

Independent Equity Research

Enhancing investment decisions



In-depth analysis of the fundamentals and valuation

Beardsell Limited

Q4FY10 Result update

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CRISIL's Equity Offerings

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- IPO Grading
- White Labelled Research
- Valuation on companies for use of Institutional Investors, Asset Managers, Corporates

Other Services by the Research group include

- CRISINFAC Industry research on over 60 industries and Economic Analysis
- Customised Research on Market sizing, Demand modelling and Entry strategies
- Customised research content for Information Memorandum and Offer documents

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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List of companies under coverage

Sl. No.	Report Date	Company Name	Sector	CMP	M. Cap (Rs. Mn)	Initiating Coverage		Last Update	
						Fundamental value	Fundamental grade	Fundamental value	Fundamental grade
1	02-Feb-10	Aarti Industries	Chemicals	49	3,757	56	3/5	56	3/5
2	31-Jan-10	ABG Shipyard	Shipping	315	10,286	242	3/5	259	3/5
3	01-Feb-10	Apollo hospitals	Hospitals	712	44,102	642	4/5	724	4/5
4	04-May-10	Beardsell Limited	Packaging/Expanded Polystyrene	64	245	54	3/5	54	3/5
5	06-Apr-10	Dhanuka Agritech Ltd	Pesticides	271	2,483	283	3/5	-	-
6	29-Jan-10	DLF	Real Estate	335	568,495	356	3/5	356	3/5
7	27-Jan-10	Dolphin Offshore	Oil & Gas	385	6,060	315	3/5	417	3/5
8	05-Feb-10	EID Parry	Sugar	348	30,050	394	4/5	395	4/5
9	01-Feb-10	Everest Kanto	Manufacturing	131	13,252	270	4/5	135	4/5
10	11-May-10	GKB Ophthalmics Ltd	Ophthalmic Lens	48	199	52	2/5	-	-
11	23-Feb-10	Havells India Ltd	Capital Goods	533	32,070	614	4/5	-	-
12	29-Jan-10	Hero Honda	Automobiles	1,889	377,240	1,747	5/5	1937	5/5
13	02-Mar-10	Hindusthan National Glass & Industries Ltd.	Packaging/Glass	240	21,049	314	4/5	314	4/5
14	13-May-10	Hydro S&S Industries Ltd.	Petrochemicals Plastic Compounds	71.5	465	32.5	3/5	-	-
15	11-Feb-10	Indiabulls Securities	Financial Services	31	7,932	60	4/5	48	4/5
16	05-Feb-10	JBF Industries	Textiles	111	6,882	119	3/5	129	3/5
17	05-Feb-10	JM Financial	Financial Services	39	30,550	57	4/5	57	4/5
18	21-Jan-10	KKCL	Fashion and apparels	265	3,292	336	3/5	336	3/5
19	20-May-10	KLRF	Flour milling, yarn spinning, castings	32	161	35	2/5	-	-
20	01-Feb-10	KRBL	Agriculture/Rice	194	4,716	340	3/5	340	3/5
21	11-May-10	KSE Limited	Animal Feed	210	673	200	3/5	-	-
22	31-Jan-10	NTPC	Power	214	1,764,537	228	5/5	231	5/5
23	29-Jan-10	Pantaloon Retail (India)	Retail	406	77,282	*	4/5	*	4/5
24	04-Feb-10	Phoenix Mills	Real Estate	203	29,404	160	2/5	183	2/5
25	22-Apr-10	Polaris Software	Information Technology	186	18,407	247	4/5	-	-
26	19-Apr-10	Sangam (India) Ltd	Textiles	33	1,380	46	3/5	46	5/5
27	03-Feb-10	UTV Software	Media and Entertainment	498	17,066	548	3/5	538	3/5
28	07-May-10	Zylog System	Information Technology	456	7,494	530	3/5	-	-

CMP - Current Market Price (as on date of respective report)

M Cap - Market Capitalisation (as on date of respective report)

*NA - Not Applicable (Company has requested for a fundamental grading only)

Independent Research Report – Beardsell Limited



Margins disappoint now, will improve in near term

Industry
Date

Packaging | Expanded Polystyrene
June 01, 2010

Beardsell's FY10 revenues grew 5.6% y-o-y and were in line with our expectations. Adjusted PAT increased 54.5% y-o-y to Rs 15 mn in FY10, but was below our expectations. We continue to assign Beardsell a fundamental grade of '3/5', indicating its fundamentals are 'good' relative to other listed equity securities in India. We assign a valuation grade of '2/5', indicating that the market price has 'downside' from the current levels.

