RBS The Royal Bank of Scotland

8 March 2010

Produced by: ABN AMRO Bank NV India Branch

Aditya Birla Nuvo

Unlocking value

Initiation of coverage

Buy

Target price
Rs1050.00

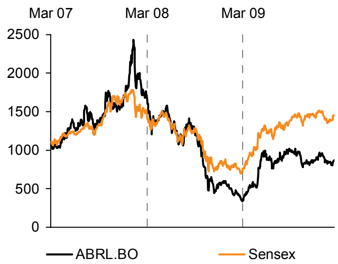
Price
Rs866.95

Short term (0-60 days)
n/a

Market view
Underweight

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	825.5	868.3	374.1
Absolute (%)	5.0	-0.2	131.7
Rel market (%)	-2.4	0.5	11.8
Rel sector (%)	-0.0	-1.1	42.9



Market capitalisation
Rs89.30bn (US$1.95bn)

Average (12M) daily turnover
Rs210.00m (US$4.43m)

Sector: BBG AP Diversifieds
RIC: ABRL.BO, ABNL IN
Priced Rs866.95 at close 5 Mar 2010.
Source: Bloomberg

ABNL is a conglomerate with various manufacturing businesses and strategic stakes in the growing financial services and telecom sectors. Management plans to unlock shareholder value from some of these holdings. We initiate coverage with a Buy rating and target price of Rs1,050 per share.

Key forecasts*

	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue (Rsm)	39,659	48,181	48,106	53,397	58,672
EBITDA (Rsm)	6,340	5,856	7,837	8,411	9,066
Reported net profit (Rsm)	2,431	1,373	1,809	2,399	2,747
Normalised net profit (Rsm)[1]	2,067	1,022	1,809	2,399	2,747
Normalised EPS (Rs)	21.8	10.8	17.6	21.1	24.2
Dividend per share (Rs)	5.8	4	4	4	4
Dividend yield (%)	0.67	0.46	0.46	0.46	0.46
Normalised PE (x)	39.9	80.6	49.4	41	35.8
EV/EBITDA (x)	18.3	22.8	15.4	14	12.8
Price/book value (x)	2.05	2	1.85	1.81	1.74
ROIC (%)	5.25	3.97	4.39	4.91	5

* Standalone financials — year to Mar, fully diluted
1. Post-goodwill amortisation and pre-exceptional items
Accounting standard: Local GAAP
Source: Company data, RBS forecasts

A sizeable presence in the life insurance and mutual fund industries

Aditya Birla Nuvo Ltd (ABNL) is a part of Aditya Birla Group (revenues of US$29bn in 2008). ABNL has a presence in a wide range of financial services, such as life insurance (74% stake in Birla Sun Life Insurance), asset management (50% stake in Birla Sun Life Mutual Fund), non-banking financial services, wealth management, retail broking, private equity and insurance advisory (various subsidiaries). Birla Sun Life Insurance (BSLI) is the sixth-largest private life insurance company in India (8.4% market share among private players) based on Apr-Jan 2010 weighted new received premiums. Birla Sun Life Mutual Fund is the fifth-largest asset management company (8.6% market share as of December 2009), with about Rs681bn of assets under management.

India has attractive long-term underlying drivers for financial services growth

India's long-term underlying drivers (demographics, high savings rate and rising household income) support growth of the financial services business. The gross domestic savings rate increased from 23% in FY01 to 32.5% in FY09, with household financial savings forming a large part of that (42% in FY09). In addition, about 61% of the population is of working age (15-59).

Initiate coverage with a Buy rating; financial services account for 44% of our target price

Management said it plans to unlock shareholder value by listing a few of its growth businesses once they reach the required size. We initiate coverage of ABNL with a Buy rating and a SOTP-based target price of Rs1,050. Our target price is made up of: 1) the financial services group (insurance, asset management company and the listed AB Money Ltd) (44% of our target price); 2) the telecom business (a 27% stake in IDEA) (34% of our target price); and 3) the manufacturing businesses (22% of our target price). Recently, the government announced its intent to consider giving banking licence to private sector and NBFCs, subject to RBI approval. ABNL management has said that the group will apply for one. We believe positive developments on this front could be a trigger for the stock.

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Important disclosures can be found in the Disclosures Appendix.

The Basics

Versus consensus

EPS (Rs)	RBS	Cons	% diff
2010F	17.6	17.6	-
2011F	21.1	22.3	-5%
2012F	24.2	26.8	-10%

Source: Bloomberg, RBS forecasts

Forced ranking*

Company	Rec	Upside / Downside
Tata Power	Buy	23%
ABNL	Buy	22%
M&M	Buy	21%
ACC Ltd	Sell	-27.9%

* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page.
Source: RBS forecasts

Key events

Date	Event
1QFY11 (April-June, 2010)	Annual results

Source: Company

Catalysts for share price performance

The company plans to unlock shareholder value by listing a few of the growth businesses once they attain critical mass. A potential trigger is therefore a higher-than-expected value for these businesses. Any positive developments on the banking licence front could also be a trigger. An increase in the foreign ownership limit in the insurance sector will also act as a trigger for ABNL, in our view.

Earnings momentum

Sales volumes and margins at most of ABNL's manufacturing businesses declined in FY09, largely due to the economic slowdown and lower realisations on declining commodity prices. However, as these factors turned around, earnings momentum picked up in 9MFY10. In the life insurance business, retail-weighted new business premiums (RWNBP) declined in January 2010, partly due to time lost in training the sales force about changes in product structure (after a cap on charges) and a relaunch of existing products. We factor in lower business growth in FY10, but expect volumes to gain momentum in FY11.

Valuation and target price

We value the stock on an SOTP basis.

- We value the manufacturing businesses based on EV/EBITDA. We forecast earnings for the manufacturing divisions and incorporate these into ABNL's standalone income statement. We do not consider consolidated financials for forecasts.
- We then value the life insurance business (Birla Sunlife Insurance) by assigning a multiple to new business profits and value the asset management business (Birla Sunlife Mutual Fund) as a percentage of assets.
- We value the stake in listed group companies (IDEA and Aditya Birla Money) by applying a 20% holding company discount to the current market price.

How we differ from consensus

Our FY10-12 net profit estimates are largely in line with Bloomberg consensus. However, our EPS forecasts are lower than consensus, as we factor in the warrant conversion in FY11.

Risks to central scenario

Manufacturing businesses: The manufacturing businesses are largely cyclical in nature and partly linked to commodity prices. A prolonged downturn could lead to lower demand and realisations.

Financial services: A sustained downturn in the economy, a steep decline in the gross domestic savings rate and greater risk aversion among households are key risks to growth in the insurance, asset management and other financial services businesses.

Insurance: Recently, the Insurance Regulatory and Development Authority (IRDA) imposed caps on charges at 300bp for unit-linked products with tenures less than or equal to 10 years, and 225bp for those exceeding 10 years. The regulator is also considering capping charges on traditional products. The near-term challenge for the life insurance players is to realign their business strategies to conform with the new norms.

Telecom: Pricing pressure from residual pre-paid base migration, shift in post-paid base pricing and roaming tariff cuts remain the medium-term risks for the telecom business.

BPO business: A loss of key customers and a decrease in outsourcing budgets may have a sizeable impact upon BPO earnings. ABNL in general provides guarantees for debt raised in its BPO subsidiary. ABNL has provided corporate guarantees to lenders for Rs6.2bn, as of March 2009, for loans taken by subsidiary companies.

Key assumptions and sensitivities

Table 1 : ABNL (standalone) – key assumptions

	FY08	FY09	FY10F	FY11F	FY12F
Revenue growth % yoy	10.4%	21.5%	-0.2%	11.0%	9.9%
EBITDA margin %	16.0%	12.2%	16.3%	15.8%	15.5%
EBIT margin %	12.4%	8.7%	12.2%	11.6%	11.1%
Effective tax rate %	34.1%	37.0%	35.0%	35.0%	35.0%

Source: Company data, RBS forecasts

Table 2 : ABNL (standalone) – sensitivity to net profit

	FY08	FY09	FY10F	FY11F	FY12F
Sensitivity to 1% change in total sales	1.6%	2.2%	2.8%	2.0%	1.9%
Sensitivity to 1% change in EBITDA margin	10.8%	22.1%	17.3%	14.5%	13.9%

