India I Equities

Cement

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

24 August 2022

NCL Industries

Modernisation exercise to aid volume growth; retaining a Buy

Rating: **Buy**
Target Price: Rs.240
Share Price: Rs.180

Weak demand and higher costs hit NCL's cement division performance, but its Boards division performance was boosted by the low base. The JV for the modular container was terminated and the door division continues to report losses. While the Vizag GU expansion continues to be delayed, the modernisation exercise at Mattampally would aid volume growth. We retain our Buy rating, with a lower TP of Rs240 (earlier Rs242).

Cement-modernisation exercise to aid volume growth. Weak demand in its operating region led to cement volumes falling 13.6% y/y to 0.6m tons (Deccan Cements ~ down 13%; Sagar Cements ~ up 35% backed by expansion). However, higher realisations (up 7% y/y) restricted the cement revenue decline to 2.7% y/y (to Rs4.8bn). But, overall EBITDA fell 52% y/y to Rs327m and EBITDA/ton (cement) 46.5% y/y to Rs544 on higher costs. The capacity upgrading at Mattampally GU would aid volume growth. We expect cement volume/ revenue to register 6%/9% CAGRs over FY22-24.

Low base aided Boards division performance. The Board's division results were good with the base quarter hit by lockdowns. Backed by 102% y/y volume growth and 11% y/y realisation growth, revenue expanded 123% y/y to Rs497m. Further, prices hikes helped improve margins where PBIT was Rs50m (vs a Rs13m loss a year prior). RMC sales volumes dipped 27% y/y whereas the door division volumes grew 57% y/y, yet reported a loss.

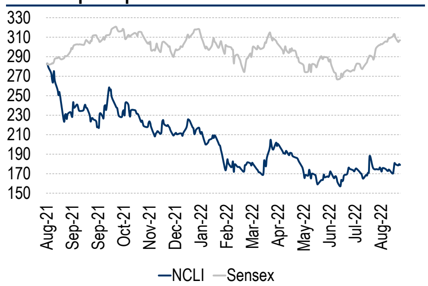
Outlook, Valuation. The JV agreement with Moravia Containers of the Czech Republic was terminated; consequently NCL has withdrawn its investment there. Debt at 31st Mar'22 was Rs3.1bn (net D/E ~0.4x). The pending environmental clearance would delay the Vizag GU expansion. We expect 9%, 7% and 8% revenue, EBITDA and PAT CAGRs over FY22-24 respectively. We retain our Buy rating, at a TP of Rs240 (5.5x FY24e EV/EBITDA). **Risks:** Rise in input costs, demand slowdown.

Key data	NCLI IN / NCLI.BO
52-week high / low	Rs270 / 156
Sensex / Nifty	59085 / 17605
3-m average volume	$0.2m
Market cap	Rs8bn / $101.4m
Shares outstanding	45m

Shareholding pattern (%)	Jun-22	Mar-22	Dec-21
Promoters	45.7	45.0	44.0
- of which, Pledged	7.3	7.4	6.4
Free float	54.3	55.0	56.0
- Foreign institutions	2.8	3.0	3.1
- Domestic institutions	0.0	0.0	0.0
- Public	51.5	51.9	52.9

Estimates revision (%)	FY23e	FY24e
Sales	4.6	4.4
EBITDA	(17.3)	(6.5)
EPS	(22.0)	(7.8)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	9,379	13,837	16,334	18,079	19,399
Net profit (Rs m)	508	1,487	981	825	1,147
EPS (Rs)	11.2	32.9	21.7	18.2	25.4
PE (x)	4.8	5.4	8.2	9.9	7.1
EV / EBITDA (x)	4.1	3.7	5.4	5.9	4.4
EV / ton ($)	21.1	43.6	46.1	40.0	37.0
RoE (%)	9.9	24.9	13.9	10.6	13.2
RoCE (%)	7.7	15.7	9.6	7.7	9.8
Dividend yield (%)	4.6	2.3	1.7	1.4	1.4
Net debt / equity (x)	0.6	0.4	0.4	0.4	0.2

