Retail Research | India

Bhavya Gandhi
bgandhi@mfglobal.com
Lokesh Damani
ldamani@mfglobal.com

Date: 27th Sep. 2011

MF Global Sector **Building Material**

Prism Cement Ltd.

Integrated Building Material company

Initiating Coverage: Buy

CMP: Rs 41

Target: Rs 57

Investment Highlights

Prism cement (Prism) is an integrated Building Material Company with product offerings across cement, ready-mix concrete, ceramic tiles, bath products & accessories and modular kitchens.

Investment Highlights

Cement Division capacity expansion to provide thrust: Prism cement division operates a single-location cement plant at Satna in Madhya Pradesh. With the recent (Dec, 2010) expansion from 2.4 to 5.6 MTPA, Prism has emerged among the top-5 cement players (by capacity) in the limestone surplus Satna belt .While the near term outlook on the cement sector remains negative in view of large supply glut, rising input cost-based headwinds and weak pricing power, we expect Prism's cement division to benefit from capacity expansion in the long term and witness improvement in profitability indicators with availability of captive coal from FY14E onwards.

Leading Tile player targeting premium segment of Bath & Kitchen: Prism is a leading tile player in the organized tile market**.** It offers complete range of vitrified and industrial tiles under the flagship brand "Johnson". It now even offers premium bath accessories and modular kitchen products under the "Johnson" brand. With strong pan India distribution network it is moving up the value chain capitalizing on the demand for premium housing products like prefabricated kitchen, bathroom fittings etc.

Ready Mix Concrete (RMC) Division: Prism is the third largest producer of RMC in India. The RMC industry in its nascent stage in the country provides a huge opportunity, as only 10% of construction activity in India uses RMC viz.-a-viz. 70% in developed world. RMC proves to be a much more efficient and cost effective form of concrete.

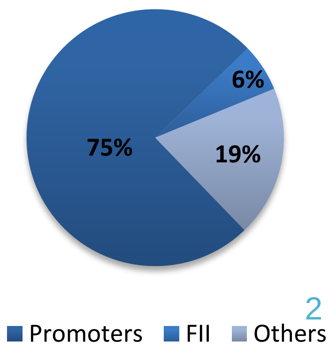
Valuation: We value Prism on SOTP basis and arrive at a target of Rs.57. Based on our target price Prism is trading at a P/E of 18.4x and 14.1x, P/B value of 1.6x and 1.5x for FY12E & FY13E respectively.

Year	Sales(Rs. Mn)	EBITA(Rs.)	%	PAT(Rs.)	%	EPS. (Rs.)	ROE	ROCE
FY09	6,474	1,592	25	921	14	3.1	14%	15%
FY10	28,749	5,292	18	2,598	9	5.2	22%	15%
FY11	34,017	3,425	10	1,049	3	2.1	8%	9%
FY12E	42,077	4,331	10	1,147	3	2.3	9%	11%
FY13E	46,728	4,720	10	1,498	3	3.0	11%	12%

Sensex	16051
Nifty	4835
Stock Data	
BSE Code	500338
NSE Code	PRISMCEM
Bloomberg	PRSC IN
Reuters	PRIS.BO
Shares Issued (mn)	503.4
Market Cap (Rs mn)	20,562
52 Wk H/L (Rs)	66/39
Face Value (Rs)	10
Avg. daily vol. (12M)	1,14,245

Return (%)	1m	3m	12m
Absolute	3	(7)	(32)
Rel. to Sensex	(3)	(4)	(18)

Share Holding 30-06-2011



About the company

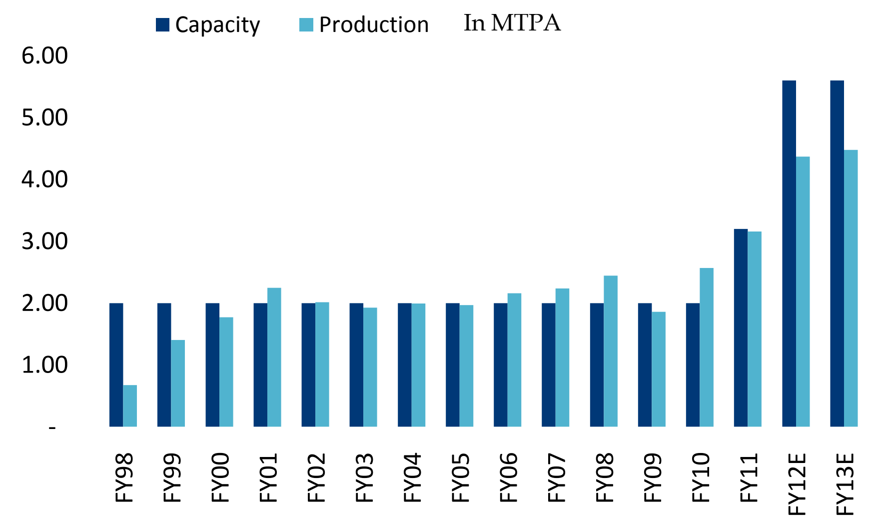
Prism Cement (Prism) promoted by the Rajan Raheja Group operates in three division, Cement (Champion), Tiles (H&R Jhonson), and RMC Redymix. Recently H&R Johnson (India) Ltd and RMC Readymix (India) Pvt Ltd were merged into Prism Cement w.e.f. April'09. Prior to that company was operating only in the cement division. Prism also has a 74% stake in Raheja QBE General Insurance Company Limited, a JV with QBE Group of Australia.

