

Paper Sector: Changing Script

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The paper sector, which has been an underperformer for sometime, is currently in the midst of a transformation with major capex underway and improving operating efficiencies. Strong macro undercurrents in terms of a demand-supply mismatch, firm prices and cheap valuations make the sector a good investment bet.

- ❑ The paper sector is in the midst of cyclical upswing driven by strong demand. The sector is growing at 3x the global average. The planned capex is set to top Rs 10,000 crore over the next 2-3 years. A large portion of the spend will be for increasing efficiencies. The brown-field expanded capacities coming on-stream over FY07-09 would be absorbed by the increasing demand without resulting in any over supply.
- ❑ Paper prices have been on a consistent uptrend over the last two years, rising by 15-17% during 2005-07. We see further headroom for another 5% in the medium term. With operating rates improving and efficiencies from backward integration kicking in, we expect margins to improve by 200 bps on an average.

Investment Summary

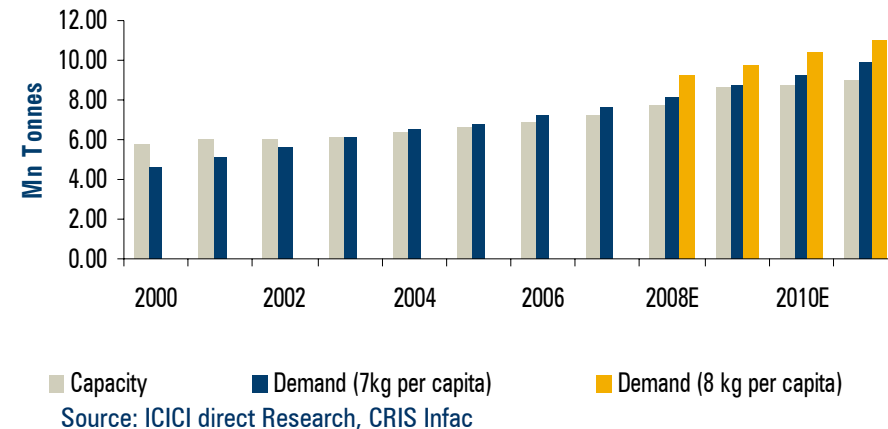
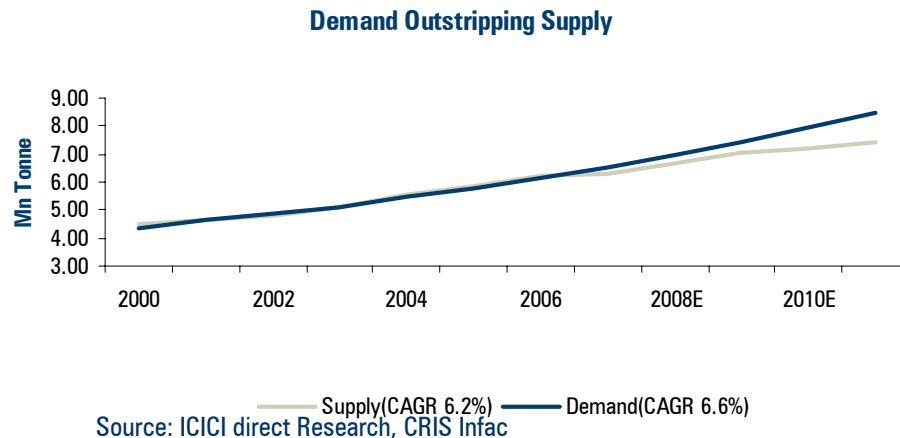
We have a preference for big-size players in this space as they are better placed in terms of capacity additions and backward integration. The stocks have traditionally traded at a historic P/E multiple of 8x and are currently available at forward multiples of 5x. Valuations are currently at a three-year low and dividends yields are compelling at 3-4% with key operating matrices on the up-tick and strong demand outlook. We initiate coverage on Ballarpur Industries, TN Newsprint, JK Paper and West Coast Paper with a recommendation to switch from JK Paper and West Coast Paper to TN Newsprint and Ballarpur Industries which are our preferred bet.

Robust Demand Seen

We see demand for paper growing at a robust CAGR of 6.6% and are optimistic in the long term as key demand levers such as rising GDP, increased literacy spending and improving per capita consumption are in place.

We are sanguine about the demand numbers as India consumes only 1% of the world's paper produce. Per capita consumption is low at 7 kg. The impact of just 1kg increase in per capita consumption would lead to increase in demand by 1.1 million tonnes of paper.

Demand overshoots Supply



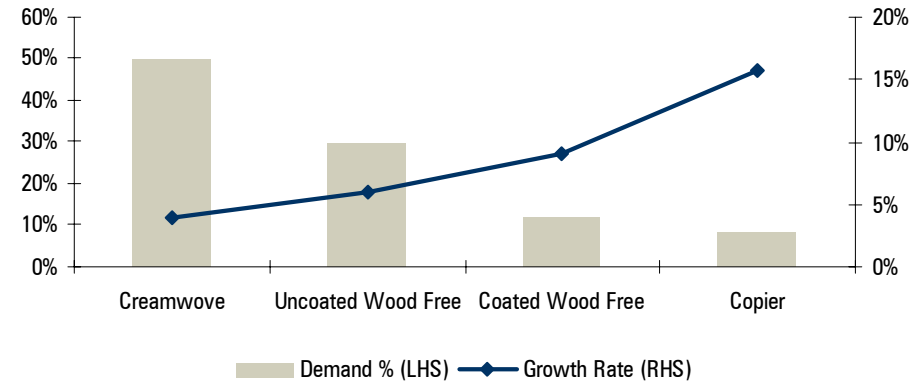
We do not foresee a glut in the market despite the current capex and expect the incremental production of 1.66 million tones to be absorbed without much difficulty. Additionally, most of the capex is done to improve cost efficiencies and backward integration, rather than installing fresh capacities.

In the long-term, Asia will continue to be a major growth driver in the global paper industry. The Indian paper market is growing at 3x the global average and 50% more than Asian average. Demand is over encouraging and good traction is seen in the high value added segment.

Shift to value-added high margin products

Clear growth is being seen in the writing and printing and the high value added segments. Coated paper is growing at 9%, while the copier paper segment is growing at a robust 15%. Most capacities are getting added in these segments and are set to result in improved realizations for the players.

Writing & Printing Paper Segment & Growth FY06-07



Source: ICICI direct Research, CRIS Infac

Product wise demand

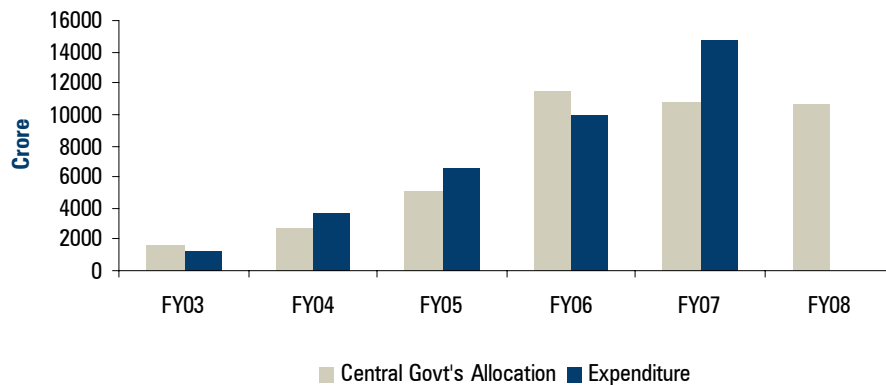
('000 tonnes)	FY01	FY02	Inc %	FY03	Inc %	FY04	Inc %	FY05	Inc %	FY06	Inc %	FY07E	Inc %	FY08E	Inc %
Creamwove	1,015	1,056	4.0%	1,094	3.6%	1,135	3.7%	1,185	4.4%	1,232	3.9%	1,281	3.9%	1,332	3.9%
Maplitho	475	494	4.0%	514	4.0%	547	6.4%	574	4.9%	601	4.7%	631	4.9%	661	4.7%
Copier	68	80	17.6%	94	17.5%	110	17.0%	127	15.4%	147	15.7%	170	15.6%	197	15.8%
Coated paper	204	222	8.8%	242	9.0%	270	11.6%	292	8.1%	317	8.5%	346	9.1%	378	9.2%
Industrial paper	2,672	2,809	5.1%	2,985	6.3%	3,168	6.1%	3,376	6.5%	3,600	6.6%	3,819	6.0%	4,051	6.1%
Specialty	180	191	6.1%	205	7.3%	221	7.8%	239	8.1%	258	7.9%	277	7.4%	297	7.2%

Source: ICICI direct Research, CRIS Infac

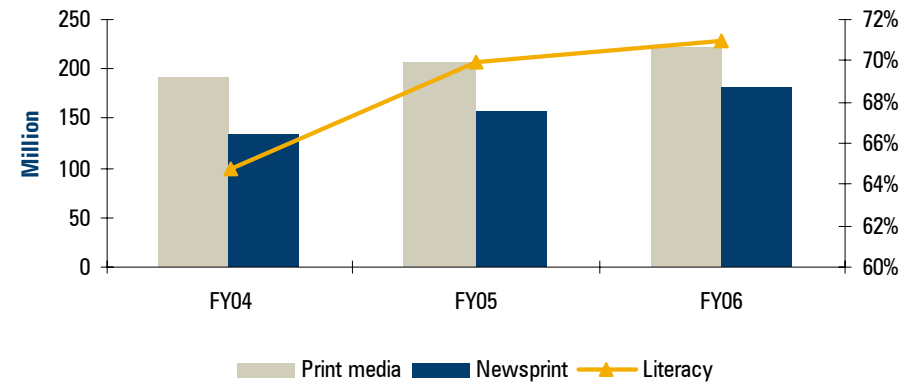
Key demand drivers in place

GDP demand growth at 8% +	1.1x demand growth in paper
Education focus of government	34% increase in education sector expenditure to Rs 323 crore in FY08
Increasing literacy rates	Increased circulation to 222 mn in FY06
Improving living standard and higher disposable incomes	Increased demand for branded high end paper and hygiene paper products
Marketing drive in manufacturing & service sector	Spurt in direct mailers and print media thereby increasing paper demand

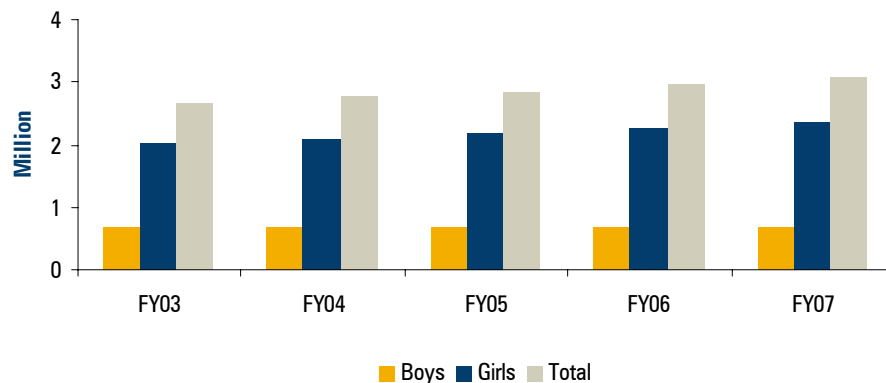
Sarva Shiksha Abhiyan



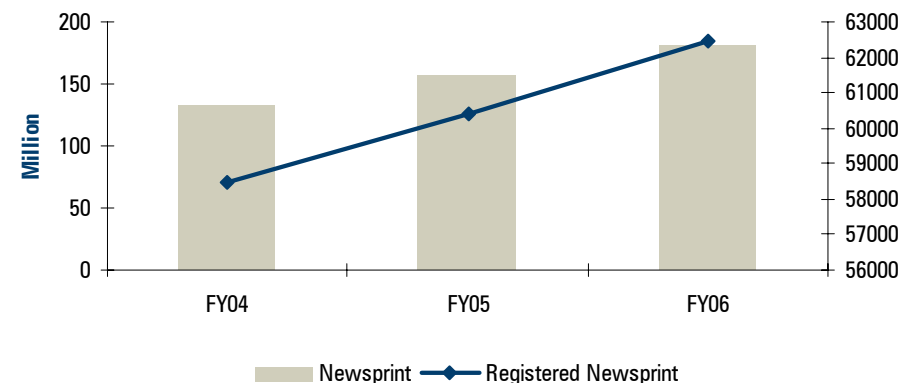
Surging Circulations



Estimated additional enrollment at primary level



Rise in newspaper circulation with increasing new entrants

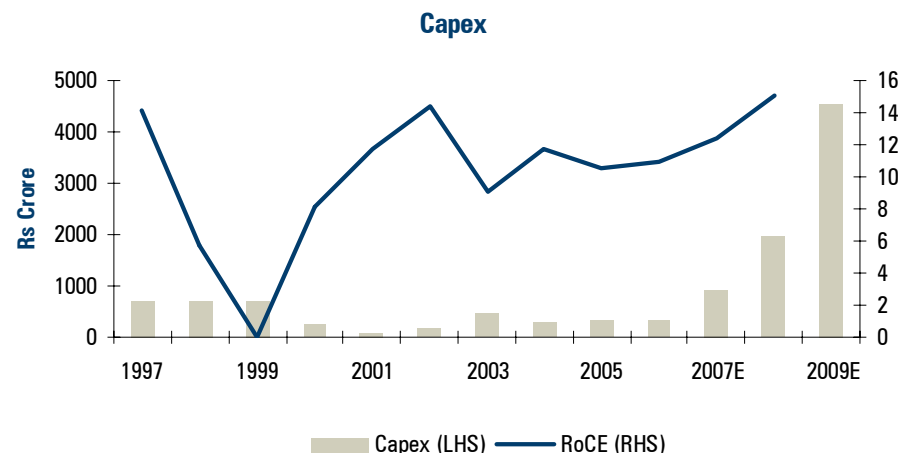


Source: ICICI direct Research, Ministry of HRD

Source: ICICI direct Research, Indian Readership Survey

The domestic paper sector is in the midst of a massive Rs 10,000 crore capex, the largest in its history. The top 10 domestic players in paper sector account for around 70% of the capex planned to be implemented between FY07-09. Interestingly, most of the capex are going to be EPS accretive due to significant margin expansion.

Paper demand has witnessed a definite shift from low-quality paper to higher-end paper. To place themselves on a level up on the product quality standards, companies are investing in specialized technology that helps in improving cost efficiencies and better raw material inputs.



