

**NOT
RATED**

**BIGBLOC
CONSTRUCTION**

| Construction Materials

| 10 October 2023

Plant visit: Ramping up AAC capacity

- Autoclaved aerated concrete (AAC) block production targeted to reach 5,00,000cbm per annum by end-FY24 at Wada plant
- Expansion sets company on course to becoming the largest producer of AAC in India, ahead of Hyderabad Industries
- Management expects EBITDA margin to remain in the range of 23-25%, ahead of competition

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We visited the Wada (Maharashtra) plant of Bigbloc Construction (Bigbloc, Not Rated), which is primarily engaged in the manufacture of AAC blocks – a strong yet lightweight concrete building material. Key takeaways:

AAC blocks cheaper than traditional red bricks...: Red bricks sell for Rs 4,500-5,000/cbm and Bigbloc's management expects prices to rise in the near future. AAC blocks are available for ~Rs 4,100/cbm, much cheaper than traditional bricks.

...and more environment-friendly: AAC blocks are lightweight, thermally efficient, earthquake- and fire-resistant, consume less coal and emit less carbon dioxide than bricks. Further, bricks have a 10-15% higher rejection rate than AAC.

Low rejection rate; high carbon credits: Product rejection at the industry level is 7-8% and Bigbloc's is sub-4%. Per the company, rejection at its Wada plant is just 1-1.25%, offering an edge over competitors on margins. Its EBITDA margin ranges from 23% to 25%, which management expects will be sustained. The company generates 60k-65k of carbon credits per year from its Umargam plant in Vapi (Gujarat) and is aiming for ~100k credits from Wada at full capacity and 200k-300k p.a. overall.

Expansion underway: Wada plant Phase-2 is due to commence by end-FY24, doubling the unit's annual capacity to ~500,000 cbm at a capex of Rs 180mn-200mn. Per management, expansion at Wada along with the concurrent addition of ~300,000mn cbm at Ahmedabad will make Bigbloc the largest AAC producer in India at ~14,00,000mn cbm. The goal is to boost capacity to 30,00,000 cbm in 4-5 years.

Diverse order book: Bigbloc markets two types of AAC blocks – Grade-1 (~75% of revenue) and Grade-2 (~25%). No single customer forms more than 3-4% of volumes. Key clients include Lodha, Adani, Godrej and the Mahindra group, which the company caters to via its own fleet of 65-70 trucks (transport cost is 18-24% of the topline).

Leveraged balance sheet: The company's debt/equity ratio is 1.1x (FY23) with gross debt at Rs 864m. The average working capital cycle runs for 35-45 days.

| | |
|------------------|-------------------|
| Ticker/Price | BIGBLOC IN/Rs 172 |
| Market cap | US\$ 1mn |
| Free float | 39% |
| 52wk high/low | Rs 190/Rs 116 |
| Promoter/FPI/DII | 72%/0%/0% |

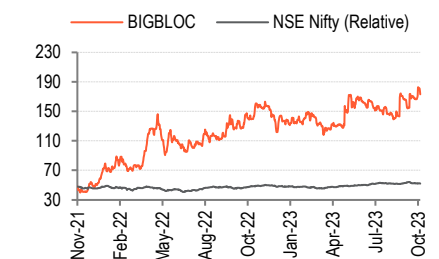
Source: NSE | Price as of 10 Oct 2023

Key financials

| Y/E 31 Mar | FY21A | FY22A | FY23A |
|-------------------------|-------|-------|-------|
| Total revenue (Rs mn) | 1,030 | 1,752 | 2,001 |
| EBITDA (Rs mn) | 121 | 271 | 500 |
| Adj. net profit (Rs mn) | 25 | 161 | 301 |
| Adj. EPS (Rs) | 1.7 | 2.3 | 4.3 |
| Consensus EPS (Rs) | 1.7 | 2.3 | 4.3 |
| Adj. ROAE (%) | 8.0 | 40.7 | 49.3 |
| Adj. P/E (x) | 100.0 | 76.8 | 41.0 |
| EV/EBITDA (x) | 25.0 | 46.8 | 26.4 |
| Adj. EPS growth (%) | 0.4 | 30.3 | 87.4 |