Source: MF Global Retail Research, Company

Investment Rationale: Cement

Cement Division: Prism cement division operates a single-location cement plant at Satna in Madhya Pradesh. With the recent (Dec, 2010) expansion from 2.4 to 5.6 MTPA, Prism has emerged among the top-5 cement players (by capacity) in the limestone surplus Satna belt manufacturing OPC cement & PPC cement under the "Champion" brand. The company's product mix constitutes ~92% as PPC (PPC cement is a superior quality eco-friendly blended cement produced by the mixture of ordinary cement with Fly Ash, all-the-more PPC gives better contribution also) and balance 8% as OPC cement. The company's major market includes East U.P, Bihar, and Madhya Pradesh. The demand in the region is largely derived from housing sector and infrastructure projects. Prism's cement division volumes have witnessed a modest CAGR growth of 2.5% for FY08-10, due to capacity constraints. However, with commissioning of a Brownfield plant (added 3.6 MT) in December 2010 the volume has shot up by 23% for FY11. We expect cement volumes to grow at CAGR of 19% for FY11-13E for Prism. Unlike some of the larger cement companies, Prism cement division is not backward integrated to produce captive power and depends on open market coal (for large part of its requirement), same being the case after the recent expansion. The company is however in the process of investing in captive coal mines in order to secure its fuel linkage, which is expected to support production from H2FY14. While the near term outlook on the cement sector remains negative in view of large supply glut, rising input cost-based headwinds and weak pricing power, we expect Prism cement division to benefit from capacity expansion in the long term and witness improvement in profitability indicators with availability of captive coal from FY14E onwards.

Cement capacity Expansion will result in volume growth from FY12E: Prism Cement division has undertaken a brown field expansion, augmenting its cement production capacity from 2 MTPA to 5.6 MTPA of cement & 0.6 MTPA of clinker. Prism has a wide network of 2700 dealers with 70 depots and caters to the growing market of Eastern U.P., M.P. & Bihar with a short average lead of ~415 km which proves a strategic advantage. With the expanded capacity it plans to venture in geographies of Western U.P. and NCR & will continue to focus on the central regions of India. The region is providing a sustainable growth opportunity based on the demand from rural and Tier-2 city housing development activities and expansion of basic infrastructures as canals, roads, etc. The organized implementation of ongoing social welfare programs such as NREGA, PMGSY etc. along with upcoming elections in the states which is market for Prism in FY12E-13E will act as a catalyst in increasing the demand for cement.



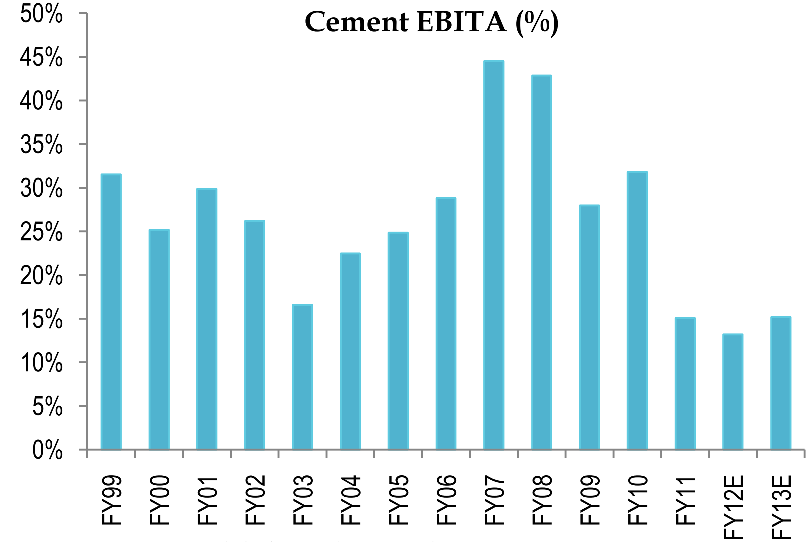
Source: MF Global Retail Research, Company

Investment Rationale: Cement

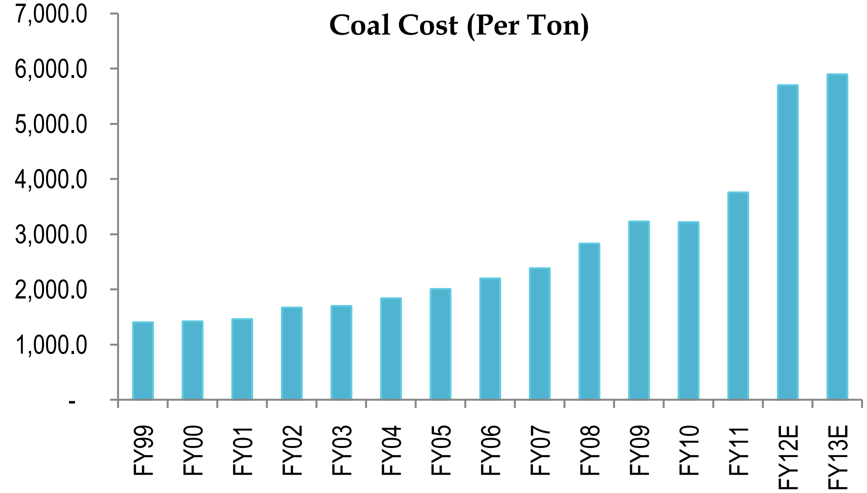
Operational benefit: The prospects of seven power plants, with a cumulative capacity of 17000MW coming up in the territory of Prism's plant over the next few years, will help it lock cheaper fly ash supply & further provide cheap source of power. The new capacity of 3.6 MTPA is also entitled for a VAT benefit for all cement sales in the state of M.P. for the next 7 years. We still remain conservative on our EBITA estimate on for FY12E and FY13E respectively .

Higher Coal cost to impact profitability at least for the near term: The company procures nearly 30% of its coal requirement for its existing plant (2.4 mtpa) through linkage coal (i.e. South Eastern Coal fields) and balance through the open market. However, for its expanded capacities, in the absence of linkage coal, Prism is expected to source coal from open market, which at present is expensive compared to linkage coal. Thus with the commissioning of the 3.6 mtpa brown field site (at Satna) and recent price hikes announced by Coal India, we expect the company's average coal costs per tonne to increase by 52% in FY12E. However, in order to secure its coal requirements and bring down cost, Prism has been allotted coal mines in Chindwara district in Madhya Pradesh. The company plans to invest close to Rs. 40 crore between FY12E-13E and expects captive coal mines to meet its future coal requirement for Satna plant. The company has received all the necessary approvals. With two year time frame required for mine development, we expect the company to be able to start sourcing coal from captive mines from mid FY14E onwards. With the commission of the coal block in FY14E, the company's average coal cost is likely to reduce substantially.

