

Institutional Equity Research

India Cements

Cement | India

1QFY18 Result Update | July 28, 2017

CMP* (Rs)	203
Upside/ (Downside) (%)	11
Bloomberg Ticker	ICEM IN
Market Cap. (Rs bn)	63
Free Float (%)	72
Shares O/S (mn)	308

BUY 

Target Price: Rs225

Lackadaisical Quarterly Show; Recovery Expected

India Cements (ICL) has reported a dismal operating performance in 1QFY18 despite firm realisation mainly owing to steep rise in operating cost. EBITDA came in at Rs1.86bn (-8% YoY and -2% QoQ) below our expectation of Rs2.1bn. EBITDA/tonne stood at Rs696 vs. Rs835 and Rs660 in 1QFY17 and 4QFY17, respectively. Cement operating cost/tonne surged to Rs4,110 (+14% YoY and +4% QoQ) impacted by spike in power and fuel cost/tonne (+25% YoY) and freight cost/tonne (+9% YoY). Further, a non-recurring expense of Rs69mn pertaining to ESOPs provision and wage revision led to 15% QoQ rise in employee cost. Sales volume stood at 2.66mnT (-8.7% QoQ). Further, average realisation improved strongly by 8% YoY and 4% QoQ to Rs4,807. Though we continue to like ICL in light of expanding market reach and attractive valuations, we cut our EBITDA estimate by 6% and 2% for FY18E and FY19E, respectively mainly to factor in higher cost and low volume in the quarter. **We maintain our BUY recommendation on the stock with an unrevised Target Price of Rs225.**

Dismal Sales Volume Hampers Performance

Though ICL's sales volume is not comparable on YoY basis due to merger of Trinetra Cement, on a like-to-like comparison, sales volume stood flat at 2.66mnT. However, its sales volume declined by 9% on sequential comparison due to poor demand environment in Tamil Nadu and production loss due to plant up-gradation work. However, we expect ICL's sales volume to remain strong in coming quarters.

Cost Pressure Drags Operating Performance

A steep surge in operating cost/tonne (+14% YoY and +4% QoQ) impacted ICL's quarterly operating performance, as EBITDA declined by 8% YoY to Rs1.86bn and EBITDA/tonne stood at Rs696 in 1QFY18 vs. Rs835 and Rs660 in 1QFY17 and 4QFY17, respectively. Cement operating cost/tonne surged to Rs4,110 (+14% YoY and +4% QoQ) impacted by spike in power and fuel cost/tonne (+25% YoY) and freight cost/tonne (+9% YoY). Further, a non-recurring expense of Rs69mn towards ESOPs provisioning and wage revision led to 15% QoQ rise in staff cost. Interest cost increased by 6% YoY and 7% QoQ to Rs874mn.

Outlook & Valuation

We believe with the recent group restructuring, ICL is likely to harness RMC business and Trinetra's cement division in a better way. Further, firm realisation and likely demand recovery will aid ICL to see a healthy traction, going ahead. Further, considerable reduction in interest cost with loan repayment/refinancing augurs well for ICL in medium to long-term. Current valuations at US\$90 and US\$85 on EV per tonne for FY18E and FY19E, respectively still appear to be attractive. **Hence, we reiterate our BUY recommendation on the stock with an unrevised Target Price of Rs225 (7.0x FY19E EBITDA).**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	42,268	57,775	58,273	65,895
EBITDA	7,697	8,610	10,038	13,188
APAT	1,399	1,734	3,010	5,267
EPS (Rs)	4.6	5.6	9.8	17.1
DPS (Rs)	1.2	1.2	1.8	2.4
P/E (x)	44.6	36.1	20.8	11.9
P/B (x)	1.7	1.3	1.2	1.1
EV/EBITDA (x)	11.9	10.6	9.1	6.5
RoE (%)	3.9	4.1	6.0	9.8
Divi. Yield (%)	0.6	0.6	0.9	1.2

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	5.0	(7.0)	74.8
Relative to Nifty	(0.5)	(14.6)	57.5

