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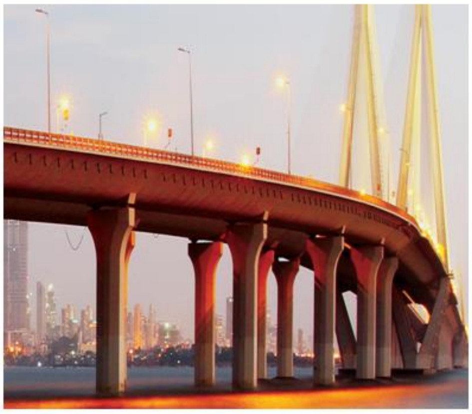
REWARDING RELATIONSHIPS

Industry Coverage - Indian Cement Industry July-2020

MSEARCH



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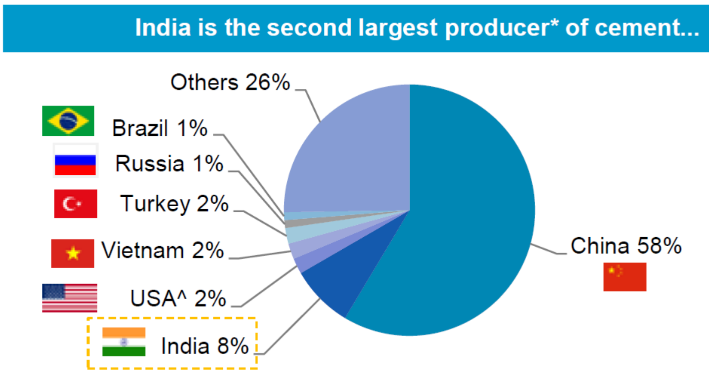
Indian Cement Industry - Overview

After food and clothing, shelter is the next priority item for humans forever. Since its evolution, mankind had been pursuing a relentless search for viable building materials for securing a stable shelter.

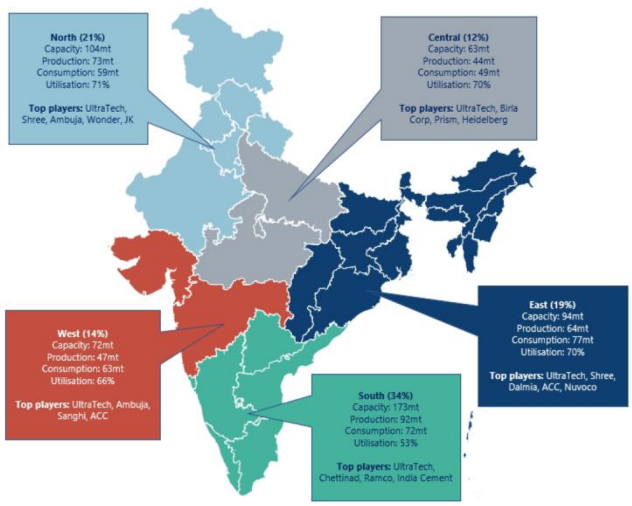
Cement ranks second in volume terms among the industrial products manufactured in the world.



India is the second largest producer of cement in the world and only and accounts for 8 percent of the total installed capacity. No wonder, India's cement industry is a vital part of its economy, providing employment to more than a million people, directly or indirectly. With the increase in growth of infrastructure, the cement production in India is expected to be 500 Million Tonnes by the year 2020 and 800 Million Tonnes by 2030. The per capita consumption of cement in India is in between 220-230 250 kg which is far less than world average of 500 kg and 1000 kg of China

India has a lot of potential for development in the infrastructure and construction sector and the cement sector is expected to largely benefit from it. Some of the recent major initiatives such as development of 98 smart cities are expected to provide a major boost to the sector.

Expecting such developments in the country and aided by suitable government foreign policies, several foreign players such as Lafarge-Holcim, Heidelberg Cement, and Vicat have invested in the country in the past. A significant factor which aids the growth of this sector is the ready availability of the raw materials for making cement, such as limestone and coal.



Market Size: Cement production is reached to 337.32 mn tonnes in 2018-19 and stood at 278.79 million tonnes from April 2019-January 2020.

The Indian cement industry is dominated by a few companies. The top 20 cement companies account for almost 70% of the total cement production of the country. A total of 210 large cement plants account for a cumulative installed capacity of over 410 mn tonnes, with 350 small plants accounting for the rest. Of these 210 large cement plants, 77 are located in the states of Andhra Pradesh, Rajasthan and TamilNadu. The total Installed capacity in the Indian cement sector is approximately 545 million tonnes per annum, whereas 337 million tonne of cement was produced in 2018-19, signifying a capacity utilisation of around 62% and due to COVID-19 we assume cement industry utilisation would be at a multi-year low of 55% due to underutisation of capacity

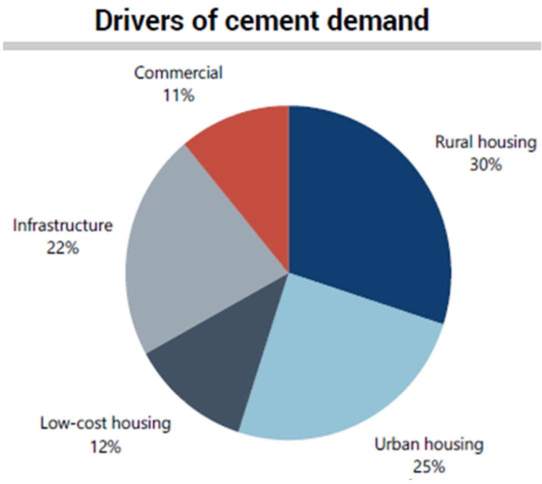
COVID-19 effect: Domestic cement demand is likely to affect adversely due to the lockdown to control coronavirus infection and there will be lingering impact of the slowdown on infrastructure and discretionary spending and would recover only in the second half (H2) of 2020-21 post the monsoon season.We expect lower single digit growth demand in FY2021/22E as against 7-9% in last FY and expect a significant recovery happening only after Q3 (October-December).Cement demand had declined in FY20, which was only the second instance of a decline in the past 15 years, after the demonetisation affected FY17.

