Edelweiss

Coverage Stock: Birla Corporation Ltd.

CMP INR 952 | Target INR 1300
Rating: BUY | Upside: 37%

Moving to next orbit

Date: 10th September 2017

Birla Corporation (BCorp) is a Kolkata based geographically well diversified cement manufacturer with 15.4mt grinding capacity and 10mt clinker plants. With eye on growth, the company has chalked out a comprehensive capacity expansion programme spanning FY18-H1FY21 entailing a 4mt grinding unit in Mukutban (Maharashtra), which is envisaged to propel total capacity to ~20mt. Post this expansion, BCorp will be the fifth largest cement manufacturer in India. Besides this, it has sought environmental clearance to set up 1.5mt cement capacity at Chanderia (Rajasthan) and also valuable mineral concessions in Karnataka, Rajasthan, AP, HP and MP would provide ample opportunity to expand manufacturing plants across India. We estimate BCorp's revenue to post 19% CAGR over FY17-19E primarily led by higher volume and marginal growth in realisation. We have forecast 42%, 55% and 50% EBITDA, EBIT and PAT growth respectively over FY17-19E. We initiate coverage with 'BUY' recommendation and TP of INR 1,300.

Next leg of expansion to propel among top 5 cement players in India

BCorp has chalked out a comprehensive capacity expansion programme spanning FY18-H1FY21E. The next leg of capex entails 4mt grinding unit and 3mt clinker plants in Mukutban (Maharashtra), which will propel the company's total capacity to ~20mt. In addition, BCorp has sought environmental clearance to set up 1.5mt cement capacity at Chanderia in Rajasthan. Also, its expansion potential is enhanced significantly by valuable mineral concession in Karnataka, Rajasthan, AP, HP and MP.

Reliance Cement acquisition: Significant margin and market share booster

The company has acquired Reliance Cement's 5.6mt grinding and 3.3mt clinker plants for INR48bn. Reliance Cement generated EBITDA per tonne of ~INR1,100 in FY17 and ~INR1,200 in Q1FY18. Consequently, BCorp's consolidated EBITDA margin surged 557bps to 14.3% and EBITDA per tonne catapulted 79% YoY to INR567. We anticipate the EBITDA expansion to sustain on account of accelerating growth, improving utilisation and marginal cost control. Hence, we have projected ~600bps margin expansion to 20.4% and EBITDA per tonne to improve from INR567 to INR919 over FY17-19E.

Lowest cost producer edge to improve further

BCorp is one of the lowest cost producers amongst mid & large size cement companies. The company's freight & forwarding, raw material and other manufacturing costs are 23%, 15% and 5%, respectively, lower than average cost of top 10 cement companies, while power & fuel cost is 10% higher. We believe post installation of 12MW WHRS at Satna (MP) power cost will dip ~4% of total P&F cost. Ergo, we anticipate further reduction in variable cost going forward.

Outlook and valuations: Firming up; initiate with 'BUY'

BCorp is currently trading at attractive valuation of 10.5x FY18E and 8.5x FY19E EV/EBITDA and EV/tonne of USD106 versus average of 12.3x FY19E EV/EBITDA and EV/tonne of USD170, ~33% discount to peers. . Based on P/E(x), EV/EBITDA and EV/Tonne, we have arrived at a target price of INR 1,300 per share. At current market price of INR952, we initiate coverage on BCorp with **'BUY'** recommendation and target price of INR1, 300, entailing 37% upside .

Year to March	FY15	FY16	FY17	FY18E	FY19E
Revenues (INR Cr)	3210	3268	4348	5422	6166
Rev growth (%)	6.4	1.8	33.0	24.7	13.7
EBITDA (INR Cr)	302	286	623	1009	1255
Net Profit (INR Cr)	175	168	219	310	494
P/E (x)	41.8	43.7	33.4	23.6	14.8
EV/EBITDA (x)	23.9	24.0	17.3	10.5	8.5
RoACE (%)	3.1	2.8	6.0	6.5	8.4
RoAE (%)	6.8	6.0	7.0	9.0	13.1

Bloomberg:	BCORP:IN
52-week range (INR):	980 / 608
Share in issue (cr):	8
M cap (INR cr):	7,227
Avg. Daily Vol. BSE/NSE :('000):	89
Promoter Holding (%)	62.9

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BCorp is expected to deliver EBITDA of 42% CAGR over FY17-19E on back of 6% growth in realisation and marginal cost controls. In FY17, EBITDA growth was 118% to INR 623crs, EBITDA margin expansion was 557bps to 14.3% and EBITDA per tonne increased 79% y-o-y to INR 567. FY18 will be first year of full consolidation of Reliance's profit & loss statement, hence we expect EBITDA margin and EBITDA per tonne to improve.

Double digit volume growth and 6% growth in realisation will boost the revenue growth over FY17-19E and post capex of Mukutbank will further accelerate the revenue growth.

	FY15	FY16	FY17	FY18E	FY19E
NII	3210	3268	4348	5422	6166
EBITDA	302	286	623	1009	1255
EBIT	148	137	367	653	878
PAT	175	168	219	310	494

Housing shortage in central is higher and also new Govt. In UP is expected to accelerate the construction activities in the region. Hence, BCorp's strong presence in Central will boost the growth.

	FY15	FY16	FY17	FY18E	FY19E
RoAA	3%	3%	6%	6%	8%
RoAE	7%	6%	7%	9%	13%

Consequently RoAE and RoACE will increase from 7% to 13% and 6% to 8% over FY17-19.

EV/EBITDA	FY19E EBITDA (INR cr)	CMP / Target
8.5x (CMP)	1255	952
10.7x (Target)	1255	1300

Entry = INR 952 at 8.5x FY19E EV/EBITDA

+

EBITDA CAGR of 42% and exit multiple of 11.0x FY19E EV/EBITDA, implying EV/tonne of USD 130 and 20.0xFY19E EPS.

Upside of 37%

Birla Corporation Ltd.

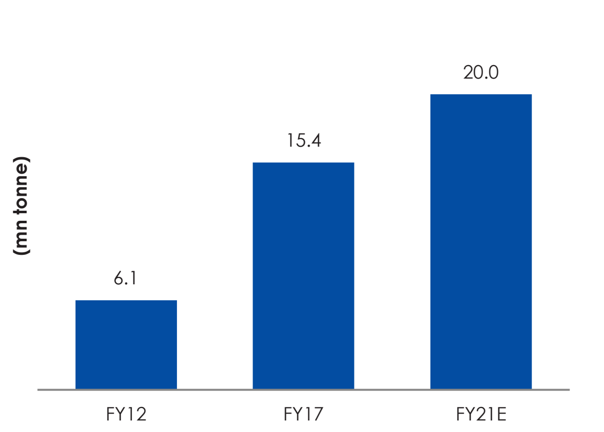
Average Daily Turnover (INR cr)			Stock Price (CAGR)				Relative to Sensex CAGR (%)			
3 months	6 months	1 year	1 year	2 years	5 years	10 years	1 year	2 years	5 years	10 years
8.22	7.91	6.79	28%	26%	27%	11%	12%	17%	14%	4%

Business Value Drivers

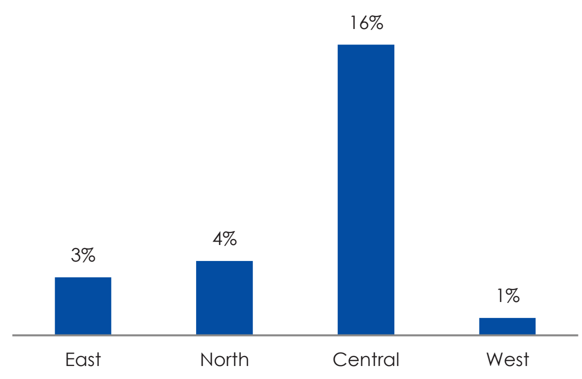
Nature of Industry	Top 5 companies control ~51% of total installed capacity, ~59% of revenue, ~65% of industry EBITDA and 73% of industry PAT. Top 10 companies contribute 69% of installed capacity while revenue, EBITDA and PAT contribute 79%, 84% and 89% respectively.
Opportunity Size	Industry has positive correlation with GDP and generally grows at ~1.0x of real GDP growth. Cement demand is expected to accelerate on account of potential demand from Road sector, Metro and housing. We have projected ~7.5% growth over FY17-25E.
Capital Allocation	BCorp has chalked out a comprehensive capacity expansion programme of INR 24bn, spanning till H1FY21. The next leg of capex entails 4mt grinding unit and 3mt clinker plants in Mukutban (Maharashtra), which will propel the company's total capacity to ~20mt.
Predictability	Cement demand has positive correlation of ~1.0x of real GDP growth rate and good Monsoon also accelerates the growth. We believe the near term growth is expected to remain healthy on account of good monsoon, housing for all by 2022 and construction of Road and Metro at double pace.
Sustainability	Well diversified geographical presence ensures the sustainability of cement sales volume and revenue. In past, BCorp has reported higher growth in volumes and revenue aided by higher utilisation.
Future Prospect	The future outlook of the industry is likely to be promising on account of good monsoon, pay hike, smart cities and housing for all by 2022 and BCorp has been growing at higher pace than the industry average in term of capacity expansion and cement sales volume.
Business Strategy & Planned Initiatives	Company is planning to enhance the installed capacity from 15.4mn tonne to ~20mn tonne by 2021. Therefore BCorp has chalked out a comprehensive capacity expansion programme spanning till H1FY21. The next leg of capex entails 4mt grinding unit and 3mt clinker plants in Mukutban (Maharashtra), which will propel the company's total capacity to ~20mt. The expansion will catapult the company to fifth largest cement manufacturer in India with significant presence in West & Central regions.
Near Term Visibility	To enhance the installed capacity and presence in West.
Long Term Visibility	Valuable mineral concessions in Karnataka, Rajasthan, AP, HP and MP entail lucrative opportunities to expand manufacturing plants across India.

