Capacity expansion, Focus on blended and premium segment to drive revenue growth

We are initiating coverage on Birla Corporation Limited (BCL) with a BUY recommendation and a Target Price of Rs 854, which implies 50% upside from the current levels. BCL is a dominant player in the cement industry in its key market of central India and has a sizeable presence in northern and eastern markets. While FY21 will be impacted adversely due to COVID-19 related lockdown as most of its plants were shut and resumed operations only by end of April, but now the plants are gradually ramping up the operations and normalcy will be restored in Q2FY21. We expect the company to register Revenue/Ebitda/APAT CAGR of 8%/14%/17% from FY20-FY23E driven by volume CAGR of 5.8% and consistent realisation improvement of 3% CAGR over FY20-23E. We value BCL at 6x FY22E EV/EBITDA to arrive at TP of Rs.854 as we see solid re-rating potential on the back of strong growth. Our key reasons are as follows:

Capacity expansion to drive higher sector revenue growth

BCL is expanding its cement production capacity from the current 15.38 mtpa to 19.68 mtpa .Company is expanding its capacity by setting up green field facility of 3.9 mtpa in Mukutban, Maharashtra and expanding it existing facility capacity by 0.4 mtpa at Chanderia, Rajasthan. Expansions and new capacities will get operational by Q1FY22 which will drive the volume and revenue growth for the company. With the expansion of capacity the company will also conoslidate its position in western India and will gain significant market share. We expect Volume CAGR of 5.8% over FY20-23E which is significantly higher than the industry growth of 4% CAGR over the same period.

Focus on sale of blended and premium cement

The sale of blended cement forms 90% of company sale and focus on increasing sale of premium cement (40% of sale in trade segment) will drive margin growth. To consolidate its position in selling premium segment category, the company has introduced several brands in its markets. We expect premium cement to contribute 45% of the company sales in trade segment by FY23E which will help in realization improvement. Aided by growth in premium cement and consistent price hikes, we expect realizations to improve by 3% CAGR over FY20-23 compared to 2% CAGR over the last 10 years.

Integrated operations with high capacity utilization and cost optimization

BCL's integrated operations and higher utilization of existing capacity will help the company to consolidate and capture further opportunities in its key market (Central, North, East). Further cost optimization excercise initiated at varoius operating facilities of the company will add to margin improvement going forward. We expect EBIDTA margins to improve from 19.3%% in FY20 to 22.1% by FY23E, notwithstainding the significant capacity addition of 28% over the next two years. Consequently, EBIDTA/tonne improves by 7% over the period FY20-23E to Rs.1215/tonne.

Robust growth outlook – Initiate with BUY

Current valuations are attractive at 5x FY22E EV/EBITDA (sector average 9X EV/EBIDTA) and US$54/tonne of capacity (significant discount to replacement cost of US$80/tonne). Initiate coverage with BUY and target price of Rs. 854/share, valuing the company at 6x of its FY22E EV/Ebida.

Key Financials (Consolidated)

(Rs. Cr)	FY20A	FY21E	FY22E	FY23E
Net Sales	6915	6490	8132	8829
EBITDA	1339	1303	1672	1954
Net Profit	505	442	624	813
EPS (Rs.)	66	57	81	106
PER (x)	6.32	17	8	7
EV/EBITDA (x)	5.72	6.17	4.73	4.05
P/BV (x)	0.66	0.92	0.83	0.71
ROE (%)	11%	9%	11%	12%

Source: Company, Axis Research

CMP as of June 29, 2020)

CMP (Rs)	569
Upside /Downside (%)	50%
High/Low (Rs)	807/372
Market cap (Cr)	4400
Avg. daily vol. (6m) Shrs.	315629
No. of shares (Cr)	7.70

Shareholding (%)

	Mar-18	Mar-19	Mar-20
Promoter	62.9	62.9	62.9
FIIs	2.62	2.09	4.17
MFs / UTI	10.02	12.01	11.52
Banks / FIs	3.9	3.98	3.8
Others	20.56	19.02	17.61

Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
Net Sales	6490	8132	8829
EBITDA	1303	1672	1954
Net Profit	442	624	813
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PER (x)	17	8	7
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P/BV (x)	0.92	0.83	0.71
ROE (%)	9%	11%	12%

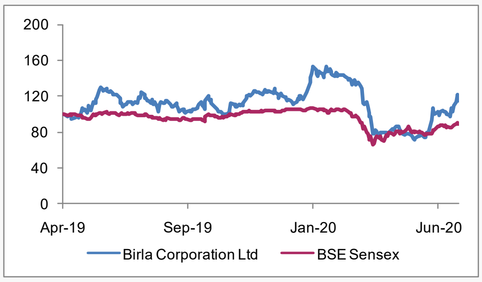
Key Drivers (%) (Growth in %)

Y/E Dec	FY21E	FY22E	FY23E
Net Sales	-6	25	9
EBITDA	-2	28	17
Net Profit	-12	41	30

Axis vs Consensus

EPS Estimates	2021E	2022E
Axis	57	81
Consensus	38	55
Mean Consensus TP (12M)		654

