WAY2WEALTH
Your Personal Investment Guide

Quarterly Result Analysis

27th Oct 2006

Balmer Lawrie

Rs 424

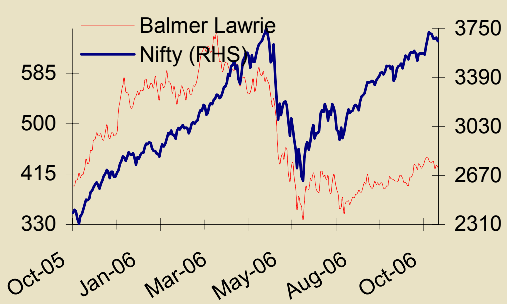
Mixed Results

BUY

SCRIP DETAILS	
Market Cap (Rs crores)	691.9
P/E (x) FY07E	9.1
Market Cap/Sales (x)	0.4
EV/EBIDTA (x)	3.5
Dividend (Rs)/ Yield (%)	9.0/2.1
Equity Capital (Rs crores)	16.3
Face Value (Rs)	10.0
52 Week High/Low (Rs)	675/311
Website: www.balmerlawrie.com	
NSE Code	BALMLAWRIE
Sensex	12,698.4
Nifty	3,677.6

SHARE HOLDING PATTERN (As on 30th Sept 2006)	
Government	61.8
Mutual Funds/ Banks/ FIs	19.3
FIIs	2.0
Others	4.6
Public	12.3

COMPARATIVE PRICE MOVEMENT



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Balmer Lawrie & Co (BLC), a Government of India enterprise, is a diversified business conglomerate, operating in various industrial segments through its range of business divisions, joint venture companies and a wholly owned subsidiary in the UK. The Company is a multi-activity, multi-technology, multi-location conglomerate, with interests in grease & lubricants, manufacture of steel barrels and LPG cylinders, leather & functional chemicals, packaging, turnkey projects, tea exports, travel & tourism and cargo & logistics. The Company has reported a mixed set of Q2 results, where its sales have shown a marginal growth, while profits have surged by 41%.

Sales remain flat, despite decent show from core businesses: For Q2, the Company has reported a marginal growth of 3.3% in sales, to Rs 318.3 crores. The subdued sales figures were due to poor performance from its non-core businesses, which are included in *others*. The 'others' segment has reported a decline of 32.9% in sales, to Rs 24.9 crores. The segment includes engineering & technology services (ETS), leather chemicals, tea blending & packaging and operating lease of marine freight containers. Of this, the ETS and tea business are loss-making SBUs. Among its core businesses, industrial packaging has shown a decline of 8%, to Rs 61.1 crores.

However, its other core business, logistics, has shown a growth of 19.3%, to Rs 76.7 crores. Similarly, its grease & lubricants business has grown by more than 19%, to Rs 37.5 crores. Travel & tours (which accounts for ~37% of the revenues) had a subdued growth in this quarter, where its sales have increased by 7.6%, to Rs 119.7 crores. The business in this division has been affected by a combination of two factors - reduction in commission from international airlines, from 7% to 5%, and the advent of low cost airlines (which have driven down the *per ticket* revenue). Also, the Company serves only public sector companies, with no presence among retail customers, thereby limiting its growth.

Slight improvement in operating margin, on account of better cost-management: Despite negligible growth in sales, the Company did an impressive controlling of cost; this tight grip over its cost resulted in slight expansion of the operating margin, from 8.4% to 9%. Raw material cost increased by 2.3% to Rs 246.6 crores, while its other expenses declined by 2.4% to Rs 26.1 crores. Notwithstanding the 17.5%-increase in personnel cost, to Rs 16.9 crores, operating profit increased by 10.7%, to Rs 28.7 crores.

