

Strong margins in key businesses

PO up led by telecom; re-iterate Buy

Post 1Q results, we have raised PO for AB Nuvo (ABNL) to Rs1090/sh (up ~15%) led by higher valuation of its stake in Idea Cellular (PO of Rs100/sh) and roll-forward to FY13. Multiples for the insurance business are at 7x FY13E NBAP on better margins. Value of the manufacturing businesses also stands trimmed led mostly by earnings cut especially for the BPO, garments & fertilizer businesses.

Tariff hikes lift Idea's margin outlook

We have a Neutral rating on Idea (Rs92.45/sh) due to strong short-term earnings but already rich valuations. Post the recent 20% hike in on-net tariffs by GSM majors including Idea, we expect strong earnings momentum in FY12 on the back of improving margins. Our long-term outlook is cautious as the industry's competitive structure remains fragmented & potential changes in spectrum pricing are a key regulatory risk.

Margins in insurance look strong; other businesses stable

We value the life-insurance business (BSLI) at Rs503/sh. New business is forecast to grow +10/15% in FY12/13 & we estimate NBAP margins at 20%. The AMC & NBFC biz are valued at Rs136/share. BSLI reported 1Q PBT of Rs1.4bn driven by lower new business strain, better persistency & lower opex. The Co reported full-year FY11 NBAP margin at a high 27.5% and FY11 EV grew 8% YoY. However, new business premia in 1Q was down 32% YoY

1Q FY12: insurance & telecom key +ves, mixed bag in mfg.

ABNL's consolidated 1Q FY12 net profit stood at Rs2.5bn, up 70% YoY and down 14% QoQ. EBITDA grew 47% YoY and stayed flat QoQ beating our expectations due to better than expected insurance and telecom margins. The mfg. businesses posted mixed results with BPO being a key disappointment & textiles doing better.

Estimates (Mar)

(Rs)	2010A	2011A	2012E	2013E	2014E
Net Income (Adjusted - mn)	1,546	9,259	11,195	12,924	14,657
EPS	15.66	83.62	100.67	115.90	131.17
EPS Change (YoY)	NM	433.9%	20.4%	15.1%	13.2%
Dividend / Share	5.00	5.50	5.50	5.50	5.50
Free Cash Flow / Share	(33.43)	(50.09)	43.93	68.94	89.85

Valuation (Mar)

	2010A	2011A	2012E	2013E	2014E
P/E	55.81x	10.45x	8.68x	7.54x	6.66x
Dividend Yield	0.572%	0.629%	0.629%	0.629%	0.629%
EV / EBITDA*	10.35x	5.92x	4.65x	4.13x	3.86x
Free Cash Flow Yield*	-3.68%	-5.73%	5.03%	7.89%	10.28%

* For full definitions of *iQmethod*SM measures, see page 6.

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Stock Data

Price	Rs874.15
Price Objective	Rs1,090
Date Established	16-Aug-2011
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs707.00-Rs994.00
Mrkt Val / Shares Out (mn)	US\$1,986 / 103.0
Market Value (mn)	Rs90,053
Average Daily Volume	136,894
BofAML Ticker / Exchange	ADYAF / BSE
Bloomberg / Reuters	ABNL IN / ABRL.BO
ROE (2012E)	3.9%
Net Dbt to Eqty (Mar-2011A)	25.9%
Est. 5-Yr EPS / DPS Growth	10.0% / 10.0%
Free Float	46.1%

Key Changes

(Rs)	Previous	Current
Price Obj.	950.00	1,090.00
2012E Rev (m)	205,270.4	213,348.7
2013E Rev (m)	229,312.5	235,259.8
2014E Rev (m)	255,551.3	257,203.6
2012E EPS	113.62	100.67
2013E EPS	136.75	115.90
2014E EPS	173.96	131.17

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Refer to important disclosures on page 7 to 9. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4. Link to Definitions on page 4. 11080592

iQprofileSM Aditya Birla Nuvo Ltd.

