Company In-Depth

Retail Research

Asia - India

NextGen India Investments

NextGen India Investments Research
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Ballarpur Industries Limited

Positioning for the better future...

Initiation of Coverage: Overweight (OW)

31 March 2010

Current price (INR)	25.5
Target price (INR)	30.1
Potential return (%)	18%
52-week range (INR)	29.5/ 14.6
Bombay Stock Exchange (BSE 30)	17,590

Price absolute

Performance (%)	1m	3m	12m
BILT (absolute)	-2.1	4.9	77.3
BSE 30	7.0	0.7	81.1
BSE 500	6.3	1.2	99.8
MSCI India (INR)	7.3	2.0	84.4
MSCI India (USD)	10.1	5.6	107.4

Stock statistics	
Symbol/ Exchange	BILT/ BSE
Bloomberg	BILT:IN
Market cap (INRbn)	15.3
Market cap (USDmn)	339.6
Shares outstanding, current (bn)	60.0
Free float (%)	44.8
Avg. daily trading volume (3 months, ‘000 shares)	142.2
Face value (INR)	2.0

Initiating coverage with an Overweight (OW)

We see a further 18% potential return from the current level on this paper play. Our 1-year target price is based on strong revenue growth, stable pricing environment, and our expectation of 24% earnings CAGR over the next two years.

Capacity led revenue growth to gain momentum

BILT is the largest integrated paper manufacturer of India. In the last 5 years it has doubled its capacities. Lower cost of expansion, vertically integrated operations and access to key production inputs would enable the company to significantly scale up its operations.

Management’s commitment for minority shareholders

In 2007, BILT bought back 40% of the outstanding equity shares from minority shareholders. It protected fall in the share price despite industry downturn. SPV structure allows BILT to balance growth with indebtness. Recent equity infusion by promoters at a 20% premium to the market price demonstrates management’s commitment for minority shareholders.

Well poised to focus on value added segments

BILT has been increasing its domestic market share in premium segments of the paper market. Company’s foray into office stationary and retail business would significantly scale up operations and further improve margins.

Synergistic acquisitions across value chain

BILT has gained expertise to grow through inorganic route. Its ability to successfully acquire, integrate and utilize synergies of acquired companies would be a key long term value driver.

Reasonable valuations; manageable risks

Our 1-year target price is based on 5.9x FY11E PE, 6.5x FY11E EV/EBITDA and 0.7x FY11E P/BV. We believe that BILT would continue to trade at a premium valuation to its peers. Lower than expected paper prices, inflation in the prices of key inputs, and limited availability of wood fiber are key risks to our earnings assumptions.

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All prices are closing prices for March 30, 2010. Data is sourced from Bombay Stock Exchange (BSE), Bloomberg and the subject company. Investors should consider this report as only a single factor in making their investment decision.

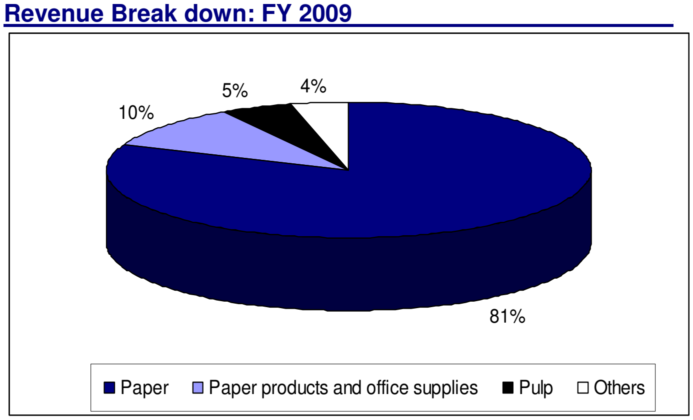
For Disclosure and Research certification refer to Appendix I

Key financials & valuation (Consolidated)

INR bn (Year ending June)	2009A	2010E	2011E
Profit & loss summary			
Net Sales	28.2	38.2	43.7
EBITDA	6.6	8.3	9.6
Net Income	1.9	2.7	2.9
Cash Flow summary			
Cash from operations	5.8	7.3	8.4
Cash from investments	(13.5)	(15.4)	(6.6)
Cash from financing	6.2	12.0	(0.3)
Change in cash	(1.5)	3.9	1.5
Balance Sheet summary			
Shareholders' Capital	18.3	22.1	24.8
Minority Interest	3.7	3.9	4.2
Operating liabilities	37.1	46.1	45.8
Deferred Tax liability	1.8	2.1	2.4
Total Liabilities	**60.9**	**74.2**	**77.2**
Net Current Assets	7.9	9.6	10.0
Net Fixed Assets	43.9	56.2	63.3
Capital Work in Progress	8.6	7.6	3.2
Investments & others	0.4	0.7	0.7
Total Assets	**60.9**	**74.2**	**77.2**

Ratios	2009A	2010E	2011E
EBITDA (%)	23.2	21.9	22.0
NPM (%)	6.7	7.0	6.6
Total debt/ Equity (:1)	2.0	2.1	1.8
Total debt/ EBITDA (:1)	5.7	5.5	4.8
ROE (%)	10.3	12.2	11.6

Revenue Break down: FY 2009



Valuation

	2009A	2010E	2011E
PE (:1)	8.2	5.7	5.9
P/BV (:1)	0.8	0.7	0.7
EV/Sales (:1)	1.9	1.6	1.4
EV/EBITDA (:1)	8.0	7.4	6.5
FCF/Share (:1)	5.8	7.3	7.5
FCF Yield (%)	22.5	28.7	29.3

