

Maintaining consistent performance

 29th August 2008

BUY

Price	Target Price
Rs 33	Rs 45

Sensex – 14,565

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(1)	14	14
Rel. to Sensex	(1)	10	37	19

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)	41/24
Market Cap (Rs bn /USD mn)	19/433
Daily Avg Vol (No of shares)	950347
Daily Avg Turnover (US\$ mn)	0.7

Shareholding Pattern (%)

	30/6/08	31/3/08	31/12/07
Promoters	39.0	38.9	38.9
FII/NRI	27.9	30.0	31.4
Institutions	22.6	20.8	19.5
Private Corp.	3.0	2.9	3.2
Public	7.4	7.4	7.1

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Ballarpur Industries (BILT) Q4FY08 and FY08 results were broadly in line with our expectation at EBITDA and PAT level. However 540 bps decline in EBITDA margins to 21.8% due to revenues from low margin timber sales and cost pressure at BPH due to rising fuel and pulp prices disappointed us. Company has recently taken price increase of ~10% in coated paper and ~5% in uncoated paper which is likely to improve EBITDA margins by ~150 bps to 26.5% by FY09E as per guidance given by the management. APAT (before minority interest) at Rs 731 mn was in line with expectation of Rs 702 mn however net profit after minority interest was 24% above expectations due to lower than expected minority interest. Net profit increased by 5.1% to Rs 697 mn however EPS increased by 75.2% to Rs 1.2 due to recent financial restructuring. In FY08 net sales increased by 22.1% to Rs 28.3 bn and net profit increased by 17.2% to Rs 3 bn resulting in an EPS of Rs 4.8. It's expansion plan at unit Bhigwan to increase paper capacity by 190 thousand mtpa is expected to finish by Nov'08 and at unit Ballarpur to increase paper capacity by 155 thousand mtpa to complete by June'09. This is likely to result in volume growth of ~12% (85 thousand mt) in FY09 as per management. We have been fairly conservative in our earnings estimates to factor any delays in commissioning of these expansion plans. We, maintain our BUY recommendation with a price target of Rs 45.

BILT consolidated Q4FY08 results in line with expectations

Ballarpur Industries (BILT) reported its Q4FY08 and FY08 consolidated results (June quarter) which were broadly in line with expectations. Consolidated net revenues increased by 49% to Rs 8 bn which is 19% higher than expected. Better than expected revenues were mainly from timber sale during the quarter of Rs 500 mn and higher paper sales volumes. EBITDA increased by 19.6% to Rs 1.7 bn which was in line with our expectation.

EBITDA margins declined sharply by 540 bps to 21.8% YoY on account of – 1 - Timber sales during the quarter which has reported neutral EBITDA for the quarter 2 – Cost pressure at BPH – Sabah plant due to rise in fuel cost since Sabah plant is FO based plant and 3) increase in pulp prices. APAT (before minority interest and profits from associates) increased by 10.2% Rs 731 mn (we expected Rs 702 mn). Minority interest was significantly lower than expected at Rs 37 mn (we expected Rs 138 mn) due to impact on interest expense arising from recent financial restructuring and as a result net profit was 24% higher than our expectation. Resultant net profit increased by 5.1% to Rs 697 mn as against our expectation of Rs 564 mn. Despite of mere 5% growth in net profit, EPS increased by 75.2% to Rs 1.2 due to equity reduction exercise.

FY08 results in line with expectation

On consolidated basis, BILT reported net revenues of Rs 28.3 bn, which grew by 22.1% YoY. EBITDA margins were almost flat at 25% and as a result EBITDA too increased by 21.5% YoY to Rs 7.1 bn. APAT increased by 19% YoY to Rs 3 bn and net profit after minority interest also increased by 17.2% to Rs 3 bn. Despite of 17% growth in net profit, FY08 EPS stood at Rs 4.8 as against Rs 2.8 in FY07 which is on account of recent equity reduction post financial restructuring. Company has proposed a dividend of 35% for FY08.

Key Financials

	(Rs mn)									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROCE (%)	EV/EBITDA	P/BV	Div Yld (%)	P/E
YE-Jun										
FY07	23178	5828	25.1	2459	2.6	12.4	7.7	1.5	1.5	12.5
FY08*	28311	7079	25.0	2999	4.8	12.6	4.5	0.9	1.5	8.5
FY09E	31827	8434	26.5	2816	4.5	13.0	4.2	0.8	1.5	7.4
FY10E	38848	10100	26.0	3465	5.5	14.4	3.5	0.8	1.5	6.0

*Note – Due to financial restructuring there has been significant change in EPS of FY08.