Lower interest and tax outgo provide boost to net profit: Increase in other income, coupled with reduction in interest cost and marginal growth in depreciation, led PBT to go up by 21.8%, to Rs 28.5 crores. Other income increased by 44.1%, to Rs 3.6 crores, while interest cost has gone down by 64.7%, to Rs 0.8 crores. This is mainly due to reduction in the debt, which currently stands at ~Rs 25-30 crores, as compared to ~Rs 75-80 crores in Q2FY06. Depreciation showed a marginal growth of 7.6%, to Rs 3 crores. Provision for tax decreased by 4.2%, to Rs 9.5 crores, implying a tax rate of 33.4%, as against 42.5% in Q2FY06. These factors contributed in an expansion in the margin, by 160 bps, to 6%. PAT went up by 41%, to Rs 19 crores.

Future initiatives: With the Company no longer on the disinvestments radar, it has charted out some aggressive plans to set itself on the growth path. It would embark on strategies like exiting from loss-making segments, acquisitions, and both Greenfield as well as brownfield expansions across its segments. For this, the Company plans to invest Rs 200-300 crores in next 2-3 years, in both, organic as well as inorganic growth in all its seven businesses. The Company has already set aside Rs 150 crores for acquiring two companies. It has also appointed an agency for locating such companies that can be acquired, and the report would be submitted by the agency, end-Oct06.

Exit from loss-making operations: The Company is planning to exit from its loss-making tea business and engineering & technology services segment that contribute around 2-3% and 7-8%, respectively.

Investment in Logistics: The Company is bullish on the logistics segment and as such, it is investing Rs 12 crores in expanding its container freight station (CFS) operations at Chennai. The Company would add another 7 acres to its existing 10 acres, which would be financed out-of internal accruals. The Company would invest another Rs 100 crores in different parts of the country, in setting up CFSs. It is also looking at foraying in warehousing, where it would look at high-end facilities for storing electronic goods. The Company is also looking at consolidating its position in air and sea exports.

Betting on Leather Chemicals: Apart from logistics, the Company is also betting on leather chemicals for its growth. While the Company feels that organic growth is difficult to achieve, it is exploring the possibilities of acquiring those companies that could add to the finishing line of the products.

Travel & Tours: While this business generates steady revenues for the Company, it is unable to do much on the bottomline front, as most of the business is struck at the low-end ticketing services. This has a direct impact on the margin, which is hovering at ~3%. Thus, the Company is looking at acquiring tour companies, as they provide high-end ticketing services, and also aims at expanding its base among retail non-corporate customers, by offering compact tour packages for Indian tourists to Egypt and the Middle East. The Company has already formulated packages for Singapore-Malaysia and Bangkok.

Industrial Packaging: The Company is the largest manufacturer of mild steel barrels and drums in India, with a market share of ~60%. With its seven existing manufacturing facilities, the Company is further set on investing Rs 12 crores in a steel barrel plant at Asaoti in Haryana. The work has already commenced and the plant would start generating revenue by early 2007.

Grease & Lubricants: Under its brand name Balmerol, the Company manufactures ~200 high-performance value-added products that find application in a range of industries like cement, steel mills, shipbuilding and ports. However, over the years, the division has lost its prominence to logistics, travel & tours and industrial packaging. The Company now plans to enhance sales by tapping the retail automotive segment, while reducing its emphasis on the industrial segment. Currently, the Company manufactures 25,000 tonnes of lubricants, of which 30% is sold to the automotive segment. The Company plans to take this share to 40% in the next 2-3 years. Accordingly, emphasis is being given on widening the distributor network, which currently exists of just 250 distributors, and is likely to grow by minimum 20%, going forward.

