12 December 2012

CMP: Rs.5.47
Industry: Paper
BSE Group/Index: Group 'B'

Promoters
Governor of Karnataka (GOK)

Year of incorporation
1936

Registered office
No. 16/4, Ali Asker Road
Bangalore - 560052
Karnataka - India

Company website
http://www.mpm.co.in

Note:
Investors are cautioned that the company has reported huge losses in the last three years. As a result the company's networth has been fully eroded and it has been registered as a sick company under BIFR.

Write to us at:
equity.research@outlook.com

Key Data *(as on 12 Dec'12)*

BSE	502405	ISIN	INE924F01012
Face Value (Rs.)	10.0	Mkt Cap (Rs.mn)	650.3
Current P/E	negative	Current P/BV	negative
52 week high-low (Rs.)	7.23-3.51	30 day avg daily trading vol	8473 nos
Equity capital (Rs.mn)	1188.9	Net worth (Rs.mn)	(413.8)

Company Business

Mysore Paper Mills Limited ('MPML') is primarily engaged in the production and sale of newsprints and writing and printing paper (WPP). The company's plant in Bhadravati (Karnataka) has a total installed capacity to manufacture 75000 metric tonnes (MT) of newsprints and 30000 MT of WPP per annum. The plant also has an adjoining sugar mill, which contributes around 20% to the company's revenues. The bagasse generated as a by-product from the sugar mill is partly used as a raw material for paper manufacturing and the rest is used as fuel for running the boilers. In addition, the company also has its own captive power plant (for electricity) and forestry division (for providing pulpwood).

MPML is a government owned entity. It was founded in 1936 by the Maharaja of the erstwhile State of Mysore. In November 1977, the Karnataka Government acquired a controlling interest in the company.

Peer group analysis

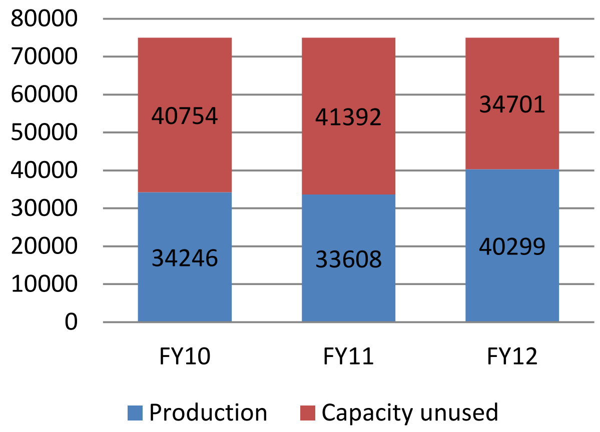
Financials - Standalone

Particulars (FY12, Rs.mn)	Mysore Paper	AP Paper Mill	Rainbow Paper	Tamil Nadu Newsprint
Total Income	4,103	6,411	4,598	17,220
EBIDTA	(312)	736	950	4354
EBIDTA margin	(8%)	11%	21%	25%
PBT	(770)	(978)	412	1,375
PBT margin	(19%)	(15%)	9%	8%
PAT	(770)	(978)	328	1,089
PAT margin	(18.8%)	(15.3%)	7.1%	6.3%
EPS	(6.5)	(24.6)	3.6	15.7
Cash accruals	(667)	(472)	585	2,780
BV/share	(3.5)	120.8	33.7	140.3
Debt/EBIDTA (x)	(6.7)	6.5	5.0	3.3
Debt/Equity (x)	(5.0)	1.3	1.5	1.5
ROANW	138%	negative	10%	11%
ROACE	negative	7%	8.8%	6.9%
P/E	negative	negative	24.4	7.2
P/BV	negative	3.0	2.5	0.8

Source: Moneycontrol, Company

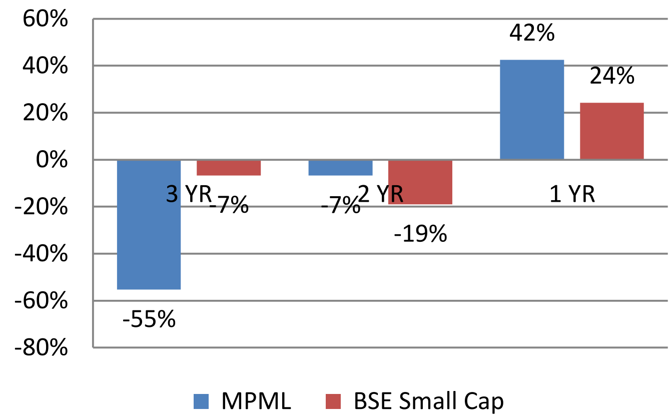
Mysore Paper Mills Limited

Business capacities* (in metric tonnes)



