

October 28, 2009

Rating	Sell
Price	Rs114
Target Price	Rs90
Implied Upside	(-) 21.4%
Sensex	16,283

(Prices as on October 28, 2009)

Trading Data

Market Cap. (Rs bn)	32.2
Shares o/s (m)	282.6
Free Float	72.6%
3M Avg. Daily Vol ('000)	569.1
3M Avg. Daily Value (Rs m)	76.8

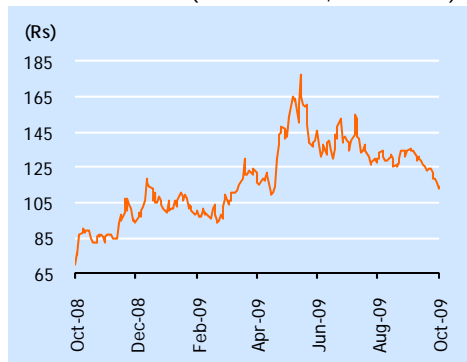
Major Shareholders

Promoters	27.4%
Foreign	26.3%
Domestic Inst.	19.7%
Public & Others	26.6%

Stock Performance

(%)	1M	6M	12M
Absolute	(14.9)	(2.1)	48.6
Relative	(12.4)	(50.1)	(32.2)

Price Performance (RIC: ICMN.BO, BB: ICEM IN)



Source: Bloomberg

■ **Results ahead of expectations but more to do with partial impact of fall in realisations:** India Cements reported PAT of Rs1.38bn, ahead of our expectation of Rs1.22bn, primarily on account of better-than-expected realisations. Cement business revenue grew by 10.2% on the back of 15% volume growth, which was partially set-off by a fall of 4% in the blended realisation. Blended realisation was down due to higher composition of clinker volume (~10% of total volume for the qtr v/s nil) in total volume otherwise the cement realisation were flat YoY. However, realisations were down by 4% QoQ to Rs3,569 per tonne. EBITDA grew by 2.6% to Rs2.98bn, ahead of our expectation of Rs2.76bn. While on per tonne basis, India Cement's EBITDA per tonne declined by 15% to Rs1,048 due to an increase in the volume of low margin clinker sales volume and higher freight cost. Impacted by a sharp rise in the interest cost (up ~51%) and fall in other income (down 39%) due to complete utilisation of QIP proceeds, pre-exceptional profit declined by 12% to Rs1.38bn.

■ **Massive over-supply building up in the region:** Southern region's clinker inventory at the end of September 2009 almost doubled to 2.7m tonnes against despatch growth of 7% and region's consumption growth of 3% during the quarter. Southern region would see effective capacity addition of 14m tonnes and 17m tonnes in FY10 and FY11, respectively against incremental despatches of 6m and 7m tonnes in FY10 and FY11, respectively. This supply-demand mismatch would bring down utilisation rate from 95% in FY09 to 85% in FY10 and 77% in FY11. This poses significant sustainable downside risk to the prices in the region.

■ **Valuation:** The stock currently trades at a P/E of 7.2x and 10.2x FY10E and FY11E, respectively, while on EV/EBITDA it trades at 5.3x and 6.2x FY10E and FY11E, respectively. We downgrade our rating on the stock from 'Reduce' to 'Sell', given the weak fundamentals of the region and expensive valuations.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	30,606	34,279	36,273	38,511
Growth (%)	35.7	12.0	5.8	6.2
EBITDA (Rs m)	10,929	9,961	10,301	8,858
PAT (Rs m)	6,755	5,115	4,457	3,168
EPS (Rs)	23.9	18.1	15.8	11.2
Growth (%)	30.7	(24.3)	(12.9)	(28.9)
Net DPS (Rs)	2.0	2.0	1.3	0.9

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	35.7	29.1	28.4	23.0
RoE (%)	34.1	18.5	14.1	9.1
RoCE (%)	18.5	11.4	9.8	7.0
EV / sales (x)	1.5	1.5	1.5	1.4
EV / EBITDA (x)	4.2	5.1	5.3	6.2
PE (x)	4.8	6.3	7.2	10.2
P / BV (x)	1.2	1.1	1.0	0.9
Net dividend yield (%)	1.8	1.7	1.2	0.8

