

19 August 2020

NCL Industries

Cement division shines; retaining a Buy

Outpacing the industry, NCL's cement division did well, with the highest EBITDA/ton. Its Boards & RMC divisions, however, suffered on closure of major markets and no progress could be made on the Chinese JV. The Mattampally-plant modernisation and the 8MW WHRS and new solar power agreement will help in cost savings. We retain our Buy rating, with a higher TP of ₹136 (earlier ₹108).

Cement division: industry beating volumes, with highest EBITDA/ton. Beating the industry, NCL's volumes fell only 12% y/y to 0.48m tons (Sagar ~32%, Deccan ~34%) backed by good rural demand in May/Jun and the contribution to a government project (Polaveram/Kaleshwaram). On higher realisations (up 29% y/y) and lower fuel cost, it attained the highest EBITDA/ton of ₹1,385 (vs. ₹1,103 a year ago, ₹410 the prior quarter). Running at 100% capacity, management targets cement volumes of ~2.3m tons for FY21.

Boards & RMC suffered; no progress on Chinese JV. On major markets (Maharashtra/Gujarat) being locked down and weak urban demand, Boards/RMC sales volumes fell 47%/44% y/y in Q1, leading to EBIT loss of ₹8m/₹1m. No progress on the Chinese JV for the steel building division was made and management is looking for other technology partner. It expects the Board division's performance to improve on rapidly rising hospital construction demand along with the company's efforts to expand the market. Further, the energy division is expected to benefit on the good monsoon.

Outlook, Valuation. Besides setting up the 8MW WHRS, the company entered into solar power-purchase agreement, which would further reduce power costs. The modernisation of the (line-1) cement unit at Mattampalli (Telangana) is expected to be complete in a year, whereas the EC for the 0.7m-ton cement GU at Vizag is yet awaited. We expect cement volumes to dip 1% in FY21 and grow 8% in FY22, and EBITDA/ton to come at ₹684/692 in FY21/22. We retain our Buy rating, at a higher target of ₹136 (6x FY22e EV/EBITDA). **Risks:** Rise in input costs, extension of the lockdown.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	8,804	9,799	9,379	9,397	10,245
Net profit (₹ m)	491	469	508	460	549
EPS (₹)	10.9	10.4	11.2	10.2	12.1
PE (x)	20.1	14.0	4.8	9.0	7.6
EV / EBITDA (x)	9.3	7.2	4.2	5.2	4.8
EV / ton (\$)	56.0	43.0	23.2	31.5	32.9
RoE (%)	14.3	9.8	9.9	8.4	9.3
RoCE (%)	9.1	8.1	7.7	6.6	7.2
Dividend yield (%)	1.1	1.7	4.6	2.2	2.2
Net debt / equity (x)	0.5	0.6	0.6	0.6	0.6

Source: Company, Anand Rath Research

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Rating: **Buy**

Target Price: ₹136

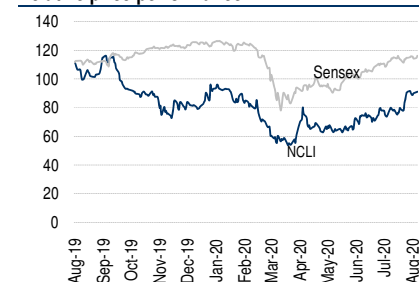
Share Price: ₹92

Key data	NCL IN / NCL BO
52-week high / low	₹130 / 48
Sensex / Nifty	38528 / 11385
3-m average volume	\$0.5m
Market cap	₹4bn / \$55.1m
Shares outstanding	45m

Shareholding pattern (%)	Jun-20	Mar-20	Dec-19
Promoters	42.3	42.3	41.4
- of which, Pledged	3.5	3.1	3.2
Free float	57.7	57.7	58.6
- Foreign institutions	2.3	2.3	2.4
- Domestic institutions	7.5	11.1	11.5
- Public	47.9	44.3	44.8

Estimates revision (%)	FY21e	FY22e
Sales	4.5	3.6
EBITDA	6.0	(0.2)
EPS	24.1	4.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

