

Institutional Equity Research

India Cements

Cement | India

3QFY18 Result Update | February 12, 2018

CMP (Rs)	161
Upside/ (Downside) (%)	37
Bloomberg Ticker	ICEM IN
Market Cap. (Rs bn)	49.6
Free Float (%)	71.6
Shares O/S (mn)	308.1

BUY 

Target Price: Rs220

Better Operational Performance on Cost Rationalisation

India Cements (ICL) has reported a better-than-estimated performance mainly owing to substantial reduction in staff cost and lower-than-expected freight cost. EBITDA stood at Rs1.67bn (-11% YoY and -8% QoQ) vs. our estimate of Rs1.3bn. Cement EBITDA/tonne stood at Rs628 vs. Rs694 and Rs647 in 3QFY17 and 2QFY18, respectively. ICL's operating cost/tonne (cement) dipped by 4% YoY and 5% QoQ to Rs3,715 due to lower staff cost (-17% YoY and -28% QoQ) and freight cost/tonne (-6% QoQ). Sales volume stood at 2.73mnT (+0.6% YoY and +0.9% QoQ). However, average NCR dipped by 5% each in YoY and QoQ to Rs4,343/tonne. On the flip side, continuing to move northwards gross debt surged by Rs1.0bn QoQ to Rs33.6bn (Rs29.2bn in FY17), which can be a key near-term headwind for the stock, in our view. **Thus, trimming down our EBITDA estimate by 15% and 11% for FY18E and FY19E, respectively to factor in soft volume and subdued realisation, we maintain our BUY recommendation on the stock with a revised Target Price of Rs220 (from Rs200 earlier).**

Sales Volume Growth Remains Soft

Continued pressure in its key markets i.e. TN, Kerala and Maharashtra owing to various reasons led to soft sales volume growth, which stood at 2.73mnT (+0.6% YoY and +0.9% QoQ) in 3QFY18. However, the recent Supreme Court's order to allow sand quarrying in TN can aid ICL the most to improve its volume in coming months. Further, pick-up in construction activities in Maharashtra markets is likely to aid ICL in the current quarter in improving its sales volume.

Cost Rationalisation Aids Operational Performance

Cost rationalisation through downsizing headcount in non-core division and winding-up of Infrastructure division aided ICL to save on staff cost, which dipped by 17% YoY and 28% QoQ to Rs764mn. Further, QoQ decline in freight cost also aided its operating profit. Thus, despite 11% YoY and 8% QoQ decline, its reported EBITDA at Rs1.67bn exceeded our estimate of Rs1.3bn. Further, the recent surge in Southern realisation and possibility of higher volume in TN are likely to aid ICL to improve its operational performance further in coming quarters. Interest cost rose by 8% YoY and 4% QoQ to Rs924mn, while net profit stood at Rs152mn (-56% YoY).

Outlook & Valuation

An unexpected reduction in staff and freight cost was the key reason for outperformance. However, spike in gross debt in 9MFY18 and no visible sign of balance-sheet deleveraging amid no capacity addition are likely dilute ICL's growth prospects. However, we consider attractive valuations (7.9x FY18E and 6.3x FY19E EBITDA) as positive. Further, early signs of demand revival in TN are likely to benefit ICL the most. **Rolling over our estimates to FY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs220 (8x FY20 EBITDA).**

Key Financials (Rs mn)	FY17	FY18E	FY19E	FY20E
Sales	50,792	51,408	60,837	66,486
EBITDA	8,610	7,270	9,915	11,563
APAT	1734	999	3098	4040
EPS (Rs)	5.6	3.2	10.1	13.1
DPS (Rs)	1.2	1.8	2.4	2.4
P/E (x)	28.6	49.6	16.0	12.3
P/B (x)	1.0	1.0	0.9	0.9
EV/EBITDA (x)	9.1	11.1	7.9	6.4
RoE (%)	3.4	1.9	5.9	7.3
Divi. Yield (%)	0.7	1.1	1.5	1.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(14.2)	(4.5)	0.3
Relative to Nifty	(12.6)	(6.4)	(19.3)

