sbicap securities

Institutional Equity Research

Cement | India

India Cements

ICEM IN; ICCA.BO

August 13, 2013

1Q/F14 result review — BUY

Current price	Rs	46
Target price	Rs	61
Upside/(downside)	%	34
Earning estimate		Revised

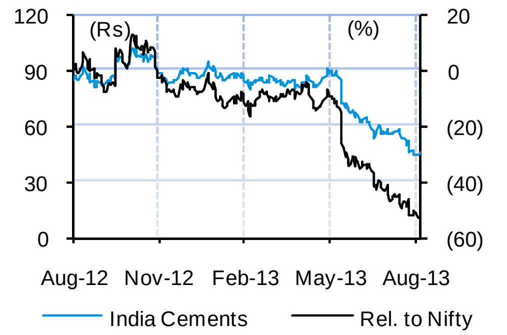
Market data

Mkt capitalisation	Rs bn	14.0
Average daily vol	'000	3149.0
52-week H/L	Rs	105 / 43
Shares O/S	mn	307.2
Free float	mn	220.4
Promotor holding	%	28.2
Foreign holding	%	32.8
Face value	Rs	10.0

Price performance (%)

	1m	3m	6m	1yr
Nifty (abs)	(5.2)	(4.7)	(3.9)	6.6
Stock (abs)	(18.4)	(47.6)	(44.7)	(46.5)
Relative to Index	(13.2)	(42.9)	(40.7)	(53.1)

Performance



Source: Bloomberg, SSL

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Realisation decline offset volume growth benefits

India Cements (ICEM) 1QFY14 sales revenue rose by 3.1% YoY backed by a strong ~14% jump in volume to 2.66 mn tonnes. However fall in realization by ~ 7% YoY to Rs4,182/tonne and increase in cost of production pulled the EBDITA margins down to 15.6% from 23.4% in 1QF13. The operating efficiencies were maintained as the cost increase was steady and in-line with the production increase. However the fall in realizations pulled down the EBDITA down to Rs1.93bn from Rs2.81bn in 1QF13. Higher proportion of imported coal (60%) in the fuel mix kept the energy cost high at ~ Rs1,250/tonne. The logistic cost continued to hit ICEM as the company expanded into new regions due to slow demand growth in its key market in South India. The overall cost/tonne rose to Rs3,940/tonne compared to Rs3,881/tonne. The EBIDTA/tonne fell sharply to Rs600/tonne from Rs1,091/tonne in 1QF13. The adjusted profit nearly halved to Rs439mn YoY (Rs937mn in 1QF13). Contribution from other revenue streams including windmill (Rs53mn), shipping (Rs154mn) and IPL (Rs1.08mn) were in-line with expectations in 1QF14. The IPL EBIDTA contribution was Rs330mn compared to Rs210mn in 1QF13.

Double digit volume growth: Cement dispatches were strong at ~ 2.66 including small contribution from clinker (0.01mn tonnes) a jump of ~ 14% YoY. Capacity utilization improved to ~ 75% higher than ~70% in 4QF14. The continued sluggish demand in its key markets forced ICEM to tap new regions including Maharashtra and East India. The Southern sales dropped from 80% in 1QF13 to 76% in 1QF14. This indicates that the capacity utilization may hover around the current levels for ICEM.

Double whammy dents EBIDTA margins: The power & fuel costs rose to Rs1,242/tonne YoY (Rs 1,210/tonne in 1QF13) despite softening imported coal prices. The high energy cost was largely due to hike in the power cost. The average power rate was Rs4.23/unit. The power cost has shot up YoY by Rs1/unit in AP and Rs0.20/unit in TN. Higher contribution of imported coal further inflated the power cost. Logistics costs rose to Rs997/tonne compared to Rs937/tonne (Rs990/tonne in 4QF13) due to higher rail freight, hike in diesel prices and higher sales to new regions including Maharashtra and East India. The expenditure of Rs90 mn on the dry docking of a vessel pushed the other expenditure to Rs2.24bn compared to Rs1.98bn. Continued cost spiral (Rs3,940/tonne vs Rs3,881/tonne in 1QF13) and dip in realizations to Rs4,182/tonne (Rs4,481 in 1QF14) pulled the EBIDTA margins down to 15.6% from 23.4% in 1QF14.

