

Nuvoco Vista Corp

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Valuation attractive

Summary

Nuvoco Vista Corp (NVCL), India's 5th largest cement manufacturer (22mt capacity) is coming out with an IPO to raise Rs50bn. IPO size is ~25% of post issue equity with promoter selling stake of Rs35bn and fresh issue of Rs15b. NVCL operates in East region (70% of capacity) and has highest capacity market share of 17% in the region. Company has increased its capacity from ~2.5mtpa in FY16 to 22mtpa in FY21 by way of acquisition (~85% of capacity is inorganic addition). NVCL has plan of organic expansion in east of 2.7mtpa (12% addition) over FY22E and FY23E. We understand NVCL IPO at upper band is priced at 10x FY23E EV/EBITDA or EV/t of USD131 (exhibit 5). Valuation is at discount to its large cap peers at 12x-19x FY23E EV/EBITDA. Discount partially factors high debt in its books (FY21 Net Debt / EBITDA of 4.5x) and low ROCE (exhibit 11, 12). But given up-cycle in the cement industry and expectation of improvement in margin and balance sheet deleveraging over FY21-23E we recommend SUBSCRIBE.

Key Investment Rationale

- Capacity addition by acquisition:** NVCL a Nirma group company has increased its capacity by 9x in the last 5 years led by two acquisitions. NVCL acquired 11mt Lafarge asset in FY17 at EV/t of USD126 and Emami asset of 8mtpa at USD95/t in FY21. With the acquisitions, NVCL has strengthened its market leadership in the East region. In the last 4-5 years East Region demand has been highest versus other region and NVCL east asset utilization (FY21) at 79% has bandwidth to increase.
- EBITDA margin is low vs peers but:** NVCL in FY21 has reported EBITDA margin of 20% (company EBITDA/t of Rs869). If compared with peers its EBITDA margin is low (FY21 peers avg. is 24-25%) and NVCL has guided to increase EBITDA/t by 20% in the next 2 years. This will be driven by streamlining the acquisition and internal efficiency.
- Key risk:** NVCL outlook is tied up with economic activity in Eastern Region. On balance sheet, due to acquisitions, FY21 Net Debt/EBITDA is high at 4.5x (net debt at Rs68bn) and NVCL has guided to reduce it to 1.2x in the next 2 years. Debt reduction will be driven by proceed of IPO (Rs14bn) and internal accruals.

Issuer	NUVOCO VISTAS CORPORATION LIMITED.
Transaction Type	At upper band OFS of 61.4mn & Fresh issue of 26.3mn Eq Sh
Issue Open / Close	Aug 9 th 2021 / Aug 11 th 2021
Type of Offering	OFS and Fresh issue
Total Offer Size	Rs 50,000 mn
Price Band	Rs 560-570/sh
Total Offer Size as % of Post Issue Capital	24.6%
Percentage of Offer Size (Allocation)	<ul style="list-style-type: none"> QIB: 50% NIB: 15% Retail: 35%
Market Cap Post IPO	Rs 204 bn at upper price band

Share holding pattern %

	Pre-Issue	Post-Issue
Promoter	95.2	71.0
Public	4.8	29.0
Total	100%	100%

Financial Snapshot

(Rs mn)	FY17	FY18	FY19	FY20	FY21
Revenue	51,570	66,524	70,521	67,932	74,888
EBITDA	7,284	10,663	9,177	12,971	14,605
EBITDA Margin(%)	14.1	16.0	13.0	19.1	19.5
Adj.PAT	1,657	875	(265)	2,493	(259)
EPS (Rs)	6.5	3.4	(1.0)	9.7	(1.0)
EPS Growth (%)	(28.2)	(47.2)	na	na	na
PE(x)	88.3	167.0	na	58.7	na
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	18.6
RoE (%)	4.1	2.0	na	4.9	na
RoCE (%)	5.9	5.6	3.7	6.9	4.7

Source: RHP, Company

About the Company: A Nirma group company

Nuvoco Vista Corporation Limited (NVCL) is promoted by Dr. Karsanbhai K. Patel of Nirma Group. The Nirma Group is a diversified conglomerate that manufactures products ranging from chemicals to detergents, soaps, healthcare products and real estate development. Nirma Group forayed into the cement business in 2014 through a Greenfield cement plant in Nimbol. Thereafter, through acquisition of 11mtpa LafargeHolcim in 2016 and 8mtpa NU Vista in 2020, it now has an installed cement capacity of 22.3mton. Details about the NVCL business:

