

29 December 2020

Birla Corporation

Soon to be the sixth-largest; re-rating on the cards; Buy

Rating: **Buy**

Target Price: Rs900

Share Price: Rs710

With 15.5m-ton cement capacity across north, central and east India, Birla Corp is aiming at 25m-ton cement capacity by FY25. The ongoing expansion will keep leverage high; we believe, however, that its net debt would be in check with greater profitability on various cost-optimisation steps and higher volume growth on the ramping up of capacities. A judicious geographic- and product-mix aimed at raising the shares of blended and premium cement in its portfolio are positives. We retain our Buy rating, with an unchanged target of Rs900.

Expansion to aid diversification and higher volume growth. In line with its cement-capacity target of 25m tons by FY25, Birla Corp's ongoing expansion of 5.34m tons (Mukutban ~3.9, Kundanganj ~1.2, Durgapur ~0.24) would expand its capacity to 20.8m tons by FY23. Greater capacity utilisation (~85%) and the ramping up of the new capacities would enable strong volume growth and regional diversification.

Focus on premiumisation, better product mix. Its continued focus on premiumisation and brand-conscious home-builders enable Birla Corp's highest premium-product share of peers along with a better product mix and higher share of blended cement. Further, its expanded operations in the price-disciplined central/northern regions (~82% capacity) aid its realisation/ton to be one of the highest.

Cost optimisation efforts to aid profitability, net debt to be in check. Its various cost optimisation efforts-set up WHRS and solar power plant, railway-siding, securing coal mines, etc. would boost profitability and return ratios. The expansion will keep leverage high; we believe however, net debt would be in check with better profitability. We expect a 14% EBITDA CAGR over FY19-22 and net D/E at the present level (~0.76x, vs. 0.77x in FY20).

Valuation. We retain our Buy rating, and maintain our Rs900 target, valuing the stock at 8x FY22e EV/EBITDA and an EV/ton of \$66. **Risks:** High petcoke and diesel prices, demand slowdown.

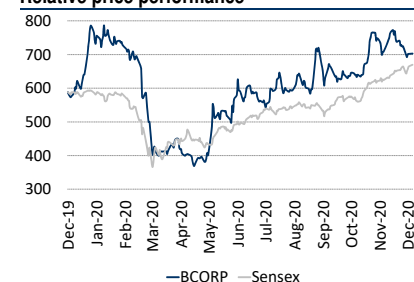
Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (Rs m)	57,300	65,487	69,157	66,122	72,449
Net profit (Rs m)	1,664	2,557	5,052	4,283	4,444
EPS (Rs)	21.6	33.2	65.6	55.6	57.7
PE (x)	33.0	15.8	6.3	12.8	12.3
EV / EBITDA (x)	11.6	8.3	5.3	7.2	6.9
EV / tonne (\$)	62.5	53.0	48.7	67.0	55.4
RoE (%)	4.4	5.8	10.9	8.6	8.3
RoCE (%)	5.1	5.1	7.2	5.9	5.8
Dividend yield (%)	0.9	1.4	1.8	0.9	0.9
Net debt / equity (x)	0.9	0.8	0.8	0.8	0.8

Source: Company, Anand Rath Research

Key data	BCORP IN/BRLC.BO
52-week high / low	Rs808 / 372
Sensex / Nifty	47354 / 13873
3-m average volume	\$2.4m
Market cap	Rs54bn / \$736.3m
Shares outstanding	77m

Shareholding pattern (%)	Sept'20	Jun'20	Mar'20
Promoters	62.9	62.9	62.9
- of which, Pledged			
Free float	37.1	37.1	37.1
- Foreign institutions	3.4	3.6	4.2
- Domestic institutions	15.2	14.6	15.3
- Public	18.6	18.9	17.6

