The Front Page

September 26, 2008

- **What's Inside: India Banking, Cement, Media, Events calendar**

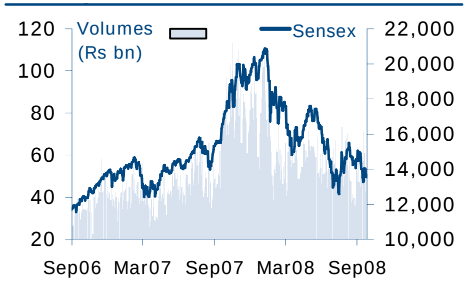
Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	13,547	(1.1)	(33.2)
Nifty	4,111	(1.2)	(33.0)
BSE Smallcap	6,050	(0.8)	(54.7)
CNX Midcap	5,165	(0.9)	(43.9)
Nasdaq	2,187	1.4	(17.6)
DJIA	11,022	1.8	(16.9)
IBOV	51,828	4.0	(18.9)
FTSE	5,197	2.0	(19.5)
CAC	4,227	2.7	(24.7)
Turnover		US$m	% Chg
BSE		1,081	17.6
NSE		3,314	29.4
Derivatives (NSE)		17,881	22.2
FII F&O (US$m)		Index	Stocks
Net buying		(239)	148
Open interest		5,471	3,349
Chg in open int.		(3,443)	(1,840)
Equity Flows (US$m)	Latest	MTD	YTD
FII (24/9)	(43)	(1,760)	(9,018)
DII (25/9)	131	1,552	13,002
MF (24/9)	7	351	2,871

ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	95.3	0.7	12.9
Reliance	91.0	1.7	3.8
Infosys	34.2	1.7	5.0
Satyam	18.1	3.2	27.1
Wipro	10.6	5.4	38.4
ICICI Bank	27.4	(1.1)	6.3
SBI	66.0	1.1	2.0
ITC	4.2	(5.3)	2.0
Tata Motors	8.6	0.5	3.6
Commodities	Latest	%Chg	%YTD
Gold (US$/ounce)	878	0.1	5.3
Crude (US$/bl)	110	2.5	14.1
Aluminium (US$/MT)	2,509	0.2	4.2
Copper (US$/MT)	6,930	0.3	3.8
Forex Rates	Closing	% Chg	%YTD
Rs/US$	46.3	0.4	17.4
Rs/EUR	68.1	0.9	17.2
Rs/GBP	85.9	1.0	9.1
Bond Markets		Closing	bps Chg
10 yr bond		8.6	(2.0)
Interbank call		10.0	(15.0)

Charts Front Page

Sensex price volume



Sensex intraday

Corporate Front Page

- **Tata Motors** to sell stake in six arms (ET)
- **Unitech** secures spectrum in Gujarat and UP (ET)
- **ONGC** may enter into JV with foreign strategic partners for three deepwater blocks within a month (BL)
- **Maruti** is mulling CNG variants of its compact cars (BL)
- **BHEL** is seeking EoIs from transmission equipment firms for an equity JV (DNA)
- **Tata Motors** sells around 10m shares of **Tata Steel** to **Tata Sons** (FE)
- **BHEL** bags Rs3.38bn contract from SAIL (FE)
- **ONGC** looking at acquiring oil & gas assets in Latin America and West Africa (DNA)
- **Dr Reddy's** forays into inhaler segment (ET)
- Government not to raise prices of gas produced by **ONGC** and **OIL** (ET)
- **PFC** and **IDBI** may arrange Rs130bn loan syndication for the Krishnapatnam UMPP (ET)
- **Suzlon Energy** plans Rs18bn rights issue (ET)
- **Hindustan Zinc** cuts lead prices by Rs500/tonne while keeps zinc prices unchanged (BL)
- **NTPC** and Inland Waters enters into MoU for exploring possibility of transporting imported coal (DNA)
- **NMDC** and Steel Ministry at loggerheads over iron ore exports duty; company seeks abolition of the 15% ad valorem levy (DNA)
- **Wockhardt** to open seven high-tech hospitals across the country (BS)
- **Indiabulls Financials** rejigs structure of its life-insurance JV (ET)
- **Glenmark** gets US FDA approval to market anti-inflammatory drug (ET)
- **Aurobindo Pharma** gets US FDA nod for generic drug (BS)
- **Edelweiss**, Oriental Insurance and AIMC enters into three-way MoU for providing motor insurance to truckers at 25% discount (ET)
- **Shyam Telelink** to get a pan-India license to roll out telecom services from 30 September (ET)
- **Man Industries** secures order worth Rs11bn for spirally-welded pipes (DNA)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
Vijaya Bank	38	5.1	-55.8	Tanla Solutions	175	-7.7	-54.1
Punj Lloyd	305	4.8	-45.2	Suzlon Energy	182	-7.4	-53.1
BF Utilities	1505	4.5	-32.7	Siemens India	456	-6.3	-51.7
CESC	292	4.2	-53.4	Sun TV Network	205	-6.3	-49.6
IOB	106	3.6	-40.5	NALCO	396	-5.9	-18.4

