

High leverage to keep performance weak!

India Cement reported a mixed set of Q4FY19 numbers with topline, volumes beating our estimates but missing estimates on the profitability front. Revenues grew 11.9% YoY to ₹ 1564 crore led by 7.8% YoY growth in volumes to 3.33 MT (vs. I-direct estimate of 3.15 MT). Realisations were at ~₹ 4,700/t, up 3.8% YoY (vs. I-direct estimate of ~ ₹ 4,645/t). Topline includes ₹ 20.25 crore pertaining to subsidy receivable from Rajasthan government (sanctioned to Trinetra Cement that has been merged with India Cement). EBITDA margins witnessed a 95 bps YoY expansion to 12.3% (vs. I-direct estimate of 15.8%), led by higher realisations partly set off by higher input costs (due to one-offs in raw material expenses and employee cost). EBITDA increased 21.2% YoY to ₹ 192.2 crore (below I-direct estimate of ₹ 231.4 crore) whereas EBITDA/t grew 12.5% YoY to ₹ 577/t (below I-direct estimate of ₹ 735/t). Consequently, PAT for the quarter increased 24.3% to ₹ 43.9 core (below I-direct estimate of ₹ 51.3 crore).

Capacity nearing peak out in FY21E

During FY19, on the back of strong demand growth in the industry, India Cement witnessed 11.4% growth in volume to 12.4 MT against industry growth of 13.3% during the same period. FY19 for the company ended with capacity utilisation of ~80%. Though the company would be undertaking expansion in the central region (2.5 MT) for which it has guided a capex of ~₹ 1000 crore, the same would take two to three years to get commissioned. Thus, with no capacity expected to be added in the coming two years, India Cement would have low headroom for growth. The next phase of growth would be contributed by upcoming capacity in the central region. Hence, we expect the company to clock 5.5% volumes CAGR citing capacity constraints over FY19-21E, thus ending FY21E at 89% utilisation.

Performance continues to remain at lower end...

Against our expectations of 15.8% margins for Q4FY19, the company managed to clock operating margins of 12.3%. Its realisations growth, EBITDA margin growth on a sequential basis vs. peers for the quarter was also on the lower side. Further, RoCE for FY19 was at 4.5%, which is again lower than peer companies Ramco Cements (8%), Sagar Cement (6.4). If any additional capex is announced that would put further pressure on return ratios. Though we expect realisations to improve in the next two years, margins may improve moderately from 11.3% in FY19 to 12.5% in FY21E.

Valuation & Outlook

Despite EBITDA expected to grow at 12.6% CAGR in FY19-21E, RoCE is expected to remain subdued. Further, high debt levels would continue to stress the balance sheet. Capacity levers are unavailable unless new capacities are announced, which would require two years to get commissioned and may also need to lever the balance sheet further (debt/EBITDA currently at 5.6x for FY19). Hence, we maintain a **HOLD** rating on India Cement, valuing the company at ~9x FY21E EV/EBITDA.

Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	5778	5169	5628	6071	6462	7.2%
EBITDA	861	693	638	738	809	12.6%
EBITDA (%)	14.9	13.4	11.3	12.2	12.5	
Net Profit	173	101	69	110	148	46.0%
EPS	5.6	3.3	2.3	3.6	4.8	
EV/EBITDA	7.4	9.5	11.0	9.7	8.9	
EV/Tonne (\$)	73.9	68.7	70.9	75.7	77.2	
RoNW	3.4	1.9	1.3	2.1	2.7	
RoCE	7.1	5.1	4.5	5.2	5.8	

Source: Company, ICICI Direct Research



The India Cements Ltd

Stock Data

Particular	Amount
Mcap	₹ 3451 crore
Debt (FY19)	₹ 3576 crore
Cash & Invest (FY19)	₹ 7 crore
EV	₹ 7021 crore
52 week H/L	₹ 165/75
Equity cap	₹ 307.2 crore
Face value	₹ 10

Key Highlights

- Leverage levels to remain elevated despite Debt/EBITDA improving from 5.6x in FY19 to 4.6x in FY21E
- Return ratios – RoCE and RoE to remain subdued owing to anticipated capex in central region
- Margins to improve moderately, but still remained lower compared to peer group companies
- Maintain HOLD with target price of ₹ 100/share

