

Aditya Birla Nuvo Ltd

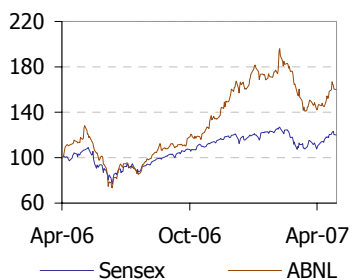
Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 93.3mn
Market cap : Rs.107bn
52 week high/low : Rs 1,494/ Rs 493
Avg. daily vol. (6mth) : 128,000 shares
Bloomberg code : ABNL IN
Reuters code : ABRL.BO

Shareholding (%) Mar-07 QoQ chg

Category	Shareholding (%)	QoQ chg
Promoters	39.0	0.7
FIIIs	15.0	1.1
MFs / UTI	9.2	0.3
Banks / FIs	11.4	(0.9)
Others	25.4	(1.2)

Financial summary

Y/E Mar	Sales (Rs mn)	EBIDTA (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)
2005	31,708	2,309	645	-	10.8	143	37.1	5.8	7.5	13.5
2006	48,136	6,119	2,081	-	24.9	131	29.8	13.2	12.5	14.0
2007	82,580	10,751	2,812	-	30.1	21	35.2	10.1	10.5	14.3
2008E	109,037	15,596	3,523	39.0	37.7	25	30.5	9.4	9.2	11.2

Source: *Consensus broker estimates, Company, ENAM estimates

GROWTH BUSINESSES LEAD VALUATIONS

Aditya Birla Nuvo (ABNL) reported a 44.3% YoY growth at the topline driven by higher growth in telecom, financial services and the BPO segment (led by consolidation of Minacs in this space). PAT growth at 17.7% YoY was impacted by higher interest outgo and depreciation.

Telecom: Earnings/ Value driver

With 8.6% market share on a all-India subscriber base, holdings in Idea continue to be a dominant valuation driver for ABNL (~65% currently). Idea's USD 2bn investments in the ensuing years is likely to increase its market share and lead to better growth rates; even from its foray in the long distance segment. Additionally, operating profit margin has an upside potential as new circles show improvement in profitability when they reach a threshold level subscriber base (with current base of just 0.65 mn in new circles). Idea's 3 new circles are in the investment phase causing a dent of ~7% to Idea's consolidated EBITDA.

Life Insurance: Increase in market share hold key

First year premiums in individual business segments grew at a muted rate of 10.7% YoY in Q4FY07; with individual business segment recording a 34.8% YoY growth in Q4FY07. We are given to understand that the new schemes – Supreme Life and Children's Dream Plan have received a good response. The coming year should see expansion in distribution reach, new product launches and efficient improvement in processes.

FY08 Capex: ABNL is planning Rs 6.7bn capex for BPO (Rs 1.6bn) and garments/apparel retail (Rs 1.8bn). This excludes ~Rs 4bn capex in FY08 for insurance and USD 2bn capex by Idea over the next 2 yrs.

Valuations : Our revised our sum-of-parts valuation at Rs 1,376, indicates a fair share for telecom (64.7% share) and insurance (13.1% share). At CMP of Rs 1,150, the stock trades at 30.5x FY08E earnings of Rs 37.7. We reiterate our sector **Outperformer** rating on the stock.

Results update (Consolidated)

