

February 8, 2018

PICK OF THE MONTH

VOL-4, NO-1

Bigbloc Construction Limited

BUY

CMP: Rs.120

TARGET PRICE: Rs.160

TIME : 12 months

OVERVIEW: Industry:

Activities related to construction industry is a never ending process. As the population grows, the demography changes, the number of new housing requirement also rises. This is not just related to a particular country or a continent, but the same is witnessed across the globe. Thus, we will witness an overall positive trend in the construction sector. This is one of the key drivers for growth in concrete block and brick manufacturing market in the developing nations. When we talk about innovations in this segment, Autoclaved Aerated Concrete (AAC) blocks are expected to drive the global market. Many also consider AAC as green building materials. This technology has been used in modern buildings, residential units and housing complexes worldwide.

The market for global concrete block and brick manufacturing (basis of product type) can be divided into three segments i.e. concrete blocks, bricks and AAC blocks. Till 2016, the segment for bricks was the leader and is still anticipated to dominate with a CAGR of 3.5%. Industry experts have projected (AAC) market to grow at a CAGR of 7.36% during the period 2017-2021. One trend in the market is increasing demand for environment friendly buildings. In this domain, AAC has been gaining popularity in the global market. The production procedures are energy efficient while the material used is chemically inert, nontoxic and the weight of AAC blocks is one-fourth of the weight of conventional bricks with this the cost of transportation too reduces and so AAC blocks are slowly replacing the traditional red bricks. Manufacturing the conventional red bricks consumes fertile land and at the same time emits greenhouse gases, which is not the case for AAC. With times to come, environment protection amendments and rules will become stern and AAC will capture the market share.

AAC blocks are regarded as revolutionary construction materials in the Real Estate Industry. Erratic nature of weather and climatic changes has made artificial heating and cooling mandatory in most of the buildings or apartments. Off course, lot of energy which is basically fossil fuels is used. In many such cases, the need of the hour is to prevent unwanted heat loss or heat gain and minimize the use of air conditioners and heaters. One of the alternatives to thermal insulation is AAC blocks. These are porous and do not allow easy transfer of heat. Global popularity of environment friendly construction has grown steadily. The demand for green buildings has been growing and AAC has emerged as an eco-friendly building material. These are also regarded as reliable sources for constructing sustainable buildings. These are made from industrial waste and non-toxic materials, unlike synthetic building materials. AAC is made from natural materials which are locally available. These are fire and water resistant. Moreover, they also exhibit the properties of sound and thermal insulation and 3-4 times lighter than their traditional counterparts. The AAC bricks are cheaper to work with. Many also claim that the overall cost of the construction can be reduced by 20% as lesser amount of other materials is needed and there is lesser breakage as well i.e. nearly 2-5% as compared to traditional bricks which has a breakage of 10-20%. The AAC blocks are slowly becoming the ideal choice as building materials for residential, hotel, industrial structures etc. Some of the important features exhibited by AAC are durable, light weight (nearly 70% of the weight of the brick), thermal insulation, acoustic insulation, impact resistant etc. Unlike the conventional cement block, an AAC block is easy to use. However, there are some drawbacks as well; like high initial costs, limited number of manufacturing facilities and lack of awareness of existence of substitute for bricks.

There is an increasing and huge demand for AAC in the region of Asia Pacific. Growing population, requirement for sustainable buildings and many favourable government & investment policies will provide impetus to growth in this region. This is one of the fastest growing markets and is anticipated to dominate in future as well. India, China, Japan and South Korea are the fastest-growing markets here. Latin America (LATAM) is another major region which is expected to grow at moderate rate as far as construction activities and involvement of AAC blocks is concerned.