Shareholding Pattern (%)	Mar'16	Jun'17
Promoter	28.5	28.4
Public	71.5	71.6

1 Year Stock Price Performance



Note: * CMP as on July 28, 2017

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Risks to the View

- ▶ Government's failure to revive activities in infrastructure space
- ▶ Any significant deterioration in pricing environment and substantial rise in input costs

Conference Call – Key Takeaways

- ▶ **Demand Scenario:** The Management attributed decline in Southern region to: a) high base of last year in AP/Telangana, which saw >40% growth in the year-ago quarter; (b) continued political unrest and acute sand crisis in TN; and (c) initial impact of GST roll-out. However, ICL believes that the volume in 2QFY18 would be better than 1QFY18, as the sand crisis in TN has been resolved following which sand is available at fair price. Further, construction pick-up in AP/Telangana and other markets are likely to ensure better volume in coming months.
- ▶ **State- wise Demand & Volume Mix:** TN and Kerala together saw a demand de-growth to the tune of 12% during the quarter. Demand contracted by 10%, 8% and 6% in AP/Telangana, Karnataka and Western markets, respectively. On like-to-like basis, ICL's sales volume remained flat on YoY comparison. Further, TN and Karnataka together accounted for 40% of total sales volume. AP/Telangana, Karnataka, Maharashtra and Gujarat/MP contributed 13%, 10%, 16% and 16% to ICL's total sales volume, respectively while rest contributed by the Eastern market and exports.
- ▶ **Market Share outside Southern Region:** Though ICL lost ~8% volume in Southern markets in 1QFY18, it gained >15% outside Southern markets. Now, ICL is working on the strategy of gaining market share in Southern markets and maintaining its market share elsewhere.
- ▶ **Production Loss:** ICL witnessed a production loss of 0.2mnT clinker owing to plant up-gradation while meeting Pollution Control Board's environment norms. This along with stores and spares cost ICL Rs140/tonne during the quarter. ICL expects these costs won't be incurred from ongoing quarter.
- ▶ **Higher Staff Cost:** Employee cost rose by Rs150mn QoQ on absolute term primarily due to ESOP provision of Rs69mn and wage revision. Notably, as per Ind-AS, ESOP provision was accounted on pro rata basis. ICL will have to provide every quarter in its books based upon prevailing market price of the stock, which can become recurring in nature until ESOPs get consummated.
- ▶ **Petcoke Prices:** Average petcoke price/tonne for ICL stood at US\$90 as against US\$88 in 4QFY17. Notably, ICL's forward bookings were made at US\$90. Hence, fuel cost is unlikely to decline in coming quarters. Further, ICL has stopped using petcoke in its power plants and started sourcing coal from its captive Indonesian mine. ICL cites that coal sourcing from Indonesian mine is Rs0.15/Kcal higher than petcoke.
- ▶ **GST Impact:** ICL is not expecting any adverse impact of GST hereon. Further, it expects a savings in logistics cost due to improved turnaround time in interstate stock movements.
- ▶ **Gross Debt:** Gross debt inched up by Rs2.5bn in 1QFY18 due to working capital needs. ICL says it is normal as working capital needs arise in the first quarter every year due to various commitments in the beginning of financial year. However, it has a repayment commitment of Rs2.3bn in FY18. ICL's current gross debt stands at Rs31.75bn.
- ▶ **Expansion & Capex:** Though Trinetra unit is working at 100% utilisation level, ICL does not intend to go for capacity expansion until capacity utilisation reach at 80-85% at the company's level. Further, capex is projected at Rs1.5 to Rs2.0bn for FY18.