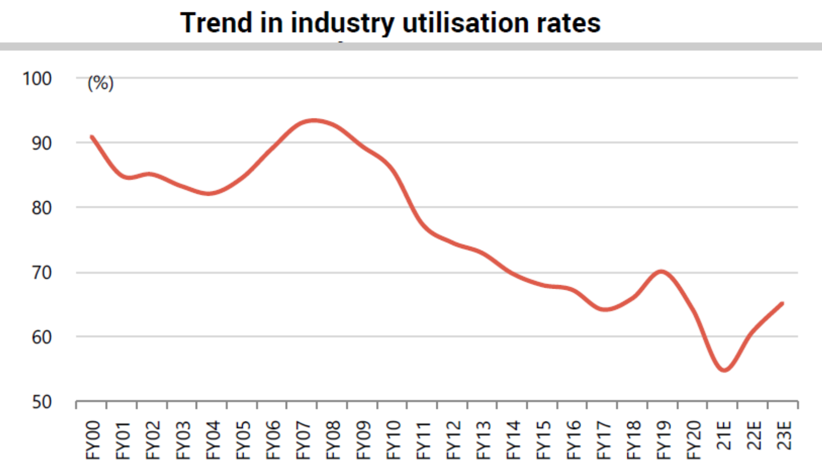
Indian Cement Industry – Growth Drivers and Opportunities

We see Indian cement sector is better-placed than most in the current situation with drivers linked mainly to the domestic economy. Historically, Indian cement demand has seen a weak correlation with global demand but a strong correlation with the domestic economy. Even as the lockdown restrictions have caused a dent, limited impact of Covid-19 in rural areas would partially cushion the near-term impact on domestic demand.

Cement sector is a direct play on the Indian economy with housing and infrastructure forming 85% of the total demand. Further, the housing demand is dominated by rural housing, which is underpinned by government subsidy and agricultural income.

Presently, the biggest demand drivers of cement are these housing and real estate sectors, accounting for about sixty-five percent of the total consumption in India. Some of the other leading consumers of cement include public infrastructure at twenty percent and industrial development at fifteen percent





Source: Company, Jefferies estimates

Market Insights:

The production of cement in India is expected to reach 410.21 Mn tons by FY 2024, expanding at a compound annual growth rate (CAGR) of ~3.83% during the FY 2019-FY 2024 period, owing to rising demand from the government and housing contractors.Cement consumption is anticipated to increase at a CAGR of ~4.38% during the forecast period owing to the sanction of schemes for improving roads and highways connectivity and housing facility related programs, and growing demand from the commercial real estate sector. The major players operating in the Indian cement industry include Shree Cement, ACC, UltraTech Cement Ltd, Ambuja Cements Ltd, Dalmia Cement, JKCement, and Ramco Cements Ltd.

Essential minerals used for manufacturing cement, which include limestone (calcium), bauxite (aluminium), iron ore, and coal, are available in abundance in different parts of India. This has resulted in zero or low cost of import of raw materials for cement manufacturers, thus making cement businesses profitable in India. As a result, cement manufacturing has increased steadily, driving the supply side of the Indian cement industry over the years.

Indian Cement Industry – Macro Economy & Industry Update

Nation-wide Lockdown:

- Covid-19 pandemic has slammed the brakes on economic activity
- Lockdown over Covid-19 pandemic been extended further effecting industry macros.
- Washout in April and extended lockdown has impacted Q1&Q2demand despite better than expected recovery. We expect H1FY21 demand to decline by 45-50% YoY. Most of the companies are expecting strong recovery from H2FY21 onwards.

Gross Domestic Product:

- GDP growth estimates for FY21 has been slashed by various agencies in range -3-5% FY21
- Pandemic added to the Weakness

Infrastructure:

