

# Birla Corporation

BSE SENSEX	S&P CNX
40,248	11,917
Bloomberg	BCORP IN
Equity Shares (m)	77
M.Cap.(INRb)/(USDb)	48.1 / 0.7
52-Week Range (INR)	686 / 440
1, 6, 12 Rel. Per (%)	10/7/-12
12M Avg Val (INR M)	44
Free float (%)	37.1

## Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	65.5	71.6	77.5
EBITDA	9.5	13.9	15.0
PAT	2.6	4.5	5.2
EPS (INR)	33.2	58.2	68.0
Gr. (%)	53.6	75.2	16.9
BV/Sh (INR)	584	630	687
RoE (%)	5.8	9.6	10.3
RoCE (%)	6.2	7.7	8.0
P/E (x)	18.8	10.7	9.2
P/BV (x)	1.1	1.0	0.9
EV/EBITDA (x)	7.8	5.4	4.9
EV/Ton (x)	68	69	63

Estimate change



TP change



Rating change



CMP: INR625

TP: INR815 (+30%)

Buy

## Beat led by lower-than-estimated costs

- **Margin improvement driven by realizations:** Consol. volumes increased 4% YoY to 3.2mt (our estimate: 3.13mt). Cement realizations were up 6% YoY to INR4,810/t (in-line). Net sales grew 11% YoY to INR16.3b (our estimate: INR15.8b). Total cost/t was down 1% YoY to INR4,109 versus our estimate of INR4,204. Thus, EBITDA/t increased 61% YoY to INR975. Accordingly, EBITDA grew 68% YoY to INR3.1b (our estimate: INR2.6b). PAT grew 5x YoY to INR883m (our estimate: INR614m).
- **1HFY20 performance:** Sales/EBITDA/PAT increased 13%/ 61%/2.3x YoY. Operating cash flows post working capital and taxes declined 5% YoY to INR4.1b, led by an increase in working capital due to higher receivables (+2 days) and lower payables (-3 days). We expect sales/EBITDA/PAT to increase by 6%/34%/41% YoY in 2HFY20.
- **Key highlights:** (1) Premium cement accounted for 41 % of sales through the trade channel, as against 37% in the same period last year. (2) The share of blended cement in total sales scaled up to 93% from 87% in the quarter. (3) BCORP is engaging with a global consultancy to streamline systems and processes for both inbound and outbound logistics.
- **Valuation view:** We raise our (a) EBITDA estimate by 12% for FY20 and by 5% for FY21 to factor in lower costs and (b) PAT estimate by 20% for FY20 and by 5% for FY21. Ongoing capex plans will also keep debt at elevated levels over the medium term. We value BCORP at 6.5x FY21E EV/EBITDA to arrive at a TP of ~INR815 (implied EV/tonne of USD80 on FY21E capacity). Maintain **Buy**.

## Consolidated Perf.

(INR M)

