

## ahead of expectations

21 April 2007

## Reduce

Price	Target Price
Rs171	Rs 152

Sensex - 13,897

## Price Performance

(%)	1M	3M	6M	12M
Absolute	4	(30)	(22)	(20)
Rel. to Sensex	(4)	(29)	(29)	(30)

Source: Bloomberg

## Stock Details

Sector	Cement
Reuters	ICMN.BO
Bloomberg	ICEM@IN
Equity Capital (Rs mn)	2204
Face Value	10
52 Week H/L (Rs)	255/103
Market Cap (Rs bn)	37.6
Daily Avg Vol (No of shares)	6045892
Daily Avg Turnover (US\$ mn)	25.7

## Shareholding Pattern (%)

(31st Mar.'07)

Promoters	26.9
FII/NRI	30.6
Institutions	23.8
Private Corp	9.4
Public	2.7

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India Cements (ICL) Q42007 net profit at Rs1.39 billion is much ahead of our expectations primarily because of almost zero tax charge for the quarter as against our expectation of Rs30 crore of tax. The tax charge was less as the company is planning to merge its 49% associate which had accumulated loss and unabsorbed depreciation to the tune of Rs3.3 billion. Revenues for the quarter grew by a healthy 36.2% to Rs5.75 billion driven entirely by 35% improvement in cement realisation which stood at Rs2779 per tonne. Operating profit for the quarter improved by a huge 150% as the OPMs improved by 15% points to 33.1%. Net profit for the quarter more than quadrupled to Rs1.39 billion. At the current market price of Rs171, ICL is trading at 7.6x its FY2008 earnings and 9.5x its FY2009 earnings. On EV per tonne basis the stock quotes at USD 109 per tonne of cement. The valuations though not significantly expensive do not provide much head room on account of significant capacity additions of 70 million tonnes lined up by the industry over next two year. This we believe would disturb the demand supply equation and would weaken pricing power of cement producers. Moreover with ICL amongst the most leveraged company to cement prices the company's earnings in a downturn scenario would suffer the most. We expect ICL earnings to register a decline of 6% CAGR over FY2007-09E. We maintain our REDUCE rating on the stock with a price target of Rs152.

## Result Highlights

- India Cements (ICL) Q42007 net profit at Rs1.39 billion is much ahead of our expectations primarily because of almost zero tax charge for the quarter as against our expectation of Rs30 crore of tax. The tax charge was less as the company is planning to merge its 49% associate which had accumulated loss (Rs0.7 billion) and unabsorbed depreciation (Rs2.6 billion) to the tune of Rs3.3 billion.
- The net revenues for the quarter grew by a healthy 36.2% to Rs5.75 billion driven entirely by 35% improvement in cement realisation which stood at Rs2779 per tonne. On a QoQ basis the gross realisation improved by Rs148 per tonne however the net realisation improved by Rs78 per ton as the rest of the increase was on account of hike in excise duty which was entirely passed on to the final consumer.
- Operating profit for the quarter improved by a huge 150% as the OPMs improved by 15% points to 33.1% for Q4FY2007.
- On the cost front the company was able to maintain a tight leash as the total cost increased by 10.4%. the primary heads that pushed the cost were a 11.3% increase in raw material consumed, 28% increase in staff cost, 26.8% increase in freight cost and 24.9% increase in other expenditure on a per tonne basis.
- The power and fuel cost declined by 4.9% yoy as the company made significant savings on the power drawn from APGPCL. APGPCL is a non profit organization and the organization charges lower power tariffs in the last quarter for the entire profits made in earlier three quarters.
- As the depreciation and interest charge more or less remained stayed flat the net profit for the quarter more than quadrupled to Rs1.39 billion.

