

May 31, 2011

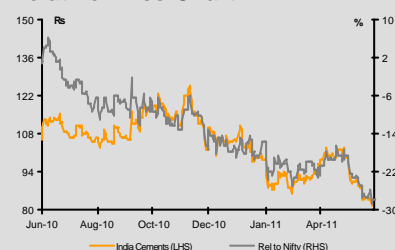
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 84	Rs 93
EPS change FY12E/13E (%)	-7.3 / NA
Target Price change (%)	-5.1
Nifty	5,561
Sensex	18,503

Price Performance

(%)	1M	3M	6M	12M
Absolute	(15)	(4)	(18)	(24)
Rel. to Nifty	(10)	(6)	(12)	(29)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	ICEM@IN
Equity Capital (Rs mn)	3072
Face Value(Rs)	10
No of shares o/s (mn)	307
52 Week H/L	128/81
Market Cap (Rs bn/USD mn)	26/577
Daily Avg Volume (No of sh)	246457
Daily Avg Turnover (US\$mn)	0.5

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	25.2	25.2	25.2
FII/NRI	32.7	34.0	34.6
Institutions	18.7	15.4	15.1
Private Corp	14.3	16.6	16.0
Public	9.2	8.9	9.2

Source: Capitaline

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- APAT at Rs545 mn (+29% yoy) below est (Rs875 mn). Revenues at Rs9.9 bn +3.5 %yoy- sharp price hikes led by pricing discipline help realizations (+22%), volumes -14% yoy
- EBIDTA at Rs1.7 bn (+26% yoy) – below est (Rs2.06 bn) due to lower than est revenue & higher RM & P&F costs. However improved realization drive 75% increase in EBITDA/t to Rs696
- Demand growth in south remains muted- still remain key concern. Cut FY12E EPS by 7.3% led by lower volumes assumptions for FY12. Lower TP by 5.1% to Rs93
- ICL's valuations of 7.5X EV/EBDITA & ~USD 81/t leaves little upside from current levels, considering FY12 RoCE at 6.4% is barely half the cost of capital - Maintain HOLD

22% improvement in cement realizations drive s revenue growth of 3.5%

ICL's revenues at Rs9.9 bn (below estimates of Rs10.2bn), grew 3.5% yoy and 28% qoq, on the back of 22% improvement in cement realizations inspite of 13.6% decline in volumes . Volumes of 2.5mnt declined 13.6% yoy (but improved 25% qoq) as demand slackened in southern region (-7% in Q4FY11) on account of negative demand growth in Andhra Pradesh and elections in Tamil Nadu. Realizations improved led by pricing discipline exercised by south based players. IPL revenues of Rs155mn were below estimates of Rs210mn, down 52% yoy.

Lower than expected realisation lead to below estimated EBITDA

Though EBITDA at Rs1.78bn has registered a growth of 26%yoy, it is below estimates of Rs2.06bn on account of lower than expected realisations . Costs pressures continued as RM costs/t at Rs524, increased 12% yoy led by increasing fly ash prices, while P&F cost increased 11.2% yoy (-5.2% qoq) as international coal/pet coke prices jumped sharply (taking average coal price for the quarter to Rs5890/t) coupled with revision in tariffs by electricity boards in Tamil Nadu and Andhra Pradesh. However sharp jump in realizations helped ICL post EBITDA/t of Rs696 (+ 74.9% yoy &23.3% qoq) in spite of 14.4% increase in total cost/t .

Net Profit of Rs553mn- below estimates

RPAT at Rs553, though up 44.3% yoy, was below estimates of Rs875mn. This also includes extraordinary forex gain amounting to Rs8nm as compared to a loss of Rs38mn in corresponding quarter last year. With rising interest rates & higher debt (Rs24.56bn for FY11) interests charge (Rs434mn) increased 17.5% yoy.

