



RESEARCH REPORT

20th Jan 2023

BIGBLOC CONSTRUCTION LTD

BSE : BIGBLOC

Sector: AERATED AUTOCLAVED CONCRETE BLOCKS

BSE: 540061

View - BUY

CMP : Rs. 134

Target Price: Rs 240 (In next 12 to 18 mths)

BUSINESS BACKGROUND

BigBloc Construction Limited is India's one of the largest manufacturer in India of AAC (Aerated Autoclave Concrete) block and related products manufacturing company, with a total capacity of 5,75,000 m3 p.a. capacity. BBCL has presently 2 state-of-the-art manufacturing units located at Vapi and Ahmedabad, Gujarat, making it the one of the largest AAC manufacturer in India.

These AAC Blocks of the company are marketed in the Brand name of NXTBLOC, which is a green Product for Construction Industry

INVESTMENT HIGHLIGHTS

Strong Financial Performance in FY22 & strong uptick in H1FY23 –

BBCL reported a strong set of FY22 numbers in a difficult year with net sales at Rs 175 crs as compared to a revenue of Rs 103 crs last year, with EBIDTA placed at Rs 27 crs from Rs 12 crs last year with PAT at Rs 16 crs from Rs 2 crs last year.

For BBCL H1FY23 Revenue was Rs. 104 crs from Rs 69.48 crs in H1 last year, with EBITDA at Rs 26.09 crs vs Rs 9.08 crs in H1 last year with the PAT at Rs 16.89 crs vs Rs 4.36 crs in H1 last year

BBCL enjoys a strong presence in the domestic AAC Blocks Segment – Bigbloc Construction Ltd. is one of the leading manufacturers of AAC (Aerated Autoclaved Concrete) Blocks. AAC Blocks are a high quality building material that offers a unique combination of strength, low weight, thermal insulation, sound absorption, unsurpassed fire resistance and unprecedented build ability.

BigBloc has two state-of-the-art manufacturing units located at Vapi and Ahmedabad, Gujarat, (575000 m3 p.a. capacity) making it the one of the largest AAC manufacturer in India which caters to nearby markets like Maharashtra, Gujarat, Rajasthan and MP.

The manufacturing facility of BBCL at Umargaon Gujarat is strategically located which is nearer to Mumbai, Surat, Pune and Nashik which are the growing markets to which the Company caters. Additionally BBCL is also in the process of starting its new Wada facility & Ahmedabad facility which will catapult it to become the largest AAC Block manufacturer in India by FY24.

KEY DATA

FACE VALUE	Rs	2.00
DIVID YIELD %		NA
52 WK HI/LOW		169/66
NSE CODE		BIGBLOC
BSE CODE		BIGVLOC
MARKET CAP	RS	949 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	72%
BANKS, MFs & DII's	-	%
FII's	-	%
PUBLIC	-	28%

KEY FUNDAMENTALS

YE	FY23	FY24	FY25
Rev Gr%	25	30	30
EBIDTA Gr%	106	31	30
PAT Gr%	116	33	30
EPS Gr%	116	33	30
EPS (Rs)	4.87	6.50	8.47
ROE %	54	43	38
ROCE %	21	20	23
EV/EBIDTA(x)		14	11
P/E(x)		21	15

BIGBLOC's Business Model –

BIGBLOC operates in a market where the structural growth opportunity over the next 5-10 years is huge as the products it makes are a replacement for traditional red bricks used in construction activity

BIGBLOC makes AAC (Aerated Autoclave Concrete) Blocks & Sells AAC Blocks under the Brand Name NXTBLOC, Block Joint Mortar Ready mix plaster & Tile Adhesive

AAC blocks are a superior quality building material which provide unparalleled blend of strength, light weight, thermal insulation, sound proof, unsurpassed fire resistance and highly proficient building capability. AAC is a natural and non-toxic construction material, which saves energy, and are eco-friendly

AAC is a steam-cured mix of sand or pulverized fuel ash (PFA), cement, lime and aeration agent. The high-pressure steam-curing in autoclaves achieves a physically and chemically stable product where the density of AAC Blocks is 1/3rd of red bricks.