Focus Charts – Story in a Nutshell

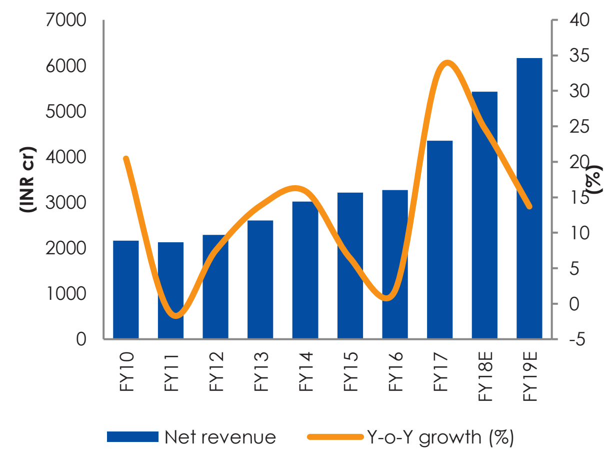
Capacity addition to continue



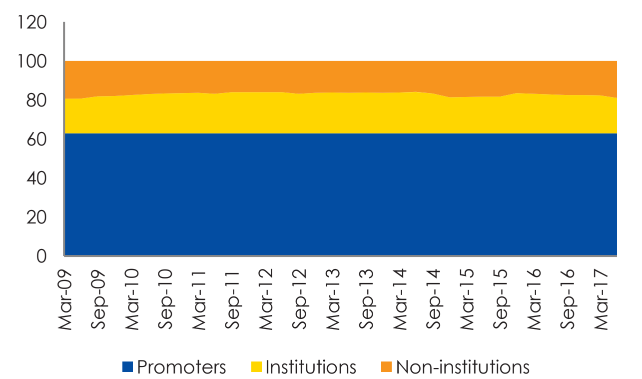
Acquisition of Reliance cement strengthened presence in Central



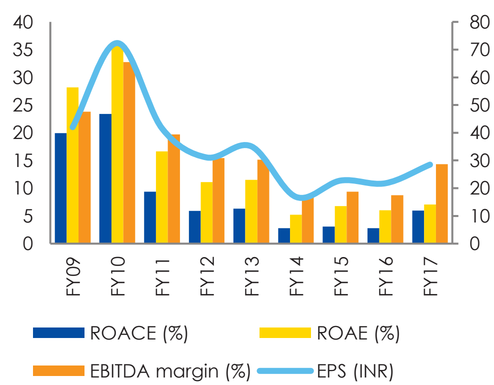
Revenue growth accelerated post acquisition of Reliance cement



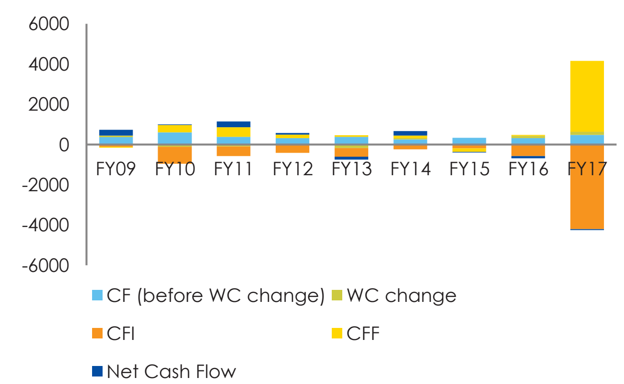
Promoters holding remain stable



Return ratios and margin to improve on back of double digits volume growth and marginal uptick in realisation



Company generates positive cash flow consistently

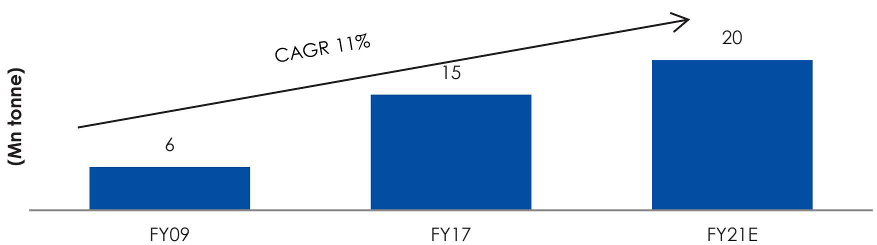


Source: Company, Edelweiss Investment Research

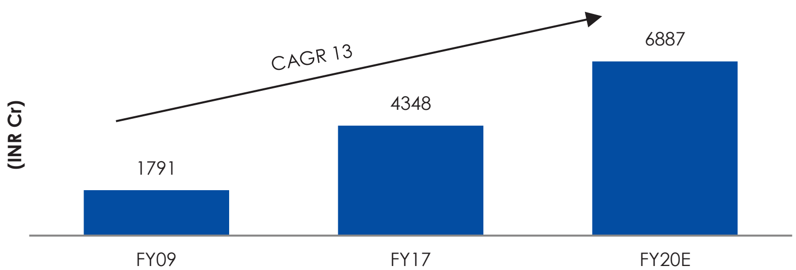
I. Capacity expansion envisaged to trigger re-rating

BCorp has chalked out a comprehensive capacity expansion programme spanning till H1FY21 in order to strengthen its presence in West India. On receiving mining lease at Mukutban (Maharashtra), on the anvil is a 4mt grinding unit and 3mn clinker plant, which will catapult BCorp's total capacity to ~20mt. This expansion will render it the fifth largest cement player in India. Moreover, it is anticipated to increase BCorp's market share in West to ~7% from 1% and is estimated to comprise 24% of the company's total installed capacity. Also, the company has sought environmental clearance to set up 1.5mt cement capacity at Chanderia in Rajasthan. This expansion is expected post lifting of the mining ban (through blasting), which has been imposed since August 2011. Apart from this, valuable mineral concessions in Karnataka, Rajasthan, AP, HP and MP entail lucrative opportunities to expand manufacturing plants across India.

BCorp's capacity growth exceeded Industry's average growth rate

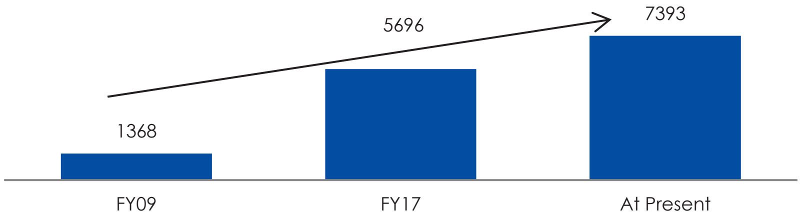


Revenue growth in-line with Capacity Expansion



Source: Company, Edelweiss Investment Research

Market Cap jumped 2.1x of average of Capacity and Revenue jumped over FY09-17



Source: Company, Edelweiss Investment Research

a) There is a direct correlation between the cement industry's margins and capacity expansion. Expansions boost margin as: a) incremental capex consumes lower cost & time, which in turn prunes fixed & finance costs; b) per unit cost of production and sale dips as scale expands; c) geographical expansion protects revenue and sales volume from vagaries of regional demands; and d) volumes surge spurred by a wider range of product offerings on account of enhanced brand visibility. In light of these benefits, profitability remains healthy.

Profitability increases along with capacity expansions

EV/EBITDA	EBITDA Margin	PAT Margin
Industry	18.5%	7.5%
Capacity > 20MPTA	20.4%	9.7%
Capacity between 10-20MTPA	17.9%	7%
Capacity <10MTPA	13.4%	3.3%

b) Market cap of the top 10 listed companies jumped 7.6x over FY09-17 while revenue and capacity jumped 2.3x and 2.3x during the same period. Conseqeuntly, Market cap grew 3.35x of the average of capacity and revenue growth over FY09-17. These players' capacity jumped 10.8% over FY09-17 compared to industry's 7.5%. However, the capacity expansion benefit failed to percolate to revenue due to muted realisation growth and steady dip in utilisation. Hence, net revenue of these companies grew mere 11.1% over the period.

Market Cap jumped is ~3.32x of average Revenue and Capacity growth over FY09-17

	Capacity	Revenue	Market Cap
ACC Limited	1.4x	1.5x	2.8x
Ambuja Cement	1.3x	1.5x	3.0x
UltraTech Cement	4.4x	3.7x	15.9x
Shree Cement	3.2x	3.1x	24x
Dalmia Bharat Cement	1.7x	4.2x	11.6x

Thus, there is a direct correlation between market cap growth and capacity expansion. Hence, companies with faster pace of capacity expansion clock higher market cap spurt.

Market Cap jumped is ~3.0x of average Revenue and Capacity growth over FY09-17

	Capacity	Revenue	Market Cap
JK Cement Ltd	2.5x	2.3x	23.6x
JK Lakshmi Cement Ltd.	2.6x	2.4x	20.7x
Ramco Supergrade	1.7x	1.6x	9.4x
The India Cements Ltd	1.2x	1.7x	1.7x
Birla Corporation Limited	2.7x	2.4x	4.2x

c) Peer analysis indicates that valuations re-rate once certain capacity threshold is crossed, which is ≥20mt. BCorp's current capacity stands at 15.4mt. On the anvil is 4mt capacity in Maharashtra, for which it already has a mining lease and most of the approvals are in place. In addition, the company has bagged environmental clearance to set up 1.5mt capacity in Rajasthan post lifting of mining ban. Consequently, BCorp's capacity is estimated to cross 20mt in H1FY21, valuation re-rating trigger. Players with ≥20mt capacity generally trade ~2.0x of those with capacity between 10mt and 15mt. While BCorp's revenue and capacity jumped 2.4x and 2.7x, respectively, over FY09-17, its market cap rose 4.2x. We believe, post capex, valuation re-rating is imminent.

Valuation expansions happens along with Capex

EV/tonne	Capacity ~15MTPA	Capacity ~20MTPA	Current
ACC Limited	59	128	144
Ambuja Cement	131	240	213
UltraTech Cement	69	154	199
Shree Cement	181	264	335
Dalmia Bharat Cement	44	68	177

Also, EV/EBITDA jumps meaningfully post crossing the ~20mt milestone.

Valuation expansions happens along with Capex

EV/EBITDA	Capacity ~15MTPA	Capacity ~20MTPA	Current
ACC Limited	10.1	20.0	21.8
Ambuja Cement	11.6	10.4	24.4
UltraTech Cement	15.4	6.6	25.6
Shree Cement	7.1	28.3	27.8
Dalmia Bharat Cement	10.7	16.6	15.6

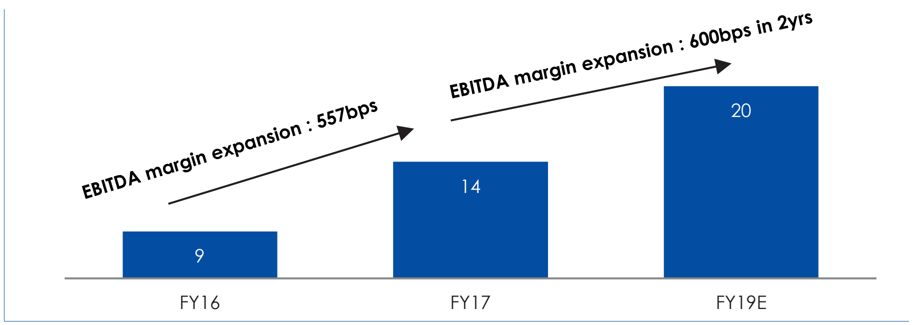
Source: Company, Edelweiss Investment Research

II. Reliance Cement buy: Margin, market share booster

BCorp acquired 5.6mt grinding and 3.3mt clinker plants from Reliance Cement for INR48bn in FY17. Reliance Cement's plants are located in Madhya Pradesh (Maihar, 3mt unit), UP (Kundanganj, 2mt grinding unit) and Maharashtra (Butibari, 0.6mt grinding unit). Reliance Cement generated ~INR1,100 EBITDA/ tonne in FY17 and ~INR1,200 in Q1FY18, marginally contributed by VAT, CST and SGST refunds. Consequently, BCorp's consolidated EBITDA margin surged 557bps to 14.3%, EBITDA/ tonne jumped 79% YoY to INR567 and absolute EBITDA rose 118% YoY to INR623cr in FY17. Consolidated EBITDA margin catapulted 189bps YoY to 16.5% and EBITDA/ tonne increased from INR560 to INR695 in Q1FY18.

For BCorp, we have estimated 13% volume CAGR over FY17-19 factoring in consolidation of Reliance Cement's sales volume for first 5 months of FY18, which was excluded in FY17 as the consolidation concluded on August 22, 2017. Hence, FY18 cement sales volume is estimated to jump 21.0% compared to 24.5% in FY17. We have estimated 6.3% growth in realisation/ tonne over FY17-19E due to muted growth in pricing over the past 8 years and potential improvement in demand. We expect the EBITDA expansion to sustain on account of accelerating growth, improving utilisation and cost control. Hence, we have projected ~600bps margin expansion to 20.4% and EBITDA/ tonne to jump from INR567 to INR919 over FY17-19.

