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Q1FY23 result review
and earnings revision

Cement

Target price: Rs130

Earnings revision

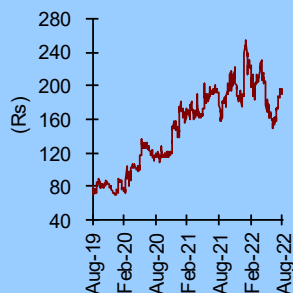
(%)	FY23E	FY24E
Sales	↓ 2.2	↑ 0.5
EBITDA	↓ 45.3	↑ 0.9
PAT	NA	↓ 0.5

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	28.4	28.4	28.4
Institutional investors	21.1	21.1	21.1
MFs and others	3.3	4.0	2.9
FIs and Banks	-	-	-
Insurance Cos.	4.6	4.8	4.7
FII	13.2	13.3	13.5
Others	50.5	49.5	50.5

Source: BSE

Price chart



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INDIA

ICICI Securities

India Cements

SELL

Maintained

Rs193

Cost pressures hit unit profitability

India Cements' (ICEM) Q1FY23 EBITDA at Rs0.4bn (down 77% YoY) was below our / consensus estimates due to hit from higher input costs. Volume growth was in line with our estimate at 37% YoY led by strong growth in South India on low base. Total cost/te was up 6% QoQ / 20% YoY against increase in realisation by 3.5% / 3% QoQ / YoY. This resulted in blended EBITDA/te declining 42% QoQ and 83% YoY to a decade-low of Rs145/te (I-Sec: Rs224/te). High FY24 'net debt to EBITDA' ratio at >4x (standalone net debt at Rs29.4bn) and higher exposure to volatile prices in the South remains our key concern. We broadly maintain our FY24E EBITDA with the target price unchanged at Rs130/sh based on 9x FY24E EV/E. Maintain SELL. Key upside risks: higher demand and/or pricing.

- ▶ **Revenues grew 43% YoY to Rs14.5bn.** Volumes increased 37% YoY to 2.67mnte (I-Sec: 2.66mnte) in Q1FY23 with 69% utilisation. Demand in South India grew +50% YoY in Q1FY23 on a low base led by higher infrastructure demand as per the management, with the company growing its non-South volumes by 17% YoY. ICEM reduced its despatches to East region and far-off markets as the contribution therefrom was very low due to increased costs. Company remains cautiously optimistic on FY23 demand with government push to infrastructure and affordable housing.
- ▶ **Cement realisation (including RMC) rose 3.3% QoQ** to Rs5,379/te (up 3.6% YoY). As per the management, average cement prices in Q1FY23 were similar to Q4FY22 levels as ICEM was unable to pass on the cost escalations due to intense competition. Current realisation remains similar to Q1FY23 with the management expecting the industry to take price hikes post monsoon.
- ▶ **Cement EBITDA/te (including RMC) declined 44% QoQ and 84% YoY** to Rs128/te. Total cost/te was up 6% QoQ and 20% YoY in Q1FY23. Raw material plus power and fuel cost/te increased 8% QoQ and 43% YoY as fuel consumption rate increased from Rs1.6 per kcal to Rs2.7. Fuel mix was: 65% imported coal and 35% petcoke. Fuel consumption cost is likely to remain flat QoQ during Q2FY23 as ICEM maintains 2-month inventory with spot prices currently at Rs2.2/kcal. Freight cost/te was up 3% QoQ (flat YoY) owing to higher diesel prices.
- ▶ **Company opted for lower tax rates** under section 115BAA of Income tax Act 1961, and, accordingly, its deferred tax liability obligation has been recomputed. This resulted in reversal of Rs1.5bn. Hence, the company was able to report PAT of Rs760mn.

Market Cap	Rs59.8bn/US\$751mn
Reuters/Bloomberg	ICMN.BO/ICEM IN
Shares Outstanding (mn)	309.9
52-week Range (Rs)	255/150
Free Float (%)	71.6
FII (%)	13.5
Daily Volume (US\$'000)	6,975
Absolute Return 3m (%)	14.7
Absolute Return 12m (%)	9.3
Sensex Return 3m (%)	13.1
Sensex Return 12m (%)	9.8

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	45,510	48,827	55,669	61,122
EBITDA (Rs mn)	8,283	5,087	2,052	7,459
Net Income (Rs mn)	2,068	785	(344)	2,468
% Chg YoY	223.4	(62.1)	(143.9)	NA
P/E (x)	28.9	76.2	NA	24.2
CEPS (Rs)	14.6	9.8	5.7	14.9
EV/E (x)	10.9	17.7	44.8	11.9
Dividend Yield (%)	0.5	0.5	0.3	0.5
RoCE (%)	4.1	(2.4)	1.6	4.3
RoE (%)	3.7	1.4	(0.6)	4.1

Please refer to important disclosures at the end of this report

- ▶ **Consolidated net debt remains in excess of Rs30bn** and the standalone debt stands at Rs29.4bn as on Jun'22. High FY24 'net debt to EBITDA' ratio at >4x and higher exposure to volatile prices in the South remains our key concern.