Source: ICICI direct Research, CMIE

Shift in Demand

Product	2000		2008E	
	Demand	Realisation per tonne	Demand	Realisation per tonne
Creamwove	23%	30000	19%	45000
Maplitho	10%	32000	10%	49500
Copier	1%	31000	3%	48000
Coated paper	4%	45000	5%	59000
Industrial paper	58%	27000	59%	45000
Specialty	4%		4%	

Source: ICICI direct Research, CRIS Infac

Capacity additions by leading players

000 tonnes	Current Capacity	Capacity Post Capex	Cost of Capex (Cr)	Year of Commission	Purpose
Ballarpur Industries*	530	730	1260	FY09	Paper Capacity
Hindustan Paper Corp	370	700	2500	FY09-10	Paper & Pulp Capacity
ITC	403	630	2500	FY10	Paper & Pulp Capacity
Tamil Nadu News Print	245	365	1215	FY08	Paper, Pulp capacity & Captive power
JK Paper	195	345	120	FY08	Packaging Board
Khanna Paper Mills	290	310	270	FY09	Paper Capacity
Rama Newsprint & Paper Mills	132	300	400	FY08	Paper & Pulp Capacity
WestCoast Paper Mills	164	285	1100	FY09	Paper, Pulp capacity & Captive power
Andhra Pradesh Paper Mills	154	200	635	FY08	Paper, Pulp capacity & Captive power
Seshasayee Paper & Boards	115	175	250	FY09	Paper & Pulp Capacity
Orient Paper & Ind	171	186	750	FY10	Paper & Pulp Capacity
Star Paper Mills	80	150	400	FY09	Paper, Pulp capacity & Captive power

Source: ICICI direct Research, CMIE

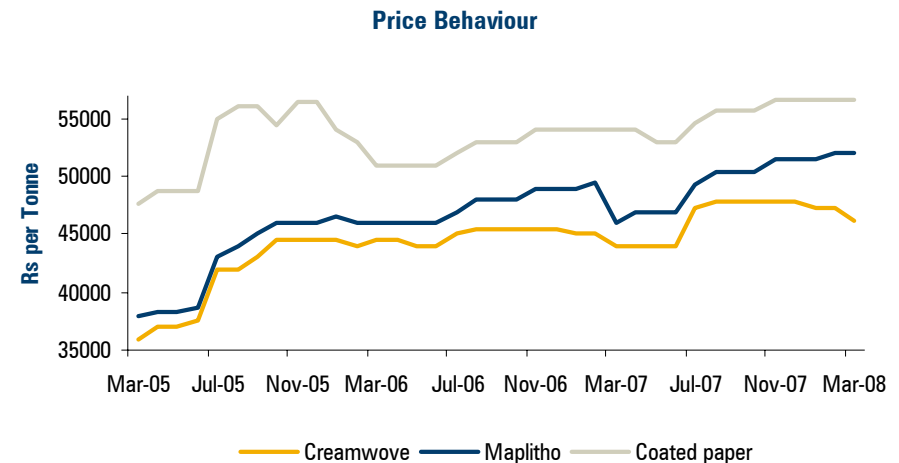
* Domestic capacity expansion

The sector has its capex focused on

- ❑ **Improvement in operational efficiencies through rightsizing pulping capacities:** In-house pulping capacities would help the manufacturers check the increasing raw material prices. Pulp generated in-house could lead to margin expansions by around 120-200 basis points in addition to neutralizing the effects of firm raw material prices.
- ❑ **Brown-field capacity expansions:** As most of the expansion is brownfield the capex per tonne is significantly lower as compared to a greenfield and towards more value added products, we are optimistic of a jump in average realisation by 270 to 400 bps. It would also increase the return on capital employed by 400 to 450 bps.
- ❑ **Backward integration into captive power:** Shift to captive power plants and investment in recovery boilers is expected to save power and cut fuel cost by 120 to 150 bps.
- ❑ **Adherence to pollution norms by chemical recovery:** Apart from making manufacturers CREP (Corporate Responsibility for Environmental Protection) compliant, installation of chemical recovery plants would improve chemical recovery and improve the efficiency by 60 to 80 bps.

Paper prices are traditionally known to follow a cyclical trend. The outlook for the Indian economy is bright and demand for paper is set to surge. With capacities falling short to meet the demand, paper prices have broken the myth and are looking to remain firm in medium term.

- ❑ Variable expenditure comprising of raw material cost, chemical cost have seen an upswing in the near term and is expected to follow a similar trend in the medium term. Improved operational efficiencies would reduce the impact of increased expenditure, on margins. Supported by strong demand, manufacturers would not face resistance in passing the increase to customers.
- ❑ As producers shift their product mix towards value-added products like copier, coated, etc, with lesser capacity involved in low end paper production, the average realisation is expected to increase substantially by 683 bps.
- ❑ Bigger manufacturers are now shifting their produce from a commodity bracket and branding it as a high-value product. Today, they have been successful in establishing brand value especially in copier and business stationery segment. The branded products of leading players are now defining the market prices and other smaller players are following suit.



Source: ICICI direct Research, CMIE

China

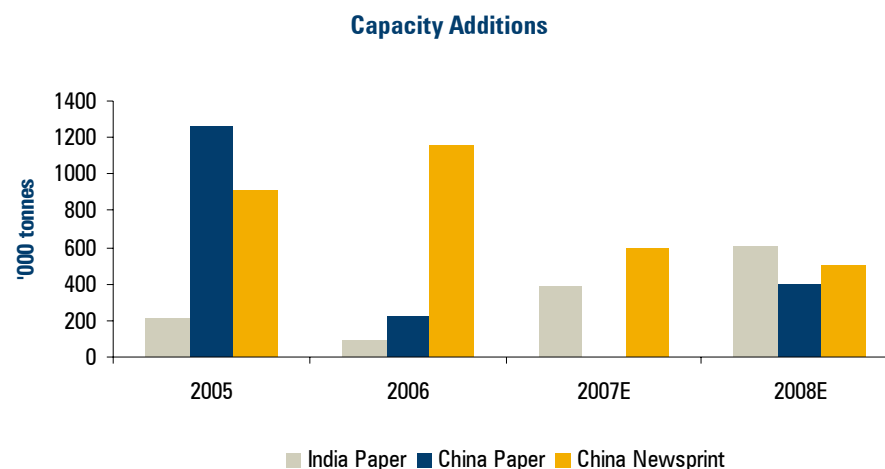
China is the world's second-largest producer and consumer of paper and is also the fastest-growing market. Over the last 5 years, demand for paper in China grew at a CAGR of 11%.

Chinese paper market demand is expected to grow at a CAGR of 9.6% to 68.5 million tonnes of paper and board products by 2010. China has been aggressively pursuing capacity additions to meet demand. Supply is expected to grow at a CAGR of 9.2% to 62.4 million tonnes. The gap is expected to be filled by imports growing at 14%.

Though China is seen aggressively adding capacity, we do not foresee any threats as it is to meet internal demand.

Production of writing and printing paper is expected to post a growth of 9.1% while supply of uncoated paper is expected to grow at 6%. Coated paper is expected to post the highest growth rate of 11% in the writing & printing paper category.

China is expected to generate more than 30% of the global demand for paper by 2015. Its continued dominance in the global paper industry is demonstrated by the fact that China accounts for 55% of world capacity expansions for containerboard and 65% of expansions for uncoated printing and writing paper that have been confirmed for 2004-2007. In addition, China accounts for 100% of confirmed global capacity expansions for newsprint; 83% for boxboard; 52% for uncoated printing and writing paper; and 10% for tissue and household paper during 2004-2007.



Source: ICICI direct Research, CRIS Infac

Import threat

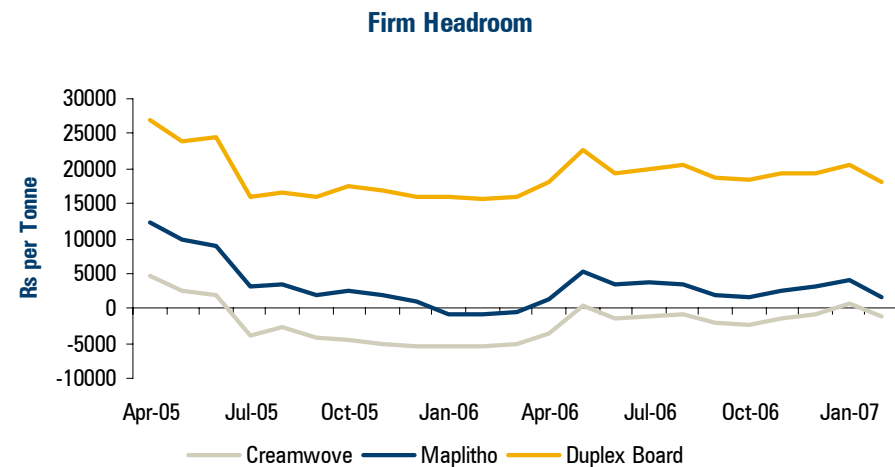
Although in the medium term imports do not pose a threat to the domestic paper industry, in the long term the changing global scenario may result in an increase in imports. In addition, even if China does not export to India, with a decline in China's imports, foreign manufacturers may look for alternative destinations to export the surplus. With India witnessing strong demand, a number of foreign players may desire to export to India. However, the landed cost of imports has been subject to a significant premium over the domestic prices, making imports unviable except for some speciality papers.

	Coated Paper	Uncoated Paper
Pound Exchange Rate	85.22	85.22
Custom duty	10%	10%
FOB (Rs per tonne)	48575	41758
Freight insurance and handling (Rs per tonne)	2915	2505
CIF	51490	44263
Import Duty	5149	4426
	56639	48690
CVD @12%	6797	5843
Surcharges	358	308
Importers Margin @4%	2552	2194
Landed Cost (Rs per tonne)	66346	57034
Domestic Price (Rs per tonne)	50000	45000
Premium/ (Discount) to domestic prices	16346	12034

Source: ICICI direct Research, CMIE

Price headroom

We do not see the reduction in peak custom duty to 10% from 12.5% in FY08 budget to weigh on the prices. The landed cost of imported paper is significantly higher than the domestic price and gives domestic manufacturers the headroom to hike their prices. Due to an increasing gap between demand and supply over the medium term, paper prices are expected to remain firm with substantial headroom.



Source: ICICI direct Research, CMIE

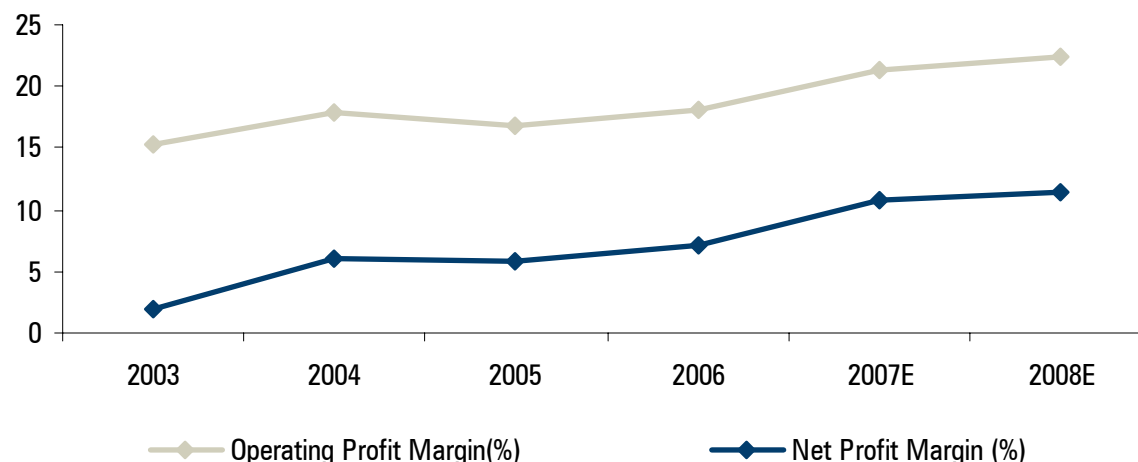
Improving Financial Structure

The domestic paper industry is witnessing healthy growth in demand along with capex focused on backward integration, resulting in improving cost efficiencies. Couple this with the increase in realisation would lead to margin expansion.

□ Despite cost pressures, profitability and margins have improved significantly. We estimate aggregate operating margins for our coverage companies – Ballarpur Industries, TNPL, West Coast and JK Paper – would surge from 19% in FY06 to 22% in FY08E while the net profit margins would peak to 11.5% in FY08E from 8.3% in FY06.

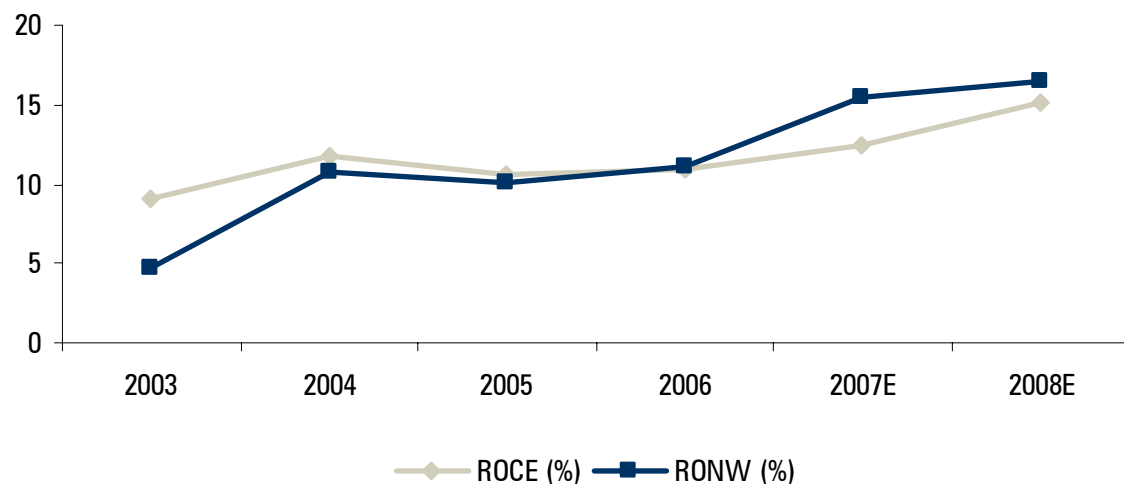
□ Average industry (large integrated mills) RoE for last 3 years was stable at 10-11%. For our preferred bets Ballarpur Industries, JK Paper and TNPL we see ROE rising to 15% - 16.5% levels in FY08E.