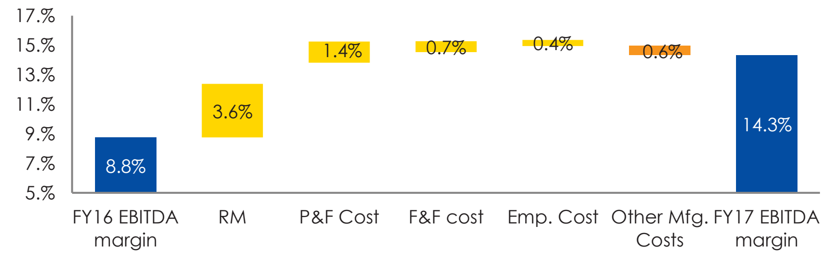
Improving realization and marginal cost control boost EBITDA margin



Source: Company, Edelweiss Investment Research

In FY17, lower raw material and power & fuel cost contributed 3.6% and 1.4%, respectively, to EBITDA margin expansion. While freight & forwarding and employee costs enhanced margin 60bps and 40bps, respectively, other variable costs offset it by 60bps. Consequently, EBITDA margin jumped 557bps to 14.3%.

Margin expansion through cost control



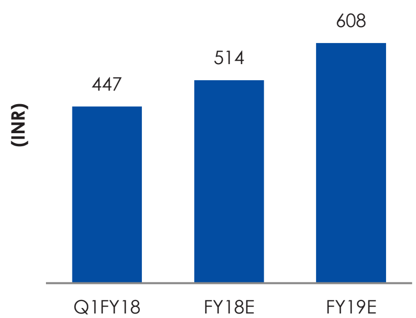
Source: Company, Edelweiss Investment Research

a) **Fiscal incentive continues to drive margin**

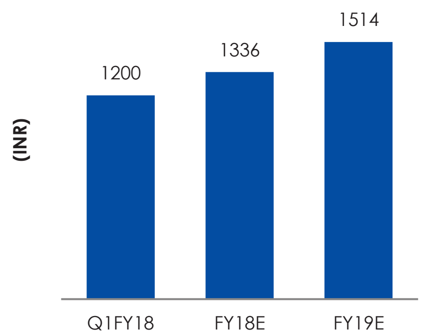
I. **Existing incentives**: BCorp acquired 3 manufacturing units from Reliance Cement located in MP, UP and Maharashtra. The latter's plants have been granted "Mega Project" status by respective state governments and hence they enjoy special incentives of VAT refunds. The benefits are as follows: a) MP will refund 75% VAT, CST and SGST for over 7 years starting November 2014; b) UP will refund 80% of VAT, CST and SGST for over 15 years starting November 2014 and the plant also gets 5% interest subsidy through reimbursement on the term loan taken for procuring plant & machinery; and c) Maharashtra refunds 100% VAT, CST and SGST and has exempted electricity for 7 years starting April 2013. These incentives boost EBITDA/ tonne.

II. **Next phase of capex will attract higher fiscal incentives:** BCorp is setting up a 4mt grinding unit in Maharashtra at an investment of INR24bn, which is near a limestone mine. The plant's proximity to the mine will prune raw material cost and also incentive from the government will accentuate margin going forward. BCorp bagged an established distribution network via Reliance Cement, which will help expand sales. Anticipated fiscal incentives are: a) refund of 100% VAT, CST and SGST for 20 years. We have not factored Mukutban's sales volume and margin expansion in our projection as the benefit will accrue from FY20.

Standalone EBITDA per tonne

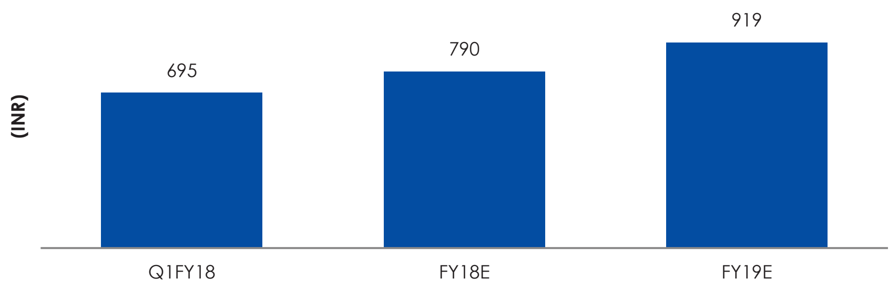


Reliance EBITDA per tonne



Source: Company, Edelweiss Investment Research

Consolidated EBITDA per tonne

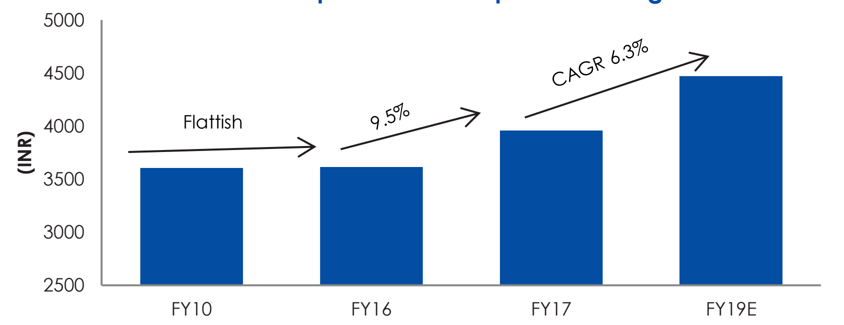


Source: Company, Edelweiss Investment Research

b) Realisation to firm up on higher demand, muted growth over past 6 years

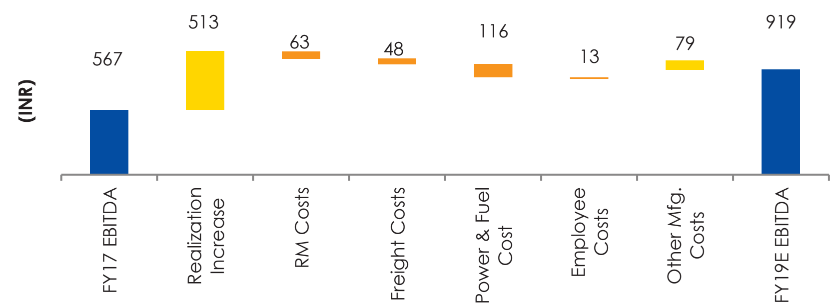
FY10-16 realisation remained flat at INR ~3,600 per tonne due to over capacity and moderating demand. In FY17, realisation rose 9.5% due to Reliance Cement's acquisition and marginal hike in cement price per bag post demonetisation, which is holding firm. We have estimated 6.3% growth in cement realisation over FY17-19E on account of marginal incentive on Reliance Cement and burgeoning demand.

realisation is expected to firmup on volume growth



Source:,Company,Edelweiss Investment Research

EBITDA/ tonne is estimated to jump from INR567 to INR919 over FY17-19E , primarily driven by rise in realisation and dip in other manufacturing expenses. In FY17, EBITDA/ tonne rose 79% YoY to INR567 from INR316 in FY16, aided by consolidation of Reliance Cement's revenue from August 22, 2016. We envisage full year consolidation in FY18 to significantly fuel EBITDA/ tonne. In Q1FY18, EBITDA/ tonne jumped from INR560 in Q1FY17 to INR695. We have estimated power & fuel cost to increase 5% over FY17-19 despite WHRS installation in Satna, while F&F and employee costs to grow at a moderate pace. Consequently, EBITDA/ tonne is estimated to improve from INR567 to INR919 over FY17-19E.

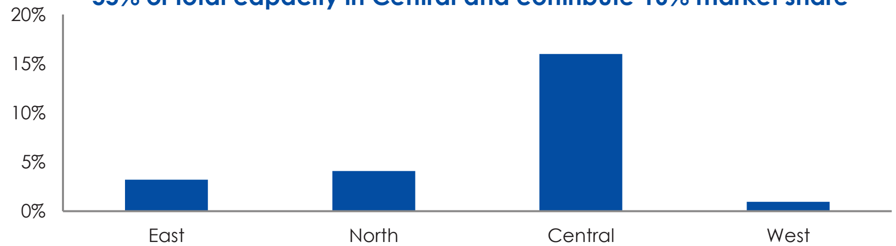


Source:,Company,Edelweiss Investment Research

III. Strong presence in one of the highest growing markets

BCorp has strengthened its position in Central India through acquisition of Reliance Cement, rendering it the third largest cement player in the region with 8.5mt installed capacity. The housing shortage in Central region is one-fourth of the entire country and government's push for housing is envisaged to boost cement demand at a higher clip. According to our analysis and 2011 census data, India needs ~10mn houses every year for the next 8-10 years. We estimate 7-8% CAGR in cement demand up to FY25, taking annual demand to ~500mt.

~55% of total capacity in Central and contribute 16% market share

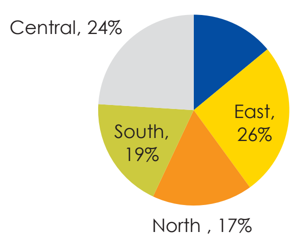


Source: Company, Edelweiss Investment Research

a) Central and East account for ~50% housing shortage in India

According to our analysis and 2011 census data, bulk of housing shortage is in East and Central India. Moreover, shift from Kuccha (houses built of mud & bricks) and slums to Pucca (cement) houses can propel annual cement demand 7-8%. Central and East India account for ~50% of total housing requirement.

Housing Shortage

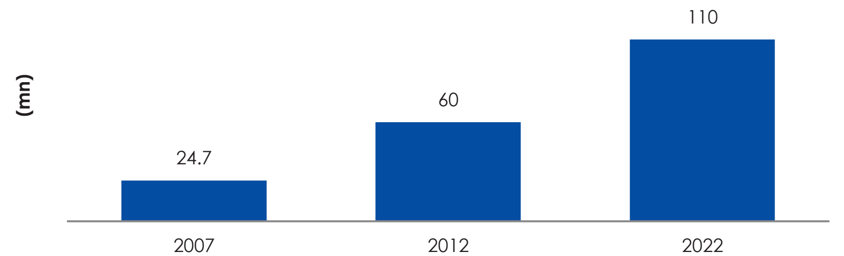


Source: Company, Edelweiss Investment Research

b) Housing shortage to double by 2022

The housing shortage in India is pegged to double by 2022 to 110mn houses from 60mn in 2012. Ergo, we envisage housing construction to accelerate. India's per capita income jumped from USD1,130 in 2007 to ~USD1,835 in 2016 and is estimated at USD2,832 by 2022 with 7.5% growth over 2016-22. In light of these factors, housing demand is bound to jump, which in turn will boost cement demand.

