

Institutional Equity Research

# Mangalam Cement

Cement | India

1QFY18 Result Update | August 10, 2017

CMP* (Rs)	337
Upside/ (Downside) (%)	31
Bloomberg Ticker	MGC IN
Market Cap. (Rs bn)	9.0
Free Float (%)	13.3
Shares O/S (mn)	26.7

**BUY** 

Target Price: Rs440

## Robust Performance on Better Realisation

Mangalam Cement (MCL) has reported a strong operating performance in 1QFY18 amid cost pressures, as operating profit came in at Rs405mn (-16% YoY and +64% QoQ), which is higher than our estimate of Rs311mn. Better-than-expected improvement in realisations (+9% YoY and +11% QoQ) was the sole reason for robust operating performance. However, operating cost/tonne rose by ~17% YoY and 3% QoQ to Rs3,417 mainly owing to significant jump in Power & Fuel cost (due to high petcoke price) and freight costs (led by loading restrictions). EBITDA/tonne stood at Rs648 in 1QFY18 vs. Rs795 and Rs357 in 1QFY17 and 4QFY17, respectively. MCL's sales volume grew by 3.3% YoY to 0.63mnT mainly supported by increased volume from Aligarh GU. Net profit stood at Rs121mn in 1QFY18 compared to Rs226mn and Rs35mn in 1QFY17 and 4QFY17, respectively. Given the likely pick-up in sales volume led by production ramp-up in Aligarh GU and a favourable pricing environment, we envisage the Company to see decent traction, going forward. **Upwardly revising our earnings estimate by 3% each for FY18E and FY19E to factoring in better-than-expected pick-up in realisation, we reiterate our BUY recommendation on the stock with a revised Target Price of Rs440.**

### Sales Volume Sees Moderate Growth

Contraction in construction activities and significant decline in Apr'17 volume impacted the sales volume for 1QFY18. MCL's sales volume grew by just 3.3% YoY to 0.63mnT. Further, a persistent shortage of sand in Uttar Pradesh dragged the cement demand in the Central region, despite which MCL managed to witness a sequential growth from Aligarh GU. Revenue grew by 13% YoY (flat on QoQ basis) owing to a substantial recovery in average realisation. We expect the demand momentum to pick-up pace post monsoon.

### Healthy Realisation Aids Operating Performance

While operational cost soared during the quarter led by significant spike in fuel cost and higher freight cost, a better-than-expected jump in average realisation (+9% YoY and +11% QoQ to Rs4,064/tonne) enabled MCL to register a robust operating performance. EBITDA/tonne stood at Rs648 in 1QFY18 compared to Rs795 and Rs357 in 1QFY17 and 4QFY17, respectively. Looking ahead, we expect MCL's operating performance to improve with the expected pick-up in utilisation.

### Outlook & Valuation

We maintain our positive stance on the stock considering the likely improvement in operating synergies and appealing valuations. Going forward, we believe that production ramp-up in Aligarh GU and de-leveraging of balance sheet will enable MCL to improve its return ratios.

**We reiterate our BUY recommendation on the stock with a revised Target Price of Rs440.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	8,418	9,009	11,197	13,932
EBITDA	437	1,137	1,598	2,215
Net Profit	(205)	366	726	1,090
EPS (Rs)	(7.7)	13.7	27.2	40.8
DPS (Rs)	0.5	0.8	0.8	0.8
P/E (x)	(43.9)	24.6	12.4	8.3
P/B (x)	1.8	1.7	1.5	1.3
EV/EBITDA (x)	28.6	10.4	7.0	4.3
RoE (%)	(4.1)	7.2	12.9	16.8
Divi. Yield (%)	0.1	0.2	0.2	0.2

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(6.4)	(5.5)	16.4
Relative to Nifty	(6.9)	(9.9)	3.3

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	13.3	13.3
Public	86.7	86.7

### 1 Year Stock Price Performance



Note: \* CMP as on Aug. 10, 2017

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## Risks to the View

- ▶ Government's failure to revive infrastructure activity
- ▶ Sudden and sharp up-tick in input costs

