

Birla Corporation Ltd

BUY

CMP Rs653

Target Rs943

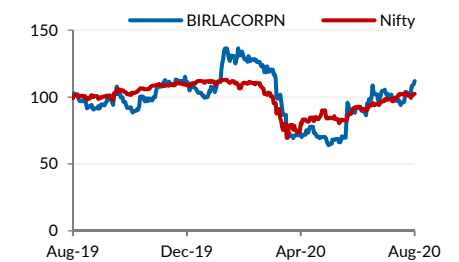
Upside 44%

Highlights	<ul style="list-style-type: none"> ✓ BCORP posted volume de-growth of ~34% for Q1FY21 – which was in-line with industry de-growth. Total volumes came in at 2.42 MT (est. of 2.3 MT) with utilization levels of 58%. Net sales was Rs 12.22 bn (-35.1% y/y) vs est. of Rs 11.90 bn. ✓ Post April being a washout month, demand picked up in May-June on the back of pent up demand in IHB segment, strong Rabi harvest and better availability of construction workers in operating markets. ✓ NSR of BCORP witnessed marginal decline of 0.5% y/y due to soft prices in East. Peer companies have delivered strong increase in NSR sequentially owing to pricing tailwinds in operating markets and higher share of trade mix (+10-15% shift in mix towards trade segment). However, operating markets of BCORP witnessed stable pricing while trade mix has been high historically for the company (80-85% of sales) leaving less scope for incremental improvement. ✓ Cost optimization measures and stable pricing translated into EBITDA/te of Rs 981 (-5% y/y). Absolute EBITDA stood at Rs 2,331 mn (-39.4% y/y) vs. our estimates of Rs 2,445 mn. ✓ Prolonged shutdown and shortage of workers have resulted into delay of commissioning of Mukutban plant from June 2021 to August 2021. Further, BCORP has earmarked Rs 725 mn for expansion of 0.24 MTPA capacity at Durgapur plant by FY23E.
Our View	<ul style="list-style-type: none"> ✓ We have upgraded EBITDA estimates by 5%/1.9% for FY21E/FY22E respectively due to better than anticipated demand and pricing in May-June combined with cost optimization measures. ✓ Accordingly, we expect peak net debt/EBITDA for BCORP at 3.3x in FY21E (despite factoring in that BCORP will not receive any subsidies in FY21E) vs previous est. of 3.6x.
Valuation	<ul style="list-style-type: none"> ✓ Currently BCORP is trading at EV/EBITDA of ~6.4x and EV/te of \$62 on FY22E. Taking an average of EV/EBITDA and DCF derived values, we have a target of Rs 943/share (implied EV/EBITDA multiple of 8x on FY22E).
Risk to our call	<ul style="list-style-type: none"> ✓ In a scenario of second wave of Covid-19 spread, demand and pricing outlook would be severely hampered.

Stock data (as on Aug 07, 2020)

Nifty:	11,215
52 Week h/l (Rs)	807 / 372
Market cap (Rs/USD mn)	50292 / 671
Outstanding Shares (mn)	77
6m Avg t/o (Rs mn):	166
Div yield (%):	1.1
Bloomberg code:	BCORP IN
NSE code:	BIRLACORPN

Stock performance



(%)	1M	3M	1Y
Absolute return	8.4%	74.8%	10.4%

Shareholding pattern (As of June'20 end)

Promoter	62.90%
FII+DII	19.35%
Others	17.74%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	943	854

Δ in earnings estimates

Rs bn	FY21E	FY22E
EBITDA (New)	11.3	14.0
EBITDA (Old)	10.8	13.7
% change	5.0	1.9

Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q1 FY21	Q4 FY20	q/q (%)	Q1 FY20	y/y (%)
Revenue	12,220	16,900	(27.7)	18,838	(35.1)
EBITDA	2,331	3,446	(32.4)	3,847	(39.4)
EBITDA Margin (%)	19.1	20.4	(132) bps	20.4	(134) bps
Other Income	190	281	(32.1)	169	12.9
Depreciation	877	894	(1.9)	862	1.7
Interest	800	909	(12.1)	960	(16.7)
PBT	845	1,924	(56.1)	2,192	(61.4)
Tax	188	(23.6)	-	786	(76.2)
Reported PAT	658	1,947	(66.2)	1,406	(53.2)

Source: Company, YES Sec - Research

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Exhibit 2: Per te analysis (consolidated)

