

# Birla Corporation

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR406**
**TP: INR695 (+71%)**
**Buy**

## Volumes disappoint but margin remains strong

### Capacity addition to drive market share gains in FY22E

- Birla Corp's (BCORP) 4QFY20 results missed estimate due to 14% YoY volume decline. EBITDA/t though was up 30% YoY (+22% QoQ), led by higher realization (+5% YoY).
- While FY21 would be adversely impacted due to COVID-19, the outlook for FY22E remains positive as upcoming capacities should drive market share gains. Our FY21/22E estimates are broadly unchanged and we maintain **Buy**.

### Miss on estimates due to lower volumes

- Consol. volumes were down ~14.3% YoY to 3.3mt (v/s est. 3.52mt).
- Cement realizations increased 5.7% YoY (+3.1% QoQ) to INR4,889/t.
- Net sales declined 9.8% YoY at INR16.9b (v/s est. INR18.21b).
- Total cost/t was down 2% QoQ (flat YoY) to INR4,077 (0.7% above est. INR4,047) on account of lower fuel costs and BCORP's sustained investments to improve efficiency and cost rationalization.
- Consol. EBITDA/t increased 22% QoQ (+30% YoY) to INR1,044 (8% below est. INR1,132).
- EBITDA was up 11% YoY/17% QoQ to INR3.44b (v/s est. INR3.98b).
- PAT stood at INR1.95b (+52% YoY), 18% above est. 1.66 bn.
- While tax was lower in the quarter, RCCPL Pvt. Ltd's migration to the new tax regime has contributed significantly to PAT growth.
- FY20 revenue/ EBITDA/ PAT at INR69.2b/INR13.4b/INR5.1b was up 6%/41%/98% YoY.

### Highlights from management commentary

- Utilization stood at 93% (-5pp YoY) in 4QFY20 and at 91% in FY20.
- Share of premium products grew 8% in FY20 and accounted for 41% of trade sales. Share of blended cement in total sales was up to 93% in FY20.
- Gross debt stood at INR42.26b in FY20 (up from INR40.49b in FY19), while Net Debt stood at INR35b.
- Capex of INR2.5b for Kundanganj grinding unit has been put on hold.
- Mukutban integrated plant of 3.9mt and Chanderia clinker expansion of 0.4mt are expected to be commissioned by Jun'21 and Mar'21, respectively.

### Valuation and view

- BCORP plans to increase capacity by 25% over the next 15 months, which should support volume growth beyond FY22E. BCORP's 55% capacity is in Central India (our preferred market), which should aid pricing and margin.
- Valuation is attractive at 4.4x FY22E EV/EBITDA (30% discount to its 10-year average) and USD48/t of capacity (significant discount to replacement cost). We value BCORP at 6.5x FY22E EV/EBITDA to arrive at TP of INR695. Maintain **Buy**.

Bloomberg	BCORP IN
Equity Shares (m)	77
M.Cap.(INRb)/(USD\$b)	31.2 / 0.4
52-Week Range (INR)	808 / 373
1, 6, 12 Rel. Per (%)	-2/-12/-9
12M Avg Val (INR M)	67

### Financial Snapshot (INR bn)

Y/E MARCH	2020	2021E	2022E
Sales	69.2	60.3	75.8
EBITDA	13.4	11.3	14.7
Adj. PAT	5.1	3.0	4.7
EBITDA Margin (%)	19.3	18.7	19.5
Adj. EPS (INR)	65.6	38.4	60.5
EPS Gr. (%)	97.6	(41.5)	57.6
BV/Sh. (INR)	624.1	654.4	703.2

### Ratios

Net D:E	0.7	0.9	0.8
RoE (%)	10.9	6.0	8.9
RoCE (%)	8.7	6.1	7.6
Payout (%)	13.3	21.2	19.2

### Valuations

P/E (x)	6.2	10.6	6.7
P/BV (x)	0.7	0.6	0.6
EV/EBITDA(x)	4.3	5.9	4.4
EV/ton (USD)	53	61	48
Div. Yield (%)	1.8	1.7	2.5

### Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	62.9	62.9	62.9
DII	15.3	15.5	16.0
FII	4.2	3.9	2.1
Others	17.6	17.8	19.0

FII Includes depository receipts

## Consolidated Performance

(INR Million)

