

January 31, 2012

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs52	Rs82

EPS change FY12E/13E (%)	+8.3/+1.6
Target Price change (%)	NA
Nifty	5,199
Sensex	17,194

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(14)	(12)	6
Rel. to Nifty	(9)	(12)	(8)	12

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	66/44
Market Cap (Rs bn/USD mn)	10/202
Daily Avg Volume (No of sh)	161754
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	33.6	33.6	33.6
FII/NRI	4.7	4.9	4.7
Institutions	36.8	36.5	36.0
Private Corp	13.2	13.3	13.3
Public	11.7	11.8	12.4

Source: Capitaline

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- EBITDA at Rs892 mn (+20.4% yoy), above est (Rs723mn) led by cement division. Cement revenues grew 51% yoy (Rs3.5) bn volumes jump 24% yoy, realizations improve 22%
- Paper division continues to report losses (Rs153mn). However new CPP of 50 MW to be commissioned in 3 months would drive cost efficiencies & help division turnaround
- Upgrade earnings estimate for FY12/13 by 8.3%/1.6% led by better performance from cement division. Higher energy prices in FY13 for paper division cap FY13 upgrade
- De-merger of cement business to trigger much awaited value unlocking process. Stock trades at undemanding valuation of 4.5x FY13 PER & EV/E of 2.7X. BUY - target price of Rs82

Cement performance drives EBITDA above estimates

OPIL's EBITDA for the quarter at Rs892mn, +20.4% yoy, was above estimates of Rs723mn led by better than expected performance from cement segment. During the quarter, cement volumes grew 24% yoy (0.97mnt) while realizations improved 22% yoy (Rs3556/t) driving 51% growth in revenues at Rs3.45bn (vs estimates of Rs3.05bn). Cement EBIT/t also improved 45% yoy and 26.6% qoq to Rs864/t (vs est of Rs735/t) on account of effective cost management and better realizations. Revenues from paper division improved 6% yoy to Rs0.94bn (below estimates of Rs1.1bn). However it continued to disappoint with loss of Rs153mn (Loss of Rs140mn from Amlai plant) due to higher input costs. While for the electricals division EBIT came in at Rs43mn, below estimates of Rs86mn, on account of a one time expense of Rs54mn incurred on a new initiative in this segment. Adjusting for this one off, EBIT for the segment stood at Rs97mn, decline of 3.7% yoy while overall EBITDA stood at Rs946mn, growth of 28% yoy.

Commissioning of 55 MW power plant could provide the next turnaround trigger for Paper division

Despite 6% revenue growth, Paper division continued its dismal performance and posted losses of Rs153mn led by higher prices for pulpwood, coal and other major inputs. However the new power plant of 55 MW capacity (which was earlier facing delays) is now at an advance stage of completion and is expected to become operational in the next 3 months. This project will result in substantial reduction in the divisions cost. This cost efficiency along with reducing pulp prices might help the company to keep the cost pressures under control which are expected to further escalate post the changes in the coal pricing mechanism adopted by Coal India (UHV to GCV based pricing) effective from Jan-12.

Key Financials

	Rs mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	16,198	3,074	19.0	1,593	8.3	-35.9	22.7	6.2	4.6	1.3
FY11P	19,590	2,951	15.1	1,431	7.4	-10.2	17.2	7.0	4.8	1.1
FY12E	24,555	3,892	15.9	1,949	10.1	36.2	19.9	5.1	3.4	0.9
FY13E	28,490	4,471	15.7	2,221	11.5	13.9	19.0	4.5	2.7	0.8

