

# NCL Industries LTD.

Nifty	8699
Sensex	28130

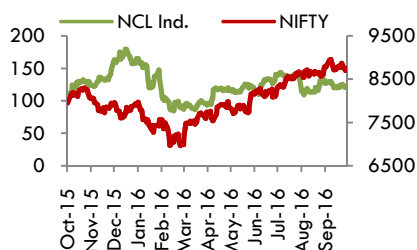
## KEY STOCK DATA

Market Cap (₹ Crs.)	551
52W High/Low	184.50/80.00
Bloomberg	NCLIN
3-m daily average vol	221,608

## SHAREHOLDING PATTERN

Promoters	49.05
FIs & DIIs	0.10
Public & Others	50.85

## COMPARISON CHART



## SUMMARY FINANCIALS

(₹ mn)

Particulars	FY 15	FY 16	FY 17E	FY 18E
Revenues	5,358	6,627	7,491	10,057
PAT	88	531	717	1,008
EPS (₹)	2.5	14.5	19.5	27.4
P/E	59.35	10.38	7.69	5.47
EV/EBITDA	9.93	5.40	4.00	2.81
Debt / Equity	1.28	0.99	0.49	0.69

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## COMPANY BACKGROUND

A Retail focused cement player, NCL operates pre-dominantly in AP/Telangana markets. Currently, NCL has 2mn tn cement capacity and largely focus on retail trade segment selling cement mainly in AP/Telangana (75%), Tamil Nadu (11%) and Karnataka (11%). The company also supplies cement with higher clinker content for sleeper manufacturing. NCL has got one of the largest dealer networks, with more than 1100 dealers in Andhra Pradesh. The company covers ~5 North Coastal districts with dealer strength of 550. The strong focus on developing brand/retail market will enable NCL to sustain the volume growth with stability in realization compared to other players who rely more on Institutional sales.

NCL has the unique distinction of being the only producer of cement particle boards in India. NCL had diversified into boards by setting up a plant near its Cement plant at Mattapally for manufacture of 'Bison Panels' in Technical Collaboration with Bison Werke of Germany, the world leaders in Particle Board Technology. It further expanded boards' capacity by putting up a plant in Ponta Sahib to cater to growing demand of Prefab in North. NCL is also the largest player in building Prefab shelter used in Military, Industries and for temporary structures.

## INVESTMENT RATIONALE

- **Cement capacity expansion – Key growth driver going forward** – NCL Industries is planning to expand its cement capacity from 2 million tons (split equally between Mattampally (Telangana) and Kondapalli (AP) to 2.7 million tones going forward. It also plans to expand the ready-mix concrete business from 3800 tpd to 6300 tpd by setting up plants in Hyderabad, Vizag and Amravati. This is due to increased demand from recent infra development in the above mentioned states. Rising demand, capacity expansion coupled with higher realization will augur well for the company. Hence, post expansion, we expect, NCL top-line to grow at a CAGR of 23% for FY 16-FY 18E.
- **High operational efficiency** – Andhra Pradesh and Telangana have numerous limestone reserves. This drives the focus of NCL Industries towards increasing its production capacity for the southern market. It also plans to extend its production activity to other areas like Karnataka and Tamil Nadu. Limestone is the key ingredient used in the manufacture of clinker. NCL's limestone mine has estimated reserves of close to 1000 MM valid up to 2046. These reserves are capable of servicing requirements of a 10 mtpa plant for 60-65 years. Hence, even post the second phase of expansion, NCL has enough limestone reserves to undertake expansions and scale up its business. Further, the mine is situated just 3 kms away from the clinker plant, implying negligible transportation cost. Also, given the fact that the plant is located near the coast, the limestone reserves are soft and do not require extensive mining operations, thereby reducing the cost of limestone extraction. Accordingly, NCL's raw material cost per tone is ~₹250/tonne, as compared to the industry average of ₹700-800 per ton. Hence, we believe on account of higher operational efficiency, its top line and bottom line to grow at a CAGR of 23% and 38% respectively (FY 16-FY18E).
- **Bison Panel-cement bonded particle board** – A huge opportunity going ahead:-Bison panel is a cement bonded particle board made out of 62% cement 28% wood. The wood used is of fast growing species like Eucalyptus and Popular. Due to adoption of special manufacturing process, the panel acquires the strength, the durability of cement and easy workability of wood-a combination of qualities absent in other boards. Currently, it contributes ~ ₹200-250 mn to the NCL's bottom line. Also, the company is increasing Bison panel capacity from 60,000 tn/year to 90,000 tn/year which is likely to be completed by Mar 17. Post capex, we believe, its bottom line contribution will increase from ₹200 mn to ~ ₹300 mn per year (Post FY 17E).

