

Q3FY09 results – Ahead of expectations

27 January 2009

BUY

Price	Target Price
Rs19	Rs34

Sensex – 9,004

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	(1)	(47)	(68)
Rel. to Sensex	(11)	(7)	(20)	(36)

Source: Bloomberg

Stock Details

Sector	Cement
Reuters	ORPP.BO
Bloomberg	OPI@IN
Equity Capital (Rs mn)	193
Face Value (Rs)	1
No of shares o/s (mn)	193
52 Week H/L (Rs)	66/17
Market Cap (Rs bn/USD mn)	4/82
Daily Avg Vol (No of shares)	209343
Daily Avg Turnover (US\$ mn)	0.1

Shareholding Pattern (%)

	30/9/08	30/6/08	31/3/08
Promoters	36.6	36.1	35.4
FII/NRI	3.0	2.7	2.8
Institutions	29.8	30.3	31.4
Private Corp	15.9	16.1	15.4
Public	14.6	14.8	15.0

Source: Capitaline

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Orient paper & Industries Ltd (OPIL) Q3FY09 net profit of Rs512mn is ahead of our estimates (Rs451mn) on account of better than expected performance of the cement division. Net revenues grew by 7.8% yoy to Rs3.46bn driven by 13.4% revenue growth for cement division. The performance of paper division (Revenue of Rs691mn- decline of 6% yoy) was impacted on account of unstable plant operations. Overall EBIDTA declined by 6.3% yoy to Rs858mn (but was higher than our estimate of Rs759mn) as the EBIDTA margins declined by 370 bps to 24.8%. Impressive operating performance of Cement division (EBIT of Rs835mn as against estimate of Rs700mn) was dampened by poor performance of Paper & Electricals divisions. Post expansion of cement capacity to 5 mtpa and commissioning of 50MW CPP over next two quarters, we expect OPIL to register improving operating performance. We maintain our earnings estimates for FY09E and FY10E at Rs9.91 and Rs11.08 respectively. At the CMP of Rs19.25, the stock provides compelling value proposition - trading at 1.7x FY10E earnings. We continue to maintain our BUY rating on the stock with a price target of Rs34.

Results Highlights

- OPIL Q3FY09 net revenues increased by 7.8% yoy to Rs3.46bn mainly driven by impressive performance of the cement division. Cement revenues increased by 13.4% yoy to Rs2.2bn (our estimate Rs2.03bn) on account of a 10.1% increase in cement volumes and 3% increase in realizations. Revenue of Paper division were down 5.8% yoy to Rs691mn (our estimate Rs800mn) on account of 5% production loss suffered during the quarter. Electricals division revenues grew by 6.3% yoy to Rs563 mn but the same were below our estimate of Rs700mn.
- On account of continued increase in costs, overall EBITDA witnessed a decline of 6.3% yoy to Rs857mn, but the same was higher than our estimate of Rs759mn. EBITDA margin witnessed a decline of 373bps to 24.8% (our estimate 21.5%).
- Even on operating front cement division delivered impressive performance as the EBIT of the division grew by 5.4% to Rs835mn which was higher than our estimate of Rs700mn. However this **performance of Cement division was dampened by poor performance of Paper & Electricals divisions**. The EBIT of Paper division witnessed a huge fall of 43.8% yoy to Rs49mn as the operation at Amlai plant were unstable. Electricals division witnessed a fall of 23.7% in EBIT to 25mn. We believe that post commissioning of its 50 MW captive power plant in Q4FY09 will further alleviate pressure off margins in the cement division.
- Interest cost and depreciation charge grew by 21.3% and 23.4% respectively on account of capex incurred by the company for its capacity expansion from 2.4MT to 3.4MT.
- Accordingly, net profit stood at Rs512mn, yoy degrowth of 4.2% which was ahead of our estimates of Rs45.1mn.

Key Financials

	Net sales (Rsm)	EBIDTA (Rsm)	EBIDTA (%)	PAT (Rsm)	EPS (Rs)	EPS growth (%)	ROCE (%)	PE (x)	EV/EBIDTA (x)	EV/Ton (USD)
FY07	10,968	2,522	23.0	1,424	9.6	351.3	49.6	2.0	2.3	38.8
FY08	12,925	3,406	26.4	2,045	10.6	43.6	58.6	1.8	1.4	15.7
FY09E	13,743	3,271	23.8	1,912	9.9	(6.5)	41.5	1.9	1.4	23.2
FY10E	16,847	3,612	21.4	2,137	11.1	11.7	36.7	1.7	1.0	12.0

