



## Birla Corporation

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,986	BJUT IN
	REUTERS CODE
S&P CNX: 4,356	BRLC. BO
Equity Shares (m)	77.0
52-Week Range	375/180
1,6,12 Rel. Perf. (%)	5/-25/-39
M.Cap. (Rs b)	19.9
M.Cap. (US\$ b)	0.5

2 August 2007

Buy

Previous Recommendation: Buy

Rs259

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	15,669	3,262	42.4	37.9	6.1	3.0	49.0	46.9	1.2	3.7
03/08E	17,499	3,966	51.5	21.6	5.0	2.0	39.6	37.5	1.0	2.7
03/09E	18,481	3,733	48.5	-5.9	5.3	1.5	28.3	29.9	0.8	2.4

Birla Corp's 1QFY08 results are in-line with our estimates, with EBITDA margins of 35.1% and PAT growth of 56%.

- Net sales grew by 17% to Rs4.1b, driven by 16.5% YoY (down 1.4% QoQ). However, cement volumes growth was muted at 2.2% to 1.3mt. Both realizations (due to market mix) and volume growth were impacted due to 40 days shutdown at Satna (feeder unit for UP & WB plants). Other businesses continued with lackluster performance, with muted sales at Rs290m.
- EBITDA grew by 40% to Rs1.44b, translating into EBITDA margins expansion of 570bp YoY (~80bp QoQ) of 35.1%. However, other businesses reported marginal PBIT as against PBIT losses in the past. Also, higher other income at Rs88m (up 127%) and lower tax provisioning (at 29% of PBT vs 32.7% in 1QFY07) boosted PAT growth to 56% at Rs975m.
- The management has enhanced its existing capacity expansion from 1.25mt to 1.7mt, which will boost total capacity to 7.5mt. This capacity expansion plans are on schedule, with 1st phase (at Rajasthan) expected to commission from April'08 and 2nd phase (at Satna) to commission from Oct'07 onwards.
- We are revising our earnings estimate for FY08E by 3.8% to Rs51.5, to factor in for higher other income and lower tax. At 5x FY08E EPS, 2.7x FY08E EV/EBITDA and at EV/ton of US\$72 (for 5.8m ton cap), valuations look attractive. Maintain **Buy**.

### QUARTERLY PERFORMANCE

(Rs Million)