**KEY RISKS**

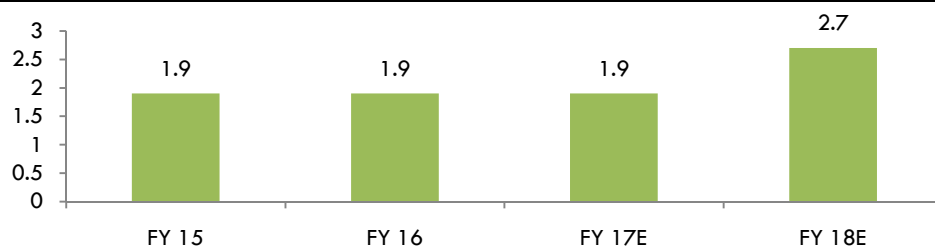
- Any rise in input costs-Coal.
- Any slowdown in infra spending by the govt both at the centre and the states.

**OUTLOOK & VALUATION**

We believe NCL's strong brand franchise, premium positioning in north coastal AP and low cost capacity expansion (0.7 MT at ₹1,800 mn ) will enable the company to grow above industry average and post healthy EBITDA/tn in the next few years. Also, NCL will be a key beneficiary of the upcoming demand revival in south and a sharp rise in cement prices. Currently, NCL is trading at an attractive valuation US\$33.24/tn on 2.7 MT capacity). However, improvement in EBITDA/ton from here will remain a key trigger going forward. **At CMP of ₹150, NCL is trading at FY 17E& FY18E EV/EBITDA multiple of 4x and 2.8x, respectively. On assigning 3.7x EV/EBITDA multiple of to our FY 18 estimates, we arrived at price target of ₹201. Hence, we rate NCL a BUY.**

**INVESTMENT RATIONALE**
**CEMENT CAPACITY EXPANSION – KEY GROWTH DRIVER GOING FORWARD**

NCL Industries is planning to expand its cement capacity from 2 million tons (split equally between Mattampally (Telangana) and Kondapalli (AP) to 2.7 million tons going forward. It also plans to expand the ready-mix concrete business from 3800 tpd to 6300 tpd by setting up plants in Hyderabad, Vizag and Amravati. This is due to increased demand from recent infra development in the above mentioned states. Rising demand, capacity expansion coupled with higher realization will augur well for the company. Hence, post expansion, we expect, NCL top-line to grow at a CAGR of 23% for FY 16-FY 18E.

**CEMENT CAPACITY (mn tons)**


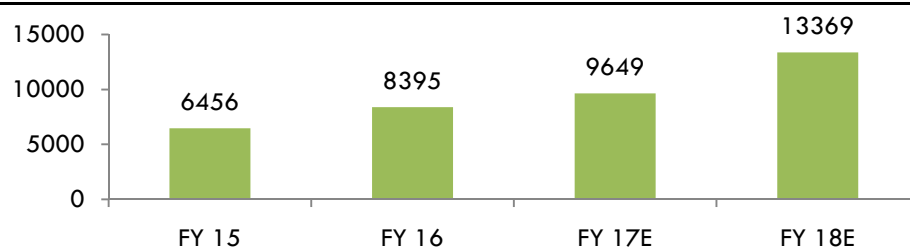
NCL Industries is planning to expand its cement capacity from 2 million tons (split equally between Mattampally (Telangana) and Kondapalli (AP) to 2.7 million tons

