

6th June 2007

Accumulate

Price	Target Price
Rs 2,636	Rs 3,150
Sensex	14,256

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(4)	(18)	18
Rel. to Sensex	(10)	(15)	(20)	(17)

Source: Bloomberg

Stock Details

Sector	Cement
Reuters	MSCM.BO
Bloomberg	MC@IN
Equity Capital (Rs mn)	121
Face Value (Rs)	10
52 Week H/L (Rs)	3,699/1,731
Market Cap (Rs bn)	31.8
Daily Avg Volume (No of shares)	11482
Daily Avg Turnover (US\$ mn)	0.8

Shareholding Pattern (%)

(31st Mar '07)

Promoters	42.6
FII/NRI	4.3
Institutions	20.3
Private Corp.	8.0
Public	24.7

Source: BSE

Upgrading Earnings

Madras Cement Ltd's (MCL) Q4FY2006 net profit at Rs709.8 million is marginally below our expectations. Sales for the quarter grew by 45% yoy driven by a 7.1% growth in the volumes and a 35.5% growth in the realisation per tonne. Operating profits stood at Rs1.33 billion, marking a growth of 100%. On the cost front the trend of cost push continued as total cost increased by 21%. Net profit for the quarter stood at Rs709.8 million, registering a staggering growth of 117.1% yoy. Over past 5-6 weeks cement prices in southern region have moved up by Rs8-10 per bag in Tamilnadu and Rs10 per bag in Karnataka. Consequently, we are upgrading our earnings estimates for MCL by 12% for FY2008 and 10% for FY2009. Or EPS Estimates for MCL now stands at Rs322 for FY2008 and Rs369 for FY2009. The stock Meanwhile we maintain our ACCUMULATE rating on the stock with a revised price target of Rs3150.

Result Highlights

- Madras Cement Ltd's (MCL) Q4FY2006 net profit at Rs709.8 million is marginally below our expectations. The net sales for the quarter stood at Rs4.35 billion registering a growth of 45% year on year (yoy). The growth in the sales was driven by a 7.1% growth in the volumes and a 35.5% growth in the realisation per tonne.
- The operating profits stood at Rs1.33 billion, marking a growth of 100% as OPMS for the quarter, improved by 840 basis points to 30.6%.
- On the cost front the trend of cost push continued as total cost increased by 21%. The key cost that moved up were raw material (up22%) power and fuel (up 17.6%) and freight (up 26%). However the 35% growth in the cement realisations helped MCL's EBIDTA/ton grow by 87% to Rs948.
- The depreciation charge during the quarter increased by 23.2% yoy, mainly due to the commissioning of the new captive power plant. Consequently, the net profit for the quarter stood at Rs709.8 million, registering a staggering growth of 117.1% yoy.
- Company's capex plant of increasing its capacity by 4 million tonne is on schedule. The 2 mtpa capacity expansion at Jayanthipuram is expected to be completed September 2007 and the balance 2 mtpa expansion at Ariyalur is expected to be completed by June 2008.

Cement price in Southern India up by Rs8-10 per bag

Over past 5-6 weeks cement prices in southern region have moved up by Rs8-10 per bag in Tamilnadu and Rs10 per bag in Karnataka. As Madras cement sells close to 70% of its produce in these two states it would benefit from this price hike.

Upgrading earnings by 12% for FY2008 and 10% for FY2009

We are upgrading our earnings estimates for MCL by 12% for FY2008 and 10% for FY2009. Or EPS Estimates for MCL now stands at Rs322 for FY2008 and Rs369 for FY2009. At current levels the stock is discounting its FY2008 earnings by 8.2X and FY2009 earnings by 7.1X. We maintain our ACCUMULATE rating on the stock with a revised price target of Rs3150.

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Earnings upgrade

	Earlier		Revised	
	FY2008	FY2009	FY2008	FY2009
Sales	18081	22498	19747	24766
EBIDTA	6826	8070	7049	8362
EBIDTA (%)	38%	36%	36%	34%
PAT	347.4	404.7	3890	4458
EPS	287.6	335.0	322	369

Results Table

	Q407	Q406	VAR [%]	FY2007	FY2006	VAR [%]
Net Sales	4350	2998	45%	15741	10084	56%
Total Expenditure	3018	2333	29%	10184	7985	28%
Operating profits	1332	665	100%	5557	2099	165%
Other Income	14	16	-15%	75	49	54%
EBIDTA	1346	681	98%	5633	2148	162%
Interest	60	91	-34%	228	344	-34%
PBDT	1286	591	118%	5404	1805	199%
Depreciation	182	148	23%	719	652	10%
PBT	1104	443	149%	4685	1153	306%
Tax	394	116	240%	1606	328	389%
Reported Profit After Tax	710	327	117%	3080	791	289%
EPS	59	27		255	65	
OPMs	30.6%	22.2%		35.3%	20.8%	
EBIDTA	30.9%	22.7%		35.8%	21.3%	
EBDT	29.6%	19.7%		34.3%	17.9%	
EBT	25.4%	14.8%		29.8%	11.4%	
EAT	16.3%	10.9%		19.6%	7.8%	
Tax rate	35.7%	26.2%		34.3%	31.4%	

Per tonne analysis

Per tonne costs (Rs)	Q407	Q406	VAR [%]	FY2007	FY2006	VAR [%]
Raw Material	445	366	22	398	335	19
Consumed	388	375	3	374	333	12
Stock Adjustment	57	-9		24	2	
Employee	132	88	50	105	101	4
Power and fuel	606	515	18	577	556	4
Freight	518	410	26	412	372	11
Other Expenses	448	398	12	402	385	4
Realisation	3096	2285	36	2927	2211	32
Total cost per tonne	2148	1778	21	1894	1751	8
EBIDTA per tonne	948	507	87	1033	460	125

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