Angel Broking™
Service Truly Personalized

Madras Cements

Performance Highlights

Y/E Mar (₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
Net Revenue	741	819	(9.5)	579	27.9
Operating Profit	207	267	(22.2)	148	40.1
OPM (%)	28.0	32.6	(459)bp	25.6	243bp
Net Profit	77	111	(30.7)	43	76.7

Source: Company, Angel Research

For 3QFY2012, Madras Cements (MC) posted a strong performance, with net profit surging by 76.7% yoy to ₹77cr. Strong bottom-line performance was on account of both 19.1% yoy growth in dispatches (though on a lower base) and 8.6% yoy growth in realization. **We remain Neutral on the stock.**

OPM at 28.0%, aided by improvement in realization: MC registered 27.9% yoy top-line growth to ₹741cr, driven by 29.4% yoy growth in the cement division's revenue. However, revenue of the windmill division fell by 38.8% yoy to ₹7.7cr. Production discipline in southern India during 3QFY2012 led to the improvement in cement realization by 8.6% yoy to ₹4,245/tonne. Dispatches grew by 19.1% yoy to 1.73mn tonnes (though on a low base, as dispatches had declined by 19.7% yoy to 1.45mn tonnes in 3QFY2011). However, OPM improved marginally by 243bp yoy to 28.0%, as the increase in per tonne freight costs and other expenses (up 15.6% and 20.1% yoy, respectively) eroded most part of realization growth. During the quarter, depreciation increased by 13.1% yoy as the company had higher captive power capacity during the quarter.

Outlook and valuation: Going ahead, we expect MC to post a 13.0% and 34.0% CAGR in its top line and bottom line, respectively, over FY2011-13E. At the CMP, the stock is trading at moderate valuations of EV/tonne of US$77 on current capacity of 12.5mtpa (US$53 on FY2013E capacity). However, considering its unfavorable locational presence and risk of margin pressure (if ongoing production discipline in southern India breaks down), **we continue to maintain our Neutral view on the stock.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net Sales	**2,801**	**2,605**	**3,165**	**3,327**
% chg	*14.0*	*(7.0)*	*21.5*	*5.1*
Net Profit	**354**	**211**	**377**	**379**
% chg	*(2.8)*	*(40.4)*	*78.7*	*0.4*
FDEPS(₹)	14.9	8.9	15.8	15.9
OPM (%)	30.6	23.7	30.3	28.2
P/E(x)	8.9	15.0	8.4	8.3
P/BV(x)	2.0	1.8	1.5	1.3
RoE(%)	25.1	12.8	19.9	17.0
RoCE(%)	14.8	8.1	13.6	13.1
EV/Sales (x)	2.1	2.3	1.8	1.6
EV/EBITDA	6.8	9.5	6.0	5.5

Source: Company, Angel Research

NEUTRAL

CMP	₹133
Target Price	-
Investment Period	-

Stock Info	
Sector	Cement
Market Cap (₹cr)	3,157
Beta	0.9
52 Week High / Low	140/80
Avg. Daily Volume	51,602
Face Value (₹)	1
BSE Sensex	17,707
Nifty	5,362
Reuters Code	MSCM.BO
Bloomberg Code	MC@IN

Shareholding Pattern (%)	
Promoters	42.0
MF / Banks / Indian FIs	17.9
FII / NRIs / OCBs	7.6
Indian Public / Others	32.5

