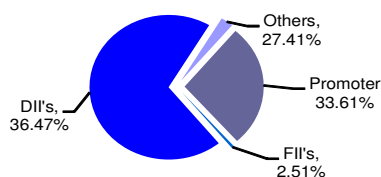
 <b>SKP Securities Ltd</b>	January 18, 2012	
	<b>Mangalam Cement Ltd.</b> <i>Better days ahead...</i>	
<b>CMP INR 95.0</b>	<b>Target INR 118.8</b>	<b>Initiating Coverage - Buy</b>

### Key Share Data

Face Value (INR)	10.0
Equity Capital (INR Mn)	26.7
52 Week High/Low (INR)	129.9/76.2
6 months Avg. Daily Volume (NSE)	18,157
BSE Code	532637
NSE Code	MANGALAM
Reuters Code	MADR.BO
Bloomberg Code	MDOL IN

### Shareholding Pattern (as on 30th Sep. 2011)



Source: BSE

### Key Financials (INR Million)

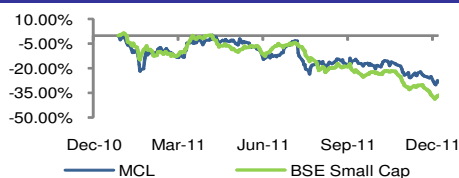
Particulars	FY10	FY11	FY12E	FY13E
Net Sales	6,136.9	4,915.7	5,486.9	6,213.7
Growth (%)	8.8	(19.9)	11.6	13.2
EBITDA	1,914.5	588.4	747.7	972.6
PAT	1,196.7	382.4	336.4	415.8
Growth (%)	23.2	(68.0)	(12.0)	23.6
EPS (INR)	44.8	14.3	12.6	15.6
BVPS (INR)	144.9	147.9	153.5	162.0

### Key Financials Ratios

Particulars	FY10	FY11	FY12E	FY13E
P/E (x)	3.9	7.8	7.5	6.1
P/BVPS (x)	1.2	0.8	0.6	0.6
Mcap/Sales (x)	0.8	0.6	0.5	0.4
EV/EBITDA (x)	2.1	4.9	3.7	5.5
ROCE (%)	41.1%	6.9%	9.0%	10.2%
ROE (%)	35.1%	9.8%	8.4%	9.9%
EBITDA Mar (%)	31.2%	12.0%	13.6%	15.7%
PAT Mar (%)	19.5%	7.8%	6.1%	6.7%
Debt - Equity (x)	0.0	0.0	0.1	0.7

Source: Company, SKP Research

### 1 Yr price performance MCL vis-à-vis BSE Small Cap



**Analyst: Nikhil Saboo**

Ph: +91 33 4007 7408, M: +91 9330186643

Email: nikhil.saboo@skpmoneywise.com

## Company Background

Mangalam Cement Limited (MCL), promoted in 1978, is a part of BK Birla Group. The company is engaged in the manufacturing of cement and has a capacity of 2 million tonnes per annum (MTPA) along with 48.65 MW of captive power plant. Its cement and power plants are located at Morak, Rajasthan and MCL sells its product under the brand name of Birla Uttam Cement.

## Investment Rationale

### Capacity expansion plan to propel growth

► The company is implementing a **Greenfield expansion of 1.25 mtpa clinker grinding unit at Aligarh, Uttar Pradesh at an investment of INR 4 billion which is expected to be completed by last quarter of FY13.**

► The funding for the same will be done through a mix of internal accruals and debt in the ratio of 1:3. Along with that, MCL also plans to augment the clinker capacity by 0.5 mtpa at its existing facility at Morak, Rajasthan.

### Cost efficiencies to contain margin erosion

► **Going forward, MCL plans to reduce its consumption of high grade lime stone to 6 percent from current ~17 percent by using pet coke, leading to cost savings.**

► **We expect an improvement in EBITDA/tonne, from INR 366.9/tonne in FY11 to INR 541.5/tonne in FY13. EBITDA margins are likely to rise by 368 bps over FY11-13E to 15.7 percent.**

### Delivering value to shareholders

► For the last four years, the company has maintained a dividend rate in excess of 50 percent. For FY11, the company has paid a dividend of 60 percent (INR 6/share), thereby delivering a current dividend yield of more than 6 percent.

## Valuation

**We rate a BUY rating on the stock with a 15 months price target of INR 118.8/share, implying an upside potential of 25.1 percent from current levels.** Our target price is based on the average of a target P/BV multiple of 0.75x FY13E, EV/EBITDA multiple of 5.5x FY13E and replacement cost of USD40/tonne.

*India is among the fastest growing cement markets in the world with consumption CAGR of 8.4 percent (FY01-11)*

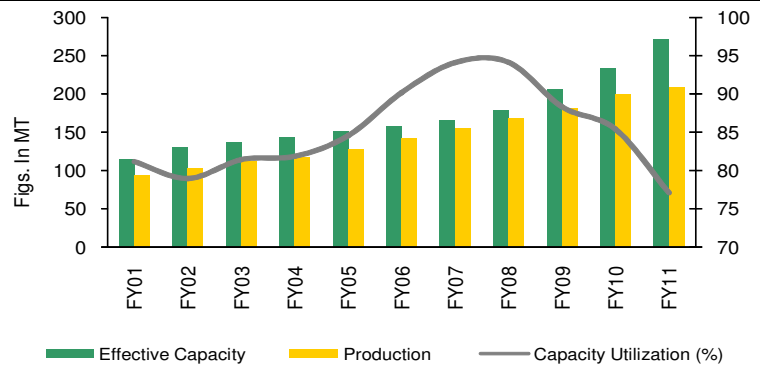
*Even though, India is second largest cement producer in world after China, its per capita cement consumption is very low*

**Industry Overview**

**Cement Industry**

- ▶ During FY01-10, the effective installed capacity of the industry increased at a CAGR of 8.9 percent from 115.3 million tonnes (MT) to 271 MT. During the same period, while there was no significant change in capacity utilization, production growth marginally underperformed capacity growth by growing at a CAGR of 8.4 percent.
- ▶ Actual cement production in FY11 was 209 MT as against 199 MT in FY10, registering a growth rate of 5.0 percent. Cement Utilization during the same period stands at 77.1 percent as compared to 85.4 percent reported in FY10.

