NCL Industries Ltd.

Quick small/midcap Funda Momentum Picks

Medium to High risk

Key points:

- These picks are based on fundamentals and issued when momentum is seen in them. These stocks may not have enough liquidity and depth and may go from circuit to circuit (either up or down). In the interest of timeliness, detailed financial projections are not prepared.
- Small allocation of investible surplus may be put in such stocks and spread your surplus among several such stocks.
- Once the risk appetite in the market reduces, such stocks could face the pressure of selling irrespective of fundamentals or valuations.
- Entry and exit into these stocks have to be carefully timed.
- These stocks have inherent value in them and their expected rate of growth could be faster than their peers. Their current valuations may not reflect these and hence considering the current market conditions, a buy report has been issued.
- It is possible that the street may take time to recognize these or there may be adverse developments in the interim. Hence proper exit strategies have to be worked out in advance (that may include stoploss or trailing stoploss).

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RETAIL RESEARCH

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Red flag level*	Time Horizon
Cement	Rs.256	Buy in Rs.252-260 band & add more on dips to Rs 219	Rs. 304	Rs. 335	196	1- 2 quarters

*Investor may sell 60-65% of their holding on first target being achieved and later keep a stop loss of first target for balance holding, in case the second target takes time to be achieved. Investor may also maintain Rs.196 as red flag level below which investment position needs to be reviewed, including the possibility to exit

HDFC Scrip Code	NCLINDEQNR
BSE Code	502168
NSE Code	NCLIND
Bloomberg	NCLI:IN
CMP July 30, 2021	256
Equity Capital (Rs cr)	45.23
Face Value (Re)	10
Equity Share O/S (cr)	4.52
Market Cap (Rs cr)	1158
Book Value (Rs)	147
Avg. 52 Wk Volumes	506669
52 Week High	274.55
52 Week Low	70.00

Share holding Pattern % (June, 2021)	
Promoters	43.73
Institutions	3.00
Non Institutions	53.27
Total	100.0

Retail Research Risk Rating:

		Red*

*** Refer at the end for explanation on Risk Ratings**

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Our Take:

NCL Industries Ltd. (NCL) was incorporated in 1979 and has ~40 years of experience of operating into cement industry. It is a key cement player in the AP & Telangana (~80% of cement revenue). It has 2.7 MTPA of cement capacity, 2.6 MTPA of clinker capacity, 90000 TPA of cement board capacity, 15.75 MW of hydro power plant and 1000 doors/day of doors capacity. We believe further growth will be driven by increase in capacity - cement and growing doors business revenue.

We expect COVID-led lockdown and slowdown in the economy to lead to subdued growth in volumes for NCL in FY22E but buoyant cement prices and aggressive control on variable costs are likely to drive EBITDA growth. The industry has high dependence on real estate and infra, which are likely to be impacted by the economic slowdown. The key growth drivers of demand are likely to be rural housing, Pradhan Mantri Awas Yojana (rural), Pradhan Mantri Gram Sadak Yojana and increased spending on infrastructure development.

Valuations & Recommendation:

We expect the company to benefit from 1) its established presence, 2) capacity expansion to fuel growth, 3) diversified revenue stream and value-added products in cement (Cement Boards and RMC), and 4) industry triggers like higher realizations.

Cement companies are valued (EV/T or EV/EBITDA) based on their capacities, regional diversification, and Balance Sheet strength. Smaller companies are generally valued lower because of regional concentration, limited scale of operations, lower pricing power; however, stocks get re-rated post announcing growth plans, successfully executing expansions and forays into new markets, thus reducing concentration risk on earnings.

We think NCL can post 7% CAGR (over FY21-FY23E) in net sales to Rs.1584 cr, 8% CAGR in EBITDA to Rs. 332 cr and 13% CAGR in PAT to Rs.185 cr.

We believe the base case fair value of the stock is Rs.304 (FY23E EV/T of $57 and FY23E EV/EBITDA of 4.7) and the bull case fair value is Rs.335 (FY23E EV/T of $62 and FY23E EV/EBITDA of 5.2). Investors can buy the stock at the CMP (FY23E EV/T of $49 and FY23E EV/EBITDA of 4.1) and add on dips to Rs.219 (FY23E EV/T of $43 and FY23E EV/EBITDA of 3.6).

