

Birla Corporation

 BSE code: 500335
 NSE code: BIRLAJUTE

CMP: Rs 326
Target: Rs 501
BUY

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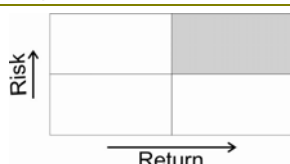
Company data

Particulars	
Market cap (Rs bn / US\$ mn)	25.1/635.5
Outstanding equity shares (mn)	77.0
52-week high/low (Rs)	386/180
2-month average daily volume	95,805

Financial snapshot

Particulars	FY07	FY08E	FY09E
Sales (Rs mn)	15,669.1	18,300.0	20,200.0
Growth (%)	28.9	16.8	10.4
Adj net profit (Rs mn)	3,262.3	3,860.0	4,405.0
Growth (%)	159.4	18.3	14.1
FDEPS (Rs)	42.4	50.1	57.2
Growth (%)	159.4	18.3	14.1
P/E (x)	7.7	6.5	5.7
ROE (%)	62.3	45.9	36.2

Risk-return profile



Shareholding pattern

(%)	Sep-07	Jun-07
Promoters	62.9	62.9
FIs	8.9	6.0
Banks & FIs	15.0	14.5
Public	13.2	16.6

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Birla Corp	326	(6.8)	17.7	35.9
Sensex	18,939	(1.6)	27.6	31.5

Company website www.birlacorporation.com

Cement capacity to touch 10mn tonnes by 2010

Birla Corporation (BCL), the flagship of the MP Birla Group, was established in 1919 with a key focus on the cement business. The company has an installed cement production capacity of 5.8mn tonnes (MnT) and aims to expand to 10MnT by 2010. At present, BCL is carrying out brownfield expansion projects at its cement plants in Satna (Madhya Pradesh) and Chanderia (Rajasthan), which will raise aggregate production capacity to 7MnT by FY09.

With the uptrend in the cement industry, BCL has performed well over the past few years. The company has recorded a net sales CAGR of 17.1% over FY04–FY07 to Rs 15.7bn accompanied by a PAT CAGR of 98.7% to Rs 3.3bn. For the first half of FY08, BCL has recorded a sales growth of 12.6% over H1FY07 to Rs 8bn led by higher price realisations. The EBITDA margin has improved substantially to 36.6% as against 28.1% in H1FY07 and 31.5% in full fiscal FY07, supported by better pricing and cost control. With PAT rising 54.4% to Rs 2bn, BCL's EPS for H1FY08 stands at Rs 26. At the current price of Rs 326 the stock trades at 6.5x on FY08E EPS of Rs 50.1. We recommend a Buy with a target of Rs 501, based on a P/E of 10x on FY08E.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Net sales	3,939.8	3,870.0	1.8
EBITDA	1,499.6	1,275.0	17.6
PAT	1,031.3	780.0	32.2
EPS (Rs)	13.4	10.1	32.2

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q2FY08	Q2FY07	% Chg YoY	Q1FY08	% Chg QoQ
Net Sales	3,939.8	3,646.9	8.0	4,092.5	(3.7)
EBITDA	1,499.6	978.9	53.2	1,437.5	4.3
Depreciation	103.4	96.1	7.6	102.9	0.5
EBIT	1,396.2	882.8	58.2	1,334.6	4.6
Interest	53.3	31.0	71.9	49.8	7.0
Other income	97.7	52.7	85.4	87.5	11.7
PBT	1,440.6	904.5	59.3	1,372.3	5.0
Tax	409.3	229.1	78.7	397.5	3.0
PAT	1,031.3	675.4	52.7	974.8	5.8
EPS (Rs)	13.4	8.8	52.7	12.7	5.8

Margins (%)

EBITDA	38.1	26.8	-	35.1	-
EBIT	35.4	24.2	-	32.6	-
PBT	36.6	24.8	-	33.5	-
PAT	26.2	18.5	-	23.8	-

Source: Company, Religare Research

Company snapshot

Established in 1919, BCL is the flagship company of the MP Birla Group and is primarily engaged in the manufacture of cement. The company also earns a small percentage of revenues from the manufacture of jute products, auto-ancillaries, PVC floor covering, wallpaper, coated cotton fabric and steel. Cement accounts for a major portion of sales, at 92%, whereas jute products account for 6% and other business units cumulatively bring in the balance 2%. More than 99% of the company's profits are derived from the cement division.

