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RESULTS REVIEW

India Cements Ltd.

Rs. 171 | Buy

Q4FY07 results update

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Nifty: 4084; Sensex: 13897

Key Stock Data

Sector	Cement
Bloomberg/Reuters	ICEM@IN/ICMN.BO
Shares o/s (m)	224
Market cap (Rs m)	38,304
Market cap (US$ m)	919
3-m daily average vol.	12,10,197

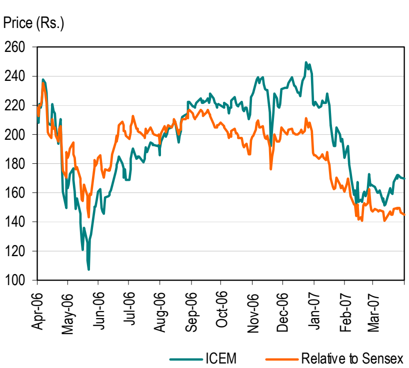
Price Performance

52-week high/low			Rs255/103
	-1m	-3m	-12m
Absolute (%)	3.1	(23.1)	(22.4)
Rel to Sensex (%)	(1.8)	(22.3)	(39.3)

Shareholding Pattern (%)

Promoters	26.89
FIIs/NRIs/OCBs/GDR	30.64
MFs/Banks/FIs	23.84
Non Promoter Corporate	6.34
Public & Others	12.30

Stock vs Relative to Sensex



Source: Capitaline

Summary

In line with our expectations, India Cements Ltd. (ICEM) has reported a net profit of Rs.4,495m for FY07, a nine- fold growth over last year's net profit of Rs.424m. The company reported a net profit of Rs.1,398.1m for the quarter ended March 31, 2007, against Rs.270m in the corresponding period in the previous year. The Company reported a turnover of Rs.6,729m against Rs.4,990m for the same period.

Higher price realization, reduction in power cost and increased proportion of blended cement along with absence of income tax liability has enabled the company to achieve a higher EBITDA margin of 32% against 17% in FY05-06. The above result does not include profits achieved by Visaka Cement Industry Ltd. (VCIL) for the nine months ended at March 31, 2007 as consolidation is still awaiting court approval. On account of inadequate information we have not taken into account the merger figures for our calculations.

We are bullish on ICEM, as the company is getting a volume growth of 2m tonne, within 6-12 months at the 'Best Prices' (as prices are frozen for a year) with the spending of Rs.3,400m. We believe the overhang of supply in the southern region will be delayed and will come in FY09 resulting in good realizations to the ICEM.

The stock is currently trading at an EV/EBITDA of 7.4x, EV/tonne of US$ 114 and a PE of 8.6x for FY08E. While we are positive on the stock we are revising the target price downwards to Rs.193 on the back of price corrections which may come in FY09 on account of excess supply.

Result highlights

- **Realizations up**

  Following the trend in the other parts of the country, the realizations were up 33% YoY, and 4% QoQ. Realization per bag was Rs.164 as against Rs.125 in March 2006 and Rs.154 in December 2006. The realizations, net of excise duty works out to Rs.141/bag as against Rs.106 and Rs.135 in March 2006 and December 2006 respectively.

Table 1: Financial snapshot (Rs. m)

Year-end: March	Q4FY07	Q4FY06	YoY Change (%)	FY07	FY08E
Net total revenues	6,729	4,990	35	23,676	29,582
Total operating expenses	4,823	4,226	14	17,059	23,231
EBITDA	1,906	764	150	6,617	6,351
Other income	22	18	22	102	135
EBIT (Operating profit)	1,734	585	197	5,942	5,726
Depreciation	194	197	(2)	777	760
Interest	331	314	5	1,430	1,210
Exceptional items		29	(100)	–	–
Pre-tax profits	1,404	299	369	4,512	4,516
Prov for taxation	5	29	(83)	17	42
Reported net profit	1,399	270	417	4,495	4,474
Shares outstanding – Diluted (m)	222	196		213	224
EPS – Diluted (Rs.)	6.3	1.4	357	21.1	20.0

