

Birla Corporation Ltd

Results disappoint at bottom-line; better times ahead

Birla Corporation's (BCL) reported Q3FY11 revenues and PAT below our and consensus estimates. While topline declined by 14.2% YoY to Rs 4.8bn, PAT slumped 38% to Rs 696mn. The company clocked an EBITDA/tonne of Rs 620 for the quarter vs. Rs 1,077 last year. We trim our estimates for FY11/FY12/FY13 by 9%/7%/7% to factor in lower Q3 results and company's higher power costs. We value the stock at a forward EV/EBITDA multiple of 4.0x, translating to a one year forward target price of Rs 490 (as against earlier Rs 520). We continue to believe that the company is the best mid-cap play in the domestic cement sector with operations in a high-growth region. The recent correction in last one largely factors in the subdued result and its at an attractive level for investors to accumulate the stock. Maintain BUY.

Revenues decline 14.2% YoY: BCL's topline declined 14.2% YoY and 1% QoQ to Rs 4.79bn, 8% below our estimate of 5.2bn. While cement volumes saw a decline of 2%, realizations declined by 11.5% YoY during the quarter. Jute segment also suffered YoY decline of 3.8%.

EBITDA margin drops 10 ppt YoY, improves 316bps QoQ: BCL's EBITDA margin contracted 10 ppt YoY to 19%, although improved sequentially 316 bps from 15.8% last quarter. The YoY dip was marginally below our estimates and is largely attributable to 11.5% decline in cement realisation and increase in power cost. The EBITDA/t stood at Rs 620 for the quarter versus Rs 1077 last year. EBIT margin in the Jute business also fell to -2.5% from 9.4% last quarter.

PAT declines by 38% YoY: PAT declined 38% YoY to Rs 696mn, 12% below our estimates. The interest cost increased significantly this quarter to Rs 157mn versus Rs 60mn last year.

We believe with cement volumes and pricing picking up in the central region and across the country, Q4FY11 is likely to see a rebound.

Estimates marginally tweaked; maintain BUY: We reduce our earnings estimates by 9%/7%/7% for FY11/FY12/FY13 to reflect lower results in the quarter and modestly trimmed outlook. At the CMP the stock is trading at 3.5x FY12E EV/EBITDA; we value the stock at a forward EV/EBITDA multiple of 4.0x, translating to a one year forward target price of Rs 490 (48% upside). Maintain BUY rating on the stock and believe investors can accumulate the stock at current levels as the recent correction in last one month largely factors in the subdued results during the quarter.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 332	Rs 490	BUY	HIGH

BSE	NSE	BLOOMBERG
500335	BIRLACORPN	BCORP IN

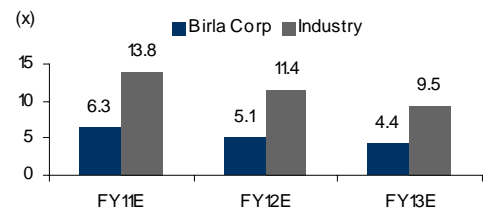
Company data

Market cap (Rs mn / US\$ mn)	25,567 / 560
Outstanding equity shares (mn)	77
Free float (%)	37.1
Dividend yield (%)	1.5
52-week high/low (Rs)	448 / 300
2-month average daily volume	28,652

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Birla Corp	332	(9.8)	(19.1)	(7.4)
Sensex	19,151	(4.6)	(5.0)	5.6

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	4.6	6.3	5.1	4.4
P/E @ Target	6.8	9.2	7.5	6.5
EV/EBITDA @ CMP	3.4	4.7	3.5	2.9

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	21,570	21,851	26,893	31,637
Growth (%)	20.5	1.3	23.1	17.6
Adj net income	5,576	4,061	5,041	5,841
Growth (%)	72.4	(27.2)	24.1	15.9
FDEPS (Rs)	72.4	52.7	65.5	75.8
Growth (%)	72.4	(27.2)	24.1	15.9

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	32.7	23.4	25.5	25.8
EBIT margin	30.1	20.4	22.1	22.1
Adj PAT margin	25.9	18.6	18.7	18.5
ROE	36.3	20.7	21.3	20.4
ROIC	26.5	13.4	14.6	14.8
ROCE	28.4	16.8	18.4	18.1



Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	4,794	5,226	(8.3)
EBITDA	910	968	(6.0)
Adj net income	696	791	(12.1)
FDEPS (Rs)	9.0	10.3	(12.1)

Source: RCML Research

Fig 2 - Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Revenue	4,794	5,589	(14.2)	4,843	(1.0)
Expenditure	3,884	3,963	(2.0)	4,077	(4.7)
Operating profit	910	1,626	(44.0)	766	18.8
Other income	321	215	49.2	370	(13.3)
Interest	157	60	160.8	119	31.6
Depreciation	171	144	18.8	156	9.4
PBT	904	1,637	(44.8)	862	4.9
Tax	208	513	(59.5)	171	21.4
PAT	696	1,124	(38.1)	690	0.8
EBITDA margin (%)	19.0	29.1	(1010bps)	15.8	316bps
FDEPS (Rs)	9.0	14.6	(38.1)	9.0	0.8

Source: Company, RCML Research

Estimates trimmed to factor in lower than estimated results and higher fuel costs.