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Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Operating Income	1564.0	1462.6	1397.8	11.9	1,316.3	18.8	Volume growth of 7.8% and realisation growth of 3.8% YoY contribute to topline growth
Other Income	17.4	5.8	3.9	343.6	4.0	338.0	Other income includes profit from fair valuation of investment
Raw Material Expenses	304.2	251.9	250.7	21.4	230.3	32.1	
Employee Expenses	90.7	103.9	99.6	-9.0	85.5	6.1	
Stock Adjustment	-3.2	0.0	-3.7	NA	16.7	N.A	
Power & Fuel	430.6	377.9	349.2	23.3	402.6	7.0	
Freight cost	341.1	324.3	331.5	2.9	299.4	13.9	
Others	208.3	173.2	211.9	-1.7	147.0	41.7	
EBITDA	192.2	231.4	158.5	21.2	134.9	42.5	
EBITDA Margin (%)	12.3	15.8	11.3	95 bps	10.2	205 bps	Better realisation aids margin expansion
Interest	82.7	84.4	71.8	15.1	72.8	13.5	
Depreciation	64.8	73.8	66.4	-2.4	63.2	2.5	
PBT	62.2	78.9	24.2	156.5	2.8	2,096.8	
Total Tax	18.3	27.6	-11.0	-266.1	0.0	NA	
PAT	43.9	51.3	35.3	24.3	2.8	1,449.5	

Key Metrics

Volume (MT)	3.33	3.15	3.09	7.8	2.96	12.6	Aggressive spending in infra space ahead of elections drive volumes higher
Blended realisation (₹)	4,697	4,645	4,524	3.8	4,450	5.5	Better pricing environment drives prices 5.5% higher on a sequential basis
Blended EBITDA/Tonne(₹)	577	735	513	12.5	456	26.6	Margin expansion leads to better margins

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenues	5,913.4	6,070.9	2.7	6,256.3	6,461.9	3.3	Revenues to grow at ~7.2% CAGR over FY19-21E
EBITDA	784.6	737.7	-6.0	885.4	808.5	-8.7	EBITDA to witness 12.6% CAGR over FY19-21E
EBITDA Margin (%)	13.3	12.2	-112 bps	14.2	12.5	-164 bps	
PAT	113.4	109.6	-3.4	140.0	147.8	5.6	
EPS (₹)	3.7	3.6	-3.4	4.5	4.8	5.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier				Comments
	FY17	FY18	FY19E	FY20E	FY21E	FY20E	FY21E		
Volume (MT)	10.4	11.2	12.4	13.2	13.8	13.0	13.5	Volumes to grow at 5.5% CAGR over the next two years	
Blended Realisation (₹)	5,557	4,626	4,524	4,593	4,669	4,554	4,625	Higher utilisation to drive realisation upwards	
Blended EBITDA per Tonne (₹)	828	620	513	558	584	604	655	We tweak estimates lower due to higher costs	