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Financials

(YE March 31) (Rs crores)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY06
Standalone							
Net Sales	**318.3**	**308.1**	**3.3**	**629.7**	**634.7**	**(0.8)**	**1,244.3**
Raw Mat. Cost	246.6	241.1	2.3	490.7	502.2	(2.3)	980.6
Personnel	16.9	14.4	17.5	32.9	28.9	13.8	61.7
Other expenses	26.1	26.7	(2.4)	48.6	54.4	(10.8)	89.0
Total expenditure	**289.6**	**282.2**	**2.6**	**572.2**	**585.6**	**(2.3)**	**1,131.3**
Operating Profit	**28.7**	**25.9**	**10.7**	**57.5**	**49.1**	**17.1**	**113.0**
Other Income	3.6	2.5	44.1	5.6	4.1	36.0	8.1
Interest	0.8	2.2	(64.7)	1.9	4.1	(54.9)	7.8
Gross Profit	**31.4**	**26.1**	**20.3**	**61.3**	**49.1**	**24.7**	**113.3**
Depreciation	3.0	2.8	7.6	5.9	5.7	4.6	12.0
PBT before extraord.	**28.5**	**23.4**	**21.8**	**55.4**	**43.5**	**27.4**	**101.4**
Extraordinary expense	-	-		-	-		20.5
PBT (adj for extraord.)	**28.5**	**23.4**	**21.8**	**55.4**	**43.5**	**27.4**	**80.8**
Prov. for Tax	9.5	9.9	(4.2)	18.2	18.2	0.2	34.1
PAT	**19.0**	**13.4**	**41.0**	**37.1**	**25.3**	**46.9**	**46.8**
PAT (adj. For extraord.)	**19.0**	**13.4**	**41.0**	**37.1**	**25.3**	**46.9**	**54.0**
Equity Share capital	16.3	16.3		16.3	16.3		16.3
EPS (Rs)	**11.6**	**8.3**		**22.8**	**15.5**		**28.7**
EPS (adj. for extraord.)	11.6	8.3		22.8	15.5		33.1
CEPS (Rs)	13.5	9.9		26.4	19.0		36.1
OPM (%)	9.0	8.4		9.1	7.7		9.1
*PBT (%)	8.9	7.6		8.8	6.8		8.1
Adj. PAT (%)	6.0	4.4		5.9	4.0		4.3

**before extra-ordinary*

Segmental Performance

(Rs crores)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)
Revenue						
Industrial Packaging	61.1	66.4	(8.0)	124.8	138.6	(9.9)
Logistics	76.7	64.3	19.3	143.0	142.2	0.6
Travel & Tours	119.7	111.3	7.6	242.4	226.0	7.3
Greases & Lubricants	37.5	31.3	19.7	75.5	61.4	22.8
Others	24.9	37.1	(32.9)	47.8	70.9	(32.6)
PBIT						
Industrial Packaging	6.0	7.3	(18.0)	14.5	14.0	3.8
Logistics	20.8	18.7	11.2	37.5	36.1	4.1
Travel & Tours	3.9	3.2	21.1	7.6	6.4	18.7
Greases & Lubricants	1.0	2.5	(61.7)	3.3	4.7	(30.1)
Others	0.4	1.4	(68.1)	1.4	2.6	(46.8)
Margin (%)						
Industrial Packaging	9.8	11.0		11.7	10.1	
Logistics	27.1	29.0		26.2	25.3	
Travel & Tours	3.3	2.9		3.1	2.8	
Greases & Lubricants	3.9	6.8		6.9	6.7	
Others	1.7	3.6		2.9	3.7	

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Valuation and Conclusion

The Company has chalked out its growth strategy, which it had to holdback, as the disinvestments process was going on. The Company is aiming at expanding its operations through organic as well as inorganic growth. Via its logistics division, the Company is ideally positioned to benefit from increasing economic activity within India and from the rising share of world trade in the economy. In travel & tours, the Company is targeting retail customers and by providing high-end ticketing services, there would be expansion in margin. Though its manufacturing division operates in a highly competitive environment, emphasis on internal efficiencies and foray into new markets would improve its performance, with emphasis on leather chemicals. This combination of organic and inorganic growth would help the Company to achieve the targeted turnover of Rs 2,000 crores and PBT of Rs 200 crores, by FY10, on a standalone basis.

Even though the Company has reported mixed results for Q2, we believe that the second half would be better as compared to the first. At the current market price of Rs 424, the stock trades at 9.1x its FY07(E) consolidated EPS of Rs 46.5, market cap/ sales of 0.4x and EV/ EBITDA of 3.5x. Considering its bright future prospects, we recommend investors to BUY, with a long-term perspective.

WAY2WEALTH Research

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