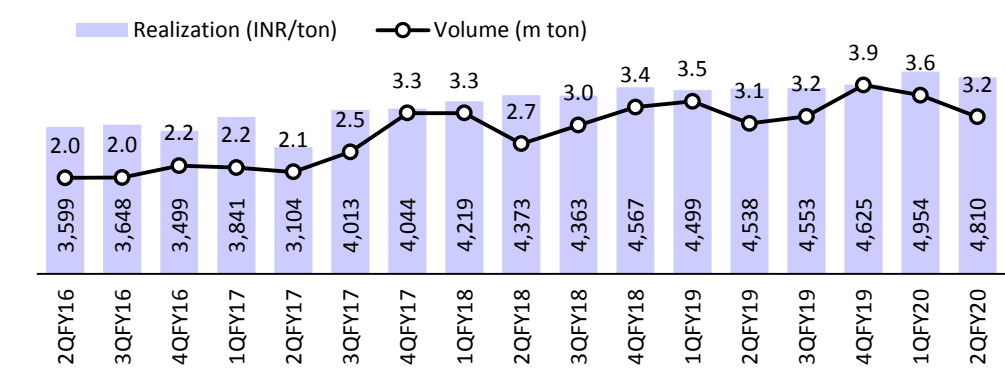
Y/E March	FY19				FY20				FY19	FY20E	FY20	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Cement Sales (m ton)	3.52	3.07	3.21	3.85	3.64	3.20	3.37	3.99	13.65	14.20	3.13	2
YoY Change (%)	7.3	15.7	5.9	13.2	3.5	4.3	5.0	3.5	10.1	4.0	2.0	
Cement Realization	4,499	4,538	4,553	4,625	4,954	4,810	4,710	4,708	4,554	4,794	4,804	0
YoY Change (%)	-7.4	3.8	4.3	1.3	10.1	6.0	3.4	1.8	0.3	5.3	5.9	
QoQ Change (%)	-1.5	0.9	0.3	1.6	7.1	-2.9	-2.1	0.0			-3.0	
<b>Net Sales</b>	<b>16,545</b>	<b>14,646</b>	<b>15,569</b>	<b>18,728</b>	<b>18,838</b>	<b>16,269</b>	<b>16,794</b>	<b>19,706</b>	<b>65,487</b>	<b>71,607</b>	<b>15,796</b>	<b>3</b>
YoY Change (%)	13.4	18.5	12.1	13.4	13.9	11.1	7.9	5.2	14.2	9.3	7.9	
Total Expenditure	14,081	12,790	13,498	15,632	14,992	13,148	13,646	15,925	56,001	57,710	13,157	0
<b>EBITDA</b>	<b>2,464</b>	<b>1,856</b>	<b>2,071</b>	<b>3,095</b>	<b>3,847</b>	<b>3,121</b>	<b>3,148</b>	<b>3,781</b>	<b>9,486</b>	<b>13,896</b>	<b>2,639</b>	<b>18</b>
Margins (%)	14.9	12.7	13.3	16.5	20.4	19.2	18.7	19.2	14.5	19.4	16.7	
Depreciation	857	870	836	829	862	879	866	860	3,391	3,468	866	
Interest	952	935	922	896	960	1,030	1,050	1,089	3,705	4,129	984	
Other Income	232	203	106	244	169	199	170	163	785	700	170	
<b>Profit before Tax</b>	<b>887</b>	<b>253</b>	<b>419</b>	<b>1,615</b>	<b>2,192</b>	<b>1,411</b>	<b>1,402</b>	<b>1,994</b>	<b>3,174</b>	<b>7,000</b>	<b>959</b>	<b>47</b>
EO Income/(Expense)	0	0	0	0	0	0	0	0	0	0	0	
<b>Profit before Tax after EO</b>	<b>887</b>	<b>253</b>	<b>419</b>	<b>1,615</b>	<b>2,192</b>	<b>1,411</b>	<b>1,402</b>	<b>1,994</b>	<b>3,174</b>	<b>7,000</b>	<b>959</b>	<b>47</b>
Tax	49	91	146	333	786	527	505	702	617	2,520	345	
Rate (%)	5.5	35.7	34.7	20.6	35.9	37.4	36.0	35.2	19.4	36.0	36.0	
<b>Reported PAT</b>	<b>838</b>	<b>163</b>	<b>274</b>	<b>1,282</b>	<b>1,406</b>	<b>883</b>	<b>898</b>	<b>1,293</b>	<b>2,557</b>	<b>4,480</b>	<b>614</b>	<b>44</b>
<b>Adj. PAT</b>	<b>838</b>	<b>163</b>	<b>274</b>	<b>1,282</b>	<b>1,406</b>	<b>883</b>	<b>898</b>	<b>1,293</b>	<b>2,557</b>	<b>4,480</b>	<b>614</b>	<b>44</b>
YoY Change (%)	50.5	1,015.8	-225.3	-2.2	67.7	442.3	228.1	0.8	53.6	75.2	276.7	

