

November 8, 2011

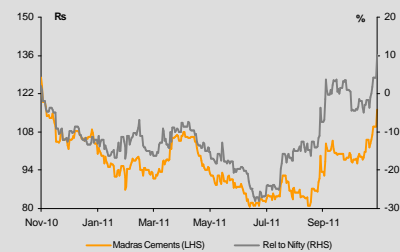
Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs116	Rs125
EPS change FY12E/13E (%)	12.7/0
Target Price change (%)	+25
Nifty	5,289
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	18	38	22	(7)
Rel. to Nifty	9	33	28	10

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	MC@IN
Equity Capital (Rs mn)	238
Face Value(Rs)	1
No of shares o/s (mn)	238
52 Week H/L	129/80
Market Cap (Rs bn/USD mn)	28/566
Daily Avg Volume (No of sh)	140666
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	42.0	42.0	42.0
FII/NRI	7.7	8.1	7.6
Institutions	17.5	17.6	17.8
Private Corp	7.5	7.8	8.1
Public	25.3	24.5	24.5

Source: Capitaline

Ajit Motwani

ajit.motwani@emkayglobal.com
+91 22 6612 1255

Chandan Asrani

chandan.asrani@emkayglobal.com
+91 22 6612 1241

- **Q2FY12 EBITDA at Rs2.6bn (+149% yoy) above est led by higher Cement realizations (Rs4347/t , +55% yoy) as southern cement prices held fort. APAT grows 5X on low base**
- **Ariyalur unit II expected to commission by H2FY12- do not see any meaningful contribution from the unit as Ariyalur I already sub optimally utilized (~70%) owing to weak demand**
- **Cement price remain firm in south .Post recent momentum seen in prices from Sept-2011, H2FY12 prices expected to be higher leading to EPS upgrade for FY12 by 12.7%**
- **Revise TP to Rs125 by rolling over to FY13 est but downgrade reco to HOLD as the recent run up in stock already factors in the cement price hikes trigger leaving limited upside**

Higher than estimated cement realizations drive net profit beat

Madras Cements (MCL) Q2FY12 EBITDA at Rs2.6bn(+149% yoy) came in above estimates of Rs2.12bn led by higher than estimated cement realizations driving EBITDA/t to Rs1222 (+523% yoy ,+0.3% qoq) above estimates of Rs865/t. Though volumes of 1.76mnt (-14% yoy) was slightly below estimates 55.4% increase in cement realizations (Rs4347/t) helped post 27.6% yoy growth in revenues (Rs8.19bn). We would like to highlight that Q2FY12 cement realizations improved 55.4% yoy and 3.4% qoq as cement prices remained firm in the southern region (95% of MCL's sales) as compared to sharp drop in prices in Q2FY11.Cement revenues at Rs7.69 bn , up 34% yoy, were above estimates of Rs7.05bn while windmill power revenues at Rs497 mn declined 25.3% yoy. Total cost per tonne stood at Rs3124 (vs est of Rs3055/t) on account of slightly above estimates for freight (Rs719/t vs est of Rs700/t), P&F (Rs1045/t vs est of Rs1019/t) and higher other expenses (Rs996mn vs est of Rs850mn). Lower interest payment (Rs426mn vs est of 490mn) and lower depreciation (Rs625mn vs est of Rs650mn) also helped APAT growth of 501% yoy to Rs1.11bn.

No meaningful contribution seen from Ariyalur II owing to weak demand

MCL commissioned additional clinkering capacity of 6000tpd at Ariyalur in Aug-2011 and is in the process of commissioning a second grinding unit with a capacity of 2 MTPA at Ariyalur by H2FY12. Consequently, the cement production capacity of the company will go up from 10.49 MTPA to 12.49 MTPA. However, we do not see any meaningful contribution to the company's dispatches from this plant as MCL's utilization stands at 68% for FY11 with Ariyalur Unit 1 also utilizing at sub optimal levels of ~70% owing to weak demand scenario in south.

