

Nuvoco Vistas Corporation Limited



Nuvoco Vistas Corporation Limited

Issue Opens On
August 9, 2021

Issue Closes On
August 11, 2021

Price Band (INR)
560-570

Issue Size (INR Cr)
5,000

Rating
SUBSCRIBE

Nuvoco Vistas Corporation Ltd or NVCL is India's leading cement manufacturing company. It is the 5th largest cement company in India and the largest cement company in East India in terms of capacity. NVCL is amongst the fastest growing cement company in terms of capacity addition on percentage terms with installed capacity doubling over the last 5 years post the acquisition of NU Vista. It owns 11 cement plants (8 in East India and 3 in North India). NVCL holds a decent position in cement production capacity terms approximately 4.2% of total cement capacity in India, 17% of total cement capacity in East India and 5% of total cement capacity in North India, and they are one of the leading Ready-Mix Concrete ("RMX") manufacturers in India. It operates through a range of distribution channels and direct sales to improve their reach to customers.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	8,77,19,297
Net offer (# shares)	8,77,19,297
Price band (INR)	560-570
Post issue MCAP (INR Cr.)	20,358

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	August 11 th , 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 17 th Aug 2021
Initiation of Refunds	On or about 18 th Aug 2021
Credit of Equity Shares to Demat accounts	On or about 20 th Aug 2021
Commencement of Trading of Equity shares on NSE	On or about 23 rd Aug 2021

Source: IPO Prospectus

Issue	# Shares	INR in Cr	%
QIB	43,85,9648	2,500	50%
NIB	13,157,895	750	15%
Retail	30,701,754	1,750	35%
Net Offer	8,77,19,297	5,000	100%

Source: IPO Prospectus

Objects of the Offer: Fresh Issue (INR 1,500 Cr.) and Offer for Sale (INR 3,500 Cr.)		
Repayment/prepayment/redemption of certain borrowings (INR 1,350 Cr.)		
General corporate purposes [●]		
62,500,000 Equity shares by Niyogi Enterprise Pvt Ltd (INR Rs 3,500 Cr.)		
Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	95.24%	71.03%
Others	4.76%	28.97%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Cr)	FY19	FY20	FY21
Revenue	7,052	6,793	7,489
EBITDA	971	1334	1494
EBITDA Margin	13.67%	19.53%	19.86%
PAT	(26.49)	249	(25.92)
PAT Margin	-	3.65%	-
Net Worth	5,127	5,415	6,959
RONW	-	4.72%	-

Source: IPO Prospectus

Nuvoco Vistas Corporation Limited

Company Overview

Nuvoco Vistas Corporation Ltd or NVCL is promoted by Dr. Karsanbhai K. Patel, who is a successful entrepreneur and is associated with the Nirma Group. The Nirma Group is a diversified conglomerate that manufactures products ranging from chemicals to detergents, soaps, healthcare products and real estate development. The Nirma Group forayed into the cement business in 2014 through a greenfield cement plant in Nimbol. It has successfully been able to grow the cement business through acquisitions such as the acquisition of the Indian cement business of LafargeHolcim in 2016 and in 2020 by acquiring NU Vista. It is the fifth largest cement company in India and the largest cement company in East India in terms of capacity. Its cement plants are in the states of West Bengal, Bihar, Odisha, Chhattisgarh and Jharkhand in East India and Rajasthan and Haryana in North India, while RMX Plants are located across India. As of December 31, 2020, Cement Plants have an installed capacity of 22.32 MMTPA. Its eight Cement Plants are located in East India and three in North India. 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.

NVCL distributes its products through the trade segment, which mainly caters to individual home buyers (“Trade Segment”), and the non-trade segment, which is mainly via direct sales to institutional and bulk buyers (“Nontrade Segment”). Its focus remains on trade segment where its distribution channels are a mix of wholesale and retail dealers and a sub-dealer network. It operates through a range of distribution channels and direct sales to improve the reach to customers. As at December 31, 2020, it had 225 CFAs (147 in East India and 78 in North India) and 15,969 dealers in India (10,040 in East India and 5,929 in North India).

Its cement plants are strategically located with road and rail connectivity to the key markets of East India and North India. Its plants are also located in proximity to the limestone reserves and other raw materials, such as slag and fly ash. It becomes easy to transport clinker from its integrated Cement Plants to the grinding units via rail and road. Gypsum, coal, slag and pet coke, which are essential raw materials for the manufacture of cement and generation of power for its captive power plants, are sourced via rail and road. NVCL has captive railway sidings at six of our plants, these give the company a significant competitive advantage in transporting raw materials and finished products from these plants.

It offers a range of over 50 products across cement, RMX and modern building materials under diversified portfolio as follows.

