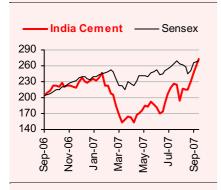


**Company Update** 

Key data	
Sector	Cement
Market cap	Rs70bn / US\$1.75bn
52 Wk H/L (Rs)	277/145
Avg. daily vol. (6 mon	th) 3,887,355
DOE 0 1	
BSE Code	530005
NSE Code	INDIACEM
Bloomberg	ICEM IN
Reuters	ICMN.BO
•	
Sensex	15,614
Nifty	4.529



#### Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FIIs	30.6	36.4
MFs and institutions	23.8	22.2
Promoters	26.9	26.9
Others	18.6	14.6

#### Absolute returns (%)

	1mth	3mth	12mth
India Cement	23.3	61.2	34.5
Sensex	4.0	11.5	31.3

# **India Cement**

Buy Current Price: Rs273 Target price: Rs321

We are upgrading our call on India Cements from **Accumulate** to **Buy**. The key reason for our upgrade is that we expect a strong pricing outlook in the south, in FY 08 and FY 09 on the back of delays of 1-2 quarters in the commissioning of new capacities. We like India Cements because of following reasons: **i)** India Cement's will have higher volume growth in FY 08E & FY 09E due to the timely commissioning of its capacities, **ii)** We are upgrading our FY 08E & FY 09E EPS estimates by 24.8% & 59.2% respectively, **iii)** Revenues and profits will grow at a CAGR of 30% & 50% respectively over a period of FY 07-09E and **iv)** Valuations are still attractive.

Timely commissioning of new capacities will add to volume growth: India Cement's is adding ~3mn MT of clinker capacity along with two 1mn MT each grinding units at Parli (Maharashtra) and Chennai (Tamil Nadu) by Oct'08. It has a spare gear box which will quicken the process of setting up of its capacity at Malkapur (location Visaka Unit). These expansions will increase India Cement's installed cement capacity from 8.53mn MT to 13.53mn MT by FY 10E. This is positive for India Cement's in a scenario where other player's capacity addition schedules are getting delayed by 1-2 quarters due to delays in the civil construction work and equipment supplies. Consequently prices will remain firm & India Cement's will be the major beneficiary because of its higher volume growth and sizeable presence in southern region.

**Earnings revision:** We are upgrading our EPS estimate for FY 08E & FY 09E by 24.8% & 59.2% respectively to factor in a positive pricing scenario in the southern region and the merger of Visaka Cements. We increase our realizations by 3% & 6% for FY 08E and FY 09E. The amalgamation of Visaka Cements will add to volume growth and operating margins of India Cements.

Revenues & profits to grow at a CAGR of 30% & 50% respectively over FY 07-09E: With the planned capacity expansions well on schedule, India Cement's is ahead of competition. We expect India Cement's revenues and profits to grow at a CAGR of 30% & 50% respectively over FY 07-09E.

**Valuations are still attractive:** The stock trades at a 1-year forward P/E multiple of 8.0x and on EV/EBITDA at 7.4x FY 08E and 5.5x FY 09E. It trades at an EV/ton of US\$ 176 and US\$ 148 for FY 08E & FY 09E respectively. We are upgrading our target price from Rs232 to Rs321 to factor in merger of Visaka Cements and higher earnings growth. This implies a 2-year forward earnings multiple of 8.0x.