Per share data

INR	2009A	2010E	2011E
EPS	3.1	4.5	4.3
DPS	1.0	1.0	1.0
Book value	30.5	36.7	37.1

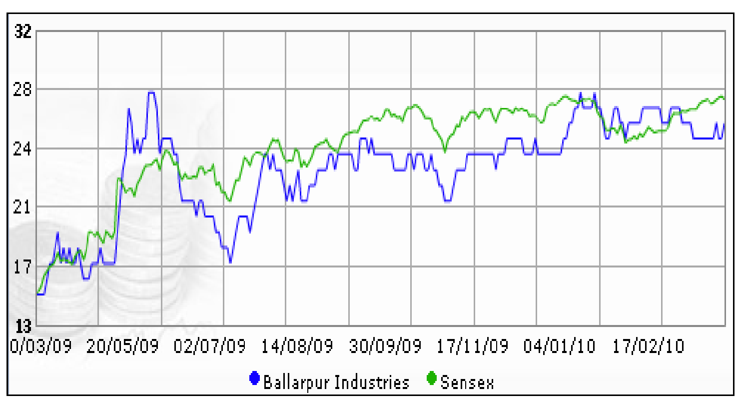
Quarterly trend

INR bn	Mar-09	Jun-09	Sep-09	Dec-09
Net sales	6.9	7.3	8.1	8.9
EBITDA	1.3	1.7	1.9	1.9
Net income	0.2	0.4	0.4	0.5

Key Subsidiaries

FY 2009 (INR bn)	Net Sales	PAT	Total liabilities	Net worth
Ballarpur Int. Holdings B.V.	-	(0.2)	11.6	2.0
Ballarpur Paper Holdings B.V.	-	(0.1)	43.8	16.2
Ballarpur Int. Paper Holdings B.V.	-	0.4	30.0	5.6
Ballarpur Int. Graphic Paper Holdings B.V.	-	(0.1)	16.0	16.0
BILT Tree Tech Ltd.	~	~	0.1	0.1
BILT Graphic Paper products Ltd.	14.5	1.0	35.9	7.1
Sabah Forest Industries Sdn. Bhd.	5.0	(0.7)	14.8	13.2

Relative Performance: BSE Sensex



Source: Company data, NextGen India Investments Research
E: NextGen India Investments Research estimates

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Company Background

BILT is a part of the Avantha group

Ballarpur Industries Limited (BILT) is a part of the US$ 3 billion Avantha Group and is the largest integrated paper manufacturer of India. The company was set up in 1945 and has grown through organic and inorganic route over the years. It operates through 5 manufacturing facilities in India and one in Malaysia. The company is primarily present in industrial, specialty, writing and printing paper segments.

Exhibit 1
Shareholding Pattern

Shareholder	Shareholding %
Indian Promoters	44.8
Foreign Inst. Investors	18.4
DII's and General Public	36.8

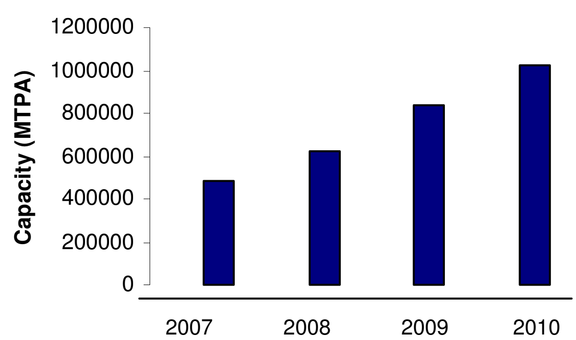
As on March 30, 2010

Investment Rational

Well Calibrated growth strategy

Has doubled the paper production capacities over the last 5 years

Exhibit 2
Expansion of paper capacities



Source: Company data

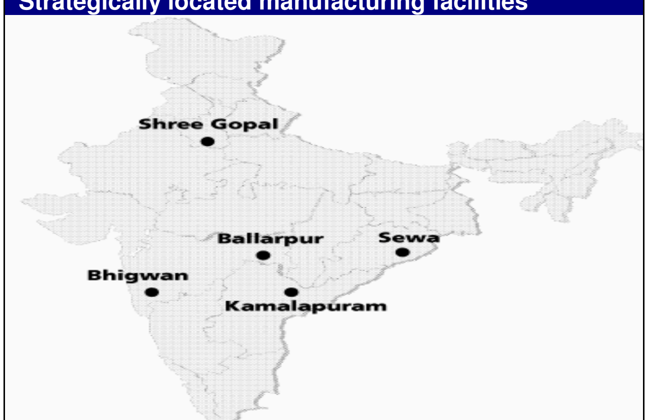
The management has expertise to effectively generate long term cash inflows in asset heavy industries. Paper industry is ideally suited to leverage the expertise. In the last 5 years, BILT has doubled its capacities. Recently commissioned uncoated wood free paper capacity at Ballarpur unit has taken the total annual paper capacity to over one million tons. Company's capacities are adequate to support an annual turnover of Rs 40 billion. High capital intensive nature of the paper industry presents strong entry barrier for new entrants. At BILT, most of the capacity expansions have been undertaken at existing facilities. It is estimated that for paper industry in India the cost of undertaking brown field expansion is about 30% to 50% cheaper than building a completely new capacity (green field expansion). It resulted in relatively low cost of expansion for BILT. Replacement cost of BILT's paper capacities is over Rs 40 billon.

Lower cost of expansion due to brown field expansion

Production facilities of BILT are strategically located in India. It is estimated that Northern and Western India account for over two thirds of the total domestic paper demand. The location of manufacturing units in proximity to major customer markets as well as sources of raw material gives BILT a significant advantage over competitors in terms of freight cost and market access.

Proximity of production facilities to major markets

Exhibit 3
Strategically located manufacturing facilities

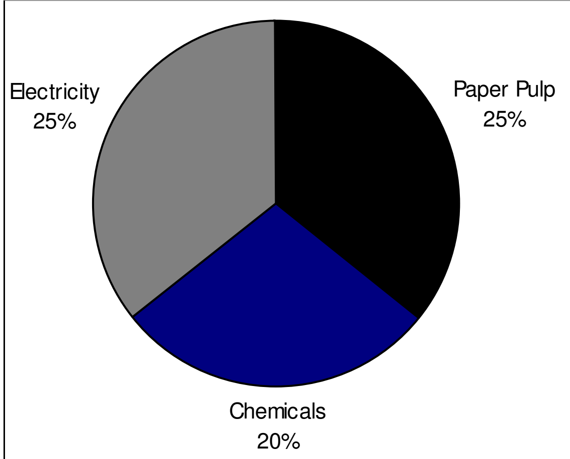


Marketing network of over 116 distributors located in 52 cities in India provides BILT distinct advantage to reach end users. We expect the company to leverage the network in launching and cross selling office stationary products.

