

Value play in cement space...

About the stock: The company is a north based player with cement capacity of 4.0 MT having plants in Morak (Rajasthan) and Aligarh (UP). Mangalam markets and sells cement under the brand name Birla Uttam Cement.

- The key markets include Uttar Pradesh, Rajasthan and Madhya Pradesh having revenue share of ~45:30:25, respectively
- The company is in the process of increasing its clinker capacity at its existing facility at Morak, from 2.3 MT to 2.6 MT at a projected cost of ₹ 135 crore

Q1FY22 Results: Mangalam Cement surprised positively on the margin front in Q1FY22 leading to 9.7% growth in profit despite 13.5% QoQ drop in revenues.

- Reported revenue of ₹ 355.5 crore, down 13.5% QoQ, led by sales volumes de-growth of 15.6% to 0.76 MT. On YoY basis, revenues were up 57.1%
- EBITDA/t was up 24.4% QoQ to ₹ 1,084/t (vs. last quarter EBITDA/t of ₹ 871/t). EBITDA margin was at 23.2%, up 408 bps QoQ, 262 bps YoY
- Ensuing PAT was at ₹ 40 crore, up 189.2% YoY, 9.7% QoQ

What should investors do? Mangalam Cement's stock price has grown 2.0x in the past six months (from ₹ 226/share in January 2021 to ₹ 457/share in July 2021)

- Despite the recent run up, the company is still available at \$49/t based on FY23E value. Hence, we remain positive and retain BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 600 i.e. 5.0x FY23E EV/EBITDA

Key triggers for future price performance:

- Upcoming **UP elections in 2022** would continue to drive cement demand in UP, which contributes nearly 45% of its sales volume
- The **enhanced clinker capacity** will aid in increasing the capacity utilisation (CU) of its cement plant, which had a CU of 68% against 93% CU of clinker capacity in FY20
- The company is **eligible for various incentives** like interest free loan from UP government, railway freight rebate under long term contract, etc. This would continue to provide cost advantage

Alternate Stock Idea: Apart from Mangalam, in our cement sector coverage, we also like ACC.

- It has a strong balance sheet with debt free status. The company is focusing on cost reduction and also adding new capacities via internal accruals
- BUY with a target price of ₹ 2,800/share

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	1086	1195	1228	1298	6.1	1496	1730	15.4
EBITDA	86	53	199	259	44.2	311	364	18.6
EBITDA (%)	7.9	4.4	16.2	19.9		20.8	21.0	
Net Profit	11	-10	76	109	112.4	135	174	26.5
EPS	4.3	-3.7	28.4	40.8		50.6	65.3	
EV/EBITDA	17.8	32.2	8.8	6.3		5.1	3.8	
EV/Tonne (\$)	55	60	63	58		56	49	
RoNW	2.2	-2.0	13.2	16.0		16.6	17.7	
RoCE	7.2	3.2	13.8	15.8		17.5	20.4	

Source: Company, ICICI Direct Research



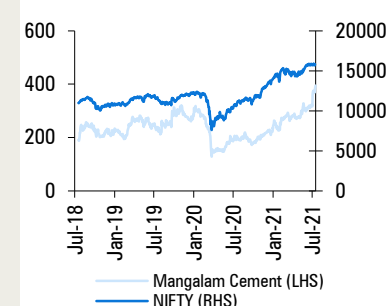
Particulars

Particulars	Amount
Mcap	₹ 1199 crore
Debt (FY21)	₹ 703 crore
Cash & Invest(FY20)	₹ 166 crore
EV	₹ 1736 crore
52 week H/L	₹ 459 / 169
Equity cap	₹ 26.7 crore
Face value	₹ 10

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	22.1	23.6	24.0	24.5
FII	4.6	4.6	4.6	4.9
DII	2.9	2.9	2.9	2.9
Others	70.8	69.0	64.4	67.7

Price Chart



Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in prices of imported coal/petcoke may impact margins
- Low promoter holding

Research Analyst

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Key performance highlights

- Domestic sales volumes were at 0.76 MT (down 15.6% QoQ) while blended realisations were up 2.5% QoQ to ₹ 4,677/tonne, up 1.3% YoY
- Cost of production was down 2.7% QoQ to ₹ 3594/t, led by inventory adjustments. Power & fuel cost were up by 22.8% QoQ to ₹ 1313/t
- EBITDA/t improved sequentially by 24.4% to ₹ 1084/t on the back of higher realisations and positive impact of inventory adjustments

