



INDEPENDENT EQUITY RESEARCH

Beardsell Limited

Q3FY11 Result Update

Enhancing investment decisions

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). The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals). The valuation 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 Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (- 10-25% from CMP)
1/5	Poor fundamentals	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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Beardsell Limited

Steady performance to continue

Fundamental Grade 3/5 (Good fundamentals)
Valuation Grade 4/5 (CMP has upside)

Industry Building Products

Beardsell Ltd's (Beardsell's) Q3FY11 revenues exceeded CRISIL Equities' expectations due to higher revenues from the insulation segment but earnings were broadly in line as the rising interest expenses offset higher revenues. We have raised our revenue estimates for FY11 and FY12 but lowered earnings estimates after factoring in the high interest expenses. We believe steady growth in the polystyrene industry will continue to benefit Beardsell and, hence, maintain the fundamental grade of '3/5'.

Q3FY11 result analysis

- Beardsell's Q3 revenues grew 40% y-o-y to Rs 210 mn due to 33.7% y-o-y growth in the insulation segment. The trading segment's revenues grew 198.3% y-o-y to Rs 17.1 mn.
- EBITDA margin increased 321 bps y-o-y to 5.8% due to lower raw material costs as a percentage of sales.
- However, PAT margin improved only by 204 bps y-o-y to 3.3% as the EBITDA improvement was partially offset by higher interest expenses.

Key development: Warrants issue of Rs 23.2 mn

Beardsell issued 0.4 mn fully convertible equity warrants at Rs 58 each (including premium of Rs 48 per share) to the company's promoters. This will be utilised to fund the capacity expenditure of ~Rs 50 mn. We expect the warrants to be converted in FY12, which will result in equity dilution of 10.4%.

Earnings estimates revised downwards; introducing FY13 numbers

In line with higher-than-expected performance, we raise revenue estimates for FY11 and FY12. While we have factored in capex of Rs 15 mn for the Chennai factory, the proposed land acquisition in Patalganga with capex of Rs 31 mn resulted in higher-than-expected debt and, thus, higher interest expenses. Accordingly, we assume higher interest expense of Rs 6.5 mn for FY11 and Rs 6.2 mn for FY12 compared to our earlier estimate of Rs 2.1 mn and Rs 1.6 mn, respectively. Thus, EPS estimates have been lowered by 1.5% to Rs 5.6 for FY11 and by 12.6% (due to expected warrant conversion) to Rs 6.1 for FY12.

Valuations: Current market price has upside

Although the stock has corrected in the recent past, we remain positive on Beardsell given the steady growth prospects in user industries such as consumer durables, pharmaceuticals and food processing. While we roll forward our projections by a year, we maintain the fair value of Rs 61 per share based on the discounted cash flow method due to equity dilution and lower earnings estimates. We retain the valuation grade of '4/5'. At this fair value, the implied P/E multiples are 9.9x FY12 and 8.2x FY13 EPS.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	520	556	683	801	926
EBITDA	13	25	38	47	56
Adj PAT	10	9	22	26	31
Adj EPS-Rs	2.6	2.4	5.6	6.1	7.3
EPS growth (%)	NM	(7.2)	137.6	7.9	20.7
Dividend yield (%)	-	-	-	-	-
RoCE (%)	4.2	8.9	10.7	11.1	13.2
RoE (%)	5.9	4.9	10.2	10.4	10.8
PE (x)	19.9	21.4	9.0	8.4	6.9
P/BV (x)	1.2	1.0	0.9	0.8	0.7
EV/EBITDA (x)	9.9	5.4	4.7	4.0	3.0