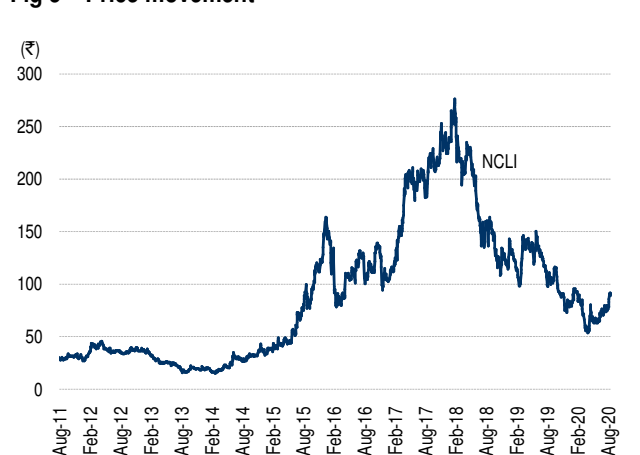
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	1.8	2.2	1.9	1.8	2.0
Net revenues	8,804	9,799	9,379	9,397	10,245
Growth (%)	15.0	11.3	-4.3	0.2	9.0
Direct costs	6,137	6,611	5,673	5,848	6,351
SG&A	1,336	1,840	2,312	2,115	2,265
EBITDA	1,331	1,348	1,394	1,434	1,629
EBITDA margins (%)	15.1	13.8	14.9	15.3	15.9
- Depreciation	347	453	421	456	507
Other income	71	64	26	39	46
Interest expenses	310	348	307	320	336
PBT	744	611	692	697	832
Effective tax rate (%)	34.0	23.2	26.5	34.0	34.0
+ Associates / (Minorities)					
Net income	491	469	508	460	549
Adjusted income	491	469	508	460	549
WANS	45	45	45	45	45
FDEPS (₹ / sh)	10.9	10.4	11.2	10.2	12.1
FDEPS growth (%)	-27.1	-4.5	8.4	-9.5	19.4

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	744	611	692	697	832
+ Non-cash items	347	453	421	456	507
Oper. prof. before WC	1,091	1,064	1,113	1,153	1,339
- Incr. / (decr.) in WC	-289	859	138	-121	130
Others incl. taxes	177	92	218	237	283
Operating cash-flow	1,203	113	757	1,037	926
- Capex (tang. + intang.)	2,226	687	784	900	1,130
Free cash-flow	-1,024	-574	-27	137	-204
Acquisitions					
- Div. (incl. buyback & taxes)	136	136	136	90	90
+ Equity raised	2,019	-	-	-	-
+ Debt raised	-789	725	208	-	200
- Fin investments	-	-	0	-	-
- Misc. (CFI + CFF)	28	-48	81	0	0
Net cash-flow	42	63	-37	47	-94

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (₹ m)

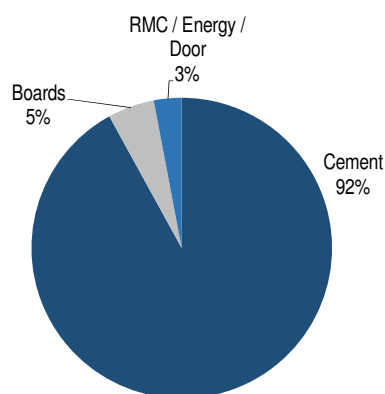
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	452	452	452	452	452
Net worth	4,612	4,993	5,284	5,654	6,112
Debt	2,619	3,345	3,552	3,552	3,752
Minority interest					
DTL / (Assets)	711	761	727	727	727
Capital employed	7,943	9,099	9,563	9,933	10,591
Net tangible assets	6,925	6,584	6,953	7,896	8,019
Net Intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	330	905	899	400	900
Investments (strategic)	-	-	0.1	0.1	0.1
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	2,209	3,236	3,492	3,295	3,593
Cash	161	224	187	234	139
Current liabilities	1,682	1,850	1,968	1,892	2,060
Working capital	527	1,386	1,524	1,403	1,533
Capital deployed	7,943	9,099	9,563	9,933	10,591
Contingent liabilities	315	325	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	20.1	14.0	4.8	9.0	7.6
EV/EBITDA (x)	9.3	7.2	4.2	5.2	4.8
EV / Sales (x)	1.4	1.0	0.6	0.8	0.8
P/B (x)	2.1	1.3	0.5	0.7	0.7
RoE (%)	14.3	9.8	9.9	8.4	9.3
RoCE (%) - after tax	9.1	8.1	7.7	6.6	7.2
DPS (₹ / sh)	2.5	2.5	2.5	2.0	2.0
Dividend payout (%) - incl. DDT	27.7	29.0	26.8	19.7	16.5
Net debt / equity (x)	0.5	0.6	0.6	0.6	0.6
WC days	21.8	51.6	59.3	54.5	54.6
EV / ton (\$)	56.0	43.0	23.2	31.5	32.9
NSR / ton (₹)	4,318	3,979	4,118	4,318	4,368
EBITDA / ton (₹)	647	521	667	684	692
Volumes (m tons)	1.8	2.2	1.9	1.8	2.0
CFO : PAT %	245.0	24.0	148.9	225.5	168.7

