



INDIA

## India Cements Ltd

1 December 2006

**ICEM IN** **Neutral**

Stock price as of 30 Nov 06	Rs	235.40
12-month target	Rs	254.00
Upside/downside	%	+7.9
Valuation	Rs	254.00
- DCF (WACC 10.7%)		

GICS sector		materials
Market cap	Rs m	51,876
30-day avg turnover	Rs m	153.1
Market cap	US\$m	1,163
Number shares on issue	m	220.4

### Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	m	15,320	21,530	25,045	27,524
EBITDA	m	2,533	7,798	9,799	10,201
EBITDA growth	%	85.5	207.9	25.6	4.1
Reported profit	m	391	4,853	5,851	5,883
EPS rep	Rs	2.05	21.05	25.38	25.52
EPS rep growth	%	581.5	928.4	20.6	0.6
PE rep	x	115.0	11.2	9.3	9.2
ROA	%	4.4	17.1	20.2	19.3
ROE	%	1.8	22.0	21.8	18.0
Net debt/equity	%	73.4	57.2	38.3	23.1
Price/book	x	5.1	4.7	3.8	3.2

### ICEM IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, November 2006 (all figures in INR unless noted)

### Analysts

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## Re-rating over

### Event

- **We raise out target price to Rs254, upside of 8%:** As a consequence of our cement price forecast, we upgrade our earnings estimates for FY3/07E, FY3/08E and FY3/09E by 42%, 59% and 42%, respectively.

### Impact

- **Strong return to profitability:** India Cements, helped by restructuring of its debt and an extremely bullish business outlook, has returned to profitability with a bang and is expected to post EPS of Rs21 for FY3/07E a tenfold increase over the Rs2 posted in FY3/06.
- **EBITDA margins to peak in FY3/08E:** India Cements is likely to see a 290bp gain in EBITDA margin for FY3/08E to 39.1%. However, given the lack of cost-saving measures (no captive power plants) and possible cement price decline we expect margins to peak in FY3/08E. Also, given the higher sensitivity to cement prices, the company is at a greater risk than its peers.
- **Modest expansion plans:** India Cements is implementing a low-cost expansion of 2m tonnes, by replacing one of its wet-based plants with a modern dry-based one and by de-bottlenecking and increasing grinding capacity. We expect volume growth to lag the industry in the near term and pick up only in FY3/09E.
- **Debt down but not out:** India Cements has been able to reduce its debt from Rs20bn to roughly Rs13bn, at the expense of diluting equity. However, with promoter holding reaching 26%, the scope of further dilution is limited. This, we believe, will limit its ability to grow at a fast clip.

### Earnings revision

- Our EPS estimates are revised upwards by 42%, 59% and 42%, to Rs21.1, Rs25.4 and Rs25.5 for FY07, FY08 and FY09, respectively.

### Price catalyst

- 12-month price target: Rs254.00 based on a DCF methodology.
- Catalyst: Increase in cement prices.

### Action and recommendation

- We maintain our Neutral stance on the stock while upgrading our target price to Rs254 (from Rs196 previously) based on DCF. At our target price, ICEM will trade at 7x EV/EBITDA, 10x PER and US\$165 on EV/T on FY08 estimates.
- Although the company is seeing a strong earnings turnaround, we believe it is largely built into the stock price. We also expect the stock to trade at a discount to other cement majors due to poor asset quality and limited growth prospects.

Please refer to the important disclosures on inside back cover of this document, or on our website [www.macquarie.com.au/research/disclosures](http://www.macquarie.com.au/research/disclosures).

## Upgrading our earnings estimates

We have incorporated the increased cement price forecast. This is the only change in our assumptions.

**Fig 1 India Cements - revised estimates**

Rs m	Old estimates			New estimates		
	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E
Revenue	19,357	21,563	24,887	21,530	25,045	27,524
EBITDA	5,687	6,418	7,690	7,798	9,799	10,201
Net Profit	3,555	3,819	4,306	4,853	5,851	5,883
EPS	14.9	16.0	18.0	21.1	25.4	25.5

Source: Macquarie Research, November 2006

## Key operating assumptions

- Clinker production is expected to increase in FY09, with the increase in capacity by de-bottlenecking at its Vishnupuram plant and also conversion of its Sankridurg plant from wet process to dry process.
- The blending ratio is expected to inch up with the commissioning of its 1m tonne Chennai grinding unit by FY3/09.

