

India Cements

No escaping price pressures

The India Cements (ICL) management, in a recent meeting with us, held out the hope of a demand revival in the southern market, citing the 2011 elections in Tamil Nadu as a potential trigger for a government-led impetus on infrastructure. Further, ICL's 1.5mn tonne (mt) capacity augmentation project in Rajasthan is progressing smoothly and the management expects upcoming captive power plants and coal mine acquisitions to support higher production volumes. In our view, pricing pressure is likely to negate the benefits of demand revival and coal cost savings. We thus maintain our Sell rating on ICL.

Demand expected to improve; supply overhang remains: While the recent political turmoil in Andhra Pradesh has resulted in sluggish infrastructure activity (and hence lower cement offtake), the management is confident of an improving demand environment. With elections in Tamil Nadu next year, ICL believes the government would expedite infrastructure projects, resulting in a degree of demand revival in the southern market. However, we believe that the capacity overhang in the south will continue as additions of over 30mt become operational over FY10-FY11.

Capacity expansion on track: ICL's 1.5mt cement expansion project in Rajasthan is progressing as per schedule and should be commissioned in June this year. Based on the expanded production, we estimate volume growth of 20% and 12% for FY10 and FY11 respectively. The company is also setting up captive power units of 120MW, of which 50MW will come up in Tamil Nadu and 20MW in Rajasthan by December '10. Another 50MW is expected in Andhra Pradesh in FY12.

ICL is likely to incur a total capex of Rs 15bn over the next two years, for which it has raised debt to the tune of Rs 5.5bn. It is also incurring US\$ 20mn for the acquisition of a 30mt coal mine in Indonesia. The company is confident of mining captive coal in FY11, thereby lowering its coal cost going forward.

Lead distance to remain high; OPC to increase: ICL has a lead distance to market of 475-500km on an average. However, it continues to sell small cement parcels in the eastern region, driving up its lead distance. This apart, the current PPC/OPC mix of 71:29 is likely to be tilted in favour of OPC, on account of higher demand from the infrastructure segment where more OPC is utilised.

Maintain Sell: We remain cautious on the stock as pricing pressure is likely to continue in the south with oversupply setting in. Being a fragmented market, cement players are likely to battle for market share, undercutting prices. ICL is trading at 20x FY11E earnings. We maintain our Sell rating and target price of Rs 91 for the stock based on a valuation of 8.5x two-year forward earnings for the base business and Rs 25 for the company's India Premier League (IPL) cricket team.

Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	33,595	37,734	37,647	40,497
Growth (%)	10.4	12.3	(0.2)	7.6
Adj net income	5,219	3,383	1,828	2,276
Growth (%)	(23.9)	(35.2)	(46.0)	24.5
FDEPS (Rs)	17.8	11.5	6.2	7.8
Growth (%)	(31.5)	(35.3)	(46.0)	24.5

Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	27.9	22.9	17.3	18.0
EBIT margin	21.9	16.7	10.2	10.9
Adj PAT margin	15.5	9.0	4.9	5.6
ROE	15.0	9.0	4.7	5.7
ROIC	9.9	6.8	4.1	4.5
ROCE	11.3	7.5	5.0	5.5

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 126	Rs 91	SELL	HIGH

BSE	NSE	BLOOMBERG
530005	INDIACEM	ICEM IN

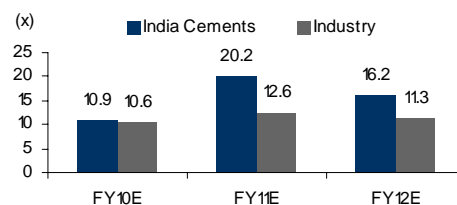
Company data

Market cap (Rs mn / US\$ mn)	35,515/781
Outstanding equity shares (mn)	282
Free float (%)	72.6
Dividend yield (%)	2.4
52-week high/low (Rs)	180 / 92
2-month average daily volume	1,577,544

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
India Cem	126	12.4	9.5	(3.8)
Sensex	17,103	7.3	(0.7)	6.1

P/E comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	7.1	10.9	20.2	16.2
P/E @ Target	3.7	5.7	10.6	8.5
EV/EBITDA @ CMP	5.8	6.3	8.4	7.5



Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	33,595	37,734	37,647	40,497
Growth (%)	10.4	12.3	(0.2)	7.6
EBITDA	9,381	8,652	6,528	7,279
Growth (%)	(13.1)	(7.8)	(24.5)	11.5
Depreciation & amortisation	2,033	2,366	2,687	2,847
EBIT	7,348	6,285	3,841	4,432
Growth (%)	(22.8)	(14.5)	(38.9)	15.4
Interest	1,122	1,492	1,680	1,740
Other income	1,052	466	566	716
EBT	7,278	5,259	2,727	3,408
Income taxes	2,161	1,877	899	1,132
Effective tax rate (%)	29.7	35.7	33.0	33.2
Extraordinary items	(795)	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	4,322	3,383	1,828	2,276
Adjustments	(897)	-	-	-
Adjusted net income	5,219	3,383	1,828	2,276
Growth (%)	(23.9)	(35.2)	(46.0)	24.5
Shares outstanding (mn)	282.4	282.4	282.4	282.4
FDEPS (Rs) (adj)	17.8	11.5	6.2	7.8
Growth (%)	(31.5)	(35.3)	(46.0)	24.5
DPS (Rs)	3.0	3.0	3.0	3.0

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	6,355	5,749	4,515	5,123
Non-cash adjustments	1,959	457	201	305
Changes in working capital	(2,206)	(5,076)	(792)	(701)
Cash flow from operations	6,108	1,130	3,925	4,727
Capital expenditure	(9,538)	(4,000)	(4,000)	(4,000)
Change in investments	(324)	-	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(9,863)	(4,000)	(4,000)	(4,000)
Issue of equity	28	-	-	-
Issue/repay debt	981	3,710	1,419	1,549
Dividends paid	(659)	(854)	(991)	(991)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	(3,404)	(14)	353	1,285
Closing cash & cash eq	852	838	1,191	2,475

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	13.7	13.7	13.7	13.7
ROIC (%)	9.9	6.8	4.1	4.5
Invested capital (Rs mn)	56,196	62,607	64,413	65,986
EVA (Rs mn)	(2,126)	(4,331)	(6,228)	(6,060)
EVA spread (%)	(3.8)	(6.9)	(9.7)	(9.2)

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	852	838	1,191	2,475
Accounts receivable	3,540	4,032	4,126	4,549
Inventories	3,705	4,462	4,945	5,369
Other current assets	13,339	13,339	13,339	13,339
Investments	1,590	1,590	1,590	1,590
Gross fixed assets	53,136	65,176	69,176	73,176
Net fixed assets	38,083	47,757	49,070	50,223
CWIP	9,040	1,000	1,000	1,000
Intangible assets	-	-	-	-
Deferred tax assets, net	(2,556)	(2,855)	(3,154)	(3,434)
Other assets	136	136	136	136
Total assets	67,727	70,297	72,241	75,246
Accounts payable	7,445	3,618	3,404	3,550
Other current liabilities	3,234	3,234	3,234	3,234
Provisions	854	1,149	1,051	1,077
Debt funds	19,880	23,591	25,010	26,558
Other liabilities	-	-	-	-
Equity capital	2,824	2,824	2,824	2,824
Reserves & surplus	33,490	35,881	36,718	38,003
Shareholder's funds	36,314	38,705	39,542	40,827
Total liabilities	67,727	70,297	72,241	75,246
BVPS (Rs)	128.6	137.0	140.0	154.6

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	27.9	22.9	17.3	18.0
EBIT margin	21.9	16.7	10.2	10.9
Net profit margin	15.5	9.0	4.9	5.6
ROE	15.0	9.0	4.7	5.7
ROCE	11.3	7.5	5.0	5.5
Working Capital & Liquidity ratios				
Receivables (days)	36	37	40	39
Inventory (days)	53	51	55	334
Payables (days)	103	69	41	226
Current ratio (x)	2.0	3.3	3.6	3.8
Quick ratio (x)	0.3	0.7	0.8	1.0
Turnover & Leverage ratios (x)				
Gross asset turnover	0.7	0.6	0.6	0.6
Total asset turnover	0.5	0.5	0.5	0.5
Interest coverage ratio	6.6	4.2	2.3	2.5
Adjusted debt/equity	0.4	0.5	0.5	0.5
Valuation ratios (x)				
EV/Sales	1.6	1.4	1.4	1.3
EV/EBITDA	5.8	6.3	8.4	7.5
P/E	7.1	10.9	20.2	16.2
P/BV	1.0	0.9	0.9	0.8