Coal Block	Detail
Location	Chindwara, MP
Minerable Reserves	15 mt
Estimated coal production	0.36 mtpa
Expected commercial production	April-June 2013
Expected landed cost	~Rs 2500/ tonne
Status	Received all approval



Source: MF Global Retail Research, Company



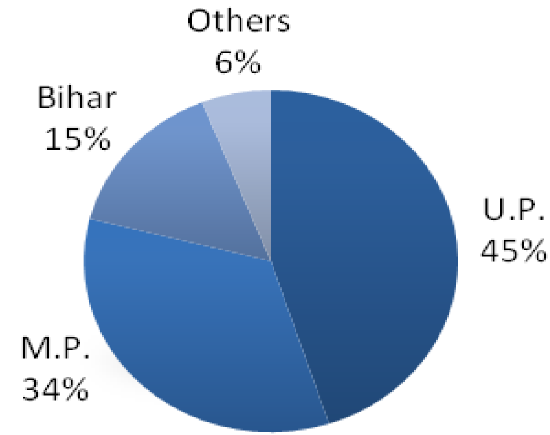
Source: MF Global Retail Research, Company

Investment Rationale: Cement

Long term plan for a Greenfield plant in south indicates regional diversification: In addition to the recently concluded expansion, Prism plans to set up a green field cement plant with a capacity of 4.8 mtpa in Kurnool district of Andhra Pradesh (AP). With respect to its green field plant, the company has secured all necessary approvals for mining lease, environment clearance and acquired majority of the land. However, at present it is focusing on stabilizing the newly commissioned brown field capacity at Satna before focusing on the green field site at AP. While the company is expected to source limestone from the new mines (in AP) for which alienation work has begun, it has yet to firm up its plans for coal and power linkage. Given the fact that power deficit scenario in AP, the company may also look at setting up captive power plant. The current project status and demand supply scenario in south, we expect commissioning of green field capacities to be operational only by FY15E onward. The wide distribution and experience of the southern markets of TBK division could be leveraged by the cement division when it enters the southern markets

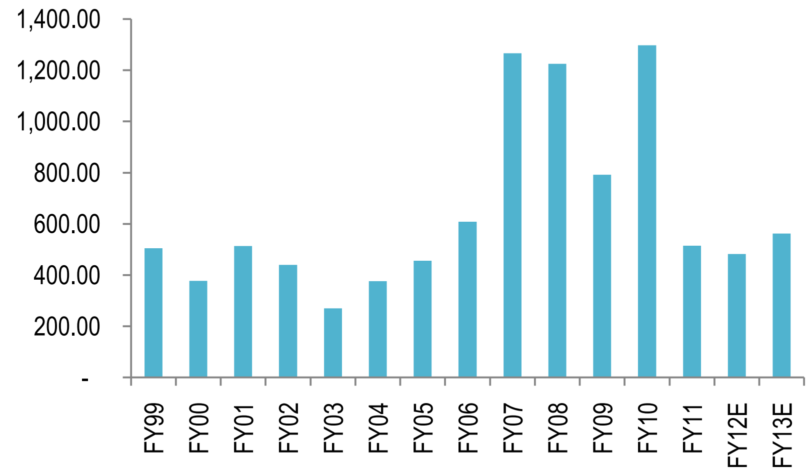
Prism profitability metrics to improve substantially from FY14E onwards: In line with the industry trend, Prism's profitability metrics (as reflected by EBITA/tonne) fell sharply in FY11 on account of declining realization and rising input and freight costs. The company was further impacted by the additional costs linked with the commissioning of the brown field capacity, which was going through a phase of stabilization during H2FY11. However, going forward, as industry-wide capacity addition likely to peak in FY12E and demand growth starts catching up with the added capacity, we expect realization to improve from FY12E onwards. While in the near term, Prism's EBITDA/tonne will remain impacted by supply pressures and higher input costs (particularly coal prices), we expect improvement to begin from FY14 onwards when company's captive coal mines start replacing open market sourcing. We expect, Prism's EBITA/tonne to bottom by FY12E to Rs. 483/tonne and subsequently improve to Rs. 562/tonne in FY13E and further in FY14E, when the total impact of captive coal is expected to flow in. In addition to lower coal cost, Prism would also benefit from economies of scale as fixed costs/overheads will be spread over much larger capacities.

Regional Sales (%)



Source: MF Global Retail Research, Company

EBITA per Ton



Source: MF Global Retail Research, Company

Investment Rationale: Tiles

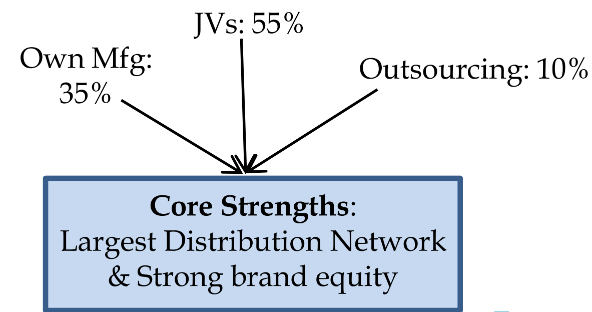
Tiles, Bath & Kitchen (TBK) Division: Prism's TBK division (erstwhile H & R Johnson India) is the leading domestic manufacturer of ceramic tiles, Sanitaryware, Bath Fittings and Kitchen products. The division was initially started in 1958 in partnership with H&R Johnson Tiles Ltd (U.K), the world leaders in manufacturing of tiles, with its established "Johnson" brand. The unit was later merged with Prism cement with effect from April 2009. Prism's market share is estimated at around 20% in the organized Tiles segment, supported by a strong product line, premium brand image, geographically widespread manufacturing facilities and vast distribution network. It offers glazed wall and floor tiles, bath and kitchen products under the flagship ***"Johnson"*** brand, complete range of vitrified tiles under ***"Marbonite"*** brand and a wide range of industrial tiles under the ***"Endura"*** brand.TBK is also involved in marketing of a host of top-line bathroom products like instantaneous hot water showers, multi flow massage showers, faucets and mixers, luxurious shower cubicles and sanitary ware.

