

Orient Paper and Industries (ORIPAP)

₹ 57

WHAT'S CHANGED...

PRICE TARGET	Changed from ₹ 69 to ₹ 63
EPS (FY11E)	Changed from ₹ 9.1 to ₹ 5.1
EPS (FY12E)	Changed from ₹ 12.2 to ₹ 10.5
RATING.....	Unchanged

Low realisation drags margins...

Orient Paper reported net sales of ₹ 382.9 crore in line with our estimate of ₹ 365.3 crore. Net profit was ₹ 0.50 crore, below our estimate of ₹ 18 crore. The subdued performance of the company was mainly due to lower than expected margins in the cement and paper segment. Cement sales in Q2FY11 declined 3.3% YoY (~35% QoQ) to ₹ 186 crore backed by 26.2% YoY (~17% QoQ) decline in realisation to ₹ 2297. The company reported cement volume growth of 31% YoY to 0.81 million tonne (MT) while sequentially volumes dipped ~21%. The EBIT margin of the cement segment declined to 2.9% (our estimate: 19.6%) while in electrical segment margin stood at 5.3% (our estimate: 7%). In FY11E, we expect cement realisations to be under pressure on capacity surplus in the southern region. However, we expect realisations to improve in FY12E as we expect operating rates to increase in that year.

■ Cement volume up 31% while realisation shrinks by 26% YoY

Orient Paper reported net sales of ₹ 186.1 crore from the cement segment in Q2FY11 (down 3% YoY) due to ~26% drop in realisation. However, sales volumes surged 31% YoY. Sequentially, sales from the segment decreased 35% on the back of ~17% drop in realisation. Cement EBIT margins declined by 2861 bps YoY to 2.9% in Q2FY11 and cement EBIT per tonne plummeted by 93.2% YoY (91% QoQ) to ₹ 66 per tonne.

■ Disappointment from paper continues...

The paper segment reported a loss of ₹ 3.4 crore at the EBIT level. However, the company managed to trim its losses, which were at ₹ 7.6 crore in Q2FY10 and ₹ 23.3 crore in Q1FY11. The fan division also reported a decline in the EBIT margin in Q1FY11, which was down by 651 bps YoY and 181 bps QoQ to 5.3%.

Valuation

At the CMP of ₹ 57, the stock is trading at 11.2x and 5.4x its FY11E and FY12E earnings, respectively. The stock is trading at an EV/EBITDA of 6.4x and 3.1x FY11E and FY12E EBITDA, respectively. On an EV/tonne basis, the stock is trading at \$58 and \$44 its FY11E and FY12E capacities, respectively. We are valuing the cement business at \$50 per tonne (58% discount to the replacement cost) at its FY12E capacity of 5 MTPA and maintaining our **BUY** rating on the stock with a revised target price of ₹ 63.

Exhibit 1: Financial Performance

	Q2FY11	Q2FY11E	Q2FY10	Q1FY11	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	382.9	365.3	353.2	441.6	8.4	-13.3
EBITDA	18.8	46.6	71.1	71.8	-73.6	-73.8
EBITDA Margin (%)	4.9	12.8	20.1	16.3	1523 bps down	1134 bps down
Depreciation	20.0	18.0	10.9	19.2	83.4	4.4
Interest	7.6	10.0	7.3	10.1	4.7	-24.6
PAT	0.5	18.1	40.5	34.2	-98.8	-98.5
EPS	0.0	0.9	2.1	1.8	-98.8	-98.5

Source: Company, ICICIdirect.com Research

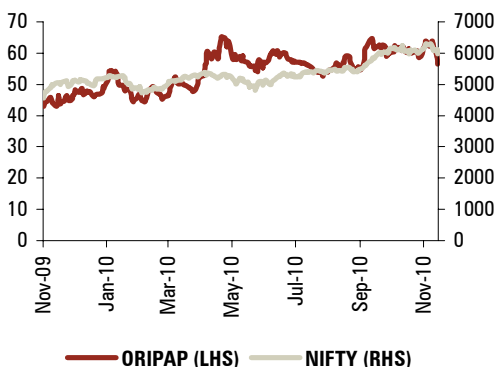
Rating matrix	
Rating	: Buy
Target	: ₹ 63
Target Period	: 12-15 months
Potential Upside	: 11 %