Q4FY10 result analysis

- Beardsell's Q4FY10 revenues were 26.4% y-o-y higher at Rs 165 mn mainly due to growth in expanded polystyrene (EPS – thermocol) and prefab panel segments.
- EBITDA margin was reported at 3.2% in Q4FY10 as against 5.2% for nine months ended December 2009. Employee cost for the company increased 45.2% y-o-y in Q4FY10 and was 140 bps higher compared to Q4FY09. High employee cost was primarily due to the induction of new managing and executive directors in FY10 along with 10-15% increments across the company.
- Q4FY10 PAT was Rs 3 mn compared to negative 10.5 mn in Q4FY09.

FY10 result analysis

- Beardsell's FY10 revenues were up 5.6% y-o-y at Rs 549.3 mn, in line with CRISIL Equities' expectations of Rs 541 mn.
- Although EBITDA margin improved 210 bps y-o-y to 4.6% in FY10, it was below expectations due to higher employee and other expenses.
- FY10 EPS was up 55% to Rs 4.0, 16.7% below CRISIL Equities' estimates due to a decline in EBITDA margins.

New management has set the platform for capacity expansion

As indicated in our initiation report, the new management has now directed focus on capacity expansion, plant modernisation and new product launches. This is visible in the increase in gross block from Rs 103 mn in FY09 to Rs 134 mn in FY10. We believe the expansion will help the company to increase its market share, and enhance revenues and margins in the near term.

Company well-positioned to ride on growth in user industries

Anticipated growth of 14-15% in user industries like consumer durables, pharmaceuticals and food processing is expected to create a strong demand for EPS. Increase in capacities coupled with new product launches is expected to put the company in the new growth trajectory. We expect revenues to grow at a two-year CAGR of 18.7% to Rs 761 mn in FY12, while EBITDA margins are expected to increase from 4.0% in FY10 to 5.8% in FY12.

Downside valuations

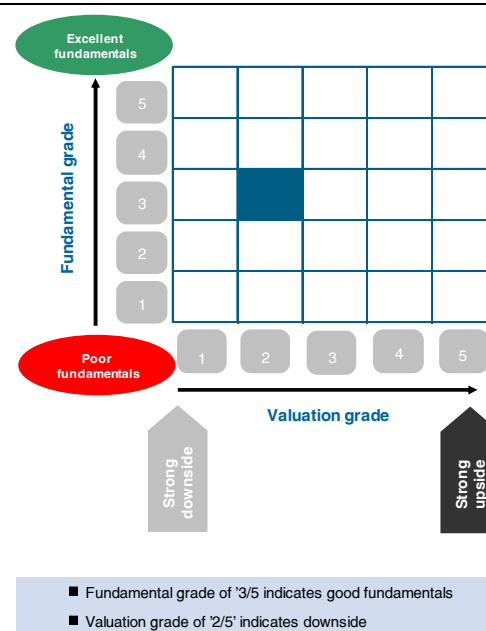
We initiated coverage on Beardsell with a fair value of Rs 54. The market price of the stock, which was Rs 64 at the time of initiating coverage, has moved down since then and is currently Rs 60. At this price, the stock continues to be expensive. We maintain the valuation grade of '2/5' and fair value of Rs 54 per share, indicating that the market price has 'downside' from current levels.

