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 Industry : **Paper**

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IPO Price : Rs.23
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Scrip Scan		Key Data		Shareholding (post issue)	
				(%)	
Face Value (INR)	10.00	No of Shares to be issued (mn)	12.39	Promoters	51.60
Premium (INR)	11-13	No of fresh shares issued (mn)	12.39	Public	48.40
Equity Capital (Rs.mn) (pre issue)	100.30	Total issue size (Rs.mn)	285.00	Total	100.00
Equity Capital (Rs.mn) (post issue)	224.22	Issue Opens on	23rd Nov'06		
Market Cap.*(Rs.bn)	0.516	Issue Closes on	29th Nov'06		
*(at cut-off price)		Listing	BSE, NSE		

Company Profile

Ruchira Papers Ltd (RPL) is an agro-residue based paper mill, manufacturing kraft paper, which finds application in packaging industry. The manufacturing plant is located at village Kala-Amb of district Sirmour in Himachal Pradesh. The production capacity in the last 3 years has been steadily increased to 52,800 MTPA from 26,400 MTPA. As a product extension strategy, RPL is currently implementing a project to manufacture Writing and Printing Paper based on the existing raw-material source.

Objects of the issue

The issue proceeds will be utilized to part-finance the project cost to setup 33000 TPA capacity to manufacture of writing & printing paper including a chemical recovery plant and 6 MW co-generation power plant adjoining its existing unit in Sirmour district of Himachal Pradesh. Rest of the cost will be financed through term loan and internal accruals. The plant will be operational from May-2007.

Cost of Project	(Rs in mn)	As % to total
Land & Building	175.34	13%
Plant & Machinery and other fixed assets	966.45	70%
Working capital and other misc expenditure	226.18	16%
General Corporate Purposes	11.80	1%
Total	1,379.77	

Means of finance	(Rs in mn)	As % to total
Term Loan	934.77	68%
Internal Accruals	120.00	9%
Land Acquired through merger a group company	40.00	3%
Promoters participation in IPO	50.00	4%
Public Issue	235.00	17%
Total	1379.77	

Locational advantages

- **Raw material:-** Abundant supply of raw material i.e, bagasse, which is purchased directly from the sugar mills in the vicinity of 100 km. It is noteworthy that the supplying sugar mills have already set up cogeneration plant and the surplus bagasse is only being procured from them. Besides bagasse other raw materials like Wheat and paddy straw, Rice Husk are also available in the proximity to the plant, which offers the management flexibility to choose between different raw materials to its advantage.
- **Excise duty :-** RPL will enjoy 100% excise duty exemption up-to June 09, 2013, which will enable it to market its products at a much competitive price.

- **Income Tax :-** RPL will also avail 100% Income Tax exemption for initial period of 5 years and thereafter 30% exemption for a further period of 5 years from the date of commercial production

Industry Overview

Indian paper industry is highly fragmented with nearly 515 mills producing about 5.7 Mn TPA. Only about 15 mills have 60,000 tonnes or larger annual capacities. India's per capita paper consumption is very low of 5 kgs, compared with Asian average of 29 kgs and global average of 54 kgs. Paper demand has been growing at 5% CAGR while production of paper grew at 1.1% during previous financial year. With rising in demand and no matching rise in capacity, the demand-supply gap in the industry is widening.

Operating and Financial Performance

Revenue has grown @ 16% CAGR, whereas Net Profit has grown @28% over last 3 years. The EBIDTA margin has been sustained at around 14% level on a larger scale of operation. During the 1st Half of the current year, the capacity utilisation of Kraft paper plant is at 85%.

Financials

(Rupees in million)	FY04	FY05	FY06	H1FY07
Total sales	396.04	486.47	625.31	377.09
<i>YoY Growth %</i>		22.83	28.54	
Total Operating Expenditure	340.96	422.31	535.80	326.25
EBIDTA	55.08	64.16	89.51	50.84
<i>EBIDTA Margin %</i>	13.91	13.19	14.32	13.48
Interest & Financial Charges	17.66	11.84	15.46	8.05
Depreciation	12.43	13.35	17.00	9.39
PBT before other Income	24.99	38.97	57.06	33.40
Other Income	0.63	2.49	5.12	0.68
Profit Before Tax	25.62	41.46	62.17	34.07
Provision for Tax	3.25	3.51	15.60	3.85
<i>Effective Taxation</i>	12.68	8.47	25.10	11.30
Profit after Tax	22.37	37.94	46.57	30.22
<i>YoY Growth %</i>		69.60	22.73	
<i>NPM %</i>	5.65	7.80	7.45	8.01
Equity Capital (post issue)*				224.22
EPS (annualised)				2.70
PE x @ RS 23/-				8.53

*Cut-off price is considered

Valuation

With the addition of printing & writing paper (PWP) from May'07 in the revenue stream, the revenue profile of RPL is set to improve substantially from the current level. The realization is higher in the PWP, than in kraft paper. Power cost will be reduced by 42%, from Rs.3.25 per unit (at present) to Rs.1.9 per unit with the implementation of the CPP. Hence, profitability would rise significantly at operating level and at net level also on the back of said excise duty and Income-tax benefits. At the cap price of Rs.23 its PE is 8.53x the annualized H1-FY07 EPS of Rs.2.7 considering the diluted equity capital base. We recommend investors to subscribe to the issue to derive benefits on a sustainable basis over a longer time horizon.

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