- NVCL is fifth largest cement company in India with cement capacity of 22.3mtpa (78% in East India and 22% in North India).
- NVCL has capacity share of approximately 17% in terms of consolidated capacity in East India and a capacity share of approximately 4.7% in terms of consolidated capacity in North India.
- In FY21, NVCL sold 17.26mtpa cement with 78% sold in East India, 15% in North India and 7% in Central India
- It has total of 11 Cement Plants (8 in East India and has presence in all East Region states like West Bengal, Bihar, Odisha, Chhattisgarh and Jharkhand and 3 plants in North India i.e. in Rajasthan and Haryana). Three of its plants in East India are integrated units and five plants are grinding units. Two of its plants in North India are integrated units and the third is a blending unit.
- Company is also one of the leading ready-mix concrete manufacturers in India. while RMX Plants are located across India.
- It has waste heat recovery systems at all integrated plants with a total capacity of 44.7 MW, solar power plants with a total capacity of 1.5 MW and captive power plants with generation capacity of 105 MW. As of FY21, these generate ~50% of its total power requirements.
- Limestone reserves of 1700mt sufficient for more than 30 years
- In FY21, sales from the Trade Segment of the market constituted 73% (East India - 76%, North India - 56%).
- As at FY21, NVCL has 244 Clearing and forwarding agent (162 in East India and 82 in North India) and 16,076 dealers in India (10,091 in East India and 5,985 in North India).
- It's Key cement brands in Super Premium Category is Concreto, in Premium category is Duraguard XTRA, Duraguard microfiber, in Category A is Duragaurd and Category B is Double Bull. Difference between Super Premium and Category B brand is Rs50/bag. RMX brands are RMX portfolio includes the Concreto, Instamix, Artiste and X-Con product ranges. Modern Building Material products are marketed and sold under the "Zero M" and "Instamix" brands.

Cement plant Utilization at ~73% in North and 79% in East has scope to increase

NVCL focusing on selling high margin (FY21 EBITDA margin at 20%) composite / slag cement and has target CT ratio of 1.9x over 2 years

Exhibit 1: NVCL Operational Parameters: 70% of the capacity in East India, 30% in North India

	FY19	FY20	FY21
CLINKER			
Clinker Capacity mtpa	8.1	8.1	11.6
Clinker Capacity region wise			
- East	58%	58%	70%
- North	42%	42%	30%
CEMENT			
Cement Capacity mtpa	13.6	14.0	22.3
Cement Capacity region wise			
- North	36%	35%	22%
- East	64%	65%	78%
Cement to Clinker Factor x			
- East	1.4	1.4	1.4
- North	1.9	2.0	2.1
Sales Volume change yoy %	5%	0%	33%
UTILIZATION			
Plant Utilization %			
- Cement	93%	90%	78%
# North	86%	84%	73%
# East	97%	94%	79%
- Clinker	90%	90%	83%
FUEL / ENERGY			
Fuel mix			
- Coal	60	54	71
- Pet Coke	40	46	29
Owned Power Capacity MW		80.2	151.2
- CPP		62%	69%
- WHRS		37%	30%
- RES		1%	1%
Power contribution %			
- Captive Power	20%	33%	49%
- Purchased Power	80%	67%	51%