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volume (m tons)	12.4	13.6	13.6	13.0	13.9
Net revenues	57,300	65,487	69,157	66,122	72,449
Growth (%)	31.8	14.3	5.6	-4.4	9.6
Direct costs	37,422	42,746	41,801	40,405	42,805
SG&A	11,797	13,255	13,997	12,633	15,640
EBITDA	8,081	9,486	13,360	13,084	14,004
EBITDA margins (%)	14.1	14.5	19.3	19.8	19.3
- Depreciation	3,322	3,391	3,519	3,532	4,072
Other income	740	785	851	727	797
Interest expenses	3,776	3,705	3,877	3,790	3,995
PBT	1,723	3,174	6,815	6,490	6,734
Effective tax rate (%)	3.7	19.4	25.9	34.0	34.0
+ Associates / (Minorities)					
Net income	1,540	2,557	5,052	4,283	4,444
Adjusted income	1,664	2,557	5,052	4,283	4,444
WANS	77	77	77	77	77
FDEPS (Rs / sh)	21.6	33.2	65.6	55.6	57.7
FDEPS growth (%)	-26.5	53.6	97.6	-15.2	3.8

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT (Adj. OI and Interest)	4,760	6,095	9,841	9,552	9,932
+ Non-cash items	3,322	3,391	3,519	3,532	4,072
Oper. prof. before WC	8,081	9,486	13,360	13,084	14,004
- Incr. / (decr.) in WC	1,628	417	-1,229	-1,426	295
Others incl. taxes	238	640	570	2,006	2,289
Operating cash-flow	6,215	8,429	14,018	12,504	11,420
- Capex (tang. + intang.)	12,949	3,864	11,030	12,000	9,941
Free cash-flow	-6,734	4,565	2,988	504	1,479
Acquisitions					
- Div.(incl. buyback & taxes)	603	696	696	501	501
+ Equity raised	0	0	0	0	0
+ Debt raised	-331	-1	2,791	1,000	1,700
- Fin investments	1,080	2,046	-406	-1,867	0
- Misc. (CFI + CFF)	-7,821	2,631	4,320	3,263	3,198
Net cash-flow	-926	-809	1,169	-392	-520

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

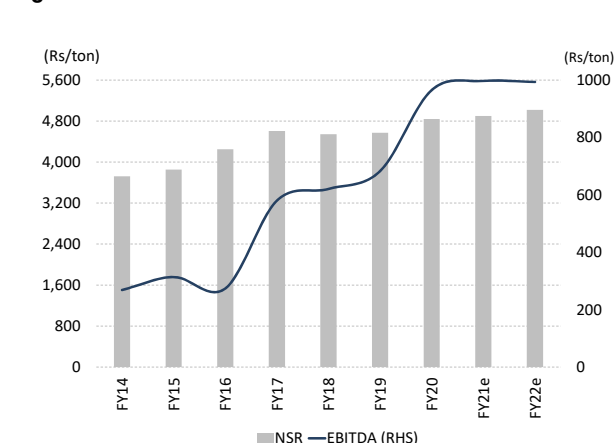
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	770	770	770	770	770
Net worth	42,798	44,952	48,061	51,844	55,788
Debt	45,300	45,300	48,090	49,090	50,790
Minority interest					
DTL / (Assets)	7,449	7,422	8,568	8,568	8,568
Capital employed	95,547	97,674	1,04,719	1,09,502	1,15,146
Net tangible assets	63,737	62,941	63,742	68,250	92,118
Net intangible assets	9,949	9,701	9,513	9,513	9,513
Goodwill	2	0	0	0	0
CWIP (tang. & intang.)	7,623	9,141	16,039	20,000	2,000
Investments (strategic)	2,500	2,764	1,600	1,600	1,600
Investments (financial)	4,222	6,003	6,762	4,894	4,894
Current assets (ex cash)	20,515	21,376	21,540	20,108	22,032
Cash	2,198	1,390	2,558	2,165	1,646
Current liabilities	15,198	15,642	17,035	17,029	18,658
Working capital	5,317	5,733	4,506	3,080	3,374
Capital deployed	95,547	97,674	1,04,719	1,09,502	1,15,146
Contingent liabilities	4,263	4,241	4,241	0	0

