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Century Plyboards (India) Ltd

Niche Cement Play

Initiating Coverage

April 30, 2010

BUY

Price	Target
Rs 58	**Rs 80**

Sensex	**17,380**

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	27	38	92
Rel. to Sensex	11	23	29	21

Source: Bloomberg

Stock Details

Sector	Other Midcaps
Reuters	CNTP.BO
Bloomberg	CPBI@IN
Equity Capital (Rs mn)	222
Face Value (Rs)	1
No of shares o/s (mn)	222
52 Week H/L (Rs)	63/30
Market Cap (Rs bn/USD mn)	13/291
Daily Avg Vol (No of shares)	296427
Daily Avg Turnover (US$ mn)	0.4

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	85.9	85.9	86.1
FII/NRI	0.1	0.0	0.0
Institutions	1.5	1.5	1.5
Private Corp	8.2	8.7	8.5
Public	4.4	3.9	3.8

Source: Capitaline

Ajit Motwani
ajit.motwani@emkayglobal.com
+91 22 6612 1255

We initiate coverage on Century Plyboards (India) Ltd (CPL), with a BUY and SoTP based price target of Rs80. CPL, India's leading plywood & laminates company, is actually an exciting play on the structurally deficit cement market of the North Eastern Region (NER). We believe that CPL is on the threshold of a steep growth trajectory, led by an aggressive 3X capacity expansion, in its 70.48% cement susbsidiary, Cement Manufacturing Company Ltd (CMCL).Steep ramp-up post expansion, driving 50%+ volume growth (over FY10-13E) looks feasible given CMCL's strong foothold in the NER regions (20% market share with strong distribution in a difficult terrain) ideally supported by envious competitive advantage (proximity to abundant quantities of high quality limestone & coal deposits). The 3X expansion in the CFS business to a capacity of 160K TEUS at the congested Kolkata port would further act as a sweetener and help CPL's earnings CAGR of 29.8% over FY10E-12E.

Cement business riding on tight demand supply in the NER

CMCL, CPL's 70.48% cement subsidiary, is riding on tight demand supply scenario in the NER, a structurally deficit cement market. With structural demand drivers like, huge untapped natural resources & enabling policy framework, buoyant local economy and under penetrated housing status firmly in place, we expect the region to see cement demand CAGR of 15% over FY2009-14E. With an ambitious 3 fold increase in cement capacity to 4.4 mtpa (commissioning by Q2FY12) in a structurally deficit NER, driving 42.6% revenue CAGR over FY10E-12E, we see CMCL as the primary growth driver for CPL, thereby increasing its current revenue share from 37% to 51%.

CFS business encashing on congestion at Kolkata port

Kolkata Port has been witnessing healthy growth of around 20-25% in container traffic over the last 3 years. CPL, the first private sector company to set up a Container Freight Station (CFS) in Kolkata is expected to be the key beneficiary of this growth. The commissioning of its second CFS at Jingira pool (Capacity of 120000 TEUS will quadruple its capacity to 160000 TEUs by Q1FY11.

CPL's earnings to grow at a CAGR of 29.8%

We believe that CPL is on the threshold of charting a steep growth trajectory led by an aggressive asset accretion in the cement business. The kick-start of volume led cement revenues growth and full scale operations of the CFS business in FY12 will more than neutralize the impact of likely softening in cement prices. We expect CPL's revenues to grow at a CAGR of 25.6% over FY10E-12E, driven by 42.6% CAGR in revenues of CMCL. With increasing share of high margin businesses of cement & logistics, we expect CPL's net profit to register a CAGR of 29.8% over FY10E-12E. This translates into an EPS of Rs8.8 by FY12.

Recommend BUY with a price target of Rs 80

Our SoTP based fair value for CPL is Rs80/share, where we have valued CPL's core plywood & laminates business at an EV/EBIDTA multiple of 5X, the ferro alloys business at 3X EV/EBIDTA, CFS business at 7X EV/EBIDTA, and CMCL, CPL's cement subsidiary at EV/ton of USD 110/ton. We like CPL's strategy of multifold scale up in high growth, high margin, and high return businesses leading to accelerated growth in earnings and sharp transformation in return ratios. Initiate coverage with a BUY - Target Rs 80 - an upside of 40%.

Financial Snapshot (Consolidated)

Y/E, Mar (Rs mn)	Net Sales	EBITDA Core	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBIDTA	P/BV (x)	Div Yid (%)	RoE (%)	PE (x)
FY09	10,398	1,863	17.9	572	2.6	8.7	3.5	0.0	15.7	22.5
FY10E	11,463	2,567	22.4	1,166	5.2	6.4	2.8	0.9	24.9	11.1
FY11E	12,887	2,776	21.5	1,210	5.4	7.2	2.3	1.1	21.1	10.6
FY12E	18,087	4,906	27.1	1,965	8.8	4.1	1.7	1.4	26.3	6.6

Company background

CPL is among the leading producers of branded plyboard and laminates in India. It manufactures commercial, marine, concrete, shuttering, decorative plywood, laminates, veneer, pre-laminated particle boards and adhesives. In the Western & Southern markets Century is the No. 1 selling brand, whereas in other markets it is among the top 5. The company has 30% share of the organized plywood market and 10% share in the organised laminates. Their closest competitor is Greenply, which has 25% share in organized plywood market and 14% in laminates. In FY06, they merged with their sister concern Shyam Century Ferrous Ltd, (SCFL) which manufactures ferro silicon for the steel industry. They also have a captive power plant for ferro silicon of 13.8MW in Meghalaya. SCFL supplies ferro silicon to all the big steel companies across the country.

Ferro Alloy business

The company manufactures ferro silicon and ferro maganese in Meghalaya, where the raw material is available in abundance. In addition, the plant enjoys fiscal incentives like refund of excise, transport subsidy and tax holiday as per North East policy of the Govt. Being highly power intensive, the company set up a 13.8MW power plant for captive use.

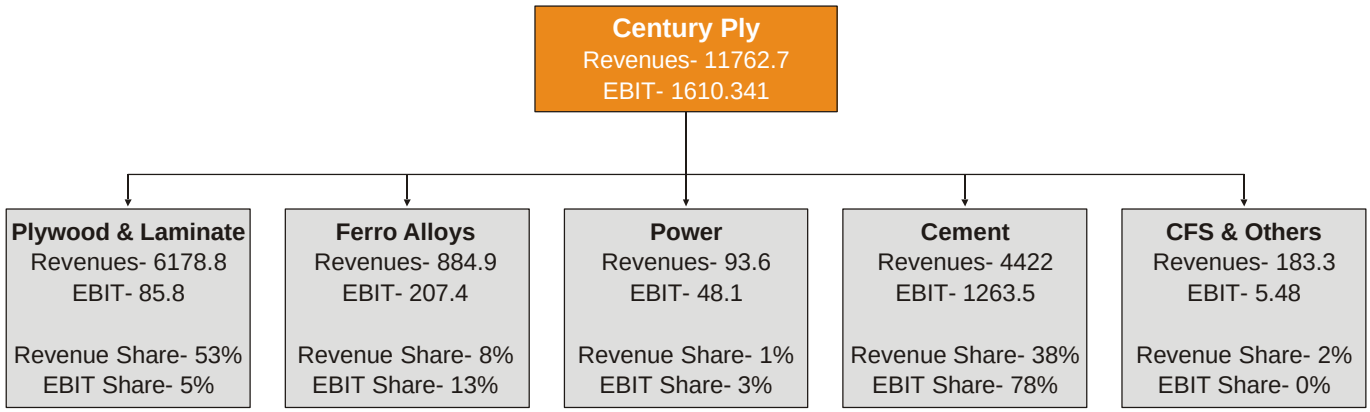
CFS business

The company has 2 strategically located CFS near the Kolkata port and boasts of state of the art facilities at its CFS with EDI connectivity, customs office, banking counter, storage shed for stuffing and de-stuffing services and offices of shipping lines.

Cement business

Cement Manufacturing Company Limited (CMCL), 70.48% subsidiary of CPL, is the largest cement manufacturer in the NER,with market share of about 20%. The company's plant is located at village Lumshnong, in Jaintia Hills,Meghalaya, with a capacity of 1.2-mtpa.

Segmental Chart (Rs mn)



Source: Emkay Research

Promoters & Management Team

Mr. Sajjan Bhajanka - CEO and Managing Director

Mr. Sajjan Bhajanka, 57, CEO and Managing Director is a commerce graduate. He has more than 31-years experience in timber based and other industries and is well known in the plywood industry. Presently, president of Federation of Plywood and Panel industry.

Mr. Sanjay Agarwal, Deputy Managing Director

Mr. Sanjay Agarwal, 49, Deputy Managing Director is a commerce graduate. He has more than 24 years experience and is known as a marketing expert in the industry. He is the driving force behind the company's brand creation.

Mr. H.P. Agarwal, Executive Director

Mr. H.P. Agarwal, 62, Executive Director is a commerce graduate. He has more than 33 years of administrative experience

Mr. Ajay Baldawa, Executive Director

Mr. Ajay Baldawa, 53, Executive Director (Technical) is BE (Met. Engg.) and M Tech (Met.) from IIT Kharagpur. He has more than 29 years experience in plywood related industry

Mr. N.R. Tater, Executive Director

Mr. N.R. Tater, 56, Executive Director is a commerce graduate. He has more than 33 years of experience in finance and taxation

Mr. Arun Julasaria, CFO & Company secretary

Mr. Arun Julasaria, 48, CFO-cum-Company secretary is FCA and FCS. He has more than 23 years experience in finance and corporate laws

Mr. Sanjay Gupta, CFO (Cement subsidiary)

Mr. Sanjay Gupta, 40, CFO (Cement subsidiary) is FCA. He has more than 15 years experience in finance

Investment rationale

Increasing share of high margin high growth businesses…

Over the last few years, CPL's growth profile has undergone a major change due to increasing share of high margin high growth businesses like cement and logistics. We believe that this change in growth profile is all set to accelerate further with the the aggressive capex plans of the cement and CFS businesses, leading to 3X capacity expansion in both businesses.