## Conference Call – Key Takeaways

- ▶ **Demand Scenario:** Demand environment in its key markets was impacted in 1QFY18 owing to: (a) sudden decline in volume in Apr'17 after volume push in Mar'17 by most of the cement companies; (b) sand shortage in Uttar Pradesh; and (c) issues of fly ash availability owing to low system demand of power. However, MCL expects the demand to improve in 2HFY18, despite an average sales volume growth in 2QFY18.
- ▶ **Clinker Production & Capacity Utilisation:** Clinker production for 1QFY18 stood at 0.512mnT as against 0.319mnT in 1QFY17. Further, capacity utilization stood at 70%.
- ▶ **Pricing Scenario:** Prices in trade segment continued to remain firm with marginal correction of Rs3-5/bag from the average price of 1QFY18. Further, MCL expects the difference between trade and non-trade prices to reduce in the light of no conceptual Excise Duty benefit in non-trade segment. Notably, MCL sells >70% of its total production in trade segment.
- ▶ **Fuel Price:** MCL continues to use petcoke in its clinker units (usage at CPP level was stopped due to NGT order). Average petcoke price/tonne stood at Rs8,100 in 1QFY18 vs. RsRs6,500 in 1QFY17. Prevailing rate for petcoke stands at Rs8,200/tonne. MCL expects fuel prices are unlikely to soften in the near to medium term.
- ▶ **Lead Distance & Sales-mix:** Average lead distance for MCL stood at 368kms in 1QFY18 vs. 357kms in 1QFY17. Further, Rajasthan and MP accounted for 35% and 26%, respectively of total dispatches, while NCR, Delhi and Western UP together accounted for 39% of total dispatches.
- ▶ **Debt & Repayment:** MCL's term loan currently stands at Rs3.3bn and it has a repayment commitment of Rs700mn in FY18. MCL expects its debt balance to shrink unless certain unexpected expenses other than maintenance capex come up. Its interest cost is likely to come down in coming quarters as the Company has refinanced loan of Rs500mn through CPs, which was raised at 6.8%.
- ▶ **WHRS & Brownfield Expansion:** Though WHRS and Brownfield expansion plans are on the cards and likely to be announced in due course, MCL does not expect any significant deterioration in balance sheet in case it goes ahead with such plans.

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## Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	% YoY	4QFY17	% QoQ	FY17	FY16	% yoy
Net Sales	2,540	2,252	12.8	2,543	(0.1)	9,009	8,330	8.1
<b>Expenditures</b>								
Cost of Materials Consumed	442	279	58.3	364	21.2	1,437	1,358	5.8
Purchase of stock in trade	0	0		0			515	(100.0)
Change in WIP	(109)	174	(162.7)	166	(165.6)	180	225	(19.8)
% sales	13.1	20.1		20.9		17.9	25.2	
Employee Benefit Expenses	217	182	19.3	203	6.9	779	725	7.6
% sales	8.5	8.1		8.0		8.7	8.7	
Power & Fuel	614	384	59.9	527	16.5	1,994	1,776	12.3
% sales	24.2	17.1		20.7		22.1	21.3	
Packing, Distribution & Selling Exps.	724	626	15.7	752	(3.8)	2,634	2,502	5.3
% sales	28.5	27.8		29.6		29.2	30.0	
Other Expenditures	248	126	96.1	282	(12.3)	846	870	(2.7)
% sales	9.7	5.6		11.1		9.4	10.4	
<b>Total Expenditures</b>	<b>2,136</b>	<b>1,771</b>	<b>20.6</b>	<b>2,295</b>	<b>(7.0)</b>	<b>7,872</b>	<b>7,971</b>	<b>(1.2)</b>
<b>Operating costs/tonne (Rs)</b>	<b>3,417</b>	<b>2,927</b>	<b>16.7</b>	<b>3,312</b>	<b>3.2</b>	<b>3,230</b>	<b>3,269</b>	<b>(1.2)</b>
EBITDA	405	481	(15.8)	248	63.5	1,137	360	216.1
<b>EBITDA/tonne (Rs)</b>	<b>648</b>	<b>795</b>	<b>(18.5)</b>	<b>357</b>	<b>81.2</b>	<b>467</b>	<b>148</b>	<b>216.3</b>
<b>EBITDA margins</b>	<b>15.9</b>	<b>21.4</b>		<b>9.7</b>		<b>12.6</b>	<b>4.3</b>	
Depreciation	105	90	16.6	103	2.0	403	367	10.0
Finance Costs	133	114	17.3	150	(11.1)	475	459	3.4
Other Income	31	16	93.3	134	(77.3)	246	153	60.5
Exceptional Items	0	0		0				
<b>PBT</b>	<b>196</b>	<b>292</b>	<b>(32.9)</b>	<b>128</b>	<b>52.9</b>	<b>505</b>	<b>(313)</b>	<b>(261.1)</b>
Tax Expenses	75	67	12.8	94	(19.7)	138	(99)	(240.2)
% PBT	38.3	22.8		72.9		27.4		
<b>PAT</b>	<b>121</b>	<b>226</b>	<b>(46.4)</b>	<b>35</b>	<b>248.1</b>	<b>366</b>	<b>(215)</b>	<b>(270.7)</b>
Net margins	4.8	10.0		1.4		4.1		