*for newsprint division

Share Price Performance



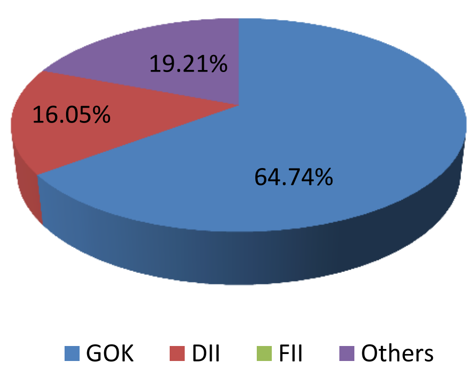
Top Public Shareholders with >1% shareholding

Sl. No.	Name of the Shareholder	No. of Shares held (in 000s)	Shares as % of Total No. of Shares
1	IDBI Bank Limited	12222.0	10.3
2	IFCI Ltd	3292.3	2.8
3	Life Insurance Corporation of India (LIC)	3240.0	2.7
5	Santosh Murarilal Gupta	2647.6	2.2
	Total	**21402.0**	**18.0**

Change in Shareholding Pattern (%)

Year	GOK	DII	FII	Others
Jun-12	64.74%	16.05%	-	19.21%
Mar-12	64.74%	16.05%	-	19.21%
Dec-11	64.74%	16.05%	-	19.21%
Sep-11	64.74%	16.60%	-	18.66%
Mar-11	64.74%	16.71%	-	18.55%
Mar-10	64.74%	17.10%	-	18.16%
Mar-09	64.74%	18.70%	-	16.56%
Mar-08	64.73%	18.70%	-	16.57%

Shareholding Pattern (%)



Key strengths

Vertically integrated operations

Even though MPML is primarily a newsprint and WPP manufacturer, it has vertically integrated across the entire supply chain of the paper industry, including a sugar mill whose bye-product (bagasse) is used as a raw material in the paper manufacturing process. In addition, the company has developed a forestry and plantation division which supplies 75% of its pulpwood requirements. MPML has also set up a captive power plant which contributes around 85% of the company's overall power requirements.

Backing of Karnataka Government

MPML is a public sector unit backed by the Government of Karnataka, which has provided capital and financial assistance to the company over the last few years. The state has also leased 30,000 hectares of land to the company for the development of its captive forestry unit. In addition, other government entities like the Karnataka State Forest Industries Corporation (KSFIC) and Karnataka Forest Department (KFD) frequently supply pulpwood and other raw materials at cheaper rates to MPML, thereby reducing its manufacturing costs.

Key concerns

Dumping from abroad

The existing paper mills in the country do not have sufficient capacity to meet the local demand for newsprint and almost 62% of the overall demand is met by imports from countries like Russia, Indonesia and other south-east European countries. These imports are competitively priced which, in addition to the small and unorganized local players, pose a huge threat to the existing newsprint manufacturers like MPML.

Capacity addition by other players in WPP segment

However, the situation in the writing and printing paper sector is completely opposite. In recent years, companies like Tamil Nadu Newsprint Limited, West Coast Paper Mills Limited and Andhra Pradesh Paper Mills Limited have ramped up their writing and printing paper capacity by around 700,000 metric tonnes. However local demand has not increased proportionately. Further these mills are reluctant to export WPP since export prices are lower than domestic prices. As a result there is excess supply in the market which can affect MPML's bottom line in the next few years.

Poor operating efficiency

The company has not undertaken any modernization initiatives and the existing plant and machinery is very old – ranging from 35 to 65 years. This leads to poor operating efficiency on account of low throughput and high maintenance charges.

Industry overview

Highly fragmented industry

In terms of paper production India ranks 15^{th} in the world with more than 700 organized and unorganized paper mills. The top five producers account for only 15% of the total paper capacity in the country. This results in poor pricing power for these players.

Low per capita consumption

India consumes only 1% of the world paper production. Per capita consumption is a meager 9.6 kg as compared to some of the developed countries wherein the consumption is closer to 350 kg. It is also lower than the world average of 55 kg and Asia average of 45 kg. This provides a significant growth opportunity for existing paper mills.

Industry segmentation

The paper industry is categorized into four segments based on its end-usage. The paperboard (packaging material) segment accounts for almost 42% of the overall paper industry closely followed by writing and printing (W&P) paper which contributes 37%. The rest of the market is made up of newsprints (13%) and specialty paper (8%).

Government policy

Approval for foreign investments and promotion

The government has allowed foreign collaboration and foreign equity participation upto 100% in Indian paper companies through the automatic route under the Reserve Bank of India guidelines. The influx of foreign capital and technical knowhow in the paper industry is expected to help improve the quality of products and create additional capacities. However, due to lack of adequate raw materials and declining margins of most paper mills, the industry has not yet witnessed any major investments from foreign players (except International Paper's acquisition of AP Paper Mills).