Integrated operations to provide long term strategic advantage

FRD program to ensure long term supply of wood fiber

Exhibit 4
Major components for cost of Paper Production



Source: Indian Paper Manufacturers Association (IPMA)

India has a shortage of fibrous raw material and imported pulp is a significant source of raw material for many paper producers. However imported pulp is expensive as it is subject to import duties, foreign exchange fluctuations and freight costs. For BILT with the exception of Bhigwan unit, all other production units have on-site pulp mills. A large proportion of pulp requirements are met internally. It helps BILT to control pulp cost, ensure regular supply and maintain its quality.

For pulp manufacturing wood fiber is used as raw material. In the late 1980's 80% of paper industry's wood fiber requirement used to be met from Government owned forests and remaining 20% from private farms. However government determined wood pricing was increasingly divergent from market prices. There has also been a trend of increased environment regulations and restrictions on the use of natural resources. Due to these reasons there has been a trend among paper companies to reduce dependence on government owned sources. In line with the trend, BILT started fiber resource development (FRD) program in 1997. It is aimed to increase reliance on local farmers to procure wood fiber for pulp mills of the company. BILT has been arranging micro finance in association with banks to support local farmers; it also assures buy back of wood at an attractive price and conducts technical training programs for farmers. These steps result in increased loyalty of farmers as a reliable source of wood fiber supply. So far BILT has covered 34,000 hectare area and 35,000 farmers under FRD program. Captive pulp manufacturing facilities of BILT meet wood fiber requirement from outside sources.

Cost advantage by the use of captive power

Electricity accounts for about 25% to 30% of the cost of paper production. A large proportion of the company's requirements of electricity is met through captive power generation. It provides substantial cost advantage over purchasing power through state electricity boards. With the exception of Shree Gopal unit, all captive power generators are located near sources of coal, it minimizes coal transportation costs. BILT has been exploring the possibility to source imported coal with higher calorific value than the domestic coal to improve input productivity

Exhibit 5
Proximity of captive power plants to coal sources

Unit	Source of coal
Ballarpur	Western Coalfields
Sewa	Mahanadi Coalfields
Kamalapurum	Sigarareni collieries
Bhigwan	WCL, Nagpur
Shree Gopal	Eastern Coalfields

Source: Company data

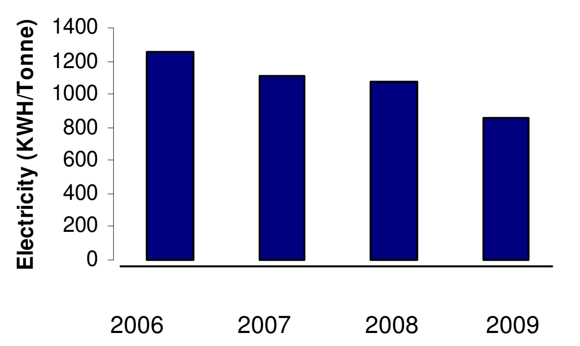
Chemicals account for about 20% to 25% of the total cost .of production. Main chemicals used are caustic soda and certain specialty chemicals. Ballarpur unit has captive facilities to produce these chemicals; it assists the unit to control cost and achieve better coordination with manufacturing process. Other manufacturing units procure chemicals through market purchases and are exposed to price fluctuations.

Increase in input productivity an important value driver

Reduction in the usage of inputs to create long term value

Conservation of inputs used for the production of paper has been a key priority for BILT. Most of these initiatives have been aimed to reduce fiber usage, steam and power consumption in producing per tonne of paper. In 2009, power consumption per tonne of paper production was 32% less than that in 2006. Steam consumption has also been significantly reduced through optimization of cooking process, upgrading of blow heat recovery system and by adopting other innovative measures. Improving operational efficiency is important in paper industry since scope of product differentiation is limited therefore there is limited scope to charge price premium.

Exhibit 6
Electricity consumption per unit of Paper Production



Source: Company data, NextGen India Investments Research

In our view better operational efficiency would not only protect company's margins in cyclical downturns but would also create substantial wealth when paper industry recovers. The company has constantly been optimizing its workforce. As of March 2009, it had 2700 permanent employees against 6401 employees in March 2007. Consequently sales per employee has gone up to Rs 10.9 million in March 2009 from Rs 3.9 million in March 2007. The rationalization is achieved through harmonious negotiations with labor unions. We believe that enhanced employee productivity would provide sustainable competitive advantage over the long run.

Focus on value creation for shareholders

Share buy back reflects management's focus to create value

BILT has demonstrated it's commitment for shareholders' value creation by buying back shares during FY 2007-08. The company bought back 40% of the total outstanding shares at an average price of Rs 25.0 per share. It spent Rs 9.3 billion for the buy back and reduced paid up share capital to Rs 1.1 billion. Timely buyback prevented significant downside in share price despite industry downturn.

Management's commitment to protect the interests of minority shareholders

Management believes that current share price is below long term intrinsic value

In March 2010, BILT allotted 45 million equity shares at Rs 30 per share to promoters. It also allotted 55 million zero coupon compulsory convertible bonds (ZCB) to promoters. After conversion of ZCB's, promoter's holding would increase to 49.4% from the pre preferential issue level of 40.3%. Allotment price of Rs 30 per share is higher than the price of preferential shares allotment under SEBI Issue of Capital and disclosure requirement (ICDR) guidelines. The price premium reflects promoter's commitment to protect the interest of minority shareholders, as management believes that due to downturn in paper industry current share price of BILT does not reflect its intrinsic value. Equity dilution would lead to an inflow of Rs 3 billion. We expect the company to use these funds for acquisition. Such acquisition at industry downturn would further strengthen company's market position and would be in the long term interest of shareholders.