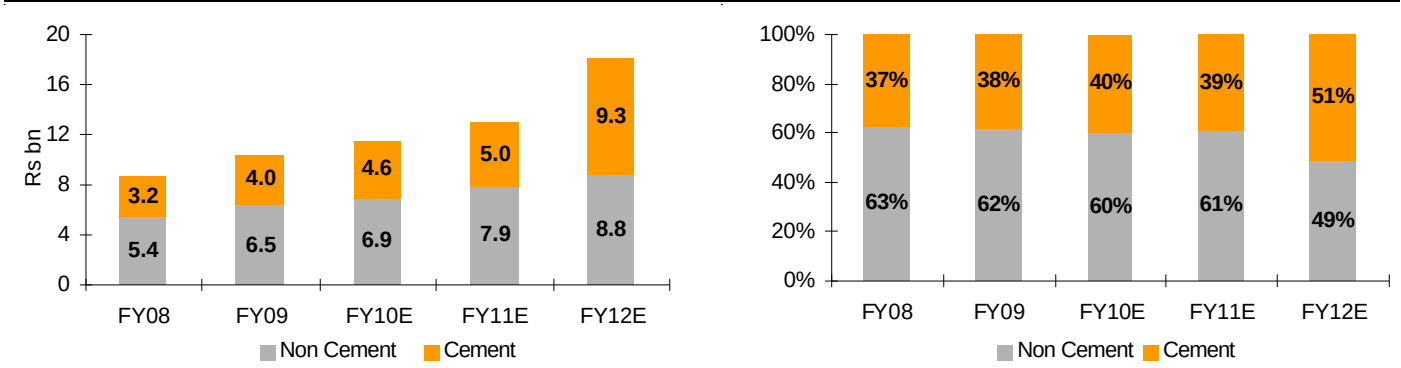
CPL's 70.48% subsidiary, Cement Manufacturing Company Ltd (CMCL) has a current capacity of 1.2 mtpa at Lumshnong, Meghalaya. CMCL has embarked on an aggressive cement capacity expansion drive, where it plans to quadruple its capacity from 1.2 mtpa to 4.4 mtpa by September 2011. The logistics business (under the standalone company), which currently operates a CFS at Sonai Kolkata with a capacity of 40000 TEUs is all set to start operations at its new CFS at Jingira pool with a capacity of 120000 TEUs by Q1FY11.

….To propel CPL on a steep growth trajectory

With CPL's high growth high margin cement and logistics businesses set to complete their respective capex, we believe CPL is on the brink of charting a steep growth trajectory. A steep 50%+ volume growth (over FY10-13E) driven by sharp ramp up in utilization of cement capacities, looks feasible given CMCL's strong foothold in the NER (20% market share with strong distribution in a difficult terrain). We believe that presence in NER has two envious advantages for CMCL: (1) proximity to abundant quantities of high quality limestone & coal deposits and (2) structural supply deficit due to difficult terrain.

The volume led cement revenue growth and scale up in operations of the CFS business in FY12 will drive CPL's topline growth of 25.6% over FY10E-12E. We expect the cement and CFS businesses' 42.6% and 67% CAGR in revenues to result in an increase in their revenue contribution to 51% (from 40%) and 5% (from 2.7%) respectively over FY10E-12E. With increasing share of these high margin businesses, we expect CPL's EBIDTA and net profit to grow at a CAGR of 38.3% and 29.8% respectively over FY10E-12E.

Cement to drive CPL's revenues

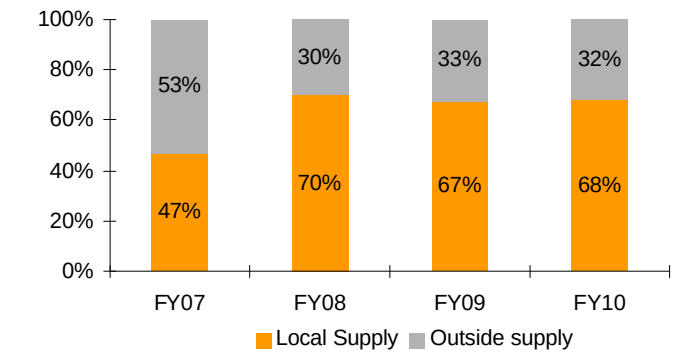


Source: Company, Emkay Research

Cement business riding on tight demand supply in the NER

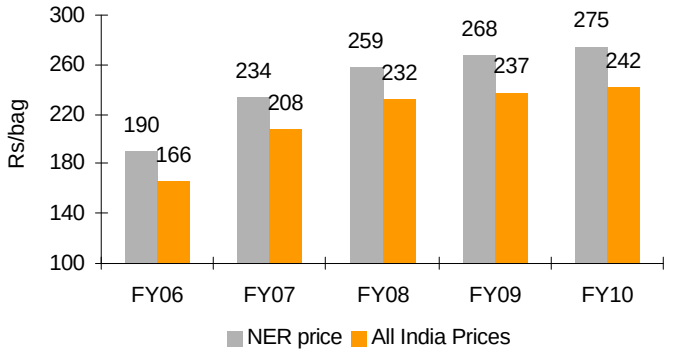
CMCL, CPL's 70.48% subsidiary is riding on the tight demand supply scenario in the NER, which has always been a structurally deficit cement market (30% of its cement demand met from outside supply). Inspite of the region being resource rich, its difficult terrain, with only a narrow corridor connecting the region has been a big impediment for setting up of cement plants. Consequently, the region's installed capacity of 4.8 mtpa is way short of the consumption that stands at 5.2 mtpa (CAGR of 14% over the last 5 years as against an all India CAGR of 9%) which results in average cement prices in NER being 10-15% higher compared to rest of the country.

NER gets more than 30% of its cement requirement from outside supply



Source: CMA & Emkay Research

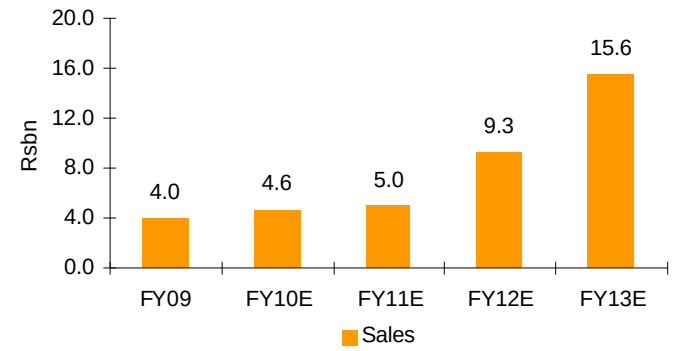
Difference in all India & NER Prices

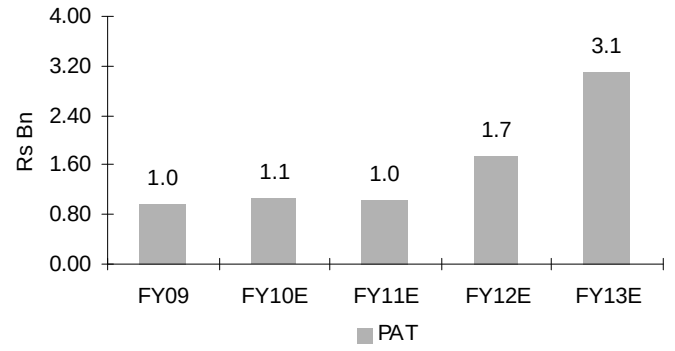


Source: Company & Emkay Research

With an ambitious 3 fold increase in cement capacity in a structurally deficit NER, we expect CMCL to be the primary growth driver for CPL. We expect CMCL's topline to grow at a CAGR of 42.6% over FY10E-12E with revenues of Rs9.3 bn in FY12E. Similarly, we expect CMCL's net profit to grow at a CAGR of 27.4% over FY10E-12E with net profit of Rs1.72 bn in FY12E.

CMCL to be the primary growth driver for CPL





Source: Company, Emkay Research

Structural demand drivers to sustain cement demand growth momentum in NER

With structural cement demand drivers in place, we believe that cement demand in the NER region, can sustain the current cement demand growth momentum and expect the region to see demand CAGR of 15% over FY09-14E. Our optimism on the sustained high growth emanates from the following structural demand drivers.

a) Vast untapped natural resources & favorable policy framework

With the region accounting for 37% of the country's water and 20% of hydrocarbon resources, abundant quantities of rich low ash coal and limestone deposits, the NER region today boasts of huge untapped natural resources. In order to exploit this potential investment activity, the Central Government under North East Industrial & Investment Promotion Policy (NEIIPP), 2007 has provided a comprehensive package of fiscal incentives like capital subsidies, excise exemptions & income tax holidays etc. We believe that this combination of untapped natural resources and the favorable policy framework will attract huge industrial & infrastructure investment, which in turn, is expected to fuel cement demand growth in the region.

b) Buoyant local economy & under-penetrated housing sector

The North East local economy has been witnessing strong traction with soaring tea & rubber prices. Further, with large number of infrastructure projects being executed by central agencies like Railways, NHAI, MES, etc, the region has seen significant employment opportunities. We believe that the buoyant local economy coupled with significantly under penetrated housing status (Pucca houses accounting for only 23.4% of the total households) would continue to drive strong housing demand traction, thereby fuelling cement demand in the region.

Supply catching up - However, pricing unlikely to see significant pressure

On the supply side, though the region is likely to see doubling of current capacity (Planned capacity addition of 5mtpa) by FY13, we believe that the difficult terrain could lead to substantial delays in project executions. We build in minimal project delays (3 months) and expect the region to see marginal cement surplus of 0.6 mtpa in FY12-13 as compared to a deficit of 1.5 mtpa currently. Though the region is expected to turn from a deficit region to a surplus region, we see that the surplus of 0.6 mtpa is just 8-9% FY12-13 demand. Hence, we believe that the NER would continue to witness reasonably tight demand supply scenario. Moreover, the strong cement demand growth would ensure fairly reasonable local pricing discipline. Hence, cement prices are unlikely to feel significant pressure.

Demand supply scenario - North East Region

mtpa	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E
Year End Installed Capacity	**3.05**	**4.2**	**4.8**	**7.77**	**9.9**	**9.9**	**11.4**
Installed Cement Capacity	**3.1**	**3.6**	**4.5**	**6.6**	**9.3**	**9.9**	**10.6**
Defunct capacities	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Installed Capacity	**2.9**	**3.4**	**4.3**	**6.4**	**9.1**	**9.7**	**10.4**
Effective Supply	2.7	3.1	3.6	5.0	7.4	8.5	8.5
Total Cement Consumption	**3.7**	**4.5**	**5.2**	**6.0**	**6.8**	**7.9**	**9.1**
Domestic Cement consumption	3.7	4.5	5.2	6.0	6.8	7.9	9.1
Growth	*19.4%*	*21.6%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Surplus/(Deficit)	**-1.0**	**-1.4**	**-1.5**	**-1.0**	**0.6**	**0.6**	**-0.5**
Surplus as % of Demand	*-27.5%*	*-30.4%*	*-29.5%*	*-16.7%*	*8.8%*	*8.1%*	*-6.0%*

Source : CMA, Industry & Emkay Research

CMCL ideally placed to capitalize on growth opportunity

We believe that with NE region expected to witness strong demand traction and continued demand supply mismatch, CMCL is well placed to capitalize on this growth opportunity. Further, we believe CMCL is riding this growth wave on the strong footing of its competitive advantage of higher realizations, proximity to raw material, unmatched distribution network in difficult terrains and a comprehensive fiscal package.

CMCL on a massive capex drive - capacity to increase more than 3X

In order to capitalize on the strong demand traction in the NE region and to maintain its market leadership position by leveraging its strong brand and distribution network, CMCL is all set to expand its cement manufacturing capacity by more than 3X. Post the completion of the above capex program, CMCL's clinker capacity would increase from current 0.79 mtpa to 2.55 mtpa while its cement manufacturing capacity will quadruple from current 1.2 mtpa to 4.4 mtpa by mid FY12. Further, CMCL is likely to have captive power capacity of 80 MW as compared to the current 17 MW.

