

India Cement

Estimate change



TP change



Rating change



Bloomberg	ICEM IN
Equity Shares (m)	308
M.Cap.(INRb)/(USD\$b)	39.3 / 0.5
52-Week Range (INR)	140 / 68
1, 6, 12 Rel. Per (%)	-18/96/44
12M Avg Val (INR M)	371

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Financial Snapshot (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	50.6	43.9	53.3
EBITDA	5.9	5.1	7.6
Adj. PAT	0.2	-0.5	1.4
EBITDA Margin (%)	11.6	11.6	14.3
Adj. EPS (INR)	0.7	-1.5	4.4
EPS Gr. (%)	-69	-316	-395
BV/Sh. (INR)	174.7	172.6	175.8
Ratios			
Net D:E	0.7	0.6	0.6
RoE (%)	0.4	-0.9	2.5
RoCE (%)	2.2	2.4	4.5
Payout (%)	-81.1	-47.1	26.6
Valuations			
P/E (x)	184.7	-85.4	28.9
P/BV (x)	0.7	0.7	0.7
EV/EBITDA(x)	12.9	14.5	9.5
EV/ton (USD)	65	64	63
Div. Yield (%)	0.6	0.5	0.8

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	28.3	28.2	28.2
DII	8.3	16.6	28.4
FII	12.9	14.7	13.6
Others	50.6	40.6	29.8

FII Includes depository receipts

CMP: INR127
TP: INR120 (-5%)
Neutral

Worst quarter in close to a decade

Market share recovery key to improvement

- India Cement (ICEM)'s 4QFY20 results highlight the continued loss in market share, with volumes down 20% YoY v/s market decline of ~10% YoY. We note that ICEM has reported the lowest EBITDA in close to a decade.
- We lower our FY21/FY22 estimates to factor weaker volume trends. Following sharp appreciation in the past six months, we find the stock fairly valued at 9.3x FY22 EV/EBITDA and USD60/t of capacity, and maintain our **Neutral** rating. Any potential change of ownership and management control is the key monitorable.

Miss on all fronts; EBITDA down 48% QoQ

- Volumes declined 20% YoY (flat QoQ) to 2.65mt in 4QFY20 (est.: 2.95mt) due to the impact of COVID-19 and market share loss. Blended realization declined 3% QoQ (7% YoY) to INR4,352/t. Thus, net sales fell 26% YoY to INR11.5b (est.: INR13.5b).
- EBITDA/t came in lower by 47% QoQ at INR254/t (est.: INR648/t). This was primarily due to lower realization and higher freight costs. As a result, EBITDA was down 65% (48% QoQ) to INR675m (65% lower than estimated). The EBITDA margin shrank 6.4pp YoY and 4.9pp QoQ to 5.9%. Notably, the company reported the lowest ever EBITDA in close to a decade.
- The company reported an exceptional expense of INR1.0b on account of the impairment of advances given to subsidiaries.
- ICEM reported net loss of INR1.1b v/s profit of INR439m in 4QFY19 (v/s est. profit of INR358m). Adj. for impairment provision of INR1.0b, net loss after tax stood at INR543m.
- FY20 reported rev. / EBITDA / adj. PAT stood at INR50.6b/INR5.9b/INR0.2b, down 1%/8%/69% YoY, respectively.
- FY20 net debt rose by INR2.5b to INR36.1b due to a higher working capital as collections stood lower at INR4b in Mar'20 v/s INR8b in Mar'19.

Highlights from management commentary

- ICEM lost ~0.7mt sales in Mar'20 due to the COVID-19-led shutdown.
- Andhra Pradesh and Telangana's industry volumes declined 36% YoY in 4Q and 23% YoY in FY20. The South India market saw 11% decline in FY20.
- ICEM is looking to reduce fixed costs using lesser contractual labor and improving the sales mix in favor of PPC, which has a lower cost. It expects the impact of fixed cost reduction to be visible from 2QFY21. On the other hand, the benefit of lower coal and fuel prices is expected to be realized in 3QFY21 as it currently has a higher cost inventory that would last up to 2QFY21.