| SNAPSHOT | | | | |
|---|---------------|--------|---------|---------|
| 52 week H / L | Mcap (INR mn) | | | |
| 159 / 114 | 1,699 | | | |
| Face value: 10 | | | | |
| BSE Code | NSE CODE | | | |
| 540061 | BIGBLOC | | | |
| Annual Performance | | | | |
| (Rs mn) | FY15 | FY16 | FY17 | FY18E |
| Sales (Net) | NA | 604 | 628 | 686 |
| EBITDA | NA | 64 | 104 | 119 |
| EBITDA (%) | NA | 10.6 | 16.5 | 17.4 |
| Other Income | NA | 1 | 0 | 1 |
| Interest | NA | 35 | 32 | 32 |
| Depreciation | NA | 23 | 24 | 28 |
| PBT | NA | 7 | 48 | 60 |
| PAT | NA | 5 | 29 | 39 |
| Equity | NA | 1 | 142 | 142 |
| EPS (INR) | NA | 0 | 2 | 3 |
| Quarterly Performance | | | | |
| Parameters (Rs mn) | Dec 16 | Mar 16 | June 16 | Sept 17 |
| Sales (Net) | 162 | 160 | 153 | 174 |
| EBITDA | 18 | 32 | 28 | 32 |
| EBITDA (%) | 11 | 20 | 18 | 19 |
| Other Income | 0 | 0 | 0 | 0 |
| Interest | 5 | 10 | 7 | 7 |
| Depreciation | 6 | 6 | 7 | 7 |
| PAT | 6 | 4 | 10 | 12 |
| Equity (Rs mn) | 142 | 142 | 142 | 142 |
| Ratio Analysis | | | | |
| Parameters (Rs mn) | FY15 | FY16 | FY17 | FY18E |
| EV/EBITDA (x) | NA | 30.2 | 18.7 | 16.2 |
| EV/Net Sales (x) | NA | 3.2 | 3.1 | 2.8 |
| M Cap/Sales (x) | NA | 2.8 | 2.7 | 2.5 |
| M Cap/EBITDA (x) | NA | 26.5 | 16.4 | 14.3 |
| Debt/Equity (x) | NA | 28.7 | 1.2 | 1.0 |
| ROCE (%) | NA | 23 | 21 | 22 |
| Price/Book Value (x) | NA | 0.9 | 7.4 | 6.3 |
| P/E (x) | NA | 2.4 | 55.5 | 43.8 |
| Share Holding Pattern as on 30 September 2017 | | | | |
| Parameters | No of Shares | % | | |
| Promoters | 99,81,088 | 70.50 | | |
| Institutions | 8,500 | 0.06 | | |
| Public | 41,76,487 | 29.44 | | |
| TOTAL | 1,41,66,075 | 100.00 | | |

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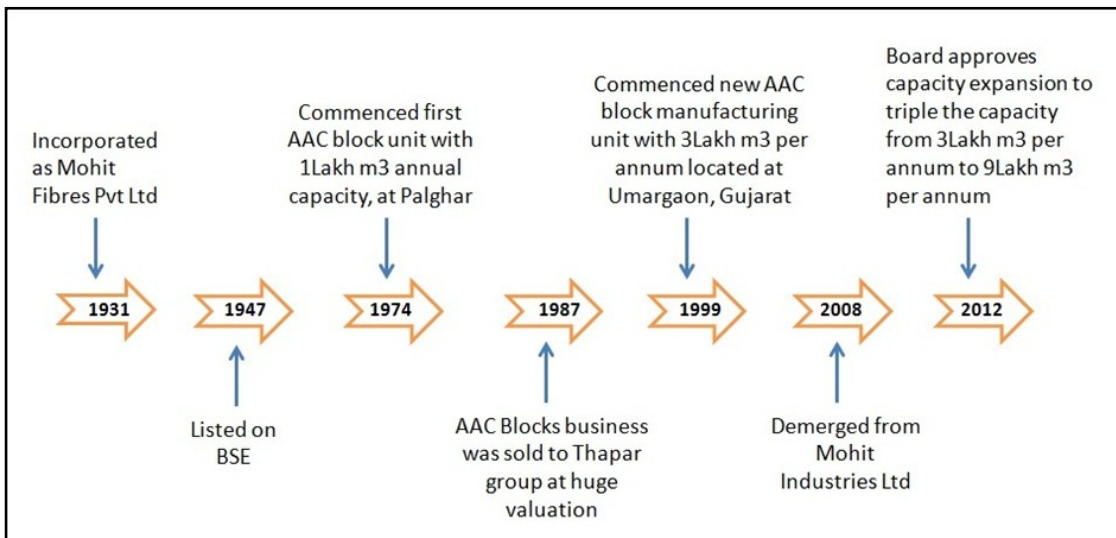
TIME : 12 months

OVERVIEW: Industry:(contd.)