Source: Company, CRISIL Equities estimate

CMP: Current Market Price

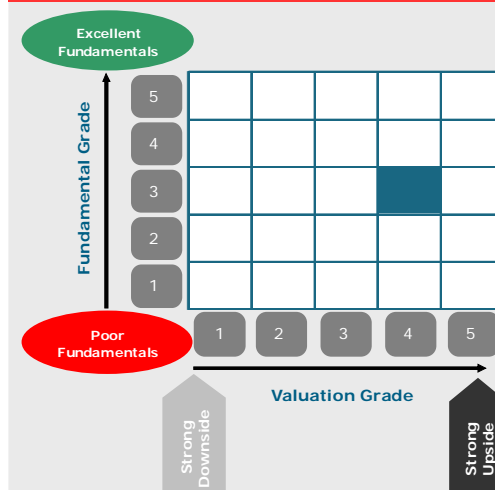


February 07, 2011

Fair Value Rs 61

CMP Rs 51

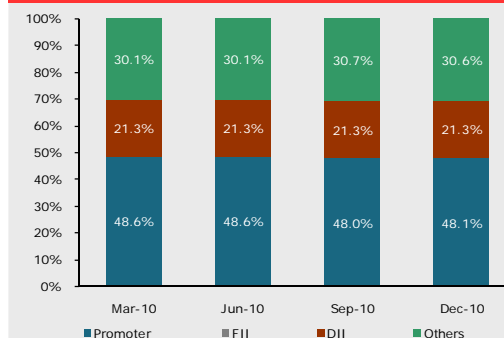
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5396
NSE	BEARDSSELL
Face value (Rs per share)	10
Shares outstanding (mn)	3.8
Market cap (Rs mn)/(US\$ mn)	195/4.3
Enterprise value (Rs mn)/(US\$ mn)	136/3.0
52-week range (Rs) (H/L)	67/45
Beta	1.7
Free float (%)	52%
Avg daily volumes (30-days)	426
Avg daily value (30-days) (Rs mn)	0.02

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
BEARDSSELL	-13%	-3%	-1%	-32%
NIFTY	-4%	-8%	2%	13%

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Q3FY11 Result Summary

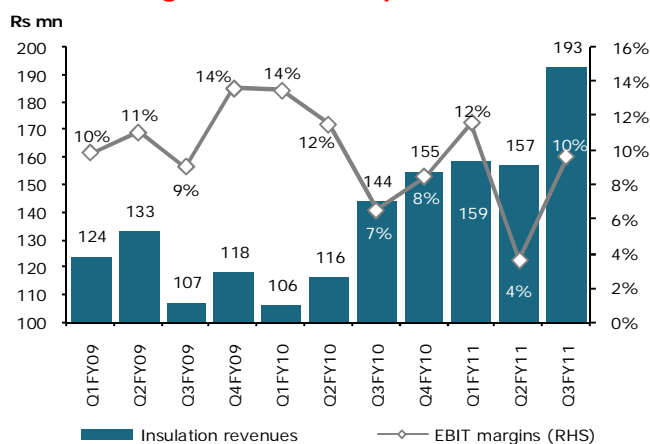
Beardsell (Rs mn)	Q3FY11	Q2FY11	Q3FY10	q-o-q (%)	y-o-y (%)
Net sales	210	166	150	26.1	40.0
Raw materials cost	57	49	42	16.0	36.5
Raw materials cost (% of net sales)	27.3%	29.7%	28.0%	-239bps	-71bps
Employees cost	17	14	11	17.2	45.9
Other expenses	124	95	93	30.6	33.7
EBITDA	12	8	4	52.0	215.3
EBITDA margin	5.8%	4.8%	2.6%	98bps	321bps
Depreciation	3	2	2	23.7	76.9
EBIT	9.3	5.7	2.3	63.1	311.6
Interest and finance charges	2	2	0	30.4	665.9
Operating PBT	7	4	2	79.3	252.7
Other Income	4	3	1	28.9	323.5
PBT	10	7	3	58.2	274.0
Tax	3	3	1	1.3	293.2
PAT	7	3	2	119.3	265.2
Adj PAT	7	3	2	119.3	265.2
Adj PAT margin	3.3%	1.9%	1.3%	141bps	204bps
No of equity shares (Mn)	3.8	3.8	3.8	-	-
Adj EPS (Rs)	1.8	0.8	0.5	119.3	265.2