Source: Company, RSec Research

## Exhibit 2: Revised v/s Old Estimates

Rs mn	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	2.9	2.8	(3.8)	3.3	3.3	-
Sales (Rs mn)	11,286	11,197	(0.8)	13,511	13,932	3.1
Realizations (Rs/tonne)	3,897	4,019	3.1	4,014	4,140	3.1
EBITDA (Rs mn)	1,497	1,598	6.8	2,073	2,215	6.8
Margins (%)	13.3	14.3		15.3	15.9	
PAT (Rs mn)	705	726	3.0	1,060	1,090	2.8
EPS (Rs)	26.4	27.2	3.0	39.7	40.8	2.8

Source: RSec Research

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**Profit & Loss**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
<b>Net Sales</b>	<b>8,418</b>	<b>9,009</b>	<b>11,197</b>	<b>13,932</b>
% yoy growth	(8.7)	7.0	24.3	24.4
<b>Total Cost</b>	<b>7,980</b>	<b>7,872</b>	<b>9,599</b>	<b>11,717</b>
Raw Materials Consumed	1,757	1,617	2,127	2,717
Employee Cost	646	779	812	1,017
Power & Fuel	1,851	1,994	2,660	3,283
Selling and Distribution Exp.	2,502	2,634	3,048	3,551
Other Expenditures	709	846	952	1,149
<b>EBIDTA</b>	<b>437</b>	<b>1,137</b>	<b>1,598</b>	<b>2,215</b>
EBIDTA Margin (%)	5.2	12.6	14.3	15.9
Depreciation and Amortisation	366	403	421	441
Interest	414	475	418	366
Other Income	46	246	209	219
Exceptional Items				
<b>PBT</b>	<b>(296)</b>	<b>505</b>	<b>968</b>	<b>1,626</b>
Tax	(91)	138	242	537
% Tax	30.9	27.4	25.0	33.0
Excep. Items	-	-	-	-
<b>Net Profit</b>	<b>(205)</b>	<b>366</b>	<b>726</b>	<b>1,090</b>
YoY Growth (%)	(214.3)	(278.9)	98.2	50.1
Net Profit Margin (%)	(2.4)	4.1	6.5	7.8

