

27 October 2024

Birla Corporation

Near-term pain to persist; maintaining a Buy

Weak demand because of the prolonged monsoon, less government infra funding and keen competition hurt Birla Corp's Q2. Its FY25 volume guidance was lowered to 3-4% as demand at its core regions would be curbed by Mahakumbh (Central) and elections (Maharashtra) where EBITDA/tonne has been guided to rise Rs150-170 in H2 FY25. The greater share of premium cement and the focus on cost rationalisation are positives. We retain our Buy rating, at a lower 12-mth TP of Rs1,689 (earlier Rs1,894).

Weak performance. Operating at 78% capacity (83% a year ago), cement volumes slid 5% y/y to 4m tonnes on monsoon-hit weak demand, floods and a slow pick-up in government demand. Further, intense competition, especially non-trade, led realisation/tonne to decline 9% y/y, and revenue 14.5% y/y to Rs19.5bn. Lower realisations negated the benefit of low-cost fuel, with EBITDA falling 38.7% y/y to Rs1.77bn and EBITDA/tonne, 33.8% y/y to Rs449.

Targeting 25m-tonne capacity by FY27. Capacity now is 20m tonnes, with 25m targeted by FY27. While the 1.4m-tonne Kundanganj GU would commence by Q1 FY26, land acquisition for the Gaya GU at Bihar is in process. No development has started on the 1.4m-tonne Prayaraj GU expansion yet. While the FY25 capex guidance has been lowered to Rs7bn (Rs8bn earlier), peak net debt has been guided to be Rs30bn by FY25.

Outlook, Valuation. While pent-up demand would help, demand in the company's core region would be curtailed in H2 FY25 by elections (Maharashtra) and the Mahakumbh (Central). Further, price hikes are expected only from mid Nov due to the festivals. While Rs1bn incentives are expected in FY25, the Kundanganj expansion takes incentives to the earlier Rs1.4bn-1.6bn p.a. FY25 volume growth has been lowered to 3-4% (6% earlier) whereas a Rs150-170/tonne rise has been guided to for EBITDA vs H1 FY25 aided by cost savings and price gains. We expect volume/revenue/EBITDA to grow 6%/5%/6% over FY24-27. We retain our Buy at a 12-mth TP of Rs1,689, 9x FY27e EV/EBITDA. **Risks:** High pet-coke and diesel prices, slowing demand.

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	86,823	96,627	93,663	1,03,653	1,11,929
Net profit (Rs m)	338	4,138	2,408	5,039	6,576
EPS (Rs)	4.4	53.7	31.3	65.4	85.4
P/E (x)	NA	26.5	35.8	17.1	13.1
EV / EBITDA (x)	14.2	10.2	10.3	7.7	6.5
EV / tonne (\$ (cement)	58.6	77.9	65.5	59.2	55.8
RoE (%)	0.6	6.5	3.6	7.1	8.7
RoCE (%) after tax	2.1	5.2	3.6	5.6	6.5
Dividend yield (%)	1.4	0.7	0.9	0.9	0.9
Net debt / equity (x)	0.6	0.4	0.4	0.3	0.2

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: Rs.1,689

Share Price: Rs.1,120

Key data	BCORP IN / BRLC.BO
52-week high / low	Rs1802 / 1100
Sensex / Nifty	79402 / 24181
3-m average volume	\$2.3m
Market cap	Rs86bn / \$1025.8m
Shares outstanding	77m

Shareholding pattern (%)	Sept'24	Jun'24	Mar'24
Promoters	62.9	62.9	62.9
- of which, Pledged	-	-	-
Free float	37.1	37.1	37.1
- Foreign institutions	5.5	6.0	6.8
- Domestic institutions	16.2	16.3	15.6
- Public	15.4	14.8	14.7