Source: Company, Anand Rathi Research

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Research Analyst

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Sales volumes (m tons)	1.9	2.4	2.6	2.7	2.9
Net revenues	9,379	13,837	16,334	18,079	19,399
Growth (%)	*-4.3*	*47.5*	*18.0*	*10.7*	*7.3*
Direct costs	5,673	7,756	9,795	12,014	13,134
SG&A	2,312	3,255	4,465	4,199	3,903
EBITDA	**1,394**	**2,825**	**2,074**	**1,865**	**2,363**
EBITDA margins (%)	*14.9*	*20.4*	*12.7*	*10.3*	*12.2*
- Depreciation	421	409	445	468	515
Other income	26	66	111	108	116
Interest expenses	307	205	242	255	227
PBT	692	2,278	1,498	1,250	1,738
Effective tax rate (%)	*26.5*	*34.7*	*34.5*	*34.0*	*34.0*
+ Associates / (Minorities)	-	-	-	-	-
Net income	508	1,487	981	825	1,147
Adjusted income	508	1,487	981	825	1,147
WANS	45	45	45	45	45
FDEPS (Rs / sh)	11.2	32.9	21.7	18.2	25.4
FDEPS growth (%)	*8.5*	*192.4*	*-34.0*	*-15.9*	*39.0*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	452	452	452	452	452
Net worth	5,284	6,647	7,441	8,153	9,186
Debt	3,401	3,166	3,182	3,204	2,479
Minority interest					
DTL / (Assets)	727	819	918	918	918
Capital employed	**9,412**	**10,633**	**11,540**	**12,274**	**12,583**
Net tangible assets	6,953	7,894	7,735	8,932	8,917
Net Intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	899	605	1,710	400	500
Investments (strategic)	0.1	300.1	300.1	300.1	300.1
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	3,492	3,478	4,864	5,944	6,378
Cash	187	708	107	261	304
Current liabilities	2,120	2,353	3,175	3,562	3,815
Working capital	1,373	1,125	1,689	2,382	2,562
Capital deployed	**9,412**	**10,633**	**11,540**	**12,274**	**12,583**
Contingent liabilities	302	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT (Adj. OI and Interest)	973	2,417	1,629	1,397	1,848
+ Non-cash items	421	409	445	468	515
Oper. prof. before WC	1,394	2,825	2,074	1,865	2,363
- Incr. / (decr.) in WC	-14	-248	564	693	181
Others incl. taxes	218	698	418	425	591
Operating cash-flow	1,190	2,375	1,092	747	1,591
- Capex (tang. + intang.)	784	1,057	1,390	355	600
Free cash-flow	405	1,318	-298	392	991
Acquisitions					
- Div.(incl. buyback & taxes)	136	181	136	113	113
+ Equity raised	-	-	-	-	-
+ Debt raised	56	-235	16	22	-725
- Fin investments	0	300	-0	-	-
- Misc. (CFI + CFF)	362	82	183	147	111
Net cash-flow	-37	521	-602	154	42

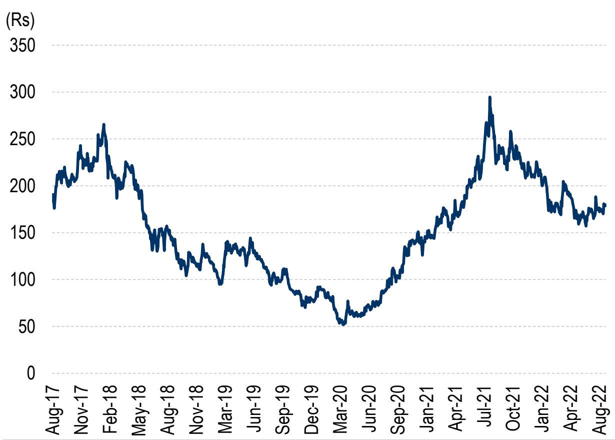
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	4.8	5.4	8.2	9.9	7.1
EV / EBITDA (x)	4.1	3.7	5.4	5.9	4.4
EV / Sales (x)	0.6	0.8	0.7	0.6	0.5
P/B (x)	0.5	1.2	1.1	1.0	0.9
RoE (%)	9.9	24.9	13.9	10.6	13.2
RoCE (%) - after tax	7.7	15.7	9.6	7.7	9.8
DPS (Rs / sh)	2.5	4.0	3.0	2.5	2.5
Dividend payout (%) - incl. DDT	26.8	12.2	13.8	13.7	9.9
Net debt / equity (x)	0.6	0.4	0.4	0.4	0.2
WC days	53.4	29.7	37.7	48.1	48.2
EV / ton ($)	21.1	43.6	46.1	40.0	37.0
NSR / ton (Rs)	4,118	5,096	5,446	5,496	5,576
EBITDA / ton (Rs)	619	1,123	781	620	746
Volumes (m tons)	1.9	2.4	2.6	2.7	2.9
CFO : PAT %	234.0	159.7	111.2	90.6	138.8

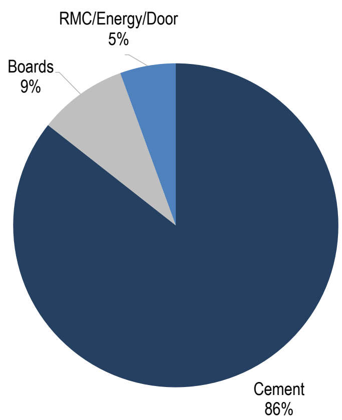
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue break-up, Q1 FY23, by segment



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.

