

**Ballarpur Industries (BILT)**Rs109  
**OUTPERFORMER**

## RESULT NOTE

Mkt Cap: Rs17.7bn; US\$399m

**Analyst:** Avishek Datta (91-22-6638 3217; avishek@sski.co.in)  
**Result:** Q3FY07  
**Comment:** Robust paper prices and stable volumes boost profitability  
**Last report:** 19 January 2007 (Price: Rs118; Recommendation: Outperformer)

## Key valuation metrics

Year to 30 June (Rs m)	Net sales	yoy change (%)	Net profit	yoy chg (%)	EPS	EV/E (x)	PER (x)
FY05	19,884	11.7	1,681	26	10.3	6.0	10.6
FY06	18,711	(5.9)	2,120	26	12.1	5.6	9.0
FY07*	21,497	14.9	2425	14	12.4	4.9	8.8
FY08*	22,010	2.4	2430	0	12.5	4.8	8.7

\*Undiluted EPS for FY07 and FY08 is Rs14.9 and Rs 14.9 without factoring in Sabah numbers

BILT's Q3FY07 results are in line with our estimates. Revenues grew by 16.6% yoy in the quarter owing to paper price hike effected in January and February 2007, and improvement in paper volumes post consolidation of APR Packaging. Paper prices continue to rise on account of strong demand as also due to passing on of cost pressure arising from higher coal prices. We retain our fully diluted FY07 and FY08 earnings estimates for at Rs12.4 and Rs12.5 as the price environment is robust and the company is expected to witness moderate volume growth in the medium term. Reiterate Outperformer with a price target of Rs150.

## KEY HIGHLIGHTS

- BILT's Q3FY07 EBITDA, at Rs1,419m (an increase of 12.3% yoy and 2.1%qoq), is in line with our estimates on the back of another paper price hikes in January and February 2007 coupled with robust volumes. Net profit, at Rs641m (an increase of 22% yoy and 3.1%qoq), is also in line with our estimates.
- Net sales rose 16.6%yoy on the back of higher paper prices and increased paper production. The company has raised prices of uncoated and coated paper twice in January and February 2007.
- With demand growth showing no signs of abating, BILT has gone for another round of uncoated paper price hike in April 2007 by Rs 650/tonne.
- Paper sales volumes grew 17.3% yoy to ~115,055 tonnes in Q3FY07; mainly post the consolidation of APR Packaging unit with a ~14,000 tonnes capacity. However, pulp volumes were down 8%yoy.
- Interest cost was down 4.2% yoy to Rs223m in the quarter as the company paid off some of the debt from cash receipts from hiving off of power and real estate.
- Net profit at Rs 641m was up 22%yoy despite higher tax contribution of Rs188m (tax rate @23% in Q3FY07 vis-à-vis 20.3% in Q3FY06) and lower other income (down up 15.7%yoy to Rs15m).
- BILT has finished the process of consolidating Sabah Forest into its accounts from April 2007. We expect Sabah to contribute Rs 1.67bn towards operating profits in FY08.

***Retain FY07 and FY08 earnings estimates and stock price target:***

- We retain our fully diluted standalone FY07 and FY08 earnings estimates at Rs12.4 and Rs12.5 as the price environment is robust and the company is expected to witness moderate volume growth in the medium term. We maintain Outperformer rating on the stock with a target price of Rs150.

## Earnings model\*

Year to 30 <sup>th</sup> June (Rs mn)	Q4FY05	Q1FY06	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07
Net sales	4,723	4,359	4,363	4,727	5,250	5,270	5,515	5,514
<i>yoy change (%)</i>	(11.9)	(14.2)	(15.5)	0.1	(73.6)	20.9	26.4	16.6
Total expenditure	3,615	3,213	3,199	3,463	3,975	3,962	4,125	4,095
Operating profit	1,109	1,146	1,164	1,264	1,275	1,308	1,390	1,419
<i>yoy change (%)</i>	3	1	1	14	-72	14	19	12
Other income	45	20	20	17	47	29	16	15
Interest	270	251	230	232	213	204	218	223
Depreciation	351	367	368	390	375	380	381	383
PBT	534	549	587	659	734	753	807	828
Tax rate (%)	24.1	19.5	19.2	20.3	24.4	22.6	23.0	22.7
Tax	129	107	113	134	179	170	186	188
Net profit	405	442	474	525	555	583	621	641
<b>Operating parameters</b>								
OPM (%)	23.5	26.3	26.7	26.7	24.3	24.8	25.2	25.7
NPM (%)	8.6	10.1	10.9	11.1	10.6	11.1	11.3	11.6
Other income/PBT (%)	8.5	3.7	3.5	2.6	6.4	3.8	2.0	1.8
<b>Valuation</b>								
Outstanding shares (m)	162.4	162.4	189.6	189.6	189.6	190.4	190.4	192.4
EPS (Rs)	2.5	2.7	2.5	2.8	2.9	3.1	3.3	3.3
Cash EPS (Rs)	4.7	5.0	4.4	4.8	4.9	5.1	5.3	5.3

