

21 July 2021

Mangalam Cement

Good operating performance; de-levering on the cards; Buy

Amid the high-cost context and Covid-19 second wave, Mangalam Cement reported a strong performance. Its revenue/EBITDA/PAT grew 57%/77%/190% y/y on a low base. The upgraded capacity and cost-optimisation steps will help cater to demand and contain rising input costs. With no major capex left, de-levering is on the cards. We maintain a Buy, with a target of Rs.600 (earlier Rs.349) 5.5x FY23e EV/EBITDA.

Robust volume growth on low base. With May'21 hurt by the Covid-19 second-wave lockdown, volumes fell 18% q/q, but y/y grew a robust 61% on the low base and greater demand in Jun'21. More non-trade sales led to realisations/ton declining 2.4% y/y (though q/q, up 5.4% on price hikes). With de-bottlenecking complete (clinker ~0.3m tons, cement ~0.4m tons) and the flyash issue at Aligarh resolved, we expect cement volumes/revenue to register 11%/14% CAGRs over FY21-23.

Operating performance beat estimates. Various cost-optimisation steps (WHR savings, low-cost petcoke stocks) and inventory adjustment helped Mangalam contain cost amid the higher cost context. EBITDA grew 77% y/y to Rs823m, ahead of our estimate, and EBITDA/ton to Rs1,076, up 10% y/y. The cooler-replacement exercise will further optimise costs. However, with low-cost petcoke stocks being exhausted, cost pressure is likely to be felt in Q2. We expect EBITDA to record a 12% CAGR over FY21-23.

Valuations, Outlook. On the monsoon commencing, demand and prices have softened (non-trade ~Rs25-30, trade ~Rs7-8/bag), a normal trend for the cement sector, whereas long-term demand is intact. The merger with Mangalam Timber is expected to be completed by Dec'21, and generate tax benefits by setting off losses. With no major capex left, a de-levering exercise is on the cards. We retain our Buy rating, with a higher target of Rs.600 on FY23e EV/EBITDA of 5.5x and an EV/ton of \$53. **Risks:** Rise in fuel/diesel costs, demand slowdown

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	11,996	12,283	12,983	15,426	16,806
Net profit (Rs m)	-97	759	1,090	1,441	1,721
EPS (Rs)	-3.6	28.4	40.8	54.0	64.5
P/E (x)	NM	5.3	6.9	8.1	6.8
EV / EBITDA (x)	21.3	4.4	4.3	4.8	3.9
EV / ton (\$)	41.6	29.9	37.9	44.8	39.2
RoE (%)	-1.9	14.1	17.3	19.1	18.9
RoCE (%) after tax	0.7	8.6	9.9	11.3	12.4
Dividend yield (%)	0.2	0.7	0.5	0.1	0.1
Net gearing (x)	1.0	0.8	0.5	0.3	0.1

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: Rs.600

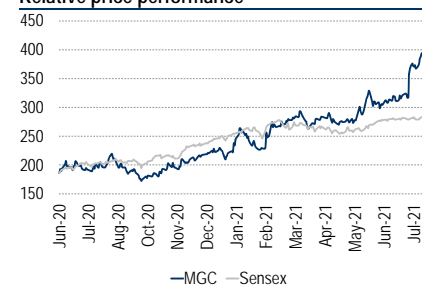
Share Price: Rs.436

Key data	MGC IN / MGLC.BO
52-week high / low	Rs.459 / 169
Sensex / Nifty	52199 / 15632
3-m average volume	\$0.8m
Market cap	Rs12bn / \$155.8m
Shares outstanding	27m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	24.5	24.5	24.0
- of which, Pledged	-	-	-
Free float	75.5	75.5	76.0
- Foreign institutions	5.4	4.9	4.6
- Domestic institutions	2.9	2.9	2.9
- Public	67.3	67.7	68.5

Estimates revision (%)	FY22e	FY23e
Sales	14.7	13.5
EBITDA	14.9	10.1
PAT	29.4	20.2