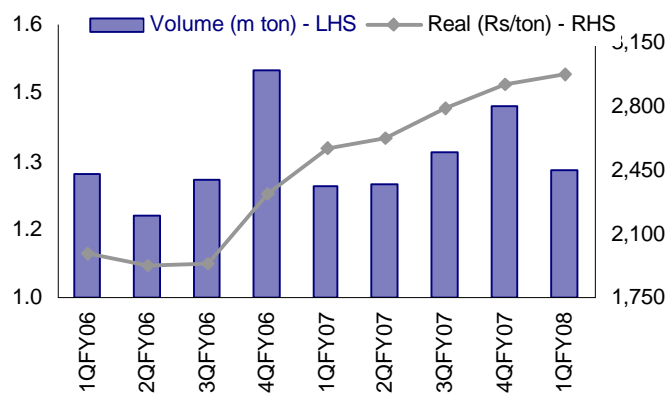
Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Cement Sales (m ton)	1.25	1.25	1.32	1.42	1.28	1.28	1.37	1.47	5.23	5.40
YoY Change (%)	-2.0	6.1	4.9	-5.4	2.9	2.4	3.9	3.5	0.5	3.2
Cement Realization	2,568	2,621	2,795	2,923	2,972	2,972	2,972	2,972	2,734	2,972
YoY Change (%)	28.8	36.0	44.2	25.7	15.8	13.4	6.3	1.6	32.7	8.7
QoQ Change (%)	10.5	2.1	6.6	4.6	1.7	0.0	0.0	0.0		
<b>Net Sales</b>	<b>3,489</b>	<b>3,647</b>	<b>4,093</b>	<b>4,441</b>	<b>4,093</b>	<b>4,164</b>	<b>4,432</b>	<b>4,811</b>	<b>15,669</b>	<b>17,499</b>
YoY Change (%)	25.0	39.9	45.4	12.7	17.3	14.2	8.3	8.3	28.9	11.7
Total Expenditure	2,462	2,668	2,689	2,917	2,655	2,752	2,870	3,026	10,735	11,303
<b>EBITDA</b>	<b>1,027</b>	<b>979</b>	<b>1,404</b>	<b>1,524</b>	<b>1,438</b>	<b>1,412</b>	<b>1,562</b>	<b>1,784</b>	<b>4,934</b>	<b>6,195</b>
Margins (%)	29.4	26.8	34.3	34.3	35.1	33.9	35.2	37.1	31.5	35.4
Depreciation	97	96	96	108	103	112	115	125	397	455
Interest	43	31	35	76	50	62	64	66	185	242
Other Income	39	53	55	119	88	60	75	82	265	304
<b>Profit before Tax</b>	<b>927</b>	<b>905</b>	<b>1,328</b>	<b>1,458</b>	<b>1,372</b>	<b>1,298</b>	<b>1,458</b>	<b>1,674</b>	<b>4,617</b>	<b>5,802</b>
Tax	303	229	377	446	398	422	474	543	1,355	1,836
Rate (%)	32.7	25.3	28.4	30.6	29.0	32.5	32.5	32.5	29.3	31.7
<b>Adjusted PAT</b>	<b>624</b>	<b>675</b>	<b>951</b>	<b>1,012</b>	<b>975</b>	<b>876</b>	<b>984</b>	<b>1,131</b>	<b>3,262</b>	<b>3,966</b>
Margins (%)	17.9	18.5	23.2	22.8	23.8	21.0	22.2	23.5	20.8	22.7
YoY Change (%)	168.3	271.9	452.5	50.7	56.3	29.7	3.4	11.8	37.9	21.6

E: MOST Estimates

### Higher realizations drive revenue growth...

Net sales grew by 17% to Rs4.1b, driven by 16.5% YoY (down 1.4% QoQ). However, cement volumes growth was muted at 2.2% to 1.3mt. Both realizations (due to market mix) and volume growth were impacted due to 40 days shutdown at Satna (feeder unit for UP & WB plants). It new grinding unit at WB continued to be effected by labour problems, which are expected to be resolved during the year. Other businesses continued with lackluster performance, with muted sales at Rs290m.

TREND IN CEMENT VOLUMES (M TON) AND REALIZATION (RS/TON)



Source: Company/Motilal Oswal Securities

Non-cement business continued with lackluster performance as sales were muted at Rs290m, with jute business declining by 5.3% to Rs216m and other business growing marginally by 3.7% to Rs73m.

REVENUE MIX

	1QFY08	1QFY07	YOY (%)	4QFY07	YOY (%)
Cement	3,808	3,197	19.1	4,148	-8.2
Contribution (%)	92.9	91.4		93.3	
Jute	216	228	-5.3	213	1.5
Contribution (%)	5.3	6.5		4.8	
Others	73	71	3.7	86	-14.5
Contribution (%)	1.8	2.0		1.9	
<b>Total</b>	<b>4,097</b>	<b>3,496</b>	<b>17.2</b>	<b>4,447</b>	<b>-7.9</b>

Source: Company/Motilal Oswal Securities

### ...and margin expansion

EBITDA grew by 40% to Rs1.44b, translating into EBITDA margins expansion of 570bp YoY (~80bp QoQ) of 35.1%. Margins were restricted by higher energy cost (due to lower

blending). However, other businesses reported marginal PBIT as against PBIT losses in the past. Also, higher other income at Rs88m (up 127%) and lower tax provisioning (at 29% of PBT vs 32.7% in 1QFY07) boosted PAT growth to 56% at Rs975m.

