MOTILAL OSWAL

India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,986	ICEM IN
	REUTERS CODE
S&P CNX: 4,356	ICMN.BO

Equity Shares (m)	260.4
52-Week Range	255/145
1,6,12 Rel. Perf. (%)	-2/-10/-26
M.Cap. (Rs b)	57.0
M.Cap. (US$ b)	1.4

2 August 2007

Buy

Previous Recommendation: Buy

Rs217

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	22,552	4,788	17.6	896.5	12.4	4.3	44.1	22.4	3.4	10.4
03/08E	28,988	6,272	23.1	31.0	9.5	3.0	38.4	26.7	2.6	7.0
03/09E	33,833	6,057	22.3	-3.4	9.8	2.3	27.5	25.6	2.2	6.4

India Cements' 1QFY08 results were better than our estimates, with EBITDA of Rs2.6b and PAT of Rs1.8b. These results are not comparable as this quarter includes Visaka Cement, which is consolidated from 1 July 2006.

- Net sales for 1QFY08 grew by 44.5% YoY to Rs7b, based on 24.5% (~3% on like-to-like basis) volume growth at 2.31m ton and realization growth of 16% YoY (~9.5% QoQ) to Rs3,033/ton. During the quarter, production of blended cement stood at 65% (vs 51% in 1QFY07), thereby boosting throughput. EBITDA margin expanded by 360bp YoY (~460bp QoQ) to 37.7%, driven by improvement in realizations. Margins would have higher but for higher RM cost, increase in power & fuel cost. Higher other income and lower tax provisioning boosted PAT to Rs1.8b.
- ICL has further announced capacity addition of 1.2mt (clinker) at Andhra Pradesh, which is expected to operational by Oct'08. This would take total capacity addition to around 5mt to 14mt, by investing around Rs8.4b.
- We have revised our earnings estimates for FY08E by 17.5% to Rs23.1 and for FY09E by 16% to Rs22.3 (fully diluted). Upgrade in estimates is to factor in for better than expected 1QFY08 performance, rebasing our cement realization assumption to 1QFY08 (vs March'07 prices earlier) and higher cement volumes based on increase in capex. Valuations of 8.8x FY08E EPS and 6.7x FY08E EBITDA are attractive. Maintain **Buy.**

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY07*				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales Dispatches (m ton)	1.85	1.88	1.74	2.08	2.31	2.32	2.35	2.56	7.55	9.54
YoY Change (%)	*-2.6*	*-1.6*	*3.2*	*4.8*	*24.5*	*23.7*	*35.0*	*23.4*	*1.0*	*448.8*
Realization (Rs/ton)	2,606	2,733	2,716	2,771	3,033	3,032	3,032	3,031	2,704	3,032
YoY Change (%)	*30.1*	*33.2*	*31.9*	*29.9*	*16.4*	*10.9*	*11.6*	*9.4*	*31.0*	*11.6*
QoQ Change (%)	*22.2*	*4.9*	*-0.6*	*2.0*	*9.5*	*0.0*	*0.0*	*0.0*	*31.0*	*12.1*
Net Sales	**4,852**	**5,164**	**4,724**	**5,758**	**7,012**	**7,077**	**7,119**	**7,780**	**20,497**	**28,988**
YoY Change (%)	*27.4*	*31.9*	*36.3*	*36.2*	*44.5*	*37.1*	*50.7*	*35.1*	*32.9*	*41.4*
Total Expenditure	3,197	3,438	3,394	3,852	4,369	4,394	4,617	4,823	13,880	18,203
EBITDA	**1,655**	**1,726**	**1,331**	**1,906**	**2,643**	**2,682**	**2,502**	**2,957**	**6,617**	**10,784**
Margins (%)	*34.1*	*33.4*	*28.2*	*33.1*	*37.7*	*37.9*	*35.1*	*38.0*	*32.3*	*37.2*
Depreciation	192	193	198	194	275	280	350	409	777	1,314
Interest	389	364	347	331	314	330	345	377	1,430	1,366
Other Income	54	83	17	22	97	35	20	23	102	175
PBT	**1,129**	**1,252**	**803**	**1,403**	**2,151**	**2,107**	**1,827**	**2,194**	**4,512**	**8,280**
Tax	3	4	5	5	17	443	530	45	17	1,035
Deferred Tax	0	0	0	0	300	21	18	634	0	973
Rate (%)	*0.2*	*0.3*	*0.6*	*0.4*	*14.8*	*22.0*	*30.0*	*30.9*	*0.4*	*24.3*
Reported PAT	**1,126**	**1,248**	**798**	**1,398**	**1,834**	**1,644**	**1,279**	**1,515**	**4,495**	**6,272**
Adj PAT	**1,126**	**1,248**	**798**	**1,398**	**1,834**	**1,644**	**1,279**	**1,515**	**4,495**	**6,272**
YoY Change (%)	*1,018.1*	*2,033.2*	*4,407.3*	*417.2*	*62.9*	*31.7*	*60.3*	*8.4*	*891.8*	*39.5*
Margins (%)	*23.2*	*24.2*	*16.9*	*24.3*	*26.2*	*23.2*	*18.0*	*19.5*	*21.9*	*21.6*

