

India Cements

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR210 **TP: INR200 (-5%)** **Neutral**

Volumes grow on lower base, but profitability under pressure

Margins impacted by higher costs

Bloomberg	ICEM IN
Equity Shares (m)	308
M.Cap.(INRb)/(USDb)	65.1 / 0.9
52-Week Range (INR)	232 / 118
1, 6, 12 Rel. Per (%)	8/4/38
12M Avg Val (INR M)	673

Financial Snapshot (INR b)

Y/E MARCH	2022E	2023E	2024E
Sales	50.5	57.1	63.6
EBITDA	6.5	7.7	9.6
Adj. PAT	1.6	2.4	3.8
EBITDA Margin (%)	12.9	13.5	15.0
Adj. EPS (INR)	5.2	7.6	12.2
EPS Gr. (%)	-28.3	47.7	59.8
BV/Sh. (INR)	185.4	191.5	202.1

Ratios

Net D:E	0.5	0.5	0.4
RoE (%)	2.8	4.0	6.2
RoCE (%)	3.5	4.4	5.9
Payout (%)	19.5	19.8	12.4

Valuations

P/E (x)	40.7	27.6	17.2
P/BV (x)	1.1	1.1	1.0
EV/EBITDA(x)	14.5	12.0	9.3
EV/ton (USD)	83	81	78
Div. Yield (%)	0.5	0.7	0.7

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	28.4	28.4	28.4
DII	6.3	7.6	9.7
FII	13.2	13.3	12.0
Others	52.1	50.7	49.9

FII Includes depository receipts

- India Cements (ICEM)'s 2QFY22 result was in line with our estimates, although earnings were under pressure due to higher costs. The lower base of last year aided volume growth of 12% YoY; this was offset by a 13% YoY increase in opex/t, leading to a 49.2% YoY drop in blended EBITDA/t.
- We maintain our FY23E/FY24E estimates and Neutral rating on the stock as valuations at 12x/9.3x FY23/FY24E EV/EBITDA appear expensive. Higher volatility in earnings due to the demand-supply mismatch in the South region and higher leverage (net debt/EBITDA at 4.5x/3.6x FY22/FY23E) in the absence of capex plans are the key concerns.

Results in line with our estimates; EBITDA declines 43% YoY

- Revenue / EBITDA / Adj. PAT stood at INR11.9b/INR1.3b/INR0.2b (+11%/-43%/-69% YoY) v/s our est. of INR11.5b/INR1.4b/INR0.2b.
- Volumes grew 12% YoY to 2.36mt (v/s est. of 2.25mt) on the low base of last year, partially offset by lower cement prices in the East/South markets.
- Blended realization declined 1% YoY to INR5,043/t (v/s est. of INR5,100/t), whereas cost per ton was up 13% YoY to INR4,477/t (in line with our est). Cement realization was down 1.5% YoY / 4.7% QoQ.
- Thus, blended EBITDA/t declined 49% YoY to INR566 v/s our est. of INR614. The margin declined 10.7pp YoY to 11.2% (-4.6pp QoQ). Cement EBITDA/t was down 52% YoY / 35% QoQ.
- 1HFY22 revenue / EBITDA / adj. PAT stood at INR22.1b/INR3.0b/INR0.6b (+21%/-24%/-33% YoY) as the margin declined 8.0pp YoY to 13.4%, while volumes were up 22% YoY to 4.31mt.
- 1HFY22 OCF/capex/FCF stood at INR1.7b/INR0.7b/INR1.0b v/s INR3.1b/INR0.4b/INR2.7b in 1HFY21.

Highlights from management commentary

- The company has taken a price hike of INR30/bag in Oct'21 and INR25/bag in Nov'21 in its core markets of Tamil Nadu and Kerala. Cement prices have largely remained flat (since September) in other operating geographies (East and Karnataka, except INR10/bag hike in Maharashtra).
- The company has lower cost coal inventory (procured at USD120–130/t), which would last 3–3.5months. It would place orders for coal within a month, which would be procured at USD230–240/t (in case coal prices do not soften from current levels). Thus, it expects a net increase of INR200/t QoQ in cost/t (in 3QFY22) on account of higher coal costs.

