

BIRLA CORPORATION LTD

Apr-18

Industry: Cement & Cement products

Cmp Rs 742

Recommendation: Accumulate

Target Rs: 1030

Key Data

| | |
|--------------------|------------|
| BSE Code | 500335 |
| NSE Code | BIRLACORPN |
| 52 Week High (Rs) | 1290 |
| 52 Week Low (Rs) | 685 |
| Market Cap (Rs Cr) | 5713 |
| Face Value | 10 |

About the Company:

Birla Corporation Ltd (BCorp) is a century old Kolkata based manufacturer of cement and jute with strong presence in northern, central and eastern India. BCorp's cement division has plants in Rajasthan, Madhya Pradesh, Uttar Pradesh and West Bengal. BCorp acquired Reliance Cement, a subsidiary of Reliance Infrastructure (RIL), has 5.6mt grinding and 3.3mt clinker plants located in MP (Maihar, 3mt integrated unit), UP (2mt grinding unit) and Butibori in Maharashtra (0.6mt grinding unit). This acquisition provided BCorp with the ownership of high-quality assets,

Industry Snapshot

| | |
|------------------|----------|
| Customers | Open |
| Market Presence | Domestic |
| Govt Regulations | Medium |
| Msearch View | Positive |

Investment Rationale:

Focusing on a national rollout: Birla Corp plans to take premium brand "PERFECT" (Acquired from Reliance (RCC)) across the country except for south India, Currently, the "PERFECT" brand caters only to the central and some parts of east India. In addition, the Maihar plant has a strategic logistical advantage and can feed all regions, which makes this roll-out viable for the company. BCL has earmarked a 20% yoy increase in its marketing and promotional budget to introduce new grade of an existing brand and strengthen its brands national wide. After acquisition of RCC's assets the contribution of premium cement to Birla Corp consolidated sales has increased from 10% to 25% and targets is to make it 30% in coming years. We believe that focus on premium brands would addup to bottom line by around 20% as compared to budget brands and hence is likely to further improve the operating efficiently of the company.

Shareholding March 2018

| | |
|-----------|--------|
| Promoters | 62.90% |
| Public | 37.10% |

Further increasing capacity:

BCorp is planning to invest Rs 2,400cr for setting up a 4mtpa clinkerisation unit with a grinding facility at Mukutban in Maharashtra, increasing its total capacity to 20mtpa. This upcoming capacity is anticipated to increase BCL's market share in West from 1% to 7% and will contribute 24% to total installed capacity making it the fifth largest cement manufacturing company in India with significant presence in West and Central India.

Promoters/ Management

| | |
|-------------------------|----------|
| Mr. B R Nahar | MD |
| Mr. Aditya Saraogi | CFO |
| Ms. Pracheta Majumdar | WTD |
| Ms. Shailaja Chandra | Director |
| Mr. Dilip Ganesh Karnik | Director |

Significant presence in central region:

BCorp has a capacity of 8 mn tonnes (MT) in the central region, whereas the country's largest cement manufacturer Ultratech Cement has 7.4 MT capacity wherein capacity utilization in the central region has been over above 80% and demand has been consistently stable. The central market contributed significantly to the growth in EBIDTA per tonne. Approximately 82% of its capacity is in North and Central India wherein the utilizations are expected to increase due to improving demand and limited capacity.

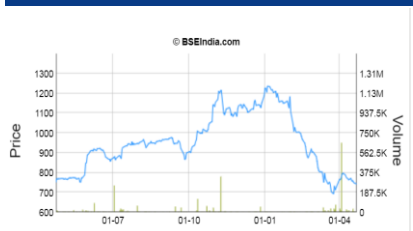
Key Ratios

| | |
|-------------------------|------|
| ROCE (%) | 6.97 |
| Price To Book Value (x) | 1.73 |

Refinancing to add bottomline:

BCorp has got refinanced its loan of INR 1,700cr at 135bps lower to 8.9%, which is expected to bring down the interest cost by INR 23 cr per year and better the margins. Improving cashflow will help the company repay debt in the next few years. Hence possibility of a shorter period to repay debt would act better for the company.