Result Table

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue	4,384	6,961	5,339	5,066	5,757	31.3	13.6	16,162	12,629	28.0
Expenditure	3,643	5,656	4,230	4,484	4,811	32.1	7.3	13,525	10,983	23.1
<i>as % of sales</i>	83%	81%	79%	89%	84%			84%	87%	
Raw Material Consumed	1,637	2,418	2,063	1,653	2,099	28.3	27.0	5,815	4,581	26.9
<i>as % of sales</i>	37%	35%	39%	33%	36%			36%	36%	
Stock Adjustments	-396	549	-400	-28	-408	3.0	1344.1	-836	-509	64.3
<i>as % of sales</i>	-9%	8%	-7%	-1%	-7%			-5%	-4%	
Consumption of Stores	182	186	139	198	223	22.5	13.0	560	424	32.1
<i>as % of sales</i>	4%	3%	3%	4%	4%			3%	3%	
Power, Oil & Fuel	816	845	850	931	1158	41.9	24.4	2940	2454	19.8
<i>as % of sales</i>	19%	12%	16%	18%	20%			18%	19%	
Employee Expenses	302	322	352	358	372	22.8	3.9	1081	869	24.4
<i>as % of sales</i>	7%	5%	7%	7%	6%			7%	7%	
Freight and selling exp	598	828	729	696	809	35.2	16.2	2,233	1,741	28.3
<i>as % of sales</i>	14%	12%	14%	14%	14%			14%	14%	
Provisions & Write Offs	-	-	(75)	-	-			(75)	-	
<i>as % of sales</i>	0%	0%	-1%	0%	0%			0%	0%	
Other Expenses	503	508	573	677	558	10.8	-17.6	1,808	1,423	27.0
<i>as % of sales</i>	11%	7%	11%	13%	10%			11%	11%	
EBITDA	741	1,304	1,109	581	946	27.7	62.8	2,637	1,647	60.1
Depreciation	208	215	213	218	220	6.0	1.2	651	600	8.5
EBIT	534	1,089	896	364	726	36.1	99.7	1,986	1,047	89.7
Other Income	36	155	60	94	42	17.7	-55.4	197	221	-11.1
Interest	107	134	93	91	92	-14.5	1.1	275	284	-3.0
PBT	462	1,111	864	367	677	46.5	84.2	1,907	984	93.8
Total Tax	153	336	280	102	199	29.8	95.5	580	328	77.0
Adjusted PAT	309	775	584	266	478	54.7	79.9	1327	656	102.2
Extra ordinary items			10	-25	-54			10		
Reported PAT	309	775	594	241	424	37.2	76.2	1337	656	103.7
(Profit)/loss from JV's/Ass/MI										
PAT after MI	309	775	594	241	424	37.2	76.2	1337	656	103.7
Reported EPS	1.6	4.0	3.0	1.4	2.5	54.7	79.9	6.89	3.41	102.2

Margins (%)						bps	bps			bps
EBIDTA	16.9	18.7	20.8	11.5	16.4	-47	496	16.3	13.0	328
EBIT	12.2	15.7	16.8	7.2	12.6	44	543	12.3	8.3	400
EBT	10.5	16.0	16.2	7.2	11.8	121	450	11.8	7.8	401
PAT	7.0	11.1	10.9	5.2	8.3	125	306	8.2	5.2	302
Effective Tax rate	33.1	30.3	32.4	27.7	29.3	-375	169	30.4	33.3	-289

Segmental Results

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Revenue										
Paper & Board	891	977	508	766	941	5.7	22.8	2215	1796	23.3
Cement	2286	3342	3167	2926	3451	50.9	17.9	9544	6990	36.5
Electric Fans	1189	2622	1649	1352	1344	13.0	-0.6	4345	3801	14.3
EBIT										
Paper & Board	24	-94	-154	-149	-153	-725.2	2.2	-456	-242	88.1
Cement	466	1036	1007	562	839	79.8	49.2	2408	1295	85.9
Electric Fans	100	309	121	50	97	-3.7	92.3	268	262	2.0
EBIT margin										
						bps	bps			bps
Paper & Board	2.7	-9.6	-30.3	-19.5	-16.2	-1896	326	-20.6	-13.5	-708
Cement	20.4	31.0	31.8	19.2	24.3	390	510	25.2	18.5	670
Electric Fans	8.4	11.8	7.3	3.7	7.2	-125	347	6.2	6.9	-75

Upgrade earnings driven by better performance from cement division

Led by better than expected performance for cement division, we upgrade our earnings estimate for FY12 by 8.3% (EPS of Rs10.1) and 1.6% for FY13 (EPS of Rs11.5). However the new pricing mechanism adopted by Coal India (UHV based to GCV based) will result in higher energy prices for paper division in FY13 (as CPP for this division sources coal from Coal India) and therefore caps the upgrade in FY13 earnings to 1.6%. The impact of coal prices is not substantial for the cement division in FY13 as it sources coal from Singareni mines where the estimated hike in coal prices could be around 6% as compared to 28% in the case for Coal India's prices.

	FY12E			FY13E		
	Earlier	Revised	change	Earlier	Revised	change
Sales	24792	24555	-1.0%	28839	28490	-1.2%
EBIDTA	3783	3892	2.9%	4555	4471	-1.8%
EBIDTA (%)	15.3	15.9		15.8	15.7	
Net Profit	1800	1949	8.3%	2186	2221	1.6%
EPS	9.3	10.1	8.3%	11.3	11.5	1.6%

The Board had approved de-merger of cement business into a new wholly owned sub-Orient Cement Ltd (OCL) through a scheme of arrangement wef 1st April, 2012, which is subject to approval of the court. The Demerger Creates pure play cement company that triggers the much awaited value unlocking process, apart from providing separate platform for each businesses to explore various options to augment their growth plans. 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. Stock trades at undemanding valuation of 4.5x FY13 PER & EV/EBIDTA of 2.7X. We maintain our BUY rating on the stock with target price of Rs82

