Ruchira Paper

IPO Fact Sheet

Issue opens:	November 23, 2006
Issue closes:	November 29, 2006
Issue size:	Rs28.5 crore
Of which	
- Promoter's contribution:	Rs5 crore
- Net issue to public:	Rs23.5 crore
Break-up of net issue to public	
- QIB portion:	50%
- Retail portion:	35%
- Non-institutional portion:	15%
Price band:	Rs21-23

Object of the issue

Through the public issue Ruchira Paper aims to raise Rs28.5 crore to part finance its expansion project. The company is setting up a 33,000-tonne-per-annum (tpa) capacity plant to manufacture writing and printing (W&P) paper, a chemical recovery plant and a 6-megawatt captive power co-generation plant.

Particulars	Rs (in crore)
Setting-up of writing and printing paper plant along with chemical recovery unit and co-generation power plant	135.5
General corporate purposes	1.2
Additional issue expenses	1.3
Total	138.0

Means of finance

The public issue will contribute only 21% of the total cost of the expansion project to be undertaken by the company, including the Rs5-crore contribution by the promoter through participation in the public issue. The bulk of the funding would be done through term loans of Rs93.5 crore that have already been sanctioned by a consortium of banks (including Punjab National Bank, State Bank of Indore, Oriental Bank of Commerce, and State Bank of Bikaner and Jaipur).

Particulars	Rs (cr)	% of cost of project
Term loan	93.5	68
Internal accruals	12.0	9
Equity, cash & cash equivalents pursuant to merger of HTL* with the company	4.0	3
Promoters participation in IPO	5.0	4
Public issue	23.5	17
Total	138.0	100

* Hindustan Tissue Ltd (HTL) is a group company that has been recently amalgamated with Ruchira Paper.

Company background

Ruchira Paper was promoted by three businessmen (Umesh Chander Garg, Jatinder Singh and Subhash Chander Garg) in 1980 with a small agro waste paper mill (capacity of 2,310tpa). The company has been primarily engaged in the manufacturing of kraft paper, which finds application in the packaging industry (including the making of corrugated boxes). Over the years, the manufacturing capacity has been expanded to 52,800tpa. Its manufacturing facility is located in the Sirmour district of Himachal Pradesh. Ruchira Paper is one of the few companies that utilise only agro waste (like wheat straw, bagasse and sarkanda) as the raw material to manufacture kraft paper.

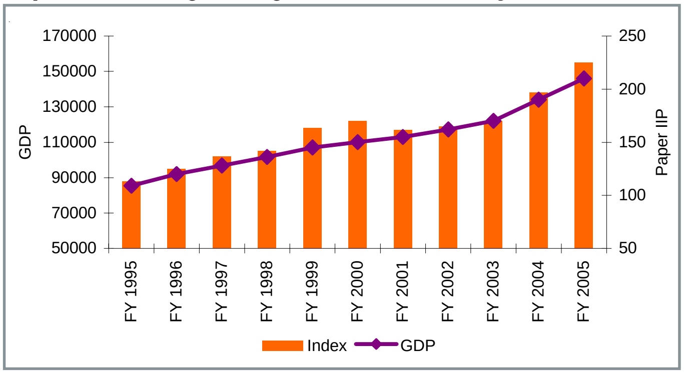
The company is now expanding its product portfolio by setting up a manufacturing unit for W&P paper. The new unit would be located adjacent to the existing facility at Sirmour in Himachal Pradesh.

Favourable industry scenario

Robust growth in demand

In India, the demand for paper has been growing at a healthy compounded annual growth rate (CAGR) of around 5% for the past five years. The demand has been driven largely by favourable macro-economic conditions. The overall paper demand is inextricably linked to factors such as economic growth, industrial production, advertisement expenditure, expenditure on education and literacy.

Paper demand growing with the economy



Source: CRISInfac

Given the 7-8% growth in the economy for the past four years, the demand has grown much faster than the overall increase in the supply. Over the long term, the robust growth in the demand for paper and the limited enhancement in the installed production capacity are likely to widen the demand-supply gap. According to a study done by Jaakko Poyry Consulting, the supply gap would increase to one million tonne in India by 2010, up from around 0.4 million tonne in 2005. The estimates take into account the huge capacity expansion plans that have already been announced by the leading domestic paper manufacturing companies.

In terms of the average consumption also, India lags behind its Asian peers and that would support the demand growth for paper in the long term. India's per capita paper consumption is just 5 kilogram (kg) which compares very poorly with the ASEAN (Association of South-East Asian Nations) average of 29kg and the global average of 54kg.

