(Investment Idea)

Madras Cements (MCL)

MCL, 3rd largest cement producer in southern India with Ramco brand & having capacity of 6 mn tonnes, has reported good performance for Q2 FY 2008.

Net sales grew @ 22.8% to Rs. 500.18 crore (Rs. 407.25 crore) riding better price realisation in the southern region. While realization rose @ 30.4% to Rs 3,782/- per tonne (Rs 2,900/-), volume declined by 5.8% to 13.22 lakh tpa (14 lakh tpa). OPM% improved considerably to 42.9% (38.9%). However, almost doubled interest of Rs. 8 crore (Rs. 4.2 crore) and 40% higher depreciation of Rs. 25.67 crore (Rs. 18.35 crore) in view of ongoing capacity expansion plans, restricted growth in PBT (before extra ordinary items) @ 33.6% to Rs 183.6 crore (Rs. 137.4 crore) and PAT @ 34.2% to Rs. 120.8 crore (Rs. 90 crore).

For H1 FY 2008, net sales grew @ 29.6% to Rs. 969.55 crore led by 26% higher realization of Rs. 3,585/- per tonne (Rs. 2,845/-) and 2.8% volume growth in cement desptaches of 27.04 lakh mt. (26.29 lakh). OPM% enhanced to 41% (39.4%). Consequently, PBT grew @ 31.8% Rs. 336.34 crore (Rs. 255.10 crore) and PAT by 31.1% to Rs. 221.41 crore (Rs. 168.92 crore).

Continued buoyancy in cement prices and demand (driven by thrust on infrastructure, growing housing demand, etc.) growth bode good for the company. To cater to growing demand, company is implementing green-field cement unit of 2 mn tonnes at Ariyalur in Tamil Nadu @ capex of Rs 613 crore and clinker manufacturing unit (effective cement capacity 2 mn tonnes) at cost of Rs. 507 crore at existing location at Jaivanthipuram in Andhra Pradesh. Both these projects are likely to commission in FY 2008, taking total capacity to 10 million tones (6 million tones), increase of 67%. Moreover, it is doubling captive power plant capacity at a cost of Rs 112 crore. This will further lower its Power & Fuel cost, thereby boosting profitability margins.

Company is foraying into Sugar industry, mainly for co-generation of power, which will substantially reduce power cost. Co-generation of power would cost only Rs. 1.25 per unit, compared to Rs. 2.5 per unit for electricity generated via thermal power. Besides, MCL has also passed enabling resolutions to get into pharmaceuticals, power, solar power appliances and textiles.
Company is also considering buyback of shares.

At CMP of Rs. 4,033.10, share (Rs. 10/- paid up) is trading at 9.26 times FY 2008 expected EPS of Rs 435.32 and 7 times FY 2009 expected earning of Rs 571.43. Considering strong future outlook, we recommend "BUY" at CMP.

October 24, 2007