

Robust 4Q, no further catalysts

Robust 4Q FY07, further catalysts missing, Sell

India Cements posted robust 4Q FY07 results, ahead of consensus & our expectations due to stronger-than-expected cement prices. 4Q FY07 net profit totaled at Rs1.4bn, up 480% YoY & 75% QoQ. India Cements' valuations continue to trade at a discount to other cement majors, in line with historical trend. We reiterate our Sell rating on the stock due to low likelihood of cement price increases over the next few quarters & expected earnings downturn in FY09E.

Higher cement prices & year-end cost savings boost 4Q

In 4Q FY07, cement prices for India Cements rose 4% QoQ reflecting stronger-than-expected seasonal recovery & continued supply-demand tightness in the industry. Cement volumes also recovered seasonally, up 17% QoQ & 3% YoY. Operating costs fell 3% QoQ primarily on the back of lower power & fuel costs (-12% QoQ per ton). The Co said that billing adjustments (year-end effect) in gas-based power sourced from APGPCL was a key driver of lower power costs in 4Q.

Downturn in FY09E, EPS raised to reflect Visaka merger

We expect ~26% YoY earnings decline for India Cements in FY09E as large capacity additions in the industry will likely push down cement prices. However, we have raised our EPS estimates by 21% for FY08E & 8% for FY09E primarily to reflect the recently announced merger of Visaka Cements. Visaka is a 1.4mn tpa unit and is profitable both at the EBITDA & PBT levels, as per broad available financials. We may need to fine-tune numbers when more details come in.

Expansion plans on track; pan-India ambitions reiterated

The Co is working to add ~4mn tpa capacity by Mar '09, and also reaffirmed its ambitions to grow from a regional to a pan-India player over the next 3-5 years.

Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	398.71	5,527	6,785	4,869	3,826
EPS	1.98	21.89	26.63	19.60	15.78
EPS Change (YoY)	NM	NM	21.6%	-26.4%	-19.5%
Dividend / Share	0	0	5.07	3.56	2.78
Free Cash Flow / Share	1.63	(20.99)	15.12	16.91	19.37
GDR EPS (US\$)	0.045	0.484	0.633	0.466	0.375
GDR Dividend / Share (US\$)	0	0	0.121	0.085	0.066

Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	86.30x	7.79x	6.40x	8.70x	10.81x
Dividend Yield	0%	0%	2.97%	2.09%	1.63%
EV / EBITDA*	20.15x	6.56x	5.53x	6.92x	8.29x
Free Cash Flow Yield*	0.700%	-12.31%	8.87%	9.92%	11.36%

* For full definitions of *iQmethod*SM measures, see page 5.

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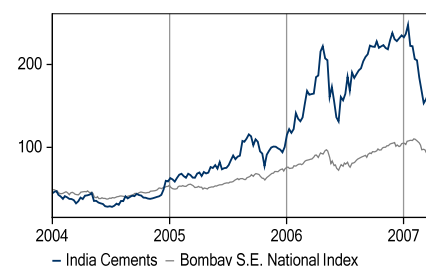
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Stock Data

Price (Common / GDR)	Rs170.50 / US\$4.15
Investment Opinion	C-3-9 / C-3-9
Volatility Risk	HIGH / HIGH
52-Week Range	Rs103.00-Rs254.80
Market Value (mn)	US\$1,061
Shares Outstanding (mn)	260.0 / 260.0
Average Daily Volume	1,512,345
ML Symbol / Exchange	INIAF / BSE
ML Symbol / Exchange	IAMZY / LUX
Bloomberg / Reuters	ICEM IN / ICMN.BO
ROE (2008E)	27.8%
Net Dbt to Eqty (Mar-2007A)	50.4%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	70.3%



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*iQprofile*SM India Cements Ltd.

