

1 April 2022

NCL Industries

Bumpy road (costs) ahead; valuations attractive; retaining a Buy

Rating: Buy

Target Price: Rs.264

Share Price: Rs.187

With its cement plant running at full capacity, NCL Industries is set to expand its cement, boards and panels capacities. Its Chinese JV for steel building products having come to an end, it is venturing into modular containers. In the now inflationary context, costs could rise. Passing them on would be key. We retain our Buy rating, with a TP of Rs264.

Rising costs ahead. Coal non-availability (on power companies preferred) and high international coal prices pushed up NCL's cement costs by Rs30-50 a bag. To pass this on, southern manufacturers hiked prices by Rs15-20 a bag in Mar'22. Management says a further hike is expected in Apr first week as production costs would shoot up ~Rs80/bag from higher costs of diesel/fuel and power. The builders' response towards higher cement prices will be key.

Expansion update. The Line-I modernisation at the Mattampally GU (by 0.4m tons and of clinker by 1,500 tpd) is expected to commence in H1 FY23. The Vishakhapatnam GU expansion is likely to be delayed for want of various government approvals required. Further, the company is expanding its panels capacity at Paonta Sahib (by 250 a day) and its laminated cement particle board capacity at Hyderabad.

New ventures. With its Chinese JV for steel building products having ended, it will be using the building for modular containers and formed Modular Container Pvt. Ltd. in Nov'21. NCL Buildtek and NCL Industries received LoAs on bids aggregating Rs18.6bn to supply windows and doors to APSHC. The project is expected to complete in 1.5-2 years. For this, it has subscribed to OCDs issued by NCL Buildtek, of Rs250m.

Outlook, Valuation. We expect 10% and 7% CAGRs over FY21-24 in respectively revenue and volumes and ~Rs750-900 EBITDA/ton (vs. Rs1,123 in FY21). Net D/E is expected at 0.1x in FY24 (vs. 0.4x in FY21). We retain our Buy rating, at a higher target of Rs264 (4.5x FY24e EV/EBITDA). **Risks:** rise in input costs, demand slowdown.

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	9,379	13,837	15,990	16,828	18,486
Net profit (Rs m)	508	1,487	960	1,236	1,476
EPS (Rs)	11.2	32.9	21.2	27.3	32.6
PE (x)	4.8	5.7	8.8	6.8	5.7
EV / EBITDA (x)	4.1	3.9	5.6	4.1	3.3
EV / ton (\$)	22.5	48.6	52.2	39.5	34.7
RoE (%)	9.9	24.9	13.6	15.3	15.9
RoCE (%)	7.7	15.7	9.4	11.0	12.3
Dividend yield (%)	4.6	2.1	1.3	1.3	1.3
Net debt / equity (x)	0.6	0.4	0.4	0.2	0.1

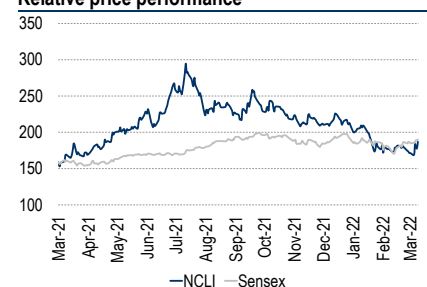
Source: Company, Anand Rathi Research

Key data	NCLI IN / NCLI.BO
52-week high / low	Rs305 / 144
Sensex / Nifty	58980 / 17582
3-m average volume	\$0.6m
Market cap	Rs8bn / \$111.6m
Shares outstanding	45m

Shareholding pattern (%)	Dec-21	Sept-21	Jun-21
Promoters	44.0	43.8	43.7
- of which, Pledged	6.4	6.5	6.5
Free float	56.0	56.3	56.3
- Foreign institutions	3.1	3.1	1.9
- Domestic institutions	0.0	0.2	1.1
- Public	52.9	52.9	53.3

