

BALLARPUR INDUSTRIES**INR 33****Steady growth****ACCUMULATE**

August 29, 2008

FY08 results broadly in line

Ballarpur Industries' (BILT) consolidated FY08 results were broadly in line with our expectations. Net sales were up 22% Y-o-Y at INR 28.3 bn. EBITDA rose 22% Y-o-Y to INR 6.9 bn, whereas net profit (after minority interest) stood at INR 2.9 bn up by 17% Y-o-Y.

Volumes grew 3% Y-o-Y; realisations improved by 4.4%

Overall volumes improved 3% Y-o-Y. While volumes from domestic operations were flat at 4,60,735 MT, those from Sabah Forest Industries (SFI) rose 11.2% Y-o-Y to 1,39,000 MT. Overall realisations for paper and paper products improved 4.4% Y-o-Y. While realisations from India operations were up 3.2% Y-o-Y at INR 44,813/MT, those for SFI improved 13.8% at INR 34,570/MT.

EBITDA margins flat; net margins dip by 30 bps

BILT faced input cost pressures during Q4FY08 which resulted in EBITDA margins declining 4.9% Q-o-Q, hence flat EBITDA margins Y-o-Y at 24.7%. Post Q4FY08, the company has effected price hikes (coated paper prices up by ~INR 5,000/MT and uncoated paper prices up by INR 3,500/MT), which are likely to cover up cost increases. Net margins, at 10.7%, declined by 30bps on account of higher interest and depreciation cost.

Revising FY09 and FY10 estimates upwards

We have changed our FY09 estimates to incorporate the full year functioning of the Kamalapuram plant (which was supposed to be converted to normal paper grade pulp in Q3FY09; will now get converted in FY10); coupled with paper price increases and lower excise duty outflow. Due to this, FY09E and FY10E sales are revised upwards by 1.7% and 2.6%, respectively. PAT for FY09E remains unchanged (on the back of higher employee cost, other expenditure), whereas for FY10E it is increased by 6.7%.

Outlook and valuations: Stable; maintain 'ACCUMULATE'

We expect BILT's consolidated revenues and net profits, after minority interest, to grow at CAGR of 12.4% and 8.2%, respectively, over FY08–10E. At CMP of INR 33, the stock is trading at 6.6x FY09E EPS of 5.0 and 5.8x FY10E EPS of INR 5.6 (our EPS estimate takes into consideration buy-back and entire scheme of restructuring). We maintain '**ACCUMULATE**'.

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Bloomberg : BILT IN

Market Data

52-week range (INR)	:	38 / 23
Share in issue (mn)	:	555.5
M cap (INR bn/USD mn)	:	18.3 / 418.6
Avg. Daily Vol. BSE/NSE ('000)	:	2,667.6

Share Holding Pattern (%)

Promoters	:	39.0
MFs, FIs & Banks	:	31.0
FIIIs	:	18.3
Others	:	11.7

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	1.9	(2.8)	(4.7)
3 months	(15.0)	(2.8)	12.2
12 months	(6.3)	17.8	24.1

Financials

Year to June	Q408	Q407	% change	Q308	% change	FY08	FY09E
Net revenues (INR mn)	7,936	6,803	16.7	6,873	15.5	28,311	33,211
EBITDA (INR mn)	1,688	1,594	5.9	1,797	(6.1)	6,985	8,382
Net profit (INR mn)	697	694	0.3	745	(6.5)	2,999	3,142
EPS (INR)	1.3	0.7	67.9	1.3	(6.5)	5.4	5.0
P/E (x)						6.1	6.6
EV/EBITDA (x)						6.9	6.3
ROAE (%)						18.3	20.1

