

ANDHRA PRADESH PAPER MILLS LTD

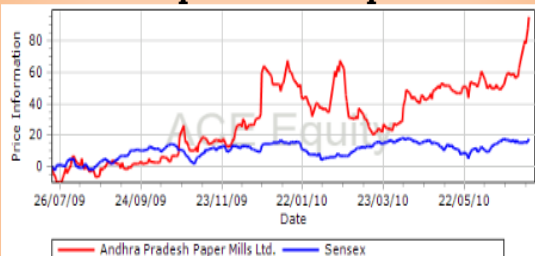
BUY

Date: 20 July 2010

C.M.P:
Rs.129.65

Target Price:
Rs.156.00

1 Year Comparative Graph

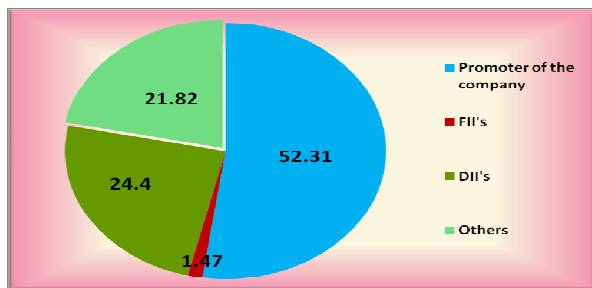


ANDHRA PRADESH PA BSE SENSEX

Stock Data

Sector	Paper
Face Value(Rs)	10.00
52 wk. High/Low (Rs.)	151.00/55.40
Volume (2 wk. Avg.)	54000
BSE Code	502330
Market Cap(Rs in Mn)	4246.2

Share Holding Pattern



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SYNOPSIS

- We initiated the coverage of Andhra Pradesh Paper Mills Ltd and set a target price of Rs.156.00 for medium to long term gains.
- Andhra Pradesh Paper Mills (APPM) was incorporated in 1964 to manufacture paper. Company owns two manufacturing facilities having a cumulative production capacity of 1,74,500 TPA. Company owns eight paper machines.
- The company manufactures paper of various grades such as writing, printing, industrial, newsprint and copier.
- The company has successfully commenced production from Paper Machine 6 (PM 6) at its Unit APPM in Rajahmundry.
- The revenue of the company for the quarter ended on June 30th increased 27% YoY while Profit increased 97% YoY.
- The topline & bottomline of the company are expected to grow at a CAGR of 6% & 56% over 2009A to 2012E respectively.

Financials (Rs in Mn)

	FY10A	FY11E	FY12E
Net Sales	6504	7024	7586
EBIDTA	1530	1677	1828
PAT	541	628	715
EPS	16.55	19.18	21.85
P/E	7.84	6.76	5.93

Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
AP Paper Mills	129.65	4246.2	16.55	7.84	0.84	10
West Coast Paper	90.55	5681.9	17.62	5.14	1.06	100
JK Paper	57.30	4478.0	11.6	4.92	0.91	17.50
Rainbow Papers	216.50	3776.5	13.5	15.9	1.70	20

Investment Highlights

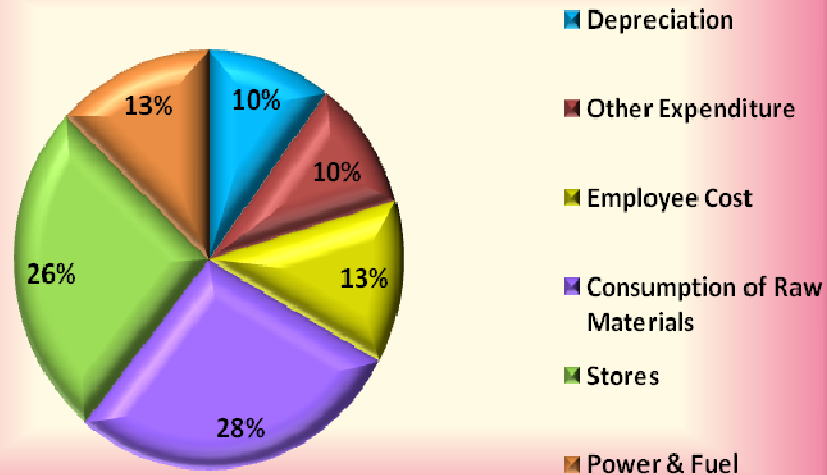
● Results Updates (Q1 FY11)