Abs.(%)	3m	1yr	3yr
Sensex	0.8	(1.7)	90.4
Madras Cement	20.8	38.8	105.5

V.Srinivasan
022-40403800 Ext 6831
v.srinivasan@angelbroking.com

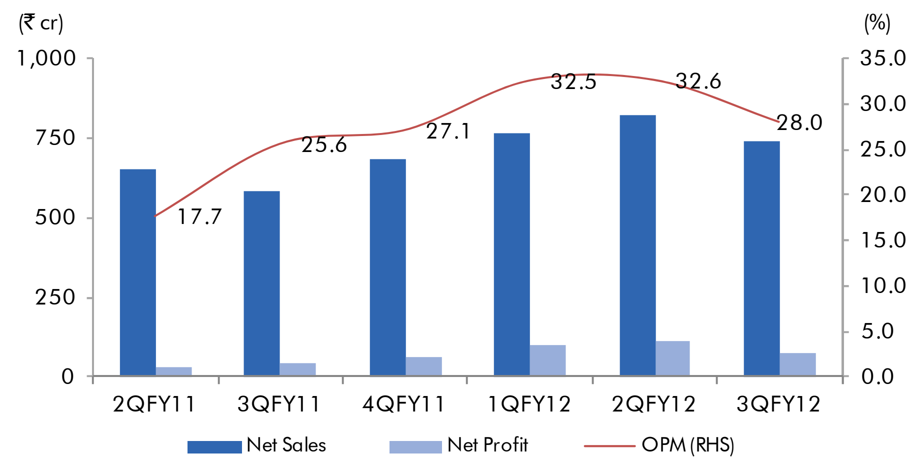
Sourabh Taparia
022-40403800 Ext 6872
sourabh.taparia@angelbroking.com

Exhibit 1: 3QFY2012 performance

Y/E March (₹ cr)	3QFY12	2QFY12	% Chg (qoq)	3QFY2011	% Chg (yoy)	9MFY12	9MFY11	% Chg
Net Sales	741	819	(9.5)	579	27.9	2,324	1,919	21.1
Net Raw Material Costs	79	98	(20.0)	72	9.4	295	275	7.1
(% of Sales)	10.6	12.0		12.4		12.7	14.3	
Power & Fuel	177	185	(4.5)	149	18.9	525	494	6.2
(% of Sales)	23.8	22.6		25.7		22.6	25.8	
Staff Costs	43	43	0.4	43	0.9	128	119	7.0
(% of Sales)	5.8	5.2		7.4		5.5	6.2	
Freight & Forwarding	131	127	3.4	95	37.7	376	340	10.4
(% of Sales)	17.7	15.5		16.5		16.2	17.7	
Other Expenses	104	99	4.9	73	43	282	242	16.7
(% of Sales)	14.0	12.1		12.5		12.1	12.6	
Total Expenditure	534	552	(3.4)	431	23.8	1,605	1,471	9.1
Operating Profit	207	267	(22.2)	148	40.1	719	447	60.7
OPM (%)	28.0	32.6	(459)bp	25.6	243bp	30.9	23.3	762bp
Interest	37	43	(12.0)	35	6.9	128	105	21.4
Depreciation	61	63	(1.9)	54	13.1	188	163	15.5
Other Income	5	10	(49.7)	6	(22.6)	20	22	(6.8)
PBT (excl. Extr. Items)	114	171	(33.8)	65	(151.8)	424	201	110.4
Provision for Taxation	37	61	(39.3)	22	69.8	137	54	153.4
(% of PBT)	32.3	35.3		33.2		32.4	26.9	
Reported PAT	77	111	(30.7)	43	76.7	286	147	94.3
PATM	10.4	13.5		7.5		12.3	7.7	
EPS (₹)	3.2	4.7	(30.7)	1.8	76.7	12.0	6.2	94.3

Source: Company, Angel Research

Exhibit 2: Financial performance



Source: Company, Angel Research

Exhibit 3: 3QFY2012 – Actual vs. Angel estimates

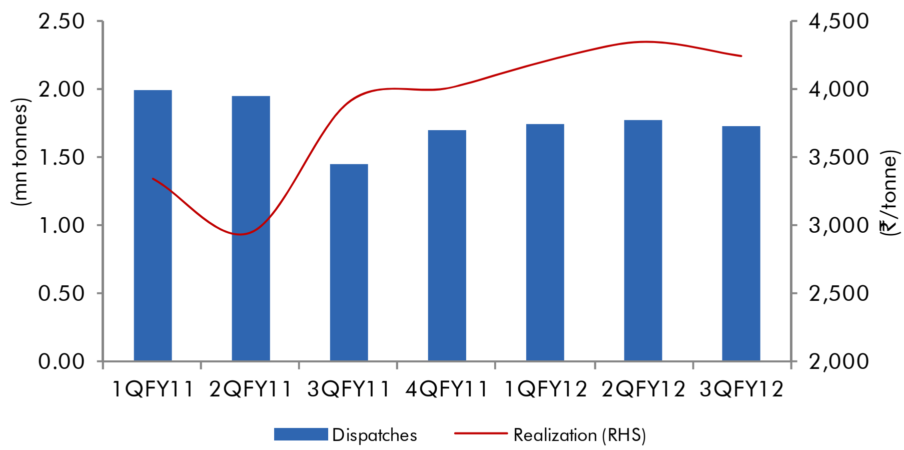
(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	741	710	4.3
Operating Profit	207	192	8.0
OPM (%)	28.0	27.0	97bp
Net Profit	77	60	27.2