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	33.0	15.8	6.3	12.8	12.3
EV / EBITDA (x)	11.6	8.3	5.3	7.2	6.9
EV / Sales (x)	1.6	1.2	1.0	1.4	1.3
P/B (x)	1.3	0.9	0.7	1.1	1.0
RoE (%)	4.4	5.8	10.9	8.6	8.3
RoCE (%) - after tax	5.1	5.1	7.2	5.9	5.8
DPS (Rs / sh)	6.5	7.5	7.5	6.5	6.5
Dividend payout (%) - incl. DDT	39.2	27.2	13.8	11.7	11.3
Net debt/equity (x)	0.9	0.8	0.8	0.8	0.8
WC days	28.7	30.8	27.0	20.9	16.3
EV/ ton (\$)	62.5	53.0	48.7	67.0	55.4
NSR/ton (Rs)	4543	4571	4840	4900	5020
EBITDA/ton (Rs)	621	683	965	997	993
Volumes (m tons)	12.4	13.6	13.6	13.0	13.9
CFO : PAT%	373.5	329.6	277.5	291.9	257.0

Source: Company, Anand Rathi Research

Fig 6 – Per-ton NSR and EBITDA trends



Source: Company, Anand Rathi Research

Expansion to help diversification, and lead to greater volume growth

The flagship company of the MP Birla Group, incorporated in 1919 as The Birla Jute Manufacturing Co., has interests in cement and jute. It and its subsidiary, RCCPL (the erstwhile Reliance Cement Co. Pvt. Ltd.), have 10 cement plants with annual installed capacity of 15.5m tons.

Fig 7 – Plant-wise update(FY20)

Chandaria	Highest production of the premium brand Perfect Plus cement. Also, highest clinker production per day at the CCW-2 kiln on completion of the first phase of expansion
Satna	Highest clinker production (and tpd production) from the BVC kiln. To further integrate the automated weighbridge with SAP for all inward/ outward movement of material, an automated truck parking with plant entry and weighbridge system was installed
Maihar	The efficient operating parameters of power and fuel consumption were rated as one of the best in the industry. Also, a 12.25MW Waste Heat Recovery System and 12MW solar plant were commissioned here
Kundanganj	Broke all its previous records with the highest cement production and dispatch in a year. Also, set up a railway siding and automated loading facility for finished products
Durgapur	With the highest slag % utilisation in DCW PSC (yearly average) and fly-ash % utilisation in DHTC PPC (yearly average), the plant hit its highest cement production and dispatch in a year.
Butibori	The Certificate of Zero-Accident Year (2019-20) issued by The Deputy Director of Industrial Health & Safety is testament to that
Raebareli	Highest fly-ash consumption in a year at its RCW and RHTC units. Better control of processes led to water consumption touching an all-time low. The water saved was used for industrial cooling and domestic purposes
Mukutban	The project has made rapid progress in the past year with 64% completion. It is being executed with the highest safety standards (already 9.87m safe man-hours)

Source: Company, Anand Rathi Research

The company aims to scale up its cement capacity to 25m tons by FY25. The ongoing expansion at Mukutban (3.9m tons), Kundanganj (1.2m tons) and proposed Durgapur GU expansion (0.24m tons) will increase capacity by 35% in phases till FY23 to 20.8m tons, leading to the possibility of a rerating. The expansion will diversify its capacity mix and allow it to make further inroads in the western region.

