

RESULTS REVIEW

Aditya Birla Nuvo Limited

Buy

Share Data

Market Cap	Rs. 103.3 bn
Price	Rs. 1,087.80
BSE Sensex	13,111.85
Reuters	ABRL.BO
Bloomberg	ABNL IN
Avg. Volume (52 Week)	33.8 ths
52-Week High/Low	Rs. 2,502 / 1,056.75
Shares Outstanding	95.0 mn

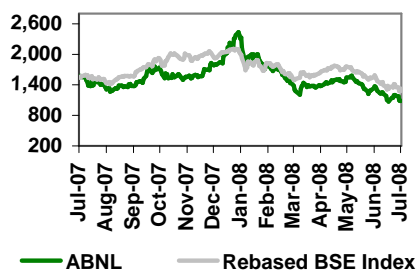
Valuation Ratios

Year to 31 March	2009E	2010E
EPS (Rs.)	24.8	25.8
+/- (%)	12.1%	4.0%
PER (x)	16.1x	15.5x
EV/ Sales (x)	2.6x	2.4x
EV/ EBITDA (x)	18.9x	17.5x

Shareholding Pattern (%)

Promoters	40
FII's	20
Institutions	17
Public & Others	22

Relative Performance



Long-term outlook intact

Aditya Birla Nuvo Limited's consolidated net revenues for Q4'08 increased 43.4% yoy in Q4'08, driven by strong performances of the insurance and telecom segments. However, the Company suffered a net loss of Rs. 218 mn, primarily due to the huge losses in the insurance segment. We reiterate our Buy rating on the stock due to the following reasons:

- Financial services and telecom are driving top-line growth:** The financial services segment, which primarily includes insurance and AMC, is witnessing a slowdown in growth following the decline in the stock markets. However, we believe that the market will pick up in the coming quarters and the segment's growth momentum will resume. Meanwhile, revenue from the telecom segment should increase substantially as Idea has obtained an additional 9 licences and now holds licenses for all the 22 circles in the country. Moreover, the joint venture with Vodafone and Airtel for sharing the tower infrastructure will help Idea to roll out its services quickly.
- Margins to increase in the long term:** The margins of ABNL's value businesses were hit because of the US slowdown and rising raw material and fuel prices. We expect these margins to stay under pressure in the short term, owing to the global inflationary conditions and the US slowdown. Moreover, the financial services segment also incurred losses as the Company aggressively expanded its distribution network. However, the Company's sizeable investments in high-growth segments will bear fruit for the stakeholders in the long term.

Key Figures (Consolidated)

Quarterly Data	Q4'07	Q3'08	Q4'08	YoY%	QoQ%	FY07	FY08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	26,522	36,616	38,044	43.4%	3.9%	83,668	121,340	45.0%
Adj. EBITDA	2,854	2,480	1,970	(31.0%)	(20.6%)	10,757	10,081	(6.3%)
Adj. Net Profit	802	302	(218)	(127.2%)	(172.4%)	2,805	1,506	(46.3%)
Margins(%)								
EBITDA	10.8%	6.8%	5.2%			12.9%	8.3%	
NPM	3.0%	0.8%	(0.6)%			3.4%	1.2%	
Per Share Data (Rs.)								
Adj. EPS	8.7	3.2	(2.5)	(128.8%)	(179.0%)	31.9	15.9	(50.1%)

Valuation: At the current market price, ABNL is trading at a forward P/E of 16.1x and 15.5x for FY09E and FY10E, respectively. Based on SOTP valuation, we have arrived at a target price of Rs. 1,571, which provides an upside of 44% from the current levels. Hence, we reiterate our Buy rating.

Result Highlights

Segmental Performance

High growth businesses continue to grow

Telecom: During Q4'08, revenue from the telecom segment surged 39.6% yoy to Rs. 6,268.4 mn. Idea Cellular's subscriber base swelled 71% yoy to 24 mn, and the Company's pan-India market share improved from 8.6% in FY07 to 9.4% in FY08. Having obtained the pending licences for 9 circles, Idea has now licences to operate in all the 22 circles. As a result, we expect the growth in the Telecom business to gain momentum. However, margins may reduce from the present 22% because continually falling tariff rates are hurting the average revenue per user (ARPU).

Life Insurance: Revenue of the life insurance business shot up 78.3% to Rs. 14,771.5 mn in Q4'08, driven by an enhanced distribution network and the introduction of innovative products. The distribution network currently has 339 branches and over 1 lakh direct selling agents. New business premium income rose 123% to Rs. 19,650 mn in FY08. However, ABNL is still making losses in this segment due to aggressive spending for increasing the distribution reach. The growing share of new business premium, however, will benefit the Company in the long run. For Q4'08, the Life Insurance business suffered a loss of Rs. 2,005.8 mn, compared with a loss of Rs. 648.3 mn in Q4'07.

BPO: During the quarter, revenues from the BPO segment improved 14.6% yoy to Rs. 4,284.3 mn. The weakening dollar and the US slowdown continued to adversely affect the profitability of this segment. As a result, margins remained negative for the second consecutive quarter. The Company is making efforts to improve its performance by migrating to low-cost geographies, increasing its share of the high-margin KPO segment, and focusing on high-growth sectors such as banking, insurance, and telecom.