Source: Company, Way2Wealth Research

**PRODUCTION (mn tons)**

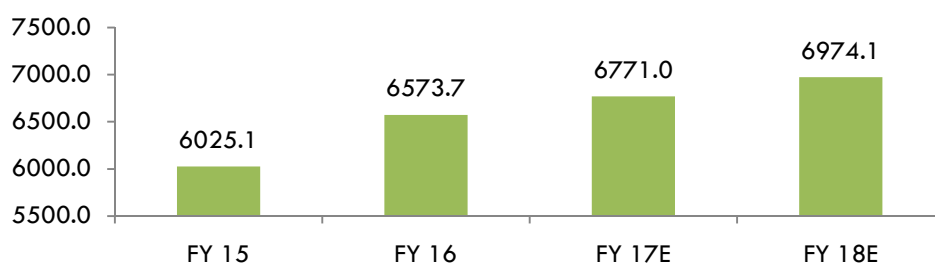

FY 18E cement production to stand at 1.9 mn tn

Source: Company, Way2Wealth Research

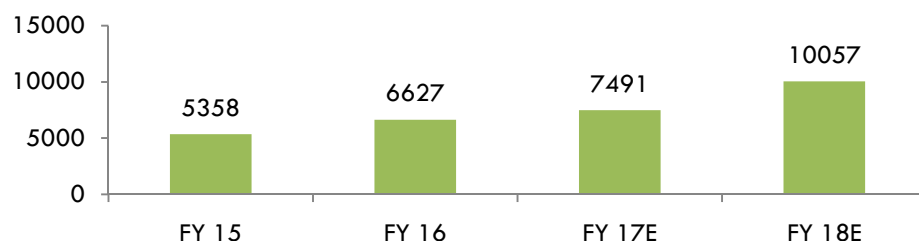
**CEMENT Gross Sales (₹ mn)**


Robust cement demand expected in Telangana and AP-FY17-FY 18E

Source: Company, Way2Wealth Research

**Realisation (in ₹/tn)**


Source: Company, Way2Wealth Research

**Net sales (₹ mn)**


Net sales to increase at a CAGR of 23% (FY 16-18E)

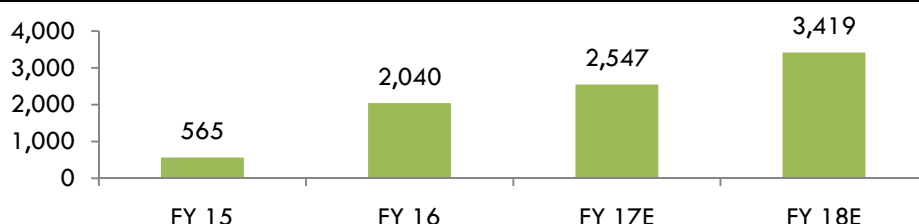
Source: Company, Way2Wealth Research

PLANT TYPE	LOCATION
<b>CEMENT</b>	
Unit-1	Simhapuri, Matampally Mandal, Nalgonda, Telangana
Unit-2	Kadimpothavaram Village, Kondapalli, Krishna district, AP
<b>BOARDS</b>	
Unit-1	Simhapuri, Matampally Mandal, Nalgonda, Telangana
Unit-2	Bhothanwali village, Paonta sahib, Sirmour district, Himanchal Pradesh
<b>ENERGY</b>	
Unit-1	Pothireddypadu, Head Regulator, Chabolu village, Pothulapadu Post, Nandikotkur TQ, Kumool District, AP
Unit-2	RBHL C Zero Mile point, Tingabhadra dam, Tungabhadra road, Amaravathi village, Hospet Karnataka
<b>PREFAB</b>	
Unit-1	Bhothanwali village, Paonta Sahib, Sirmour district, Himachal Pradesh
<b>READY MIX CONCRETE</b>	
Unit-1	Patancheru, Hyderabad, Telangana
Unit-2	Auto Nagar, Vishakapatnam, AP

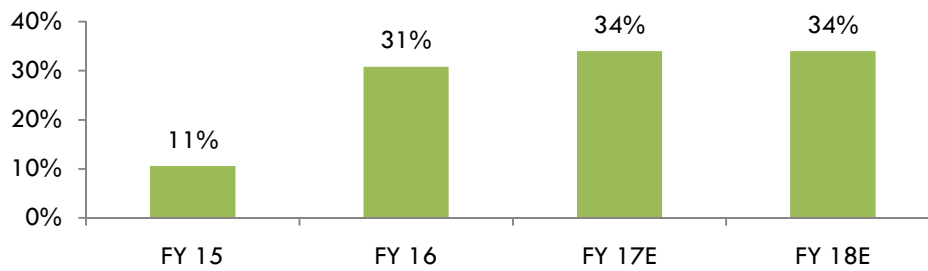
**Note** – Company exited CDR with refinancing from Piramal capital: NCL was in CDR with debt of ~₹2bn. The company refinanced debt from Piramal Capital to exit the CDR scheme and finance the capex in Cement and Boards division. While, this would increase the interest rate to ~18% from 14% currently. However, it will ease restrictions on capacity expansion imposed by banks due to being in CDR.

