

January 09, 2008

# Orient Paper and Industries Ltd

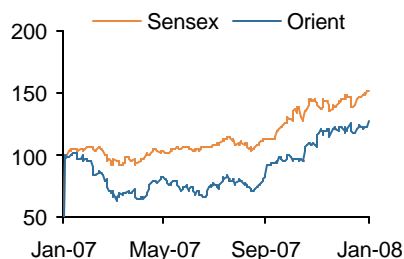
**Sector: Diversified  
(Cement, Paper, Fans)**

Sensex:	20,873
CMP (Rs):	727
Target price (Rs):	952
Upside (%):	30.9
52 Week h/l (Rs):	778/349
Market cap (Rscr) :	1,399
6m Avg vol BSE&NSE ('000Nos):	39.2
No of o/s shares (mn):	19.2
FV (Rs):	10
Bloomberg code:	OPI IN
Reuters code:	ORPP.BO
BSE code:	502420
NSE code:	ORIENTPPR

## Shareholding pattern

June 2007	(%)
Promoters	35.2
Foreign & institution	36.6
Non promoter corp hold	14.3
Public & others	13.9

## Share price trend



## Expanding capacity to meet cement demand in South and West

Orient Paper's (OPIL) cement division is among the most profitable ones in the Indian cement industry, aided by locational advantage of plants and high quality limestone reserves. It generates 95% of cement revenues from supply deficient Southern and Western regions and is expanding capacity at Devapur and Jalgaon plants to 5 MTPA from 2.7 MTPA and clinker capacity to 3.2 MTPA from 2 MTPA by March 2009 with a capex of Rs6bn. OPIL is also setting up a captive thermal power plant of 50MW at Devapur, which is expected to be operational by Q4 FY09. We expect OPIL to save close to Rs300mn at the operating level in FY10.

## Dominates the fast growing tissue paper segment

OPIL has a strong presence in the photocopying, office paper and tissue paper segment. To meet the increasing demand for paper, OPIL plans to increase its Amlai plant capacity by 20,000 TPA from existing 85,000 TPA with an investment of Rs1bn. OPIL dominates the fast growing Rs7bn tissue paper segment with a 40% market share and plans to expand its tissue paper capacity to 30,000 TPA from present 10,000 TPA by Q4 FY09.

## Highest exporter of fans from India

OPIL accounts for 45% of the country's total fan exports. Going forward, OPIL plans to increase sales of value added decorative ceiling fans and introduce a range of Underlight fans. OPIL is also the sole supplier of fans from India to Wal-Mart and intends to increase its fan manufacturing capacity to 3.5mn units by FY09. It plans to diversify into manufacturing and marketing of CFL products with an investment of Rs400mn.

## Development plans on Brajrajnagar land could add value

Operations at OPIL's Brajrajnagar paper plant in Orissa were discontinued since FY99. The company has around 850 acres of land in this unit and can generate Rs1bn from sale of this plant. However, the company has denied any plans to sell the land in the near future. Any development plans announced can act as a trigger to the stock.

## Bottomline expected to witness 31% CAGR over FY07-10, BUY

We expect net profit to witness a 30.8% CAGR over FY07-10 driven by improving realizations across segments and healthy operating margins. The stock is trading at 4.8x FY10E EPS of Rs152.2. We recommend BUY with a one-year price target of Rs952.

## Valuation summary

Period to March (Rs mn)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
Revenues	8,598	11,018	12,678	14,594	16,743
yoy growth (%)	18.7	28.1	15.1	15.1	14.7
Operating profit	1,075	2,522	3,324	3,876	4,420
OPM (%)	12.5	22.9	26.2	26.6	26.4
PAT	216	1,307	2,018	2,672	2,927
Pre-exceptional PAT	401	1,424	2,018	2,672	2,927
yoy growth (%)	688.1	505.6	54.4	32.4	9.5
EPS (Rs)	14.5	88.1	104.9	138.9	152.2
P/E (x)	50.0	8.3	6.9	5.2	4.8
P/BV (x)	16.4	6.2	2.9	1.9	1.4
EV/EBITDA (x)	13.9	5.5	4.3	4.6	3.7
ROE (%)	32.7	75.1	41.2	36.9	29.6
ROCE (%)	19.0	48.2	48.6	31.1	31.0

Source: Company, India Infoline Research

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## Investment rationale

### Strong presence in the supply deficient Southern and Western region

OPIL generates ~95% of cement revenues from Southern and Western regions. Both these regions are facing severe supply deficit, which is reflected by rising cement prices and high capacity utilization. We expect this trend to continue for the next one or two years, given the strong demand growth and limited capacity additions.

