

Attractive performance of subsidiary

6th May 2008

BUY

Price	Target Price
Rs 33	Rs 45

Sensex - 17,491

Price Performance

(%)	1M	3M	6M	12M
Absolute	24	8	15	33
Rel. to Sensex	9	13	29	6

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)	41/23
Market Cap (Rs bn /USD mn)	19/468
Daily Avg Vol (No of shares)	1216635
Daily Avg Turnover (US\$ mn)	1.0

Shareholding Pattern (%)

	31/3/08	31/12/07	30/9/07
Promoters	38.9	38.9	38.9
FII/NRI	30.0	31.4	27.0
Institutions	20.8	19.5	22.6
Private Corp.	2.9	3.2	3.8
Public	7.4	7.1	7.7

Source: Capitaline

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Ballarpur Industries (BILT) on consolidated basis reported its Q3FY08 results which were in line with our expectations. Consolidated net revenues increased by 24.7% YoY to Rs 6.9 bn. EBITDA margins increased by 40 bps to 26.3% and adjusted PAT increased by 18.5% YoY to Rs 759 mn. EBITDA margins of BILT stand alone stood at 23.6% while BPH reported higher margins of 27.8% for Q3FY08. During the quarter company benefited significantly from sharp rise in Rayon grade pulp (RGP) prices which were up by 33.9% YoY to Rs 42,332/ mt. EBIT margins in pulp business increased from 3.8% in Q3FY07 to 14.4% in Q3FY08. Company reported an EPS of Rs 1.3 for Q3FY08 as against Rs 0.7 in Q3FY07 on reduced equity of Rs 1.11 bn. We maintain our BUY recommendation on the stock with a price target of Rs 45.

BILT consolidated results in line with expectations

For Q3FY08, BILT on consolidated basis reported net revenues of Rs 6.9 bn, +24.7% YoY and EBITDA of Rs 1.8 bn, +25.1% YoY which were in line with our expectations. EBITDA margins were up by 40 bps to 26.3%. Adjusted PAT for the quarter increased by 18.5% YoY to Rs 759 mn. After minority interest of Rs 20.6 mn and profit from associates of Rs 6.9 mn, net profit was Rs 745 mn, +16.3% YoY. On reduced equity of Rs 1.11 bn, company reported an EPS of Rs 1.3 as against Rs 0.7 in Q3FY07.

BPH margins better than BILT standalone

BILT standalone which now holds 3 plants and retail stationery products, reported revenues of Rs 2.4 bn and EBITDA of Rs 574 mn. During the quarter, standalone EBITDA margins were 23.6% as against consolidated EBITDA margins of 26.3%. Outside dependency for pulp and power at Ashti unit, high power cost of Unit Shreegopal and manufacturing of low grade of paper at unit Sewa, dragged the EBITDA margins of BILT stand alone. While BPH which is now 75% subsidiary of BILT, holds BGPPL and Sabah Forest reported higher EBITDA margins of 27.8%. Sharp rise in Rayon Grade Pulp (RGP) by 34% YoY and lower cost structure at fully integrated plant at Ballarpur supported high margins of BPH. BPH reported revenues of Rs 4.4, EBITDA Rs 1.2 bn and PAT Rs 685 mn.

Successful completion of business and financial restructuring

BILT has recently completed its business restructuring (Refer to our note – Re-listing gains released on 29th Mar'08) and sold 21% stake in its subsidiary BPH for a sum of USD 175 mn (Rs 7 bn), valuing BPH at Rs 33 bn. Post reorganisation, BPH 75% subsidiary of BILT, holds 98% stake in Sabah forest, Malaysia and 100% in BILT Graphic Paper Products (BGPPL). BGPPL now has three plants: Bhigwan, Ballarpur and Kamlapuram. BILT also completed buyback of 40% of its equity with Rs 9.3 bn. Equity share capital of the company reduced from Rs 1.86 bn to Rs 1.11 bn and outstanding shares increased from 186 mn of Rs 10 paid up to 558 mn share of Rs 2 paid up because of split.