**Fig 2 India Cements - key operating assumptions**

m tonnes	FY3/05	FY3/06	FY3/07E	FY3/08E	FY3/09E
Cement capacity	7.7	7.7	7.7	8.2	8.7
Clinker production	5.4	5.9	6.2	6.6	7.2
Conversion factor	1.22	1.24	1.26	1.27	1.30
Cement production	5.50	7.25	7.83	8.39	9.37
Cement despatch	6.39	7.47	7.83	8.39	9.37
Cement capacity utilisation (%)	72%	94%	102%	103%	108%
Average realisation (Rs/t)	2,168	2,435	3,154	3,388	3,344
% Change YoY		12%	30%	7%	-1%

Source: Macquarie Research, November 2006

## Costs – outlook and assumptions

- India Cements is unlikely to see any major cost savings. It is not putting up any captive power plants, nor are we expecting any major shift in blending ratios.
- The tax rate is expected to increase as the company runs out of accumulated losses this quarter.

**Fig 3 India Cements - costs per tonne of cement sold**

Rs/t	FY3/05	FY3/06	FY3/07E	FY3/08E	FY3/09E
Raw materials	231	254	262	271	278
Energy	685	646	645	669	688
Personnel	265	261	256	264	272
Freight	259	320	387	407	428
Other mfg expenses	181	195	198	208	208
<b>Total expenditure</b>	<b>1,618</b>	<b>1,712</b>	<b>1,754</b>	<b>1,816</b>	<b>1,850</b>
<b>EBITDA</b>	<b>215</b>	<b>339</b>	<b>996</b>	<b>1,167</b>	<b>1,089</b>
Tax rate (%)	0%	0%	15%	25%	30%

Source: Macquarie Research, November 2006

**India Cements Ltd (ICEM IN, Neutral, Target price: Rs254.00)**

Annual Results		2003A	2004A	2005A	2006A	Profit & Loss		2006A	2007E	2008E	2009E
Revenue	m	8,388	10,092	11,625	15,320	Revenue	m	15,320	21,530	25,045	27,524
Gross Profit	m	1,403	1,884	2,287	3,700	Gross Profit	m	3,700	9,024	11,086	11,553
Cost of Goods Sold	m	6,985	8,208	9,338	11,620	Cost of Goods Sold	m	11,620	12,506	13,959	15,971
EBITDA	m	268	931	1,365	2,533	EBITDA	m	2,533	7,798	9,799	10,201
Depreciation	m	814	815	788	789	Depreciation	m	789	807	872	924
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	-546	116	578	1,744	EBIT	m	1,744	6,992	8,927	9,277
Net Interest Income	m	-2,585	-1,617	-1,335	-1,493	Net Interest Income	m	-1,493	-1,397	-1,242	-990
Associates	m	0	0	0	0	Associates	m	0	0	0	0
Exceptionals	m	-84.1	256.6	634	66.5	Exceptionals	m	67	0	0	0
Other Pre-Tax Income	m	1,201	115	169	73	Other Pre-Tax Income	m	73	115	116	117
Pre-Tax Profit	m	-2,014	-1,130	46	391	Pre-Tax Profit	m	391	5,709	7,801	8,404
Tax Expense	m	0	168	0	0	Tax Expense	m	0	-856	-1,950	-2,521
Net Profit	m	-2,014	-962	46	391	Net Profit	m	391	4,853	5,851	5,883
Minority Interests	m	0	0	0	0	Minority Interests	m	0	0	0	0
Reported Earnings	m	-2,014	-962	46	391	Reported Earnings	m	391	4,853	5,851	5,883
Adjusted Earnings	m	-1,930	-1,259	-588	324	Adjusted Earnings	m	324	4,853	5,851	5,883
						EPS (rep)		2.05	21.05	25.38	25.52
						EPS (adj)		1.70	21.05	25.38	25.52
						EPS Growth (adj)	%	nmf	1,139.4	20.6	0.6
						PE (rep)	x	114.7	11.2	9.3	9.2
						PE (adj)	x	138.3	11.2	9.3	9.2
						Total DPS		0.00	0.00	0.00	0.00
						Total Div Yield	%	0.0	0.0	0.0	0.0
						Weighted Average Shares	m	191	231	231	231
						Period End Shares	m	441	481	481	481

