

Birla Corporation

 BSE SENSEX
 37,666

 S&P CNX
 11,389

CMP: INR793
TP: INR1,030(+30%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2018 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	BCORP IN
Equity Shares (m)	77
M.Cap.(INRb)/(USD\$b)	61.1 / 0.9
52-Week Range (INR)	1290 / 663
1, 6, 12 Rel. Per (%)	8/-33/-34
12M Avg Val (INR M)	88
Free float (%)	37.1

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	57.3	65.1	70.2
EBITDA	8.1	10.2	11.7
PAT	1.5	2.9	3.8
EPS (INR)	18.9	37.7	49.6
Gr. (%)	-35.6	99.2	31.6
BV/Sh (INR)	556	581	619
RoE (%)	3.8	6.6	8.3
RoCE (%)	5.6	6.5	7.1
P/E (x)	41.9	21.0	16.0
P/BV (x)	1.4	1.4	1.3
EV/EBITDA (x)	11.3	8.2	6.6
EV/Ton (x)	87	80	73

 Estimate change 

 TP change 

 Rating change 

In-line volumes, margins miss led by lower-than-estimated realizations

- Acquired assets report healthy volume growth:** Consol. volumes increased 7% YoY to 3.52mt (est. of 3.54mt), led by ramp-up of Reliance assets. Cement realizations declined 1% QoQ to INR4,499/t (est. of INR4,604) due to weaker pricing in north, partially offset by better pricing in central markets. Thus, net sales stood at INR16.6b (est. of INR17b; +13.5%YoY, flat QoQ).
- Cost curve impacted:** Total cost/t increased 8% YoY (-2% QoQ) to INR4,007, led by higher freight cost/t (+20% YoY) and higher other expenses/t (+9% YoY). Increase in freight cost/t was driven by higher diesel prices. Power & fuel cost/t increased 9% QoQ due to higher petcoke and coal prices. Thus, consol. EBITDA/t stood at INR701 (est. of INR744; -4% YoY, -5% QoQ), leading to EBITDA of INR2.5b (est. of INR2.6b; +3% YoY; -2% QoQ). Adj. PAT increased 44% YoY to INR803m.
- Capacity expansion announced:** The board approved greenfield capacity expansion of ~3.9mt in Maharashtra at a total capex of INR24b, which translates into EV/t of USD93. The capacity is likely to get commissioned by FY22, which indicates that net debt is unlikely to increase meaningfully from current levels and capex requirement would be met through internal accruals.
- Valuation view:** BCORP's consol. operations with capacity of 15.5mt are among the largest in the Satna cluster, with ~22% market share. Blended EBITDA/t profile for consol. operations improved substantially due to significantly higher profitability of Reliance Cement. BCORP, given its size and profitability, is trading at a significant discount to peers (both on EV/tonne and EV/EBITDA) and has strong potential for multiple re-rating. However, the key risk would be lower profitability from its Chanderia operations on a sustained basis. The stock trades at 8x/6.6x FY19/20E EV/EBITDA and EV/tonne of USD80/USD73 on FY19E/FY20E capacity. We conservatively value BCORP at INR1,030, at 8.5x FY20E EV/EBITDA, a discount of 15-20% to peers. Maintain **Buy**.