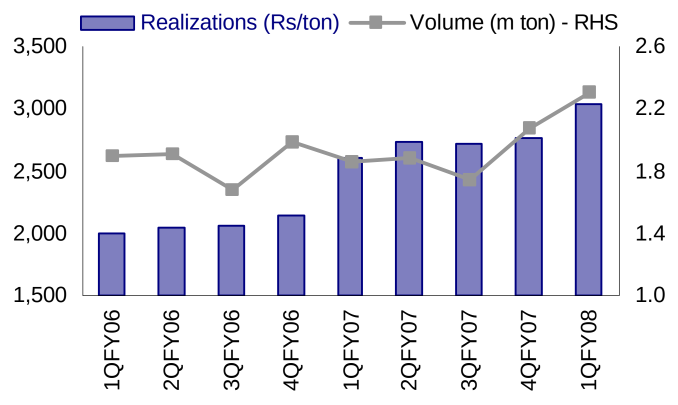
*E: MOSt Estimates; *Excluding Visaka merger*

Jinesh Gandhi (Jinesh@MotilalOswal.com); Tel: +91 22 3982 5419

Strong realizations drive revenue growth…

Net sales for 1QFY08 grew by 44.5% YoY to Rs7b, based on 24.5% (~3% on like-to-like basis) volume growth at 2.31m ton and realization growth of 16% YoY (~9.5% QoQ) to Rs3,033/ton. On like-to-like basis, realizations have improved by 13% QoQ. During the quarter, production of blended cement stood at 65% (vs 51% in 1QFY07), thereby boosting throughput. The company expects further improvement in blending, driven by new grinding units at Chennai and Maharashtra.

TREND IN REALIZATIONS AND VOLUMES

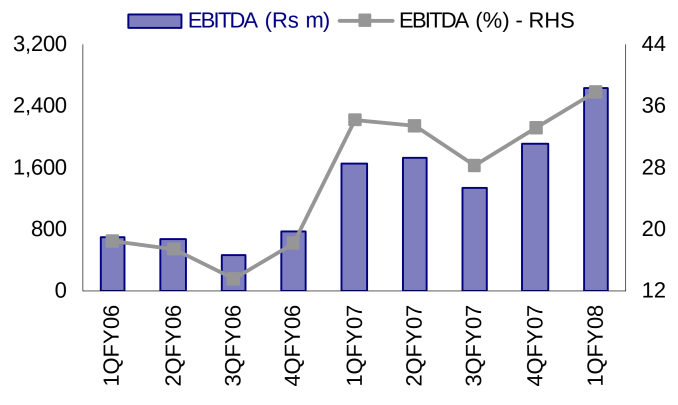


Source: Company/Motilal Oswal Securities

…and margin expansion

EBITDA grew by 60% YoY to Rs2.6b, translating into EBITDA margin expansion of 360bp YoY (~460bp QoQ) to 37.7%, driven by improvement in realizations. EBITDA per ton stood at Rs1,146. Margins would have been higher but for cost inflation.

TREND IN EBITDA



Source: Company/Motilal Oswal Securities

Raw material cost was up 44% YoY, due to increase in gypsum cost & higher blending. Also, power & fuel cost remained flat, despite improvement in power consumption, due to increase in coal cost and short supply of power from gas-based power plant.

UNIT COST BREAK-UP (RS/TON)

	1QFY08	YOY (%)	QOQ (%)
Net realization	**3,033**	**16.4**	**9.5**
Expenditure			
RM Cost	333	43.8	0.8
Employee Expenses	138	20.3	13.7
Power, Oil & Fuel	653	0.3	11.1
Selling Expenses	463	13.8	1.8
Other Expenses	307	-4.5	-14.6
Total Exp	**1,895**	**9.8**	**2.2**
EBITDA	**1,138**	**29.3**	**24.2**

Source: Company/Motilal Oswal Securities

Higher other income, up 80% due to Rs90m forex gains, and lower tax provisioning (at 14.8% of PBT vs est 22.5%) due to accumulated tax losses of Visaka boosted PAT growth to 63% at Rs1.8b.