- Net debt stood at INR36.2b at FY20-end. The company expects to repay INR5.0b toward term debt in FY21.
- ICEM would go slow on its planned Damoh (Madhya Pradesh) greenfield project given weak demand currently.
- The company has switched over to cash-and-carry from credit-based sales, which has led to improved liquidity.

Valuation and view

- We expect ICEM's debt to remain elevated due to weak cement demand as well as weak performances from the non-core businesses. Net debt for ICEM stood at INR36.2b in FY20, which we expect would reduce marginally to INR34b in FY22 (implying 4.4x net debt/EBITDA).
- ICEM is also losing market share in southern India, evident from its weaker volume trends v/s peers Ramco and Dalmia.
- ICEM trades at 14.5x/9.5x FY21/FY22E EV/EBITDA and at USD64/t / USD63/t FY21/FY22E capacity. We value the stock at 9x FY22E EV/EBITDA to arrive at a target price of INR120. Maintain **Neutral**.

Quarterly Perf. (Standalone)

Y/E March	(INR m)											
	FY19				FY20				FY19	FY20	FY20	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	(%)
Sales Dispatches (m ton)	3.08	3.08	2.96	3.33	3.04	2.67	2.66	2.65	12.44	11.02	2.95	-10
YoY Change (%)	16	14	9	8	-1	-13	-10	-20	11.4	-11.4	-11.4	
Realization (INR/ton)	4,425	4,508	4,450	4,697	4,828	4,671	4,478	4,352	4,524	4,589	4,589	-5
YoY Change (%)	-8.9	-4.0	0.0	3.8	9.1	3.6	0.6	-7.3	-2.2	1.4	-2.3	
QoQ Change (%)	-2.2	1.9	-1.3	5.5	2.8	-3.3	-4.1	-2.8			2.5	
Net Sales	13,607	13,871	13,163	15,640	14,688	12,457	11,911	11,519	56,280	50,575	13,543	-15
YoY Change (%)	5.5	9.4	8.5	11.9	7.9	-10.2	-9.5	-26.3	8.9	-10.1	-13.4	
EBITDA	1,561	1,548	1,349	1,922	2,420	1,472	1,287	675	6,379	5,852	1,912	-65
Margins (%)	11.5	11.2	10.2	12.3	16.5	11.8	10.8	5.9	11.3	11.6	14.1	
Depreciation	616	617	632	648	599	613	615	642	2,513	2,469	646	
Interest	733	954	728	827	799	816	806	924	3,242	3,345	873	6
Other Income	55	38	43	174	32	32	33	180	310	277	112	
PBT before EO expense	267	14	31	622	1,054	75	-101	-711	934	316	505	
Extra-Ord expense	0	0	0	0	0	0	0	1,000		1,000	0	
PBT	267	14	31	622	1,054	75	-101	-1,711	934	-684	505	
Tax	57	0	0	183	331	-13	-48	-600	240	-329	148	
Rate (%)	21.2	0.0	0.0	29.5	31.5	-16.7	46.9	35.1	25.7	48.1	29.2	
Reported PAT	210	14	31	439	722	87	-54	-1,111	694	-355	358	-411
Adj PAT	210	14	31	439	722	87	-54	-543	694	212	358	
YoY Change (%)	-20.5	-94.0	-79.5	24.3	243.5	509.8	-271.6	-223	-31.0	-69.5	-18.5	
Margins (%)	1.5	0.1	0.2	2.8	4.9	0.7	-0.5	-4.7	1.2	0.4	2.6	