Other key highlights

- Capacity utilisation for Q1FY22 was at 76%. However, it operated at over 95% plus utilisation in June
- In terms of regions, the company sold 30%+ volumes in UP and Rajasthan each during the quarter
- The ongoing monsoon has led to cement price correction of ₹ 25-30/bag in non-trade segment and ₹ 7-8 per bag in the trade segment
- The company plans to incur capex of ₹ 50-70 crore annually that also includes maintenance capex
- De-bottlenecking capacity (0.3 MT) will be operational from July 2021 onwards
- In terms of cost, petcoke prices currently hover around \$150/t while the company has inventory at \$120-125/t, which would provide cushion in the forthcoming quarter
- Fly ash issues at Aligarh, where the company has 0.75 MT grinding unit, have now receded

Exhibit 1: Variance Analysis

Mangalam	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Net Sales	355.5	226.2	57.1	410.8	-13.5	Topline driven by strong rebound in volumes
Other Incomes	6.4	6.9	-7.7	8.5	-24.9	
EBITDA	82.4	46.5	77.2	78.4	5.0	
EBITDA Margin (%)	23.2	20.6	262 bps	19.1	408 bps	Margin expansion driven by realisation growth
Depreciation	13.4	15.6	-14.5	13.3	0.9	
Interest	13.5	16.4	-17.3	17.0	-20.3	
PBT	61.8	21.4	189.1	56.7	9.1	Strong operational performance flows down to higher PAT
Total Tax	21.9	7.6	188.9	20.3	7.9	
PAT	40.0	13.82	189.2	36.42	9.7	

Key Metrics

Volume (MT)	0.76	0.49	55.1	0.90	-15.6	Low base of previous year leads to volume growth of 55.1% YoY
Realisation (₹)	4,677	4,617	1.3	4,565	2.5	Strong pricing environment in northern region boosts realisation
EBITDA per Tonne (₹)	1,084	949	14.2	871	24.4	EBITDA/t growth is mainly supported by higher realisations

Source: Company, ICICI Direct Research

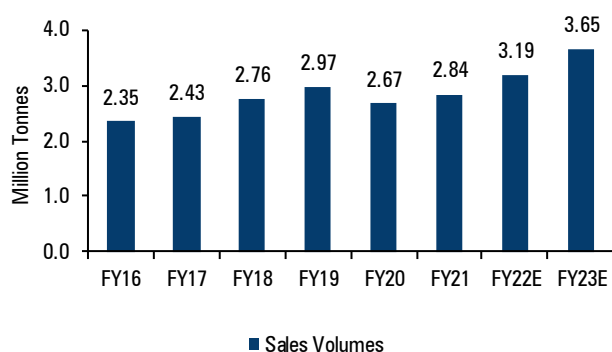
Exhibit 2: Per tonne analysis

Per tonne	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales	4,677.4	4,616.7	1.3	4,564.6	2.5
Raw Material Expenses	803.2	539.0	49.0	715.1	12.3
Employee Expenses	367.1	562.2	-34.7	335.8	9.3
Change in stock	-398.7	594.7	-167.0	63.0	-732.8
Power and fuel	1,313.3	654.1	100.8	1,069.8	22.8
Freight	1,275.4	1,105.1	15.4	1,251.4	1.9
Production costs	3,593.7	3,668.0	-2.0	3,693.2	-2.7
EBITDA/t	1,083.7	948.8	14.2	871.4	24.4

