

## Madras Cements

### Performance Highlights

Y/E March (₹ cr)	3QFY11	2QFY11	% chg (qoq)	3QFY10	% chg (yoy)
<b>Net revenue</b>	<b>583</b>	<b>650</b>	<b>(10.3)</b>	<b>583</b>	<b>(0.0)</b>
Operating profit	152	115	32.2	111	36.7
OPM (%)	26.0	17.7	837bp	19.1	699bp
<b>Net profit</b>	<b>43</b>	<b>31</b>	<b>39.8</b>	<b>16</b>	<b>171.8</b>

Source: Company, Angel Research

For 3QFY2011, Madras Cements (MAC) posted robust performance, with net profit surging 171.8% yoy and 39.8% qoq to ₹43cr aided by the production discipline undertaken by the cement manufacturers in the southern region. However, dispatches at ~1.45mn tonnes declined by 20% yoy due to low demand in the south. However, going ahead, we expect demand to pick-up in the southern region post the cessation of the monsoons, which augurs well for the company. **We maintain a Buy on the stock.**

**OPM rises by 699bp to 26%:** MAC's top-line remained flat at ₹583cr, despite the steep ~20% fall in cement dispatches to ~1.45mn tonnes. Realisations improved during the quarter despite low demand on account of the pricing discipline adopted by the cement manufacturers in the company's key markets in the southern region. The windmills division posted revenue of ₹12.6cr, down 34.1% yoy. MAC's operating margins moved up by 786bp yoy to 26.0% on account of higher realisations. The windmill division posted a marginal loss of ₹0.5cr. Overall, the company posted net profit of ₹43cr, up 172.1% yoy.

**Outlook and valuation:** Going ahead, we expect demand in the southern region to pick up post the cessation of the monsoons, which augurs well for the company. At the CMP, the stock is trading at attractive valuations of: EV/EBITDA of 6.7x and EV/tonne of US \$72 on FY2012 estimates. At these valuations, the stock is available at a 20% discount to its replacement cost of US \$90/tonne. We maintain a Buy on the stock, with an SOTP-based Target Price of ₹139.

### Key financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
<b>Net Sales</b>	<b>2,530</b>	<b>2,801</b>	<b>2,709</b>	<b>2,979</b>
% chg	25.8	10.7	(3.3)	10.0
<b>Net Profit</b>	<b>364</b>	<b>354</b>	<b>183</b>	<b>152</b>
% chg	(11.0)	(2.7)	(48.2)	(17.1)
<b>FDEPS (₹)</b>	<b>15.3</b>	<b>14.9</b>	<b>7.7</b>	<b>6.4</b>
OPM (%)	30.8	30.6	22.4	20.3
P/E (x)	6.2	6.4	12.3	14.8
P/BV(x)	1.8	1.4	1.3	1.2
RoE (%)	32.9	25.1	11.3	8.6
RoCE (%)	17.9	14.8	8.4	7.6
EV/Sales (x)	1.8	1.7	1.6	1.4
EV/tonne	100	93	77	72
EV/EBITDA	5.8	5.4	7.2	6.7

Source: Company, Angel Research

## BUY

CMP	₹94
Target Price	₹139

Investment Period	12 Months
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Stock Info	
Sector	Cement
Market Cap (₹ cr)	2,097
Beta	0.7
52 Week High / Low	133/85
Avg. Daily Volume	234993
Face Value (₹)	1
BSE Sensex	17,729
Nifty	5,310
Reuters Code	MSCM.BO
Bloomberg Code	MC@IN

Shareholding Pattern (%)	
Promoters	42.0
MF / Banks / Indian Fls	28.6
FII / NRIs / OCBs	8.3
Indian Public / Others	21.0

Abs. (%)	3m	1yr	3yr
Sensex	(13.9)	9.8	6.6
Madras Cements	(24.3)	(16.4)	(44.6)