Blended (in Rs)	Q1 FY21	Q4 FY20	q/q (%)	Q1 FY20	y/y (%)
Volumes (in MT)	2.42	3.35	(27.8)	3.66	(33.9)
Net realization	5,049	5,045	0.1	5,147	(1.9)
Raw Material cost	1,048	724	44.6	875	19.7
Employee cost	364	291	24.8	275	32.1
Power and fuel cost	862	988	(12.8)	1,044	(17.4)
Freight cost	891	1,049	(15.0)	1,024	(12.9)
Other expenses	921	963	(4.3)	878	4.9
EBITDA	963	1,029	(6.4)	1,051	(8.3)

Source: Company, YES Sec - Research

PRESENTATION HIGHLIGHTS:

- ✓ Volume de-growth for quarter stood at 33.9% y/y which was in line with industry de-growth. Clinker production at Satna and Chanderia could not start immediately after easing of lockdown due to district specific conditions. Similarly grinding units in Rae bareli district could resume production only in early May - translating into loss of sales in price attractive markets.
- ✓ Demand during the quarter was driven by pent up demand of IHB segment, strong Rabi harvest and better availability of construction workers in operating markets. Green shoots were visible by June end on the back of Government led infra projects and release of funds towards welfare schemes like MGNREGA and PMGKY.
- ✓ NSR dropped by 0.5% y/y due to soft prices prevailing in Eastern market.
- ✓ Trade segment sales stood at 86% during Q1FY21 (+2 percentage points y/y) while share of premium products within trade mix dropped 8 percentage points y/y to 36%. Blended cement sales stood at 94% (flattish as against last year).
- ✓ Company has undertaken measures to aggressively reduce fixed costs and optimize freight costs in addition to reduction of power costs through higher production of solar power plants.
- ✓ Due to prolonged lockdown and shortage of workers, commissioning of Mukutban plant is delayed from June 2021 to August 2021. Further, expansion of Kundanganj grinding unit has been kept on hold to maintain balance sheet stability.
- ✓ Average borrowing cost was 8.08% as compared to 8.60% in Q1FY20.

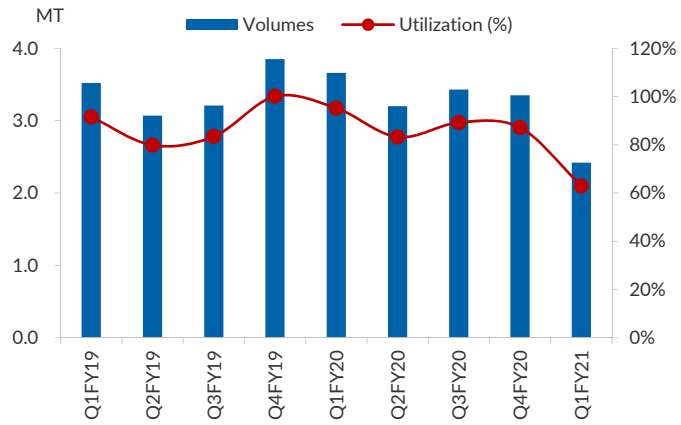
Exhibit 3: Revision in estimates (consolidated)

	FY21E		% change	FY22E		% change
	Revised	Old		Revised	Old	
Cement Volumes (MT)	11.9	11.9	(0.2)	14.8	14.8	0.0
Net sales (Rs mn)	58,030	58,016	0.0	73,067	72,933	0.2
EBITDA (Rs mn)	11,345	10,803	5.0	13,978	13,718	1.9
Realization/te (Rs)	4,886	4,875	0.2	4,936	4,928	0.2
EBITDA/te (Rs)	955	908	5.2	944	927	1.9

Source: Company, YES Sec - Research

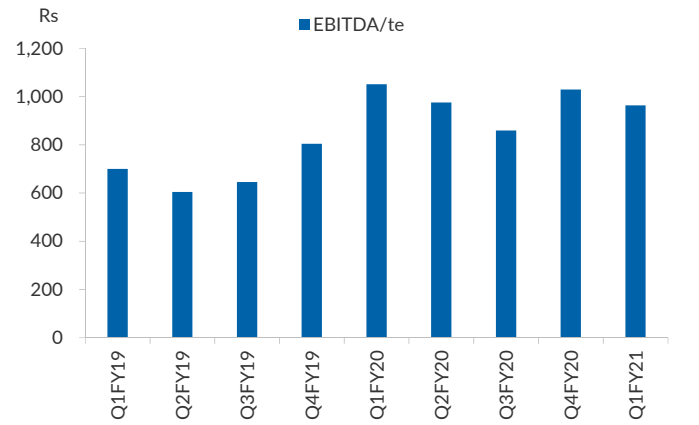
CHARTS

Exhibit 4: Volume de-growth stood at 33.9% y/y which was in-line with industry de-growth