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net revenue	25,441	17,550	45.0	22,888	11.2	109,037	82,580	32.0
EBITDA	2,848	1,921	48.3	2,994	(4.9)	15,596	10,751	45.1
Other income	202	77	162.8	85	138.3	226	649	(65.2)
PBDIT	3,051	1,998	52.7	3,079	(0.9)	15,822	11,400	38.8
Depreciation	1,170	747	56.5	1,193	(1.9)	6,626	4,228	56.7
Interest	1,094	361	202.8	1,129	(3.0)	4,596	3,629	26.6
PBT	787	889	(11.5)	758	3.8	4,600	3,543	29.8
Tax	164	256	(35.7)	292	(43.7)	1,518	1,115	36.2
Minority Interest	(178)	(73)	143.2	(99)	79.2	(441)	(383)	15.0
Adj. PAT	800	706	13.3	565	41.6	3,523	2,812	25.3
Extra ordinary income / (exp)	25	(5)	-	(11)	-	-	-	-
Reported PAT	825	701	17.7	554	49.1	3,523	2,812	25.3
No of Shares (mn)	93	84	-	84	-	93	93	
EBDITA margins (%)	11.2	10.9	25.2	13.1	(14.4)	14.3	13.0	9.9
PBIDT margins (%)	12.0	11.4	60.8	13.5	(10.9)	14.5	13.8	5.1
EPS - annualized (Rs.)	34.3	33.8	1.3	27.1	26.7	37.7	30.1	25.3

Source: Company, ENAM Research

Valuations:

Sum-of-parts valuation	(Rs mn)	Valuation Parameter (FY08)
IT Services	432	6x EBITDA
VFY / Rayon	6,811	6x EBITDA
Garments	5,980	6x EBITDA
Fertilizer	8,827	5x EBITDA
Carbon Black	8,893	6x EBITDA
Insulators	2,389	6x EBITDA
Textiles	5,508	6x EBITDA
BPO (incl. Minacs)	11,794	1.2x Sales
Insurance (74% stake*)	19,739	At NBAP of 15% & valuation of 18x
Telecom (31.8% stake)	97,789	Implied EV/Sub at ~USD 379 @41 INR-USD
Birla AMC (50% stake)	5,994	AMC valued at 5% of AUM
Other Financial Svcs. (50% stake)	235	6x PAT
Business value	174,390	-
Less: Debt	28,318	-
Equity valuation	146,072	-
Equity post rights issue (mn nos.)	93.3	-
ABNL Sum-of-parts value (Rs)	1,565	

Source: ENAM Research Note:* Economic interest in insurance JV may fall to 51% in future

FY08E Valuations – Discount Table

(Rs / share)	Discount to Insurance and Telecom			
	Nil	5%	10%	15%
Businesses Other Than Insurance and Telecom	306	306	306	306
Insurance	212	201	190	180
Telecom	1,048	995	943	891
Valuation Range	1,565	1,502	1,439	1,376