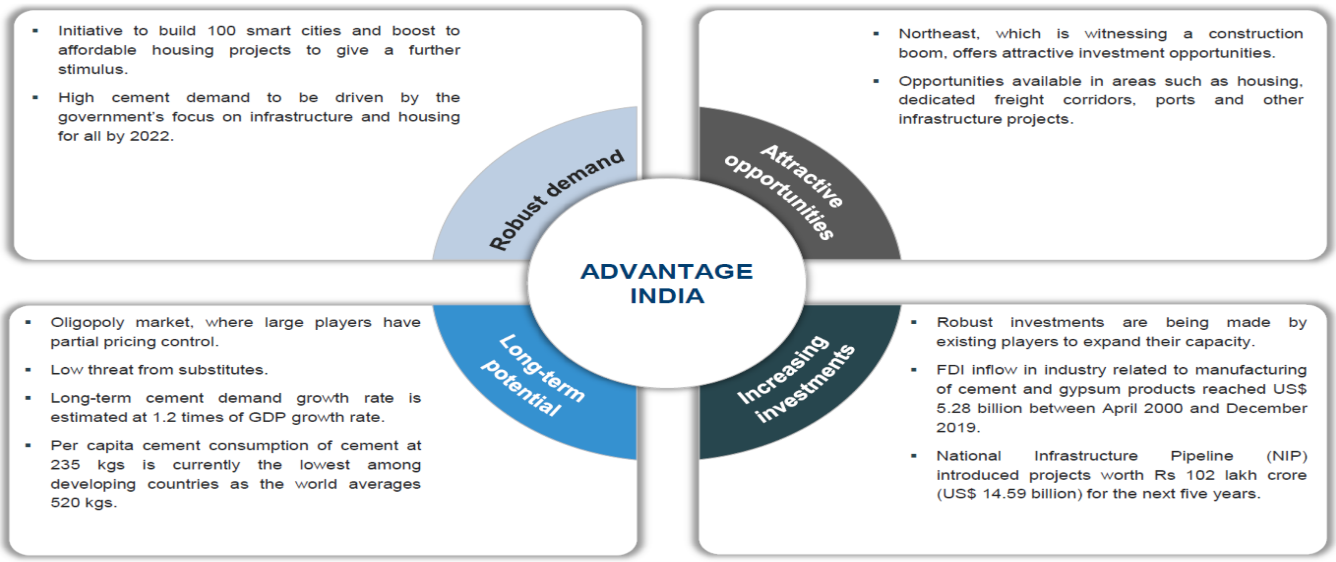
- Industrial /commercial, urban housing and infra to be hit
- Consumer sentiment was affected; construction work halted
- In the short term, spend for healthcare and public welfare activities will be a priority
- Workforce remobilization a key challenge - labour shortage due to reverse migration from urban areas

Cement Industry:

- India's cement demand to contract sharply in FY21.
- While demand in rural housing may witness a quicker recovery, pick-up in urban housing will be more gradual
- Infrastructure development and real estate construction may see revival albeit at a moderate pace

Outlook:

- Gradual recovery expected in the latter half of FY21e and FY22e
- We believe, fundamentals of cement industry remains strong and will likely result in strong recovery in FY22 with estimated 15-16% growth on our base case for FY21.



***Source**: Budget 2019-20, News Articles, , DIPP, *Ultratech investors presentation May 2018*

Indian Cement Industry – Outlook

Cement demand forecast to plunge in India:

With India's economy headed towards lower economic slowdown in fiscal 2021, production of cement in the country is likely to witness its steepest ever decline in a year of about 25-30%. Cement manufacturers in India have seen a significant turn in fortunes since the start of 2020 due to the ongoing coronavirus outbreak.

Producers, which had been raising prices and selling high volumes at the start of the year, are seeing a slump in demand in the wake of a nation-wide lockdown that began in mid-March 2020. Even after the lockdown ends, there will be severe knock-on effects for the remainder of India’s 2021 Fiscal Year (FY2021), which ends on 31 March 2021. This is expected to be due to weak economic growth, government cuts in spending on infrastructure and lower real estate demand.

Indeed, ratings agency CRISIL expects cement demand in India to contract by at least 10 - 15% in FY2021 compared to FY2020, with a ‘worst-case scenario’ of up to a 25% reduction.

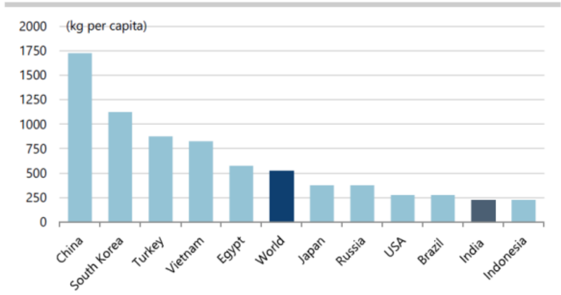
The only respite that cement manufacturers may see is on the logistics side. With lower production volumes, transporters are offering more concessions on freight rates that will further help with costs, according to analysts. Low oil prices will benefit producers, while Petcoke prices may also remain relatively low.

Current demand shock might dent the capacity addition plans of the industry and may stall projects in medium term. On pessimistic view assumes extended vulnerability to the virus with construction activity beginning only in the second half of this fiscal and demand is expected to pick up only from the second half of 2020. Recovery might take bit longer as there would be weak demand for real-estate and private individual houses and buildings. There will also be a lower spend on Pradhan MantriAwasYojana.

Long-term cement opportunity remains strong

Despite being the second largest market globally, Indian per-capita cement demand remains at a modest 250kg, which is half the world average. A rising population, increasing nuclearisation of families, burgeoning middle-class, falling interest rates and government initiatives to ensure housing for all, make Indian cement an attractive long-term growth story.

India has one of the lower per-capita consumption



Source: Company, Jefferies estimates

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Investment Idea- THE RAMCO CEMENTS LTD I Target Rs 844

About the Company

Key Data – 28th July 2020

BSE Code	500260
NSE Code	RAMCOCEM
52 Week High (Rs)	883
52 Week Low (Rs)	456
Market Cap (Rs Cr)	16860
Face Value	1
Cmp Rs	715

Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

Shareholding June 2020

Promoters	42.66%
Public	57.34%

Promoters/ Management

Mr. PR Venketrama	MD
Mr. AV Dharmakrishn	CEO
Mr. S Vaithiyanathan	CFO
Mr. RS Agarwal	Director

Key Ratios

ROCE	13.48%
P/E	27.87
EV/EBITDA	16.2%
P/Bv	3.37

Research Team

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The Ramco Cements Ltd (Ramco) is Chennai based, Flagship Company of the Ramco Group, a well-known business group of South India. It is the fifth largest cement producer in the country and is the most popular cement brand in South India. The main product of the company is Portland cement, manufactured in eight state-of-the art production facilities that includes Integrated Cement plants and Grinding units with a current total production capacity of 16.45 MTPA (out of which Satellite Grinding units capacity alone is 4 MTPA). The company also produces Ready Mix Concrete and Dry Mortar products, and operates one of the largest wind farms in the country

