

CRISIL IER

Independent Equity Research

**Bhartiya
International Ltd**

Event 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 (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Last updated: March 07, 2013

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.

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Bhartiya International Ltd

Recent developments ease concerns

Fundamental Grade	3/5 (Good fundamentals)
Valuation Grade	4/5 (CMP has upside)
Industry	Textiles, Apparels and Luxury Goods

Bhartiya International Ltd (Bhartiya) owns 30% in Bhartiya Urban Infrastructure & Land Development Company Pvt. Ltd (BUILDCO); 44% is held by Bhartiya Infrastructure Ltd (a promoter group company) and 26% by a private equity (PE) investor. The terms of PE investor's exit, due since March 2012, have now been finalised through buyback of shares; consequently, Bhartiya's holding in BUILDCO will rise to 40.5%. Liability of the PE investor has been set at a value lower than our estimate, resulting in an upside to our valuation. The Bhartiya group's real estate project in Bengaluru has received good response; of the initial 2 mn sq ft launched, 95% has been booked. It has appointed Pratibha Industries as the developer for its residential project. We maintain our fundamental grade of **3/5**.

Liability of the PE investor at an amount lower than our estimate

In FY08, the PE investor had invested ₹1,500 mn in BUILDCO in two tranches for a 26% stake through the issue of compulsory convertible preference shares. As highlighted in our earlier reports, the exit of an investor was a key monitorable. BUILDCO and the investor were exploring different options for the same and have now agreed for a consideration, which is ~15% lower than our expectations. The company will finance the payout through customer advances from the residential project.

Residential bookings ease concerns; demand for commercial space a key monitorable

BUILDCO launched its maiden real estate project in October 2012 and 95% of this 2 mn sq ft residential project (phase I - A) has been booked within six months of the launch. The company has appointed Pratibha Industries for developing phase I - A. BUILDCO is planning to launch 1.2 mn sq ft of the residential space by September 2013 (phase I - B) but is yet to finalise the EPC contractor. Total area under commercial and retail has increased from 2.2 mn sq ft to 2.8 mn sq ft (phase I - C); construction of the IT SEZ has started (EPC contractor: BL Kashyap). The company has not started marketing its properties under phase I-C as it will take 24-30 months for development. Given the current macroeconomic challenges and slow growth in the IT/ITES segment, we remain cautious about demand for commercial space in Bengaluru. Improvement in demand is crucial for the project's success.

Fair value revised to ₹285

We continue to use the sum-of-the-parts (SOTP) method to value Bhartiya and revise our fair value to ₹285 from ₹247 per share on the back of the arrangement with the PE investor and lowered discount rate following the appointment of EPC contractor for development of phase I-A and healthy booking levels. Based on the current market price of ₹234, our valuation grade is **4/5**.

KEY FORECAST

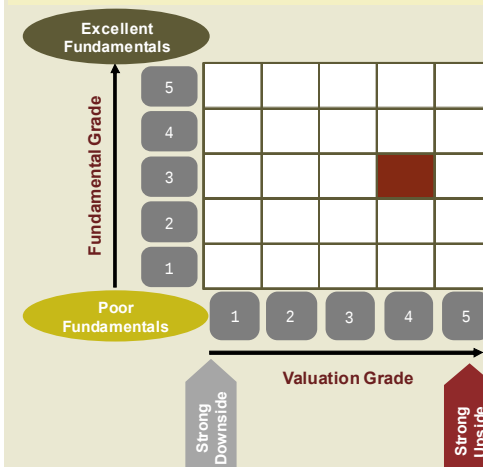
(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	1,952	2,507	3,011	3,532	3,849
EBITDA	186	270	320	398	413
Adj net income	68	118	133	185	197
Adj EPS-(₹)	7.1	11.3	12.1	16.1	17.2
EPS growth (%)	33.7	58.5	6.7	33.7	6.4
Dividend yield (%)	1.9	2.0	0.5	0.9	1.1
RoCE (%)	9.4	12.3	13.1	15.2	15.3
RoE (%)	6.0	9.4	9.5	11.8	11.3
PE (x)	7.3	4.6	19.4	14.5	13.6
P/BV (x)	0.4	0.4	1.8	1.6	1.5
EV/EBITDA (x)	5.3	4.4	10.1	8.3	7.5