Source: Company, Anand Rathi Research

Fig 6 – Q1 FY21 segment revenue break-up



Source: Company

Company update

Promoted by the late K. Ramachandra Raju, the Hyderabad-based NCL Industries, incorporated in 1979, is into cement, particle boards, ready-mix concrete and hydro power. For the past three decades it has been supplying the construction industry with its top quality Nagarjuna Cement brand.

It is a strong regional operator and has been a household name in Andhra Pradesh, popularly known as “Monagadu” cement in Telugu. The company forward-integrated into value-added products with cement boards and ready-mix concrete. It has two small hydro-electric plants, of 7.5MW in Andhra Pradesh and 8.25MW in Karnataka.

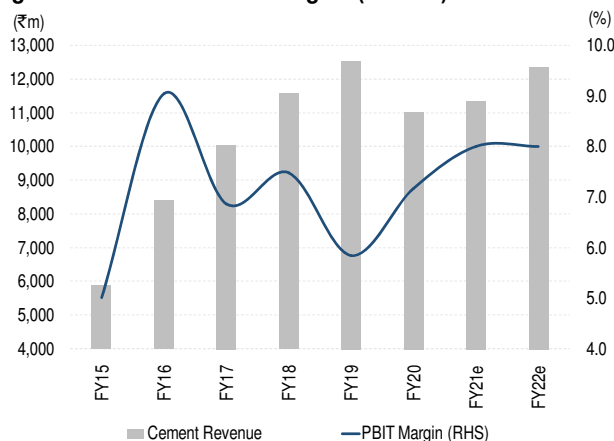
NCL has a wide distribution network in the country, with more than 1,600 cement dealers and 300 distributors for boards. It is the only private company in Andhra Pradesh which manufactures the special 53-S grade cement.

The cement division

With its strategically-located 2.7m-tpa cement capacity, and a well-established brand Nagarjuna Cement, NCL is a robust regional cement manufacturer in south India. In FY18, it expanded its clinker capacity in Nalgonda from 1.58m tons to 2.64m tons. It markets its products largely in the south, primarily in AP/Telangana (90%) and Tamil Nadu and Karnataka.

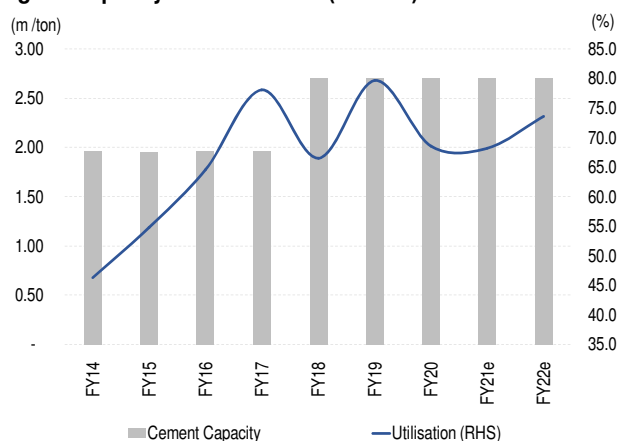
In Q1 FY21, its cement revenue slid ~2% y/y to ~₹3.5bn. Cement sales volumes were down 12% y/y to 0.48m tons, though net realisations were up ~12% y/y. The PBIT margin increased to 17% (14.6% a year ago) on higher realisations and lower costs.