Accumulated tax losses to result in tax savings

ICL has accumulated tax losses (due to Visaka merger), estimated to be around Rs3.6b (as on April 2007). Further, ICL is evaluating option to reduce tax burden by converting accounting of deferred sales tax benefit from income to capital receipt for the past. The management indicated that for FY08E they would be paying tax at MAT rate of 12.5% and provide for deferred tax. However, for FY09E tax rate is expected to marginal rate of 33.6%. However, in our estimates factors in for tax rate of 24%, with current tax being at MAT rate of 12.5%.

Adding capacity through brownfield and modernization

ICL has further announced capacity addition of 1.2mt (clinker) at Andhra Pradesh, which is expected to operational by Oct'08. This would take total capacity addition to around 5mt to 14mt, by investing around Rs8.4b. The management indicated that its capex program is on schedule, with commissioning from Sep'07, onwards. This capex would be funded through mix of internal accruals and money raised through FCCB. It currently has net debt of around Rs13.6b, excluding FCCB of US$75m, but including deferred sales tax loan of Rs4.5b.

CAPEX PLANS - COST EFFECTIVE WITH LOW GESTATION PERIOD

	CAP ADDN (M TON)	COMMISIONING BY
Modernisation of Sankaridrug plant	0.7	Sep'07
Upgradation in other plants	0.6	July'07 to Dec'07
Expansion of Vishnupuram plant	0.8	Mar'08
Grinding unit at Chennai	1	March'08
Grinding unit at Parli, Maharashtra	1	March'08

Source: Company/Motilal Oswal Securities

Venture into new markets - could expose to business cycle risk

ICL plans to diversify geographically into the northern region. For this purpose, it has signed an MoU with the government of Himachal Pradesh to set up a 2m ton cement plant with capex of around Rs7b incorporating a timeline of a maximum to five years to complete this project. The initial work has commenced and the project is expected to be completed within 3-4 years. ICL would enjoy various fiscal benefits including excise exemptions for this plant. Also, ICL is scouting for limestone reserves in Rajasthan and Madhya Pradesh and has applied for mining leases to implement future cement projects in these states. Given the relatively high level of debt, the expansion plans could pose a risk, as these plans would materialize only in 2010, as the full impact of capacity additions in the industry will be felt only in 2010.

Revising estimates

We have revised our earnings estimates for FY08E by 17.5% to Rs23.1 and for FY09E by 16% to Rs22.3 (fully diluted). Upgrade in estimates is to factor in for better than expected 1QFY08 performance, rebasing our cement realization assumption to 1QFY08 (vs March'07 prices earlier) and higher cement volumes based on increase in capex.

REVISED FORECAST (RS M)

	FY08E			FY09E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	164,346	149,420	10.0	182,585	161,739	12.9
Net Profit	25,806	22,832	13.0	25,123	21,413	17.3
EPS (Rs)	281.5	249.0	13.0	274.0	233.5	17.3

Source: Motilal Oswal Securities

Valuation and view

India Cements is a regional player and a leader in the southern market with strategically located plants offering easy access to its key markets. Over a period of time, ICL has improved its financials based on CDR and has turned around its operations riding on the ongoing upturn in the cement cycle. Whilst the initiatives adopted by the company to control costs have reduced the operating leverage, debt restructuring has helped to lower the financial leverage. Given its high leverage, ICL would be biggest beneficiary of any further increase in cement prices in South India. At current valuations of 8.8x FY08E EPS and 6.7x FY08E EV/EBITDA, valuations appear reasonable. Maintain Buy with revised target price of Rs245.

India Cements: an investment profile

Company description

ICL is among the top five cement players in India and a leader in Southern India, having around seven plants spread over Tamil Nadu and Andhra Pradesh with a total capacity of 8.8m ton (including Visaka Cement – an associate company). Over a period of time, ICL has improved its financials via debt structuring and turnaround in operations, riding on the ongoing upturn in the cement cycle.

Key investment arguments

- Regional leader having strong presence in South India, with a total capacity of 8.8m ton and strong brand equity.
- Strategically located plants with proximity to the market (lead distance of ~260 Kms) and the port (providing easy access to international markets and imported coal).
- Brownfield capacity expansion will lower the capex requirement and gestation period.