Financial snapshot						(INR mn)		
Year to June	Q408	Q407	% change	Q308	% change	FY08	FY09E	FY10E
Revenues	7,936	6,803	16.7	6,873	15.5	28,311	33,211	35,771
Raw material	2,617	2,044	28.0	1,798	45.5	8,147	9,053	9,249
Staff costs	621	387	60.5	503	23.6	2,014	2,358	2,540
Power & fuel	1,173	934	25.6	1,149	2.0	4,462	5,247	5,652
Other expenditure	1,792	1,821	(1.6)	1,615	10.9	6,610	7,586	8,105
Miscellaneous	46	23	98.7	11	333.0	94	585	748
Total expenditure	6,248	5,208	20.0	5,076	23.1	21,326	24,830	26,293
EBITDA	1,688	1,594	5.9	1,797	(6.1)	6,985	8,382	9,479
Interest	371	359	3.2	368	0.7	1,482	1,656	1,786
Depreciation	513	421	21.9	510	0.5	1,924	2,191	2,379
Other income	98	71	37.5	25	296.7	161	161	100
PBT	903	886	1.9	944	(4.4)	3,740	4,696	5,414
Tax	172	191	(9.9)	185	(6.9)	704	939	1,083
Adjusted net profit	731	695	5.1	759	(3.7)	3,036	3,757	4,331
Extraordinary items	0	-		-		-	-	-
Less: Minority interest	37	3.80		21	80.1	65	616	810
Share of profits in associates	3	3		7	(50.7)	28	-	-
Net profit	697	694	0.3	745	(6.5)	2,999	3,142	3,522
Equity capital (FV INR 2)	1,110	1,857	(40.2)	1,110	-	1,110	1,259	1,259
No. of shares (mn)	555	929	(40.2)	555	-	555	629	629
EPS (INR)	1.3	0.7	67.9	1.3	(6.5)	5.4	5.0	5.6
P/E (x)						6.1	6.6	5.9
EV/EBITDA (x)						6.9	6.3	5.4
Market cap / Revenues (x)						0.6	0.6	0.5

as % of net revenues

Raw material	33.0	30.0		26.2		28.8	27.3	25.9
Staff expenses	7.8	5.7		7.3		7.1	7.1	7.1
Power & fuel	14.8	13.7		16.7		15.8	15.8	15.8
Other expenditure	22.6	26.8		23.5		23.3	22.8	22.7
Miscellaneous	0.6	0.3		0.2		0.3	1.8	2.1
EBITDA	21.3	23.4		26.2		24.7	25.2	26.5
Net profit	8.8	10.2		10.8		10.6	9.5	9.8

Company Description

Ballarpur Industries (BILT), promoted by Mr. L. M. Thapar, is India's largest paper manufacturing company. It has six manufacturing units located across India, with a total installed capacity of 482,000 tpa and 99,000 tpa of market pulp. BILT offers a wide variety of products like coated paper, uncoated paper, copier, cream wove, business stationery, and tissue. BILT made its maiden international acquisition of Sabah Forest Industries (SFI) as a backward integration measure in 2006.

Investment Theme

BILT's scheme of restructuring is through. Under the scheme, BILT has transferred its three units i.e., Bhigwan, Ballarpur, and Kamalapuram to a wholly-owned subsidiary Bilt Graphics Paper products for a consideration of INR 19.5 bn. BILT has undertaken expansion at Bhigwan, Ballarpur, and SFI at a cost of INR 1.8 bn, spread over the next two years. Post expansion, coated paper capacity will be enhanced by 71,250 MT from the current 115,000 MT, uncoated paper capacity will stand at 6,80,568 MT, there will be addition of 110,000 MT at Ballarpur, and 60,000 MT at SFI. Besides this, pulp capacity at SFI will also be enhanced by 100,000 MT, taking total pulp capacity to 220,000 MT.

Key risks

Availability of raw material, primarily wood, till the government allows the industry to set up plantations.

Escalation in energy costs, primarily coal, could impact margins.

Delay in project execution may impact our future estimates.

Reduction in import duties may not augur well for the industry.

Financial Statements

Income statement		(INR mn)				
Year to June	FY06	FY07	FY08	FY09E	FY10E	
Income from operations	19,127	23,178	28,311	33,211	35,771	
Total operating expenses	14,218	17,460	21,326	24,830	26,293	
Materials costs	5,704	7,250	8,147	9,053	9,249	
Extraction fees	-	-	-	135	162	
Timber royalties	-	-	-	61	73	
Power and fuel	2,468	3,264	4,462	5,247	5,652	
Other manufacturing	3,231	3,740	4,769	5,397	5,723	
Employee cost	1,283	1,348	2,014	2,358	2,540	
Selling & administrative expenses	1,411	1,750	1,840	1,993	2,146	
Miscellaneous expenses	121	110	94	585	748	
EBITDA	4,909	5,717	6,985	8,382	9,479	
Depreciation and amortisation	1,527	1,565	1,924	2,191	2,379	
EBIT	3,382	4,152	5,061	6,191	7,100	
Interest	943	1,003	1,482	1,656	1,786	
Total other income	234	137	161	161	100	
Profit before tax	2,673	3,286	3,740	4,696	5,414	
Provision for tax	532	735	704	939	1,083	
Core Profit	2,140	2,550	3,036	3,757	4,331	
Profit after tax	2,140	2,550	3,036	3,757	4,331	
Share of profit in associates	1	13	28	-	-	
Minority interest	0	4	65	616	810	
Profit after minority interest	2,142	2,559	2,999	3,142	3,522	
Shares outstanding (mn)	816	929	555	629	629	
EPS (INR) basic	2.6	2.8	5.4	5.0	5.6	
Diluted shares (mn)	1,002	1,002	629	629	629	
EPS (INR) diluted	2.1	2.6	4.8	5.0	5.6	
Dividend per share (INR)	0.5	0.5	0.7	0.7	0.7	
Dividend payout (%)	21.5	24.3	15.2	16.4	14.6	

