India Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 12,962	ICEM IN
	REUTERS CODE
S&P CNX: 3,897	ICMN.BO

Equity Shares (m)	281.9
52-Week Range	333/116
1,6,12 Rel. Perf. (%)	-3/-24/-31
M.Cap. (Rs b)	34.1
M.Cap. (US$ b)	0.8

1 July 2008

Buy

Previous Recommendation: Buy

Rs122

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/07A	22,552	4,788	17.6	818.6	6.9	2.3	43.0	22.0	2.2	6.8
03/08E	30,443	6,739	23.0	30.4	5.3	1.3	34.1	25.5	1.7	4.8
03/09E	37,718	6,048	20.6	-10.2	5.9	1.1	21.4	21.9	1.3	4.4
03/10E	41,807	6,011	20.5	-0.6	5.9	0.9	17.9	19.6	1.2	4.2

India Cements' 4QFY08 results came in below our estimates, with EBITDA at Rs2.63b and recurring PAT at Rs1.4b. These results are not comparable as consolidation of Visaka Cement for 9MFY08 was effected in 4QFY07. Key highlights include:

- Net sales stood at Rs8.44b, based on volumes of 2.46m ton and realization decline of 0.8% QoQ to Rs3,369/ton. EBITDA was at Rs2.63b, translating into EBITDA margin decline of 210bp QoQ to 31.1%. Margins were impacted by higher other expenditure on account of IPL (Rs90m), managerial incentive based remuneration (Rs106m) and higher packing cost.
- However, higher other income at Rs325m (driven by Rs140m sponsorship fee for IPL and Rs160m interest income from funds raised in QIP) boosted recurring PAT to Rs1.4b (~17% decline). The company charged Rs481m as on one-time settlement of loan with lenders, resulting in reported PAT of Rs1.04b.

We are revising our earnings estimate downward for FY09 by 11.9% to Rs20.6 and for FY10 by 11.2% to Rs20.5 to factor in higher coal prices (at US$120/ton *cif*), higher freight cost, higher other expenditure and translation forex loss on US$75m FCCB. Valuations of 5.9x FY09E EPS (fully diluted, but including treasury stock) and 4.4x FY09E EBITDA are attractive. Maintain **Buy** with a target price of Rs200 (~6x FY09 EV/EBITDA).

QUARTERLY PERFORMANCE (RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08
	1Q*	2Q*	3Q*	4Q	1Q	2Q	3Q	4Q		
Sales Dispatches (m ton)	1.85	1.88	1.74	2.96	2.31	2.27	2.18	2.46	8.43	9.23
YoY Change (%)	*-2.6*	*-1.6*	*3.2*	*49.5*	*24.5*	*20.9*	*25.5*	*-*	*12.9*	*9.4*
Realization (Rs/ton)	2,606	2,733	2,716	2,771	3,033	3,339	3,395	3,369	2,662	3,279
YoY Change (%)	*30.1*	*33.2*	*31.9*	*29.9*	*16.4*	*22.2*	*25.0*	*21.6*	*29.0*	*20.7*
QoQ Change (%)	*22.2*	*4.9*	*-0.6*	*2.0*	*9.4*	*10.1*	*1.7*	*-0.8*	*29.0*	*23.2*
Net Sales	**4,852**	**5,164**	**4,724**	**7,812**	**7,012**	**7,612**	**7,379**	**8,440**	**22,552**	**30,443**
YoY Change (%)	*27.4*	*31.9*	*36.3*	*84.8*	*44.5*	*47.4*	*56.2*	*8.0*	*46.3*	*35.0*
Total Expenditure	3,197	3,438	3,394	5,181	4,369	4,539	4,930	5,811	15,210	19,648
EBITDA	**1,655**	**1,726**	**1,331**	**2,631**	**2,643**	**3,074**	**2,449**	**2,629**	**7,343**	**10,794**
Margins (%)	*34.1*	*33.4*	*28.2*	*33.7*	*37.7*	*40.4*	*33.2*	*31.1*	*32.6*	*35.5*
Depreciation	192	193	198	444	275	303	311	390	1,026	1,279
Interest	389	364	347	398	314	283	273	229	1,498	1,099
Other Income	54	8	17	22	97	59	30	325	101	511
PBT before EO expense	**1,129**	**1,177**	**803**	**1,811**	**2,151**	**2,546**	**1,895**	**2,335**	**4,920**	**8,928**
Extra-Ord expense	0	0	0	0	0	0	0	481	0	481
PBT	**1,129**	**1,177**	**803**	**1,811**	**2,151**	**2,546**	**1,895**	**1,854**	**4,920**	**8,446**
Tax	3	4	5	120	317	320	624	810	131	2,071
Rate (%)	*0.2*	*0.3*	*0.6*	*6.6*	*14.8*	*12.6*	*32.9*	*43.7*	*2.7*	*24.5*
Reported PAT	**1,126**	**1,173**	**798**	**1,691**	**1,834**	**2,227**	**1,271**	**1,044**	**4,788**	**6,375**
Adj PAT	**1,126**	**1,173**	**798**	**1,691**	**1,834**	**2,227**	**1,271**	**1,408**	**4,788**	**6,739**
YoY Change (%)	*1,018.1*	*1,905.5*	*4,407.3*	*525.7*	*62.9*	*89.8*	*59.3*	*-16.8*	*956.6*	*40.7*
Margins (%)	*23.2*	*22.7*	*16.9*	*21.7*	*26.2*	*29.2*	*17.2*	*16.7*	*21.2*	*22.1*