Mix of trading and manufacturing revenues gives superior return ratio: The low to mid segment of the tiles industry faces intense competition from the unorganized sector (majorly based in the Morbi industrial belt in Gujarat) due to tax evasion, low cost machinery, lower overheads, proximity to raw materials and easy availability of LNG. To ensure healthy returns on capital employed, Prism has adopted a strategy of moving up the value chain by concentrating on its own modern capacities for manufacturing higher-margin vitrified tiles and industrial tiles and outsourcing the production of low to medium end tiles. These manufacturing JVs, operated by respective local partners, are able to operate at a lower cost, comparable to the unorganized entities. This strategy has enabled the company to achieve higher realizations for its products, since competition in the higher-end segment is less intense. Due to this strategy company have investments in JVs, which has led to a robust growth in trading sales wherein JV contribute 55% of the overall revenues of the TBK segment. However, with the completion of most of the JV investment plans and the division setting up a large plant in West Bengal, we expect the division to maintain the current optimal mix of trading and manufacturing revenues going forward. Besides, the division is able to leverage its strong distribution network and market the tiles manufactured by the JVs under the well established brands 'Johnson' (for ceramic) and 'Marbonite' (for vitrified); thereby leading to healthier RoCE as compared to the competitors .

National Player controls around 50% of the Industry

	Turnover as on 31.03.2011 (Rs./ Billion)
H & R Johnson	14.72
Kajaria Ceramics	10.05
Somany Ceramics	7.58
Nitco Tiles	7.29
Asian Granito	4.82
Orient Ceamics	3.58
Euro Ceamics	2.60
Gokul Ceamics	2.00
Bell Ceamics	1.67
Regency Ceamics	1.92
Murudeshwar Ceamics	1.86
Bell Granito	1.00
Decolight Ceramics	1.51
Others (Restile, Simpolo etc)	10.00
Total	70.60

Source: MF Global Retail Research, Industry



Source: MF Global Retail Research, Company

Investment Rationale: Tiles

Pan India manufacturing & distribution network along with strong brand equity: Traditionally, Prism's TBK had a stronger presence in the southern states due to lower lead distances from its plants and widely penetrated distribution network in the region. Over the years, however, the division has diversified its geographical presence by forming various subsidiaries/joint ventures for manufacturing ceramic tiles, premium vitrified tiles as well as Bathroom Fittings in the Western Region (Antique and Spectrum), Northern Regions (Milano) & Southern region (Silica & Sentini) with a planned own plant in the East. The TBK divisions of Prism have 1300 dealers with 15,000 sub dealer across country. To strengthen its distribution network and increase its brand awareness, Prism has set up 15 stores under "House of Johnson" and 25 "Tiles Bazaar" showrooms under subsidiary H&R Johnson and plans to set up 10 more spread across the country wherein the showrooms apart from selling the wide range of products also give design inputs to customers. The wide distribution and experience of the southern markets could be leveraged by the cement division when it enters the southern markets through the proposed manufacturing facility in Andhra Pradesh

Source: MF Global Retail Research, Company

Moving up the value chain with products like sanitary ware and modular kitchen: HR Johnson has moved up the value chain venturing in premium segments of bath accessories and modular kitchens. In the bath division they have product line ranging sanitary ware, faucets, taps etc under the brand Johnson Bath. The Rs. 60 Bn industry is growing at a healthy rate of 12-15% per annum majorly on the demand for premium housing. Many international players have launched their product range in India sensing the high growth opportunity in this segment which was lately being served by few organized and numerous unorganized players. HRJ's subsidiary Milano Bathroom Fittings Pvt. Ltd., located at Baddi (H.P.), with an initial capacity of 3 lacs units per annum has been further expanded to 6 lacs units. In the modular kitchen segment the company is targeting to capitalize on the upcoming trend of fashionable, sleek and high utility prefabricated kitchen with products under Johnson Kitchen brand. The industry is still in the nascent stage operated by smaller and fragmented players. Few international players have stepped in looking at the future potential. Growing at a rate of 25-30% CAGR, as the consumption power of the population is increasing, ample opportunity is seen in the relatively under tapped segment. The business is currently contributing Rs750mn to overall sales of the company.

Investment Rationale: Tiles

Switch over to low cost fuel provides comfort; however escalation of RLNG and NG prices may impact margins: Adequate supply of low cost Natural Gas is critical for ceramic tile manufacturers due to substantial power and fuel requirements (~13-15% of gross sales) for these companies. Prism has been successful in reducing power and fuel costs as its Pen plant switched from high cost Propane gas to RNLG. Besides, the Kunigal plant too is converted from Coal Gas/LPG to RNLG since November 2010 leading to substantial cost savings. However, natural gas prices have been revised from $1.8/MMBTU to $4.2/MMBTU from July 2010. Still three more plant of Prism are operating on high cost fuel which the company is expecting to convert into gas base in another 12-18 months. We expect the intense competition and operating cost pressures stemming from rising raw material and fuel (RLNG/NG) prices to keep pressure on EBITA margins but increase in contribution from value added products will keep EBITA above 12% range going forward. We have modeled for 40 bps margin pressure for FY12E -13E.

Capex plan for increasing geographical reach: With a robust demand from eastern Indian the company is planning to put its own tile manufacturing unit in that region which is likely to be operational by Q3FY13E. Further company is also planning to add 2mn sq meter at Dewas plant and 2.5mn sq meter under Silica vitrified JV which expected to be operation by Q4FY12E. Company is also planning for capacity of 0.6mn pieces pa in Bath fitting under subsidiary Milano Bath fitting which is expected to be operational by Q4FY12E, with a plan to setup agglomerated marble and quartz capacity in Antique JV by Q4FY12E. The total capex would be in the tune of ~Rs 2000mn in another two year.