Source: Company data, RBS forecasts

Contents

A diversified conglomerate

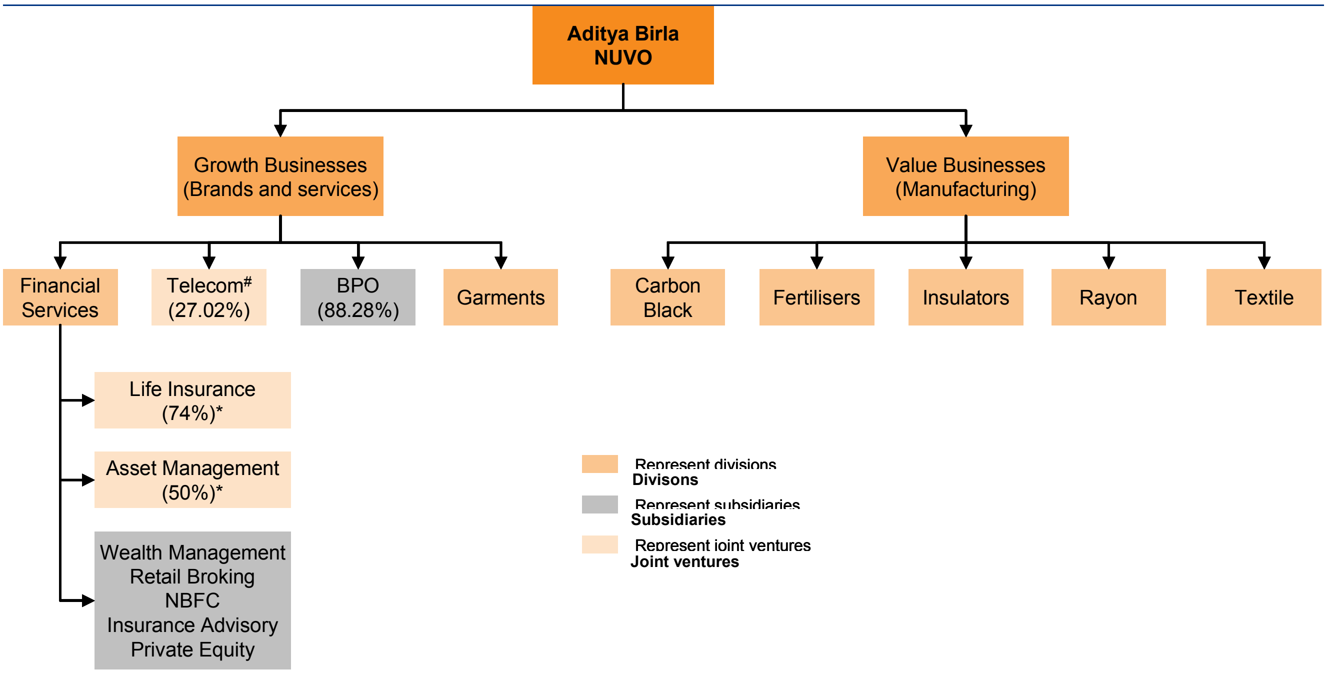
Management categorises ABNL's various businesses into 'growth' and 'value'. In general, cash from the 'value' businesses, which are cyclical in nature and linked to commodity prices, is used to fund internal capex and, in part, the long gestation 'growth' businesses.

Unlocking value – possible scenarios

The growth businesses include financial services (life insurance, mutual funds, NBFC, broking and other financial services), telecom (Idea Cellular), business process outsourcing (BPO) and garments. The value businesses include the traditional manufacturing businesses of carbon black, fertilisers, insulators, rayon and textiles. Management plans to unlock value for its shareholders. We see the following two possibilities.

- Create a wholly owned subsidiary, such as a 'holding company', for the financial services business and then dilute ABNL's stake in this holding company.
- Alternatively, list the individual growth businesses once they attain critical mass.

Figure 1 : ABNL – current business structure



* JV with Sun Life Financial, Canada; # Aditya Birla Group holds 49.13%.
Note: Percentage figures indicated represent ABNL's shareholding in its subsidiaries/JVs.
Source: Company data

Table 3 : ABNL management team

Mr Kumar Mangalam Birla	**Chairman**
Mr Sushil Agarwal	Chief Financial Officer
	Business Head/Director
Mr Ajay Srinivasan	Financial Services
Mr Sanjeev Aga	Telecom
Dr Rakesh Jain	Fertilisers/Insulators/BPO & IT
Mr Pranab Barua	Garments and Textiles
Mr Lalit Naik	VFY
Dr Santrupt Misra	Carbon Black

Source: Company data

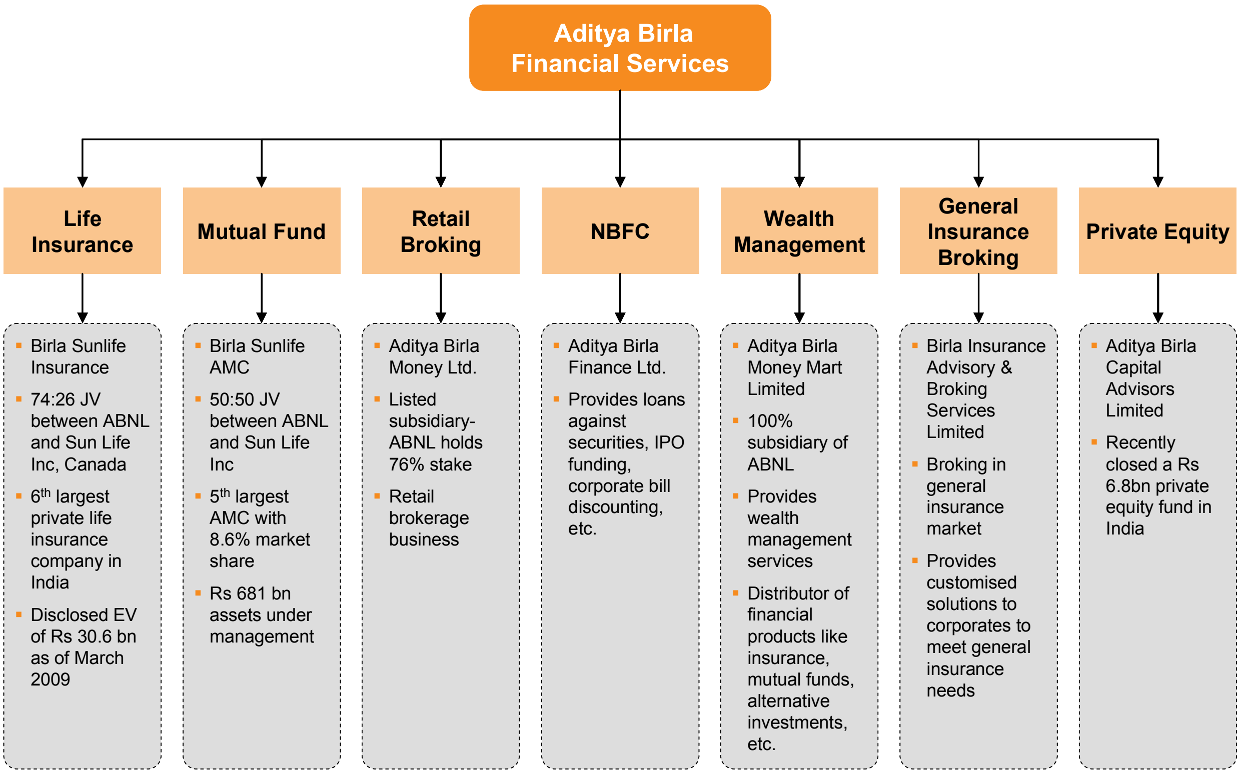
Growth businesses

The company considers branding and services its ‘growth’ businesses. Accordingly, financial services, telecoms, garments and BPO are categorised as growth businesses.

Financial services

ABNL is present across a wide range of financial services, including life insurance, mutual funds, non-banking finance, retail broking, insurance advisory, wealth management, product distribution and private equity through its subsidiaries and joint ventures.

Figure 2 : Aditya Birla Financial Services



Source: Company data

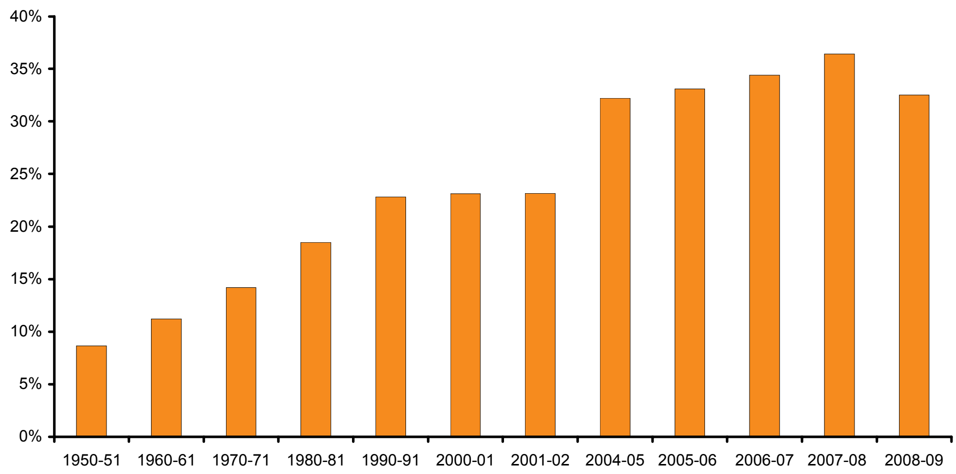
Indian financial services – long-term growth drivers

The Indian financial services industry stands to benefit from the following factors:

- India is under-penetrated in terms of financial services;
- India has a growing middle class with rising disposable incomes; and
- government tax incentives – about 30% effective tax benefit on select investments (including life insurance premiums and equity-linked savings schemes) made every financial year.

