India I Equities

Cement
Company Update

Change in Estimates ☑ Target ☑ Reco ☐

11 November 2020

Mangalam Cement

WHRS to help, clinker expansion on track; retaining a Buy

Rating: **Buy**
Target Price: Rs286
Share Price: Rs204

Greater demand and stable prices mitigated input cost pressures, resulting in Mangalam's Q2 revenue/EBITDA rising 11%/24% y/y. Its WHRS expansion completed in Aug'20 and is expected to offset rising pet-coke costs. Flyash availability at Aligarh is expected to be resolved in Q4. With already 90% utilisation in clinker, the ongoing expansion at Morak will allow for greater volumes. We maintain a Buy, with a target of Rs286 (earlier Rs267) 5x FY22e EV/EBITDA.

Greater volumes. Rising rural demand led to sales volumes increasing 11% y/y though realisations were flat y/y (down only 0.5%) due to the partial rollback of prices in Q2. In Oct, however, prices were hiked by Rs10-12/bag. Further, the number of its retailers and dealers rose 4% in Q2. It launched a premium product `Mangalam ProMaxX' in Oct aiming at 10-15% of overall volumes. Management expects 70% capacity utilisation in FY21. We expect volumes to slip 2% in FY21 and climb 9% in FY22.

Rising cost pressure, WHRS to help. Flyash availability at Aligarh and non receipt of incentives from the Railways led raw material/freight costs rising 4%/14% y/y. Low-cost pet-coke stocks kept power & fuel cost/ton 11% lower y/y. EBITDA rose 24% y/y to Rs552m; EBITDA/ton, 11% y/y to Rs788. The full 11MW WHRS being operational in Aug'20 is expected to save Rs250m-300m in costs p.a. We expect EBITDA/ton of Rs788/807 in FY21/22.

Valuations, Outlook. The 0.3m-ton clinker capacity expansion to 2.75m tpa at Morak (Rajasthan) is expected to complete by Mar'21. Clinker Utilisation is high at 90%. Management said capex of Rs1.25bn and modernisation capex of Rs400m in FY21 and debt would be kept in check. We retain our Buy rating, with a higher target of Rs286 on FY22e EV/EBITDA of 5x and an EV/ton of $42. Risks: Rise in fuel/diesel costs, demand slowdown.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (Rs m)	10,797	11,996	12,283	12,229	13,420
Net profit (Rs m)	114	-97	759	715	882
EPS (Rs)	4.3	-3.6	28.4	26.8	33.0
PE (x)	76.5	NM	5.3	7.6	6.2
EV / EBITDA (x)	14.7	21.3	4.4	5.0	4.0
EV / ton ($)	44.2	44.3	31.9	37.9	34.0
RoE (%)	2.2	-1.9	14.1	11.7	12.8
RoCE (%) after tax	2.5	0.7	8.6	7.7	8.5
Dividend yield (%)	0.2	0.2	0.7	0.2	0.2
Net gearing (x)	0.7	1.0	0.8	0.8	0.5

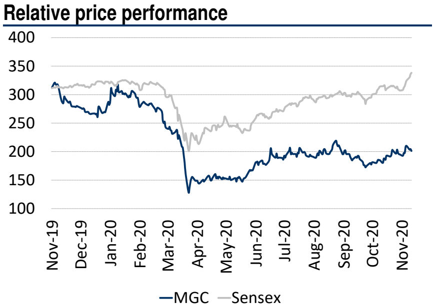
Source: Company, Anand Rathi Research

Key data	MGC IN / MGLC.BO
52-week high / low	Rs333 / 116
Sensex / Nifty	43613 / 12751
3-m average volume	$0.2m
Market cap	Rs5bn / $72.3m
Shares outstanding	27m

Shareholding pattern (%)	Sep'20	Jun'20	Mar'20
Promoters	23.6	22.1	20.9
- of which, Pledged	-	-	-
Free float	76.4	77.9	79.2
- Foreign institutions	4.6	4.6	11.8
- Domestic institutions	2.9	2.9	2.9
- Public	68.9	70.4	64.4