Figure 1: Financials

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Year to 31 March	FY06	FY07*	FY08E	FY09E	FY10E
Net Revenues (Rs mn)	15,311	22,489	30,113	37,858	40,582
EBITDA (Rs mn)	2,503	7,279	11,483	14,570	14,780
PAT adj (Rs mn)	357	4,703	7,831	10,614	11,152
EPS adj (Rs)	1.9	18.1	30.1	40.8	42.8
EPS diluted (Rs)	1.9	17.3	28.9	39.1	41.1
EPS growth (%)	(144.1)	863.9	66.5	35.5	5.1
P/E (x)	145.5	15.7	9.4	7.0	6.6
Div. yield (%)	0.0	0.4	0.7	1.1	1.5
RoE (%)	3.0	23.7	30.5	31.1	25.4
RoCE (%)	5.7	16.8	23.4	26.3	23.3
Price/BV (x)	3.0	3.2	2.4	1.8	1.4
EV/EBITDA (x)	26.6	12.2	7.4	5.5	4.6
EV/Sales (x)	4.3	3.9	2.8	2.1	1.7
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Source: Company, Religare Institutional Equity Research

Note: Visaka Cements has been merged with India Cements w.e.f 1<sup>st</sup> July 2006 and the financial figures for FY07 are strictly not comparable with those of the previous years.

Manak Gaushal manak.gaushal@religare.in +91 22 6655 0106



Figure 2: Revised production estimates in the southern region

Effective production (mn MT)	FY 08E	FY 09E
Earlier estimates	56.6	65.5
New estimates	55.2	62.5
Difference	1.7%	4.6%

Source: Religare Institutional Equity Research

Figure 3: Earnings revision

(Rs mn)	Earlier estir	Earlier estimates Revised estimates Upgrade/(down		Revised estimates		ngrade) (%)
	FY08E	FY09E	FY08E	FY09E	FY08E	FY09E
Net Sales	25,303	26,155	30,113	37,858	19.0	44.7
EBITDA	8,933	9,127	11,483	14,570	28.5	59.6
EBITDA margin (%)	35.3	34.9	38.1	38.5	283bps	359bps
PBT	6,919	7,354	9,419	12,556	36.1	70.7
Adj PAT	5,518	5,867	7,831	10,614	41.9	80.9
Adj PAT margin (%)	21.8	22.4	26.0	28.0	420bps	560bps
Adj EPS (Rs)	24.1	25.6	30.1	40.8	24.8	59.2

Source: Religare Institutional Equity Research

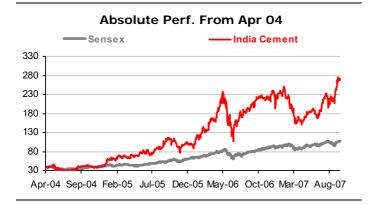
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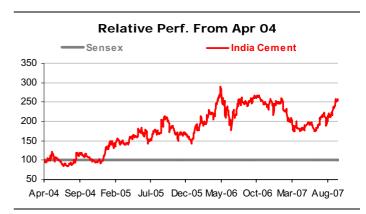
Visaka Cements has been merged with India Cements w.e.f 1<sup>st</sup> July 2006 and the financial figures are strictly not comparable with those of the previous years and our earlier estimates.