Valuations & Recommendations

We expect BILT to report net revenues of Rs 32.0 bn in FY09 and Rs 38.8 bn in FY10. PAT of Rs 2.8 mn in FY09 and Rs 3.4 mn in FY10. EPS works out at Rs 4.5 for FY09 and Rs 5.5 for FY10. At present, the stock trades at 7.4x FY09E earnings. We maintain our BUY recommendation on the stock with a price target of Rs 45.

Key financials

YE-Jun	(Rs mn)									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	ROCE (%)	EV/ EBITDA	P/BV	Div Yld (%)	P/E
FY07	23178	5828	25.1	2459	2.6	12.4	7.7	1.6	1.5	12.6
FY08E	29145	7328	25.1	2431	3.9	12.6	4.5	0.9	1.5	8.6
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	6.1

Quarterly and Full year Results – Consolidated

Rs mn

Y/E June	Q3FY07	Q3FY08	% YoY	Q2FY07	% QoQ	FY08E	FY09E
Net Sales	5,513	6,873	24.7	6,924	(0.7)	29,145	31,827
Raw Material	2,636	2,995	13.6	3,146	(4.8)	-	-
P&F	779	1,149	47.6	1,107	3.8	-	-
Staff Cost	322	503	56.4	467	7.8	-	-
Other Exp	332	419	26.3	414	1.1	-	-
Total Exp	4,068	5,065	24.5	5,134	0.0	-	-
EBITDA	1,446	1,808	25.1	1,790	1.0	29,145	31,827
Dep & Amm	410	521	27.1	532	(2.2)	2,080	2,200
EBIT	1,036	1,287	24.3	1,258	2.4	27,065	29,627
Interest	223	368	65.5	358	2.9	1,415	1,684
Other Income	15	25	69.7	20	25.5	233	189
PBT	828	944	14.0	919	2.6	25,883	28,132
Tax	188	185	(1.6)	188	(1.9)	1,139	1,327
ETR (%)	22.7%	19.6%	0.0	20.5%	0.0	4.4%	4.7%
APAT	640	759	18.5	731	3.8	24,744	26,805
Minority Int	-	21		2		497	596
Profit from assc.	1	7		8			
Net Profit	639	745	16.5	722		2,431	2,816
AEPS	0.7	1.3	93.8	0.8	68.6	3.9	4.5

% of NS		(chng bps)		(chng bps)		
Raw Material	47.8	43.6	(424)	45.4	(187)	-
P&F	14.1	16.7	260	16.0	73	-
Staff Cost	5.8	7.3	148	6.7	58	-
Other Exp	6.0	6.1	8	6.0	11	-
EBITDA	26.2	26.3	8	25.9	45	100.0
EBIT	18.8	18.7	(6)	18.2	57	92.9
APAT	11.6	11.0	(57)	10.6	48	84.9

Source: Emkay Research

BILT consolidated results

BILT on consolidated basis reported Q3FY08 results which were in line with our expectations. Company reported net revenues of Rs 6.9 bn, +24.7% YoY and EBITDA of Rs 1.8 bn, +25.1%. EBITDA margins were up 40 bps to 26.3%. Adjusted PAT increased by 18.5% to Rs 759 mn. Net Profit for the quarter (after minority interest of Rs 20.6 mn and profit from associates of Rs 0.7 mn) was Rs 745 mn, +16.5% YoY. Company has reported an EPS of Rs 1.3 for Q3FY08 as against Rs 0.8 in Q3FY07 on reduced equity of Rs 1119 mn.

Analysing standalone performances of BILT and BPH**Lower margins at BILT (Standalone)**

BILT on standalone basis reported net revenues of Rs 2.4 bn contributing 35% of BILT consolidated revenues in Q3FY08. EBITDA reported was Rs 574 mn and contributed 32% to BILT consolidated. EBITDA margins of BILT – SA for the quarter stood at 23.6% as against 26.3% of BILT - consolidated. Lower margins are primarily because

- Ashti plant purchases pulp and power from outside,
- High power cost at Shreegopal plant
- Production of slightly lower grade paper at Sewa plant.

Profit before tax and Adjusted PAT for the quarter was Rs 161 mn and Rs 74 mn, contributing 17 % and 10 % of BILT consolidated. Company reported an extraordinary income of Rs 301 mn, an Interest income on compulsory convertible bonds to BGPPL, due to which the net profit reported was Rs 375 mn, contributing 50% of BILT consolidated.

