Initiating Coverage
15th June 2023

Nuvoco Vistas Corporation Limited

Value unlocking by strengthening its leadership position

CMP: INR 360

Rating: Buy

Target Price: INR 444

Stock Info	
BSE	54334
NSE	NUVOCO
Bloomberg	Nuvoco IN
Routers	Nuvoco.BO
Sector	Cement
Face Value (INR)	10
Equity Capital (INR mn)	357
Mkt Cap (INR mn)	129,004
52W H/L (INR)	475/260

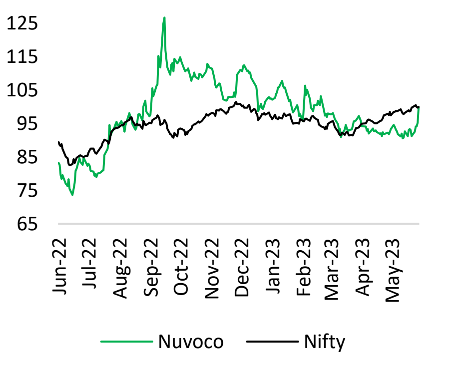
Shareholding Pattern %

(As on June 2022)

Promoters	71.42
Public & Others	28.58

Stock Performance (%)	1m	3m	1 Yr
Nuvoco	8.13	3.04	18.96
Nifty50	2.6	6.2	12.2

Nuvoco Vs Nifty Chart



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Source: Arihant Research

The Nirma Group's Dr. Karsanbhai K. Patel is the promoter of Nuvoco Vistas Corp. Ltd. (Nuvoco), one of East India's leading cement producers. Nuvoco rapidly increased capacity at a 15% CAGR to 23.8 MMTPA over FY14-FY23 (mainly through the acquisition of Lafarge in 2016 and Emami in FY20). Nuvoco is ideally positioned to profit from the cement demand due to stronger infrastructural growth, rural housing assisted by PMAY, and increasing budgetary allocations from various government initiatives. It is located in East India (>75% capacity) and the rest in the North.

Key Rationale

Cost Effective sourcing: The eastern region's Nuvoco facilities are dispersed across several states so that fly ash is typically accessible within 150 kilometers. Six of Nuvoco's 11 plants are connected to the railroad, which facilitates the movement of cement, fuel, and raw materials. Nu-Vista and Nuvoco’s corporate integration and synergies help in reducing their overall lead distance. With cross-brand manufacturing at its numerous plants, Nuvoco maintained a lead distance of 340km in FY23, and in Q4FY23, there was a sequential improvement of 5-7 km in the lead distance.

Leadership position in East India region and upcoming capacity to fuel future growth: Nuvoco is one of the biggest cement producers in East India and ranks fifth in capacity amongst all cement producers in India. Around 17% of the total capacity in East India and 4.7% of the total capacity in North India belongs to Nuvoco. The total capacity as of FY23 was 23.8 MMTPA and plans to add 1.2 mntpa cement capacity along with clinker capacity enhancements in Risda and Nimbol.

Push for premiumization will lead to margin expansion: The company is continuously trying to push value-added products, the share of premium products in trade stood at ~36% in FY23. Trade share stood at 72% in FY23, we expect trade share to go further up by 1-1.5% in next year.

Demand could surprise with ~9% CAGR over the next 2 years: The Eastern region witnessed flattish growth last financial year, this and next financial year we expect a sharp revival in eastern region demand backed by a pickup in rural housing and infra development. South may see healthy growth, and Western and Northern regions are expected to witness moderate growth. **Valuation and Outlook**

At CMP of INR 360, the stock is trading at EV/EBITDA multiple of 10.6(x) and 8.6(x) to its FY24E & FY25E which we feel is an attractive valuation considering its strong brand, size, and position in East India. Going forward, macroeconomic indicators exhibited a positive outlook due to strong housing demand and government-led infrastructure development projects. Nuvoco managed to command a 6% YoY increase in realization in Q4FY23 as compared to an industry rise in realizations of 3% YoY. The company’s focus on internal levers and operational efficiency coupled with stabilizing fuel costs will help in margin improvement. Further, the company’s capacity expansion plan and optimum capacity utilization at the company’s facilities will also help serve incremental demand. Declining finance costs led by debt repayments should support profitability. We expect EBITDA/t to increase by more than INR 130/t on a full-year basis for FY24. **We value the stock at an EV/EBITDA multiple of 10.2(x) to its FY25E EBIDTA to arrive at a target price of INR 444, an upside of 23.2%, and assign a buy rating on the stock.**

We expect price hike of 3-4% post 15th June 2023. For May 2023 the realizations are flattish MoM and QoQ in East and North region

Growth triggers

- The Company remains committed to offering diversified products to meet customers' construction needs. **Modern building materials** business has recorded ~20% growth YoY in FY23. Nuvoco does not do repeat sales to any customer whose credit is more than 45 days overdue and hence this has greatly improved the overall receivable position in the **Ready-Mix business**. The company has decided to set up additional Ready-Mix plants to the tune of about 12 to 15 plants, with a CAPEX of ~250 mn for the new facilities.

- Revenue growth has been 14% against the volume growth of 5% YoY in FY23, the management has consciously chosen **value over volume growth**. The company is trade centric and is committed to maintain its trade share in the industry.

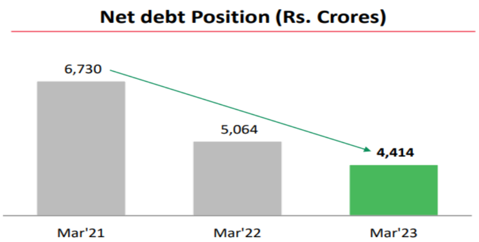
Nuvoco Cement to clinker ratio better than all India avg ratio

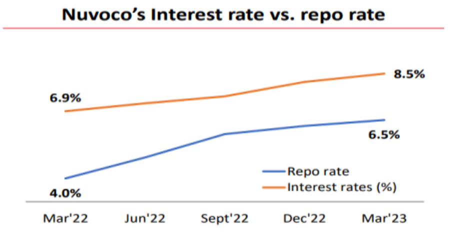
- **Premium products** contributed 36%, an increase of 3% YoY of trade sales and 26% of total sales in FY23. The company is continuously pushing for premiumization, which is a strong lever for improving margins.

- **Power and fuel cost:** The company is continuously working on fuel mix optimization, petcoke prices have come down from its peak of more than 50% in one year to a spot price of ~USD 130/t. The pet-coke prices went up as high as INR 2.8 per mn Kcal and have reached about INR 1.95 per mn Kcal. This will bring in **savings in fuel costs leading to an increase in EBITDA/t by INR 100/t in Q1FY24 itself and the trend is expected to continue in the following 3-4 quarters if the power and fuel cost declining trend continues.**

The management has pointed out that the major capex will be carried out post debt levels of INR 35-40 bn levels.

- Nuvoco aims to reach a **debt** level of ~35,000mn to 40,000 mn in the near future. In FY22 the debt levels were at INR 50,640mn which got reduced to INR 44,140 mn in FY23 showing the company's willingness on reducing debt.

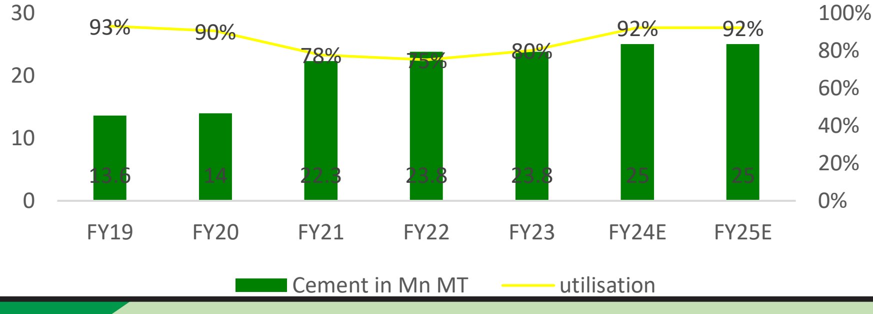




Nuvoco is Trade centric company and has trade share on the higher side as compared to its peers

- Nuvoco currently has an installed capacity of 23.8 mtpa and ongoing growth programs will increase its **cement capacity to 25 mtpa by H1FY24**. Further, its clinker capacity enhancements in Risda and Nimbol are right on track with deliverables expected by H1FY24 . This will fuel the growth prospects of the company and help meet the incremental demand. The company is running at **capacity utilization** for cement at 80% and for clinker at 87%.

Going forward we expect return ratios to improve on account of low debt and decline in interest rates.



- In Q4FY23 sequential quarter we have seen about 5-7km improvement of **lead distance** to 340km, the company is working closely with the Indian Railways, the company is first to introduce innovative solutions for clinker movement such as BOBY-N wagons which were typically used by railways for transportation of aggregates and track ballast materials.

- The company has also decided to set up Ready-Mix plants to the tune of about 12 to 15 plants for which the company has made a provision of close to ~INR 250 odd mn to set up new Ready-Mix facilities.

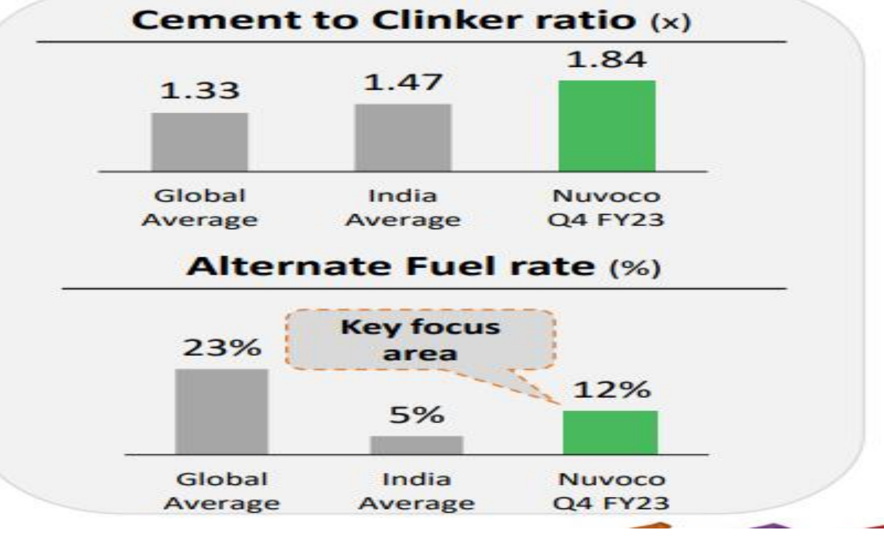
- **Capex:** The company has done capex of INR 4860mn in FY23, plans capex of ~INR 5,000mn-5500mn for FY24E which will include brownfield expansions in Bhiwani, Sonadih and Jajpur, and Nimbol, in Nimbol they will increase the capacity of clinker to 5,750 TPD, Bhiwani setting up a GU of 1.2 million ton. Sonadih is all about improving the logistics to get clinker movement out of Sonadih into the Eastern portion last but not least Jajpur is the only facility in the East that just does not have railway siding so the company wants to put a railway siding there, for which the work is already going on. Post all this the company will take up an expansion plan either in the North or West where they have the Nimbahera site as well as in Gulbarga.

- Cement raw material cost increased by 4% YoY due to the increase in key commodity costs with inflationary pressure. This has been partially mitigated with **long-term contracts for slag** and an improved cement-to-clinker ratio.

- Cement **demand** to remain strong in FY24 led by the government’s continuous thrust on infrastructure with expected growth of ~9% CAGR over the next 2 years.

- **C/k ratio** at 1.84 with a continuous focus on blended cement which is the best in the industry.

- The company is actively focusing on AFR which stood at 12% in Q4FY23 of the fuel mix higher than the industry.



Investment rationale

Cost-effective sourcing:

The company has **11 cement plants** which include five integrated units, five grinding units, and one blending unit, in the states of West Bengal, Bihar, Odisha, Chhattisgarh, and Jharkhand in East India and Rajasthan and Haryana in North India – strategically located to efficiently fulfill the customer requirement. The Company is also a leading Ready-Mix Concrete (“RMX”) player in India with 50+ operational RMX plants operational across pan India

Fly ash is mostly accessible at distances of less than 150 kilometers thanks to Nuvoco's plants' distribution across several states in the eastern area. Less than 2 kilometers separate its grinding facilities in Jojobera, Jharkhand, and Mejia, West Bengal, from thermal power plants. Also, the lead distance for sourcing fly ash at its Panagarh (West Bengal) factory is less than 50 km. The fly ash lead distance for Nuvoco in the north is 120–600 kilometers. The majority of slag cement manufacturing facilities can obtain their slag needs within less than 180 kilometers. It has a 20-year supply agreement for 2.1 million MT at a fixed price (lower than the spot market price) and a further 0.5 million MT at market price, further enhancing its cost competitiveness.

