Nuvoco Vistas

Strengthening its leadership position

We initiate coverage on Nuvoco Vistas (Nuvoco) with a BUY rating and a target price of INR 827/share (11x its consolidated Sep'23E EBITDA). The company has grown inorganically to become the sixth largest cement company in India and has consolidated its leadership position in the east. A large retail presence in the high-growth east region buoyed its operating margin during FY20-21. It should further expand to INR 1,177/MT in FY23E, riding on cost initiatives and synergy benefits from the integration of the recently acquired NU Vista (erstwhile Emami Cements). The recently concluded IPO has also firmed up Nuvoco's balance sheet. We expect strong cash flow to help accelerate the company's Karnataka expansion plan. Asset sweating and leverage reduction should bolster return ratios.

- **Nuvoco emerges a major player and regional leader in east:** Nuvoco soared to become the sixth largest player in India through two mega acquisitions in the east – Lafarge Cement (India) in 2016 and NU Vista (Emami Cement before the acquisition) in 2020. These moves consolidated its position as one of the top-3 sellers in the eastern region. Nuvoco's *Duraguard* and *Concreto* brands have enjoyed premium positioning in the east for a long time.
- **Multiple triggers to bolster operating margin:** Nuvoco has recently added WHRS and is also expanding its CPPs, to bolster its low-cost power consumption share to ~70% from 50% in FY21, adding ~INR 50/MT in cost savings. The integration of the recently acquired NU Vista into Nuvoco, along with focus on further expanding its blended cement production ratio, is expected to unlock another ~INR 200/MT of unitary EBITDA by FY23E. These moves alongwith healthy pricing should drive up consolidated unitary EBITDA by ~INR 235/MT by FY23E, despite factoring in fuel cost inflation and the impact of accelerated capacity additions by competitors.
- **Balance sheet back in shape, post IPO:** Nuvoco's leverage ratio got stretched, owing to the two mega acquisitions. However, with large INR 15bn equity infusion from the just concluded IPO, strong operating cash flow outlook, and lower Capex outgo, we estimate its net debt/EBITDA to cool off to below 1x FY23E onwards vs ~4x during FY17-21. We estimate its debt reduction to continue despite its ongoing 8/15% clinker/cement expansion by FY23E and despite factoring in Capex acceleration towards the Karnataka greenfield plant by late FY25E.
- **Initiate coverage with a BUY rating:** We like Nuvoco for its balance sheet turnaround after two mega acquisitions and robust operating performance, led by structural revenue and cost triggers. We initiate coverage on the stock with a BUY rating and target price of INR 827/sh (11x its Sep'23E consolidated EBITDA). In our view, Nuvoco's continued strong performance should drive valuation multiple rerating.

Consolidated Financial Summary

YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	51,570	66,524	70,521	67,932	74,888	103,406	121,974	128,740
EBITDA	7,284	10,663	9,177	12,971	14,605	23,232	28,043	28,257
APAT	1,835	875	(265)	2,493	(259)	5,907	10,634	11,651
Diluted EPS (Rs)	12.2	5.8	(1.3)	10.3	(0.8)	16.5	29.8	32.6
EV / EBITDA (x)	31.7	22.0	25.5	17.9	17.9	9.7	7.8	7.5
EV/MT (Rs bn)	21.3	17.4	17.2	16.6	11.7	9.5	8.8	8.5
RoE (%)	*4.5*	*2.0*	*(0.5)*	*4.9*	*(0.4)*	*6.7*	*10.0*	*10.0*

Source: Company, HSIE Research

BUY

CMP *(as on 17 Sep 2021)*	**INR 539**
Target Price	**INR 827**
NIFTY	**17,585**

KEY STOCK DATA	
Bloomberg code	NUVOCO IN
No. of Shares (mn)	357
MCap (INR bn) / ($ mn)	192/2,585
6m avg traded value (INR mn)	-
52 Week high / low	578/471

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	-	-	-
Relative (%)	-	-	-

SHAREHOLDING PATTERN (%)

	17 Aug-21
Promoters	71.0
FIs & Local MFs	13.0
FPIs	8.9
Public & Others	7.1
Pledged Shares	-

Source : BSE

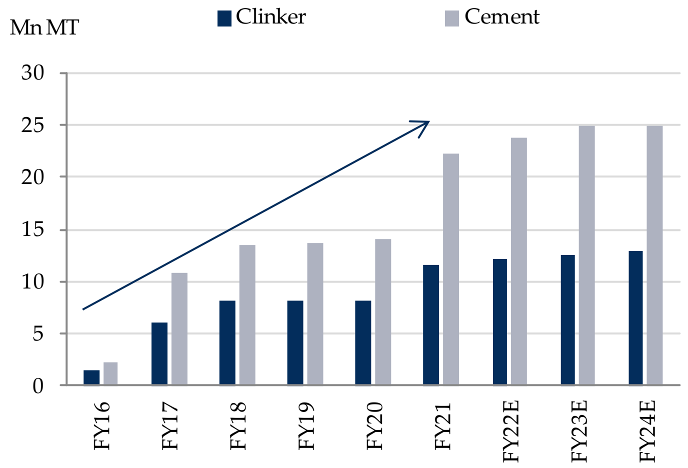
Pledged shares as % of total shares

Rajesh Ravi
rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti
keshav.lahoti@hdfcsec.com
+91-22-6171-7353

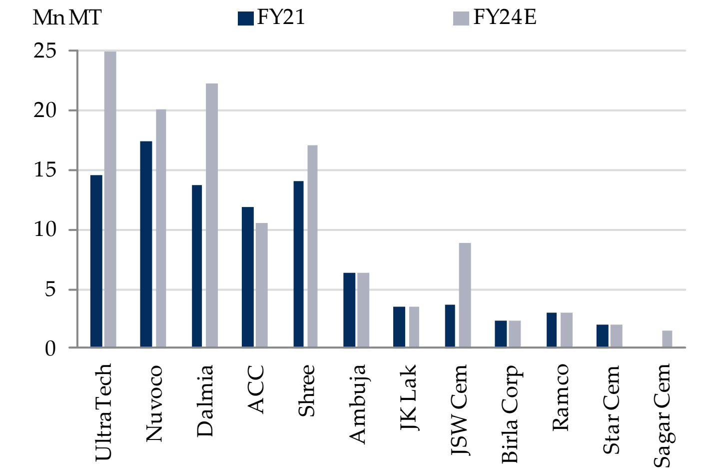
Focus Charts

Nuvoco Vistas grows at a fast pace inorganically, to become sixth largest cement company in India



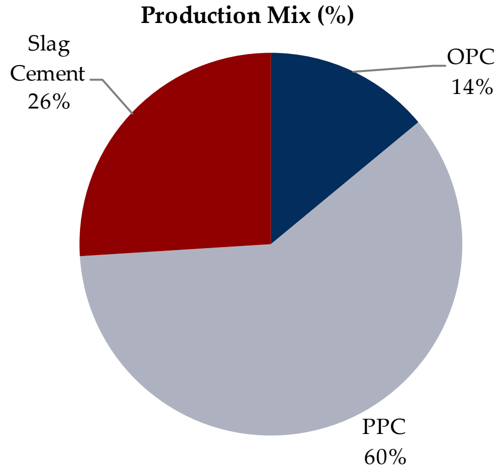
Source: Company, HSIE Research

Currently the largest in the eastern region; expect it to remain in top-3, despite major expansion by peers



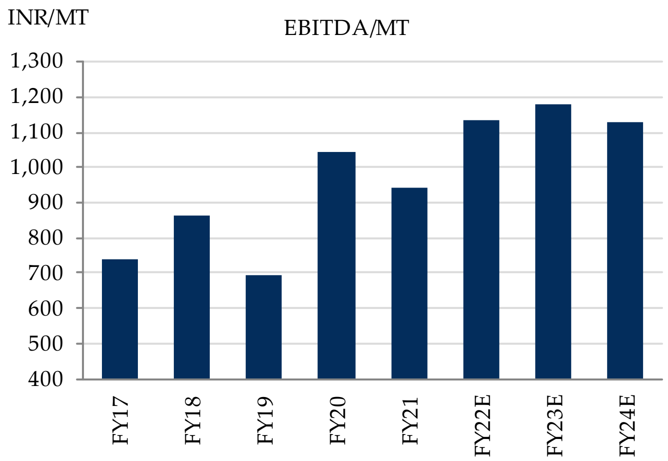
Source: Company, HSIE Research

Large portfolio of blended cement including high share of slag-based one drives C:C ratio to 1.74x (FY21)



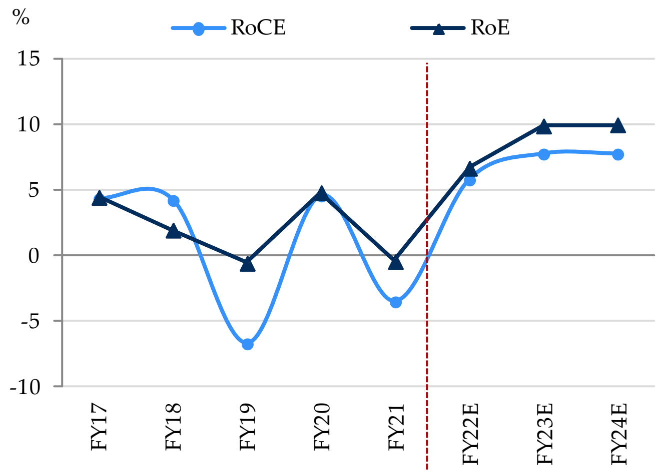
Source: Company, HSIE Research

We expect operating margin to continue to expand, led by cost reduction efforts and synergy benefits