Key forecast (consolidated financials)

(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Operating income	595	520	549	635	761
EBITDA	36	13	25	34	44
Adj net income	23	10	15	22	27
EPS-Rs	6.0	2.6	4.0	5.7	7.0
EPS growth (%)	(7.6)	(87.7)	55.0	44.4	22.4
PE (x)	16.1	12.7	15.0	10.4	8.5
P/BV (x)	2.3	0.7	1.2	1.1	1.0
RoCE (%)	17.9	4.2	9.5	12.5	14.3
RoE (%)	15.0	5.9	8.6	11.4	12.6
EV/EBITDA (x)	9.1	4.5	6.2	4.9	4.3

Source: Company, CRISIL Equities Estimate

CFV matrix

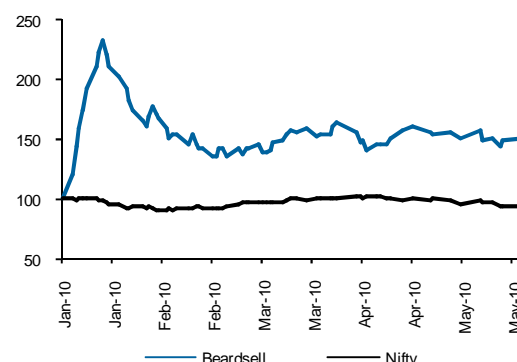


Key stock statistics

NSE Ticker	Beardsell
Fair value (face value Rs 10)	54
Current market price*	60
Shares outstanding (mn)	3.8
Market cap (Rs mn)	228
Enterprise value (Rs mn)	163
52-week range(Rs)(H/L)	100/35
PE on EPS estimate (FY11E)(x)	10.4
Beta	1.7
Free float (%)	51.4
Average daily volumes	298

* as on report date

Share price movement



- Indexed to 100

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Comparison of actual result with our estimates

EBITDA and PAT were lower than expected in FY10

Beardsell's FY10 revenues were in line, while EBITDA and PAT were lower than CRISIL Equities' estimates due to the reasons mentioned on the first page. We had estimated EPS of Rs 4.7, while the actual result was Rs 4.0 in FY10.

Rs mn	FY10		
	Actual	Estimated	% change
Operating income	549	541	1.5
EBITDA	25	29	-12.8
Net income (excl. exceptional items*)	15	18	-16.7
EPS (Rs)	4.0	4.7	-16.7

*excluding one-time gain of Rs 23 mn on account of surrender of tenancy rights

Changes in earnings estimates

Earnings estimates unchanged

There are no changes in the earnings estimates. While the company reported lower-than-expected EBITDA margins, CRISIL Equities believes that the impact of plant modernisation will play out by FY11.

Valuation

We continue to value Beardsell at Rs 54 per share

We continue to use the discounted cash flow (DCF) method to value Beardsell. Based on this method, we continue to value Beardsell at Rs 54 per share.

We initiated our coverage on Beardsell with a fair value of Rs 54. The market price of the stock was Rs 64 at that time (please refer to our initiation report dated May 04, 2010 on www.ier.co.in). Since then, the stock has moved down to Rs 60. We maintain the valuation grade of '2/5', indicating that the market price has 'downside' from the current levels. At our fair value of Rs 54 per share, the implied PE is 9.4x FY11E EPS.

