

India Cements

Estimate change

TP change

Rating change



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Bloomberg	ICEM IN
Equity Shares (m)	308
M.Cap.(INRb)/(USD\$b)	55.4 / 0.7
52-Week Range (INR)	211 / 107
1, 6, 12 Rel. Per (%)	-11/1/8
12M Avg Val (INR M)	524

Financial Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	44.4	50.9	57.7
EBITDA	8.1	7.0	8.0
Adj. PAT	2.2	1.8	2.6
EBITDA Margin (%)	18.2	13.7	13.9
Adj. EPS (INR)	7.2	5.9	8.3
EPS Gr. (%)	947.7	-18.2	41.1
BV/Sh. (INR)	181.3	186.1	192.9

Ratios

Net D:E	0.5	0.5	0.5
RoE (%)	4.0	3.2	4.4
RoCE (%)	4.6	3.8	4.6
Payout (%)	16.8	17.1	18.1

Valuations

P/E (x)	24.8	30.3	21.5
P/BV (x)	1.0	1.0	0.9
EV/EBITDA(x)	10.6	12.1	10.3
EV/ton (USD)	75	74	72
Div. Yield (%)	0.6	0.6	0.8

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	28.4	28.4	28.3
DII	7.6	9.0	8.9
FII	13.3	13.1	12.3
Others	50.7	49.5	50.5

FII Includes depository receipts

CMP: INR179
TP: INR190 (+6%)
Neutral

Weak volumes remain a key concern

Margins impacted by higher costs

- India Cements (ICEM)'s 1QFY22 EBITDA was 18% below estimate, weighed by higher costs and lower volumes. Utilization stood at just 50% in 1QFY22.
- We revise down our FY22E/FY23E EPS by 7%/7%, factoring in weaker volumes and higher costs. ICEM trades at 10.3x FY23E EV/EBITDA, which is fair, in our view, given its strong presence in South. We maintain **Neutral**.

EBITDA misses estimates by 18% on lower volumes and higher costs

- Revenue / EBITDA / Adj. PAT was up 35%/4%/12% YoY to INR10.2b/INR1.6b/INR0.4b, but missed our estimate by 10%/18%/29%.
- Volumes grew 36% YoY to 1.95mt, but missed our estimate by 10% on weak demand in South. This was attributable to the more pronounced impact of the second COVID wave in South v/s other regions, partially offset by higher selling in East and Maharashtra.
- Blended realization came in flat at INR5,257/t (-1% YoY, in line with est). On the other hand, cost per ton was up 5% YoY to INR4,424/t (v/s our est. of INR4,331/t) due to higher fuel and freight costs as well as higher sales in the faraway markets of East and Maharashtra.
- Thus, EBITDA/t declined 24% YoY to INR833 (v/s our est. of INR923) and the margin 473bps YoY to 15.8% (v/s our est. of 17.6%).

Highlights from management commentary

- Utilization stood at 50% v/s 77% in 4QFY21. The management expects demand to pick up with the easing of the lockdowns across states, but remains cautious due to the possibility of a third wave. The sales volume off-take in July was better v/s June and is expected to improve further in August.
- Blended cost of fuel stood was INR9,700/t in 1QFY22 (v/s INR9,100/t in 4QFY21). On a per kcal basis, fuel cost stood at INR1.5 (v/s INR1.42 in 4QFY21) and is currently at INR1.6.
- Gross debt stands at INR29.7b v/s INR30.0b in Mar'21.

Valuation and view

- We expect ICEM's market share loss in South to continue as key competitor Ramco's new capacities get commissioned within six months.
- We expect net debt to decline further as the company continues to delay its capex plans. Net debt declined 15% YoY to INR30.0b in FY21.
- ICEM trades at 10.3x FY23E EV/EBITDA and USD72/t EV/capacity. We value the stock at 10x Sep'23 EV/EBITDA to arrive at TP of INR190. We maintain **Neutral**.