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	7,529	8,884	9,535	9,894	8,641
YoY growth (%)	2.0	5.3	13.9	4.6	14.8
QoQ growth (%)	(20.4)	18.0	7.3	3.8	(12.7)
EBITDA (Rs mn)	1,801	2,254	2,863	2,977	1,165
EBITDA margin (%)	23.9	25.4	30.0	30.1	13.5
Adj net income (Rs mn)	751	1,087	1,233	1,382	232
YoY growth (%)	(40.9)	(28.8)	(24.8)	(15.6)	(69.2)
QoQ growth (%)	(54.1)	44.7	13.4	12.1	(83.2)

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	76.8	71.7	64.3	67.0	66.8
Interest burden (PBT/EBIT)	93.8	99.0	83.7	71.0	76.9
EBIT margin (EBIT/Revenues)	31.3	21.9	16.7	10.2	10.9
Asset turnover (Revenues/Avg TA)	56.3	52.1	54.7	52.8	54.9
Leverage (Avg TA/Avg equity)	195.6	185.4	184.0	182.2	183.5
Return on equity	24.8	15.0	9.0	4.7	5.7

Company profile

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

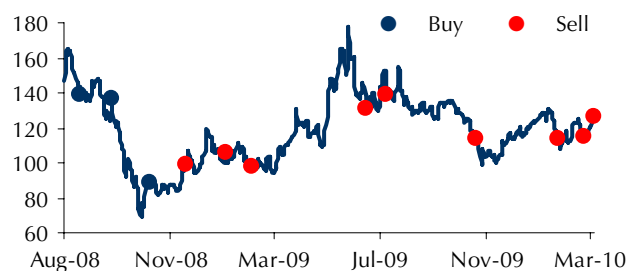
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	28.0	27.4	27.4
FIs	28.3	30.7	32.4
Banks & FIs	22.6	18.7	16.8
Public	21.1	23.2	23.4

Recommendation history

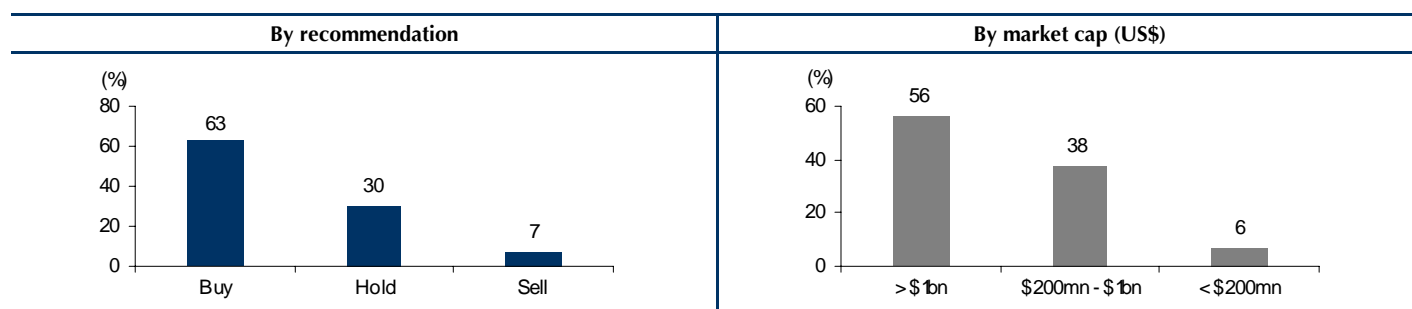
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	138	188	Buy
29-Sep-08	Company Update	137	188	Buy
6-Nov-08	Results Review	89	121	Buy
16-Dec-08	Sector Report	100	102	Sell
28-Jan-09	Results Review	106	94	Sell
23-Mar-09	Company Update	95	94	Sell
1-Jul-09	Results Review	131	124	Sell
22-Jul-09	Results Review	139	124	Sell
29-Oct-09	Results Review	114	102	Sell
25-Jan-10	Results Review	113	91	Sell
8-Mar-10	Company Update	126	91	Sell

Stock performance





Coverage Profile



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.

Religare Capital Markets Ltd

4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

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