Key Income Statement Data (Mar)	2010A	2011A	2012E	2013E	2014E
(Rs Millions)					
Sales	195,083	181,678	213,349	235,260	257,204
Gross Profit	14,385	25,165	32,041	36,066	38,601
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	5,720	15,758	21,384	24,615	26,354
Net Interest & Other Income	(4,144)	(3,809)	(5,392)	(5,461)	(4,524)
Associates	NA	NA	NA	NA	NA
Pretax Income	1,576	11,949	15,992	19,154	21,830
Tax (expense) / Benefit	(1,140)	(1,831)	(3,206)	(4,281)	(5,190)
Net Income (Adjusted)	1,546	9,259	11,195	12,924	14,657
Average Fully Diluted Shares Outstanding	114	114	114	114	114

Key Cash Flow Statement Data

Net Income	1,546	9,259	11,195	12,924	14,657
Depreciation & Amortization	8,665	9,407	10,656	11,451	12,247
Change in Working Capital	(3,023)	4,629	(1,688)	(633)	(575)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,331	(859)	(1,591)	(1,949)	(1,983)
Cash Flow from Operations	8,518	22,436	18,572	21,793	24,346
Capital Expenditure	(11,829)	(27,597)	(14,046)	(14,691)	(15,090)
(Acquisition) / Disposal of Investments	(53,837)	(44,909)	(46,981)	(51,758)	(52,549)
Other Cash Inflow / (Outflow)	5,303	0	0	0	0
Cash Flow from Investing	(60,363)	(72,506)	(61,026)	(66,449)	(67,640)
Shares Issue / (Repurchase)	5,750	0	0	0	0
Cost of Dividends Paid	(515)	(567)	(567)	(567)	(567)
Cash Flow from Financing	(18,052)	9,045	4,771	4,771	4,771
Free Cash Flow	(3,311)	(5,160)	4,526	7,102	9,256
Net Debt	59,766	68,231	71,272	71,737	63,048
Change in Net Debt	(12,151)	8,463	3,040	464	(8,690)

Key Balance Sheet Data

Property, Plant & Equipment	69,884	88,074	91,464	94,704	97,548
Other Non-Current Assets	192,195	237,104	284,084	335,843	388,392
Trade Receivables	11,701	15,576	18,626	19,769	20,808
Cash & Equivalents	14,620	11,503	13,799	18,671	32,698
Other Current Assets	35,419	47,148	56,380	59,840	62,984
Total Assets	323,820	399,405	464,353	528,827	602,429
Long-Term Debt	61,624	66,972	72,309	77,646	82,983
Other Non-Current Liabilities	2,440	2,440	2,440	2,440	2,440
Short-Term Debt	12,762	12,762	12,762	12,762	12,762
Other Current Liabilities	33,869	54,102	64,695	68,666	72,273
Total Liabilities	110,696	136,276	152,206	161,514	170,459
Total Equity	213,124	263,129	312,147	367,313	431,971
Total Equity & Liabilities	323,820	399,405	464,353	528,827	602,429

iQmethodSM - Bus Performance*

Return On Capital Employed	1.5%	4.6%	4.9%	4.8%	4.6%
Return On Equity	0.9%	3.9%	3.9%	3.8%	3.6%
Operating Margin	2.9%	8.7%	10.0%	10.5%	10.2%
EBITDA Margin	7.4%	13.9%	15.0%	15.3%	15.0%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	5.5x	2.4x	1.7x	1.7x	1.7x
Asset Replacement Ratio	1.4x	2.9x	1.3x	1.3x	1.2x
Tax Rate (Reported)	72.3%	15.3%	20.0%	22.3%	23.8%
Net Debt-to-Equity Ratio	28.0%	25.9%	22.8%	19.5%	14.6%
Interest Cover	0.7x	2.2x	2.4x	2.5x	2.2x

Key Metrics

* For full definitions of iQmethodSM measures, see page 6.

