

16 May 2024

NCL Industries

Expansion to aid in boosting volume growth; retaining a Buy

Aided by volume growth across divisions (except Energy), NCL' topline expanded. Low fuel costs aided the cement and RMC divisions. However, the Board division's operating performance was hit by high input (wood) costs. While the Vizag GU expansion would be complete by Sep'25, the door division continues to be hurt by lower dispatches. We retain our Buy, at a lower 12-mth TP of Rs267, earlier Rs291.

Healthy topline growth. Barring Energy, firm growth across divisions helped revenue grow 13.8% y/y to Rs4.9bn. Cement revenue (gross) grew 6.8% y/y thanks to sales volume growing 4.1% y/y to 0.74m tonnes and gross realisation, 2.6% y/y. 23% and 5.2% volume growth y/y in RMC and the Boards division aided respective revenues grow 23.6% y/y and 7.5% y/y. Door revenue grew 3.8% y/y, sales volumes falling 10.3% y/y because of lower dispatches.

Cement and RMC divisions aided by low costs. Softer fuel costs helped expand the cement EBITDA 44% y/y to Rs516m and its EBITDA/tonne 38% y/y to Rs699. Overall EBITDA grew 26.7% y/y to Rs488m. Higher wood prices hurt the Boards division, where PBIT fell 87% y/y to Rs8m and margins, 991bps to 1.3%. RMC profitability increased, it PBIT margins growing 330bps to 4.8%. While the Doors order-book is strong, site readiness is an issue, with reported PBIT loss of Rs19m.

Outlook, Valuation. Cement prices have fallen by Rs20-30/bag post-Mar'24, and demand and prices would be weak in H1 FY25 due to the elections and the monsoon. Coal prices rose by Rs1,500-2,000 a tonne. The higher cost of wood would be passed on via price hikes whose sustainability is a key monitorable. The 0.66m-tonne Vizag unit expansion was guided to be complete by Sep'25. We expect 6%/7%/14% volume (only cement)/revenue/EBITDA CAGRs over FY24-26. We introduce FY26e and retain our Buy, at a lower 12-mth TP of Rs267, 5x FY26e EV/EBITDA. **Risks:** Rise in input costs, dull demand.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	16,334	16,097	18,714	19,912	21,488
Net profit (Rs m)	981	460	942	1,169	1,391
EPS (Rs)	21.7	10.2	20.8	25.8	30.8
PE (x)	8.2	17.5	8.9	7.9	6.7
EV / EBITDA (x)	5.8	7.7	5.2	4.9	4.0
EV / tonne (\$)	48.3	40.1	37.2	40.5	30.7
RoE (%)	13.9	6.1	11.6	12.9	13.6
RoCE (%)	9.3	3.9	7.7	8.9	9.7
Dividend yield (%)	1.7	1.7	2.2	1.5	1.5
Net debt / equity (x)	0.5	0.4	0.3	0.3	0.1

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price (12-mth): Rs.267

Share Price: Rs.203

Key data	NCL IN / NCL BO
52-week high / low	Rs258 / 173
Sensex / Nifty	73664 / 22404
3-m average volume	\$0.7m
Market cap	Rs9bn / \$109.8m
Shares outstanding	45m

Shareholding pattern (%)	Mar-24	Dec-23	Sep-23
Promoters	43.7	44.5	44.5
- of which, Pledged	18.9	20.0	20.0
Free float	56.3	55.5	55.5
- Foreign institutions	5.2	4.9	4.2
- Domestic institutions	0.0	0.0	0.0
- Public	51.1	50.6	51.3

