

21 May 2013

## Birla Corporation

Core disappoints; PAT higher; FY14 to be better; Buy

Rating: **Buy**

Target Price: ₹360

Share Price: ₹266

### Key takeaways

**2% yoy revenue growth.** Birla Corporation's aggregate revenues grew 2% yoy following 4% growth in cement. Cement volumes, at 1.71m tons, grew 5% yoy (10% qoq), the highest in any quarter despite the ban on mining limestone at the Chanderia facility. Realizations dipped 1% yoy (5% qoq) to ₹3,580 a ton due to weak prices in the Centre and East regions during the quarter. The jute division revenues, however, dropped 10% yoy due to production interruptions early in the quarter.

**EBITDA down 17%, PAT up 26% yoy.** Despite better volumes, EBITDA fell 17%, driven by cost inflation in power & fuel (up 17% yoy), freight (up 29% yoy), RM (up 36% yoy) and staff (up 25% yoy). EBITDA/ton at ₹375 (vs ₹505 yoy, ₹337 qoq) was lower than estimated. The jute division saw a turnaround with a positive PBIT of ₹16m vs a ₹25m loss yoy and ₹17m qoq. Resumption of work, together with machinery upgrading and manpower rationalization, could return it to profitability. Management expects a similar performance in FY14. PAT was better than estimated due to higher other income and lower interest and tax rate.

**Update on projects.** The company had filed a petition in the Supreme Court challenging the High Court order prohibiting mining and blasting at its Chanderia plant. It was permitted to carry on mining operations manually (without blasting) between 18 Mar and 14 Apr'13 to enable the CBRI to study the impact of mining on the Chittorgarh fort. The report is expected to be submitted shortly, after which the court will take up the matter. The company hopes for relief in the form of mining without blasting and will then pursue its 1.5m-ton expansion project.

**Our take.** The operating performance belied our estimates chiefly because of mounting cost pressures even as profit surprised positively. During FY14, we expect improvement. We maintain our Buy rating, with a target of ₹360 at which, the stock would trade at 4.5x Jun'14e EV/EBITDA, and an EV per ton of US\$45. Risk: Decline in cement prices.

Key data	BCORP IN / BRLC.BO
52-week high / low	₹342 / ₹202
Sensex / Nifty	20224 / 6157
3-m average volume	US\$0.12m
Market cap	₹20.5bn / US\$372m
Shares outstanding	77.0m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	62.9	62.9	62.9
- of which, Pledged	-	-	-
Free Float	37.1	37.1	37.1
- Foreign Institutions	4.9	4.7	4.7
- Domestic Institutions	15.9	16.0	15.5
- Public	16.3	16.4	16.9

Year-end: Mar	FY14e	FY15e
Sales (₹m)	28,822	31,863
Net profit (₹m)	3,058	3,368
EPS (₹)	39.7	43.7
Growth (%)	13.3	10.2
PE (x)	6.7	6.1
EV/EBITDA (x)	3.2	2.6
RoE (%)	11.9	12.0
RoCE (%)	9.6	10.0
Dividend yield (%)	3.0	3.3
Net gearing (x)	(0.2)	(0.2)

Source: Anand Rathi Research

Year-end 31 Mar	4QFY12	4QFY13	% yoy	FY12	FY13	% yoy
Sales (₹m)	6,500	6,658	2.4	22,469	25,638	14.1
EBITDA (₹m)	801	663	(17.2)	3,157	3,536	12.0
EBITDA margin (%)	12.3	10.0	(237)bps	14.0	13.8	(26)bps
Interest (₹m)	128	99	(22.0)	525	649	23.5
Depreciation (₹m)	259	272	5.2	800	1,044	30.5
Other income(₹m)	556	701	26.0	1,662	1,663	0.1
PBT (₹m)	970	992	2.2	3,493	3,507	0.4
Tax (₹m)	396	265	(33.0)	1,068	809	(24.3)
Tax rate (%)	40.8	26.8	(1,403)	30.6	23.1	(752)
Adj. PAT (₹m)	575	726	26.4	2,425	2,698	11.3