Gross domestic savings rate in India has increased significantly over the years

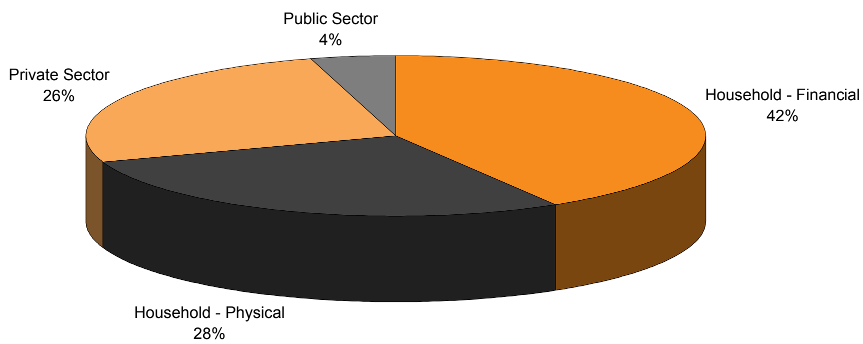
Chart 1 : India – gross domestic savings (% of GDP)



Source: RBI, CSO

Household financial savings form a large part of overall gross domestic savings

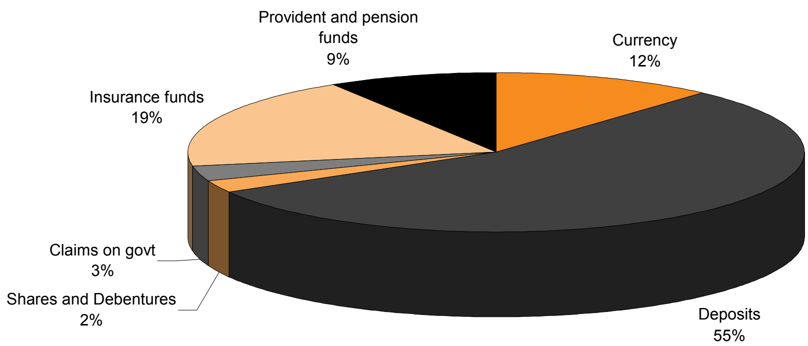
Chart 2 : India – gross domestic savings by sector (FY09)



Source: RBI, CSO

A large share of household savings is bank deposits and insurance fund investments

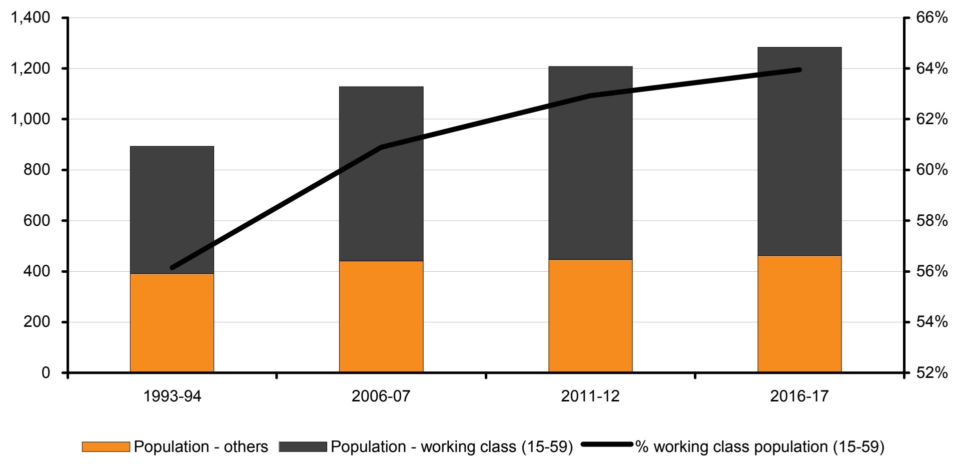
Chart 3 : India – household sector financial savings (FY09)



Source: RBI, CSO

About 61% of the population is in the 15-59 age group

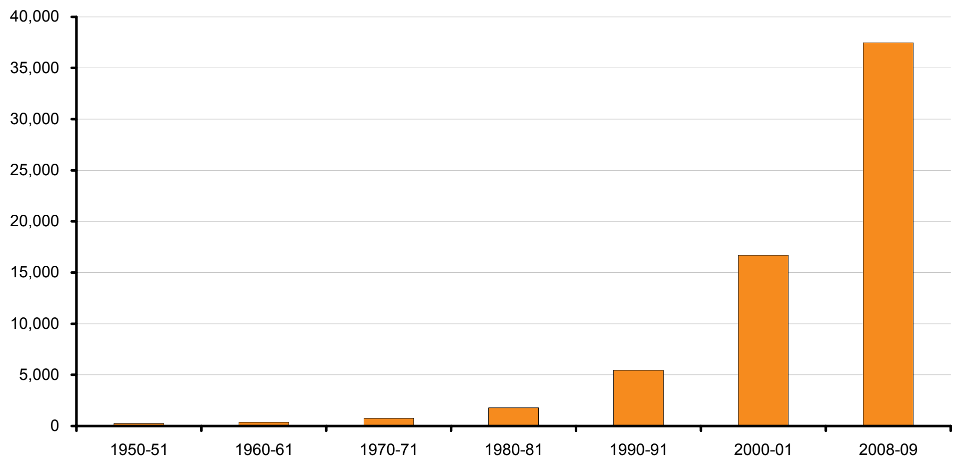
Chart 4 : Demographics (m)



Source: Planning Commission (11th five year plan report)

Sustained growth in GDP has led to a sharp increase in per capita income

Chart 5 : Per capita income (Rs)



Source: RBI

Aditya Birla Financial Services businesses

I) Life Insurance

Birla Sun Life Insurance (BSLI) is a 74:26 joint venture between ABNL and Sun Life Financial Services Inc of Canada. The company has a fairly robust distribution network – tie-ups with five banks, more than 675 corporate agents and brokers, 600 branches and 0.18m direct sales agents.

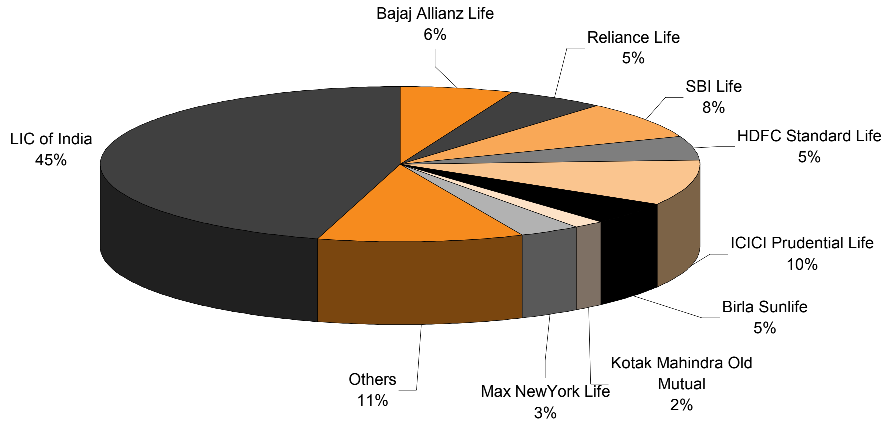
BSLI's equity capital base was about Rs20bn as of March 2009 and Rs22.8bn as of December 2009. According to the company, the embedded value (EV) of the insurance business was Rs30.6bn as of March 2009 (insurance business value of Rs26.8bn + Rs3.8bn adjusted net worth).

BSLI is the sixth-largest private life insurance company in India, based on April-Jan 2010 retail-weighted new received premiums (RWNRP = 100% of regular first year premiums + 10% of single premiums). Assets under management were about Rs147bn as of December 2009, of which about 50% was in debt and the rest in equity investments.

According to the current regulations, FDI up to 26% in the Insurance sector is allowed on the automatic route subject to obtaining licence from the IRDA. Further, The Insurance Act, 1938, states that the promoters holding more than 26% of the paid-up equity capital shall divest in a phased manner after a period of 10 years from the date of the commencement of the business.

