

CMP: INR 363

Target: INR 455

Outlook: Positive

Stock Info

| | |
|-----------------------------|-----------|
| BSE | 543334 |
| Bloomberg | NUVOCO:IN |
| Sector | Cement |
| Face Value (INR) | 10 |
| Equity Capital (INR mn) | 357.2 |
| Mkt Cap (INR mn) | 131210 |
| 52w H/L (INR) | 398 / 291 |
| Avg Yearly Volume (in 000') | 76 |

Shareholding Pattern %

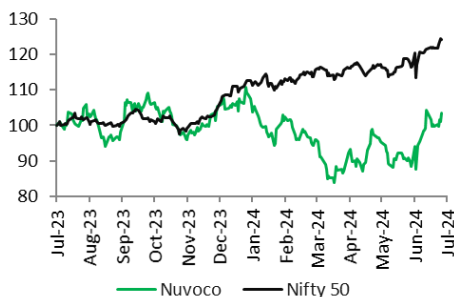
(As on March, 2024)

| | |
|-----------------|-------|
| Promoters | 72.02 |
| DII | 18.59 |
| FII | 3.43 |
| Public & Others | 5.96 |

Stock Performance (%) 1m 6m 12m

| | | | |
|--------|-------|--------|-------|
| NUVOCO | 13.9% | -0.32% | 7.0% |
| NIFTY | 3.8% | 11.0% | 24.9% |

Nuvoco vs Nifty



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We remain positive on Nuvoco as there is continuous demand from the infrastructure & real-estate segments as well as government spending towards infra and initiatives to promote affordable housing and rural infrastructure, bodes well for demand & growth in the cement sector. Besides, the company plan is to focus on premiumization, optimization of overall costs while saving on power & fuel and improving the product mix. At the same time, the plan is to improve utilization levels, maintain Debt/EBITDA levels at 2-2.5x as well as add capacity in the next 2-3 years. We have assigned 8.5x EV/EBITDA multiple on FY26 EBITDA for a target price of INR 455.

Guidance:

- **Healthy Demand:** There is healthy demand in the industry, and the expectation is that H2FY25 will see better pickup in terms of demand while Q1FY25 may remain muted. Besides, continuous spending from the government is aiding growth. So, Nuvoco aims to grow its volume similar to industry at ~7-8% in FY25 and by 9-11% in FY26 and realization is expected to improve by ~1-1.5% each in the next 2 years.
- **On profitability:** It aims to reach EBITDA per ton of INR 950-1000 by FY25-FY26E.
- **Capacity Addition:** It has strong presence in East and North India, and going ahead in the next couple of years, capacity addition plan is on cards in the North, East and South markets, so it would add ~3-3.5 Mn tons of capacity with capex outlay of ~INR 18Bn and this is expected to be announced soon. Meanwhile, their plan is to spend ~INR 4Bn as maintenance capex in FY25. Their plan is to add capacity in Rajasthan, which would help in catering markets in Gujarat, West India, add capacity in Chhattisgarh and also enter a new market in the South by adding capacity near border of Karnataka, thus helping the company to serve the markets of Maharashtra and Madhya Pradesh by FY27-28.

Plant Visit Highlights:

- We visited one of its largest cement & clinker plants at Risda in Raipur, Chhattisgarh, which has capacity of 3Mn ton of cement and 4.02Mn ton of clinker. The company has a total of 3 plants in Chhattisgarh.
- In terms of raw materials, Chhattisgarh being limestone rich, the Clinker plants in this area remain beneficial.
- The facility is an integrated one for making cement as it includes limestone grinding rollers, limestone storage containers, clinker & cement grinding rollers, mixture containers, kiln, large transitory pipes and storage facility for coal, gypsum & fly ash, also it has power unit as well as packaging unit (3 machines for packaging) where all types of cement are packed. Lastly, they used automatic channel as well as manual process for loading cement bags in trucks.
- They are the first company to add Robo lab in their facility for checking the quality of the product and also they use ABB for monitoring the fault in any part of the facility.

Plant Visit Highlights:

- For raw materials, the company has limestone storage facility of ~18000 tons. Further, for kiln, they widely use linkage coal which is cheap in terms of price as compared to Pet coke.
- Further, gypsum, fly ash & slag they have different storage areas as well as transitory pipes and according to the requirement the command is given and the products gets mixed with the clinker to produce cement. Thus, cement such as OPC, PPC & slag cement are produced. Most of the company's products were manufactured at its plant.
- The maintenance of the plant is carried out 2 times a month, ~16hrs in a month.
- At this plant ~60 unit of power is used for making 1 ton of Cement.
- For saving cost on power, the company has set-up a grid for power amongst all its 3 facilities in Chhattisgarh. This is expected to be completed within a month or two and the cost for setting up is INR 300mn. This would help Nuvoco be self-sufficient for power as well as sell extra manufactured power to the government, which would aid in saving costs and improve profitability going ahead.

Other Highlights:

- Nuvoco is a Nirma Group company that entered the cement business via setting up a green field project in Rajasthan in 2014 and later it started growing inorganically by acquiring Lafarge assets in 2016 and Emami in 2020. Going ahead, it has plans to grow organically by setting plants in North, East and South.
- Estimated capex required on greenfield projects is ~USD 70-80/ton and for brownfield projects it would be ~USD 40-50/ton.
- Currently in FY24, it has 25Mn ton of installed capacity and strong presence in East and North with ~75% plants located in East and 25% in North.
- The company has share in Trade segment of ~73% while 27% is contributed through non-trade share. The trade segment has better realization which leads to improved profitability. Out of ~73% trade share. premium products contribute ~37%. It earns a premium of INR 5-15/bag as compared to the top competitor.
- Overall, the company has utilization level of ~75% and its cement to clinker ratio is 1.7-1.8x one of the best in industry & better than the India average of 1.4-1.5x.
- For raw materials like Slag, the company has secured long term contract with Tata Steel, which provides them as a hedge. Slag prices increased immensely during 2022 but the company was not affected due to its long-term contract. Also, for coal, it has signed a long-term contract with Coal India, while pet coke is imported from US and Saudi markets.
- Fuel mix for Nuvoco is Pet coke – 50%, Coal - 35% and alternate Fuel (AFR) - 13%.
- In FY24, the company saved ~INR 30/ton via Project Bridge 1.0 and further it aims to save ~INR 50/ton in FY25 through its strategic initiative Project Bridge 2.0 which would focus on enhancing efficiency by optimizing material & power cost, reducing distribution costs and improving productivity.
- In FY24, it reduced its debt to INR 40.30Bn and net debt/EBITDA stands at 2.4x.
- It faces competition from top leading cement manufacturing companies such as Ultratech, Dalmia Bharat, Shree Cement and Ambuja.

Exhibit 1: Limestone Roller



Exhibit 2: Limestone storage container



Exhibit 3: Process of Calcination



Exhibit 4: Cement manufacturing roller



Exhibit 5: Cement Packaging Machine



Exhibit 6: Limestone, Pet Coke & clinker



Exhibit 7: Types of cement products manufactured



Source: Company, Arihant Capital Research

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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