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuation

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	21,238	22,469	25,638	28,822	31,863
Revenue growth (%)	(1.5)	5.8	14.1	12.4	10.6
- Op. expenses	17,059	19,312	22,101	23,816	26,351
<b>EBIDTA</b>	<b>4,179</b>	<b>3,157</b>	<b>3,536</b>	<b>5,006</b>	<b>5,513</b>
EBITDA margin (%)	19.7	14.0	13.8	17.4	17.3
- Interest expenses	526	525	649	1,000	1,000
- Depreciation	648	800	1,044	1,094	1,144
+ Other income	1,372	1,662	1,663	1,585	1,585
- Tax	1,177	1,068	809	1,439	1,585
Effective tax rate (%)	26.9	30.9	23.1	32.0	32.0
Reported PAT	3,199	2,425	2,698	3,058	3,368
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	3,199	2,392	2,698	3,058	3,368
Adj. FDEPS (₹/share)	42	31	35	40	44
Adj. FDEPS growth (%)	(42.6)	(25.2)	12.8	13.3	10.2

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	770	770	770	770	770
Reserves & surplus	19,809	21,664	23,731	26,077	28,661
Net worth	20,501	22,358	24,425	26,771	29,355
Minority interest	-	-	-	-	-
Total Debt	10,158	12,275	12,784	12,784	12,784
Def. tax liab. (net)	1,125	1,532	2,117	2,417	2,717
<b>Capital employed</b>	<b>31,862</b>	<b>36,242</b>	<b>39,401</b>	<b>42,047</b>	<b>44,932</b>
Net fixed assets	14,644	18,622	19,614	20,020	20,376
Investments	11,692	10,448	12,707	13,005	13,005
- of which, Liquid	11,692	10,448	12,707	13,005	13,005
Net working capital	1,816	2,786	4,295	4,766	5,294
Cash and bank balance	3,711	4,386	2,786	4,256	6,257
<b>Capital deployed</b>	<b>31,862</b>	<b>36,242</b>	<b>39,401</b>	<b>42,047</b>	<b>44,932</b>
Net debt	(5,245)	(2,559)	(2,709)	(4,478)	(6,479)
WC days	22	37	50	57	58
Book value (₹/sh)	266	290	317	348	381

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

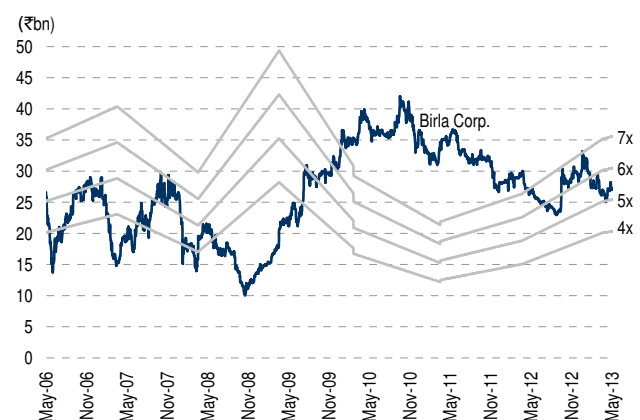
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	3,199	2,392	2,698	3,058	3,368
+ Non-cash items	978	1,207	1,628	1,394	1,444
Cash profit	4,177	3,599	4,326	4,452	4,812
- Incr./Decr. in WC	1,091	970	1,508	471	528
Operating cash-flow	3,087	2,629	2,818	3,981	4,285
- Capex	5,027	4,778	2,036	1,500	1,500
Free cash-flow	(1,941)	(2,149)	782	2,481	2,785
- Dividend	538	538	628	712	784
+ Equity raised	-	(0)	-	-	-
+ Debt raised	3,066	2,117	509	-	-
- Investments	276	(1,244)	2,259	298	-
- Misc. items	(6)	(0)	3	0	(0)
Net cash-flow	318	675	(1,600)	1,471	2,001
+ Op. cash & bank bal.	3,393	3,711	4,386	2,786	4,256
Cl. cash & bank bal.	3,711	4,386	2,786	4,256	6,257

