

Cement

Nuvoco emerges as SRA of Vadraj Cement

Nuvoco Vistas has emerged as the Successful Resolution Applicant (SRA) of Vadraj Cement under the Corporate Insolvency Resolution Process (CIRP). The consideration for the transaction is not known. However, assuming additional refurbishment capex, we estimate that the deal size at EV/tn is USD 65 on integrated capacity. The facility is likely to commence production around 3QFY27. The acquisition is likely to 1) increase cement capacity by 24% to 31mt to dispel concerns on volume growth over the medium term, and 2) provide regional diversification with share in West rising to 19% and exposure to the volatile East region reducing to 60% (vs. currently 74%). Payment for assets and additional capex will be gradual, funding of the assets will be the key monitorable to manage leverage positions (net debt at INR 45bn as of Sep'24).

- **Event:** Nuvoco Vistas has emerged as the Successful Resolution Applicant (SRA) of Vadraj Cement (erstwhile ABG Cement) under the Corporate Insolvency Resolution Process (CIRP). The resolution plan submitted by the company has been approved by the Committee of Creditors (CoC), and a Letter of Intent (LoI) has been issued. **The consideration for the transaction is not known. However, assuming additional refurbishment capex, we estimate that the deal size at EV/tn is USD 65 on integrated capacity.** The facility is likely to commence production around 3QFY27. The implementation of the resolution plan is subject to the terms of the LoI and requisite approvals from the NCLT.
- **Size of the Gujarat market:** The Gujarat state market is around 28-30mt p.a., with 23-25% of the requirement met from other states (especially Rajasthan). The market has grown in mid-single digits in the past few years. Nearly 60-65% of the market is OPC while 35-40% is PPC. Ultratech and Adani are the key brands with ~50% market share.
- **Rationale of the deal: +24% capacity addition on existing base/ growth potential/ regional diversification:** Nuvoco has clinker/ cement capacity of 13.5mt/ 25mt respectively with cement assets operating at >80% utilisation. Its capacity base will increase by 24% to ~31mt (fifth largest cement group), which should address concerns over volume growth in the medium term. Its current capacity mix stands around 75% in the East and 25% in the North. **This acquisition is expected to provide regional diversification with capacity mix in the West going up to 19% and mix in the highly volatile East reducing by 1,400bps to 60%.** The management mentioned that this acquisition represents a 'value buy' delivering substantial growth at one of the lowest cost/tn.
- **Profitability/ assets returns:** Assuming 1.35-1.4x CC ratio (in the best case), the company can produce peak volumes of 4.6mt. Assuming EBITDA/tn at INR 900-1,000 and D:E ratio at 70:30; it can generate RoCE of 8-9%. The said assets have not been in operation for the past few years, and selling of incremental 4-5mt volumes in Gujarat will be the key monitorable.
- **High leverage to remain a concern:** Net debt stands at INR 45bn as of Sep'24. **Though the payment for assets and additional capex will be gradual, funding of the assets will be the key monitorable to manage leverage positions.** The promoter stake stands at 72% as of Sep'24. The stock currently trades at consensus FY27E ~8x EV/E and EV/tn at USD 72.

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