



Ready for a big leap

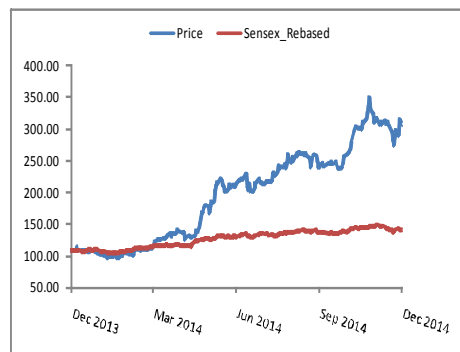
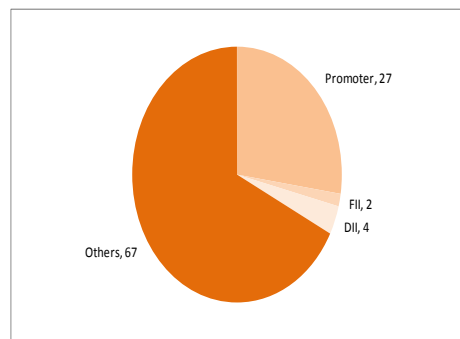
CMP: Rs. 314
Price potential: Rs. 429

Stock Info

BSE Group	B
BSE Code	502157
NSE Symbol	MANGALMCEM
Bloomberg	MGC:IN
Reuters	MGCL.BO
BSE Sensex	27,351
NSE Nifty	8,224

Market Info

Market Capital	Rs 837cr
Equity Capital	Rs 27 cr
Avg. Trading Vol	1,25,900
52 Wk High/ Low	Rs 354/95
Face Value	Rs 10



Investment Summary

Mangalam Cement Ltd (MCL) is a BK Birla group company. The company is into cement manufacturing. MCL has an installed capacity of 3.25 MTPA located in Morak, Rajasthan. It sells in northern and central India under the brand name Birla Uttam. It has network of 1,179 dealers and 3,415 retailers.

- Government emphasis on Infrastructure will drive the growth for cement.
- Key sectors consuming cement are 1. Housing (64%), 2. Infrastructure (17%), 3. Commercial (13%) and 4. Industrial (6%).
- Per capita consumption of cement in India is only 191 kg compared to world average of 513 kg which offers huge untapped market.
- Increasing demand coupled with slowing capacity additions will drive up utilisation rates.
- MCL has recently added 1.25 mn tons of capacity which will drive growth in volumes.
- New capacity added will consume less power. Also there were few modifications done to existing kiln. This will lead to savings of ~ Rs 150/ton on overall capacity which will help MCL to improve its ROE.
- Strong realisations, lower power cost will drive margins.
- MCL conducted trial run of new capacity in FY14 due to which its EBITDA per ton has come down to Rs 310 per ton from Rs 681 per ton in FY13. We expect MCL to post EBITDA/ ton of Rs 614 in FY16E.

Valuation

At CMP of Rs 314 the stock is trading at EV/ton of \$ 46, which is at a huge discount to its midcap peers. We believe MCL has a price potential of Rs 429 based on EV/ton of \$75.

Exhibit 1:

Key financials

Y/E March, (Rs. in Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	706	697	925	1,179
EBITDA	131	56	112	170
PAT	77	30	39	74
EPS	29.0	11.1	14.6	27.8
EPS Growth (%)	38%	-62%	32%	90%
RONW (%)	15.7	5.8	7.3	12.7
P/E (x)	10.8	28.3	21.5	11.3
EV/EBITDA (x)	5.7	16.0	11.1	7.1

Source: Company data, Arihant research



Company background

Mangalam Cement Ltd (MCL) is a part of a BK Birla group company engaged in the manufacturing of cement.

MCL has an installed capacity of 3.25 MTPA located in Morak, Rajasthan. It also has a captive thermal power plant with an installed capacity of 35 MW (Kota) and Wind energy with an installed capacity of 13.65 MW (Jaisalmer) located in Rajasthan. It sells 3 kinds of products namely: Portland Pozzolana Cement (PPC), 53 grade OPC and 43 grade OPC under the brand name Birla Uttam Cement. The company has 4000+ touch points through dealers (1,179) and retailers (3,415) across core operating regions which include Rajasthan, Delhi, NCR, Haryana, UP and MP.

Exhibit 2:

Overview of the plant in Rajasthan



Source: Company data, Arihant research



Industry overview

India is the second largest producer of cement with an installed capacity of ~ 350 mn tons at the end of FY13 which is expected to increase to 429 MTPA by 2017(As per 12th five year plan). In FY13 India produced ~ 243 million tonnes of cement, while the domestic consumption was ~ 241 million tonnes.