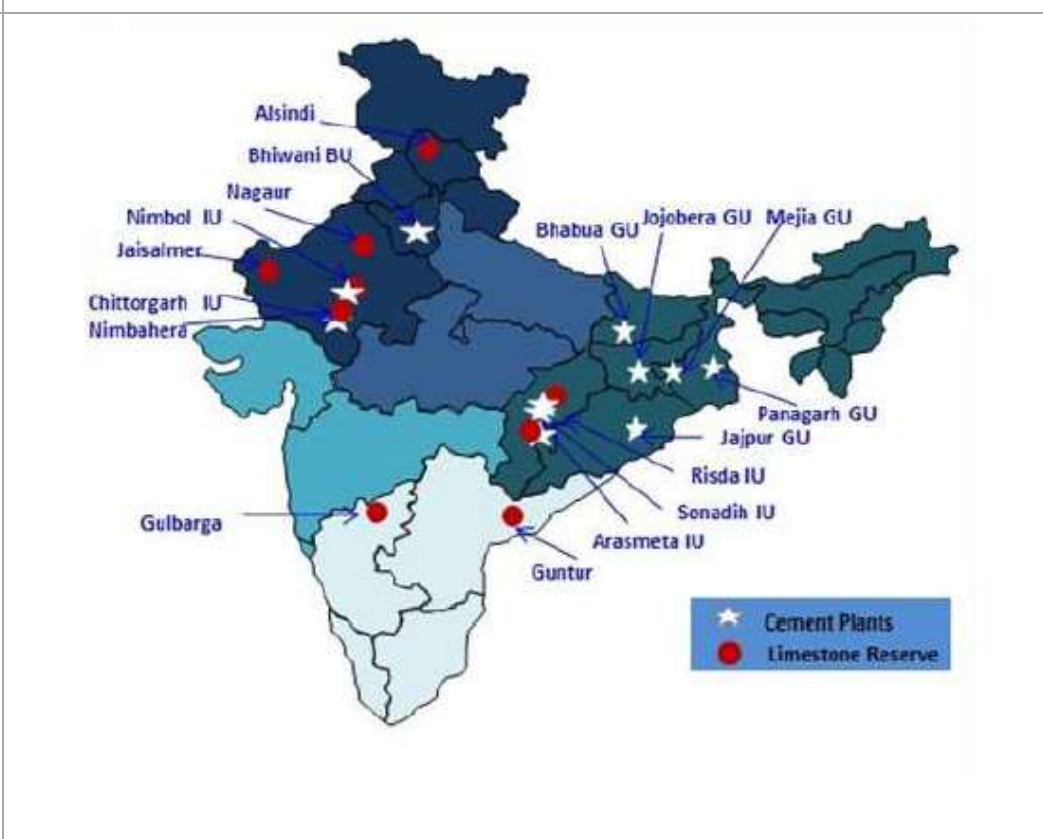
Source: RHP NVCL

Exhibit 2: Limestone reserves : 50% reserves are in operational status

Mine	Reserves mt	Status
Arasmeta	25	Operational
Chilhathi	150	Operational
Kirari	25	Operational
Sonadih	22	Operational
Sinla	15	Operational
Digrana	14	Operational
Sita Ram Ji Ka	65	Operational
Arniya Joshi	64	Operational
Chittapur	221	Operational
Risda	221	Operational
Arasmeta	14	Non - operational
Sonadih	157	Non - operational
Dhandhani	16	Non - operational
Nagaur	127	Non - operational
Nagaur	169	Non - operational
Tengada	392	Non - operational
Total	1696	
- Operational	822	
- Non - operational	874	

Source: RHP NVCL

Exhibit 3: Location of Cement Plants & limestone: In East and North



Source: RHP NVCL

Capacity expansion to increase cement capacity by 12% over FY21-23E to 25mtpa

Expansion plans: Trial run commenced for 1.5mtpa expansion

- NVCL is undertaking capacity expansion at Jojobera Cement Plant and is aiming to increase its capacity to 6.45 MT (from 5mtpa currently), and at Bhabua Cement Plant, to increase capacity to 2mtpa (from 0.8mtpa currently). Jojobera Cement has commenced trial operation.
- NVCL has option to undertake expansion in West India by utilizing limestone reserves in Chittapur and in Gulbarga Karnataka.
- NVCL intend to undertake clinker debottlenecking at some of its integrated units located at Risda, Nimbol and Sonadih, with the aim of increasing clinker capacity by at least 5% by FY23E. It expect to incur planned capital expenditures of Rs5,270mn in FY22E.

Exhibit 4: Expansion plans		
Plant	Proposed capacity expansion	Targeted time period
Jojobera Cement Plant (Cement)	1.50 mtpa	FY22
Bhabua Cement Plant (Cement)	1.20 mtpa	FY23

Source: RHP NVCL

Monetary impact of efficiency parameters is to improve EBITDA/t by 20%

Planned efficiency parameters to improve margin

- NVCL is implementing measures to optimize the regional sourcing of cement across plants in each of the core states of East India to leverage the presence of existing plants and the plants operating under NU Vista. Company is enhancing the capacity of plants to ensure it has 2mtpa production in each of core states.
- Its Implementing measures to ensure efficiency in the area of logistics by sourcing clinker on an integrated basis across Company and NU Vista. Benefit envisaged is Rs300-400mn
- Further, also implementing clinker rerouting, where the clinker from Risda Cement Plant will be moved via Sonadih Cement Plant railhead to NU Vista’s grinding units, which will eliminate additional handling charges and reduce overall cost and increase profitability of this unit. Lead distance reduction benefit envisaged is Rs50/t
- NVCL is in the process of business integration at various levels focused on its employees and business processes, to ensure uniformity and rationalization of products and services.

Balance Sheet/leverage: Currently it's stretched and plans to tame it down

- NVCL has net debt is Rs67bn and Net Debt/EBITDA of ~4.5x as on FY21 and it intends to use the proceeds from the Fresh Issue and utilize internal Cash flows to reduce the Net /Debt to 1.2x in less than 2 years.