Valuation and view

- The lack of capacity additions has led to significant market share loss for the company, which we estimate at 680bps over FY10–17. We expect ICEM's market share loss to continue going forward as well due to the absence of clarity on its future expansion plans.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- ICEM has secured approvals for capacity upgrades at some of its plants, although their execution depends on market conditions and improvement in its cash flows. There is also not much clarity on ICEM's plans to set up a grinding unit and clinker plant in Madhya Pradesh.
- With ~80% of its capacity in South, ICEM enjoys a good brand recall in the region. We note that every increase of 1% in realization leads to a 7% increase in the company's EBITDA.
- ICEM trades at 12.0x/9.3x FY23/FY24E EV/EBITDA. We maintain a Neutral rating and value it at 10x Sep'23E EV/EBITDA to arrive at TP of INR200. Any clarity on the company's expansion plans remains a key monitorable for changing our view on the stock.

Quarterly Perf. (Standalone)

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales Dispatches (m ton)	1.43	2.11	2.38	2.99	1.95	2.36	2.50	2.81	8.90	9.61	2.25	5
YoY Change (%)	-53	-21	-11	13	36	12	5	-6	-19.2	8.0	7.0	
Realization (INR/ton)	5,301	5,077	4,881	4,848	5,257	5,043	5,309	5,369	4,985	5,251	5,100	-1
YoY Change (%)	9.8	8.7	9.3	11.4	-0.8	-0.7	8.8	10.7	8.6	5.3	0.5	
QoQ Change (%)	21.8	-4.2	-3.9	-0.7	8.4	-4.1	5.3	1.1			-3.0	
Net Sales	7,570	10,697	11,603	14,496	10,225	11,902	13,251	15,092	44,367	50,469	11,498	4
YoY Change (%)	-48.5	-14.1	-2.6	25.8	35.1	11.3	14.2	4.1	-12.3	13.8	7.5	
EBITDA	1,557	2,347	2,152	2,005	1,620	1,336	1,650	1,912	8,061	6,518	1,384	-3
Margins (%)	20.6	21.9	18.5	13.8	15.8	11.2	12.5	12.7	18.2	12.9	12.0	
Depreciation	600	601	605	613	545	564	575	588	2,419	2,272	600	
Interest	730	705	685	530	545	511	530	559	2,650	2,145	560	-9
Other Income	33	57	26	118	31	32	50	127	235	240	50	
PBT before EO expense	261	1,098	889	980	561	293	595	892	3,227	2,340	274	
Extra-Ord expense	0	0	0	0	0	0	0	0			0	
PBT	261	1,098	889	980	561	293	595	892	3,227	2,340	274	7
Tax	91	384	268	264	186	73	190	299	1,007	749	88	
Rate (%)	34.9	34.9	30.2	26.9	33.3	24.9	32.0	33.5	31.2	32.0	32.0	
Reported PAT	170	714	620	716	374	220	404	593	2,220	1,591	186	18
Adj PAT	170	714	620	716	374	220	404	593	2,220	1,591	186	18
YoY Change (%)	-76.0	1,327.2	-1,014.7	-250.4	120.6	-69.2	-34.8	-17.2	947.7	-28.3	-73.9	
Margins (%)	2.2	6.7	5.3	4.9	3.7	1.8	3.1	3.9	5.0	3.2	1.6	

E: MOFSL Estimates

Per ton analysis

(INR/t)

