

Mangalam Cement (MANCER)

₹ 101

WHAT'S CHANGED...

PRICE TARGET Unchanged
 EPS (FY12E) Changed from ₹ 12.2 to ₹ 11.2
 EPS (FY13E) Unchanged
 RATING Unchanged

Cement utilisation rates to improve...

We met the management of Mangalam Cement to get an update on development in its power and cement business. The following are the key takeaways from the meeting.

- The proposed expansion of the 1.25 MTPA cement grinding unit is expected to come on stream by Q4FY13. After the expansion, the total cement capacity would reach 3.25 MTPA by FY13E. We expect the capacity utilisation rates to improve in H2FY12 on account of a pick-up in demand during the period as the monsoon season ends. We expect the utilisation rate at ~78% in FY12E and ~82% in FY13E as compared to ~76% in FY11
- The thermal captive power plant (CPP) addition of 17.5 MW has increased the total thermal CPP capacity to 35 MW. Also, there is ~13.65 MW of wind power plant, which takes the total captive power capacity to ~49 MW. The current power requirement for the cement operation is ~22 MW. Hence, the company can sell the surplus power on a merchant basis. However, the company has not been selling surplus power as the merchant power rates are in line with the current power generation cost of ₹ 3.8 per unit
- The company has started using petcoke as fuel for the cement and power plant operations as against domestic coal previously. The calorific value of petcoke is ~8500 Kcal/kg

Valuation

At the CMP of ₹ 101, the stock is trading at 9.0x and 6.0x its FY12E and FY13E earnings, respectively. It is trading at EV/EBITDA of 4.5x and 6.6x FY12E and FY13E EBITDA, respectively. On an EV/tonne basis, the stock is trading at \$34 and \$39 its FY12E and FY13E capacities, respectively. We are maintaining our target price on the stock at ₹ 139 with a **BUY** rating. At our target price, the stock is trading at \$45 per tonne (~65% discount to replacement cost of \$125 per tonne) at FY13E capacity of 3.25MT.

Exhibit 1: Financial Performance

₹ Crore	FY09	FY10	FY11	FY12E	FY13E
Net Sales (Rs crore)	563.7	613.7	491.6	558.3	644.5
EBITDA (Rs crore)	134.1	191.5	58.8	67.6	85.6
Net Profit (Rs crore)	97.6	118.8	38.2	29.9	45.0
EPS (Rs)	37.5	44.5	14.3	11.2	16.8
P/E (x)	2.7	2.3	7.1	9.0	6.0
Price / Book (x)	2.8	2.3	7.1	9.0	6.0
EV/EBITDA (x)	5.9	5.9	5.9	5.4	5.4
RoCE (%)	35.4	41.9	7.7	4.7	5.8
RoE (%)	33.2	30.7	9.7	7.3	10.3

Source: Company, ICICIdirect.com Research

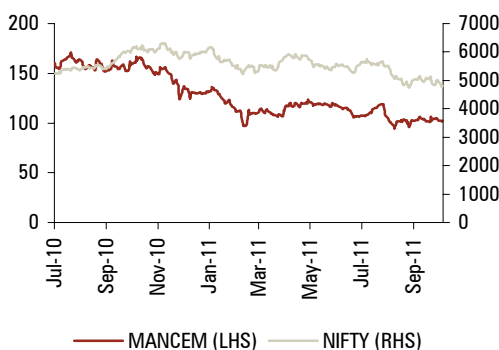
Rating matrix	
Rating	: Buy
Target	: ₹ 139
Target Period	: 12 months
Potential Upside	: 38%

Key Financials				
	FY10	FY11	FY12E	FY13E
Net Sales	613.7	491.6	558.3	644.5
EBITDA	191.5	58.8	67.6	85.6
EBITDA Margin (%)	31.2	12.0	12.1	13.3
Net Profit	118.8	38.2	29.9	45.0
EPS (₹)	44.5	14.3	11.2	16.8