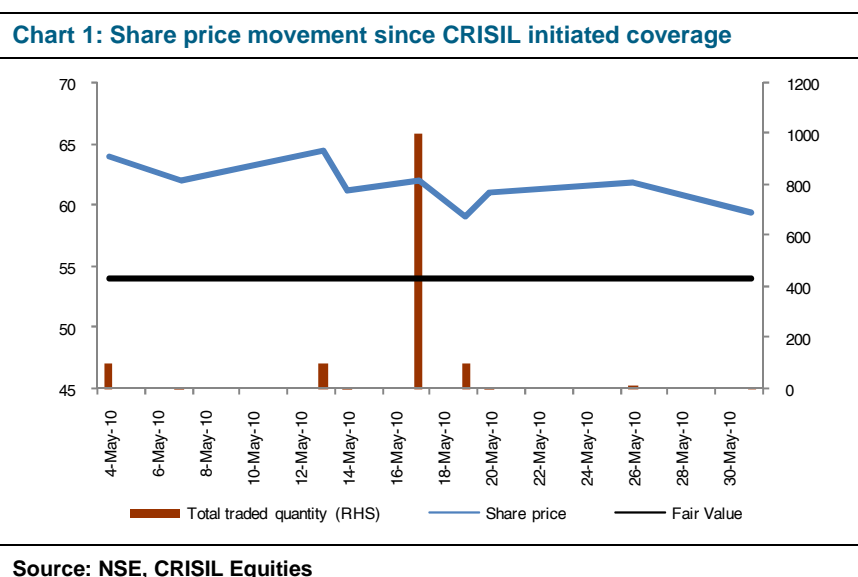


Table 1: Reports released on Beardsell India Ltd

Date	Nature of report	Fundamental Grade	Fair value	Valuation grade	Market price (on the date of report)
4-May-10	Initiating coverage*	3/5	Rs.54	2/5	Rs. 64
01-June-10	Q4FY10 result update	3/5	Rs.54	2/5	Rs. 60

* For detailed initiating coverage report please visit: www.crisilresearch.com or www.crisil.com

Q4FY10 result analysis

Table 2:

Beardsell (Rs mn)	Q4FY10	Q3FY10	Q4FY09	QoQ (%)	YoY (%)
Net sales	165.1	149.8	130.6	10.2	26.4
(Inc)/dec in stock	-3.4	-2.5	7.3	34.9	n.a
Consumption of raw materials	49.2	44.5	29.8	10.7	64.9
Purchase of traded goods	77.4	77.8	49.8	-0.5	55.4
Employees cost	17.3	11.4	11.9	52.2	45.2
Other expenses	19.3	14.8	47.3	30.2	-59.2
Cost of sales	159.8	146	146.1	9.5	9.4
EBITDA	5.3	3.8	-15.5	38.5	n.a
EBITDA margin (%)	3.2	2.6	-11.9		
Interest and finance charges	0.7	0.3	0.6	121.4	21.0
EBTDA	4.6	3.5	-16.1	30.9	n.a
Depreciation	3.5	1.6	1.4	122.5	157.5
Operating PBT	1.1	1.9	-17.5	-43.2	n.a
Other Income	3.1	0.8	2.6	269.4	20.9
PBT	4.2	2.8	-14.9	51	n.a
Tax	1.2	0.9	-4.4	34.2	n.a
PAT	3.0	1.9	-10.5	58.7	n.a
PAT margin (%)	1.8	1.3	-8.0		
No of equity shares	3.8	3.8	3.8		
EPS (Rs)- Diluted	0.8	0.5	-2.7	58.7	n.a

Source: Company, CRISIL Equities

EBITDA increased on a y-o-y and q-o-q basis

FY10 result analysis

Table 3:

Beardsell (Rs mn)	FY10	FY09	YoY (%)
Net sales	549.3	520.3	5.6
(Inc)/dec in stock	-8.0	10.1	-178.7
Consumption of raw materials	149.9	146.0	2.7
Purchase of traded goods	276.0	237.7	16.1
Employees cost	48.6	39.6	22.5
Other expenses	57.5	73.7	-21.9
Cost of Sales	524.0	507.1	3.3
EBITDA	25.3	13.2	91.6
Interest and finance charges	1.3	1.5	-11.7
EBTDA	23.9	11.7	104.9
Depreciation	7.8	5.9	33.0
Operating PBT	16.2	5.8	177.0
Other Income	8.7	7.4	16.8
PBT	24.9	13.3	87.2
Tax	9.7	3.5	175.5
PAT	15.1	9.8	55.2
No of equity shares	3.8	3.8	0.0
EPS (Rs)- Diluted	4.0	2.5	55.2

