

Birla Corporation Ltd.

03 January 2007

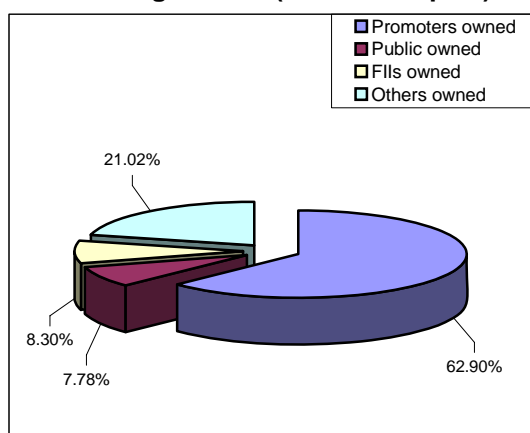
CMP-338
Price target-442

Stock statistics	03 January 2007
Market Cap (Rs Mn)	: 26,027.81
52-Week high/low (Rs)	: 386/179
Face value	: 10
BSE Code	: 500335
NSE Code	: BIRLAJUTE
Industry	: Cement
Shares outstanding	: 7,70,05,347
Avg. daily vol. (30 days)	: 25.60

Birla Corporation was established in 1919 by G D Birla. Birla Corporation formerly known as Birla Jute & Industries is under the flagship of M P Birla Group. The company manufactures cement, jute products, synthetic viscose industrial gases, auto trims and cotton yarn. The company has four divisions; namely cement, jute, vinoleum, and auto trim. The cement division with its seven plants manufactures ordinary 43 and 53 grade portland, fly ash-based portland pozzolana, sulphate-resistant cement etc. Birla Corporation has pioneered the utilization of jute felt for automotive applications. The jute division manufactures products for almost every major application of jute. It is a leading exporter of jute products to Europe, USA, Japan and others. The plant has an installed capacity of 38,000 MT. The vinoleum division has an installed capacity of 4.86 million sq m. of cushion vinyl flooring and PVC sheets. The autotrim division produces autotrim products like door trims, pillars, package trays and felt/carpet/insulation.

INVESTMENT RATIONALE

Shareholding Pattern (as on 30 Sep'07)



Key Statistics (as on 03 January 2007)

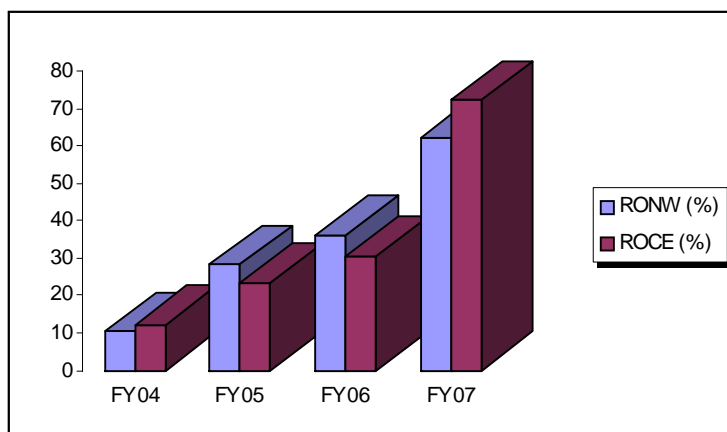
CMP	: 338
BV	: 111.38
PE	: 6.56
PB	: 3.03
Beta	: 1.38
Turnover (Rs Mn)	: 20.17
Net worth (Rs Mn)	: 6,567