Valuation summary				
	FY10	FY11	FY12E	FY13E
PE (x)	2.3	7.1	9.0	6.0
Target PE (x)	3.1	9.8	12.5	8.3
EV to EBITDA (x)	1.0	4.4	4.5	6.6
EV/Tonne(US\$)	21	28	34	39
Price to book (x)	0.7	0.7	0.7	0.6
RoNW (%)	30.7	9.7	7.3	10.3
RoCE (%)	41.9	7.7	4.7	5.8

Stock data	
Mcap	₹ 270 crore
Debt (FY11)	₹ 13.5 crore
Cash & Invest(FY11)	₹ 26.8 crore
EV	₹ 256 crore
52 week H/L	₹ 168 / 90
Equity cap	₹ 26.7 crore
Face value	₹ 10
MF Holding(%)	3.9
FII Holding(%)	0.6

Price movement



Analyst's name

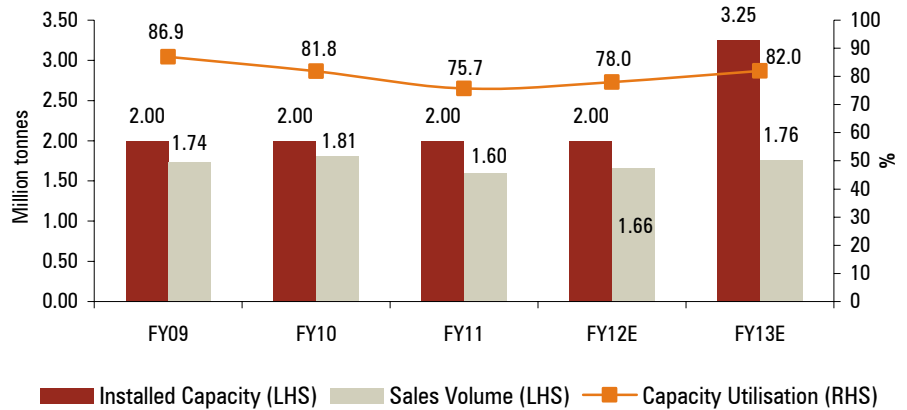
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The cement sales volume is expected at 1.66 MT for FY12E with the capacity utilisation rate improving to ~78% in FY12E while for FY13E, the cement sales volume is expected at 1.76 MT with utilisation rate at 82%

Cement sales volume to grow at ~5% CAGR during FY11-13E

As the utilisation rates are expected to increase in H2FY12 on account of an expected pick-up in cement, we expect the FY12E utilisation rate at ~78% as against ~76% in FY11. In FY13E, the utilisation rate is expected to increase to ~82%. The total cement sales volume is expected to grow ~4% YoY in FY12E to 1.66 MT and ~6% YoY in FY13E to 1.76 MT.

Exhibit 2: Cement sales volume and capacity utilisation trend



Source: Company, ICICIdirect.com Research

Exhibit 3: Cement segment assumptions

	FY09	FY10	FY11	FY12E	FY13E
Net Realisation	3243	3373	3050	3331	3580
Total Expenditure	2472	2371	2685	2857	3105
Raw material	502	470	485	554	600
Power & Fuel	811	853	947	848	1010
Employees	128	130	189	202	215
Freight	765	685	810	969	980
Others	266	233	254	284	300
EBITDA per Tonne	771	1001	365	474	475

Source: Company, ICICIdirect.com Research

Exhibit 4: Thermal and wind power consumption

	FY10	FY11	FY12E	FY13E
Total Electricity required (lakh units)	1697	1525	1571	1652
Thermal CPP				
Capacity (MW)	17.5	35.0	35.0	35.0
Effective CPP (MW)	17.5	17.5	35.0	35.0
CPP Consumption (lac units)	1223	1217	1257	1322
Contribution (%)	72.1	79.8	80.0	80.0
CPP generation capacity (lac units)	1533	1533	3066	3066
PLF (%)	79.8	79.4	60.0	75.0
rate (Rs per unit)	2.9	3.3	3.4	3.5
Wind Power CPP				
Capacity (MW)	6.2	13.7	13.7	13.7
Effective capacity (MW)	6.2	7.8	10.3	13.7
Generation (lac units)	539	687	900	1196
Consumption (lac units)	100	120	171	227
PLF (%)	18.6	17.5	19.0	19.0