*E: MOSt Estimates; *Excluding Visaka merger*

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Strong realizations drive revenue growth

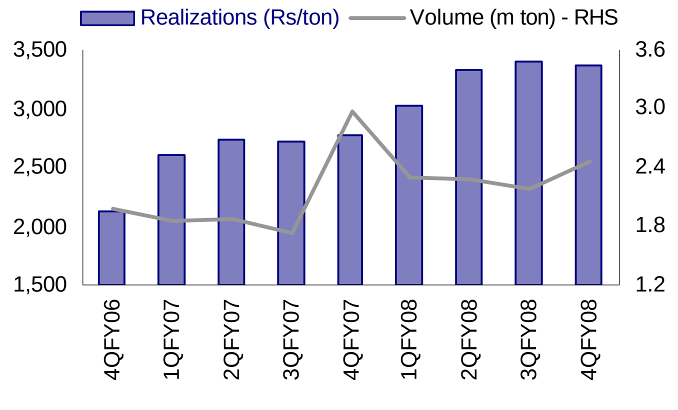
These results are not comparable as consolidation of Visaka Cement for 9MFY07 was done in 4QFY07. Net sales stood at Rs8.44b, driven by volumes of 2.46m ton and realization decline of 0.8% QoQ to Rs3,369/ton. For FY08, the company sold 9.2MT (~9.5% growth) at realizations of Rs3,279/ton (higher by 28% on like-to-like basis). During the quarter, the company booked Rs118m as income from the shipping business i.e. freight earnings from the recently acquired ships.

UNIT COST BREAK-UP (RS/TON)

	4QFY08	YOY (%)	QOQ (%)
Net realization	**3,369**	***21.6***	***-0.8***
Expenditure			
RM Cost	325	*-1.6*	*6.6*
Employee Expenses	211	*72.7*	*-9.5*
Power, Oil & Fuel	807	*37.3*	*0.2*
Selling Expenses	547	*20.1*	*0.1*
Other Expenses	474	*32.0*	*28.1*
Total Exp	2,363	*27.5*	*4.6*
EBITDA	**1,006**	***9.7***	***-11.5***