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Quarterly Perf. (Standalone)

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales Dispatches (m ton)	1.43	2.11	2.38	2.99	1.95	2.32	2.50	3.12	8.90	9.88	2.15	-10
YoY Change (%)	-53	-21	-11	13	36	10	5	4	-19.2	11.0	50.8	
Realization (INR/ton)	5,301	5,077	4,881	4,848	5,257	5,195	5,141	5,079	4,985	5,157	5,254	0
YoY Change (%)	9.8	8.7	9.3	11.4	-0.8	2.3	5.3	4.8	8.6	3.4	-0.9	
QoQ Change (%)	21.8	-4.2	-3.9	-0.7	8.4	-1.2	-1.0	-1.2			8.4	
Net Sales	7,570	10,697	11,603	14,496	10,225	12,041	12,832	15,847	44,367	50,945	11,312	-10
YoY Change (%)	-48.5	-14.1	-2.6	25.8	35.1	12.6	10.6	9.3	-12.3	14.8	49.4	
EBITDA	1,557	2,347	2,152	2,005	1,620	1,582	1,658	2,137	8,061	6,997	1,987	-18
Margins (%)	20.6	21.9	18.5	13.8	15.8	13.1	12.9	13.5	18.2	13.7	17.6	
Depreciation	600	601	605	613	545	600	605	612	2,419	2,362	625	
Interest	730	705	685	530	545	560	560	558	2,650	2,223	630	-13
Other Income	33	57	26	118	31	50	50	129	235	260	40	
PBT before EO expense	261	1,098	889	980	561	472	543	1,096	3,227	2,671	772	
Extra-Ord expense	0	0	0	0	0	0	0	0			0	
PBT	261	1,098	889	980	561	472	543	1,096	3,227	2,671	772	-27
Tax	91	384	268	264	186	151	174	344	1,007	855	247	
Rate (%)	34.9	34.9	30.2	26.9	33.3	32.0	32.0	31.4	31.2	32.0	32.0	
Reported PAT	170	714	620	716	374	321	369	752	2,220	1,817	525	-29
Adj PAT	170	714	620	716	374	321	369	752	2,220	1,817	525	-29
YoY Change (%)	-76.0	1,327.2	-1,014.7	-250.4	120.6	-55.1	-40.5	5.0	947.7	-18.2	209.7	
Margins (%)	2.2	6.7	5.3	4.9	3.7	2.7	2.9	4.7	5.0	3.6	4.6	

E: MOFSL Estimates

Per ton analysis

(INR/t)

	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales Dispatches (m ton)	1.43	2.11	2.38	2.99	1.95	2.32	2.50	3.12	8.90	9.88	2.15	-10
YoY Change (%)	-53.1	-21.0	-10.8	13.0	36.2	10	5	4	-19.2	11.0	50.8	
Net Realizations	5,301	5,077	4,881	4,848	5,257	5,195	5,141	5,079	4,985	5,157	5,254	0
YoY (%)	9.8	8.7	9.3	11.4	-0.8	2	5	5	8.6	3.4	-0.9	
RM Cost	1,097	924	747	833	624	886	890	900	874	840	840	-26
Employee Expenses	525	350	333	346	425	367	349	287	372	348	386	10
Power, Oil & Fuel	1,079	1,102	1,254	1,247	1,570	1,478	1,478	1,444	1,188	1,485	1,337	17
Freight cost	954	1,023	1,104	1,194	1,195	1,200	1,200	1,204	1,091	1,200	1,164	3
Other Expenses	556	564	539	557	610	582	561	559	554	575	604	1
Total Exp	4,211	3,963	3,976	4,178	4,424	4,513	4,477	4,394	4,079	4,449	4,331	2
EBITDA	1,090	1,114	905	671	833	682	664	685	906	708	923	-10

Conference call highlights

Operational highlights

- Cement production stood at 1.89mt v/s 1.34mt in 1QFY21, while sales volumes stood at 1.95mt (including 94kt of clinker sales) v/s 1.43mt in 1QFY21.
- Clinker production stood at 1.55mt v/s 2.1mt in 4QFY21 and 0.85mt in 1QFY21.
- Utilization stood at 50% v/s 33% in 1QFY21 and 77% in 4QFY21.
- Revenue for Shipping/Windmill/RMC stood at INR83m/INR47m/INR220m v/s INR70m/INR4m/INR280m in 4QFY21.
- EBITDA for Shipping/Windmill/RMC stood at INR45m/INR37m/INR45m v/s INR25m / loss of INR7m / INR33m in 4QFY21.
- In 1QFY22, blended cement accounted for 55% of sales volumes and trade sales accounted for 55%.
- Net plant realization has decreased to INR3,942 in 1QFY22 (from INR4,235 in 1QFY21) on the back of higher lead distance. This, coupled with higher diesel prices, led to higher freight costs per ton.

