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India Cement Sector

Rising from the ashes

What's inside?

- Our estimates of cement demand-supply across regions
- Cement price trends – from dealer checks
- Cement demand drivers – elections in major states, infrastructure push, major deliveries in real estate
- Reasons for our upgrade in sector outlook from Neutral to Positive

What we expect?

- FY11 to be a trough year for cement – Q2FY11 likely to hit rock bottom
- Demand revival in FY12 – both from real estate and infrastructure
- Supply pressures to ebb from FY12 – driving capacity utilisation
- Upcycle ahead – ripe time to Accumulate cement stocks over the next two months

Recommendations

- Large Cap Buys: UltraTech, ACC, Ambuja Cement
- Mid Cap Buys: Shree Cement, Birla Corp, Orient Paper & Industries
- Sell: India Cements

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Cement

Rising from the ashes

We upgrade our outlook on the cement sector from Neutral to Positive and reset our recommendation to BUY on UltraTech, ACC and Ambuja Cement among large caps, with a 23–36% upside. Among mid caps, we reiterate BUY on Shree Cement (best diversified play), Birla Corp (best mid cap play) and Orient Paper (most efficient play), where the upside exceeds 30%. We believe the cement sector downcycle is close to bottoming out, and investors should accumulate stocks in order to ride the upcycle that will follow over the next 3–4 years.

We see FY11 as the trough year for cement (prices likely to bottom out in Q2), following which the sector would turn a corner, as – a) the demand environment improves, backed by higher infrastructure and real estate offtake, b) capacity utilisation rises as incremental additions ease off, and c) cement prices firm up. We find current valuations appealing – stocks have corrected 8–28% over the past four months – and the downside limited. M&A activity in the sector could also fuel a re-rating.

Demand to revive in FY12 even as supply pressure ebbs: We expect cement demand to remain subdued in FY11 and have accordingly built in a 7–7.5% growth in dispatches, down from our earlier estimate of 10%. At the same time, we are raising our growth estimate for FY12 to 11.5–12% from 10% earlier, given the increased government thrust on infrastructure, new project launches and deliveries in real estate, rising urbanisation, and the low base effect. Further, with elections scheduled for FY12 in some major states, demand growth is likely to be higher in the run-up to the polls. Utilisation levels too are expected to bottom out at 77–78% in FY11 and improve from FY12 onwards, leading to a cyclical upturn in cement.

Downward spiral in prices to be arrested for the most part: Over the last few months, cement prices have fallen by Rs 20–80/bag across India, with the southern markets bearing the brunt of the decline. Although prices could fall further in some parts of the country, we believe the downside from current levels is limited and Q2FY11 would see the worst of the price erosion. As the busy construction season gets underway from October, prices could see a revival. We accordingly factor in a 2–3% YoY rise in cement realisations for FY12, which will follow a 6–10% decline in FY11.

EBITDA/tonne falls but not as hard as the last downcycle: With the downward spiral in prices and increased cost pressure (higher freight, power and fuel costs), EBITDA/t is likely to decline to Rs 400–1,000/t for our cement universe – once again with a bottoming out in Q2FY11. This is still far better than the lows of Rs 200–300/t hit in the previous cycle. Moreover, with improved balance sheet positions, ROE and ROCE will remain comfortable.

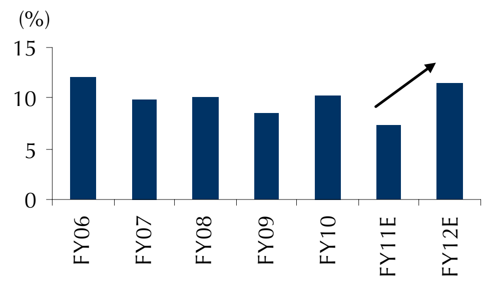
Valuations attractive; under-ownership provides room for upside: Most cement stocks have corrected by 8–28% in the last four months. While pricing concerns will continue to play out in the near term, we believe negatives are largely priced in and the valuation downside capped at 5–10%. In our view, we are nearing the bottom of the cement downcycle – we would therefore recommend investing at the dips, in order to ride the next upcycle.

Among large-cap pure cement plays, we prefer UltraTech, ACC and Ambuja Cement in that order. We also remain bullish on diversified plays like Shree Cement. Select mid caps like Birla Corp and Orient Paper could be potential multi-baggers in the next 3–4 years given their attractive valuations. India Cements is the only potential laggard in our cement universe – we maintain a SELL on the stock.

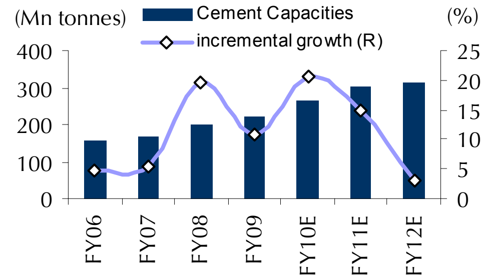
Recommendation snapshot

Company	CMP	Target Price	Rating	% Up/ Downside
Large caps				
UltraTech	858	1,170	Buy	36
ACC	825	1,060	Buy	28
Ambuja	117	145	Buy	23
Mid caps				
Shree Cement	1,798	2,400	Buy	33
Birla Corp	360	500	Buy	39
Orient Paper	53	70	Buy	30
India Cements	104	100	Sell	(3)

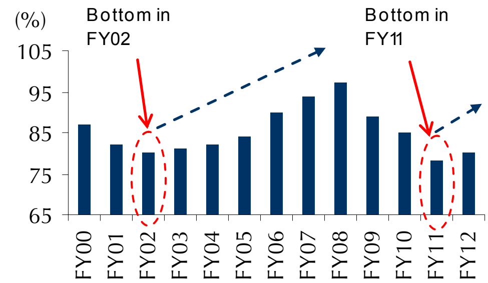
All-India cement demand growth



Cement capacity addition and incremental growth



Cement capacity utilisation

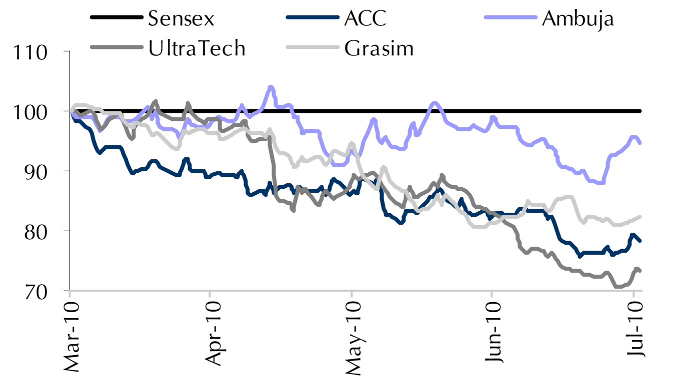


Upcycle ahead – we upgrade sector outlook to Positive

FY11 a trough year; cyclical upturn to begin in FY12

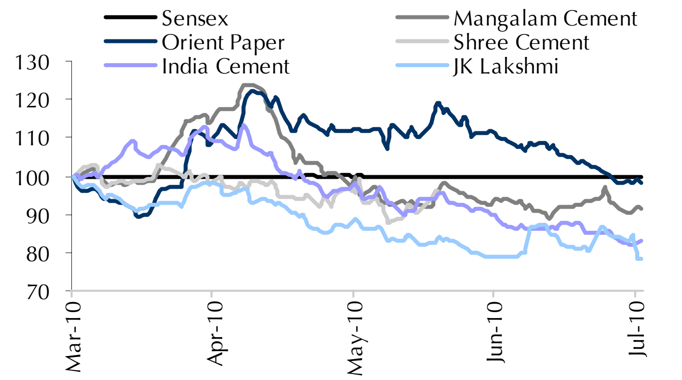
The cement sector has underperformed the broader market over the past four months on concerns related to a weak pricing environment, oversupply and muted demand. We believe these negatives are now largely factored into stock prices and the downside from current levels is limited. We expect the sector to shift gears in FY12 and enter a cyclical upturn as demand and pricing dynamics improve, led by stronger cement consumption from the infrastructure and real estate sectors. This would fuel strong stock outperformance over the next 3–4 years – we thus upgrade our outlook on the sector from Neutral to Positive.

Fig 1 - Large cap cement stocks: Relative performance



Source: RCML Research, Company

Fig 2 - Mid cap cement stocks: Relative performance



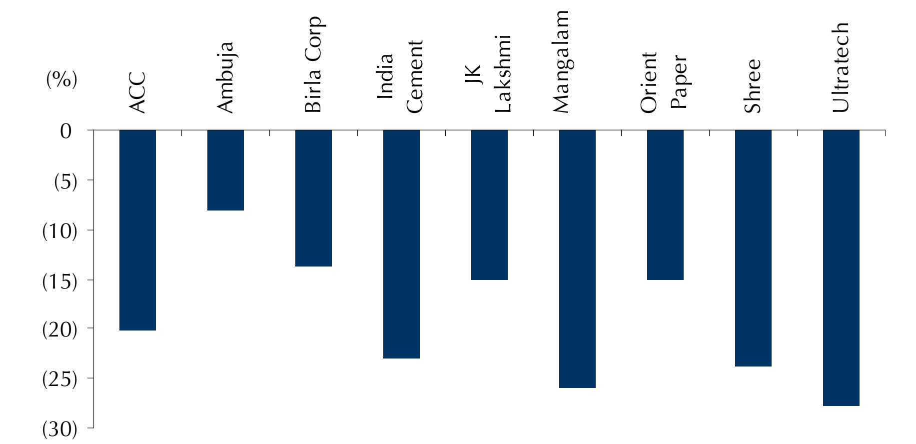
Source: RCML Research, Company

Valuations reasonable with limited downside potential

Since March '10, cement stocks have corrected in the range of 8% to 28% from their peaks. Ambuja Cement saw the lowest drop, while UltraTech registered the maximum downslide. We believe any further downside from current levels will be capped at 5–10%, and view this as an opportune time to accumulate cement stocks on every decline.

Further downside capped; ripe time to enter the sector

Fig 3 - Cement stocks: Absolute performance in last four months



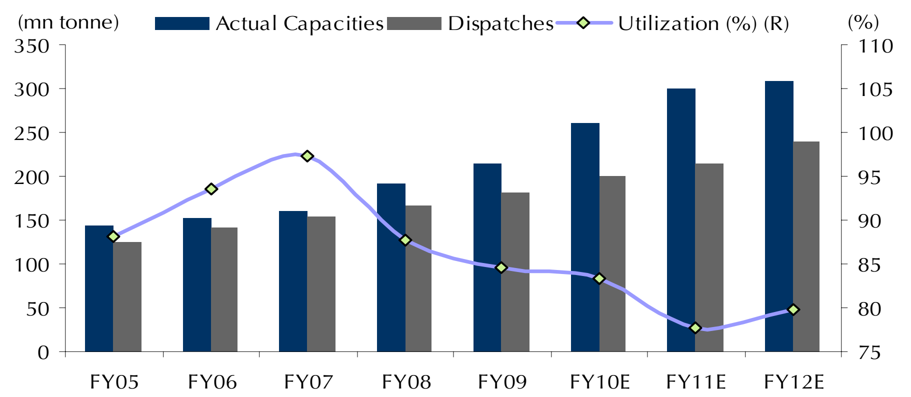
Source: RCML Research

Demand growth to underpin cement upcycle

Cement stocks outperformed in FY10 led by demand; weaker utilisation notwithstanding (Shree Cement up 2x)

Past trends suggest that cement industry dynamics depend more on the demand environment than on supply. In FY10, for instance, the cement sector outperformed the broader market led by demand growth of 10.6% (a positive surprise for the street), even as utilisation declined from 89% in FY09 to 85% on account of capacity injections. We see similar grounds for stock outperformance in FY12, where demand could surprise positively on account of: 1) an increased government thrust on infrastructure; 2) new project launches and deliveries in real estate; 3) rising urbanisation; and 4) the low base effect. Even as the demand trajectory rises, we expect capacity additions to ease, leading to improved utilisation and pricing – a confluence of factors that will lead the sector into a sustained, structural upcycle from FY12 onwards.

Fig 4 - All-India demand-supply dynamics



Source: RCML Research, CMA

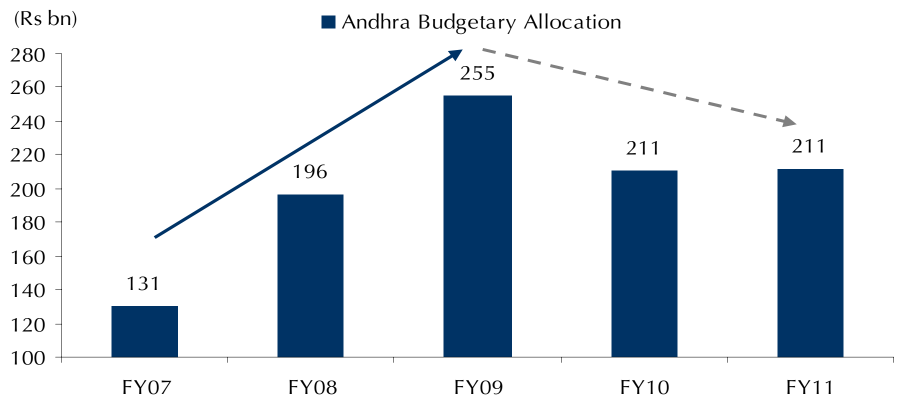
FY11 a trough year…

Cement prices to fall 6–10% in FY11, with muted dispatch growth

We expect FY11 to be a trough year for the sector with a 6–10% decline in prices along with low dispatch growth of 7–7.5% (versus 10% estimated earlier), as big ticket projects near completion (Commonwealth Games, Metro rail), demand from Andhra Pradesh (AP) remains weak, weather conditions prove unfavourable, and the high base effect sets in.

In AP – which recorded the second-highest dispatch share in FY10 – the Telengana dispute remains unresolved, leading to lower infrastructure demand and hence cement consumption. Also, reduced budgetary allocation to housing, urban development and irrigation in the state will affect cement dispatches (Fig 5). Further, a heat wave across the country during the summer months followed by normal rainfall implies six months of depressed dispatch growth. In order to factor in our revised price and volume expectations, we downgrade earnings for our cement universe by 4–62% for FY11.

Fig 5 - AP govt budgetary allocation to Housing, Irrigation and Urban Development



Source: Budget Documents

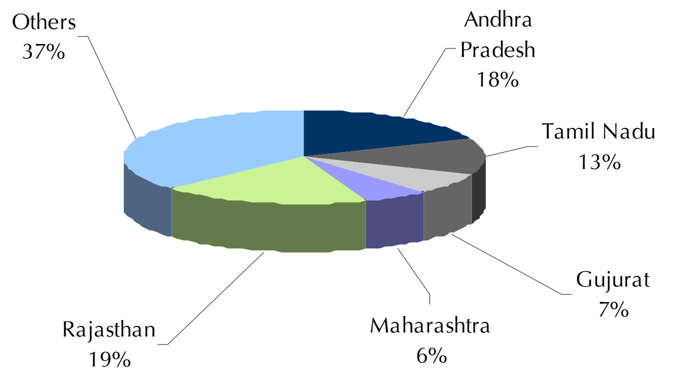
We expect dispatch growth to recover to 11.5–12% in FY12

…FY12 to mark start of cyclical uptrend in cement: 3–4 years of strong demand

For FY12, we estimate a healthy revival in dispatch growth to 11.5–12% against our earlier estimate of 10%. This will be driven by a) the low base effect of FY11E, b) commencement of some major projects in end-FY11 (Delhi Metro Phase III), c) a likely demand revival in AP (as per our Infrastructure team), and d) elections in some states (Tamil Nadu: 2011, West Bengal: 2011, Uttar Pradesh: 2012, Gujarat: 2012). Our analysis of past state elections suggests higher cement dispatch growth during the election years. In addition, a comparison of India GDP growth and cement demand also suggests that demand improves significantly following the year of aberration, where the cement to GDP ratio is lower than 1.2–1.3x GDP – we peg this ratio at 0.8–1x for FY11E.

With demand estimated at over 10% in FY12, we believe the cement sector will enter into a structural upcycle. Higher demand coupled with an expected slowdown in capacity additions over the next 3–4 years will result in better utilisation levels, thereby fortifying the pricing environment. We estimate a 2–3% uptick in cement prices for FY12.

Fig 6 - State-wise dispatch share in FY10



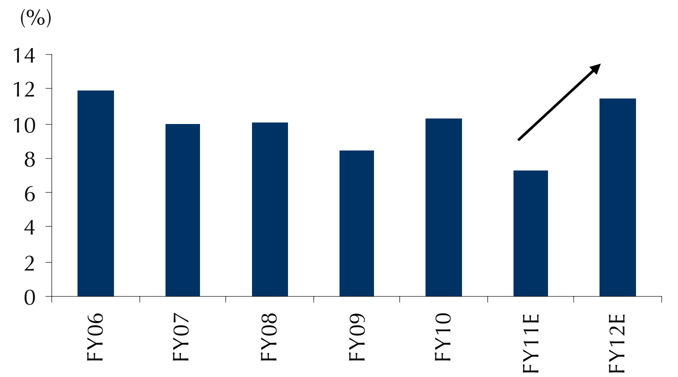
Source: RCML Research, CMA

Fig 7 - Dispatch growth v/s Election year in major states

State	Last election	Dispatch growth (%)	
		FY08	**FY09**
Andhra Pradesh	2009	12.9	12.9
		FY05	**FY06**
Tamil Nadu	2006	14.3	14.6
		FY07	**FY08**
Rajasthan	2008	9.1	16.4
		FY06	**FY07**
Gujarat	2007	16.3	12.5
		FY05	**FY06**
West Bengal	2006	4.2	12.8

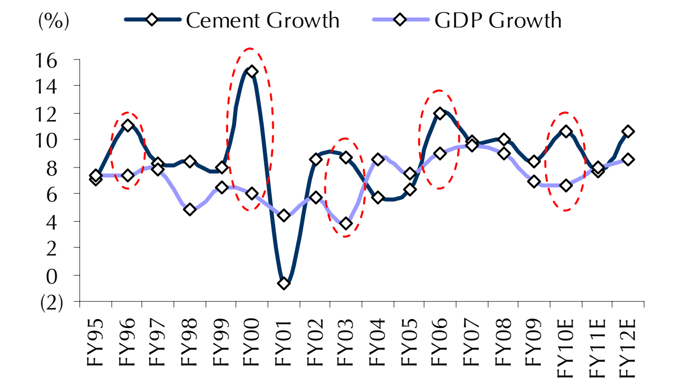
Source: RCML Research, CMA

Fig 8 - Cement demand growth



Source: CMA, RCML Research

Fig 9 - Cement dispatch growth post the low-growth year



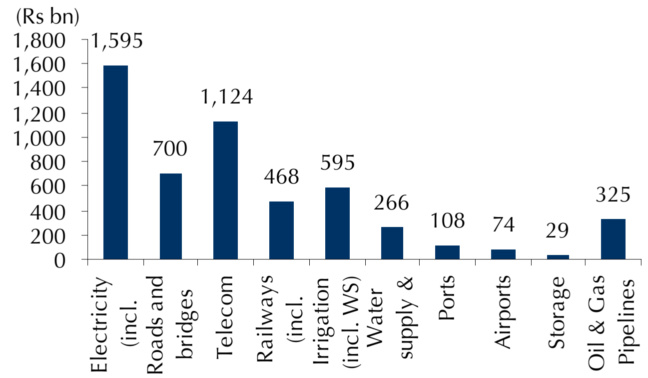
Source: CMA, RCML Research

FY12 to see a bulk of the investment, being the last plan year

Demand driver 1: Increased thrust on infrastructure, especially roads

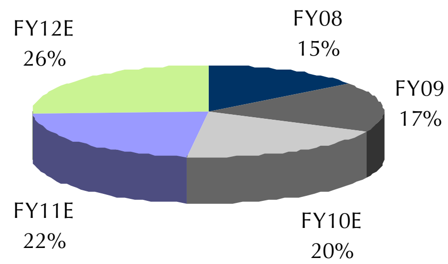
The 11th Five Year Plan envisages a total investment of Rs 20.5trillion in India's infrastructure sector, of which a bulk of the investment is likely to be made in FY12 since it is the last year of the plan period (Fig 10, 11). This further corroborates our view that demand growth will be significantly higher for cement in FY12 as construction activity intensifies across segments.

Fig 10 - Investment in FY12 in the 11th plan



Source: RCML Research, Plan Documents

Fig 11 - Percentage of total investment in each year of 11th plan



Source: RCML Research, Plan Documents

Increased funding for construction-intense segments in 12th plan will fuel cement consumption

Further, our infrastructure team expects India to record an investment of Rs 27tn in infrastructure development over the 12th plan period (FY13-FY17); 65% of this investment is estimated to be in sectors like power, roads, and railways. This implies an EPC opportunity of ~Rs 12tn for construction companies. The private sector is likely to account for 39% of the total spend. Based on the above, we believe infrastructure demand for cement would increase to 25–30% of total demand, up from the traditional assumption of 20%, in the next 4–5 years.

Fig 12 - 12th plan spend estimated at Rs 27tn, up 33% on growth in power, roads, railways

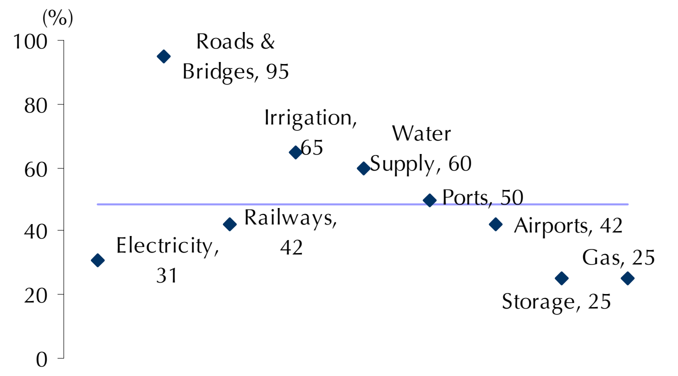
(Rs bn)	10th plan actual	Share (%)	11th plan revised	Share (%)	12th plan est.	Share (%)	% rise over 11th plan
Electricity (incl NCE)	3,402	38	6,586	32	8,700*	32	32.1
Roads & bridges	1,271	14	2,787	14	4,600	17	65.1
Railways (incl MRTS)	1,021	11	2,008	10	4,500	16	124.1
Irrigation (incl water shed)	1,067	12	2,462	12	2,900	11	17.8
Ports (incl. inland waterways)	230	3	406	2	804	3	97.8
Airports	69	1	361	2	250	1	(30.8)
Water supply & sanitation	601	7	1,117	5	1,257	5	12.5
Telecommunications	1,019	11	3,451	17	2,589	9	(25.0)
Storage	56	1	90	0	90	0	-
Oil & gas pipeline	324	4	1,273	6	1,591	6	25.0
Total	**9,061**	**100**	**20,542**	**100**	**27,280**	**100**	**32.8**
Spend in US$ bn*	**201**		**457**		**606**		

Source: Plan Documents, RCML Research *NCE – Non conventional energy* *MRTS – Mass Rapid Transit System* ** At INR/USD of 45*

Roads – a key cement consumer – to garner significant investments

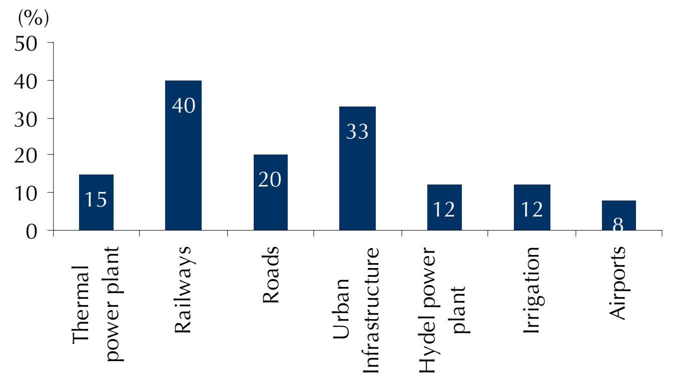
Construction intensity is the highest for roads and bridges (at 95%), with cement accounting for 20% of the raw material requirement. At present, just 6% of the road network carries 80% of India's total traffic, reflecting the growth opportunity in the segment. Of the overall Rs 27tn spend, our infrastructure team estimates expenditure of Rs 4.6tn on roads and highways over the 12th plan.

