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Q4FY20 result review and
earnings revision

Cement

Target price: Rs65

Earnings revision

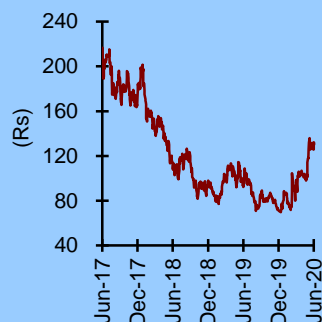
(%)	FY21E	FY22E
Sales	↓ 4.6	↓ 2.6
EBITDA	↓ 0.2	↓ 0.3
PAT	↓ 8.4	↓ 4.9

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	28.3	28.2	28.3
Institutional investors	35.9	31.2	21.1
MFs and others	14.9	11.1	2.7
Fls and Banks	0.3	0.2	0.2
Insurance Cos.	5.5	5.3	5.3
FIs	15.2	14.6	12.9
Others	35.8	40.6	50.6

Source: CMIE

Price chart



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India Cements

SELL

Maintained

Rs127

High leverage remains key concern

India Cements' (ICEM) Q4FY20 EBITDA sharply declined 59% YoY to Rs855mn, significantly below our/ consensus estimates owing to lower than expected realisation and volumes. Unlike peers, realisation declined 3% QoQ/ 6% YoY (I-Sec: +2% QoQ); while volumes declined 21% YoY to 2.65mnte (I-Sec: 15% YoY decline). EBITDA/te declined 42% YoY to 24-quarter low at Rs354/te. Consolidated net debt increased by Rs2.4bn YoY to Rs36.3bn owing to low profitability and further investment of Rs0.5bn in various subsidiaries/associates in FY20. We maintain our FY21-22E EBITDA with unchanged target price of Rs65/share based on 7x FY22E EV/E. Maintain SELL, as net debt to EBITDA inches to ~6x amidst rich valuation at 9.4x FY22E EV/E.

- ▶ **Revenue declined 26% YoY to Rs11.5bn (I-Sec: Rs13.1bn)** owing to lower volumes and realisation. Unlike peers like TRCL/ORCMNT (which reported 5% and 9% QoQ increase in realisation respectively), realisation surprised with 3% QoQ decline to Rs4,325/te (I-Sec: Rs4,552/te). Our channel checks suggest sharp +20% QoQ/ 10% YoY price increase in South during Q1FY21E.
- ▶ **Volumes declined sharply 21% YoY to 2.65mnte (I-Sec: 2.84mnte)** as ICEM lost nearly 0.4mnte volumes in Mar'20 owing to Covid-19 outbreak, as per management estimates. Industry volumes in South have declined by 15% and 8% YoY in Q4FY20 and FY20 respectively owing to sharp 36%/23% decline in demand in Andhra Pradesh/ Telangana in Q4FY20 and FY20 respectively due to the deferment of government infrastructure spends. Management expects AP/TEL government off-take from the two states to improve in next 2-3 months.
- ▶ **Cement EBITDA/te declined 42% YoY to 24-quarter low at Rs354/te (I-Sec: Rs547/te).** Cement cost/te stood flat YoY. Raw material plus power & fuel cost declined 11% YoY owing to lower input prices. Freight cost/te surprised with 5% QoQ and 6% YoY increase with rise in diesel prices and average lead distances. Other expenses/te (including employees cost) increased 17% YoY owing to poor operating leverage. Adjusted net loss stood at Rs110mn. Reported net loss stood at Rs1.1bn as company has made Rs1bn provision for expected credit losses in respect of some advances and receivables primarily from subsidiaries (Airline business- Rs450mn, Infra business- Rs400mn). Comprehensive income includes Rs2.4bn comprising mainly the gain from re-valuation of PP&E.
- ▶ **Weak FY20 performance:** Volumes declined 11% YoY to 11mnte with 71% utilisation. EBITDA/te grew 8% YoY to Rs578/te as realisation increased 1.5% YoY, while costs/te remained flat YoY. FCF generation stood negative at Rs1.6bn in FY20 post OCF (before working capital) of Rs2.6bn which has been utilised to fund working capital of Rs1.7bn and capex of Rs2.5bn. Besides, ICEM has also invested Rs0.5bn in various subsidiaries/ associates in FY20. Accordingly, consolidated net debt increased by Rs2.4bn YoY to Rs36.3bn and net debt to EBITDA rose to ~6x as at FY20-end.