	FY21				FY22				FY21	FY22E	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales Dispatches (m ton)	1.43	2.11	2.38	2.99	1.95	2.36	2.50	2.81	8.90	9.61	2.25	5
YoY Change (%)	-53.1	-21.0	-10.8	13.0	36.2	12.0	5	-6	-19.2	8.0	7.0	
Net Realizations	5,301	5,077	4,881	4,848	5,257	5,043	5,309	5,369	4,985	5,251	5,100	-1
YoY (%)	9.8	8.7	9.3	11.4	-0.8	-0.7	9	11	8.6	5.3	0.5	
RM Cost	1,097	924	747	833	624	822	822	815	874	780	886	-7
Employee Expenses	525	350	333	346	425	374	357	323	372	365	368	2
Power, Oil & Fuel	1,079	1,102	1,254	1,247	1,570	1,503	1,703	1,826	1,188	1,663	1,478	2
Freight cost	954	1,023	1,104	1,194	1,195	1,178	1,185	1,199	1,091	1,189	1,200	-2
Other Expenses	556	564	539	557	610	599	581	525	554	575	554	8
Total Exp	4,211	3,963	3,976	4,178	4,424	4,477	4,648	4,688	4,079	4,573	4,486	0
EBITDA	1,090	1,114	905	671	833	566	661	680	906	678	614	-8



Conference call highlights

Demand and pricing

- In its core markets of Tamil Nadu and Kerala, it took a price hike of INR30/bag in October and INR25/bag in November. Prices have largely remained flat (since September) in other operating geographies (East and Karnataka, except INR10/bag hike in Maharashtra).
- In 2QFY22, demand in South India was impacted on account of an extended monsoon and the prolonged impact of the second wave of COVID-19 in Kerala and Tamil Nadu.
- Cement production in the South region is estimated to grow 20% YoY in 1HFY22, supported by the low base of last year. ICEM's cement production also increased 21% YoY during this period.

Cost insights

- The lower cost coal inventory, which was procured at USD120–130/t, would last 3–3.5 months. The company plans to place orders for coal within a month, which would be procured at USD230–240/t (in case coal prices do not soften from current levels).
- Opex/t is expected to increase by INR200/t QoQ in 3QFY22 on account of higher coal costs.
- In 2QFY22, domestic petcoke / captive coal / imported coal accounted for 10%/15%/75% of fuel requirements.

Operational highlights

- Clinker production stood at 1.75mt v/s 1.55mt in 1QFY22.
- Utilization stood at 61% v/s 55% in 2QFY21 and 50% in 1QFY22.
- Revenue for Shipping/Windmill/RMC stood at INR83m/INR79m/INR320m v/s INR83m/INR47m/INR220m in 1QFY22.
- EBITDA for Shipping/Windmill/RMC stood at INR43m/INR67m/INR40m v/s INR45m/INR37m/INR45m in 1QFY22.
- Trade sales accounted for 52% of sales volumes v/s 51% in 1QFY22.
- Net plant realization declined by INR175/t YoY and INR211/t QoQ in 2QFY22.

Other highlights

- The management believes debt reduction would be as per the earlier guidance, and the company would be able to repay INR5b worth of debt in FY22 (v/s INR5.5b in FY21).
- ICEM has an 8.7MW waste heat recovery system (WHRS) capacity currently, and a 10MW WHRS at Chilamkur is expected to be completed by FY23.

