MOTILAL OSWAL

India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,614	ICEM IN
	REUTERS CODE
S&P CNX: 5,184	ICMN.BO

Equity Shares (m)	260.4
52-Week Range	317/145
1,6,12 Rel. Perf. (%)	-7/37/-13
M.Cap. (Rs b)	72.4
M.Cap. (US$ b)	1.8

22 October 2007

Buy

Previous Recommendation: Buy

Rs278

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	15.8	5.4	44.1	22.4	4.2	12.9
03/08E	31,663	7,658	28.2	59.9	9.9	3.5	45.0	31.0	3.0	7.5
03/09E	38,221	8,056	29.7	5.2	9.4	2.6	32.9	30.6	2.4	6.3

India Cements' 2QFY08 results were better than our estimates, with EBITDA of Rs3.07b. The results are not comparable as numbers include Visaka Cement.

- Net sales for 2QFY08 grew 47.4% YoY to Rs7.6b, based on 21% (~5% on like-to-like basis) volume growth at 2.27m ton and realization growth of 22% YoY (~10% QoQ) to Rs3,339/ton. During the quarter, production of blended cement stood at 69% (v/s 54% in 2QFY07), thereby boosting throughput.
- EBITDA margin expanded 700bp YoY (~270bp QoQ) to 40.4%, driven by improvement in realizations. Margins would have been higher but for one time provisioning of Rs243m under staff costs (for leave salary and ESOPs under AS15). However, lower tax provisioning (at 12.6% of PBT v/s est 22%) boosted PAT to Rs2.23b, a growth of 90% YoY.
- In September 2007, the new 0.6m ton capacity at Sankaridurg has been commissioned. The management indicated that its other capex program, to add another 4.6m ton capacity (to 14m ton) is on schedule.
- We have revised our earnings estimates upwards for FY08E by 7.8% to Rs28.2 and for FY09E by 6.5% to Rs29.7 (fully diluted), to factor in higher than estimated realizations. Valuations at 9.4x FY09E EPS and 6.3x FY09E EV/EBITDA appear reasonable. Maintain **Buy** with a revised target price of Rs359 (~7x FY09E EV/EBITDA).

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY07*				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Dispatches (m ton)	1.85	1.88	1.74	2.08	2.31	2.27	2.33	2.63	7.55	9.54
YoY Change (%)	*-2.6*	*-1.6*	*3.2*	*4.8*	*24.5*	*20.9*	*34.2*	*26.6*	*1.0*	*448.8*
Realization (Rs/ton)	2,606	2,733	2,716	2,771	3,033	3,339	3,399	3,459	2,704	3,313
YoY Change (%)	*30.1*	*33.2*	*31.9*	*29.9*	*16.4*	*22.2*	*25.1*	*24.8*	*31.0*	*22.0*
QoQ Change (%)	*22.2*	*4.9*	*-0.6*	*2.0*	*9.5*	*10.1*	*1.8*	*1.8*	*31.0*	*22.5*
Net Sales	**4,852**	**5,164**	**4,724**	**5,758**	**7,012**	**7,612**	**7,931**	**9,108**	**20,497**	**31,663**
YoY Change (%)	*27.4*	*31.9*	*36.3*	*36.2*	*44.5*	*47.4*	*67.9*	*58.2*	*32.9*	*54.5*
Total Expenditure	3,197	3,438	3,394	3,852	4,369	4,539	4,883	5,386	13,880	19,177
EBITDA	**1,655**	**1,726**	**1,331**	**1,906**	**2,643**	**3,074**	**3,049**	**3,722**	**6,617**	**12,487**
Margins (%)	*34.1*	*33.4*	*28.2*	*33.1*	*37.7*	*40.4*	*38.4*	*40.9*	*32.3*	*39.4*
Depreciation	192	193	198	194	275	303	350	386	777	1,314
Interest	389	364	347	331	314	283	345	356	1,430	1,298
Other Income	54	8	17	22	97	59	40	39	102	235
PBT	**1,129**	**1,177**	**803**	**1,403**	**2,151**	**2,546**	**2,394**	**3,019**	**4,512**	**10,110**
Tax	3	4	5	5	17	321	302	422	17	1,062
Deferred Tax	0	0	0	0	300	-1	500	591	0	1,390
Rate (%)	*0.2*	*0.3*	*0.6*	*0.4*	*14.8*	*12.6*	*33.5*	*33.5*	*0.4*	*24.3*
Reported PAT	**1,126**	**1,173**	**798**	**1,398**	**1,834**	**2,227**	**1,592**	**2,006**	**4,495**	**7,658**
Adj PAT	**1,126**	**1,173**	**798**	**1,398**	**1,834**	**2,227**	**1,592**	**2,006**	**4,495**	**7,658**
YoY Change (%)	*1,018.1*	*1,905.5*	*4,407.3*	*417.2*	*62.9*	*89.8*	*99.5*	*43.5*	*891.8*	*70.4*
Margins (%)	*23.2*	*22.7*	*16.9*	*24.3*	*26.2*	*29.2*	*20.1*	*22.0*	*21.9*	*24.2*

