

6 May 2024

Birla Corporation

In-line performance, net debt to be in check; maintaining a Buy

Operating at 97% capacity, Birla Corporation's revenue growth came from firm volume growth, whereas weak prices dented realisations. Concentrated cost rationalisation (project Shikhar/Unnati), a higher share of premium cement and stabilising fuel cost would help. While the 1.4m-tonne Kundanganj GU expansion is guided to be complete in two years, FY25 net debt would be below Rs30bn. We retain our Buy, at a higher 12-mth TP of Rs2,011 (earlier Rs2,000).

In-line performance. Operating at 97% capacity, cement volumes grew 9.2% y/y to 4.9m tonnes, boosting revenue growth 7.9% y/y to Rs26.6bn (ARe Rs26.3bn). Weak demand in Mar kept prices pressured; the drop in realisation/tonne was restricted to 1.2% y/y due to the greater focus on the share of premium products, better realisations, etc. Stable fuel consumption cost (Rs1.56/kcal), the rising share of renewable energy (Q4 ~55%), and savings from project Shikhar/Unnati boosted EBITDA 72.2% y/y to Rs4.7bn (ARe of Rs4.66bn) and EBITDA/tonne, 59% y/y to Rs955.

FY25 net debt guided to be <Rs30bn. Targeting 25m-tonne cement capacity by FY27, the announced expansion (Prayagraj GU ~1.4m tonnes, Kundanganj GU ~1.4m) would take capacity to 22.8m tonnes. Despite the Rs8bn capex, net debt was guided to stay below Rs30bn (31st Mar'24 ~Rs30bn). In phase II (Maihar II line with split GUs), the target is 30m-tonne cement capacity by FY30, keeping peak net debt/EBITDA under 3x.

Outlook, Valuation. The general elections and the monsoon may pile pressure on demand in H1 FY24, keeping price hikes in check. Aided by the Mukutban unit's ramp-up, the high proportion of premium cement and savings from project Shikhar/Unnati, cement volumes and EBITDA/tonne are guided to grow 8-10% in FY25. With the Kundanganj GU incentives ending in Mar'24, incentives of Rs1.1bn (incl. Mukutban) are guided to for FY25 (vs. Rs1.6bn in FY24). We expect volume/revenue/EBITDA to grow 10%/11%/18% over FY24-26. We retain our Buy at a 12-mth TP of Rs2,011, 9x FY26e EV/EBITDA. **Risks:** High pet-coke and diesel prices, slowing demand.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	74,612	86,823	96,627	1,07,058	1,19,805
Net profit (Rs m)	4,300	338	4,138	6,575	8,863
EPS (Rs)	55.8	4.4	53.7	85.4	115.1
P/E (x)	21.1	201.8	26.5	18.5	13.7
EV / EBITDA (x)	11.8	14.2	10.1	9.0	7.4
EV / tonne (\$ (cement)	70.0	58.6	77.8	78.0	69.5
RoE (%)	7.5	0.6	6.5	9.4	11.6
RoCE (%) after tax	4.6	2.1	5.2	6.8	8.2
Dividend yield (%)	0.8	1.4	0.7	0.6	0.6
Net debt / equity (x)	0.6	0.6	0.4	0.4	0.2

Source: Company, Anand Rath Research

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Rating: **Buy**

Target Price: Rs.2011

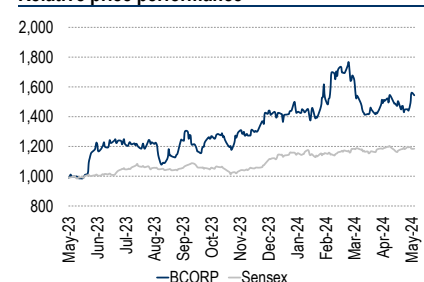
Share Price: Rs.1,580

Key data	BCORP IN / BRLC.BO
52-week high / low	Rs1802 / 970
Sensex / Nifty	73896 / 22443
3-m average volume	\$4m
Market cap	Rs119bn / \$1424.3m
Shares outstanding	77m

Shareholding pattern (%)	Mar'24	Dec'23	Sept'23
Promoters	62.9	62.9	62.9
- of which, Pledged	-	-	-
Free float	37.1	37.1	37.1
- Foreign institutions	6.8	6.4	6.6
- Domestic institutions	15.6	16.2	16.0
- Public	14.7	14.5	14.5