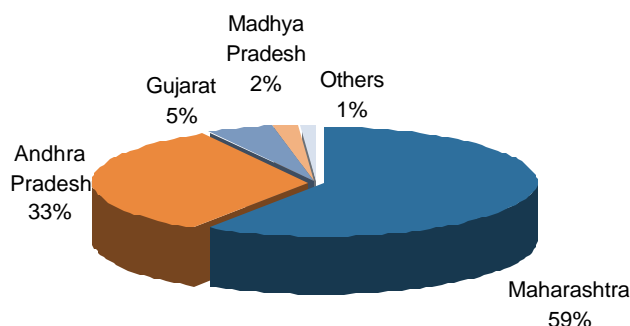
### Cement demand supply scenario

	Southern region					Western region				
	FY06	FY07	FY08E	FY09E	FY10E	FY06	FY07	FY08E	FY09E	FY10E
Effective cement capacity (mn ton)	50	51	55	71	86	29	29	30	32	37
Production (mn ton)	45	50	55	62	69	25	27	30	32	35
Capacity utilisation (%)	88	95	99	87	80	85	93	101	101	94
Demand including transfer (mn ton)	45	50	56	63	71	25	27	30	33	36
Demand growth (%)	15	12	12	12	12	10	10	10	10	10

Source: CMA, Industry, India Infoline Research

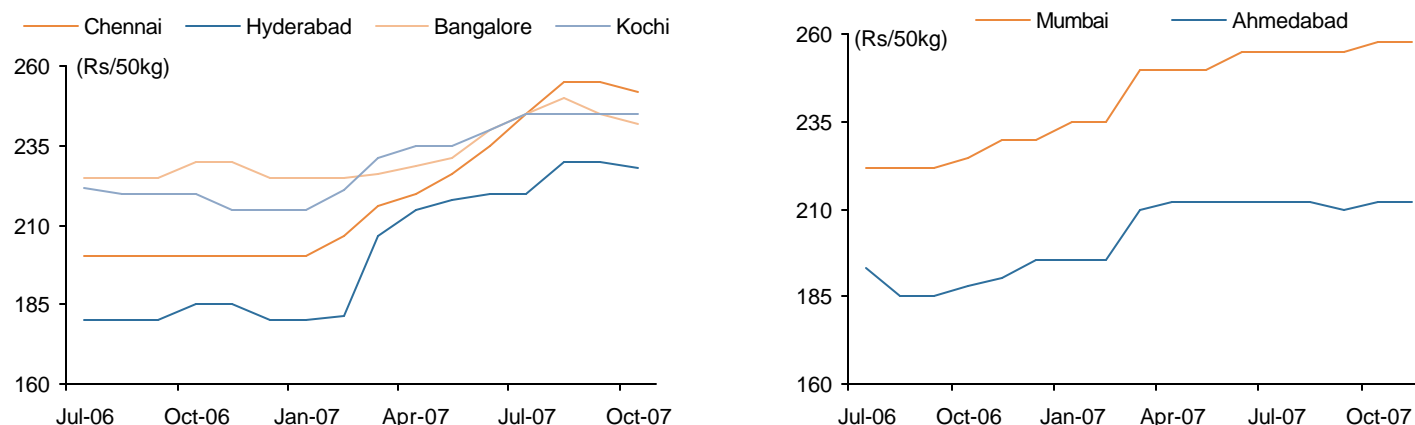
OPIL currently sells ~55% of its cement in the Western region (in highly lucrative Maharashtra) and ~40% in the Southern region (mainly Andhra Pradesh).