E: MOFSL Estimates

Per ton analysis

	(INR/t)											
	FY19				FY20				FY19	FY20	FY20	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4Q	(%)
Sales Dispatches (m ton)	3.08	3.08	2.96	3.33	3.04	2.67	2.66	2.65	12.44	11.02	2.95	
YoY Change (%)	16	14	9	8	-1	-13	-10	-20	11.4	-11.4	-11.4	
Net Realizations	4,425	4,508	4,450	4,697	4,828	4,671	4,478	4,345	4,524	4,589	4,589	-5
YoY (%)	-9	-4	0	4	9	4	1	-7	-2.2	1.4	-2.3	226
RM Cost	759	785	835	904	851	866	870	680	823	818	866	-21
Employee Expenses	305	284	289	272	324	327	326	292	287	318	311	-6
Power, Oil & Fuel	1,302	1,324	1,361	1,293	1,240	1,251	1,153	1,273	1,319	1,230	1,156	10
Freight cost	1,046	1,020	1,012	1,024	1,058	1,021	1,041	1,088	1,026	1,052	980	11
Other Expenses	505	592	497	626	559	655	604	757	557	641	627	21
Total Exp	3,917	4,005	3,994	4,119	4,033	4,119	3,994	4,091	4,011	4,058	3,941	4
EBITDA	508	503	456	577	795	552	484	254	513	531	648	-61



Conference call highlights

Highlights from management commentary

COVID-19 impact

- ICEM lost ~0.7mt sales in Mar'20 due to COVID-19-led shutdown.
- As a result, India Cement lost INR1.55b in gross profit; however, the overall impact was reduced to INR0.6b due to various cost-control measures undertaken in FY20 and an improvement in NPR by INR38/ton YoY.
- Debtors' collections were impacted due to COVID-19; collections in Mar'20 stood at INR4.0b v/s INR8.0b in Mar'19.
- As a result, the company had to utilize a higher amount from its cash credit facility, resulting in utilization of INR6.46b in 4QFY20; however, the company has repaid ~INR2.5b, and current utilization stands at INR4.0b.
- The Chennai grinding unit is not operational currently due to lockdown.

Volumes

- FY20 sales volumes stand at 11mt, down from 12.4mt in FY19.
- 4QFY20 sales volumes stood at 2.65mt.
- Capacity utilization stood at 69% in 4QFY20 and 71% in FY20. However, Mar'20 capacity utilization was at 50%.
- Andhra Pradesh and Telangana's industry volumes declined 36% YoY in 4Q and 23% YoY in FY20. The South India market saw 11% decline in FY20.

Cost reduction in focus

- ICEM is looking to reduce fixed costs by using lesser contractual labor and improving the sales mix in favor of PPC, which has a lower cost.
- The impact of fixed cost reduction should be visible from 2QFY21. On the other hand, the benefit of lower coal and fuel prices is expected to be realized in 3QFY21 as it currently has a higher cost inventory that would last up to 2QFY21.
- ICEM has stopped compensating dealers for selling at a discount to the billing price.
- A rise in diesel prices and increase in lead distance led to an increase in freight cost per ton in 4QFY20.

Demand and pricing insights

- ICEM is cautious about demand given the unpredictability of the lockdown. Demand has picked up in geographies where the lockdown has been lifted.
- Prices have gone up from April'20 and are expected to sustain.
- The Rajasthan plant's utilization has improved as demand has picked up in the northern region.
- Expect strong demand recovery in Andhra Pradesh as the state govt. has started placing orders. Even the Telangana govt. has launched housing schemes that would boost demand.

Debt and capex outlook

- Net debt stood at INR36.2b at FY20-end.
- The company repaid term debt of INR14.b in FY20; INR5.0b repayment is scheduled in FY21.

- ICEM would go slow on its planned Damoh (Madhya Pradesh) greenfield project given weak demand currently.
- Maintenance capex for FY21 would be INR700m.
- ICEM is planning an 8MW WHRS at Chilamkur, which would reduce power cost.