Consolidated Performance

Y/E March	FY18				FY19				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY18	FY19E	FY19	Var. (%)
Cement Sales (m ton)	3.28	2.65	3.03	3.41	3.52	2.79	3.22	3.68	12.37	13.22	3.54	-1
YoY Change (%)	51.3	27.5	21.9	4	7.3	5.4	6.4	8	23.2	6.8	8.1	
Cement Realization	4,219	4,376	4,363	4,554	4,499	4,740	4,751	5,428	4,548	4,926	4,604	-2
YoY Change (%)	2.3	41	8.7	12.6	6.6	8.3	8.9	19.2	13.9	8.3	14.1	
QoQ Change (%)	4.3	3.7	-0.3	4.4	-1.2	5.4	0.2	14.2			5.7	
Net Sales	14,588	12,355	13,893	16,506	16,558	13,242	15,312	19,990	57,342	65,103	17,063	-3
YoY Change (%)	63.3	30.8	29.1	14.8	13.5	7.2	10.2	21.1	31.9	13.5	17	
Total Expenditure	12,184	10,587	12,506	13,999	14,092	11,494	13,439	15,859	49,275	54,884	14,428	-2
EBITDA	2,404	1,768	1,387	2,507	2,466	1,748	1,873	4,131	8,066	10,219	2,635	-6
Margins (%)	16.5	14.3	10	15.2	14.9	13.2	12.2	20.7	14.1	15.7	15.4	
Depreciation	832	831	823	836	859	840	810	754	3,322	3,262	840	
Interest	937	1,053	958	829	952	980	980	1,042	3,776	3,954	980	
Other Income	161	119	141	334	232	210	210	213	755	865	210	
Profit before Tax	671	3	-252	1,385	852	138	293	2,549	1,807	3,833	1,025	-17
Tax	239	-12	-34	74	84	34	73	776	267	967	136	
Rate (%)	35.6	-421.4	13.4	5.3	9.8	25	25	30.4	14.8	25.2	13.2	
Reported PAT	432	15	-218	1,311	768	103	220	1,773	1,540	2,866	889	-14
EO Income/(Expense)	125	0	0	-208	35	0	0	0	-83	35	0	
Adj. PAT	557	15	-218	1,103	803	103	220	1,773	1,456	2,901	889	-10
YoY Change (%)	-41	-97.8	-47.1	2.1	44.3	608.4	-200.7	60.7	-35.6	99.2	59.7	

E: MOSL Estimates

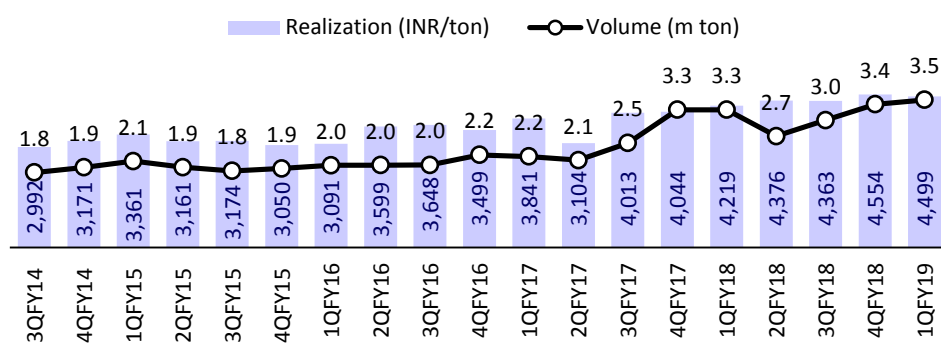
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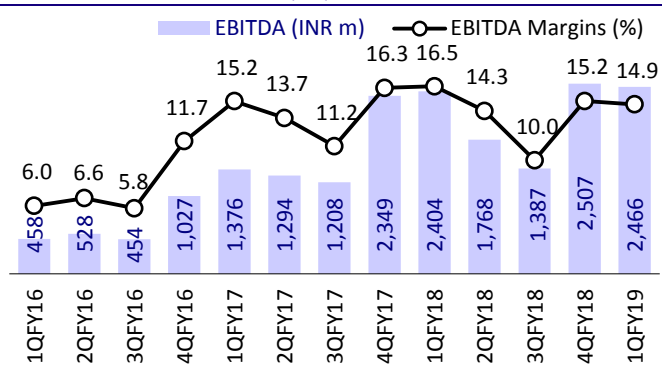
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Exhibit 1: Sequential decline in realizations



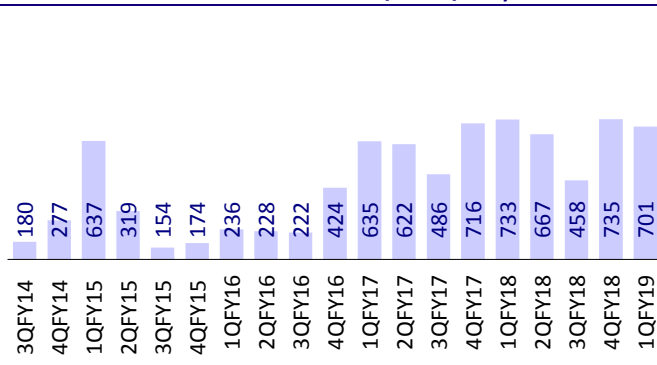
Source: Company, MOSL

Exhibit 2: OPM declined QoQ due to lower realizations



Source: Company, MOSL

Exhibit 3: Trend in blended EBITDA/t INR/ton



Source: Company, MOSL

Exhibit 4: Per ton analysis (incl. Jute)