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
GTL	175	357	1,103	282	290
Exide Industries	64	1,104	2,988	842	255
Pantaloon Retail	275	946	1,194	359	232
Ultratech Cement	551	1,482	279	86	224
Mah. Seamless	289	441	317	102	210
Karnataka Bank	138	362	466	166	181
Jindal Stainless	111	391	204	73	181
Great Offshore	546	450	1,050	375	180
Wipro	352	11,136	5,455	1,973	177
Biocon	184	794	390	143	174

FII - FII trades

Scrip	24/9/2008			25/9/2008		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Tata steel	509	484	0.3	633	486	0.4
Sbi	164	1,537	1.3	254	1,501	0.5
Union bank	-	-	-	773	148	3.5
Grasim	22	1,932	0.3	32	1,916	0.2
Pantaloon	2	340	18.0	-	-	-

Corporate Front Page

- **Garware Offshore** plans to purchase two specialized PSVs for US$150mn by FY09-end (DNA)
- **UCO Bank** to raise Rs5-6bn through FPO (FE)
- **Suven Lifesciences** gets DCGI nod for Phase I trials of Suvn-502 (ET)
- **RCF** announces a capex plan of Rs6bn for FY09 (BL)
- **REC** plans to raise US$250mn via ECB (DNA)
- **Adlabs** in talks with theatres for cinema distribution via cable (FE)
- **Arvind Mills** expects 30-35% revenues from Megamart (BS)
- **Info Edge** has invested Rs200m for 49% equity stake in eTechAces Marketing and Consulting Pvt (FE)
- **Religare** AEGON secures SEBI approval to launch mutual-fund business (BL)
- **Binani Cement** plans to raise prices by Rs3-5 per 50kg bag (DNA)
- Staff of **Century Textiles** refuse to accept company's pre-retirement scheme (ET)
- **Autoline Industries** acquires 49% stake in two Italian firms (ET)
- **Saksoft** plans to acquire a US-based software testing company (BL)

Economy Front Page

- Kharif output estimated at 115.3m tonnes during FY09 a drop of 5m tonnes over last year (BL)
- Inflation for week ending 13 September remains unchanged at 12.14% (ET)
- SEBI Board to discuss the proposed framework for FII norms (ET)
- Directorate of Advertising and Visual Publicity (DAVP) has increased the advertisement tariff by 24% (DNA)
- Cement companies plan to cut dealer margins by as high as 50% due to rising input costs (BS)
- Railways to levy surcharge of 5-7% on transportation of all products (ET)
- DoT has decided to hold 3G and WiMax auctions simultaneously (BL)
- Rice output estimated higher at 83.25m tonnes in FY09 (BL)
- Fertiliser subsidy bill soars to Rs1,250bn from budgeted estimate of Rs310bn (DNA)