Estimates revision (%)	FY25e	FY26e
Sales	(1.2)	1.9
EBITDA	5.5	4.0
PAT	(16.0)	(16.8)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Sales volume (m tons)	14.2	15.7	17.7	19.3	21.3
Net revenues	74,612	86,823	96,627	1,07,058	1,19,805
Growth (%)	10.0	16.4	11.3	10.8	11.9
Direct costs	41,580	52,437	55,372	57,336	59,460
SG&A	21,932	26,666	26,879	32,446	40,212
EBITDA	11,100	7,720	14,376	17,277	20,133
EBITDA margins (%)	14.9	8.9	14.9	16.1	16.8
- Depreciation	3,969	5,099	5,783	6,053	6,373
Other income	988	1,131	856	964	1,078
Interest expenses	2,427	3,387	3,717	3,420	3,020
PBT	5,692	365	5,732	8,767	11,817
Effective tax rates (%)	25.9	6.1	27.5	25.0	25.0
+ Associates / (Minorities)					
Net income	3,986	405	4,206	6,575	8,863
Adjusted income	4,300	338	4,138	6,575	8,863
WANS	77	77	77	77	77
FDEPS (Rs)	55.8	4.4	53.7	85.4	115.1
FDEPS growth (%)	-37.5	-92.1	1122.4	58.9	34.8

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT (adj. OI and interest)	7131	2621	8593	11224	13759
+ Non-cash items	3969	5099	5783	6053	6373
Oper. prof. before WC	11100	7720	14376	17277	20133
- Incr. / (decr.) in WC	-1023	910	-1851	1796	733
Others incl. taxes	762	12	565	2192	2954
Operating cash-flow	11361	6798	15662	13289	16445
- Capex (tang. + intang.)	10965	5824	6487	8000	5950
Free cash-flow	396	973	9174	5289	10495
Acquisitions					
- Div. (incl. buyback & taxes)	770	963	770	770	770
+ Equity raised	0	0	0	0	0
+ Debt raised	1462	1712	-5799	-2000	-8000
- Fin investments	2565	-1417	4198	0	0
- Misc. (CFI + CFF)	-1084	2337	-1002	2457	1942
Net cash-flow	-393	803	-591	62	-217

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

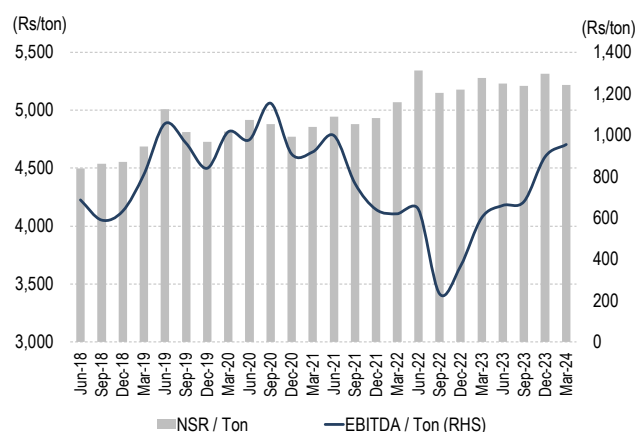
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	770	770	770	770	770
Net worth	60,488	59,808	66,738	72,543	80,636
Debt	47,842	49,554	43,755	41,755	33,755
Minority interest	0	0	-	-	-
DTL / (Assets)	9,722	9,712	11,042	11,042	11,042
Capital employed	1,18,053	1,19,074	1,21,534	1,25,340	1,25,432
Net tangible assets	65,872	87,775	87,495	91,747	92,823
Net intangible assets	9,897	10,653	10,409	10,409	10,409
Good will	0	0	0	0	0
CWIP (tang. & intang.)	25,511	3,576	4,805	2,500	1,000
Investments (strategic)	4,073	4,105	7,024	7,024	7,024
Investments (financial)	6,016	4,567	5,847	5,847	5,847
Current assets (excl. cash)	25,767	27,860	27,190	32,264	36,105
Cash	1,380	2,183	1,592	1,654	1,437
Current liabilities	20,463	21,646	22,827	26,105	29,213
Working capital	5,304	6,214	4,363	6,160	6,893
Capital deployed	1,18,053	1,19,074	1,21,535	1,25,340	1,25,432
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	21.1	201.8	26.5	18.5	13.7
EV / EBITDA (x)	11.8	14.2	10.1	9.0	7.4
EV / Sales (x)	1.8	1.3	1.5	1.5	1.2
P/B (x)	1.5	1.1	1.6	1.7	1.5
RoE (%)	7.5	0.6	6.5	9.4	11.6
RoCE (%) - after tax	4.6	2.1	5.2	6.8	8.2
DPS (Rs)	10.0	12.5	10.0	10.0	10.0
Dividend payout (%) - incl. DDT	19.3	237.7	18.3	11.7	8.7
Net debt / equity (x)	0.6	0.6	0.4	0.4	0.2
WC days	28.4	24.2	20.0	17.9	19.9
EV / tonne (\$) (cement)	70.0	58.6	77.8	78.0	69.5
NSR / tonne (Rs)	4961	5242	5239	5319	5419
EBITDA / tonne (Rs)	747	470	801	880	930
Volumes (m tonnes)	14.2	15.7	17.7	19.3	21.3
CFO : PAT (%)	264.2	2008.3	378.5	202.1	185.6