Expansion through SPV Structure

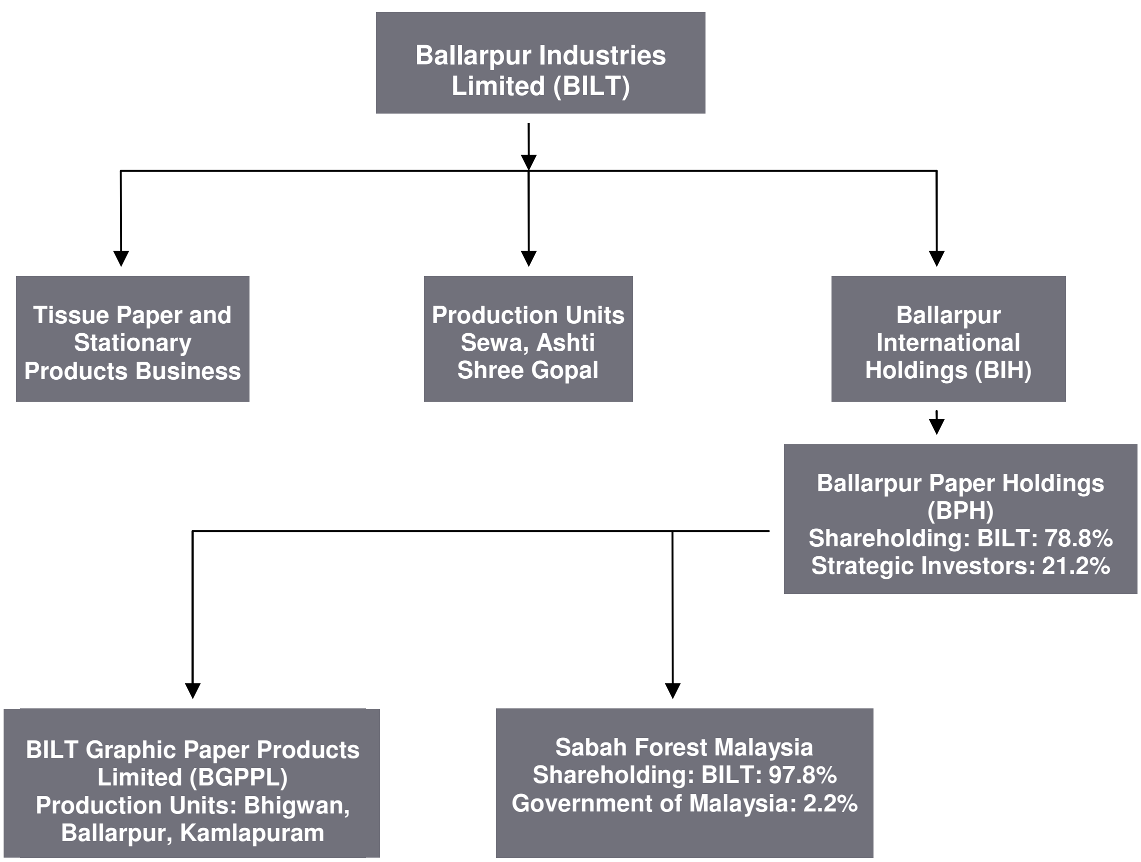
SPV structure allows to balance growth with financial leverage

During 2007-08, BILT reorganized its business units into separate divisions. It created a financial vehicle BILT Paper Holding (BPH) to fund future growth through organic and inorganic expansion. BILT holds 78.8% of the shareholding of BPH through a step down holding structure. 21.2% of the equity is held by JP Morgan Mauritius Holdings, and Lathe Investments Pte Ltd. (a wholly owned subsidiary of Government of Singapore Investment Corporation). The creation of SPV structure is a major advantage in funding acquisitions as it ensures equity participation by financial institutions and brings expertise of financial institutions in conducting due diligence for acquisitions. Due to the SPV structure, despite substantial capacity additions BILT has managed to keep its financial leverage at reasonable levels

The management of BILT believes that Office supply and stationary business (OSSB) and retail & hygiene segments are poised for rapid growth in India. The SPV structure would allow the company to focus more on these segments.

Exhibit 7: SPV Structure of BILT

Equity participation by financial institutions improves cross border acquisition capabilities



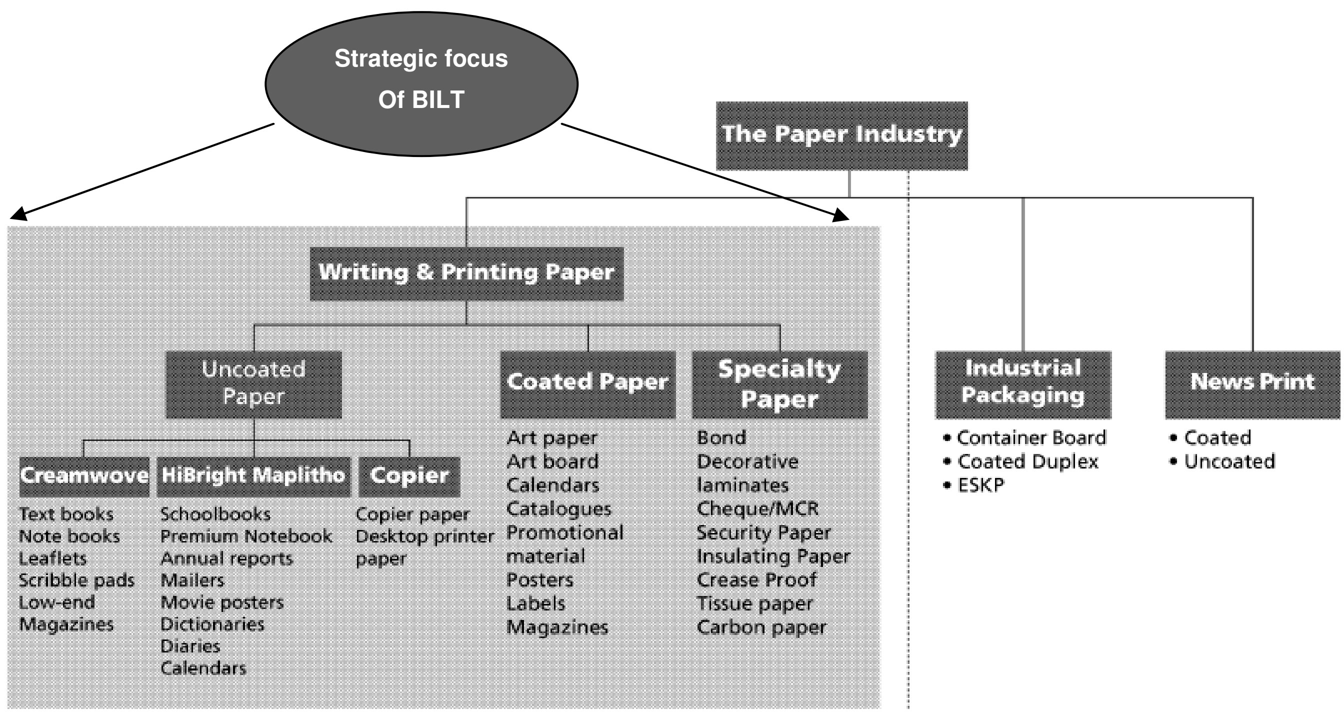
Source: Company data, NextGen India Investments Research

