

BSE SENSEX 17,481		S&P CNX 5,258		CMP: INR325		TP: INR466		Buy			
Bloomberg	BCORPIN										
Equity Shares (m)	77.0										
52-Week Range (INR)	434/251										
1,6,12 Rel. Perf. (%)	-10/2/-3										
M.Cap. (INR b)	25.0										
M.Cap. (USD b)	0.5										

Birla Corp's 2QFY12 performance was below estimates, with EBITDA of INR316m (v/s est INR715m) and PAT of INR261m (v/s est INR584m), impacted by lower volumes, higher costs and forex loss.

- Cement volumes grew just by 2% YoY (-7% QoQ) to 1.41mt (v/s est 1.45mt). Realizations declined by 6% QoQ (+3% YoY) to INR3,213/ton (v/s est INR3,023/ton), benefitting from improvement in market mix. Net sales grew by 6% YoY (-8% QoQ) to INR5.2b (v/s est INR4.9b).
- EBITDA margins declined by 20.4pp QoQ (-970bp YoY) to 6.1% (v/s est 14.6%) and PAT de-grew by 77% QoQ (-62% YoY) to INR261b.
- Cost/ton has increased by INR565/ton QoQ (+INR420/ton YoY, v/s est increase of INR200/ton QoQ), driven by higher RM, energy cost and other expenses (due to Fx loss of INR138m).
- Its Rajasthan plant (~2mt capacity) operation are impacted w.e.f 20/August/2011 due to mining ban order within 10Kms of the Chittorgarh Fort. While its 2QFY12 volumes would have limited impact due to clinker inventory, prolong ban would severely curtail its operation at Rajasthan plant. It has appealed the order and expects it to be heard in Dec-11.
- The board has announced interim dividend of INR2.5/share.
- We are marginally downgrading our FY12 EPS by 1% for FY12 to INR50.2 and FY13 by 5% to INR55.2, to factor in for higher energy cost and RM cost (due to mining issue at Rajasthan plant). The stock trades at 5.9x FY13 EPS, 4.1x EV/EBITDA and USD54/ton. Maintain **Buy** with target price of INR466 (5x FY13 EV/EBITDA).

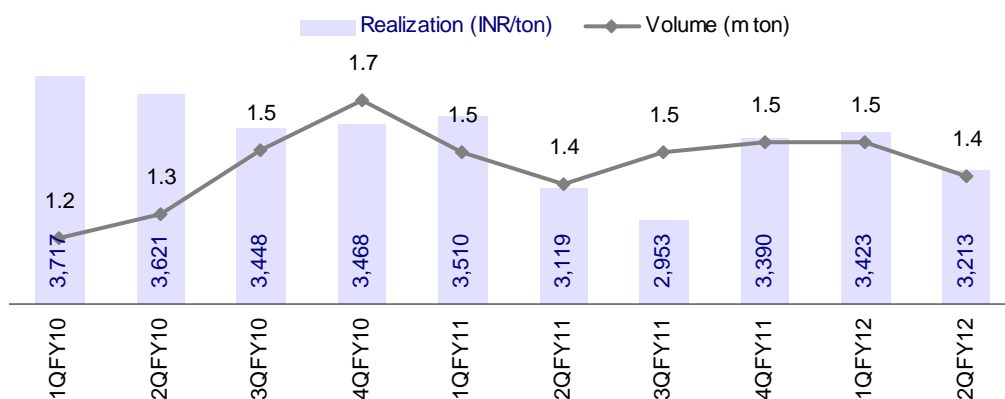
Y/E March	(INR Million)									
	FY11				FY12E				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Cement Sales (m ton)	1.49	1.39	1.49	1.52	1.52	1.41	1.50	1.65	5.94	6.09
YoY Change (%)	23.0	7.6	-0.8	-8.0	2.0	2.0	0.9	8.6	5.1	2.5
Cement Realization	3,510	3,119	2,953	3,390	3,423	3,213	3,513	3,716	3,216	3,476
YoY Change (%)	-5.6	-13.9	-14.4	-2.3	-2.5	3.0	19.0	9.6	-9.4	8.1
QoQ Change (%)	1.2	-11.1	-5.3	14.8	1.0	-6.1	9.3	5.8		
<b>Net Sales</b>	<b>5,749</b>	<b>4,843</b>	<b>4,794</b>	<b>5,889</b>	<b>5,585</b>	<b>5,155</b>	<b>5,799</b>	<b>6,805</b>	<b>21,274</b>	<b>23,345</b>
YoY Change (%)	17.2	-4.2	-14.2	-2.2	-2.8	6.4	21.0	15.6	-1.4	9.7
Total Expenditure	4,102	4,077	3,884	5,029	4,103	4,840	4,687	4,868	17,091	18,497
<b>EBITDA</b>	<b>1,647</b>	<b>766</b>	<b>910</b>	<b>860</b>	<b>1,483</b>	<b>316</b>	<b>1,112</b>	<b>1,937</b>	<b>4,184</b>	<b>4,848</b>
Margins (%)	28.6	15.8	19.0	14.6	26.5	6.1	19.2	28.5	19.7	20.8
Depreciation	140	157	171	181	175	178	185	196	648	734
Interest	139	119	157	112	120	117	160	163	526	560
Other Income	285	370	321	392	351	275	350	555	1,368	1,530
<b>Profit before Tax</b>	<b>1,653</b>	<b>861</b>	<b>904</b>	<b>959</b>	<b>1,538</b>	<b>295</b>	<b>1,117</b>	<b>2,133</b>	<b>4,377</b>	<b>5,084</b>
Tax	470	171	208	329	420	34	279	538	1,178	1,271
Rate (%)	28.4	19.9	23.0	34.3	27.3	11.5	25.0	25.2	26.9	25.0
<b>Reported PAT</b>	<b>1,183</b>	<b>690</b>	<b>696</b>	<b>630</b>	<b>1,119</b>	<b>261</b>	<b>838</b>	<b>1,595</b>	<b>3,199</b>	<b>3,813</b>
<b>Adjusted PAT</b>	<b>1,183</b>	<b>690</b>	<b>696</b>	<b>630</b>	<b>1,119</b>	<b>261</b>	<b>838</b>	<b>1,595</b>	<b>3,199</b>	<b>3,813</b>
Margins (%)	20.6	14.2	14.5	10.7	20.0	5.1	14.5	23.4	15.0	16.3
YoY Change (%)	-23.9	-54.6	-38.0	-54.2	-5.4	-62.1	20.4	153.0	-42.6	19.2