Cost insights

- Petcoke accounted for 15% of the fuel mix (v/s 45% in 1QFY21); the lead distance went up to 450km in 1QFY22 (from 350km in 1QFY21) as the company sold higher volumes in Maharashtra and East to improve utilization.
- Blended cost of fuel stood at INR9,700/t in 1QFY22 (v/s INR9,100/t in 4QFY21), whereas on a per kcal basis, it stood at INR1.5 (v/s INR1.42 in 4QFY21) and is currently at INR1.6.
- The company has managed to reduce the fixed cost per quarter to INR1.5b in FY22 from INR3.0b in FY21.

Demand and pricing

- In 2QFY22, prices have remained stable QoQ in South, while they have softened marginally in East.
- The management expects a demand uptick with the easing of the lockdowns across states, but remains cautious on third wave concerns.
- The sales volume off-take in July was better v/s June and is expected to improve further in August.

Other highlights

- Gross debt stands at INR29.7b v/s INR30.0b in Mar'21.
- In 1QFY22, Maharashtra/East accounted for 21%/11% of sales volumes v/s 11%/4% in 1QFY21 and 18%/12% in 4QFY21.

Key exhibits

Exhibit 1: Volumes up 36% YoY and realizations down 1% YoY

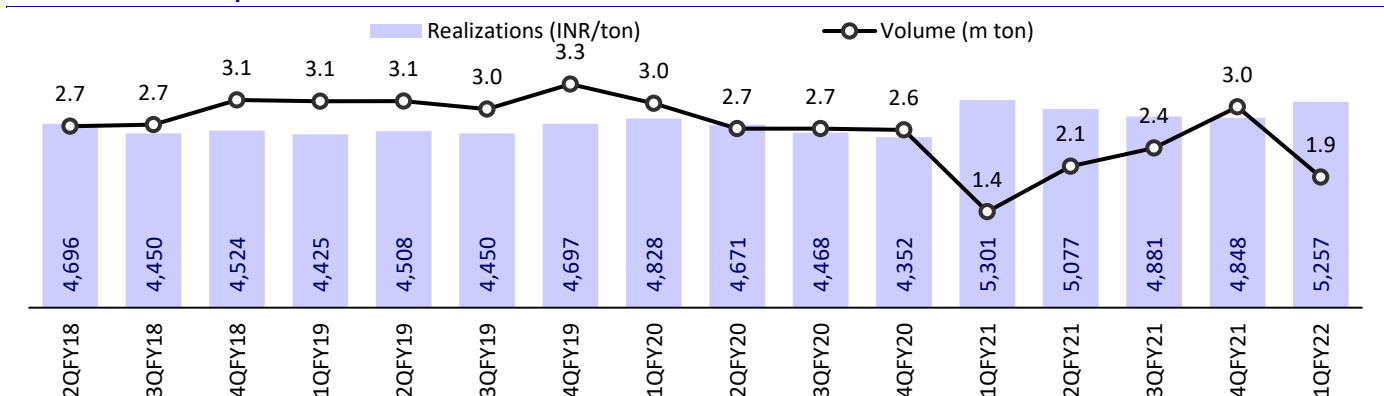
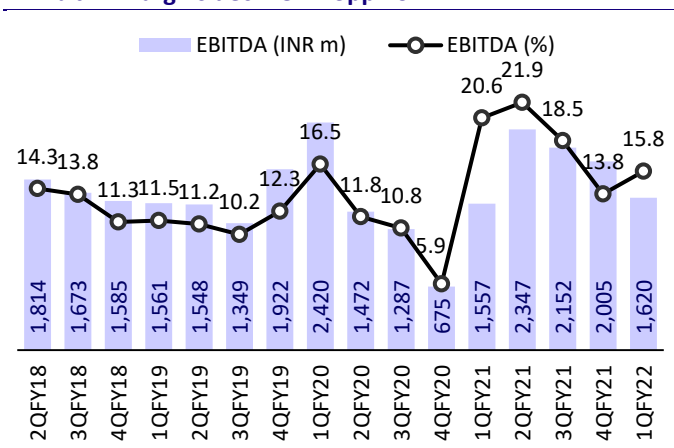
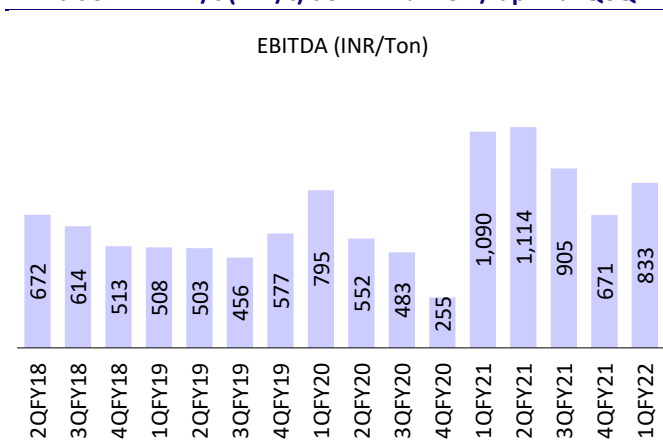