Key Income Statement Data (Mar)	2006A	2007A	2008E	2009E	2010E
(Rs Millions)					
Sales	15,438	23,461	26,214	25,933	26,395
Gross Profit	2,559	7,990	9,303	7,113	5,444
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	1,768	7,006	8,283	6,013	4,333
Net Interest & Other Income	(1,490)	(1,575)	(1,345)	(1,155)	(1,043)
Associates	0	0	0	0	0
Pretax Income	353	5,533	7,231	5,410	4,247
Tax (expense) / Benefit	(47)	(18)	(458)	(553)	(432)
Net Income (Adjusted)	399	5,527	6,785	4,869	3,826
Average Fully Diluted Shares Outstanding	229	272	272	272	272

Key Cash Flow Statement Data

Net Income (Reported)	318	5,555	6,813	4,898	3,855
Depreciation & Amortization	790	985	1,020	1,100	1,111
Change in Working Capital	(348)	(2,337)	(1,897)	(166)	525
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(5)	(11)	(4)	(11)	(15)
Cash Flow from Operations	755	4,193	5,931	5,822	5,477
Capital Expenditure	(444)	(9,650)	(2,000)	(1,426)	(440)
(Acquisition) / Disposal of Investments	5	0	0	0	0
Other Cash Inflow / (Outflow)	(92)	1,176	0	0	0
Cash Flow from Investing	(531)	(8,474)	(2,000)	(1,426)	(440)
Shares Issue / (Repurchase)	4,810	8,052	0	0	0
Cost of Dividends Paid	0	0	(1,319)	(925)	(723)
Cash Flow from Financing	189	7,002	(2,642)	(2,934)	(651)
Free Cash Flow	310	(5,457)	3,931	4,396	5,037
Net Debt	14,810	11,039	8,427	4,956	643
Change in Net Debt	(5,034)	(3,771)	(2,613)	(3,472)	(4,314)

Key Balance Sheet Data

Property, Plant & Equipment	13,461	22,127	23,107	23,432	22,761
Other Non-Current Assets	611	611	611	611	611
Trade Receivables	2,420	3,135	3,709	3,755	3,589
Cash & Equivalents	443	3,164	4,453	5,914	10,300
Other Current Assets	9,229	11,957	14,144	14,318	13,688
Total Assets	26,164	40,994	46,024	48,030	50,950
Long-Term Debt	11,590	10,540	9,216	7,207	7,279
Other Non-Current Liabilities	47	47	47	47	47
Short-Term Debt	3,663	3,663	3,663	3,663	3,663
Other Current Liabilities	3,744	4,851	5,738	5,809	5,553
Total Liabilities	19,045	19,101	18,665	16,726	16,543
Total Equity	7,120	21,893	27,359	31,303	34,406
Total Equity & Liabilities	26,164	40,994	46,024	48,029	50,950

*iQmethod*SM - Bus Performance*

Return On Capital Employed	7.2%	21.8%	20.2%	14.3%	10.8%
Return On Equity	9.3%	38.8%	27.8%	16.7%	11.7%
Operating Margin	11.5%	29.9%	31.6%	23.2%	16.4%
EBITDA Margin	17.1%	34.5%	36.6%	29.6%	24.3%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	1.9x	0.8x	0.9x	1.2x	1.4x
Asset Replacement Ratio	0.6x	9.8x	2.0x	1.3x	0.4x
Tax Rate (Reported)	13.4%	0.3%	6.3%	10.2%	10.2%
Net Debt-to-Equity Ratio	208.0%	50.4%	30.8%	15.8%	1.9%
Interest Cover	1.2x	4.5x	6.4x	5.7x	5.1x

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 5.

Company Description

India Cements is one of India's top five cement producers and is the largest cement producer in south India. The southern region accounts for a dominant (90%) share of the company's sales. The company was referred for corporate debt restructuring in 2002.

Stock Data

Shares / GDR	1.00
Price to Book Value	1.6x

Table 1: 4Q FY07 results summary

Yr to March (Rs mn)	4Q FY06	3Q FY07	4Q FY07	YoY Chng	QoQ chng
Cement sales (mn tons)	2.0	1.7	2.0	3%	17%
Turnover	4228	4724	5758	36%	22%
Operating costs	3464	3394	3852	11%	13%
EBITDA	764	1,331	1,906	150%	43%
<i>EBDIT margin</i>	<i>18.1%</i>	<i>28.2%</i>	<i>33.1%</i>		
Depreciation	197	198	194	-2%	-2%
Operating profit	567	1,132	1,712	202%	51%
Other income	18	17	22	22%	28%
EBIT	585	1,149	1,734	197%	51%
Interest	314	347	331	5%	-5%
Profit before tax	270	803	1,403	419%	75%
Provision for Tax	29	5	5	-83%	0%
Recurring net profit	241	798	1,398	480%	75%
<i>Net Margin</i>	<i>5.7%</i>	<i>16.9%</i>	<i>24.3%</i>		
Non-recurring income/(expenses)	29	-			
Reported net profit	270	798	1,398	417%	75%