Source: Company, Anand Rathi Research

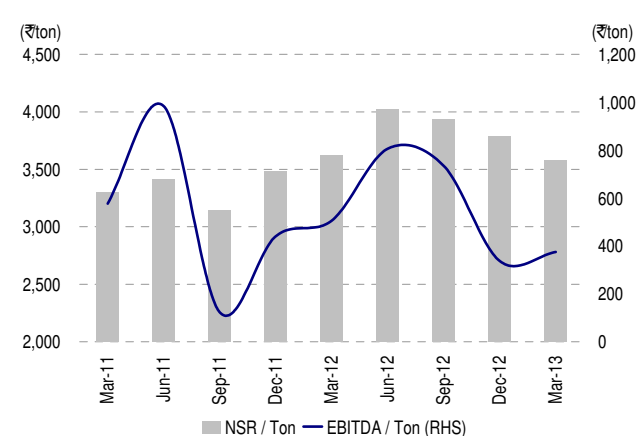
**Fig 4 – Ratio analysis @ ₹266**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	6.4	8.6	7.6	6.7	6.1
P/B (x)	1.0	0.9	0.8	0.8	0.7
P/CEPS (x)	5.3	6.4	5.5	4.9	4.5
EV/EBITDA (x)	3.7	5.8	5.7	3.2	2.6
EV/Ton (US\$)	34.9	36.1	37.5	30.2	26.7
RoE (%)	16.7	11.2	11.5	11.9	12.0
RoCE (%)	12.2	6.9	6.6	9.6	10.0
Net Debt / Equity (x)	(0.3)	(0.1)	(0.1)	(0.2)	(0.2)
Interest Coverage (x)	6.7	4.5	3.8	3.9	4.4
DPS (₹)	6.0	6.0	7.0	7.9	8.7
Dividend yield (%)	2.3	2.3	2.6	3.0	3.3
Dividend payout (%)	14.4	19.3	20.0	20.0	20.0
NSR/ton (₹)	3,235	3,428	3,827	4,300	4,500
EBITDA/ton (₹)	693	520	563	765	798
Volumes (m tons)	5.9	5.9	6.5	6.7	7.1

Source: Company, Anand Rathi Research

**Fig 5 – EV/EBITDA band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Quarterly per-ton NSR and EBITDA trend**


Source: Company, Anand Rathi Research

## Result highlights

Fig 7 – Performance, by segment

Segment	4QFY12	4QFY13	% yoy	FY12	FY13	% yoy
<b>Revenue</b>						
- Jute	567	511	(9.9)	1,962	782	(60.1)
- Cement	5,899	6,116	3.7	20,381	24,748	21.4
- Others	34	31	(11.1)	126	108	(14.7)
<b>Net Sales</b>	<b>6,500</b>	<b>6,658</b>	<b>2.4</b>	<b>22,469</b>	<b>25,638</b>	<b>14.1</b>
<b>PBIT</b>						
- Jute	(25)	16	L2P	6	(119)	
% of Revenue	-4.4%	3.2%		0.3%	-15.3%	
- Cement	637	594	(6.7)	3,137	3,425	9.2
% of Revenue	10.8%	9.7%		15.4%	13.8%	
- Others	(11)	(9)	(24.6)	(31)	(31)	3.0
<b>Total</b>	<b>601</b>	<b>601</b>	<b>0.1</b>	<b>3,112</b>	<b>3,274</b>	<b>5.2</b>
Less: Interest	128	99	(22.0)	525	649	23.5
Less: Other unalloc. exp. net of unalloc. inc.	(497)	(490)	(1.5)	(874)	(882)	0.9
<b>PBT</b>	<b>970</b>	<b>992</b>	<b>2.2</b>	<b>3,461</b>	<b>3,507</b>	<b>1.3</b>

Source: Company, Anand Rathi Research

### 2% yoy revenue growth

Birla Corporation's aggregate revenues grew 2% yoy following 4% growth in cement. Cement volumes, at 1.71m tons, grew 5% yoy (10% qoq), the highest in any quarter despite the ban on mining limestone at the Chanderia facility. Realizations dipped 1% yoy (5% qoq) to ₹3,580 a ton due to weakness in prices in the Central and Eastern regions during the quarter. The jute division revenues, however, dropped 10% yoy due to production interruptions in the early part of the quarter.

