

Result Update

CMP : INR 73
Rating : Buy
Target : INR 110

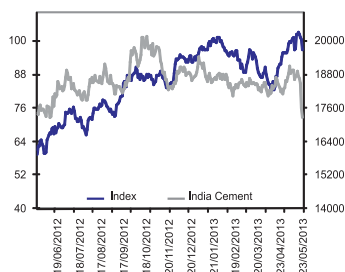
KEY DATA

Market Cap (INR bn)	22.4
Market Cap (USD mn)	400.4
52 WK High / Low	104 / 71
Avg Daily Volume (BSE)	151601
Face Value (INR)	10

BSE Sensex	19674
Nifty	5967
BSE Code	530005
NSE Code	INDIACEM
Reuters Code	ICMN.BO
Bloomberg Code	ICEM IN

Shareholding %	4Q	1Q	2Q
Promoters	26.0	28.0	28.0
MF/Banks/Indian FIs	19.0	20.0	18.0
FII/ NRIs/ OCBs	36.0	33.0	33.0
Indian Public	19.0	19.0	21.0

Performance Chart



PRICE PERFORMANCE (%)

	3 M	6 M	12 M
Absolute	(14.5)	(12.4)	(2.2)
Relative	(16.3)	(18.7)	(25.5)

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India Cement

Poor realization and high freight expenses impacts profitability

Margins are expected to remain under pressure in FY13 and FY14 as operating cost increases and as realization falls... But growth in volumes for the company is expected to help going ahead

Maintain our 'Buy' rating on the stock with price target of Rs 110 as the company is the cheapest among the frontlines in terms of asset based valuation

South India's largest cement producer India Cement posted disappointing set of numbers during Q4FY13. Poor cement realizations during the quarter and significant rise in variable costs resulted in the net profit missing ours as well as consensus estimates by a huge margin. The revenue rose 7.2% Y-o-Y (10.6% Q-o-Q) to Rs 11.99 bn, while the net profit fell 59.5% Y-o-Y (0.6% higher Q-o-Q) to Rs 263 mn.

Volumes posts decent growth while realizations remained under pressure-

The company's cement dispatches rose 7.3% Y-o-Y to 2.78 mn tonnes, while the realization remained under significant pressure. Cement prices in company's major market of Andhra Pradesh remained under severe pressure during the quarter, while other regions like Tamil Nadu and Karnataka also witnessed significant price pressure. The company's gross realization fell 1% Y-o-Y (3.5% Q-o-Q) to Rs 4213 per tonne, while the net realization (after freight expenses) fell 6.4% Y-o-Y (5% Q-o-Q) to 3225 per tonnes.

Revenue from Shipping and IPL post impressive growth -

The shipping revenue rose 62% Y-o-Y (24% Q-o-Q) to Rs 184 mn, while the IPL revenue rose 50% Y-o-Y to Rs 3 mn. The revenue from the Windmill division stood at Rs 7 mn in Q4FY13.

Continued power holiday in Andhra Pradesh increases the power & fuel expenses-

The company witnessed severe power shortage in Andhra Pradesh, while it was not allowed to wheel the power it generated in Tamil Nadu for the Andhra Pradesh plant, as per the Tamil Nadu Pollution control board clearance. In Andhra Pradesh the company faces 12 days power holiday in a month and in the remaining days four hours power cut. This caused the power plant in Tamil Nadu to operate at lower capacity utilization, while it had to resort to costlier grid power for its Andhra Pradesh plant. So the power cost remained elevated. Although the company has taken various measures to improve the situation by setting up additional captive power units, the actual fructification would take some time.

Higher freight costs impacts the margins

Recent increase in diesel prices and rail wagon rates caused the company's freight cost to increase substantially thus impacting the margins significantly. The freight expenses as % of sales rose nearly 400 bps Y-o-Y (100 bps Q-o-Q) to 22.9%. The EBIDTA margin thus fell 480 bps Y-o-Y (320 bps Q-o-Q) to 14.7% in Q4FY13. The absolute EBIDTA came in at Rs 1.76 bn (19% lower Y-o-Y, 9.2% lower Q-o-Q).

