

Mangalam Cement (MANCER)

Rs 161

WHAT'S CHANGED...

| | |
|--------------------|---------------------------------|
| PRICE TARGET | Unchanged |
| EPS (FY09E) | Changed from Rs 35.2 to Rs 30.3 |
| EPS (FY10E) | Unchanged |
| RATING..... | Unchanged |

Lower volume dents profitability...

Mangalam Cement has reported operating profit and net profit of Rs 30 crore and Rs 20.4 crore, respectively, in Q1FY11. This was in line with our estimates of Rs 32.6 crore and Rs 20 crore, respectively. Net sales at Rs 132.8 crore were a little below our estimate of Rs 143.7 crore on account of lower than expected sales volume reported by the company. The operating margin declined ~1400 bps YoY to 22.6% as the net realisation declined 12.6% YoY to Rs 3139 per tonne coupled with total cost increase by 6.7% YoY to Rs 2428 per tonne. However, a 2.4% QoQ increase in realisation has provided some cushion to the margin despite a 4.2% QoQ increase in the total cost per tonne.

■ Sales volume declines ~14% QoQ on kiln shutdown

Mangalam Cement has reported blended sales volumes of 0.42 MTPA that declined 1.9% YoY and 13.7% QoQ. This was on account of the shutdown of one of its kilns during the quarter. The blended realisation has declined by 12.6% YoY to Rs 3139 per tonne. However, it has increased by 2.4% QoQ on account of price hikes in April and May.

■ EBITDA/tonne declines ~46% YoY, OPM declines 1402 bps YoY

The company reported EBITDA per tonne of Rs 710, which declined 46.1% YoY on a 12.6% YoY decline in realisation and 6.7% YoY increase in total cost per tonne. Sequentially, the EBITDA per tonne declined 3.5% QoQ as a 4.2% increase in total cost per tonne negated the impact of the 2.4% increase in realisation. The EBITDA margin has also declined by 1402 bps YoY and 137 bps QoQ to 22.6% as against 36.7% in Q1FY10 and 24% in Q4FY10.

Valuation

At the CMP of Rs 161, the stock is trading at 5.3x and 5.6x its FY11E and FY12E earnings, respectively. The stock is trading at an EV/EBITDA of 5.2x and 7.2x FY11E and FY12E EBITDA, respectively. On an EV/tonne basis, the stock is trading at \$71 and \$57 its FY11E and FY12E capacities, respectively. We have valued the stock at \$60 per tonne (50% discount to the replacement cost of \$115 per tonne) at its FY12E capacity of 4 MTPA and maintained our **BUY** rating with a target price of Rs 180 per share.

Exhibit 1: Financial Performance

| (Rs Crore) | Q1FY11 | Q1FY11E | Q1FY10 | Q4FY10 | QoQ (Chg %) | YoY (Chg %) |
|-------------------|--------|---------|--------|--------|-------------|-------------|
| Net Sales | 132.8 | 143.7 | 154.9 | 150.3 | -11.6 | -14.3 |
| EBITDA | 30.0 | 32.6 | 56.8 | 36.1 | -16.7 | -47.1 |
| EBITDA Margin (%) | 22.6 | 22.7 | 36.7 | 24.0 | -137 bps | -1402 bps |
| Depreciation | 6.5 | 6.6 | 6.3 | 6.4 | 1.4 | 2.5 |
| Interest | 0.4 | 0.4 | 0.5 | 0.5 | -15.4 | -22.5 |
| Other Income | 3.2 | 5.0 | 2.1 | 5.9 | -46.4 | 50.9 |
| Reported PAT | 20.4 | 20.0 | 33.7 | 22.9 | -10.7 | -39.3 |
| EPS (Rs) | 7.7 | 7.5 | 12.6 | 8.6 | -10.7 | -39.3 |

Source: Company, ICICIdirect.com Research

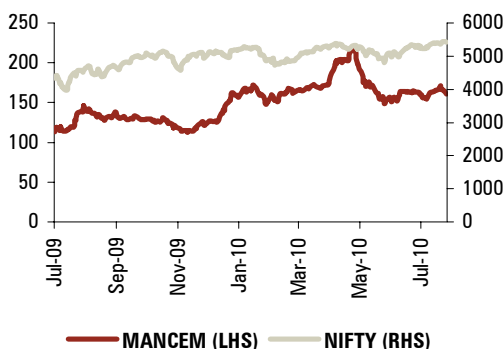
| Rating matrix | |
|------------------|----------------|
| Rating | : Buy |
| Target | : Rs 180 |
| Target Period | : 12-15 months |
| Potential Upside | : 12% |