Investment Rationale:

Increasing penetration in core markets to drive growth:

Ramco's expansion plan is largely on track. It currently sells 75% of its volumes in south India and remains focused on growing its presence in core markets of south and east. Cement expansion is expected upto 4mtpa up by 24%. Commencement of these capacities is expected by next quarter. It has also been gaining market share driven by new product launches. Premium products have been doing well with TRCL's launch of Supercrete in May'19 being received well across markets. It is targeted to be used in the manufacture of high-performance concrete. Capacity addition will also reduce company's operating cost for the Eastern sales due to operating leverage once demand recovery happens. For the period FY21-22, we estimate volume CAGR of 9% over, higher than the expected industry growth rate of 7%.

New clincker capacity to aid the company:

Ramco is currently operating at 90% clincker capacity utilisation. This has been one of the obstacles that are limiting the volume growth. It is planning to expand its clincker capacity by 35% setting up two new clincker plants in AP (1.5mt) and (2.3mt) respectively. It should get commissioned by 4QFY21. The company has guided for volume growth of 4-5% YoY in FY21 and a pick-up thereafter from 4QFY21 once new clinker capacities start to commission. The new clinker capacity will also serve the east India market for which TRCL is setting up 3mt grinding capacities (1mt already commissioned) – this will support market share gains there as well.

Strong balance sheet position despite capex:

The Covid'19-compelled lockdown from March'20 hurt Ramco Cements Q4 performance however profitability is expected to improve on steady pricing, lower fuel prices and new capacity commissioning. Overall capex for the overall mentioned capex programme by the company over FY19-22 stands at Rs 3500 Cr. It is expected to fund its capex through internal accrual but also believe company might need additional funds which it will raise through debt. Its strong operating profits and cash flows with its D/E ratio well maintained under 1x supports the balance sheet.

MView

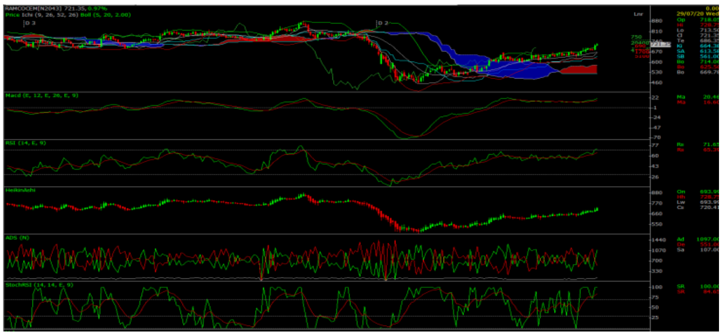
We have comforts over Ramco's strong business profile with a healthy market share in the South Indian cement market and its expanding presence in the eastern markets over the last few years. We also take assume factor future growth in Ramco's east India revenue pie over the medium term and the likely reduction in the concentration on South India (which is 70%+ currently) once the proposed grinding project expansions are completed. However, the volume is likely to be under pressure for H1FY21 due to covid severely affecting demand, although some improvement is likely in H2FY21 with lower fuel costs as well expected reversal of demand on phase wise. Considering healthy capital structure and business metrics remain comfortable over the medium term to long term. Hence have a Buy call for medium to long term prospective.

THE RAMCO CEMENTS LTD - Financial Metrics

CONSOLIDATED FINANCIAL TABLES

Profit & Loss Statement (Rs Cr)			
Particulars	**FY20**	**FY21E**	**FY22E**
Income From Operation	**5389**	**5120**	**5888**
YoY Growth	**4%**	**-5%**	**15%**
Expenditure			
Cost of Material Consumed	698	665	739
Changes in Inventory	-47	-44	-27
Employee benefit expense	381	361	406
Power and fuel	1051	1003	1169
Freight and forwading	1361	1297	1472
Other Expenditure	799	870	886
Total expenses	**4242**	**4153**	**4645**
EBIDTA Rs	**1147**	**967**	**1243**
YoY Growth	**10%**	**-16%**	**29%**
EBIDTA Margin %	**21.3%**	**18.9%**	**21.1%**
Interest	72	77	88
Depreciation	317	302	345
PBT	759	589	810
Other Income	34	32	34
PBT	**792**	**621**	**844**
Tax	188	134	181
PAT	**604**	**488**	**662**
PAT after minority interest	**604**	**488**	**662**
YoY Growth	**19%**	**-19%**	**36%**
PAT Margin %	**11.2%**	**9.5%**	**11.3%**
EPS	**25.65**	**20.69**	**28.12**

Technical Trends



Balance Sheet (Rs Cr)		
PARTICULARS	**FY19**	**FY20**
Sharholder's Fund		
a)Share capital	24	24
b)Other equity	4513	4978
c)Non controlling interest	5	6
Non current liabilities		
a)Financial liabilities	701	1840
b)Provisions	16	24
c)Defered tax liability(Net)	865	912
d)Other liabilities	13	13
Current Liabilities		
a)Financial liabilities	729	800
b)Trade payables	258	343
c)Other financial liabilities	932	1060
d)Other current liabilities	121	103
e)Provisions	25	29
f)Current tax liabilities (Net)	1	1
Total	**8204**	**10133**
Assets		
Non current assets		
a)Fixed assets	6176	7808
b)Intangible assets	76	82
c)Investment in associates	232	250
d)Financial assets	60	73
e)Deferred tax assets net	0	0
e)Other non current assets	278	344
Current Assets		
a)Inventories	561	647
b)Loans	27	30
c)Trade receivables	490	528
d)Cash and bank	95	94
e)Other financial assets	94	104
f)Current tax assets (net)	6	3
g)Other Current assets	107	170
Total	**8204**	**10133**