CMCL on a massive capex drive

Project (Figures in Rs mn)	Targeted Completion	Project Cost	Equity	Debt	Current Status
1.75 Mn Ton Clinkerisation Plant at Lumshnong, Meghalaya in the name of Star Cement Meghalaya Ltd. (Wholly Owned Subsidiary of the company)	Sep-11	6030	2030	4000	Already placed the order for plant. Tender for Mechanical works for the plant has been released. Civil Contractor finalized.
1.6 Mn Ton Cement Grinding unit along with 10 MW captive power project at Guwahati	Sep-11	2533	783	1750	Placed the order for the grinding unit. Tender for mechanical works for the plant has also been released. Civil Contractor finalized.
1.6 Mn Ton Cement Grinding unit along with 10 MW captive power project at Kahalgaon	Sep-11	2451	751	1700	Placed the order for the grinding unit.
Total Capex by CMCL		**11014**	**3564**	**7450**	
Capex by Meghalaya Power, CMCL's 50% associate	Sep-11	2000	670	1330	

Source : Company

CMCL enjoys significant competitive advantage

Structurally deficit markets usually attract lot of players on account of better realisation. The increased supply puts pressure on prices, rendering markets comparatively unattractive, further resulting in withdrawal of supply. This constant entry and exit of outside players results in severe variation in market shares. Consequently, the key factor for sustainable market share in a structurally deficit zone is sustainable competitive advantage. CMCL today boasts of a strong competitive advantage, supported by its proximity to key raw materials, strategic location, proximity to key markets as well as the comprehensive package of fiscal benefits. We have briefly discussed these advantages here under.

a. Abundant high quality limestone & coal deposits

CMCL's clinker unit is strategically located at Lumshnong, Jaintia Hills Meghalaya, where quality limestone reserves (Calcium Oxide of more than 49%) are located within 2-3 kms from the plant site. Similarly, coal having calorific value of 6000-7000 Kcal /Kg. and ash content as low as 15% is abundantly available in Bapung and Surupi, areas of Meghalaya, which are 20-30 Kms from CMCL's plant.

b. Strategic location for access to key markets

CMCL's plant is located in proximity to National Highway that connects Guwahati to Silchar. This unique locational advantage enables CMCL to economically cater not only to its home state of Meghalaya , but also the State of Assam, the biggest market in the NER. Because of its hilly terrain and adverse weather condition, national level players have to ship their produce to NER from outside the region, which means these players spend close to Rs1500-1600/tonne as freight cost whereas CMCL incurs only Rs700/tonne, which provides CMCL with a significant competitive advantage.

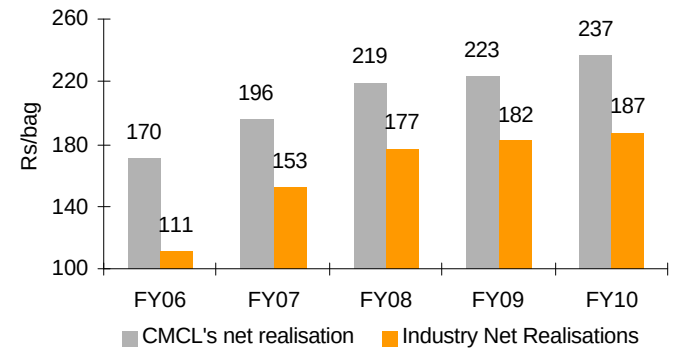
c. Comprehensive fiscal package

CMCL also has a significant competitive advantage over national players in the NER on account of the comprehensive fiscal benefits its plant enjoys. CMCL enjoys significant advantage on this front as its plants are exempted from excise duty for a period of 10 years while for goods sold in NER, the company gets refund of VAT (upto 96%) for a period of 7 years. Further, CMCL gets freight subsidy of 50% from central government for outward freight within the NER and 90% outside the NER for a period of 5 years, thereby providing it with significant freight advantage in the local markets. The company also enjoys 90% freight subsidy on raw material procured from outside the state.

CMCL's EBIDTA/ton - 80% higher than industry

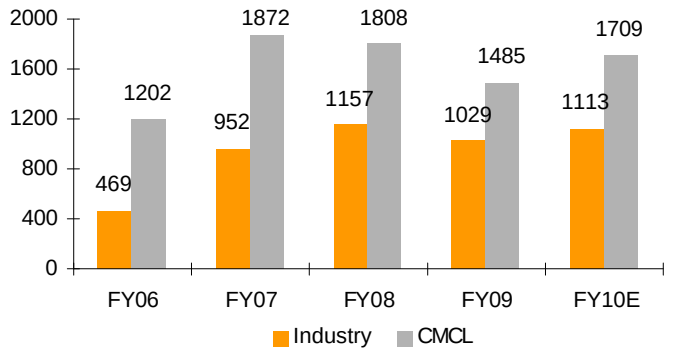
The competitive advantage discussed above is clearly reflected in CMCL's profitability. CMCL has been consistently making significantly high EBIDTA/ton as compared to industry. For example, over the last 5 years, CMCL's EBIDTA/ton, on an average has been 80% higher as compared to industry, which works out to Rs670/ton or USD15/ton.

CMCL Net realisation V/s Industry



Source: CMA

CMCL EBIDTA/ton V/s Industry



Source: Company & Emkay Research

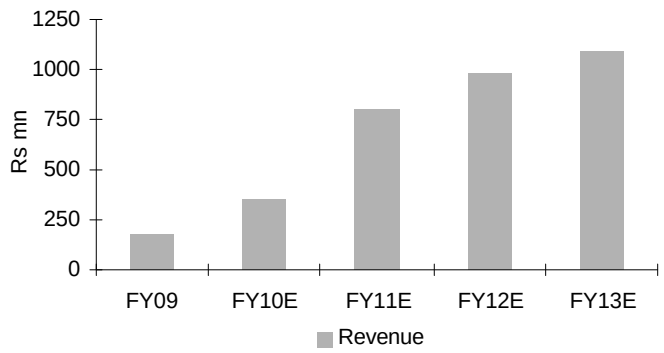
CFS business riding on congestion at Kolkata port and the timely capacity addition

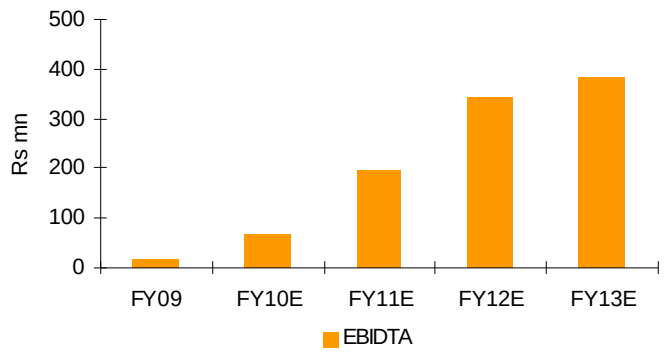
Kolkata Port has been witnessing heavy congestion due to steady growth of 20-25% in container traffic over the last 3 years. For example, In CY08, KDS had handled 3 lakhs TEUs, against a capacity of 1.5 lakh TEUs. Further, with the Eastern region continuing to witness strong economic traction, the port is expected to see growth of 15-20% in container traffic. This is expected to make the congestion situation worse.

CPL, the first private sector company to set up Container Freight Station (CFS) in Kolkata is expected to be the key beneficiary of this congestion with its timely capacity addition. The company has 2 strategically located CFS near the Kolkata port with state of the art facilities like EDI connectivity, customs office, banking counter, storage shed for stuffing and de-stuffing services and offices of shipping lines. The first CFS at Sonai, with an area of 22096 Sq Mts and capacity of 40000 TEUs has been in operation for some time now. The second CFS at Jingira pool, with an area of 80446 sq Mts and capacity of 120,000 TEUs is expected to start operations by Q1FY11.

With 3 fold increase in capacity in the heavily congested Kolkata port, we expect the CFS business to be the primary growth driver for the standalone company. We expect CFS topline to grow at a CAGR of 67% over FY10E-12E with revenues of Rs976 mn in FY12E. Similarly, we expect the segment's EBIDTA to grow at a CAGR of 122% over FY10E-12E to Rs342 mn in FY12E.

CFS business to see sharp ramp-up





Source: Company & Emkay Research

Core ply wood & laminates business on steady growth path

The plywood and laminates segments continue to be steady businesses for CPL, with stable margins. Indian interior infrastructure industry has been pegged at a size of Rs80-90 bn with an extremely fragmented structure. Consequently, the organized market has a share of just 20%. CPL's brand "Century Plywood" enjoys high recall and recognition and has been one of the biggest players with a market share of 30% in the organized market. The interior infrastructure market has been growing at the rate of 8-10% for the last 3-4 years. However, in FY2010 the growth was significantly higher for the organized sector due to the reduction of excise duty from 16% to 8% that provided a level playing field to players in the organized sector.

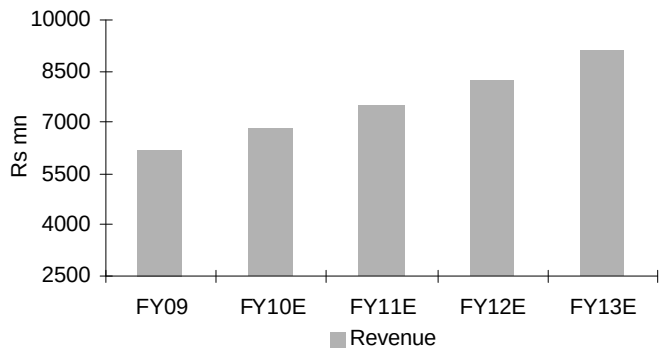
In order to exploit the growth potential provided by lower duties for the industry, CPL under its 100% subsidiary company, Cent Ply Pvt Ltd has recently set up a facility to manufacture 1000 pieces of block board/ flush door and 5000 Sq m of plywood per day. The company is merging Cent Ply Pvt ltd with itself to consolidate operations.

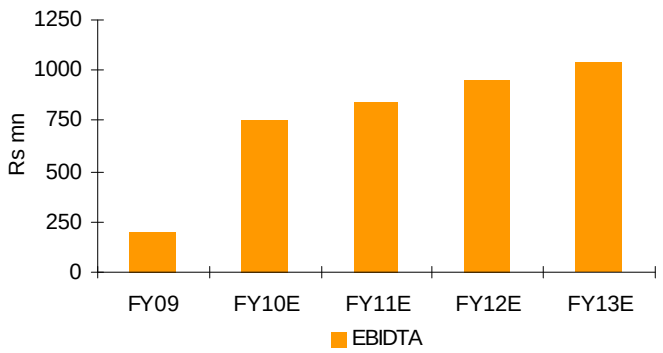
Strong brand value and premium product mix in laminates market

CPL has strategically leveraged its premium brand positioning in the plywood space to the laminates business also. Though CPL offers the entire range of laminates i.e. from economy range to premium range, the company enjoys a strong brand recall for its premium laminate range. Though the premium laminate market is small as compared to the overall size of the market, the margins in this segment are significantly higher. In order to capitalize on this premium brand positioning, CPL has now decided to focus only on premium range of laminates that earn better realizations and margins.