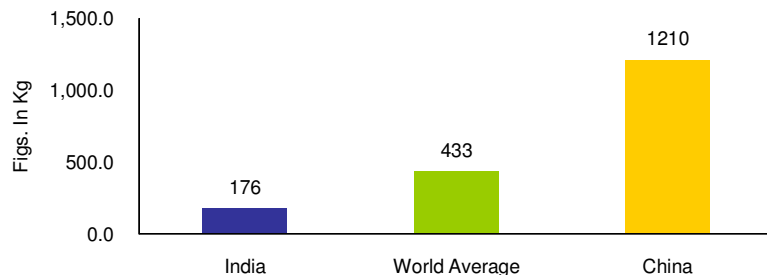
**Exhibit: Effective Capacity Utilization**



Source: CMA, SKP Research

- ▶ In 2010, global cement industry stood at ~3,100 MT, with China accounting for nearly half of the total output. India is the second largest producer with approximately 271 MT of cement (as on March 31st, 2011).
- ▶ India's per capita consumption is at 176 kg against the world average of 433 kg or China's 1,210 kg. India is way behind the global average per capita consumption and this process of catching up with International average would drive the growth of Indian cement industry.

**Exhibit: Per Capita Cement Consumption**

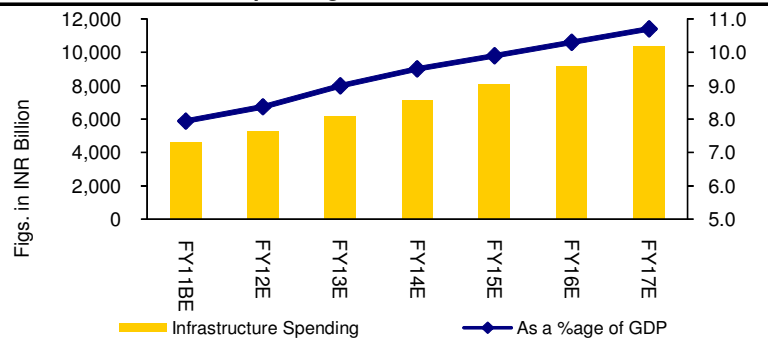


Source: Industry, SKP Research

*Recent growth in the global cement consumption is primarily driven by the emerging markets, generating ~70 percent of the demand*

- ▶ Demand for cement picks up during the election time, as incumbent Government tries to meet some of the infrastructure related commitments. Over next two to three years, besides general election at the Centre, many of the key cement consuming states like Uttar Pradesh, Gujarat, Punjab, Uttarakhand, Madhya Pradesh, Rajasthan etc are scheduled for elections.
- ▶ In India, demand from infrastructure has increased but supply has remained the same. Moreover, in the 12th five year plan, Government has planned the spending of over INR 40,992 billion on infrastructure against INR 20,542 billion in 11th five year plan. Hence, massive investment in infrastructure would provide boost to Indian cement industry.

**Exhibit: Infrastructure Spending**



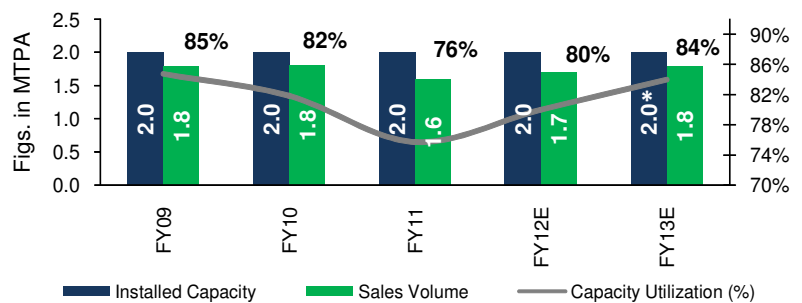
Source: Planning Commission, SKP Research

**Company Profile**

*MCL is currently having a capacity of 2MTPA along with 48.65 MW of captive power plant*

Mangalam Cement Limited (MCL), promoted in 1978, is a part of BK Birla Group. The company is engaged in the manufacturing of cement and has a capacity of 2 million tonnes per annum (MTPA) along with 48.65 MW of captive power plant. Its cement and power plants are located at Morak, Rajasthan and MCL sells its product under the brand name of Birla Uttam Cement.

**Exhibit: Installed Capacity & Sales Volume**



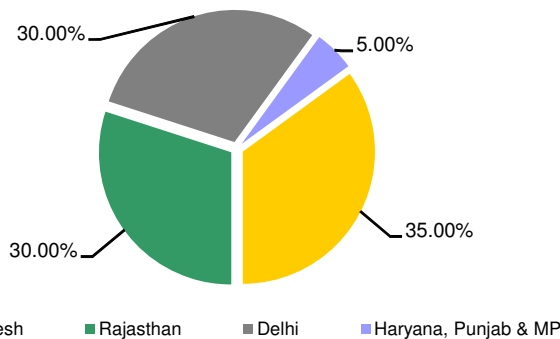
Source: Company, SKP Research

Note: \* Since 1.25 MTPA of capacity is coming on stream from Q4FY13, the benefit of the same will be seen from Q1FY14 onwards

MCL's presence is spread across Uttar Pradesh (UP), Rajasthan, Delhi, Haryana, Punjab and Madhya Pradesh (MP), primarily catering to the northern and western regions of India.

