

5<sup>th</sup> November 2009**BUY**

Price	Target Price
Rs 21	Rs 33

Sensex – 15,912

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	(11)	(9)	28	(7)
Rel. to Sensex	(5)	(9)	(4)	(38)

Source: Bloomberg

**Stock Details**

Sector	Paper
Reuters	BILT.BO
Bloomberg	BILT@IN
Equity Capital (Rs mn)	1114
Face Value (Rs)	2
No of shares o/s (mn)	557
52 Week H/L (Rs)	30/13
Market Cap (Rs bn /USD mn)	12/255
Daily Avg Vol (No of shares)	2200397
Daily Avg Turnover (US\$ mn)	1.1

**Shareholding Pattern (%)**

	30/9/09	30/6/09	31/3/09
Promoters	40.3	40.3	40.3
FII/NRI	20.6	20.2	24.5
Institutions	21.6	22.4	23.1
Private Corp.	6.9	6.3	4.0
Public	10.6	10.8	8.1

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**Ballarpur Industries****Results below estimates**

Result Update

BILT Q1FY10 consolidated results were below our estimates mainly due to lower than expected performance of pulp division and higher amortization under VRS for the quarter. Net revenues at Rs 8.1 bn, +5% YoY, and EBITDA margins at 24%, +30 bps YoY, was marginally below our expectations. Paper segment margins were above expectations at 18.4% while pulp segment reported losses of Rs 10 mn against positive contribution expected by us. Pulp division performance however improved sharply on sequential basis and is expected to improve further on back of increase in realisations in subsequent quarters. Q1FY10 PAT was also lowered by increase in interest cost and higher amortization which is on account of VRS. Resulting PAT after minority was down by 38% YoY to Rs 419 mn and was below our expectations.

Company's Ballarpur plant is scheduled for commercial production from current quarter and we expect full benefit of its recent expansion at Bhigwan and Ballarpur plants should start coming from Q4FY10. We believe that stock at current valuations 3.7x FY11 EPS offers attractive upside hence we maintain our BUY rating with price target of Rs 33.

**Consolidated revenues marginally below estimates**

Consolidated net sales for Q1FY10 increased by 5% YoY to Rs 8.1 bn (below our expectations of Rs 8.6 bn) due to increased revenues from paper segment. Paper sales volumes increased by 21% YoY / 7% QoQ to 179,460 MT due to expansion at the company's Bhigwan plant. However paper average realisations dropped by 9% YoY / 4% QoQ to Rs 40,387 / mt indicating pressure in domestic market. Domestic realisations were also affected due to strengthening INR / USD which has affected domestic coated paper prices while realisations were also under pressure due to commissioning of its recent capacity at unit Bhigwan which is still at stabilization phase.

**PAT below estimates**

EBITDA margins improved marginally by 30 bps YoY to 24.0% with EBITDA increase of 6% YoY to Rs 1.9 bn. Depreciation and amortization increased sharply by 48.2% YoY to Rs 784 mn (ahead of expectations due to high amortization expenses) while Interest also increased by 28% YoY to Rs 483 m. This increase was on account of capitalization costs incurred for the expansion at the Bhigwan plant. After adjusting for minority interest of Rs 70 mn APAT at Rs 419 mn, -38% YoY, was below our estimates. EPS for the quarter stood at Rs 0.7 as against Rs 1.1 in Q1FY09 (on fully diluted equity).

**Valuations & Recommendations**

We expect company's pulp division performance to improve in subsequent quarters due to increase in pulp prices. Paper realisations are also likely to improve due to stabilization at its Bhigwan plant. However domestic paper prices are likely to remain under pressure in uncoated segment due to new capacities expected in market. We maintain our FY10E and FY11E EPS estimates of Rs 4.6 and Rs 5. respectively. At present, the stock trades at 4.6x FY10E earnings. We maintain our BUY recommendation on the stock with a price target of Rs 33.