We expect CPL's core plywood & laminates revenues to grow at a CAGR of 10% over FY10E-12E with revenues of Rs8.26 bn in FY12E. Similarly we expect the segment's EBIDTA to grow at a CAGR of 13% over FY10E-12E to Rs0.95 bn in FY12E.

Core ply wood & laminates business on steady growth path





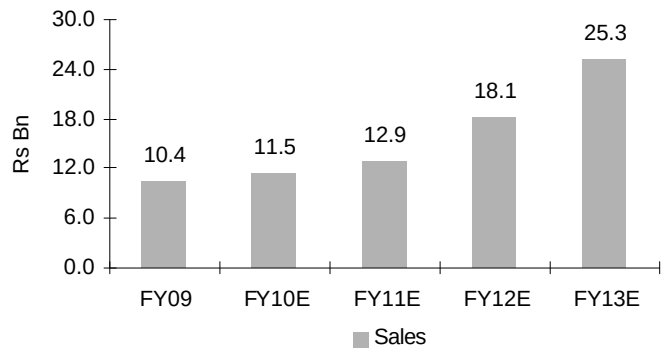
Source: Company & Emkay Research

Financials

Topline to grow at a CAGR of 25.6%- driven by 42.6% CAGR in cement revenues

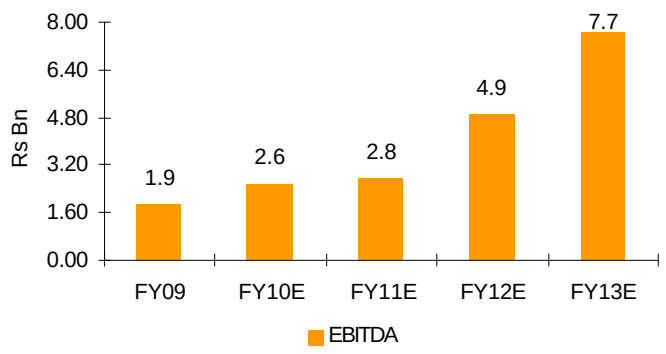
We believe that CPL is on the threshold of charting a steep growth trajectory led by an aggressive asset accretion in the cement business driving 50%+ volume growth (over FY10-13E). The kick-start of volume led cement revenue growth and full scale operations of the CFS business in FY12E will more than neutralize the impact of likely softening in cement prices. We expect CPL's revenues to grow at a CAGR of 25.6% over FY10E-12E, driven by 42.6% CAGR in revenues of CMCL. Consequently, contribution of the cement business will increase from 40% in FY10E to 51% in FY12E and that of CFS business is likely to increase from 2.7% in FY10E to 5% in FY12E.

Topline to grow at a CAGR of 25.6%



Source: Company & Emkay Research

EBIDTA to grow at a CAGR of 38.3%



Source: Company & Emkay Research

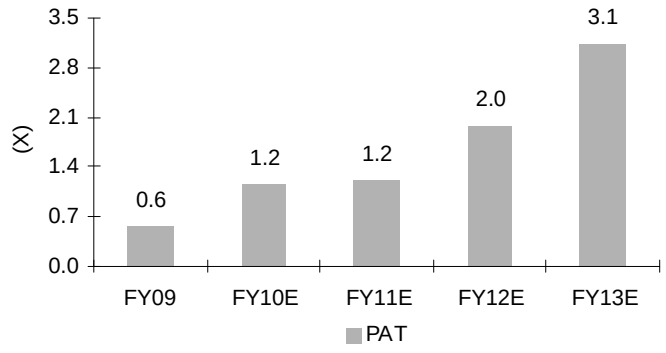
Rising share of high margin businesses to drive EBIDTA CAGR of 38.3%

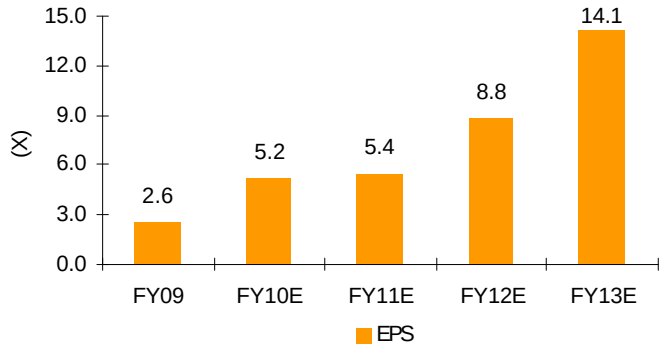
With increasing contribution from cement & CFS business, we expect a significant 473 bps EBIDTA margin expansion for CPL, i.e. from 22.4% in FY10E to 27.1% in FY12E. Consequently, CPL's EBIDTA is expected to grow at a CAGR of 38.3% to Rs4.9bn over FY10E-12E.

CPL's earnings to grow at a CAGR of 29.8%

With steep growth expected in CPL's high margin businesses of cement & logistics, we expect CPL's net profit to increase at a CAGR of 29.8% over FY10E-12E. This translates into an EPS of Rs8.8 by FY12E as compared to Rs2.6 in FY09.

CPL's earnings to grow at a CAGR of 29.8%



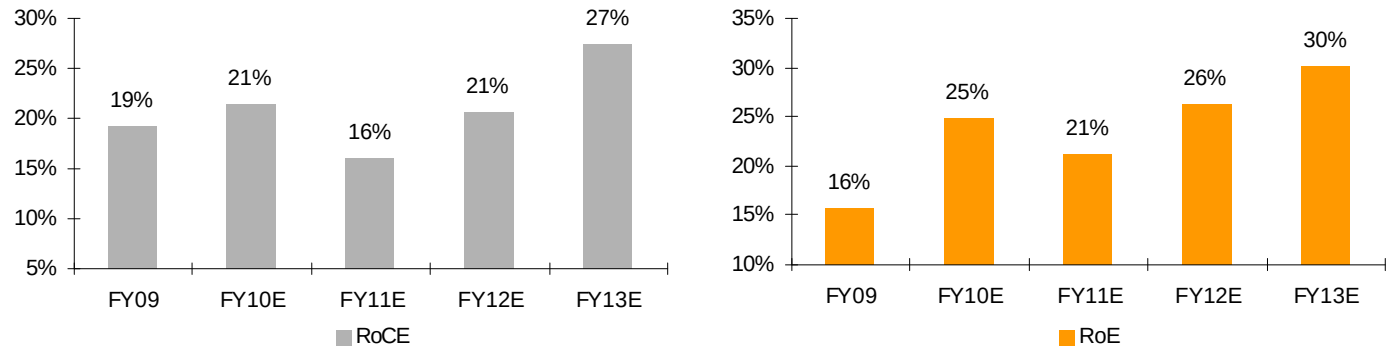


Source: Company & Emkay Research

Increasing cement & CFS earnings to improve return ratios

With higher contribution in revenues from the high margin cement & CFS business, we expect CPL's return ratios to see a complete transformation with RoCE improving from 19% in FY09 to 21% in FY12E and 27% in FY13. Similarly, we expect CPL's RoE to improve from a meager 16% in FY09 to 26% in FY12 and 30% in FY13.

Sharp transformation in return ratios



Source: Company & Emkay Research

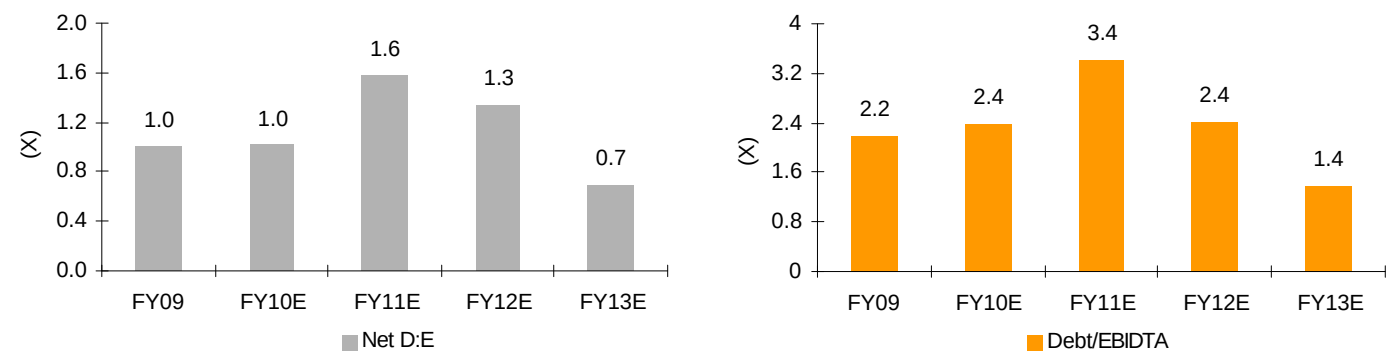
Steep earnings growth & sharp transformation in return ratios to trigger re-rating

With steep earnings CAGR of 50.9% over FY09-12E and sharp transformation in return ratios, we believe that CPL's valuations could witness significant re-rating over the next 12 months. We see multiple re-rating triggers for the stock: (1) Scale up of its CFS business in FY11 (2) Implied cement valuation of EV/ton of USD 82 to gradually move towards our target valuations of USD110/ton as the huge cement capex sees increasing execution pick up.

Leverage to increase - but unlikely to strain balance sheet

With two-third of CPL's massive capex spend being financed by debt, CPL's consolidated leverage is bound to increase in the near term. We expect CPL's net debt to equity to increase from 1X in FY10 to 1.3X in FY12E. However, given the multifold growth in the high margin cement business, CPL's Debt/EBIDTA multiple of 2.4X in FY12E is still manageable and unlikely to put strain on CPL's balance sheet. Post the commissioning of the cement capacities in CMCL, we expect CPL to generate Rs7.75 bn of free cash flows over FY12-14E. This coupled with ~Rs1.7 bn of capital subsidy on capex, which CMCL will receive by the end of FY12E, will help CPL to bring down its D:E to 0.7X and Debt/EBIDTA to 1.4X in FY13E.