Estimates revision (%)	FY21e	FY22e
Sales	7.0	1.9
EBITDA	36.8	16.7
PAT	93.7	34.7

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

Vibha Jain
Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m ton)	2.8	3.0	2.7	2.6	2.9
Net revenues	10,797	11,996	12,283	12,229	13,420
Growth (%)	*3.3*	*11.1*	*2.4*	*-0.4*	*9.7*
Direct costs	8,281	9,627	8,098	8,025	8,791
SG&A	1,692	1,798	2,191	2,135	2,329
EBITDA	**824**	**571**	**1,994**	**2,069**	**2,300**
EBITDA margins (%)	*7.6*	*4.8*	*16.2*	*16.9*	*17.1*
- Depreciation	442	461	487	605	655
Other income	281	239	297	306	309
Interest expenses	473	508	633	687	617
PBT	190	-159	1,171	1,083	1,337
Effective tax rate (%)	*40*	*39*	*35*	*34*	*34*
+ Associates / (Minorities)	-	-	-	-	-
Net income	114	-97	759	715	882
Adjusted income	114	-97	759	715	882
WANS	27	27	27	27	27
FDEPS (Rs / sh)	4	-4	28	27	33
FDEPS growth (%)	*-68.9*	*NA*	*NA*	*-5.8*	*23.4*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	267	267	267	267	267
Net worth	5,150	5,035	5,759	6,460	7,329
Debt	3,718	5,175	5,875	5,875	4,675
Minority interest	-	-	-	-	-
DTL / (Assets)	418	360	565	565	565
Capital employed	**9,285**	**10,570**	**12,200**	**12,901**	**12,570**
Net tangible assets	8,199	8,109	9,067	10,070	9,815
Net Intangible assets	114	100	87	87	87
Goodwill	0	0	0	0	0
CWIP (tang. & intang.)	51	731	207	100	100
Investments (strategic)	246	276	349	349	349
Investments (financial)	110	54	303	24	24
Current assets (ex cash)	3,253	4,734	5,077	4,992	5,405
Cash	225	137	836	931	798
Current liabilities	2,912	3,571	3,727	3,652	4,008
Working capital	341	1,163	1,350	1,340	1,397
Capital deployed	**9,285**	**10,570**	**12,200**	**12,901**	**12,570**
Contingent liabilities	1208	1278	1.397	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT (Adj. OI and Interest)	382	110	1,507	1,465	1,645
+ Non-cash items	442	461	487	605	655
Oper. prof. before WC	824	571	1,994	2,069	2,300
- Incr. / (decr.) in WC	159	822	187	-10	57
Others incl. taxes	0	-3	200	368	454
Operating cash-flow	665	-248	1,607	1,711	1,789
- Capex (tang. + intang.)	182	1,037	909	1,500	400
Free cash-flow	483	-1,285	698	211	1,389
Acquisitions					
- Div.(incl. buyback & taxes)	16	16	32	13	13
+ Equity raised	0	0	0	0	0
+ Debt raised	-191	1,457	700	0	-1,200
- Fin investments	75	-26	322	-279	0
- Misc. (CFI + CFF)	227	269	346	382	309
Net cash-flow	-26	-87	699	95	-133

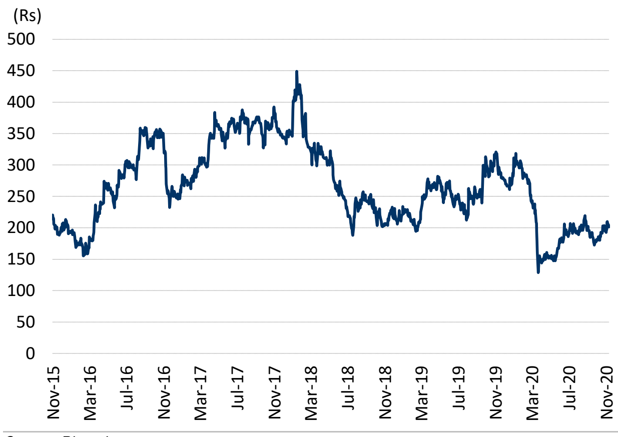
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	76.5	NM	5.3	7.6	6.2
EV / EBITDA (x)	14.7	21.3	4.4	5.0	4.0
EV / Sales (x)	1.1	1.0	0.7	0.8	0.7
P/B (x)	1.7	1.4	0.7	0.8	0.7
RoE (%)	2.2	-1.9	14.1	11.7	12.8
RoCE (%) - after tax	2.5	0.7	8.6	7.7	8.5
DPS (Rs / sh)	0.5	0.5	1.0	0.5	0.5
Dividend payout (%) - incl. DDT	6.6	14.1	NM	4.2	1.9
Net debt / equity (x)	0.7	1.0	0.8	0.8	0.5
Working capital (days)	11.5	35.4	40.1	40.0	38.0
EV / ton ($)	44.2	44.3	31.9	37.9	34.0
NSR / ton (Rs)	3,912	4,053	4,609	4,659	4,709
EBITDA / ton (Rs)	298	193	748	788	807
Volumes	2.76	2.96	2.67	2.63	2.85
CFO : PAT %	584.6	254.8	211.8	239.4	202.8