Source: Company, ENAM Research

Segmental Analysis (Consolidated) – Q4FY07

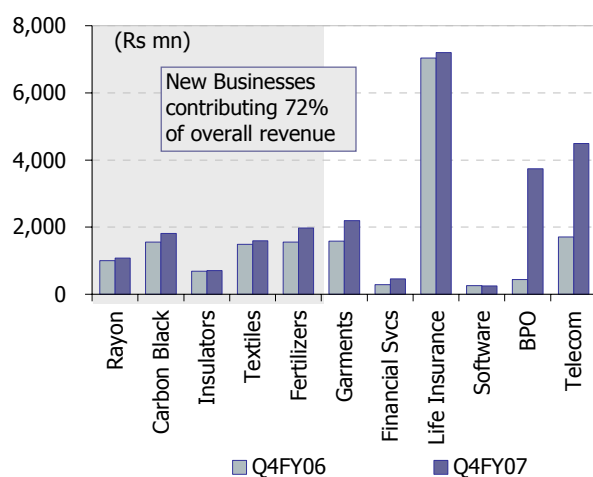
(Rs. mn)	Quarterly Sales			Quarterly PBIT			Remarks
	Mar-07	Mar-06	% Chg	Mar-07	Mar-06	% Chg	
Branded garments	2,189	1,584	38.2	165	90	82.7	Branded garments - Own retail stores and brand momentum led to sustained volume momentum across shorts, trousers and suits segments. ABNL has 3.1lac sq. ft retail space currently and has locked an additional 2.5lac sq. ft.
Rayon (VFY + Chemicals)	1,074	1,005	6.9	123	223	(44.7)	Contract exports - Volume growth aided by capacity expansion as well as client additions in Europe and US. ABNL intends to expand capacity in shirts and knits by Aug 2007 For Q4, realization for VFY improved to Rs 169/kg (↑8%) on back of exports and better product mix, while realization for chemicals was flat. Though margins were down for Q4FY07, installation of captive power plant in Sep 2006 helped overall margins for FY07
Carbon black	1,813	1,554	16.7	294	180	63.6	Although volumes were flat for Q4FY07, pricing was up 16%. For full year FY07, robust demand from the auto sector ensured improved pricing, consequently resulting in better margins. ABNL intends to complete a brownfield expansion of 60ktpa by June 2007 at a cost of Rs 358mn.
Insulators	702	682	2.9	203	100	102.3	Labour unrest impacted production and sales volumes, though better pricing cushioned revenues. NGK has exited this business and ABNL now owns 100% in this subsidiary.
Textiles	1,590	1,485	7.0	111	101	10.1	Woolen segment continues to do well (47% growth in FY07). Although linen segment degrew by 7% in Q4, it maintained a healthy 9% growth for full year. ABNL intends to increase its share of value added products in worsted segment and is looking at expanding capacity for linen. It has also decided to downsize the synthetics capacity (and possibly shut production in FY08) since margins are thin.
Fertilizers	1,977	1,556	27.0	312	209	48.9	For Q4, higher volumes (↑14%) with higher capacity utilization led revenue growth. New fertilizer policy impacted OPM and the management believes that regulations are still not conducive for improving margins in FY08.
Life Insurance	7,202	7,033	2.4	(648)	(279)	132.7	New product launches in late FY07 resulted in 35% growth for Q4 in the individual segment. Group segment did not do well in Q4 (↓9%), but managed to grow 41% for FY07. S&M efforts were intensified once again leading to increasing losses.
Software	249	255	(2.5)	28	22	26.7	Higher proportion of offshore effort is aiding the revival of margins.
BPO	3,739	435	759.8	78	71	10.0	Transworks - Higher proportion of non-voice bodes well for margin improvement going forward. Company has managed to grow 21% for FY07 despite fall in total no. of employees to 3,596 (from 4,114 at end FY06). PAT was impacted mainly due to increased interest burden on account of Minacs acquisition. Minacs – One time restructuring costs and a change in accounting policies have widened bottomline losses. ABNL believes Minacs can achieve a 8-9% sustainable OPM going forward (4.1% for Q4)

