

Ruchira Papers Ltd.

Creating value through paper

Ruchira Papers Limited (RPL) manufactures writing paper, printing paper and Kraft paper. The company's white writing and printing paper is used in making notebooks and writing material, while the colored paper is used in the fabrication of spiral notebooks, wedding cards, shade cards, children's coloring books, etc. Its Kraft paper is utilised in the packaging industry for making corrugated boxes/cartons and for other packaging requirements. The company's writing and printing paper and Kraft paper is manufactured by using agricultural residues like wheat straw, bagasse, sarkanda and other materials.

Healthy demand in paper segment to drive growth: Indian paper industry is estimated to grow at a CAGR of 7.6% over the next couple of years, in-line with India's GDP growth. Further, Kraft paper segment is also growing at a faster rate due to strong demand from packaging industry (owing to increasing e-commerce and FMCG demand). We believe that the company has diversified product portfolio in both the segments, which would assist in capturing growing demand.

Ban in China to boost paper prices: The Chinese Government has banned the import of waste paper, which is the primary raw material for finished paper. Thus, the production of finished paper would be impacted in China. This in turn would lead to an increase in the prices of finished paper. Eventually, the paper manufacturing companies like RPL would witness volume growth and also benefit due to the increase paper prices.

Upgradation of existing units to improve production efficiency: Company has planned a capex of ₹42cr (funded by term loan of ₹27cr and balance through internal accruals) for upgradation and modernization of existing units. This will facilitate RPL to introduce new range of value added products in its Kraft paper unit coupled with an increase in Paper Machine speed from 640 meters/minute to 700 meters/minute in writing and printing paper unit. This modernization plan will be implemented in January 2018 and company will start reaping its benefits from 1QFY2019 onwards. Further, RPL has plans to setup a green field project in the state of Punjab.

Outlook and Valuation: We forecast RPL to report healthy top-line of ~13% CAGR over FY17-20E on the back of healthy demand growth in printing & writing paper and Kraft paper. On the bottom-line front, we estimate ~16% CAGR owing to strong improvement in operating performance. Further, improvement in manufacturing efficiency and benefits from increasing global finished paper prices (ban in China) would aid margins. **We initiate coverage on the RPL with a Buy recommendation and target price of ₹244 (11x FY2020E EPS), indicating an upside of ~30% from the current levels.**

Key financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Net Sales	363	416	470	532	603
% chg	4.6	14.8	12.9	13.3	13.3
Net Profit	19	32	37	42	50
% chg	51.0	64.9	15.2	15.0	17.0
OPM (%)	13.1	15.2	15.6	15.6	15.6
EPS (Rs)	8.7	14.3	16.5	19.0	22.2
P/E (x)	21.7	13.1	11.4	9.9	8.5
P/BV (x)	3.5	2.8	2.3	1.9	1.6
RoE (%)	16.1	21.0	20.0	19.2	18.7
RoCE (%)	19.6	23.6	22.7	22.8	23.0
EV/Sales (x)	1.4	1.2	1.1	0.9	0.8
EV/EBITDA (x)	10.4	7.7	6.8	5.9	5.1

Source: Company, Angel Research, Note: CMP as of December 14, 2017

Quick take

BUY

CMP	₹188
Target Price	₹244

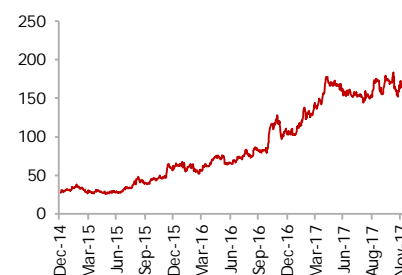
Investment Period	12 Months
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Stock Info	
Sector	Food Processing
Market Cap (₹ cr)	421
Net Debt (₹ cr)	63
Beta	1.2
52 Week High / Low	207 / 100
Avg. Daily Volume	30,145
Face Value (₹)	10
BSE Sensex	33,247
Nifty	10,252
Reuters Code	RCHR.BO
Bloomberg Code	RUCP.IN

Shareholding Pattern (%)	
Promoters	61.1
MF / Banks / Indian FIs	0.0
FII / NRIs / OCBs	1.2
Indian Public / Others	37.7