Insulation segment supported EBITDA margin expansion

Interest expense increased during the quarter

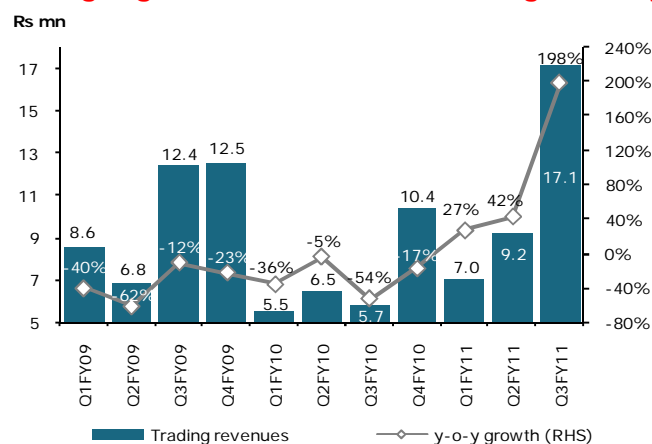
Source: Company, CRISIL Equities

Insulation segment's EBIT improved in Q3FY11



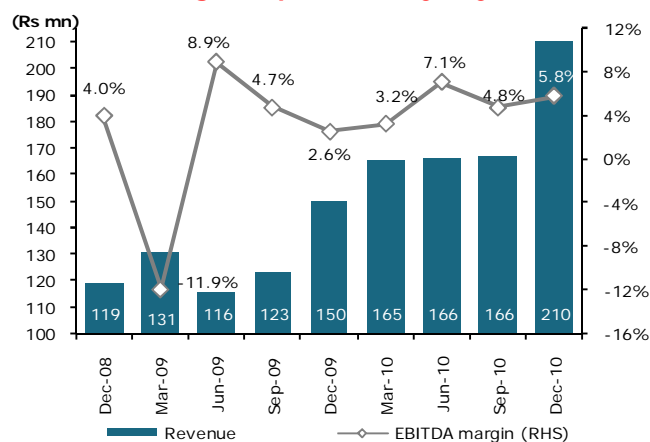
Source: Company, CRISIL Equities

Trading segment revenues increased significantly



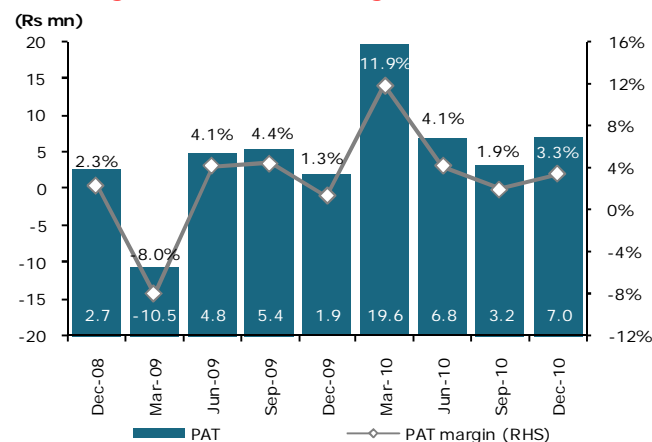
Source: Company, CRISIL Equities

Q3 EBITDA margin improved on y-o-y basis



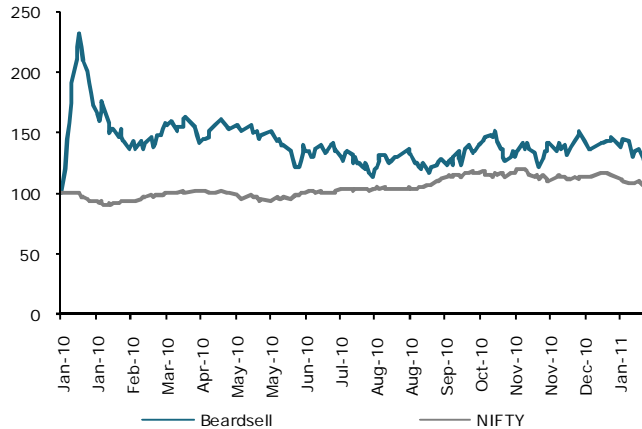
Source: Company, CRISIL Equities

PAT margin increased during Q3



Source: Company, CRISIL Equities

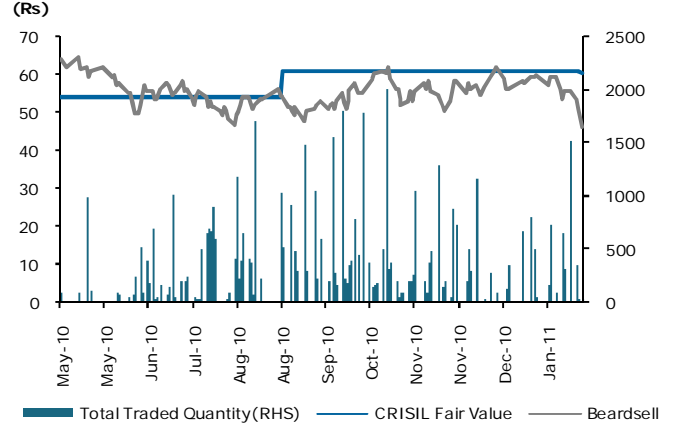
Share price movement



-Indexed to 100

Source: NSE, CRISIL Equities

Fair value movement since initiation



Source: NSE, CRISIL Equities

EARNINGS ESTIMATES REVISED DOWNWARDS

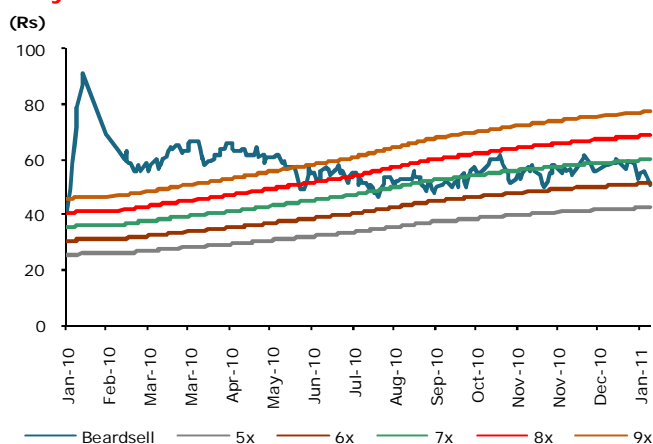
In line with the improved performance in Q3FY11, we have raised Beardsell's revenue estimates for FY11 and FY12. While we have factored in capex of Rs 15 mn for the Chennai factory, the proposed land acquisition of 15,000 sq.mt. in Patalganga with capex of Rs 31 mn resulted in higher-than-expected debt and, consequently, higher interest expenses. We now assume higher interest expense of Rs 6.5 mn for FY11 and Rs 6.2 mn for FY12 compared to our earlier