Ongoing expansion projects would enhance capacity by 1.7MnT during FY09

Ongoing expansion will raise cement capacity to over 7MnT

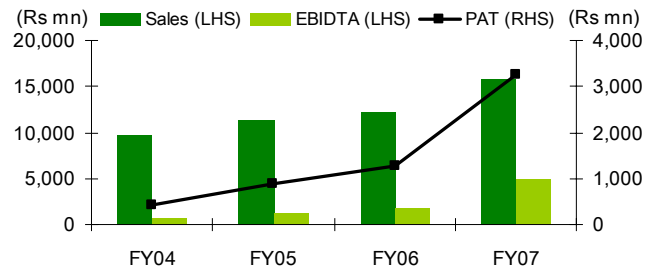
BCL has an installed cement production capacity of 5.8MnT and aims to expand to 10MnT by 2010 via a mix of brownfield and greenfield projects. The company currently has eight plants located in Madhya Pradesh, Uttar Pradesh, Rajasthan, Maharashtra, West Bengal and Haryana. It has embarked upon brownfield expansion projects at Satna (MP) and Chanderia (Rajasthan), which would effectively enhance cement production capacity by 1.7MnT, taking total capacity to 7.5MnT. These projects would be commissioned during FY09 in phases at a capex of Rs 5bn. Thereafter, the company plans to further increase capacity by 3MnT via a greenfield project with an outlay of Rs 12bn. The location for this plant is yet to be decided.

BCL has high internal accruals and has also invested more than Rs 4bn in liquid mutual funds, which implies that the funding for these projects can be undertaken without resorting to major debt.

Strong PAT CAGR of 98.7% over FY04–FY07

With the uptrend in the cement industry, BCL has performed well over the past few years, recording net sales CAGR of 17.1% from Rs 9.7bn to Rs 15.7bn over FY04–FY07. It has logged a PAT CAGR of 98.7% to Rs 3.3bn over the same period.

Sales and PAT growth trend



Source: Company, Religare Research

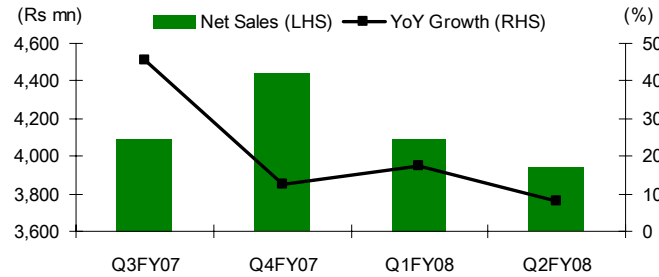
The company has rolled out a strong performance for the first half of FY08 as detailed below.

Q2 and H1FY08 result highlights

Net sales up just 8% as volumes remained flat

Net sales for the quarter have risen 8% YoY to Rs 3.9bn as against Rs 3.6bn for the corresponding year-ago period. Volumes remained flat at 1.2MnT and the sales growth was solely on account of better price realisations. Though the company completed a 1MnT expansion programme in late FY06 at Durga Hitech Cement, it has not achieved the expected level of capacity utilisation in that plant due to frequent trouble in cement mill, affecting volume growth. On a QoQ basis, the seasonal effect (monsoon period) saw sales for the quarter dipping marginally by 3.7%.

Quarterly Sales growth trend (YoY)



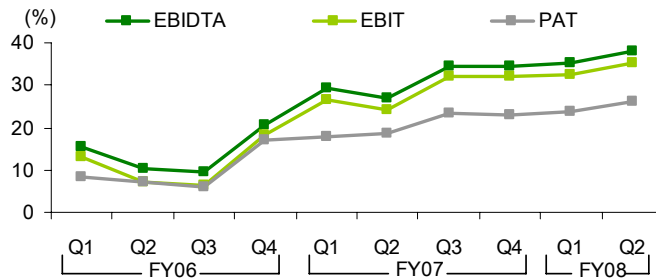
Source: Company, Religare Research

Higher realisations and cost control boost EBITDA margin

EBITDA margin expands 1,130bps

The operating profit for the quarter at Rs 1.5bn has risen significantly by 53.2% against Rs 979mn in Q2FY07. The company has recorded its highest-ever EBITDA margin of 38.1%, an improvement of 1,130bps YoY and 300bps QoQ. The margin expansion came about due to better price realisations and stricter control over production cost, particularly raw materials. The commissioning of two thermal power plants of 27MW each at Satna (MP) and Chanderia (Rajasthan) in mid-FY06 has also contributed towards improving margins over the last few quarters.

Margin trend



Source: Company, Religare Research

Closed the quarter with an EPS of Rs 13.4 as against Rs 8.8 in Q2FY07

Net profit rises 52.7%

In line with the EBITDA growth, PAT has clocked an increase of 52.7% to Rs 1bn over Rs 675mn in the same year-ago quarter. While interest cost has risen 72% and depreciation is up 8%, this was offset by an 85% rise in other income to Rs 97.7mn. The company has more than Rs 4bn invested in mutual funds, which contributed to the higher other income. BCL has closed the quarter with an EPS of Rs 13.4 as against Rs 8.8 in the corresponding year-ago period.

