

Ballarpur Industries - Concall Notes (FY-Jun'08 Results)
August 29, 2008
Price: Rs33 (FV Rs2)
52-wk High/Low: 39/23
MCap: Rs1836Cr (\$419mn)
BSE Sensex: 14565
Rating: Not Rated

Ballarpur Industries Ltd. (BILT), a Gautham Thapar group company, is a manufacturer of writing and printing (W&P) paper, with total paper & market-pulp capacity of 720,000tpa operating at full capacity utilization.

It has also forayed into high-margin premium stationery as well as tissue papers. It has an established network of 57 exclusive distributors and 85 brand distributors. Its market share in coated paper and uncoated paper is 15% and 27% respectively. FILs hold a 26.7% stake in BILT.

Consolidated Results Summary
(RsCr)

Particulars	Q4-FY07	Q3-FY08	Q4-FY08	% change (y-o-y)	% change (q-o-q)	FY07	FY08	% change (y-o-y)
Gross Sales	733.62	735	830.35	13.2%	13.0%	2524.21	3025.95	19.9%
Excise Duty	53.36	47.66	36.73	-31.2%	-22.9%	206.43	194.87	-5.6%
Net Sales	680.26	687.34	793.62	16.7%	15.5%	2317.78	2831.08	22.1%
Expenditure								
Raw materials	204.35	179.83	261.65	28.0%	45.5%	724.98	814.71	12.4%
Stores & Spares	107.71	0.00	126.4	17.4%		373.97	480.78	28.6%
Power & Water	93.39	114.93	117.28	25.6%	2.0%	326.35	446.17	36.7%
Personnel Cost	38.7	50.27	62.12	60.5%	23.6%	134.75	201.36	49.4%
Amortization	2.31	1.06	4.59	98.7%	333.0%	11.01	9.39	-14.7%
Other Expenditure	74.36	161.51	52.77	-29.0%	-67.3%	174.98	180.18	3.0%
Total Expenditure	520.82	507.6	624.81	20.0%	23.1%	1746.04	2132.59	22.1%
EBITDA	159.44	179.74	168.81	5.9%	-6.1%	571.74	698.49	22.2%
Interest	35.91	36.83	37.07	3.2%	0.7%	100.34	148.24	47.7%
Other Income	7.10	3.15	9.76	37.5%	209.8%	13.73	16.11	17.3%
PBDT	130.63	146.06	141.50	8.3%	-3.1%	485.13	566.36	16.7%
Depreciation	42.05	51.01	51.25	21.9%	0.5%	156.54	192.38	22.9%
PBT	88.58	95.05	90.25	1.9%	-5.0%	328.59	373.98	13.8%
Current Tax	10.16	9.19	9.25	-9.0%	0.7%	37.02	38.11	2.9%
Deferred Tax	8.55	8.59	7.51	-12.2%	-12.6%	34.67	30.04	-13.4%
FBT	0.37	0.7	0.44	18.9%	-37.1%	1.84	2.24	21.7%
PAT before Min. Int.	69.50	76.57	73.05	5.1%	-4.6%	255.06	303.59	19.0%
Minority Interest	0.38	2.06	3.71	876.3%	80.1%	0.41	6.48	1480.5%
Share of Profits in Associates	0.33	0	0.34	3.0%		1.32	2.77	109.8%
PAT after Min. Int.	69.45	74.51	69.68	0.3%	-6.5%	255.97	299.88	17.2%
EBITDA margin	23.4%	26.2%	21.3%			24.7%	24.7%	
Net Profit margin	10.2%	10.8%	8.8%			11.0%	10.6%	
EPS (Rs)	3.74	0.80	1.25			13.78	5.40	
Book Value (Rs)						114.27	34.43	
Paid-up equity capital	185.73	185.73	111.42			185.73	111.12	
FV	10	2	2			10	2	

(Year ending June 30, 2008)