Relative performance



Source: Capitaline, Axis Securities

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Story in Charts

Exhibit 1: Revenue and Volume Trend

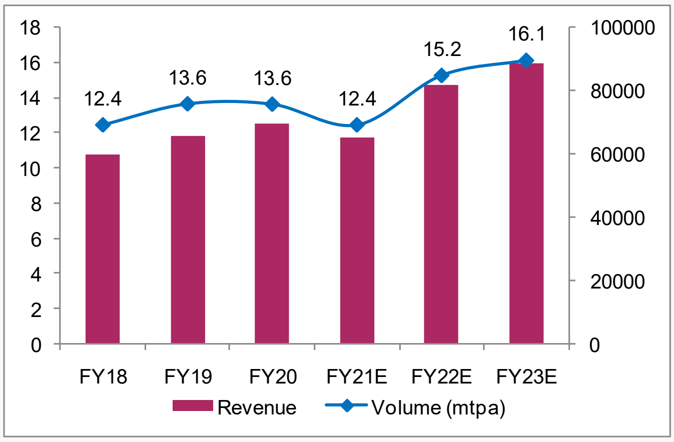
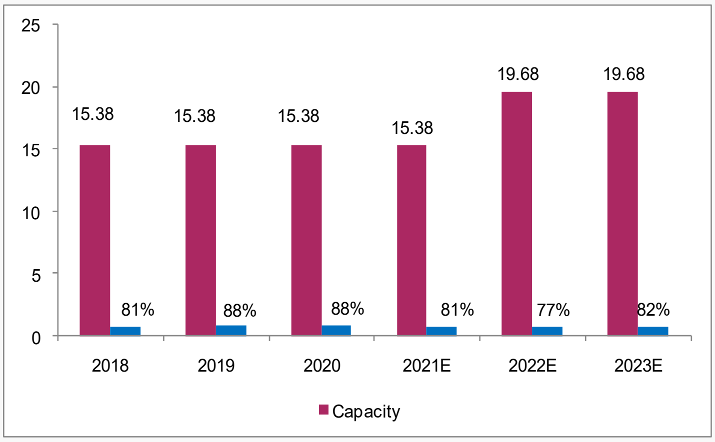


Exhibit 2: Capacity expansion and Utilization trend



Source: Company, Axis Securities,

Exhibit 3: Ebitda /Tonne to increase

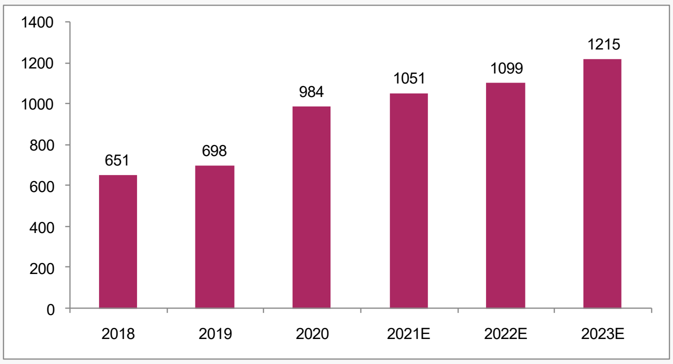
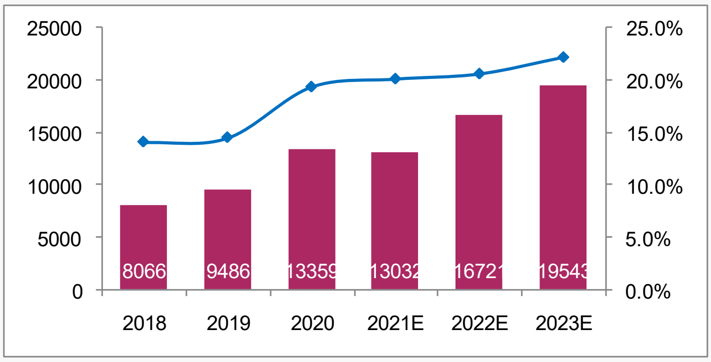


Exhibit 4: EBITDA & EBITDA margin to increase (Rs. In crores)



Source: Company, Axis Securities,

Exhibit 5: Realization tonne / Growth trend

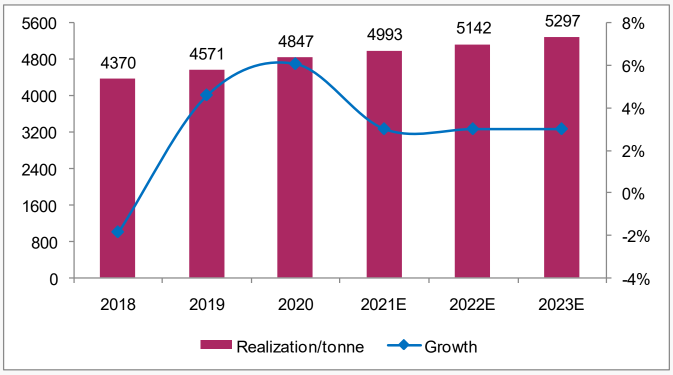
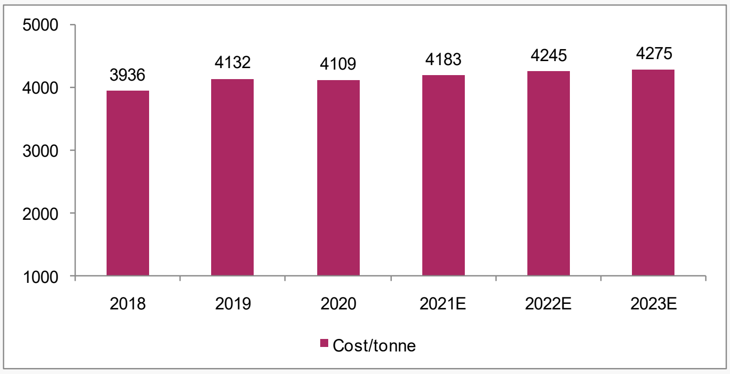