Debt burden continues: ICEM debt burden marginally increased during the quarter to Rs3.23bn contributed by higher working capital requirements. This included the sales tax deferral loan of Rs5.5bn. The debt burden is expected to continue due to the overall cement demand weakness and reduction of debt may be delayed. The net debt-equity ratio is expected to hover ~ 0.7x in F14 and F15. The company has planned capex of ~ Rs3.0bn in F14 (Rs600 mn spent in 1QF14).

Financial summary

Y/E March (Rs mn)	F 11	F 12	F 13p	F 14e	F 15e
Sales	34,171	42,034	46,136	49,456	57,104
EBIDTA margin (%)	10.3	21.6	18.7	18.0	19.0
PAT	658	2,966	1,836	1,813	2,999
EPS (Rs)	2.1	9.7	6.0	5.9	9.8
P/E (x)	21.5	4.8	7.7	7.8	4.7
EV/EBIDTA (x)	11.0	4.2	5.0	5.1	1.3
Dividend yield (%)	3.8	5.1	5.1	3.8	3.8
RoE (%)	1.6	7.3	4.5	4.4	7.1
RoCE (%)	3.4	9.8	8.2	8.0	9.9

Source: Company, SSLe

Earnings estimates revised: We have revised our earnings estimates downwards to Rs5.9 (Rs9.8) in F14e factoring in the sustained cost inflation and revised volume estimates downward. Our new volume estimates for F14 are 10.9 mn tonnes revised from 11.4 mn tonnes. We have also revised our realizations downward to Rs4,417/tonne (Rs4,487/tonne earlier) to factor in the slow revival in demand. We expect the Indonesian coal contributing from F14 and the new captive power unit to reduce the energy cost. This together should help the power and fuel cost under check. We have assigned higher weight to secured coal supply over price benefits (savings) from the Indonesian coal mine. However logistic cost will remain firm following the impact of diesel price hike and sales in new areas increasing the lead distance as the key reasons for the same. Our F15 earnings estimates are revised down to Rs9.8 (Rs11.6 earlier) as we expect the realization growth to be weak at Rs4,587/tonne, however we expect the dispatches to pick up and hence have not revised the volume estimates. We expect improvement in operating efficiencies as coal supply stabilizes and more clarity emerges about the quality and cost of the coal (from captive mines) and ICEM increases it reliance on CPPs.

Valuation and recommendation: At the current CMP of Rs46, ICEM trades at a P/E of 4.7x and EV/EBIDTA of 1.3x one-year forward earnings. We feel at the current valuation the stock leaves further room for upside from the current levels. The stock is available at replacement cost of ~ US$40/tonne one-year forward capacities. We have valued the stock at a deep discount of 65% to the replacement cost of US$130/tonne to factor in the corporate governance issues hovering around the management of the company which deepened further recently. The discount also includes the regional concentration and higher exposure to the weak AP markets, concerns over the balance sheet weakness and the slow demand revival in operating regions of ICEM. We have revised our price target downwards to Rs61 and maintain 'BUY' rating on the stock. We feel the current stock price factor our concerns. The stock trades at EV/EBIDTA of 1.7x and P/E of 6.2x at our target price.

Quarterly financials

Y/E March (Rs mn)	1Q/F14	1Q/F13	YoY (%)	4Q/F13	QoQ (%)	1Q/F14e	Var (%)
Net sales	12,384	12,014	3.1	11,906	4.0	12,839	(3.5)
Raw Material	1,444	1,363	5.9	1,529	(5.6)	1,577	(8.4)
% of sales	11.7	11.3		12.8		12.3	
Power & fuel	3,301	2,880	14.6	3,412	(3.2)	3,391	(2.6)
% of sales	26.7	24.0		28.7		26.4	
Total cost	10,473	9,237		10,228		10,627	
EBITDA	1,934	2,814	(31.3)	1,763	9.7	2,250	(14.0)
EBITDA margin (%)	15.6	23.4		14.8		17.5	
Dep. & amortisation	680	692	(1.7)	720	(5.7)	735	(7.6)
Interest	728	698	4.3	635	14.8	667	9.2
EBT	258	975		403	(36.0)	858	(69.9)
Other income	2	0	275.0	0		5	(70.0)
PBT	257	974		403	(36.3)	853	(69.9)
Exceptional items	(271)	(450)		(4)		0	
Provision for tax	89	353		141	(36.6)	256	(65.2)
Effective tax rate (%)	34.7	36.2		34.8		30.0	
Minority interest							
PAT (adjusted)	439	937	(53.2)	267	64.2	597	(26.5)
NPM (%)	3.5	7.8		2.2		4.6	