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-tonne NSR and EBITDA

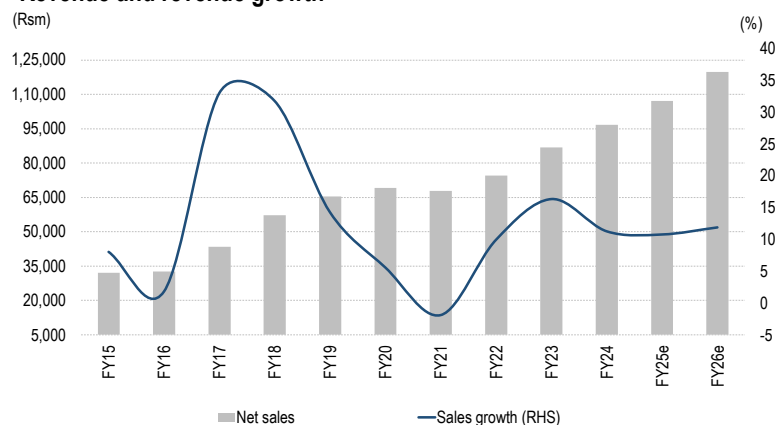


Source: Company, Anand Rathi Research

Key highlights

Birla Corp's Q4 revenue grew 7.9% y/y to Rs26.6bn. The cement division's revenue grew 8% y/y to Rs25.3bn. Cement sales volumes grew ~9.2% y/y to 4.9m tonnes, whereas the realisation/tonne fell 1.2% y/y to Rs5,218. Q4 FY24 capacity utilisation was 97%, as against 89% in the previous year. The share of premium product was 55% of trade sales (54% in the previous quarter). Sales of high-yielding blended cement came at 84%.

Fig 7 – Revenue and revenue growth



Source: Company, Anand Rathi Research

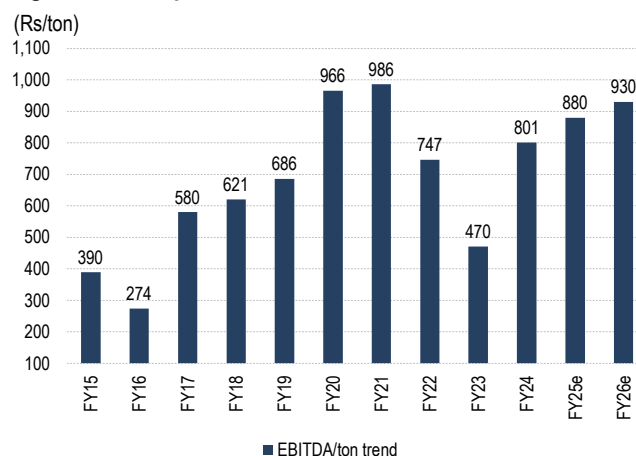
EBITDA surged 72.2% y/y, 24.8% q/q, to Rs4,724m. EBITDA/tonne (cement) shot up 59% y/y to Rs955, aided by softer fuel cost, cost-saving initiatives, and better performance of Mukutban unit. Exceptional items include 1) reversal of the holding company's Rs220.7m land tax provision pertaining to earlier years based on Rajasthan government's exemption notification, which exempted tax payable on all classes of land. 2) The Rs150.4m provision for employee benefit expenses for increasing the retirement age for superannuation from 58 to 60 years by the MP government. Adj. PAT for the quarter was Rs1,863m, up 179.5% y/y, on a better operating performance.