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Sales volumes (m ton)	3.0	2.7	2.8	3.3	3.5
Net revenues	11,996	12,283	12,983	15,426	16,806
<i>Growth (%)</i>	<i>11.1</i>	<i>2.4</i>	<i>5.7</i>	<i>18.8</i>	<i>8.9</i>
Direct costs	9,627	8,099	8,482	10,390	11,309
SG&A	1,798	2,190	1,916	2,045	2,249
EBITDA	571	1,994	2,585	2,991	3,249
<i>EBITDA margins (%)</i>	<i>4.8</i>	<i>16.2</i>	<i>19.9</i>	<i>19.4</i>	<i>19.3</i>
- Depreciation	461	487	586	621	671
Other income	239	297	329	386	420
Interest expenses	508	633	647	573	389
PBT	-159	1,171	1,681	2,183	2,608
<i>Effective tax rate (%)</i>	<i>39</i>	<i>35</i>	<i>35</i>	<i>34</i>	<i>34</i>
+ Associates / (Minorities)	-	-	-	-	-
Net income	-97	759	1,090	1,441	1,721
Adjusted income	-97	759	1,090	1,441	1,721
WANS	27	27	27	27	27
FDEPS (Rs / sh)	-4	28	41	54	64
<i>FDEPS growth (%)</i>	<i>NA</i>	<i>NA</i>	<i>43.6</i>	<i>32.2</i>	<i>19.5</i>

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT (Adj. OI and Interest)	110	1,507	1,999	2,370	2,577
+ Non-cash items	461	487	586	621	671
Oper. prof. before WC	571	1,994	2,585	2,991	3,249
- Incr. / (decr.) in WC	822	187	-167	634	163
Others incl. taxes	-3	200	284	742	887
Operating cash-flow	-248	1,607	2,468	1,615	2,199
- Capex (tang. + intang.)	1,037	909	1,227	600	400
Free cash-flow	-1,285	698	1,241	1,015	1,799
Acquisitions					
- Div. (incl. buyback & taxes)	16	32	40	13	13
+ Equity raised	0	0	0	0	0
+ Debt raised	1,457	700	331	-1,500	-2,000
- Fin investments	-26	322	393	0	0
- Misc. (CFI + CFF)	269	346	316	187	-31
Net cash-flow	-87	699	823	-686	-183

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

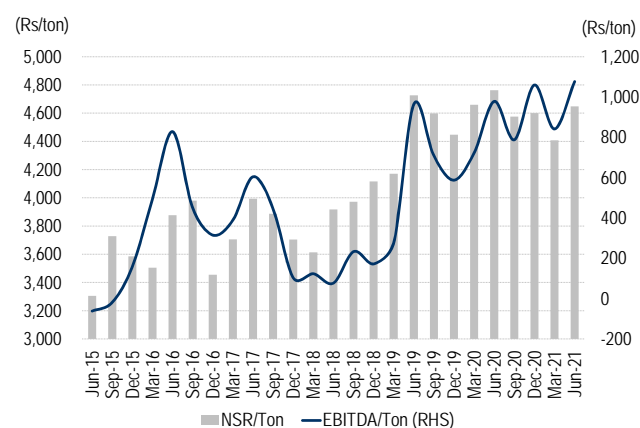
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	267	267	267	267	267
Net worth	5,035	5,759	6,815	8,243	9,951
Debt	5,175	5,875	6,207	4,707	2,707
Minority interest	-	-	-	-	-
DTL / (Assets)	360	565	868	868	868
Capital employed	10,570	12,200	13,890	13,817	13,525
Net tangible assets	8,109	9,067	8,813	9,806	9,535
Net Intangible assets	100	87	76	76	76
Goodwill	0	0	0	0	0
CWIP (tang. & intang.)	731	207	1,115	100	100
Investments (strategic)	276	349	62	62	62
Investments (financial)	54	303	982	982	982
Current assets (ex cash)	4,734	5,077	5,718	6,424	6,999
Cash	137	836	1,659	974	790
Current liabilities	3,571	3,727	4,534	4,607	5,019
Working capital	1,163	1,350	1,183	1,817	1,980
Capital deployed	10,570	12,200	13,890	13,817	13,525
Contingent liabilities	1278	1,397	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	NM	5.3	6.9	8.1	6.8
EV / EBITDA (x)	21.3	4.4	4.3	4.8	3.9
EV / Sales (x)	1.0	0.7	0.9	0.9	0.7
P/B (x)	1.4	0.7	1.1	1.4	1.2
RoE (%)	-1.9	14.1	17.3	19.1	18.9
RoCE (%) - after tax	0.7	8.6	9.9	11.3	12.4
DPS (Rs / sh)	0.5	1.0	1.5	0.5	0.5
Dividend payout (%) - incl. DDT	14.1	NM	4.2	3.7	0.9
Net debt / equity (x)	1.0	0.8	0.5	0.3	0.1
Working capital (days)	35.4	40.1	33.3	43.0	43.0
EV / ton (\$)	41.6	29.9	37.9	44.8	39.2
NSR / ton (Rs)	4,053	4,607	4,575	4,675	4,775
EBITDA / ton (Rs)	193	748	911	906	923
Volumes	2.96	2.67	2.84	3.30	3.52
CFO : PAT %	254.8	211.8	226.4	112.1	127.8

