

N.R.AGARWAL INDUSTRIES LTD
Result Update (PARENT BASIS): Q2 FY17

CMP: 230.00

JAN 19th, 2017

Overweight

**ISIN:
INE740D01017**

Index Details

Stock Data

Sector	Paper & Paper Products
BSE Code	516082
Face Value	10.00
52wk. High / Low (Rs.)	265.00/25.55
Volume (2wk. Avg.)	22000
Market Cap (Rs. in mn.)	3914.37

Annual Estimated Results(A*: Actual / E*: Estimated)

Years (Rs. In mn)	FY16A	FY17E	FY18E
Net Sales	8904.18	10355.56	11598.23
EBITDA	732.87	1570.94	1776.34
Net Profit	178.26	733.84	920.74
EPS	10.47	43.12	54.10
P/E	21.96	5.33	4.25

Shareholding Pattern (%)

	As on Dec 2016	As on Sep 2016
Promoter	73.22	73.22
Public	26.78	26.78
Others	--	--

1 Year Comparative Graph



N.R.AGARWAL INDUSTRIES LTD **S&P BSE SENSEX**

SYNOPSIS

- N.R. Agarwal Industries Limited is an India-based company, which is engaged in the manufacture of paper, paper boards and newsprint.
- The company has achieved a turnover of Rs. 2479.49 million for the 2nd quarter of the FY 2016-17 as against Rs. 2128.06 million in the corresponding quarter of the previous year.
- During the quarter, net profit stood at Rs. 139.86 million against net loss of Rs. 22.88 million in the corresponding quarter ending of previous year.
- During the quarter, EBIDTA stood at Rs. 367.31 million as against Rs. 150.85 million in the corresponding period of the previous year, up by 143.49%.
- Earnings per Share of the company stood at Rs. 8.22 in Q2 FY17.
- For the Half Year ended September 30, 2016, Net Sales increased by 18.24% to Rs. 5007.90 million from Rs. 4235.22 million in the corresponding period of last year.
- Net Profit during H1 FY17 stood at Rs. 260.81 million against net loss of Rs. 35.26 million for the six months ended 30th September 2015.
- Net Sales and Operating Profit of the company are expected to grow at a CAGR of 21% and 68% over 2015 to 2018E respectively.

PEER GROUPS	CMP	MARKET CAP	EPS	P/E (X)	P/BV(X)	DIVIDEND
Company Name	(Rs.)	Rs. in mn.	(Rs.)	Ratio	Ratio	(%)
N.R. Agarwal Industries Ltd	230.00	3914.37	10.47	21.96	4.16	0.00
Shreyans Industries Ltd	120.70	1668.60	12.34	9.78	1.69	12.00
Star Paper Mills Ltd	187.70	2929.70	24.15	7.77	4.61	0.00
Seshasayee Paper & Boards Ltd	775.05	9776.20	61.70	12.56	2.32	50.00

QUARTERLY HIGHLIGHTS (PARENT BASIS)