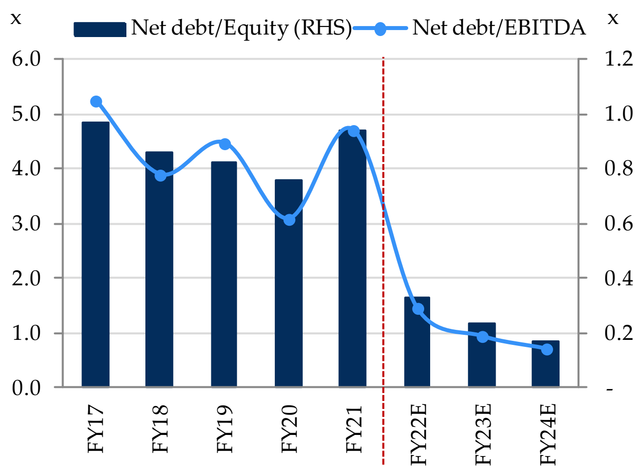
Source: Company, HSIE Research

Asset sweating and margin expansion should bolster return ratios



Source: Company, HSIE Research

Robust cash flow and IPO proceeds should strengthen balance sheet

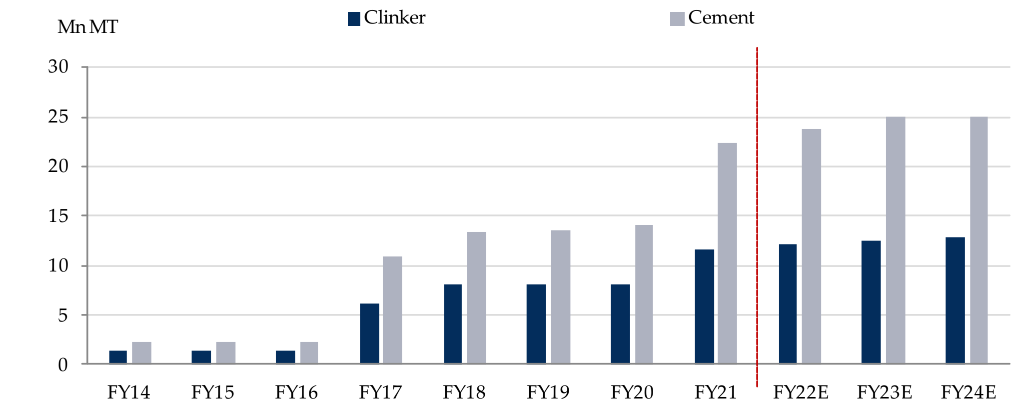


Source: Company, HSIE Research

Leadership presence in the eastern markets

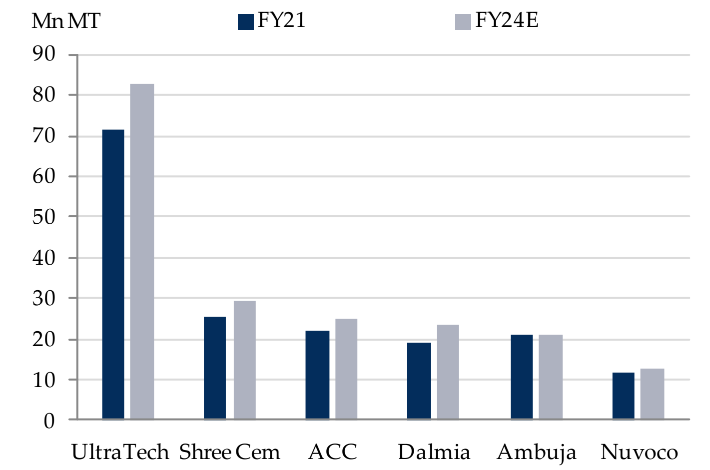
Nuvoco Vistas Corp. Ltd is promoted by Mr Karsanbhai Patel (the promoter of FMCG major Nirma Ltd) and is headquartered in Mumbai. The company grew at a fast pace, owing to mega acquisition of Lafarge Holcim in 2016 and NU Vista (formerly Emami Cement Ltd) in 2020. With a consolidated cement capacity of 23.8mn MT currently (end of 1QFY22), Nuvoco has become the sixth largest cement company in India. Its capacity is spread across east and north regions. About 80% of its capacity is located in the east and the rest in the north. Its cement sales are spread across the east (~75%), north (~20%), and central (~5%) regions.

Nuvoco Vistas grows at a fast pace to become sixth largest



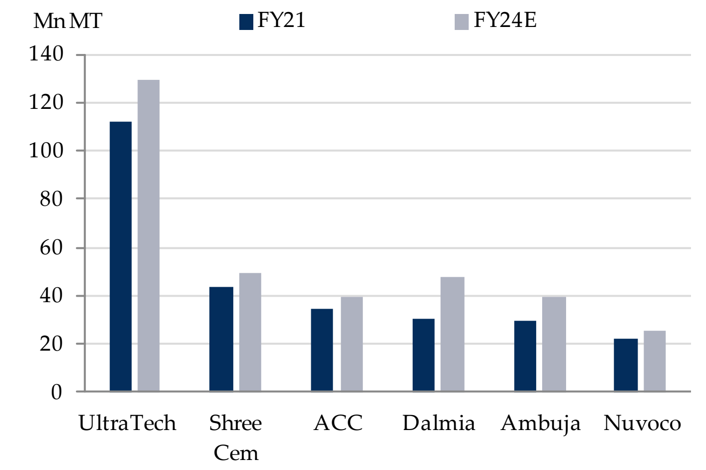
Source: Company, HSIE Research

Nuvoco has the sixth largest clinker capacity in India and is expected to retain its position in FY24



Source: Company, HSIE Research

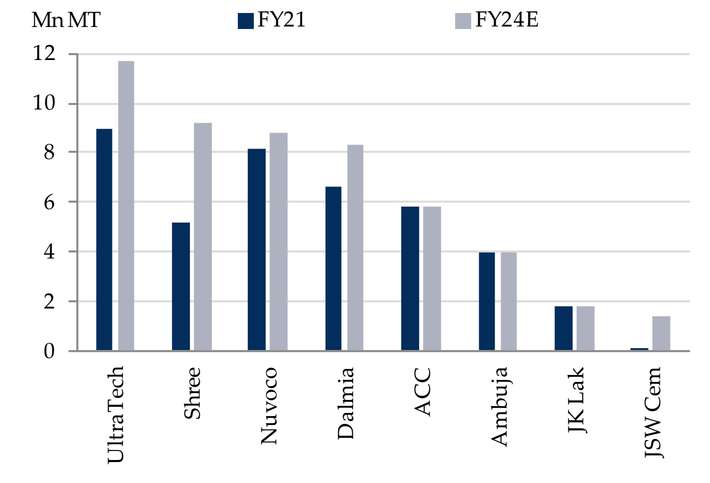
Even on cement capacity basis, it will remain the sixth largest company in India



Source: Company, HSIE Research

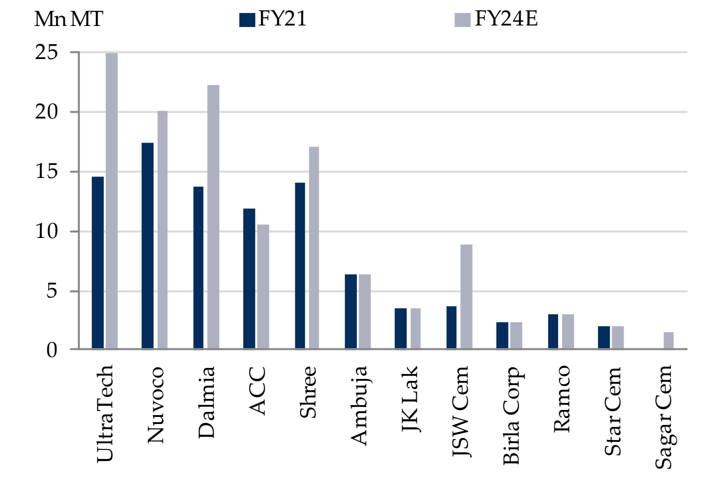
On a consolidated basis, Nuvoco has the largest cement capacity in the eastern region. In terms of clinker, it has the second largest capacity in the region, a tad below UltraTech's. Despite UltraTech, Shree and Dalmia expanding capacities at a fast pace, Nuvoco will remain among the top-3 companies in the eastern region. In the northern region, Nuvoco has a relatively smaller presence with 4.9mn MT of cement capacities located in Rajasthan and Haryana.

Of all the clinker capacities in east (ex-NE region), Nuvoco is among the top-3 companies in the region



Source: Company, HSIE Research

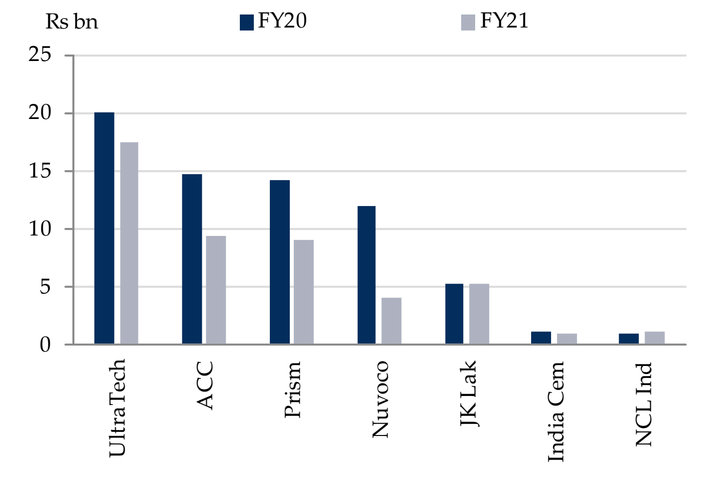
Even on cement capacity basis, it will be among the top-3 players (with presence in all the states ex-NE region)



Source: Company, HSIE Research

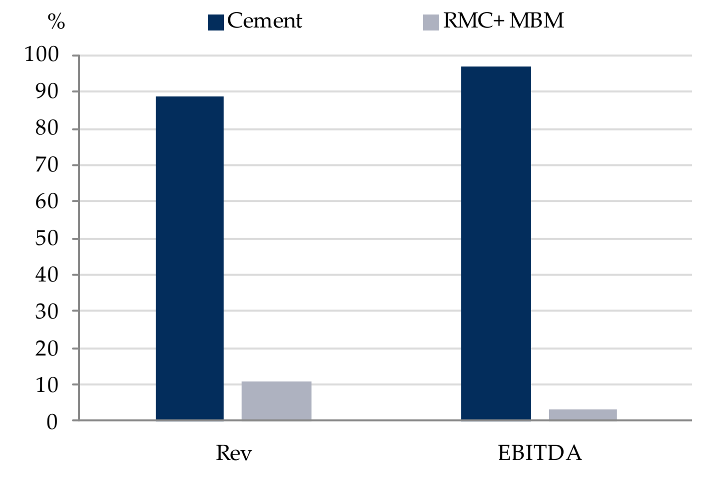
Nuvoco is also a pan-India player in the RMC segment (fourth largest) with segmental revenue of ~INR 11bn (FY20). It is also expanding in the Modern Building Materials (MBM) segment, whereby it sells construction chemicals, multipurpose bonding and waterproofing agents, wall putty, tile adhesives, Ready Mix Dry Plaster and Cover Blocks. The RMC and MBM businesses together comprise ~12/2% of Nuvoco's consolidated revenue/EBITDA.