Financial Summary (Consolidated)

Particulars (Rs cr)	Q4FY21	Q4FY20	YoY-%	Q3FY20	QoQ-%	FY19	FY20	FY21P
Total Operating Income	405	247	64%	369	10%	980	938	1,384
EBITDA	65	22	195%	72	-10%	135	139	282
APAT	32	8	279%	42	-30%	47	51	145
Diluted EPS (Rs)	7.1	1.69	279%	9.19	-30%	10.4	11.2	32.2
RoE-%						9.8	9.9	24.4
P/E (x)						25.0	23.0	8.1
EV/EBITDA						20.4	19.7	9.7

(Source: Company, HDFC sec)

As per the volume data for the period Apr-Jun'21 the company had dispatched 698,498 MT of cement which was up 44% YoY while Cement Boards/ RMC/Doors volumes stood at 10.634MT +32%; 66.602CuM up 172% and 2681 up 3.6x respectively on a YoY basis.

Triggers

The company has wide product range that includes – cement (~86% of revenue – sold under brand "Nagarjuna"), Boards (~8% of revenue) – sold under brand "Bison Panel", RMC (~6% of revenue) and doors (~1% of revenue) – sold under brand "Duradoor". Diversified revenue stream helps to reduce the impact of cyclicality. NCL majorly operates in South India (~80% of cement revenue comes from AP & Telangana). It also has two hydro power projects aggregating 15.75 MW- the first is at the head regulator of Srisailam Right Bank Main Canal and the second hydel project is on Right Bank High Level Canal of Tungabhadra dam, both together producing 40-50 million units of green power per annum.

The company has 40 years of experience into the cement business. Over the years, the company has expanded its capacity from 200 TPD, to a level of >8000 TPD, spread over two locations. The company has an integrated cement manufacturing unit with installed cement production capacity of 2.7 MTPA, clinker capacity of 2.6 MTPA, cement bonded particles boards capacity of 90000 TPA, hydro power plants with total capacity of 15.75 MW and also recently added a plant to manufacture premium doors with a capacity of 1000 doors/day.

NCL is implementing a proposal to set up 110 TPH (~0.8-0.9MTPA) Cement Grinding and Packing Unit at Line III-Phase 2 at its Mattampally plant at an estimated cost of Rs.105 cr. It targets to commission the project by Q1FY23. It would be scrapping the Line-1 ball mill plant which was a 0.3-0.4MTPA capacity. NCL was already executing a 0.6-0.7MTPA project in Vizag, AP (at cost of Rs.100 cr) for which it acquired land from United Spirits' subsidiary Tern Distilleries and was in the process of applying for further approvals (which is delayed). This project could now commission in Q4FY23. Also, the company has installed 8 MW of WHR capacity at its mother plant at a capex of Rs.100 cr which will help to reduce power cost annually by ~Rs.25-30 cr.

The 50:50 consortium of NCL and NCL Buildtek has recently received letter of acceptance of bids aggregating Rs.1863.19 cr for supply of prepainted (GI) Steel window frame with glazed shutters and GI powder coated Door frames to Andhra Pradesh State Housing Corporation for implementation of "Navaratnalu Pedalandariki Illu scheme" of the Govt of Andhra Pradesh. Revenues from this comtract will start flowing largely from FY23.

Initially, focus of the company for door business was on Hyderabad, but seeing the potential, the company has expanded presence to 10 major markets in India including Delhi, Mumbai, Chennai, Kolkata, Bengaluru, Pune, Lucknow and Jaipur. NCL has recently developed fire-rated doors for the Mumbai market. The company has got certified for one-hour fire rating and working for getting a two-hour fire rating.

Cement prices have risen the most in Q1FY22 sequentially in East and South markets. This trend of the south market outperforming in terms of demand growth and realization growth could continue.

In H2FY21, the company has benefitted out of increased offtake by the Andhra Govt. Ongoing projects under YSR Nirman government scheme could help sustain the demand momentum in AP.

Concerns

- With a large capex planned for the future, the company remains exposed to project execution risk, which would be substantially funded through debt.

- Its realizations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry. The cement industry is likely to add 78mnT cement capacity over FY21-FY24E.

- The company is exposed to any adverse volatility in the prices of the commodities, fuel, power and freight costs. Inability to pass on price can affect adversely on profitability.

- Expansion in the same region (AP, Telangana), which has excessive capacity compared to the other regions, may pose challenges from a long-term perspective.