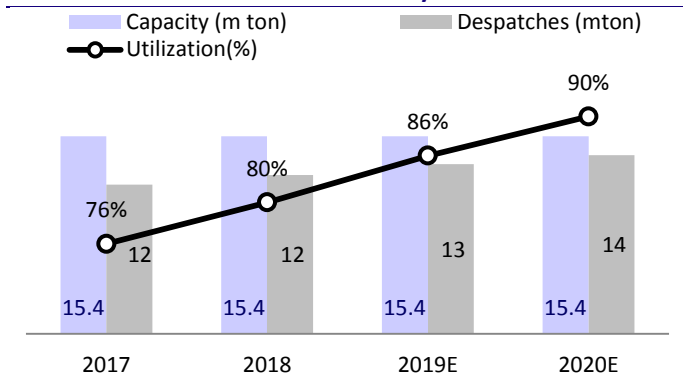
INR/Ton	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
Net realization	4,708	4,449	6%	4,840	-3%
RM Cost	619	573	8%	804	-23%
Employee Expenses	253	258	-2%	269	-6%
Power, Oil & Fuel	1,055	1,080	-2%	972	9%
Freight and Handling Outward	1,263	1,053	20%	1,261	0%
Other Expenses	818	750	9%	799	2%
Total Expenses	4,007	3,716	8%	4,105	-2%
EBITDA	701	733	-4%	735	-5%

Source: MOSL, Company

Valuation view: BCORP’s consol. operations with capacity of 15.5mt are among the largest in the Satna cluster, with ~22% market share. Blended EBITDA/t profile for consol. operations improved substantially due to significantly higher profitability of Reliance Cement. BCORP, given its size and profitability, is trading at a significant discount to peers (both on EV/tonne and EV/EBITDA) and has strong potential for multiple re-rating. However, the key risk would be lower profitability from its Chanderia operations on a sustained basis. The stock trades at 8x/6.6x FY19/20E EV/EBITDA and EV/tonne of USD80/USD73 on FY19E/FY20E capacity. We conservatively value BCORP at INR1,030, at 8.5x FY20E EV/EBITDA, a discount of 15-20% to peers. Maintain **Buy**.