Exhibit 6: Trend in cost/ Tonne



Source: Company, Axis Securities,

Exhibit 7: Valuation gets attractive on FY22E EV/EBITDA

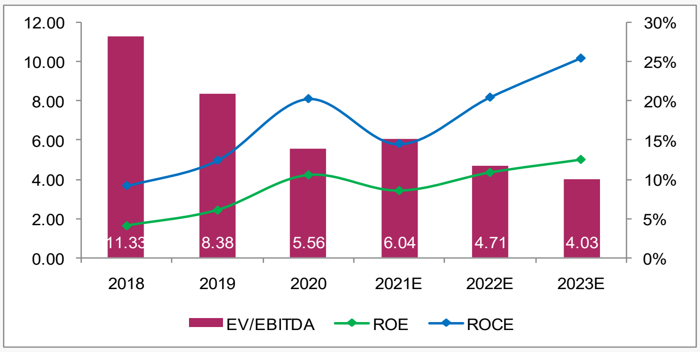
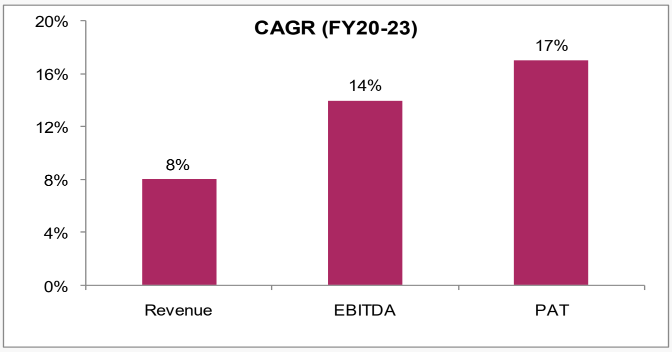


Exhibit 8: CAGR trend in Revenue, EBITDA and Profit



Source: Company, Axis Securities,

Exhibit 9: OCF and FCF to increase Capex intensity to decrease

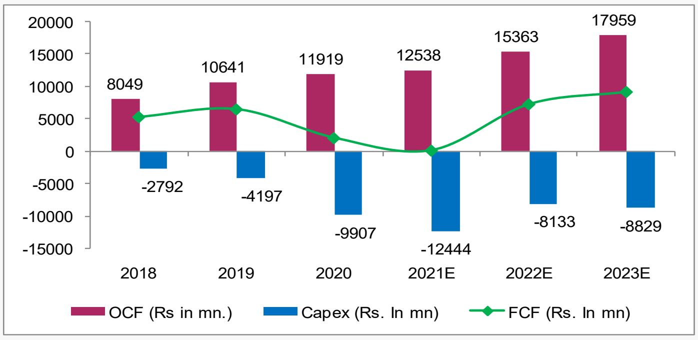
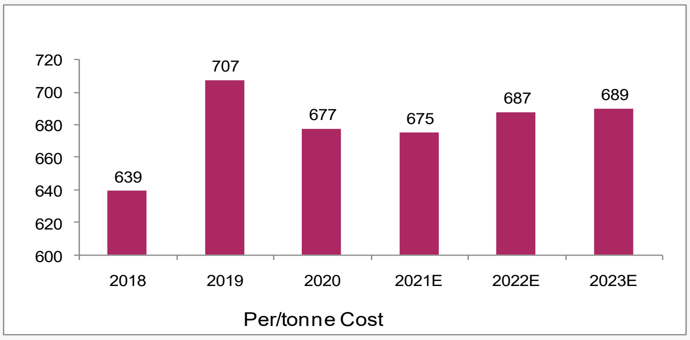