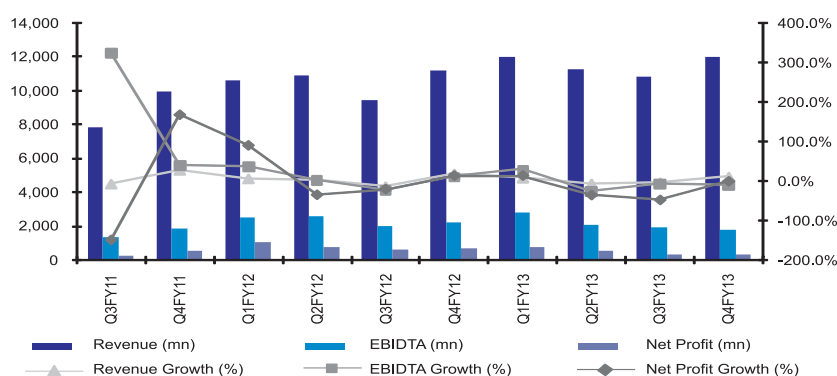
After providing for finance charges and tax expenses, the net profit in Q4FY13 came in 60% lower Y-o-Y at Rs 263 mn.

The company has guided cement volume growth of 6% - 8% for FY14 and has said that the excess capacity in the southern market would be an overhang and would take another 2-3 years to normalize. We expect the demand to improve ahead of the general elections in 2014 and the capacity utilization would marginally improve during this period. However we believe that the realization would remain under pressure as a result the margins would also remain under pressure, since we believe the operating costs would continue to remain firm due to higher power and fuel expenses and freight cost. We see margin pressure continuing until the coal production from the company's mines in Indonesia accelerates. We estimate the revenue and EPS for FY14 to come in at Rs 52.87 bn (14.6% higher) and Rs 10.6 (83.8% higher).

Maintain our 'Buy' rating with target of Rs 110

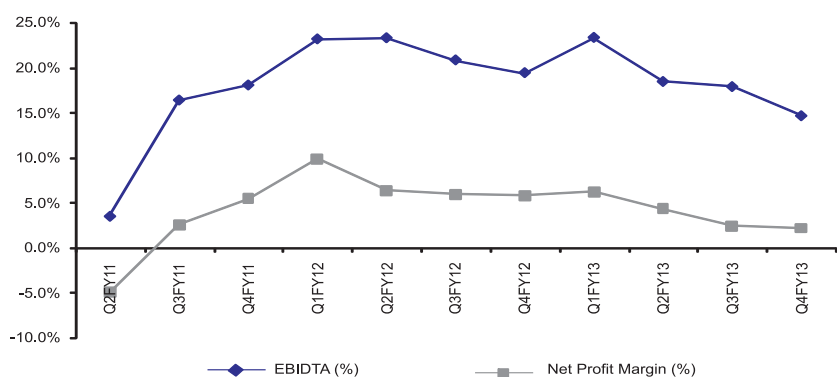
The company's predominant presence in the southern market is a concern as the demand in some of the south markets still remains poor and in the event of price fall, the southern region will witness sharper correction than any other regions. The cement prices in the Andhra Pradesh market has shot up sharply post the Q4FY13 results although we believe that it is not sustainable. However we maintain our 'Buy' rating on the stock with price target of Rs 110 (EV per tonne of USD 75 - average of the previous five year EV per tonne, PE of 10.4x and EV/EBIDTA of 5.5x FY14E earnings) as the company is the cheapest among the frontlines in terms of asset based valuation. We see cement price falling in the coming months, but growth in volumes will more than compensate for the price fall as the company increases its lead distance to push volumes.