Idea's subscriber base increased to 24 mn in FY08

A weak dollar and the US slowdown continues to impact profitability

Garments: The fourth quarter's revenue from the branded garment segment grew 26.2% yoy to Rs. 2,762.9 mn, driven by increase in retail space. However, higher lease rentals and longer gestation periods of the new stores hit profitability. As a result, EBIT for the segment was negative at Rs. (44.4) mn in Q4'08, as against Rs. 165 mn in Q4'07. Going forward, ABNL plans to launch large-format family stores for its Peter England and Men's brands in order to increase sales.

IT Services: Revenues grew 7.8% yoy to Rs. 267.8 mn, and EBIT increased 5.1% to Rs. 28.9 mn in Q4'08. The growth in profit was impacted due to the weakening dollar; however, the Company managed to improve its high-margined offshore business contribution from 51% in FY07 to 60% in FY08.

Asset Management: ABNL's assets under management (AUM) increased 78.2% yoy to Rs. 371.6 bn for FY08. Its share in the domestic market improved from 5.8% in FY07 to 6.9% in FY08. Also, it added 32 new branches during FY08 to reach the figure of 78 branches.

Asset under management increased 78.2% yoy in FY08

Value businesses performance

Rayon: Revenues from the rayon segment increased 18.9% yoy to Rs. 1,277.5 mn for Q4'08, due to higher sales volumes of viscose filament and improved realisations. Operating profits of the segment grew 106.8% yoy to Rs. 254.4 mn as the Company mitigated the sharp rise in pulp, sulphur, and coal prices by going for long-term contracts. We believe that the Company will increase its production of value-added yarns in order to further improve realisations.

Carbon black: ABNL reported its best ever quarterly revenue figure for its carbon segment. The top line grew 47.3% yoy to Rs. 2,670.7 mn due to higher volumes supported by a capacity expansion of 60,000 mt in FY08 and robust demand from the auto and tyre sectors. However, EBIT margin fell 625 bps to 11.6% because of a sharp increase in the price of crude oil. We expect that the Company's plan to increase capacity by 120,000 mt will significantly boost revenue.

Insulators: Revenue from insulators jumped 64.2% yoy in Q4'08 due to yield improvement through lower rejections. Operating profit surged 84% yoy and operating margin improved 349 bps as the Company manufactured an increased number of high rating insulators to enhance realisations. During FY08, the Company expanded 3,000 MT capacity at Halol plant through de-bottlenecking. We expect this segment's top line to grow further as the Company is expanding its capacity by 12,000 MT in two phases.

Fertilizers: Revenue from this segment grew 24.8% yoy to Rs. 2,467.9 bn during the quarter. However, revenue for FY08 fell 1.7% due to the plant shutdown for de-bottlenecking in Q1'08 and a breakdown in Q2'08. Meanwhile, the operating profit margin fell 316 bps to 12.6% due to higher energy costs.

Textiles: The textile segment's revenue increased 1.7% yoy to Rs. 1,531.2 mn in Q4'08. However, a weak dollar, cheaper imports in the linen segment, and higher wool prices dented the profitability of this segment. As a result, EBIT margin fell 53 bps qoq in Q4'08.

Key Risks

The following factors could pose a threat to our rating:

- Any unfavourable change in the government's policy towards the power and fertilizer sectors
- A continued fall in the stock market, which could affect the growth of the financial services sector

Outlook

The contribution of ABNL's high-growth businesses improved from 67% in FY07 to 75% in FY08. Revenue from the **Life Insurance** business grew sharply on the back of several newly launched products. With an aggressive target of operating 1000 branches by the end of FY09, we believe that this segment will be the key growth driver for ABNL. However, any profitability from this business will take time, and the segment needs to focus on reducing costs so as to make a positive contribution to the Company's

Life Insurance and Telecom businesses are future growth drivers

bottom line. The **Telecom** segment should continue its robust performance with the commencement of operations in the new circles. The **BPO** segment's performance was weak due to the slowdown in the US, but we believe that the Company's decision to exit loss-making sites, focus on improving the utilisation rate, and re-negotiate the pricing of contracts will help in improving performance.

The Company continues to invest excess cash from its value businesses into the growth businesses. We expect this strategy to drive the overall revenues further and enhance value for its shareholders in the long run.

At the current market price, ABNL is trading at a forward P/E of 16.1x and 15.5x for FY09E and FY10E, respectively. Based on SOTP valuation, we have arrived at a target price of Rs. 1,571, which provides an upside of 44% from the current levels. Hence, we reiterate our Buy rating.

Key Figures (Standalone)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data) (FY08-10E)						
Net Sales	26,421	34,205	39,242	49,088	54,875	18.3%
Adj. EBITDA	4,199	5,593	5,924	6,872	7,408	11.8%
Adj. Net Profit	1,841	1,945	2,068	2,360	2,454	8.9%
Margins(%)						
EBITDA	15.9%	16.4%	15.1%	14.0%	13.5%	
NPM	7.0%	5.7%	5.3%	4.8%	4.5%	
Per Share Data (Rs.)						
Adj. EPS	24.1	22.1	22.2	24.8	25.8	8.0%
PER (x)	16.6x	18.1x	18.0x	16.1x	15.5x	

SOTP

Business	Basis	Rs. per share
Standalone Business	DCF	300
Idea	Market cap	674
Insurance Business	NBAP Multiple of 12x	372
AUM	3% of AUM	130
BPO & Others	0.5x FY09E sales	95
Total		1,571

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