Y/E March	FY19				FY20				FY19	FY20	FY20 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	16,545	14,646	15,569	18,728	18,838	16,269	17,151	16,900	65,487	69,157	18,213	-7
YoY Change (%)	13.4	18.5	12.1	13.4	13.9	11.1	10.2	-9.8	14.2	5.6	-2.7	
Total Expenditure	14,081	12,790	13,498	15,632	14,992	13,148	14,205	13,453	56,001	55,797	14,233	-5
EBITDA	2,464	1,856	2,071	3,095	3,847	3,121	2,946	3,446	9,486	13,360	3,980	-13
Margins (%)	14.9	12.7	13.3	16.5	20.4	19.2	17.2	20.4	14.5	19.3	21.9	
Depreciation	857	870	836	829	862	879	884	894	3,391	3,519	893	
Interest	952	935	922	896	960	1,030	977	909	3,705	3,877	971	
Other Income	232	203	106	244	169	199	203	281	785	851	204	
Profit before Tax	887	253	419	1,615	2,192	1,411	1,289	1,924	3,174	6,815	2,321	-17
EO Income/(Expense)	0	0	0	0	0	0	0	0	0	0	0	
Profit before Tax after EO	887	253	419	1,615	2,192	1,411	1,289	1,924	3,174	6,815	2,321	-17
Tax	49	91	146	333	786	527	474	-24	617	1,763	665	
Rate (%)	5.5	35.7	34.7	20.6	35.9	37.4	36.8	-1.2	19.4	25.9	28.7	
Reported PAT	838	163	274	1,282	1,406	883	815	1,947	2,557	5,052	1,656	18
Adj. PAT	838	163	274	1,282	1,406	883	815	1,947	2,557	5,052	1,656	18
YoY Change (%)	50.5	1,015.8	-225.3	-2.2	67.7	442.3	197.8	51.9	53.6	97.6	29.2	

E: MOFSL Estimates

## Key operating indicators

(INR/t)

(Rs/ton)*	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY19	FY20	4Q	Var (%)
Blended Realization	4,704	4,774	4,865	4,864	5,175	5,084	5,000	5,121	4,798	5,085	5,179	-1
YoY Change (%)	5.7	2.5	6.1	0.2	10.0	6.5	2.8	5.3	3.7	6.0	6.5	
Raw Material	619	553	897	695	689	555	872	581	690	676	636	-9
Staff Cost	253	297	286	257	277	328	305	296	272	300	309	-4
Power & Fuel	1,055	1,203	1,041	1,070	1,049	1,102	919	1,003	1,088	1,015	1,013	-1
Transport & Forwarding	1,259	1,160	1,167	1,249	1,221	1,197	1,152	1,219	1,211	1,195	1,169	4
Stores and Spares	328	380	406	338	388	378	370	352	360	372	383	-8
Other Exp	490	576	422	451	495	549	523	625	482	545	537	17
Total Expenditure	4,004	4,169	4,218	4,060	4,119	4,109	4,141	4,077	4,103	4,103	4,047	1
EBITDA	700	605	647	804	1,057	975	859	1,044	695	982	1,132	-8



## Highlights of management commentary

## Utilization

- All grinding units (barring Raebareli and Durgapur) are currently running at 80-100% capacity.
- Capacity utilization stood at 93% (-5pp YoY) in 4QFY20.
- Capacity utilization for FY20 was 91%, up from 89% in FY19.

## Market mix

- BCORP remains focused on premium and blended cement. Sales of its premium slag brand, MP Birla Cement Unique (sold in the East), grew 18% YoY.
- Among new launches, the super-premium Ultimate Ultra brand has been received well in Madhya Pradesh, while Samrat Advanced gained significant ground in the key markets of eastern Uttar Pradesh.
- Sales of premium cement by volume grew 8% YoY and its share within the trade segment rose from 37% in FY19 to 41% in FY20.
- High-yielding blended cement accounted for 93% of volume in FY20 compared to 89% in FY19, helped by BCORP's focus on individual home-builders.

## Looking to reduce borrowing cost

- Gross debt stood at INR42.26b in FY20, up from INR40.49b in FY19 while Net Debt stood at INR35b.

