

Aditya Birla Nuvo - Buy

Investment overview

- Aditya Birla Nuvo a diversified conglomerate and a part of Aditya Birla Group has shown a tremendous growth in its financial segment business.
- The company is the second largest carbon black manufacturer in India and fourth largest producer in world. With its planned 170,000 MT capacity expansion it is well positioned to tap the demand growth.
- Aditya Birla Nuvo is continuously looking for opportunities across the businesses to achieve the next level of growth.
- Its other businesses, Fashion & Lifestyle and IT-ITeS too have been showing strong growth in top-line and bottomline.

Business Overview

Aditya Birla Nuvo is a diversified conglomerate, a part of India's premier business house Aditya Birla Group and the platform that has launched many new businesses. Aditya Birla Nuvo has a portfolio of manufacturing as well as service sector businesses under its umbrella ranging from textiles to financial services. Over the past few years, Aditya Birla Nuvo, through its subsidiaries and joint ventures, has made successful forays into life insurance, telecom, business process outsourcing (BPO), IT services, asset management and financial services.

The company is having business interest in Viscose Filament Yarn, Garments, Carbon Black, Agri solutions, Textiles and Insulators. Over the years, it has made successful ventures into the sunrise sectors viz., Financial Services (Life Insurance, Asset Management, NBFC, Private Equity, Broking, Wealth Management and general insurance advisory), Telecom, Fashion and Lifestyle and IT-ITeS.

Indian Rayon, a major player in the Indian viscose filament yarn business, is the second largest producer of viscose filament yarn (VFY) in India with a 38 per cent domestic market share.

Aditya birla Nuvo is the country's largest premium branded apparel maker. The apparel business of the company dominates the premium and popular segments of the Indian lifestyle market with its brands - Louis Philippe, Van Heusen, Allen Solly, Peter England and The Collective - that personify style, attitude and comfort.

Hi-Tech Carbon, the carbon black business of Aditya Birla Nuvo, is the second largest producer of carbon black in India. With manufacturing plants at Renukoot in U.P and Gummidipoondi in Tamilnadu, Hi-Tech Carbon is the second largest producer of carbon black in India, covering 37 per cent of the domestic market share.

Indo Gulf, the agri input business of Aditya Birla Nuvo, manufactures and markets urea, agricultural seeds and agrochemicals. It's the first company to introduce the principles of Six Sigma in the agricultural fields, Indo Gulf has unique value-added products and services to help farmers achieve higher yield, quality and profits.

Jaya Shree Textiles, Aditya Birla Nuvo's textile division, is India's top linen brand manufacturing company. It is the only integrated linen factory in the country with state-of-the-art facilities equipped with the latest spinning, weaving and finishing system from Switzerland and Italy. A leading player in the domestic linen and worsted yarn segment, the company has significantly revolutionised the Indian textile market by popularising 'linen' in India across a wide customer base with its brand Linen Club.

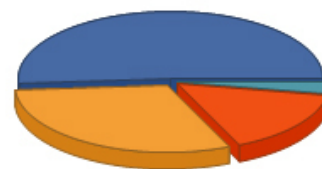
Aditya Birla Insulators, the insulators business of Aditya Birla Nuvo, is India's largest and the world's fourth largest

Stock Data

As on 16 Dec 2011

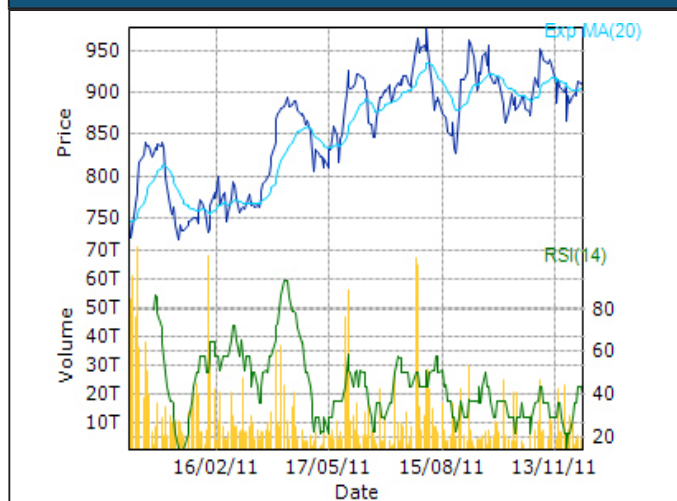
Current Mkt Price (Rs)	825.45
52 Week High	993.65
52 Week Low	719.00
Mkt Cap (Rs. in Million)	9,369.00
Return in last one Month (%)	-9.77

Share Holding



51.05 Indian Promotor	30.67 Total Institutions
15.44 Total Non-Institutions	2.84 Depository Receipt

Performance in last one year



Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2011	Mar 2010	Change(%)
Net Sales	6444.53	4827.47	33.50
Other Income	58.01	70.92	-18.20
Total Expenditure	5532.43	4063.89	36.14
Operating Profit	970.11	834.50	16.25
Interest	281.08	334.10	-15.87
Profits After Tax	379.69	283.40	33.98
Reserve & Surplus	0.00	0.00	19.68
Reported EPS(Rs)	33.45	27.51	21.58
Core EBITDA Margin (%)	13.62	15.31	-11.10

manufacturer of high-voltage porcelain insulators. The Aditya Birla Insulators' product range is exported to 58 countries around the world with focus on markets in Europe and America. Aditya Birla Insulators exports one third of its total sales.