Source: Company/Motilal Oswal Securities

TREND IN REALIZATIONS AND VOLUMES



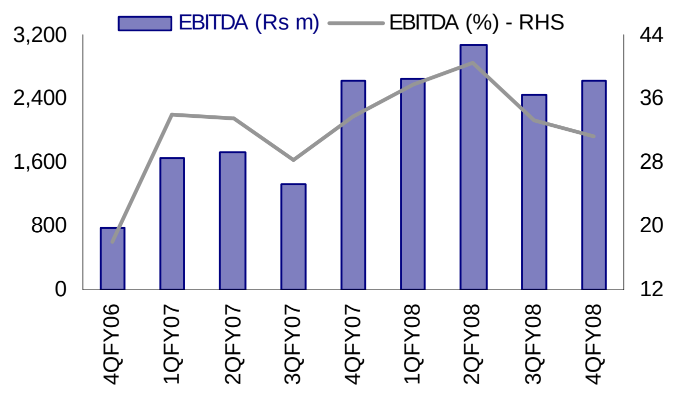
Source: Company/Motilal Oswal Securities

However, higher other income at Rs325m (driven by Rs140m sponsorship fee of IPL and Rs160m interest income from US$150m raised in QIP) boosted recurring PAT to Rs1.4b (~17% decline). The company has charged Rs481m as on one-time settlement of loan with lenders, resulting in reported PAT of Rs1.04b.

Cost push restricts margin expansion

EBITDA at Rs2.63b, translates to EBITDA margin decline of 210bp QoQ to 31.1%. Margins were impacted by higher other expenditure on account of IPL related expenses (Rs90m), managerial incentives (Rs106m) and higher packing cost.

TREND IN EBITDA

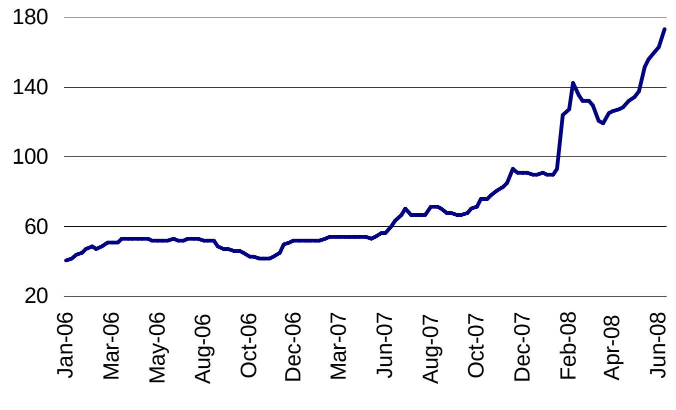


Source: Company/Motilal Oswal Securities

Imported coal cost remains a concern

India Cement sources ~70% of its coal requirement from the international market, where coal prices are spiraling upward. Its cost of imported coal in 4QFY08 was US$90/ton (*CIF*), which the management expects to go up to US$110-115/ton in 1QFY09. The company is hedged against volatile sea freight rates, as it has already deployed the recently acquired ships. In 4QFY08, the company had chartered these ships outside and had booked income of Rs118m (for 2 months). Going forward, management is open to chartering these ships outside if it continues to get attractive *CIF* rates for coal.

IMPORTED COAL PRICES SOARING HIGH (*F.O.B.* US$/TON)



Source: Bloomberg

Capacity expansion on schedule

India Cements is currently expanding capacity from 9MT to 18MT by investing Rs29b, of which 0.8MT has already commenced operations in FY08. Another 4.5MT is expected to commence operations in FY09, which would include grinding units at Chennai and Maharashtra. Further, it has started preliminary work for its diversification in the northern region. While it has placed orders for equipment and has commenced land acquisition for the Rajasthan plant (~1.5MT), it is awaiting clearance to build the road leading to the plant site in Himachal Pradesh. Management has indicated that both these greenfield plants would be completed by March 2010. We believe this timeline is aggressive, particularly since land acquisition (for both the plants) and ordering of equipment (at HP) is yet to be completed.

Cement demand outlook positive

Management has indicated that demand growth in southern India would be higher in FY09 compared with FY08. Management does not expect any significant supply in FY09, and as a result, expects demand-supply equilibrium to continue. This is evident in recent price hikes in the southern market (to pass on the higher excise and freight cost). Further, management is focused on improving the market mix by increasing share in Tamil Nadu and Kerala. As a result, management expects 1QFY09 realizations to be higher QoQ by ~Rs120/ton.

