

16 May 2022

Birla Corporation

Good volume growth in sight on capacity ramp-up; retaining a Buy

Rating: **Buy**

Target Price: Rs.1,514

Share Price: Rs.1,019

With industry-leading capacity utilisation, Birla Corp reported its highest quarterly and yearly sales in Q4 FY22 and FY22, though profitability was hit on high input costs. It is aiming at 30m tpa cement capacity by FY27. The expansion will keep leverage high; we believe, however, its net debt would be in check with greater profitability on various cost optimisations and higher volume growth on the ramping up of capacities at the newly commissioned Mukutban unit. We retain our Buy rating, with a lower target price of Rs1,514 (earlier Rs1,844).

Highest volumes. Despite fluctuating demand, the company reported the highest sales of 4.24m tonnes, up 1.7% y/y. Further aided by 4.4% y/y realisation growth, revenue rose 6% y/y to Rs22.6bn. Operating at 92% capacity (one of the highest in the industry), the recently commissioned Mukutban unit would boost sales volume growth. Price hike stability is a concern despite high input costs. With 79% trade sales, the company will focus more on non-trade sales in FY23 on anticipated greater demand.

Cost optimisations to help. High costs pulled down EBITDA 29% y/y to Rs2.8bn and EBITDA/ton, 32.6% y/y to Rs619. Various cost optimisations i) Sial Ghorri production ramped up to 30,000 tonnes p.m. ii) developing the Bikram coal mine iii) rising share of renewable power iv) adding 8MW solar power plants at Chanderia, Satna and Kundanganj v) savings from the 9MW WHRS at Mukutban vi) scaling up the alternative fuel share to 12% (7% in FY22), etc.

Outlook, Valuation. Optimum levels are expected at the 3.9m-tonne Mukutban unit by end-FY23. Despite fresh borrowings of Rs4.32bn for the Mukutban project, gross debt was held at Rs43.08bn (40.46bn in FY21). With 20m tpa now, it aims at 30m tpa by FY27 where it may expand capacity at Maihar and set up GUs at Bihar/North. We expect 10%/11%/26% CAGRs over FY22-24 in volume/revenue/EBITDA. We retain our Buy rating at a TP of Rs1,514, valuing the stock at 8x FY24e EV/EBITDA. **Risks:** High pet-coke and diesel prices, demand slowdown.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	69,157	67,855	74,612	83,344	91,845
Net profit (Rs m)	5,052	6,880	4,300	5,578	7,996
EPS (Rs)	65.6	89.3	55.8	72.4	103.8
P/E (x)	6.3	10.6	18.2	14.1	9.8
EV / EBITDA (x)	5.4	8.3	10.7	7.8	5.8
EV / ton (\$) (cement)	47.2	75.3	70.1	66.3	57.1
RoE (%)	10.9	13.4	7.5	8.9	11.5
RoCE (%) after tax	7.2	8.0	4.6	5.8	7.6
Dividend yield (%)	1.8	1.1	1.0	0.6	0.6
Net debt / equity (x)	0.8	0.7	0.6	0.5	0.3

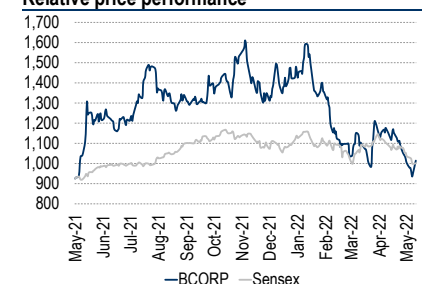
Source: Company, Anand Rathi Research

Key data	BCORP IN / BRLC.BO
52-week high / low	Rs1650 / 894
Sensex / Nifty	52974 / 15842
3-m average volume	\$2.5m
Market cap	Rs78bn / \$1003.5m
Shares outstanding	77m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	62.9	62.9	62.9
- of which, Pledged	-	-	-
Free float	37.1	37.1	37.1
- Foreign institutions	4.2	3.7	3.7
- Domestic institutions	16.3	16.3	15.4
- Public	16.7	17.1	18.1