Financial Health

Aditya Birla Nuvo's results for the quarter ended September 30, 2011 showed good improvement, the consolidated revenue grew by 18 percent from Rs 4,533 crore to Rs 5,342 crore. The EBITDA was up by 25 percent to Rs 779 crore from Rs 621 crore in the same quarter last year, while the net profit surged by 104% to Rs 214 crore from Rs 105 crore.

The company has posted strong growth in its operating performance driven by consistent improvement in earnings across the businesses. During the quarter, Aditya Birla Financial Services (ABFS) posted consolidated revenue of Rs 1,680 crore, up by 4 per cent over the previous year, while the profitability before tax, more than doubled to Rs 138 crore from Rs 62 crore. Its insurance business Birla Sun Life Insurance, (BSLI) earnings before tax surged from Rs 20 crore to Rs 97 crore. Telecom business EBITDA rose by 30 per cent to Rs 1,159 crore. The manufacturing revenue grew by 25 per cent to Rs 1,469 crore during the quarter, while the EBITDA de-grew by 7 per cent to Rs 191 crore.

Industry Scenario

India is among the world's top producers of yarns and fabrics, and the export quality of its products is ever increasing. Textile Industry is one of the largest and oldest industries in India. Textile Industry in India is a self-reliant and independent industry and has great diversification and versatility. It is the second largest textile industry in the world after China. Apart from providing one of the basic necessities of life i.e. cloth, the textile industry contributes about 14% to the country's industrial output and about 17% to export earnings. After agriculture this industry provides employment to maximum number of people in India. The textile industry can be broadly classified into two categories, the organized mill sector and the unorganized decentralized sector.

The Industry witnessed strong growth in three years preceding the FY09 with exports surging at double digit pace, but was also one of the hardest hit by the global economic downturn as demand from both export and domestic markets declined. After facing two consecutive difficult years, the industry is on the recovery road now. During the crisis, the hardest hit companies were the ones with greater share of revenue from exports. While players with a greater focus on domestic demand were hit too, the improvement in Indian economy much ahead of the global scenario helped the locally focused textile companies begin recovery in second half of 2009.

The production and consumption of carbon black has gradually shifted toward Asia, which accounted for more than 60% of global production and consumption in 2010. The demand for carbon black is going up in India. The Indian carbon black industry has more than enough capacity to meet the country's domestic demand and in fact is a net exporter of carbon black. Further, automobile companies are developing smaller cars for the domestic as well as the overseas markets, which may see India emerge as an export hub for smaller cars, resulting in an exponential demand growth for tyres and carbon black after three to five years. With a brisk pick-up in the tyre sector, demand for carbon black is expected to increase 8% to 10% per annum in the domestic market.

Latest developments:

Shree Textiles, part of the Aditya Birla Nuvo Group, which markets the brand 'Linen Club', has hiked the price of its

Q-o-Q Performance

(Rs. in Million)			
Particulars	Sep-11	Sep-10	Change (%)
Net Sales	2,052.27	1,638.81	25.23
Expenditure	1,808.12	1,390.82	30.00
Other Income	15.16	20.38	-25.61
EBITDA	259.31	268.37	-3.38
Interest	81.55	73.16	11.47
Net Profit	91.94	119.58	-23.11
EBITDA Margin (%)	0.13	0.16	-22.84
NPM (%)	0.04	0.07	-38.60
EPS	8.10	11.61	-30.23

Profit & Loss

(Rs. in Million)			
Particulars	Mar 2011	Mar 2010	Change(%)
Net Sales	6444.53	4827.47	33.50
Total Income	6502.54	4898.39	32.75
Total Expenditure	5532.43	4063.89	36.14
Operating Profit	970.11	834.50	16.25
Profits After Tax	379.69	283.40	33.98

Balance Sheet

(Rs. in Million)			
Particulars	Mar 2011	Mar 2010	Change(%)
Share Capital	113.61	103.11	10.18
Reserve & Surplus	5283.00	4414.20	19.68
Total Liabilities	8687.95	8301.53	4.65
Investments	5477.40	5435.85	0.76
Current Liabilities	1233.92	889.03	38.79
Net Current Assets	1526.16	1228.87	24.19
Total Assests	8687.95	8301.53	4.65

Key Ratios

Particulars	Mar 2011	Mar 2010
Reported EPS (Rs)	33.45	27.51
Core EBITDA Margin (%)	13.62	15.31
EBIT Margin (%)	11.59	13.12
ROA (%)	4.47	3.35
ROE (%)	7.66	6.86
ROCE (%)	9.14	7.73
Price/Book (x)	1.71	2.07
Net Sales Growth (%)	33.50	0.86
EBIT Growth (%)	18.61	44.48
PAT Growth (%)	33.98	106.21
Total Debt/Mcap (%)	0.36	0.39

Peer group comparison

(Rs. crore)

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E
Aditya Birla Nuvo	201103	6444.53	912.10	379.69	5.89	33.45	24.57
Max India	201103	421.55	-26.38	-42.10	-9.99	-1.81	0.00
3M India	201103	1175.57	139.79	98.81	8.41	87.71	46.75
Balmer Lawrie	201103	1986.16	133.03	121.09	6.10	74.35	6.11

fabrics by 4-5 per cent since the beginning Of December. The entire range of linen fabric offerings of the company is sold as a premium category product in India.