**HIGH OPERATIONAL EFFICIENCY**

Andhra Pradesh and Telangana have numerous limestone reserves. This drives the focus of NCL Industries towards increasing its production capacity for the southern market. It also plans to extend its production activity to other areas like Karnataka and Tamil Nadu. Limestone is the key ingredient used in the manufacture of clinker. NCL's limestone mine has estimated reserves of close to 1000 MM valid up to 2046. These reserves are capable of servicing requirements of a 10 mtpa plant for 60-65 years. Hence, even post the second phase of expansion, NCL has enough limestone reserves to undertake expansions and scale up its business. Further, the mine is situated just 3 kms away from the clinker plant, implying negligible transportation cost. Also, given the fact that the plant is located near the coast, the limestone reserves are soft and do not require extensive mining operations, thereby reducing the cost of limestone extraction. Accordingly, NCL's raw material cost per tone is ~₹250/tone, as compared to the industry average of ₹700-800 per ton. Hence, we believe on account of higher operational efficiency, its top line and bottom line to grow at a CAGR of 23% and 38% respectively (FY 16-FY18E).

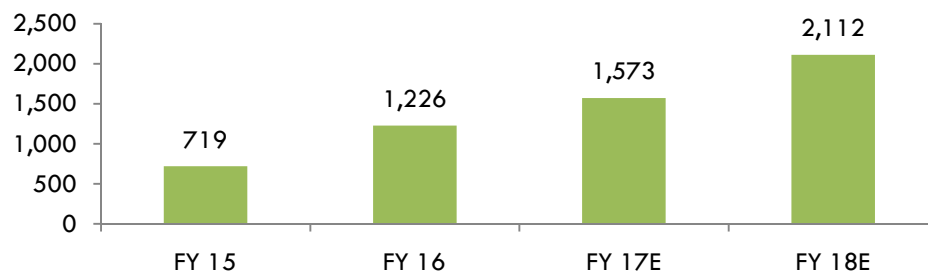
**GROSS PROFIT (₹ mn)**


Source: Company, Way2Wealth Research

**GROSS MARGIN**


Gross\_margin to increase amid lower raw material expenses going forward

Source: Company, Way2Wealth Research

**EBITDA (₹mn)**


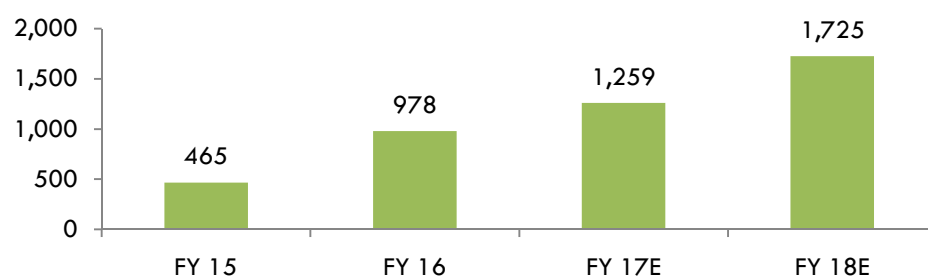
EBITDA to increase at a CAGR of 31%( FY 16-18E)