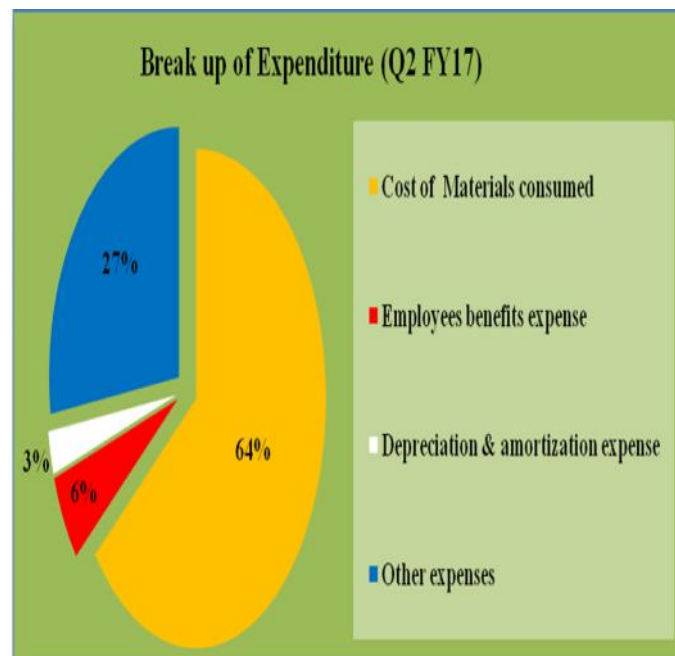
Results updates- Q2 FY17,

(Rs. in million)	Sep-16	Sep-15	% Change
Revenue	2479.49	2128.06	16.51%
Net Profit	139.86	(22.88)	-
EPS	8.22	(1.34)	-
EBIDTA	367.31	150.85	143.49%

The company has achieved a turnover of Rs. 2479.49 million for the 2nd quarter of the FY 2016-17 as against Rs. 2128.06 million in the corresponding quarter of the previous year. During the quarter, net profit stood to Rs. 139.86 million against net loss of Rs. 22.88 million in the corresponding quarter ending of previous year. Reported earnings per share of the company stood at Rs. 8.22 in Q2 FY17. Profit before interest, depreciation and tax stood at Rs. 367.31 million as against Rs. 150.85 million in the corresponding period of the previous year, up by 143.49%.

Break up of Expenditure

Break up of Expenditure	(Value in Rs. Million)		
	Q2 FY17	Q2 FY16	% Change
Cost of Materials consumed	1423.89	1330.22	7%
Employees benefits expense	124.88	113.27	10%
Depreciation & amortization expense	61.55	58.41	5%
Other expenses	605.48	578.09	5%



COMPANY PROFILE

N R Agarwal Industries Limited is an India-based company, which is engaged in the manufacture of paper, paper boards and newsprint. The Company is also involved in duplex boards, and writing and printing business. It is engaged in the development and manufacturing of finished paper products by recycling of waste paper, and marketing in domestic and international markets. Its products include duplex boards, which include Grey Back Unit I, Grey Back Unit IV, White Back Unit I, White Back Unit III; writing and printing papers, which include NR Excel Specification Sheet (SS), NR Excel NSS, NR Maxima SS, NR Maxima NSS and NR Classic NSS, and newsprint, which includes NR Hi-Speed News Print. In addition, the Company owns a cogeneration power plant to produce power, as well as steam in all units of board, news print, and writing and printing paper required for pulp and paper process. It has approximately five manufacturing plants located at Valsad, Gujarat.

FINANCIAL HIGHLIGHT (PARENT BASIS)

(A* - Actual, E* -Estimations & Rs. In Millions)

Balance Sheet as of March 31, 2015 -2018E

	FY15A	FY16A	FY17E	FY18E
SOURCES OF FUNDS				
Shareholder's Funds				
Share Capital	170.19	170.19	170.19	170.19
Reserves and Surplus	592.30	770.56	1504.40	2425.14
1. Sub Total - Net worth	762.49	940.75	1674.59	2595.33
Non Current Liabilities				
Long-term borrowings	2293.86	2170.28	2018.36	1917.44
Deferred Tax Liabilities [Net]	316.33	170.75	170.75	175.87
Other Long term liabilities	526.40	1024.70	1075.94	1118.97
Long term Provisions	17.59	24.40	35.38	44.23
2. Sub Total - Non Current Liabilities	3154.17	3390.13	3300.42	3256.51
Current Liabilities				
Short-term borrowings	998.65	965.78	820.92	615.69
Trade Payables	1125.32	793.21	555.25	416.44
Other Current Liabilities	585.41	576.14	662.56	728.82
Short Term Provisions	2.08	2.08	2.08	2.08
3. Sub Total - Current Liabilities	2711.47	2337.22	2040.81	1763.02
Total Liabilities (1+2+3)	6628.13	6668.10	7015.83	7614.87
APPLICATION OF FUNDS				
Non-Current Assets				
Fixed Assets				
i) Tangible Assets	4578.16	4472.99	4562.45	4744.94
ii) Intangible Assets	1.78	1.21	1.27	1.39
iii) Capital work-in-progress	43.46	242.96	272.11	293.88
a) Sub-Total Fixed Assets	4623.40	4717.15	4835.83	5040.22
b) Non Current Investments	1.77	0.66	0.67	0.74
c) Long Term Loans and Advances	101.45	91.61	84.28	88.49
1. Sub Total - Non Current Assets	4726.62	4809.42	4920.78	5129.45
Current Assets				
Inventories	608.25	660.39	713.22	784.54
Trade receivables	835.33	786.72	1024.22	1280.28
Cash and Bank Balances	107.82	59.78	58.58	58.00
Short-terms loans & advances	350.11	351.81	299.03	362.61
2. Sub Total - Current Assets	1901.51	1858.68	2095.05	2485.42
Total Assets (1+2)	6628.13	6668.10	7015.83	7614.87