Fig 7 – Revenue and PBIT margins (cement)

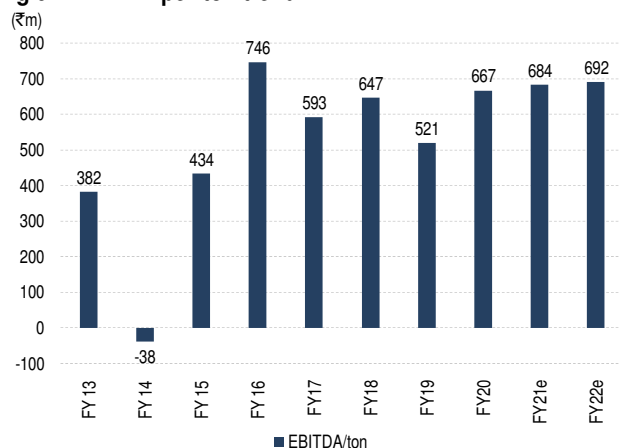


Source: Company, Anand Rathi Research

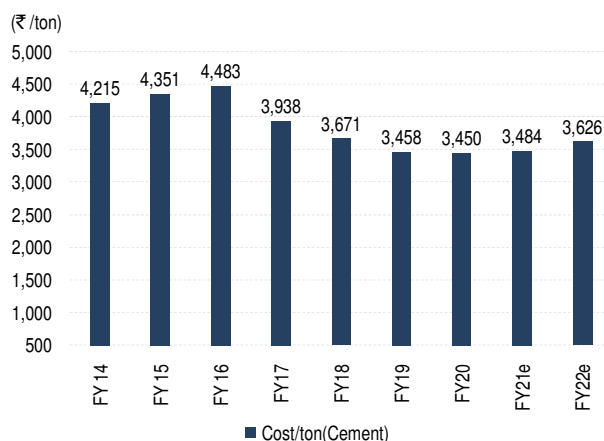
Fig 8 – Capacity and Utilisation (cement)



Source: Company, Anand Rathi Research

Fig 9 – EBITDA-per-ton trend

Source: Company, Anand Rath Research

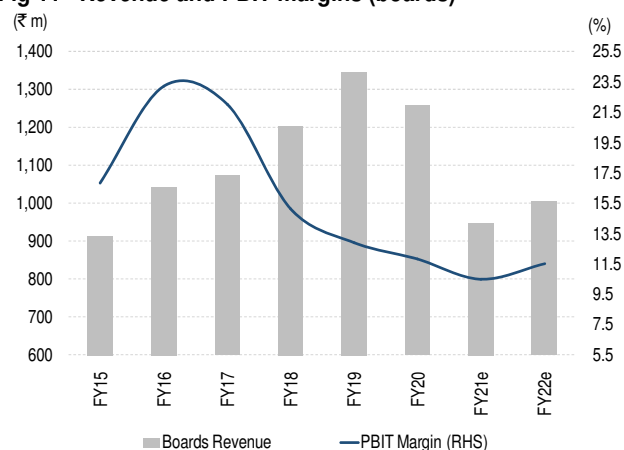
Fig 10 – Cost-per-ton trend

Source: Company, Anand Rath Research

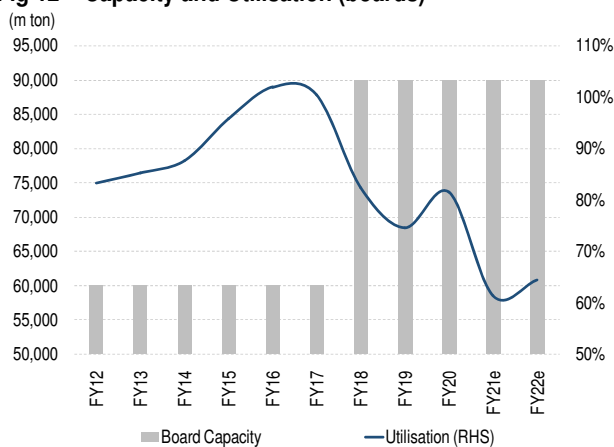
The Boards division

Cement-bonded particle boards, made of 62% cement, 28% wood, popularly known as Bison Panels, were introduced by NCL in 1990 in collaboration with Bison Werke (Germany), the global leader in particle-board technology. On the one hand, the boards have the strength and durability of cement; on the other, they have the easy workability of wood. They are fire-, water- and termite-resistant and can be used externally and internally. To address mounting demand, NCL expanded its boards capacity by 30,000tpa in Q3 FY18 at ₹400m capex. Post-expansion, Bison boards are manufactured at two plants: Mattampally (Telangana) and Paonta Sahib (HP), combined capacity being 90,000tpa.

