

Birla Cotsyn (India) Ltd.

Price Band	: Rs15 - 18 per share	June 30, 2008
Issue open during	: June 30 - July 4, 2008	
Recommendation	: Subscribe with a long term view	
Book Running Lead Managers	: Allbank Finance, Nexgen, Saffron, Chartered Capital	
To list on	: NSE & BSE	
IPO Grading	: 3 / 5 by CARE	
Market Cap post-listing	: Rs169Cr or \$39mn (based on the cap price)	

IPO of 80mn equity shares of Rs 10 each, aggregating to Rs144Cr or \$34mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	13,617,880	100.0%	33,978,991	36.3%
QIBs excl. Mutual Funds	0	0.0%	26,462,778	28.2%
Mutual funds	0	0.0%	1,392,778	1.5%
Non Institutional Investors	0	0.0%	8,356,667	8.9%
Public	0	0.0%	19,498,889	20.8%
Employees	0	0.0%	4,027,778	4.3%
Others	200	0.0%	200	0.0%
Total	13,618,080	100.0%	93,718,080	100.0%

Synopsis

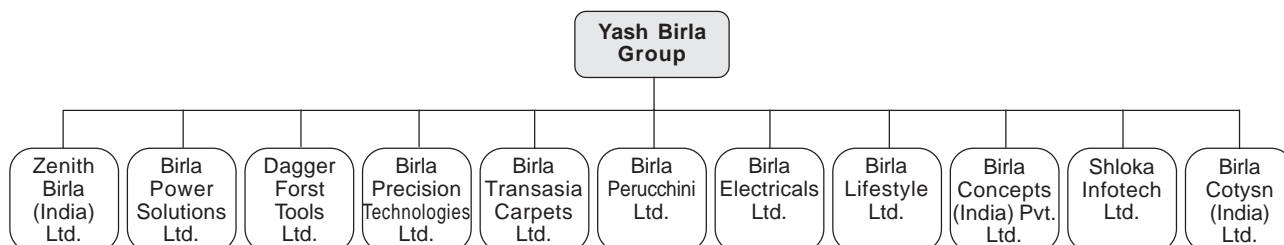
- Birla Cotsyn (India) Ltd. (BCIL), a Yash Birla Group company, is engaged in textile manufacturing.
- Primarily a cotton ginning and trading company, it scaled up operations via inorganic route, by acquiring assets of Khamgaon Syntex Ltd in August 2006 for foraying into synthetic yarn. It also entered into a 50:50 JV with Bhardwaj Group in December 2006.
- The acquisition and JV led to a growth in topline and bottomline from Rs3.8Cr to Rs53.5Cr and Rs0.3Cr to 2.6Cr respectively in FY07. EBITDA margins, however, declined from 8.9% in FY06 to 6.0% in 9 months to Dec 07.
- It plans to become fully integrated with presence across spinning, weaving, processing and garmenting and will also foray into retailing by opening outlets under its own brand.
- Under capex plan of Rs320Cr, BCIL will set up an integrated textile project at Khamgaon and Malkapur, and dyeing & processing unit, ready-made garment manufacturing facility and establish retail outlets across India. This capex will be funded via a mix of equity, debt and internal accruals. Till April, 2008, it has raised funds of Rs 140Cr including promoter's contribution of Rs57Cr and term loans of Rs78Cr.
- Maharashtra Government has conferred 'Mega Project' status for the proposed project which makes BCIL eligible for various incentives (Pl. refer details on page 2).
- Presently, BCIL exports to Yemen, Turkey, Middle East and Europe which are 20% of total sales. Going forward, it intends to have export sales of 50% to the US, UK, etc. by leveraging the expertise through tie-up with the Bhardwaj group, which is an international group.
- Key positives are the synergies arising from fully integrated textile manufacturing and foray into retail. However, retail may remain a small portion of the business, given that only 20 no. of stores will be opened within the next 2 years. Promoters also are subscribing to the IPO at the same price, which is also a positive.
- We view the increase in balance sheet size as a negative. Being an asset heavy business, it may require funding including working capital. Low promoter holding (36.3% post-issue) and low EBITDA margin of 6% are causes for concern too.
- We believe the IPO's valuation is a tad on the higher side, given that the company is a pure-play textile manufacturer. On an annualised basis, the IPO is price at P/e of 50.2x FY08, which is expensive compared to peers (Bombay Rayon Fashions P/e 17.7x TTM, Nahar Spinning P/e 5.8x TTM and Koutons Retail P/e 32.3x TTM). Till such time as its retail operations reach a sizeable scale, it would be premature to give retail valuations to this company. We therefore recommend investors to invest for the long term only.