Annual Profit & Loss Statement for the period of 2015 to 2018E

Value(Rs.in.mn)	FY15A	FY16A	FY17E	FY18E
Description	12m	12m	12m	12m
Net Sales	7300.17	8904.18	10355.56	11598.23
Other Income	7.02	8.48	7.25	7.61
Total Income	7307.19	8912.66	10362.81	11605.84
Expenditure	-6946.18	-8179.79	-8791.87	-9829.50
Operating Profit	361.01	732.87	1570.94	1776.34
Interest	-356.13	-457.04	-420.48	-395.25
Gross profit	4.88	275.82	1150.46	1381.09
Depreciation	-176.56	-234.79	-247.70	-265.04
Exceptional Items	0.00	0.00	-38.39	0.00
Profit Before Tax	-171.68	41.03	864.36	1116.05
Tax	-162.66	137.23	-130.52	-195.31
Net Profit	-334.34	178.26	733.84	920.74
Equity capital	170.19	170.19	170.19	170.19
Reserves	592.30	770.56	1504.40	2425.14
Face value	10.00	10.00	10.00	10.00
EPS	-19.65	10.47	43.12	54.10

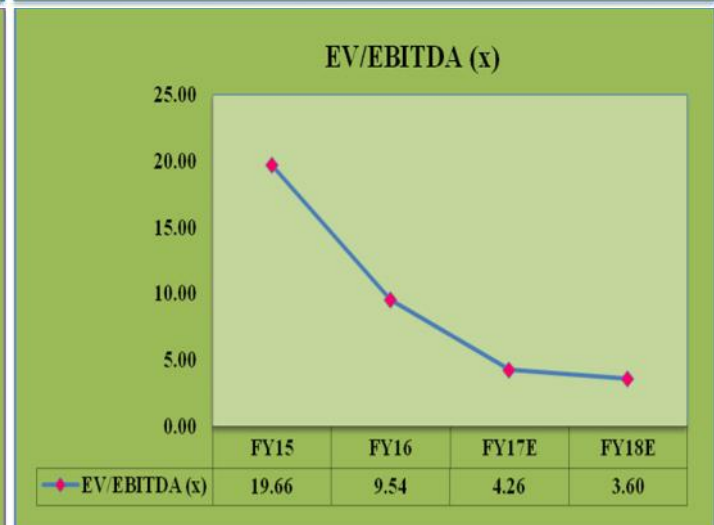
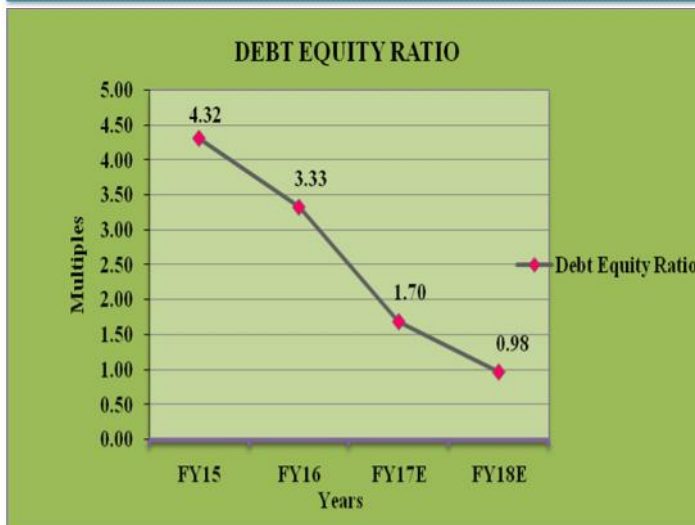
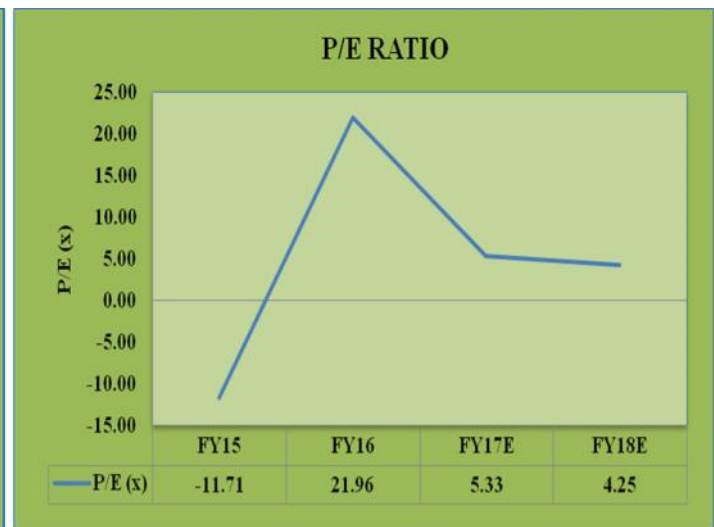
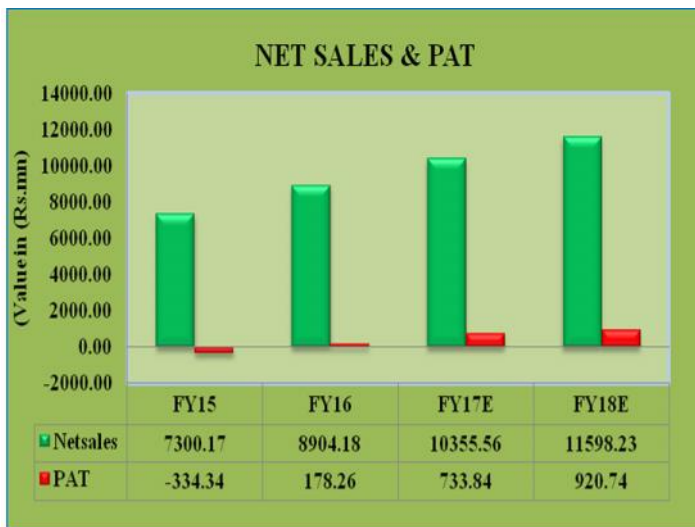
Quarterly Profit & Loss Statement for the period of 31st Mar, 2016 to 31st Dec, 2016E

