

August 10, 2021

Operating at healthy asset utilisation...

About the stock: Birla Corporation, the flagship company of the MP Birla Group, has 10 cement plants with total capacity of 15.6 MT. The company mainly operates in Central, North and East regions. Apart from cement, it also has a jute division.

- Cement is the largest contributor to revenue (over 90%) with the remaining coming from jute and other products
- It has mineral concessions in Madhya Pradesh, Maharashtra and Himachal Pradesh for further expansion. Its cement plants are relatively new and enjoy various tax incentives

Q1FY22 Results: Birla Corp reported better results with EBITDA margin expansion of 126 bps QoQ despite cost pressure and lower sales volumes due to lockdown.

- Revenues were down 18% to ₹ 1,749.1 crore led by sales volumes de-growth of 19.7% to 3.4 MT due to lockdown. YoY, revenues were up 5.7%
- EBITDA/t was up 9.1% QoQ to ₹ 1026/t (vs. last quarter (LQ) EBITDA/t of ₹ 940/t). EBITDA margin was at 19.6% vs. 18.4% LQ and 19.1% last year
- PAT of ₹ 141.6 crore was down 43% QoQ due to tax adjustments

What should investors do? Birla Corp's share price has grown 1.8x over the past three years (from ~₹ 769 in August 2018 to ₹ 1377 in August 2021).

- With a strong business outlook, we remain positive on the company and maintain our BUY rating

Target Price & valuation: We value Birla Corp at ₹ 1,650 i.e. 7.5x FY23E EV/EBITDA

Key triggers for future price performance:

- Operating at ~90% utilisation, it has a strong retail brand with premium product share of over 51% of sales by volumes through trade channels
- To reach close to 20 MT cement capacity by Q4FY22E post commissioning of 3.9 MT integrated cement capacity (2.6 MT clinker) at Mukutbandh, Maharashtra with total capex of ~₹ 2,744 crore
- Aims to reach 25 MT capacity by 2025
- Debt levels to peak-out in FY22E

Alternate Stock Idea: Apart from Birla Corp, in our cement sector coverage we also like south based player Sagar Cement.

- Another low cost producer, expanding footprint in east/central region
- BUY with a target price of ₹ 1700/share



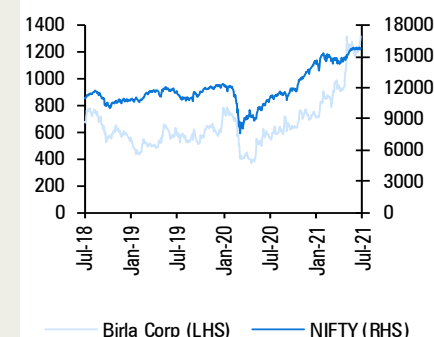
Particulars

Particulars	₹ crore
Market Capitalization	10366
Total Debt (FY21)	4485
Cash (FY21)	173.2
EV (₹ crore)	14677
52 week High/Low	₹ 1560/559
Equity Capital	77.0
Face Value (₹)	10

Shareholding pattern

	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Promoter	62.9	62.9	62.9	62.9
DII	15.2	13.6	13.8	13.8
FII	3.4	3.8	3.6	4.0
Public	18.6	19.7	19.7	19.4

Price Chart



Key risks

- Any delay in commissioning of new capacities
- Volatility in prices of key inputs like coal/petcoke

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	5730	6549	6916	6785	5.8	7478	9006	15.2
EBITDA	808	949	1336	1338	18.3	1715	2144	26.6
EBITDA (%)	14.1	14.5	19.3	19.7		22.9	23.8	
PAT	166	256	506	681	60.1	766	990	20.5
EPS (₹)	22	33	66	88		100	129	
EV/EBITDA	18.1	15.8	11.5	11.1		8.7	6.5	
EV/Tonne (\$)	136	138	141	136		137	97	
RoNW	3.7	5.9	11.1	12.4		13.3	15.1	
RoCE	6.4	7.8	11.4	10.8		12.8	15.1	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volumes were at 3.35 MT (down 19.7% QoQ) while blended realisations were up 2.1% QoQ to ₹ 5,221/tonne, up 2.9% YoY
- Cost of production remained flat QoQ at ₹ 4,195/t despite a sharp increase in power & fuel cost (up 31.8% QoQ) and other expenses (up 13.7% QoQ)
- Realisations were up 2.1% QoQ, helping EBITDA/t to increase 9.1% QoQ to ₹ 1,026/t