<p>Cement</p>	<p>NVCL's cement portfolio includes different types of Cement like Ordinary Portland Cement (OPC), Portland Slag Cement (PSC), Portland Pozzolana Cement (PPC) and Portland Composite Cement (PCC). They have leading brands with multiple products under each brand including Concreto, Duraguard, Premium Slag Cement, Nirmax, Double Bull, Infracem and Procem. The key brands include Concreto, Concreto Green, Duraguard, Duraguard Microfiber, Duraguard Waterseal, Duraguard Silver, Duraguard Rapidx Xtra, Premium Slag Cement, Nirmax Cement, Infracem Cement, Double Bull Cement, Procem Cement, Double Bull Master and Double Bull Subh. After being launched in 2004 Concreto has been one of the best-selling brands for the company. While Concreto and Duraguard are market leaders in terms of cement prices in the respective segment as well as regions.</p>
<p>Ready Mix Concrete (RMX)</p>	<p>The brand portfolio includes Concreto, Instamix, Artiste and X-Con range of products. This portfolio includes products such as self-compacting concrete, decorative concrete, ready-to-use concrete, crack-resistant concrete, concrete with steel fibers, and lean concrete, as well as concrete with varied characteristics for specialty uses.</p>
<p>Modern Building materials</p>	<p>The modern building material products are a key differentiator for the company. Their suite of products under this category include a range of construction chemicals, tile adhesives, wall putty, dry plaster, cover blocks and ready-mix dry concrete. Their modern building material products are marketed and sold under the “Zero M” and “Instamix” brands.</p>

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Management

Hiren Patel, Chairman and Non-executive Director

He has been on the Board since November 11, 2017. 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. He is presently the managing director of Nirma Ltd.

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 the company. He has experience across FMCG and paint and coating industry.

Maneesh Agrawal, Chief Financial Officer

He joined the company with effect from October 10, 2017. He is responsible for the overall finance and information management functions of the cement, RMX and modern building materials divisions of the company. He has over two decades of experience primarily in cement, RMX and paper businesses.

Shruta Sanghavi, Company Secretary and Compliance Officer

She is responsible for secretarial functions of the company. She has experience in agro-chemicals, automobile, and logistics industries.

Sanjay Joshi, Chief Manufacturing Officer

He joined the company w.e.f. December 10, 2018. He is responsible for the manufacturing function for the cement and RMX business line of the company.

INVESTMENT RATIONALE

Leader in fastest growing region:

NVCL is a leader in eastern part of India. After its establishment overall it has increased its capacity from 2.5mtpa in FY16 to 22.32 mtpa in FY21 by way of inorganic growth. This, coupled with their extensive distribution network in East India, provides them with an opportunity to further consolidate and enhance their position in this key market. As of March 31, 2021, their ratio of Trade Segment sales to Non-trade Segment sales in East India was 76:24, in Central India was 79.21 and in North India was 56.44, which allows them to achieve higher sales volumes and improved margins. Their sales to the Trade Segment allow them to achieve high volume sales, thereby ensuring high capacity utilisation of their plants and ensuring steady cash flows.

Strategically located cement production facilities:

NVCL's most of their plants are located in East and North India. They have 3 integrated units and 5 grinding units located in East India, and 2 integrated units and 1 blending unit located in North India. Such connectivity of raw material helps them save on cost and allows them to effectively sell and market their products. Their additional grinding capacity in West Bengal will target demand from the high-growth markets in the North East region of India.

Nu Vista acquisition to drive synergy benefits:

Nu Vista was acquired recently which is a cement arm of Emami group. It is the fastest growing cement company in terms of capacity addition on percentage terms with installed capacity doubling over the last 5 years post the acquisition of NU Vista. This deal has brought in lot of synergies to the company and should augur well in the future. The inclusion of its brand "Double Bull Cement" and its variants in their brand portfolio has supported NVCL's growth. On operational front Nu Vista has also been EBITDA positive.

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Long term Strategies:

Target central and west India:

NVCL is ready to capitalize on the increasing demand with the government's Infra push. While the cement industry as a whole is expected to grow at 4-5% in coming years, Nuvoco is expected to witness continuous demand growth at a higher rate because of its penetration into newer regions. It has access to high growth markets and plans to expand its share further. In addition, their Cement Plants in Chhattisgarh and Rajasthan are ideally placed to serve the adjacent markets of Uttar Pradesh and Madhya Pradesh in Central India and Maharashtra in West India respectively. It also has plans to undertake expansion in West India by utilizing limestone reserves in Chittapur and in Gulbarga Karnataka.

Expansion plans on cards:

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. While its peers are adding up new clinker capacities in the east, NVCL is doing cement capacity expansion in tune with recovery in demand. Such development will increase its capacity by 12% over FY21-23E to 25mtpa.

Focus on penetration with premium brands:

NVCL's expansion plan is largely on track. Concreto being one of its most running and premium category brands, it is poised to gain market share with more penetration in newer market regions. Its continuous efforts to identify gaps and introduce new products particularly targeting new geographies should augur well going ahead. Also its desire to extend the range of modern building materials and value added products in RMX business will help the topline as well as give an incremental push on the operational front.

Risks and Concerns:

Seasonal variations and cyclicalities:

The sales, volumes and prices for its products are influenced by the cyclicalities and seasonality of demand for these products. Halt or shutdown in operations in the real estate industry could result in lower construction activity and lower demand for cement products, which would affect the sales.