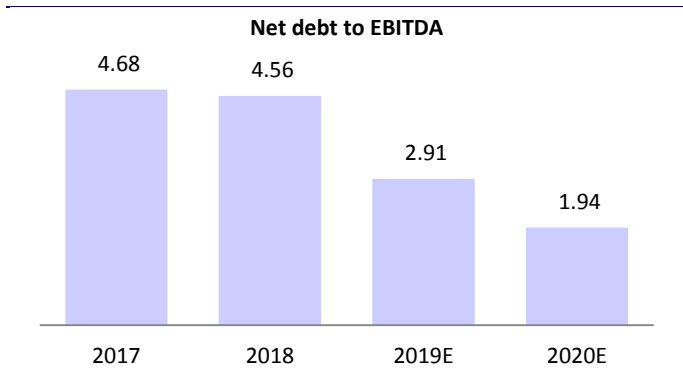
Story in charts

Exhibit 5: Utilization to reach ~90% by FY20



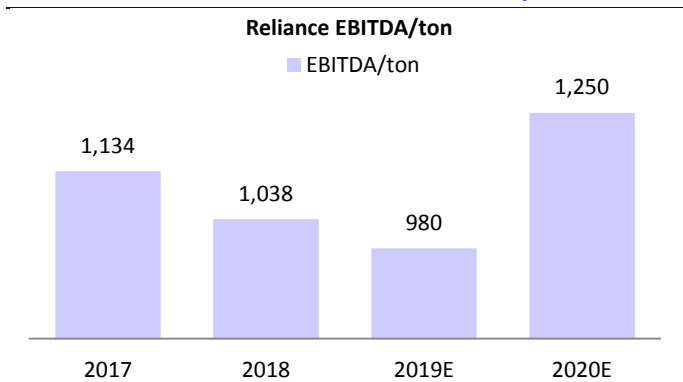
Source: MOSL, Company

Exhibit 6: Net debt to EBITDA on a downtrend



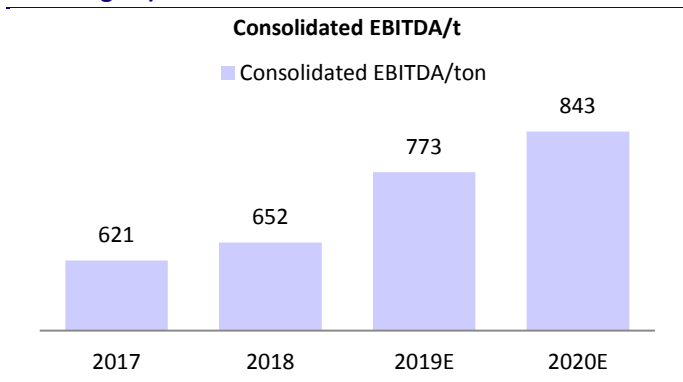
Source: MOSL, Company

Exhibit 7: Reliance Cement standalone EBITDA/ton



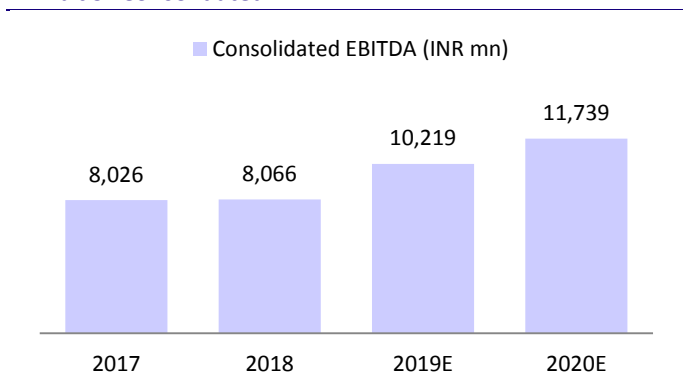
Source: MOSL, Company

Exhibit 8: Consolidated EBITDA/ton (Reliance deal effective from Aug-16)



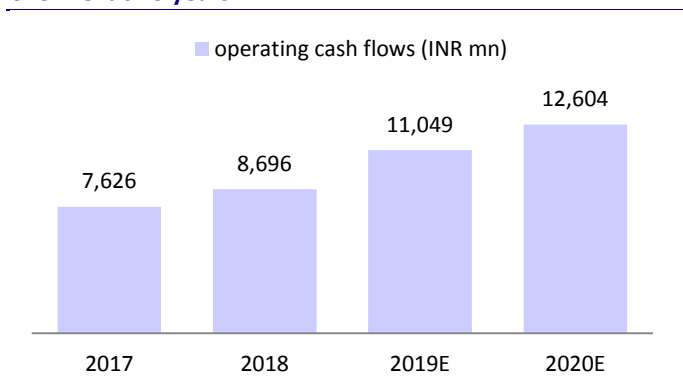
Source: MOSL, Company

Exhibit 9: Consolidated EBITDA



Source: MOSL, Company

Exhibit 10: Operating cash flows to improve substantially over next two years



Source: MOSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	25,638	30,164	32,099	32,682	43,477	57,342	65,103	70,150
Change (%)	14.1	17.7	6.4	1.8	33.0	31.9	13.5	7.8
Total Expenditure	22,101	27,596	29,084	29,823	37,241	49,275	54,884	58,412
EBITDA	3,536	2,568	3,015	2,859	6,235	8,066	10,219	11,739
Margin (%)	13.8	8.5	9.4	8.7	14.3	14.1	15.7	16.7
Depreciation	1,044	1,330	1,538	1,485	2,555	3,322	3,262	3,209
EBIT	2,493	1,238	1,478	1,374	3,680	4,745	6,957	8,530
Int. and Finance Charges	649	856	784	823	2,768	3,776	3,954	3,917
Other Income - Rec.	1,663	1,252	1,561	1,772	1,459	755	865	865
PBT after EO	3,507	1,525	2,126	2,009	2,303	1,807	3,833	5,478
Change (%)	1.3	-56.5	39.5	-5.5	14.6	-21.6	112.2	42.9
Tax	809	226	374	335	108	267	967	1,659
Tax Rate (%)	23.1	14.8	17.6	16.7	4.7	14.8	25.2	30.3
Reported PAT	2,698	1,298	1,752	1,673	2,195	1,540	2,866	3,819
Extra Ordinary Expenses	0	109	128	315	68	-83.3	35.1	0.0
PAT Adj for EO Items	2,698	1,408	1,881	1,988	2,263	1,456	2,901	3,819
Change (%)	12.8	-47.8	33.6	5.7	13.8	-35.6	99.2	31.6
Margin (%)	10.5	4.7	5.9	6.1	5.2	2.5	4.5	5.4