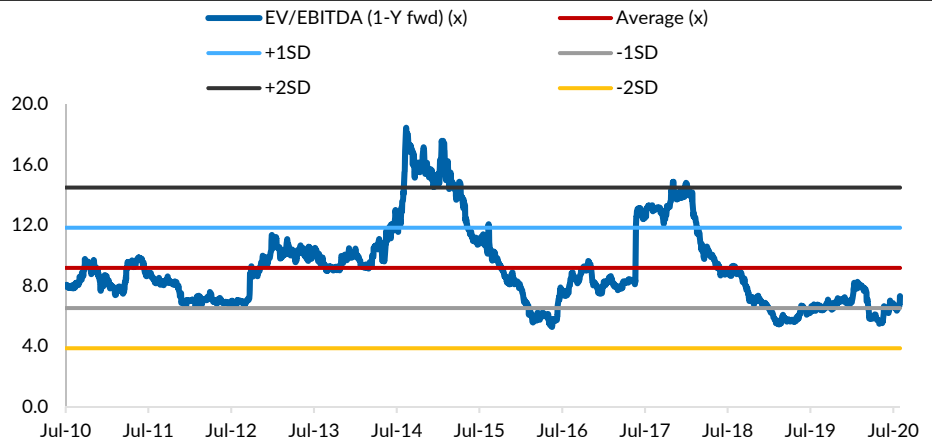
Source: Company, YES Sec – Research

Exhibit 5: Stable pricing and cost optimization led to EBITDA/te of Rs 981



Source: Company, YES Sec – Research

Exhibit 6: One year forward EV/EBITDA band



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 7: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Revenues	65,487	69,157	58,030	73,067
Growth (%)	14.2	5.6	(16.1)	25.9
EBITDA	9,486	13,360	11,345	13,978
EBITDA margin (%)	14.5	19.3	19.5	19.1
Growth (%)	17.6	40.8	(15.1)	23.2
Depreciation	3,391	3,519	3,624	4,175
Other income	785	851	839	716
EBIT	6,880	10,692	8,560	10,519
EBIT margin (%)	10.5	15.5	14.8	14.4
Interest	3,705	3,877	4,124	4,361
PBT	3,174	6,815	4,436	6,158
Tax	617	1,763	1,109	1,539
Net profit	2,557	5,052	3,327	4,618
NPAT margin (%)	3.9	7.3	5.7	6.3
EPS (Rs)	33	66	43	60
Growth (%)	66.1	97.6	(34.1)	38.8

Source: Company, YES Sec – Research

Exhibit 8: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Equity Share Capital	770	770	770	770
Reserves	44,182	47,291	50,286	54,442
Total Shareholders' Funds	44,952	48,061	51,056	55,212
Non-current liabilities				
Long term borrowings	36,232	36,690	40,190	40,690
Deferred Tax liabilities	7,422	8,568	8,568	8,568
Current liabilities				
Short term borrowings	252	837	837	1,904
Trade payables	6,273	5,228	4,561	5,594
Other current liabilities	11,209	14,768	14,768	14,768
Total equity and liabilities	113,316	121,755	127,583	134,339
Non-current assets				
PPE	62,933	63,733	62,409	80,284
CWIP	9,119	16,020	24,470	11,119
Current assets				
Current Investments	6,003	6,762	6,762	6,762
Inventories	7,830	7,876	6,872	8,428
Trade receivables	2,622	2,504	2,101	2,645
Cash and cash equivalents	894	467	694	885
Other bank balances	495	2,092	500	500
Other current assets	7,188	7,229	8,701	8,642
Total assets	113,316	121,755	127,583	134,339