Other highlights

- The company has switched over to cash-and-carry from credit-based sales, which has led to improved liquidity.
- The company has revalued its land bank and upward revised its valuation by INR2.36b, reflected in other comprehensive income.
- Of the INR1.0b impairment provision for subsidiary receivables, INR0.45b is for the Travel business and INR0.4b is for the Infrastructure business. As there is uncertainty regarding the revival of the Travel and Infrastructure businesses, the company has taken impairment on loans and advances made to these businesses.
- ICEM would focus on the Cement business, while looking to hive non-core businesses.
- Regarding the possibility of an ownership change, the management stated no discussions had happened with strategic shareholder Mr Radhakishan Damani. Mr Damani, with his family, recently acquired a 20% stake in the company.

Key exhibits

Exhibit 1: Volumes decline 20% YoY, realizations 3% QoQ

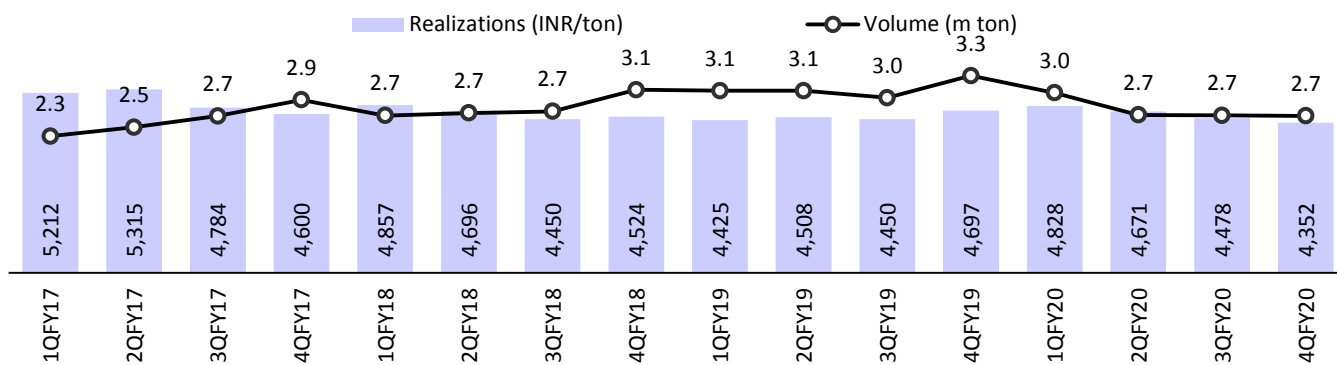
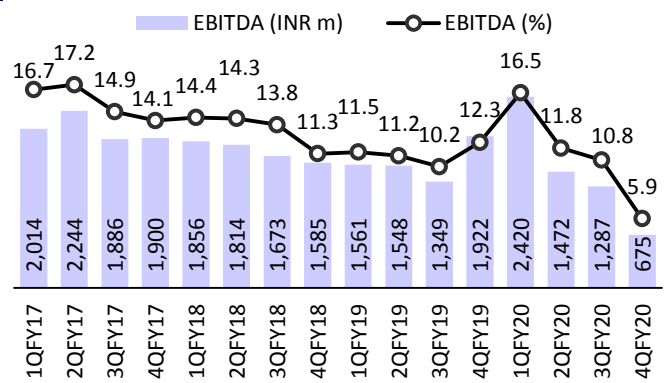
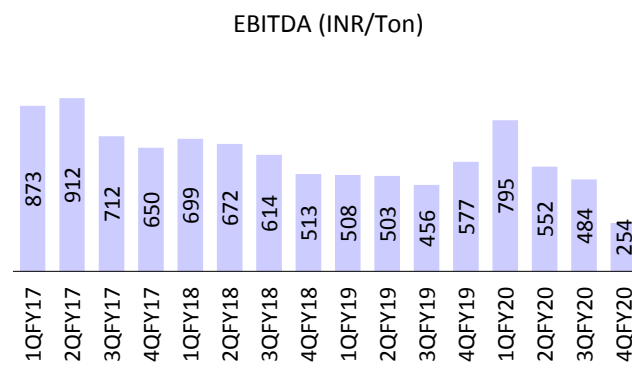