| Key Financials | | | | |
|-------------------|-------|-------|-------|-------|
| | FY09 | FY10 | FY11E | FY12E |
| Net Sales | 563.7 | 613.7 | 590.3 | 642.1 |
| EBITDA | 134.1 | 191.5 | 123.3 | 142.5 |
| EBITDA Margin (%) | 23.8 | 31.2 | 20.9 | 22.2 |
| Net Profit | 97.6 | 118.8 | 80.9 | 76.2 |
| EPS (Rs) | 37.5 | 45.7 | 30.3 | 28.5 |

| Valuation summary | | | | |
|-------------------|------|------|-------|-------|
| | FY09 | FY10 | FY11E | FY12E |
| PE (x) | 4.3 | 3.5 | 5.3 | 5.6 |
| Target PE (x) | 4.8 | 3.9 | 5.9 | 6.3 |
| EV to EBITDA (x) | 2.9 | 1.7 | 5.2 | 7.2 |
| EV/Tonne(US\$) | 44 | 36 | 71 | 57 |
| Price to book (x) | 1.4 | 1.0 | 0.9 | 0.8 |
| RoNW (%) | 33.0 | 29.8 | 17.5 | 14.6 |
| RoCE (%) | 35.2 | 40.0 | 9.8 | 8.0 |

| Stock data | |
|---------------------|----------------|
| Mcap | Rs 432.5 crore |
| Debt (FY10) | Rs 15.5 crore |
| Cash & Invest(FY10) | Rs 114.7 crore |
| EV | Rs 333.3 crore |
| 52 week H/L | Rs 219 / 107 |
| Equity cap | Rs 26.7 crore |
| Face value | Rs 10 |
| MF Holding(%) | 7.8 |
| FII Holding(%) | 5.5 |

Price movement



Analyst's name

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Net sales decline 14.3% YoY and 11.6% QoQ

Net sales have declined by 14.3% YoY to Rs 132.8 crore in Q1FY11 as the blended sales volume (cement and clinker) declined by 1.9% YoY to 0.42 MTPA and blended realisation declined by 12.6% YoY to Rs 3139 per tonne. Sequentially, net sales declined by 11.6% QoQ as a 13.7% QoQ decline in the sales volume negated the positive impact of the 2.4% QoQ increase in realisation. The sales volume was impacted during the quarter on account of the shutdown of one of its kilns and also due to logistical issues faced by the company like unavailability of railway wagons to transport cement.

EBITDA margin declines by 1402 bps YoY and 137 bps QoQ

The EBITDA margin has declined by 1402 bps YoY to 22.6% as the blended realisation declined by 12.6% YoY and total cost per tonne increased by 6.7% YoY. On a QoQ basis, the margin has declined by 137 bps as a 4.2% QoQ increase in the total cost per tonne negated the impact of a 2.4% increase in realisation.

The power & fuel cost has increased by 15.3% YoY to Rs 868 per tonne on the back of an increase in coal cost. However, on a QoQ basis, the power & fuel cost has declined by 1.1% on account of a decline in the blending ratio. The freight cost has declined by 4% YoY to Rs 705 per tonne as the company sold higher clinker in Q1FY11 (transportation cost of clinker is lower than transportation cost of cement). Sequentially, the freight cost has increased by 29.3% on account of an increase in proportion of cement volumes transported by road and increase in diesel prices. Net raw material cost (after stock adjustment) has increased 2.9% YoY to Rs 406 per tonne. However, it has declined by 24.4% QoQ on account of a decline in the blending ratio. The employee cost has increased by 26.7% YoY and 35.5% QoQ to Rs 170 per tonne. The other expenditure has increased by 7.7% YoY and 14.4% QoQ to Rs 280 per tonne.

Thus, the total cost has increased by 6.7% YoY and 4.2% QoQ to Rs 2428 per tonne in Q1FY11 as against Rs 2276 per tonne in Q1FY10 and Rs 2330 per tonne in Q4FY10. Hence, the EBITDA per tonne has declined by 46.1% YoY and 3.5% QoQ to Rs 710 per tonne.

Net profit declines 39.3% YoY and 10.7% QoQ

The reported net profit has declined by 39.3% YoY to Rs 20.4 crore as the operating profit margin declined by 1402 bps YoY. Sequentially, the net profit declined by 10.7% on account of a 167 bps decline in the operating profit margin. However, the interest and tax outgo has declined by 22.5% YoY (15.4% QoQ) and 67.8% YoY (51.7% QoQ), respectively.

