

India Cements

Performance Highlights

Quarterly results (standalone)

Y/E Mar (₹ cr)	2QFY16	1QFY16	% chg qoq	2QFY15	% chg yoy
Net revenue	1,079	1,071	0.7	1,132	(4.6)
Operating profit	229	195	17.3	179	27.6
OPM (%)	21.2	18.2	298bp	15.8	536bp
Reported Net profit	41	40	2.3	7	447.9

Source: Company, Angel Research

India Cements (ICEM)' operating performance for 2QFY2016 has come in better than our and street estimates. ICEM reported an EBITDA growth of 27.6% yoy to ₹228.6cr, which is above our estimate of ₹193.9cr. The EBITDA margin improved by 536bp and came in at 21.2%, which is above our estimate of 17.7%. Consequently the net profit jumped to ₹41cr as against ₹7.5cr during the same quarter last year. The net profit was higher on account of better than expected EBITDA numbers and lower depreciation and interest expenses. The top-line is marginally below our estimate, mainly due to weak cement demand and subdued realization. The realization/tonne fell 2.4% qoq (improved by 5.8% yoy) to ₹4,925 and was below our estimate of ₹4,995.

EBITDA margin jumps 536bp yoy: ICEM's top-line fell by 4.6% yoy, impacted by low demand in its key markets of South India. The company's cement sale volume was down by 8.1% yoy to 2.16mn tonne (mt) and was in line with our estimate of 2.15mt. Cement realization fell 2.4% qoq to ₹4,925/tonne and was below our estimate of ₹4,995/tonne. However, the OPM improved by 536bp on a yoy basis to 21.2%, aided by a decline in operational costs. The company reported an operating profit to ₹228.6cr, an increase of 27.6% yoy. The EBITDA/tonne came in at ₹1058. Higher EBITDA and lower depreciation & interest expenses led to an increase in the net profit to ₹41cr as against our estimate of ₹29.5cr.

Outlook and valuation: ICEM's return ratios have remained subdued over the years due to weak profitability. However, we expect the company's earnings profile to improve going ahead due to better demand and stable realizations, which would result in higher return ratios. We expect revenue to grow at a CAGR of 6.5% and EBITDA to grow at CAGR of 34.5% over FY2015-17. At the current market price, the stock trades at 4.1x FY2017 EV/EBIDTA and EV/tonne of \$55 on FY2017 blended capacity. **We maintain our Buy rating on the stock with a target price of ₹112(7x EV/EBIDTA and EV/tonne of \$65).**

Key Financials (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net sales	4,461	4,275	4,264	4,216	4,840
% chg	9.7	(4.2)	(0.3)	(1.1)	14.8
Net profit	164	(36)	29	122	303
% chg	(44.9)	(121.9)	(182.2)	315.5	147.9
FDEPS (₹)	5.3	(1.2)	1.0	4.0	9.9
OPM (%)	15.4	7.9	12.3	18.0	19.5
P/E (x)	17.1	(72.0)	87.6	21.1	8.5
P/BV (x)	0.8	0.8	0.9	0.8	0.8
RoE (%)	4.7	(1.1)	0.9	4.0	9.5
RoCE (%)	5.1	0.8	3.3	6.4	8.7
EV/Sales (x)	1.1	1.2	1.0	1.0	0.8
EV/EBITDA (x)	7.1	14.9	8.2	5.4	4.1

Source: Company, Angel research; Note: CMP as of November 2, 2015

BUY

CMP	₹84
Target Price	₹112

Investment Period	12 Months
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Stock Info

Sector	Cement
Market Cap (₹ cr)	2,568
Net debt (₹ cr)	3,148
Beta	2.0
52 Week High / Low	117/64
Avg. Daily Volume	2,964,834
Face Value (₹)	10
BSE Sensex	26,559
Nifty	8,051
Reuters Code	ICMN.BO
Bloomberg Code	ICEM IN

Shareholding Pattern (%)

Promoters	28.2
MF / Banks / Indian Fls	14.8
FII / NRIs / OCBs	21.9
Indian Public / Others	35.0

Abs. (%)	3m	1yr	3yr
Sensex	(5.5)	(4.7)	41.6
India Cement	(9.7)	(25.1)	(14.5)