Key investment risks

- High gearing, despite repayment of loans post debt restructuring, results in high financial leverage.
- Ambition to venture into new markets (Himachal Pradesh and Rajasthan) could pose a significant business cycle risk and put pressure on balance sheet.

Recent developments

- Adding capacity of 1.2MT (clinker) at Tandur, Andhra Pradesh

Valuation and view

- Given its high leverage and relatively low cost timely capacity additions, ICL would be one of the biggest beneficiaries of any further price increase in South India.
- Valuations of 8.8x FY08E EPS and 6.7x FY08E EV/EBITDA, valuations appear attractive. Maintain Buy with target price of Rs245.

Sector view

- Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth
- Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HFY09
- Uncertainty on cement prices, due to government intervention, is expected to prevail in the near term

COMPARATIVE VALUATIONS

		INDIA CEM.	SHREE CEM.	ULTRATECH
P/E (x)	FY08E	9.5	9.2	11.1
	FY09E	9.8	8.2	10.5
P/BV (x)	FY08E	3.0	4.9	4.1
	FY09E	2.3	3.1	3.0
EV/Sales (x)	FY08E	2.6	2.3	2.2
	FY09E	2.2	1.6	2.0
EV/EBITDA (x)	FY08E	7.0	5.3	7.0
	FY09E	6.4	4.1	6.2

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	26.9	26.9	31.1
Domestic Inst	23.8	22.8	17.0
Foreign	30.6	35.7	37.3
Others	18.7	14.6	14.6

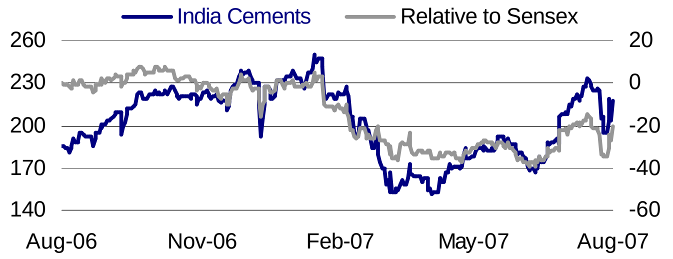
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	23.1	23.0	0.4
FY09	22.3	22.0	1.6

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
219	245	11.9	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (STANDALONE) (Rs Million)

Y/E MARCH	2005	2006	2007	2008E	2009E
Net Sales	**11,621**	**15,418**	**22,552**	**28,988**	**33,833**
Change (%)	*14.3*	*32.7*	*46.3*	*28.5*	*16.7*
Total Expenditure	10,256	12,808	15,210	18,203	22,075
% of Sales	*88.3*	*83.1*	*67.4*	*62.8*	*65.2*
EBITDA	**1,365**	**2,610**	**7,343**	**10,784**	**11,759**
Margin (%)	*11.7*	*16.9*	*32.6*	*37.2*	*34.8*
Depreciation	788	789	1,026	1,314	1,458
EBIT	**578**	**1,821**	**6,316**	**9,470**	**10,301**
Int. and Finance Charges	1,335	1,489	1,498	1,366	1,279
Other Income - Rec.	169	73	101	175	100
PBT before EO Expense	**-588**	**404**	**4,920**	**8,280**	**9,121**
EO Expense/(Income)	-634	-96	0	0	0
PBT after EO Expense	**46**	**500**	**4,920**	**8,280**	**9,121**
Current Tax	0	23	114	1,035	2,663
Deferred Tax	0	23	17	973	401
Tax Rate (%)	*0.0*	*9.3*	*2.7*	*24.3*	*33.6*
Reported PAT	**46**	**453**	**4,788**	**6,272**	**6,057**
PAT Adj for EO items	**-588**	**366**	**4,788**	**6,272**	**6,057**
Change (%)	*-50.1*	*-162.3*	*1,206.6*	*31.0*	*-3.4*
Margin (%)	*-5.1*	*2.4*	*21.2*	*21.6*	*17.9*

BALANCE SHEET (Rs Million)

Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	1,386	1,908	2,604	2,604	2,604
Fully Dilute Eq Sh Cap	1,386	1,908	2,714	2,714	2,714
Preference Share Capital	250	250	0	0	0
Total Reserves	11,117	15,272	19,203	24,542	29,589
Net Worth	**12,892**	**17,569**	**21,807**	**27,146**	**32,193**
Deferred Liabilities	463	486	503	1,476	1,878
Total Loans	19,872	15,252	20,148	19,458	17,808
Capital Employed	**33,227**	**33,308**	**42,459**	**48,080**	**51,879**
Gross Block	29,853	30,027	38,560	43,560	47,560
Less: Accum. Deprn.	7,834	9,188	10,994	12,308	13,766
Net Fixed Assets	**22,019**	**20,840**	**27,566**	**31,252**	**33,794**
Capital WIP	30	310	1,500	1,000	2,500
Total Investments	**348**	**348**	**348**	**348**	**348**
Curr. Assets, Loans&Adv.	**13,684**	**15,124**	**17,559**	**22,116**	**24,602**
Inventory	1,799	1,930	2,626	3,375	3,940
Account Receivables	1,834	2,406	3,398	4,368	5,284
Cash and Bank Balance	29	436	660	435	-889
Loans and Advances	9,805	10,144	10,813	13,898	16,221
Real Estate Projects WIP	217	208	62	40	46
Curr. Liability & Prov.	**3,073**	**3,731**	**4,931**	**7,054**	**9,783**
Account Payables	1,956	1,843	2,191	2,643	3,180
Other Current Liabilities	1,102	1,888	2,626	3,375	3,940
Provisions	14	0	114	1,035	2,663
Net Current Assets	**10,612**	**11,393**	**12,627**	**15,063**	**14,819**
Misc Expenditure	219	417	417	417	417
Appl. of Funds	**33,227**	**33,308**	**42,459**	**48,080**	**51,879**

E: MOSt Estimates

RATIOS

Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
Fully Diluted EPS	**-4.5**	**1.8**	**17.6**	**23.1**	**22.3**
Cash EPS	1.2	5.9	21.4	27.9	27.7
BV/Share	23.8	43.7	51.4	74.0	95.5
DPS	0.0	0.0	1.0	1.3	1.5
Payout (%)	0.0	0.0	6.4	6.1	7.5
Valuation (x)					
P/E		123.7	12.4	9.5	9.8
Cash P/E		37.1	10.2	7.8	7.9
P/BV		5.0	4.3	3.0	2.3
EV/Sales		3.7	3.4	2.6	2.2
EV/EBITDA		21.7	10.4	7.0	6.4
EV/Ton (US$)		181.4	219.6	172.1	171.4
Dividend Yield (%)		0.0	0.5	0.6	0.7
Return Ratios (%)					
RoE	-17.6	6.3	44.1	38.4	27.5
RoCE	3.1	8.0	22.4	26.7	25.6
Working Capital Ratios					
Inventory (Days)	56.5	45.7	42.5	42.5	42.5
Debtor (Days)	48	48	48	46	47
Working Capital Turnover (Days	332	259	194	184	169
Leverage Ratio (x)					
Current Ratio	4.5	4.1	3.6	3.1	2.5
Debt/Equity	6.0	1.8	1.5	1.0	0.7

CASH FLOW STATEMENT (Rs Million)

Y/E MARCH	2005	2006	2007	2008E	2009E
Oper. Profit/(Loss) before Tax	1,215	2,388	7,343	10,784	11,759
Interest/Dividends Recd.	15	57	101	175	100
Direct Taxes Paid	2	-44	-114	-1,035	-2,663
(Inc)/Dec in WC	947	-700	-1,011	-2,660	-1,080
CF from Operations	**2,179**	**1,700**	**6,319**	**7,264**	**8,115**
EO expense	-22	0	0	0	0
CF from Operating incl EO	**2,157**	**1,700**	**6,319**	**7,264**	**8,115**
(inc)/dec in FA	-143	-475	-8,943	-4,500	-5,500
(Pur)/Sale of Investments	-834	126	0	0	0
CF from investments	**-977**	**-349**	**-8,943**	**-4,500**	**-5,500**
Issue of Shares	139	4,810	-246	-553	-553
(Inc)/Dec in Debt	-614	-4,550	4,896	-690	-1,650
Interest Paid	-713	-1,204	-1,498	-1,366	-1,279
Dividend Paid	0	0	-305	-381	-457
CF from Fin. Activity	**-1,188**	**-944**	**2,848**	**-2,989**	**-3,939**
Inc/Dec of Cash	**-8**	**407**	**224**	**-225**	**-1,324**
Add: Beginning Balance	37	29	436	660	435
Closing Balance	**29**	**436**	**660**	**435**	**-889**

For more copies or other information, contact
Institutional: Navin Agarwal. **Retail:** Manish Shah
Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Disclosure of Interest Statement	India Cements
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No