Increasing Margins



Source: ICICI direct Research

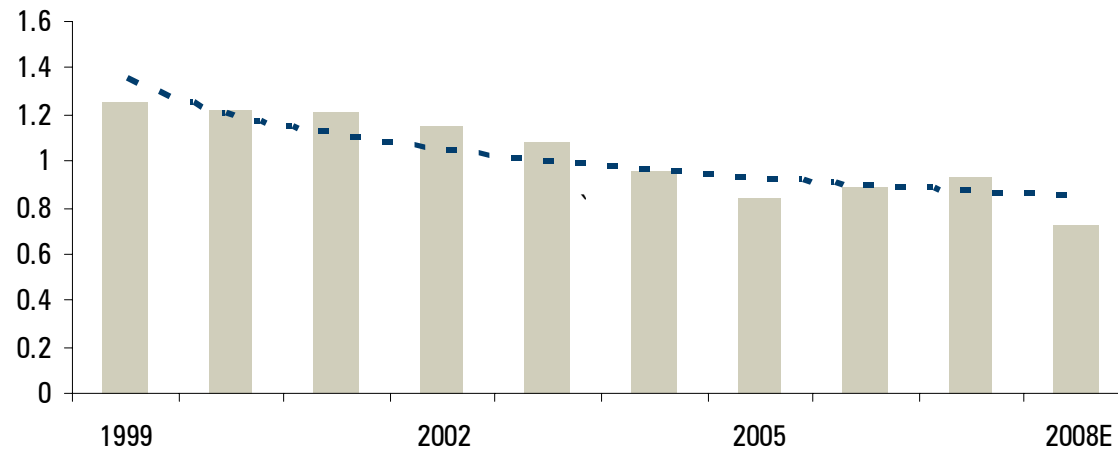
Improving Returns



Source: ICICI direct Research

The debt equity ratio for the industry has seen improvements from the level of 1.25 in 2000 to 0.8 levels FY08E and is expected to remain comfortable.

Debt - Equity Comfortable

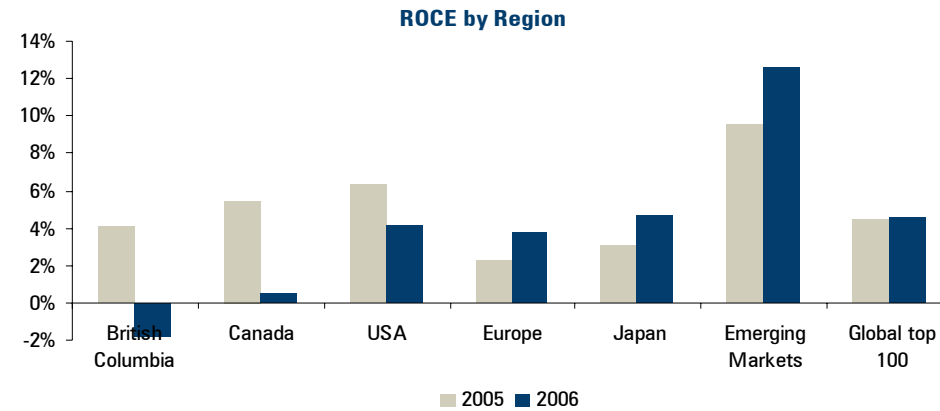


Source: ICICI direct Research

Paper companies are operating at margins higher than 18% and capital efficiency ratios of more than 12%. Core earnings growth and efficiency matrices indicate good tidings.

Valuations

Most Indian companies are better placed than their international counterparts in terms of operating matrices and return ratios. However, on valuation terms Indian companies are the most attractive.



Outperform International Players

Source: ICICI direct Research PWC

	Operating Profit Margin		Net Profit Margin		ROCE		RONW		P/E	
	Global	Domestic	Global	Domestic	Global	Domestic	Global	Domestic	Global	Domestic
2001	8.2%	19.3%	2.1%	5.2%	4.6%	11.8%	5.8%	10.3%	47.7	3.8
2002	7.4%	22.5%	1.2%	8.1%	4.3%	14.4%	8.0%	16.4%	48.8	4.12
2003	6.9%	15.2%	2.3%	1.9%	4.2%	9.1%	6.4%	4.7%	47.2	5.71
2004	7.5%	19.2%	4.2%	6.1%	5.3%	11.8%	9.4%	10.8%	19.9	6.75
2005	6.4%	17.8%	2.7%	5.8%	4.5%	10.5%	6.9%	10.1%	40.3	8.47
2006	7.6%	19.9%	4.2%	7.1%	4.6%	10.9%	8.2%	11.1%	17.1	10.6

Source: ICICI direct Research, Reuters

Better efficiency than the international counterparts in all respect

Still valuation remain cheaper

VALUATIONS: THE MOST ATTRACTIVE GLOBALLY

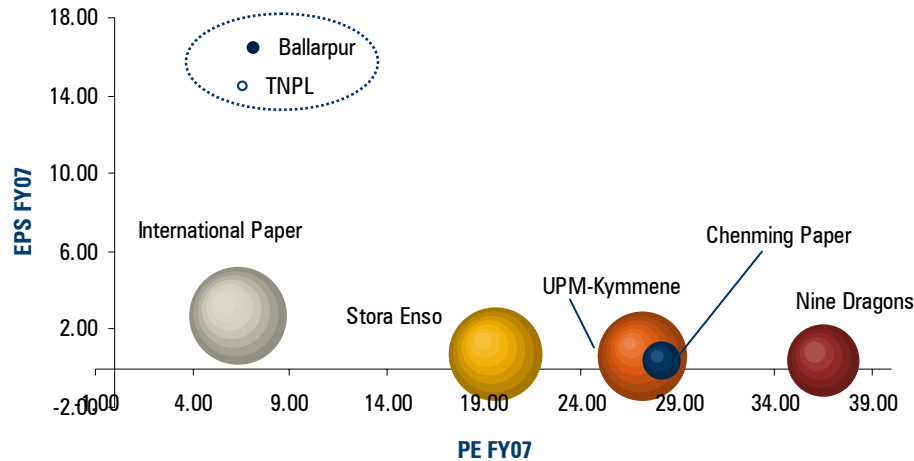
International Peer Comparison

Company Name	Price	Currency	OPM FY06	NPM FY06	ROCE FY06	RONW FY06	EV/EBIDTA	P/E FY06
Nine Dragons	17.4	CNY	27.11%	17.72%	16.61%	27.88%	28.05	42.02
International Paper	38.6	USD	22.13%	5.91%	6.07%	15.72%	4.65	14.72
Chenming Paper	7.5	CNY	16.97%	6.33%	6.73%	10.51%	10.99	16.50
UPM-Kymmene	19.2	EUR	15.72%	3.30%	2.68%	4.66%	8.99	29.64
Stora Enso	14.3	EUR	13.06%	4.04%	4.27%	7.79%	7.94	19.22
Ballarpur Industries	114.3	INR	25.72%	11.21%	12.46%	13.67%	6.49	10.53
TNPL	95.4	INR	21.09%	11.04%	13.54%	17.33%	5.69	7.95
JK Paper	39.8	INR	20.13%	5.35%	9.52%	9.20%	7.69	8.80
West Coast Paper	365.0	INR	12.13%	6.18%	10.42%	18.51%	7.34	10.05

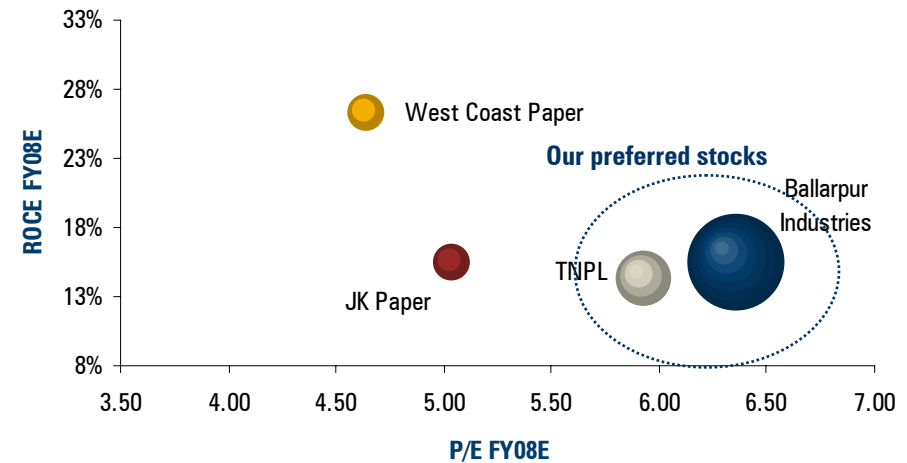
Source: ICICI direct Research, Reuters

VALUATIONS: THE MOST ATTRACTIVE GLOBALLY

Market Capitalisation Global vs. Indian



Source: ICICI direct Research, Reuters



Source: ICICI direct Research

Size of the bubble represents Market cap.

Ballarpur Industries (Bilt), the largest paper company in India, is the best placed to capitalize on the current uptick in business fortunes with a strong product profile and strong balancesheet.

- **Leadership position:** Bilt is the largest integrated paper manufacturer in India and is the market leader in high value-added coated paper, business stationery and maplitho paper segments. The company's leadership position coupled with robust demand for paper will help it to achieve sustained price growth. The management's appetite for inorganic growth and securing its wood pulp requirements places it in a most advantageous position to capitalize on the boom.
- **Capacity Expansion:** Company is expected to increase its capacity by 62% to 990,000 tonnes by FY10 through expansion. Its acquisition Sabah Forest (SFI), Indonesia, gives it access to 289,000 hectares of land for captive plantation valid till 2094. The acquisition also adds 120,000 tpa of pulping capacity and 144,000 tpa of paper capacity to its existing capacity of 530,000 tonnes.
- **Strong balance sheet:** Bilt has the one of the best return ratios in the industry. Gearing is expected to remain stable despite significant capex plans. Valuations are attractive at 6.3x FY08E of Rs 18.71. Buy.

Current Price Rs 119	Target Price Rs 150
Potential Upside 25%	Time Frame 12-15 mts

Key Financials

Year	Sales (Cr)	PAT	EPS (Rs)	y-o-y growth	P/E (x)	OPM (%)	NPM(%)	EV/EBIDTA (x)	ROE
2005	1790.14	168.00	10.34		9.19	25.16%	9.38%	5.72	11.51%
2006	1908.72	214.04	13.11	26.78%	10.53	25.72%	11.21%	6.49	13.66%
2007E	2254.83	269.07	16.48	25.71%	7.22	25.74%	11.93%	5.17	15.48%
2008E	2468.21	305.45	18.71	13.53%	6.36	26.58%	12.38%	4.68	15.60%

Source: ICICI direct Research, Company

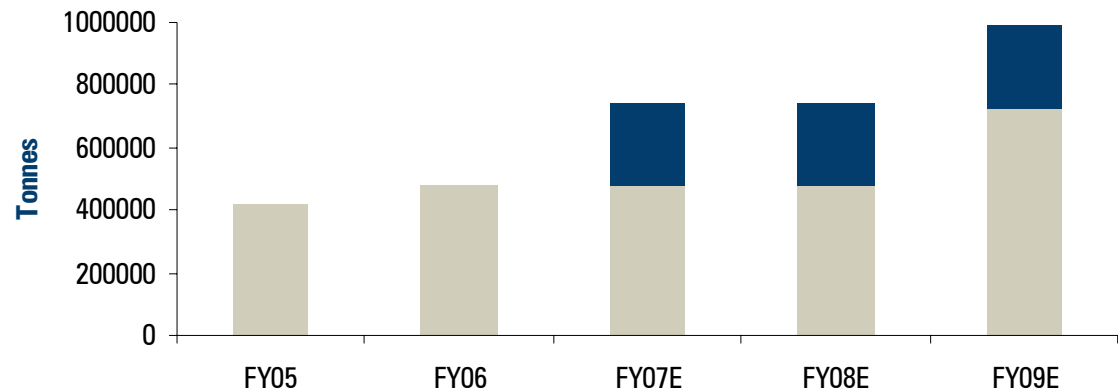
Background

BILT, promoted by L M Thapar, is the leader in the Indian paper industry. Originally incorporated in 1945 as Ballarpur Straw Board Mills, the company was renamed Ballarpur Industries Ltd in October 1975. The company has grown to be a leader in the paper industry through regular expansion and modernisation of its existing capacities and strategic acquisitions.

Capacity Expansion: Currently, BILT has an installed capacity of around 530,000 tonnes per annum (tpa) with a total strength of around 9,000 employees spread across six locations. The company is expected to increase its capacity to 780,000 tonnes by FY07 through overseas capacity addition and further stretch it to 990,000 tonnes by FY10 through domestic expansion.

Oversees Acquisition: Bilt has acquired Malaysia's integrated pulp and paper company Sabah Forest (SFI). Through this acquisition Bilt benefits by forest concession with respect to 289,000 hectares of land available for captive plantation valid till 2094. The acquisition also adds 120,000 tpa of pulping capacity and 144,000 tpa of paper capacity to its existing capacity of 530,000 tonnes.