Nuvoco fourth largest RMC player in India



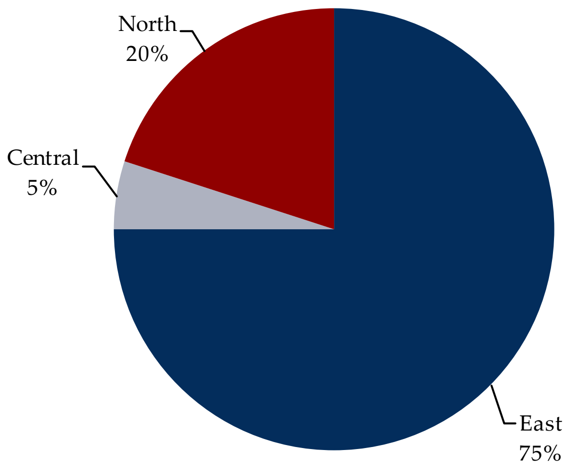
Source: Company, HSIE Research, RMC includes other related revenues

Cement sales form ~88% of consolidated revenue and ~98% of consolidated EBITDA



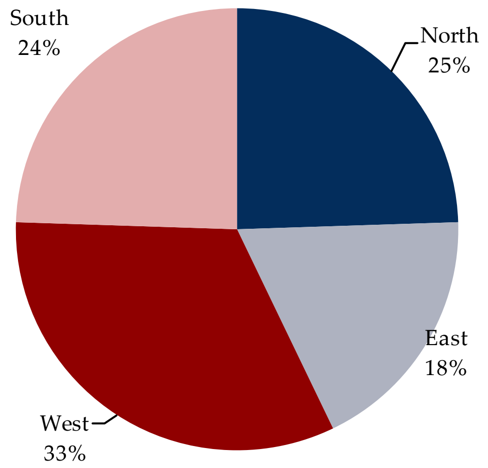
Source: Company, HSIE Research

Nuvoco's cement sales – regional split (FY21)



Source: Company, HSIE Research

Nuvoco's RMC plants are spread across India (FY21)

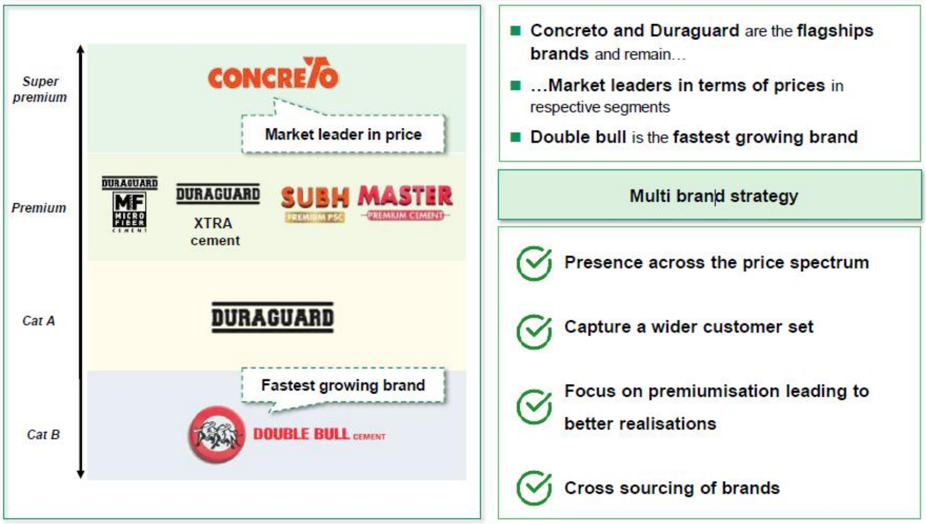


Source: Company, HSIE Research

Nuvoco's overall trade sales stood at ~76% in 1QFY22. In the north, trade sales comprised 70% of total sales volume. In the eastern region, Nuvoco (standalone entity) sold ~80% in trade and the acquired Nu Vista (earlier Emami Cement) sold ~70% in trade. The *Duraguard* and *Concreto* brands (acquired along with Lafarge) enjoy a strong brand positioning in the region, leading to high retail sales share. Even Emami Cement could establish its *Double Bull* brand among tier-1 brands in the Chhattisgarh market.

As Nuvoco is integrating Nu Vista with the standalone entity, it launched *Double Bull* brand as a separate retail channel in the north, and *Concreto* brand in Odisha and various slag-cement brands in the east to increase its overall trade sales share. Over next two years, the company expects to expand its overall trade sales share to ~83%. Nuvoco is also uniquely present in all states of the eastern region (excluding NE region), thus giving it better access to quality distribution across east markets. This also helps it to be agile in its customer reach and with its finished-goods inventory.

Nuvoco has multiple brands across the price spectrum



Source: Company, HSIE Research

Business integration and key infrastructure

Limestone: Nuvoco has more than 30 years of limestone reserves across all its plant locations in the north and east regions. At its Nimbol plants, the current limestone capacity can last for the next 12 years. However, the company intends to participate in upcoming actions (of new mines) in the region to augment its limestone capacity.

Power infrastructure: The company has five integrated plants across Rajasthan and Chhattisgarh. In the past two years, it has added thermal and WHRS capacities across these five locations, leading to 105MW of CPP and 45MW of WHRS. These currently account for 30% and 20% of Nuvoco's total electricity requirements. Nuvoco is also commissioning another 46MW of CPP across its Chhattisgarh integrated unit and Jharkhand grinding unit, thereby augmenting its total power capacity to 196MW, thus meeting ~70% of its total electricity requirements.

Logistics details for various raw materials

Locations	Plant Type	FY21 Cement Capacity (mn MT)	Limestone Lead distance (km)	Clinker lead Distance (km)	Flyash lead Distance (km)	Slag lead Distance (km)	Railway sidings
Nimbol (Rajasthan)	IU	2.30	4-10		300-480	NA	No
Chittorgarh (Rajasthan)	IU	2.10	0.5-6		120-600	NA	Yes
Sonadih (Chhattisgarh)	IU	0.65	2-2.5		70-150	NA	Yes
Arasmeta (Chhattisgarh)	IU	1.89	3-45		45-100	NA	Yes
Risda (Chhattisgarh)	IU	3.00	2		110-150	120	No
Mejia (West Bengal)	SGU	1.65		620-690	1-2	NA	Yes
Panagarh (West Bengal)	SGU	2.50		800	30-65	32-180	Yes
Jojobera (Jharkhand)	SGU	4.95		450-530	1-2	10-350	Yes
Bhabua (Bihar)	SGU	0.80		600	115-220	NA	No
Jajpur (Odisha)	SGU	2.00		600	NA	12-180	No
Bhiwani (Haryana)	BU*	0.50		450-550	Nearby	NA	No

Source: Company, HSIE Research, BU* = Blending Unit

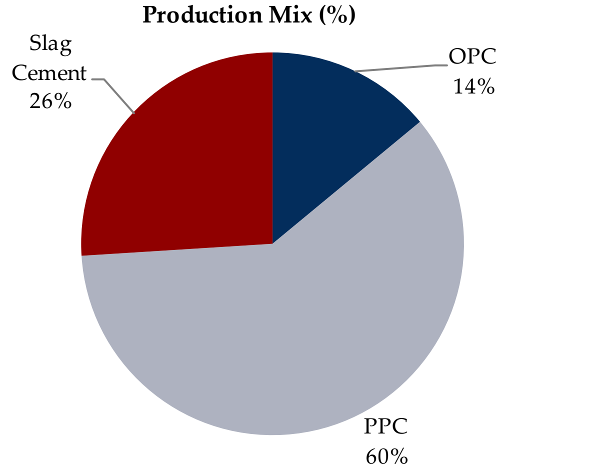
Raw material sourcing: Nuvoco manufactures OPC, PPC, slag and composite types of cements. In the north, it manufactures and sells OPC and PPC. In the eastern region, Nuvoco sells all types of cement, owing to close proximity of both flyash and slag. As Nuvoco's plants are spread across all states in the eastern region, flyash is largely available at less than 150kms. Its Jojobera (Jharkhand) and Mejia (West Bengal) grinding units are at < 2kms distance from thermal power plants. Its Panagarh (West Bengal) plant also has < 50km lead distance for flyash sourcing. In the north, Nuvoco's flyash lead distance ranges between 120-600kms.

Nuvoco manufactures slag cement at four out of eight plants in the east. Most of its slag requirements are sourced from plants located at < 180kms. It has a long-term (~20 years) supply arrangement for ~2.1mn MT at a pre-determined rate (lower than spot market price) and another 0.5mn MT at market price, adding further to its cost competitiveness.

Logistics: In the eastern region, Nuvoco's plants are located in all states (excluding NE region). This makes it a "local" company in all the states, enhancing its distribution capabilities in the east. Nuvoco also has railway connectivity across six out of its 11 plants, which it uses for movement of raw material, fuel and cement. The business integration of Nu Vista with Nuvoco will also bring down its overall lead distance.

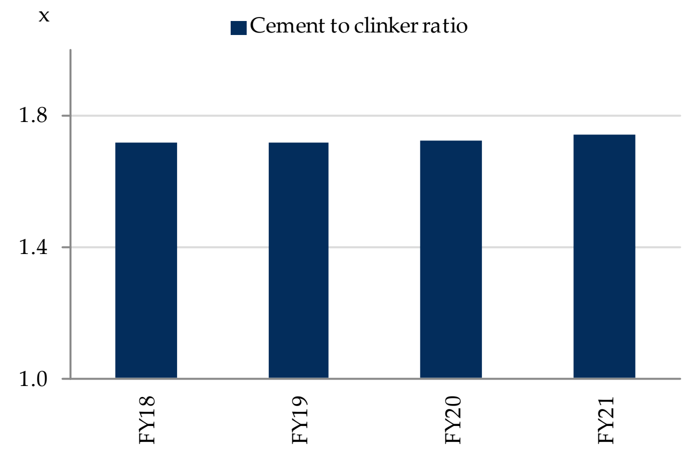
High blending ratio: Nuvoco's cement to clinker produced ratio is high at ~1.74x (FY21), owing to the company producing high share of slag-based cement (PSC and composite cements) in the eastern region. In this region, it produces slag-based cement at four out of eight plants, owing to access to slag at low lead distance. Nuvoco expects to expand its cement to clinker ratio to ~1.9x, owing to further ramp-up in production of slag and composite cements.