In the eastern region, the business has considerable distribution capabilities. Six of Nuvoco's 11 plants are connected to the railroad, which facilitates the movement of cement, fuel, and raw materials.

Nu-Vista and Nuvoco’s corporate integration and synergy will aid in reducing their overall lead distance. With cross-brand manufacturing at its numerous plants, we expect the overall lead distance to reduce from 340 km in FY23 to 330 km in FY24E through the synergy of NU Vista. In order to reduce the cost of moving clinker, Nuvoco has also restructured the logistics for its eastern grinding operations. Five integrated units operated by the firm are located in Rajasthan and Chhattisgarh. By investing in 1.5 Mw solar power plants, 150 Mw captive power plants, and 44.7 Mw waste Heat Recovery systems, they have maintained their commitment to alternative energy resources. The company has a long-term tie-up with Tata Steel in the state of Jharkhand for the Jojobera plant, a 20-year contract starting February 2019 to 2039.

The fastest-growing cement markets in India are in East India. Due to their presence in this expanding industry, they are able to take advantage of their rising wants and make sure that factories are fully used and prepared to satisfy consumer requests. The company is able to take advantage of opportunities and market its products across North, Central, and East India thanks to its industrial presence.

Strategic Benefit

Location	Plant type	Cement CapacityMTPA	Lime stone lead distance (KM)	Clinker Lead distance (KM)	Flyash Lead distance (KM)	Slag lead distance (KM)	Railway sidings
Nimbol(Rajasthan)	IU	2.3	4 to 10		300-480	NA	No
Chittorgarh(Rajasthan)	IU	2.1	0.5 to 6		120-600	NA	Yes
Sonadih(Chattisgarh)	IU	0.65	2-2.5		70-150	NA	Yes
Arasmeta (Chattisgarh)	IU	1.89	3to 45		45-100	NA	Yes
Risda(Chattisgarh)	IU	3	2		110-150	120	No
Mejia(West Bengal)	GU	1.65		620-690	1 to 2	NA	Yes
Panagarh (West Bengal)	GU	2.5		800	30-65	32-180	Yes
Jojebera(Jharkand)	GU	6.45		450-530	1 to2	10-350	Yes
Bhabua (Bihar)	GU	0.8		600	115-220	NA	No
Jaipur (Odisha)	GU	2		600	NA	12-180	No
Bhiwani (Haryana)	BU	0.5		450-550	Nearby	NA	No

Source: Company, Arihant Research

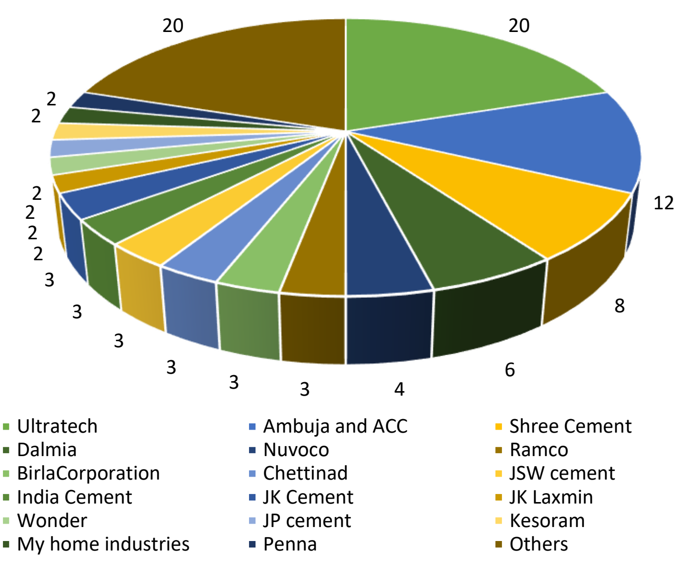
Investment rationale continued:

Leadership position in East India region and upcoming capacities to fuel future growth:

Novoco is the fifth largest company amongst the major cement players:
The company plans to invest between INR 5,000mn to INR 5,500 mn in capital expenditure in FY24, with the majority of that amount going towards debottlenecking at the Risda and Nimbol Clinker plants, railway sidings, the Bhiwani grinding unit, and various routine land improvements. There is an ongoing project at Bhiwani that will have a capacity of 1.2 mtpa and is expected to get commissioned in H1FY24.

Nuvoco ascended to become the fifth-largest group in India after two significant acquisitions in the east, Lafarge Cement (India) in 2016 and NU Vista (Emami Cement before the acquisition) in 2020. These initiatives improved their position as one of the top three sellers in the eastern region. Duraguard, as well as Concreto trademarks of Nuvoco, have long held premium standing in the east.

Share in cement industry in %



Source: Industry data, Arihant Research

Leadership position in East India region: The company is the leading cement producer in East India and ranks fifth in terms of capacity among all cement producers in India. As of FY22, Nuvoco's consolidated capacity was 23.8 MMTPA, or 4.2% of the installed capacity for the sector in India as of December 2020. Nuvoco's capacity share is roughly 17% in terms of consolidated capacity in East India and 4.7% in terms of consolidated capacity in North India. Due to the massive acquisitions of Lafarge Holcim in 2016 and NU Vista (previously Emami Cement Ltd.) in 2020, the company expanded quickly. The fifth-largest cement manufacturer in India is now Nuvoco. In the northern region, Nuvoco operates a split blending unit in Haryana, an integrated unit in Nimbol (transferred), and an integrated facility in Chittogargh. Synergies, such as the rationalization of the marketing network and cost savings as a result of an increase in operational scale, will be advantageous to these divisions. India is home to more than 20 large and medium-sized cement factories as well as more than 50 smaller ones. Three categories—Category A, B, and C—are used to group cement brand names.

Investment rationale continued :

("CAT A, B and C" respectively). CAT A producers are considered to be premium cement brands, whereas CAT B and CAT C producers sell at par or below the price of the base brand of a CAT A player. This leads to a huge variation in cement prices with the difference between the Premiums brand of CAT A companies and that of CAT C brand in the same market. Premium brands like Nuvoco Vistas Concreto and Duraguard MF, Ultratech Weatherplus, and ACC Gold are market leaders in prices and usually enjoy a premium of INR 100-150/ bag over CAT C Brand in the same market.

Target to touch 25mtpa of capacity by FY24E will fuel future growth:

The company spent about INR 4860 mn on capital expenditures in FY23. By the end of the fiscal year in 2024, the company expects to invest between INR 5000mn and INR 5500 mn in capital expenditure, with the majority of that amount going towards debottlenecking at the Risda, railway siding and Nimbol Clinker plants, the Bhiwani grinding unit, and various routine maintenance. There is an ongoing project at Bhiwani that will have a capacity of 1.2 mtpa and is expected to be commissioning in H1FY24; Clinker capacity enhancement project through debottlenecking at Nimbol and Risda is also going well in time.

Three of the company's kilns are undergoing clinker debottlenecking, and work has already begun on two of them, the Nimbol plant in the north and the Risda facility in the east.

Its Nimbol plants have enough limestone on hand to last another 12 years. The business intends to participate in upcoming auctions of more mines in the region to boost its capacity for limestone. Nuvoco is also exploring rerouting clinker from the Risda cement plant to the Sonadih cement plant to the grinding unit, leading to a reduction in the overall cost of the company.

The clinker capacity of the company is 11.88 mntpa, actual production for FY23 was 10.39 mntpa, and clinker capacity utilization was at 87.5%.

Push for premiumization and multiple revenue streams will lead to margin expansion:

The company is continuously trying to push value-added products, the share of premium products in trade stood at ~37% of total sales volume in Q4 FY23 flattish sequentially. Trade share stood at 75% and in Q3Fy23 it was 71%. We expect trade share to go further up by 1-1.5% next year.

By the following initiatives, the company will continue to solidify its market position in the building materials sector:

- The company is concentrating on increasing the sales and market share of current brands, especially luxury products like "Concreto";
- To find market and product portfolio gaps, then launch new items with a focus on premium categories;
- Expand the selection of contemporary building materials to offer a full range of products and solutions for distribution channels and in response to customer expectations;

The company is also concentrating on expanding the selection of value-added products offered by the RMX company.

The company intends to maintain its focus on research and development in order to improve the quality and variety of current products and create new items that can accomplish these goals. The company recently launched Concreto UNO, a super-premium cement variant that has unique water-repelling properties.

Source: Company, Arihant Research

Multiple revenue streams: The company offers a range of over 50 products across cement, RMX, and modern building materials.

Cement As a part of its cement portfolio, Nuvoco has leading brands with multiple products under each brand including Concreto, Duraguard, Premium Slag Cement, Nirmax, Double Bull, Infracem, and Procem. The company's key brands include Concreto, Concreto Green, Duraguard, Duraguard Microfiber, Duraguard Waterseal, Duraguard Silver, Duraguard Rapidx Xtra, Premium Slag Cement, Nirmax Cement, Infracem Cement, Double Bull Cement, Procem Cement, Double Bull Master, and Double Bull Subh. After being launched in 2004 Concreto has been one of the best-selling brands, while Concreto and Duraguard are market leaders in terms of cement prices in the respective segment as well as regions. Nuvoco has a 72% contribution to turnover coming from the trade segment and this is 800bps higher than its peers. The trade segment has better realizations which leads to higher profitability.

Ready Mix Concrete (RMC): Nuvoco's brand portfolio in the ready-mix concrete business includes Concreto, Instamix, Artiste, and X-Con range of products. This portfolio includes products such as self-compacting concrete, decorative concrete, ready-to-use concrete, crack-resistant concrete, concrete with steel fibers, and lean concrete, as well as concrete with varied characteristics for specialty uses.

The company has more than 50+ RMX plants across the country and is planning to add 12-15 more plants in FY24E. Nuvoco has contributed to landmark projects like Nazrul Tirtha, Lodha World One, Amritsar Entry Gate, Aquatic Gallery, and several Metro Rail Projects. Brands under ready-mix concrete are Concreto, instamix, artiste, x-con, and encoder. RMX segment witnessed good demand momentum as revenue increased by more than 20% in FY23. The company is focusing on ramping up a number of RMX plants with back-to-back commissioning of Guwahati & Coimbatore plants as per FY23 management commentary.

Modern Building Materials The company's modern building material products are a key differentiator. Nuvoco's suite of products under this category includes a range of construction chemicals, tile adhesives, wall putty, dry plaster, cover blocks, and ready-mix dry concrete. Its modern building material products are marketed and sold under the "Zero M" and "Instamix" brands. The company has a dedicated Construction Development and Innovation Centre (CDIC) located in Mumbai and 17,500 sq. feet, NABL1-accredited facility serving as an incubation center for innovative products. Modern Building Materials (MBM) Revenue increased by ~20% in FY23. This segment witnessed healthy growth in the regions of North and West with expansion into non-cement channels.

Investment rationale continued:

Industry wide opportunity:

Budget (FY23-24) impact on Cement Industry:

The infrastructure-focused Union Budget 2023 will boost cement demand, which is expected to grow by 9% over to over 425 mntpa in FY2024. In 2023-2024 the Government has increased capital investment outlay by 33% to INR 10 Tn. The budget is favorable for the cement industry because the indirect benefits of the government's push for affordable housing and the rise in infrastructure development spending will be good enough to offset the increase in fuel prices brought on by higher clean energy cess and customs duties on imported coal. The "PM Gati Shakti - National Master Plan (NMP)" for multimodal connectivity was presented by the Indian government in October 2021. UDAN, Bharatmala, Sagarmala, inland waterways, dry/land ports, and Sagarmala are just a few examples of the infrastructure projects from many Ministries and State Governments that will be included. Economic zones such as fisheries clusters, textile clusters, pharmaceutical clusters, defence corridors, electronic parks, industrial corridors, and agricultural zones will be covered in order to promote connectivity. Road infrastructure was given USD 26.74 billion in the Union Budget 2022–23, and rail infrastructure was given USD 18.84 billion and in the 2023-2024 budget, this was increased to the highest-ever outlay for Railways at INR 2.4 Tn. As part of the PM Awaj Yojna, outlay enhanced by 66% to over INR 790,000 Mn As a result, the demand for cement will rise led by all of these measures The government has also identified 100 transport infrastructure projects for end-to-end connectivity with an investment of INR 750,000 Mn. India's cement demand is expected to increase to 419.92 million tonnes by FY 2027.

Government Capex: Higher allocation for infrastructure– USD 26.74 billion in roads and USD 18.84 billion in railways is likely to boost demand for cement. Under the housing for all segments, 8 million households will be identified according to INR 4,800,000 mn (US$ 6.44 billion) set aside for PM Awas Yojana. The government approved an outlay of INR 1,991,070 Mn (US$ 26.74 billion) for the Ministry of Road Transport and Highway.