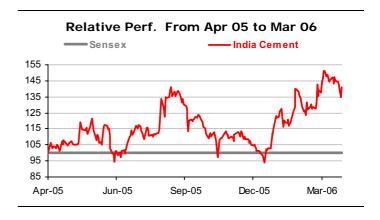
# **Stock performance**

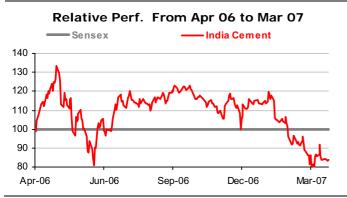
### **India Cement**

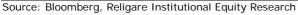


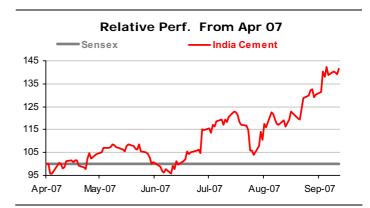








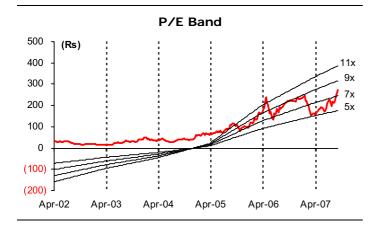


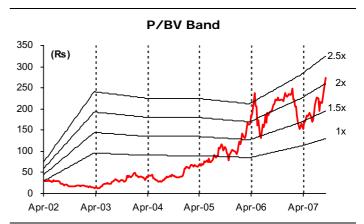


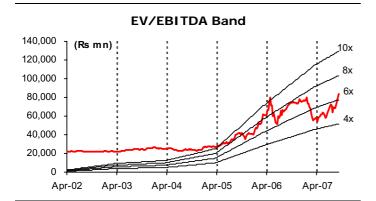


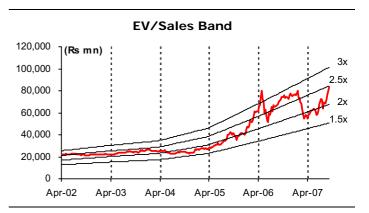
# 12 month forward rolling band charts

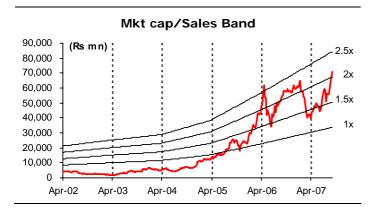
# **India Cement**













## **India Cement Financials**

Income stater	(	(Rs mn)			
Y/E, 31st March	FY06	FY07*	FY08E	FY09E	FY10E
Net Sales	15,311	22,489	30,113	37,858	40,582
EBITDA	2,503	7,279	11,483	14,570	14,780
EBITDA margin (%)	16.3	32.4	38.1	38.5	36.4
Depreciation	789	1,026	1,220	1,381	1,486
EBIT	1,714	6,253	10,263	13,189	13,294
Other income	179	165	343	345	638
Interest exp/ (inc)	1,489	1,498	1,188	978	768
PBT	404	4,834	9,419	12,556	13,164
PBT margin (%)	2.6	21.5	31.3	33.2	32.4
Taxes	47	131	1,587	1,943	2,011
Extra ord exp/ (inc)	(96)	0	0	0	0
PAT	453	4,703	7,831	10,614	11,152
PAT margin (%)	3.0	20.9	26.0	28.0	27.5
Adj PAT	357	4,703	7,831	10,614	11,152
Adj PAT margin (%)	2.3	20.9	26.0	28.0	27.5

Quarterly -	Quarterly – Financials				
(Rs mn)	Q1FY07	Q2FY07	Q3FY07	Q4FY07	Q1FY08
Net Sales	4,852	5,164	4,724	5,758	7,012
Change (%)	27.4	31.9	36.3	36.2	44.5
EBITDA	1,655	1,726	1,331	1,906	2,643
Change (%)	137.0	153.9	184.4	149.5	59.7
Margin (%)	3411.4	3342.1	2816.4	3310.1	3769.2
PAT	1,126	1,173	798	1,398	1,834
PAT adj	1,126	1,173	798	1,398	1,834
Change (%)	2,061.0	1,905.5	13,896.5	479.9	62.9
Margin (%)	23.2	22.7	16.9	24.3	26.2
EPS adj (Rs)	5.4	5.3	3.6	6.3	7.0
EPS dil (Rs)	4.1	4.3	2.9	5.2	6.8

