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Q4FY23 result review
and earnings revision

Cement

Target price: Rs122

Earnings revision

| (%) | FY24E | FY25E |
|--------|-------|-------|
| Sales | ↓ 5.7 | ↓ 3.6 |
| EBITDA | ↓ 0.0 | ↓ 0.0 |
| PAT | ↓ 0.0 | ↓ 0.0 |

Shareholding pattern

| | Sep '22 | Dec '22 | Mar '23 |
|-------------------------|------------|------------|------------|
| Promoters | 28.4 | 28.4 | 28.4 |
| Institutional investors | 23.1 | 22.9 | 22.5 |
| MFs and others | 4.8 | 5.2 | 5.0 |
| FIIs and Banks | - | - | - |
| Insurance Cos. | 4.6 | 4.6 | 4.4 |
| FIIIs | 13.7 | 13.1 | 13.1 |
| Others | 48.5 | 48.7 | 49.1 |

Source: BSE

ESG disclosure score

| Year | 2021 | 2022 | Chg |
|-------------|------|------|------|
| ESG score | 37.8 | 36.1 | -1.7 |
| Environment | 2.9 | 2.9 | 0 |
| Social | 26.8 | 26.8 | 0 |
| 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

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INDIA

 **ICICI Securities**

India Cements

SELL

Maintained

Rs190

A hat-trick of EBITDA loss

India Cements (ICEM) has posted an EBITDA loss for the third consecutive quarter. EBITDA loss in Q4FY23 stood at Rs445mn vs a loss of Rs695 in Q3FY23 and a profit of Rs615mn in Q4FY22. While volumes rose ~5% YoY, weak cement prices and elevated fuel cost got the better of ICEM. The company has posted an EBITDA loss of Rs1.75bn for the full year FY23 - a first in past several years. While fuel cost is visibly easing (pet coke spot rates are down >50% vs the peak of last year) and ICEM is optimistic on cement price improvement, our estimates broadly capture potential gains from the same.

ICEM has embarked on a journey to enhance efficiency and plans to replace old equipment at a few plants over next two years. The capex is likely to be ~Rs6bn and ICEM plans to monetise its surplus land to fund the same. We await concrete steps in that direction. As of now, our concerns of high debt and low ROEs stay put. Hence, we continue to value ICEM at 9x FY25E EV/EBITDA and maintain SELL with an unchanged target price of Rs122.

Key upside risks: Sharp cement price hike, significant drop in fuel cost.

- **Third straight quarter of EBITDA loss:** Volumes increased ~5% YoY to 2.79mnte (I-Sec: 2.81mnte) in Q4FY23 with 72% utilisation. In FY23, ICEM reported volume of 9.9mnte, implying ~9% YoY volume growth. While variable cost/t slipped >6% QoQ, the >6% drop in blended realisation and no respite from fixed cost, drove EBITDA into a loss of Rs445mn for Q4FY23. With continued EBITDA loss being reported since Q2FY23, EBITDA loss for FY23 stood at Rs1.74bn.
- **Fuel cost easing, limited risk to our estimates:** As per ICEM, fuel consumption cost is expected to dip to ~Rs2.35/kcal in Q1FY24 vs ~Rs2.7/kcal in Q4FY23. Also, it expects cement prices to improve in its markets going ahead. Our unit EBITDA estimates stand at Rs473 and Rs610 for FY24E and FY25E, respectively, largely capturing the potential gains.
- **Outlook and valuations - sticky debt concerns:** We maintain SELL on ICEM owing to limited visibility of significant debt reduction and poor RoEs. We await concrete steps in ICEM's resolve to monetise surplus land and pursue efficiency improvement. Given the sticky concerns, we continue to value ICEM at 9x FY25E EV/EBITDA and assign it a target price of Rs122.

| | |
|-------------------------|--------------------|
| Market Cap | Rs58.9bn/US\$713mn |
| Reuters/Bloomberg | ICMN.BO/ICEM IN |
| Shares Outstanding (mn) | 309.9 |
| 52-week Range (Rs) | 290/150 |
| Free Float (%) | 71.6 |
| FII (%) | 13.1 |
| Daily Volume (US\$'000) | 7,120 |
| Absolute Return 3m (%) | 0.7 |
| Absolute Return 12m (%) | 11.7 |
| Sensex Return 3m (%) | 4.2 |
| Sensex Return 12m (%) | 15.9 |

