

November 2, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 62	Rs82
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,258
Sensex	17,465

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	5	7	1
Rel. to Nifty	(4)	9	12	18

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	OPI@IN
Equity Capital (Rs mn)	193
Face Value(Rs)	1
No of shares o/s (mn)	193
52 Week H/L	67/45
Market Cap (Rs bn/USD mn)	12/244
Daily Avg Volume (No of sh)	100908
Daily Avg Turnover (US\$m)	0.1

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	33.6	33.6	33.6
FII/NRI	4.9	4.7	3.8
Institutions	36.5	36.0	34.5
Private Corp	13.3	13.3	14.6
Public	11.8	12.4	13.5

Source: Capitaline

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Poor performance of Electricals division drags profits

- **EBITDA at Rs556 mn (+196.2% yoy), lower than estimates (Rs652mn) led by poor performance of electricals division. Electrical revenues grew 7% with EBIT margins at mere 1.9%**
- **Cement revenues grew 57% yoy (Rs2.9) bn entirely driven by a sharp 55% yoy jump in realization (Rs3555/t). However with higher energy & freight cost, cement EBIT/t at Rs683 came in lower than est(Rs730/t)**
- **De-merger of cement business into a new wholly owned sub-Orient Cement Ltd - triggers the much awaited value unlocking process**
- **Maintain Earnings. Stock trades at undemanding valuation of 5.5x FY13 PER & EV/EBIDTA of 3X. We maintain our BUY rating on the stock with target price of Rs82**

Poor performance of electricals division drags EBITDA

OPIL's EBITDA for the quarter at Rs556 mn (+196.2% yoy), was below estimates of Rs652mn led by poor performance of electricals division. Revenues from electricals division of Rs1.35bn, +7% yoy, (vs est of Rs1.53bn) witnessed a slowdown while EBIT surprised us negatively (Rs25 mn vs est of Rs76mn) with EBIT margins contracting 340bps yoy to a mere 1.9%. Though cement realizations of Rs3555/t (above estimates of Rs3331/t) helped revenue growth of 53% , higher costs (total costs of Rs2872/t) which increased 29% yoy resulted in lower than estimated EBIT/t of Rs683 (est of Rs730/t). Paper division continued to disappoint with loss of Rs149mn (Loss of Rs145mn from Amlai plant). Consequently net profit for the quarter at Rs241mn came in below estimates of Rs268mn.

Board approves de-merger of cement business - triggers value unlocking process

The Board has approved De-merger of Cement Business into a new wholly owned sub-Orient Cement Ltd (OCL). Post the necessary approval, OPIL shareholder will get 1 share of OCL for each share held in OPIL. Hence OCL will have mirror shareholding of OPIL. Effective date of demerger is 1st April-12. The de-merger creates focused cement play for OPIL shareholder and triggers the much awaited value unlocking process, apart from providing separate platform for each businesses to pursue growth opportunities.

Maintain BUY with price target price of Rs82

Though OPIL's key markets witnessed sharp correction in prices from July to August, the uptick in prices which started in Sept-11 has gained momentum & as of Oct-11 all India cement prices at Rs265 are already up Rs18-20/bag from Q2FY12 average of Rs247/bag. This increased momentum in cement prices is expected to improve the profitability of cement division and help cushion the downgrade in earnings estimate due to downward revision in margins for electrical division (-140bps for FY12 and 100 bps for FY13). Stock trades at 5.5x FY13 PER & EV/EBIDTA of 3X. Maintain BUY with TP of Rs82. We expect the re-rating of OPIL's cement business as the de-merger will ensure that the cement cash flows will be dedicatedly used for funding the growth of the business rather than supporting the losses of the paper division.

Key Financials

Rs mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	16,198	3,074	19.0	1,593	8.3	-35.9	22.7	7.5	5.3	1.6
FY11P	19,590	2,951	15.1	1,431	7.4	-10.2	17.2	8.3	5.5	1.3
FY12E	24,792	3,783	15.3	1,800	9.3	25.8	18.5	6.6	4.1	1.1
FY13E	28,839	4,555	15.8	2,186	11.3	21.4	19.0	5.5	3.1	1.0