Key Financials				
	FY09	FY10	FY11E	FY12E
Net Sales	1503.2	1616.5	1810.7	2216.5
EBITDA	391.3	306.8	218.0	380.2
EBITDA Margin (%)	26.0	19.0	12.0	17.2
Reported PAT	231.5	159.0	98.3	202.6
Adjusted EPS (₹)	12.0	8.2	5.1	10.5

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	4.7	6.9	11.2	5.4
Target PE (x)	5.3	7.7	12.4	6.0
EV to EBITDA (x)	3.9	5.0	6.4	3.1
EV/Tonne(US\$)	91	63	58	44
Price to book (x)	1.8	1.5	1.4	1.1
RoNW (%)	41.3	22.5	12.3	22.1
RoCE (%)	43.1	22.5	13.5	23.3

Stock data	
Mcap	₹ 1099 crore
Debt (FY10)	₹ 513 crore
Cash & Invest(FY10)	₹ 94 crore
EV	₹ 1518 crore
52 week H/L	₹ 66 / 43
Equity cap	₹ 19.3 crore
Face value	₹ 1
MF Holding(%)	33.0
FII Holding(%)	1.8

Price movement



Analyst's name

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Cement segment

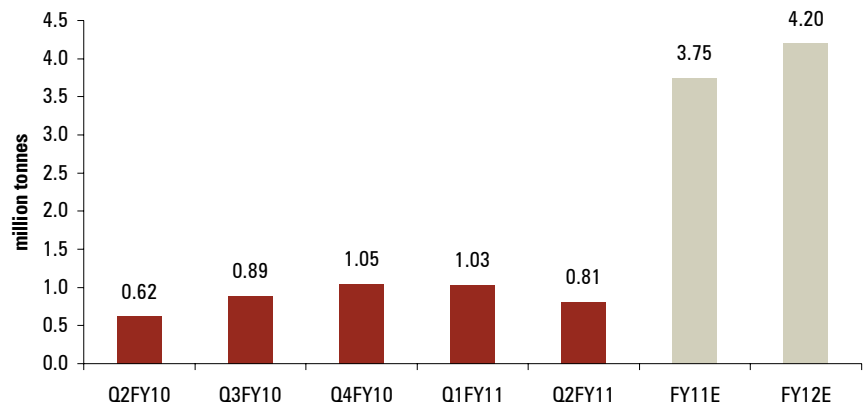
Net sales of cement declined by 3% YoY to ₹ 186.1 crore on account of a drop in realisation by ~26% YoY to 2297. However, sales volumes of cement surged by 31% YoY to 0.81 MT. Sequentially, net sales from the segment decreased by 35% on the back of a decline in realisation by ~17% and sales volume by 21%. A sequential drop in the cement volume was on account of a shortage of railway wagons and demand slowdown in the southern region.

Exhibit 2: Cement business performance

₹ Crore	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	FY11E	FY12E
Net sales	192.5	212.8	274.0	284.3	186.1	948.8	1155.0
EBIT	60.6	49.6	75.6	77.5	5.4	133.4	223.0
EBIT Margin (%)	31.5	23.3	27.6	27.3	2.9	14.1	19.3

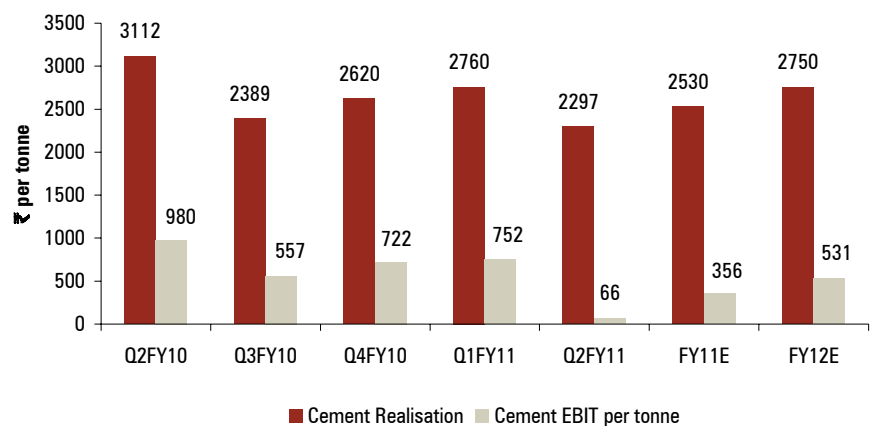
Source: Company, ICICIdirect.com Research