Nuvoco produces a large share of slag cement…



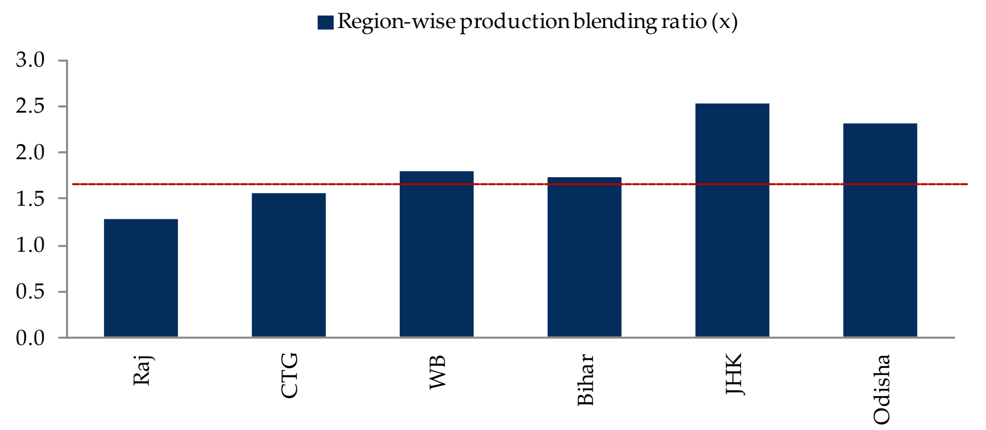
Source: Company, HSIE Research

…which leads to its high cement to clinker ratio



Source: Company, HSIE Research

Nuvoco's plants in Odisha and Jharkhand have >2x blending ratio, owing to more of slag cement production there



Source: Company, HSIE Research

Multiple margin triggers

Nuvoco expects to bolster its operating margin by ~INR 250/MT during FY22/23E through various triggers as follows: (1) major synergy benefits from the successful integration of NU Vista with Nuvoco; (2) electricity cost savings from the ramp-up of WHRS and CPPs; (3) increase in blending ratio and production ramp-up. The company expects ~ INR 150/MT to accrue in FY22E and the rest in FY23E.

Premiumisation and incentives: Nuvoco is increasing composite cement production across its plants in the eastern region. In the northern region, it has also launched the *Double Bull* brand in the trade segment under a separate channel. This is done to capitalise on the market share opportunities which Nuvoco could not capture with its existing brands. Nuvoco also launched its *Concreto* brand in Odisha from the NU Vista plant. These moves will increase Nuvuco's blended cement sales and share of trade sales as well, thereby improving its cement realisation by ~INR 70/MT. Further, the company's capacity expansion in Jharkhand (1.5mn MT) will increase its total incentives by ~ INR 25/MT (to ~INR 70/MT).

Lead distance reduction: With the integration of NU Vista, Nuvoco intends to bring down the overall lead distance from ~390km to ~350km through cross manufacturing of brands at its various factories. Nuvoco is also reorganising clinker logistics for its grinding units in the east, thus lowering its clinker movement cost. Cumulatively, these initiatives will reduce its operating costs by ~INR 50/MT.

Fixed cost reduction and economies of scale: Nuvoco is targeting to reduce its operating costs by another ~INR 50/MT by cutting down on overlapping costs, combining sourcing of raw material and fuel, bringing in economies of scale, and incorporating best practices across both the companies.

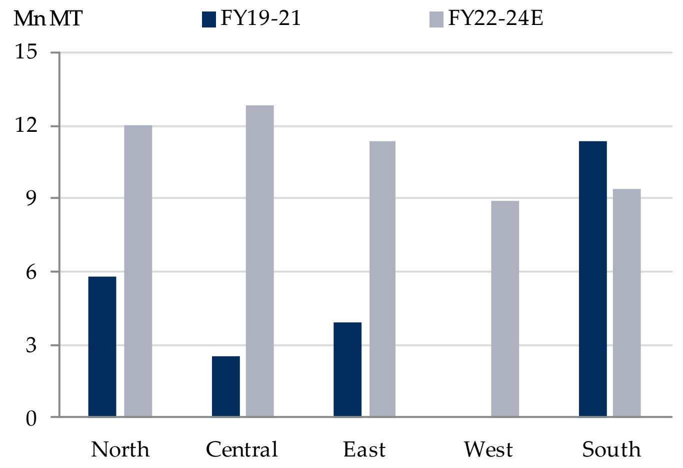
WHRS and CPP ramp-up: With the addition of 46MW CPPs at Jojobera and Arasmeta and ramp-up of its WHRS plants, the share of captive (and low cost) power share will increase to ~70% vs ~50% in FY21. This should aid ~INR 55/MT opex reduction on total basis.

Industry to consolidate; regional leaders drive expansion

For FY22-24E, we estimate the pace of capacity addition to accelerate across all regions. As against 54mn MT grinding capacity addition during FY19-21, we estimate that 94mn MT would be added across India during FY22-24E. Some of the expansions due in FY21 have got postponed to FY22E due to the emergence of COVID. Even clinker expansion is expected to more than double from 24mn MT (in FY19-21) to 54mn MT (in FY22-24E). As the top-5 players are aggressively expanding capacities, we estimate their cement capacity share would expand from 47.5% in FY21 to 49% in FY24E, thus accelerating industry consolidation.

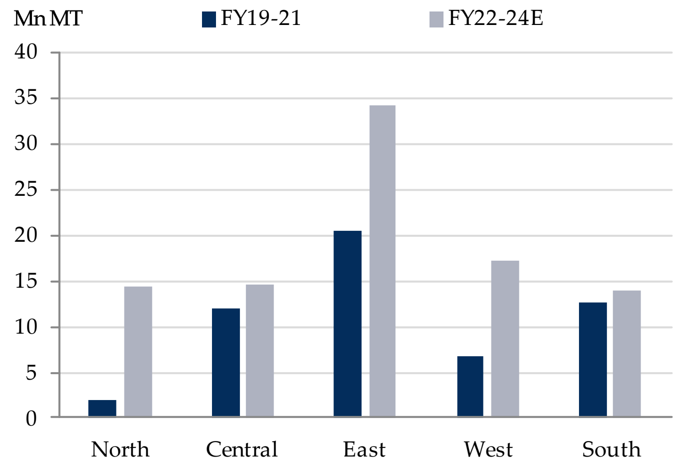
We estimate the north and eastern regions to account for ~21% each of the total clinker capacity addition during FY22-24E. Similarly, we estimate the north and eastern regions to account for 16/37% of total grinding additions in this period.

New clinker addition during FY22-24E to outpace the addition in the preceding three years



Source: Industry, HSIE Research

Even grinding capacity addition by the industry is expected to be large during FY22-24E

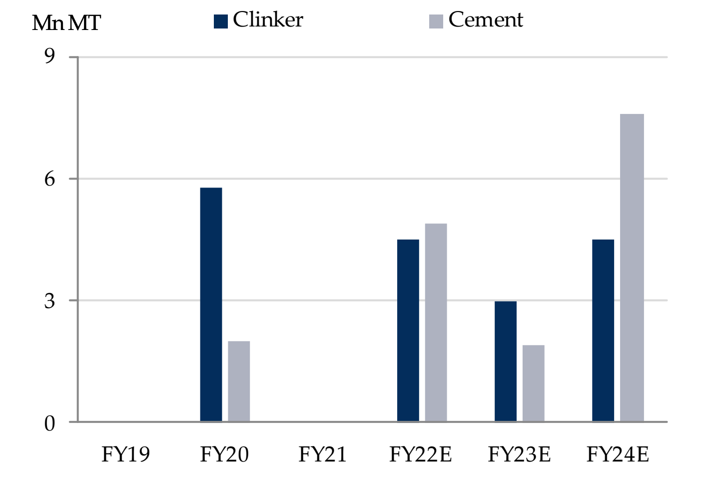


Source: Industry, HSIE Research

In the clinker-starved eastern region, there is no clinker expansion during FY22E, which should keep pricing buoyant amidst strong demand. Even during FY23-24E, the top-3 companies are driving clinker addition, which should accelerate regional consolidation. However, as other players also expand their distribution in the eastern region (Ramco Cements, Chettinad Cement, JSW Cement, Sagar Cement, and Star Cement), we believe major price hikes (FY23E onwards) in the east would be difficult.

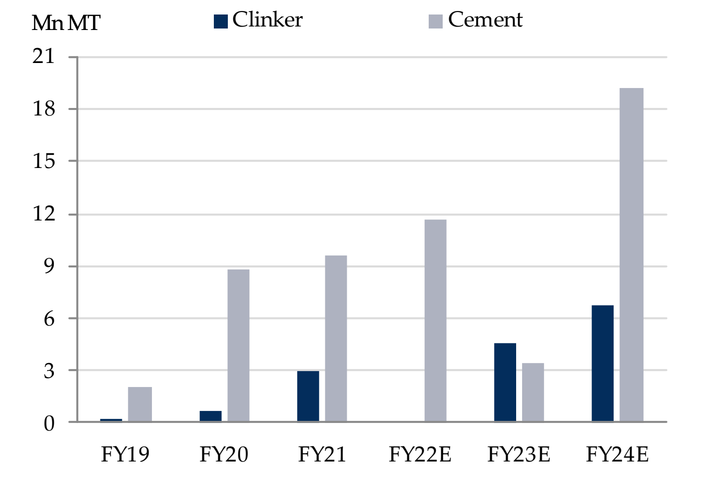
In the northern region too, except for the new entrant Penna Cements (expected to be operational not before late FY24E), major clinker expansion is being led by the incumbent regional leaders - UltraTech and Ambuja - which should accelerate market consolidation. Even JK Lakshmi's brownfield expansion should not be operational before the end of FY24E. Similarly, the greenfield expansion by Shree Cement in Rajasthan is expected to be commissioned by the end of FY24E. Thus, we expect regional pricing to remain stable at current buoyant levels.