Market Cap	Rs39bn/US\$519mn
Reuters/Bloomberg	ICMN.BO/ICEM IN
Shares Outstanding (mn)	309.9
52-week Range (Rs)	136/70
Free Float (%)	75.0
FII (%)	12.9
Daily Volume (US\$'000)	6,713
Absolute Return 3m (%)	44.1
Absolute Return 12m (%)	34.5
Sensex Return 3m (%)	30.9
Sensex Return 12m (%)	(10.0)

Year to Mar	2019	2020	2021E	2022E
Revenue (Rs mn)	58,096	52,281	48,455	56,171
EBITDA (Rs mn)	6,649	6,365	6,747	7,960
Net Income (Rs mn)	191	639	698	1,586
% Chg YoY	(63.5)	234.8	9.2	127.3
P/E (x)	206.0	61.5	56.4	24.8
CEPS (Rs)	9.2	10.3	10.5	13.5
EV/E (x)	10.9	11.9	11.1	9.4
Dividend Yield	0.6	0.5	0.5	0.5
RoCE (%)	2.1	10.0	3.8	4.5
RoE (%)	0.4	1.2	1.3	2.8

Table 1: Q4FY20 result review

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	I-Sec est.	Var (%)
Volume Sales	2.65	3.33	(20.5)	2.67	(0.7)	2.84	(6.7)
Blended realisation	4,420	4,749	(6.9)	4,480	(1.3)	4,642	(4.8)
Net Sales	11,519	15,640	(26.3)	11,911	(3.3)	13,134	(12.3)
Other operating income	180	174	3.6	33	446.1	40	349.3
Raw Materials							
Personnel Cost	1,804	3,011	(40.1)	2,316	(22.1)	2,452	(26.4)
Power fuel costs	774	907	(14.7)	867	(10.7)	927	(16.5)
Freight	3,375	4,306	(21.6)	3,066	10.1	3,255	3.7
Other Expenses	2,885	3,411	(15.4)	2,770	4.2	2,937	(1.8)
Total Expenses	2,007	2,083	(3.6)	1,607	24.9	1,902	5.5
EBITDA	10,845	13,718	(20.9)	10,625	2.1	11,473	(5.5)
EBITDA / te	855	2,096	(59.2)	1,320	(35.2)	1,701	(49.8)
Cement EBITDA/te	323	629	(48.7)	495	(34.8)	599	(46.1)
Interest	924	827	11.7	806	14.6	845	9.3
Depreciation	642	648	(0.9)	615	4.4	620	3.6
Other Income	-	-	NA	-	NA	-	NA
Recurring pre-tax income	(711)	622	NA	(101)	NA	237	NA
Extraordinary inc/(exp)	(1,000)	-	-	-	-	-	-
Taxation	(600)	183	NA	(48)	NA	(19)	NA
Reported Net Income	(1,111)	439	NA	(54)	NA	255	NA
Recurring Net Income	(110)	439	NA	(54)	NA	255	NA
Ratios (%)							
EBITDA margins	7.4	13.4		11.1		13.0	
Net profit margins	(0.9)	2.8		(0.4)		1.9	