Result Table

(Y/E mar, Rsmn)	Q3FY09A	Q3FY08	yoy (%)	9M FY09	9M FY08	Var (%)
Gross sales	3,923.6	3,718.2	-5.5%	11,632.8	10,642.2	-9.3%
Excise Duty	464.9	509.7	8.8%	1,431.0	1,477.7	3.2%
Net Sales	3,458.7	3,208.5	-7.8%	10,201.9	9,164.3	-11.3%
Total Expenditure	2,601.1	2,293.4	-13.4%	7,801.6	6,581.1	-18.5%
as % of Net Sales	7.5	7.1	-5.2%	22.9	21.6	-6.4%
Raw Material Consumed	973.4	912.7	-6.6%	3,361.2	2,604.9	-29.0%
Power, Oil & Fuel	527.7	426.0	-23.9%	1,469.6	1,234.7	-19.0%
Employee Expenses	208.0	204.3	-1.8%	635.0	591.4	-7.4%
Freight and selling exp	480.7	397.4	-21.0%	1,399.9	1,125.8	-24.3%
Provisions & Write Offs	7.9	13.2	40.5%	23.4	39.6	41.0%
Other Expenses	585.6	431.0	-35.9%	1,269.6	1,240.2	-2.4%
Stock Adjustments	-182.2	-91.3	-99.6%	-357.1	-256.0	-39.5%
Operating Profit	857.6	915.2	6.3%	2,400.3	2,583.2	7.1%
Other Income	23.2	14.5	-59.9%	76.1	62.5	-21.6%
PBIDT	880.7	929.7	5.3%	2,476.4	2,645.8	6.4%
Interest	51.4	42.4	-21.3%	127.0	143.8	11.7%
PBDT	829.3	887.3	6.5%	2,349.3	2,501.9	6.1%
Depreciation	84.9	68.8	-23.4%	242.6	200.3	-21.1%
PBT	744.4	818.5	9.1%	2,106.7	2,301.6	8.5%
Tax	232.1	283.6	18.1%	680.9	823.8	17.3%
PAT	512.3	534.9	4.2%	1,425.8	1,477.9	3.5%
Extra-ordinary Items	0.0	0.0		0.0	0.0	
Income from CER	0.0	0.0		0.0	86.7	
PAT incl income from CER	512.3	534.9	4.2%	1,425.8	1,564.6	8.9%
EPS	2.66	2.77		7.40	7.67	
Equity	192.8	192.8		192.8	192.8	
Face Value	1.00	1.00		1	1	
Margins						
OPM's	24.8%	28.5%		23.5%	28.2%	
EBIDTA	25.5%	29.0%		24.3%	28.9%	
EBDT	24.0%	27.7%		23.0%	27.3%	
PBT	21.5%	25.5%		20.7%	25.1%	
PAT	14.8%	16.7%		14.0%	16.1%	
Tax rate	31.2%	34.6%		32.3%	35.8%	

Segmental Results

	Q3FY09	Q3FY08	Var (%)	9MFY09	9MFY08	Var (%)
Revenue	3458.6	3208.5	7.8%	10201.8	9164.1	11.3%
Paper & Board	691.0	733.4	-5.8%	1829.5	2140.8	-14.5%
Cement	2204.5	1943.7	13.4%	6382.6	5400.1	18.2%
Electric Fans	563.0	529.6	6.3%	1989.6	1597.1	24.6%
Know-How & Service Fees	0.0	1.9		0.0	26.2	
EBIT	908.6	911.5	-0.3%	2604.2	2598.1	0.2%
Paper & Board	49.2	87.5	-43.8%	89.7	253.2	-64.6%
- Amlai Plant	68.9	0.0		149.1	57.7	158.6%
- Brajrajnagar	-19.7	0.0		-59.4	-23.7	150.2%
Cement	834.9	791.9	5.4%	2415.2	2257.1	7.0%
Electric Fans	24.5	32.1	-23.7%	99.4	82.8	19.9%
Know-How & Service Fees	0.0	-0.1		0.0	5.0	
EBIT margin						
Paper & Board	7.1%	11.9%		4.9%	11.8%	
Cement	37.9%	40.7%		37.8%	41.8%	
Electric Fans	4.4%	6.1%		5.0%	5.2%	
Know-How & Service Fees					19.1%	

OPIL expansion plans on track

OPIL had embarked upon expansion plan to increase its capacity from 2.4 mtpa to 5 mtpa by FY09. The company added 1 mtpa capacity (0.8 mtpa at its Devapur plant and 0.2 mtpa at its Jalgaon plant) in FY08. In FY09, OPIL plans to further add 1 mtpa (0.6 mtpa at Devapur and 1.0 mtpa at Jalgaon). The capacities are expected to come on stream by Q4FY09. Further, the 50 MW captive power project at Devapur is expected to be completed by Q4FY2009. To maintain its leadership in the tissue paper segment, OPIL is planning to expand its tissue paper capacity to 25,000 tonnes by FY09.

Valuation

Post expansion of cement capacity to 5 mtpa and commissioning of 50MW CPP over next two quarters, we expect OPIL to register improving operating performance. We maintain our earnings estimates for FY09E and FY10E at Rs9.91 and Rs11.08 respectively. At the CMP of Rs19.25, the stock provides compelling value proposition - trading at 1.7x FY10E earnings. We continue to maintain our BUY rating on the stock with a price target of Rs34.

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