### Region-wise despatches - FY07



Source: Company, India Infoline Research

### Price trend in key markets of Southern & Western region



Source: Industry, India Infoline Research

### Expanding capacity to meet cement demand in South and West

OPIL's cement division is one of the most profitable divisions in the Indian cement industry, (despite having relatively smaller capacity), aided by locational advantage of its plants and high quality limestone reserves. OPIL is planning to expand its cement capacity at Devapur and Jalgaon plants from 2.7 MTPA to 5 MTPA and clinker capacity from 2 MTPA (at Devapur) to 3.2 MTPA in phases with an estimated capex of ~Rs6bn (Rs4.3bn from internal accruals and balance through a rights issue). OPIL plans to complete these projects by March 2009 with 1 MTPA additional capacity becoming operational within FY08.

OPIL is setting up a captive power plant of 50MW capacity at Devapur cement plant, which will comprise 2X25 MW turbines with two coal fired boilers of CFBC technology. This plant is expected to become operational by Q4 FY09. OPIL currently sources power for its Devapur unit in Andhra Pradesh from the State Electricity Board, at ~Rs3.1 per unit. We expect, OPIL to save close to Rs300mn at the operating level in FY09, once the plant becomes operational.

### Segment-wise expansion plans

Segment	Present capacity	Addition in FY08		Addition in FY09		Investment
		mn tons	Likely commissioning period	mn tons	Likely commissioning period	
Cement	2.7mn tons	3.2mn tons	by March 2008	5mn tons	by March 2009	~Rs6bn
	50 MW captive power plant				Q4 FY09	
Paper	95,000 tons	-	-	20,000 tons	Q4 FY09	~Rs2bn
Fan	2.6mn nos	-	-	3.5mn nos		~Rs400mn
	(CFL launch by Q1 FY09)					
<b>Total</b>	-	-	-	-	-	<b>~Rs8bn</b>

Source: Company

### Strategic location of plants

Due to the strategic location of its plants, OPIL can easily meet its key raw materials requirement and save on transportation costs. OPIL's limestone mines at Devapur unit have abundant quantity of premium quality limestone, which will be sufficient to meet the company's limestone requirement for the next 30-40 years on the expanded capacity.

For the split grinding unit, OPIL sources clinker from the Devapur plant, which is ~450km from Devapur facility, coal from Singareni Collarries, which is just 40-50km far from its Devapur plant and fly ash from NTPC Ramagundam plant & Bhusawal thermal power station, which are 40km & 20km from its Devapur and Jalgaon plants respectively. Due to its locational advantage, OPIL's fly ash cost per ton is one of the lowest in the industry at ~Rs237 per ton (FY07).

### Dominates the fast growing tissue paper segment

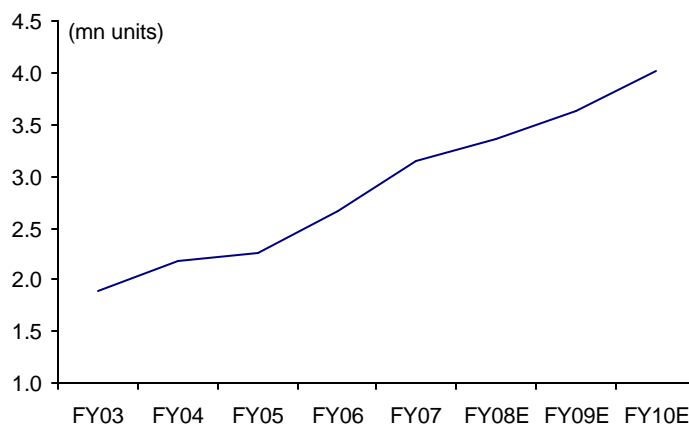
OPIL has a strong presence in the photocopying and office paper segment with major focus on the highly profitable tissue paper segment. To meet the increasing demand for paper, OPIL plans to increase its Amlai paper plant capacity by 20,000 TPA from existing 85,000 TPA by Q4 FY09 with an investment of Rs1bn, which will be funded through internal accruals and borrowings.

OPIL dominates the fastest growing Rs7bn tissue paper segment with a 40% market share. The increasing growth in the usage of tissue paper augurs well for the company. The demand for tissue paper is growing at ~15% per year and to meet this rising demand, OPIL plans to expand its tissue paper capacity from current 10,000 TPA to 30,000 TPA by Q4 FY09. With the firm paper prices, we expect OPIL to report better realizations going forward.