Half-yearly performance in line

For the first half of FY08, the company recorded sales growth of 12.6% over H1FY07 to Rs 8bn led by higher price realisations. Volume sales of cement have remained flat at 2.5MnT. The EBITDA margin for the first half has improved to 36.6% as against 28.1% in H1FY07 and 31.5% in full fiscal FY07. This has supported a 46.4% YoY growth in EBITDA to Rs 2.9bn. Higher other income mitigated the impact of increased depreciation and interest costs, enabling PAT to grow at 54.4% to Rs 2bn. BCL has reported an EPS of Rs 26 for the first half of the year.

H1FY08 results

(Rs mn)	H1FY08	H1FY07	% Chg	FY07
Net sales	8,032.3	7,135.7	12.6	15,669.1
EBIDTA	2,937.1	2,006.1	46.4	4,934.2
Depreciation	206.3	192.7	7.1	396.5
EBIT	2,730.8	1,813.4	50.6	4,537.7
Interest	103.1	73.6	40.1	185.3
Other income	185.2	91.2	103.1	265.0
PBT	2,812.9	1,831.0	53.6	4,617.4
Tax	806.8	532.0	51.7	1,355.1
PAT	2,006.1	1,299.0	54.4	3,262.3
EPS (Rs)	26.0	16.9	54.4	42.4
Margins (%)				
EBIDTA	36.6	28.1	-	31.5
EBIT	34.0	25.4	-	29.0
PBT	35.0	25.7	-	29.5
PAT	25.0	18.2	-	20.8

Source: Company, Religare Research

Valuation

Industry prospects remain robust

The fundamentals of the cement sector have improved significantly with the boom in India's housing sector, increased activity in infrastructure development and strong global demand. With the large-scale infrastructure activity being planned in the commercial, real estate, retail and housing sectors along with huge development works for roads, railways, ports, hydel projects and special economic zones, we expect the growth momentum in the sector to be sustained in the near future.

Demand for cement set to grow at 11% annually over 2007-12

The country's FY08-end installed cement capacity is likely to be ~190MnT with production and dispatches at ~170MnT. For the first half of this financial year, the industry has achieved a dispatch figure of 80.2MnT with a growth rate of 8.4% and capacity utilisation of more than 95%. As per projections made by the Indian government, demand for cement is likely to grow at 11% annually over the 11th plan period (2007-12). This rate of growth appears achievable going by the current trend.

Given the robust industry prospects and BCL's expansion plans, the stock holds potential; Buy

Maintain Buy with target of Rs 501 based on P/E of 10x on FY08E

We expect BCL to deliver a topline CAGR of 13.5% over FY07-FY09 to Rs 20.2bn with a PAT CAGR of 16.2% to Rs 4.4bn. The performance is likely to improve further as the capacity expansion comes onstream in FY09.

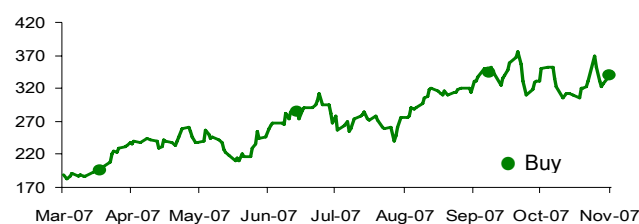
At the current price of Rs 326, the stock is traded at 6.5x on FY08E and 5.7x on FY09E, and an EV/EBITDA of 3.7x and 3.3x respectively. The EV/Tonne for FY08 at US\$108 is also attractive. With a healthy book value of Rs 132 at the end of the year and capacity expansion to 7.5MnT by December 2008, the stock holds strong potential. We thus recommend a Buy with a price target of Rs 501, based on a P/E of 10x on FY08E.

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Apr-07	Quarterly Preview	193	344	Buy
10-Jul-07	Quarterly Preview	284	350	Buy
05-Oct-07	Quarterly Preview	343	501	Buy
29-Nov-07	Company Update	326	501	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Financials