Key Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	EV/ tonne
FY10	37,732	8,285	22.0	3,107	10.1	-44.2	9.6	8.3	5.4	71
FY11P	35,007	4,339	12.4	402	1.3	-87.0	1.1	64.2	11.2	78
FY12E	41,180	6,588	16.0	1,529	5.0	279.8	4.3	16.9	7.5	81
FY13E	46,642	7,450	16.0	1,656	5.4	8.3	4.5	15.6	6.2	75

Result Table

Rs mn	Q4FY10	Q1FY11	Q2FY11A	Q3FY11	Q4FY11A	YoY (%)	QoQ (%)	FY11P	FY10	YoY (%)
Net Sales	9643	8807	8412	7810	9979	3.5	27.8	35007	37713	-7.2
Total Expenditure	8223	7806	8125	6547	8192	-0.4	25.1	30670	29288	4.7
as % of sales	85.3%	88.6%	96.6%	83.8%	82.1%			87.6%	77.7%	
Raw Material Consumed	1541	1163	1409	755	1721	11.7	127.8	5048	4799	5.2
as % of sales	16.0%	13.2%	16.7%	9.7%	17.2%			14.4%	12.7%	
Employee Expenses	642	630	603	630	670	4.4	6.4	2532	2340	8.2
as % of sales	6.7%	7.1%	7.2%	8.1%	6.7%			7.2%	6.2%	
Power, Oil & Fuel	2610	2751	2617	2325	2507	-3.9	7.8	10201	9999	2.0
as % of sales	27.1%	31.2%	31.1%	29.8%	25.1%			29.1%	26.5%	
Transportation & Handling	1908	1838	1861	1524	1879	-1.5	23.3	7102	6431	10.4
as % of sales	19.8%	20.9%	22.1%	19.5%	18.8%			20.3%	17.1%	
Other Expenses	1522	1424	1635	1314	1414	-7.1	7.7	5787	5720	1.2
as % of sales	15.8%	16.2%	19.4%	16.8%	14.2%			16.5%	15.2%	
EBITDA	1420	1001	286	1263	1787	25.9	41.5	4337	8426	-48.5
Depreciation	616	599	610	617	615	-0.1	-0.3	2440	2331	4.7
EBIT	804	402	-323	646	1172	45.8	81.5	1897	6094	-68.9
Other Income	129	27	23	63	25	-80.6	-60.7	139	370	-62.5
Interest	369	298	280	407	434	17.5	6.6	1417	1427	-0.7
PBT	564	132	-580	303	763	35.4	152.2	618	5037	-87.7
Total Tax	143	24	-131	106	219	53.4	106.3	218	1770	-87.7
Adjusted PAT	421	108	-449	197	545	29.3	176.9	400	3267	-87.8
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	421	108	-449	197	545	29.3	176.9	400	3267	-87.8
Extra ordinary items	38	-142	-113	-18	-8	-121.6	-54.4	-281	-301	-6.8
Reported PAT	383	250	-336	215	553	44.3	157.5	681	3569	-80.9
Reported EPS	1.4	0.4	-1.5	0.6	1.8	29.3	176.9	1.3	10.6	-87.8

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	14.7	11.4	3.4	16.2	17.9	319	174	12.4	22.3	-995
EBIT	8.3	4.6	-3.8	8.3	11.7	341	347	5.4	16.2	-1074
EBT	5.8	1.5	-6.9	3.9	7.6	180	377	1.8	13.4	-1159
PAT	4.4	1.2	-5.3	2.5	5.5	109	294	1.1	8.7	-752
Effective Tax rate	25.3	18.2	22.6	35.0	28.7	335	-637	35.2	35.1	10

Per tonne analysis

Per tonne analysis	Q4FY10	Q1FY11	Q2FY11A	Q3FY11	Q4FY11A	YoY (%)	QoQ (%)	FY11P	FY10	YoY (%)
Raw material consumed	468	523	506	521	524	12.0	0.5	518	452	14.8
Stocks	54	-84	12	-151	151	178.2	-199.9	-11	-14	-17.6
Employee cost	217	237	222	309	263	20.9	-14.8	254	213	19.2
Power, Oil & Fuel	885	1037	964	1140	984	11.2	-13.7	1024	912	12.3
Transportation & Handling	646	693	685	747	737	14.0	-1.3	713	587	21.6
Other Expenses	453	436	450	535	457	0.9	-14.6	466	416	12.0
Total Cost per ton	2723	2843	2839	3101	3116	14.4	0.5	2965	2566	15.6
Realisation/ton	3121	3219	2909	3665	3812	22.1	4.0	3378	3303	2.3
EBIDTA/ton	398	376	69	564	696	74.9	23.3	413	737	-44.0

Capex update

As far as ICL's capex plans are concerned, the 50 MW thermal captive power plant (CPP) in Tamil Nadu is progressing as per schedule and is expected to commission by Q2FY12. Order for an identical 50 MW plant in Andhra Pradesh has been placed with Thermax Ltd & the plant is expected to commission by Q1FY13. Further ICL's coal mine in Indonesia is awaiting final clearances from authorities and is expected to mine first ton of coal by Q2FY12.