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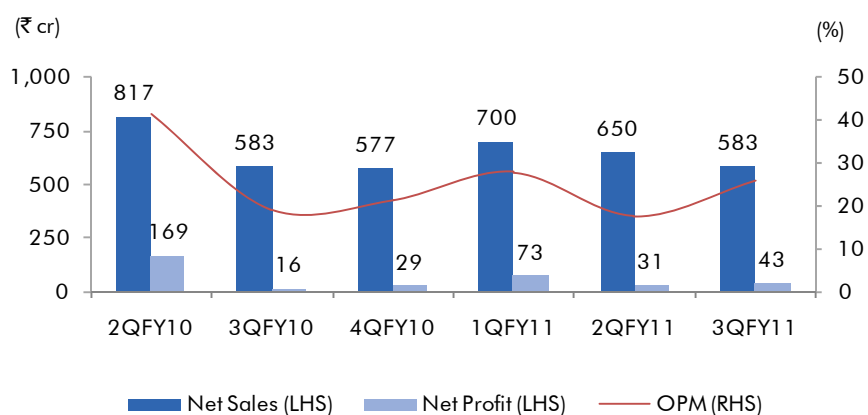
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**Exhibit 1: 3QFY2011 performance**

Y/E March (₹ cr)	3QFY2011	2QFY2011	% chg (qoq)	3QFY2010	% chg (yoy)	9MFY2011	9MFY2010	% chg
<b>Net sales</b>	<b>583</b>	<b>650</b>	<b>(10.3)</b>	<b>583</b>	<b>(0.0)</b>	<b>1,933</b>	<b>2,232</b>	<b>(13.4)</b>
Net raw material costs	72	120	(39.9)	106	(32.5)	275	360	(23.5)
(% of Sales)	12.3	18.4		18.3		14.2	16.1	
Power & fuel	149	172	(13.4)	134	11.0	494	427	15.7
(% of Sales)	25.5	26.4		23.0		25.6	19.1	
Staff costs	43	37	14.9	39	9.7	119	103	16.3
(% of Sales)	7.3	5.7		6.7		6.2	4.6	
Freight & forwarding	95	122	(22.0)	109	(12.3)	340	354	(4.0)
(% of Sales)	16.4	18.8		18.7		17.6	15.9	
Other expenses	73	85	(14.2)	83.9	(14)	242.0	246	(1.8)
(% of Sales)	12.4	13.0		14.4		12.5	11.0	
<b>Total expenditure</b>	<b>431</b>	<b>535</b>	<b>(19.4)</b>	<b>472</b>	<b>(8.6)</b>	<b>1,471</b>	<b>1,490</b>	<b>(1.3)</b>
<b>Operating profit</b>	<b>152</b>	<b>115</b>	<b>32.2</b>	<b>111</b>	<b>36.7</b>	<b>462</b>	<b>741</b>	<b>(37.6)</b>
OPM (%)	26.0	17.7		19.1	6.99	23.9	33.2	
Interest	35	35	-	38	(6.7)	105	113	(6.7)
Depreciation	54	55	(1.2)	51	6.8	163	143	13.6
Other income	2	3	(4.3)	2	12.3	7	6	17.3
Extr. income/(expense)	-	-		-		-	-	
Provision for Taxation	22	(4)	(716.0)	9	140.0	54	167	(67.5)
(% of PBT)	33.2	(12.7)		36.0		26.9	34.0	
<b>Reported PAT</b>	<b>43</b>	<b>31</b>	<b>39.8</b>	<b>16</b>	<b>171.8</b>	<b>147</b>	<b>324</b>	<b>(54.6)</b>
PATM (%)	7.5	4.8		2.7		7.6	14.5	
Equity capital	23.8	23.8		23.8		23.8	23.8	
<b>EPS (₹)</b>	<b>1.8</b>	<b>1.3</b>		<b>0.7</b>		<b>6.2</b>	<b>13.6</b>	
<b>Adjusted PAT</b>	<b>43</b>	<b>31</b>	<b>40</b>	<b>16.0</b>	<b>171.8</b>	<b>147</b>	<b>324</b>	<b>(54.6)</b>