Fig 8 – Operational details

Particulars (%)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
Blended cement	91	88	92	91	90	89	89	88	86	83	84
Trade channel	80	75	78	79	78	75	77	76	72	69	72
Premium cement (% of trade sales)	52	51	49	47	51	51	54	54	54	52	55
Capacity utilisation	84	86	108	88	74	74	89	91	83	85	97

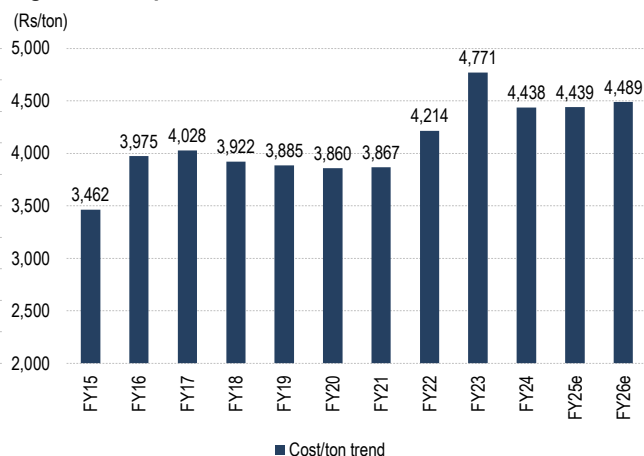
Source: Company

Fig 9 – EBITDA-per-tonne



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-tonne

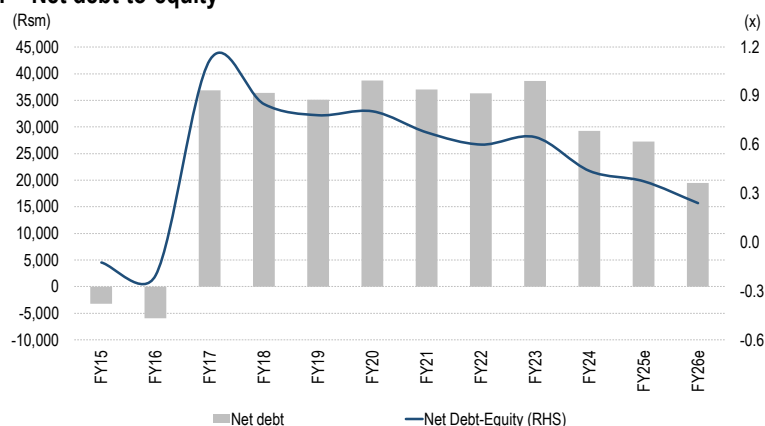


Source: Company, Anand Rathi Research

The jute division

Revenue grew 6% y/y to Rs1,258m. The division registered Rs86.1m cash profit in the quarter, up 5% from a year earlier, aided by more shopping bags. PBIT grew 24% y/y to Rs72m. Profitability took a hit in FY24 (PBIT declined 40% y/y to Rs156m) due to intense competition, increased manufacturing capacity and weak demand for fine fabric. Faced with these headwinds, the company is pursuing a new line of business: Jute shopping bags and is in discussion with several supermarket chains in the UK, France, Italy and Australia, with an order pipeline of 1.61mn bags now. However, jute prices could rise sharply as the output may be impacted by slow sowing because of poor rainfall.

Fig 11 – Net debt-to-equity



Source: Company, Anand Rathi Research

Results Highlights

Fig 12 – Quarterly trend

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% Y/Y	% Q/Q
Sales	16,978	17,501	22,642	22,038	19,998	20,161	24,626	24,085	22,858	23,120	26,564	7.9	14.9
EBITDA	2,673	2,225	2,767	2,593	940	1,444	2,743	2,978	2,889	3,785	4,724	72.2	24.8
EBITDA margins (%)	15.7	12.7	12.2	11.8	4.7	7.2	11.1	12.4	12.6	16.4	17.8	664bps	141bps
EBITDA / tonne (Rs)	766	640	619	641	232	367	600	660	679	896	955	59.0	6.6
Interest	632	608	547	703	928	869	887	974	954	965	824	-7.2	-14.7
Depreciation	982	1,007	997	1,145	1,254	1,299	1,401	1,403	1,435	1,448	1,497	6.9	3.4
Other income	133	69	693	143	418	79	491	162	274	163	257	-47.7	57.5
PBT	1,192	678	1,916	888	(825)	(645)	946	763	774	1,535	2,660	181.1	73.3
Exceptional items	-	(70)	384	117	-	-	(183)	-	3	-	(70)	NA	NA
Tax	336	144	421	152	(260)	(146)	280	166	188	443	797	184.9	79.8
Reported PAT	856	605	1,111	619	(565)	(499)	849	597	584	1,091	1,933	127.6	77.1
Adjusted PAT	856	535	1,495	736	(565)	(499)	666	597	586	1,091	1,863	179.5	70.7