Estimates revision (%)	FY23e	FY24e
Sales	(1.4)	1.5
EBITDA	(10.8)	(3.8)
PAT	(19.2)	(9.9)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Sales volume(m tons)	13.6	13.4	14.2	15.7	17.1
Net revenues	69,157	67,855	74,612	83,344	91,845
Growth (%)	5.6	-1.9	10.0	11.7	10.2
Direct costs	36,746	34,917	41,580	45,455	45,455
SG&A	19,051	19,562	21,932	23,471	28,778
EBITDA	13,360	13,376	11,100	14,418	17,613
EBITDA margins (%)	19.3	19.7	14.9	17.3	19.2
- Depreciation	3,519	3,708	3,969	5,296	5,834
Other income	851	999	988	1,000	1,102
Interest expenses	3,877	2,963	2,427	2,685	2,220
PBT	6,815	7,704	5,692	7,437	10,661
Effective tax rate (%)	25.9	11.6	25.9	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	5,052	6,301	3,986	5,578	7,996
Adjusted income	5,052	6,880	4,300	5,578	7,996
WANS	77	77	77	77	77
FDEPS (Rs / sh)	65.6	89.3	55.8	72.4	103.8
FDEPS growth (%)	97.6	36.2	-37.5	29.7	43.3

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT (Adj. OI and interest)	9,841	9,668	7,131	9,122	11,779
+ Non-cash items	3,519	3,708	3,969	5,296	5,834
Oper. prof. before WC	13,360	13,376	11,100	14,418	17,613
- Incr. / (decr.) in WC	336	258	(869)	479	606
Others incl. taxes	570	868	762	1,859	2,665
Operating cash-flow	12,454	12,250	11,207	12,080	14,342
- Capex (tang. + intang.)	11,030	8,697	10,965	3,600	3,440
Free cash-flow	1,424	3,553	242	8,480	10,902
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	696	770	770	501	501
+ Equity raised	-	-	-	-	-
+ Debt raised	2,791	(1,711)	1,616	(6,500)	(9,000)
- Fin investments	(406)	(837)	2,565	-	-
- Misc. (CFI + CFF)	4,320	1,132	(1,084)	1,685	1,118
Net cash-flow	(396)	778	(393)	(205)	284

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

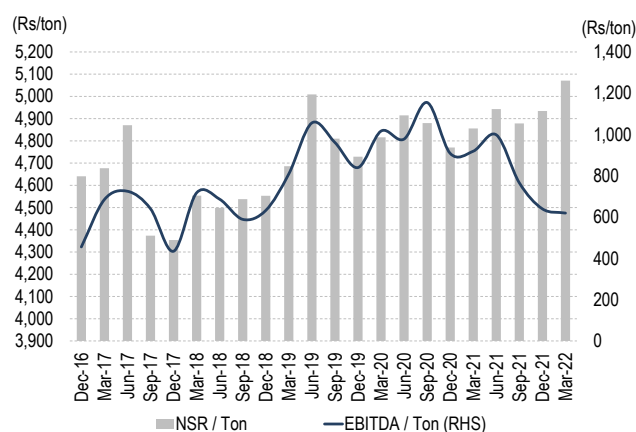
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	770	770	770	770	770
Net worth	48,061	54,860	60,488	65,566	73,061
Debt	48,090	46,380	47,996	41,496	32,496
Minority interest	-	-	-	-	-
DTL / (Assets)	8,568	8,668	9,722	9,722	9,722
Capital employed	104,720	109,908	118,207	116,784	115,280
Net tangible assets	63,742	63,735	65,859	89,073	86,780
Net intangible assets	9,513	9,501	9,910	9,910	9,910
Good will	0	0	0	0	0
CWIP (tang. & intang.)	16,039	21,048	25,511	600	500
Investments (strategic)	1,600	2,890	4,073	4,073	4,073
Investments (financial)	6,762	4,635	6,016	6,016	6,016
Current assets (ex cash)	23,104	25,375	25,767	27,401	30,196
Cash	995	1,773	1,380	1,175	1,459
Current liabilities	17,035	19,048	20,309	21,464	23,653
Working capital	6,069	6,327	5,458	5,937	6,542
Capital deployed	104,720	109,908	118,207	116,784	115,280
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	6.3	10.6	18.2	14.1	9.8
EV / EBITDA (x)	5.4	8.3	10.7	7.8	5.8
EV / Sales (x)	1.0	1.6	1.6	1.3	1.1
P/B (x)	0.7	1.3	1.3	1.2	1.1
RoE (%)	10.9	13.4	7.5	8.9	11.5
RoCE (%) - after tax	7.2	8.0	4.6	5.8	7.6
DPS (Rs / sh)	7.5	10.0	10.0	6.5	6.5
Dividend payout (%) - incl. DDT	13.8	12.2	19.3	9.0	6.3
Net debt / equity (x)	0.8	0.7	0.6	0.5	0.3
WC days	31.1	33.3	28.8	25.0	24.8
EV / ton (\$)(cement)	47.2	75.3	70.1	66.3	57.1
NSR / ton (Rs)	4,826	4,853	4,961	5,031	5,101
EBITDA / ton (Rs)	966	986	747	884	997
Volumes (m tons)	13.6	13.4	14.2	15.7	17.1
CFO : PAT (%)	246.5	178.1	260.6	216.6	179.4

