NUVOCO VISTAS: REPAYING DEBT

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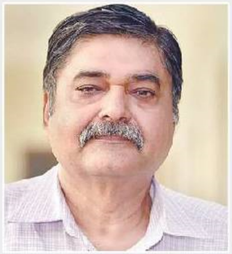
Nuvoco Vistas Corporation Ltd is tapping the capital market with its fresh issue for Rs1,500 crore and an offer for sale (OFS) of Rs 3,500 crore. The price band is in the range of Rs 560-570. The issue opens on Monday (August 9)and closes on Friday (August 11). The company on Friday allotted 263.15 lakh equity shares to 36 Anchor investors comprising 66 entities at Rs 570 per share. The highest allocation was made to State Bank of India (SBI), which was allotted 9.9 per cent of the anchor book through five entities. SBI Life Insurance was allotted 8.7 per cent of the anchor book.

The company is into the business of cement manufacturing and has grown to become the fifth largest cement player in the country and the largest in Eastern India. The current capacity is 22.34 million tons per annum. They set up their first plant in Nimbol in Rajasthan in 2014. The company has pursued an aggressive acquisition strategy and acquired the cement business from LafargeHolcim and Emami group. Currently the company has 4.2 per cent of the country's cement capacity.

Besides manufacturing cement, Nuvoco Vistas is into the business of ready-mix concrete or RMX and has 49 plants across the country. They are into a third vertical as well which is modern building materials. While currently this is a very small segment of the business, this has the potential to increase rapidly and make the company a one stop shop and solutions provider.


Arun Kejriwal

In terms of key metrics, the company reported losses in two of the three years on a net basis. These were in FY19 and FY2021. These losses have happened primarily because of the fact that the company was integrating all its cement assets under one name and there were some costs associated with that merger. Further in FY21, the first quarter was a virtual wash out on account of Covid-19 and just costs were associated with it. EBITDA per ton of cement produced was in the region of Rs1,050. This would improve significantly going forward on three broad counts. Firstly, the business during the period April-June 2020 was hit badly on account of Covid-19 and plants were hardly working. Secondly, the WHRP (waste heat recovery plant) has been set up at two of the major plants and have now become fully operational. This would reduce power consumption and the biggest cost in cement manufacturing after raw material is power.

To improve efficiency and control costs, thereby increasing profitability, Nuvoco has been using steel slag, fly ash and recycling plastic. Measures to reduce water consumption have also been initiated. All of this is visible in the current year FY22 and would be reflected when the company declares results for April-June 22 quarter.

The company has 10 active limestone mines which are operational and have enough reserves for 30 years at present capacity. It is implementing an expansion of 2.7 million tons in the States of Chhattisgarh and Jharkhand. The capex for the current year FY22 would be around Rs 5,300 crore. The object of the issue is to repay the debt of the company. Post the issue and this repayment, the interest burden would reduce as well.

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The company would generate strong EBITDA post the completion of expansion and the better utilisation of capacity as post-Covid situation normalises. While on the face of it the company looks expensive when compared to its peers as it has a negative EPS, this would normalise as the quarterly results are announced.

Cement being a bricks and mortar story and looking at the growth in infrastructure whether it be roads and highways and ports, or be housing, it is increasing by leaps and bounds. Looking at the growth prospect, additional spend on infra creation and the fact that hardly any cement capex has been announced, it augurs well for investors with a medium- and longer-term approach. Investors may apply only for a minimum of a medium-term period. Listing gains may or may not be there.

(The author is the founder of Kejriwal Research and Investment Services, an advisory firm)