Industry Tailwinds

- Private spending and capital formation have mostly driven Indian economic growth in FY23.
- GDP growth in FY24 is projected to be between 6.0 and 6.8%;
- Increasing average monthly gross GST collection will support healthy spending in the run-up to the general elections in 2024;
- While the expectation of an end to the rate-hike cycle and decreasing inflation are supportive of GDP, geopolitical risks and the global recession remain important concerns.

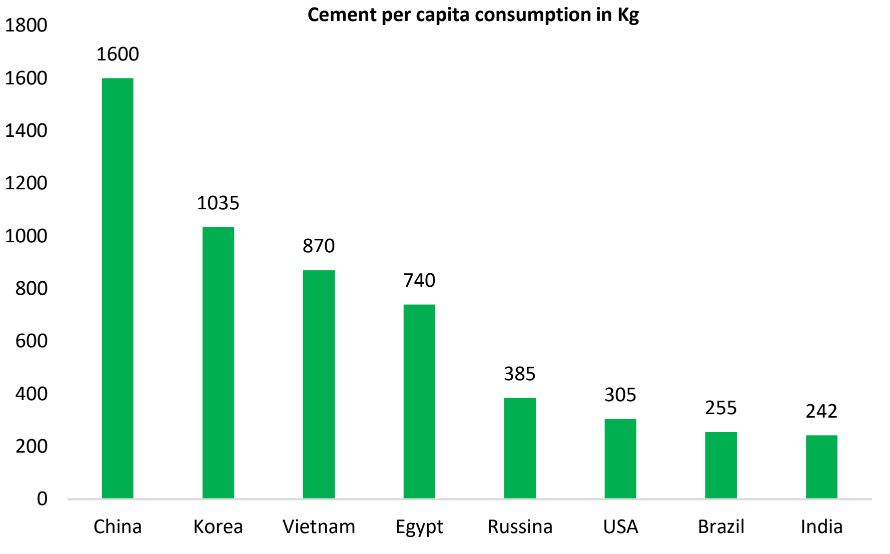
Volume and demand growth drivers

- The housing demand to remain strong on account of rapid urbanization, rising per capita income, and family nuclearization.
- A record number of new investments have been announced by the private sector, helped by improved balance sheets and growing capacity utilization.
- Better winter crops, higher reservoir levels, and labour-intensive infrastructure projects will increase rural demand.
- Disposable income to increase with change in income tax slab.
- In October 2021, Prime Minister, Mr. Narendra Modi, launched the 'PM Gati Shakti - National Master Plan (NMP)' for multimodal connectivity. Gati Shakti will bring synergy to create a world-class, seamless multimodal transport network in India. This will boost the demand for cement in the future.

Investment rationale continued

Low penetration of cement consumption in India

India continues to have one of the lowest per capita cement consumption rates in the world, with an increase in consumption by barely 5% during the past 20 years. Housing demand may continue to be robust over the coming years given the rising trend of fast urbanization and the nuclearization of families.



Source: Company, Arihant Research

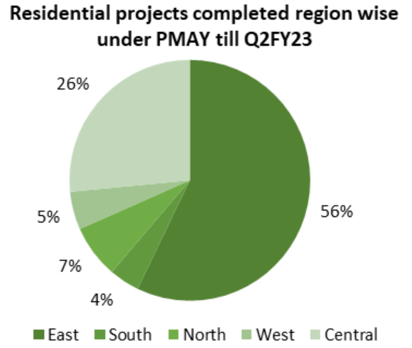
Demand could surprise with ~9% CAGR over next 2 years, Eastern and Central regions to drive demand in near term:

Over the coming years, cement demand may continue to be strong, supported by government spending on affordable housing and infrastructure development, a better outlook for the urban real estate market, stable demand for rural housing, and a revival of corporate capex spending on industrial and commercial sectors. Over the next two to three years, India's cement industry may have an average demand increase of 8% to 9% CAGR, leading to higher usage rates. The majority of demand drivers are expected to be favorable, and FY23 may experience robust 10% YoY demand growth and 9 percent YoY in FY24, led by pre-election spending and strong traction in infrastructure A robust demand trend in FY24E may possibly be boosted by increased government infrastructure spending as a result of the May 24 general elections.

Housing activities on rise

The growth of rural dwelling construction during the last five years should continue. Almost 20 million homes have been completed under the Pradhan Mantri Awas Yojana (PMAY)- Grameen plan, albeit this figure is still below the target. The goal of the Ministry of Rural Development is to reach 30 million homes. The number of dwellings finished under the PMAY-Urban project has also steadily increased to over 6.3 million, but it is still less than the 12 million houses allowed under the scheme. The government allotted INR 480 billion in the Union Budget 2022–23 for the construction of 8 Mn homes for PMAY–Urban and PMAY–Grameen.

Investment rationale continued

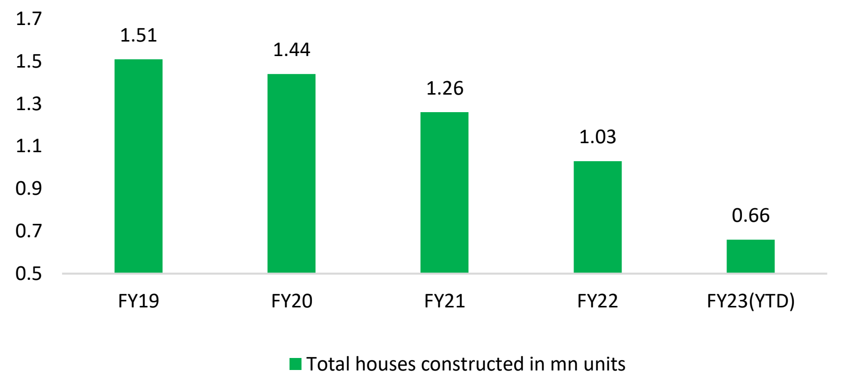


Source: Company, Arihant Research

PMAY-Urban construction till date in Mn Units

Total Houses sanctioned	Total houses grounded	Total houses constructed	Total houses under construction
•12.05 mn units	•10.66 mn units	•6.55 mn units	• 4.11 mn units

Source: Industry Data, Arihant Research



Source: Industry Data, Arihant Research

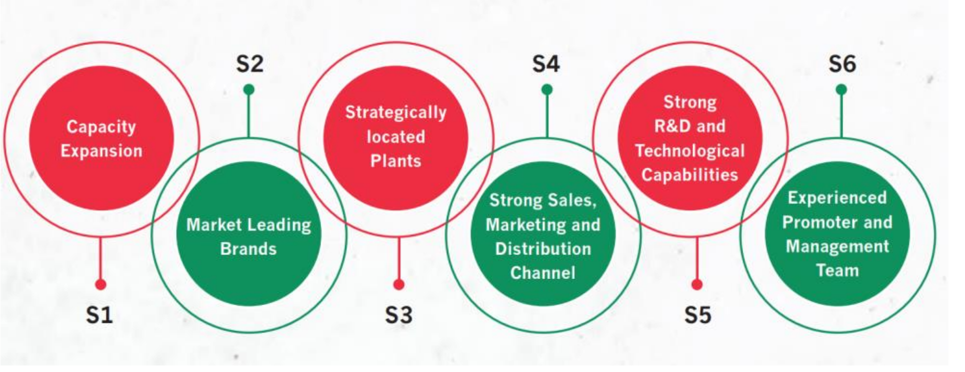
New Airports

Ude Desh ka Aam Naagrik (UDAN) aims to complete 220 destinations (airports, heliports, and water aerodromes) with 1,000 routes by 2026 in order to connect the country's unconnected destinations by air. 68 additional airports will be built as a result of this. As a result, airports are anticipated to contribute to the demand outlook.

Metro activities to continue throughout the country

By 2027, India hopes to have metro rail in 27 cities, up from the current 20. The Metro Rail Policy, 2017 was established to institutionalize a comprehensive policy for establishing an enabling environment for the extension of the metro rail system across the country, as more cities strive to make the metro rail system their major means of urban transit. There were 248 kilometers in the nation's metro network as of 2014. The country now has a 773 km long metro network. In order to create the pillars, station buildings, underground tunnels, and flyovers necessary for the metro, a sizable amount of cement and concrete will be needed.

Strengths



- The company is a trade-centric and multi-brand strategy to service the whole network. In FY23 the mix stood at trade 72% and non-trade 28% whereas other cement companies are generally at 60-65% trade mix. In the eastern region, the company has an 80% kind of trade mix which is high compared to other companies.

- The company has differentiated products, with premium products like concreto and duraguard, concreto has the premium most position in eastern markets, and last year the company also launched water repellent variant named concrete uno which has markets in Bihar, Jharkand, and Bengal. In Orissa there is a rail connectivity issue related to the Jajpur plant, it will get resolved by September which will increase the prospects in Orissa markets also. The company has market-leading brands and a diverse portfolio. The company also offers institutional solutions with products like infracem, double bull variants. Nuvoco's suite of products under this category includes a range of construction chemicals, tile adhesives, wall putty, dry plaster, cover blocks, and ready-mix dry concrete. Its modern building material products are marketed and sold under the "Zero M" and "Instamix" brands.

- The company has a strong dealer network and has industry-matched loyalty programs for dealers, which motivates the dealers to perform well. Strong sales marketing and distribution channel comprising ~55000 dealers vendors and suppliers.

- The company also has an R&D center of ~17500 sqft in Mumbai with strong research capabilities. They constantly monitor changing market requirements to direct inquiries based on sound research which allows them to understand and address market gaps improve performance and offer innovative solutions.

- The company unveiled its first Direct-to-Consumer Home Assist App "NUVO NIRMAAN," which covers a wide range of information and guidance throughout the homebuilding stages. They also introduced Tech Express Vehicles to provide on-site services to our customers. These initiatives will further strengthen the brand through 'phygital Connect' with the consumer and provide necessary impetus to enhance the company's retail reach.

Market Scenario analysis

Demand

We are expecting industry demand to grow by 8-9% in FY24 led by increased government spending, primarily across its flagship schemes such as PM Gati Shakti and National Infrastructure Pipeline and efforts to complete key infra projects ahead of elections in 2024, also being a pre-election times FY24 is expected to generate higher incremental growth driven by government spending and push on infra and housing. As per the Union Budget 2022-23, the government approved an outlay of INR 199,107 cr (US$ 26.74 billion) for the Ministry of Road Transport and Highways. Cement demand to remain strong in FY24 led by pre-election spending by the government, continued thrust on infrastructure development, and rural housing demand. In FY23 cement demand in East and North witnessed robust demand growth on a YoY basis. Demand was primarily driven by the rapid execution of infrastructure projects and strong traction in rural housing. The Eastern region witnessed flattish growth last financial year, this and next financial year we expect a sharp revival in demand backed by a pickup in rural housing and infra development. South will likely see healthy growth, Western and Northern regions are expected to witness moderate growth. We expect highest capacity addition in the Eastern region over FY24-FY28 of ~42mntpa as compared to the rest of the country.

Realization

The realizations for FY23 have been more or less flattish YoY and MoM, the due to high competitive intensity. In the South, the cement companies did announce a price hike of INR 30-35 per bag but we believe only INR 10-15 per bag would hold. In the West, demand in Mumbai has been strong and a price hike of INR 10-15 a bag was announced in April 2023 but even such a price hike to sustain is difficult due to price war and competition amongst the cement players. Overall, taking and sustaining price hikes remains an issue due to huge supplies and market share wars. Nuvoco witnessed price improvement in FY23, especially in the east by 7% increase YoY outperforming all India's average of 3%.

Higher consolidation ahead

We believe, the sector is likely to witness consolidation in the medium term, which will create a wider gap between the big and small players. The share of the top 9 players has increased by 2% in FY23 which is now at 70% and with the consolidation we expect the share to increase further. Nuvoco being amongst the bigger players stands to gain from this trend.

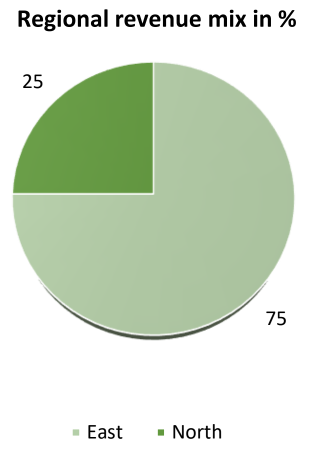
Utilization

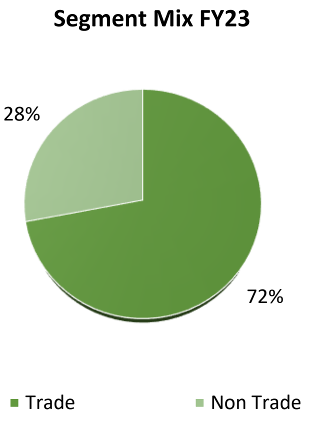
We expect utilization to increase as demand is expected to be good, with the north to witness the highest capacity utilization of about 81%, the west to witness higher utilization than the previous year, and the central and east to follow. As there is huge capacities coming in the east region the utilizations may remain flattish YOY/QoQ.

