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September 25, 2014

Mangalam Cement

New capacity addition to drive volume growth

Capacity expansion to drive volume growth: Mangalam Cement (MCL), a BK Birla group company having its plant in Rajasthan, has expanded its cement capacity by 1.25mtpa (increase of 63%) to 3.25mtpa (as of end-FY2014). We expect MCL to report a healthy 21.8% volume CAGR over FY2014-16E on the back of improved outlook for cement demand (also MCL's production in FY2014 was lower due to plant shut down for a few months for up-gradation, leading to lower base).

OPM to improve due to multiple levers: With MCL's grinding capacity now increased to 1.4x of clinker capacity post expansion (vs 1.2x earlier), it expects to increase the fly ash component in cement production from current 16% to 30-32% during FY2015E, closer to industry levels, which is expected to aid in OPM expansion. Also, in FY2014 MCL had undertaken plant shutdown to upgrade its Kiln which will help in reducing power and fuel consumption. Also, the new 1.25mtpa capacity, which is expected to contribute significantly to overall production volume, is also expected to be more energy efficient. Thus there would be a further reduction in the cost of cement production for the company. The realizations are also expected to improve due to strong demand recovery in the cement sector. We expect realization to improve by 7% CAGR over FY2014-16E. Overall, we expect EBITDA/tonne to improve from ₹310/tonne in FY2014 to ₹680/tonne in FY2016.

Valuation: At the current market price of ₹246, the stock is trading at trailing EV/tonne of $49 (on its 3.25mtpa installed capacity), which is at a large discount to its midcap peers (The peers like India cement, JK cement, JK lakshmi and Ramco Cement are trading at EV/tonne of $70, $75, $120 (including expanded capacity $104) and $121 respectively). The stock is trading at 12.6x and 7.9x its FY2015E and FY2016E EPS and 7.5x and 4.8x its FY2015E and FY2016E EV/EBITDA, respectively. **We initiate coverage on Mangalam Cement with a Buy recommendation and target price of ₹337 based on EV/tonne of $60 and implying 6.5x FY2016E EV/EBIDTA.** The EV/EBITDA target multiple is at a 10% discount to the company's other midcap peers in the cement space.

Key Financials

Y/E March (₹ cr)	FY13	FY14	FY15E	FY16E
Net Sales	706	697	940	1,156
% chg	*11.9*	*(1.2)*	*34.8*	*23.1*
Net Profit	77	30	52	84
% chg	*38.2*	*(61.7)*	*76.2*	*60.4*
EBITDA (%)	18.5	8.0	13.5	15.7
EPS (₹)	29	11	20	31
P/E (x)	8.5	22.2	12.6	7.9
P/BV (x)	1.3	1.3	1.2	1.1
RoE (%)	16.7	5.9	9.9	14.6
RoCE (%)	15.4	3.0	8.5	12.7
EV/Sales (x)	0.9	1.1	1.0	0.8
EV/EBITDA (x)	4.6	13.6	7.5	4.8

Source: Company, Angel Research; Note: CMP as of September 24, 2014

BUY

CMP	₹246
Target Price	₹337
Investment Period	12 Months

Stock Info	
Sector	Cement
Market Cap (₹ cr)	657
Net Debt (₹ cr)	355
Beta	1.1
52 Week High / Low	268/95
Avg. Daily Volume	86,833
Face Value (₹)	10
BSE Sensex	26,745
Nifty	8,002
Reuters Code	MGLC.BO
Bloomberg Code	MGC IN

Shareholding Pattern (%)	
Promoters	27.4
MF / Banks / Indian Fls	1.1
FII / NRIs / OCBs	1.1
Indian Public / Others	70.3

Abs. (%)	3m	1yr	3yr
Sensex	7.0	34.5	66.0
Mangalam Cem	18.2	149.4	139.4

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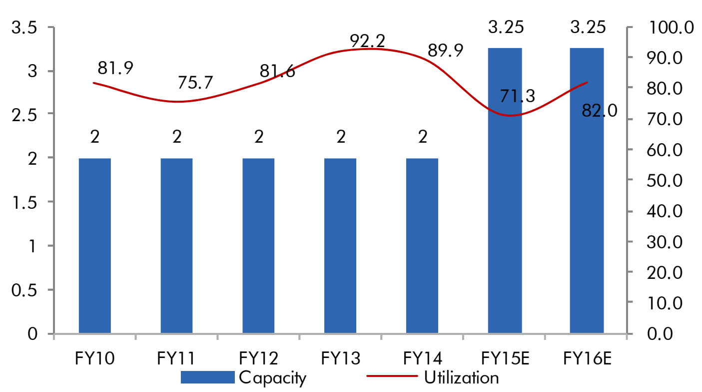
Investment Arguments