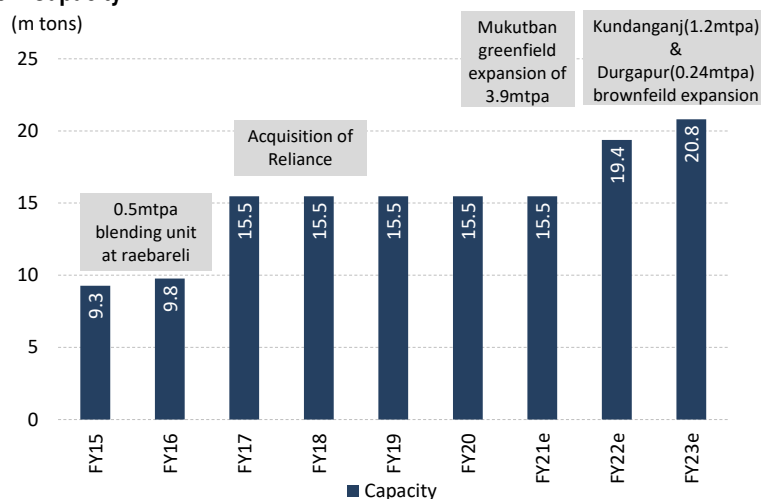
Forthcoming project update

Mukutban: The factory of 2.64m tpa clinker and 3.9m tpa cement and its own railway siding are expected to be commissioned by Q2 FY22. The proposed unit is to have a 40MW plant and a 9MW WHRS. Of Rs24.5bn, the company has spent Rs10.85bn on the project till FY20. The window for tax incentives for the factory has been extended by the Maharashtra government by 18 months, till Dec'22.

Kundanganj: In view of the economic recovery in the past few months, the company decided to bring back on track its Rs2.5bn capacity expansion project at Kundanganj, which, in May, was kept on hold due to uncertainties about cement consumption.

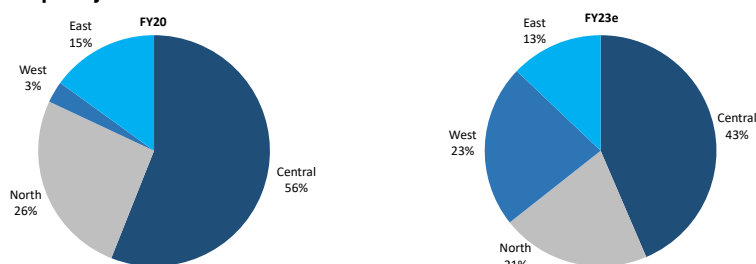
Chandaria: The Rs1.5bn project to scale up kiln capacity at Chandaria in Rajasthan is nearing completion and will be completed during the next planned shutdown, when capacity will be augmented by around 400,000 tons.

Durgapur: The BoD approved the proposal to expand the Durgapur GU by 0.24m tons to 1.54m tpa at Rs725.7m capex. This is expected to be commissioned by Q3 FY23.

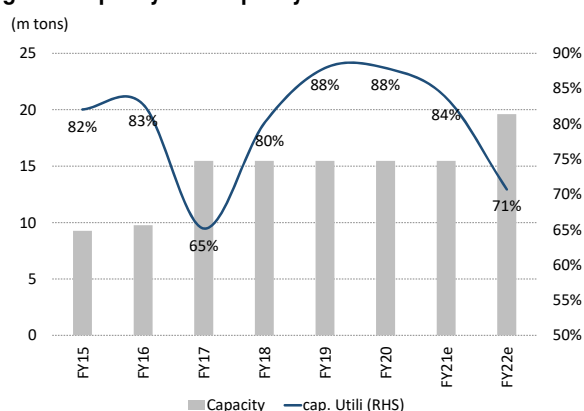
Fig 8 – Capacity

Source: Company, Anand Rathi Research

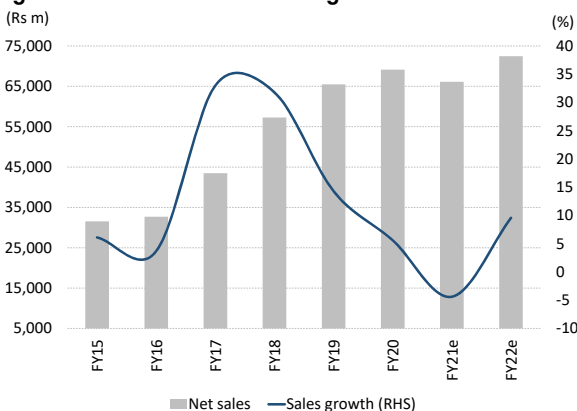
The company's capacities are spread across the Central, North, East and West regions, respectively 56%, 26%, 15% and 3%. With the new capacities coming onstream by FY23, this would change to respectively 44%, 21%, 13% and 23%. Since the now ~85% capacity utilisation limits sales volume growth, the ramping up of the greater capacity would enable greater volume growth.