Source: Company, Way2Wealth Research

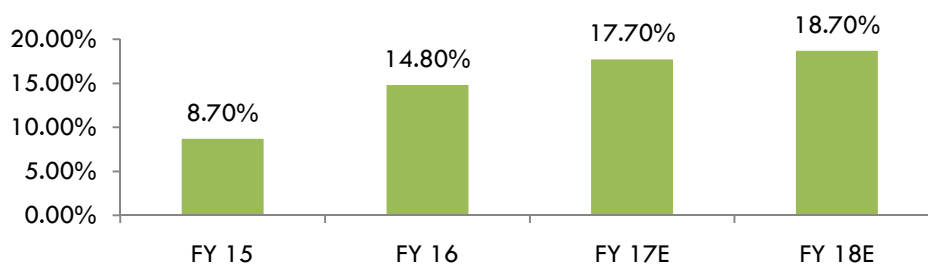
**EBITDA MARGIN**


EBITDA margin to increase by 200 bps

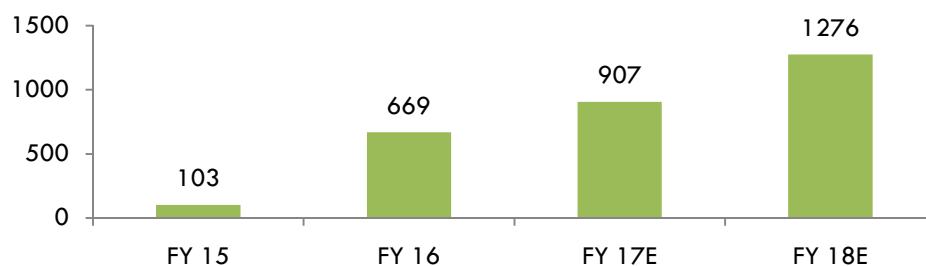
Source: Company, Way2Wealth Research

**EBIT (₹mn)**


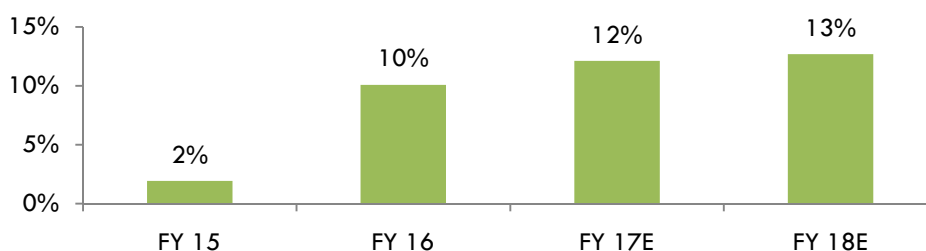
Source: Company, Way2Wealth Research

**EBIT MARGIN**


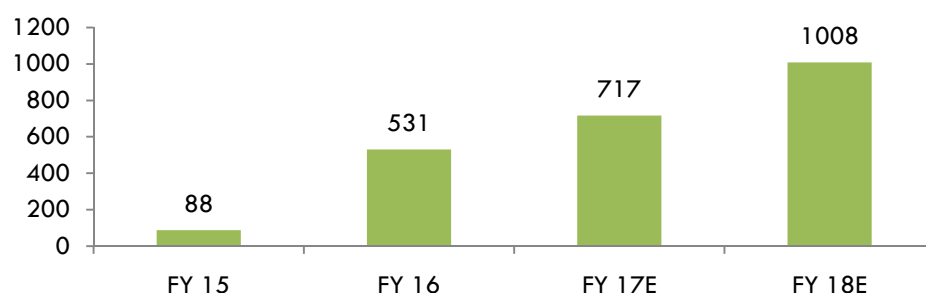
Source: Company, Way2Wealth Research

**PBT (₹mn)**


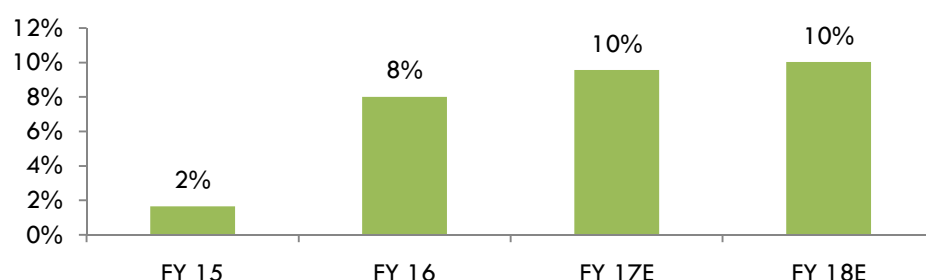
Source: Company, Way2Wealth Research

**PBT MARGIN**

 PAT Margin to stand at 13%  
(FY 18E)

