

Stock Information

Market Cap (INR bn)	38.89
O/S Shares (mn)	77.0
Face Value (INR)	10.0
Free Float (%)	40.7
52 - WK HI/LO (INR)	919/440
Avg Daily Volume (3M)	0.05
Equity Capital (INR mn)	770.0
Bloomberg Code	BCORP IN

Source: Bloomberg

Share Holding Pattern (%)

	Dec 18	Sep 18	Jun 18
Promoters	62.9	62.9	62.9
FII / NRI	2.0	2.0	2.5
FI / MF	15.9	15.6	14.6
Public & Others	19.3	19.5	20.0

Source: BSE

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	3.7	(20)	(44)	(15)

Source: Bloomberg

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Birla Corporation (BCORP) – Kolkata-based diversified conglomerate having cement and clinker capacity of 15.4MT and 10MT, respectively – is well-placed to grab the upcoming opportunities on the back of well carved-out expansion strategy. With strong focus on imminent growth opportunities, the Management has earmarked Rs24bn capex for next round of expansion at Mukutban, Maharashtra (4MT). At the same time, dominant market share in the Central markets (~22% market share in Satna cluster) is expected to boost BCORP's top-line, in our view. We expect this region to grow by 8-9% over FY19-21E led by sustained thrust of the government on infrastructure growth and affordable housing, which is expected to provide better pricing scenario, as incremental capacity (9MT) is likely to fall short of incremental demand (12MT). **We initiate coverage on BCORP with a BUY recommendation and a Target Price of Rs678.**

- **Better positioning in Central region to Serve Rising Demand:** BCORP is one of the major players in the central region with a market share of ~15% based on capacity. UP generates the highest revenue for BCORP followed by MP. The Company has a total capacity of 8.5 MT in the Central region, which is expected to witness higher cement consumption driven by government -sponsored infrastructure projects and sustained thrust on low-cost affordable housing. With limited capacity addition (9MT) expected in the coming 2-3 years in the region and demand growth expected to outpace incremental supply, the capacity utilisation and pricing environment % CAGRs expected to improve, going forward. Thus, we expect revenues of BCorp top-line to clock 7.5% CAGR through FY19-21E.
- **Continuous Capacity Expansion to Drive Volume:** After acquiring Reliance Cement's 5.6MT GUs and 3.3MT clinker plants for Rs48bn in FY17, the Management has embarked upon Brownfield expansion at Mukutban, Maharashtra (4MT) for Rs24bn, which is expected to go on stream by FY22E. Further, BCORP has sought Environmental Clearance to set up 1.5MT cement capacity at Chanderia (Rajasthan). Further, 1.2MT capacity expansion at Kundanganj plant – which is expected to go on stream by FY21E – augurs well for BCORP in terms of volumetric growth.
- **Incentives to aid Margin Expansion:** The acquired assets of Reliance Cement in MP, UP and Maharashtra are entitled to get special incentives in the form of VAT refund owing to their 'Mega Projects' status by the respective state governments. VAT, CST and CGST refunds in MP (75% refund over 7 years; started in Nov'14), UP (79% refund for 15 years; started in Nov'14) and Maharashtra (100% refund for 7 years, started in Apr'13), will help to aid BCORP's EBITDA/tonne. Besides, 60% capacity expansion at Kundanganj plant to 3.2MT, focus on increasing the share of premium banded cement in overall sales-mix is expected to improve realisation, going forward.

Outlook & Valuation

Whist the Central region accounts for ~56% of BCORP's cement capacity currently, the Northern region accounts for 26% and left comes from Eastern region. Owing to limited capacity additions, we expect capacity utilization of the northern region to improve to 80% in FY21E from 69% in FY18 while the central region's utilization is expected to improve to 80% in FY21E from 72% in FY18. **We initiate coverage on Birla Corporation (BCORP) with 'BUY' rating and a Target Price of Rs678 based on EV/EBITDA of 7.4x for FY21E. At the target price the stock will trade at EV/tonne of \$72, which is 20% discount on Replacement cost of the mid - cap cement manufacturers in India.**

Key Financials (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	43,477	57,342	63,957	70,759	74,325
EBITDA	6,225	8,066	9,192	10,897	11,892
EBITDA (%)	14.3	14.0	14.4	15.4	16.0
PAT	2,195	1,540	2,045	2,548	3,130
PAT (%)	5.0	2.7	3.2	3.6	4.2
Adjusted EPS	28.5	20.0	26.6	33.1	40.6

Source: Company Fillings, Ashika Institutional Research

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Recommendations and absolute returns (%) over 12 months

BUY	Expected return >+15%
HOLD	Expected return from -5% to +15%
REDUCE	Expected return <-5%

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