

## Birla Corporation

STOCK INFO.	BLOOMBERG
BSE SENSEX: 10,130	BJUT IN
	REUTERS CODE
S&P CNX: 2,981	BRLC. BO

28 June 2006

**Buy**
*Previous Recommendation: Buy*
**Rs218**

Equity Shares (m)	77.0
52-Week Range	413/164
1,6,12 Rel. Perf. (%)	-12/-22/-14
M.Cap. (Rs b)	16.8
M.Cap. (US\$ b)	0.4

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
03/06A	12,142	1,257	16.3	44.7	13.4	4.1	30.4	23.6	1.5	10.1
03/07E	14,489	1,656	21.5	31.7	10.1	3.1	30.3	29.9	1.3	6.0
03/08E	14,682	1,470	19.1	-11.2	11.4	2.3	20.4	23.3	1.2	6.3

- Birla Corp's non-cement business took a toll on its 4QFY06 performance. The company reported an EBITDA of Rs815m for the quarter against our estimate of Rs879m, as its non-cement business posted an operating loss of Rs55m. We had anticipated that the non-cement business division would break even.
- Net sales grew 14.5% YoY to Rs3.9b, driven by 33% growth in cement revenues to Rs3.5b. Cement volumes rose 18.7% YoY to 1.5m ton while realizations increased 11.8% to Rs2,325/ton. EBITDA moved up 73% YoY to Rs815m and EBITDA margins expanded 700bp YoY to 20.7%.
- Non-cement business continues to be a drag. However, the cement business is doing well – EBITDA/ton rose by Rs292 YoY and Rs344 QoQ in 4QFY06 to Rs605. At current cement prices, we estimate Birla Corp's EBITDA/ton at over Rs700 (against our projection of Rs530/ton for FY07).
- Lower interest cost (down 43% YoY) and lower tax provisioning at 3.8% of PBT (v/s our estimate of 31%) boosted the company's reported PAT. It posted a PAT of Rs671m against our expectation of Rs499m.
- At 10.1x FY07E EPS and FY07E EV/ton of US\$69, valuations appear fairly attractive. Considering the firm cement prices and attractive asset valuation, we maintain **Buy**.

**QUARTERLY PERFORMANCE**

(Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Cement Sales (m ton)	1.33	1.20	1.22	1.26	1.27	1.14	1.25	1.50	5.01	5.16
YoY Change (%)	8.7	5.8	5.7	1.4	-4.5	-5.1	2.7	18.7	5.4	3.0
Cement Realization	1,897	1,904	1,985	2,080	1,987	2,001	1,944	2,325	1,966	2,042
YoY Change (%)	5.7	9.4	16.0	-1.1	4.8	5.1	-2.1	11.8	6.6	3.8
QoQ Change (%)	-9.8	0.4	4.2	4.8	-4.5	0.7	-2.9	19.6		
<b>Net Sales</b>	<b>2,780</b>	<b>2,631</b>	<b>2,722</b>	<b>3,441</b>	<b>2,788</b>	<b>2,596</b>	<b>2,818</b>	<b>3,941</b>	<b>11,387</b>	<b>12,142</b>
YoY Change (%)	12.5	14.0	17.5	10.7	0.3	-1.3	3.5	14.5	11.6	6.6
Total Expenditure	2,358	2,415	2,552	2,970	2,355	2,330	2,545	3,125	10,117	10,355
<b>EBITDA</b>	<b>422</b>	<b>216</b>	<b>170</b>	<b>471</b>	<b>433</b>	<b>266</b>	<b>273</b>	<b>815</b>	<b>1,270</b>	<b>1,787</b>
Margins (%)	15.2	8.2	6.2	13.7	15.5	10.2	9.7	20.7	11.2	14.7
Depreciation	71	73	81	74	73	76	89	104	298	342
Interest	50	49	44	75	30	27	37	43	217	136
Other Income	18	45	19	92	35	50	19	29	182	131
<b>Profit Before Tax</b>	<b>319</b>	<b>140</b>	<b>64</b>	<b>415</b>	<b>366</b>	<b>212</b>	<b>165</b>	<b>698</b>	<b>937</b>	<b>1,441</b>
Tax	24	6	5	33	133	31	-7	26	68	183
Rate (%)	7.6	4.3	7.5	8.0	36.4	14.5	-4.1	3.8	7.3	12.7
<b>Adjusted PAT</b>	<b>295</b>	<b>134</b>	<b>60</b>	<b>381</b>	<b>232</b>	<b>181</b>	<b>172</b>	<b>671</b>	<b>869</b>	<b>1,257</b>
Margins (%)	10.6	5.1	2.2	11.1	8.3	7.0	6.1	17.0	7.6	10.4
YoY Change (%)	179.5	-	-	17.8	-21.2	35.5	189.4	76.0	183.4	44.7