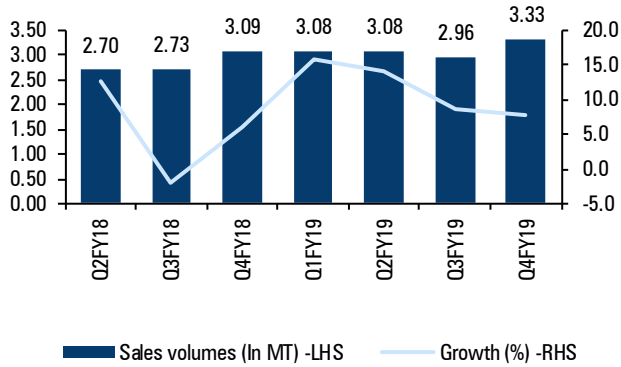
Source: Company, ICICI Direct Research

Conference Call Key highlights

- During Q4FY19, India Cement operated at ~84% capacity utilisation, which for FY19 was at ~79%. Strong pre-election spending towards infrastructure boosted cement demand. The south, as a whole, grew 18% during the quarter YoY. The demand has been slow in April and May. However, recovery is being seen with stability in the government
- Margins were dragged on account of one-time expenses of ~₹ 14 crore in raw material costs related to licensing and ~₹ 5 crore in employee costs relating to wage settlement related expenses
- Maharashtra and the Andhra Pradesh-Telangana belt are witnessing strong demand from the institutional side. Prices for non-trade segment have gone higher by ~₹ 50/bag from ₹ 230/bag in the AP Telangana region. Trade segment formed 60% of the total sales mix. Going ahead, higher utilisation would lead to a better pricing environment and, thereby, improve margins as well
- With relation to additional capacity being set-up in the south, Penna Cements and Chettinad would be adding a total of 7000 PTD of clinker capacity but it is insignificant considering the installed capacity 15 MT every month
- Other income is higher on account of fair valuation of one of the company's investments
- RMC revenues were at ₹ 35.4 crore while EBITDA for the segment was at ₹ 2.6 crore. Shipping clocked ₹ 8.34 crore in revenues and ₹ 4.8 crore of EBITDA. Wind energy business clocked topline and EBITDA of ~₹ 0.9 crore each

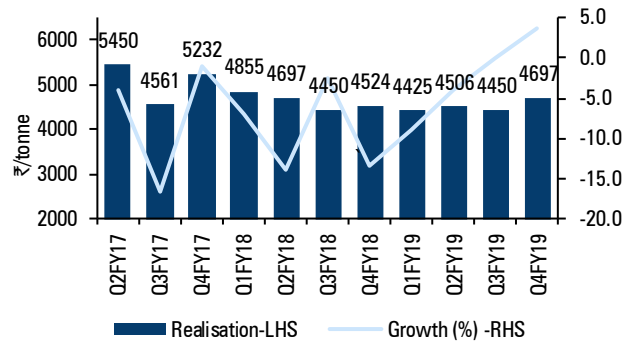
Financial Story in Charts

Exhibit 4: Volumes grow 7.8% YoY in Q4FY19



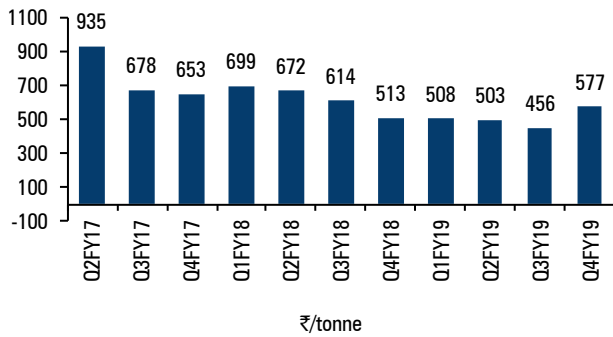
Source: Company, ICICI Direct Research

Exhibit 5: Realisations increase 3.8% YoY in Q4FY19



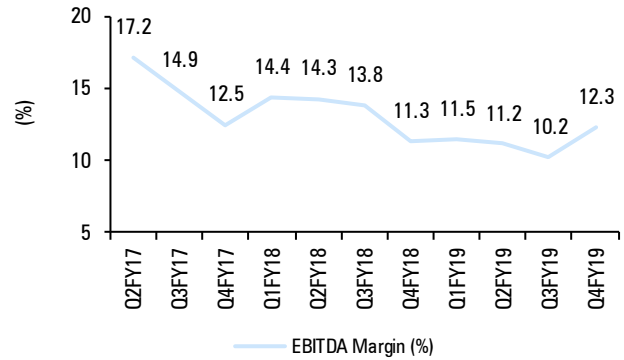
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA/t up 12.5% YoY in Q4FY19