Recent run up in stock already captures prices hikes- lower rating to HOLD

Though cement prices declined across regions they remained firm in south and with the recent uptick witnessed from September, we expect the prices to be higher for Q3FY12 as well. Led by higher cement prices, we are revising our estimates for FY12E upwards by 12.7%. However we maintain our FY13E EPS as higher realization estimates gets negated by lower volume assumptions & higher costs. We revise our target to Rs125 by rolling over to FY13 estimates but downgrade our reco to HOLD as the recent run up in stock price already factors in the cement price hikes trigger and the valuation at 5.5X EV/EBIDTA & EV/t of USD 82 leaves limited upside considering MCL's sub-optimal RoCE of 11.3% & D:E of 1.3X for FY12E.

Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE		EV/	EV/	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	Tonne
FY10	28,009	8,569	30.6	3,536	14.9	-2.8	25.4	7.4	5.9	101.6
FY11	26,049	6,175	23.7	2,109	8.9	-40.4	13.0	12.4	8.5	92.6
FY12E	29,566	8,230	27.8	2,632	11.1	24.8	14.4	9.9	6.3	90.9
FY13E	32,934	8,569	26.0	2,841	11.9	7.9	13.7	9.2	5.5	82.0

Results table

(Y/E Mar, Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Yoy (%)	Qoq (%)	YTDFY12	YTDFY11	Yoy (%)
Net Sales	6,421	5,792	6,864	7,642	8,190	27.6	7.2	15,832	13,393	18.2
Expenditure	5,352	4,311	5,163	5,198	5,530	3.3	6.4	10,728	10,400	3.2
<i>as % of sales</i>	83.4%	74.4%	75.2%	68.0%	67.5%			67.8%	77.7%	
Consumption of RM	1,196	719	1,154	1,180	984	-17.8	-16.6	2,163	2,033	6.4
<i>as % of sales</i>	18.6%	12.4%	16.8%	15.4%	12.0%			13.7%	15.2%	
Employee Cost	372	427	348	416	429	15.5	3.2	845	766	10.4
<i>as % of sales</i>	5.8%	7.4%	5.1%	5.4%	5.2%			5.3%	5.7%	
Power, Oil & Fuel	1,716	1,486	1,663	1,632	1,849	7.7	13.3	3,481	3,458	0.7
<i>as % of sales</i>	26.7%	25.7%	24.2%	21.4%	22.6%			22.0%	25.8%	
Transportation & Handling	1,223	954	1,240	1,172	1,272	4.0	8.6	2,444	2,448	-0.2
<i>as % of sales</i>	19.1%	16.5%	18.1%	15.3%	15.5%			15.4%	18.3%	
Other expenditure	846	725	758	799	996	17.8	24.6	1,795	1,695	5.9
<i>as % of sales</i>	13.2%	12.5%	11.0%	10.5%	12.2%			11.3%	12.7%	
EBITDA	1,068	1,481	1,701	2,444	2,660	149.0	8.9	5,104	2,993	70.5
Depreciation	549	542	580	642	625	14.0	-2.6	1,267	1,086	16.7
EBIT	520	939	1,121	1,802	2,035	291.6	12.9	3,837	1,907	101.2
Other Income	106	62	180	58	116	9.0	99.0	174	156	11.7
Interest	350	350	342.8	476	426	21.7	-10.5	902	700	28.9
PBT	276	651	958	1,384	1,718	522.2	24.1	3,102	1,363	127.6
Total Tax	91	216	320	401	605	564.2	50.8	1,007	452	122.6
Adjusted PAT	185	435	637	983	1,113	501.4	13.2	2,096	911	130.0
(Profit)/loss from JV's/Ass/MI										
APAT after MI	185	435	637	983	1,113	501.4	13.2	2,096	911	130.0
Extra ordinary items	126	0	0	0	-4			-4	126	
Reported PAT	311	435	637	983	1,109	256.5	12.8	0	0	
Reported EPS	0.78	1.83	2.68	4.13	4.67	501.4	13.2	8.81	3.83	130.0

Margins (%)						Bps	Bps				Bps
EBIDTA	16.6	25.6	24.8	32.0	32.5	1,585	51	32.2	22.3	989	
EBIT	8.1	16.2	16.3	23.6	24.9	1,676	127	24.2	14.2	1000	
EBT	4.3	11.2	14.0	18.1	21.0	1,667	286	19.6	10.2	942	
PAT	2.9	7.5	9.3	12.9	13.6	1,070	72	13.2	6.8	643	
Effective Tax rate	33.0	33.2	33.5	29.0	35.2	223	624	32.4	33.2	-72	