The bottomline of the company for the quarter increased at 97% yoy Rs.161.72mn from Rs.82.06mn of same period of last year. Total revenue for the first quarter stood at Rs.1761.50 mn from Rs.1390.39 which is 27% increased than that of a year ago.EPS for the quarter stood at Rs.4.94 per equity share of Rs.10.00 each.

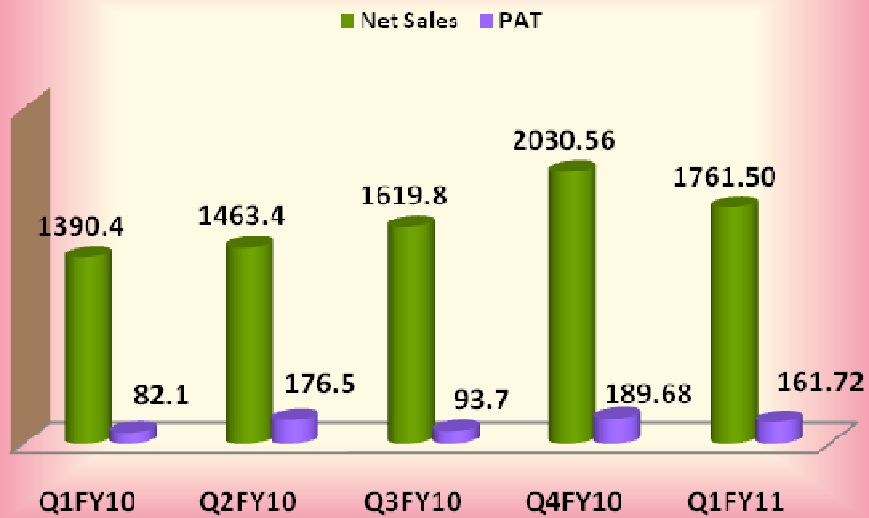
Expenditure of the company increased 22.5% YoY to Rs.1335.64mn from Rs.1090.43mn of same period of last year. Interest expenses for the quarter stood at Rs.80.96mn. OPM & NPM for the quarter stood at 25% and 9% respectively.

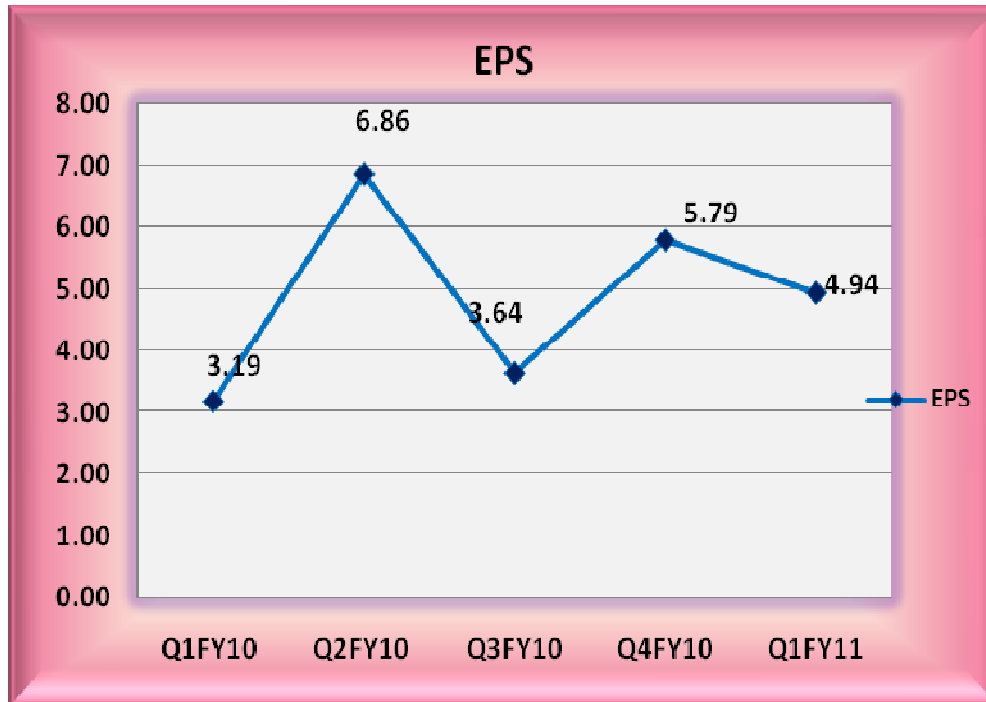
Quarterly Results - Standalone (Rs in mn)			
As At	June-10	June-09	%Change
Net sales	1761.50	1390.39	27
PAT	161.72	82.06	97
Basic EPS	4.94	3.19	
Equity Capital	327.52	257.34	