Fig 13 - Construction intensity



Source: RCML Research, Crisil

Fig 14 - Cement as % of raw material



Source: RCML Research, Crisil

Fig 15 - National highways – ~2% of Indian road network but handle ~40% of traffic

Road network	Length (km)	Length (%)	Traffic (%)	Development agency	Connectivity
National Highways	70,548	2.1	40	NHAI, State PWDs, BRO	Union capitals, state capitals, major ports, foreign highways, strategic locations
State highways	131,899	4	40	State PWDs	State capitals, district centres, important towns, national highways, other states
Major district roads	467,763	14.1		State PWDs	Main roads, rural roads
Rural and other roads	2,650,000	79.8	20	MoRD	Production centres, markets, highways, railway stations
Total	**3,320,210**	**100**	**100**		

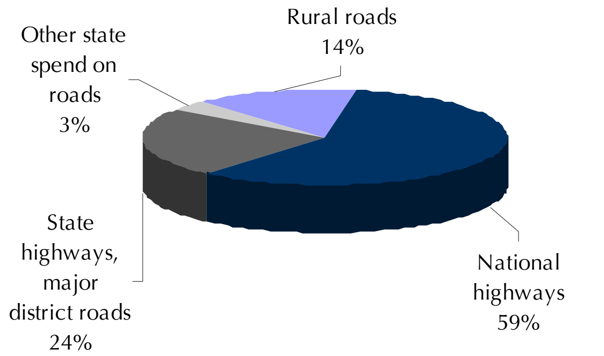
Source: RCML Research, MoRD – Ministry of Rural Development

Fig 16 - 12th plan: Investment trend in road sector

Particulars (Rs bn)	10th plan actual	Share (%)	11th plan revised	Share (%)	12th plan (RCML est.)	Share (%)
Centre	505	39.7	909	32.6	857	18.6
State	674	53.0	1,419	50.9	1,712	37.2
Private	92	7.3	459	16.5	2,031	44.1
Total investments	**1,271**	**100.0**	**2,787**	**100.0**	**4,600**	**100.0**

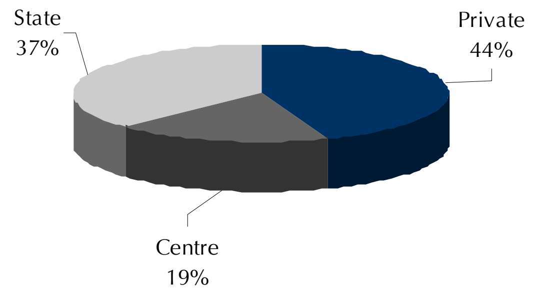
Source: RCML Research, Planning Commission

Fig 17 - Composition of likely spend of Rs 4.6tn in 12th plan



Source: RCML Research

Fig 18 - Private sector likely to account for 44% of road spend*



Source: RCML Research ** Primarily on NHAI projects*

47mn sq ft of new real estate launches in key cities in Q1FY11 alone

Demand driver 2: New launches and high deliveries in real estate

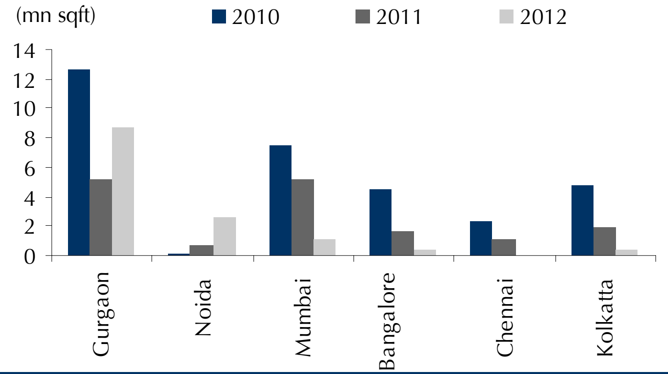
The first quarter of FY11 has seen a flurry of new property launches in key cities (Fig 19), which will increase construction activity in the coming years. Further, the expected project deliveries in residential and commercial real estate are pegged at 515mn sq ft and 61mn sq ft respectively over the next three years in major cities. We believe this would lend a significant fillip to demand for cement as real estate remains the largest cement consumer in India.

Fig 19 - New launches in major cities

City	Area (mn sq ft)	Launched date	Completion dates*
Bangalore	2.5	Apr-May '10	Jun '11 to Dec '13
Chennai	1.5	Apr-May '10	July '10 to Dec '12
Greater Noida	23.3	Apr-May '10	July '12 to Sep '14
Noida	13.0	Apr-May '10	Dec '12 to Sep '14
Gurgaon	2.7	Apr-May '10	Dec '12 to May '13
Kolkatta	0.8	Apr-May '10	Dec '12 to June '13
Mumbai	3.5	Apr-May '10	Dec '11 to Dec '13
Total Launches	**47.3**		

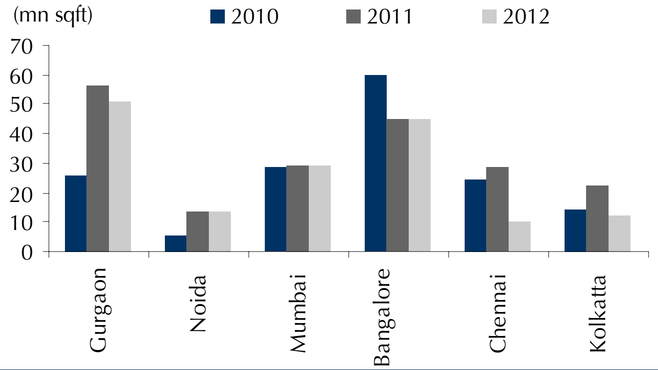
Source: Propequity, RCML Research **Covers 4–8 projects in each city*

Fig 20 - Commercial real estate: Expected deliveries



Source: Propequity, RCML Research

Fig 21 - Residential real estate: Expected deliveries



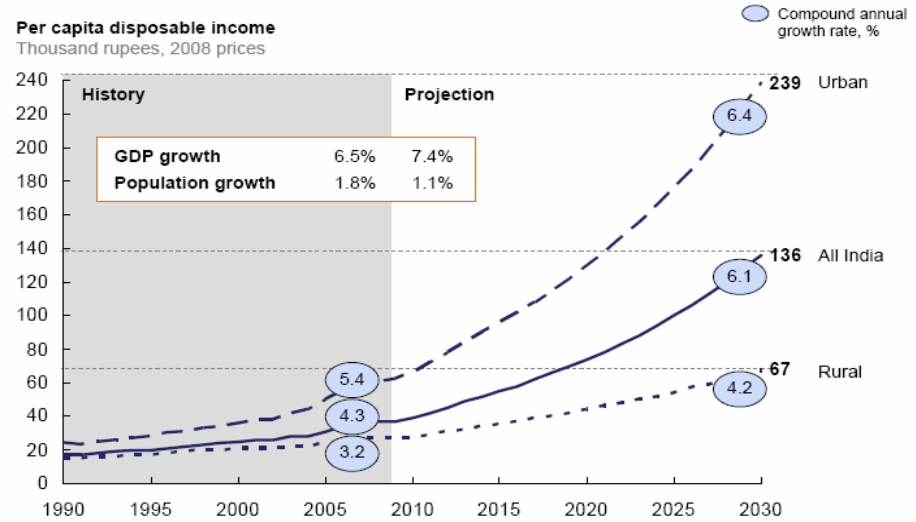
Source: Propequity, RCML Research

Demand driver 3: Rural housing and increased urbanisation

According to the Planning Commission, the shortage of housing stock for rural India stood at 47mn in 2007 and is expected to reach 70mn in 2012. The total deficit of housing stock in the country will hit 96.5mn by 2012. We expect the continued increase in per capita income and rising urbanisation to boost demand for housing (and hence cement consumption) in the next 3–4 years.

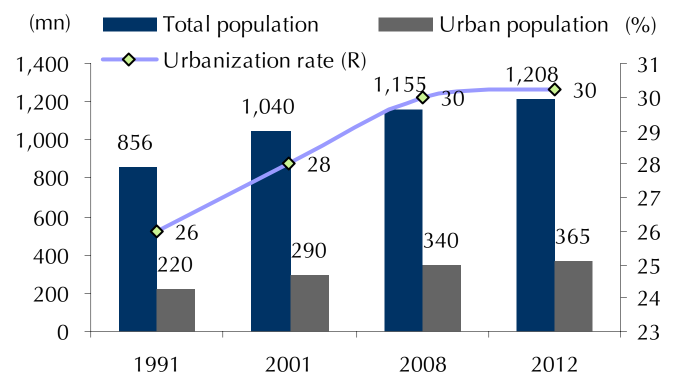
Rising urbanisation in India will boost demand for housing and hence cement

Fig 22 - Urban India will drive a near four-fold increase in average national income



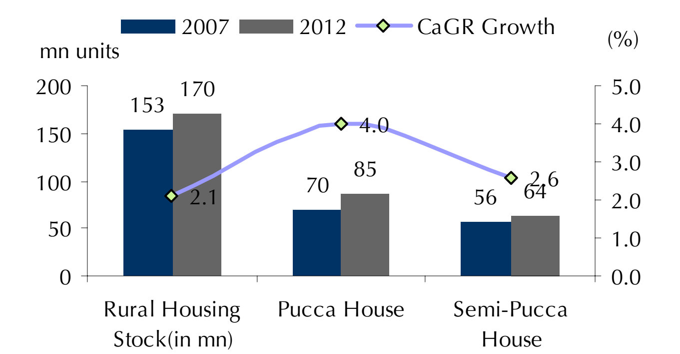
Source: India Urbanization Econometric Model-Mckinsey Global Institute analysis

Fig 23 - Rate of urbanisation in India



Source: National commission on population

Fig 24 - Growth in *pucca* and semi-*pucca* houses



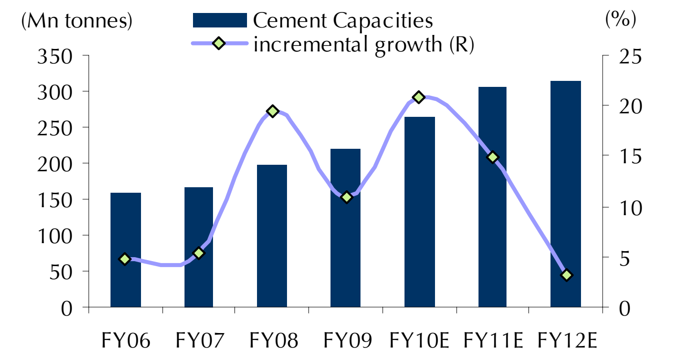
Source: Planning Commission

Only 10–15mt of incremental capacity expected in FY12 versus 40mt in FY11

Supply-side pressures persist but likely to ebb

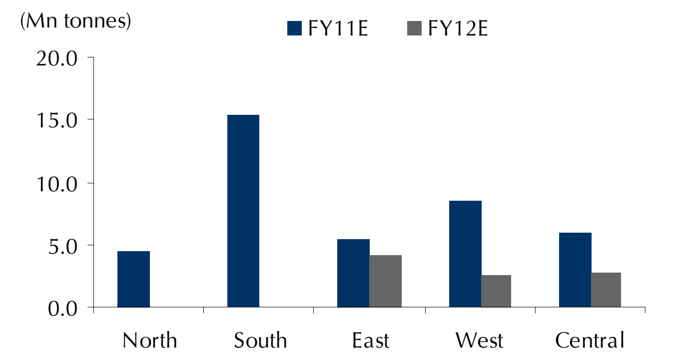
We do expect 35–40mn tonnes (mt) of cement capacity to be added in FY11, leading to supply pressure during the year. Thereafter, however, incremental capacity addition is likely to be lower (10–15mt in FY12) compared to demand growth.

Fig 25 - Incremental capacity growth to taper down



Source: CMA, RCML Research

Fig 26 - Region-wise capacity addition post FY11



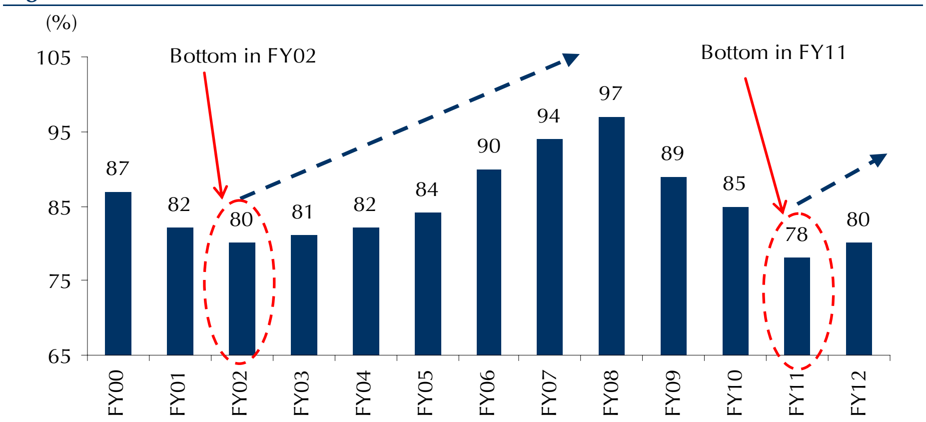
Source: RCML Research

Utilisation levels expected to revive

With the demand-supply gap likely to reduce, we expect capacity utilisation to increase going forward. We believe utilisation levels will bottom out in FY11 and thereafter strengthen over the next 3–4 years as the pace of capacity addition slows down.

As demand rises and oversupply eases, capacity utilisation will move up

Fig 27 - All-India cement utilisation levels to bottom out in FY11



Source: Company

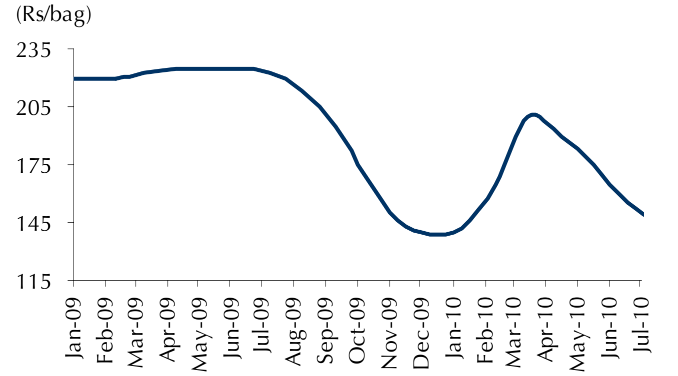
Further cement price erosion limited; earnings impact priced in

We see a reversal of the cement price downtrend in FY12

Cement prices have witnessed a sharp correction in recent times in the range of Rs 20–80/bag as overcapacity and sluggish offtake resulted in price erosion. While prices could decline further in certain markets, we believe the downside is limited, especially with the busy construction season setting in. We build in a 6–10% decline in FY11 and an uptick thereafter by 2–3% in FY12.

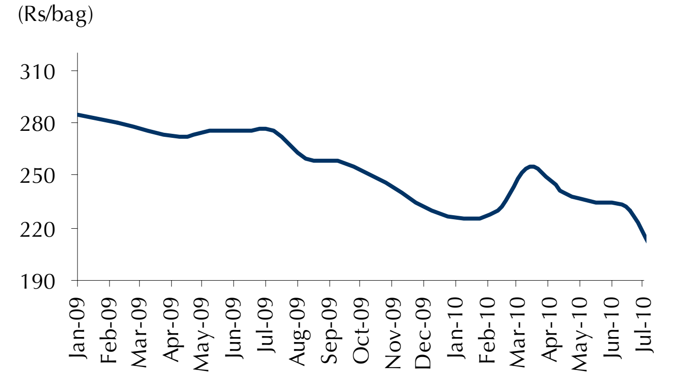
Based on the trend in cement prices, we are downgrading our earnings estimates for FY11 in the range of 4–62%, with ACC seeing the lowest downgrade and India Cements the highest. For FY12, our earnings downgrades are in the range of 0–28%. We believe these downgrades are largely factored into stock prices and any further decline in stocks will be a buying opportunity as a sector re-rating sets in.

Fig 28 - Hyderabad cement price trend (South)



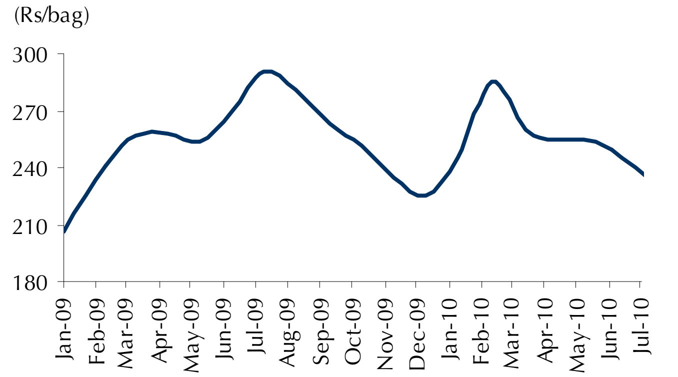
Source: RCML Research

Fig 29 - Bangalore cement price trend (South)



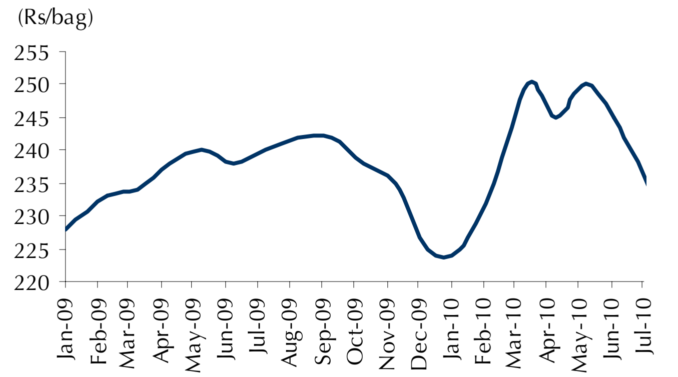
Source: RCML Research

Fig 30 - Lucknow cement price trend (Central)



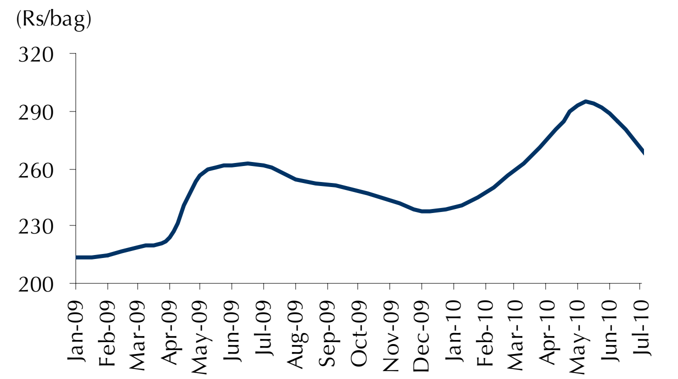
Source: RCML Research

Fig 31 - Delhi cement price trend (North)



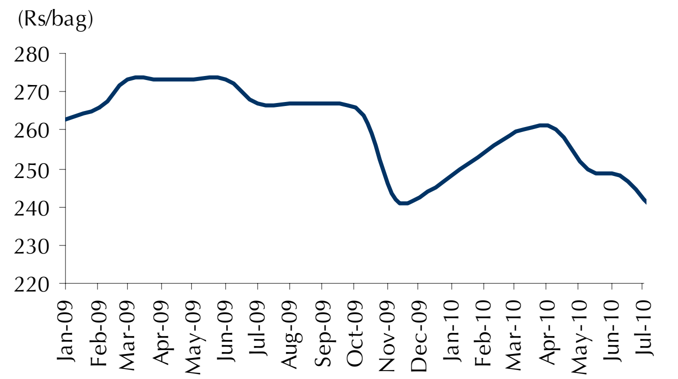
Source: RCML Research

Fig 32 - Kolkata cement price trend (East)



Source: RCML Research

Fig 33 - Mumbai cement price trend (West)



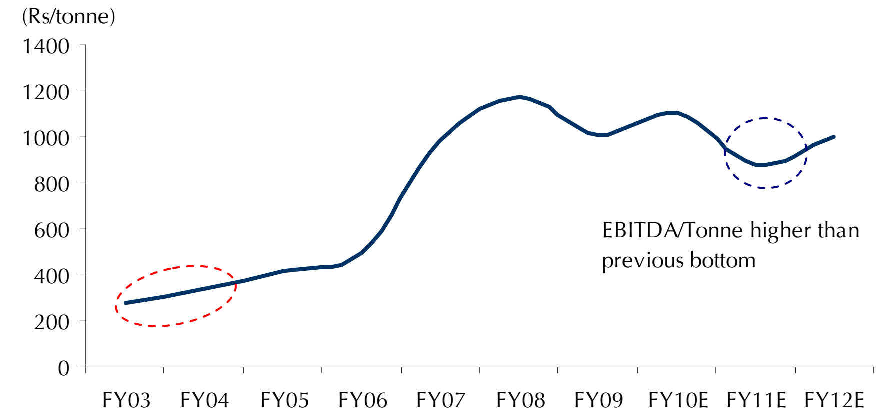
Source: RCML Research

EBITDA/t to decline to Rs 400–1,000/t for our cement universe in FY11

EBITDA/tonne likely to bottom out

We believe FY11 will see the lowest EBITDA/t for cement majors in the last 4–5 years mainly on account of lower realisations and higher costs in terms of freight and fuel expenses. We see Q2FY11 as the trough quarter, beyond which we anticipate a gradual recovery in cement demand, leading to some sequential price improvement. From FY12 onwards, we see a healthy improvement in demand and pricing, leading to stronger profitability for cement majors.

Fig 34 - Historical EBITDA/tonne comparison

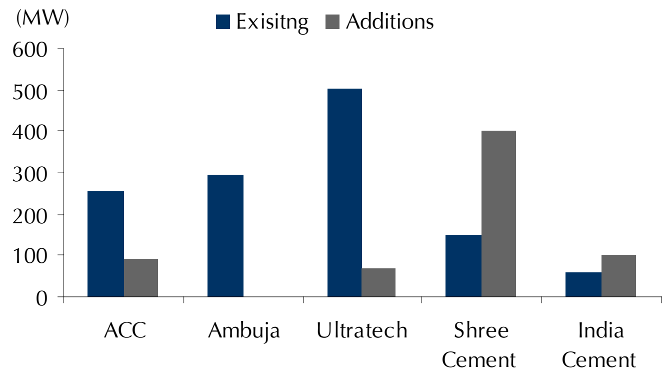


Source: Company, RCML Research

Captive power a key margin lever

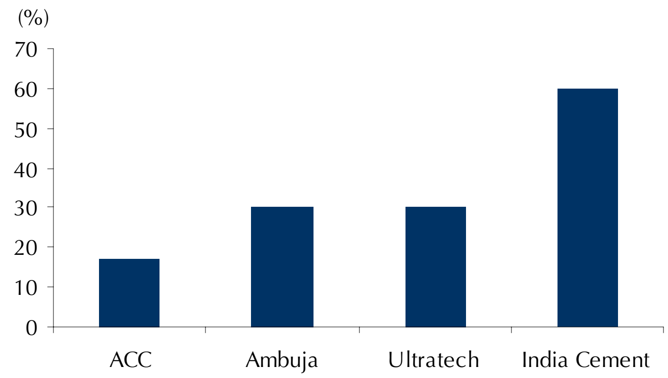
Among the margin drivers will be cost savings linked to lower lead distance to market and an increased reliance on captive power. As demand improves in major parts of the country post FY11, the lead distance for large cement players (especially south-based companies) will come down. Further, most cement majors are 70–80% self-sufficient in captive power. This will enhance cost savings in the coming years and mitigate the higher coal prices (expected to remain elevated for the next 2–3 years) to some extent.

Fig 35 - Captive power plants of cement majors



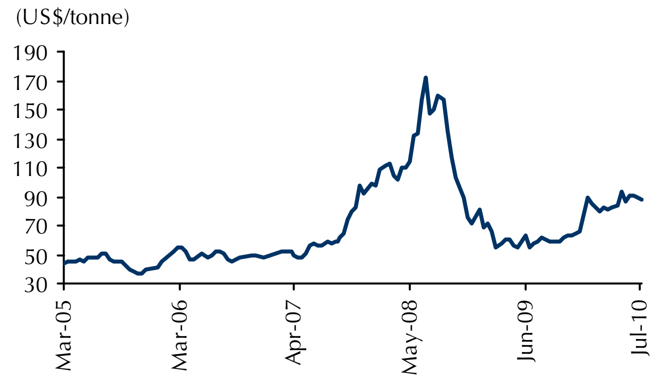
Source: Company, RCML Research

Fig 36 - Imported coal as % of total coal



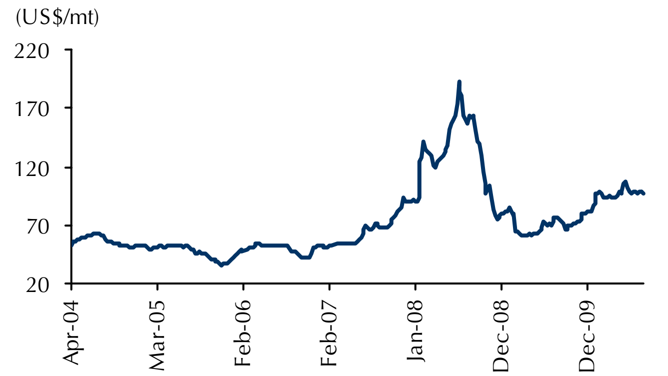
Source: Company, RCML Research

Fig 37 - South African coal prices



Source: Bloomberg,, RCML Research

Fig 38 - Australian coal prices



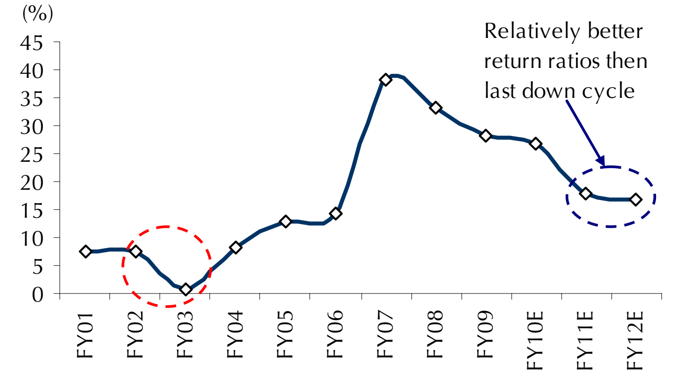
Source: Bloomberg, RCML Research

Cement majors to maintain healthy return ratios and low gearing

Balance sheet health remains strong

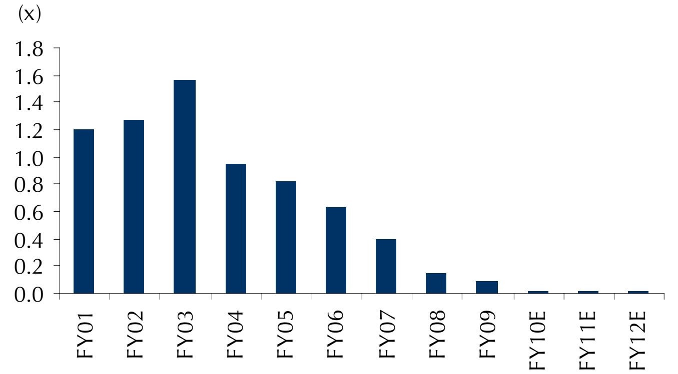
Most cement players, particularly large caps, are likely to report better return ratios in FY11 despite lower near-term profitability. Further, a majority of these companies are debt-free as they have utilised cash earned during the last bull cycle (FY04-FY09) to clean up their balance sheets by repaying debt. We believe these positives will help cement majors weather the storm of declining demand and weak cement prices in the near term.