Notes

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Investment Idea- DALMIA BHARAT LTD I Target Rs 762

About the Company

Key Data – 28th July 2020

BSE Code	542216
NSE Code	DALBHARAT
52 Week High (Rs)	1071
52 Week Low (Rs)	406
Market Cap (Rs Cr)	13933
Face Value	2
Cmp Rs	722

Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

Shareholding June 2020

Promoters	55.81%
Public	44.19%

Promoters/ Management

Mr. Puneet Y Dalmia	CEO
Mr. Gautam Dalmia	MD
Mrs. Sudha Pillai	Director
Mr. Jayesh Doshi	Director
Mr. Y H Dalmia	Director

Key Ratios

ROCE	4.14%
P/E	59.16
EV/EBITDA	8.31
P/Bv	1.33

Research Team

Mr. Kushal Shah

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Dalmia Bharat Ltd (DBL) formerly known as Odisha Cement Ltd is a Delhi based group having its operations in cement, sugar, refractory spread across the country.Dalmia Bharat Ltd (DBL) is the fourth largest cement company in India with a capacity of 26.5MT with focus in South with 12.1MT and East & North-East with 14.4MT.

Investment Rationale:

Focus on capacity addition in the East:
DBL is undergoing an expansion process in Eastern part of the country. It has plans to expand its cement capacity by 8mt (30%). A new clinker line of 3mt to support these cement grinding units has already been commissioned. Rest should get commissioned in phases over the next 6-18 months. Also recent approval of acquisition of Murli Industries (3mt) cement capacity would also help expand its market share in western part.

Recovery in volumes and well placed to gain market share:
During the quarter we witnessed recovery in demand from rural markets and govt road projects due to lower number of red zones. East India is seeing higher utilisation with Bihar and Jharkhand showing more demand. Current volume mix from eastern regions stands at around 60% and in expected to move up. The eastern plants are doing better than the southern plants. Also clinker line at Rajgangpur commenced production. This would help reduce reliance on purchases of clinker and is well placed to gain market share. With increasing capacity in the coming years we expect growth coming in cement volumes and thus improving the cash flows and debt reduction.

Operational efficiency improves:
Dalmia Bharat's fourth-quarter results showed an improvement in operating efficiencies despite the lockdown. It delivered better than expectations. On a positive note, cement realisations were higher by about 1.5%marginally due to price hikes in the eastern and southern markets. A greater benefit for the company has come in the form of lower costs which improved operating efficiencies. Strong demand and recent consolidation in the east makes it an attractive market for the company.

Successful restructuring to benefit cost rationalisation:
The Dalmia Bharat group has simplified its group structure by consolidating all the cement and power assets with DBL, to streamline decision-making, rationalise regulatory compliances, enhance cash flow management, as per management. Expects this exercise of restructuring to lead to cost and tax synergies. Also DBL is also well placed to gain market share with its recent clinker expansion in East India.

MView

We like DBL because of the strong operational, strategic linkages back by healthy balance sheet. s. The geographically diversified cement capacities act as a buffer against regional supply-demand imbalances. Covid lockdown and weak demand is expected to pull down REV/EBITDA/APAT going forward. We see a positive catalyst owing to its strong distribution strength across NE/East/South regions. It's being absorbed that cement demand growth in north-eastern and eastern India to be higher than the national average of the industry for the next two years, led by a demand push from the housing, infrastructure and commercial sectors. We are optimistic on DBL performance going forward.

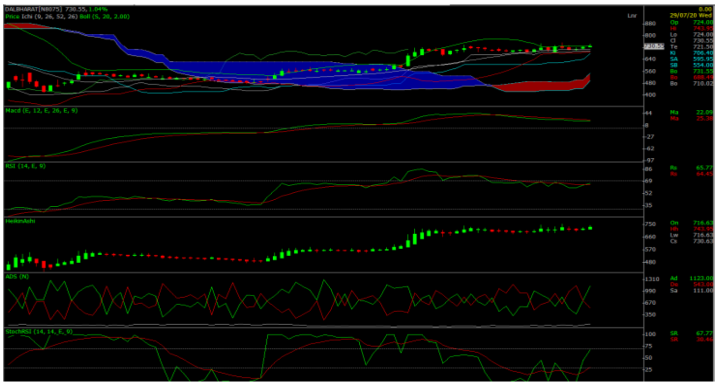
DALMIA BHARAT LTD - Financial Metrics

CONSOLIDATED FINANCIAL TABLES

Profit & Loss Statement (Rs Cr)

Particulars	FY20	FY21 E	FY22 E
Income From Operation	**9674**	**9000**	**9900**
YoY Growth	**2%**	**-5%**	**10%**
Expenditure			
Cost of Material Consumed	1654	1537	1752
Changes in Inventory	92	85	60
Employee benefit expense	675	629	687
Power and fuel	1738	1620	1798
Freight and forwading	1895	1762	1929
Other Expenditure	1537	1530	1613
Total expenses	**7591**	**7164**	**7838**
EBIDTA Rs	**2083**	**1836**	**2063**
YoY Growth	**7%**	**-12%**	**12%**
EBIDTA Margin %	**21.5 %**	**20.4%**	**20.8%**
Interest	415	386	475
Depreciation	1528	1429	1496
PBT	140	22	92
Other Income	217	202	230
PBT	**357**	**224**	**322**
Tax	119	49	71
PAT	**238**	**175**	**251**
PAT after minority interest	**224**	**175**	**251**
YoY Growth	**-32%**	**-27%**	**44%**
PAT Margin %	**2.5%**	**1.9%**	**2.5%**
EPS	**12.21**	**8.96**	**12.88**