3-year price chart



Source: Company, Angel research

Shrenik Gujrathi

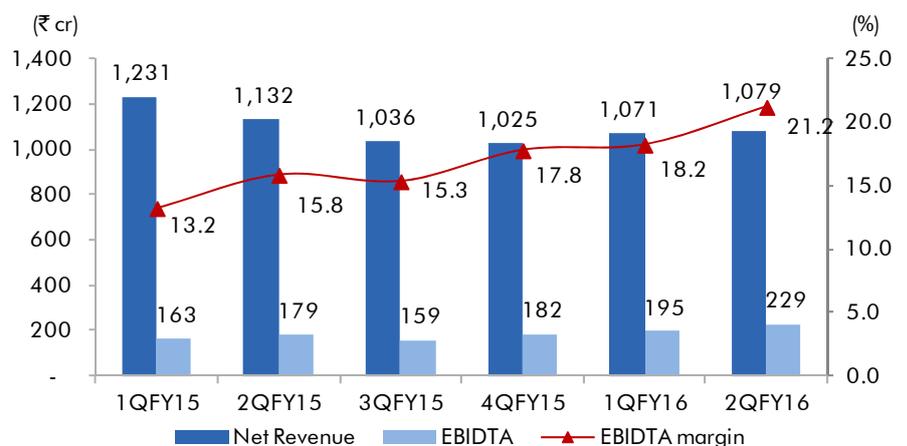
022-39357800 Extn: 6872

Shrenik.gujrathi@angelbroking.com

Exhibit 1: Quarterly Performance (Standalone)

Y/E March (₹ cr)	2QFY16	2QFY15	% chg yoy	1QFY16	% chg qoq	1HFY2016	1HFY2015	% chg
Net Revenue	1,079	1,132	(4.6)	1,071	0.7	2,150	2,363	(9.0)
Net Raw-Material Costs	139	158	(12.1)	184	(24.7)	323	354	(8.8)
(% of Sales)	12.9	13.9		17.2		15.0	15.0	
Power & Fuel	248	296	(16.4)	235	5.2	483	601	(19.6)
(% of Sales)	22.9	26.2		22.0		22.5	25.4	
Staff Costs	82	77	7.1	91	(9.6)	173	155	11.8
(% of Sales)	7.6	6.8		8.5		8.1	6.6	
Freight & Forwarding	220	265	(16.9)	221	(0.4)	441	521	(15.3)
(% of Sales)	20.4	23.4		20.6		20.5	22.0	
Other Expenses	162	157	3.3	145	11.9	306	390	(21.6)
(% of Sales)	15.0	13.8		13.5		14.2	16.5	
Total Expenditure	850	953	(10.7)	876	(2.9)	1,727	2,021	(14.6)
Operating Profit	229	179	27.6	195	17.3	424	342	24.0
OPM (%)	21.2	15.8	536bp	18.2	298bp	19.7	14.5	524bp
Interest	95	109	(12.9)	93	2.4	189	213	(11.3)
Depreciation	55	66	(16.7)	55	(0.3)	111	133	(16.5)
Other Income	3	4	(20.9)	4	(25.2)	8	8	(4.0)
Recurring PBT	81	7	985.4	51	60.0	132	5	
Exceptional expense	4	-		11		15	-	
PBT	77	7		40		117	5	
Provision for Taxation	36	-		-		36	-	
(% of PBT)	46.9	-		-		30.9	-	
Reported PAT	41	7	447.9	40	2.3	81	5	1,691.2
PATM (%)	3.8	0.7		3.7		3.8	0.2	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

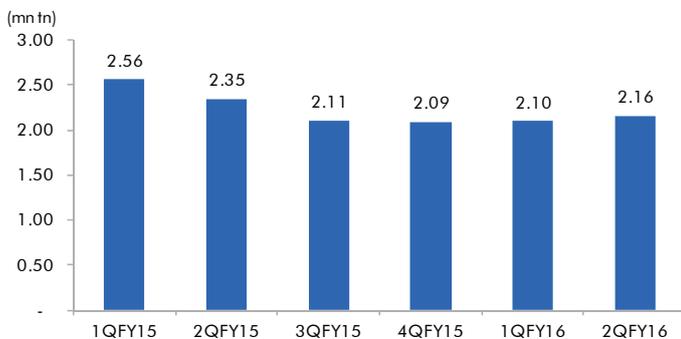
Exhibit 3: 2QFY2016 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	1,079	1,096	(1.5)
Operating profit	229	194	17.9
OPM (%)	21.2	17.7	348bp
Adjusted PAT	41	29	39.3