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Exhibit 1: Quarterly Performance

(Rs mn)	1QFY18	1QFY17	% yoy	4QFY17	% qoq	FY17	FY16	% yoy
Net Sales	14,616	12,025	21.5	15,226	(4.0)	57,775	48,114	20.1
(Inc) / Dec in Stock in Trade and WIP	151	0		(154)		(183)	(100)	
Consumption of RM, components, etc.	2071	1777	16.5	2294	(9.7)	8957	6863	30.5
Stock in Trade	48							
Total Raw material consumed	2,269	1,777	27.7	2,140	6.1	8,774	6,764	29.7
% Net Sales	15.5	14.8		14.1		15.2	14.1	
Employee Cost	1147	793	44.6	993	15.5	3779	3431	10.1
% Net Sales	7.8	6.6		6.5		6.5	7.1	
Power & Fuel Cost	2,858	2,019	41.5	3,227	(11.4)	10,597	9,446	12.2
% Net Sales	19.6	16.8		21.2		18.3	19.6	
Transportation & Handling Charges	2,847	2,325	22.5	3,110	(8.4)	11,313	8,703	30.0
% Net Sales	19.5	19.3		20.4		19.6	18.1	
Other Expenditures	3,638	3,097	17.5	3,856	(5.7)	14,702	12,016	22.4
% Net Sales	24.9	25.8		25.3		25.4	25.0	
Total Expenditures	12,760	10,011	27.5	13,326	(4.3)	49,165	40,360	21.8
% Net Sales	87.3	83.3		87.5		85.1	83.9	
Cement Cost/tonne (Rs)	4,110	3,599	14.2	3,959	3.8	3,847	(865)	(544.7)
EBITDA	1,856	2,014	(7.8)	1,900	(2.3)	8,610	7,754	11.0
EBITDA margin (%)	12.7	16.7		12.5		14.9	16.1	
EBITDA per tonne (Rs)	696	835	(16.6)	660	5.5	770	865	(11.0)
Depreciation	630	511	23.2	639	(1.5)	2,571	2,195	17.1
EBIT	1,226	1,503	(18.4)	1,260	(2.7)	6,040	5,560	8.6
Interest and Finance Charges	874	825	5.9	820	6.5	3,605	3,825	(5.8)
Other Income	52	32	60.4	17	202.9	165	222	(25.5)
Exceptional Items	0	0		0			32	
PBT	404	710	(43.1)	458	(11.6)	2,600	1,924	35.1
Tax Expenses	139.9	271	(48.3)	114.7	22.0	866.7	625	38.7
% Tax	34.6	38.1		25.1		33.3	32.5	
Exceptional Items	0	0		0				
PAT	264	440	(39.9)	343	(22.9)	1,734	1,300	33.4
Net margin	1.8	3.7		2.3		3.0	2.7	

Source: Company, RSec Research

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Exhibit 2: Revised v/s Old Estimates

	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	11.80	11.68	(1.0)	13.06	13.06	-
Realization (Rs/tonne)	4,955	4,873	(1.6)	5,104	5,019	(1.6)
Sales (Rs mn)	58,818	58,273	(0.9)	66,993	65,895	(1.6)
EBITDA (Rs mn)	10,670	10,038	(5.9)	13,493	13,188	(2.3)
EBITDA margins (%)	18.1	17.2		20.1	20.0	
PAT (Rs mn)	3,519	3,010	(14.5)	5,579	5,267	(5.6)
PAT margins	6.0	5.2		8.3	8.0	
EPS (Rs)	11.4	9.8	(14.5)	18.1	17.1	(5.6)

Source: RSec Research

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Profit & Loss

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
Net sales	42,268	57,775	58,273	65,895
% yoy growth	(4.4)	36.7	0.9	13.1
Total Cost	34,571	49,165	48,235	52,706
Ram Material Expenditures	8,174	8,774	11,530	12,380
Employee Costs	3,306	3,779	4,248	4,664
Power and Fuel	9,446	10,597	12,837	14,629
Freight and Forwarding	12,168	16,742	18,017	19,244
Other Expenditures	1,478	9,273	1,604	1,789
EBITDA	7,697	8,610	10,038	13,188
EBITDA Margin (%)	18.2	14.9	17.2	20.0
Depreciation	2,180	2,571	2,673	2,717
Interest	3,704	3,605	3,366	3,038
Other Income	222	165	182	200
Exceptional Items	32	-	-	-
PBT	2,003	2,600	4,181	7,633
Tax	625	867	1,171	2,366
Effective tax rate (%)	31.2	33.3	28.0	31.0
Net Profit	1,378	1,734	3,010	5,267
YoY Growth (%)	368.9	25.8	73.7	75.0
APAT	1,399	1,734	3,010	5,267
PAT %	3.3	3.0	5.2	8.0