Source: Company reports; IDBI Capital Market Services

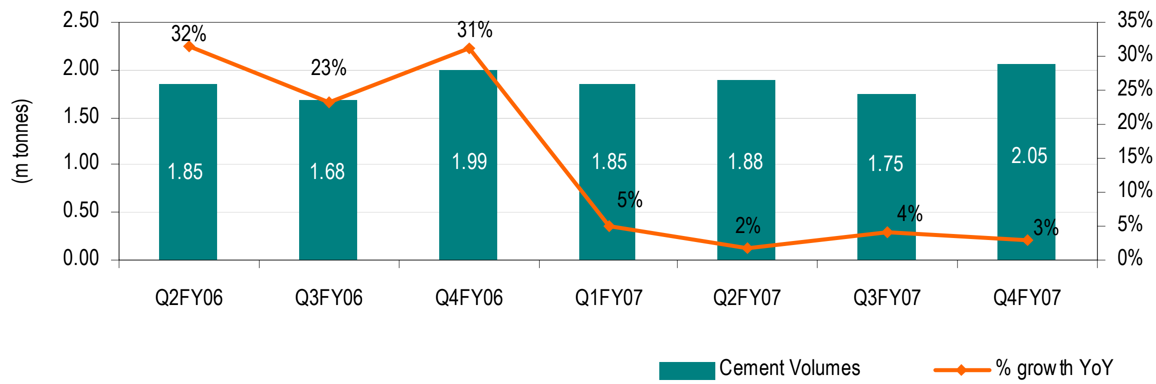
Volumes gearing up

Sales volumes grew 3% YoY and 17% QoQ. In the last quarter the volumes dropped due to a slowdown in activity on account of the monsoons in the South. However, the sales volumes for the quarter stood at 2.05m tonnes as against 1.99m tonnes in March 2006 and 1.75m tonnes in the last quarter.

The company has achieved 100% capacity utilisation in Q4FY07 with the cement production at 7.55m tonnes, a 4% growth over the previous year's 7.26m tonnes. The sales volumes for the current year stand at 7.53m tonne. This is a mere 3.3% growth as compared to 10% growth witnessed in South India and an equivalent growth for the whole of India.

As guided by the management, the modernization and up gradation of its existing plants will add two million tonnes of cement in the next 12 months which will help to gear up the volumes.