### Highest exporter of fans from India

OPIL is the second largest fan manufacturer and highest exporter (exports ~25% of production) of fans from India. OPIL accounts for ~45% of the country's total fan exports. OPIL has two manufacturing units at Kolkata and Faridabad with a total installed capacity of 2.58mn units. Going forward, OPIL plans to increase sales of value added decorative ceiling fans and introduce a range of Under-light fans. OPIL plans to increase its fan manufacturing capacity to 3.5mn units by FY09 and to diversify into manufacturing and marketing of CFL products (by Q1 FY09) with an investment of ~Rs400mn. The company is also the sole supplier of fans from India to one of the biggest US retailers and generates around 4% of revenues.

### Trend in fan sales



Source: Company, India Infoline Research

### Development plans on Brajrajnagar land could add value

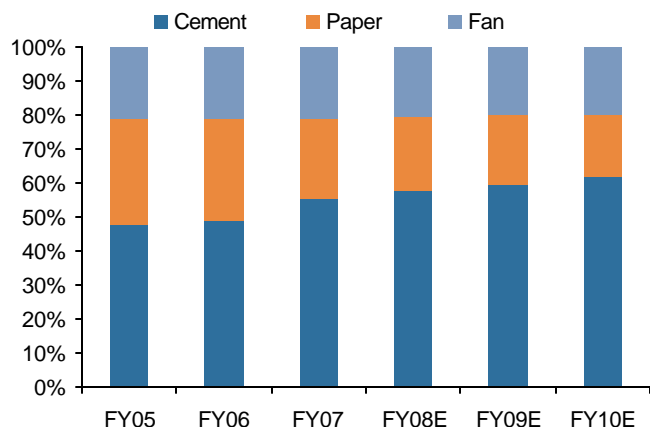
OPIL has two paper manufacturing plants at Amlai (Madhya Pradesh) and Brajrajnagar (Orissa). The operations at Brajrajnagar plant, which has an installed capacity to produce 76,000 MTPA of paper, 2,926 MTPA of chlorine, 3,292 MTPA of caustic soda, and certain other miscellaneous products, have been suspended since 1999. Currently, OPIL is incurring cash loss of Rs25-30mn per year for maintenance of the plant and payment to the staff (mostly security personnel numbering ~100).

OPIL currently has around 850 acres of land in this unit along with fully developed townships, educational institutions, and recreational centers and can generate ~Rs1bn from sale of this plant. However, the company has denied any plans to sell the plant in the near future. We expect the company to re-develop or use the plant for manufacturing other products.

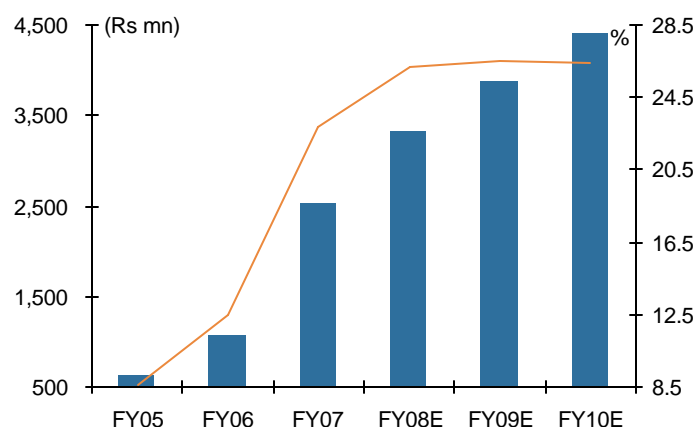
### Bottom line expected to witness 31% CAGR over FY07-10, BUY

We expect the company to witness a 30.8% CAGR in net profit over FY07-10 driven by improving realizations across segments and firm operating margins. At the current market price of Rs727 the stock is trading at 5.2x and 4.8x FY09E and FY10E EPS of Rs138.9 and Rs152.2 respectively. We recommend BUY with a one-year price target of Rs952, an upside of 31%.

**Segment-wise revenue trend**



**Trend in operating profits and margins**



Source: Company, India Infoline Research

**Concerns**

- OPIL generates ~55% revenues from cement and ~24% from the paper segment. Both the cement and paper industries are cyclical in nature and are heavily dependent on the commodity cycle. Any downward trend in demand and/or prices could impact the profitability of the company quite significantly.
- Any Government intervention in cement pricing could be a cause of concern.
- Increase in prices of key raw materials like coal, fuel oil, wood and metals may put pressure on operating margins.