**Exhibit: Sales - Geographical Wise**

*Primarily caters to the markets of Rajasthan, Madhya Pradesh, Haryana and western Uttar Pradesh, among others*



Source: Company, SKP Research

**Exhibit: Management Team**

Name	Designation	Profile
O. P. Gupta	Chairman	Associated with the company since 1980 and is the Chairman since 2000. He was the former chairman of Punjab National Bank and holds vast experience in working in FIs & Banks.
K. C. Jain	Managing Director	He is the Managing Director since 1996 and also holds the position of Wholetime Director in Kesoram Industries Ltd. He is a member of the Managing Committee of Cement Manufacturers' Association (CMA) for the past 32 years.
K. K. Mudgil	Director	He was the former Executive Director (on deputation from RBI) of National Housing Bank and is holding the position of Secretary General, Council of State Industrial Development and Investment Corporations of India, New Delhi.
N.G. Khatian	Director	He is a Director of the company since December 2000. He is practicing as Attorney and Advocate in the Hon'ble Calcutta High Court and the Hon'ble Supreme Court of India. He is also a member of Bharat Chamber of Commerce and FICCI, New Delhi.
A.V. Jalan	Executive Director	He is an Executive Director and has been involved in the management of manufacturing companies since 1998 and has gained a rich experience in business administration.
Vidula Jalan	Executive Director	She is an Executive Director and is also managing the affairs of reputed schools and charitable trusts of the group.

Source: Company

## Investment Rationale

### *Capacity expansion plan to propel growth*

- ▶ **The company is implementing a Greenfield expansion of 1.25 mtpa clinker grinding unit at Aligarh, Uttar Pradesh at an investment of INR 4 billion which is expected to be completed by last quarter of FY13.**
- ▶ The funding for the same will be done through a mix of internal accruals and debt in the ratio of 1:3. Along with that, MCL also plans to augment the clinker capacity by 0.5 mtpa at its existing facility at Morak, Rajasthan.
- ▶ After the completion of the expansion plan, MCL's total cement capacity would stand at 3.25 mtpa. This capacity will facilitate proximity to key markets in the northern region. Translation of these capacities in to volume growth would help the company to increase its topline growth, even in a softening realization situation.
- ▶ MCL has deferred its plan of setting up a 1.5 mtpa brownfield expansion considering the volatility in cement prices and impact on free cash flows

*MCL has deferred its plan of setting up a 1.5 mtpa brownfield expansion considering the volatility in cement prices*

### *Cost efficiencies to contain margin erosion*

- ▶ In February 2011, MCL has commissioned its 17.5 MW thermal power plant, taking the cumulative captive power base to 35 MW. Also, there is 13.65 MW of wind power plant which takes the total captive power capacity to 48.65 MW.
- ▶ MCL will be having sufficient captive power to meet its power requirement even after the expansion of 1.25 MTPA of cement plant and the surplus would be available for merchant sale.
- ▶ For the cement plant, 67 percent of coal requirement is met through linkages while balanced is purchased from open market. For power plants, MCL has linkages for one plant while it has to depend on the open market for the other.
- ▶ **Going forward, MCL plans to reduce its consumption of high grade lime stone to 6 percent from current ~17 percent by using pet coke, leading to cost savings. During the Q2FY12, cost of high grade lime stone stood at INR 1,041/tonne, up by INR 53/tonne compared to Q1FY12.**

*As the Company has now surplus power, it will try to sell the surplus power when profitable rate is available*

*The captive limestone reserves can support the organisation's expanded operations for another 61 years*

- ▶ We expect an improvement in EBITDA/tonne, from INR 366.9/tonne in FY11 to INR 541.5/tonne in FY13. EBITDA margins are likely to rise by 368 bps over FY11-13E to 15.7 percent.

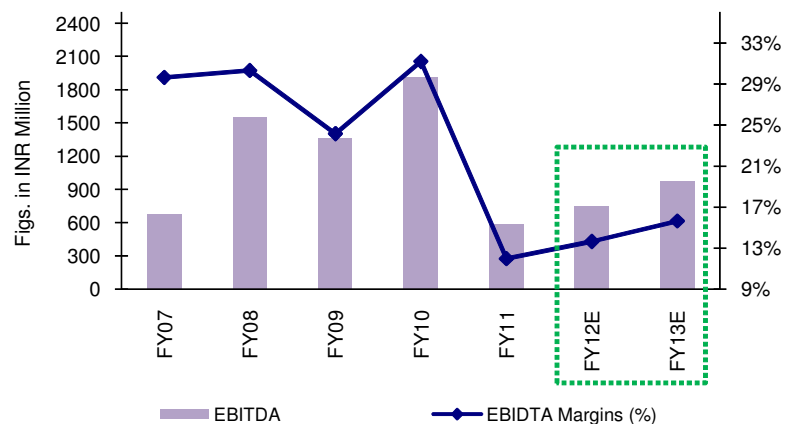
*We expect cement EBITDA/tonne of INR 439.4/tonne in FY12E and INR 541.5/tonne in FY13E*

**Exhibit: Per Tonne Analysis**

Particulars	FY10	FY11	FY12E	FY13E
Sales Volume (mtpa)	1.8	1.6	1.7	1.8
Sales (INR Million)	6,136.9	4,915.7	5,486.9	6,213.7
Net Realization/tonne	3,381.7	3,065.0	3,224.6	3,459.4
<b>Total Expenditure/tonne</b>	<b>2,326.7</b>	<b>2,698.2</b>	<b>2,785.1</b>	<b>2,918.0</b>
Material Consumed	479.8	570.6	566.5	536.3
Power & Fuel Cost	855.5	951.8	953.0	1,013.5
Employee Cost	110.2	155.8	185.4	207.6
Packing & Distribution	639.9	757.8	790.0	856.2
Admin & Other Exp.	241.3	262.2	290.2	304.4
<b>EBIDTA/tonne</b>	<b>1,054.9</b>	<b>366.9</b>	<b>439.4</b>	<b>541.5</b>