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trends


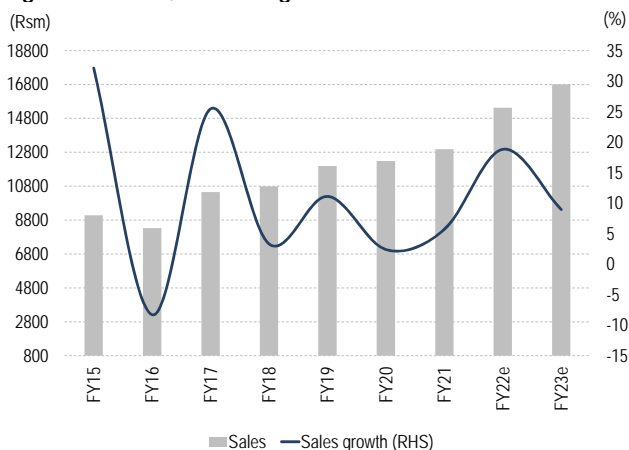
Source: Company

Other key highlights

Revenue growth

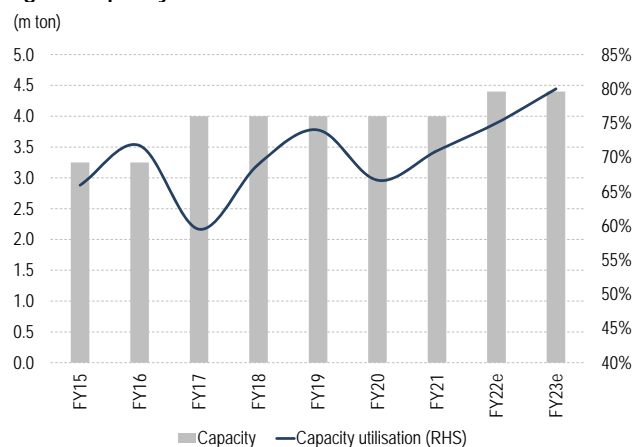
Mangalam Cement’s Q4 revenue rose 57% y/y to Rs3.6bn, aided by 61% y/y volume growth to 0.76m tons on a low base and greater demand in Jun on removing lockdown restrictions. Realisations declined 2.4% y/y (though q/q up 5.4%) to Rs4,647/ton on more non trade sales. The trade share in overall volumes was 68%. The company launched a premium product in Oct’20, “MangalamProMaxX”, selling 12,000 tons a month. The geographic sales mix was: Rajasthan-MP-UP/NCR 30:30:40.