Estimates revision (%)	FY25e
Sales	8.8
EBITDA	(8.0)
EPS	(11.3)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Sales volumes (m tonnes)	2.6	2.6	2.9	3.0	3.3
Net revenues	16,334	16,097	18,714	19,912	21,488
Growth (%)	18.0	-1.5	16.3	6.4	7.9
Direct costs	9,795	10,780	11,403	12,132	13,126
SG&A	4,465	3,832	5,229	5,409	5,639
EBITDA	2,074	1,484	2,081	2,370	2,723
EBITDA margins (%)	12.7	9.2	11.1	11.9	12.7
- Depreciation	445	485	557	571	612
Other income	111	192	182	179	193
Interest expenses	242	262	230	208	197
PBT	1,498	930	1,476	1,771	2,108
Effective tax rate (%)	34.5	50.5	36.2	34.0	34.0
+ Associates / (Minorities)					
Net income	981	460	942	1,169	1,391
Adjusted income	981	460	942	1,169	1,391
WANS	45	45	45	45	45
FDEPS (Rs)	21.7	10.2	20.8	25.8	30.8
FDEPS growth (%)	-34.0	-53.1	104.8	24.1	19.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT (adj. OI and interest)	1,629	999	1,524	1,799	2,112
+ Non-cash items	445	485	557	571	612
Oper. prof. before WC	2,074	1,484	2,081	2,370	2,723
- Incr. / (decr.) in WC	1,191	-534	-97	540	303
Others incl. taxes	418	237	417	602	717
Operating cash-flow	465	1,781	1,762	1,228	1,703
- Capex (tang. + intang.)	1,390	1,178	495	1,000	700
Free cash-flow	-925	603	1,267	228	1,003
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	136	136	181	136	136
+ Equity raised	-	-	-	-	-
+ Debt raised	871	-282	-840	106	-400
- Fin investments	202	-148	152	-	-
- Misc. (CFI + CFF)	183	86	6	29	4
Net cash-flow	-575	247	88	170	463

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

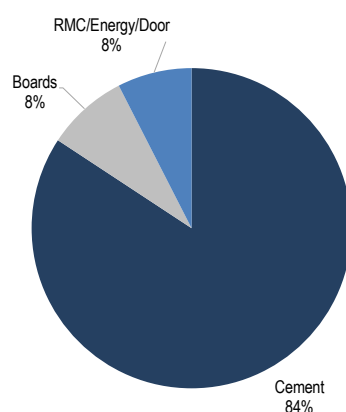
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	452	452	452	452	452
Net worth	7,441	7,748	8,551	9,584	10,839
Debt	4,037	3,755	2,915	3,021	2,621
Minority interest	-	-	-	-	-
DTL / (Assets)	918	1,151	1,268	1,268	1,268
Capital employed	12,396	12,654	12,734	13,873	14,728
Net tangible assets	7,735	9,856	9,690	9,605	10,393
Net Intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,710	283	386	900	200
Investments (strategic)	502.2	354.6	506.5	506.5	506.5
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	4,662	4,235	4,396	5,183	5,711
Cash	107	353	441	611	1,074
Current liabilities	2,320	2,426	2,685	2,932	3,156
Working capital	2,342	1,808	1,711	2,251	2,554
Capital deployed	12,395	12,654	12,734	13,873	14,728
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	8.2	17.5	8.9	7.9	6.7
EV / EBITDA (x)	5.8	7.7	5.2	4.9	4.0
EV / Sales (x)	0.7	0.7	0.6	0.6	0.5
P/B (x)	1.1	1.0	1.0	1.0	0.9
RoE (%)	13.9	6.1	11.6	12.9	13.6
RoCE (%) - after tax	9.3	3.9	7.7	8.9	9.7
DPS (Rs / sh)	3.0	3.0	4.0	3.0	3.0
Dividend payout (%) - incl. DDT	13.8	29.5	19.2	11.6	9.8
Net debt / equity (x)	0.5	0.4	0.3	0.3	0.1
WC days	52.3	41.0	33.4	41.3	43.4
EV / tonne (\$)	48.3	40.1	37.2	40.5	30.7
NSR / tonne (Rs)	5,572	5,354	5,486	5,536	5,586
EBITDA / tonne (Rs)	780	524	715	700	741
Volumes (m tonnes)	2.6	2.6	2.9	3.0	3.3
CFO: PAT %	47.4	387.1	187.0	105.1	122.4

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up by segment, FY24



Source: Company

Company update

Promoted by the late K. Ramachandra Raju, the Hyderabad-based NCL Industries was incorporated in 1979 and deals in cement, particle boards, ready-mix concrete and hydropower. For the past three decades, it has been supplying its top-quality Nagarjuna Cement brand to the construction sector.

