

NCL Industries (NCLIND)

Near term headwinds remain...

Andhra Pradesh and Telangana region (accounts for 80% of NCL's sales) have been facing headwinds in terms of pricing. Our channel checks suggest prices in the southern region have fallen 7.3% YoY. In addition, although retail demand is improving, bulk of the demand is coming from infra led spending that is expected to keep prices under pressure. Further, we believe that recent capacity addition by the company will lead to volume push at the cost of pricing. This, coupled with higher input cost, led by an increase in pet coke prices and rise in diesel prices, is expected to dent EBITDA/t. This prompts us to revise our EPS estimates and target price downwards. However, the recent stock price correction has factored in most negatives and the stock is trading at an attractive valuation (cement business is trading at an implied EV/tonne of US\$45/t). Hence, we maintain our BUY rating on the stock with a revised target price of ₹ 210/share.

Pricing pressure, higher input cost to pressurise margins....

As per our channel checks, prices in the southern region have fallen 7.3% YoY. Further, prices in the AP & Telangana region have fallen 11.2% YoY mainly led by an increase in competition and higher sales to non-trade segment. NCL sells 80% of its volumes in the AP & Telangana regions. This, coupled with capacity addition by the company, is expected to lead to volume push at the cost of pricing. Further, pet coke prices have increased 15.0% YoY while diesel prices have increased ~20%, which, we believe, will impact EBITDA/t by ₹ 100-150/t. Hence, we expect EBITDA margins to decline from 15.1% in FY17 to 14.0% in FY18. In addition, higher capex will lead to an increase in depreciation adversely impacting PAT margins.

...capacity expansion to drive revenue growth

The company has expanded its cement capacity from ~2.0 MT (split equally between Mattampally (Telangana) and Kondapalli (AP)) to ~2.7 MT in FY18. The incremental capacity of 0.7 MT was commissioned at a cost of ₹ 210 crore i.e. US\$44/t, far below the current replacement cost of ~US\$70-80/t. This low cost capacity expansion will enable NCL to grow its volumes at a CAGR of 8.0% in FY18-20E and generate healthy return ratios. Further, the company has also expanded its capacity in the boards division from 80,000 tonnes in FY16 to 1,10,000 tonnes in FY18. This is expected to further boost NCL's financials. We expect board revenues and EBITDA to increase at a CAGR of 13.0% and 15.0%, respectively, in FY18-20E.

Recent stock correction factors in most negatives; maintain BUY!

NCL has expanded its capacity by 35.0% in FY18 to 2.7 MT. Benefits from this are expected to materialise in coming years. This, coupled with higher government spending by both AP and Telangana markets on low cost housing, irrigation and other infra projects are expected to put NCL Industries in a structurally sweet spot to capture the robust cement demand. However, near term headwinds in terms of pricing, power and freight cost are expected to keep profitability subdued in FY19E. This prompts us to revise our EPS estimates and target price downwards. We believe the recent correction in the stock price factors in most negatives while the stock is trading at an attractive valuation (cement business is trading at an implied EV/tonne of US\$45/t). Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 210/share. We value the company on an SOTP basis. We assign EV/EBITDA multiple of 6.5x for the boards division on FY20E EBITDA while the cement business is valued at EV/tonne of US\$50/t (far below the replacement cost).

Rating matrix	
Rating	Buy
Target	₹ 210
Target Period	12-15 months
Potential Upside	44%

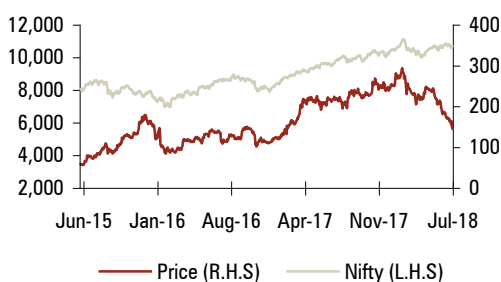
What's changed?	
Target	Changed from ₹ 305 to ₹ 210
EPS FY19E	Changed from ₹ 20.9 to ₹ 12.8
EPS FY20E	Introduced at ₹ 16.6
Rating	Unchanged

Key financials				
₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	765.5	880.4	957.0	1,036.7
EBITDA	114.3	133.1	134.4	153.9
EBITDA margin (%)	14.9	15.1	14.0	14.8
Net Profit	54.7	56.6	57.8	75.1
EPS (₹ /share)	14.9	12.5	12.8	16.6

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	9.8	11.7	11.4	8.8
EV / EBITDA	8.3	6.5	6.2	5.1
P/BV	2.2	1.4	1.3	1.1
RoNW	22.8	12.3	11.3	12.9
RoCE	16.4	14.5	13.4	15.1

Stock data	
Market Capitalization (₹ crore)	660.4
Debt (₹ crore) (FY18)	219.0
Cash and Cash Equivalent (₹ crore) (FY18)	16.1
Enterprise Value (₹ crore)	952.8
52 Week High / Low (₹)	310/136
Equity Value (₹ crore)	45.2
Face Value (₹)	10.0

Price Chart



Research Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Devang Bhatt
devang.bhatt@icicisecurities.com