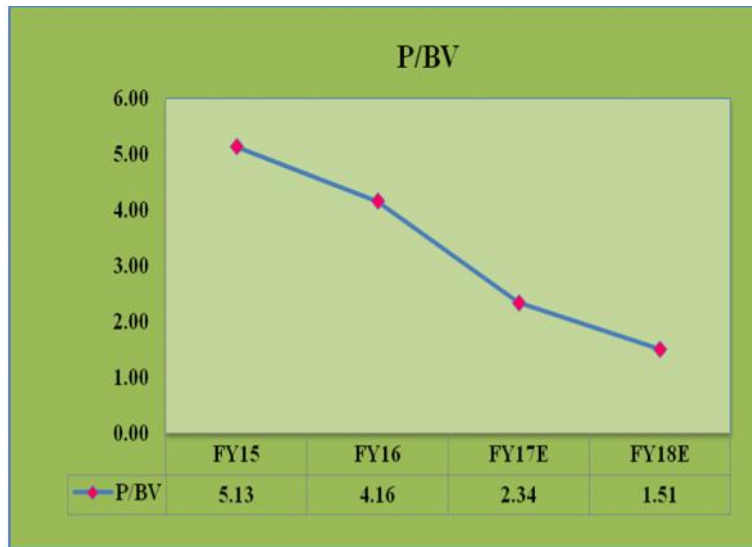
Value(Rs.in.mn)	31-Mar-16	30-Jun-16	30-Sep-16	31-Dec-16E
Description	3m	3m	3m	3m
Net sales	2308.22	2528.41	2479.49	2702.65
Other income	2.06	1.87	1.86	1.77
Total Income	2310.28	2530.27	2481.35	2704.41
Expenditure	-2090.42	-2196.68	-2114.04	-2272.93
Operating profit	219.86	333.59	367.31	431.49
Interest	-101.69	-119.62	-104.31	-106.40
Gross profit	118.17	213.97	263.00	325.09
Depreciation	-59.65	-60.20	-61.55	-62.17
Exceptional Items	0.00	0.00	-38.39	0.00
Profit Before Tax	58.52	153.77	163.06	262.92
Tax	137.23	-32.82	-23.20	-42.33
Net Profit	195.75	120.96	139.86	220.59
Equity capital	170.19	170.19	170.19	170.19
Face value	10.00	10.00	10.00	10.00
EPS	11.50	7.11	8.22	12.96

Ratio Analysis

Particulars	FY15A	FY16A	FY17E	FY18E
EPS (Rs.)	-19.65	10.47	43.12	54.10
EBITDA Margin (%)	4.95%	8.23%	15.17%	15.32%
PBT Margin (%)	-2.35%	0.46%	8.35%	9.62%
PAT Margin (%)	-4.58%	2.00%	7.09%	7.94%
P/E Ratio (x)	-11.71	21.96	5.33	4.25
ROE (%)	-43.85%	18.95%	43.82%	35.48%
ROCE (%)	13.26%	23.74%	40.29%	39.81%
Debt Equity Ratio	4.32	3.33	1.70	0.98
EV/EBITDA (x)	19.66	9.54	4.26	3.60
Book Value (Rs.)	44.80	55.28	98.40	152.50
P/BV	5.13	4.16	2.34	1.51

Charts





OUTLOOK AND CONCLUSION

- At the current market price of **Rs. 230.00**, the stock P/E ratio is at 5.33 x FY17E and 4.25 x FY18E respectively.
- Earning per share (EPS) of the company for the earnings for FY17E and FY18E is seen at Rs. 43.12 and Rs. 54.10 respectively.
- Net Sales and Operating Profit of the company are expected to grow at a CAGR of 21% and 68% over 2015 to 2018E respectively.
- On the basis of EV/EBITDA, the stock trades at 4.26 x for FY17E and 3.60 x for FY18E.
- Price to Book Value of the stock is expected to be at 2.34 x and 1.51 x for FY17E and FY18E respectively.
- Hence, we say that, we are Overweight in this particular scrip for Medium to Long term investment.

INDUSTRY OVERVIEW

Paper industry occupies a prestigious position, among the various manufacturing enterprises globally, in view of its significant contribution to the society. Role of paper in promotion of literacy, propagation of information and knowledge, packaging of commodities and valuable commercial goods, makes it an indispensable product. Paper industry is also a significant player in the world economy. Global consumption of paper and paper board grew from 169 million tonnes in 1981 to 253 million tones in 1993 and to 352 million tonnes in 2005. Current consumption of paper is to the tune of 400 million tonnes per annum, roughly half of this consumption is shared by North America and Europe.

