

EARNINGS REVIEW

India Cements (ICMN.BO)

Neutral

Equity Research

Above expectations: In line EBITDA, deferred tax credit drives beat

What surprised us

India Cements reported 3QFY12 net income of Rs563 mn (-162% yoy, -19% qoq), 51% above GS and 39% above consensus estimates including (1) a Rs128mn gain as the company stopped charging MTM translation loss on FX borrowings; (2) a deferred tax credit of Rs43mn resulting from the redemption of the \$75mn FCCBs on its books. **Operating results were in line:** Sales volume at 2,185 kt was largely in line while realizations were strong at Rs4,309/ton (+17% yoy, -4% qoq), driven mainly by a pick-up in cement demand in South India (key market for the company) which grew 3% yoy. The company reported utilization of 66% during 9MFY12 vs. industry average of 60% in South India (and 72% for all India). 3QFY12 EBITDA came in at Rs1,970 mn, (+53% yoy, -23% qoq) 4% below our estimates. EBITDA/ton came in at Rs902 (vs GSe Rs1,000) as margins were impacted by higher energy and power costs. The bottom line beat was mainly driven by lower interest expense (including the FX MTM adjustment) and lower-than-expected taxes (effective tax rate of 9.2% vs GSe of 30%). The company expects the demand environment to pick-up on an improving macro. The captive power plant in Tamil Nadu has been commissioned and trial runs are being undertaken. The company expects to commence mining operations in Indonesia in this quarter.

What to do with the stock

We revise our FY12-14 EPS estimates by 23% to 5% to factor in revised volumes cost and tax rate assumptions. We retain our Neutral rating and raise our 12-m EV/RC based TP to Rs91 from Rs84 on higher earnings momentum. Key risks: Upside: Sustained strength in pricing; Downside: Higher coal costs and lower-than-expected volumes.

India Cements 3QFY12 earnings summary

(Rs mn)	3QFY12A	2QFY12A	3QFY11A	3QFY12E	Y-o-Y %	Q-o-Q %	Vs GS Est
Sales	9,415	10,891	7,810	9,609	20.6%	-13.5%	-2.0%
EBITDA	1,970	2,545	1,288	2,050	53.0%	-22.6%	-3.9%
EBITDA margin	21%	23%	16%	21%	+ 443 bps	(- 244 bps)	(- 41 bps)
Net income	563	697	215	372	-162.3%	-19.2%	51.2%
Net income margin	6.0%	6.4%	2.7%	3.9%	+ 323 bps	(- 42 bps)	+ 211 bps

Source: Company data, Bloomberg, Goldman Sachs Research estimates

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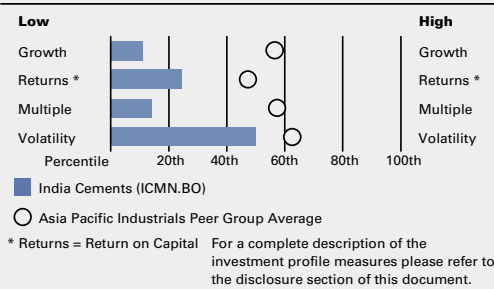
Neutral

Coverage View: Neutral

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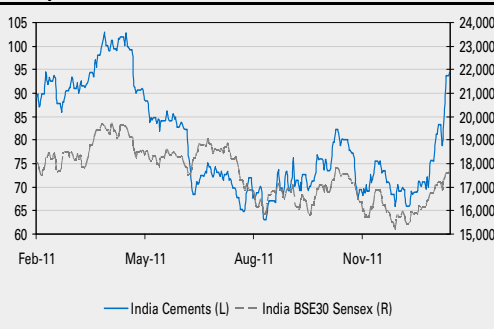


Key data

Key data	Current
Price (Rs)	94.35
12 month price target (Rs)	91.00
Market cap (Rs mn / US\$ mn)	28,982.0 / 595.2
Foreign ownership (%)	29.2

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	2.14	11.18	11.70	12.04
EPS revision (%)	0.0	23.3	5.1	5.6
EPS growth (%)	(82.2)	422.4	4.7	2.9
EPS (dil) (Rs) New	2.14	11.18	11.70	12.04
P/E (X)	44.1	8.4	8.1	7.8
P/B (X)	0.7	0.7	0.6	0.6
EV/EBITDA (X)	16.5	5.4	5.0	4.7
Dividend yield (%)	1.9	1.9	1.9	1.9
ROE (%)	1.7	8.4	8.2	7.9
CROCI (%)	2.8	10.0	9.3	8.9

Price performance chart



Share price performance (%)

	3 month	6 month	12 month
Absolute	17.9	44.8	5.8
Rel. to India BSE30 Sensex	16.9	41.5	7.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/06/2012 close.

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India Cements: Summary Financials