Investment Rationale

- Aditya Birla Nuvo posted strong earnings for the September quarter amidst the challenges of prevailing macro-economic environment that affected few of its businesses. Its financial services arm strengthened its position as a significant non-bank financial services player, while its Life Insurance and Asset Management businesses improved their rankings. In September, the life insurance business showed 61% growth in premiums compared with a 14% decline for the whole private sector. Aditya Birla Financial Services (ABFS) has a strong parent brand and with entry in two new lines of businesses in past three years, it has not only diversified its product offerings but has also scaled its operations to become a large non-bank player with a strong financial performance. Its insurance business too has performed well and after various rationalisation initiatives its savings have been improving regularly. On the same time its general insurance advisory business too is likely to improve as lower general insurance penetration in India is likely to boost growth of general insurance industry in the near future.
- Aditya Birla Nuvo is the second largest carbon black manufacturer in India; the company is one of the lowest cost producers and has the locational advantage of being near the sea coast. The company also gets value contribution from energy sales. The Aditya Birla Group produces 780,000 tpa of carbon black, making it the world's fourth largest producer of carbon black. To tap buoyant demand, domestic carbon black manufacturers expanded capacities during the year. Further, the domestic tyre demand is expected to grow at a CAGR of 10-12% over 2010-11 to 2015-16 and with its planned 170,000 MT capacity expansion, Hi-tech Carbon, the carbon black business of ABNL is well positioned to tap the demand growth and improve its market share. Though, in last quarter the carbon black businesses was affected by lower off-take but the company's business had benefited from low cost inventory. Hi-Tech Carbon is planning to augment its capacity further by 85,000 MTPA at Patalganga in the second phase besides 85,000 MTPA expansions in the southern India.
- The textiles business of Aditya Birla Nuvo which manufactures linen fabric and yarn is operated by Jaya Shree Textiles, a wholly-owned unit of the company, which is expecting its turnover to grow to Rs 750-800 crore in next four-five years from the present Rs 300 crore. While its garment business continue to maintain its leadership, Madura Fashion & Lifestyle is the largest premium branded apparel player in India. It sells one branded apparel every two seconds serving varied

*latest based on last traded price

fashion and lifestyle needs of customers through over 950 exclusive brand outlets. Though there are some headwinds for the segment as high inflation is putting pressure on discretionary spends. Secondly, excise duty has been levied on branded garments; also the prices of cotton, a key raw material, surged since second half of 2010-11. Though the company like other players in the sector may go for a price hike of apparels but due to high inflation the overall demand may get impacted. However, the brand holds a leadership position and is capable of outperforming the market and competition. The company is planning to open about 200 more stores to tap domestic demand and will be mitigating impact of rise in costs through appropriate pricing and product strategy.

- Aditya Birla Insulators, the insulators business of the Company, is India's largest and world's fourth largest manufacturer of insulators. The growth of insulators industry is linked to the growth of the power sector. Power generation capacity addition in 11th five year plan (2007-12) is expected to be 2.7 times of capacity added during 10th five year plan. During 12th five year plan (2012-17), target is to add 100,000 MW of power capacity addition and the Indian insulators market size is expected to grow multifold led by planned 100 GW power capacity additions. In the final year of the 11th plan, the government too is likely to rush up to complete its estimated target and that will create huge demand. To capitalise on the vibrant demand in the power infrastructure sector, the company will be focusing on improving yield, augmenting product mix and capacity expansion through debottlenecking.
- At the current market price of Rs 825.45, Aditya Birla Nuvo is trading at 23.97x FY12E and 20.87x FY13E respectively, we would recommend "BUY" in the scrip with a price target of Rs 1020 for medium to long term prospective. Aditya Birla Nuvo is continuously looking for opportunities across the businesses to achieve the next level of growth. The company has earmarked a capex of about Rs 859 crore to be spent during FY12 - FY14. The company's Life Insurance business posted maiden profit in last year and has continued its growth path in the second quarter of this fiscal too. Its other businesses, Fashion & Lifestyle and IT-ITeS too have been showing strong growth in top-line and bottomline. Powered by an optimum mix of revenue and profit streams, the company is in a strong position to invest in high growth businesses to maximise long-term shareholder gains. However, the company is exposed to the risk of fluctuation in prices of raw materials as well as finished goods in all its products but too had been mitigated through high inventory levels, but still the company is likely to keep its growth story intact in the coming quarters.

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