\*Standalone numbers

SSKI INDIA

Analyst	Sector/Industry/Coverage	E-mail	Tel. +91-22-6638 3300
Pathik Gandotra	Head of Research; Banking, Strategy	pathik@sski.co.in	91-22-6638 3304
Shirish Rane	Cement, Construction, Power, Real Estate	shirish@sski.co.in	91-22-6638 3313
Nikhil Vora	FMCG, Media, Retailing, Mid Caps	nikhilvora@sski.co.in	91-22-6638 3308
Ramnath S	Automobiles, Auto ancillaries	ramnaths@sski.co.in	91-22-6638 3380
Nitin Agarwal	Pharmaceuticals	nitinagarwal@sski.co.in	91-22-6638 3395
Ganesh Duvvuri	IT Services, Telecom	ganesh@sski.co.in	91-22-6638 3358
Varatharajan S	Oil & Gas, Engineering	varatharajan@sski.co.in	91-22-6638 3240
Chirag Shah	Textiles, Metals, Real Estate	chiragshah@sski.co.in	91-22-6638 3306
Bhoomika Nair	Construction, Power, Logistics	bhoomika@sski.co.in	91-22-6638 3337
Avishek Datta	Oil & Gas, Engineering	avishek@sski.co.in	91-22-6638 3217
Bhushan Gajaria	FMCG, Retailing, Media	bhushangajaria@sski.co.in	91-22-6638 3367
Shreyash Devalkar	IT Services, Telecom	shreyashdevalkar@sski.co.in	91-22-6638 3311
Nilesh Parikh	Banking	nilesh@sski.co.in	91-22-6638 3325
Veekesh Gandhi	Banking	veekesh@sski.co.in	91-22-6638 3231
Ashish Shah	Automobiles, Auto ancillaries	ashishshah@sski.co.in	91-22-6638 3371
Salil Desai	Cement, Infrastructure	salil@sski.co.in	91-22-6638 3373
Rahul Narayan	FMCG, Retailing, Media	rahulnarayan@sski.co.in	91-22-6638 3238
Suchit Sehgal	Mid Caps	suchitsehgal@sski.co.in	91-22-6638 3307
Nityam Shah	Automobiles, Auto ancillaries	nityam@sski.co.in	91-22-6638 3327
Uday Joshi	Technical Analyst	udayjoshi@sski.co.in	91-22-6638 3392
Dharmendra Sahu	Database Manager	dharmendra@sski.co.in	91-22-6638 3382
Equity Sales/Dealing	Designation	E-mail	Tel. +91-22-6638 3300
Naishadh Paleja	CEO	naishadh@sski.co.in	91-22-6638 3211
GV Alankara	Head of Dealing	alankara@sski.co.in	91-22-6638 3201-210
Vishal Purohit	VP - Sales	vishalp@sski.co.in	91-22-6638 3212
Nikhil Gholani	VP - Sales	nikhilgholani@sski.co.in	91-22-6638 3363
Sanjay Panicker	VP - Sales	sanjaypanicker@sski.co.in	91-22-6638 3368
V Navin Roy	AVP - Sales	navin@sski.co.in	91-22-6638 3370
Rohan Soares	AVP - Sales	rohan@sski.co.in	91-22-6638 3310
Rishi Kohli	VP - Derivatives	rishikohli@sski.co.in	91-22-6638 3321/403
Pawan Sharma	AVP - Derivatives	pawansharma@sski.co.in	91-22-6638 3403
Dipesh Shah	AVP - Derivatives	dipeshshah@sski.co.in	91-22-6638 3403
Manohar Wadhwa	AVP - Derivatives	manohar@sski.co.in	91-22-6638 3403

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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