Source: Company, SKP Research

**Exhibit: EBITDA & EBITDA Margins**



Source: Company, SKP Research

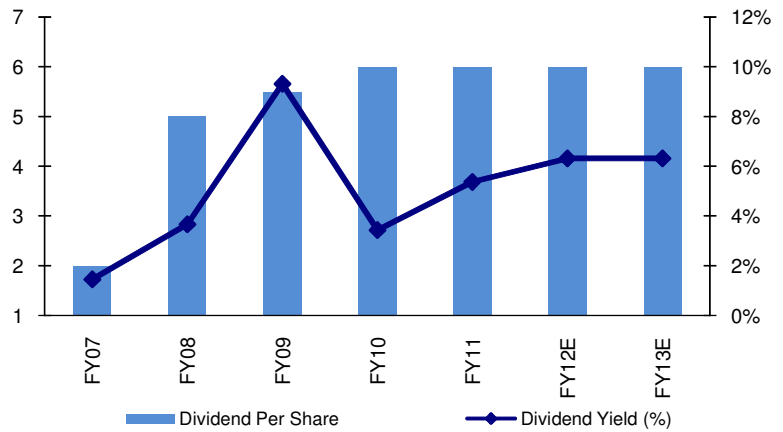
**Delivering value to share holders**

- ▶ The company has delivered value to its shareholders in the form of higher dividends. The company has a track record of paying continuous dividends since last five years, despite the cyclical nature of the business.
- ▶ For the last four years, the company has maintained a dividend rate in excess of 50 percent. For FY11, the company has paid a dividend of 60 percent (INR 6/share), thereby delivering a current dividend yield of more than 6 percent.

*Going forward, we believe the company would continue to pay higher dividends*

- ▶ **Going forward, we believe the company would continue to pay higher dividends, which would enhance overall returns of the shareholders.**

**Exhibit: Dividend Yield**



Source: Company, SKP Research

### Key Concerns

#### ***Merger of Mangalam Timber to be Earnings Depletive***

- ▶ Mangalam Timber Products Ltd. (MTPL), a group company is engaged in the manufacturing and selling of medium density fibre boards (MDF) and is the market leader in plain and pre-laminated MDF. MTPL sells its products under the brand name "DURATUFF".
- ▶ The board of directors had proposed to amalgamate MTPL with MCL in a swap ratio of 1:10. Merger, if happens, will not favour MCL's shareholders as it would be earnings depletive. During the last few years, MTPL has suffered losses due to higher raw material and interest expenses.

*The scheme is subject to approval of Hon'ble High Court of Rajasthan and Orissa*

**Exhibit: Financials of Mangalam Timber**
*Figs in INR Million*

Particulars	FY08	FY09	FY10	FY11
<b>Net Sales</b>	<b>600.9</b>	<b>709.7</b>	<b>675.7</b>	<b>511.0</b>
<i>Growth (%)</i>	<i>-14.2%</i>	<i>18.1%</i>	<i>-4.8%</i>	<i>-24.4%</i>
Expenditure	521.1	634.0	639.5	508.7
<b>EBITDA</b>	<b>79.8</b>	<b>75.7</b>	<b>36.2</b>	<b>2.3</b>
<i>EBITDA Margin (%)</i>	<i>13.3%</i>	<i>10.7%</i>	<i>5.4%</i>	<i>0.5%</i>
Depreciation	9.9	11.0	11.3	15.3
<b>EBIT</b>	<b>69.9</b>	<b>64.7</b>	<b>24.9</b>	<b>(12.9)</b>
Other Income	22.0	6.3	6.5	5.7
Interest Expense	30.6	41.6	45.5	48.4
<b>Profit Before Tax</b>	<b>61.3</b>	<b>29.4</b>	<b>(14.1)</b>	<b>(55.6)</b>
Income Tax	16.5	14.5	(1.8)	(18.8)
<b>Profit After Tax (PAT)</b>	<b>44.8</b>	<b>14.9</b>	<b>(12.3)</b>	<b>(36.8)</b>
<i>Growth (%)</i>	<i>23.1%</i>	<i>-66.7%</i>	<i>-182.5%</i>	<i>-398.9%</i>
<i>PAT Margins (%)</i>	<i>7.4%</i>	<i>2.1%</i>	<i>-1.8%</i>	<i>-7.2%</i>
<b>Diluted EPS</b>	<b>2.4</b>	<b>0.8</b>	<b>(0.7)</b>	<b>(2.0)</b>
Book Value Per Share	11.9	12.0	11.3	10.4
<b>Debt - Equity (x)</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>	<b>2.4</b>
<i>ROE (%)</i>	<i>22.22%</i>	<i>6.84%</i>	<i>NM</i>	<i>NM</i>

Source: Company, SKP Research, NM - Non Meaningful

*During the last few years MTPL has suffered losses due to higher raw material and interest expenses*

- ▶ The management expects that proposed merger will facilitate integration of activities, along with pooling of efficient resource, and better synergy through reduced overheads. It will also create a larger and stronger entity.
- ▶ The scheme is subject to the approval of Hon'ble High Court of Rajasthan and Orissa. The appointment date of the merger if approved will be effective from April 01, 2010.

**Capacity augmentation a concern for cement players**

- ▶ The cement industry of the country is currently facing a serious threat from the heavy augmentation of capacities which has been added during the last three years coupled with subdued demand resulting in over supply situation.

**Soaring raw material prices**

- ▶ Prices of key raw materials viz. limestone and gypsum are on the increasing trends over the past few quarters. While prices of limestone have increased due to increase in royalty payments to Government of India, its impact is limited as Mangalam Cement has captive lime stone reserves.

- ▶ With power & fuel cost accounting for ~25-30 percent of the total sales, any fluctuation in coal prices directly impacts profitability of MCL. The international coal prices have increased by as much as ~33.0 percent over the past two years. Moreover, hike in domestic coal prices by 30 percent in March 2011 by Coal India, will further impact margins.