Estimates revision (%)	FY22e
Sales	56.1
EBITDA	27.5
EPS	74.9

Relative price performance



Source: Bloomberg

India Research Team

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Sales volumes (m tons)	1.9	2.4	2.6	2.7	3.0
Net revenues	9,379	13,837	15,990	16,828	18,486
Growth (%)	-4.3	47.5	15.6	5.2	9.9
Direct costs	5,673	7,756	8,630	9,370	10,565
SG&A	2,312	3,255	5,283	4,954	5,111
EBITDA	1,394	2,825	2,077	2,504	2,809
EBITDA margins (%)	14.9	20.4	13.0	14.9	15.2
- Depreciation	421	409	450	474	492
Other income	26	66	71	75	82
Interest expenses	307	205	244	231	164
PBT	692	2,278	1,455	1,873	2,236
Effective tax rate (%)	26.5	34.7	34.0	34.0	34.0
+ Associates / (Minorities)					
Net income	508	1,487	960	1,236	1,476
Adjusted income	508	1,487	960	1,236	1,476
WANS	45	45	45	45	45
FDEPS (Rs / sh)	11.2	32.9	21.2	27.3	32.6
FDEPS growth (%)	8.5	192.4	-35.4	28.8	19.4

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT (Adj. OI and int.)	973	2,417	1,628	2,029	2,318
+ Non-cash items	421	409	450	474	492
Oper. prof. before WC	1,394	2,825	2,077	2,504	2,809
- Incr. / (Decr.) in WC	-14	-248	1,234	-148	227
Others incl. taxes	218	698	495	637	760
Operating cash-flow	1,190	2,375	349	2,015	1,822
- Capex (tang. + intang.)	784	1,057	555	355	500
Free cash-flow	405	1,318	-206	1,660	1,322
Acquisitions					
- Div. (incl. buyback & taxes)	136	181	113	113	113
+ Equity raised	-	-	-	-	-
+ Debt raised	56	-235	638	-1,000	-925
- Fin investments	0	300	250	-	-
- Misc. (CFI + CFF)	362	82	173	156	81
Net cash-flow	-37	521	-104	391	203

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

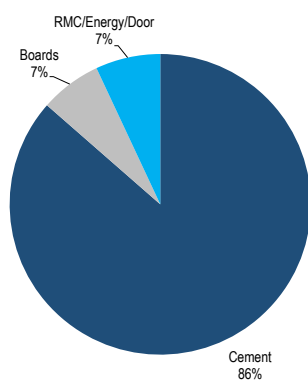
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	452	452	452	452	452
Net worth	5,284	6,647	7,495	8,618	9,980
Debt	3,401	3,166	3,804	2,804	1,879
Minority interest	-	-	-	-	-
DTL / (Assets)	727	819	819	819	819
Capital employed	9,412	10,633	12,118	12,241	12,679
Net tangible assets	6,953	7,894	8,355	8,086	7,694
Net Intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	899	605	250	400	800
Investments (strategic)	0.1	300.1	550.1	550.1	550.1
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	3,492	3,478	5,520	5,533	6,078
Cash	187	708	604	995	1,197
Current liabilities	2,120	2,353	3,162	3,322	3,640
Working capital	1,373	1,125	2,358	2,210	2,437
Capital deployed	9,412	10,633	12,118	12,241	12,679
Contingent liabilities	302	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	4.8	5.7	8.8	6.8	5.7
EV / EBITDA (x)	4.1	3.9	5.6	4.1	3.3
EV / Sales (x)	0.6	0.8	0.7	0.6	0.5
P/B (x)	0.5	1.3	1.1	1.0	0.8
RoE (%)	9.9	24.9	13.6	15.3	15.9
RoCE (%) - after tax	7.7	15.7	9.4	11.0	12.3
DPS (Rs / sh)	2.5	4.0	2.5	2.5	2.5
Dividend payout (%) - incl. DDT	26.8	12.2	11.8	9.1	7.7
Net debt / equity (x)	0.6	0.4	0.4	0.2	0.1
WC days	53.4	29.7	53.8	47.9	48.1
EV / ton (\$)	22.5	48.6	52.2	39.5	34.7
NSR / ton (Rs)	4,118	5,096	5,446	5,526	5,606
EBITDA / ton (Rs)	619	1,123	777	856	893
Volumes (m tons)	1.9	2.4	2.6	2.7	3.0
CFO : PAT %	234.0	159.7	36.3	163.0	123.5

Source: Company, Anand Rathi Research

Fig 6 – 9M FY22 revenue break-up, by division


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.