| Year to Mar | FY22 | FY23E | FY24E | FY25E |
|--------------------|--------|---------|--------|--------|
| Revenue (Rs mn) | 47,131 | 53,808 | 61,012 | 67,532 |
| EBITDA (Rs mn) | 4,611 | (1,745) | 5,144 | 7,165 |
| Net Income (Rs mn) | 390 | (2,722) | 473 | 1,966 |
| % Chg YoY | (82) | (798) | NA | 316 |
| P/E (x) | 151 | NM | 125 | 30 |
| CEPS (Rs) | 84 | 76 | 74 | 74 |
| EV/E (x) | 20.8 | NM | 17.8 | 12.8 |
| Dividend Yield (%) | 0.5 | - | - | 0.5 |
| RoCE (%) | 2.8 | (3.7) | 3.5 | 5.6 |
| RoE (%) | 0.7 | (4.8) | 0.8 | 3.4 |

Conference call key takeaways

Volume/Demand:

- FY23: Production: Clinker: 7.3mnte, cement: 9.73mnte
- FY23: Volume: Clinker: 0.137mnte, cement: 9.756mnte
- Q4FY23: Volume: Clinker 10kte, Cement: 2.785mnte
- Demand is expected to be robust in FY24 implying better utilisations.
- Major demand drivers in South India are: 1) Road (Central India projects), 2) metro and 3) real estate (mainly from urban centres like Hyderabad).

Pricing:

- Current cement prices are slightly higher vs Q4FY23.
- The industry could not take price hikes despite increasing utilisation in Q4FY23 due to intense competitive pressures.
- However, ICEM believes as utilisation may increase in upcoming quarters, prices are likely to improve going forward.
- Price discount strategy still prevails and indicates higher supply pressures.

Costs/Capex:

- Engaged experts like FLSmidth & Thyssenkrupp are working to reduce heat consumption in manufacturing units.
- The above capex programme may require to replace equipment (pyro processing + roller mills) that are better energy efficient.
- The report is ready and ICEM may implement the changes as suggested in the report and may execute in ~24months.
- Fuel consumption rate stood at Rs2.7/kcal in Q4FY23 vs Rs2.95/kcal QoQ. ICEM suggested the rate may decrease to Rs2.35/kcal in Q1FY24.
- FY24: Capex of Rs6bn.
- May monetise 400-500 acres of land in FY24 which could yield Rs12-13bn.
- Estimated South India capacity stands at 180mtpa with supply (incl. transfer to West and East India) at 140-150mtpa.
- There are a few upcoming units in South India; they may be absorbed in coming years.
- ICEM plans to install 8MW of WHRS and one solar power plant in its plants.
- AFR usage is also expected to improve to double digits in medium term.

Others:

- **Segmental Performance**

| Particulars | Revenue (Rs mn) | EBITDA (Rs mn) |
|-------------|-----------------|----------------|
| Shipping | 130 | 56 |
| Windmill | 7.3 | 0 |
| RMC | 250 | 45 |

Source: Company data

- FY24: Schedule principal repayment is Rs5.8bn and interest repayment is ~Rs2.5bn.
- Andhra Pradesh Gas Power Corporation Ltd (APGPCL) had to suspend operations as spot gas prices were similar to grid power prices.
- No action on limestone mines in South India.
- Consideration of Rs6bn (only Rs30mn is pending) has been received which was deployed towards working capital, capex on equipment etc.
- Standalone net debt: Rs29.9bn (including WC) and consolidated debt is Rs29.4bn. (check if cons debt is higher or lower).

