

### Stock Review of Techno Funda Research Product – Early Signals Buy

September 2, 2009

Early Signals Call Information Data	Scrip Code	Grade	Face Value	Reco. Dt.	Reco. Price	CMP	Target	Stop Loss
<b>India Cements Ltd</b>	530005	A	10	31 Aug., 09	Rs. 135	Rs. 131	Rs. 176	Rs.121

#### SHARE HOLDING (%)

Promoters	28.0
FI / MF/Foreign	50.9
Body Corporate	13.4
Public & Others	7.7

#### STOCK DATA

Reuters Code	ICMN.BO	
Bloomberg Code	ICEM IN	
NSE Symbol	INDIACEM	
Mkt. Cap.(*)	37.0 bn	
Shares	282.5 mn	
Outstanding(*)		
52 Weeks (H/L)	Rs.180/68	
Avg. Daily Volume (6m)	549486 Shares	
Price Performance (%)		
1M	3M	6M
(3.5)	(12)	39
200 Days EMA Rs.132		

- **India Cements Ltd.,** established in 1946 is the largest producer of cement in South India and 3<sup>rd</sup> largest in capacity terms in India. Its plants are well spread in South India at strategic locations with close proximity to the market and its Raw material supply. The company has market share of 18% in South India. It has well spread Marketing network in the southern region. The company plans to double its capacity from 9.1 mtpa to 18 mtpa with expanding its presence in North India.
- The company has earmarked funds close to Rs.1500 cr for capex for its various expansion plans. It is expanding its cement capacity from 9.1 mtpa to 14.1 mtpa by Q2 FY2010 in phase I. It is planning to add 100 MW captive power plants at Sankarnagar and Vishnupuram with an approx outlay of Rs.500 cr. It has been implementing a new project at Rajasthan with a captive power plant on a total outlay of Rs.600 cr. In order to secure stable coal supplies the company is looking to obtain coal mining rights in Indonesia for around Rs.400-500 cr.
- India cements has revived its shipping business with the purchase of 2 ships (Dry Bulk Carriers) with a total capacity of 80000 DWT which will primarily be utilized for captive movement of coal and other raw materials. It would also de-risk the volatile freight cost.
- The overall outlook for the industry shows significant growth on the robust demand from Infrastructure, housing and commercial construction etc. Domestic demand for cement has been increasing in line with the GDP growth. Indian government is in the process of setting up a special dedicated fund to provide loans to infrastructure projects primarily roads, airports and ports leading to huge demand for cement.
- At the CMP of Rs.131, the stock trades at 6.5x and 0.9x its FY0910E Earnings and BV respectively.

Y/E Mar	Revenues (Rs. mn)	APAT (Rs. mn)	AEPS (Rs)	AEPS (% change)	PER (x)	ROCE (%)	ROE (%)	P/BV (x)
FY09	34708.0	5116.3	18.1	(25.5)	7.2	11.0	14.1	1.0
FY10E	39960.0	5742.1	20.3	12.0	6.5	11.6	13.8	0.9
FY11E	44400.0	6285.3	22.2	9.2	5.9	12.0	13.3	0.8

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Part of  Bonanza

- The cement sector is expected to witness growth in line with the economic growth because of strong co-relation to GDP. With the softening of International coal and coke prices, cost pressure for the cement companies has eased out. Most companies have consumed their higher cost inventories. This would lead to improvement in profitability.
- The industry has an installed capacity of 212 mn tn in last financial year, while consumption was 176mn tn. According to the Cement Manufacturers Association, about 62 mn tn of cement capacity is scheduled to come on-stream by the end FY10. This would bring higher supply and softening of cement prices.

#### Q1 FY0910 results update:-

- During the quarter under review, India Cements' net sales increased by 9.6% YoY to Rs. 9602.5 mn. It's EBIDTA decreased to Rs.2931.1 mn, registering a fall of 5.8% YoY, while its EBIDTA margins decreased by 499bps YoY to 30.52%. Its PAT stood at Rs. 1442.8 mn registering a marginal rise of 1.5% YoY.
- The primary reason for fall in EBIDTA margins is due to increase in power and fuel cost. Even after fall in the imported coal prices, the Power and Fuel cost increased by 18% primarily because of substitution of grid power with high cost DG set power in the state of Andhra Pradesh and Tamil Nadu. Net margins have also decreased due to rise in the Interest & Depreciation cost. Interest for the quarter increased by 67.1% y-o-y to Rs.384.8 mn while Depreciation has increased by 16.4% y-o-y to Rs.570.7 mn. PAT margins decreased from 16.2% to 15%.
- The exceptional item is on account of Rs.210 mn forex gain on FCCB of USD 75 mn. Pre exceptional net profit has declined by 24.8%.
- India cements has its plants strategically located close to the target markets with adequate supply of Limestone reserves. Company also has access to ports which leads to access to international markets, sourcing of imported raw material/coal for the thermal power/ cement plants. Company's cement is sold under different brands SANKAR, COROMANDEL and RAASI, all which hold a strong brand equity in South India.

#### Key Concerns:-

- Excess supply coming up in the overall industry in next 2 years, which may lead to fall in cement prices and lower capacity utilization.
- Company has outstanding FCCB of USD75 mn, which is exposed to currency fluctuations.