NCL has a wide distribution network in the country, with more than 2240 cement dealers and 350 distributors for boards.

The cement division

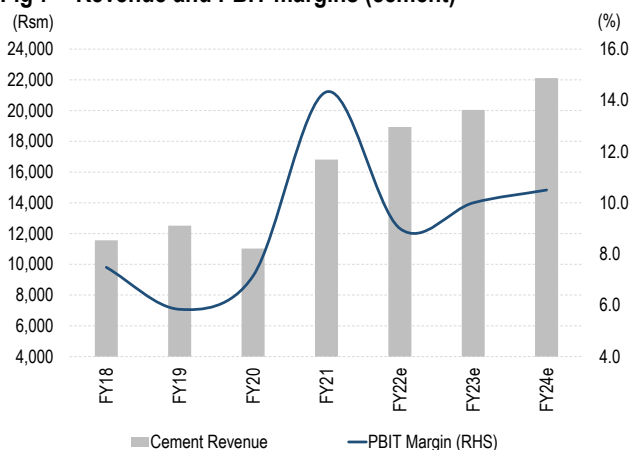
With its strategically-located 2.7m-tpa cement capacity, and a well-established brand Nagarjuna Cement, NCL is a robust regional cement manufacturer in south India. In FY18, it expanded its clinker capacity in Nalgonda from 1.58m tons to 2.64m tons. It markets its products largely in the south, primarily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

In 9M FY22, its cement revenue was up 16% y/y to ~Rs14bn. Cement sales volumes were up 12% y/y to 1.93m tons and net realisations were up ~10% y/y. The PBIT margin declined to 9.8% (15.5% a year ago) on higher costs.

Its Line I modernisation at Mattampally (ie, the GU of ~ 0.4m tons and clinker of ~1,500 tpd) is expected to commence in H1 FY23 expanding its cement capacity to 3.1m tons and clinker to 3.14m tons. The Vizag GU expansion has been delayed for want of various government approvals.

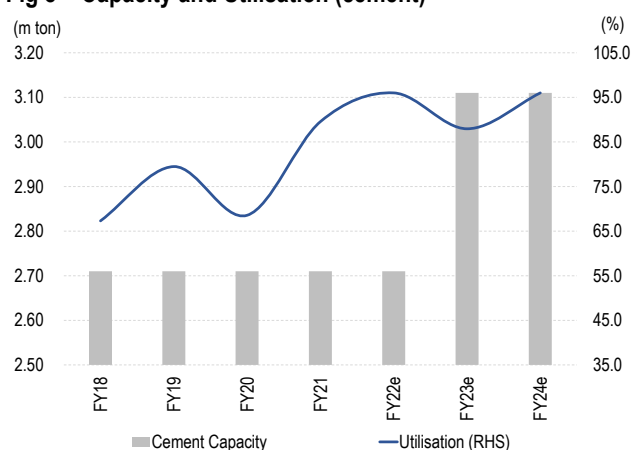
We expect 7% and 10% CAGRs over FY21-24 in its cement volumes and revenue respectively. We expect the high-cost environment to cut into its operating performance, holding EBITDA/ton to Rs750-900 (vs Rs1,123 in FY21).

