



Madras Cement Ltd

STOCK INFO.	BLOOMBERG
BSE Sensex: 17315	MC.IN
S&P CNX: 5275	REUTERS CODE
	MSCM.BO

21 March 2012

Accumulate

Initiating Coverage

₹150

	(₹ CRORES)		
Y/E MARCH	FY11A	FY12E	FY13E
Net sales	2,605	3,114	3,426
EBITDA	658	976	955
RPAT	211	396	372
BV/Share (₹)	72.9	87.8	101.7
Adj. EPS (₹)	8.8	16.6	15.6
EPS growth (%)	-41	89	-6
P/E (x)	17.1	9.0	9.6
P/BV (x)	2.1	1.7	1.5
EV/EBITDA (x)	9.6	6.1	5.7
Div yld (%)	0.8	1.0	1.0
ROE (%)	13	21	16
RoCE (%)	9	14	13

STOCK DATA

52-W High/Low Range (₹)	169/76
Major Shareholders (as of Dec 2011)	
Promoter	42.0
Institutions	28.9
Public & Others	29.1
Average Daily Turnover(6 months)	
Volume	245478
Value (₹ cr)	3.09
1/6/12 Month Rel. Performance (%)	5/43/62
1/6/12 Month Abs. Performance (%)	1/46/60
Shares Outstanding (cr)	23.8
Market Cap. (₹ cr)	3570
Market Cap. (US\$ m)	790
Past 3 yrs Sales Growth (%)	9%
Past 3 yrs NP Growth (%)	-20%

Maximum Buy Price : ₹160

We recommend to Accumulate Madras Cement Ltd (MCL) with one year price target of ₹203 - 7x FY13E EV/Ebitda multiple.

INVESTMENT ARGUMENTS:

- South India based player enjoying good prices & Ebitda/ton
- Operational efficiency gives best EBITDA of Rs.1200/ton
- Free cash flow of Rs.700crs in FY13 as large capex is behind

GROWTH DRIVERS

South India based player, enjoying handsome prices & Ebitda/ton : Madras Cement is a pure south India based cement player with 50% of sales from Tamil Nadu, 25% from Kerela, 13% from Andhra Pradesh and 7% from Karnataka. South India is plagued with massive overcapacity coupled with negative demand growth. Hence logically, cement prices should be lowest. However, cement prices in south are highest in the country. Hence, the argument that South is weakest region in India considering demand-supply-price dynamics falls flat.

Ebitda/ton @best in the industry due to operational efficiency:

Due to better operating efficiencies, Madras Cement emerged as the most cost efficient player in India with the best-in-the-country Ebitda/ton. On a 5-year basis, MCL generated an average ebitda per ton of Rs.1190 as compared to ₹881 for ACC, ₹1000 for Ambuja Cement, ₹913 for Ultratech and ₹880 of India Cements. Superior profitability has been due to combination of several factors such as higher realization in south, better operating efficiencies and Captive Power Plants.

Healthy FCF will make Madras Cement a cash machine: MCL will have strong Free Cash Flow generation in years to come. Installed capacity of 13MTPA and dispatches less than 8MTPA (66% capacity utilization) leave sufficient room for growth without additional capex. 80% of capex for another 2MTPA plant has already been expended thus taking its total capacity to 15MTPA tons in FY14. Madras Cement will be generating FCF in excess of ₹5bn in FY12 and ₹7bn in FY13 with potential to achieve a debt-free status over the next 3 years

Valuations & View: At the current market price, Madras Cement is quoting at an EV/Ebitda of 5.7x on FY13e earnings. Barring crisis year of 2009, Madras cement is available at its lowest ever EV/Ebitda multiple over the last 10 years. Over the last 3 months, southern India has witnessed double digit growth in dispatches thus making pure south based players more appealing. We value Madras Cement at EV/Ebitda multiple of 7x thus resulting in an EV of ₹67bn, market capitalization of ₹48bn and a market price of ₹203/share. We believe current price offers reasonable upside potential for investors.