estimate of Rs 2.1 mn and Rs 1.6 mn, respectively. Thus, EPS estimates have been lowered by 1.5% to Rs 5.6 for FY11 and by 12.6% to Rs 6.1 for FY12. We introduce FY13 numbers and expect revenues to grow 15.7% y-o-y to Rs 926 mn. EBITDA and PAT margins are expected to marginally improve on lower transportation costs once the Chennai factory is operational in Q4FY11.

Particulars	Unit	FY11E			FY12E			FY13E
		Old	New	% change	Old	New	% change	
Revenue	(Rs mn)	635	683	7.5%	761	801	5.1%	926
EBITDA	(Rs mn)	34	38	9.9%	44	47	5.2%	56
EBITDA margin	%	5.4%	5.5%	12bps	5.8%	5.8%	0bps	6.0%
PAT	(Rs mn)	22	21	-2.0%	27	26	-3.5%	32
PAT margin	%	3.5%	3.1%	-31bps	3.5%	3.2%	-29bps	3.4%
EPS (Rs)	Rs	5.7	5.6	-2.0%	7.0	6.1	-12.6%	7.5

VALUATION

We continue to use the discounted cash flow method to value Beardsell. Although the stock has corrected in the recent past, we remain positive on Beardsell given the steady growth prospects in user industries such as consumer durables, pharmaceuticals and food processing. While we roll forward our projections by one year, we maintain the fair value of Rs 61 per share based on the discounted cash flow method due to expected equity dilution and downward revision in earnings estimates. We retain the valuation grade of '4/5'. At this fair value, the implied P/E multiples are 9.9x FY12 and 8.2x FY13 EPS.