Fig 7 – Revenue and PBIT margins (cement)

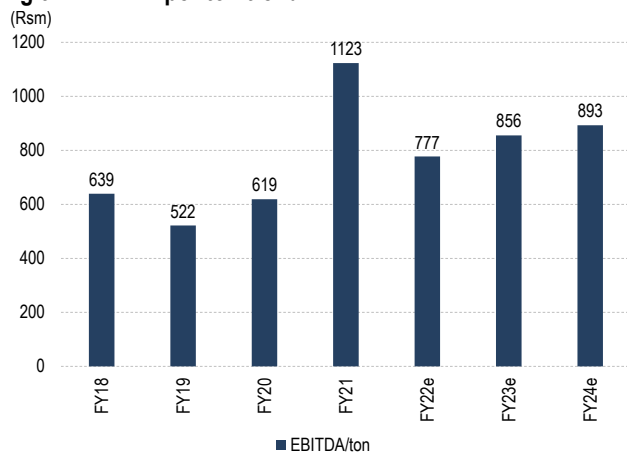


Source: Company, Anand Rathi Research

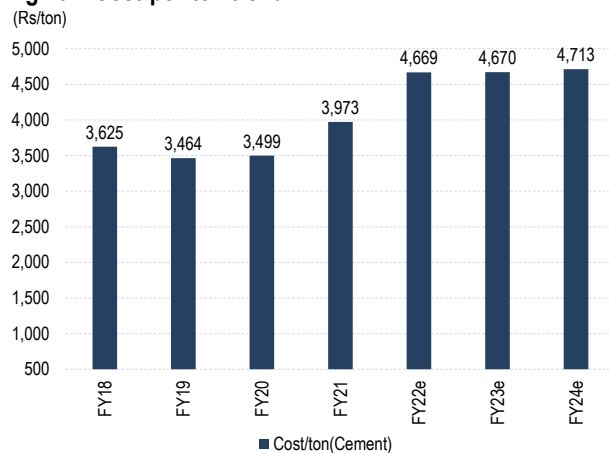
Fig 8 – Capacity and Utilisation (cement)



Source: Company, Anand Rathi Research

Fig 9 – EBITDA-per-ton trend

Source: Company, Anand Rathi Research

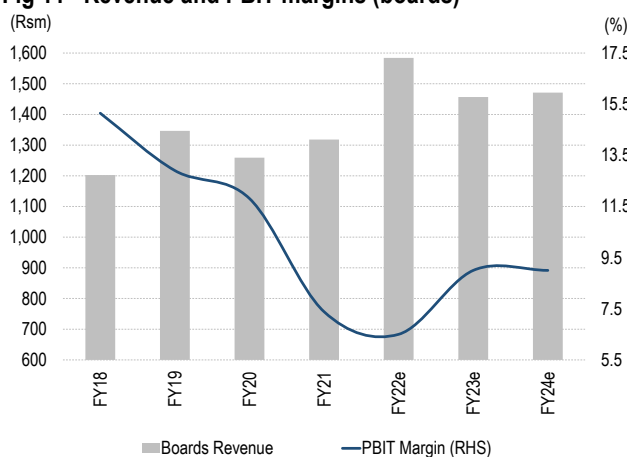
Fig 10 – Cost-per-ton trend

Source: Company, Anand Rathi Research

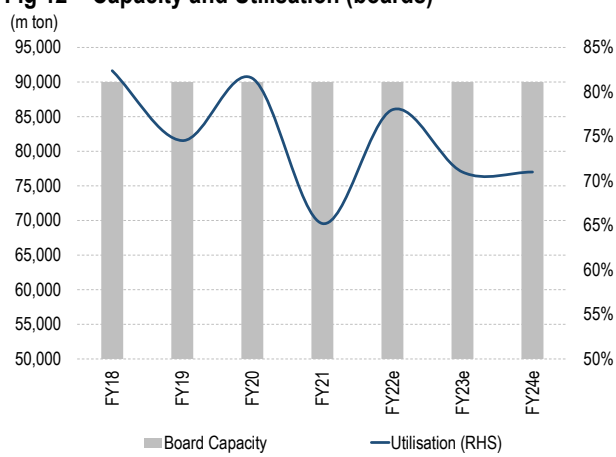
The Boards division

Cement-bonded wood-particle boards (62% cement, 28% wood), popularly called Bison Panels, were introduced by NCL in 1990 in collaboration with Bison Werke (Germany), the global leader in particle-board technology. NCL manufactures Bison boards at two plants, Mattampally (Telangana) and Paonta Sahib (HP), 90,000tpa combined.