Industry grew 10% yoy in April-Jan 2010; private players posted zero growth vs 20% by LIC

Chart 6 : Market share in life insurance industry (RWNRP, April-January 2010)



Source: IRDA

Please see our Insurance – India report titled *All is well* dated 8 February 2010 for a detailed comparison of the financial parameters of select players in the insurance industry.

Table 4 : BSLI – summary of financials

Rsm	FY08	FY09	9MFY10
First year premium	19,650	28,239	20,455
Renewal premium	13,072	17,537	16,390
Net premium income	**32,231**	**44,143**	**35,378**
Investment income/ (loss on policy holders' funds)	4,873	-6,707	37,985
Total revenues	37,104	37,436	73,363
Net profit/ loss	**-4,453**	**-7,021**	**-3,812**

Source: Company data

Table 5 : Birla Sunlife Insurance – EV and VNB, FY09, Rs bn

Embedded value	**30.6**
of which, insurance business value (IBV)	26.8
of which, adjusted net worth	3.8
Value of new business (VNB)	**5.0**
Economic assumptions	
Cash/money market instruments	6.50%
Government bonds	7.25%
Corporate bonds	8.25%
Equities	12.25%
Other assumptions	
Risk discount rate	12.0%
Tax rate	14.16%
Operating assumptions	
The demographic assumptions reflect our best estimate view of future experience	
Expense assumptions are set at the levels that are expected to eliminate the expense overruns by FY12-13	

Note: The EV includes the value of tax losses carried forward as of the valuation date. An allowance has been made in the IBV for the expected maintenance expense overruns. No allowance has been made in the VNB for the acquisition expense overrun arising in the period.
Source: Company data

Valuation methodology: We value Birla Sunlife Insurance by assigning a multiple of 11.1x (derived using the dividend discount model) to its FY11F new business profit (NBP), in line with our valuation approach to other life insurance businesses under our coverage (ie HDFC Limited, ICICI Bank and SBI).

Table 6 : Birla Sunlife Insurance – valuation of business

Rsbn	FY09	FY10F	FY11F
Retail-weighted premiums	**24.4**	**25.6**	**30.8**
% growth	43%	5%	20%
Estimated NBP margins			16%
Estimated NBP			4.9
Multiple to NBP (x) (refer to Table 9)			11.1
Value of business			**54.7**
ABNL's stake in JV			74%
Value of ABNL stake (Rsbn)			**40.5**
Number of equity shares of ABNL (m, FY11F)			114
Value per share of ABNL stake (Rs)			**357**

Source: Company data, RBS forecasts

Table 7 : New business profit multiple – dividend discount model

P = D / (i-g)
P = price of future dividend income
I = risk discount rate
g = new business growth rates

New business multiple

	New business growth (g)				
Discount rate (i)	**3.0%**	**4.0%**	**5.0%**	**6.0%**	**7.0%**
13%	10.0	11.1	12.5	14.3	16.7
14%	9.1	10.0	**11.1**	12.5	14.3
15%	8.3	9.1	10.0	11.1	12.5

Source: Company data, RBS forecasts

The multiples as stated here are strictly not comparable and are purely indicative of the broad range

Table 8 : Life Insurance – comparison of valuations among select peers

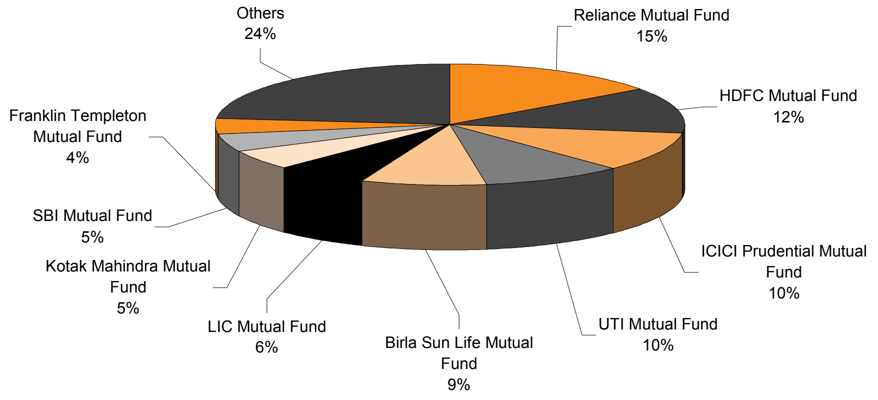
US$m	China Life	Ping An Insurance	Max New York Life	Birla Sunlife
Embedded value (as disclosed)	39,312	18,068	497	665
Market cap/ assigned valuation of business	115,770	52,022	1,087	1,189
Implied market cap / EV (x)	**2.9**	**2.9**	**2.2**	**1.8**

Note: Priced as of 4 March 2010. EV of China Life is as of June 2009, Ping An is as December 2008 and Max New York and Birla Sunlife Insurance are as of March 2009.
Note: Ping Insurance company is also engaged in banking and investment services. Max New York Life Insurance is also engaged in healthcare and contract research business.
Source: Company data, Bloomberg, RBS forecasts for Birla Sunlife

II) Mutual fund business

ABNL owns 50% of Birla Sun Life Asset Management Company (BSAMC). BSAMC is the fifth-largest asset-management company in India, with a market share of about 8.6% and about Rs681bn of domestic assets under management (AUM) as of December 2009. Of this, about 85% was in debt and liquid schemes and about 15% was in equity schemes.

Chart 7 : Market share in domestic mutual fund industry (Rs7,955bn, December 2009)



Source: AMFI

Table 9 : Birla Sunlife Asset Management – brief financials

Rsm	FY08	FY09	9MFY10
Revenues	1,193	1,779	1,991
Net profit	28	79	302

Source: Company data

Valuation methodology: We value the AMC business by assigning 2% to debt assets under management and 4% to equity assets under management, in line with our approach for other AMC businesses under our coverage (ie HDFC Limited, ICICI Bank and SBI). In a recently concluded deal (November 2009), T Rowe Price Group bought a 26% stake in UTI Asset Management Company (AMC). The deal valued UTI AMC at Rs25bn, which is approximately 3.2% of its assets under management as of December 2009.

We value Birla Sunlife AMC at about 2.4% of FY11F assets under management

Table 10 : Birla Sunlife Asset Management – valuation of business

Rsbn	FY09	FY10F	FY11F
Equity assets	59	150	180
Debt assets	425	600	660
Total assets under management	484	750	840
Equity funds under management			7.2
% of AUM			4%
Debt funds under management			13.2
% of AUM			2%
Value of the business			**20.4**
ABNL's stake (%)			50%
Number of equity shares (m, FY11F)			114
Value per share of ABNL stake (Rs)			**90**

Source: Company data, RBS forecasts

The valuation of SBI MF is higher primarily on account of its higher proportion of equity assets under management

Table 11 : Coverage universe – valuation of AMC business

Rsbn	AUM (December 2009)	Valuation	% of AUM	FY11F AUM	% of FY11F AUM
HDFC mutual fund	972	37.9	3.9%	1,523	2.5%
ICICI Prudential mutual fund	824	29.9	3.6%	1,234	2.4%
SBI mutual fund	379	16.6	4.4%	544	3.0%

Source: AMFI, Company data, RBS forecasts

III) Aditya Birla Money (listed subsidiary)

Aditya Birla Money (erstwhile Apollo Sindhoori pre acquisition) is a listed subsidiary (ABML IN, 76% holding) of ABNL. The company is into retail broking business with a nationwide distribution network of 230 owned and 550 franchised branches. Its customer base is about 0.22m.

Valuation methodology: Aditya Birla Money is a listed subsidiary of ABNL. We value the company after applying a 20% holding company discount to the current market price.

Table 12 : Aditya Birla Money (retail broking) – financials

Rsm	FY08	FY09	9MFY10
Revenue	1,222	833	849
Net profit	220	12	100

Source: Company data

Table 13 : ABNL – valuation of stake in Aditya Birla Money

Current price, 4 March 2010 (Rs)	52
No. of shares (m)	55.4
Market cap (Rsm)	**2,881**
ABNL's stake in the company	76%
Value of stake (Rsm)	**2,189**
No. of shares of ABNL (FY11F, m)	114
Value per share of ABNL (Rs)	**19**
Value per share of ABNL stake, post 20% discount (Rs)	**15**

Source: Company data, RBS forecasts

Key risks: Downturn in equity markets for a prolonged period will likely reduce investor interest and thus brokerage volumes.

IV) Other financial services businesses

ABNL has a presence in various financial services businesses through its four main subsidiaries. Other financial services includes lending (NBFC), financial products distribution, wealth management services, general insurance broking and management of private equity funds.

Currently, these businesses are relatively small, but management believes they will likely achieve critical scale over the long term given the underlying growth drivers of the financial sector in India. We do not assign any value to these businesses, given their current insignificant size and net profit (Rs100m in 9MFY10).