Of late, the Indian construction sector has been showing signs of speedy recovery. There has been growth in infrastructure and construction activities in the country. India caters to a large population where there is economic growth taking place, per capita income is increasing and one will see rapid industrialization and urbanization in near future. May it be clay/ red bricks, AAC blocks or concrete blocks; after China, India ranks as the second largest brick manufacturer. There are large numbers of small scale manufacturers in India which essentially belong to the unorganised sector. AAC blocks have emerged as the latest innovation in bricks space in India. These products are in the initial stage of adoption by the Indian market; but as and when the demand kicks in, there will be unprecedented growth in requirement of these products.

About the Company:

Bigbloc Limited (Bigbloc) is a single segment company which is engaged in manufacturing of Aerated Autoclave Concrete (AAC) blocks. The company has demerged from Mohit Industries Ltd in 2008. BigBloc was recently listed on the bourses in September 2016. It is a member of the Indian Green Building Council and effectively generates carbon credits for the same. The company sells its products under the brand name NxtBloc. It partners with some of the renowned builders like Kanakia, Mahindra Lifespaces, Raheja, Shapoorji Pallonji, L&T, Rosa group, Agarwal group, Swaraj, Lodha, Regency etc. The company is chaired by Mr. Narayan Sitaram Saboo. The manufacturing facility of the company is strategically located at Umargaon, Gujarat. The current capacity of the company to produce AAC blocks stands at 3lakh m3/ annum. BigBloc is the only listed company in India manufacturing AAC Blocks.

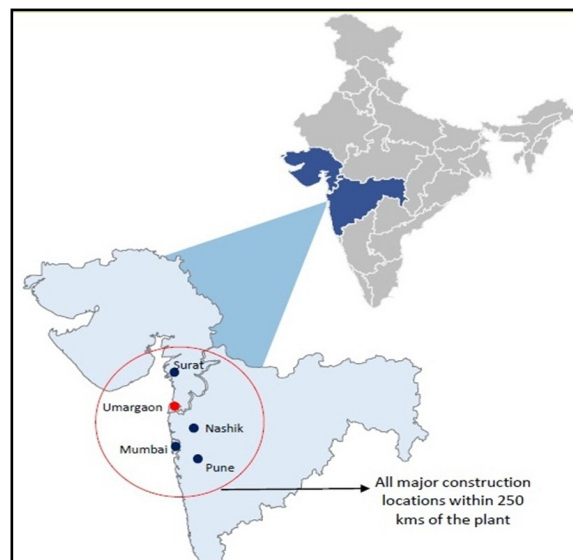


Source: Company

INVESTMENT RATIONALE

(A) Strategic Location:

The viability of the AAC block industry is beneficial or persistent if the client or site of construction is within 250km from the site of manufacturing facility. The manufacturing facility of BigBloc is strategically located at Umargaon, Gujarat. This helps cater to clients in Mumbai, Pune and Surat. Needless to mention, these are still the upcoming sites where major construction activities are taking place. The current capacity of the company to produce AAC blocks stands at 3lakh m3/ annum. This can be converted into nearly 35 truck loads which is enough AAC blocks required for a 10 storey building in a day. Majority of AAC blocks which are used or supplied to Mumbai are supplied through Surat. Amidst this, the transport cost from Umargaon to Mumbai is slightly cheaper. The company intends to go for expansion of capacity which is in-line with the growing demand. The demand from Mumbai itself is 1.5 – 2 lac cubic metres per month which provides a vision for the upcoming exponential growth.



Source: Company PPT November 2017

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INVESTMENT RATIONALE (contd.)

(B) Laying the Future Foundation:

The company is bullish on the idea of the upcoming Airport at Navi Mumbai. When this project kick starts, the same will require huge quantities of AAC Block. Since the manufacturing site of BigBloc is nearer to Mumbai and Navi Mumbai, interstate sales will benefit the company. Moreover, the management is confident to cater to the huge demand created by the construction of the Navi Mumbai Airport.