During Q1 FY21, the Boards division revenue declined 46.7% y/y on the 47% y/y drop in sales volumes to 8,075 tons. It reported PBIT loss of ₹8m, vs. ₹41m PBIT a year ago. NSR/ton increased 1.5% y/y.

Fig 11 – Revenue and PBIT margins (boards)

Source: Company, Anand Rath Research

Fig 12 – Capacity and Utilisation (boards)

Source: Company, Anand Rath Research

Energy and the RMC divisions

The company is small in hydro-electric energy and ready-mix concrete, which together bring ~5% to its revenue. Its strong brand (Nagarjuna Cement) has led to its ready-mix concrete brand being marketed as Nagarjuna RMC. It has four RMC manufacturing plants, adequately geared to handle demand from the vast number of urban housing development and infrastructure projects.

Equipped with twin-shaft concrete mixers to ensure a homogenous mix, plants have adequate control over the size, shape and grade of the aggregates and of optimal management of the water-cement ratio. The key ingredient of Nagarjuna RMC is its superior OPC-53 Nagarjuna Cement.

Its energy division operates two mini-hydel generating plants: one of 7.5MW on the Srisailem right main canal in AP, the other of 8.25MW on the right bank high-level canal of the Tungabhadra dam in Karnataka.

In Q1 FY21, the energy and RMC divisions combined brought 3% to overall revenue. The Energy division reported PBIT loss of ₹7m (vs. ₹8m loss in Q1 FY20); the RMC division also reported PBIT loss, of ₹1m (vs. ₹11m PBIT in Q1 FY20).

Result highlights

Fig 13 – Quarterly trend

(₹ m)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Sales	2,227	2,726	2,394	2,288	2,412	2,705	2,864	1,940	2,106	2,469	2,609	(8.9)	5.7
EBITDA	284	352	272	265	257	554	651	258	261	225	644	(0.9)	186.7
EBITDA margins (%)	12.8	12.9	11.4	11.6	10.7	20.5	22.7	13.3	12.4	9.1	24.7	198bps	1559bps
EBITDA per ton (₹)	449	613	489	384	347	835	1,103	495	353	410	1,385	25.6	238.2
Interest	86	65	86	93	87	81	76	75	81	75	68	(10.0)	(8.3)
Depreciation	94	99	113	113	114	113	105	109	108	99	100	(4.7)	1.2
Other income	6	47	13	13	15	23	15	2	(14)	23	5	(70.5)	(80.0)
PBT	110	236	87	71	71	382	485	76	58	74	480	(0.9)	551.2
Tax	(27)	142	25	(6)	6	118	194	(12)	3	(3)	85	(56.0)	NA
PAT	137	94	62	77	65	265	290	87	54	77	395	36.0	415.1