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA


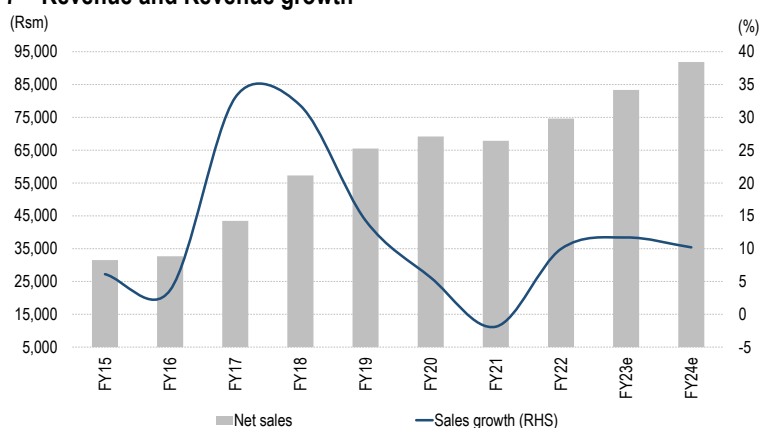
Source: Company, Anand Rathi Research

Key highlights

Birla Corp's Q4 revenue grew 6.2% y/y to Rs22.6bn. The cement division's revenue grew 6.2% y/y (30% q/q) to Rs21.5bn. Cement sales volumes grew 1.7% y/y to 4.24m tons and realisation/ton rose 4.4% y/y to Rs5,071. While scaling up sales in all key markets, it achieved its highest production at Satna, Maihar and Chanderia and record sales in five key states where its Q4 and FY22 sales volumes were its highest.

FY22 capacity utilisation was one of the best in the industry at 92%, against 85% the previous year. Premium-product sales shrank to 49% (53% of trade sales y/y). This is still one of the highest in the industry, and sales of high-yielding blended cement were 92%.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

EBITDA was down 29.4% y/y to Rs2.8bn. EBITDA/ton (cement) fell 32.6% y/y to Rs619 as profitability was hugely impaired by the 40% increase in fuel costs and 8% in delivery costs.

To rationalize its cost of delivery, the company worked toward reducing the lead distance for each production unit and dependence on road transport. Furthermore, it ramped up production from the Sial-Ghoghri coal mine to 30,000 tpm, 20% higher than its peak rated capacity. The proportion of renewables in power consumption rose to 21.77% in FY22. (18.82% a year ago).

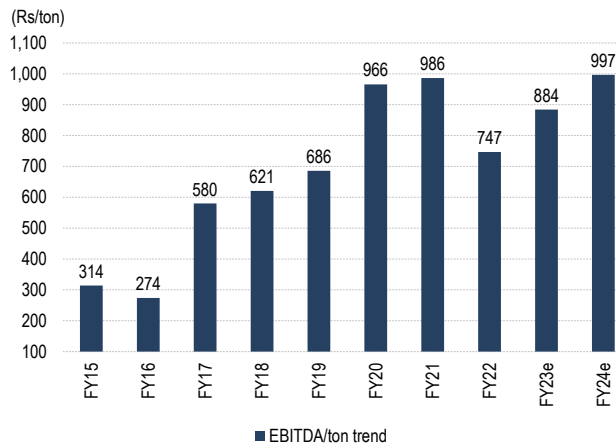
It made a Rs384m provision for interest on payment of the UP entry tax. Adj. PAT for the quarter plunged 51% y/y to Rs1495m on lower operating profit and a one-off credit adjustment of Rs1.25bn in income-tax expense, partially aided by lower interest cost (down 18.8% y/y) and higher other income (up 413% y/y).