The Boards division's 9M FY22 revenue grew 28% y/y on a 21% y/y rise in sales volumes to 48,533 tons. The division reported Rs60m PBIT, vs. Rs32m a year ago. We expect the division's revenue to record a 4% CAGR over FY21-24 with PBIT margins of 7-9% (vs 7.4% in FY21).

Fig 11– Revenue and PBIT margins (boards)

Source: Company, Anand Rathi Research

Fig 12 – Capacity and Utilisation (boards)

Source: Company, Anand Rathi Research

Energy and the RMC divisions

The company is small in hydro-electric energy and ready-mix concrete, which together bring ~6% to its revenue. Its strong brand (Nagarjuna Cement) has led to its ready-mix concrete brand being marketed as Nagarjuna RMC. It has ten RMC manufacturing plants, adequately geared to handle demand from the vast number of urban housing development and infrastructure projects.

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

In 9M FY22, the RMC division's revenue grew 42% y/y to Rs902m whereas the Energy division's revenue slipped 2% y/y to Rs62m. The latter reported Rs31m PBIT (vs. Rs37m in 9M FY21); the former reported Rs3m PBIT (vs. Rs29m in 9M FY21).

The Readymade Doors Division

In collaboration with the Turkey-based AGT, a global manufacturer with advanced technology in wood, NCL Industries set up a 200,000 sq.ft. factory in Malkapur, Hyderabad. The readymade doors division (capacity: 1,000 a day) commenced commercial operations in Dec'19. In 9M FY22, its revenue grew 131% y/y to Rs179m, with a PBIT loss of Rs87m vs a Rs94m loss in 9M FY21.

Result highlights

Fig 13 – Quarterly trend

(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	% Y/Y	% Q/Q	9M FY21	9M FY22	% Chg.
Sales	2,106	2,469	2,609	3,481	3,695	4,052	4,030	4,154	3,696	0.0	(11.0)	9,785	11,880	21.4
EBITDA	261	225	644	804	717	660	679	616	366	(49.0)	(40.6)	2,166	1,661	(23.3)
EBITDA margins (%)	12.4	9.1	24.7	23.1	19.4	16.3	16.8	14.8	9.9	-951bps	-493bps	22.1	14.0	-815bps
EBITDA per ton (Rs)	353	410	1,385	1,305	1,059	838	1,016	863	654	(38.3)	(24.3)	3,750	2,533	(32.4)
Interest	81	75	68	51	45	41	60	59	64	42.6	7.4	164	182	11.1
Depreciation	108	99	100	102	102	104	111	111	111	8.7	(0.1)	305	334	9.3
Other income	(14)	23	5	15	14	32	13	29	24	65.8	(18.3)	34	66	94.1
PBT	58	74	480	665	585	548	521	475	215	(63.2)	(54.7)	1,730	1,211	(30.0)
Tax	3	(3)	161	236	169	225	176	163	63	(62.4)	(61.1)	566	403	(28.8)
PAT	54	77	320	429	416	322	345	312	152	(63.5)	(51.4)	1,164	808	(30.6)