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis – standalone

(Rs/te)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net realisation - cement	4,669	4,783	4,616	4,456	4,325
YoY (%)	3.8	8.7	3.8	0.9	(6.2)
Expenditure					
Raw material costs	904	851	866	869	681
Power & fuel costs	1,293	1,240	1,251	1,150	1,275
Freight costs	1,024	1,058	1,021	1,039	1,090
Staff costs	272	324	327	325	292
Other expenditure	616	550	635	587	700
Total costs - cement	4,109	4,023	4,100	3,970	4,039
Other operating income	52	11	12	12	68
EBITDA - cement	612	771	528	499	354

Source: Company data, I-Sec research

Table 3: Historical quarterly – segment revenues and EBITDA

(Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue					
Cement + RMC	15,548	14,551	12,312	11,881	11,448
Shipping	83	84	69	26	65
Windmill	9	53	77	4	7
Infrastructure	-	-	-	-	-
Total	15,640	14,688	12,457	11,911	11,519
EBITDA					
Cement + RMC	2,039	2,347	1,409	1,330	938
Shipping	48	52	19	(15)	23
Windmill	9	53	77	4	7
Infrastructure	-	-	-	-	(113)
Total	2,096	2,452	1,504	1,320	855

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

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	FY18	FY19	FY20	FY21E	FY22E
Capacity	15,550	15,550	15,550	15,550	15,550
Production	11,115	12,440	11,020	10,034	11,537
Capacity utilisation (%)	71	80	71	65	74
Sales	11,176	12,440	11,020	10,034	11,537
Growth (%)	1.2	11.3	(11.4)	(9.0)	15.0
Realisation (Rs/te)	4,667	4,603	4,672	4,746	4,794
Growth (%)	5.2	(1.4)	1.5	1.6	1.0

Source: Company data, I-Sec research

Table 5: Per-tonne analysis

(Rs/te)

	FY18	FY19	FY20	FY21E	FY22E
Blended realisation	4,713	4,670	4,744	4,829	4,869
Net realisation – Cement	4,667	4,603	4,672	4,746	4,794
Raw materials consumed	889	867	894	867	874
Power and fuel	1,097	1,357	1,236	1,158	1,200
Freight	1,067	1,024	1,051	1,108	1,128
Others	1,037	887	986	1,025	977
Total operating expenses	4,090	4,136	4,167	4,157	4,179
EBITDA/te – Blended	623	535	578	672	690

Source: Company data, I-Sec research

Maintain **SELL** with target price of Rs65/share

We maintain our FY21-22E EBITDA with unchanged target price of Rs65/share based on 7x FY22E EV/E. Maintain SELL, as net debt to EBITDA inches to ~6x amidst rich valuation at 9.4x FY22E EV/E.

Table 6: Valuations based on 7x FY22E EV/E

(Rs.mn)

Target EV/ EBITDA multiple (x)	7
Target EV (Rs mn)	55,723
Net debt / (cash) (Rs mn)	35,613
Target value (Rs mn)	20,110
No. of shares (mn)	310
Target price per share (Rs)	65

Source: I-Sec research

Table 7: Earnings revision

(Rs mn)

	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	48,455	50,782	(4.6)	56,171	57,660	(2.6)
EBITDA	6,747	6,762	(0.2)	7,960	7,983	(0.3)
PAT	698	762	(8.4)	1,586	1,668	(4.9)

Source: Company data, I-Sec research

Financial summary

Table 8: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	58,096	52,281	48,455	56,171
Operating Expenses	51,447	45,916	41,708	48,211
EBITDA	6,649	6,365	6,747	7,960
% margin	11.4	12.2	13.9	14.2
Depreciation & Amortisation	2,647	2,559	2,547	2,607
Gross Interest	3,504	3,432	3,385	3,401
Other Income	-	-	-	-
Recurring PBT	498	374	815	1,952
Add: Extraordinaries	-	(138)	-	-
Less: Taxes	245	(299)	84	332
Net Income (Reported)	191	502	698	1,586
Recurring Net Income	191	639	698	1,586

