

# Orient Paper

## HOLD

Another disappointing quarter amid slowdown woes

### Summary

Orient Paper (OPIL) reported another disappointing quarterly performance led by subdued demand for writing and printing paper and further softening of prices. The management took a prudent call to cut down production owing to lower demand in Q2FY20, which resulted in lower sales volume. The company reported net sales of Rs898mn, down by 43.4% YoY. Negative operating leverage weighed on EBITDA at negative Rs158mn, while net loss stood at Rs147mn. Our interaction with the management suggests that production has picked up from October, 2020 in anticipation of demand revival for writing paper. The company's newly launched copier paper witnessed good traction and the management expects it to do better as demand improves. We have cut our net sales/PAT estimates for FY21E/FY22E and introduce FY23E financials in this report. We recommend HOLD on the stock with a revised target price of Rs19 (from Rs18), assigning 4x EV/EBITDA to FY23E.

### Key Highlights and Investment Rationale

#### Lower sales volume and realization dented net sales

Though OPIL's sales volume increased by 24% QoQ to 13,100MT, it was substantially down by 57% over Q2FY20. Net sales realization declined by 12% YoY to Rs68,500/MT. Extended lockdown in major cities and closure of educational institutes weighed writing and printing paper demand. Though tissue paper segment is doing well in the domestic market, export market remained weak as demand declined from key importers like US, Europe and Middle-east. The management guided that things may improve by end of Q3FY21E and capacity utilization would get back to normalcy in Q4FY21E.

#### EBITDA margin remained under pressure

The company reported negative EBITDA margin in Q2FY21 owing to negative operating leverage. OPIL continued its prudent cost cutting measures on key verticals to sail through the crisis. Also, capital expenditure for pulp plant is deferred to FY22E.

#### Recovery may take a while, HOLD with a TP of Rs19

We believe FY21E would be a miss for OPIL led by lower production and subdued realization, while recovery can be expected in FY22E led by demand revival in the domestic market. Hold with a TP of Rs19.

TP	Rs19
CMP	Rs18
Potential upside / downside	+5%
Previous Rating	REDUCE

#### V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	(2.1)	(0.2)	1.3
Consensus	-	-	-
% difference	-	-	-

#### Shareholding Pattern (%)

Promoters	38.7
FII	0.0
DII	10.0
Public	51.3

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	10.7	(7.2)	(26.0)
Rel to Sensex	1.7	(20.4)	(34.3)

#### Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	7,100	6,066	3,954	5,414	6,018
EBITDA	1,379	476	(277)	520	915
EBITDA (%)	19.4	7.8	(7.0)	9.6	15.2
Adj. PAT	1,017	200	(435)	(33)	272
EPS (Rs)	4.8	0.9	(2.1)	(0.2)	1.3
EPS Growth (%)	106.3	(80.4)	-	-	-
PE (x)	3.6	18.3	-	-	13.4
Dividend Yield (%)	6.4	2.9	-	-	2.9
EV/EBITDA (x)	2.8	8.1	(14.3)	8.0	4.4
RoE (%)	7.5	1.5	(3.5)	(0.3)	2.2
RoCE (%)	6.4	0.9	(4.0)	(0.3)	2.1

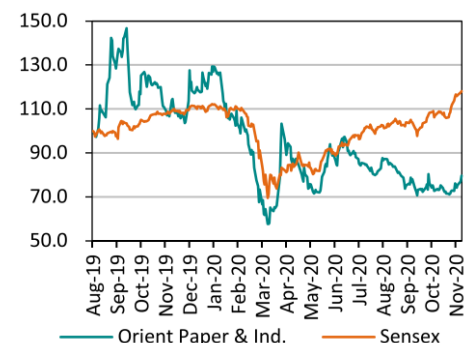
Source: Company; IDBI Capital Research

## Q2FY21 Result Review

### Key Stock Data

Bloomberg/Reuters	OPI IN / ORPP.BO
Sector	Paper
Shares o/s (mn)	212
Market cap. (Rs mn)	3,830
Market cap. (US\$ mn)	51
3-m daily avg Trd value (Rs mn)	6.3
52-week high / low	Rs30 / 12
Nifty / Sensex	43,600 / 12,772