Key exhibits

Exhibit 1: Volumes up 12% YoY; blended realization down 1% YoY

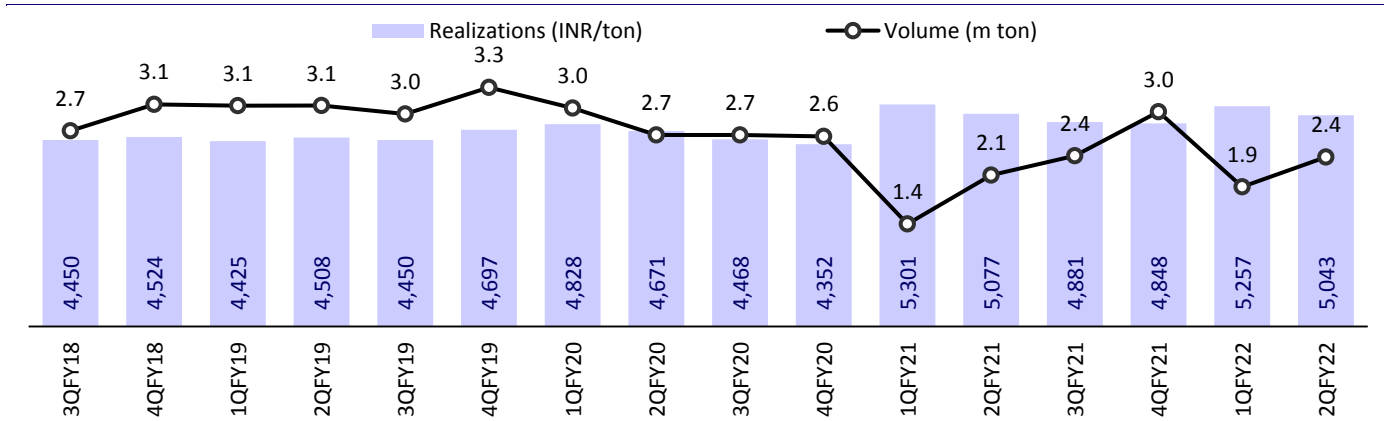
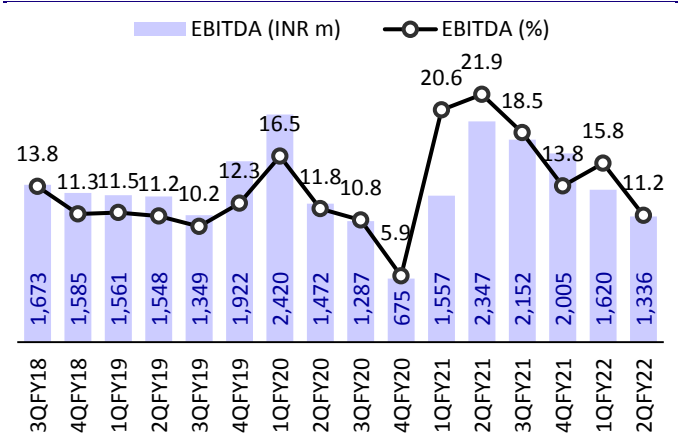
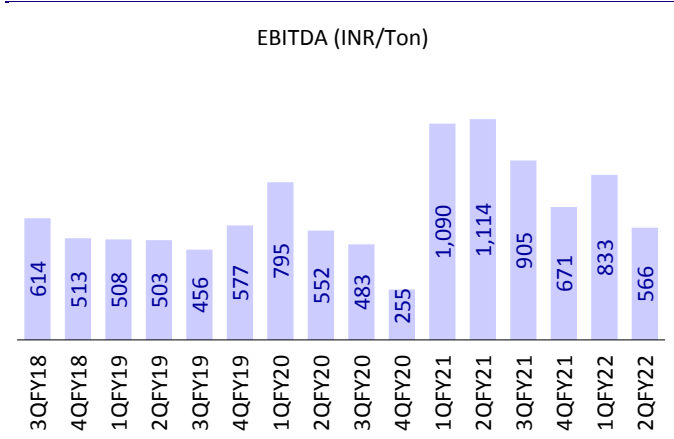