Fig 9 – Capacity mix

Source: Company, Anand Rathi Research

Fig 10 – Capacity and Capacity utilisation

Source: Company, Anand Rathi Research

Fig 11 – Revenue and Revenue growth

Source: Company, Anand Rathi Research

Focus: premiumisation, better product mix

Its premium brands make up the greatest proportion (~48% in Q2 FY21) among its peer group. Further, its strategy of focusing on brand-conscious home-builders resulted in the greater proportion of high-yielding blended cement in sales volumes overall.

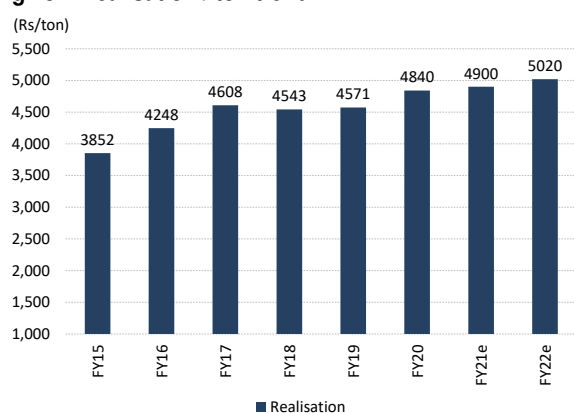
Its judicious geographic focus and product-mix, aiming at raising the proportion of premium and blended cement within its brand portfolio aided by the quality of its products and pricing discipline in its key operating region (Central/North) would continue to be of great help. Of the launches in FY20, the super-premium Ultimate Ultra brand with water-repellent properties has made its mark in Madhya Pradesh. Samrat Advanced, a premium variant of its heritage MP Birla Cement Samrat brand, gained significant ground in the key market of eastern UP.

Fig 12 – Operational details

Particulars (%)	Q2 FY21	Q2 FY20	Q1 FY21	H1 FY21	H1 FY20
Blended cement	93.4	93.5	94	93.8	93.6
Trade channel	80.5	83.1	86	82.5	82.7
Premium cement (% of trade sales)	48	41	36	46	38

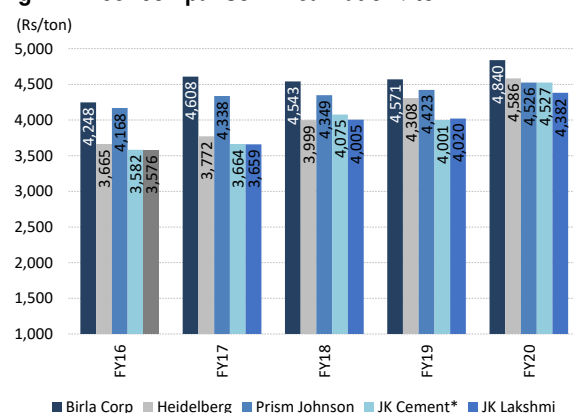
Source: Company, Anand Rathi Research

Fig 13 – Realisation / ton trend



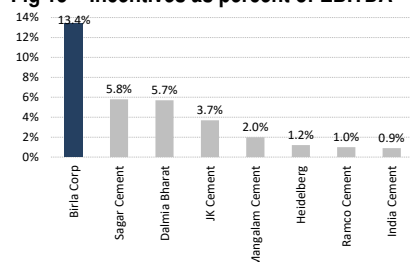
Source: Company, Anand Rathi Research

Fig 14 – Peer comparison – realization / ton



Source: Company, Anand Rathi Research *only Grey cement NSR

Fig 15 – Incentives as percent of EBITDA



Source: Company, Anand Rathi Research

Fig 16 – Trade mix

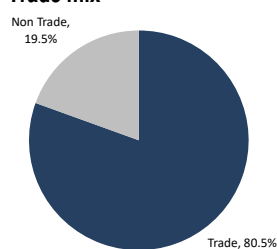
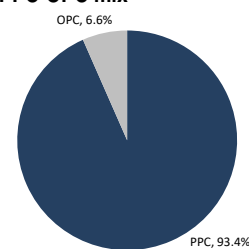


