

Ballarpur industries (BILT) (Buy @Rs19 with a price target of Rs33)

Industry	Paper & Paper Products
Company P/E	8xFY13-14E
Market Cap. (Rs)	1250Cr
Dividend	25%

BSE/NSE Code	500102 / BALLARPUR
52 Week H/L (Rs)	26 / 17
Promoter Holding	49%
Face Value (Rs)	2

The story so far

The Rs47bn BILT is India's largest integrated pulp and writing and printing (W&P) paper company (coated wood free, uncoated wood free, copier paper, business stationery and cream-woven). It accounts for over 53% of the coated wood-free paper market, 80% of the bond paper market and nearly 35% of the hi-bright Malpitho market, besides being India's largest exporter of coated and uncoated paper. It entered the tissue paper business in FY11 through the acquisition of Premier Tissue India Ltd and also forayed into office supply retail store chain under the brand name P3. Its multi-tier distribution system is spread across the country. BILT operations are carried out from 7 manufacturing units - 6 in India and 1 in Malaysia – SFI (Sabah Forest Industries). SFI was acquired in FY07 primarily to secure supply of feedstock (wood) for manufacturing hardwood pulp. SFI has a 99-year concession with the Malaysian Government to procure wood from over 288,000 hectares of land of which 38% is dedicated to high yielding plantations like acacia and eucalyptus.

The W&P business is through the step-down subsidiaries SFI & BGPPL (BILT Graphic Paper Products Ltd) while the rayon grade pulp and tissue business is through BILT. BGPPL and SFI together constitute 75% of consolidated revenues. BILT closed FY12 with 5.6% growth in consolidated sales at Rs.47bn while sharp hike in input costs – pulp, fuel and energy impacted net profits by 42% at Rs1.23bn.

The story ahead

BILT's hardwood pulp dependency on imports and third party outsourcing increased significantly subsequent to paper capacity expansion in FY10. In our view, with the completion of backward integration of pulp capacity of 120,000 tpa at SFI and 170,000 tpa at Ballarpur in this fiscal, the trend is now set to reverse and margin expansion is on cards. Captive pulp manufacturing, while insulating the operations from volatility in pulp prices also mitigates forex risk to a large extent.

Notwithstanding the highly popular digital culture and widespread penetration of high speed broadband internet which increasingly promote paperless systems, growing public and private investment in the education sector, rising literacy levels and surging demand for office stationery & printing are the major growth drivers for robust demand for paper in the foreseeable future. BILT has therefore amplified its focus on the high growth, high margin sub-segment of hi-bright Malpitho paper and copier paper (mainly used in school books, annual reports, premium note books, movie posters, calendars etc) to strengthen its market position.

After a capex heavy phase during FY08-12, BILT is presently on a threshold of an improving business and financial profile as expansion benefits start seeping into its integrated business model. In our view, the earnings visibility has gained traction as lower dependency on imported pulp, savings on power/fuel costs due to power plant purchase from Avantha Power, as well as strategic focus on premium paper categories yielding high margins would improve margins from the current fiscal onwards. Despite being in a poor ROE business, **we recommend a Buy on BILT at Rs19 based on 8xFY13-14E earnings with a 9 month price target of Rs25 and an 18 month price target of Rs33**

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