Revenue & Profit Growth



Source: Company Reports

Profit margin trend



Source: Company Reports

Comparative valuation

Company	Rating	CMP (Rs)	Market Cap. (bn. Rs)	Enterprise Value (bn. Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBIDTA (x)		EV/Tonne (US\$)		Annual EPS Growth (%) (FY14E/FY13E)	Annual Sales Growth (%) (FY14E/FY13E)
						FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E		
India Cement	Buy	73	22	50	110	11	13	7	6	0.6	0.5	4.4	4.3	59	56	84%	15%
ACC	Sell	1198	225	219	1210	81	96	15	13	2.7	2.4	8.7	6.2	96	88	17%	6%
Ambuja Cement	Sell	183	282	260	178	11	11	17	17	2.9	2.6	9.9	8.2	156	147	9%	3%
UltraTech	Sell	1942	532	570	1505	104	115	19	17	3.0	2.6	11.2	10.1	210	184	7.4%	14.6%
Shree Cement	Sell	4910	171	180	3800	278	337	18	15	4.6	3.5	10.6	8.4	257	233	21%	12%

ACC & Ambuja FY14 & FY15 figures are the CY13 & CY14 figures respectively

Source: Company Reports, FQ Research

Q4FY13 Results

YE March	Q4 FY13	Q4 FY12	Y-o-Y change %	Q3 FY13	Q-o-Q change %	12M FY13	12M FY12	Y-o-Y change %
Total Revenue	11,990	11,185	7.2%	10,839	10.6%	46,136	42,152	9.5%
Less:								
Net Raw Material consumed	1,529	1,482	3.2%	1,292	18.3%	5,586	5,442	2.7%
% of total revenue	12.8%	13.2%	-49.38	11.9%	83.07	12.1%	12.9%	-80.19
Power & Fuel	3,412	3,175	7.4%	2,974	14.7%	12,551	10,947	14.7%
% of total revenue	28.5%	28.4%	6.53	27.4%	101.44	27.2%	26.0%	123.39
Transport & Handling	2,747	2,119	29.6%	2,374	15.7%	9,585	7,549	27.0%
% of total revenue	22.9%	18.9%	396.47	21.9%	101.45	20.8%	17.9%	286.62
Other Expenses	1,620	1,311	23.6%	1,430	13.3%	6,476	6,075	6.6%
% of total revenue	13.5%	11.7%	178.95	13.2%	31.92	14.0%	14.4%	-37.66
Personnel	919	921	(0.2%)	827	11.2%	3,339	2,988	11.8%
% of total revenue	7.7%	8.2%	-56.65	7.6%	3.98	7.2%	7.1%	15.07
Total Expenditure	10,228	9,008	13.5%	8,897	15.0%	37,537	33,001	13.7%
EBIDTA	1,763	2,176	(19.0%)	1,942	(9.2%)	8,599	9,151	(6.0%)
Less: Depreciation	720	646	11.5%	708	1.8%	2,818	2,513	12.2%
EBIT	1,042	1,530	(31.9%)	1,235	(15.6%)	5,781	6,639	(12.9%)
Less: Interest	639	640	(0.2%)	822	(22.3%)	3,078	2,867	7.3%
Add: Other income	0	45	(100.0%)	18	(100.0%)	21	75	(72.7%)
Extraordinary Expense	-	0	NA	0	NA	200	36	NA
Profit Before Tax	403	935	(56.9%)	431	(6.3%)	2,524	3,810	(33.8%)
Profit Before Tax Excl. extra-ordinaries	403	935	(56.9%)	431	(6.3%)	2,724	3,846	(29.2%)
Less: Total Tax	141	286	(50.9%)	169	(17.0%)	888	880	0.9%
Profit After Tax before Minority Interest	263	649	(59.5%)	261	0.6%	1,635	2,930	(44.2%)
Extraordinary Items	0	0	NM	0	NM	0	0	NM
Profit After Tax	263	649	(59.5%)	261	0.6%	1,635	2,930	(44.2%)
Profit After Tax Excl. extra-ordinaries	263	649	(59.5%)	261	0.6%	1,765	2,958	(40.3%)
Shares Outstanding (mn)	307	307		307		307	307	
Reported EPS (Rs.)	0.86	2.11	(59.5%)	0.85	0.6%	5.32	9.54	(44.2%)
Adjusted EPS (Rs.)	0.86	2.11	(59.5%)	0.85	0.6%	5.75	9.63	(40.3%)

