

Improved performance; valuations below fair levels

Birla Corporation is an MP Birla group company that commenced operations as a jute manufacturer and has over time evolved into a cement major with the jute business having a nominal contribution. Having acquired the cement arm of Reliance Infra, Reliance Cement Corporation (RCCPL), the company's cement capacity surged from 9.8 MT to 15.4 MT. Since the acquisition, the company has consolidated the acquired capacity and ramped up production. While the cement industry struggled with volume growth in H1FY20, Birla Corp managed to report 4% volume growth. It ended FY19 at ~90% utilisation with stable EBITDA margins YoY compared to ~170 bps contraction in the margins of the I-direct cement coverage universe.

Strong retail presence leads higher share of premium products

Birla Corp has a strong presence on the retail front owing to its distribution network and focus on trade sales, which have a share in excess of 80% of total volume sales. Further, the company has been pushing more of premium cement via its trade channels and higher ad spends. This has led premium products to form 35-50% of trade sales. In turn, this has enabled the company to improve its realisations, which have grown at 6% CAGR over FY16-19, putting the company in the ranks of industry giants, UltraTech and ACC. This, combined with 19% volume CAGR has contributed to revenue CAGR of 26% to ₹ 6549 crore over FY16-19.

Company specific cost pressures to recede

Earlier, in 2011, Birla Corp's mining operations in Chanderia were suspended following the Jodhpur High Court order. The Supreme Court granted the company partial relief subject to certain conditions. Suspension of blast mining operations and usage of heavy earth moving machinery for mining had led to inflated RM cost for Birla Corp. Currently, based on the report of Central Building Research Institute (CBRI), the company has sought relief for blast mining. Once received, this would bring down RM costs significantly. It is also setting up a waste heat recovery (WHRMS) at its Maihar plant that could lead to savings of ~₹ 35 crore. Further, at its upcoming plant at Mukutban, Maharashtra, it is setting up 40 MW CPP and ~11 MW WHRMS that would entail further savings. Thus, we believe company specific cost pressure would recede and production cost should top out, if not reduce.

Pursuing capacity expansion; aims to reach 25 MT by 2025

Based on current utilisation levels, Birla Corp has limited headroom for growth, thus calling for capacity expansion. The company has undertaken greenfield as well as brownfield expansion at a total estimated capital outlay of ~₹ 2700 crore. Via a brownfield expansion at its Kundanganj plant, it will add 1.2 MT of grinding capacity. It is also setting up a greenfield integrated cement plant at Mukutban, Maharashtra with a capacity of 3.9 MT. This plant would help the company increase its presence in the western region. Currently the company's major markets are North, Central and East India.

Valuation and Outlook

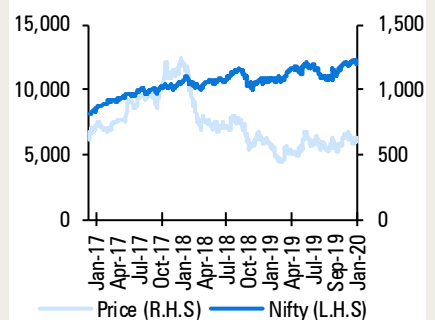
Despite cost pressures, the company has managed to improve its EBITDA margins from 9% in FY16 to 14.5% in FY19, led by increasing sale of premium products. While the company had been saddled with significant debt owing to the RCCPL acquisition, over FY17-19, debt/equity has improved from 1.3x to 0.9x while debt/EBITDA is expected to improve as well from 5.3x in FY18 to 3.8x by FY21E. Current valuation of 7.5x EV/EBITDA on FY21E numbers make the company well placed for a meaningful upside. We maintain a **BUY** rating on the company with a target price of ₹ 760/share.



Stock Data

Particulars	₹ crore
Market Capitalization	4890
Total Debt (FY19)	4137.1
Cash (FY19)	204.1
EV (₹ crore)	8823
52 week High/Low	₹ 684/440
Equity Capital	77.0
Face Value (₹)	10