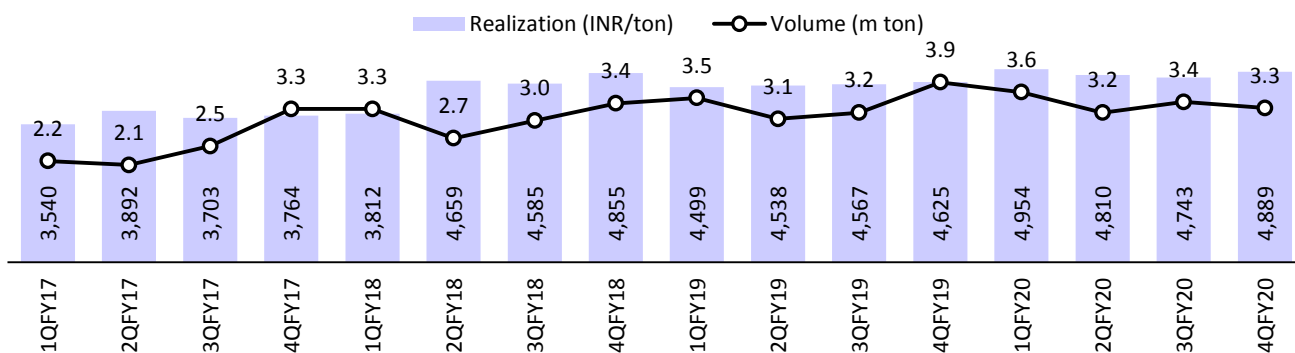
- Board has approved buyback of secured Non-Convertible Debentures in order to bring down borrowing cost, if such opportunity prevails in the market.

**Upcoming capacity**

- Mukutban integrated capacity of 3.9mt should be commissioned by Jun'21.
- Capex of INR2.5b for Kundanganj has been put on hold.
- Chandaria production capacity would be augmented by 0.4mt and should be completed by Mar'21 with a capex outlay of INR1.5b, out of which 0.7b has been spent till Mar'20.

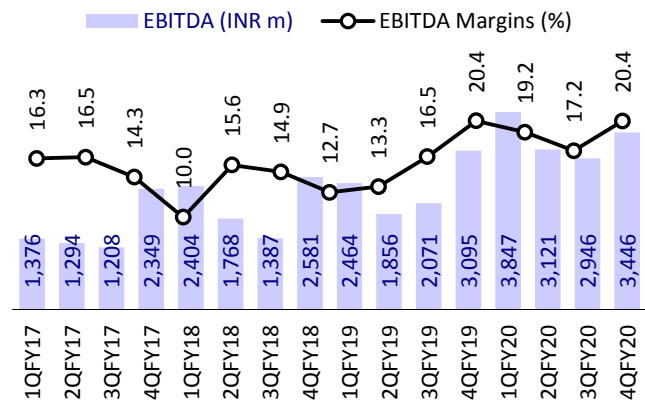
**Key exhibits**

**Exhibit 1: Realization improves but volumes down 14% YoY**



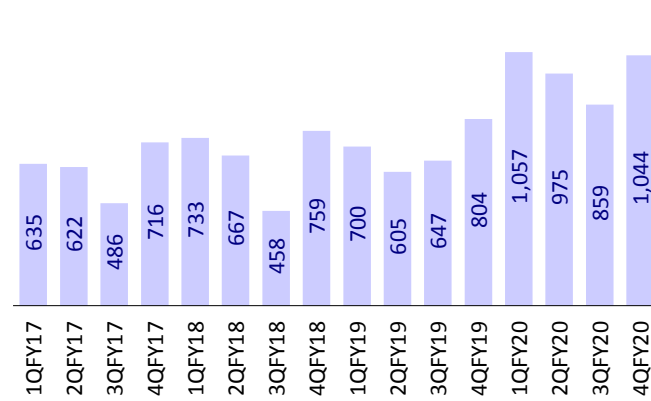
Source: Company, MOFSL

**Exhibit 2: OPM expanded 3.2pp QoQ**



Source: Company, MOFSL

**Exhibit 3: Trend in blended EBITDA/t (INR/ton)**



Source: Company, MOFSL

**Exhibit 4: Blended per ton analysis (incl. Jute)**

INR/Ton	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net realization	5,121	4,864	5%	5,000	2%
RM Cost	581	695	-16%	872	-33%
Employee Expenses	296	257	15%	305	-3%
Power, Oil & Fuel	1,003	1,070	-6%	919	9%
Freight and Handling Outward	1,219	1,249	-2%	1,152	6%
Other Expenses	978	789	24%	893	10%
Total Expenses	4077	4060	0%	4141	-2%
EBITDA	1,044	804	30%	859	22%