**Key Financials**

(Rs mn)

YE-Jun	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROCE (%)	EV/ EBITDA	P/BV	Div Yld (%)	P/E
FY08	29145	7328	25.1	2405	3.8	12.5	3.8	0.6	2.1	5.5
FY09	28361	6540	23.1	1683	2.7	8.7	5.6	0.7	2.1	7.9
FY10E	34751	9035	26.0	2870	4.6	12.9	4.3	0.6	2.1	4.6
FY11E	41014	10664	26.0	3597	5.7	14.2	3.6	0.5	2.1	3.7

Source: Emkay Research

**Rayon grade pulp performance improved however remained below expectations**

Paper segment margins declined by 180 bps to 18.4% however were better than our expectations. Rayon grade pulp (RGP) performance has improved significantly on back of pick up in demand from Grasim. RGP sales volumes reverted to their previous average sales volumes of 20-21 thousand per quarter after negligible sales volumes in previous three quarters. Losses from pulp division continued (Rs 10 mn) however reduced sharply sequentially (Rs 137 mn in Q4FY09). Dismal performance of pulp division was mainly on account of lower realisations at Rs 33,000 / mt. However pulp realisations has improved by ~10% in current period and expected to increase further by 6-8% in Q3FY10 which is expected to improve profitability of pulp division.

**BILT standalone results also declined by 49% due to pressure on domestic realisations**

Company's stand alone results were also affected due to drop in sales volumes by 2.3% YoY and decline in realisations by 10.2% YoY. As a result, net revenues of Rs 2.3 bn declined by 4% YoY. Driven by drop in realisations, EBITDA margins also contracted by 480bps YoY to 22.7%. Resulting EBITDA declined by 21% YoY to Rs 537 mn. BILT on stand alone basis reported APAT of Rs 190 mn, -49.2% YoY.

**Sequential improvement in performance of subsidiary BPH**

Company's international operations have improved significantly and its Sabah plant has started reporting profit. Company's subsidiary BPH reported 33% YoY / 10% QoQ increase in sales volumes due to expansion at Bhigwan plant. Blended realisations declined by 18% YoY however improved by 5% QoQ. EBITDA margins also improved by 100 bps YoY / 240 bps QoQ with EBITDA increase of 14% YoY / 29% QoQ. However on account of increase in interest and depreciation due to Bhigwan expansion, PAT declined by 38% YoY to Rs 300 mn. We expect volume growth in BPH to continue due to stabilization of its Bhigwan plant and commissioning of commercial production at its Ballarpur plant.

## Quarterly results analysis - Consolidated

Rs mn

Y/E June	Q1FY09	Q4FY09	Q1FY10	% YoY	% QoQ	FY09	FY10E	FY11E
Net Sales	7,718	7,272	8,104	5.0	11.4	28340	34,751	41,014
Raw Material	3,695	3,295	3,811	3.1	15.7	8126	-	-
P&F	1,206	1,229	1,340	11.1	9.0	4418	-	-
Staff Cost	560	481	550	(1.8)	14.4	2191	-	-
Other Exp	429	501	458	6.8	(8.6)	6983	-	-
Total Exp	5,889	5,505	6,158	4.6	11.9	21718	25,715	30,350
EBITDA	1,830	1,767	1,945	6.3	10.1	6,622	9,035	10,664
Dep & Amm	530	805	784	48.0	(2.6)	2428	2,480	2,680
EBIT	1,300	962	1,162	(10.7)	20.7	4,194	6,744	8,173
Interest	378	413	483	27.9	17.0	1708	1,855	1,985
Other Income	21	17	-	(100.0)	(100.0)	38	189	189
PBT	943	567	679	(28.1)	19.8	2524	4,890	6,188
Tax	179	120	189	6.0	57.6	645	1,369	1,733
ETR (%)	18.9%	21.2%	27.9%	47.3	31.6	25.6%	28.0%	28.0%
APAT	765	447	489	(36.0)	9.6	1,879	3,520	4,455
Minority Interest	100	75	70	(29.8)	(6.7)	211.6	650	858
Profit from Assoc	9	-	-	(100.0)		15.8	-	-
Net Profit	673	372	419	(37.7)	12.9	1683	2,870	3,597
AEPS	1.1	0.6	0.7	(37.7)	12.9	2.7	4.6	5.7
% of NS				(chng bps)	(chng bps)			
Raw Material	47.9	45.3	47.0	(84)	(172)	28.7	-	-
P&F	15.6	16.9	16.5	91	37	15.6	-	-
Staff Cost	7.3	6.6	6.8	(47)	(17)	7.7	-	-
Other Exp	5.6	6.9	5.6	10	123	24.6	-	-
EBITDA	23.7	24.3	24.0	30	29	23.4	26.0	26.0
EBIT	16.8	13.2	14.3	(251)	(111)	14.8	18.9	19.9
APAT	9.9	6.1	6.0	(387)	10	6.6	10.1	10.9