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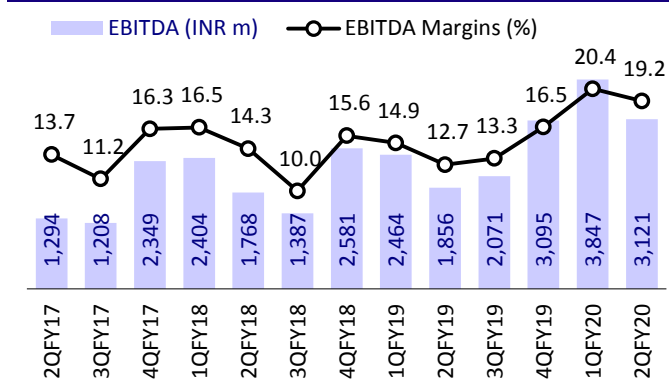
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

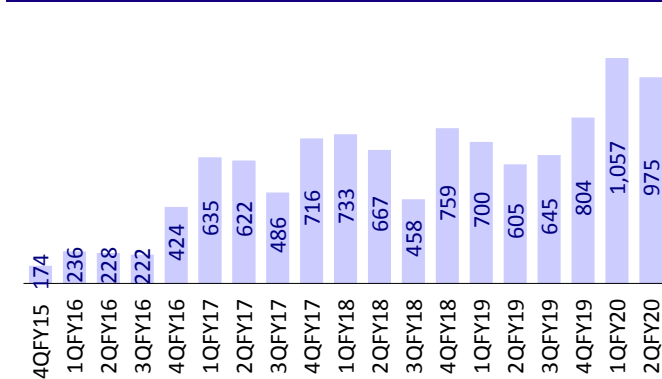
Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Exhibit 1: Sequential decrease in realizations, volumes up 4% YoY**

Source: Company, MOFSL

**Exhibit 2: OPM contracted due to lower realization growth**

Source: Company, MOFSL

**Exhibit 3: Trend in blended EBITDA/t INR/ton)**

Source: Company, MOFSL

**Exhibit 4: Per ton analysis (incl. Jute)**

INR/Ton	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)
<b>Net realization</b>	<b>5,084</b>	<b>4,774</b>	<b>6%</b>	<b>5,175</b>	<b>-2%</b>
RM Cost	555	553	0%	689	-19%
Employee Expenses	328	297	10%	277	18%
Power, Oil & Fuel	1,102	1,203	-8%	1,049	5%
Freight and Handling Outward	1,197	1,160	3%	1,221	-2%
Other Expenses	927	956	-3%	883	5%
<b>Total Expenses</b>	<b>4109</b>	<b>4169</b>	<b>-1%</b>	<b>4119</b>	<b>0%</b>
<b>EBITDA</b>	<b>975</b>	<b>605</b>	<b>61%</b>	<b>1,057</b>	<b>-8%</b>

Source: MOFSL, Company

**Key highlights from management interaction**

- Premium cement accounted for 41 % of sales through the trade channel, as against 37% in the same period last year.
- The share of blended cement in total sales scaled up to 93% from 87% in 2QFY19.
- Sales of the company's flagship brand Perfect Plus (premium brand) in Bihar surged 26% YoY. All brands combined, sales in Bihar jumped 20% in the quarter. Perfect Plus launched in the northern markets earlier this year has been well received. Around 13% of the trade segment output of the company's Chanderia unit comprises premium products. The product mix has substantially boosted the unit's profitability.

