

## Leverage concerns prevail over improving margins

On a broad view, India Cements reported a positive set of Q1FY20 numbers with sales and profitability beating our estimates. Revenues for the quarter increased ~8% YoY to ₹ 1468.8 crore (above I-direct estimate of ₹ 1325 crore) on the back of strong growth in realisations while volumes declined marginally. Volumes for the quarter were at 3.04 MT (above I-direct estimate of 2.8 MT). Blended realisations showcased a strong increase by 9.2% YoY to ₹ 4832/t. EBITDA margins expanded 500 bps YoY to 16.5% YoY while EBITDA/t increased 57% YoY to ₹ 796/t on the back of a strong improvement in realisations owing to price hikes taken in the previous and this quarter. EBITDA increased 55% YoY to ₹ 242 crore (vs. I-direct estimate of ₹ 180 crore) and PAT increased 240% YoY to ₹ 72.2 crore (vs. I-direct estimate of ₹ 32.8 crore) on the back of strong profitability during the quarter.

## Capacity issues to restrict growth in next two years

During FY19, India Cements, on the back of strong demand growth in the industry, witnessed 11.4% growth (vs. industry growth of 13.3%) and ended FY19 with a capacity utilisation of ~80%. Though the company plans to add capacity in the central region, it will take at least two to three years as currently it is in the land acquisition stage. Further, this would not address the issue that its current capacities in south would face growth challenge due to capacity constraints, going ahead. Thus, we expect the company to clock 5.7% CAGR in volumes in FY19-21E, ending FY21E at ~89% capacity utilisation.

## Ongoing capex to keep debt elevated...

With an increase in the share of non-trade sales and the ongoing liquidity issues, the net debt increased by ~₹ 110 crore. Also, the company has undertaken a greenfield expansion project in the central region whereby the plan is to set up a 1.5 MT clinker unit in Madhya Pradesh and grinding units in Uttar Pradesh, this would require the company to incur ~₹ 1100 crore, which would not allow the company to reduce debt levels. Reduction in debt/EBITDA from 5.6x in FY19 to 3.8x in FY21E, will only provide an optical illusion of improvement in leverage as absolute debt levels are not expected to reduce. Thus, with the balance sheet getting heavier, return ratios will continue to remain subdued.

## Valuation & Outlook

While demand improvement is expected in H2 and industry players expect FY20 to be a year of 6-7% growth, capacity constraints are expected to affect India Cement's market share. Further, elevated debt levels add to the balance sheet concerns for the company. Return ratios would continue to remain sluggish on an absolute basis and well as in comparison to its peers. Hence, we value India Cements at ~7x FY21E EV/EBITDA, thus reducing our target price from ₹ 115 earlier to ₹ 95 per share.



## The India Cements Ltd

### Stock Data

Particular	Amount
Mcap	₹ 2616 crore
Debt (FY19)	₹ 3576 crore
Cash & Invest (FY19)	₹ 6 crore
EV	₹ 6186 crore
52 week H/L	₹ 128/75
Equity cap	₹ 309.9 crore
Face value	₹ 10

### Key Highlights

- Absolute leverage levels to worsen despite debt/EBITDA improving from 5.6x in FY19 to 3.8x in FY21E
- Capacity utilisation to increase from 80% in FY19 to 89% in FY21E
- Return ratios – RoCE and RoE to improve, yet remain subdued
- Maintain HOLD with reduced target price of ₹ 95 per share