Price Chart



Mview

We believe demand growth momentum to continue given construction activates at industry levels as well as retail space is high and Birla Corp would gain being leader in northern and central regions, which accounts for 82% of overall capacity. Apart from this, a strong pipeline of capacity addition would ensure it will grow faster than the industry. On valuation perse BCorp is currently trading at attractive valuation of 12.2x FY18E and 8.5x FY19E EV/EBITDA and EV/tonne of USD98 versus average of 12.5x FY19E EV/EBITDA and EV/tonne 30% discount to peers. At CMP Rs 742, we recommend investors to 'ACCUMULATE' with a target price of Rs 1030 entailing 39% upside.

Research Team

022-61507123/142

CONSOLIDATED FINANCIAL TABLES

Profit & Loss Statement (Rs Cr)

| Particulars | FY17 | FY18E | FY19E | FY19E |
|------------------------------|--------------|--------------|--------------|--------------|
| Income From Operation | 4981 | 5821 | 6985 | 8033 |
| YOY Growth | | 17% | 20% | 15% |
| Expenditure | | | | |
| Cost of Material Consumed | 665 | 782 | 935 | 1078 |
| Changes in Inventory | 14 | -10 | 0 | 0 |
| Employee benefit expense | 306 | 362 | 432 | 498 |
| Other Expenditure | 437 | 554 | 639 | 750 |
| Excise duty | 634 | 209 | 349 | 321 |
| Stores & Spares | 346 | 421 | 495 | 562 |
| Power & Fuel | 968 | 1334 | 1479 | 1607 |
| Transportation exp | 988 | 1377 | 1519 | 1824 |
| Total | 4358 | 5029 | 5849 | 6639 |
| EBIDTA Rs | 623 | 792 | 1136 | 1393 |
| YOY Growth | | 27% | 43% | 23% |
| EBIDTA Margin % | 12.5% | 13.6% | 16.3% | 17.3% |
| Interest | 277 | 386 | 426 | 482 |
| Depreciation | 256 | 338 | 382 | 453 |
| Exceptional Items | 7 | 0 | 0 | 0 |
| PBT | 84 | 67 | 328 | 458 |
| Other Income | 147 | 42 | 0 | 0 |
| PBT | 230 | 109 | 328 | 458 |
| TAX | 11 | 37 | 109 | 153 |
| PAT Rs | 219 | 72 | 219 | 305 |
| YOY Growth | | -67% | 205% | 40% |
| PAT Margin % | 4.4% | 1.2% | 3.1% | 3.8% |
| EPS | 28.50 | 9.30 | 28.40 | 39.66 |

Balance Sheet (Rs Cr)

| PARTICULARS | FY16 | FY17 |
|-----------------------------------|-------------|-------------|
| Shareholder's Fund | | |
| a)Share capital | 77 | 77 |
| b)Other equity | 2848 | 3228 |
| Non current liabilities | | |
| a)Financial liabilities | 983 | 4278 |
| b)Provisions | 25 | 38 |
| c)Defered tax liability(Net) | 183 | 564 |
| d)Non current liabilities | 8 | 8 |
| e)Other non current liability | 170 | 192 |
| Current Liabilities | | |
| a)Financial liabilities | 305 | 389 |
| b)Other financial liabilities | 474 | 692 |
| c)Other current liabilities | 129 | 203 |
| d)Provisions | 18 | 18 |
| e)Current Tax liabilities(Net) | 7 | 12 |
| Total | 5229 | 9698 |
| Assets | | |
| Non current assets | | |
| a)Fixed assets | 2094 | 6227 |
| b)Other intangible assets | 3 | 941 |
| c)Financial assets | 351 | 283 |
| d)Non current assets(Net) | 51 | 51 |
| e)Other non current assets | 56 | 101 |
| Current Assets | | |
| a)Inventories | 567 | 630 |
| b)Trade Receivable | 94 | 133 |
| c)Cash and Bank balance | 107 | 88 |
| d)Noncurrent assets held for sale | 1 | 1 |
| e)Other current assets | 266 | 671 |
| f)Financial assets | 1638 | 561 |
| Total | 5229 | 9688 |

Technical Outlook





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