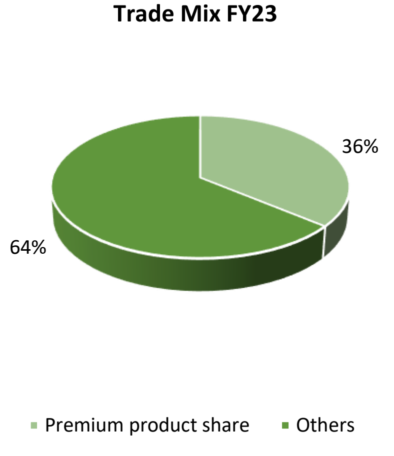
Margins and costs

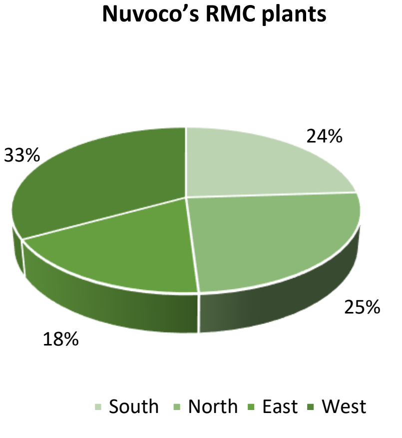
Industry EBITDA/t is expected to increase and reach 1050/t levels in FY24 to be driven by softening of power and fuel costs and good demand in the markets where Nuvoco is operating. We expect a price hike of at least INR 10 a bag for the year FY24 coupled with good volume growth, may get in increased operating leverage and margin expansions.

Nuvoco basic information FY23

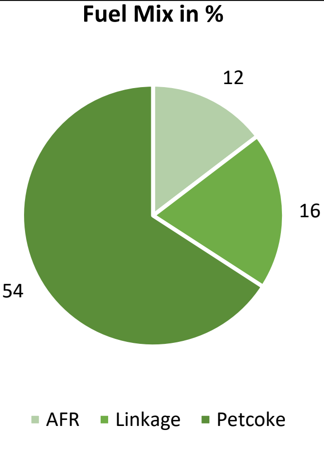








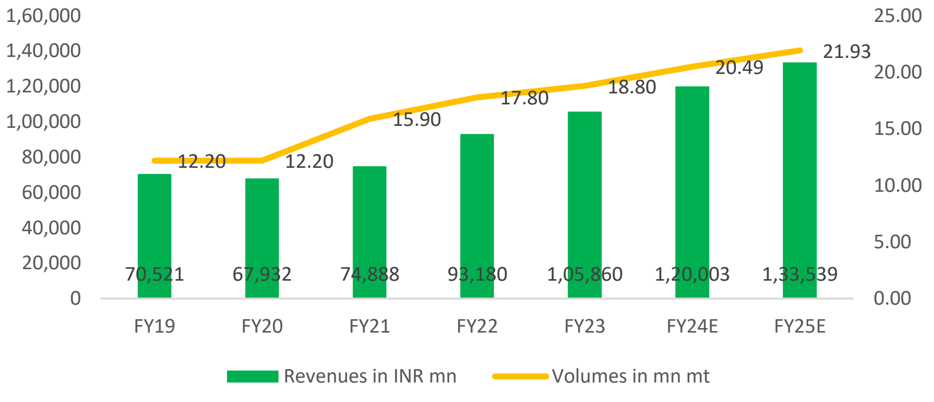
Company Info	
Cement Plants	11
Ready-Mix Concrete Plants	50+
Captive Power Plants MW	150
("wHRS") Capacity MW	44.7
Solar Power Plant Capacity MW	1.5
trade %	72
Share of premium prod in trade volumes %	36



Financial Analysis

Revenue and Volume

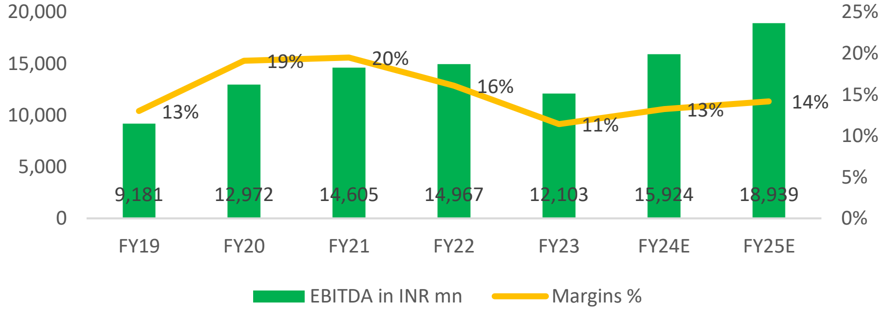
We expect revenues to grow at 12.7% CAGR over FY22-FY25E driven by the commissioning of the grinding unit at Bhiwani, clinker debottlenecking, and good demand scenario in the Eastern region.



Source: Company, Arihant Research

EBITDA and Margins

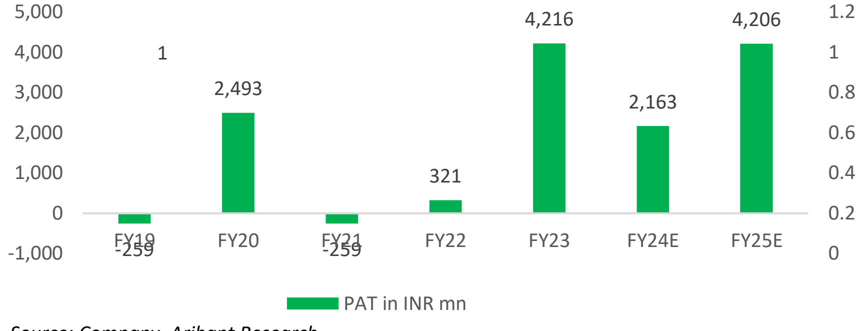
The company is targeting to increase its trade share from the current 75% to ~80% by increasing its focus on premium products. The company is also targeting to increase usage of linkage coal which is cheaper as compared to imported petcoke and increased AFR usage which stands at 9% for FY23.



Source: Company, Arihant Research

PAT and Margins

Margins are expected to expand driven by a decline in debt and interest costs. The PAT for FY23 was INR 158mn and the adjusted PAT excluding exceptional item of INR 4050mn comes to INR 4216mn.

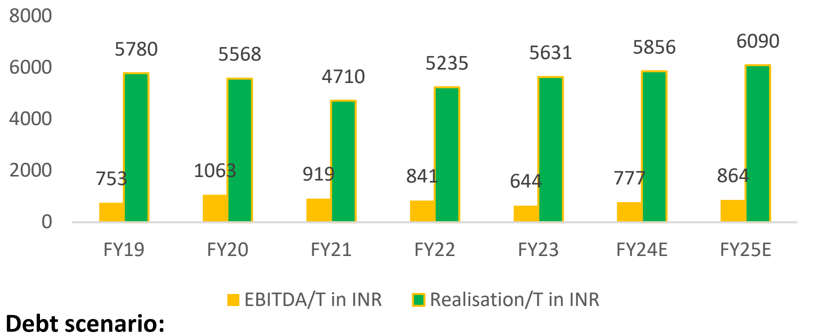


Source: Company, Arihant Research

Financial Analysis

EBITDA/t and Realisation

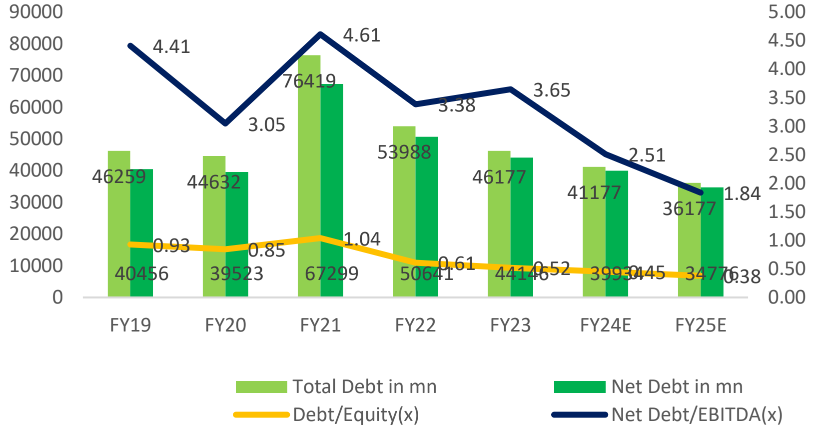
In FY23 EBITDA/t was hit due to high coal and fuel prices, going forward, we are expecting unit profitability to increase backed by declining coal prices, an increase in trade share, and an increase in usage of linkage coal.



Debt scenario:

Better cash flows and debt repayment to improve return ratios and help achieve a healthy balance sheet.

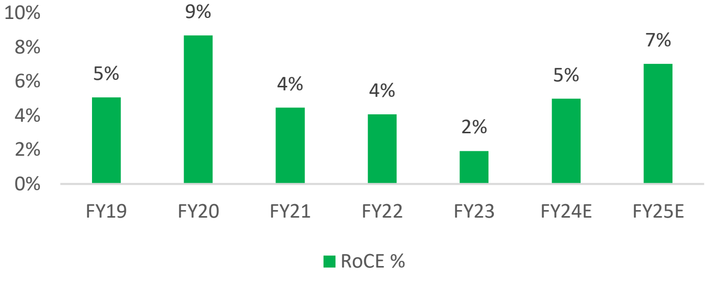
Also, the balance sheet's reduction in debt due to IPO proceeds has made a substantial contribution in deleveraging. The company has put the Gulbarga expansion on hold because the company wants to manage its debt, repay and reach levels of INR 35,000-40,000 mn



Source: Company, Arihant Research

RoCE

In FY23 we witnessed some fall in RoCE as the companies in the cement sector had to combat inflated input costs but we are expecting improvement in return ratios going forward. Also, the company has acquired businesses like Lafarge assets and Emami which resulted in weak return ratios as the company's gross block-to-capacity ratio became higher. Now the company plans to expand its capacities through brownfield projects which may lead to better return ratios.

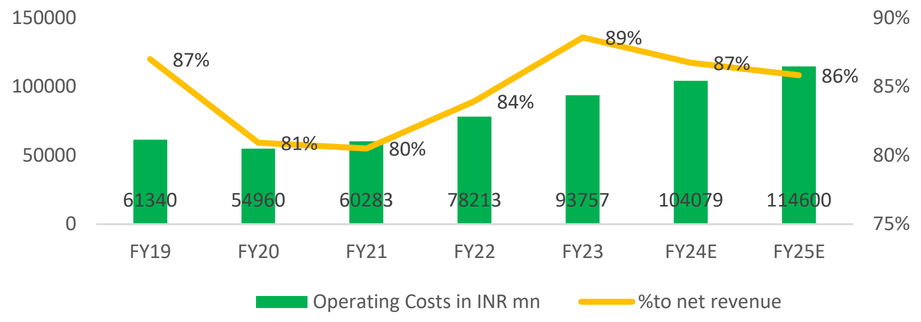


Source: Company, Arihant Research

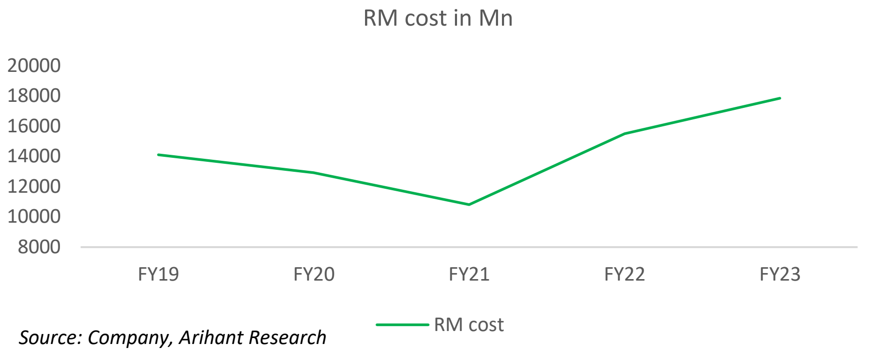
Financial Analysis

Costs:

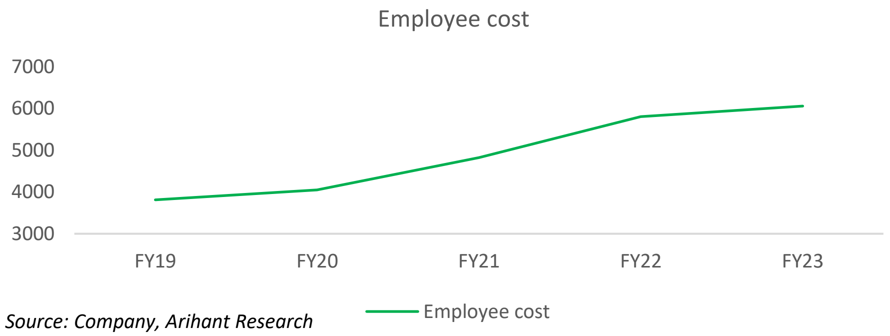
In FY24E we expect elevated costs due to volatility in coal and fuel prices during Q1FY24 and Q2FY24 to cool off substantially. For FY22, FY21, FY20, and FY19, the cost of materials consumed to revenue was 16.63% 14.42%, 19%, and 19.99%, respectively, and power and fuel to revenue was 22.58% 18.11%, 18.04%, and 19.49%. In Q1 and Q2 of FY23, the petcoke prices increased by 148% as compared to FY20 prices. In FY23 total operating costs were higher by 5% YoY.