Exhibit 1: Quarterly financial summary

Particulars	Q1FY21	Q1FY21	Q1FY21	Q1FY21	Q1FY21	YoY (%)	QoQ (%)
Operating Income	1222.0	1654.2	1776.6	2132.6	1749.1	5.7	-18.0
EBITDA	233.1	382.66	329.7	392.1	343.7	-10.2	-12.3
EBITDA margins (%)	19.1	23.1	18.6	18.4	19.6		
PAT	65.8	166.6	148.4	249.4	141.6	-15.0	-43.2

Per Tonne data	Q1FY21	Q1FY21	Q1FY21	Q1FY21	Q1FY21	YoY (%)	QoQ (%)
Volumes	2.4	3.3	3.6	4.2	3.4	2.8	-19.7
CU (%)	62.4	84.0	91.5	107.4	86.3		
Capacity (In MT)	15.5	15.5	15.5	15.5	15.5	0.0	0.0

Realizations	5049	5074	5005	5114	5221	2.9	2.1
Growth YoY (%)	-2.2	-0.2	0.1	1.4	3.4		
Expenses:							
Cost of raw materials	875	507	652	908	477	-5.8	-47.4
Employee benefits	364	309	289	255	324	4.7	27.1
P&F costs	862	973	940	844	1113	14.4	31.8
Freight costs	1064	1127	1159	1254	1242	10.2	-0.9
other expenses	921	984	1035	913	1039	5.6	13.7
Total per tonne	4086	3900	4076	4174	4195	7.6	0.5
EBITDA/t	963	1174	929	940	1026	-12.6	9.1

Source: Company, ICICI Direct Research

Other highlights

- The company managed to scale up sales of its premium products to a record high to claim a 51% share of sales by volume through the trade channel in the June quarter. This was the key to shoring up realisation
- The share of green power (derived from waste heat recovery system and solar power) in total power consumption increased to 22% for the June quarter from 20% for the full financial year ended March 2021
- The ongoing expansion at Mukutbandh, Maharashtra is likely to get completed in the Q4FY22E vs. Q2FY22 targeted earlier due to ongoing second wave of Covid
- The project cost of Mukutbandh has also been revised from ₹ 2,450 crore to ₹ 2,744 crore on account of revision in project commencement schedule necessitated due to pandemic, augmentation of infrastructure and other factors including commodity prices
- Post commissioning of Mukutbandh project (likely in FY22E), the company will embark on the next phase of growth to enhance its capacity to 25 MT

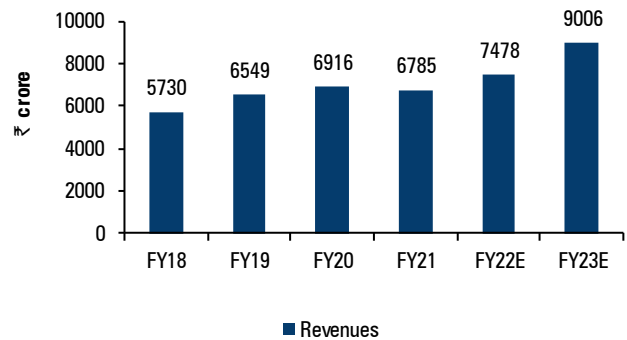
Story in Charts

Exhibit 2: Capacity details

Capacity details	In MT
Existing capacity as on FY21	15.6
Standalone	10.0
Subsidiary (100%)	5.6
Additions	
Mukutbandh, Maharashtra	3.9
Total Capacity (FY22E)	19.5
Kundanganj UP	1.2
Total Capacity (FY23E)	20.7
Target Capacity (FY26E)	25.0

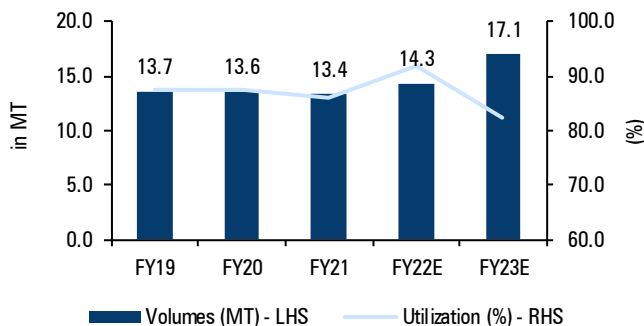
Source: Company, ICICI Direct Research

Exhibit 3: Expect revenue CAGR of 15.2% during FY21-23E led by capacity expansion