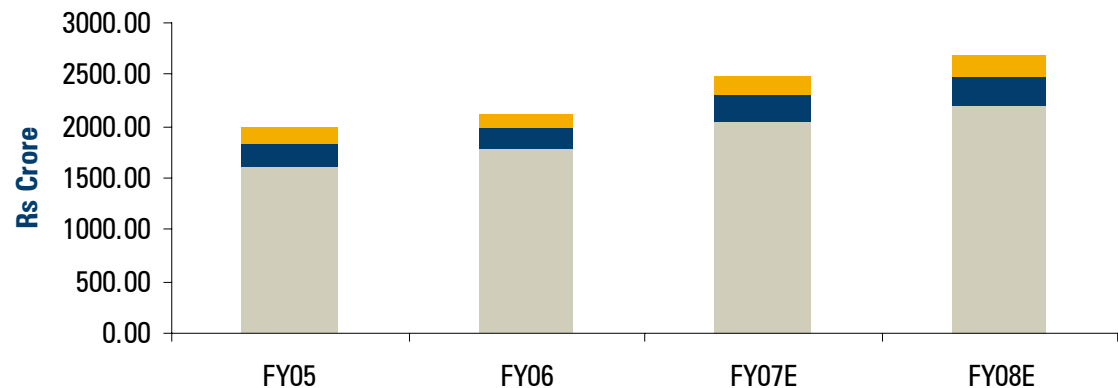
Capacity Expansion



Source: ICICI direct Research, Company

Domestic Oversees

Revenue

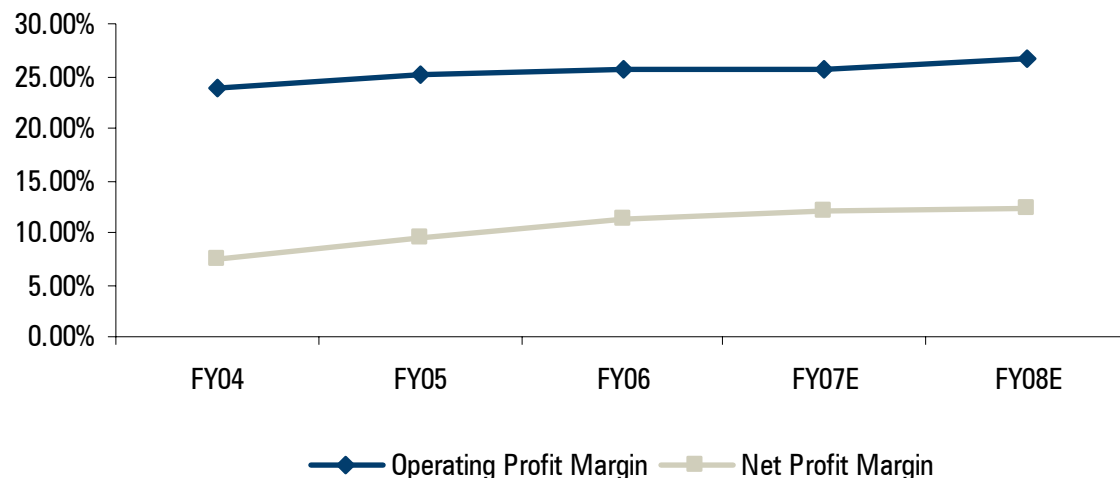


Paper Pulp rayon grade Traded goods

Source: ICICI direct Research, Company

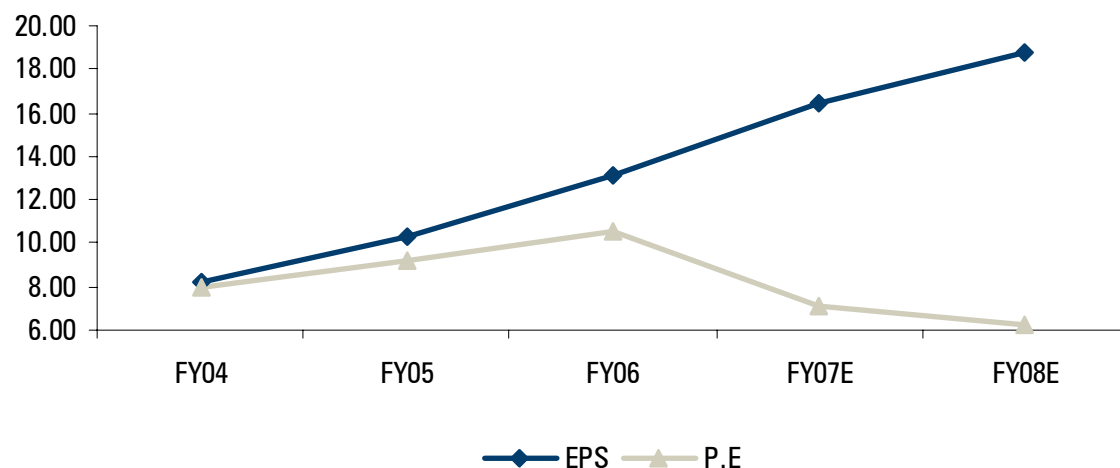
- ❑ Bilt is expected to be the biggest beneficiary from the demand growth on the back of volume expansion planned by the company. It is expected to post an impressive consolidated CAGR of 19% increase in its earnings (excluding Sabah).
- ❑ Bilt has leadership position in coated paper and paperboard segments, which are the high value paper segment. Bilt's leadership in these segments is expected to propel the average realizations by 400 bps points FY07E-08E.
- ❑ Constant investment in technology to comply all the set norms and innovation has enabled Bilt to control costs over the years and improve margins. Bilt boasts of best operating margins in the industry.

Upswing in margins



Source: ICICI direct Research, Company

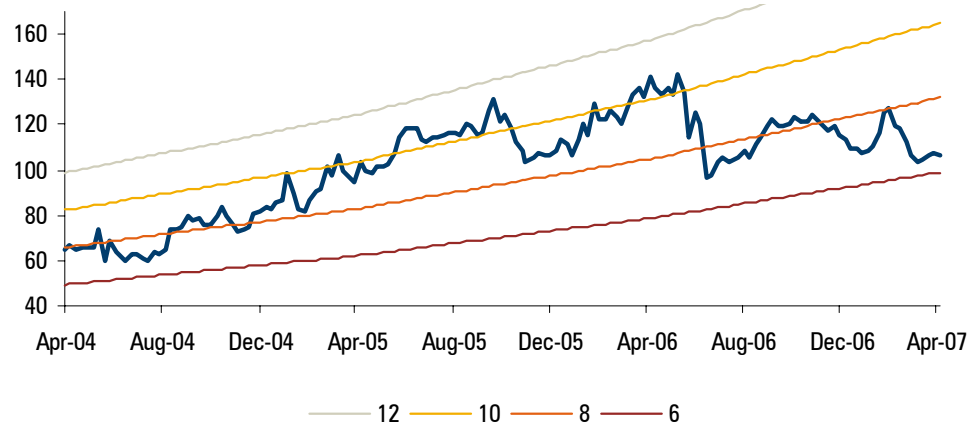
Favouring PE with EPS growth



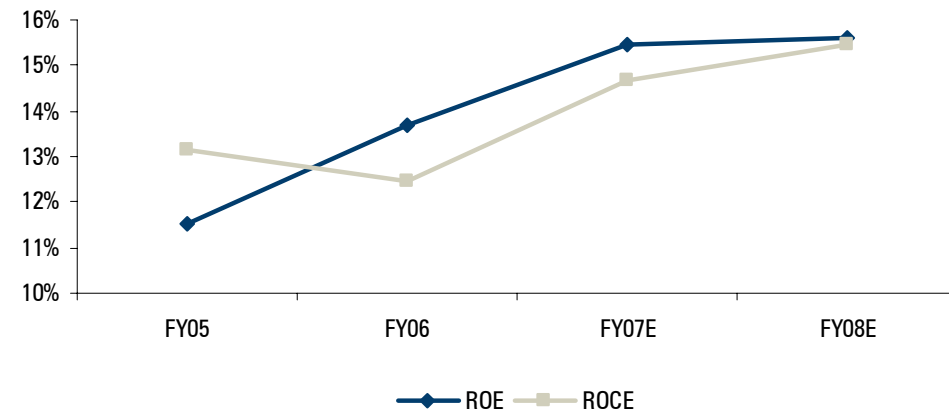
Source: ICICI direct Research, Company

The stock is trading at attractive valuations of FY08E P/E of 6.36x and EV/EBIDTA of 4.68x. We find these valuations attractive since the company is expected to post earnings growth at a CAGR of 19% during FY06-FY08E. Currently the stock is trading lower than its FY08E book value of Rs 127. We estimate a target price of Rs150, discounting its FY08E EPS of 18.71 by 8x, implying a potential 25% upside. **We recommend a BUY with a price target of Rs 150.**

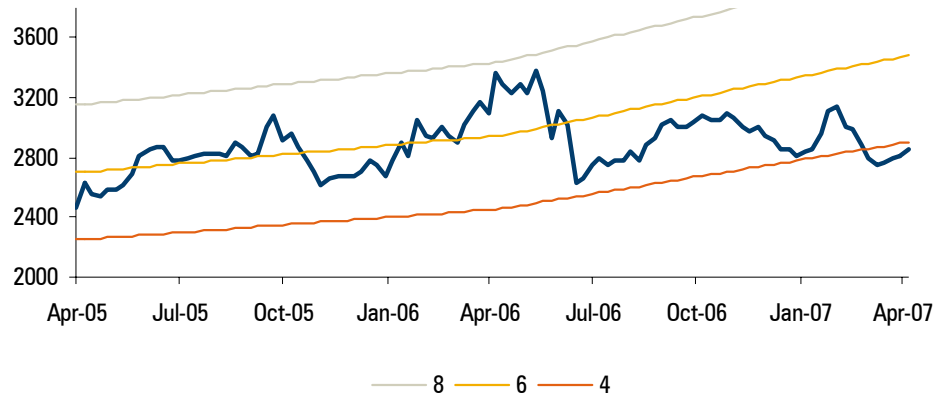
PE Band



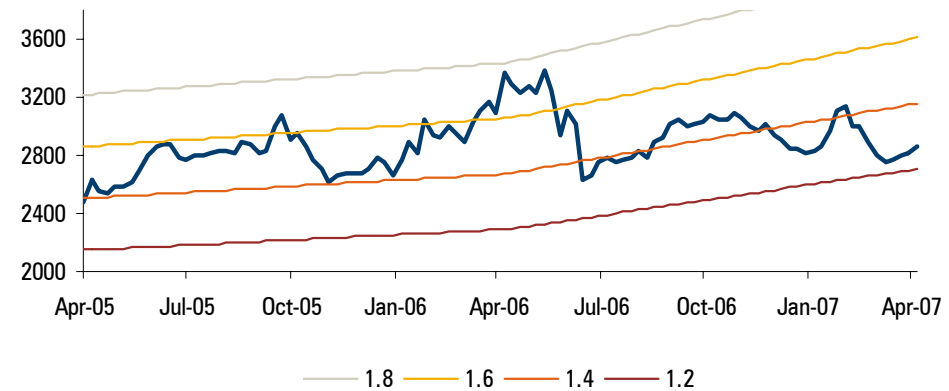
Returns



EV / EBIDTA



EV / Sales



Business Snapshot

Key Assumptions

Volumes	FY06	FY07E	FY08E
Uncoated (tonnes)	139906	180401	184625
Change (%)		29%	2%
Coated (tonnes)	199114	204721	210745
Change (%)		3%	3%
Copier (tonnes)	68311	70019	71769
Change (%)		2%	3%
Total Paper Volumes (tonnes)	407331	455140	467138
Change (%)		12%	3%
Rayon Grade Pulp (tonnes)	74711	87710	89464
Change (%)		17%	2%
International Paper Prices Uncoated (Pound per tonne)	500	510	520
International Paper Prices Coated (Pound per tonne)	600	595	600
Import Duty	12.5%	10%	10%
FX Rate (Rs/Pound)	78.69	86.2	85
Average Realisation Paper including coated (Rs/tonne)	44102	45000	47000
Change (%)		2%	4%
Average Realisation Rayon Grade Pulp (Rs/tonne)	27230	29000	31000
Change (%)		6%	7%
Wood Prices (Rs/tonne)	2018	2600	2800
Change (%)		29%	8%
Pulp Prices (Rs/tonne)	23542	25000	27000
Change (%)		6%	8%
Bamboo Prices (Rs/tonne)	2326	2558	2763
Change (%)		10%	8%
Coal Prices (Rs/tonne)	1560	1710	1856
Change (%)		10%	9%

Profit & loss account

Year End March (Rs Crore)	FY05	FY06	FY07E	FY08E
Sales	1790.14	1908.72	2254.83	2468.21
% Growth	0.8%	6.6%	18.1%	9.5%
Other Income	9.65	10.96	10.96	10.96
Raw Material Cost	425.88	483.59	596.27	676.51
Power & Fuel Cost	225.17	246.81	296.89	331.81
Employee Cost	123.54	128.32	135.71	139.15
Other Cost	565.21	559.09	645.56	664.69
Depreciation	143.19	152.66	159.31	186.17
EBIT	307.15	338.25	421.09	469.89
Interest	110.40	94.33	93.32	92.31
PBT	206.41	254.89	338.73	388.54
% Growth	16.3%	23.5%	32.9%	14.7%
Tax	38.41	53.25	69.67	83.09
Net Profit	168.00	201.64	269.07	305.45
% Change	25.7%	20.0%	33.4%	13.5%
Equity Shares	16.24	16.32	16.32	16.32

Cash flow statement

(Rs Crore)	FY05	FY06	FY07E	FY08E
Opening Cash	240.69	155.53	521.42	382.77
Profit After Tax	206.55	254.88	269.07	305.45
Cash Profit	475.22	514.54	343.54	418.38
Cash Flow after change in working capital	419.29	400.93	236.79	374.70
Cash Flow from investing activity	-174.86	15.81	-364.55	-443.28
Cash Flow from financing activity	-329.59	-59.87	-10.89	-10.89
Net Cash inflow	-85.16	356.87	-138.65	-79.47
Closing Cash	155.53	521.42	382.77	303.30

Balance Sheet

(Rs Crore)	FY05	FY06	FY07E	FY08E
Equity Share Capital	167.45	163.25	163.25	163.25
Reserves & Surplus	1330.68	1471.30	1678.45	1910.80
Secured Loans	991.27	1018.39	1007.50	996.61
Unsecured Loans	197.63	435.21	435.21	435.21
Deferred Tax Liability	173.50	199.18	178.27	181.13
Total Liabilities	2860.58	3289.53	3462.74	3687.06
Net Block	2018.40	2020.98	2223.62	2460.09
Capital Work in Progress	224.79	217.76	222.36	246.01
Investments	58.52	21.35	19.21	19.21
Net Current Assets	528.73	1006.07	974.17	938.38
Misc. Expense w/o	30.15	23.38	23.38	23.38
Total Assets	2860.58	3289.53	3462.74	3687.06

Ratios

	FY05	FY06	FY07E	FY08E
EPS (Rs.)	10.34	13.11	16.48	18.71
Book Value (Rs.)	91.91	100.13	112.82	127.05
Operating Margin(%)	25.2%	25.7%	25.7%	26.6%
Net Profit Margin(%)	9.4%	11.2%	11.9%	12.4%
RoNW(%)	11.5%	13.7%	15.5%	15.6%
RoCE(%)	13.1%	12.5%	14.7%	15.4%
Debt Equity	0.79	0.89	0.78	0.69
Enterprise Value (Rs. Cr.)	2576.62	3185.01	3002.59	3071.18
EV/EBIDTA	5.72	6.49	5.17	4.68
Sales to Equity	11.02	11.69	13.81	15.12

Tamil Nadu Newsprint and Paper (TNPL) is one of the major players in the domestic paper industry. The company has embarked upon a massive capex to ride the demand-driven upswing in the sector. The first phase of capex will get completed by June 2007, making TNPL the first to bring its capex on-stream amongst peers.

Current Price Rs 100	Target Price Rs 135
Potential Upside 35%	Time Frame 12 mts

❑ **Massive capex to boost pulping capacity**

TNPL is undergoing a Rs 1,200 crore capex. Under Phase-I, pulping capacity will be increased by 50%. It will also add a 20-MW power generator, making it self sufficient in pulp and power for Phase II forward capacity expansion of 120,000 tpa. Post capex, TNPL would be the fourth largest paper company in the country.