The cement plant (1.5mtpa) in Banswara, Rajasthan put up by the subsidiary Indo Zinc Ltd has started commercial production from January 2011. Further the 20 MW captive power plant is progressing as per schedule and expected to be completed during Sept-2011.

The total funds earmarked for the above mentioned capex is Rs6 bn, of which Rs5 bn would be for 2 units of 50 MW thermal CPPs .

Concerns over demand growth in southern region – cut FY12 earnings estimates

Cement demand in the southern region continued to remain sluggish registering a decline of ~7% in Q4FY11. Andhra continues to be the biggest drag (AP demand growth -17% for FY11) due to lack of firm governance while Tamilnadu hits the speed breaker on account of recent assembly election. Sluggish consumption growth in the key southern markets for ICL has resulted in lower volumes this quarter and continues to be one of the major concerns for cement producers operating in this region. We cut our volume estimates for ICL for FY12, which has led to 7.3%, cut in our FY12E earnings. We also cut our target on ICL by 5.1% to Rs93 to factor in the earnings downgrade. However we believe that the commissioning of 2 CPP's would result in better cost efficiencies while full swing production from Indo zinc's Rajasthan plant would augur well for the company in FY13. We introduce our FY13E EPS for ICL at Rs5.4.

Rs mn	FY12E			FY13E
	Earlier	Revised	% change	Introduce
Sales	42925	41180	-4.1	46642
EBIDTA	6934	6588	-5.0	7450
EBIDTA (%)	16.2	16.0		16.0
Net Profit	1649	1529	-7.3	1656
EPS	5.4	5.0	-7.3	5.4

Valuation leaves limited upside – Maintain HOLD

Demand pick up in the southern region remains a key concern to sustain prices at current elevated levels. ICL's return ratios ROCE (6.4 % for FY12) and ROE (4.3% for FY12) are nowhere close to the cost of capital. At current levels, the stock is trading at PER 17x, EV/EBIDTA of 7.5X and EV/ton of USD81 for its FY12E numbers. These valuations leave little upside considering that ICL'S FY12 RoCE is barely half the cost of capital - Maintain HOLD with revised target price of Rs93.

Financials

Income Statement

Y/E, Mar (Rs. m)	FY2010	FY2011P	FY2012E	FY2013E
Net Sales	37,732	35,007	41,180	46,642
<i>Growth (%)</i>				
Total Expenditure	29,448	30,668	34,592	39,192
Raw Materials Cost	4,799	5,048	5,664	6,375
Power & Fuel cost	15,910	16,300	11,836	14,136
Manpower Exps	2,500	2,532	2,785	3,063
Others	6,239	6,789	14,307	15,619
EBIDTA	8,285	4,339	6,588	7,450
<i>Growth (%)</i>	(16.7)	(47.6)	51.8	13.1
<i>EBIDTA %</i>	22.0	12.4	16.0	16.0
Depreciation	2,331	2,440	2,687	2,819
EBIT	5,953	1,899	3,901	4,631
<i>EBIT margin (%)</i>	15.8	5.4	9.5	9.9
Other income	350	139	200	200
Interest	1,426	1,417	1,993	2,549
PBT	4,877	620	2,108	2,282
Tax	1,770	218	579	626
<i>Effective tax rate (%)</i>	36.3	35.1	27.5	27.4
Adj PAT	3,107	402	1,529	1,656
<i>Growth (%)</i>	(39.3)	(87.0)	279.8	8.3
<i>Net Margin (%)</i>	8.2	1.1	3.7	3.5
(Profit)/loss from JVs/Ass/MI				
Adj. PAT After JVs/Ass/MI	3,107	402	1,529	1,656
E/O items	436	281	0	0
Reported PAT	3,543	683	1,529	1,656
<i>Growth (%)</i>	-18.0	-80.7	123.7	8.3

