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Shareholding (%)

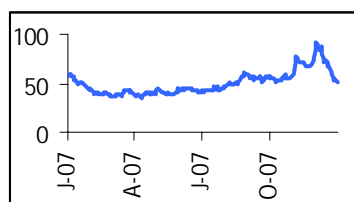
Promoters	37.7
Others	62.3

Share price performance

52-week high/low (Rs)	95/34		
	1m	-3m	-12m
Abs (%)	-31.8	-9.3	-9.0
Rel* (%)	-18.6	1.2	-38.4

*to Nifty

Stock chart



Prospects reinforce a 'Buy'

Q3FY08 proved to be a subdued quarter for NCL Industries Limited (NCL), with results below expectations. The key result highlights of the quarter were:

- ▲ Net sales grew by 6.8% to Rs.506.6mn
- ▲ EBIDTA increased by 27% to Rs.213.4mn
- ▲ PAT (before extra-ordinary items) rose by 9.5% to Rs.64.5mn
- ▲ EBIDTA margins rose by 70 bps to 42%
- ▲ PAT margins increased by 3 bps to 12.7%

Currently, NCL is trading at 3.6x its FY09E EPS of Rs.14.6, and 2.3x its FY10E EPS of Rs.23.1. Given the company's strong growth prospects and attractive valuations, we reiterate our 'Buy' rating on the stock with a price target of Rs.120.

Key highlights of the quarter

- ▲ **Delay in receiving orders in Boards & Prefab businesses – a major drawback:** The sales in the board and prefab businesses were significantly impacted during Q3FY08 due to delays in finalisation of DGS&D rate contracts for the year. Since DGS&D is NCL's largest customer, the postponement resulted in a 23% QoQ fall in boards business to Rs. 94.8mn, and a 73% fall in prefab business to Rs.41.3mn. However, since the contracts have now been finalised, the company expects to make up for the lost ground during Q4FY08.
- ▲ **Robust growth in Cement Division:** NCL growth in the cement business was above expectations; the business that grew by 87% QoQ to Rs.531mn.

Buy

Rs52

January 29, 2008

Market cap

Rs bn 1,643

US\$ mn 42

Avg 3m daily volume

310,366

Avg 3m daily value

Rs mn 20

Shares outstanding (mn)

32

Reuters/Bloomberg

NCLI.BO/NCLI.IN

NSE/BSE

NCLIND/502168

Sensex

18,092

Nifty

5,281

Year-end	Sales	YoY	EBITDA	YoY	NP	YoY	EPS	YoY	PE	EV/EBITDA	PSR	PBR	RoE	RoCE	DPS	Div Yield
	(Rs m)	(%)	(Rs m)	(%)	(Rs m)	(%)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)	(Rs)	(%)
March																
FY2006	1,075	44.6	271	99	63	150	3.9	134	13.3	6.8	0.8	3.1	22	20.3	2.2	4.6
FY2007	1,483	38	441	62.8	277	336.3	9.5	144	5.5	6.8	1.1	2.2	37.8	21	2.5	4.3
FY2008E	2,460	65.9	871	97.7	445	60.9	12.4	31	4.2	4.2	0.8	1.4	32	25.6	2.3	4.3
FY2009E	3,988	62.1	1,250	43.5	527	18.4	14.6	18	3.6	4	0.5	1.2	32.2	25.7	2.3	4.3
FY2010E	5,080	27.4	1,618	29.4	830	57.5	23.1	58	2.3	2.5	0.4	0.9	37.4	39.4	2.3	4.3

NCL Ltd

▲ **Expansion on track:** During Q3FY08, NCL successfully stabilised its enhanced cement capacity to 6.3Lakh TPA, sequel to which the company would reap the benefits of its fully expanded capacity from Q4FY08. Further, the additional capacity expansion of 13.2 lakh TPA is on track; NCL has placed orders for all major equipment and has already started receiving equipment for the said project. The company expects to complete the expansion program by Q3FY09. Additionally, NCL has also stabilised its new boards facility in Himachal Pradesh and expects to reap the benefits from Q4 FY08.

▲ **Attractive Valuations:** With the satisfactory status of its expansion plan and strong growth in the cement business, we continue to believe in the company's strong growth prospects. We expect the company to record a CAGR of 36% in sales and 31% in net profits through FY07-10; in line with this growth, NCL's revenues and net profits would stand at Rs5bn and Rs830mn in FY10E respectively.

The recent fall in the stock market has led to a significant correction in the stock price, notwithstanding any change in fundamentals of the company. Consequently, the company is trading an attractive valuation of 3.6x its FY09E EPS of Rs.14.6, and 2.3x its FY10E EPS of Rs.23.1. Therefore, we retell our 'Buy' rating on NCL with a target price of Rs.120.

