

RESULT UPDATE Q4CY09 & CY09:
NEUTRAL

Date 6th February 2010

CMP INR 56.8/-

52 week High / Low INR 75.9/29.05

Equity Cap (current) INR 12.5 crs

Face Value INR 2

Mkt. Capitalization INR 354.7 crs.

BSE SENSEX 16224.95

NSE - NIFTY 4845.35

NSE Code PAPERPROD

Bloomberg Code PP IN

BSE Code 509820

SHAREHOLDING PATTERN @ 31-12-10

Promoters 63.88%

FII & DFI 14.78%

Public & Others 21.34%

| | 3-MTS | 6-MTS | 1-YR |
|--------|-------|-------|------|
| PPL | -7% | 9% | 84% |
| Sensex | -1% | 1% | 70% |
| Nifty | -2% | -1% | 74% |

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PAPER PRODUCTS LTD. (PPL)

KEY HIGHLIGHTS

Paper Products Ltd. reported its Q4CY09 & CY09 results recently. Net sales and EBIDTA were in-line with our estimates while PAT was higher on lower depreciation. Net sales dipped by 5.6% while operating margins expanded on account of favorable product mix, fall in raw material prices and other cost control measures (control over forex losses).

➤ Net sales de-grew by 18.1% QOQ & 8.7% YOY to INR 130.37 crs. in Q4. Sequentially sales are impacted by seasonality. The company had implemented Oracle ERP system in October 2009. Due to the black out period, sales in the month of October 2009 were severely affected. Since then the system is stabilising and the company is moving towards normalised sales level. PPL revised its product prices downwards to pass on the benefit of softening of raw material prices (plastic flexible films) to its customers. CY09 saw lower sales of INR 577.7 crs., a de-growth of 5.6% YOY. The sales was 2.3% lower than our estimates. We maintain our projection of 13-14% topline growth going into CY10E on account of a lower base and re-stocking at the client base as working capital interest rates begin to stabilize and credit flow improves.

➤ Operating profit (EBIDTA) in Q4CY09 was up 28.8% YOY at INR 17.22 crs. EBIDTA margins expanded by 380 bps YOY & 240 bps QOQ at 13.2%. In Q4 margins were impacted on account of higher other expenses which has some one-time ERP implementation costs. Sequentially LDPE prices were up flat at INR 72,000-75,000 per tonne. LDPE prices were about 12-13% lower YOY in Q4CY09.

CY09 saw EBIDTA at INR 77.63 crs., an increase of 34.2% while margins expanded by 400 bps to 13.5%. Cost was higher for CY09 on account of a one-time charge for INR 1.33 crs. for the Nagpur plant in Q2 and implementation cost of ERP in Q4. Polymer prices have again started rising. We believe that PPL will not pass on the full cost benefit as well as lower excise duty and hence we maintain our margin estimates of 12-12.5% for CY10 vs. 13.5% in CY09

➤ Net profit for the quarter was up 90% YOY at INR 7.24 crs. PAT margin was at 5.6%, higher by 290 bps YOY. Net profit for CY09 saw a 75.5% increase at INR 37.37 crs. with margins expanding by 300 bps to 6.5%.

➤ VALUATION:

At the CMP of INR 56.80 the stock currently trades at 10.3x its CY10E revised EPS of INR 5.5. **We revise our outlook to "NEUTRAL" for medium term.**

QUARTERLY FINANCIALS

(Rs. in Cr.)

| PARTICULARS | DEC-09 | DEC-08 | VARIANCE | SEP-09 | QOQ | CY09 | CY08 | VARIANCE |
|---------------------------------|---------------|---------------|----------|---------------|---------|---------------|---------------|--------------|
| Net Sales | 130.37 | 142.79 | -8.7% | 159.24 | -18.1% | 577.70 | 612.09 | -5.6% |
| Other Operating Income | 1.16 | 2.04 | -43.1% | 1.79 | -35.2% | 6.57 | 8.68 | -24.3% |
| Other Income | 0.31 | 0.27 | 14.8% | 0.63 | -50.8% | 3.02 | 1.52 | 98.7% |
| Total Income | 131.84 | 145.10 | -9.1% | 161.66 | -18.4% | 587.29 | 622.29 | -5.6% |
| Raw Material Consumed | 94.11 | 94.09 | 0.0% | 101.20 | -7.0% | 385.30 | 424.36 | -9.2% |
| Stock Adjustment | (7.69) | 4.81 | -259.9% | 6.63 | -216.0% | (2.76) | 1.94 | -242.3% |
| Employee Expenses | 10.01 | 13.00 | -23.0% | 14.48 | -30.9% | 49.33 | 50.93 | -3.1% |
| Other Expenses | (0.84) | 2.66 | -131.6% | - | - | 0.16 | 13.20 | -98.8% |
| TOTAL EXPENDITURE | 18.72 | 16.90 | 10.8% | 21.46 | -12.8% | 74.61 | 72.49 | 2.9% |
| PBIDT | 17.22 | 13.37 | 28.8% | 17.26 | -0.2% | 77.63 | 57.85 | 34.2% |
| Interest | 0.14 | 0.41 | -65.9% | (0.26) | -153.8% | (0.07) | 0.98 | -107.1% |
| PBDT | 17.39 | 13.23 | 31.4% | 18.15 | -4.2% | 80.72 | 58.39 | 38.2% |
| Depreciation | 8.29 | 7.08 | 17.1% | 7.68 | 7.9% | 31.15 | 28.62 | 8.8% |
| PBT | 9.10 | 6.15 | 48.0% | 10.47 | -13.1% | 49.57 | 29.77 | 66.5% |
| Tax | 1.86 | 2.34 | 20.5% | 2.22 | -16.2% | 12.2 | 8.48 | 58.2% |
| Profit After Tax | 7.24 | 3.81 | 90.0% | 8.25 | -12.2% | 37.37 | 21.29 | 75.5% |
| Extra-ordinary Items | - | 0.72 | - | - | - | - | 0.93 | -44.1% |
| APAT | 7.24 | 4.53 | 59.8% | 8.25 | -12.2% | 36.85 | 20.36 | 81.0% |
| EPS | 1.15 | 0.61 | - | 1.32 | - | 5.96 | 3.40 | - |
| Equity | 12.54 | 12.54 | - | 12.54 | - | 12.54 | 12.54 | - |
| Face Value | 2 | 2 | - | 2 | - | 2 | 2 | - |
| PBIDTM(%) | 13.2% | 9.4% | - | 10.8% | - | 13.4% | 9.5% | 13.2% |
| PBDTM(%) | 13.3% | 9.3% | - | 11.4% | - | 14.0% | 9.5% | 13.3% |
| PATM(%) | 5.6% | 2.7% | - | 5.2% | - | 6.5% | 3.5% | 5.6% |
| PARTICULARS | | | | | | | | |
| Cost analysis % of sales | | | | | | | | |
| Raw Material Consumed | 66.3% | 69.3% | - | 67.7% | - | 66.2% | 69.6% | - |
| Employee Expenses | 7.7% | 9.1% | - | 9.1% | - | 8.5% | 8.3% | - |
| Other Expenses | 14.4% | 11.8% | - | 13.5% | - | 12.9% | 11.8% | - |

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