New capacity addition in the northern region (FY19-24)



Source: Industry, HSIE Research

New capacity addition in the eastern region (FY19-24)

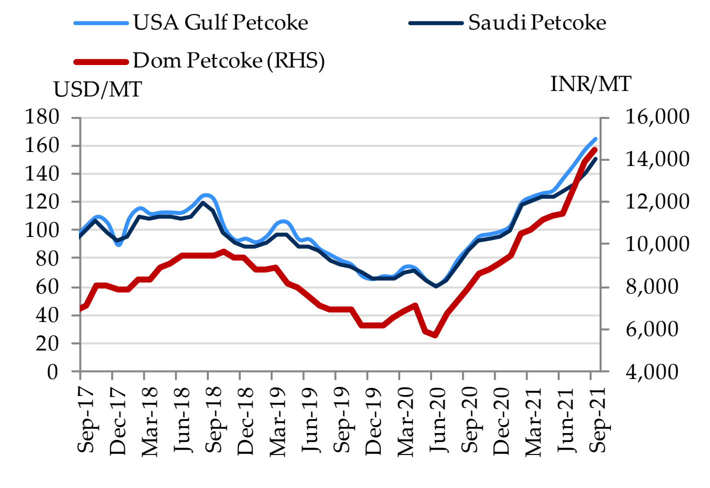


Source: Industry, HSIE Research

Rising fuel prices to inflate energy costs

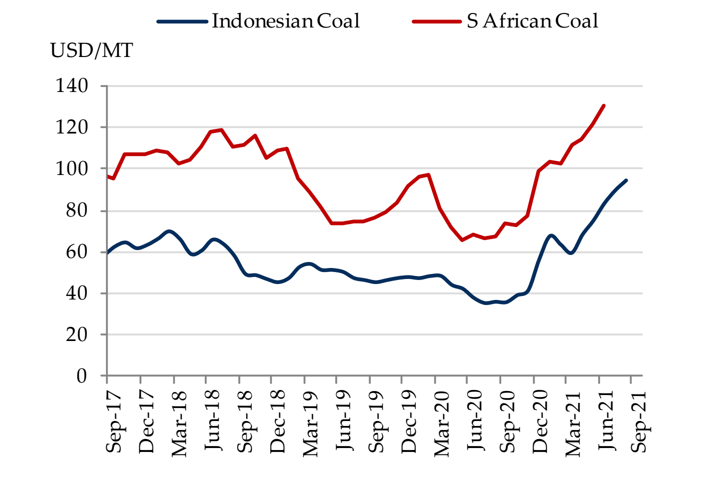
Fuel prices are on an upswing since early FY21, having scaled beyond their previous highs. From the lows of Jun'20 price levels, pet coke prices (domestic and imported) have surged by 150% currently. Imported coal price has also surged at a faster pace – Indonesian coal and South African coal prices have trebled and doubled from their lows in 2020. This has started to impact companies' energy costs – mainly 4QFY21 onwards. As cement companies have been continuously importing fuel (thus building inventory for 2-3 months) at all price levels and owing to rising consumption of domestic coal (slower cost rise vs imported coal), the inflationary impact on companies' energy prices has been gradual. We expect unitary energy cost to continue to rise during FY22E (at least) and remain elevated in FY23E.

Petcoke prices soar >150% from the lows of last year



Source: Industry, HSIE Research

Imported coal prices double from lows of last year



Source: Industry, HSIE Research

Operational trends and assumptions

For FY21-24E, we estimate Nuvoco's consolidated cement volume would grow at 15% CAGR, riding on production ramp-up across both the east and north and owing to the low base of FY21 (FY21 numbers include only 8.5 months of NU Vista's sales). We build in NSR to rise by 5% in FY22E, owing to decent demand and less impact from new capacity addition during FY21/22E. However, we expect the accelerated pace of capacity addition across north, central and east regions to subdue pricing uptick. Subsequently, we model in flattish NSR growth for FY22-24E. We estimate unitary opex would grow at a modest 1% CAGR, as we expect various cost reductions (as elaborated earlier) to moderate the impact of soaring fuel and diesel prices. We estimate Nuvoco's unitary EBITDA to expand by ~INR 235/MT by FY23E to INR 1,177/MT. We build in slight margin compression in FY24E to INR 1,130/MT, owing to pressure on realisation (amidst the expected increased competitive pressure in FY24E).

Nuvoco had scaled down its RMC business in FY21 as it exited various non-profitable markets. This led to its RMC revenue falling 66% YoY in FY21. However, the company intends to scale it up now. Nuvoco is also ramping up its MBM sales (value-added construction chemicals). Thus, over the next three years, we estimate the non-cement revenue would grow at 55% CAGR. The share of non-cement revenue should rebound to 12% of consolidated revenue in FY24E (from the low of 6% in FY21). Operating leverage should boost EBITDA contribution to ~3.5% in FY24E (vs loss in FY21, owing to a sharp scale down during the year).

Operational trends and assumptions

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cement Cap (mn MT)	**13.5**	**13.6**	**14.0**	**22.3**	**23.8**	**25.0**	**25.0**
Sales Volume (mn MT)	**12.0**	**12.6**	**12.2**	**15.9**	**20.0**	**23.1**	**24.1**
YoY change (%)	*24.0*	*4.8*	*(2.5)*	*30.0*	*25.7*	*15.5*	*4.3*
Utilisation (%)	*88.9*	*92.1*	*87.4*	*79.9*	*84.0*	*92.3*	*96.3*
(INR/ MT trend)							
NSR	**4,611**	**4,652**	**4,625**	**4,444**	**4,666**	**4,713**	**4,689**
YoY change (%)	*8.8*	*0.9*	*(0.6)*	*(3.9)*	*5.0*	*1.0*	*(0.5)*
Raw Materials	137	223	94	472	477	482	482
Power & Fuel	1,021	1,095	1,001	853	912	930	949
Freight costs	1,529	1,580	1,451	1,276	1,327	1,353	1,373
Employee cost	297	304	331	303	258	239	240
Other expenses	765	758	702	599	558	531	514
Total Opex	**3,750**	**3,960**	**3,579**	**3,503**	**3,532**	**3,536**	**3,559**
YoY change (%)	*7.2*	*5.6*	*(9.6)*	*(2.1)*	*0.8*	*0.1*	*0.7*
EBITDA per MT	**862**	**692**	**1,046**	**941**	**1,134**	**1,177**	**1,130**
YoY change (%)	*16.4*	*(19.7)*	*51.2*	*(10.0)*	*20.6*	*3.8*	*(4.0)*

Source: Company, HSIE Research

Capacity debottlenecking to increase it by 15%

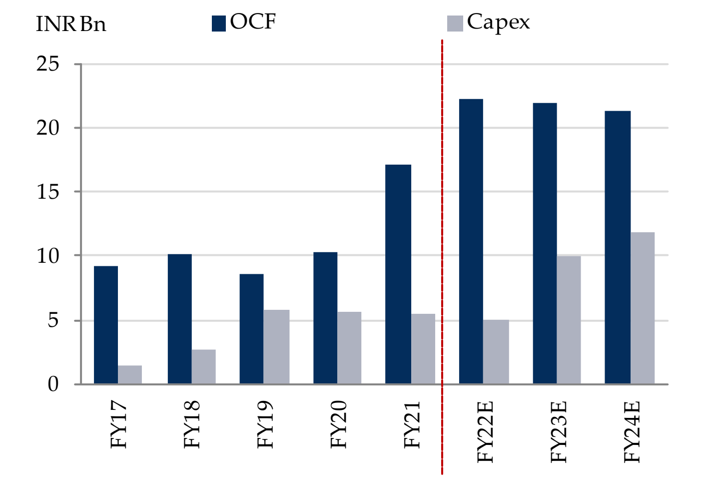
Over the next two years, Nuvoco is debottlenecking its cement grinding capacity by 2.7mn MT – all in the east. It completed its Jharkhand grinding unit expansion (1.5mn MT) at the end of 1QFY22 and expects to commission the Bihar grinding expansion (1.2mn MT) by 1HFY23. These initiatives will expand its cement capacity by 15% to 25mn MT in FY23E. It is also debottlenecking its clinker capacity by 0.9mn MT (across three plant locations – 0.3mn MT each at Nimbol in Rajasthan, and Sonadih and Risda in Chhattisgarh) in FY23E. Thus, its clinker capacity will increase by 8%. Between FY22E and FY23E, Nuvoco is expected to incur a total Capex of INR 5bn in each year towards (1) these capacity expansions, (2) annual maintenance Capex, and (3) the pending Capex on two CPPs (in Jojobera and Arasmeta) in 1HFY22.

Nuvoco also plans to set up a greenfield integrated cement plant in Gulburga, Karnataka, where it has a 221mn MT limestone reserves (40+ years of reserve for a 5mn MT cement plant). While the company will set up an integrated plant in Gulburga, it will also set up a greenfield split-grinding plant in Maharashtra, to target the markets in that state. The company is yet to finalise the project size (either it will set up a 5mn MT plant in one go, or in two phases of ~2.5mn MT each). We model in a 5mn MT integrated plant by FY25E with a total Capex of INR 30bn.