Exhibit 2: Margins decline 10.7pp YoY



Source: Company, MOFSL

Exhibit 3: Blended EBITDA/t down 49% YoY / 32% QoQ



Source: Company, MOFSL

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

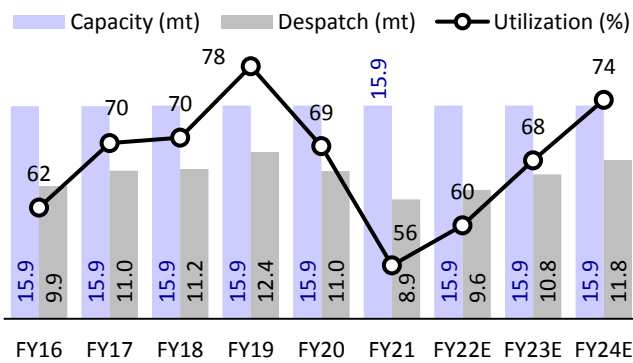
INR/Ton	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)
Net realization	5,043	5,077	-0.7%	5,257	-4.1%
Expenditure					
RM Cost	822	924	-11.0%	624	31.7%
Staff Cost	374	350	7.0%	425	-12.0%
Energy Cost	1,503	1,102	36.4%	1,570	-4.2%
Selling Exp.	1,178	1,023	15.2%	1,195	-1.4%
Other Exp.	599	564	6.2%	610	-1.7%
Total Exp.	4,477	3,963	13.0%	4,424	1.2%
EBITDA	566	1,114	-49.2%	833	-32.0%

Valuation and view

- **Market share loss to continue:** ICEM has not added any capacity after the capacity upgrade of its Chilamkur unit in June 2010. The company had been considering setting up a grinding unit in Madhya Pradesh earlier (mentioned in the FY09 Annual Report), but it has not pursued the plan. The lack of capacity additions has led to significant market share loss for the company, which we estimate at 680bps over FY10–17. We expect ICEM's market share loss to continue going forward as well due to the absence of clarity on its future expansion plans.
- **Expansion plans put on hold:** ICEM has secured approvals for capacity upgrades at its Dalavoi and Sankari plants, although the execution depends on market conditions. The installation of a new energy efficient cement mill at its Sankarnagar plant is expected to be completed in FY22. The company also plans to expand capacity at its Rajasthan unit and the grinding unit at Khandwa, Madhya Pradesh – which would also depend on market demand and improvement in its cash flows. ICEM acquired a stake in NKJA Mining Pvt. Ltd. in December 2018, which holds a 51% stake in Springway Mining Private Limited (the company owns limestone mining rights in Panna, Madhya Pradesh). The company is in the process of acquiring clearances to set up a clinker plant at this location.
- **One of the most leveraged plays on price recovery in South:** With ~80% of its capacity in South, ICEM enjoys a good brand recall in the region. Also, it is one of the most leveraged plays on price recovery in the South region. Going forward, we expect an improvement in clinker capacity utilization in the South region that could help cement prices sustain at higher levels. We note that every increase of 1% in realization leads to a 7% increase in the company's EBITDA.
- **Efforts to improve cost structure; net debt to decline further due to delay in capex plans:** ICEM is undertaking cost reduction measures, which could help it reduce its power consumption by 4 units/t and fuel consumption by 15kcal/kg of clinker. In FY21, ICEM's blending ratio increased by 2pp. The company reduced its net debt by INR5.3b in FY21 – we expect this to decline further by INR5.8b over FY21–24E (excluding any capex plans).
- **Valuation and view:** ICEM trades at 12.0x/9.3x FY23/FY24E EV/EBITDA. We maintain a Neutral rating and value it at 10x Sep'23E EV/EBITDA to arrive at TP of INR200. Any clarity on the company's expansion plans remains a key monitorable for changing our view on the stock.