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy / Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Choice International Ltd	Tenet Bio Pharma Pvt. Ltd	23/09/2008	Sell	1,200,000	17.0	20	30.0	8.3
Choice International Ltd	Vinita Patodia	23/09/2008	Buy	900,000	17.0	15	22.5	25.7
Gujarat NRE Coke Ltd.	Mona Jagatramka	22/09/2008	Buy	500,000	70.5	35	0.2	1.2
Gujarat NRE Coke Ltd.	Marley Foods Pvt Ltd	23/09/2008	Buy	317,210	70.5	22	0.1	7.0
Gujarat NRE Coke Ltd.	Arun Kumar Jagatramka	22/09/2008	Buy	300,000	70.5	21	0.1	2.7
Khaitan Electricals Ltd	Pacific Corporate Services Ltd	16/09/2008	Sell	296,305	56.5	17	2.6	5.5
Kotak Mahindra Bank Ltd.	Mr. Jaimin Mukund Bhatt	19/09/2008	Buy	17,550	629.0	11	0.0	0.1
Setco Automotive Ltd.	Setco Engineering Private Ltd	24/09/2008	Buy	250,000	195.0	49	2.8	47.4
Setco Automotive Ltd.	Harish Sheth (HUF)	24/09/2008	Sell	250,000	195.0	49	2.8	0.1
Shree Ashtavinayak Cine Vision Ltd	Dahlia Traders Private Ltd.	24/09/2008	Buy	60,418	518.0	31	0.6	33.7
Vardhman Holdings Ltd.	Devakar Investment and Trading Co P Ltd.	--	Buy	189,000	130.0	25	5.9	20.8
Vardhman Holdings Ltd.	VTL Investments Ltd	--	Sell	189,000	130.0	25	5.9	-
Vikas Granaries Ltd.	Amit Babbar	15/09/2008	Buy	2,650,000	18.0	48	14.6	14.6
Vikas Granaries Ltd.	Dhanna Ram	15/09/2008	Buy	2,500,000	18.0	45	13.8	13.8
Vikas Granaries Ltd.	Girish Kansal	15/09/2008	Buy	2,200,000	18.0	40	12.1	12.1
Vikas Granaries Ltd.	Sharbati Devi	15/09/2008	Buy	2,100,000	18.0	38	11.6	11.6
Vikas Granaries Ltd.	Nir Singh	15/09/2008	Buy	1,900,000	18.0	34	10.5	10.5
Vikas Granaries Ltd.	Bajarang Dass Agarwal	15/09/2008	Buy	700,000	18.0	13	0.0	5.5

