

08 August 2023

India | Equity Research | Q1FY24 result review

India Cements

Cement

Profitability continues to drag

Profitability continued to drag its feet at India Cements (ICEM) even as EBITDA for Q1FY24 turned positive (albeit a mere INR 50mn). Performance continues to be impacted by: a) poor volume growth (flat YoY), b) weak realisations (down ~1% QoQ), and c) high operating cost – leaving little on the table for the company. Going ahead, ICEM expects profitability improvement on the back of: i) benefits of falling fuel cost and stable cement prices, and ii) the company's efforts to enhance efficiency by engaging with external consultants as well undertaking plant modernisation. Our earnings estimates (unchanged) largely factor in the expected improvements. With concerns about high debt and low RoEs persisting, we maintain **SELL** on ICEM with an unchanged target price of INR 122.

EBITDA turns positive; PAT remains in red

ICEM's EBITDA turned positive in Q1FY24 (after losses for the past three quarters), though it was a paltry INR 50mn (down 84% YoY). Cement volume rose ~4% YoY – while including clinker it stood flat YoY. Realisation remained weak (down ~1% QoQ, >6% YoY). Variable cost/te eased >4% QoQ (down 3% YoY), while fixed cost/te stood flat QoQ (up 3% YoY). Overall, EBITDA/te was a mere INR 19 vs INR 115 in Q1FY23 and a loss of INR 160/te in Q4FY23. Given the meek EBITDA, ICEM posted a loss of INR 753mn in Q1FY24 vs loss of INR 2,178mn in Q4FY23 and a positive PAT of INR 761mn in Q1FY23.

Concerns persist; maintain SELL

ICEM reiterated its plan to replace old equipment at a few of its plants. It has engaged with an external consultant to review its supply-chain management and generate likely savings of INR 200/te. To fund the required capex, ICEM has also initiated efforts to sell its surplus land bank. We await visible material progress and tangible benefits of the company's efforts. As of now, we see limited upside risk to our current EBITDA/te estimate of INR 473 for FY24E and INR 610 for FY25E. With sticky concerns of high leverage (net debt/EBITDA of >5x for FY24E and ~4x for FY25E) and weak RoEs (in low single digits), we continue to value ICEM at 9x FY25E EV/EBITDA. Maintain **SELL** with an unchanged target price of INR 122.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	47,131	53,808	61,012	67,532
EBITDA	4,611	(1,745)	5,144	7,165
EBITDA (%)	9.8	(3.2)	8.4	10.6
Net Profit	390	(1,886)	473	1,966
EPS (Rs)	1.3	(6.1)	1.5	6.3
EPS % Chg YoY	(82.4)	(583.7)	(125.1)	316.0
P/E (x)	171.5	(35.5)	141.5	34.0
EV/EBITDA (x)	22.5	(58.7)	19.4	13.9
RoCE (%) (Post-Tax)	1.9	(1.9)	2.2	3.8
RoE (%)	0.7	(3.3)	0.8	3.4

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Market Data

Market Cap (INR)	67bn
Market Cap (USD)	808mn
Bloomberg Code	ICEM IN
Reuters Code	ICMN.BO
52-week Range (INR)	299 /167
Free Float (%)	42.0
ADTV-3M (mn) (USD)	9.9

Price Performance (%)	3m	6m	12m
Absolute	12.8	14.8	13.8
Relative to Sensex	8.8	10.4	14.4

ESG Disclosure	2021	2022	Change
ESG score	37.8	36.1	(1.7)
Environment	2.9	2.9	-
Social	26.8	26.8	-
Governance	83.6	78.6	(5.0)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	-	-
EBITDA	-	-
EPS	-	-

Previous Reports

25-05-2023: [Q4FY23 results review](#)

03-02-2023: [Q3FY23 results review](#)

Conference call takeaways

Demand/Volume:

- Q1FY24 Cement Volume: 2.666mnte; Cement Production: 2.692mnte.
- **Overall utilisation stood at 69% in Q1FY24.**
- The low sales were due to liquidity crunch faced by the ICEM consequent to lower margins and losses.
- Blended cement sales mix stood at 60-65%.
- Road despatches were at 85%.