Estimates revision (%)	FY25e	FY26e
Sales	(4.7)	(3.1)
EBITDA	(18.3)	(12.1)
PAT	(46.6)	(25.4)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Sales volume (m tons)	15.7	17.7	18.5	20.0	21.2
Net revenues	86,823	96,627	93,663	1,03,653	1,11,929
Growth (%)	16.4	11.3	-3.1	10.7	8.0
Direct costs	52,437	55,372	57,336	59,460	61,684
SG&A	26,666	26,879	24,450	28,760	32,973
EBITDA	7,720	14,376	11,878	15,433	17,272
EBITDA margins (%)	8.9	14.9	12.7	14.9	15.4
- Depreciation	5,099	5,783	6,023	6,314	6,529
Other income	1,131	856	796	881	951
Interest expenses	3,387	3,717	3,440	3,282	2,926
PBT	365	5,732	3,211	6,719	8,768
Effective tax rates (%)	6.1	27.5	25.0	25.0	25.0
+ Associates / (Minorities)					
Net income	405	4,206	2,408	5,039	6,576
Adjusted income	338	4,138	2,408	5,039	6,576
WANS	77	77	77	77	77
FDEPS (Rs)	4.4	53.7	31.3	65.4	85.4
FDEPS growth (%)	-92.1	1122.4	-41.8	109.2	30.5

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT (adj. OI and interest)	2621	8593	5855	9120	10743
+ Non-cash items	5099	5783	6023	6314	6529
Oper. prof. before WC	7720	14376	11878	15433	17272
- Incr. / (decr.) in WC	910	-1566	740	575	476
Others incl. taxes	12	565	803	1680	2192
Operating cash-flow	6798	15377	10335	13179	14604
- Capex (tang. + intang.)	5825	6487	7000	5750	5000
Free cash-flow	973	8890	3335	7429	9604
Acquisitions					
- Div.(incl. buyback & taxes)	963	770	770	770	770
+ Equity raised	0	0	0	0	0
+ Debt raised	1712	-5514	-1000	-3000	-6000
- Fin investments	-1417	4198	0	0	0
- Misc. (CFI + CFF)	2337	-1002	2643	2401	1975
Net cash-flow	803	-591	-1079	1258	859

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

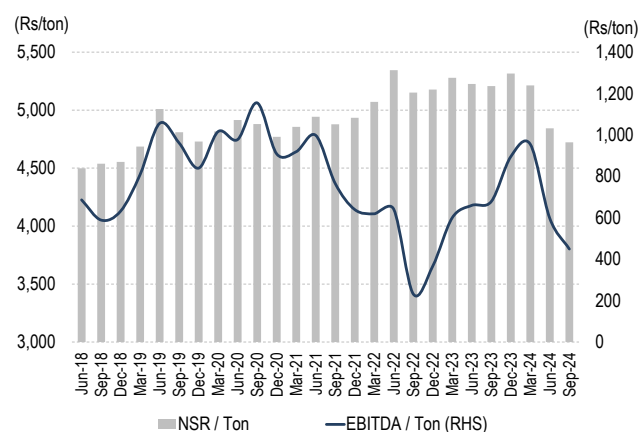
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	770	770	770	770	770
Net worth	59,808	66,738	68,376	72,645	78,451
Debt	49,554	44,040	43,040	40,040	34,040
Minority interest	0	0	0	0	0
DTL / (Assets)	9,712	11,042	11,042	11,042	11,042
Capital employed	1,19,074	1,21,820	1,22,458	1,23,727	1,23,533
Net tangible assets	87,775	87,495	91,276	91,713	90,184
Net intangible assets	10,653	10,409	10,409	10,409	10,409
Goodwill	0	0	0	0	0
CWIP (tang. & intang.)	3,576	4,805	2,000	1,000	1,000
Investments (strategic)	4,105	7,024	7,024	7,024	7,024
Investments (financial)	4,567	5,847	5,847	5,847	5,847
Current assets (excl. cash)	27,860	27,190	28,227	31,238	33,732
Cash	2,183	1,592	513	1,771	2,630
Current liabilities	21,646	22,542	22,838	25,274	27,292
Working capital	6,214	4,648	5,389	5,964	6,440
Capital deployed	1,19,074	1,21,820	1,22,458	1,23,727	1,23,533
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	NA	26.5	35.8	17.1	13.1
EV / EBITDA (x)	14.2	10.2	10.3	7.7	6.5
EV / Sales (x)	1.3	1.5	1.3	1.1	1.0
P/B (x)	1.1	1.6	1.3	1.2	1.1
RoE (%)	0.6	6.5	3.6	7.1	8.7
RoCE (%) - after tax	2.1	5.2	3.6	5.6	6.5
DPS (Rs)	12.5	10.0	10.0	10.0	10.0
Dividend payout (%) - incl. DDT	237.7	18.3	32.0	15.3	11.7
Net debt / equity (x)	0.6	0.4	0.4	0.3	0.2
WC days	24.2	20.5	19.6	20.0	20.2
EV / tonne (\$) (cement)	58.6	77.9	65.5	59.2	55.8
NSR / tonne (Rs)	5242	5239	4889	5009	5129
EBITDA / tonne (Rs)	470	801	644	761	806
Volumes (m tonnes)	15.7	17.7	18.5	20.0	21.2
CFO : PAT (%)	2008.3	371.6	429.1	261.5	222.1