Exhibit 10: Raw Material cost/ Tonne



Source: Company, Axis Securities,

Exhibit 11: Power & Fuel cost/ Tonne

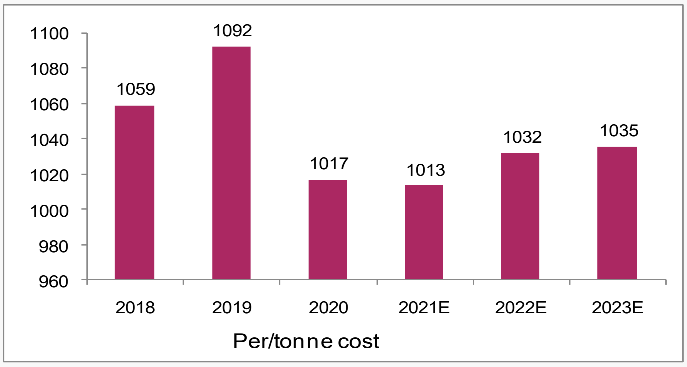
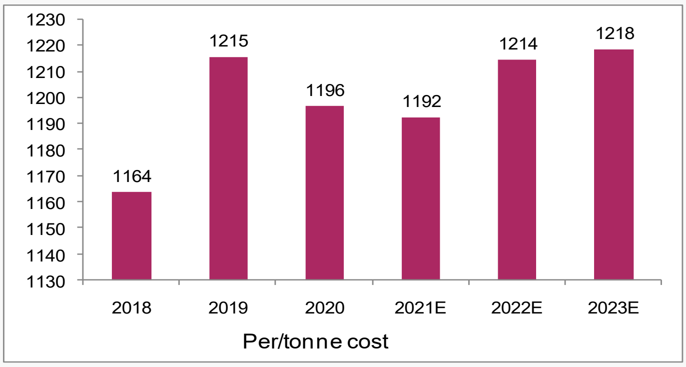


Exhibit 12: Freight & Forwarding cost/ Tonne



Source: Company, Axis Securities,

Exhibit 13: Employee cost/ Tonne

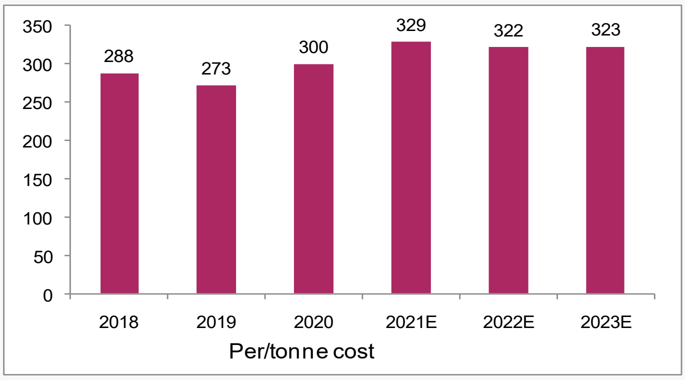
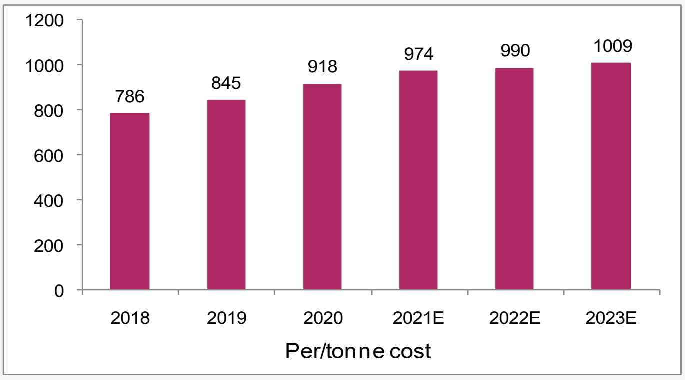


Exhibit 14: Other expenses/ cost Tonne



Source: Company, Axis Securities,

Capacity expansion to augment revenue growth

The company is expanding its cement capacity by setting up a new green field facility of 3.9 mtpa at project cost of Rs. 2450 crores at Mukutban in Maharashtra and expansion of existing facility at its plant in Chanderia, Rajasthan by 0.4 mtpa. The capacity will get operational by Q1FY21-22. The total cement capacity will increase to 19.68 mtpa after the proposed expansion The increased capacity will drive revenue growth in FY21-22 and beyond that. The proposed green field facility is integrated one, it will result in various cost savings to the company and also strengthen its position in western market.

Exhibit 15: Cement plants (3.9 mn tone capacity)