*Increased cost-based headwinds across the cost structure (i.e. power & fuel prices) are likely to reduce profitability particularly in a scenario where pricing power is likely to be modest*

**Exhibit: Trend in Richards Bay Stem Coal Spot Prices**



Source: Bloomberg, SKP Research

### Comparative Valuation

**Exhibit: Comparative Valuation**

*Figs in INR Million*

Particulars	Mangalam	JK Cement	JK Lakshmi
<b>Total Income</b>	<b>4,985.3</b>	<b>22,828.8</b>	<b>14,838.1</b>
EBITDA	608.7	3,839.6	2,228.9
EBITDA Margin (%)	12.21%	16.8%	15.0%
<b>PAT</b>	<b>288.0</b>	<b>1,088.5</b>	<b>658.1</b>
PAT Margin (%)	5.78%	4.8%	4.4%
Diluted EPS	10.79	15.57	5.4
Book Value Per Share	152.3	207.4	87.3
CMP (17-Jan-12)	95	111.05	43.7
P/E (x)	8.8	7.1	8.1
P/BV (x)	0.6	0.5	0.5
<b>Debt/Equity (x)</b>	<b>0.05</b>	<b>0.89</b>	<b>0.93</b>
ROE (%)	7.1%	7.5%	6.2%
EV/EBITDA (x)	4.5	4.8	6.4
EV/Total Income (x)	0.6	0.8	1.0
<b>FY12E Capacity (mtpa)</b>	<b>2.0</b>	<b>7.9</b>	<b>5.3</b>
<b>EV/tonne (In USD)</b>	<b>27.5</b>	<b>46.2</b>	<b>54.0</b>

Source: Company, SKP Research

Note: Total Income, EBITDA, PAT are on TTM Basis ended September 2011, while Debt/Equity & ROE (%) as on September 2011

*On valuation front, MCL is relatively trading at discount compared to its peers*

## Sensitivity Analysis

Exhibit: Sensitivity of MCL's FY13E EBITDA & EPS - With the change in Prices and Sales Quantity

		% Change in Prices									
		Change (%)	-4.0%	-3.0%	-2.0%	-1.0%	0.0%	1.0%	2.0%	3.0%	4.0%
% Change in Production	EBITDA (Figs in INR Million)	-4.0%	485.4	545.0	604.7	664.4	724.0	783.7	843.3	903.0	962.6
		-3.0%	545.0	605.3	665.6	725.9	786.1	846.4	906.7	967.0	1,027.2
		-2.0%	604.7	665.6	726.5	787.4	848.3	909.2	970.1	1,031.0	1,091.9
		-1.0%	664.4	725.9	787.4	848.9	910.4	971.9	1,033.4	1,095.0	1,156.5
		0.0%	724.0	786.1	848.3	910.4	972.6	1,034.7	1,096.8	1,159.0	1,221.1
		1.0%	783.7	846.4	909.2	971.9	1,034.7	1,097.4	1,160.2	1,223.0	1,285.7
		2.0%	843.3	906.7	970.1	1,033.4	1,096.8	1,160.2	1,223.6	1,287.0	1,350.3
		3.0%	903.0	967.0	1,031.0	1,095.0	1,159.0	1,223.0	1,287.0	1,351.0	1,415.0
		4.0%	962.6	1,027.2	1,091.9	1,156.5	1,221.1	1,285.7	1,350.3	1,415.0	1,479.6
%	EPS (Figs in INR)	-4.0%	(2.7)	(0.4)	1.8	4.0	6.3	8.5	10.7	13.0	15.2
		-3.0%	(0.4)	1.8	4.1	6.3	8.6	10.9	13.1	15.4	17.6
		-2.0%	1.8	4.1	6.4	8.6	10.9	13.2	15.5	17.8	20.0
		-1.0%	4.0	6.3	8.6	10.9	13.2	15.6	17.9	20.2	22.5
		0.0%	6.3	8.6	10.9	13.2	15.6	17.9	20.2	22.6	24.9
		1.0%	8.5	10.9	13.2	15.6	17.9	20.3	22.6	25.0	27.3
		2.0%	10.7	13.1	15.5	17.9	20.2	22.6	25.0	27.4	29.7
		3.0%	13.0	15.4	17.8	20.2	22.6	25.0	27.4	29.8	32.2
		4.0%	15.2	17.6	20.0	22.5	24.9	27.3	29.7	32.2	34.6

Source: Company, SKP Research

*We arrive at a 15 month price target of INR 118.8/share, reflecting an upside potential of 25.1 percent from current levels*

## Valuations

Cement being a commodity is exposed to vagaries of business cyclicality, feeling the heat of high commodity prices, slowdown in infrastructure spending, higher interest rates etc. Thus, valuing the company on P/E and DCF won't be the right methodology, as earnings are very volatile and there will be lot of subjectivity involved in the assumptions, which may prove to be wrong looking at the abrupt change in the cycle. Thus, we have valued the company on the basis of P/BV, EV/EBITDA and EV/tonne multiple.

### Method 1: P/BV Multiple

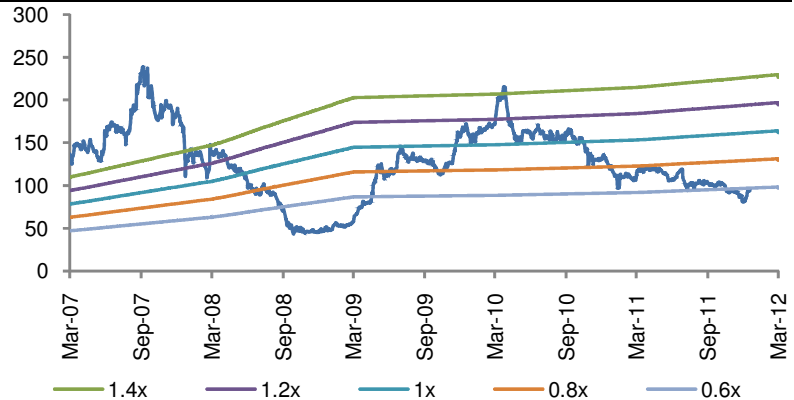
At the CMP of INR 95/share, MCL is trading at 0.62x and 0.59x its FY12E and FY13E Book Value, respectively.

#### Exhibit: Value based on FY13E P/BV

Target P/BV	0.75x
FY13E BV	162.0
<b>Target Price Per Share (INR)</b>	<b>121.5</b>

Source: SKP Research

**Exhibit: One Year Forward P/BV Band**



Source: Company, SKP Research

**Method 2: EV/EBITDA Multiple**

MCL is trading at an EV/EBITDA of 3.68x and 5.48x FY12E and FY13E EBITDA respectively.