Exhibit 2: Margins decline 4.9pp QoQ



Source: Company, MOFSL

Exhibit 3: Lowest EBITDA/t in nine years



Source: Company, MOFSL

Exhibit 4: Key operating indicators (incl. other businesses)

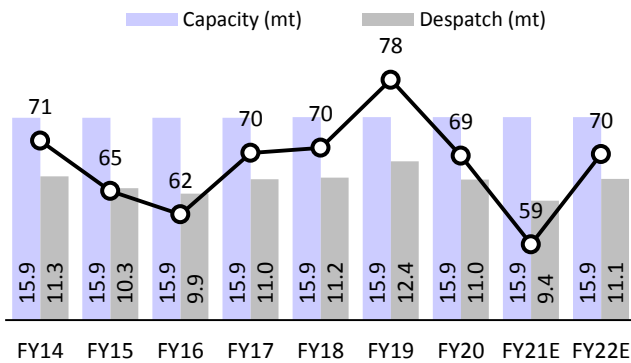
INR/ton	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net realization	4,345	4,697	-7.5%	4,478	-3.0%
Expenditure					
RM Cost	680	904	-24.7%	870	-21.8%
Staff Cost	292	272	7.2%	326	-10.4%
Energy Cost	1,273	1,293	-1.6%	1,153	10.4%
Selling Exp.	1,088	1,024	6.2%	1,041	4.5%
Other Exp.	757	626	21.0%	604	25.3%
Total Exp	4,091	4,119	-0.7%	3,994	2.4%
EBITDA	254	577	-55.9%	484	-47.4%

Valuation and view

- With ~80% of its capacity in southern India, ICEM has good brand recall in the region. Also, it is one of the most leveraged plays on price recovery in this region. We note that for every INR10/t of price hike, EPS increases by 6% for ICEM.
- We expect debt levels to remain elevated for the company due to the high investments in the non-cement business. Net debt for ICEM stood at INR36b in FY20, which should reduce to INR33.5b in FY22; on the other hand, net debt/EBITDA should reduce to 4.4x in FY22 from 6.2x in FY20. While the company has plans to set up a capacity in Damoh, Madhya Pradesh, for which it has a mining lease, we believe elevated debt levels would delay the expansion.
- The company is also losing market share in the southern region, as evident from its lower volume growth v/s Ramco and Dalmia.
- ICEM trades at 14.5x/9.5x FY21/FY22E EV/EBITDA and at a USD64/t / USD63/t FY21/FY22E capacity. We value the stock at 9x FY22E EV/EBITDA to arrive at a target price of INR120. Maintain **Neutral**.