E: MOST Estimates

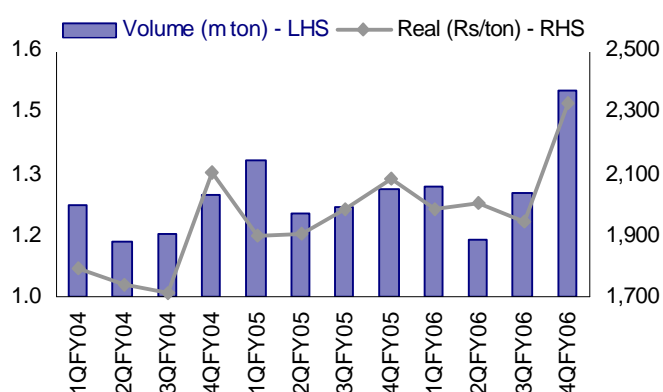
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Higher volumes, better realizations drive revenue growth. Net sales grew 14.5% YoY to Rs3.9b as a result of sharp growth in cement revenues. On account of strong demand in its target markets, Birla Corp's cement volumes grew 18.7% YoY to 1.5m ton. Cement realizations increased 11.8% YoY and 19.6% QoQ to Rs2,325/ton. As a result, cement revenues were up 32.6% YoY to Rs3.5b.

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



Source: Company / Motilal Oswal Securities

Non-cement business revenues declined 43% YoY. This is mainly because the previous year's non-cement revenues also included some trading sales. Also, jute revenues declined 7% YoY.

REVENUE BREAK-UP (RS M)

	4QFY06	4QFY05	YOY (%)
<b>Gross revenues</b>			
Cement	3,487	2,629	32.6
Contribution (%)	88.3	76.3	
Jute	384	413	-7.0
Contribution (%)	9.7	12.0	
Others	76	403	-81.1
Contribution (%)	1.9	11.7	
<b>Total</b>	<b>3,948</b>	<b>3,446</b>	<b>14.6</b>

Source: Company/ Motilal Oswal Securities

### Non-cement business division continues to be a drag

On account of sharp improvement in the operating performance of the cement division, Birla Corp's overall EBITDA moved up 73% YoY to Rs815m. Higher

realizations and savings on fuel cost reflected in sharp EBITDA margin expansion (up 700bp YoY and 1,100bp QoQ) to 20.7%.

However, the reported EBITDA of Rs815m was lower than our expectation of Rs880m mainly on account of a Rs55m operating loss by the non-cement division. Non-cement business has continued to act as a drag on Birla Corp's overall operating performance, which is a cause for concern.

SEGMENT-WISE PERFORMANCE (RS M)

	4QFY06	4QFY05	YOY (%)
<b>PBIT</b>			
Cement	815	337	142.1
Contribution (%)	106.2	90.5	
Jute	-25	17	-252.4
Contribution (%)	-3.3	4.5	
Others	-23	19	-219.7
Contribution (%)	-2.9	5.1	
<b>Total</b>	<b>767</b>	<b>372</b>	<b>106.2</b>

Source: Company/ Motilal Oswal Securities

### Lower interest and taxes boost PAT growth

On account of strong cash generation, Birla Corp's interest cost declined 43% YoY to Rs43m. Also, its tax provisioning at 3.8% of PBT was much lower than the 31% we had estimated. As a result, the company reported a PAT of Rs671m against our expectation of Rs499m. Birla Corp has also adjusted deferred tax liability of Rs337.7m from the securities premium account.

### Cement prices buoyant; outlook remains bright

Cement prices in Birla Corp's key markets – the northern, central and eastern regions – have firmed up further. The average realization for Birla Corp has moved up by Rs160/ton from the 4QFY06 level. At current realizations, we estimate its EBITDA/ton at over Rs700 (against our FY07 projection of Rs529/ton). We believe that Birla Corp will continue to post strong numbers in the coming quarters, given the firm cement prices.

**Valuation and view**

With its market mix concentrated in the structurally sound markets of northern and central India, its timely capacity expansion and potential power cost savings from captive power plants, Birla Corp is one of the best plays to ride the demand-excess scenario in the cement sector. At current

prices, the stock is quoting at 10.1x FY07E EPS. Its EV/ton (including 5.8m ton of expanded capacity) works out to US\$69, which is at a discount to its comparable peers. We believe that the discount is not justified, and valuations, based on both earnings as well as replacement cost, are compelling. We maintain **Buy**.