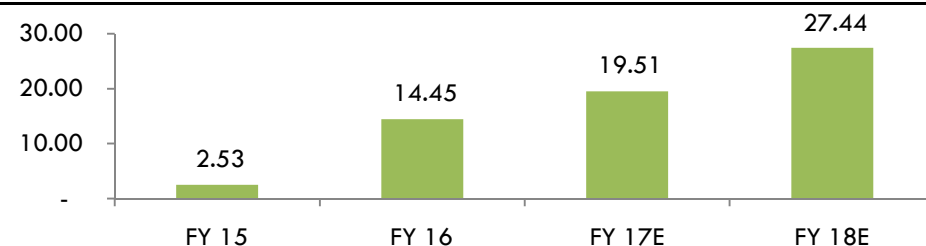
Source: Company, Way2Wealth Research

**PAT (₹mn)**


Source: Company, Way2Wealth Research

**PAT MARGIN**


Source: Company, Way2Wealth Research

**EPS (₹)**

 EPS to grow at CAGR of 38% (FY  
16-18E)

Source: Company, Way2Wealth Research

**BISON PANEL-CEMENT BONDED PARTICLE BOARD**

A huge opportunity going ahead:-Bison panel is a cement bonded particle board made out of 62% cement 28% wood. The wood used is of fast growing species like Eucalyptus and Popular. Due to adoption of special manufacturing process, the panel acquires the strength, the durability of cement and easy workability of wood-a combination of qualities absent in other boards. Currently, it contributes ~ ₹200-250 mn to the NCL's bottom line. Also, the company is increasing Bison panel capacity from 60,000 tn/year to 90,000 tn/year which is likely to be completed by Mar 17. Post capex, we believe, its bottom line contribution will increase from ₹200 mn to ~ ₹300 mn per year (Post FY 17E).

**Segment-Wise performance FY 16**

SEGMENTS	% CONTRIBUTION TO TOTAL TURNOVER	TURNOVER RS MN	SEGMENT WISE PBIT RS MN
Cement	84.43	8394.66	759.42
Boards	10.49	1043.098	242.17
Prefab*		Nil	37.695
Energy	0.24	23.7	-7.474
RMC	4.84	481.67	12.26

Source: Company, Way2Wealth Research

Bison is fire, weather & termite resistant, a good insulating material, dimensionally stable, possesses a smooth surface with wood workability and is chemically stable. It can also be drilled, sawn & sanded with normal working tools, & can be fixed using screws and nails. Bison is a unique all-purpose particle board that can be employed for a multitude of applications, both for interiors & exterior use. It can be used for doors, false ceilings, external & internal wall claddings, mezzanine flooring, acoustic roofs, car porch ceilings, roof underlay's, interior & exterior walls, single & double skin partitions, guard rooms, duct covers, building facades, furniture, cupboards, school benches, kitchen underlay's, outdoor cabins, prefab shelters, wall sidings, & more. Bison is unique among particle boards in that it is available in a wide range of thicknesses - from 6mm to 40mm. Such a wide range contributes to its application versatility.

**PEER COMPARISON – FY16**

COMPANY NAME	NET SALES RS MN	PAT RS MN	EV/TN RS MN
<b>NCL Industries</b>	6627	531	3485
Sagar Cement	6217.6	497.6	5319
Ultratech	252807	22865	16302
Dalmia Cement	63673	1908	9257

Source: Company, Way2Wealth Research

**OUTLOOK AND VALUATION**

We believe NCL's strong brand franchise, premium positioning in north coastal AP and low cost capacity expansion (0.7 MT at ₹1,800 mn) will enable the company to grow above industry average and post healthy EBITDA/tn in the next few years. Also, NCL will be a key beneficiary of the upcoming demand revival in south and a sharp rise in cement prices. Currently, NCL is trading at an attractive valuation US\$33.24/tn on 2.7 MT capacity). However, improvement in EBITDA/ton from here will remain a key trigger going forward. **At CMP of ₹150, NCL is trading at FY17E & FY18E EV/EBITDA multiple of 4x and 2.8x, respectively. On assigning 3.7x EV/EBITDA multiple of to our FY18 estimates, we arrived at price target of ₹201. Hence, we rate NCL a BUY.**