### EBITDA down 17%, PAT up 26% yoy

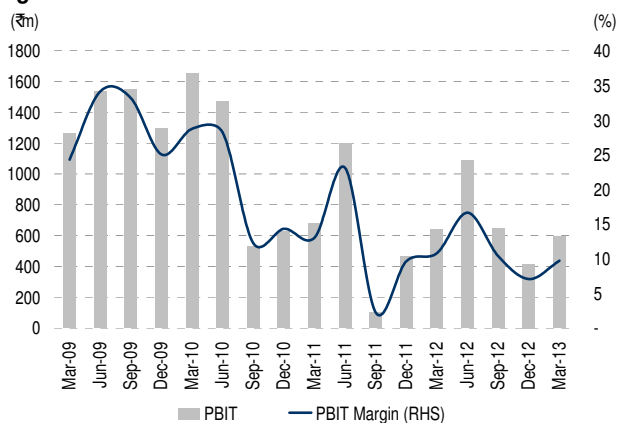
EBITDA declined 17% despite a 5% volume push, driven by cost inflation in areas of power & fuel (up 17% yoy), freight (up 29% yoy), RM (up 36% yoy) and staff costs (up 25% yoy). EBITDA/ton came in at ₹375 (vs ₹505 yoy and ₹337 qoq) much lower than estimated ₹500. Stoppage of rail movement during the quarter owing to the Kumbh Mela affected dispatches from the Satna and Raebareli units thereby increasing freight cost. The jute division saw a turnaround with a positive PBIT of ₹16m vs a loss of ₹25m yoy and ₹17m qoq. Resumption of work, together with machinery upgrading and manpower rationalization, could return the division to profitability. The management expects a similar performance in FY14.

Fig 8 – 4QFY13 results vs expectations

	4QFY13	4QFY13e	% Var	4QFY12	% yoy	3QFY13	% qoq
Sales (₹m)	6,658	7,087	(6.1)	6,500	2.4	6,126	8.7
EBITDA (₹m)	663	883	(25.0)	801	(17.2)	514	29.0
EBITDA margin (%)	10.0	12.5	251bps	12.3	(237)bps	8.4	157bps
EBITDA per ton (₹)	375	525	(28.6)	506	(25.9)	337	11.2
Interest (₹m)	99	171	(42.0)	128	(22.0)	171	(42.0)
Depreciation (₹m)	272	285	(4.4)	259	5.2	285	(4.4)
Other income(₹m)	701	400	75.2	556	26.0	270	159.3
PBT (₹m)	992	827	19.9	970	2.2	328	202.6
Tax (₹m)	265	289	(8.4)	396	(33.0)	6	4,637.5
PAT (₹m)	726	538	35.1	575	26.4	322	125.5