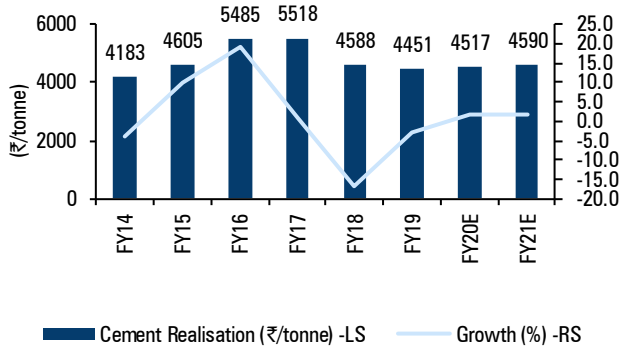
Source: Company, ICICI Direct Research

Exhibit 7: Margins expand 95 bps in Q4FY19



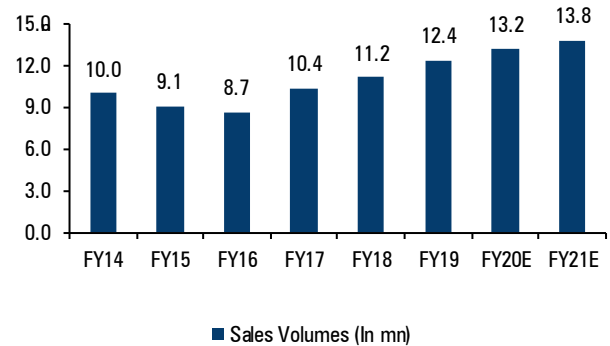
Source: Company, ICICI Direct Research

Exhibit 8: Realisations to increase at 1.5% CAGR in FY19-21E



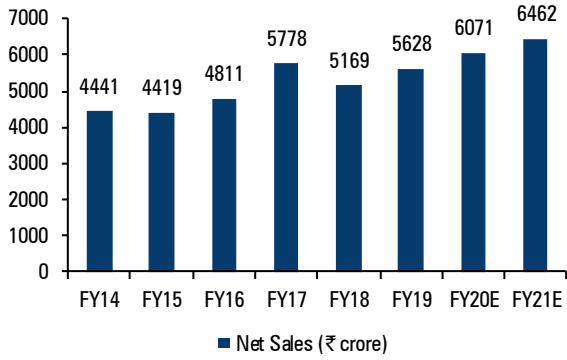
Source: Company, ICICI Direct Research

Exhibit 9: Sales to grow at 5.5% CAGR over FY19-21E



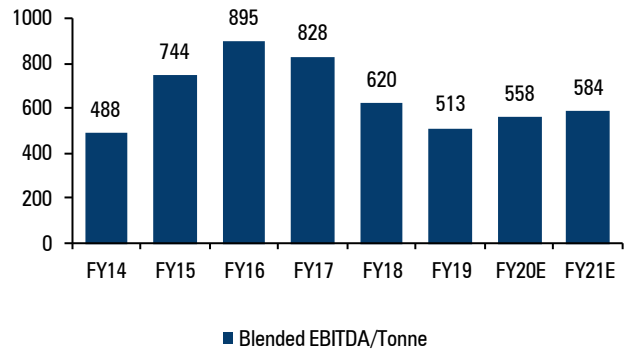
Source: Company, ICICI Direct Research

Exhibit 10: Revenues to grow at 7.2% CAGR over FY19-21E



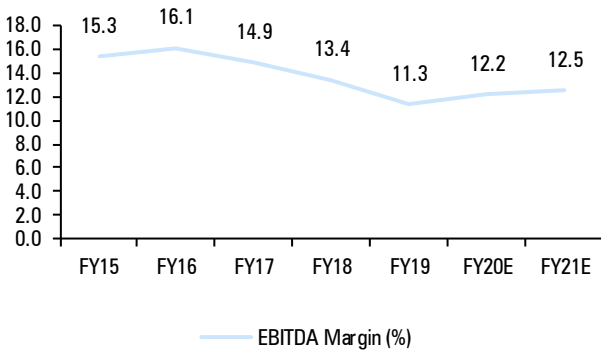
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to improve over next two years