It is a strong regional operator and has been a household name in Andhra Pradesh, popularly known as “Monagadu” cement in Telugu.

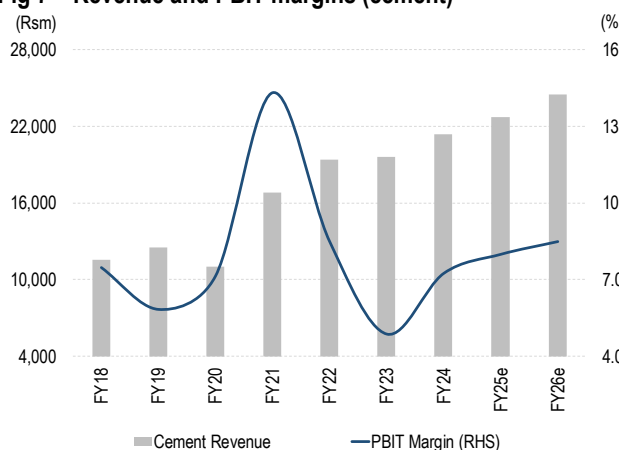
It has a wide distribution network in the country, with >2,240 cement dealers and 350 distributors for boards.

The cement division

With its strategically located 3.1m-tpa cement capacity, and a well-established brand Nagarjuna Cement, the company is a robust regional manufacturer in south India. It markets its products largely in the south, primarily in AP/Telangana (90%), Tamil Nadu and Karnataka.

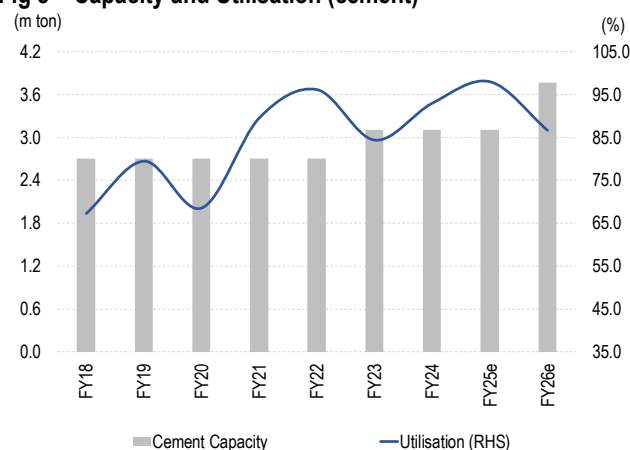
In Q4, its cement revenue (gross) grew 6.8% y/y to ~Rs5.5bn. Its sales volumes grew 4.1% y/y to 0.74m tonnes and gross realisation, 2.6% y/y. PBIT shot up 43.6% y/y to Rs376m.

Fig 7 – Revenue and PBIT margins (cement)



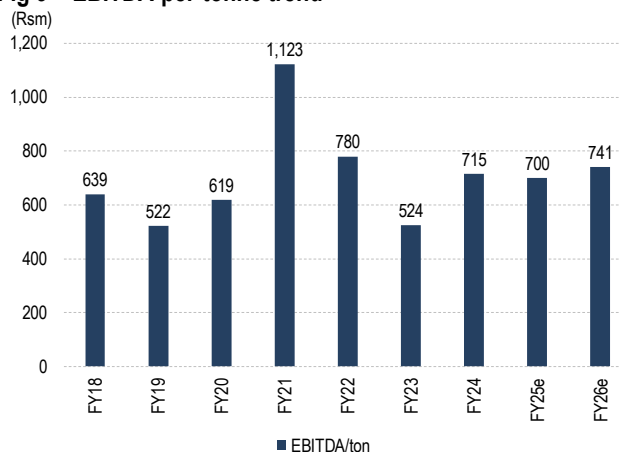
Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation (cement)