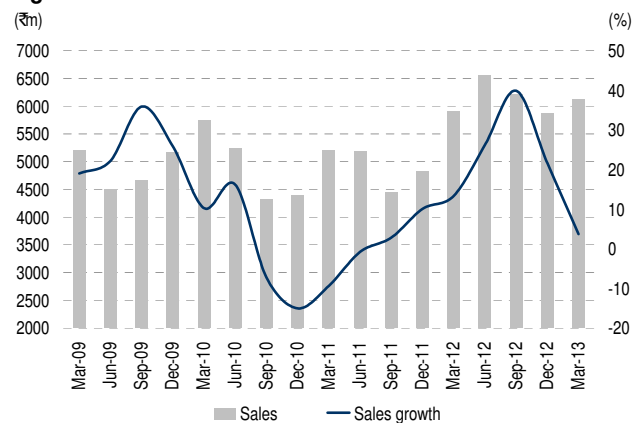
Source: Company, Anand Rathi Research

**Fig 9 – Cement: PBIT trend**



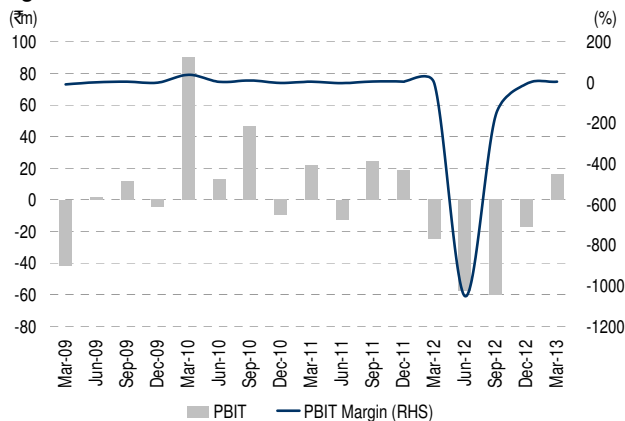
Source: Company, Anand Rathi Research

**Fig 10 – Cement: Sales trend**



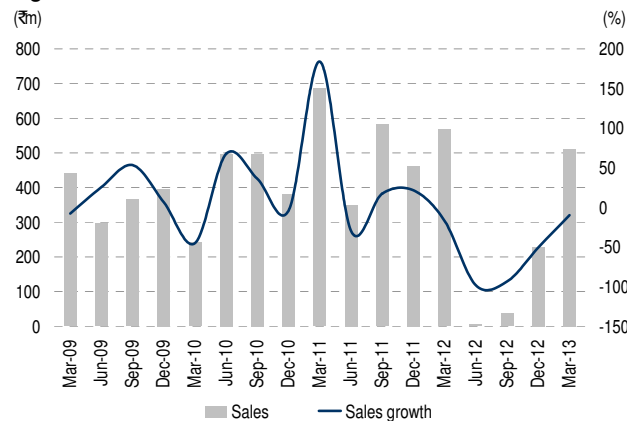
Source: Company, Anand Rathi Research

**Fig 11 – Jute: PBIT trend**



Source: Company, Anand Rathi Research

**Fig 12 – Jute: Sales trend**



Source: Company, Anand Rathi Research

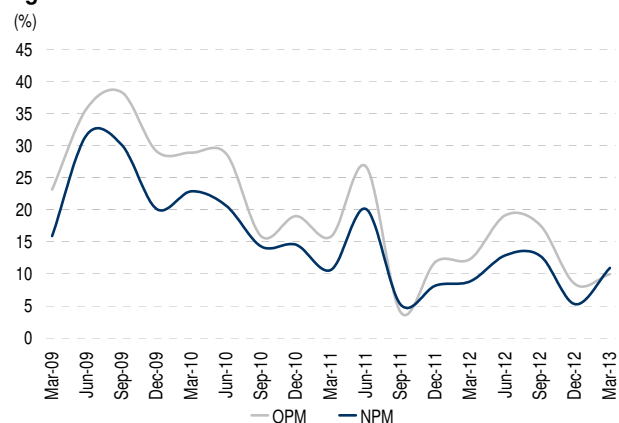
**Update on projects**

The mining operations at the Chanderia plant had been suspended throughout FY13 on an order of the High Court of Jodhpur. The company had filed a petition in the Supreme Court challenging the High Court order prohibiting mining and blasting at its Chanderia plant. It was permitted to carry on mining operations manually (without blasting) between 18 Mar and 14 Apr’13 to enable the Central Building Research Institute to study the impact of mining on the Chittorgarh fort. The report was to be submitted to the Supreme Court on 29 Apr’13 but has been delayed as the Institute has sought more time to submit it. Once the report is submitted, the Supreme Court will take up the matter.

The company is hopeful of a relief in the form of mining without blasting and is gearing up to carry out mining operations in that fashion. Once the mining ban is lifted, it will pursue the 1.5m-ton cement expansion project, which also involves setting up a 50 MW captive plant. Environmental clearance for this has been obtained.

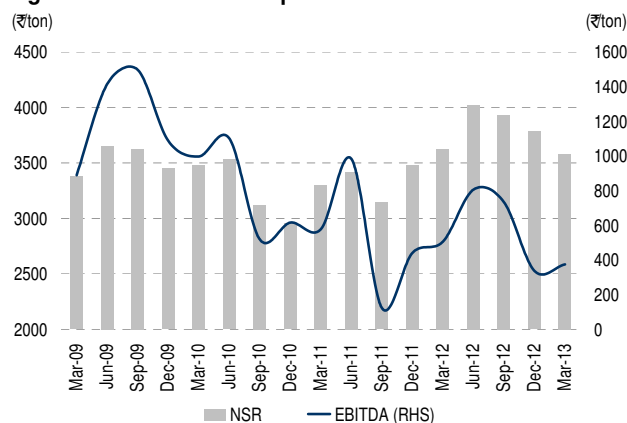
We expect some clarity on the mining-ban issue during 2QFY14.