## Segmental Analysis - Consolidated

Rs mn

	Q1FY09	Q4FY09	Q1FY10	% YoY	% QoQ
<b>Sales volume (mt)</b>					
Paper	148660	167573	179460	20.7	7.1
Pulp	23084	2852	20561	(10.9)	620.9
<b>Realisation Rs / mt</b>					
Paper	39625	37779	35727	(9.8)	(5.4)
Pulp	39014	20827	32158	(17.6)	54.4
<b>Revenues Rs (mn)</b>					
Paper	5891	6331	6412	8.8	1.3
Paper products	730	764	851	16.5	11.4
Pulp	901	59	661	(26.6)	1013.1
Others	197	233	275	39.4	18.1
<b>TOTAL</b>	<b>7718</b>	<b>7387</b>	<b>8198</b>	<b>6.2</b>	<b>11.0</b>
<b>Profit / Loss</b>					
Paper	1192	1092	1177	(1.2)	7.8
Paper products	78	80	87	11.9	8.9
Pulp	120	(137)	(10)	(108.2)	(92.8)
Others	(13)	(9)	(11)	(13.4)	18.3
<b>TOTAL</b>	<b>1377</b>	<b>1026</b>	<b>1244</b>	<b>(9.7)</b>	<b>21.2</b>
<b>Segment margins %</b>				BPS	BPS
Paper	20.2	17.2	18.4	(188)	112
Paper products	10.7	10.5	10.3	(42)	(24)
Paper + Paper products	19.2	16.5	17.4	(177)	89
Pulp	13.3	(230.0)	(1.5)	(1482)	22848
Others	(6.4)	(4.0)	(4.0)	244	(1)
<b>TOTAL</b>	<b>17.8</b>	<b>13.9</b>	<b>15.2</b>	<b>(268)</b>	<b>128</b>

Source: Emkay Research

## Standalone and subsidiary performance analysis

Rs mn

	BILT - Cons Q1FY10	BILT - SA	BPH Q1FY10	BILT - Cons	BILT - SA % total	BPH
<b>Net Sales</b>	<b>8104</b>	<b>2370</b>	<b>5733</b>	<b>8104</b>	<b>29</b>	<b>71</b>
Raw Material	3811	1034	2777	3811	27	73
P&F	1340	456	884	1340	34	66
Staff Cost	550	152	398	550	28	72
Other Exp	458	191	266	458	42	58
Total Exp	6158	1833	4325	6158	30	70
<b>EBITDA</b>	<b>1945</b>	<b>537</b>	<b>1408</b>	<b>1945</b>	<b>28</b>	<b>72</b>
Depreciation & Amortization	784	218	566	784	28	72
EBIT	1162	320	842	1162	28	72
Interest	483	54	429	483	11	89
Other Income	0	0	0	0		
<b>PBT</b>	<b>679</b>	<b>266</b>	<b>413</b>	<b>679</b>	<b>39</b>	<b>61</b>
Tax	189	76	113	189	40	60
ETR (%)	28%	29%	27%	28%	102	98
<b>APAT</b>	<b>489</b>	<b>190</b>	<b>300</b>	<b>489</b>	<b>39</b>	<b>61</b>
Minority Interest	70.1	0	70	70	0	100
Profit from associate company	0.0	0	0	0		
Net Profit	419	190	230	419	45	55
AEPS	0.7	0.2	0.5	0.7	31	71

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