Source: Company, Angel Research

Operational performance

During 3QFY2012, MC posted 27.9% yoy top-line growth to ₹741cr, mainly driven by its cement business. Revenue of the cement division increased by 29.4% yoy to ₹733cr, aided by dispatches growth of 19.1% yoy to 1.73mn tonnes (though on a low base as south India's cement demand hinted a recovery after declining by 19.7% yoy in 3QFY2011) and 8.6% yoy growth in per tonne cement realization to ₹4,245. Revenue of the windmill division declined by 38.8% yoy to ₹7.7cr during the quarter.

Exhibit 4: Dispatches and realization trend



Source: Company, Angel Research

MC's per tonne raw-material cost rose by 2.2% yoy to ₹610. Freight cost per tonne during the quarter increased by 15.6% yoy to ₹761 on account of higher petroleum products costs and higher railway freight charges. Even on a qoq basis, freight costs per tonne were higher by 5.9% on account of busy season surcharge levied by railways. The company's operating profit per tonne of cement stood at ₹1,165 during the quarter, up 22.4% yoy, primarily due to higher cement realization.

Exhibit 5: Per tonne analysis

Particulars (₹)	3QFY12	2QFY12	3QFY11	% chg (yoy)	% chg (qoq)
Realization/tonne	4,245	4,349	3,908	8.6	(2.4)
Raw material cost/tonne	610	594	597	2.2	2.7
Power & fuel cost /tonne	1,023	1,045	1,025	(0.2)	(2.2)
Freight cost/tonne	761	719	658	15.6	5.9
Other costs/tonne	601	560	500	20.1	7.4
Operating profit/tonne	1,165	1,283	952	22.4	(9.2)

Source: Company, Angel Research; Note: Raw-material cost/tonne calculated for production volume

Exhibit 6: Segment-wise revenue break-up

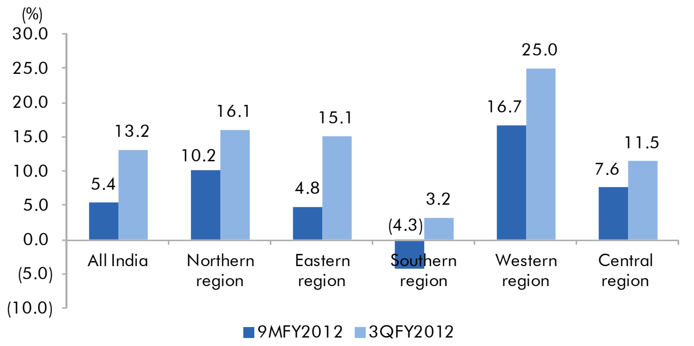
(₹ cr)	3QFY12	3QFY11	% chg (yoy)	9MFY12	9MFY11	% chg
Cement	733	567	29.4	2,235	1,801	24.1
Windmill	8	13	(38.8)	89	117	(23.8)
Total	**741**	**579**	**27.9**	**2,324**	**1,919**	**21.1**

Source: Company, Angel Research

Cement demand scenario in 3QFY2012

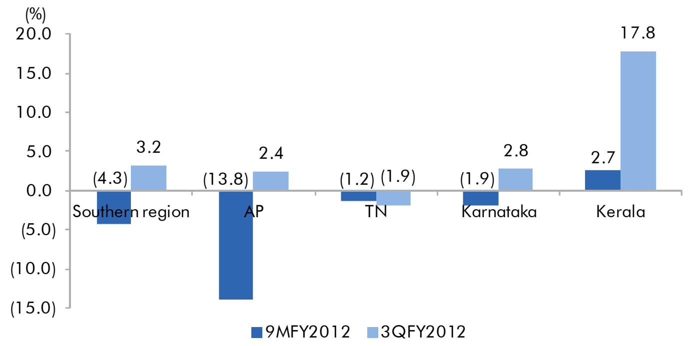
During the quarter, all-India cement demand grew strongly by 13.2% yoy, taking 9MFY2012 growth to 5.4% yoy. Cement demand in the southern region showed signs of improvement in the third quarter of the current fiscal year by growing at 3.2% yoy, which reduced the overall 9MFY2012 decline to 4.3%. During 3QFY2012 – one of the major cement consuming states – Andhra Pradesh (AP) posted 2.4% yoy growth in demand. Kerala recorded impressive 17.8% yoy growth. Karnataka also registered 2.8% yoy growth. However, another major cement consuming state of Tamil Nadu (TN) witnessed a 1.9% decline in demand on a yoy basis.