Exhibit 3: Cement sales volume



Source: Company, ICICIdirect.com Research

Exhibit 4: Cement realisation and EBIT per tonne



Source: Company, ICICIdirect.com Research

Cement sales volume increased by 31% YoY to 0.81 MT while on a QoQ basis, volumes declined by 21%. For FY11E and FY12E, we expect cement volumes at 3.75 MT and 4.2 MT, respectively

Cement realisation during the period declined by ~26% YoY and ~17% QoQ to ₹ 2297 per tonne from ₹ 3112 per tonne in Q2FY10 and ₹ 2760 in Q1FY11

Paper segment

The paper segment of the company continued to witness an unpleasant performance despite a growth in segment revenue. Net sales from this segment soared by 15% YoY and 223% QoQ to ₹ 69 crore as production from its Amlai, Madhya Pradesh plant was stabilised and expected to touch better utilisation in the coming years. The company had incurred a loss of ₹ 3.4 crore at the EBIT level in Q2FY11 against a loss of ₹ 7.6 crore in Q2FY10 and ₹ 23.3 crore in Q4FY10.

For the full year FY11E, we expect the paper segment to report loss at the EBIT level. However, we have assumed an EBIT margin of 4.9% in FY12E on account of the commencement of operations at the Amlai plant.

Exhibit 5: Paper division performance

₹ Crore	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	FY11E	FY12E
Net sales	60.2	72.7	78.6	21.4	69.1	238.7	307.3
EBIT	-7.6	-1.1	-11.4	-23.3	-3.4	-26.7	15.1
EBIT Margin (%)	-12.7	-1.6	-14.5	-108.8	-4.9	-11.2	4.9

Source: Company, ICICIdirect.com Research

Electrical segment

Net sales from the electrical division increased by 27% YoY to ₹ 127.7 crore in Q2FY11 on account of better realisation and increase in fan volumes. Sequentially, net sales from the segment declined by 6%. At the operating level, the company reported a 43% YoY decline in EBIT to ₹ 6.8 crore in Q2FY11. On a QoQ basis, EBIT from the segment declined by 30% as the EBIT margin dropped by 181 bps to 5.3%.

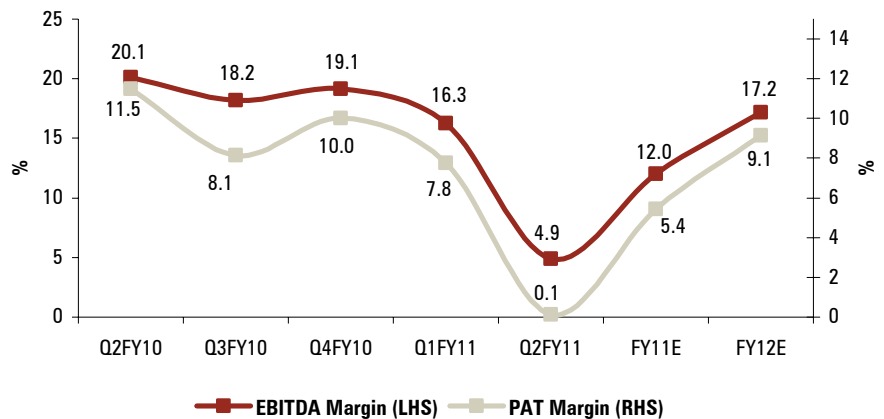
Going forward, we have assumed an EBIT margin of 5.8% in FY11E and 8.2% in FY12E.

Exhibit 6: Electrical division performance

₹ Crore	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	FY11E	FY12E
Net sales	100.5	84.6	195.4	135.8	127.7	623.3	754.2
EBIT	11.9	6.6	28.0	9.7	6.8	36.4	62.1
EBIT Margin (%)	11.8	7.8	14.4	7.1	5.3	5.8	8.2

Source: Company, ICICIdirect.com Research

Exhibit 7: EBITDA margin and PAT margin



Source: Company, ICICIdirect.com Research

The EBITDA margin declined 1523 bps YoY to 4.9% in Q2FY11 as against 20.1% in Q2FY10

Valuations

As the realisations are expected to improve in FY12E along with expectations of revival of paper business, we estimate net sales to increase by 22% to Rs 2216.5 crore in FY12E from Rs 1810.7 crore in FY11E. Net profit is expected to increase by ~106% YoY to Rs 202.6 crore in FY12E from Rs 98.6 crore in FY11E.