Exhibit 2: Margins decline 4.73pp YoY



Source: Company, MOFSL

Exhibit 3: EBITDA/t (INR/t) down 24% YoY / up 24% QoQ



Source: Company, MOFSL

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

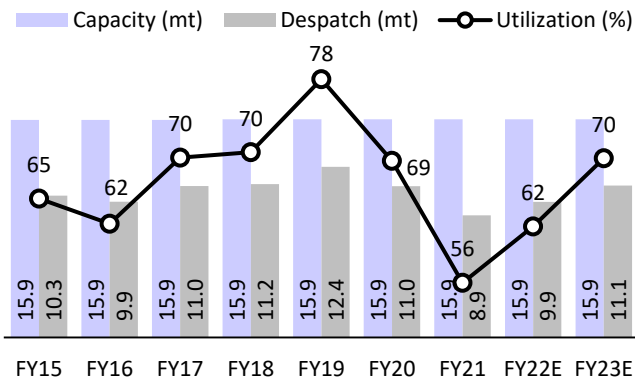
INR/Ton	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)
Net realization	5,257	5,301	-0.8%	4,848	8.4%
Expenditure					
RM Cost	624	1,097	-43.1%	833	-25.1%
Staff Cost	425	525	-19.0%	346	23.0%
Energy Cost	1,570	1,079	45.5%	1,247	25.8%
Selling Exp.	1,195	954	25.3%	1,194	0.1%
Other Exp.	610	556	9.7%	557	9.5%
Total Exp.	4,424	4,211	5.1%	4,178	5.9%
EBITDA	833	1,090	-23.6%	671	24.2%

Valuation and view

- With ~80% of its capacity in South, ICEM has good brand recall in the region. Also, it is one of the most leveraged plays on price recovery in South. We note that for every INR10/t price hike, EPS for ICEM increases by ~5%.
- We expect ICEM's market share loss in South to continue as key competitor Ramco has expanded its capacities in the region.
- We expect net debt to decline further as the company continues to delay its capex plans. Net debt declined 15% YoY to INR30.0b in FY21.
- The planned capacity expansion at the Satna cluster provides option value as it would diversify the market mix in favor of the stronger market, i.e., Central.
- ICEM trades at 10.3x FY23E EV/EBITDA and USD72/t EV/capacity. We value the stock at 10x Sep'23E EV/EBITDA to arrive at Target Price of INR190. We maintain **Neutral**.