Company Background:

In 1979, Late Shri K Ramachandra Raju established Nagarjuna Cements Ltd. NCL established a mini cement plant at Mattapalli in Nalgonda (now Suryapet) District. The company expanded the capacity of the cement plant in stages. Starting with a modest capacity of 200 TPD, the company has now grown to a level of >8000 TPD, spread over two locations. The company generates revenue from cement, RMC, doors, and cement boards.

Financial

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21
Net Revenue	**880**	**980**	**938**	**1384**
Growth (%)	15.0	11.3	-4.3	47.5
Operating Expenses	747	845	798	1102
EBITDA	**133**	**135**	**139**	**282**
Growth (%)	**16.5**	**1.3**	**3.4**	**102.0**
EBITDA Margin (%)	**15.1**	**13.8**	**14.9**	**20.4**
Other Income	7.1	6.4	2.6	7.9
Depreciation	34.8	45.3	42.1	44.2
EBIT	**105**	**96**	**100**	**245**
Interest	31.0	34.8	30.7	20.8
PBT	**74**	**61**	**69**	**225**
Tax	25.3	14.3	18.3	79.1
PAT	**49**	**47**	**51**	**145**
Growth (%)	**-10.2**	**-4.6**	**8.5**	**186.0**
EPS	10.9	10.4	11.2	32.2

Balance Sheet

As at March	FY18	FY19	FY20	FY21
SOURCE OF FUNDS				
Share Capital	**45.2**	**45.2**	**45.2**	**45.2**
Reserves	416	454	483	619
Shareholders' Funds	**461**	**499**	**528**	**665**
Long Term Debt	205	187	165	237
Long Term Provisions & Others	77	91	93	91
Total Source of Funds	**742**	**777**	**787**	**992**
APPLICATION OF FUNDS				
Net Block	725	749	785	880
Long Term Loans & Advances	13	18	23	78
Total Non-Current Assets	**739**	**767**	**809**	**958**
Inventories	79	85	110	105
Trade Receivables	78	151	143	104
Short term Loans & Advances	37	56	57	57
Cash & Equivalents	16	22	19	71
Other Current Assets	13	15	16	4
Total Current Assets	**223**	**328**	**345**	**341**
Short-Term Borrowings	14	79	122	30
Trade Payables	48	72	66	73
Other Current Liab & Provisions	140	146	155	178
Short-Term Provisions	18	20	23	26
Total Current Liabilities	**220**	**317**	**366**	**307**
Net Current Assets	4	11	-21	34
Total Application of Funds	**742**	**777**	**787**	**992**

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21
Reported PBT	74	61	69	223
Adjustment	66	80	73	65
Working Capital Change	32	-53	-18	19
Tax Paid	-15	-17	-19	-67
OPERATING CASH FLOW (a)	**156**	**71**	**106**	**241**
Capex	-223	-69	-79	-145
dec in Fixed Asset	0	0	1	9
Free Cash Flow	-66	2	27	105
Investments	0	0	0	0
Non-operating income	0	0	0	0
INVESTING CASH FLOW (b)	**-223**	**-69**	**-79**	**-136**
Debt Issuance / (Repaid)	0	47	21	-21
Interest Expenses	-30	-35	-30	-20
FCFE	-96	14	18	64
Share Capital Issuance	202	0	0	0
Dividend	-12	-8	-22	-11
Other financial Activity	-90	0	0	0
FINANCING CASH FLOW (c)	**71**	**4**	**-31**	**-52**
CHANGES IN CASH BALANCE (a+b+c)	**4**	**6**	**-4**	**52**
Opening cash Balance	**12**	**16**	**22**	**19**
Closing cash Balance	**16**	**22**	**19**	**71**