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	36,590	38,470	37,866	41,401
Current Liab. & Prov.	20,021	18,460	16,752	19,001
Net Current Assets	16,569	20,011	21,115	22,400
Investments of which	3,711	3,821	3,821	3,821
Strategic/Group	3,689	3,810	3,810	3,810
Marketable	22	12	12	12
Net Fixed Assets*	71,147	72,587	71,540	71,433
of which				
Capital Work-in-Progress	1,957	2,349	1,849	2,349
Total Assets	92,953	98,237	98,294	99,472
of which cash & cash equivalents	509	444	499	445
Liabilities				
Borrowings	33,673	36,767	36,308	36,058
Deferred Tax Liability	6,280	5,927	5,943	5,982
Minority Interest	541	562	551	540
Equity Share Capital	3,099	3,099	3,099	3,099
Face value per share (Rs)	10	10	10	10
Reserves & Surplus	49,361	51,881	52,393	53,794
Net Worth	52,460	54,980	55,492	56,893
Total Liabilities	92,953	98,237	98,294	99,472

Source: Company data, I-Sec research

Table 12: Quarterly trend

(Rs mn, year ending March 31)

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	14,688	12,457	11,911	11,519
% growth (YoY)	7.9	(10.2)	(9.5)	(26.3)
Recurring EBITDA	2,452	1,504	1,320	855
Margin (%)	16.7	12.1	11.1	7.4
Other income	-	-	-	-
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	722	87	(54)	(110)

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	2,892	2,588	3,172	4,414
Working Capital changes	(2,317)	(1,673)	(959)	(1,521)
Capital Commitments	(2,164)	(2,469)	(1,500)	(2,500)
Net Operating FCF	(1,589)	(1,554)	713	393
Investing Activities	(20)	(522)	-	-
Issue of Share Capital	293	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	1,588	2,304	(460)	(250)
Dividend paid	(320)	(284)	(186)	(186)
Others	-	-	(11)	(11)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	(48)	(56)	56	(54)

Source: Company data, I-Sec research

Table 11: Key ratios

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	0.6	1.6	2.3	5.1
Diluted Recurring EPS	0.6	2.1	2.3	5.1
Diluted Recurring CEPS	9.2	10.3	10.5	13.5
Dividend per share	0.8	0.6	0.6	0.6
Book Value	160	160	162	167
Growth Ratios (% YoY)				
Operating Income	10.3	(10.0)	(7.3)	15.9
EBITDA	(4.5)	(4.3)	6.0	18.0
Recurring Net Income	(63.3)	234.8	9.2	127.3
Diluted Recurring EPS	(63.5)	234.8	9.2	127.3
Diluted Recurring CEPS	(14.7)	12.7	1.5	29.2
Valuation Ratios (x)				
P/E	206.0	61.5	56.4	24.8
P/CEPS	13.9	12.3	12.1	9.4
P/BV	0.8	0.8	0.8	0.8
EV / EBITDA	10.9	11.9	11.1	9.4
EV / te (US\$)	62	65	64	64
EV / Operating Income	1.2	1.4	1.6	1.3
EV / Operating FCF	70.1	(116.0)	34.0	25.9
Operating Ratios (%)				
Raw Material / Sales	18.6	18.8	17.9	17.9
SG&A expenses / Sales	34.7	36.1	37.2	37.0
Effective Tax Rate	49.2	(159.7)	10.3	17.0
NWC / Total Assets	0.2	0.2	0.2	0.2
Inventory (x)	3.6	2.8	2.4	2.7
Receivables (days)	44	52	55	52
Payable (days)	90	106	110	96
D/E Ratio (x)	0.6	0.7	0.7	0.6
Profitability Ratios (%)				
Rec. Net Income Margins	0.3	1.2	1.4	2.8
RoCE	2.1	10.0	3.8	4.5
RoNW	0.4	1.2	1.3	2.8
Dividend Payout	129.8	29.1	26.6	11.7

Source: Company data, I-Sec research

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