Break-up of Expenditure



Net Sales & PAT

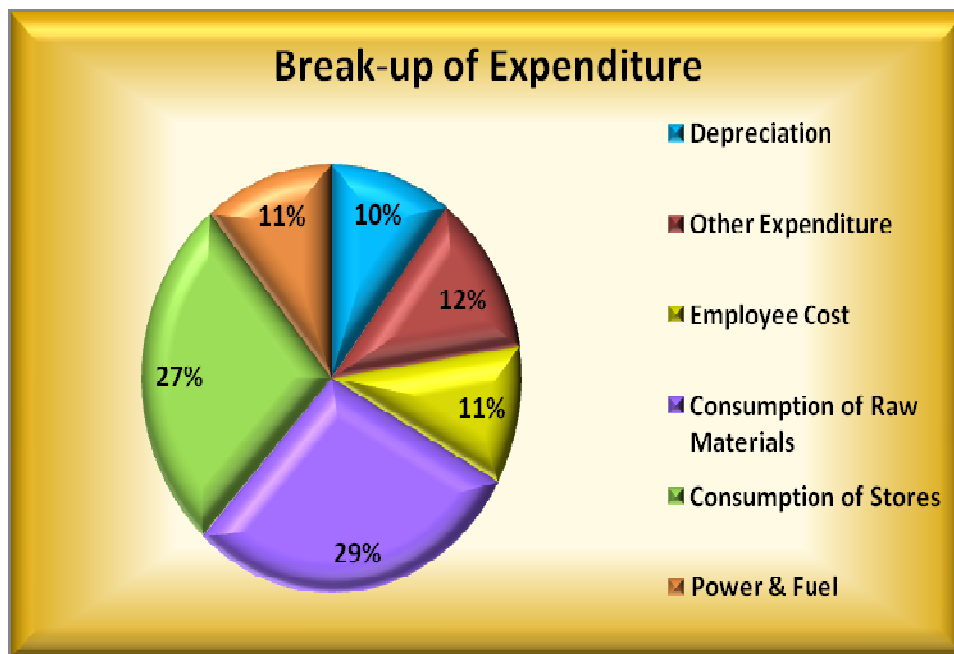




● FY10 Performance

Net profit of the company has increased at 185% yoy Rs.541.93mn from Rs.189.55mn of same period of last year. Total revenue for the year stood at Rs.6504.21 mn from Rs.6332.15 which is 2.72% increased than that of a year ago. EPS for the year stood at Rs.16.55 per equity share of Rs.10.00 each.

Operating profit of the company stood at Rs.1530.27mn. OPM for the year stood at 24%. Expenditure of the company decreased 1.4% YoY to Rs.5043.37 mn. Interest expenses for the year stood at Rs.321.55mn.



● **Andhra Pradesh Paper Mills Ltd awarded 'FSC Certification'**

Andhra Pradesh Paper Mills Ltd awarded 'FSC Certification' for promoting responsible raw material management". The company has been awarded the coveted Forest Stewardship Council's (FSC) Chain-of-Custody (COC) Certificate for its responsible sourcing of pulpwood fibre for manufacture of pulp and paper. This is yet another milestone for APPM in its continuous journey towards sustainability, conservation of natural resources, protection of environment and contribution to society.