Threat of imports negligible

India imports around 0.19 million tonne of paper annually, which is around 3% of the total domestic demand. Most of the imports are in the coated paper and specialty paper segments. In the coated paper segment, the imports account for 20-25%, while in the specialty segment, the imports make up nearly 50% of the demand. The imports are negligible in the other varieties of paper. Further, the lower variety of paper generally used in India (like creamwove) is not manufactured globally. In fact, the export of paper has actually grown at a faster rate than paper imports over the last few years.

Polarisation towards large companies

The Indian paper industry is highly fragmented with nearly 515 mills producing about 5.7 million tpa paper and only about 15 mills having capacities of over 60,000tpa. The top 20 companies account for close to 40-42% of the total production. However, the share of large companies has grown steadily over the past few years and is expected to increase further in the coming years. The small players are under threat of getting further marginalised by the enhancement and modernisation of capacities by most of the large players. Secondly, the stricter implementation of elemental chlorine-free (ECF) norms will entail high capital costs for players (in the range of Rs11,000-12,000 per tonne). The deadline for the same is 2009-10 and would exert considerable pressure on medium-sized and small players.

Key strengths

Aggressive expansion

With a combined capacity of 85,800tpa by March 2007, Ruchira Paper would become one of the largest domestic paper manufacturers. The company has a proven track record of successfully scaling up its business. The manufacturing capacity for kraft paper has been ramped up to 52,800tpa last fiscal and the company would benefit from the enhanced capacity during the current year.

In addition to it, the company has the advantage of owning a 100% agro waste-based paper mill. It utilises agro waste such as wheat straw, bagasse and sarkanda to manufacture kraft paper and aims to do the same in the case of W&P paper. Moreover, the company has the flexibility to use any of the above mentioned agro wastes as its raw material, depending on the prevailing prices of the same. Thus, the company would not be adversely affected by the constraint in the supply of wood pulp unlike some of its larger peers. There is ample supply of agro waste raw material from neighbouring states like Haryana, Punjab and Uttar Pradesh.

Moreover, the foray into manufacturing of W&P paper would provide the required diversification and reduce its dependence on kraft paper. The demand for W&P paper, especially the creamwove and map litho varieties, depends largely on the extent of literacy and the spread of education in the country, and is estimated to grow at a CAGR of 5.7% over the next four years.

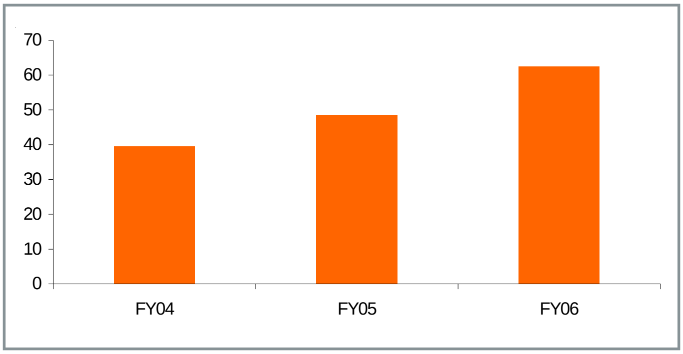
Consistent growth performance

Ruchira Paper has a track record of consistent growth in its revenues and earnings. The net revenues have grown steadily at a CAGR of around 25.7% over the past three years. The growth in the earnings has been better with the company turning profitable in FY2004; also the net margins have consistently improved in the last two years.

Margins to improve

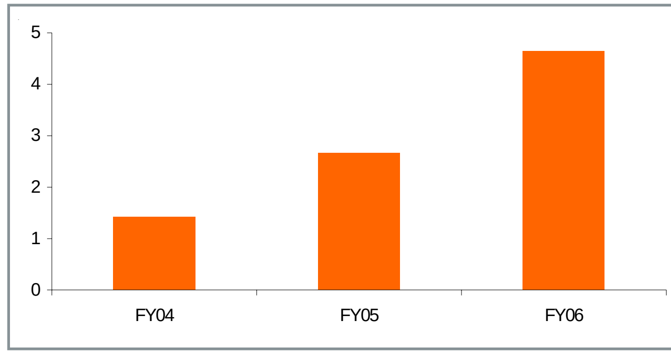
The relatively higher operating profit margin in the W&P paper plant is likely to positively affect the overall profitability of the company. The operational cost in the W&P paper business would be lower due to the re-circulation of caustic soda through the chemical recovery plant. Caustic soda accounts for around 15% of the total raw material cost. Moreover, the 6-megawatt captive power plant

Steady growth in revenues...