Product mix rationalization

BILT's primary focus is Writing & Printing paper segment

The market for paper products in India can be classified into 3 broad product categories; Writing and Printing paper (W & P paper), industrial paper and newsprint. BILT operates in W & P paper segment. This segment can further be divided into coated, uncoated and specialty paper. Coated paper is a superior quality printing paper as it is treated with a solution to make surface suitable for high quality printing. Uncoated paper lacks such treatment and is further divided into different segments.

Exhibit 8: End uses of different types of paper



Source: Company data

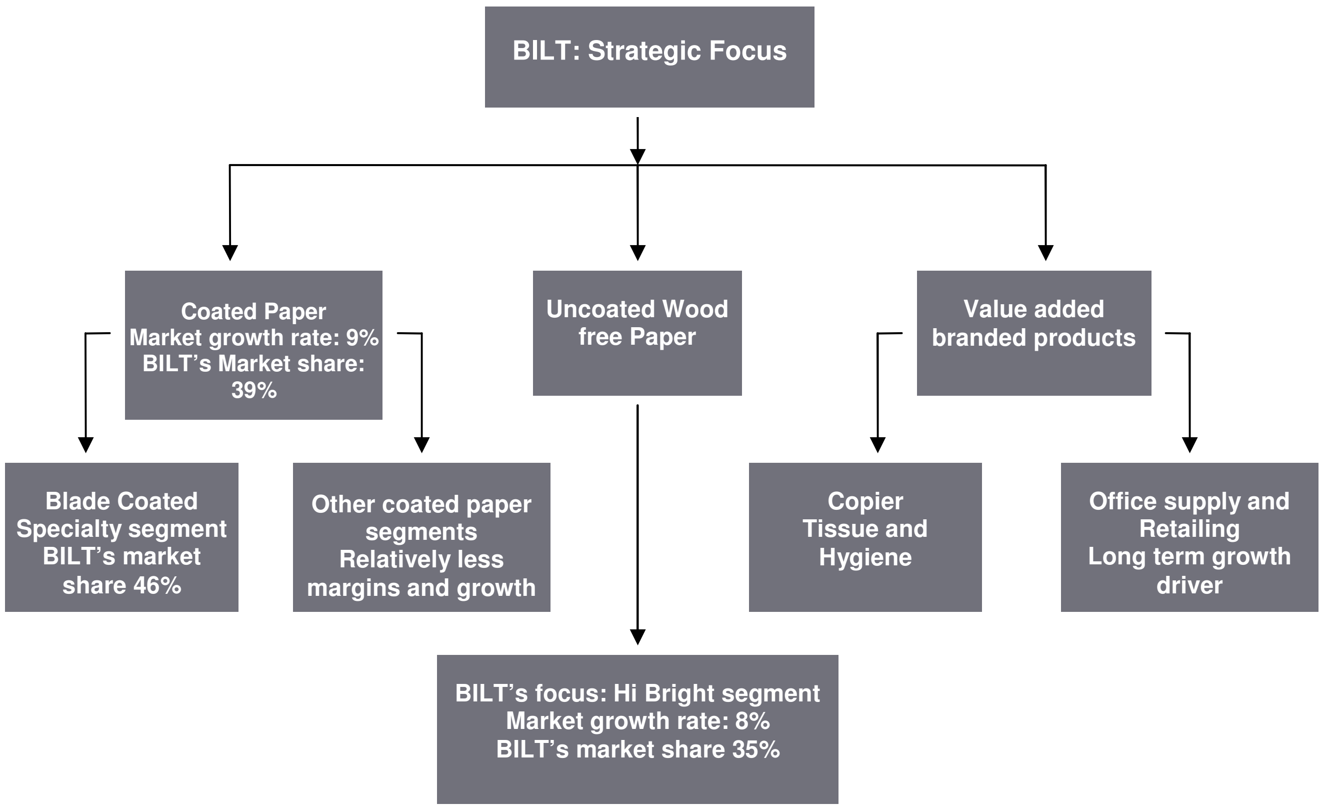
Over the years, BILT has been focusing on moving up in value chain to improve realizations. Management has strongly positioned the company into high growth paper segments. Blade coated segment commands price premium and has higher growth rate than other segments. BILT is the market leader with 46% market share and aims to further strengthen its market position.

Tissue and hygiene business to improve margins

In 2005-06, BILT entered in tissue and hygiene business. With greater awareness among urban middle class for hygiene, the demand from this segment is continue to grow. The company operates through "Spruce Up" brand for entry level consumers and "Etiquette" for premium consumer segment. It has tie up with retailers such as Big Bazaar and Spencer for distribution. To leverage long term growth in the segment, BILT aims to create nation wide distribution network in 12 months.

Constantly increasing market share in value added paper segments

Exhibit 9: BILT: Moving up in value chain



Source: Company data, NextGen India Investments Research

Office supplies and stationary business (OSSB) has a market size of Rs 20 billion in India. The market is growing at 8% p.a. The market is highly fragmented with presence of many unorganized players. BILT aims to be the leader of this segment. We expect that the company can capitalize on knowledge of supply chain, value of BILT brand and ability to launch customize products to become leader. The company recorded sales of Rs 1.9 billion from this segment in 2009; it is 65% higher than the previous year.