Fig 7 – Revenue, Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



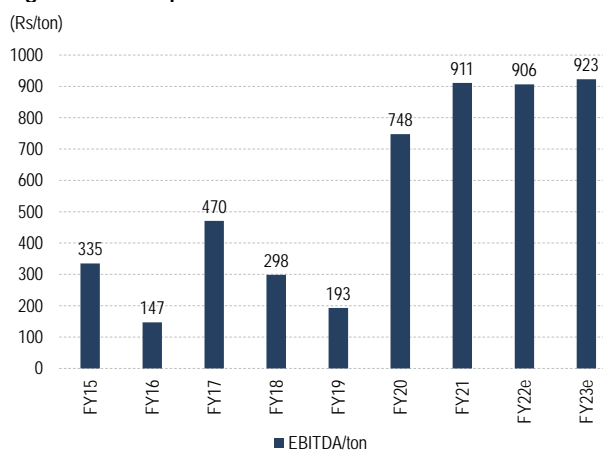
Source: Company, Anand Rathi Research

Operating performance

In Q4, absolute EBITDA increased a robust 77% y/y to Rs823m. On firm realisations and various cost savings, EBITDA/ton for the quarter was up 10% y/y to Rs1,076 (Rs978 a year ago, Rs841 the prior quarter). Raw material cost/ton increased 101% y/y. On high petcoke/coal prices, power & fuel cost/ton grew 171% y/y. Freight cost/ton rose 11% y/y and the lead distance was 350km. Other expenditure grew 70% y/y (though q/q down 24%) and staff cost 1.3% (q/q down 8%) on an absolute basis.

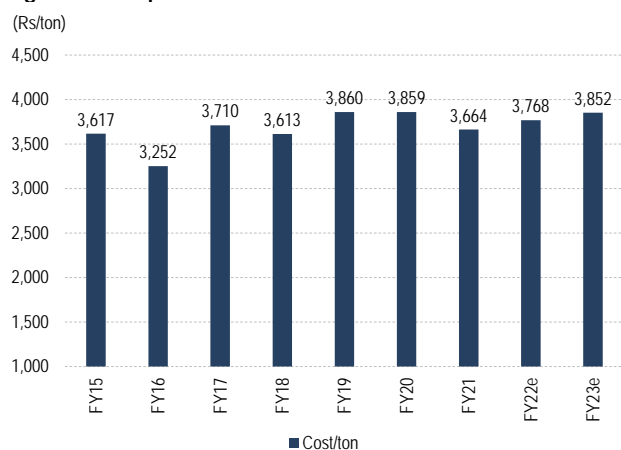
Adj. PAT shot up ~190% y/y to Rs399m on the better operating performance, lower interest expense and depreciation expense.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(Rs m)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Sales	3,367	3,195	3,332	2,893	3,090	2,968	2,262	3,207	3,405	4,108	3,555	57.1	(13.5)
EBITDA	141	211	680	445	408	460	465	552	784	784	823	77.2	5.0
<i>EBITDA margins (%)</i>	4.2	6.6	20.4	15.4	13.2	15.5	20.5	17.2	23.0	19.1	23.2	262bps	408bps
EBITDA/ton	172	276	964	708	588	722	978	788	1,060	841	1,076	10.0	27.9
Interest	75	181	139	159	163	171	164	158	156	170	135	(17.3)	(20.3)
Depreciation	117	114	114	123	123	126	156	159	138	132	134	(14.5)	0.9
Other income	59	106	81	73	72	71	69	93	83	85	64	(7.6)	(24.9)
PBT	8	22	508	236	193	234	214	328	573	567	618	189.3	9.1
Tax	(0)	6	176	89	69	79	76	115	198	203	219	188.8	7.9
Adj. PAT	8	17	332	147	124	155	138	213	375	364	399	189.5	9.7