Source: ML research

Analyst Certification

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*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

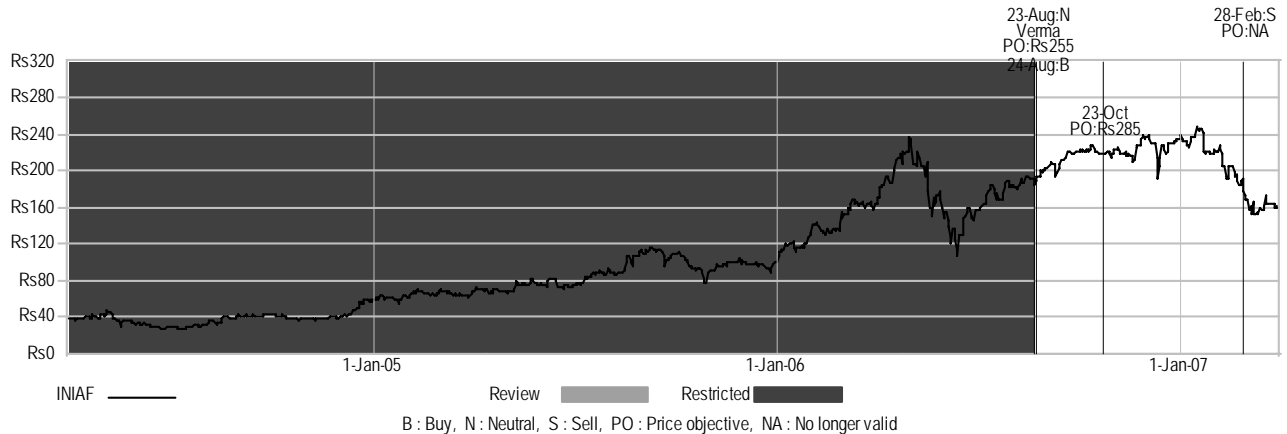
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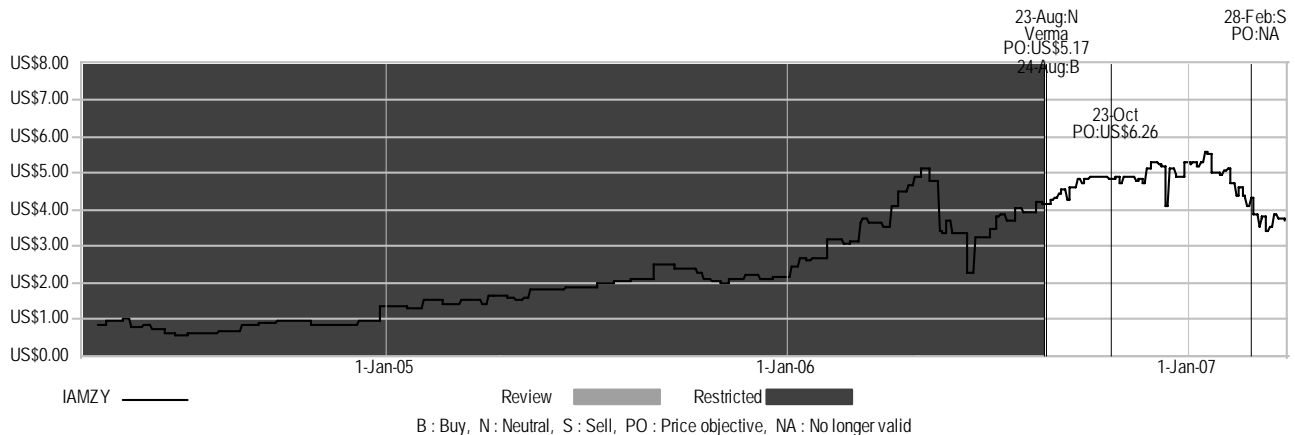
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INIAF Price Chart



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IAMZY Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	47	47.96%	Buy	10	22.73%
Neutral	37	37.76%	Neutral	7	20.59%
Sell	14	14.29%	Sell	1	9.09%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

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Neutral	1615	46.69%	Neutral	446	30.65%
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