The company is also bullish on the upcoming Nargol port which is just 6kms from their plant. This port will be commissioned soon and will lead to savings in transportation costs as well. In addition to this, the site of the new port will require new industrial and commercial set ups boosting the construction activities in the periphery of the port. Anticipating BigBloc as a preferred supplier, there could be huge demand in the AAC blocks required.

GOI also has its eyes on affordable housing project in the country which is projected to touch around Rs6.25tn by 2022-23. Pradhan Mantri Awas Yojana is aiming to construct two crore houses in India, in three phases by 2022-23. Some major factors like housing shortage, growing population, young demography, shift towards nuclear families, rapid urbanization seem to be healthy for the growth in the construction industry.

As per the company's presentation, India's construction market is expected to reach USD1tn by 2025, which will be the third largest globally. The AAC market share in India is only 3%, hence there is immense scope for growth. Besides this one may also add the idea of Housing For All which is projected at Rs2 trillion by 2022-23.

The GOI is becoming slightly strict in case of restriction on clay based bricks in major cities due to the environmental impact that is caused during the manufacturing of clay or red bricks. Furthermore, mandated government department and the Central Public Works Department of India (CPWD) have started laying emphasis to use 100% fly ash based bricks in their construction work directly or through contractors.

(C) Traditional Block v/s AAC Block:

| Traditional Block V/s AAC Block | |
|---|--|
| Clay Block | AAC Block |
| One clay brick consumes 3.2kgs of top soil, One sq ft of carpet area with clay brick walling will consume 25.5kgs of top soil | No top soil consumed; uses fly ash which is a thermal power plant waste product and thus no consumption of top soil |
| One sq.ft. of carpet area with clay bricks will consume 8kgs of coal | One sq.ft. of carpet area with AAC blocks will consume 0.9677kgs of coal |
| One sq.ft. of carpet area will emit 17.6kgs of CO2 | One sq ft of carpet area will emit 2.13kgs of CO2 |
| Unorganised sector (child labour rampant in unorganised sector) | Organised sector. |
| Does not contribute to government exchequer (taxes) | Contributes to government taxes in the form of Central Excise, VAT & Octroi |
| Unhealthy working conditions, a major health hazard due to toxic gases | Organised with state-of-the-art factory facility |
| Traditional Red Brick was not taxed earlier | Was taxed higher in the earlier tax regime |
| Will be taxed 5% in the new GST regime | Will be taxed at 12% in the new tax regime (if the content of fly ash used is higher) |
| The standard size of the bricks is smaller hence time taken to lay the bricks is more. | One solid AAC block is equivalent to approximately 9 standard clay bricks and 1/4 the weight. Due to this installation of AAC is 2.5 times faster than bricks. |

Source: Company Research

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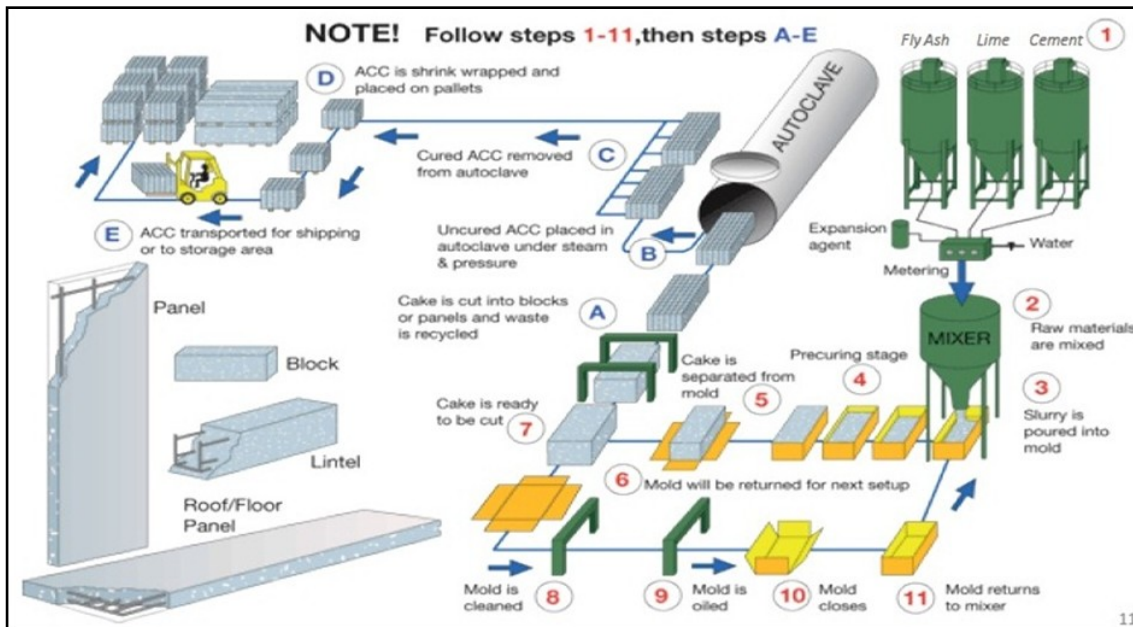
INVESTMENT RATIONALE (contd.)