Fig 3 - Revised estimates

	FY11E			FY12E				FY13E		
	Old	New	% Chg	Old	Old	New	% Chg	New	% Chg	
Revenue	22,959	21,851	(4.8)	27,190	26,893	(1.1)	31,986	31,637	(1.1)	
EBITDA margin (%)	25.3	23.4	-185bps	27.4	25.5	-192bps	27.7	25.8	-191bps	
Net profit	4,498	4,090	(9.1)	5,408	5,043	(6.8)	6,247	5,842	(6.5)	
FDEPS (Rs)	58.4	53.1	(9.1)	70.2	65.5	(6.8)	81.1	75.9	(6.5)	

Source: RCML Research



Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	21,570	21,851	26,893	31,637
Growth (%)	20.5	1.3	23.1	17.6
EBITDA	7,056	5,120	6,858	8,150
Growth (%)	65.7	(27.4)	34.0	18.8
Depreciation & amortisation	556	659	926	1,145
EBIT	6,499	4,461	5,932	7,005
Growth (%)	70.0	(31.4)	33.0	18.1
Interest	270	387	412	470
Other income	1,383	1,416	1,428	1,509
EBT	7,613	5,490	6,947	8,043
Income taxes	2,036	1,429	1,907	2,203
Effective tax rate (%)	26.7	26.0	27.4	27.4
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	5,576	4,061	5,041	5,841
Adjustments	-	-	-	-
Adjusted net income	5,576	4,061	5,041	5,841
Growth (%)	72.4	(27.2)	24.1	15.9
Shares outstanding (mn)	77.0	77.0	77.0	77.0
FDEPS (Rs) (adj)	72.4	52.7	65.5	75.8
Growth (%)	72.4	(27.2)	24.1	15.9
DPS (Rs)	6.0	6.0	6.0	6.0

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	6,133	4,720	5,967	6,985
Non-cash adjustments	(430)	235	134	89
Changes in working capital	(894)	267	(699)	(499)
Cash flow from operations	4,808	5,222	5,402	6,576
Capital expenditure	(2,800)	(5,800)	(6,000)	(3,500)
Change in investments	(5,555)	-	1,000	(2,000)
Other investing cash flow	-	-	-	-
Cash flow from investing	(8,350)	(5,800)	(5,000)	(5,500)
Issue of equity	-	-	-	-
Issue/repay debt	4,368	(1,725)	-	501
Dividends paid	(631)	(314)	(541)	(541)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	196	(2,617)	(139)	1,036
Closing cash & cash eq	3,393	775	637	1,673

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	10.6	10.6	10.6	10.6
ROIC (%)	26.5	13.4	14.6	14.8
Invested capital (Rs mn)	22,271	27,131	31,889	36,728
EVA (Rs mn)	3,531	736	1,256	1,535
EVA spread (%)	15.9	2.7	3.9	4.2

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	3,393	775	637	1,673
Accounts receivable	221	299	442	693
Inventories	2,837	2,750	3,293	3,861
Other current assets	1,968	2,185	2,958	3,480
Investments	11,425	11,425	10,425	12,425
Gross fixed assets	14,300	20,378	28,378	31,878
Net fixed assets	6,987	12,406	19,479	21,834
CWIP	3,278	3,000	1,000	1,000
Intangible assets	-	-	-	-
Deferred tax assets, net	(795)	(809)	(824)	(839)
Other assets	-	-	-	-
Total assets	29,304	32,022	37,401	44,117
Accounts payable	3,650	4,125	4,885	5,727
Other current liabilities	-	-	-	-
Provisions	649	1,097	1,216	1,290
Debt funds	7,092	5,367	5,367	5,868
Other liabilities	-	-	-	-
Equity capital	770	770	770	770
Reserves & surplus	17,100	20,621	25,163	30,463
Shareholder's funds	17,912	21,433	25,933	31,233
Total liabilities	29,304	32,022	37,401	44,117
BVPS (Rs)	232.1	277.8	346.7	415.6

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	32.7	23.4	25.5	25.8
EBIT margin	30.1	20.4	22.1	22.1
Net profit margin	25.9	18.6	18.7	18.5
ROE	36.3	20.7	21.3	20.4
ROCE	28.4	16.8	18.4	18.1
Working Capital & Liquidity ratios				
Receivables (days)	4	4	5	7
Inventory (days)	60	61	55	56
Payables (days)	87	85	82	82
Current ratio (x)	2.3	1.5	1.5	1.7
Quick ratio (x)	1.0	0.3	0.2	0.4
Turnover & Leverage ratios (x)				
Gross asset turnover	1.5	1.3	1.1	1.1
Total asset turnover	0.9	0.7	0.8	0.8
Interest coverage ratio	24.1	11.5	14.4	14.9
Adjusted debt/equity	0.4	0.3	0.2	0.2
Valuation ratios (x)				
EV/Sales	1.1	1.1	0.9	0.8
EV/EBITDA	3.4	4.7	3.5	3.0
P/E	4.6	6.3	5.1	4.4
P/BV	1.4	1.2	1.0	0.8



Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	5,589	6,020	5,749	4,843	4,794
YoY growth (%)	23.6	5.5	17.2	(4.2)	(14.2)
QoQ growth (%)	10.5	7.7	(4.5)	(15.8)	(1.0)
EBITDA (Rs mn)	1,626	1,736	1,647	766	910
EBITDA margin (%)	29.1	28.8	28.6	15.8	19.0
Adj net income (Rs mn)	1,124	1,375	1,183	690	696
YoY growth (%)	38.1	51.6	(23.9)	(54.6)	(38.1)
QoQ growth (%)	(26.1)	22.3	(14.0)	(41.6)	0.8

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	74.1	73.3	74.0	72.6	72.6
Interest burden (PBT/EBIT)	114.1	117.1	123.1	117.1	114.8
EBIT margin (EBIT/Revenues)	21.4	30.1	20.4	22.1	22.1
Asset turnover (Revenues/Avg TA)	92.0	88.2	71.2	77.5	77.6
Leverage (Avg TA/Avg equitiy)	169.8	158.9	155.9	146.6	142.6
Return on equity	28.2	36.2	20.6	21.3	20.4

Company profile

BCORP, a part of the M P Birla group, has an installed capacity of 7.5mt spread across four cement units located in Madhya Pradesh, Rajasthan and West Bengal. Brownfield expansion at existing locations has increased the company's cement capacity by 1.7mt to 7.5mt, with plans for further additions of 1.8mt.

Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	62.9	62.9	62.9
FII's	7.8	8.1	7.8
Banks & FI's	12.4	12.5	12.9
Public	16.9	16.5	16.4

Recommendation history

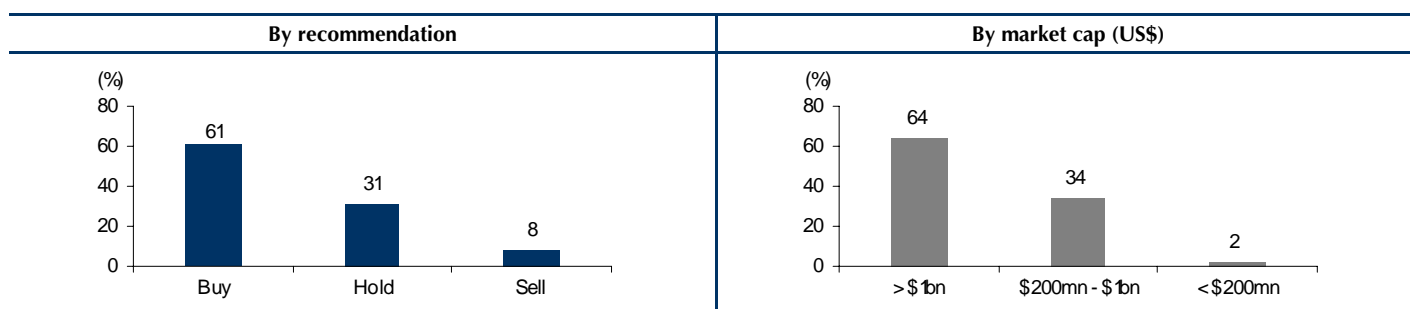
Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	116	127	Hold
28-Jan-09	Results Review	137	144	Hold
8-May-09	Results Review	205	197	Hold
28-Jul-09	Results Review	296	365	Buy
23-Oct-09	Results Review	301	365	Buy
6-Jan-10	Quarterly Preview	345	373	Buy
2-Feb-10	Results Review	355	427	Buy
26-Apr-10	Results Review	403	465	Buy
4-Aug-10	Company Update	360	500	Buy
26-Oct-10	Results Review	400	525	Buy
24-Jan-11	Results Review	332	480	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Religare Capital Markets Ltd

4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

Disclaimer

This document is NOT addressed to or intended for distribution to retail clients (as defined by the FSA).

This document is issued by Religare Capital Markets plc ("RCM") in the UK, which is authorised and regulated by the Financial Services Authority in connection with its UK distribution. RCM is a member of the London Stock Exchange.

This material should not be construed as an offer or recommendation to buy or sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action or any other matter. The material in this report is based on information that we consider reliable and accurate at, and share prices are given as at close of business on, the date of this report but we do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Any opinion expressed (including estimates and forecasts) is given as of the date of this report and may be subject to change without notice.

RCM, and any of its connected or affiliated companies or their directors or employees, may have a position in any of the securities or may have provided corporate finance advice, other investment services in relation to any of the securities or related investments referred to in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this briefing note.

RCM accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of or reliance upon all or any of this material howsoever arising. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss.

This document is confidential and is supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, South Africa or Japan or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local securities laws. If you have received this document in error please telephone Nicholas Malins-Smith on +44 (0) 20 7382 4479.