Exhibit 2: Per tonne analysis

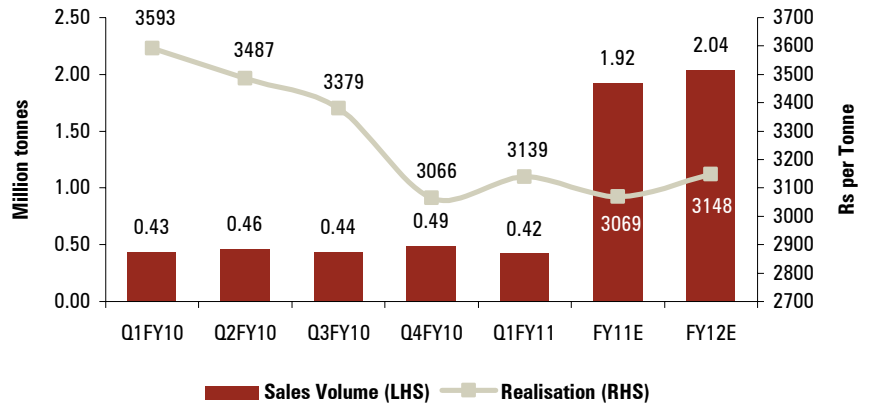
| | Q1FY11 | Q1FY10 | YoY (%) | Q4FY10 | QoQ (%) |
|--------------------------|-------------|-------------|--------------|-------------|-------------|
| Net Realisation | 3139 | 3593 | -12.6 | 3066 | 2.4 |
| Total Expenditure | 2428 | 2276 | 6.7 | 2330 | 4.2 |
| Raw material | 406 | 395 | 2.9 | 537 | -24.4 |
| Power & Fuel | 868 | 753 | 15.3 | 878 | -1.1 |
| Employees | 170 | 134 | 26.7 | 125 | 35.5 |
| Freight | 705 | 735 | -4.0 | 545 | 29.3 |
| Others | 280 | 260 | 7.7 | 245 | 14.4 |
| EBITDA per Tonne | 710 | 1317 | -46.1 | 736 | -3.5 |

Source: Company, ICICIdirect.com Research

The realisation has declined by 12.6% YoY to Rs 3139 per tonne while total cost has increased by 6.7% YoY to Rs 2428 per tonne. Thus, the EBITDA per tonne has declined by 46.1% YoY to Rs 710 per tonne. Sequentially, the EBITDA per tonne has declined by 3.5% on account of a 4.2% increase in total expenditure per tonne. This was despite the fact that realisation improved by 2.4% QoQ.

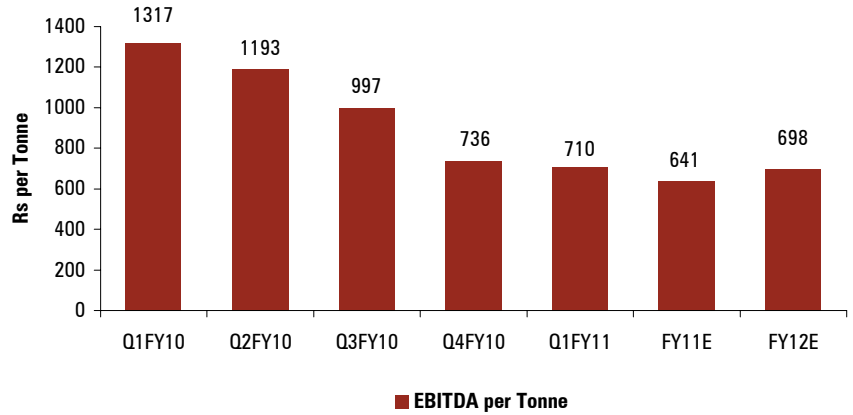
Blended sales volumes declined to 0.42 MTPA in Q1FY11 as against 0.43 MTPA in Q1FY10 and 0.49 MTPA in Q4FY10. For FY11E and FY12E, we expect sales volumes at 1.92 MTPA and 2.04 MTPA, respectively.