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-tonne NSR and EBITDA



Source: Company, Anand Rathi Research

Key highlights

Birla Corp's Q2 revenue declined 14.5% y/y to Rs19.5bn. The cement division's revenue declined 13.9% y/y to Rs18.7bn. Cement sales volumes declined 5% y/y to 4m tonnes and the realisation/tonne fell 9.3% y/y to Rs4,722. Q2 FY25 capacity utilisation was 78% vs 83% the previous year. The share of premium products was 62% of trade sales (54% in the quarter prior). Sales of high-yielding blended cement were 83%. Jute division revenue declined 27.2% y/y to Rs784m.

Fig 7 – Revenue and revenue growth



Source: Company, Anand Rathi Research

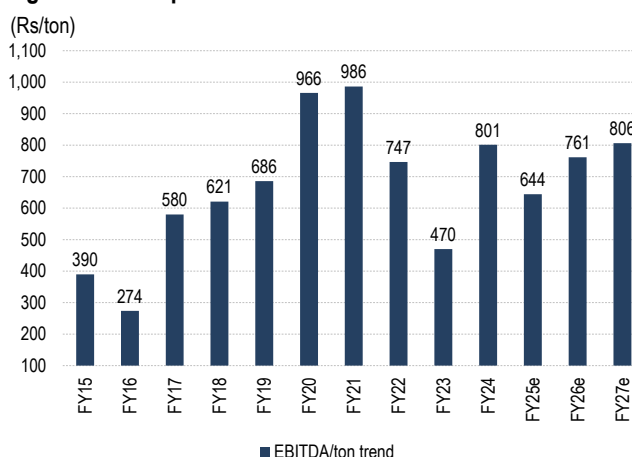
Q2 EBITDA declined 38.7% y/y, 31.4% q/q, to Rs1772m. EBITDA/tonne (cement) declined 33.8% y/y to Rs449 mainly on lower realisation. The operating performance was partially aided by lower power & fuel cost and various cost initiatives. The jute division reported a Rs29m loss at the PBIT level, vs Rs30m profit a year back. It registered Rs20m cash loss, vs Rs40m cash profit a year earlier. It reported an adj. loss of Rs252m vs profit of Rs586m, chiefly due to the lower operating performance.

