BALMER LAWRIE & CO. LTD.

Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

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BSE Code: 523319 **NSE Code:** BALMLAWRIE **Reuters Code:** BLMR.BO **Bloomberg Code:** BLCL:IN

Balmer Lawrie & Co. Ltd (BLC) is a multi-product, multi-location company engaged in a range of manufacturing, marketing and service businesses. The Company is the market leader in Industrial packaging, and is one of the largest IATA affiliated travel agencies in India. BLC to its credentials carries, nearly 50 years of rich business and over the years it has cemented its position in both the manufacturing and service sectors.

Investor's Rationale

- The company is in the process of expanding its Logistic Infrastructure facilities to cater to the rising demand given that container freight stations (CFS) division attracts higher margin. Logistics Industry is expected to grow rapidly at a Compounded Annual Growth Rate (CAGR) of approximately 9% from $100 billion to over $140 billion during FY'11-FY'15 respectively. CFS business is expected to grow at a CAGR of 22% over FY'11-FY'13E led by operational of new Facilities and better utilization of CFS's.

- BLC operates with high cash generation and well diversified business model, with no major capex, providing the necessary hedge to its operations as a decline in one segment will be offset by a growth or consistency of figures in other segments.

- Balmer Lawrie has healthy balance sheet with net cash & cash equivalent of ₹3,041.9 million. The company carries a proven track record of strong dividends pay-out, a total dividend of 260% had been recommended in FY'11, which works out to 5.1% yield, at the current market price.

- The Company is banking big on its Travel & Tour business and is in process of creating an online portal for tourism to boost its tours and travel business. Balmer Lawrie also plans to develop dedicated packages for outbound tourism, the focused packages will be in place by March 2012.

- The firm has a wide-spread network of manufacturing units and subsidiaries both domestically and abroad, with eight strategic SBUs located across the country, BLC is well poised to utilize this strong network to leverage its operations and tap under-penetrated markets.

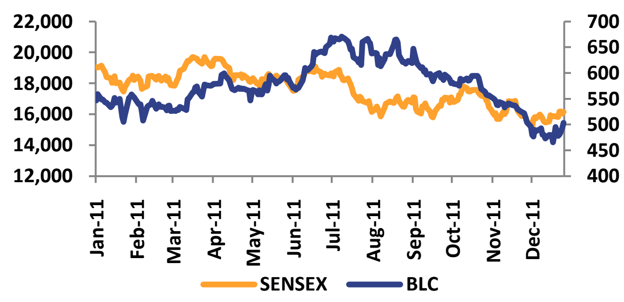
Market Data

Rating	BUY
CMP (₹)	503
Target (₹)	684
Potential Upside	~36%
Duration	Long Term
52 week H/L (₹)	690/461
All time High (₹)	754
Decline from 52WH (%)	27.1
Rise from 52WL (%)	9.1
Beta	0.30
Mkt. Cap (₹ mn)	8,193.9
Enterprise Value (₹ mn)	10,070.9

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹mn)	19,638.1	23,279.9	27,935.9	32,405.6
Net Profit(₹mn)	1,197.9	1,283.2	1,644.7	1,848.5
Share Capital	162.9	162.9	162.9	162.9
EPS (₹)	73.5	78.8	101.0	113.5
PE (x)	6.8	6.4	5.0	4.4
P/BV (x)	1.4	1.3	1.0	0.8
EV/EBITDA (x)	8.1	7.4	5.0	4.3
ROE (%)	21.1	20.1	20.5	18.7
ROCE (%)	11.9	12.5	16.0	16.1

