

20th February 2021

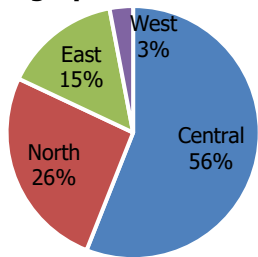
CMP – ₹869/-

View – Accumulate on dips

Company Background

Incorporated in 1919, company is primarily engaged in the manufacturing of cement as its core business activity (95% revenue contribution). Post-acquisition of Reliance Cement Company Private Limited, company's total installed capacity increased from 9.8 MMTPA to 15.8 MMTPA. The Cement division of the company has 10 plants at seven locations such as Satna & Maihar (Madhya Pradesh), Raebareli & Kundanganj (Uttar Pradesh), Chanderia (Rajasthan) etc. Company's product portfolio includes Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC), fly ash based PPC, Portland Slag Cement (PSC) etc.

M.cap (₹mn)	₹68,227
52 Week H/L (₹)	930.0/ 372.5
NSE Code	BIRLACORPN
BSE Code	500335

Geographic Revenue Mix**Investment Argument**

- **Capacity Expansion coupled with pan India diversification to augur well** – Sales Volumes grew at a CAGR of ~13% compared to industry growth of ~6% over FY15-20. Company currently operates at ~88% capacity utilization limiting sales volume growth, the ramping up of the greater capacity to enable volume growth. Company's ongoing expansion at Mukutban (3.9m tons), Kundanganj (1.2m tons) and proposed Durgapur GU expansion (0.24m tons) to increase capacity to 20.8 MMTPA by FY23E, would lead to volume growth and gain market share going ahead. The expansion will diversify its capacity mix and allow it to make further inroads in the western region.

	FY15	FY16	FY17	FY18	FY19	FY20
Installed Capacity (MTPA)	9.3	9.8	15.5	15.5	15.5	15.5
Capacity Utilization (%)	82%	83%	65%	80%	88%	88%

Source: Company, Way2Wealth Research

- **Premiumization along with better product mix to improve margin profile** – Operating margins for the company improved from 9.4% to ~19% over 5 years led by better industry pricing, higher blended cement sales, increase in premium segment sales and focus on manufacturing and freight cost reduction. Company's thrust on increasing share of blended/premium brands has resulted in blended cement crossing 90% and premium brands ~40% of sales mix (compared to 20% 3 years back), we believe its increasing share would better operating margins going ahead.

	FY15	FY16	FY17	FY18	FY19	FY20
EBITDA (₹mn)	3015	2855	6235	8066	9487	13360
EBITDA Margins (%)	9.4%	8.7%	14.3%	14.1%	14.5%	19.3%

Source: Company, Way2Wealth Research

Financials

(₹ mn)

	FY18	FY19	FY20
Net Sales	57342	65487	69157
EBITDA	8066	9487	13360
EBITA Margins%	14.1%	14.5%	19.3%
PAT	1540	2557	5053
PATM%	2.9%	3.9%	7.3%
EPS (₹)	21.60	33.21	65.62
ROE (%)	3.6%	5.7%	10.5%
ROCE (%)	3.1%	3.9%	5.9%
P/E	43.5	26.2	13.2
EV/EBITDA	12.9	10.8	7.6

Source: Company, Way2Wealth Research

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- **Cost optimization efforts to aid profitability** – In Q2FY21, company's cost optimization efforts enabled to report its highest EBITDA/ton of ₹1,174. The company was successful in maintaining EBITDA/ton above ~1000 despite higher expenses in Q3FY21. We believe company's cost rationalization efforts such as scaling up coal production from its Sial Ghogri captive coal mine; installation of the 11MW WHRS at Maihar and of solar power plants with 12MW generation capacity at Maihar, Satna and Chanderia; the construction of the railway siding at Kundanganj, UP, etc would boost profitability going ahead.

	FY16	FY17	FY18	FY19	FY20
EBITDA (₹/tonne)	278	610	651	698	984

Source: Company, Way2Wealth Research

- **Focus on debt reduction to gradually strengthen balance sheet** – Company's debt reduced from ₹41730mn in Mar'20 to ₹4090mn in Dec'20, despite spending ₹8000mn on the factory at Mukutban over same period. Following greater profitability, return ratios improved in FY20: RoE rose to 10.9% (5.8% a year back) and the RoCE to 9.7% (6.3% in FY19). 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.
- **Key Risks**
 - Any delay or issue in execution of capacity expansion or sharp downturn in economic activity (cement industry correlated to GDP growth) to impact company's performance.
 - Any sharp fluctuation in input prices such as coal, pet coke, limestone to drag margins and negatively impact company's performance.
 - Delay or verdict in favour of Lodha's can impact the stock performance.