Key takeaways from management conference call

- Cement demand is expected to remain on track with increased house-building and construction activity in metros, rural, semi-urban and urban centres. Good monsoon this year till date augurs well for prospects for the rural economy.
- The growth rate in Q1FY23 in South India for the cement industry was higher than the all-India rate resulting in close to 50% increase in production in Q1FY23 as compared to the previous year.
- Despite the better demand, companies in the South were unable to pass on the increase in cost of production due to huge capacity overhang and higher demand for low-yielding OPC products.
- The growth rate in cement sales for ICEM was marginally less than that of peers in the South as the company reduced its despatches to the East and far-off markets as the contribution therefrom was very low due to increased costs.
- ICEM was unable to take price hikes in Q1FY23 due to high price elasticity in the market and increased competitive intensity. However, the company intends to take price hikes in a couple of months when monsoon ends and a better demand scenario emerges.
- Unit power and fuel cost was high with the fuel consumption cost increasing to Rs2.75/kcal vs Rs.1.60/kcal YoY. The average fuel consumption in Q2FY23 is expected to remain flat sequentially at Rs2.75/kcal as ICEM maintains two months of fuel inventory. The spot fuel cost stands at Rs2.23/kcal.
- Average coal cost Rs17,300/te in Q1FY23 vs Rs14,300/te in Q4FY22. Measures taken by ICEM to reduce costs are: 1) usage of Russian coal and low-quality coal from Indonesia, and 2) plan to replace ball mills with vertical roller mills at grinding stations.
- The fuel mix is: 65% imported coal and 35% petcoke (majority of the petcoke is sourced locally).
- Standalone net debt is at Rs29.4bn.

Table 1: Q1FY23 result review

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	I-Sec est.	Var (%)
Volume Sales	2.67	1.94	37.4	2.66	0.6	2.66	0.3
Blended realisation	5,443	5,275	3.2	5,256	3.5	5,383	1.1
Net Sales	14,496	10,137	43.0	13,908	4.2	14,289	1.4
Other operating income	47	118	(60.2)	58	(18.4)	47	-
Raw Materials	2,054	1,214	69.2	2,559	(19.7)	2,328	(11.8)
Personnel Cost	910	827	10.0	791	15.1	802	13.4
Power fuel costs	6,334	3,053	107.5	5,143	23.2	5,774	9.7
Freight	3,203	2,325	37.8	3,097	3.4	3,166	1.2
Other Expenses	1,654	1,187	39.4	1,717	(3.6)	1,669	(0.9)
Total Expenses	14,155	8,605	64.5	13,305	6.4	13,739	3.0
EBITDA	388	1,650	(76.5)	661	(41.3)	597	(35.0)
EBITDA / te	145	849	(82.9)	249	(41.6)	224	(35.2)
Cement EBITDA/te	128	807	(84.1)	230	(44.1)	187	(31.3)
Interest	586	545	7.6	483	21.4	483	21.4
Depreciation	522	545	(4.2)	543	(4.0)	538	(3.0)
Other Income	-	-	NA	-	NA	-	NA
Recurring pre-tax income	(720)	561	(228.5)	(366)	96.8	(424)	69.8
Extraordinary inc/(exp)	-	-	-	-	-	-	-
Taxation	(1,481)	186	(894.5)	(128)	NA	(131)	NA
Reported Net Income	761	374	103.3	(238)	NA	(293)	NA
Recurring Net Income	761	374	103.3	(238)	NA	(293)	NA
Ratios (%)							
EBITDA margins	2.7	16.3		4.7		4.2	
Net profit margins	5.2	3.6		(1.7)		(2.0)	

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis – standalone

(Rs/te)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net realisation - cement	5,193	4,974	5,228	5,206	5,379
YoY (%)	(0.2)	(0.8)	8.0	7.9	3.6
Expenditure					
Raw material costs	624	822	880	963	769
Power & fuel costs	1,570	1,503	1,669	1,936	2,370
Freight costs	1,196	1,178	1,174	1,165	1,199
Staff costs	425	374	378	298	340
Other expenditure	586	577	639	632	572
Total costs - cement	4,402	4,455	4,740	4,993	5,251
Other operating income	16	13	13	18	128
EBITDA - cement	807	533	501	230	5,379

