

Institutional Equities
 India Research

India Cements

RESULT REVIEW

 Bloomberg: ICEM IN
 Reuters: ICMN.BO

BUY

Demand improves amid moderating costs; BUY

India Cement's 3QFY13 standalone Sales, EBITDA & adj PAT rose +15%, -1% & -48% YoY to Rs10.84bn, Rs1.94bn & Rs373mn. EBITDA came in 22% ahead of our estimates and 10% ahead of street estimates. The outperformance was driven strong demand in the southern region leading to +10% sales volumes and +1% better cement realization than estimated.

ICEM's sales volume posted strong double digit growth of 11% YoY during after nine quarters helped by better demand in the southern region & its enhanced production capability with the stabilization of its 50MW CPP in Tamil Nadu. Weak monsoons in the southern region led to better demand and a modest 1% QoQ realization decline during the quarter.

Ramp up in captive power sourcing & stable coal prices helped the power & fuel costs to be 2% lower than estimated operating costs per MT. Subsequently, EBITDA per MT came in Rs796 (flat QoQ, down 9% YoY).

Outlook positive: In-line with our earlier view, India Cements' performance has started to benefit from (1) ramp up in the captive power production which also imparts better cement production controls, (2) stable international coal prices and (3) its sourcing of captive coal from its Indonesian mines. The management guided of QoQ improvement in demand in the Andhra Pradesh region (which in our view would sustain only if Telangana issue is sorted out). The commissioning of its 50MW CPP in Andhra Pradesh during 1QFY14 will further increase its cost & production efficiency. With no incremental capex in near term, cash flow generation should reduce its debt & interest cost. These positives should drive ICEM's EBITDA & PAT CACR of 6% & 10% respectively during FY12-15E. We have cut our EBITDA estimates for FY13E/FY14E by 6% & 8% to account for sharp rise in transport costs. We also introduce FY15E estimates. *We re-iterate our BUY recommendation on the stock valuing the standalone cement business at 5x Sep14E EBITDA (replacement cost of USD75 per MT), Trinetra Cement at Rs4 per share and IPL franchise at Rs12 per share thereby arriving at a TP of Rs125 (earlier Rs130).*

Financial Summary (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	35,035	42,147	46,616	50,932	55,283
EBITDA	4,365	9,146	9,535	10,062	11,020
EBITDA margin (%)	12.5	21.7	20.5	19.8	19.9
PAT (Rs)	641	3,181	2,763	3,385	4,277
EPS (Rs)	2.1	10.4	9.0	11.0	13.9
RoE (%)	1.6	7.8	6.7	8.0	9.6
RoCE (%)	2.5	7.3	6.6	6.9	7.8
P/E (x)	39.8	8.0	9.2	7.5	6.0
EV/EBITDA (x)	10.7	5.6	4.9	4.5	3.8

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs83
Target Price:	Rs125
Upside (%)	51%

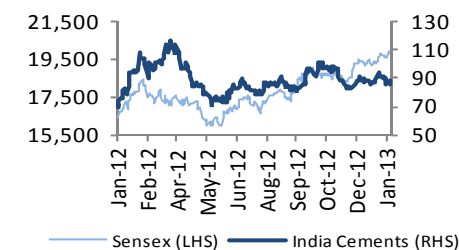
Stock Information

Market Cap. (Rs bn / US\$ mn)	25/457
52-week High/Low (Rs)	119/71
3m ADV (Rs mn /US\$ mn)	124/2.3
Beta	1.1
Sensex/Nifty	19,468/5,887
Share outstanding (mn)	307

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(6.3)	(3.8)	(11.7)	(9.0)
Rel. to Sensex	(3.7)	(10.2)	(20.4)	(9.3)

Performance



Source: Bloomberg

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Quarterly performance analysis

Exhibit 1: Quarterly Financial (Standalone)

