

India Cements Ltd.



RESULT UPDATE

May 30, 2017

India Cements Ltd.

Amalgamation to bring in synergies!

CMP INR 188	Target INR 220	Potential Upside 17%	Market Cap (INR Mn) 57888	Recommendation BUY	Sector Cement
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Result highlights

•Total Sales stood at INR 15243 mn which was up by 16.1% y-o-y and 6.4% q-o-q. Volume growth stood at 1.75% y-o-y reaching 2.9 MT as against 2.85 MT last year (amalgamated basis). Lower volume growth was primarily on account of cash crunch due to demonetization, restrictions on sand availability and political issues in Tamil Nadu

•EBIDTA stood at INR 1913 mn which was down 8.8% y-o-y and 7.5% q-o-q and EBITDA margins declined by 342 bps y-o-y primarily due to higher power and fuel costs and transportation costs. PAT stood at INR 342 mn which was down by 32.8% y-o-y and up 11.1% q-o-q. Net profit was primarily down on y-o-y basis on account of exceptional one time gain of INR 115 mn in Q4FY16.

**y-o-y numbers strictly not comparable on account of amalgamation*

MARKET DATA

Shares outs (Mn)	307
EquityCap (INR Mn)	3072
Mkt Cap (INR Mn)	57888
52 Wk H/L (INR)	226/91
Volume Avg (3m K)	6261.9
Face Value (INR)	10
Bloomberg Code	ICEM IN

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18E	FY19E
Revenues	48335.30	57940.30	64178.98	70682.42
EBITDA	7975.40	8775.40	9824.01	11045.99
APAT	1299.50	1733.50	1989.89	2855.44
AEPS	4.23	5.64	6.48	9.30
P/E (x)	20.33	28.89	29.18	20.33
EV/EBITDA (x)	7.26	9.03	8.69	7.46

Source: Company, KRChoksey Research

Healthy volumes growth to continue:

India Cements Ltd (ICEM) delivered a muted volume growth of 1.75% Y-O-Y (amalgamated basis) in Q4FY17 on account of cash crunch due to demonetization, restrictions on availability of sand coupled with political issues in Tamil Nadu and volumes stood at 2.9 MT as against 2.85 MT in Q4FY16. Volumes for FY17 stood at 11.04 MT displaying a healthy growth of 10% Y-O-Y. Further, the company successfully completed amalgamation with Trinetra Cements Ltd during the quarter and the merger has resulted into bringing all the cement assets under ICEM. The merger is likely to bring in benefits in the form of providing flexibility in catering to different markets resulting into sustainable volume growth.

With pick up in execution of projects of affordable housing, PWD and development of Amaravati, we expect ICEM to clock a volume CAGR of 8.43% over FY17-FY19E and expect the volumes to reach 12.93 MT by FY19.

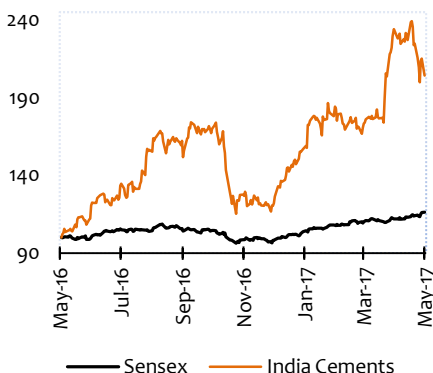
Margins to remain subdued:

The company posted an EBITDA of INR 1913 mn for Q4FY17 as against INR 2097 mn in Q4FY16 resulting into a de-growth of 8.8% Y-O-Y. EBITDA margins for the company stood at 12.5% in Q4FY17; a fall of 342 bps Y-O-Y. EBITDA margins declined primarily on account of higher power and fuel and freight costs. The company catered to different markets of Madhya Pradesh, Jharkhand, Orissa and West Bengal along with the Southern market resulting into higher lead distance and elevated freight costs.

We expect the margins to remain subdued over FY17-FY19E on account of consistent spike in pet-coke prices and high freight costs. We expect EBITDA/ton to increase from INR 783 in FY17 to INR 831 by FY19E and EBITDA to increase from INR 8775 mn to INR 11046 mn over the same period.