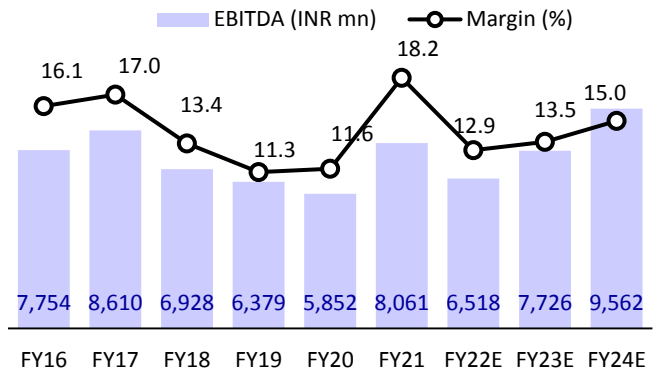
Story in charts

Exhibit 5: Capacity utilization to improve



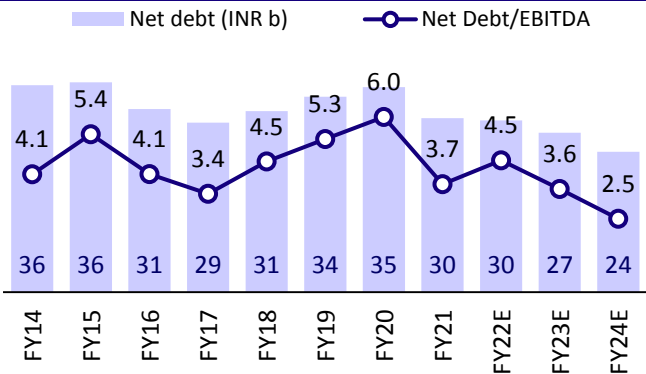
Source: Company, MOFSL

Exhibit 6: EBITDA and margins expected to decline in FY22E



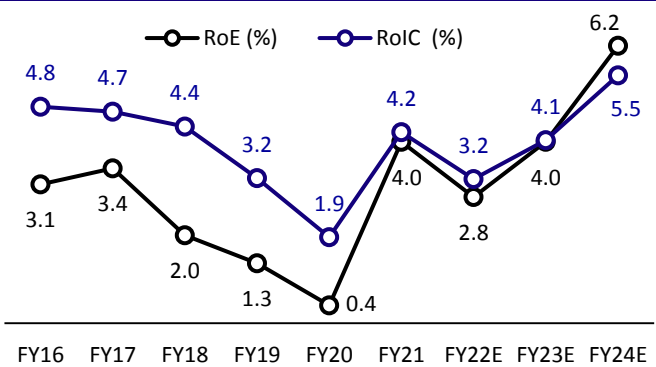
Source: Company, MOFSL

Exhibit 7: Net debt expected to decline in FY23/FY24E



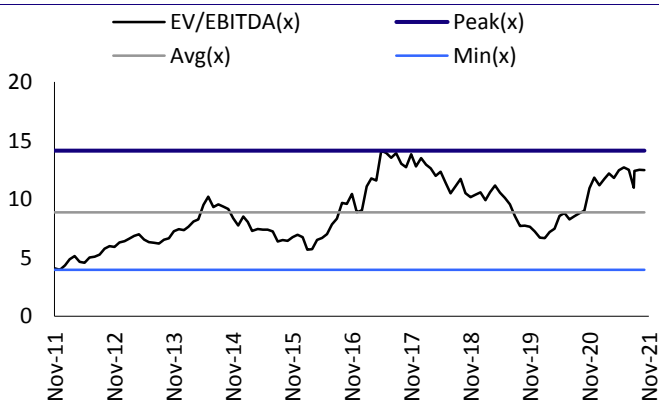
Source: Company, MOFSL

Exhibit 8: RoE/RoIC expected to improve in FY24ES



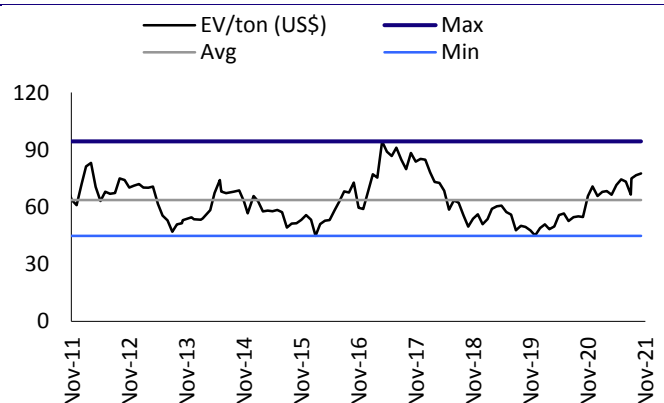
Source: Company, MOFSL

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	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net Sales	50,795	51,692	56,280	50,575	44,367	50,469	57,137	63,579
Change (%)	5.6	1.8	8.9	-10.1	-12.3	13.8	13.2	11.3
EBITDA	8,610	6,928	6,379	5,852	8,061	6,518	7,726	9,562
Margin (%)	17.0	13.4	11.3	11.6	18.2	12.9	13.5	15.0
Depreciation	2,571	2,559	2,513	2,469	2,419	2,272	2,317	2,456
EBIT	6,040	4,369	3,866	3,384	5,642	4,246	5,408	7,106
Int. and Finance Charges	3,605	3,402	3,242	3,345	2,650	2,145	2,198	1,994
Other Income - Rec.	165	194	310	277	235	240	246	253
PBT bef. EO Exp.	2,600	1,161	934	316	3,227	2,340	3,456	5,365
EO Expense/(Income)	0	0	0	1,000	0	0	0	0
PBT after EO Exp.	2,600	1,161	934	-684	3,227	2,340	3,456	5,365
Current Tax	867	179	325	69	1,380	749	1,106	1,609
Deferred Tax	0	-24	-85	-398	-373	0	0	0
Tax Rate (%)	33.3	13.3	25.7	48.1	31.2	32.0	32.0	30.0
Reported PAT	1,734	1,006	694	-355	2,220	1,591	2,350	3,755
PAT Adj for EO items	1,734	1,006	694	212	2,220	1,591	2,350	3,755
Change (%)	31.3	-42.0	-31.0	-69.5	947.7	-28.3	47.7	59.8
Margin (%)	3.4	1.9	1.2	0.4	5.0	3.2	4.1	5.9

Balance Sheet

	(INR m)							