Source: Company, ICICI Direct Research

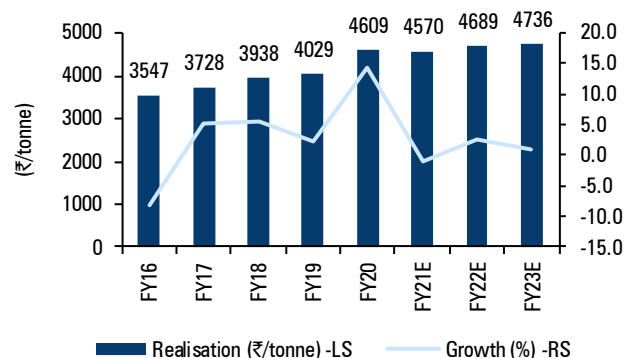
Financial story in charts

Exhibit 3: Sales volume to grow at CAGR of 13.4%



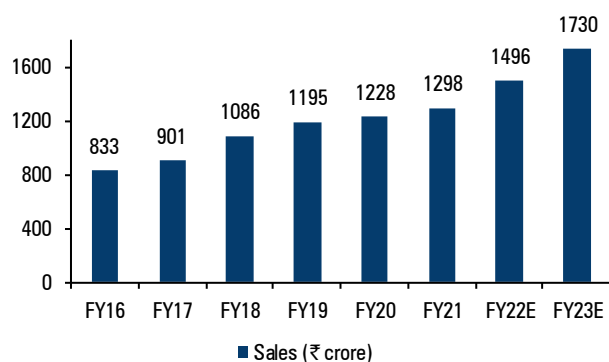
Source: Company, ICICI Direct Research

Exhibit 4: Realisations to remain firm



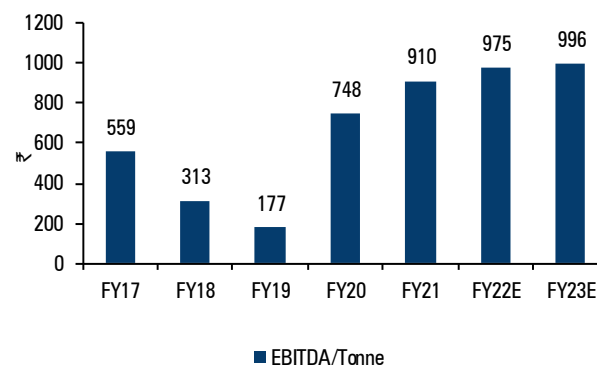
Source: Company, ICICI Direct Research

Exhibit 5: Revenues to grow at CAGR of 15.4%



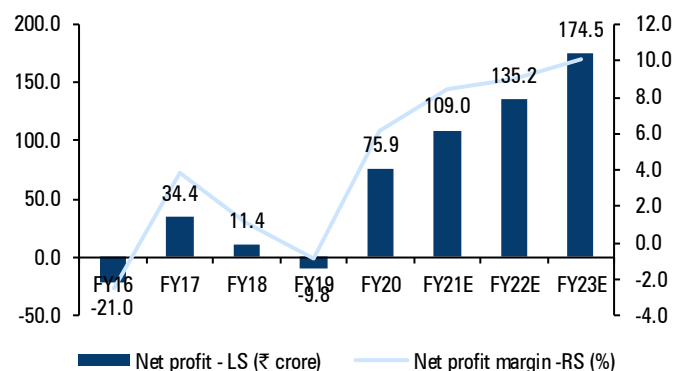
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA/t to remain healthy on firm prices



Source: Company, ICICI Direct Research

Exhibit 7: Expect net profit margin of 10% in FY23E



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Incon	1,228.2	1,298.2	1,495.9	1,729.7
Growth (%)	2.8	5.7	15.2	15.6
Raw material	142.3	204.4	205.0	268.4
Power & Fuel	336.3	293.1	391.3	438.2
Employees	108.8	111.1	123.9	142.5
Freight	331.1	350.6	383.7	420.0
Others	110.4	80.5	80.9	96.8
Total Operating Exp.	1,028.9	1,039.7	1,184.8	1,366.0
EBITDA	199.4	258.6	311.0	363.7
Growth (%)	279.4	29.7	20.3	16.9
Depreciation	48.7	58.6	60.8	63.3
Interest	63.3	64.7	62.5	50.3
Other Income	29.7	32.9	21.4	20.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	117.1	168.2	209.2	270.1
Total Tax	41.2	59.2	74.0	95.6
PAT	75.9	109.0	135.2	174.5
Growth (%)	NA	43.7	24.0	29.1
Adjusted EPS (₹)	28.4	40.8	50.6	65.3

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	26.7	26.7	26.7	26.7
Reserve and Surplus	549.1	654.9	786.9	958.1
Total Shareholders funds	575.8	681.6	813.5	984.8
Total Debt	678.1	702.6	652.6	502.6
Deferred Tax Liability	56.5	86.6	86.6	86.6
Other Liabilities	61.6	85.4	85.4	85.4
Total Liabilities	1,372.0	1,556.1	1,638.1	1,659.3
Assets				
Gross Block	1,496.3	1,525.4	1,591.8	1,741.8
Less: Acc Depreciation	608.8	667.4	728.2	791.5
Net Block	887.5	858.0	863.7	950.3
Capital WIP	20.7	111.5	125.0	75.0
Total Fixed Assets	908.2	969.4	988.7	1,025.3
Investments	103.4	147.9	147.9	147.9
Inventory	164.2	208.0	218.2	236.7
Debtors	26.9	37.0	36.8	49.4
Loans and Advances	200.7	229.7	249.0	235.3
Other Current Assets	105.7	84.3	95.3	95.0
Cash	83.4	166.0	179.3	233.3
Total Current Assets	580.9	724.9	778.5	849.7
Creditors	180.4	229.5	213.1	279.7
Provisions	40.2	56.6	63.9	83.9
Total Current Liabilities	220.6	286.1	277.0	363.6
Net Current Assets	360.4	438.8	501.5	486.1
Application of Funds	1,371.9	1,556.1	1,638.0	1,659.3