Cost Structure

Particulars	Q4-FY07	Q3-FY08	Q4-FY08	FY07	FY08
Raw materials	30.0%	26.2%	33.0%	31.3%	28.8%
Consumption of Stores & Spares	15.8%	0.0%	15.9%	16.1%	17.0%
Power & Water Charges	13.7%	16.7%	14.8%	14.1%	15.8%
Personnel Cost	5.7%	7.3%	7.8%	5.8%	7.1%
Amortization	0.3%	0.2%	0.6%	0.5%	0.3%
Other Expenditure	10.9%	23.5%	6.6%	7.5%	6.4%
Total Expenditure	76.6%	73.8%	78.7%	75.3%	75.3%

Elizabeth L. John, Analyst (elizabeth@keynoteindia.net)

Keynote Capitals Research (+9122-30266043)

Nitin A. Khandkar, Head - Research (nitin@keynoteindia.net)

Keynote Capitals Research is also available on Bloomberg KNT E <GO> and Thomson One Analytics / Thomson Publisher

Key Takeaways

Consolidated Results

The consolidated numbers include results of Ballarpur Paper Holdings B.V. (BPH), Sabah Forest Industries, Malaysia (SFI) and BGPPL. SFI was acquired in March 2007. Results are therefore not comparable on a y-o-y basis.

- On a full year basis (y-o-y), topline and bottomline were up by 19.9% and 17.2% respectively. EBITDA margin remained flat at 24.7%. Topline growth was attributable largely to price hikes, with slim volume growth in paper & pulp of 3%. Pulp and paper sales grew by 31% and 19.6% respectively.
- On a quarterly basis (y-o-y), revenues and PAT were up by 13.2% and 0.3% respectively. EBITDA margin declined by 210bps. BILT's operations at Sabah, Malaysia was affected due to rising crude prices.
- On sequential quarter basis (q-o-q), revenue growth was slimmer, at 13.0% whereas PAT declined by 6.5%. Topline growth was attributable to timber sales, which however being a low-margin product impacted overall margins by as much as 490 bps. Timber sales are peculiar to the June quarter. BILT does not expect any significant impact in revenues and margins from timber sales in coming quarters.
- The excise duty charged on a full year basis declined from 8.2% to 6.4%.
- It declared a dividend of 35%, translating into a payout ratio of around 15.0% inclusive of dividend tax.

Cost Structure

- Imported pulp (long fiber) is sourced from countries like Canada and from Europe. Increase in pulp prices led to increase in raw materials cost as % of sales, up from 26.2% in Q3-FY08 to 33.0% in Q4-FY08.
- BILT's operations at Sabah, Malaysia run on fuel, as opposed to Indian operations which run mainly on captive power. With fuel prices shooting up, power costs were up.
- Costs of chemicals used in the raw materials have also been moving up.

Stock split & Share buyback

Paid up equity capital reduced from Rs185.73Cr (FY07) to Rs111.12Cr as a result of:

- Sub-division of 18.5Cr equity shares of Rs10 each, into 92.85Cr shares of Rs.2 each in March 2008
- Simultaneous compulsory buy back of 37.14Cr equity shares of Rs2 each @ Rs25 per share
- Optional buy back of 0.16Cr equity shares of Rs2 each from small shareholders @ Rs30per share in May 2008.

Capex Plans

Phase 1

- \$450mn (Rs14bn) capex planned over next 2 years to increase paper capacity by 400,000 tons, and additional pulp capacity of 70,000 tons at its Indian and Malaysian plants.

Unit	Product	Additional Capacity (tpa)	Date of Commissioning
Bhigwan	Coated paper	190,000	Dec.2008
Ballarpur	Uncoated paper	160,000	June 2009
SFI (Sabah, Malaysia)	Paper	60,000	Dec. 2009
	Pulp	100,000	

KEYNOTE

- Expansion plans at Bhigwan and Ballarpur units are on schedule. The recently acquired SFI has been integrated with BILT.
- Funding for the capex has been tied up through debt and internal accruals. Additional debt of Rs100Cr would also be taken. There are no equity dilution plans.