Abs. (%)	3m	1yr	3yr
Sensex	3.1	25.0	21.7
RPL	9.0	82.0	580.0

3 year daily price chart



Source: Company, Angel Research

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Investment Rational

Robust demand in paper segment to drive growth

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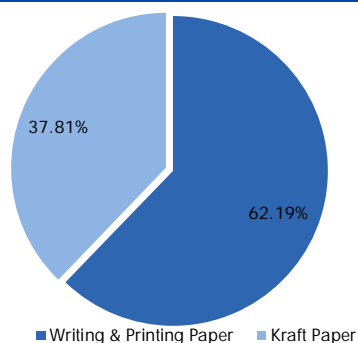
Upgradation of existing units to improve production efficiency

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Company Background

Ruchira Papers Limited (RPL) is an India based company, which manufactures paper and paper products. The company is engaged in the process of manufacturing writing and printing paper and Kraft paper. RPL's white writing and printing paper is used to make notebooks and writing material, while the colored paper is used in the fabrication of spiral notebooks, wedding cards, shade cards, children's coloring books, colored copier paper and bill books. Its Kraft paper is utilized in the packaging industry for making corrugated boxes/cartons and for other packaging requirements. The company's writing and printing paper is manufactured by using agricultural residues like wheat straw, bagasse, sarkanda and other materials. Its semi Kraft paper is manufactured by using agriculture residues like bagasse, wheat straw, rice straw, sarkanda and indigenous materials, etc. The company offers its products to customers in India and overseas.

Exhibit 1: Revenue break-up for RPL (FY2017)

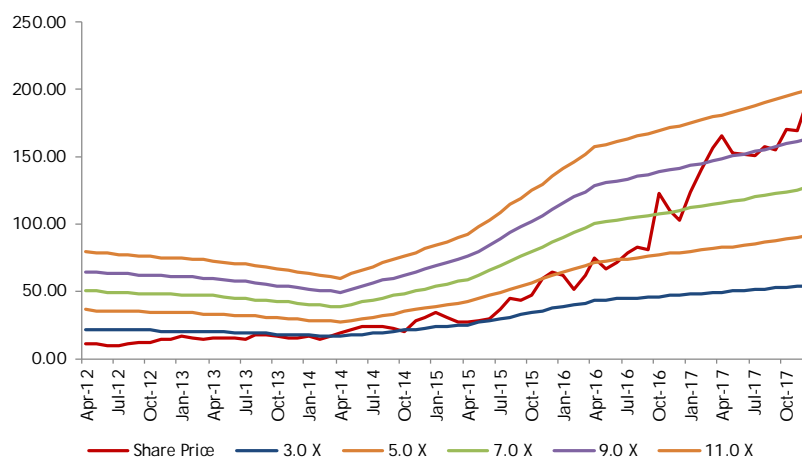


Source: Company, Angel Research

Outlook and Valuation

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Exhibit 1: One year forward PE chart



Source: Company, Angel Research

Risks to our estimates

- 1) An increase supply of paper would create a surplus in the market, which would lead to high competition, affecting the overall pricing of paper and hence impact the company's profitability
- 2) Increase in raw material prices (bagasse, wheat straw, rice straw, sarkanda, etc.) could impact the company's profitability

Profit & Loss Statement

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Total operating income	363	416	470	532	603
% chg	4.6	14.8	12.9	13.3	13.3
Total Expenditure	315	353	397	449	509
Raw Material	233	265	298	338	382
Personnel	30	34	39	44	49
Others Expenses	53	54	60	68	77
EBITDA	47	63	73	83	94
% chg	21.4	33.3	15.9	13.3	13.3
(% of Net Sales)	13.1	15.2	15.6	15.6	15.6
Depreciation& Amortisation	10	11	12	13	13
EBIT	38	53	61	70	81
% chg	28.6	38.7	16.0	14.6	15.2
(% of Net Sales)	10.5	12.7	13.0	13.1	13.4
Interest & other Charges	7	8	8	9	9
Other Income	1	1	1	1	1
(% of PBT)	3.8	2.2	1.8	1.6	1.4
Share in profit of Associates	-	-	-	-	-
Recurring PBT	32	46	54	62	73
% chg	55.4	44.0	18.7	15.0	17.0
Tax	12	14	17	20	23
(% of PBT)	38.7	30.0	32.0	32.0	32.0
PAT (reported)	19	32	37	42	50
Minority Interest (after tax)	-	-	-	-	-
Profit/Loss of Associate Company	-	-	-	-	-
Extraordinary Items	0	(0)	-	-	-
ADJ. PAT	19	32	37	42	50
% chg	51.0	64.9	15.2	15.0	17.0
(% of Net Sales)	5.4	7.7	7.9	8.0	8.2
Basic EPS (₹)	8.7	14.3	16.5	19.0	22.2
Fully Diluted EPS (₹)	8.7	14.3	16.5	19.0	22.2
% chg	51.0	64.9	15.2	15.0	17.0

