

1 July 2009

ACCUMULATE

Price	Target Price
Rs130	Rs139
Sensex	14,604

Price Performance

(%)	1M	3M	6M	12M
Absolute	0	36	55	(7)
Rel. to Sensex	(4)	(8)	(2)	(9)

Source: Capitaline

Stock Details

Sector	Cement
Reuters	ICMN.BO
Bloomberg	ICEM@IN
Equity Capital (Rs mn)	2825
Face Value (Rs)	10
No of shares o/s (mn)	282
52 Week H/L (Rs)	180/69
Market Cap (Rs bn/USD mn)	41/850
Daily Avg Vol (No of shares)	3139527
Daily Avg Turnover (US\$ mn)	9.0

Shareholding Pattern (%)

	M'09	D'08	S'08
Promoters	28.0	28.0	28.1
FII/NRI	32.9	34.5	36.7
Institutions	19.6	18.4	17.7
Private Corp	12.6	11.9	11.1
Public	6.9	7.2	6.5

Source: Capitaline

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India Cements

Q4FY09 results – below expectations

Result Update

India Cement Q4FY09 pre exceptional net profit of Rs1.08bn is below our estimates of Rs1.32bn mainly on account of higher operational costs. Net revenues for the quarter increased by 5.3% yoy to Rs8.89bn. Performance of the cement division was marred by continuous unscheduled shutdowns and lack of continuous power availability from grids in the state of Andhra Pradesh and Tamilnadu. Consequently cement volumes declined by 5.1% yoy to 2.324 mnt. Cement realization for the quarter stood at Rs3758/ton up 9.1% yoy and 4.8% qoq. On the cost front ICL's raw material costs increased by 34.3% yoy to Rs454/ton (our estimate Rs400/ton). Other expense at Rs1.40bn increased 20.1% yoy (our estimate of Rs1.19bn) on account higher stores and spares and higher maintenance expenditure on plant shutdowns. The only silver lining was in power and fuel cost which witnessed a sequential decline of Rs137/ton to Rs1018/ton, though up 25.7% on a yoy basis. Resultant, operating profit for the quarter declined by 14.8% yoy to Rs2.26bn and was lower than our estimate of Rs2.60bn. EBITDA margin declined by 597bps to 25.4%. On account of higher raw material cost and other expenditure we downgrade our earnings estimates by 7.1% to Rs20.1 for FY2010. We are introducing our FY11E at Rs22/share. At the CMP, the stock is trading at 6.5x FY10E earnings and USD75.5 FY10E capacity. We had price target of Rs139 on ICL and the stock from these levels does not provide significant upside. Also we are awaiting clarity on acquisition of coal mine by ICL in Indonesia and possible equity dilution (ICL board has passed enabling resolution to raise upto USD 100 million). We are revising our rating on the stock from BUY to ACCULUATE and maintain our price target of Rs139.

Result Highlights

- Net revenues for the quarter increased by 5.3% yoy to Rs8.89bn. Performance of the cement division was marred by continuous unscheduled shutdowns at Vishnupuram, Chilamkur & Malkapur cement plants and lack of continuous power availability from grids in the state of Andhra Pradesh and Tamilnadu. Consequently cement volumes declined by 6.2% yoy to 2.30mnt. Cement realization for the quarter stood at Rs3758/ton up 9.1% yoy and 4.8% qoq. The significant increase in realisation has come on the back of full benefit of excise duty cut of 4% that happened in the month of December 2009.
- On the cost front, ICL's raw material costs increased by 34.3% yoy to Rs454/ton (our estimate Rs400/ton) on account of increase in Gypsum prices. Other expense at Rs1.40bn increased 20.1% yoy (our estimate of Rs1.19bn) on account higher stores and spares and higher maintenance expenditure of approx Rs278mn on plant shutdowns.
- Also employee expense increased by 22.2% yoy to Rs613mn (our estimate Rs497mn) on account of commission of approx Rs90mn paid to directors on full year profits. The only silver lining was in power and fuel cost which witnessed a sequential decline of Rs137/ton to Rs1018/ton, though up 25.7% on a yoy basis. The sequential decline in power & fuel cost could have been higher but for power cut in Tamilnadu and Andhra Pradesh which meant increased power generation cost for ICL.