Common size metrics- as % of net revenues

Year to June	FY06	FY07	FY08	FY09E	FY10E
Operating expenses	74.3	75.3	75.3	74.8	73.5
Material cost	29.8	31.3	28.8	27.3	25.9
Power and fuel	12.9	14.1	15.8	15.8	15.8
Other manufacturing	16.9	16.1	16.8	16.3	16.0
Employee cost	6.7	5.8	7.1	7.1	7.1
Depreciation and amortisation	8.0	6.8	6.8	6.6	6.6
Interest expenditure	4.9	4.3	5.2	5.0	5.0
EBITDA margins	25.7	24.7	24.7	25.2	26.5
Net profit margins	11.2	11.0	10.6	9.5	9.8

Growth metrics (%)

Year to June	FY06	FY07	FY08	FY09E	FY10E
Revenues	6.8	21.2	22.1	17.3	7.7
EBITDA	9.0	16.5	22.2	20.0	13.1
PBT	29.5	22.9	13.8	25.6	15.3
Core net profit	27.3	19.2	19.0	23.8	15.3
EPS	18.0	19.5	86.6	4.8	12.1

Balance sheet**(INR mn)**

As on 31st June	FY06	FY07	FY08E	FY09E	FY10E
Equity capital	1,632	1,857	1,110	1,259	1,259
Reserves & surplus	14,713	18,016	11,969	17,060	20,066
Shareholders funds	16,346	19,873	13,080	18,319	21,325
Secured loans	10,184	12,995	21,995	22,995	20,995
Unsecured loans	4,352	8,896	8,963	9,031	9,097
Borrowings	14,536	21,891	30,957	32,026	30,092
Deferred tax (Net)	1,992	2,338	2,339	2,339	2,339
Minority interest	1	257	2,269	2,543	2,771
Sources of funds	32,874	44,360	48,644	55,226	56,527
Gross block	31,550	53,992	63,018	71,804	74,569
Depreciation	11,340	23,949	25,873	28,064	30,442
Net block	20,210	30,043	37,145	43,740	44,126
Capital work in progress	2,178	4,004	-	-	-
Investments	190	203	203	203	203
Plantation development expenses	-	-	203	620	1,434
Inventories	3,041	3,943	4,305	4,935	5,183
Sundry debtors	2,833	3,891	4,111	4,822	5,194
Cash and bank balances	5,213	3,718	3,554	2,475	2,051
Loans and advances	2,713	3,822	3,956	3,913	4,116
Other current assets	-	-	98	111	128
Total current assets	13,799	15,374	16,226	16,875	18,106
Sundry creditors	1,518	2,904	2,735	3,135	3,293
Others	1,265	1,097	1,469	1,684	1,768
Provisions	953	1,387	835	873	936
Total current liabilities & provisions	3,736	5,388	5,038	5,692	5,997
Net current assets	10,063	9,986	11,188	11,184	12,109
Misc expenditure	234	124	109	99	89
Uses of funds	32,874	44,360	48,644	55,226	56,527
Book value per share (BV)	20	21	23	29	34

Free cash flow

Year to June	FY06	FY07	FY08E	FY09E	FY10E
Net profit	2,142	2,559	2,999	3,142	3,522
Depreciation	1,527	1,565	1,924	2,191	2,379
Gross cash flow	3,668	4,125	4,923	5,332	5,900
Less: Changes in working capital	1,117	1,418	1,366	1,075	1,349
Operating cash flow	2,551	2,706	3,557	4,258	4,551
Less: Capex	1,459	13,225	5,022	8,786	2,765
Free cash flow	1,093	(10,519)	(1,465)	(4,529)	1,787