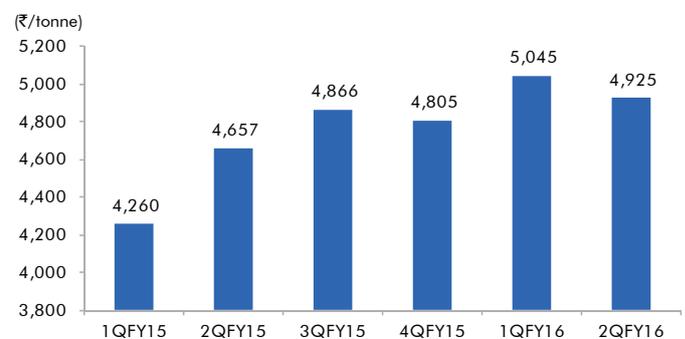
Source: Company, Angel Research

Performance highlights
Revenue falls short of expectation due to weak demand

ICEM's top-line declined by 4.6% yoy to ₹1,079cr, impacted by weak demand in its key markets of South India. ICEM's volume declined by 8.1% yoy to 2.16mt but was in line with our estimate of 2.15mt. However realizations/tonne during the quarter increased by 5.8% yoy (declined by 2.4% qoq) to ₹4,925 and was below our estimate of ₹4,995. The fall in realization is due to higher clinker export of 73K during 2QFY2016 as against 18K during 1QFY2016. During 1HFY2016 ICEM registered at volume decline of 13.3% yoy; however, we expect the demand scenario to improve, mainly led by government infrastructure spending towards the development of states of Telangana and Andhra. We forecast a 6.5% CAGR in net sales over FY2015-17.

Exhibit 4: Cement Volume Trend


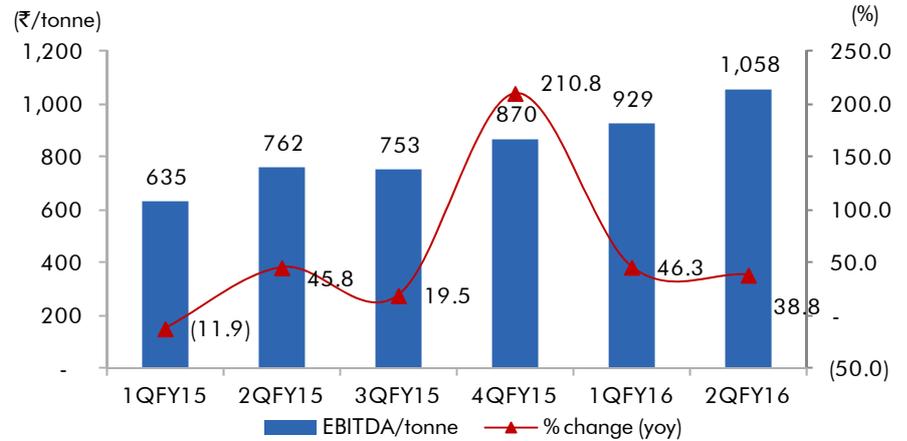
Source: Company, Angel Research

Exhibit 5: Realization Trend


Source: Company, Angel Research

EBITDA margin jumped by 536bp yoy

ICEM's EBITDA margin rose by 536bp on a yoy basis to 21.2%, benefiting from reduction in operational costs. The EBITDA grew by 27.6% yoy and came in at ₹228.6cr, which is above our estimate of ₹193.9cr. The operating cost/tonne declined 2.9% yoy to ₹3,937. Fall in power & fuel and freight cost reduced the operating cost/tonne, thus improving the EBITDA/tonne. EBITDA/tonne came in at ₹1,058 (our estimate was of ₹903) as against ₹762 during the same quarter last year, an increase of 38.8% yoy.

Exhibit 6: EBITDA/tonne trend


Source: Company, Angel Research

Per tonne analysis

During the quarter, net realization rose by 5.8% yoy to ₹4,925/tonne. However, operating costs declined 2.9%/5.7% yoy/qoq basis to ₹3,937/tonne, led by a fall in raw material and freight cost per tonne. The raw-material cost/tonne declined 4.3% on a yoy basis to ₹642. The power & fuel cost/tonne also declined by 9.1% yoy to ₹1,146, on account of fall in imported coal and pet coke prices. Freight cost/tonne declined by 9.6%/3.2% yoy/qoq to ₹1,019 due to fall in diesel prices. Other expenses/tonne increased by 12.4%/8.7% yoy/qoq to ₹749. The Operating profit/tonne of cement stood at ₹1,058, up 38.8% on a yoy basis.