**FINANCIALS**

	(₹ mn)			
INCOME STATEMENT	FY 15	FY 16	FY 17E	FY 18E
Net Sales	5,358	6,627	7,491	10,057
Other Income	0	0		
<b>Total Revenues</b>	<b>5,358</b>	<b>6,627</b>	<b>7,491</b>	<b>10,057</b>
Cost of material consumed	4,793	4,587	4,944	6,638
<b>Gross profit</b>	<b>565</b>	<b>2,040</b>	<b>2,547</b>	<b>3,419</b>
<i>Gross Margin%</i>	<i>10.6%</i>	<i>30.8%</i>	<i>34.0%</i>	<i>34.0%</i>
Personnel Expenses	234	275	375	503
% of revenues	4%	4%	5%	5%
Administrative Expenses	331	538	599	805
% of revenues	6%	8%	8%	8%
<b>Total Other Expenses</b>	<b>565</b>	<b>813</b>	<b>974</b>	<b>1,307</b>
<b>EBITDA</b>	<b>719</b>	<b>1,226</b>	<b>1,573</b>	<b>2,112</b>
<i>EBITDA Margin %</i>	<i>13.4%</i>	<i>18.5%</i>	<i>21.0%</i>	<i>21.0%</i>
Depreciation	254	249	314	387
<b>Earnings / (loss) before Interest &amp; Taxes (PBIT)</b>	<b>465</b>	<b>978</b>	<b>1,259</b>	<b>1,725</b>
<i>Operating Margin %</i>	<i>8.7%</i>	<i>14.8%</i>	<i>16.8%</i>	<i>17.2%</i>
Other Income	9	12	105	151
Net Interest expense / (Income)	371	306	457	600
<i>Other Adjustments</i>	<i>-</i>	<i>14.94</i>		
<b>Earnings (loss) before taxes (PBT)</b>	<b>102.7</b>	<b>668.7</b>	<b>907.1</b>	<b>1,275.9</b>
<i>Operating Margin %</i>	<i>1.9%</i>	<i>10.1%</i>	<i>12.1%</i>	<i>12.7%</i>
Provision for Income Tax	14	138	190	268
<i>Tax rate(%)</i>	<i>14%</i>	<i>21%</i>	<i>21%</i>	<i>21%</i>
<b>Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)</b>	<b>88.3</b>	<b>530.9</b>	<b>716.6</b>	<b>1,008.0</b>
<i>Net Profit Margin</i>	<i>2%</i>	<i>8%</i>	<i>9.6%</i>	<i>10.0%</i>



	(₹ mn)			
<b>BALANCE SHEET</b>	<b>FY 15</b>	<b>FY 16</b>	<b>FY 17E</b>	<b>FY 18E</b>
Inventories	633	721	583	783
Debtors	445	527	599	805
Cash and cash equivalents	57	211	1,750	3,335
Other current assets	266	192	282	414
Short term loans and Advances	260	397	397	397
<b>Total current assets</b>	<b>1,661</b>	<b>2,048</b>	<b>3,611</b>	<b>5,733</b>
<b>Loans &amp; Advances</b>	<b>145</b>	<b>157</b>	<b>180</b>	<b>503</b>
<b>Fixed Assets</b>				
Gross Block	4,091	4,022	5,235	6,448
Less: Depreciation	-	-	314	701
<b>Net Block</b>	<b>4,091</b>	<b>4,022</b>	<b>4,921</b>	<b>5,747</b>
<b>Good will</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Investments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total LTA</b>	<b>4,091</b>	<b>4,022</b>	<b>4,921</b>	<b>5,747</b>
<b>Total Assets</b>	<b>5,897</b>	<b>6,227</b>	<b>8,711.8</b>	<b>11,982.9</b>
Current Liabilities	1,934	2,315	2,521	3,385
Provisions	68	195	544	730
Unsecured Loans	954	871	871	871
Deferred tax liability	415	424	424	424
<b>Total Current liabilities</b>	<b>3,372</b>	<b>3,805</b>	<b>4,361</b>	<b>5,411</b>
Secured Loans	999	453	1,666	2,879
<b>Minority Interest</b>				
Equity Share Capital	349	367	367	367
Reserve & Surplus	1,177	1,601	2,317	3,325
<b>Total Shareholder funds</b>	<b>1,526</b>	<b>1,968</b>	<b>2,685</b>	<b>3,693</b>
<b>Total Liabilities and Shareholder funds</b>	<b>5,897</b>	<b>6,227</b>	<b>8,712</b>	<b>11,983</b>