Company Description

ABNL is a conglomerate with exposure to 10 diverse businesses. ABNL is the largest (25% stake) shareholder of Idea Cellular that is separately listed. ABNL also owns 74% of the unlisted life-insurance biz namely, Birla Sun Life. Other key businesses include carbon black, garment-retailing, BPO services, rayon, fertilizers, textiles, insulators, and financial services.

Investment Thesis

We see strong valuation upside in the stock after factoring 30% conglomerate discount. Telecom (Idea Cellular) & financial services remain the largest value drivers. The remaining businesses, viz carbon black, fertilizers, garments, BPO, rayon etc are highly unrelated. We have a Neutral outlook on Idea due to strong short term earnings outlook but rich valuations. In the insurance and AMC businesses, we expect growth recovery in FY13 and also expect efficiency improvements to sustain.

Stock Data

Price to Book Value 0.3x

Table 1: Standalone 1Q FY12 results summary

Yr to March (Rs mn)	1Q FY11	4Q FY11	1Q FY12	YoY	QoQ
<i>Rs mn</i>					
Turnover	13,111	17,795	18,639	42%	5%
Operating costs	11,222	15,461	16,337	46%	6%
EBITDA	1,890	2,335	2,302	22%	-1%
EBITDA Margin	14.4%	13.1%	12.4%		
Depreciation	454	510	498	10%	-2%
Operating profit	1,436	1,825	1,804	26%	-1%
Recurring other income	147	94	167	14%	78%
EBIT	1,583	1,919	1,972	25%	3%
EBIT Margin	12.1%	10.8%	10.6%		
Interest	686	692	711	4%	3%
Profit before tax	897	1,227	1,261	41%	3%
Taxes	249	278	319		
Recurring net profit	648	949	942	45%	-1%

Source: Company, BofA Merrill Lynch Global Research estimates,

Table 2: Consolidated 1Q FY12 results summary

Yr to March (Rs mn)	1Q FY11	4Q FY11	1Q FY12	YoY	QoQ
Turnover	38,570	52,156	47,675	24%	-9%
Operating costs	33,433	44,768	40,200	20%	-10%
EBITDA	5,137	7,388	7,475	46%	1%
EBITDA Margin	13.3%	14.2%	15.7%		
Depreciation	2,213	2,556	2,608	18%	2%
Operating profit	2,924	4,831	4,867	66%	1%
Recurring other income	422	410	602	43%	47%
EBIT	3,346	5,241	5,468	63%	4%
EBIT Margin	8.7%	10.0%	11.5%		
Interest related to lending activity		689	385		
Interest	1,355	722	1,553	15%	115%
Profit before tax	1,991	3,830	3,530	77%	-8%
Taxes	445	485	614		
Recurring net profit before minorities	1,546	3,345	2,916	89%	-13%
Minority interests	58.4	401.9	383.8		
Recurring net profit	1,487	2,943	2,532	70%	-14%
Extraordinary Inc/(exp)		(6)			
Reported net profit	1,487	2,937	2,532	70%	-14%

Source: Company, BofA Merrill Lynch Global Research estimates,

Table 3: Quarterly consolidated EBIT trend for key business segments

Yr to March (Rs mn)	1QFY11	4QFY11	1QFY12	YoY	QoQ
Life Insurance	118	1,511	1,470	1147%	-3%
Telecom	872	1,115	1,326	52%	19%
Carbon Black	508	587	573	13%	-2%
Agri - business	247	399	389	58%	-2%
Textiles	167	162	372	123%	130%
Rayon Yarn	226	240	212	-6%	-12%
Insulators	258	324	190	-26%	-41%
IT - ITES	209	436	174	-17%	-60%
Other Financial Services	442	65	162	-63%	148%
Fashion & Lifestyle	37	35	73	99%	110%