CPL's leverage to increase - but unlikely to strain balance sheet



Source: Company & Emkay Research

Segmental projections

Rs mn	FY09	FY10E	FY11E	FY12E	FY13E	FY10E-12E CAGR
Gross Revenue						
Plywood	4903	5424	5975	6583	7251	10%
Laminate	1276	1388	1526	1678	1845	10%
Ferro Alloys	885	527	581	641	706	10%
Power	94	94	94	98	103	2%
Others	183	348	796	976	1090	67%
Cement	4422	5037	5539	10484	17603	43%
Total	**11763**	**12818**	**14512**	**20461**	**28600**	**26%**
EBIDTA						
Plywood	103	597	672	757	834	13%
Laminate	84	153	172	193	212	12%
Ferro Alloys	205	79	105	128	141	27%
Power	82	14	14	20	21	18%
Others	15	70	199	342	382	22%
Cement	1375	1655	1614	3466	6076	45%
Total	**1863**	**2567**	**2776**	**4906**	**7665**	**38%**
EBIDTA (%)	**17.9%**	**22.4%**	**21.5%**	**27.1%**	**30.4%**	
Other Income	29	97	38	125	216	
Depreciation	393	437	513	1103	1648	
EBIT	**1498**	**2227**	**2301**	**3928**	**6232**	**33%**
EBIT (%)	14%	19%	18%	22%	25%	
Interest	293	349	364	824	1221	
EBT(before tax and exceptional items)	1205	1879	1937	3104	5011	29%
Less : Exceptional Items	327	0	0	0	0	
Less : Prior Period Adjustments (Net)	20	0	0	0	0	
EBT	**859**	**1879**	**1937**	**3104**	**5011**	**29%**
Profit after Tax before Minority Interest	**860**	**1481**	**1512**	**2476**	**4050**	**29%**
Profit after Tax after Minority Interest)	**572**	**1166**	**1210**	**1965**	**3133**	**30%**
% Growth YoY	-49%	104%	4%	62%	59%	
EAT (%)	6%	10%	9%	11%	12%	

Source: Emkay Research

Valuations

Our SoTP based fair value for CPL is Rs80/share, where we have valued CPL's core plywood & laminates business at an EV/EBIDTA multiple of 5X and the ferro alloys business at just 3X EV/EBIDTA. We have valued CPL's CFS business at 7X EV/EBIDTA, as compared to 8X - 8.5X EV/EBIDTA valuations for its peers. We have valued CPL's 70.48% cement subsidiary, CMCL at an EV/ton of USD 110 (capital cost of setting up a cement plant). We believe that our target EV/ton of USD 110 for CMCL, though higher than target valuations of other mid-cap cement companies, is reasonable, considering CMCL's higher profitability and the fiscal benefits it enjoys in a structurally deficit cement region. For example, over the last 5 years, CMCL's EBIDTA/ton, on an average has been 80% higher than the industry, which works out to Rs670/ton or USD15/ton. Further we would like to highlight that the present value of fiscal benefits (discounted @ 16% COE), that CMCL enjoys under the NEIIPP, works out to USD 45/ton.

CPL's SoTP fair value - Rs80/share

Business segment	Valuation Measure	Rs mn	Rs/share
Target EV/Ton (USD)	**EV/ton**	**110**	
USD = INR		46	
Capacity (FY2012) (MTPA)		4.4	
Value of Cement business		**22290**	
CPL' stake		**70.5%**	
Value attributable to CPL		**15710**	**70.7**
ADD:Value of Non Cement Business			
Plywood, Veneer & Laminates	5X EV/EBIDTA	4750	21.4
Ferro Alloys	3X EV/EBIDTA	504	2.3
CFS	7X EV/EBIDTA	2392	10.8
Power	1.5X P/B	993	4.5
Total Value Of Non Cement Business		**8638**	**38.9**
Total Enterprise value		**24348**	**109.6**
Less:			
Consolidated net debt*		6497	29.2
Target Mcap		**17852**	**80.3**

***Note: We have taken net standalone debt and added the 70.48% debt on CMCL debt only**

Source: Emkay Research

Recommend BUY with a price target of Rs80 - upside of 40%

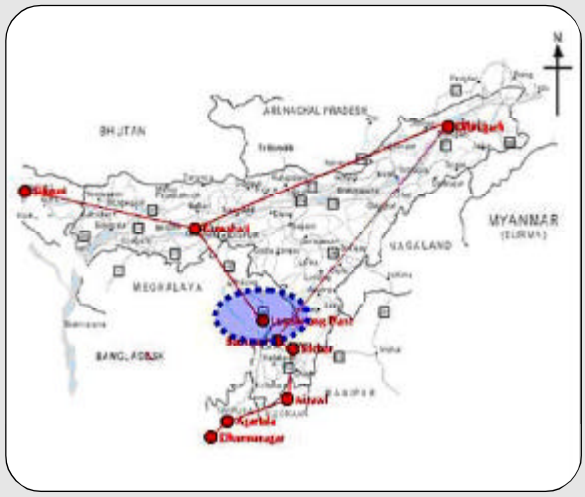
We like CPL's strategy of multifold scale up in high growth, high margin, and high return businesses leading to accelerated growth in earnings and sharp transformation in return ratios. We believe CPL's aggressive management would be able to exploit the significant growth potential, by leveraging CMCL's strong foothold in the NER regions and the envious competitive advantage, thereby further strengthening our view of CPL's sustainable value creation potential. We initiate coverage on CPL with a BUY and a price target of Rs80, presenting an upside of 40%.

Cement Manufacturing Company Ltd.

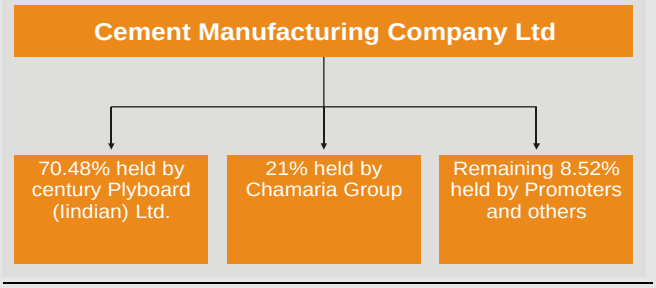
Company Background

Incorporated in November 2001, Cement Manufacturing Company Limited (CMCL), a 70.48% subsidiary of Century Ply, is the largest cement manufacturer in northeast India with market share of about 20% in this region. The company's plant is located at village Lumshnong, in Jaintia Hills.Meghalaya. with a capacity of 1.2-MTPA (including 0.67 mtpa cement grinding unit in Megha Technical & Engineers Private Limited, its wholly owned subsidiary company) . CMCL markets its cement under the brand 'Star Cement'. The plant was set up in 2004 and started commercial production in Dec'04. The Company's plant enjoys significant advantages such as proximity to high quality raw material, strong civil infrastructure and comprehensive package of fiscal benefits offered by the Government. The Company also has 9 MW Captive Genset Facility in its wholly owned subsidiary Megha Technical & Engineers Pvt. Limited and 8 MW Captive Thermal Power Plant to ensure uninterrupted power supply at lower tariff.

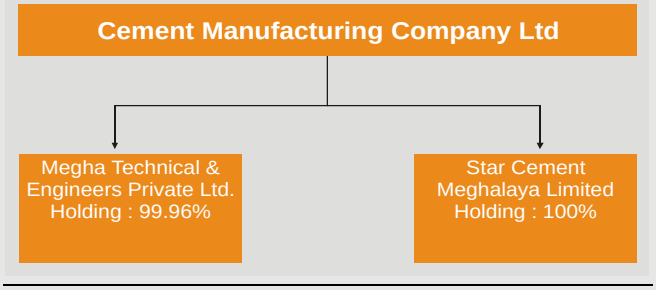
Plant Location



CMCL's shareholding pattern



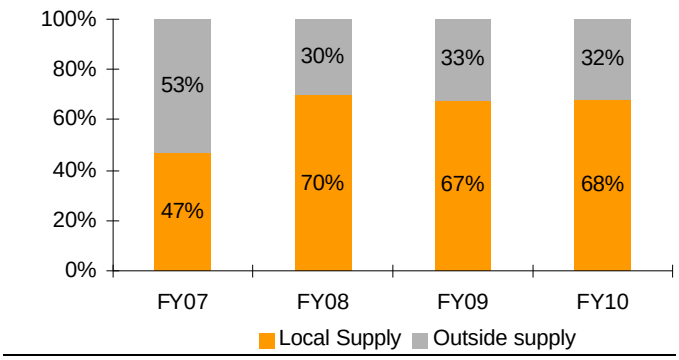
CMCL's structure



North East Region - Structural cement deficit region

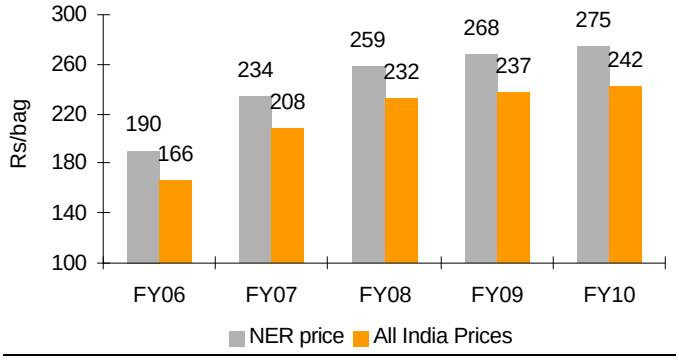
North East Region consists of 8 states namely Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura. NER is a structurally cement deficit region due to the persistent demand-supply mismatch. The region is characterized by difficult terrain, with only a narrow corridor connecting the region with the rest of the country. This has been a big impediment for setting up of cement plants inspite of the region being resource rich. Consequently, the region has an installed capacity of just 4.8 mtpa (Current production 3.6 mtpa) as on end of FY2010. The region's current cement consumption stands at 5.2 mtpa, which over the last five years has been growing at 14% as against an all India CAGR of 9%. Consequently, the shortfall in cement supply in North east is met through supply from states like Madhya Pradesh, Chattisgarh, West Bengal and Orissa, which on account of higher lead distance (as compared to other eastern region markets), are subject to high transportation cost. Hence, NER has always been a structurally deficit cement market and meets more than 30% of its cement requirements from outside supply.

NER gets more than 30% of its cement requirement from outside supply



Source: CMA & Emkay Research

Difference in all India & NER Prices



Source: Company & Emkay Research

Structural demand drivers to sustain demand growth in the region - expect demand to grow at 13-15% CAGR over FY2010-14

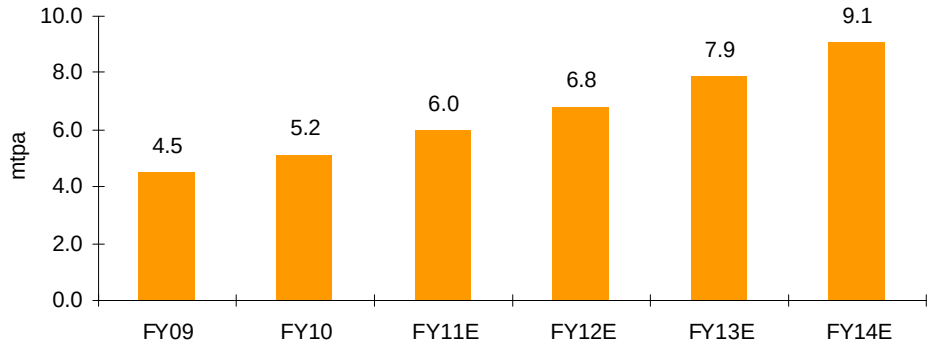
On account of its difficult terrain and extreme weather conditions, the NER region has not seen any significant industrial and infrastructure activity over the last many years. This can be gauged from the fact that manufacturing accounts for just 6.7% of the region's GDP as compared to an all India average of 15.1%. The state of infrastructure also is far behind national averages as can be seen from the following exhibit. Consequently, the per capita cement consumption of the region at 105kg is 2/3rd the national average.