Technical Trends



Balance Sheet (Rs Cr)

PARTICULARS	FY19	FY20
Sharholder's Fund		
a)Share capital	39	39
b)Other equity	10600	10522
c)Non controlling interest	11	25
Non current liabilities		
a)Financial liabilities	4021	3570
b)Provisions	170	140
c)Defered tax liability(Net)	1279	1277
d)Other liabilities	117	94
e)Govt Grants	119	122
Current Liabilities		
a)Financial liabilities	908	1286
b)Trade payables	877	829
c)Other financial liabilities	1682	1997
d)Other current liabilities	564	551
e)Provisions	90	64
f)Current tax liabilities (Net)	51	77
g)Govt grants	10	18
Total	**20538**	**20611**
Assets		
Non current assets		
a)Fixed assets	9587	10121
b)Goodwill	1620	1256
c)other intangible assets	2886	2750
d)Financial assets	475	228
e)Right of use assets	0	168
f)Investments	93	93
g)Deferred tax assets net	91	72
h)Other non current assets	382	254
Current Assets		
a)Inventories	1032	974
b)Investments	2315	2698
c)Trade receivables	549	397
d)Cash and bank	469	403
e)Other financial assets	624	705
f)Current tax assets (net)	0	0
g)Other Current assets	351	421
h)Loans	64	71
Total	**20538**	**20611**

Notes

Investment Idea- JK CEMENT LTD I Target Rs 1699

About the Company

Key Data – 28th July 2020

BSE Code	532644
NSE Code	JKCEMENT
52 Week High (Rs)	1569
52 Week Low (Rs)	800
Market Cap (Rs Cr)	11534
Face Value	10
Cmp Rs	1493

Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

Shareholding June 2020

Promoters	58.07%
Public	41.93%

Promoters/ Management

Mr. Y Singhania	MD
Mr. Achintya K	Director
Mr. A K Saraogi	EDirector
Mr. M Singhania	EDirector
Mr. R Singhania	EDirector

Key Ratios

ROCE	17.09%
P/E	23.87
EV/EBITDA	11.70
P/Bv	3.81

Research Team

Mr. Kushal Shah
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Established in 1975 JK Cement is one of leading cement players with 11.5MTPA grey cement capacity (including 8.5MTPA in North). It's the second largest manufacturer of White cement (in a duopolistic market segment) and Wall Putty in India. It has a strong brand name with superior product portfolio and extensive marketing and distribution network. JK White Cement has PAN India presence and exports to countries like South Africa, Nigeria, Singapore, Bahrain, Bangladesh, Sri Lanka, Tanzania, UAE and Nepal. It is also second largest producer of white cement in India.

Investment Rationale:

Increased capacity with demand from rural areas to drive business

JK Cement is increased its capacity by 35% in FY20 led by commissioning of Aligarh greenfield grinding unit, brownfield capacities at Mangrol and Nimbahera. The management intends to continue the ongoing expansion of 0.7 MT grinding unit at Balasinor, 0.3 MT addition of putty capacity, WHRMS plant (Mangrol) and Line-3 modification of Nimbahera clinker plant. Demand has also started picking up in rural areas which should support its current capex. Thus, we expect additional volumes from recently commissioned capacities to aid growth in the coming years. Ongoing capex towards 40 per cent increase in its grey cement capacity will not only boost volume growth but also drive improvement in profitability.

Better realisation and cost efficiencies boost profitability

Strong realisation growth helps company to deliver better operational performance. Grey cement realization grew by ~10% YoY at Rs4,618/t as the pricing hikes in north helped. The aggregate EBITDA/tn rose by 33% YoY to Rs1,298 from Rs973/tn in 4QFY19. Overall cost impact was lower due to lower energy and freight cost. The logistic cost was flat YoY at Rs1,056/t due to lower fuel cost benefits. The ~9.6% YoY decline in energy cost (adjusted to raw material cost) was due to higher use of imported coke and softening of the fuel cost. Better realisation to settle down the Debt/Equity ratio. Thus, we remain positive on the company considering its margin profile and healthy balance sheet.

Dominant position in White Cement Industry across India

JK Cement is the second largest White Cement manufacturer in India with a capacity of 0.60 MTPA. Due to consistent growth in White Cement it contributes significantly in operating income and PBIDT of the Company. Further, due to small industry size with strong growth in demand it has generated a steady cash flow for the Company. Wall Putty has further added substantial profitability of the Company. We like the company for its increased presence in the robust north market (grey business) and for its steady growth in the white/putty segment.

MView

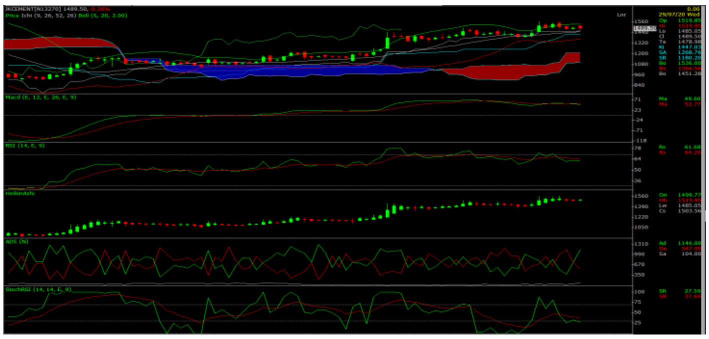
We like JK Cement dominant position in the white cement and grey cement industry with strong brand recall supporting growth. Covid impact on sales was lower in the fourth quarter but as per management demand is likely to remain weak for medium term with issue of low labour supply storage effecting business economics. We also believe that the muted demand would lead to a decline in capacity utilisations while cement manufacturers would sustain prices or increase prices from the current levels to maintain efficiency and further improve cost structure and profitability. Factoring H2FY21 demand and better realisation with increasing capacity from rural areas to drive business and hence we are positive.