Housing shortage to double in next few years



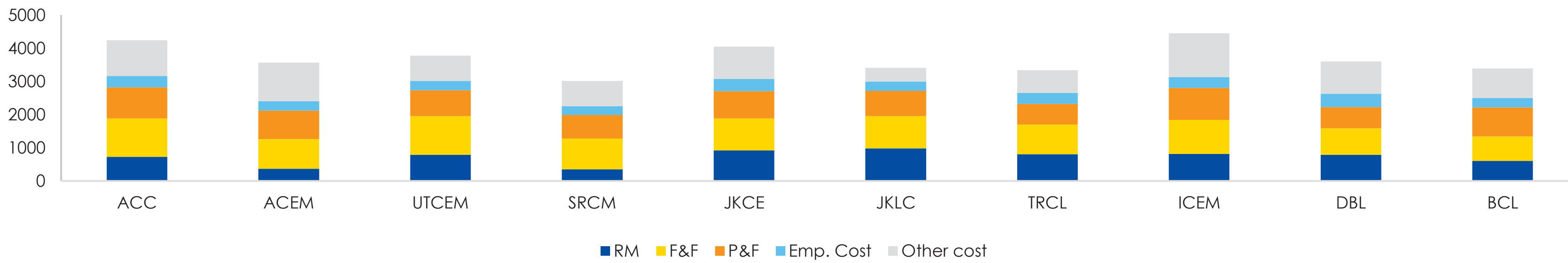
Source: Company, Edelweiss Investment Research

IV. Lowest cost producer; improvement anticipated

BCorp's variable cost is one of the lowest amongst mid & large size companies by ~8% due to lower raw material (RM) cost and freight & forwarding (F&F) cost. Currently, the company's power & fuel (P&F) cost is higher than the average of top 10 companies. However, we expect the 12MW WHRS installation in Satna to reduce the cost by ~4% of total P&F cost. While F&F, RM and other manufacturing costs are 23%, 15% and 5%, respectively, lower than average cost of top 10 cement companies, P&F cost is 10% higher. We expect further reduction in variable cost going forward.

The lower F&F cost is attributable to proximity to key markets. We expect this cost to dip marginally as road efficiency is expected to improve due to elimination of toll plazas at check nakas post GST implementation. BCorp's RM cost is lower than industry as: a) primary RM is procured mostly from its mines situated near plants; b) transportation through long belt conveyor/ropeway reduces the cost; and c) the company has its own slag processing plant near steel plant and procures fly ash & slag from nearby areas. Other manufacturing cost is lower as employee expenses as well as other overheads are lower. P&F cost is higher than the industry average, which is likely to dip as BCorp is installing 12MW WHRS in Satna.

Average cost : INR 3,683 as compared to INR 3,390 of BCorp

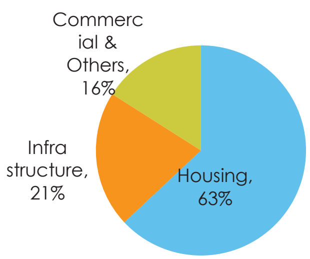


Source: Company, Edelweiss Investment Research

Key demand drivers in place

The housing sector is a key demand driver of cement in India aided by rapid urbanisation, rising per capital incomes, government subsidy and increasing disposable incomes. Renewed focus on *Housing For All by 2022, Smart Cities*, interest subsidy and redefinition of affordable housing are expected to alter the demand pattern in the medium to long term. Above all, falling interest rate is bound to spur housing demand, translating into higher demand for cement.

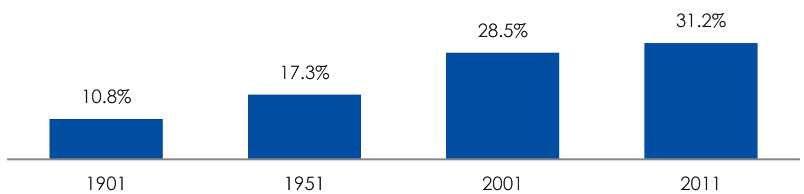
Cement demand breakup



a) Accelerating urbanisation propelling cement demand

Rising urbanisation and growing per capita incomes are expected to strengthen housing demand. Urbanisation in India was 10.8% in 1901, which jumped to 17.31% in 1951 and 28.53% in 2001. It rose to 31.16% in 2011 from 28.53% in 2001, up 2.63%. We anticipate the pace of urbanisation to increase due to industrialisation and *Smart Cities* leading to increase in cement demand.

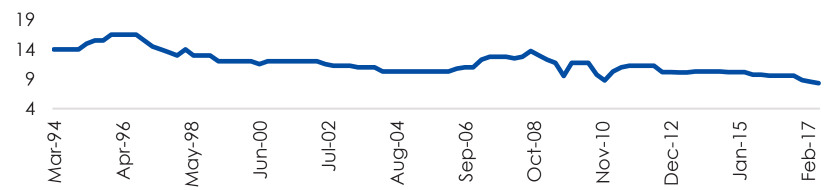
Urbanisation create extra requirement of housing, translating higher demand of cement



b) Interest rates on housing loans will continue to head South

We expect huge demand for housing riding falling interest rates, rapid urbanisation, rising disposable incomes, favourable demographics and interest subsidy on affordable housing. *Housing For All by 2022, Smart Cities* and PMAY are a few government initiatives to bridge the housing shortage gap. We expect short-term demand to be under pressure due to demonetisation, but the 7th Pay Commission payout, interest subsidy on affordable housing loans and falling housing rates are envisaged to bolster demand in the medium to long term.

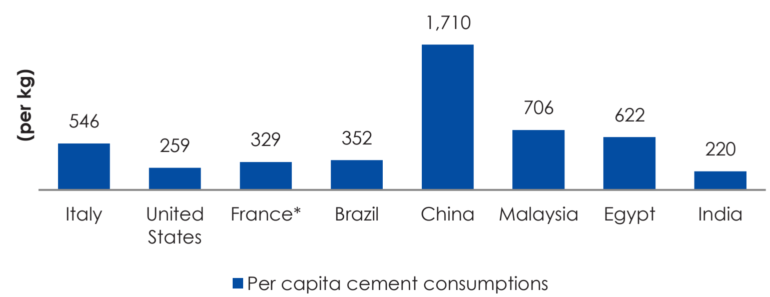
Interest rate continue to fall



Low per capita cement consumption entails humungous growth opportunity

Though India is the second largest cement manufacturer in the world, its per capita consumption is <50% of the world and <15% China's. We believe, the current cycle will boost cement demand because of favourable catalysts such as low interest rates, interest subsidy and policy push. Consequently, per capita cement consumption is expected to rise.

Per capita cement consumption to accelerate



Source: Company, Edelweiss Investment Research

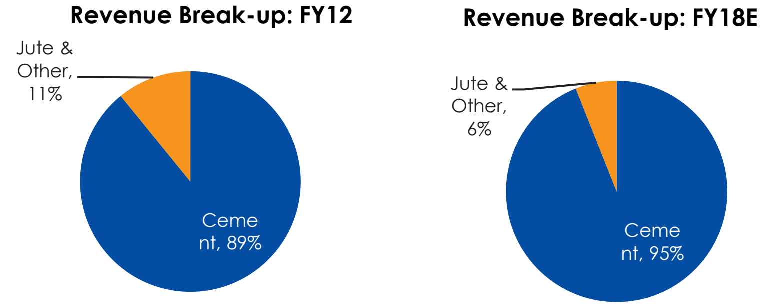
Company Description

BCorp is the flagship company of the M.P. Birla Group with significant presence in cement. The company is primarily engaged in cement and jute businesses. Currently, cement contributes ~92% to total revenue, which is inching up to ~95% due to inorganic growth in cement. Though jute division's performance has been satisfactory over the past few years, supply constraint and dwindling demand are major growth hurdles.

BCorp has acquired 100% shares of Reliance Cement, a subsidiary of Reliance Infrastructure (RIL), for an enterprise value of INR48bn. Reliance Cement has 5.6mt grinding and 3.3mt clinker plants located in Madhya Pradesh (Maihar, 3mt integrated unit), Kundanganj in UP (2mt grinding unit) and Butibori in Maharashtra (0.6mt grinding unit). This acquisition provided BCorp with the ownership of high-quality assets, propelling its total capacity from 10mt to 15.4mt.

The company is planning to set up 4mt grinding units and 3mt clinker units in Mukutban (Maharashtra), which will take total capacity to ~20mt. Post this expansion, BCorp will be the fifth largest cement manufacturing company in India with significant presence in West and Central India. The upcoming capacity is anticipated to increase its market share in West from 1% to ~7% and will contribute 24% to total installed capacity. In addition, BCorp has sought environmental clearance to set up 1.5mt cement capacity at Chanderia in Rajasthan. This expansion is likely post lifting of mining ban (through blasting), which was imposed by the Jodhpur High Court in August 2011. Apart from this, valuable mineral concessions in Karnataka, Rajasthan, AP, HP and MP provide an opportunity to expand manufacturing plants across India.

End markets are expected to grow at a rapid pace



Source: Company, Edelweiss Investment Research

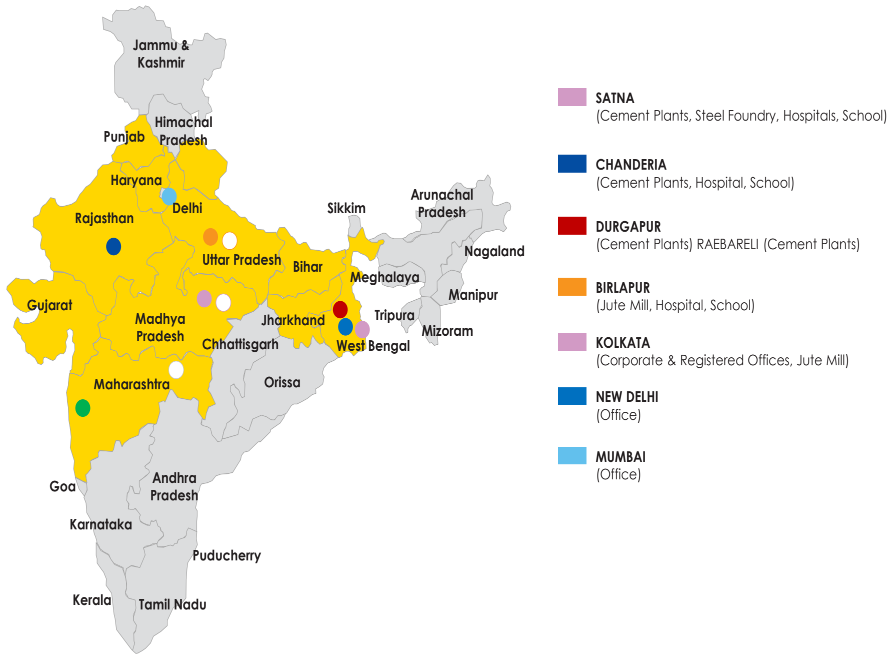
Key Risks

Cement demand fails to accelerate

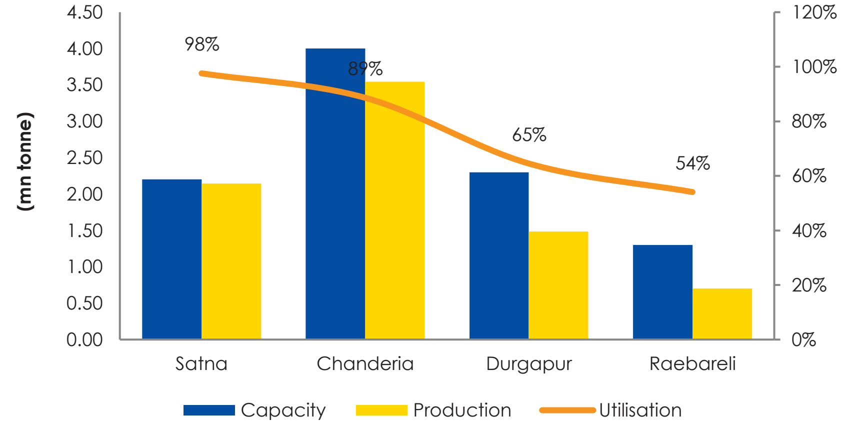
We have assumed cement demand to accelerate propelled by government push to affordable housing and renewed focus on infra spending. Any major delay in execution of affordable housing under PMAY and infra spending will negatively impact our assumptions.