*E: MOSt Estimates; *Excluding Visaka merger*

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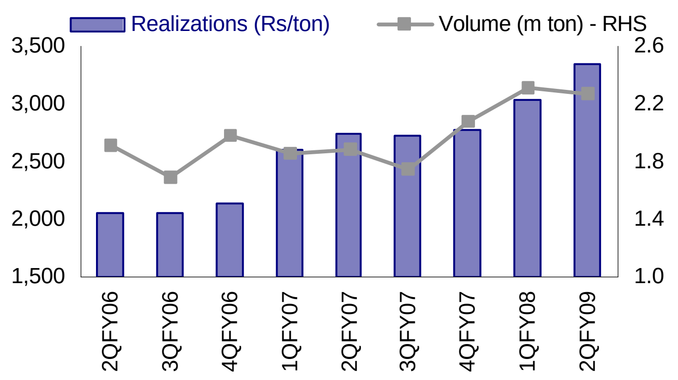
Strong realizations drive revenue growth...

Net sales for 2QFY08 grew 47.4% YoY to Rs7.6b, based on 21% (~5% on like-to-like basis) volume growth at 2.27m ton and realization growth of 22% YoY (~10% QoQ) to Rs3,339/ton. During the quarter, production of blended cement stood at 69% (v/s 54% in 2QFY07), thereby boosting throughput. During the quarter, production of blended cement stood at 65% (v/s 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

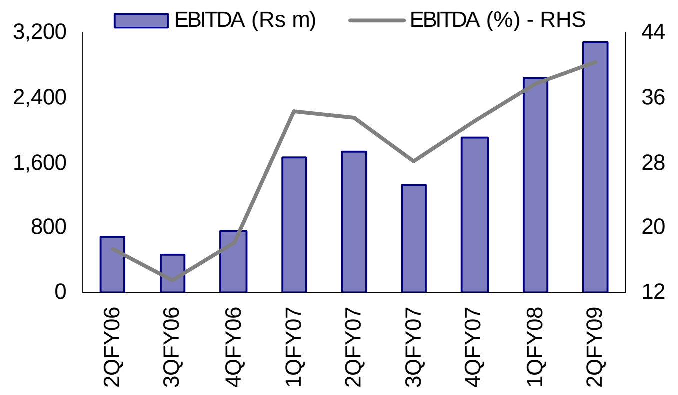


Source: Company/Motilal Oswal Securities

...and margin expansion

EBITDA margin expanded 700bp YoY (~270bp QoQ) to 40.4%, driven by improvement in realizations. Margins would have been higher but for one time provisioning of Rs243m under staff costs (for leave salary and ESOPs under AS15).

TREND IN EBITDA



Source: Company/Motilal Oswal Securities

EBITDA (Rs/ton) adjusting for one-time provisioning was at Rs1,460/ton, which is among the highest in the industry. The company benefited from improving operational efficiency (partly driven by higher blending), helping in mitigating cost inflation (energy cost, other expenditure etc).

UNIT COST BREAK-UP (RS/TON)

	2QFY08	YOY (%)	QOQ (%)
Net Realization	3,339	22.2	10.1
Expenditure			
RM Cost	262	*1.7*	*-21.4*
Employee Expenses	235	*74.5*	*69.7*
Power, Oil & Fuel	730	*7.0*	*11.8*
Selling Expenses	439	*2.6*	*-5.4*
Other Expenses	333	*1.4*	*8.6*
Total Exp	**1,999**	**9.2**	**5.5**
EBITDA	**1,340**	**48.5**	**17.7**

Source: Company/Motilal Oswal Securities

PBT grew 116% YoY to Rs2.55b. However, lower tax provisioning (at 12.6% of PBT v/s est 22%) boosted PAT to Rs2.23b, a growth of 90% YoY. The management indicated that going forward it would be providing tax at marginal rate of tax, which is in line with our estimates.