Capacity expansion to drive volume growth

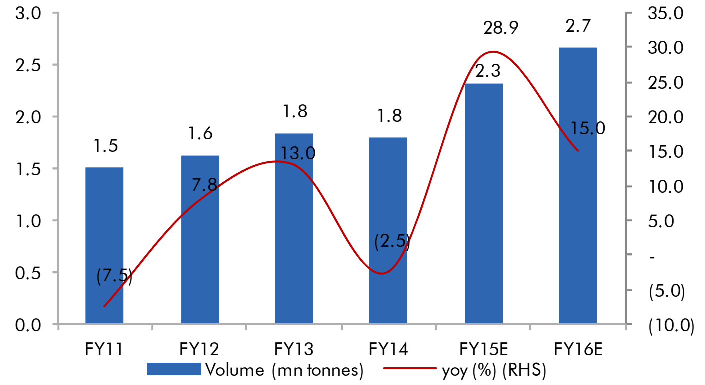
MCL has expanded its cement capacity by 1.25mtpa (increase of 63%) to 3.25mtpa (as of end-FY2014). It has also expanded its clinker capacity by 0.5mtpa to 2.3mtpa. The company has incurred a capex of ~₹500cr for this expansion. MCL started commercial production at the new capacity in 1QFY2015, which we believe would drive volume growth during FY2015-16. The company operated at 92/90% capacity utilization level during FY2013/14 inspite of a weak economic environment prevalent during the last couple years. With a pick-up in infrastructure and construction activity in the country, we expect MCL to easily soak up the new capacity. Due to the addition of the new capacity, we expect utilization to decline to 71% during FY2015 but thereafter the same is expected to increase to 82% in FY2016. We expect MCL to report a healthy 21.8% volume CAGR during FY2014-16 on the back of improved outlook for cement demand (also MCL's production in FY2014 was lower due to plant shut down for a few months for up-gradation, leading to lower base).

Exhibit 1: Cement Capacity and utilization levels



Source: Company, Angel Research

Exhibit 2: Volume Growth Trend

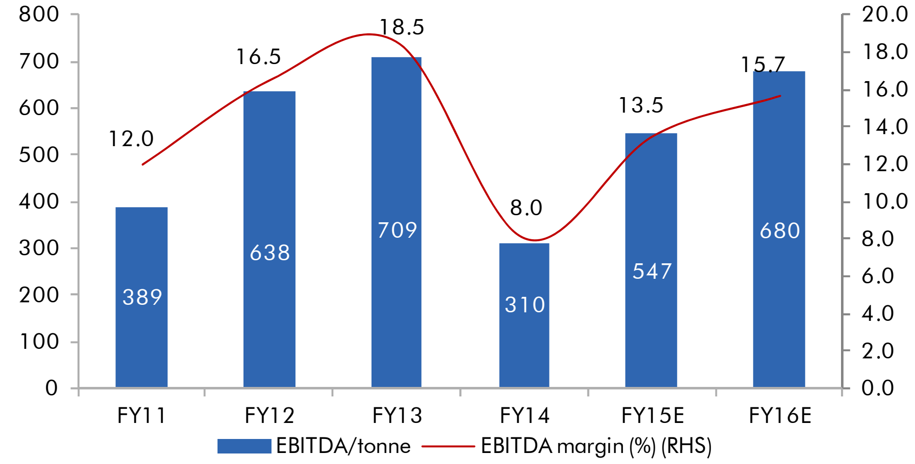


Source: Company, Angel Research

OPM to improve due to multiple levers

With MCL's grinding capacity now increased to 1.4x of clinker capacity post expansion (vs 1.2x earlier), it expects to increase the fly ash component in cement production from current 16% to 30-32% during FY2015, closer to industry levels, which is expected to aid in OPM expansion. The company plans to increase the blended cement production to 75% by FY2015 and increase it to upto 90% in the following years. Also, in FY2014, MCL had undertaken plant shutdown to upgrade its Kiln which will help in reducing power and fuel consumption. Also, the new 1.25mtpa capacity is expected to contribute significantly to overall production volume and is also expected to be more energy efficient. Thus there would be further reduction in the cost of cement production for the company. The realizations are also expected to improve due to strong demand recovery in the cement sector. We expect realization to improve by 7% (CAGR) during FY2014-16. Overall, we expect EBITDA/tonne to improve from ₹310/tonne in FY2014 to ₹680/tonne in FY2016.

