

October 31, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 30	Rs 35
EPS change FY12E/13E (%)	-24/1
Target Price change (%)	NA
Nifty	5,327
Sensex	17,705

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	(14)	(12)	(26)
Rel. to Nifty	4	(12)	(6)	(17)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Paper
Bloomberg	BILT@IN
Equity Capital (Rs mn)	1314
Face Value(Rs)	2
No of shares o/s (mn)	657
52 Week H/L	44/25
Market Cap (Rs bn/USD mn)	19/389
Daily Avg Volume (No of sh)	845824
Daily Avg Turnover (US\$m)	0.5

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	49.4	49.4	49.4
FII/NRI	19.6	17.0	14.8
Institutions	19.2	21.3	21.7
Private Corp	3.5	3.8	4.3
Public	8.3	8.4	9.8

Source: Capitaline

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- **Q1FY12 results disappointed due to margin pressures. Revenues of Rs 11.1bn, +9% yoy were in line however APAT of Rs 254mn, -38% yoy disappointed due to lower margins**
- **Paper realizations increased by 11% yoy/ 3% qoq to Rs 45,000/mt however inventory buildup of 9,000mt impacted sales volumes at 195,800 mt, flat yoy / -5.7% qoq**
- **Pulp realizations declined from their peak of Rs 67,700 / mt in Q4FY11 to Rs 56,000/mt in line with estimates. Pulp reported margins of 29.5%**
- **We have reduced our FY12 est by 24% to Rs 3.1 due to current margin pressure while expect margins to improve from Q3FY12 on commissioning of pulp plant**

Revenues broadly in line with estimates despite lower volumes

BILT's Q1FY12 consol revenues increased by 9% yoy to Rs 11.1 bn in line with our estimates. Paper segment revenues increased by 12% yoy to Rs 8.8 bn (in line with estimates) driven by higher paper realizations. Paper realizations increased by 11% yoy/ 3% qoq to Rs 45,000/mt supporting revenue growth while sales volumes remained flat on yoy basis due to inventory buildup. RGP (Rayon Grade Pulp) revenues increased by 17% yoy to Rs 1.05 bn lower than est of Rs 1.26bn due to inventory buildup because of Telangana stir. Pulp realizations declined by 17% qoq to Rs 56,000/mt in line with est though they remain higher by 16% yoy.

EBITDA margins drop to their lowest level since 2006...

EBITDA margins of 18.4% (-200 bps yoy / -220bps qoq) were below estimates of 20.4%. Margins dropped to their lowest level since 2006 due to increase in input cost like power, pulp and fuel. Lower sales due to higher inventory also affected margins. Paper segment witnessed margin pressure (9.3% vs 12.7% previous year and against estimates of 11%) while RGP margins at 29.5% (220bps yoy/-570bps qoq) remain stable. BILT reported APAT of Rs 254mn, -38% yoy lower than est of Rs 512mn due to lower margins.

EBITDA margins to improve in subsequent quarters

During the quarter, BILT raised coated paper prices by 4-5% (approx Rs 2000 / mt) on back of INR / US\$ depreciation since coated paper prices are IPP linked. To benefit from recent price increase company has increased inventory and likely to gain in subsequent quarters. With inventory clearance and higher coated paper prices, we expect EBITDA margins to improve in subsequent quarters.

Reduce FY12 est by 24% due to lower margins

With Q1FY12 disappointment and continued pressure on margins, we reduce our FY12 est by 24% to Rs 3.1. However we expect margins to improve from Q3FY12 onwards post the commissioning of pulp plant. We maintain Accumulate rating on the stock with target price of Rs 35.