Profit and Loss statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	12,154.9	15,669.1	18,300.0	20,200.0
Growth (%)	6.7	28.9	16.8	10.4
EBITDA	1,787.6	4,934.2	6,300.0	7,070.0
Growth (%)	40.8	176.0	27.7	12.2
Depreciation	341.6	396.5	440.0	515.0
EBIT	1,446.0	4,537.7	5,860.0	6,555.0
Growth (%)	48.8	213.8	29.1	11.9
Interest	136.2	185.3	300.0	250.0
Other income	131.1	265.0	300.0	400.0
EBT	1,440.9	4,617.4	5,860.0	6,705.0
Growth (%)	53.8	220.4	26.9	14.4
Tax	183.3	1,355.1	2,000.0	2,300.0
Effective tax rate	12.7	29.3	34.1	34.3
Adj net income	1,257.6	3,262.3	3,860.0	4,405.0
Growth (%)	44.8	159.4	18.3	14.1
Shares outstanding (mn)	77.0	77.0	77.0	77.0
FDEPS (Rs)	16.3	42.4	50.1	57.2
DPS (Rs)	2.3	3.5	4.0	4.0
CEPS (Rs)	20.8	47.5	55.8	63.9

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY06	FY07	FY08E	FY09E
Net income	1,257.6	3,262.3	3,860.0	4,405.0
Depreciation	341.6	396.5	440.0	515.0
Other adjustments	(118.2)	(5.0)	-	-
Changes in WC	838.8	(915.0)	(29.9)	220.7
Operating cash flow	2,319.8	2,738.8	4,270.1	5,140.7
Capital expenditure	(1,471.7)	(333.0)	(3,200.0)	(3,028.5)
Investments	(651.1)	(2,447.6)	0.0	(1,000.0)
Other investing inc/(exp)	-	-	-	-
Investing cash flow	(2,122.8)	(2,780.6)	(3,200.0)	(4,028.5)
Free cash flow	197.0	(41.8)	1,070.2	1,112.2
Issue of equity	-	-	-	-
Issue/repay debt	302.2	108.7	170.9	(509.6)
Dividends paid	(197.6)	(315.3)	(360.4)	(360.4)
Others	-	-	-	-
Financing cash flow	104.6	(206.7)	(189.5)	(870.0)
Beg. cash & cash eq	290.7	592.3	343.9	1,224.6
Chg in cash & cash eq	301.6	(248.4)	880.7	242.2
Closing cash & cash eq	592.3	343.9	1,224.6	1,466.8

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY06	FY07	FY08E	FY09E
Cash and cash eq	592.3	343.9	1,224.6	1,466.8
Accounts receivable	224.8	272.2	350.7	443.0
Inventories	1,057.2	1,425.9	1,703.0	1,936.0
Others current assets	1,247.0	3,052.5	4,000.0	3,000.0
Current assets	3,121.4	5,094.6	7,278.3	6,845.8
LT investments	1,753.1	4,200.8	4,200.8	5,200.8
Net fixed assets	5,002.3	5,191.4	4,851.4	10,436.4
CWIP	301.4	71.5	3,171.5	100.0
Total assets	10,178.2	14,558.3	19,502.0	22,583.0
Payables	1,919.6	1,745.9	2,004.0	2,350.0
Others	1,104.7	2,584.9	3,600.0	2,800.0
Current liabilities	3,024.2	4,330.8	5,604.0	5,150.0
LT debt	2,717.8	2,826.5	2,997.4	2,487.8
Other liabilities	623.4	746.7	746.7	746.7
Equity capital	770.1	770.1	770.1	770.1
Reserves	3,042.7	5,884.3	9,383.9	13,428.5
Net worth	,3812.8	6,654.4	10,154.0	14,198.6
Total liabilities	10,178.2	14,558.3	19,502.0	22,583.0
BVPS (Rs)	49.5	86.4	131.9	184.4

Source: Company, Religare Research

Financial ratios

	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	14.7	31.5	34.4	35.0
EBIT margin (%)	11.9	29.0	32.0	32.5
Net profit margin (%)	10.3	20.8	21.1	21.8
FDEPS growth (%)	44.8	159.4	18.3	14.1
Receivables (days)	6.8	6.3	7.0	8.0
Inventory (days)	32	33	34	35
Payables (days)	58	41	40	42
Current ratio (x)	1.0	1.2	1.3	1.3
Interest coverage (x)	10.6	24.5	19.5	26.2
Debt/equity ratio (x)	0.1	0.0	0.0	0.0
ROE (%)	36.6	62.3	45.9	36.2
ROCE (%)	28.7	79.4	74.5	59.8
ROAE (%)	33.1	81.9	65.0	57.8
EV/Sales (x)	1.9	1.5	1.3	1.2
EV/EBITDA (x)	13.2	4.8	3.7	3.3
P/E (x)	20.0	7.7	6.5	5.7
P/BV (x)	6.6	4.0	2.1	1.3
P/CEPS (x)	15.7	7.4	5.0	3.8

Source: Company, Religare Research

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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

**Market cap over US\$ 1bn **Market cap less than US\$ 1bn*

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