Deal Size worth more than Rs10m considered

BSE/ NSE - Bulk Deals

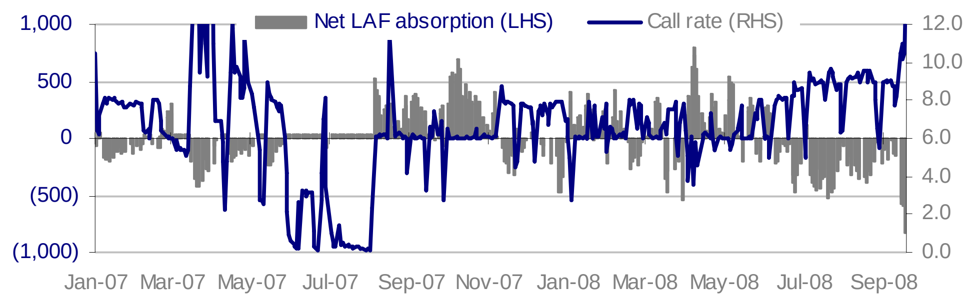
Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Aftek Ltd	Morgan Stanley Investments Mauritius Ltd	25/09/2008	Sell	1,142,214	37.0	42
Balrampur Chini Mills	New Vernon India Ltd	25/09/2008	Buy	1,413,600	84.5	119
Balrampur Chini Mills	Macquarie Bank Ltd	25/09/2008	Sell	1,876,800	84.0	158
Bihar Tubes	Mavi Investment Fund Ltd	25/09/2008	Sell	80,000	190.0	15
Bl Kashyap	Vic Infrastructure Investments Limited Kotak Mahindra Uk Ltd	25/09/2008	Buy	119,764	825.0	99
Bl Kashyap	Swiss Finance Corporation Mauritius Ltd	25/09/2008	Sell	119,764	825.0	99
Country Club	Clsa Mauritius Ltd	25/09/2008	Buy	385,235	282.1	109
Country Club	Grants Investment Limited Dr Ac	25/09/2008	Sell	385,235	282.1	109
Development Credit Bank	Standarad Chartered Arbitrage Fund	25/09/2008	Buy	1,001,000	38.8	39
Educomp Solutions Ltd	Citigroup Global Markets Mauritius Private Ltd	25/09/2008	Buy	107,636	3,447.7	371
Ent Network	Morgan Stanley Mauritius Company Ltd	25/09/2008	Sell	288,407	270.0	78
Fame India Ltd	Clsa (Mauritius) Ltd	25/09/2008	Buy	1,504,999	33.6	50
Fame India Ltd	Grants Investment Limited - Fccb	25/09/2008	Sell	1,504,999	33.6	50
Gammon India	Warhol Ltd	25/09/2008	Buy	1,000,000	165.0	165
Gammon India	Hdfc Mutual Fund Ac Hdfc Equity Fund	25/09/2008	Sell	1,000,000	165.0	165
HTMT Global	Morgan Stanley Mauritius Company Ltd	25/09/2008	Sell	1,096,149	199.0	218
HTMT Global	Morgan Stanley Investments Mauritius Ltd	25/09/2008	Sell	471,812	199.0	94
LIC H. Finance	Morgan Stanley Mauritius Company Ltd	25/09/2008	Sell	1,237,579	302.3	374
Motilal Oswal Financial	HdfcTrustee Company Ltd.- Growth Fund	25/09/2008	Buy	950,000	103.0	98
Motilal Oswal Financial	Goldman Sachs Investments MauritiusI Ltd	25/09/2008	Sell	950,553	103.0	98
Msk Projects (India) Ltd	Clsa (Mauritius) Ltd	25/09/2008	Buy	1,573,858	60.0	94
MSK Projects (India) Ltd	Grants Investments Ltd. A/C Gdr	25/09/2008	Sell	1,573,858	60.0	94
Murli Industries Ltd	Clsa (Mauritius) Ltd	25/09/2008	Buy	139,868	260.0	36
Murli Industries Ltd	Grants Investments Ltd. A/C Gdr	25/09/2008	Sell	139,868	260.0	36
National Alum Co Ltd	Citigroup Global Markets Mauritius Private Ltd	25/09/2008	Sell	559,475	394.6	221
Shree Renuka Sugars Ltd	Macquarie Bank Ltd	25/09/2008	Sell	2,210,000	107.2	237
Tata Steel	Tata Sons Ltd	25/09/2008	Buy	5,000,000	485.4	2,427
Tata Steel	Tata Sons Ltd	25/09/2008	Buy	5,000,500	485.7	2,429
West Coas Paper	Clsa Mauritius Ltd	25/09/2008	Buy	2,317,489	50.0	116
West Coas Paper	Grants Invest Ltd Dr Account	25/09/2008	Sell	2,317,489	50.0	116

Liquidity squeeze – no end in sight

Until recently, banks found it cheaper to borrow wholesale (through interbank, commercial paper and bonds) rather than retail deposits. Hence, wholesale borrowers were not at a disadvantage compared to banks that had extensive retail deposits-taking franchises. However, tight liquidity conditions have rendered this strategy unviable. Since April 2008, RBI has increased CRR by 150bps and the repo rate by 125bps. This has led to an increase in banks' and financial companies' cost of funds. With rising interest rates and tight liquidity conditions, banks relying on wholesale borrowings are greatly disadvantaged. Banks with higher proportions of CASA deposits are likely to benefit in the current scenario. Among NBFCs, deposit-taking ones (HDFC) would be better off.