Denial for mine lease deed renewal:

Non commencement of operations within two years from the date of execution of the lease deed can result in state's government denial to its application.

Rise in freight and fuel cost impacting the margins:

Fuel in the form of diesel and petrol for freight costs is also essential for the operations of our businesses. Non ownership of coal mines forces the company to purchase from domestic and international suppliers with a minimum contracted amount. Also Clinker to Cement ratio stands at 1.73x which is high above the industry standard.

Leverage on books:

They have a strong balance sheet, resulting in high capital structure flexibility. As of March 31, 2021, their net debt is Rs 6,730 Cr which increased from Rs 2,900 Cr on a YoY basis. Further, the use of the proceeds from the fresh issue will further reduce their total indebtedness but debt still remains arriving at the Net debt/Ebitda ratio of 4.5x which is high as compared to its large cap peers.

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Outlook and Valuation:

We believe NVCL IPO gives investors an opportunity to invest in leading cement manufacturer who has a highest market share in east India. It is the 5th largest cement company in India and the largest cement company in East India in terms of capacity. We assume NVCL is well positioned to tap the increasing demand in north and west part of India followed by its focus in central region. We are also optimistic about the sector and expect opportunities to scale up with governments continuous push for infrastructure sector. Also considering its range of distribution channels and direct sales to improve their reach to customers, NVCL stands well to get the favourable and supportive Industry growth to drive sustainable business as well as profitable growth in the medium to long-term with its well-diversified product portfolio and focus on premiumisation. Net debt/ EBITDA stands high at 4.5x which will come down with their objective of repayment through IPO proceeds. Hence On valuations parse at upper price band (Rs 570/-), the issue is asking for a market cap of Rs 20,358 Cr with P/BV at 2x FY21. On EV/EBITDA front it is still trading at a discount to most of its large cap peers at 15x-19x FY22E EV/EBITDA and on operational front it stands better at 19% margins against industry margins of 14-16%. The smart acquisition of Nu Vista from Emami group would remain our focus to rerate our view on the company. Thus, considering all the above factors we recommend to invest for long term investment.

Peer Comparison:

Company Name	CMP (INR)	Sales (INR Cr)	Mkt Cap * (INR Cr)	EPS (INR)^	P/E (x)*	RoNW (%)
Nuvoco Vistas Corp Ltd	570	7,522	20,358	(0.82)	-	-
Ultratech Cement Ltd	7,551	45,460	2,17,978	189.33	33.6	12.36%
Shree Cement Ltd	28,536	13,942	1,02,960	633.54	45.20	14.82%
Ambuja Cement Ltd	403	24,966	80,061	11.91	25.4	10.68%

Source: IPO Prospectus, * Estimated at the upper band price of INR 570

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Financials:

Income Statement (INR Cr)	FY19	FY20	FY21
Total Revenue from Operations	7,052	6,793	7,489
EBITDA	918	1,297	1,461
EBITDA Margin (%)	13.02%	19.09%	19.51%
Other Income	54	37	34
Depreciation	498	528	794
EBIT	474	806	701
Interest expense	457	419	664
Exceptional Item	-	-	-
PBT	17	387	37
Tax	43	137	63
Share of Profit / MI	-	-	-
PAT	(26)	250	(26)
EPS (INR)	(1.09)	10.28	(0.82)

Cash flow Statement (INR Cr)	FY19	FY20	FY21
Net cash flow from operating activities	860	1,025	1,717
Net cash flow used in investing activities	(149)	(310)	(2,924)
Net cash flow generated from / (used in) in financing activities	(647)	(559)	1,420
Net increase / (decrease) in cash and cash equivalents	65	156	213
Opening Cash and cash equivalents	34	99	254
Closing Cash and cash equivalents	99	254	493

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Balance Sheet (INR Cr)	FY19	FY20	FY21
ASSETS			
Fixed Assets	6065	6221	9324
Capital work-in-progress	605	647	1236
Investment property	1	1	1
Goodwill	2444	2444	3278
other intangible assets	1276	1203	2109
Right of use asset	109	103	329
Financial assets	581	579	789
Income tax assets	113	134	133
Other non current assets	63	107	191
Non Current Assets	11257	11439	17390
Inventories	585	603	712
Investments	456	0	384
Trade Receivables	500	511	454
Cash & Bank	125	511	528
Loans	1	2	2.6
other financial assets	184	258	210
Income tax assets	12	1	2
Other current assets	142	120	220
Current assets	2005	2006	2512
Total Assets	13261	13445	19901
Equity Share Capital	200	242	315
Reserves	4788	5037	7009
Net Worth	4988	5279	7324
Borrowings	3318	2931	5561
Financial liabilities	97	87	152
Provisions	61	70	81
Deferred tax liabilities	1393	1442	1881
Other non current liabilities	0	0	2
Non Current Liabilities	9857	9809	15001
Borrowings	0	661	198
Trade payables	765	786	908
other current financial liabilities	1897	1533	2795
Provisions	426	322	431
other Current Liabilities	316	334	569
Total Equity and Liabilities	13261	13445	19901

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ANALYST CERTIFICATION:

I, Kushal Shah, Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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