Margin Analysis			Bps Change		Bps Change			Bps Change
EBIDTA Margin	14.7%	19.5%	-476	17.9%	-322	18.6%	21.7%	-307
Proforma NPM	2.2%	5.8%	-361	2.4%	-22	3.8%	7.0%	-319
Effective Tax Rate	34.8%	30.6%	426	39.3%	-449	35.2%	23.1%	1209

Result Analysis

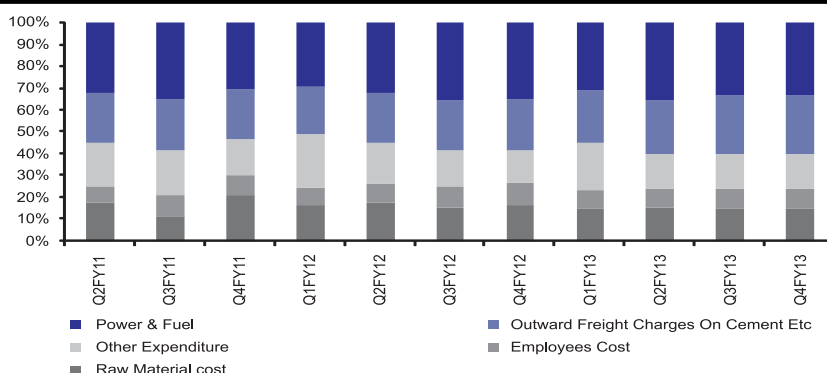
The cement sales volume increased 7.3% Y-o-Y (15% Q-o-Q) to 2.78 mn tonnes in Q4FY13. However gross realization remained under pressure, falling 1% Y-o-Y (3.5% Q-o-Q) to Rs 4213 per tonne. The cement net realization in Q4FY13 fell 6.4% Y-o-Y (4.7% Q-o-Q) to Rs 3225 per tonne. As a result the cement sales rose 6% Y-o-Y (11% Q-o-Q) to Rs 11.71 bn. The total revenue including IPL, Shipping and Windmill business rose 7.2% Y-o-Y (10.6% lower Q-o-Q) to Rs 11.99 bn. The company is a major cement manufacturer in the southern market and sells in some regions of southern Maharashtra and Orissa as well. We expect the company to post excellent growth in volumes in the months ahead primarily driven by improving demand in the southern region, while the realization is expected to remain under pressure. Windmill revenue in Q4FY13 was Rs 7 mn, shipping revenue was Rs 184 mn in Q4FY13 as compared to Rs 114 mn in Q4FY12, while the IPL revenue was Rs 3 mn in Q4FY13 as compared to Rs 2 mn in Q4FY12.

Cost Analysis

Particulars	Q4 FY13	Q4 FY12	Y-o-Y change %	Q3 FY13	Q-o-Q change %	12M FY13	12M FY12	Y-o-Y change %
Operating Costs (Rs. Per tonne)								
Net Raw Material consumed	550	572	-3.8%	534	3.0%	555	572	-3.0%
Power & Fuel	1227	1226	0.1%	1229	-0.1%	1247	1151	8.4%
Transport & Handling	988	818	20.8%	981	0.8%	952	794	20.0%
Other Expenses	583	506	15.1%	591	-1.4%	643	639	0.7%
Personnel	331	356	-7.0%	342	-3.2%	332	314	5.6%
Total Expenditure	3679	3478	5.8%	3676	0.1%	3729	3469	7.5%