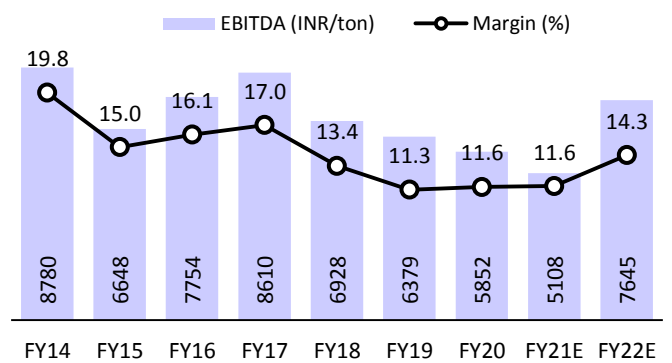
Story in charts

Exhibit 5: Capacity utilization to remain lower in FY21



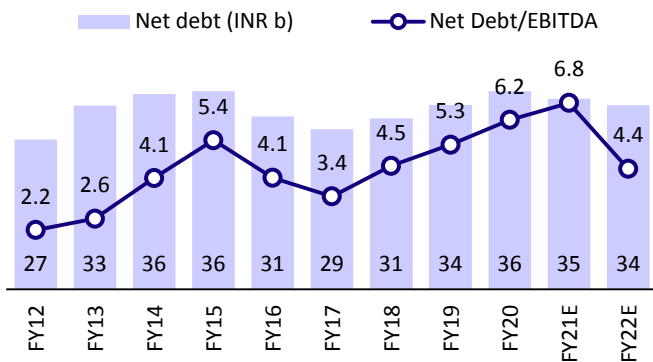
Source: Company, MOFSL

Exhibit 6: EBITDA and margin trend



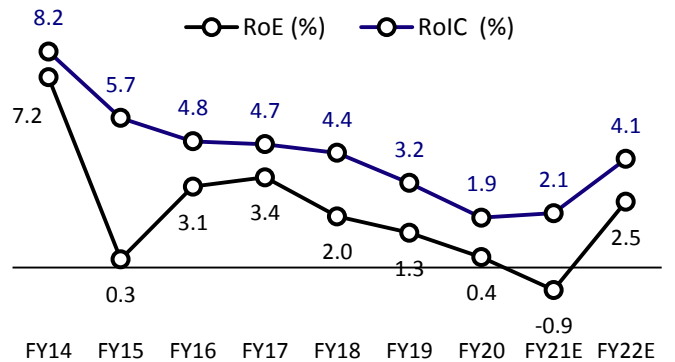
Source: Company, MOFSL

Exhibit 7: Company's net debt profile



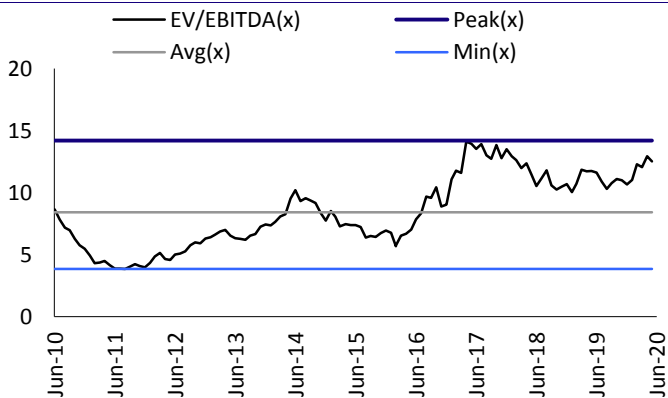
Source: Company, MOFSL

Exhibit 8: RoE/RoIC profile



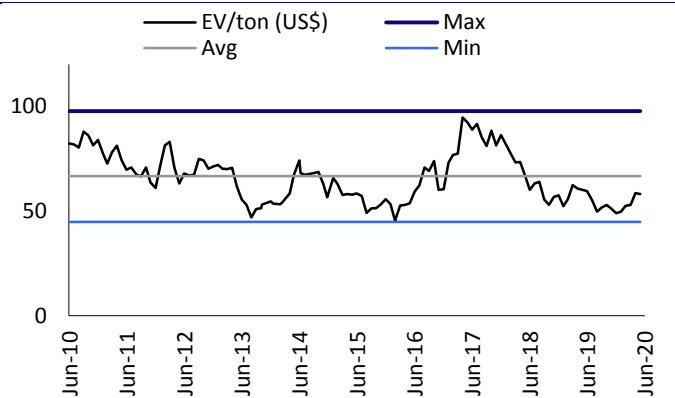
Source: Company, MOFSL

Exhibit 9: ICEM's EV/EBITDA trend



Source: MOFSL, Company

Exhibit 10: ICEM's EV/ton trend



Source: MOFSL, Company

Financials and valuations

Standalone Income Statement

	(INR m)							
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	44,236	48,114	50,795	51,692	56,280	50,575	43,871	53,344
Change (%)	-0.4	8.8	5.6	1.8	8.9	-10.1	-13.3	21.6
EBITDA	6,648	7,754	8,610	6,928	6,379	5,852	5,108	7,645
Margin (%)	15.0	16.1	17.0	13.4	11.3	11.6	11.6	14.3
Depreciation	2,579	2,195	2,571	2,559	2,513	2,469	2,532	2,574
EBIT	4,069	5,560	6,040	4,369	3,866	3,384	2,576	5,071
Int. and Finance Charges	4,260	3,825	3,605	3,402	3,242	3,345	3,464	3,545
Other Income - Rec.	308	221	165	194	310	277	277	277
PBT bef. EO Exp.	117	1,956	2,600	1,161	934	316	-611	1,804
EO Expense/(Income)	0	32	0	0	0	1,000	0	0
PBT after EO Exp.	117	1,924	2,600	1,161	934	-684	-611	1,804
Current Tax	0	625	867	179	325	69	-153	451
Deferred Tax	0	0	0	-24	-85	-398	0	0
Tax Rate (%)	0.0	32.5	33.3	13.3	25.7	48.1	25.0	25.0
Reported PAT	117	1,299	1,734	1,006	694	-355	-458	1,353
PAT Adj for EO items	117	1,321	1,734	1,006	694	212	-458	1,353
Change (%)	-95.9	1,024.8	31.3	-42.0	-31.0	-69.5	-316.3	-395.1
Margin (%)	0.3	2.7	3.4	1.9	1.2	0.4	-1.0	2.5

Balance Sheet

	(INR m)							