Robust balance sheet post IPO; healthy cash flow outlook

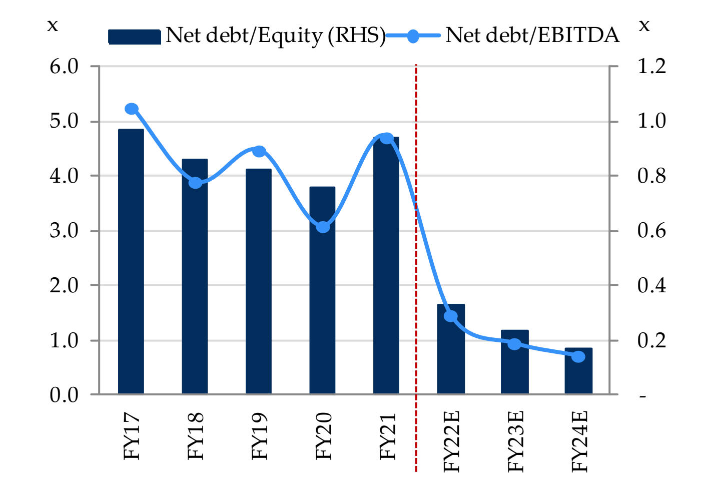
Nuvoco's balance sheet has remained under stress ever since the mega acquisitions of the Lafarge plants in 2016 and Emami Cement in 2020. Thus, its net debt/EBITDA hovered around the average of 4.3x during FY17-21. However, the recently concluded IPO infused INR 15bn of cash in the company in 2QFY22 (and another INR 5bn through equity conversion of debt from Kotak Special Situation Fund in FY21), which has accelerated deleveraging. Further, even internal accruals are on a rise. Continued robust demand across the east and north bolstered realisation, buoying margin to ~INR 1,000/MT (average of FY20/21) vs INR 760/MT in the preceding three years. Riding on healthy demand and various cost reduction measures, we estimate the average unitary EBITDA would further expand to ~INR 1,150/MT during FY22-24E. We expect its net debt/EBITDA to cool off below 1x FY23E onwards, despite factoring in major expansion in Karnataka and Maharashtra. This will improve its debt rating and help lower its interest cost.

We expect free cashflow generation to accelerate…



Source: Company, HSIE Research

…thereby cooling off leverage on books



Source: Company, HSIE Research

Initiate coverage with a BUY rating and TP of INR 827/sh

Nuvoco is the sixth largest cement company currently in India with leadership positioning in the eastern market. The company is expected to deliver healthy volume growth and margin, going forward, riding on strong demand, capacity increase, WHRS/CPP ramp-up and various synergy benefits. Post the IPO cash infusion, Nuvoco has been able to significantly reduce debt on its books to comfortable levels. This has also boosted Nuvoco's capacity to undertake major growth Capex.

The stock is currently trading at 7.8/7.5x its FY23/24E consolidated EBITDA. Given its size and strong profitability metrics, we value it at 11x its Sep'23E EBITDA, thereby leading to the target price of INR 827/sh. We initiate coverage with a BUY rating.

While there is no other cement company that has ~75% of its sales in the eastern region (excluding the NE region), we compare Nuvoco with a few others which have a major presence across the north, central, and eastern regions, as given below.

Peer comparison

Companies	Vol CAGR FY21-24E %	EBITDA/MT (INR)			RoCE (%)			Net Debt/EBITDA (x)		
		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Nuvoco Vistas	**14.8**	**1,134**	**1,177**	**1,130**	**5.8**	**7.8**	**7.8**	**1.5**	**0.9**	**0.7**
Birla Corp	16.4	963	986	1,041	6.3	7.0	8.3	2.7	2.2	1.6
Ambuja Cements	10.2	1,242	1,263	1,261	10.4	10.6	10.6	(4.8)	(4.8)	(4.8)
Shree Cement	11.1	1,512	1,580	1,612	14.2	14.6	14.5	(1.3)	(1.3)	(1.2)
Dalmia Bharat	13.8	1,249	1,211	1,181	6.9	6.6	6.1	0.6	1.3	1.6

Companies	Mcap Rs bn	EV/EBITDA (x)			EV/MT (INR bn)			P/E (x)		
		FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Nuvoco Vistas	**169.2**	**9.7**	**7.8**	**7.5**	**9.51**	**8.75**	**8.50**	**32.6**	**18.1**	**16.5**
Birla Corp	100.9	9.5	8.0	6.8	7.35	7.06	6.75	20.8	17.3	12.9
Ambuja Cements	834.0	21.7	17.7	16.2	22.62	20.23	19.81	37.8	34.3	31.6
Shree Cement	1,101.7	23.7	20.1	17.2	24.00	21.51	19.30	44.4	38.0	33.6
Dalmia Bharat	408.8	14.4	13.8	13.0	12.39	13.13	10.53	36.5	34.5	35.5

Source: HSIE Research

Key risks

- The probable third wave of COVID can hit sales and profit for all companies, including Nuvoco.
- Continued surge in imported coal and petcoke prices can pull down margin.
- Delays in capacity increase can mute the volume growth in subsequent years.

1QFY22 performance

- Nuvoco's YoY performance is not comparable as 1QFY21 financials represent standalone Nuvoco financials (excluding NU Vista financials).
- In 1QFY22, Nuvoco's consolidated revenue fell 17% QoQ to INR 22.03bn, mainly due to the 25% QoQ fall in cement sales volume (COVID impact).
- Utilisation (on sales basis) fell to 76% vs 100% QoQ.
- NSR jumped 12% QoQ on account of healthy pricing across the east and north and increase in trade sales and FOR sales QoQ.
- Opex jumped 7% QoQ, owing to negative op-lev, rising fuel/diesel prices, and on increase in FOR sales. Lead distance reduction, cross-plant cement production, and higher utilisation of WHRS moderated the impact of cost inflation.
- Subsequently, unitary EBITDA soared 29% QoQ to INR 1,206/MT. A small part of the targeted synergy benefits (of INR 150/MT for FY22E) was achieved in 1Q.
- Thus, consolidated EBITDA fell a modest 2% QoQ to INR 5.14bn. Robust pricing gains moderated the impact of 7% QoQ opex inflation and lower sales.
- APAT rose 204% QoQ to INR 1.14bn, on interest cost reduction and lower tax outgo QoQ.
- Amidst soaring petcoke prices, Nuvoco trimmed its share in the fuel mix to 20% in Q1FY22 vs 58% YoY. The company is also working on doubling the share of alternative fuel usage by the end of FY22E, from 3% currently.
- The non-cement revenue fell 25% QoQ, owing to lockdown pangs and since Nuvoco is slowly ramping up its RMC business (after it had scaled it down two years back). Nuvoco had reduced its RMC plant count from 65 in FY20 to 49 in FY21, mainly across cities like Bengaluru, Chennai and Mumbai. It also increase cash & carry sales and its working capital days have, thus, halved to ~45. Nuvoco is slowly ramping up the business with continued working capital discipline. It expects to increase the RMC plant count to ~60 by the end of FY22.
- In 1Q, Nuvoco launched the *Double Bull* brand cement in north markets and introduced various slag and composite cement variants across east markets. It also commissioned the 1.5mn MT grinding expansion at Jojobera (Jharkhand) at the end of 1QFY22, taking up the total grinding capacity to 23.8mn MT.
- Pre-IPO, consolidated gross debt fell ~10% QoQ to INR 71bn in Jun'21. Net debt, however, remained flat QoQ at ~INR 69bn. Thus, net debt/EBITDA (pre-IPO) stood at 3.7x. Adjusted for the IPO cash infusion, net debt/EBITDA has cooled off to 2.6x.

1QFY22 consolidated operating performance

Operating trends	Jun-21	Jun-20	YoY %	Mar-21	QoQ %
Total Sales (Mn MT)	**4.23**	**1.75**	***141.7***	**5.60**	***(24.5)***
Trends (INR/MT)					
Net avg realisation	**4,897**	**4,784**	***2.4***	**4,386**	***11.6***
Raw material cost	289	857	*(66.3)*	571	*(49.4)*
Power and fuel cost	1,015	766	*32.5*	787	*29.0*
Employee cost	333	565	*(41.1)*	236	*41.2*
Transport cost	1,399	1,184	*18.1*	1,283	*9.0*
Other expenses	656	556	*17.8*	575	*14.1*
Operating cost	**3,691**	**3,929**	**(6.0)**	**3,451**	**7.0**
EBITDA/Ton (INR)	**1,206**	**856**	***41.0***	**935**	***29.0***

Source: Company, HSIE Research

1QFY22 consolidated financials

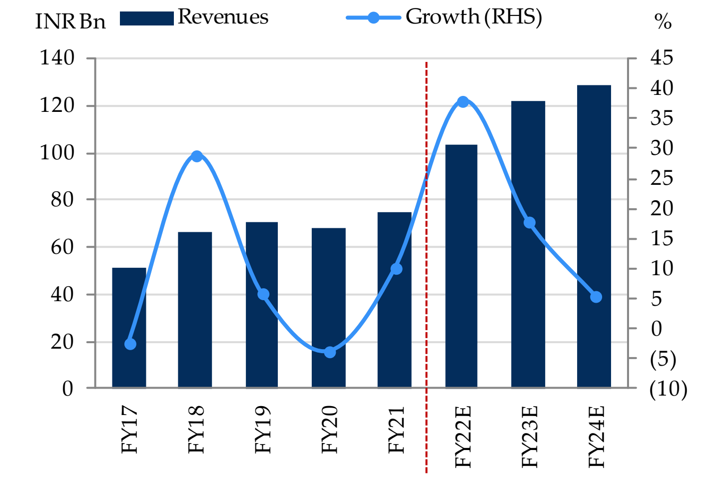
(INR mn)	Jun-21	Jun-20	YoY %	Mar-21	QoQ %
Net Sales	**22,030**	**8,415**	***161.8***	**26,316**	***(16.3)***
Total Expenditure	16,887	7,186	*135.0*	21,076	*(19.9)*
Raw Materials	2,495	1,810	*37.8*	4,947	*(49.6)*
Power and Fuel	4,295	1,341	*220.2*	4,408	*(2.6)*
Transport	5,917	2,073	*185.5*	7,184	*(17.6)*
Employee cost	1,407	988	*42.4*	1,319	*6.6*
Others	2,773	974	*184.8*	3,217	*(13.8)*
EBITDA	**5,143**	**1,229**	**318.5**	**5,241**	**(1.9)**
EBITDA margins (%)	*23.3*	*14.6*		*19.9*	
Depreciation	2,117	1,327	*59.6*	2,211	*(4.2)*
Other Income	56	85	*(34.0)*	116	*(51.9)*
Interest	1,507	1,413	*6.6*	1,636	*(7.9)*
PBT	**1,575**	**(1,427)**		**1,510**	**4.3**
Taxes	432	(513)		1,135	*(62.0)*
Adjusted PAT	**1,143**	**(914)**		**375**	***204.6***
Exceptional exp/ (Inc)	-	-		-	
Reported PAT	1,143	(914)		375	*204.6*
Adj PAT margins (%)	*5.2*	*(10.9)*		*1.4*	
Adj EPS (INR)	**3.6**	**(3.1)**		**1.2**	***204.6***