### Relative to Sensex (%)



**Exhibit 1: Financial snapshot**

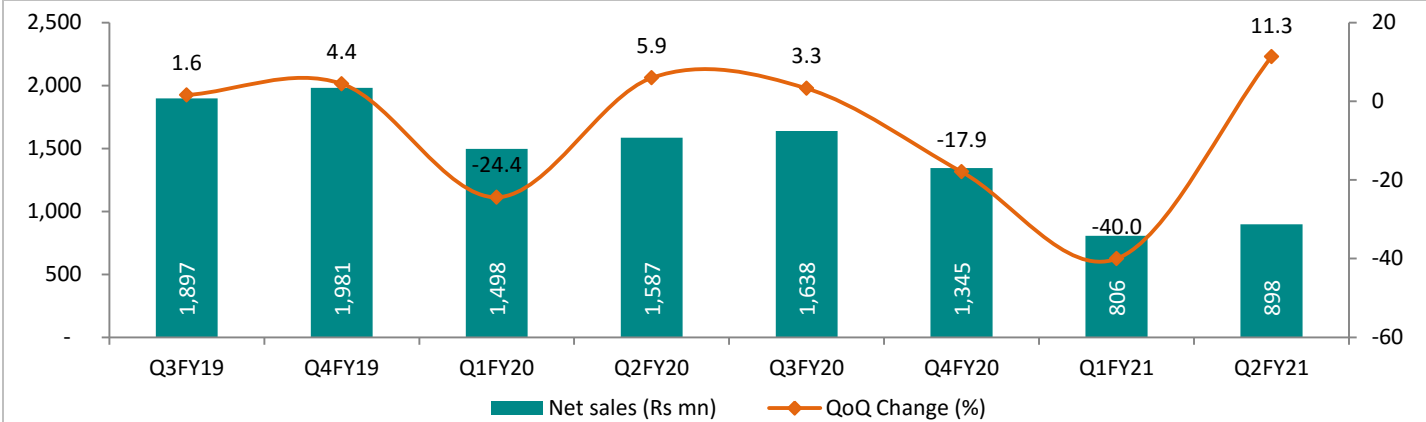
Particulars (mn)	Q2FY21	Q1FY21	QoQ (%)	Q2FY20	YoY (%)
<b>Total revenues</b>	<b>898</b>	<b>806</b>	<b>11.3</b>	<b>1,587</b>	<b>(43.4)</b>
Total expenditure	1,056	968	9.1	1,400	(24.6)
<b>EBIDTA</b>	<b>(158)</b>	<b>(161)</b>	-	<b>187</b>	-
<i>EBIDTA margin (%)</i>	<i>(17.6)</i>	<i>(20.0)</i>	-	<i>11.8</i>	-
Depreciation	81	80	1.2	82	(1.1)
Interest cost	15	13	17.6	14	11.3
PBT	(228)	(234)	-	131	-
Tax	(81)	(59)	-	15	-
<b>Adj. net profit</b>	<b>(147)</b>	<b>(174)</b>	-	<b>116</b>	-
Adj. EPS (INR)	(0.7)	(0.8)	-	0.5	-