Fig 17 – PPC-OPC mix

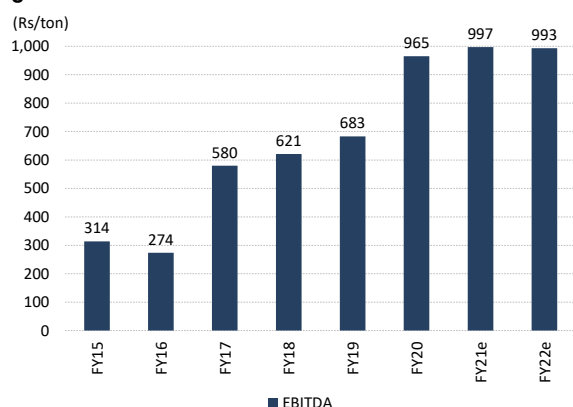


Cost optimisation steps to boost profit

In Q2 FY21, measures toward rationalising power, fuel and finance costs, while scaling back discretionary expenditure (such as on advertising and marketing) enabled the company to report its highest EBITDA/ton of Rs1,152.

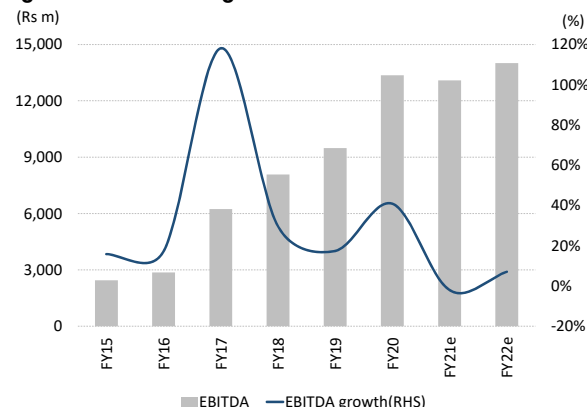
Its constant cost rationalisation efforts: a) scaled-up coal production from its Sial Ghogri captive coal mine; b) installation of the 11MW WHRS at Maihar and of solar power plants with 12MW generation capacity at Maihar, Satna and Chanderia; c) the construction of the railway siding at Kundanganj, UP, where RCCPL has a grinding unit; d) and two coal mines secured (at Bikram and Brahampuri) in MP, through auctions would boost profitability further, besides by scaling down operational costs. Further, the company is planning to scrap old kilns at Chanderia to improve operational efficiency and bringing profitability up to peer levels.