Exhibit 3: Sales volume (MTPA) and realisation (Rs per tonne)



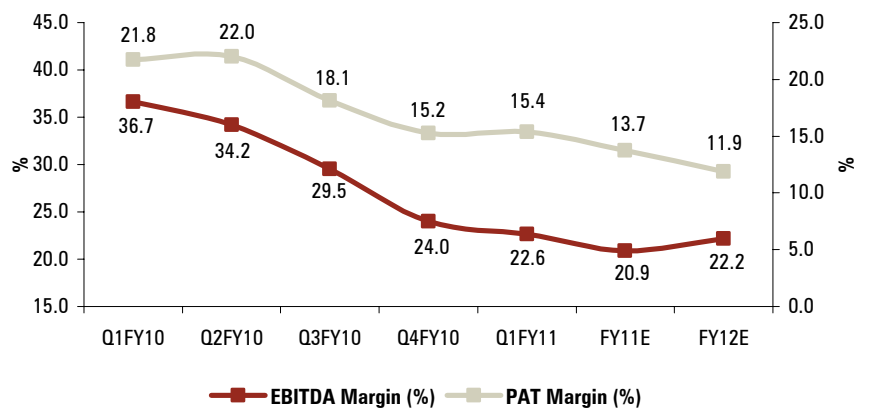
Source: Company, ICICIdirect.com Research

Exhibit 4: EBITDA per tonne declines on higher costs



Source: Company, ICICIdirect.com Research

Exhibit 5: EBITDA margin (%) and PAT margin (%)



Source: Company, ICICIdirect.com Research

The EBITDA margin has declined by 1402 bps YoY to 22.6% on account of a 6.7% YoY increase in total cost per tonne and 12.6% YoY decline in realisation. Sequentially, the margin has declined by 137 bps on account of a 4.2% increase in total expenditure per tonne

Capex plan

The company is expanding its capacity by 2 MTPA in Rajasthan, taking its installed capacity to 4 MTPA by the end of FY12E. Also, the company is setting up a thermal-based captive power plant of 17.5 MW, which is expected to be commissioned by December 2010. The total capex for these projects is Rs 800 crore and it will be funded through a mix of debt and internal accruals. The company has commissioned six wind mills of 1.25 MW in June 2010.

Valuations

After the completion of the new 2 MTPA expansions in Rajasthan, the installed capacity of the company will reach 4 MTPA by the end of FY12E. This would help the company to increase its market share in its selling markets. The major selling markets of the company are Uttar Pradesh, Haryana, Rajasthan, Punjab and Delhi.

At the CMP of Rs 161, the stock is trading at 5.3x and 5.6x its FY11E and FY12E earnings, respectively. The stock is trading at an EV/EBITDA of 5.2x and 7.2x FY11E and FY12E EBITDA, respectively. On an EV/tonne basis, the stock is trading at \$71 and \$57 its FY11E and FY12E capacities, respectively. We have valued the stock at \$60 per tonne (50% discount to the replacement cost of \$115 per tonne) at its FY12E capacity of 4 MTPA and maintained our **BUY** rating on the stock with a target price of Rs 180 per share.

ICICIdirect.com coverage universe (Cement)