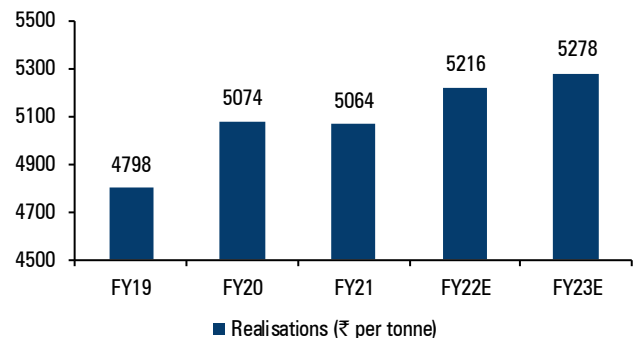
Source: Company, ICICI Direct Research

Exhibit 4: Volumes to pick-up post commissioning of new capacity in FY23E



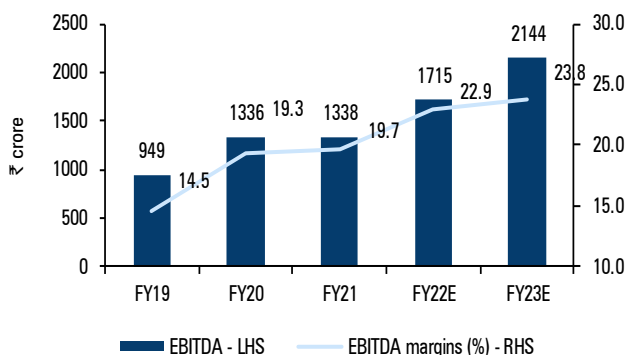
Source: Company, ICICI Direct Research

Exhibit 5: Higher share of premium segment to keep realisation healthy vs peer companies



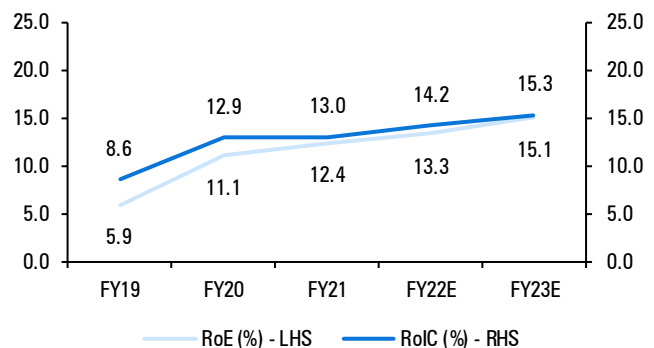
Source: Company, ICICI Direct Research

Exhibit 6: Margins to stay firm



Source: Company, ICICI Direct Research

Exhibit 7: Commissioning of new capacities to boost return ratios



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	6916	6785	7478	9006
Growth (%)	5.6%	-1.9%	10.2%	20.4%
Raw Material Expenses	919	987	975	1160
Employee Expenses	408	398	430	464
Other Exp	4253	4063	4359	5238
Total Operating Expenditure	5580	5448	5763	6862
EBITDA	1336	1338	1715	2144
Growth (%)	40.8	0.1	28.2	25.0
Depreciation	351	371	482	605
Interest	388	296	282	286
Other Income	85	100	85	85
PBT	682	770	1036	1338
Others	0	58	0	0
Total Tax	176	82	269	348
Reported PAT	506	630	766	990
Adjusted PAT	506	681	766	990
Growth (%)	97.9%	34.7%	12.5%	29.2%
Adjusted EPS (₹)	65.7	88.5	99.5	128.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	77	77	77	77
Reserve and Surplus	4729	5409	6106	7027
Total Shareholders funds	4806	5486	6183	7104
Total Debt	4941	4485	4485	3685
Deferred Tax Liability	857	804	810	810
Minority Interest / Others	0	0	0	0
Total Liabilities	10604	10776	11478	11599
Assets				
Gross PPE	7726	8094	10724	10924
Less: Acc Depreciation	1351	1721	2203	2808
Net PPE	6375	6372	8520	8115
CWIP	1602	2103	250	150
Total Fixed Assets	7977	8475	8770	8265
Intangibles	954	952	960	965
Investments	1086	1003	1030	1200
Inventory	788	810	893	1075
Debtors	250	280	291	336
Loans and Advances	1	1	1	1
Other Current Assets	469	606	620	650
Cash	99	173	117	217
Total Current Assets	1607	1870	1921	2279
Creditors	523	589	561	601
Provisions & Others	1050	1461	1337	1205
Total Current Liabilities	1572	2050	1898	1806
Net Current Assets	34	-180	23	474
Others Assets	552	525	695	695
Application of Funds	10604	10776	11478	11599