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### Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	5778	5169	5628	6211	6640	8.6%
EBITDA	861	693	638	942	1010	25.8%
EBITDA (%)	14.9	13.4	11.3	15.2	15.2	
Net Profit	173	101	69	245	263	94.8%
EPS	5.6	3.3	2.2	7.9	8.5	
EV/EBITDA	6.4	8.2	9.7	6.8	6.4	
EV/Tonne (\$)	63.9	59.7	61.9	66.7	69.0	
RoNW	3.4	1.9	1.3	4.5	4.6	
RoCE	7.1	5.1	4.5	7.2	7.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Operating Income	1468.8	1325.1	1360.7	7.9	1,564.0	-6.1	Topline driven entirely by realizations growth
Other Income	3.2	10.0	5.8	-44.3	17.4	-81.6	
Raw Material Expenses	248.2	246.4	254.5	-2.5	304.2	-18.4	
Employee Expenses	98.7	84.0	93.8	5.3	90.7	8.9	
Stock Adjustment	10.7	0.0	-21.0	-150.7	-3.2	-436.6	
Power & Fuel	377.3	358.4	400.4	-5.8	430.6	-12.4	
Freight cost	321.9	285.6	321.7	0.1	341.1	-5.6	
Others	170.1	170.8	155.2	9.6	208.3	-18.3	
EBITDA	242.0	179.9	156.1	55.0	192.2	25.9	
EBITDA Margin (%)	16.5	13.6	11.5	500 bps	12.3	418 bps	Better realisation aids margin expansion
Interest	79.9	79.0	73.3	9.0	82.7	-3.3	
Depreciation	59.9	64.0	61.6	-2.8	64.8	-7.6	
PBT	105.4	46.9	26.9	291.3	62.2	69.5	
Total Tax	33.1	14.1	5.7	485.5	18.3	80.9	
PAT	72.2	32.8	21.3	239.7	43.9	64.7	Strong profitability during quarter led the 2.4x growth in PAT
<b>Key Metrics</b>							
Volume (MT)	3.04	2.80	3.08	-1.1	3.33	-8.7	Soft demand owing to elections kept volumes largely flat
Blended realisation (₹)	4,832	4,733	4,425	9.2	4,697	2.9	Price hikes taken in Q4FY19 and Q1FY20 led to strong growth in realizations
Blended EBITDA/Tonne(₹)	796	643	508	56.8	577	37.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenues	6,070.9	6,211.2	2.3	6,461.9	6,640.3	2.8	Revenues to grow at 8.6% CAGR over FY19-21E
EBITDA	737.7	942.2	27.7	808.5	1,010.1	24.9	EBITDA to witness 26% CAGR over FY19-21E led by margins expansion
EBITDA Margin (%)	12.2	15.2	302 bps	12.5	15.2	270 bps	
PAT	109.6	245.0	123.5	147.8	263.2	78.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier				Comments
	FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Volume (MT)	10.4	11.2	12.4	13.1	13.9	13.2	13.8	Volumes to grow at 5.7% CAGR over the next two years
Blended Realisation (₹)	5,557	4,626	4,524	4,727	4,777	4,593	4,669	Favorable pricing scenario to drive realisation upwards
Blended EBITDA per Tonne (₹)	828	620	513	717	727	558	587	Better prices to increase yield per tonne

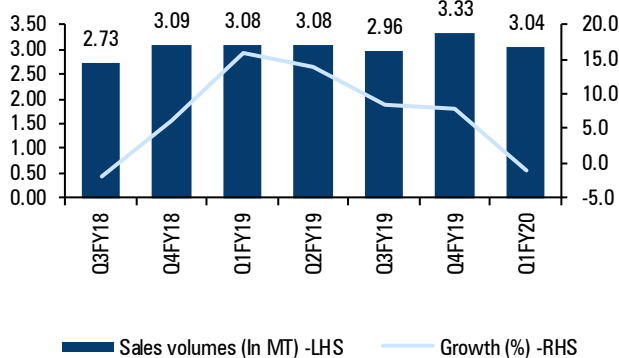
Source: Company, ICICI Direct Research

### Conference Call Key highlights

- Cement volumes during the quarter broadly remained flat YoY at 3.04 MT whereas the management expects demand in the southern region to have grown 2-3% during the quarter. Going ahead, demand is expected to rebound in the second half
- During the quarter, higher non-trade sales led to increased working capital requirement, leading to increase in net debt by ~₹ 110 crore
- In terms of fuel mix, 86% was imported coal with petcoke forming about 12% of fuel consumption. With correction in prices of coal and petcoke, the management expects some savings in P&F costs
- While trade sales formed 65% of total sales, its share has been declining. Premium products form ~15% of total trade sales
- During the quarter, the company spend ~₹ 80 crore towards capex, which also included land acquisition in the central region where the company envisages setting up an integrated unit of 1.5 MT clinker capacity and also grinding units in Uttar Pradesh. This project is expected to be funded entirely from internal accruals