Pricing:

- The selling price of cement was lower during the quarter due to severe competition caused by supply overhang.
- Prices are believed to bottomed out in Tamil Nadu / South region and shall likely improve hereon.

Cost:

- ICEM targets to save ~INR 200/te from BCG's suggestions. These savings are operational cost savings (variable in nature), to be accrued by Mar'24.
- The INR 200/te savings shall be yielded through 38 cost levers and shall be realised on staggered basis each quarter.
- Fuel consumption cost in Q1FY24 was: INR 2.38/kcal; current cost: INR 2.2-2.25/kcal.
- ICEM looks to reduce operational cost by INR 400/te in the medium to long-term by: a) replacing coolers, b) restricting limestone purchase, c) pyro processing process.

Capex:

- Capex guidance: FY24: INR 1bn-1.5bn; FY25: INR 2bn.
- ICEM plans to install 8MW of WHRS and one solar power plant in its plants.
- Company has engaged the services of experts like FLS and Krupp Industries to conduct detailed study of the operating parameters of its plants for refurbishment / modernisation to bring them on line with that of state-of-the-art plants.
- Company has engaged Boston Consulting Group (BCG) to study the operations at three of its plants in Andhra Pradesh and suggest measures for improving efficiency in the operations of these plants.
- Expense of INR 400mn shall be incurred to incorporate the changes suggested by the consultants.
- The new cement mill at Sankar Nagar, replacing old inefficient cement mill, is likely to be commissioned by Q2FY24.

Others:

Exhibit 1: Segmental performance

Particulars	Revenue (INR mn)	EBITDA (INR mn)
Shipping	135.6	97
Windmill	51.5	32.4
RMC	260	12

Source: Company data

- Total debt: ~INR 29.5bn. Breakup: Term loan: INR 20.7bn; cash credit: INR 5.52bn, ~Interest: INR 1bn and others: INR 2.3bn.
- Current maturities in FY24 total INR 4bn, of which INR 1bn has been repaid in Q1FY24.
- Company generated negative operational cashflow of INR 450mn in Q1FY24.
- ICEM looks to monetise 80-90 acres of its non-core land, which shall yield INR 1bn.
- Production / volumes will not be impacted by incorporating changes suggested by the consultant.

Exhibit 2: Q1FY24 result review

INR mn	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	1QFY24E	Variance
Volume Sales	2.67	2.67	(0.2)	2.79	(4.3)	2.67	0.0
Blended realisations	5,155	5,379	(4.2)	5,195	(0.8)	5,195	(0.8)
Net Sales	13,930	14,462	(3.7)	14,605	(4.6)	13,933	(0.0)
Raw Materials	2,848	2,054	38.6	2,903	(1.9)	2,645	7.7
Personnel Cost	920	910	1.2	819	12.4	910	1.2
Power fuel costs	5,454	6,334	(13.9)	6,157	(11.4)	5,758	(5.3)
Freight	2,944	3,203	(8.1)	3,232	(8.9)	3,093	(4.8)
Other Expenses	1,714	1,654	3.6	1,938	(11.6)	1,704	0.6
Total Expenses	13,880	14,155	(1.9)	15,049	(7.8)	14,109	(1.6)
EBITDA	50	308	(83.7)	(445)	NA	(176)	NA
EBITDA / te	19	115	(83.6)	(160)	NA	(66)	NA
Interest	578	586	(1.4)	490	17.9	510	13.4
Depreciation	530	522	1.5	534	(0.7)	534	(0.7)
Other Income	69	80	(14.6)	184	(62.7)	75	(8.4)
Recurring pre-tax income	(989)	(720)	NM	(1,284)	NA	(1,145)	NA
Extraordinary inc/(exp)	-	-		(1,138)		-	
Taxation	(236)	(1,481)	NA	(245)	NA	(286)	NA
Reported Net Income	(753)	761	(198.9)	99	NM	(859)	NA
Recurring Net Income	(753)	761	(198.9)	(1,040)	NA	(859)	NA
Ratios (%)							
EBITDA margins	0.4	2.1		(3.0)		(1.3)	
Net profit margins	(0.1)	0.1		(0.1)		(10.9)	