AAC comprises myriads of tiny non-connecting air bubbles which give AAC its incredibly diverse qualities and make it a terrific insulator. AAC is a natural and non-toxic construction material, saves energy, and is friendly to the environment.

AAC vs Traditional Bricks –

AAC blocks weigh 600 kg/m³ as against Bricks which weigh 2,000 kg/m³ as a result it drastically reduces the dead weight of the building resulting in to reduction in steel and cement i.e. structural costs

Rejection rate in Bricks is 10-15% higher than AAC. Also 9 Bricks equals 1 AAC block, therefore rejection rate is further lower for AAC

Putty work can be done without plaster in case of AAC resulting in cost savings. AAC also reduces air conditioning bills due to its excellent thermal insulation property

Use of thinner blocks (6" instead of 9" exterior walls) because of its excellent water barrier & insulation properties leads to an increase in floor space area between 3-5%

AAC wall construction involves 1/3rd the joints as it is 9 times the size of a clay brick, thus an overall savings in time and as a result labour costs

AAC does not consume top layer agricultural soil unlike Bricks. It also consumes significantly less coal and emits less CO₂ as compared with Bricks. 65% of the raw material by weight is fly ash which is a waste for thermal power plants and has toxic effects

AAC also reduces air conditioning bills due to its excellent thermal insulation property.

Since AAC is made of inorganic minerals, it does not promote the growth of molds, as a result it is also pest resistant

How big is the structural opportunity for growth ahead in AAC Block segment –

The global AAC market is valued at about USD 19.5 Bn in 2021 and is further expected to grow at a CAGR of 6.30% over 2022-27 to reach almost USD 28.2 Bn by 2027

The Asia Pacific region is projected to hold the largest market share in the AAC Market globally. China's emergence as a global manufacturing hub has increased the demand for blocks, cheap labor, and easy availability of raw materials to boost the production.

The AAC market is expected to demonstrate the fast growth due to the development of smart cities and green buildings, including the commercial, and residential buildings.

India is considered as the New land of Opportunity for AAC Blocks industry. The Indian AAC blocks market is anticipated to register Rs 11095 crs at a CAGR of 14.3% during over 2020-27.

India is the second largest block manufacturer in the world after China. Indian block industry is almost entirely unorganized and characterized by the presence of large number of small scale manufacturers which compete with one another at the regional level

India has a total of 150-180 plants whereas China has over 3,000 plants. Despite the high growth of AAC Block in building applications during the last decade, it is only 7-8% of the industry, while 85-90% of the industry is still dominated by Red Bricks, which indicates the huge opportunity to scale up in the years ahead.

Some of the key drivers for AAC usage in India include –

Real Estate Industry is showing robust growth trends & is expected to grow steadily –

With an industry size of Rs 10.5 tn, the Indian construction industry is the second-largest employer in the country. This demand is expected to further rise as the need for residential and commercial spaces goes up in the coming years

In the last 4-5 years the industry has gone through several big disruptions like GST, RERA and Demonetization which resulted in short term pain but consolidated the RE industry and has helped it come out strongly.

Despite rising interest rates, banking credit growth continues to be in strong double digits which gives us confidence that this time the industry is not grappling with huge inventory supply side pressure keeping prices & volumes showing a steady growth trend as on date

Govt. Initiatives will also help in driving long term RE growth –

The Indian government's sharp focus on affordable housing policies is expected to increase the rate of availability of affordable housing to around 70% by 2024.