E: MOSL Estimates

### Muted volumes and realizations results in muted revenues

- Net sales grew just by 6% YoY (-8% QoQ) to INR5.2b (v/s est INR4.9b).
- Cement volumes grew just by 2% YoY (-7% QoQ) to 1.41mt (v/s est 1.45mt), due to weak demand in its key market of North, East and Central India.
- Realizations declined by 6% QoQ (+3% YoY) to INR3,213/ton (v/s est INR3,023/ton). As a result cement revenues were grew just by 5% YoY (13% QoQ) to INR4.5b.
- Non-cement business (Jute & others) revenues grew by 18% YoY to INR620m.

### Trend in volumes and realizations



Source: Company/MOSL

### Trend in revenue mix (INR m)

	2QFY12	2QFY11	YoY (%)	1QFY12	QoQ (%)
Cement	4,540	4,320	5.1	5,202	-12.7
Contribution (%)	88.0	89.2		93.1	
Jute	590	497	18.8	355	66.2
Contribution (%)	11.4	10.3		6.4	
Others	30	28	5.6	32	-7.4
Contribution (%)	0.6	0.6		0.6	
<b>Net sales</b>	<b>5,160</b>	<b>4,845</b>	<b>6.5</b>	<b>5,590</b>	<b>-7.7</b>

Source: Company/MOSL

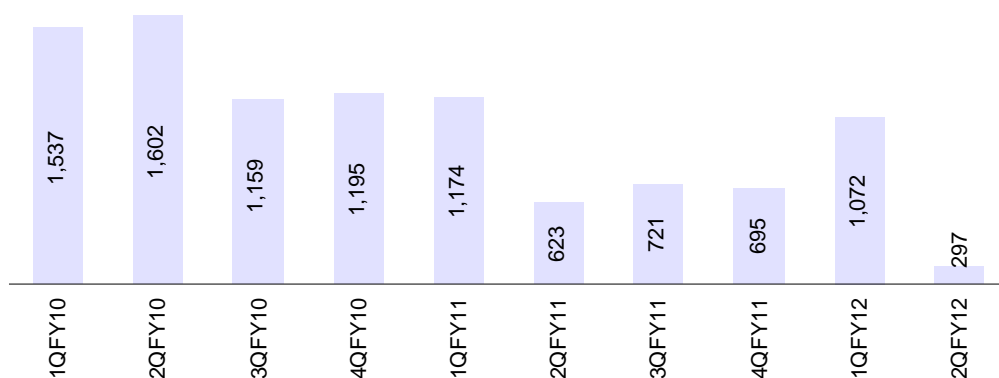
### Lower realizations, higher costs hurts profitability

- EBITDA margins declined by 20.4pp QoQ (-970bp YoY) to 6.1% (v/s est 14.6%) and PAT de-grew by 77% QoQ (-62% YoY) to INR261b.
- Cost/ton has increased by INR565/ton QoQ (+INR420/ton YoY, v/s est increase of INR200/ton QoQ), driven by higher RM, energy cost and other expenses (due to Fx loss of INR138m).
- Non-cement businesses reported PBIT loss of INR3m (v/s INR39m PBIT in 2QFY11 v/s -INR17m in 1QFY12).