Source: Company, Anand Rathi Research

Fig 14 – Segment details

(₹)	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	% Y/Y	% Q/Q
Net revenue													
Cements	2,884	3,546	3,241	2,794	3,106	3,377	3,530	2,158	2,406	2,935	3,464	(1.9)	18.0
Boards	304	342	286	344	338	378	320	313	311	315	171	(46.7)	(45.7)
Energy	31	4	-	29	15	0	-	27	44	9	-	NA	NA
RMC	122	163	149	188	191	214	190	217	235	197	108	(42.9)	(45.0)
Doors									1	14	10	NA	(32.5)
Segment PBIT													
Cement	130	270	163	89	94	386	517	87	58	127	589	14.1	364.7
Boards	46	33	15	44	45	70	41	31	32	44	(8)	P2L	P2L
Energy	23	(4)	(8)	20	7	(8)	(8)	19	35	2	(7)	P2L	P2L
RMC	(3)	1	3	11	12	16	11	14	16	10	(1)	P2L	P2L
Doors									(0)	(33)	(24)	NA	NA
PBIT margins (%)													
Cement	4.5	7.6	5.0	3.2	3.0	11.4	14.6	4.0	2.4	4.3	17.0	238bps	1269bps
Boards	15.2	9.7	5.2	12.8	13.3	18.4	12.9	10.0	10.4	13.9	(4.6)	NA	NA
Energy	72.4	(115.5)	NA	70.2	45.5	NA	NA	68.3	80.3	17.3	NA	NA	NA
RMC	(2.4)	0.7	1.8	5.7	6.5	7.5	5.6	6.4	6.7	5.0	(1.1)	NA	NA
Doors									(3.5)	(232.8)	(252.8)	NA	NA

Source: Company, Anand Rathi Research

Concall highlights

- The 8MW waste-heat-recovery plant at Mattampally has been delayed and is now expected to commence by Dec'20. The company has incurred ₹600m till now and ₹350m-400m is left. Management expects a savings in power of ₹250m a year. The company has contracted to purchase 8MW solar power at ₹3.25 a unit (vs. ~₹6 per unit from the grid).
- Collections from certain companies have been stuck owing to the sudden cancellation of projects by the AP government. Trade receivable days are ~60-90.
- On good trade demand, road projects, the Indian Railways and the Polaveram dam (1,000 tons/day of cement dispatched by NCL), capacity utilisation in July was nearly 100%. Management said healthy demand would persist. Cement prices have slipped to ₹300-350/bag from ₹380-390 in June.
- Management targets cement sales of ~2.3-2.4m tons and board sales of 5m sq. mtr. in FY21. It expects the energy division to do well on good water inflow due to the monsoon.
- The company is setting up a 2,000tpd cement GU near Vishakhapatnam at ₹1.5bn, and modernising line-1 of its cement unit at Mattampally in Telangana at ₹530m. Capex would come from a ₹1.4bn term loan and internal accruals. Management said this would be completed within 18 months of financial closure.
- Gross debt on 30th Jun'20 was ₹3.5bn. Management spoke of ~₹500m capex in FY21.
- The Doors plant commenced in Q3 FY20. A brand-building exercise is now on and meaningful contribution expected only in FY22.

The company entered an agreement with a Chinese company and incorporated a new JV, NCL-Guangzheng Structures. This may now be on hold due to the prevailing sentiment. The company has invested ₹60m-70m and is looking for another technology provider, perhaps from Korea.

Valuation

At the CMP, the stock trades at an EV/EBTIDA of 4.8x and an EV/ton of \$33 on FY22e. We retain our Buy rating, at a higher target price of ₹136, based on 6x FY22e EV/EBITDA.

Change in estimates

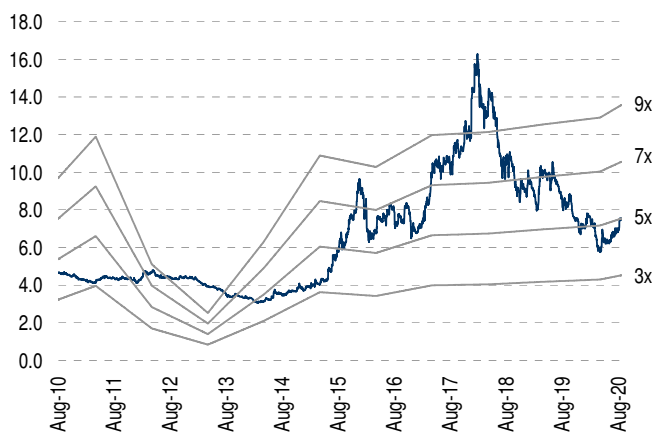
We increase our FY21e and FY22e revenue by 4.5% and 3.6% respectively and PAT 24% and 4%. Further, we increase our FY21e EBITDA 6%.