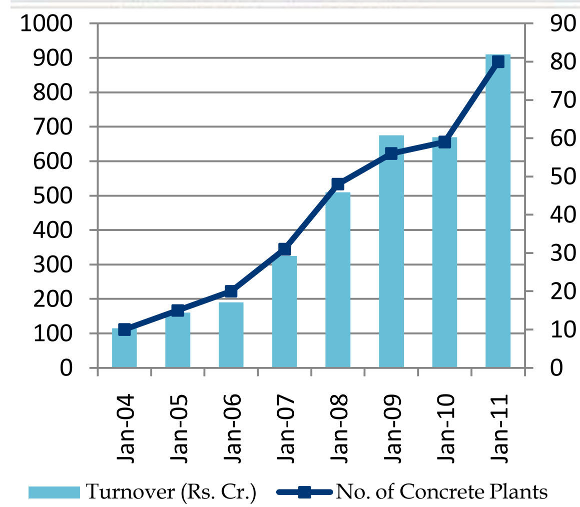
Plant	Ownership	Product
Pen	Own	Floor,Wall & Vitrified Tiles (Marbonite)
Dewas	Own	Industrial Tiles (Endura)
Karaikal	Own	Wall Tiles
Kunigal	Own	Floor & Industrial Tiles
Sentini Ceramic	JV 50%	Floor Tiles
Antique Marbonite	JV 50%	Vitrified Tiles
Spectrum Johnson	JV 50%	Wall Tiles
Milano Bath Fitting	Own	Bath Fittings
Silica Ceramica	JV 92.6%	Vitrified Tiles

Source: MF Global Retail Research, Company

Investment Rationale: RMC

Ready Mix Concrete (RMC) Division: Prism Readymix Concrete (RMC) division [erstwhile RMC Readymix (India) Private Limited], is the third largest manufacturer of readymix concrete in India. The division was incorporated in FY96 and was amalgamated with Prism in FY09. Ready-mix concrete is a type of concrete that is manufactured in a factory or batching plant, according to a set recipe, and then delivered to a work site, by truck mounted transit mixers. Readymix concrete is a homogenous mixture of cement, aggregates, sand, fly ash, water and other admixtures, which are mixed in predetermined proportions at a centrally located batching plant and then dispatched as ready to use concrete to the construction sites. Since the operations of the batching plant are fully automated, ready-mix concrete provides higher throughput with several benefits such as assured quality, speed, saving of site space, reduced labor costs and lower wastage than site mixed concrete.

Asset Light Model: RMC Division has the capability of manufacturing ready-mix concrete of various grades used in residential construction and infrastructure projects. As on March 2011, the division had about 80 manufacturing units spread across India in 31 major cities with an installed capacity of ~6.0 million cubic meters per annum. The division follows a mix operating model of leased vs. owned, for the land used for RMC plants and 50:50 ratio for the fleet of truck mixers. The division is also backward integrated into aggregate business that ensures uninterrupted supply of aggregates to the RMC Division besides tapping the strong demand potential for the same in infrastructure projects. Currently, the company has around 8 quarries / crushers based in Mumbai, Hyderabad, Orissa, Mangalore and Bangalore. RMC concrete manufacturing is a relatively lower value add – low margins business with raw material & transport costs forming about 75% of net revenues; with cement costs being a major raw material cost contributing ~35% of net revenues. The RMC division helps building a strong network across the country, the benefits of which can be expected in longer term as the business attains significant scale. PBIT margins of the division for FY11 stood at 3.7%; we expect 20-30 bps margin expansion for FY12E and FY13E on account of improvement in capacity utilization. The primary cause of lower return on capital employed over the years has been the aggressive expansion strategy pursued by the company and two to three years breakeven period for most of its commercial concrete plants. Although operating margin for the division are expected to remain low, industry leading EBITA Margin of ~6% and high asset turnover of 4–5x times is expected to yield relatively comfortable RoCE of over ~16% for the mature plants. At present, nearly 40 commercial concrete plants are more than two years old and are now in a position to achieve breakeven and improve the profitability of the division. So we believe that the enhancement in the utilization level to improvise the ROCE of the division.



Source: MF Global Retail Research, Company

Investment Rationale: Other Business

Volume growth expected through capacity expansions and improvement in utilizations: Over the last three years, the RMC division has rapidly expanded from 49 plants in FY08 to 80 plants in FY11. A new commercial concrete plant normally takes two-three year to breakeven in a new market as volumes pick up gradually. Hence, the average capacity utilizations for the division have remained around 50%. Going forward, we expect the division to enter newer markets and add capacities taking it to ~11.1 million cubic meter p.a. by FY15E from 6mn cu.mt.p.a. currently. The realizations are expected to remain soft due to stiff competition. With stabilization of the existing plants and increasing demand from real estate and infrastructure sectors, we expect the capacity utilizations for the RMC division to increase from the present ~50% based on the fact that over 70% of construction activity in the developed world involves the use of RMC as compared to around 10% in India. Overall, we expect ~15% CAGR growth over the FY11-FY13E period. In 2008 Lafarge acquired RMC plant of L&T for ~Rs3300mn per Cubic meter capacity going by that benchmark the business is could be more than ~Rs19,800mn.