Figure 1: Volume growth

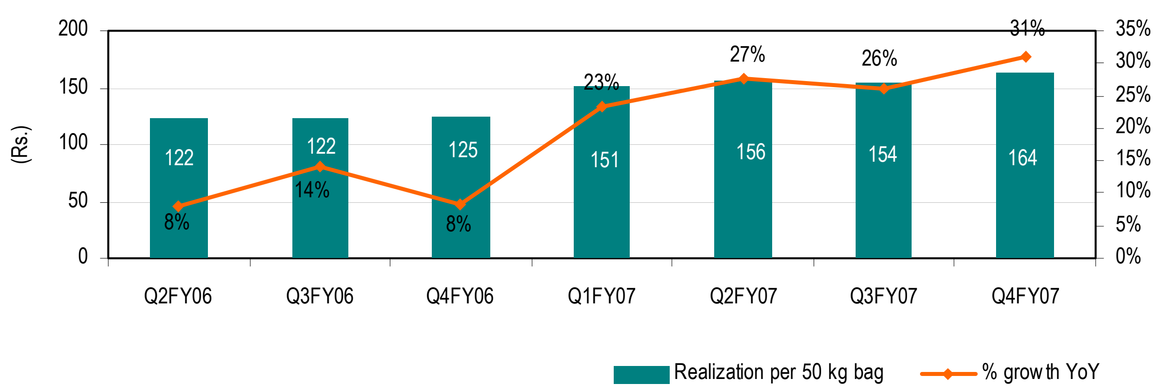


Source: Company reports; IDBI Capital Market Services

Realizations booming up

Gross realizations for ICEM were up 31% YoY and up 7% QoQ to Rs.164 per 50 Kg bag. The figures in the previous quarter were Rs.154/bag and Rs.125/bag in the same period last fiscal. We expect cement prices to remain quite firm on the back of a tight demand-supply in the South and the price freezing up for a year by the industry. Again when the cement prices were at historical high levels, the Cement Industry has decided to freeze it up for a year which we believe is a positive sign for realizations of ICEM.The management is also looking the current year as 'Higher profit zone' due to additional capacities coming up through the planned expansions at the 'Best Prices'.

Figure 2: Increasing realizations

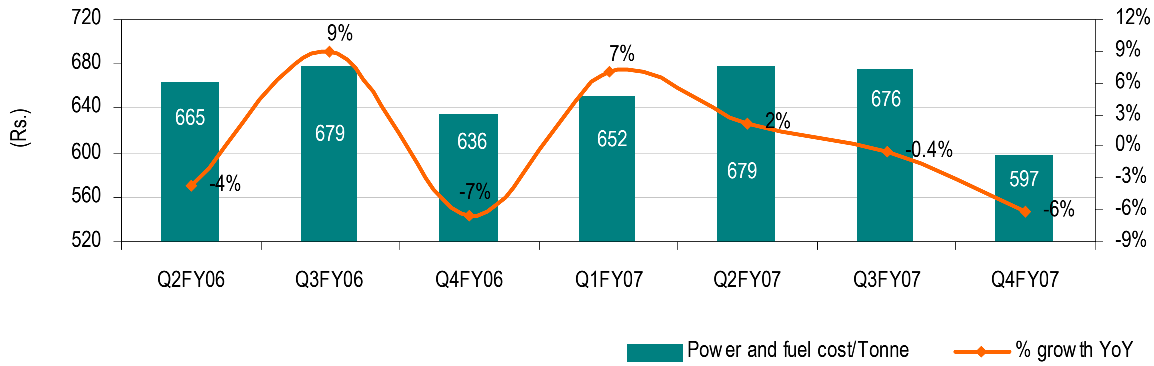


Source: Company reports; IDBI Capital Market Services

Power and fuel cost quite stable

A lot of steps have been taken to reduce the power cost such as availing additional gas-based power for Tamilnadu units, installation of waste heat recovery system for plant in Andhra Pradesh, which is unique in nature along with the usage of wind power. As guided by the management around 50% of power requirement is made by low cost sources. It is also contemplating installing a thermal power plant to take care of the remaining 50%.The company uses around 70% of imported coal for the plants which are closer to the port and the 30% domestic coal is used for the plants which are away from the port. Thereby the advantage of price difference between the indigenous and imported coal is taken.

Figure 3: Power and fuel cost



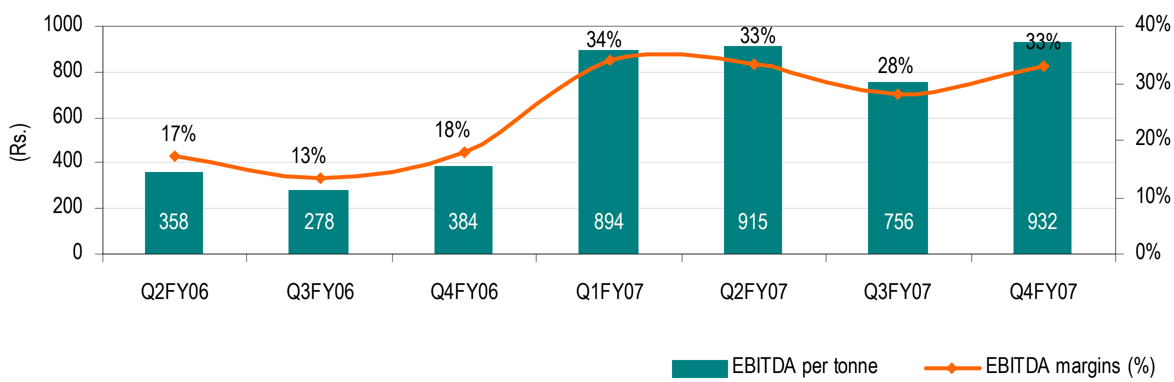
Source: Company reports; IDBI Capital Market Services