#### Q1 FY0910 Results

(Rs.mn)

Particulars	Q1 0910	Q1 0809	Y-o-Y (%)
<b>Net Sales</b>	<b>9602.50</b>	<b>8762.60</b>	<b>9.59</b>
Other Income	0.00	0.70	-100.00
<b>Total Income</b>	<b>9602.50</b>	<b>8763.30</b>	<b>9.58</b>
Expenditure	6671.40	5650.60	18.07
<b>Operating Profit</b>	<b>2931.10</b>	<b>3112.70</b>	<b>-5.83</b>
Interest	384.80	230.20	67.16
<b>Gross Profit</b>	<b>2546.30</b>	<b>2882.50</b>	<b>-11.66</b>
Depreciation	570.70	490.10	16.45
<b>PBT</b>	<b>1975.60</b>	<b>2392.40</b>	<b>-17.42</b>
Exceptional Items	210.00	-217.50	
Tax	742.80	753.50	-1.42
<b>PAT</b>	<b>1442.80</b>	<b>1421.40</b>	<b>1.51</b>
<b>Equity Capital</b>	<b>2824.70</b>	<b>2818.80</b>	<b>0.21</b>
<b>EPS</b>	<b>5.11</b>	<b>5.04</b>	<b>1.29</b>
<b>Gross Cash Flow</b>	<b>2013.50</b>	<b>1911.50</b>	<b>5.34</b>
<b>EBIDTA %</b>	<b>30.52%</b>	<b>35.51%</b>	
<b>NPM %</b>	<b>15.03%</b>	<b>16.22%</b>	

Source: Company

## BALANCE SHEET STATEMENT (Rs.mn)

As on 31 <sup>st</sup> March	FY08	FY09	FY10E	FY11E
Share Capital	2818.7	2824.3	2829.8	2835.8
Reserves	30392.4	33489.6	38644.5	44351.3
<b>Shareholders Funds</b>	<b>33211.1</b>	<b>36313.9</b>	<b>41474.3</b>	<b>47187.1</b>
Total Debt	18115.0	19880.3	18380.3	16380.3
<b>Total Liabilities</b>	<b>51326.1</b>	<b>56194.2</b>	<b>59854.6</b>	<b>63567.4</b>
<b>Fixed Assets</b>	<b>40393.7</b>	<b>47122.9</b>	<b>50703.7</b>	<b>53086.9</b>
<b>Investments</b>	<b>1292.8</b>	<b>1589.7</b>	<b>1589.7</b>	<b>1589.7</b>
Sundry Debtors	3110.7	3539.8	4075.4	4528.3
Cash and Bank	4256.4	852.0	1238.6	1487.6
Loans and Advances	10620.6	13134.4	15121.9	16802.1
Inventory	3302.1	3705.0	4265.6	4739.6
Other Current Assets	204.2	204.2	204.2	204.2
<b>Current Assets</b>	<b>21494.1</b>	<b>21435.4</b>	<b>24905.7</b>	<b>27761.7</b>
Current Liabilities	9176.5	10679.4	12112.4	13778.7
Provisions	658.9	853.8	3007.5	3230.8
<b>Current Liabilities</b>	<b>9835.3</b>	<b>11533.2</b>	<b>15119.9</b>	<b>17009.5</b>
<b>Net Current Assets</b>	<b>11658.8</b>	<b>9902.2</b>	<b>9785.8</b>	<b>10752.3</b>
Deferred Tax Assets (Net)	(2257.1)	(2556.1)	(2224.5)	(1861.6)
Miscellaneous Expenditure	237.9	135.5	0.0	0.0
<b>Total Assets</b>	<b>51326.1</b>	<b>56194.2</b>	<b>59854.6</b>	<b>63567.4</b>

Source: Company, Sushil Finance Research Estimates

## PROFIT & LOSS STATEMENT (Rs.mn)

Y/E March	FY08	FY09	FY10E	FY11E
<b>Revenue</b>	<b>30442.5</b>	<b>34708.0</b>	<b>39960.0</b>	<b>44400.0</b>
RM Consumption	2826.3	3565.3	4195.8	4773.0
Staff costs	1878.9	1983.2	2197.8	2442.0
Power & Fuel Costs	6907.4	8916.0	10309.7	11233.2
Transportation Costs	4600.0	4859.5	5634.4	6526.8
Other Exp	3435.7	4981.5	5794.2	6393.6
<b>Total Expenditure</b>	<b>19648.3</b>	<b>24305.5</b>	<b>28131.8</b>	<b>31368.6</b>
<b>EBITDA</b>	<b>10794.2</b>	<b>10402.5</b>	<b>11828.2</b>	<b>13031.4</b>
Interest	1098.6	1121.5	1401.9	1612.2
<b>EBDT</b>	<b>9695.6</b>	<b>9281.0</b>	<b>10426.3</b>	<b>11419.2</b>
Depreciation	1279.2	2033.2	2378.8	2616.7
<b>PBT excl. OI</b>	<b>8416.4</b>	<b>7247.8</b>	<b>8047.4</b>	<b>8802.5</b>
Other Income	511.4	29.7	40.0	50.0
<b>PBT incl OI</b>	<b>8927.8</b>	<b>7277.5</b>	<b>8087.4</b>	<b>8852.5</b>
Tax	2071.0	2161.2	2345.4	2567.2
<b>CON APAT/ RPAT</b>	<b>6856.8</b>	<b>5116.3</b>	<b>5742.1</b>	<b>6285.3</b>
EPS (Rs)	24.3	18.1	20.3	22.2
EBIDTA Margin (%)	35.5	30.0	29.6	29.4
EBDTA Margin (%)	31.8	26.7	26.1	25.7
Net Profit Margin (%)	22.5	14.7	14.4	14.2
Tax/PBT (%)	23.2	29.7	29.0	29.0

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