- The results of test marketing of wall putty and other value-added construction chemicals under the Perfect Plus brand have been encouraging and the company is in the process of expanding into markets in central and northern India.
- BCORP is engaging with a global consultancy, which specializes in logistics, to streamline systems and processes for both inbound and outbound logistics.
- In 2QFY20, the company commissioned Waste Heat Recovery System (WHRS) at its Maihar unit with capacity to produce up to 11 MW of power when ramped up to peak capacity. Also, during the quarter, the company's railway siding facility at its Kundanganj unit became operational. Savings from both these projects are expected to kick in fully in the second half of the current fiscal.
- The company is setting up solar power units in three of its plants at Chanderia, Satna and Maihar. The one in Satna with capacity of 3 MW has already been commissioned; others are expected to become operational in 2HFY20. Together, they will generate close to 12MW of power.

### Valuation view

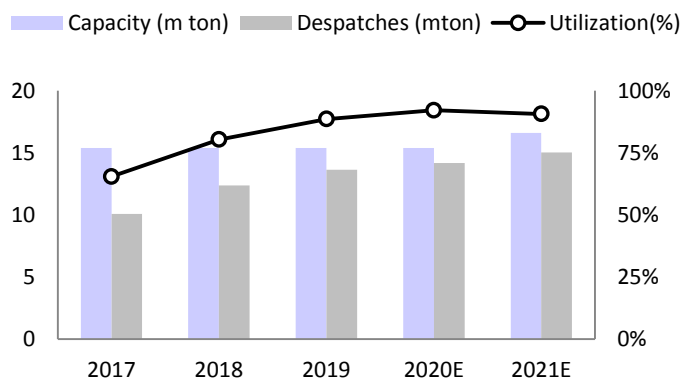
We raise our (a) EBITDA estimate by 12% for FY20 and by 5% for FY21 to factor in lower costs and (b) PAT estimate by 20% for FY20 and by 5% for FY21. Ongoing capex plans will also keep debt at elevated levels over the medium term. We value BCORP at 6.5x FY21E EV/EBITDA to arrive at a TP of ~INR815 (implied EV/tonne of USD80 on FY21E capacity). Maintain **Buy**.

### Exhibit 5: Revision in estimates

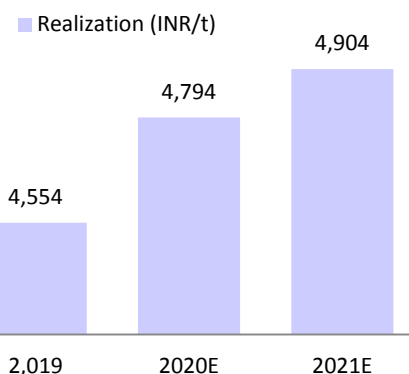
(INR M)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	71,607	70,195	2.0	77,519	76,414	1.4
EBITDA	13,896	12,425	11.8	15,017	14,375	4.5
Net Profit	4,480	3,733	20.0	5,237	4,986	5.0
EPS (INR)	58.2	48.5	20.0	68.0	64.7	5.0