- The cement sector, as a whole, is on an up move with most of the companies expected to record a significant jump in earnings triggered by the robust outlook for demand as well as buoyant prices. Government has increased spending on infrastructure and huge investments are flowing to the road and the power sectors. Other sectors like ports and airports will also see rise in investments over the next 6 to 12 months. Demand in the housing sector and the revival in the capex cycle are further driving the demand for cement. The construction boom in some other developing countries will also help maintain export growth in next few years and Birla Corporation being pioneer in this sector will see huge surge in its volume.
- The Company has already embarked upon expansion projects at Satna and Chanderia, which would effectively enhance the cement capacity by 1.7 million tonnes. The expanded capacity would be commissioned during the calendar year 2008-09, in phases. With the Captive Power Plants already in operation and expansion projects under implementation, it is expected that the Cement Division of the Company should do well in the foreseeable future and would drive the future growth of the company.
- Birla Corporation is a suitable play on pickup in cement demand. Birla Corporation is among the top ten cement producers in India in terms of capacity as well as sales. The company has a high cost structure compared to its peers and consequently its earnings are highly sensitive to cement prices. As a result, a small increase in cement prices will lead to a proportionately higher jump in Birla Corp's operating profits compared to its peers which will help company in facing stiff competition and thereby maintain its growth pattern.

FINANCIAL STATEMENT ANALYSIS

Particulars	Rs. mn				
	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Revenues	3646.90	4092.80	4440.60	4092.50	3939.80
Growth (%)	-	12.23	8.50	(7.84)	(3.73)
Total Expenditure	2668.00	2688.60	2916.70	2655.00	2440.20
Operating Profit	978.90	1404.20	1523.90	1437.50	1499.60
Growth (%)	-	43.45	8.52	(5.67)	4.32
OPM	26.84	34.31	34.32	35.13	38.06
Other Income	52.70	55.30	118.50	87.50	97.70
EBIDT	1031.60	1459.50	1642.40	1525.00	1597.30
Interest	31.00	35.30	76.40	49.80	53.30
Depreciation	96.10	95.80	108.00	102.90	103.40
PBT	904.50	1328.40	1458.00	1372.30	1440.60
Tax	229.10	377.00	446.10	397.50	409.30
Adjusted PAT	675.40	951.40	1011.90	974.80	1031.30
Growth (%)	-	40.86	6.36	-3.67	5.80
Adjusted NPM	18.52	23.25	22.79	23.82	26.18
Reported PAT	675.40	951.40	1011.90	974.80	1031.30
EPS	8.80	12.40	13.10	12.70	13.40
Equity Capital	770.10	770.10	770.10	770.10	770.10

The company has posted excellent results for the quarter ended September 2007. The company net sales surged to Rs 3,940 million for the Q2FY08 versus the net sales of Rs 3,647 million for the Q2FY07 with the growth rate of 8%. The operating profit for the company rose to Rs 1,500 million for the Q2FY08 as against the operating profit of Rs 979 million for the Q2FY07 with the growth rate of 53%. The operating profit margin rose sharply to 38.06% for the Q2FY08 versus the operating profit margin of 26.84%. The EBITDA for the company stood at Rs 1,597 million for the Q2FY08 versus the EBITDA of Rs 1,032 million for the Q2FY07 with the growth rate of 55%. The EBITDA margins show a sharp increase rising to 40.54% for the Q2FY08 versus the EBITDA margin of 28.29% for the Q2FY07. The company posted the net profit of Rs 1,031 million for the Q2FY08 in comparison to the net profit of Rs 675 million with the growth rate of 53%. The net profit margins rose to 26.18% for the Q2FY08 versus the net profit margin of 18.52%.



The company with strong growth history has generated huge returns for its capital providers. The company has very efficiently and effectively managed its resources and has very well quantified them to generate returns. The Return on Net Worth stood at 10.40%, 28.30%, 36.30% and 62.30% for the financial year ended FY04, FY05, FY06 and FY07 whereas Return on Capital Employed stood at 12.00%, 23.40%, 30.40% and 72.20% for the above years ended respectively. The company with the diversified business model and strong presence across the value chain is expected to generate handsome returns continuously. Therefore, the company is very well rewarding its investors for the risk taken by them.

VALUATION

The company is an appropriate play on uptrend in the cement sector due to its presence in the highly lucrative markets of north and central India along with its diversified business model. The company is having huge capital expenditure plans which would drive its future growth and volumes.

The stock at the current market price of Rs 338 is trading 6.56 times to its earnings and 3.03 times to its book value and is expected to generate huge returns in medium to long – term.

Therefore, we are initiating ‘BUY’ signal on the stock with the target price of Rs 442 which is approximately 31% up from the current market price of Rs 338.

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