Table 1. Quarterly result table

Rs mn	Q3FY08	Q3FY07	YoY (%)	Q2FY08	QoQ (%)
Sales / Income from Operations	731.6	614.6	19.0%	593.4	23.3%
Inter Segment Revenue	97.1	38.1	154.9%	175.4	-44.6%
Excise	127.9	101.2	26.4%		
Net Sales	506.6	475.3	6.6%	418	21.2%
(Increase)/decrease in stock-in-trade	-6.13	1.8	-440.6%	-60.9	-89.9%
Consumption of raw materials	65.8	85.2	-22.8%	113.6	-42.1%
Staff Cost	22.7	18.4	23.4%	21	8.1%
Other expenditure	189.73	203.1	-6.6%	170.4	11.3%
Total Expenditure	293.2	308.5	-5.0%	244.1	20.1%
EBITDA	213.4	166.8	27.9%	173.9	22.7%
Depreciation	29	16	81.3%	29	0.0%
EBIT	184.4	150.8	22.3%	144.9	27.3%
Interest	45.8	22.7	101.8%	41.2	11.2%
Other Income	1.4	0.1	1455.6%	8	-82.5%
PBT	140	128.2	9.2%	111.7	25.3%
Tax	75.5	69.3	8.9%	3.3	2187.9%
PAT	64.5	58.9	9.5%	108.4	-40.5%
Equity	316	292.0		316	
EPS	2	2.0	0.0%	3.4	-41.2%
Margins					
EBIITDA	42.1%	35.1%	20.0%	43.5%	-3.2%
EBIT	36.4%	31.7%	14.7%	34.6%	5.2%
PAT	12.7%	12.4%	2.8%	25.9%	-50.8%
Tax Rate	53.9%	54.1%		0.7%	

Source: IISL research, company

Table 2. Segment revenue

Rs mn	Q3FY08	Q3FY07	YOY (%)	Q2FY08	QoQ (%)
Cement Division	531.60	283.73	87.36%	395.6	34%
Boards Division	94.89	123.86	-23.39%	78.9	20%
Prefab Division	41.36	153.09	-72.98%	71.4	-42%
Energy Division	63.83	53.99	18.23%	47.5	34%
Total	731.68	614.66	19.04%	593	23%
Less : Inter Segment Revenue	97.16	38.13	154.78%	175	-45%
Less : Taxes & Duties	127.99	101.30	26.35%	0	
Sales / Income from operations	506.54	475.23	6.59%	418	21%
EBIT					
Cement Division	115.27	60.99	89.02%	85.8	34%
Boards Division	21.53	22.89	-5.94%	14.7	46%
Prefab Division	(2.42)	22.60	-110.71%	14.9	-116%
Energy Division	51.38	44.44	15.64%	37.5	37%
Total	185.76	150.91	23.09%	153	21%
Less interest	45.87	22.78	101.42%	41.3	11%
PBT	139.89	128.14	9.17%	112	25%
Segmental EBIT margins					
Cement Division	21.68%	21.49%	0.88%	22%	0%
Boards Division	22.69%	18.48%	22.76%	19%	22%
Prefab Division	-5.85%	14.76%	-139.64%	21%	-128%
Energy Division	80.49%	82.30%	-2.20%	79%	2%