Exhibit 3: Expect step improvement at EBITDA levels



Source: Company, Angel Research

Presence in favorable regions of North and Central India

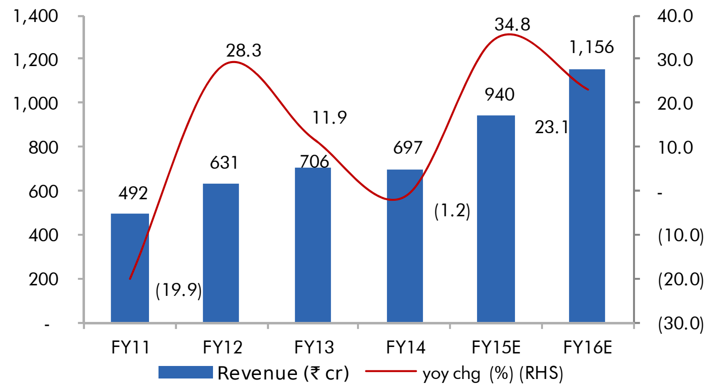
MCL's sales mix is spread across north and central markets of India. These two regions account for an equal share (50% each) of its total cement sales mix. We expect economic activity to pick up, which would lead to a boost in infrastructure and housing demand going forward. During FY2014-16, we expect a favourable demand supply scenario in north and central regions due to better demand and a decline in capacity addition, which will lead to increase in utilization levels and provide pricing power to north based cement players including MCL. Presence in favourable markets ensures potential for significant growth.

Financial outlook

MCL posted a weak top-line CAGR of 3.2% over FY2010-14, primarily due to weak economic environment during the period. We expect it to report a healthy 28.8% revenue CAGR over FY2014-16 on the back of strong volume growth due to new capacity addition and better realization due to an improved outlook for cement demand.

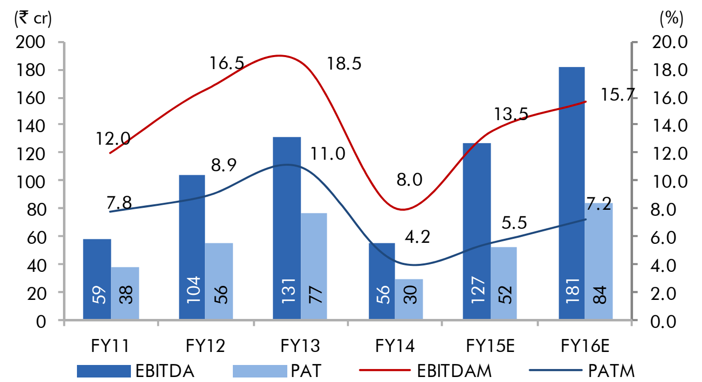
In FY2014, the company's EBITDA declined sharply by 57% yoy to ₹56cr while the EBITDA margin declined to 8% vs 18.5% in FY2013 due to plant shutdown to upgrade its Kiln. Going forward, we expect the EBITDA margin to improve due to various cost efficiency measures undertaken by the company. The EBITDA margin is expected to improve from 8% in FY2014 to 15.7% by FY2016 while the PAT margin is expected to improve from 4.2% in FY2014 to 7.2% in FY2016. Overall, we expect EBITDA and PAT to grow at a CAGR of 80% and 68% over FY2014-16. With better profitability, we expect MCL's RoE to improve from current levels of 5.9% to 14.6% by FY2016.

Exhibit 4: Revenue Growth Trend



Source: Company, Angel Research

Exhibit 5: Profitability Trend



Source: Company, Angel Research

Outlook and Valuation

MCL's recent capacity addition would drive volume growth along with possible uptick in realization while better cost structure will improve the profitability going forward.

At the current market price of ₹246, the stock is trading at trailing EV/tonne of $49 (on its 3.25mtpa installed capacity), which is at a large discount to its midcap peers (The peers like India cement, JK cement, JK lakshmi and Ramco Cement are trading at EV/tonne of $70, $75, $120 (including expanded capacity $104) and $121 respectively). The stock is trading at 12.6x and 7.9x its FY2015E and FY2016E EPS and 7.5x and 4.8x its FY2015E and FY2016E EV/EBITDA respectively. **We initiate coverage on Mangalam Cement with a Buy recommendation and target price of ₹337 based on EV/tonne of $60 and implying 6.5x FY2016E EV/EBIDTA.** The EV/EBITDA target multiple is at a 10% discount to the company's other midcap peers in the cement space.