Office supply and retail stationary business has substantial long term potential

As part of growth strategy for OSSB segment, BILT entered office supply retailing business. It opened its first store P3 (Paper, print and pens) in 2008. On B2B segment, it has established strong business relationships with 300 clients. To cater B2C segment it opened 7 stores during 2008-09. For FY 2009, turnover from office supply retailing segment was Rs 186 million; we expect the turnover to be significantly higher in coming years. The business uses sizeable product range in the non paper segments through outsourced products like pencils, glue sticks, tapes and files, and brands them under BILT range of products. Over the long run this business can be a significant revenue driver for BILT as it would use distribution strengths to gain market share in non paper office stationary segments. More importantly the business would complete the paper value chain from forest development to meeting needs of final consumers. SPV structure of the organization allows special attention to cater to the specific growth needs of OSSB and office supply retail business.

Successful acquisition of Sinar Mas and SFI demonstrate strong inorganic growth capabilities

Synergistic acquisitions across value chain

BILT has gained expertise in growth through inorganic route. Over the last 20 years it made 4 major acquisitions and significantly scaled up operations of the acquired companies. In 2001, BILT acquired Sinar Mas for US$114.5 million. The acquisition increased BILT's market share in coated paper market significantly. In 2007 BILT acquired Sabah Forest Industries (SFI) for US$261 million. The acquisition added pulp and paper capacities. It is also benefited by forest concession granted by Malaysian .government with respect to 289,000 hectares of land available for captive plantation till the year 2094. SFI is the only integrated producer of uncoated writing and printing paper in Malaysia and enjoys leadership position with over 50% market share. However in Malaysia, cut size paper segment is the fastest growing and SFI has only 10% market share. SFI has plans to focus on cut size segment to provide long term growth impetus. Company's ability to successfully acquire, integrate and utilize synergies to scale up operations of the acquired companies is a key skill and would be a significant value driver over the long run. We expect that globally recessionary conditions in the paper industry would lead to consolidation. BILT is ideally suited to leverage the opportunity and in the near future may use inorganic route to further expand operations in other countries.

Exhibit 10: BILT's acquisitions history

Year	Acquired Company
1990	Sewa Paper Mills
1992	Choudwar unit
2001	Sinar Mas Pulp and Paper (I) Limited
2007	Sabah Forest Industries Sdn Bhd, Malaysia

Source: Company data

To continue trading at high multiples due to management quality, integrated operations and strong brands

Peer comparison

BILT is currently trading at a premium to other paper companies. Over the last 1 year, BILT has added substantial paper capacities. While these assets have been funded by significant addition to debt and equity, revenue generation of incremental capacities recently started from January 2010. We expect significant increase in sales over the next 2 years. There has been a trend of expansion in paper capacities with other major players. We expect that TNPL and West Coast Paper would also commence expanded capacities in the calendar year 2010. While due to high domestic demand growth paper market would absorb additional supply, in our view managing procurement of key inputs such as wood fiber would play a critical role in maintaining profitability. BILT is ideally positioned to manage such situation as it has strong backward linkages and its operations are vertically integrated. Traditionally BILT has traded at a higher valuation than its peers. It is attributed to management quality, strong presence in high growth paper segments, integrated operations and company's ability to decommoditize its products by establishing strong brands. In the long run we expect the valuation premium to maintain. BILT's focus on Office stationary and retailing segment would present attractive growth opportunities and maintain valuation gap with peers.

Exhibit 11: BILT trading at a premium valuation

	BILT	JK Paper	TNPL	West Coast
Share price	25.5	48.3	89.9	57.5
PE	10.9	4.8	7.0	4.4
P/BV	0.8	0.9	0.9	0.7
EV/Sales	1.7	1.0	1.5	2.6
EV/EBITDA	7.6	4.7	4.5	13.0

Based on trailing 12 months results

Source: Bombay Stock Exchange, NextGen India Investments Research

Financial Projections

Asset led revenue growth to gain momentum

Full benefits of all expansions to accrue from January 2010

Most of the expansion projects undertaken by BILT in the last three years have started commercial production and full benefits of expansion would accrue from January 2010. There has been substantial addition to fixed assets. We expect consolidated sales to grow at a CAGR of 24% over the next 2 years. Recently added uncoated wood free paper capacities at Ballarpur unit and increased coated paper capacities at Bhigwan unit would be major source of incremental sales in FY 2009-10. Due to uncertain international paper market, company has been reviewing plan to expand paper and pulp capacities at SFI, Malaysia. In our view there would be substantial expansion of OSSB and retail business in FY 2010-11. Addition of newer capacities at BILT would be accompanied by corresponding increase in fixed assets.

Exhibit 12: Strong revenue growth over the next 2 years

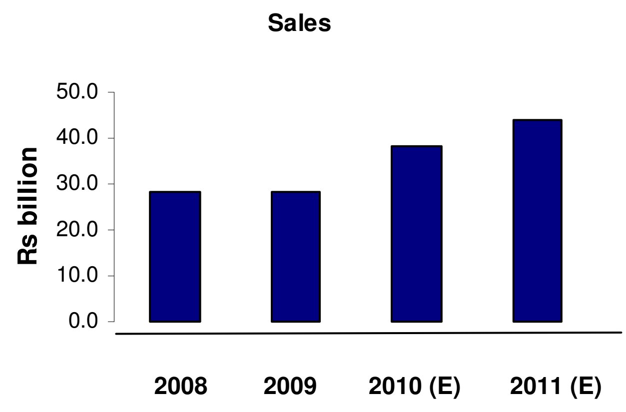
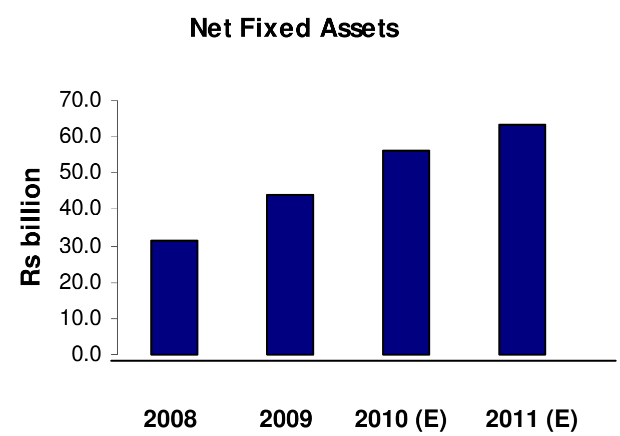