NVCL seeking Valuation at 10x FY23EV/EBITDA

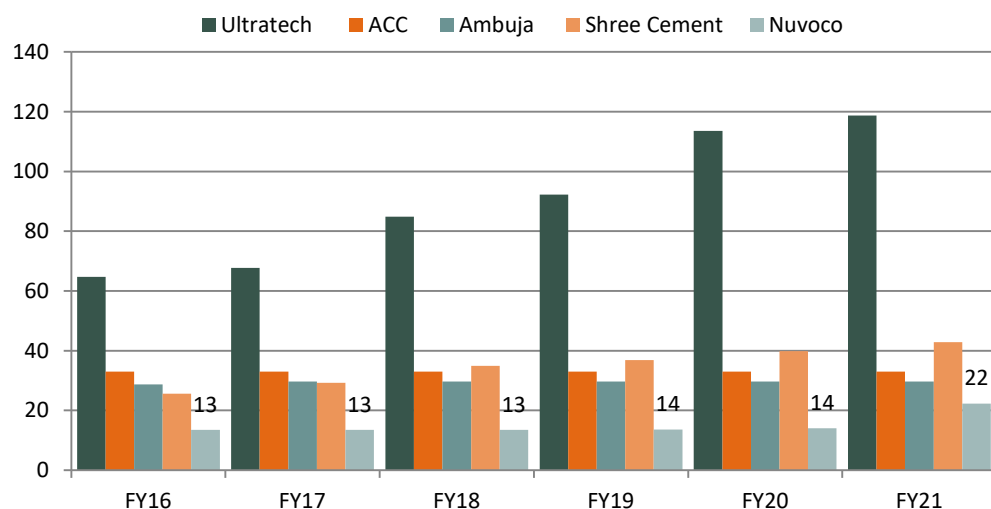
- We understand, NVCL could report EBITDA of Rs25bn in FY23E from Rs15bn in FY21 and this will be driven by volume increase (CAGR of 11% over FY21-23E) and EBITDA margin improvement of Rs330/t over FY21-23E.
- By FY23E, including fresh issue and FCF, NVCL debt could reduce to Rs31bn and Net Debt / EBITDA to 1.2x
- Based on our working below, NVCL is seeking valuation of ~10x FY23E EV/EBITDA.

Exhibit 5: NVCL financial model

	FY21	FY22E	FY23E	FY24E
Cement Capacity mt	22.3	23.8	25.0	25.0
Utilization %	75%	80%	83%	89%
Sales mt	16.8	19.2	20.7	22.3
Change yoy, %		14%	8%	8%
EBITDA Rs/t	869	1,043	1,200	1,380
EBITDA Rs mn	14,605	19,980	24,815	30,820
FCF Rs mn	14,313	11,688	12,523	14,528
Net Debt Rs mn	67,300	42,112	29,590	15,062
Net Debt/EBITDA x	4.5	2.1	1.2	0.5
Mkt Cap Rs mn	203,579			
FY23E EV/EBITDA x	9.9			
FY23E EV/t (USD)	131			

