compensation from the above companies in the preceding twelve months. Our entire research professionals are our employees and are paid a salary. They do not have any other material conflict of interest of the research analyst or member of which the research analyst knows of has reason to know at the time of publication of the research report or at the time of the public appearance.

While we would endeavour to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances

Key to Centrum Investment Rankings

Buy: Expected to outperform Nifty by >15%, Accumulate: Expected to outperform Nifty by +5 to 15%, Hold: Expected to outperform Nifty by -5% to +5%, Reduce: Expected to underperform Nifty by 5 to 15%, Sell: Expected to underperform Nifty by >15%

Centrum Broking Private Limited

Member (NSE, BSE, MCX-SX), Depository Participant (CDSL) and SEBI registered Portfolio Manager

Regn Nos

CAPITAL MARKET SEBI REGN. NO.: BSE: INB 011251130, NSE: INB231251134
DERIVATIVES SEBI REGN. NO.: NSE: INF 231251134 (TRADING & SELF CLEARING MEMBER)
CDSL DP ID: 12200. **SEBI REGISTRATION NO.:** IN-DP-CDSL-20-99
PMS REGISTRATION NO.: INP000000456
MCX – SX (Currency Derivative segment) REGN. NO.: INE 261251134
Website: www.centrum.co.in
Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details :

Mr. Praveen Malik; Tel: (022) 42159703; Email ID: praveen.malik@centrum.co.in

REGD. OFFICE Address

Bombay Mutual Bldg., 2nd Floor, Dr. D. N. Road, Fort, Mumbai - 400 001

Correspondence Address

Centrum House, 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098.
 Tel: (022) 4215 9000