With increasing regional government projects and expanding real-estate industry, demand for ACC is expected to see an upsurge. Projects such as Pradhan Mantri Awas Yojana, Police Housing, Kanya Shiksha Parishar, etc. where the Government has made mandatory to use AAC Blocks

More importantly earlier bricks were not subject to GST but from April 2022 onwards bricks have also been taxed with a 12% GST which have made AAC Blocks more price competitive

Pricing for AAC Blocks and Red Bricks is now benefitting AAC players –

Pricing of red bricks has been on an increasing spree whereas the blocks prices have been much cheaper which has resulted in conversion to fly ash blocks. Rising demand for lightweight construction materials, growing preferences for low-cost houses

In the last 5 years starting 2018 years till Q1FY23 the prices of Red Bricks and AAC Blocks have shown an interesting trend which has a big positive impact on the AAC Block market segment

Prices of Red Bricks in 2018 were Rs 3075 per tonne vs Rs 2400 per tonne for AAC Blocks – This price trend has virtually doubled to Rs 5500 in FY22 for Red Bricks and around Rs 5700 per tonne as of Q1FY23 while for AAC Blocks the price trend has also improved to Rs 4000 per tonne but is still cheaper in relative terms as compared to Red Bricks

Even as on date industry data suggests that almost 90-92% of the construction activities still use Red Bricks which are not only polluting the environment but are more expensive. Therefore on a structural basis we expect the markets to show increased interest for AAC Blocks which are not only price competitive but are a source of green energy without any polluting effects and offer many more durable advantages in the construction activity value chain

Key Factors which make BIGBLOC standout vis a vis other market players –

BIGBLOC has an asset light model and wherein it enjoys a unique position in the industry by virtue of its size of AAC Block capacity currently at 575000 lac cbm annually which is strategically located in Vapi and Gujarat.

In fact BIGBLOC acquired a sick unit, Starbigbloc Building Material Pvt. Ltd. as Wholly owned subsidiary Company and commenced AAC Block manufacturing with 2,00,000 m³ capacity p.a (Later expanded to 250000 m³ capa) at Kapadvanj near Ahmedabad. This ensured healthy capital allocation right from the start ensuring high ROCE with the unit becoming profitable from the first year itself

Strategic location of the AAC Block unit is also very important for this product as transport cost is a big cost component & selling the product within a radius of 250-300 kms is very important to make operations viable. Here BIGBLOC strategic locations at Vapi & Ahmedabad makes it ideal to supply AAC Blocks to large markets like Maharashtra, Gujarat, Rajasthan and MP where large construction activity is present thus offering ready consuming markets

Additionally BIGBLOC has made strong efforts in branding its products under



Which has helped it gain marquee clientele across residential, commercial & hospitality majors like –



With company having completed several prestigious projects like –

Lodha Developers - Palava Township; Spread across 4,500 acres, is a business and residential project that is an all encompassing and integrated smart city in Dombivali, Maharashtra.

World One; spread across 17 acres, is a residential project that offers luxurious 3, 4 and 5 BHK apartments in Lower Parel, Mumbai.

Kanakia Group - Rainforest; Spread across 4.5 acres, is a residential project that offers luxurious 1, 2 and 3 BHK apartments in Andheri East, Mumbai

L&T - Crescent Bay; spread across 7 acres, is a residential project that offers luxurious 2, 3 and 4 BHK apartments in Parel, Mumbai

Regency Group - Regency Sarvam; spread across 68 acres, is a residential project that offers luxurious 1, 2 and 3 BHK apartments near Titwala, Maharashtra.

BIGBLOC is now planning to double capacity via a new facility at Wada Maharashtra and its existing facility at Ahmedabad –

The company plans to increase its AAC Blocks capacity to 13.75 lac cbm per annum from the present capacity of 5.75 lac cbm at present located at its Vapi and Ahmedabad units

BIGBLOC will be setting up a new AAC Blocks capacity of 5 lac cbm at Wada Maharashtra and set up additional 3 lac cbm capacity at its Kapadvanj Ahmedabad facility at a combined cost of Rs 75 crs via a mix of debt and internal accruals.