Source: Company, ICICIdirect.com Research

We expect cement EBITDA/tonne of ₹ 474/tonne in FY12E and ₹ 475/tonne in FY13E

Valuations

The company plans to expand its clinker capacity by 0.4 MTPA at its existing unit and set up a new grinding unit of 1.25 MTPA in Aligarh (UP), which are expected to be commissioned by Q4FY13. The total capital outlay is ~₹ 400 crore over FY12E and FY13E for the expansion plan. After the expansion projects, the total cement capacity would reach 3.25 MTPA by FY13E. We expect cement sales volume of 1.66 MTPA in FY12E and 1.76 MTPA in FY13E. EBITDA per tonne is expected at ₹ 474 per tonne in FY12E and ₹ 475 per tonne in FY13E.

At the CMP of ₹ 101, the stock is trading at 9.0x and 6.0x its FY12E and FY13E earnings, respectively. It is trading at EV/EBITDA of 4.5x and 6.6x FY12E and FY13E EBITDA, respectively. On an EV/tonne basis, the stock is trading at \$34 and \$39 its FY12E and FY13E capacities, respectively. We are maintaining our target price on the stock at ₹ 139 with a **BUY** rating. At our target price, the stock is trading at \$45 per tonne (~65% discount to replacement cost of \$125 per tonne) at FY13E capacity of 3.25MT.

Exhibit 5: Valuation

	Valuation remarks	
FY13E Cement Capacity of MCL (MTPA)		3.25
Replacement Cost - MCL	@ \$45 per tonne	676
FY13E Net Debt (MCL)		298
Equity Value - MCL		378
FY10 Book Value of MTPL		20
Equity Value - MTPL	@ 1x P/BV	20
Target Market Cap		398
NoS (Post merger)		2.85
Target Price		139
CMP		101
Potential Upside		38%

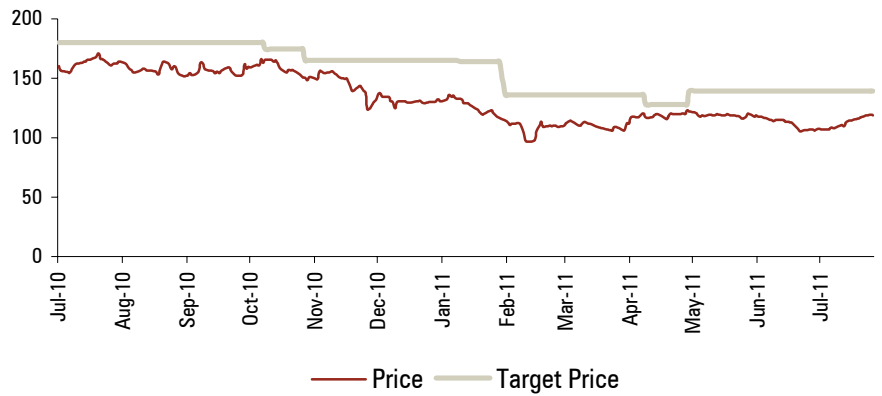
Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Cement)