Source: Company, Anand Rathi Research

Fig 14 – Segment details

(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	% Y/Y	% Q/Q	9M FY21	9M FY22	% Chg.
Net revenue														
Cements	2,406	2,935	3,464	4,347	4,397	4,606	4,952	4,872	4,379	(0.4)	(10.1)	12,208	14,204	16.3
Boards	311	315	171	290	385	472	223	424	436	13.3	2.8	846	1,083	28.0
Energy	44	9	-	24	39	13	-	31	32	(19.7)	2.2	63	62	(1.7)
RMC	235	197	108	212	314	379	309	310	283	(9.9)	(8.7)	635	902	42.1
Doors	1	14	10	27	41	40	49	63	68	66.6	7.0	78	179	131.3
Segment PBIT														
Cement	58	127	589	722	579	519	619	494	274	(52.8)	(44.7)	1,891	1,387	(26.7)
Boards	32	44	(8)	6	34	65	(13)	49	24	(28.5)	(50.1)	32	60	85.5
Energy	35	2	(7)	15	29	4	(9)	21	18	(35.8)	(13.2)	37	31	(16.0)
RMC	16	10	(1)	9	21	26	7	(1)	(3)	P2L	NA	29	3	(89.9)
Doors	(0)	(33)	(24)	(36)	(34)	(26)	(23)	(30)	(35)	NA	NA	(94)	(87)	NA
PBIT margins (%)														
Cement	2.4	4.3	17.0	16.6	13.2	11.3	12.5	10.1	6.2	-693bps	-390bps	15.5	9.8	-573bps
Boards	10.4	13.9	(4.6)	2.2	8.8	13.8	(5.7)	11.4	5.6	-325bps	-588bps	3.8	5.5	172bps
Energy	80.3	17.3	NA	62.2	73.0	29.3	NA	68.7	58.4	-1469bps	-1035bps	57.6	49.2	-839bps
RMC	6.7	5.0	(1.1)	4.1	6.7	7.0	2.1	(0.2)	(1.0)	NA	NA	4.5	0.3	-420bps
Doors	(3.5)	(232.8)	(252.8)	(132.0)	(83.5)	(65.0)	(47.5)	(46.8)	(51.3)	NA	NA	(121.7)	(48.7)	NA

Source: Company, Anand Rathi Research

Valuation

In the present inflationary context the stock has dropped considerably bit. At the CMP, it trades at an EV/EBITDA of 3.3x and an EV/ton of \$34.7 on FY24e. We retain our Buy rating, at a higher target price of ₹264, based on 4.5x FY24e EV/EBITDA.

Change in estimates

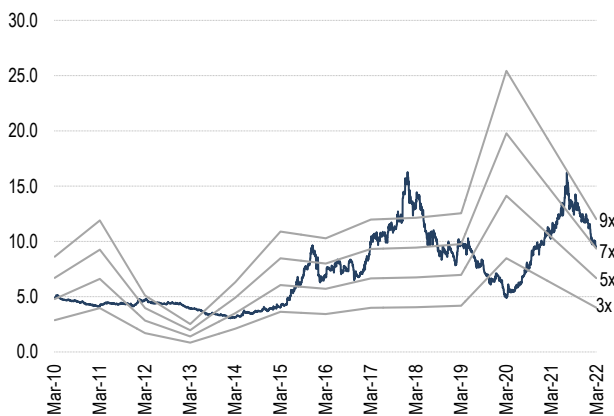
Factoring in the 9M FY22 performance and present cement demand-pricing context, we raise our FY22e revenue 56.1%, EBITDA 27.5% and PAT 74.9%.

Fig 15 – Change in estimates

(Rs m)	Old	New	Change (%)
	FY22e	FY22e	FY22e
Sales	10,245	15,990	56.1
EBITDA	1,629	2,077	27.5
PAT	549	960	74.9

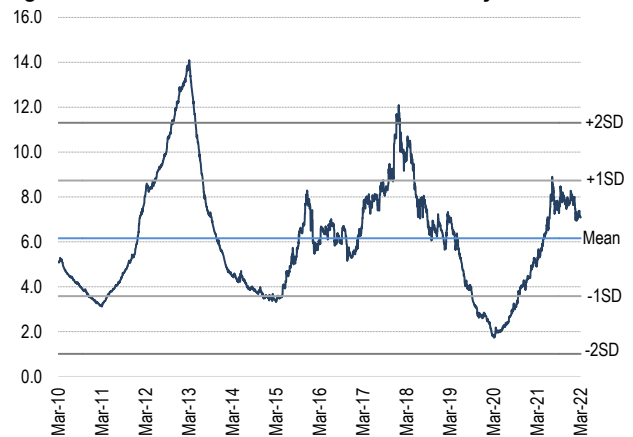
Source: Anand Rathi Research

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
- Demand slowdown
- Spiralling prices of coal/diesel.