Stringent emission standards

State pollution control boards in India have imposed stringent emission standards relating to the effluent discharge process of paper mills under the Corporate Responsibility for Environmental Protection (CREP). Compliance costs for such standards are usually high as firms need to invest in efficient waste treatment plants and processes.

Company fundamentals

Strategic shift back to newsprints

MPML's product mix had undertaken a shift in recent years towards the writing and printing paper division. As a result the contribution of newsprints, which is the main product of the company, has gradually come down to 48% in FY12 (from 75% in FY07). However, the company expects the outlook for newsprints to improve in the next few years and as a result, intends to increase its focus on the newsprint division again.

Key financial indicators

Infusion of funds by government

The Government of Karnataka (GOK) had earlier provided loans worth Rs.1010.3 mn to MPML. On account of the company's poor financial health, GOK has now accorded sanction to convert this entire loan into equity. The government has also agreed to infuse fresh equity capital of Rs.50 mn into the company. In lieu of the aggregate amount of Rs.1060.3 mn, MPML has proposed to issue and allot 106 mn shares to the government. Since the allotment is yet to take place, the said amount has been treated as share application money – which has cushioned the impact on the company's eroding networth to a large extent. Post allotment, the government shareholding will increase to 81.36%.

Auditor qualifications

MPML's auditor (MNS & Co.) has raised the following concerns on the finances:

i. MPML has raised bonds for Rs.500 mn in FY11 to augment its power plant. These bonds were backed by a guarantee from the Karnataka government. However, this project was later scrapped and most of the funds (Rs.43 mn) were diverted for other purposes without notifying the government or other bond holders.
ii. The company has defaulted in repayment of dues of Rs.82.7 mn to Axis Bank Limited from Sep'10 and Rs.46.7 mn to debenture holder IFCI Limited from Jan'12.

Weak financial profile

The profitability of MPML continued to decline in 2011-12. While the topline registered a modest growth of around 13% to Rs.4.1 bn, overall financial health remained poor on account of adverse market conditions, poor capacity utilization and high interest rates. There has also been an increase in the price of coal and other raw materials and the total fuel and material expenses reached Rs.2.4 bn during the year. Also labour expenses have gone up sharply to Rs.1.1 bn - an increase of almost 60% in the last four years. This is due to the labour intensive nature of business and increased unionization of the workforce. In addition, MPML's presence in a highly commoditized segment of the paper industry has severely restricted its pricing flexibility and ability to pass on these increased costs to its clients. As a result, the company reported a net loss of Rs.770.3 mn in FY12.

The continued losses over the last few years have completely eroded the networth of the company and it has been registered as a sick industrial unit under the Board for Industrial and Financial Reconstruction (BIFR).

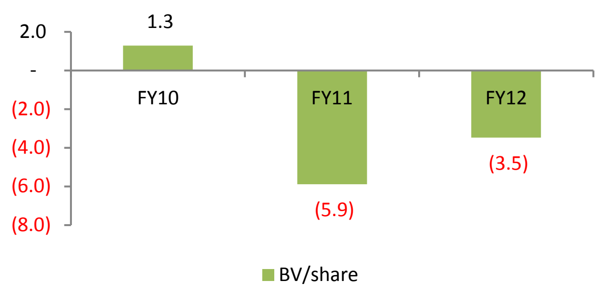
Mysore Paper Mills Limited

Quarterly results

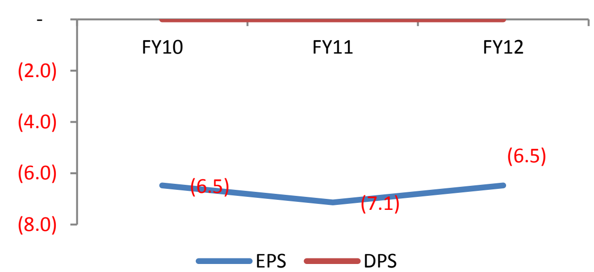
Particulars (Rs in mn)	Apr '12 to Jun '12	Apr '11 to Jun '11	% Change[1]	Jan '12 to Mar '12	% Change[2]
Total income	1,057.7	843.6	25.4%	1,140.1	(7.2%)
Total expenditure	1,186.0	(945.5)	negative	1,176.5	0.8%
EBIDTA	(128.3)	1,789.1	(107.2%)	(36.4)	negative
PBT	(207.1)	(186.1)	negative	(161.4)	negative
PAT	(207.1)	(186.1)	negative	(161.4)	negative
EPS	negative	negative	negative	negative	negative