❑ **Shift towards high-value products**

TNPL has been shifting its focus to high-value products for better realizations. Over the years it has shifted production from newsprint to copier. This conscious shift in product mix will boost average realizations by 700 bps without any capacity expansion in phase-I.

❑ **Backward integration to give traction in margins**

Phase I of the capex will focus on backward integration and result in cost-reduction, especially in raw material through pulp recovery and captive power. This will help the company achieve margin expansion at a time when competitors are burdened with higher input costs. Cost control initiatives will help it sustain margins at higher levels despite input cost pressures. This is set to expand operating margins by 400 basis points from 21% in FY06 to 25% FY08E.

Key Financials

Year	Sales (Cr)	PAT	EPS (Rs)	y-o-y growth	P/E (x)	OPM (%)	NPM(%)	EV/EBIDTA (x)	ROE
2005	695.50	37.95	5.45		10.64	14.06%	5.92%	9.96	8.15%
2006	849.22	80.55	11.64	113.59%	7.95	21.09%	11.04%	5.78	17.33%
2007	888.69	100.71	14.55	25.03%	6.87	22.06%	12.45%	6.81	17.95%
2008E	929.74	116.75	16.87	15.92%	5.93	24.95%	13.80%	5.32	18.12%

Background

TNPL was jointly floated by the Tamil Nadu government and IDBI in 1979 to manufacture newsprint and printing/writing paper using bagasse as the chief raw material. Commercial production commenced in 1985 with an installed capacity to manufacture 50,000 tonnes per annum (tpa) of newsprint and 40,000 tpa of printing and writing paper.

Capacity Expansion

TNPL has embarked on a massive capex of Rs 1,200 crore. Phase I of the project, costing Rs 565 crore, is likely to be completed in June 2007.

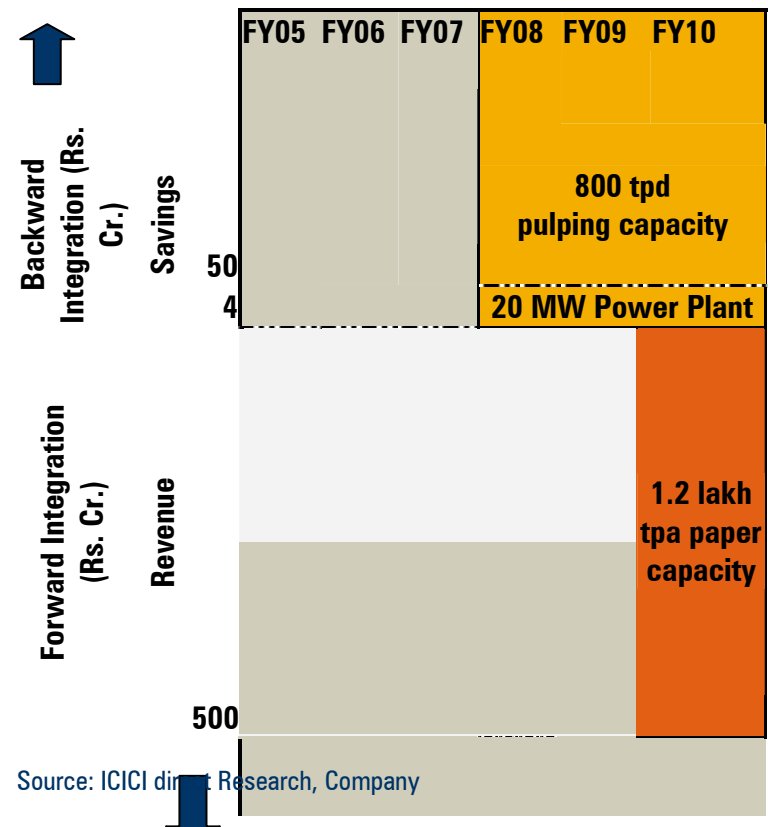
Under Phase-I, the company would be focusing on backward integration by increasing its in-house pulping capacity from 530 tonnes per day (tpa) to 800 tpd. Paper production capacity will be increased to 245,000 tpa from 230,000 tpa. On the power front, a turbo generator of 20-MW capacity will be installed, adding to the existing capacity of 61.12 MW.

TNPL proposes to add another 120,000 tpa to its existing paper capacity in Phase-II, at a cost of Rs 650 crore, which is expected to be on-stream by 2009. This capex is expected to boost the company's top line by Rs 500 crore and bottom line by Rs 45-50 crore.

Business Diversification

TNPL plans to set up a mini cement plant with a capacity of 400 tonnes per day at an investment of rupees 45 crore. This endeavor is expected to add approximately Rs 52 crore to its top line. TNPL also plans to set up a 400,000 sq ft IT park at the cost of Rs 80 crore at its unused land to the west of Chennai. Both these projects are expected to come on-stream by FY2010.

Moving up value chain through backward integration

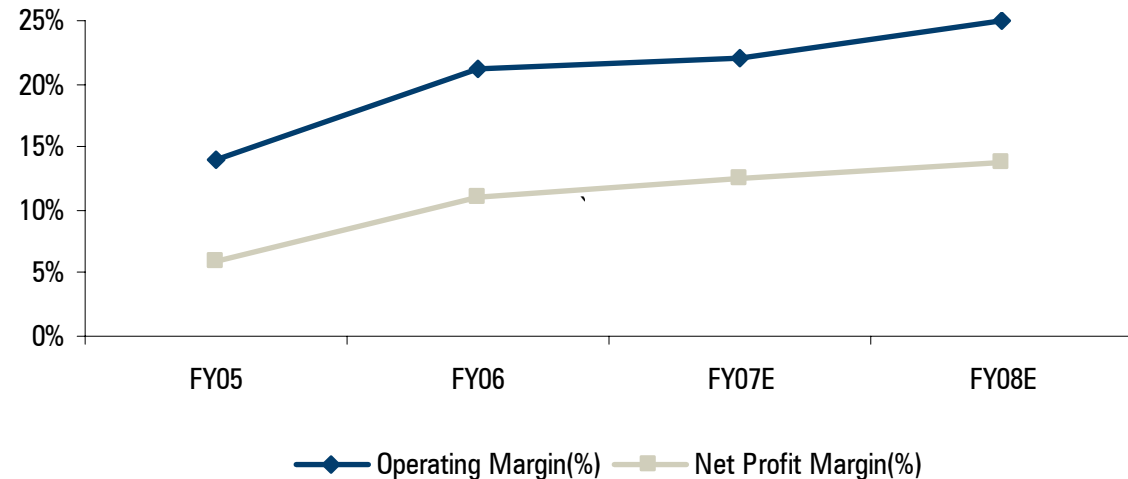


Financials & Valuations

□ TNPL's cost reduction initiatives, especially in raw material, power and chemical costs (through shifting from conventional bleaching to elemental chlorine-free bleaching) and shift toward higher realisation product mix will help it sustain margins at higher levels despite input cost pressures. We expect these initiatives would result in operating margins increasing by 400 bps from 21% in FY06 to 25% in FY08E.

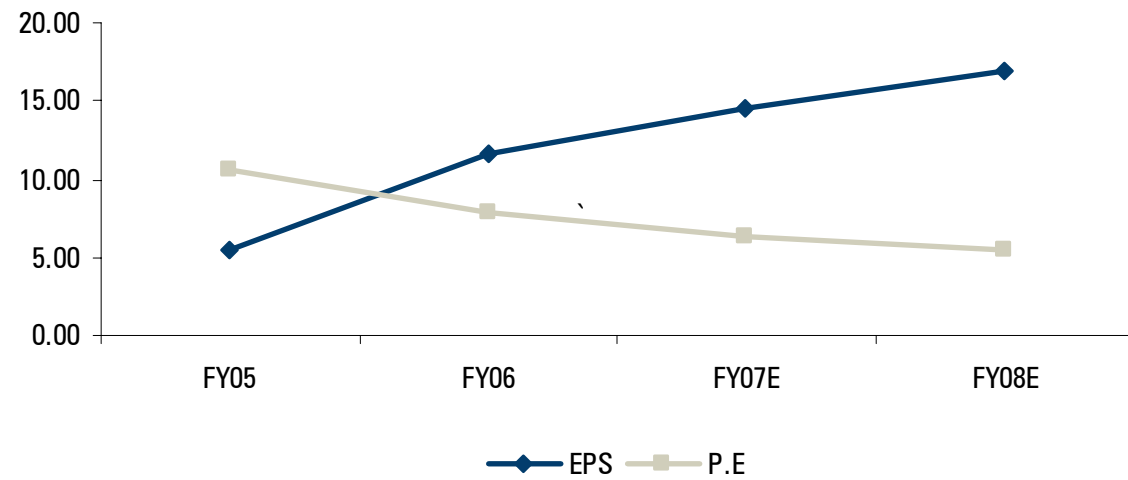
□ Due to a conscious shift in the product mix, we expect the company to see an impressive growth in sales revenue, increasing at a CAGR of 5% over FY06-08E to Rs 930 crore from Rs 849 crore. Over the years, TNPL has reduced newsprint production in wake of rising imports and has shifted focus on copier paper. This shift has increased the average per tonne realization by 7% over FY06-08E.

Significant Increase in Margins



Source: ICICI direct Research, Company

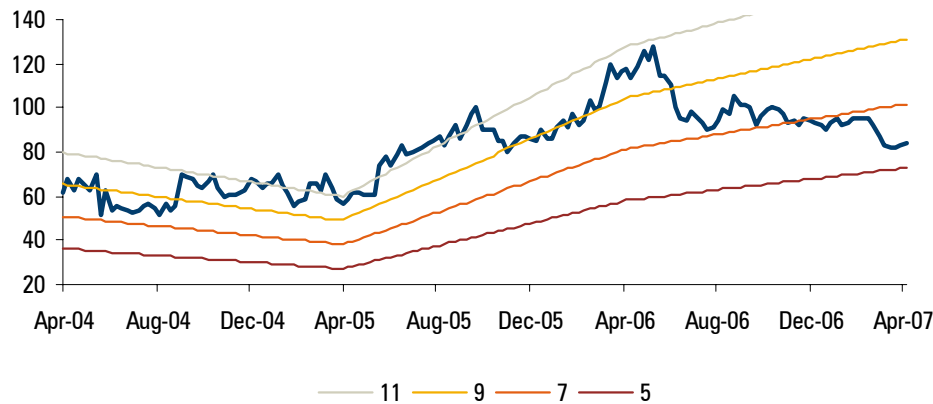
Favouring PE with EPS growth



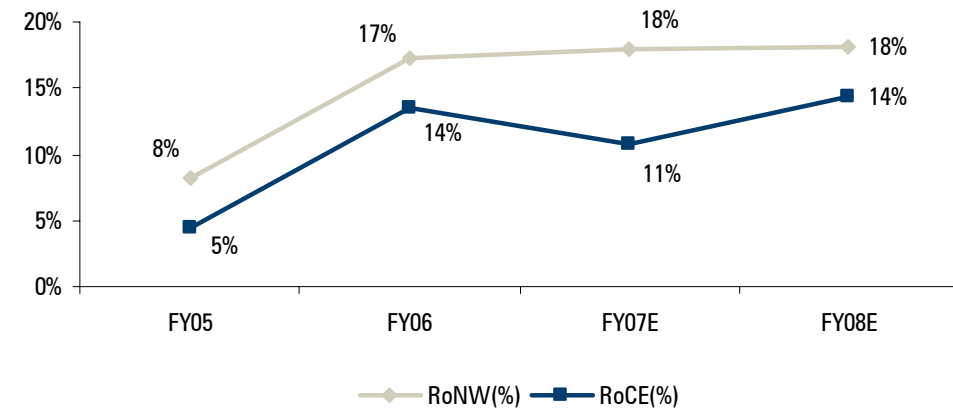
Source: ICICI direct Research, Company

The stock discounts its FY08E EPS of Rs 16.87 by 5.96x. With an EV/EBIDTA at 5.32x in FY08E, current valuations seem even more attractive when the stock is trading lower than its FY08 book value of Rs 99. **We recommend a BUY on the stock with a price target of Rs 135.** Our target price discounts its FY08E EPS of Rs 16.87 by 8x, its historical average.

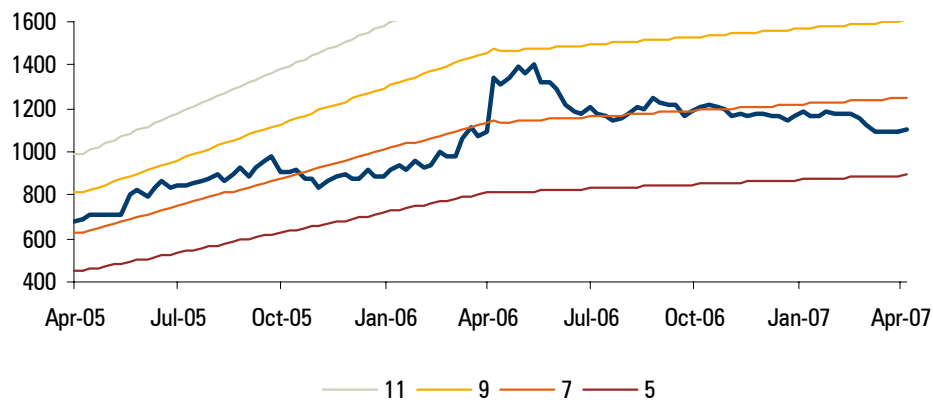
P E Band



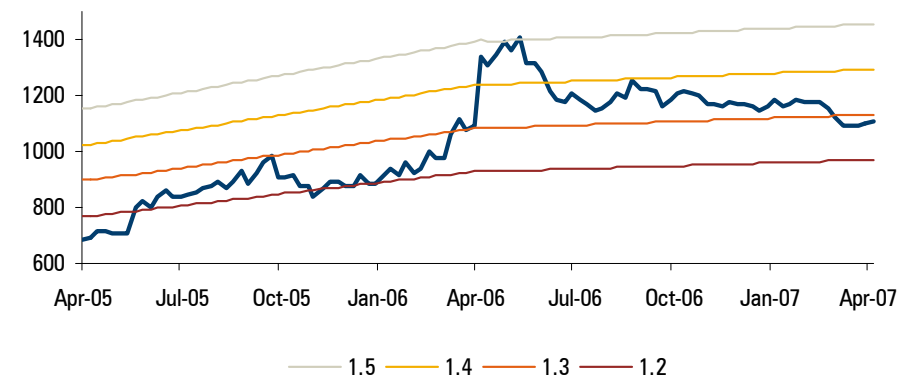
Returns



EV/EBIDTA



EV/Sales



Business Snapshot

Key Assumptions			
Volumes	FY06	FY07E	FY08E
Uncoated (tonnes)	188586	183400	160000
Change (%)		-3%	-13%
Copier (tonnes)	35977	42000	70000
Change (%)		17%	67%
Total Paper Volumes (tonnes)	224563	225400	230000
Change (%)		0.4%	2%
Newsprint (tonnes)	5468	5290	5635
Change (%)		-3.3%	6.5%
International Paper Prices Uncoated (Pound per tonne)	500	510	520
International Paper Prices Coated (Pound per tonne)	600	595	600
Import Duty	12.50%	10%	10%
FX Rate (Rs/Pound)	78.69	86.2	85
Average Realisation Paper (Rs/tonne)	37546	37776	38856
Change (%)		0.6%	2.9%
Average Realisation Copier (Rs/tonne)	44000	44000	44000
Change (%)		0%	0%
Wood Prices (Rs/tonne)	2264	2490	2789
Change (%)		10%	12%
Pulp Prices (Rs/tonne)	23792	26100	27405
Change (%)		10%	5%
Bagasse Prices (Rs/tonne)	1491	1431	1489
Change (%)		-4%	4%
Coal Prices (Rs/tonne)	2402	2402	2502
Change (%)		0%	4%