Source: Company, Axis Securities

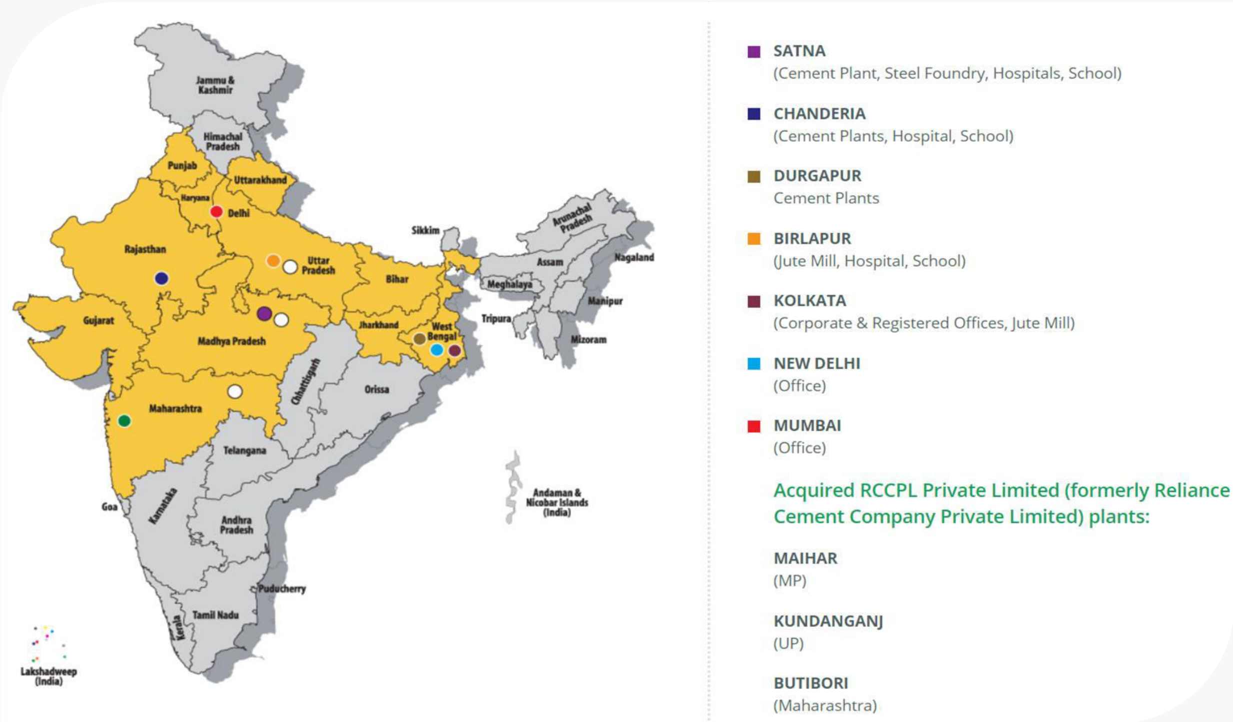
Focus on sale of blended and premium cement

Company has been consistently increasing the share of blended cement with higher absorption of fly ash and blast furnace slag to augment production of environment friendly products. The sale of blended cement forms 90% of the company sales. The Company's strategy of increasing volumes in the high contribution core markets and moving up the value chain by increasing the proportion of cement sales in trade segment, premium grade cement and blended cement have contributed to the growth in profitability and helped mitigate the cost pressures. To enhance the sale of premium segment company has introduced several brands under this category in its respective market . The various premium brand launched by the company are MP Birla cement Unique, Ultimate ultra and Samrat Advanced.

Integrated nature of operation with high capacity utilization and cost optimization

Currently BCL has a consolidated cement capacity of 15.38 mtpa of which BCL has 9.80 mtpa and RCCPL (Reliance cement company pvt limited, previously named) has 5.58 mtpa. The vertical integration of operations with the availability of captive coal, lime stone mines and captive power plant (CPPs, Solar and WHRS) is supported by clinkerisation facility of 10 mtpa for its various plants located in central, northern and eastern India its principal market. The company is further strengthening its captive power capacity with the set up of new facility at Maihar and Satna plant. These backward integration measures are likely to continue to accrue benefits to BCL strengthening its financial profile. The capacity utilization in FY19-20 stood at 90% and it is is one of the best in the industry. The cost optimization exercise planned at various plants related to setting up of captive power plants (Solar, WHRS), coal extraction will add to margins of the company going forward. Further, the company has also engaged a global consultancy firm to optimize inbound and outbound logistics by strengthening system and processes.

Exhibit 16: Company plants and Offices



Source: Company, Axis Securities

State	Town	Units	Capacity (Million Tonnes)
Acquired RCCPL plants			
Madhya Pradesh	Satna	Satna Cement Works	2.2
Rajasthan	Chanderia	Birla Cement Work/Chanderia Cement Work	4.0
West bengal	Durgapur	Durgapur Cement Work/ Durga Hitech Cement	2.3
Uttar Pradesh	Raibareli	Raebareli Cement Works/ Raebareli Hitech Cement Work	1.3
Acquired RCCPL plants			
Madhya Pradesh	Maihar	Maihar plant	3.0
Uttar Pradesh	Kundanganj	Kundangunj Plant	2.0
Maharashtra	Butibori	Butibori Plant	0.58

Source: Company

Experienced management

The company is managed by experienced management having long track record of operation in cement industry across various cycles. Since cement business is highly cyclical, relying on the economic growth of the country, presence of capable and experienced management offers operational comfort.