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**Balance Sheet**

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Share Capital	267	267	267	267
Reserves & Surplus	4,649	4,991	5,693	6,759
<b>Total Shareholder's funds</b>	<b>4,916</b>	<b>5,258</b>	<b>5,960</b>	<b>7,026</b>
Secured Loans	4,172	3,492	3,200	2,900
Unsecured Loans	-	-	-	-
<b>Total Debt</b>	<b>4,172</b>	<b>3,492</b>	<b>3,200</b>	<b>2,900</b>
Other Liabilities	768	516	641	1,412
<b>TOTAL LIABILITIES</b>	<b>9,856</b>	<b>9,266</b>	<b>9,801</b>	<b>11,338</b>
Gross Block	11,722	12,822	13,472	14,122
Less: Accumulated Depreciation	4,275	4,679	5,099	5,541
<b>Net Block</b>	<b>7,446</b>	<b>8,143</b>	<b>8,372</b>	<b>8,581</b>
CWIP	709	488	300	100
Investments	356	281	281	281
Inventories	1,159	1,016	1,262	1,571
Sundry Debtors	347	343	427	531
Cash & Bank	286	359	706	2,037
Loans & Advances	1,814	1,585	1,970	2,451
<b>Total Current Assets</b>	<b>3,607</b>	<b>3,303</b>	<b>4,365</b>	<b>6,590</b>
Current Liabilities	1,755	2,544	3,102	3,787
Provisions	110	240	293	358
<b>Net Current Assets</b>	<b>1,742</b>	<b>518</b>	<b>970</b>	<b>2,445</b>
Net Deferred Tax	(523)	(336)	(336)	(336)
Other Assets	126	173	215	267
<b>TOTAL ASSETS</b>	<b>9,856</b>	<b>9,266</b>	<b>9,801</b>	<b>11,338</b>

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## Cash Flow Statement

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Net Profit before Tax & Extraordinary Items	(296)	505	968	1,626
Depreciation	366	403	421	441
Interest (Net)	414	475	418	366
Dividend Received	(36)	-	-	-
Others	(8)	-	-	-
<b>Operating profit before WC Changes</b>	<b>439</b>	<b>1,383</b>	<b>1,807</b>	<b>2,434</b>
Working Capital Changes	308	1,296	(104)	(144)
Direct Tax	(2)	(325)	(242)	(537)
Extraordinary Items	-	-	-	-
<b>Net Cash from Operating Activities</b>	<b>745</b>	<b>2,354</b>	<b>1,461</b>	<b>1,753</b>
Purchase of Fixed Assets	(660)	(878)	(462)	(450)
Purchase of Investments	(200)	75	-	-
Others	242	-	-	-
<b>Cash from Investment Activities</b>	<b>(618)</b>	<b>(803)</b>	<b>(462)</b>	<b>(450)</b>
Proceeds from LT Borrowings	675	(680)	(292)	(300)
Dividend Paid	(65)	(24)	(24)	(24)
Interest Paid	(415)	(475)	(418)	(366)
Others	(323)	(299)	83	719
<b>Cash from Financing Activities</b>	<b>(128)</b>	<b>(1,478)</b>	<b>(651)</b>	<b>28</b>
<b>Net Inc/(Dec) in Cash and Cash Equivalent</b>	<b>(1)</b>	<b>73</b>	<b>347</b>	<b>1,331</b>
<b>Opening Cash</b>	<b>287</b>	<b>286</b>	<b>359</b>	<b>706</b>
<b>Closing Cash</b>	<b>286</b>	<b>359</b>	<b>706</b>	<b>2,037</b>

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**Key Ratio**

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
<b>Valuation Ratio (x)</b>				
P/E	(43.9)	24.6	12.4	8.3
P/CEPS	55.9	11.7	7.8	5.9
P/BV	1.8	1.7	1.5	1.3
EV/EBIDTA	28.6	10.4	7.0	4.3
EV/Sales	1.5	10.4	7.0	4.3
EV/tonne (US\$)	59.3	45.6	43.1	36.8
Dividend Payout (%)	(6.5)	5.5	2.8	1.8
Dividend Yield (%)	0.1	0.2	0.2	0.2
<b>Per Share Data (Rs)</b>				
EPS (Basic)	(7.7)	13.7	27.2	40.8
EPS (Diluted)	(7.7)	13.7	27.2	40.8
CEPS	6.0	28.8	43.0	57.4
DPS	0.5	0.8	0.8	0.8
Book Value	184	197	223	263
EBITDA/tonne (Rs)	179	467	577	661
<b>Returns (%)</b>				
RoCE	1.2	10.2	14.5	18.9
RoE	(4.1)	7.2	12.9	16.8
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross block)	0.7	0.7	0.8	1.0
Inventory (days)	50	41	41	41
Receivables (days)	15	14	14	14
Payables (days)	80	118	118	118

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## Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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