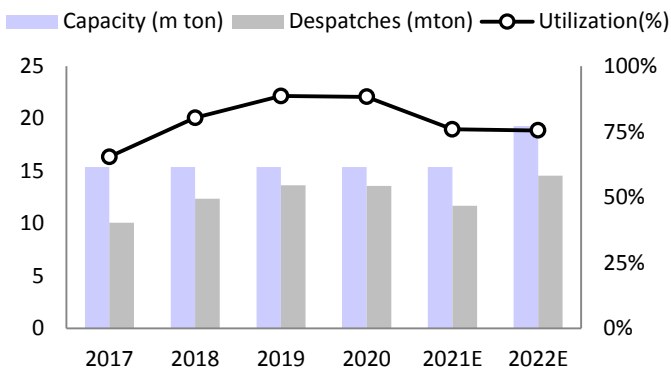
Source: MOFSL, Company

**Valuation and view**

- BCORP would increase its capacity by 25% over the next 15 months. The 3.9mtpa green-field plant at Yavatmal (capex of INR24.5b implying EV/t of USD85) is guided to come on stream by Jun'21. The clinker capacity expansion of 0.4mtpa at Chanderia (capex INR1.5b) is guided to come on stream by Mar'21. The company also planned to expand its Kundanganj grinding unit by 1.2mt (capex INR2.5b) but that has been put on hold this year to conserve cash and on weak demand due to Covid-19. These capacities would support volume growth for the company beyond FY22E.
- BCORP has 55% of its capacity in central India (a preferred market for us) and should aid pricing and margin for the company.
- The company has increased share of premium products in the trade channel from 37% last year to 41%. The share of blended cement has also increased from 89% last year to 93% now. BCORP is engaging with a global consultancy firm to streamline systems and processes for both inbound and outbound logistics.
- Valuation is attractive at 4.4x FY22E EV/EBITDA (30% discount to its 10-year average and 60% discount to its peak) and USD48/t of capacity (significant discount to replacement cost). We value BCORP at 6.5x FY22E EV/EBITDA to arrive at a TP of INR695. Maintain **Buy**.

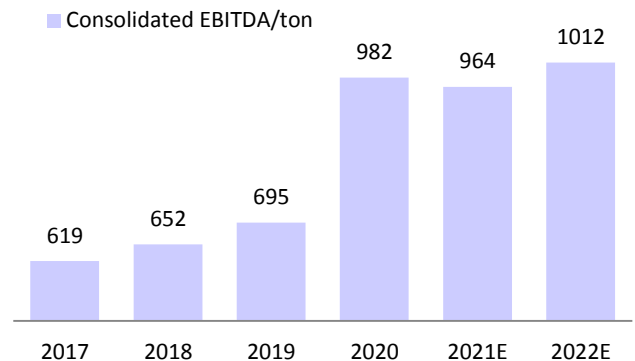
Story in charts

Exhibit 5: Expansion to drive volume growth from FY22E



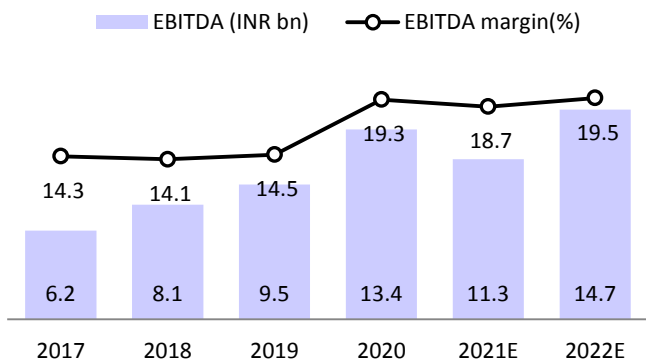
Source: Company, MOFSL

Exhibit 6: Consolidated EBITDA/t (INR/t)