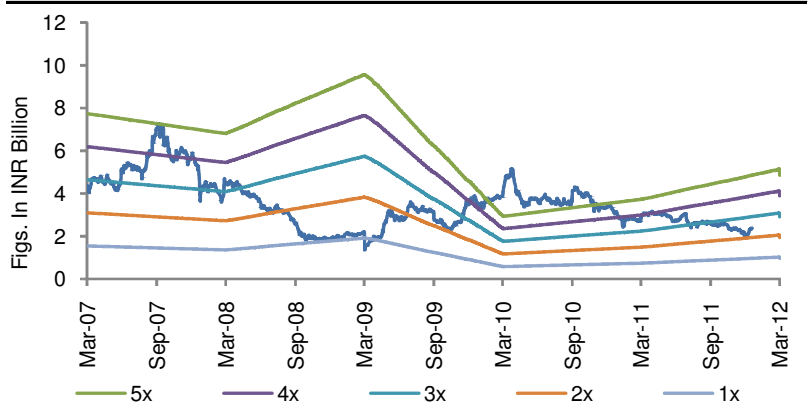
**Exhibit: Value based on FY13E EV/EBITDA**

Target EV/EBITDA Multiple	5.5x
FY13E EBITDA (INR Million)	972.6
<b>Target EV (INR Million)</b>	<b>5,349.0</b>
Less: FY13E Debt (INR Million)	(2,890.1)
Add: FY13E Cash (INR Million)	100.7
<b>Target Market Cap (INR Million)</b>	<b>2,559.7</b>
No of Shares (in Million)	26.7
<b>Target Price Per Share (INR)</b>	<b>95.9</b>

Source: SKP Research

*MCL historically traded in a wide band of 1x to 6x on the one year forward EV/EBITDA basis, mainly due to high volatility in earnings on account of cyclical nature of cement industry*

**Exhibit: One Year Forward EV/EBITDA Band**



Source: Company, SKP Research

**Method 3: EV/tonne Method**

On an EV/tonne basis, MCL is trading at USD27.5 and USD32.8 its FY12E and FY13E capacities of 2 MTPA and 3.25 MTPA, respectively. We have valued the stock at USD 40/tonne its FY13E capacity of 3.25 MTPA, which is ~60 percent discount to the current replacement cost of ~USD100/tonne.

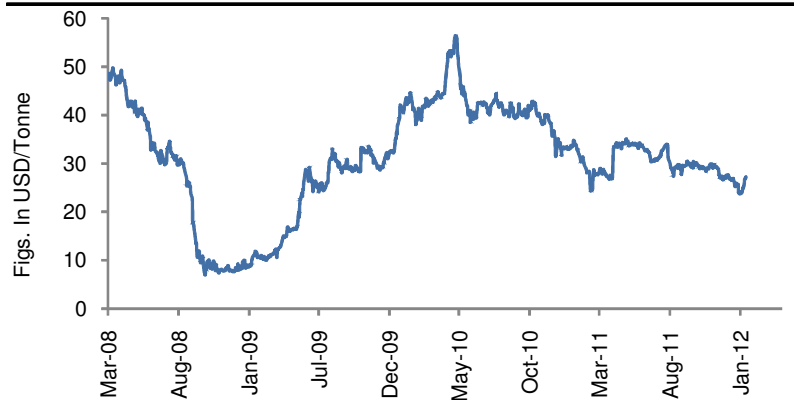
*Replacement cost inching to ~USD 100/tonne for a greenfield expansion owing to rising cost of land, limestone mining rights and captive power plant*

**Exhibit: Value based on FY13E EV/tonne**

FY13E Cement Capacity (MTPA)	3.25
Replacement Cost @ USD 40/tonne (INR Million)	6,500.0
Less: FY13E Debt (INR Million)	(2,890.1)
Add: FY13E Cash (INR Million)	100.7
<b>Target Market Cap (INR Million)</b>	<b>3,710.6</b>
No of Shares (in Millions)	26.7
<b>Target Price Per Share (INR)</b>	<b>139.01</b>

Source: SKP Research

**Exhibit: One Year Forward EV/Tonne Band**



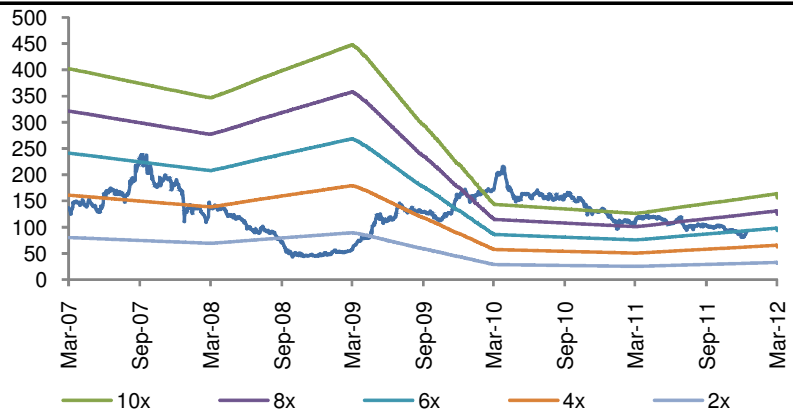
Source: Company, SKP Research

**Thus, assigning equal weightage to P/BV, EV/EBITDA and EV/tonne methodology, we arrived at a price target of INR 118.8 /share, implying an upside potential of 25.1 percent. We initiate coverage on the company with BUY rating.**

**One Year Forward P/E Band**

At CMP, the stock is trading at 7.5x and 6.1x its FY12E and FY13E earnings, respectively

**Exhibit: One Year Forward P/E Band**



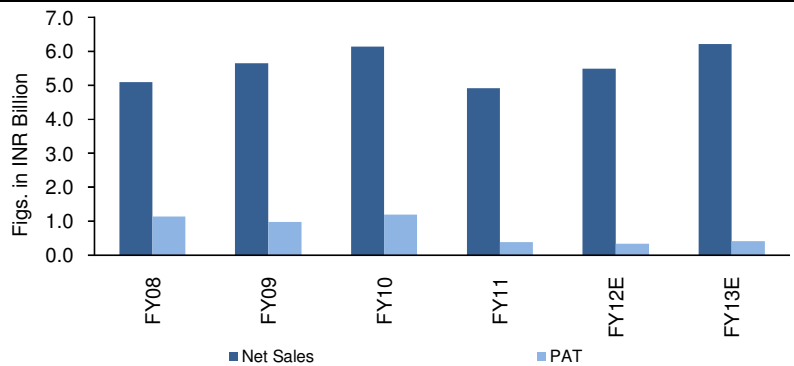
Source: Company, SKP Research

**Financial Outlook**

**Net Sales to grow at a CAGR of 12.4 percent over FY11-13E**

Net profit is expected to grow at a CAGR of 12.4 percent to INR 6.21 billion over FY11-13E