## Company background

### Management profile

Name	Designation
C K Birla	Chairman
M L Pachisia	Managing Director
S L Saraf	Secretary
B K Jhawar	Director
P K Sen	Director
D N Patodia	Director
A Ghosh	Director
V Nachiappan	Nominee (ICICI)
Michael Bastian	Nominee (IDBI)

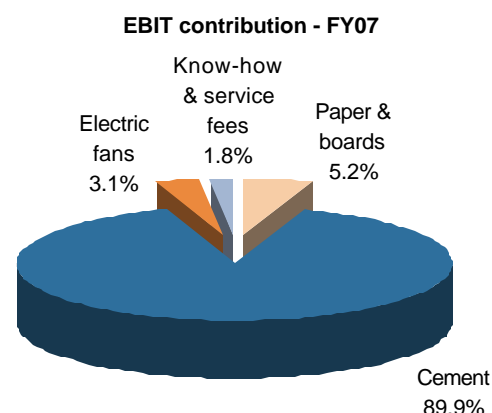
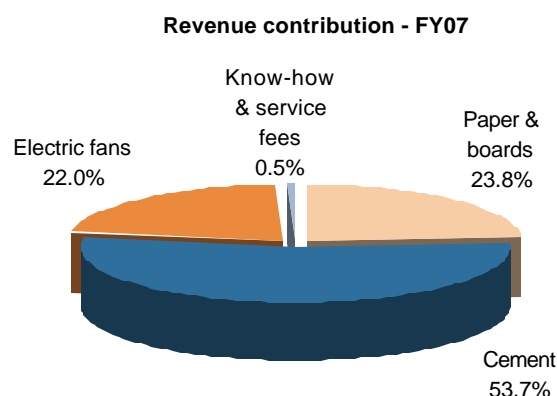
Orient Paper and Industries Ltd, incorporated in 1939, is the diversified flagship company of C. K. Birla Group with business interests in cement, paper and electric fans. The company enjoys leadership position with its established brands like Birla A1, Orient Gold in cement, Orient, Diamond Touch and Peacock Printing in paper and Orient PSPO in fans. OPIL is one of the lowest cost cement producers in the country and generates majority of revenues from this division. OPIL has planned a cumulative capex of ~Rs8bn over FY07-09 across divisions, which will be funded through internal accruals, rights issue proceeds and debt.

### Segment-wise details

Segment	Installed capacity	Location
Cement	2.7mn tons	Andhra Pradesh and Maharashtra
Paper	95,000 tons	Amlai, Madhya Pradesh
Fan	2.6mn pieces	Faridabad and Kolkata

Source: Company

### Segmental break-up



Source: Company, India Infoline Research

### Cement division

OPIL's cement business is a key growth driver, contributing ~54% to revenues and ~90% to profits. The division manufactures and markets Portland Pozzolana Cement (PPC) under the brand Birla A1 and Ordinary Portland Cement (OPC) under the brand name of Orient Gold. OPIL has two cement plants located at Devapur, Andhra Pradesh (principal cement unit – capacity of ~1.7MTPA) and Jalgaon, Maharashtra (split-grinding unit - capacity of ~1MTPA) with a total installed capacity of 2.7MTPA.

The company has completed first phase of cement capacity expansion from 2.4 MTPA to 2.7 MTPA in August'07. OPIL plans to ramp up the capacity to 3.2 MTPA in FY08 and to 5 MTPA by March 2009. OPIL's PPC (blended and value-added) volumes have increased from 8.4% in FY03 to 58.6% in FY07 and OPIL expects to increase to same to ~90% in FY08. OPIL's limestone mines at Devapur unit have abundant quantity of premium quality limestone, which is sufficient to meet limestone requirement for the next 30-40 years on the expanded capacity. The cement segment will continue to be the major contributor to OPIL's topline as well as bottomline.

**Paper division**

OPIL has strong presence in writing and printing paper (mainly cream-wove and maplitho paper), photocopying papers and tissue paper category. OPIL sells paper under the brands Orient, Peacock Printing and Diamond Touch. OPIL's paper manufacturing plant is located at Amlai (Madhya Pradesh) with an installed capacity of 95,000 TPA. Operations at another paper plant located at Brajrajnagar with an installed capacity to produce 76,000 MTPA of paper have been suspended since 1999 due to constant labour problems and unviable operations.