Fig 39 - Better return ratios compared to last cycle



Source: Company, RCML Research

Fig 40 - Comfortable gearing position



Source: Company, RCML Research

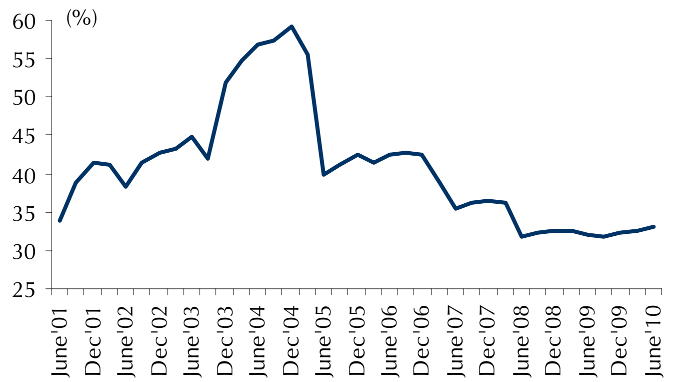
Valuations attractive

Institutional holdings in companies like ACC and Ambuja are near historical lows

Under-ownership provides room for upside

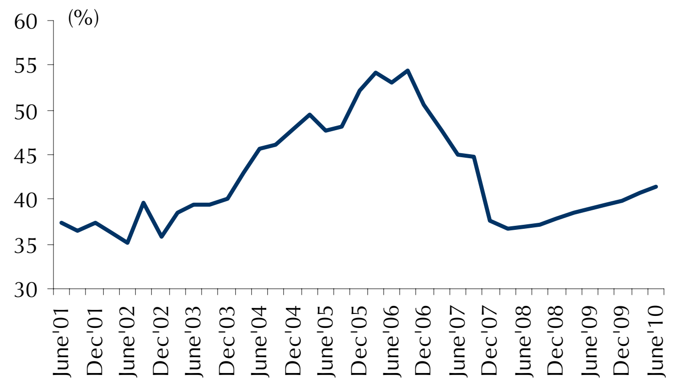
Our analysis of institutional stock holdings in cement majors suggests under-ownership in companies like ACC and Ambuja Cement (holdings near historical lows). As the extreme pessimism towards the sector begins to dissipate in Q2FY11, we believe investors could increase their weight on cement from a 3–4 year perspective, in order to ride the cement upcycle.

Fig 41 - Institutional holding in ACC



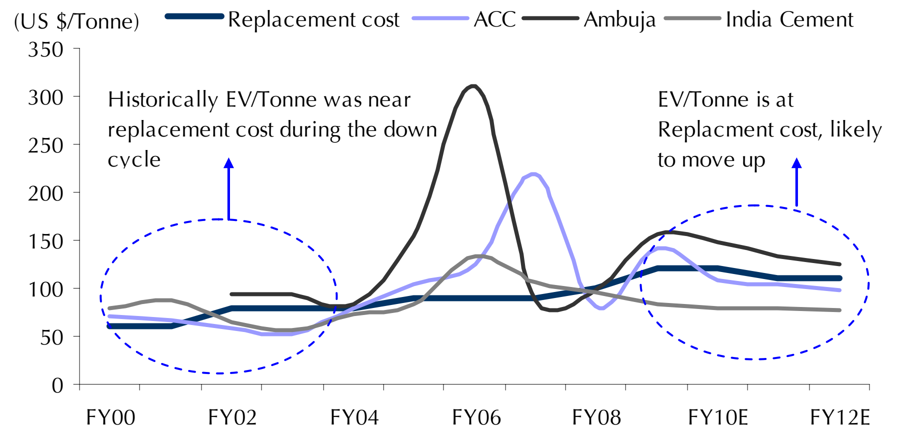
Source: RCML Research, Company

Fig 42 - Institutional holding in Ambuja



Source: RCML Research, Company

Fig 43 - EV/tonne at replacement cost



Source: RCML Research, Company

EV/t increases post M&A activity

M&A activity could also trigger re-rating

During the last cement downcycle (FY01-FY02), the sector witnessed increased M&A activity as smaller players found it unviable to operate their plants. We believe a similar situation could emerge in FY11-FY12 where smaller players could be potential M&A targets. This could be a key trigger for a sector-wide re-rating as EV/t increases post acquisitions.

Fig 44 - M&As during FY01-FY03

Year	Target Name	Acquirer Name	Value (US $ mn)	EV/Tonne (US$)
FY 00-01	Cement Plant, Bilaspur	Lafarge SA	179	80
FY 00-01	Zuari Cement	Italcementi SpA	168	53
FY 01-02	Larsen & Toubro	Grasim Industries	159	99
FY 02-03	SRI Vishnu Cement	Zuari Cement	68	56

Source: Bloomberg, RCML Research

Accumulate stocks over the next two months

Ripe time to accumulate cement stocks

Most cement stocks have corrected by 8–28% in the last four months. While there could be a further 5–10% downside if pricing conditions worsen, we believe the bottom is near and investors should accumulate stocks in the next two months in order to ride the upcycle that will follow over the next 3–4 years.

Among large-cap pure cement plays, we prefer UltraTech, ACC and Ambuja Cement in that order. We also remain bullish on diversified plays like Grasim and Shree Cement. Select mid caps like Birla Corp and Orient Paper could be potential multi-baggers in the next 3–4 years given their attractive valuations. For India Cements, we maintain Sell as we believe the stock has further downside risks.

Sector valuation matrix

Fig 45 - Valuation snapshot

Company	CMP (Rs)	Target (Rs)	Reco	MCap (Rs mn)	EV (Rs mn)	Div Yield (%)	Sales (Rs mn)			Sales Growth (%)			EBITDA (Rs mn)			PAT (Rs mn)			FDEPS (Rs)			FDEPS Growth (%)		
							FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
ACC*	825	1,060	Buy	155,683	150,661	2.4	80,272	79,425	91,102	9.8	(1.1)	14.7	24,797	19,388	23,345	16,067	11,691	13,999	85.5	62.3	74.5	39.3	(27.2)	19.7
Ambuja*	117	145	Buy	179,643	174,719	1.9	70,769	73,675	86,225	13.8	4.1	17.0	18,669	20,944	25,213	12,184	13,428	15,827	8.0	8.8	10.4	6.7	10.2	17.9
Birla Corp.	356	500	Buy	27,415	26,982	1.4	21,570	23,721	28,732	20.5	10.0	21.1	7,056	6,148	7,997	5,576	4,751	5,820	72.4	61.7	75.6	72.4	(14.8)	22.5
Shree Cem	1,798	2,400	Buy	62,642	63,853	0.6	36,321	39,614	55,340	36.3	9.1	39.7	15,291	13,578	20,851	7,828	6,904	8,921	224.7	198.2	256.1	28.6	(11.8)	29.2
UltraTech	858	1,170	Buy	235,092	302,500	0.6	153,814	149,571	172,562	141.0	(2.8)	15.4	47,278	34,939	42,103	26,514	16,697	20,502	96.8	60.9	74.8	23.3	(37.0)	22.8
India Cem	103	100	Sell	29,032	55,622	2.9	36,873	36,560	42,606	9.8	(0.8)	16.5	7,473	4,435	5,716	3,108	792	1,737	11.0	2.6	5.7	(38.3)	(76.6)	119.4
Orient Paper	53	70	Buy	10,225	14,516	2.8	16,198	16,984	19,428	7.4	4.9	14.4	3,097	2,884	3,562	1,613	1,407	1,839	8.4	7.3	9.5	(34.8)	(12.8)	30.7

Fig 46 - Key ratios & valuations

Company	EBITDA Margin (%)			PAT Margin (%)			ROE (%)			ROCE (%)			Adj. Debt/Equity Ratio (x)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
ACC*	30.9	24.4	25.6	20.0	14.7	15.4	29.4	18.4	19.6	27.8	17.6	18.9	0.1	0.1	0.1
Ambuja*	26.4	28.4	29.2	17.2	18.2	18.4	20.1	19.4	19.9	19.6	19.1	19.7	0.0	0.0	0.0
Birla Corp.	32.7	25.9	27.8	25.9	20.0	20.3	36.3	23.8	23.5	28.4	18.5	19.7	0.4	0.2	0.2
Shree Cements	42.1	34.3	37.7	21.6	17.4	16.1	49.4	30.2	29.3	24.9	18.5	20.0	1.0	0.7	0.5
UltraTech Cem	30.7	23.4	24.4	17.2	11.2	11.9	28.8	16.8	17.6	21.0	13.2	14.0	0.5	0.4	0.3
India Cem	20.3	12.1	13.4	8.4	2.2	4.1	8.0	1.9	4.1	6.9	3.3	4.5	0.4	0.5	0.5
Orient Paper	19.1	17.0	18.3	10.0	8.3	9.5	22.5	16.9	19.4	16.1	12.1	14.2	0.7	0.6	0.5

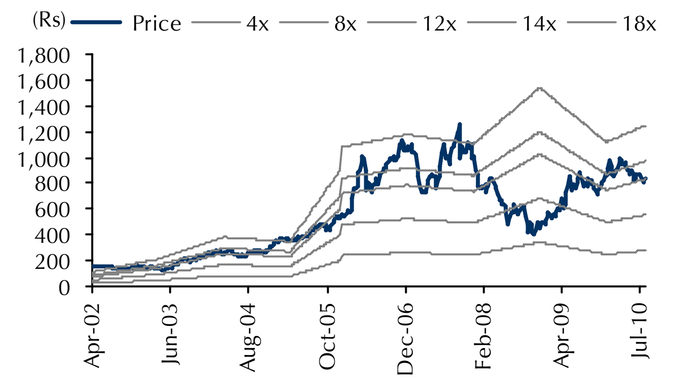
Fig 47 - Key ratios & valuations

Company	P/E (x)			EV/EBITDA (x)			P/BV (x)			EV/Tonne (US$)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
ACC*	9.7	13.3	11.1	6.1	7.8	6.5	2.6	2.3	2.0	108	104	97
Ambuja*	14.8	13.4	11.4	9.4	8.3	6.9	2.8	2.4	2.0	162	148	134
Birla Corp.	4.9	5.8	4.7	3.8	4.4	3.4	1.5	1.2	1.0	57	57	48
Shree Cements	8.0	9.1	7.0	4.2	4.7	3.1	3.2	2.4	1.8	131	116	97
UltraTech Cem	8.9	14.1	11.5	6.4	8.7	7.2	2.6	2.2	1.8	102	110	105
India Cem	9.4	39.9	18.2	7.4	12.5	9.7	0.7	0.8	0.7	83	80	79
Orient Paper	6.3	7.3	5.6	4.7	5.0	4.1	1.3	1.2	1.0	56	54	49

Source: RCML Research *Y/E Dec

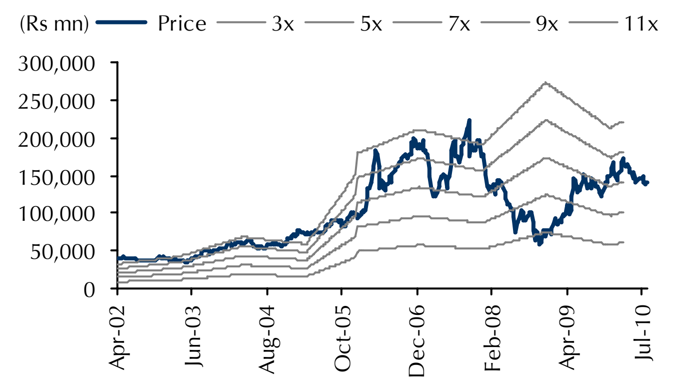
Valuation bands

Fig 48 - ACC: P/E band



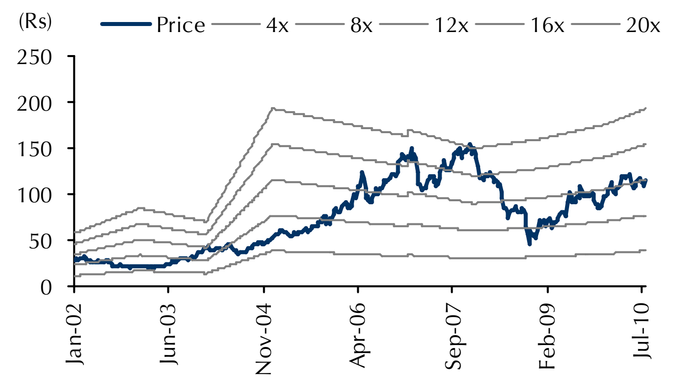
Source: Bloomberg, RCML Research

Fig 49 - ACC: EV/EBITDA band



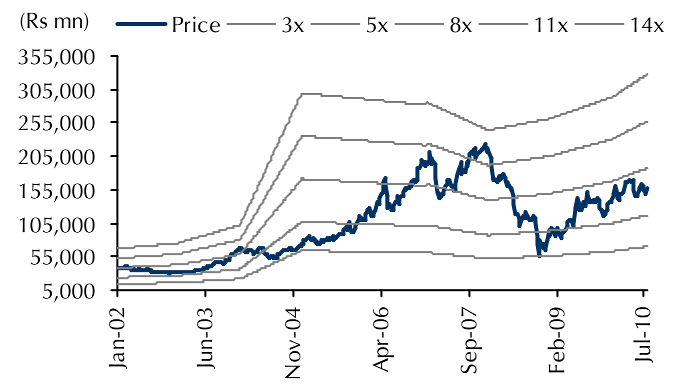
Source: Bloomberg, RCML Research

Fig 50 - Ambuja Cement: P/E band



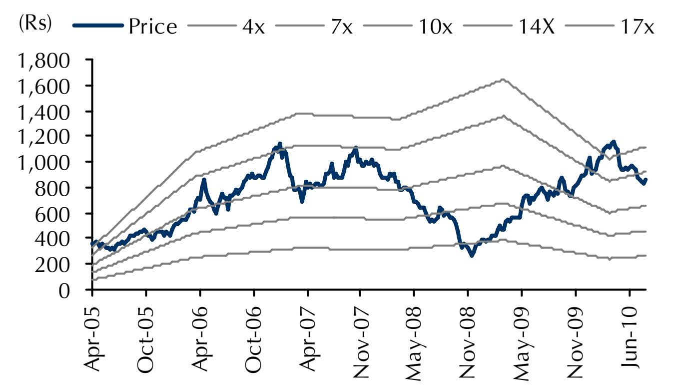
Source: Bloomberg, RCML Research

Fig 51 - Ambuja Cement: EV/EBITDA band



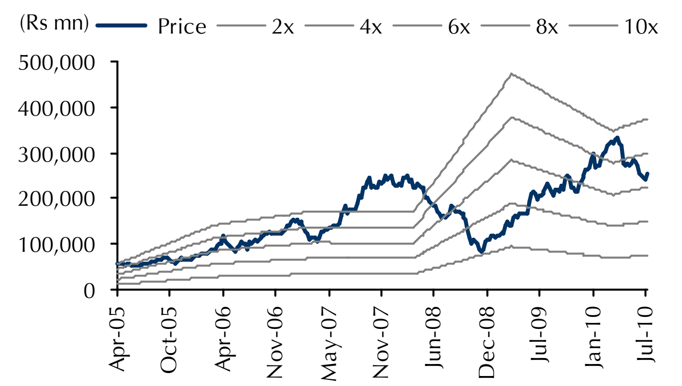
Source: Bloomberg, RCML Research

Fig 52 - UltraTech: P/E band*



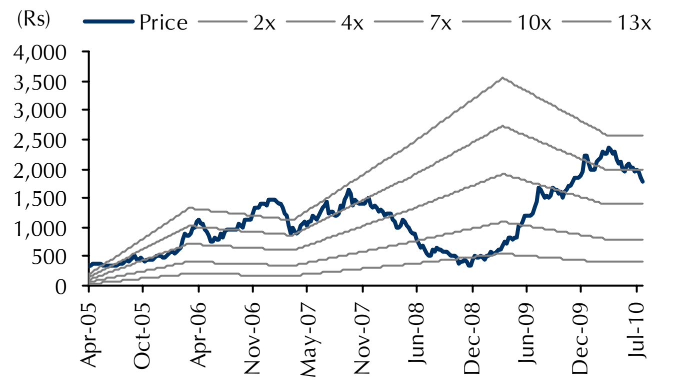
Source: Bloomberg, RCML Research **Standalone*

Fig 53 - UltraTech: EV/EBITDA band*



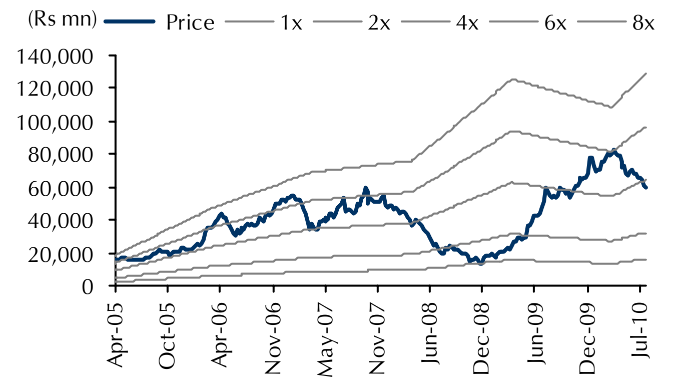
Source: Bloomberg, RCML Research **Standalone*

Fig 54 - Shree Cement: P/E band



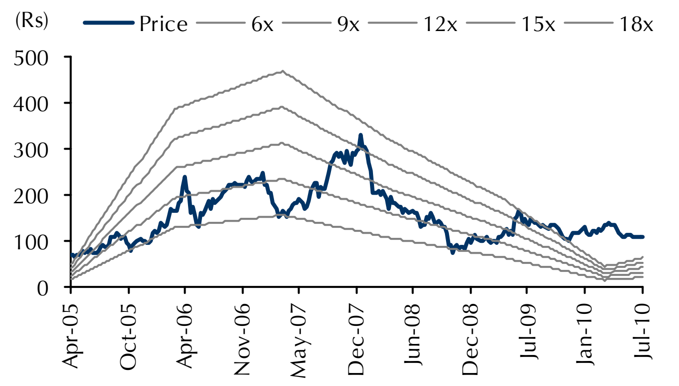
Source: Bloomberg, RCML Research

Fig 55 - Shree Cement: EV/EBITDA band



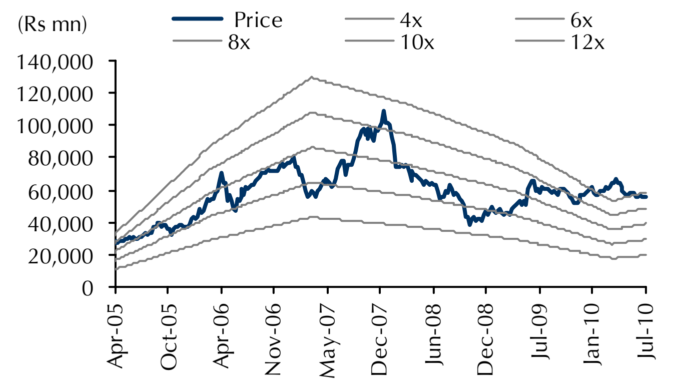
Source: Bloomberg, RCML Research

Fig 56 - India Cements: P/E band



Source: Bloomberg, RCML Research

Fig 57 - India Cements: EV/EBITDA band



Source: Bloomberg, RCML Research

Key risks to our view

- **Protracted weakness in cement demand:** A key risk to our call would be a protracted delay in demand revival, mainly on account of lower execution of infrastructure and real estate projects.
- **Higher-than-anticipated price decline:** Although unlikely, a sharp worsening of the pricing scenario could prolong the downcycle, leading to subdued stock performance.

Annexure I: Cement industry demand-supply dynamics

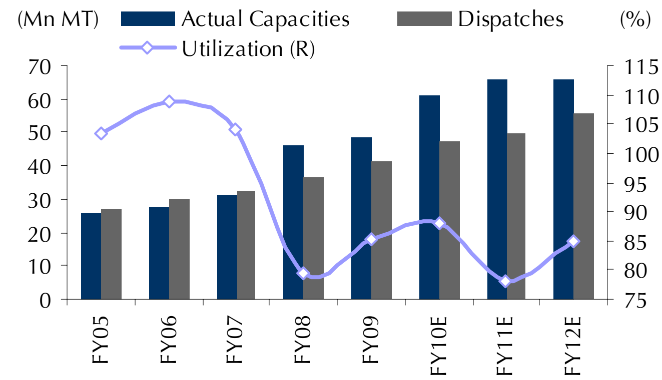
Fig 58 - Demand, supply and utilisation over FY05-FY12

(mn MT)	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
All India								
Actual Capacities	**144.6**	**151.6**	**159.5**	**191.7**	**214.6**	**260.2**	**299.7**	**309.1**
Cap growth (%)		4.9%	5.2%	20.2%	12.0%	21.2%	15.2%	3.1%
Effective capacities for production	**144.6**	**151.6**	**159.5**	**191.7**	**214.6**	**243.4**	**276.0**	**301.8**
Effective Production	**127.6**	**141.8**	**155.3**	**168.3**	**181.4**	**202.9**	**214.7**	**241.1**
% growth		11.2%	9.5%	8.4%	7.8%	11.8%	5.8%	12.3%
Effective Cap Utilization (%)	88%	94%	97%	88%	85%	83%	78%	80%
Cement Despatches	**124.9**	**141.6**	**154.9**	**167.7**	**181.0**	**200.0**	**214.4**	**240.3**
% growth		13.3%	9.4%	8.2%	8.0%	10.5%	7.2%	12.0%
Domestic Consumption	**121.1**	**135.6**	**149.0**	**164.0**	**177.8**	**196.7**	**211.1**	**234.9**
% growth		12.0%	9.9%	10.1%	8.4%	10.6%	7.3%	11.5%
Cement Exports	4.1	6.0	5.9	3.6	3.2	1.6	2.0	3.0
Clinker Exports	6.0	3.2	3.1	2.4	2.9	3.1	3.0	3.6
Surplus/(Deficit) as a % of effective cap	13.6%	6.6%	2.9%	12.5%	15.7%	17.8%	22.3%	20.4%

Source: CMA, RCML Research

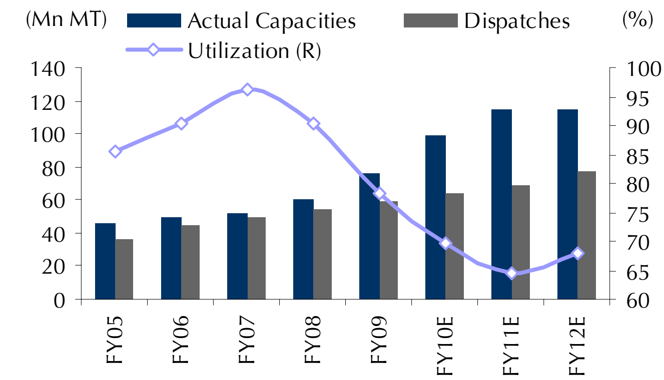
Annexure II: Region-wise industry demand-supply