Company Overview

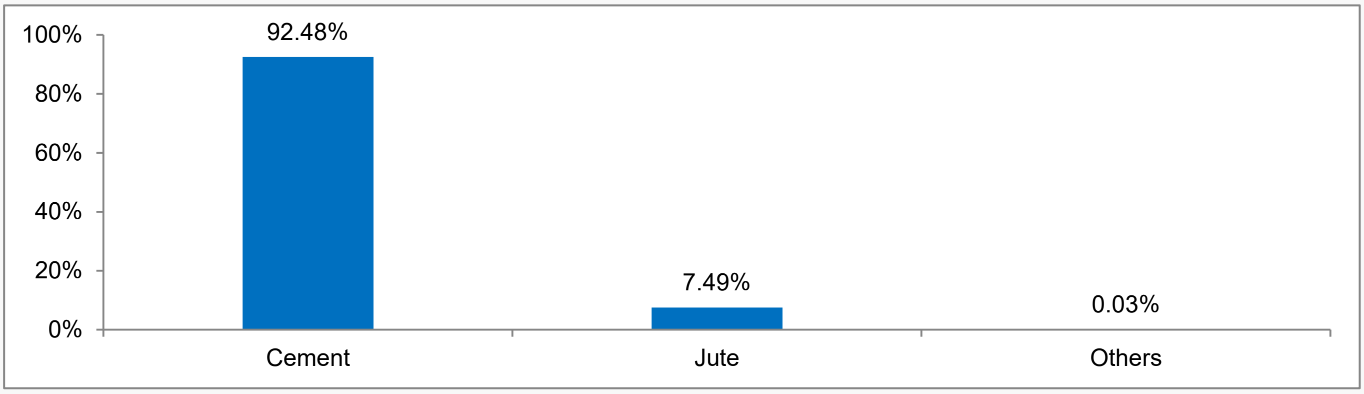
Birla Corporation Limited is the flagship Company of the M.P. Birla Group. Incorporated as Birla Jute Manufacturing Company Limited in 1919, it was Late Mr. Madhav Prasad Birla who gave shape to it. As Chairman of the Company, he transformed it from a manufacturer of jute goods to a leading multi-product corporation with widespread activities. The Company is primarily engaged in the manufacturing of cement as its core business activity. It has significant presence in the jute goods industry as well. The Company has acquired 100% shares of Reliance Cement Company Private Limited (Reliance Cement), a subsidiary of Reliance Infrastructure Limited (RIL). After this acquisition, Reliance Cement has become a wholly-owned material subsidiary of Birla Corporation Limited. The entire cement business of RIL has been acquired for an Enterprise Value of Rs. 4,800 crores. This acquisition provides Birla Corporation Limited with the ownership of high-quality assets, taking its total capacity from 9.8 MTPA to 15.38 MTPA. .

The Cement Division of Birla Corporation Limited has 10 plants at seven locations, Satna & Maihar (Madhya Pradesh), Raebareli & Kundanganj (Uttar Pradesh), Chanderia (Rajasthan), Butibori (Maharashtra) and Durgapur (West Bengal).

The company manufacture varieties of cement like Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC), fly ash-based PPC, Low Alkali Portland Cement, Portland Slag Cement (PSC), Low Heat Cement and Sulphate Resistant Cement. The company has 2 integrated cements units, 3 grinding units, 1 blending unit, 1 Jute mill, 1 steel foundry unit

BCL sells cement under various well established brands, prominent being MP Birla Perfect Plus, MP Birla Unique, MP Birla Samrat, MP Birla Ultimate, MP Birla Ultimate Ultra, MP Birla Chetak, MP Birla Concrecem, MP Birla Multicem, MP Birla PSC with its key markets being Uttar Pradesh, Madhya Pradesh, Rajasthan,Haryana, Bihar, Bengal, Delhi, Gujarat and Maharashtra. BCL is currently under the control of Shri H. V. Lodha.

Exhibit 17: Revenue by segment



Source: Company, Axis Securities

Valuations and Outlook

We initiate coverage on Birla Corporation Limited with BUY and Target Price of Rs. 854/share implies upside of 50% as we value the stock at 6x FY22E EV/Ebitda. The stock has corrected sharply from its high of Rs 800 in January 2020 to low of Rs. 372 in March 2020 due to muted economic growth outlook and lockdown . Since then stock has recovered 53% from its low based on impressive Q4FY20 result. While FY21 will be impacted due to COVID-19 and related lockdown as most of its plants were shut and operation resumed from April end 2020 and now plants are gradually ramping up the operation and normalcy will be restored in Q2FY21. The outlook for the company in FY22/FY23 is robust as upcoming capacities will drive volume and sales growth for the company. We expect the company to register Revenue/Ebitda/APAT CAGR of 8%/14%/17% from FY20-FY23E driven by volume CAGR of 5.8% and consistent realisation improvement of 3% CAGR over FY20-23E. Valuation is attractive at 5x FY22E EV/EBITDA and USD54/t of capacity (significant discount to replacement cost) We value BCL at 6x FY22E EV/EBITDA to arrive at TP of Rs.854 as we see solid re-rating potential on the back of strong growth.

Exhibit 18: FWD PE BAND (x)

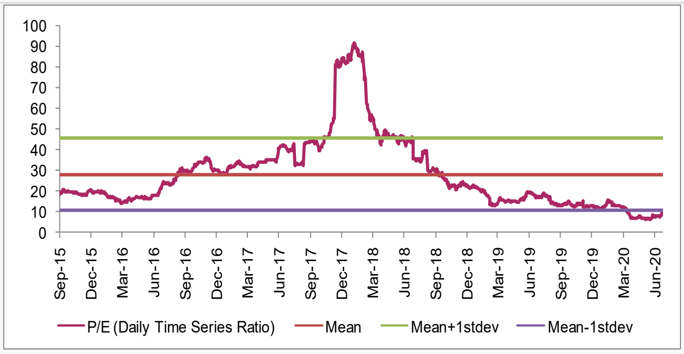
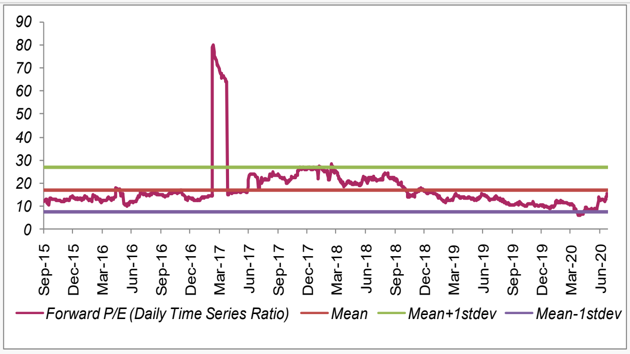


