

India Cements

BSE SENSEX	S&P CNX	CMP: INR94	TP: INR144	Buy						
17,707	5,362									
Bloomberg Equity Shares (m)	ICEM IN 307.2									
52-Week Range (INR)	105/62									
1,6,12 Rel. Perf. (%)	25/42/7									
M.Cap. (INR b)	29.0									
M.Cap. (USD b)	0.6									
Year	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/EBITDA	EV/Ton (USD)
03/10A	37,711	3,253	10.9	-38.5	-	-	8.4	10.6	-	71
03/11A	35,007	663	2.2	-79.6	42.4	0.7	1.6	3.6	12.1	76
03/12E	43,118	3,722	12.4	459.0	7.6	0.6	8.8	10.7	5.6	75
03/13E	48,880	3,817	13.6	9.5	6.9	0.6	8.5	11.1	4.7	73

* Consolidated

India Cements (ICEM) posted in-line operating performance during 3QFY12, with EBITDA of INR1.95b (v/s our estimate of INR1.9b), driven by in-line realization and cost. **Key highlights:**

- Volumes grew 7% YoY (declined 10% QoQ) to 2.19m tons (v/s our estimate of 2.16m tons); growth has returned after five quarters. Realizations were stable QoQ (in monsoon quarter; +16% YoY) at INR4,242/ton (v/s our estimate of INR4,263/ton), buoyed by production discipline in the South.
- Revenue grew 21% YoY (declined 13% QoQ) to INR9.4b (v/s our estimate of INR9.45b). EBITDA/ton was INR890 (v/s our estimate of INR881/ton and INR1,038/ton in 2QFY12). IPL garnered an EBITDA of INR38m and the shipping business posted an EBITDA of INR16m. Lower tax boosted PAT to INR563m (v/s our estimate of INR327m). ICEM's 60% subsidiary, Trinetra Cement (SPV for Rajasthan plant) reported net loss of INR123m in 3QFY12 and INR374m in 9MFY12.
- The management indicated that volume growth since November has been strong and expects double-digit growth over the next six months (on a low base of last year). This coupled with no major capacity addition in the South (except JPA), gives ICEM the confidence of passing on the cost push to the consumer.

Valuation and view: We upgrade our consolidated EPS estimate for FY12 by 3% to INR12.4, but maintain our estimate for FY13 at INR13.6. The stock trades at 6.9x FY13E EPS (ex-treasury stock), and at an EV of 4.8x FY13E EBITDA and USD73/ton (at 15.4m ton capacity). Maintain **Buy**, with a target price of INR114 (EV of ~6x FY13E EBITDA or USD90/ton - 25% discount to replacement cost).

Quarterly Performance (Standalone)

