India Infoline Result Update
Madras Cements Ltd *(Q4 FY07)*
Rating: HOLD CMP: Rs2,754 Target Price: Rs2,921
May 31, 2007

- **Net Sales increases yoy by 45.1% to Rs4.4bn**
- **Operating profit increases by 100.4% to Rs1.3bn**
- **Operating margin increases by 840 bps to 30.6%**
- **Realization per ton increases by 32% to Rs2923**
- **Cost per ton increases by 17.7% to Rs2028**

Financials Highlights

Period to	03/07	03/06	Growth	FY07	FY08(P)	FY09(P)
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(12)
Net Sales	4,350	2,998	45.1	15,742	18,755	23,411
Total expenses	(3,018)	(2,334)	29.3	(10,184)	(12,904)	(16,954)
% of Net Sales	69.4	77.8	-	64.7	68.8	72.4
Operating profit	1,332	665	100.4	5,558	5,852	6,456
% of Net Sales	30.6	22.2	-	35.3	31.2	27.6
Other Income	14	16	(15.0)	75.3	80	100
PBIDT	1,346	681	97.7	5,633	5,932	6,556
Interest	(60)	(91)	(34.3)	(228)	(150)	(225)
Depreciation	(182)	(148)	23.2	(719)	(884)	(1,432)
PBT	1,104	442	149.6	4,686	4,898	4,900
Tax	(394)	(117)	238.0	(1,606)	(1,474)	(1,372)
% of PBT	35.7	26.4	-	34.3	30.1	28.0
PAT	710	326	118.0	3,080	3,424	3,528
% of Net Sales	16.3	10.9	-	19.6	18.3	15.1
Equity	121	121	-	121	121	121
Annualised EPS	-	-	-	255.0	283.5	292.1
PE at CMP of Rs2754	-	-	-	10.8	9.7	9.4

Moderate cement volume growth due to plant maintenance

MCL had the lowest growth in cement volumes for Q4FY07 of 9.9% due to plant maintenance undertaken at Alathiyur facility for 15 days. Cement sales volume for the quarter was at 1.49 mn ton against 1.35 mn ton for Q4FY06. Expansion to the tune of 2 mn tpa at Jayanthipuram is progressing as per schedule and expected to commence production from Q3FY08. We expect cement volumes for FY08 to be at 6.3mn ton which translates to 11.1% growth from FY07 volumes of 5.7 mn ton. Demand in Southern region has surpassed our expectation and grown by 13% for FY07. We expect new capacities coming in FY08 to be absorbed easily due to strong demand outlook.

Realisation improves due to series of price hikes

Cement prices has increased continuously in the Southern markets in the March quarter partly due to improved demand and partly due to passing of excise duty burden due to change in excise duty structure. Per ton realisation has gone up by 32% to Rs2923 on yoy basis and on qoq basis it has gone up by 10.3%. Cement prices has been hiked in the month of May by another Rs4-5 in Southern region. We have estimated realisation of Rs2969 per ton for FY08 as demand supply mismatch continues in Southern region and expect a fall of 5% in FY09 as more capacities are coming in FY09.

Margin on qoq basis suffers due to coal price hike and salary revisions

Cost per ton for cement produced for MCL has gone up sharply in Q4FY07. International coal prices yoy and qoq went up by 13-15% and international freight charges went up by 40-50% yoy. Staff expenses also have increased due to revisions. Raw material expenses, freight and other expenses were also on the upward trend. As a result margin contracted by 210 bps qoq, but increased by 840 bps on yoy basis. We expect margins to come down going forward as upsides on pricing front looks difficult to match cost increases due to Government control.

Valuation

The series of negative measures for cement industry has reduced the upside possibilities in cement pricing. We expect demand supply situation to be favourable for players in Southern market in FY08 and surplus situation is expected from second of FY09. MCL is expanding its capacity from 6mn tpa to 8mn tpa in FY08 and to 10mn tpa in FY09 which is expected to take care of price moderation in FY09. MCL is putting up 36MW captive power plant in two phases at Jayanthipuram which is expected to bring down power expenditure. We have revised down our estimates for FY08 and FY09 as MCL is unable to pass on the cost increases. MCL is trading at 9.7x and 9.4x of its estimated FY08 and FY09 earnings of Rs283.5 and Rs292.1 respectively. Recommend HOLD with target price of Rs2921. Our target price discounts estimated FY09 earnings by 10.0x.