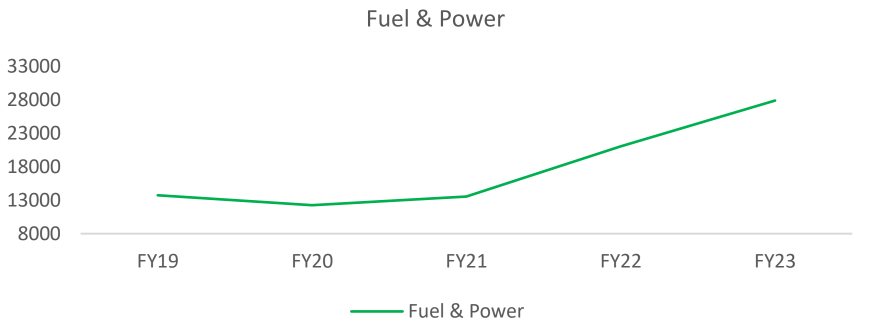
Source: Company, Arihant Research



Source: Company, Arihant Research



Source: Company, Arihant Research



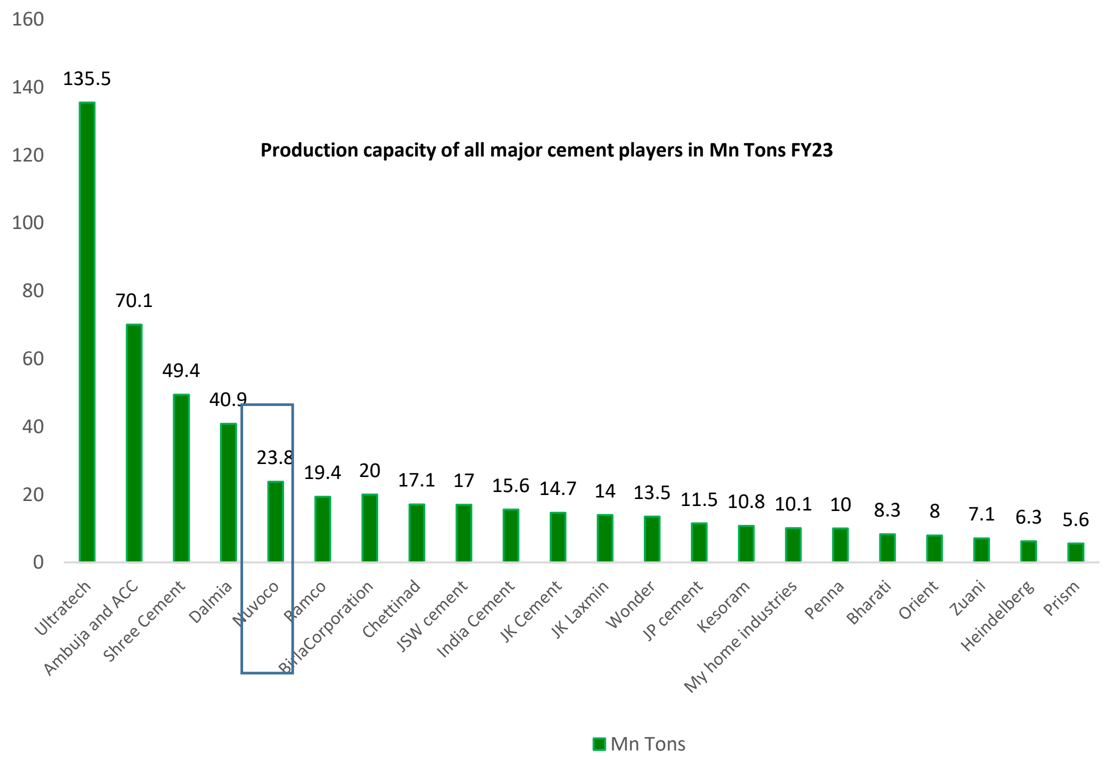
Source: Company, Arihant Research

Peers

The top five players in the cement sector contribute 46% of total capacity which is driven by consolidation and growth by large players.

Major cement players in India with capacities as of FY23 are shown in the below chart.

Nuvoco has 72% of revenues coming from the trade segment which is higher by 800 bps as compared to its peers.



Source: Industry Data, Arihant Research

Peer comparison FY23

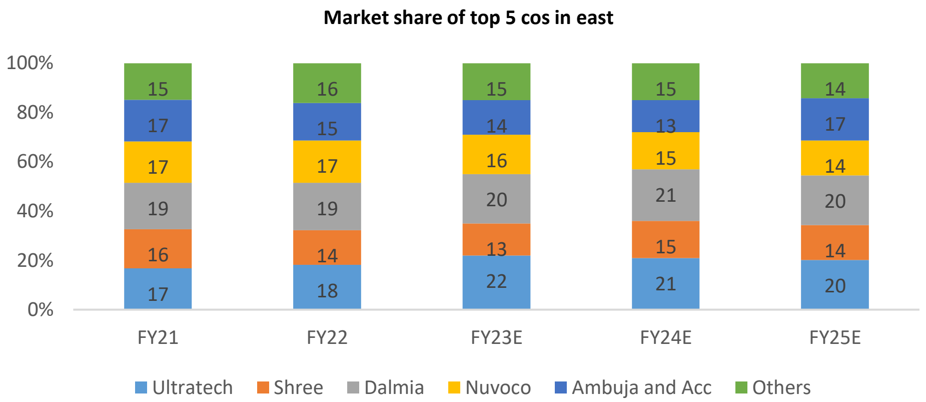
Company Name	CMP (INR)	MCap Mn	ROCE in %	Revenue Mn	EBITDAM in %	Interest coverage ratio	EV/EBITDA (x)
Nuvoco Vistas	**359**	**1,28,366**	**1.94**	1,05,861	**11.43**	**0.53**	**14.24**
UltraTechCement	7,850	22,66,375	12.65	6,32,399	12.65	12.91	21.65
Ambuja Cements	438	8,69,811	16.43	3,89,370	16.43	21.77	14.36
ACC	1,815	3,40,946	7.23	1,77,836	7.23	13.48	21.33
Dalmia Bharat	2,163	4,00,456	8.88	1,35,400	17.10	7.28	14.52
Birla Corporation	1,161	89,331	3.60	86,822	3.60	1.11	14.90

Source: Industry Data, Arihant Research

Market share in east

In terms of capacity share, the eastern region is distinctive because there are five players there, each with a capacity share of close to 14–19%, rather than one or two dominant players. As of FY22, Shree had a 14% share of total capacity, Ultratech had an 18% share, Nuvoco had a 17% share, Adani Group had a 15% share, and Dalmia had a 19% stake. The competition is fierce in terms of market share, with the majority of businesses boasting 15–18% market shares in the area. The region has drawn investments from prominent players in the nation because of its many growth drivers, including lower per capita cement consumption, the biggest housing shortages, and high demand for inexpensive housing. Pricing in the area has been unstable, nevertheless, because of the struggle for market share among the top 5 providers.

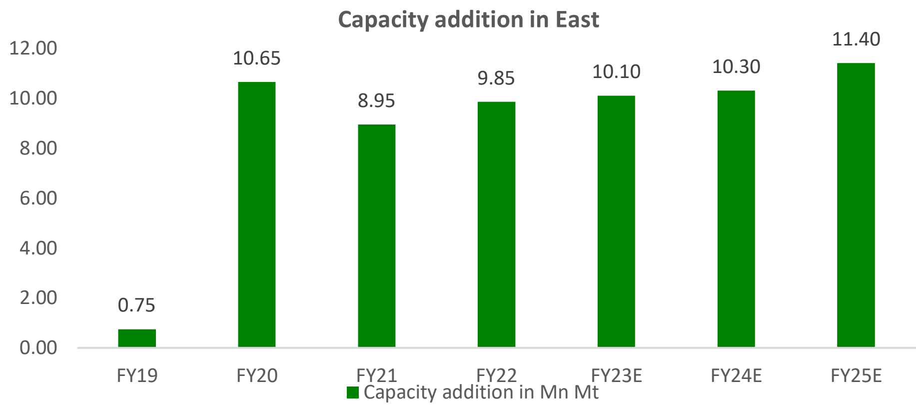
The eastern part of our country has one of the most populous and densely populated areas, and as of FY22, the region as a whole contributed around 25% of the nation's total cement demand. More than 30% of India's total cement demand is projected to come from the East. By 2030, it will be one of the regions with the highest and fastest growth in cement demand. As a result, supply in the east has also been greater than in the rest of the nation.



Source: Industry Data, Arihant Research

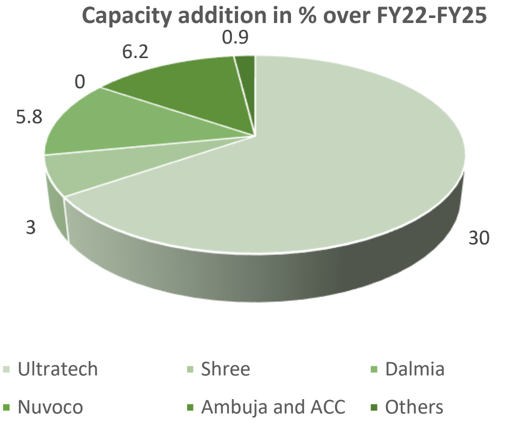
Capacity addition in east

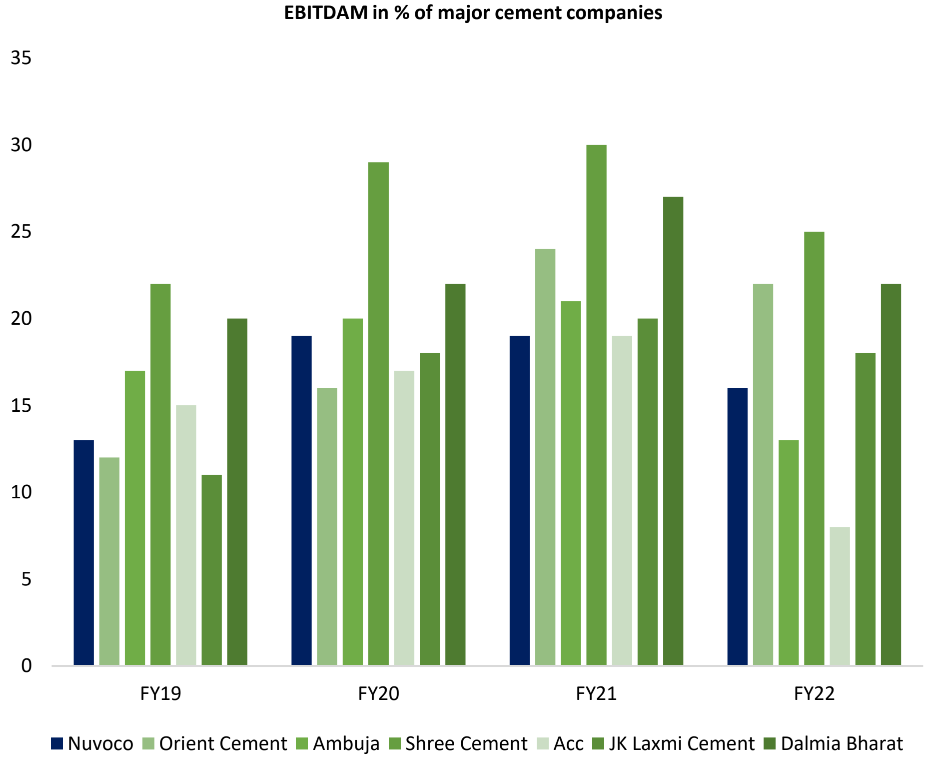
The eastern region will experience an increase in the supply of 30.4 (mt) compared to an increase in demand of 25.7 mn mt; however, a closer examination of capacity additions by each player reveals that nearly all of the capacity is being added by large incumbent players who already have a presence in the region. Of the 31.6 million metric tonnes of additional capacity, Ultratech is adding 30%, Adani Group 27%, Dalmia 25%, and Shree Cement 13%. Also, no other operator is expanding capacity in the area, thus the risk of new entrants is currently low. Given that the established companies in the area are getting the capacity addition, we do not anticipate more pricing volatility.