IPL - Profitable in the first season itself

Management has indicated that its team, Chennai Super King in IPL made profits in the first season itself, without divulging any other details. In 4QFY08, the company booked revenues of Rs140m from sponsorship fees and expenses of Rs90m. Apart from revenues from IPL, it would also gain from participating in the Champions League (by virtue of being the finalist in IPL), which would result in further benefits. The IPL venture would be a win-win proposition, as it would leverage the company's strong IPL brand equity by launching the 'Super King' brand in the northern region.

Revising estimates downward

We are revising our earnings estimate downward for FY09 by 11.9% to Rs20.6 and for FY10 by 11.2% to Rs20.5, to factor in higher coal prices (at US$120/ton *cif*), higher freight cost (due to recent diesel price increase), higher other expenditure (packing costs) and translation forex loss on US$75m FCCB. Our estimates are based on a Rs5/bag increase in FY09 (over the FY08 average) and Rs5/bag decline in FY10. Our estimates do not factor in financials of the IPL venture (and hence any value for the IPL venture as of now).

REVISED FORECAST (RS M)

	FY09E			FY10E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	37,718	37,294	1.1	41,807	41,032	1.9
Net Profit	6,048	6,864	-11.9	6,011	6,769	-11.2
EPS (Rs)	20.6	23.4	-11.9	20.5	23.1	-11.2

Source: Motilal Oswal Securities

Valuation and view

India Cements is a regional player and a leader in the southern market with strategically located plants offering easy access to its key markets. Over a period of time, ICL has improved its financials based on CDR and has turned around its operations riding on the ongoing upturn in the cement cycle. Whilst the initiatives adopted by the company to control costs have reduced the operating leverage, debt restructuring has helped to lower the financial leverage.

Given the high leverage and relatively low-cost timely capacity additions, India Cements remains one of the biggest beneficiaries of strong cement prices in southern India. Valuations of 5.9x FY09E EPS (fully diluted, but including treasury stock) and 4.4x FY09E EBITDA are attractive. Maintain **Buy** with target price of Rs200 (~6x FY09 EV/EBITDA). Our estimates do not factor in any value for the IPL venture as of now.

India Cements: an investment profile

Company description

ICL is among the top five players in India and a leader in southern India, with around seven plants across the states of Tamil Nadu and Andhra Pradesh with total capacity of 8.8m ton (including Visaka Cement – an associate company). With time, ICL has improved its financials via debt structuring and a turnaround in operations by riding on the ongoing upturn in the cement cycle.

Key investment argument

- Regional leader marked by a strong presence in southern India, with total capacity of 8.8m ton and strong brand equity in its key markets
- Strategically located plants with proximity to the market (lead distance of ~260km) and to the port providing easy access to international markets and imported coal.
- Brownfield capacity expansion will lower capex requirement and gestation period

Key investment risks

- High gearing, despite repayment of loans post debt restructuring, results in high financial leverage
- Ambition to venture into new markets (HP and Rajasthan) could pose a significant business cycle risk and put pressure on the balance sheet

Recent developments

- Acquired two ships (40,000 DWT each) for Rs2.4b, to mitigate rising international freight cost

Valuation and view

- Given its high leverage and relatively low-cost timely capacity additions, ICL would be one of the biggest beneficiaries of any further price increase in south India.
- Valuations of 5.9x FY09E EPS and 4.4x FY09E EV/EBITDA appear attractive. Maintain **Buy** with target price of Rs200.

