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India | Equity Research | Company Update

India Cements

Cement

Non-core asset sale – a sentimental positive

India Cements (ICEM) is 'walking-the-talk' regarding the sale of its non-core assets. In a second such transaction, ICEM has agreed to sell its surplus land in Andhra Pradesh (near Vizag) for INR 700mn to industry-leader UltraTech Cement (UTCEM). In Oct'22, ICEM sold its entire stake in subsidiary Springway Mining Pvt Ltd (SMPL) to JSW Cement for INR 4.77bn. While the move is certainly a step in the right direction, we believe ICEM will need to make significant progress in the non-core asset sale to reduce its debt of ~INR 29bn (as of FY23). Factoring in the unrelenting concerns of high debt (net debt/EBITDA pegged at >5x for FY24E) and low RoEs (due to weak cement prices in south India), we maintain **SELL** on ICEM with a target price of INR 122 (valued at 9x FY25E EV/EBITDA).

Non-core asset sale: A step in the right direction

As part of its endeavour to sell non-core assets, ICEM has agreed to sell ~74 acres of its surplus land located in district Vizianagram, Andhra Pradesh (near Vizag) to UTCEM for INR 700mn. In our view, the land is best suited to put up a grinding unit. It may be recalled that in Oct'22, ICEM had sold its entire holding in SMPL to JSW Cement for INR 4.77bn.

Long road to deleverage; maintain SELL

While the sale of non-core assets is a welcome move, ICEM has a long road to deleverage, in our view. Despite the cash consideration received from the sale of SMPL, ICEM's net debt for FY23 could reduce by a mere ~INR 1.6bn given it was one of the worst operating years for ICEM (with a first ever EBITDA loss of >INR 1.7bn and high working capital requirement). With cement prices continuing to be under pressure in south India, material improvement in profitability appears unlikely in the near term. Accordingly, its net debt/EBITDA is projected to stay elevated at >5x for FY24E.

In our view, ICEM will need to make significant progress in non-core asset sale and utilise the proceeds to pare its debt over capacity creation. With concerns of high leverage and low RoE appearing sticky in the near term, we maintain a **SELL** recommendation on the stock. We continue to value ICEM at 9x FY25E EV/EBITDA, yielding us a target price of INR 122 per share. **Key risks:** Sharp uptick in cement prices; a large transaction of non-core asset sale.

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)	648	2,091
EPS (Rs)	1.3	(6.1)	2.1	6.7
EPS % Chg YoY	(82.4)	(583.7)	(134.4)	222.5
P/E (x)	185.6	(38.4)	111.6	34.6
EV/EBITDA (x)	23.7	(61.3)	20.3	14.6
RoCE (%)	1.9	(1.9)	2.3	3.8
RoE (%)	0.7	(3.3)	1.2	3.6

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Market Data

Market Cap (INR)	72bn
Market Cap (USD)	872mn
Bloomberg Code	ICEM IN
Reuters Code	ICMN.BO
52-week Range (INR)	283 /167
Free Float (%)	42.0
ADTV-3M (mn) (USD)	14.2

Price Performance (%)	3m	6m	12m
Absolute	7.0	28.5	(11.1)
Relative to Sensex	4.7	14.5	13.1

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

Previous Reports

08-08-2023: [Q1FY24 results review](#)

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

Exhibit 1: 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 2: Price chart

Source: Bloomberg

Financial Summary

Exhibit 3: 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	46,184	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	2,155	2,192
EBIT	2,413	(3,875)	2,989	4,973
Interest expenditure	2,040	2,342	2,295	2,187
Other Non-operating Income	167	343	232	201
Recurring PBT	540	(4,069)	926	2,987
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	150	(2,184)	278	896
PAT	390	(1,886)	648	2,091
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	836	-	-
Net Income (Reported)	390	(2,722)	648	2,091
Net Income (Adjusted)	390	(1,886)	648	2,091

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	36,336	33,788	34,430	34,387
of which cash & cash eqv.	58	197	1,434	840
Total Current Liabilities & Provisions	17,401	18,293	18,132	16,616
Net Current Assets	18,934	15,495	16,298	17,771
Investments	11,921	9,470	9,470	9,470
Net Fixed Assets	66,876	65,466	65,311	65,119
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,715	3,134	2,134	1,634
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,00,446	93,564	93,212	93,993
Liabilities				
Borrowings	36,970	34,739	33,739	32,739
Deferred Tax Liability	5,295	2,836	2,836	2,836
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	3,099	3,099	3,099	3,099
Reserves & Surplus	55,082	52,890	53,538	55,319
Total Net Worth	58,181	55,989	56,637	58,418
Minority Interest	-	-	-	-
Total Liabilities	1,00,446	93,564	93,212	93,993

Source Company data, I-Sec research

Exhibit 5: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	4,240	(3,230)	2,803	4,283
Working Capital Changes	(541)	1,319	434	(2,067)
Capital Commitments	(1,296)	(1,112)	(1,000)	(1,500)
Free Cashflow	2,402	(1,218)	2,237	716
Other investing cashflow	(768)	5,406	-	-
Cashflow from Investing Activities	(2,065)	4,295	(1,000)	(1,500)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(309)	(309)	-	(310)
Others	(1,374)	(3,740)	(1,000)	(1,000)
Cash flow from Financing Activities	(1,683)	(4,049)	(1,000)	(1,310)
Chg. in Cash & Bank balance	(49)	139	1,237	(594)

Source Company data, I-Sec research

Exhibit 6: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	1.3	(6.1)	2.1	6.7
Adjusted EPS (Diluted)	1.3	(6.1)	2.1	6.7
Cash EPS	8.4	0.8	9.0	13.8
Dividend per share (DPS)	1.0	-	-	1.0
Book Value per share (BV)	187.7	180.7	182.8	188.5
Dividend Payout (%)	79.5	-	-	14.8
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)	(134.4)	222.5
Valuation Ratios (x)				
P/E	185.6	(38.4)	111.6	34.6
P/CEPS	28.0	296.1	25.8	16.9
P/BV	1.2	1.3	1.3	1.2
EV / EBITDA	23.7	(61.3)	20.3	14.6
EV / te (USD)	96.3	85.9	84.1	83.8
Dividend Yield (%)	0.4	-	-	0.4
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)	1.1	3.1
NWC / Total Assets (%)	18.9	16.6	17.5	18.9
Net Debt / Equity (x)	0.6	0.6	0.6	0.5
Net Debt / EBITDA (x)	8.0	(19.8)	6.3	4.5
Profitability Ratios				
RoCE (%) (Post Tax)	1.9	(1.9)	2.3	3.8
RoE (%)	0.7	(3.3)	1.2	3.6
RoIC (%)	2.0	(1.8)	2.5	4.0
Fixed Asset Turnover (x)	0.7	0.8	0.9	1.0
Inventory Turnover Days	77	65	62	58
Receivables Days	57	59	48	43
Payables Days	129	106	107	93

Source Company data, I-Sec research

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