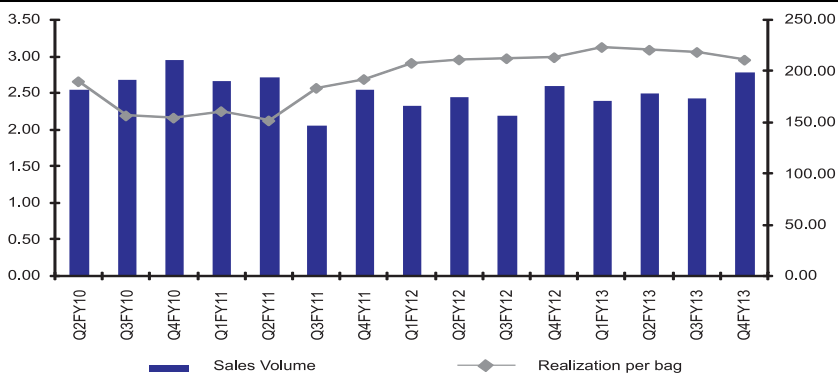
Source: Company Reports, FQ Research

Break-up of operational costs



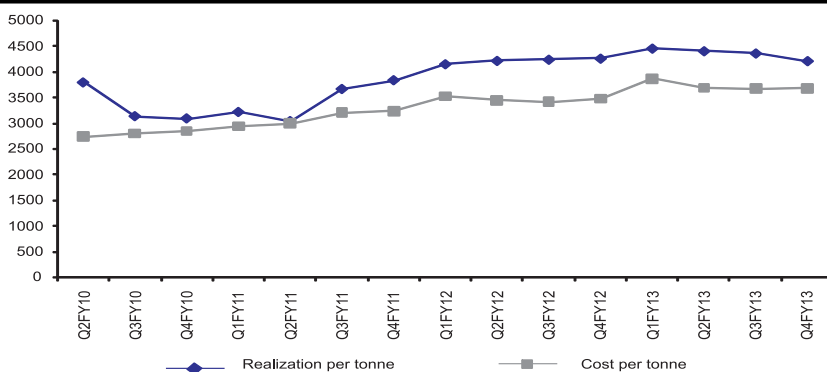
Source: Company, FQ Research

Sales Volume and realization per bag



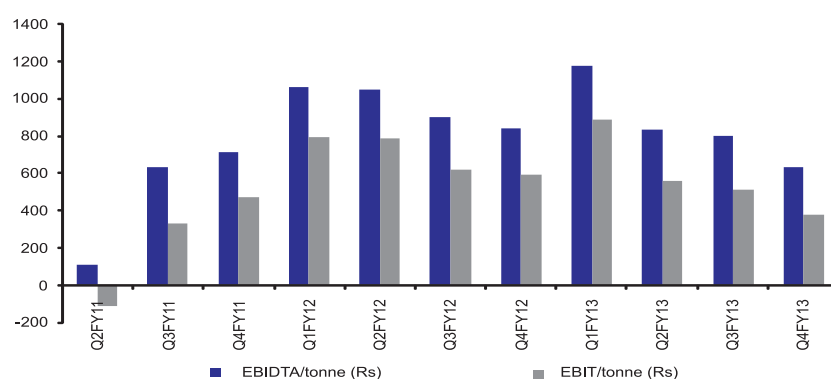
Source: Company, FQ Research

Realization and cost per tonne



Source: Company, FQ Research

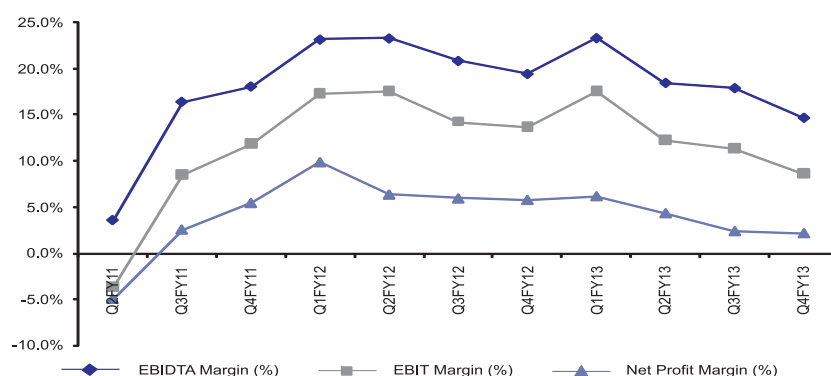
EBIDTA and EBIT tonne analysis



Source: Company, FQ Research

Margin trend

Margin Analysis



Source: Company, FQ Research

Other developments

The company is expecting a portion of its upcoming 50 MW thermal power plant in Vishnupuram, Andhra Pradesh, to go on stream shortly.

The first shipment of coal from the company's mine in Indonesia has already taken place and the cargo will arrive into India by last week of this month. The company expects shipment of around 3-4 lakh tonnes from its mines in Indonesia during FY14.

The company recommended a dividend of Rs 2 per share for the 2012-13 fiscal.