Sector view

- Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth
- Although significant capacity addition has already been announced, the real impact of these capacities would be felt only in 2HCY09
- Imports not a significant threat, due to infrastructural bottlenecks

COMPARATIVE VALUATIONS

		INDIA CEM.	SHREE CEM.	ULTRATECH
P/E (x)	FY09E	5.9	5.9	6.5
	FY10E	5.9	5.6	6.4
P/BV (x)	FY09E	1.1	2.0	1.9
	FY10E	0.9	1.5	1.5
EV/Sales (x)	FY09E	1.3	0.7	1.2
	FY10E	1.2	0.5	1.0
EV/EBITDA (x)	FY09E	4.4	2.1	3.9
	FY10E	4.2	1.7	3.6

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	20.6	28.2	-26.7
FY10	20.5	26.9	-23.9

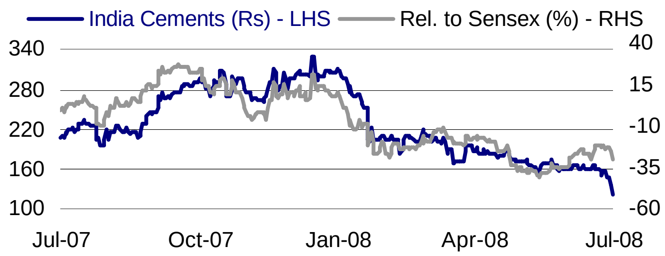
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
122	200	65.1	Buy

SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	28.1	28.1	26.9
Domestic Inst	16.9	18.7	23.8
Foreign	37.8	38.5	30.6
Others	17.2	14.7	18.6

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (STANDALONE)					(Rs Million)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Net Sales	**15,417**	**22,552**	**30,443**	**37,718**	**41,807**
Change (%)	*32.7*	*46.3*	*35.0*	*23.9*	*10.8*
Total Expenditure	12,808	15,209	19,648	26,297	30,397
% of Sales	*83.1*	*67.4*	*64.5*	*69.7*	*72.7*
EBITDA	**2,610**	**7,343**	**10,794**	**11,420**	**11,410**
Margin (%)	*16.9*	*32.6*	*35.5*	*30.3*	*27.3*
Depreciation	789	1,026	1,279	1,714	1,914
EBIT	**1,821**	**6,316**	**9,515**	**9,706**	**9,496**
Int. and Finance Charges	1,489	1,498	1,099	1,249	1,149
Other Income - Rec.	73	101	511	570	705
PBT before EO Expense	**404**	**4,920**	**8,928**	**9,027**	**9,052**
EO Expense/(Income)	-96	0	481	0	0
PBT after EO Expense	**500**	**4,920**	**8,446**	**9,027**	**9,052**
Current Tax	23	114	244	1,128	1,132
Deferred Tax	23	17	1,827	1,851	1,910
Tax Rate (%)	*9.3*	*2.7*	*24.5*	*33.0*	*33.6*
Reported PAT	**453**	**4,788**	**6,375**	**6,048**	**6,011**
PAT Adj for EO items	**366**	**4,788**	**6,739**	**6,048**	**6,011**
Change (%)	*-162.3*	*1,207.0*	*40.7*	*-10.2*	*-0.6*
Margin (%)	*2.4*	*21.2*	*22.1*	*16.0*	*14.4*