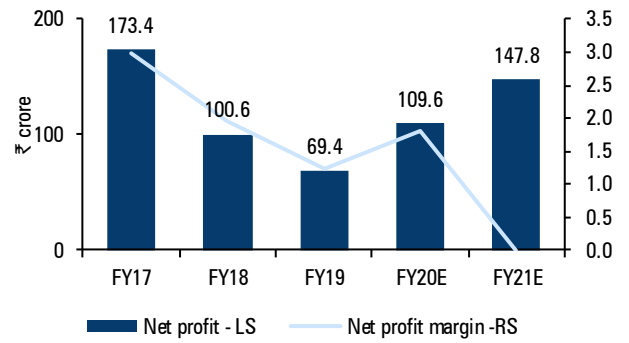
Source: Company, ICICI Direct Research

Exhibit 12: Margins to improve from 11.3% to 12.5% in FY21E



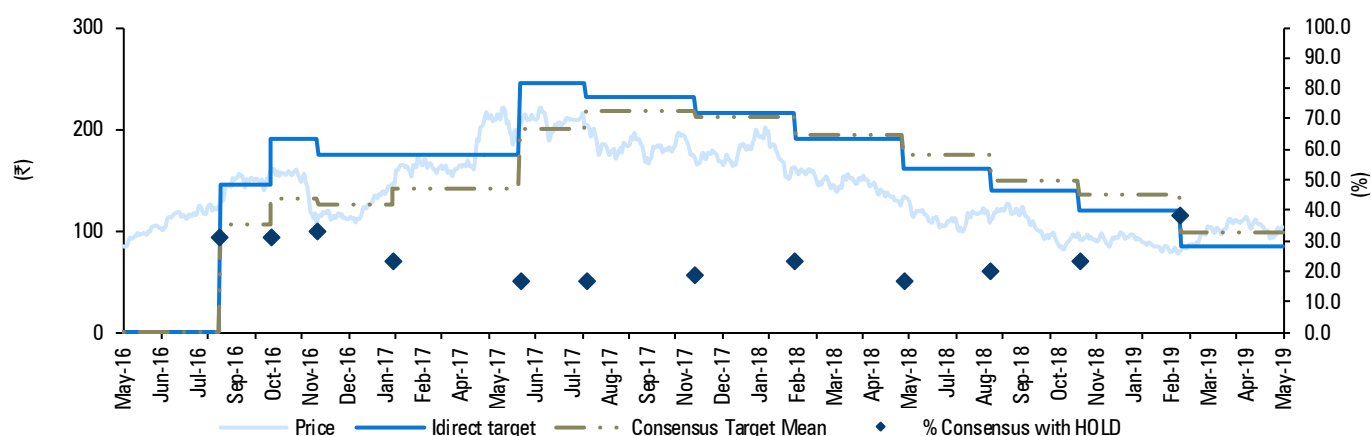
Source: Company, ICICI Direct Research

Exhibit 13: Net profit to witness 46% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position(m)	Change(m)
1	EWS Finance & Investments Ltd.	31-Mar-19	9%	27.6	0.0
2	Reliance Asset Management(Singapore) Pte. Ltd.	31-Mar-19	9%	27.0	23.2
3	Prince Holdings Madras Pvt. Ltd.	31-Mar-19	8%	25.5	0.0
4	Reliance Nippon Life Asset Management Limited	31-Dec-17	7%	20.3	0.5
5	Subramanian (Vidya)	31-Mar-19	6%	20.0	0.0
6	Sri Saradha Logistics Pvt. Ltd.	31-Mar-19	6%	18.1	18.1
7	Aditya Birla Sun Life AMC Limited	31-Mar-19	6%	18.0	-0.7
8	AfrAsia Capital Management Ltd	31-Mar-19	5%	15.9	0.0
9	Life Insurance Corporation of India	31-Mar-19	5%	14.6	-0.2
10	Anna Investments Pvt. Ltd.	31-Mar-19	4%	13.0	0.0

Source: Company, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value (mn)	Shares	Investor name	Value (mn)	Shares
Reliance Asset Management (Singapore) Pte. Ltd.	36.25	23.16	Norges Bank Investment Management (NBIM)	-3.83	-2.77
Sri Saradha Logistics Pvt. Ltd.	28.34	18.10	ICICI Prudential Asset Management Co. Ltd.	-1.90	-1.37
Principal Asset Management Private Limited	2.78	1.81	HDFC Asset Management Co., Ltd.	-1.53	-1.11
Mohan (V M)	0.31	0.25	Goldman Sachs Asset Management International	-1.37	-0.99
Axis Asset Management Company Limited	0.12	0.08	L&T Investment Management Limited	-1.45	-0.93