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Equity Share Capital	3,072	3,082	3,082	3,082	3,099	3,099	3,099	3,099
Total Reserves	32,859	46,728	48,018	48,922	49,298	51,050	50,376	51,367
Net Worth	35,931	49,809	51,099	52,003	52,397	54,149	53,475	54,467
Deferred Liabilities	3,297	5,719	6,556	6,532	6,308	5,910	5,910	5,910
Secured Loan	21,968	21,331	23,797	28,180	26,433	23,750	23,750	23,750
Unsecured Loan	10,039	10,218	5,416	3,049	7,237	12,420	12,420	12,420
Total Loans	32,007	31,549	29,213	31,229	33,670	36,170	36,170	36,170
Capital Employed	71,235	87,077	86,868	89,764	92,375	96,230	95,555	96,548
Gross Block	67,600	74,536	75,015	75,794	77,474	81,070	82,270	83,770
Less: Accum. Deprn.	31,852	2,712	5,286	7,831	10,344	12,812	15,344	17,918
Net Fixed Assets	35,749	71,824	69,729	67,963	67,131	68,258	66,926	65,853
Capital WIP	1,000	926	1,278	1,712	1,770	1,958	1,958	1,958
Total Investments	15,852	5,507	6,190	5,884	6,946	7,369	7,369	7,369
Curr. Assets, Loans&Adv.	30,513	25,364	29,256	31,700	35,203	36,939	36,754	40,423
Inventory	6,069	5,994	7,450	6,723	8,232	8,263	7,212	8,038
Account Receivables	4,661	5,359	5,089	6,295	7,290	7,163	6,611	7,307
Cash and Bank Balance	39	67	68	84	67	66	1,484	2,630
Loans and Advances	19,540	13,945	16,649	18,599	19,614	21,447	21,447	22,447
Real Estate Projects WIP	204	0	0	0	0	0	0	0
Curr. Liability & Prov.	11,879	16,544	19,584	17,495	18,675	18,295	17,452	19,055
Account Payables	8,253	10,367	13,180	11,759	9,298	13,342	12,621	13,884
Other Current Liabilities	3,038	4,569	4,796	4,307	7,971	3,727	3,606	3,946
Provisions	588	1,609	1,608	1,428	1,405	1,225	1,225	1,225
Net Current Assets	18,634	8,820	9,671	14,205	16,528	18,644	19,302	21,367
Appl. of Funds	71,235	87,077	86,868	89,764	92,375	96,230	95,555	96,548