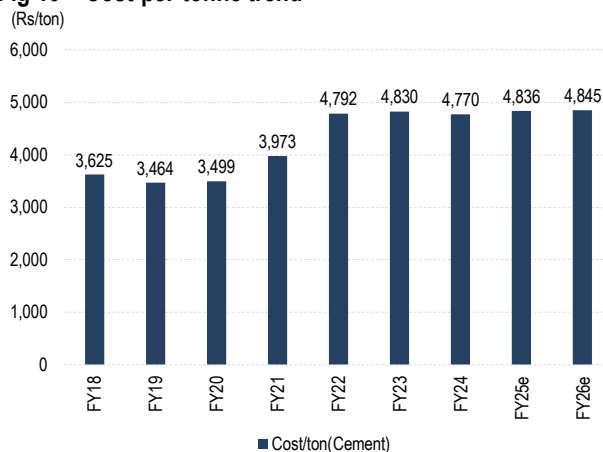
Source: Company, Anand Rathi Research

Fig 9 – EBITDA-per-tonne trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-tonne trend



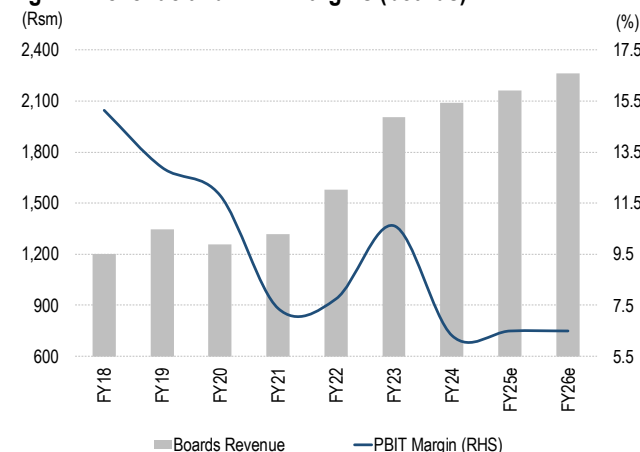
Source: Company, Anand Rathi Research

The Boards division

Cement-bonded particle boards, made of 62% cement, 28% wood, popularly known as Bison Panels, were introduced in 1990 in collaboration with Bison Werke (Germany), the global leader in particle-board technology. Bison boards are manufactured at the company's two plants: Mattampally (Telangana) and Paonta Sahib (HP), combined capacity of 90,000tpa.

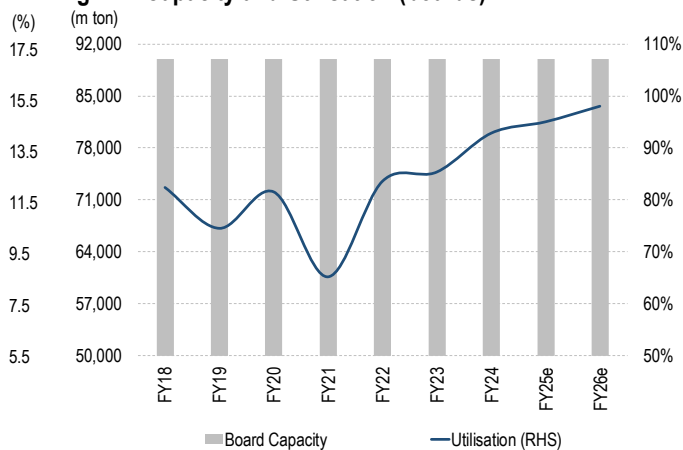
In Q4, the Boards division grew 7.5% y/y to Rs570m on the 5.2% y/y rise in volumes and 2% increase in sales realisation. PBIT plunged 87% y/y to Rs8m.

Fig 11– Revenue and PBIT margins (boards)



Source: Company, Anand Rath Research

Fig 12 – Capacity and Utilisation (boards)



Source: Company, Anand Rath Research

Energy and the RMC divisions

The company is small in hydro-electric energy and ready-mix concrete, which together bring ~6% to revenue. Its strong brand (Nagarjuna Cement) led to the ready-mix concrete brand being marketed as Nagarjuna RMC. It has ten RMC 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 Srisailem right main canal in AP, the other of 8.25MW on the right bank high-level canal of Tungabhadra dam in Karnataka.