Financial Snapshot

Rs Mn

YE- June	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	38,185	8,382	22.0	1,970	3.0	16.8	9.7	9.9	6.3	0.9
FY11	45,149	8,994	19.9	2,367	3.6	20.1	10.1	8.2	5.7	0.8
FY12E	47,994	9,455	19.7	2,055	3.1	(13.2)	8.1	9.5	5.6	0.7
FY13E	51,020	11,423	22.4	3,311	5.1	61.2	12.0	5.9	4.5	0.7

Key Financials – Quarterly (Consolidated)

Rs Mn

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	10,227	11,310	11,692	11,920	11,114	8.7	(6.8)
Expenditure	8,136	9,128	9,437	9,454	9,067	11.4	(4.1)
as % of sales	79.5	80.7	80.7	79.3	81.6		
Consumption of RM	3,627	4,316	4,274	3,781	3,326	(8.3)	(12.0)
as % of sales	35.5	38.2	36.6	31.7	29.9		
Power & Fuel	1,536	1,568	1,746	1,873	2,109	37.3	12.6
as % of sales	15.0	13.9	14.9	15.7	19.0		
Employee Cost	661	655	657	821	712	7.7	(13.3)
as % of sales	6.5	5.8	5.6	6.9	6.4		
Other expenditure	2,312	2,588	2,760	2,979	2,920	26.3	(2.0)
as % of sales	22.6	22.9	23.6	25.0	26.3		
EBITDA	2,092	2,182	2,255	2,466	2,047	(2.1)	(17.0)
Depreciation	796	815	844	901	890	11.9	(1.2)
EBIT	1,296	1,367	1,410	1,566	1,157	(10.7)	(26.1)
Other Income	-	-	-	-	-		
Interest	710	642	667	686	731	3.1	6.7
PBT	586	725	743	880	426	(27.4)	(51.6)
Total Tax	83	136	137	(318)	75	(10.0)	(123.6)
Adjusted PAT	503	589	606	1,198	351	(30.3)	(70.7)
(Profit)/loss from JV's/Ass/MI	94	109	115	212	97	3.4	(54.2)
APAT after MI	410	480	492	986	254	(38.0)	(74.3)
Extra ordinary items	-	-	-	-	-		
Reported PAT	410	480	492	986	254	(38.0)	(74.3)
Reported EPS	0.6	0.7	0.8	1.5	0.4	(38.0)	(74.3)

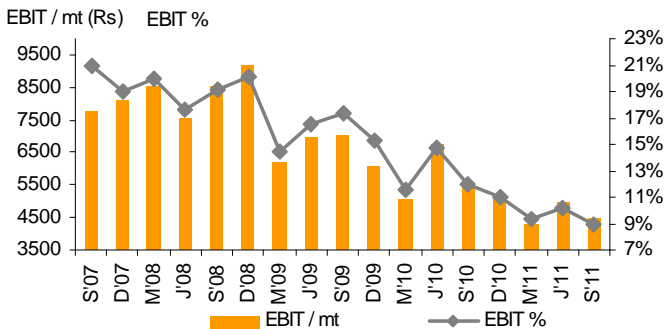
Margins (%)						(bps)	(bps)
EBIDTA	20.5	19.3	19.3	20.7	18.4	(203)	(227)
EBIT	12.7	12.1	12.1	13.1	10.4	(226)	(272)
EBT	5.7	6.4	6.4	7.4	3.8	(190)	(355)
PAT	4.0	4.2	4.2	8.3	2.3	(172)	(599)
Effective Tax rate	14.2	18.7	18.4	(36.1)	17.6	342	5,370

Source: Company, Emkay Research

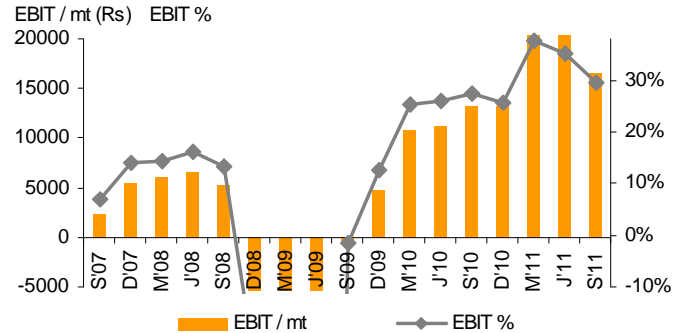
Pulp realisations decline from peak, in line with estimates

Pulp segment revenues increased by 17% yoy to Rs 1.05 bn during the quarter. RGP (Rayon Grade Pulp) realizations declined from their peak of Rs 67,700 / mt in Q4FY11 to Rs 56,000/mt in line with estimates though they remain higher by 16% on a yoy basis. RGP segment EBIT margins increased 220bps yoy to 29.5% resulting in EBIT / mt of Rs 16,500 / mt.