● **Commenced production from Paper Machine 6 (PM 6) at its Unit APPM in Rajahmundry**

Andhra Pradesh Paper Mills (APPM, has successfully commenced production from Paper Machine 6 (PM 6) at its Unit APPM in Rajahmundry. With the start-up of this machine, the company now will have close to 250,000 Metric Tons of pulp and paper and paper manufacturing capacity.

The start of PM 6 marks the end of the final phase of the Mill Development Plan worth almost USD 205 million at Unit APPM. Earlier, the company had commissioned a 550 bone dry Metric Tons (BDMT)/ a day Elementary chlorine Free (ECF) pulp Mill of Andritz make, a 50TPD Coal Fired Boiler and a 34 MW turbine at the same location. With its, ECF Pulp Mill, De inking plant and Rice Straw pulp Mill, APPM is among the very few, fully integrated paper manufactures in India who are not dependent on Market Pulp. With the commencement of this plant, the company could reap the benefits of optimizing the capacity of ECF pulp. Further, the company is to increase the capacity of the ECF Pulp Mill around 20% to manufacture approximately 650 BDMT/day from the current 550 BDMT and this should be completed with FY 2010-11. Additionally, the company also plans to increase the quantum of the sale of surplus power from the current 5MW to 10 MW per day.

The company also has voith made machine which was imported from Salach, Germany which has a paper production capacity of 67,000 metric tons per annum of UFS (Uncoated Free Sheet) and copier grades. However, with the modification, the machine manufacturing capacity can be increased up to an additional 20,000 metric tons per annum.

● **Recommend a dividend**

The Board of Directors has decided to recommend a dividend at Re 1 per share on 3,27,51,797 equity shares of Rs 10 each.

● **Launched ColourFreeze**

The company has launched ColourFreeze -- a revolutionary technology in paper production used for printing purposes.

This technology will be made available to the customers through a new brand Copyrite -- premium copier paper, also being unveiled today. The new technology equipped paper will provide significantly higher printing quality and eliminate smudging due to faster drying of ink.

ColourFreeze treated paper will ensure a black optical density improvement of 1.36 against the 0.87 the highest rating available in the market today. It has dry time improvement of 2.5.

Andhra Pradesh Paper Mills has invested over Rs 1 crore in infrastructure and R&D to take this technology. With launch of Copyrite, the company aims to increase its market share in the premium copier paper category. The company also sells brands like Andhra Millennium Copier and Reflection under copier paper segment.

Company Profile

Andhra Pradesh Paper Mills (APPM) was incorporated in 1964 to manufacture paper. The company is part of L N Bangur group which have business interest in area of textile manufacturing, tea plantation, wind energy generation and trading and investment business.

In 2001, Andhra Pradesh Paper Mills acquired Coastal Papers.

Company owns two manufacturing facilities having a cumulative production capacity of 1,74,500 TPA. Company owns eight paper machines. It manufactures paper of M.F and M.G quality in the range of 21 to 250 GSM. Company uses raw materials such as Casuarina, Subabul, Eucalyptus, Mixed Hard Woods and Bamboo.

The company manufactures paper of various grades such as writing, printing, industrial, newsprint and copier. APPM has also set up a 34 MW Double Extraction Condensing type turbine to meet its power requirements.

The company provides direct employment to over 4000 families.

Company has clientele namely MODI XEROX, INDO NATIONAL, MacMillan, Navaneet Publications and many more.

Company exports to countries that include were Angola, Bangladesh, Egypt, Nigeria, Sri Lanka, United Arab Emirates and Yemen.

Awards

APPM received Best Management Award - 2005 for the outstanding contribution in the maintenance of industrial relations, labour welfare and productivity from the Government of Andhra Pradesh.

Company received Gold Award in the paper sector as recognition of its outstanding achievement in safety management awarded by the Greentech Foundation.