In Q4, its RMC revenue grew 23.6% y/y to Rs416m. The energy division reported a Rs9m PBIT loss (Rs3m a year back); the RMC division reported Rs20m PBIT, up 299% y/y.

The readymade doors division

In collaboration with AGT, a Turkish global manufacturer with advanced technology in the wood industry, NCL set up a 200,000 sq.ft. factory in Malkapur, Hyderabad. The readymade doors division began commercial operations on 23rd Dec'19. It has capacity to produce 1,000 doors a day. In Q4, the division's revenue grew 3.8% y/y to Rs113m but suffered a PBIT loss of Rs19m (Rs7m loss a year back).

Result highlights

Fig 13 – Quarterly trend

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% Y/Y	% Q/Q
Sales	4,154	3,696	4,454	3,907	3,650	4,191	4,349	4,405	4,309	5,050	4,949	13.8	(2.0)
EBITDA	616	366	413	327	237	535	385	629	392	572	488	26.7	(14.5)
EBITDA margins (%)	14.8	9.9	9.3	8.4	6.5	12.8	8.9	14.3	9.1	11.3	9.9	101bps	-145bps
EBITDA per tonne (Rs)	863	654	559	544	346	679	505	842	545	758	699	38.5	(7.8)
Interest	59	64	60	65	68	71	59	48	70	59	53	(9.4)	(9.5)
Depreciation	111	111	112	109	120	126	130	132	134	130	161	23.9	23.3
Other income	29	24	46	35	56	27	75	46	39	35	63	(16.2)	81.9
PBT	475	215	287	188	105	365	272	494	227	417	338	24.1	(19.1)
Tax	163	63	114	63	77	165	164	184	89	166	96	(41.6)	(42.3)
PAT	312	152	173	125	28	199	108	311	138	251	242	123.4	(3.7)

Source: Company, Anand Rathi Research

Fig 14 – Details, segment-wise

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% Y/Y	% Q/Q
Net revenue													
Cement	4,872	4,379	5,222	4,819	4,515	5,153	5,107	5,361	4,780	5,812	5,455	6.8	(6.1)
Boards	424	436	496	497	489	487	531	485	528	507	570	7.5	12.5
Energy	31	32	13	-	37	35	6	-	12	3	-	NA	NA
RMC	310	283	298	246	223	306	336	337	321	394	416	23.6	5.5
Doors	63	68	82	67	69	92	109	79	107	127	113	3.8	(11.0)
Segment PBIT													
Cement	494	274	266	240	110	362	262	498	238	440	376	43.6	(14.4)
Boards	49	24	63	50	62	41	60	36	61	27	8	(87.2)	(72.1)
Energy	21	18	5	(8)	27	26	(3)	(10)	1	(5)	(9)	NA	NA
RMC	(1)	(3)	5	(7)	(10)	2	5	12	5	17	20	299.3	14.1
Doors	(30)	(35)	(19)	(22)	(17)	(9)	(7)	(10)	(22)	(17)	(19)	NA	NA
PBIT margins (%)													
Cement	10.1	6.2	5.1	5.0	2.4	7.0	5.1	9.3	5.0	7.6	6.9	177bps	-67bps
Boards	11.4	5.6	12.6	10.1	12.7	8.4	11.2	7.5	11.5	5.4	1.3	-991bps	-407bps
Energy	68.7	58.4	37.3	NA	72.8	74.8	(50.3)	NA	10.7	(155.3)	NA	NA	NA
RMC	(0.2)	(1.0)	1.8	(3.0)	(4.5)	0.7	1.5	3.5	1.7	4.4	4.8	330bps	36bps
Doors	(46.8)	(51.3)	(23.2)	(33.0)	(24.1)	(9.5)	(6.3)	(13.1)	(20.5)	(13.5)	(17.0)	NA	NA

Source: Company, Anand Rathi Research

Valuation

At the CMP, the stock trades at an EV/EBTIDA of 4x and an EV/tonne of \$30.7 on FY26e. We retain our Buy, at a TP of Rs267, 5x FY26e EV/EBITDA. Risks. Mounting competition, demand slowdown, rising coal/diesel prices.