Key Financials

	Net sales (Rsm)	EBIDTA (Rsm)	EBIDTA (%)	PAT (Rsm)	EPS (Rs)	EPS growth (%)	ROCE (%)	PE (x)	EV/EBIDTA (x)	EV/Ton (USD)
FY2008	30,471	10,794	35.4	6,857	24.3	32.3	21.3	5.4	4.5	143.0
FY2009A	34,243	10,231	29.9	5,409	19.2	(21.3)	15.5	7.2	5.1	81.6
FY2010E	36,035	11,294	31.3	5,658	20.1	4.8	15.3	6.5	4.8	80.9
FY2011E	39,075	11,681	29.9	5,701	22.2	10.8	14.2	5.9	4.0	62.9

- Resultant, operating profit for the quarter declined by 14.8% yoy to Rs2.26bn and was lower than our estimate of Rs2.60bn. EBITDA margin declined by 597bps to 25.4%.
- Depreciation charge increased by 36.7% yoy to Rs533mn on account of completion of capex at Vishnupuram and Malkapur Units, depreciation charges on ships and also amortisation charges related to ICL's T-20 cricket franchise Chennai Supre Kings.
- Similarly interest charge for the quarter increased by 52.8% to Rs350 mn.
- Pre exceptional net profit declined by 29.5% yoy to Rs1.09bn. The reported Q4FY09 PAT at Rs9386mn was down by 10% yoy on account of Rs149 mn time expenses related to forex loss on FCCB of USD 75 mn which we have treated at extraordinary.

Result Table

Rs million	Q409A	Q408	yoy(%)	FY09	FY08	yoy(%)
Net Sales	8884.8	8439.9	5.3%	34243.4	30442.5	12.5%
Total Expenditure	6630.2	5794.1	14.4%	24012.6	19299.7	24.4%
Raw Material Consumed	1042.6	827.7	26.0%	3699.4	3129.5	18.2%
Stock Adjustment	-29.7	-29.0		-134.1	-303.2	
Total RM	1012.9	798.7	26.8%	3565.3	2826.3	26.1%
Employee Expenses	612.7	501.2	22.2%	1893.2	1530.4	23.7%
Power, Oil & Fuel	2339.1	1984.6	17.9%	8916.0	6907.4	29.1%
Transportation & Handling	1265.9	1344.1	-5.8%	4859.5	4599.9	5.6%
Other Expenses	1399.6	1165.5	20.1%	4778.6	3435.7	39.1%
Operating Profits	2254.6	2645.8	-14.8%	10230.8	11142.8	-8.2%
Other Income	131.4	325.6	-59.6%	494.1	464.1	6.5%
EBIDTA	2386.0	2971.4	-19.7%	10724.9	11606.9	-7.6%
Interest	349.9	229.0	52.8%	1121.5	1098.6	2.1%
PBDT	2036.1	2742.4	-25.8%	9603.4	10508.3	-8.6%
Depreciation	533.0	390.0	36.7%	2033.2	1279.2	58.9%
PBT	1503.1	2352.4	-36.1%	7570.2	9229.1	-18.0%
Tax	415.2	809.5	-48.7%	2161.2	2071.0	4.4%
Pre-exceptional profit	1087.9	1542.9	-29.5%	5409.0	7158.1	-24.4%
Extra-ordinary Items	149.3	498.2	-70.0%	1087.2	894.5	21.5%
Reported PAT	938.6	1044.7	-10.2%	4321.8	4429.6	-2.4%
EPS	3.85	5.47	-29.6%	19.15	25.39	-24.6%
Margins						
OPM (%)	25.4%	31.3%		29.9%	36.6%	
EBIDTA (%)	26.9%	35.2%		31.3%	38.1%	
PBDT (%)	22.9%	32.5%		28.0%	34.5%	
PATM (%)	12.2%	18.3%		15.8%	23.5%	
Tax rate (%)	28%	34%		29%	22%	