Phase 2

To set-up a pulp capacity of 1mn tpa in 7 years.

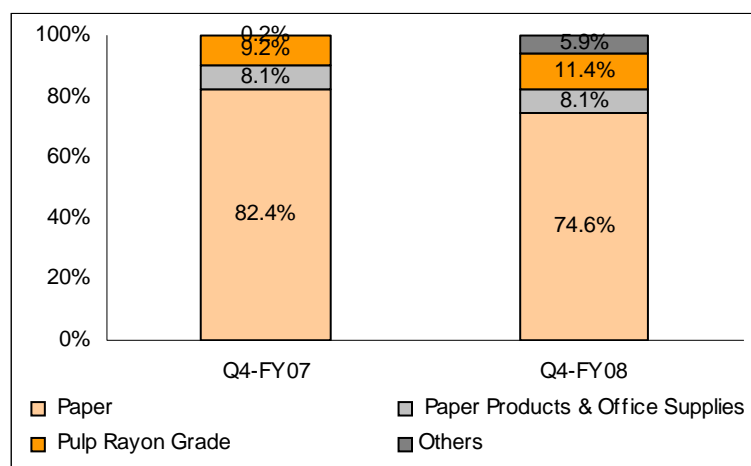
Outlook

- Recently, it effected price revisions by increasing prices of coated and uncoated paper by Rs5000 / tonne and Rs2000 / tonne respectively. This would help maintain margins.
- Management has not provided revenue guidance for FY09. Revenue guidance of around Rs5250Cr (\$1.2bn) for FY10 (1mn tonnes of pulp and paper).
- It has recently opened retail stores in Gurgaon. By Dec. 2008, it plans to open 2 additional retail stores. It expects revenues of Rs 3.5bn in FY10 from the office supplies and stationery segment.

Valuation

It trades at a p/e of 6.1x FY08.

Revenue-Mix



Plant Capacities

Units	Shree Gopal	Sewa	Ashti	Ballarpur	Bhigwan	Kamlapuram	SFI
Location	Haryana	Orissa	Maharashtra	Maharashtra	Maharashtra	Andhra Pradesh	Sabah, Malaysia
Paper Capacity (tpa)	105,000	72,000	55,000	135,000	115,000	0	144,000
Pulp Capacity (tpa)	78,000	45,000	0	130,000	0	98,550	120,000
Product mix	Uncoated, Coated BCB, Specialty	Copier, C1S paper, maplitho	Branded Copier	Hi bright Uncoated paper, copier	High quality coated paper	Rayon grade pulp / Paper grade pulp	Uncoated
Raw material mix	Bamboo, wood, timber waste	Bamboo, wood	Purchased pulp	Bamboo wood	Purchased pulp	Wood	Wood from own plantation

Keynote Capitals Ltd.

Member

Stock Exchange, Mumbai (INB 230930539)
National Stock Exchange of India Ltd. (INB 010930556)
Over the Counter Exchange of India Ltd. (INB 200930535)
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

Registered Office

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg,
Ballard Estate, Mumbai 400 001
Tel Nos. 022-22694322-25

Disclaimer

This report has been prepared and issued by Keynote Capitals Ltd, based solely on public information and sources believed to be reliable. Neither the information nor any opinion, expressed herein, constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities. Directors, officers, clients or employees of Keynote Capitals or its affiliates may have positions in securities covered in this report or in related investments. Keynote Capitals Ltd may also have proprietary trading positions in securities covered in this report or in related investments. An affiliate of Keynote Capitals Ltd. may also perform or seek to perform broking, investment banking and other banking services for the company under coverage. Opinions presented herein are liable to change without notice. While due care has been taken in the preparation of this report, Keynote Capitals Ltd. or any of its directors, officers or employees shall not in any way be responsible for any loss arising from the use thereof. Investors are advised to apply their own judgment before acting on the contents of this report.