

## Utilisation inching towards pre-Covid levels!

Birla Corporation reported a healthy Q4FY20 performance. While the topline declined YoY, its profitability improved. Revenues for the quarter declined 9.8% YoY to ₹ 1,690 crore driven by a decline in volumes. Sales volumes for the quarter were at 3.3 MT, down 13% YoY, thus ending the year on a flattish note at 13.6 MT. Realisations continued to improve, growing 4% YoY to ₹ 5,060/t as the company continued to focus on blended and premium cement. The company derived 81% of its sales from the trade channel and premium cement's share in trade sales improved from 37% in FY19 to 41% in FY20. Profitability saw an improvement QOQ as well as YoY, led by higher realisations. The company clocked EBITDA margins of 20.4%, 17.2%, 16.5% in Q4FY20, Q3FY20, Q4FY19, respectively. EBITDA/t increased 28% YoY to ₹ 1,032/t. On an absolute basis, EBITDA increased 11% YoY to ₹ 344.6 crore while PAT saw strong 52% growth YoY led by higher operating profits. Further, the board has also approved raising ₹ 300 crore via issue of NCDs and buyback of current outstanding NCDs subject to requisite approvals.

## Expect muted FY21E; new capacity to drive growth in FY22

While revenues during the first lockdown were almost nil, manufacturing activities were allowed to resume production in a phased manner from April 20. **All of Birla Corp's plants are currently up and running with all except Durgapur and Rae Bareli plants currently operating at 80-100% capacity utilisation.** As Birla Corp operated at ~90% capacity utilisation in the last two years, we believe the company would end FY21E with a 9% volume decline due to loss in business in April. The **company's Mukutban greenfield integrated plant is expected to be commissioned in June 2021.** Thus, led by improvement in demand and ramping up of its new capacity Birla Corp should report 21% volume growth to 14.9 MT in FY22E. Revenues over FY20-22E are expected to grow at 4.5% CAGR to ₹ 7,545 crore.

## Debt expected to peak in FY21E and decline gradually

Birla Corp's debt had risen with the acquisition of RCCPL assets. The company has also undertaken greenfield capacity expansion at an estimated cost of ~₹ 2500 crore in Maharashtra. This project would be funded by debt to the extent of 70-75%, leading to further addition in debt. The decision to keep the Kundanganj brownfield expansion on hold would help keep leverage from increasing further. We expect debt to peak in FY21 (refer Exhibit 3) and reduce gradually led by improved cashflows led by ramping up of capacity.

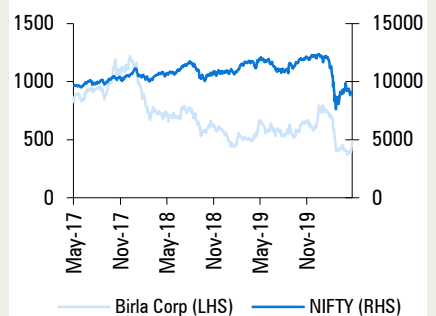
## Valuation & Outlook

While the ongoing expansion may increase the debt burden in the medium term, the company's healthy asset utilisations, healthy margin profile remain key positives, which will help the company to ride this medium term challenges. We upgrade the stock to **BUY** with a revised target price of ₹ 610/share (i.e. valuing at 7.0x FY22E EV/EBITDA, EV/t of \$72).



### Stock Data

Particulars	₹ crore
Market Capitalization	3758
Total Debt (FY20)	4941
Cash (FY20)	255.8
EV (₹ crore)	8443
52 week High/Low	₹ 807/372
Equity Capital	77.0
Face Value (₹)	10



### Key Highlights

- All except two plants operating at 80-100% capacity utilisation
- Company has not opted for moratorium. Approved raising funds via issuing NCD totalling ₹ 300 crore
- Mukutban plant expected to be commissioned in H1FY22E. Kundanganj plant capex placed on hold
- Upgrade from HOLD to BUY

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### Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	5730	6549	6916	6079	7545	4.5%
EBITDA	808	949	1336	1137	1450	4.2%
EBITDA (%)	14.1	14.5	19.3	18.7	19.2	
PAT	166	256	506	340	434	-7.3%
EPS (₹)	22	33	66	44	56	
EV/EBITDA	9.7	8.6	6.3	7.8	6.1	
EV/Tonne (\$)	73	75	77	82	65	
RoNW	3.7	5.9	11.1	7.0	8.4	
RoCE	6.4	7.8	11.4	8.2	9.7	

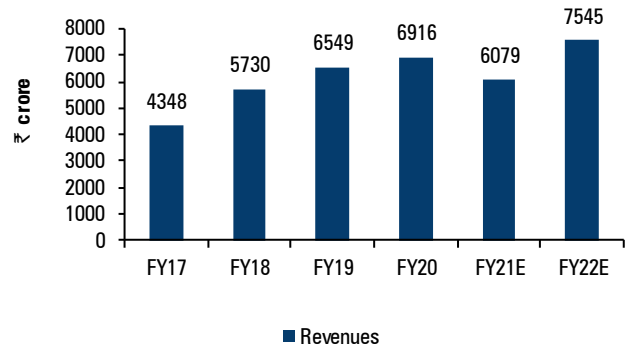
## Story in Charts

Exhibit 1: Capacity details

Capacity details	In MT
Existing capacity FY20	15.58
<b>Additions</b>	
Mukutban (Maharashtra)	3.9
<b>Total capacity (FY22E)</b>	<b>19.5</b>