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
Standalone EPS	0.4	4.3	5.6	3.3	2.3	0.7	-1.5	4.4
Cash EPS	8.8	11.4	14.0	11.6	10.4	8.6	6.7	12.7
BV/Share	117.0	161.6	165.8	168.8	169.1	174.7	172.6	175.8
DPS	0.0	0.0	1.0	0.8	0.8	0.8	0.6	1.0
Payout (%)	0.0	0.0	17.8	24.5	53.9	-81.1	-47.1	26.6
Valuation (x)								
P/E					56.4	184.7	-85.4	28.9
Cash P/E					12.3	14.7	19.0	10.0
P/BV					0.8	0.7	0.7	0.7
EV/Sales					1.3	1.5	1.7	1.4
EV/EBITDA					11.4	12.9	14.5	9.5
EV/Ton (US\$)					63.15	65.31	64.08	63.09
Dividend Yield (%)					0.6	0.6	0.5	0.8
Return Ratios (%)								
RoIC	5.7	4.8	4.7	4.4	3.2	1.9	2.1	4.1
RoE	0.3	3.1	3.4	2.0	1.3	0.4	-0.9	2.5
RoCE	6.3	5.2	5.1	4.8	3.7	2.2	2.4	4.5
Working Capital Ratios								
Asset Turnover (x)	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6
Inventory (Days)	50.1	45.5	53.5	47.5	53.4	59.6	60.0	55.0
Debtor (Days)	34	36	32	43	47	52	55	50
Leverage Ratio (x)								
Current Ratio	2.6	1.5	1.5	1.8	1.9	2.0	2.1	2.1
Debt/Equity	0.9	0.6	0.6	0.6	0.6	0.7	0.7	0.7

Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
(INR m)								
OP/(Loss) before Tax	295	1,910	2,517	1,257	853	282	-611	1,804
Depreciation	2,579	2,693	2,571	2,559	2,513	2,469	2,532	2,574
Interest & Finance Charges	3,947	3,652	3,528	3,220	3,074	3,050	3,464	3,545
Direct Taxes Paid	-383	-55	-637	-384	-88	-312	153	-451
(Inc)/Dec in WC	-817	767	112	-2,072	-3,069	-1,269	760	-919
CF from Operations	5,621	8,966	8,090	4,580	3,283	4,220	6,297	6,552
Others	173	204	30	105	-119	-81	0	0
CF from Operating incl EO	5,794	9,169	8,121	4,685	3,164	4,139	6,297	6,552
(Inc)/Dec in FA	-1,324	-1,598	-788	-1,902	-1,712	-1,365	-1,200	-1,500
Free Cash Flow	4,470	7,571	7,332	2,783	1,452	2,774	5,097	5,052
(Pur)/Sale of Investments	-6,397	5	-683	344	-923	-278	0	0
Others	6,722	430	-405	-1,385	231	-1,759	0	0
CF from Investments	-999	-1,162	-1,876	-2,942	-2,404	-3,403	-1,200	-1,500
Issue of Shares	0	0	0	0	18	0	0	0
Inc/(Dec) in Debt	-17	3,463	16,880	9,583	5,424	2,562	0	0
Interest Paid	-4,781	-5,042	-3,537	-3,411	-3,136	-3,000	-3,464	-3,545
Dividend Paid	11	-2	-370	-371	-336	-300	-216	-361
Others	0	-6,398	-19,217	-7,528	-2,746	0	0	0
CF from Fin. Activity	-4,787	-7,979	-6,243	-1,727	-776	-738	-3,680	-3,906
Inc/Dec of Cash	8	28	1	16	-16	-1	1,417	1,146
Opening Balance	31	39	67	68	84	68	67	1,484
Closing Balance	39	67	68	84	68	67	1,484	2,630

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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