Source: Company, CRISIL Equities

Net sales increased 5.6% to Rs 549 mn in FY10

Although PAT improved on a y-o-y basis, it was below expectations

Annexure: Financials

Table 4

Income Statement					
(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Net sales	583	509	537	621	745
Operating Income	595	520	549	635	761
EBITDA	36	13	25	34	44
Depreciation	6	6	8	8	11
Interest	2	1	1	2	3
Other Income	9	7	9	9	9
PBT	37	13	25	33	40
PAT	23	10	15	22	27
No. of shares	3.8	3.8	3.8	3.8	3.8
Earnings per share (EPS)	6.0	2.6	4.0	5.7	7.0
Balance Sheet					
(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Equity capital (FV - Rs 10)	38	38	38	38	38
Reserves and surplus	124	131	144	164	187
Debt	13	4	13	20	20
Current liabilities and provisions	138	145	148	173	207
Deferred tax liability/(asset)	4	(7)	3	4	5
Minority interest	-	-	-	-	-
Capital Employed	318	310	346	399	457
Net fixed assets	40	63	67	93	127
Capital WIP	3	10	10	10	10
Intangible assets	-	-	-	-	-
Investments	1	1	1	1	1
Loans and advances	61	46	48	56	67
Inventory	39	23	26	31	38
Receivables	120	99	111	129	156
Cash and bank balance	55	68	83	79	58
Applications of Funds	318	310	346	399	457

Source: Company, CRISIL Equities Estimate

Cash Flow

(Rs mn)	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	37	13	25	33	40
Total tax paid	(16)	(15)	0	(10)	(12)
Depreciation	6	6	8	8	11
Change in working capital	17	59	(14)	(6)	(11)
Cash flow from operating activities	44	62	19	26	28
Capital expenditure	(5)	(36)	(11)	(35)	(45)
Investments and others	-	-	-	-	-
Cash flow from investing activities	(5)	(36)	(11)	(35)	(45)
Equity raised/(repaid)	0	4	0	-	(0)
Debt raised/(repaid)	(7)	(10)	9	8	-
Dividend (incl. tax)	(7)	-	(2)	(3)	(3)
Others (including extra ordinaries)	0	(7)	-	-	-
Cash flow from financing activities	(13)	(13)	7	5	(3)
Change in cash position	26	13	15	(4)	(21)
Opening cash	29	55	68	83	79
Closing cash	55	68	83	79	58

Ratios

	FY08	FY09	FY10P	FY11E	FY12E
Growth ratios					
Sales growth (%)	15.2	(12.6)	5.5	15.6	19.9
EBITDA growth (%)	107.8	(63.7)	91.8	36.2	29.1
EPS growth (%)	(7.6)	(87.7)	424.6	44.4	22.4
Profitability Ratios					
EBITDA margin (%)	6.1	2.5	4.6	5.4	5.8
PAT margin (%)	3.9	1.9	2.8	3.5	3.5
Return on capital employed (RoCE) (%)	17.9	4.2	9.5	12.5	14.3
Return on equity (RoE) (%)	15.0	5.9	8.6	11.4	12.6
Dividend and Earnings					
Dividend per share (Rs)	1.8	0.0	0.4	0.6	0.7
Dividend payout ratio (%)	28.6	0.0	10.0	10.0	10.0
Dividend yield (%)	1.8	-	0.7	1.0	1.2
Earnings per share (Rs)	6.0	2.6	4.0	5.7	7.0
Efficiency ratios					
Asset turnover (Sales/GFA)	6.8	5.7	5.1	4.9	4.5
Asset turnover (Sales/NFA)	15.2	10.1	8.5	7.9	6.9
Sales/Working Capital	6.6	10.0	18.4	16.0	15.8
Financial stability					
Net debt-equity	-0.3	-0.4	-0.4	-0.3	-0.2
Interest coverage	13.4	6.6	13.2	12.5	13.1
Current ratio	2.0	1.6	1.8	1.7	1.5
Valuation Multiples					
Price-earnings	16.1x	12.7x	15.0x	10.4x	8.5x
Price-book	2.3x	0.7x	1.2x	1.1x	1.0x
EV/EBITDA	9.1x	4.5x	6.2x	4.9x	4.3x

Source: Company, CRISIL Equities Estimate

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