

Mangalam Cement

Sensex: 19674

CMP: INR 127

Target: INR 209



Cement

Mangalam Cement reported below than expected set of numbers in Q4FY13 largely on the back of sharp decline in volumes. This was due to subdued demand for cement coupled with closure of clinker unit for couple of months resulting in decline in clinker sales volume from 79304 tn in Q4FY12 to 10957 tn in Q4FY13. Upcoming clinker and cement capacity of 0.50 mt & 1.25 mt by Oct 13 & Dec 13 respectively will drive the next leg of growth. We introduce FY15 estimates and retain our BUY rating on the stock with a revised target of INR 209 (Previous TP 193).

Volume led de-growth in revenues

MCL reported a sharp decline of 12.7% YoY in volumes at 0.52 mt in the last quarter largely due to lower clinker sales coupled with poor cement offtake even in peak construction period. Clinker sales volume declined by 86.2% to 10957 tn against 79304 tn in Q4FY12 due to closure of clinker unit coupled with improvement in utilization rate of Unit I where the production was impacted last year. Excluding clinker, cement volumes declined by 1.3% as a result of which blended realisations increased marginally by 3.2% YoY to INR 3505/tn.

EBIDTA/tn declined by 23.2%

EBIDTA/tn declined by 23.2% to INR 337/tn in Q4FY13 from INR 439/tn in Q4FY12 and INR 677/tn in Q3FY13 primarily due to lackluster demand & depressed realisations coupled with hike in employee and freight expenses. The total cost/tn surged by 7.1% YoY to INR 3168/tn. Employee cost & Other expenses increased by 11.8% to INR 516/tn due to proposed expansion. Freight cost increased by 17.7% to INR 1086/tn on the back of hike in freight rates. The adjusted raw material cost however declined by 13.1% to INR 593/tn as MCL successfully reduced its high grade limestone consumption on the back of using petcoke as a fuel.

Expansion plans delayed by 3-4 months

MCL's plans of increasing its clinker capacity by 0.50 mtpa to 2.20 mtpa at its existing units through optimization & setting up a new grinding unit of 1.25 mtpa in Morak (Rajasthan) has been delayed by 3-4 months and is now set to go on stream by October 13 & December 13 respectively. This would entail a capex of INR

5.03 bn, out of which it has already incurred INR 2.59 bn in last couple of years and plans to incur the balance in FY14. Increased capacity would enable MCL to maintain its market share and will lead to volume growth from FY15 onwards.

Increasing presence in northern region provides demand visibility

MCL has been increasing its presence in the structurally sound northern region and currently derives ~65% of its total sales from this region. The company intends to cater primarily to Northern market with its new capacities, thereby further increasing its presence in the region. Northern region provides better cement demand visibility as compared to other regions largely due to increasing investment in urban infrastructure projects across various states (Delhi, NCR, Chandigarh, etc.) and hydel power projects especially in J&K and Himachal Pradesh.

Outlook & Valuation

Commissioning of new capacities along with self sufficiency in power and usage of petcoke as fuel coupled with presence in structurally sound northern region provides strong prospects for the company. MCL is also a consistent dividend payer & dividend yield at CMP works out to 4.81% its FY15E dividend of INR 6. We have introduced FY15E estimates and expect the company to register a CAGR of 21% & 3% in topline and bottomline over FY13-15E. At the CMP of INR 115, the stock trades at attractive valuations of FY15E P/BV of 0.56x & PE of 4.12x and EV/tn of INR 1711 its FY15E capacity. We retain our BUY rating on the stock with a revised target of INR 209 (Previous TP 193) based on FY15E EV/tn of INR 2400.

Shareholding (%)	Mar-13
Promoters	27.41
FII's	1.83
DII's	3.51
Others	67.25

Relative Price Performance



Key Data	
BSE Code	502157
NSE Code	MANGLMCEM
Bloomberg Code	MGC IN
Reuters Code	MGLC.BO
Shares O/S (mn)	26.69
Face Value	10
Mcap (INR bn)	3.33
52 Week H/L	192.65/120.10
2W Avg. Qty, NSE	96772
Free Float (INR bn)	2.42
Beta	0.74