Source: Company, BofA Merrill Lynch Global Research estimates,

Table 4: Target valuation of ABNL on FY13E sum-of-parts

Business	Stake held	Valuation Benchmark	ABNL (Rs/sh)
Telecom/Idea	25%	PO for Idea (Rs100/sh)	738
Insurance	74%	At 7x FY13 NBAP +1x of EV	491
Carbon Black	100%	5.8x EV/EBITDA; 15% discount to local market valuation	167
Financial services	50%	3% of current AMC AUM+0.8x to current Net worth for NBFC	136
Garments & Textile	100%	0.6x EV/sales; discount to Raymond	132
Fertilizers	100%	5.8x EV/EBITDA; 15% discount to local market valuation	98
Rayon	100%	5.8x EV/EBITDA; 15% discount to local market valuation	70
BPO & IT	88%	10% discount to valuation of Firstsource Solutions	66
Misc. businesses	100%	5.8x EV/EBITDA; 15% discount to local market valuation	49
less Net Debt (excl. Idea)			375
Total equity value of ABNL			1568
(less) Conglomerate discount		(-30%)	-478
Target share price of ABNL			1090

Source: BofA Merrill Lynch Global Research estimates

Price objective basis & risk

Aditya Birla Nu (ADYAF)

We have a price objective of Rs1090/share for AB Nuvo based on sum-of-parts using 30% conglomerate discount. Valuation for most businesses is linked to earnings outlook for FY13E, except insurance (7x FY13E NBAP plus 1x of embedded value) & financial services (3% of AUM), which are linked to NBAP & assets under management, respectively. Our target valuation for Idea Cellular is Rs100/sh.

Upside to our ABNL PO could stem from stronger-than-expected scale economies in telecom and/or acceleration of market growth in insurance. Risks are possible dramatic regulatory changes in telecom or sharper-than-expected slowdown in financial services

Idea Cellular (IDEAF)

Our PO of Rs100/sh for Idea is based on DCF and implies a valuation of around 7.5x FY13E-EV/EBITDA, i.e. 40% premium vs GEM wireless majors to allow for stronger long-term growth potential. Stronger than expected 3G revenue ramp-up, sooner-than-expected industry consolidation and stronger-than-anticipated Indus profitability could present upside to our PO. Significantly higher competitive intensity in the industry and dramatic regulatory changes pose downside risks.

Link to Definitions

Industrials

Click [here](#) for definitions of commonly used terms.

Analyst Certification

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India - General Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aditya Birla Nu	ADYAF	ABNL IN	Reena Verma Bhasin, CFA
	Anant Raj Industries Ltd	XNRJF	ARCP IN	Gagan Agarwal
	Brigade Enterprises	XBDGF	BRGD IN	Gagan Agarwal
	Chambal Fertilisers & Chemicals	CHBZF	CHMB IN	Prasad Deshmukh
	DLF Limited	XVDUF	DLFU IN	Gagan Agarwal
	Exide Indus Ltd	XEDRF	EXID IN	Sanjaya Satapathy
	Fortis Healthcare Limited	XFFTF	FORH IN	Prasad Deshmukh
	Havells	HVLIF	HAVL IN	Sanjaya Satapathy
	Indiabulls Real Estate Ltd	IBELF	IBREL IN	Gagan Agarwal
	Jaypee Infratech	XJAYF	JPIN IN	Gagan Agarwal
	Motherson Sumi	XMSUF	MSS IN	Sanjaya Satapathy
	Oberoi Realty Ltd	XRXOF	OBER IN	Gagan Agarwal
	Opto Circuits	OPOCF	OPTC IN	Sanjaya Satapathy
	Puravankara Projects Ltd	XPJVF	PVKP IN	Gagan Agarwal
	Renuka Sugars	SRNKF	SHRS IN	Sanjaya Satapathy
	SINTEX INDUSTRIES LTD	SIXDF	SINT IN	Prasad Deshmukh
	Sobha Developers	SBDRF	SOBHA IN	Gagan Agarwal
	Voltas	VTSJF	VOLT IN	Sanjaya Satapathy
NEUTRAL				
	Coromandel International Ltd	CMDFF	CRIN IN	Prasad Deshmukh
	Grasim	GRSJF	GRASIM IN	Reena Verma Bhasin, CFA
	Grasim -G	GRSJY	GRAS LX	Reena Verma Bhasin, CFA
	Housing Development and Infrastructure	XGHSF	HDIL IN	Gagan Agarwal
	Jain Irrigation Systems Ltd	JNIDF	JI IN	Prasad Deshmukh
	Shree Cements	SREEF	SRCM IN	Reena Verma Bhasin, CFA
	Unitech Ltd	UTKIF	UT IN	Gagan Agarwal
UNDERPERFORM				
	Ambuja Cements	AMBUF	ACEM IN	Reena Verma Bhasin, CFA
	APIL	ANSFF	APIL IN	Gagan Agarwal
	Assoc. Cement	ADCLF	ACC IN	Reena Verma Bhasin, CFA
	Bajaj Hindusthan	BJJHF	BJH IN	Sanjaya Satapathy
	Balrampur Chini	BMPRF	BRCM IN	Sanjaya Satapathy
	Container Corp	CIDFF	CCRI IN	Sanjaya Satapathy
	Cummins India	CUIDF	KKC IN	Sanjaya Satapathy
	India Cements	INIAF	ICEM IN	Reena Verma Bhasin, CFA
	India Cements -G	IAMUY	ICEM LX	Reena Verma Bhasin, CFA
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	Jindal Saw	SWPFF	JSAW IN	Sanjaya Satapathy
	Omaxe Limited	XOMXF	OAXE IN	Gagan Agarwal
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Tata Chemicals Ltd	TTCXF	TTCH IN	Prasad Deshmukh
	UltraTech Cemen	XDJNF	UTCEN IN	Reena Verma Bhasin, CFA
	Welspun Corp Ltd	XUQRF	WLCO IN	Sanjaya Satapathy
RSTR				
	Nagarjuna Fertilizers & Chemicals Ltd	NFACF	NFCL IN	Prasad Deshmukh