Source: Company, BOBCAPS Research

Stock performance



Source: NSE

AAC block manufacturing process

Fig 1 – Storage of fly ash – procured from government thermal plants in Ukai, Surat



Source: BOBCAPS Research, Company

Fig 2 – Ash and water slurry storage tanks



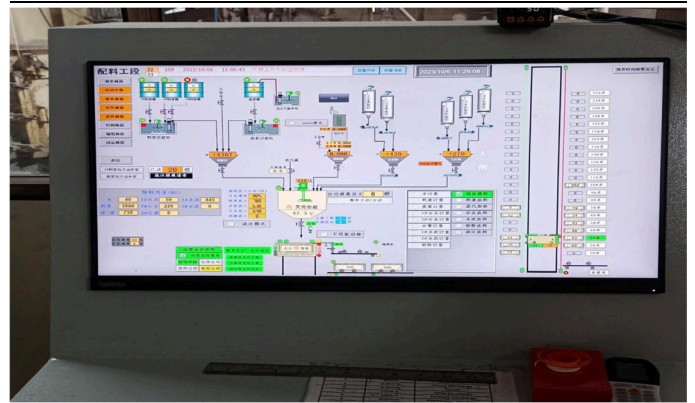
Source: BOBCAPS Research, Company

Fig 3 – Raw material mixer where fly ash, water, cement and lime are mixed to form AAC slurry



Source: BOBCAPS Research, Company

Fig 4 – State-of-the art equipment in place, including LED display to track the mixing process



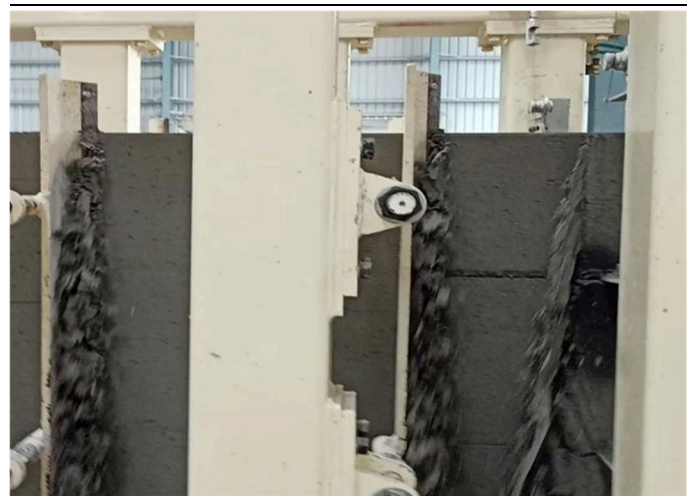
Source: BOBCAPS Research, Company

Fig 5 – AAC slurry is collected in an oiled mould and cooled to form a cake



Source: BOBCAPS Research, Company

Fig 6 – Cake is cut into blocks and waste is recycled; AAC blocks are then transported for shipping or further storage



Source: BOBCAPS Research, Company

Company profile

Incorporated in 2015 in the state of Gujarat, Bigbloc Construction (Bigbloc) is primarily engaged in the manufacture of AAC blocks – a strong, lightweight concrete building material that is eco-friendly, thermally efficient and fire resistant. Bigbloc is one of the largest manufacturers of AAC blocks in India and is in the process of raising production capacity to ~1.4mn cubic metres (cbm) by end-FY24. The company markets its product under the brand *Nxtbloc* and counts marquee names such as Adani Realty, Lodha, Godrej, Mahindra Group and Piramal Realty as clients.

Manufacturing plants and process

Bigbloc's Wada plant in Maharashtra commenced phase-1 operations from Apr'23 with production capacity of ~250,000cubic metres (cbm) per annum. Apart from Wada, the company has manufacturing units at Umargam (Vapi) and Kapadvanj (Ahmedabad) in Gujarat with aggregate capacity of ~575,000cbm per annum. Phase-2 expansion at Wada totalling 250,000cbm and the addition of 300,000cbm at Kapadvanj are due to become operational by end-FY24, which will take the company's overall capacity to ~14,00,000 cbm per annum.