Key Ratios

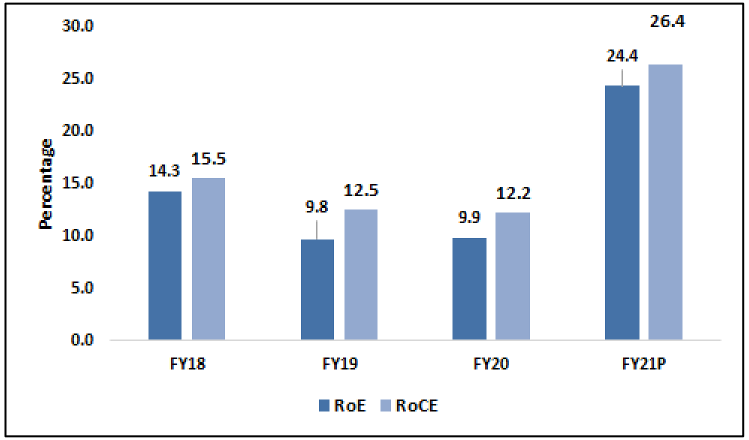
	FY18	FY19	FY20	FY21
Profitability (%)				
EBITDA Margin	15.1	13.8	14.9	20.4
EBIT Margin	12.0	9.8	10.6	17.7
APAT Margin	5.6	4.8	5.4	10.5
RoE	14.3	9.8	9.9	24.4
RoCE	15.5	12.5	12.2	26.4
Solvency Ratio				
D/E	0.5	0.5	0.5	0.4
Interest Coverage	3.4	2.8	3.3	11.8
PER SHARE DATA				
EPS	44.6	10.4	11.2	32.2
CEPS	18.5	20.4	20.6	41.9
BV	102	110	117	147
Dividend	2.5	1.5	4.0	2.5
Turnover Ratios (days)				
Debtor days	32	56	56	27
Inventory days	31	30	38	28
Creditors days	23	26	32	23
Working Capital Days	41	61	62	33
VALUATION				
P/E	23.9	25.0	23.0	8.1
P/BV	2.5	2.3	2.2	20.3
EV/EBITDA	20.6	20.4	19.7	9.7
Dividend Yield	1.0	0.6	1.5	1.0
Dividend Payout	5.6	14.5	35.6	7.8

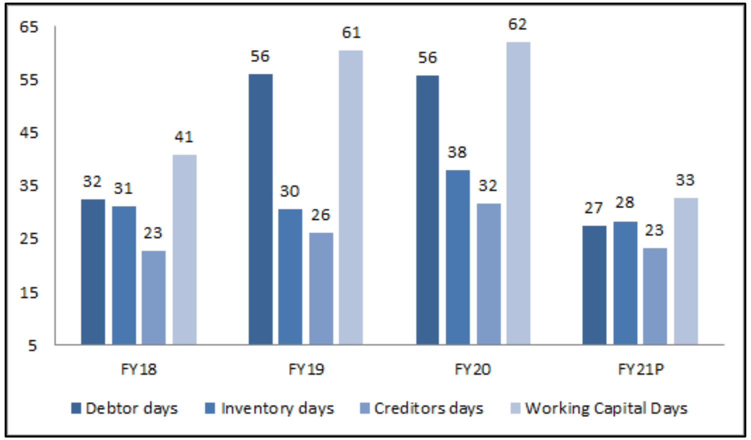
(Source: Company, HDFC sec)

Charts

	FY18	FY19	FY20	FY21P
Cement Production (MTPA)	1.8	2.2	1.9	2.4
Cement Sales (MTPA)	1.8	2.2	1.9	2.4
Cement Board Production (MT)	61787	67077	73381	58690
Cement Board Sales (MT)	63605	65586	61037	62272
RMC Sales (CuM)	133076	177827	191184	230909
Hydro Power (MU)	18.54	22.36	37.06	37
Doors (Nos)			916	6646

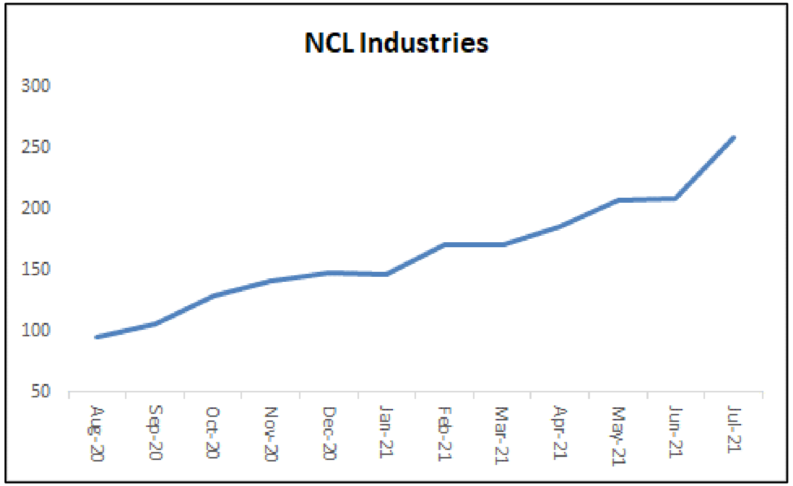
(Source: Company, HDFC sec)





(Source: Company, HDFC sec)

One Year Price Chart



(Source: Company, HDFC sec)

HDFCSec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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