Source: Company, Angel Research

**Exhibit 2: Financial performance**


Source: Company, Angel Research

**Exhibit 3: 3QFY2011- Actual v/s Angel estimates**

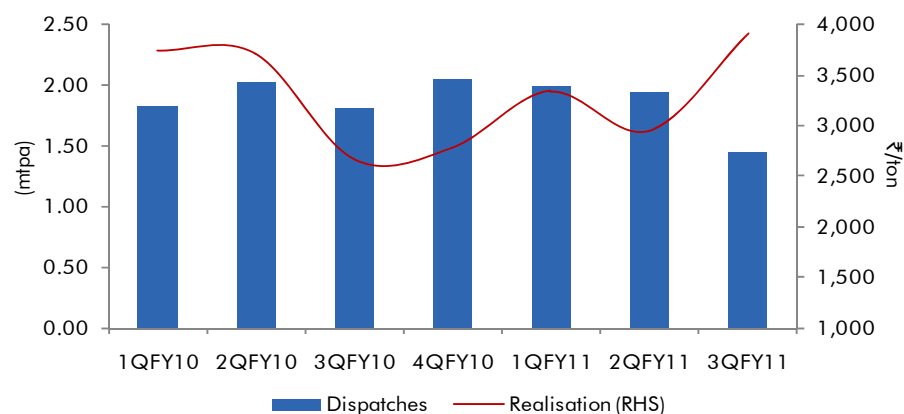
(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	583	529	10.2
Operating Profit	152	109	38.8
OPM (%)	26	21	535bp
Net Profit	43	19	131.3

Source: Company, Angel Research

**Operational performance**

Dispatches declined by ~20% yoy to ₹1.45mn tonnes partially due to the prolonged monsoon season in Tamil Nadu, a key market of the company. On the operating front, MAC's per tonne cement realisations increased by 46.5% yoy (32.4% qoq) to ₹3,908 due to the pricing discipline adopted by the players in the south. The company's operating profit per tonne of cement stood at ₹1,051 during the quarter, up 92.6% yoy. The company registered a 12.9% yoy decline in the raw material cost per tone, but the power and fuel costs rose 25.5% yoy to ₹1,025 on account of the surge in the prices of imported coal to ~US \$115/tonne (US \$82/tonne in 3QFY2010). The company exhausted 0.2mn tonnes of low-cost pet coke inventory build up of FY2010, resulting in more reliance on imported coal. Freight costs increased 13% yoy to ₹658/tonne due to higher dispatches to Maharashtra, Orissa and West Bengal due to the fall in demand in the south. Overall, the company reported net profit per tonne of ₹300.

**Exhibit 4: Dispatches and realisation trend**



Source: Company, Angel Research

**Exhibit 5: Per-tonne analysis**

Particulars (₹)	3QFY2011	2QFY2011	3QFY2010	% chg (yoy)	% chg (qoq)
Realisation/tonne	3,908	2,952	2,668	46.5	32.4
Raw Material Cost/tonne	496	570	569	(12.9)	(13.0)
Power & Fuel Cost /tonne	1,025	880	817	25.5	16.5
Freight Cost/tonne	658	627	583	13.0	4.9
Operating Profit/tonne	1,051	291	546	92.6	261.6
Depreciation/tonne	374	215	261	43.1	74.2
Net Profit/tonne	300	(21)	148	102.4	-

Source: Company, Angel Research

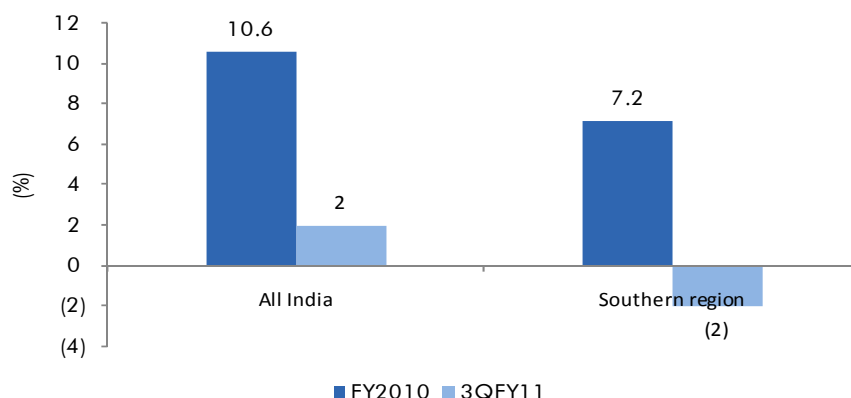
**Exhibit 6: Segment wise revenue break-up**

₹ cr	3QFY11	3QFY10	chg % yoy	9MFY11	9MFY10	chg %
Cement	566	560	1.1	1,801	2,005	(10.2)
Windmill	13	19	(31.6)	117	130	(9.5)
<b>Total (Net)</b>	<b>567</b>	<b>577</b>	<b>(1.7)</b>	<b>1,933</b>	<b>2,143</b>	<b>(9.8)</b>

Source: Company, Angel Research

**Cement demand scenario in 3QFY2011**

During 3QFY2011, all-India demand grew by a tepid 2% yoy. The southern region fared poorly with de-growth of 2.2%. The major cement consuming state of Andhra Pradesh posted 15% de-growth in demand on a yoy basis as against the high 24% growth witnessed in FY2010. Kerala also witnessed de-growth of 2% in cement demand during the quarter. Tamil Nadu and Karnataka however recorded positive growth in demand during the quarter.