Exhibit 19: FWD EV/EBITDA BAND (x)



Source: Company, Axis Securities

Key Risk

Execution risk associated with expanded capacity

RCCPL is expanding its capacity by setting up a green field integrated cement plant at Mukutban, in Maharashtra, having a capacity of 3.9 mtpa at a budgeted cost of around Rs. 2,450 crores. The project will be funded through mix of debt and equity. Since capacity expansion is sizeable and debt-funded capex exposes the company to execution risks. However, the experience of the management in operating an integrated cement plant provides some comfort.

Cyclicality of the cement industry

Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. The contraction in economic growth also hampers cement industry. Since company enjoys strong presence in its key market of central, northern and eastern India with strong brand recall, the company is expected to restrict the slowdown.

Fluctuation in input prices

Fluctuation in prices of input such as coal, pet coke, limestone, fly ash and slags , power and fuel affects cost structure of cement company. BCL is also exposed to such fluctuation in input prices and any large variation may impact the profitability of the company.

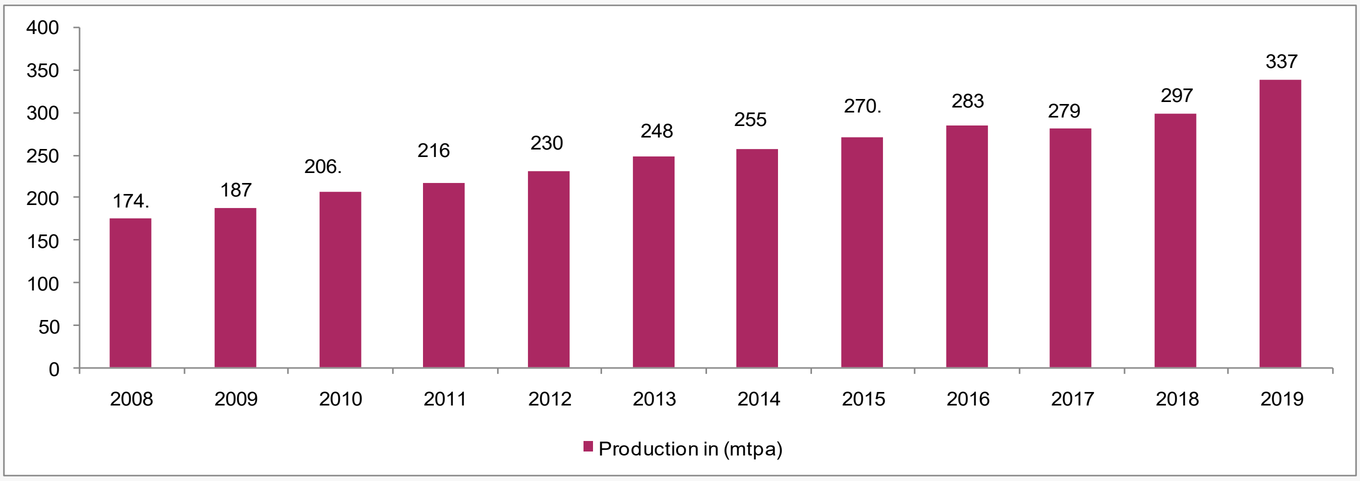
Industry Overview

After China, India is the world's second largest cement producer and accounts for over 8% of the global installed capacity. The cement industry is one of the key drivers of the Indian economy and provides employment to over one million people. The housing or real estate sector accounts for almost 66 per cent of cement consumption in India, while the rest is split between public infrastructure (22 per cent) and industrial development (12 per cent). The outlook for the cement industry continues to remain favorable with expected demand from the housing sector, primarily rural and affordable housing and improved Government focus on infrastructure segments, mainly roads, railway and irrigation projects. In addition, the Central India region has witnessed consolidation over the past couple of years, which is likely to bring price stability in the region, thus supporting cement players based out of Central India, including BCL. The current capacity of cement industry is 520 mtpa and average capacity utilization remains between 70-75%.

The cement industry is highly cyclical in nature and its growth prospect is well tied up with the economic growth of the country. Important aspects to look into cement industry are a) Operating region demand supply dynamics b) Sources of raw material c) Power & Fuel d) Branding e) Capacity expansion f) Locational economics g) Product mix (OPC, PPC & PSC) h) Management quality.