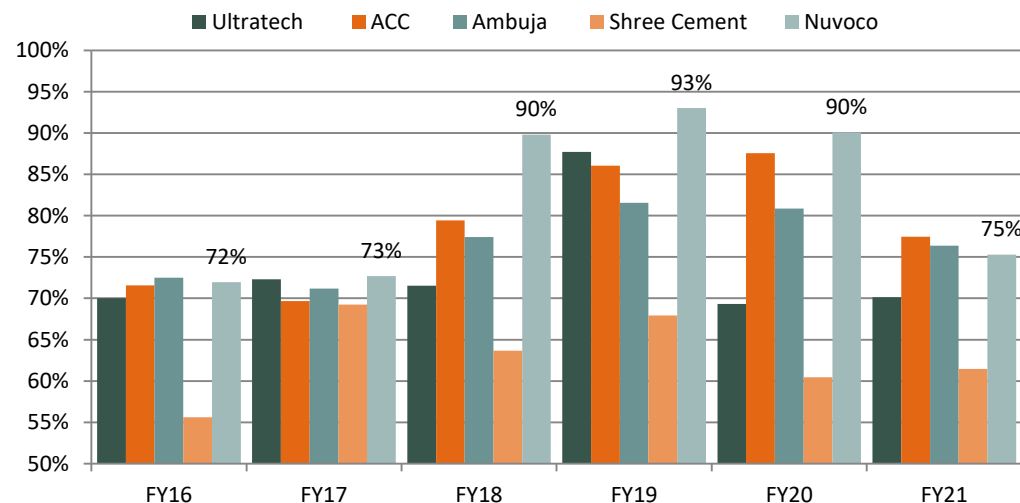
Source: RHP NVCL, IDBI Capital Market

Exhibit 6: Cement capacity mt: NVCL 5th largest cement company



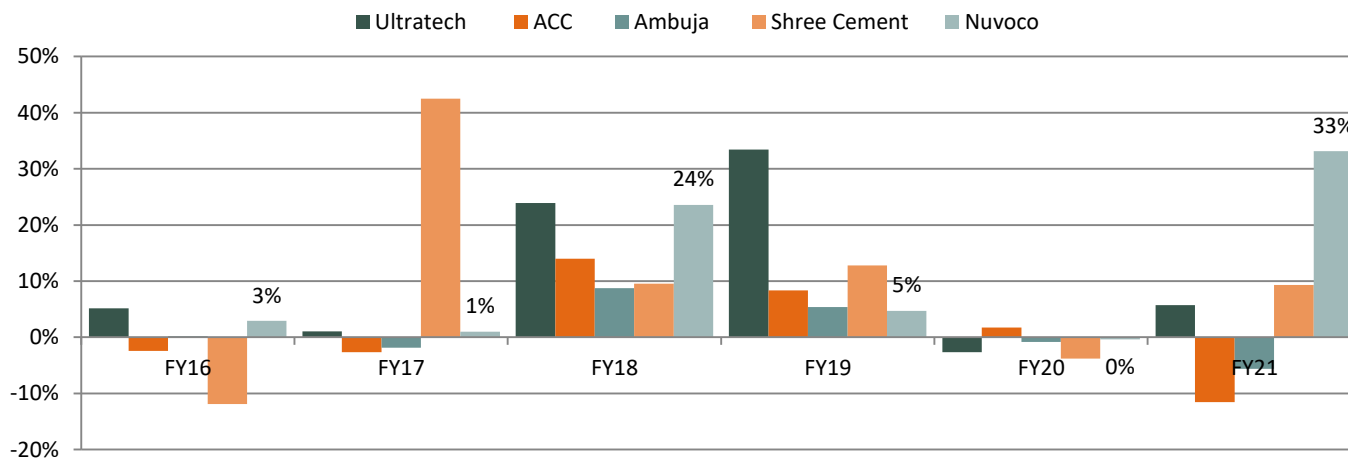
Source: Company, RHP NVCL, ACC and Ambuja calendar year company and thus FY16 is CY15

Exhibit 7: Utilization %: NVCL is in line with peers



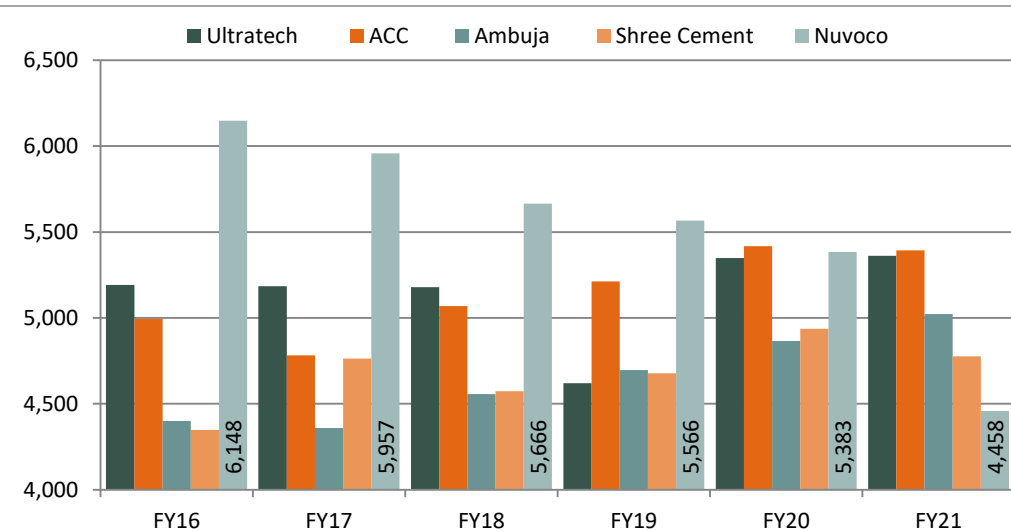
Source: Company, RHP NVCL, ACC and Ambuja calendar year company and thus FY16 is CY15

Exhibit 8: Peers sales volume growth (yoy, %): NVCL volume gr in FY21 driven by acquisition (capacity increased by 59% YoY in FY21)



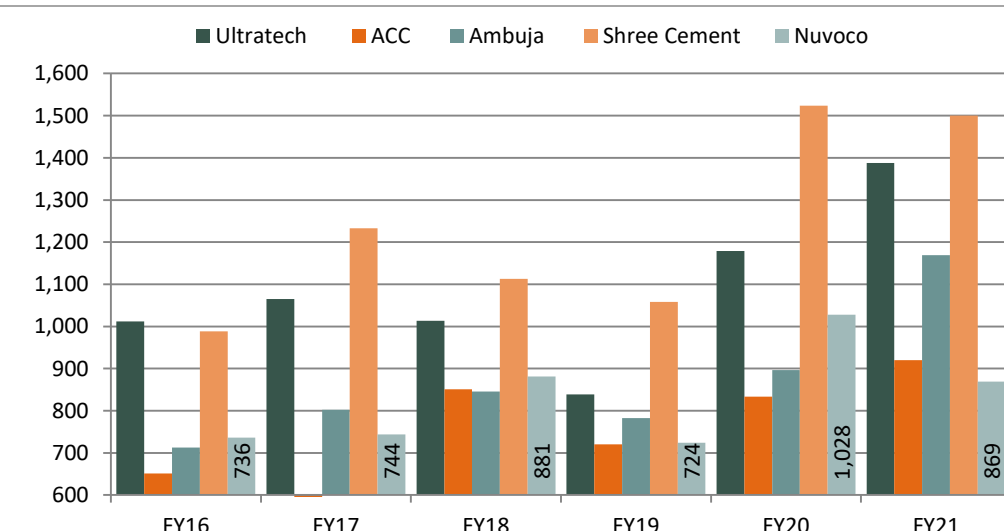
Source: Company, RHP NVCL, ACC and Ambuja calendar year company and thus FY16 is CY15