Profit & Loss

Year End March (Rs Crore)	FY05	FY06	FY07E	FY08E
Sales	641.06	775.67	808.71	846.06
% Growth	9.85%	21.00%	4.26%	4.62%
Other Income	27.17	25.74	25.00	35.00
Raw Material Cost	204.08	223.23	229.68	226.84
Power & Fuel Cost	143.31	167.92	162.12	163.42
Employee Cost	53.58	51.67	56.88	59.40
Other Cost	149.99	169.26	181.64	185.27
Depreciation	61.88	62.49	59.89	62.34
EBIT	28.22	101.11	118.50	148.78
Interest	16.21	20.29	20.04	38.50
PBT	39.17	106.55	123.46	145.28
% Growth	-42.88%	172.03%	15.87%	17.67%
Tax	1.22	20.93	22.75	28.53
Net Profit	37.95	85.63	100.71	116.75
% Change	-28.13%	125.65%	17.62%	15.92%
Equity Shares	6.96	6.92	6.92	6.92

Cash Flow

(Rs Crore)	FY05	FY06	FY07E	FY08E
Opening Cash	17.29	13.28	20.21	67.65
Profit After Tax	39.17	106.55	100.71	116.75
Cash Profit	112.18	189.80	137.04	151.77
Cash Flow after change in working capital	61.66	134.79	116.22	166.90
Cash Flow from investing activity	-22.87	-130.87	-350.48	-75.79
Cash Flow from financing activity	-42.80	3.01	281.70	-145.50
Net Cash inflow	-4.01	6.93	47.44	-54.39
Closing Cash	13.28	20.21	67.65	13.27

Source: ICICI direct Research, Company

Balance Sheet

(Rs Crore)	FY05	FY06	FY07E	FY08E
Equity Share Capital	69.36	69.38	69.21	69.21
Reserves & Surplus	396.07	453.15	530.29	619.72
Secured Loans	157.95	224.29	500.00	344.50
Unsecured Loans	91.78	83.84	90.00	100.00
Deferred Tax Liability	168.57	154.76	154.76	154.76
Total Liabilities	883.73	985.42	1344.26	1288.19
Net Block	717.80	702.39	692.98	1081.56
Capital Work in Progress	10.81	115.13	415.13	40.00
Investments	1.14	1.14	1.14	1.14
Net Current Assets	153.78	166.61	234.87	165.35
Misc. Expense w/o	0.20	0.14	0.14	0.14
Total Assets	883.73	985.42	1344.26	1288.19

Ratios

	FY05	FY06	FY07E	FY08E
EPS (Rs.)	5.45	11.64	14.55	16.87
Book Value (Rs.)	66.88	75.47	86.62	99.54
Operating Margin(%)	14%	21%	22%	25%
Net Profit Margin(%)	6%	11%	12%	14%
RoNW(%)	8%	17%	18%	18%
RoCE(%)	5%	14%	11%	14%
Debt Equity	0.54	0.59	0.98	0.65
Enterprise Value (Rs. Cr.)	883.76	931.58	1214.45	1123.34
EV/EBIDTA	9.96	5.78	6.81	5.32
Sales to Equity	9.21	11.21	11.68	12.22

West Coast Paper Mills (WCPM) has the best return ratios in the paper sector. However, with the major capex coming on stream only after FY10 the growth story is a little muted. We rate the scrip as a performer.

Current Price Rs 375	Target Price Rs 450
Potential Upside 20%	Time Frame 12 mts

❑ **Revenue mix unchanged. Scores in return ratios**

During our forecasted period, we don't expect the revenue mix to change as the capex would get on-stream only in FY10. WCPM's revenue is expected to grow at a CAGR of 4% in FY06-FY08E. We have rated the company as a performer on the basis of the company's return ratios which are in the high 25%.

❑ **Telecom business not contributing**

WCPM also manufactures Optical Fibre Cable (OFC) and Jelly Filled Telephone Cable (JFTC). Currently, the cable division has an installed capacity to produce 83,500 km of OFC and 1,542,000 cubic km of JFTC. This business has been a drag on the consolidated numbers. We do not foresee much improvement in the near future.

Key Financials

Year	Sales (cr)	PAT	EPS (Rs)	y-o-y growth	P/E (x)	OPM (%)	NPM(%)	EV/EBIDTA (x)	ROE
2005	549.90	30.67	34.30		5.72	12.60%	6.38%	6.28	18.62%
2006	595.15	32.03	35.82	4.43%	10.05	12.13%	6.18%	7.34	18.51%
2007E	631.78	64.87	71.40	99.33%	5.25	17.51%	11.60%	4.35	31.58%
2008E	644.39	72.22	80.78	13.14%	4.64	17.89%	12.87%	3.49	29.33%

Source: ICICI direct Research, Company

Background

Promoted by SKB Group, the company manufactures printing papers, writing papers, wrapping papers, pulp and paper boards.

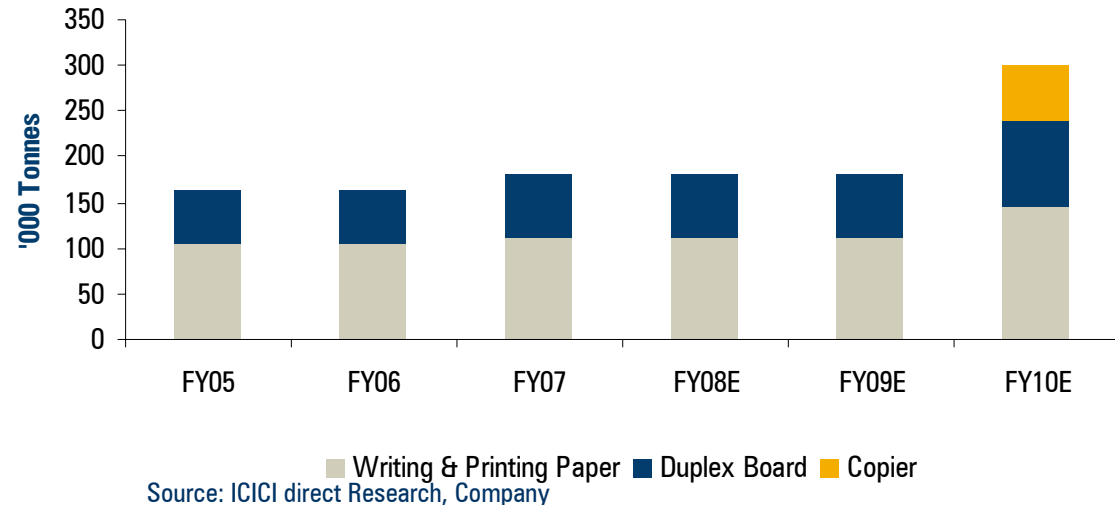
Capacity Expansion

Currently, WCPM has an installed capacity of around 180,000 tpa of paper and paper board with pulping capacity of 300 tonnes per day. The company is planning to expand its paper capacity by 120,000 tpa with 50% focused for copier production and the rest for the current product mix. Pulping capacity is being augmented to 700 tonnes per day. To improve on the operating margins, WCPM would be installing chemical recovery boiler and effluent treatment plant. The expanded capacity is expected to be commissioned by FY10. Post expansion, the company would be seventh largest in terms of paper capacity in India.

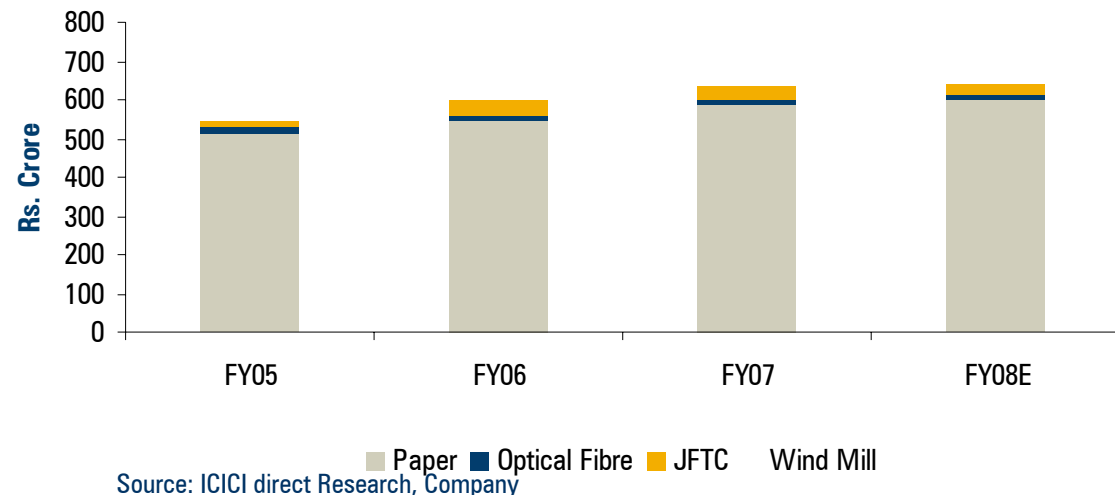
Revenue

During our forecasted period, we don't expect the revenue mix to change as the capex would get on-stream in FY10. WCPM's revenue is expected to grow at a CAGR of 4% in FY06-FY08E.

Capacity in Value Added Segment



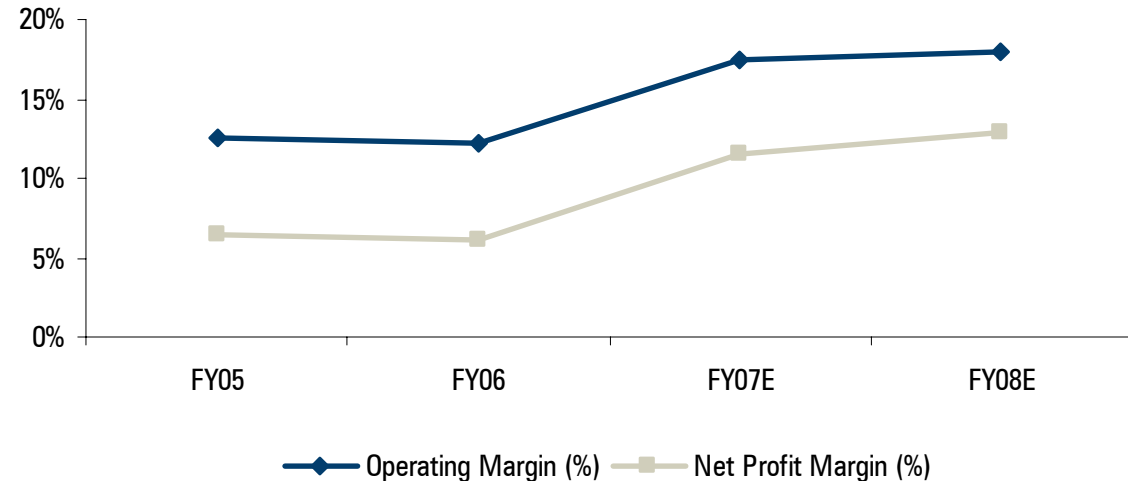
Revenue Mix



Financials & Valuations

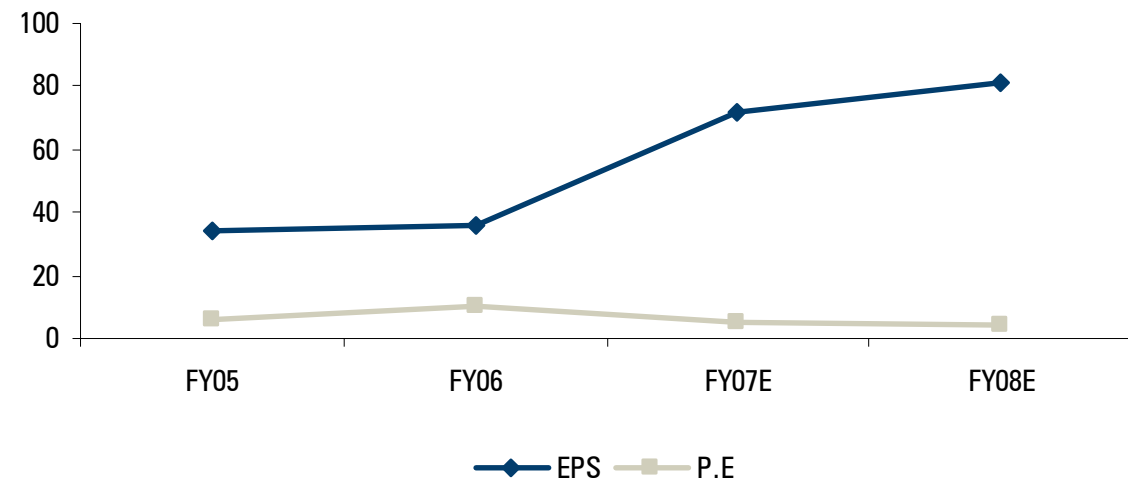
- ❑ WCPM saw traction in margins in FY07 with its bottom line by 99% to Rs 63.84 from 32.03 FY06. However in FY08 crore we foresee margin expansion by only 38 basis points with bottomline increasing by 13% to Rs 72.22 crores. Its associate Rama Newsprint booked profits of 24.5 crore in FY07.
- ❑ WCPM would save 125 bps in margins by shifting from purchased power from the grid to captive power in FY07.
- ❑ An increase of 270 bps is expected from the benefits derived from the chemical recovery boilers and supporting facilities installed by the company in FY07 onwards.
- ❑ WCPM is expected to post financials with its return on equity expected to grow by 1,082 bps FY06-08E to 29.33% from 18.51%. On similar lines, its return on capital is expected to improve by 1,591 bps to 26.33% in FY08E from 10.42% in FY06.