### Trend in PBIT mix (INR m)

	2QFY12	2QFY11	YoY (%)	1QFY12	QoQ (%)
Cement	242	706	-65.8	1,454	-83.4
Contribution (%)	101.3	94.8		100.6	
Jute	5	47	-88.6	-13	-142.4
Contribution (%)	2.2	6.3		-0.9	
Others	-8	-8	3.8	-4	102.4
Contribution (%)	-3.5	-1.1		-0.3	
<b>Total</b>	<b>239</b>	<b>745</b>	<b>-67.9</b>	<b>1,445</b>	<b>-83.5</b>

Source: Company/MOSL

**Trend in cement EBITDA (INR/ton)**

Source: Company/MOSL

**Mining ban at Rajasthan plant to hurt volumes, profitability**

- Birla Corp's Rajasthan plant (~2mt capacity) operation are impacted w.e.f 27/August/2011 due to mining ban order within 10Kms of the Chittorgarh Fort.
- While its 3QFY12 volumes would have limited impact due to clinker inventory, prolong ban would severely curtail its operation at Rajasthan plant. It lost production of 0.115mt of clinker and 0.08mt of cement during September 2011
- It has appealed the order and expects it to be heard in December 2011.
- It is comfortably placed till December 2011 with supply of clinker from Satna plant and purchases from open market, albeit at higher cost and lower profitability.
- Our estimates factors in no impact on volumes due to mining ban, but increase in cost as volumes are supplemented by purchased clinker and from Satna.

**Aggressive capex plans to invest INR16b over next 3 years**

The company has undertaken capex plan with total investment of INR16b, taking total capacity to 10.8mt and enhance supporting infrastructure by FY13-14. This is the most aggressive capex undertaken by the company in last few years. Its capex plans include:

- 2.7mt brownfield expansion at Chanderia, with commissioning from Mar-12 onwards (Phase-I of 1.2MT in Mar-12 & Phase-II of 1.5MT in FY13). This expansion would be dependent on restoration of mining ban at its Chanderia plant.
- 0.6mt brownfield expansion at Durgapur commissioning by Mar-12
- 0.5mt coal washery at Satna
- 35MW CPP at Satna, 50MW CPP at Chanderia and 17.5MW at West Bengal (awaiting regulatory clearance for all three).
- 22.5MW waste heat recovery based power plants (of which 15MW commissioned operations in 3QFY11).
- 1mt greenfield plant in Assam in a JV with Assam Mineral Development Corporation.
- Developing coal block in MP with reserves of 21mt, with expected mining from FY14.

It would be funding its capex plans largely through internal accruals, as it has net cash of ~INR3.9b (Mar-11) and would generate cash flow from operations of INR4-5b p.a atleast.

**Valuation and view**

- We are marginally downgrading our FY12 EPS by 1% for FY12 to INR50.2 and FY13 by 5% to INR55.2, to factor in for higher energy cost and RM cost (due to mining issue at Rajasthan plant).
- It has very strong balance sheet with net cash of INR50/share in FY11, enabling it to invest for future growth without put pressure on balance sheet.
- The stock trades at 5.9x FY13 EPS, 4.1x EV/EBITDA and USD54/ton, which is at a significant discount to its comparable peers.
- We believe the discount is not justified and valuations, based on earnings as well as replacement cost, are extremely attractive. Maintain **Buy** with target price of INR466 (5x FY13 EV/EBITDA).

## 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. It has cement plants at Rajasthan, MP, UP and West Bengal.

### Key investment arguments

- Among the top-10 cement producers in India with a capacity of 7.5m ton in the markets of north and central India.
- Strong balance sheet, with zero net debt, provides good platform to grow organically as well as inorganically.
- New capacity of 3.3mt to drive volume growth in FY11 onwards.

### Key investment risks

- Delay in capacity expansion would result in time and cost overrun, as well as muted volumes growth
- Increase in energy cost would impact over profitability.

### Recent development

- The board has announced interim dividend of INR2.5/share.

### Valuation and view

- The stock trades at 5.9x FY13 EPS, 4.1x EV/EBITDA and USD54/ton.
- Maintain **Buy** with target price of INR466 (5x FY13 EV/EBITDA).