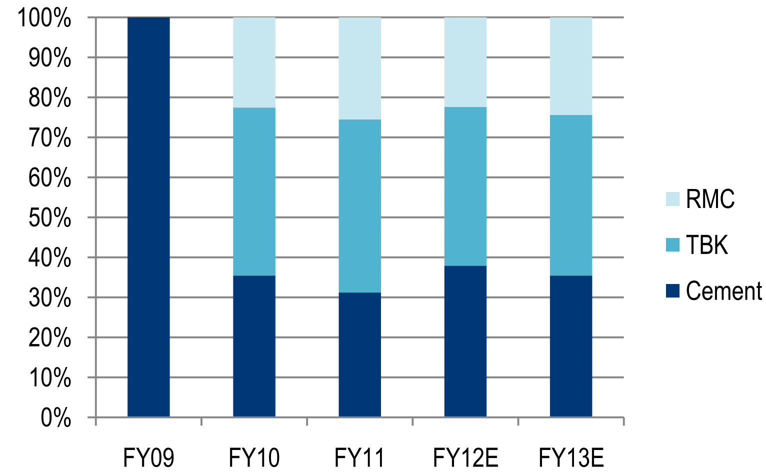
Raheja QBE General Insurance Company: Prism Cement holds 74% (Invested Rs 1.53bn till FY11) stake in the Mumbai based 'Raheja QBE General Insurance Company Ltd', with joint venture partner 'QBE Insurance Group' of Australia holding the remaining 26% stake. QBE Insurance Group Limited is an Australian based listed company and among the top 25 insurers and reinsurers worldwide with operations in 49 countries across all key global insurance markets. The company strategy is to be in the niche segment of general insurance like aviation etc which are less competitive. As and when the FDI limit in the insurance business is relaxed we expect some value unlocking from this business also.

Strategic Investment: Lifestyle Investments Pvt Limited (LIPL), wholly-owned subsidiary of Prism, holds 29.92% of UK based Norcros. Norcros has two primary business streams: Ceramic tiles & adhesives (design, manufacture and sourcing) and Showers (design and manufacture of branded electric and mixers), which service a broad range of retail, trade and commercial customers. It is present across geographies with UK (c 60% revenues – both segments) and South Africa (35% – tiles & adhesives only) as the dominant territories. The company recorded revenue of £196.1 million in FY11 and profit of £6.7million and is listed on London Stock Exchange with a market capitalization of £69 million. The management expects strong synergy benefits from the investment with the TBK division planning to leverage Norcros' distribution network to export a wide basket of wall, floor and vitrified tiles from its relatively lower cost manufacturing facilities in India.

Financials and Concerns:

Financials: We expect Prism to remain a leading player in the domestic building materials industry with strong presence across Cement, RMC concrete and Tiles segments. While the tiles division is expected to grow at 13% CAGR in line with industry trends; we expect a robust 25% CAGR growth in the cement division and 15% CAGR growth in the RMC division over the FY11 - FY13E period, mainly aided by aggressive capacity expansions. As a result the revenue contribution from cement division is expected to rise from 31% in FY11 to ~35% in FY13E, while contribution from RMC business is expected to be subdued during the same period. We expect the EBITDA margins of the cement division to improve from the current cyclical lows of ~15% in FY11 to ~27% over the next five years due to improving demand-supply scenario, better capacity utilizations and realizations, availability of captive coal supplies and economies of scale resulting from the large capacity expansions. However, we expect the intense competitive pressures and relatively lower value addition in the businesses to restrict the EBITDA margins of the tiles division in 10.0%-12.0% range and RMC division in 4.0-5.0% range.

Segment Revenue Share



Source: MF Global Retail Research, Company

Concern:

Project execution and prolonged demand-supply mismatch to remain key concern for cement division:
Prism has demonstrated strong execution capabilities, with the commissioning of the brown field expansion in a timely manner. The company is now looking to expand beyond its existing markets and set up a plant in southern India and a coal mining block (in M.P.). While the company may decide to go slow on the green field project, any delays in timely execution of the coal mining block would be key concern to long term earnings. Prolonged mismatch in industry-wide demand-supply beyond FY12-13E could continue to put pressure on pricing scenario.

Slowdown in Real Estate Construction Activity: The elongated recovery in the real estate sector may negatively impact on our growth assumptions in the TBK segment.

Valuation & Recommendation

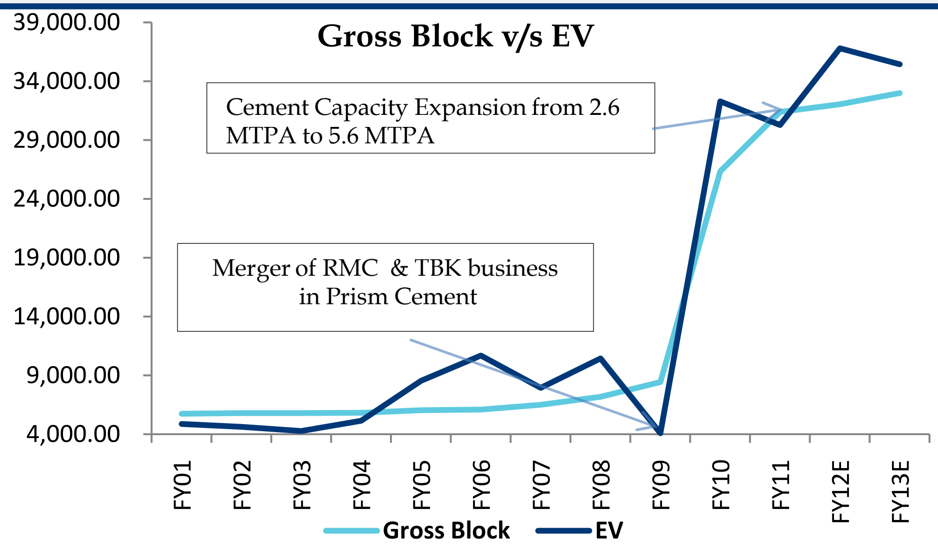
Valuation: Prism is operating across three varied business divisions, so we follow sum of the parts (SOTP) valuation to arrive at fair value. Given the cyclical nature and corresponding earnings volatility, cement division can be valued on EV/tonne basis. With the cement industry going through a cyclical downturn, the asset valuation for cement players have corrected, bringing it closer to the replacement costs for mid-sized players and at marginal premium to the replacement costs for some of the larger players with geographically diversified presence. Depending on geographic diversity, fuel linkage, power self-sufficiency and volume growth, asset prices for cement players range between $75-135 per tonne. Given Prism's limited geographic diversity, its dependence on open-market for coal and absence of captive power, the cement business can be valued at $80/tonne, which is at 20-30% discount to replacement cost (110-130 $/Tonne). Prism TBK division has a leading position in the domestic ceramic tile industry supported by a strong product line, premium brand image, geographically widespread manufacturing facilities and vast distribution network. The division is favorably placed to capitalize on the growing ceramic tiles demand from housing and construction sectors. The valuations of the division however is moderated by high competition in the industry, including from the unorganized sector. On SOTP valuation table, we have considered the division at an EV/EBITA of 7.0x for FY12E. Again, with buoyant real estate and infrastructure activities across the country, demand prospects for RMC division are expected to remain favorable over the long term. The services in the RMC division is relatively commoditized, Prism is expected to benefit from its wide reach. On SOTP valuation, we have considered EV/EBITDA of 5.0 times of FY12E. Although we expect future value accretion from Prism investments in Raheja QBE General Insurance Company Limited and Norcors Plc over the longer term, we have considered these investments currently at book value & 60% of market value respectively. We further Value treasury stock at Book value (45% of CMP). Based on the above assumptions, we arrive at a valuation of Rs 57 per share.