One year Price Chart



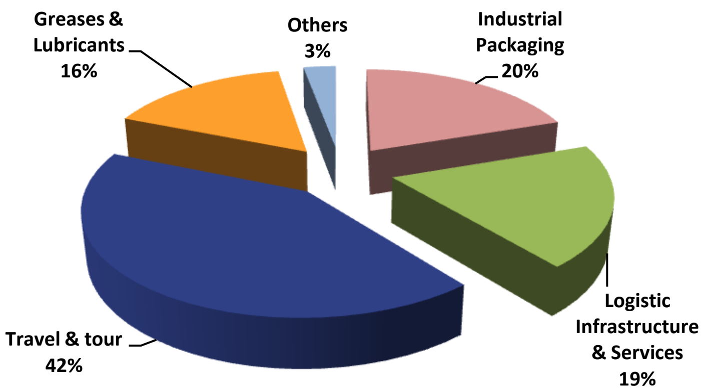
Shareholding Pattern	Sep'11	Jun'11	Diff.
Promoters	-	-	-
Institutional	15.3%	16.3%	(0.97)
General Public	18.8%	18.6%	0.23
Others	65.9%	65.2%	0.74

Diversified business model ~ hedge against downtrend

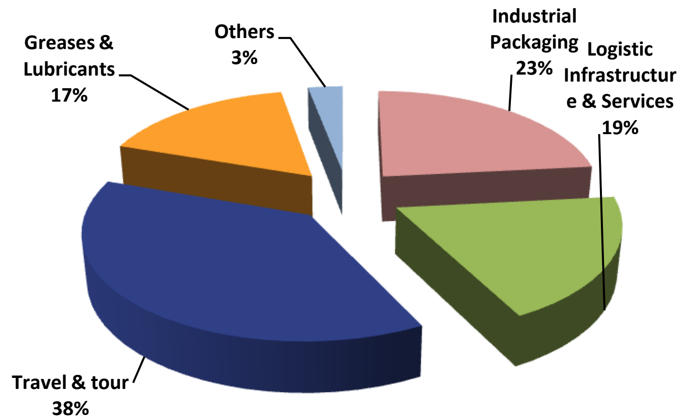
This public sector conglomerate offers a wide and diversified array of services that is bifurcated in five broad segments namely Industrial Packaging, Logistics Infrastructure and Services, Travel and Tours, Greases and Lubricants and Others (Tea, Leather Chemicals and Refinery and Oil Field Services). The diversified business model of BLC provides the hedge to its earning against downtrend in one or more sectors. Of these segments the biggest revenue growth driver is the Travel and Tours segment followed by the Logistics Infrastructure and Services sector. BLC operates 8 Strategic Business Units (SBUs) and has more than 30 manufacturing facilities spread across the country.

Volume growth fuels up sales

Segmental Contribution Q2 FY'12



Segmental Contribution Q1 FY'12



Leadership position in Industrial Packaging Business

BLC is India's leading manufacturer of metallic steel drums holding the largest market share in the country. Thought this segment contributes less than 1/5th to the company's overall revenue, it has garnered a huge reputation within industrial circles, and is considered to be the largest manufacturer of industrial package containers. The firm manufactures 165, 200 and 210 ml steel drums that are utilized for safe packing, transport and storage of goods. Utilizing its strong R&D facilities and 6 manufacturing units (Mumbai, Kolkata, Chennai, Panipat , Silvassa and Asaoti) it is able to provide a comprehensive series of drums to its diversified client base that ranges from food, Lubricating, Additives, Transformer Oil,Bitumen companies to Chemical companies.

BLC has an in-house technology and product development center engaged in designing and developing of new products/equipments. The product range in the Industrial packing segment consists of:

- Plain Steel Drums
- Lacquer Lined Drums
- Composite Drums
- Gavanised Drums
- Asepton Drums
- Conical Drums