Financials (Rs mn)	Dec-11	Sep-12	Dec-12	YoY (%)	QoQ (%)	9M-FY12	9M-FY13	YoY (%)
Net Sales	9,440	11,257	10,839	14.8	(3.7)	30,967	34,146	10.3
Total Expenditure	7,470	9,176	8,897	19.1	(3.0)	23,992	27,309	13.8
Raw Materials	1,143	1,402	1,292	13.0	(7.8)	3,960	4,057	2.4
Power and Fuel	2,668	3,285	2,974	11.5	(9.5)	7,772	9,139	17.6
Employee	728	806	827	13.5	2.5	2,067	2,420	17.1
Transport	1,711	2,235	2,374	38.7	6.2	5,430	6,838	25.9
Others	1,219	1,449	1,430	17.3	(1.3)	4,764	4,856	1.9
EBITDA	1,970	2,081	1,942	(1.4)	(6.7)	6,975	6,837	(2.0)
<i>EBITDA margins (%)</i>	<i>20.9</i>	<i>18.5</i>	<i>17.9</i>	<i>(295)</i>	<i>(57)</i>	<i>22.5</i>	<i>20.0</i>	<i>(250)</i>
Other Income	22	2	18	(14.4)	982.4	30	21	(32.3)
Depreciation	622	667	708	13.8	6.1	1,867	2,066	10.7
EBIT	1,369	1,415	1,253	(8.5)	(11.5)	5,138	4,791	(6.8)
<i>EBIT margins (%)</i>	<i>14.5</i>	<i>12.6</i>	<i>11.6</i>	<i>(295)</i>	<i>(101)</i>	<i>16.6</i>	<i>14.0</i>	<i>(256)</i>
Interest (adjusted for forex)	612	800	711	16.2	(11.1)	1,846	2,210	19.7
Taxes	57	226	169	198.1	(25.0)	594	748	25.8
Net Profits (adjusted)	701	390	373	(46.8)	(4.5)	2,698	1,834	(32.0)
<i>PAT margins (%)</i>	<i>7.4</i>	<i>3.5</i>	<i>3.4</i>	<i>(399)</i>	<i>(3)</i>	<i>8.7</i>	<i>5.4</i>	<i>(334)</i>
EPS (Rs)	2.3	1.3	1.2	(46.8)	(4.5)	8.8	6.0	(32.0)

Source: Company, Karvy Institutional Research

Exhibit 2: Quarterly operational trends for standalone cement business

(Standalone)	Dec-11	Sep-12	Dec-12	YoY (%)	QoQ (%)	9M-FY12	9M-FY13	YoY (%)
Cement & clinker sales volume (mn MT)	2.18	2.49	2.42	10.8	(2.9)	6.91	7.29	5.6
Trends (Rs/MT)								
Net sales realisation	4,257	4,402	4,370	2.7	(0.7)	4,228	4,417	4.5
Raw material cost	524	562	534	2.0	(5.0)	573	556	(3.0)
Power and fuel cost	1,222	1,318	1,229	0.6	(6.8)	1,125	1,253	11.4
<i>RM and Fuel combined</i>	<i>1,746</i>	<i>1,881</i>	<i>1,763</i>	<i>1.0</i>	<i>(6.3)</i>	<i>1,699</i>	<i>1,810</i>	<i>6.5</i>
Employee cost	334	324	342	2.4	5.6	299	332	10.9
Transport cost	784	897	981	25.2	9.4	786	938	19.3
Other expenses (cement)	520	508	488	(6.0)	(3.9)	516	460	(10.9)
Operating cost	3,383	3,609	3,574	5.7	(1.0)	3,300	3,539	7.3
EBITDA – (Cement)	874	793	796	(8.9)	0.4	928	878	(5.4)

Source: Company, Karvy Institutional Research

Exhibit 3: Segmental revenue & EBITDA breakups

	Dec-11	Sep-12	Dec-12	YoY (%)	QoQ (%)	9M-FY12	9M-FY13	YoY (%)
Revenue	9,440	11,257	10,839	14.8	(3.7)	30,967	34,146	10.3
Cement & clinker	9,294	10,970	10,576	13.8	(3.6)	29,200	32,211	10.3
Shipping	100	129	148	48.0	14.7	260	402	54.7
IPL Franchise	36	52	90	147.3	73.1	1,399	1,362	(2.7)
Wind power	9	106	25	187.4	(76.4)	108	171	58.8
EBITDA	1,970	2,081	1,942	(1.4)	(6.7)	7,445	7,122	(4.3)
Cement & clinker	1,909	1,976	1,927	1.0	(2.5)	6,876	6,687	(2.8)
Shipping	16	55	78	384.5	41.8	39	203	419.2
IPL Franchise	36	(40)	(88)	(341.8)	120.0	430	82	(80.9)
Wind power	9	90	25	187.4	(72.2)	99	150	52.0

Source: Company, Karvy Institutional Research

Other Updates

CPPs at Andhra Pradesh by 1QFY14: The thermal CPP of 50 MW in Andhra Pradesh is expected to be commissioned by Jun'13 thereby making its positive contributions to operating costs from FY14E onwards.

Coal Mines in Indonesia: The management expects the first shipment of ~40k MT in 4QFY13 and ~500k MT during FY14E. Whilst the initial shipments may not impact cost advantage vs external purchases, the ramp up in coal production can provide the same from FY15E onwards.

Trineta Cements: It operated at ~75% utilization during 3QFY13 and the same has improved to ~90% in Jan'13. This subsidiary (61% holding) generated EBITDA of Rs170mn during the quarter.

