

RESULTS REVIEW

Aditya Birla Nuvo Limited

Buy

Share Data

Market Cap	Rs. 128.7 bn
Price	Rs. 1,379.90
BSE Sensex	15,790.51
Reuters	ABRL.BO
Bloomberg	ABNL IN
Avg. Volume (52 Week)	45.0 ths
52-Week High/Low	Rs. 2,502 / 1,005
Shares Outstanding	93.3 mn

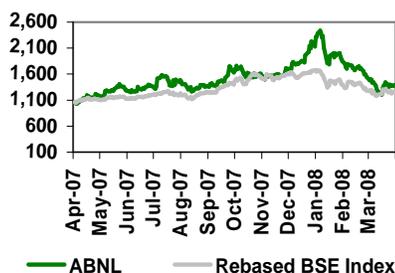
Valuation Ratios

Year to 31 March	2008E	2009E
EPS (Rs.)	32.8	47.0
+/- (%)	2.8%	43.2%
PER (x)	42.0x	29.3x
EV/ Sales (x)	1.4x	1.0x
EV/ EBITDA (x)	12.7x	9.0x

Shareholding Pattern (%)

Promoters	39
FII's	18
Institutions	20
Public & Others	23

Relative Performance



Focus on high-growth sectors

- **Strong top line performance:** In Q3'08, revenue grew aggressively by 58.1% yoy, to Rs. 36.6 bn, driven by solid performances in the Life Insurance (up 184.5% yoy), Insulator (up 83.5% yoy), Financial Services (up 38.3% yoy), Garments (up 36.2% yoy), and Telecom (up 32.3% yoy) businesses.
- **Margins continue to decline:** Even after a registering a solid revenue growth in the quarter, the EBITDA margin fell 616 bps yoy to 6.8%. The decline in margins can be attributable to a major loss in the Insurance business due to an increase in actuarial liabilities which went up by 232.4% yoy to Rs. 12.3 bn. Further, losses in BPO business also contributed to the decline in overall operating margins.
- **Adjusted net profit decreased** by 46.2% yoy to Rs. 301.7 mn, causing the net profit margin to fall 160 bps yoy from 2.4% in Q3'07 to 0.8% due to an exceptionally higher effective tax rate and increase in depreciation cost.
- **Valuation:** The Company continues to invest excess cash from value businesses into growth businesses. We expect this strategy will drive the revenues further and create value for its shareholders in the long-run. At the current market price, ABNL is trading at a forward P/E of 42.0x and 29.3x for FY08E and FY09E, respectively. The stock is trading at 45% below its 52-week high. Based on SOTP valuation, we have arrived at a target price of Rs. 1,649 which provides an upside of 19.5% from the current levels. Hence, we upgrade our rating to Buy from Hold.

Key Figures (Consolidated)

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	23,161	30,005	36,616	58.1%	22.0%	57,139	89,829	57.2%
Adj. EBITDA	2,994	2,785	2,480	(17.2%)	(10.9%)	7,903	8,176	3.5%
Adj. Net Profit	560	478	302	(46.2%)	(36.9%)	2,000	1,771	(11.4%)
Margins(%)								
EBITDA	12.9%	9.3%	6.8%			13.8%	9.1%	
NPM	2.4%	1.6%	0.8%			3.5%	2.0%	
Per Share Data (Rs.)								
Adj. EPS	6.3	5.1	3.2	(48.6%)	(36.9%)	22.3	19.0	(15.0%)

Result Highlights

Segmental Performance

High growth businesses continue to grow

A weak dollar continues to impact both revenue and profitability

BPO: In this quarter, ABNL increased its capacity by launching a 350-seat new site in India and added 200 seats to its existing sites. Revenues improved 6.8% yoy to Rs. 4,030.8 mn. The weakening dollar continued to adversely affect both revenues and profitability. Margins remained under pressure and were down due to increase in staff costs. The Company now intends to improve its seat/sites utilization, exit the loss-making sites, and renegotiate the pricing of contracts to improve its profitability.

Idea Cellular – expanding reach

Telecom: Revenue from this segment increased by 32.3% yoy to Rs. 5,428.3 mn. Idea Cellular's subscriber base increased to 21.05 mn, representing a market share of 9.2%. The Company has received spectrum for the Mumbai and Bihar circles and is expected to commence operations by June'08. Also, Idea Cellular received a Letter of Intent for the remaining 9 circles, for which spectrum allocation is still pending. We expect that growth in the Telecom business will gain momentum with the expected roll out of services in new circles; however, there is a possibility of reduction in margins from the present levels considering that the average revenue per user is on a decline.

Revenue from fashion brands grew 32% yoy; Peter England sales improved 40%

Garments: Revenues from the branded garment segment increased 36.2% yoy to 2.8 bn, due to the increase in retail space. ABNL is planning to launch large format family stores for the Peter England and Mens lifestyle stores to increase sales. Revenues from contract exports were also up 36% yoy, driven by higher sales volumes. However, the weakening dollar and delay in opening of malls is negatively affecting top-line growth and profitability. In addition to this, operating profit is also affected by high lease rentals for new stores and higher discounts to meet the market dynamics.

IT Services: Revenues were up 17.4% yoy to Rs. 256.4 mn, as the Company managed to improve its high-margin offshore business contribution from 59% to 61%. Also, ABNL has acquired 13 new clients year to date. The Company is planning to ramp-up its sales team which we believe will help it to improve delivering capabilities further.

