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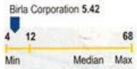
COVER STORY BIRLA CORPORATION

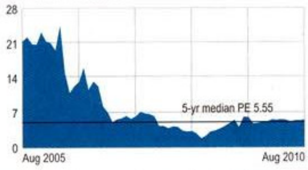
# Attractive valuation

## Buy this zero-debt company that enjoys a good brand image in market

| Industry | Price | 52W High | 52W Low | Div Yield |
|---|---|---|---|---|
| Cement | ₹366 | ₹422 | ₹267 | 1.73% |




5-year P/E Trend




| Financials | 5Y Growth* | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Net worth (₹ Cr) | 42 | 384 | 666 | 1005 | 1288 | 1791 |
| Sales (₹ Cr) | 12 | 1424 | 1787 | 1992 | 2038 | 2391 |
| Profit after tax (₹ Cr) | 45 | 126 | 326 | 394 | 324 | 557 |
| EPS (₹) | 45 | 16 | 42 | 51 | 42 | 72 |

Data as on August 30; *CAGR FY04-09

Birla Corporation Ltd (BCL) was established in 1919. The MP Birla group is its promoter. It manufactures cement, jute products, synthetic viscose and cotton yarn. Cement manufacturing accounts for 85 per cent of its revenue. The company's seven cement plants are situated in Rajasthan, MP, UP, and West Bengal.

### Strengths

It has an installed capacity of 6.07 million tonnes (MT) at the end of FY10. After the completion of capacity expansion at Satna, its effective capacity will increase to 7.5 MT by the end of FY11.

The company has a strong balance sheet and hence can grow organically or inorganically. At the end of June 2010 it had net cash of ₹900 crore.

The company is strongly positioned in the north and central India markets. According to Madhumita Ghosh, head of research, Unicon Financial Intermediaries, "These are high-growth markets that have seen relatively lower capacity addition. This combination of factors will protect the company from pricing pressures."

The company produces high-quality cement and enjoys a good brand image. BCL also enjoys higher margins due to its lower cost of power. In FY10 its power cost was around 18 per cent of sales, whereas for its peers this figure stood at around 23-27 per cent. The company enjoys this advantage owing to coal linkages with Eastern Coalfields and Coal India.

### Weaknesses

According to Ashish Kapur, chief executive officer of brokerage firm Invest Shoppe India, "The company needs to be more aggressive in promoting its brand in the market. It also needs to work on the pricing and margins as these do not match up with the expectations of dealers and retailers." Like its peers, BCL is exposed to the risk of rising input cost and fuel cost. The company has raised ₹370 crore through the private placement of secured redeemable non-convertible debentures. This pushed up its interest cost in the June quarter.

### Opportunities

Demand from infrastructure and housing is expected to increase the demand for cement. The company is going in for capacity addition to take advantage of this opportunity. BCL has been allotted Bikram Coal Block in Madhya Pradesh. The mine plan has been approved by the Standing Committee of the Ministry of Coal. Applications for mining lease, forest clearance and environmental clearance have been submitted to the concerned Ministries.

The MP government has also recommended to the Union Ministry of Mines for the allotment of mining lease of around 2,130 hectares in Satna district to Talavadi Cements, a subsidiary of BCL. This recommendation has been challenged by some parties in the High Court. If this issue is resolved favourably, BCL plans to set up a cement plant with an annual capacity of up to 3 MT at a capital outlay of around ₹1,200 crore.

### Threats

The challenge to BCL arises out of competition from cheaper brands. Moreover, players like Grasim price their products such that customers as well as retailers profit more by buying them.

### Valuation

The stock has a 12-month trailing PE of 5.29 (August 13, 2010) and a PEG (price-earnings to growth) ratio of 0.12, which is quite attractive. Buy with a three-year horizon. WI



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