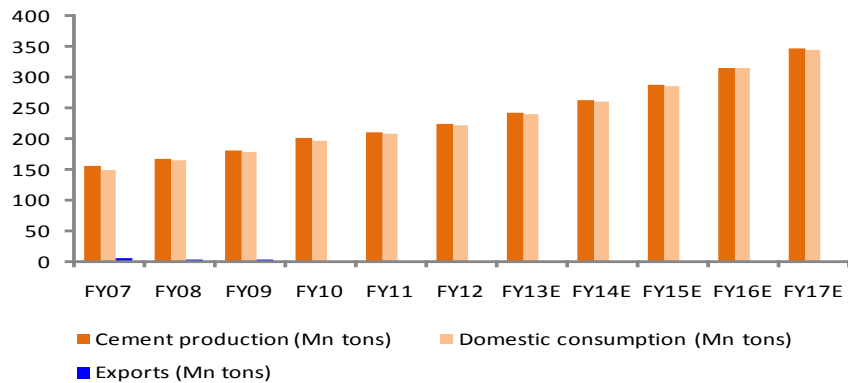
Growth in domestic demand will outstrip growth in capacity expansion

Domestic cement consumption is expected to rise to 346 mn tons in FY17E from 241 mn tons in FY13 which is a growth of 9.5 % CAGR. However, cement capacity during the same period is expected to grow at much lesser pace of 5.8 % CAGR to 429 mn tons in FY17E. Therefore capacity utilisation during the period is expected to rise from 71% in FY13 to 81% in FY17E.

In the previous cycles we have seen whenever capacity utilisation rate starts increasing pricing power returns to the industry.

Exhibit 3:

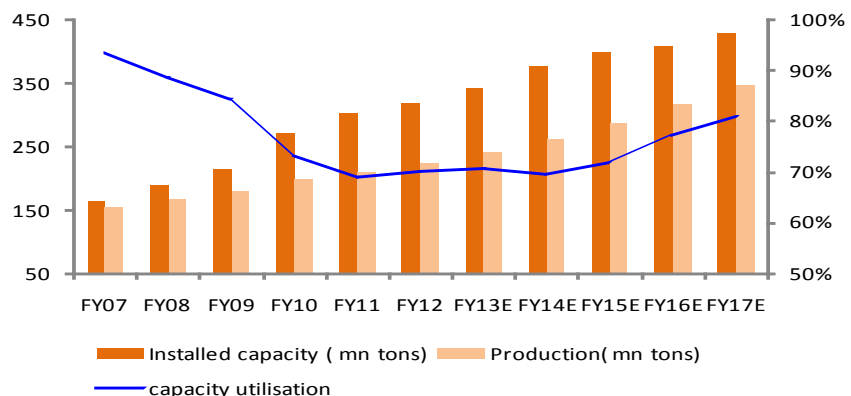
Demand supply



Source: CMA data, Arihant research

Exhibit 4:

Capacity utilisation



Source: CMA data, Arihant research

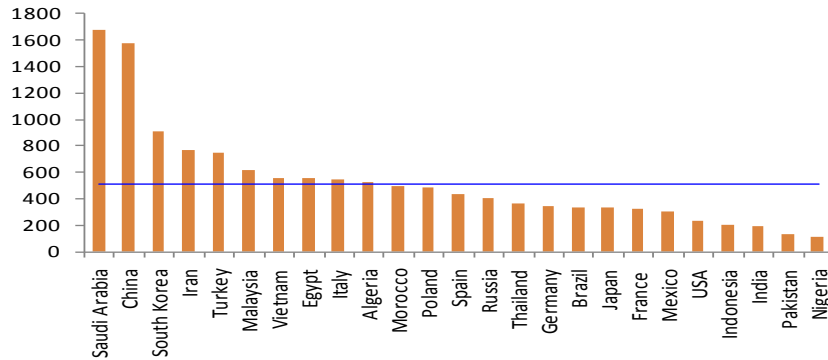


Although India is second largest consumer of cement, in terms of per capita consumption India lags far behind developed and other developing economies. This offers significant opportunity to cater to unmet and rising demand.