One-year forward P/E band



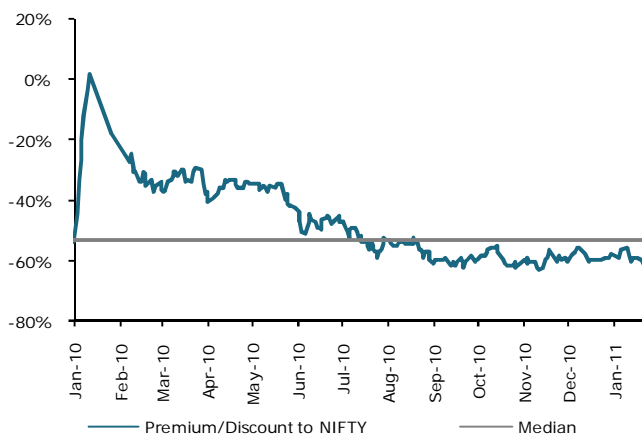
Source: CRISIL Equities

One-year forward EV/EBITDA band



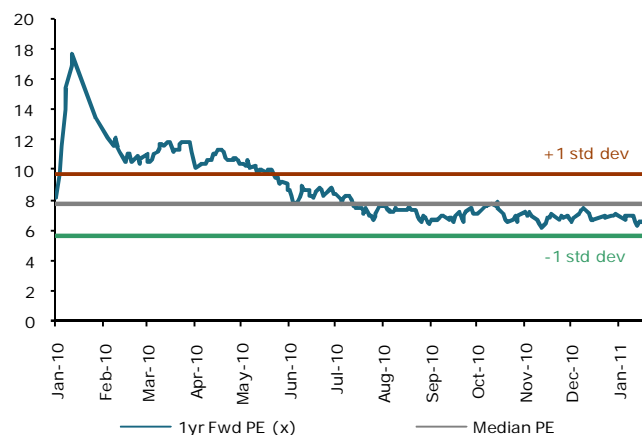
Source: CRISIL Equities

P/E – premium/discount to NIFTY



Source: CRISIL Equities

P/E movement



Source: CRISIL Equities

CRISIL IER reports released on Beardsell

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
4-May-10	Initiating coverage*	3/5	Rs 54	2/5	Rs 64
1-June-10	Q4FY10 result update	3/5	Rs 54	2/5	Rs 60
18-Aug-10	Q1FY11 result update	3/5	Rs 61	4/5	Rs 53
17-Nov-10	Q2FY11 result update	3/5	Rs 61	4/5	Rs 55
7-Feb-11	Q3FY11 result update	3/5	Rs 61	4/5	Rs 51

* For detailed initiating coverage report please visit: www.ier.co.in

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

FINANCIALS

Income statement

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	520	556	683	801	926
EBITDA	13	25	38	47	56
EBITDA margin	2.5%	4.5%	5.5%	5.8%	6.0%
Depreciation	6	7	10	14	14
EBIT	7	18	28	33	41
Interest	1	1.6	6.5	6.2	3
Operating PBT	6	16	21	27	38
Other income	7	9	11	12	9
Exceptional inc/(exp)	(7)	8	-	-	-
PBT	6	33	33	39	47
Tax provision	4	16	11	13	16
Minority interest	-	-	-	-	-
PAT (Reported)	3	17	22	26	31
Less: Exceptionals	(7)	8	-	-	-
Adjusted PAT	10	9	22	26	31