Source: Company, Anand Rathi Research

Fig 12 –Per-ton analysis

(Rs)	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Realisation	4,116	4,171	4,726	4,599	4,447	4,659	4,763	4,575	4,601	4,408	4,647	(2.4)	5.4
EBITDA	172	276	964	708	588	722	978	788	1,060	841	1,076	10.0	27.9
Sales volumes (m tons)	0.82	0.77	0.71	0.63	0.70	0.64	0.48	0.70	0.74	0.93	0.76	61.0	(17.9)
Costs													
Raw material	670	632	630	740	762	812	396	770	820	707	797	101.2	12.7
Power & Fuel	1,363	1,203	1,221	1,235	1,276	1,263	481	1,103	1,205	1,058	1,303	171.1	23.2
Freight	1,280	1,343	1,318	1,115	1,238	1,288	1,140	1,268	1,284	1,209	1,267	11.2	4.9
Staff	297	278	386	411	389	470	413	394	356	332	364	(11.8)	9.7
Other expenditure	278	314	283	507	397	441	156	354	305	255	232	48.1	(9.3)

Source: Company, Anand Rathi Research

Concall Highlights

- Q1 FY22 sales volumes were up 61% y/y to 0.76m tons on the low base. Clinker and cement production was respectively 0.63m and 0.766m tons. Demand in May was impacted by lockdowns, whereas in Jun, the plant operated at 95% capacity. The monsoon will impact demand in Q2, is a normal trend.
- The trade-nontrade mix and PPC-OPC was 68:32. The lead distance came down by 20-25km (375km in Q4 FY21). Blended cement was 72% of overall sales.
- Pet-coke prices climbed to the highest, at \$150/ton. The average cost was \$120-125/ton for the company due to low-cost stocks and purchases made at a lower rate at then prevailing prices.
- The company would incur Rs250m-350m capex each for maintenance and cooler replacement during FY22
- The clinker capacity expansion of 300,000 tons through modifications and upgrading of kiln-I at Morak (Rajasthan) was completed on 28th Jun'21, expanding clinker capacity to 2.75m tons and cement capacity to 4.4m tons. Commercial production will start in a few days.
- The company has used less than 50% of sanctioned cash credit facility.
- The amalgamation scheme for Mangalam Timber was passed by equity shareholders and creditors. Management said the merger would be complete by Dec'21.
- It sold 12000+ tons every month of “MangalamProMaxX”, an environment-friendly premium PPC product. Management aims at 25000 tons sales every month.
- Raw material cost declined in Q1 FY22 owing to use of the previous quarter finished-goods stock. Further, the cost of gypsum declined on the use of synthetic gypsum. Flyash cost declined on the lower lead distance (40km; vs 125km earlier) owing to the new flyash sourcing contract at Jhalawar.
- Because of the monsoon, non-trade prices declined by Rs25-30/bag in Jul, and trade prices by Rs7-8/bag.

Valuations

Despite the Covid-19 second wave restrictions and the high cost environment, Mangalam’s performance improved on a low base, cost optimisation measures (WHR savings, etc.) and inventory adjustment. The 0.3m-ton clinker expansion will enhance volume growth, addressing the high clinker-capacity utilisation issue. The greater government thrust on infrastructure will help demand keep prices firm. With no major capex left and strong profitability, debt is expected to reduce further.

Change in estimates

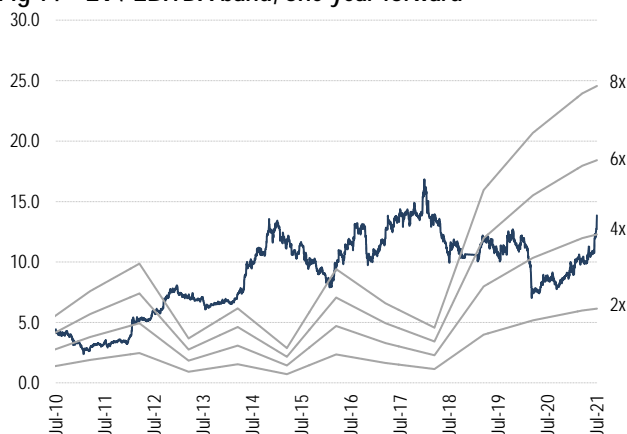
Fig 13 – Change in estimates

(Rs m)	Old		New		Variance	
	FY22e	FY23e	FY22e	FY23e	%Chg	% Chg
Sales	13,444	14,813	15,426	16,806	14.7	13.5
EBITDA	2,604	2,951	2,991	3,249	14.9	10.1
PAT	1113	1432	1,441	1,721	29.4	20.2