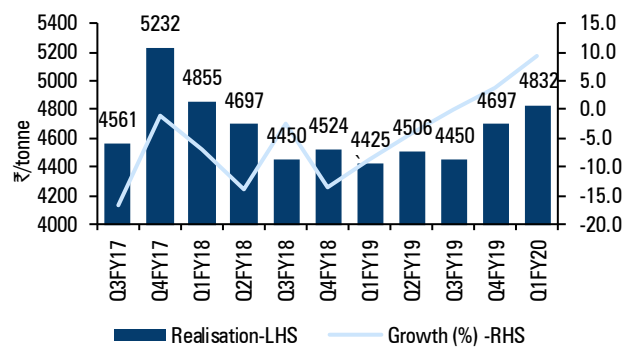
### Financial Story in Charts

Exhibit 4: Volumes broadly remain flat YoY in Q1FY20



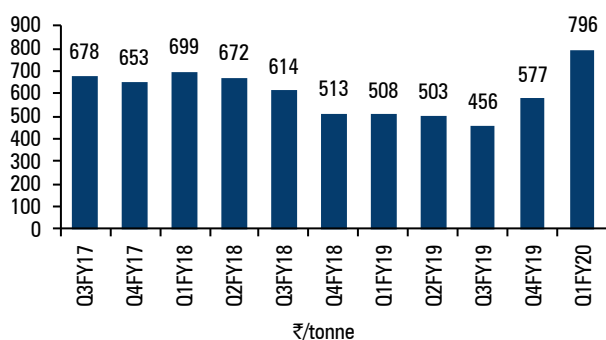
Source: Company, ICICI Direct Research

Exhibit 5: Realisations increase 9.2% YoY in Q4FY19



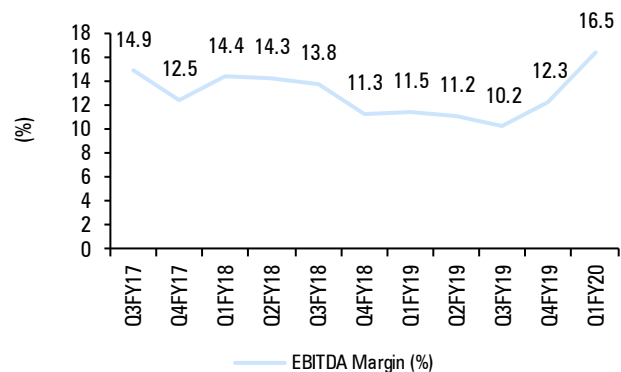
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA/t up 57% YoY in Q1FY20