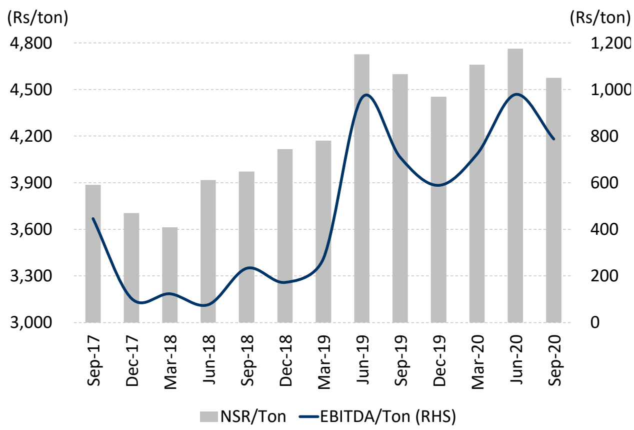
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



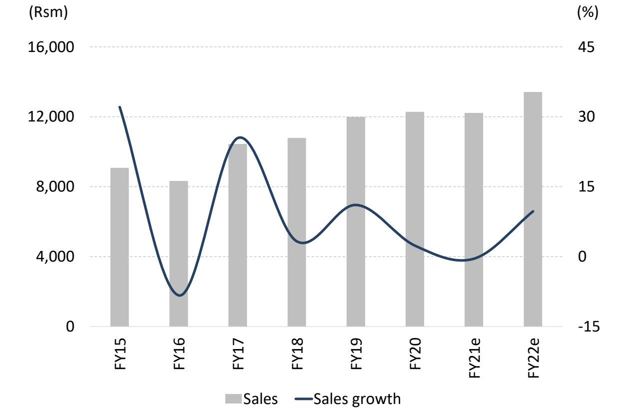
Source: Company

Other Key Highlights

Revenue growth

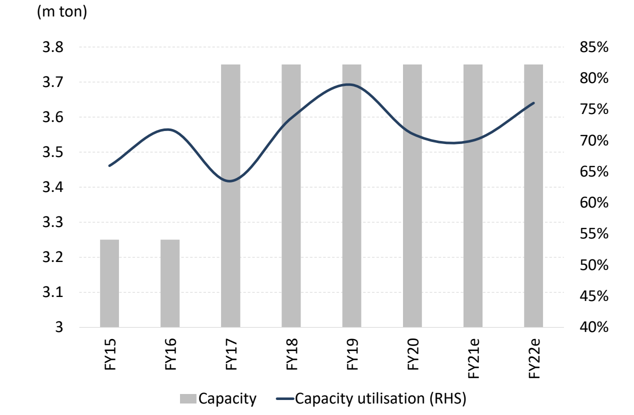
Managlam Cement's Q2 revenue rose 10.9% y/y to Rs3.2bn on good rural demand, leading overall volumes to grow 11.4% y/y to 0.7m tons. Realisations, however were flat y/y at Rs4,575/ton. The trade share in overall volumes was 70% and the PPC share remained at 73%. The company launched a premium product in Oct, "Mangalam ProMaxX". The sales mix for Mangalam Cement: Rajasthan-MP-UP/NCR 32:26:42