Table 1: Q4FY23 result review

| (Rs mn) | Q4FY23 | Q4FY22 | YoY (%) | Q3FY23 | QoQ (%) |
|---------------------------------|----------------|---------------|----------------|----------------|--------------|
| Volume Sales | 2.79 | 2.66 | 4.8 | 2.18 | 27.6 |
| Blended realisation | 5,195 | 5,209 | (0.3) | 5,522 | (5.9) |
| Net Sales | 14,605 | 13,920 | 4.9 | 12,195 | 19.8 |
| Raw Materials | 2,903 | 2,559 | 13.5 | 2,063 | 40.7 |
| Personnel Cost | 819 | 791 | 3.6 | 966 | (15.2) |
| Power fuel costs | 6,157 | 5,143 | 19.7 | 5,678 | 8.4 |
| Freight | 3,232 | 3,097 | 4.4 | 2,527 | 27.9 |
| Other Expenses | 1,938 | 1,717 | 12.9 | 1,657 | 17.0 |
| Total Expenses | 15,049 | 13,305 | 13.1 | 12,890 | 16.8 |
| EBITDA | (445) | 615 | (172.4) | (695) | NA |
| EBITDA / te | (160) | 231 | (169.0) | (319) | NA |
| Interest | 490 | 483 | 1.5 | 607 | (19.2) |
| Depreciation | 534 | 543 | (1.8) | 538 | (0.9) |
| Other Income | 184 | 47 | 289.4 | 39 | 367.5 |
| Recurring pre-tax income | (1,284) | (365) | NA | (1,801) | NA |
| Extraordinary inc/(exp) | (1,138) | - | | 2,943 | |
| Taxation | (245) | (128) | NA | 234 | (204.5) |
| Reported Net Income | (2,178) | (237) | NA | 907 | (340) |
| Recurring Net Income | (1,040) | (237) | NA | (2,036) | NA |
| Ratios (%) | | | | | |
| EBITDA margins | (3.0) | 4.4 | | (5.7) | |
| Net profit margins | (0.1) | (0.0) | | (10.9) | |

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis – standalone

| (Rs/te) | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net realisation - cement | 5,235 | 5,501 | 5,472 | 5,522 | 5,195 |
| YoY (%) | 3.3 | 3.1 | 7.7 | 6.4 | (0.8) |
| Expenditure | | | | | |
| Raw material costs | 963 | 769 | 1,042 | 945 | 1,043 |
| Power & fuel costs | 1,936 | 2,370 | 2,709 | 2,602 | 2,211 |
| Freight costs | 1,165 | 1,199 | 1,145 | 1,158 | 1,160 |
| Staff costs | 298 | 340 | 394 | 443 | 294 |
| Other expenditure | 646 | 619 | 681 | 759 | 696 |
| Total costs - cement | 5,008 | 5,297 | 5,971 | 5,907 | 5,404 |
| Other income | 18 | 30 | 17 | 18 | 66 |
| EBITDA - cement | 231 | 115 | -405 | -319 | -160 |

Source: Company data, I-Sec research

Table 3: Historical quarterly – segment revenue and EBITDA

| (Rs mn) | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 |
|----------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | | | | | |
| Cement + RMC | 13,831 | 14,373 | 12,322 | 12,032 | 14,467 |
| Shipping | 80 | 33 | 144 | 150 | 130 |
| Windmill | 8 | 56 | 80 | 13 | 7.3 |
| Infrastructure | - | - | - | - | - |
| Total | 13,919 | 14,462 | 12,547 | 12,195 | 14,605 |
| EBITDA | | | | | |
| Cement + RMC | 572 | 278 | (1,018) | (732) | (501) |
| Shipping | 42 | -14 | 39 | -40 | 56 |
| Windmill | 1 | 44 | 66 | 77 | 0 |
| Infrastructure | - | 15 | 0 | 0 | 0 |
| Total | 615 | 308 | (912) | (695) | (445) |

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

('000 te)

| | FY21 | FY22 | FY23P | 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: Company data, I-Sec research

Table 5: Per-tonne analysis

(Rs/te)

| | FY21 | FY22 | FY23P | 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: Company data, I-Sec research

Table 6: Valuations based on 9x Mar'25E EV/E

(Rs.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

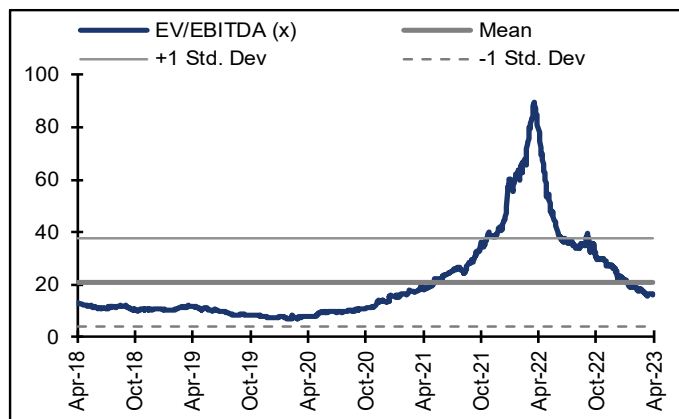
Table 7: Earnings revision

(Rs mn)

| | FY24E | | | FY25E | | |
|----------|---------|---------|-------|---------|---------|-------|
| | Revised | Earlier | % chg | Revised | Earlier | % chg |
| Revenues | 61,012 | 64,703 | (5.7) | 67,532 | 70,019 | (3.6) |
| EBITDA | 5,144 | 5,144 | (0.0) | 7,165 | 7,165 | (0.0) |
| PAT | 473 | 473 | (0.1) | 1,966 | 1,966 | (0.0) |