No let-up in tight liquidity conditions: To ease the liquidity squeeze prevailing over the last couple of months, RBI reduced de facto SLR to 24% for borrowing from the repo window with effect from 17 September 2008. In spite of this, there has been a spurt in call money rates, which have stayed over 10% throughout last week. Net repo amount outstanding has been in excess of Rs500bn throughout last week (figure 1).

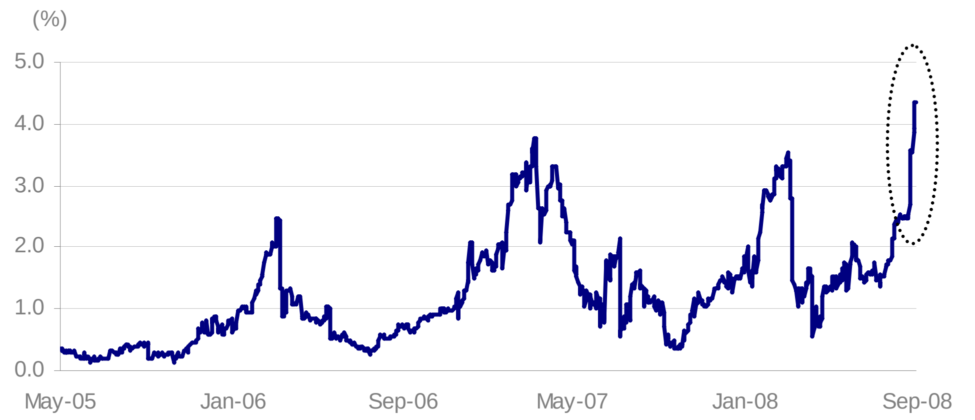
Figure 1: Net repo amount outstanding and call money rates



Source: Bloomberg, IIFL Research

CP spreads widening: Tight liquidity conditions are also affecting the CP market. Spreads of 3-month CP over 91-day treasury bills have widened substantially over the last couple of months and are currently at multi year high levels—over 400bps (figure 2).

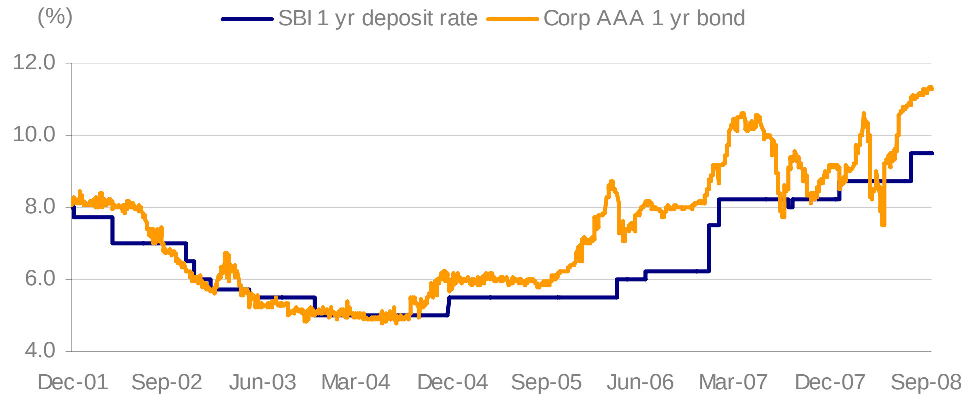
Figure 2: Widening spreads - 3months CP over 91-days treasury bills