Source: MOFSL, Company

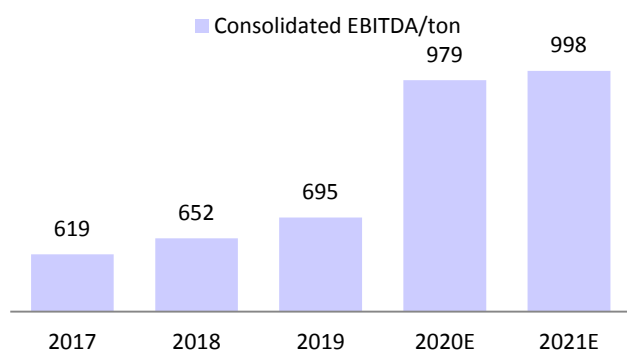
## Story in charts

**Exhibit 6: New capacity in FY21 to drive volume growth**


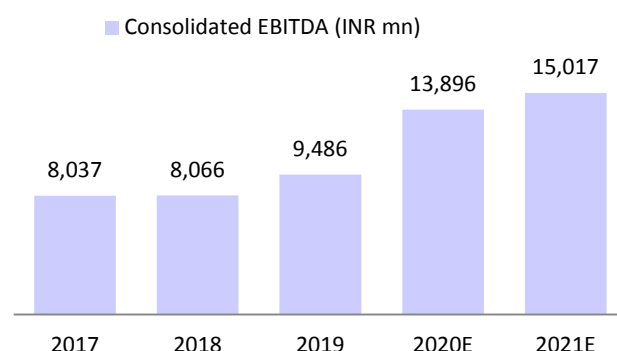
Source: Company, MOFSL

**Exhibit 7: Consolidated realizations**


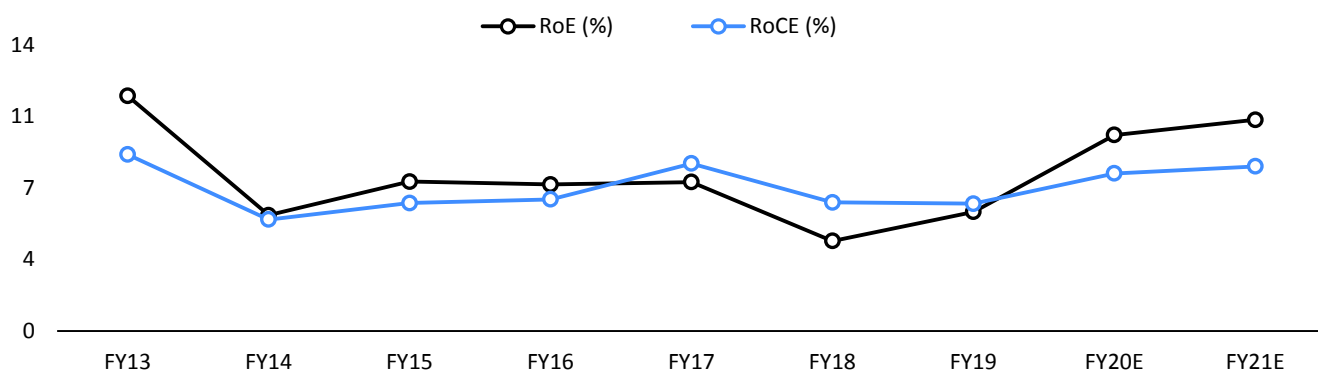
Source: Company, MOFSL

**Exhibit 8: Consolidated EBITDA/t (Reliance deal effective from Aug 2016) (INR/t)**


Source: Company, MOFSL

**Exhibit 9: Consolidated EBITDA (Reliance deal effective from Aug 2016)**


Source: Company, MOFSL

**Exhibit 10: ROE/ROCE profile**


Source: MOFSL, Company

## Financials and Valuations

### Income Statement (Consolidated)

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>30,164</b>	<b>32,099</b>	<b>32,682</b>	<b>43,477</b>	<b>57,342</b>	<b>65,487</b>	<b>71,607</b>	<b>77,519</b>
Change (%)	17.7	6.4	1.8	33.0	31.9	14.2	9.3	8.3
Total Expenditure	27,596	29,084	29,823	37,241	49,275	56,001	57,710	62,502
<b>EBITDA</b>	<b>2,568</b>	<b>3,015</b>	<b>2,859</b>	<b>6,235</b>	<b>8,066</b>	<b>9,486</b>	<b>13,896</b>	<b>15,017</b>
Margin (%)	8.5	9.4	8.7	14.3	14.1	14.5	19.4	19.4
Depreciation	1,330	1,538	1,485	2,555	3,322	3,391	3,468	3,574
<b>EBIT</b>	<b>1,238</b>	<b>1,478</b>	<b>1,374</b>	<b>3,680</b>	<b>4,745</b>	<b>6,095</b>	<b>10,429</b>	<b>11,444</b>
Int. and Finance Charges	856	784	823	2,768	3,776	3,705	4,129	4,158
Other Income - Rec.	1,252	1,561	1,772	1,459	755	785	700	897
<b>PBT after EO</b>	<b>1,525</b>	<b>2,126</b>	<b>2,009</b>	<b>2,303</b>	<b>1,598</b>	<b>3,174</b>	<b>7,000</b>	<b>8,182</b>
Change (%)	-56.5	39.5	-5.5	14.6	-30.6	98.6	120.5	16.9
Tax	226	374	335	108	59	617	2,520	2,946
Tax Rate (%)	14.8	17.6	16.7	4.7	3.7	19.4	36.0	36.0