| | | | Sales (Rs Crore) | EPS (Rs) | PE (x) | EV/EBITDA (x) | RoNW (%) | RoCE (%) |
|--------------------------------------|---------------------|-------------------|------------------|----------|--------|---------------|----------|----------|
| ACC | | | | | | | | |
| Idirect Code | ACC CMP | 820 CY08 | 7,308.6 | 64.5 | 12.7 | 8.2 | 24.6 | 26.6 |
| MCap | 15408 Target | 903 CY09 | 8,027.3 | 85.5 | 9.6 | 5.5 | 26.7 | 32.5 |
| | % Upside | 10% CY10E | 8,137.0 | 67.4 | 12.2 | 7.1 | 18.7 | 21.8 |
| | | CY11E | 9,022.4 | 67.7 | 12.1 | 6.1 | 16.9 | 21.0 |
| Ambuja Cements | | | | | | | | |
| Idirect Code | GUJAMB CMP | 115 CY08 | 6,234.7 | 7.4 | 15.4 | 9.7 | 21.9 | 27.7 |
| MCap | 17523 Target | 117 CY09 | 7,076.9 | 8.0 | 14.4 | 8.6 | 20.1 | 27.1 |
| | % Upside | 2% CY10E | 7,494.1 | 8.4 | 13.7 | 8.0 | 18.4 | 24.1 |
| | | CY11E | 8,140.0 | 9.3 | 12.4 | 6.2 | 17.9 | 23.8 |
| UltraTech Cements | | | | | | | | |
| Idirect Code | ULTCEM CMP | 829 FY09 | 6,383.1 | 77.4 | 10.7 | 6.7 | 31.0 | 29.2 |
| MCap | 22731 Target | 945 FY10E | 7,054.8 | 87.8 | 9.4 | 5.4 | 26.6 | 28.4 |
| | % Upside | 14% FY11E | 15,961.8 | 60.2 | 13.8 | 8.2 | 21.6 | 26.7 |
| | | FY12E | 17,451.6 | 63.0 | 13.2 | 7.6 | 15.0 | 20.1 |
| Shree Cement | | | | | | | | |
| Idirect Code | SHRCM CMP | 1831 FY09 | 2,715.0 | 165.9 | 11.0 | 6.9 | 61.4 | 33.9 |
| MCap | 6379 Target | 2295 FY10E | 3,632.1 | 194.1 | 9.4 | 4.3 | 44.4 | 30.6 |
| | % Upside | 25% FY11E | 3,946.2 | 206.4 | 8.9 | 3.9 | 33.2 | 23.6 |
| | | FY12E | 4,533.5 | 257.2 | 7.1 | 3.4 | 30.7 | 24.1 |
| India Cements | | | | | | | | |
| Idirect Code | INDCEM CMP | 107 FY09 | 3,426.5 | 17.2 | 6.2 | 4.6 | 17.4 | 17.0 |
| MCap | 3287 Target | 118 FY10E | 3,771.3 | 10.6 | 10.1 | 6.0 | 10.4 | 11.4 |
| | % Upside | 10% FY11E | 4,008.6 | 5.8 | 18.4 | 8.5 | 5.3 | 6.4 |
| | | FY12E | 4,613.0 | 8.8 | 12.1 | 6.0 | 7.6 | 9.0 |
| JK Cement | | | | | | | | |
| Idirect Code | JKCEM CMP | 172 FY09 | 1,496.8 | 21.1 | 8.2 | 6.6 | 17.7 | 17.2 |
| MCap | 1203 Target | 225 FY10E | 1,826.8 | 32.3 | 5.3 | 4.6 | 22.4 | 18.2 |
| | % Upside | 31% FY11E | 2,355.4 | 31.8 | 5.4 | 4.4 | 18.4 | 14.7 |
| | | FY12E | 2,580.6 | 45.3 | 3.8 | 4.3 | 21.8 | 15.7 |
| JK Lakshmi | | | | | | | | |
| Idirect Code | JKCORP CMP | 68 FY09 | 1,224.7 | 14.6 | 4.7 | 3.6 | 24.2 | 16.8 |
| MCap | 832 Target | 77 FY10E | 1,490.5 | 19.7 | 3.5 | 2.2 | 25.8 | 19.8 |
| | % Upside | 13% FY11E | 1,379.3 | 9.8 | 6.9 | 3.6 | 11.0 | 11.5 |
| | | FY12E | 1,560.2 | 12.6 | 5.4 | 3.7 | 12.5 | 12.6 |
| Dalmia Cements | | | | | | | | |
| Idirect Code | DALCEM CMP | 212 FY09 | 1,753.0 | 19.6 | 10.8 | 6.9 | 13.1 | 12.0 |
| MCap | 1716 Target | 246 FY10E | 2,154.3 | 22.4 | 9.4 | 7.7 | 13.7 | 9.1 |
| | % Upside | 16% FY11E | 2,480.1 | 20.3 | 10.4 | 7.6 | 11.5 | 7.6 |
| | | FY12E | 2,944.3 | 34.1 | 6.2 | 5.5 | 17.3 | 10.7 |
| Orient Paper & Industries | | | | | | | | |
| Idirect Code | ORIPAP CMP | 54 FY09 | 1,503.2 | 12.0 | 4.5 | 3.7 | 41.3 | 43.1 |
| MCap | 1041 Target | 64 FY10E | 1,616.5 | 8.2 | 6.5 | 4.8 | 22.5 | 22.5 |
| | % Upside | 19% FY11E | 1,793.8 | 9.2 | 5.9 | 3.3 | 21.1 | 22.4 |
| | | FY12E | 2,020.1 | 11.2 | 4.8 | 2.4 | 21.5 | 24.2 |
| Mangalam Cement | | | | | | | | |
| Idirect Code | MANCEM CMP | 161 FY09 | 563.7 | 37.5 | 4.3 | 2.9 | 33.0 | 35.2 |
| MCap | 430 Target | 180 FY10E | 613.7 | 45.7 | 3.5 | 1.7 | 29.8 | 40.0 |
| | % Upside | 12% FY11E | 590.3 | 30.3 | 5.3 | 5.2 | 17.5 | 9.8 |
| | | FY12E | 642.1 | 28.5 | 5.6 | 7.2 | 14.6 | 8.0 |

Source: Company, ICICIdirect.com Research

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Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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