NCL Industries (NCLIND)

ICICI direct Research

CMP: ₹ 211 | Target: ₹ 240 (14%) | Target Period: 12 months | **HOLD**

July 1, 2021

Company Update

ICICI Securities – Retail Equity Research

Growth to normalise after stellar performance…

NCL Industries' FY21 performance improved sharply with the company reporting revenue growth of 47.5% YoY to ₹ 1383.7 crore along with EBITDA margin expansion of over 556 bps to 20.4% and PAT of over ₹ 148.8 crore despite pandemic woes. Significant volume catch-up from Q2FY21 onwards supported by firm realisations helped NCL to post a healthy performance. Although Q4FY21 margins remained lower at 16.4%, this was partly led by cost pressures (higher petcoke, fuel prices) and the change in sales mix (increase in non-retail share) due to pick-up in infra that led to 2% QoQ drop in realisations. Going ahead, commissioning of WHRS (8 MW) and improved pricing environment would provide a cushion against the rise in cost of production. The WHRS, which got commissioned, would likely bring cost savings of over ₹ 25 crore on a full year basis. Further, the company has planned a capex of ₹ 300 crore though which NCL would increase its cement capacity to 3.6 MT from 2.7 MT by FY23E. Overall, we continue to remain positive on the sector.

Infra, rural segment to keep demand momentum healthy

NCL operates in South India (80% cement business comes from AP & Telangana). It has clinker and grinding capacity of 2.6 MT and 2.7 MT, respectively, 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. Post recording 31% YoY growth in volumes in FY21, we expect growth in the cement business to normalise till the new capacity comes on stream. Further, we await more clarity on the growth prospects of its door business division for a further re-rating.

Cement capacity to increase by 0.9 MT; to reach 3.6 MT

NCL's cement division has room for additional grinding capacity considering the installed clinker capacity. The board plans to set up a 2000-3000 TPD grinding capacity plant in Vizag. The total capex is estimated at ₹ 300 crore of which ₹ 200 crore is likely to be incurred in FY22E. With current total debt being over ₹ 400 crore, we expect debt levels to increase further in FY22E. Further, expansion in the same region (AP, Telangana), which has excessive capacity compared to the other regions, may pose challenges from a long-term perspective.

Valuation & Outlook

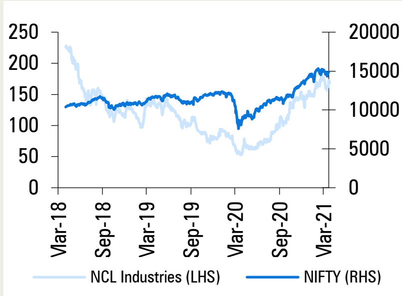
With targeted sales volume of ~2.6 MT, we expect growth to normalise to 8.2% in FY22E after stellar performance. We also expect RoCE to come down by 290 bps due to capex. Further, we await further clarity on the growth prospects of its door business division. With a positive sector outlook, we change our rating on the stock from REDUCE to **HOLD** with a revised TP of ₹ 240/share (at 6.5x FY23E EPS, implied EV/tonne of $75/tonne, earlier TP ₹ 120).

NCL GROUP

Stock Data

Particulars	₹ crore
Market Capitalization	959
Total Debt (FY21)	444
Cash (FY21)	70
EV (₹ crore)	1333
52 week High/Low	₹ 162/74
Equity Capital	45.2
Face Value (₹)	10

Nifty vs. Stock performance



Key risks to our call

- Delay in commercialisation of new cement capacities could lead to cost overruns and may lead to reduced profitability
- Volatility in cement prices in AP and Telangana impact margin profile and profitability of the company significantly

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	980	938	1384	1497	1599	7.5%
EBITDA	135	139	283	308	329	7.8%
EBITDA (%)	13.7	14.9	20.4	20.6	20.5	
Net Profit	61	69	228	222	234	1.3%
EPS	10.3	11.3	32.9	36.0	38.0	
EV/EBITDA	9.6	9.9	4.7	4.6	4.0	
EV/Tonne ($)	69	73	70	75	69	
RoNW	9.4	9.6	22.4	20.0	17.7	
RoCE	10.3	10.0	21.8	18.9	18.8	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	**937.9**	**1383.7**	**1496.9**	**1599.1**
Growth (%)	-4%	48%	8%	7%
Raw Material Expenses	260.3	406.0	429.0	453.8
Employee Expenses	42.1	50.3	53.8	57.8
Freight costs	170.0	248.0	271.7	294.3
Power & Fuel	274.9	306.3	338.0	371.3
Other expenses	327.0	460.0	496.6	539.0
Total Operating Expenditure	1074.3	1470.6	1589.1	1716.1
EBITDA	**139.5**	**282.8**	**308.2**	**328.5**
Growth (%)	3.5%	102.7%	9.0%	6.6%
Depreciation	42.1	40.9	51.0	58.2
Interest	30.7	20.5	39.5	40.3
Other Income	2.6	6.6	4.0	4.0
PBT	**69.2**	**227.9**	**221.7**	**234.0**
Others	0.0	0.0	0.0	0.0
Total Tax	18.3	79.2	58.7	62.0
Reported PAT	50.9	148.8	162.9	172.0
Adjusted PAT	**50.9**	**148.8**	**162.9**	**172.0**
Growth (%)	9%	192%	10%	6%
Adjusted EPS (₹)	**11.3**	**32.9**	**36.0**	**38.0**