**y-o-y numbers strictly not comparable on account of amalgamation*

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	31109
NIFTY	9605

SHARE HOLDING PATTERN (%)

Particulars	Mar17	Dec 16	Sep16
Promoters	28.3	28.3	28.3
FIIIs	25.11	24.57	26.18
DIIIs	21.13	20.23	17.48
Others	25.46	26.89	28.03
Total	100	100	100

8.4%

Volume CAGR between FY 17 and FY 19E

10.4%

Revenue CAGR between FY 17 and FY 19E

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Valuation and Outlook:

The overall debt for the company reduced by INR 2340 mn on standalone level and stood at INR 29210 mn at the end of FY17. The company focuses on utilizing the free cash flow generation over FY17-FY19E into reducing its debt and maintenance capex. With an expected net debt of INR 24394.7 mn by FY19E, the company trades at an EV/EBITDA of 7.46x and EV/ton of \$79.

We expect the Southern region to grow at a robust pace of 7.7% over FY17-FY19E on account of pick up in execution of affordable housing projects, irrigation projects and development of Amaravati. On account of being the market leader in South, we believe the company will be the key beneficiary of uptick in cement demand in that belt.

On account of lower capex, healthy volume growth outlook, financial de-leveraging and sustainable margins; we value India Cements Ltd at an EV/EBITDA of 8x and EV/ton of \$90 on FY19E arriving at a target price of INR 220/share. **Maintain BUY.**

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Q4FY17 Result Snapshot

Particulars (Mn)	Q4FY17	Q3FY16	Q4FY16	Q-o-Q	Y-o-Y
Total Sales	15243	14332	13126	6.4%	16.1%
Total Expenditure	13330	12264	11029	8.7%	20.9%
Cost of Raw Materials	2140	2127	1836	0.6%	16.5%
Employee Cost	993	981	960	1.2%	3.4%
Power and Fuel Costs	3227	2730	2589	18.2%	24.7%
Transportation costs	3110	2795	2344	11.3%	32.7%
Other expenses	2070	1890	1720	9.5%	20.3%
Excise duty paid on sales	1790	1740	1580	2.9%	13.3%
PBIDT (Excl OI)	1913	2069	2097	-7.5%	-8.8%
EBITDA Margins (%)	12.5%	14.4%	16.0%	-189bps	-342bps
Depreciation	639	644	530	-0.7%	20.6%
EBIT & Exceptional Item	1274	1425	1567	-10.6%	-18.7%
Exceptional Items	0	0	-115	-	-100%
EBIT	1274	1425	1682	-10.6%	-24.3%
Interest	820	931	940	-11.9%	-12.8%
EBT	454	494	742	-8.2%	-38.9%
Tax	115	189	238	-39.3%	-51.7%
PAT	342	305	504	11.1%	-32.8%
PAT Margin (%)	2.2%	2.1%	3.84%	9bps	-162bps
EPS	1.10	0.99	1.64	11.1%	-32.8%

Source: Company, KRChoksey Research

Key takeaways from conference call:

- The cement production growth in Southern region stood at 6% Y-O-Y during FY17 as against an industry de-growth of 1.07%. However, the growth was flattish in South during Q4FY17 on account of cash crunch due to de-monetization, restrictions on sand availability and political issues in Tamil Nadu. Cement prices remain subdued during Jan-Feb 2017 coupled with a sharp recovery in April 2017. The management believes that implementation of GST will not have any adverse effects on cement volumes and prices.
- The company successfully completed the amalgamation with Trinetra Cements Ltd which will bring synergies in the form of flexibility in catering to different markets.
- Capacity utilization for the merged entity stood at 70% during the year and improvement in capacity utilization was achieved on the expense of higher lead distance. The company initiated to cater to markets of Madhya Pradesh, Jharkhand, Orissa and West Bengal along with the southern and western markets.
- The company reduced standalone debt of INR 2340 mn and consolidated debt of INR 1960 mn during FY17 and the current standalone debt stands at INR 29120 mn. The company doesn't intend to increase capacity until a mark of 80% capacity utilization is achieved on the current capacity. The free cash flow will be utilized in maintenance capex (~run rate of INR 2500 mn every year) and financial de-leveraging (~run rate of debt reduction of INR 1750 mn every year).
- Pet-coke usage stands at 73% of fuel mix with average pet-coke prices of \$70 during FY17 and \$88 during Q4FY17. The current pet-coke prices stand at an elevated level of \$100.
- The management believes affordable housing projects, construction of dams, irrigation projects and development of Amaravati to be the key growth drivers in the Southern region.