Fig 8 – Operational details

Particulars (%)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Blended cement	93.5	91	92	94	93.4	91	91	92	91	88	92
Trade channel	83.1	75	80	85	80.5	75	78	83	79	79	78
Premium cement (% of trade sales)	41	41	43	43	48	53	53	51	53	50	49
Capacity utilisation	83	88	93	58	84	92	108	90	84	88	108

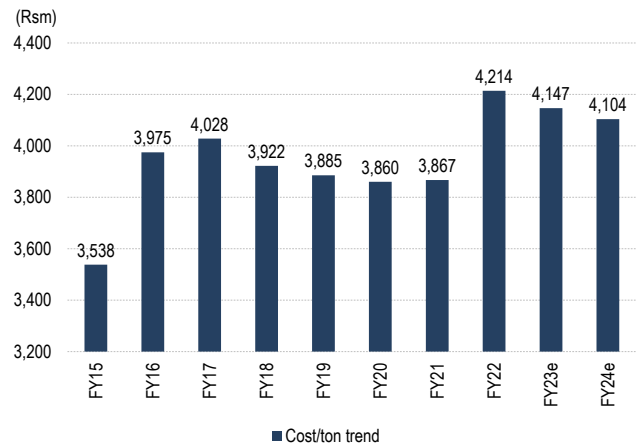
Source: Company

Fig 9 – EBITDA-per-ton



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton



Source: Company, Anand Rathi Research

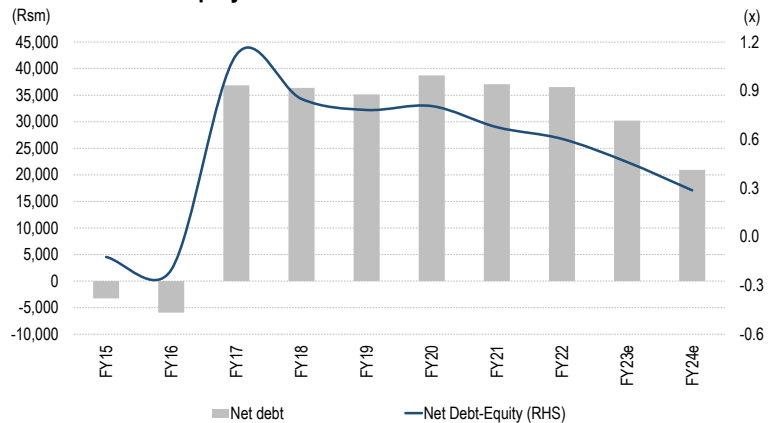
The jute division

Revenue grew 6% y/y to Rs1,142m and PBIT, 82% y/y to Rs134m. The division registered Rs93.6m cash profit in the quarter, up 8.8% from a year earlier. In FY22, despite disruptions in supply of raw jute, production rose 24% y/y to 30,792 tonnes. Further, it exported 3.5m shopping bags (1.2m in FY21). The division is scouting for further opportunities to scale up exports to countries such as the USA, the UK and France

Project update

- **Mukutban.** The 2.64m tpa clinker and 3.9m tpa cement capacities and its own railway siding were commissioned in Jan'22 at revised capex of Rs27.44bn. The unit has a 40MW plant and a 9MW WHRS.
- **Kundanganj.** The Kundanganj GU is to be expanded by 1.2m tonnes at Rs1.54bn capex.
- **Durgapur.** The BoD approved the proposal to expand the Durgapur GU by 0.24m tonnes (to 1.54m) at Rs725.7m capex.