Stable Margins



Source: ICICI direct Research, Company

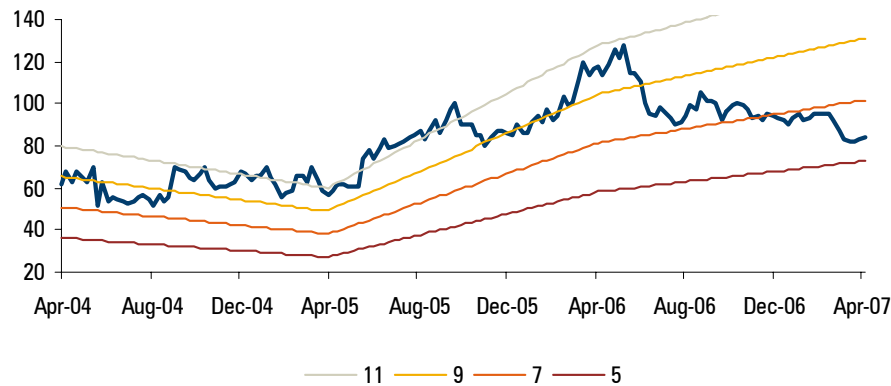
Valuation Gap



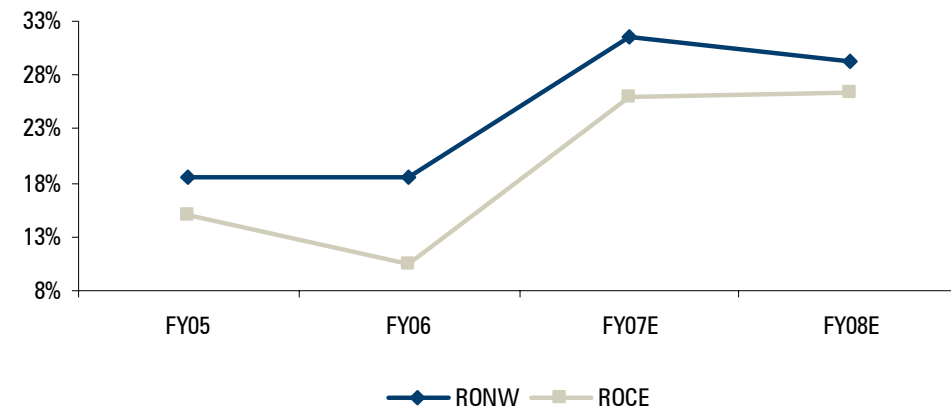
Source: ICICI direct Research, Company

The stock is trading at FY08E P/E of 4.64x and EV/EBIDTA of 3.49x. We estimate a target price of Rs450, discounting its FY08E EPS of 80.78 by 5.6x, implying a potential 20% upside. **We rate the stock a PERFORMER with a price target of Rs 450.**

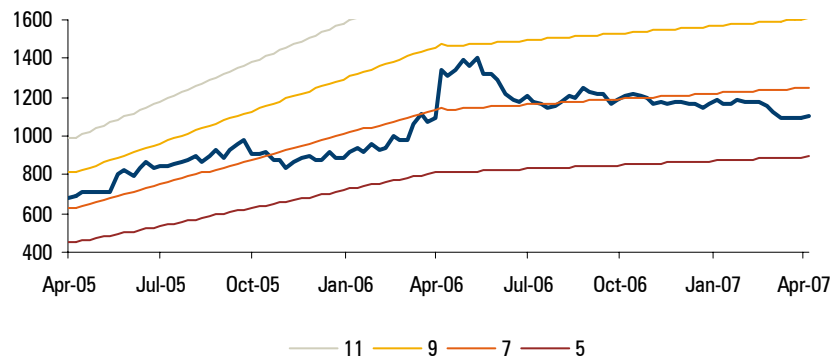
PE Band



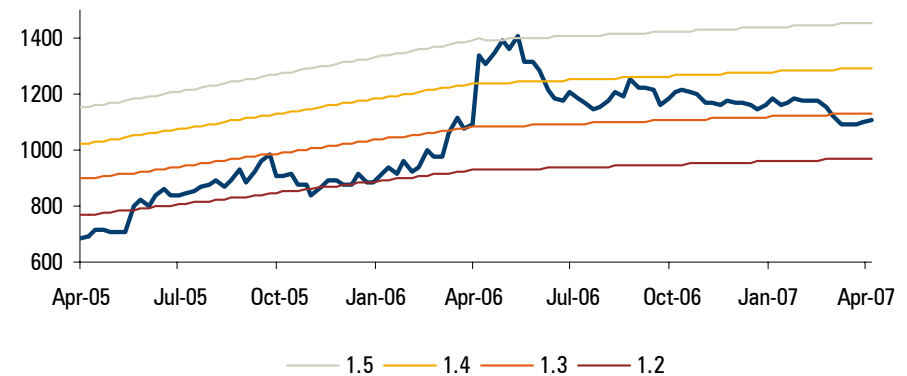
Returns



EV/EBIDTA



EV/Sales



Business Snapshot

Key Assumptions			
Volumes	FY06	FY07E	FY08E
Uncoated (tonnes)	109245	110000	110000
Change (%)		1%	0%
Duplex Board (tonnes)	66976	70000	70000
Total Paper Volumes (tonnes)	176221	180000	180000
Change (%)		2%	0%
International Paper Prices Uncoated (Pound per tonne)	500	510	520
Duplex Board Prices (Pound per tonne)	672	672	672
Import Duty	12.5%	10%	10%
FX Rate (Rs/Pound)	78.69	86.2	85
Average Realisation (Rs/tonne)	30268	31479	32738
Change (%)		4%	4%
Wood Prices (Rs/tonne)	2731	2949	3097
Change (%)		8%	5%
Coal Prices (Rs/tonne)	2438	2467	2497
Change (%)		1%	1%

Financial Highlights

Profit & Loss

Year End March (Rs Crore)	FY05	FY06	FY07E	FY08E
Sales	480.34	518.12	550.28	561.27
% Growth	9.96%	7.87%	6.21%	2.00%
Other Income	4.58	15.87	6.33	7.00
Raw Material Cost	180.78	201.07	202.54	208.40
Power & Fuel Cost	65.71	71.00	67.84	69.89
Employee Cost	43.82	45.10	51.23	53.89
Other Cost	129.49	138.12	132.32	128.66
Depreciation	18.92	36.95	25.36	21.10
EBIT	41.60	25.87	70.99	79.34
Interest	8.61	9.47	4.98	4.49
PBT	37.57	32.27	72.34	81.84
% Growth		-14.11%	124.16%	13.14%
Tax	6.90	0.24	8.50	9.62
Net Profit	30.67	32.03	63.84	72.22
% Change		4.43%	99.33%	13.14%
Equity Shares	0.89	0.89	0.89	0.89

Cash Flow

(Rs Crore)	FY05	FY06	FY07E	FY08E
Opening Cash	5.84	5.92	14.59	42.00
Profit After Tax	37.56	32.27	63.84	72.22
Cash Profit	73.87	89.58	66.79	67.97
Cash Flow after change in working capital	-4.14	103.43	57.18	72.97
Cash Flow from investing activity	-11.59	-14.59	-1.91	-4.46
Cash Flow from financing activity	15.80	-80.16	-27.86	-26.40
Net Cash inflow	0.07	8.68	27.41	42.11
Closing Cash	5.92	14.59	42.00	84.11

Source: ICICI direct Research, Company

Balance Sheet

(Rs Crore)	FY05	FY06	FY07E	FY08E
Equity Share Capital	8.94	8.94	8.94	8.94
Reserves & Surplus	155.73	172.46	213.89	260.77
Secured Loans	110.67	66.95	50.20	33.51
Unsecured Loans	99.86	87.11	76.00	66.30
Deferred Tax Liability	43.79	41.03	41.03	41.03
Total Liabilities	418.98	376.50	390.07	410.54
Net Block	237.43	227.38	202.02	185.55
Capital Work in Progress	5.99	0.11	2.02	1.86
Investments	44.75	46.05	46.05	46.05
Net Current Assets	130.81	102.96	139.98	177.09
Misc. Expense w/o	0.00	0.00	0.00	0.00
Total Assets	418.98	376.50	390.07	410.54

Ratios

	FY05	FY06	FY07E	FY08E
EPS (Rs.)	34.30	35.82	71.40	80.78
Book Value (Rs.)	184.18	202.90	249.24	301.66
Operating Margin(%)	13%	12%	18%	18%
Net Profit Margin(%)	6%	6%	12%	13%
RoNW(%)	19%	19%	32%	29%
RoCE(%)	15%	10%	26%	26%
Debt Equity	1.28	0.85	0.57	0.37
Enterprise Value (Rs. Cr.)	380.12	461.34	419.48	350.97
EV/EBIDTA	6.28	7.34	4.35	3.49
Sales to Equity	53.72	57.95	61.55	62.78

JK Paper is India's largest producer of branded copier paper and is a leading player in the writing and printing paper segment. The company has embarked on Rs 250 crore capex project focused on adding premium high end packaging boards to its product mix. However, the company is likely to pale before TNPL and Bilt which are our preferred bets.

Current Price 42	Target Price 48
Potential Upside 14%	Time Frame 12 mts

❑ Capex to venture in high value business

The company has undertaken Rs 250 crore capex to bring in packaging board into its product mix. It plans to produce folded boxboards and other paper packaging products from this expansion. Industrial packaging products are growing at greater than industry average and fetch a premium over the average paper industry realisation.

❑ Creating market space for 'JK Cote'

JK Paper has commissioned a state-of-the-art coating plant with a licensed capacity of 46,000 tpa. This facility employs superior blade coating technology to produce international quality coated art paper, being marketed in the brand name of JK Cote. Expansion of product mix to higher value paper is expected to improve the average realisation by 3.5%.

Key Financials

Year	Sales (Cr)	PAT	EPS (Rs)	y-o-y growth	P/E (x)	OPM (%)	NPM(%)	EV/EBIDTA (x)	ROE
2005	570.08	38.53	7.00		5.36	20.37%	6.76%	7.08	15.15%
2006	663.75	35.52	4.55	-35.03%	13.42	20.13%	5.35%	7.69	9.20%
2007E	773.68	52.48	6.72	47.74%	6.33	20.00%	6.78%	5.08	13.03%
2008E	934.80	65.92	8.43	25.60%	5.04	20.13%	7.05%	3.87	15.54%

Source: ICICI direct Research, Company

Background

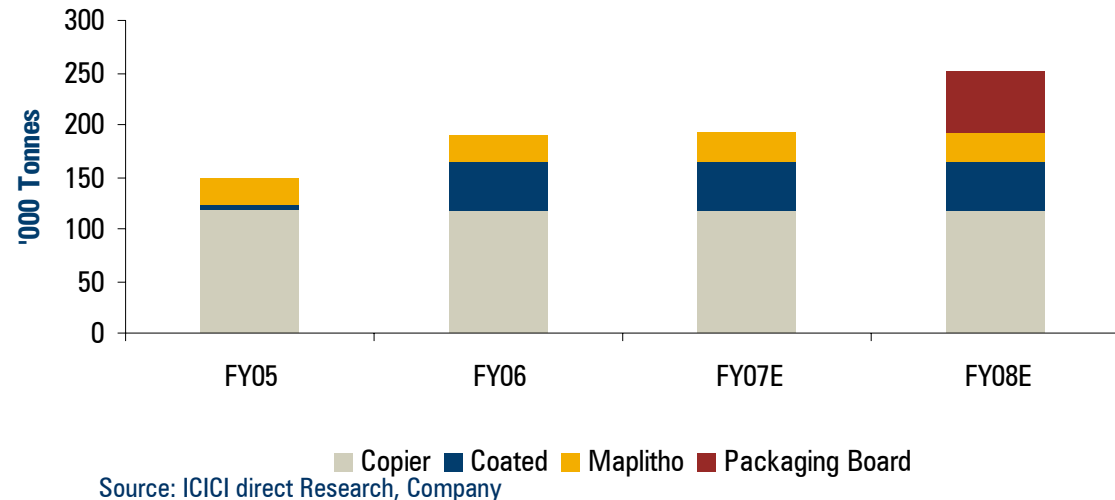
JK Paper is among India's foremost paper manufacturers. It is part of one of India's leading business houses – JK Organisation.

JK Paper operates two plants in India, one in the East – JK Paper Mills (JKPM) in Rayagada, Orissa with a capacity of 125,000 tpa and the other in the West – Central Pulp Mills (CPM), located in Songadh, Gujarat with a production capacity of 55,000 tpa. Its aggregate annual output is over 180,000 tpa of paper and pulp, using contemporary technology.

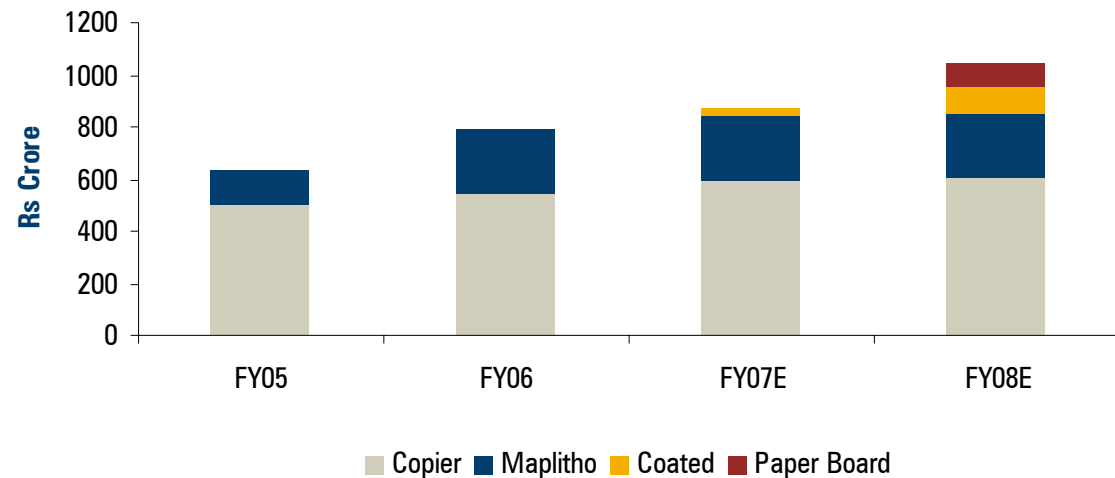
JK Paper has commissioned a 46,000 tpa state-of-the-art coating plant at its JKPM unit which employs superior blade coating technology to produce international quality coated art paper and boards, being marketed in the brand name of JK Cote.