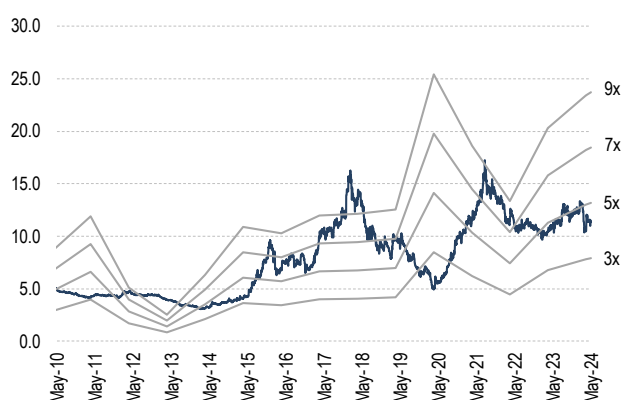
Change in estimates

Fig 15 – Change in estimates

	Old	New	% Variance
(Rs m)	FY25e	FY25e	FY25
Sales	18,302	19,912	8.8
EBITDA	2,577	2,370	(8.0)
PAT	1,318	1,169	(11.3)

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

Fig 18 – Peer comparison – Valuations

	CMP	P/E(x)		EV / EBITDA(x)		EV / ton (\$)	
	(Rs)	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
NCL Industries	203	7.9	6.7	4.9	4.0	41	31
Ramco Cement	764	28.4	21.7	12.0	10.3	122	118
Birla Corp.	1,434	16.8	12.5	8.4	6.8	72	64
India Cement	208	127.1	31.9	19.0	13.4	74	74
JK Cement	3,824	30.2	24.5	14.9	12.6	164	135
JK Lakshmi	779	15.8	13.8	8.8	7.7	82	78
Orient Cement	211	18.2	18.6	8.7	8.5	68	77
Heidelberg Cement	195	17.0	14.0	8.8	7.1	68	64
Prism Johnson	154	36.6	26.6	11.4	9.5	97	91
Star Cement	219	22.2	20.9	12.8	11.0	141	107
Sagar Cement	218	279.3	26.8	11.5	7.7	50	43
Dalmia Bharat	1,772	28.2	23.0	10.9	9.1	77	74

Source: Anand Rathi Research

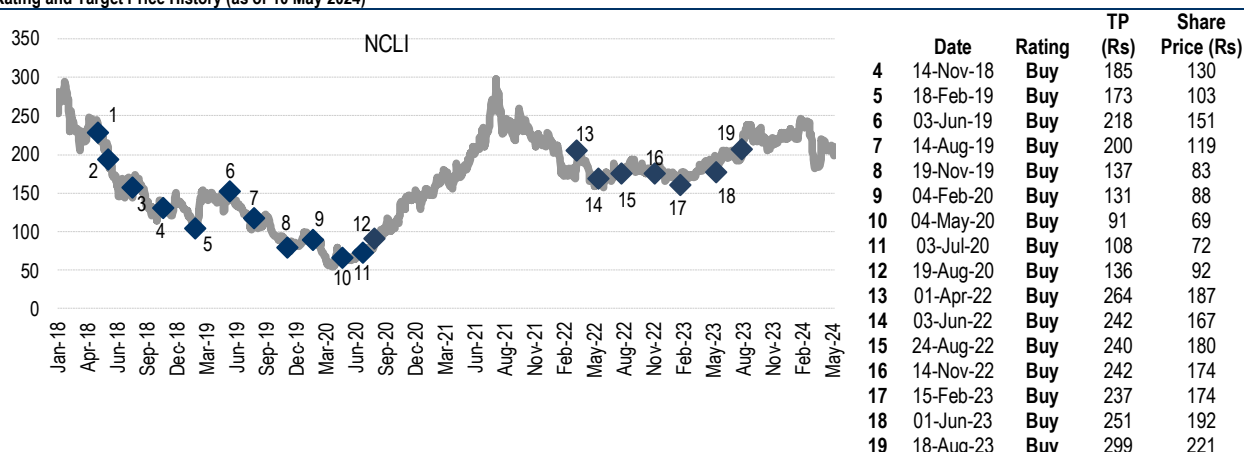
Appendix

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