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total operating Income	765.5	880.4	957.0	1,036.7	
Growth (%)	43.4	15.0	8.7	8.3	
Raw material cost	130.1	120.4	135.4	147.4	
Employee Expenses	32.5	35.2	37.0	38.8	
Power, Oil & Fuel	206.4	279.7	313.5	336.8	
Freight cost	126.4	143.1	159.4	173.5	
Other Expenses	155.9	168.9	177.3	186.2	
Total Operating Exp.	651.3	747.3	822.6	882.7	
EBITDA	114.3	133.1	134.4	153.9	
Growth (%)	63.2	16.4	1.0	14.5	
Depreciation	25.1	34.7	40.2	41.9	
Interest	31.1	30.7	24.6	19.1	
Other Income	3.6	3.6	3.1	3.3	
Exceptional items	1.5	0.0	0.0	0.0	
PBT	60.2	71.3	72.8	96.3	
Total Tax	6.9	14.7	15.0	21.2	
PAT	53.2	56.6	57.8	75.1	
Adjusted PAT	54.7	56.6	57.8	75.1	
Growth (%)	638.7	3.4	2.2	29.8	
EPS (₹)	14.9	12.5	12.8	16.6	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	54.7	56.6	57.8	75.1	
Add: Depreciation	25.1	34.7	40.2	41.9	
(Inc)/dec in Current Assets	-34.9	13.4	-19.2	-18.9	
Inc/(dec) in CL and Provisions	44.2	14.9	17.9	11.4	
CF from operating activities	120.3	150.3	121.2	128.6	
(Inc)/dec in differed tax liability	0.8	27.9	0.0	0.0	
(Inc)/dec in Fixed Assets	-160.5	-222.6	-60.0	-50.0	
Others	0.7	0.4	0.0	0.0	
CF from investing activities	-159.1	-194.3	-60.0	-50.0	
Issue/(Buy back) of Equity	0.0	8.5	0.0	0.0	
Inc/(dec) in loan funds	71.7	-85.2	-30.0	-30.0	
Dividend paid & dividend tax	-10.7	-5.3	-5.3	-5.3	
Interest paid	-31.1	-30.7	-24.6	-19.1	
Others	-0.3	161.0	0.0	0.0	
CF from financing activities	29.5	48.3	-59.9	-54.4	
Net Cash flow	-9.3	4.3	1.3	24.2	
Opening Cash	21.1	11.9	16.1	17.4	
Closing Cash	11.9	16.1	17.4	41.6	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	36.7	45.2	45.2	45.2	
Reserve and Surplus	203.8	416.0	468.5	538.3	
Total Shareholders funds	240.5	461.2	513.7	583.5	
Total Debt	304.2	219.0	189.0	159.0	
Deferred Tax Liability	43.2	71.1	71.1	71.1	
Other Non Current Liabilities	5.2	5.6	5.6	5.6	
Total Liabilities	593.2	757.0	779.5	819.3	
Assets					
Gross Block	697.1	1,039.0	1,099.0	1,149.0	
Less: Acc Depreciation	311.7	346.5	386.6	428.5	
Net Block	385.4	692.5	712.3	720.5	
Capital WIP	152.2	33.0	33.0	33.0	
Total Fixed Assets	537.6	725.5	745.3	753.4	
Investments	0.0	0.0	0.0	0.0	
Inventory	70.9	79.1	86.0	93.2	
Debtors	47.7	78.9	85.7	92.9	
Loans and Advances	97.3	17.9	19.5	21.1	
Other Current Assets	18.4	45.0	48.9	51.8	
Cash	11.9	16.1	17.4	41.6	
Total Current Assets	246.1	237.0	257.5	300.6	
Creditors	32.4	48.0	52.2	56.5	
Other Current Liability	158.1	157.4	171.1	178.2	
Total Current Liabilities	190.5	205.4	223.3	234.8	
Net Current Assets	55.6	31.6	34.2	65.8	
Application of Funds	593.2	757.0	779.5	819.3	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Adjusted EPS	14.9	12.5	12.8	16.6	
Cash EPS	21.7	20.2	21.7	25.9	
BV	65.5	102.0	113.6	129.0	
DPS	2.9	1.0	1.0	0.0	
Cash Per Share	3.2	3.6	3.9	9.2	
Operating Ratios (%)					
EBITDA Margin	14.9	15.1	14.0	14.8	
PAT Margin	7.1	6.4	6.0	7.2	
Inventory days	33.8	32.8	32.8	32.8	
Debtor days	22.7	32.7	32.7	32.7	
Creditor days	15.5	19.9	19.9	19.9	
Return Ratios (%)					
RoE	22.8	12.3	11.3	12.9	
RoCE	16.4	14.5	13.4	15.1	
RoIC	20.8	13.9	12.9	15.0	
Valuation Ratios (x)					
P/E	14.4	17.2	16.8	13.0	
EV / EBITDA	11.1	8.8	8.5	7.1	
EV / Net Sales	1.7	1.3	1.2	1.1	
Market Cap / Sales	1.3	1.1	1.0	0.9	
Price to Book Value	3.3	2.1	1.9	1.7	
Solvency Ratios					
Debt/EBITDA	2.7	1.6	1.4	1.0	
Debt / Equity	1.3	0.5	0.4	0.3	
Current Ratio	1.3	1.2	1.2	1.3	
Quick Ratio	0.9	0.8	0.8	0.9	

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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