Exhibit 7: Per tonne analysis

Particulars (₹/tonne)	2QFY16	2QFY15	1QFY16	yoy chg (%)	qoq chg (%)
Net Realization/tonne	4,925	4,657	5,045	5.8	(2.4)
Raw-Material Cost/tonne	642	671	878	(4.3)	(26.8)
Power and Fuel cost/tonne	1,146	1,261	1,121	(9.1)	2.3
Freight Cost/tonne	1,019	1,128	1,053	(9.6)	(3.2)
Employee Cost/tonne	381	327	434	16.5	(12.2)
Other Cost/tonne	749	666	689	12.4	8.7
Operating costs/tonne	3,937	4,053	4,174	(2.9)	(5.7)
Operating Profit/tonne	1,058	762	929	38.8	13.9

Source: Company, Angel Research

Change in estimates

Due to the weak demand situation in the South region and an expected slow recovery of the same going forward, we have revised our volume estimate downwards by 14.3%/7.8% for FY2016E/FY2017E. Hence our revenue estimates get revised downward by 10.6%/5.7% for FY2016E/FY2017E. However, on expectation of lower power and freight expenses, our EBITDA estimates get revised upward by 1.2%/9.1% for FY2016E/FY2017E. Our net profit estimates also get revised upward by 6.1%/31.2% for FY2016E/FY2017E, in anticipation of lower depreciation and interest expenses.

Exhibit 8: Change in estimate

(₹ cr)	FY2016E			FY2017E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Volume (mn tn)	8.4	9.8	(14.3)	9.4	10.2	(7.8)
Net Sales	4,216	4,716	(10.6)	4,840	5,133	(5.7)
EBITDA	760	751	1.2	946	867	9.1
EBITDA (%)	18	15.9	210bp	19.5	16.9	260bp
Net Profit	122	115	6.1	303	231	31.2

Source: Company, Angel Research

Outlook and valuation

India Cements' return ratios have remained subdued over the years due to weak profitability. However, we expect the company's earnings profile to improve going ahead due to better demand and stable realizations which would result in higher return ratios. We expect revenue to grow at a CAGR of 6.5% and EBITDA to grow at CAGR of 34.5% over FY2015-17. At the current market price, the stock trades at 4.1x FY2017 EV/EBIDTA and EV/tonne of \$55 on FY2017 blended capacity. **We maintain our Buy rating on the stock with a target price of ₹112(7x EV/EBIDTA and EV/tonne of \$65).**

Company Background

India Cements is the largest cement company in South India, with a capacity of 14mtpa spread across four plants each in Tamil Nadu and Andhra Pradesh and a plant at Parli in Maharashtra (1.1mtpa). It has also commissioned a plant of 1.5mtpa capacity at Banswara in Rajasthan through its subsidiary, Trinetra Cement, thereby taking its consolidated capacity to 15.6mtpa.

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	4,461	4,275	4,264	4,216	4,840
% chg	9.7	(4.2)	(0.3)	(1.1)	14.8
Total Expenditure	3,774	3,936	3,741	3,456	3,894
Net Raw Materials	559	574	659	561	641
Power & fuel	1,255	1,276	1,136	1,042	1,186
Personnel	334	351	318	334	344
Freight & forwarding	958	1,009	953	864	994
Other	668	725	675	655	729
EBITDA	687	339	523	760	946
% chg	(10.4)	(50.6)	54.1	45.5	24.4
(% of Net Sales)	15.4	7.9	12.3	18.0	19.5
Depreciation & Amortisation	282	276	258	264	273
EBIT	405	63	265	497	673
% chg	(21.4)	(84.5)	321.6	87.6	35.5
(% of Net Sales)	9.1	1.5	6.2	11.8	13.9
Interest & other Charges	308	354	426	375	325
Other Income	155	255	191	32	32
(% of PBT)	61.5	(157.1)	647.9	20.7	8.4
Recurring PBT	252	(36)	29	153	379
% chg	(34.4)	(114.2)	(182.2)	419.4	147.9
Extraordinary Expense/(Inc.)	-	127	-	-	-
PBT (reported)	252	(162)	29	153	379
Tax	89	-	-	31	76
(% of PBT)	35.2	-	-	20.0	20.0
PAT (reported)	164	(162)	29	122	303
ADJ. PAT	164	(36)	29	122	303
% chg	(44.9)	(121.9)	182.2	315.5	147.9
(% of Net Sales)	3.7	(0.8)	0.7	2.9	6.3
Basic EPS (₹)	5.3	(1.2)	1.0	4.0	9.9
Fully Diluted EPS (₹)	5.3	(1.2)	1.0	4.0	9.9