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Equity Share Capital	3,082	3,082	3,099	3,099	3,099	3,099	3,099	3,099
Total Reserves	48,018	48,922	49,298	51,050	53,081	54,362	56,247	59,538
Net Worth	51,099	52,003	52,397	54,149	56,180	57,461	59,346	62,637
Deferred Liabilities	6,556	6,532	6,308	5,910	5,538	5,538	5,538	5,538
Secured Loan	23,797	28,180	26,433	23,750	19,798	19,398	17,298	14,098
Unsecured Loan	5,416	3,049	7,237	11,581	10,196	10,196	10,196	10,196
Total Loans	29,213	31,229	33,670	35,331	29,995	29,595	27,495	24,295
Capital Employed	86,868	89,764	92,375	95,391	91,712	92,593	92,379	92,469
Gross Block	75,015	75,794	77,438	81,024	81,871	83,371	85,171	87,171
Less: Accum. Deprn.	5,286	7,831	10,308	12,766	15,171	17,445	19,764	22,222
Net Fixed Assets	69,729	67,963	67,130	68,258	66,700	65,926	65,407	64,949
Capital WIP	1,278	1,712	1,770	1,958	1,871	1,871	1,871	1,871
Total Investments	6,190	5,884	6,946	7,369	7,462	7,462	7,462	7,462
Curr. Assets, Loans&Adv.	29,256	31,700	35,203	36,939	32,708	34,892	37,389	40,055
Inventory	7,450	6,723	8,232	8,263	5,838	6,222	6,888	7,664
Account Receivables	5,089	6,295	7,290	7,163	5,413	6,222	7,044	7,839
Cash and Bank Balance	68	84	67	66	68	57	67	162
Loans and Advances	16,649	18,599	19,614	21,447	21,390	22,390	23,390	24,390
Real Estate Projects WIP	0	0	0	0	0	0	0	0
Curr. Liability & Prov.	19,584	17,495	18,675	19,134	17,028	17,557	19,749	21,867
Account Payables	13,180	11,759	13,163	13,342	10,763	11,753	13,306	14,806
Other Current Liabilities	4,796	4,307	4,106	4,566	5,301	4,840	5,479	6,097
Provisions	1,608	1,428	1,405	1,225	964	964	964	964
Net Current Assets	9,671	14,205	16,528	17,805	15,680	17,335	17,640	18,188
Appl. of Funds	86,868	89,764	92,375	95,391	91,712	92,593	92,379	92,469