Shareholding Pattern (%)	Sep'17	Dec'17
Promoter	28.4	28.4
Public	71.6	71.6

1 Year Stock Price Performance



Note: CMP as on Feb. 09, 2018

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Risks to the View

- ▶ Government's failure to revive activities in infrastructure space
- ▶ Any significant deterioration in pricing environment and substantial rise in input costs

Conference Call – Key Takeaways

- ▶ **Demand Scenario in South:** In 9MFY18, while demand grew by ~10% and ~5% in AP/Telangana and Karnataka, respectively, it declined by 12% YoY in TN/Kerala. ICL's capacity utilisation stood at 70% in 3QFY18. While ICL continued to see demand pressure owing to poor demand scenario in its core TN markets, it expects a significant recovery in its volume due to visible revival in Maharashtra and likely recovery in TN markets.
- ▶ **Pricing Environment:** While ICL's NCR corrected by ~Rs200/tonne QoQ in 3QFY18, it does not expect any meaningful price recovery in current quarter either. It stated that realisation can improve substantially from 1QFY19 onwards. Though ICL expects a healthy demand improvement in Western markets especially due to pick-up in infrastructure projects, we believe that higher volume in project segment may hinder any meaningful price recovery.
- ▶ **Sand Issues in TN:** While sand issues were the major culprit for demand revival in South region, the Supreme Court's recent order to allow sand quarrying in the state offered a sigh of relief of the cement companies. We expect ICL to be benefitted the most as the state accounts for 40% of its total capacity. Higher volume in TN may essentially aid ICL to improve its average NCR and contain operating cost further.
- ▶ **Rationalisation of Manpower Cost:** A significant reduction in staff cost was on account of savings due to winding-up of Infrastructure division and pruning staffs in other non-core businesses. Further, change in leave policy also helped it to lower the cost. While the Management indicates that manpower to be further pruned, it expects sustainable staff cost to be in the range of Rs750-850mn.
- ▶ **Decline in Other Expenditures:** ICL's other expenditures declined by 9% QoQ owing to reduction in advertisement cost and non-renewal of TV contracts. However, ICL might have to increase such expenditures in next year owing to sponsorship to CSK team, cost of which is estimated to be in the range of Rs120-150mn.
- ▶ **Fuel Mix & Petcoke Price:** Currently, 73% of total fuel at Kiln comprises of petcoke and rest comprises of imported coal. It uses 100% coal for CPP, which is sourced from its Indonesian coal mine. Average petcoke cost for 3QFY18 stood at US\$103/tonne, which has currently surged to US\$113/tonne.
- ▶ **Gross Debt:** Gross debt has surged by Rs1.0bn QoQ to Rs33.6bn (Rs29.2bn in FY17) owing to working capital requirement. ICL expects it to come down in the current quarter, while it is likely to be higher than FY17.
- ▶ **WHRS:** ICL has not yet formalised any plan of setting up WHRS at its Chilamakur plant. It expects to take a formal decision after the end of fiscal.
- ▶ **Higher Finance Cost:** There was a one-time expense of Rs75mn in finance cost owing to settlement of forex loans.

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Exhibit 1: Quarterly Performance