Source: Industry Data, Arihant Research

There are many companies that are coming up with additional capacities in the East as the market looks attractive in terms of demand both in the trade and non-trade segment, but it will take time to reach the capacities announced as they need to back it up with clinker capacities or clinker sourcing. Nuvoco is already well established in the East, though we can expect the erosion of market share to some extent due to other players coming into the play.





Q4FY23 Result

INR mn	Q4FY23	Q3FY23	Q4FY22	YOY	Q0Q
Net Revenue	**29,285**	**26,045**	**29,301**	***-0.1%***	***12.4%***
Operating Costs	**20,368**	**18,424**	**19,940**	***2.1%***	***10.6%***
Employee cost	1,571	1,469	1,392	***12.9%***	***6.9%***
Other Expenses	3,538	3,468	3,669	***-3.6%***	***2.0%***
EBITDA	**3,808**	**2,684**	**4,300**	***-11.4%***	***41.9%***
EBITDA margin %	*13.0%*	*10.3%*	*14.7%*	*-167bps*	*270bps*
Depreciation	2391	2396	2444	***-2.2%***	***-0.2%***
EBIT	**1,417**	**288**	**1,856**	***-23.7%***	
Other Income	24	41	100	***-41.5%***	*-76.0%*
Finance cost	1,374	1,335	1,314	*2.9%*	*4.6%*
Exceptional Item	4,058	-		-	-
PBT	**-3,991**	**-1,006**	**642**	***-721.7%***	
Tax Expense	-6,005	-254	348	***-1825.6%***	
Effective tax rate %	150.5%	25.2%	54.2%	*9626bps*	*12522bps*
PAT	**2,014**	**-752**	**294**	***585.0%***	
PAT margin %	*6.9%*	*-2.9%*	*1.0%*	*587bps*	*976bps*
No of shares	*204.86*	*204.86*	*204.86*		
EPS (Rs)	**9.83**	**-3.67**	**1.44**		

	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY
Sales Volume (Mn tonne)	5.2	4.5	5.5	***15.6%***	***-5.5%***
Sales in Mn	29,285	26,045	29,301	***12.4%***	***-0.1%***
Realization/tonne	5632	5788	5327	***-2.7%***	***5.7%***
EBIDTA in Mn	3,808	2,684	4,300	***41.9%***	***-11.4%***
EBIDTA/tonne	732	596	782	***22.8%***	***-6.3%***

Revenues reported at INR 29258 mn (against our estimates of INR 30910mn) flattish YoY /12.4% QoQ; Volumes at 5.2 mnt tonnes up by 17% QoQ volumes were driven by robust demand owing to increased activity in housing and infra

EBITDA at INR 3808 mn (against our estimates of INR 4070mn) down by -12.9% YoY/+42.9% QoQ led by robust demand and push for value-added products

EBITDAM at 13.06% contracted by -190 bps YoY/+276 QoQ as costs stay elevated YoY

Net profit at 2014 mn

EBIDTA/tonne at INR 736 up by 23.9% QoQ

Key Business Highlights from Q4FY23

- **Price hikes:** The revenue increased on account of price hikes taken and push for premium cement volumes. The prices moved northwards in March 2023. The East region saw the highest price hike during the quarter. Currently, prices in the East and North remain rangebound and there are some price hikes expected on account of robust demand. Prices improved by 7% in the east against all India's avg of 3% which will help mitigate high input costs, though the price hikes taken by the company were not enough to mitigate the high input cost.

- **Volume and realization:** The company achieved volume growth of -6% YoY/+16% QoQ to 5.2mnt and EBITDA/t rose by 22.8% QoQ but declined by 6.3% YoY at ~INR 732/t. The realization/t reported at INR 5632/t for FY23 up by 7.5% YoY.

- **Demand:** The quarter stayed strong with double-digit growth in cement demand in the East and North which was mainly driven by the rural housing and infrastructure sector. Cement demand is expected to remain robust with the onset of the peak construction period along with a boost in government spending on infrastructure projects ahead of a general election in 2024.

- **Demand growth drivers:** With the shift in income tax slab, disposable income will rise; Housing demand remains strong on the back of urbanization, rising per capita income, and family nuclearization; Better winter crops, higher reservoir levels, and labour-intensive infrastructure projects will all increase rural demand; new investments have been announced by the private sector which is at an all-time high. Infrastructure demand is driven by an increase in capex for Highways and National Highways by 25% and 14% respectively.

- **Margins and costs:** High power & fuel cost has impacted margins during the year, softening in fuel prices from Q4 FY23 has provided support to margins in the later part of the year. Fuel prices are showing a downward trend, other raw materials are facing availability issues & inflationary pressure, creating an uncertain outlook for cost in the current scenario.

- **New product:** Launched Concreto UNO, a super-premium cement variant that has unique water-repelling properties. This move will help the company to further boost its ambition to increase its premium product share.

- **Capacity expansion:** There is a going project at Bhiwani which will have a capacity of 1.2 mtpa and is expected to be commissioning in H1FY24; Clinker capacity enhancement project through debottlenecking at Nimbol and Risda. The company targets o reach 25mtpa capacity by FY24E.

- **Capex and Debt:** The company incurred capex of INR 3,290 mn in 9MFY23, and INR 4,860 mn for the full year In FY24, the company plans to incur capex of INR 5,000-55,00mn for regular maintenance, Bhiwani project, and other clinker debottlenecking projects. The company has put the Gulbarga expansion on hold because the company wants to manage its debt, repay and reach levels of INR 35,000-40,000 mn.

- **Value-added products:** The company is continuously trying to push a value-added product mix which stood at ~37% of trade sales volume in Q4 FY23. Trade share stands at 75% in Q4FY23.

- Nuvoco has one of the highest cement-to-clinker **ratios** in the industry which stood at 1.82x in FY23.

- **Ready-Mix Concrete (RMX)** business has also shown growth on a sequential basis by 5%

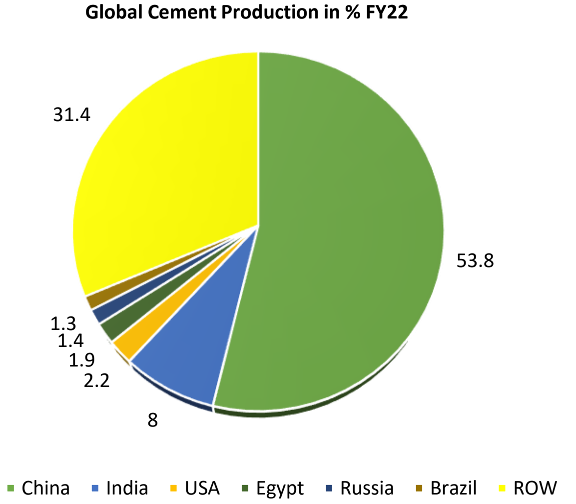
Cement industry outlook

India is the second largest cement producer in the world. The Indian cement industry is a vital part of the economy and provides employment, directly or indirectly, to more than a million people. According to the Budget FY22, the Indian Cement Industry has an installed capacity of approximately 545 million tonnes comprising over 250 large cement plants. The share of the top 5 players in the industry has grown to ~50.5% led by consolidation and higher organic growth by large players. Driven by its foray into value-added products such as RMC and white cement, the industry has diversified a little. The Indian cement industry is likely to add ~80 million tonnes (MT) capacity by FY24, the highest in the last 10 years, driven by increasing spending on housing and infrastructure activities.

Since cement is a bulk good and requires a lot of freight, it is economically unviable to transport it over long distances, hence the industry is dominated by regional companies. Thus, the industry has historically been primarily a regional game. The majority of major and minor players are expanding into more recent areas. As its Gulbarga unit in Karnataka was commissioned in 2018–19, Shree Cement expanded into southern markets. Shree Cement has plants in every area of India now that it has completed the completion of its Pune (Patas) plant in Maharashtra in fiscal year 22. Dalmia Bharat, a company mostly centered in the south and east, has plants operational in the west. They have been awarded limestone mines in Rajasthan and intend to establish an integrated operation there as well. A south-based company called Penna Cement currently supplies its grinding facility in Maharashtra and packing plants in eastern states with material from its port-based factory in Krishnapatnam, Andhra Pradesh. Together with Shree Cement, Ultratech and ACC continue to be the only two companies fully present across all five regions of India. Nonetheless, there are a few companies like Ambuja Cements, India Cements, and Jaypee that have a sales presence in every place. In the long run, we anticipate more players to become pan-India players in order to lessen concentration risk and increase sales volume. Pan-India players have reduced concentration risk.

Profitability takes a hit on players in fiscal 2022 on the back of soaring power and fuel cost and higher raw material costs

India is the second largest producer in the world but is highly underpenetrated as compared to other nations.

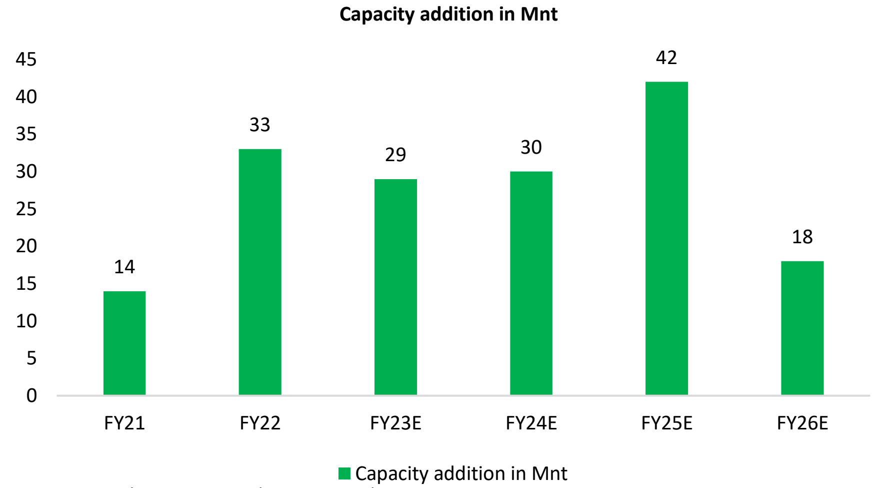


Source: Industry Data, Arihant Research

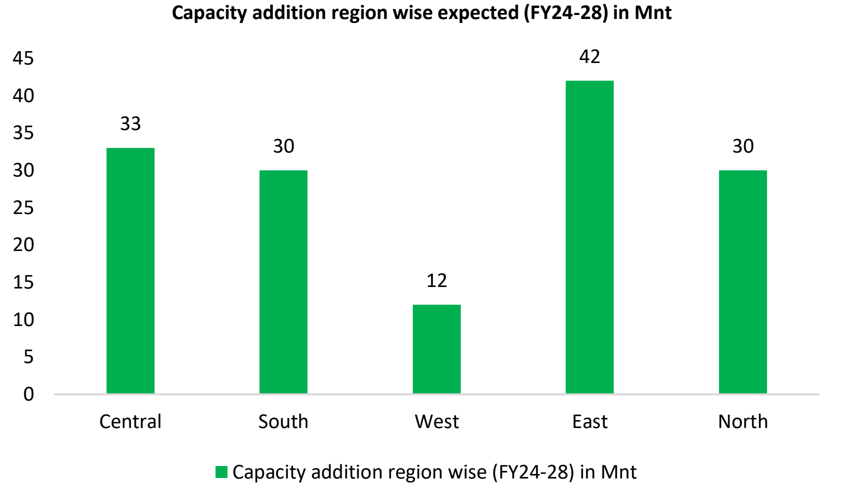
Cement industry outlook

Capacity addition:

A wave of capacity addition announcements by cement manufacturers, particularly large firms, has been sparked by an improving demand outlook over the medium term and a push to increase market share. The sector is anticipated to add 145–155 million tonnes per annum (MTPA) of grinding capacities over the fiscal years 2024–28, bringing the nation's total installed capacity to 74–755 MTPA by the fiscal year 2028, with a capacity utilization rate of 71–73%. The east region is expected to add 42 mnt over FY24-FY28 highest as compared to other regions.