Source: Anand Rathi Research

At the CMP, the stock trades at an EV/EBITDA of 3.9x and an EV/ton of \$39. We maintain our Buy rating and arrive at a target price of Rs600 at 5.5x FY23e EV/EBITDA and an EV/ton of \$53.

Fig 14 – EV / EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 15 – EV / EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risks

- Demand slowdown.
- Rise in prices of pet-coke and diesel.

Fig 16 – Peer comparison – Valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
	Rs	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
Mangalam Cement	436	8.1	6.8	4.8	3.9	45	39
Birla Corp.	1,416	21.2	17.1	10.3	8.5	87	77
Dalmia Bharat	2,181	35.6	29.6	13.2	11.4	158	140
Deccan Cement	722	9.4	9.1	6.0	6.8	61	79
Heidelberg Cement	265	18.9	15.5	10.3	8.4	119	112
India Cement	197	20.3	16.7	9.5	8.5	76	73
JK Cement	3,136	27.4	23.6	15.3	13.5	224	220
JK Lakshmi	701	18.2	15.1	9.4	7.9	97	91
Orient Cement	151	10.6	9.5	5.6	5.4	58	59
Prism Johnson	143	29.9	22.9	11.3	9.5	96	92
Ramco Cement	1,101	31.1	25.9	17.4	14.4	200	183
Star Cement	114	15.8	14.0	10.4	9.2	102	103
Sanghi Industries	61	20.1	11.9	11.0	9.0	65	62

Source: Company, Anand Rathi Research

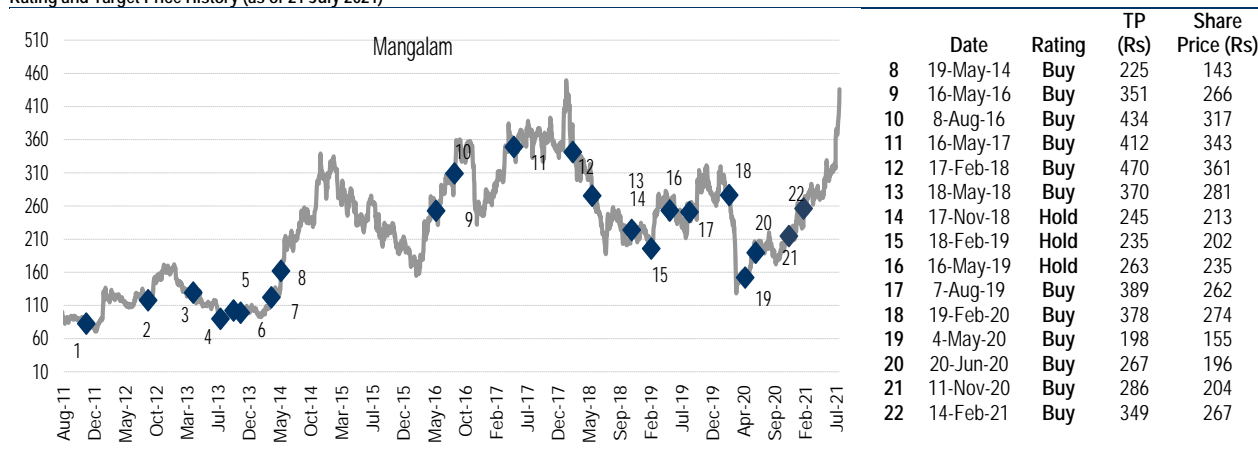
Appendix

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