Aditya Birla Finance (erstwhile Birla Global Finance Co)

Aditya Birla Finance is a non-banking financial company (NBFC) engaged in providing loans against securities, funding initial public offers (IPOs), corporate bill discounting, ESOP financing, lines of credit against securities, promoter funding and structured financing.

Table 14 : Aditya Birla Finance – financials

Rsm	FY08	FY09	9MFY10
Revenue	970	1203	534
Net profit	227	296	210

Source: Company data

Aditya Birla Money Mart (erstwhile Birla Sun Life Distribution)

The company is a 100% subsidiary of ABNL. It offers wealth management, financial planning and investment solutions, mainly through a range of products such as mutual funds, insurance, PE funds, alternate investments, select fixed deposits, IPOs and structured products, under the brand name Aditya Birla Money.

Table 15 : Aditya Birla Money Mart – financials

Rsm	FY08	FY09	9MFY10
Revenue	375	211	313
Net profit	27	-91	-137

Source: Company data

Birla insurance Advisory & Broking Services

The company is an intermediary in the general insurance market providing tailor-made insurance solutions to meet the clients' general insurance needs.

Table 16 : Birla insurance Advisory & Broking Services – financials

Rsm	FY08	FY09	9MFY10
Revenue	106	165	151
Net profit	32	48	27

Source: Company data

Aditya Birla Capital Advisors (ABCAP)

ABCAP was formed with the aim of advising, launching and managing a series of private equity funds to invest in India. The company recently closed a Rs6.8bn fund in India. ABNL will contribute 20% of this private equity fund as sponsor commitment over a period of three years.

Telecom – Idea Cellular

The company is promoted by the Aditya Birla group, whose companies – ABNL, Birla TMT Holdings, Hindalco and Grasim – collectively own the promoter stake (49.13%). ABNL holds a 27.02% stake in Idea.

Idea is a provider of telecommunication services in India. Its GSM-based mobile services operations are spread nationwide over India's 22 telecom service areas. In June 2008, the company acquired a 41% stake in Spice Telecom (operates in states of Karnataka and Punjab) from promoter MCorp Global, and it plans to merge with Spice eventually. This will entail Telekom Malaysia (a regional telecom operator) holding up to 19% of Idea's equity (15% currently). The company has received clearance for the merger to be effective from 1 March 2010. Idea's holdings in telecom transmission towers were pooled into a 16% stake in Indus, a joint venture with Bharti Airtel and Vodafone-Essar in November 2007. IDEA had a subscriber base (including Spice) of 59.9m (up 50% yoy) as of February 2010 and commands a 10.7% share in the mobile market.

Extracts from Pankaj Kapoor's (RBS telecom analyst) reports on IDEA Cellular, dated 7 Oct 2009 and 21 Jan 2010 – Recommendation as of 4 March 2010 (IDEA.BO, Rs61.45, Sell, TP: Rs43)

We estimate a significant dent in Idea's financials, given its vulnerability to competition – nine telecom circles were recently launched (India is divided into 22 geographical areas called 'circles') – and highly concentrated business portfolio.

We believe a correction in post-paid tariffs will also have a lagged impact on realisation. We expect the additional impact of roaming rate cuts to be factored in fully in 4Q10. We see continued pricing pressure from residual pre-paid base migration, a shift in post-paid base pricing and roaming tariff cuts. We expect a sharp correction in valuations given a likely yoy decline in earnings over the medium term.

Table 17 : IDEA – key forecasts

IDEA, Rsm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	67,200	101,252	130,898	160,088	187,633
EBITDA	22,687	28,042	31,720	35,392	38,836
Reported net profit	10,422	9,272	8,471	5,304	2,959
Normalised net profit	10,422	9,272	8,471	5,304	2,959
Normalised EPS	4.0	3.2	2.7	1.6	0.9
Dividend per share	n/a	n/a	n/a	n/a	n/a
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a
Normalised PE (x)	15.6	19.3	23.1	37.9	67.9
EV/EBITDA (x)	10.9	8.2	8.1	8.0	7.7
Price/book value (x)	4.6	1.3	1.4	1.3	1.3
ROIC (%)	30.2	15.8	7.7	6.2	5.5

Priced as of 4 March 2010
Source: Company data, RBS forecasts

Valuation methodology: We value ABNL's stake in IDEA by applying a 20% holding company discount to the current market price.

The value of stake in IDEA constitutes 34% of our target price

Table 18 : ABNL – valuation of stake in IDEA

Current price, 4 March 2010 (Rs) (rounded)	61
No. of shares (m)	3100
Market cap (Rsm)	**189,106**
ABNL's stake in the company	**27%**
Value of stake (Rsm)	51,096
No. of shares of ABNL (FY11F, m)	114
Value per share of ABNL (Rs)	**450**
Value per share of ABNL stake, post 20% discount (Rs)	**360**

Source: Company data, RBS forecasts

Aditya Birla Minacs – BPO and IT

Aditya Birla Minacs BPO

ABNL holds an 88.3% share in Aditya Birla Minacs. This company is the BPO arm of ABNL and has delivery centres in the US, Canada, Europe, India and the Philippines. Aditya Birla Group acquired Minacs, a leading Canadian BPO, in August 2006 and re-branded the company as Aditya Birla Minacs.

The BPO business serves 59 clients, including 27 Fortune 500 companies through 27 global delivery centres. The company had 8,659 operating seats (12,665 employees) as of December 2009. It derives 86% of its revenue from North America and 14% from the Asia Pacific region.

Aditya Birla Minacs, as part of a conscious group strategy, is looking at sourcing business from group companies and showcasing this to acquire external customers. The company is optimistic about its future and expects to turn around its margins with better seat utilisation and overhead cost reduction. It is also venturing into the high-margin knowledge and process outsourcing (KPO) segment.

The business had about Rs8.5bn of outstanding debt as of December 2009. It issued Rs2.5bn in compulsorily convertible debentures (CCDs) in January 2010, with ABNL guaranteeing the issue. According to management, the money raised will be used to repay existing debt.

Aditya Birla Minacs posted a net loss of Rs1.2bn in FY09. However, the company appears to be turning around slowly (Rs10m net profit in 3QFY10).

Table 19 : Aditya Birla Minacs (BPO) – financials

	FY08	FY09	9MFY10
Revenue (Rsm)	15,777	16,872	11,064
EBIT (Rsm)	-265	-610	250
Net profit (Rsm)	-889	-1211	-161
Operating seats	9,089	8,326	8,659
Employees	12,908	11,621	12,665

Source: Company data

Valuation: We do not assign any value to this business, due to the lack of visibility on earnings and profitability over the medium term. However, given the nature and potential of the outsourcing industry and management's focus, this business may begin to contribute to earnings and valuations meaningfully over the long term.

Aditya Birla Minacs IT (erstwhile PSI Data Systems)

ABNL holds a 76.9% stake in the company directly and indirectly through a wholly owned subsidiary. The company provides IT solutions and services to global companies. It delivers business value to clients through a seamless CRM/contact centre, KPO, marketing, finance and accounting, and IT solutions and services.

Table 20 : Aditya Birla Minacs (IT) – financials

Rsm	FY08	FY09	9MFY10
Revenue	1,010	954	670
Net profit	25	-68	51

Source: Company data

Valuation: We do not assign any value to this business, given its current insignificant share of revenue and net profit.

Key risks: Foreign exchange translation loss could impact profitability, but this can be mitigated through hedging. Loss of key customers and scaling down of budgets can have a sizeable impact on earnings.

Manufacturing businesses

ABNL has a presence in cyclical and partly commodity-linked manufacturing businesses, which are housed as separate divisions within ABNL. Within this, ABNL classifies its garments division as a 'growth' business and the others as 'value' businesses.

In the various segments, operating margins are volatile due to cyclicality and, partly, to the business's exposure to commodity prices, but the blended operating margins for the businesses have averaged 15% over FY02 to FY09, with an average RoCE (return on capital employed) of 17% over the period. We forecast earnings for the manufacturing divisions and incorporate these into the standalone income statement of ABNL.