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	75.9	109.0	135.2	174.5
Add: Depreciation	48.7	58.6	60.8	63.3
(Inc)/dec in Current Assets	-33.5	-61.4	-40.4	-17.2
Inc/(dec) in CL and Provisions	-37.7	65.5	-9.1	86.6
CF from operating activities	53.3	171.7	146.5	307.2
(Inc)/dec in Investments	-24.9	-67.9	0.0	0.0
(Inc)/dec in Fixed Assets	-136.7	-122.7	-80.0	-100.0
Others	15.4	80.1	0.0	0.0
CF from investing activities	-146.2	-110.5	-80.0	-100.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	120.5	24.5	-50.0	-150.0
Dividend paid & dividend tax	-1.6	-3.2	-3.2	-3.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-2.0	0.0	0.0	0.0
CF from financing activities	116.9	21.3	-53.2	-153.2
Net Cash flow	24.0	82.5	13.3	54.0
Opening Cash	59.4	83.4	166.0	179.3
Closing Cash	83.4	166.0	179.3	233.3

Source: Company, ICICI Direct Research

Exhibit 11: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	28.4	40.8	50.6	65.3
Cash EPS	46.7	62.8	73.4	89.1
BV	215.6	255.3	304.7	368.8
DPS	0.5	1.0	1.0	0.0
Cash Per Share	31.3	62.2	67.1	87.4
Operating Ratios (%)				
EBITDA Margin	16.2	19.9	20.8	21.0
PAT Margin	6.2	8.4	9.0	10.1
Inventory days	41.7	52.3	52.0	48.0
Debtor days	9.2	9.0	9.0	9.1
Creditor days	53.8	57.6	54.0	52.0
Return Ratios (%)				
RoE	13.2	16.0	16.6	17.7
RoCE	13.8	15.8	17.5	20.4
RoIC	13.1	18.8	22.4	26.4
Valuation Ratios (x)				
P/E	15.8	11.0	8.9	6.9
EV / EBITDA	8.8	6.3	5.1	3.8
EV / Net Sales	1.4	1.3	1.1	0.8
Market Cap / Sales	1.0	0.9	0.8	0.7
Price to Book Value	2.1	1.8	1.5	1.2
Solvency Ratios				
Debt/EBITDA	3.4	2.7	2.1	1.4
Debt / Equity	1.2	1.0	0.8	0.5
Current Ratio	2.6	2.5	2.8	2.3
Quick Ratio	2.3	2.0	2.2	1.7

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Cement)

Company	CMP (₹)	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
			FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
ACC*	2,287	BUY	73	85	125	17.6	16.5	10.5	167	139	134	17.4	14.5	20.6	11.9	12.6	16.0
Ambuja Cem*	399	BUY	7.7	9.0	10.9	17.4	15.9	12.6	173	186	166	12.2	17.6	19.1	14.7	20.3	21.7
UltraTech Cem	7,460	BUY	124	191	238	26.3	20.2	17.1	286	279	274	11.4	14.7	16.7	9.3	12.7	14.0
Shree Cement	28,100	BUY	435	641	706	26.4	24.2	21.5	286	265	261	13.8	18.2	18.5	12.1	15.2	14.6
Heidelberg Cem	266	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	3,142	HOLD	51.8	99.6	107.0	20.3	15.5	14.1	201	183	187	16.2	18.6	18.2	12.8	20.6	18.6
JK Lakshmi Cem	705	BUY	7.0	7.1	6.8	20.2	17.4	16.9	94	94	86	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	117	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	1,107	BUY	25.7	29.8	31.5	20.5	16.4	15.1	180	175	171	7.5	8.6	8.9	12.3	12.7	11.8
Sagar Cement	1,272	BUY	-1.9	12.9	5.8	24.2	18.6	19.2	89	94	77	5.4	8.1	6.4	-0.5	3.4	1.6

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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