Fig 8 – Operational details

Particulars (%)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Blended cement	92	91	90	89	89	88	86	83	84	84	83
Trade channel	78	79	78	75	77	76	72	69	72	72	77
Premium cement (% of trade sales)	49	47	51	51	54	54	54	52	55	59	62
Capacity utilisation	108	88	74	74	89	91	83	85	97	91	78

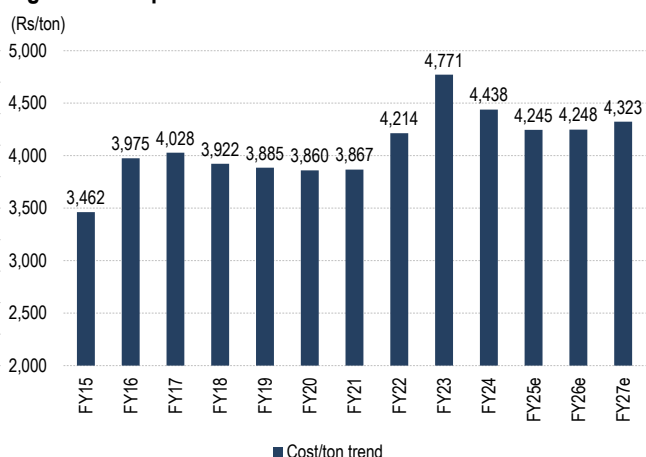
Source: Company

Fig 9 – EBITDA-per-tonne



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-tonne



Source: Company, Anand Rathi Research

Results Highlights

Fig 12 – Quarterly trend

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% Y/Y	% Q/Q
Sales	22,642	22,038	19,998	20,161	24,626	24,070	22,843	23,120	26,544	21,904	19,526	-14.5%	-10.9%
EBITDA	2,767	2,593	940	1,444	2,743	2,978	2,889	3,785	4,724	2,583	1,772	-38.7%	-31.4%
EBITDA margins (%)	12.2	11.8	4.7	7.2	11.1	12.4	12.6	16.4	17.8	11.8	9.1	-357bps	-271bps
EBITDA / tonne (Rs)	619	641	232	367	600	660	679	896	955	597	449	-33.8%	-24.7%
Interest	547	703	928	869	887	974	954	965	824	858	851	-10.8%	-0.8%
Depreciation	997	1,145	1,254	1,299	1,401	1,403	1,435	1,448	1,497	1,455	1,450	1.1%	-0.3%
Other income	693	143	418	79	491	162	274	163	257	170	172	-37.2%	1.1%
PBT	1,916	888	(825)	(645)	946	763	774	1,535	2,660	440	(357)	P2L	P2L
Exceptional items	384	117	-	-	(183)	-	3	-	(70)	-	-	NA	NA
Tax	421	152	(260)	(146)	280	166	188	443	797	114	(105)	NA	NA
Rep. PAT	1,111	619	(565)	(499)	849	597	584	1,091	1,933	326	(252)	P2L	P2L
Adj. PAT	1,495	736	(565)	(499)	666	597	586	1,091	1,863	326	(252)	P2L	P2L