Ratios

	FY09	FY10	FY11E	FY12E	FY13E
Growth					
Operating income (%)	(12.6)	6.9	22.7	17.2	15.7
EBITDA (%)	(63.7)	91.8	49.4	23.6	19.2
Adj PAT (%)	(57.6)	(7.2)	137.6	19.2	20.7
Adj EPS (%)	(57.6)	(7.2)	137.6	7.9	20.7
Profitability					
EBITDA margin (%)	2.5	4.5	5.5	5.8	6.0
Adj PAT Margin (%)	1.9	1.6	3.2	3.2	3.4
RoE (%)	5.9	4.9	10.2	10.4	10.8
RoCE (%)	4.2	8.9	10.7	11.1	13.2
RoIC (%)	16.1	16.1	23.2	20.1	17.6
Valuations					
Price-earnings (x)	19.9	21.4	9.0	8.4	6.9
Price-book (x)	1.2	1.0	0.9	0.8	0.7
EV/EBITDA (x)	9.9	5.4	4.7	4.0	3.0
EV/Sales (x)	0.3	0.2	0.3	0.2	0.2
Dividend payout ratio (%)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
B/S ratios					
Inventory days	17	25	21	22	23
Creditors days	99	108	99	99	99
Debtor days	67	77	75	76	76
Working capital days	37	17	24	29	30
Gross asset turnover (x)	5.7	4.3	3.8	3.6	3.7
Net asset turnover (x)	10.1	7.0	6.0	5.5	5.8
Sales/operating assets (x)	9.0	6.2	5.6	5.2	5.5
Current ratio (x)	1.6	1.7	1.8	1.6	1.6
Debt-equity (x)	0.0	0.1	0.3	0.1	0.1
Net debt/equity (x)	(0.4)	(0.3)	(0.1)	(0.1)	(0.2)
Interest coverage	6.6	11.1	4.3	5.3	14.0

Per share

	FY09	FY10	FY11E	FY12E	FY13E
Adj EPS (Rs)	2.6	2.4	5.6	6.1	7.3
CEPS	4.1	4.3	8.2	9.3	10.8
Book value	44.1	52.4	58.0	64.1	71.5
Dividend (Rs)	-	-	-	-	-
Actual o/s shares (mn)	3.8	3.8	3.8	4.2	4.2

Balance Sheet

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Liabilities					
Equity share capital	38	38	38	42	42
Reserves	131	163	184	229	260
Minorities	-	-	-	-	-
Net worth	169	201	222	271	303
Convertible debt	-	-	-	-	-
Other debt	4	28	72	32	17
Total debt	4	28	72	32	17
Deferred tax liability (net)	(7)	(3)	(2)	(1)	0
Total liabilities	165	226	293	303	320
Assets					
Net fixed assets	63	97	132	159	159
Capital WIP	10	8	8	8	8
Total fixed assets	73	105	140	167	167
Investments	1	3	3	3	3
Current assets					
Inventory	23	35	37	45	53
Sundry debtors	99	118	146	173	201
Loans and advances	46	50	62	72	84
Cash & bank balance	68	87	91	61	66
Marketable securities	0	0	0	0	0
Total current assets	236	289	336	352	404
Total current liabilities	145	172	187	220	255
Net current assets	91	117	149	132	149
Intangibles/Misc. expenditure	-	-	-	-	-
Total assets	165	226	293	303	320

Cash flow

(Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Pre-tax profit	13	25	33	39	47
Total tax paid	(15)	(11)	(10)	(12)	(15)
Depreciation	6	7	10	14	14
Working capital changes	59	(7)	(28)	(13)	(12)
Net cash from operations	62	14	5	28	35
Cash from investments					
Capital expenditure	(36)	(40)	(45)	(40)	(15)
Investments and others	-	(3)	-	-	-
Net cash from investments	(36)	(42)	(45)	(40)	(15)
Cash from financing					
Equity raised/(repaid)	4	15	-	23	(0)
Debt raised/(repaid)	(10)	24	44	(40)	(15)
Dividend (incl. tax)	-	-	-	-	-
Others (incl extraordinary)	(7)	8	-	-	-
Net cash from financing	(13)	47	44	(17)	(15)
Change in cash position	13	19	4	(29)	5
Closing cash	68	87	91	61	66

Quarterly financials

(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Net Sales	150	165	166	166	210
Change (q-o-q)	22.0%	10%	0%	0%	26%
EBITDA	4	5	12	8	12
Change (q-o-q)	-34%	39%	120%	-32%	51%
EBITDA margin	2.6%	3.2%	7.1%	4.8%	5.8%
PAT	2	20	7	3	7
Adj PAT	2	4	7	3	7
Change (q-o-q)	-65%	121%	62%	-53%	117%
Adj PAT margin	1.3%	2.5%	4.1%	1.9%	3.3%
Adj EPS	0.5	1.1	1.8	0.8	1.8

Note: All ratios are computed on Adj PAT

Source: Company, CRISIL Equities estimate

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