Fig 18 – EBITDA/ton trend



Source: Company, Anand Rath Research

Fig 19 – EBITDA and growth

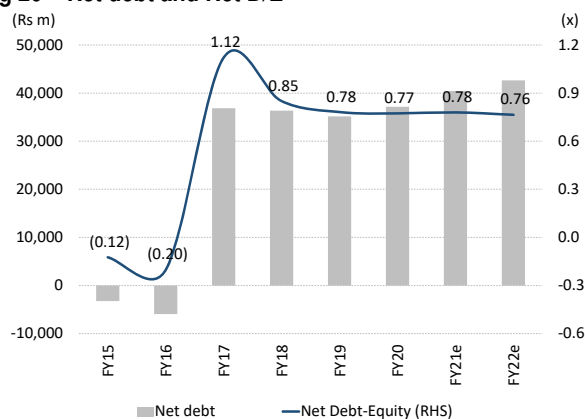


Source: Company, Anand Rath Research

Net debt to be kept in check

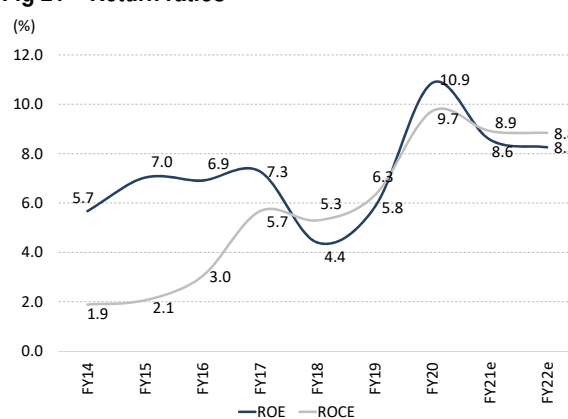
Debt reduced from Rs41.73bn on 31st Mar'20 to Rs40.61bn at end-Sep'20, despite spending ~Rs8bn on the factory at Mukutban in the past twelve months. Further, the consolidated cost of borrowing declined by 158bps to 8.15%. Following greater profitability, return ratios improved in FY20: the RoE rose to 10.9% (5.8% a year back) and the RoCE to 9.7% (6.3%). With the ongoing and planned expansions, the balance sheet would continue to be leveraged; however, we believe net debt would be kept in control with the improving profitability. We expect net D/E of 0.76x by FY22 (vs. 0.77x in FY20) and firm return ratios.

Fig 20 – Net debt and Net D/E



Source: Company, Anand Rath Research

Fig 21 – Return ratios

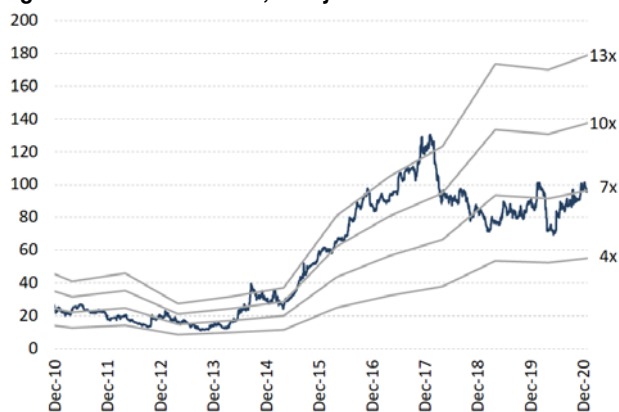


Source: Company, Anand Rath Research

Valuations

At the CMP of Rs710, the stock quotes at 7x FY22e EV/EBITDA, and an EV/ton of \$68. We maintain our Buy rating on the stock at a target price of Rs900, valuing it at 8x FY22e EV/EBITDA and at an EV/ton of \$66.

Fig 22 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 23 – EV/EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Fig 24 – Peer comparison on valuations

	CMP	P / E (x)		EV / EBITDA (x)		EV / ton (\$)	
	(Rs)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Birla Corp.	710	12.8	12.3	7.2	6.9	67	55
Dalmia Bharat	1,073	31.0	31.1	8.9	8.3	145	119
Deccan Cement	369	5.6	5.8	3.1	2.5	26	21
Heidelberg Cement	219	20.5	16.0	10.3	8.3	104	97
India Cement	147	27.2	20.8	9.6	8.7	67	67
JK Cement	1,908	22.8	20.6	12.6	11.0	148	142
JK Lakshmi	339	13.9	11.9	6.8	5.7	56	49
Mangalam Cement	222	8.3	6.7	5.2	4.3	40	36
NCL Industries	145	14.8	12.9	6.9	6.3	45	46
Orient Cement	84	13.3	10.8	6.2	5.3	46	42
Ramco Cement	786	33.1	21.5	19.5	14.1	150	140
Sanghi Industries	32	NA	19.8	13.6	8.6	51	49
Star Cement	93	19.2	14.9	10.5	8.3	83	85

Source: Bloomberg, Anand Rathi Research

Risks

- Rising prices of pet-coke and diesel.
- Demand slowdown.

Appendix

Analyst Certification

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Rating and Target Price History (as of 28 December 2020)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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