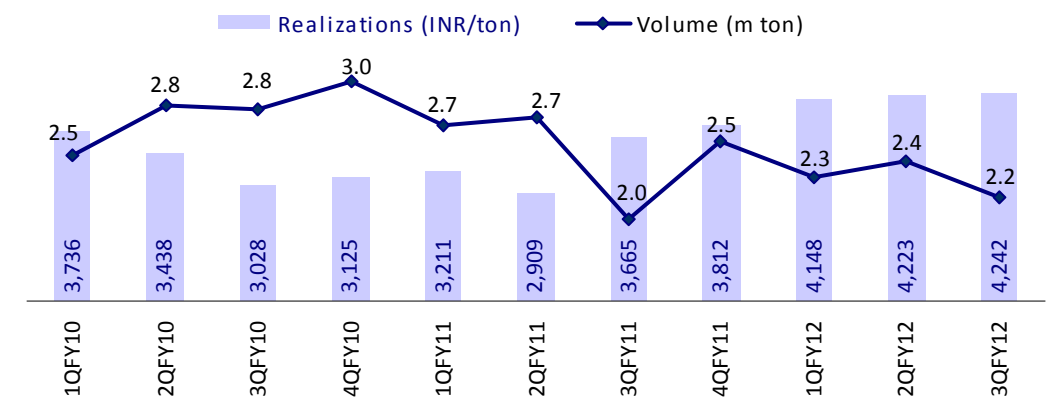
Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Dispatches (m ton)	2.66	2.72	2.04	2.55	2.31	2.43	2.19	2.76	9.96	9.69
YoY Change (%)	8.0	-2.7	-26.1	-13.7	-13.0	-10.6	7.1	8.4	-9.1	-2.8
Realization (INR/ton)	3,211	2,909	3,665	3,812	4,148	4,223	4,242	4,384	3,375	4,255
YoY Change (%)	-14.0	-15.4	21.1	22.0	29.2	45.2	15.7	15.0	2.2	26.1
QoQ Change (%)	2.8	-9.4	26.0	4.0	8.8	1.8	0.5	3.4		
Net Sales	8,807	8,412	7,810	9,979	10,568	10,891	9,415	12,244	35,007	43,118
YoY Change (%)	-7.6	-15.0	-9.6	3.5	20.0	29.5	20.6	22.7	-7.2	23.2
Total Expenditure	7,806	8,125	6,547	8,192	8,151	8,371	7,470	9,355	30,670	33,347
EBITDA	1,001	286	1,263	1,787	2,417	2,520	1,946	2,889	4,337	9,771
Margins (%)	11.4	3.4	16.2	17.9	22.9	23.1	20.7	23.6	12.4	22.7
Depreciation	599	610	617	615	619	626	622	740	2,440	2,607
Interest	298	315	371	434	583	652	750	669	1,417	2,653
Other Income	27	23	63	283	49	29	46	77	396	200
PBT before EO expense	132	-615	338	1,021	1,265	1,270	620	1,557	875	4,711
Extra-Ord expense	-142	-148	-18	285	36	244	0	0	-23	280
PBT	274	-467	356	736	1,228	1,027	620	1,557	899	4,431
Tax	24	-131	106	219	208	330	57	336	218	931
Rate (%)	8.8	28.0	29.8	29.7	16.9	32.1	9.2	21.6	24.2	21.0
Reported PAT	250	-336	250	517	1,020	697	563	1,220	681	3,501
Adj PAT	120	-443	238	718	1,051	862	563	1,220	663	3,722
YoY Change (%)	-90.8	-132.1	-12.4	143.8	774.3	-294.7	137.0	70.1	-79.6	461.0
Margins (%)	1.4	-5.3	3.0	7.2	9.9	7.9	6.0	10.0	1.9	8.6

E: MOSL Estimates

Return of volume growth, stable realizations drive revenue

- Revenues grew 21% YoY (-13% QoQ) to INR9.4b (vs/ est INR9.45b).
- Volumes grew by 7% YoY (-10% QoQ) to 2.19mt (v/s est 2.16mt) - return of growth after 5 quarters.
- Realizations were stable QoQ (in monsoon quarter; +16% YoY) at INR4,242/ton (v/ s est INR4,263/ton) benefiting from production discipline in the Southern market. Its NCR were stable at INR3,461/ton (v/s INR2,904/ton in 3QFY11).
- Revenues from IPL were at INR38m (v/s INR510m in 2QFY12 v/s est INR150m), whereas ship freight revenues were at INR100m (v/s est INR100m).