Per tonne analysis

Rs/tonne	Q409A	Q408	yoy(%)	FY09	FY08	yoy(%)
Raw material consumed	515	379	35.7%	406	340	19.5%
Stocks	-15	-13	10.4%	-15	-33	-55.3%
Employee cost	303	230	31.7%	208	166	25.0%
Power, Oil & Fuel	1155	910	27.0%	978	750	30.5%
Selling & Admin Exp	625	616	1.5%	533	499	6.8%
Other Expenses	691	534	29.4%	524	373	40.6%
Total Cost/ton	3274	2655	23.3%	2634	2094	25.7%
Realisation/ton	4388	3868	13.4%	3756	3304	13.7%
EBIDTA/ton	1113	1213	-8.2%	1122	1209	-7.2%

Capex plans

During the quarter India cement commissioned line II at Malkapur and the Kiln has stabilized. Additional Cement grinding capacity at this plant is expected to be completed by the end of June 2009. Similarly the expansion works of Kiln I at Vishnupuram also got over during the quarter and the Kiln is already stabilized. Also the company has commissioned Parli grinding unit in the month of April 2009. The upgradation of Chilamkur facility is underway is expected to get completed by the mid of Q2FY2010. Post completion of these capex programs ICL's capacity would expand to 14 mtpa.

The work on the 1.5 mtpa cement unit along with the 20 MW captive power plant is progressing as per schedule. Further ICL is planning to add another 100 mw captive power plants at Sankarnagar and Vishnupuram.

In order to secure stable coal supplies ICL is looking to obtain coal mining rights in Indonesia for around Rs4-5bn to meet its captive requirements for cement and power generation. The management has said that they have identified a mine with reserves of 30 million tonnes and are in the process of legal and financial due diligence. The process will take 3- 6 months post which acquisition of mine is likely to get completed. Further the management said post acquisition it will take about six months for commercial mining of coal.

The total funds earmarked for above mentioned capex is Rs15 bn, Rs6 bn out of which would be on Rajasthan cement plant and Rs5 bn on 100 MW CPP.

Enabling resolution to raise USD 100 mn

In order to prepare itself for repayment of FCCB worth USD 75 million or Rs3.8 bn and to fund its capex program of Rs15 bn over next two years, ICL board has passed enabling resolution to raise upto USD 100 million or Rs4.8 bn. The management has said that they have still not finalised the amount to be raised and the same will be done in due course. We believe that the fund raising exercise might not be to the extent of USD 100 mn. Also we would not be concerned on fund raising as it is quite likely that ICL would first utilise Rs200 mn of treasury shares (out of total equity of Rs2821 mn) which at CMP of Rs130 is worth Rs2.6 bn. This in effect would not only help ICL to easily fund its sizeable capex program, but also unlock value of treasury share held idle in the balance sheet.

Valuation & view

On account of higher raw material cost and other expenditure we downgrade our earnings estimates by 7.1% to Rs20.1 for FY2010. We are introducing our FY11E at Rs22/share. . At the CMP, the stock is trading at 6.5x FY10E earnings and USD75.5 FY10E capacity. We had price target of Rs139 on ICL and the stock from these levels does not provide significant upside. Also we are awaiting clarity on acquisition of coal mine by ICL in Indonesia and possible equity dilution (ICL board has passed enabling resolution to raise upto USD 100 million). We are revising our rating on the stock from BUY to ACCULUATE and maintain our price target of Rs139.

FY2010 earnings estimates downgraded by 6.9%

Rs million	Earlier	Revised	Var (%)
Net Sales	35,501.3	36,035.4	1.5%
EBITDA	11,759.4	11,294.0	-4.0%
APAT	6,079.4	5,668.0	-6.9%
EPS	21.6	20.1	-7.1%

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