CONCERNS

Further spike in raw material prices pose challenge : Cement prices on pan India basis are at an all time high. Further, prices in southern India, which is plagued by overcapacity, are ruling above all India average level. Though the Industry has been able to successfully maintain production and price discipline over the last 18 months, any break-down in production discipline would bring down cement prices drastically due to production surplus.

Rising Fuel and Freight rates pose additional challenges : Over the last 12 months, Fuel and Freight rates have been rising rapidly. Any further spike in coal prices would elevate production cost for cement manufacturers. Freight rates have been rising fast anyways. If cement manufacturers are unable to pass on incremental cost to consumers then profitability of this sector would come under pressure.

BACKGROUND

Madras Cements Ltd is the flagship company of the Ramco Group, a well-known business group of South India. It is headquartered at Chennai. Its main product is Portland cement, manufactured in five state-of-the art production facilities spread over South India, with a current total production capacity of 13 MTPA. Capacity is slated to rise to 15 MTPA by FY14.

Madras Cement is a pure south based cement manufacturer with majority of sales coming from Tamil Nadu and Andhra Pradesh. MCL meets large part of its power requirement from captive power plant (CPP). Post expansion of 45MW, the company's CPP capacity will rise to 157MW.

FINANCIALS AND RECENT RESULTS

Revenues, EBITDA and Net Income in the quarter ended Dec 2011 grew 28%, 40% and 77% respectively y/y. Madras Cement has been able to consistently maintain its EBITDA margin well above 25% mark which is commendable. Due to spurt in cement dispatches in south during the last 3 months, we are expecting similar profit growth in Q4FY12 as well.

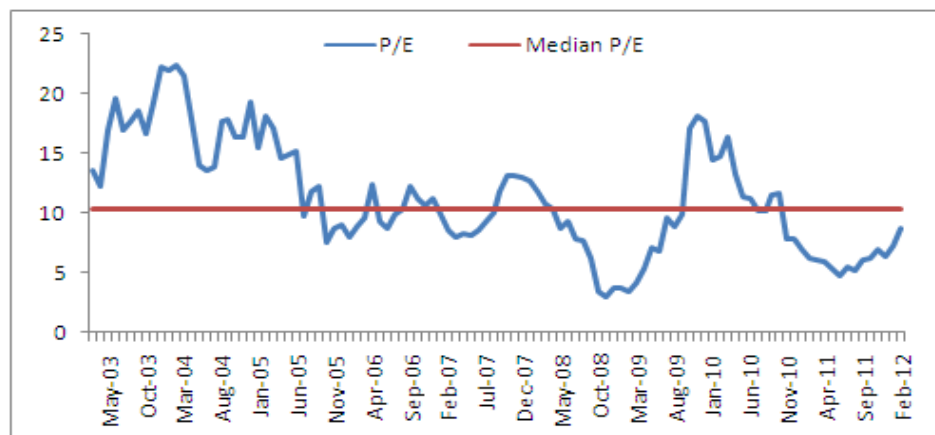
Quarterly Performance

₹ CRORES	QE DEC-10	QE SEP-11	QE DEC-11	% Y/Y	% Q/Q
Revenue	579.2	819.0	741.0	28	-10
Expenditure	431.1	552.2	533.6	24	-3
EBITDA (excl. Other income)	148.1	266.8	207.5	40	-22
Other Income	6.2	9.6	4.8	-23	-50
Interest	35.0	42.5	37.4	7	-12
Depreciation	54.2	62.5	61.3	13	-2
Profit before tax	65.1	171.4	113.6	74	-34
Tax	21.6	60.5	36.7	70	-39
RPAT	43.5	110.9	76.8	77	-31
EPS	2.0	5.0	3.0	50	-40
EBIDTA (%)	25.6	32.6	28.0		
Tax rate (%)	33.2	35.3	32.3		