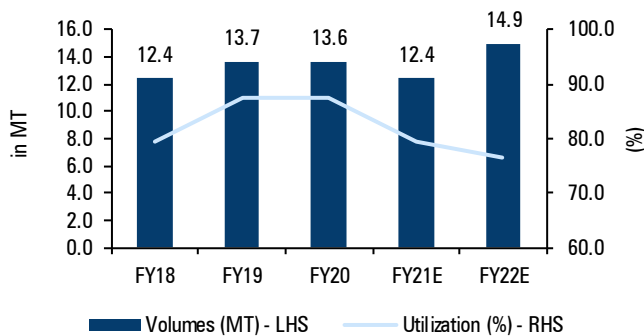
Source:

Exhibit 2: Expect revenue CAGR of 4.5% in FY20-22E despite ongoing challenges due to Covid



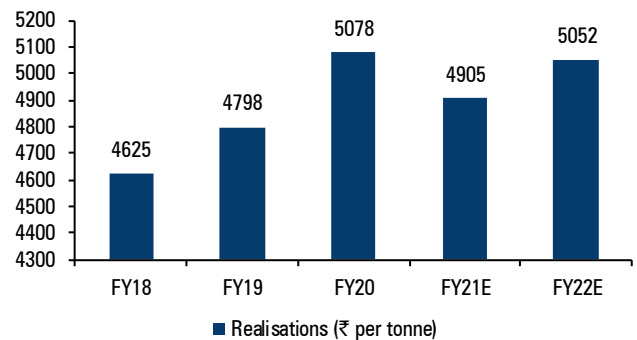
Source: Company, ICICI Direct Research

Exhibit 3: Volumes to pick-up post commissioning of new capacity in FY22E



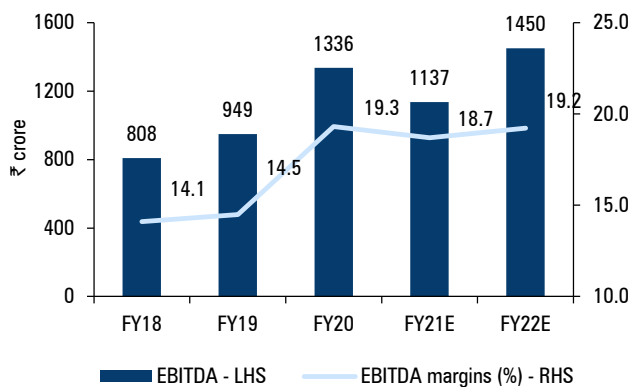
Source: Company, ICICI Direct Research

Exhibit 4: Higher share of premium segment to keep realisation healthy vs. peer companies