Source: Company, CRISIL Research estimates

May 15, 2013

Fair Value ₹285
CMP ₹234

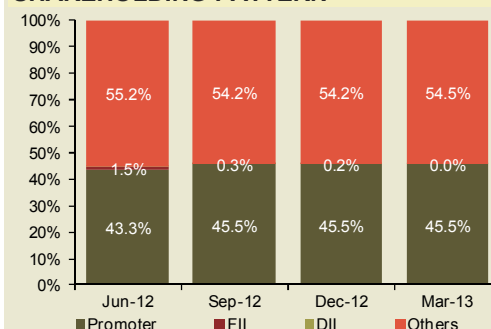
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	6147/20213
NSE/BSE ticker	BIL
Face value (₹ per share)	10
Shares outstanding (mn)	11.4
Market cap (₹ mn)/(US\$ mn)	2,589/47
Enterprise value (₹ mn)/(US\$ mn)	3,273/60
52-week range (₹)/(H/L)	240/45
Beta	1.0
Free float (%)	54.5%
Avg daily volumes (30-days)	27,274
Avg daily value (30-days) (₹ mn)	6

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Bhartiya	18%	40%	67%	366%
NIFTY	10%	4%	9%	24%

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Real estate valuation

Real estate fair value of ₹196 per share

Particulars	
Phase I valuation (₹ mn)	5,877
Valuation of balance land bank (₹ mn)	6,864
Total valuation (₹ mn)	12,741
Net asset value (₹ mn) post debt and exit of investor	7,618
Valuation after discount	5,123
Bhartiya's stake in SPV (adjusted for investor's stake)	40.5%
Real estate value for Bhartiya (₹ mn)	2,254
Per share value of Bhartiya (₹)	196

Source: CRISIL Research estimates

Sensitivity analysis on real estate valuation for balance land parcel

		Discount rate on land		
Cost of equity		30%	40%	50%
	20%	236	221	205
	21%	231	216	201
	22%	225	211	196
	23%	220	206	192
	24%	215	201	188

Execution is a key monitorable

Considering the size of the overall project of ~20 mn sq ft, execution will be a key monitorable since this is the first real estate project with a massive development plan being undertaken by the company. Although the infrastructure and project execution team is in place, and the company has received a healthy booking response for its first phase, faster monetisation of the remaining phases (18 mn sq ft) will be a challenge due to competition from the established players. As the company plans to develop 20 mn sq ft over the next six to seven years and has only started execution of 6 mn sq ft, any delay or change of plan in the execution of 6 mn sq ft will have a significant impact on our valuation. We have factored in recent developments (finalisation of an EPC contractor and PE investor's exit) in our valuation; we have lowered the discount on monetisation of phase I (6 mn sq ft) following the finalisation of an EPC developer. However, we maintain our cost of equity of 22% for the entire real estate division. We will revisit the discounting factor and cost of equity as the company progresses towards critical milestones such as completion of phase I and development in phase II.

BUILDJO, through its 100% subsidiary DJ Enterprise, has land bank of 30 acres near Sarjapur Road (South Bengaluru). Besides, Bhartiya has 10.2 acres land in Chengalpattu Taluk (Chennai).

Sarjapur Road land (30 acres) – Bhartiya is in discussion with different investors and expects ₹500 mn through sale of the land parcel. According to the management, BUILDJO has received ₹10 mn as advance and the balance amount will be received by June 2013.

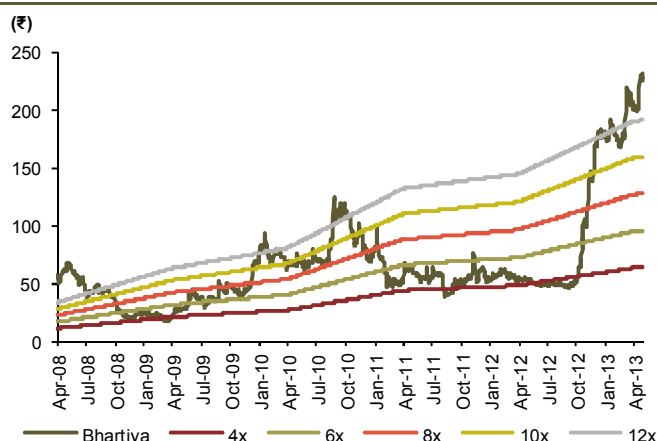
Chengalpattu Taluk land (10 acres) – In 1995, Bhartiya acquired 10.2 acres land in Chengalpattu Taluk, Chennai for ₹1.6 mn. It now plans to monetise this land bank through plotted development but will be filing for approval in the current year. Owing to lack of clarity on the monetisation plan, we have not considered the Chennai land parcel in the valuation. We will consider it in our valuation only after the receipt of necessary approvals and finalisation of the monetisation plan.