Fig 59 - North



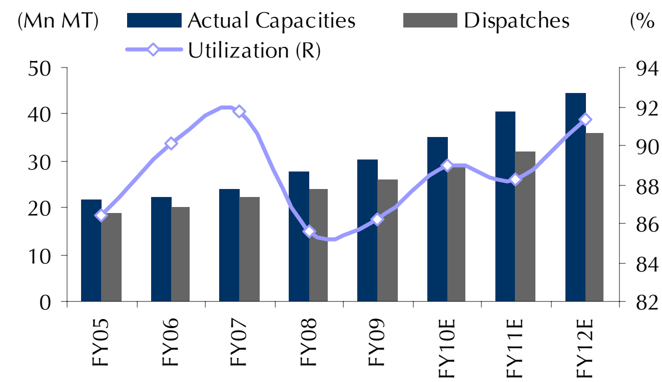
Source: CMA, RCML Research

Fig 60 - South



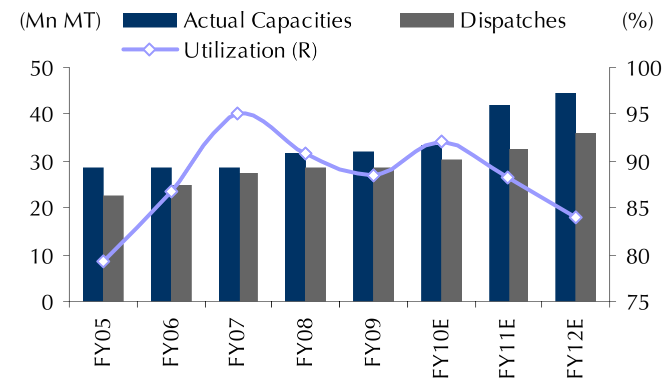
Source: CMA, RCML Research

Fig 61 - East



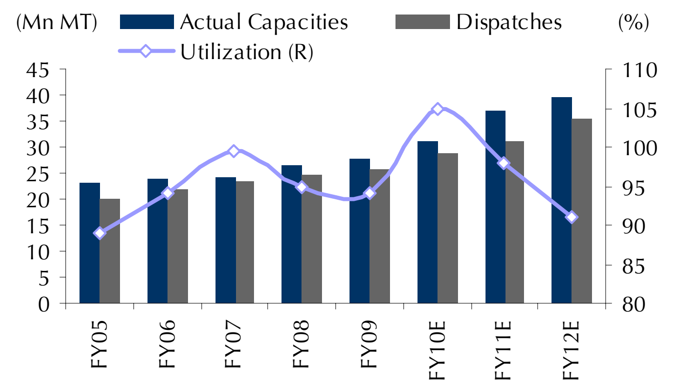
Source, CMA, RCML Research

Fig 62 - West



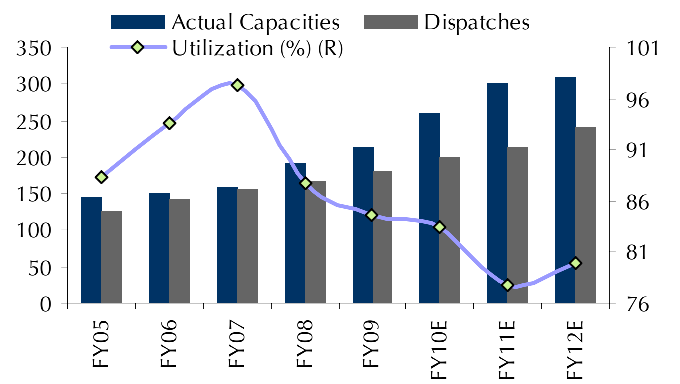
Source; CMA, RCML Research

Fig 63 - Central



Source, CMA, RCML Research

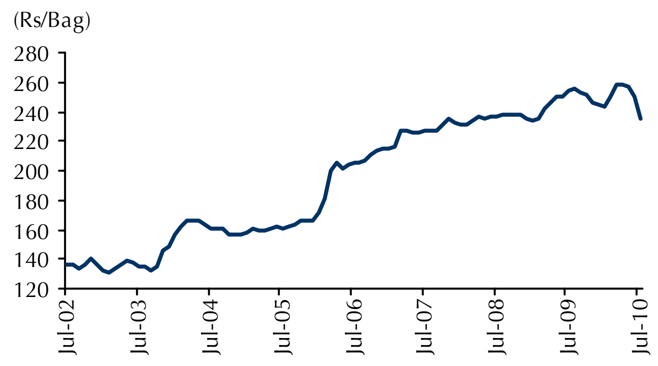
Fig 64 - All India



Source: CMA, RCML Research

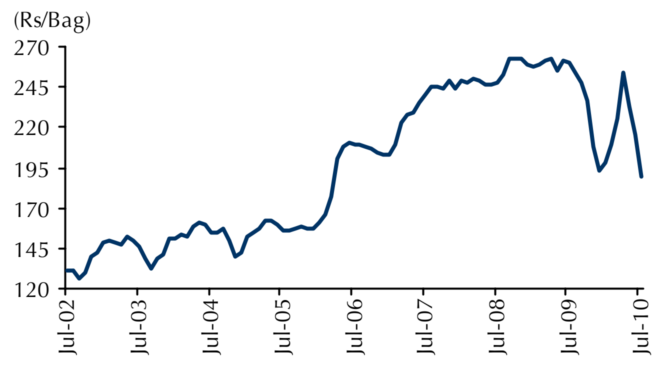
Annexure III: Region-wise cement prices

Fig 65 - North



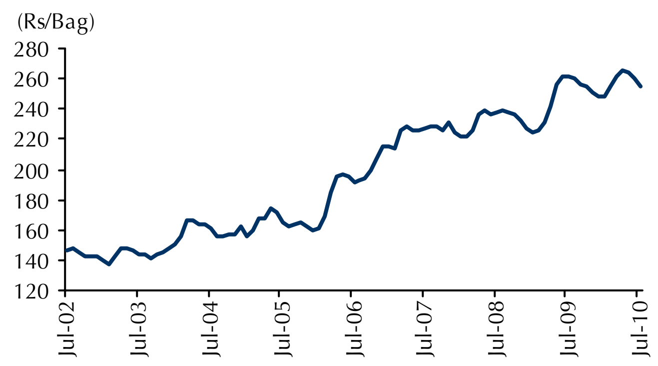
Source: CMA, RCML Research

Fig 66 - South



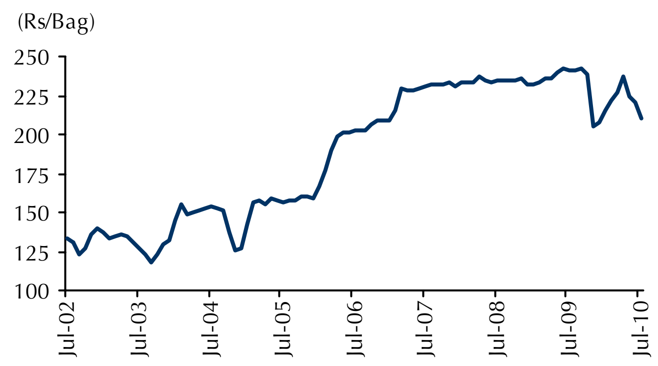
Source: CMA, RCML Research

Fig 67 - East



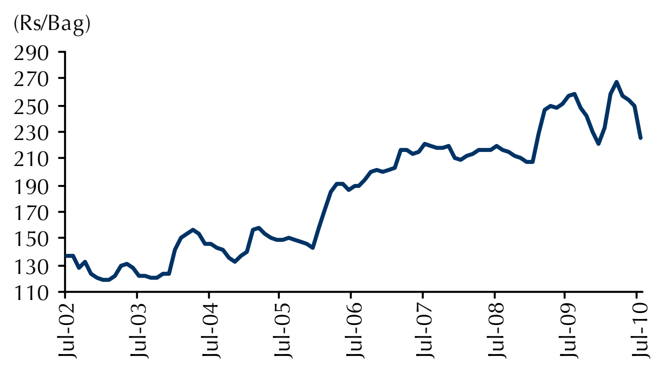
Source: CMA, RCML Research

Fig 68 - West



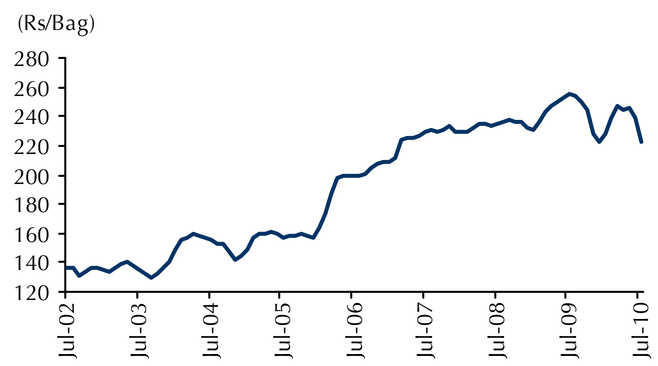
Source: CMA, RCML Research

Fig 69 - Central



Source: CMA, RCML Research

Fig 70 - All-India price movement



Source: CMA, RCML Research

Annexure IV: Region-wise capacity additions

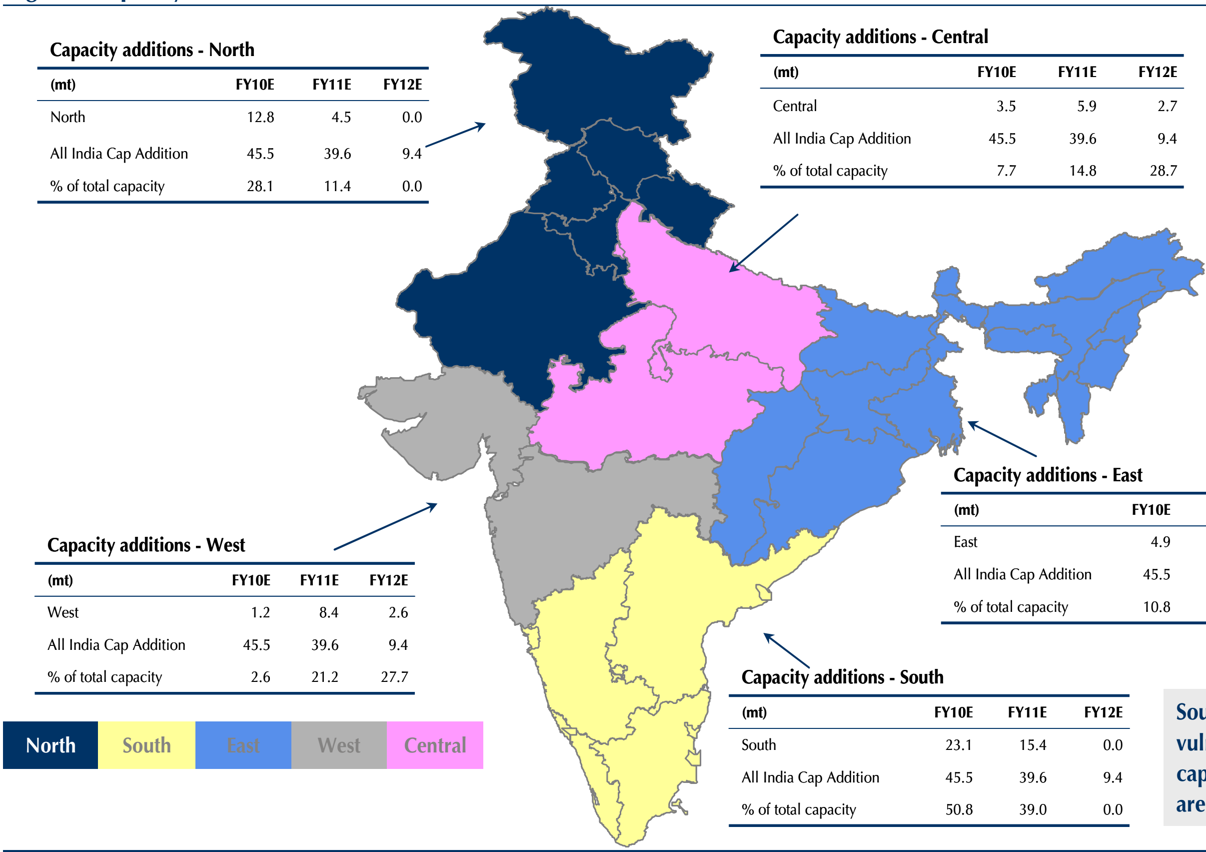
Fig 71 - Capacity additions

Capacity additions - North

(mt)	FY10E	FY11E	FY12E
North	12.8	4.5	0.0
All India Cap Addition	45.5	39.6	9.4
% of total capacity	28.1	11.4	0.0

Capacity additions - Central

(mt)	FY10E	FY11E	FY12E
Central	3.5	5.9	2.7
All India Cap Addition	45.5	39.6	9.4
% of total capacity	7.7	14.8	28.7



Capacity additions - East

(mt)	FY10E	FY11E	FY12E
East	4.9	5.4	4.1
All India Cap Addition	45.5	39.6	9.4
% of total capacity	10.8	13.6	43.6

Capacity additions - West

(mt)	FY10E	FY11E	FY12E
West	1.2	8.4	2.6
All India Cap Addition	45.5	39.6	9.4
% of total capacity	2.6	21.2	27.7

Capacity additions - South

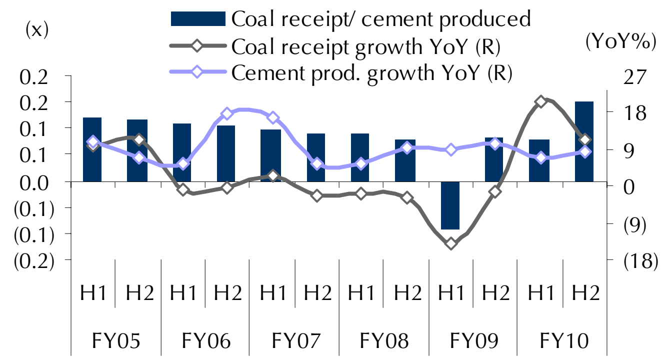
(mt)	FY10E	FY11E	FY12E
South	23.1	15.4	0.0
All India Cap Addition	45.5	39.6	9.4
% of total capacity	50.8	39.0	0.0

South India most vulnerable as max capacity additions are in this region

Source: RCML Research

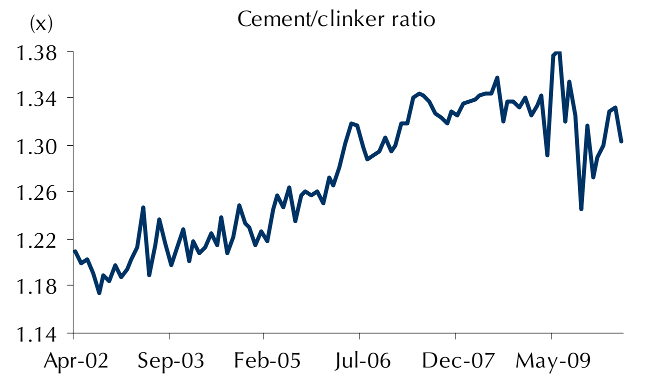
Annexure V: Key industry parameters

Fig 72 - Coal linkages in cement



Source: CMA, RCML Research

Fig 73 - Industry blending ratio

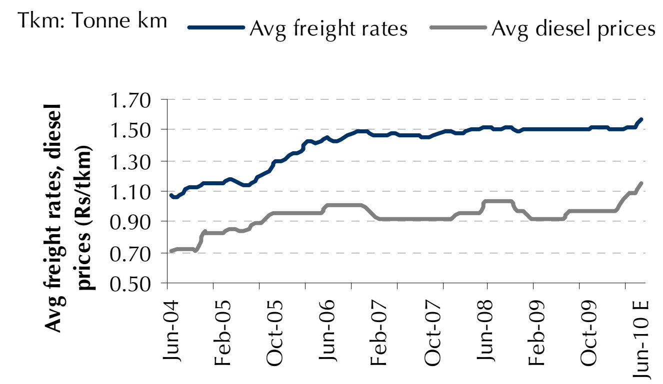


Source: CMA, RCML Research

Fig 74 - Baltic dry index

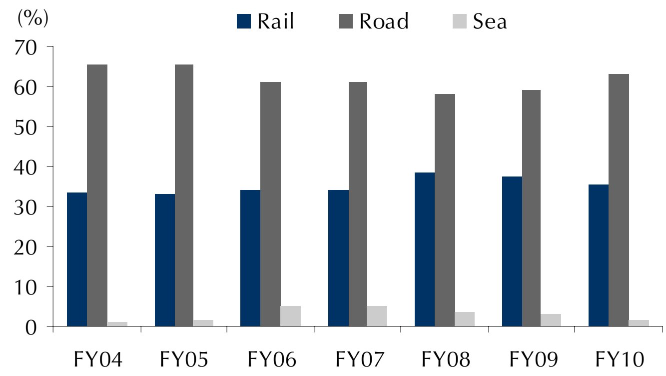
Source: Bloomberg, RCML Research

Fig 75 - Freight rates and Diesel prices



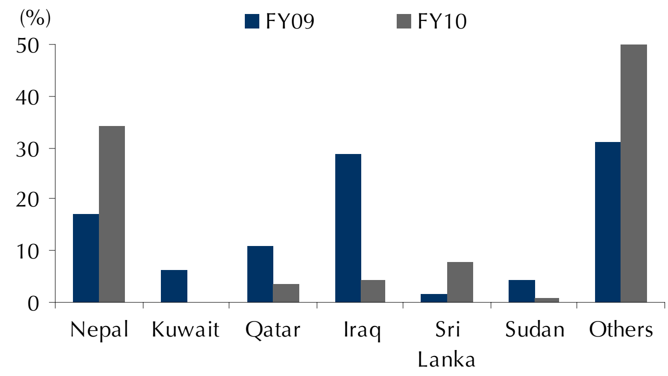
Source: CRISIL, RCML Research

Fig 76 - Rail-Road cement transport mix



Source: CMA, RCML Research

Fig 77 - Major cement exports from India



Source: CMA, RCML Research

Companies

UltraTech Cement Ltd

Big is beautiful

We upgrade UltraTech Cement (UTCEM) from Sell to Buy with a revised March '11 target of Rs 1,170 (36% upside). The stock has corrected 30% from its peak over the last four months, owing to sector-wide concerns of lower demand growth and soft cement prices. We believe these negatives are largely priced in and current valuations are appealing, considering UTCEM's scope for growth. With the merger of Samruddhi Cement, UTCEM has become the largest cement player in the country (50mt capacity) with a pan-India presence, robust 20% market share and strong brand equity. We believe the stock merits a premium valuation of 8x FY12E EV/EBITDA, leading to our target of Rs 1,170.

Restructuring to command premium: Following the Samruddhi merger, UTCEM is set to become the largest cement company in India, with ~50mt of cement capacity, a presence across India and strong brand equity. We believe the company will now command a valuation premium to peers as the markets adapt to its transition into India's single largest cement play. Also, with UTCEM emerging as the largest player by market cap, the stock is a likely candidate for inclusion in the market indices (Sensex/Nifty) – a potential stock trigger.

Volume revival and cost-cutting to drive growth: We estimate subdued dispatch growth of 7% for UTCEM in FY11 with a 6–7% drop in realisations, but believe this slowdown has already been discounted by the market. Further, the company is poised for strong growth in FY12 as an industry-wide volume upcycle (11%+ growth) sets in. This apart, its cost-cutting initiatives are steadily gaining momentum – the company currently has access to ~504MW of captive power (80% self-sufficient). Further, UTCEM has envisaged investments to the tune of Rs 13.5bn in other cost areas like logistics infrastructure and material evacuation in FY11, which will enhance operational efficiencies in the medium term.

Q1 results in line, Q2 to be muted: UTCEM's Q1FY11 results were largely in line with our estimates as net revenues declined by 8.3% YoY to Rs 17.9bn, while PAT fell 44% to Rs 2.3bn (our estimate: Rs 2.2bn). The company clocked an EBITDA/t of Rs 792 during the quarter. While we believe its Q2FY11 numbers would be muted on account of the decline in cement prices, we note that the 30% drop in stock price over the last four months largely factors in the results.

Upgrade to Buy: With most of the negatives priced in and a revival expected in FY12, we upgrade the stock from Sell to Buy. Valuing UTCEM at 8x FY12E EV/EBITDA, we arrive at a revised March '11 target price of Rs 1,170 (rolling forward from our December '11 target of Rs 955) – an upside of 36%. At our revised target, the stock would trade at a P/E of 15.6x on FY12E.

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 858	Rs 1,170	BUY	HIGH

BSE	NSE	BLOOMBERG
532538	ULTRACEMCO	UTCEM IN

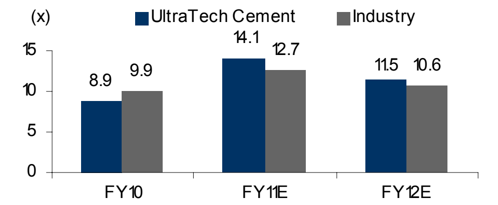
Company data

Market cap (Rs mn / US$ mn)	235,092/5,083
Outstanding equity shares (mn)	274
Free float (%)	45.2
Dividend yield (%)	0.6
52-week high/low (Rs)	1,174 / 669
2-month average daily volume	158,975

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Ultratech	858	(1.4)	(10.2)	(11.7)
Sensex	18,115	3.7	4.2	9.8

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E
P/E @ CMP	8.9	14.1	11.5
P/E @ Target	12.1	19.2	15.6
EV/EBITDA @ CMP	6.4	8.7	7.2

Financial highlights

(Rs mn)	FY10E	FY11E	FY12E
Revenue	153,814	149,571	172,562
Growth (%)	*141.0*	*(2.8)*	*15.4*
Adj net income	26,514	16,697	20,502
Growth (%)	*171.4*	*(37.0)*	*22.8*
FDEPS (Rs)	96.8	60.9	74.8
Growth (%)	*23.3*	*(37.0)*	*22.8*

Profitability and return ratios

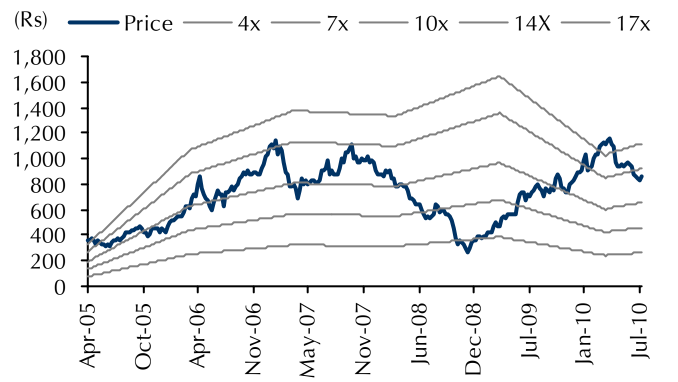
(%)	FY10E	FY11E	FY12E
EBITDA margin	30.7	23.4	24.4
EBIT margin	26.0	17.4	18.1
Adj PAT margin	17.2	11.2	11.9
ROE	28.8	16.8	17.6
ROIC	21.5	13.1	14.3
ROCE	21.0	13.2	14.0

Fig 78 - Quarterly performance*

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	17,898	19,528	(8.3)	19,094	(6.3)
Expenditure	13,841	12,360	12.0	15,067	(8.1)
Operating profit	4,057	7,168	(43.4)	4,026	0.8
Other income	483	342	41.4	259	86.9
Interest	279	330	(15.5)	285	(2.1)
Depreciation	1,016	936	8.5	993	2.2
PBT	3,246	6,244	(48.0)	3,007	8.0
Tax	819	2,066	(60.3)	721	13.6
PAT	2,326	4,178	(44.3)	2,286	1.7
EBITDA margin (%)	22.7	36.7	(1404bps)	21.1	158bps
FDEPS (Rs)	18.7	33.6	(44.3)	18.4	1.7

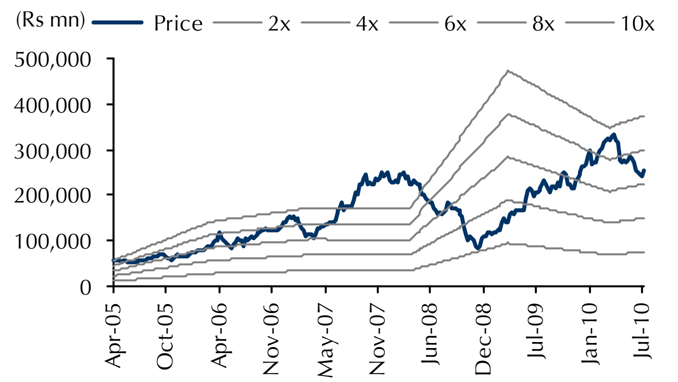
Source: Company, RCML Research *Standalone

Fig 79 - UltraTech: P/E band*



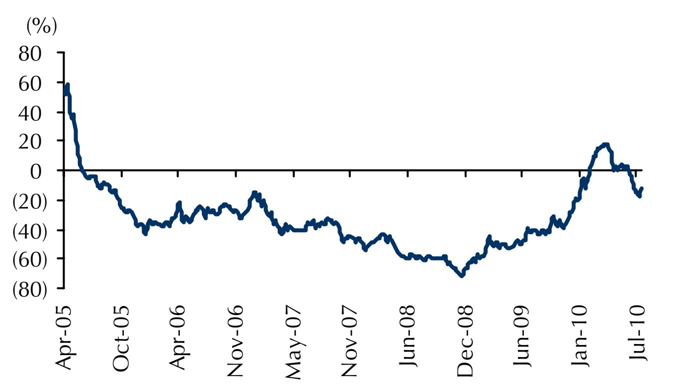
Source: Bloomberg, RCML Research * Standalone

Fig 80 - UltraTech: EV/EBITDA band*



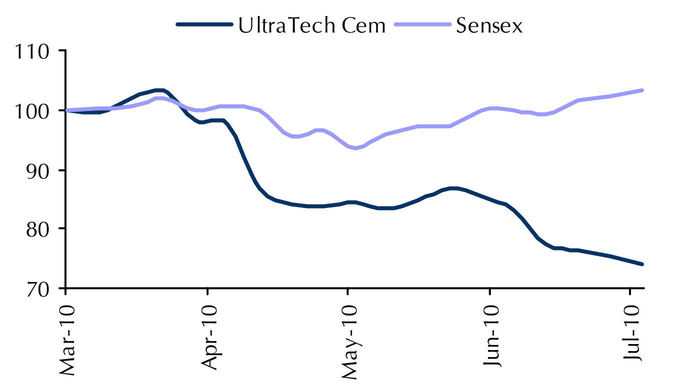
Source: Bloomberg, RCML Research * Standalone

Fig 81 - UltraTech: Premium/discount over Sensex



Source: Bloomberg, RCML Research

Fig 82 - UltraTech v/s Sensex



Source: Bloomberg, RCML Research

Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E
Revenues	**153,814**	**149,571**	**172,562**
Growth (%)	*141.0*	*(2.8)*	*15.4*
EBITDA	**47,278**	**34,939**	**42,103**
Growth (%)	*177.0*	*(26.1)*	*20.5*
Depreciation & amortisation	7,355	8,853	10,904
EBIT	39,923	26,086	31,199
Growth (%)	*188.6*	*(34.7)*	*19.6*
Interest	2,201	2,991	2,842
Other income	1,227	2,009	2,196
EBT	38,949	25,104	30,554
Income taxes	12,435	8,407	10,052
Effective tax rate (%)	*31.9*	*33.5*	*32.9*
Extraordinary items	-	-	-
Min into / inc from associates	-	-	-
Reported net income	26,514	16,697	20,502
Adjustments	-	-	-
Adjusted net income	**26,514**	**16,697**	**20,502**
Growth (%)	*171.4*	*(37.0)*	*22.8*
Shares outstanding (mn)	274.0	274.0	274.0
FDEPS (Rs) (adj)	**96.8**	**60.9**	**74.8**
Growth (%)	*23.3*	*(37.0)*	*22.8*
DPS (Rs)	6.0	6.0	6.0

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E
Cash and cash eq	1,747	2,147	3,006
Accounts receivable	4,574	5,737	6,619
Inventories	15,940	20,489	24,584
Other current assets	9,624	9,624	9,624
Investments	29,082	25,582	25,582
Gross fixed assets	171,168	197,692	221,692
Net fixed assets	113,952	131,622	144,718
CWIP	6,523	-	4,000
Intangible assets	-	-	-
Deferred tax assets, net	(17,487)	(18,237)	(18,988)
Other assets	-	-	-
Total assets	**163,954**	**176,975**	**199,167**
Accounts payable	15,409	16,391	20,329
Other current liabilities	11,023	4,566	4,566
Provisions	4,103	4,689	4,854
Debt funds	41,473	43,973	43,473
Other liabilities	-	-	-
Equity capital	2,553	2,740	2,740
Reserves & surplus	89,392	104,166	122,744
Shareholder's funds	91,946	106,907	125,484
Total liabilities	**163,954**	**176,975**	**199,167**
BVPS (Rs)	335.5	390.1	467.9

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E
Net income + Depreciation	30,395	25,550	31,406
Non-cash adjustments	(14,679)	51	(729)
Changes in working capital	(893)	(11,187)	(1,039)
Cash flow from operations	14,823	14,414	29,638
Capital expenditure	(2,741)	(20,000)	(28,000)
Change in investments	(6,338)	3,500	-
Other investing cash flow	-	-	-
Cash flow from investing	(9,079)	(16,500)	(28,000)
Issue of equity	-	187	-
Issue/repay debt	(5,223)	2,500	(500)
Dividends paid	(728)	(200)	(279)
Other financing cash flow	909	-	-
Change in cash & cash eq	702	401	858
Closing cash & cash eq	1,747	2,148	3,006

Financial ratios

Y/E March	FY10	FY11E	FY12E
Profitability & Return ratios (%)			
EBITDA margin	30.7	23.4	24.4
EBIT margin	26.0	17.4	18.1
Net profit margin	17.2	11.2	11.9
ROE	28.8	16.8	17.6
ROCE	21.0	13.2	14.0
Working Capital & Liquidity ratios			
Receivables (days)	8	13	13
Inventory (days)	39	58	63
Payables (days)	39	51	51
Current ratio (x)	1.2	1.8	1.8
Quick ratio (x)	0.2	0.4	0.4
Turnover & Leverage ratios (x)			
Gross asset turnover	1.3	0.8	0.8
Total asset turnover	1.3	0.9	0.9
Interest coverage ratio	18.1	8.7	11.0
Adjusted debt/equity	0.5	0.4	0.3
Valuation ratios (x)			
EV/Sales	2.0	2.0	1.7
EV/EBITDA	6.4	8.6	7.1
P/E	8.8	13.9	11.4
P/BV	2.5	2.2	1.8

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E
WACC (%)	10.7	10.7	10.7
ROIC (%)	21.5	13.1	14.3
Invested capital (Rs mn)	126,364	137,991	154,375
EVA (Rs mn)	13,656	3,348	5,590
EVA spread (%)	10.8	2.4	3.6

Quarterly trend *

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	19,528	15,408	16,518	19,094	17,898
YoY growth (%)	*30.5*	*10.4*	*1.3*	*2.6*	*(8.3)*
QoQ growth (%)	*5.0*	*(21.1)*	*7.2*	*15.6*	*(6.3)*
EBITDA (Rs mn)	7,168	4,700	3,836	4,026	4,057
EBITDA margin (%)	*36.7*	*30.5*	*23.2*	*21.1*	*22.7*
Adj net income (Rs mn)	4,178	2,509	1,960	2,286	2,427
YoY growth (%)	*58*	*53*	*(18)*	*(26)*	*(42)*
QoQ growth (%)	*35*	*(40)*	*(22)*	*17*	*6*

**Standalone*

Company profile

UltraTech Cement, a subsidiary of Grasim, is set to become the largest cement manufacturer in India with an installed capacity of 49mt. The company enjoys a market share of ~20% with leadership in the western region and a strong presence in the southern and eastern regions. The company also has acquired stake in ETA Star, Dubai with a 3mt capacity.