Company received ISO 9001:2000 certification for its quality management

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY09A	FY10A	FY11E	FY12E
Description	12m	12m	12m	12m
Net Sales	6,332.15	6,504.21	7024.55	7586.51
Other Income	49.67	69.43	76.37	84.01
Total Income	6,381.82	6,573.64	7100.92	7670.52
Expenditure	-5,116.92	-5,043.37	-5422.95	-5841.61
Operating Profit	1,264.90	1,530.27	1677.97	1828.91
Interest	-504.9	-321.55	-337.63	-354.51

Gross profit	760.00	1,208.72	1340.34	1474.40
Depreciation	-541.12	-558.17	-586.08	-615.4
Profit Before Tax	218.88	650.55	754.26	859.02
Tax	-29.33	-108.62	-125.94	-143.4
Net Profit	189.55	541.93	628.33	715.59
Equity capital	257.34	327.52	327.52	327.52
Reserves	3,922.44	4,701.94	5,330.27	6,045.86
EPS	7.37	16.55	19.18	21.85

Quarterly Ended Profit & Loss Account (Standalone)

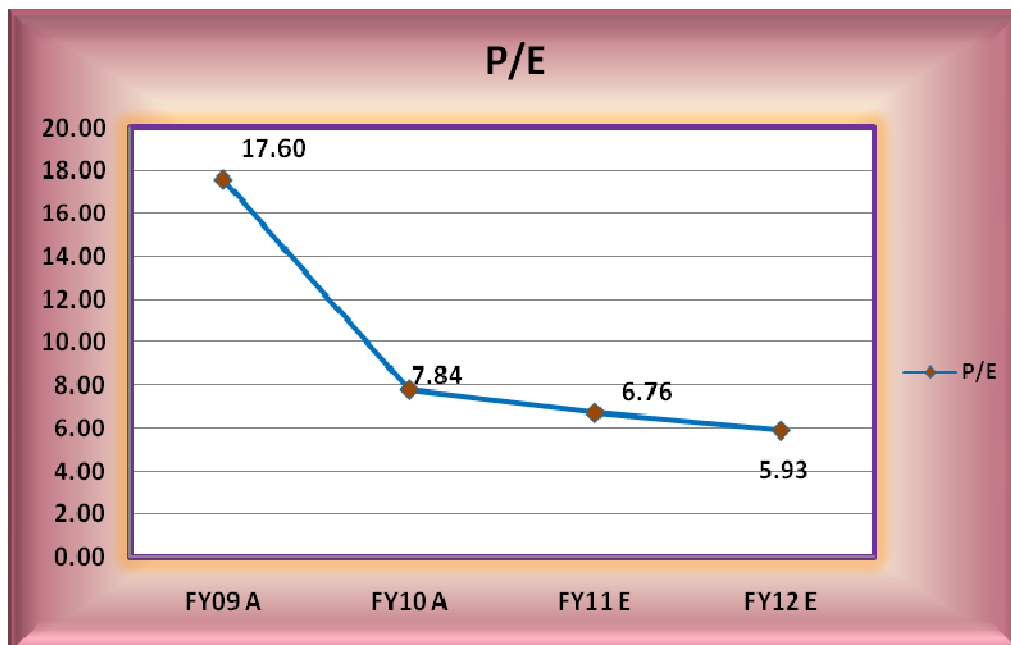
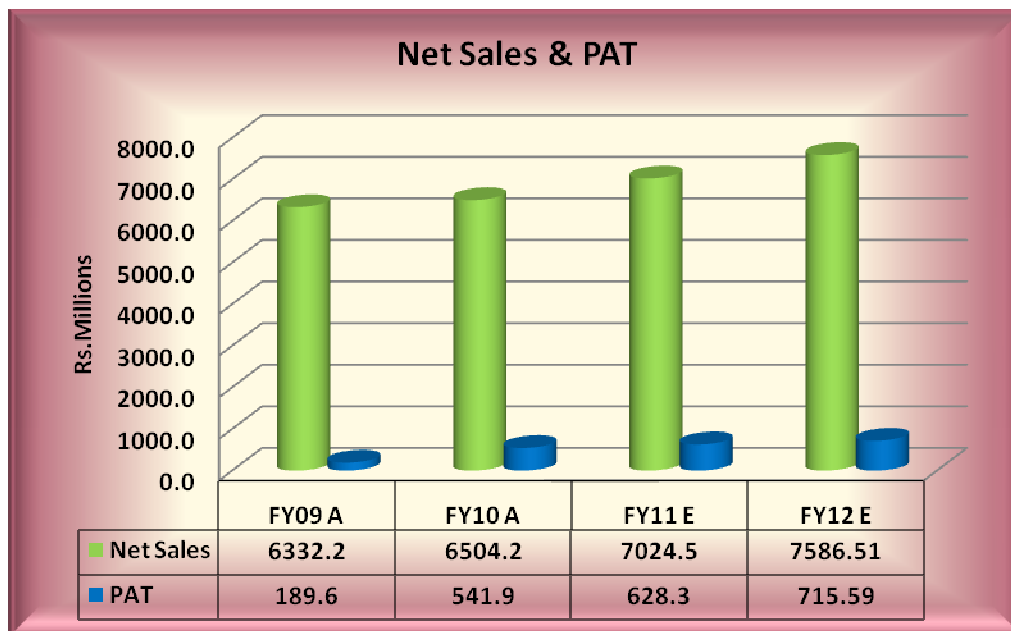
Value(Rs.in.mn)	Dec-09A	Mar-10A	June-10A	Sep-10E
Description	3m	3m	3m	3m
Net sales	1,619.83	2,030.56	1,761.50	1849.58
Other income	2.46	32.65	10.68	11.21
Total Income	1,622.29	2,063.21	1,772.18	1860.79
Expenditure	-1,295.55	-1,580.70	-1,335.64	-1368.69
Operating profit	326.74	482.51	436.54	492.10
Interest	-75.23	-73.21	-80.96	-85.01
Gross profit	251.51	409.30	355.58	407.10