In terms of the manufacturing process, a typical AAC block at the plant is made from fly ash (daily consumption ~450-500t), water, cement (~125t) and lime (~40-50t). The ingredients are mixed and the resulting slurry is poured into a mould to form an AAC block. The company currently produces 700-800cbm daily (~24k-25k cbm per month) and expects to reach ~1,600cbm post expansion.

Fly ash is procured from government thermal plants in Ukai, Surat (ash and water constitute 70-75% of the final product), whereas cement is procured from quantity contracts with Nuvoco and Wonder Cement (~19% of the final product).

Promoter background

- **Narayan Sitaram Saboo** is Chairman & Executive Director of the company with 34 years of experience in management and operations of the textile business and 10 years in the AAC block business. He holds a law degree (LLB) and specialises in providing industry-wise leadership and management strategy.
- **Naresh Sitaram Saboo** is Managing Director of the company with over 25 years of experience in the textile business and 10 years in AAC. His expertise lies in providing strategic direction in the selection of technology and machinery for the setup of manufacturing facilities, improvement of production processes and new ventures.
- **Mohit Narayan Saboo** is Director and CFO of the company with 7 years of experience in corporate taxation, finance and accounts. He is a Chartered Accountant and is responsible for handling corporate finance and accounting, secretarial and legal matters.
- **Manish Saboo** is Marketing & Strategy Head with over 10 years of experience as a commercial manager. He handles the company's financial and marketing operations. His functions as executive director includes planning and execution of the company's marketing and financial strategy.

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21A | FY22A | FY23A |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| Total revenue | 1,001 | 1,188 | 1,030 | 1,752 | 2,001 |
| COGS | 598 | 677 | 586 | 1,028 | 1,023 |
| Employee Expense | 106 | 127 | 102 | 137 | 146 |
| Other expense | 228 | 280 | 220 | 316 | 333 |
| EBITDA | 69 | 103 | 121 | 271 | 500 |
| EBITDA margin (%) | 6.9 | 8.7 | 11.8 | 15.5 | 25.0 |
| Depreciation | 38 | 48 | 52 | 59 | 61 |
| EBIT | 31 | 56 | 69 | 213 | 439 |
| Net interest inc./(exp.) | 43 | 44 | 44 | 34 | 36 |
| Other inc./(exp.) | 3 | 3 | 2 | 2 | 2 |
| Exceptional items | - | - | - | - | - |
| EBT | (9) | 15 | 27 | 181 | 406 |
| Income taxes | 5 | (10) | 2 | 20 | 105 |
| Extraordinary items | - | - | - | - | - |
| Min. int./Inc. from assoc. | - | - | - | - | - |
| Reported net profit | (14) | 25 | 25 | 161 | 301 |
| Adjustments | - | - | - | - | - |
| Adjusted net profit | (14) | 25 | 25 | 161 | 301 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21A | FY22A | FY23A |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Accounts payables | 155 | 173 | 159 | 162 | 179 |
| Other current liabilities | 93 | 40 | 72 | 92 | 40 |
| Provisions | 10 | 3 | 3 | 22 | 106 |
| Debt funds | 446 | 519 | 556 | 368 | 864 |
| Other liabilities | 43 | 29 | 28 | 27 | 31 |
| Minority Interest | - | - | - | - | 18 |
| Equity capital | 142 | 142 | 142 | 142 | 142 |
| Reserves & Surplus | 132 | 157 | 178 | 329 | 612 |
| Shareholders Fund | 274 | 299 | 320 | 470 | 753 |
| Total liab. and equities | 1,022 | 1,063 | 1,138 | 1,140 | 1,991 |
| Cash and cash eq. | 6 | 3 | 3 | 3 | 17 |
| Accounts receivables | 248 | 245 | 239 | 263 | 311 |
| Inventories | 75 | 69 | 88 | 63 | 110 |
| Investments | 0 | 0 | 0 | 5 | 4 |
| Net fixed assets | 644 | 678 | 708 | 701 | 862 |
| CWIP | - | - | - | - | 410 |
| Other assets | 50 | 68 | 101 | 106 | 277 |
| Total assets | 1,022 | 1,063 | 1,138 | 1,140 | 1,991 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY19A | FY20A | FY21A | FY22A | FY23A |
|------------------------------------|--------------|-------------|-------------|--------------|--------------|
| Cash flow from operations | 194 | 7 | 47 | 255 | 141 |
| Capital expenditures | (298) | (82) | (81) | (52) | (623) |
| Change in investments | (0) | - | (0) | (4) | 1 |
| Other investing cash flows | - | - | - | - | (18) |
| Cash flow from investing | (298) | (82) | (81) | (56) | (640) |
| Equities issued/Others | - | - | - | - | - |
| Debt raised/repaid | 84 | 72 | 37 | (189) | 496 |
| Other financing cash flows | 18 | - | (4) | (11) | 18 |
| Cash flow from financing | 102 | 72 | 34 | (199) | 514 |
| Chg in cash & cash eq. | (2) | (3) | 0 | (0) | 15 |
| Closing cash & cash eq. | 6 | 3 | 3 | 3 | 17 |