Trend in cement volumes and realizations

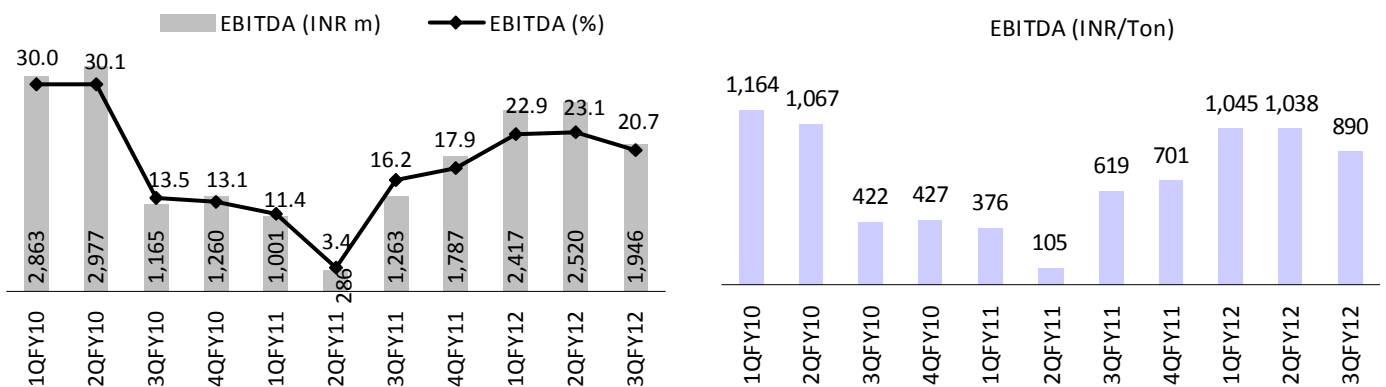


Source: Company/MOSL

Lower IPL contribution impact EBITDA

- Blended EBITDA/ton at INR890/ton (v/s est INR881/ton v/s INR1,038/ton in 2QFY12) and EBITDA margins at 20.7% (v/s est 20.1%; -240bp QoQ, +450bp YoY). Pure cement EBITDA was at INR862/ton (v/s INR891/ton in 2QFY12).
- Costs were stable QoQ, with marginal increase in energy cost.
- IPL earned EBITDA of INR38m (v/s INR328m in 2QFY12 v/s INR80m in 3QFY11) and shipping of INR16m (v/s -INR20m in 2QFY12 v/s +INR23m in 3QFY11).
- Fx loss of INR137m in 3QFY12, resulted in higher interest cost. Further, it accounted for Fx loss of INR128m in balance sheet. However, lower tax boosted PAT to INR563m (v/s est INR327m).
- Its 60% subsidiary Trinetra Cement (SPV for Rajasthan plant) reported net loss of INR123m in 3QFY12 and INR374m in 9MFY12.

Trend in EBITDA



Key operating indicators* (INR/Ton)

	3QFY12	3QFY11	YoY (%)	2QFY12	QoQ (%)
Net realization	4,242	3,665	15.7	4,223	0.5
Expenditure					
RM Cost	523	370	41.3	613	-14.7
Staff Cost	324	309	5.1	289	12.2
Energy Cost	1,221	1,140	7.2	1,119	9.2
Selling Exp.	783	747	4.9	790	-0.8
Other Exp.	567	644	-12.0	638	-11.2
Total Exp	3,419	3,209	6.5	3,449	-0.9
EBITDA	890	619	43.8	1,038	-14.2

* Expenditure and EBITDA inclusive of IPL & Shipping businesses Source: Company/MOSL

Demand outlook improving; expects double digit growth over next 6 months; no major capacity expected in near future

- The management indicated that pick-up in demand has been strong since Nov-11. While 9MFY12 volume de-grew by 4.3% in South India, in Nov-Dec'11 volumes grew by 12-15%.
- The demand recovery is driven by housing sector. It is not seeing any meaningful recovery in demand from Infrastructure segment.
- It doesn't expect any meaningful capacity addition in South India over next 12-18 months, after ~10mt of capacity addition by JSW Steel (commissioned operations in 4QFY12) and JPA (by 1QFY13).
- As a result, it is confident of passing on any cost push to the consumer.
- It indicated that current realizations are stable at 3QFY12 level.

Supply from Indonesian coal mine further delayed to 1QFY13

- The management indicated that supplies from its recently acquired coal mine would now commence from 1QFY13, upon completion of supporting infrastructure by Mar-12. While it has completed construction of road, ~60% of the bridge connecting coal mine is completed.
- It acquired coal mining rights in Indonesia to meet its coal requirements. The said mine has reserves of 30mt of coal with 5,500 Kcal/kg. Its investment in this mine is ~USD20m.
- In first full year of operation, it would be mining ~0.1m tons/month (current requirement of ~80k tons/month of imported coal, which would increase to ~0.1m ton after all CPP start operations).
- However, the recent regulatory change in Indonesia linking royalty on exported coal to Richard Bay Index would reduce savings on coal from captive coal mine.
- This coupled with two ships acquired last year, would significantly reduce its exposure to volatile energy price and shipping freight.
- Further, its on-going addition of 100MW CPP (expected commissioning in 4QFY12 & 4QFY13) would increase its dependence on CPP from current 15% to ~70%.
- From its recently commissioned 50MW CPP at TN plant, it expects savings of INR1/unit based on current SEB rates and USD70/ton cost of low grade imported coal (current rate).

Valuation and view

- With pick-up in demand in South India and slowdown in pace of capacity addition, we expect EBITDA/ton to stabilize at FY12 level of INR900-1000.
- With very high operating leverage and relatively high gearing, India Cement would be one of the biggest beneficiaries of improvement in cement prices in South India.
- We are neither assigning any savings from Indonesian coal mine nor any value to its IPL franchise 'Chennai Super Kings'.
- We believe entry of two new players (JSW & JPA) in South India would test existing sanity in pricing and would be the key to stable profitability.
- We upgrade our consolidated EPS for FY12 by 3% to INR12.4, but maintain FY13E EPS at INR13.6. We factor in for lower tax rate and higher than estimated loss in Trinetra Cement (Rajasthan plant).
- The stock is valued at 6.9x FY13E EPS (ex-treasury stock), 4.8x FY13E EBITDA and USD73/ton (at 15.4MT capacity). Valuations are attractive considering bottom of the cycle earnings. Maintain **Buy** with target price to INR144 (~6x FY13 EV/EBITDA or USD90/ton i.e 25% discount to replacement cost).