Valuation

Grade: 4/5

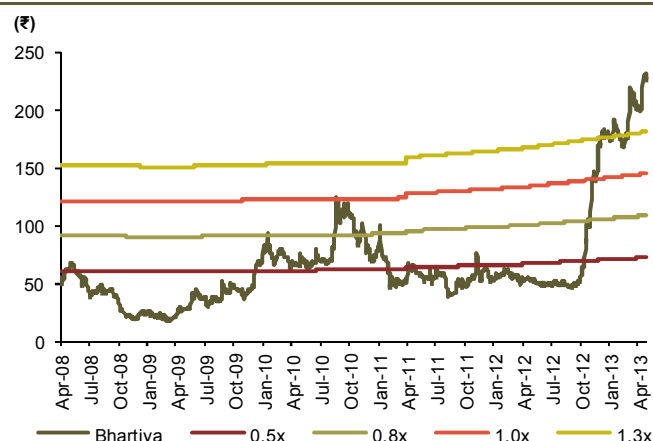
We continue to use the SOTP method to value Bhartiya and have revised the fair value to ₹285 per share from ₹247. Investment in the associate company holding the real estate project has been valued at ₹196 per share (earlier ₹159) by the NAV (net asset value) method. The increase in valuation of the real estate parcel factors in finalisation of the consideration to the PE investor and we have also lowered the liquidity discount on phase I considering good response. We maintain our value of ₹10 per share for the SEZ Park and ₹79 per share for the fashion (leather and textile) business.

One-year forward P/E band



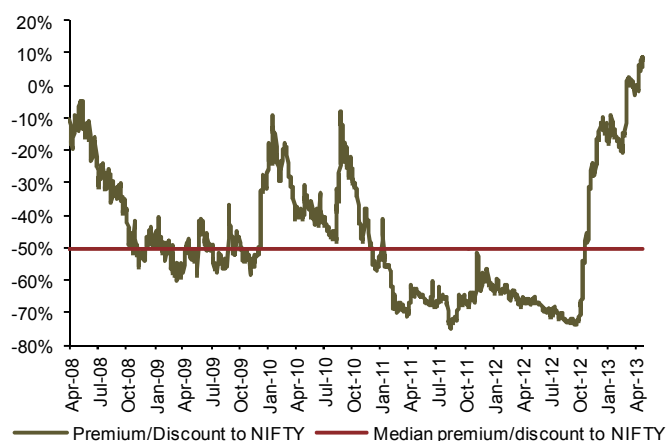
Source: NSE, CRISIL Research

One-year forward P/B band



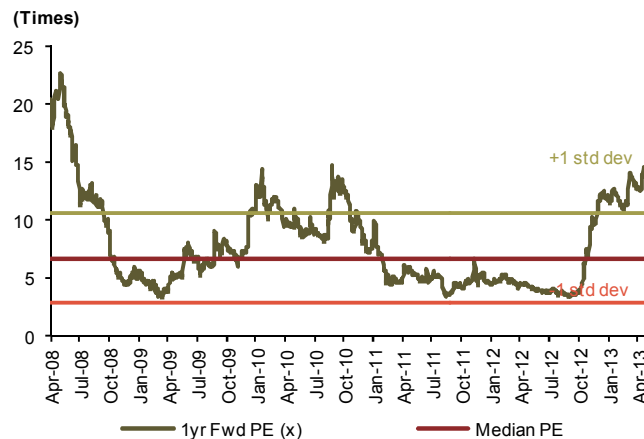
Source: NSE, CRISIL Research

P/E – premium / discount to Nifty



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on Bhartiya International Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
11-Oct-2012	Initiating Coverage	3/5	₹147	5/5	₹65
09-Nov-2012	Q2FY13 Result update	3/5	₹180	5/5	₹133
12-Feb-2013	Q3FY13 Result update	3/5	₹247	5/5	₹170
15-May-2013	Event Update	3/5	₹285	4/5	₹234

Annexure: Financials

Income statement

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Operating income	1,952	2,507	3,011	3,532	3,849
EBITDA	186	270	320	398	413
EBITDA margin	9.5%	10.8%	10.6%	11.3%	10.7%
Depreciation	28	30	32	37	39
EBIT	158	240	288	360	375
Interest	82	103	110	107	105
Operating PBT	76	137	178	254	270
Other income	22	23	21	22	23
Exceptional inc/(exp)	(4)	(3)	-	-	-
PBT	94	157	199	276	294
Tax provision	30	41	66	91	97
Minority interest	-	-	-	-	-
PAT (Reported)	64	115	133	185	197
Less: Exceptionals	(4)	(3)	-	-	-
Adjusted PAT	68	118	133	185	197