Logistics Infrastructure and Services ~ offers escalation prospective to BLC

The Company has considerable experience in the logistics sector where its involvement dates back to the nineteenth century. It has the distinction of being the only major PSU to offer comprehensive logistic based services and features amongst the top ten logistics service providers in the country. The logistics segment of Balmer Lawrie is further sub-divided into the logistics infrastructure segment and logistics services segment. Under the logistics infrastructure segment, the firm offers warehousing and distributing services and maintains 3 state of the-art CFS. Due to its superior infrastructure it is able to offer value added services such as palletisation, shrink wrapping, labeling, re-bagging, repacking, sorting, inland transportation, supply chain management and container repair facilities. The company is heading in the direction to serve as a one-stop shop for its customer's EXIM needs. As part of its logistic services segment, the firm offers air freight services, ocean freight services, air chartering, ship chartering, express cargo movement and projects logistics management. This firm has a world-wide network in over 50 countries, managed by professionals in the logistics field that will certainly prove to be a crucial contributor to the firm's future prospects. Currently this segment contributes almost 20% to total revenue and this figure is expected to increase in the future. The company is in the process of expanding these facilities to cater to the rising demand given that CFS division attracts higher margin. Logistics Industry is a sunrise industry which is forecast to grow rapidly at a CAGR of approximately 9% from $100 billion to over $140 billion during FY'11-FY'15 respectively. BLC is well poised to reap rich dividend from the escalation prospective available in Logistic Infrastructure and Services. CFS business is expected to grow at a CAGR of 22% over FY'11-FY'13E led by operational of new Facilities and better utilization of CFS's.

Expanding its Logistic infrastructure facility

Location	Stations	Warehousing
Navi Mumbai	20 acres, expanding to 26 acres	60,000 sq.ft each for Imports and exports
chennai	adding 12 acres	40,000 sq.ft for storage area
Kolkata	10 acres, expanding to 16.5 acres	40,000 sq.ft. covered warehouse

Travel and Tours – largest contributor towards revenue

Nearly 40% of the firm's revenue comes from this segment and much of the company's overall fortunes will depend on this sector. BLC operates its Tours & Travel business from ~19 branches located across the country. This segment of Balmer Lawrie had the unique distinction of handling the Commonwealth Youth games in 2008. The firm has a large base of IATA approved agents (2500) and over 15000 non IATA approved agents to tap this largely fragmented industry. Revenues and profits from this firm have grown at a healthy rate over the last 5 years (Revenue CAGR of 18% and profit CAGR of 20% from 2007-2011) and this is mainly due to the company's widespread network all over India.

The company is banking big on its Travel and Tours business and is in process of creating an online portal for tourism to boost its tours and travel business. Balmer Lawrie also plans to develop dedicated packages for outbound tourism, the focused packages will be in place by March 2012.

Greases and Lubricants –

This is another segment in which the company has a dominant position, being considered amongst the top 10 grease manufacturers in Asia and the largest in the country with five manufacturing facilities located at Kolkata, Taloja, Silvassa and Sewri(in Mumbai) and Chennai. In India over 65% of the client base for grease and lubricants consists of automobile companies while, the remaining 35% consists of industrial and marine companies. This unit generates sales by selling its flagship lubricant Balmerol and grease processing business and manufacturing services for other companies.

The per capita consumption of lubricants in India is still low compared to the developed countries and thus offers more scope for the lubricant industry to grow. Currently, India is the sixth largest market in the world and the third largest in Asia after China and Japan. The SBU achieved its highest ever production, sales /retail sales volume as well as turnover during the year, with an 18% surged in its revenue over FY'10.

Others (Tea, Leather Chemicals and Refinery and Oil Field Services)

Leather Chemicals:

The leather chemical SBU has manufacturing facilities at Chennai & Manali. The Company operates technical service centres at Chennai, Ranipet, Ambur, Kolkata and Kanpur, the major centres of leather production in India. Globally Leather Trade is valued at $145 billion and is expected to grow at the rate of 6% per annum to reach $245 billion by 2020. India's export of Leather & Leather articles which is currently at $ 3.7 billion is expected to grow to a level of $ 9.8 billion by the year 2020. We believe BLC is well positioned to be benefitted from the expected surge in demands for Leather Chemicals both from domestic and overseas markets.