**Exhibit 7: 3QFY2011 Cement demand scenario**


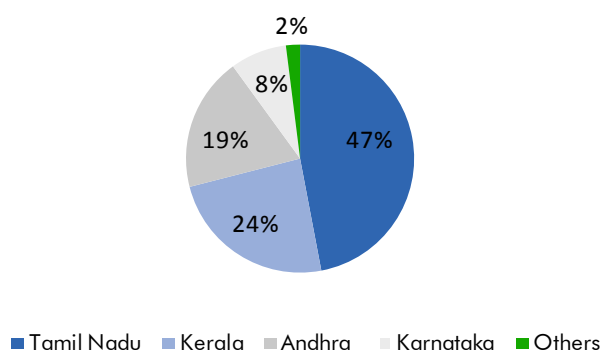
Source: Company, Angel Research

### Investment arguments

**Major player in South with limited presence in Andhra Pradesh:** MAC is a major cement player in the southern region, with total cement capacity of 10.5mtpa. The company's dispatches increased at 12% CAGR during FY2007-10, aided by the 4.5mtpa increase in capacity over the same period. Currently, MAC is also facing clinker shortage owing to which it is setting up a second clinkerisation unit with capacity of 2mtpa at its Ariyalur plant. The total project cost is estimated to be ₹600cr. Post this expansion, MAC's cement capacity would expand to 12.5mtpa by the end of FY2011. Thus, the company's overall capacity is set to more than double over FY2007-12E.

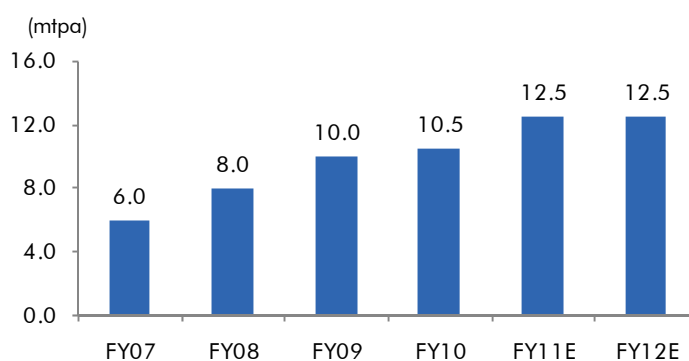
MAC derives nearly 50% of its cement revenues from Tamil Nadu and only 19% from Andhra Pradesh, the worst affected region in terms of demand slowdown. Thus, the company is better placed than the other players that have higher exposure to Andhra Pradesh.

**Exhibit 8: Geography-wise revenue breakup (FY2010)**



Source: Company, Angel Research

**Exhibit 9: Installed capacity**



Source: Company, Angel Research

**Installation of new captive power capacities to improve margins:** MAC has been augmenting its windmill capacity to reduce dependence on the state grid for its power requirement. The company's windmill capacity currently stands at 163MW, which is sufficient to handle close to 61% of its total power requirements. Going ahead, MAC plans to invest ₹310cr to set up an 85MW captive thermal power plant, including a 60MW unit at Ariyalur and a 25MW plant at RR Nagar, Tamil Nadu.

