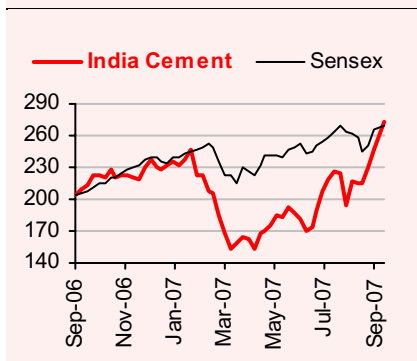


Key data

Sector	Cement
Market cap	Rs70bn / US\$1.75bn
52 Wk H/L (Rs)	277/145
Avg. daily vol. (6 month)	3,887,355
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
FII's	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

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

Source: Company, Religare Institutional Equity Research

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

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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 estimates		Revised estimates		Upgrade/(downgrade) (%)	
	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
<i>EBITDA margin (%)</i>	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
<i>Adj PAT margin (%)</i>	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

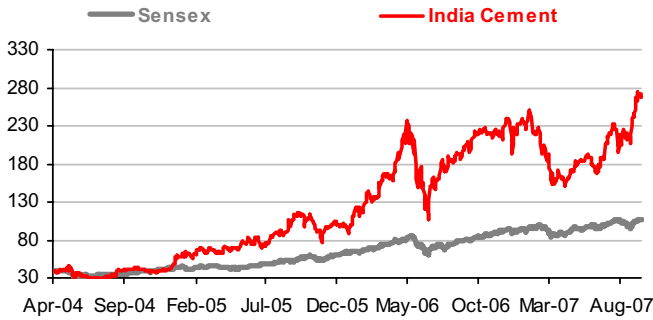
Note:

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

Stock performance

India Cement

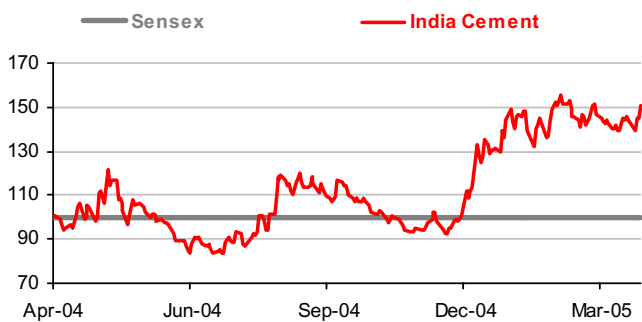
Absolute Perf. From Apr 04



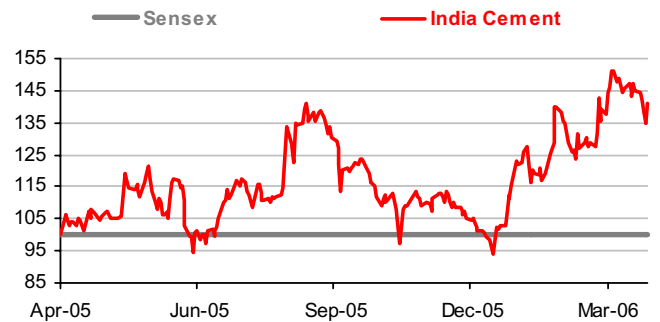
Relative Perf. From Apr 04



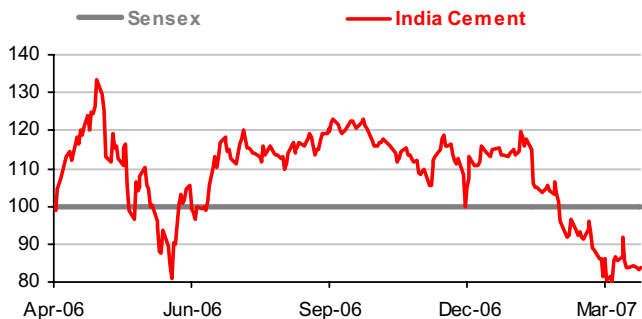
Relative Perf. From Apr 04 to Mar 05



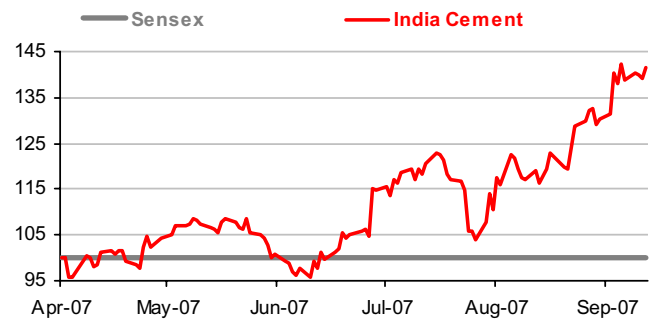
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