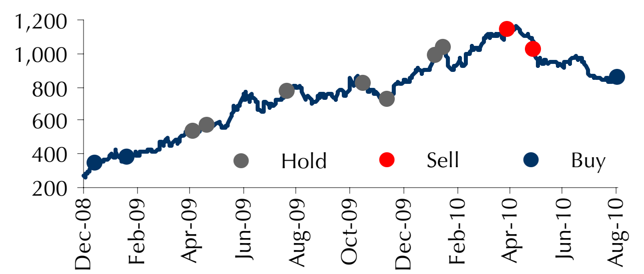
Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	54.8	54.8	54.8
FIIs	5.5	11.6	11.6
Banks & FIs	16.5	11.7	11.2
Public	23.2	21.9	22.4

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Sector Report	347	409	Buy
20-Jan-09	Results Review	381	412	Buy
6-Apr-09	Quarterly Preview	536	412	Hold
21-Apr-09	Results Review	565	532	Hold
21-Jul-09	Results Review	775	827	Hold
16-Oct-09	Results Review	824	906	Hold
16-Nov-09	Company Update	729	821	Hold
6-Jan-10	Quarterly Preview	987	938	Hold
18-Jan-10	Results Review	1,037	995	Hold
30-Mar-10	Sector Update	1,140	1,027	Sell
29-Apr-10	Results Review	1,019	955	Sell
4-Aug-10	Company Update	858	1,170	Buy

Stock performance



ACC Ltd

On the road to recovery

We upgrade ACC from Sell to Buy with a revised March '11 price target of Rs 1,060 (28% upside). As with other cement stocks, ACC has underperformed the broader market during the last four months, losing 23% from its peak. While the company will continue to witness near-term stress on profits, linked to lower dispatch growth and depressed prices in South India, we believe these risks are already embedded in valuations and will ease in CY11. At the current EV/t of US$ 102, we find valuations cheap with little downside. Further, with the overhang of capacity expansion delays dissolving (new capacity of 6mt being added by end-CY10), we anticipate a resurgence in ACC's dispatch growth and hence profitability.

Capacity addition to enhance volume growth in CY11: ACC's failure to augment capacity in line with peers has suppressed its volume growth over the past year. Now, with fresh capacity of 6mt coming up by end-CY10 (taking installed capacity to 30mt) together with the expected revival in demand, we believe volumes will see a sharp increase in CY11. We build in volumes of 23mt for CY10, rising to 26mt in CY11.

Near-term pain largely factored in: With demand slowing down and cement prices declining across the country, ACC could face pressure on profitability in Q3CY10. We have a conservative EPS estimate of Rs 62.3 for CY10 (pared by 4% from earlier numbers), which largely factors in the price and volume decline. For CY11, we expect the company to register healthy volume growth of 12.5% along with an increase in realisations. This, in turn, would drive a re-rating of the stock.

Balance sheet to remain strong: With capex nearing completion in CY10, cement demand improving in CY11 and healthy net cash and equivalents, ACC's balance sheet will remain sturdy. We peg net cash and equivalents at Rs 15bn in CY11, translating to a value of Rs 79/sh.

Potential merger with Ambuja Cement could provide synergies: While the management has not confirmed any merger announcement in the near term, we believe this move is on the cards. We see significant synergies for ACC from such a merger.

Bottom in sight; upgrade to Buy: We value the stock at 8x EV/EBITDA on CY11E and arrive at a revised March '11 target price of Rs 1,060 (rolling forward from our December '11 target of Rs 844) – a 28% upside from current levels. At our target price, the stock would trade at a P/E of 14.2x on CY11E. We upgrade our recommendation on ACC from Sell to Buy.

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 825	Rs 1,060	BUY	HIGH

BSE	NSE	BLOOMBERG
500140	ACC	ACC IN

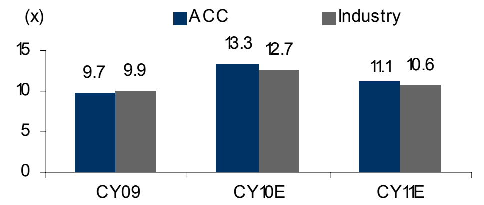
Company data

Market cap (Rs mn / US$ mn)	155,683/3,374
Outstanding equity shares (mn)	187.8
Free float (%)	53.8
Dividend yield (%)	2.4
52-week high/low (Rs)	1,020 / 681
2-month average daily volume	416,764

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
ACC	825	(3.9)	(8.3)	(6.2)
Sensex	18,115	3.7	4.2	9.8

P/E comparison



Valuation matrix

(x)	CY08	CY09	CY10E	CY11E
P/E @ CMP	13.5	9.7	13.3	11.1
P/E @ Target	17.3	12.4	17.0	14.2
EV/EBITDA @ CMP	8.7	6.1	7.8	6.5

Financial highlights

(Rs mn)	CY08	CY09	CY10E	CY11E
Revenue	73,086	80,272	79,425	91,102
Growth (%)	*4.3*	*9.8*	*(1.1)*	*14.7*
Adj net income	11,537	16,067	11,691	13,999
Growth (%)	*(6.1)*	*39.3*	*(27.2)*	*19.7*
FDEPS (Rs)	61.4	85.5	62.3	74.5
Growth (%)	*(6.1)*	*39.3*	*(27.2)*	*19.7*

Profitability and return ratios

(%)	CY08	CY09	CY10E	CY11E
EBITDA margin	23.7	30.9	24.4	25.6
EBIT margin	19.3	26.6	19.5	20.2
Adj PAT margin	15.8	20.0	14.7	15.4
ROE	25.4	29.4	18.4	19.6
ROIC	22.2	27.9	16.2	17.3
ROCE	23.2	27.8	17.6	18.9

Fig 83 - Quarterly performance

(Rs mn)	Q2CY10	Q2CY09	% Chg YoY	Q1CY10	% Chg QoQ
Revenue	20,207	20,813	(2.9)	21,018	(3.9)
Expenditure	14,677	13,466	9.0	14,796	(0.8)
Operating profit	5,530	7,347	(24.7)	6,222	(11.1)
Other income	597	570	4.8	609	(1.9)
Interest	141	159	(11.8)	127	10.4
Depreciation	962	784	22.7	935	2.8
PBT	5,025	6,974	(27.9)	5,768	(12.9)
Tax	1,435	2,107	(31.9)	1,717	(16.4)
PAT	3,589	4,866	(26.2)	4,051	(11.4)
EBITDA margin (%)	27.4	35.3	(794bps)	29.6	(224bps)
FDEPS (Rs)	19.1	25.9	(26.2)	21.6	(11.4)

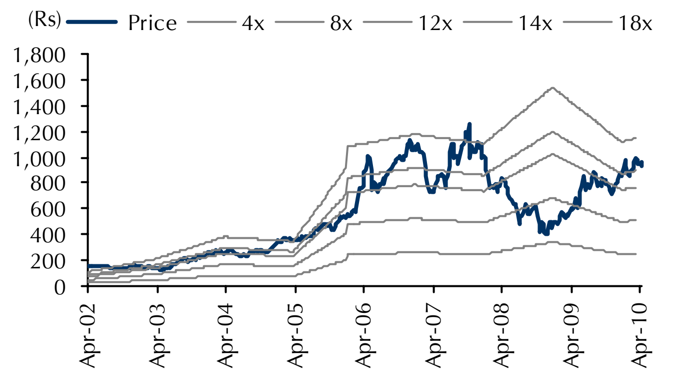
Source: Company, RCML Research

Fig 84 - Revised estimates

Key parameters (Rs mn)	CY10E		
	Old	New	% Chg
Revenue	82,192	79,425	(3.4)
EBITDA margin (%)	24.4	24.4	(0.01)
Net profit	12,187	11,691	(4.1)
FDEPS (Rs)	64.9	62.3	(4.1)

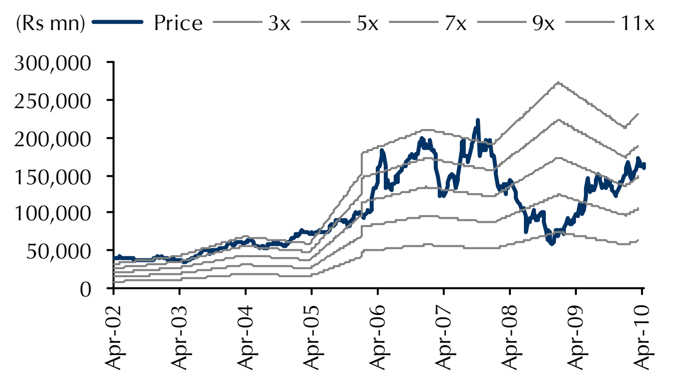
Source: RCML Research

Fig 85 - ACC: P/E band



Source: Bloomberg, RCML Research

Fig 86 - ACC: EV/EBITDA band

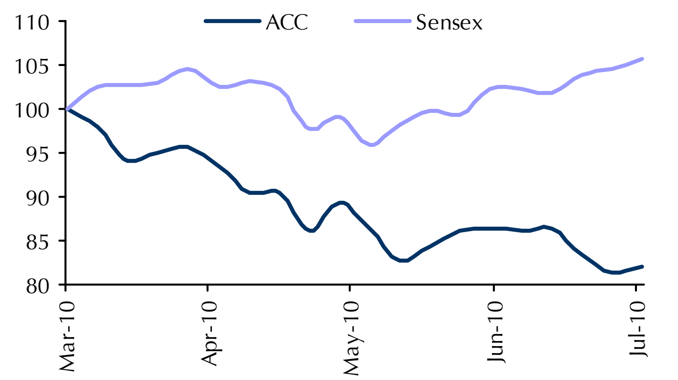


Source: Bloomberg, RCML Research

Fig 87 - ACC: Premium/discount over Sensex

Source: Bloomberg, RCML Research

Fig 88 - ACC v/s Sensex



Source: Bloomberg, RCML Research

Standalone financials

Profit and Loss statement

Y/E Dec (Rs mn)	CY08	CY09	CY10E	CY11E
Revenues	**73,086**	**80,272**	**79,425**	**91,102**
Growth (%)	*4.3*	*9.8*	*(1.1)*	*14.7*
EBITDA	**17,332**	**24,797**	**19,388**	**23,345**
Growth (%)	*(9.6)*	*43.1*	*(21.8)*	*20.4*
Depreciation & amortisation	3,205	3,421	3,935	4,960
EBIT	14,126	21,376	15,453	18,385
Growth (%)	*(12.4)*	*51.3*	*(27.7)*	*19.0*
Interest	(159)	843	733	729
Other income	2,328	2,411	2,751	2,952
EBT	16,614	22,944	17,471	20608
Income taxes	5,238	6,877	5,781	6608
Effective tax rate (%)	*31.5*	*30.0*	*33.1*	*32.1*
Extraordinary items	489	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	11,864	16,067	11,691	13,371
Adjustments	327	-	-	-
Adjusted net income	**11,537**	**16,067**	**11,691**	**13,999**
Growth (%)	*(6.1)*	*39.3*	*(27.2)*	*19.7*
Shares outstanding (mn)	187.8	187.8	187.8	187.8
FDEPS (Rs) (adj)	**61.4**	**85.5**	**62.3**	**74.5**
Growth (%)	*(6.1)*	*39.3*	*(27.2)*	*19.7*
DPS (Rs)	20.0	23.0	23.0	23.0

Balance sheet

Y/E Dec (Rs mn)	CY08	CY09	CY10E	CY11E
Cash and cash eq	9,842	7,462	3,294	7,536
Accounts receivable	3,102	2,037	2,176	2,746
Inventories	7,933	7,790	8,553	9,653
Other current assets	6,475	5,654	5,654	5,654
Investments	6,791	14,756	14,756	14,756
Gross fixed assets	58,357	68,263	102,825	112,825
Net fixed assets	34,697	41,583	72,210	77,250
CWIP	16,029	21,562	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(3,358)	(3,493)	(3,613)	(3,763)
Other assets	-	-	-	-
Total assets	**81,511**	**97,352**	**103,031**	**113,833**
Accounts payable	14,379	16,350	14,362	15,974
Other current liabilities	3,395	4,253	4,253	4,253
Provisions	9,639	10,919	12,140	12,217
Debt funds	4,820	5,669	5,639	5,610
Other liabilities	-	-	-	-
Equity capital	1,878	1,878	1,878	1,878
Reserves & surplus	47,399	58,282	64,920	73,865
Shareholder's funds	49,277	60,160	66,645	75,594
Total liabilities	**81,511**	**97,352**	**103,031**	**113,833**
BVPS (Rs)	262.4	320.3	355.7	413.3

Cash flow statement

Y/E Dec (Rs mn)	CY08	CY09	CY10E	CY11E
Net income + Depreciation	14,806	19,488	15,626	18,959
Non-cash adjustments	2,280	1,782	124	156
Changes in working capital	758	2,500	(2,889)	(54)
Cash flow from operations	17,844	23,770	12,861	19,061
Capital expenditure	(13,762)	(15,154)	(13,000)	(10,000)
Change in investments	2,017	(7,958)	-	-
Other investing cash flow	(1,124)	442	-	-
Cash flow from investing	(12,868)	(22,669)	(13,000)	(10,000)
Issue of equity	14	19	-	-
Issue/repay debt	1,756	849	(30)	(30)
Dividends paid	(4,339)	(4,359)	(3,993)	(4,780)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	2,408	(2,391)	(4,162)	4,251
Closing cash & cash eq	9,842	7,462	3,294	7,536

Financial ratios

Y/E Dec	CY08	CY09	CY10E	CY11E
Profitability & Return ratios (%)				
EBITDA margin	23.7	30.9	24.4	25.6
EBIT margin	19.3	26.6	19.5	20.2
Net profit margin	15.8	20.0	14.7	15.4
ROE	25.4	29.4	18.4	19.6
ROCE	23.2	27.8	17.6	18.9
Working Capital & Liquidity ratios				
Receivables (days)	15	12	10	10
Inventory (days)	50	52	50	293
Payables (days)	87	101	93	488
Current ratio (x)	1.5	1.1	1.1	1.3
Quick ratio (x)	0.2	0.1	0.1	0.1
Turnover & Leverage ratios (x)				
Gross asset turnover	1.3	1.3	0.9	0.8
Total asset turnover	1.0	0.9	0.8	0.8
Interest coverage ratio	n.a	25.4	21.1	25.2
Adjusted debt/equity	0.1	0.1	0.1	0.1
Valuation ratios (x)				
EV/Sales	2.1	1.9	1.9	1.7
EV/EBITDA	8.7	6.1	7.8	6.5
P/E	13.5	9.7	13.3	11.1
P/BV	3.2	2.6	2.3	2.0

Economic Value Added (EVA) analysis

Y/E Dec	CY08	CY09	CY10E	CY11E
WACC (%)	10.7	10.7	10.7	10.7
ROIC (%)	22.2	27.9	16.2	17.3
Invested capital (Rs mn)	49,317	57,955	69,790	74,738
EVA (Rs mn)	5,679	9,972	3,829	4,918
EVA spread (%)	11.5	17.2	5.5	6.6

Quarterly trend

Particulars	Q2CY09	Q3CY09	Q4CY09	Q1CY10	Q2CY10
Revenue (Rs mn)	20,813	19,694	19,215	21,018	20,207
YoY growth (%)	*14.2*	*9.1*	*1.9*	*2.3*	*(2.9)*
QoQ growth (%)	*1.3*	*(5.4)*	*(2.4)*	*9.4*	*(3.9)*
EBITDA (Rs mn)	7,347	6,679	4,297	6,222	5,530
EBITDA margin (%)	*35.3*	*33.9*	*22.4*	*29.6*	*27.4*
Adj net income (Rs mn)	4,866	4,356	2,797	4,051	3,589
YoY growth (%)	*85.6*	*53.7*	*(6.7)*	*0.1*	*(26.2)*
QoQ growth (%)	*20.2*	*(10.5)*	*(35.8)*	*44.8*	*(11.4)*

DuPont analysis

(%)	CY07	CY08	CY09	CY10E	CY11E
Tax burden (Net income/PBT)	71.5	69.4	70.0	66.9	67.9
Interest burden (PBT/EBIT)	106.5	117.6	107.3	113.1	112.1
EBIT margin (EBIT/Revenues)	23.0	19.3	26.6	19.5	20.2
Asset turnover (Revenues/Avg TA)	114.3	98.6	89.8	79.3	84.0
Leverage (Avg TA/Avg equtiy)	168.1	163.3	163.4	157.8	152.1
Return on equity	**33.7**	**25.4**	**29.4**	**18.4**	**19.6**

Company profile

Holcim owned ACC is the country's largest cement player with a total capacity of 26mt. The company intends to scale up its capacity to 30mt by CY10E. It currently enjoys a market share of ~12% with a strong pan-India presence. Capacities are spread across north (26%), central (20%), east (20%), south (29%) and west (5%) India.

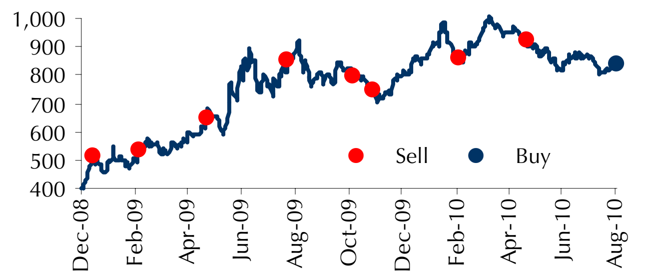
Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	46.2	46.2	46.2
FIIs	11.5	13.0	13.2
Banks & FIs	21.1	20.0	20.2
Public	21.2	20.8	20.4

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	514	430	Sell
5-Feb-09	Results Review	530	416	Sell
22-Apr-09	Results Review	653	595	Sell
24-Jul-09	Results Review	854	796	Sell
6-Oct-09	Quarterly Preview	794	801	Sell
29-Oct-09	Results Review	746	704	Sell
4-Feb-10	Results Review	857	819	Sell
22-Apr-10	Results Review	919	844	Sell
4-Aug-10	Company Update	825	1,060	Buy

Stock performance



What's New?	Target	Rating	Estimates

Ambuja Cement Ltd

Ahead of peers

We upgrade Ambuja Cement (ACEM) from Hold to Buy with a revised March '11 target price of Rs 145 (23% upside). ACEM is the only company in our cement universe poised for earnings growth in CY10 – we expect strong volume growth during the year, lower costs on account of clinker expansion, and benefits from a superior geographic mix (no operations in the vulnerable southern region). Although near-term weak fundamentals in the northern and western regions are likely to affect the company in Q3CY10, we believe ACEM will continue to weather the storm and remain ahead of peers in terms of earnings growth.

Timely expansion: ACEM is likely to report volume growth of 10% in CY10, ahead of its peers, as both clinker units in Himachal Pradesh and Chhattisgarh were commissioned in Q1CY10. This along with cost reduction in terms of lower clinker purchases is likely to benefit the company and support earnings growth ahead of peers.

Q3CY10 a trough quarter: ACEM is likely to see a subdued Q3CY10 as volumes weaken and prices decline across the country. However, we believe Q3CY10 would be a trough quarter for the company in terms of EBITDA/t, with a recovery setting in thereafter.

Only company to report earnings growth in CY10: In order to factor in the impact of soft cement realisations, we have downgraded our earnings estimates for CY10 by 4% . However, this still translates to 10% earnings growth for ACEM in CY10, considering timely capacity expansion and lower costs on clinker purchase.

Merger with ACC a potential stock trigger: While the merger with ACC has not been confirmed by the management, any such development will drive valuations for ACEM going forward.

Upgrade to Buy: We have valued the stock at an EV/EBITDA multiple of 8x on CY11E to arrive at a March '11 target price of Rs 145 (rolling forward from our December '10 target of Rs 125). Our revised target offers a 23% upside from current levels. We upgrade ACEM from Hold to Buy.