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



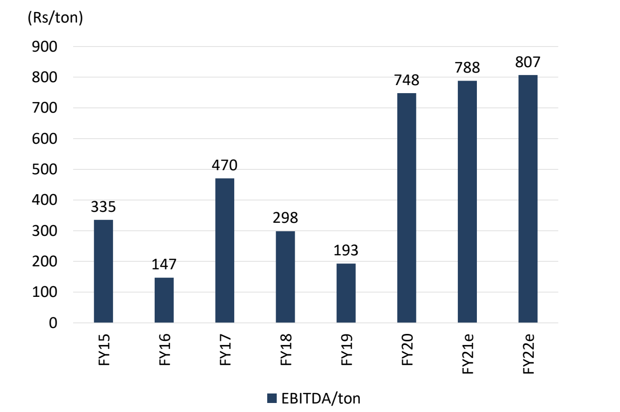
Source: Company, Anand Rathi Research

Operating performance

In Q2, absolute EBITDA increased robust 24% y/y to Rs552m. On firm realisations and fuel-cost savings, EBITDA/ton for the quarter was Rs788 (Rs978 a year ago, Rs708 the prior quarter) up 11% y/y. Raw material cost/ton increased 4% y/y on the flyash availablity issue at Aligarh due to a delay in the start of the power plant. On low pet-coke stocks, power & fuel cost/ton slid 10.7% y/y. Freight cost/ton rose 14% y/y as the company could not secure Railway incentives as its target could not be achieved due to the Covid-19 pandemic. Other expenditure fell 24% y/y whereas staff costs increased 5% y/y on an absolute basis

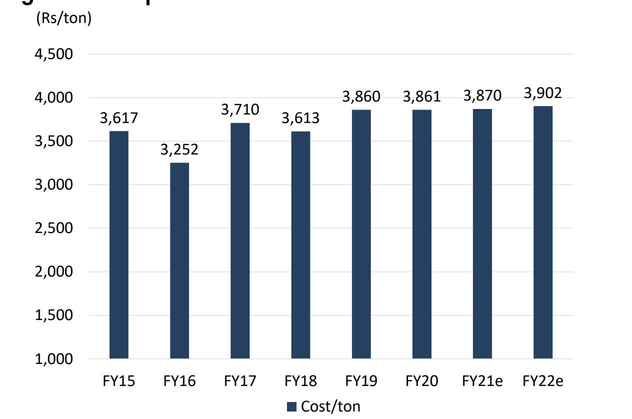
Adj. PAT shot up 45% y/y to Rs213m on the better operating performance and higher other income was partially offset by an increase in depreciation expense.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(Rs m)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Sales	3,024	2,546	2,888	3,367	3,195	3,332	2,893	3,090	2,968	2,262	3,207	*10.9*	*41.8*
EBITDA	103	50	169	141	211	680	445	408	460	465	552	*24.0*	*18.8*
EBITDA margins (%)	*3.4*	*2.0*	*5.9*	*4.2*	*6.6*	*20.4*	*15.4*	*13.2*	*15.5*	*20.5*	*17.2*	*182bps*	*-333bps*
EBITDA per ton	123	77	233	172	276	964	708	589	722	978	788	*11.3*	*(19.5)*
Interest	106	121	131	75	181	139	159	163	171	164	158	*(0.8)*	*(3.4)*
Depreciation	114	114	116	117	114	114	123	123	126	156	159	*28.6*	*1.3*
Other income	73	46	28	59	106	81	73	72	71	69	93	*26.4*	*34.4*
PBT	(44)	(140)	(49)	8	22	508	236	193	234	214	328	*39.1*	*53.6*
Tax	1	13	(81)	(0)	6	176	89	69	79	76	115	*29.8*	*51.8*
Adj. PAT	(45)	(153)	31	8	17	332	147	124	155	138	213	*44.8*	*54.6*

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(Rs)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Realization	3,613	3,917	3,972	4,116	4,171	4,726	4,599	4,453	4,659	4,763	4,575	*(0.5)*	*(3.9)*
EBITDA	123	77	233	172	276	964	708	589	722	978	788	*11.3*	*(19.5)*
Sales volumes (m tons)	0.8	0.7	0.7	0.8	0.8	0.7	0.6	0.7	0.6	0.5	0.7	*11.4*	*47.6*
Costs													
Raw material	609	687	700	670	632	630	740	762	812	396	770	*4.1*	*94.4*
Power & Fuel	1,136	1,210	1,363	1,363	1,203	1,221	1,235	1,276	1,263	481	1,103	*(10.7)*	*129.6*
Freight	1,288	1,228	1,107	1,280	1,343	1,318	1,115	1,240	1,288	1,140	1,268	*13.7*	*11.2*
Staff	282	330	297	297	278	386	411	389	435	413	394	*(4.0)*	*(4.6)*
Other expenditure	280	308	328	278	314	283	507	397	476	156	354	*(30.1)*	*126.4*