Exhibit 5:

Per capita consumption

Per capita cement consumption is just 191 kg compared to World average of 513 kg

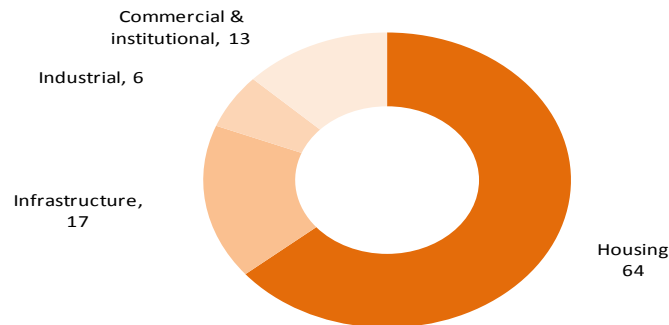


Source: International cement review

Cement demand is closely linked to the overall economic growth, particularly the housing and the infrastructure sector. The long term growth prospects in housing sector remain positive, given the huge untapped housing demand and positive demographics. A strong infrastructure sector is vital to the development of the cement industry in India. Investment in infrastructure is the main growth driver for the cement industry. The Planning Commission estimates total infrastructure spending to be about 10% of the GDP during the 12th five-year Plan (2012–17), up from 7.6% during the previous five-year Plan (2007–12). India’s investment in infrastructure is estimated to double to about USD 1trillion during the 12th Plan (2012–17) compared to the previous Plan.

Exhibit 6:

Key sectors driving cement consumption



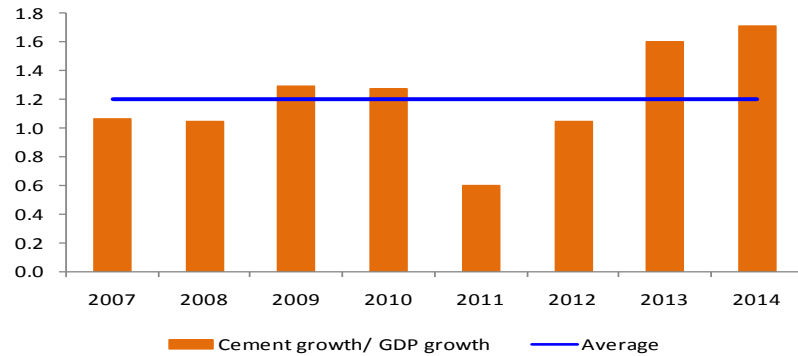
Source: Company data, Arihant research



Demand for cement is directly related to GDP growth and is ~ 1.2x GDP growth. As India's GDP growth is set to increase we believe this will translate into higher domestic demand for cement.

Exhibit 7:

Cement consumption to GDP growth ratio



Source: Company data, Arihant research

Investment thesis

Capacity expansion to drive growth

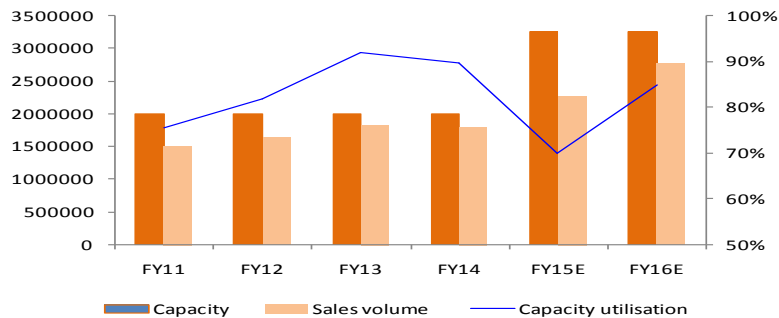
Mangalam cement has expanded its cement capacity by 63% to 3.25 MTPA from 2 MTPA in May 2014 for which it incurred a capex of Rs 500crs. Added capacity has reached peak production level in November 2014, thus volume benefits will be visible from 4QFY15.

As the ramp up in production has been done in a phased manner, overall capacity utilisation level on expanded capacity will reduce to 70% in FY15E which will then increase to 85% in FY16E. We thus expect MCL to register a volume growth at a CAGR of 24% over next 2 years.