Source: Company, Anand Rathi Research

Fig 13 – Segment-wise performance

(Rs m)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Y/Y	Q/Q
Revenue													
-Jute	1,142	1,032	1,240	904	1,190	1,021	1,076	796	1,258	691	784	-27.2	13.5
-Cement	21,500	21,003	18,750	19,259	23,437	23,047	21,768	22,326	25,285	21,214	18,747	-13.9	-11.6
-Others	24	10	18	23	28	14	24	13	15	6	11	-53.5	80.6
Total	22,666	22,045	20,008	20,185	24,655	24,082	22,868	23,134	26,558	21,911	19,542	-14.5	-10.8
Less: Inter-segment revenue	24	7	10	24	30	12	25	14	14	7	16	-36.4	127.1
Net sales	22,642	22,038	19,998	20,161	24,626	24,070	22,843	23,120	26,544	21,904	19,526	-14.5	-10.9
PBIT													
-Jute	134	60	79	62	58	50	30	4	72	(52)	(29)	P2L	NA
% of revenue	11.7	5.8	6.3	6.8	4.9	4.9	2.8	0.5	5.7	(7.5)	(3.7)	NA	NA
-Cement	1,510	1,495	(185)	308	1,873	1,759	1,637	2,584	3,533	1,442	615	-62.4	-57.3
% of revenue	7.0	7.1	(1.0)	1.6	8.0	7.6	7.5	11.6	14.0	6.8	3.3	-424bps	-351bps
-Others	(11)	(7)	(7)	(5)	(6)	(7)	(4)	(6)	(6)	(6)	(8)	NA	NA
% of revenue	(43.9)	(69.7)	(36.1)	(20.8)	(21.4)	(50.0)	(17.0)	(43.8)	(41.3)	(91.9)	(70.5)	NA	NA
Total	1,633	1,547	(113)	365	1,926	1,802	1,663	2,582	3,599	1,384	578	-65.2	-58.2
Less: Interest	547	703	928	869	887	974	954	965	824	858	851	-10.8	-0.8
Less: Other unalloc. exp. net of unalloc. inc.	(446)	73	(216)	140	(91)	65	(62)	82	45	87	85	NA	-2.4
PBT (after extraordinary.)	1,532	771	(825)	(645)	1,129	763	771	1,535	2,731	440	(357)	P2L	P2L

Source: Company, Anand Rathi Research

Concall highlights

Cement demand and pricing environment

- Demand for cement was curbed by the prolonged monsoon, floods and a slow pick-up in government infra spending. Further, elections in Maharashtra would curtail demand till Jan, and the Mahakumbh in Central India till Jan/Feb.
- 500000 tonnes of cement were sold from the Mukutban unit in Q2 (lead distance: 425km, where company's lead distance was 350km). With demand picking up and a slight upswing in prices, the company intends to raise the the Mukutban capacity utilisation back to ~60%.
- Keen competition, especially in non-trade in Rajasthan/UP/Bihar kept prices pressured. Better prices are expected only from mid-Nov.
- FY25 cement sales volume guidance was lowered from 6-7% to 3-4%.

Cost optimisation

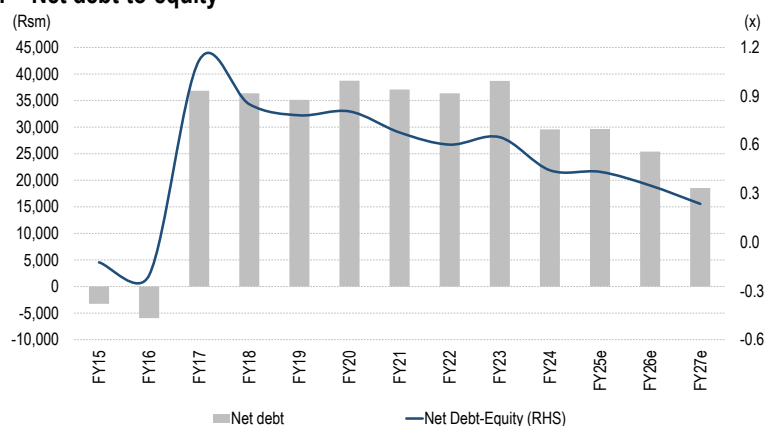
- EBITDA/tonne has been guided to be Rs150-170/tonne higher in H2 FY25 than in H1 where Rs70/tonne savings were guided to from projects Shikhar and Unnati.
- Project Shikhar was launched in Mar'23 for excellence in manufacturing and operations, and Project Unnati for greater efficiency in the 'go-to-market' operations, focusing on sales, logistics and marketing.
- Project Shikhar (for manufacturing) and project Unnati (for sales, logistics and marketing) resulted in gross savings of respectively Rs660m and Rs1bn in FY24. Project Shikhar generated savings of Rs42/tonne in Q2 FY25.