Price Chart

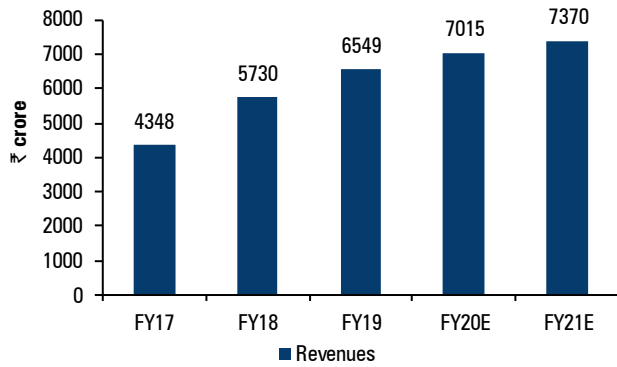


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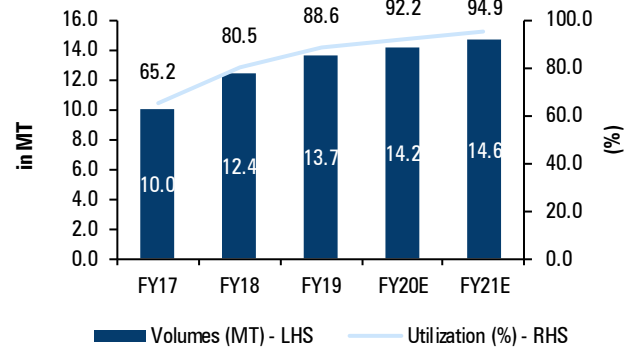
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Exhibit 1: Revenues to grow at 6.1% CAGR over FY19-21E



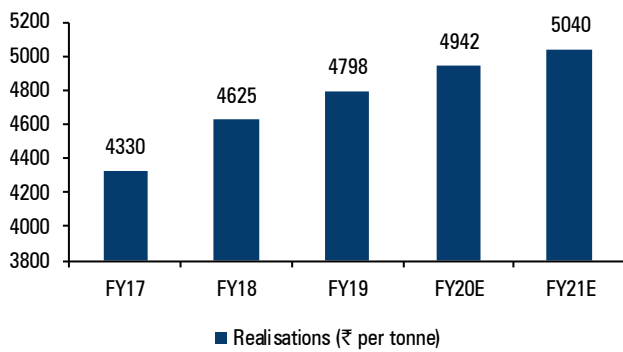
Source: Company, ICICI Direct Research

Exhibit 2: Volume growth expected at 3.5% CAGR FY19-21E



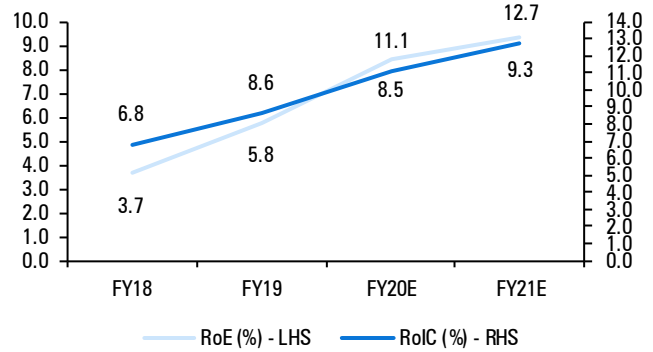
Source: Company, ICICI Direct Research

Exhibit 3: Realisations to increase gradually



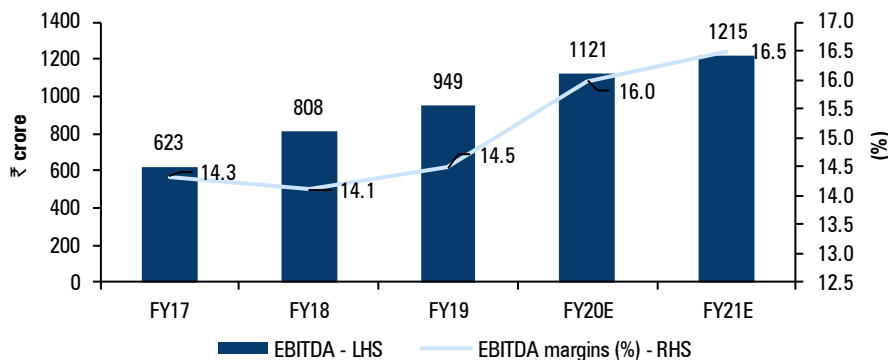
Source: Company, ICICI Direct Research

Exhibit 4: Return ratios to improve



Source: Company, ICICI Direct Research

Exhibit 5: EBITDA to grow between FY19-21E at ~13% CAGR



Source: Company, ICICI Direct Research

Cement Capacity

Location	Capacity (MT)
Satna, Madhya Pradesh	2.2
Chandera, Rajasthan	4
Durgapur, West Bengal	2.3
Raebareli, Uttar Pradesh	1.3
Maihar, Madhya Pradesh	3
Kundanganj, Uttar Pradesh	2
Butibori, Maharashtra	0.6
Current Capacity	15.4
Upcoming Capacities:	
Mukutban, Maharashtra	3.9
Kundanganj (Brownfield)	1.2
Capacity post expansion	20.5

