



Company report

Prism Cement Ltd.

7th January 2010**BUY**

CMP	Rs 50.40
Target Price	Rs 70.00
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BSE Code	500338
NSE Code	PRISMCEM
Market Cap (Rs Mn)	15031.80
52 Week High/Low	60.30/16.10
Industry	Cement
Face Value	Rs 10
Shares O/S	29,82,50,000
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EPS(TTM)	6.75
CEPS(TTM)	7.85
Book Value	26.25
P/E	7.47
P/B	1.92

Company Snapshot

Prism Cement Limited is an ISO 9001:2000 certified company promoted by Rajan Raheja Group which has diverse business interests. The company operates one of the largest single kiln cement plants in the country at Satna, Madhya Pradesh. Equipped with state-of-the-art machinery and technical support from F.L Smidth & Co., A.S Denmark, the world leaders in cement technology, the company has successfully created a niche for itself in the Indian cement industry.

The company manufactures Portland Pozzollana Cement (PPC) with the brand name 'Champion' and Ordinary Portland Cement (OPC). 'Champion', its largest selling product, is general purpose cement mainly used in housing construction. OPC is used for specialized applications like high rise buildings, bridges, AC sheets, pipes, poles, etc.

The company has the highest quality standards due to modern plant with automated controls. The strength and other characteristics of its cement are much higher than the BIS requirements. This together with brand building exercise has placed it in the premium price segment.

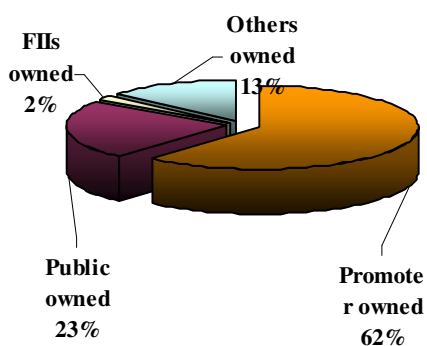
The company caters mainly to markets of UP, MP and Bihar which are within the radius of 340-370 kms of its plant at Satna, MP. The company has strong marketing network with over 2000 dealers serviced from 46 stocking points without any wholesalers.

Highlights/Recent updates

The Scheme of Amalgamation u/s 391-394 of the Companies Act, 1956 to amalgamate H. & R. Johnson (India) Limited and RMC Readymix (India) Private Limited with the Company has been approved with the requisite majority by the shareholders and creditors of the Company. The Scheme is subject to the approval of High Courts of Judicature at Bombay and Andhra Pradesh. The Amalgamation will be accounted from the appointed date of April 01, 2009 on getting necessary approvals.

The all-stock deal will transform the Madhya Pradesh-based company into an integrated building material supplier with a major presence in tiles and sanitary ware and readymix concrete. However, a cause for concern is the poor profitability of the tiles and RMC business, which could pull down the operating margin of the combined entity.

Shareholding Pattern



Investment Rationale

The company has planned a four fold increase in cement capacity to ten million tonnes by 2011

Capacity expansion: Prism Cement currently sells over two and a half million tonnes of cement and clinker in a financial year, and plans to aggressively expand its capacity over the next two years. The company has planned a four fold increase in cement capacity to 10 million tonnes by 2011. This will also derisk its operations from single location to multi-locations. It is currently implementing a project to set up a plant with a capacity of 3.6 million tonne, close to its existing facility in Satna, Madhya Pradesh. This plant is expected to be operational over the next 12 months. The company has been allotted a coal block in Chindwara District of MP which will commence operations by early 2011. The mining plans for the coal block have been approved. The other requisite approvals are under progress. For its Unit II at Satna, the civil and mechanical erection activities are under progress. For its cement plant at Kurnool District, Andhra Pradesh, environmental clearance has been received. Company is awaiting certain clearances from the State Government for further activity to take place.

Cement prices continue to rule high in Madhya Pradesh, Uttar Pradesh, Bihar and nearby areas

Sound financials: The Company's net sales for the recent quarter ended December 2009 stood at Rs.2299.70 million up about 7% from the like period last year, driving the operating profits higher by 27% at Rs.719 million from Rs.566.40 million in Q3FY09. This was primarily due to higher cement prices, which pushed its realisations to an estimated Rs 3,460 per tonne in the December 2009 quarter, up 6% from the corresponding period a year ago. The bottom-line of the company jumped around 35 percent from Rs.310.30 million to Rs.419.70 million. Apart from improved realisations, the company has also been benefited from a reduction in the key operational cost, power & fuel, which declined nearly 12.6% y-o-y to Rs 870 per tonne in the December 2009 quarter. The company has been able to maintain its margin trajectory intact with operating profit margins expanding 487bps at 31.17% and net profit margins advancing 379bps to stay at 18.20%. EPS for the Quarter ended December 2009 stood at Rs.1.41 and TTM (Trailing twelve months) EPS was at Rs.6.75.

Cash rich and Debt-free Company: Company's balance sheet is quiet robust with Zero debt and huge cash balances. It is completely debt free since Dec 2006. It has Rs.84.14 crore in its books for the nine months year ended March 31st 2009. This would also enable the company to leverage its balance sheet for further expansion and non-life insurance business.

Standalone Quarterly Financial Matrix

Rs. Million

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Net sales	2153.30	2513.60	2720.60	2296.50	2306.50
Growth%	-----	16.73	8.24	-15.59	0.44
Expenditure	1586.90	1630.30	1522.40	1685.00	1587.50
EBITDA	566.40	883.30	1198.20	611.50	719.00
Growth%	-----	55.95	35.65	-48.97	17.58
EBITDA margin	26.30	35.14	44.04	26.63	31.17
Other income	23.50	7.80	8.80	7.00	4.90
Depreciation	81.30	79.80	80.80	82.80	85.40
EBIT	508.60	811.30	1126.20	535.70	638.50
Interest	13.70	9.50	5.70	9.50	6.10
PBT	494.90	801.80	1120.50	526.20	632.40
Tax	184.60	299.90	378.00	176.50	212.70
Adjusted PAT	310.30	501.90	742.50	349.70	419.70
Growth %	-----	61.75	47.94	-52.90	20.02
Net Profit margins	14.41	19.97	27.29	15.23	18.20
Equity Capital	2982.50	2982.50	2982.50	2982.50	2982.50
EPS	1.04	1.68	2.49	1.17	1.41
CEPS	1.31	1.95	2.76	1.45	1.69

Past Price movement of the stock



Valuation

The company enjoys cost competitiveness due to modern plant, lower overheads, operational efficiencies and logistics management. It is ideally positioned with a strong brand name in the high potential markets of UP, MP and Bihar. The company would sustain its industry leading profitability due to focus on high net cement realisation zone, flexible product and distribution mix (trade and non trade) and lower total delivered cost. Major expansion plan initiated by the company would enhance growth in coming years. In wake of such growth, Prizm Cement Ltd seems to be extremely attractive investment opportunity.

Presently, the stock is trading at Rs 50.40 which is at 7.47 times to its TTM (Trailing twelve months) earnings and 1.92 times to its book value of Rs 26.25. Since the stock offers good opportunity, we initiate a 'BUY' signal on the stock with a target price of **INR 70.00** in long term investment horizon expecting an appreciation of about 39% from the current level of **INR 50.40**.

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