(Rs mn)	3QFY18	3QFY17	% yoy	2QFY18	% qoq	9MFY18	9MFY17	% yoy
Net Sales	12,131	12,679	(4.3)	12,683	(4.4)	39,429	37,779	4.4
(Increase) / Decrease in Stock in Trade and WIP	99	(182)		71		320	(31)	
Consumption of RM, components, etc.	2,227	1,963	13.4	2182	2.1	6,479	5,694	13.8
Stock in Trade	60	0		39		147	0	
Total Raw material consumed	2,385	1,781	33.9	2,292	4.1	6,946	5,662	22.7
% Net Sales	19.7	14.0		18.1		17.6	15.0	
Employee Cost	764	919	(16.9)	1,064	(28.2)	2,975	2,605	14.2
% Net Sales	6.3	7.2		8.4		7.5	6.9	
Power & Fuel Cost	3,065	2,405	27.4	2,974	3.1	8,897	6,499	36.9
% Net Sales	25.3	19.0		23.4		22.6	17.2	
Transportation & Handling Charges	2,811	2,482	13.3	2,966	(5.2)	8,624	7,314	17.9
% Net Sales	23.2	19.6		23.4		21.9	19.4	
Other Expenditures	1,433	3,207	(55.3)	1,574	(8.9)	6,645	9,556	(30.5)
% Net Sales	11.8	25.3		12.4		16.9	25.3	
Total Expenditures	10,458	10,793	(3.1)	10,868	(3.8)	34,086	31,635	7.7
% Net Sales	86.2	85.1		85.7		86.4	83.7	
Cement Cost/tonne (Rs)	3,715	3,887	(4.4)	3,919	(5.2)	3,882	3,777	2.8
EBIDTA	1,673	1,886	(11.3)	1,814	(7.8)	5,343	6,144	(13.0)
EBIDTA margin (%)	13.8	14.9		14.3		13.6	16.3	
Cement EBIDTA	1,711	1,880	(9.0)	1,747	(2.1)	5,283	5,985	(11.7)
EBIDTA per tonne	628	694	(9.6)	647	(3.0)	654	802	(18.5)
Depreciation	633	516	22.7	632	0.2	1,895	1,549	22.4
EBIT	1,039	1,370	(24.1)	1,182	(12.1)	3,447	4,595	(25.0)
Interest and Finance Charges	924	858	7.6	886	4.2	2,684	2,558	4.9
Other Income	37	31	18.4	66	(44.7)	155	133	16.9
Exceptional Items	0	0		0		0	0	
PBT	152	542	(71.9)	362	(57.9)	919	2,169	(57.6)
Tax Expenses	0.0	189	(100.0)	125.3	(100.0)	265	752	(64.7)
% Tax		34.8		34.6		28.9	34.7	
Exceptional Items	0	0		0		0	0	
PAT	152	353	(56.9)	237	(35.6)	654	1,417	(53.9)
Net margin	1.4	2.8		1.9		1.7	3.8	

Source: Company, RSec Research

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Exhibit 2: Revised vs. Old Estimates

	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	11.49	11.01	(4.2)	12.91	12.60	(2.4)
Realization (Rs/tonne)	4,843	4,538	(6.3)	4,988	4,788	(4.0)
Sales (Rs mn)	57,000	51,408	(9.8)	64,911	60,837	(6.3)
EBITDA (Rs mn)	8,584	7,270	(15.3)	11,182	9,915	(11.3)
EBITDA margins (%)	15.1	14.1		17.2	16.3	
PAT (Rs mn)	1,978	999	(49.5)	3,882	3,098	(20.2)
PAT margins	3.5	1.9		6.0	5.1	
EPS (Rs)	6.42	3.24	(49.5)	12.60	10.05	(20.2)

Source: RSec Research

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Profit & Loss

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
Net sales	50,792	51,408	60,837	66,486
% yoy growth	20.1	1.2	18.3	9.3
Total Cost	42,181	44,138	50,922	54,923
Raw Material Expenditures	10,617	11,157	13,849	15,474
Employee Costs	3,603	3,770	4,138	4,543
Power and Fuel	10,597	12,064	14,114	14,710
Freight and Forwarding	15,663	15,995	17,498	18,831
Other Expenditures	1,701	1,151	1,322	1,365
EBITDA	8,610	7,270	9,915	11,563
EBITDA Margin (%)	17.0	14.1	16.3	17.4
Depreciation	2,571	2,500	2,541	2,574
Interest	3,605	3,703	3,461	3,171
Other Income	165	198	218	240
Exceptional Items	-	-	-	-
PBT	2,600	1,265	4,130	6,057
Tax	867	266	1,033	2,017
Effective tax rate (%)	33.3	21.0	25.0	33.3
Net Profit	1,734	999	3,098	4,040
YoY Growth (%)	33.4	(42.4)	210.0	30.4
APAT	1,734	999	3,098	4,040
PAT %	3.4	1.9	5.1	6.1