Net profit after minority exceeded our expectation

Results for both, BILT stand alone and BPH (75% subsidiary) were in line with expectation. However BILT stand alone has reported interest income as against expected interest expense and BPH has reported higher than expected interest charge (while consolidated interest was in line with expectation). As a result profit of BILT stand alone was higher than expected and BPH were lower than expected (while consolidated profit was in line with expectation). But due to lower than expected minority interest on BPH, net profit after minority interest was higher than expected.

Valuations & Recommendations

We expect BILT to report net revenues of Rs 31.8 bn and PAT of Rs 2.9 bn in FY09E and net revenues of Rs 38.8 bn and PAT of Rs 3.4 bn in FY10E. EPS works out at Rs 21.0 for FY09E and Rs 26.4 for FY10E. At present, the stock trades at 7.3x FY09E earnings. We maintain our BUY recommendation on the stock with a price target of Rs 45.

Consolidated Quarterly and Full Year Results analysis

Rs mn

Y/E June	Q4FY07	Q3FY08	Q4FY08	% YoY	% QoQ	FY07	FY08E	% YoY	FY09E	FY10E
Net Sales	5,325	6,873	7,936	49.0	15.5	21651	28311	30.8	31,827	38,848
Raw Material	2,493	2,995	3,881	55.7	29.6	6795	8147	19.9	-	-
P&F	756	1,149	1,173	55.1	2.0	3086	4462	44.6	-	-
Staff Cost	305	503	621	103.5	23.6	1263	2014	59.4	-	-
Other Exp	321	419	528	64.4	26.1	4854	6560	35.2	-	-
Total Exp	3,875	5,065	6,202	60.1	0.0	15997	21183	32.4	23,393	28,747
EBITDA	1,450	1,808	1,734	19.6	(4.1)	5,653	7,128	26.1	8,434	10,100
Dep & Amm	429	521	558	30.3	7.2	1660	2181	31.4	2,200	2,480
EBIT	1,021	1,287	1,176	15.1	(8.7)	3,993	4,947	23.9	6,234	7,621
Interest	226	368	371	64.4	0.7	870	1421	63.3	1,684	1,855
Other Income	52	25	98	88.1	296.7	114	161	40.8	189	189
PBT	848	944	903	6.5	(4.4)	3238	3687	13.9	4,739	5,955
Tax	185	185	172	(6.9)	(6.9)	729	736	1.0	1,327	1,667
ETR (%)	21.8%	19.6%	19.1%	0.0	0.0	22.5%	20.0%	0.0	28.0%	28.0%
APAT	663	759	731	10.2	(3.7)	2,510	2,951	17.6	3,412	4,287
Minority Int	-	21	37	#DIV/0!	80.1	0.0	60.6	#DIV/0!	596	822
Profit from assc	-	7	3	#DIV/0!	(50.7)	0.7	27.7	3857.1		
Net Profit	663	745	697	5.1	(6.5)	2510	2918	16.3	2,816	3,465
AEPS	0.7	1.3	1.2	75.2	(6.5)	2.7	4.2	54.5	4.5	5.5
% of NS				(chng bps)	(chng bps)			(chng bps)		
Raw Material	46.8	43.6	48.9	(324)	(533)	31.4	28.8	(261)	-	-
P&F	14.2	16.7	14.8	252	194	14.3	15.8	151	-	-
Staff Cost	5.7	7.3	7.8	158	(51)	5.8	7.1	128	-	-
Other Exp	6.0	6.1	6.6	6	(56)	22.4	23.2	75	-	-
EBITDA	27.2	26.3	21.8	(92)	446	26.1	25.2	(93)	26.5	26.0
EBIT	19.2	18.7	14.8	(45)	392	18.4	17.5	(97)	19.6	19.6
APAT	12.4	11.0	9.2	(141)	184	11.6		(117)	10.7	11.0

