

# Ballarpur Industries (BALIN)

## RESULT UPDATE ✓

### WHAT'S CHANGED...

|                   |           |
|-------------------|-----------|
| PRICE TARGET..... | Unchanged |
| EPS (FY08E).....  | Unchanged |
| RATING.....       | Unchanged |

|                                |                                |
|--------------------------------|--------------------------------|
| <b>Current price</b><br>Rs 139 | <b>Target price</b><br>Rs 180  |
| <b>Potential Upside</b><br>30% | <b>Time Frame</b><br>12 months |

### OUTPERFORMER

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## Expanding & Restructuring

Ballarpur Industries (BILT) consolidated results for the quarter ended Sep 30, 2007 were in line with our expectations with better than expected topline growth. Topline grew by an impressive 23% on a consolidated basis to 713 crore and 6% on standalone basis. Bottom line surged by 25% and 18% on consolidated and standalone basis respectively. Though the topline exceeded our expectations still at the EBIDTA levels were in line with our numbers due to an increase in the expenditures due to increase in raw material, pulp, energy and petroleum based chemical costs. EBIDTA margins expanded by 174 basis points on the back of increased realisations. Bilt witnessed both volume and realisation growth during the quarter. The consolidated results included Sabah Forest Industries, therefore is not comparable to the previous quarter.

### Expansion plans

Bilt's capacity expansion plans at its Bhigwan and Ballarpur are as per schedule. Bilt plans to add 2.5 lakh tonnes per annum (LTPA) capacity each at unit Bhigwan and Ballarpur which currently have capacities of 1.25 and 1.35 LTPA respectively. These capacities are expected to get commissioned around the first quarter of FY09 giving added impetus to the company's performance.

### Restructuring: Commodity business hive off to Ballarpur Paper Holding

Bilt's plans to restructure its subsidiaries with focus on value unlocking through retaining high margin segments and hiving off in its integrated paper units in commodity business along with Sabah Forest Industries (SFI) Malaysia in a wholly owned subsidiary are underway. The scheme of arrangement and reorganization got passed unanimously in October.

### Valuations

The restructuring would lead to a significant improvement in BILT's return ratios and valuations. With the hived off unit is expected to get an EV/EBIDTA valuation in the range of 10-12x while BILT's current EV/EBIDTA is 6x leading to a greater valuation for sum of parts. Post hive-off, we expect the scrip to trade over Rs.180. At the current price of Rs.139 BILT is trading at P/E of 5.07x FY08E EPS of Rs27.4, making it a compelling investment. We believe that there is a minimum upside of 30% post February 2008, when the hive-off is expected. We maintain our **OUTPERFORMER** rating with the target price of Rs.180.

### Key Financials : Consolidated

| Year to June 30          | Q1FY08 | Q1FY07 | y-o-y growth % | FY07    | FY08E   | y-o-y growth % |
|--------------------------|--------|--------|----------------|---------|---------|----------------|
| <b>Net Sales</b>         | 657.73 | 529.54 | 24.2           | 2317.78 | 2468.21 | 6.5            |
| <b>Other Income</b>      | 1.93   | 3.20   | -39.7          | 13.73   | 10.96   | -20.1          |
| <b>Total Expenditure</b> | 484.13 | 399.01 | 21.3           | 1735.03 | 1812.16 | 4.4            |
| <b>EBIDTA</b>            | 173.60 | 130.53 | 33.0           | 582.75  | 656.06  | 12.6           |
| <b>Interest</b>          | 32.38  | 20.38  | 58.9           | 100.34  | 92.31   | -8.0           |
| <b>Depreciation</b>      | 50.98  | 38.08  | 33.9           | 156.54  | 186.17  | 18.9           |
| <b>PBT</b>               | 92.17  | 75.27  | 22.5           | 339.60  | 388.54  | 14.4           |
| <b>Tax</b>               | 19.10  | 17.03  | 12.2           | 37.02   | 40.58   | 9.6            |
| <b>PAT</b>               | 73.97  | 59.15  | 25.1           | 255.06  | 305.53  | 19.8           |
| <b>EPS</b>               | 3.98   | 3.18   | 25.1           | 14.06   | 27.42   | 95.0           |

## **RATING RATIONALE**

ICICIdirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Outperformer:** 20% or more

**Performer:** Between 10% and 20%

**Hold:**  $\pm$ 10% return

**Underperformer:** -10% or more

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