Source: SSLe

Financials

Income Statement

Y/E March (Rs mn)	F 11	F 12	F 13p	F 14e	F 15e
Net sales	**34,171**	**42,034**	**46,136**	**49,456**	**57,104**
growth (%)	(7.3)	23.0	9.8	7.2	15.5
Operating expenses	(30,668)	(32,955)	(37,510)	(40,535)	(46,260)
Operating profit	**3,503**	**9,079**	**8,626**	**8,921**	**10,844**
Other operating income	0	0	0	0	0
EBITDA	**3,503**	**9,079**	**8,626**	**8,921**	**10,844**
growth (%)	(53.8)	159.2	(5.0)	3.4	21.6
Depreciation	(2,440)	(2,532)	(2,836)	(3,118)	(3,453)
Other income	1,230	166	12	185	203
EBIT	**2,293**	**6,714**	**5,801**	**5,989**	**7,595**
Interest paid	(1,417)	(2,867)	(3,078)	(3,282)	(3,310)
PBT (before non-recurring items)	**875**	**3,846**	**2,724**	**2,706**	**4,284**
Non-recurring items	23	(36)	(200)	0	0
Tax on non-recurring items	0	0	0	0	0
PBT (after non-recurring items)	**899**	**3,810**	**2,524**	**2,706**	**4,284**
Tax (current + deferred)	(218)	(880)	(888)	(893)	(1,285)
Net profit	**681**	**2,930**	**1,636**	**1,813**	**2,999**
Adjusted net profit	**658**	**2,966**	**1,836**	**1,813**	**2,999**
growth (%)	(79)	351	(38)	(1)	65
Prior period adjustments	0	0	0	0	0
Minority interests	0	0	0	0	0
Preference dividend	0	0	0	0	0
Net income	**681**	**2,930**	**1,636**	**1,813**	**2,999**

Balance Sheet

Y/E March (Rs mn)	F 11	F 12	F 13p	F 14e	F 15e
Current assets	29,039	31,113	33,638	36,593	40,270
Investments	1,603	8,520	9,578	11,253	11,453
Net fixed assets	48,743	42,780	44,813	43,414	42,917
Other non-current assets	181	270	270	270	270
Total assets	**79,566**	**82,683**	**88,298**	**91,530**	**94,910**
Current liabilities	11,184	14,292	15,239	15,663	16,767
Total Debt	24,561	24,289	28,776	30,926	31,376
Other non-current liabilities	2,924	3,515	3,567	3,567	3,567
Total liabilities	**38,669**	**42,096**	**47,582**	**50,155**	**51,709**
Share capital	3,072	3,072	3,072	3,072	3,072
Reserves & surplus	37,826	37,604	37,645	38,303	40,129
Less: Misc. expenditure	0	(89)	0	0	0
Shareholders' funds	**40,898**	**40,587**	**40,717**	**41,375**	**43,201**
Minorities interests	0	0	0	0	0
Total equity & liabilities	**79,566**	**82,683**	**88,298**	**91,530**	**94,910**

Source: Company, SSLe

Cash Flow Statement

Y/E March (Rs mn)	F 11	F 12	F 13p	F 14e	F 15e
Pre-tax profit	899	3,810	2,524	2,706	4,284
Depreciation	2,999	2,775	2,818	3,096	3,427
Chg in working capital	(1,697)	164	(1,810)	(1,774)	(2,400)
Total tax paid	(331)	11	(588)	(1,750)	(1,285)
Other operating activities	0	0	0	0	0
Cash flow from operations (a)	**1,871**	**6,760**	**2,944**	**2,278**	**4,026**
Capital expenditure	(5,527)	3,188	(4,851)	(1,697)	(2,930)
Chg in investments	1,537	(6,917)	(1,059)	(1,675)	(200)
Other investing activities	0	0	0	0	0
Cash flow from investing (b)	**(3,991)**	**(3,729)**	**(5,910)**	**(3,372)**	**(3,130)**
Free cash flow (a+b)	**(2,120)**	**3,032**	**(2,965)**	**(1,094)**	**896**
Equity raised/(repaid)	0	(1,868)	89	0	0
Chg in minorities	0	0	0	0	0
Debt raised/(repaid)	3,234	(272)	4,487	2,150	450
Dividend (incl. tax)	(716)	(536)	(716)	(719)	(539)
Other financing activities	(604)	(658)	(876)	(616)	(634)
Cash flow from financing (c)	**1,913**	**(3,334)**	**2,984**	**815**	**(723)**
Net chg in cash (a+b+c)	**(207)**	**(302)**	**18**	**(278)**	**173**