CMP	TARGET	RATING	RISK
Rs 117	Rs 145	BUY	HIGH

BSE	NSE	BLOOMBERG
500425	AMBUJACEM	ACEM IN

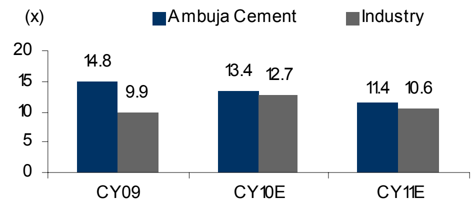
Company data

Market cap (Rs mn / US$ mn)	179,643/3,893
Outstanding equity shares (mn)	1,522
Free float (%)	53.6
Dividend yield (%)	1.9
52-week high/low (Rs)	126/82
2-month average daily volume	1,900,520

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Ambuja	117	4.0	(2.6)	13.6
Sensex	18,115	3.7	4.2	9.8

P/E comparison



Valuation matrix

(x)	CY08	CY09	CY10E	CY11E
P/E @ CMP	15.8	14.8	13.4	11.4
P/E @ Target	19.4	18.1	16.5	14.0
EV/EBITDA @ CMP	10.0	9.4	8.3	6.9

Financial highlights

(Rs mn)	CY08	CY09	CY10E	CY11E
Revenue	62,203	70,769	73,675	86,225
Growth (%)	*9.0*	*13.8*	*4.1*	*17.0*
Adj net income	11,403	12,184	13,428	15,827
Growth (%)	*(12.1)*	*6.8*	*10.2*	*17.9*
FDEPS (Rs)	7.5	8.0	8.8	10.4
Growth (%)	*(12.1)*	*6.7*	*10.2*	*17.9*

Profitability and return ratios

(%)	CY08	CY09	CY10E	CY11E
EBITDA margin	28.0	26.4	28.4	29.2
EBIT margin	23.8	22.2	23.8	23.5
Adj PAT margin	18.3	17.2	18.2	18.4
ROE	22.1	20.1	19.4	19.9
ROIC	20.8	18.8	18.6	19.8
ROCE	21.2	19.6	19.1	19.7

Fig 89 - Quarterly performance

(Rs mn)	Q2CY10	Q2CY09	% Chg YoY	Q1CY10	% Chg QoQ
Revenue	20,476	18,474	10.8	19,902	2.9
Expenditure	14,444	13,677	5.6	13,675	5.6
Operating profit	6,032	4,797	25.7	6,227	(3.1)
Other income	667	692	(3.5)	546	22.3
Interest	81	52	55.5	108	(24.9)
Depreciation	1,001	704	42.1	767	30.4
PBT	5,618	4,732	18.7	5,897	(4.7)
Tax	1,705	1,486	14.8	1,476	15.5
PAT	3,912	3,246	20.5	4,421	(11.5)
EBITDA margin (%)	29.5	26.0	349bps	31.3	(183bps)
FDEPS (Rs)	2.6	2.1	20.5	2.9	(11.5)

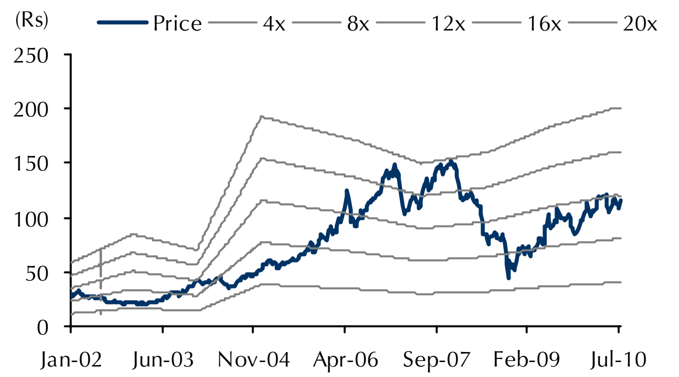
Source: Company, RCML Research

Fig 90 - Revised estimates

Key parameters (Rs mn)	CY10E		
	Old	New	% Chg
Revenue	74,788	73,675	(1.5)
EBITDA margin (%)	29.07	28.42	(65bps)
Net profit	14,019	13,428	(4.2)
FDEPS (Rs)	9.2	8.8	(4.2)

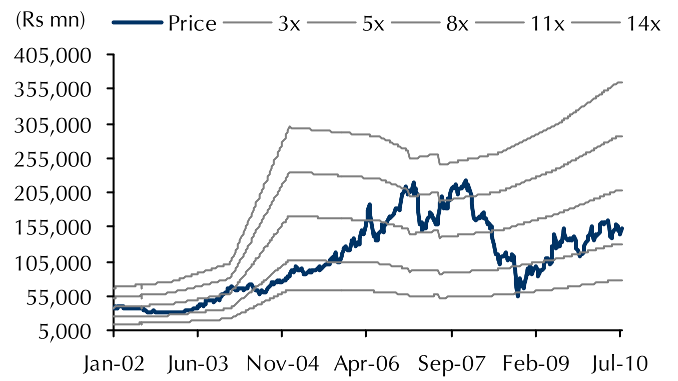
Source: RCML Research

Fig 91 - Ambuja: P/E band



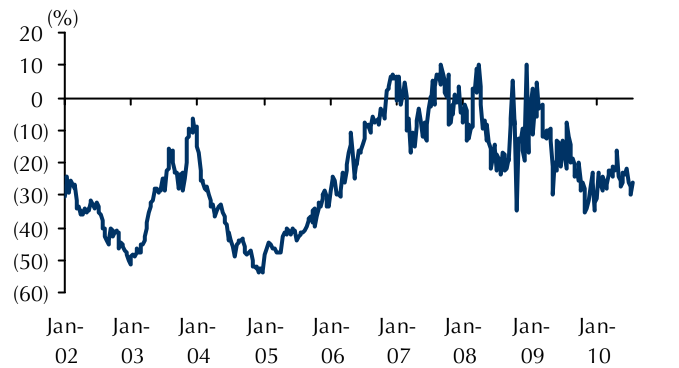
Source: Bloomberg, RCML Research

Fig 92 - Ambuja: EV/EBITDA band



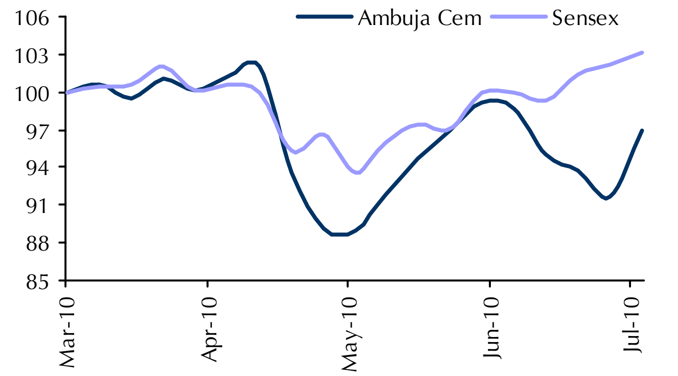
Source: Bloomberg, RCML Research

Fig 93 - Ambuja: Premium/discount over Sensex



Source: Bloomberg, RCML Research

Fig 94 - Ambuja v/s Sensex



Source: Bloomberg, RCML Research

Standalone financials

Profit and Loss statement

Y/E Dec (Rs mn)	CY08	CY09	CY10E	CY11E
Revenues	**62,203**	**70,769**	**73,675**	**86,225**
Growth (%)	*9.0*	*13.8*	*4.1*	*17.0*
EBITDA	**17,425**	**18,669**	**20,944**	**25,213**
Growth (%)	*(14.8)*	*7.1*	*12.2*	*20.4*
Depreciation & amortisation	2,598	2,970	3,410	4,919
EBIT	14,827	15,699	17,533	20,295
Growth (%)	*(18.0)*	*5.9*	*11.7*	*15.7*
Interest	320	224	166	79
Other income	2,109	2,558	2,277	2,488
EBT	16,616	18,033	19,645	22,703
Income taxes	5,676	5,849	6,218	6,876
Effective tax rate (%)	*34.2*	*32.4*	*31.6*	*30.3*
Extraordinary items	3,083	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	14,024	12,184	13,428	15,827
Adjustments	3,083	-	-	-
Adjusted net income	**11,403**	**12,184**	**13,428**	**15,827**
Growth (%)	*(12.1)*	*6.8*	*10.2*	*17.9*
Shares outstanding (mn)	1,522.4	1,524.9	1,524.9	1,524.9
FDEPS (Rs) (adj)	**7.5**	**8.0**	**8.8**	**10.4**
Growth (%)	*(12.1)*	*6.7*	*10.2*	*17.9*
DPS (Rs)	2.2	2.4	2.4	2.4

Balance sheet

Y/E Dec (Rs mn)	CY08	CY09	CY10E	CY11E
Cash and cash eq	8,518	8,806	6,581	12,337
Accounts receivable	2,246	1,522	3,230	3,780
Inventories	9,398	6,832	10,835	12,537
Other current assets	3,233	2,633	2,725	2,725
Investments	3,324	7,270	7,270	10,270
Gross fixed assets	57,069	62,241	96,386	104,386
Net fixed assets	35,792	35,897	65,134	68,215
CWIP	15,608	25,648	2,000	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(3,808)	(4,858)	(5,909)	(5,909)
Other assets	43	27	28	28
Total assets	**74,353**	**83,778**	**91,894**	**103,983**
Accounts payable	8,802	9,223	7,670	9,213
Other current liabilities	1,230	1,448	1,448	1,448
Provisions	4,706	6,741	7,264	7,264
Debt funds	2,890	1,657	1,657	657
Other liabilities	-	-	-	-
Equity capital	3,045	3,050	3,050	3,050
Reserves & surplus	53,680	61,659	70,805	82,351
Shareholder's funds	56,725	64,709	73,855	85,400
Total liabilities	**74,353**	**83,778**	**91,894**	**103,983**
BVPS (Rs)	37.3	42.4	48.4	58.0

Cash flow statement

Y/E Dec (Rs mn)	CY08	CY09	CY10E	CY11E
Net income + Depreciation	16,622	15,154	16,838	20,746
Non-cash adjustments	(3,318)	2,323	1,051	-
Changes in working capital	(2,484)	4,712	(7,262)	(709)
Cash flow from operations	10,820	22,189	10,627	20,038
Capital expenditure	(16,415)	(13,361)	(9,000)	(6,000)
Change in investments	4,585	(3,853)	-	(3,000)
Other investing cash flow	409	(20)	-	-
Cash flow from investing	(11,422)	(17,234)	(9,000)	(9,000)
Issue of equity	12	74	-	-
Issue/repay debt	(327)	(637)	-	(1,000)
Dividends paid	(3,902)	(3,900)	(3,852)	(4,282)
Other financing cash flow	(511)	(203)	-	-
Change in cash & cash eq	(5,330)	288	(2,225)	5,756
Closing cash & cash eq	8,518	8,807	6,581	12,337

Financial ratios

Y/E Dec	CY08	CY09	CY10E	CY11E
Profitability & Return ratios (%)				
EBITDA margin	28.0	26.4	28.4	29.2
EBIT margin	23.8	22.2	23.8	23.5
Net profit margin	18.3	17.2	18.2	18.4
ROE	22.1	20.1	19.4	19.9
ROCE	21.2	19.6	19.1	19.7
Working Capital & Liquidity ratios				
Receivables (days)	11	10	12	15
Inventory (days)	62	57	61	70
Payables (days)	59	63	58	51
Current ratio (x)	2.3	1.9	2.6	2.9
Quick ratio (x)	1.1	1.0	1.1	1.5
Turnover & Leverage ratios (x)				
Gross asset turnover	1.1	1.2	0.9	0.9
Total asset turnover	0.9	0.9	0.8	0.9
Interest coverage ratio	46.3	70.1	105.8	257.4
Adjusted debt/equity	0.1	0.0	0.0	0.0
Valuation ratios (x)				
EV/Sales	2.8	2.5	2.4	2.0
EV/EBITDA	10.0	9.4	8.3	6.9
P/E	15.8	14.8	13.4	11.4
P/BV	3.2	2.8	2.4	2.0

Economic Value Added (EVA) analysis

Y/E Dec	CY08	CY09	CY10E	CY11E
WACC (%)	10.1	10.1	10.1	10.1
ROIC (%)	20.8	18.8	18.6	19.8
Invested capital (Rs mn)	54,024	58,576	70,470	72,260
EVA (Rs mn)	5,784	5,125	5,978	7,034
EVA spread (%)	10.7	8.7	8.5	9.7

Quarterly trend

Particulars	Q2CY09	Q3CY09	Q4CY09	Q1CY10	Q2CY10
Revenue (Rs mn)	18,474	16,110	17,710	19,902	20,476
YoY growth (%)	*17.7*	*16.1*	*9.1*	*7.7*	*10.8*
QoQ growth (%)	*(0.0)*	*(12.8)*	*9.9*	*12.4*	*2.9*
EBITDA (Rs mn)	4,797	4,379	4,008	6,227	6,032
EBITDA margin (%)	*26.0*	*27.2*	*22.6*	*31.3*	-
Adj net income (Rs mn)	3,246	2,802	2,174	4,421	3,912
YoY growth (%)	*4.7*	*12.0*	*(17.1)*	*24.0*	*20.5*
QoQ growth (%)	*(9.0)*	*(13.7)*	*(22.4)*	*103.4*	*(11.5)*

DuPont analysis

(%)	CY07	CY08	CY09	CY10E	CY11E
Tax burden (Net income/PBT)	67.4	68.6	67.6	68.4	69.7
Interest burden (PBT/EBIT)	106.5	112.1	114.9	112.0	111.9
EBIT margin (EBIT/Revenues)	31.7	23.8	22.2	23.8	23.5
Asset turnover (Revenues/Avg TA)	101.7	91.5	89.5	83.9	88.0
Leverage (Avg TA/Avg equtiy)	137.6	131.6	130.2	126.8	123.0
Return on equity	**31.8**	**22.1**	**20.1**	**19.4**	**19.9**

Company profile

Holcim-owned Ambuja Cement will increase its capacity to 25mt in CY10 from an installed capacity of 18.5mt in CY08. It has a presence across India, except in the southern region. Capacities are spread across north (35%), west (43%) and east (22%) India. The company boasts of strong brand loyalty with a domestic market share of ~9.5%.

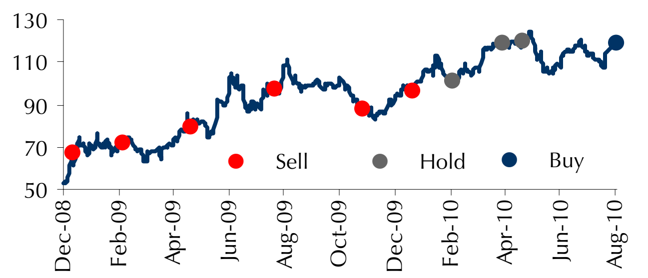
Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	46.4	46.4	46.4
FIIs	26.2	27.3	27.6
Banks & FIs	16.9	16.5	16.3
Public	10.5	9.8	9.7

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	67	49	Sell
6-Feb-09	Results Review	72	49	Sell
22-Apr-09	Results Review	79	68	Sell
24-Jul-09	Results Review	97	87	Sell
29-Oct-09	Results Review	88	82	Sell
23-Dec-09	Company Update	99	88	Sell
5-Feb-10	Results Review	101	99	Hold
30-Mar-10	Sector Update	119	113	Hold
23-Apr-10	Results Review	120	125	Hold
4-Aug-10	Company Update	118	145	Buy

Stock performance



Shree Cement Ltd

Cement and Power – a potent mix

Shree Cement (SRCM) is currently the best play among diversified cement stocks, equipped with a power portfolio that enables it to counter cyclicality in the cement business. With 450MW of surplus power likely to come into play as merchant power in FY12, we expect power revenues of Rs 14.5bn, up from Rs 5bn in FY11E. The recent stock correction by 25% from the peak largely factors in the subdued cement environment in H1FY11. Despite the expected decline in cement margins, we believe SRCM will continue to be the most efficient player in the industry. We see limited downside to valuations and a higher potential upside than peers once the upcycle commences. We thus reiterate our Buy rating on the stock with a revised March '11 target of Rs 2,400 (33% upside).

Most efficient cement player: SRCM continues to be the most efficient cement player in the industry with the highest EBITDA margins in the sector (at 34% in FY11E). We believe the trend will continue as the company is largely cushioned by power sales, which mitigate the cyclicality in the cement business. We have assumed a blended EBITDA/t of Rs 1,260 for SRCM in FY11 (drop of Rs 240/t YoY) to factor in higher costs and lower realisations.

Capacity expansion on track: The company has recently commissioned two grinding units of 1.2mt and 1.8mt. Further, it is setting up another 1.5mt grinding unit along with a 1mt clinker plant, which will take its total capacity to 13.5mt in Q2FY11. Although we believe lower dispatch growth (6% as per our estimates) and a decline in realisations (down 6%) will impact the company in FY11, we anticipate a smart rebound in dispatches and hence profitability in FY12.

Faster ramp-up of power capacity to boost FY12 revenues: SRCM is expected to commission a 300MW power unit by June '11, six months before schedule. Accordingly, we build in revenues of Rs 5.2bn and Rs 14.5bn from the sale of power in FY11 and FY12 respectively.

Earnings estimates revised; maintain Buy: To factor in lower cement prices and increasing pet coke costs, we have reduced our earnings estimates for FY11 and FY12 by 13% and 3.4% respectively. Assigning an EV/EBITDA multiple of 5x on FY12E (P/E of 9.4x), we arrive at a revised March '11 target price of Rs 2,400 (rolling forward from our earlier December '11 target of Rs 2,300). We believe the recent 25% correction in stock price largely factors in the subdued environment in cement, and the risk-reward ratio is now turning favourable. Further, SRCM's strategy of selling surplus power amidst a downturn in the cement cycle will bear rich dividends. We maintain our Buy rating on the stock.

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 1,798	Rs 2,400	BUY	HIGH

BSE	NSE	BLOOMBERG
500387	SHREECEM	SRCM IN

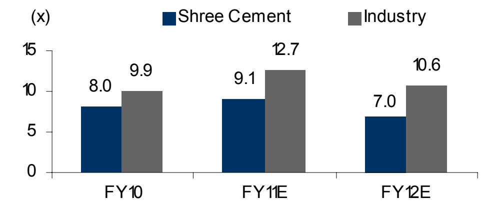
Company data

Market cap (Rs mn / US$ mn)	62,642/1,357
Outstanding equity shares (mn)	35
Free float (%)	34.5
Dividend yield (%)	0.6
52-week high/low (Rs)	2,542/1,372
2-month average daily volume	25,732

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Shree Cement	1,798	(8.2)	(16.3)	(10.2)
Sensex	18,115	3.7	4.2	9.8

P/E comparison



Valuation matrix

(x)	FY09	FY10	FY11E	FY12E
P/E @ CMP	10.3	8.0	9.1	7.0
P/E @ Target	13.7	10.7	12.1	9.4
EV/EBITDA @ CMP	6.7	4.2	4.7	3.1

Financial highlights

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenue	26,642	36,321	39,614	55,340
Growth (%)	*29.0*	*36.3*	*9.1*	*39.7*
Adj net income	6,087	7,828	6,904	8,921
Growth (%)	*103.4*	*28.6*	*(11.8)*	*29.2*
FDEPS (Rs)	174.7	224.7	198.2	256.1
Growth (%)	*103.4*	*28.6*	*(11.8)*	*29.2*

Profitability and return ratios

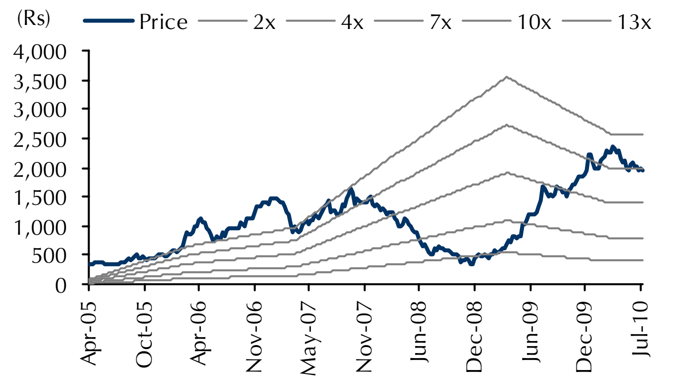
(%)	FY09	FY10	FY11E	FY12E
EBITDA margin	35.7	42.1	34.3	37.7
EBIT margin	28.0	26.4	20.9	19.9
Adj PAT margin	22.8	21.6	17.4	16.1
ROE	64.7	49.4	30.2	29.3
ROIC	27.2	25.7	19.0	23.3
ROCE	28.3	24.9	18.5	20.0

Fig 95 - Revised estimates

Key parameters (Rs mn)	FY11E			FY12E		
	Old	New	% Chg	Old	New	% Chg
Revenue	40,390	36321	(10.07)	54,682	55,340	1.2
EBITDA margin (%)	35.0	34.3	(75bps)	37.9	37.7	(17bps)
Net profit	7,938	6,904	(13.0)	9,240	8,921	(3.4)
FDEPS (Rs)	227.8	198.2	(13.0)	265.2	256.1	(3.4)

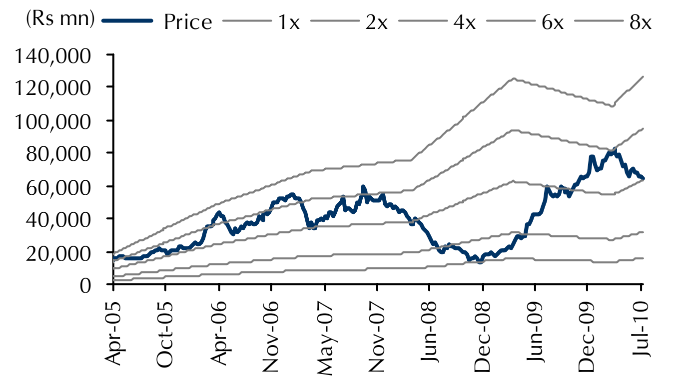
Source: RCML Research

Fig 96 - Shree Cement: P/E band



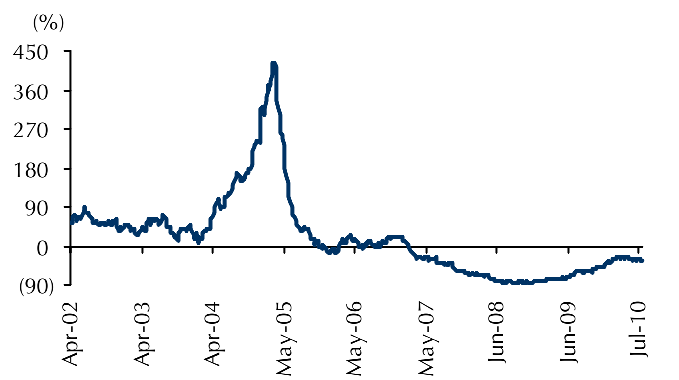
Source: Bloomberg, RCML Research

Fig 97 - Shree Cement: EV/EBITDA band



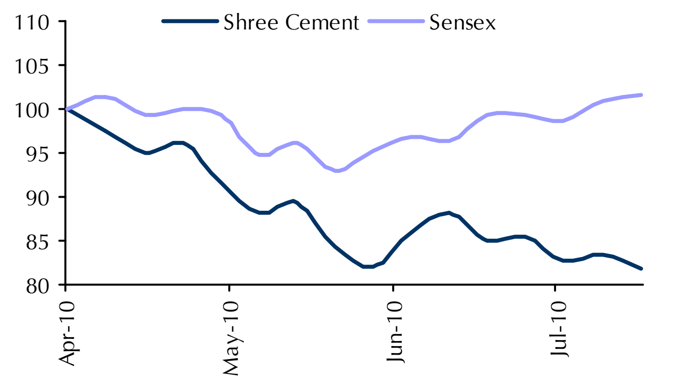
Source: Bloomberg, RCML Research

Fig 98 - Shree Cement: Premium/discount to Sensex



Source: Bloomberg, RCML Research

Fig 99 - Shree Cement v/s Sensex



Source: Bloomberg, RCML Research

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Revenues	**26,642**	**36,321**	**39,614**	**55,340**
Growth (%)	*29.0*	*36.3*	*9.1*	*39.7*
EBITDA	**9,505**	**15,291**	**13,578**	**20,851**
Growth (%)	*10.2*	*60.9*	*(11.2)*	*53.6*
Depreciation & amortisation	2,054	5,704	5,310	9,820
EBIT	7,451	9,586	8,268	11,032
Growth (%)	*94.2*	*28.7*	*(13.8)*	*33.4*
Interest	744	599	1,177	1,057
Other income	829	758	1,177	1,177
EBT	7,536	9,746	8,268	11,152
Income taxes	1,449	1,918	1,364	2,230
Effective tax rate (%)	*19.2*	*19.7*	*16.5*	*20.0*
Extraordinary items	(309)	(1,067)	-	-
Min into / inc from associates	-	-	-	-
Reported net income	5,777	6,761	6,904	8,921
Adjustments	(309)	(1,067)	-	-
Adjusted net income	**6,087**	**7,828**	**6,904**	**8,921**
Growth (%)	*103.4*	*28.6*	*(11.8)*	*29.2*
Shares outstanding (mn)	34.8	34.8	34.8	34.8
FDEPS (Rs) (adj)	**174.7**	**225**	**198**	**256**
Growth (%)	*103.4*	*28.6*	*(11.8)*	*29.2*
DPS (Rs)	10.0	8.0	8.0	8.0

Balance sheet

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and cash eq	4,723	8,399	8,085	18,118
Accounts receivable	583	796	1,085	1,668
Inventories	1,545	1,901	2,497	3,780
Other current assets	7,443	7,443	7,443	7,592
Investments	8,448	10,448	10,448	10,448
Gross fixed assets	22,559	37,348	44,348	53,848
Net fixed assets	6,269	15,353	17,043	16,723
CWIP	4,789	1,000	4,500	2,500
Intangible assets	-	-	-	-
Deferred tax assets, net	104	251	251	251
Other assets	-	-	-	-
Total assets	**33,903**	**45,593**	**51,353**	**61,081**
Accounts payable	2,602	3,184	3,799	6,065
Other current liabilities	354	354	354	354
Provisions	3,885	2,395	1,693	2,559
Debt funds	14,962	20,058	19,328	17,328
Other liabilities	-	-	-	-
Equity capital	348	348	348	348
Reserves & surplus	11,752	19,253	25,831	34,426
Shareholder's funds	12,100	19,602	26,179	34,775
Total liabilities	**33,903**	**45,593**	**51,353**	**61,081**
BVPS (Rs)	347.3	562.6	751.4	1,008.1

Cash flow statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Net income + Depreciation	7,831	12,465	12,214	18,741
Non-cash adjustments	415	(490)	(702)	866
Changes in working capital	219	12	(270)	252
Cash flow from operations	8,465	11,988	11,242	19,859
Capital expenditure	(5,330)	(11,000)	(10,500)	(7,500)
Change in investments	(3,660)	(2,000)	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(8,990)	(13,000)	(10,500)	(7,500)
Issue of equity	-	-	-	-
Issue/repay debt	1,655	5,097	(730)	(2,000)
Dividends paid	(1,081)	(408)	(326)	(326)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	48	3,677	(314)	10,033
Closing cash & cash eq	4,723	8,399	8,085	18,118

Financial ratios

Y/E March	FY09	FY10	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	35.7	42.1	34.3	37.7
EBIT margin	28.0	26.4	20.9	19.9
Net profit margin	22.8	21.6	17.4	16.1
ROE	64.7	49.4	30.2	29.3
ROCE	28.3	24.9	18.5	20.0
Working Capital & Liquidity ratios				
Receivables (days)	7	7	9	9
Inventory (days)	35	30	31	33
Payables (days)	45	50	49	52
Current ratio (x)	4.8	5.2	4.6	4.9
Quick ratio (x)	1.8	2.6	2.2	3.1
Turnover & Leverage ratios (x)				
Gross asset turnover	1.2	1.2	1.0	1.1
Total asset turnover	0.9	0.9	0.8	1.0
Interest coverage ratio	10.0	16.0	7.0	10.4
Adjusted debt/equity	1.2	1.0	0.7	0.5
Valuation ratios (x)				
EV/Sales	2.4	1.8	1.6	1.2
EV/EBITDA	6.7	4.2	4.7	3.1
P/E	10.3	8.0	9.1	7.0
P/BV	5.2	3.2	2.4	1.8

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10	FY11E	FY12E
WACC (%)	10.0	10.0	10.0	10.0
ROIC (%)	27.2	25.7	19.0	23.3
Invested capital (Rs mn)	26,225	33,656	39,115	36,544
EVA (Rs mn)	4,510	5,275	3,493	4,855
EVA spread (%)	17.2	15.7	8.9	13.3

Quarterly trend

Particulars	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Revenue (Rs mn)	8,062	9,229	8,996	8,660	9,440
YoY growth (%)	*24.0*	*50.2*	*43.0*	*30.2*	*17.1*
QoQ growth (%)	*21.2*	*14.5*	*(2.5)*	*(3.7)*	*9.0*
EBITDA (Rs mn)	3,306	4,255	4,088	3,353	3,347
EBITDA margin (%)	*41.0*	*46.1*	*45.4*	*38.7*	*35.5*
Adj net income (Rs mn)	2,439	2,916	2,895	1,674	267
YoY growth (%)	*494.9*	*162.9*	*169.3*	*29.6*	*(89.0)*
QoQ growth (%)	*88.9*	*19.5*	*(0.7)*	*(42.2)*	*(84.0)*

DuPont analysis

(%)	FY08	FY09	FY10	FY11E	FY12E
Tax burden (Net income/PBT)	73.5	80.8	80.3	83.5	80.0
Interest burden (PBT/EBIT)	106.1	101.1	101.7	100.0	101.1
EBIT margin (EBIT/Revenues)	18.6	28.0	26.4	20.9	19.9
Asset turnover (Revenues/Avg TA)	98.3	90.7	91.4	81.7	98.4
Leverage (Avg TA/Avg equtiy)	357.2	312.0	250.8	211.8	184.5
Return on equity	**50.9**	**64.7**	**49.4**	**30.2**	**29.3**

Company profile

Promoted by BG Bangur, Shree Cement is among the top 10 cement producers in India with an installed capacity of 9.1mt. Its plants are located in Beawar and Ras (Rajasthan). The company continues to maintain its leadership position in northern India. It has a total captive power capacity of 116MW, meeting more than 95% of its total power requirement..