Profit and Loss Ratios		2006A	2007E	2008E	2009E	Cashflow Analysis		2006A	2007E	2008E	2009E
Revenue Growth	%	31.8	40.5	16.3	9.9	EBITDA	m	2,533	7,798	9,799	10,201
EBITDA Growth	%	85.5	207.9	25.6	4.1	Tax Paid	m	0	-3,425	-7,801	-10,085
EBIT Growth	%	201.9	300.8	27.7	3.9	Chgs in Working Cap	m	-493	-1,374	-151	-389
Gross Profit Margin	%	24.2	41.9	44.3	42.0	Net Interest Paid	m	-1,493	-1,397	-1,242	-990
EBITDA Margin	%	16.5	36.2	39.1	37.1	Other	m	290	460	464	468
EBIT Margin	%	11.4	32.5	35.6	33.7	Operating Cashflow	m	837	2,061	1,068	-795
Net Profit Margin	%	2.5	22.5	23.4	21.4	Acquisitions	m	0	0	0	0
Payout Ratio	%	0.0	0.0	0.0	0.0	Capex	m	-699	-8,000	-10,000	-8,000
EV/EBITDA	x	46.3	16.2	12.9	12.4	Asset Sales	m	0	0	0	0
EV/EBIT	x	67.2	18.1	14.2	13.6	Other	m	-0	2	-3	-3
Balance Sheet Ratios						Investing Cashflow	m	-699	-7,998	-10,003	-8,003
ROE	%	1.8	22.0	21.8	18.0	Dividend (Ordinary)	m	0	0	0	0
ROA	%	4.4	17.1	20.2	19.3	Equity Raised	m	4,976	1,492	0	0
ROIC	%	4.9	17.0	17.8	15.8	Debt Movements	m	-4,620	-1,084	-2,198	-3,099
Net Debt/Equity	%	73.4	57.2	38.3	23.1	Other	m	0	0	0	0
Interest Cover	x	1.2	5.0	7.2	9.4	Financing Cashflow	m	356	408	-2,198	-3,099
Price/Book	x	5.1	4.7	3.8	3.2	Net Chg in Cash/Debt	m	494	-5,529	-11,133	-11,897
Book Value per Share		45.8	49.8	61.9	74.2						

Balance Sheet		2006A	2007E	2008E	2009E
Cash	m	436	494	569	626
Receivables	m	2,406	3,210	3,697	4,071
Inventories	m	1,930	2,963	3,412	3,758
Investments	m	348	2,936	4,808	6,125
Fixed Assets	m	20,840	21,033	22,661	23,738
Intangibles	m	0	0	0	0
Other Assets	m	13,704	11,458	11,360	11,262
Total Assets	m	39,665	42,094	46,508	49,579
Payables	m	0	0	0	0
Short Term Debt	m	0	0	0	0
Long Term Debt	m	15,252	14,168	11,971	8,872
Provisions	m	0	57	78	84
Other Liabilities	m	4,218	3,954	4,694	4,976
Total Liabilities	m	19,470	18,180	16,742	13,931
Shareholders' Funds	m	20,195	23,914	29,765	35,648
Minority Interests	m	0	0	0	0
Other	m	0	0	0	0
Total S/H Equity	m	20,195	23,914	29,765	35,648
Total Liab & S/H Funds	m	39,665	42,094	46,508	49,579

All figures in INR unless noted.

Source: Macquarie Research, November 2006

**Important disclosures:**

<p><b>Recommendation definitions</b></p> <p><b>Macquarie Australia/New Zealand</b>  Outperform – return &gt;5% in excess of benchmark return (&gt;2.5% in excess for listed property trusts)  Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)  Underperform – return &gt;5% below benchmark return (&gt;2.5% below for listed property trusts)</p> <p><b>Macquarie Asia</b>  Outperform – expected return &gt;+10%  Neutral – expected return from -10% to +10%  Underperform – expected return &lt;-10%</p> <p><b>Recommendations – 12 months</b></p> <p><b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p> <p><b>Recommendation proportions</b></p> <p><b>Macquarie Australia/New Zealand</b></p> <table border="0"> <tr><td>Outperform</td><td>42.81%</td></tr> <tr><td>Neutral</td><td>44.60%</td></tr> <tr><td>Underperform</td><td>12.59%</td></tr> </table> <p><b>Macquarie Asia</b></p> <table border="0"> <tr><td>Outperform</td><td>57.12%</td></tr> <tr><td>Neutral</td><td>26.36%</td></tr> <tr><td>Underperform</td><td>16.52%</td></tr> </table> <p>For quarter ending 30 September 2006</p>	Outperform	42.81%	Neutral	44.60%	Underperform	12.59%	Outperform	57.12%	Neutral	26.36%	Underperform	16.52%	<p><b>Volatility index definition*</b></p> <p>This is calculated from the volatility of historic price movements.</p> <p><b>Very high–highest risk</b> – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p><b>High</b> – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p><b>Medium</b> – stock should be expected to move up or down at least 30–40% in a year.</p> <p><b>Low–medium</b> – stock should be expected to move up or down at least 25–30% in a year.</p> <p><b>Low</b> – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to Australian/NZ stocks only</p>	<p><b>Financial definitions</b></p> <p>All "Adjusted" data items have had the following adjustments made:  Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense  Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit / efpowa*  <b>ROA</b> = adjusted ebit / average total assets  <b>ROA Banks/Insurance</b> = adjusted net profit / average total assets  <b>ROE</b> = adjusted net profit / average shareholders funds  <b>Gross cashflow</b> = adjusted net profit + depreciation  *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>
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