Source: Company; IDBI Capital Research

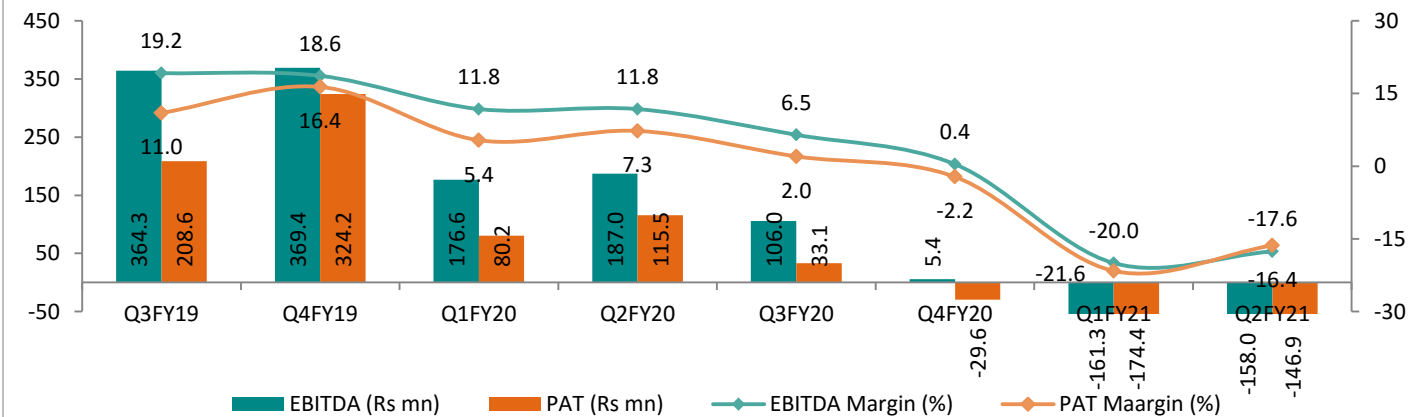
**Exhibit 2: Actual vs. estimates**

Particulars (mn)	Q2FY21	Q2FY21E	Variance (%)
Net Sales	898	842	6.6
EBITDA	(158)	62	-
<i>EBITDA Margin (%)</i>	<i>(17.6)</i>	<i>7.4</i>	-
Net Profit	(147)	(28)	-
EPS, Rs	(0.7)	(0.1)	-

Source: Company; IDBI Capital Research

**Exhibit 3: Net sales analysis**


Source: Company; IDBI Capital Research

**Exhibit 4: EBITDA, PAT and margins analysis**


Source: Company; IDBI Capital Research

**Exhibit 5: Change in estimates**

Particulars (mn)	FY21E			FY22E			FY23E
	New	Old	Chg	New	Old	Chg	
Revenue	3,954	4,321	(8.5)	5,414	5,816	(6.9)	6,018
EBITDA	(277)	(148)	-	520	616	(15.6)	915
<i>EBITDA Margin (%)</i>	<i>(7.0)</i>	<i>(3.4)</i>	-	<i>9.6</i>	<i>10.7</i>	<i>(110)bps</i>	<i>15.2</i>
PAT	(435)	(287)	-	(33)	42	-	272
EPS (Rs)	(2.1)	(1.3)	-	(0.2)	0.2	-	1.3