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Balance Sheet

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
Share Capital	3,081	3,081	3,081	3,081
Reserves & Surplus	48,017	48,462	50,820	54,121
Total Shareholder's funds	51,099	51,543	53,902	57,202
Secured Loans	23,983	24,033	21,033	18,033
Unsecured Loans	5,230	7,230	7,930	7,130
Total Debt	29,213	31,263	28,963	25,163
Deffered Tax liability	6,556	6,556	6,556	6,556
Other NC Liabilities	1,887	2,419	2,790	3,010
TOTAL LIABILITIES	88,756	91,781	92,212	91,931
APPLICATION OF FUNDS				
Gross Block	75,015	76,515	77,515	78,515
Less: Accumulated Depreciation	5,286	7,786	10,328	12,902
Net Block	69,729	68,729	67,187	65,613
CWIP	1,278	1,278	1,278	1,278
Investments	6,190	6,190	6,190	6,190
Other NC Assets	12,295	12,444	14,167	15,119
Inventories	7,450	7,606	8,334	9,108
Real-estate	-	-	-	-
Sundry Debtors	5,089	7,746	8,334	8,743
Cash & Bank	68	533	524	706
Loans & Advances	4,354	3,944	4,334	4,736
Current Liabilities & Prov.	17,697	16,688	18,137	19,562
Net Current Assets	(737)	3,140	3,389	3,732
Total Assets	88,756	91,781	92,212	91,931

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Cash Flow Statement

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT before Extraordinary Items	2,600	1,265	4,130	6,057
Depreciation	2,571	2,500	2,541	2,574
Interest Exp.	4,223	3,703	3,461	3,171
Others	(714)	-	-	-
Operation Profit before WC changes	8,680	7,468	10,133	11,803
Trade and Other Receivables	(1,336)	(2,396)	(2,700)	(1,763)
Inventories	(1,456)	(156)	(728)	(774)
Trade Payables	2,905	(478)	1,821	1,644
Cash generated from Operation	8,794	4,438	8,525	10,910
Direct Taxes	(637)	(266)	(1,033)	(2,017)
Extraordinary Items	-	-	-	-
Net cash from Operating Activities	8,157	4,172	7,492	8,893
Purchase of Fixed Assets	(969)	(1,500)	(1,000)	(1,000)
Others	(209)	-	-	-
Net cash from Investing activities	(1,178)	(1,500)	(1,000)	(1,000)
Proceed from issue of Share Capital	-	-	-	-
Proceed from Long Term Borrowings	-	2,050	(2,300)	(3,800)
Interest paid/dividend paid (net of remission)	(4,555)	(4,257)	(4,200)	(3,911)
Others	(2,338)	-	-	-
Net Cash from financing activities	(6,894)	(2,207)	(6,500)	(7,711)
Increase / (Decrease) in cash & cash equivalent	85	465	(8)	182

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Key Ratio

Y/E Mar	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)				
P/E	28.6	49.6	16.0	12.3
P/CEPS	11.5	14.2	8.8	7.5
P/BV	1.0	1.0	0.9	0.9
EV/EBIDTA	9.1	11.1	7.9	6.4
EV/Sales	1.6	1.6	1.3	1.1
EV/tonne (USD)	78	79	77	73
Dividend Payout (%)	21.3	55.5	23.9	18.3
Dividend Yield (%)	0.7	1.1	1.5	1.5
Per Share Data (Rs)				
EPS (Basic)	5.6	3.2	10.1	13.1
EPS (Diluted)	5.6	3.2	10.1	13.1
CEPS	14.0	11.4	18.3	21.5
DPS	1.2	1.8	2.4	2.4
Book Value	166	167	175	186
EBITDA/tonne	780	651	787	865
Returns (%)				
RoCE	7.0	5.5	8.3	10.0
RoE	3.4	1.9	5.9	7.3
Turnover ratios (x)				
Asset Turnover (Gross block)	0.7	0.7	0.8	0.8
Inventory (days)	54	54	50	50
Receivables (days)	37	55	50	48
Payables (days)	114	114	114	114
WCC (days)	(24)	(5)	(14)	(16)

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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