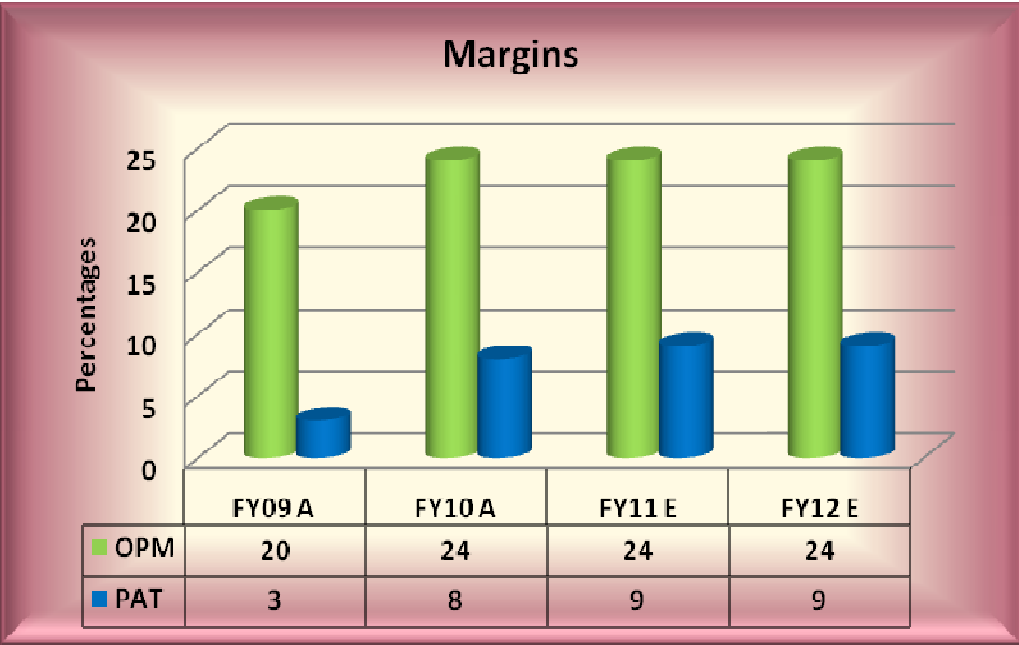
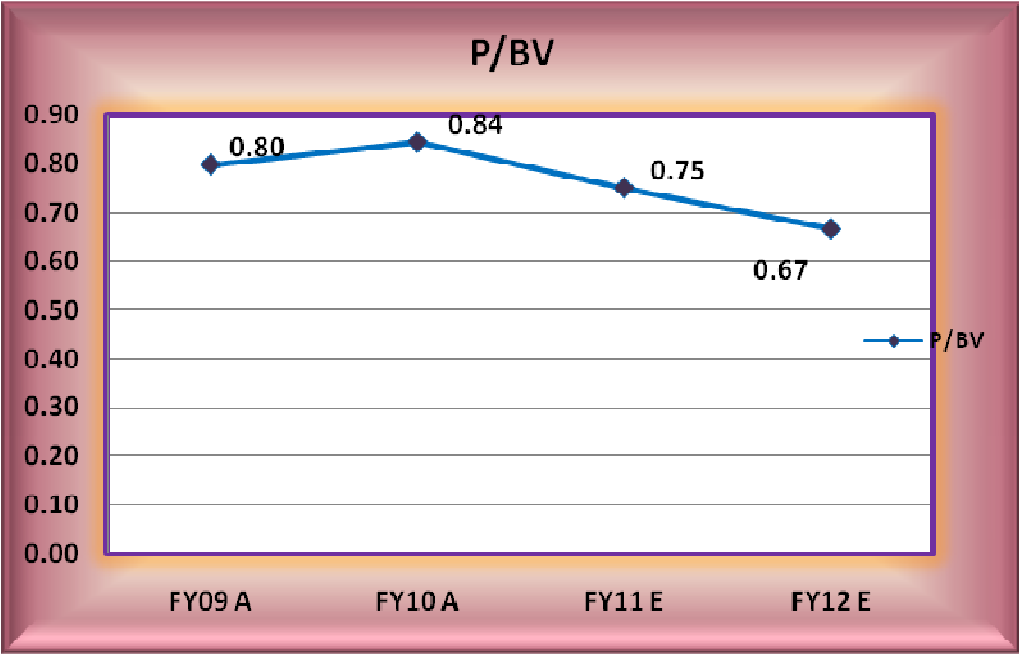
Depreciation	-138.58	-141.20	-153.26	-160.92
Profit Before Tax	112.93	268.10	202.32	246.17
Tax	-19.2	-78.42	-40.6	-36.93
Net Profit	93.73	189.68	161.72	209.25
Equity capital	257.34	327.52	327.52	327.52
EPS	3.64	5.79	4.94	6.39