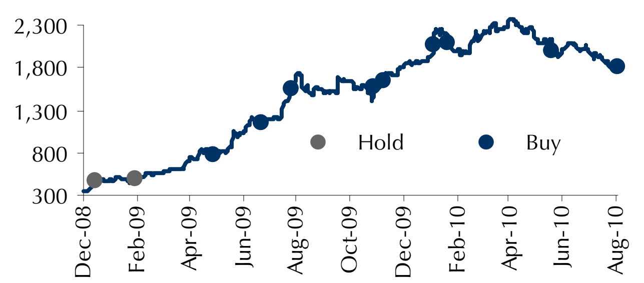
Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	65.6	65.6	65.5
FIIs	15.1	15.8	16.0
Banks & FIs	9.4	8.8	8.3
Public	9.9	9.8	10.2

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	460	485	Hold
29-Jan-09	Results Review	498	525	Hold
29-Apr-09	Results Review	775	893	Buy
22-Jun-09	Monthly Update	1,156	1,340	Buy
27-Jul-09	Results Review	1,539	1,967	Buy
29-Oct-09	Results Review	1,574	1,967	Buy
9-Nov-09	Company Update	1,645	1,967	Buy
6-Jan-10	Quarterly Preview	2,025	2,165	Buy
22-Jan-10	Results Review	2,087	2,428	Buy
21-May-10	Results Review	1,990	2,300	Buy
04-Aug-10	Company Update	1,798	2,400	Buy

Stock performance



Birla Corporation Ltd

Best mid cap play

We remain positive on Birla Corp (BCORP) given the company's presence in high-growth regions and its deleveraged balance sheet. BCORP has reported one of the highest EBITDA/t numbers among mid cap cement players, at Rs 1,120 in Q1FY11. Although the company will feel the heat from lower prices and volumes in Q2FY11, we believe it is best placed to tap into the approaching cement upcycle given timely capacity expansion and high operational efficiencies. We view BCORP as the best play in our mid cap cement universe and reiterate Buy with a revised March '11 target of Rs 500 (39% upside).

Expansion will drive volume growth: BCORP plans to expand capacity by 3.5mt, of which 1.7mt will be commissioned in Q2FY11.This will take the company's total capacity to 7.5mt in FY11. Further, another 1.8mt in Rajasthan and West Bengal will sustain volume growth in FY13. A presence in high-growth markets in Central and East India – which together account for 70–75% of its revenue mix – will benefit the company amid the current subdued demand environment.

High operational efficiencies: BCORP has been an efficient player in the industry as it sells a higher percentage of blended cement (75–80% of volumes) and has a lower lead distance to market (less than 400km). Further, the company is planning to add ~52MW of power generation plants in FY12, including 22MW of waste heat recovery. This will augment its existing ~90MW of captive power, enhancing cost savings in the medium term.

Strong balance sheet: In FY10, BCORP had net cash and equivalents of Rs 7.7bn, which translate to Rs 100/sh. This, we believe, is a key positive for the company as its expansion plans over the next 2–3 years can be entirely met out of internal accruals.

Best mid cap play; maintain Buy: We have valued the company at 4.5x EV/EBITDA on FY12E and arrived at a revised March '11 target price of Rs 500 (from our earlier December '11 target of Rs 465). Our revised target offers a 39% upside from current levels and represents a P/E of 6.6x on FY12E. We believe the stock is the best mid cap play in the pure cement space and reiterate our Buy recommendation. Though the company would have a subdued Q2FY11 in terms of volumes and realisations, any decline will be an opportunity to accumulate the stock.

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 360	Rs 500	BUY	HIGH

BSE	NSE	BLOOMBERG
500335	BIRLACORPN	BCORP IN

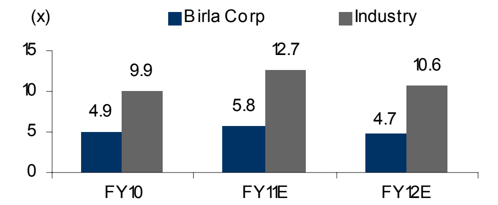
Company data

Market cap (Rs mn / US$ mn)	27,415/593
Outstanding equity shares (mn)	77
Free float (%)	36.3
Dividend yield (%)	1.4
52-week high/low (Rs)	423 / 267
2-month average daily volume	24,386

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Birla Corp	360	(1.8)	(8.0)	(2.1)
Sensex	18,115	3.7	4.2	9.8

P/E comparison



Valuation matrix

(x)	FY09	FY10	FY11E	FY12E
P/E @ CMP	8.5	4.9	5.8	4.7
P/E @ Target	11.9	6.9	8.1	6.6
EV/EBITDA @ CMP	6.3	3.8	4.4	3.4

Financial highlights

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenue	17,907	21,570	23,721	28,732
Growth (%)	*3.8*	*20.5*	*10.0*	*21.1*
Adj net income	3,235	5,576	4,751	5,820
Growth (%)	*(22.9)*	*72.4*	*(14.8)*	*22.5*
FDEPS (Rs)	42.0	72.4	61.7	75.6
Growth (%)	*(22.9)*	*72.4*	*(14.8)*	*22.5*

Profitability and return ratios

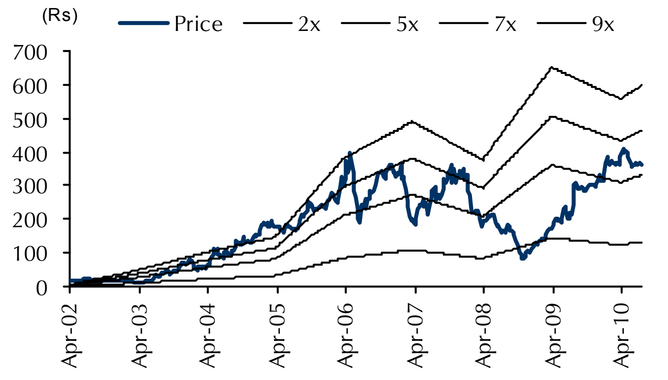
(%)	FY09	FY10	FY11E	FY12E
EBITDA margin	23.8	32.7	25.9	27.8
EBIT margin	21.4	30.1	23.1	24.6
Adj PAT margin	18.1	25.9	20.0	20.3
ROE	28.2	36.2	23.7	23.5
ROIC	19.5	26.5	15.2	16.4
ROCE	23.9	28.4	18.5	19.7

Fig 100 - Quarterly performance

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	5,749	4,904	17.2	6,020	(4.5)
Expenditure	4,102	3,148	30.3	4,284	(4.3)
Operating profit	1,647	1,756	(6.2)	1,736	(5.1)
Other income	285	519	(45.0)	400	(28.8)
Interest	139	60	133.1	86	61.5
Depreciation	140	133	5	143	(1.7)
PBT	1,653	2,082	(20.6)	1,907	(13.3)
Tax	470	528	(11.0)	532	(11.7)
PAT	1,183	1,554	(23.9)	1,375	(14.0)
EBITDA margin (%)	28.6	35.8	(716bps)	28.8	(19bps)
FDEPS (Rs)	15.3	20.2	(24.0)	17.8	(14.0)

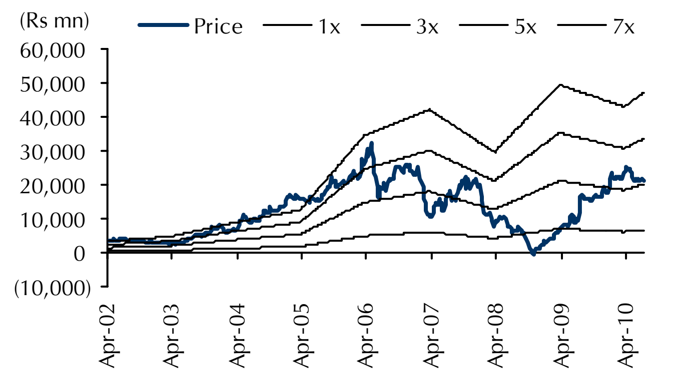
Source: Company, RCML Research

Fig 101 - Birla Corp: P/E band



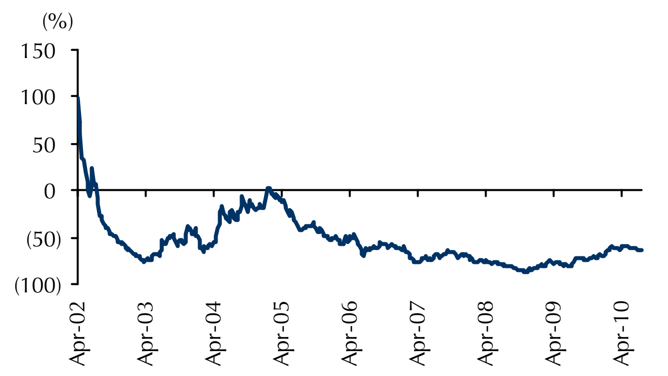
Source: Bloomberg, RCML Research

Fig 102 - Birla Corp: EV/EBITDA band



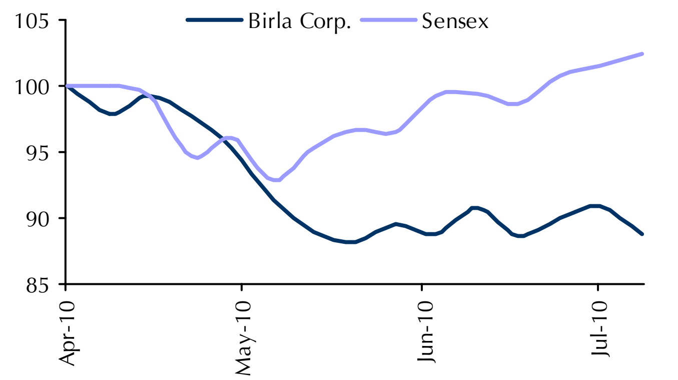
Source: Bloomberg, RCML Research

Fig 103 - Birla Corp: Premium/discount over Sensex



Source: Bloomberg, RCML Research

Fig 104 - Birla Corp v/s Sensex



Source: Bloomberg, RCML Research

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Revenues	**17,907**	**21,570**	**23,721**	**28,732**
Growth (%)	*3.8*	*20.5*	*10.0*	*21.1*
EBITDA	**4,258**	**7,056**	**6,148**	**7,997**
Growth (%)	*(29.2)*	*65.7*	*(12.9)*	*30.1*
Depreciation & amortisation	434	556	659	926
EBIT	3,824	6,499	5,489	7,071
Growth (%)	*(31.7)*	*70.0*	*(15.5)*	*28.8*
Interest	221	270	168	160
Other income	761	1,383	1,606	1,569
EBT	4,365	7,613	6,927	8,479
Income taxes	1,130	2,036	2,176	2,660
Effective tax rate (%)	*25.9*	*26.7*	*31.4*	*31.4*
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	3,235	5,576	4,751	5,820
Adjustments	-	-	-	-
Adjusted net income	**3,235**	**5,576**	**4,751**	**5,820**
Growth (%)	*(22.9)*	*72.4*	*(14.8)*	*22.5*
Shares outstanding (mn)	77.0	77.0	77.0	77.0
FDEPS (Rs) (adj)	**42.0**	**72.4**	**61.7**	**75.6**
Growth (%)	*(22.9)*	*72.4*	*(14.8)*	*22.5*
DPS (Rs)	5.0	6.0	6.0	6.0

Cash flow statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Net income + Depreciation	3,670	6,133	5,410	6,746
Non-cash adjustments	(246)	(430)	422	135
Changes in working capital	611	(894)	123	(733)
Cash flow from operations	4,035	4,808	5,955	6,149
Capital expenditure	(1,693)	(2,800)	(5,800)	(6,000)
Change in investments	1,109	(5,555)	-	1,000
Other investing cash flow	(254)	-	-	-
Cash flow from investing	(838)	(8,350)	(5,800)	(5,000)
Issue of equity	-	-	-	-
Issue/repay debt	46	4,368	(1,725)	-
Dividends paid	(360)	(631)	(314)	(541)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	2,883	196	(1,884)	608
Closing cash & cash eq	3,197	3,393	1,509	2,117

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10	FY11E	FY12E
WACC (%)	10.6	10.6	10.6	10.6
ROIC (%)	19.5	26.5	15.2	16.4
Invested capital (Rs mn)	13,116	22,271	27,275	32,066
EVA (Rs mn)	1,158	3,531	1,241	1,831
EVA spread (%)	8.8	15.9	4.6	5.7

Balance sheet

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and cash eq	3,197	3,393	1,509	2,117
Accounts receivable	200	221	325	472
Inventories	1,929	2,837	2,889	3,408
Other current assets	1,513	1,968	2,372	3,161
Investments	5,523	11,425	11,425	10,425
Gross fixed assets	13,542	14,300	20,378	28,378
Net fixed assets	6,600	6,987	12,406	19,479
CWIP	1,419	3,278	3,000	1,000
Intangible assets	-	-	-	-
Deferred tax assets, net	(772)	(795)	(809)	(824)
Other assets	-	-	-	-
Total assets	**19,609**	**29,319**	**33,121**	**39,245**
Accounts payable	3,296	3,650	4,333	5,056
Other current liabilities	-	-	-	-
Provisions	672	665	1,299	1,420
Debt funds	2,764	7,092	5,367	5,367
Other liabilities	-	-	-	-
Equity capital	770	770	770	770
Reserves & surplus	12,065	17,100	21,311	26,631
Shareholder's funds	12,877	17,912	22,122	27,402
Total liabilities	**19,609**	**29,319**	**33,121**	**39,245**
BVPS (Rs)	166.7	232.1	286.7	365.8

Financial ratios

Y/E March	FY09	FY10	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	23.8	32.7	25.9	27.8
EBIT margin	21.4	30.1	23.1	24.6
Net profit margin	18.1	25.9	20.0	20.3
ROE	28.3	36.3	23.8	23.5
ROCE	23.9	28.4	18.5	19.7
Working Capital & Liquidity ratios				
Receivables (days)	5	4	4	5
Inventory (days)	53	60	59	55
Payables (days)	73	87	83	83
Current ratio (x)	2.1	2.3	1.6	1.8
Quick ratio (x)	1.0	1.0	0.4	0.5
Turnover & Leverage ratios (x)				
Gross asset turnover	1.4	1.5	1.4	1.2
Total asset turnover	0.9	0.9	0.8	0.8
Interest coverage ratio	17.3	24.1	32.7	44.1
Adjusted debt/equity	0.2	0.4	0.2	0.2
Valuation ratios (x)				
EV/Sales	1.5	1.3	1.1	0.9
EV/EBITDA	6.3	3.8	4.4	3.4
P/E	8.5	4.9	5.8	4.7
P/BV	2.1	1.5	1.2	1.0

Quarterly trend

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	4,904	5,057	5,589	6,020	5,749
YoY growth (%)	*23.9*	*35.2*	*23.6*	*5.5*	*17.2*
QoQ growth (%)	*(14.1)*	*3.1*	*10.5*	*7.7*	*(4.5)*
EBITDA (Rs mn)	1,756	1,935	1,626	1,736	1,647
EBITDA margin (%)	*35.8*	*38.3*	*29.1*	*28.8*	*28.6*
Adj net income (Rs mn)	1,554	1,521	1,124	1,375	1,183
YoY growth (%)	*69.2*	*154.7*	*38.1*	*51.6*	*(23.9)*
QoQ growth (%)	*71.3*	*(2.1)*	*(26.1)*	*22.3*	*(14.0)*

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	72.7	74.1	73.3	68.6	68.6
Interest burden (PBT/EBIT)	103.1	114.1	117.1	126.2	119.9
EBIT margin (EBIT/Revenues)	32.5	21.4	30.1	23.1	24.6
Asset turnover (Revenues/Avg TA)	104.1	92.0	88.2	76.0	79.4
Leverage (Avg TA/Avg equtiy)	198.3	169.8	158.9	155.9	146.1
Return on equity	**50.2**	**28.2**	**36.2**	**23.7**	**23.5**

Company profile

Birla Corp, a part of M P Birla group, has an installed capacity of 5.8mt spread across four cement units located in Madhya Pradesh, Rajasthan and West Bengal. Brownfield expansion at existing locations will increase the company's cement capacity by 1.7mt to 7.5mt by the end of FY11.

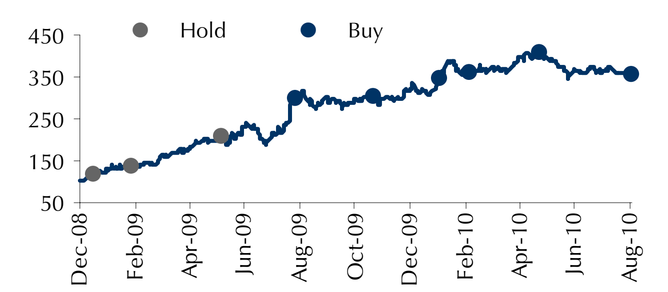
Shareholding pattern

(%)	Sep-09	Dec-09	Mar-10
Promoters	62.9	62.9	63.7
FIIs	19.3	20.2	20.4
Banks & FIs	5.9	5.6	5.5
Public	11.9	11.3	10.4

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	116	127	Hold
28-Jan-09	Results Review	137	144	Hold
8-May-09	Results Review	205	197	Hold
28-Jul-09	Results Review	296	365	Buy
23-Oct-09	Results Review	301	365	Buy
6-Jan-10	Quarterly Preview	345	373	Buy
2-Feb-10	Results Review	355	427	Buy
26-Apr-10	Results Review	403	465	Buy
04-Aug-10	Company Update	360	500	Buy

Stock performance



Orient Paper & Industries Ltd

Best operational efficiencies in the south

A high volume growth trajectory coupled with operational efficiencies make Orient Paper & Industries (OPI) the best bet among south-based cement mid caps. The company reported an EBIT/t of Rs 723 for Q1FY11 – much ahead of its regional counterparts as efficiency gains came into play. Valuations are inexpensive on an EV/t basis (US$ 49/t) considering the company's recent cement capacity expansion from 3.6mt to 5mt. OPI's other businesses such as the electrical division are expected to do well, while the paper business has hit a bottom and should perform better in H2FY11. We maintain Buy with a target price of Rs 70 (30% upside).

Mixed bag in Q1FY11: OPI has reported a strong cement EBIT/t of Rs 723 in Q1FY11 – much higher than its south-based peers on the back of operational efficiencies. However, it recorded a net EBIT loss of Rs 233mn in the paper business, which continued to suffer from non-availability of water during the quarter. The overall EBITDA margin dropped 231bps YoY to 16.2% owing to the losses in the paper business. The company is building a water reservoir which is likely to commence in August '10, and hence we expect losses to be addressed in H2FY11.

Q2FY11 tough for cement biz, revival seen in Q3: OPI is likely to face challenges in terms of lower cement EBITDA/t in Q2FY11, as realisations take a severe hit. However, we expect cement prices to bottom out in Q2FY11 and volumes to remain firm (up 50% YoY in Q1FY11). Thus, we anticipate a strong overall performance from the company in Q3FY11.

Maintain Buy: We have trimmed our earnings estimates by 6.5% for FY11, to build in losses from the paper division and lower cement prices. Based on an EV/EBITDA of 5x on FY12E, we arrive at our March '11 target price of Rs 70 (P/E of 7.5x one-year forward). On EV/t, the company is trading at US$ 49 which is attractive. The stock has corrected 25% from its peak in the last four months and we see little downside from current levels. We therefore recommend buying on dips.

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 53	Rs 70	BUY	HIGH

BSE	NSE	BLOOMBERG
502420	ORIENTPPR	OPI IN

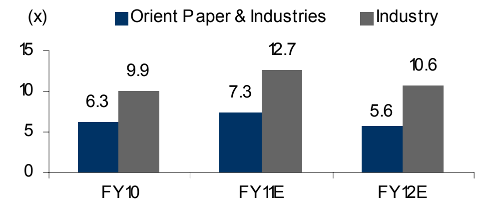
Company data

Market cap (Rs mn / US$ mn)	10,225 / 221
Outstanding equity shares (mn)	193
Free float (%)	66.3
Dividend yield (%)	2.8
52-week high/low (Rs)	66 / 43
2-month average daily volume	294,497

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Orient Paper	53	(4.9)	(7.6)	16.0
Sensex	18,115	3.7	4.2	9.8

P/E comparison



Valuation matrix

(x)	FY09	FY10	FY11E	FY12E
P/E @ CMP	4.1	6.3	7.3	5.6
P/E @ Target	5.5	8.4	9.6	7.3
EV/EBITDA @ CMP	3.7	4.7	5.0	4.1

Financial highlights

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenue	15,083	16,198	16,984	19,428
Growth (%)	16.4	7.4	4.9	14.4
Adj net income	2,475	1,613	1,407	1,839
Growth (%)	21.0	(34.8)	(12.8)	30.7
FDEPS (Rs)	12.8	8.4	7.3	9.5
Growth (%)	5.9	(34.8)	(12.8)	30.7

Profitability and return ratios

(%)	FY09	FY10	FY11E	FY12E
EBITDA margin	26.0	19.1	17.0	18.3
EBIT margin	23.7	15.7	13.0	14.7
Adj PAT margin	16.4	10.0	8.3	9.5
ROE	43.2	22.5	16.9	19.4
ROIC	27.3	14.0	10.9	13.6
ROCE	29.6	16.1	12.1	14.2

Fig 105 - Quarterly performance

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	8,807	9,535	(7.6)	9,642	(8.7)
Expenditure	7,806	6,671	17.0	8,383	(6.9)
Operating profit	1,001	2,863	(65)	1,259	(20.5)
Other income	285	68	321	129	121.6
Interest	298	385	(22.7)	369	(19.3)
Depreciation	599	571	4.9	616	(2.8)
PBT	389	1,976	(80.3)	403	(3.4)
Tax	24	743	(96.8)	143	(83.2)
PAT	108	1,233	(91.3)	297	(63.8)
EBITDA margin (%)	11.4	30.0	(1867bps)	13.1	(170bps)
FDEPS (Rs)	0.4	4.4	(91.3)	1.0	(63.8)

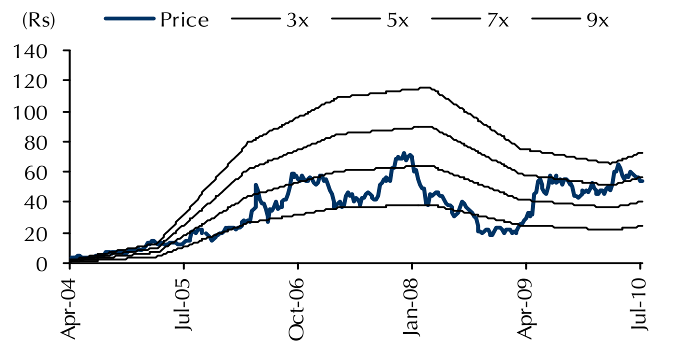
Source: Company, RCML Research

Fig 106 - Revised estimates

Key parameters (Rs mn)	FY11E		
	Old	New	% Chg
Revenue	17,711	16,984	(4.1)
EBITDA margin (%)	17.2	17.0	(22bps)
Net profit	1,514	1,407	(6.5)
FDEPS (Rs)	7.8	7.3	(6.5)