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
<b>Net sales</b>	<b>6,066</b>	<b>3,954</b>	<b>5,414</b>	<b>6,018</b>
<i>Growth (%)</i>	<i>(14.6)</i>	<i>(34.8)</i>	<i>36.9</i>	<i>11.1</i>
Operating expenses	(5,590)	(4,231)	(4,894)	(5,103)
<b>EBITDA</b>	<b>476</b>	<b>(277)</b>	<b>520</b>	<b>915</b>
<i>Growth (%)</i>	<i>(65.5)</i>	<i>(158.2)</i>	<i>(287.8)</i>	<i>76.0</i>
Depreciation	(332)	(332)	(568)	(591)
<b>EBIT</b>	<b>144</b>	<b>(609)</b>	<b>(49)</b>	<b>324</b>
Interest paid	(52)	(64)	(96)	(76)
Other income	118	91	101	116
<b>Pre-tax profit</b>	<b>210</b>	<b>(582)</b>	<b>(44)</b>	<b>363</b>
Tax	(10)	146	11	(91)
<i>Effective tax rate (%)</i>	<i>4.8</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
<b>Net profit</b>	<b>200</b>	<b>(435)</b>	<b>(33)</b>	<b>272</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>200</b>	<b>(435)</b>	<b>(33)</b>	<b>272</b>
<i>Growth (%)</i>	<i>(80.4)</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Shares o/s (mn nos)</i>	<i>212</i>	<i>212</i>	<i>212</i>	<i>212</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	210	(582)	(44)	363
Depreciation	332	332	568	591
Tax paid	(202)	88	7	(55)
Chg in working capital	293	29	(34)	(7)
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>632</b>	<b>(133)</b>	<b>497</b>	<b>892</b>
Capital expenditure	(550)	(121)	(972)	(724)
Chg in investments	-	-	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(550)</b>	<b>(121)</b>	<b>(972)</b>	<b>(724)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	41	126	189	(57)
Dividend (incl. tax)	(154)	-	-	(154)
Chg in minorities	-	-	-	-
Other financing activities	38	142	281	250
<b>Cash flow from financing (c)</b>	<b>(75)</b>	<b>268</b>	<b>470</b>	<b>40</b>
<b>Net chg in cash (a+b+c)</b>	<b>7</b>	<b>14</b>	<b>(6)</b>	<b>207</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	13,627	13,416	13,820	13,953
Investments	-	-	-	-
Other non-curr assets	1,870	1,753	1,493	1,391
<b>Current assets</b>	<b>1,453</b>	<b>1,472</b>	<b>1,475</b>	<b>1,560</b>
Inventories	767	782	806	822
Sundry Debtors	273	287	293	301
Cash and Bank	53	66	61	151
Marketable Securities	-	-	-	-
Loans and advances	12	13	14	15
<b>Total assets</b>	<b>16,950</b>	<b>16,641</b>	<b>16,789</b>	<b>16,905</b>
<b>Shareholders' funds</b>	<b>12,627</b>	<b>12,192</b>	<b>12,159</b>	<b>12,277</b>
Share capital	212	212	212	212
Reserves & surplus	12,415	11,980	11,946	12,064
<b>Total Debt</b>	<b>252</b>	<b>378</b>	<b>566</b>	<b>510</b>
Secured loans	-	-	-	-
Unsecured loans	252	378	566	510
Other liabilities	2,445	2,387	2,382	2,419
<b>Curr Liab &amp; prov</b>	<b>1,626</b>	<b>1,685</b>	<b>1,681</b>	<b>1,700</b>
Current liabilities	1,223	1,274	1,269	1,285
Provisions	403	411	412	415
<b>Total liabilities</b>	<b>4,323</b>	<b>4,449</b>	<b>4,630</b>	<b>4,628</b>
<b>Total equity &amp; liabilities</b>	<b>16,950</b>	<b>16,641</b>	<b>16,789</b>	<b>16,905</b>
<b>Book Value (Rs)</b>	<b>58</b>	<b>55</b>	<b>55</b>	<b>56</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	0.9	(2.1)	(0.2)	1.3
Adj. EPS growth (%)	(80.4)	-	-	-
EBITDA margin (%)	7.8	(7.0)	9.6	15.2
Pre-tax margin (%)	3.5	(14.7)	(0.8)	6.0
ROE (%)	1.5	(3.5)	(0.3)	2.2
ROCE (%)	0.9	(4.0)	(0.3)	2.1
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.3	0.2	0.3	0.4
Leverage factor (x)	1.3	1.4	1.4	1.4
Net margin (%)	3.3	(11.0)	(0.6)	4.5
Net Debt/Equity (x)	0.0	0.0	0.0	0.0
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	46	72	54	50
Receivable days	16	26	20	18
Payable days	64	87	77	75

**Valuation**

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	18.3	-	-	13.4
Price / Book value (x)	0.3	0.3	0.3	0.3
PCE (x)	6.9	(35.4)	6.8	4.2
EV / Net sales (x)	0.6	1.0	0.8	0.7
EV / EBITDA (x)	8.1	(14.3)	8.0	4.4
Dividend Yield (%)	2.9	0.0	0.0	2.9



# Notes

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**Key to Ratings Stocks:**

**BUY:** Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto  $\pm 5\%$ ; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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