ACC					Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ACC	CMP	1100	CY10	7,717.3	59.6	18.5	11.9	17.4	16.7
MCap	20669	Target	1105	CY11E	9,397.6	59.1	18.6	9.8	15.8	19.0
		% Upside	0%	CY12E	10,460.7	68.3	16.1	8.5	16.5	19.3
Ambuja Cements										
Idirect Code	GUJAMB	CMP	149	CY10	7,390.2	8.3	18.0	11.2	17.2	19.4
MCap	22797	Target	139	CY11E	8,435.3	8.3	18.0	9.6	15.6	19.9
		% Upside	-7%	CY12E	9,469.4	10.3	14.5	7.5	17.0	21.6
UltraTech Cements										
Idirect Code	ULTCEM	CMP	1100	FY11	13,209.9	51.2	21.5	12.0	13.2	12.0
MCap	30162	Target	1081	FY12E	17,708.1	77.6	14.2	8.1	16.8	16.1
		% Upside	-2%	FY13E	20,646.9	79.7	13.8	7.6	14.9	15.4
Shree Cement										
Idirect Code	SHRCEM	CMP	1860	FY11	3,511.8	59.9	31.1	7.4	10.9	5.3
MCap	6473	Target	2068	FY12E	3,981.3	32.6	57.1	7.5	5.5	6.4
		% Upside	11%	FY13E	4,833.8	122.7	15.2	5.3	17.7	16.0
India Cements										
Idirect Code	INDCEM	CMP	68	FY11	3,500.7	2.2	30.7	10.2	1.7	2.9
MCap	2150	Target	84	FY12E	4,221.5	9.4	7.2	4.9	6.5	8.8
		% Upside	24%	FY13E	4,819.3	12.4	5.5	3.9	7.8	10.1
JK Cement										
Idirect Code	JKCEME	CMP	112	FY11	2,080.8	9.2	12.2	6.8	4.7	5.8
MCap	783	Target	123	FY12E	2,358.0	14.9	7.5	5.3	7.3	8.3
		% Upside	10%	FY13E	2,733.5	18.0	6.2	5.8	8.3	7.2
JK Lakshmi										
Idirect Code	JKCORP	CMP	41	FY11	1,318.8	4.8	8.5	4.9	5.7	4.8
MCap	500	Target	61	FY12E	1,481.7	4.5	9.2	6.7	5.0	4.6
		% Upside	49%	FY13E	1,769.9	7.4	5.5	6.7	7.8	5.3
Orient Paper & Industries										
Idirect Code	ORIPAP	CMP	60	FY11	1,958.9	7.4	8.1	5.5	15.8	14.7
MCap	1217	Target	67	FY12E	2,271.6	12.6	4.8	3.0	17.7	18.2
		% Upside	12%	FY13E	2,570.4	14.5	4.1	2.4	17.3	20.1
Mangalam Cement										
Idirect Code	MANCEM	CMP	101	FY11	491.6	14.3	7.1	4.4	9.7	7.7
MCap	270	Target	139	FY12E	558.3	11.2	9.0	4.5	7.3	4.7
		% Upside	38%	FY13E	644.5	16.8	6.0	6.6	10.3	5.8
Birla Corporation										
Idirect Code	BIRCOR	CMP	318	FY11	2,127.4	41.5	7.7	4.7	15.5	11.7
MCap	2495	Target	379	FY12E	2,410.1	34.4	9.2	6.1	11.7	8.9
		% Upside	19%	FY13E	2,910.3	45.8	6.9	3.7	13.7	11.0
Heidelberg Cement										
Idirect Code	MYSCEM	CMP	34	CY10	865.5	2.8	12.2	5.6	8.1	8.9
MCap	770	Target	51	CY11E	924.9	2.4	14.1	10.5	6.6	5.8
		% Upside	50%	CY12E	1,469.3	4.1	8.4	5.5	10.0	11.3

Source: Company, ICICIdirect.com Research

Exhibit 6: Recommendation History



Source: Bloomberg, ICICIdirect.com Research

Exhibit 7: Recent Releases

Date	Event	CMP	Target Price	Rating
8-Oct-10	Q2FY11 Preview	2060	2355	BUY
12-Nov-10	Q2FY11 Result Update	2216	2366	ADD
10-Jan-11	Q3FY11 Preview	1922	2358	STRONG BUY
2-Feb-11	Q3FY11 Result Update	1637	1884	BUY
8-Apr-11	Q4FY11 Preview	1954	2068	HOLD
31-May-11	Q4FY11 Result Update	1820	2068	BUY
5-Jul-11	Q1FY12 Preview	1743	2068	BUY
3-Aug-11	Q1FY12 Result Update	1765	2068	BUY

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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 Buy: Between 10% and 15%/20% for large caps / midcaps, respectively;
 Hold: Up to +/-10%;
 Sell: -10% or more;

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