	NER	All India
Per capital power consumption (KWH/year)	111	334
Railway Density (per 1000 km)	10.9	21.3
Road Density (per 1000 km)	395	839
Manufacturing as % of GDP	6.7%	15.1%
Per capital cement consumption (kgs/person)	105	156

Source: Ministry of DONER

However, the region has witnessed a structural shift in cement consumption and registered a growth of 15%+ over the last 3 years. With structural demand drivers like A) Huge untapped natural resources & enabling policy framework (key drivers of infrastructure & Industrial investment), B) Buoyant local economy and under penetrated housing status (drivers of housing demand) firmly in place, we believe that the NER can sustain the current cement demand growth momentum and expect the region to see demand CAGR of 15% over FY09-14E. We have elaborated these demand drivers in detail here under.

Structural shift in demand pattern to ensure 15% demand CAGR



Source: CMA, Industry & Emkay Research

Vast untapped natural resources and enabling policy framework…

The NER region today boasts of huge untapped natural resources. For example, the region accounts for 37% of the country's water and 20% of hydrocarbon (oil & gas) resources presenting huge energy generation potential. Further, the region has abundant quantities of rich low ash coal (ash content of 15% & calorific value of 6K-7K kcal) and limestone deposits (Calcium Oxide of more than 49%). The following exhibit highlights the huge natural resource reserves in the NER region.

Huge natural resource reserve potential

Resources	Reserves (Million tons)
Oil and Gas	2323
Coal	451
Limestone	4413
Clay	93.56
Dolomite	247
Graphite	85
Iron ore	20
Sillimanite	50

Source: Ministry of DONER

With increasing focus on NER, and in order to spur investment activity, the Central Government under NEIIPP 2007 has provided a comprehensive package of fiscal incentives. These benefits include incentives like capital subsidies, excise exemptions, income tax holidays, interest subsidies, transport & insurance subsidies etc.

Comprehensive fiscal package to attract huge investment

Tax/Duty	Incentive
Income tax	Total Tax Free Zone for units located anywhere in the North East
Excise	Central Excise benefits for goods cleared from notified areas
Transport	Transport subsidy for both raw material and finished products to and from the region
Capital Investment	Capital Investment Subsidy for new and existing units
Working capital	Working Capital Interest subsidy on loans for industrial units
Insurance	Comprehensive Insurance Scheme for industrial units at notified areas

Source: NEIIPP 2007

….to drive industrial and infrastructure investment in the region

The vast untapped pool of natural resources and the favorable policy framework has created a very encouraging investment environment, which we believe, will attract huge industrial and infrastructure investment, which in turn, is expected to fuel cement demand growth in the region. Some of the key infrastructure segments fuelling cement demand are highlighted below.

Key Infrastructure segments driving demand in NER

Segment	Target areas
Roads	All 8 state capitals in the region to be connected to East West Corridor through four lanes. The government is focusing on improving road connectivity with programs such as NHDP- II, NHDP-III B and SARDP-NE (A & B), covering the construction of ~9,000 km of roads.
Power	The NER has enormous hydropower generation potential of 59,000 MW, of which, the government has identified power projects of 31,885 MW. This potential spans across a total of 163 projects, out of which more than 100 projects have been awarded to developers.
Transmission	Major Investments needed for growth of transmission, sub transmission & distribution network
Railways	Expediting gauge conversion, upgrading existing tracks and railway stations. In order to spur economic activity and attract investments, the government intends to increase railway penetration in the region. Besides, to increase railway penetration, the Railway Ministry has established the Northeast Rail Development Fund and sought funds to the tune of USD428 mn from the Central Government for ongoing projects.
Airport	Improving air connectivity, upgrading airport infrastructure, developing new Greenfield airports.

Source: NER Vision 2020

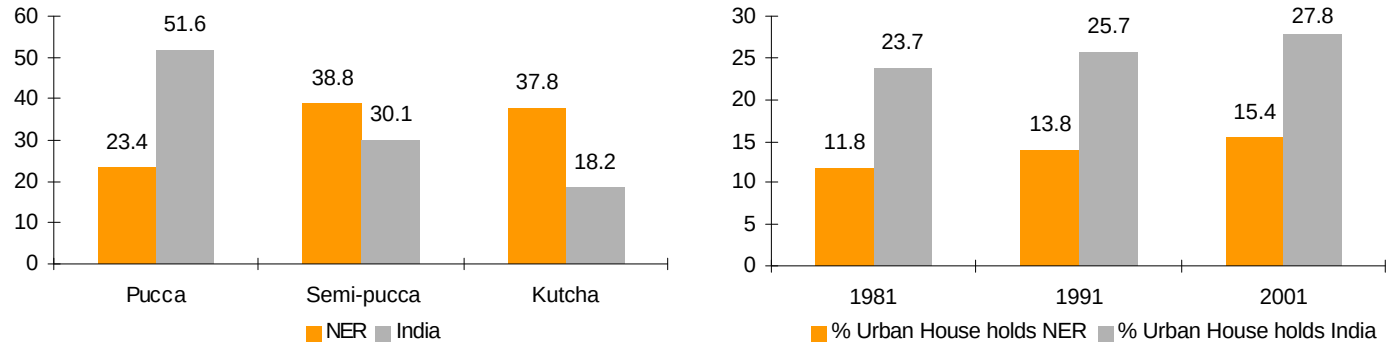
Buoyant local economy …..

North East local economy is significantly dependant on plantations like tea and rubber. The local economy has been witnessing strong traction with soaring tea & rubber prices. Further, with large number of Infrastructure projects being executed by central agencies like Railways, NHAI, MES, etc, the region has seen significant employment opportunities.

…under-penetrated housing sector - to drive housing demand

The housing market is significantly under penetrated in the NER with Pucca houses accounting for only 23.4% (of the total households), which is half the national average of 51.2%. However, with buoyant local economy and increasing level of urbanization, the region is witnessing increased adoption of concrete as construction material instead of traditional Assam type Kacchha house. We believe that the buoyant local economy and significantly under-penetrated housing status would continue to drive strong housing demand traction, thereby fuelling cement demand.

Share of Pucca houses & urbanisation in NER at half the national average



Source: NER Vision 2020

Supply though expected to double over FY09-13E, still at manageable levels

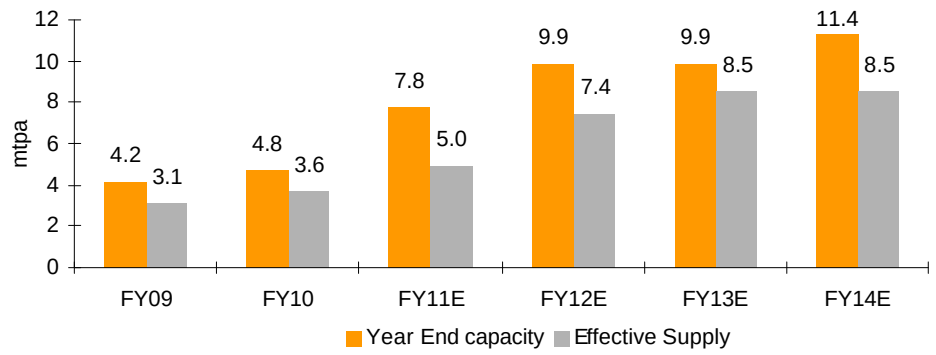
On the supply side, though the region is likely to see doubling of current capacity (Planned capacity addition of 5mtpa) by FY13, we believe that the difficult terrain could lead to substantial delays in project executions. Also, we believe that the year end installed capacity does not reflect in the effective supply. For example, For FY2010, even though the region had an installed capacity of 4.8 mtpa, the effective supply by local players was only to the tune of 3.6 mtpa, leading to a regional deficit of 1.5mtpa, which was captured by cement supply from other regions. Taking these things into consideration and building in minimal project delays (3 months), we expect the NER to see marginal cement surplus of 0.6 mtpa in FY12-13 as compared to a deficit of 1.5 mtpa currently.

Planned capacity additions in the NER

Company	Expansion	Expected Completion
ADHUNIK Cement	1.50	Q2FY2011
CALCOM Cement	1.00	Q3FY2011
Green Valley	0.5	Q3FY2011
CMCL Guwahati	1.60	Q2FY2012
Meghalaya Cement	0.50	Q2FY2012

Source: Emkay Research & Industry

NER to see doubling of capacity



Source: CMA, Industry & Emkay Research

Cement prices unlikely to see significant pressure

Though the region is expected to turn from a deficit region to a surplus region, we see that the surplus of 0.6 mtpa is just 8-9% of FY12-13 demand. Hence, we believe that the NER would continue to witness tight demand supply scenario. Moreover, the strong demand is unlikely to disturb local pricing power. Hence, cement prices are unlikely to feel significant pressure.

Demand supply scenario - North East Region

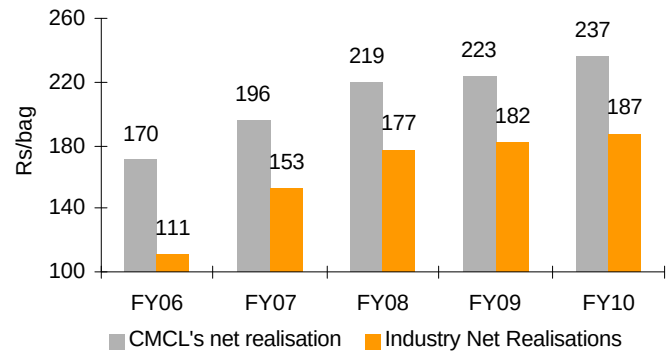
mtpa	FY2008	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E
Year End Installed Capacity	3.05	4.2	4.8	7.77	9.9	9.9	11.4
Installed Cement Capacity	3.1	3.6	4.5	6.6	9.3	9.9	10.6
Defunct capacities	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Installed Capacity	2.9	3.4	4.3	6.4	9.1	9.7	10.4
Effective Supply	2.7	3.1	3.6	5.0	7.4	8.5	8.5
Total Cement Consumption	3.7	4.5	5.2	6.0	6.8	7.9	9.1
Domestic Cement consumption	3.7	4.5	5.2	6.0	6.8	7.9	9.1
Growth	19.4%	21.6%	15.0%	15.0%	15.0%	15.0%	15.0%
Surplus/(Deficit)	-1.0	-1.4	-1.5	-1.0	0.6	0.6	-0.5
Surplus as % of Demand	-27.5%	-30.4%	-29.5%	-16.7%	8.8%	8.1%	-6.0%

Source : CMA, Industry & Emkay Research

CMCL ideally placed to capitalize on growth opportunity

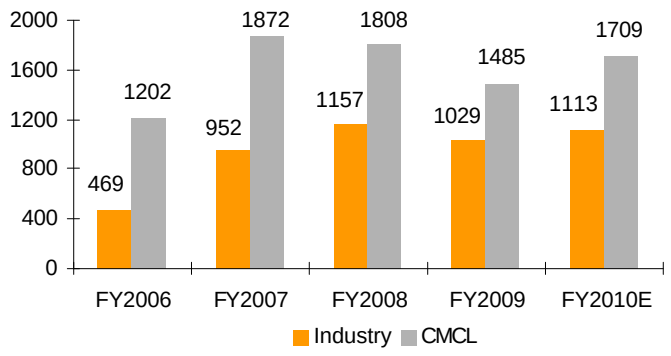
We believe with NER expected to witness strong demand traction and continued demand supply mismatch, CMCL is ideally placed to capitalize on this growth opportunity. Apart from higher cement realisation, we believe CMCL is riding this growth wave on the strong footing of its competitive advantage driven by 1) Proximity to high quality coal and limestone deposits 2) Proximity to key markets 3) Unmatched distribution network in difficult terrains 4) Strong brand & higher penetration in retail segment and 5) Comprehensive fiscal package. This competitive advantage is clearly reflected in CMCL's profitability. CMCL has been consistently making significantly higher EBIDTA/ton as compared to industry. We would like to highlight that over the last 5 years, CMCL's EBIDTA/ton, on an average has been 80% higher as compared to industry, which works out to Rs670/ton or USD15/ton.