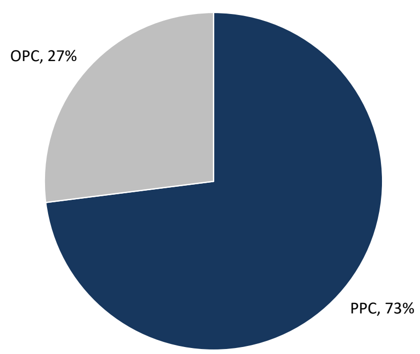
Source: Company, Anand Rathi Research

Concall Highlights

Operational highlights

- Q1 FY21 sales volumes were up 11% y/y to 0.701m tons backed by good rural demand. Cement production was down 9% y/y to 0.69m tons. Clinker production was 0.515m tons (vs 0.48m tons a year back). The clinker utilisation rate was 90%.
- Sales mix: Rajasthan-MP-UP/NCR 32:26:42
- The PPC-OPC mix was 73:27. The trade-nontrade mix was 70:30.
- Freight cost increased as the company could not secure Railway incentive as its target could not be achieved due to the Covid-19 pandemic (vs Q2 FY20 ~Rs100m). The company has requested an extension of the incentive timeline. The road-rail mix was 55:45.
- Pet-coke prices climbed to $90/ton, from $70 earlier. According to a Supreme Court order, pe-coke stocks can be kept for up to three months. The company keeps inventory for 1.5–2 months.
- It has limestone reserves for 50 years.
- It launched a new product brand-named “Mangalam ProMaxX”, an environment-friendly premium PPC. Management initially aims at 10-15% of overall sales of the premium product.
- The number of its retailers and dealers were increased 4% during Q2.

Fig 13 – PPC-OPC mix



Source : Company

Capex and Expansions

- In Q4 FY20 the company had commissioned 75% of the 11MW WHRS; the balance was commissioned in Aug’20. The WHRS is expected to save Rs250m-300m each year.
- Management said the clinker capacity expansion of 300,000 tons through modifications and upgrading of kiln-I at Morak (Rajasthan) would be completed by Mar’21 expanding clinker capacity to 2.75m tons at a conversion ratio of ~1.7x (cement capacity~ 4.4m ton). Of the Rs1.25bn capex for it, the company spent ~Rs500m in H1. Besides, it would incur maintenance capex of Rs300m-400m in FY21.
- Gross and net term loans were Rs4.45bn and Rs3.3bn at 31st Mar’20. Management said debt would be in check and is planning to prepay debt.

Outlook

- Due to MAT credit available on unabsorbed depreciation and brought-forward losses, the company did not opt for the new tax regime. It may do so two years after completion of MAT credit.
- With greater demand, management expects 70% capacity utilisation in FY21.
- The delay in the commencement of the Harduaganj power plant (10km from plant) will keep flyash availability at the Aligarh plant under pressure. The company had entered into a new contract with the power plant for 10,000 tons of flyash a day for its Aligarh unit, which was expected to commence in Jul. This has now been advanced to Dec'20. Management expects it to commence by Feb'21.
- The company has enough flyash available in Rajasthan with an annual contract for supply (1.1m tons) from the Jhalawar unit for five years (40km away, vs. the earlier 100km)
- Cement prices were partially rolled back in Q2 owing to the monsoon; in Oct, however, prices were hiked by Rs10-12/bag.
- Power & fuel cost would rise due to higher pet-coke prices. The company will continue to prefer pet-coke over international coal.

Valuations

Greater demand and stable prices mitigated input cost pressures, resulting in Mangalam's revenue and EBITDA growing respectively 11% and 24% y/y. The WHRS expansion, completed during the quarter, is expected to offset rising pet-coke costs. The flyash availability issue at Aligarh is expected to be resolved in Q4. With clinker at 90% utilisation, the ongoing expansion at Morak will allow for greater volumes.

Change in estimates

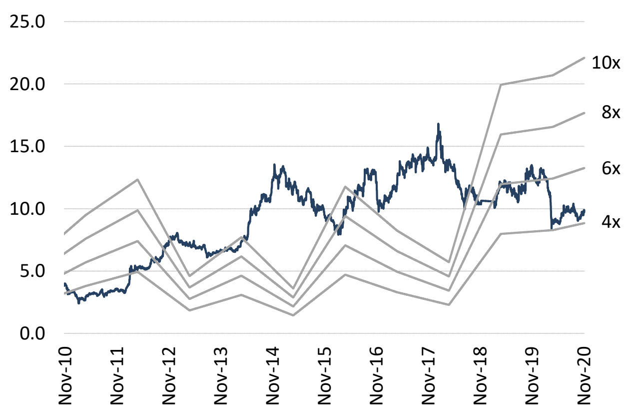
Fig 14 – Change in estimates

	Old		New		Variance	
(Rs m)	FY21e	FY22e	FY21e	FY22e	% Chg	% Chg
Sales	11,429	13,164	12,229	13,420	*7.0*	*1.9*
EBITDA	1,512	1,972	2,069	2,300	*36.8*	*16.7*
PAT	369	655	715	882	*93.7*	*34.7*