<b>Reported PAT</b>	<b>1,298</b>	<b>1,752</b>	<b>1,674</b>	<b>2,195</b>	<b>1,540</b>	<b>2,557</b>	<b>4,480</b>	<b>5,237</b>
Extra Ordinary Expenses	109	128	315	68	124.8	0.0	0.0	0.0
<b>PAT Adj for EO Items</b>	<b>1,408</b>	<b>1,881</b>	<b>1,989</b>	<b>2,263</b>	<b>1,664</b>	<b>2,557</b>	<b>4,480</b>	<b>5,237</b>
Change (%)	-47.8	33.6	5.7	13.8	-26.4	53.6	75.2	16.9
Margin (%)	4.7	5.9	6.1	5.2	2.9	3.9	6.3	6.8

### Balance Sheet

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
Equity Share Capital	770	770	770	770	770	770	770	770
Reserves	24,491	25,471	28,483	32,092	42,028	44,182	47,767	52,109
<b>Net Worth</b>	<b>25,261</b>	<b>26,241</b>	<b>29,253</b>	<b>32,862</b>	<b>42,798</b>	<b>44,952</b>	<b>48,537</b>	<b>52,879</b>
Loans	11,302	12,426	9,324	40,705	38,951	36,484	39,984	39,984
Deferred Liabilities	2,342	2,429	1,830	5,645	7,452	7,422	7,422	7,422
<b>Capital Employed</b>	<b>38,905</b>	<b>41,097</b>	<b>40,407</b>	<b>79,212</b>	<b>89,201</b>	<b>88,859</b>	<b>95,944</b>	<b>1,00,285</b>
Gross Block	29,870	31,295	21,824	67,689	81,071	83,415	84,915	89,415
Less: Accum. Deprn.	10,805	12,342	1,485	4,042	7,361	10,752	14,220	17,794
<b>Net Fixed Assets</b>	<b>18,614</b>	<b>18,953</b>	<b>20,339</b>	<b>63,647</b>	<b>73,710</b>	<b>72,662</b>	<b>70,695</b>	<b>71,621</b>
Capital WIP	1,000	1,500	634	8,034	7,599	9,119	17,919	21,294
Investments	13,340	13,179	16,900	5,644	6,723	8,769	8,769	8,769
<b>Curr. Assets</b>	<b>15,266</b>	<b>16,281</b>	<b>14,421</b>	<b>19,653</b>	<b>22,717</b>	<b>22,765</b>	<b>26,240</b>	<b>28,547</b>
Inventory	5,151	5,521	5,674	6,302	6,870	7,830	8,562	9,269
Account Receivables	747	881	942	1,325	1,914	2,622	2,867	3,104