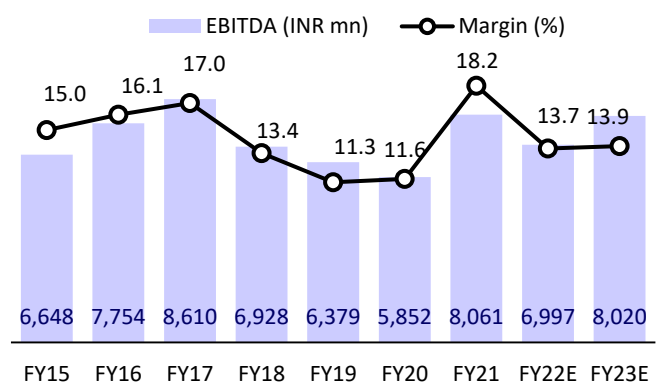
Story in charts

Exhibit 5: Capacity utilization to improve



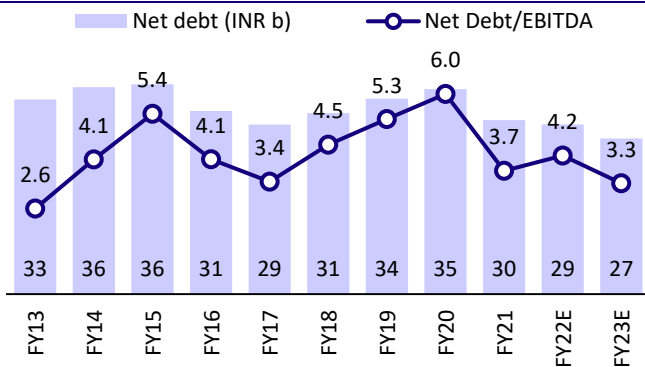
Source: Company, MOFSL

Exhibit 6: EBITDA and margins to decline



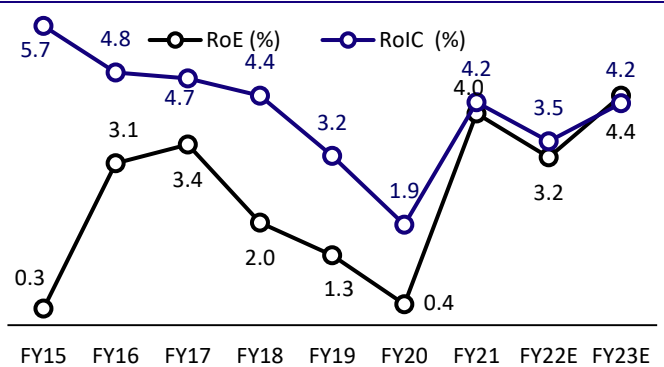
Source: Company, MOFSL

Exhibit 7: Net debt profile



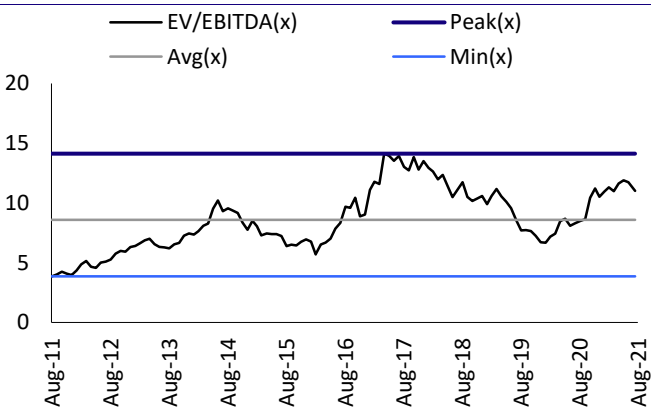
Source: Company, MOFSL

Exhibit 8: RoE/RoIC profile



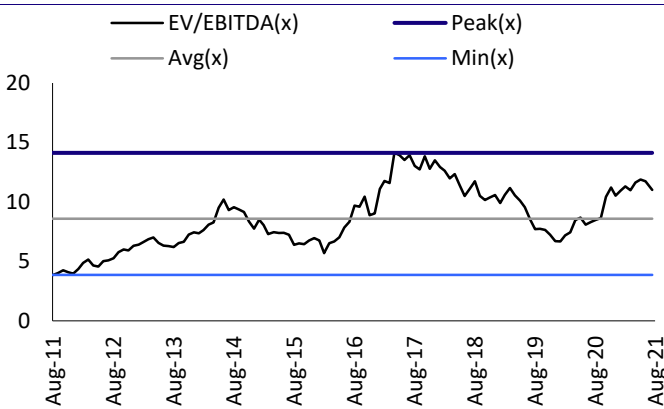
Source: Company, MOFSL

Exhibit 9: ICEM's EV/EBITDA trend



Source: MOFSL, Company

Exhibit 10: ICEM EV/ton trend



Source: MOFSL, Company

Financials and valuations

Standalone Income Statement

	(INR m)							
Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Net Sales	48,114	50,795	51,692	56,280	50,575	44,367	50,945	57,689
Change (%)	8.8	5.6	1.8	8.9	-10.1	-12.3	14.8	13.2
EBITDA	7,754	8,610	6,928	6,379	5,852	8,061	6,997	8,020
Margin (%)	16.1	17.0	13.4	11.3	11.6	18.2	13.7	13.9
Depreciation	2,195	2,571	2,559	2,513	2,469	2,419	2,362	2,409
EBIT	5,560	6,040	4,369	3,866	3,384	5,642	4,635	5,611
Int. and Finance Charges	3,825	3,605	3,402	3,242	3,345	2,650	2,223	2,103
Other Income - Rec.	221	165	194	310	277	235	260	261
PBT bef. EO Exp.	1,956	2,600	1,161	934	316	3,227	2,671	3,769
EO Expense/(Income)	32	0	0	0	1,000	0	0	0
PBT after EO Exp.	1,924	2,600	1,161	934	-684	3,227	2,671	3,769
Current Tax	625	867	179	325	69	1,380	855	1,206
Deferred Tax	0	0	-24	-85	-398	-373	0	0
Tax Rate (%)	32.5	33.3	13.3	25.7	48.1	31.2	32.0	32.0
Reported PAT	1,299	1,734	1,006	694	-355	2,220	1,817	2,563
PAT Adj for EO items	1,321	1,734	1,006	694	212	2,220	1,817	2,563
Change (%)	1,024.8	31.3	-42.0	-31.0	-69.5	947.7	-18.2	41.1
Margin (%)	2.7	3.4	1.9	1.2	0.4	5.0	3.6	4.4

Balance Sheet

	(INR m)							
Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Equity Share Capital	3,082	3,082	3,082	3,099	3,099	3,099	3,099	3,099
Total Reserves	46,728	48,018	48,922	49,298	51,050	53,081	54,587	56,685
Net Worth	49,809	51,099	52,003	52,397	54,149	56,180	57,686	59,784
Deferred Liabilities	5,719	6,556	6,532	6,308	5,910	5,538	5,538	5,538
Secured Loan	21,331	23,797	28,180	26,433	23,750	19,798	19,098	16,598
Unsecured Loan	10,218	5,416	3,049	7,237	11,581	10,192	10,192	10,192
Total Loans	31,549	29,213	31,229	33,670	35,331	29,990	29,290	26,790
Capital Employed	87,077	86,868	89,764	92,375	95,391	91,707	92,514	92,112
Gross Block	74,536	75,015	75,794	77,438	81,024	82,114	83,614	85,414
Less: Accum. Deprn.	2,712	5,286	7,831	10,308	12,766	15,414	17,777	20,188
Net Fixed Assets	71,824	69,729	67,963	67,130	68,258	66,700	65,837	65,226
Capital WIP	926	1,278	1,712	1,770	1,958	1,871	1,871	1,871
Total Investments	5,507	6,190	5,884	6,946	7,369	7,462	7,462	7,462
Curr. Assets, Loans&Adv.	25,364	29,256	31,700	35,203	36,939	32,708	35,057	37,481
Inventory	5,994	7,450	6,723	8,232	8,263	5,838	6,281	6,954
Account Receivables	5,359	5,089	6,295	7,290	7,163	5,413	6,281	7,112
Cash and Bank Balance	67	68	84	67	66	68	106	24
Loans and Advances	13,945	16,649	18,599	19,614	21,447	21,390	22,390	23,390
Real Estate Projects WIP	0	0	0	0	0	0	0	0
Curr. Liability & Prov.	16,544	19,584	17,495	18,675	19,134	17,033	17,714	19,931
Account Payables	10,367	13,180	11,759	13,163	13,342	10,763	11,864	13,434
Other Current Liabilities	4,569	4,796	4,307	4,106	4,566	5,306	4,885	5,532
Provisions	1,609	1,608	1,428	1,405	1,225	964	964	964
Net Current Assets	8,820	9,671	14,205	16,528	17,805	15,675	17,344	17,550
Appl. of Funds	87,077	86,868	89,764	92,375	95,391	91,707	92,514	92,112