Source: Company, HSIE Research

Financial summary

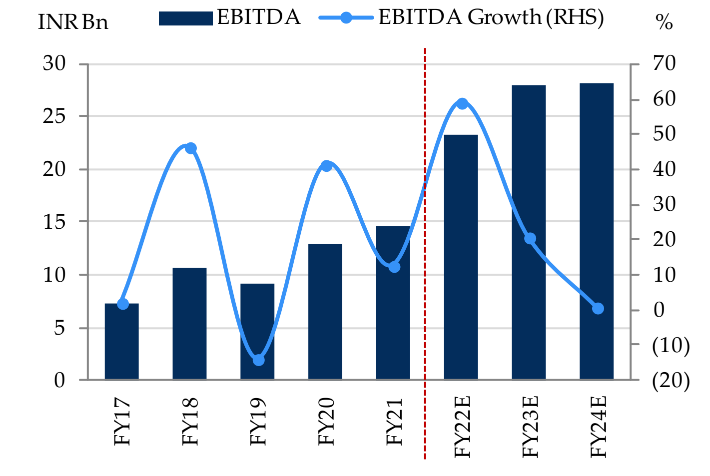
During FY21-24E, we expect Nuvoco's consolidated revenue to grow at 20% CAGR, driven by 15/2% cement volume/NSR CAGRs and 55% non-cement revenue CAGR. In our view, volume growth would be largely led by capacity expansion and higher utilisation across the north and east. While we estimate strong 5% NSR gain for FY22E (on robust pricing gain in the east), we build in flattish NSR growth for FY22-24E, factoring in the expected rise in competition in the eastern region.

We expect consolidated revenue CAGR of 20% during FY21-24E



Source: Company, HSIE Research

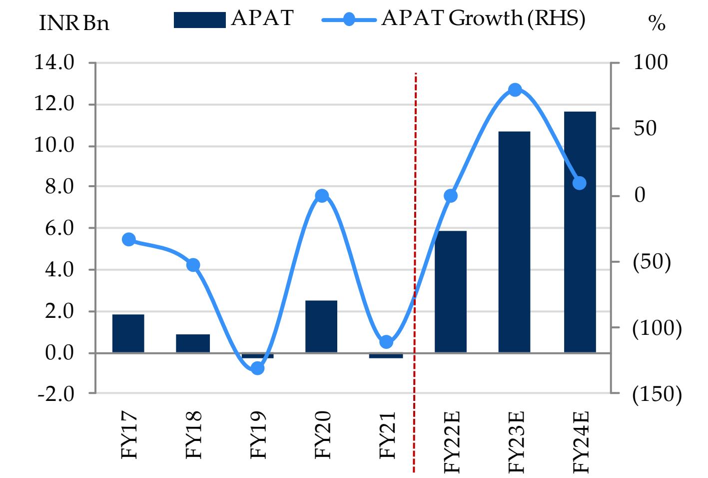
And consolidated EBITDA CAGR of 25%



Source: Company, HSIE Research

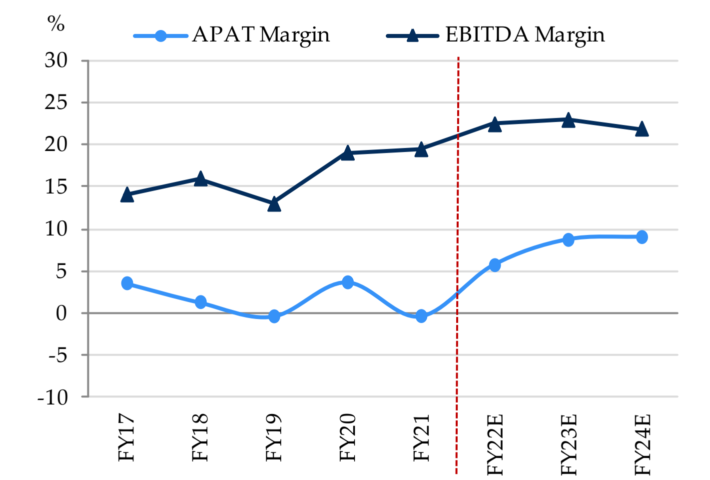
We estimate that unitary EBITDA would expand by ~INR 235/MT during FY22/23E, led by various ongoing cost reduction initiatives and synergy benefits from integration of NU Vista. These should more than offset the rising fuel cost impact. We expect margin to cool off marginally in FY24E, led by rising competition. We also build in non-cement businesses contributing ~3.5% of total EBITDA in FY24E vs (2.5%) in FY21E. Subsequently, we expect consolidated EBITDA to grow at 25% CAGR during FY21-24E. EBITDAM should expand to 21.9% in FY24E from 19.5% in FY21. With a sharp reduction in leverage, we expect PAT margin to accelerate from (0.3%) in FY21 to 9% in FY24E.

We expect APAT to surge on a low base



Source: Company, HSIE Research

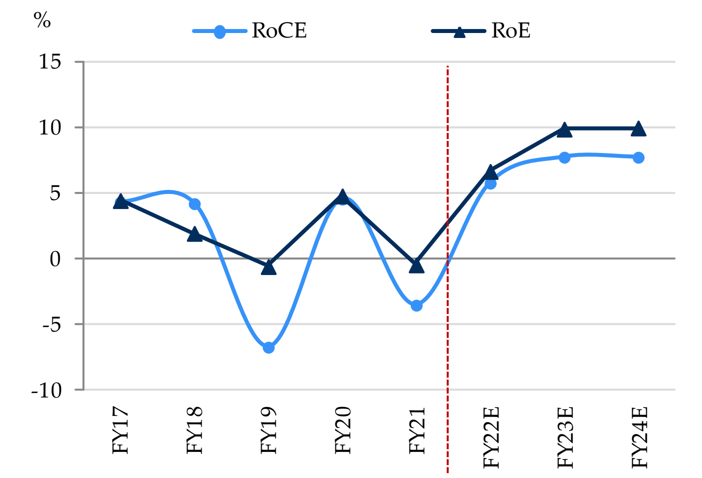
Subsequently both EBITDA and APAT margins should firm up



Source: Company, HSIE Research

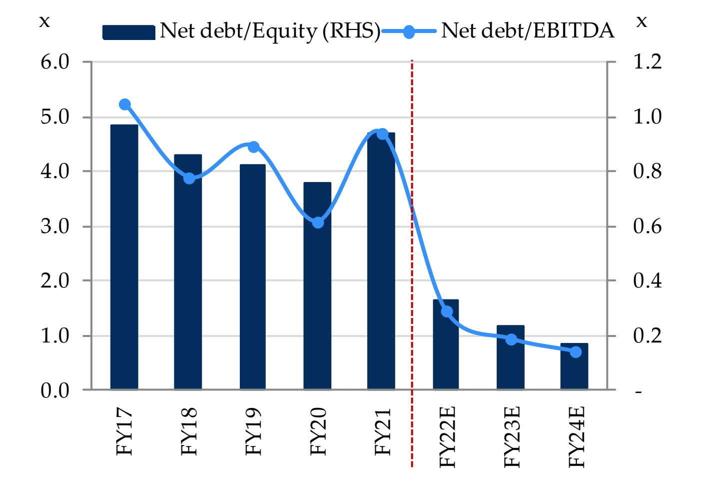
Rising profitability and asset sweating should also buoy return ratios. We expect gearing ratios to cool off considerably to comfortable levels.

Return ratios expected to firm up



Source: Company, HSIE Research

Gearing ratio to cool off considerably



Source: Company, HSIE Research

Du-Pont analysis: For FY21-24E, we estimate significant improvement in RoE to 10%. This would be driven by a sharp rebound in net margin (led by operating margins firming up) and recovery in asset sweating (as we expect utilisation to firm up). These should more than offset the impact of the expected fall in leverage.

Du Pont analysis

Particulars	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net margin (%)	*3.6*	*1.3*	*(0.4)*	*3.7*	*(0.3)*	*5.7*	*8.7*	*9.0*
Asset turnover (x)	0.7	0.6	0.6	0.6	0.5	0.6	0.8	0.8
Leverage factor (x)	1.7	2.4	2.3	2.2	2.3	1.9	1.5	1.4
RoE (%)	***4.5***	***2.0***	***(0.5)***	***4.9***	***(0.4)***	***6.7***	***10.0***	***10.0***

Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenues	**51,570**	**66,524**	**70,521**	**67,932**	**74,888**	**103,406**	**121,974**	**128,740**
Growth %	***(2.3)***	***29.0***	***6.0***	***(3.7)***	***10.2***	***38.1***	***18.0***	***5.5***
Raw Material	11,543	12,619	14,447	12,300	12,068	19,081	23,387	26,320
Power & Fuel	8,472	12,223	13,741	12,256	13,563	18,244	21,493	22,872
Freight Expense	13,607	18,298	19,832	17,761	20,294	26,532	31,257	33,099
Employee cost	2,900	3,559	3,811	4,046	4,820	5,158	5,519	5,795
Other Expenses	7,765	9,161	9,513	8,597	9,538	11,159	12,275	12,398
EBITDA	**7,284**	**10,663**	**9,177**	**12,971**	**14,605**	**23,232**	**28,043**	**28,257**
EBIDTA Margin (%)	***14.1***	***16.0***	***13.0***	***19.1***	***19.5***	***22.5***	***23.0***	***21.9***
EBITDA Growth %	*2.1*	*46.4*	*(13.9)*	*41.4*	*12.6*	*59.1*	*20.7*	*0.8*
Depreciation	3,125	4,849	4,979	5,279	7,938	8,634	8,934	9,130
EBIT	4,159	5,814	4,198	7,693	6,667	14,598	19,109	19,127
Other Income	293	562	538	367	339	400	400	500
Interest	2,312	4,755	4,569	4,192	6,640	5,911	3,149	1,703
PBT	2,140	1,621	166	3,867	365	9,087	16,359	17,924
Tax	305	745	431	1,375	625	3,180	5,726	6,274
Minority Int	-	-	-	-	-	-	-	-
RPAT	1,835	875	(265)	2,493	(259)	5,907	10,634	11,651
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-	-	-
APAT	**1,835**	**875**	**(265)**	**2,493**	**(259)**	**5,907**	**10,634**	**11,651**
APAT Growth (%)	*(33.0)*	*(52.3)*	*(130.3)*	*n/m*	*(110.4)*	*n/m*	*80.0*	*9.6*
AEPS	**12.2**	**5.8**	**(1.3)**	**10.3**	**(0.8)**	**16.5**	**29.8**	**32.6**
AEPS Growth %	*104.0*	*(52.3)*	*(122.7)*	*n/m*	*(108.0)*	*n/m*	*80.0*	*9.6*