Per capita cement consumption is just 191 kg compared to World average of 513 kg

Exhibit 8:

Capacity utilisation



Source: Company data, Arihant research



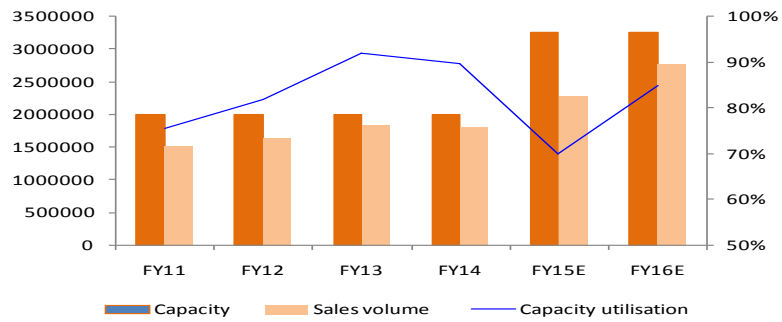
New capacity added is more fuel efficient. Also modifications done to existing kilns

Savings in Power & Fuel cost

New capacity added is more fuel efficient and will result in savings of ~ Rs 200 per ton in power & fuel cost also there were few modifications done to the existing kilns which will also result in savings on power & fuel cost. On overall capacity we believe there will be saving of ~Rs 150 per ton on power & fuel cost.

Exhibit 9:

Capacity utilisation



Source: Company data, Arihant research

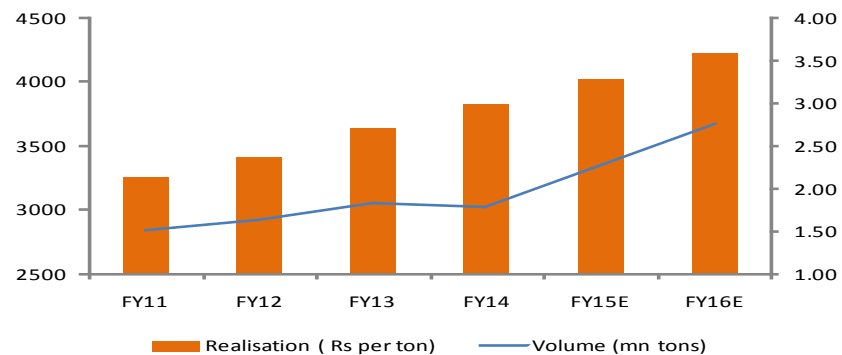
Strong realisations

The government is strongly focused on infrastructure development to boost economic growth. It plans to increase investment in infrastructure to USD1 trillion in the 12th Five Year Plan (2012–17), compared with USD514 billion under the 11th Five Year Plan (2007–12). Infrastructure projects such as Dedicated Freight Corridors as well as new and upgraded airports and ports are expected to further drive construction activity. Together with this, Prime Minister’s Vision of creating 100 smart cities and housing for all will drive the demand for cement. This we believe will result in higher realisations. We expect realisations to increase at a CAGR of 5% over next two years.

Higher utilization will result in stronger realisations

Exhibit 10:

Realisations



Source: Company data, Arihant research



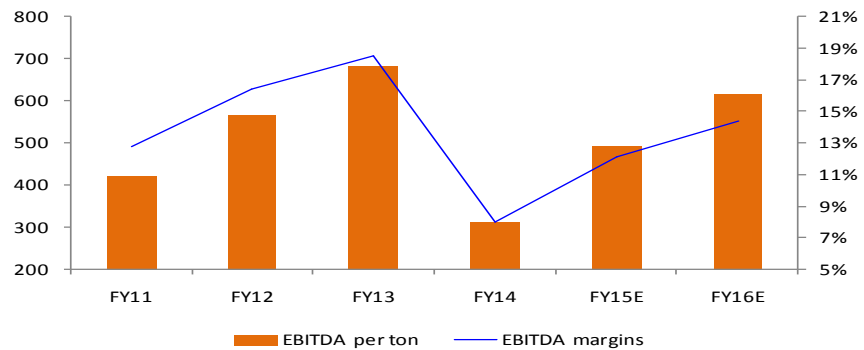
EBITDA/ton for MCL will be
Rs 614 in FY16E

Increasing margins

Going forward MCL will have multiple levers to increase its EBITDA margins. 1) Blended cement share is expected to increase to 75% in FY15E and further to 85% in FY16E. 2) Modifications made to plant will result in the savings in power & fuel cost to the tune of Rs 150 per ton. 3) Realisation is expected to rise on the back of strong demand recovery. Based on the above we expect MCL to post EBITDA per ton of Rs 614.

Exhibit 11:

EBITDA per ton



Source: Company data, Arihant research

Risks

- Delayed economic recovery might keep cement prices soft for longer period of time.
- Mangalam cement is regional player having presence in North & Central India and hence poses a geographic risk.



Valuation

At CMP of Rs 314 the stock is trading at EV/ton of \$ 46, which is at a huge discount to its midcap peers. We believe MCL has a price potential of Rs 429 based on EV/ton of \$75.