Source: Company, Anand Rathi Research

Fig 13 – Segment-wise performance

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% Y/Y	% Q/Q
Revenue													
-Jute	1,027	972	1,142	1,032	1,240	904	1,190	1,021	1,076	796	1,258	5.7	58.1
-Cement	15,952	16,530	21,500	21,003	18,750	19,259	23,437	23,061	21,783	22,326	25,305	8.0	13.3
-Others	22	24	24	10	18	23	28	14	24	13	15	-45.7	15.4
Total	17,001	17,526	22,666	22,045	20,008	20,185	24,655	24,096	22,883	23,134	26,578	7.8	14.9
Less: Inter-segment revenue	23	25	24	7	10	24	30	12	25	14	14	-52.7	-2.1
Net sales	16,978	17,501	22,642	22,038	19,998	20,161	24,626	24,085	22,858	23,120	26,564	7.9	14.9
PBIT													
-Jute	157	69	134	60	79	62	58	50	30	4	72	23.9	1848.6
% of revenue	15.3	7.1	11.7	5.8	6.3	6.8	4.9	4.9	2.8	0.5	5.7	84bps	527bps
-Cement	1,768	1,348	1,510	1,495	(185)	308	1,873	1,759	1,637	2,584	3,533	88.6	36.7
% of revenue	11.1	8.2	7.0	7.1	(1.0)	1.6	8.0	7.6	7.5	11.6	14.0	597bps	239bps
-Others	(6)	(6)	(11)	(7)	(7)	(5)	(6)	(7)	(4)	(6)	(6)	NA	NA
% of revenue	(26.2)	(23.4)	(43.9)	(69.7)	(36.1)	(20.8)	(21.4)	(50.0)	(17.0)	(43.8)	(41.3)	NA	NA
Total	1,919	1,411	1,633	1,547	(113)	365	1,926	1,802	1,663	2,582	3,599	86.9	39.4
Less: Interest	632	608	547	703	928	869	887	974	954	965	824	-7.2	-14.7
Less: Other unalloc. exp. net of unalloc. inc.	96	55	(446)	73	(216)	140	(91)	65	(62)	82	45	NA	-45.4
PBT (after extraordinary.)	1,192	748	1,532	771	(825)	(645)	1,129	763	771	1,535	2,731	141.8	77.9

Source: Company, Anand Rathi Research

Concall highlights

Cement demand and pricing environment

- Demand for cement was exceptionally weak in Mar. Besides, the elections and the monsoon will keep demand in check in H1 FY25.
- For the past two quarters cement prices were weak because of disruptions such as assembly elections in key regions. Weak demand led to prices being rolled back in Mar'24. CRISIL Market Intelligence and Analytics says cement prices fell 1.5% from the previous year, despite an estimated 11% growth in consumption.
- Cement sales volume and EBITDA/tonne growth are guided to be 8-10% in FY25.

Cost optimisation

- The company launched project Shikhar in Mar'23 for excellence in manufacturing and operations, targeting cost-savings of Rs100/tonne.
- Project Unnati was launched to increase efficiency of the company's 'go-to-market' operations, focusing on sales, logistics and marketing.
- Project Shikhar (for manufacturing) and project Unnati (for sales, logistics and marketing) resulted in gross savings of respectively Rs660m and Rs1bn in FY24.

Mukutban

- The Mukutban unit (commenced on 22nd Apr'22) turned EBITDA-positive in Mar'23. Further, to raise capacity utilisation and realisations, the company expanded its footprint to nearby markets (Telangana, MP, Gujarat).
- Commissioning of the Mukutban unit has rendered the company's clinkerisation capacity more geographically balanced. This, in turn, has increased the flexibility of clinker sourcing for its grinding units (clinker from Maihar/Satna to Durgapur and south MP replaced by Mukutban). This would result in higher clinker capacity utilisation.
- Cement sales volumes from Mukutban unit are guided to be 2.7m tonnes in FY25 (0.66m tonnes in Q4). The lead distance in Q4 for Mukutban was 420km (310km in Q3).
- 65-70% of the company's sales volumes were in Maharashtra. The rest were in south MP, Gujarat and Telangana. Sales were also seen in Chhattisgarh and north Bengal on an opportunistic basis.
- Mukutban's share of premium cement was 40% of trade sales.