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

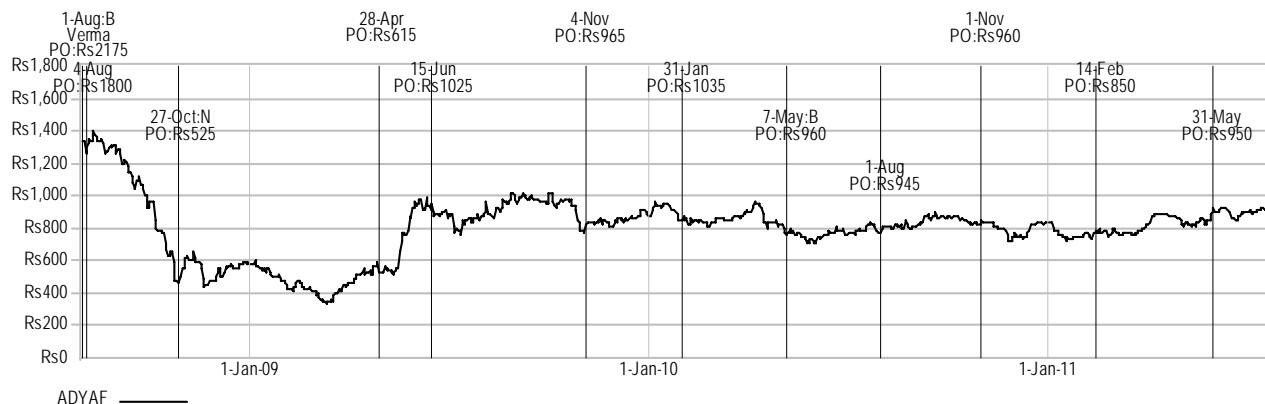
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ADYAF Price Chart



B : Buy, N : Neutral, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of [July 31, 2011] or such later date as indicated.

Investment Rating Distribution: Industrials/Multi-Industry Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	50	64.10%	Buy	30	69.77%
Neutral	19	24.36%	Neutral	9	56.25%
Sell	9	11.54%	Sell	2	25.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2024	53.94%	Buy	935	50.68%
Neutral	944	25.16%	Neutral	442	51.64%
Sell	784	20.90%	Sell	273	37.24%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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