Exhibit 6: Valuation of midcap cement companies as on FY14

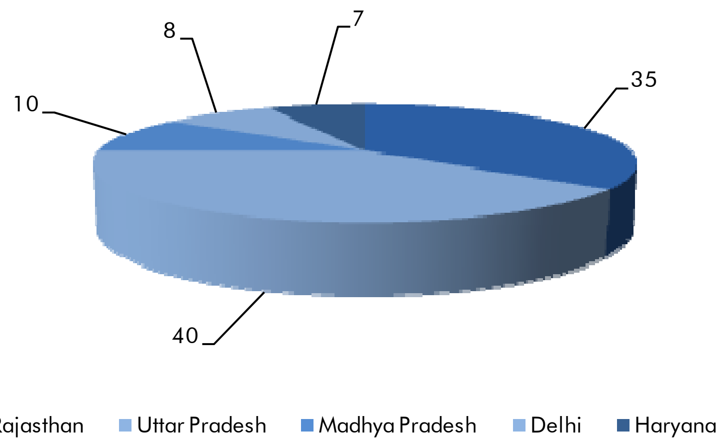
Company Name	Capacity (mn tn)	EV/Tonne ($)	P/B value	EV/EBITDA	OPM (%)
Jk Lakshmi*	5.3	120	3.1	14.4	14.7
JK Cement	8.1	75	2.2	10.9	14.4
India Cement	15.6	70	1.1	7.0	12.1
Ramco Cement	12.5	121	3.1	18.9	14.1
Mangalam Cement	3.3	49	1.3	13.9	8.0

*Note:*After expanded capacity JK Lakshmi EV/tonne come to $104*

Company Background

Mangalam Cement was incorporated in 1978 and is a part of the BK Birla group. The company is engaged in the business of cement manufacturing and has an installed cement capacity of 3.25mtpa and clinker capacity of 2.3mtpa in Morak, Rajasthan. MCL also has a 35MW captive thermal power plant and 13.65MW wind energy capacity, all located in Rajasthan. The company sells three types of cement products OPC grade 43, OPC grade 53 and PPC under the brand name Birla Uttam cement. The company has a network of 1,179 dealers and 3,415 retail touch points spread across Rajasthan, Delhi, Haryana, Uttar Pradesh, and Madhya Pradesh.

Exhibit 7: Mangalam Cement Sales Mix



Source: Company, Angel Research

Profit & Loss Statement

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Net Sales	**492**	**631**	**706**	**697**	**940**	**1156**
% Chg	*(19.9)*	*28.3*	*11.9*	*(1.2)*	*34.8*	*23.1*
Total expenditure	433	527	575	642	813	975
Net Consumption of Materials	78	104	76	144	141	173
Purchases of Traded Goods	0	0	0	15	0	0
Power and Fuel	153	165	201	172	253	290
Employee benefit expenses	30	32	38	43	56	69
Transport charges	122	154	179	187	254	312
EBITDA	**59**	**104**	**131**	**56**	**127**	**181**
% Chg	*(69.3)*	*76.9*	*25.6*	*(57.4)*	*127.4*	*42.9*
EBIDTA %	**12.0%**	**16.5%**	**18.5%**	**8.0%**	**13.5%**	**15.7%**
Depreciation	28	32	25	28	39	46
EBIT	31	72	106	28	87	135
% Chg	*(81.1)*	*130.0*	*46.7*	*(73.5)*	*211.7*	*54.9*
Interest Charges	2	3	5	9	13	17
Other Income	12	6	7	5	5	9
(% of Net Sales)	*2.5*	*1.0*	*1.0*	*0.7*	*0.5*	*0.8*
PBT	41	75	108	24	79	127
Tax	3	19	30	(6)	27	43
% of PBT	7.6	25.3	28.2	(23.7)	34.0	34.0
PAT before Exceptional item	41	75	108	24	79	127
Exceptional item	0	0	0	0	0	0
PAT	**38**	**56**	**77**	**30**	**52**	**84**
% Chg	*(67.8)*	*46.4*	*38.2*	*(61.7)*	*76.2*	*60.4*
PAT %	**7.8**	**8.9**	**11.0**	**4.2**	**5.5**	**7.2**
Basic EPS	14	21	29	11	20	31
Diluted EPS	**14**	**21**	**29**	**11**	**20**	**31**
% Chg	*(68.0)*	*46.4*	*38.2*	*(61.7)*	*76.2*	*60.4*