Incentives

- The incentive for the Mukutban unit would be 100% of project cost (Rs23bn, ~Rs600/tonne) over twenty years. For the unit, pending a registration certificate, incentives would commence from FY25 vs. the earlier guidance of Q4 FY24.
- The company received Rs1.6bn incentives in FY24. With the Kundanganj GU incentives having expired in Mar'24, incentives of Rs1.1bn are guided to for FY25 (incl. Mukutban).
- The approved 1.4m-tonne Prayagraj GU expansion would be eligible for an incentive of 300% of investment.

Expansion

- In the last six years, the company has doubled capacity to 20m tonnes and targets 30m tonnes by FY30. Its plants (each) have limestone reserves for 20 years.
- A Rs4bn 1.4m-tonne Prayagraj GU at its subsidiary would be complete by Q2 FY25, and production would commence in Q4 FY25. This would replace supplies from Satna and Maihar to markets, enabling a quicker ramp-up.
- The BoD approved a 1.4m tonne cement capacity expansion at the Kundanganj GU at Rs4.25bn in two years.
- The guided-to FY25 capex is Rs8bn (sustainability ~Rs4bn, coal mines ~Rs2bn, Kundanganj GU ~Rs2bn).

Debt

- Net debt at 31st Mar'24 was Rs30bn (31st Dec'23 ~Rs34.7bn) and is guided to be below Rs30bn by Mar'25. Peak net debt/EBITDA was guided to at 3x.

Coal mines

- The Bikram coal mine would commence in Q4 FY25; Marki Barka, Nov'25. At full capacity utilisation, Bikram's captive coal would cover 38-40% of that required. Meanwhile, at the latter's full capacity utilisation, 60% of the requirement would come from captive coal mines.

Renewable energy

- The share of RE rose to 25.37% in Q4 FY24 (24.15% in FY24, 21.7% in FY23). The company intends to increase the proportion of RE to 30% by FY26, aided by solar power plants set up at Mukutban, Kundanganj and Maihar.
- It commissioned a 5MW solar plant in Satna in Q1, taking its overall solar capacity to 41.2MW. Its WHRS capacity is 43.35MW.

Other operational highlights

- Fuel consumption cost was Rs1.56/kcal in Q4 vs. Rs1.58 the quarter prior.
- Sale of premium cement was 54% in FY23 and 55% in Q4 FY24 (54% a year ago), which the company believes is high enough. It will now focus on raising prices of premium cement rather than volumes.
- The share of blended cement was 84% (vs. 89% a year back) on greater demand from infra and commercially; the trade share was 72% vs. 77% in a year ago. The lead distance was 349km.

Valuations

Operating at over 100% capacity in its core market, Birla Corp.'s revenue growth came from firm volume growth, whereas realisations dipped due to weak prices. Concentrated efforts in cost rationalisation (project Shikhar/Unnati), the higher proportion of premium cement and stable fuel costs would be of no little help. Targeting 30m-tonne capacity by FY30, the next phase of expansion is on the cards (Maihar II line with split GUs). The higher focus on expanding the share of RE to 30% by FY26 is a positive.

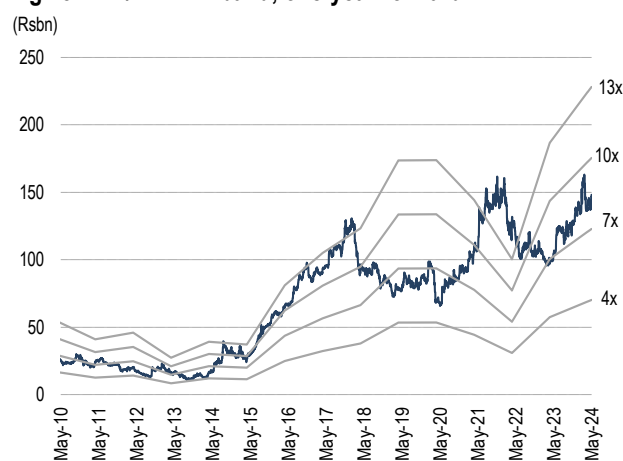
Fig 14 – Change in estimates

(Rs m)	Old		New		Variance (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Sales	1,08,304	1,17,530	1,07,058	1,19,805	-1.2	1.9
EBITDA	16,371	19,361	17,277	20,133	5.5	4
PAT	7,830	10,657	6,575	8,863	-16	-16.8