Expansion delays may dent profitability

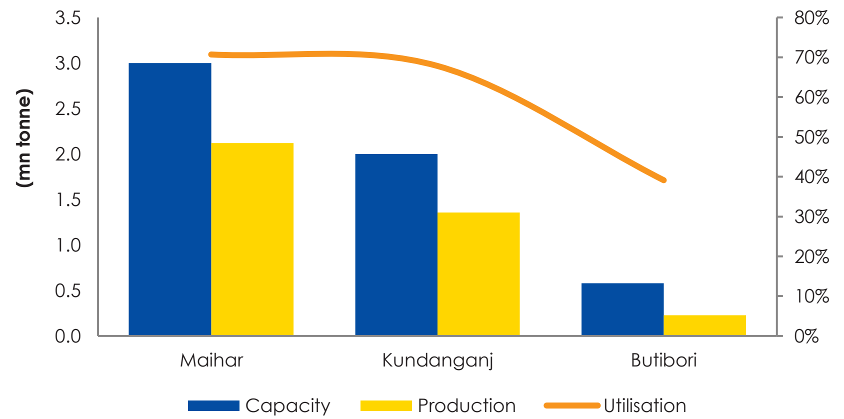
The company is planning to set up 4mt grinding units and 3mt clinker unit in Mukutban, Maharashtra. We estimate capex to be completed in early FY21. Any major delay in capex will not lead to multiple re-rating, which is key assumption of our hypothesis.



BCorp - Capacity utilisation remains robust



RCCL - Capacity utilisation to improve on back of strong distribution channel



Source: Company, Edelweiss Investment Research

Valuations

We estimate BCorp's revenue to post 19% CAGR over FY17-19E primarily led by higher volume and marginal growth in realisation. We have projected 13.6% CAGR in cement sales volume and 6.3% CAGR in realisation over FY17-19. The volume spurt will be driven by acquisition of Reliance Cement. We have forecast 42%, 55% and 50% EBITDA, EBIT & PAT growth respectivvely over FY17-19E. Profitability is expected to surge due to realisation improvement and cost control.

BCorp has chalked out a comprehensive capacity expansion programme spanning early FY21. The next leg of capex entails 4mt grinding unit in Mukutban, Maharashtra, which will propel the company's total capacity to ~20mt. Post this expansion, BCorp will be the fifth largest cement manufacturing company in India. In addition, it has also sought environmental clearance to set up 1.5mt cement capacity at Chanderia in Rajasthan. This expansion is expected to post lifting of mining ban (through blasting) in Chittorgarh. Apart from this, valuable mineral concessions in Karnataka, Rajasthan, AP, HP and MP provides an opportunity to expand manufacturing plants across India.

BCorp is currently trading at attractive valuation of 10.5x FY18E and 8.5x FY19E EV/EBITDA and EV/tonne of USD106 versus average of 12.3x FY19E EV/EBITDA and EV/tonne of USD170, ~33% discount to peers. To arrive the target price, we have taken the one-third weightage of all three valuation methodologies. Based on our methodologies, we have arrive a target price of INR 1,300 per share. At current market price of INR952, we initiate coverage on BCorp with **'BUY'** recommendation and target price of INR1, 300, entailing 37% upside.

EV/EBITDA Multiple

Particulars	Methodology	Multiple	Target Price
FY19E EBITDA (INR Cr)	EV/EBITDA	11.0	13806
Net Debt (INR Cr)			3456
Fair value of Equity (INR Cr)			10350
No of shares (Crs)			7.7
Value per Share (INR)			1344

P/E multiple

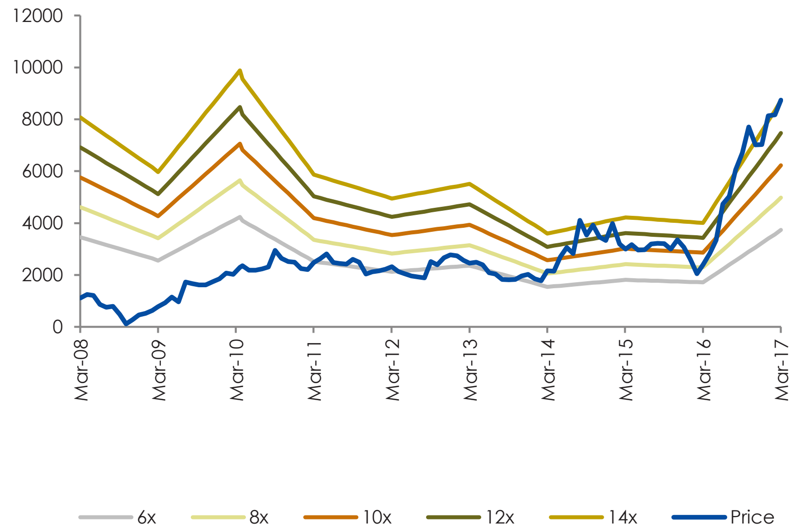
FY19E EPS	64.1
P/E multiple	20.0
Target Price per share	1282

EV/Ton

EV/Tonne (USD)	130
Capacity in (MT)	15.4
Fair Value of Cement Business ((INR crs)	12996
Fair Value of Jute Business (INR crs)	266
Net Debt (INR crs)	3456
Equity Valuation (INR crs)	9807
Value per share	1274

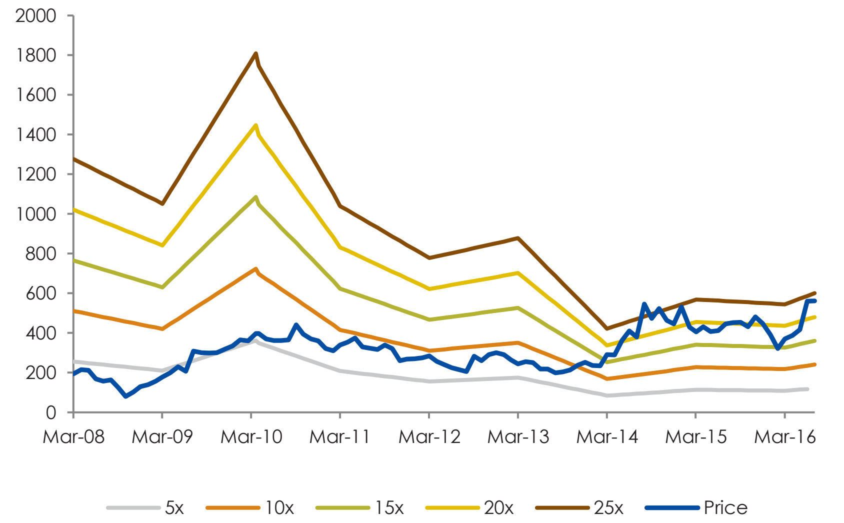
Methodologies	Weights	Target Price
EV/EBITDA	33%	1344
P/E(x)	33%	1282
EV/	33%	1274
Average		**1300**
CMP		952
Upside		37%

1 year forward EV/EBITDA



Source: Company, Edelweiss Investment Research

1 year forward PE (x)



Source: Company, Edelweiss Investment Research

Peer Comparison

Company	EV/tonne		EV/EBITDA		P/E(x)		P/BV		P/Sales	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ACC	140.8	137.8	17.3	13.4	41.3	29.5	3.7	3.6	2.6	2.3
ACEM	213.1	207.9	21.1	16.9	36.5	28.5	2.2	2.2	4.2	3.8
UTCEM	196.9	191.9	18.3	12.3	38.9	23.7	4.1	3.6	3.6	2.8
DBL	178.0	173.4	13.5	11.8	47.0	35.6	4.6	4.1	2.9	2.5
SRCM	277.3	221.7	23.1	17.7	36.3	30.2	6.9	5.5	6.3	5.0
TRCL	164.0	163.7	12.8	11.4	20.5	17.7	3.7	3.1	3.8	3.4
ICEM	82.1	78.2	8.5	6.7	20.8	13.5	1.1	1.0	0.9	0.8
BCL	105.9	106.4	10.5	8.5	23.6	14.8	2.1	1.8	1.0	0.9
Average	**169.8**	**160.1**	**15.7**	**12.3**	**33.1**	**24.2**	**3.6**	**3.1**	**3.2**	**2.7**

Company	Revenue Growth		EBITDA Margin		PAT margin		RoAA (%)		RoAE (%)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ACC	13.40	11.30	13.9	15.9	6.2	7.8	8.4	11.3	9.1	12.3
ACEM	11.32	12.10	18.9	20.6	11.6	13.2	6.0	7.5	6.3	7.8
UTCEM	25.85	28.02	22.2	25.0	9.3	11.9	6.8	9.2	9.2	11.4
DBL	14.49	15.56	25.3	24.5	7.7	8.8	4.3	5.6	7.7	8.5
SRCM	21.5	26.6	27.2	27.4	17.4	16.5	18.3	17.4	19.3	18.3
TRCL	9.51	12.95	31.7	31.6	18.7	19.2	14.4	17.6	15.8	19.1
ICEM	9.99	11.53	15.4	16.6	4.3	5.9	3.1	4.8	5.8	7.2
BCL	24.7	13.7	18.6	20.4	5.7	8.0	7.9	9.9	9.0	13.1
Average	**16.3**	**16.5**	**21.6**	**22.7**	**10.1**	**11.4**	**8.6**	**10.4**	**10.3**	**12.2**

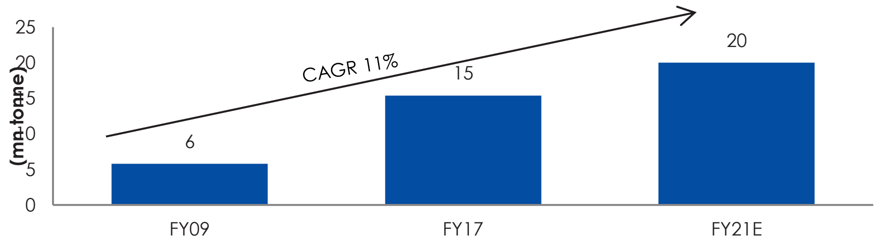
Company	Debtor Days		Inventory Days		Creditors Days		Cash Conversion Cycle		Asset turnover (x)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ACC	13.2	13.5	34.1	35.1	37.1	40.4	10.2	8.2	1.5	1.6
ACEM	11.8	11.2	37.2	35.5	43.9	42.8	5.1	3.8	0.6	0.6
UTCEM	21.2	19.8	36.6	33.8	36.3	35.1	21.4	18.5	0.8	0.9
DBL	31.5	31.9	35.0	34.9	68.6	68.8	-2.0	-2.0	0.6	0.7
SRCM	15.2	14.2	56.4	51.0	24.4	22.8	47.1	42.5	1.2	1.2
TRCL	53.6	54.4	54.5	55.3	4.3	5.9	73.2	74.1	0.9	1.1
ICEM	34.1	32.2	51.1	52.6	94.7	99.9	-9.5	-15.1	0.7	0.8
BCL	7.7	8.0	38.6	40.3	25.2	22.8	21.1	25.4	1.1	1.2
Average	23.5	23.2	42.9	42.3	41.8	42.3	20.8	19.4	0.9	1.0

Company performance – per tonne analysis

Capacity growth over FY07-17 surpassed industry average

Over FY07-17, while the cement industry's capacity grew ~8.8%, BCorp's jumped 10.3%. We have projected 8% growth over FY17-21E on account of green filed expansion in Mukutban, Maharashtra.