Source: Emkay Research

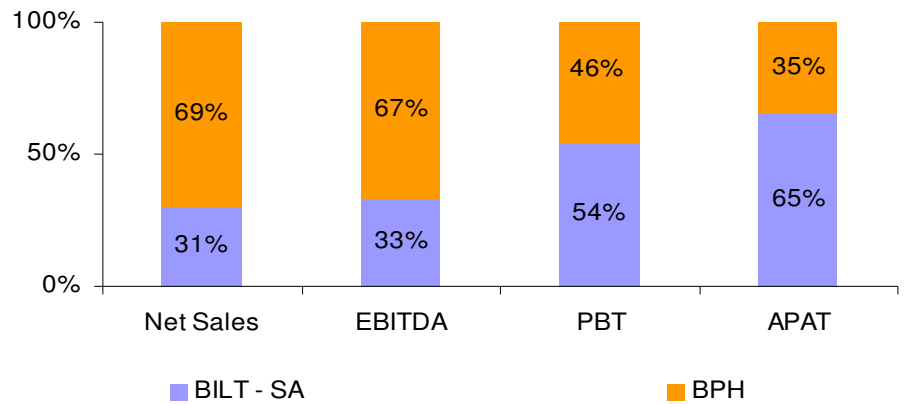
Conference call highlights –

- Company's operation at Sabah, Malaysia was affected due to rising crude prices. Since Sabha plant is based on furnace oil and prices of that is linked with crude. However company is confident enough to improve margins at Sabah due to recent price increase which they have taken.
- Company has increased coated paper prices by Rs 5,000 / mt (approx 10%) and uncoated paper prices by Rs 2,000 / mt (by 4-5%) effective from July'08. Since most of the cost increases has already happened so this increase paper in prices is likely to add approx Rs 600 mn (after factoring expected cost increase) to EBITDA.
- Sale of timber increased topline for the quarter but adversely affected margins since this business was approx EBITDA neutral. However this is cycle and company do not expect any significant impact in revenues and margins from this business in subsequent quarters.
- Company's capex plan is on schedule –
 - Expansion at Bhigwan to increase capacity by 190 thousand mtpa is expected to be completed by Nov'08
 - Ballarpur expansion to increase capacity 155 thousand mtpa is expected to be completed by June'09.
- Company is likely to achieve additional production of approx 85,000 mtpa (75,000 mt from increase in capacity in India and 10,000 from Sabah). Resulting in volume growth of approx 13% in FY09. this volume growth will be supplemented by approx Rs 600 mn(8% over FY08) additional EBITDA from recent increase in paper prices.
- Rayon grade pulp prices been strong and company expects prices to remain strong.
- Globally pulp prices have increased significantly and pulp prices are likely to soften in medium term.
- Outlook on domestic demand supply scenario remains favourable.

Revenue and profit contribution from BILT stand alone and BPH

Contribution from BILT Standalone and BPH (75% subsidiary)

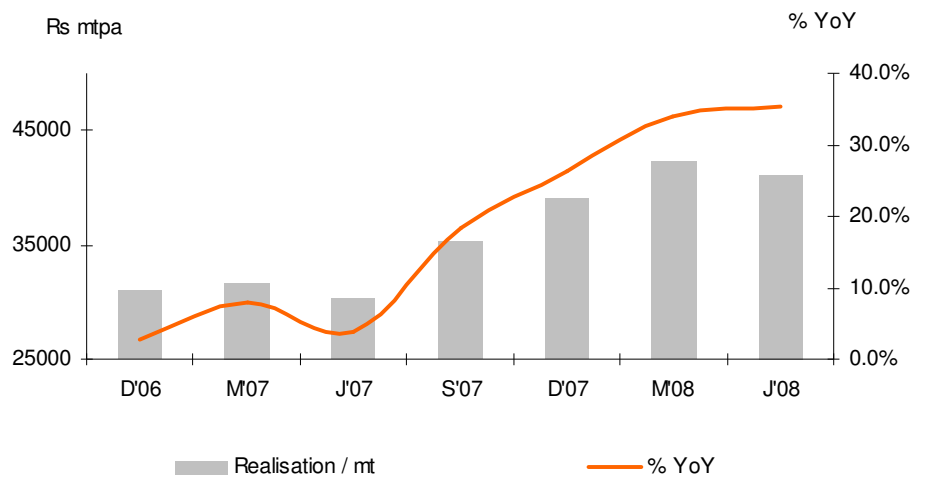
BILT Standalone contributed approx 1/3rd to revenues and EBITDA but contribution at profit was 2/3rd due to significant difference in interest charges