Incentives

- The incentive for the Mukutban unit over twenty years would be 100% of project cost (Rs23bn, ~Rs600/tonne).
- The company received Rs170m incentive in Q2 for the Mukutban unit. For FY25, Rs1bn in incentive is expected vs Rs1.6bn in FY24 (the Kundanganj GU incentive expired in Mar'24). On the beginning of the Kundanganj GU line III in Q1 FY26, previous level incentives would be restored.
- The outstanding incentive as on Sep'24 is Rs4.5bn excl. the Rs1.4bn incentive due from the West Bengal government
- The approved 1.4m-tonne Prayagraj GU expansion would be eligible for an incentive of 300% of investment.

Expansion, capex and debt

- In the last six years, the company has doubled capacity to 20m tonnes, and aims at 25m tonnes by FY27. Its plants (each) have limestone reserves for 20 years.
- The 1.4m-tonne cement capacity expansion at the Kundanganj GU at Rs4.25bn is expected to commence by Q1 FY26. No progress has been made on the 1.4m tonne Prayagraj GU, now expected to be completed after the Kundanganj GU expansion. Further, the land-acquisition process has begun for a GU in Gaya, Bihar.
- The guided-to FY25 capex is Rs7bn. Net debt was guided to be <Rs30bn by Mar'25. Peak net debt/EBITDA was earlier guided to be 3x (31st Mar'24 ~<2x).

Fig 11 – Net debt-to-equity

Source: Company, Anand Rathi Research

Coal mines

- The Bikram coal mine would commence in Q1 FY26; Marki Barka in FY27. The former, at full capacity utilisation, would utilise 38-40% of coal required; the latter, at full capacity utilisation, 60%.
- The 250,000/300,000-tonne Sial Ghoghri coal mine is now operational. Captive coal cost is Rs1.1/kcal vs Rs1.4 in the Central region

Renewable energy

- The share of RE rose to 25% in Q2 FY25 (24.15% in FY24, 21.7% in FY23).
- In its pursuit of using more green power, the company entered into an agreement with a private enterprise to provide 12MW of RE at the Maihar unit. Supply from this captive unit is expected to start this fiscal.

The jute division

- The jute goods industry is faced with multiple challenges such as fewer government orders and, in jute-growing areas, several cottage-size mills. These have a substantial cost advantage over the formal sector mills and are fast eating into government orders.
- Production during the quarter was cut from standard 77 days to 57, leading to a decline in production from 8,738 tonnes a year ago to 6,592 in Q2.

Other operational highlights

- Sale of premium cement was 62% (vs 54% for the year-ago quarter)
- The share of blended cement was 83% (85% a year back) on greater demand from infra and commercially; the trade share was 71% (72% a year ago).

Valuations

Weak demand because of the prolonged monsoon, less government infra funding and keen competition hurt the Q2 performance. The FY25 volume guidance has been lowered to 3-4% on demand at the company's core regions impacted by the Mahakumbh (Central) and elections (Maharashtra) where EBITDA/tonne has been guided to grow Rs150-170 in H2 FY25. The greater share of premium cement and the focus on cost rationalisation are positives.

Fig 14 – Change in estimates

(Rs m)	Old		New		Variance (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Sales	98,331	1,06,923	93,663	1,03,653	(4.7)	(3.1)
EBITDA	14,530	17,566	11,878	15,433	(18.3)	(12.1)
PAT	4,513	6,751	2,408	5,039	(46.6)	(25.4)

Source: Anand Rath Research

At the CMP, the stock quotes at 6.5x FY27e EV/EBITDA and an EV/tonne (cement) of \$55.8. We retain our Buy rating, with a lower 12-mth target price of Rs1,689 (earlier Rs1,894), 9x FY27e EV/EBITDA, and an EV/tonne of \$90.5.