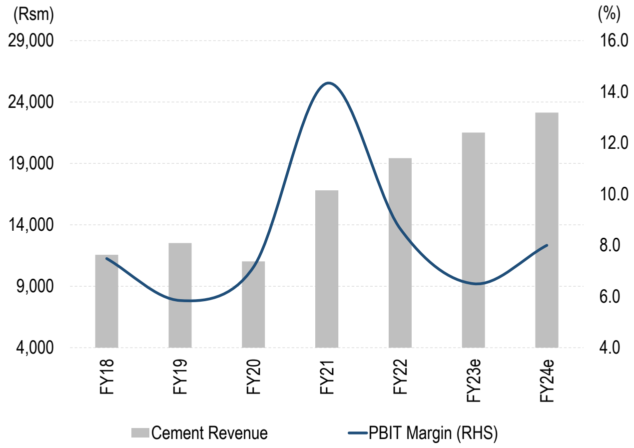
NCL has a wide distribution network in the country, with more than 2,240 cement dealers and 350 distributors for boards.

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.

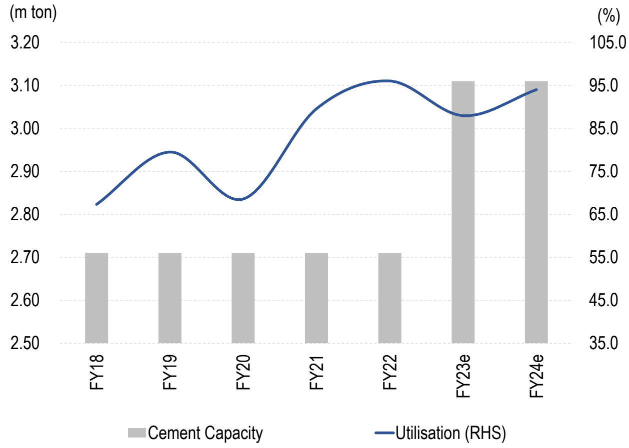
In Q1 FY23, its cement revenue declined 2.7% y/y to ~Rs4.8bn. Cement sales volumes stepped down 13.6% y/y to 0.6m tons, though net realisations climbed ~7% y/y. The PBIT margin declined to 5% (from 12.5% a year ago) due to higher costs.

Fig 7 – Revenue and PBIT margins (cement)



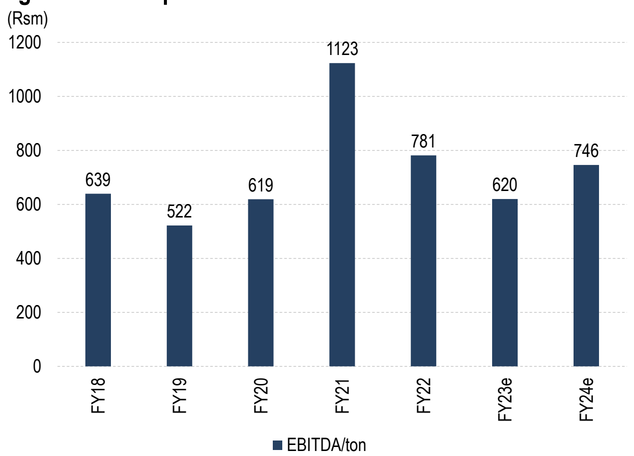
Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation (cement)