Higher margins at BPH

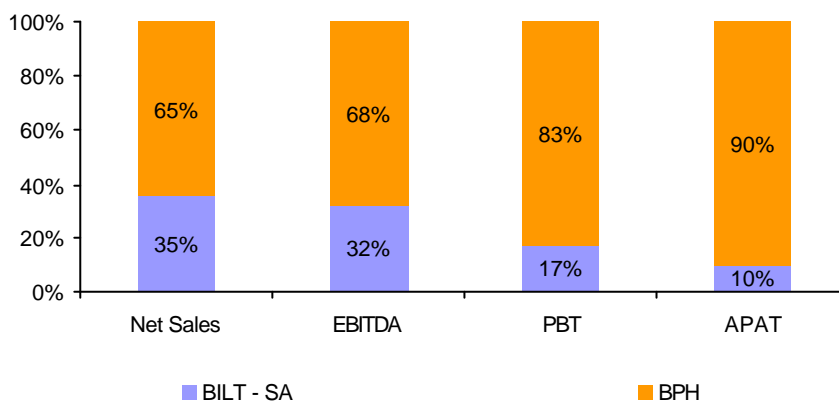
BPH, 75% subsidiary of BILT holds BGPPL and Sabah Forest (SFI) Malaysia. After restructuring, BPH has reported revenues of Rs 4.4 bn, contributing 65% of BILT consolidated revenues. EBITDA for the quarter was Rs 1.2 bn, contributing to 68% of BILT consolidated EBITDA. For the quarter BPH reported EBITDA margins of 27.8% as against the BILT consolidated EBITDA margins of 26.3%. High EBITDA margins are because of

- Lower cost advantage at Ballarpur plant. The plant is the lowest cost producer of paper because of its captive pulp, chemical and power facilities.
- Kamlapuram plant, producer of Rayon Grade Pulp (RGP) has seen significant increase in pulp prices. RGP prices up by ~34% YoY to Rs 42,300 by Q3FY08 while currently RGP prices are hovering at Rs 44,000 / mt (USD 1100 / tonne).
- SFI is a fully integrated plant with captive pulp and power.

PBT and Adjusted PAT for the quarter was Rs 783 mn and Rs 685 mn contributing to 83 % and 90 % of BILT consolidated PBT and PAT. EPS for the quarter was Rs 0.7.

BILT Standalone contributed 35% to BILT consolidated revenues while PBT contribution was merely 17% due to lower margins.