Title

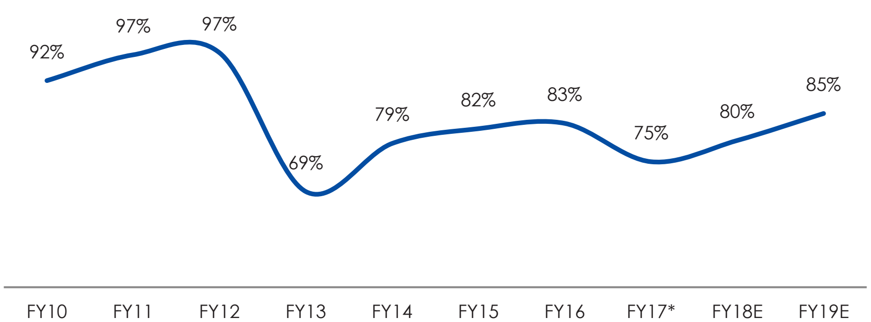


Source: Company, Edelweiss Investment Research

Attractive market protected utilisation

BCorp's utilisation has always remained above industry average because of proximity to one of the highest growing markets and lower capacity addition in the same zone. In Q1FY18, the company's annualised capacity utilisation was 85%, but we have projected 80% in FY18 due to slack in Q2 and 85% in FY19.

Utilisation dented in FY13 & 17 due to Capex by 53% & 59% respectively

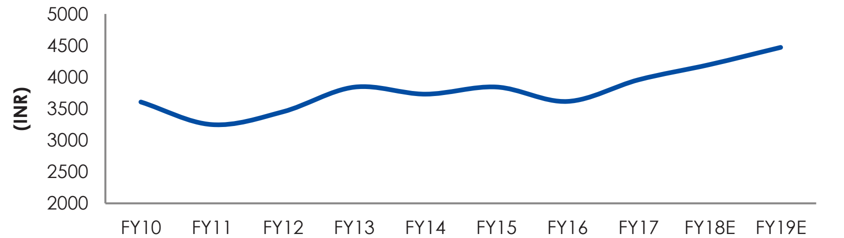


Source: Company, Edelweiss Investment Research
*Reliance cement sales volume annualised

Realisation per tonne expected to firm up

Realisation per tonne remained unchanged between 2010 and 2016, but in FY17 it jumped 9.5% due to marginal price hike and acquisition of Reliance Cement. The latter enjoys refunds of VAT, CST and SGST, which enhanced FY17 realisation. The consolidation was completed on August 22, 2016, hence revenue was consolidated from the same date. In Q1FY18, reliasation surged 10% YoY and we have projected marginally lower realisation for FY18. We have estimated 6% growth over FY17-19, which is in line with the industry.

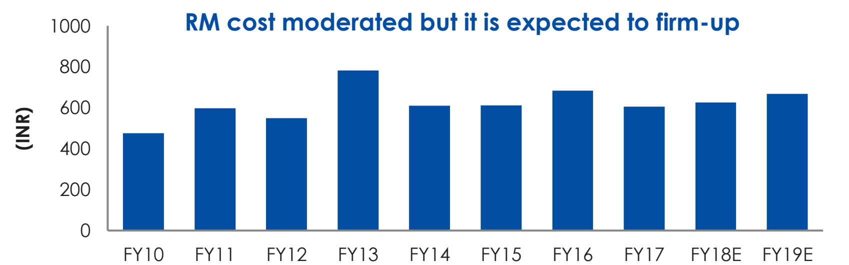
Realisation is likely to uptrend due to moderating capex & firming up demand



Source: Company, Edelweiss Investment Research

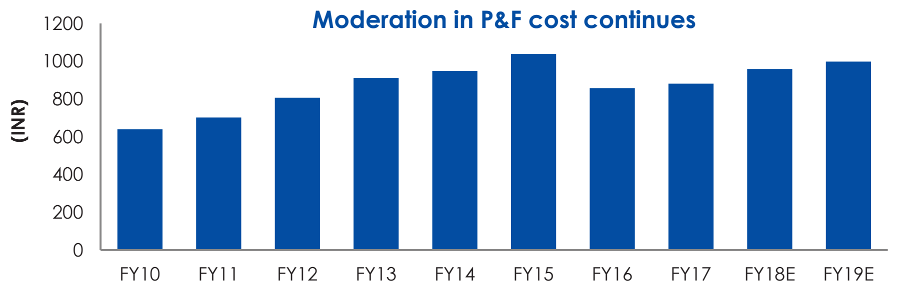
Raw material cost subsidised due to acquisition

Raw material cost declined in FY17 post Reliance Cement's acquisition. The Raw material cost per tonne fell 11.5% YoY to INR605 and in absolute terms revenue grew 33%, while Raw material expenses grew 7.5% YoY. We have projected Raw material cost in line with revenue growth.



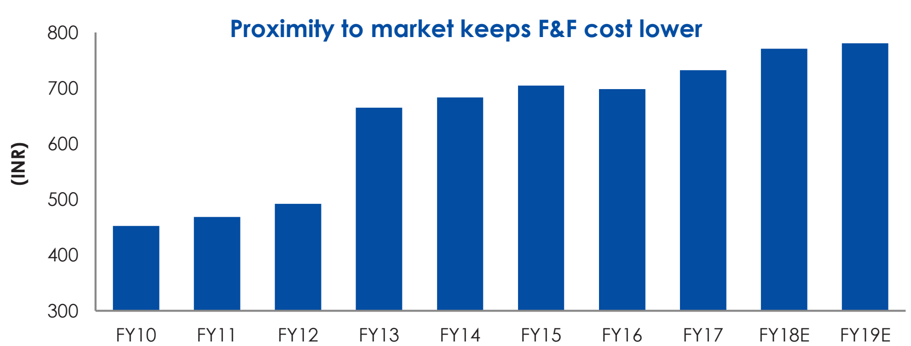
Source: Company, Edelweiss Investment Research

Power & fuel cost continues to moderate
Over the past 2 years, P&F cost per tonne has moderated and we expect further reduction post WHRS installation in Satna. Based on our projections, P&F cost will dip ~4% post WHRS installation.



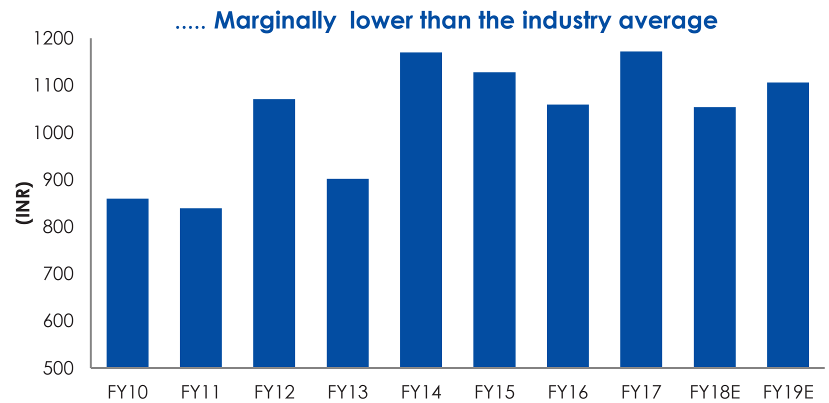
Source: Company, Edelweiss Investment Research

One of the lowest freight & forwarding costs
BCorp's F&F cost is one of the lowest in the industry due to proximity to end consumers. The F&F cost is INR732 per tonne, 23% lower than the average of top 10 cement companies.

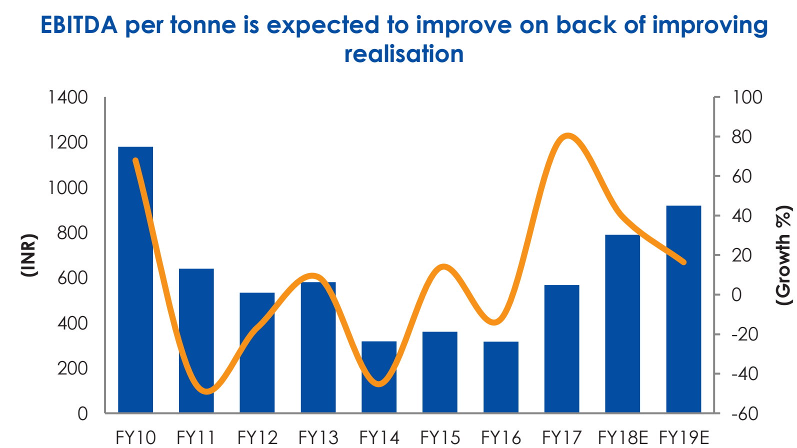


Source: Company, Edelweiss Investment Research

High other manufacturing cost in FY17 one off; to soften marginally
Other manufacturing cost including employee cost was higher in FY17, but ~5% lower than the average of top 10 companies. This was an aberration, which is expected to soften going forward and we have projected 3% decline over FY17-19.



Source: Company, Edelweiss Investment Research



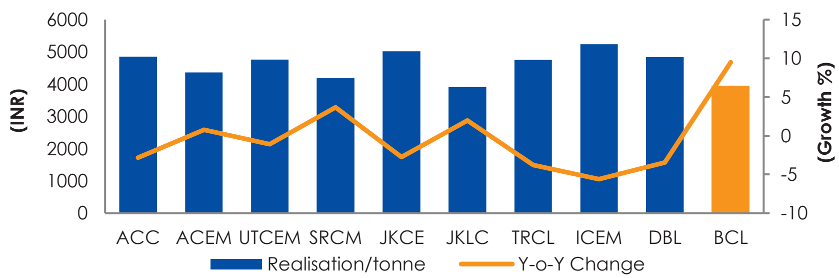
Source: Company, Edelweiss Investment Research

Peer comparisons, capacity ≥15mt

Acquisition provides opportunity in one of the highest growing markets

In FY17, while average realisation of top 10 companies declined by 0.4%, BCorp's jumped 9.5% over its peers on account of the Reliance Cement acquisition. Post acquisition, the company has strengthened its position in high growing market, especially Central India, which is expected to be one of the highest growing markets. We have projected 6.3% growth in realisation over FY17-19, which is in line with market expectation.

Realisation improved on back of acquisition

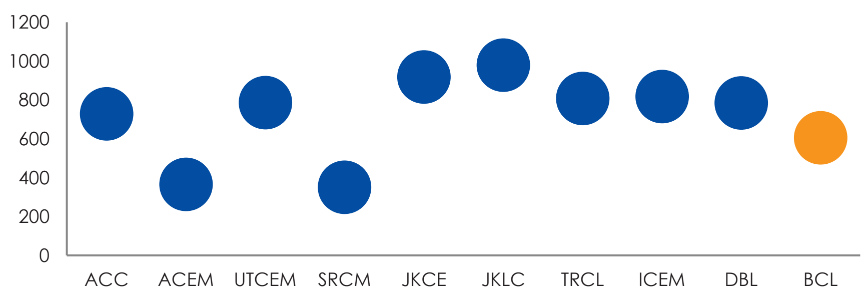


Source: Company, Edelweiss Investment Research

One of the lowest raw material cost per tonne

BCorp's raw material cost is ~15% below the average of top 10 companies. The company's raw material cost has plummeted 360bps over FY16-17, primarily driven by acquisition. In FY18, it will reap the benefit of full year operation of Reliance Cement. Hence, we expect further fall in raw material cost.