Paper & paper products – EBIT margins and EBIT / mt



Pulp – EBIT margins and EBIT / mt



Source: Company, Emkay Research

Paper segment margins disappoint due to higher costs

EBIT margins in paper and paper products declined to 9.0% in Q1FY12 as compared to 11.9% in Q1 FY11. Paper EBIT/mt declined to Rs 4,200 / mt as against Rs 5,100 / mt in Q1FY11. Despite increase in paper realizations by 11% yoy to Rs 45,000/mt, paper margins declined to their lowest levels since 2006 on account of mounting costs pressures.

Stand alone margins below estimates

On a stand alone basis, revenues increased by 2% yoy to Rs 2.6 bn in line with estimates. However, EBITDA margins declined 360bps yoy/80bps qoq to 13.4% lower than estimates of 14.5%. At PBT level, company reported a decline of 91% yoy to Rs 14 mn and APAT for the quarter stood at Rs 4 mn, -96% yoy.

INR depreciation vs USD has positive impact on company

BILT gained from the recent INR / US\$ depreciation. Company gains on coated paper realisations since domestic paper prices are based on IPP. Company also gains on RGP realisations since here also prices are linked with IPP. BILT export of uncoated paper (~30,000 mt) also benefits accordingly from currency depreciation. However import of pulp is adversely affected with currency depreciation. On net basis, company has been beneficiary of currency depreciation.

Impact of currency - Positive	Remarks	Impact
Coated paper realisations benefit	Total coated paper capacity of 370,000 mt get benefited from INR / USD depreciation since domestic prices are linked with IPP	Benefit on approx Rs 16 bn revenues
RGP realisations benefit	RGP prices are also based on IPP and company benefits in term of higher realisations on its 90,000 mt of RGP capacity	Benefit on approx Rs 5 bn revenues
Uncoated paper exports	Exports of ~30,000 mt	Benefit on approx Rs 1.5 bn revenues
SFI operations benefit	Its SFI operations benefits from Malaysian Ringgit / US\$ depreciation since domestic realisations and exports realisations improve	Benefit on approx Rs 6 bn revenues
Impact of currency - Negative		
Imported pulp cost increase	BILT is pulp deficit of ~220,000 mt and with INR / US\$ depreciation, imported pulp cost increases	Adverse impact on pulp cost of approx Rs 6 bn

No M-T-M losses despite forex liabilities

BILT has not reported any M-T-M loss in the quarterly results despite having foreign currency liabilities since most of its debt is on ongoing capex. However recently raised US\$ 200 mn perpetual bonds are still in US\$ and have not been deployed. Debt of US\$ 135 mn in BGPPL according to current accounting practice is not impacted till Mar'2012.

Trim estimates

We have revised our estimates to reflect margin pressures in the near term. Revised EPS stands at Rs 3.1/5.1 for FY12/FY13.

(Rs mn)	FY12E			FY13E		
	Old Estimates	New Estimates	% change	Old Estimates	New Estimates	% change
Net Sales	47,385	47,994	1.3	48230	51,020	5.8
EBITDA	9,654	9,455	-2.1	10633	11,423	7.4
EBITDA %	20.4%	19.7%	-67	22.0%	22.4%	34
PAT	2,688	2,055	-23.6	3305	3,311	0.2
EPS (Rs)	4.1	3.1	-23.6	5.0	5.1	1.0

Key Financials – Quarterly (Standalone)