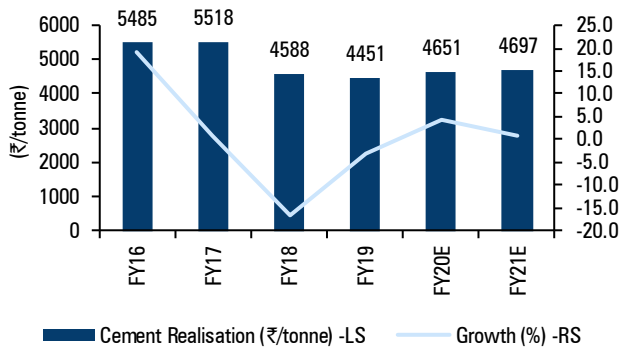
Source: Company, ICICI Direct Research

Exhibit 7: Margins expand 500 bps in Q1FY20



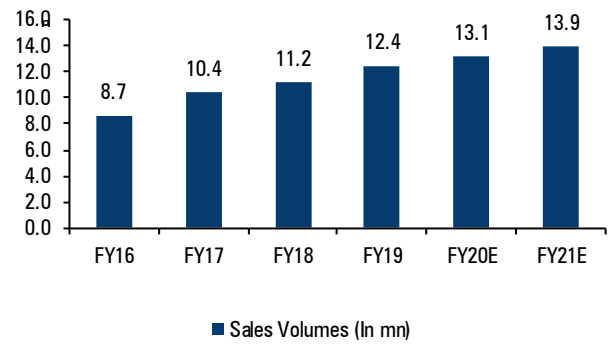
Source: Company, ICICI Direct Research

Exhibit 8: Realisations to grow at 2.7% CAGR over FY19-21E



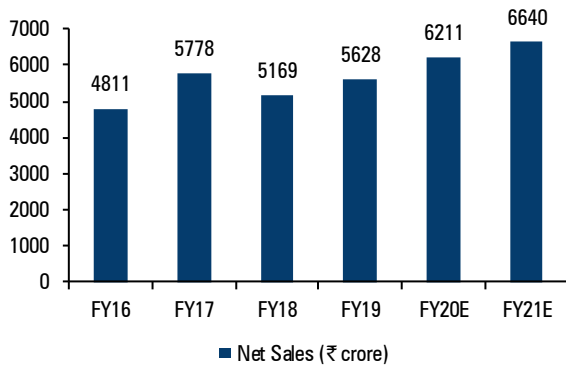
Source: Company, ICICI Direct Research

Exhibit 9: Volumes to grow at 5.7% CAGR over FY19-21E



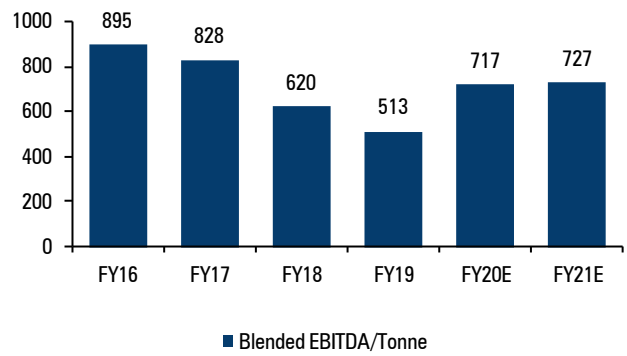
Source: Company, ICICI Direct Research

Exhibit 10: Revenues to grow at 8.6% CAGR over FY19-21E



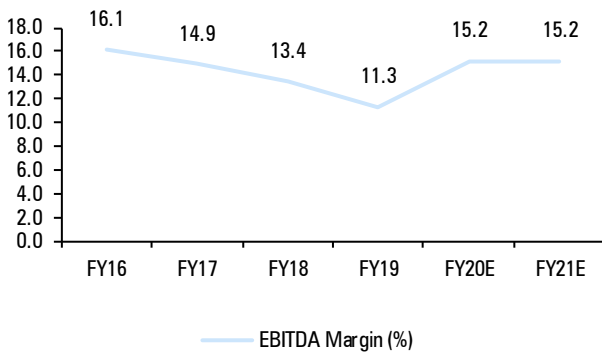
Source: Company, ICICI Direct Research

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



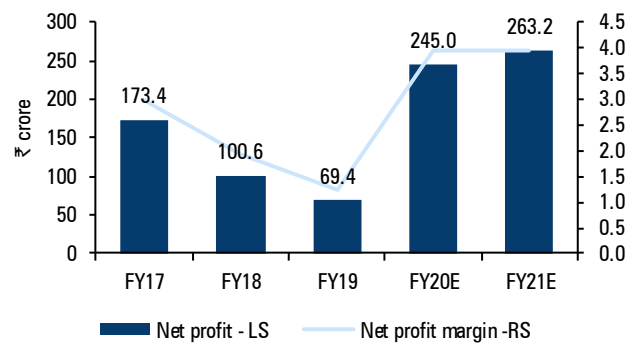
Source: Company, ICICI Direct Research

Exhibit 12: Margins to improve from 11.3% to 15.2% in FY21E



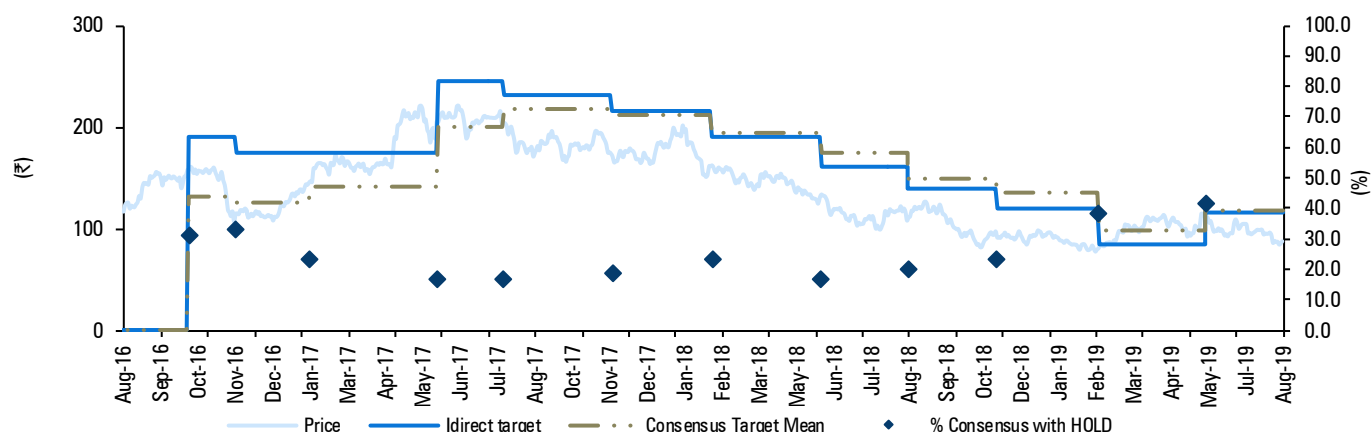
Source: Company, ICICI Direct Research

Exhibit 13: Net profit to witness 95% 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.	30-Jun-19	9%	27.6	0.0
2	Prince Holdings Madras Pvt. Ltd.	30-Jun-19	8%	25.5	0.0
3	Reliance Nippon Life Asset Management Limited	30-Jun-19	8%	24.2	-2.8
4	Subramanian (Vidya)	30-Jun-19	6%	20.0	0.0