Fig 11 – Net debt-to-equity



Source: Company, Anand Rathi Research

Result Highlights

Fig 12 – Quarterly trend

(Rs m)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Sales	16,269	17,151	16,900	12,220	16,543	17,766	21,326	17,491	16,978	17,501	22,642	6.2	29.4
EBITDA	3,121	2,946	3,446	2,331	3,827	3,297	3,920	3,436	2,673	2,225	2,767	-29.4	24.4
EBITDA margin (%)	19.2	17.2	20.4	19.1	23.1	18.6	18.4	19.6	15.7	12.7	12.2	-616bps	-49bps
EBITDA / ton (Rs)	961	840	1,017	978	1,155	909	919	998	766	640	619	-32.6	-3.2
Interest	1,030	977	909	800	760	730	674	639	632	608	547	-18.8	-10.0
Depreciation	879	884	894	877	918	908	1,005	984	982	1,007	997	-0.8	-1.0
Other income	199	203	281	190	212	462	135	93	133	69	693	413.2	906.2
PBT	1,411	1,289	1,924	845	2,361	2,122	1,798	1,906	1,192	748	1,532	-14.8	104.8
Exceptional items	-	-	-	-	-	-	579	-	-	(70)	384	NA	NA
Tax	527	474	(24)	188	694	638	(696)	491	336	144	421	-160.5	193.2
Reported PAT	883	815	1,947	658	1,666	1,484	2,493	1,415	856	605	1,111	-55.4	83.8
Adjusted PAT	883	815	1,947	658	1,666	1,484	3,072	1,415	856	535	1,495	-51.3	179.7

Source: Company, Anand Rathi Research

Fig 13 – Segment-wise performance

(Rs m)	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q
Revenue													
-Jute	877	887	768	326	636	834	1,078	936	1,027	972	1,142	5.9	17.5
-Cement	15,391	16,268	16,133	11,894	15,908	16,934	20,249	16,559	15,952	16,530	21,500	6.2	30.1
-Others	20	31	15	10	15	17	20	8	22	24	24	20.8	2.1
Total	16,289	17,186	16,915	12,229	16,559	17,785	21,347	17,502	17,001	17,526	22,666	6.2	29.3
Less: Inter-segment revenue	20	35	16	10	16	19	21	11	23	25	24	14.9	-4.8
Net sales	16,269	17,151	16,900	12,220	16,543	17,766	21,326	17,491	16,978	17,501	22,642	6.2	29.4
PBIT													
-Jute	34	44	28	(43)	47	59	73	82	157	69	134	82.2	94.3
% of revenue	3.8	4.9	3.6	(13.0)	7.3	7.0	6.8	8.7	15.3	7.1	11.7	490bps	463bps
-Cement	2,360	2,170	2,815	1,660	3,041	2,500	2,483	2,580	1,768	1,348	1,510	-39.2	12.1
% of revenue	15.3	13.3	17.4	14.0	19.1	14.8	12.3	15.6	11.1	8.2	7.0	-524bps	-113bps
-Others	(8)	(7)	(7)	(13)	(6)	(7)	(8)	(8)	(6)	(6)	(11)	NA	NA
% of revenue	(40.2)	(21.4)	(48.0)	(132.6)	(37.9)	(38.9)	(40.1)	(96.3)	(26.2)	(23.4)	(43.9)	NA	NA
Total	2,385	2,207	2,836	1,605	3,082	2,552	2,548	2,654	1,919	1,411	1,633	-35.9	15.7
Less: Interest	1,030	977	909	800	760	730	674	639	632	608	547	-18.8	-10.0
Less: Other unalloc. exp. net of unalloc. inc.	(55)	(59)	3	(40)	(39)	(300)	77	109	96	55	(446)	NA	NA
PBT (before extraord.)	1,411	1,289	1,924	845	2,361	2,122	1,798	1,906	1,192	748	1,532	-14.8	104.8

Source: Company, Anand Rathi Research

Valuations

With industry-leading capacity utilisation, Birla Corp reported its highest quarterly and yearly sales in Q4 FY22 and FY22, though profitability was hit by high input costs. The company is aiming at 30m tpa cement capacity by FY27. The expansion will keep leverage high; we believe, however, its net debt would be checked by greater profitability on various cost-optimisations and higher volume growth on the ramping up of capacities at the newly commissioned Mukutban unit.

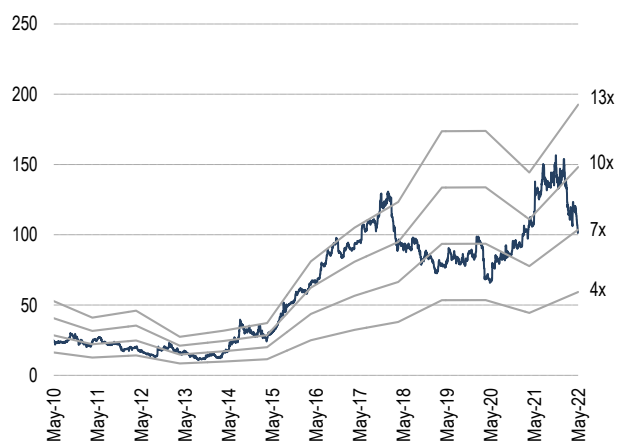
Fig 14 – Change in estimates

(Rs m)	Old		New		Variance (%)	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Sales	84,535	90,525	83,344	91,845	(1.4)	1.5
EBITDA	16,168	18,318	14,418	17,613	(10.8)	(3.8)
PAT	6,902	8,870	5,578	7,996	(19.2)	(9.9)