Tea:

BLC is engaged in the entire spectrum of tea operations right from sourcing to exports and owns warehousing, tasting, blending and packing facilities at Kolkata and Coimbatore in India and Bedford in the UK.

Tea blending and engineering services are the least contributors to the revenues and profits. As tea blending division is a commodity product their returns are quite low and does not justify the capital allocation, especially for this segment. Even the revenues from this segment have declined by 10% in current financial year. The company may be planning to exit the tea business if these returns do not justify the investments.

Refinery & Oilfield services:

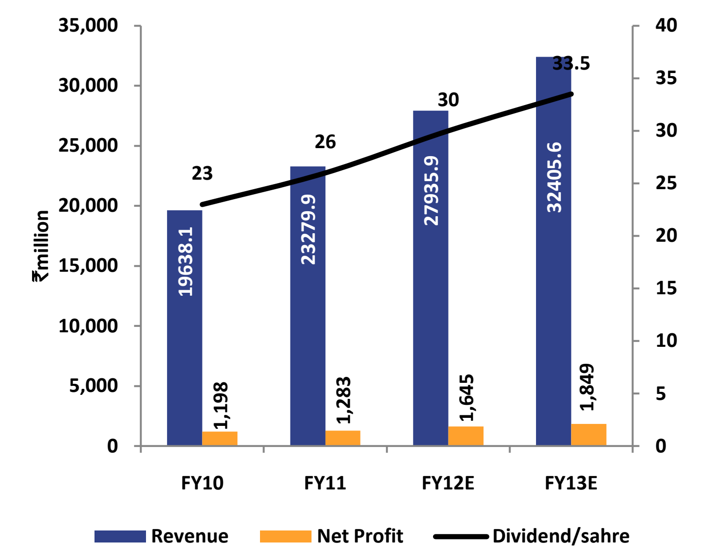
This SBU of the company focuses on providing environment friendly services centered around prevention & recovery of hydrocarbon wastes. This activity assumes greater significance with the concerns on twin aspects of environment & safety. The SBU enjoys a market leadership in 'In-situ' tank sludge cleaning and hydrocarbon recovery having processed more than 100,000 KL of oily sludge during the last decade. The company is working to expand its tie up with relevant international technology suppliers and to intensify the marketing of the technologies. Improved business prospects are seen in the coming years.

Banking on strong Dividend pay-out

Balmer Lawrie is one of the few companies in India, which has maintained an uninterrupted dividend record for the last 10 years. The company has an impressive dividend pay-out of 31.2% during the last five year, which confirms the wealth creation approach of management. In FY'11 the dividend yield stood at 5.1% with a dividend of ₹26 per share. Going ahead we expect the same trend to continue based on the current valuation and assuming a modest increase in dividend in FY'12E. Extrapolating the same, the dividend per share figure for FY'12E and FY'13E comes to ₹30 & ₹33.5 per share.

This debt free company with a book value of ₹392 is valued at cash and we believe that given the fact that there is no major capital expenditure we expect a minimum of 300% dividend payout going forward and this would imply a dividend yield of 6%.