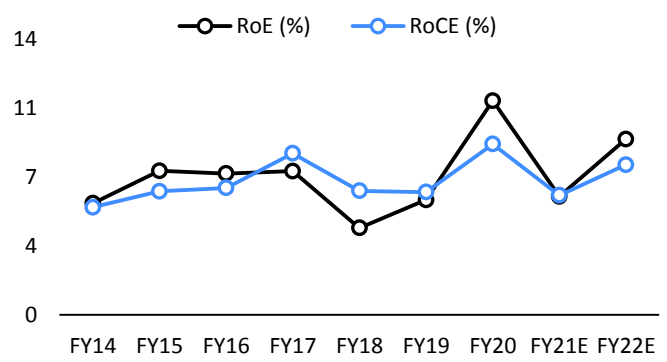
Source: Company, MOFSL

Exhibit 7: EBITDA to decline in FY21 due to COVID-19



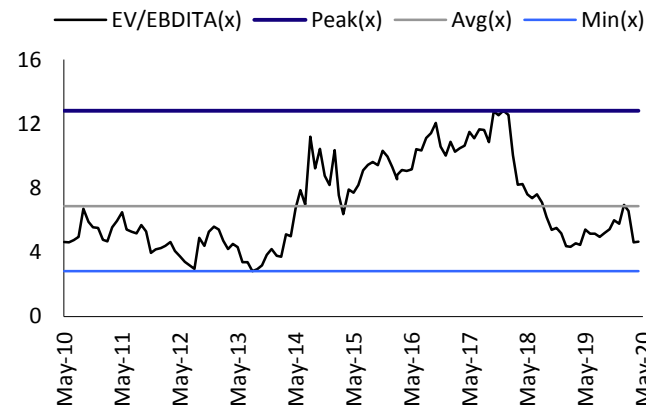
Source: Company, MOFSL

Exhibit 8: Return ratios to decline



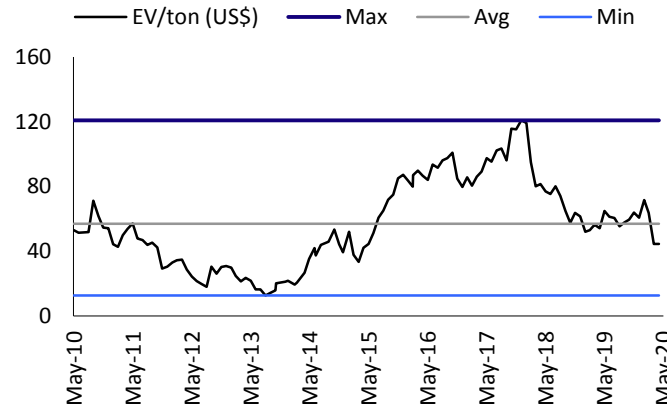
Source: Company, MOFSL

Exhibit 9: BCORP EV/EBITDA trend



Source: MOFSL, Company

Exhibit 10: BCORP EV/t trend



Source: MOFSL, Company

## Financials and valuations

Income Statement (Consolidated)							(INR M)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>Net Sales</b>	<b>32,099</b>	<b>32,682</b>	<b>43,477</b>	<b>57,342</b>	<b>65,487</b>	<b>69,157</b>	<b>60,275</b>	<b>75,769</b>
Change (%)	6.4	1.8	33.0	31.9	14.2	5.6	-12.8	25.7
Total Expenditure	29,084	29,823	37,241	49,275	56,001	55,797	49,005	61,027
<b>EBITDA</b>	<b>3,015</b>	<b>2,859</b>	<b>6,235</b>	<b>8,066</b>	<b>9,486</b>	<b>13,360</b>	<b>11,270</b>	<b>14,741</b>
Margin (%)	9.4	8.7	14.3	14.1	14.5	19.3	18.7	19.5
Depreciation	1,538	1,485	2,555	3,322	3,391	3,519	3,667	4,368
<b>EBIT</b>	<b>1,478</b>	<b>1,374</b>	<b>3,680</b>	<b>4,745</b>	<b>6,095</b>	<b>9,841</b>	<b>7,603</b>	<b>10,373</b>
Int. and Finance Charges	784	823	2,768	3,776	3,705	3,877	4,256	4,780
Other Income - Rec.	1,561	1,772	1,459	755	785	851	759	877
<b>PBT after EO</b>	<b>2,126</b>	<b>2,009</b>	<b>2,303</b>	<b>1,598</b>	<b>3,174</b>	<b>6,815</b>	<b>4,105</b>	<b>6,469</b>
Change (%)	39.5	-5.5	14.6	-30.6	98.6	114.7	-39.8	57.6
Tax	374	335	108	59	617	1,763	1,150	1,811
Tax Rate (%)	17.6	16.7	4.7	3.7	19.4	25.9	28.0	28.0
<b>Reported PAT</b>	<b>1,752</b>	<b>1,674</b>	<b>2,195</b>	<b>1,540</b>	<b>2,557</b>	<b>5,052</b>	<b>2,956</b>	<b>4,658</b>
Extra Ordinary Expenses	128	315	68	124.8	0.0	0.0	0.0	0.0
<b>PAT Adj for EO Items</b>	<b>1,881</b>	<b>1,989</b>	<b>2,263</b>	<b>1,664</b>	<b>2,557</b>	<b>5,052</b>	<b>2,956</b>	<b>4,658</b>
Change (%)	33.6	5.7	13.8	-26.4	53.6	97.6	-41.5	57.6
Margin (%)	5.9	6.1	5.2	2.9	3.9	7.3	4.9	6.1