### Outlook and Valuation

Going ahead, we expect demand in the southern region to pick up post the cessation of the monsoons, which augurs well for the company. At the CMP, the stock is trading at attractive valuations of: EV/EBITDA of 6.7x and EV/tonne of US \$72 on FY2012 estimates. At these valuations, the stock is available at a 20% discount to its replacement cost of US \$90/tonne. **We maintain a Buy on the stock, with an SOTP-based Target Price of ₹139.**

**Exhibit 10: SOTP-based target price (FY2012E)**

Particulars	Parameter	Value (₹ cr)
Target EV/tonne	US \$75	4,215
CPP* (244 MW)	₹4cr/MW	976
Market Cap (₹ cr)		3,315
No. of Shares (cr)		23.8
<b>Target Price (₹)</b>		<b>139</b>

Source: Angel Research

**Exhibit 11: Change in estimates**

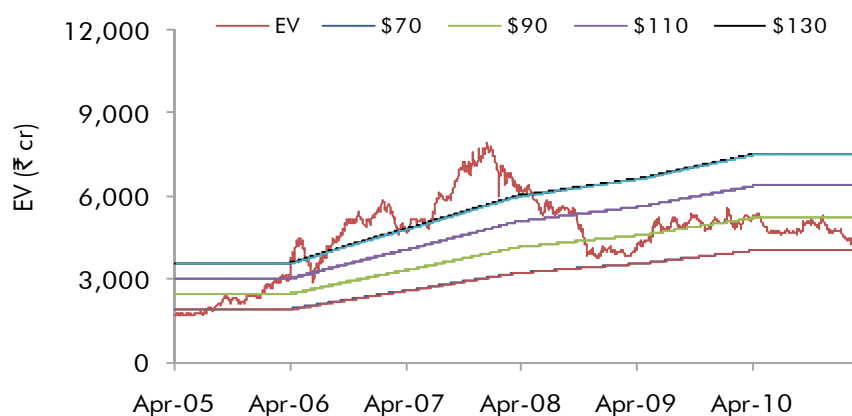
(₹ cr)	FY2011			FY2012		
	Earlier	Revised	Var (%)	Earlier	Revised	Var (%)
Net Sales	2,769	2,709	(2.2)	3,060	2,979	(2.6)
Operating Exp	2,188	2,103	(3.9)	2,395	2,375	(0.8)
Operating Profit	581	606	4.3	665	604	(9.2)
Depreciation	209	209	0.0	248	248	0.0
Interest	148	148	0.0	133	147	10.5
PBT	241	266	10.4	302	224	(25.8)
Tax	60	82	36.7	100	72	(28.0)
PAT	180	183	1.7	202	152	(24.8)

Source: Company, Angel Research

**Exhibit 12: Key assumptions**

Particulars	Earlier Estimates		Revised Estimates	
	FY11E	FY12E	FY11E	FY12E
Installed Capacity - Cement (mtpa)	12.5	12.5	12.5	12.5
yoy growth (%)	19.1	-	19.1	-
Utilisation (%)	67.0	73.0	65.0	70.5
Dispatches growth	5.1	9.0	2.7	8.5
Realisation growth (%)	(15.0)	1.0	(15.0)	1.0

Source: Angel Research

**Exhibit 13: One-year forward EV/tonne (US\$)**


Source: Company, Angel Research

**Exhibit 14: Recommendation summary**

Company	Reco.	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2012E P/BV (x)	FY2012E P/E (x)	FY2010-12E EPS CAGR (%)	FY2012E RoCE (%)	FY2012E RoE (%)
ACC ^	Neutral	977	-	-	2.3	17.2	(2.4)	15.5	14.3
Ambuja Cements ^	Neutral	117	-	-	2.1	15.1	(3.7)	15.6	14.1
Grasim Ind.	Acc.	2,226	2,521	13.2	1.2	8.9	(10.9)	14.6	13.5
India Cements	Buy	90	136	51.3	0.8	29.0	(48.1)	3.6	2.2
JK Lakshmi	Buy	42	80	90.9	0.5	10.7	(55.5)	5.0	4.1
Kesoram Ind	Buy	195	304	56.0	0.6	10.5	(40.1)	6.2	5.4
<b>Madras Cements</b>	<b>Buy</b>	<b>94</b>	<b>139</b>	<b>47.2</b>	<b>1.2</b>	<b>14.8</b>	<b>(34.5)</b>	<b>7.6</b>	<b>8.6</b>
Ultratech Cement	Neutral	915	-	-	1.7	18.8	(25.5)	11.9	10.1