5	Sri Saradha Logistics Pvt. Ltd.	30-Jun-19	6%	18.1	0.0
6	AfrAsia Capital Management Ltd	30-Jun-19	5%	15.9	0.0
7	Life Insurance Corporation of India	30-Jun-19	5%	14.6	0.0
8	Aditya Birla Sun Life AMC Limited	30-Jun-19	4%	13.7	-4.3
9	Anna Investments Pvt. Ltd.	30-Jun-19	4%	13.0	0.0
10	Sundaram Asset Management Company Limited	30-Jun-19	3%	7.8	0.0

Source: Company, ICICI Direct Research

Exhibit 16: Recent Activity

Buys			Sells		
Investor name	Value (\$mn)	Shares	Investor name	Value (\$mn)	Shares
Mohan (V M)	0.31	0.25	Aditya Birla Sun Life AMC Limited	-6.27	-4.33
Palaniappan (S K)	0.08	0.07	Reliance Nippon Life Asset Management Limited	-4.10	-2.83
Adityan (Balasubramania Sivanthi)	0.03	0.02	Kotak Mahindra Asset Management Company Ltd.	-2.81	-1.94
Bessemer Trust Company, N.A. (US)	0.02	0.02	IDFC Asset Management Company Private Limited	-1.71	-1.18
BlackRock Financial Management, Inc.	0.01	0.01	L&T Investment Management Limited	-1.45	-0.93

Source: Company, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	28.31	28.35	28.32	28.30	28.30
FII	15.79	15.74	15.47	13.30	14.90
DII	28.59	27.80	26.74	28.49	23.54
Others	27.31	28.11	29.47	29.91	33.26