Source: Company, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	28.37	28.31	28.35	28.32	28.30
FII	18.22	15.79	15.74	15.47	13.30
DII	28.33	28.59	27.80	26.74	28.49
Others	25.08	27.31	28.11	29.47	29.91

Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	5,168.7	5,628.0	6,070.9	6,461.9
Growth (%)	-10.5	8.9	7.9	6.4
Raw material cost	941.6	1023.2	1123.5	1169.4
Employee Expenses	397.1	357.1	409.7	435.9
Power, Oil & Fuel	1238.9	1641.0	1731.5	1840.7
Freight cost	1194.0	1276.1	1361.4	1439.3
Other Expenses	704.4	692.6	707.1	768.1
Total Operating Exp.	4,475.9	4,990.1	5,333.3	5,653.4
EBITDA	692.8	637.9	737.7	808.5
Growth (%)	-19.5	-7.9	15.6	9.6
Depreciation	255.9	251.3	254.4	264.8
Interest	340.2	324.2	346.6	354.0
Other Income	19.4	30.9	15.0	15.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	116.1	93.4	151.7	204.7
Total Tax	15.5	24.0	42.2	56.9
PAT	100.6	69.4	109.6	147.8
Adjusted PAT	100.6	69.4	109.6	147.8
Growth (%)	-42.0	-31.1	57.9	34.9
EPS (₹)	3.3	2.3	3.6	4.8

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	308.2	309.9	309.9	309.9
Reserve and Surplus	4,892.2	4,929.9	5,002.3	5,112.9
Total Shareholders funds	5,200.3	5,239.8	5,312.2	5,422.8
Total Debt	3,127.0	3,576.5	3,726.5	3,726.5
Deferred Tax Liability	653.2	531.7	531.7	531.7
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	8,980.6	9,348.0	9,570.4	9,681.0
Assets				
Gross Block	10,687.7	10,855.7	11,262.8	11,762.8
Less: Acc Depreciation	3,891.4	4,142.7	4,397.1	4,661.9
Net Block	6,796.4	6,713.0	6,865.7	7,100.9
Capital WIP	171.2	177.0	300.0	200.0
Total Fixed Assets	6,967.6	6,890.1	7,165.7	7,300.9
Investments	588.4	694.6	694.6	694.6
Inventory	672.3	823.2	707.0	851.0
Debtors	629.5	729.0	715.2	761.3
Loans and Advances	1,859.8	1,862.3	2,290.2	2,129.8
Other Current Assets	0.0	0.0	0.0	0.0
Cash	8.4	6.7	17.6	7.6
Total Current Assets	3,169.9	3,421.2	3,730.0	3,749.6
Creditors	1,315.9	1,316.3	1,530.2	1,575.7
Provisions	429.3	341.5	489.7	488.5
Total Current Liabilities	1,745.2	1,657.8	2,019.9	2,064.1
Net Current Assets	1,424.7	1,763.3	1,710.1	1,685.5
Application of Funds	8,980.6	9,348.0	9,570.4	9,681.1

Source: Company, ICICI Direct Research

Exhibit 19: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	100.6	69.4	109.6	147.8
Add: Depreciation	255.9	251.3	254.4	264.8
(Inc)/dec in Current Assets	-242.7	-253.0	-297.8	-29.7
Inc/(dec) in CL and Provisions	-191.0	-87.4	362.0	44.2
CF from operating activities	-77.2	-19.7	428.1	427.2
(Inc)/dec in Investments	30.7	-106.3	0.0	0.0
(Inc)/dec in Fixed Assets	-122.8	-173.8	-530.0	-400.0
Others	-24.6	-121.5	0.0	0.0
CF from investing activities	-116.7	-401.6	-530.0	-400.0
Issue/(Buy back) of Equity	0.0	1.8	0.0	0.0
Inc/(dec) in loan funds	205.7	449.4	150.0	0.0
Dividend paid & dividend tax	-29.7	-37.2	-37.2	-37.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	19.5	5.5	0.0	0.0
CF from financing activities	195.5	419.5	112.8	-37.2
Net Cash flow	1.6	-1.7	10.9	-10.0
Opening Cash	6.8	8.4	6.7	17.6
Closing Cash	8.4	6.7	17.6	7.6