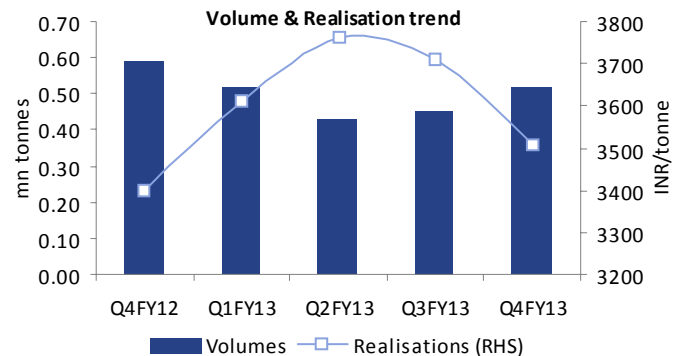
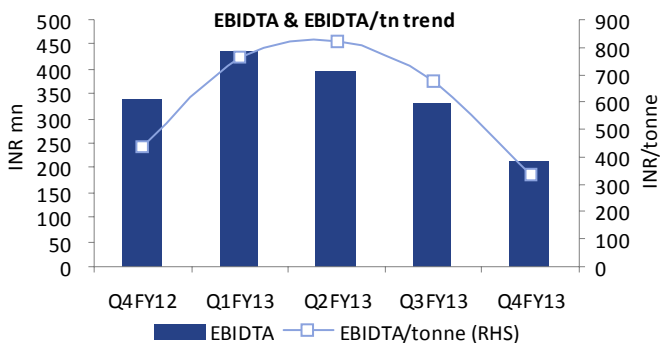
INR mn	FY12	FY13	FY14E	FY15E
Net Sales	6308	7060	7722	10338
Growth (%)	27.14%	11.93%	9.37%	33.88%
EBITDA Margin %	16.40%	18.50%	17.20%	17.73%
APAT	565	774	657	809
Growth (%)	49.60%	37.04%	-15.07%	23.16%
EPS	21.15	28.99	24.62	30.32
P/E	6.48	4.58	5.07	4.12
P/BV	0.85	0.72	0.62	0.56
EV/EBIDTA	3.15	3.43	4.31	3.08
Net Debt-Equity	(0.05)	0.24	0.51	0.43
RoACE (%)	18.06	19.43	13.31	16.05
RoAE (%)	13.65	16.74	12.75	14.21

Quarterly Result

Particulars (INR mn)	Q4FY13	Q3FY13	Q2FY13	Q1FY13	Q4FY12	YoY Chg	QoQ Chg
Net Sales	1810	1679	1617	1881	2009	-9.90%	7.85%
Other Operating Income	33	15	13	13	56	-41.55%	119.59%
Other Income	7	9	30	26	22	-68.47%	-17.65%
Total Income	1850	1702	1660	1920	2087	-11.37%	8.70%
Total Expenditure	1636	1372	1263	1483	1750	-6.49%	19.25%
Raw Material Consumed	296	300	252	278	260	13.73%	-1.33%
Stock Adjustment	11	(172)	(193)	(8)	143	-92.68%	-106.10%
Cost of goods sold	306	128	59	270	403	-24.10%	140.16%
Employee Expenses	97	94	107	83	75	28.84%	2.33%
Power, Oil & Fuel	503	530	489	485	528	-4.78%	-5.22%
Selling & Administrative Expenses	561	498	469	509	546	2.80%	12.58%
Other Expenses	170	122	139	136	198	-14.18%	39.57%
PBIDT	214	330	397	437	337	-36.67%	-35.21%
PBIDTM	9.62%	18.25%	21.88%	21.17%	12.91%	(330 bps)	(864 bps)
Interest	23	8	8	10	9	150.00%	183.95%
PBDT	191	322	389	427	328	-41.91%	-40.73%
Depreciation	67	62	61	61	79	-15.37%	7.59%
PBT	124	260	328	366	249	-50.28%	-52.25%
Tax	36	121	45	104	69	-48.12%	-70.29%
APAT	88	139	284	263	180	-51.11%	-36.64%
APATM	4.79%	8.22%	17.40%	13.87%	8.74%	(395 bps)	(343 bps)
EPS	3.30	5.22	10.63	9.84	6.76	-51.11%	-36.64%
Equity	266.90	266.90	266.90	266.90	266.90	-	-

Operational Performance

Volumes (mn tn)	0.52	0.45	0.43	0.52	0.59	-12.66%	14.16%
Realisations (INR/tn)	3505	3710	3763	3613	3398	3.15%	-5.53%
EBIDTA/tonne (INR)	337	677	823	765	439	-23.19%	-50.23%



Financials
Income Statement

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
Net Sales	6308	7060	7722	10338
<i>Growth (%)</i>	<i>27.14%</i>	<i>11.93%</i>	<i>9.37%</i>	<i>33.88%</i>
Cost of goods sold	1045	763	1094	1324
Power & Fuel Cost	1647	2007	2234	3056
Selling & Dist Exp	1780	2036	2147	2843
Total Expenditure	5273	5754	6393	8505
EBIDTA (without OI)	1035	1306	1328	1833
<i>Growth (%)</i>	<i>63.21%</i>	<i>26.26%</i>	<i>1.70%</i>	<i>38.01%</i>
<i>EBITDA Margin %</i>	<i>16.4%</i>	<i>18.5%</i>	<i>17.2%</i>	<i>17.7%</i>
Depreciation	320.4	250.8	377.4	495.8
EBIT	714	1056	951	1338
<i>EBIT Margin %</i>	<i>11.3%</i>	<i>14.9%</i>	<i>12.3%</i>	<i>12.9%</i>
Interest Expenses	31	48	117	273
Other Income	66	71	82	91
EBT	749	1078	916	1156
Tax Expenses	190	304	259	347
PAT	560	774	657	809
Exceptional/Extraordinary Items	-5	0	0	0
APAT	565	774	657	809
<i>Growth (%)</i>	<i>49.60%</i>	<i>37.04%</i>	<i>-15.07%</i>	<i>23.16%</i>
<i>APAT Margin (%)</i>	<i>8.95%</i>	<i>10.96%</i>	<i>8.51%</i>	<i>7.83%</i>