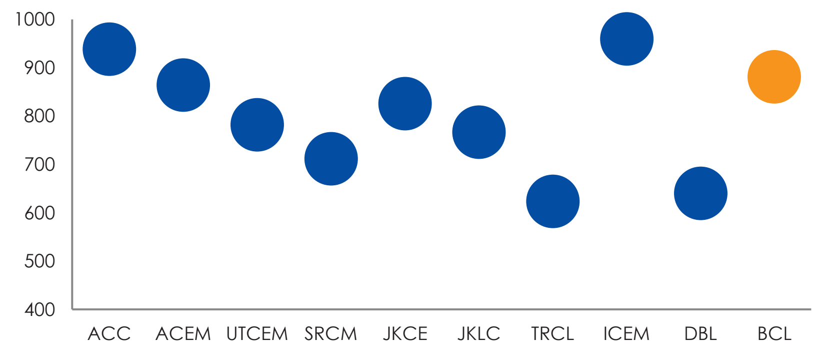
Raw material cost is 15% below the average cost of these companies



Source: Company, Edelweiss Investment Research

At present, the Power & Fuel (P&F) cost is marginally higher than its peers but post installation of WHRS in Satna will reduce the cost by INR 50-55crs, which is ~4% of total P&F expenses in FY19E.

Power & Fuel cost is expected to come down post WHRS installation in Satna

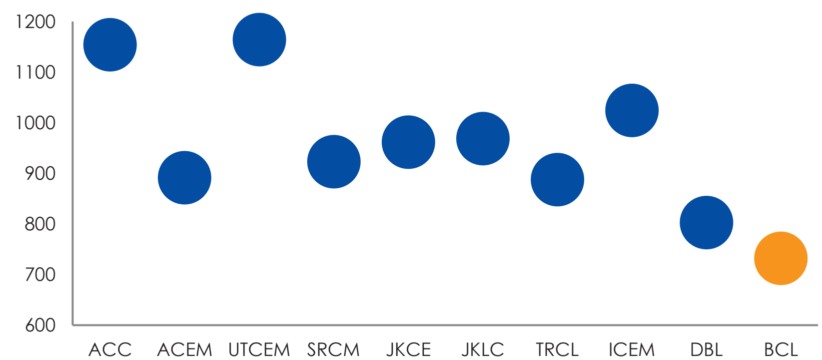


Source: Company, Edelweiss Investment Research

One of the lowest freight & forwarding cost

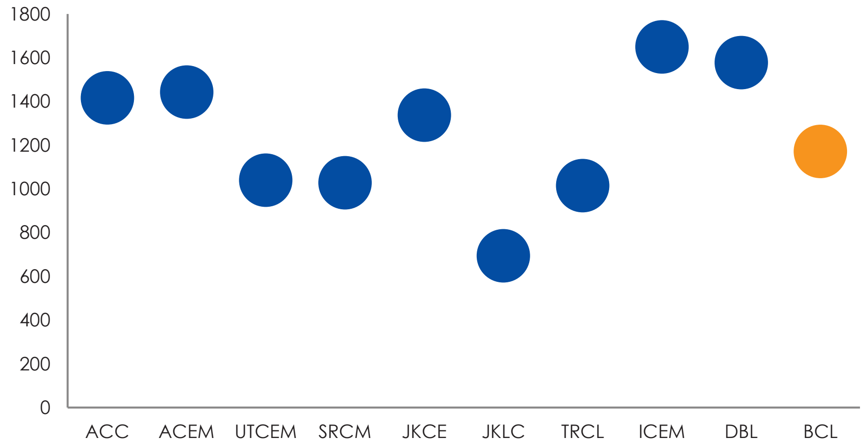
BCorp's freight & forwarding cost is ~23% below the average of top 10 companies because of its proximity to markets. We expect the cost to remain under control as fresh capex is expected to be near mines and target market is also close to plants.

One of the lowest F&F cost



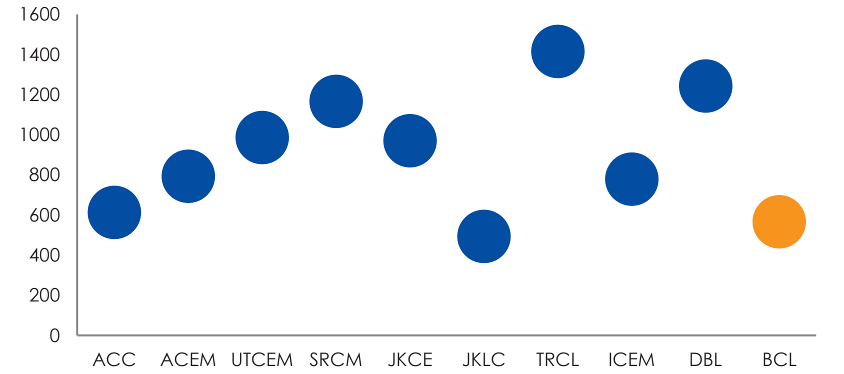
Source: Company, Edelweiss Investment Research

Other variable cost s lower than industry average due to lower employee cost
BCorp's other variable cost is ~5% lower than the average of top 10 companies, primarily driven by lower employee cost. We expect the variable cost to remain stable going forward because of scalability.



Source: Company, Edelweiss Investment Research

EBITDA/ tonne to improve on cost control and higher realisation
The acquisition of Reliance Cement helped BCorp to improve EBITDA / tonne from INR316 to INR567, up 79% YoY. The jump is attributable to cost control and incentive on VAT, CST and SGST, which are likely to sustain. Consequently, EBITDA/ tonne is likely to improve going forward.

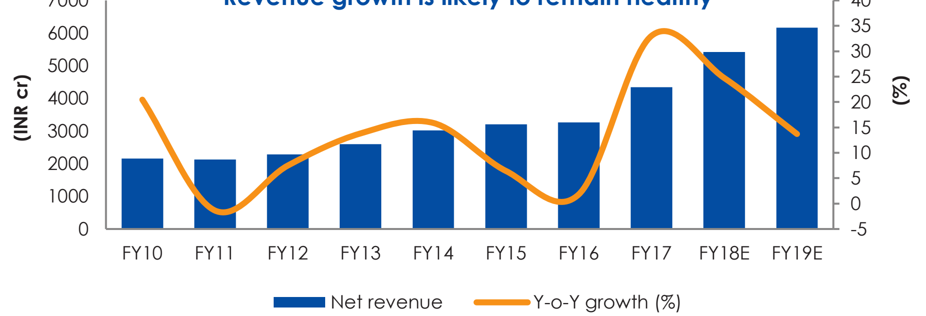


Source: Company, Edelweiss Investment Research

Financial Outlook

We expect acquisition of Reliance Cement to accelerate growth and hence estimate 19% net revenue growth over FY17-19 spearheaded by 13.6% surge in cement sales volume and 6% growth in realisation over FY17-19 compared to 11% revenue growth and 3% realisation growth over FY12-17.

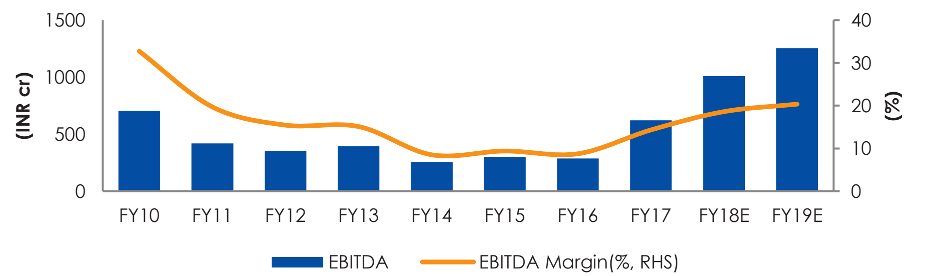
Revenue growth is likely to remain healthy



Source: Company, Edelweiss Investment Research

We estimate EBITDA CAGR of 42% over FY17-19 riding cement sales volume growth and marginal uptick in realisation. In FY17, EBITDA grew 118%, EBITDA margin expanded 557bps and EBITDA per tonne jumped 79% YoY to INR567. We expect full year consolidation of Reliance Cement's sales volume to boost growth and margin, in turn propelling EBITDA per tonne.

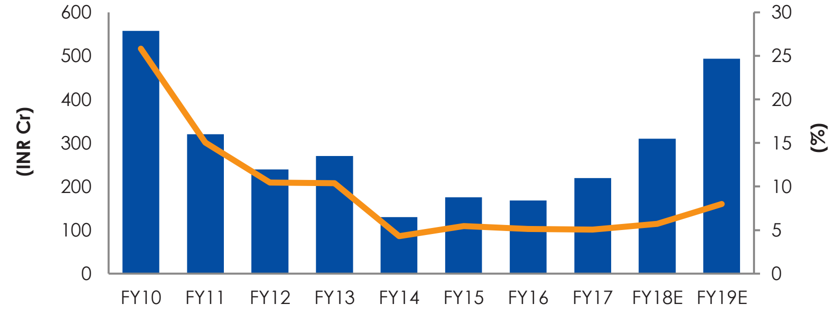
EBITDA, EBITDA margin to increase on cost control and higher realisation



Source: Company, Edelweiss Investment Research

Net profit is expected to increase at a higher clip compared to net revenue on account of cost control and realisation expansion. Hence, we estimate 50% CAGR over FY17-19. We have projected PAT margin to improve from 5% to 8% over FY17-19.

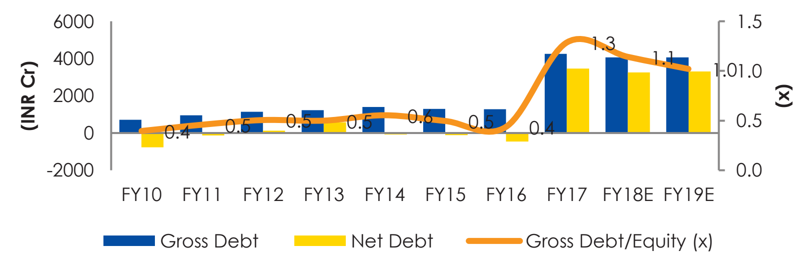
... Stable fixed and finance cost will enhance PAT margin



Source: Company, Edelweiss Investment Research

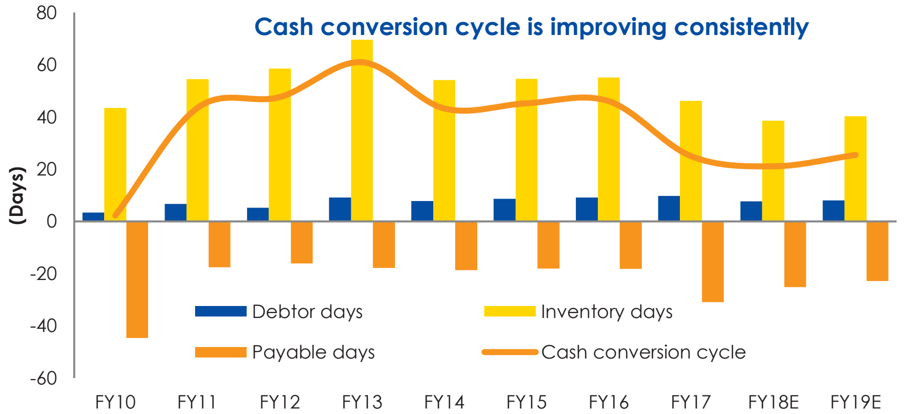
BCorp's net debt has remained negative and gross debt to equity at ~0.5x over the past 7 years on an average. Lower debt helped the company acquire Reliance Cement. Based on current capex programme, gross debt to equity will remain at 1.1x from current level of 1.3x. There is room for fresh debt, which will further boost inorganic growth.