Profit model (Rs mn)					Balance sheet (Rs mn)				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Total revenue	34,170.7	43,334.7	46,916.2	53,532.2	Cash & equivalents	330.9	2,810.0	4,242.3	7,474.2
Cost of goods sold	(13,988.3)	(14,702.8)	(17,465.0)	(19,892.9)	Accounts receivable	2,544.0	4,155.4	6,426.9	7,333.2
SG&A	(7,446.1)	(7,702.0)	(8,582.8)	(9,759.8)	Inventory	4,973.1	5,251.0	6,237.5	7,104.6
R&D	(10,200.8)	(11,942.7)	(12,033.1)	(14,850.8)	Other current assets	21,190.6	21,190.6	21,190.6	21,190.6
Other operating profit/(expense)	(1,475.5)	(1,536.5)	(1,734.7)	(1,982.5)	Total current assets	29,038.6	33,406.9	38,097.3	43,102.6
EBITDA	3,500.3	10,001.0	10,413.5	10,484.3	Net PP&E	48,743.1	50,692.7	49,879.7	48,941.7
Depreciation & amortization	(2,440.3)	(2,550.4)	(3,313.0)	0.0	Net intangibles	0.0	0.0	0.0	0.0
EBIT	1,060.0	7,450.6	7,100.5	7,046.3	Total investments	1,603.1	1,603.1	1,603.1	1,603.1
Interest income	1,232.6	290.1	662.0	876.8	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(1,417.2)	(2,997.0)	(2,204.9)	(2,204.9)	Total assets	79,384.8	85,702.7	89,580.1	93,647.4
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	5,049.2	5,438.0	6,220.4	7,085.1
Others	23.3	0.0	0.0	0.0	Short-term debt	5,503.0	5,503.0	5,503.0	5,503.0
Pretax profits	898.7	4,743.7	5,557.6	5,718.3	Other current liabilities	5,771.7	5,771.7	5,771.7	5,771.7
Income tax	(217.7)	(1,185.9)	(1,834.0)	(1,887.0)	Total current liabilities	16,323.9	16,712.7	17,495.1	18,359.8
Minorities	0.0	0.0	0.0	0.0	Long-term debt	19,057.6	22,057.6	22,057.6	22,057.6
Net income pre-preferred dividends	681.0	3,557.8	3,723.6	3,831.2	Other long-term liabilities	3,105.6	3,105.6	3,105.6	3,105.6
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	22,163.3	25,163.3	25,163.3	25,163.3
Net income (pre-exceptionals)	681.0	3,557.8	3,723.6	3,831.2	Total liabilities	38,487.2	41,876.0	42,658.4	43,523.1
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	681.0	3,557.8	3,723.6	3,831.2	Total common equity	40,897.6	43,826.7	46,921.7	50,124.3
EPS (basic, pre-exception) (Rs)	2.22	11.58	12.12	12.47	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	2.22	11.58	12.12	12.47	Total liabilities & equity	79,384.8	85,702.7	89,580.1	93,647.4
EPS (diluted, post-exception) (Rs)	2.14	11.18	11.70	12.04	BVPS (Rs)	133.14	142.68	152.75	163.18
DPS (Rs)	1.75	1.75	1.75	1.75					
Dividend payout ratio (%)	78.9	15.1	14.4	14.0					
Free cash flow yield (%)	(14.4)	0.4	7.1	13.3					
Growth & margins (%)					Ratios				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Sales growth	(7.3)	26.8	8.3	14.1	CROCI (%)	2.8	10.0	9.3	8.9
EBITDA growth	(52.9)	185.7	4.1	0.7	ROE (%)	1.7	8.4	8.2	7.9
EBIT growth	(79.2)	602.9	(4.7)	(0.8)	ROA (%)	0.9	4.3	4.2	4.2
Net income growth	(80.8)	422.4	4.7	2.9	ROACE (%)	1.3	8.4	6.9	6.7
EPS growth	(82.2)	422.4	4.7	2.9	Inventory days	123.3	126.9	120.0	122.4
Gross margin	59.1	66.1	62.8	62.8	Receivables days	39.5	28.2	41.2	46.9
EBITDA margin	10.2	23.1	22.2	19.6	Payable days	125.4	130.2	121.8	122.1
EBIT margin	3.1	17.2	15.1	13.2	Net debt/equity (%)	59.2	56.5	49.7	40.1
					Interest cover - EBIT (X)	5.7	2.8	4.6	5.3
Cash flow statement (Rs mn)					Valuation				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	681.0	3,557.8	3,723.6	3,831.2	P/E (analyst) (X)	44.1	8.4	8.1	7.8
D&A add-back	2,440.3	2,550.4	3,313.0	3,438.0	P/B (X)	0.7	0.7	0.6	0.6
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	16.5	5.4	5.0	4.7
Net (inc)/dec working capital	(1,175.8)	(1,500.5)	(2,475.6)	(908.7)	EV/GCI (X)	0.7	0.6	0.6	0.5
Other operating cash flow	(1,103.8)	0.0	0.0	0.0	Dividend yield (%)	1.9	1.9	1.9	1.9
Cash flow from operations	841.7	4,607.7	4,561.0	6,360.6					
Capital expenditures	(5,672.5)	(4,500.0)	(2,500.0)	(2,500.0)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	2,078.9	0.0	0.0	0.0					
Cash flow from investments	(3,593.6)	(4,500.0)	(2,500.0)	(2,500.0)					
Dividends paid (common & pref)	(716.4)	(628.6)	(628.6)	(628.6)					
Inc/(dec) in debt	6,911.2	3,000.0	0.0	0.0					
Common stock issuance (repurchase)	0.1	0.0	0.0	0.0					
Other financing cash flows	0.0	0.0	0.0	0.0					
Cash flow from financing	6,194.9	2,371.4	(628.6)	(628.6)					
Total cash flow	3,443.0	2,479.1	1,432.3	3,231.9					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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Reg AC

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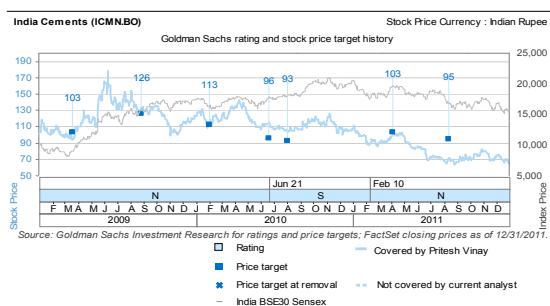
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