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 18: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Total operating Income</b>	<b>5,168.7</b>	<b>5,628.0</b>	<b>6,211.2</b>	<b>6,640.3</b>
Growth (%)	-10.5	8.9	10.4	6.9
Raw material cost	941.6	1023.2	1116.9	1174.7
Employee Expenses	397.1	357.1	407.3	417.1
Power, Oil & Fuel	1238.9	1641.0	1668.7	1793.3
Freight cost	1194.0	1276.1	1373.1	1473.6
Other Expenses	704.4	692.6	703.0	771.5
Total Operating Exp.	4,475.9	4,990.1	5,269.0	5,630.2
<b>EBITDA</b>	<b>692.8</b>	<b>637.9</b>	<b>942.2</b>	<b>1,010.1</b>
Growth (%)	-19.5	-7.9	47.7	7.2
Depreciation	255.9	251.3	254.7	266.9
Interest	340.2	324.2	345.4	371.1
Other Income	19.4	30.9	18.2	15.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	116.1	93.4	360.3	387.1
Total Tax	15.5	24.0	115.3	123.9
<b>PAT</b>	<b>100.6</b>	<b>69.4</b>	<b>245.0</b>	<b>263.2</b>
<b>Adjusted PAT</b>	<b>100.6</b>	<b>69.4</b>	<b>245.0</b>	<b>263.2</b>
Growth (%)	-42.0	-31.1	253.2	7.5
<b>EPS (₹)</b>	<b>3.2</b>	<b>2.2</b>	<b>7.9</b>	<b>8.5</b>

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	308.2	309.9	309.9	309.9
Reserve and Surplus	4,892.0	4,929.5	5,137.1	5,362.9
Total Shareholders funds	5,200.1	5,239.4	5,447.0	5,672.8
Total Debt	3,127.0	3,576.5	3,806.5	3,906.5
Deferred Tax Liability	653.2	531.7	531.7	531.7
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>8,980.4</b>	<b>9,347.6</b>	<b>9,785.2</b>	<b>10,111.0</b>
<b>Assets</b>				
Gross Block	10,687.7	10,855.7	11,292.8	11,912.8
Less: Acc Depreciation	3,891.4	4,142.7	4,397.4	4,664.3
Net Block	6,796.4	6,713.0	6,895.4	7,248.5
Capital WIP	171.2	177.0	300.0	200.0
<b>Total Fixed Assets</b>	<b>6,967.6</b>	<b>6,890.1</b>	<b>7,195.4</b>	<b>7,448.5</b>
Investments	588.4	694.6	694.6	694.6
Inventory	672.3	823.2	878.5	924.0
Debtors	629.5	729.0	804.9	860.5
Loans and Advances	1,859.8	1,862.3	1,876.8	1,908.1
Other Current Assets	0.0	0.0	0.0	0.0
Cash	8.2	6.2	23.1	12.0
<b>Total Current Assets</b>	<b>3,169.7</b>	<b>3,420.8</b>	<b>3,583.3</b>	<b>3,704.6</b>
Creditors	1,315.9	1,316.3	1,318.8	1,346.2
Provisions	429.3	341.5	369.3	390.4
<b>Total Current Liabilities</b>	<b>1,745.2</b>	<b>1,657.8</b>	<b>1,688.1</b>	<b>1,736.7</b>
Net Current Assets	1,424.5	1,762.9	1,895.2	1,968.0
<b>Application of Funds</b>	<b>8,980.4</b>	<b>9,347.6</b>	<b>9,785.2</b>	<b>10,111.1</b>

Source: Company, ICICI Direct Research

Exhibit 19: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	100.6	69.4	245.0	263.2
Add: Depreciation	255.9	251.3	254.7	266.9
(Inc)/dec in Current Assets	-242.7	-253.0	-145.7	-132.4
Inc/(dec) in CL and Provisions	-191.0	-87.4	30.3	48.6
<b>CF from operating activities</b>	<b>-77.2</b>	<b>-19.7</b>	<b>384.2</b>	<b>446.2</b>
(Inc)/dec in Investments	30.7	-106.3	0.0	0.0
(Inc)/dec in Fixed Assets	-122.8	-173.8	-560.0	-520.0
Others	-24.6	-121.5	0.0	0.0
<b>CF from investing activities</b>	<b>-116.7</b>	<b>-401.6</b>	<b>-560.0</b>	<b>-520.0</b>
Issue/(Buy back) of Equity	0.0	1.8	0.0	0.0
Inc/(dec) in loan funds	205.7	449.4	230.0	100.0
Dividend paid & dividend tax	-29.7	-37.4	-37.4	-37.4
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	19.5	5.5	0.0	0.0
<b>CF from financing activities</b>	<b>195.5</b>	<b>419.3</b>	<b>192.6</b>	<b>62.6</b>
Net Cash flow	1.6	-1.9	16.9	-11.1
Opening Cash	6.6	8.2	6.2	23.1
<b>Closing Cash</b>	<b>8.2</b>	<b>6.2</b>	<b>23.1</b>	<b>12.0</b>