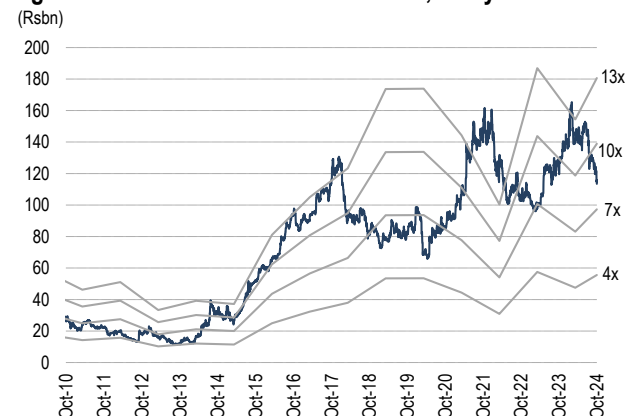
Risks. Demand slowdown, rise in prices of pet-coke and diesel.

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



Source: Bloomberg, Anand Rath Research

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



Source: Bloomberg, Anand Rath Research

Fig 17 – Peer comparison – valuations

	CMP (Rs)	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
		FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
Birla Corp	1,120	35.8	17.1	10.3	7.7	66	59
Shree Cement	24,980	39.8	32.9	18.8	15.8	167	151
Ramco Cement	857	37.8	27.5	14.1	11.8	129	119
Dalmia Bharat	1,775	37.7	27.6	12.7	10.2	86	82
JK Cement	4,147	32.8	26.3	15.9	13.5	175	143
JK Lakshmi	774	19.3	16.7	9.9	8.7	81	79
Orient Cement	338	30.6	26.8	14.0	12.7	101	107
Heidelberg Cement	216	22.9	18.5	11.9	9.6	80	76
Prism Johnson	190	197.3	85.2	19.2	16.9	122	117
Star Cement	194	21.3	17.9	11.6	9.2	128	102
Sagar Cement	205	NA	92.2	16.1	9.2	48	42
NCL Industries	191	7.4	6.2	4.7	3.7	38	29

Source: Company, Anand Rath Research

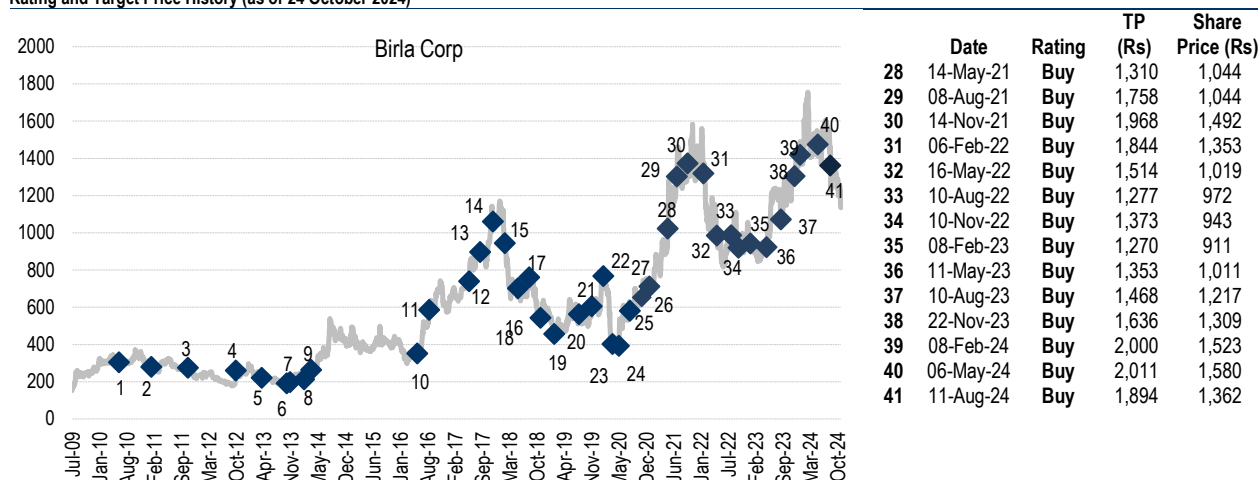
Appendix

Analyst Certification

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Important Disclosures on subject companies

Rating and Target Price History (as of 24 October 2024)



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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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