Source: Company Data; PL Research

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Q2FY10 Result Overview

(Rs m)

Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Net Sales	9,894	9,206	7.5	9,535	19,429	17,862	8.8
Raw Material	1,168	1,074	8.8	844	2,012	1,916	5.0
<i>% of Net Sales</i>	<i>11.8</i>	<i>11.7</i>		<i>8.8</i>	<i>10.4</i>	<i>10.7</i>	
Staff Costs	598	415	44.0	516	1,114	864	28.9
<i>% of Net Sales</i>	<i>6.0</i>	<i>4.5</i>		<i>5.4</i>	<i>5.7</i>	<i>4.8</i>	
Power & Fuel	2,442	2,263	7.9	2,438	4,880	4,238	15.1
<i>% of Net Sales</i>	<i>24.7</i>	<i>24.6</i>		<i>25.6</i>	<i>25.1</i>	<i>23.7</i>	
Freight	1,459	1,276	14.3	1,308	2,767	2,504	10.5
<i>% of Net Sales</i>	<i>14.7</i>	<i>13.9</i>		<i>13.7</i>	<i>14.2</i>	<i>14.0</i>	
Other Expenses	1,250	1,276	(2.0)	1,566	2,816	2,434	15.7
<i>% of Net Sales</i>	<i>12.6</i>	<i>13.9</i>		<i>16.4</i>	<i>14.5</i>	<i>13.6</i>	
Total Expenditure	6,917	6,305	9.7	6,671	13,589	11,956	13.7
EBITDA	2,977	2,901	2.6	2,863	5,841	5,907	(1.1)
<i>Margin (%)</i>	<i>30.1</i>	<i>31.5</i>		<i>30.0</i>	<i>30.1</i>	<i>33.1</i>	
Depreciation	572	498	14.9	571	1,143	988	15.7
Other income	55	91	(39.4)	68	123	198	(38.0)
EBIT	2,460	2,494	(1.4)	2,360	4,821	5,117	(5.8)
Interest	374	248	50.7	385	759	478	58.6
PBT	2,086	2,246	(7.1)	1,976	4,062	4,638	(12.4)
Exceptional item	(13)	(296)		210	197	(513)	
PBT (After EO)	2,074	1,950	6.3	2,186	4,259	4,125	3.2
Tax	704	608	15.9	743	1,447	1,361	6.3
<i>% PBT</i>	<i>34.0</i>	<i>25.0</i>		<i>34.0</i>	<i>34.0</i>	<i>33.0</i>	
Reported PAT	1,369	1,343	2.0	1,443	2,812	2,764	1.7
Adjusted PAT	1,378	1,564	(11.9)	1,304	2,682	3,108	(13.7)

Operating Parameters

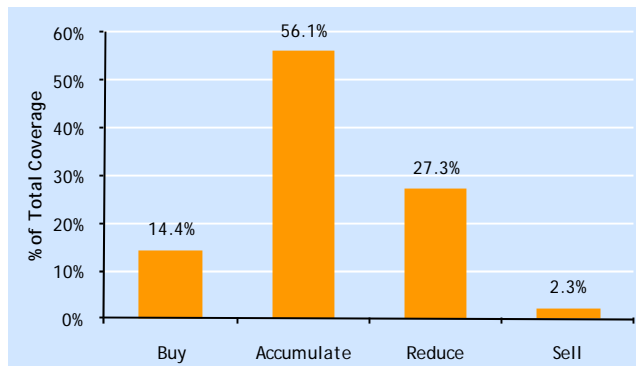
Y/e March	Q2FY10	Q2FY09	YoY gr. (%)	Q1FY10	H1FY10	H1FY09	YoY gr. (%)
Volume (mn te)	2.8	2.4	14.9	2.5	5.3	4.8	9.5
Net Realisations (Rs/te)	3,439	3,586	(4.1)	3,677	3,551	3,517	1.0
EBITDA/ te (Rs/te)	1,048	1,232	(15.0)	1,223	1,130	1,256	(10.0)

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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