Source: Draft prospectus

...and earnings



Source: Draft prospectus

(coal-based but capable of operating with rice husk also) would meet a major part of the power requirements for the company's W&P paper mill. The cost of captive generation of power would stand at Rs1.9 per unit as compared with Rs3.25 per unit paid to the Himachal Pradesh Electricity Board.

Apart from this, the company receives several fiscal incentives from the government currently. The fiscal incentives would also be applicable for the writing and printing paper plant. This provides a competitive advantage to Ruchira Paper. The incentives include the following:

- 100% excise duty exemption for a period of ten years from the date of commencement of production;
- central sales tax of 1% as against the tax of 4% in the other states;
- 100% income tax exemption for the initial period of five years and thereafter an exemption of 30% for the next five years; and
- it would be eligible for capital investment subsidy @15% of the investment in the plant and machinery, subject to a ceiling of Rs30 lakh.

Key negatives

High debt-equity ratio

The high component debt taken to fund the expansion project is likely to strain the balance sheet in terms of a high debt-equity ratio of around 1.7 times in FY2008. The high interest burden could severely affect the growth in the company's earnings in case of a downturn in the paper industry.

Intensifying competition

The aggressive enhancement of the capacities by most large companies could limit the supply of raw material, resulting in a higher-than-anticipated rise in the raw material prices in the coming years. On the other hand, the intense competition would limit the company's ability to pass on the entire cost of the hike in the raw material prices to its customers. Thus, the overall margins could be lower than expectations.

Valuation

At the higher end of the price band, Ruchira Paper is offered at 6.4x its FY2006 earnings and 4.3x H1FY2007 annualised earnings (on diluted post-issue equity base of Rs22.4 crore). Given the expansion plans, the company is likely to report a robust growth in its earnings during the coming years.

Peer comparison (based on FY2006 results)

Particulars	Shree Bhawani Paper	Sree Sakthi Paper	Malu Paper	Ruchira Paper*	
				@Rs21	@Rs23
Net sales (Rs cr)	48.7	57.1	53.2	62.5	62.5
PAT (Rs cr)	2.7	1.7	4.1	4.7	4.7
OPM (%)	12.5	10.4	14.3	14.3	14.3
RONW (%)	20.9	4.9	10.9	18.7	18.7
CMP (Rs)	15.4	12.4	19.6	21	23
EPS (Rs)	6.5	1.0	2.4	3.3	3.9
PER (x)	2.4	11.9	8.2	6.4	5.9
EV/EBITDA(x)	3.5	2.3	3.2	4.7	4.4

*Have taken post-issue diluted equity of Ruchira Paper

Financials

Earnings table Rs (cr)

Particulars	2003	2004	2005	2006
Sales	32.7	39.6	48.6	62.5
Total expenditure	28.8	34.1	42.2	53.6
EBITDA	3.8	5.5	6.4	9.0
Other income	0.0	0.1	0.2	0.5
Interest	1.8	1.8	1.2	1.5
Depreciation	1.2	1.2	1.3	1.7
PBT	0.8	2.6	4.1	6.2
Tax	0.1	0.3	0.4	1.6
PAT	0.8	2.2	3.8	4.7

Balance Sheet Rs (cr)

Particulars	2004	2004	2005	2006
Share capital	8.1	8.1	8.1	10.0
Reserves and surplus	4.2	5.6	8.3	14.9
Net worth	12.2	13.7	16.3	24.9
Share application money	0.0	0.0	0.4	0.5
Total debt	10.4	10.5	11.6	14.4
Capital employed	22.6	24.2	28.4	39.8
Net fixed assets	19.8	20.2	20.4	26.0
CWIP	0.0	0.2	4.0	7.6
Net current assets	6.0	8.0	9.3	11.5
Capital deployed	22.6	24.2	28.4	39.8

Key Ratios

Particulars	2004	2004	2005	2006
OPM(%)	11.7	13.9	13.2	14.3
NPM(%)	2.3	5.7	7.8	7.5
RoCE(%)	11.6	17.9	19.0	19.8
RoNW(%)	-20.8	10.4	16.3	18.6

Valuation

Particulars	2003	2004	2005	2006
EPS (Rs)	0.9	2.8	4.7	4.7
P/E	0.0	8.3	4.9	4.9
Book value	15.2	16.9	20.2	24.8
Price/BV	0.0	1.4	1.1	0.9
EV/EBIDTA	7.6	5.3	4.6	4.2
EV/Sales	0.9	0.7	0.6	0.6

The above working is based on the issue price of Rs23.

The views expressed in this report are our views only and have been arrived at after a thorough analysis of the public offering details. The note is advisory in nature, but is not a Recommendation under our “Stock Idea” category. It may/may not be considered as a “Stock Idea” by our analysts at a later date.