Exhibit 12:

Valuations

	FY15	FY16
EV/ton (\$/ton)	75	75
Exchange rate	62	62
Capacity	3.25	3.25
EV (Rs crs)	1511	1511
net Debt	437	398
CWIP	30	31
Market Cap	1104	1144
No shares	2.7	2.7
Fair Value	413	429
CMP	314	314

Source: Company data, Arihant research

Peer group comparison

Chart below shows Peer group comparison for mid cap cement companies.

Exhibit 13:

Peer group comparison

Company	Capacity	EV/Ton (\$)	EV/EBITDA TTM	OPM (TTM)
JK Cement Ltd	9.0	90	10.0	15.5
JK Lakshmi Ltd	6.6	123	11.8	17.8
Mangalam Cement Ltd	3.3	46	10.0	10.6
Heidelberg Cement India Ltd	5.4	90	12.7	14.9
Orient Cement Ltd	5.0	101	11.7	17.2
Birla Corporation Ltd	9.3	52	6.2	14.9

Source: Company data, Arihant research



Profit & Loss Statement (Standalone)

Y/E March (Rs Cr)	FY13	FY14	FY15E	FY 16 E
Net Sales	706	697	925	1,179
% Chg	11.9%	-1.2%	32.7%	27.4%
Total Expenditure	575	642	813	1,010
% Chg	9.1%	11.5%	26.7%	24.2%
EBITDA	131	56	112	170
EBITDA Margin %	18.5%	8.0%	12.1%	14.4%
Other Income	7	5	9	10
Depreciation	25	28	29	41
EBIT	113	33	92	138
Interest	5	9	37	33
PBT	108	24	56	106
Tax Provisions	30	-6	17	32
PAT	77	30	39	74
% Chg	38.2%	-61.7%	31.5%	90.4%
EPS	29.0	11.1	14.6	27.8

BS (Standalone)

	FY13	FY14	FY15E	FY16E
Shareholders' funds				
Share capital	27	27	27	27
Reserves and Surplus	466	480	504	556
Non-current liabilities	352	490	594	575
Long-term borrowings	211	343	443	393
Deferred Tax Liabilities (Net)	58	61	61	61
Current liabilities	125	145	165	212
Short-term borrowings	0	13	13	13
Short-term provisions	21	11	18	24
Total Liabilities	969	1,142	1,290	1,369
Net Fixed assets	349	515	799	803
Capital work-in-progress	214	255	30	31
Non-current investments	36	36	36	36
Long-term loans and advances	23	20	36	40
Current assets	326	286	359	429
Inventories	137	116	136	181
Trade receivables	30	23	35	45
Cash and Cash Equivalents	92	46	20	9
Short-term loans and advances	60	94	162	187
Total Assets	969	1,142	1,290	1,369

Cash Flow Statement, Year Ending December

Particulars, in Rs crore	FY13	FY14	FY15E	FY 16 E
Operating Activities				
PBT	108	24	56	106
Add Depr	25	28	29	41
Others	(2)	2	-	-
Total	131	54	84	147
Cash Taxes	(24)	(10)	(17)	(32)
Changes in Working Cap	(0)	19	(80)	(34)
Cash Flow from Operations	106	63	(12)	82
Investing Activities				
Change in investments	(25)	5	-	-
Capex	(217)	(231)	(88)	(47)
Cash Flow from Investing	(242)	(226)	(88)	(47)
Financing Activities				
Dividends + Taxes paid	(18)	(19)	(16)	(22)
Change in Non Curr Liab	206	135	89	(24)
Cash Flow from Financing	187	116	73	(46)
Opening Cash	37	92	46	20

Key Ratios (Standalone)

Y/E March (Rs Cr)	FY13	FY14	FY15E	FY16E
Per Share data (Rs)				
EPS	29.0	11.1	14.6	27.8
Cash EPS	38.4	21.5	25.4	43.3
DPS	6.0	3.0	5.0	7.0
Book value	184	190	199	218
Operating, Returns Ratio				
Debt/ Equity (X)	0.4	0.7	0.9	0.7
Current Ratio (X)	2.6	2.0	2.2	2.0
RoE (%)	15.7	5.8	7.3	12.7
RoCE (%)	11.7	4.4	7.6	10.8
Dividend Yield (%)	1.9	1.0	1.6	2.2
Valuation Ratio (X)				
P/E	10.8	28.3	21.5	11.3
P/BV	1.7	1.7	1.6	1.4
EV/EBITDA	5.7	16.0	11.1	7.1



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