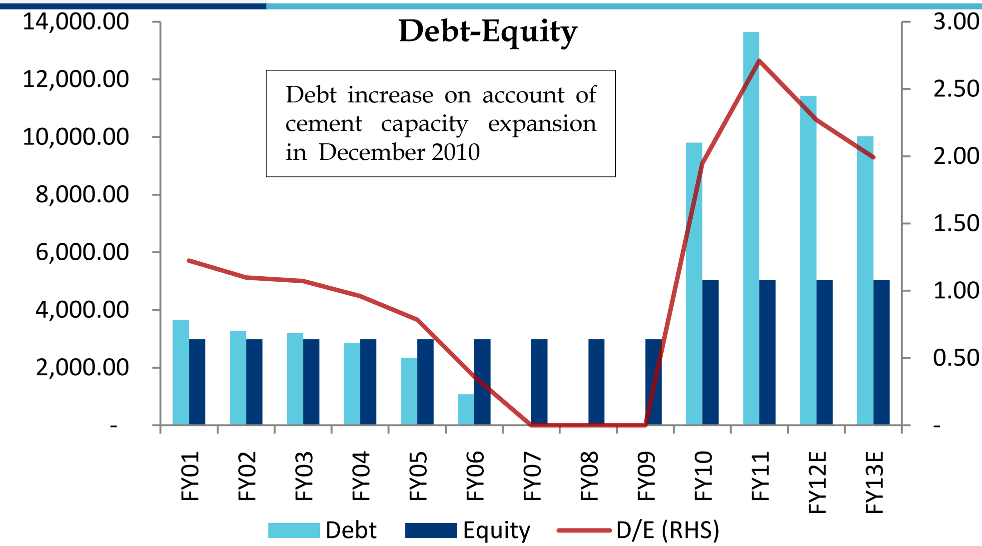
SOTP Valuation: Based on FY12E

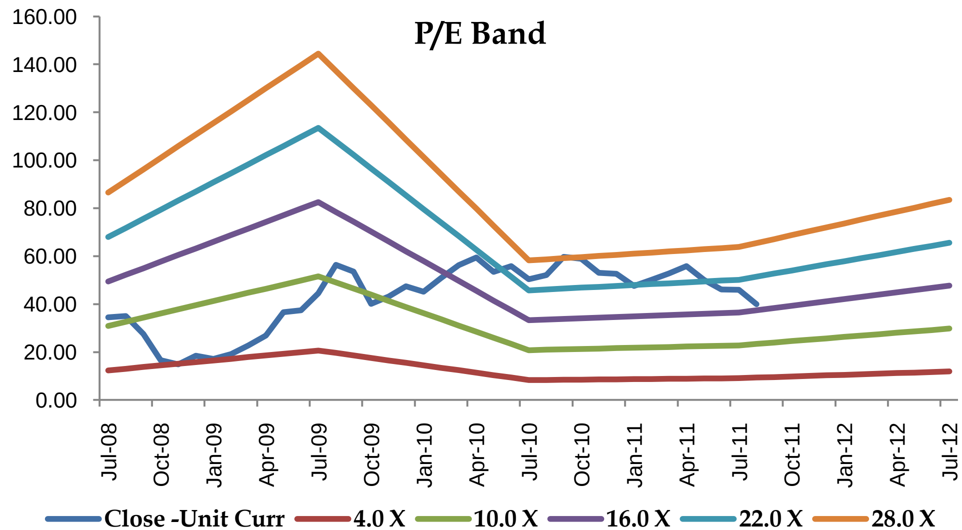
Cement	Capacity (mtpa)	6.0
	EV/ Tonne ($/ tonne)	80
	EV (Rs Mn)	**21,600**
TBK	FY12E EBITA	23,450
	EV / EBITA	7
	EV (Rs Mn)	**16,415**
RMC	FY12E EBITA	3,630
	EV / EBITA	5
	EV (Rs Mn)	1,815
Raheja QBE	Book Value	1,530
Norcros PLC	60% discount to Market Value	904
Treasury Stock	Book Value @ Rs 19 per share	241
	Total EV	**42,505**
Less:	Total Debt	13,646
	Total Value	28,859
	No of Shares	503
	Per Share Value	**57**