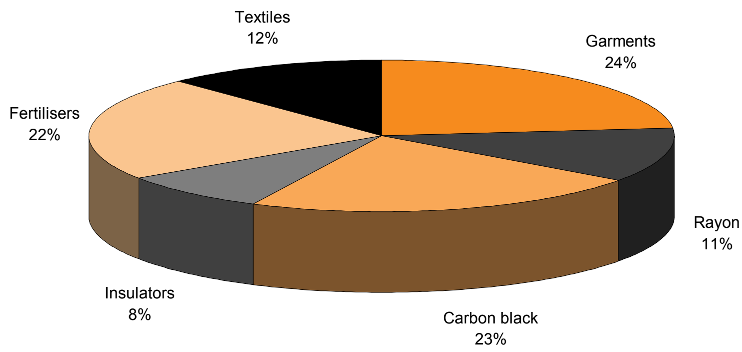
Table 21 : Manufacturing business – operating performance (%)

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	9MFY10
EBITDA margin (%)	**14%**	**17%**	**15%**	**13%**	**15%**	**17%**	**16%**	**12%**	**17%**
- Garments	2%	0%	6%	8%	9%	12%	8%	0%	5%
- Carbon Black	21%	22%	23%	17%	16%	18%	18%	5%	23%
- Insulators	22%	21%	10%	7%	15%	23%	34%	29%	26%
- Fertilisers	na	na	na	na	22%	17%	13%	18%	15%
- Rayon	21%	35%	30%	25%	23%	27%	26%	23%	31%
- Textiles	10%	8%	6%	7%	11%	11%	11%	9%	11%
ROCE (%)	**10%**	**17%**	**15%**	**14%**	**20%**	**23%**	**21%**	**15%**	**23%**

Source: Company data

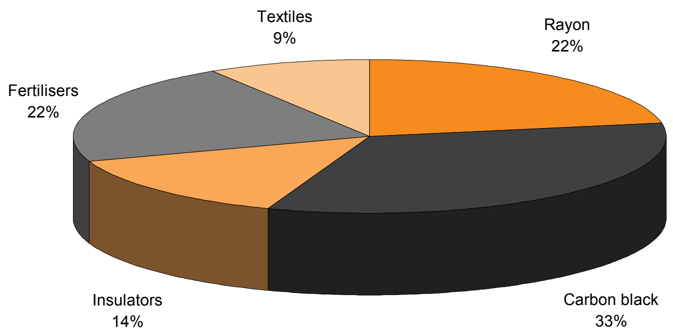
The manufacturing businesses of ABNL are cyclical in nature and partly linked to commodity prices

Chart 8 : Sales mix by division (FY10F)



Source: Company data, RBS forecasts

Chart 9 : Division-wise contribution to EBITDA (FY10F)



Source: Company data, RBS forecasts

Garments

In the branded apparel retail business, we expect operating leverage to drive earnings

The garments division (Madura Garments) is primarily involved in branded apparel retailing through company-owned stores (about 50% of revenue) and third-party retail outlets (about 50% of revenue). The company procures the raw materials (cotton/textiles) and uses in-house expertise to produce garments, which are then sold under different brands through retail outlets. The division has several garment brands in its portfolio, namely Peter England (economy and mid-priced segment), Allen Solly, Van Huesen and Louis Philippe (premium brands), and also has a strategic distributor tie-up with the ESPIRIT brand. Peter England accounts for about 50% of the division's unit sales.

Madura Garments has invested heavily in opening new exclusive brand outlets (EBOs) (90 each in FY08 and FY09), and brand building over the past two to three years. As of December 2009, it had 365 EBOs covering a retail space of about 0.78m sq ft. The company is not looking to open a significant number of new EBOs over the medium term, but aims to leverage the existing retail infrastructure and trade channels for growth in the branded apparel segment.

Madura Garments Exports, a 100%-owned subsidiary of ABNL, is a contract exporter. This subsidiary is being merged with Madura Garments. According to management, the company is consciously seeking to scale down the contract manufacturing exports business and will focus largely on the domestic market.

Key risks: A sustained slowdown in the economy may translate into lower consumption, which is the key driver for branded garments. This would mean retail stores would take longer to achieve breakeven and would thereby have an impact on profitability.

Carbon black

In the carbon black business, we expect earnings to be higher driven by higher volumes

Hi Tech Carbon, the carbon-black business division of ABNL, is the second-largest producer of carbon black domestically (about 37% market share by volume) and the group is the fourth-largest globally. The company markets its product under the 'Birla Carbon' brand. Carbon black is the key raw material used in the manufacture of rubber tyres (about 28% by weight). According to management, the tyre sector accounts for 65% of carbon black demand.

Carbon black is essentially carbon obtained by burning carbon black feed stock (CBFS), which in turn is a residue from oil refineries. CBFS is the key raw material and accounts for about 80% of the cost of production of carbon black. CBFS prices are sensitive to crude oil prices. The division leverages its global presence by centrally procuring CBFS. Aditya Birla Group also has carbon black businesses in Thailand, Egypt and China. However, these are separate entities and do not come under ABNL.

Hi Tech Carbon has an installed capacity of 2,30,000 MTPA and is building an additional 75,000 MTPA capacity (estimated capex of Rs2.4bn, according to management) in Patalganga, India, due to be completed by March 2010. The company has stated that it is considering adding an additional 1,70,000 MTPA capacity. The proposed expansion is in the planning stage, and we have not factored capex for this into our estimates. Management expects aggregate domestic carbon black demand to grow at a rate of 6.6% pa from 2007-08 to 2012-13.

The company also has a 40MW power plant and is building another 10MW plant, which it expects to complete by March 2010. ABNL derives revenue (Rs0.4bn in FY09) from the external sale of power units.

Key risks: A slowdown in auto demand is the primary risk to this business. Furthermore, volatility in crude oil prices will have a direct impact on realisations and hence profitability. Also, in the event that the government rolls back the anti-dumping duty, this would have a direct impact on margins.

Insulators

Expected investments in new power projects provide demand visibility over the medium term

Aditya Birla Insulators is the largest player in India and the fourth-largest worldwide by volume in this market, with 48,800 TPA of installed capacity at two plants and an additional 4,000 TPA of expansion in progress, due to be completed by March 2010. Insulators are structures made out of clay with particular technical specifications used largely to control the flow of electricity. They are used in power generation, transmission and distribution (T&D) and by original equipment manufacturers (OEMs). In India, Power Grid Corporation, the state electricity boards (SEBs), ABB, Areva and Siemens are among the major customers of ABNL's insulators division.

We expect the Indian insulators market to grow, driven by the Indian government's plan to add 78GW power-generation capacity by 2012. The company states that yield enhancement (lower rejections) and reducing fuel costs will help improve the division's margins.

Key risks: Lower-than-expected investment in the power sector would slow growth for the insulators division. Similarly, delays in financial closures and project execution would have a direct impact on order flows.

Fertilisers

A largely stable business, which enjoys a high ROCE, partly due to better capacity utilisation

The fertilisers division (Indo Gulf Fertilisers) is one of the key players in the private sector urea market, with about a 4.8% share by volume. It markets its urea under the 'Birla Shaktiman' brand. Indo Gulf Fertilisers has a geographical advantage, being located in the Indo Gangetic belt of India. According to management, about 25% of total urea consumed is imported, and it expects demand for urea to grow at a rate of 6-7% pa to reach about 35m MT by 2012.

The division is also engaged in the trading of agricultural products such as seeds, pesticides, nutrients, etc. However, the proportion of agricultural trading in total revenue is insignificant at this time.

The government provides subsidy in the form of cash/bonds to fertiliser producers in India to make fertiliser available to farmers at subsidised rates. Indo Gulf Fertilisers is entitled to subsidy calculated using the government-specified formula (which is largely a fixed return on a capital employed basis) on sale of final products.

Key risks: A substantial change in the government's fertiliser subsidy scheme would change the business dynamics of the fertiliser division.

Rayon

The division is one of the largest exporters of VFY from India

ABNL is the second-largest producer and largest exporter of viscose filament yarn (VFY) in India with about 38% market share by volume. The division (Indian Rayon) markets its product under the 'Ray One' brand. VFY, or artificial silk, is extracted from imported soft wood pulp and is used in various forms in garments.

The caustic soda division, which was launched to meet the captive consumption for the manufacture of VFY, is a standalone business now and has a sizeable external market. Caustic soda has wide industrial uses, ranging from the manufacture of pulp and paper, alumina, soap and detergents to petroleum products and chemical production. Other applications include water treatment, food, textiles, metal processing, mining, glass making, etc.

Key risks: A sharp increase in wood pulp prices and the relatively lower pricing ability of the final product can affect margins of the rayon business. Further slowdown in industrial activity will likely reduce demand for caustic soda, which is a primary risk in this business.

Textiles

The textiles division focuses on niche linen and wool segments

ABNL has a presence in the linen and wool segments of the textile industry through Jay Shree Textiles. The division supplies linen fabric to garment producers and markets it under the 'Linen Club' brand name. Linen fabric is produced from flax fibre.

Jaya Shree Textiles exited the synthetic yarn segment in FY08 as a strategic decision to focus on niche linen and wool segments.

Key risks: A sustained slowdown in the economy may translate into lower consumption, which will likely have an impact on earnings for the textile division in general.