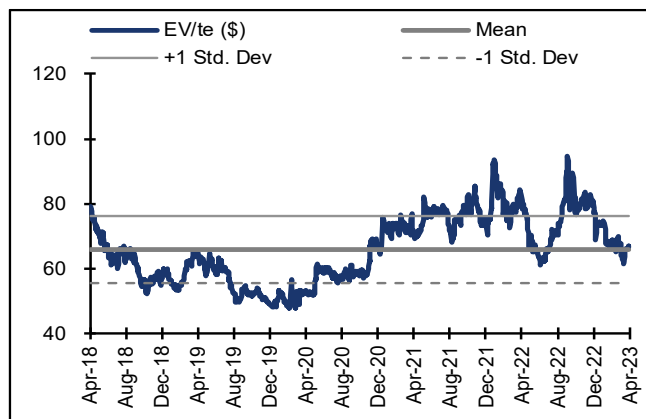
Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA



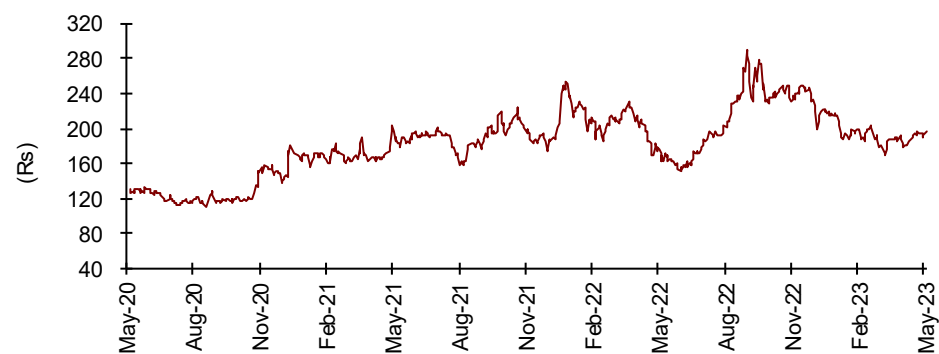
Source: I-Sec research

Chart 2: Rolling EV/te



Source: I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 8: Profit and loss statement

(Rs mn, year ending March 31)

| | FY22 | FY23P | FY24E | FY25E |
|-----------------------------|--------|---------|--------|--------|
| Operating Income (Sales) | 47,131 | 53,808 | 61,012 | 67,532 |
| Operating Expenses | 42,520 | 55,553 | 55,868 | 60,367 |
| EBITDA | 4,611 | (1,745) | 5,144 | 7,165 |
| % margin | 9.8 | (3.2) | 8.4 | 10.6 |
| Depreciation & Amortisation | 2,198 | 2,130 | 2,171 | 2,208 |
| Gross Interest | 2,040 | 2,342 | 2,529 | 2,381 |
| Other Income | 167 | 343 | 232 | 232 |
| Recurring PBT | 540 | (5,874) | 675 | 2,808 |
| Add: Extraordinaries | - | 1,805 | - | - |
| Less: Taxes | 150 | (2,184) | 203 | 842 |
| Net Income (Reported) | 390 | (1,886) | 473 | 1,966 |
| Recurring Net Income | 390 | (2,722) | 473 | 1,966 |

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

| | FY22 | FY23P | FY24E | FY25E |
|---------------------------|----------|--------|--------|--------|
| Assets | | | | |
| Total Current Assets | 36,336 | 36,746 | 36,511 | 35,397 |
| Current Liab. & Prov. | 17,401 | 16,462 | 17,334 | 16,105 |
| Net Current Assets | 18,934 | 20,284 | 19,177 | 19,291 |
| Investments of which | 11,921 | 10,091 | 10,091 | 10,091 |
| Strategic/Group | | | | |
| Marketable | | | | |
| Net Fixed Assets | 66,293 | 66,364 | 66,192 | 65,984 |
| of which | | | | |
| Capital Work-in-Progress | 2,715 | 1,240 | 1,240 | 1,240 |
| 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 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Equity Share Capital | 3,099 | 3,099 | 3,099 | 3,099 |
| Face value per share (Rs) | 10 | 10 | 10 | 10 |
| Reserves & Surplus | 55,082 | 53,196 | 53,669 | 55,325 |
| Net Worth | 58,181 | 56,295 | 56,768 | 58,424 |
| Total Liabilities | 1,00,446 | 98,561 | 97,283 | 97,189 |