Exhibit 9: Peers realization trend Rs/t



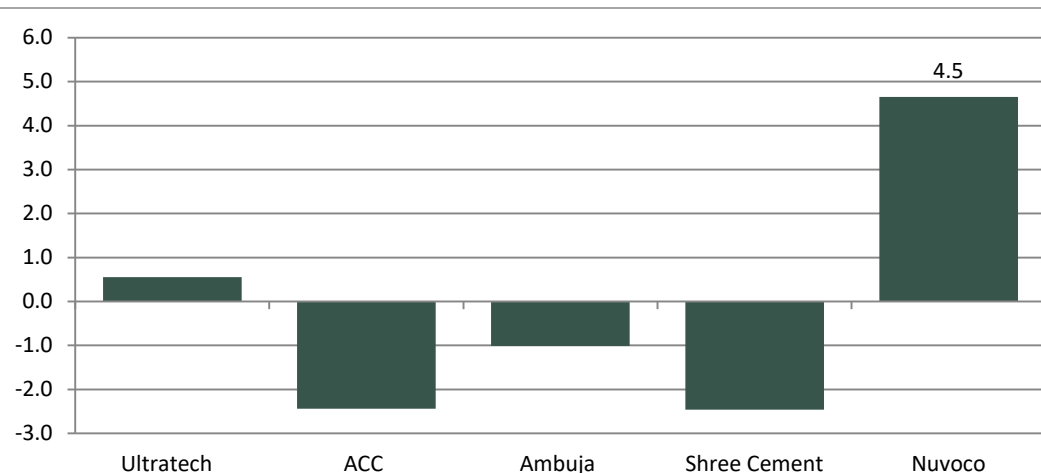
Source: Company, RHP NVCL, ACC and Ambuja calendar year company and thus FY16 is CY15

Exhibit 10: EBITDA trend Rs/t: NVCL is Lower than peers



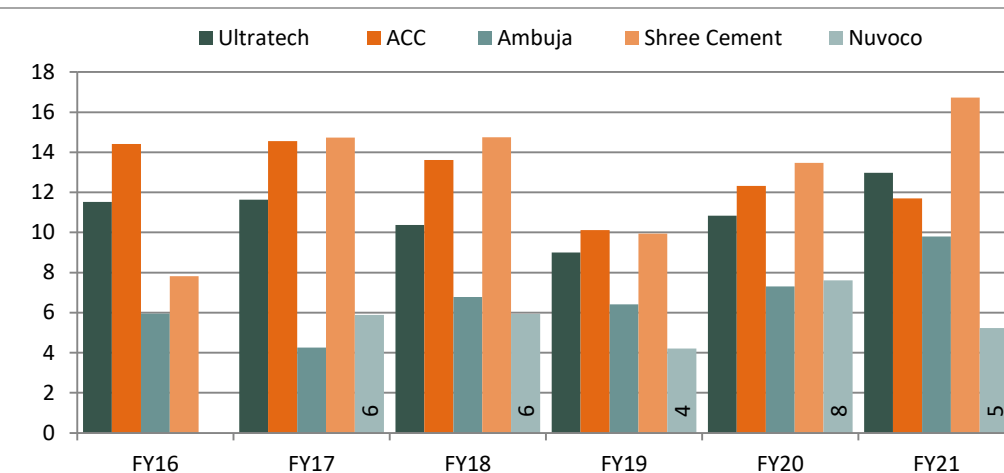
Source: Company, RHP NVCL, ACC and Ambuja calendar year company and thus FY16 is CY15

Exhibit 11: FY21 Net Debt/EBITDA (x) : NVCL one of the highest due to acquisition



Source: Company, RHP NVCL, ACC and Ambuja calendar year company and thus FY16 is CY15

Exhibit 12: ROCE trend (%): NVCL is lower due to leverage



Source: Company, RHP NVCL, ACC and Ambuja calendar year company and thus FY16 is CY15

Risks and Concerns on NVCL business

- Concentration of revenue profile in the east region
- Increase in fuel cost with no commensurate increase in the selling price
- Debt and leverage in the books
- Low Return ratio's