**Fig 13 – OPM and NPM trend**



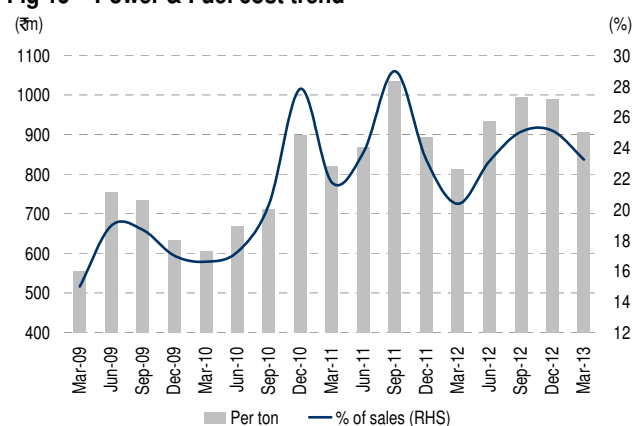
Source: Company, Anand Rathi Research

**Fig 14 – NSR and EBITDA per-ton trend**



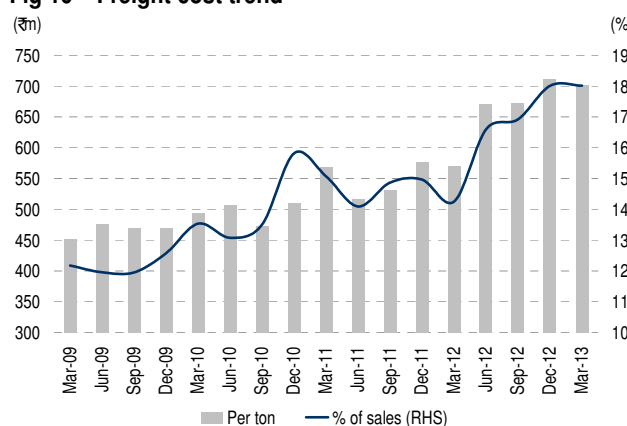
Source: Company, Anand Rathi Research

**Fig 15 – Power & Fuel cost trend**



Source: Company, Anand Rathi Research

**Fig 16 – Freight cost trend**



Source: Company, Anand Rathi Research

**Outlook**

The company has completed the brownfield expansion projects outlined during FY10. This involved installing roller presses at the Satna, Chanderia and Durgapur units with a view to increase cement-grinding capacity, improve quality and reduce power consumption.

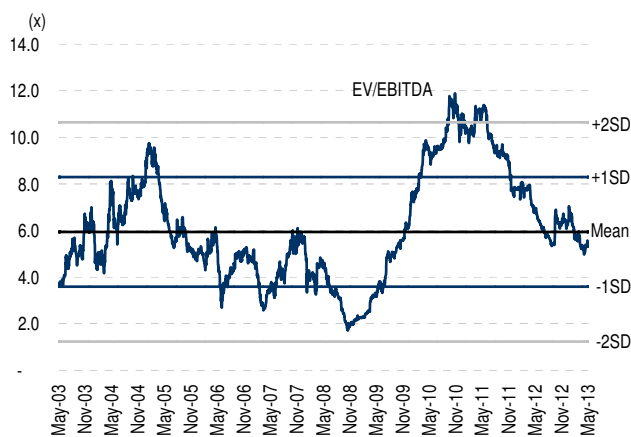
Also the company has installed a coal washery project. This would enable it to utilise its own coal from the coal block allocated to it once it starts mining operations. Till then, the coal washery will be used to wash the coal sourced from third parties. The company was allotted the Bikram coal block in Shahdol district, MP, for captive use. The mining plan has been approved and administrative approval of the mining lease has been granted to it by the Union Ministry of Coal. Forest and environmental clearances are at various stages of approval.

The above initiatives involving expansion and modernization together with logistics planning, and the focus on marketing blended cement (93% of sales) and restructuring market zones would enable the company to be competitive regarding its cost structure.

## Valuations

We maintain our Buy rating, with a price target of ₹360. At our target price, the stock would trade at 4.5x Jun'14e EV/EBITDA, and an EV per ton of US\$45.

**Fig 17 – Twelve-month-forward EV/EBITDA: Mean & Standard Deviation**



Source: Bloomberg, Anand Rathi Research

### Risks

- A Supreme Court ruling against the company's petition challenging the High Court ban on mining of limestone in Chanderia, Rajasthan.
- Drop in cement prices.
- Cost pressures in the jute business.

## Appendix

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Large Caps (>US\$1bn)	>15%	5-15%	<5%
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