### Sector view

- Although sector would continue to be plagued by over-capacity at least till Dec-11 and expect volatility in cement prices and cement companies' performance over next 6-9 months.
- However, we believe we have already witnessed bottom-of-the-cycle utilization & profitability, and it should gradually improve hereon given sustainable demand drivers.
- Next 6-9 months to witnessed increased level of volatility in cement prices.

### Comparative valuations

		Birla Corp	Shree Cement	Ultratech
P/E(x)	FY12E	6.6	12.2	14.2
	FY13E	5.9	10.3	11.3
P/BV(x)	FY12E	1.1	3.1	2.5
	FY13E	0.9	3.1	2.1
EV/Ton (USD)	FY12E	61	92	131
	FY13E	54	87	103
EV/EBITDA(x)	FY12E	5.0	6.9	7.8
	FY13E	4.1	5.2	6.2

### EPS: most forecast v/s consensus (INR)

	Most Forecast	Consensus Forecast	Variation (%)
FY12	49.5	43.8	13.1
FY13	55.2	54.7	1.0

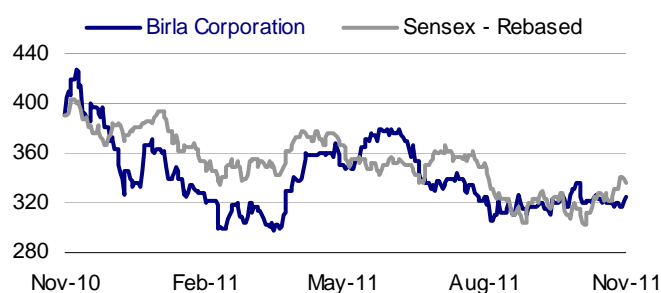
### Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
325	466	43.4	Buy

### Shareholding Pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	62.9	62.9	62.9
Domestic Inst	14.2	13.3	12.5
Foreign	7.0	7.1	8.1
Others	15.9	16.7	16.5

### Stock performance (1 year)



## Financials and Valuations

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
<b>Net Sales</b>	<b>17,907</b>	<b>21,570</b>	<b>21,274</b>	<b>23,345</b>	<b>27,248</b>	
Change (%)	3.8	20.5	-1.4	9.7	16.7	
Total Expenditure	13,649	14,519	17,091	18,497	20,990	
<b>EBITDA</b>	<b>4,258</b>	<b>7,051</b>	<b>4,184</b>	<b>4,848</b>	<b>6,258</b>	
Change (%)	-26.2	65.6	-40.7	15.9	29.1	
Margin (%)	23.8	32.7	19.7	20.8	23.0	
Depreciation	434	556	648	734	1,076	
<b>EBIT</b>	<b>3,824</b>	<b>6,495</b>	<b>3,535</b>	<b>4,114</b>	<b>5,182</b>	
Int. and Finance Charges	221	270	526	560	612	
Other Income - Rec.	761	1,383	1,368	1,530	1,170	
<b>PBT</b>	<b>4,365</b>	<b>7,608</b>	<b>4,377</b>	<b>5,084</b>	<b>5,740</b>	
Change (%)	-20.8	74.3	-42.5	16.2	12.9	
Tax	1,130	2,036	1,178	1,271	1,492	
Tax Rate (%)	25.9	26.8	26.9	25.0	26.0	
<b>PAT</b>	<b>3,235</b>	<b>5,572</b>	<b>3,199</b>	<b>3,813</b>	<b>4,247</b>	
Extra Ordinary Expenses	0	0	0	0	0	
<b>PAT Adj for EO Item:</b>	<b>3,235</b>	<b>5,572</b>	<b>3,199</b>	<b>3,813</b>	<b>4,247</b>	
Change (%)	-17.8	72.2	-42.6	19.2	11.4	
Margin (%)	18.1	25.8	15.0	16.3	15.6	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Equity Share Capital	770	770	770	770	770	
Reserves	12,107	17,142	19,809	22,992	26,563	
<b>Net Worth</b>	<b>12,877</b>	<b>17,912</b>	<b>20,579</b>	<b>23,762</b>	<b>27,333</b>	
Loans	2,764	7,092	10,158	10,206	10,206	
Deferred Liabilities	772	795	1,125	922	750	
<b>Capital Employed</b>	<b>16,414</b>	<b>25,799</b>	<b>31,862</b>	<b>34,890</b>	<b>38,289</b>	
Gross Block	13542	14300	17513	24403	29403	
Less: Accum. Deprn.	6942	7313	7759	8493	9569	
<b>Net Fixed Assets</b>	<b>6,600</b>	<b>6,987</b>	<b>9,754</b>	<b>15,910</b>	<b>19,834</b>	
Capital WIP	1419	3278	4889	5000	5000	
Investments	5523	11417	11692	3000	3000	
<b>Curr. Assets</b>	<b>6,837</b>	<b>8,418</b>	<b>10,559</b>	<b>15,714</b>	<b>15,907</b>	
Inventory	1929	2837	3596	4085	4768	
Account Receivables	200	221	443	700	817	
Cash and Bank Balance	3197	3393	3711	7894	6779	
Others	1511	1966	2810	3035	3542	
<b>Curr. Liability &amp; Prov.</b>	<b>3,965</b>	<b>4,299</b>	<b>5,032</b>	<b>4,735</b>	<b>5,452</b>	
Account Payables	3,296	3,650	4,507	3,735	4,360	
Provisions	669	649	526	999	1,092	
<b>Net Current Assets</b>	<b>2,872</b>	<b>4,118</b>	<b>5,527</b>	<b>10,980</b>	<b>10,455</b>	
Misc Expenditure	0	0	0	0	0	
<b>Appl. of Funds</b>	<b>16,414</b>	<b>25,799</b>	<b>31,862</b>	<b>34,890</b>	<b>38,289</b>	