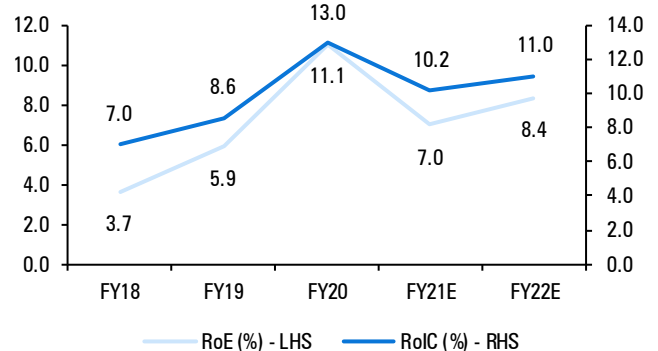
Source: Company, ICICI Direct Research

Exhibit 5: Margins to inch-up to over 19% in FY22E



Source: Company, ICICI Direct Research

Exhibit 6: New capacity addition to impact return ratios initially



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and Loss Account		₹ Crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Total operating Income</b>	<b>6549</b>	<b>6916</b>	<b>6079</b>	<b>7545</b>	
Growth (%)	14.3%	5.6%	-12.1%	24.1%	
Raw Material Expenses	942	919	818	1016	
Employee Expenses	371	408	375	405	
Other Exp	4288	4253	3749	4675	
Total Operating Expenditure	5600	5580	4943	6096	
<b>EBITDA</b>	<b>949</b>	<b>1336</b>	<b>1137</b>	<b>1450</b>	
Growth (%)	0	0	0	0	
Depreciation	339	351	391	504	
Interest	371	388	371	443	
Other Income	78	85	85	85	
<b>PBT</b>	<b>317</b>	<b>682</b>	<b>460</b>	<b>587</b>	
Others	0	0	0	0	
Total Tax	62	176	120	153	
<b>Reported PAT</b>	<b>256</b>	<b>506</b>	<b>340</b>	<b>434</b>	
<b>Adjusted PAT</b>	<b>256</b>	<b>506</b>	<b>340</b>	<b>434</b>	
Growth (%)	54.1%	97.9%	-32.8%	27.7%	
<b>Adjusted EPS (₹)</b>	<b>33.2</b>	<b>65.7</b>	<b>44.2</b>	<b>56.4</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E	
Profit after Tax	256	506	340	434	
Add: Depreciation	339	351	391	504	
Add: Finance costs	371	388	371	443	
(Inc)/dec in Current Assets	-95	-48	21	-247	
Inc/(dec) in CL and Def. tax	-231	168	-128	-24	
<b>CF from operating activi</b>	<b>639</b>	<b>1365</b>	<b>995</b>	<b>1111</b>	
(Inc)/dec in Fixed Assets	-386	-1104	-975	-528	
(Inc)/dec in Investments	-36	-25	126	-70	
Others	-159	98	-183	40	
<b>CF from investing activi</b>	<b>-582</b>	<b>-1031</b>	<b>-1031</b>	<b>-558</b>	
Issue/(Buy back) of Shares	0	0	0	0	
Inc/(dec) in loan funds	273	365	470	-70	
Finance costs	-371	-388	-371	-443	
Others	0	0	0	0	
Changes in other equity	-40	-195	-55	-69	
<b>CF from financing activi</b>	<b>-138</b>	<b>-217</b>	<b>43</b>	<b>-583</b>	
Net Cash flow	-81	117	7	-29	
Opening Cash	220	139	256	263	
<b>Closing Cash</b>	<b>139</b>	<b>256</b>	<b>263</b>	<b>233</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Liabilities</b>					
Equity Capital	77	77	77	77	
Reserve and Surplus	4418	4729	5014	5379	
Total Shareholders funds	4495	4806	5091	5456	
Total Debt	4576	4941	5411	5341	
Deferred Tax Liability	742	857	850	830	
Minority Interest / Others	0	0	0	0	
<b>Total Liabilities</b>	<b>9813</b>	<b>10604</b>	<b>11352</b>	<b>11627</b>	
<b>Assets</b>					
Gross PPE	7293	7726	7886	10516	
Less: Acc Depreciation	999	1351	1741	2246	
Net PPE	6293	6375	6144	8270	
CWIP	914	1602	2460	350	
<b>Total Fixed Assets</b>	<b>7207</b>	<b>7977</b>	<b>8604</b>	<b>8620</b>	
Intangibles	970	953	910	918	
Investments	1062	1086	960	1030	
Inventory	783	788	796	988	
Debtors	262	250	242	253	
Loans and Advances	1	1	1	1	
Other Current Assets	257	313	292	335	
Cash	139	256	263	233	
<b>Total Current Assets</b>	<b>1443</b>	<b>1608</b>	<b>1594</b>	<b>1811</b>	
Creditors	627	523	463	514	
Provisions & Others	891	1050	988	933	
Total Current Liabilities	1519	1572	1451	1447	
<b>Net Current Assets</b>	<b>-76</b>	<b>35</b>	<b>143</b>	<b>364</b>	
Others Assets	650	552	735	695	
<b>Application of Funds</b>	<b>9813</b>	<b>10604</b>	<b>11352</b>	<b>11627</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Ratio sheet					
(Year-end March)	FY19	FY20P	FY21E	FY22E	
<b>Per share data (₹)</b>					
Adjusted EPS	33.2	65.7	44.2	56.4	
Cash EPS	77.2	111.3	94.9	121.9	
BV	583.7	624.1	661.1	708.5	
DPS	6.5	6.5	6.5	6.5	
Cash Per Share	18.0	33.2	34.1	30.3	
<b>Operating Ratios (%)</b>					
EBITDA Margin	14.5	19.3	18.7	19.2	
EBIT Margin	9.3	14.2	12.3	12.5	
PAT Margin	3.9	7.3	5.6	5.8	
Inventory days	43.6	41.6	47.8	47.8	
Debtor days	14.6	13.2	14.5	12.3	
Creditor days	40.9	34.2	34.2	30.8	
<b>Return Ratios (%)</b>					
RoE	5.9	11.1	7.0	8.4	
RoCE	7.8	11.4	8.2	9.7	
RoIC	8.6	13.0	10.2	11.0	
<b>Valuation Ratios (x)</b>					
P/E	14.7	7.4	11.0	8.7	
EV / EBITDA	8.6	6.3	7.8	6.1	
EV / Net Sales	1.3	1.2	1.5	1.2	
Market Cap / Sales	0.6	0.5	0.6	0.5	
Price to Book Value	0.8	0.8	0.7	0.7	
<b>Solvency Ratios</b>					
Debt/EBITDA	4.8	3.7	4.8	3.7	
Debt / Equity	1.0	1.0	1.1	1.0	
Current Ratio	1.0	1.0	1.1	1.3	
Quick Ratio	0.4	0.5	0.5	0.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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