Exhibit 7: All-India and region-wise demand scenario



Source: CMA, Angel Research

Exhibit 8: State-wise demand scenario in the southern region



Source: CMA, Angel Research

Investment rationale

New captive power plants (CPPs) to reduce power costs: MC has recently commissioned 40MW of CPP and is expected to add another 45MW of CPPs, thereby taking its total CPP capacity to ~157MW. Going ahead, we expect the CPPs to considerably reduce power costs for the company.

Capacity addition to drive volume growth: MC is in the process of expanding its Ariyalur plant capacity by 2mtpa. Also, in the past two years, the company has added ~2.5mtpa of capacities at various locations to reach its current overall capacity of 12.5mtpa. We expect capacity expansions undertaken by the company to propel its volume growth going ahead.

Unfavorable plant locations: Around 93% of the company's total capacity is in TN (68%) and AP (25%). As per our estimates, in FY2013E, AP is expected to have India's highest indigenous demand supply gap (42mt) and no nearby supply-deficit state, where it can supply more economically than other states. However, capacity situation in TN is slightly better, with the expected demand supply gap of 18.1mt and a nearby supply-deficit state of Kerala (total deficit expected to be 8.6mt), where it can supply a large part of its excess more economically than Karnataka. Capacities in both these states are expected to register extended low capacity utilization and margins.

Outlook and valuation

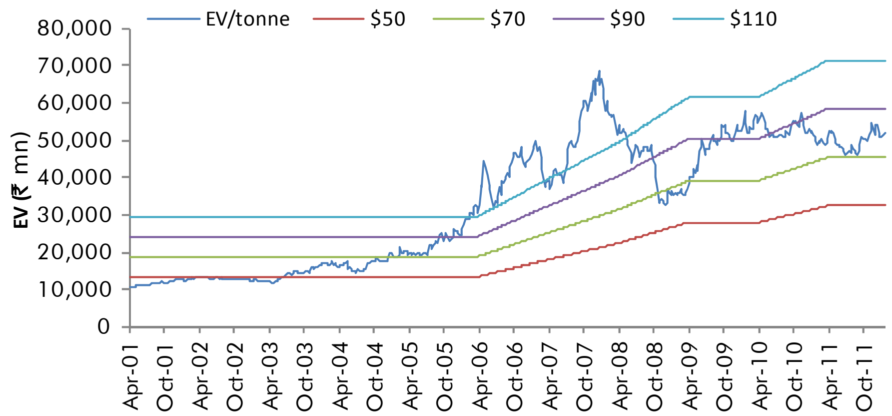
Going ahead, we expect MC to post a 13.0% and 34.0% CAGR in its top line and bottom line, respectively, over FY2011-13E. At the CMP, the stock is trading at moderate valuations of EV/tonne of US$77 on current capacity of 12.5mtpa (US$53 on FY2013E capacity). However, considering its unfavorable locational presence and risk of margin pressure (if ongoing production discipline in southern India breaks down), **we remain Neutral on the stock.**

Exhibit 9: Change in estimates

(₹ cr)	FY2012E			FY2013E		
	Earlier	Revised	*Var. (%)*	Earlier	Revised	*Var. (%)*
Net Sales	3,060	3,165	*3.4*	3,254	3,327	*2.2*
Operating Exp	2,128	2,205	*3.6*	2,334	2,390	*2.4*
Operating Profit	932	959	*3.0*	920	937	*1.8*
Depreciation	253	253	*(0.1)*	255	255	*(0.0)*
Interest	182	171	*(6.0)*	153	146	*(4.7)*
PBT	524	563	*7.4*	541	565	*4.4*
Tax	173	186	*7.4*	179	186	*4.2*
PAT	351	377	*7.4*	363	379	*4.3*