BALANCE SHEET					(Rs Million)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Equity Share Capital	1,908	2,604	2,819	2,819	2,819
Fully Dilute Eq Sh Cap	1,908	2,714	2,929	2,929	2,929
Preference Share Capital	250	0	0	0	0
Total Reserves	15,272	19,482	30,164	34,802	39,403
Net Worth	**17,569**	**22,085**	**32,983**	**37,621**	**42,222**
Deferred Liabilities	486	430	2,257	4,108	6,018
Total Loans	15,252	20,588	18,666	18,666	18,166
Capital Employed	**33,308**	**43,103**	**53,906**	**60,395**	**66,406**
Gross Block	30,027	38,560	47,750	57,750	63,750
Less: Accum. Deprn.	9,188	10,602	11,881	13,596	15,509
Net Fixed Assets	**20,840**	**27,958**	**35,869**	**44,155**	**48,241**
Capital WIP	310	1,428	5,750	2,500	2,500
Total Investments	**348**	**551**	**551**	**551**	**551**
Curr. Assets, Loans&Adv.	**15,124**	**17,175**	**18,031**	**22,055**	**24,984**
Inventory	1,930	2,281	2,919	3,617	4,009
Account Receivables	2,406	2,602	3,336	4,133	4,582
Cash and Bank Balance	436	2,302	725	2,732	4,138
Loans and Advances	10,144	9,786	10,843	11,367	12,027
Real Estate Projects WIP	208	204	209	207	229
Curr. Liability & Prov.	**3,731**	**4,340**	**6,626**	**9,197**	**10,201**
Account Payables	1,843	1,739	2,386	3,276	3,829
Other Current Liabilities	1,888	2,296	3,336	4,133	4,582
Provisions	0	305	904	1,788	1,791
Net Current Assets	**11,393**	**12,835**	**11,405**	**12,858**	**14,783**
Misc Expenditure	417	331	331	331	331
Appl. of Funds	**33,308**	**43,103**	**53,906**	**60,395**	**66,406**

E: MOSt Estimates

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Basic (Rs)					
Fully Diluted EPS	**1.9**	**17.6**	**23.0**	**20.6**	**20.5**
Cash EPS	5.9	21.4	27.4	26.5	27.1
BV/Share	43.7	53.5	90.8	109.9	128.9
DPS	0.0	1.0	2.0	2.0	2.0
Payout (%)	0.0	6.4	10.3	10.9	11.0
Valuation (x)					
P/E		6.9	5.3	5.9	5.9
Cash P/E		5.7	4.4	4.6	4.5
P/BV		2.3	1.3	1.1	0.9
EV/Sales		2.2	1.7	1.3	1.2
EV/EBITDA		6.8	4.8	4.4	4.2
EV/Ton (US$)		135	121	83	79
Dividend Yield (%)		0.8	1.7	1.7	1.7
Return Ratios (%)					
RoE	6.3	43.0	34.1	21.4	17.9
RoCE	8.0	22.0	25.5	21.9	19.6
Working Capital Ratios					
Inventory (Days)	45.7	36.9	35.0	35.0	35.0
Debtor (Days)	48	36	34	35	34
Working Capital Turnover (Days	259	170	128	98	93
Leverage Ratio (x)					
Current Ratio	4.1	4.0	2.7	2.4	2.4
Debt/Equity	1.8	1.5	0.7	0.6	0.5

CASH FLOW STATEMENT					(Rs Million)
Y/E MARCH	2006	2007	2008E	2009E	2010E
Oper. Profit/(Loss) before Tax	2,388	7,439	10,794	11,420	11,410
Interest/Dividends Recd.	57	20	511	570	705
Direct Taxes Paid	-44	-127	-244	-1,128	-1,132
(Inc)/Dec in WC	-700	-375	-147	554	-518
CF from Operations	**1,700**	**6,957**	**10,915**	**11,416**	**10,465**
EO expense	0	-507	-481	0	0
CF from Operating incl EO	**1,700**	**6,451**	**10,433**	**11,416**	**10,465**
(inc)/dec in FA	-475	-1,392	-13,512	-6,750	-6,000
(Pur)/Sale of Investments	126	-1,024	0	0	0
CF from investments	**-349**	**-2,416**	**-13,512**	**-6,750**	**-6,000**
Issue of Shares	4,810	806	5,182	-750	-750
(Inc)/Dec in Debt	-4,550	-584	-1,921	0	-500
Interest Paid	-1,204	-2,446	-1,099	-1,249	-1,149
Dividend Paid	0	0	-660	-660	-660
CF from Fin. Activity	**-944**	**-2,224**	**1,502**	**-2,659**	**-3,059**
Inc/Dec of Cash	**407**	**1,811**	**-1,577**	**2,007**	**1,406**
Add: Beginning Balance	29	436	2,302	725	2,732
Closing Balance	**436**	**2,247**	**725**	**2,732**	**4,138**

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Disclosure of Interest Statement	India Cements
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No