Balance Sheet							(INR Million)	
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	770	770	770	770	770	770	770	770
Reserves	23,731	24,491	25,471	28,483	32,092	42,028	43,999	46,923
Net Worth	24,501	25,261	26,241	29,253	32,862	42,798	44,769	47,693
Loans	12,261	11,302	12,426	9,324	40,705	38,951	38,951	38,951
Deferred Liabilities	2,117	2,342	2,429	1,830	5,645	7,452	7,452	7,452
Capital Employed	38,878	38,905	41,097	40,407	79,212	89,201	91,172	94,096
Gross Block	26,803	29,870	31,295	21,824	67,689	81,071	82,670	87,170
Less: Accum. Deprn.	9,475	10,805	12,342	1,485	4,042	7,361	10,623	13,832
Net Fixed Assets	17,328	18,614	18,953	20,339	63,647	73,710	72,047	73,338
Capital WIP	2,286	1,000	1,500	634	8,034	7,599	6,500	2,500
Investments	12,707	13,340	13,179	16,900	5,644	6,723	6,723	6,723
Curr. Assets	12,934	15,266	16,281	14,421	19,653	22,717	30,946	38,605
Inventory	5,701	5,151	5,521	5,674	6,302	6,870	7,800	8,404
Account Receivables	750	747	881	942	1,325	1,914	2,174	2,342
Cash and Bank Balance	2,786	5,011	4,668	3,634	3,125	2,198	9,235	16,120
Others	3,696	4,357	5,211	4,171	8,901	11,735	11,737	11,739
Curr. Liability & Prov.	6,377	9,315	8,816	11,886	17,766	21,548	25,043	27,069
Account Payables	5,427	8,357	7,767	11,451	17,215	21,056	23,906	25,760
Provisions	950	958	1,049	435	551	492	1,137	1,310
Net Current Assets	6,557	5,951	7,465	2,535	1,887	1,169	5,903	11,536
Appl. of Funds	38,878	38,905	41,097	40,408	79,212	89,201	91,173	94,097

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	35.0	18.3	24.4	25.8	29.4	18.9	37.7	49.6
Cash EPS	48.6	35.5	44.4	45.1	62.6	62.0	80.0	91.3
BV/Share	318.2	328.0	340.8	379.9	426.7	555.8	581.4	619.3
DPS	7.5	6.0	9.0	10.0	10.0	10.0	10.0	10.0
Payout (%)	24.9	55.5	46.0	53.5	40.8	58.1	31.2	23.4
Valuation (x)								
P/E	22.6	43.4	32.5	30.7	27.0	41.9	21.0	16.0
Cash P/E	16.3	22.3	17.9	17.6	12.7	12.8	9.9	8.7
P/BV	2.5	2.4	2.3	2.1	1.9	1.4	1.4	1.3
EV/Sales	2.2	1.8	1.7	1.5	2.0	1.5	1.2	1.1
EV/EBITDA	16.4	21.0	18.5	17.4	14.9	11.3	8.2	6.6
EV/Ton - Cap (USD)	91	85	88	79	89	87	80	73
Dividend Yield (%)	0.9	0.8	1.1	1.3	1.3	1.3	1.3	1.3
Return Ratios (%)								
RoE	11.5	5.7	7.3	7.2	7.3	3.8	6.6	8.3
RoCE	8.6	5.5	6.3	6.4	8.2	5.6	6.5	7.1
RoIC	10.6	5.2	5.9	5.6	8.6	6.0	7.4	8.7
Working Capital Ratios								
Inventory (Days)	81	62	63	63	53	44	44	44
Debtor (Days)	11	9	10	11	11	12	12	12
Wkg. Capital Turnover (Days)	0.7	0.8	0.8	0.8	0.5	0.6	0.7	0.7
Leverage Ratio								
Current ratio	2.0	1.6	1.8	1.2	1.1	1.1	1.2	1.4
Debt/Equity (x)	0.5	0.4	0.5	0.3	1.2	0.9	0.9	0.8