OPIL enjoys leadership position in the fast growing tissue paper market with a 40%+ market share. The demand for tissue paper is growing at ~15% per year. To meet this rising demand OPIL plans to expand its tissue paper capacity from the present 10,000 TPA to 30,000 TPA by Q4 FY09.

**Fans division**

OPIL is the second largest fan manufacturer and highest exporter (exports ~25% of production) of fans from India. OPIL accounts for ~45% of the country's total export of fans and markets its product under the popular brand - Orient PSPO. OPIL has two units for manufacturing fans at Kolkata, West Bengal and Faridabad, Haryana having total installed capacity of 2.58mn units. OPIL plans to increase the sales of value added decorative ceiling fans and introduce a range of Under-light fans.

## Financials

### Income statement

Period to (Rs mn)	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
Net sales	11,018	12,678	14,594	16,743
Operating expenses	(8,495)	(9,354)	(10,718)	(12,323)
Operating profit	2,522	3,324	3,876	4,420
Other income	144	174	185	195
PBITD	2,666	3,498	4,061	4,615
Interest	(327)	(239)	(167)	(172)
Depreciation	(262)	(269)	(331)	(535)
Profit before tax	2,077	2,990	3,563	3,908
Tax	(653)	(972)	(891)	(981)
Profit after tax	1,424	2,018	2,672	2,927
Extraordinary items	(117)	-	-	-
Adjusted profit after tax	1,307	2,018	2,672	2,927

### Balance sheet

Period to (Rs mn)	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
<b>Sources</b>				
Equity share capital	148	192	192	192
Pref share capital	200	70	-	-
Reserves	1,392	4,639	7,044	9,704
Net worth	1,740	4,901	7,236	9,897
Loan funds	3,247	1,747	4,747	3,247
<b>Total</b>	<b>5,364</b>	<b>7,025</b>	<b>12,360</b>	<b>13,520</b>
<b>Uses</b>				
Gross block	6,944	7,044	13,044	14,544
Acc. depreciation	(4,087)	(4,356)	(4,687)	(5,222)
Net block	2,857	2,688	8,357	9,322
Capital WIP	656	706	706	706
Total fixed assets	3,513	3,394	9,063	10,028
Investments	134	149	149	149
Total current assets	3,416	5,394	5,361	5,889
Total current liabilities	(1,821)	(2,043)	(2,344)	(2,677)
Net working capital	1,595	3,351	3,017	3,212
Misc expenditure	121	131	131	131
<b>Total</b>	<b>5,364</b>	<b>7,025</b>	<b>12,360</b>	<b>13,520</b>

### Key ratios

Period to	FY07 (12)	FY08E (12)	FY09E (12)	FY10E (12)
<b>Per share ratios (Rs)</b>				
EPS	88.1	104.9	138.9	152.2
Cash EPS	105.7	118.9	156.1	180.0
Div per share	11.6	12.0	12.0	12.0
Book value per share	117.3	254.8	376.2	514.4
<b>Valuation ratios (x)</b>				
P/E	8.2	6.9	5.2	4.8
P/BV	6.2	2.8	1.9	1.4
EV/sales	1.3	1.1	1.3	1.0
EV/ PBIT	5.8	4.4	5.0	4.2
EV/EBITDA	5.5	4.2	4.8	3.9

### Profitability ratios (%)

OPM	22.9	26.2	26.6	26.4
PAT	11.9	15.9	18.3	17.5
ROCE	48.2	48.6	31.1	31.0
RONW	75.1	41.2	36.9	29.6

### Liquidity ratios

Current ratio (x)	1.9	2.6	2.3	2.2
Debtors days	40.9	40.5	40.5	40.5
Inventory days	30.7	30.5	30.5	30.5
Creditors days	45.6	45.0	44.5	44.2

### Leverage ratios

Debt / Total equity	1.9	0.4	0.7	0.3
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### Payout ratios

Dividend Payout Ratio	15.3	13.2	10.0	9.1
Tax payout	31.5	32.5	25.0	25.1

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