



## India Equities Cement

## Result Highlights

### PRISM CEMENT

Positive

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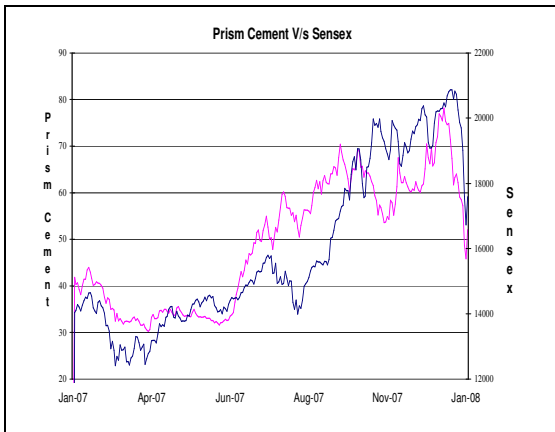
Market Cap (Rs Crs)	1482.30
Beta	0.93
52 WK High / Low (Rs)	79.5 / 28.55
Avg Daily Volume	7,25,239
Face Value (Rs)	10

BSE Sensex	17222
Nifty	5033

BSE Code	500338
NSE Code	PRISMCEM
Reuters Code	PRIS.BO
Bloomberg Code	PRSC IN

<b>Shareholding Pattern (%)</b>	
Promoters	61.99
MF/Banks/Indian FIs	8.87
FII / NRIs / OCBs	6.28
Indian Public	22.86

### Price Chart:



----- Prism Cements  
 ----- Sensex

### Q2FY2008 Performance Update

#### ➤ Increase in sales driven by volume growth

Prism Cements Limited (PCL), one of India's most efficient cement manufacturers, has posted Net Sales at Rs 228.1cr for Q2FY2008 which is a 20% yoy jump as compared to Rs 190.0cr in Q2FY2007. The company's realizations increased by 1.5% at 2,924 per tonne from 2,880 per tonne. The increase in topline was led by 16% qoq increase in dispatches of cement & clinker at 0.78 mt from 0.67 mt.

#### ➤ EBITDA growth lower due to surging energy & freight costs

PCL has shown a slow 5% yoy EBITDA growth at Rs 89cr as compared to 65% qoq on account of higher expenditure which grew 32% yoy primarily led by surging power & fuel & freight costs. This has reduced OPM to 39% yoy from 45%. EBITDA per tonne has also achieved growth at about 5.3% qoq at Rs 1,153 from Rs 1,094 on account of stable realisations. Power & fuel which comprised about 35% of the total expenditure rose about 33% qoq at Rs 50.9cr while freight costs rose more than 22% yoy at Rs 18.3cr. Raw material costs which swelled 80% yoy at Rs 19.7cr has also increased about 14% qoq to Rs 253 per tonne from Rs 222 per tonne.

#### ➤ Bottom line surges on account of lower tax & depreciation expense

Lower depreciation & interest charges coupled with a drop in taxation charges due to lower provision for deferred taxes have resulted in higher net profit of about 64.5cr which translates to a yoy growth of 28.6% and qoq growth of 24.3% and a net profit of Rs 825 per tonne. This also results in a higher Net Profit margin of about 28% as against 26% in the corresponding quarter and 27% in the previous quarter. The EPS for the latest quarter stands at Rs2.12 which represents a growth of 24% qoq and 28.6% yoy.



*PCL, promoted by Rajan Raheja Group, started operations in 1992 and has strong presence in key northern markets of Madhya Pradesh, Uttar Pradesh & Bihar.*

*The company plans to increase its capacity fourfold to 10 mtpa from current 2.5 mtpa by FY2010-11*

*The company wiped out accumulated losses of Rs 44cr and repaid its entire debt of Rs 107cr*

*High Operating efficiencies*

### Company Background

Prism Cement Limited, a Rajan Raheja group company is in the business of manufacturing and marketing of OPC & PPC varieties of cement since 1992. The company sells its PPC cement under the "Champion" brand. The company operates a 2.5 mtpa integrated cement plant at Satna plant in Madhya Pradesh set up with technical support from F L Smidth & Company, Denmark. The company has set up a packing unit at Allahabad to cater to the requirement of customers in Eastern/Central U.P. The company also owns a captive power plant to meet its power requirements. Prism cements commands 10% share in its home market in Madhya Pradesh and about 7% in the Uttar Pradesh which is one of the largest market for cement by state. Prism Cement has recently announced its diversification plan to foray into insurance sector by announcing Rs 74cr JV with QBE International (Investments), which is Australia's largest international general insurance & reinsurance group.