JK CEMENT LTD - Financial Metrics

CONSOLIDATED FINANCIAL TABLES

Profit & Loss Statement (Rs Cr)			
Particulars	**FY20**	**FY21E**	**FY22E**
Income From Operation	**5802**	**6092**	**6823**
YoY Growth	**10%**	**5%**	**12%**
Expenditure			
Cost of Material Consumed	923	969	1092
Changes in Inventory	-52	-33	0
Employee benefit expense	455	455	478
Other Expenditure	1065	1157	1160
Power and fuel	1094	1135	1228
Freight and forwading	1102	1152	1349
Total expenses	**2391**	**2549**	**2729**
EBIDTA Rs	**1213**	**1256**	**1517**
YoY Growth	**45%**	**4%**	**21%**
EBIDTA Margin %	**20.9%**	**20.6%**	**22.2%**
Interest	276	263	320
Depreciation	288	264	316
PBT	649	729	882
Other Income	85	92	103
PBT	**734**	**822**	**984**
Tax	251	274	328
PAT	**483**	**548**	**657**
PAT after minority interest	**470**	**548**	**657**
YoY Growth	**83%**	**13%**	**20%**
PAT Margin %	**8.3%**	**9.0%**	**9.6%**
EPS	**62.56**	**70.92**	**84.97**

Technical Trends



Balance Sheet (Rs Cr)		
PARTICULARS	**FY19**	**FY20**
Sharholder's Fund		
a)Share capital	77	77
b)Other equity	2625	2950
c)Non controlling interest	-7	-20
Non current liabilities		
a)Financial liabilities	2668	3164
b)Provisions	41	50
c)Defered tax liability(Net)	312	417
d)Other liabilities	87	78
Current Liabilities		
a)Financial liabilities	238	213
b)Trade payables	434	492
c)Other financial liabilities	480	626
d)Other current liabilities	363	384
e)Provisions	95	111
Total	**7413**	**8542**
Assets		
Non current assets		
a)Fixed assets	5101	5750
b)Intangible assets	11	27
c)Right of use asset	0	307
d)Financial assets	100	95
e)Other non current assets	156	128
Current Assets		
a)Inventories	624	690
b)Investments	394	1
c)Trade receivables	257	268
d)Cash and bank	456	634
e)Other financial assets	138	463
f)Current tax assets (net)	2	9
g)Other Current assets	175	169
h)Assets held for sale	0.18	0
Total	**7413**	**8542**

Notes

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Investment Idea- BIRLA CORPORATION LTD I Target Rs 680

About the Company

Key Data – 28th July 2020

BSE Code	50035
NSE Code	BIRLACORPN
52 Week High (Rs)	808
52 Week Low (Rs)	373
Market Cap (Rs Cr)	4318
Face Value	10
Cmp Rs	606

Industry Snapshot

Customers	Open
Market Presence	Domestic
Govt Regulations	Medium
Msearch View	Positive

Shareholding June 2020

Promoters	62.90%
Public	37.10%

Promoters/ Management

Mr. Harsh V Lodha	Chairman
Mr. Pracheta M	CEO
Mr. Aditya Saraogi	CFO
Mr. Vikram Swarup	Director
Mr. Anand Bordia	Director

Key Ratios

ROCE	8.02%
P/E	9.2
EV/EBITDA	6.2
P/Bv	0.97

Research Team

Mr. Kushal Shah

022-61507123

Birla Corporation Ltd (BCorp) is a century old Kolkata based manufacturer of cement and jute with strong presence in northern, central and eastern India. It is the flagship Company of the M.P. Birla Group. BCrop's cement division has plants in Rajasthan, Madhya Pradesh, Uttar Pradesh and West Bengal. BCorp acquired Reliance Cement, a subsidiary of Reliance Infrastructure Ltd (RIL). This acquisition provided BCorp with the ownership of high-quality assets taking its total capacity from 10 MTPA to 15.5 MTPA.

Investment Rationale:

Reliance Cement synergies continue to boost profitability: The benefits and synergies of RCCPL acquisition has now been fully assimilated. The acquired RCCL plants have one of the best efficiency parameters in the industry. BCorp has earmarked an increase in its marketing and promotional budget to introduce new grade of an existing brand and strengthen its brands national wide. After acquisition of RCCPL assets the contribution of premium cement to BCorp consolidated sales has increased largely targets higher in the coming years. We believe that focus on premium brands would add up to bottom line and hence is likely to further improve the operating efficiently of the company. Also RCCPL's plant would continue to receive substantial fiscal incentive from UP state and MP over an extended period of time frame, which give the company a competitive advantage leading to a healthy profitability.

Improving performance due to premiumisation: BCorp's cement production units are now operating at almost pre-covid levels. Overall last quarter's demand was decent in this tough situation. Sales volume experienced a hit thus ending the year on a flattish note. Sales were mainly driven by premium cement volumes moving up to 40% in FY20. Realisations continued to improve, growing 4% YoY to Rs 5,060/tn as the company continued to focus on blended and premium cement. Profitability saw an improvement, led by higher realisations.