**Exhibit: Net Profit & PAT**

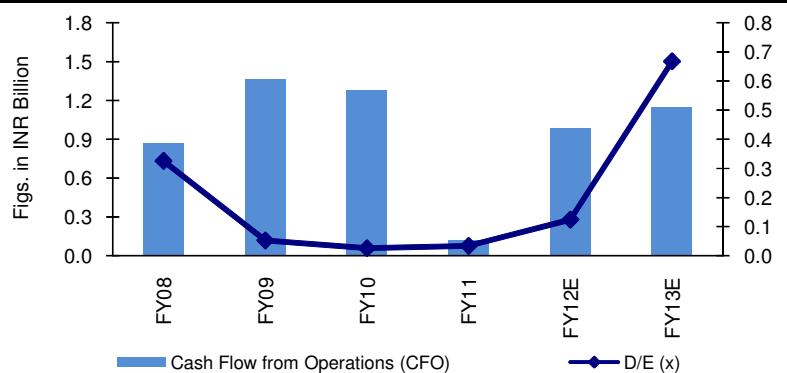


Source: Company, SKP Research

**To Fund its expansion through mix of internal accruals and debt**

The low leverage balance sheet should enable MCL to capitalize on organic growth opportunities

**Exhibit: CFO & D/E Ratio**



Source: Company, SKP Research

**Exhibit: Income Statement**
*Figures in INR Million*

Particulars	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>6,136.9</b>	<b>4,915.7</b>	<b>5,486.9</b>	<b>6,213.7</b>
Growth (%)	8.8	-19.9	11.6	13.2
<b>Expenditure</b>	<b>4,222.4</b>	<b>4,327.3</b>	<b>4,739.2</b>	<b>5,241.2</b>
Material Consumed	870.8	915.1	963.9	963.3
Power & Fuel Cost	1,552.5	1,526.6	1,621.6	1,820.3
Employee Cost	200.0	249.8	315.5	372.8
Packing & Distribution	1,161.3	1,215.4	1,344.3	1,537.9
Admin & Other Exp.	437.9	420.5	493.8	546.8
<b>EBITDA</b>	<b>1,914.5</b>	<b>588.4</b>	<b>747.7</b>	<b>972.6</b>
Depreciation	253.6	275.1	303.9	309.4
<b>EBIT</b>	<b>1,660.9</b>	<b>313.2</b>	<b>443.9</b>	<b>663.2</b>
Other Income	200.1	122.4	93.5	93.4
Interest Expense	19.6	21.9	35.3	136.0
<b>Profit Before Tax (PBT)</b>	<b>1,841.3</b>	<b>413.7</b>	<b>502.0</b>	<b>620.6</b>
Prior Period Items	(8.6)	0	0	0
Income Tax	653.2	31.3	165.7	204.8
Effective Tax Rate (%)	35.5	7.6	33.0	33.0
<b>Profit After Tax (PAT)</b>	<b>1,196.7</b>	<b>382.4</b>	<b>336.4</b>	<b>415.8</b>
Growth (%)	23.2	-68.0	-12.0	23.6
Diluted EPS	44.8	14.3	12.6	15.6

**Exhibit: Cash Flow Statement**
*Figures in INR Million*

Particulars	FY10	FY11	FY12E	FY13E
<b>PBT</b>	<b>1,841.3</b>	<b>413.7</b>	<b>502.0</b>	<b>620.6</b>
Depreciation	253.6	275.1	303.9	309.4
Interest Provided	19.6	21.9	35.3	136.0
Chg. in Working Capital	(56.7)	(383.7)	308.8	288.2
Direct Taxes Paid	(662.9)	(131.7)	(165.7)	(204.8)
Other Charges	(112.5)	(75.6)	-	-
<b>Operating Cash Flows</b>	<b>1,282.4</b>	<b>119.7</b>	<b>984.3</b>	<b>1,149.4</b>
Capital Expenditure	(654.6)	(663.2)	(1,100.0)	(3,400.0)
Investments	(101.4)	190.0	-	-
Others	78.4	84.7	-	-
<b>Investing Cash Flows</b>	<b>(677.7)</b>	<b>(388.5)</b>	<b>(1,100.0)</b>	<b>(3,400.0)</b>
Equity Capital Raised	(100.4)	-	-	-
Inc / (Dec) in Debt	(53.5)	33.5	375.0	2,380.0
Dividend Paid (inc tax)	(170.5)	(185.4)	(187.4)	(187.4)
Interest Paid	(20.5)	(21.9)	(35.3)	(136.0)
<b>Financing Cash Flows</b>	<b>(344.8)</b>	<b>(173.8)</b>	<b>152.4</b>	<b>2,056.6</b>
<b>Chg. in Cash &amp; Cash Eqv</b>	<b>259.9</b>	<b>(442.7)</b>	<b>36.7</b>	<b>(194.0)</b>
Opening Cash Balance	440.8	700.7	258.0	294.7
<b>Closing Cash Balance</b>	<b>700.7</b>	<b>588.4</b>	<b>294.7</b>	<b>100.7</b>