#### **Ratios**

Y/E, 31st March	FY06	FY07*	FY08E	FY09E	FY10E
Growth	1.00		1 1002		
Net sales (%)	33.0	46.9	33.9	25.7	7.2
EBITDA (%)	99.5	190.8	57.8	26.9	1.4
PAT adj (%)	(160.8)	1215.6	66.5	35.5	5.1
EPS adj (%)	(144.1)	863.9	66.5	35.5	5.1
EPS diluted (%)	(160.8)	824.9	66.5	35.5	5.1
Valuations					
P/E (x)	145.5	15.7	9.4	7.0	6.6
Price/BV (x)	3.0	3.2	2.4	1.8	1.4
EV/EBITDA (x)	26.6	12.2	7.4	5.5	4.6
EV/Sales (x)	4.3	3.9	2.8	2.1	1.7
Profitability					
EBITDA margin (%)	16.3	32.4	38.1	38.5	36.4
Adj PAT margin (%)	2.3	20.9	26.0	28.0	27.5
RoE (%)	3.0	23.7	30.5	31.1	25.4
RoCE (%)	5.7	16.8	23.4	26.3	23.3
RoIC (%)	3.6	11.9	15.8	18.4	17.8
B/S ratios					
Inventory days	55.0	54.7	60.0	60.0	60.0
Creditor days	27.4	24.6	20.0	20.0	20.0
Debtors days	57.4	42.2	45.0	45.0	45.0
Working Capital days	66.7	53.2	51.5	55.7	60.5
Net debt/equity	0.9	0.7	0.4	0.3	0.2

Note: Visaka Cements has been merged with India Cements w.e.f  $1^{\rm st}$  July 2006 and the financial figures for FY07 are strictly not comparable with those of the previous years.

Balance sheet				(1	Rs mn)
Y/E, 31st March	FY06	FY07*	FY08E	FY09E	FY10E
Liabilities					
Equity share capital	1,908	2,604	2,604	2,604	2,604
Total Res. & Surplus	15,662	19,482	26,704	36,404	46,338
Total Shareholders' funds	17,569	22,085	29,307	39,007	48,941
Convertible debt	0	3,254	3,254	3,254	3,254
Others	15,252	17,333	13,949	11,949	9,949
Total loans	15,252	20,588	17,203	15,203	13,203
Deferred tax lia. (net)	486	430	930	1,430	1,930
Total liabilities	33,308	43,103	47,440	55,640	64,074
Assets					
Net fixed assets	20,840	27,958	30,966	36,084	35,098
Capital WIP	310	1,428	1,500	0	0
Total non-cur. assets	21,150	29,386	32,466	36,084	35,098
Inv - non cur.	348	551	551	551	551
Current assets					
Inventories	1,930	2,281	3,062	3,828	4,241
Sundry debtors	2,406	2,602	3,713	4,667	5,003
Cash & cash equivalents	436	2,302	2,322	5,982	15,121
Cash	436	2,302	2,322	5,982	15,121
Liquid investments	0	0	0	0	0
Other current assets	10,352	9,990	9,990	9,990	9,990
Total current assets	15,124	17,175	19,087	24,468	34,356
Total current liabilities	3,731	4,035	4,168	4,592	4,741
Total provisions	0	305	827	1,202	1,521
Net current assets	11,393	12,835	14,093	18,674	28,094
Misc. expenditure	417	331	331	331	331
Total assets	33,308	43,103	47,440	55,640	64,074

#### Cash flow

Y/E, 31st March	FY06	FY07*	FY08E	FY09E	FY10E
Cash from op.					
PBT	404	4,920	9,419	12,556	13,164
Tax Paid	(44)	(127)	(870)	(1,372)	(1,498)
Dep & amortization	789	1,026	1,220	1,381	1,486
Working capital changes	(700)	(375)	(1,760)	(1,296)	(600)
Others	1,195	987	1,188	978	768
Net cash from op.	1,644	6,431	9,197	12,248	13,320
Cash from inv.					
Capital expenditure	(490)	(1,487)	(4,300)	(5,000)	(500)
Sale/pur. of investments	197	(909)	0	0	0
Net cash from inv.	(293)	(2,396)	(4,300)	(5,000)	(500)
Cash from fin.					
Issue of shares & sh. premium	4,810	1,252	0	0	0
Dividends paid	0	0	(305)	(609)	(914)
Debt change	(4,550)	(584)	(3,385)	(2,000)	(2,000)
Others	(1,204)	(2,446)	(1,188)	(978)	(768)
Net cash from fin.	(944)	(1,778)	(4,877)	(3,587)	(3,682)
Net change in cash	407	2,257	20	3,661	9,138