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)								
Standalone EPS	4.3	5.6	3.3	2.3	0.7	7.2	5.9	8.3
Cash EPS	11.4	14.0	11.6	10.4	8.6	15.0	13.5	16.0
BV/Share	161.6	165.8	168.8	169.1	174.7	181.3	186.1	192.9
DPS	0.0	1.0	0.8	0.8	0.6	1.0	1.0	1.5
Payout (%)	0.0	21.4	29.5	43.0	-52.4	16.8	17.1	18.1
Valuation (x)								
P/E						24.8	30.3	21.5
Cash P/E						11.9	13.2	11.1
P/BV						1.0	1.0	0.9
EV/Sales						1.9	1.7	1.4
EV/EBITDA						10.6	12.1	10.2
EV/Ton (US\$)						75	74	72
Dividend Yield (%)						0.6	0.6	0.8
Return Ratios (%)								
RoIC	4.8	4.7	4.4	3.2	1.9	4.2	3.5	4.2
RoE	3.1	3.4	2.0	1.3	0.4	4.0	3.2	4.4
RoCE	5.2	5.1	4.8	3.7	2.2	4.6	3.8	4.6
Working Capital Ratios								
Asset Turnover (x)	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6
Inventory (Days)	45.5	53.5	47.5	53.4	59.6	48.0	45.0	44.0
Debtor (Days)	36	32	43	47	52	45	45	45
Leverage Ratio (x)								
Current Ratio	1.5	1.5	1.8	1.9	1.9	1.9	2.0	1.9
Debt/Equity	0.6	0.6	0.6	0.6	0.7	0.5	0.5	0.4

Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
(INR m)								
OP/(Loss) before Tax	1,910	2,517	1,257	853	282	3,221	2,671	3,769
Depreciation	2,693	2,571	2,559	2,513	2,469	2,419	2,362	2,409
Interest & Finance Charges	3,652	3,528	3,220	3,074	3,050	2,591	2,223	2,103
Direct Taxes Paid	-55	-637	-384	-88	-312	-507	-855	-1,206
(Inc)/Dec in WC	767	112	-2,072	-3,069	-1,269	2,592	-1,631	-288
CF from Operations	8,966	8,090	4,580	3,283	4,220	10,317	4,770	6,787
Others	204	30	105	-119	-81	39	0	0
CF from Operating incl EO	9,169	8,121	4,685	3,164	4,139	10,356	4,770	6,787
(Inc)/Dec in FA	-1,598	-788	-1,902	-1,712	-1,365	-1,256	-1,500	-1,800
Free Cash Flow	7,571	7,332	2,783	1,452	2,774	9,100	3,270	4,987
(Pur)/Sale of Investments	5	-683	344	-923	-278	6	0	0
Others	430	-405	-1,385	231	-1,759	-708	0	0
CF from Investments	-1,162	-1,876	-2,942	-2,404	-3,403	-1,958	-1,500	-1,800
Issue of Shares	0	0	0	18	0	0	0	0
Inc/(Dec) in Debt	3,463	16,880	9,583	5,424	2,562	-5,401	-700	-2,500
Interest Paid	-5,042	-3,537	-3,411	-3,136	-3,000	-2,809	-2,223	-2,103
Dividend Paid	-2	-370	-371	-336	-300	-187	-310	-465
Others	-6,398	-19,217	-7,528	-2,746	0	0	0	0
CF from Fin. Activity	-7,979	-6,243	-1,727	-776	-738	-8,396	-3,233	-5,068
Inc/Dec of Cash	28	1	16	-16	-1	1	38	-81
Opening Balance	39	67	68	84	68	67	68	106
Closing Balance	67	68	84	68	67	68	106	24

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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