Balance Sheet							(INR M)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Equity Share Capital	770	770	770	770	770	770	770	770
Reserves	25,471	28,483	32,092	42,028	44,182	47,291	49,621	53,384
<b>Net Worth</b>	<b>26,241</b>	<b>29,253</b>	<b>32,862</b>	<b>42,798</b>	<b>44,952</b>	<b>48,061</b>	<b>50,391</b>	<b>54,154</b>
Loans	12,426	9,324	40,705	38,951	36,484	37,526	45,526	45,526
Deferred Liabilities	2,429	1,830	5,645	7,452	7,422	8,568	8,568	8,568
<b>Capital Employed</b>	<b>41,097</b>	<b>40,407</b>	<b>79,212</b>	<b>89,201</b>	<b>88,859</b>	<b>94,155</b>	<b>1,04,485</b>	<b>1,08,248</b>
Gross Block	31,295	21,824	67,689	81,071	83,415	87,544	91,344	1,21,744
Less: Accum. Deprn.	12,342	1,485	4,042	7,361	10,752	14,271	17,939	22,307
<b>Net Fixed Assets</b>	<b>18,953</b>	<b>20,339</b>	<b>63,647</b>	<b>73,710</b>	<b>72,662</b>	<b>73,273</b>	<b>73,406</b>	<b>99,437</b>
Capital WIP	1,500	634	8,034	7,599	9,119	16,020	22,710	3,000
Investments	13,179	16,900	5,644	6,723	8,769	8,363	8,363	8,363
<b>Curr. Assets</b>	<b>16,281</b>	<b>14,421</b>	<b>19,653</b>	<b>22,717</b>	<b>22,765</b>	<b>24,098</b>	<b>22,935</b>	<b>26,469</b>
Inventory	5,521	5,674	6,302	6,870	7,830	7,876	7,207	9,060
Account Receivables	881	942	1,325	1,914	2,622	2,504	2,413	3,034
Cash and Bank Balance	4,668	3,634	3,125	2,198	1,390	2,558	2,156	3,212
Others	5,211	4,171	8,901	11,735	10,924	11,160	11,159	11,163
<b>Curr. Liability &amp; Prov.</b>	<b>8,816</b>	<b>11,886</b>	<b>17,766</b>	<b>21,548</b>	<b>24,457</b>	<b>27,599</b>	<b>22,930</b>	<b>29,022</b>
Account Payables	7,767	11,451	17,215	21,056	23,919	26,930	22,015	27,674
Provisions	1,049	435	551	492	538	669	915	1,348
<b>Net Current Assets</b>	<b>7,465</b>	<b>2,535</b>	<b>1,887</b>	<b>1,169</b>	<b>-1,692</b>	<b>-3,501</b>	<b>6</b>	<b>-2,553</b>
<b>Appl. of Funds</b>	<b>41,097</b>	<b>40,408</b>	<b>79,212</b>	<b>89,201</b>	<b>88,859</b>	<b>94,155</b>	<b>1,04,485</b>	<b>1,08,248</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>24.4</b>	<b>25.8</b>	<b>29.4</b>	<b>21.6</b>	<b>33.2</b>	<b>65.6</b>	<b>38.4</b>	<b>60.5</b>
Cash EPS	44.4	45.1	62.6	64.7	77.2	111.3	86.0	117.2
BV/Share	340.8	379.9	426.7	555.8	583.7	624.1	654.4	703.2
DPS	9.0	6.0	6.5	6.5	7.5	7.5	7.0	10.0
Payout (%)	46.0	32.1	26.5	37.8	26.2	13.3	21.2	19.2