Aims to become fifth largest cement manufacturer: BCorp is in the phase of constructing a 3.9 mtpa factory, along with a 40 Mw power plant and a 10.6 Mw waste-heat recovery, at Mukutban (Maharashtra). this would be expected to commission by around Q2FY2021-22. Once completed it will take the company's installed capacity from the existing 15.58 to 19.48 mtpa, at parity with the the 5th largest player in India. This upcoming capacity is anticipated to increase its market share in West from 1% to 7% and will contribute 24% to total installed capacity. The execution would get better realisation and yield higher. Currently, the MP Birla Group company is ranked seventh in terms of installed capacity.

Future business growth: BCorp plans to focus more for building and construction solutions segment. It has ventured into the construction chemicals market, with wall putty products and waterproofing compounds. Water repellents are among other products under consideration. Wall putty has 60 per cent market penetration, and offers a better 20-25% operating margin. Construction chemicals products are extremely low market penetration market but offers health growth prospects and BCorp eyes to focus once the Company is able to scale up capacity, with market share gain and more visibility.

MView

We believe BCorp's strong brand focus, various cost saving initiatives would help business operationally to yield better. Company's healthy asset utilisations, healthy margin profile remain key positives, which will help the company to ride this medium term challenges and once the company is able to scale up capacity, with market share gain supported by new categories in building and construction solutions would prop up better earning going forward. While on risk cover Covid 19 spread can derail demand and pricing outlook and severely hamper future expected earnings. Hence by considering all the parameters we are optimistic on the company performance as well as cement sector and expect a decent upside left on table for investors.

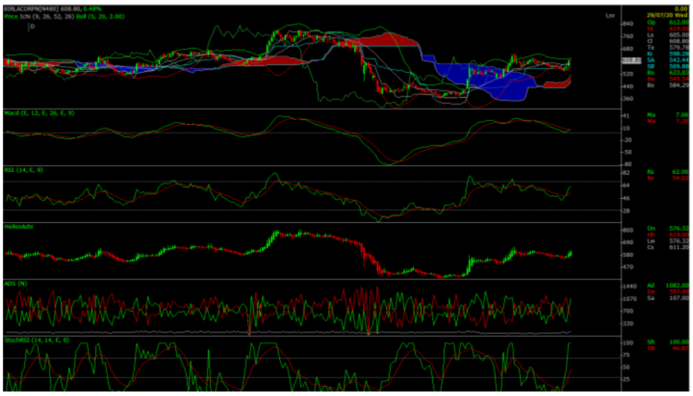
BIRLA CORPORATION LTD - Financial Metrics

CONSOLIDATED FINANCIAL TABLES

Profit & Loss Statement (Rs Cr)			
Particulars	**FY20**	**FY21E**	**FY22E**
Income From Operation	**6916**	**6570**	**7359**
YoY Growth	**6%**	**-5%**	**12%**
Expenditure			
Cost of Material Consumed	958	910	1019
Changes in Inventory	-39	66	74
Employee benefit expense	408	389	435
Power and fuel	1381	1313	1361
Freight and forwading	1625	1544	1692
Other Expenditure	1247	1186	1398
Total expenses	**5580**	**5407**	**5980**
EBIDTA Rs	**1336**	**1163**	**1378**
YoY Growth	**41%**	**-13%**	**19%**
EBIDTA Margin %	**19.3%**	**17.7%**	**18.7%**
Interest	388	370	414
Depreciation	352	335	376
PBT	596	458	589
PBT	**681**	**458**	**589**
Tax	176	119	152
PAT	**505**	**339**	**436**
minority interest	**0**	**0**	**0**
PAT after minority interest	**505**	**339**	**436**
YoY Growth	**97%**	**-33%**	**29%**
PAT Margin %	**7.3%**	**5.2%**	**5.9%**
EPS	**65.56**	**44.06**	**56.65**

Balance Sheet (Rs Cr)		
PARTICULARS	**FY19**	**FY20**
Sharholder's Fund		
a)Share capital	77	77
b)Other equity	4418	4729
c)Non controlling interest	0	0
Non current liabilities		
a)Financial liabilities	4112	4216
b)Provisions	42	50
c)Defered tax liability(Net)	742	857
d)Non current tax liabilities	3	1
e)Other current liabilities	152	145
Current Liabilities		
a)Financial liabilities	25	84
b)Trade payables	627	523
c)Other financial liabilities	877	1281
d)Other current liabilities	237	196
e)Provisions	12	17
f)Current tax liabilities (Net)	7	0
Total	**11332**	**12176**
Assets		
Non current assets		
a)Fixed assets	7205	7975
b)Goodwill	0	0
c)other intangible assets	973	954
d)Financial assets	385	285
e)Deferred tax assets net	78	61
f)Other non current assets	185	207
Current Assets		
a)Inventories	783	788
b)Investments	600	676
c)Trade receivables	262	250
d)Cash and bank	139	256
e)Other financial assets	462	410
f)Non current assest	1	1
g)Other Current assets	257	312
h)Loans	1	1
Total	**11332**	**12176**

Technical Trends



Notes

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REWARDING RELATIONSHIPS

OUR SERVICES

BROKING

- **EQUITIES -** BSE, NSE & MSEI
- **DERIVATIVES -** NSE
- **COMMODITIES -** MCX & NCDEX
- **DIAMOND -** ICEX
- **CURRENCY -** NSE

WEALTH MANAGEMENT

- **DEMAT SERVICES -** CDSL
- **PMS & AIF**
- **LOAN AGAINST SHARES**
- **RESEARCH ADVISORY**
- **DISTRIBUTION -** MUTUAL FUNDS/IPO/BONDS

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