## 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 4.8m ton in the lucrative markets of north and central India.
- Being a relatively high-cost producer, profits would rise disproportionately in a scenario of rising cement prices.
- Power cost/unit to come down FY06 onwards, as it is setting up a 54 MW (27x2) thermal power plant at Satna and Chittorgarh.

### Key investment risks

- Earnings are highly sensitive to realizations (every Re1/bag change in realizations results in a 3.8% change in FY07E net profit).
- Delay in expansion of capacity and setting-up of power plant would result in time and cost overrun.

### Recent developments

- 1m ton grinding unit has commenced operations from 24 December 2005.
- Has announced another 1.5m ton expansion.

### Valuation and view

- Profits are expected to grow at a CAGR of 44% during FY05-07E, driven by higher realizations and cost savings from captive power plant
- The stock trades at 10.1x FY07E EPS. On asset valuations too, the stock quotes at a discount to peers at an EV/ton of US\$69 for FY07E.
- We recommend **Buy**.

### Sector view

- Volume expected to grow by 8% driven by continuous momentum in housing and infrastructure projects
- Improved demand supply dynamics due to limited capacity addition in previous years. However, Greenfield capacity addition can disturb the tight demand supply scenario
- Near term outlook for sector remains positive but longer-term prospects will be determined by sector's allocation of cash flow.

#### COMPARATIVE VALUATIONS

		BIRLA CORP	GACL	ULTRATECH
P/E (x)	FY07E	10.1	17.7	16.4
	FY08E	11.4	15.3	15.8
P/BV (x)	FY07E	3.1	4.9	4.5
	FY08E	2.3	4.1	3.7
EV/Sales (x)	FY07E	1.3	3.4	1.8
	FY08E	1.2	2.8	1.7
EV/EBITDA (x)	FY07E	6.0	10.5	8.1
	FY08E	6.3	8.5	7.8

#### SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	63.7	63.8	63.8
Domestic Institutions	15.9	16.1	18.1
FII's/FDIs	7.3	8.5	8.4
Others	13.1	11.7	9.8

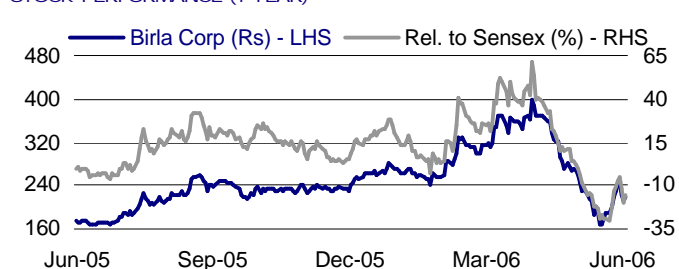
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	21.5	-	-
FY08	19.1	-	-

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
218	308	41.2	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
<b>Net Sales</b>	<b>10,343</b>	<b>11,387</b>	<b>12,142</b>	<b>14,489</b>	<b>14,682</b>
Change (%)	9.5	10.1	6.6	19.3	1.3
Total Expenditure	9,682	10,117	10,355	11,450	11,769
<b>EBITDA</b>	<b>660</b>	<b>1,270</b>	<b>1,787</b>	<b>3,039</b>	<b>2,914</b>
Margin (%)	6.4	11.2	14.7	21.0	19.8
Depreciation	337	298	342	476	558
<b>EBIT</b>	<b>324</b>	<b>972</b>	<b>1,446</b>	<b>2,564</b>	<b>2,355</b>
Int. and Finance Charges	251	217	136	233	278
Other Income - Rec.	344	182	131	144	120
<b>PBT</b>	<b>416</b>	<b>937</b>	<b>1,441</b>	<b>2,475</b>	<b>2,197</b>
Change (%)	524.3	125.2	53.7	71.8	-11.2
Tax	0	68	183	819	728
Tax Rate (%)	0.0	7.3	2.7	33.1	33.1
	<b>416</b>	<b>869</b>	<b>1,257</b>	<b>1,656</b>	<b>1,470</b>
Extra Ordinary Expenses	109	0	0	0	0
<b>PAT Adj for EO Items</b>	<b>307</b>	<b>869</b>	<b>1,257</b>	<b>1,656</b>	<b>1,470</b>
Change (%)	402.4	182.9	44.7	31.7	-11.2
Margin (%)	3.0	7.6	10.4	11.4	10.0