Company Background

BCIL belongs to the Yash Birla Group and was incorporated in 1941 by Mr. R D Birla. It was renamed in 1998 as Birla Agro Pvt. Ltd. The name was subsequently changed to Birla Cotsyn (India) Pvt. Ltd in 2005.

It is headed by P B Bhardwaj, Chairman and Mr. Yashovardhan Birla, Co-Chairman.

Yash Birla Group of companies



Investment Positives

Integrated business model

It aims to be an integrated player, with operation spanning spinning, weaving, processing and garmenting. It also plans to enter the retail space, and open retail outlets under its own brand.

Management Experience

Promoters have extensive experience in this industry.

Strategic location of the unit

Khamgaon is the centre of cotton production and there are about 35 ginning units in and around this place. Hence, good quality raw materials like cotton are easily available.

“Mega Project status” by Maharashtra government leads to fiscal incentives

- Electricity duty exemption for 7 years from date of commencement of project.
- 100% exemption from payment of stamp duty.
- Industrial promotion subsidy equivalent to 100% of eligible investments made
- 75% reimbursement of expenses incurred for employer’s contribution towards ESI and EPF for a period of 5 years, but limited to 25% of Fixed Capital Investment.

These benefits are available only when fixed investment crosses Rs100Cr.

Transition from textile player to a retail player

Garment retail sector reports higher EBITDA margins compared to textile sector and also is not affected by the most of the risks faced by the textile sector such as exchange rate risks.

Investment Concerns

Low promoter holding

Aggregate promoter holding will stand at 36.3% post-issue.

Low organic growth

BCIL was primarily a cotton ginning and trading company. Prior to JV with Bhardwaj group, it reported low topline of Rs3.82Cr and bottomline of Rs0.82Cr in FY06.

Increasing trading sales

Trading sales has increased from 12.5% in FY07 to 26.2% in 9 months to December 2007. Trading sales fetch lesser EBITDA margins of 2% vis-à-vis 7% margins in manufacturing sales.

EBITDA margins under pressure

EBITDA margins have declined from 8.9% in FY06 to 6.0% in December 2007, primarily due to the strengthening rupee and escalating costs of cotton and fuel prices.

Will remain predominantly a textile manufacturer

We expect textile manufacture to constitute a large share of revenues going forward, as retail operations (with 20 stores initially) will take a while to be set up and stabilize.