Rs Mn

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	2,570	2,765	2,614	2,700	2,616	1.8	(3.1)
Expenditure	2,133	2,323	2,157	2,316	2,265	6.2	(2.2)
<i>as % of sales</i>	<i>83.0</i>	<i>84.0</i>	<i>82.5</i>	<i>85.8</i>	<i>86.6</i>		
Consumption of RM	927	1,087	973	876	895	(3.5)	2.2
<i>as % of sales</i>	<i>36.1</i>	<i>39.3</i>	<i>37.2</i>	<i>32.4</i>	<i>34.2</i>		
Power & Fuel	452	485	460	504	577	27.6	14.5
<i>as % of sales</i>	<i>17.6</i>	<i>17.5</i>	<i>17.6</i>	<i>18.7</i>	<i>22.1</i>		
Employee Cost	183	181	169	237	176	(3.8)	(25.8)
<i>as % of sales</i>	<i>7.1</i>	<i>6.5</i>	<i>6.5</i>	<i>8.8</i>	<i>6.7</i>		
Other expenditure	571	570	555	699	618	8.1	(11.7)
<i>as % of sales</i>	<i>22.2</i>	<i>20.6</i>	<i>21.2</i>	<i>25.9</i>	<i>23.6</i>		
EBITDA	437	442	457	385	351	(19.7)	(8.8)
Depreciation	193	208	209	230	216	11.8	(6.0)
EBIT	243	234	247	155	134	(44.7)	(13.1)
Other Income	-	-	-	-	-		
Interest	85	85	95	110	120	42.0	9.4
PBT	158	149	153	45	14	(91.2)	(68.6)
Total Tax	61	58	59	24	10	(83.7)	(58.5)
Adjusted PAT	97	91	93	21	4	(95.9)	(80.5)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	97	91	93	21	4	(95.9)	(80.5)
Extra ordinary items	0	0	0	0	0		
Reported PAT	97	91	93	21	4	(95.9)	(80.5)
Reported EPS	0.1	0.1	0.1	0.0	0.0	(95.9)	(80.5)

Margins (%)						(bps)	(bps)
EBIDTA	17.0	16.0	17.5	14.2	13.4	(359)	(84)
EBIT	9.5	8.5	9.5	5.7	5.1	(433)	(59)
EBT	6.2	5.4	5.8	1.7	0.5	(563)	(112)
PAT	3.8	3.3	3.6	0.8	0.2	(363)	(61)
Effective Tax rate	38.7	39.1	38.9	54.0	71.4	3,273	1,739

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Jun (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	38,185	45,149	47,994	51,020
Growth (%)	34.6	18.2	6.3	6.3
Expenditure	29,803	36,155	38,539	39,597
Materials Consumed	12,834	11,287	12,958	13,775
Power & Fuel	5,465	5,418	5,999	6,378
Employee Cost	2,483	2,257	2,640	2,806
Other Exp	9,022	17,193	16,942	16,638
EBITDA	8,382	8,994	9,455	11,423
Growth (%)	26.1	7.3	5.1	20.8
EBITDA margin (%)	22.0	19.9	19.7	22.4
Depreciation	3,217	3,355	3,640	3,740
EBIT	5,165	5,639	5,815	7,683
EBIT margin (%)	13.5	12.5	12.1	15.1
Other Income	0	0	0	0
Interest expenses	2,371	2,705	2,971	3,040
PBT	2,794	2,934	2,843	4,643
Tax	389.40	38.40	377.40	649.98
Effective tax rate (%)	13.9	1.3	13.3	14.0
Adjusted PAT	2,404	2,896	2,466	3,993
Growth (%)	27.7	20.4	(14.9)	61.9
Net Margin (%)	6.3	6.4	5.1	7.8
(Profit)/loss from JVs/Ass/MI	(434.1)	(529.0)	(411.2)	(681.5)
Adjusted PAT After JVs/Ass/MI	1,970	2,367	2,055	3,311
E/O items	-	-	-	-
Reported PAT	1,970	2,367	2,055	3,311
PAT after MI	1,970	2,367	2,055	3,311
Growth (%)	16.8	20.1	(13.2)	61.2