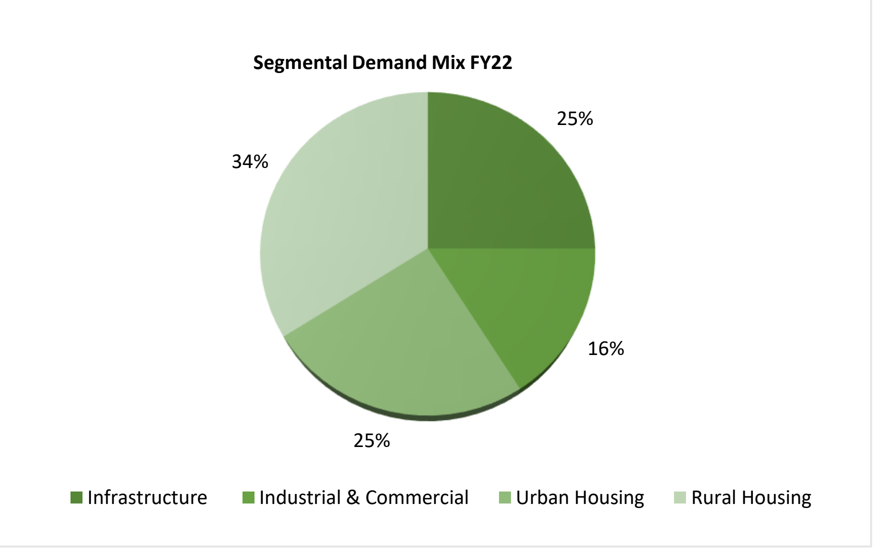
Source: Industry Data, Arihant Research



Source: Industry Data, Arihant Research

Cement industry outlook

In order to develop the country's infrastructure, the Indian government has undertaken several projects related to the construction of roads and highways, both in the rural and urban areas, along with the development of industrial hubs in different parts of the country. These schemes and initiatives are together expected to drive the growth of the Indian cement industry since it is one of the primary materials for the successful execution of such projects. The Pradhan Mantri Awas Yojana aims to provide affordable housing for all in over 4000 towns across India. This is likely to provide the necessary push to the affordable housing segment and boost the growth of the construction sector, which would lead to an increase in demand for cement, hence helping it grow further.



Source: Industry Data, Arihant Research

State Wise Cement Demand in MT			
State	Zone	FY21	FY26E
Jharkand	East	9.1	14.5
odisha	East	14.5	23
Bihar	East	17.5	26.5
West Bengal	East	21.5	31
Chattisgarh	East	9.8	13.5
Gujarat	West	23	30.5
Rajasthan	North	22.8	30
Punjab	North	9.1	10.5

Source: Industry Data, Arihant Research

Cement sector outlook

Investment in the sector by Government

The budget represents the fourth year in a row that the government has significantly boosted capital expenditure. The revised capital spending for FY23 is INR 7.3 trillion, which is a 23% increase over FY22. The government has set aside INR 10 trillion, or 33%, for capital expenditures in FY24. We anticipate that cement demand will expand going forward as a result of this considerable and sustained increase in capital spending.

FY23-24 Budgeted Government capex

Major schemes (INR Bn)	FY22	FY23BE	FY24BE
Jal Jeevan Mission	631	600	700
Pradhan Mantri Gram Sadak Yojna	140	190	190
AMRUT and Smart Cities Mission	139	141	160
Metro Projects	233	191	195
National Highways Authority of India	571	1340	1622
Road Works	662	646	1077
Pradhan Mantri Awas Yojna	900	480	796
MNREGA	985	730	600
Total	**4261**	**4318**	**5340**

Source: Industry data, Arihant research

A major development in the cement industry

The Adani Group through its special purpose vehicle Endeavour Trade and Investment has completed the acquisition of Ambuja Cements and ACC. With this, it has become the second-largest cement player in India. The transaction involved the acquisition of Holcim's stake in Ambuja and ACC along with an open offer in both entities. The value of the Holcim stake and open offer consideration for Ambuja Cements and ACC is USD 6.50 billion. The board of Ambuja Cements approved an infusion of INR 200 Bn into Ambuja by way of preferential allotment of warrants.

In June 2022, UltraTech Cement approved INR 128.8 Bn(USD 1.65 billion) capital expenditure to increase capacity by 22.6 million tonnes per annum (MTPA) through brownfield and greenfield projects.

Road Ahead

The eastern states of India are likely to be the newer and untapped markets for cement companies and could contribute to their bottom line in the future. In the next 10 years, India could become the main exporter of clinker and gray cement to the Middle East, Africa, and other developing nations of the world.

Cement plants near the ports, for instance, the plants in Gujarat and Visakhapatnam, will have an added advantage for export and will logistically be well-armed to face stiff competition from cement plants in the interior of the country. India's cement production capacity is expected to reach 550 MT by 2025.

A number of foreign players are also expected to enter the cement sector owing to the profit margins and steady demand.

Factors Affecting Pricing Scenario

Cement is manufactured in huge quantities and cement transportation is very difficult and greatly raises the overall cost. So, any increase in fuel prices will have a significant effect on cement pricing. The cement factory is powered by thermal energy from coal. In light of this, the cost of cement is significantly influenced by both transportation and power. The continued rise in the price of coal and fuel was influenced by the conflict between Russia and Ukraine. Companies have raised the price of cement to counteract the inflationary pressures brought on by coal and gasoline. Because the price rise was insufficient to balance the inflation, the margins for the bulk of the companies were still hurt. In the ensuing quarters, we should continue to see the cement price rise.

Company Background

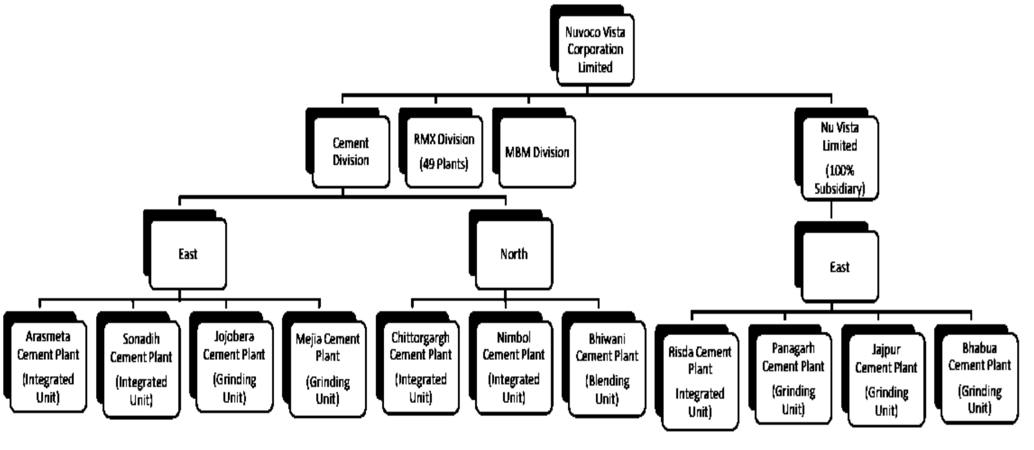
Nuvoco Vistas Corporation Limited ("NVCL") was incorporated on February 8, 1999. NVCL is promoted by Dr. Karsanbhai K. Patel, who is a successful entrepreneur and is associated with the Nirma Group. NVCL is the 5th largest cement company in India and the largest cement company in East India in terms of capacity. Their cement production capacity constituted approximately 4.2% of the total cement capacity in India, 17% of the total cement capacity in East India, and 5% of the total cement capacity in North India, and they are one of the leading Ready-Mix Concrete ("RMX") manufacturers in India. As of March 31, 2022, NVCL has 11 Cement Plants (8 in East India and 3 in North India). The company's Cement Plants are in the states of West Bengal, Bihar, Odisha, Chhattisgarh, and Jharkhand in East India and Rajasthan and Haryana in North India, while their RMX Plants are located across India. As of March 31, 2022, their Cement Plants have an installed capacity of 23.8 MMTPA. 3 of their plants in East India are integrated units and 5 plants are grinding units. 2 of their plants in North India are integrated units and the third is a blending unit. As of March 31, 2022, NVCL operates 49 RMX Plants which are in key states in India, enhancing their pan-India presence. NVCL is the fastest-growing cement company in terms of capacity addition on percentage terms with installed capacity doubling over the last 5 years post the acquisition of NU Vista. NVCL operates through a range of distribution channels and direct sales to improve its reach to customers. As of March 31, 2022, they have 244 CFAs (162 in East India and 82 in North India) and 16,076 dealers in India (10,091 in East India and 5,985 in North India).

The company sells goods through two channels: the trade sector, which primarily serves individual house buyers (the "Trade Segment"), and the non-trade segment, which mostly involves direct sales to institutional and large-scale purchasers. The primary market is the trade segment which uses a combination of wholesale and retail dealers and a network of sub-dealers. With the purpose of achieving both customer's and the company's own growth goals, they have over the years built solid connections with their channel partners and a devoted customer base across operational markets.

In the nine months ended December 31, 2020, based on proforma financials, sales from the Trade Segment of the market constituted 73% (East India – 77%, North India – 59%, Central India – 66%) of total cement sales volume, whilst sales from the Non-trade Segment constituted 27% (East India – 23%, North India – 41% and Central India – 34%) of total cement sales volume.

The company offers a wide range of products which include more than 50 products across all the segments, that is, RMX, Cement, and MBM.

Organisation structure:



Source: Company, Arihant Research

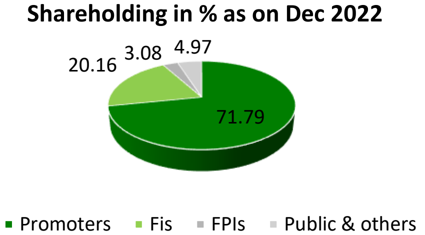
Key Managerial Persons

Person Name	Name and Designation	Details
	Mr Hiren Patel Chairman & Non Executive Director	He is the Chairman and the Non-executive Director of the company. He has been on the Bard since November 11, 2017. He has been associated with the Nirma group since the year 1997. He has experience in the cement, consumer goods, chemicals and health care industry. He is presently the managing director of Nirma Ltd.
	Mr Jaykumar Krishnaswamy MD	is the Managing Director of the company. He has been on the Board since September 17, 2018. He is responsible for the cement, RMX and modern building materials divisions of the company. He has experience across FMCG and paint and coating industry.
	Mr Maneesh Agarwal CFO	He is the Chief Financial Officer of the company. He joined the company with effect from October 10, 2017. He is responsible for the overall finance and information management functions of the cement, RMX and modern building materials divisions of the company. He has over two decades of experience primarily in cement, RMX and paper businesses

Journey of the company

Year	Events
1999	Commencement of operations in India with acquisition of cement business of Tata Iron & Steel Company Ltd. in Jharkhand incuding Jojobera and Sonadih Cement Plants.
2000	Acquisition of the cement business of Raymond Ltd, Chhattisgarh including the Arasmeta Cement Plant.
2008	Acquisition of ready-mix concrete business of Larsen & Toubro Limited.
2009	Commissioning of the Mejia grinding unit in West Bengal. Commissioning of a new clicnker line at the Sonadih Cement Plant.
2012	Inauguration of Construction Development and Innovation Centre (CDIC) in Mumbai.
2013	Commissioning of operations at Chittorgarh Cement Plant, Rajasthan.
2014	Nirma Group entered the cement business through a greenfield cement plant in Nimbol. Commissioning of operations at Bhiwani Cement Plant, Haryana.
2016	Acquisition of all Equity shares held by Lafarge to Nirchem Cement Limited (erstwhile wholly-owned subsidiary of Nirma Ltd.).
2017	Amalgamation of Nirchem Cement Limited with Nuvoco Vistas Corp. Ltd.
2019	Commissioning of first Captive Power Plant and Waste Heat Recovery in Chittorgarh Cement Plant
2020	Amalgamation with Nimbol Cement Plant, Rajasthan of Nirma Ltd. Acquisition of NU Vista Limited (formerly Emami Cement Ltd.) as a wholly-owned subsidiary

Shareholding in % as on Dec 2022



Shareholding in % as on Dec 2022	
Promoters	71.79
Fis	20.16
FPIs	3.08
Public & others	4.97
Pledged shares	0

Source: Company, Arihant Research

Risk & Concerns:

Volatility in various raw material prices: The business normally purchases coal and pet coke from domestic and foreign vendors because it does not own any coal mines for its operations. External factors, such as meteorological and environmental circumstances, commodity price fluctuations, market demand, production and transportation costs, and changes in governmental policies, such as customs, taxes, and trade restrictions, all contribute to the price volatility of raw materials and coal. Pet coke costs (local and imported) have increased by 150% since the price lows of June 20. South African coal and Indonesian coal prices have tripled and doubled from their lows in 2020 as a result of the recent lack of coal output, respectively.

Dependency on eastern and northern region India's eastern and northern regions, including Jojobera (in Jharkhand), Bhabua (in Bihar), Jajpur (in Orissa), Mejia, and Panagarh (in West Bengal), Sonadih, Arasmeta and Risda (in Chhattisgarh), Nimbol and Chittorgarh (in Rajasthan), and Bhiwani, is home to the majority of the country's cement operations (in Haryana). For FY22, East India accounted for 81% of total sales volume (encompassing states like West Bengal, Chhattisgarh, Jharkhand, Bihar, Odisha, and Assam), while North India accounted for 19% of total sales volume (covering the states such as Rajasthan, Haryana, Delhi, and Punjab). The risk of regional concentration and being present in oversupplied markets for Nuvoco could lead to valuations that are lower than those of its competitors.