Contribution from BILT Standalone and BPH



Source : Emkay Research

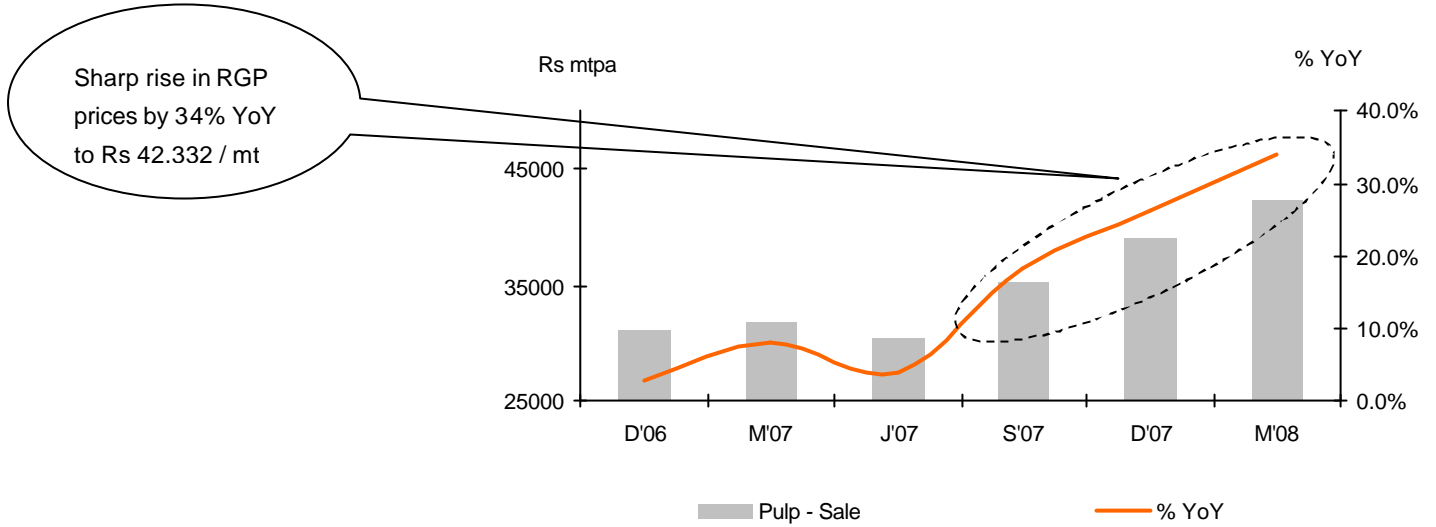
Rising Rayon Grade Pulp (RGP) prices

Rayon grade pulp (RGP) prices have increased sharply during last 12 months. RGP prices increased by 33.9% to Rs 42,332 / mt by Q3FY08 from Rs 31,606 / mt in Q3FY07. On account of sharp rise in realization, EBIT contribution per tonne has increased from mere Rs 1190 / mt in Q3FY07 to Rs 6,093 / mt by Q3FY08.

BILT's Kamlapuram plant was transferred to its subsidiary, BGPPL in recent business restructuring. It has capacity of 98 thousand mt. In Q3FY08 company sold 22,829 mt of RGP and revenues from RGP increased by 36.8% to Rs 966. On account of sharp rise in RGP prices, EBIT margins from this business increased from 3.8% in Q3FY07 % to 14.4% Q3FY08.

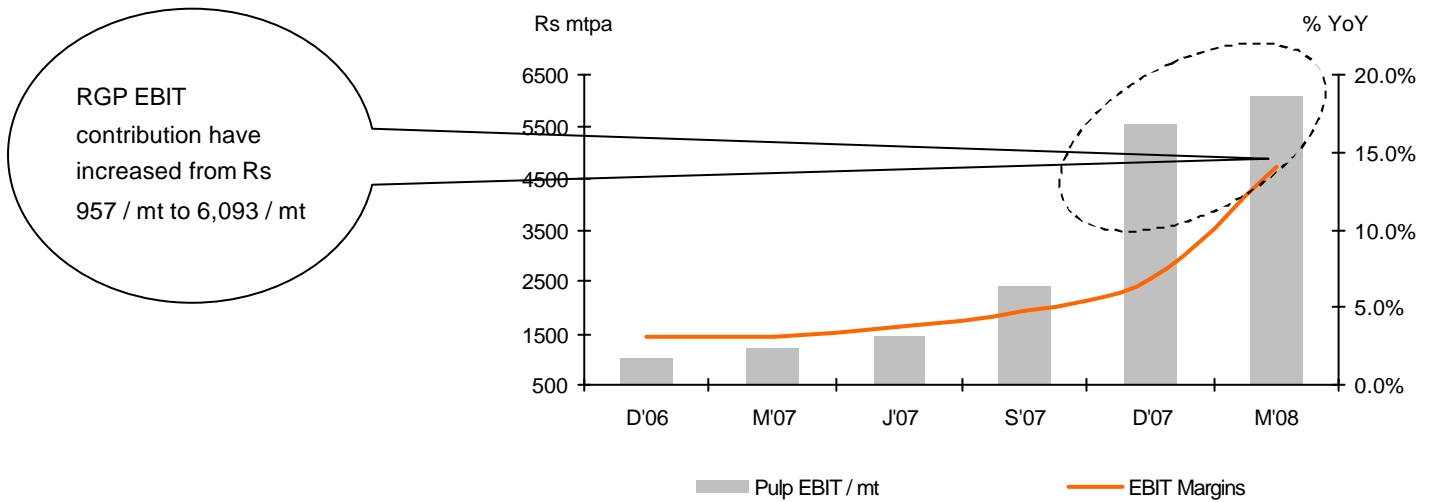
We expect RGP prices to remain firm in FY09, given the strong demand. However prices may soften in FY10 since Grasim, which is the largest customer of RGP, is expected to complete its captive RGP capacity expansion during FY08. Some other capacities are also expected to commission in Canada.