Debt levels should reduce: ICEM gross debt/ net debt currently stands at Rs30.7bn/ Rs30.4bn. It has dollar debt of USD80bn (USD60mn is unhedged). With no major capex post the CPP commissioning lined up, we expect ICEM's net debt to reduce by ~50% to Rs17.2bn by FY15E.

Estimates revision for FY13E & FY14E

We have adjusted our cost estimates upwards to factor in surge in freight costs as Indian Railways hike haulage charges as well as the government has raised diesel prices – both retail & bulk purchases.

Exhibit 4: Estimates revisions

	FY13E			FY14E		
	Revised	Old	% Change	Revised	old	% Change
Net Sales	46,616	46,229	0.8	50,932	50,210	1.4
EBITDA	9,535	10,129	(5.9)	10,062	10,977	(8.3)
Net PAT	2,763	3,175	(13.0)	3,385	3,775	(10.3)

Source: Karvy Institutional Research

India Cements

Key Operating Estimates

We factor in ~4% demand CAGR during FY14-15E volume growths during FY13-15E which is lower than the management guidance of 7%+ growth targets. We also factor in ~5% YoY sales realization CAGR as against our ~7-9% YoY growths we estimate for pan India and regional players in the northern half of India. This is to factor in the prolonged delays in the sorting out of Telangana issue impacting demand offtake in Andhra Pradesh market and its negative fall-out in other southern states.

Exhibit 5: Key operational parameters

India Cements	FY10	FY11	FY12E	FY13E	FY14E	FY15E
Sales Volume (mn MT)	11.0	10.0	9.5	10.0	10.4	10.8
YoY Growth (%)	20.2	(9.1)	(4.4)	5.0	3.8	4.0
(Per MT)						
Net sales realisation	3,304	3,375	4,217	4,443	4,668	4,863
YoY Growth (%)	(8.1)	2.2	24.9	5.4	5.1	4.2
Raw material cost	438	510	573	553	624	669
YoY Growth (%)	11.7	16.5	12.2	(3.5)	12.9	7.2
Power and Fuel cost	912	1,024	1,149	1,232	1,244	1,293
YoY Growth (%)	(6.7)	12.3	12.2	7.2	1.0	3.9
Freight cost	567	683	767	930	991	1,037
YoY Growth (%)	11.4	20.6	12.2	21.3	6.5	4.7
Employee cost	228	254	298	326	330	340
YoY Growth (%)	4.8	11.5	17.2	9.4	1.2	3.0
Other Expenses	541	607	677	665	744	756
YoY Growth (%)	(5.1)	12.0	11.6	(1.8)	11.9	1.7
Opex	2,686	3,078	3,464	3,705	3,933	4,096
YoY Growth (%)	0.7	14.6	12.5	7.0	6.1	4.1
EBITDA	725	419	899	896	911	961
YoY Growth (%)	(33.7)	(42.2)	114.6	(0.3)	1.6	5.6

Source: Company, Karvy Institutional Research

SOTP Valuation

We have valued the standalone cement business at 5x its Sep'14E EBITDA (Rs109 per share) which is at ~45% discount to the large cap cement companies multiple of 9-9.5x. India Cements' RoE/RoCE of 7-10% during FY13-15E is almost half of that of the large cap companies. Hence, even our implied replacement cost is at ~US\$75 per MT vs 170-200 per MT compared to the large cap companies. We value ICEM's 61% holding in the subsidiary at Rs4 per share and its IPL team CSK's franchise at Rs12 per share of ICEM thereby arriving at our TP of Rs125 (earlier Rs130). Whilst the IPL team has not generated meaningful cash flows for the company, it has helped ICEM's brand presence in non south regions in India.

Key Triggers: We expect operational cost efficiencies and balance sheet de-leveraging to be important triggers for ICEM going forward.

Key Risks: Weak demand off-take in Andhra Pradesh, sharp rise in coal prices & delays in Andhra Pradesh' CPP commissioning, etc

India Cements
Exhibit 6: Profit & Loss Statement (Standalone)

Y/E Mar (Rs mn)	FY11	FY12E	FY13E	FY14E	FY15E
Net Revenues	35,035	42,147	46,616	50,932	55,283
<i>% growth</i>	(5.1)	20.1	10.9	9.3	8.5
Operating expenditure	30,670	33,000	37,081	40,870	44,263
EBITDA	4,365	9,146	9,535	10,062	11,020
<i>% growth</i>	(41.2)	109.5	4.2	5.5	9.5
Depreciation	2,457	2,513	2,786	2,993	3,168
EBIT	1,908	6,633	6,748	7,069	7,853
Interest expenditure	1,417	2,616	2,960	2,263	1,735
Other income	368	43	31	31	31
Exceptional items	4	(288)	(412)	(300)	(300)
PBT	858	4,061	3,819	4,837	6,148
Tax	218	880	1,056	1,452	1,871
Adjusted PAT	641	3,181	2,763	3,385	4,277
<i>% growth</i>	(71.3)	396.5	(13.1)	22.5	26.3
EBITDA/mt (Rs)	419	899	896	911	961