PBIT MIX

	1QFY08	1QFY07	YOY (%)	4QFY07	YOY (%)
Cement	1,390	1,025	35.6	1,568	-11.3
Contribution (%)	99.8	104.8		101.2	
Jute	2	-8	-124.4	-26	-107.5
Contribution (%)	0.1	-0.8		-1.6	
Others	1	-39	-103.6	-9	-115.2
Contribution (%)	0.1	-4.0		-0.6	
<b>Total</b>	<b>1,393</b>	<b>978</b>	<b>42.4</b>	<b>1,549</b>	<b>-10.1</b>

Source: Company/Motilal Oswal Securities

### Expanding capacities

The management has enhanced its existing capacity expansion from 1.25mt to 1.7mt, which will boost total capacity to 7.5mt. This capacity expansion plans are on schedule, with 1st phase (at Rajasthan) expected to commission from April'08 and 2nd phase (at Satna) to commission from Oct'07 onwards. Also, the management is evaluating other options of expanding capacity, which are still at very nascent stage.

### Pricing momentum continues, outlook remains positive

Cement prices in Birla Corp's key market i.e North, Central and Eastern region have gone up despite monsoon by Rs3-5/bag from 1/July/07. Cement prices for next 4-5 quarter are likely to remain firm with no seasonal fluctuations. On account of high volume growth leading to tight demand supply scenario has resulted in firm cement prices despite monsoon. Cement prices are expected to increase going forward once construction activity gathers momentum post festive season, resulting in strong profit growth in coming quarters.

### Revising estimates

We are revising our earnings estimate for FY08E by 3.8% to Rs51.5, to factor in for higher other income and lower tax. However, our earnings estimates still factor in for cement prices at 1QFY08 average realizations.

## REVISED FORECAST (RS M)

	FY08E		
	REV	OLD	CHG (%)
Net Sales	17,499	17,520	-0.1
Net Profit	3,966	3,817	3.9
EPS (Rs)	51.5	50	3.9

Source: Motilal Oswal Securities

### Valuation and view

With its market mix concentrated in structurally-sound markets of north and central India, its timely capacity

expansion and potential power cost savings from captive power plants, it is one of the best plays to ride the demand-excess scenario in the cement sector. At current prices, the stock is quoting at 5x FY08E EPS and 2.7x EV/EBITDA. Its EV/ton (at 5.8m ton capacity) works out to US\$72/ton, which is at a discount to its comparable peers. We believe the discount is not justified and valuations, based on earnings as well as replacement cost, are compelling. **Maintain Buy** with target price of Rs385 (~7.5x FY08E EPS).

## Birla Corporation: an investment profile

### Company description

Birla Corp, established in 1919, is a part of the MP Birla group. It manufactures cement, jute products, synthetic viscose and cotton yarn. Cement constitutes about 85% of its revenues.

### Key investment arguments

- Among the top-10 cement producers in India with a capacity of 5.8m ton in the lucrative markets of north and central India
- Strong balance sheet, with zero net debt, provides good platform to grow organically as well as inorganically
- Power cost/unit to come down FY06 onwards, with full impact in FY08, as it has setting up a 54 MW (27x2) thermal power plant at Satna and Chittorgarh.

### Key investment risks

- Delay in capacity expansion would result in time and cost overrun, as well as muted volumes growth
- Loss making non-cement business may drag the overall performance of the company

### Recent Development

- Enhanced brownfield capacity addition to 1.7mt from earlier 1.25mt

### Valuation and view

- The stock is quoting at 5x FY08E EPS, 2.7x EV/EBITDA and EV/ton of US\$72/ton
- Valuations are compelling and at significant discount to its peers. Maintain **Buy** with target price of Rs385.

### Sector view

- Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth
- Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HFY09
- Uncertainty on cement prices, due to government intervention, is expected to prevail in the near term.