Fig 18 – Peer comparison - Valuations

	CMP	P / E (x)			EV / EBITDA (x)			EV / ton (\$)		
	(Rs)	FY22e	FY23e	FY24e	FY22e	FY23e	FY24e	FY22e	FY23e	FY24e
NCL Indus	187	8.8	6.8	5.7	5.6	4.1	3.3	52	40	35
Birla Corp.	1,183	18.3	13.2	10.3	10.2	7.7	6.2	75	67	61
Ramco Cement	764	26.1	21.9	18.2	16.1	13.2	11.4	149	138	131
Dalmia Bharat	1,493	34.6	24.9	18.7	11.5	9.8	7.9	122	119	83
Deccan Cement	554	6.8	6.5	5.7	3.6	4.9	4.7	38	56	35
Heidelberg Cement	192	18.2	13.4	11.2	9.9	8.0	6.3	85	80	74
India Cement	209	58.0	27.6	17.6	14.8	11.5	9.0	78	77	75
JK Cement	2,444	23.8	20.6	16.9	13.4	12.0	10.0	175	173	165
JK Lakshmi	473	15.5	12.8	11.1	7.6	6.5	5.7	66	62	58
Mangalam Cement	391	9.5	7.8	6.8	6.2	5.0	4.0	46	41	36
Orient Cement	144	11.2	9.0	8.1	5.7	5.3	5.2	53	57	64
Prism Johnson	116	35.6	18.5	14.8	12.0	8.7	7.3	90	76	62
Sanghi Industries	44	20.0	11.9	7.8	10.1	6.9	5.5	55	52	48
Star Cement	90	15.0	12.9	11.1	9.1	8.2	7.5	78	79	84

Source: Company, Anand Rathi Research

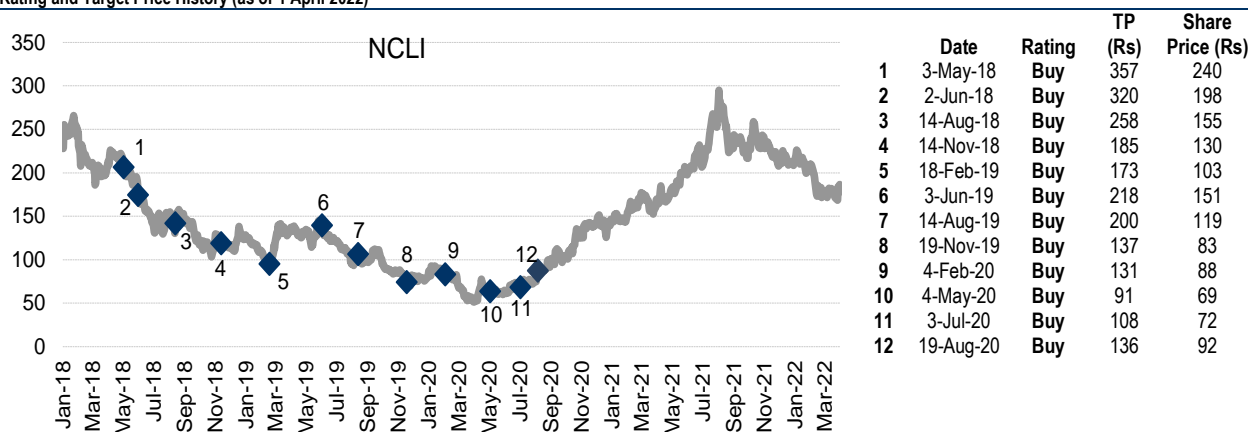
Appendix

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

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