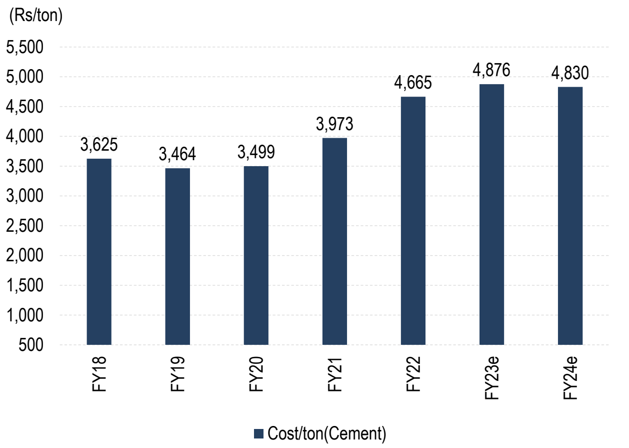
Source: Company, Anand Rathi Research

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



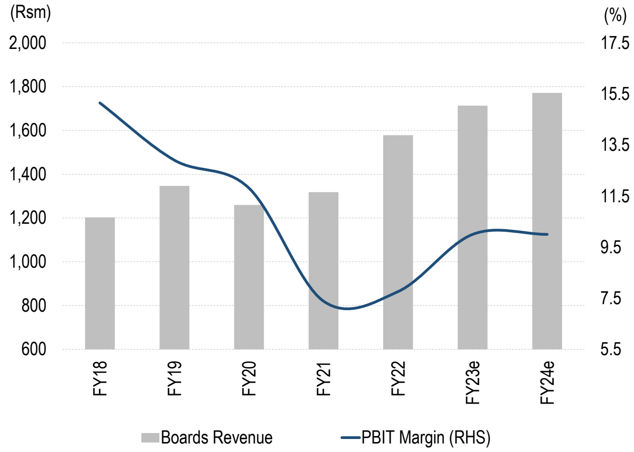
Source: Company, Anand Rathi Research

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. Bison boards are manufactured at two plants: Mattampally (Telangana) and Paonta Sahib (HP), combined capacity being 90,000tpa.

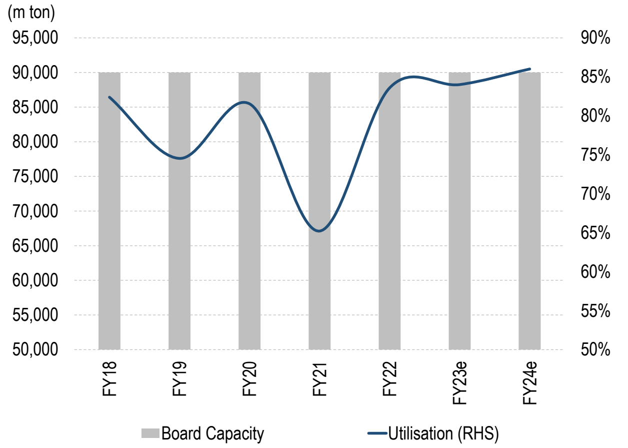
During Q1 FY23, the Boards division revenue grew 123% y/y on an 11% y/y rise in realisations and a 102% y/y rise in sales volumes to 21,466 tons. The division reported Rs50m PBIT vs a Rs13m PBIT loss a year ago.

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 Srisailam 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 FY23, the RMC division's revenue dropped 20.5% y/y to Rs246m. The Energy division reported a PBIT loss of Rs8m (vs a Rs9m loss in a year back); the RMC division reported a PBIT loss of Rs7m (vs a Rs7m PBIT a year ago).

The Readymade Door Division

In collaboration with AGT, a Turkey-based global manufacturer with advanced technology in the wood industry, NCL Industries set up a 200,000 sq.ft. factory at Malkapur, Hyderabad. The readymade door division commenced commercial operations on 23rd Dec'19. It has capacity to produce 1,000 doors a day.

In Q1 FY23, the door division revenue grew 36.4% y/y to Rs67m but the division reported a Rs22m PBIT loss vs a Rs23m loss a year back.

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	Q4 FY22	Q1 FY23	% Y/Y	% Q/Q
Sales	2,106	2,469	2,609	3,481	3,695	4,052	4,030	4,154	3,696	4,454	3,907	*(3.1)*	*(12.3)*
EBITDA	261	225	644	804	717	660	679	616	366	413	327	*(51.8)*	*(20.8)*
EBITDA margins (%)	*12.4*	*9.1*	*24.7*	*23.1*	*19.4*	*16.3*	*16.8*	*14.8*	*9.9*	*9.3*	*8.4*	*-847bps*	*-90bps*
EBITDA per ton (Rs)	353	410	1,385	1,305	1,059	838	1,016	863	654	559	544	*(46.5)*	*(2.7)*
Interest	81	75	68	51	45	41	60	59	64	60	65	*8.7*	*8.8*
Depreciation	108	99	100	102	102	104	111	111	111	112	109	*(1.6)*	*(2.3)*
Other income	(14)	23	5	15	14	32	13	29	24	46	35	*167.0*	*(23.7)*
PBT	58	74	480	665	585	548	521	475	215	287	188	*(63.9)*	*(34.6)*
Tax	3	(3)	161	236	169	225	176	163	63	114	63	*(64.2)*	*(44.6)*
PAT	54	77	320	429	416	322	345	312	152	173	125	*(63.8)*	*(28.1)*