Cash flow metrics

Year to June	FY06	FY07	FY08E	FY09E	FY10E
Operating cash flow	2,551	2,706	3,557	4,258	4,551
Financing cash flow	2,451	9,150	1,301	3,450	(2,211)
Investing cash flow	(1,341)	(13,351)	(5,022)	(8,786)	(2,765)
NET CASH FLOW	3,661	(1,495)	(164)	(1,079)	(424)
Capex	(1,713)	(13,338)	(5,022)	(8,786)	(2,765)
Dividend paid	(461)	(623)	(455)	(515)	(515)
Share Issuance/(Buyback)	8	1,787	(9,338)	2,613	-

Ratios

Year to June	FY06	FY07	FY08E	FY09E	FY10E
ROAE (%)	13.9	14.3	18.3	20.1	17.9
ROACE (%)	11.1	10.8	10.9	12.0	12.8
Inventory (days)	88	85	81	80	83
Debtors (days)	45	53	52	49	51
Payable (days)	56	54	56	51	53
Cash conversion cycle	78	84	77	78	81
Current ratio	3.7	2.9	3.2	3.0	3.0
Debt/EBITDA	3.0	3.8	4.4	3.8	3.2
Interest cover (x)	3.6	4.1	3.4	3.7	4.0
Fixed assets turnover (x)	0.9	0.9	0.8	0.8	0.8
Total asset turnover(x)	0.6	0.6	0.6	0.6	0.6
Equity turnover(x)	1.2	1.3	1.7	2.1	1.8
Debt/Equity (x)	0.9	1.1	2.4	1.7	1.4
Adjusted debt/Equity	0.9	1.1	2.4	1.7	1.4

Du pont analysis

Year to June	FY06	FY07	FY08E	FY09E	FY10E
NP margin %	11.2	11.0	10.6	9.5	9.8
Total assets turnover	0.6	0.6	0.6	0.6	0.6
Leverage multiplier	2.0	2.2	2.8	3.3	2.8
ROAE (%)	13.9	14.3	18.3	20.1	17.9

Valuation parameters

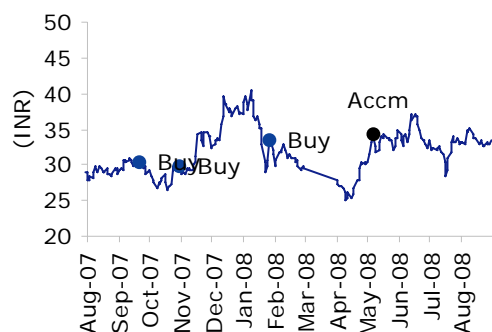
Year to June	FY06	FY07	FY08E	FY09E	FY10E
Diluted EPS (INR)	2.1	2.6	4.8	5.0	5.6
Y-o-Y growth (%)	18.0	19.5	86.6	4.8	12.7
CEPS (INR)	4.5	4.4	8.9	8.5	9.4
Diluted PE (x)	15.5	12.9	6.9	6.6	5.9
Price/BV(x)	1.7	1.6	1.4	1.1	1.0
EV/Sales (x)	1.9	2.1	1.7	1.6	1.4
EV/EBITDA (x)	7.4	8.6	6.9	6.3	5.4
EV/EBITDA (x)+1 yr forward	6	7	6	6	
Dividend yield %	1.5	1.5	2.1	2.1	2.1

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Coverage group(s) of stocks by primary analyst(s):

Greenply Industries, Ballarpur Industries, Riddhi Siddhi Gluco Biols, Mcleod Russel India, Graphite India, Nucleus Software Exports and Bajaj Electricals

Ballarpur Industries



Recent Research

Date	Company	Title	Price (INR)	Recos
1-Aug-08	Riddhi Siddhi Gluco Biols	Riding high; Result Update	187	Buy
30-Jul-08	Graphite	In-line; Result Update	59	Buy
28-Jul-08	Bajaj Electricals	Going strong; Result Update	440	Buy
23-Jul-08	Nucleus	Hemmed in from all Sides; Result Update	182	Accum.

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	112	61	16	7	208

* 11 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	82	74	52

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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