Per Share

| Y/E 31 Mar (Rs) | FY19A | FY20A | FY21A | FY22A | FY23A |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | (1.0) | 1.7 | 1.7 | 2.3 | 4.3 |
| Adjusted EPS | (1.0) | 1.7 | 1.7 | 2.3 | 4.3 |
| Dividend per share | 0.3 | 0.0 | 0.3 | 0.1 | 0.2 |
| Book value per share | 19.4 | 21.1 | 22.6 | 6.6 | 10.6 |

Valuations Ratios

| Y/E 31 Mar (x) | FY19A | FY20A | FY21A | FY22A | FY23A |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 2.9 | 2.5 | 2.9 | 7.3 | 6.6 |
| EV/EBITDA | 42.2 | 28.9 | 25.0 | 46.8 | 26.4 |
| Adjusted P/E | - | 100.4 | 100.0 | 76.8 | 41.0 |
| P/BV | 9.0 | 8.3 | 7.7 | 26.3 | 16.4 |

DuPont Analysis

| Y/E 31 Mar (%) | FY19A | FY20A | FY21A | FY22A | FY23A |
|------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 1.5 | 1.7 | 0.9 | 0.9 | 0.7 |
| Interest burden (PBT/EBIT) | (0.3) | 0.3 | 0.4 | 0.9 | 0.9 |
| EBIT margin (EBIT/Revenue) | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 |
| Asset turnover (Rev./Avg TA) | 1.1 | 1.1 | 0.9 | 1.5 | 1.3 |
| Leverage (Avg TA/Avg Equity) | 3.3 | 3.6 | 3.6 | 2.9 | 2.6 |
| Adjusted ROAE | (5.1) | 8.6 | 8.0 | 40.7 | 49.3 |

Ratio Analysis

| Y/E 31 Mar | FY19A | FY20A | FY21A | FY22A | FY23A |
|--|---------|-------|--------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 40.1 | 18.7 | (13.3) | 70.2 | 14.2 |
| EBITDA | (0.1) | 49.8 | 17.2 | 124.0 | 84.3 |
| Adjusted EPS | (135.0) | - | 0.4 | 30.3 | 87.4 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 6.9 | 8.7 | 11.8 | 15.5 | 25.0 |
| EBIT margin | 3.1 | 4.7 | 6.7 | 12.1 | 22.0 |
| Adjusted profit margin | (1.4) | 2.1 | 2.4 | 9.2 | 15.1 |
| Adjusted ROAE | (5.1) | 8.6 | 8.0 | 40.7 | 49.3 |
| ROCE | 4.3 | 6.8 | 7.9 | 25.4 | 27.2 |
| Working capital days (days) | | | | | |
| Receivables | 90 | 75 | 85 | 55 | 57 |
| Inventory | 27 | 21 | 31 | 13 | 20 |
| Payables | 56 | 53 | 56 | 34 | 33 |
| Ratios (x) | | | | | |
| Gross asset turnover | 1.6 | 1.8 | 1.5 | 2.5 | 2.3 |
| Current ratio | 1.3 | 1.5 | 1.4 | 1.3 | 2.0 |
| Net interest coverage ratio | 0.7 | 1.3 | 1.6 | 6.2 | 12.3 |
| Adjusted debt/equity | 1.6 | 1.7 | 1.7 | 0.8 | 1.1 |

Source: Company, BOBCAPS Research | Note: TA = Total Assets | There was a stock split undertaken by company in FY22

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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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