Per ton Analysis

Per tonne costs	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Yoy (%)	Qoq (%)	YTDFY12	YTDFY11	Yoy (%)
Raw Material	581	484	659	677	556	-4.4	-17.9	616	509	21.1
Consumed	540	597	616	547	625	15.8	14.4	586	533	10.0
Stock Adjustment	41	-113	42	130	-70	-270.4	-153.4	30	-25	-220.7
Employee	181	288	198	239	243	34.3	1.6	241	191	25.7
Power and fuel	834	1001	949	937	1045	25.3	11.6	991	865	14.6
Freight	594	643	708	673	719	20.9	6.9	696	612	13.6
Other Expenses	411	489	433	459	563	37.0	22.7	511	424	20.6
Net Realisation	2797	3818	3889	4202	4347	55.4	3.4	4275	3088	38.5
Total cost per tonne	2601	2905	2946	2984	3125	20.1	4.7	3055	2601	17.4
EBIDTA per tonne	196	913	943	1218	1222	523.8	0.3	1220	486	151.0

Segment Results

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Yoy (%)	Qoq (%)	YTDFY12	YTDFY11	Yoy (%)
Revenue										
Cement	5756	5666	6816	7321	7693	33.7	5.1	15014	12344	21.6
Power from windmills	665	126	48	321	497	-25.3	54.9	818	1049	-22.0
Total revenue	6421	5792	6864	7642	8190	27.6	7.2	15832	13393	18.2
Less: Inter segment revenue	213	161	75	63	127	-40.5	100.6	190	357	-46.7
Net segment revenue	6207	5631	6789	7579	8063	29.9	6.4	15641	13036	20.0
EBIT										
Cement	265	1203	1470	1948	1934	628.9	-0.7	3882	1701	128.3
Power from windmills	504	-5	-97	151	343	-32.0	127.0	494	722	-31.6
Total	769	1198	1374	2099	2276	196.0	8.5	4375	2423	80.6
EBIT margin										
Cement	4.6	21.2	21.6	26.6	25.1	2,053	-147	25.9	13.8	1208
Power from windmills	75.8	-4.1	-200.0	47.0	68.9	-682	2,189	60.3	68.8	-850

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	28,009	26,049	29,566	32,934
<i>Growth (%)</i>	14.0	(7.0)	13.5	11.4
Expenditure	19,440	19,874	21,336	24,365
Materials Consumed	3,984	3,906	4,202	5,026
Employee Cost	1,849	2,078	2,393	2,632
Power and Fuel	5962	6607	6880	7823
Freight	10,646	11,250	4,773	5,510
Other Exp	2,960	2,640	3,088	3,375
EBITDA	8,569	6,175	8,230	8,569
<i>Growth (%)</i>	10.1	(27.9)	33.3	4.1
EBITDA margin (%)	30.6	23.7	27.8	26.0
Depreciation	1,961	2,208	2,797	2,952
EBIT	6,608	3,967	5,433	5,617
EBIT margin (%)	23.6	15.2	18.4	17.1
Other Income	204	398	398	398
Interest expenses	1,509	1,393	1,902	1,775
PBT	5,303	2,972	3,929	4,240
Tax	1,768	863	1,297	1,399
<i>Effective tax rate (%)</i>	33.3	29.0	33.0	33.0
Adjusted PAT	3,536	2,109	2,632	2,841
<i>Growth (%)</i>	-2.8	-40.4	24.8	7.9
Net Margin (%)	12.6	8.1	8.9	8.6
(Profit)/loss from JVs/Ass/MI				
Adjusted PAT After JVs/Ass/MI	3,536	2,109	2,632	2,841
E/O items				
Reported PAT	3,536	2,109	2,632	2,841
<i>Growth (%)</i>	-2.8	-40.4	24.8	7.9