Key ratios

Y/E March	F 11	F 12	F 13p	F 14e	F 15e
EPS (Rs)	2.1	9.7	6.0	5.9	9.8
EPS growth (%)	(79.7)	350.9	(38.1)	(1.2)	65.4
EBITDA margin (%)	10.3	21.6	18.7	18.0	19.0
EBIT margin (%)	6.7	16.0	12.6	12.1	13.3
ROCE (%)	3.4	9.8	8.2	8.0	9.9
Net debt/Equity (%)	59.2	59.8	70.6	75.3	72.8

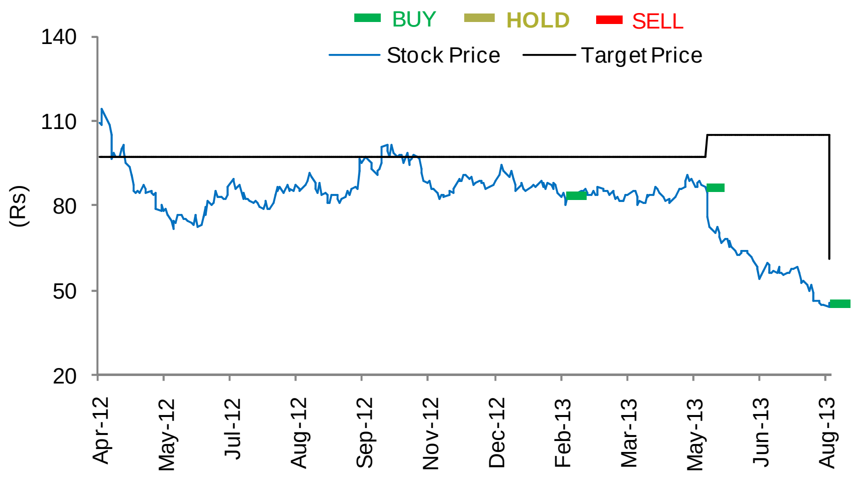
Valuations

Y/E March	F 11	F 12	F 13p	F 14e	F 15e
PER (x)	21.5	4.8	7.7	7.8	4.7
PCE (x)	4.6	2.6	3.0	2.9	2.2
Price/Book (x)	0.4	0.4	0.4	0.4	0.3
Yield (%)	3.8	5.1	5.1	3.8	3.8
EV/Net sales (x)	1.1	0.9	0.9	0.9	0.2
EV/EBITDA (x)	11.0	4.2	5.0	5.1	1.3

Du Pont Analysis - ROE

Y/E March	F 11	F 12	F 13p	F 14e	F 15e
Net margin (%)	1.9	7.1	4.0	3.7	5.3
Asset turnover (x)	0.4	0.5	0.5	0.6	0.6
Leverage factor (x)	1.9	2.0	2.1	2.2	2.2
Return on equity (%)	1.6	7.3	4.5	4.4	7.1

Recommendation History



Date	Stock Price	TP	Rec.
26-Apr-12	85	97	ADD
14-Aug-12	88	97	ADD
23-Nov-12	83	97	ADD
Rating based on Current Rating System (Feb'13)			
Date	**Stock Price**	**TP**	**Rec.**
15-Feb-13	83	97	BUY
21-May-13	87	105	BUY
13-Aug-13	46	61	BUY

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Guide to the expected return over the next 12 months. 1=BUY (expected to give absolute returns of 15 or more percentage points); 2=HOLD (expected to give absolute returns between -10 to 15 percentage points); 3=SELL (expected to give absolute returns less then -10 percentage points)

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