Poor return ratios

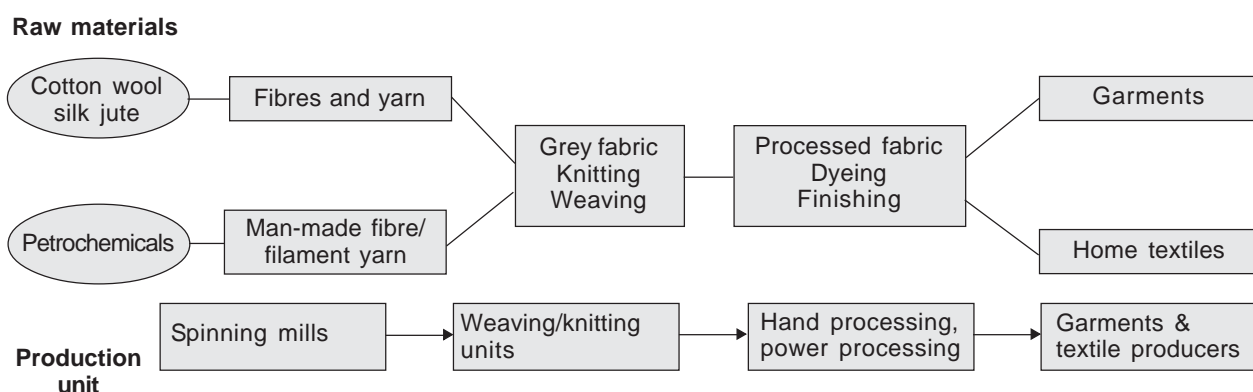
ROE for 9 months to December 2007 was too low at 4.1%. Debtors collection period has been steadily rising.

Financial Ratios

Particulars	31.03.04	31.03.05	31.03.06	31.03.07	31.12.07
EBITDA Margins	9.1%	8.7%	8.9%	7.1%	6.0%
ROE	37.0%	0.3%	1.4%	8.2%	4.1%
Current ratio	6.00	29.87	14.83	2.44	3.09
Debt-equity ratio	4.41	0.07	0.11	0.64	1.01
Inventory turnover (days)	37	15	16	69	64
Debtors collection (days)	27	62	77	60	81

Overview of Business

BGIL to be an integrated textile player....



...will also foray into retail

Organized retail in India is growing at a CAGR of 26%. Penetration of organized retail is likely to rise from 6% currently, to 12% by 2010.

Revenue Break-up

For period ending,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.12.07
Manufactured Sales	100.0%	100.0%	77.1%	70.4%	87.5%	73.8%
Traded Sales	0.0%	0.0%	22.9%	29.6%	12.5%	26.2%