Impressive margins

The cost per tonne has increased by 11% YoY and 1% QoQ. It stands at Rs.2,357/tonne in Q4FY07 as against Rs.2,123 in the corresponding period of last year. As a result, the EBITDA margins for the company increased to 33% from 28% sequentially. The margins during the same period last year were just 18%.

The EBITDA margin for the FY06 at 17% has almost doubled to 32% in FY 07. On a similar trend, EBITDA per tonne has increased by 151% from Rs.349 in FY06 to Rs.877 in FY07. During the quarter ended March 2007, the EBITDA per tonne stood at Rs.932 recording an impressive growth of 143% YoY.

Figure 4: EBITDA margins and EBITDA per tonne



Source: Company reports; IDBI Capital Market Services

Proportion of PPC: PPC is made by just adding fly ash to the OPC and sold out in the market at the same realizations. Thus apart from the cost of fly ash (around 500-600/tonne) it gives additional margins to the company.

Currently the production of PPC is about 63% of the total production and given the market needs for OPC the company is planning to increase the proportion of PPC at 75% in the coming years. Thus by increasing the proportion of PPC the ICEM can increase margins whereas its peers have already high ratio of such conversion.

- **Expansion Plans**

  On the expansion plans the ICEM is 'zeroing in' on the locations where capacity could be added. ICEM has currently undertaken a 2 MT capacity expansion by way of de-bottlenecking across its plants. As guided by the management about 1MT capacity is likely to be added by July 2007 and remaining by December 2007. Timely volume expansion through de-bottlenecking in a strong pricing environment will help in boosting the bottom-line. ICEM also plans to diversify its operations in pan India so as to hedge itself from the regional cyclicality. The company plans to undertake a Greenfield expansion of 2MT in Himachal Pradesh which will be completed in FY10-11. The company has also acquired mining leases in Rajasthan and Madhya Pradesh for setting up plants in these states.

- **Visaka merger**

  ICEM is in the process of merging its associate company VCIL effective from July, 2006. VCIL has the capacity of 1.4m tonnes and primarily serves the Maharashtra and Andhra Pradesh markets which are quite lucrative. VCIL reported EBITDA Rs.1,041.1m and the profit before tax of Rs.745.8m for the nine months ended March 31, 2007 with the turnover of 0.88m tonne of cement. The outstanding debt in the books of Visaka is around Rs.1,400m. Post merger ICEM will enjoy tax shelter of Rs.3,300m on account of unabsorbed depreciation and accumulated losses in the books of Visaka.This will help the ICEM in reducing it's tax burden for FY08E.

Outlook for the sector and cement price

High volume growth and limited capacity addition has improved demand-supply situation for the industry significantly. As a result, cement is going through a cyclical upturn, which we believe will likely to continue at least for the next 8-10 months as the new capacities will come into play mainly after FY08.

Although the uncertainty on cement prices due to government intervention (through differential excise structure, abolishment of import duty) is expected to prevail in the near term, the outlook for the Indian cement sector remains positive. Again when the cement prices were at historical high levels, the Cement Industry has decided to freeze it up for a year which is a positive sign for realizations. However, the prevailing discount of imported cement price to domestic prices will discourage the sector to hike the prices from current level.

Therefore we expect cement prices to rule quite firm through FY08 and will decline afterwards. We believe cement as a sector will continue to deliver robust top line performance. However, Bottomline is a function of Government policies and the operating efficiencies of individual companies.

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