Source: Anand Rathi Research

At the CMP, the stock trades at 5.8x FY24e EV/EBITDA and EV/ton (cement) of \$57. We retain our Buy rating, with a lower target price of Rs1,514 (earlier Rs1,844), valuing it at 8x FY24e EV/EBITDA and an EV/ton of \$81.

Fig 15 – EV/EBITDA band, one-year-forward



Source: Bloomberg, Anand Rathi Research

Fig 16 – EV/EBITDA: Standard deviation, one-year-forward



Source: Bloomberg, Anand Rathi Research

Risks

- Demand slowdown
- Rise in pet-coke and diesel prices.

Fig 17 – Peer comparison – valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
	(Rs)	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e
Birla Corp.	1,019	14.1	9.8	7.8	5.8	66	57
JK Cement	2,317	19.5	16.0	11.5	9.5	160	153
Ramco Cement	684	19.6	16.3	12.0	10.3	123	115
Dalmia Bharat	1,378	26.4	19.4	9.0	7.1	83	57
Deccan Cement	495	5.8	5.1	4.5	4.4	50	31
Heidelberg Cement	183	12.8	10.7	7.6	5.9	74	68
India Cement	169	22.3	14.2	9.9	7.7	65	62
JK Lakshmi	387	10.4	9.0	5.3	4.6	49	46
Mangalam Cement	304	3.3	3.1	2.7	1.9	33	24
Orient Cement	118	8.3	8.2	4.9	5.2	47	54
Sagar Cement	214	19.1	12.1	8.4	5.8	55	50
NCL Industries	169	6.2	5.2	3.8	3.0	35	30
Prism Johnson	115	18.3	14.7	8.6	7.2	74	60
Sanghi Industries	41	11.2	7.3	6.7	5.3	49	45
Star Cement	84	12.1	10.4	7.6	7.0	72	76

Source: Company, Anand Rathi Research

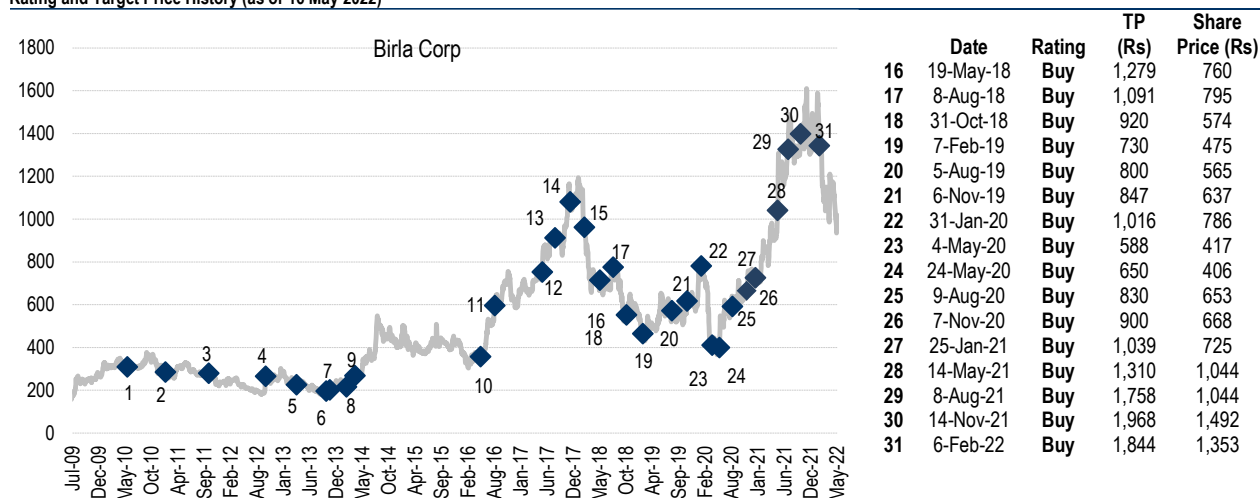
Appendix

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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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