Adding capacity through brownfield and modernization

In September 2007, the new 0.6m ton capacity at Sankaridurg has been commissioned. The management indicated that its other capex program, to add another 4.6m ton capacity (to 14m ton) is on schedule. It has guided for volumes of 9.5m ton for FY08E (v/s est 9.54m ton) and over 11m ton in FY09E (v/s est 11.52m ton). Further, it has succeeded in securing mining lease in Rajasthan, which would be used to put up a cement plant (no time frame indicated). This, along with on-going feasibility studies at Himachal Pradesh, is in line with the management strategy for achieving geographical diversification.

CAPEX PLANS - COST EFFECTIVE WITH LOW GESTATION PERIOD

	CAP ADDN (M TON)	COMMISIONING BY
Upgradation in other plants	0.6	July'07 to Dec'07
Expansion of Vishnupuram plant	0.8	March '08
Grinding unit at Chennai	1	March '08
Grinding unit at Parli, Maharashtra	1	March '08
Clinker unit at Malkapur	1.2	Oct'08

Source: Company/Motilal Oswal Securities

This capex would be funded through a mix of internal accruals and money raised through FCCB. It currently has net debt of around Rs15.5b, excluding FCCB of US$75m, but including deferred sales tax loan of Rs4.5b.

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, it has secured limestone reserves in Rajasthan, and would put up cement plant there. Further, it is seeking limestone reserves in Madhya Pradesh. Given the relatively high level of debt, the expansion plans could pose a risk, as these plans would materialize not before 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 upwards for FY08E by 7.8% to Rs28.2 and for FY09E by 6.5% to Rs29.7. Upgrade in estimates is to factor in higher than estimated realizations.

REVISED FORECAST (RS M)

	FY08E			FY09E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	31,663	30,873	2.6	38,221	37,116	3.0
Net Profit	7,658	7,101	7.8	8,056	7,567	6.5
EPS (Rs)	28.2	26.2	7.8	29.7	27.9	6.5

Source: Motilal Oswal Securities

Valuation and view

India Cements is 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. While 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 the biggest beneficiary of any further increase in cement prices in South India. Valuations of 9.4x FY09E EPS and 6.3x FY09E EV/EBITDA appear reasonable. Maintain Buy with revised target price of Rs359 (~7x FY09E EV/EBITDA).

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

- Got limestone mining lease in Rajasthan.

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 at 9.4x FY09E EPS and 6.3x FY09E EV/EBITDA appear reasonable. Maintain **Buy** with target price of Rs359.

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	9.9	10.0	11.9
	FY09E	9.4	8.2	9.9
P/BV (x)	FY08E	3.5	5.3	4.6
	FY09E	2.6	3.3	3.2
EV/Sales (x)	FY08E	3.0	2.4	2.5
	FY09E	2.4	1.6	2.0
EV/EBITDA (x)	FY08E	7.5	5.6	7.9
	FY09E	6.3	3.9	6.0

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	28.2	26.7	5.5
FY09	29.7	27.0	9.8

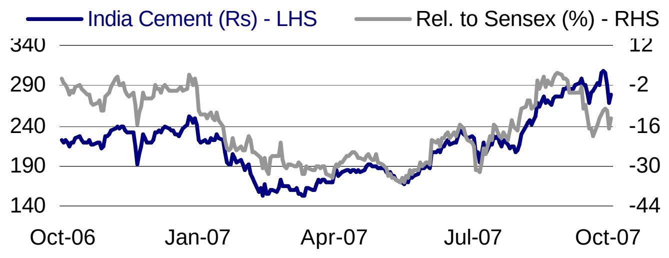
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
278	359	29.1	Buy

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	30.4	26.9	26.9
Domestic Inst	19.0	22.2	24.5
Foreign	33.2	36.4	34.8
Others	17.4	14.5	13.8