Source: Anand Rath Research

Owing to a change in the reporting method of other operating income from 'other income' to 'revenue', FY25e PAT fell 16%; FY26e, 16.8%. At the CMP, the stock quotes at 7.4x FY26e EV/EBITDA and an EV/tonne (cement) of \$70. We retain our Buy rating, with a higher 12-mth target price of Rs2,011 (earlier Rs2,000), 9x FY26e EV/EBITDA and an EV/tonne of \$87.1. **Risks.** Demand slowdown, rise in pet-coke and diesel prices.

Fig 15 – EV/EBITDA band, one-year-forward



Source: Bloomberg, Anand Rath Research

Fig 16 – EV/EBITDA: Standard deviation, one-year-forward



Source: Bloomberg, Anand Rath Research

Fig 17 – Peer comparison – valuations

	CMP (Rs)	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
		FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
Birla Corp.	1,580	18.5	13.7	9.0	7.4	78	70
Ramco Cement	769	28.6	21.8	12.1	10.3	122	118
Dalmia Bharat	1,802	28.7	23.3	11.1	9.2	78	75
India Cement	217	132.3	33.2	19.5	13.7	76	76
JK Cement	3,987	25.6	22.1	15.0	13.1	172	173
JK Lakshmi	794	16.1	14.0	8.9	7.8	84	79
Orient Cement	223	19.2	19.7	9.1	8.9	72	80
Heidelberg Cement	198	17.3	14.2	9.0	7.2	69	65
Prism Johnson	158	37.5	27.3	11.6	9.8	100	93
Star Cement	232	23.5	22.1	13.5	11.7	149	113
Sagar Cement	213	32.6	12.5	8.2	5.7	42	38
NCL Indus	209	7.2	6.4	4.5	3.7	41	30

Source: Company, Anand Rathi Research

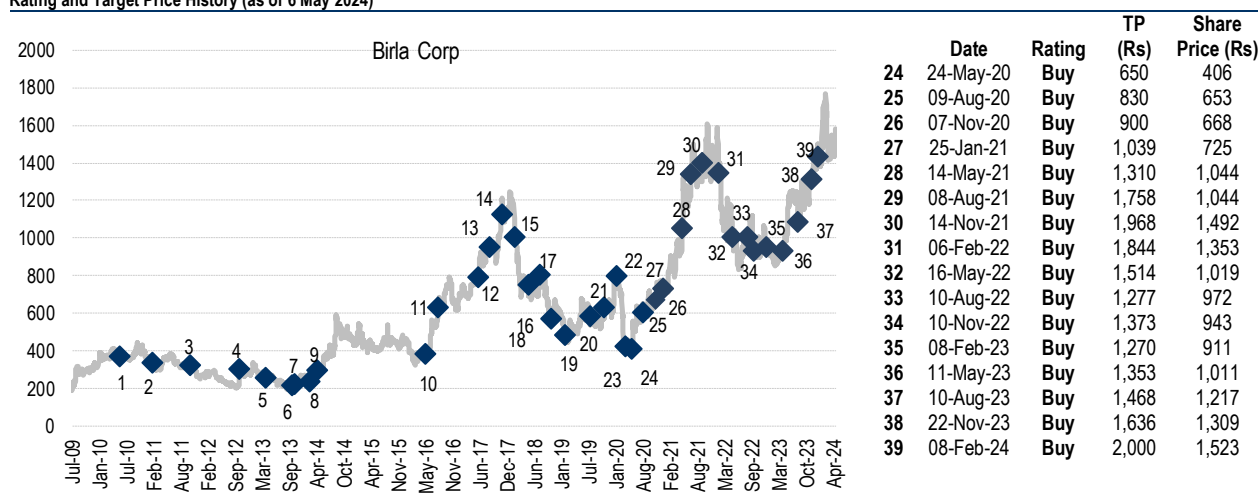
Appendix

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