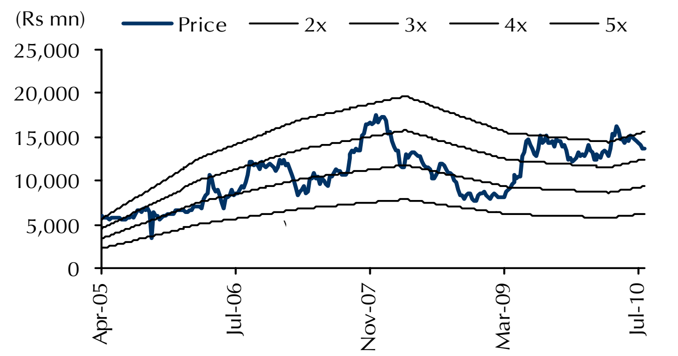
Source: RCML Research

Fig 107 - Orient Paper: P/E band



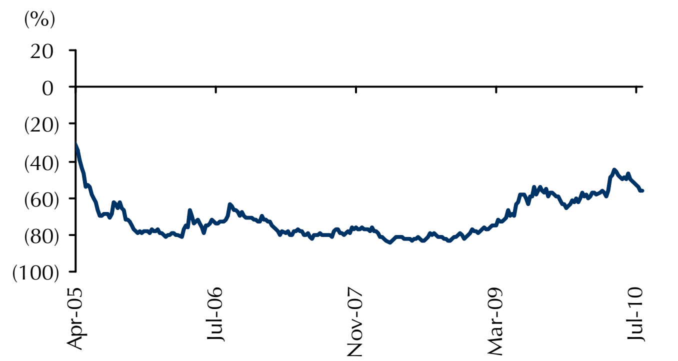
Source: Bloomberg, RCML Research

Fig 108 - Orient Paper: EV/EBITDA band



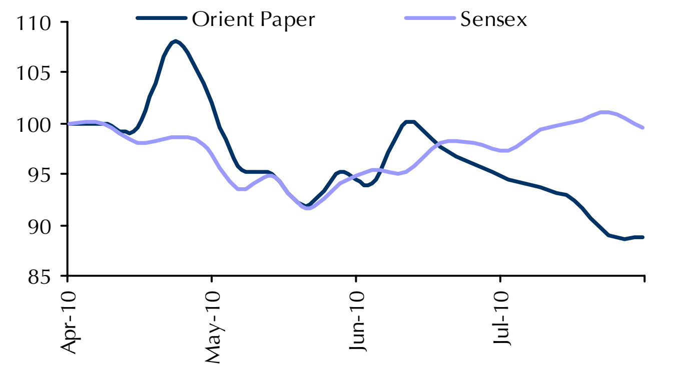
Source: Bloomberg, RCML Research

Fig 109 - Orient Paper: Premium/discount over Sensex



Source: Bloomberg, RCML Research

Fig 110 - Orient Paper v/s Sensex



Source: Bloomberg, RCML Research

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Revenues	**15,083**	**16,198**	**16,984**	**19,428**
Growth (%)	*16.4*	*7.4*	*4.9*	*14.4*
EBITDA	**3,928**	**3,097**	**2,884**	**3,562**
Growth (%)	*15.3*	*(21.2)*	*(6.9)*	*23.5*
Depreciation & amortisation	347	550	682	707
EBIT	3,581	2,547	2,202	2,855
Growth (%)	*14.2*	*(28.9)*	*(13.6)*	*29.7*
Interest	207	345	334	385
Other income	201	159	232	275
EBT	3,575	2,361	2,100	2,745
Income taxes	1,100	748	693	906
Effective tax rate (%)	*30.8*	*31.7*	*33.0*	*33.0*
Extraordinary items	(486)	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,989	1,613	1,407	1,839
Adjustments	(486)	-	-	-
Adjusted net income	**2,475**	**1,613**	**1,407**	**1,839**
Growth (%)	*21.0*	*(34.8)*	*(12.8)*	*30.7*
Shares outstanding (mn)	192.9	192.9	192.9	192.9
FDEPS (Rs) (adj)	**12.8**	**8.4**	**7.3**	**9.5**
Growth (%)	*5.9*	*(34.8)*	*(12.8)*	*30.7*
DPS (Rs)	1.5	1.5	1.5	1.5

Cash flow statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Net income + Depreciation	2,336	2,186	2,089	2,546
Non-cash adjustments	574	632	(18)	43
Changes in working capital	(521)	(491)	(435)	(355)
Cash flow from operations	2,389	2,327	1,636	2,234
Capital expenditure	(5,026)	(1,916)	(800)	(800)
Change in investments	-	(380)	-	-
Other investing cash flow	(32)	(0)	-	-
Cash flow from investing	(5,058)	(2,296)	(800)	(800)
Issue of equity	5	4	-	-
Issue/repay debt	2,970	512	(0)	(0)
Dividends paid	(165)	(338)	(338)	(338)
Other financing cash flow	(70)	(74)	-	-
Change in cash & cash eq	72	135	498	1,096
Closing cash & cash eq	332	467	965	2,061

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10	FY11E	FY12E
WACC (%)	11.5	11.5	11.5	11.5
ROIC (%)	27.3	14.0	10.9	13.6
Invested capital (Rs mn)	11,571	13,257	13,810	14,258
EVA (Rs mn)	1,836	339	(77)	310
EVA spread (%)	15.9	2.6	(0.6)	2.2

Balance sheet

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and cash eq	332	464	965	2,061
Accounts receivable	1,407	1,844	1,861	2,182
Inventories	1,097	1,503	1,623	1,869
Other current assets	1,028	1,173	1,173	1,173
Investments	92	472	472	472
Gross fixed assets	8,503	16,365	17,733	18,533
Net fixed assets	3,845	11,159	11,845	11,938
CWIP	6,587	568	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(502)	(1,103)	(1,103)	(1,103)
Other assets	29	-	-	-
Total assets	**13,915**	**16,081**	**16,837**	**18,592**
Accounts payable	1,993	2,346	2,047	2,260
Other current liabilities	-	-	-	-
Provisions	765	808	793	870.9
Debt funds	4,623	5,135	5,135	5,135
Other liabilities	-	29	29	29
Equity capital	203	203	203	203
Reserves & surplus	6,319	7,796	8,864	10,133
Shareholder's funds	6,522	7,763	8,833	10,297
Total liabilities	**13,915**	**16,081**	**16,837**	**18,592**
BVPS (Rs)	33.8	40.4	45.9	53.6

Financial ratios

Y/E March	FY09	FY10	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	26.0	19.1	17.0	18.3
EBIT margin	23.7	15.7	13.0	14.7
Net profit margin	16.4	10.0	8.3	9.5
ROE	43.5	22.5	16.9	19.4
ROCE	29.6	16.1	12.1	14.2
Working Capital & Liquidity ratios				
Receivables (days)	33.5	36.6	39.8	38.0
Inventory (days)	34.2	36.2	40.5	40.2
Payables (days)	52.9	60.4	56.9	49.6
Current ratio (x)	1.9	2.1	2.7	3.2
Quick ratio (x)	0.9	1.0	1.4	1.9
Turnover & Leverage ratios (x)				
Gross asset turnover	1.9	1.3	1.0	1.1
Total asset turnover	1.4	1.1	1.0	1.1
Interest coverage ratio	17.3	7.4	6.6	7.4
Adjusted debt/equity	0.7	0.7	0.6	0.5
Valuation ratios (x)				
EV/Sales	1.0	0.9	0.9	0.8
EV/EBITDA	3.7	4.7	5.1	4.1
P/E	4.2	6.5	7.4	5.7
P/BV	1.6	1.3	1.2	1.0

Quarterly trend

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	3,453	3,532	3,701	5,479	4,416
YoY growth (%)	*7.3*	*0.2*	*7.0*	*17.3*	*27.9*
QoQ growth (%)	*(26.1)*	*2.3*	*4.8*	*48.1*	*(19.4)*
EBITDA (Rs mn)	641	711	673	1,047	717
EBITDA margin (%)	18.6	20.1	18.2	19.1	16.2
Adj net income (Rs mn)	340	405	301	547	342
YoY growth (%)	*(26.2)*	*(10.2)*	*(39.9)*	*0.2*	*0.5*
QoQ growth (%)	*(37.7)*	*19.1*	*(25.6)*	*81.6*	*(37.5)*

DuPont analysis

(%)	FY08	FY09	FY10	FY11E	FY12E
Tax burden (Net income/PBT)	65.2	69.2	68.3	67.0	67.0
Interest burden (PBT/EBIT)	100.0	99.8	92.7	95.4	96.2
EBIT margin (EBIT/Revenues)	24.2	23.7	15.7	13.0	14.7
Asset turnover (Revenues/Avg TA)	171.6	135.3	108.0	103.2	109.7
Leverage (Avg TA/Avg equtiy)	226.1	194.5	209.9	198.3	184.8
Return on equity	**61.2**	**43.2**	**22.5**	**16.9**	**19.4**

Company profile

Promoted by the C K Birla group, Orient Paper & Industries is a diversified player engaged in the manufacturing of cement, paper and electrical appliances. The company's cement plants are located in Devapur, Andhra Pradesh and Jalgaon, Maharashtra. Its paper plant is in Amlai, Madhya Pradesh, while the electrical appliances units are in Kolkata, West Bengal and Faridabad, Haryana. Cement is the major revenue contributor (~62% in FY09) followed by electrical appliances and paper (~21% & 17% respectively).

Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	33.9	33.5	33.7
FIIs	3.7	3.6	3.4
Banks & FIs	30.6	31.9	33.2
Public	31.8	31.0	29.7

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	21	39	Buy
27-Jan-09	Results Review	19	31	Buy
12-Jun-09	Results Review	55	66	Buy
28-Jul-09	Results Review	52	62	Buy
27-Oct-09	Results Review	46	52	Hold
14-Jan-10	Results Review	50	49	Hold
05-May-10	Results Review	56	70	Buy
30-Jul-10	Results Review	53	70	Buy
04-Aug-10	Company Update	53	70	Buy

Stock performance

India Cements Ltd

Outlook remains bleak

India Cements (ICEM) continues to bear the brunt of weak cement prices in the southern market, leading to severely crunched margins. The company has clocked one of the lowest EBITDA/t figures in the industry in Q1FY11 and will likely register a feeble performance in Q2FY11 as well. While volume growth could improve following capacity expansion in the new market of Rajasthan, lower cement prices and higher coal costs will continue to crimp profitability. The stock has dropped 23% in the last four months and we believe the bad run will continue. We thus maintain a Sell on ICEM.

Dismal Q1FY11 results: ICEM has reported dismal Q1FY11 results with a decline in topline and PAT by 7.6% and 91.3% YoY respectively. The company has clocked an EBITDA/t of Rs 385 during the quarter – one of the lowest in the industry. We believe the weak performance would spill over into the next quarter as well, with realisations taking a severe hit.

Concentration in South India a drag on profits: The decline in cement prices has been particularly severe in South India – ICEM, which has its business concentrated in the south, is unlikely to recover from the slump in profitability in the near term. We expect the company's EBITDA/t to touch a low of Rs 175–225/t in Q2FY11, leading to a net loss in that quarter. However, the commissioning of a new cement plant in Rajasthan during the second quarter could lead to better volumes from H2FY11 onwards.

CPP benefits in FY12: ICEM is setting up two captive power plants of 50MW each in Andhra Pradesh and Tamil Nadu, likely to be operational in Q4FY11 and Q3FY12 respectively. Thus, the benefits of lower power expenses would accrue from FY12 onwards.

IPL franchise valued at Rs 30/sh: We have valued the company's IPL cricket franchise based on the latest bids for the Pune/Kochi team, taking the second highest offer as a benchmark. Based on the value of US$ 330mn and after deducting ICEM's outstanding dues and assigning a 25% discount, we arrive at a value of Rs 30/sh.

Earnings downgraded; maintain Sell: In order to factor in lower cement prices, we have cut our earnings estimate by 62% and 23% for FY11 and FY12 respectively. We value the company at an EV/t of US$ 60 and arrive at a target price of Rs 100 after including the IPL value of Rs 30/sh. We believe the stock will continue to underperform and therefore maintain our Sell recommendation.

What's New?	Target	Rating	Estimates

CMP	TARGET	RATING	RISK
Rs 104	Rs 100	SELL	HIGH

BSE	NSE	BLOOMBERG
530005	INDIACEM	ICEM IN

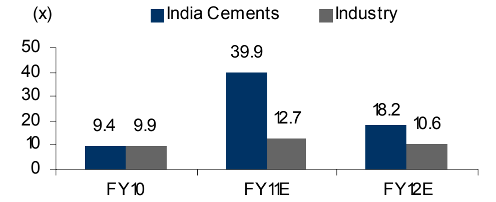
Company data

Market cap (Rs mn / US$ mn)	29,032 / 629
Outstanding equity shares (mn)	282
Free float (%)	74.8
Dividend yield (%)	2.9
52-week high/low (Rs)	156 / 97
2-month average daily volume	945,161

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
India Cement	104	(3.8)	(16.7)	(13.5)
Sensex	18,115	3.7	4.2	9.8

P/E comparison



Valuation matrix

(x)	FY09	FY10	FY11E	FY12E
P/E @ CMP	5.8	9.4	39.9	18.2
P/E @ Target	5.6	9.1	38.8	17.7
EV/EBITDA @ CMP	5.9	7.4	12.5	9.7

Financial highlights

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenue	33,595	36,873	36,560	42,606
Growth (%)	*10.4*	*9.8*	*(0.8)*	*16.5*
Adj net income	5,219	3,108	792	1,737
Growth (%)	*(23.9)*	*(40.5)*	*(74.5)*	*119.4*
FDEPS (Rs)	17.8	11.0	2.6	5.7
Growth (%)	*(31.5)*	*(38.3)*	*(76.6)*	*119.4*

Profitability and return ratios

(%)	FY09	FY10	FY11E	FY12E
EBITDA margin	27.9	20.3	12.1	13.4
EBIT margin	21.9	13.9	5.5	6.9
Adj PAT margin	15.5	8.4	2.2	4.1
ROE	15.0	8.0	1.9	4.1
ROIC	9.9	5.5	2.3	3.4
ROCE	11.3	6.9	3.3	4.5

Fig 111 - Quarterly performance

(Rs mn)	Q1FY11	Q1FY10	% Chg YoY	Q4FY10	% Chg QoQ
Revenue	8,807	9,535	(7.6)	9,642	(8.7)
Expenditure	7,806	6,671	17.0	8,383	(6.9)
Operating profit	1,001	2,863	(65)	1,259	(20.5)
Other income	285	68	321	129	121.6
Interest	298	385	(22.7)	369	(19.3)
Depreciation	599	571	4.9	616	(2.8)
PBT	389	1,976	(80.3)	403	(3.4)
Tax	24	743	(96.8)	143	(83.2)
PAT	108	1,233	(91.3)	297	(63.8)
EBITDA margin (%)	11.4	30.0	(1,867bps)	13.1	(170bps)
FDEPS (Rs)	0.4	4.4	(92.0)	1.0	(63.8)

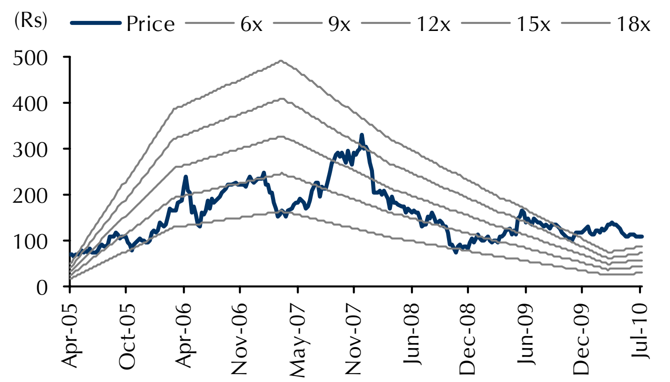
Source: Company, RCML Research

Fig 112 - Revised estimates

Key parameters (Rs mn)	FY11E			FY12E		
	Old	New	% Chg	Old	New	% Chg
Revenue	40,700	36,560	(10.2)	42,517	42,606	0.2
EBITDA margin (%)	17.6	12.1	(550bps)	18.2	13.4	(474bps)
Net profit	2,136	792	(61.6)	2,337	1,737	(23.0)
FDEPS (Rs)	6.7	2.6	(61.6)	7.3	5.7	(23.0)

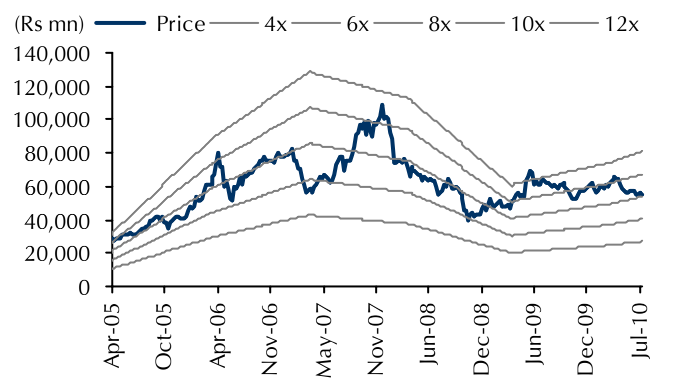
Source: RCML Research

Fig 113 - India Cements: P/E band



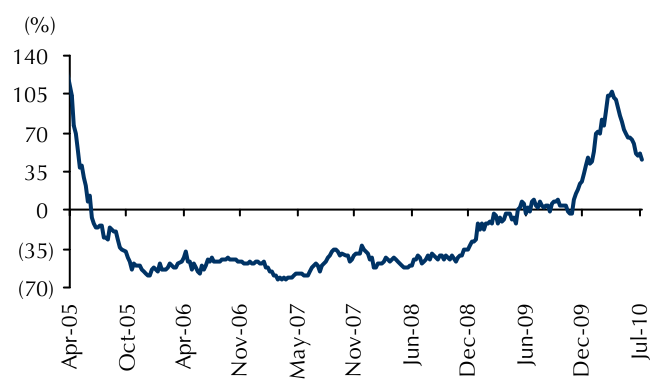
Source: Bloomberg, RCML Research

Fig 114 - India Cements: EV/EBITDA band



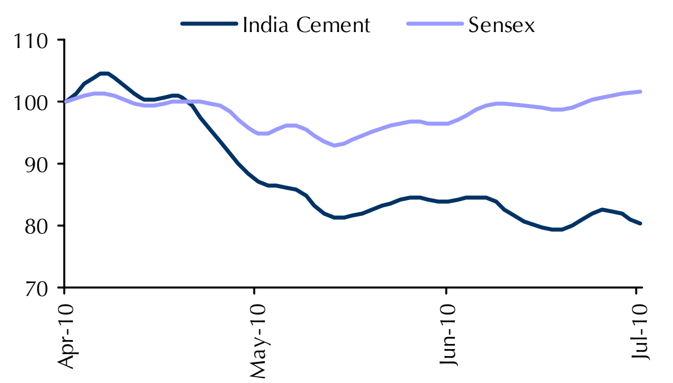
Source: Bloomberg, RCML Research

Fig 115 - India Cements: Premium/discount over BSE



Source: Bloomberg, RCML Research

Fig 116 - India Cements v/s Sensex



Source: Bloomberg, RCML Research

Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Revenues	**33,595**	**36,873**	**36,560**	**42,606**
Growth (%)	*10.4*	*9.8*	*(0.8)*	*16.5*
EBITDA	**9,381**	**7,473**	**4,435**	**5,716**
Growth (%)	*(13.1)*	*(20.3)*	*(40.7)*	*28.9*
Depreciation & amortisation	2,033	2,331	2,442	2,765
EBIT	7,348	5,142	1,993	2,951
Growth (%)	*(22.8)*	*(30.0)*	*(61.2)*	*48.0*
Interest	1,122	1,426	1,630	1,594
Other income	1,052	1,345	686	830
EBT	7,278	5,061	1,049	2,187
Income taxes	2,161	1,818	257	450
Effective tax rate (%)	*29.7*	*35.9*	*24.5*	*20.6*
Extraordinary items	(795)	436	-	-
Min into / inc from associates	-	-	-	-
Reported net income	4,322	3,679	792	1,737
Adjustments	(897)	571	-	-
Adjusted net income	**5,219**	**3,108**	**792**	**1,737**
Growth (%)	*(23.9)*	*(40.5)*	*(74.5)*	*119.4*
Shares outstanding (mn)	282.4	282.4	307.0	307.0
FDEPS (Rs) (adj)	**17.8**	**11.0**	**2.6**	**5.7**
Growth (%)	*(31.5)*	*(38.3)*	*(76.6)*	*119.4*
DPS (Rs)	3.0	2.0	2.0	2.0

Cash flow statement

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Net income + Depreciation	6,355	6,010	3,234	4,502
Non-cash adjustments	1,959	(552)	131	139
Changes in working capital	(2,206)	(4,866)	(3,067)	(302)
Cash flow from operations	6,108	591	298	4,339
Capital expenditure	(9,538)	(2,961)	(5,000)	(2,000)
Change in investments	(324)	(1,989)	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(9,863)	(4,951)	(5,000)	(2,000)
Issue of equity	28	2,831	-	-
Issue/repay debt	981	1,878	6,331	(400)
Dividends paid	(659)	(661)	(1,099)	(718)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	(3,404)	(314)	530	1,220
Closing cash & cash eq	852	538	1,068	2,289

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10	FY11E	FY12E
WACC (%)	11.2	11.2	11.2	11.2
ROIC (%)	9.9	5.5	2.3	3.4
Invested capital (Rs mn)	56,196	63,246	68,772	68,208
EVA (Rs mn)	(683)	(3,566)	(6,105)	(5,275)
EVA spread (%)	(1.2)	(5.6)	(8.9)	(7.7)

Balance sheet

Y/E March (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and cash eq	852	538	1,068	2,289
Accounts receivable	3,540	4,853	4,507	4,786
Inventories	3,705	4,478	4,401	5,053
Other current assets	13,339	18,896	18,896	18,896
Investments	1,590	3,140	3,140	3,140
Gross fixed assets	53,136	57,102	68,131	70,131
Net fixed assets	38,083	39,186	47,773	47,008
CWIP	9,040	7,029	1,000	1,000
Intangible assets	-	-	-	-
Deferred tax assets, net	(2,556)	(2,693)	(2,793)	(2,893)
Other assets	136	-	-	-
Total assets	**67,727**	**75,425**	**77,991**	**79,277**
Accounts payable	7,445	7,296	3,806	4,436
Other current liabilities	3,234	4,346	4,346	4,346
Provisions	854	1,099	750	788
Debt funds	19,880	21,327	27,659	27,259
Other liabilities	-	-	-	-
Equity capital	2,824	3,070	3,070	3,070
Reserves & surplus	33,490	38,286	38,360	39,378
Shareholder's funds	36,314	41,357	41,430	42,449
Total liabilities	**67,727**	**75,425**	**77,991**	**79,277**
BVPS (Rs)	128.6	146.4	134.9	148.3

Financial ratios

Y/E March	FY09	FY10	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	27.9	20.3	12.1	13.4
EBIT margin	21.9	13.9	5.5	6.9
Net profit margin	15.5	8.4	2.2	4.1
ROE	15.0	8.0	1.9	4.1
ROCE	11.3	6.9	3.3	4.5
Working Capital & Liquidity ratios				
Receivables (days)	36	42	47	40
Inventory (days)	53	51	50	47
Payables (days)	103	92	63	41
Current ratio (x)	2.0	2.5	3.5	3.5
Quick ratio (x)	0.3	0.5	0.7	0.8
Turnover & Leverage ratios (x)				
Gross asset turnover	0.7	0.7	0.6	0.6
Total asset turnover	0.5	0.5	0.5	0.5
Interest coverage ratio	6.6	3.6	1.2	1.9
Adjusted debt/equity	0.4	0.4	0.5	0.5
Valuation ratios (x)				
EV/Sales	1.7	1.5	1.5	1.3
EV/EBITDA	5.9	7.4	12.5	9.7
P/E	5.8	9.4	39.9	18.2
P/BV	0.8	0.7	0.8	0.7

Quarterly trend

Particulars	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
Revenue (Rs mn)	9,535	9,894	8,641	9,642	8,807
YoY growth (%)	*13.9*	*4.6*	*14.8*	*8.5*	*(7.6)*
QoQ growth (%)	*7.3*	*3.8*	*(12.7)*	*11.6*	*(8.7)*
EBITDA (Rs mn)	2,863	2,977	1,165	1,259	1,001
EBITDA margin (%)	*30.0*	*30.1*	*13.5*	*13.1*	*11.4*
Adj net income (Rs mn)	1,233	1,382	232	297	108
YoY growth (%)	*(24.8)*	*(15.6)*	*(69.2)*	*(72.7)*	*(91.3)*
QoQ growth (%)	*13.4*	*12.1*	*(83.2)*	*28.4*	*(63.8)*

DuPont analysis

(%)	FY08	FY09	FY10	FY11E	FY12E
Tax burden (Net income/PBT)	76.8	71.7	61.4	75.5	79.4
Interest burden (PBT/EBIT)	93.8	99.0	98.4	52.6	74.1
EBIT margin (EBIT/Revenues)	31.3	21.9	13.9	5.5	6.9
Asset turnover (Revenues/Avg TA)	56.3	52.1	51.5	47.7	54.2
Leverage (Avg TA/Avg equtiy)	195.6	185.4	184.3	185.3	187.5
Return on equity	**24.8**	**15.0**	**8.0**	**1.9**	**4.1**

Company profile

India Cements remains the largest cement player in South India, commanding a market share of ~17% (south) and ~5.5% across the country. The company has a cement capacity of 14mt and will be expanding in north India with a 1.5mt plant in Basawa (Rajasthan). In a branding effort, the company has acquired franchise rights of an India Premier League team for US$ 91mn to be paid over 10 years.

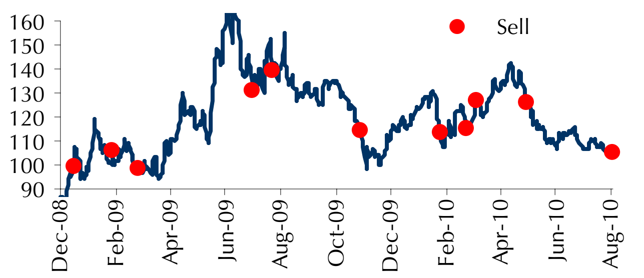
Shareholding pattern

(%)	Dec-09	Mar-10	Jun-10
Promoters	27.4	25.2	25.2
FIIs	32.4	32.2	32
Banks & FIs	16.8	20.4	19.1
Public	23.4	22.2	23.8

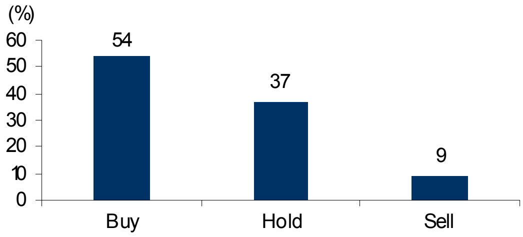
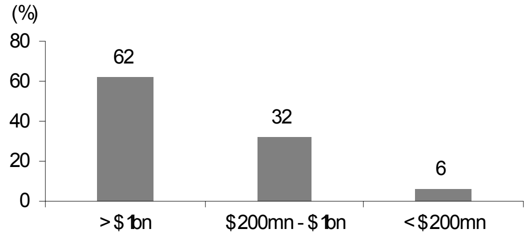
Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	100	102	Sell
28-Jan-09	Results Review	106	94	Sell
23-Mar-09	Company Update	95	94	Sell
1-Jul-09	Results Review	131	124	Sell
22-Jul-09	Results Review	139	124	Sell
29-Oct-09	Results Review	114	102	Sell
25-Jan-10	Results Review	113	91	Sell
08-Mar-10	Company Update	126	91	Sell
30-Mar-10	Sector Update	131	116	Sell
03-May-10	Results Review	125	110	Sell
04-Aug-10	Company Update	104	100	Sell

Stock performance



Coverage Profile

By recommendation	By market cap (US$)
	

Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and –5%
Sell	Less than –5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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Disclaimer