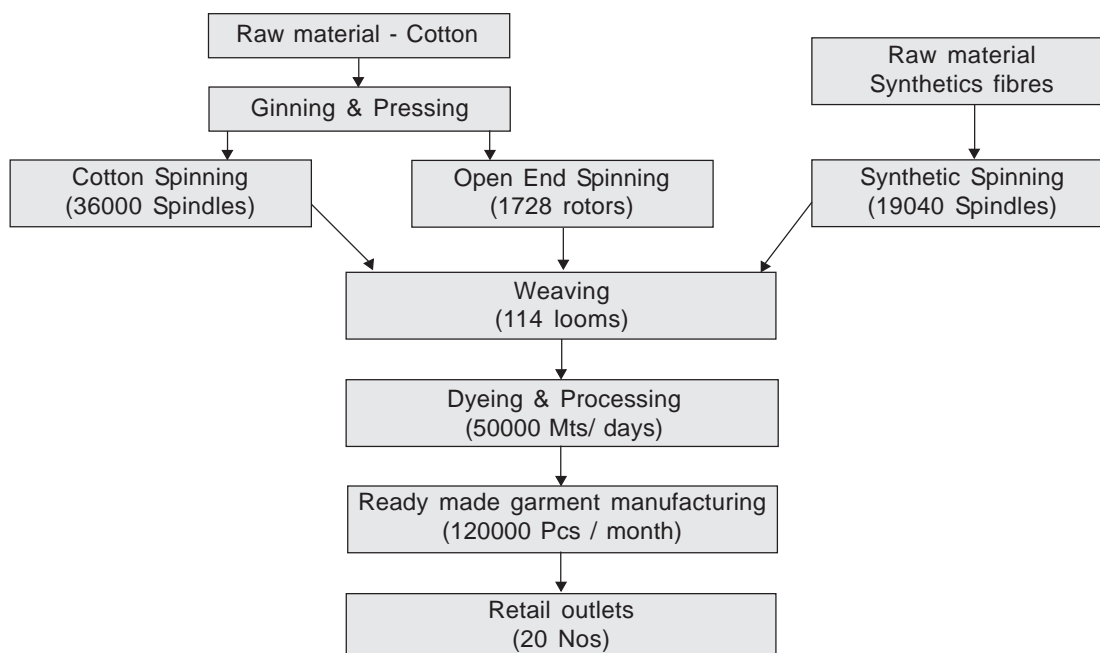
Cost Structure

For period ending,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.12.07
Raw materials	39.6%	44.8%	32.9%	41.6%	66.7%	70.1%
Staff Costs	20.5%	18.6%	19.2%	15.4%	10.7%	10.5%
Other Manfact. exps	27.7%	23.3%	32.0%	27.7%	11.2%	9.8%
Admin exps	6.2%	4.2%	7.1%	6.2%	2.3%	2.0%
S & D exps	0.2%	0.0%	0.0%	0.2%	2.0%	1.6%

Capex Plan

Particulars	(RsCr)
Expansion of integrated textile project at Khamgaon & Malkapur	289.19
Setting up garment manufacturing plant	25.21
Establishing Retail outlets	5.80
Total	320.20

Post- expansion scenario



Retail Foray

BCIL will set up readymade garment manufacturing unit and enter retail sector by establishing 20 outlets (8 in metros & 12 in non-metro areas) under its own brand.

Funding of capex plan

Particulars	(RsCr)
Term Loan	154.59
IPO / Promoters' Contribution	163.53
TUFS Subsidy	2.08
Total	320.20

Shortfalls, if any, will be met through internal accruals. Till April, 2008, it has raised funds to the tune of Rs 140Cr, including promoter's contribution of Rs57Cr and term loans of Rs78Cr

KEYNOTE

Peer comparison

(RsCr)

Particulars	Welspun India	Vishal Retail	Nahar Spinning	Bombay Rayon Fashions	Koutons Retail	BCIL
Net Sales	1646.39	1005.31	893.43	837.89	793.5	62.20
Net Profit	-0.21	40.64	26.83	108.85	68.76	2.52
Paid-up-Equity capital	73.09	22.40	18.03	63.00	30.55	93.72#
Price (30-06-08)	39	615	43	306	728	18
Market Cap	283	1377	156	1928	2224	169
EPS (Rs)	-0.03	18.14	7.44	17.28	22.51	1.85
Book Value (Rs)	75.77	21.11	144.03	76.67	114.44	44.90
P/E (x)	0.0	33.9	5.8	17.7	32.3	9.7
P/B (x)	0.5	29.1	0.3	4.0	6.4	0.4
P/S (x)	0.2	1.4	0.2	2.3	2.8	2.7
EBIDTA margin	9.2%	11.9%	14.5%	20.4%	19.2%	6.0%
NPM	0.0%	4.0%	3.0%	13.0%	8.7%	4.0%
52 week High (Rs)	115	1001	124	418	1098	-
52 week Low (Rs)	37	423	42	185	515	-
FVPS (Rs)	10	10	5	10	10	10

FY08 numbers except Nahar, Bombay Rayon, which are TTM and BCIL are Dec 07 numbers
post-issue capital

Profit & Loss Statements

(RsCr)