Source: Company, Angel Research

Exhibit 10: One-year forward EV/tonne (US$)



Source: Company, Angel Research

Exhibit 11: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. Price (₹)	*Upside (%)*	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR (%)	FY2013E RoCE (%)	FY2013E RoE (%)
ACC*	Neutral	1,328	-	-	3.1	19.7	6.4	20.9	16.7
Ambuja Cements*	Neutral	180	-	-	3.1	19.6	6.9	20.4	16.5
India Cements	Neutral	94	-	-	0.8	10.3	165.3	7.2	8.0
JK Lakshmi Cement	Neutral	63	-	-	0.7	8.1	53.9	7.5	8.3
Madras Cements	**Neutral**	**133**	**-**	**-**	**1.3**	**8.3**	**34.0**	**13.1**	**17.0**
Shree Cement	Neutral	2,359	-	-	3.2	19.5	27.6	15.8	17.7
UltraTech	Neutral	1,363	-	-	2.6	16.5	27.1	17.5	17.1

*Source: Company, Angel Research; Note: *Y/E December*

Profit and loss statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Total operating income	**2,012**	**2,457**	**2,801**	**2,605**	**3,165**	**3,327**
% chg	27.8	22.1	14.0	(7.0)	21.5	5.1
Total expenditure	1,260	1,678	1,944	1,987	2,205	2,390
Net raw materials	248	299	398	391	421	466
Other mfg costs	408	602	596	661	729	775
Personnel	81	110	137	154	173	190
Other	523	666	812	782	882	960
EBITDA	**752**	**779**	**857**	**617**	**959**	**937**
% chg	35.3	3.5	10.0	(28.0)	55.4	(2.4)
(% of net Sales)	37.4	31.7	30.6	23.7	30.3	28.2
Depreciation & amortization	93	138	196	221	253	255
EBIT	**659**	**641**	**661**	**397**	**707**	**682**
% chg	36.1	(2.7)	3.1	(40.0)	78.2	(3.6)
(% of net Sales)	32.8	26.1	23.6	15.2	22.3	20.5
Interest & other Charges	52	110	151	139	171	146
Other Income	9	15	20	40	27	29
(% of PBT)	1.5	2.8	3.8	13.4	4.8	5.2
Recurring PBT	**617**	**546**	**530**	**297**	**563**	**565**
% chg	31.6	(11.5)	(2.9)	(44.0)	89.4	0.4
Extraordinary expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	**617**	**546**	**531**	**297**	**563**	**565**
Tax	209	182	177	86	186	186
(% of PBT)	33.8	33.3	33.3	29.0	33.0	33.0
PAT (reported)	**408**	**364**	**354**	**211**	**377**	**379**
% chg	*32.5*	*(10.8)*	*(2.9)*	*(40.4)*	*78.8*	*0.4*
(% of net Sales)	20.3	14.8	12.6	8.1	11.9	11.4
Basic EPS (₹)	**34.3**	**15.3**	**14.9**	**8.9**	**15.8**	**15.9**
Fully diluted EPS (₹)	**34.3**	**15.3**	**14.9**	**8.9**	**15.8**	**15.9**
% chg	*34.5*	*(55.4)*	*(2.9)*	*(40.4)*	*78.8*	*0.4*

Balance Sheet

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS						
Equity share capital	12	24	24	24	24	24
Reserves & surplus	942	1,236	1,534	1,711	2,035	2,361
Shareholders' funds	**954**	**1,260**	**1,558**	**1,735**	**2,059**	**2,385**
Total loans	1,636	2,463	2,567	2,791	2,641	2,141
Deferred tax liability	363	490	585	589	600	600
Total Liabilities	**2,952**	**4,214**	**4,710**	**5,115**	**5,300**	**5,126**
APPLICATION OF FUNDS						
Gross block	2,714	3,918	4,811	5,266	5,616	5,666
Less: acc. depreciation	808	918	1,119	1,320	1,573	1,828
Net Block	**1,906**	**3,000**	**3,693**	**3,946**	**4,043**	**3,838**
Capital work-in-progress	576	635	318	543	493	493
Investments	**89**	**89**	**89**	**89**	**89**	**139**
Current assets	779	914	1,135	1,099	1,313	1,292
Cash	23	39	35	40	29	74
Loans & advances	452	456	532	484	424	410
Other	304	419	568	575	860	809
Current liabilities	402	440	546	590	666	664
Net current assets	**378**	**473**	**589**	**509**	**647**	**628**
Misc. exp. not written off	3	16	21	28	28	28
Total Assets	**2,952**	**4,214**	**4,710**	**5,115**	**5,300**	**5,126**