Source: Company, YES Sec – Research

Exhibit 9: Cash Flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
PBT	3,174	6,815	4,436	6,158
Depreciation & Amortization	3,391	3,519	3,624	4,175
Finance cost	3,705	3,877	4,124	4,361
(Incr)/Decr in Working Capital	1,309	207	(732)	(1,009)
Taxes	(469)	(418)	(1,109)	(1,539)
Cash from ops.	10,641	13,412	10,342	12,146
(Incr)/ Decr in PP&E	(4,197)	(9,907)	(10,750)	(8,700)
(Purchase)/ Sale of Current Investments (net)	(1,521)	(359)	0	0
Cash Flow from Investing	(5,434)	(11,840)	(9,159)	(8,700)
(Decr)/Incr in Borrowings	(1,297)	1,877	3,500	1,568
Finance cost	(3,705)	(3,877)	(4,124)	(4,361)
Dividend paid	(603)	0	(333)	(462)
Cash Flow from Financing	(5,349)	(2,012)	(956)	(3,255)
Incr/(Decr) in cash	(141)	(428)	228	190
Cash and cash equivalents at beginning of year	1,036	894	467	694
Cash and cash equivalents at end of year	894	467	694	885

Source: Company, YES Sec - Research

Exhibit 10: Ratios (Consolidated)

Y/e 31 Mar	FY19	FY20	FY21E	FY22E
ROE (%)	5.7	10.5	6.5	8.4
ROCE (%)	8.1	11.8	8.8	10.3
ROIC (%)	11.0	18.6	14.9	13.2
Net debt to equity (x)	0.7	0.7	0.7	0.7
Net debt to EBITDA (x)	3.5	2.5	3.3	2.8
Interest coverage (x)	1.9	2.8	2.1	2.4
EV/EBITDA (x)	8.3	6.2	7.8	6.4
EV/te (\$)	73	77	82	62

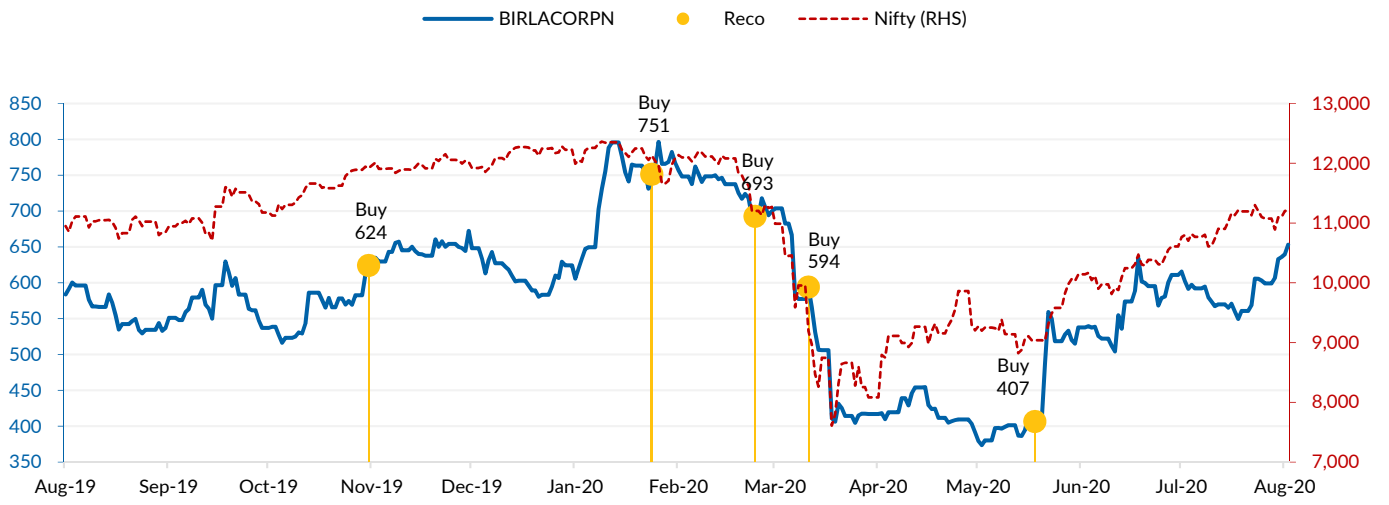
Source: Company, YES Sec - Research

Exhibit 11: Operating Metrics (consolidated)

Per te (in Rs)	FY19	FY20	FY21E	FY22E
Cement volumes (MT)	13.8	13.7	11.9	14.8
Net realization	4,730	5,066	4,886	4,936
Raw Material cost	895	857	859	845
Employee cost	268	299	313	299
Power and fuel cost	1,073	1,012	868	926
Freight cost	979	1,007	978	1,019
Other expenses	830	913	913	903
EBITDA	685	979	955	944

Source: Company, YES Sec - Research

Recommendation Tracker



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