Exhibit 13: Revenue growth led by new capacities and higher asset base



Source: NextGen India Investments Research

Building an efficient pool of assets to generate long term cash inflows

Paper is an asset heavy industry. Compliance with Corporate Responsibility for Environment Protection (CREP) regulations requires substantial investments in eliminating the use of chlorine in manufacturing process and installing environment friendly equipments. A majority of these investments are not only prohibitive but also non remunerative. Compliance to CERP also extended commissioning period of expansion projects and impacted returns ratios. For many companies such compliance is mandatory and prohibitive to expand. Therefore risk perception of new projects among lenders has increased and payback period of initial investments became longer than before. BILT has been proactive about compliance to CREP regulations and its all paper mills are CREP compliant. We believe that building an efficient pool of assets would be a long term value driver for BILT. It would not only ensure stable cash flows in the long run but it's large pool of efficient fixed assets would also act as an entry barrier for competitors.

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Higher EBITDA to ensure debt servicing

Optimum combination of debt and equity derisks capital structure

Exhibit 14: Asset growth is funded by higher debt

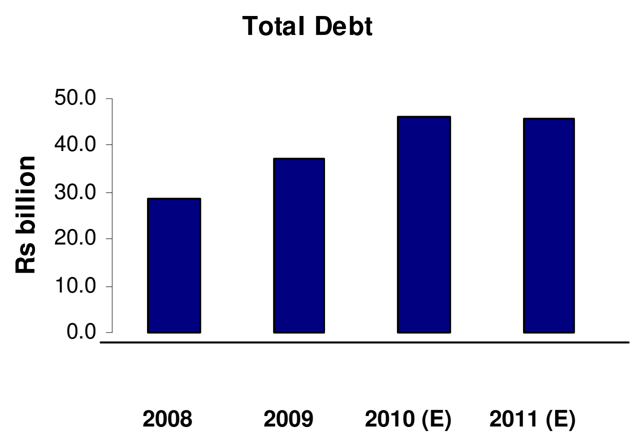
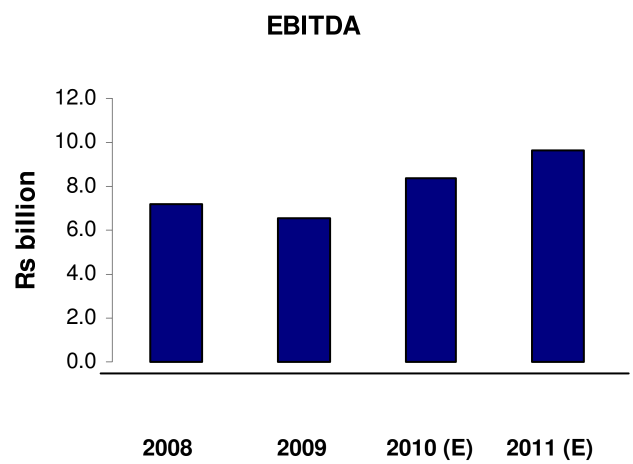


Exhibit 15: Higher EBITDA to ensure debt servicing



Source: NextGen India Investments Research

We expect the company to build assets with the combination of debt and equity. While the company is reinvesting its operating cash flows to fund capacity expansion, total debt is also expected to increase. We expect total debt to reach at a peak level of Rs 45.7 billion in FY 2010-11. Equity infusion by promoters and higher retained earnings due to increased profitability are expected to keep total debt/equity at a manageable level. In our view, relatively less leveraged capital structure is a key advantage in paper industry as it derisks the company against cyclical downturn. We expect BILT to strategically use its strong balance sheet to make acquisitions across paper value chain and fund its retail initiatives. While we expect paper prices to stay range bound over the next 2 years, increased sales would lead to higher EBITDA.

Completion of expansions in time and commencement of commercial production without any technical bottleneck are key technical strengths in the execution of expansion projects for BILT over its domestic competitors. Timely completion of expansion projects is expected to keep Total debt/ EBITDA between 4.5 and 5.8 over the next 2 years.

Higher OCF generation to help retire long term debt

In the long run, we expect BILT to generate higher operational cash flow due to increased EBITDA, lower non discretionary capital expenditure as most of the capacities are new, and efficient working capital management; these factors would enable it to retire long term debt.

We also expect that over the long run operational cash flow from paper business would be utilized to substantially expand BILT's retail stationary business. In our view, conservative capital structure and effective utilization of operational cash flow would be significant value drivers for the shareholders of BILT.

Initiating coverage with an overweight

Based on long term assumptions about paper prices and free cash flow, we have applied DCF. The model arrives at a per share value of Rs 40.6. The stock is currently trading at 5.9x FY11E PE, 6.5x FY 11E EV/EBITDA and 0.7x FY 11E P/BV. We assign overweight (OW) rating to the stock.

Exhibit 16: Assumptions underlying DCF model

Growth rate during 2013-2025E (%)	4.0
Growth rate post 2025E (%)	1.5
Beta (:1)	0.9
Risk free rate (%)	7.8

Source: NextGen India Investments Research

Risks and Concerns

Dependence on external suppliers for wood fiber

Limited supply of wood fiber is a major concern

BILT is dependent on external suppliers for bamboo and wood that is used to produce pulp in captive mills. A large proportion of fiber requirement is met through supply contracts and other arrangements from private sources including farmers, and state governments. While fiber resource development (FRD) program has increased the contribution of procurement from local farmers, the risk of price increase from state government sources remains. Capacity addition by competitors would add further pressure on fiber supply. Due to competitive nature of the industry, paper producers have limited ability to pass the impact of cost increases to consumers. Such situation if arises may impact BILT's profit margins adversely.