Source : Emkay Research

Rayon Grade Pulp (RGP) Realisations per tonne

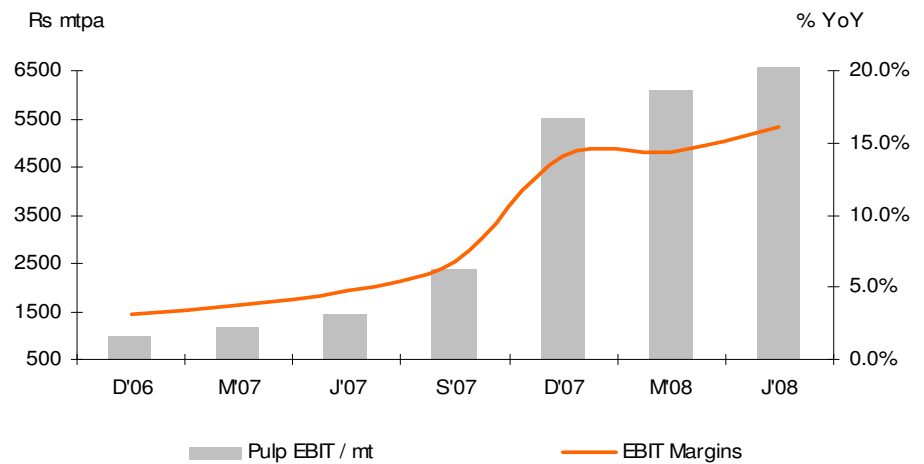
Rayon grade Pulp prices have started showing sign of softening after sharp increase in last three quarters



Source: Emkay Research

EBIT contribution per tonne and margins from RGP

EBITDA contribution per / mt from RGP has remained strong and EBIT margins improved to 16%



Source: Emkay Research

Splitting results – BILT Standalone Vs BPH

Rs mn

	BILT - Cons Q3FY07	BILT - Cons Q4FY08	BILT - SA	BPH Q4FY08	BILT - Cons	BILT - SA % total	BPH
Net Sales	5325	7936	2421	5515	7936	31	69
Raw Material	2493	3881	1231	2650	3881	32	68
P&F	756	1173	338	835	1173	29	71
Staff Cost	305	621	154	467	621	25	75
Other Exp	321	528	128	400	528	24	76
Total Exp	3875	6202	1851	4352	6202	30	70
EBITDA	1450	1734	571	1164	1734	33	67
Dep & Amm	429	558	169	389	558	30	70
EBIT	1021	1176	401	774	1176	34	66
Interest	226	371	-70	441	371	-19	119
Other Income	52	98	13	84	98	14	86
PBT	848	903	485	418	903	54	46
Tax	185	172	8	165	172	4	96
ETR (%)	22%	19%	2%	39%	19%	8	207
APAT	663	731	477	253	731	65	35
EO income			0	0	0		
Minority Int	0.0	37.1	0	0	37	0	0
Profit from assc.	0.0	3.4	0	0	3.4	0	0
Net Profit	663	697	477	253	697	68	36
AEPS	0.7	1.2	0.9	0.3	1.2	68	22

% of NS					
Raw Material	46.8	48.9	50.8	48.0	48.9
P&F	14.2	14.8	14.0	15.1	14.8
Staff Cost	5.7	7.8	6.4	8.5	7.8
Other Exp	6.0	6.6	5.3	7.2	6.6
EBITDA	27.2	21.8	23.6	21.1	21.8
EBIT	19.2	14.8	16.6	14.0	14.8
APAT	26.6	18.0	38.8	9.6	18.0

Source: Emkay Research

Segmental Analysis - consolidated

Rs mn

Revenues	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08	Q4FY08
Sales volume (mt)								
Paper	113496	115603	115055	113336	144131	150735	145566	159979
Pulp	21847	22353	22353	22353	21311	23382	22829	23061
Realisation Rs / mt								
Paper	38889	39320	39636	40281	32661	37941	38588	38709
Pulp	29881	30985	31606	30345	35329	39098	42332	41052
Revenues								
Paper	4414	4546	4560	4565	4707	5719	5617	6193
Paper products	535	629	655	597	639	714	626	672
Pulp	653	693	707	678	753	914	966	947
Others	174	157	108	17	15	123	140	492
TOTAL	5775	6025	6030	5858	6114	7470	7350	8304
Profit / Loss								
Paper	918	965	980	995	1033	1111	1146	1129
Paper products	82	95	107	95	89	107	99	80
Pulp	21	22	27	32	51	129	139	153
Others	-7	-6	-7	-6	-6	-16	-18	-15
TOTAL	1013	1077	1106	1117	1167	1331	1366	1346
Segment margins								
Paper	20.8%	21.2%	21.5%	21.8%	21.9%	19.4%	20.4%	18.2%
Paper products	15.2%	15.1%	16.3%	16.0%	13.9%	15.0%	15.8%	11.8%
Paper + Paper products	20.2%	20.5%	20.8%	21.1%	21.0%	18.9%	19.9%	17.6%
Pulp	3.2%	3.2%	3.8%	4.7%	6.8%	14.1%	14.4%	16.1%
Others	-4.1%	-3.5%	-6.6%	-31.6%	-39.6%	-13.0%	-12.9%	-3.1%
TOTAL	17.5%	17.9%	18.3%	19.1%	19.1%	17.8%	18.6%	16.2%

Source : Emkay Research

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