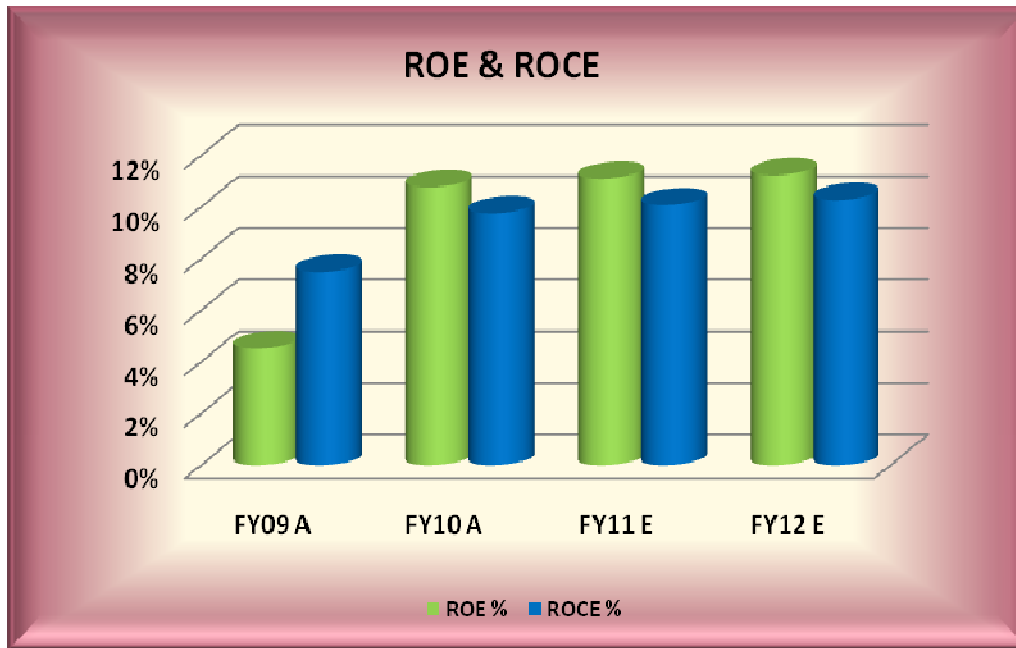
Key Ratio

Particulars	FY09 A	FY10 A	FY11 E	FY12 E
EBIDTA %	20%	24%	24%	24%
PAT %	3%	8%	9%	9%
P/E ratio (x)	17.60	7.84	6.76	5.93
ROCE - %	7%	10%	10%	10%
ROE - %	5%	11%	11%	11%
Price/Book Value	0.80	0.84	0.75	0.67
Debt Equity Ratio	1.31	0.98	0.92	0.85
Book Value (Rs.)	162.42	153.56	172.75	194.60
EV/EBIDITA (x)	2.64	2.77	2.78	2.79

Charts:







Outlook and Conclusion

- At the current market price of Rs.129.65, the stock trades at a P/E of 6.76x and 5.93x for FY11E and FY12E respectively. On the basis of EV/EBDITA, the stock trades at 2.78x and 2.79x for FY11E and FY12E respectively.
- EPS of the company is expected to be at Rs.19.18 and Rs.21.85 for the earnings of FY11E and FY12E respectively. Price to Book Value of the stock is expected to be at 0.75 and 0.67 respectively for FY11E and FY12E.
- We recommend **'BUY'** in this particular scrip with a target price of Rs.**156.00** for Medium to Long Term Gains.

Industry Overview

India is the fastest growing market for paper globally. From the last few years, the Indian Paper Industry has grown at an average rate of 6-7% whereas the paper market in developed countries has been stagnant at 2%. During the period 2002-07, newsprint, writing & printing, containerboard, carton board and others registered growth of 13%, 5%, 11%, 9% and 1% respectively.

The Indian Paper Industry accounts for about 1.6% of the world's production of paper and paperboard. The estimated turnover of the industry is Rs 25,000 crore (USD 5.95 billion) approximately. The industry provides employment to more than 1.2 lakh people directly and 3.4 lakh people indirectly. The industry was delicensed effective from July, 1997 by the Government of India.

For manufacturing of paper, 35% of chemical pulp, 44% of recycled fibre and 21% of agro-residues is used. As per industry estimates, paper production are likely to grow at a CAGR of 8.4% while paper consumption is expected to grow at a CAGR of 9% till 2012-13. The import of pulp & paper products is likely to show a growing trend. Foreign funds interest in the Indian paper sector is also growing. IFC, the investment arm of World Bank is already associated with at least three of the IPMA member mills.

Demand for paper products like tissue paper, tea bags, filter paper, light weight online coated paper and medical grade coated paper, etc. is growing. These developments are expected to give fillip to the industry. Current consumption of Paper is at 8.50 million tonnes a year. The Paper industry is expected to grow to 10 million tonnes by 2010 and to 15 million tonnes by 2015.

Factors favoring growth are increased spending on education, higher literacy levels, improved standards of living, a booming retail sector etc. The future growth is dependent upon imported market pulp due to serious shortage of wood in the country.

Strengthening of Indian rupee is favoring the paper manufacturers as they can import the raw material at lower prices.

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