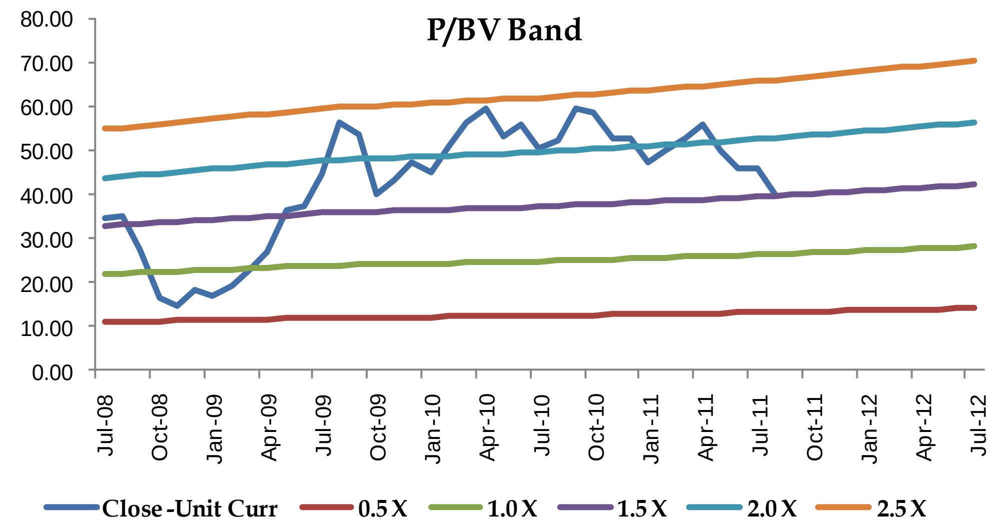
Source: MF Global Retail Research, Company

Valuation & Recommendation









Source: MF Global Retail Research, Company

Financial Statements (Rs in Mn)

Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Sales	6,474	28,749	34,017	42,077	46,728
Raw Material	1,556	11,178	15,355	19,675	22,371
Manufacturing Exp	2,042	7,507	9,099	11,111	11,905
Selling & Other	1,283	4,772	6,138	6,960	7,732
Op profit	1,592	5,292	3,425	4,331	4,720
OPM(%)	24.6%	18.4%	10.1%	10.3%	10.1%
Other income	151	191	498	260	200
Depreciation	243	1,024	1,260	1,468	1,512
Interest	35	658	1,194	1,504	1,287
PBT	1,464	3,802	1,469	1,619	2,121
Tax	558	1,236	433	486	636
PAT	**906**	**2,565**	**1,036**	**1,133**	**1,484**
Adj PAT	**921**	**2,598**	**1,049**	**1,147**	**1,498**
NPM(%)	14.2%	9.0%	3.1%	2.7%	3.2

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	2,983	5,034	5,034	5,034	5,034
Reserves	3,566	6,983	7,473	8,208	9,172
Net worth	6,548	12,017	12,506	13,242	14,205
Total debt	0	9,801	13,646	11,424	10,024
Deferred tax	528	1,051	1,395	1,590	1,844
Minority Interest	496	564	500	486	472
Total liabilities	7,572	23,433	28,047	26,742	26,546
Gross fixed assets	7,350	20,073	30,347	31,047	32,047
Less: Cum depreciation	3,376	8,388	9,576	11,044	12,556
Net fixed assets	3,974	11,685	20,771	20,004	19,491
Capital WIP	1,092	6,275	1,058	1,008	958
Investments	1,854	2,749	3,215	3,195	3,195
Net current assets	653	2,723	3,003	2,535	2,901
Total assets	7,572	23,433	28,047	26,742	26,546

Financial Statements (Rs in Mn)

Cash flow (Rs. Mn)	FY09	FY10	FY11	FY12E	FY13E
PAT & extra ord. Items	**906**	**2,565**	**1,036**	**1,133**	**1,484**
Add: depn. & oth. Exp.	662	1,614	1,541	1,648	1,753
Cash flow from op.	**1,568**	**4,180**	**2,576**	**2,781**	**3,237**
Net chg in w/c, tax, int.	225	(1,603)	(668)	(345)	(399)
Net cash flow from op.	**1,793**	**2,576**	**1,908**	**2,436**	**2,838**
Capital expenditure	1,272	13,918	5,129	650	950
Sale/ purchase of inv	660	(895)	(466)	20	-
Net cash from inv.	**(611)**	**(14,814)**	**(5,594)**	**(630)**	**(950)**
Issue of eq/loan/warr.	**15**	**139,51**	**3,899**	**(2,222)**	**(1,400)**
Dividend paid	(524)	(1,247)	(601)	(398)	(521)
Net cash from financing	**(509)**	**12,704**	**3,298**	**(2,619)**	**(1,921)**
Net chg in cash	673	467	(388)	(813)	(33)
Op. cash bal	168	841	1,309	921	107
Cl. Cash bal	840	1,309	921	107	75

Ratios	FY09	FY10	FY11	FY12E	FY13E
% Growth					
Net Sales	(26)	344	18	24	11
EBITA	(52)	232	(35)	26	9
PAT	(61)	182	(60)	9	31
Per share data (Rs.)					
Adj EPS Stand	3.1	5.2	2.1	2.3	3.0
Book value	22	23.9	24.8	26.3	28.3
Cash EPS	3.9	7.2	4.6	5.2	6.0
Valuation(x)					
P/E	13.9	8.3	20.6	18.4	14.1
P/BV	2	1.8	1.7	1.6	1.5
EV/EBIDTA	14.4	9.3	15.4	11.6	10.4
Performance(%)					
RoCE	14.6	14.9	8.6	10.7	11.5
RoNW	14.1	21.6	8.4	8.7	10.5

Disclosures and Disclaimers

MF Global Sify Securities India Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equities Derivatives and Private Client Group. This report has been prepared by Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of MF Global Sify Securities India Pvt. Ltd.
This report is issued by MF Global Sify Securities India Pvt. Limited which is regulated by SEBI. MF Global Sify Securities India Pvt. Ltd. is a subsidiary of MF Global Overseas Ltd. References to "MFGSSIPL" or "Firm" in this report shall mean MF Global Sify Securities India Pvt. Limited unless otherwise stated. This report is prepared and distributed by MFGSSIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by MFGSSIPL to be valid when published. The report also contains information provided to MFGSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFGSSIPL has taken all reasonable steps to ensure that this information is correct, MFGSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFGSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance.
This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. MF Global Sify Securities India Pvt. Ltd. or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice
Important These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.
Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: MF Global Sify Securities India P. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and the Firm does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The Firm is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. The Firm does not hold more than 1% of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that the Firm and the research analyst believe to be reliable, but neither the Firm nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice.
Furthermore, the Firm is under no obligation to update or keep the information current.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

MF Global Sify Securities India Pvt. Limited.
2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011