However, share of North America and Europe has been declining since 2006; while that is steeply rising in China, India and other developing economies of Asia. With the growth in consumption, recycling of paper is growing gradually throughout the world; at present almost 65% of the paper produced each year is recycled.

The paper industry in India has become more promising as the domestic demand is on the rise. Increasing population and literacy rate, growth in GDP, improvement in manufacturing sector and lifestyle of individuals are expected to account for the growth in the paper industry of India. Many of the existing players are increasing their capacity to meet the growing demand. The focus of paper industry is now shifting towards more eco-friendly products and technology. Government of India has established rules and regulations to control the population and degradation of forest. These measures taken by the government has brought the significant changes in the paper industry of India.

The exponential growth of e-commerce in the country has opened up a new horizon and could contribute significantly to the demand where paper is being extensively used for packaging. Just like in all other sectors both globally and domestically, the Indian paper industry has to move towards adopting advanced technologies and here size would come into play. Those who can adopt new technologies in paper making would survive, while others would feel the heat.

Most of the paper mills are in existence for a long time and hence present technologies fall in a wide spectrum ranging from oldest to the most modern. The mills use a variety of raw material viz. wood, bamboo, recycled fibre, bagasse, wheat straw, rice husk, etc. In terms of share in total production, approximately 24% are based on wood, 65% on recycled fibre and 11% on agro-residues. The geographical spread of the industry as well as market is mainly responsible for regional balance of production and consumption.

Opportunities and Outlook

The growth prospects of the packaging industry and industrial production are likely to increase the consumption of paper in India. India is witnessing rapid development compiled with increasing production activities. As an essential part of the manufacturing sector of India, the paper industry is associated with the economic wellbeing of the country. Strong economic growth of the nation has been accompanied by a healthy demand for paper.

Amongst the types of paper, paperboards and industrial packaging papers contribute the highest to the consumption volume of paper in India as compared to the other segments, namely writing and printing paper, newsprint and specialty paper. The market captured by paperboards and industrial packaging papers is closely linked to the growth in the packaging industry and industrial production in the country. With surging affluence of the Indian population, the demand for consumer goods is on a constant rise. The requirement of packaging of these goods subsequently triggers the consumption of paper in the country.

The Indian paper industry is characterized by high voluminous growth on account of the increasing population in the country. Furthermore, changing lifestyles of the masses and growth in organized and modern retailing channels represent the main reason behind this shift towards packaged goods. Demand for FMCGs, pharmaceuticals, and packaged ready-to-eat foods are propelling the usage of paperboards and industrial packaging papers.

“With strong economic development, pacing industrial activities and increasing usage of consumer goods by the Indian population, the consumption of paper is being directly stimulated in the country”, according to the research report ‘India Paper Industry Outlook to 2018- Steered by Industrialization and Literacy Levels’ by Ken Research.

The foregoing discussion traced that the Indian paper industry is a booming industry and is expected to grow in the years to come. The usage of paper cannot be ignored and this awareness is bound to bring about changes in the paper industry for the better. It is a well known fact that the use of plastic is being objected to these days. The reason being, there are few plastics which do not possess the property of being degradable, as such, use of plastic is being discouraged. Excessive use of non-degradable plastics upsets the ecological equilibrium. Indian paper and newsprint industry has huge potentials and prospects in coming future. In our country, demand for paper and newsprint is rapidly increasing. The wood and paper industry is probably the only large-scale industrial system which is genuinely capable of satisfying future requirements with respect to sustainable development. Moreover the per capita consumption of paper in India is going up. Due to environmental concerns, the use of plastics is likely to be banned by the Government of India within a short span of time. Hence within 2 to 3 years industry will be witnessing an explosive growth of packaging in India mainly in food, textile and export segments. To face future challenges, the Indian Paper Industry has been focusing on repositioning of product lines, improving internal efficiencies and making investments in expansion and building production capacities and to further penetrate in the global market. Reading a book will remain a great pleasure into the future and paper, as a ubiquitous material with its many uses, will continue to play an influential role.

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