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	5303	2972	3531	3842
Depreciation	1961	2208	2797	2952
Interest Provided	1464	1349	1902	1775
Other Non-Cash items				
Chg in working cap	-1055	444	-415	-122
Tax paid	-893	733	-1297	-1399
Operating Cashflow	6813	7729	6518	7048
Capital expenditure	-5713	-6977	-3596	-900
Free Cash Flow	1100	752	2922	6148
Other income	45	44	398	398
Investments	0	0	0	0
Investing Cashflow	-5668	-6934	398	398
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	1031	780	-1000	-2000
Interest Paid	-1509	-1393	-1902	-1775
Dividend paid (incl tax)	-697	-139	-263	-284
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-1175	-752	-3165	-4059
Net chg in cash	-30	44	155	2487
Opening cash position	386	356	400	555
Closing cash position	356	400	555	3042

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	238	238	238	238
Reserves & surplus	15,344	17,107	19,476	22,033
Net worth	15,582	17,345	19,714	22,271
Minority Interest				
Secured Loans	18,843	21,022	20,022	18,022
Unsecured Loans	6,822	6,890	6,890	6,890
Loan Funds	25,665	27,912	26,912	24,912
Net Deferred Taxes	5851	5890	5890	5890
Total Liabilities	47,098	51,147	52,516	53,073
Gross Block	48,111	52,658	60,788	61,688
Less: Acc Depreciation	11,186	13,198	15,995	18,947
Net block	36,925	39,460	44,793	42,741
Capital WIP	3,177	5,434	900	900
Investment	887	888	888	888
Current Assets	11,357	10,987	11,561	14,786
Inventories	4,125	3,923	4,455	4,963
Sundry Debtors	1,555	1,827	1,713	1,944
Cash and Bank	356	400	555	3,042
Loans and Advances	5,320	4,838	4,838	4,838
Other current assets				
Current Liab & Prov	5,462	5,899	5,903	6,519
Current liabilities	4,265	4,564	4,567	5,184
Provisions	1,198	1,335	1,335	1,335
Net current assets	5,894	5,088	5,658	8,267
Miscellaneous Expenses	214	277	277	277
Total Assets	47,098	51,147	52,516	53,073

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	30.6	23.7	27.8	26.0
Net Margin	12.6	8.1	8.9	8.6
ROCE	15.3	8.9	11.3	11.5
ROE	25.4	13.0	14.4	13.7
RoIC	17.2	9.2	11.6	11.5
Per Share Data (Rs)				
EPS	14.9	8.9	11.1	11.9
CEPS	23.1	18.1	22.8	24.3
BVPS	65.5	72.9	82.8	93.6
DPS	2.0	0.9	1.1	1.2
Valuations (x)				
PER	7.4	12.4	9.9	9.2
P/CEPS	4.8	6.1	4.8	4.5
P/BV	1.7	1.5	1.3	1.2
EV / Sales	1.8	2.0	1.7	1.4
EV / EBITDA	5.9	8.5	6.3	5.5
Dividend Yield (%)	1.8	0.8	1.0	1.1
Gearing Ratio (x)				
Net Debt/ Equity	1.6	1.5	1.3	0.9
Net Debt/EBIDTA	3.0	4.5	3.3	2.9
Working Cap Cycle (days)	18.5	16.6	15.0	15.0

Recommendation History: Madras Cement – MC IN

Date	Reports	Reco	CMP	Target
09/08/2011	Madras Cement Q1FY12 Result Update	Accumulate	84	100
25/05/2011	Madras Cement Q4FY11 Result Update	Accumulate	93	100
11/02/2011	Madras Cement Q3FY11 Result Update	Accumulate	88	102
26/10/2010	Madras Cement Q2FY11 Result Update	Reduce	113	113

Recent Research Reports

Date	Reports	Reco	CMP	Target
02/11/2011	Ambuja Cement Q3CY11 Result Update	Hold	157	165
02/11/2011	Orient Paper Q2FY12 Result Update	Buy	62	82
01/11/2011	ACC Q3CY11 Result Update	Accumulate	1,184	1,290
01/11/2011	Century Plyboards Q2FY12 Result Update	Buy	59	82

Emkay Global Financial Services Ltd.

Corporate Add: B – Ruby Mills Tower, 7th Floor, South East Wing, Senapati Bapat Marg, Dadar (W), Mumbai - 400028 India.

Tel.: +912266121212 Web: www.emkayglobal.com

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