Balance Sheet

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS					
Equity Share Capital	22	22	22	22	22
Reserves & Surplus	98	130	162	199	243
Shareholders Funds	121	153	185	222	266
Minority Interest	-	-	-	-	-
Total Loans	73	70	85	85	85
Deferred Tax Liability	27	29	29	29	29
Total Liabilities	221	252	298	335	379
APPLICATION OF FUNDS					
Gross Block	274	290	320	332	342
Less: Acc. Depreciation	101	112	124	137	151
Net Block	173	178	196	195	192
Capital Work-in-Progress	-	3	3	3	3
Investments	-	-	-	-	-
Current Assets	94	123	157	193	244
Inventories	41	55	66	77	91
Sundry Debtors	34	44	55	66	78
Cash	2	2	5	13	30
Loans & Advances	17	22	31	37	45
Other Assets	0	0	0	1	1
Current liabilities	47	54	59	58	61
Net Current Assets	47	69	98	136	183
Deferred Tax Asset	1	1	1	1	1
Mis. Exp. not written off	-	-	-	-	-
Total Assets	221	252	298	335	379

Cashflow Statement

Y/E March (` cr)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	32	46	54	62	73
Depreciation	10	11	12	13	13
Change in Working Capital	2	(18)	(26)	(30)	(30)
Interest / Dividend (Net)	6	7	0	0	0
Direct taxes paid	(8)	(11)	(17)	(20)	(23)
Others	(0)	0	0	0	0
Cash Flow from Operations	40	33	23	26	33
(Inc.)/ Dec. in Fixed Assets	(33)	(20)	(30)	(12)	(10)
(Inc.)/ Dec. in Investments	1	1	0	0	0
Cash Flow from Investing	(32)	(19)	(30)	(12)	(10)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	2	(3)	15	0	0
Dividend Paid (Incl. Tax)	(3)	(3)	(5)	(6)	(6)
Interest / Dividend (Net)	(7)	(8)	0	0	0
Cash Flow from Financing	(9)	(14)	10	(6)	(6)
Inc./(Dec.) in Cash	(0)	0	3	8	17
Opening Cash balances	2	2	2	5	13
Closing Cash balances	2	2	5	13	30

Exhibit 2: Key Ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Valuation Ratio (x)					
P/E (on FDEPS)	21.7	13.1	11.4	9.9	8.5
P/CEPS	14.5	9.9	8.6	7.6	6.7
P/BV	3.5	2.8	2.3	1.9	1.6
Dividend yield (%)	0.7	0.8	1.2	1.3	1.3
EV/Sales	1.4	1.2	1.1	0.9	0.8
EV/EBITDA	10.4	7.7	6.8	5.9	5.1
EV / Total Assets	2.2	1.9	1.7	1.5	1.3
Per Share Data (₹)					
EPS (Basic)	8.7	14.3	16.5	19.0	22.2
EPS (fully diluted)	8.7	14.3	16.5	19.0	22.2
Cash EPS	12.9	19.0	21.9	24.8	28.2
DPS	1.3	1.5	2.3	2.5	2.5
Book Value	53.8	68.1	82.4	98.8	118.5
Returns (%)					
ROCE	19.6	23.6	22.7	22.8	23.0
Angel ROIC (Pre-tax)	19.8	23.8	23.0	23.8	25.1
ROE	16.1	21.0	20.0	19.2	18.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.3	1.4	1.5	1.6	1.8
Inventory / Sales (days)	41	49	51	53	55
Receivables (days)	35	38	43	45	47
Payables (days)	15	17	15	14	14
Working capital cycle (ex-cash) (days)	61	70	79	84	88

Source: Company, Angel Research

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Disclosure of Interest Statement	Ruchira Papers
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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