Madras Cement Ltd. - Financials & Valuation

INCOME STATEMENT (Consolidated)						RATIOS					
(₹CRORE)											
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	Y/E MARCH	2009A	2010A	2011A	2012E	2013E
Net Sales	2456	2801	2605	3114	3426	Adjusted EPS	15.3	14.9	8.8	16.6	15.6
growth (%)	22	14	-7	20	10	Growth (%)	-55	-3	-41	89	-6
Other Income	15	20	40	45	55	Cash EPS	21.1	23.1	18.1	25.9	26.1
Total Income	2471	2821	2645	3159	3481	Book Value	52.9	65.5	72.9	87.8	101.7
Staff Costs	110	137	154	174	197	DPS	2.0	2.0	1.3	1.5	1.5
Raw material cost	299	398	391	405	463	Payout (Incl. Div. Tax)	15	16	17	10	11
Other Expenses	664	811	781	903	1028	Valuation (x)					
Total Expenditure	1677	1943	1987	2183	2527	P/E	9.8	10.1	17.1	9.0	9.6
EBITDA	794	878	658	976	955	Cash P/E	7.1	6.5	8.3	5.8	5.7
% of Net Sales	32	31	25	31	28	Price/Book Value	2.8	2.3	2.1	1.7	1.5
Depreciation/Amortization	138	196	221	221	250	EV/EBITDA	7.6	6.9	9.6	6.1	5.7
Finance Charges	111	152	140	165	150	EV/Sales	2.4	2.2	2.4	1.9	1.6
PBT	545	530	297	591	555	Div. Yld	1.3	1.3	0.8	1.0	1.0
Tax	182	177	86	195	183	Return Ratios (%)					
PAT	364	354	211	396	372	RoE	32.9	25.1	12.7	20.7	16.5
growth (%)	-11	-3	-40	88	-6	RoCE	18.3	15.3	8.9	14.4	13.1
PAT MARGIN	15	13	8	13	11	Leverage (x)					
						Debt/Equity (x)	1.95	1.65	1.61	1.26	0.91
BALANCE SHEET (Consolidated)						CASH FLOW STATEMENT (Consolidated)					
(₹CRORE)						(₹CRORE)					
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	Y/E MARCH	2009A	2010A	2011A	2012E	2013E
Equity Share Capital	24	24	24	24	24	PBT before EO items	546	530	297	591	555
Preference Share Capital	0	0	0	0	0	Add : Depreciation	138	196	221	221	250
Reserves	1236	1534	1711	2066	2396	Interest	103	146	135	165	150
Shareholders' Funds	1260	1558	1735	2089	2420	(Inc)/Dec in WC	-92	-181	93	-118	-5
Debt	2463	2567	2791	2641	2191	Others	-56	-11	-119	-121	-99
Net deferred tax	490	585	589	669	759	CF from Operating activities	639	681	626	738	851
Source of Funds	4214	4710	5115	5399	5370	(Inc)/Dec in Fixed assets	-1291	-571	-698	-200	-100
Net Block	3918	4811	5266	5266	5476	Others	7	4	4	0	0
Less : Accum. Depreciation	918	1119	1320	1541	1791	CF from Investing activities	-1284	-567	-693	-200	-100
Net Block	3000	3693	3946	3725	3685	Inc/(Dec) in debt	828	103	225	-150	-450
Capital WIP	635	318	543	743	633	Dividend paid	-56	-70	-14	-30	-35
Investments	89	89	89	89	89	Less: Interest paid	-110	-151	-139	-165	-150
Current Assets	914	1136	1099	1404	1589	Others	-1	0	0	0	0
Inventories	329	413	392	469	516	CF from financing activities	661	-118	71	-345	-635
Sundry Debtors	90	156	183	218	240	Inc/(Dec) in cash	16	-3	4	193	116
Cash and Bank Balances	39	36	40	233	349	Add: Beginning balance	23	39	36	40	233
Loans and Advances	456	532	484	484	484	Closing Balance	39	36	40	233	349
Other Current Assets	0	0	0	0	0						
Current Liabilities & Provisions	440	546	590	590	654						
Net current assets	473	589	509	814	935						
Misc expenses	16	21	28	28	28						
Application of Funds	4214	4710	5115	5399	5370						

Madras Cement Ltd. Valuation Chart (Historical EV/EBITDA)



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