Exhibit 13: Major events and milestones

1999	Company commenced its operations with the acquisition of the cement business of the Tata Iron and Steel Company Limited, including the Jojobera Cement Plant and Sonadih Cement Plant
2000	Company acquired the cement business of Raymond Limited, including the Arasmeta Cement Plant
2008	Company (through an erstwhile group entity) acquired the ready-mix concrete business of Larsen & Toubro Limited
2009	Company commissioned a new clinker line at the Sonadih Cement Plant. Company commenced operations at the Mejia Cement Plant
2012	Inauguration of Construction Development & Innovation Centre (CDIC) at Mumbai, Maharashtra
2013	Company commenced operations at the Chittorgarh Cement Plant
2014	Company commenced operations at the Bhiwani Cement Plant
2015	Company commenced the supply of concrete to the metro railway project at Noida, Uttar Pradesh
2016	Nirchem Cement Limited, an erstwhile wholly-owned subsidiary of Nirma Limited, acquired all the Equity Shares held by Lafarge group in our Company. Lafarge group capacity of 11mtpa at EV of Rs94bn (USD125/t)
2017	Company was changed to "Nuvoco Vistas Corporation Limited. commenced the supply of concrete to the metro railway project at Mumbai, Maharashtra
2019	Commissioned its first captive power plant and waste heat recovery power plant in the Chittorgarh Cement Plant
2020	Acquired NU Vista as a wholly-owned subsidiary which has 8.3mtpa of cement capacity at EV of Rs55bn (USD95/t). Cement undertaking of Nirma Limited located at Nimbol, Rajasthan was amalgamated with company

Source: RHP NVCL

Exhibit 14: Management profile

Name	Designation	Profile
Hiren Patel	Chairman and Non-executive Director.	He holds a bachelor's degree in engineering from Stevens Institute of Technology, New Jersey, USA and a master's degree in business administration from Drexel University, Pennsylvania, USA. He has been associated with the Nirma group since the year 1997. He has experience in the cement, consumer goods, chemicals and health care industry.
Jayakumar Krishnaswamy	Managing Director	He has been on the Board since September 17, 2018. He is responsible for the cement, RMX and modern building materials divisions of Company. He holds a bachelor's degree in engineering (mechanical) from the University of Delhi. He has experience across FMCG, paint, and coating industry. He has previously been associated with Hindustan Unilever Limited and Akzo Nobel India Limited.
Maneesh Agrawal	CFO	He holds a bachelor's degree in commerce from Hansraj College, University of Delhi. He is a qualified chartered accountant. He joined Company as Chief Financial Officer with effect from October 10, 2017. He has over two decades of experience primarily in cement, RMX and paper businesses. He has previously been associated with Dalmia Bharat Limited and Ballarpur Industries Limited.
Ashish Palod	Chief Procurement Officer	He holds a bachelor's degree in engineering (electronic engineering) from Nagpur University and a master's degree in business administration from Jadavpur University. He has also completed a post graduate program in management for senior executives from Indian School of Business, Hyderabad. He joined Company in the 2004 and was appointed as the Chief Procurement Officer with effect from August 2019.
Madhumita Basu	Chief Strategy & Marketing Officer	She holds a bachelor's degree in commerce and a master's degree in management studies from the University of Bombay. She joined Company in the year 2010 as senior vice president – marketing and was appointed as the Chief Strategy & Marketing Officer with effect from July 1, 2020. She has previously been associated with Chloride Industries, Exide Industries and Eveready Industries India Limited.
Raakesh Jain	Chief Sales Officer (cement)	He holds a bachelor's degree in commerce from Devi Ahilya University, Indore and a master's degree in management studies from Vikram University, Ujjain. He joined Company in the year 2007 and was appointed as Chief Sales Officer (cement) with effect from November 23, 2018. He has previously been associated with Grasim Industries Limited (white cement division), Indian Rayon and Industries Limited (currently known as Aditya Birla Nuvo Limited) (white cement division) and Dhar Cement Limited..
Sanjay Joshi	Chief Manufacturing Officer	He holds a bachelor's degree in engineering (electronics and power engineering) from Nagpur University. He joined Company as Chief Manufacturing Officer with effect from December 10, 2018. He has previously been associated with Larsen & Toubro, Thermax, Tata Iron and Steel Company Limited (later acquired by Lafarge India Private Limited) and Century Textiles & Industries Limited (cement division).
Prashant Jha	Chief of RMX	He has completed his bachelor's in engineering (civil) from Regional Engineering College, Silchar (currently known as NIT, Silchar). He has received certification in concrete technology and construction from City and Guilds of London Institute. He joined Company as the Chief of Concrete & Aggregates with effect from February 1, 2019. He has previously been associated with Sika India Private Limited, Orkla India Private Limited, RMC Readymix (India) Limited, Unitech Pre-fab Limited and Banka (India) Limited