ABNL: standalone financials

In 1QFY10, the company issued and allotted 18.5m warrants at Rs541.19 to the promoter group companies on a preferential basis. Each warrant is convertible into one equity share before the expiry of 18 months from June 2009. Of this the promoters have converted 8m warrants in 2QFY10.

In FY11, we expect promoter equity infusion (due to the conversion of the balance 10.5m warrants), internal cash generation and relatively low capex outlay to help reduce debt levels in ABNL's standalone books.

Table 22 : ABNL (standalone) – profit and loss extract

Rsm	FY08	FY09	FY10F	FY11F	FY12F
Net income from operations	**39,659**	**48,181**	**48,106**	**53,397**	**58,672**
% growth	10.4%	21.5%	-0.2%	11.0%	9.9%
Operating profit (EBITDA)	**6,340**	**5,856**	**7,837**	**8,411**	**9,066**
% growth	-13.4%	-7.6%	33.8%	7.3%	7.8%
% margin	16.0%	12.2%	16.3%	15.8%	15.5%
PBIT	**4,929**	**4,196**	**5,883**	**6,190**	**6,526**
% growth	-17.8%	-14.9%	40.2%	5.2%	5.4%
% margin	12.4%	8.7%	12.2%	11.6%	11.1%

Source: Company data, RBS forecasts

We factor the remaining 10.5m warrants available for conversion into our FY11 forecasts

Table 23 : ABNL (standalone) – balance sheet extract

Rsm	FY08	FY09	FY10F	FY11F	FY12F
Net block	15,016	16,050	18,096	16,775	15,136
Investments	40,073	57,124	51,864	55,719	56,394
Net current assets	14,585	14,837	12,843	13,160	14,281
Total assets	**69,675**	**88,011**	**82,803**	**85,654**	**85,810**
Net worth	40,237	41,217	48,314	54,466	56,704
Debt	27,434	44,992	32,686	29,386	27,303
Deferred tax liabilities	2,003	1,802	1,802	1,802	1,802
Total liabilities	**69,675**	**88,011**	**82,803**	**85,654**	**85,810**

Source: Company data, RBS forecasts

The manufacturing businesses constitutes 22% of our target price

Table 24 : ABNL (standalone) – valuation of the manufacturing businesses

ROCE (average FY02-09)	17%
Long-term growth	3%
WACC (refer to Table 25)	9%
Tax rate	35.0%
Depreciation as % of EBITDA (average FY02-09)	28%
(RoCE-g)/RoCE	0.8
WACC-g	6%
Implied EV/EBITDA multiple	**6.5**
EBITDA (FY11F)	8,411
Implied enterprise value	54,401
Less: net debt	(28,487)
Equity	25,914
No. of shares (m, FY11F,including warrants)	114
Value per share (Rs)	**228**

Source: Company data, RBS forecasts

Table 25 : ABNL (standalone) – WACC calculation

Cost of debt (post-tax)	5.2%
Cost of equity	16%
WACC	9%
Risk-free rate	8%
Beta	1
Market risk premium	8%
Cost of equity (CAPM)	16%

Source: Company data, RBS forecasts

Valuation methodology – sum of the parts

Our SOTP-based target price of Rs1,050 is made up of: 1) the financial services group (44% of our target price); 2) 27% stake in telecom business, IDEA (34% of our target price); and 3) the manufacturing businesses (22% of our target price).

- We value the manufacturing businesses based on EV/EBITDA. We forecast earnings for the manufacturing divisions and incorporate these into ABNL's standalone income statement. We do not consider consolidated financials for forecasts.
- We then value the life insurance business (Birla Sunlife Insurance) by assigning a multiple to new business profits and value the asset management business (Birla Sunlife Mutual Fund) as a percentage of assets.
- We value the stake in listed group companies (IDEA and Aditya Birla Money) by applying a 20% holding company discount to the current market price.

Table 26 : ABNL – valuation methodology

Business	Valuation methodology	Reference
Life insurance	Multiple to FY11F new business profits	Table 6
Mutual Fund	% of assets under management	Table 10
Aditya Birla Money Limited	20% discount to market price	Table 13
Other financial services (NBFC, distribution, advisory, private equity)	NIL	NA
IDEA stake	20% discount to market price	Table 18
Garments, rayon, insulators, carbon black, fertilisers and textiles (standalone books)	FY11F EV/EBITDA multiple	Table 24

Source: RBS forecasts

Table 27 : ABNL – sum-of-the-parts (SOTP) based fair value

Rs	Fair value	Holding company discount	Target price (Rs)
Life insurance	357	Nil	357
Mutual fund	90	Nil	90
Value of stake in AB Money Limited	19	20%	15
Financial services	**466**	**NA**	**462**
Value of stake in IDEA	450	20%	360
Manufacturing businesses	228	Nil	228
Value of the business			**1,050**

Source: Company data, RBS forecasts

Income statement

Rsm	FY08A	FY09A	FY10F	FY11F	FY12F
Revenue	39659	48181	48106	53397	58672
Cost of sales	-33044	-42144	-40088	-44785	-49385
Operating costs	-274.3	-181.7	-181.4	-201.3	-221.1
EBITDA	**6340**	**5856**	**7837**	**8411**	**9066**
DDA & Impairment (ex gw)	-1411	-1660	-1954	-2221	-2540
EBITA	**4929**	**4196**	**5883**	**6190**	**6526**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**4929**	**4196**	**5883**	**6190**	**6526**
Net interest	-1790	-2574	-3100	-2500	-2300
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	**3139**	**1622**	**2783**	**3690**	**4226**
Taxation	-1072	-600.2	-974.1	-1292	-1479
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	364.8	351.5	0.00	0.00	0.00
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**2431**	**1373**	**1809**	**2399**	**2747**
Normalised Items Excl. GW	364.8	351.5	0.00	0.00	0.00
Normalised net profit	**2067**	**1022**	**1809**	**2399**	**2747**

Source: Company data, RBS forecasts — year to Mar

Balance sheet

Rsm	FY08A	FY09A	FY10F	FY11F	FY12F
Cash & market secs (1)	971.5	898.1	898.1	898.1	898.1
Other current assets	20540	21674	21837	24132	27627
Tangible fixed assets	15016	16050	18096	16775	15136
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	40073	57124	51864	55719	56394
Total assets	**76601**	**95746**	**92695**	**97525**	**100055**
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	5591	6770	8735	10482	12578
Long term debt (3)	27434	44992	32686	29386	27303
Oth non-current liab	3338	2767	2960	3191	3469
Total liabilities	**36363**	**54529**	**44381**	**43059**	**43350**
Total equity (incl min)	40237	41217	48314	54466	56704
Total liab & sh equity	**76601**	**95746**	**92695**	**97525**	**100055**
Net debt	26463	44094	31788	28487	26405

Source: Company data, RBS forecasts — year ended Mar

Cash flow statement

Rsm	FY08A	FY09A	FY10F	FY11F	FY12F
EBITDA	6340	5856	7837	8411	9066
Change in working capital	-3028	-371.9	1994	-316.6	-1121
Net interest (pd) / rec	-1698	-2212	-3100	-2500	-2300
Taxes paid	-461.1	-827.4	-974.1	-1292	-1479
Other oper cash items	-43.4	-210.2	0.00	0.00	0.00
Cash flow from ops (1)	**1110**	**2235**	**5757**	**4303**	**4166**
Capex (2)	-2381	-2757	-4000	-900.0	-900.0
Disposals/(acquisitions)	-3637	-16654	5260	-3855	-675.0
Other investing cash flow	42.3	183.9	0.00	0.00	0.00
Cash flow from invest (3)	**-5975**	**-19227**	**1260**	**-4755**	**-1575**
Incr / (decr) in equity	7188	0.00	5750	4262	0.00
Incr / (decr) in debt	-1578	17558	-12306	-3301	-2082
Ordinary dividend paid	0.00	-639.1	-461.5	-508.5	-508.5
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	n/a	n/a	n/a	n/a	n/a
Cash flow from fin (5)	**5610**	**16919**	**-7017**	**452.5**	**-2591**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**744.1**	**-73.4**	**0.00**	**0.00**	**0.00**
Equity FCF (1+2+4)	-1271	-521.9	1757	3403	3266

Lines in bold can be derived from the immediately preceding lines. — year to Mar
Source: Company data, RBS forecasts