Source: Company data, I-Sec research

Table 3: Historical quarterly – segment revenues and EBITDA

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue					
Cement + RMC	10,095	11,740	11,021	13,831	14,373
Shipping	83	83	80	80	33
Windmill	47	79	14	8	56
Infrastructure	-	-	-	-	-
Total	10,225	11,902	11,115	13,919	14,462
EBITDA					
Cement + RMC	1,568	1,258	1,057	611	343
Shipping	45	43	40	42	-14
Windmill	37	67	2	8	44
Infrastructure	-	-	-	-	15
Total	1,650	1,368	1,099	661	388

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

('000 te)

	FY20	FY21	FY22	FY23E	FY24E
Capacity	15,550	15,550	15,550	15,550	15,550
Production	11,020	8,902	9,070	10,246	11,034
Capacity utilisation (%)	71	57	58	66	71
Sales	11,020	8,902	9,070	10,246	11,034
Growth (%)	(11.4)	(19.2)	1.9	13.0	7.7
Realisation (Rs/te)	4,668	5,018	5,338	5,391	5,499
Growth (%)	1.4	7.5	6.4	1.0	2.0

Source: Company data, I-Sec research

Table 5: Per-tonne analysis

(Rs/te)

	FY20	FY21	FY22	FY23E	FY24E
Blended realisation	4,706	5,112	5,383	5,433	5,539
Net realisation – Cement	4,668	5,018	5,338	5,391	5,499
Raw materials consumed	894	909	923	883	907
Power and fuel	1,236	1,192	1,706	2,183	1,823
Freight	1,051	1,089	1,175	1,175	1,187
Others	986	992	1,019	992	947
Total operating expenses	4,167	4,182	4,823	5,233	4,863
EBITDA/te – Blended	540	930	561	200	676

Source: Company data, I-Sec research

Maintain SELL with target price of Rs130/share

We maintain **SELL** with a target price of Rs130/sh (unchanged) based on 9x FY24E EV/E. High 'net debt to EBITDA' ratio of >4x with higher exposure to volatile prices in South remains our key concern. Key upside risks: higher demand and/or pricing.

Table 6: Valuations based on 9x FY24E EV/E

(Rs.mn)

Target EV/ EBITDA multiple (x)	9
Target EV (Rs mn)	69,367
Net debt / (cash) (Rs mn)	28,988
Target value (Rs mn)	40,378
No. of shares (mn)	310
Target price per share (Rs)	130

Source: I-Sec research

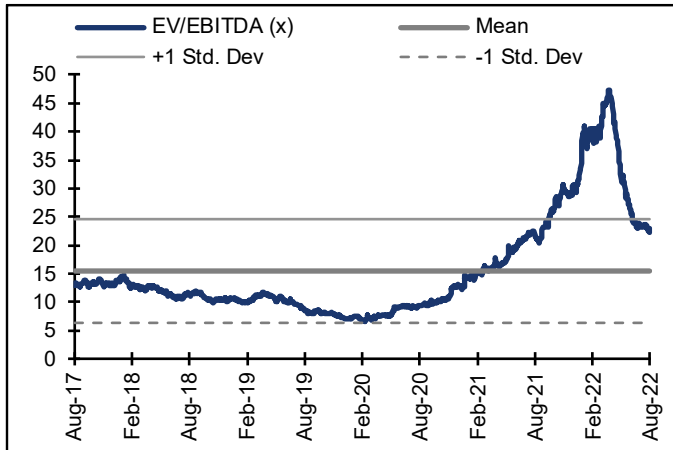
Table 7: Earnings revision

(Rs mn)

	FY23E			FY24E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	55,669	56,893	(2.2)	61,122	60,810	0.5
EBITDA	2,052	3,748	(45.3)	7,459	7,391	0.9
PAT	(344)	(416)	NA	2,468	2,479	(0.5)

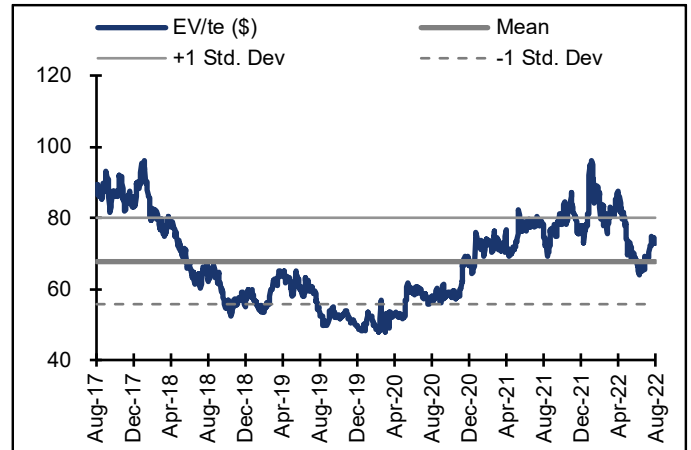
Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA



Source: I-Sec research

Chart 2: Rolling EV/te



Source: I-Sec research

Financial summary

Table 8: Profit and Loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Income (Sales)	45,510	48,827	55,669	61,122
Operating Expenses	37,227	43,741	53,617	53,663
EBITDA	8,283	5,087	2,052	7,459
% margin	18.2	10.4	3.7	12.2
Depreciation & Amortisation	2,466	2,255	2,103	2,139
Gross Interest	2,710	1,977	2,457	2,184
Other Income	-	-	-	-
Recurring PBT	3,107	855	(2,509)	3,135
Add: Extraordinaries	-	-	-	-
Less: Taxes	1,022	195	(2,039)	793
Net Income (Reported)	2,068	785	(344)	2,468
Recurring Net Income	2,068	785	(344)	2,468

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	33,438	41,472	46,529	47,230
Current Liab. & Prov.	16,925	24,032	29,072	29,472
Net Current Assets	16,513	17,440	17,458	17,758
Investments of which	3,810	4,083	4,083	4,083
Strategic/Group	3,791	4,044	4,044	4,044
Marketable	18	40	40	40
Net Fixed Assets*	71,835	72,857	72,254	71,614
of which				
Capital Work-in-Progress	3,004	3,860	3,860	3,860
Total Assets	93,975	96,398	95,812	95,474
Liabilities				
Borrowings	30,698	30,856	32,457	29,957
Deferred Tax Liability	5,554	5,308	3,778	3,935
Minority Interest	1,036	764	674	584
Equity Share Capital	3,099	3,099	3,099	3,099
Face value per share (Rs)	10	10	10	10
Reserves & Surplus	53,588	56,371	55,804	57,900
Net Worth	56,687	59,470	58,903	60,999
Total Liabilities	93,975	96,398	95,812	95,474

Source: Company data, I-Sec research

Table 12: Quarterly trend

(Rs mn, year ending March 31)

	Sep-21	Dec-21	Mar-22	Jun-22
Net sales	11,902	11,115	13,919	14,496
% growth (YoY)	11.0	(4.2)	(4.0)	43
Recurring EBITDA	1,368	1,099	661	388
Margin (%)	11.5	9.9	4.7	2.7
Other income	0	0	0	0
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	220	33	(238)	761

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow	5,109	2,655	550	5,019
Working Capital changes	2,689	(93)	(539)	109
Capital Commitments	(1,491)	(1,508)	(1,500)	(1,500)
Net Operating FCF	6,307	1,054	(1,489)	3,629
Investing Activities	(623)	(1,109)	-	-
Issue of Share Capital	-	(177)	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(5,628)	493	1,601	(2,500)
Dividend paid	(175)	(289)	(223)	(372)
Others	90	90	(89)	(91)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	(30)	62	(200)	666

Source: Company data, I-Sec research

Table 11: Key ratios

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS(Basic)	6.7	2.5	(1.1)	8.0
Diluted Recurring EPS	6.7	2.5	(1.1)	8.0
Diluted Recurring CEPS	14.6	9.8	5.7	14.9
Dividend per share	1.0	1.0	0.6	1.0
Book Value	171	172	170	177
Growth Ratios (% YoY)				
Operating Income	(12.3)	7.3	14.0	9.8
EBITDA	39.3	(38.6)	(59.7)	263.5
Recurring Net Income	223.4	(62.1)	(143.9)	NA
Diluted Recurring EPS	223.4	(62.1)	(143.9)	NA
Diluted Recurring CEPS	41.7	(32.9)	(42.1)	161.9
Valuation Ratios (x)				
P/E	28.9	76.2	NA	24.2
P/CEPS	13.2	19.7	34.0	13.0
P/BV	1.1	1.1	1.1	1.1
EV / EBITDA	10.9	17.7	44.8	11.9
EV / te (US\$)	73	73	75	72
EV / Operating Income	2.0	1.8	1.7	1.5
EV / Operating FCF	13.3	46.7	NA	17.3
Operating Ratios (%)				
Raw Material / Sales	17.8	17.1	16.2	16.4
SG&A expenses / Sales	33.3	33.8	33.5	32.4
Effective Tax Rate	32.9	NA	22.3	25.3
NWC / Total Assets	0.2	0.2	0.2	0.2
Inventory (x)	2.6	3.3	3.3	3.1
Receivables (days)	52	56	67	70
Payable (days)	118	99	97	105
D/E Ratio (x)	0.5	0.5	0.6	0.5
Profitability Ratios (%)				
Rec. Net Income Margins	4.5	1.6	(0.6)	4.0
RoCE	4.1	(2.4)	1.6	4.3
RoNW	3.7	1.4	(0.6)	4.1
Dividend Payout	15.0	39.5	(54.0)	12.6

Source: Company data, I-Sec research

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