



Farsight

MORNING FARSIGHT

Monday, June 04, 2018

NCL INDUSTRIES

CMP:RS 192

TRGT:RS 225

TIME HORIZON: 3 MONTHS

NCL Industries is looking a good buy now, due to good Q4FY18 earnings seen, which market has failed to understand due to higher Deferred Tax, a non cash item, impacting Q4 PAT, and the same is bound to get rewarded in the coming weeks. Company's Cement Division has posted an income of Rs355 cr against Rs 288 cr QoQ and Rs 274 cr YoY, due to healthy volume growth in Cement division. Q4 PBT is placed at Rs 23.6 cr against Rs 11 cr QoQ and Rs 15.2 cr YoY (+114% QoQ, +55% YoY), with PBT margin of 8.5% against 4.9% QoQ, which is seen extremely positive. Tax Expense for Q4FY18 were at Rs 14.2 cr (including deferred tax of Rs 7.3 cr), against tax write back of Rs 3.3 cr in Q3 and Rs 0.15 cr YoY, which resulted in optically lower PAT for Q4, which is misleading and not reflective of robust Revenue and PBT growth. Segment wise, Cement Division earned an EBIT of Rs 27 cr against Rs 13.05 cr QoQ and Rs 17.3 cr YoY (+107% QoQ, +59%YoY), which remained key growth driver for the company. Company has recently completed some capacity expansion and has also raised Rs 202 cr via QIP by issuing 85 lakh shares at a price of Rs 237.5 per share, post which Institutional Holding in the company has gone up significantly from 3.47% in Q2FY18 to 21.76% in Q3FY18, with equity base rising to Rs45.23 cr (FV Rs 10) from Rs 36.73 cr. On this expanded equity of 45.23 crores, company has posted an EPS of Rs 12.51 for FY18. Additionally, QIP has resulted in Debt reduction of about Rs 127 cr (From net debt of Rs 330 cr in Sept to Rs 203 cr in March) and Finance Cost in Q4 has declined to Rs 6.5 cr from Rs 8.6 cr QoQ, which is expected to go down further. Company has recently completed its capex in both its leading verticals of cement (0.7 MTPA) and particle boards (30,000 TPA). Post this, the cement capacity stands elevated to 2.7 MTPA, while the particle board capacity has expanded by 50% to 90,000 TPA. The company plans to commission a MDF board plant with capacity of 1,000 boards per day by Q2FY19, as company has already ordered equipments. Company is also India's sole manufacturer of cement bounded particle board, which acts as a value add to company's cement business, as a particle board comprises of 62% cement and 28% eucalyptus wood. Used in infra and housing sectors, company's particle board plants are located in Telangana and HP under technical collaboration with Germany's Bison Werke (world leader in particle board technology), aggregating 90,000 MT capacity. NCL Industries operates in AP / Telangana markets (other smaller player here are Sagar Cements & Deccan Cements). There is expected to be higher government spending by both AP and Telangana markets on low cost housing, irrigation and other infra projects including development of New Capital Amaravathi, Shift To Concrete Canal Lining in AP and Polavaram project located on Godavari River in West Godavari district of Andhra Pradesh. Company's current market cap stands at Rs 870 cr with EV of close to Rs 1,100 cr. If we assign Rs 180 cr valuation to the boards division, which has an annual operating profit run-rate of Rs 18cr, EV for cement business works out to roughly Rs 920 cr, which, on a respectable capacity of 2.7 MTPA, leads to EV/tonne of only US \$51 per tonne, which is seen attractive. On PE based valuation, one year forward multiple works out to 12.8times, based on an estimated FY19 EPS of Rs 15. Share ruling at Rs 192 can move to Rs 225 in the next 3 months. Buy

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.