Strong dividend pay-out



Robust Financial ~ RoE to be maintain at elevated levels @ 20%

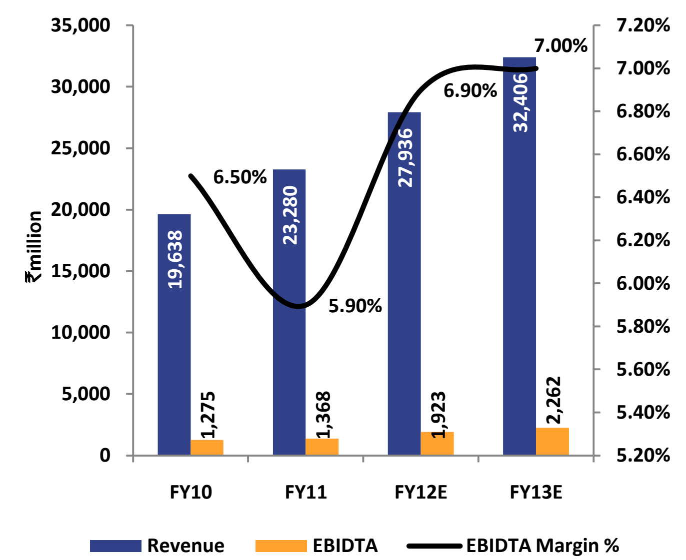
BLC to its credentials carries the tag of Mini Ratna status that has always made a cash profit since its inception in 1867 and this is testament to the firm's remarkable operating efficiency (where profits have been generated regardless of a decline in sales). Despite difficult economic conditions over the last 3 years, the profits of the firm have remained undeterred and in fact have shown a growth even during the economic downturn.

BLC enjoys a strong balance sheet in the form of cash surplus (after netting Debt) over ₹1,158.7 million which would enable it to go for further capital expenditure.

The firm is highly diversified and can afford to hedge its operations as a decline in one segment will be offset by a growth or consistency of figures in other segments.

Since last 5 years, Balmer Lawrie has been able to maintain ROE greater than 20% because of proper cost controls, effective working capital management and better utilization of resources. The company is also an effective cash generator and this can be seen from the fact the cash from operations is equivalent to net profits with minimal capex. The company expects its profitability to grow and maintain the competitiveness by improving their operating efficiencies and increasing productivity.

Robust Financial



SWOT Analysis

Strengths

- Largest manufacturer of steel drums and barrels in India.
- BLC emerged as a multi activity, multi technology, multi location conglomerate with global footprints- along with its joint ventures, encompassing diverse interest in manufacturing sector.
- Esteemed clients for greases and lubricants include Indian Railways and the Indian defence forces.
- BLC's travel and tours business is one of the largest IATA affiliated travel agencies in India.

Weakness

- Over diversified, leading to lack of focus on any particular segment.
- Lack of technical expertise in certain areas.
- BLC does not cultivate tea. It sources tea from others leading to a rise in procurement costs.
- Tours and travels branches are not evenly spread in India, if some villagers or person living in small town want to visit branch for detailed information, person has to travel a lot for that, branches are spread only in big cities.

Opportunities

- Rise in auto sales will enhance demand for BLCL's greases and lubricants.
- Rise in tourism and hence air travel.
- Ownership of tea farms will reduce the company's expenses on sourcing tea.
- Indian roots, global reach", by more diversification globally they can create a name ininternational market and thus results in increment of market share.

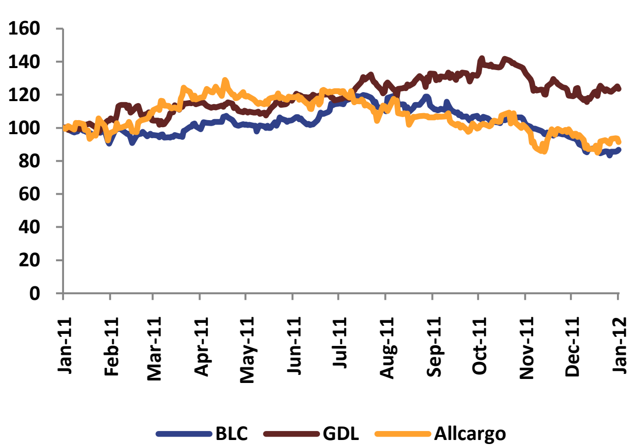
Threats

- Excess manufacturing capacity in the packaging industry.
- Tender based-supplies leading to thin margins.
- Rise in steel and cement prices.
- Direct ticket sales between airlines and the customers might affect BLCL's revenues via commission.