Source – Company, Karvy Institutional Research

Exhibit 7: Balance Sheet (Standalone)

Y/E Mar (Rs mn)	FY11	FY12E	FY13E	FY14E	FY15E
Cash & liquid investments	439	44	911	471	1,045
Debtors	2,544	2,098	2,554	2,791	3,029
Inventory	4,973	5,258	6,641	7,256	7,876
Loans & advances	28,501	23,728	19,862	19,199	18,735
Investments LT	1,495	8,504	8,504	8,504	8,504
Gross Block	59,277	65,019	67,970	72,470	74,970
Net Block	38,345	41,329	40,901	41,816	40,555
CWIP	2,884	1,451	3,000	1,000	1,000
Miscellaneous	386	358	270	270	270
Total assets	79,566	82,772	82,643	81,306	81,014
Current liabilities & provisions	11,184	11,571	12,003	12,521	13,093
Debt	24,561	27,010	25,330	21,730	18,230
Other liabilities	2,924	3,515	3,666	3,817	3,968
Total liabilities	38,669	42,096	40,999	38,068	35,291
Shareholders' equity	3,072	3,072	3,072	3,072	3,072
Reserves & surpluses	37,826	37,604	38,572	40,166	42,651
Total networth	40,898	40,676	41,644	43,237	45,723
Total networth & liabilities	79,566	82,772	82,643	81,306	81,014

Source – Company, Karvy Institutional Research

India Cements
Exhibit 8: Cash Flow Statement (Standalone)

Y/E Mar (Rs mn)	FY11	FY12E	FY13E	FY14E	FY15E
PBT	899	3,810	3,819	4,837	6,148
Depreciation	2,440	2,513	2,786	2,993	3,168
Interest	1,249	2,718	2,960	2,263	1,735
Tax paid	(331)	(686)	(905)	(1,301)	(1,720)
(Incr) / decr in net WC	(1,176)	(65)	2,078	168	177
Other income	(292)	(36)	(443)	(331)	(331)
Other non cash items	16	5	-	-	-
Cash flow from operating activities	2,806	8,259	10,295	8,629	9,177
(Incr) / decr in capital expenditure	(5,672)	(893)	(4,500)	(2,500)	(2,500)
(Incr) / decr in investments	1,795	(6,916)	-	-	-
Others	333	2,351	31	31	31
Cash flow from investing activities	(3,545)	(5,459)	(4,469)	(2,469)	(2,469)
Incr / (decr) in borrowings	3,261	2,412	(1,679)	(3,600)	(3,500)
Issuance of equity	0	0	-	-	-
Dividend paid	(716)	(536)	(320)	(737)	(898)
Interest paid	(2,013)	(4,979)	(2,960)	(2,263)	(1,735)
Cash flow from financing activities	531	(3,102)	(4,959)	(6,600)	(6,134)
Net change in cash	(207)	(302)	867	(440)	574

Source – Company, Karvy Institutional Research

Exhibit 9: Key Ratios

Y/E Mar (%)	FY11	FY12E	FY13E	FY14E	FY15E
EBITDA margin	12.5	21.7	20.5	19.8	19.9
EBIT margin	6.5	15.9	14.5	13.9	14.3
Net profit margin	1.8	7.6	5.9	6.6	7.7
Dividend payout ratio	83.9	22.4	28.6	26.5	21.0
Net debt: equity	0.6	0.7	0.59	0.49	0.38
Working capital turnover	1.4	2.1	2.7	3.0	3.3
Gross block turnover	0.6	0.7	0.7	0.7	0.7
RoCE	2.5	7.3	6.6	6.9	7.8
RoIC	2.9	8.7	8.2	8.6	9.7
RoE	1.6	7.8	6.7	8.0	9.6

Source – Company, Karvy Institutional Research

Exhibit 10: Valuation Parameters

Y/E Mar	FY11	FY12E	FY13E	FY14E	FY15E
EPS (Rs)	2.1	10.4	9.0	11.0	13.9
DPS (Rs)	1.5	2.0	2.2	2.5	2.5
Book value per share (Rs)	115	117	122	129	138
P/E (x)	39.8	8.0	9.2	7.5	6.0
P/BV (x)	0.7	0.7	0.7	0.6	0.6
EV/EBITDA (x)	10.7	5.6	4.9	4.5	3.8
EV/Sales (x)	1.3	1.2	1.0	0.9	0.8
EV/mt (USD)	67	73	67	65	59

Source – Company, Karvy Institutional Research

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Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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