Source: RHP NVCL

Financial Summary - Consolidated

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20	FY21
Net sales	66,524	70,521	67,932	74,888
<i>growth (%)</i>	29.0	6.0	(3.7)	10.2
Operating expenses	(55,861)	(61,345)	(54,961)	(60,283)
EBITDA	10,663	9,177	12,971	14,605
<i>growth (%)</i>	46.4	-13.9	41.4	12.6
Depreciation	(4,849)	(4,979)	(5,279)	(7,938)
EBIT	5,814	4,198	7,693	6,667
Interest paid	(4,755)	(4,569)	(4,192)	(6,640)
Other income	562	538	367	339
Pre-tax profit	1,621	166	3,868	365
Tax	(745)	(431)	(1,375)	(625)
<i>Effective tax rate (%)</i>	46.0	259.6	35.6	170.9
Minority Interest	-	-	-	-
Net profit	875	(265)	2,493	(259)
Exceptional items	-	-	-	-
Adjusted net profit	875	(265)	2,493	(259)
<i>growth (%)</i>	(47.2)	(130.3)	(1,041.0)	(110.4)
<i>Shares o/s (mn nos)</i>	257	257	257	257

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY18	FY19	FY20	FY21
Pre-tax profit	1,621	166	3,868	365
Depreciation	4,849	4,979	5,279	7,938
Tax paid	(909)	(165)	(1,002)	(393)
Chg in working capital	598	(242)	(2,009)	3,045
Other operating activities	4,022	3,862	4,113	6,218
Cash flow from operations (a)	10,181	8,601	10,248	17,174
Capital expenditure	(2,687)	(5,808)	(7,995)	(2,861)
Chg in investments	(3,914)	4,182	4,755	(26,467)
Other investing activities	79	140	(2,162)	2,743
Cash flow from investing (b)	(6,522)	(1,486)	(3,101)	(29,241)
Equity raised/(repaid)	-	-	-	21,000
Debt raised/(repaid)	(724)	(4,000)	(2,200)	88
Dividend (incl. tax)	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(3,325)	(2,468)	(3,391)	(6,891)
Net chg in cash (a+b+c)	(4,048)	(6,468)	(5,591)	14,197

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20	FY21
Net fixed assets	63,990	66,694	68,678	1,05,600
Investments	13,648	10,375	5,803	11,722
Other non-curr assets	41,797	40,181	39,906	60,473
Current assets	13,603	15,367	20,056	21,280
Inventories	5,558	5,847	6,030	7,124
Sundry Debtors	4,210	4,999	5,110	4,539
Cash and Bank	336	983	2,539	4,931
Marketable Securities	253	264	2,570	347
Loans and advances	11	17	24	42
Total assets	1,33,038	1,32,617	1,34,443	1,99,076
Shareholders' funds	48,235	49,883	52,793	73,237
Share capital	1,500	2,000	2,424	3,151
Reserves & surplus	46,735	47,883	50,369	70,086
Total Debt	50,052	46,259	44,633	76,420
Secured loans	50,052	46,259	38,020	74,442
Unsecured loans	-	-	6,613	1,978
Other liabilities	14,962	14,896	15,283	20,347
Curr Liab & prov	19,788	21,579	21,735	29,071
Current liabilities	16,198	17,811	17,830	23,946
Provisions	3,590	3,768	3,906	5,126
Total liabilities	84,803	82,734	81,651	1,25,838
Total equity & liabilities	1,33,038	1,32,617	1,34,443	1,99,076
Book Value (Rs)	188	194	206	285

Source: Company, RHP NVCL

Financial Ratios

Year-end: Dec.	FY18	FY19	FY20	FY21
Adj EPS (Rs)	3.4	(1.0)	9.7	(1.0)
<i>EBITDA margin (%)</i>	16.0	13.0	19.1	19.5
<i>Pre-tax margin (%)</i>	2.4	0.2	5.7	0.5
<i>ROE (%)</i>	2.0	(0.5)	4.9	(0.4)
<i>ROCE (%)</i>	5.6	3.7	6.9	4.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.5	0.5	0.5	0.4
Leverage factor (x)	2.8	2.7	2.6	2.6
<i>Net margin (%)</i>	1.3	(0.4)	3.7	(0.3)
Net Debt/Equity (x)	1.0	0.9	0.7	1.0
Working Capital & Liquidity ratio				
Inventory days	30	30	32	35
Receivable days	23	26	27	22
Payable days	46	46	52	55

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	167.0	na	58.7	na
Price / Book value (x)	3.0	2.9	2.8	2.0
PCE (x)	25.5	31.0	18.8	19.0
EV / Net sales (x)	2.9	2.7	2.7	2.9
EV / EBITDA (x)	-	-	-	18.6
<i>Dividend Yield (%)</i>	-	-	-	-



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

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