Cash Flow

Y/E, Mar (Rs. m)	FY2010	FY2011P	FY2012E	FY2013E
PBT (Ex-Other income)	5,313	482	1,908	2,082
Depreciation	2,331	2,440	2,687	2,819
Interest Provided	1,932	1,417	1,993	2,549
Other Non-Cash items				
Chg in working cap	-4,867	-2,038	-3,270	-75
Tax paid	-1,443	-218	-579	-626
Operating Cashflow	2,087	2,082	2,739	6,749
Capital expenditure	-2,961	-4,954	-1,500	-375
Free Cash Flow	-874	-2,872	1,239	6,374
Other income	-105	139	200	200
Investments	-1,550	1,537	0	0
Investing Cashflow	-4,617	-3,279	-1,300	-175
Equity Capital Raised	2,831	0	0	0
Loans Taken / (Repaid)	1,878	3,234	2,600	4,152
Interest Paid	-1,833	-1,417	-1,993	-2,549
Dividend paid (incl tax)	-661	-461	-461	-461
Income from investments				
Others				
Financing Cashflow	2,215	1,356	146	1,142
Net chg in cash	-314	159	1,586	7,715
Opening cash position	852	538	331	1,917
Closing cash position	538	331	1,917	9,632

Balance Sheet

Y/E, Mar (Rs. m)	FY2010	FY2011P	FY2012E	FY2013E
Equity share capital	3,072	3,072	3,072	3,072
Reserves & surplus	38,286	37,812	38,880	40,074
Shareholders Funds	41,358	40,884	41,951	43,146
Secured Loans	8,666	15,140	21,099	25,251
Unsecured Loans	12,661	9,421	6,062	6,062
Loan Funds	21,327	24,561	27,161	31,313
Net Deferred Taxes	2,693	2,743	2,743	2,743
Total Liabilities	65,378	68,187	71,855	77,202
Gross Block	57,102	64,410	69,410	70,960
Less: Acc Depreciation	17,916	20,356	23,043	25,862
Net block	39,186	44,054	46,367	45,099
Capital WIP	7,029	4,675	1,175	0
Investment	3,140	1,603	1,603	1,603
Current Assets	28,764	29,039	34,749	44,036
Inventories	4,682	5,177	6,205	7,028
Sundry Debtors	4,853	2,544	5,641	6,389
Cash and Bank	538	331	1,917	9,632
Loans and Advances	18,692	20,986	20,986	20,986
Other current assets				
Current Liab & Prov	12,741	11,184	12,039	13,536
Current liabilities	11,642	10,427	11,282	12,779
Provisions	1,099	757	757	757
Net current assets	16,023	17,855	22,710	30,500
Miscellaneous Exps	0	0	0	0
Total Assets	65,378	68,187	71,855	77,202

Key Ratios

Y/E, Mar	FY2010	FY2011P	FY2012E	FY2013E
Profitability (%)				
EBITDA Margin	22.0	12.4	16.0	16.0
Net Margin	8.2	1.1	3.7	3.5
ROCE	11.3	3.3	6.4	7.0
ROE	9.6	1.1	4.3	4.5
RoIC	13.4	3.6	6.6	7.6
Per Share Data (Rs)				
EPS	10.1	1.3	5.0	5.4
CEPS	17.7	9.3	13.7	14.6
BVPS	114.9	114.7	118.1	122.0
DPS	2.3	1.5	1.5	1.5
Valuations (x)				
PER	8.3	64.2	16.9	15.6
P/CEPS	4.7	9.1	6.1	5.8
P/BV	0.7	0.7	0.7	0.7
EV / Sales	1.2	1.4	1.2	1.0
EV / EBITDA	5.4	11.2	7.5	6.2
Dividend Yield (%)	2.8	1.8	1.8	1.8
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.7	0.7	0.8
Net Debt/EBIDTA	2.6	5.7	4.1	4.2
Working Cap Cycle(days)	-31.0	-36.1	5.0	5.0

Recommendation History: India Cement – ICEM IN

Date	Reports	Reco	CMP	Target
11/02/2011	India cements Q3FY11 Result Update	Hold	90	98
12/11/2010	India Cement Q2FY11 Result Update	Sell	116	114
02/08/2010	India Cements Q1FY11 Result Update	Sell	105	98
04/05/2010	India Cement Q4FY10 Result update	Sell	125	112

Recent Research Reports

Date	Reports	Reco	CMP	Target
30/05/2011	Shree Cement Q4FY11 Result Update	Accumulate	1,836	1,960
27/05/2011	Aban Offshore Q4FY11 Result Update	Accumulate	541	645
26/05/2011	Century Plyboards Q4FY11 Result Update	Buy	65	75
25/05/2011	Madras Cement Q4FY11 Result Update	Accumulate	93	100

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