E: MOSL Estimates

Ratios		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
<b>Basic (INR)</b>						
<b>EPS</b>	<b>42.0</b>	<b>72.4</b>	<b>41.5</b>	<b>49.5</b>	<b>55.2</b>	
Cash EPS	47.6	79.6	50.0	59.0	69.1	
BV/Share	167.2	232.6	267.2	308.6	354.9	
DPS	4.5	6.0	6.0	7.0	7.5	
Payout (%)	12.5	9.7	16.9	16.5	15.9	
<b>Valuation (x)</b>						
P/E			7.8	6.6	5.9	
Cash P/E			6.5	5.5	4.7	
P/BV			1.2	1.1	0.9	
EV/Sales			0.9	1.0	0.9	
EV/EBITDA			4.7	5.0	4.1	
EV/Ton - Cap (US\$)			53	61	54	
Dividend Yield (%)			1.8	2.2	2.3	
<b>Return Ratios (%)</b>						
RoE	25.1	31.1	15.5	16.0	15.5	
RoCE	27.9	30.5	15.4	16.2	16.6	
<b>Working Capital Ratios</b>						
Inventory (Days)	39	48	62	64	64	
Debtor (Days)	4	4	8	11	11	
Working Capital Turnover	1.1	0.8	0.7	0.7	0.7	
<b>Leverage Ratio</b>						
Current ratio	1.7	2.0	2.1	3.3	2.9	
Debt/Equity (x)	0.2	0.4	0.5	0.4	0.4	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Op.Profit/(Loss) before T.	4,482	7,301	4,456	4,848	6,258	
Interest/Dividends Recd.	223	567	719	1,530	1,170	
Direct Taxes Paid	-1,045	-1,913	-1,089	-1,474	-1,664	
(Inc)/Dec in WC	611	-894	-687	-1,270	-590	
<b>CF from Operations</b>	<b>4,270</b>	<b>5,060</b>	<b>3,398</b>	<b>3,633</b>	<b>5,173</b>	
<b>CF from Oper. incl Et</b>	<b>4,270</b>	<b>5,060</b>	<b>3,398</b>	<b>3,633</b>	<b>5,173</b>	
(inc)/dec in FA	-1,947	-2,795	-4,927	-7,000	-5,000	
(Pur)/Sale of Investments	1,109	-5,555	-152	8,692	0	
<b>CF from Investments</b>	<b>-838</b>	<b>-8,350</b>	<b>-5,079</b>	<b>1,692</b>	<b>-5,000</b>	
(Inc)/Dec in Debt	46	4,368	3,104	48	0	
Interest Paid	-236	-252	-566	-560	-612	
Dividend Paid	-360	-631	-539	-631	-676	
<b>CF from Fin. Activity</b>	<b>-550</b>	<b>3,485</b>	<b>1,999</b>	<b>-1,142</b>	<b>-1,288</b>	
<b>Inc/Dec of Cash</b>	<b>2,882</b>	<b>196</b>	<b>318</b>	<b>4,183</b>	<b>-1,115</b>	
Add: Beginning Balance	315	3,197	3,393	3,711	7,894	
<b>Closing Balance</b>	<b>3,197</b>	<b>3,393</b>	<b>3,711</b>	<b>7,894</b>	<b>6,779</b>	

**N O T E S**

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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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