- India cement is planning to merge its 49% associate Visaka cement with itself and the application for the merger is pending in high court. Visaka has a cement production capacity of 1.4 million tonnes and more or less has the same cost structure as India cement. However as Visaka has close to Rs3 billion of accumulated losses the company can save significant tax on the merger. Consequently keeping that in mind India cement has not provided for any tax during the quarter. We had estimated a PBT of Rs130 crore and a tax charge of Rs30 crore as on a standalone basis the company had absorbed entire accumulated losses at the end of Q3FY2007.
- ICL capex plans are progressing as per schedule and the capacity of the company will expand by a million tonne by December 2007 and another million tonne by March 2008. At the end of the capex ICL's capacity including Visaka cement would stand at 11 million tonne.
- We are upgrading our earnings estimates for India cement by 13% for FY2008 and 8% for FY2009. Our EPS estimates now stands at Rs22.6 for FY2008 and Rs18 for FY2009.

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#### Result Table

Rs millions	Q407	Q406	Var [%]
Net Sales	5757.5	4227.0	36.2%
Total Expenditure	3851.7	3463.2	11.2%
Raw Material Consumed	615.5	549.0	12.1%
Stock Adjustment	70.5	117.7	-40.1%
Employee Expenses	253.0	197.2	28.3%
Power, Oil & Fuel	1220.9	1266.0	-3.6%
Selling & Administrative Expenses	946.0	740.6	27.7%
Other Expenses	745.8	592.7	25.8%
Operating Profits	1905.8	763.8	149.5%
Other Income	21.9	18.0	21.7%
EBIDTA	1927.7	781.8	146.6%
Interest	330.6	314.0	5.3%
PBDT	1597.1	467.8	241.4%
Depreciation	194.0	197.0	-1.5%
PBT	1403.1	270.8	418.1%
Tax	5.0	29.0	-82.8%
Reported Profit After Tax	1398.1	241.8	478.2%
EPS	6.35	1.27	400.5%
Margins			
Operating Margins	33.10%	18.07%	
EBIDTA	33.48%	18.50%	
PBDT	27.74%	11.07%	
PATM	24.28%	5.72%	

**Per tonne analysis**

	Q1CY2007	Q1CY2006	Var(%)
<b>Per tonne cost</b>	1859.3	1684.5	<b>10.4%</b>
Raw material consumed	297.1	267.03	<b>11.3%</b>
Stocks	34.0	57.25	<b>-40.6%</b>
Employee cost	122.1	95.92	<b>27.3%</b>
Power, Oil & Fuel	589.3	615.76	<b>-4.3%</b>
Selling & Administrative Expenses	456.6	360.22	<b>26.8%</b>
Other Expenses	360.0	288.28	<b>24.9%</b>

Income Statement					Balance Sheet				
Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E	Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E
Net Sales	15418	20500	27434	28231	Equity share capital	1907.0	2203.0	2603.0	2603.0
Growth (%)	32.7	33.0	33.8	2.9	Stock option outstanding				
Total Expenditure	12808	13879	17875	19248	Share Application Money				
Growth (%)	24.9	8.4	28.8	7.7	Reserves & surplus	15272.4	20863.2	29063.3	33761.2
Raw Materials Expenses	2121	2242	3329	3553	Networth	17429.4	23316.2	31916.3	36614.2
% of sales	13.8	10.9	12.1	12.6	Net Deferred tax liability	486.3	486.3	486.3	486.3
Employee cost	811	989	1137	1251	Secured Loans	14033.9	12408.9	8408.9	5000.0
% of sales	5.3	4.8	4.1	4.4	Unsecured Loans	1218.5	2000.0	2000.0	2000.0
Power & Fuel cost	4830	4909	6266	6793	Loan Funds	15252.4	14408.9	10408.9	7000.0
% of sales	31.3	23.9	22.8	24.1	Total Liabilities	33168.8	38211.4	42811.5	44100.5
Freight Charges	2016	2451	2818	3966	Gross Block	30027.5	31187.3	38562.3	39062.3
% of sales	13.1	12.0	10.3	14.0	Less: Depreciation	9187.6	9964.6	10967.2	11982.8
Admin & Other expenses	3030	3289	4325	3686	Net block	20839.9	21222.7	27595.1	27079.5
% of sales	19.7	16.0	15.8	13.1	Capital work in progress	309.8	1500.0	500.0	200.0
EBIDTA	2610	6621	9559	8983	Investment	348.4	348.4	348.4	348.4
Growth (%)	91.1	153.7	44.4	-6.0	Current Assets	15124.2	19778.1	20715.5	23016.8
EBIDTA %	16.9	32.3	34.8	31.8	Inventories	2138.2	2527.4	3382.2	3480.6
Other income	73	100	100	100	Sundry debtors	2405.9	2808.2	3758.0	3867.3
Interest	1489	1431	1249	840	Cash & bank balance	436.2	4298.6	3431.3	5525.0
Depreciation	789	777	1003	1016	Loans & advances	10143.9	10143.9	10143.9	10143.9
EBT	404	4513	7407	7228	Other assets				
Tax	47	17	1532	2530	Current liabilities & Prov	3870.5	5054.7	6764.5	6961.2
Deferred Tax	0.0	0.0	0.0	0.0	Current liabilities	3870.5	5054.7	6764.5	6961.2
EAT	358	4496	5875	4698	Provisions	0.0	0.0	0.0	0.0
Growth (%)	-158.6	1156.1	30.7	-20.0	Net current assets	11253.7	14723.3	13951.0	16055.6
EAT (%)	2.3	21.9	21.4	16.6	Miscellaneous expenditure	417.0	417.0	417.0	417.0
E/O items	-95.6	0.0	0.0	1.1	Total Assets	33168.8	38211.4	42811.5	44100.5
Reported PAT	454	4496	5875	4697					