For period ending,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.12.07
Manufactured Sales	2.22	3.32	2.65	2.69	46.82	45.93
Traded Sales	0.00	0.00	0.79	1.13	6.69	16.27
Total Sales	2.22	3.32	3.44	3.82	53.51	62.20
Expenditure						
Raw materials	0.88	1.49	1.13	1.59	35.68	43.62
Staff Costs	0.46	0.62	0.66	0.59	5.71	6.51
Other Manufc.exps	0.62	0.77	1.10	1.06	6.01	6.10
Admin exps	0.14	0.14	0.24	0.24	1.23	1.23
S & D exps	0.01	0.00	0.00	0.01	1.08	1.00
Total Expenditure	2.10	3.02	3.14	3.48	49.71	58.46
EBITDA	0.13	0.30	0.30	0.34	3.81	3.75
Other Income	0.07	0.08	0.07	0.16	1.21	0.92
Interest	0.10	0.14	0.16	0.14	0.37	0.55
PBDT	0.09	0.24	0.20	0.36	4.65	4.12
Depreciation	0.08	0.10	0.14	0.16	0.72	1.11
Profit before tax	0.01	0.14	0.06	0.20	3.92	3.01
Current tax	0.00	0.01	0.00	0.06	1.03	0.34
Deferred tax	0.27	0.01	0.00	-0.13	0.29	0.13
FBT	0.00	0.00	0.00	0.01	0.04	0.03
Profit after tax	-0.26	0.12	0.05	0.27	2.57	2.52
EBITDA margins	5.7%	9.1%	8.7%	8.9%	7.1%	6.0%
NPM	-11.7%	3.6%	1.6%	7.1%	4.8%	4.0%
EPS (Rs)	-42.06	19.40	0.24	1.20	1.89	1.85
Book Value (Rs)	33.06	52.44	87.16	88.36	23.06	44.90

Balance Sheets

(RsCr)

As at,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.12.07
Sources of funds						
Share Capital	0.06	0.06	2.27	2.27	13.62	13.62
Share Application Money	0.00	0.00	0.00	0.00	9.21	36.65
Reserves & Surplus	0.53	0.63	17.87	18.14	24.21	26.52
Less: Revaluation Reserve	0.38	0.37	0.36	0.35	15.64	15.64
Reserves (net of Revaluation Reserve)	0.14	0.26	17.51	17.79	8.57	10.88
Total Shareholders Funds	0.20	0.32	19.78	20.06	31.40	61.15
Secured Loans	0.06	0.13	1.09	1.06	20.08	61.66
Unsecured Loans	1.09	1.30	0.25	1.06	0.10	0.26
Total Debt	1.15	1.43	1.34	2.12	20.18	61.92
Total Liabilities	1.35	1.75	21.12	22.17	51.58	123.06
Application of funds						
Gross Block	2.03	2.38	3.71	3.95	31.63	34.45
Less: Acc. Depreciation	0.74	0.84	0.93	1.10	1.78	2.87
Net Block	1.29	1.54	2.78	2.85	29.85	31.58
Less: Revaluation Reserve	0.38	0.37	0.36	0.35	15.64	15.64
Net Block after Rev. Reserve	0.91	1.18	2.43	2.50	14.21	15.95
Capital work in Progress	0.09	0.00	0.00	1.17	16.43	67.40
Investments	0.17	0.17	9.17	9.17	0.01	0.01
Curr. Assets , Loans & Adv.						
Inventories	0.16	0.33	0.14	0.16	10.13	10.94
Sundry Debtors	0.19	0.25	0.59	0.81	8.76	13.88
Cash & Bank Balances	0.09	0.16	0.16	0.06	8.33	0.01
Loans & Advances	0.08	0.08	9.27	9.13	8.98	21.59
Total Current Assets	0.52	0.82	10.15	10.16	36.21	59.55
Current Liab. & provisions	0.07	0.14	0.34	0.68	14.85	19.28
Net Current Assets	0.45	0.68	9.81	9.47	21.36	40.27
Net Deferred Tax Liabilities	0.27	0.28	0.28	0.15	0.43	0.56
Total Assets	1.35	1.75	21.12	22.17	51.58	123.06

Keynote Capitals Ltd.

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Ratings structure

Subscribe & Hold	:	subscribe for listing gains, hold for further appreciation
Subscribe for listing gains	:	expect decent appreciation on listing
Subscribe with a medium term view	:	stock can deliver only over 6-8 months after listing
Subscribe with a long term view	:	value can only be realised over 12-18 months
Await listing	:	good fundamentals; consider valuations on listing

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