### Valuation (x)

P/E					12.3	6.2	10.6	6.7
Cash P/E					5.3	3.7	4.7	3.5
P/BV					0.7	0.7	0.6	0.6
EV/Sales					0.7	0.6	0.7	0.8
EV/EBITDA					6.1	4.3	5.9	4.4
EV/Ton - Cap (USD)					53	53	61	48
Dividend Yield (%)					1.8	1.8	1.7	2.5

### Return Ratios (%)

RoE	7.3	7.2	7.3	4.4	5.8	10.9	6.0	8.9
RoCE	6.3	6.4	8.2	6.3	6.2	8.7	6.1	7.6
RoIC	5.9	5.6	8.6	6.8	6.9	10.7	7.9	9.1

### Working Capital Ratios

Inventory (Days)	63	63	53	44	44	42	44	44
Debtor (Days)	10	11	11	12	15	13	15	15
Wkg. Capital Turnover (Days)	0.8	0.8	0.5	0.6	0.7	0.7	0.6	0.7

### Leverage Ratio

Current ratio	1.8	1.2	1.1	1.1	0.9	0.9	1.0	0.9
Debt/Equity (x)	0.5	0.3	1.2	0.9	0.8	0.8	0.9	0.8

### Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
<b>(INR M)</b>								
OP/(Loss) before Tax	2,127	2,010	2,303	1,598	3,174	6,815	4,105	6,469
Depreciation	1,538	1,488	2,555	3,322	3,391	3,519	3,667	4,368
Interest & Finance Charges	912	823	2,768	3,776	3,705	3,877	4,256	4,780
Direct Taxes Paid	-460	-338	-505	-552	-469	-418	-1,150	-1,811
(Inc)/Dec in WC	-92	158	1,066	481	1,309	207	-3,910	3,616
<b>CF from Operations</b>	<b>4,025</b>	<b>4,139</b>	<b>8,187</b>	<b>8,625</b>	<b>11,111</b>	<b>14,000</b>	<b>6,970</b>	<b>17,423</b>
Others	-1,207	-1,652	-1,414	-577	-470	-588	0	0
<b>CF from Operating incl EO</b>	<b>2,818</b>	<b>2,487</b>	<b>6,773</b>	<b>8,049</b>	<b>10,641</b>	<b>13,412</b>	<b>6,970</b>	<b>17,423</b>
(Inc)/Dec in FA	-2,136	-1,640	-2,041	-2,754	-4,030	-9,860	-10,490	-10,690
<b>Free Cash Flow</b>	<b>682</b>	<b>848</b>	<b>4,732</b>	<b>5,295</b>	<b>6,611</b>	<b>3,552</b>	<b>-3,520</b>	<b>6,733</b>
(Pur)/Sale of Investments	929	-566	13,119	-541	-1,521	-446	0	0
Others	696	704	-21,163	-129	-550	74	0	0
<b>CF from Investments</b>	<b>-510</b>	<b>-1,502</b>	<b>-10,085</b>	<b>-3,423</b>	<b>-6,101</b>	<b>-10,232</b>	<b>-10,490</b>	<b>-10,690</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-1,260	-616	6,102	-1,391	-1,297	1,860	8,000	0
Interest Paid	-850	-847	-2,744	-3,558	-3,448	-3,872	-4,256	-4,780
Dividend Paid	-462	-462	-462	-501	-501	0	-626	-895
Others	-79	-94	-94	-102	-103	0	0	0
<b>CF from Fin. Activity</b>	<b>-2,651</b>	<b>-2,019</b>	<b>2,803</b>	<b>-5,552</b>	<b>-5,349</b>	<b>-2,012</b>	<b>3,117</b>	<b>-5,675</b>
<b>Inc/Dec of Cash</b>	<b>-343</b>	<b>-1,034</b>	<b>-509</b>	<b>-926</b>	<b>-808</b>	<b>1,169</b>	<b>-403</b>	<b>1,058</b>
Opening Balance	5,011	4,668	3,634	3,125	2,198	1,390	2,559	2,156
<b>Closing Balance</b>	<b>4,668</b>	<b>3,634</b>	<b>3,125</b>	<b>2,198</b>	<b>1,390</b>	<b>2,559</b>	<b>2,157</b>	<b>3,213</b>

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

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