Source: I-Sec research, Company data

Exhibit 3: Historical quarterly analysis – standalone

(INR/te)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net realisation - cement	5,501	5,472	5,522	5,195	5,155
YoY (%)	3.1	7.7	6.4	(0.8)	(4.2)
Expenditure					
Raw material costs	769	1,042	945	1,043	1,068
Power & fuel costs	2,370	2,709	2,602	2,211	2,046
Freight costs	1,199	1,145	1,158	1,160	1,104
Staff costs	340	394	443	294	345
Other expenditure	619	681	759	696	643
Total costs - cement	5,297	5,971	5,907	5,404	5,206
Other income	30	17	18	66	26
EBITDA - cement	115	-405	-319	-160	19

Source: I-Sec research, Company data

Exhibit 4: Historical quarterly – segment revenue and EBITDA

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue					
Cement + RMC	14,373	12,322	12,032	14,467	13,743
Shipping	33	144	150	130	136
Windmill	56	80	13	7.3	52
Infrastructure	-	-	-	-	-
Total	14,462	12,547	12,195	14,605	13,930
EBITDA					
Cement + RMC	278	(1,018)	(732)	(501)	(79)
Shipping	-14	39	-40	56	97
Windmill	44	66	77	0	32
Infrastructure	15	0	0	0	0
Total	308	(912)	(695)	(445)	50

Source: I-Sec research, Company data

Exhibit 5: Performance trend and assumptions

'000 te	FY21	FY22	FY23	FY24E	FY25E
Capacity	15,550	15,550	15,550	15,550	15,550
Production	8,902	9,070	9,890	10,880	11,750
Capacity utilisation (%)	57	58.3	63.6	77.5	83.7
Sales	8,902	9,070	9,890	10,880	11,750
Growth (%)	-19.2	1.9	9.1	10.0	8.0
Blended Realisation (Rs/te)	4,984	5,196	5,439	5,607	5,746
Growth (%)	8.6	4.3	4.7	3.1	2.5

Source: I-Sec research, Company data

Exhibit 6: Per-tonne analysis

INR/te	FY21	FY22	FY23	FY24E	FY25E
Blended realisation	4,984	5,196	5,439	5,607	5,746
Raw materials consumed	874	834	947	852	878
Power and fuel	1,303	1,683	2,454	2,135	2,092
Freight	1,390	1,177	1,167	1,143	1,166
Others	140	628	686	658	658
Total operating expenses	4,078	4,688	5,615	5,134	5,136
EBITDA/te – Blended	906	508	(176)	473	610

Source: I-Sec research, Company data

Exhibit 7: Valuations based on 9x Mar'25E EV/E (INR mn)

Target EV/ EBITDA multiple (x)	9.0
Target EV (Rs mn)	64,484
Net debt / (cash) (Rs mn)	26,528
Target value (Rs mn)	37,956
No. of shares (mn)	310
Target price per share (Rs)	122

Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	28.4	28.4	28.4
Institutional investors	23.0	22.5	23.1
MFs and others	5.2	5.0	5.2
FIs/Banks	-	-	-
Insurance	4.6	4.4	4.3
FIIIs	13.2	13.1	13.6
Others	48.6	49.1	48.5

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	47,131	53,808	61,012	67,532
Operating Expenses	34,952	46,185	46,593	50,050
EBITDA	4,611	(1,745)	5,144	7,165
EBITDA Margin (%)	9.8	(3.2)	8.4	10.6
Depreciation & Amortization	2,198	2,130	2,171	2,208
EBIT	2,413	(3,875)	2,972	4,957
Interest expenditure	2,040	2,342	2,529	2,381
Other Non-operating Income	167	343	232	232
Recurring PBT	540	(4,069)	675	2,808
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	150	(2,184)	203	842
PAT	390	(1,886)	473	1,966
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	836	-	-
Net Income (Reported)	390	(2,722)	473	1,966
Net Income (Adjusted)	390	(1,886)	473	1,966