Life Insurance business registered an exceptional growth in revenues of 184.5% yoy to Rs. 14.8 bn which can primarily be attributable to new product launches including Gold Plus in June'07 and Saral Jeevan in Oct'07. Further, the distribution reached has increased to 339 branches and more than 86,000 direct selling agents. However, ABNL is still making losses in this segment, due to aggressive spending on increasing the distribution reach and growing share of new business premium. The Life Insurance business recorded a loss of Rs. 1.2 bn as compared to a loss of Rs. 0.3 bn in Q3'07.

Asset Management: ABNL's assets under management (AUM) increased to Rs. 349.8 bn as compared to Rs. 304.5 bn in the last quarter. It has a 5.8% market share in the domestic AUM. Though the Company has added 8 new branches to reach the figure of 74 branches, adding of branches has led to increased costs, thus putting margins under pressure.

Other financial services: ABNL showed a robust growth in the financial services segment as revenue increased 38.3% yoy to Rs. 539.2 mn. The Company has further strengthened its position in collateral finance, whereas loan against securities stood at Rs. 8.1 bn.

Value businesses improving performance

Rayon: Revenues increased 9.6% yoy to Rs. 1.2 bn, contributed by higher volumes of viscose filament. Revenues from chlor-alkaline were marginally up. However, operating profits were negatively impacted by rising pulp and sulphur costs, higher energy costs due to increased coal prices, and the planned annual shutdown of the boiler. We believe that the Company will increase its focus on improving the share of viscose filament yarn (VFY), as realization of VFY is improving.

Carbon: ABNL reported its best ever quarterly revenue and profit figures for the Carbon Black segment. Its top line grew 24.6% yoy, to Rs. 2.5 bn, as export volumes more than doubled. However, exports realizations were affected by a weak dollar. Operating profit surged 17.8% yoy to Rs. 374.2 mn in spite of high input costs. We expect that the Company will be able to further improve its top line due to the timely capacity expansion of 60,000 MT in Q2'08.

Insulators: The Company reported an impressive 83.5% yoy revenue growth in Q3'08, due to yield improvement through lower rejections and because of lower revenue base in Q3'07 due to a strike at the Halol plant. Operating profit improved by 248.5% yoy and margin improved by 1,538 bps, as the Company focused on the production of high rating insulators which fetched better realizations. We expect the top line to grow further as the Company is expanding its capacity by 12K MT in two phases.

Fertilizers: Revenue grew 16.5% yoy in this segment to Rs. 2.6 bn, as the plant stabilized after experiencing operational difficulties in the previous quarter. Operating profits were negatively impacted by lower sales and higher energy costs.

Textiles: The textile segment's revenues declined 4.7% yoy to Rs. 1.5 bn. In the linen segment, the volume of fabrics increased on the back of increased capacity but higher input costs adversely affected profitability. Also, higher wool prices put margins under pressure. The Company added 15 new looms in the fabric segment and 1,940 spindles in the linen segment during this quarter.

Key Events

ABNL plans to raise Rs. 4,000 crores in the next 18 months through a preferential offer to its promoters. This money will meet its investment and capital expenditure plans for its existing and new growth opportunities.

Key Risks

- An unfavourable change in the government's policy towards the power and fertilizer sectors is likely to affect ABNL's growth.
- Further appreciation in the rupee is likely to affect the top line of the Company's BPO and IT services businesses.

*Life Insurance and Telecom
businesses - future growth
drivers*

Outlook

In Q3'08, the contribution of High growth businesses improved considerably to 76% from 68%, in the same period last year. Revenues from the **Life Insurance** business showed a strong growth on the back of launch of new products. With an aggressive target of adding 250 more branches by the year end, we believe that life insurance business is a key growth driver for ABNL. However, any value addition from this business will still take some time and we believe the Company needs to focus on reducing costs so as make some positive contribution to the bottomline. **Telecom segment** continues its robust performance, and with operations in Mumbai and Bihar circle due to commence in June'08 there are no signs of slowing down. ABNL showed weak performance in the **BPO** segment, as it is facing margin pressure and increase in staff cost, but we believe that the Company's decision to exit loss making sites, focus on improving utilization rate and renegotiating on pricing of contracts is likely to help it in improving performance from the present levels though the execution on these lines is still to be seen.

The Company continues to invest excess cash from value businesses into growth businesses. We expect this strategy will drive the revenues further and create value for its shareholders in the long-run. At the current market price, ABNL is trading at a forward P/E of 42.0x and 29.3x for FY08E and FY09E, respectively. The stock is trading at 45% below its 52-week high. Based on SOTP valuation, we have arrived at a target price of Rs. 1,649 which provides an upside of 19.5% from the current levels. Hence, we upgrade our rating to Buy from Hold.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						
Net Sales	31,891	50,069	82,580	123,858	168,322	42.8%
Adj. EBITDA	2,389	5,824	10,751	13,872	19,525	34.8%
Adj. Net Profit	628	2,068	2,808	3,064	4,388	25.0%
Margins(%)						
EBITDA	7.5%	11.6%	13.0%	11.2%	11.6%	
NPM	2.0%	4.1%	3.4%	2.5%	2.6%	
Per Share Data (Rs.)						
Adj. EPS	10.5	27.1	31.9	32.8	47.0	21.4%
PER (x)	38.1x	27.4x	33.3x	42.0x	29.3x	

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