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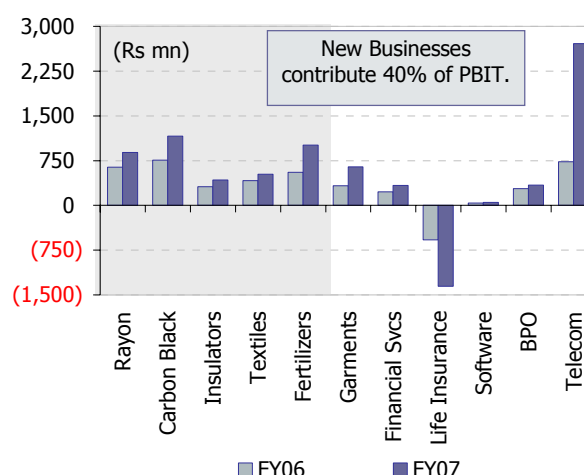
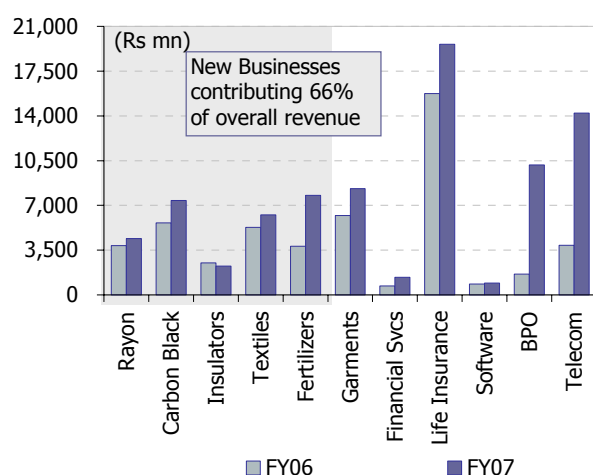
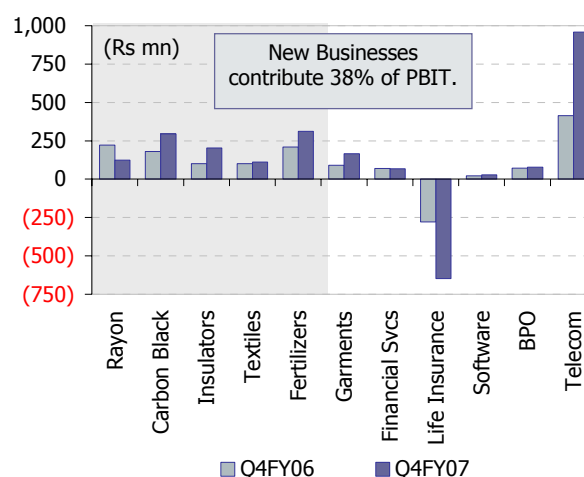
(Rs. mn)	Quarterly Sales			Quarterly PBIT			Remarks
	Mar-07	Mar-06	% Chg	Mar-07	Mar-06	% Chg	
Telecom	4,491	1,704	163.5	958	413	131.8	No. of subscribers at end FY07 reached ~14mn (↑91% from FY06). Stellar growth in 8 established circles. Although new circles impacted OPM negatively (due to investment phase), these hold good potential for future growth. IDEA plans to rollout services in Mumbai and Bihar by Jan 2008.
Financial Svcs.	456	282	61.7	68	70	(2.6)	Financials for Q4FY07 are lower across segments, though company has done well for full year FY07.
Others	(41)	(25)	65.2	0	(0)	(133.3)	-
Total Inc. *	25,441	17,550	45.0	1,692	1,201	40.9	-

Source: Company , ENAM Research,* After Inter Segmental Revenue

Revenue: Changing Complexion

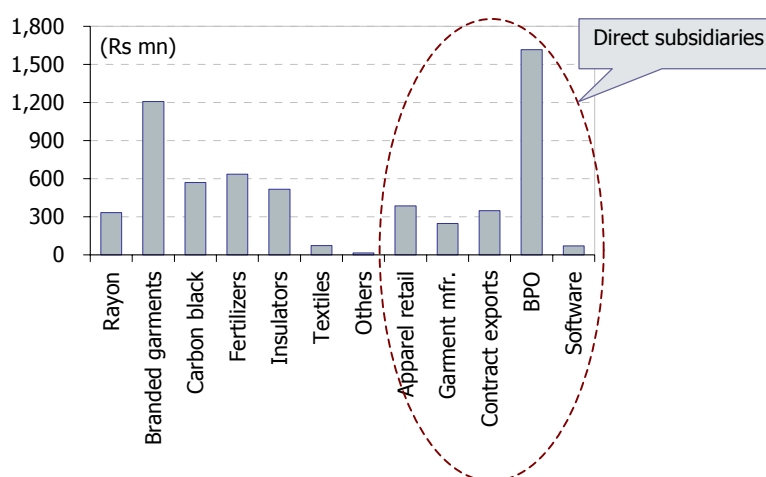


PBIT: New Businesses picking up slowly



Source: Company Note: Results indicated are on a consolidated basis. The shaded portion represents traditional businesses (Carbon Black, Textiles, Rayon, Fertilizers & Insulators). New businesses constitute Life Insurance, Garments, BPO, Telecom, Software and Financial Services.

Capex plans for FY08



Source: Company

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