Source: Company, Angel Research; Note: ^ Pertains to CY2012 numbers

**Profit and loss statement**

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>Total operating income</b>	<b>1,574</b>	<b>2,012</b>	<b>2,530</b>	<b>2,801</b>	<b>2,709</b>	<b>2,979</b>
% chg	56	28	26	11	(3.3)	10.0
Total Expenditure	1,018	1,260	1,752	1,943	2,103	2,375
Net Raw Materials	214	248	362	398	464	537
Other Mfg costs	310	408	602	598	648	694
Personnel	57	81	110	137	154	185
Other	438	523	678	810	836	960
<b>EBITDA</b>	<b>556</b>	<b>752</b>	<b>778</b>	<b>858</b>	<b>606</b>	<b>604</b>
% chg	163.7	35.3	3.5	10.2	(29.3)	(0.4)
(% of Net Sales)	35.3	37.4	30.8	30.6	22.4	20.3
Depreciation & Amortisation	72	93	138	196	209	248
<b>EBIT</b>	<b>484</b>	<b>659</b>	<b>641</b>	<b>662</b>	<b>397</b>	<b>356</b>
% chg	232.4	36.1	(2.8)	3.2	(39.9)	(10.4)
(% of Net Sales)	30.8	32.8	25.3	23.6	14.7	11.9
Interest & other Charges	23	52	110	152	148	147
Other Income	8	9	15	20	16	15
(% of PBT)	1.6	1.5	2.8	3.9	6.1	6.7
<b>Recurring PBT</b>	<b>469</b>	<b>617</b>	<b>546</b>	<b>530</b>	<b>266</b>	<b>224</b>
% chg	303.6	31.6	(11.5)	(2.8)	(49.9)	(15.9)
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>469</b>	<b>617</b>	<b>545</b>	<b>530</b>	<b>266</b>	<b>224</b>
Tax	161	209	182	177	82	72
(% of PBT)	34.3	33.8	33.4	33.3	31.0	32.0
<b>PAT (reported)</b>	<b>308</b>	<b>408</b>	<b>364</b>	<b>354</b>	<b>183</b>	<b>152</b>
<b>ADJ. PAT</b>	<b>308</b>	<b>408</b>	<b>364</b>	<b>354</b>	<b>183</b>	<b>152</b>
% chg	285.7	32.5	(10.9)	(2.8)	(48.2)	(17.1)
(% of Net Sales)	19.6	20.3	14.4	12.6	6.8	5.1
<b>Basic EPS (₹)</b>	<b>26</b>	<b>34</b>	<b>15</b>	<b>15</b>	<b>8</b>	<b>6</b>
<b>Fully Diluted EPS (₹)</b>	<b>26</b>	<b>34</b>	<b>15</b>	<b>15</b>	<b>8</b>	<b>6</b>
% chg	288.9	34.5	(55.5)	(2.7)	(48.2)	(17.1)



**Balance Sheet**

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	12	12	24	24	24	24
Reserves & Surplus	654	942	1,236	1,534	1,673	1,804
<b>Shareholders' Funds</b>	<b>666</b>	<b>954</b>	<b>1,260</b>	<b>1,558</b>	<b>1,697</b>	<b>1,827</b>
Total Loans	677	1,636	2,463	2,567	2,467	2,267
Deferred Tax Liability	226	363	490	585	585	585
<b>Total Liabilities</b>	<b>1,569</b>	<b>2,952</b>	<b>4,214</b>	<b>4,710</b>	<b>4,748</b>	<b>4,679</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	1,799	2,714	3,918	4,811	4,911	5,511
Less: Acc. Depreciation	718	808	918	1,119	1,327	1,575
<b>Net Block</b>	<b>1,081</b>	<b>1,906</b>	<b>3,000</b>	<b>3,693</b>	<b>3,584</b>	<b>3,936</b>
Capital Work-in-Progress	178	576	635	318	418	268
Goodwill	-	-	-	-	-	-
<b>Investments</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>
Current Assets	615	779	914	1,135	1,181	1,018
Cash	57	23	39	35	68	34
Loans & Advances	365	452	456	532	532	532
Other	194	304	419	568	580	452
Current liabilities	395	402	440	546	544	653
<b>Net Current Assets</b>	<b>220</b>	<b>378</b>	<b>473</b>	<b>589</b>	<b>637</b>	<b>365</b>
Mis. Exp. not written off	2	3	16	21	21	21
<b>Total Assets</b>	<b>1,569</b>	<b>2,952</b>	<b>4,214</b>	<b>4,710</b>	<b>4,748</b>	<b>4,679</b>