Key Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	16,198	19,590	24,555	28,490
<i>Growth (%)</i>	7.8	20.9	25.3	16.0
Expenditure	13,124	16,639	20,663	24,019
Materials Consumed	5,642	6,999	8,587	10,016
Construction Exp	4,566	5,868	7,425	8,825
Employee Cost	1,040	1,174	1,496	1,646
Other Exp	1,876	2,597	3,155	3,533
EBITDA	3,074	2,951	3,892	4,471
<i>Growth (%)</i>	(21.5)	(4.0)	31.9	14.9
EBITDA margin (%)	19.0	15.1	15.9	15.7
Depreciation	550	815	890	1,012
EBIT	2,524	2,136	3,002	3,459
EBIT margin (%)	15.6	10.9	12.2	12.1
Other Income	163	377	240	240
Interest expenses	345	418	375	433
PBT	2,341	2,095	2,867	3,266
Tax	748	664	917	1,045
<i>Effective tax rate (%)</i>	31.9	31.7	32.0	32.0
Adjusted PAT	1,593	1,431	1,949	2,221
<i>Growth (%)</i>	(35.9)	(10.2)	36.2	13.9
Net Margin (%)	9.8	7.3	7.9	7.8
(Profit)/loss from JV's/Ass/MI				
Adj. PAT After JVs/Ass/MI	1,593	1,431	1,949	2,221
E/O items	0	0	0	0
Reported PAT	1,593	1,431	1,949	2,221
<i>Growth (%)</i>	-20.4	-10.2	36.2	13.9

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	2341	2095	2627	3026
Depreciation	550	815	890	1012
Interest Provided	345	418	375	433
Other Non-Cash items	-33	-42	0	0
Chg in working cap	-137	-378	5	-201
Tax paid	-448	-564	-917	-1045
Operating Cashflow	2619	2344	2980	3225
Capital expenditure	-1916	-1782	-1730	-1687
Free Cash Flow	703	562	1250	1539
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	-375	-433
Dividend paid (incl tax)	-338	-336	-218	-218
Income from investments	0	0	0	0
Others	2	3	0	0
Financing Cashflow	-254	-304	-709	-500
Net chg in cash	131	124	781	1278
Opening cash position	333	464	588	1370
Closing cash position	464	588	1370	2648

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	193	365	365	365
Reserves & surplus	7,561	8,652	10,384	12,387
Shareholders Funds	7,754	9,017	10,749	12,752
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	18,809	20,963
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	7,521	9,560
Inventories	1,503	1,642	2,059	2,389
Sundry Debtors	1,844	2,398	2,691	3,122
Cash and Bank	464	588	1,370	2,648
Loans and Advances	1,077	1,401	1,401	1,401
Other current assets	96	36	67	78
Current Liab & Prov	3,153	3,503	4,248	4,820
Current liabilities	2,346	2,821	3,565	4,137
Provisions	807	683	683	683
Net current assets	1,735	2,527	3,273	4,741
Miscellaneous Exps	0	0	0	0
Total Assets	15,132	17,193	18,809	20,962

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	19.0	15.1	15.9	15.7
Net Margin	9.8	7.3	7.9	7.8
ROCE	21.1	16.9	19.6	20.1
ROE	22.7	17.2	19.9	19.0
RoIC	29.7	16.3	22.2	24.8
Per Share Data (Rs)				
EPS	8.3	7.4	10.1	11.5
CEPS	11.1	11.6	14.7	16.8
BVPS	39.7	46.3	55.3	65.7
DPS	1.5	1.5	1.0	1.0
Valuations (x)				
PER	6.2	7.0	5.1	4.5
P/CEPS	4.6	4.4	3.5	3.1
P/BV	1.3	1.1	0.9	0.8
EV / Sales	0.9	0.7	0.5	0.4
EV / EBITDA	4.6	4.8	3.4	2.7
Dividend Yield (%)	2.9	2.9	1.9	1.9
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.5	0.4	0.2
Net Debt/EBIDTA	1.5	1.7	1.0	0.6
Working Cap Cycle (days)	23.0	20.0	27.3	12.4

Recommendation History: Orient Paper & Industries – OPI IN

Date	Reports	Reco	CMP	Target
02/11/2011	Orient Paper Q2FY12 Result Update	Buy	62	82
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

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/01/2012	Grasim Industries Q3FY12 Result Update	Hold	2,483	2,550
23/01/2012	Shree Cement Q3FY12 Result Update	Accumulate	2,227	2,500
23/01/2012	Century Plyboards Q3FY12 Result Update	Accumulate	51	60
23/01/2012	Ultratech Cement Q3FY12 Result Update	Reduce	1,214	1,150

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