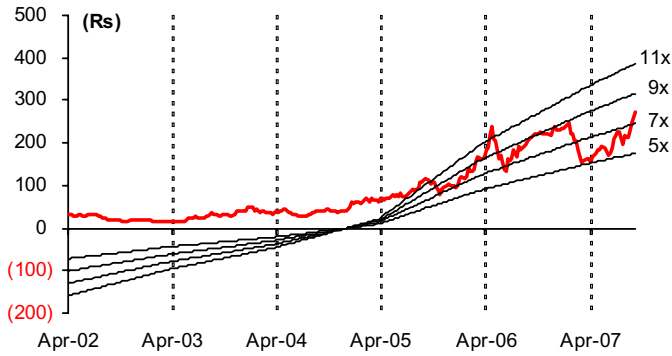


Source: Bloomberg, Religare Institutional Equity Research

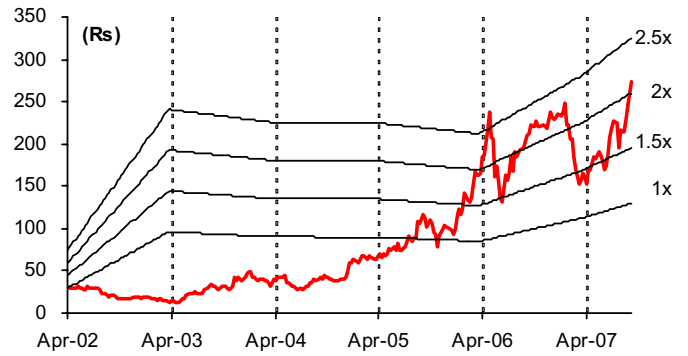
12 month forward rolling band charts

India Cement

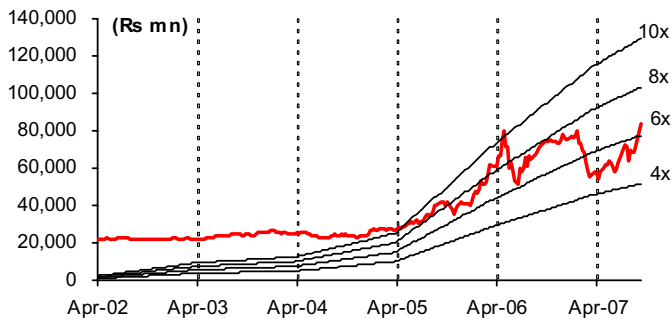
P/E Band



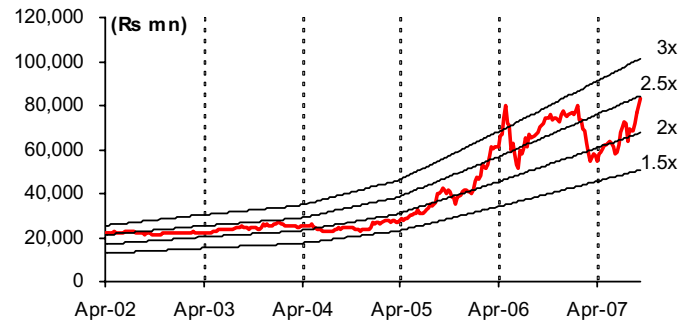
P/BV Band



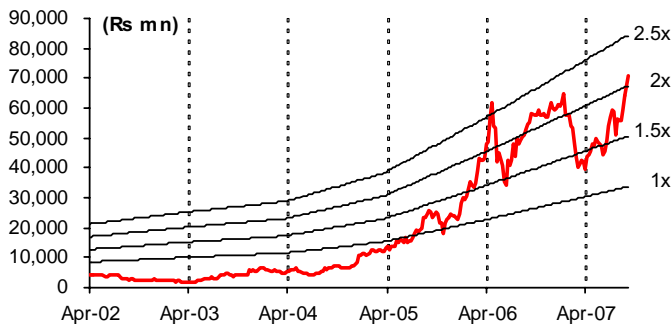
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



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Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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