Source : Company, Emkay Research

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Cash Flow					Ratios				
Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E	Mar end	FY06	FY07E	FY08E	FY09E
Net Profit after Tax	453.5	4495.6	5875.1	4697.9	EPS	1.9	20.4	22.6	18.0
Add : Depreciation	788.7	777.0	1002.6	1015.6	CEPS	6.3	23.9	32.3	31.7
Add : Misc exp w/off					Book Value Per Share	45.1	65.8	88.7	106.8
Add : intangibles w/off					Dividend Per Share	0.0	0.0	0.0	0.0
changes in debtors	-572.0	-402.3	-949.8	-109.3	PER	91.1	8.4	7.6	9.5
changes in inventories	-122.2	-389.2	-854.9	-98.3	P/CEPS	27.3	7.1	5.3	5.4
changes in creditors	672.9	1184.2	1709.7	196.7	P/B (X)	3.8	2.6	1.9	1.6
changes in provisions	-14.2	0.0	0.0	0.0	EV/EBIDTA	19.6	7.1	5.3	5.1
changes in L & A	-338.5	0.0	0.0	0.0	EV/Sales	3.4	2.3	1.9	1.6
Net changes in WC	-374.0	392.8	-95.0	-10.9	M-Cap/EBIDTA	14.4	5.7	4.7	5.0
Cash Flow from Operating activities	868.25665.4		6782.7	5702.6	M-Cap/sales	2.4	1.8	1.6	1.6
Capital expenditure	-489.2	-2350.0	-6375.0	-146.5	EV/Tonne (USD)	158.7	134.0	108.9	97.2
Investments	0.0	0.0	0.0	0.0	Financial ratios				
Cash Flow from Investing activities	-489.2-2350.0		-6375.0	-146.5	RoCE	7.9%	20.4%	25.6%	23.0%
Borrowings	-4784.0	-843.5	-4000.0	-3408.9	RoNW	4.3%	31.6%	25.7%	17.1%
dividend paid					Net debt/ Equity (x)	1.7	0.7	0.3	0.1
Issue of shares	4812.0	1444.0	2778.5		Total Debt/Equity (x)	1.8	1.0	0.5	0.3
Cash Flow from Financing activities	28.0	600.5	-1221.5	-3408.9	Dividend yield	0.0%	0.0%	0.0%	0.0%
changes in cash	407.0	3915.9	-813.8	2147.2					
Opening balance	29.2	436.2	4298.6	3431.3					
Closing balance	436.2	4352.1	3484.8	5578.5					

Source : Company, Emkay Research

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