Result Table

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	3,829	4,384	6,961	5,339	5,066	20.9	-23.3	10,405	8,245	26.2
Expenditure	3,641	3,643	5,656	4,230	4,509	14.4	-25.2	8,739	7,340	19.1
<i>as % of sales</i>	<i>95%</i>	<i>83%</i>	<i>81%</i>	<i>79%</i>	<i>89%</i>			<i>84%</i>	<i>89%</i>	
Raw Material Consumed	1,472	1,637	2,418	2,063	1,653	40.1	-14.7	3,716	2,944	26.2
<i>as % of sales</i>	<i>38%</i>	<i>37%</i>	<i>35%</i>	<i>39%</i>	<i>33%</i>			<i>36%</i>	<i>36%</i>	
Stock Adjustments	-84	-396	549	-400	-28	1264.1	-172.8	-428	-113	279.4
<i>as % of sales</i>	<i>-2%</i>	<i>-9%</i>	<i>8%</i>	<i>-7%</i>	<i>-1%</i>			<i>-4%</i>	<i>-1%</i>	
Consumption of Stores	176	182	186	139	198	113.7	-25.4	336	241	39.4
<i>as % of sales</i>	<i>5%</i>	<i>4%</i>	<i>3%</i>	<i>3%</i>	<i>4%</i>			<i>3%</i>	<i>3%</i>	
Power, Oil & Fuel	802	816	845	850	931	1.6	0.6	1781	1638	8.8
<i>as % of sales</i>	<i>21%</i>	<i>19%</i>	<i>12%</i>	<i>16%</i>	<i>18%</i>			<i>17%</i>	<i>20%</i>	
Employee Expenses	287	302	322	352	358	25.9	9.1	709	567	25.2
<i>as % of sales</i>	<i>8%</i>	<i>7%</i>	<i>5%</i>	<i>7%</i>	<i>7%</i>			<i>7%</i>	<i>7%</i>	
Freight and selling exp	503	598	828	729	696	14.0	-12.0	1,424	1,142	24.7
<i>as % of sales</i>	<i>13%</i>	<i>14%</i>	<i>12%</i>	<i>14%</i>	<i>14%</i>			<i>14%</i>	<i>14%</i>	
Provisions & Write Offs	-	-	-	(75)	-			(75)	-	
<i>as % of sales</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>-1%</i>	<i>0%</i>			<i>-1%</i>	<i>0%</i>	
Other Expenses	484	503	508	573	702	31.5	12.9	1,275	920	38.6
<i>as % of sales</i>	<i>13%</i>	<i>11%</i>	<i>7%</i>	<i>11%</i>	<i>14%</i>			<i>12%</i>	<i>11%</i>	
EBITDA	188	741	1,304	1,109	556	54.6	-14.9	1,666	905	84.0
Depreciation	200	208	215	213	218	11.1	-0.9	431	392	9.9
EBIT	-12	534	1,089	896	339	70.4	-17.7	1,235	513	140.5
Other Income	98	36	155	60	94	-31.3	-61.2	155	185	-16.6
Interest	76	107	134	93	91	-7.7	-30.5	184	177	3.9
PBT	9	462	1,111	864	342	68.4	-22.3	1,206	522	130.9
Total Tax	4	153	336	280	102	64.2	-16.8	381	175	118.3
Adjusted PAT	5	309	775	584	241	70.5	-24.6	824	347	137.3
Extra ordinary items				10	0			10		
Reported PAT	5	309	775	594	241	73.4	-23.4	834	347	140.2
(Profit)/loss from JV's/Ass/MI										
PAT after MI	5	309	775	594	241	73.4	-23.4	834	347	140.2
Reported EPS	0.0	1.6	4.0	3.0	1.2	70.5	-24.6	4.28	1.80	137.3

Margins (%)						bps	bps			bps
EBIDTA	4.9	16.9	18.7	20.8	11.0	453	204	16.0	11.0	503
EBIT	-0.3	12.2	15.7	16.8	6.7	488	113	11.9	6.2	564
EBT	0.2	10.5	16.0	16.2	6.8	456	21	11.6	6.3	526
PAT	0.1	7.0	11.1	10.9	4.8	318	-20	7.9	4.2	371
Effective Tax rate	46.2	33.1	30.3	32.4	29.7	-83	214	31.6	33.5	-183

Segmental Results

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue										
Paper & Board	691	891	977	508	766	136.8	-48.1	1274	906	40.7
Cement	1861	2286	3342	3167	2926	11.4	-5.3	6093	4704	29.5
Electric Fans	1264	1189	2622	1649	1352	22.3	-37.1	3001	2611	14.9
EBIT										
Paper & Board	-34	24	-94	-154	-149	-34.0	64.1	-303	-267	13.6
Cement	54	466	1036	1007	562	29.9	-2.8	1569	829	89.3
Electric Fans	66	100	309	121	25	26.0	-61.0	146	162	-10.0
EBIT margin										
						bps	bps			bps
Paper & Board	-4.9	2.7	-9.6	-30.3	-19.5	7848	-2071	-23.8	-29.5	566
Cement	2.9	20.4	31.0	31.8	19.2	453	80	25.8	17.6	813
Electric Fans	5.2	8.4	11.8	7.3	1.9	21	-447	4.9	6.2	-134