Balance Sheet

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Liabilities					
Equity share capital	95	105	111	115	115
Reserves	1,099	1,224	1,362	1,546	1,707
Minorities	-	-	-	-	-
Net worth	1,194	1,329	1,473	1,660	1,822
Convertible debt	-	-	-	1	2
Other debt	627	767	829	778	627
Total debt	627	767	829	779	629
Deferred tax liability (net)	13	17	22	27	32
Total liabilities	1,835	2,113	2,324	2,467	2,483
Assets					
Net fixed assets	455	478	565	563	555
Capital WIP	28	91	31	26	26
Total fixed assets	483	569	596	589	581
Investments	389	411	411	411	411
Current assets					
Inventory	777	949	1,114	1,306	1,318
Sundry debtors	137	251	266	293	267
Loans and advances	218	198	211	238	250
Cash & bank balance	96	83	137	114	192
Marketable securities	38	33	33	33	33
Total current assets	1,267	1,515	1,761	1,985	2,060
Total current liabilities	310	388	451	525	576
Net current assets	956	1,126	1,310	1,459	1,484
Intangibles/Misc. expenditure	6	7	7	7	7
Total assets	1,835	2,113	2,324	2,467	2,483

Cash flow

(₹ mn)	FY11	FY12	FY13E	FY14E	FY15E
Pre-tax profit	98	160	199	276	294
Total tax paid	(25)	(38)	(61)	(86)	(92)
Depreciation	28	30	32	37	39
Working capital changes	(275)	(188)	(130)	(173)	53
Net cash from operations	(175)	(37)	41	54	293
Cash from investments					
Capital expenditure	(87)	(116)	(60)	(30)	(30)
Investments and others	22	(17)	-	-	-
Net cash from investments	(65)	(133)	(60)	(30)	(30)
Cash from financing					
Equity raised/(repaid)	34	50	27	30	-
Debt raised/(repaid)	162	140	62	(50)	(150)
Dividend (incl. tax)	(11)	(13)	(16)	(28)	(35)
Others (incl extraordinary)	29	(20)	-	-	-
Net cash from financing	215	156	73	(48)	(185)
Change in cash position	(25)	(13)	54	(23)	78
Closing cash	96	83	137	114	192

Quarterly financials (standalone)

(₹ mn)	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Sales	657	397	429	722	733
Change (q-o-q)	9%	-40%	8%	68%	2%
EBITDA	48	27	50	73	56
Change (q-o-q)	-21%	-44%	53%	45%	-23%
EBITDA margin	7%	7%	10%	10%	8%
PAT	18	10	17	39	21
Adj PAT	18	10	17	39	21
Change (q-o-q)	-48%	-45%	74%	129%	-45%
Adj PAT margin	3%	2%	4%	5%	3%
Adj EPS	1.7	0.9	1.6	3.5	1.9

Ratios

	FY11	FY12	FY13E	FY14E	FY15E
Growth					
Operating income (%)	(5.7)	28.4	20.1	17.3	9.0
EBITDA (%)	4.2	45.2	18.6	24.2	4.0
Adj PAT (%)	46.0	75.3	12.8	38.5	6.4
Adj EPS (%)	33.7	58.5	6.7	33.7	6.4

Profitability

EBITDA margin (%)	9.5	10.8	10.6	11.3	10.7
Adj PAT Margin (%)	3.5	4.7	4.4	5.2	5.1
RoE (%)	6.0	9.4	9.5	11.8	11.3
RoCE (%)	9.4	12.3	13.1	15.2	15.3
RoIC (%)	14.5	16.6	15.8	17.1	17.2

Valuations

Price-earnings (x)	7.3	4.6	19.4	14.5	13.6
Price-book (x)	0.4	0.4	1.8	1.6	1.5
EV/EBITDA (x)	5.3	4.4	10.1	8.3	7.5
EV/Sales (x)	0.5	0.5	1.2	1.0	0.9
Dividend payout ratio (%)	14.8	9.6	10.0	12.8	15.3
Dividend yield (%)	1.9	2.0	0.5	0.9	1.1

B/S ratios

Inventory days	177	169	165	166	153
Creditors days	52	54	51	51	51
Debtor days	28	39	35	33	27
Working capital days	167	159	149	146	129
Gross asset turnover (x)	3.6	3.9	4.1	4.4	4.6
Net asset turnover (x)	5.0	5.4	5.8	6.3	6.9
Sales/operating assets (x)	4.3	4.8	5.2	6.0	6.6
Current ratio (x)	4.1	3.9	3.9	3.8	3.6
Debt-equity (x)	0.5	0.6	0.6	0.5	0.3
Net debt/equity (x)	0.4	0.5	0.4	0.4	0.2
Interest coverage	1.9	2.3	2.6	3.4	3.6

Per share

	FY11	FY12	FY13E	FY14E	FY15E
Adj EPS (₹)	7.1	11.3	12.1	16.1	17.2
CEPS	10.1	14.2	15.0	19.4	20.5
Book value	126.1	127.0	133.1	144.8	158.9
Dividend (₹)	1.0	1.1	1.2	2.1	2.6
Actual o/s shares (mn)	9.5	10.5	11.1	11.5	11.5

Source: CRISIL Research

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