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**	**31,663**	**38,221**
Change (%)	*14.3*	*32.7*	*46.3*	*40.4*	*20.7*
Total Expenditure	10,256	12,808	15,210	19,177	23,566
% of Sales	*88.3*	*83.1*	*67.4*	*60.6*	*61.7*
EBITDA	**1,365**	**2,610**	**7,343**	**12,487**	**14,655**
Margin (%)	*11.7*	*16.9*	*32.6*	*39.4*	*38.3*
Depreciation	788	789	1,026	1,314	1,458
EBIT	**578**	**1,821**	**6,316**	**11,173**	**13,197**
Int. and Finance Charges	1,335	1,489	1,498	1,298	1,265
Other Income - Rec.	169	73	101	235	200
PBT before EO Expense	**-588**	**404**	**4,920**	**10,110**	**12,132**
EO Expense/(Income)	-634	-96	0	0	0
PBT after EO Expense	**46**	**500**	**4,920**	**10,110**	**12,132**
Current Tax	0	23	114	1,062	3,543
Deferred Tax	0	23	17	1,390	534
Tax Rate (%)	*0.0*	*9.3*	*2.7*	*24.3*	*33.6*
Reported PAT	**46**	**453**	**4,788**	**7,658**	**8,056**
PAT Adj for EO items	**-588**	**366**	**4,788**	**7,658**	**8,056**
Change (%)	*-50.1*	*-162.3*	*1,206.6*	*59.9*	*5.2*
Margin (%)	*-5.1*	*2.4*	*21.2*	*24.2*	*21.1*

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	25,928	32,975
Net Worth	**12,892**	**17,569**	**21,807**	**28,532**	**35,578**
Deferred Liabilities	463	486	503	1,893	2,427
Total Loans	19,872	15,252	20,148	19,458	19,308
Capital Employed	**33,227**	**33,308**	**42,459**	**49,884**	**57,314**
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**	**24,498**	**31,795**
Inventory	1,799	1,930	2,626	3,687	4,450
Account Receivables	1,834	2,406	3,398	4,771	5,969
Cash and Bank Balance	29	436	660	816	2,999
Loans and Advances	9,805	10,144	10,813	15,181	18,325
Real Estate Projects WIP	217	208	62	43	52
Curr. Liability & Prov.	**3,073**	**3,731**	**4,931**	**7,632**	**11,541**
Account Payables	1,956	1,843	2,191	2,883	3,548
Other Current Liabilities	1,102	1,888	2,626	3,687	4,450
Provisions	14	0	114	1,062	3,543
Net Current Assets	**10,612**	**11,393**	**12,627**	**16,866**	**20,254**
Misc Expenditure	219	417	417	417	417
Appl. of Funds	**33,227**	**33,308**	**42,459**	**49,884**	**57,314**

E: MOSt Estimates

RATIOS					
Y/E MARCH	**2005**	**2006**	**2007**	**2008E**	**2009E**
Basic (Rs)					
Fully Diluted EPS	**-4.5**	**1.8**	**17.6**	**28.2**	**29.7**
Cash EPS	1.2	5.9	21.4	33.1	35.0
BV/Share	23.8	43.7	51.4	79.3	108.5
DPS	0.0	0.0	1.0	1.3	1.5
Payout (%)	0.0	0.0	6.4	5.0	5.7
Valuation (x)					
P/E		157.0	15.8	9.9	9.4
Cash P/E		47.1	13.0	8.4	7.9
P/BV		6.4	5.4	3.5	2.6
EV/Sales		4.4	4.2	3.0	2.4
EV/EBITDA		26.0	12.9	7.5	6.3
EV/Ton (US$)		221.7	277.7	239.0	166.0
Dividend Yield (%)		0.0	0.4	0.4	0.5
Return Ratios (%)					
RoE	-17.6	6.3	44.1	45.0	32.9
RoCE	3.1	8.0	22.4	31.0	30.6
Working Capital Ratios					
Inventory (Days)	56.5	45.7	42.5	42.5	42.5
Debtor (Days)	48	48	48	47	49
Working Capital Turnover (Days	332	259	194	185	165
Leverage Ratio (x)					
Current Ratio	4.5	4.1	3.6	3.2	2.8
Debt/Equity	6.0	1.8	1.5	0.9	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	12,487	14,655
Interest/Dividends Recd.	15	57	101	235	200
Direct Taxes Paid	2	-44	-114	-1,062	-3,543
(Inc)/Dec in WC	947	-700	-1,011	-4,083	-1,205
CF from Operations	**2,179**	**1,700**	**6,319**	**7,577**	**10,107**
EO expense	-22	0	0	0	0
CF from Operating incl EO	**2,157**	**1,700**	**6,319**	**7,577**	**10,107**
(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	-150
Interest Paid	-713	-1,204	-1,498	-1,298	-1,265
Dividend Paid	0	0	-305	-381	-457
CF from Fin. Activity	**-1,188**	**-944**	**2,848**	**-2,921**	**-2,425**
Inc/Dec of Cash	**-8**	**407**	**224**	**156**	**2,183**
Add: Beginning Balance	37	29	436	660	816
Closing Balance	**29**	**436**	**660**	**816**	**2,999**

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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