#### COMPARATIVE VALUATIONS

		BIRLA CORP	SHREE CEMENT	ULTRATECH
P/E(x)	FY08E	5.0	9.2	11.1
	FY09E	5.3	8.2	10.5
P/BV(x)	FY08E	2.0	4.9	4.1
	FY09E	1.5	3.1	3.0
EV/Sales(x)	FY08E	1.0	2.3	2.2
	FY09E	0.8	1.6	2.0
EV/EBITDA(x)	FY08E	2.7	5.3	7.0
	FY09E	2.4	4.1	6.2

#### SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	62.9	62.9	63.7
Domestic Inst	14.5	12.8	13.5
Foreign	6.0	7.5	7.8
Others	16.6	16.8	15.0

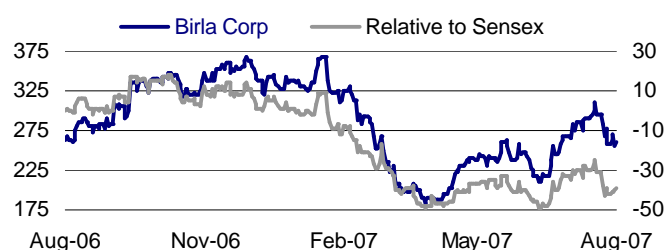
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	51.5	46.4	11.1
FY08	48.5	48.1	0.8

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
259	385	48.6	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Net Sales</b>	<b>11,387</b>	<b>12,155</b>	<b>15,669</b>	<b>17,499</b>	<b>18,481</b>
Change (%)	10.1	6.7	28.9	11.7	5.6
Total Expenditure	10,117	9,259	10,735	11,303	12,387
<b>EBITDA</b>	<b>1,270</b>	<b>2,896</b>	<b>4,934</b>	<b>6,195</b>	<b>6,094</b>
Margin (%)	11.2	23.8	31.5	35.4	33.0
Depreciation	298	342	397	455	553
<b>EBIT</b>	<b>972</b>	<b>2,554</b>	<b>4,538</b>	<b>5,740</b>	<b>5,541</b>
Int. and Finance Charges	217	136	185	242	349
Other Income - Rec.	182	131	265	304	380
<b>PBT</b>	<b>937</b>	<b>2,549</b>	<b>4,617</b>	<b>5,802</b>	<b>5,571</b>
Change (%)	125.2	172.1	81.1	25.6	-4.0
Tax	68	183	1,355	1,836	1,839
Tax Rate (%)	7.3	7.2	29.3	31.7	33.0
<b>PAT</b>	<b>869</b>	<b>2,366</b>	<b>3,262</b>	<b>3,966</b>	<b>3,733</b>
Extra Ordinary Expenses	0	0	0	0	0
<b>PAT Adj for EO Items</b>	<b>869</b>	<b>2,366</b>	<b>3,262</b>	<b>3,966</b>	<b>3,733</b>
Change (%)	182.9	172.3	37.9	21.6	-5.9
Margin (%)	7.6	19.5	20.8	22.7	20.2

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	770	770	770	770	770
Reserves	2,358	3,072	5,888	9,243	12,397
<b>Net Worth</b>	<b>3,128</b>	<b>3,842</b>	<b>6,658</b>	<b>10,013</b>	<b>13,167</b>
Loans	2,416	2,718	2,826	5,250	5,500
Deferred Liabilities	286	623	747	842	1149
<b>Capital Employed</b>	<b>5,829</b>	<b>7,184</b>	<b>10,231</b>	<b>16,105</b>	<b>19,816</b>
Gross Block	8762	10981	11544	13750	15750
Less: Accum. Deprn.	5781	5978	6352	6807	7361
<b>Net Fixed Assets</b>	<b>2,982</b>	<b>5,002</b>	<b>5,191</b>	<b>6,943</b>	<b>8,389</b>
Capital WIP	1048	301	72	1000	250
Investments	1102	1753	4201	1500	1500
<b>Curr. Assets</b>	<b>2,865</b>	<b>3,121</b>	<b>5,095</b>	<b>12,160</b>	<b>15,110</b>
Inventory	1029	1057	1426	1575	1663
Account Receivables	562	225	272	350	370
Cash and Bank Balance	291	592	344	6735	9381
Others	982	1247	3053	3500	3696
<b>Curr. Liability &amp; Prov.</b>	<b>2,230</b>	<b>3,024</b>	<b>4,331</b>	<b>5,501</b>	<b>5,437</b>
Account Payables	2,098	2,575	2,409	3,150	3,327
Provisions	132	449	1,922	2,351	2,111
<b>Net Current Assets</b>	<b>634</b>	<b>97</b>	<b>764</b>	<b>6,659</b>	<b>9,673</b>
Misc Expenditure	63	30	4	4	4
<b>Appl. of Funds</b>	<b>5,829</b>	<b>7,184</b>	<b>10,231</b>	<b>16,105</b>	<b>19,816</b>