At the CMP of ₹ 57, the stock is trading at 11.2x and 5.4x its FY11E and FY12E earnings, respectively. The stock is trading at an EV/EBITDA of 6.4x and 3.1x FY11E and FY12E EBITDA, respectively. On an EV/tonne basis, the stock is trading at \$58 and \$44 its FY11E and FY12E capacities, respectively. We are valuing the cement business at \$50 per tonne (58% discount to the replacement cost) at its FY12E capacity of 5 MTPA and maintaining our **BUY** rating on the stock with a revised target price of ₹ 63.

ICICIdirect.com coverage universe (Cement)

			Sales (₹Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
ACC								
Idirect Code	ACC CMP	1065 CY08	7,308.6	64.5	16.5	10.9	24.6	26.6
MCap	20011 Target	1041 CY09	8,027.3	85.5	12.5	7.4	26.7	32.5
	% Upside	-2% CY10E	7,554.5	54.7	19.5	10.9	15.6	17.4
		CY11E	8,705.9	61.4	17.3	9.1	15.9	19.2
Ambuja Cements								
Idirect Code	GUJAMB CMP	155 CY08	6,234.7	7.4	20.8	13.3	21.9	27.7
MCap	23617 Target	130 CY09	7,076.9	8.0	19.4	11.9	20.1	27.1
	% Upside	-16% CY10E	7,326.7	7.6	20.3	12.0	16.8	22.0
		CY11E	8,393.0	9.4	16.5	9.0	18.3	25.0
UltraTech Cements*								
Idirect Code	ULTCEM CMP	1099 FY09	6,383.1	78.9	13.9	18.0	27.5	24.3
MCap	30135 Target	1034 FY10E	7,054.8	86.8	12.7	15.2	23.6	25.4
	% Upside	-6% FY11E	12,520.5	44.8	24.5	14.3	10.0	10.0
		FY12E	16,726.0	54.0	20.3	10.6	12.5	12.6
Shree Cement								
Idirect Code	SHRCM CMP	2198 FY09	2,715.0	165.9	13.2	8.2	61.4	33.9
MCap	7658 Target	2366 FY10E	3,632.1	206.7	10.6	5.2	47.3	30.6
	% Upside	8% FY11E	3,643.2	121.1	18.1	7.7	20.8	15.7
		FY12E	4,831.5	174.7	12.6	5.2	24.4	20.6
India Cements								
Idirect Code	INDCEM CMP	116 FY09	3,426.5	17.2	6.7	4.8	17.4	17.0
MCap	3563 Target	107 FY10E	3,771.3	10.6	11.0	6.2	10.1	11.3
	% Upside	-8% FY11E	3,776.7	5.1	22.6	10.0	4.5	5.3
		FY12E	4,674.8	5.5	21.0	7.6	4.6	7.0
JK Cement								
Idirect Code	JKCEM CMP	172 FY09	1,496.8	21.1	8.2	4.9	17.7	17.2
MCap	1203 Target	194 FY10E	1,826.8	32.3	5.3	9.2	22.6	17.9
	% Upside	13% FY11E	2,044.2	8.6	20.1	7.1	5.4	7.4
		FY12E	2,570.9	17.2	10.0	6.1	10.4	10.8
JK Lakshmi								
Idirect Code	JKCORP CMP	60 FY09	1,224.7	14.6	4.1	3.3	21.5	15.7
MCap	732 Target	70 FY10E	1,490.5	19.7	3.0	2.2	23.6	17.7
	% Upside	17% FY11E	1,271.6	3.2	18.5	6.1	3.9	4.1
		FY12E	1,464.7	9.8	6.1	4.0	10.7	9.5
Orient Paper & Industries								
Idirect Code	ORIPAP CMP	57 FY09	1,503.2	12.0	4.7	3.9	41.3	43.1
MCap	1099 Target	63 FY10E	1,616.5	8.2	6.9	5.0	22.5	22.5
	% Upside	11% FY11E	1,810.7	5.1	11.2	6.4	12.3	13.5
		FY12E	2,216.5	10.5	5.4	3.1	22.1	23.3
Mangalam Cement								
Idirect Code	MANCEM CMP	151 FY09	563.7	37.5	4.0	2.7	33.0	35.2
MCap	403 Target	165 FY10E	613.7	44.5	3.4	1.5	29.8	40.0
	% Upside	9% FY11E	529.1	14.1	10.7	5.8	8.9	6.8
		FY12E	624.4	18.5	8.1	5.2	10.9	6.9

Source: Company, ICICIdirect.com Research

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