Standard ratios

Performance	Aditya Birla FY08A	FY09A	FY10F	FY11F	FY12F	Indiabulls Real Estate FY10F	FY11F	FY12F	Mahindra & Mahindra FY10F	FY11F	FY12F
Sales growth (%)	11.4	21.1	-0.16	11.0	9.84	n/a	n/a	n/a	32.7	16.0	14.9
EBITDA growth (%)	-13.4	-7.64	33.8	7.32	7.79	32.6	n/a	233.5	107.3	6.28	9.16
EBIT growth (%)	-17.8	-14.9	40.2	5.22	5.42	30.2	n/a	264.0	129.7	2.73	7.51
Normalised EPS growth (%)	-34.8	-50.5	63.3	20.3	14.5	464.7	73.5	78.2	106.6	8.01	8.54
EBITDA margin (%)	16.0	12.2	16.4	15.9	15.6	-22.0	21.5	32.9	15.4	14.1	13.4
EBIT margin (%)	12.5	8.77	12.3	11.7	11.2	-26.6	16.9	28.1	13.2	11.7	11.0
Net profit margin (%)	5.23	2.14	3.79	4.52	4.72	41.5	27.4	22.4	11.0	10.2	9.68
Return on avg assets (%)	4.54	3.13	4.06	4.23	4.29	1.99	2.63	3.95	13.2	12.6	11.7
Return on avg equity (%)	5.78	2.51	4.04	4.67	4.94	1.74	2.49	4.31	30.3	25.5	23.1
ROIC (%)	5.25	3.97	4.39	4.91	5.00	-1.14	1.46	4.92	22.4	16.9	14.2
ROIC - WACC (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12.1	6.56	3.85
					year to Mar			year to Mar			year to Mar
Valuation											
EV/sales (x)	2.93	2.79	2.53	2.22	1.99	22.3	9.17	4.70	1.79	1.59	1.39
EV/EBITDA (x)	18.3	22.8	15.4	14.0	12.8	n/m	42.6	14.3	11.6	11.3	10.3
EV/EBITDA @ tgt price (x)	21.2	26.0	17.9	16.2	14.8	n/m	68.8	22.2	13.9	13.5	12.3
EV/EBIT (x)	23.5	31.8	20.6	19.0	17.7	n/m	54.4	16.7	13.5	13.6	12.6
EV/invested capital (x)	1.68	1.53	1.48	1.39	1.36	0.74	0.74	0.73	3.33	2.68	2.29
Price/book value (x)	2.05	2.00	1.85	1.81	1.74	0.86	0.85	0.82	4.15	3.46	2.90
Equity FCF yield (%)	-1.54	-0.63	1.97	3.46	3.32	-12.3	-16.3	-18.4	0.86	2.29	5.72
Normalised PE (x)	39.9	80.6	49.4	41.0	35.8	59.6	34.4	19.3	16.0	14.8	13.7
Norm PE @tgt price (x)	48.3	97.6	59.8	49.7	43.4	95.4	55.0	30.8	19.4	18.0	16.5
Dividend yield (%)	0.67	0.46	0.46	0.46	0.46	0.29	0.57	0.86	1.67	1.86	1.44
					year to Mar			year to Mar			year to Mar

Per share data	FY08A	FY09A	FY10F	FY11F	FY12F
Tot adj dil sh, ave (m)	95.0	95.0	103.0	113.5	113.5
Reported EPS (INR)	25.6	14.5	17.6	21.1	24.2
Normalised EPS (INR)	21.8	10.8	17.6	21.1	24.2
Dividend per share (INR)	5.80	4.00	4.00	4.00	4.00
Equity FCF per share (INR)	-13.4	-5.49	17.1	30.0	28.8
Book value per sh (INR)	423.5	433.8	469.0	479.8	499.6
					year to Mar

Solvency	FY08A	FY09A	FY10F	FY11F	FY12F
Net debt to equity (%)	65.8	107.0	65.8	52.3	46.6
Net debt to tot ass (%)	34.5	46.1	34.3	29.2	26.4
Net debt to EBITDA	4.17	7.53	4.06	3.39	2.91
Current ratio (x)	3.85	3.33	2.60	2.39	2.27
Operating CF int cov (x)	1.93	2.38	3.17	3.24	3.45
Dividend cover (x)	3.23	2.41	3.92	4.72	5.40
					year to Mar

Priced as follows: ABRL.BO - Rs866.95; INRL.BO - Rs175.00; MAHM.BO - Rs1076.65
Source: Company data, RBS forecasts

ABNL - Sum-of–the-parts valuation

Rs	Value per share	Holding company discount	Fair value (Rs)
Life insurance	374	Nil	357
Mutual fund	90	Nil	90
Value of stake in AB Money	19	20%	15
Financial services	**466**	**NA**	**462**
Value of stake in IDEA	450	20%	360
Manufacturing businesses	228	Nil	228
Total			**1,050**

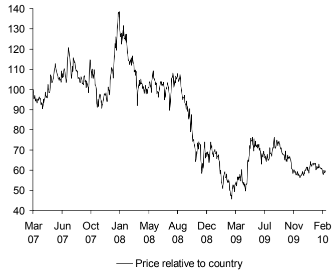
Source: Company data, RBS forecasts

Company description

Buy

Aditya Birla Nuvo Ltd (ABNL) is a part of Aditya Birla Group (revenues of US$29bn in 2008). ABNL is a diversified conglomerate formed through the merger of Indo Gulf Fertilizers and Birla Global Finance into Indian Rayon and Industries Limited. Its interests include 'value businesses' such as rayon, carbon black, fertilisers, textiles and insulators. It also has interests in 'growth businesses', such as life insurance, mutual funds, other financial services, telecom, BPO and IT services, and garments.

Price relative to country



Strategic analysis

Average SWOT company score: 3

Strengths — 4

Strong brand identity of Aditya Birla Group, presence in diversified manufacturing, financial services, telecom and garments sector are the key strengths of ABNL.

Weaknesses — 2

The manufacturing earnings are volatile because they are cyclical in nature and partly linked to commodity prices. A constant need to infuse capital in the growth businesses puts strain on the company.

Opportunities — 4

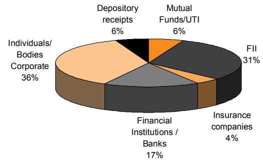
Potential opportunity in the 'growth' businesses (financial services, telecom, BPO and garments) is large given the low penetration level and favourable economic drivers (demographics, high savings rate and rising household income) in India.

Threats — 3

Stiff competition from other financial services player, stringent regulatory norms in the insurance and telecom business, and a sustained downturn in the economy remain key threats.

Scoring range is 1-5 (high score is good)

Shareholding pattern



Source: Company data

Market data

Headquarters
Indian Rayon Compound, Veraval, Gujarat 362 266, India

Website
www.adityabirlanuvo.co.in

Shares in issue
103.0m

Freefloat
58%

Majority shareholders
Promoters (42%)

Country view: India

Valuations have run ahead of regional counterparts, while the market also looks expensive relative to where it traded in the past. Another concern is the market seems to believe that policy reform will act as a catalyst for a never-ending re-rating of risky assets. Meanwhile, it appears that monetary policy might turn sooner than the market is anticipating, due to possible rising inflationary pressure. Recent statements from the central bank (RBI) suggest it may be steering the country down a tighter policy path going forward.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position

Average competitive score: 3-

Supplier power — 2-

Lack of pricing power, partly due to cyclical nature of most businesses.

Barriers to entry — 3-

Distribution access, brand identity and high capital and regulatory requirements for insurance and telecom businesses are the key entry barriers.

Customer power — 4-

Realisations largely are market-driven as the bulk of the business is cyclical and partly linked to commodity prices.

Substitute products — 4-

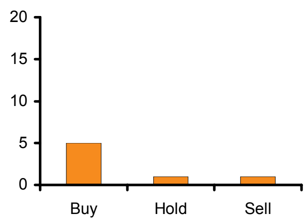
Largely similar products in financial services and telecom business from competitors pose a threat.

Rivalry — 4-

Due to the fragmented nature of financial services and telecom, rivalry tends to be intense. Product innovation is duplicated easily and hence product life cycle tends to be short.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For UK Mid/Small Cap Analysis a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%. For UK-based Investment Funds research the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship.

Long term recommendations (as at 08 Mar 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	681 (10)	446 (0)
Add	0 (0)	0 (0)
Hold	376 (3)	205 (0)
Reduce	0 (0)	0 (0)
Sell	92 (0)	59 (0)
Total (IB%)	1149 (7)	710 (0)

Source: RBS

Trading recommendations (as at 08 Mar 2010)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	0 (0)	0 (0)
Rec	00 (00)	00 (00)
Trading Sell	0 (0)	0 (0)
Total (IB%)	0 (0)	0 (0)

Source: RBS

Valuation and risks to target price

Aditya Birla Nuvo (RIC: ABRL.BO, Rec: Buy, CP: Rs866.95, TP: Rs1050.00): Key downside risks to our SOTP-based target price are 1) slower-than-expected growth in the manufacturing, financial services, telecom and BPO-IT businesses; 2) a steep decline in market valuations of the listed businesses; 3) regulatory changes de-railing management's plan to unlock value from the stakes held in financial services ventures; and 4) pressure on profitability of subsidiaries and joint ventures.

Regulatory disclosures

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