Source: Company Data, SKP Research

**Exhibit: Balance Sheet**
*Figures in INR Million*

Particulars	FY10	FY11	FY12E	FY13E
Share Capital	266.9	266.9	266.9	266.9
Reserve & Surplus	3,601.3	3,680.3	3,829.3	4,057.7
<b>Shareholders Funds</b>	<b>3,868.3</b>	<b>3,947.2</b>	<b>4,096.2</b>	<b>4,324.7</b>
Secured Loan	-	-	375.0	2,755.0
Unsecured Loan	101.6	135.1	135.1	135.1
<b>Total Debt</b>	<b>101.6</b>	<b>135.1</b>	<b>510.1</b>	<b>2,890.1</b>
Deferred Tax (Net)	491.7	591.3	591.3	591.3
<b>Total Liabilities</b>	<b>4,461.6</b>	<b>4,673.6</b>	<b>5,197.6</b>	<b>7,806.1</b>
<b>Net Block inc Capital WIP</b>	<b>3,213.0</b>	<b>3,599.9</b>	<b>4,396.0</b>	<b>7,486.6</b>
Investments	195.0	11.0	11.0	11.0
<b>Current Assets</b>	<b>3,013.3</b>	<b>2,793.2</b>	<b>2,738.0</b>	<b>2,475.5</b>
Inventories	<b>634.3</b>	<b>655.6</b>	<b>704.8</b>	<b>709.5</b>
Sundry Debtors	91.8	118.0	92.5	111.8
Cash & Bank Balance	700.7	258.0	294.7	100.7
Loans & Advances	1,586.4	1,761.6	1,646.1	1,553.4
<b>Current Liabilities &amp; Prov</b>	<b>1,959.7</b>	<b>1,730.5</b>	<b>1,947.4</b>	<b>2,167.0</b>
Current Liabilities	706.2	724.5	822.6	862.1
Provisions	1,253.5	1,006.0	1,124.8	1,304.9
<b>Total Assets</b>	<b>4,461.6</b>	<b>4,673.6</b>	<b>5,197.6</b>	<b>7,806.1</b>

**Exhibit: Ratio Analysis**

Particulars	FY10	FY11	FY12E	FY13E
<b>Earning Ratios (%)</b>				
EBITDA Margin (%)	31.2%	12.0%	13.6%	15.7%
PAT Margins (%)	19.5%	7.8%	6.1%	6.7%
ROCE (%)	41.1%	6.9%	9.0%	10.2%
ROE (%)	35.1%	9.8%	8.4%	9.9%
<b>Per Share Data (INR)</b>				
Diluted EPS	44.8	14.3	12.6	15.6
Cash EPS (CEPS)	54.3	24.6	24.0	27.2
BVPS	144.9	147.9	153.5	162.0
<b>Valuation Ratios (x)</b>				
P/E	3.89	7.80	7.54	6.10
Price/BVPS	1.20	0.76	0.62	0.59
EV/Sales	0.66	0.58	0.50	0.86
EV/EBITDA	2.12	4.86	3.68	5.48
Dividend Yield (%)	3.4%	5.4%	6.3%	6.3%
<b>Balance Sheet Ratios</b>				
Debt - Equity	0.0	0.0	0.1	0.7
Current Ratio	1.5	1.6	1.4	1.1
Fixed Asset Turn. Ratios	2.3	1.6	1.6	1.8

**The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Ticker plant and ISI Securities**

**DISCLAIMER:** This document has been issued by SKP Securities Ltd (SKP), a stock broker registered with and regulated by Securities & Exchange Board of India, for the information of its clients/potential clients and business associates/affiliates only and is for private circulation only, disseminated and available electronically and in printed form. Additional information on recommended securities may be made available on request. This document is supplied to you solely for your information and no matter contained herein may be reproduced, reprinted, sold, copied in whole or in part, redistributed or passed on, directly or indirectly, to any other person for any purpose, in India or into any other country without prior written consent of SKP. The distribution of this document in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this document comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition. If you are dissatisfied with the contents of this complimentary document or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using the document and SKP shall not be responsible and/ or liable in any manner. Neither this document nor the information or any opinion expressed therein should be construed as an investment advice or offer to anybody to acquire, subscribe, purchase, sell, dispose of, retain any securities or derivatives related to such securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment. Any recommendation or view or opinion expressed on investments in this document is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this document are those of the analyst which are subject to change and do not represent to be an authority on the subject. SKP may or may not subscribe to any and/ or all the views expressed herein. It is the endeavor of SKP to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information may not have been independently verified by SKP or the analyst(s). The information, opinions and views contained within this document are based upon publicly available information, considered reliable at the time of publication, which are subject to change from time to time without any prior notice. The Document may be updated anytime without any prior notice to anybody. SKP makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or correctness of the information in this Report. SKP, its Directors, affiliates and employees do not accept any liability whatsoever, direct or indirect, that may arise from the use of the information or recommendations herein. Please note that past performance is not necessarily a guide to evaluate future performance. SKP or its affiliates, may, from time to time render advisory and other services to companies being referred to in this document and receive compensation for the same. SKP and/or its affiliates, directors and employees may trade for their own account or may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or on any other committee of those companies or may sell or buy any securities or make any investment, which may be contrary to or inconsistent with this document. This document should be read and relied upon at the sole discretion and risk of the reader. The value of any investment made at your discretion based on this document or income there from may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors. Neither SKP nor its affiliates or their directors, employees, agents or representatives/associates, shall be responsible or liable in any manner, directly or indirectly, for information, views or opinions expressed in this document or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the document or inability to use or access our service or this document or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this document or inability to use or access our service or this document.

### SKP Securities Ltd

Contacts	Research		Sales	
	Mumbai	Kolkata	Mumbai	Kolkata
Phone	022 2281 9012	033 4007 7000	022 2281 1015	033 4007 7400
Fax	022 2283 0932	033 4007 7007	022 2283 0932	033 4007 7007
E-mail	<a href="mailto:researchmum@skpmoneywise.com">researchmum@skpmoneywise.com</a>	<a href="mailto:research@skpmoneywise.com">research@skpmoneywise.com</a>	<a href="mailto:Skp.sec@bloomberg.net">Skp.sec@bloomberg.net</a>	

Member: NSE BSE NSDL CDSL NCDEX\* MCX\* MCX-SX FPSB \*Group Entities  
 INB/INF: 230707532, BSE INB: 010707538, CDSL IN-DP-CDSL-132-2000, DPID: 021800, NSDL IN-DP-NSDL: 222-2001, DP ID: IN302646, ARN: 0006, NCDEX: 00715, MCX: 31705, MCX-SX: INE 260707532