Key Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Net Sales	16,198	19,590	24,792	28,839
Growth (%)	7.8	20.9	26.6	16.3
Expenditure	13,124	16,639	21,010	24,285
Materials Consumed	5,642	6,999	8,952	10,601
Construction Exp	4,566	5,868	7,692	8,841
Employee Cost	1,040	1,174	1,409	1,522
Other Exp	1,876	2,597	2,957	3,321
EBITDA	3,074	2,951	3,783	4,555
Growth (%)	(21.5)	(4.0)	28.2	20.4
EBITDA margin (%)	19.0	15.1	15.3	15.8
Depreciation	550	815	890	1,012
EBIT	2,524	2,136	2,893	3,543
EBIT margin (%)	15.6	10.9	11.7	12.3
Other Income	163	377	240	240
Interest expenses	345	418	485	568
PBT	2,341	2,095	2,647	3,215
Tax	748	664	847	1,029
Effective tax rate (%)	31.9	31.7	32.0	32.0
Adjusted PAT	1,593	1,431	1,800	2,186
Growth (%)	(35.9)	(10.2)	25.8	21.4
Net Margin (%)	9.8	7.3	7.3	7.6
(Profit)/loss from JV's/Ass/MI				
Adj. PAT After JVs/Ass/MI	1,593	1,431	1,800	2,186
E/O items	0	0	0	0
Reported PAT	1,593	1,431	1,800	2,186
Growth (%)	-20.4	-10.2	25.8	21.4

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
Equity share capital	193	365	365	365
Reserves & surplus	7,561	8,652	10,235	12,203
Shareholders Funds	7,754	9,017	10,599	12,568
Secured Loans	4,171	3,974	3,974	3,974
Unsecured Loans	964	1,466	1,350	1,500
Loan Funds	5,135	5,440	5,324	5,474
Net Deferred Taxes	1103	1354	1354	1354
Total Liabilities	15,132	17,193	18,660	20,778
Gross Block	16,365	17,919	18,169	20,519
Less: Acc Depreciation	5,206	5,963	6,853	7,865
Net block	11,159	11,955	11,315	12,653
Capital WIP	568	657	2,137	1,473
Investment	471	663	663	663
Current Assets	4,888	6,030	7,405	9,426
Inventories	1,503	1,642	2,079	2,418
Sundry Debtors	1,844	2,398	2,717	3,160
Cash and Bank	464	588	1,208	2,446
Loans and Advances	1,077	1,401	1,401	1,401
Other current assets	96	36	68	79
Current Liab & Prov	3,153	3,503	4,283	4,870
Current liabilities	2,346	2,821	3,600	4,188
Provisions	807	683	683	683
Net current assets	1,735	2,527	3,123	4,556
Miscellaneous Exps	0	0	0	0
Total Assets	15,132	17,193	18,659	20,778

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	2341	2095	2407	2975
Depreciation	550	815	890	1012
Interest Provided	345	418	485	568
Other Non-Cash items	-33	-42	0	0
Chg in working cap	-137	-378	-7	-206
Tax paid	-448	-564	-847	-1029
Operating Cashflow	2619	2344	2928	3320
Capital expenditure	-1916	-1782	-1730	-1687
Free Cash Flow	703	562	1199	1633
Other income	62	59	240	240
Investments	-380	-193	0	0
Investing Cashflow	-2234	-1916	-1490	-1447
Equity Capital Raised	4	172	0	0
Loans Taken / (Repaid)	512	304	-116	150
Interest Paid	-434	-448	-485	-568
Dividend paid (incl tax)	-338	-336	-218	-218
Income from investments	0	0	0	0
Others	2	3	0	0
Financing Cashflow	-254	-304	-819	-636
Net chg in cash	131	124	620	1238
Opening cash position	333	464	588	1208
Closing cash position	464	588	1208	2446

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	19.0	15.1	15.3	15.8
Net Margin	9.8	7.3	7.3	7.6
ROCE	21.1	16.9	19.0	20.7
ROE	22.7	17.2	18.5	19.0
RoIC	29.7	16.3	21.4	25.3
Per Share Data (Rs)				
EPS	8.3	7.4	9.3	11.3
CEPS	11.1	11.6	13.9	16.6
BVPS	39.7	46.3	54.5	64.7
DPS	1.5	1.5	1.0	1.0
Valuations (x)				
PER	7.5	8.3	6.6	5.5
P/CEPS	5.6	5.3	4.4	3.7
P/BV	1.6	1.3	1.1	1.0
EV / Sales	1.0	0.8	0.6	0.5
EV / EBITDA	5.3	5.5	4.1	3.1
Dividend Yield (%)	2.4	2.4	1.6	1.6
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.5	0.4	0.2
Net Debt/EBIDTA	1.5	1.7	1.1	0.7
Working Cap Cycle (days)	23.0	20.0	27.3	12.4

Recommendation History: Orient Paper & Industries – OPI IN

Date	Reports	Reco	CMP	Target
28/07/2011	Orient Paper Q1FY12 Result Update	Buy	62	82
28/04/2011	Orient Paper Q4FY11 Result Update	Buy	60	74
21/01/2011	Orient Paper Q3FY11 Result Update	Buy	50	77
16/11/2010	Orient Paper Q2FY11 Result Update	Buy	65	77

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2011	ACC Q3CY11 Result Update	Accumulate	1,184	1,290
01/11/2011	Century Plyboards Q2FY12 Result Update	Buy	59	82
24/10/2011	Grasim Industries Q2FY12 Result Update	Accumulate	2,362	2,700
20/10/2011	Ultratech Cement Q2FY12 Result Update	Hold	1,111	1,170

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