India Cements: an investment profile

Company description

ICL is among top-five player in India and a leader in Southern India, having around seven plants spread over Tamil Nadu and Andhra Pradesh with total capacity of 15.5m ton. It also owns Chennai Super Kings, a cricket team in Indian Premier League.

Key investment argument

- Regional leader having strong presence in South India, with total capacity of 15.5m ton and strong brand equity in its key markets
- Strategically located plants with proximity to market and to the port providing easy access to international markets and imported coal.
- Brownfield capacity expansion will lower capex requirement and gestation period

Key investment risks

- High gearing, despite repayment of loans post debt restructuring, results in high financial leverage
- Very high dependence on imported coal makes it vulnerable to volatile imported coal and forex rates.
- Ambition to venture into new markets (Himachal Pradesh & Rajasthan) could pose a significant business cycle risk and put pressure on balance sheet

Recent developments

- Nil

Valuation and view

- The stock is valued at 6.9x FY13E EPS (ex-treasury stock), 4.8x FY13E EBITDA and USD73/ton (at 15.4MT capacity).
- Maintain **Buy** with target price to INR144 (~6x FY13 EV/EBITDA or USD90/ton i.e 25% discount to replacement cost).

Sector view

- We believe we have already witnessed bottom-of-the-cycle utilization & profitability, and it should gradually improve hereon given sustainable demand drivers.
- Structural increase in cost base would necessitate higher cement prices.
- Revival in cement demand, which we expect to improve from 4QFY12, would be key catalyst for the stock performance.

Comparative valuations

		India Cements	Shree Cement	UltraTech Cement
P/E (x)	FY12E	7.6	11.5	17.6
	FY13E	6.9	10.8	13.7
P/BV (x)	FY12E	0.6	3.7	3.0
	FY13E	0.6	3.0	2.5
EV/Ton (\$)	FY12E	76	115	155
	FY13E	73	107	125
EV/EBITDA (x)	FY12E	5.6	6.5	9.9
	FY13E	4.8	5.2	7.9

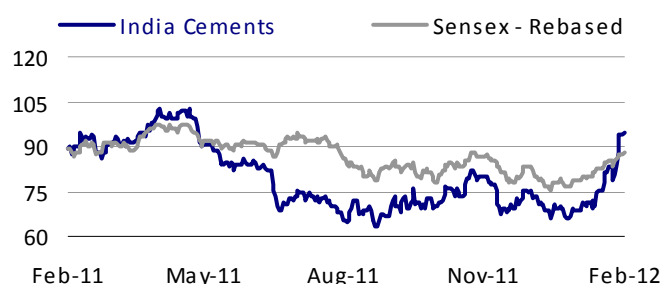
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	12.4	11.3	9.5
FY13	13.6	10.7	26.5

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
94	144	53.2	Buy

Stock performance (1 year)



Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	25.8	25.8	25.2
Domestic Inst	15.9	16.7	15.4
Foreign	36.4	35.4	34.0
Others	21.9	22.2	25.5

Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	34,268	37,711	35,007	43,118	48,880	
Change (%)	12.6	10.0	-7.2	23.2	13.4	
Total Expenditure	24,306	29,445	30,670	33,347	37,981	
% of Sales	70.9	78.1	87.6	77.3	77.7	
EBITDA	9,962	8,265	4,337	9,771	10,898	
Margin (%)	29.1	21.9	12.4	22.7	22.3	
Depreciation	2,033	2,331	2,440	2,607	2,956	
EBIT	7,928	5,934	1,897	7,164	7,942	
Int. and Finance Charge	1,121	1,426	1,417	2,653	2,871	
Other Income - Rec.	470	370	396	200	230	
PBT bef. EO Exp.	7,276	4,877	875	4,711	5,301	
EO Expense/(Income)	793	-436	-23	280	0	
PBT after EO Exp.	6,483	5,313	899	4,431	5,301	
Current Tax	1,862	1,633	168	798	1,325	
Deferred Tax	299	137	50	133	159	
Tax Rate (%)	33.3	33.3	24.2	21.0	28.0	
PAT Adj for EO items	4,851	3,253	663	3,722	3,817	
Change (%)	-27.2	-32.9	-79.6	461.0	2.5	
Margin (%)	14.2	8.6	1.9	8.6	7.8	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Equity Share Capital	2,824	3,072	3,072	3,072	3,072	
Fully Diluted excl Treas	2,735	2,983	2,983	2,872	2,872	
Total Reserves	33,490	38,286	37,826	40,608	43,526	
Net Worth	36,314	41,358	40,898	43,679	46,597	
Minority Interest	0	0	0	0	0	
Deferred Liabilities	2,556	2,693	2,743	2,876	3,035	
Total Loans	19,880	21,327	24,561	28,741	28,591	
Capital Employed	58,750	65,378	68,201	75,296	78,223	
Gross Block	53,136	57,102	65,099	68,599	75,599	
Less: Accum. Deprn.	15,053	17,916	20,356	22,963	25,919	
Net Fixed Assets	38,083	39,186	44,743	45,636	49,680	
Capital WIP	9,040	7,029	4,000	5,000	1,000	
Total Investments	1,590	3,140	1,603	1,603	1,603	
Curr. Assets, Loans&Adv.	21,435	26,446	29,039	34,812	39,185	
Inventory	3,705	4,682	5,177	5,907	7,031	
Account Receivables	3,540	2,534	2,544	3,544	4,018	
Cash and Bank Balance	852	538	331	375	1,651	
Loans and Advances	13,134	18,692	20,986	24,986	26,486	
Real Estate Projects WIP	204	0	0	0	0	
Curr. Liability & Prov.	11,533	10,422	11,184	11,756	13,245	
Account Payables	7,445	7,296	7,070	6,695	7,004	
Other Current Liabilities:	3,234	2,028	3,357	3,544	4,018	
Provisions	854	1,099	757	1,516	2,224	
Net Current Assets	9,902	16,023	17,855	23,057	25,940	
Appl. of Funds	58,750	65,378	68,201	75,296	78,223	

E: MOSL Estimates; * Adjusted for treasury stocks

Ratios		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR) *						
Consol EPS	17.7	10.9	2.2	12.4	13.6	
Cash EPS	25.2	18.7	10.4	22.0	23.6	
BV/Share	132.3	138.7	137.1	152.1	162.2	
DPS	2.0	2.0	1.5	2.0	2.5	
Payout (%)	15.3	20.3	79.2	20.5	23.5	
Valuation (x) *						
P/E			42.4	7.6	6.9	
Cash P/E			9.1	4.3	4.0	
P/BV			0.7	0.6	0.6	
EV/Sales			1.5	1.2	1.1	
EV/EBITDA			12.1	5.6	4.7	
EV/Ton (US\$)			76	75	73	
Dividend Yield (%)			1.6	2.1	2.6	
Return Ratios (%)						
RoE	15.7	8.4	1.6	8.8	8.5	
RoCE	16.8	10.6	3.6	10.7	11.1	
Working Capital Ratios						
Asset Turnover (x)	0.6	0.6	0.5	0.6	0.6	
Inventory (Days)	39.5	45.3	54.0	50.0	52.5	
Debtor (Days)	33	22	27	30	30	
Leverage Ratio (x)						
Current Ratio	1.9	2.5	2.6	3.0	3.0	
Debt/Equity	0.5	0.5	0.6	0.7	0.6	

* Adjusted for treasury stocks

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Oper. Profit/(Loss) before	10,097	8,398	4,337	9,771	10,898	
Interest/Dividends Recd	444	335	396	200	230	
Direct Taxes Paid	-830	-1,443	-168	-798	-1,325	
(Inc)/Dec in WC	-2,206	-4,867	-2,038	-5,157	-1,608	
CF from Operations	7,506	2,422	2,527	4,016	8,195	
EO expense	0	0	23	-280	0	
CF from Operating incl EO	7,506	2,422	2,550	3,736	8,195	
(inc)/dec in FA	-9,538	-2,961	-4,968	-4,500	-3,000	
(Pur)/Sale of Investmen	-324	-1,990	1,537	0	0	
CF from investments	-9,863	-4,952	-3,432	-4,500	-3,000	
Issue of Shares	28	2,831	-602	0	0	
(Inc)/Dec in Debt	981	1,878	3,233	4,180	-150	
Interest Paid	-1,398	-1,833	-1,417	-2,653	-2,871	
Dividend Paid	-659	-661	-539	-719	-899	
CF from Fin. Activity	-1,048	2,215	675	809	-3,920	
Inc/Dec of Cash	-3,404	-314	-207	44	1,275	
Add: Beginning Balance	4,256	852	538	331	375	
Closing Balance	852	538	331	375	1,651	

N O T E S

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India Cements

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