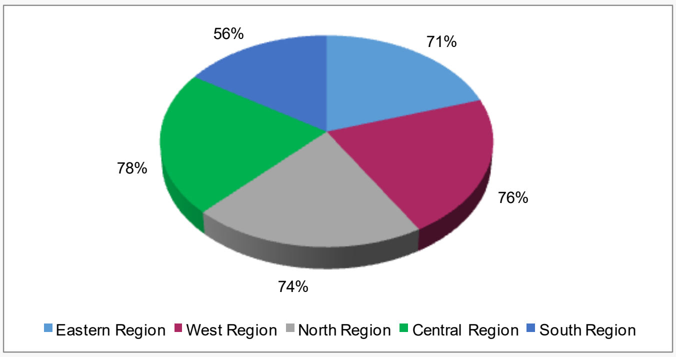
Challenges faced by cement industry in India are a) Excess capacity b) Availabilty of sands c) High logistic cost d) Availabilty of rake from railway e) Input Prices f) GST @28%.

Exhibit 20: Cement Production (MTPA)



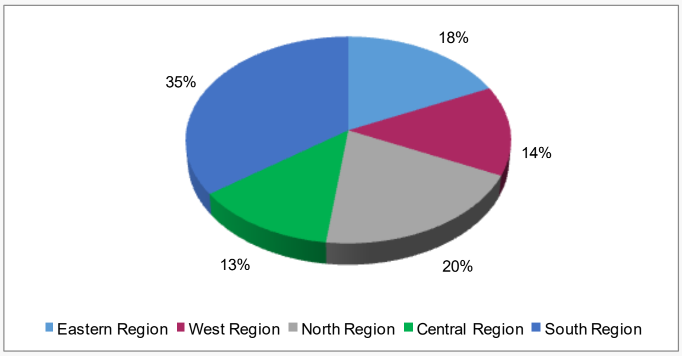
Source: Company, Axis Securities

Exhibit 21: Cement capacity region wise



Source: CMAI

Exhibit 22: Capacity Utilisation region wise



Source: Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
Net sales	**6915**	**6490**	**8132**	8829
Other operating income	0	0	0	0
Total income	**6915**	**6490**	**8132**	8829
Raw Material	919	836	1045	1108
Power & Fuel	1380	1256	1570	1665
Freight & Forwarding	1624	1478	1848	1959
Employee benefit expenses	*407*	*407*	*489*	518
Other Expenses	1246	1207	1506	1623
EBITDA	**1336**	**1303**	**1672**	1956
Other income	85	94	131	154
PBIDT	**1421**	**1062**	**1608**	**2110**
Depreciation	351	377	488	524
Interest & Fin Chg.	387	429	482	500
E/o income / (Expense)	0	0	0	
Pre-tax profit	**683**	**590**	**832**	1086
Tax provision	176	147	208	271
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Profit after Tax	**507**	**442**	**624**	815
Other Comprehensive Income	0	0	0	0
PAT after Comprehensive Income	**507**	**442**	**624**	815

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
Total assets	**12175**	**13282**	**14286**	**15083**
Net Block	7324	7595	9870	10229
CWIP	1604	2200	250	250
Investments	836	1046	1546	2006
Wkg. cap. (excl cash)	515	511	570	612
Cash / Bank balance	259	104	102	162
Misc. Assets	1637	1826	1948	1824
Capital employed	**12175**	**13282**	**14286**	**15083**
Equity capital	77	77	77	77
Reserves	8346	8769	9449	10232
Minority Interests	0	0	0	0
Borrowings	3752	4436	4760	4774
Def tax Liabilities	0	0	0	0

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
Sources	1058	1510	1371	1284
Cash profit	864	820	1113	1338
(-) Dividends	58	46	62	62
Retained earnings	806	774	1052	1276
Issue of equity	0	0	0	0
Change in Oth. Reserves	0	0	0	0
Borrowings	663	694	320	8
Others	-411	42	0	0
Applications	1058	1510	1371	1284
Capital expenditure	991	1244	813	883
Investments	267	210	500	300
Net current assets	-6	-4	60	42
Change in cash	-193	60	-2	60
Closing cash	44	104	102	162

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY20A	FY21E	FY22E	FY23E
Sales growth	**6**	**-6**	**25**	9
OPM	**19.3**	**20.1**	**20.6**	22.1
Op. profit growth	41	-27	56	17
COGS / Net sales	57	55	55	54
Overheads/Net sales	24	25	24.5	24
Depreciation / G. block	4	4	4	4
Effective interest rate (%)	10.5	10.5	10.5	10.5
Net wkg.cap / Net sales	8	12	16	19
Net sales / Gr block (x)	79	69	67	67
RoCE	**11%**	**10%**	**11%**	13%
Debt / equity (x)	0.76	0.84	0.81	0.70
Effective tax rate	25.9	25	25	25
RoE	**11%**	**9%**	**11%**	12%
Payout ratio (Div/NP)	11	10	10	8
EPS (Rs.)	**66**	**57**	**81**	106
EPS Growth	98	-12	41	30
CEPS (Rs.)	111	107	145	174
DPS (Rs.)	8	6	8	8

Source: Company, Axis Securities

About the analyst

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Disclosures:

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