Change in incentives and subsidies: Any change in incentives and subsidies applicable to the company or a delay in disbursement of benefits This does not include power subsidies, which are adjusted against Nuvoco's monthly power bills. Any delay or changes in schemes by state governments can affect the financial performance of the company.

Under-utilization of manufacturing capacities: The majority of mines and cement plants are in eastern and northern India. The raw material supply, market, and industry conditions, as well as customer's product needs and purchasing habits, all have an impact on how much capacity is utilized. If the company is not able to operate at full capacity using current manufacturing facilities inefficiently would lead to operational problems that could seriously harm the company's operations, financial situation, future prospects, and financial performance.

The cement industry relies on the demand for cement from various sectors such as infrastructure, housing, and commercial real estate: Cement-producing businesses are very dependent on demand from industries that use cement and concrete, like infrastructure, housing, and commercial real estate. The macroeconomic environment and the overall Indian economy both have an impact on these sectors. In addition, a variety of factors, including mortgage availability, financing costs, unemployment rates, residential vacancy rates, and foreclosure rates, among others, have an impact on and are sensitive to activity in the infrastructure, housing, and commercial real estate sectors. The ongoing growth of the infrastructure in the regions in which the company operate is a key factor in determining demand for cement, RMX, and contemporary building products.

Any increase in royalty fees payable under the mining lease agreement: The cost of production will rise in proportion to any increases in royalty rates or new levies imposed on the mining of limestone. For instance, the Government of India established the District Mineral Foundation and required a percentage contribution of royalty in respect of mining lease agreements to be paid towards it through an amendment to the MMDR Act in 2015 and the issuance of the Mines and Minerals 2015, which is either 10% or 30% of royalty depending on whether the mining lease agreement was granted after, on, or before.

Source: Company, Arihant Research

Valuation and Outlook

At CMP of INR 360, the stock is trading at EV/EBITDA multiple of 10.6(x) and 8.6(x) to its FY24E & FY25E **which we feel is an attractive valuation considering its strong brand, size and position in East India with plans to expand in North and West as well.**

Cement demand is expected to be robust in FY24 due to strong housing demand and government-led infrastructure development projects. Nuvoco is well positioned to benefit from the cement demand due to stronger footing in the east, we expect average utilization rates to stay above 85%.. We expect Nuvoco to grow at a revenue CAGR of 12.7% over FY22-FY25.

The company will stop accruing incentives at the Panagarh plant from FY24 (~INR 40 per MT). It plans a Capex of INR 5.0bn-5.5bn in FY24E, mainly for clinker debottlenecking, the Bhiwani plant (1.2mn MT GU expected by H1FY24 end), and railway sidings.

The company is continuously trying to push value-added products, the share of premium products in trade stood at ~37% of total sales volume in Q4 FY23. Trade share stands at 75% as compared to 71% in Q3FY23, we expect trade share to go further up by 1-1.5% next year which may lead to margin expansion.

Nuvoco expects fuel costs to further moderate in Q1 and Q2FY24 by INR 100 per MT QoQ. Fuel cost continues to decline with imported coal prices down by 50% from their peak and in May 2023 the prices were at ~$122/t. Diesel prices were at INR 98/litre in May 2023 which were flattish on MoM basis. **We expect Nuvoco,s EBITDA/t to increase by INR 130/t in FY24E on a full-year basis.**

The company focuses on internal levers and operational efficiency coupled with declining and stabilizing fuel costs, which will help in margin improvement, the company's capacity expansion plan will also help in growth. In addition, declining finance costs with debt repayments and effective reductions in the cost of debt should lead to a healthy balance sheet. Better cash flows and debt repayment to improve return ratios and help achieve a healthy balance sheet.

Going forward, we expect demand to remain robust, possible price hikes, the decline in interest expense, and softening of fuel cost along with the push for premiumization pans out a healthy growth prospect for Nuvoco. **We value the stock at an EV/EBITDA multiple of 10.2(x) to its FY25E EBIDTA to arrive at a target price of INR 444, an upside of 23.2%, and assign a buy rating on this stock.**

Valuation (INR in Mn)

Particular	FY25E
EV/EBITDA (x)	10.2
EBIDTA	18,939
EV	193,175
Cash & bank	1,401
Debt	36,177
M Cap	158,399
No Shares	357
TP	**444**
CMP	360
Upside	**23.2**

Source: Arihant Research

Nuvoco Vista Corporation Limited key assumptions

Particulars	FY23	FY24E	FY25E
Installed Capacity (MTPA)	23.8	25	25
Effective Utilization	86.90%	92.00%	92.00%
Sales Volumes (MTPA)	18.80	20.49	21.93
Sales (INR in mn)	1,05,860	1,20,003	1,33,539
Realization (INR/mt)	5,631	5,856	6,090
EBIDTA (INR mn)	12,103	15,924	18,939
Total Debt	46,177	41,177	36,177
Net Debt	44,146	39,934	34,776

Per ton analysis (INR/t)	FY23	FY24E	FY25E
RM	950	988	1027
Employee cost	322	381	384
Power and Fuel	1485	1390	1402
Freight	1499	1559	1621
Manufacturing cost	3,934	3,937	4,051
Operating cost	4,987	5,079	5,227
EBIDTA/t	644	777	864

Financial Statement

Income Statement

Y/E March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenues	**70,521**	**67,932**	**74,888**	**93,180**	**1,05,860**	**1,20,003**	**1,33,539**
Change (%)	2.9%	-3.7%	10.2%	24.4%	13.6%	13.4%	11.3%
Cost of Goods Sold	28,471	42,317	45,925	60,099	73,962	80,678	88,827
Employee costs	1,550	4,046	4,820	5,800	6,055	7,800	8,413
Other expenses	3,965	8,597	9,538	12,314	13,740	15,600	17,360
Total operating Expense	61,340	54,960	60,283	78,213	93,757	1,04,079	1,14,600
EBITDA	**9,181**	**12,972**	**14,605**	**14,967**	**12,103**	**15,924**	**18,939**
Other Income	540	367	339	420	132	480	534
Depreciation	4,980	5,279	7,938	9,179	9,511	9,370	9,746
Interest	4,570	4,192	6,640	5,699	5,119	3,706	3,256
PBT	**171**	**3,868**	**366**	**509**	**-2,395**	**3,328**	**6,471**
Extra-ordinary	0	0	0	0	0	0	0
PBT after ext-ord.	171	3,868	366	509	-2,395	3,328	6,471
Tax	430	1,375	625	188	-6,611	1,165	2,265
Rate (%)	*251.5%*	*35.5%*	*170.8%*	*36.9%*	*276.0%*	*35.0%*	*35.0%*
PAT	**-259**	**2,493**	**-259**	**321**	**158**	**2,163**	**4,206**
Change (%)	*-129.5%*	*-1062.5%*	*-110.4%*	*-223.8%*	*-50.8%*	*1269.1%*	*94.4%*

Balance Sheet

Y/E March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sources of Funds							
Share Capital	2,000	2,424	3,151	3,572	3,572	3,572	3,572
Share Warrant	0		0	0	0		
Reserves & Surplus	47,882	50,369	70,086	84,641	84,818	86,981	91,187
Net Worth	**49,882**	**52,793**	**73,237**	**88,213**	**88,390**	**90,553**	**94,759**
Long term debt	33183	29312	55612	41834	33254	28254	23254
Short term debt	0	6,613	20,807	12,154	12,923	12,923	12,923
Total Debt	**46,259**	**44,632**	**76,419**	**53,988**	**46,177**	**41,177**	**36,177**
Deferred Tax Liability	0	14,418	18,809	18,540	11,899	11,899	11,899
Long term Provision	14,895	704	814	899	1,822	1,822	1,822
Other Long term Liability	610	864	1,538	1,734	1,831	1,831	1,831
Trade Payable	7,694	7,873	8,703	11,925	17,026	18,567	20,442
Other current Liability	26,350	18,664	14,884	15,902	17,261	17,261	17,261
Short Term Provision	0	3,202	4,669	4,945	5,472	5,472	5,472
Capital Employed	**1,32,614**	**1,34,444**	**1,99,074**	**1,96,147**	**1,89,879**	**1,88,583**	**1,89,664**
Application of Funds							
Net Block	60,645	62,208	93,242	97,851	93,872	93,597	93,967
Other Non-Current Assets	51,924	52,167	80,709	72,371	70,768	68,651	66,534
Non Current Assets	**1,12,569**	**1,14,375**	**1,73,951**	**1,70,222**	**1,64,640**	**1,62,248**	**1,60,501**
Investments							
Debtors	4,998	5,110	4,539	5,709	6,012	6,904	7,683
Inventories	5,846	6,030	7,124	10,683	10,500	11,494	13,385
Cash & bank balance	1,246	5,109	5,278	1,492	2,031	1,243	1,401
Loans & advances & other CA	7,956	3,820	8,182	8,041	6,695	6,695	6,695
Total current assets	**20,046**	**20,069**	**25,123**	**25,925**	**25,238**	**26,336**	**29,164**
Total Assets	**1,32,615**	**1,34,444**	**1,99,074**	**1,96,147**	**1,89,879**	**1,88,583**	**1,89,664**

Source: Company, Arihant Research

Financial Statement

Cash Flow Statement

Y/E March (INR Mn)	FY19	FY20	FY21	FY22	FY23	F24E	F25E
PBT	**171**	**3,868**	**366**	**509**	**-2,395**	**3,328**	**6,471**
Depreciation	4,980	5,279	7,938	9,179	9,511	9,370	9,746
Interest & others	4,499	4,112	6,277	5,774	5,119	3,706	3,256
Cash flow before WC changes	9,650	13,259	14,581	15,462	12,498	16,404	19,473
(Inc)/dec in working capital	**-1,090**	**-2,009**	**2,985**	**-2,534**	**4,777**	**-345**	**-794**
Operating CF after WC changes	8,560	11,250	17,566	12,928	17,275	16,059	18,678
Less: Taxes	-167	-1,002	-393	-720	-162	-1,165	-2,265
Operating cash flow	**8,600**	**10,248**	**17,173**	**12,208**	**17,113**	**14,894**	**16,414**
Proceeds from long term loans	33,222	-8	-15	2	0	0	0
Interest Received	145	147	146	244	37	0	0
MF Investment	-29,040	4,755	-3,799	2,032	1,878	0	0
Others	-5	-2,300	-20,099	-87	345	0	0
Cash flow from investing	**-1,486**	**-3,101**	**-29,240**	**-1,903**	**-2,604**	**-6,978**	**-8,000**
Free cash flow (FCF)	**2,660**	**4,546**	**11,685**	**8,116**	**12,250**	**15,170**	**16,043**
Loan raised/(repaid)	962	-2,200	88	-22,260	-6,022	-5,000	-5,000
Equity raised	0	-9	16,000	15,000	0	0	0
Interest & others	-1,279	-3,580	-1,747	-5,683	-4,707	-3,706	-3,256
Others	-1,397	197	4,615	-1,611	-2,887	0	0
Cash flow from financing activities	**-6,468**	**-5,592**	**14,197**	**-14,202**	**-13,616**	**-8,706**	**-8,256**
Net inc /(dec) in cash	**646**	**1,556**	**2,130**	**-3,897**	**894**	**-789**	**158**
Opening balance of cash	336	983	2,539	4,932	1,035	1,929	1,139
Closing balance of cash	982	2,539	4,932	1,035	1,929	1,139	1,297

Source: Company, Arihant Research

Key Ratios

Y/E March (INR Mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Per share (Rs)							
EPS	-0.1	10.3	-0.8	0.9	0.4	6.1	11.8
CEPS	2.4	32.1	24.4	26.6	27.1	32.3	39.1
BVPS	249.4	217.8	232.4	247.0	247.5	253.5	265.3
DPS							
Valuation (x)							
P/E	-2779.9	34.9	-437.3	400.4	813.4	59.4	30.6
P/CEPS	152.5	11.2	14.8	13.5	13.3	11.1	9.2
P/BV	1.4	1.7	1.5	1.5	1.5	1.4	1.4
EV/EBITDA	13.0	10.0	12.7	12.1	14.3	10.6	8.6
Return Ratios (%)							
Gross Margin	59.6%	37.7%	38.7%	35.5%	30.1%	32.8%	33.5%
EBIDTA Margin	13.0%	19.1%	19.5%	16.1%	11.4%	13.3%	14.2%
PAT Margin	-0.4%	3.7%	-0.3%	0.3%	0.1%	1.8%	3.1%
ROE	-0.5%	4.7%	-0.4%	0.4%	0.2%	2.4%	4.4%
ROCE	5.1%	8.7%	4.5%	4.1%	1.9%	5.0%	7.0%
Leverage Ratio (%)							
Interest Coverage ratio	0.9	1.8	1.0	1.0	0.5	1.8	2.8
Total D/E	0.7	0.7	1.0	0.6	0.5	0.5	0.4
Turnover Ratios							

Source: Company, Arihant 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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