The company has announced its foray into infrastructure by incorporating a company namely 'India Cements Infrastructure Limited. The new entity will be a wholly owned subsidiary. Currently, it has undertaken a few water treatment related projects in the southern cities which, as per the management, are of Rs 30- 35 crore in size. Going ahead, the company will look for suitable opportunities in this segment keeping the ticket size broadly same.

The total capital expenditure of the company during FY14 is expected to be around 300 crore.

The consolidated debt in the company's book as at the end of March 2013 stood at Rs 3315 crore, while the standalone gross debt was Rs 3023 crore.

Financial Summary

Profit and Loss Statement

YE March 31 Rs. mn	FY12	FY13	FY14E	FY15E
Net Sales	40,661	45,970	52,713	57,704
Other Operating Income	1,556	166	158	173
Total Revenue	42,217	46,136	52,871	57,877
Less:				
Cost of Raw material (Net)	5,442	5,586	6,709	7,186
Power & Fuel	10,947	12,551	14,426	16,157
Transport & Handling	6,933	9,585	9,488	10,387
Personnel	2,838	3,339	3,701	4,051
Other Expenditure	6,840	6,476	7,380	8,079
Total Operating Expenditure	33,000	37,537	41,705	45,860
EBIDTA	9,216	8,599	11,167	12,017
Less: Depreciation	2,513	2,818	2,869	3,000
EBIT	6,703	5,781	8,297	9,017
Interest Paid	2,867	3,078	3,305	3,635
Non-operating Income	6	21	0	0
Extraordinary Income	4	0	0	0
Extraordinary Expense	36	200	0	0
Profit Before tax	3,810	2,524	4,992	5,382
Tax	880	888	1,747	1,884
Net Profit	2,930	1,636	3,245	3,498
Net Profit Excl. extra-ordinaries	2,955	1,765	3,245	3,498

Ratios

Particulars	FY12	FY13	FY14E	FY15E
Valuation Ratio (x)				
P/E	7.4x	12.4x	6.7x	6.2x
P/BV	0.6x	0.6x	0.6x	0.5x
EV / Sales	1.2x	1.1x	0.9x	0.8x
EV / EBIDTA	5.5x	5.8x	4.4x	4.0x
MCap/Sales	0.5x	0.5x	0.4x	0.4x
Leverage Ratio				
Debt-Equity	0.8x	0.9x	0.9x	0.9x
Interest Coverage	3.2x	2.8x	3.4x	3.3x
Per Share Data (Rs)				
Diluted EPS	9.6	5.7	10.6	11.4
Diluted Cash EPS	17.8	14.9	19.9	21.2
DPS	2.32	2.32	2.32	2.32
Book Value	115.7	118.5	126.6	135.5
Returns (%)				
ROE	8.3%	4.9%	8.5%	8.6%
ROCE	7.8%	5.4%	7.2%	7.3%
Dividend Payout	24.4%	43.7%	22.0%	20.4%
Du-Pont Analysis				
EBIDTA/Sales (%)	21.8%	18.6%	21.1%	20.8%
Sales/Operating assets (x)	62.5%	70.4%	79.7%	85.2%
EBIDTA/Operating Assets (%)	13.7%	13.1%	16.8%	17.7%
Operating Assets/Net Assets (x)	94.3%	87.7%	83.5%	79.5%
Net Earnings/EBIDTA (%)	32.1%	20.5%	29.1%	29.1%
Net Assets/Net Worth (x)	200.3%	205.6%	208.9%	210.2%
RoE (%)	8.3%	4.9%	8.5%	8.6%
Margins (%)				
EBIDTA margin	21.8%	18.6%	21.1%	20.8%
PBT margin	9.4%	5.5%	9.5%	9.3%
PAT margin	7.0%	3.8%	6.1%	6.0%
Growth Ratios (%)				
Net Sales	19.0%	13.1%	14.7%	9.5%
EBIDTA	106.6%	(6.7%)	29.9%	7.6%
EBIT	231.6%	-13.8%	43.5%	8.7%
PAT	330%	(44%)	98%	8%
APAT	349.4%	(40.3%)	83.8%	7.8%
Operating Cycle				
Debtors Days	19	48	48	48
Inventory Days	58	56	56	56
Creditors Days	36	22	22	22