### Investment Highlights

#### Huge Capex plans

PCL plans to increase its capacity fourfold to 10 mtpa from current 2.5 mtpa by FY2010-11. The firm plans to add a capacity of 2 mtpa to its existing Satna plant & is also planning a greenfield expansion at Kurnool in Andhra Pradesh.

#### Debt free company

The company has as at the end of FY2007 repaid all its debt and become a debt free firm. The management in FY2007 has been able to wipe out accumulated losses of Rs 44cr and repaid its entire debt of Rs 107cr.

#### Enhanced Operational efficiencies has lead to sustained margins

The management has switched this year its power requirements to the state grid rather than own generation through D G sets resulting in almost Rs 1 lower average cost per unit of power. The Company has been allocated a coal block in the State of Madhya Pradesh for captive mining of coal during the latest quarter to counter rising coal prices.

#### Diversification into insurance business

The company has entered into a JV with QBE International (Investments), Australia to enter the general insurance segment. It plans to invest Rs 74cr for a 74% participation in the JV. The firm is yet to commence business and contribute to the top line of the firm.



*The company runs the risk of delay in capex which may affect sales volume growth.*

*Rising energy costs and a possible industry situation of an oversupply can affect operating margins.*

**Concerns**

**Probable delay in project execution**

There are concerns regarding the timely addition of the capacities planned as that would assume importance in the firm's growth in sales volumes as well as capturing advantage of the demand-supply pattern going forward.

**Oversupply and rising energy & freight costs**

The cement industry might face a situation of oversupply in the next couple of years which may depress prices resulting in lower sales realizations per tonne. Coupled with this, coal prices which have risen sharply internationally & higher freight costs as the company expands its market geographically may also affect the operating and net margins.



**Key Financials**

Particulars	Q2FY2008	Q2FY2007	% chg	H1FY2008	H1FY2007	% chg	FY2007	FY2006	% chg
<b>Net Sales</b>	228.11	190.01	20	421.20	349.47	21	766.80	571.64	34
<b>Total Exp</b>	138.13	104.45	32	257.87	219.27	18	436.55	426.50	2
<b>EBITDA</b>	89.98	85.56	5	163.33	130.20	25	330.25	145.14	128
<b>PBT</b>	85.38	75.62	13	152.17	109.09	39	294.06	90.65	224
<b>PAT</b>	64.45	50.09	29	116.29	72.24	61	192.77	62.08	211
<b>OPM</b>	39%	45%	(12)	39%	37%	4	43%	25%	70
<b>NPM</b>	28%	26%	7	28%	21%	34	25%	11%	131
<b>EPS</b>	2.16	1.68	29	3.90	2.42	61	6.46	2.08	211

**Valuation & Outlook**

**Peer comparison**

Companies	Net sales	OPM	NPM	P/E	P/B	CU (%)	EV/ tonne (in \$)	Mcap ( in crs )
<b>ACC*</b>	5716.9	28%	19%	10.6	4.4	94	185.7	14109.8
<b>Ultratech Cements</b>	4910.8	29%	16%	10.4	5.6	86	172.2	9936.8
<b>Ambuja Cements*</b>	6268.3	34%	24%	12.2	5.1	139	287.6	17796.9
<b>Madras Cements</b>	1574.2	35%	20%	12.4	6.7	95	218.3	4478.5
<b>Shree Cements</b>	1367.9	45%	13%	16.9	10.1	116	304.1	4567.7
<b>Prism Cements</b>	766.8	43%	25%	6.3	3.6	112	150.3	1482.3

Source: Company, Parsoli Research \* Dec 2006 Y/E figures are used for operating performance

We believe that valuations of Prism Cements are highly attractive at current levels. The company has the lowest P/E and P/B at 6.3x and 3.6x respectively besides commanding the lowest EV/tonne at \$150.30. Considering this and the company's huge capex plans, coupled with a booming infrastructure industry thereby attracting massive demand for cement, concerns about over supply appear subdued; we believe there is tremendous growth potential for Prism and expect the company to perform well on the bourses.



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