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
SOURCES OF FUNDS								
Share Capital	1,500	1,500	2,000	2,424	3,151	3,574	3,574	3,574
Reserves And Surplus	37,990	46,735	47,883	50,369	70,086	98,820	107,667	117,173
Total Equity	**39,490**	**48,235**	**49,883**	**52,793**	**73,237**	**102,394**	**111,241**	**120,747**
Minority Int	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Debt	**43,144**	**50,574**	**46,830**	**45,128**	**77,917**	**40,109**	**30,209**	**23,814**
Deferred Tax Liability	12,244	14,016	13,930	14,418	18,810	18,810	18,810	18,810
Long-term Liab+ Provisions	494	1,127	1,138	1,231	1,461	1,501	1,544	1,589
TOTAL SOURCES OF FUNDS	**95,371**	**113,951**	**111,781**	**113,570**	**171,424**	**162,814**	**161,803**	**164,960**
APPLICATION OF FUNDS								
Net Block	89,146	101,635	98,949	99,701	150,459	148,625	147,191	139,861
Capital WIP	1,431	1,415	6,049	6,470	12,359	10,559	13,059	23,059
Other Non-current Assets	5,527	7,863	7,572	8,203	11,135	11,135	11,135	11,529
Total Non-current Investments	15	1	1	1	1	1	1	1
Total Non-current Assets	**96,119**	**110,914**	**112,571**	**114,375**	**173,953**	**170,319**	**171,384**	**174,449**
Inventories	3,610	5,558	5,847	6,030	7,124	9,306	10,978	11,587
Debtors	4,442	4,210	4,999	5,110	4,539	6,721	7,928	8,368
Cash and Cash Equivalents	4,891	9,033	5,803	5,109	9,119	6,279	3,802	3,685
Other Current Assets (& Loans/adv)	3,792	3,324	3,398	3,819	4,341	4,341	4,341	4,558
Total Current Assets	**16,736**	**22,124**	**20,046**	**20,069**	**25,123**	**26,648**	**27,048**	**28,198**
Creditors	7,400	6,983	7,647	7,860	9,076	12,532	14,782	15,602
Other Current Liabilities & Provns	10,083	12,104	13,189	13,014	18,576	21,622	21,848	22,086
Total Current Liabilities	**17,483**	**19,087**	**20,836**	**20,874**	**27,652**	**34,153**	**36,630**	**37,687**
Net Current Assets	**(747)**	**3,038**	**(790)**	**(805)**	**(2,529)**	**(7,505)**	**(9,581)**	**(9,490)**
TOTAL APPLICATION OF FUNDS	**95,371**	**113,951**	**111,781**	**113,570**	**171,424**	**162,814**	**161,803**	**164,960**

Source: Company, HSIE Research

Consolidated Cash Flow

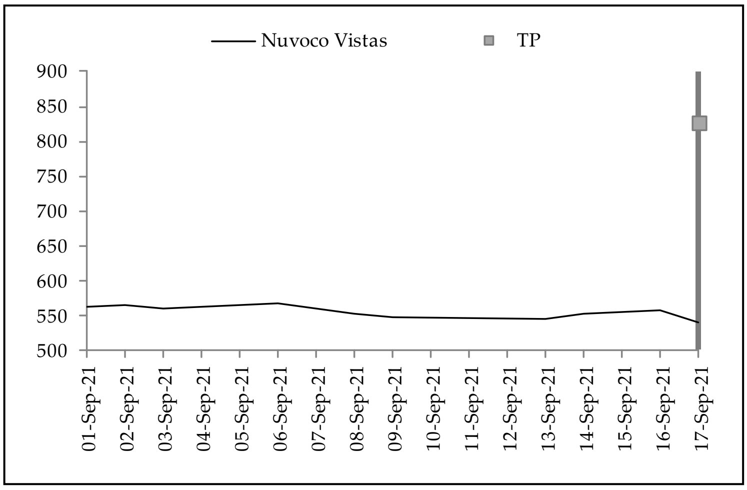
YE Mar (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	1,961	1,621	166	3,868	365	9,087	16,359	17,924
Non-operating & EO Items	(161)	(629)	(707)	(80)	(422)	(400)	(400)	(500)
Interest Expenses	2,312	4,652	4,569	4,192	6,640	5,911	3,149	1,703
Depreciation	3,125	4,849	4,979	5,279	7,938	8,634	8,934	9,130
Working Capital Change	2,582	598	(242)	(2,009)	3,044	2,177	(359)	(558)
Tax Paid	(597)	(909)	(165)	(1,002)	(392)	(3,180)	(5,726)	(6,274)
OPERATING CASH FLOW (a)	**9,222**	**10,181**	**8,601**	**10,248**	**17,174**	**22,228**	**21,959**	**21,426**
Capex	(1,414)	(2,687)	(5,808)	(5,695)	(5,473)	(5,000)	(10,000)	(11,800)
Free Cash Flow (FCF)	7,809	7,494	2,793	4,553	11,701	17,228	11,959	9,626
Investments	(3,940)	(3,902)	4,177	2,448	(23,914)	-	-	-
Non-operating Income	64	68	145	146	146	400	400	500
Others								
INVESTING CASH FLOW (b)	**(5,290)**	**(6,522)**	**(1,486)**	**(3,101)**	**(29,241)**	**(4,600)**	**(9,600)**	**(11,300)**
Debt Issuance/(Repaid)	(3,000)	72	(2,619)	(2,002)	21,200	(37,808)	(9,900)	(6,395)
Interest Expenses	(2,035)	(4,120)	(3,849)	(3,580)	(6,505)	(5,911)	(3,149)	(1,703)
FCFE	2,774	3,446	(3,676)	(1,029)	26,395	(26,490)	(1,091)	1,528
Share Capital Issuance	-	-	-	(9)	(497)	23,250	-	-
Dividend	-	-	-	-	-	-	(1,787)	(2,144)
FINANCING CASH FLOW (c)	**(5,035)**	**(4,048)**	**(6,468)**	**(5,591)**	**14,197**	**(20,468)**	**(14,836)**	**(10,242)**
NET CASH FLOW (a+b+c)	**(1,102)**	**(389)**	**647**	**1,556**	**2,130**	**(2,840)**	**(2,477)**	**(116)**
EO Items, Others								
Closing Cash & Equivalents	**612**	**4,502**	**9,679**	**7,359**	**7,238**	**6,279**	**3,802**	**3,685**

Key Ratios

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PROFITABILITY %								
EBITDA Margin	14.1	16.0	13.0	19.1	19.5	22.5	23.0	21.9
EBIT Margin	8.1	8.7	6.0	11.3	8.9	14.1	15.7	14.9
APAT Margin	3.6	1.3	(0.4)	3.7	(0.3)	5.7	8.7	9.0
RoE	*4.5*	*2.0*	*(0.5)*	*4.9*	*(0.4)*	*6.7*	*10.0*	*10.0*
RoIC	*4.3*	*4.2*	*(6.4)*	*4.6*	*(3.5)*	*6.0*	*7.9*	*7.8*
RoCE	*4.4*	*4.3*	*(6.7)*	*4.6*	*(3.5)*	*5.8*	*7.8*	*7.8*
EFFICIENCY								
Tax Rate %	*14.2*	*46.0*	*259.6*	*35.6*	*170.9*	*35.0*	*35.0*	*35.0*
Fixed Asset Turnover (x)	0.5	0.5	0.5	0.5	0.4	0.5	0.6	0.6
Inventory (days)	26	30	30	32	35	33	33	33
Debtors (days)	31	23	26	27	22	24	24	24
Other Current Assets (days)	66	61	57	65	75	55	46	46
Payables (days)	52	38	40	42	44	44	44	44
Other Current Liab & Provns (days)	75	73	74	77	98	82	70	67
Cash Conversion Cycle (days)	(4)	4	(1)	6	(10)	(15)	(11)	(9)
Net Debt/EBITDA (x)	5.3	3.9	4.5	3.1	4.7	1.5	0.9	0.7
Net D/E (x)	1.0	0.9	0.8	0.8	0.9	0.3	0.2	0.2
Interest Coverage (x)	1.8	1.2	0.9	1.8	1.0	2.5	6.1	11.2
PER SHARE DATA (INR)								
EPS	12.2	5.8	(1.3)	10.3	(0.8)	16.5	29.8	32.6
CEPS	33.1	38.2	23.6	32.1	24.4	40.7	54.8	58.1
Dividend	-	-	-	-	-	-	5.0	6.0
Book Value	263	322	249	218	232	286.5	311.3	337.9
VALUATION								
P/E (x)	105.0	220.0	n/m	77.3	n/m	32.6	18.1	16.5
P/Cash EPS (x)	38.8	33.6	40.9	24.8	25.1	13.2	9.8	9.3
P/BV (x)	4.9	4.0	3.9	3.6	2.6	1.9	1.7	1.6
EV/EBITDA (x)	31.7	22.0	25.5	17.9	17.9	9.7	7.8	7.5
EV/MT (INR bn)	21.28	17.38	17.15	16.61	11.71	9.51	8.75	8.50
Dividend Yield (%)	-	-	-	-	-	-	*0.9*	*1.1*
OCF/EV (%)	*4.0*	*4.3*	*3.7*	*4.4*	*6.6*	*9.8*	*10.0*	*10.1*
FCFF/EV (%)	*3.4*	*3.2*	*1.2*	*2.0*	*4.5*	*7.6*	*5.5*	*4.5*
FCFE/M Cap (%)	*1.4*	*1.8*	*(1.9)*	*(0.5)*	*13.7*	*(13.8)*	*(0.6)*	*0.8*

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
20-Sep-21	539	BUY	827

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600
HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com