Balance Sheet

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Sources of Funds						
Equity Capital	27	27	27	27	27	27
Reserves Total	368	406	466	480	516	573
Networth	**395**	**432**	**492**	**507**	**543**	**600**
Total Debt	14	43	289	436	436	436
Deferred Tax Liability	59	62	58	61	61	61
Total Liabilities	**467**	**537**	**839**	**1,005**	**1,040**	**1,097**
Application of Funds						
Gross Block	629	659	681	872	1127	1147
Accumulated Depreciation	278	307	331	357	396	442
Net Block	351	352	349	515	731	705
Capital WIP	9	19	214	255	20	20
Investments	**1**	**1**	**36**	**36**	**36**	**36**
Inventories	66	58	137	116	138	155
Sundry Debtors	12	29	30	23	31	38
Cash and Bank Balance	26	44	92	46	91	166
Loans, Adv. and Deposits	176	218	83	114	118	125
Other Current Asset	279	352	370	337	416	524
Current Liabilities	173	188	129	138	162	187
Net Current Assets	**106**	**164**	**219**	**168**	**223**	**304**
Miscellaneous Expenditure	0	0	0	0	0	0
Total Assets	**467**	**537**	**839**	**1,005**	**1,040**	**1,097**

Cash Flow Statement

Y/E March (₹ cr)	FY11	FY12	FY13	FY14	FY15E	FY16E
Profit before tax	41	75	108	24	79	127
Depreciation	28	32	25	28	39	46
Change in Working Capital	(43)	(40)	(6)	5	(10)	(7)
Less: Other income	12	6	7	5	5	9
Direct taxes paid	3	19	30	(6)	27	43
Cash Flow from Operations	**10**	**42**	**89**	**58**	**77**	**114**
(Inc)/ Dec in Fixed Assets	(68)	(41)	(216)	(232)	(20)	(20)
(Inc)/ Dec in Investments	18	-	(34)	-	-	-
Other income	12	6	7	5	5	9
Cash Flow from Investing	**(37)**	**(35)**	**(244)**	**(227)**	**(15)**	**(11)**
Issue/(Buy Back) of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	3	29	211	146	-	-
Dividend Paid (Incl. Tax)	19	19	19	9	16	26
Others	2	(0)	(11)	13	1	2
Cash Flow from Financing	**(17)**	**11**	**203**	**124**	**(17)**	**(28)**
Inc./(Dec.) in Cash	(44)	18	49	(46)	45	75
Opening Cash balances	**70**	**26**	**44**	**92**	**46**	**91**
Closing Cash balances	**26**	**44**	**92**	**46**	**91**	**166**

Key Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15E	FY16E
Valuation Ratio (x)						
P/E (on FDEPS)	17.2	11.7	8.5	22.2	12.6	7.9
P/CEPS	10.0	7.5	6.4	11.5	7.2	5.1
Dividend yield (%)	2.4	2.4	2.4	1.2	2.1	3.4
EV/Sales	1.3	1.0	0.9	1.1	1.0	0.8
EV/EBITDA	10.8	6.1	4.6	13.6	7.5	4.8
EV / Total Assets	1.4	1.2	0.7	0.8	0.9	0.8
Per Share Data (₹)						
EPS (Basic)	14.3	21.0	29.0	11.1	19.5	31.3
EPS (fully diluted)	14.3	21.0	29.0	11.1	19.5	31.3
Cash EPS	24.6	33.0	38.4	21.5	34.3	48.5
DPS	6.0	6.0	6.0	3.0	5.3	8.5
Operating ROE	7.9	19.9	16.3	5.1	13.9	20.6
Returns (%)						
RoCE (Pre-tax)	6.9	14.3	15.4	3.0	8.5	12.7
Angel RoIC (Pre-tax)	8.6	15.9	21.8	4.8	11.2	15.3
RoE	9.8	13.5	16.7	5.9	9.9	14.6
Turnover ratios (x)						
Asset Turnover (Gross Block) (x)	0.9	1.0	1.1	0.9	0.9	1.0
Inventory / Sales (days)	49	36	50	66	49	46
Receivables (days)	8	12	15	14	10	11
Payables (days)	156	125	101	76	67	65

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DISCLAIMER

Disclosure of Interest Statement	**Mangalam Cement**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to -15%)	*Sell (< -15%)*	

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