Rayon Grade Pulp (RGP) Realisations per tonne



Source : Emkay Research

EBIT contribution per tonne and margins



Source : Emkay Research

Standalone Performance

Rs mn

	BILT - Cons Q3FY07	BILT - Cons Q2FY08	BILT - SA	BPH	BILT - Cons Q3FY08	BILT - SA % total	BPH
Paper Sales (mt)			50,114	95,452	145,566		
Net Sales	5513	6924	2434	4440	6873	35	65
Raw Material	2636	3146	1280	1715	2995	43	57
P&F	779	1107	370	780	1149	32	68
Staff Cost	322	467	123	380	503	24	76
Other Exp	332	414	88	331	419	21	79
Total Exp	4068	5134	1860	3205	5065	37	63
EBITDA	1446	1790	574	1234	1808	32	68
Dep & Amm	410	532	191	330	521	37	63
EBIT	1036	1258	383	904	1287	30	70
Interest	223	358	231	137	368	63	37
Other Income	15	20	9	16	25	37	63
PBT	828	919	161	783	944	17	83
Tax	188	188	87	98	185	47	53
ETR (%)	22.7%	20%	54%	13%	20%	275	64
APAT	640	731	74	685	759	10	90
EO income			301	0	0		
Minority Int	-	2.0	0	0	20.6	0	0
Profit from assc.	1	7.5	0	0	6.9	0	0
Net Profit	639	737	375	685	745	50	92
AEPS	0.7	0.8	0.7	0.7	1.3	50	55
% of NS							
Raw Material	47.8	45.4	52.6	38.6	43.6		
P&F	14.1	16.0	15.2	17.6	16.7		
Staff Cost	5.8	6.7	5.0	8.6	7.3		
Other Exp	6.0	6.0	3.6	7.4	6.1		
EBITDA	26.2	25.9	23.6	27.8	26.3		
EBIT	18.8	18.2	15.7	20.4	18.7		
APAT	11.6	23.4	29.3	39.9	24.9		

Source : Emkay Research

Segmental Analysis

Rs mn

	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08	Q3FY08
Revenues							
Paper	4414	4546	4560	4565	4707	5719	5617
Paper products	535	629	655	597	639	714	626
Pulp	653	693	707	678	753	914	966
Others	174	157	108	17	15	123	140
TOTAL	5775	6025	6030	5858	6114	7470	7350
Profit / Loss							
Paper	918	965	980	995	1033	1111	1146
Paper products	82	95	107	95	89	107	99
Pulp	21	22	27	32	51	129	139
Others	-7	-6	-7	-6	-6	-16	-18
TOTAL	1013	1077	1106	1117	1167	1331	1366
Segment margins							
Paper	20.8%	21.2%	21.5%	21.8%	21.9%	19.4%	20.4%
Paper products	15.2%	15.1%	16.3%	16.0%	13.9%	15.0%	15.8%
Paper + Paper products	20.2%	20.5%	20.8%	21.1%	21.0%	18.9%	19.9%
Pulp	3.2%	3.2%	3.8%	4.7%	6.8%	14.1%	14.4%
Others	-4.1%	-3.5%	-6.6%	-31.6%	-39.6%	-13.0%	-12.9%
TOTAL	17.5%	17.9%	18.3%	19.1%	19.1%	17.8%	18.6%

Source : Emkay Research

Segmental analysis

In Q3FY08, BILT on consolidated basis reported revenues from paper at Rs 5.6 bn which was up by 23.2% YoY. Paper products sales decreased by 4.4% to Rs 626 mn and pulp revenues were up by 36.8% to Rs 966 mn. For paper segment EBIT margins were down by 110 bps YoY to 20.4% while for paper products the margins declined by 50 bps YoY to 15.8%. Pulp margins have increased to 14.4% in Q3FY08 as against 3.8% in Q3FY07.

Valuations & Recommendations

We expect BILT to report net revenues of Rs 32.0 bn in FY09 and Rs 38.8 bn in FY10. PAT of Rs 2.8 mn in FY09 and Rs 3.4 mn in FY10. EPS works out at Rs 4.5 for FY09 and Rs 5.5 for FY10. At present, the stock trades at 7.4x FY09E earnings. We maintain our BUY recommendation on the stock with a price target of Rs 45.

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