CMCL Net realisation V/s Industry



Source: CMA

CMCL EBIDTA/ton V/s Industry



Source: Company & Emkay Research

1) Proximity to high quality coal and limestone deposits

One of the most critical success factors for a cement plant is access to high quality raw material within economical distance from the plant. In this case, CMCL today, is in a very envious position as its plant is located in close proximity to areas with abundant high quality raw material. CMCL's clinker unit is strategically located at Lumshnong, Jaintia Hills Meghalaya, where quality limestone reserves (Calcium Oxide of more than 49%) are spread over an area of 76.8 sq. km. around the plant site. CMCL boasts of captive limestone mines, which are spread over an area of 424 hectares and are located within 2-3 kms from the plant site. These mines have estimated limestone reserves of 326 MT, which can last for nearly 70 years.

Similarly, coal having calorific value of 6000-7000 Kcal /Kg and ash content as low as 15% is abundantly available in Bapung and Surupi areas of Meghalaya, which are 20-30 kms from CMCL's plant. We would also like to highlight that there are no legal and civic restrictions on the mining of coal and limestone as the mines are owned by local population, ensuring constant and easy supply of coal. CMCL procures fly ash from NTPC Kahalgaon (Bihar), NTPC Farrakha (West Bengal), WBPDCL (Siuri).

2) Proximity to key markets

CMCL's cement plant is located in proximity to National Highway that connects Guwahati to Silchar. This unique locational advantage enables CMCL to economically cater not only to its home state of Meghalaya, but also the State of Assam, the biggest market of the NE region. Because of its hilly terrain and adverse weather condition, NE historically has been a difficult region to access. In such a scenario, we believe CMCL's strategically located plant provides significant freight advantage as against its competitors. For example, national level players like ACC, Century etc have to ship their produce to NER

from states like Chattisgrah,Orissa & West Bengal, which means these players spend close to Rs1500-1600/tonne as freight cost whereas CMCL incurs only Rs700/ton, which provides CMCL a significant competitive advantage.

3) Unmatched distribution network in difficult terrains

One of the key competitive success factors in a difficult terrain market like NE is the presence of strong & widespread distribution network. This critical success factor has been rightly identified by CMCL, which is clearly evident by the market leadership (20% market share) of its brand, 'Star Cement'. Also, CMCL today boasts of a strong dealer network in NER with 467 dealers, far higher than its nearest competitor with 70 dealers. National players like ACC, Ambuja, and Ultratech etc sell their product through consignment agents & hence, are able to penetrate only key markets in the region. As against this, CMCL has appointed dealers even in smaller rural areas, which enables it to reach even the farthest areas in the region.

4) Strong brand & higher penetration in retail segment

With the strength of its 467 dealer network, CMCL today has been able to reach the farthest corner of the NE region. Consequently, it derives a huge 76% of its sales from the trade segment and the balance 24% from non trade segment. This significant reach in the trade segment has meant that CMCL enjoys realizations, which are very close to realizations commanded by National level players, but much better than its regional players. Further, with more than four years of operations of this size in the region, CMCL enjoys a clear first mover advantage in the region and its brand 'Star Cement' commands a premium over most other regional players in the market. Due to strong marketing efforts, Assam Real Estate and Infrastructural Developers Association (AREIDA) has awarded the STAR brand, 'the most preferred cement brand' award. The management highlighted that due to these marketing and distribution efforts, it could strengthen its realizations by 6% in FY2009. With significant scale up in its capacity, CMCL plans to take the number of dealers to 750 dealers.

5) Comprehensive fiscal package

CMCL also has a significant competitive advantage against national players in the NER on account of the comprehensive fiscal benefits its plant enjoys. We have highlighted key fiscal benefits below

a. Capital subsidy

Under NEIIPP'2007, the New Industrial Units located anywhere in the NER are eligible for Capital Investment Subsidy at the rate of 30% of their investment in Plant and Machinery. This itself significantly lowers the break-even cement price point for CMCL as compared to its national level competitors.

b. Excise Duty & VAT refund

Excise Duty & VAT together account for 22% of sales for a cement manufacturer. CMCL enjoys significant advantage on this front as its plants are exempted from excise duty for a period of 10 years while for goods sold in NER, the company gets refund of VAT (upto 96%) for a period of 7 years.

c. Freight subsidy

For a bulky commodity like cement, freight cost accounts for as much as 20% of sales. CMCL gets freight subsidy of 50% from central government for outward freight within the NER and 90% outside the NER for a period of 5 years, thereby providing it with significant freight advantage in the local markets. The company also enjoys 90% freight subsidy on raw material procured from outside the state. Though the existing

unit will see this benefit expiring by end of FY10, the new unit will enjoy the benefits for 5 years once they start operations.

d. Working capital interest & insurance subsidy

Apart from the above mentioned benefits, CMCL also enjoys 3% working capital interest subsidy for a period of 10 years & gets 100% reimbursement of insurance premium paid under Comprehensive Insurance Scheme.

e. Income Tax holiday

CMCL profits are exempted from Income-tax under Section 80 IE for a period of 10 years. However, the company is subject to Minimum Alternate Tax U/s 115JB of Income Tax Act, 1961 and gets MAT credit entitlement.

CMCL on a massive capex drive - capacity to increase more than 3X

In order to capitalize on the strong demand traction in the NE region and to maintain its market leadership position by leveraging its strong brand and distribution network, CMCL is all set to expand its cement manufacturing capacity by more than 3X. Under this capex program, CMCL is setting up a 1.75 mtpa new clinker line at its existing location at Lumshnong, Meghalaya, which will more than triple its existing clinker capacity. This 1.75 mtpa clinker unit is being set up under its wholly owned subsidiary Star Cement Meghalaya Ltd (SCML). The company is also expanding the clinker capacity at its Lumshnong unit from 0.6 mtpa to 0.8 mtpa. The clinker from new unit would be supplied to two grinding units of 1.6 mtpa each in Guwahati, Assam and Kahalgaon, Bihar. The grinding units will also have captive power plant of 10 MW each at both the locations. Further, to protect itself from erratic & high cost power, CMCL under its 49% associate company Meghalaya Power Limited (MPL) is planning to set up a 43MW power plant. We have highlighted the details of the capex programme below.

CMCL on a massive capex drive

Project (Figures in Rs mn)	Targeted Completion	Project Cost	Equity	Debt	Current Status
1.75 Mn Ton Clinkerisation Plant at Lumshnong, Meghalaya in the name of Star Cement Meghalaya Ltd. (Wholly Owned Subsidiary of the company)	Sep-11	6030	2030	4000	Already placed the order for plant. Tender for Mechanical works for the plant has been released. Civil Contractor finalized.
1.6 Mn Ton Cement Grinding unit along with 10 MW captive power project at Guwahati	Sep-11	2533	783	1750	Placed the order for the grinding unit. Tender for mechanical works for the plant has also been released. Civil Contractor finalized.
1.6 Mn Ton Cement Grinding unit along with 10 MW captive power project at Kahalgaon	Sep-11	2451	751	1700	Placed the order for the grinding unit.
Total Capex by CMCL		**11014**	**3564**	**7450**	
Capex by Meghalaya Power, CMCL's 50% associate	Sep-11	2000	670	1330	

Source : Company

Post the completion of the above capex program, CMCL's clinker capacity would increase from the current 0.79 mtpa to 2.55 mtpa while its cement manufacturing capacity will quadruple from the current 1.2 mtpa to 4.4 mtpa by mid FY12. Further, CMCL will have captive power capacity of 80 MW (29 MW under 100% subsidiary and 51MW under 49% associate) as compared to 17 MW (9MW under 100% subsidiary, 8MW under 49% associate).

Major funding for the capex tied up

CMCL plans to spend a total of Rs11 bn on these capacity expansions, which will be funded by Rs7.5 bn of debt and the rest through internal accruals and fresh issue of equity share in CMCL. The financial closure for the project has already been achieved and machinery has already been ordered. The project also has benefit of 30% capital subsidy on plant & machinery. The total P&M capex for the company would be around Rs700cr.

Key benefits of the capex

We believe CMCL's capacity expansion program through split grinding unit makes a lot of strategic sense. Firstly, these new grinding units in Guwahati and Kahalgaon will bring it closer to its key markets like Assam as well as mark its presence in new growth markets like West Bengal, Bihar and Jharkhand. Secondly, it will significantly reduce CMCL"s inbound & outbound freight cost. We highlight the different benefits the company is likely to reap through this expansion

Expansion at Guwahati to reduce CMCL's freight cost

The grinding unit at Guwahati will bring CMCL closer to its largest market, Assam (accounting for 57% of sales). This is because the grinding unit is located only 42 kms from Guwahati and 97 kms from Shillong. Further, Digaru, the nearest railway station is around 3 km from the plant site. CMCL proposes to develop its own railway siding by taking a branch line of 2 km length from the existing main track. Hence, this will significantly bring down CMCL's lead distance and result in substantial savings in freight cost. The 10 MW captive power plant would further boost CMCL's competitiveness as well as unit's profitability.

Moreover, under the NE investment policy incentives, the company is entitled to a comprehensive package of fiscal benefits like capital subsidy (30% of investment in P&M), excise duty (for a period of 10 years) & VAT exemption (99% exemption from VAT upto 200% of FCI (Fixed Capital Invested) for a period of seven years) together with transport subsidy (50% within NER & 90% outside NER for 5 years) and income tax benefits (for 10 years).

Expansion at Kahalgaon to bring CMCL near to fly ash source

Currently, CMCL procures fly ash from various locations, the biggest among which is, from NTPC Kahalgaon plant. With a lead distance of close to 900 km, the landed cost of fly ash for CMCL is around Rs1500-1600/ton. The grinding unit at Kahalgaon, Bihar would not only throw open new markets of fast growing regions like East Bihar and East Jharkand, but also significantly reduce the inbound freight cost of fly ash/slag as NTPC Kahalgaon would then be 5 km away from the proposed facility. Moreover, under the industrial promotion policy of Bihar government, the unit will be entitled for VAT exemption (80% exemption from VAT up to 300% of FCI for period of ten years) and 50% capital subsidy on captive power plant.