Relative Valuation

	Balmer Lawrie	ALLcargo Global	Gateway Distriparks
CMP	503	130	131
P/E	6.4	11.3	14.9
P/BV	1.3	1.7	2.1
Dividend Yield (%)	5.1	2.3	4.6
Mcap (bn)	8.2	16.8	14.1

Relative Price Chart



Balance Sheet (Standalone)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	162.9	162.9	162.9	162.9
Reserve and surplus	5509.5	6229.7	7,874.4	9,722.9
Net Worth	5,672.4	6,392.6	8,037.3	9,885.8
Loan Funds	2,189.8	1,883.2	1,500.0	1,500.0
Net Deferred Tax Liability	180.7	125.8	130.0	130.0
Capital Employed	**8,042.9**	**8,401.60**	**9,667.3**	**11,515.8**
Gross fixed assets	6735.4	7050.1	7,457.2	8,241.8
Less: accumulated depreciation	3071.5	3367.9	3,739.4	4,152.5
Capital Work in Progress	274.0	460.3	521.3	520.0
Net Fixed assets	3,937.9	4,142.5	4,239.1	4,609.3
Investment	3.6	1.4	2.0	2.0
Net Current Assets	4101.4	4257.7	5,426.1	6,904.5
Capital Deployed	**8,042.9**	**8,401.60**	**9,667.2**	**11,515.8**

Profit & Loss Account (Standalone)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	**19,638.1**	**23,279.9**	**27,935.9**	**32,405.6**
Expenses	18,363.5	21,911.9	26,013.4	30,144.0
EBITDA	**1,274.6**	**1,368.0**	**1,922.5**	**2,261.6**
EBITDA Margin %	6.5	5.9	6.9	7.0
Depreciation	316.0	314.8	371.5	413.1
EBIT	**958.6**	**1,053.2**	**1,551.0**	**1,848.5**
Interest	0.0	0.0	0.0	0.0
Other Income	808.2	834.8	850.0	850.0
Profit Before Tax	1,766.8	1,888.0	2,401.0	2,698.5
Tax	334.9	594.7	756.3	850.0
Extra ordinary items	234.7	10.1	0.0	0.0
Profit after Tax	**1,197.9**	**1,283.2**	**1,644.7**	**1,848.5**
NPM %	6.1%	5.5%	5.9%	5.7%

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	6.5	5.9	6.9	7.0
NPM (%)	6.1	5.5	5.9	5.7
ROCE (%)	11.9	12.5	16.0	16.1
ROE (%)	21.1	20.1	20.5	18.7
ROA (%)	14.9	15.3	17.0	16.1
EPS (₹)	73.5	78.8	101.0	113.5
P/E (x)	6.8	6.4	5.0	4.4
BVPS (₹)	348.2	392.4	493.4	606.9
P/BVPS (x)	1.4	1.3	1.0	0.8
EV/Operating Income(x)	0.5	0.4	0.3	0.3
EV/EBITDA (x)	8.1	7.4	5.0	4.3

Valuation

At the CMP of ₹503 BLC fairly valued with P/E of ~4.4x, and P/B of 0.8 of its FY'13E expected earning evaluating the stock on segmental basis the stock is valued cheaply especially when the travel business is contributing ~40% of the revenues. The current listed companies like Cox and Kings which available at a multiple of 30 of its earning and similar is the case of Thomas Cook also (13 times its earning). The price / sales ratio of the whole BLC is ~0.6 indicating that it is largely undervalued, the stock looks undervalued especially when we see on other player is so diversified as BLC providing the much needed hedge to earning visibility in these tough times.

Other segments like Logistics infrastructure and services, Greases and lubes, and Industrial Packaging should be at least valued at P/E 10-12 (Gateway Distriparks has P/E of 15x, Castrol is available at P/E of 22). So by adding up the numbers, we get the fair value of ~ ₹11,000 million vs. Mcap of ~₹8,000 million for the whole company, considering the diversified business model, tied with high dividend payout, BLC is attractively placed as compared with its other counterparts. Thus, we recommend 'BUY with the 1 year price objective of ₹684.

Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com