More importantly the Wada facility looks very lucrative as the Maharashtra Government has allowed 60% subsidy of the project cost over a period of 10 years. This will effectively mean that the company will get annual subsidy from the state government which will add to its cash flows and make this project break even faster and generate profits from the first year itself

The Wada facility is expected to be operational from March 23 onwards while the Kapadvanj facility will get operational from the H2 of FY23 onwards. Post Expansion, BigBloc will be the largest manufacturer of AAC blocks in India

The company management has also stated that it does not foresee any raw material problems and can easily source fly ash and sand from nearby sources thus ensuring optimum production levels going ahead

Hence we believe that going ahead FY24 and FY25 will be strong years wherein one can expect a strong volume and topline growth ahead for BigBloc with commensurate increase in its operating profitability levels

More important BigBloc has registered its Umbergaon unit for carbon credits & expects its other unit at Ahmedabad to also get registered soon for carbon credits. Also new units planned will be registered for carbon credits

Since BigBloc manufactures AAC Blocks from an industrial waste, (Fly Ash) it is eligible for carbon credits from its facilities. As per the company management, post the above expansion all the plants together shall generate 3,00,000 tons of carbon credit every year

Carbon credits are easily tradeable globally and last year the company could get an average realization of \$ 4 to 5 \$ which the company expects to be sustained in the medium term ahead also. More importantly this income is entirely free for the company without any costs and would add to its overall profitability ahead. For accounting purposes this carbon credit revenue is booked in the overall topline as it is directly related to the manufacturing activity

BIGBLOC is also now diversifying in to other AAC related products ahead –

In 2021, BigBloc entered into a strategic Joint Venture with Siam Cement Group (SCG) of Thailand with 48% holding with SCG and 52% with BigBloc

SCG, established in 1913 is one of the largest cement and building material companies in Thailand and Southeast Asia and ranks 2nd in 2021 Forbes list. The JV has started capacity building and is expected to commence operations by FY24 onwards

The total value of this project is Rs 89.1 crs for a capacity of 250000 lac cbm for ALC Panel or Autoclaved Lightweight Aerated Concrete panels which is a fungible plant which can makes AAC Blocks also from the same facility. This project is expected to start from the Q4 of FY23 and will be based at Gujarat

SCH serves around 2,000+ Corporate customers in more than 50 countries and enjoys strong R&D capabilities to offer innovate and diversified solutions to its customers

ALC Panel or Autoclaved Lightweight Aerated Concrete panel is composite material consists of cement, lime, and silica sand. These panels use two-way welded steel mesh as reinforcement Reinforcements are then treated with anti-rust liquid. ALC panels are manufactured at high temperatures and are steam cured ALC panels are used for external and internal non-load bearing walls, roof, floor etc. for commercial, industrial, and residential buildings

These ALC panels are the next-generation versatile green building material that possess superior technical and functional advantages. Some of them are –

Corrosion Protected Steel Reinforced, Lightweight, No plaster, coping / bond beam required, these are cost effective, have thermal control, enjoys fire resistance, Acoustic Insulation, Easy and Fast Installation possible and apart from being durable they enable faster execution of projects thus saving time and money on projects which is important

BIGBLOC is also planning to further increase the product basket which includes ALC Panels, Block jointing Mortar, Tile Adhesives and Gypsum Plaster, and other construction chemicals etc

We believe here also BIGBLOC will be a pioneer in this product like it was in AAC Blocks and which can be a large business contributor in the next 2-3 years ahead. However as a risk mitigation strategy the management has made this plant fungible which can help it also manufacture AAC Blocks here as it expects a ramp up of the ALC business gradually ahead

What makes BIGBLOC business so attractive –

First Mover Advantage, existing plants are a Cash-Cow –

Bigbloc entered the AAC business in 2009 when the AAC market was just being explored. The company's AAC Block facility was the 3rd AAC Block Plant in India. Bigbloc has setup Green Field Plant of 3,00,000 Mlac cbm at Vapi in just 13 months in 2012, Presently operating at 100% capacity the total capacity of both Vapi & Ahmedabad is 5.75 lac cbm