Cash Flow

Y/E, Jun (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	2,794	2,934	2,843	4,643
Depreciation	3,217	3,355	3,640	3,740
Interest Provided	2,371	2,705	2,971	3,040
Other Non-Cash items	1,071	-	-	-
Chg in working cap	(1,027)	(2,404)	(1,362)	(922)
Tax paid	-389	-38	-377	-650
Operating Cashflow	8,036	6,551	7,715	9,850
Capital expenditure	(5,480)	(2,000)	(6,000)	(5,000)
Free Cash Flow	2,556	4,551	1,715	4,850
Other income	-	-	-	-
Investments	(24)	-	-	-
Investing Cashflow	-24	0	0	0
Equity Capital Raised	2,815	-	-	-
Loans Taken / (Repaid)	(1,222)	-	-	-
Interest Paid	(2,371)	(2,705)	(2,971)	(3,040)
Dividend paid (incl tax)	(380)	(380)	(380)	(380)
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-1,158	-3,084	-3,351	-3,420
Net chg in cash	1,374	1,467	-1,637	1,430
Opening cash position	1,043	2,417	3,884	2,247
Closing cash position	2,417	3,884	2,247	3,678

Balance Sheet

Y/E, Jun (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	1,311	1,311	1,311	1,311
Reserves & surplus	21,123	23,110	24,784	27,716
Net worth	22,434	24,421	26,096	29,027
Minority Interest	4,110.2	4,639	5,050	5,732
Secured Loans	20,633	20,633	20,633	20,633
Unsecured Loans	15,283	15,283	15,283	15,283
Loan Funds	35,917	35,917	35,917	35,917
Net deferred liabilities	1,914	1,914	1,914	1,914
Total Liabilities	64,375	66,891	68,977	72,590
Gross Block	76,074	79,314	81,314	87,314
Less: Depreciation	25,015	28,370	32,010	35,750
Net block	51,059	50,944	49,304	51,564
Capital work in progress	3,240	2,000	6,000	5,000
Investments	406	406	406	406
Current Assets	24,910	28,491	30,031	33,213
Inventories	7,693	8,246	9,862	10,484
Sundry debtors	4,605	5,067	5,917	6,290
Cash & bank balance	2,417	3,884	2,247	3,678
Loans & advances	10,189	11,287	11,998	12,755
Other current assets	6	6	6	6
Current lia & Prov	15,251	14,961	16,775	17,604
Current liabilities	11,625	11,335	13,149	13,978
Provisions	3,626	3,626	3,626	3,626
Net current assets	9,659	13,530	13,256	15,609
Misc. exp	12	12	12	12
Total Assets	64,375	66,891	68,977	72,590

Key Ratios

Y/E, Jun	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	22.0	19.9	19.7	22.4
Net Margin	5.2	5.2	4.3	6.5
ROCE	8.3	8.6	8.6	10.9
ROE	9.7	10.1	8.1	12.0
RoIC	9.5	9.5	9.6	12.4
Per Share Data (Rs)				
EPS	3.0	3.6	3.1	5.1
CEPS	7.9	8.7	8.7	10.8
BVPS	34.2	37.2	39.8	44.3
DPS	0.5	0.5	0.5	0.5
Valuations (x)				
PER	9.9	8.2	9.5	5.9
P/CEPS	3.8	3.4	3.4	2.8
P/BV	0.9	0.8	0.7	0.7
EV / Sales	1.4	1.1	1.1	1.0
EV / EBITDA	6.3	5.7	5.6	4.5
Dividend Yield (%)	1.7	1.7	1.7	1.7
Gearing Ratio (x)				
Net Debt/ Equity	1.5	1.3	1.3	1.1
Net Debt/EBITDA	3.9	3.5	3.5	2.8
Working Cap Cycle (days)	6.4	16.0	20.0	20.0

Recommendation History: Ballarpur Inds. – BILT IN

Date	Reports	Reco	CMP	Target
23/08/2011	BILT Q4FY11 Con Call Update	Accumulate	27	35
18/08/2011	BILT Q4FY11 Result Update	Accumulate	29	42
26/04/2011	BILT Q3FY11 Result Update	Accumulate	37	42
02/02/2011	BILT Q2FY11 Result Update	Buy	32	42

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/10/2011	Deepak Fertilisers Q2FY12 Result Update	Buy	166	250
21/10/2011	United Phosphorus Q2FY12 Result Update	Buy	143	215
21/10/2011	GNFC Q2FY12 Result Update	Buy	92	135
20/10/2011	GSFC Q2FY12 Result Update	Buy	427	530

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