Cash and Bank Balance	5,011	4,668	3,634	3,125	2,198	1,390	3,886	5,247
Others	4,357	5,211	4,171	8,901	11,735	10,924	10,925	10,926
<b>Curr. Liability &amp; Prov.</b>	<b>9,315</b>	<b>8,816</b>	<b>11,886</b>	<b>17,766</b>	<b>21,548</b>	<b>24,457</b>	<b>27,679</b>	<b>29,945</b>
Account Payables	8,357	7,767	11,451	17,215	21,056	23,919	26,154	28,313
Provisions	958	1,049	435	551	492	538	1,525	1,631
<b>Net Current Assets</b>	<b>5,951</b>	<b>7,465</b>	<b>2,535</b>	<b>1,887</b>	<b>1,169</b>	<b>-1,692</b>	<b>-1,439</b>	<b>-1,398</b>
<b>Appl. of Funds</b>	<b>38,905</b>	<b>41,097</b>	<b>40,408</b>	<b>79,212</b>	<b>89,201</b>	<b>88,859</b>	<b>95,944</b>	<b>1,00,286</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>18.3</b>	<b>24.4</b>	<b>25.8</b>	<b>29.4</b>	<b>21.6</b>	<b>33.2</b>	<b>58.2</b>	<b>68.0</b>
Cash EPS	35.5	44.4	45.1	62.6	64.7	77.2	103.2	114.4
BV/Share	328.0	340.8	379.9	426.7	555.8	583.7	630.3	686.7
DPS	6.0	9.0	6.0	6.5	6.5	7.5	10.0	10.0
Payout (%)	55.5	46.0	32.1	26.5	37.8	26.2	20.0	17.1
<b>Valuation (x)</b>								
P/E						18.8	10.7	9.2
Cash P/E						8.1	6.1	5.5
P/BV						1.1	1.0	0.9
EV/Sales						1.0	0.8	0.7
EV/EBITDA						7.8	5.4	4.9
EV/Ton - Cap (USD)						68	69	63
Dividend Yield (%)						1.2	1.6	1.6
<b>Return Ratios (%)</b>								
RoE	5.7	7.3	7.2	7.3	4.4	5.8	9.6	10.3
RoCE	5.5	6.3	6.4	8.2	6.3	6.2	7.7	8.0
RoIC	5.2	5.9	5.6	8.6	6.8	6.9	9.9	11.2
<b>Working Capital Ratios</b>								
Inventory (Days)	62	63	63	53	44	44	44	44
Debtor (Days)	9	10	11	11	12	15	15	15
Wkg. Capital Turnover (Days)	0.8	0.8	0.8	0.5	0.6	0.7	0.7	0.8
<b>Leverage Ratio</b>								
Current ratio	1.6	1.8	1.2	1.1	1.1	0.9	0.9	1.0
Debt/Equity (x)	0.4	0.5	0.3	1.2	0.9	0.8	0.8	0.8