Source: Company data, I-Sec research

Table 12: Quarterly trend

(Rs mn, year ending March 31)

| | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|------------------------------|--------|---------|---------|---------|
| Net sales | 14,496 | 12,547 | 12,195 | 14,605 |
| % growth (YoY) | 43 | 5.5 | 9.8 | 4.9 |
| Recurring EBITDA | 388 | (874) | (656) | (445) |
| Margin (%) | 2.7 | -6.9 | -5.4 | -3.0 |
| Other income | 0 | 0 | 0 | 0 |
| Extraordinaries Inc / (Loss) | - | - | 2,943 | (1,138) |
| Recurring Net Income | 761 | (1,376) | (2,035) | (1,040) |

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

| | FY22 | FY23P | 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) |
| Net Operating FCF | 2,402 | (460) | 2,676 | 592 |
| Investing Activities | (768) | 1,830 | - | - |
| Issue of Share Capital | - | - | - | - |
| Buyback of shares | - | - | - | - |
| Inc(Dec) in Borrowings | 637 | - | (1,750) | (1,750) |
| Dividend paid | (309) | - | - | (310) |
| Others | (2,011) | - | - | - |
| Extraordinary Items | - | - | - | - |
| Chg. in Cash & Bank | (49) | 1,370 | 926 | (1,468) |

Source: Company data, I-Sec research

Table 11: Key ratios

(Rs mn, year ending March 31)

| | FY22 | FY23P | FY24E | FY25E |
|------------------------------|-------|-------|-------|-------|
| Per Share Data (Rs) | | | | |
| EPS(Basic) | 1.3 | (8.8) | 1.5 | 6.3 |
| Diluted Recurring EPS | 1.3 | (8.8) | 1.5 | 6.3 |
| Diluted Recurring CEPS | 7.6 | (1.9) | 8.5 | 13.5 |
| Dividend per share | 1.0 | - | - | 1.0 |
| Book Value | 187.7 | 181.7 | 183.2 | 188.5 |
| Growth Ratios (% YoY) | | | | |
| Operating Income | 6 | 14 | 13 | 11 |
| EBITDA | (43) | (138) | NA | 39 |
| Recurring Net Income | (82) | (798) | NA | 316 |
| Diluted Recurring EPS | (82) | (798) | NA | 316 |
| Diluted Recurring CEPS | (49) | (125) | NA | 58 |
| Valuation Ratios (x) | | | | |
| P/E | 151.2 | NA | 124.7 | 30.0 |
| P/CEPS | 25.1 | NA | 22.3 | 14.1 |
| P/BV | 1.0 | 1.0 | 1.0 | 1.0 |
| EV / EBITDA | 20.8 | NA | 17.8 | 12.8 |
| EV / te (US\$) | 84.4 | 76.0 | 73.8 | 73.6 |
| EV / Operating Income | 2.0 | 1.8 | 1.5 | 1.4 |
| EV / Operating FCF | 199.4 | NA | 34.3 | 154.6 |

Operating Ratios (%)

| | | | | |
|------------------------|-----|-----|-----|-----|
| Raw Material / Sales | 16 | 17 | 15 | 15 |
| Other expenses / Sales | 3 | 13 | 12 | 11 |
| Other Income / PBT | 31 | (6) | 34 | 8 |
| Effective Tax Rate | 28 | 37 | 30 | 30 |
| Inventory (x) | 7 | 6 | 7 | 8 |
| Receivables (days) | 57 | 63 | 53 | 46 |
| Payable (days) | 115 | 100 | 100 | 92 |
| Net D/E Ratio (x) | 0.5 | 0.5 | 0.5 | 0.5 |

Profitability Ratios (%)

| | | | | |
|-------------------------|------|-------|-----|------|
| Rec. Net Income Margins | 0.8 | (5.1) | 0.8 | 2.9 |
| RoCE | 2.8 | (3.7) | 3.5 | 5.6 |
| RoNW | 0.7 | (4.8) | 0.8 | 3.4 |
| Dividend Payout | 79.5 | - | - | 15.8 |

Source: Company data, I-Sec research

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