Source: Company, Anand Rathi Research

Fig 14 – Details, segment-wise

(Rs)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	% Y/Y	% Q/Q
Net revenue													
Cements	2,406	2,935	3,464	4,347	4,397	4,606	4,952	4,872	4,379	5,222	4,819	*(2.7)*	*(7.7)*
Boards	311	315	171	290	385	472	223	424	436	496	497	*123.1*	*0.3*
Energy	44	9	-	24	39	13	-	31	32	13	-	*NA*	*NA*
RMC	235	197	108	212	314	379	309	310	283	298	246	*(20.5)*	*(17.4)*
Doors	1	14	10	27	41	40	49	63	68	82	67	*36.4*	*(18.6)*
Segment PBIT													
Cement	58	127	589	722	579	519	619	494	274	294	240	*(61.2)*	*(18.2)*
Boards	32	44	(8)	6	34	65	(13)	49	24	63	50	*(492.5)*	*(19.8)*
Energy	35	2	(7)	15	29	4	(9)	21	18	5	(8)	*NA*	*P2L*
RMC	16	10	(1)	9	21	26	7	(1)	(3)	5	(7)	*P2L*	*NA*
Doors	(0)	(33)	(24)	(36)	(34)	(26)	(23)	(30)	(35)	(19)	(22)	*NA*	*NA*
PBIT margins (%)													
Cement	*2.4*	*4.3*	*17.0*	*16.6*	*13.2*	*11.3*	*12.5*	*10.1*	*6.2*	*5.6*	*5.0*	*-752bps*	*-64bps*
Boards	*10.4*	*13.9*	*(4.6)*	*2.2*	*8.8*	*13.8*	*(5.7)*	*11.4*	*5.6*	*12.6*	*10.1*	*1582bps*	*-253bps*
Energy	*80.3*	*17.3*	*NA*	*62.2*	*73.0*	*29.3*	*NA*	*68.7*	*58.4*	*37.3*	*NA*	*NA*	*NA*
RMC	*6.7*	*5.0*	*(1.1)*	*4.1*	*6.7*	*7.0*	*2.1*	*(0.2)*	*(1.0)*	*1.8*	*(3.0)*	*P2L*	*NA*
Doors	*(3.5)*	*(232.8)*	*(252.8)*	*(132.0)*	*(83.5)*	*(65.0)*	*(47.5)*	*(46.8)*	*(51.3)*	*(23.2)*	*(33.0)*	*NA*	*NA*

Source: Company, Anand Rathi Research

Valuation

At the CMP, the stock trades at an EV/EBTIDA of 4.4x and an EV/ton of $37 on FY24e. We retain our Buy rating, at a target price of Rs240, based on 5.5x FY24e EV/EBITDA.

Change in estimates

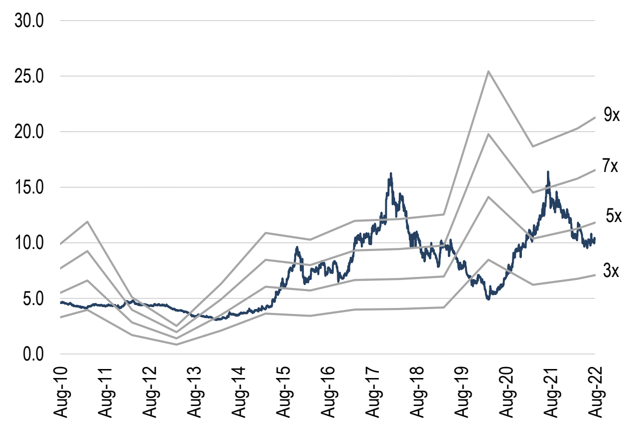
We raise our FY23e/FY24e revenues 4.6%/4.4%. We reduce EBITDA 17%/6.5% and PAT 22%/7.8%.