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
Standalone EPS	5.6	3.3	2.3	0.7	7.2	5.2	7.6	12.2
Cash EPS	14.0	11.6	10.4	8.6	15.0	12.5	15.1	20.0
BV/Share	165.8	168.8	169.1	174.7	181.3	185.4	191.5	202.1
DPS	1.0	0.8	0.8	0.6	1.0	1.0	1.5	1.5
Payout (%)	21.4	29.5	43.0	-52.4	14.0	19.5	19.8	12.4
Valuation (x)								
P/E		64.4	93.3	305.6	29.2	40.7	27.6	17.2
Cash P/E		18.2	20.3	24.3	14.0	16.9	14.0	10.5
P/BV		1.2	1.2	1.2	1.2	1.1	1.1	1.0
EV/Sales		1.9	1.8	2.0	2.1	1.9	1.6	1.4
EV/EBITDA		13.8	15.5	17.2	11.8	14.5	12.0	9.3
EV/Ton (US\$)		84.20	86.68	88.14	83.46	83.11	81.26	78.37
Dividend Yield (%)		0.4	0.4	0.3	0.5	0.5	0.7	0.7
Return Ratios (%)								
RoIC	4.7	4.4	3.2	1.9	4.2	3.2	4.1	5.5
RoE	3.4	2.0	1.3	0.4	4.0	2.8	4.0	6.2
RoCE	5.1	4.8	3.7	2.2	4.6	3.5	4.4	5.9
Working Capital Ratios								
Asset Turnover (x)	0.6	0.6	0.6	0.5	0.5	0.5	0.6	0.7
Inventory (Days)	53.5	47.5	53.4	59.6	48.0	45.0	44.0	44.0
Debtor (Days)	32	43	47	52	45	45	45	45
Leverage Ratio (x)								
Current Ratio	1.5	1.8	1.9	1.9	1.9	2.0	1.9	1.8
Debt/Equity	0.6	0.6	0.6	0.7	0.5	0.5	0.5	0.4

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
(INR m)								
OP/(Loss) before Tax	2,517	1,257	853	282	3,221	2,340	3,456	5,365
Depreciation	2,571	2,559	2,513	2,469	2,419	2,272	2,317	2,456
Interest & Finance Charges	3,528	3,220	3,074	3,050	2,591	2,145	2,198	1,994
Direct Taxes Paid	-637	-384	-88	-312	-507	-749	-1,106	-1,609
(Inc)/Dec in WC	112	-2,072	-3,069	-1,269	2,592	-1,663	-293	-451
CF from Operations	8,090	4,580	3,283	4,220	10,317	4,345	6,572	7,754
Others	30	105	-119	-81	39	0	0	0
CF from Operating incl EO	8,121	4,685	3,164	4,139	10,355	4,345	6,572	7,754
(Inc)/Dec in FA	-788	-1,902	-1,712	-1,365	-1,256	-1,500	-1,800	-2,000
Free Cash Flow	7,332	2,783	1,452	2,774	9,100	2,845	4,772	5,754
(Pur)/Sale of Investments	-683	344	-923	-278	6	0	0	0
Others	-405	-1,385	231	-1,759	-708	0	0	0
CF from Investments	-1,876	-2,942	-2,404	-3,403	-1,958	-1,500	-1,800	-2,000
Issue of Shares	0	0	18	0	0	0	0	0
Inc/(Dec) in Debt	16,880	9,583	5,424	2,562	-5,401	-400	-2,100	-3,200
Interest Paid	-3,537	-3,411	-3,136	-3,000	-2,809	-2,145	-2,198	-1,994
Dividend Paid	-370	-371	-336	-300	-187	-310	-465	-465
Others	-19,217	-7,528	-2,746	0	0	0	0	0
CF from Fin. Activity	-6,243	-1,727	-776	-738	-8,396	-2,855	-4,763	-5,659
Inc/Dec of Cash	1	16	-16	-1	1	-10	9	95
Opening Balance	67	68	84	68	67	68	57	67
Closing Balance	68	84	68	67	68	57	67	162

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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