The company's revenues are expected to see a significant jump due to the inclusion of coated paper and paperboard in the product mix and are expected to grow by 18.67% over FY06-08E to Rs 934 crore from Rs 663 crore.

Capacity Additions



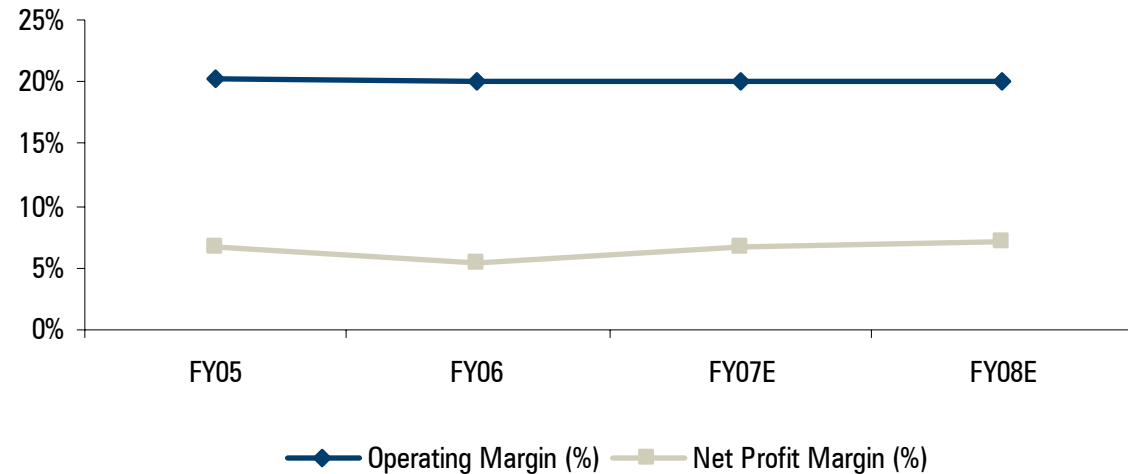
Revenue Mix



Financials & Valuations

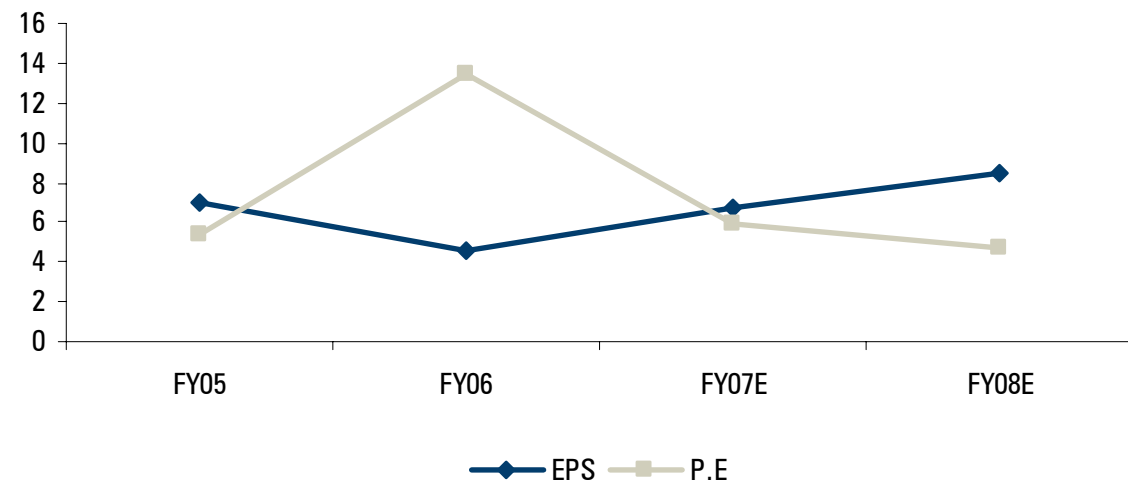
- JK Paper is expected to post a 36% growth in bottom line in FY06-08E. This improvement is backed by the increase in capacity coupled with increase in average realisation by 4% due to the introduction of coated paper and packaging board in the product mix.
- Despite an increase in revenue, the company is not expected to improve its operating margins significantly due to its dependence on purchased raw materials. Raw materials viz. hardwood, softwood pulp have seen significant appreciation in the past two years and are expected to remain firm.
- JK Paper is displaying signs of improving its financials with its return on equity expected to grow 630 bps over FY06 9.2% to 15.5% in FY08E. On similar lines, its return on capital is expected to improve by 590 bps to 15.4% in FY08E from 9.5% in FY06.

Stable Margins



Source: ICICI direct Research, Company

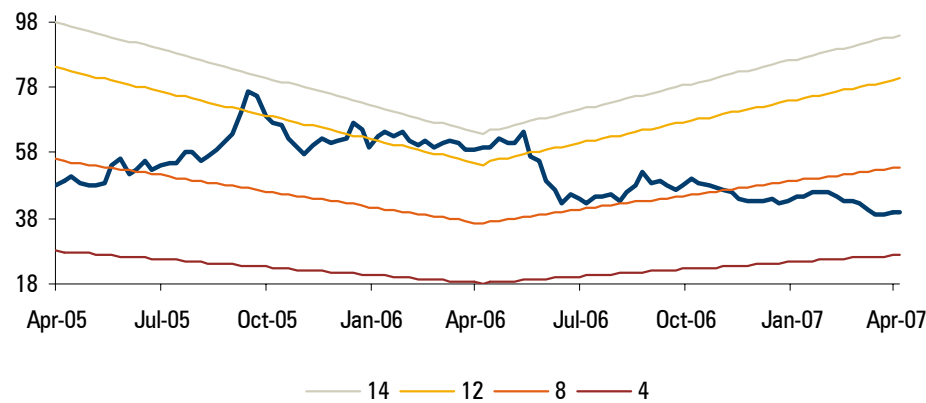
EPS-PE



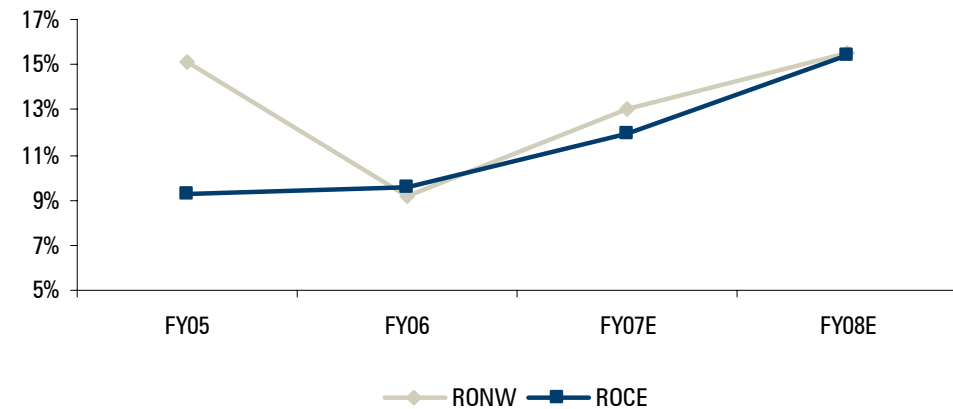
Source: ICICI direct Research, Company

The stock is trading at FY08E P/E of 5.04x and EV/EBIDTA of 3.87x. Currently the stock is trading lower than its FY08E book value of Rs 56. The stock is currently trading at an attractive dividend yield of 4.41. We estimate a target price of Rs48, discounting its FY08E EPS of 8.43 by 5.6x, implying a potential 11% upside. **We rate the stock a Performer with a price target of Rs 48.**

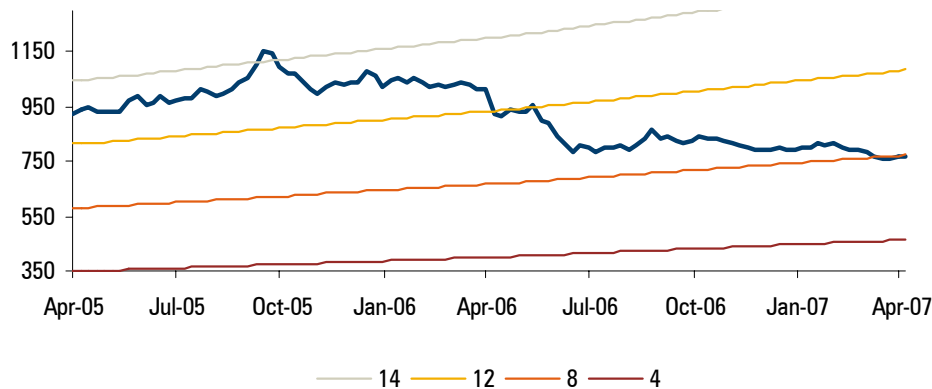
P E Band



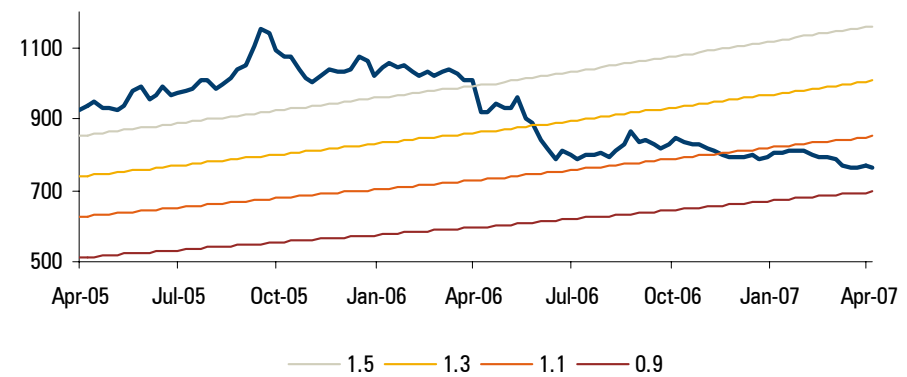
Returns



EV / EBIDTA



EV/Sales



Source: ICICI direct Research, Company

Business Snapshot

Key Assumptions			
Volumes	FY06	FY07E	FY08E
Uncoated (tonnes)	58537	58000	58000
Change (%)		-1%	0%
Coated (tonnes)	344	6000	20000
Change (%)		1644%	233%
Copier (tonnes)	125000	130900	130900
Change (%)		5%	0%
Paper Board (tonnes)	0	0	20000
Total Paper Volumes (tonnes)	183881	194900	228900
Change (%)		6%	17%
International Paper Prices Uncoated (Pound per tonne)	500	510	520
International Paper Prices Coated (Pound per tonne)	600	595	600
Coated Board Prices (Pound per tonne)	672	672	672
Import Duty	12.5%	10%	10%
FX Rate (Rs/Pound)	78.69	86.2	85
Average Realisation Uncoated (Rs/tonne)	40788	42000	42840
Change (%)		3%	2%
Average Realisation Copier (Rs/tonne)	43790	45500	46000
Change (%)		4%	1%
Average Realisation Coated (Rs/tonne)	48980	51429	51943
Change (%)		5%	1%
Average Realisation Paper Board (Rs/tonne)			48000
Wood Prices (Rs/tonne)	3791	4359	4882
Change (%)		15%	12%
Pulp Prices (Rs/tonne)	26127	28740	32189
Change (%)		10%	12%
Bamboo Prices (Rs/tonne)	3256	3744	4306
Change (%)		15%	15%
Coal Prices (Rs/tonne)	1371	1406	1437
Change (%)		2%	2%

Financial Highlights

Profit & Loss

Year End March (Rs Crore)	FY05	FY06	FY07E	FY08E
Sales	570.08	663.75	773.68	934.80
% Growth	11.35%	16.43%	16.56%	20.83%
Other Income	1.20	1.37	0.66	1.50
Raw Material Cost	132.58	154.03	182.72	225.68
Power & Fuel Cost	54.26	56.49	59.89	78.55
Employee Cost	71.53	80.46	96.48	108.30
Other Cost	195.61	239.13	279.86	334.08
Depreciation	39.35	46.87	52.21	56.24
EBIT	76.75	86.76	102.53	131.96
Interest	39.35	33.80	26.46	37.08
PBT	38.60	54.33	76.73	96.37
% Growth	-2.49%	40.76%	41.22%	25.60%
Tax	0.07	18.81	24.25	30.46
Net Profit	38.53	35.52	52.48	65.92
% Change		-7.81%	47.74%	25.60%
Equity Shares	5.51	7.82	7.82	7.82

Cash Flow

(Rs Crore)	FY05	FY06	FY07E	FY08E
Opening Cash	5.77	4.59	6.75	10.37
Profit After Tax	38.59	46.87	52.48	65.92
Cash Profit	120.38	138.37	89.93	98.67
Cash Flow after change in working capital	122.57	119.03	171.05	130.02
Cash Flow from investing activity	-65.09	-127.93	-74.06	-71.74
Cash Flow from financing activity	-58.66	11.06	-93.37	-55.97
Net Cash inflow	-1.18	2.16	3.62	2.31
Closing Cash	4.59	6.75	10.37	12.68

Source: ICICI direct Research, Company

Balance Sheet

(Rs Crore)	FY05	FY06	FY07E	FY08E
Equity Share Capital	110.07	131.72	131.72	131.72
Reserves & Surplus	144.31	283.65	317.36	359.79
Secured Loans	570.93	496.13	410.92	362.15
Unsecured Loans	49.31	61.64	53.47	46.28
Deferred Tax Liability	50.41	68.35	68.35	68.35
Total Liabilities	925.03	1041.49	981.83	968.28
Net Block	604.93	685.85	713.22	729.95
Capital Work in Progress	93.67	108.94	103.42	102.19
Investments	19.53	13.61	13.61	13.61
Net Current Assets	199.69	229.08	151.58	122.53
Misc. Expense w/o	7.21	4.01	0.00	0.00
Total Assets	925.03	1041.49	981.83	968.28

Ratio

	FY05	FY06	FY07E	FY08E
EPS (Rs.)	7.00	4.55	6.72	8.43
Book Value (Rs.)	36.20	46.30	50.61	56.04
Operating Margin(%)	20%	20%	20%	20%
Net Profit Margin(%)	7%	5%	7%	7%
RoNW(%)	15%	9%	13%	16%
RoCE(%)	9%	10%	12%	15%
Debt Equity	2.44	1.34	1.03	0.83
Enterprise Value (Rs. Cr.)	822.16	1027.74	786.17	727.88
EV/EBIDTA	7.08	7.69	5.08	3.87
Sales to Equity	5.18	5.04	5.87	7.10

RATING RATIONALE

ICICIDirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;

Performer: Between 10% and 20%;

Hold: \pm 10% return;

Underperformer: -10% or more.

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