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Key Financials

Profit & Loss (INR Mn)	FY16	FY17	FY18E	FY19E
Total Sales	48335.3	57940.30	64178.98	70682.42
COGS	6763.7	8774.00	9651.40	10616.54
Employee Expenses	3431	3778.50	4043.00	4326.00
Power and fuel	9445.7	10597.40	12187.01	13649.45
Transportation cost	8703.3	11312.90	12354.45	13429.66
Other manufacturing expenses	12016.2	14702.1	16119.108	17614.78
EBITDA	7975.4	8775.40	9824.01	11045.99
D&A	2194.6	2570.60	3640.92	3763.54
Other income	0	0	0	0
EBIT	5781.4	6204.80	6183.09	7282.45
Interest Expense	3825	3604.60	3213.10	3020.60
PBT	1956.4	2600.20	2969.99	4261.85
Tax	624.9	866.70	980.10	1406.41
Effective tax rate	31.94%	33.33%	33.00%	33.00%
PAT	1299.5	1733.50	1989.89	2855.44

Source: Company, KRChoksey Research

Balance Sheet (INR Mn)	FY16	FY17	FY18E	FY19E
Equity Share Capital	3081.50	3081.50	3081.50	3081.50
Reserves	46727.70	48017.60	49700.29	52248.53
Net worth	49809.20	51099.10	52781.79	55330.03
Total loans	31540.00	29210.00	27460.00	24960.00
Capital Employed	83284	86357	83934	83914
Property, plant and equipment	71526.50	69488.40	68284.65	67521.11
Long term loans and advances	9107.50	8963.00	8963.00	8963.00
Inventories	5994.20	7450.00	7932.66	8725.92
Sundry debtors	5358.70	5088.80	7560.81	8326.97
Sundry creditors	10367.00	13180.20	13882.15	14834.07
Cash and bank	66.70	67.80	155.81	565.28
Total Current assets	13580.20	16986.00	20131.86	22165.80
Total Current liabilities	25641.60	23113.50	28585.51	29875.23
Capital Deployed	83284	86357	83934	83914

Source: Company, KRChoksey Research

Cash Flow (INR Mn)	FY18E	FY19E
PAT	1989.89	2855.44
Depreciation & Amortization	3640.92	3763.54
(Incr)/Decr in Working Capital	-1048.44	-402.30
Cash Flow from Operating	7795.48	9237.28
(Incr)/ Decr in Gross PP&E	-2437.17	-3000.00
Cash Flow from Investing	-2437.17	-3000.00
(Decr)/Incr in Debt	-1750.00	-2500.00
Dividend	-307.20	-307.20
Cash Flow from Financing	-5270.30	-5827.80
Incr/(Decr) in Balance Sheet Cash	88.01	409.48
Cash at the Start of the Year	67.80	155.81
Cash at the End of the Year	155.81	565.28

Source: Company, KRChoksey Research

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Ratio Analysis	FY16	FY17	FY18E	FY19E
EBITDA/ton	790.46	782.75	794.43	830.93
Volume (mn tons)	9.81	11.00	11.99	12.93
Growth (%)				
Total Sales	-15.63%	19.87%	10.77%	10.13%
EBITDA	1.59%	10.03%	11.95%	12.44%
PAT	4025.98%	33.40%	14.79%	43.50%
Profitability (%)				
EBITDA Margin	16.50%	15.15%	15.31%	15.63%
NPM	2.69%	2.99%	3.10%	4.04%
Return ratios				
ROE	2.61%	3.39%	3.77%	5.16%
ROCE	6.94%	7.19%	7.37%	8.68%
Per share data				
EPS	4.23	5.64	6.48	9.30
BPS	162.14	166.34	171.82	180.11
Valuations (x)				
P/E (x)	20.33	28.89	29.18	20.33
P/BV (x)	0.53	0.98	1.10	1.05
EV/EBITDA (x)	7.26	9.03	8.69	7.46
EV/Ton (\$)	55.75	76.28	82.20	79.40
Net Debt/EBITDA	3.95	3.32	2.78	2.21
Net Debt/Equity	0.63	0.57	0.52	0.44
Interest Coverage	1.51	1.72	1.92	2.41

Source: Company, KRChoksey Research

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India Cements Ltd.				Rating Legend		
Date	CMP (INR)		TP (INR)	Recommendation	Our Rating	Upside
30-May-17	188		220	BUY	Buy	More than 15%
30-Jan-17	145		190	BUY	Accumulate	5% – 15%
					Hold	0 – 5%
					Reduce	-5% – 0
					Sell	Less than – 5%

ANALYST CERTIFICATION:

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