Power expansion in associate to make CMCL self sufficient in power

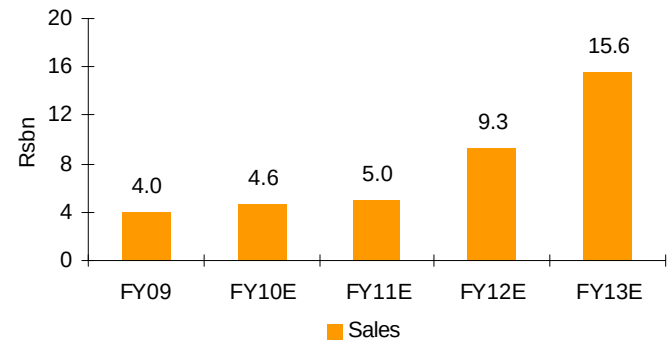
In order to protect itself from erratic & high cost power, CMCL under its 50% associate company, Meghalaya Power Limited (MPL), is planning to set up a 43MW power plant. The company currently has 8MW power plant. Post the expansion, the entire power requirement at the Lumshnong unit will be met through this plant and the balance power will be exported to Meghalaya State Electricity Board (or) Power Grid Corporation Limited.

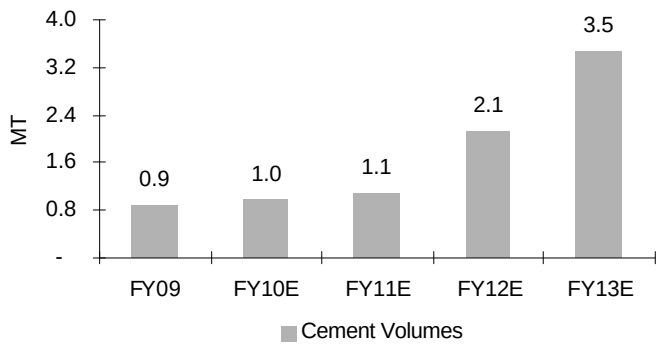
CMCL Financials

Volumes to drive topline CAGR of 42.6% over FY10E-12E

Led by an aggressive capacity expansion of 3X, we expect CMCL's topline to grow at a CAGR of 42.6% over FY10E-12E. We believe that the strong volume growth will more than neutralize the impact of likely softening in cement prices. We would like to highlight that we have assumed FY11E cement prices to be Rs275/bag & FY12 price to be Rs265/bag as compared to March 2010 cement price of Rs320-330/bag in the NER.

Volumes to drive topline CAGR of 42.6% over FY10E-12E



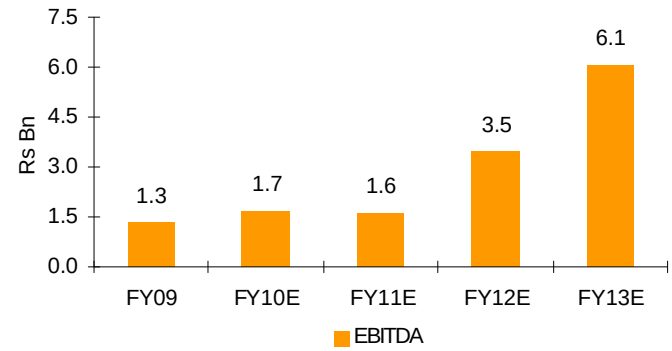


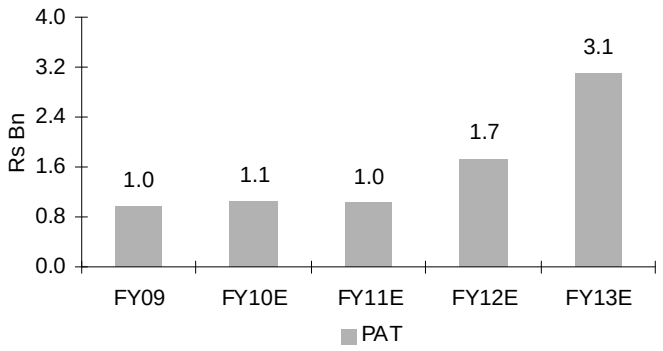
Source: Company & Emkay Research

EBIDTA to grow at a CAGR of 44.7% - net profit at CAGR of 27.2%

With volume led topline growth of 42.6% and some operating leverage kicking in, we expect CMCL's EBIDTA to grow at a CAGR of 44.7% over FY10E-12E, with EBIDTA of Rs3.5 bn in FY12E. We believe our EBIDTA/ton assumption of Rs1647/ton in FY12E (as compared to CMCL's likely Q4FY10 EBIDTA of ~Rs1900/ton) is fairly conservative and factor in possible softening in cement prices and rising costs. We expect CMCL's net profit to grow at a CAGR of 27.2% over FY10E-12E with net profit of Rs1.72 bn on FY12E.

EBIDTA to grow at a CAGR of growth of 44.7% : PAT at 27.2% CAGR





Source: Company & Emkay Research

Financial Tables

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Net Sales	**10397.7**	**11462.6**	**12887.2**	**18087.5**
Growth (%)	*19.9*	*10.2*	*12.4*	*40.4*
Expenditure	**8535.1**	**8895.9**	**10111.3**	**13181.5**
Decrease/(Increase) in stocks	42.6	76.6	84.2	90.2
Cost of Materials	4379.3	4624.3	5081.6	6117.9
Excise Duty & Cess on Stocks	-14.4	0.0	0.0	0.0
Manufacturing expenses	0.0	896.0	995.7	1824.6
Personnel Expenses	710.8	722.1	807.3	990.2
Opting., Admn. and Selling Exp	3416.7	2577.0	3142.5	4158.7
EBITDA	**1863**	**2567**	**2776**	**4906**
Growth (%)	*-12.8*	*37.8*	*8.2*	*76.7*
EBITDA %	***17.9***	***22.4***	***21.5***	***27.1***
Depreciation	393.2	436.6	513.1	1103.0
EBIT	**1469**	**2130**	**2263**	**3803**
EBIT %	***14.1***	***18.6***	***17.6***	***21.0***
Other income	29.2	97.1	38.4	124.8
Interest	293.1	348.7	363.7	823.6
PBT	**859**	**1879**	**1937**	**3104**
Current tax	117.4	397.3	425.4	628.7
Total Tax	**-1.1**	**397.3**	**425.4**	**628.7**
Effective tax rate (%)	*-0.1*	*21.1*	*22.0*	*20.3*
Adjusted PAT	**572.0**	**1166.0**	**1210.5**	**1965.5**
Growth (%)	*-48.8*	*103.8*	*3.8*	*62.4*
Net Margin (%)	***5.5***	***10.1***	***9.4***	***10.8***
Reported PAT	**572**	**1166**	**1210**	**1965**

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Equity share capital	227.5	227.5	227.5	227.5
Share Capital Suspense	0.0	0.0	0.0	0.0
Reserves & surplus	3423.3	4453.8	5496.9	7255.0
Networth	**3651**	**4681**	**5724**	**7483**
Minority Interest	**972.6**	**1287.8**	**1589.4**	**2099.4**
Secured Loans	3963.3	6049.9	9347.3	11806.7
Unsecured Loans	102.4	102.4	102.4	102.4
Loan Funds	**4066**	**6152**	**9450**	**11909**
Deferred tax liability	2.3	2.3	2.3	2.3
Total Liabilities	**8692**	**12124**	**16766**	**21493**
Gross Block	4569.0	4549.6	5764.7	16854.3
Less: Depreciation	1543.8	1980.4	2493.5	3596.6
Net block	**3025**	**2569**	**3271**	**13258**
Capital work in progress	199.2	3859.5	8816.0	304.5
CapEx on New Projects	776.9	1000.0	100.0	100.0
Investment	**3.7**	**171.2**	**338.7**	**506.2**
Current Assets	**5686**	**6181**	**6092**	**9890**
Inventories	1698.8	1696.4	2032.1	2568.4
Sundry Debtors	1094.7	1570.2	1981.6	2718.1
Cash and Bank balances	390.2	1378.8	382.9	1900.6
Other Current assets	1288.7	60.3	60.3	60.3
Loans and Advances	1213.7	1475.3	1635.5	2642.3
Current lia & Prov	**1003**	**1661**	**1856**	**2569**
Current liabilities	912.6	1570.2	1765.4	2477.7
Provisions	90.8	90.8	90.8	90.8
Net current assets	**4683**	**4520**	**4236**	**7321**
Misc. exp	3.9	3.9	3.9	3.9
Total Assets	**8692**	**12124**	**16766**	**21493**

Cash Flow - Consolidated

Mar ending (Rs mn)	FY09	FY10E	FY11E	FY12E
Pre-tax profit	859.2	1878.5	1937.5	3104.2
Depreciation	393.2	436.6	513.1	1103.0
Interest Provided	249.4	348.7	363.7	823.6
Other Prov & W/O	224.6	0.0	0.0	0.0
Other Prov & W/O	**1726**	**2664**	**2814**	**5031**
Chg in working cap	-375.8	1151.3	-712.2	-1567.2
Tax & other	-167.6	-397.3	-425.4	-628.7
Operating cash flows	**1183.1**	**3417.8**	**1676.7**	**2834.9**
Capital expenditure	-1097.8	-3864.0	-5271.6	-2578.1
Investments	5.4	-167.5	-167.5	-167.5
Share Application Money	-96.0	0.0	0.0	0.0
Dividend & other Income	6.5	0.0	0.0	0.0
Investing ash flows	**-1181.9**	**-4031.5**	**-5439.1**	**-2745.6**
Borrowings(net)	1094.0	2086.5	3297.4	2459.3
Repayment of Loans	-389.8	0.0	0.0	0.0
Amalgamation Expenses	0.0	0.0	0.0	0.0
Proceeds from Issue of Shares	-1.5	0.0	0.0	0.0
Interest paid	-244.5	-348.7	-363.7	-823.6
Dividend paid in tax	-257.6	-135.6	-167.4	-207.3
Financing cash flows	**200.5**	**1602.3**	**2766.4**	**1428.4**
Net Inc. in Cash & Cash equi.	**201.7**	**988.6**	**-996.0**	**1517.7**
Cash & Cash equivalents	**390.2**	**1378.8**	**382.9**	**1900.6**

Key Ratios

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Profitability (%)				
EBITDA Margin	17.9	22.4	21.5	27.1
Net Margin	5.5	10.1	9.4	10.8
ROCE	19.2	21.4	15.9	20.5
ROE	15.7	24.9	21.1	26.3
Per Share Data (Rs)				
EPS	2.6	5.2	5.4	8.8
CEPS	4.3	7.2	7.8	13.8
BVPS	16.4	21.1	25.8	33.7
DPS	0.0	0.5	0.6	0.8
Valuations (x)				
PER	22.5	11.1	10.6	6.6
P/CEPS	13.3	8.0	7.5	4.2
P/BV	3.5	2.8	2.3	1.7
EV / Sales	1.4	1.3	1.4	1.0
EV / EBITDA	8.7	6.4	7.2	4.1
Mcap / Sales	1.1	1.0	0.9	0.6
Mcap / EBIDTA	6.9	5.0	4.6	2.6
Dividend Yield (%)	0.0	0.9	1.1	1.4
Gearing Ratio (x)				
Net debt/ Equity	1.0	1.0	1.6	1.3
Total Debt/Equity	1.1	1.3	1.7	1.6

Emkay Rating Distribution

BUY	Expected total return (%) (stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (stock price depreciation) of upto (-)10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.