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>11.3</b>	<b>30.7</b>	<b>42.4</b>	<b>51.5</b>	<b>48.5</b>
Cash EPS	15.2	35.2	47.5	57.4	55.7
BV/Share	39.8	49.5	86.4	130.0	170.9
DPS	15	2.3	3.5	6.8	6.4
Payout (%)	15.2	8.4	9.7	15.4	15.5
<b>Valuation (x)</b>					
P/E		8.4	6.1	5.0	5.3
Cash P/E		7.4	5.5	4.5	4.7
P/BV		5.2	3.0	2.0	1.5
EV/Sales		1.7	1.2	1.0	0.8
EV/EBITDA		7.0	3.7	2.7	2.4
EV/Ton - Cap (US\$)		87	78	72	48
Dividend Yield (%)		0.9	1.4	2.6	2.5
<b>Return Ratios (%)</b>					
RoE	27.8	61.6	49.0	39.6	28.3
RoCE	19.8	37.4	46.9	37.5	29.9
<b>Working Capital Ratios</b>					
Inventory (Days)	33	32	33	33	33
Debtor (Days)	18	7	6	7	7
Working Capital Turnover (l	2.0	1.7	1.5	1.1	0.9

Leverage Ratio					
Current ratio	13	10	12	2.2	2.8
Debt/Equity (x)	0.8	0.7	0.4	0.5	0.4

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Op.Profit/(Loss) before Tax	1,343	1,910	4,934	6,195	6,094
Interest/Dividends Recd.	37	33	265	304	380
Direct Taxes Paid	-65	-165	-1,355	-1,741	-1,532
(Inc)/Dec in WC	-207	391	-915	496	-368
<b>CF from Operations</b>	<b>1,108</b>	<b>2,169</b>	<b>2,929</b>	<b>5,255</b>	<b>4,574</b>
EO Expenses	0	0	26	0	0
<b>CF from Oper. incl EO</b>	<b>1,108</b>	<b>2,169</b>	<b>2,903</b>	<b>5,255</b>	<b>4,574</b>
(inc)/dec in FA	-1,181	-1,209	-356	-3,135	-1,250
(Pur)/Sale of Investments	-85	-638	-2,448	2,701	0
<b>CF from Investments</b>	<b>-1,267</b>	<b>-1,848</b>	<b>-2,803</b>	<b>-434</b>	<b>-1,250</b>
Issue of Shares	0	0	-129	0	0
(Inc)/Dec in Debt	322	298	109	2,424	250
Interest Paid	-233	-185	-185	-242	-349
Dividend Paid	-87	-132	-318	-611	-579
<b>CF from Fin. Activity</b>	<b>2</b>	<b>-20</b>	<b>-523</b>	<b>1,571</b>	<b>-678</b>
<b>Inc/Dec of Cash</b>	<b>-156</b>	<b>302</b>	<b>-397</b>	<b>6,391</b>	<b>2,646</b>
Add: Beginning Balance	447	291	592	344	6,735
<b>Closing Balance</b>	<b>291</b>	<b>592</b>	<b>195</b>	<b>6,735</b>	<b>9,381</b>



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**Disclosure of Interest Statement**

**Birla Corporation**

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|---|-----|
| 1. Analyst ownership of the stock                       | No  |
| 2. Group/Directors ownership of the stock               | Yes |
| 3. Broking relationship with company covered            | No  |
| 4. Investment Banking relationship with company covered | No  |

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