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	50.9	148.8	162.9	172.0
Add: Depreciation	42.1	40.9	51.0	58.2
Add: Finance costs	30.7	20.5	39.5	40.3
(Inc)/dec in Current Assets	-11.5	-12.8	-4.0	-2.5
Inc/(dec) in CL and Def. tax	-40.2	7.0	25.2	-0.4
CF from operating activi	**72.0**	**204.4**	**274.6**	**267.7**
(Inc)/dec in Fixed Assets	-78.4	-105.6	-259.5	-10.0
(Inc)/dec in Investments	14.5	-30.0	-50.0	-70.0
Others	-28.6	14.3	1.9	-30.0
CF from investing activi	**-92.5**	**-121.4**	**-307.6**	**-110.0**
Issue/(Buy back) of Shares	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	76.0	2.2	100.0	-80.0
Finance costs	-30.7	-20.5	-39.5	-40.3
Others	-6.4	0.0	0.0	0.0
Changes in other equity	-22.0	-13.6	-13.6	-13.6
CF from financing activi	**16.9**	**-31.9**	**46.9**	**-133.9**
Net Cash flow	-3.6	51.1	13.9	23.8
Opening Cash	22.4	18.8	69.9	83.8
Closing Cash	**18.8**	**69.9**	**83.8**	**107.6**

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	45	45	45	45
Reserve and Surplus	483	619	768	926
Total Shareholders funds	529	664	813	972
Total Debt	442	444	544	464
Deferred Tax Liability	73	82	85	75
Minority Interest / Others	0	0	0	0
Total Liabilities	**1043**	**1190**	**1442**	**1511**
Assets				
Gross PPE	842	977	1147	1277
Less: Acc Depreciation	147	188	239	297
Net PPE	695	789	908	980
CWIP	90	61	150	30
Total Fixed Assets	**785**	**850**	**1058**	**1010**
Intangibles	0		0	0
Investments	0	30	80	150
Inventory	110	105	104	90
Debtors	143	161	160	177
Loans and Advances	0	0	0	0
Other Current Assets	0	0	6	6
Cash	19	70	84	108
Total Current Assets	**272**	**336**	**354**	**380**
Creditors	66	79	95	102
Provisions & Others	44	29	35	37
Total Current Liabilities	110	108	130	139
Net Current Assets	**162**	**228**	**224**	**241**
Others Assets	96	82	80	110
Application of Funds	**1043**	**1190**	**1442**	**1511**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	11.3	32.9	36.0	38.0
Cash EPS	20.6	41.9	47.3	50.9
BV	116.9	146.7	179.8	214.8
DPS	2.5	2.5	2.5	2.5
Cash Per Share	4.1	15.5	18.5	23.8
Operating Ratios (%)				
EBITDA Margin	14.9	20.4	20.6	20.5
EBIT Margin	10.4	17.5	17.2	16.9
PAT Margin	5.4	10.8	10.9	10.8
Inventory days	42.7	27.7	25.4	20.5
Debtor days	55.8	42.4	38.9	40.3
Creditor days	22.5	19.5	21.8	21.7
Return Ratios (%)				
RoE	9.6	22.4	20.0	17.7
RoCE	10.0	21.8	18.9	18.8
RoIC	11.3	25.5	24.6	23.5
Valuation Ratios (x)				
P/E	18.8	6.4	5.9	5.5
EV / EBITDA	9.9	4.7	4.6	4.0
EV / Net Sales	1.5	1.0	0.9	0.8
Market Cap / Sales	1.0	0.7	0.6	0.6
Price to Book Value	1.8	1.4	1.2	1.0
Solvency Ratios				
Debt/EBITDA	3.2	1.6	1.8	1.4
Debt / Equity	0.8	0.7	0.7	0.5
Current Ratio	2.5	3.1	2.7	2.7
Quick Ratio	1.5	2.1	1.9	2.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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