Fig 15 – Change in estimates

	Old		New		Change (%)	
(Rs m)	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Sales	17,287	18,587	18,079	19,399	*4.6*	*4.4*
EBITDA	2,254	2,528	1,865	2,363	*(17.3)*	*(6.5)*
PAT	1,057	1,244	825	1,147	*(22.0)*	*(7.8)*

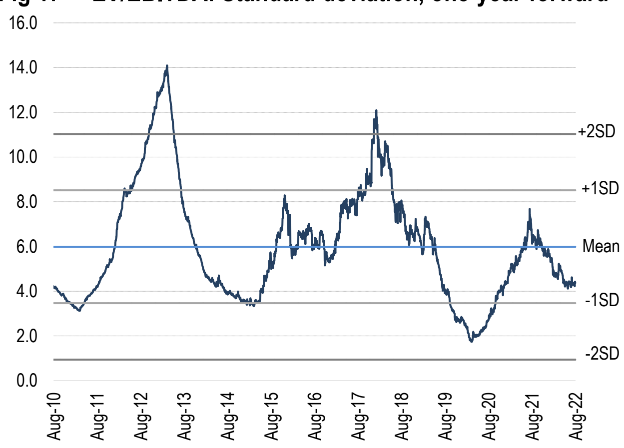
Source: Anand Rathi Research

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
- Rising coal/diesel prices

Fig 18 – Peer comparison - Valuations

	CMP	P / E (x)		EV / EBITDA (x)		EV / ton ($)	
	(Rs)	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e
NCL Industries	**180**	**9.9**	**7.1**	**5.9**	**4.4**	**40**	**37**
Birla Corp.	967	16.2	10.8	8.5	6.5	62	54
Ramco Cement	745	36.6	26.3	17.1	13.4	131	128
Dalmia Bharat	1,555	37.7	28.0	11.1	9.1	83	70
Deccan Cement	516	9.4	8.3	5.3	5.6	39	49
Heidelberg Cement	192	16.1	13.6	8.7	7.0	76	65
India Cement	209	NA	32.6	24.4	13.8	76	75
JK Cement	2,662	26.3	22.5	14.5	13.0	181	179
JK Lakshmi	470	13.6	12.6	6.6	6.0	59	55
Mangalam Cement	339	13.6	9.5	6.1	4.7	38	35
Orient Cement	118	11.6	8.9	5.8	5.3	43	50
Prism Johnson	127	30.6	21.2	11.6	9.4	89	85
Sagar Cement	213	55.9	18.5	10.1	6.8	54	50
Sanghi Industries	54	NA	34.5	12.2	9.4	58	56
Star Cement	94	19.6	17.5	9.6	9.2	89	74

Source: Anand Rathi Research

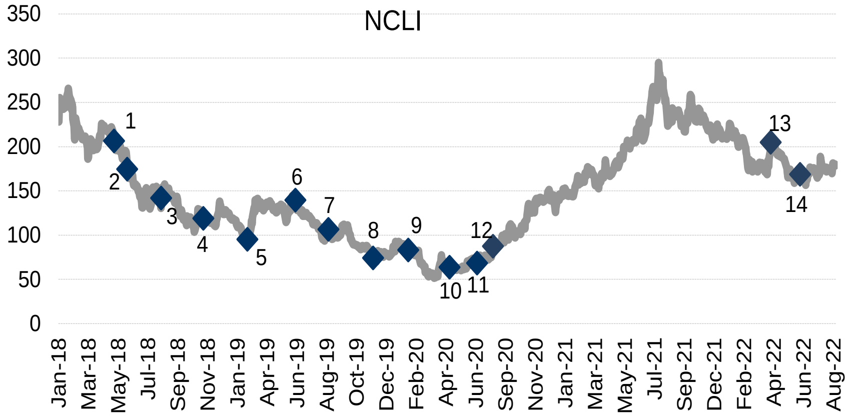
Appendix

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 24 August 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	3-May-18	**Buy**	357	240
2	2-Jun-18	**Buy**	320	198
3	14-Aug-18	**Buy**	258	155
4	14-Nov-18	**Buy**	185	130
5	18-Feb-19	**Buy**	173	103
6	3-Jun-19	**Buy**	218	151
7	14-Aug-19	**Buy**	200	119
8	19-Nov-19	**Buy**	137	83
9	4-Feb-20	**Buy**	131	88
10	4-May-20	**Buy**	91	69
11	3-Jul-20	**Buy**	108	72
12	19-Aug-20	**Buy**	136	92
13	1-Apr-22	**Buy**	264	187
14	3-Jun-22	**Buy**	242	167

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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