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	506	630	766	990
Add: Depreciation	351	371	482	605
Add: Finance costs	388	296	282	286
(Inc)/dec in Current Assets	-204	-189	-108	-258
Inc/(dec) in CL and Def. tax	168	426	-147	-92
CF from operations	1209	1533	1276	1531
(Inc)/dec in Fixed Assets	-1105	-867	-785	-105
(Inc)/dec in Investments	-25	83	-27	-170
Others	98	27	-170	0
CF from Investments	-1032	-757	-982	-275
Issue/(Buy back) of Shares	0	0	0	0
Inc/(dec) in loan funds	365	-456	0	-800
Finance costs	-388	-296	-282	-286
Others	0	0	0	0
Changes in other equity	-195	50	-69	-69
CF from financing	-217	-702	-351	-1155
Net Cash flow	-40	74	-57	100
Opening Cash	139	99	173	117
Closing Cash	99	173	117	217

Source: Company, ICICI Direct Research

Exhibit 11: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	65.7	88.5	99.5	128.5
Cash EPS	111.3	130.0	162.1	207.1
BV	624.1	712.4	802.9	922.5
DPS	6.5	6.5	6.5	6.5
Cash Per Share	12.9	22.5	15.1	28.2
Operating Ratios (%)				
EBITDA Margin	19.3	19.7	22.9	23.8
EBIT Margin	14.2	14.2	16.5	17.1
PAT Margin	7.3	9.3	10.2	11.0
Inventory days	41.6	43.6	43.6	43.6
Debtor days	13.2	15.0	14.2	13.6
Creditor days	34.2	39.5	35.5	32.0
Return Ratios (%)				
RoE	11.1	12.4	13.3	15.1
RoCE	11.4	10.8	12.8	15.1
RoIC	12.9	13.0	14.2	15.3
Valuation Ratios (x)				
P/E	21.0	15.6	13.8	10.7
EV / EBITDA	11.6	11.2	8.7	6.6
EV / Net Sales	2.2	2.2	2.0	1.6
Market Cap / Sales	1.5	1.6	1.4	1.2
Price to Book Value	2.2	1.9	1.7	1.5
Solvency Ratios				
Debt/EBITDA	3.7	3.4	2.6	1.7
Debt / Equity	1.0	0.8	0.7	0.5
Current Ratio	1.0	0.9	1.0	1.3
Quick Ratio	0.5	0.5	0.5	0.7

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Cement)

Company	CMP		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
ACC*	2,429	BUY	73	85	125	17.6	16.5	10.5	167	139	134	17.4	14.5	20.6	11.9	12.6	16.0
Ambuja Cem*	425	BUY	7.7	9.0	0.0	23.6	21.0	0.0	235	247	0	12.2	17.6	0.0	14.7	20.3	0.0
UltraTech Cem	7,820	BUY	124	191	238	26.3	20.2	17.1	286	279	274	11.4	14.7	16.7	9.3	12.7	14.0
Shree Cement	29,600	BUY	435	641	706	26.4	24.2	21.5	286	265	261	13.8	18.2	18.5	12.1	15.2	14.6
Heidelberg Cem	265	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	3,270	HOLD	51.8	99.6	107.0	20.3	15.5	14.1	201	183	187	16.2	18.6	18.2	12.8	20.6	18.6
JK Lakshmi Cem	686	BUY	7.0	7.1	6.8	20.2	17.4	16.9	94	94	86	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	111	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	1,093	BUY	523.0	601.4	761.1	22.2	25.5	32.3	25	24	18	11.7	12.2	13.5	242.1	213.1	201.4
Sagar Cement	1,515	BUY	11.3	79.0	80.5	19.1	9.0	8.4	88	90	66	7.2	15.3	15.2	2.7	15.4	13.7

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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