BIGBLOC owns the finest assets in its industry which have been built at a very reasonable cost. More importantly despite being not being a very high capital intensive industry it has not witnessed cut throat competition from listed private sector players or cement companies as the company management has focussed on frugal capital spending and has mastered the process of manufacturing AAC Blocks with minimal wastages where earlier large competitors could not succeed

Strong Execution skills of the management team –

The BIGBLOC management acquired a sick unit, Starbigbloc Building Material Pvt. Ltd. as its wholly owned subsidiary and commenced AAC Block manufacturing with 2,00,000 m³ capacity p.a (Later expanded to 250000 m³ capa) at Kapadvanj near Ahmedabad. This ensured healthy capital allocation right from the start ensuring high ROCE with the unit becoming profitable from the first year itself.

This unit became profitable by the managerial inputs & expertise of the management which helped it not only recover its investment but started offering higher outsized returns as compared to a new greenfield unit

Top Quality Management –

Currently the team is led by the second generation Mr. Mr. Mohit Saboo- Director & CFO and Mr. Manish Saboo- Marketing and Strategy Head who are both passionate on there business and have the benefit of age as both of them are young & enterprising & are always in the pursuit of excellence via innovation, scale and by ensuring healthy capital allocation

The founders Mr. Narayan Sitaram Saboo - Chairman & Executive Director & Mr. Naresh Sitaram Saboo - Managing Director are also having years of industry experience & and offer stability and consistency in important business decisions for the business ahead. The management is also supported by an experienced tier 2 management team which has been with the company for the last 10 years

In terms of ethics and corporate governance, the management has always ensured honesty and transparency in their business dealings with customers, suppliers and stakeholders

Long runway for growth with multiple growth levers –

BIGBLOC is in a sweet spot with a long runway for growth. Some of the Growth levers available include

Affordable Housing is a big opportunity ahead –

The Indian government's sharp focus on affordable housing policies is expected to increase the rate of availability of affordable housing to around 70% by 2024.

With increasing regional government projects and expanding real-estate industry, demand for ACC is expected to see an upsurge. Projects such as Pradhan Mantri Awas Yojana, Police Housing, Kanya Shiksha Parishad, etc. where the Government has made mandatory to use AAC Blocks

More importantly earlier bricks were not subject to GST but from April 2022 onwards bricks have been imposed with a 12% GST which has made AAC Blocks more price competitive

With rising material cost, developers will be compelled to increase prices as construction materials account for about 2/3rd share in the total cost of construction.

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BIGBLOC is the only player earning carbon credits –

Since BigBloc manufactures AAC Blocks from an industrial waste, (Fly Ash) it is eligible for carbon credits from its facilities. As per the company management, post the above expansion all the plants together shall generate 3,00,000 tons of carbon credit every year

Carbon credits are easily tradeable globally and last year the company could get an average realization of \$ 4 to 5 \$ which the company expects to be sustained in the medium term ahead also. More importantly this income is entirely free for the company without any costs and would add to its overall profitability ahead

Doubling of AAC Block capacity comes at an ideal time –

The company plans to increase its AAC Blocks capacity to 13.75 lac cbm per annum from the present capacity of 5.75 lac cbm presently located at its Vapi and Ahmedabad units

BIGBLOC will be setting up a new AAC Blocks capacity of 5 lac cbm at Wada Maharashtra and set up additional 3 lac cbm capacity at its Kapadvanj Ahmedabad facility at a combined cost of Rs 75 crs via a mix of debt and internal accruals.