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Share Capital	3,072	3,081	3,081	3,081
Reserves & Surplus	33,411	45,692	48,146	52,671
Total Shareholder's funds	36,483	48,773	51,227	55,752
Secured Loans	24,192	29,217	29,267	26,267
Unsecured Loans	5,162	-	-	-
Total Debt	29,354	29,217	29,267	26,267
Deffered Tax liability	3,589	6,556	6,556	6,556
TOTAL LIABILITIES	69,426	84,546	87,050	88,575
APPLICATION OF FUNDS				
Gross Block	68,822	106,380	108,380	109,380
Less: Accumulated Depreciation	34,681	37,252	40,403	43,598
Net Block	34,141	69,129	67,978	65,783
CWIP	882	1,278	1,278	1,278
Investments	15,847	6,190	6,190	6,190
Inventories	5,952	7,450	7,663	8,666
Sundry Debtors	5,134	5,089	6,386	6,860
Cash & Bank	37	80	968	3,003
Loans & Advances	20,350	13,649	13,767	15,567
Current Liabilities & Prov.	12,917	18,319	17,180	18,772
Net Current Assets	18,556	7,949	11,604	15,324
TOTAL ASSETS	69,426	84,546	87,050	88,575

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Cash Flow Statement

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT before Extraordinary Items	2,003	2,600	4,181	7,633
Depreciation	2,180	2,571	3,151	3,195
Interest Exp.	4,180	3,605	3,366	3,038
Others	(641)	-	-	-
Operation Profit before WC changes	7,722	8,775	10,698	13,866
Trade and Other Receivables	(223)	6,746	(1,415)	(2,275)
Inventories	116	(1,498)	(213)	(1,002)
Trade Payables	834	5,402	(1,139)	1,593
Cash generated from Operation	8,449	19,426	7,930	12,181
Direct Taxes	(48)	2,100	(1,171)	(2,366)
Net cash from Operating Activities	8,401	21,526	6,759	9,815
Purchase of Fixed Assets	(1,535)	(37,954)	(2,000)	(1,000)
Others	389	9,657	-	-
Net cash from Investing activities	(1,146)	(28,298)	(2,000)	(1,000)
Proceed from Long Term Borrowings	3,463	(137)	50	(3,000)
Interest paid/dividend paid (net of remission)	(4,605)	(3,975)	(3,922)	(3,780)
Others	(6,114)	10,928	-	-
Net Cash from financing activities	(7,256)	6,815	(3,872)	(6,780)
Inc / (Dec) in cash and cash equivalent	(1)	44	887	2,036
Opening cash	38	37	80	968
Closing Cash	37	80	968	3,003

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Key Ratio

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Valuation Ratio (x)				
P/E	44.6	36.1	20.8	11.9
P/CEPS	17.4	14.5	11.0	7.8
P/BV	1.7	1.3	1.2	1.1
EV/EBIDTA	11.9	10.6	9.1	6.5
EV/Sales	2.2	1.6	1.6	1.3
EV/tonne (USD)	100	91	90	85
Dividend Payout (%)	26.8	21.4	18.5	14.1
Dividend Yield (%)	0.6	0.6	0.9	1.2
Per Share Data (Rs)				
EPS (Basic)	4.6	5.6	9.8	17.1
EPS (Diluted)	4.6	5.6	9.8	17.1
CEPS	11.7	14.0	18.4	25.9
DPS	1.2	1.2	1.8	2.4
Book Value	119	158	166	181
EBITDA/tonne	887	780	845	1,010
Returns (%)				
RoCE	8.1	8.1	8.8	12.2
RoE	3.9	4.1	6.0	9.8
Turnover ratios (x)				
Asset Turnover (Gross block)	0.6	0.5	0.5	0.6
Inventory (days)	51	47	48	48
Receivables (days)	44	32	40	38
Payables (days)	50	98	98	98
WCC (days)	45	(19)	(10)	(12)

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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