Cash Flow Statement

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
(INR Million)								
OP/(Loss) before Tax	3,514	1,524	2,127	2,010	2,303	1,598	3,833	5,478
Depreciation	1,049	1,331	1,538	1,488	2,555	3,322	3,262	3,209
Interest & Finance Charges	649	856	912	823	2,768	3,776	3,954	3,917
Direct Taxes Paid	-721	-401	-460	-338	-505	-552	-967	-1,659
(Inc)/Dec in WC	-1,432	1,238	-92	158	1,066	481	2,303	1,252
CF from Operations	3,058	4,549	4,025	4,139	8,187	8,625	12,385	12,196
Others	-1,094	-960	-1,207	-1,652	-1,414	-577	0	0
CF from Operating incl EO	1,964	3,588	2,818	2,487	6,773	8,049	12,385	12,196
(Inc)/Dec in FA	-1,802	-1,611	-2,136	-1,640	-2,041	-2,754	-500	-500
Free Cash Flow	163	1,977	682	848	4,732	5,295	11,885	11,696
(Pur)/Sale of Investments	-1,845	-246	929	-566	13,119	-541	0	0
Others	702	594	696	704	-21,163	-129	0	0
CF from Investments	-2,945	-1,264	-510	-1,502	-10,085	-3,423	-500	-500
Inc/(Dec) in Debt	807	1,239	-1,260	-616	6,102	-1,391	0	0
Interest Paid	-890	-933	-850	-847	-2,744	-3,558	-3,954	-3,917
Dividend Paid	-460	-346	-462	-462	-462	-501	-895	-895
Others	-75	-59	-79	-94	-94	-102	0	0
CF from Fin. Activity	-618	-100	-2,651	-2,019	2,803	-5,552	-4,848	-4,811
Inc/Dec of Cash	-1,599	2,225	-343	-1,034	-509	-926	7,037	6,885
Opening Balance	4,385	2,786	5,011	4,668	3,634	3,125	2,198	9,235
Closing Balance	2,786	5,011	4,668	3,634	3,125	2,198	9,235	16,120

Corporate profile

Company description

Birla Corporation (BCORP), established in 1919, is part of the MP Birla group. It manufactures cement, jute products, synthetic viscose and cotton yarn. Cement constitutes about 95% of its revenue. It has cement plants in Rajasthan, Madhya Pradesh, Uttar Pradesh and West Bengal. The Company has acquired 100% shares of Reliance Cement Company Private Limited (Reliance Cement) taking its total capacity from 10 MTPA to 15.5 MTPA.

Exhibit 1: Sensex rebased

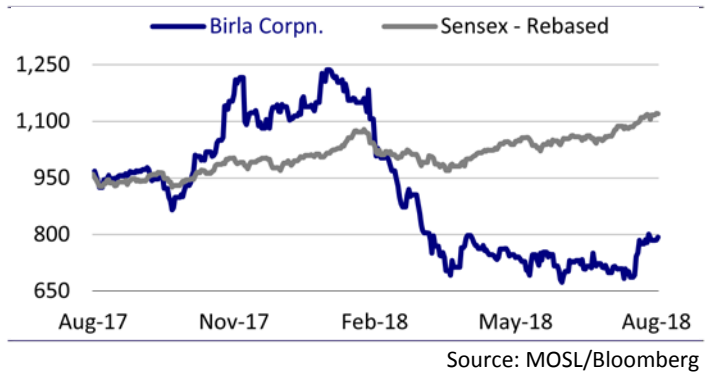


Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	62.9	62.9	62.9
DII	14.6	13.9	15.5
FII	2.5	2.6	2.6
Others	20.0	20.6	19.0

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
RELIANCE CAPITAL TRUSTEE COMPANY LIMITED (Shares held in their various Schemes)	5.4
LIFE INSURANCE CORPORATION OF INDIA	3.5
L and T MUTUAL FUND TRUSTEE LTD (Shares held in their various Schemes)	2.9
Trust and Foundations	1.6

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Harsh V Lodha	Chairman
B R Nahar	Managing Director
Girish Sharma	Company Secretary
Pracheta Majumdar	WTD & Chief Management Advisor

Source: Capitaline

Exhibit 5: Directors

Name	Name
Anand Bordia	B B Tandon
D N Ghosh	Deepak Nayyar
Vikram Swarup	Shailaja Chandra
Pracheta Majumdar	

*Independent

Exhibit 6: Auditors

Name	Type
Mamta Binani & Associates	Secretarial Audit
Shome & Banerjee	Cost Auditor
V Sankar Aiyar & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	37.7	30.0	25.5
FY20	49.6	42.3	17.2

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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