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
Equity Share Capital	770	770	770	770	770
Reserves	1805	2,358	3,364	4,688	6,446
<b>Net Worth</b>	<b>2,575</b>	<b>3,128</b>	<b>4,134</b>	<b>5,458</b>	<b>7,216</b>
Loans	2,071	2,416	2,126	3,009	2,630
Deferred Liabilities	110	286	430	603	757
<b>Capital Employed</b>	<b>4,756</b>	<b>5,829</b>	<b>6,689</b>	<b>9,070</b>	<b>10,603</b>
Gross Block	8995	8762	11912	14412	16912
Less: Accum. Deprn.	5775	5781	6139	6615	7173
<b>Net Fixed Assets</b>	<b>3,219</b>	<b>2,982</b>	<b>5,773</b>	<b>7,798</b>	<b>9,739</b>
Capital WIP	35	1048	500	100	100
Investments	981	1102	657	1182	773
<b>Curr. Assets</b>	<b>2,267</b>	<b>2,865</b>	<b>2,246</b>	<b>2,680</b>	<b>2,716</b>
Inventory	1030	1029	971	1159	1175
Account Receivables	269	562	364	435	440
Cash and Bank Balance	447	291	243	290	294
Others	521	982	668	797	808
<b>Curr. Liability &amp; Prov.</b>	<b>1,818</b>	<b>2,230</b>	<b>2,550</b>	<b>2,753</b>	<b>2,790</b>
Account Payables	1,731	2,098	2,428	2,608	2,643
Provisions	87	132	121	145	147
<b>Net Current Assets</b>	<b>449</b>	<b>634</b>	<b>-304</b>	<b>-72</b>	<b>-73</b>
Misc Expenditure	71	63	63	63	63
<b>Appl. of Funds</b>	<b>4,756</b>	<b>5,829</b>	<b>6,690</b>	<b>9,070</b>	<b>10,602</b>

E: MOST Estimates

RATIOS					
Y/E MARCH	2004	2005	2006	2007E	2008E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>4.0</b>	<b>11.3</b>	<b>16.3</b>	<b>21.5</b>	<b>19.1</b>
Cash EPS	8.4	15.2	20.8	27.7	26.3
BV/Share	32.5	39.8	52.9	70.1	92.9
DPS	10	15	2.9	3.8	5.1
Payout (%)	20.9	15.2	20.0	20.0	29.9
<b>Valuation (x)</b>					
P/E		19.3	13.4	10.1	11.4
Cash P/E		14.4	10.5	7.9	8.3
P/BV		5.5	4.1	3.1	2.3
EV/Sales		16	15	13	12
EV/EBITDA		14.0	10.1	6.0	6.3
EV/Ton - Cap (US\$)		81	67	69	69
Dividend Yield (%)		0.7	1.3	1.7	2.3
<b>Return Ratios (%)</b>					
RoE	11.9	27.8	30.4	30.3	20.4
RoCE	14.0	19.8	23.6	29.9	23.3
<b>Working Capital Ratios</b>					
Debtor (Days)	10	18	11	11	11
Asset Turnover (x)	2.2	2.0	1.8	1.6	1.4
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.8	0.8	0.5	0.6	0.4

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006	2007E	2008E
Op.Profit/(Loss) before Tax	660	1,270	1,787	3,039	2,914
Interest/Dividends Recd.	344	182	131	144	120
Direct Taxes Paid	0	-68	-183	-819	-728
(Inc)/Dec in WC	294	-342	890	-184	5
<b>CF from Operations</b>	<b>1,297</b>	<b>1,042</b>	<b>2,625</b>	<b>2,180</b>	<b>2,311</b>
EO Expenses	109	0	0	0	0
<b>CF from Oper. incl EO</b>	<b>1,188</b>	<b>1,042</b>	<b>2,625</b>	<b>2,180</b>	<b>2,311</b>
(inc)/dec in FA	-243	-1,073	-2,585	-2,100	-2,500
(Pur)/Sale of Investments	88	-121	445	-525	408
<b>CF from Investments</b>	<b>-155</b>	<b>-1,194</b>	<b>-2,140</b>	<b>-2,625</b>	<b>-2,092</b>
Issue of Shares	-71	-176	0	0	728
(Inc)/Dec in Debt	-480	521	-146	1,056	-225
Interest Paid	-251	-217	-136	-233	-278
Dividend Paid	-87	-132	-251	-331	-439
<b>CF from Fin. Activity</b>	<b>-889</b>	<b>-4</b>	<b>-533</b>	<b>492</b>	<b>-215</b>
<b>Inc/Dec of Cash</b>	<b>253</b>	<b>-156</b>	<b>-48</b>	<b>48</b>	<b>4</b>
Add: Beginning Balance	194	447	291	243	290
<b>Closing Balance</b>	<b>447</b>	<b>291</b>	<b>242</b>	<b>290</b>	<b>294</b>



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#### Birla Corporation

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

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