### Per share data

Y/E, 31st March	FY06	FY07*	FY08E	FY09E	FY10E
EPS Basic	2.4	18.1	30.1	40.8	42.8
EPS Adj	1.9	18.1	30.1	40.8	42.8
EPS diluted	1.9	17.3	28.9	39.1	41.1
CEPS	6.5	21.7	34.8	46.1	48.5
Book value	90.1	84.8	112.6	149.8	188.0
Dividend	0.0	1.0	2.0	3.0	4.0
O/s shsactual (mn)	190.8	260.4	260.4	260.4	260.4
O/s shsdiluted (mn)	190.8	271.4	271.4	271.4	271.4



#### **Religare Institutional Equity Team**

Name	Sector	E-Mail ID	Telephone
Sangeeta Purushottam (Head Institutional Business)		sangeeta.p@religare.in	+91 22 6655 0102
Research - Equity			
Arvind Jain	Auto, Steel Pipes	arvind.jain@religare.in	+91 22 6655 0140
Manish Agarwalla	Banking, Textiles, Sugar	m.agarwalla@religare.in	+91 22 6655 0119
Kunal Sheth	Capital Goods / Power Utilities	kunal.sheth@religare.in	+91 22 6655 0141
Manak Gaushal	Cement, Logistics	manak.gaushal@religare.in	+91 22 6655 0106
Nimit Shah	Construction, Real Estate	nimit.shah@religare.in	+91 22 6655 0128
Vandana Gupta	FMCG, Hotels	vandana.gupta@religare.in	+91 011 3081 5647
Suryaneel Kumar	FMCG, Hotels	suryaneel.kumar@religare.in	+91 011 3081 5472
Harshad Deshpande	Information Technology	harshad.deshpande@religare.in	+91 22 6655 0116
Abneesh Roy	Media	abneesh.roy@religare.in	+91 22 6655 0176
Vikas Sonawale	Pharma	vikas.sonawale@religare.in	+91 22 6655 0112
Naveen Kulkarni	Telecom	naveen.kulkarni@religare.in	+91 22 6655 0185
Archit Kumar	Auto, Steel Pipes, Textiles	archit.kumar@religare.in	+91 22 6655 0190
Sneha Rungta	Logistics, Construction, Cement	sneha.rungta@religare.in	+91 22 6655 0170
Technical research - Equity			
Vidur Pendharkar		vidur.p@religare.in	+91 22 6655 0109
vida i chananai		vidar.p@reiigare.iii	101 22 0000 0100
Sales - Equity			
Sandeep J Shah		sandeep.shah@religare.in	+91 22 6655 0169
Paresh Mehta		paresh.mehta@religare.in	+91 22 6655 0108
Aisha Udeshie		aisha.udeshie@religare.in	+91 22 6655 0107
Dealing - Equity			
Rajeev Gupta (Head - Dealing and Sales trading)		rajeev.g@religare.in	+91 22 6655 0104
Jayesh Balsara		jayesh.balsara@religare.in	+91 22 6655 0186
Govind Satam		govind.satam@religare.in	+91 22 6655 0181
Vinita Pandya		vinita.pandya@religare.in	+91 22 6655 0180
Production, Database and administration			
Mandar Deokar		mandar.deokar@religare.in	+91 22 6655 0157
Vishal Randive		vishal.randive@religare.in	+91 22 6655 0160
Sachin Jadhay		sachin.jadhav@religare.in	+91 22 6655 0189

#### **Rating definition**

Buy: > 15% returns relative to SensexAccumulate: +5 to +15% returns relative to SensexSell: > (-)15% returns relative to SensexReduce: (-) 5 to (-) 15% returns relative to Sensex

Hold : Upto + / (-) 5% returns relative to Sensex



Religare Securities Ltd. Taj Building, 210, D.N. Road, Mumbai - 400001

For inquiries contact:
Email: institutionalsales@religare.in
Phone: 6655 0000

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