More importantly the Wada facility looks very lucrative as the Maharashtra government has allowed 60% subsidy of the project cost over a period of 10 years. We believe that once the expanded capacity becomes operational this will make BIGBLOC the largest and most competitive player in the domestic market and widen its reach on a pan india basis

Post the recent expansion plans the company is also considering setting up 2 new AAC Block facilities in Delhi and Bangalore which will help it tap the North and South markets more aggressively

BIGBLOC's diversification in to AAC related products ahead also looks promising – BigBloc's strategic Joint Venture with Siam Cement Group (SCG) Thailand is also a huge market opportunity over the next 3 years which will give the first mover advantage to the company in future

Key Weakness –

BigBloc's main consumer segment is the real estate sector. Any slow down here will directly hit the company's profitability ahead

Secondly if other competitors put up large AAC Block capacities, this would also affect margins for the company

BBCL enjoys a strong BS with huge scalability potential going ahead –

BBCL runs a strong business model covering multiple product segments across multi locations with a efficient working capital management while it continues to invest on a sustained basis largely from its internal accruals.

We expect that going ahead overall bottomline growth in the next 3 years starting FY23 onwards should easily increase at a CAGR of 20-25% and with capex funded largely from internal cash flows.

What is important is that CFO have remained positive since last 4 years since 2019 onwards with average debtor days at 55 as on FY22 from 85 days last year with average CCC being 6 days in FY22 from 23 days last year.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY23E, Topline is expected to touch Rs 218 crs, followed by Rs 283 crs in FY24E and Rs 368 crs in FY25E

On the bottomline level we expect the company to record a PAT of Rs 34.50 crs in FY23E which is expected to bounce back to Rs 46 crs in FY24 and Rs 60 crs in FY25

Thus on a conservative basis, BBCL should record a EPS of Rs 4.87 for FY23E. For FY24E and FY25E our expectation is that earnings traction for BBCL would continue to be strong wherein we expect a EPS of Rs 6.50 and Rs 8.50 respectively.

Also another attractive point for BBCL is that EPS growth over the next three years between FY23 to FY25 is expected to average 20-22% plus YoY. On the other hand Cash earnings in absolute terms are expected to touch Rs 53 crs & Rs 68 crs in FY24 and FY25 respectively which is another positive

To add to this at the current market cap of BBCL at Rs 949 crs, the BBCL stock trades a EV/EBIDTA of 15x and 11x FY24E & FY25E whereas considering the company's dominance in this business & attractive profitability margins with very less market competition can give it a fair 17-18x EV/EBIDTA multiple going ahead

The company management is confident of improving EBIDTA margins in going ahead via operational efficiency and better product mix.

Looking at BBCL's steady financial track record, strong product domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the BBCL stock should be purchased at the current price for a price target of around Rs 240 over the next 18 months

FINANCIALS

For the Year Ended March RsCr	FY20	FY21	FY22	FY23	FY24	FY25
Net Sales	119.00	103.00	175.00	218.00	283.40	368.42
EBIDTA	10.00	12.00	27.00	55.59	72.55	94.54
EBIDTA %	8.40	11.65	15.43	25.50	25.60	25.66
Interest	4.00	4.00	4.00	4.03	4.55	4.90
Depreciation	5.00	5.00	6.00	6.30	7.10	7.65
Non Operational Other Income	0.00	0.00	1.00	0.15	0.25	0.25
Profit Before Tax	1.00	3.00	18.00	45.41	61.15	82.24
Profit After Tax	2.00	2.00	16.00	34.50	46.00	60.00
Diluted EPS (Rs)	0.28	0.28	2.26	4.87	6.50	8.47
Cash Profits	7.00	7.00	22.00	40.80	53.10	67.65
CPS Rs	0.99	0.99	3.11	5.76	7.50	9.56
Equity Capital	14.16	14.16	14.16	14.16	14.16	14.16
Reserves	16.00	18.00	33.00	67.50	113.50	173.50
Borrowings/Lease	54.00	61.00	43.00	73.00	75.00	75.00
Gross Block	85.97	94.03	99.21	174.21	179.21	189.21
Investments	0.00	0.00	0.00	0.00	0.00	0.00

Source Company our Estimates

KEY CONCERNS

BigBloc's main consumer segment is the real estate sector. Any slow down here will directly hit the company's profitability ahead

Secondly if other competitors put up large AAC Block capacities, this would also affect margins for the company