Balance sheet – standalone

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	307	307	307	307	307
Reserves & Surplus	3,782	3,544	3,286	3,384	3,627
Shareholders Funds	4,090	3,851	3,593	3,691	3,934
Total Loans	3,023	3,192	3,104	3,004	2,704
Deferred Tax Liability	330	330	330	330	330
Other long term liabilities	124	124	124	124	124
Long term provisions	609	609	609	609	609
Total Liabilities	8,175	8,105	7,759	7,757	7,700
APPLICATION OF FUNDS					
Gross Block	6,842	7,078	6,698	6,848	7,098
Less: Acc. Depreciation	2,700	2,916	3,174	3,438	3,711
Net Block	4,142	4,161	3,524	3,410	3,387
Capital Work-in-Progress	339	101	151	201	101
Investments	958	946	1,585	1,585	1,585
Long term loans and advances	1,916	1,899	1,899	1,899	1,899
Current Assets	1,447	1,630	1,152	1,111	1,261
Cash	5	3	4	50	80
Loans & Advances	481	653	75	75	75
Other	962	973	1,073	985	1,106
Current liabilities	628	632	552	450	534
Net Current Assets	819	998	600	661	727
Mis. Exp. not written off	-	-	-	-	-
Total Assets	8,175	8,105	7,759	7,757	7,700

Cash Flow statement – Standalone

Y/E March (₹ cr)	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Profit before tax	252	(162)	29	153	379
Depreciation	282	276	258	264	273
Change in Working Capital	(1)	(281)	399	(15)	(36)
Less: Other income	155	255	191	32	32
Direct taxes paid	89	-	-	31	76
Cash Flow from Operations	289	(422)	496	339	509
(Inc)/ Decin Fixed Assets	(534)	2	330	(200)	(150)
(Inc)/ Dec in Investments	(106)	12	(640)	-	-
Other income	155	255	191	32	32
Cash Flow from Investing	(485)	270	(119)	(168)	(118)
Issue of Equity	-	(1)	-	-	-
Inc./ (Dec.) in loans	322	169	(88)	(100)	(300)
Dividend Paid (Incl. Tax)	72	-	-	24	61
Others	52	18	288	-	-
Cash Flow from Financing	198	150	(376)	(124)	(361)
Inc./ (Dec.) in Cash	2	(2)	1	46	30
Opening Cash balances	3	5	3	4	50
Closing Cash balances	5	3	4	50	80

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	17.1	(72.0)	87.6	21.1	8.5
P/CEPS	6.3	22.6	9.0	6.7	4.5
P/BV	0.8	0.8	0.9	0.8	0.8
Dividend yield (%)	2.6	-	-	0.9	2.4
EV/Sales	1.1	1.2	1.0	1.0	0.8
EV/EBITDA	7.1	14.9	8.2	5.4	4.1
EV / Total Assets	0.6	0.6	0.6	0.5	0.5
Per Share Data (₹)					
EPS (Basic)	5.3	(1.2)	1.0	4.0	9.9
EPS (fully diluted)	5.3	(1.2)	1.0	4.0	9.9
Cash EPS	14.5	3.7	9.4	12.6	18.8
DPS	2.3	-	-	0.8	2.0
Book Value	113.4	105.6	97.2	100.4	108.3
Dupont Analysis					
EBIT margin	9.1	1.5	6.2	11.8	13.9
Tax retention ratio	64.8	100.0	100.0	80.0	80.0
Asset turnover (x)	0.6	0.5	0.5	0.5	0.6
ROIC (Post-tax)	3.3	0.8	3.3	5.1	7.0
Cost of Debt (Post Tax)	7.0	11.4	13.5	9.8	9.1
Leverage (x)	0.7	0.8	0.8	0.8	0.7
Operating ROE	0.7	(7.5)	(5.3)	1.2	5.5
Returns (%)					
ROCE (Pre-tax)	5.1	0.8	3.3	6.4	8.7
Angel ROIC (Pre-tax)	5.2	0.8	3.4	6.6	9.0
ROE	4.7	(1.1)	0.9	4.0	9.5
Turnover ratios (x)					
Asset Turnover (Gross Block)	0.7	0.6	0.6	0.6	0.7
Inventory / Sales (days)	42	45	50	49	42
Receivables (days)	28	38	38	40	36
Payables (days)	49	58	58	53	46
WCcycle (ex-cash) (days)	67	77	68	52	47
Solvency ratios (x)					
Net debt to equity	0.7	0.8	0.9	0.8	0.7
Net debt to EBITDA	4.4	9.4	5.9	3.9	2.8
Interest Coverage (EBIT / Int.)	1.3	0.2	0.6	1.3	2.1

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement	India Cements
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	<i>Buy (> 15%)</i>	<i>Accumulate (5% to 15%)</i>	<i>Neutral (-5 to 5%)</i>
		<i>Reduce (-5% to -15%)</i>	<i>Sell (< -15)</i>