Peer Comparison

Company	CMP (as on 18-2-2021)	Mcap (₹ cr)	Capacity (MTPA)	OPM %	NPM %	RoE%	RoCE%	D/E(x)	EV/ton (\$)	EV/EBI TDA	EBIDTA (₹/T)
Birla Corp	888	5459	15.6	19	7	11	11	0.8	80.0	7.7	984
JK Lakshmi Cement	381	4396	13.3	17	6	15	17	0.7	50.0	8.4	732
Heidelberg Cement	231	5265	6.26	24	12	22	28	0.2	115.0	9.6	1122

Source: Company, Way2Wealth Research

Company	Sales 5yr CAGR	Sales 3yr CAGR	EBITDA 5yr CAGR	EBITDA 3yr CAGR	PAT 5yr CAGR	PAT 3yr CAGR
Birla Corp	16.6%	16.7%	34.7%	28.9%	23.6%	32.0%
JK Lakshmi Cement	6.1%	8.7%	10.4%	28.5%	35.0%	54.0%
Heidelberg Cement	14.3%	11.2%	17.4%	22.5%	20.4%	42.0%

Source: Company, Way2Wealth Research

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View

Lockdown restriction led by Covid-19 pandemic situation coupled with subdued demand in its key markets impacted company's performance Q-o-Q basis however company managed to maintain its EBITDA/ton above ~900/MT in Q3FY21 on the back of higher fixed cost absorption and steady realizations. We remain optimistic on growth prospects of the company driven by demand recovery in its markets, capacity expansion, cost optimization plans, increasing penetration of premium cement sales and blended sales etc. **At CMP of ₹869 Birla Corporation Ltd is trading at ~7.5x FY20 EV/EBITDA, which is at discount to its peers, thus we recommend investors to Accumulate the stock on Dips.**

Financials

Particulars	₹ mn				
	Q3FY21	Q2FY21	Q3FY20	Y-o-Y	Q-o-Q
Net Sales	17,766	16,543	17,151	3.6%	7.4%
Total Expenses	14,469	12,716	14,205	1.9%	13.8%
EBITDA	3,297	3,827	2,946	11.9%	-13.8%
EBITDA Margin	18.6%	23.1%	17.2%	138bps	-457bps
Depreciation	908	918	884	2.7%	-1.1%
EBIT	2,390	2,909	2,063	15.9%	-17.8%
EBIT Margin	13.5%	17.6%	12.0%	143bps	-413bps
Interest	730	760	977	-25.4%	-4.0%
Other income	462	212	203	127.1%	118.3%
PBT	2,122	2,361	1,289	64.7%	-10.1%
Tax	638	694	474	34.7%	-8.1%
PAT	1,484	1,666	815	82.1%	-10.9%
PAT Margin	8.4%	10.1%	4.8%	360bps	-172bps
EPS (₹)	19.28	21.64	10.58	82.1%	-10.9%

Source: Company Filing

Particulars	Q3FY21	Q2FY21	Q1FY21	Q4FY20	Q3FY20	Q2FY20	Q1FY20	Q4FY19	Q3FY19
Cement Sales Volume (mn tons)	3.55	3.26	2.40	3.30	3.44	3.20	3.64	3.8	3.28
RMC (₹/ ton)	652	507	883	581	870	555	689	704	897
Employee Cost (₹/ton)	289	309	367	296	304	328	277	273	286
Power & Fuel (₹/ton)	940	973	869	1,003	916	1102	1049	1092	1041
Freight & Forwarding (₹/ton)	1,159	1,127	1,073	1,219	1,149	1197	1221	1215	1166
Other Expenditure (₹/ton)	1,036	984	929	978	890	927	883	845	799
Total Cost (₹/ton)	4,076	3,900	4,120	4,077	4,129	4109	4119	4118	4218
Realization (₹/ton)	5,005	5,074	5,092	5,121	4,986	5084	5175	4815	4865
EBITDA (₹/ton)	929	1,174	971	1,044	856	975	1057	698	647

Source: Company Filing

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Disclosure of Interest Statement Birla Corporation India Ltd. as on February 20th, 2020

Name of the Security	Birla Corporation India Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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