Remedy to Environment Concerns: BigBloc is a member of Indian Green Building Council and effectively generates carbon credits. These are earned when a company has the capability to counteract the environmental issues raised by some other industry or within its own industry. The aim of the companies in the construction domain is to maintain the environmental concerns and try to mitigate the same as far as possible.

Feasible Construction: The aim of many of builders is to find sustainable solutions in order to increase the efficiency of available resources either by better planning, design, construction, operations or maintenance. Basically, the target is to mitigate adverse impacts of real estate development on human health as well as the environment.

Green Building: The awareness of green buildings has started gaining traction across the globe. Many builders, architects and engineers are working towards constructing buildings which will help reduce environmental impact by efficient utilization of the available resources and by reducing waste and pollution.

Reducing Carbon Footprint: The ever-increasing carbon foot print is a major concern in developing nations and the globe as a whole. If one prefers BigBloc, then the carbon foot prints generated by NXTBLOC AAC blocks are considerably lesser compared to traditional blocks used in walling materials. If one compares the actual carbon levels generated per sq ft, then AAC blocks generate 2.13 kg of carbon dioxide (CO₂), clay bricks generate 17.6kg of CO₂ while concrete walls generate nearly 14kg of CO₂. The NXTBLOC AAC blocks are lighter in weight as compared to the traditional red bricks. Now when these blocks are supposed to be transported to the client and or any construction site, the carbon emission is reduced as more cubic meter can be transported per truck i.e. 3 trucks traditional material in cubic meter equates 1 truck AAC blocks in cubic meter, thus reducing the carbon footprint via (truck) transportation also.



Source: Company PPT November 2017

Financials:

The GOI intends to lay more emphasis to preserve the environment. In pursuit of the same, they have taxed AAC at 12% GST (if the content of fly ash used is higher) which is appreciably lower than the earlier tax regime. On the other hand, the traditional red bricks were not taxable; however, the same will now be taxed at 5% under the new regime. This move via GST will benefit BigBloc in the coming future. 65% of the AAC Block by weight is made of fly ash which is a by product of coal combustion, the company uses fly ash which is a thermal power plant waste product which is one of the basic raw materials and is free of cost for the company.

Risks and Concerns:

The stock is highly illiquid. More than 70% of the shares are owned by the promoters. The company is more or less a family owned business; however, there are signs of professionalism adapted by the company recently. The business is such that there are no barriers to entry for competitors, provided the distribution channel is strong.

Outlook and valuations:

With the separation of the businesses and hiving-off from Mohit industries, the true value of the construction activities of BigBloc will surface. There is a slight change in the control of the management and the young generation is gradually coming on the Board and taking control. Considering the upcoming growth in the sector as a whole, the board has approved capacity expansion from the current existing 3Lakh m³ per annum to 9Lakh m³ per annum. Management has indicated they will fund the expansion plans via internal accruals and the rest by debt. All the factors mentioned above will benefit the company and thus we initiate a BUY on the stock with a target price of Rs160 for a horizon of 12 months.

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