Cash flow statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Profit before tax	617	546	531	297	563	565
Depreciation	93	138	196	221	253	255
Change in working capital	(191)	(80)	(119)	85	(138)	63
Less: Other income	9	15	20	40	27	29
Direct taxes paid	79	62	89	86	186	186
Cash Flow from Operations	430	527	498	477	465	668
(Inc)/ Dec in Fixed Assets	(1,314)	(1,262)	(576)	(680)	(300)	(50)
(Inc)/ Dec in Investments	-	-	-	-	-	(50)
Other income	9	15	20	40	27	29
Cash Flow from Investing	(1,304)	(1,247)	(556)	(640)	(273)	(71)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	958	828	103	225	(150)	(500)
Dividend paid (Incl. Tax)	56	56	56	35	53	53
Others	62	36	(7)	22	-	-
Cash Flow from Financing	840	736	55	168	(203)	(553)
Inc./(Dec.) in cash	(34)	16	(3)	5	(11)	44
Opening cash balances	57	23	39	35	40	29
Closing cash balances	23	39	35	40	29	74

Key ratios

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
Valuation Ratio (x)						
P/E (on FDEPS)	3.9	8.7	8.9	15.0	8.4	8.3
P/CEPS	3.1	6.3	5.7	7.3	5.0	5.0
P/BV	1.7	2.5	2.0	1.8	1.5	1.3
Dividend yield (%)	3.6	1.8	1.8	1.1	1.7	1.7
EV/Sales	1.4	2.2	2.1	2.3	1.8	1.6
EV/EBITDA	3.8	6.9	6.8	9.5	6.0	5.5
EV / Total Assets	1.0	1.3	1.2	1.1	1.1	1.0
Per Share Data (₹)						
EPS (Basic)	34.3	15.3	14.9	8.9	15.8	15.9
EPS (fully diluted)	34.3	15.3	14.9	8.9	15.8	15.9
Cash EPS	42.1	21.1	23.1	18.1	26.5	26.6
DPS	4.7	2.3	2.3	1.5	2.2	2.2
Book Value	80.1	53.0	65.5	72.9	86.5	100.2
DuPont Analysis						
EBIT margin	32.8	26.1	23.6	15.2	22.3	20.5
Tax retention ratio	66.2	66.7	66.7	71.0	67.0	67.0
Asset turnover (x)	0.9	0.7	0.6	0.5	0.6	0.6
ROIC (Post-tax)	19.6	12.0	10.0	5.8	9.2	8.8
Cost of Debt (Post Tax)	3.0	3.6	4.0	3.7	4.2	4.1
Leverage (x)	1.4	1.9	1.8	1.6	1.4	1.1
Operating ROE	43.5	27.7	20.6	9.2	16.2	14.0
Returns (%)						
ROCE (Pre-tax)	29.1	17.9	14.8	8.1	13.6	13.1
Angel ROIC (Pre-tax)	37.6	22.4	17.1	9.1	15.5	15.0
ROE	50.4	32.9	25.1	12.8	19.9	17.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.9	0.7	0.6	0.5	0.6	0.6
Inventory / Sales (days)	34	42	48	56	56	66
Receivables (days)	12	11	16	24	27	26
Payables (days)	115	92	93	104	104	102
WC cycle (ex-cash) (days)	47	59	64	72	63	64
Solvency ratios (x)						
Net debt to equity	1.6	1.9	1.6	1.5	1.2	0.8
Net debt to EBITDA	2.0	3.0	2.8	4.3	2.6	2.1
Interest Coverage (EBIT / Int.)	12.7	5.8	4.4	2.8	4.1	4.7

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

Disclosure of Interest Statement	Madras Cements
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	