Source: Anand Rathi Research

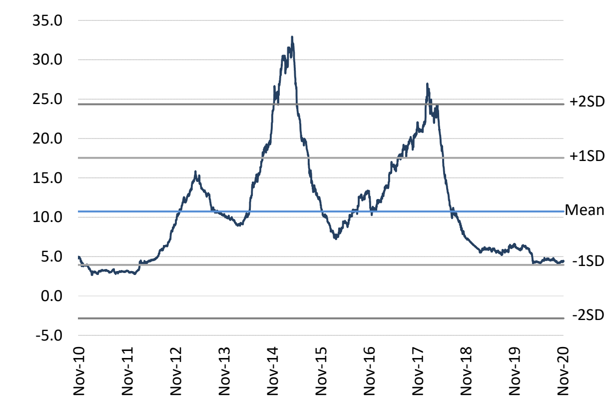
At the CMP, the stock trades at an EV/EBITDA of 4x and an EV/ton of $34. We maintain our Buy rating and arrive at a target price of Rs286 at 5x FY22e EV/EBITDA and an EV/ton of $42.

Fig 15 – EV/EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 16 – EV/EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risks

- Demand slowdown
- Rise in prices of pet-coke and diesel.

Fig 17 – Peer comparison – Valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / ton ($)	
	Rs	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Mangalam Cement	204	7.6	6.2	5.0	4.0	38	34
Birla Corp.	688	12.4	11.9	7.1	6.8	66	54
Dalmia Bharat	903	26.1	26.2	7.7	7.1	124	102
Deccan Cement	337	10.4	7.5	5.1	3.4	26	23
Heidelberg Cement	188	17.6	13.7	8.8	7.0	89	83
India Cement	118	21.9	16.8	8.5	7.7	59	60
JK Cement	1,860	31.1	25.3	15.2	12.8	145	140
JK Lakshmi	303	12.4	10.6	6.2	5.1	51	44
NCL Industries	140	14.3	12.5	6.7	6.1	43	45
Orient Cement	66	10.4	8.5	5.3	4.5	39	35
Prism Johnson	76	NA	34.2	16.0	9.9	72	69
Ramco Cement	840	35.4	22.9	20.7	14.9	159	148
Star Cement	85	16.4	12.7	9.3	7.2	77	78
Sanghi Industries	30	NA	10.5	12.6	7.8	45	43

Source: Anand Rathi Research

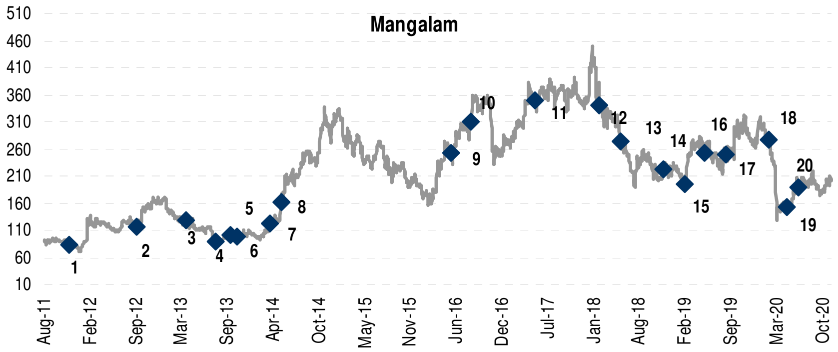
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 11 November 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Oct-11	Sell	106	101
2	03-Oct-12	Hold	191	158
3	09-Apr-13	Buy	195	137
4	08-Aug-13	Buy	165	90
5	09-Oct-13	Buy	175	101
6	11-Nov-13	Buy	160	103
7	04-Apr-14	Buy	185	126
8	19-May-14	Buy	225	143
9	16-May-16	Buy	351	266
10	08-Aug-16	Buy	434	317
11	16-May-17	Buy	412	343
12	17-Feb-18	Buy	470	361
13	18-May-18	Buy	370	281
14	17-Nov-18	Hold	245	213
15	18-Feb-19	Hold	235	202
16	16-May-19	Hold	263	235
17	07-Aug-19	Buy	389	262
18	19-Feb-20	Buy	378	274
19	04-May-20	Buy	198	155
20	20-Jun-20	Buy	267	196

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

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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