Source: Company, ICICI Direct Research

Exhibit 21: Key Ratios				
(Year-end March)	FY18E	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
Adjusted EPS	3.2	2.2	7.9	8.5
Cash EPS	11.5	10.3	16.1	17.1
BV	167.8	169.1	175.8	183.1
DPS	0.8	1.0	1.0	1.0
Cash Per Share	0.3	0.2	0.7	0.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.4	11.3	15.2	15.2
PAT Margin	1.9	1.2	3.9	4.0
Inventory days	50.0	48.5	50.0	49.5
Debtor days	44.5	47.3	47.3	47.3
Creditor days	92.9	85.4	77.5	74.0
<b>Return Ratios (%)</b>				
RoE	1.9	1.3	4.5	4.6
RoCE	5.1	4.5	7.2	7.5
RoIC	5.0	4.2	7.3	7.5
<b>Valuation Ratios (x)</b>				
P/E	25.8	37.7	10.7	9.9
EV / EBITDA	8.2	9.7	6.8	6.4
EV / Net Sales	1.1	1.1	1.0	1.0
Market Cap / Sales	0.5	0.5	0.4	0.4
Price to Book Value	0.5	0.5	0.5	0.5
<b>Solvency Ratios</b>				
Debt/EBITDA	4.5	5.6	4.0	3.9
Debt / Equity	0.6	0.7	0.7	0.7
Current Ratio	1.8	2.1	2.1	2.1
Quick Ratio	1.8	2.1	2.1	2.1

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP		M Cap	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
ACC*	1,575	1,765	HOLD	29,601	81	73	83	15.1	12.2	10.5	120	116	113	14.7	18.5	19.6	14.9	12.7	13.7
Ambuja Cem*	213	205	HOLD	42,294	8.1	7.5	7.9	20.6	17.4	16.5	140	138	135	11.4	14.9	16.1	11.3	10.0	10.6
UltraTech Cem	4,260	5,350	BUY	116,894	89	141	171	20.7	14.7	12.1	238	192	188	9.7	13.4	15.5	8.8	12.3	13.1
Shree Cement	20,250	23,500	BUY	70,470	318	513	660	27.7	19.8	16.5	214	171	167	11.5	17.8	20.2	11.5	16.1	17.5
Heidelberg Cem	195	220	HOLD	4,409	9.7	11.3	13.1	10.6	9.0	8.1	139	130	115	21.8	24.7	25.2	20.5	20.7	20.8
India Cement	84	95	HOLD	2,593	2.2	7.9	8.5	9.7	6.8	6.4	62	67	69	4.5	7.2	7.5	1.3	4.5	4.6
JK Cement	990	1,150	BUY	6,923	42.0	58.6	65.7	10.4	8.9	7.5	106	104	103	12.5	13.3	14.3	11.2	13.9	13.9
JK Lakshmi Cem	333	485	BUY	3,919	6.8	23.3	21.9	12.1	7.3	6.8	64	63	56	5.2	15.4	12.7	5.2	15.4	12.7
Mangalam Cem	259	280	HOLD	691	-3.7	33.0	35.5	22.5	5.2	4.6	49	47	42	3.2	16.7	16.2	-2.0	14.9	13.9
Star Cement	103	105	HOLD	4,318	7.2	6.8	8.3	9.1	9.7	7.9	149	150	101	18.9	16.6	18.2	17.3	15.3	16.1
Ramco Cement	754	950	BUY	17,951	21.5	28.2	32.2	18.5	14.1	11.6	183	169	157	8.1	9.7	10.8	11.7	13.9	14.2
Sagar Cement	600	800	BUY	1,224	6.7	25.7	34.1	11.3	8.3	7.9	53	54	58	6.4	9.7	10.2	1.6	5.4	6.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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