[1] compared to corresponding quarter in the previous year
[2] sequential comparison

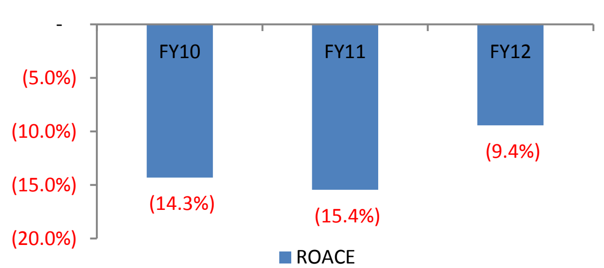
Book Value per share



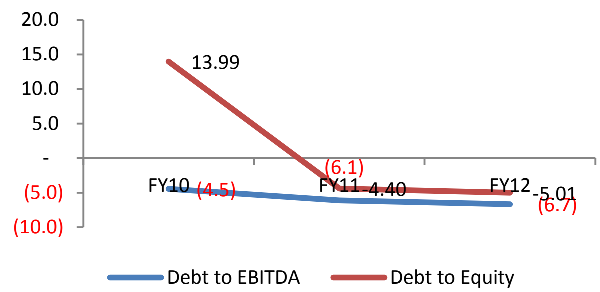
Key ratios



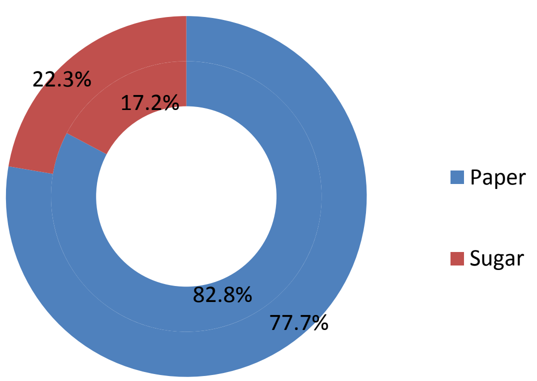
Profitability ratios



Leverage ratios

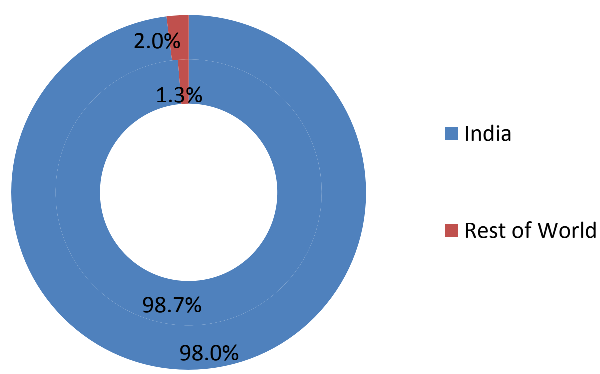


Segment wise contribution to revenues



Inner ring represents FY11 data
Outer ring represents FY12 data

Geography wise contribution to revenues



Inner ring represents FY11 data
Outer ring represents FY12 data

Financials

P&L (Rs. mn)	FY10	FY11	FY12
Total income	2,994	3,616	4,103
EBIDTA	(477)	(506)	(312)
EBIDTA margin	(16%)	(14%)	(8%)
Depreciation	101	104	104
EBIT	(578)	(610)	(415)
Interest	192	215	355
PBT	(769)	(825)	(770)
Exceptional items	0.1	23	0.2
Tax	-	-	-
PAT	(770)	(848)	(770)
PAT Margin	(26%)	(23%)	(19%)
Dividend	-	-	-
Dividend Payout	0%	0%	0%

Valuation ratios	FY10	FY11	FY12
P/E	negative	negative	negative
P/BV	6.1	negative	negative

Balance Sheet (Rs. mn)	FY10	FY11	FY12
Share Capital	1,189	1,189	1,189
Reserves & Surplus	(1,037)	(1,888)	(1,603)
Net worth	152	(700)	(414)
Borrowings	2,125	3,081	2,075
Other liabilities	1,294	1,944	2,822
Total liabilities	**3,571**	**4,326**	**4,483**
Net fixed assets	1,790	1,873	1,445
Other non-current assets	6	6	6
Loans and Advances	264	512	803
Current Assets	1,510	1,935	2,228
Total assets	**3,571**	**4,326**	**4,483**

Cash Flow (Rs.mn)	FY10	FY11	FY12
PBT	(769)	(825)	(770)
CF from Operation	599	(276)	506
CF from Investment	(148)	(190)	(271)
CF from Financing	159	205	14
Inc/(dec) Cash	101	299	(66)
Closing Balance	109	408	342