Cost of coal and other production inputs

Cyclical upturn in caustic soda prices may increase production costs

Captive power plants of BILT have coal supply arrangements with state government owned coal mines. Increase in coal prices by government would increase cost of production for BILT and may reduce profit margins. The company procures caustic soda and other chemicals through market purchases. Caustic soda has various industrial applications and it is also used as a basic feedstock to manufacture wide range of chemicals. Global demand of caustic soda depends on GDP growth while its supply is influenced by the chlorine derivatives market since caustic soda is coproduced with Chlorine. But since these two products are consumed in different industries, that adds to cyclicality in the prices of caustic soda. Cyclical upturn in caustic soda prices would impact profitability of BILT.

Exchange rate fluctuation

A substantial part of BILT's borrowings are denominated in foreign currency. Depreciation of Indian rupee against US$ and other major foreign currencies would have an adverse impact on company's cost of borrowings in rupee terms. In addition to it, the foreign currency exposure adds to volatility in earnings as BILT has experienced and would continue to record foreign currency gains and losses on debt obligations denominated in foreign currencies.

Impact of import

Imported paper is primarily higher grade, value added paper. This type of paper currently comprises over two thirds of BILT's production. Currently import of this paper is subject to customs duty. Freight and transportation costs further increase landed cost of imported paper. In case of reduction in customs duties, the competitiveness of BILT's products would be adversely affected and it would result in fall in price realizations.

Trend in paper prices

Unexpected decline in paper prices may affect returns

Paper prices depend on economic growth. By acquiring Sabah Forest Industries in Malaysia, BILT's operations are now exposed to international paper cycle. Severe downturn in international and domestic paper prices may adversely impact BILT's profitability and debt servicing. However BILT has one of the highest operating margins and strongest balance sheets among domestic paper manufactures therefore it is better suited than its domestic competitors to withstand industry downturn.

Exhibit 17
Peer Comparison: Key financials

(Rs billion)

Operating indicators	BILT	JK Paper	TNPL	West Coast
Sales	31.1	10.7	9.7	6.1
EBITDA	6.9	2.3	3.2	1.2
EBITDA margin (%)	22.1	21.1	32.9	19.8
Firm's value				
Market Capitalization	15.3	3.8	6.2	3.8
Total Debt	37.1	7.0	8.1	11.7
Enterprise value	52.5	10.8	14.3	15.6
Valuation				
Share price (INR)	25.5	48.3	89.9	57.5
PE (:1)	10.9	4.8	7.0	4.4
P/ BV (:1)	0.8	0.9	0.9	0.7
EV/ Sales (:1)	1.7	1.0	1.5	2.6
EV/ EBITDA (:1)	7.6	4.7	4.5	13.0

(based on trailing 12 months results: From December 2008 to December 2009)

Source: Bombay Stock Exchange, NextGen India Investments Research

Exhibit 18
Summary: Financial Statements (Consolidated)

Income Statement (Year ending June 30) INR bn	2008A	2009A	2010E	2011E
Net Sales	28.3	28.2	38.2	43.7
EBITDA	7.1	6.6	8.3	9.6
Interest	1.5	1.7	2.1	2.5
Depreciation	1.9	2.3	2.9	3.4
Tax	0.7	0.6	0.6	0.8
Net Income	**3.0**	**1.9**	**2.7**	**2.9**

Improved earnings visibility would lead to higher OCF

Cash Flow (Year ending June 30) INR bn	2008A	2009A	2010E	2011E
Opening cash	3.7	4.9	1.0	4.9
Cash from operations	7.6	5.8	7.3	8.4
Cash from investments	(9.3)	(13.5)	(15.4)	(6.6)
Cash from financing	3.4	6.2	12.0	(0.3)
Change in cash during the year	1.7	(1.5)	3.9	1.5
Impact of foreign currency translation reserve	(0.5)	(2.3)	-	-
Closing cash	**4.9**	**1.0**	**4.9**	**6.4**

Balance Sheet (As on June 30) INR bn	2008A	2009A	2010E	2011E
Issued Capital	1.1	1.1	1.2	1.3
Reserves	16.6	17.2	20.9	23.5
Minority Interest	4.6	3.7	3.9	4.2
Secured loans	20.7	28.3	35.6	37.3
Unsecured loans	8.1	8.9	10.5	8.4
Deferred Tax liability	1.3	1.8	2.1	2.4
Total Liabilities	**52.4**	**60.9**	**74.2**	**77.2**
Net Current Assets	9.5	7.9	9.6	10.0
Net Fixed Assets	31.3	43.9	56.2	63.3
Capital Work in Progress	9.3	8.0	7.6	3.2
Advance for capital assets	2.1	0.6	-	-
Investments	0.2	0.2	0.4	0.4
Miscellaneous Expenditure	0.1	0.2	0.3	0.3
Total Assets	**52.4**	**60.9**	**74.2**	**77.2**

Increase in debt to primarily fund expansions

Source: Company data, NextGen India Investments Research
E: NextGen India Investments Research estimates

Exhibit 19
Financial ratios

	2009A	2010E	2011E
EBITDA margins (%)	23.2	21.9	22.0
NPM (%)	6.7	7.0	6.6
Total debt/ EBITDA (:1)	5.7	5.5	4.8
Total debt/ Equity (:1)	2.0	2.1	1.8
ROE (%)	10.3	12.2	11.6
EV/ Sales (:1)	1.9	1.6	1.4
EV/ EBITDA (:1)	8.0	7.4	6.5
PE (:1)	8.2	5.7	5.9
P/ BV (:1)	0.8	0.7	0.7
FCF/Share (:1)	5.8	7.3	7.5
FCF yield (%)	22.5	28.7	29.3

Source: Company data, NextGen India Investments Research
E: NextGen India Investments Research estimates

APPENDIX I

Disclosure Section

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Rating definitions

Overweight (OW) – The stock's total return is expected to exceed the total return of the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months

Neutral (N) – The stock's total return is expected to be in line with the total return of the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months

Underweight (UW) – The stock's total return is expected to be below the total return of the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months

Not-Rated (NR) – Currently we do not have adequate conviction about the stock's total return relative to the MSCI India Total Return Index, on a risk adjusted basis over the next 12-24 months

Unless otherwise specified, the time frame for price targets included in NextGen India Investments Research is 12 to 24 months.

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