Balance Sheet

YE March 31 Rs. mn	FY12	FY13	FY14E	FY15E
Liabilities				
Equity Capital	3,072	3,072	3,072	3,072
Reserves & Surplus	37,604	38,526	41,057	43,840
Equity	40,676	41,598	44,129	46,912
Net Worth	40,676	41,598	44,129	46,912
Net Deferred tax liability/(Asset)	3,515	3,515	3,515	3,515
Total Loans	28,612	31,473	34,621	38,083
Capital Employed	72,803	76,586	82,264	88,509
Assets				
Gross Block	65,019	70,035	73,440	76,561
Less: Depreciation	23,690	26,509	29,378	32,378
Net Block	41,329	43,527	44,062	44,183
Capital WIP	1,451	1,435	1,031	909
Investments	8,608	9,039	9,491	9,965
Current Assets				
Inventories	5,258	5,759	6,399	7,036
Sundry Debtors	2,098	6,045	6,932	7,588
Cash and Bank Balance	29	3,569	7,416	11,566
Loans and Advances	23,728	21,512	23,107	24,861
Other Current Assets	0	237	255	274
Total Current Assets	31,113	37,123	44,109	51,326
Less: Current Liabilities & Provisions				
Sundry Creditors	3,255	2,263	2,514	2,764
Provisions	1,324	1,092	1,092	1,094
Other Current Liabilities	5,389	11,493	13,178	14,426
Total Current Liabilities & Provisions	9,969	14,848	16,784	18,284
Miscellaneous Assets	270	310	357	410
Capital Applied	72,803	76,586	82,264	88,509

Cash Flow Statement

YE March 31 Rs. mn	FY12	FY13	FY14E	FY15E
Cash Inflows from Operations				
Profit Before Tax	3,810	2,524	4,992	5,382
Depreciation	2,513	2,818	2,869	3,000
Less:				
Dividend Payout	714	714	714	715
Tax Paid	880	888	1,747	1,884
Operating Cash flow	4,729	3,740	5,400	5,783
Changes in Capital Structure				
Increase in Share premium	(1,779)	0	0	0
Increase in Other reserves	(658)	0	0	0
Increase in Pref Capital	0	0	0	0
Increase in Others	591	0	0	0
Inc/(Dec) in Loans	2,101	2,861	3,147	3,462
Inc/(Dec) in Equity/Loans/MI	255	2,861	3,147	3,462
Adjustments				
Diff.in Depreciation	245	0	(0)	0
Total Inflows	5,229	6,601	8,548	9,245
Cash Outflows				
Working Capital Changes				
Inc/(Dec) in Provisions	59	(232)	0	2
Inc/(Dec) in Current Liabilities	676	5,111	1,937	1,498
Less:				
Inc/(Dec) in Inventory	285	501	639	638
Inc in Debtors	(446)	3,947	887	656
Inc/(Dec) in Loans & Advances	(4,772)	(2,216)	1,595	1,754
Inc/(Dec) in Other Current Assets	(204)	237	18	19
Inc/(Dec) in Working Capital	(5,872)	(2,410)	1,202	1,568
Capex/Investments				
Inc/(Dec) in Investments	7,005	430	452	475
Addition to Gross Block	5,742	5,016	3,405	3,121
Inc/(Dec) in Capital WIP	(1,433)	(16)	(405)	(121)
Inc. in Misc. Assets	88	40	47	54
Inc/(Dec) in Fixed Assets/ Invt.	11,403	5,471	3,498	3,528
Inc/(Dec) in Cash/Bank Balance	(302)	3,540	3,848	4,149
Total Outflows	5,229	6,601	8,548	9,245

Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	23-11-2011	70	Buy	79
Result Update (Q3FY12)	07-02-2012	95	Buy	110
Result Update (Q4FY12)	27-04-2012	85	Buy	110
Result Update (Q2FY13)	07-11-2012	98	Buy	110
Result Update (Q4FY13)	24-05-2013	73	Buy	110

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