Source: IISL research, company

Financials

Profit & Loss						Balance Sheet					
In Rs million	FY06	FY07	FY08E	FY09E	FY10E	In Rs million	FY06	FY07	FY08E	FY09E	FY10E
Net sales	1,074.8	1,482.9	2,460.0	3,988.0	5,080.0	Equity capital	162.3	292.2	360.0	360.0	360.0
YoY (%)		38.0	65.9	62.1	27.4	Preference capital	0.0	0.0	0.0	0.0	0.0
Total expenses	804.2	1,042.4	1,589.1	2,737.9	3,462.0	Reserves	126.1	438.8	1,030.4	1,275.4	1,861.9
Inc/dec in stock	3.3	(35.5)	2.0	10.9	46.0	Net worth	288.4	731.0	1,390.4	1,635.4	2,221.9
Raw material cost	211.2	344.5	478.0	845.0	1,095.0	Total borrowings	1,015.3	1,428.6	2,000.0	3,100.0	2,750.0
Staff cost	56.1	71.5	131.0	188.0	220.0	Deferred tax	106.0	76.7	76.7	76.7	76.7
Power and fuel cost	257.3	277.0	424.0	761.0	979.0	Total liabilities	1,409.7	2,236.3	3,467.1	4,812.1	5,048.6
Other manufacturing exp	141.6	188.7	285.0	502.0	575.0	Gross block	1,476.2	1,839.7	2,139.7	4,539.7	4,900.0
Other expenses	134.7	196.2	269.1	431.0	547.0	Less: Acc. depreciation	581.6	648.4	734.0	874.0	1,105.8
EBIDTA	270.6	440.5	870.9	1,250.1	1,618.0	Net block	894.6	1,191.3	1,405.7	3,665.7	3,794.2
YoY (%)		62.8	97.7	43.5	29.4	CVMP	280.7	674.6	1,050.0	500.0	300.0
EBIDTA (%)	25.2	29.7	35.4	31.3	31.9	Investments	0.0	0.0	0.0	0.0	0.0
Other income	5.8	19.4	2.0	2.0	2.0	Current assets	651.5	862.1	1,445.4	1,404.0	2,478.3
PBIDT	276.4	459.9	872.9	1,252.1	1,620.0	Inventories	231.9	317.1	442.8	558.3	762.0
Interest	121.3	98.3	230.0	356.5	316.0	Debtors	222.8	275.8	393.6	438.7	609.6
Gross profit	155.1	361.6	642.9	895.6	1,304.0	Cash	58.3	46.1	313.8	88.0	700.3
Depreciation	64.2	66.2	100.0	210.0	230.0	Loans and advances	138.5	223.1	295.2	319.0	406.4
PBT and extra ordinary	90.9	295.4	542.9	685.6	1,074.0	Current liabilities	364.0	363.3	442.8	757.7	1,524.0
Extra ordinary items	0.2	0.1	0.0	0.0	0.0	Provisions	58.0	137.1	97.5	97.5	97.5
PBT	91.1	295.5	542.9	685.6	1,074.0	Net current assets	229.5	361.7	1,002.6	646.3	954.3
(-) Tax	27.7	18.9	97.7	158.7	244.0	Miscellaneous expenses	4.9	8.7	8.7	0.0	0.0
Tax/ PBT	30.4	6.4	18.0	23.1	22.7	Total assets	1,409.7	2,236.3	3,467.0	4,812.0	5,048.5
PAT	63.4	276.6	445.2	526.9	830.0						
Adjusted net profit	63.4	276.6	445.2	526.9	830.0						
YoY (%)	0.0	336.3	60.9	18.4	57.5						

Key Ratios						Cash Flow					
	FY06	FY07	FY08E	FY09E	FY10E	In Rs million	FY06	FY07	FY08E	FY09E	FY10E
EPS (Rs)	3.9	9.5	12.4	14.6	23.1	Net profit	63.4	276.6	445.2	526.9	830.0
Adjusted EPS (Rs)	0.0	0.0	0.0	0.0	0.0	Depn and w/o	64.2	66.2	100.0	210.0	230.0
CEPS (Rs)	8.0	10.7	15.2	20.5	29.5	Deferred tax	1.8	(29.3)	0.0	0.0	0.0
Book value (Rs)	17.8	25.0	38.6	45.4	61.7	Change in working cap	(40.1)	(132.2)	(275.7)	(130.5)	(304.3)
Dividend per share (Rs)	2.2	2.5	2.3	2.3	2.3	Other income	5.8	19.4	2.0	2.0	2.0
Debt-equity (x)	3.5	2.0	1.4	1.9	1.2	Operating cash flow	95.1	200.7	271.5	608.4	757.7
ROCE	20.3	21.0	25.6	25.7	39.4	Other income	0.0	0.0	0.0	0.0	0.0
RCE	22.0	37.8	32.0	32.2	37.4	Capex	(274.3)	(682.1)	(675.4)	(1,850.0)	(61.2)
						Investments	0.0	0.0	0.0	0.0	0.0
Valuations						Investing cash flow	(274.3)	(682.1)	(675.4)	(1,850.0)	(61.2)
PE (x)	13.3	5.5	4.2	3.6	2.3	Dividend	(35.2)	(74.0)	(84.2)	(84.2)	(84.2)
Cash PE (x)	6.5	4.8	3.4	2.5	1.8	Fresh equity	55.6	129.9	184.5	0.0	0.0
Price/book value (x)	2.9	2.1	1.3	1.1	0.8	Debt	191.5	413.3	571.4	1,100.0	0.0
Dividend yield	4.2	4.9	4.5	4.5	4.5	Financing cash flow	211.9	469.2	671.6	1,015.8	(84.2)
Market cap/sales	0.8	1.0	0.8	0.5	0.4	Others	1.7	0.0	0.0	0.0	0.0
EV/sales (x)	1.7	2.0	1.4	1.2	0.8	Net change in cash	34.4	(12.2)	267.7	(225.8)	612.3
EV/EBIDTA (x)	6.7	6.6	4.1	3.9	2.4	Opening cash	23.9	58.3	46.1	313.8	88.0
						Closing cash	58.3	46.1	313.8	88.0	700.3

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