	(₹ mn)			
<b>CASH FLOW STATEMENT</b>	<b>FY 15</b>	<b>FY 16</b>	<b>FY 17E</b>	<b>FY 18E</b>
<b>Net Profit / (Loss) Before Tax</b>	103	669	907	1,276
Depreciation	254	252	314	387
Other Adjustments	-	306	457	600
<b>Operating Profit before Working Capital Changes</b>	357	1,226	1,678	2,263
Working Capital Adjustments	178	155	531	512
<b>Cash Generated from Operations</b>	534	1,382	2,209	2,775
Less Taxes paid	0	68	190	268
<b>Net Cash Flow from Operating Activities</b>	534	1,314	2,018	2,507
Purchase/ Adj. of fixed assets	41	(179)	(1,213)	(1,213)
Change in loan & Advances	-	-	(23)	(323)
<b>Net Cash Flow from Investing Activities</b>	40.6	(179.2)	(1,235.6)	(1,536.1)
proceeds from term borrowings	-	(537.39)	-	-
Share issue expenses /issue of share capital	-	(0.50)	-	-
Repayment of term borrowing	(568.39)	(91.65)	1,213.00	1,213.00
Interest paid	-	(306.04)	(456.73)	(600.00)
Dividend on Equity paid	-	(44.21)	-	-
<b>Net Cash Flow from Financing Activities</b>	(568.4)	(979.8)	756.3	613.0
<b>Net Change in Cash</b>	6.4	154.6	1,539.1	1,584.3

SUMMARY FINANCIALS	FY 15	FY 16	FY 17E	FY 18E
Total Revenues	5,357.95	6,627.20	7,491	10,057
Gross profit	565.3	2,040.0	2,547	3,419
EBITDA	719	1,226	1,573	2,112
PAT	88.3	530.9	717	1,008
Total Cash	57	211	1,750	3,335
Total Debt	1,953	1,324	2,537	3,750
	19.0%	23.1%	18.0%	16.0%
VALUATION				
Shares out	34.94	36.73	36.73	36.73
Price (in ₹)	150.0	150.0	150.0	150.0
Equity Market Cap	5,240.60	5,509.80	5,509.80	5,509.80
EV	7,137.3	6,622.9	6,296.9	5,925.6
EV/ Sales	1.3x	1.0x	0.8x	0.6x
EV/ EBITDA	9.9x	5.4x	4.0x	2.8x
EPS	2.53	14.5	19.5	27
P/E	59.4	10.4	7.69	5.47
RoE	5.8%	27.0%	26.7%	27.3%
RoCE	30.4%	49.7%	46.9%	46.7%
GROWTH				
Total Revenues		23.7%	13.0%	34.3%
Gross profit		260.9%	24.8%	34.3%
EBITDA		70.7%	28.3%	34.3%
PAT		501.2%	35.0%	40.7%
EPS		471.9%	35.0%	40.7%
PROFITABILITY				
Gross Margin	10.6%	30.8%	34.0%	34.0%
EBITDA Margin	13.4%	18.5%	21.0%	21.0%
Operating Margin	1.9%	10.1%	12.1%	12.7%
PAT	1.6%	8.0%	9.6%	10.0%
STABILITY				
Debt / Equity Ratio	1.28	0.99	0.49	0.69
Interest Coverage Ratio	1.25	3.20	2.76	2.88

**TEAM**

ANALYST	DESIGNATION	SECTOR	EMAIL	TELEPHONE
Alok Ranjan	Head – Research		alokranjan@way2wealth.com	+9122-6663 8950
Jaisheel Garg	AVP	Power, Power Equipment, Coal Mining	jaisheelgarg@way2wealth.com	+9122-6146 2974
Mahesh Bendre	AVP	Capital Goods, Auto, Auto Ancillary	maheshbendre@way2wealth.com	+9122-6146 2937
Shivani V. Vishwanathan	AVP	FMCG, Consumer Durables	shivani.mehra@way2wealth.com	+9122-6663 8956
Chintan Gupta	Research Associate		chintangupta@way2wealth.com	+9122-6663 8972
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Name of the Security	<b>NCL Industries Ltd</b>
Name of the analyst	<b>Jaisheel Garg</b>
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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