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	36,336	36,746	36,511	35,397
of which cash & cash eqv.	58	1,428	2,353	886
Total Current Liabilities & Provisions	17,401	16,462	17,334	16,105
Net Current Assets	18,934	20,284	19,177	19,291
Investments	11,921	10,091	10,091	10,091
Net Fixed Assets	66,876	66,946	66,775	66,567
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,715	1,240	1,240	1,240
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,00,446	98,561	97,283	97,189
Liabilities				
Borrowings	36,970	36,970	35,220	33,470
Deferred Tax Liability	5,295	5,295	5,295	5,295
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	3,099	3,099	3,099	3,099
Reserves & Surplus	55,082	53,196	53,669	55,325
Total Net Worth	58,181	56,295	56,768	58,424
Minority Interest	-	-	-	-
Total Liabilities	1,00,446	98,561	97,283	97,189

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	12,547	12,195	14,605	13,930
% growth (YOY)	5.5	9.8	4.9	-3.7
EBITDA	(874)	(656)	(445)	50
Margin %	-6.9	-5.4	-3.0	0.4
Other Income	0	0	0	0
Extraordinaries	-	2,943	(1,138)	0
Adjusted Net Profit	(1,376)	(2,035)	(1,040)	(753)

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	4,240	244	2,644	4,174
Working Capital Changes	(541)	21	2,032	(1,582)
Capital Commitments	(1,296)	(725)	(2,000)	(2,000)
Free Cashflow	-	-	-	-
Other investing cashflow	(768)	1,830	-	-
Cashflow from Investing Activities	(2,065)	1,105	(2,000)	(2,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(309)	-	-	(310)
Others	(1,374)	-	(1,750)	(1,750)
Cash flow from Financing Activities	(1,683)	-	(1,750)	(2,060)
Chg. in Cash & Bank balance	(49)	1,370	926	(1,468)
Closing cash & balance	58	1,428	2,353	886

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	1.3	(6.1)	1.5	6.3
Adjusted EPS (Diluted)	1.3	(6.1)	1.5	6.3
Cash EPS	8.4	0.8	8.5	13.5
Dividend per share (DPS)	1.0	-	-	1.0
Book Value per share (BV)	187.7	181.7	183.2	188.5
Dividend Payout (%)	79.5	-	-	15.8
Growth (%)				
Net Sales	6.2	14.2	13.4	10.7
EBITDA	(42.8)	(137.8)	(394.8)	39.3
EPS (INR)	(82.4)	(583.7)	(125.1)	316.0
Valuation Ratios (x)				
P/E	171.5	(35.5)	141.5	34.0
P/CEPS	25.8	273.6	25.3	16.0
P/BV	1.1	1.2	1.2	1.1
EV / EBITDA	22.5	(58.7)	19.4	13.9
EV / te (USD)	91.4	82.3	80.2	79.9
Dividend Yield (%)	0.5	-	-	0.5
Operating Ratios				
Gross Profit Margins (%)	83.9	82.6	84.8	84.7
EBITDA Margins (%)	9.8	(3.2)	8.4	10.6
Effective Tax Rate (%)	27.8	53.7	30.0	30.0
Net Profit Margins (%)	0.8	(3.5)	0.8	2.9
NWC / Total Assets (%)	18.9	20.6	19.7	19.8
Net Debt / Equity (x)	0.6	0.6	0.6	0.6
Net Debt / EBITDA (x)	8.0	(20.4)	6.4	4.5
Profitability Ratios				
RoCE (%) (Post Tax)	1.9	(1.9)	2.2	3.8
RoE (%)	0.7	(3.3)	0.8	3.4
RoIC (%)	2.0	(1.8)	2.5	4.0
Fixed Asset Turnover (x)	0.7	0.8	0.9	1.0
Inventory Turnover Days	69	68	69	63
Receivables Days	57	63	53	46
Payables Days	115	100	100	92

Source Company data, I-Sec research

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