Fig 15 – Change in estimates

(₹m)	Old		New		Change (%)	
	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Sales	8,995	9,892	9,397	10,245	4.5	3.6
EBITDA	1,352	1,632	1,434	1,629	6.0	(0.2)
PAT	371	527	460	549	24.1	4.1

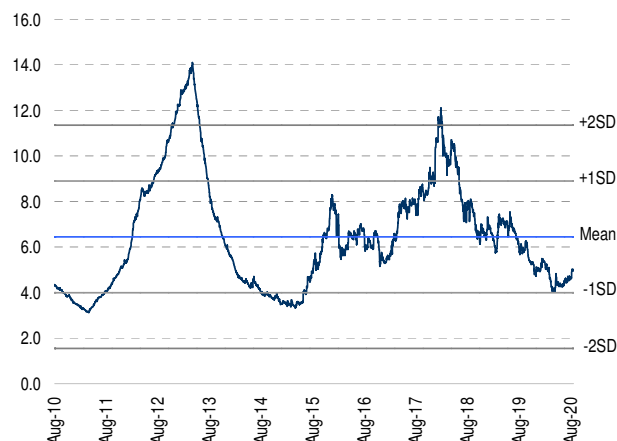
Source: Anand Rathi Research

Fig 16 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 17 – EV/EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risks

- Mounting competition
- Rising diesel prices
- Extension of lockdown.

Fig 18 – Peer comparison - Valuations

	CMP	P / E (x)		EV / EBITDA (x)		EV / ton (\$)	
	(₹)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
NCL Indus	92	9.0	7.6	5.2	4.8	31	33
Birla Corp.	595	15.1	11.8	7.7	6.7	61	50
Ramco Cement	696	31.7	23.0	19.1	14.5	131	122
Dalmia Bharat	789	NA	NA	8.3	7.3	101	90
Deccan Cement	300	9.0	6.5	4.5	3.0	22	19
Heidelberg Cement	193	19.8	14.4	9.6	7.4	88	81
India Cement	117	NA	30.3	12.8	9.4	58	58
JK Cement	1,511	31.5	20.0	15.0	10.9	119	113
JK Lakshmi	270	16.9	11.0	7.2	5.2	46	40
Mangalam Cement	199	14.4	8.1	6.9	4.9	37	35
Orient Cement	69	24.7	12.3	7.4	5.6	41	37
Prism Johnson	50	NA	22.5	12.4	7.6	54	51
Sanghi Industries	26	NA	9.3	12.0	7.5	42	40
Star Cement	93	18.1	14.0	10.2	8.0	83	84

Source: Anand Rathi Research

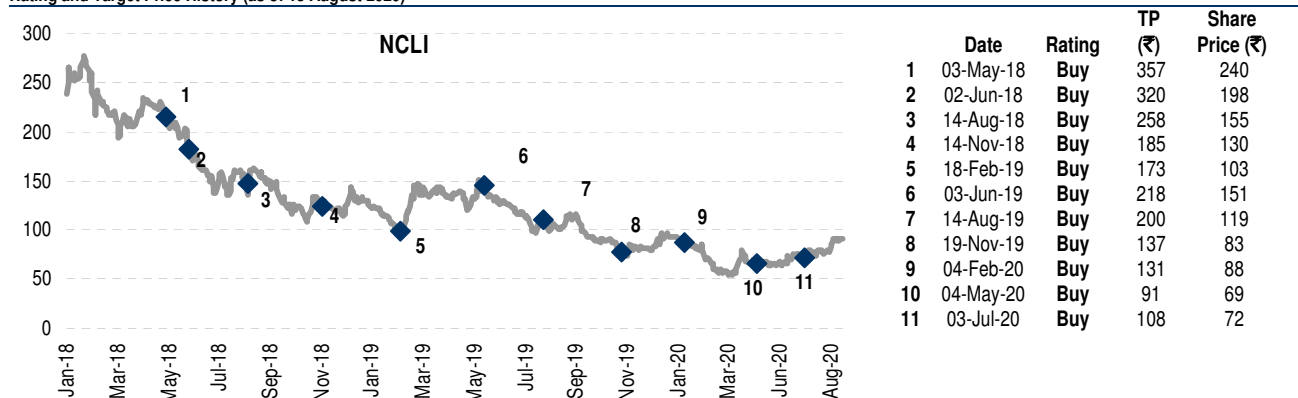
Appendix

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Rating and Target Price History (as of 18 August 2020)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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