Lower gross D/E helped in acquisition



Source: Company, Edelweiss Investment Research

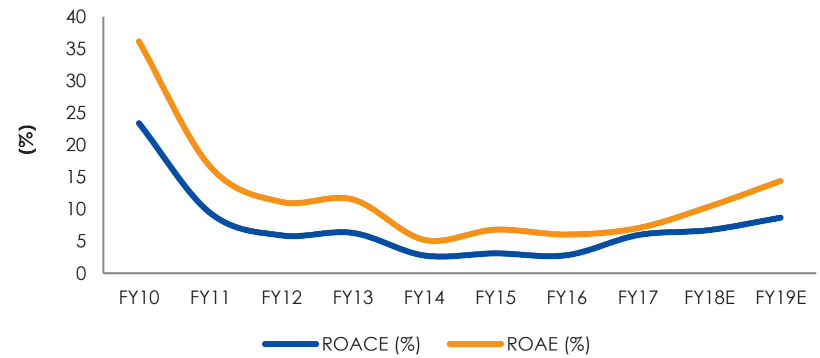
The cash conversion cycle at peak was 61 days, which dipped to 46 in FY16 and further to 25 post the Reliance Cement acquisition. We have projected cash conversion cycle to remain at ≤25 days.



Source: Company, Edelweiss Investment Research

Return ratios to improve

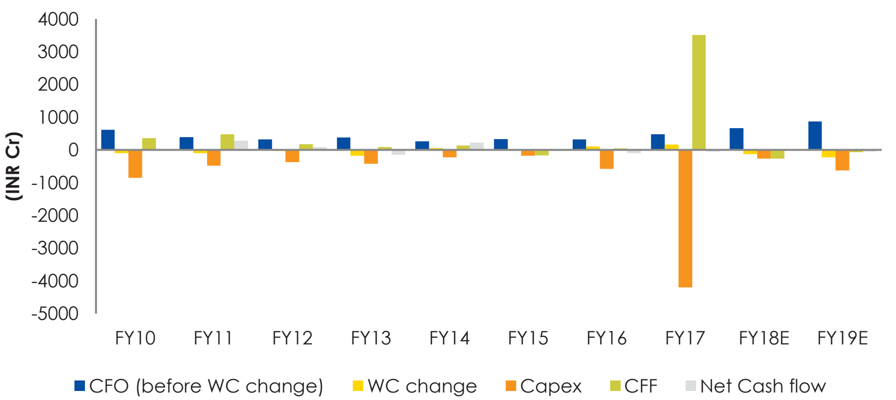
RoAE and RoACE have bottomed out and we expect them to improve on account of burgeoning revenue and profitability.



Source: Company, Edelweiss Investment Research

Positive cash flow has strengthened balance sheet

BCorp has consistently generated positive operating cash flow and free cash, except in years of capex.



Source: Company, Edelweiss Investment Research

Financials

Income Statement

Year to March (INR cr)	FY15	FY16	FY17	FY18E	FY19E
Net revenue	3,210	3,268	4,348	5,422	6,166
Materials costs	510	618	665	809	923
Gross profit	2,700	2,650	3,683	4,613	5,243
Power & Fuel Cost	868	775	968	1,241	1,379
Freight Cost	628	671	861	1,068	1,154
Other Cost	902	918	1,231	1,295	1,454
EBITDA	302	286	623	1,009	1,255
Depreciation & Amortization	154	149	256	356	377
EBIT	148	137	367	653	878
Other income	156	177	147	134	145
EBIT incl. other income	304	315	514	787	1,023
Interest expenses	78	82	277	374	365
Profit before tax before EI	225	232	237	413	658
Exceptional Items	(13)	(31)	(7)	-	-
PBT	213	201	230	413	658
Provision for tax	37	33	11	103	165
Reported PAT	175	168	219	310	494
Adjustment in PAT	(0)	(0)	(0)	(0)	(0)
Adj Net Profit	175	168	219	310	494
Basic shares outstanding (crs)	8	8	8	8	8
EPS (Rs.)	23	22	28	40	64
Dividend per share (Rs.)	6	6	7	7	8
Dividend payout (%)	26.4	27.5	22.8	17.4	11.7

Common Size

Year to March (%)	FY15	FY16	FY17	FY18E	FY19E
Gross profit margin	**84.1**	**81.1**	**84.7**	**85.1**	**85.0**
Power & fuel	27.0	23.7	22.3	22.9	22.4
Freight & forwarding	**19.6**	**20.5**	**19.8**	**19.7**	**18.7**
Other manufacturing cost	28.1	28.1	28.3	23.9	23.6
EBITDA margin	**9.39**	**8.75**	**14.33**	**18.61**	**20.36**
Depreciation	4.8	4.6	5.9	6.6	6.1
Interest expenses	**2.4**	**2.5**	**6.4**	**6.9**	**5.9**
Tax rate	16.6	14.3	4.6	25.0	25.0
Net profit margins	5.5	5.1	5.0	5.7	8.0

Growth Ratios

Year to March (%)	FY15	FY16	FY17	FY18E	FY19E
Revenues	6.4	1.8	33.0	24.7	13.7
EBITDA	17.4	-5.1	117.7	62.0	24.4
PBT	39.5	-5.5	14.6	79.5	59.2
Net profit	35.0	-4.3	30.8	41.3	59.2

Balance Sheet

As on 31st March (INR cr)	FY15	FY16	FY17	FY18E	FY19E
Equity capital	77	77	77	77	77
Preference Share Capital	0	0	0	0	0
Reserves & surplus	2550	2848	3228	3473	3897
Borrowings	1302	1281	4255	4055	4055
Deferred Tax Liabilities (Net)	244	183	565	565	565
Sources of funds	4173	4390	8124	8170	8594
Net Fixed Assets	2050	2097	7168	7012	7185
Investments	1309	1690	564	632	708
Inventories	553	567	630	796	944
Sundry debtors	88	94	133	159	188
Cash & Bank Balances	468	363	312	315	265
Other Current assets	200	204	516	467	554
Loans and advances	327	213	374	465	534
Total current assets	1636	1442	1965	2202	2486
Sundry creditors	159	163	368	374	386
Provisions	105	59	75	96	114
Other Liabilities	558	618	1131	1207	1286
Total current liabilities & provisions	822	840	1573	1677	1786
Net current assets	814	602	392	525	700
Uses of funds	4173	4390	8124	8170	8594

Free cash flow

Year to March	FY15	FY16	FY17	FY18E	FY19E
Net profit	175	168	219	310	494
Add : Depreciation	154	149	256	356	377
Operating profit (before WC changes)	329	316	475	666	870
Less: Changes in WC	19	-107	-160	131	225
Operating cash flow	310	423	634	535	646
Less: Capex	194	195	5326	200	550
Free cash flow	115	228	(4,692)	335	96

Cash Flow Statement

Year to March	FY15	FY16	FY17	FY18E	FY19E
Cash flow from operations	310	423	634	535	646
Cash Flow from investing activities	-179	-576	-4201	-268	-626
Cash Flow from financing activities	-155	-77	2918	-265	-70
Adjustments	-11	125	597	0	0
Capex	-194	-195	-5326	-200	-550
Dividends	56	56	56	65	70

Profitability & Efficiency Ratios

Year to March	FY15	FY16	FY17	FY18E	FY19E
ROAE (%)	6.80	6.04	7.05	9.05	13.12
ROACE (%)	3.10	2.82	5.95	6.46	8.43
ROA	2.92	2.68	5.60	6.01	7.86
Inventory day	54.62	55.06	46.18	38.59	40.25
Debtors days	8.71	9.14	9.71	7.69	8.03
Payable days	18.10	18.17	30.88	25.19	22.85
Cash conversion cycle (days)	45.23	46.03	25.00	21.09	25.43
Current ratio	1.99	1.72	1.25	1.31	1.39
Gross debt/equity	0.50	0.44	1.29	1.14	1.02
Adjusted debt/Equity	0.32	0.31	1.19	1.05	0.95
Interest coverage ratio	1.89	1.67	1.33	1.75	2.41

Turnover Ratios

Year to March	FY15	FY16	FY17	FY18E	FY19E
Total asset turnover	0.9	0.9	0.8	0.9	1.0
Fixed asset turnover	1.8	1.8	1.1	1.1	1.2
Equity turnover	1.4	1.4	1.6	2.2	2.3

Du Pont Analysis

Year to March	FY15	FY16	FY17	FY18E	FY19E
NP margin (%)	5.46	5.13	5.05	5.72	8.01
Total assets turnover	0.82	0.80	0.74	0.72	0.79
Leverage multiplier	1.52	1.47	1.89	2.21	2.08
ROAE (%)	6.80	6.04	7.05	9.05	13.12

Valuation Parameters

Year to March	FY15	FY16	FY17	FY18E	FY19E
Adjusted Diluted EPS (INR)	22.8	21.8	28.5	40.3	64.1
Y-o-Y growth (%)	35.0	-4.3	30.8	41.3	59.2
Adjusted Cash EPS (INR)	42.7	41.1	61.7	86.5	113.0
Diluted P/E (x)	41.8	43.7	33.4	23.6	14.8
P/BV (x)	2.8	2.5	2.2	2.1	1.8
EV/tonne (USD/tonne)	119.3	107.9	107.9	105.9	106.4
EV/sales (x)	2.2	2.1	2.5	2.0	1.7
EV/EBITDA (x)	23.9	24.0	17.3	10.5	8.5
EV/EBITDA (x), 1 yr fwd.	25.2	11.0	10.7	8.4	6.8

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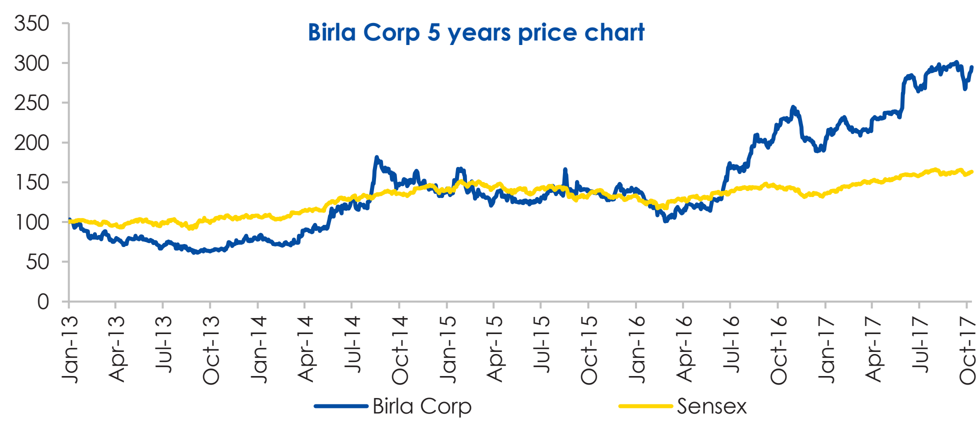
Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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