Source: Company, ICICI Direct Research

Exhibit 21: Key Ratios				
(Year-end March)	FY18E	FY19E	FY20E	FY21E
Per share data (₹)				
Adjusted EPS	3.3	2.3	3.6	4.8
Cash EPS	11.6	10.4	11.8	13.4
BV	168.8	170.0	172.4	176.0
DPS	0.8	1.0	1.0	1.0
Cash Per Share	0.3	0.2	0.6	0.2
Operating Ratios (%)				
EBITDA Margin	13.4	11.3	12.2	12.5
PAT Margin	1.9	1.2	1.8	2.3
Inventory days	50.0	48.5	46.0	44.0
Debtor days	44.5	47.3	43.0	43.0
Creditor days	92.9	85.4	92.0	89.0
Return Ratios (%)				
RoE	1.9	1.3	2.1	2.7
RoCE	5.1	4.5	5.2	5.8
RoIC	5.0	4.2	5.2	5.7
Valuation Ratios (x)				
P/E	34.3	49.8	31.5	23.4
EV / EBITDA	9.5	11.0	9.7	8.9
EV / Net Sales	1.3	1.2	1.2	1.1
Market Cap / Sales	0.7	0.6	0.6	0.5
Price to Book Value	0.7	0.7	0.6	0.6
Solvency Ratios				
Debt/EBITDA	4.5	5.6	5.1	4.6
Debt / Equity	0.6	0.7	0.7	0.7
Current Ratio	1.8	2.1	1.8	1.8
Quick Ratio	1.8	2.1	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap		EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	
ACC*	1,750	1,800	HOLD	32,890	49.2	80.9	62.6	19.4	17.0	15.3	141	129	126	9.9	14.9	11.2	14.0	14.7	16.6	
Ambuja Cem*	238	245	HOLD	47,258	6.3	7.5	7.6	16.1	16.0	13.7	158	155	153	11.3	11.4	14.5	8.6	11.3	9.7	
UltraTech Cem	4,770	5,300	BUY	130,889	89.6	89.5	116.3	24.7	22.8	17.0	271	263	213	10.0	9.7	12.6	9.5	8.8	10.4	
Shree Cement	21,600	22,040	HOLD	75,168	398	318	521	31.0	29.5	21.2	283	232	186	15.3	11.5	18.3	15.6	11.5	16.3	
Heidelberg Cem	203	165	BUY	4,600	5.9	9.7	10.9	15.5	11.0	9.6	177	173	164	14.8	21.8	24.0	12.8	20.5	20.1	
India Cement	112	115	HOLD	3,441	3.3	2.3	3.6	9.5	11.0	9.7	69	71	76	5.1	4.5	5.2	1.9	1.3	2.1	
JK Cement	1,060	1,150	BUY	7,413	51.3	42.0	56.1	12.1	11.0	9.9	127	113	110	14.6	12.5	13.0	16.7	11.2	13.4	
JK Lakshmi Cem	393	485	BUY	4,621	7.1	6.8	17.1	17.0	14.9	13.8	75	67	66	5.9	5.8	5.2	7.5	8.8	9.7	
Mangalam Cem	267	215	REDUCE	713	4.3	-3.7	13.1	12.1	23.8	12.7	44	52	53	7.2	3.2	10.6	2.2	-2.0	6.5	
Star Cement	120	120	HOLD	5,030	7.9	7.1	7.9	10.2	10.7	9.7	226	177	174	21.6	18.9	18.0	22.4	17.3	16.6	
Ramco Cement	820	950	BUY	19,522	23.5	20.6	29.3	18.6	20.1	15.1	207	198	182	10.4	8.0	9.9	13.7	11.2	14.3	
Sagar Cement	676	800	BUY	1,379	12.9	6.7	23.2	11.9	12.4	9.5	70	58	58	8.1	6.4	9.5	3.4	1.6	5.3	

Source: Company, ICICI Direct Research. *December year ending

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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