Exhibit 6: Profit & Loss statement

(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	5730.0	6548.7	7015.0	7370.0
Growth (%)	32%	14%	7%	5%
Raw Material Expenses	833.5	941.8	944.0	987.0
Employee Expenses	357.3	370.6	392.9	408.6
Other Exp	3731.0	4287.7	4556.9	4759.4
Total Operating Expenditure	4921.9	5600.1	5893.8	6155.0
EBITDA	808.1	948.6	1121.2	1215.0
Growth (%)	29.7%	17.4%	18.2%	8.4%
Depreciation	332.2	339.1	334.9	327.7
Interest	377.6	370.5	371.5	379.5
Other Income	74.0	78.5	80.0	85.0
PBT	172.3	317.4	494.8	592.8
Others	12.5	0.0	0.0	0.0
Total Tax	5.9	61.7	91.5	109.7
Reported PAT	154.0	255.7	403.3	483.1
Adjusted PAT	166.0	255.7	403.3	483.1
Growth (%)	-27%	54%	58%	20%
Adjusted EPS (₹)	21.6	33.2	52.4	62.7

Source: Company, ICICI Direct Research

Exhibit 7: Cash Flow statement

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	154.0	255.7	403.3	483.1
Add: Depreciation	332.2	339.1	334.9	327.7
Add: Finance costs	377.6	370.5	371.5	379.5
(Inc)/dec in Current Assets	-203.8	-95.4	-63.1	-32.0
Inc/(dec) in CL and Def. tax	483.7	231.2	130.4	45.1
CF from operating activities	1143.7	1101.1	1176.9	1203.4
(Inc)/dec in Fixed Assets	-1294.0	-386.4	-730.6	-865.0
(Inc)/dec in Investments	-247.9	-36.1	-88.4	-80.0
Others	-55.8	-159.1	-50.4	-35.0
CF from investing activities	-1597.8	-581.7	-869.4	-980.0
Issue/(Buy back) of Shares	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-84.8	-165.4	200.0	200.0
Finance costs	-377.6	-370.5	-371.5	-379.5
Others	-15.8	-24.1	-13.2	-4.0
Changes in other equity	839.6	-40.3	-69.3	-69.3
CF from financing activities	361.4	-600.3	-254.0	-252.8
Net Cash flow	-92.7	-80.9	53.6	-29.4
Opening Cash	312.5	219.8	139.0	192.5
Closing Cash	219.8	139.0	192.5	163.1

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet

(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	77	77	77	77
Reserve and Surplus	4203	4418	4752	5166
Total Shareholders funds	4280	4495	4829	5243
Total Debt	4303	4137	4337	4537
Deferred Tax Liability	745	742	710	665
Minority Interest / Others	221	197	184	180
Total Liabilities	9548	9572	10060	10625
Assets				
Gross PPE	7065	7293	7493	7643
Less: Acc Depreciation	692	999	1334	1662
Net PPE	6373	6293	6158	5981
CWIP	762	914	1460	2200
Total Fixed Assets	7135	7207	7618	8181
Intangibles	995	970	955	930
Investments	1026	1062	1150	1230
Inventory	687	783	865	909
Debtors	191	262	290	307
Loans and Advances	1	1	1	1
Other Current Assets	329	257	211	182
Cash	220	139	193	163
Total Current Assets	1428	1443	1560	1562
Creditors	511	627	685	716
Provisions & Others	1015	1133	1237	1297
Total Current Liabilities	1526	1760	1923	2013
Net Current Assets	-98	-317	-363	-450
Others Assets	490	650	700	735
Application of Funds	9548	9572	10060	10625

Source: Company, ICICI Direct Research

Exhibit 9: Ratios

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	21.6	33.2	52.4	62.7
Cash EPS	63.1	77.2	95.9	105.3
BV	555.7	583.7	627.1	680.8
DPS	6.5	6.5	6.5	6.5
Cash Per Share	28.5	18.0	25.0	21.2
Operating Ratios (%)				
EBITDA Margin	14.1	14.5	16.0	16.5
EBIT Margin	8.3	9.3	11.2	12.0
PAT Margin	2.7	3.9	5.7	6.6
Inventory days	43.8	43.6	45.0	45.0
Debtor days	12.2	14.6	15.1	15.2
Creditor days	37.9	40.9	42.4	42.4
Return Ratios (%)				
RoE	3.7	5.8	8.5	9.4
RoCE	6.4	8.0	9.5	9.9
RoIC	6.8	8.6	11.1	12.7
Valuation Ratios (x)				
P/E	29.5	19.1	12.1	10.1
EV / EBITDA	11.1	9.4	8.1	7.6
EV / Net Sales	1.6	1.4	1.3	1.3
Market Cap / Sales	0.9	0.7	0.7	0.7
Price to Book Value	1.1	1.1	1.0	0.9
Solvency Ratios				
Debt/EBITDA	5.3	4.4	3.9	3.7
Debt / Equity	1.0	0.9	0.9	0.9
Current Ratio	0.9	0.8	0.8	0.8
Quick Ratio	0.5	0.4	0.4	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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