Key Ratios

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
Per Share Data (INR)				
Adjusted EPS	21.15	28.99	24.62	30.32
CEPS	34.27	37.65	39.87	48.89
DPS	6.00	6.00	4.90	6.00
BVPS	161.97	184.46	201.63	224.98
Return Ratios				
RoACE (%)	18.06	19.43	13.31	16.05
RoAE (%)	13.65	16.74	12.75	14.21
Balance Sheet Ratios				
Net Debt-Equity Ratio	(0.05)	0.24	0.51	0.43
Current Ratio	1.71	1.79	1.36	1.60
Interest Cover Ratio	25.10	23.27	8.80	5.24
Efficiency Ratios				
Total asset turnover	1.46	1.22	0.99	1.16
Inventory Days	43	62	57	49
Debtors Days	12	15	15	14
Creditors Days	25	32	34	31
Valuations				
P/E	6.48	4.58	5.07	4.12
P/BV	0.85	0.72	0.62	0.56
Dividend Yield (%)	4.37%	4.52%	3.92%	4.81%
Market Cap / Sales	0.58	0.50	0.43	0.32
EV/EBIDTA	3.15	3.43	4.31	3.08

Balance Sheet

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
SOURCES OF FUNDS				
Share Capital	267	267	267	267
Reserves	4056	4656	5115	5738
Total Networth	4323	4923	5382	6005
Total Debt	240	2110	3110	3310
Total Liabilities	4563	7033	8492	9315
APPLICATION OF FUNDS				
Net Block	3525	4632	7597	7420
Capital Work in Progress	189	1000	200	300
Investments	11	356	356	356
Total Current Assets	3520	3699	3338	4779
Total Current Liabilities	2064	2070	2446	2986
Net Current Assets	1456	1629	892	1793
Net Deferred Tax	(618)	(584)	(554)	(554)
Total Assets	4563	7033	8492	9315

Cash Flow

Y/E March (INR mn)	FY12	FY13	FY14E	FY15E
EBT	749	1078	916	1156
Depreciation	320	251	377	496
Interest	31	48	117	273
Inc./Dec. in working capital	(207)	314	178	(540)
Tax paid	(160)	(324)	(229)	(347)
Other Income	(66)	(71)	(82)	(91)
Cash from operations (a)	668	1296	1278	947
Inc./Dec. in investments	0	(345)	0	0
Change in Fixed Assets	(307)	(1358)	(2965)	(200)
Change in CWIP	(108)	(811)	800	(100)
Others	66	71	82	91
Cash from investments (b)	(349)	(2443)	(2083)	(209)
Inc./Dec. in capital	3	0	0	0
Inc./Dec. in debts	105	1870	1000	200
Dividend paid	(160)	(160)	(160)	(160)
Interest paid	(31)	(48)	(117)	(273)
Others	(57)	(28)	(475)	(144)
Financial cash flow (c)	(141)	1633	247	(377)
Opening cash balance	258	436	923	365
Cash Flow during the year (a+b+c)	178	487	(558)	361
Closing cash balance	436	923	365	726

 Sharad Avasthi Dy Head - Equity Research sharad.avasthi@spagroupindia.com Tel.: +91-33-4011 4800 Ext.832

Disclaimer: This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. SPA Securities Limited (hereinafter referred as SPA) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The intent of this document is not in recommendatory nature. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. SPA or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. SPA or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement.

The recipients of this report should rely on their own investigations. SPA and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. SPA has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

- | | |
|--|------|
| 1. Analyst ownership of the stock | - No |
| 2. Group/Directors ownership of the stock | - No |
| 3. Broking relationship with company covered | - No |

This information is subject to change without any prior notice. SPA reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, SPA is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

SPA Securities Ltd: Mittal Court, A-Wing, 10th Floor, Nariman Point, Mumbai - 400 021, Tel. No. : +91-022-4289 5600, Fax: +91 (22) 2657 3708/9

For More Information Visit Us At : www.spasecurities.com

SPA CAPITAL SERVICES LIMITED	SPA COMTRADE PRIVATE LIMITED	SPA Securities Ltd	SEBI Reg. Nos.
Investment Advisory Services, AMFI Reg. No. ARN-0007	Member of NCDEX & MCX. NCDEX TMID-00729, NCDEX FMC No.NCDEX/TCM/CORP/0714	NSE Cash NSE Future & Option NSE Currency Derivatives BSE Cash BSE Currency Derivatives MCX-SX Currency Derivatives	INB231178238 INF231173238 INE231178238 INB011178234 INE011178234 INE261178238
SPA CAPITAL ADVISORS LIMITED.	SPA INSURANCE BROKING SERVICES LTD.	OTCEI PMS CDSL DP NSDL DP	INB200891838 INP000003179 IN-DP-CDSL-485-2008 IN-DP-NSDL-316-2009
SEBI registered Category-1 Merchant Bankers SEBI Regn. No. INM000010825	Direct Broker for Life and General Insurance Broking IRDA Lic. Code No. DB053/03		