### Cash Flow Statement

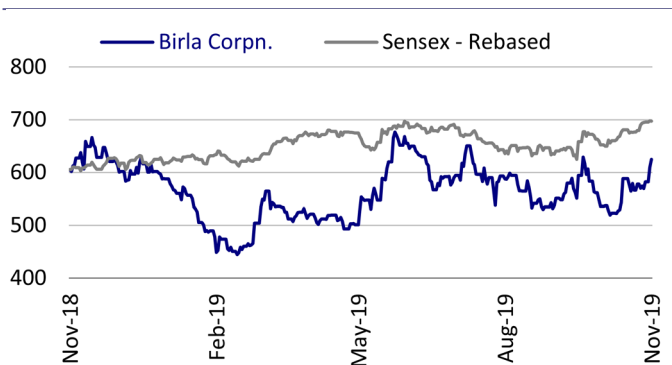
Y/E March	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>(INR M)</b>								
OP/(Loss) before Tax	1,524	2,127	2,010	2,303	1,598	3,174	7,000	8,182
Depreciation	1,331	1,538	1,488	2,555	3,322	3,391	3,468	3,574
Interest & Finance Charges	856	912	823	2,768	3,776	3,705	4,129	4,158
Direct Taxes Paid	-401	-460	-338	-505	-552	-469	-2,520	-2,946
(Inc)/Dec in WC	1,238	-92	158	1,066	481	1,309	2,243	1,321
<b>CF from Operations</b>	<b>4,549</b>	<b>4,025</b>	<b>4,139</b>	<b>8,187</b>	<b>8,625</b>	<b>11,111</b>	<b>14,320</b>	<b>14,290</b>
Others	-960	-1,207	-1,652	-1,414	-577	-470	0	0
<b>CF from Operating incl EO</b>	<b>3,588</b>	<b>2,818</b>	<b>2,487</b>	<b>6,773</b>	<b>8,049</b>	<b>10,641</b>	<b>14,320</b>	<b>14,290</b>
(Inc)/Dec in FA	-1,611	-2,136	-1,640	-2,041	-2,754	-4,030	-10,300	-7,875
<b>Free Cash Flow</b>	<b>1,977</b>	<b>682</b>	<b>848</b>	<b>4,732</b>	<b>5,295</b>	<b>6,611</b>	<b>4,020</b>	<b>6,415</b>
(Pur)/Sale of Investments	-246	929	-566	13,119	-541	-1,521	0	0
Others	594	696	704	-21,163	-129	-550	0	0
<b>CF from Investments</b>	<b>-1,264</b>	<b>-510</b>	<b>-1,502</b>	<b>-10,085</b>	<b>-3,423</b>	<b>-6,101</b>	<b>-10,300</b>	<b>-7,875</b>
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	1,239	-1,260	-616	6,102	-1,391	-1,297	3,500	0
Interest Paid	-933	-850	-847	-2,744	-3,558	-3,448	-4,129	-4,158
Dividend Paid	-346	-462	-462	-462	-501	-501	-895	-895
Others	-59	-79	-94	-94	-102	-103	0	0
<b>CF from Fin. Activity</b>	<b>-100</b>	<b>-2,651</b>	<b>-2,019</b>	<b>2,803</b>	<b>-5,552</b>	<b>-5,349</b>	<b>-1,524</b>	<b>-5,053</b>
<b>Inc/Dec of Cash</b>	<b>2,225</b>	<b>-343</b>	<b>-1,034</b>	<b>-509</b>	<b>-926</b>	<b>-808</b>	<b>2,496</b>	<b>1,361</b>
Opening Balance	2,786	5,011	4,668	3,634	3,125	2,198	1,390	3,886
<b>Closing Balance</b>	<b>5,011</b>	<b>4,668</b>	<b>3,634</b>	<b>3,125</b>	<b>2,198</b>	<b>1,390</b>	<b>3,886</b>	<b>5,247</b>

## Corporate profile

### Company description

Birla Corporation (BCORP), established in 1919, is part of the MP Birla group. It manufactures cement, jute products, synthetic viscose and cotton yarn. Cement constitutes about 95% of its revenue. It has cement plants in Rajasthan, Madhya Pradesh, Uttar Pradesh and West Bengal. The Company has acquired 100% shares of Reliance Cement Company Private Limited (Reliance Cement) taking its total capacity from 10 MTPA to 15.5 MTPA.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	62.9	62.9	62.9
DII	16.5	15.0	15.6
FII	2.6	2.5	2.0
Others	18.1	19.5	19.5

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Reliance Capital Trustee Company Limited (Shares Held in their various schemes)	7.9
Life Insurance Corporation of India	3.5
L and T Mutual Fund Trustee Ltd (Shares Held in their various schemes)	1.5

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Harsh V Lodha	Chairman
Dilip Ganesh Karnik	Director
Girish Sharma	Company Secretary
Pracheta Majumdar	Whole Time Director & CEO

Source: Capitaline

Exhibit 5: Directors

Name	Name
Anand Bordia	Shailaja Chandra
B B Tandon	Vikram Swarup
D N Ghosh	B R Nahar
Deepak Nayyar	

\*Independent

Exhibit 6: Auditors

Name	Type
Mamta Binani & Associates	Secretarial Audit
Shome & Banerjee	Cost Auditor
V Sankar Aiyar & Co	Statutory

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	58.2	46.7	24.7
FY21	68.0	51.5	32.0

Source: Bloomberg

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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