**Cash flow statement**

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Profit before tax	469	617	545	530	266	224
Depreciation	72	93	138	196	209	248
Change in Working Capital	(64)	(72)	114	121	(34)	237
Less: Other income	8	9	15	20	16	15
Direct taxes paid	161	209	182	177	82	72
<b>Cash Flow from Operations</b>	<b>308</b>	<b>420</b>	<b>600</b>	<b>651</b>	<b>342</b>	<b>622</b>
(Inc)/ Dec in Fixed Assets	(326)	(1,314)	(1,262)	(576)	(200)	(450)
(Inc)/ Dec in Investments	-	-	-	-	-	-
Other income	8	9	15	20	16	15
<b>Cash Flow from Investing</b>	<b>(318)</b>	<b>(1,304)</b>	<b>(1,247)</b>	<b>(556)</b>	<b>(184)</b>	<b>(435)</b>
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	75	958	828	103	(100)	(200)
Dividend Paid (Incl. Tax)	35	56	56	50	26	21
Others	23	52	110	152		
<b>Cash Flow from Financing</b>	<b>17</b>	<b>850</b>	<b>662</b>	<b>(98)</b>	<b>(126)</b>	<b>(221)</b>
Inc./(Dec.) in Cash	7	(34)	16	(3)	33	(35)
<b>Opening Cash balances</b>	<b>49</b>	<b>57</b>	<b>23</b>	<b>39</b>	<b>35</b>	<b>68</b>
<b>Closing Cash balances</b>	<b>57</b>	<b>23</b>	<b>39</b>	<b>35</b>	<b>68</b>	<b>34</b>

**Key ratios**

Y/E March	FY07	FY08	FY09	FY10	FY11E	FY12E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	3.9	2.9	6.6	6.8	12.3	14.8
P/CEPS	3.2	2.4	4.8	4.4	5.7	5.6
P/BV	1.8	1.3	1.9	1.5	1.3	1.2
Dividend yield (%)	2.9	4.7	2.3	2.1	1.1	0.9
EV/Sales	1.1	1.3	1.8	1.7	1.6	1.4
EV/EBITDA	3.0	3.5	6.0	5.6	7.2	6.7
EV / Total Assets	1.1	0.9	1.1	1.0	0.9	0.9
<b>Per Share Data (₹)</b>						
EPS (Basic)	25.5	34.3	15.3	14.9	7.7	6.4
EPS (fully diluted)	25.5	34.3	15.3	14.9	7.7	6.4
Cash EPS	31.5	42.1	21.1	23.1	16.5	16.8
DPS	2.9	4.7	2.3	2.1	1.1	0.9
Book Value	55.2	80.1	53.0	65.5	71.3	76.8
<b>DuPont Analysis</b>						
EBIT margin	30.8	32.8	25.3	23.6	14.7	11.9
Tax retention ratio	65.7	66.2	66.6	66.7	69.0	68.0
Asset turnover (x)	1.2	0.9	0.7	0.6	0.6	0.6
ROIC (Post-tax)	24.0	19.6	12.0	10.0	5.9	5.2
Cost of Debt (Post Tax)	2.3	3.0	3.6	4.0	4.1	4.2
Leverage (x)	1.1	1.2	1.7	1.7	1.5	1.3
Operating ROE	48.2	40.1	26.8	20.2	8.5	6.4
<b>Returns (%)</b>						
ROCE (Pre-tax)	35.1	29.1	17.9	14.8	8.4	7.6
Angel ROIC (Pre-tax)	41.5	37.1	22.2	17.0	9.4	8.4
ROE	58.2	50.4	32.9	25.1	11.3	8.6
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	0.9	0.9	0.8	0.6	0.6	0.6
Inventory / Sales (days)	27	34	41	48	58	50
Receivables (days)	13	12	11	16	20	13
Payables (days)	112	115	88	93	95	92
WC cycle (ex-cash) (days)	25	47	57	64	76	55
<b>Solvency ratios (x)</b>						
Net debt to equity	0.8	1.6	1.9	1.6	1.4	1.2
Net debt to EBITDA	1.0	2.1	3.0	2.9	3.8	3.6
Interest Coverage (EBIT / Int.)	21.2	12.7	5.8	4.4	2.7	2.4

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### Disclosure of Interest Statement

### Madras Cements

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

### Ratings (Returns) :

Buy (&gt; 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (&lt; -15%)

Neutral (-5 to 5%)