Source: Bloomberg, IIFL Research

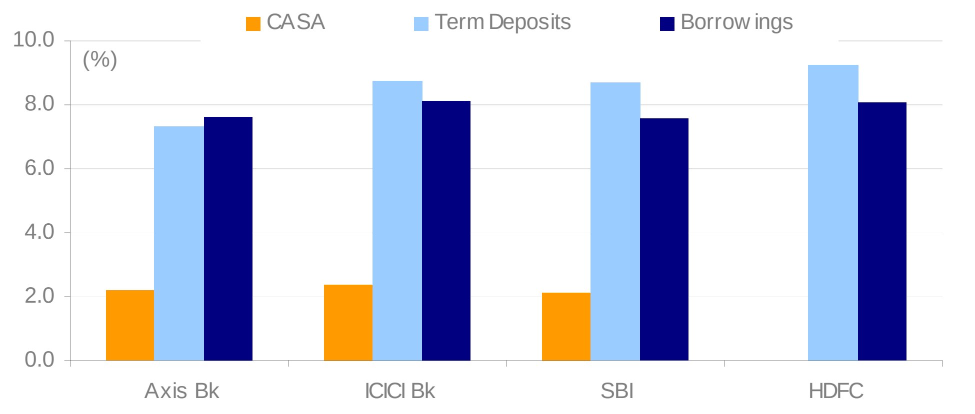
Wholesale borrowings becoming expensive: The spread between wholesale borrowings (>11%) and retail deposits (9.5-10%) has increased to >150bps in recent months (figure 3). This puts a lot of pressure on banks and financial companies that rely significantly on wholesale borrowings as a source of funds. This is in contrast to the conditions prevailing until the end of last year, when wholesale borrowings were cheaper in comparison to term deposits (figure 4). A major factor contributing to this was access to cheaper overseas borrowings. Overseas borrowings in FY08 were as high as 83% for ICICI Bank and 75% for SBI. However, the prevailing tightness in global credit markets would make this proposition unviable.

Figure 3: Cost of wholesale borrowings increasing



Source: Bloomberg, IIFL Research

Figure 4: Funding cost (FY08) – wholesale borrowings cost lower than term deposits



Source: Companies, IIFL Research

Figure 5: Rising CDS spreads (5-yrs) – overseas borrowings becoming costlier

Source: Bloomberg, IIFL Research

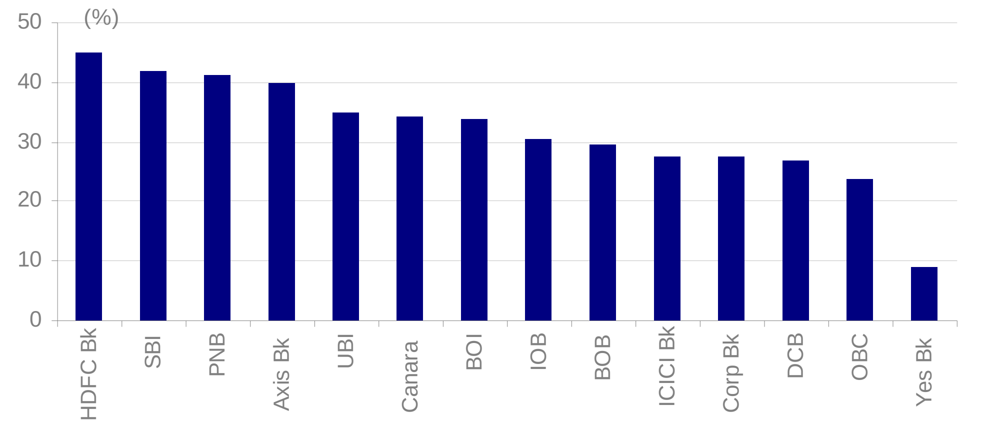
Banks with high CASA are less affected: Banks pay no interest on current accounts and pay only 3.5% pa on savings accounts. We estimate that CASA deposits cost 250bps on average. This is much lower compared to term deposits and other wholesale borrowings, which currently cost >9.50%. The net savings attributable to CASA are ~550bps (figure 6) even after factoring in 150bps of intermediation costs. This estimate is conservative, in our view, as we have attributed more than half of the average operating cost to deposit collection and the rest to the asset side and other functions.

Figure 6: Estimated funding cost savings due to CASA

	(bps)
Average cost of term deposits/borrowings	950
Average cost of CASA deposits	250
Savings in funding cost	700
Less: operating cost	*150*
Net savings	550

Source: IIFL Research

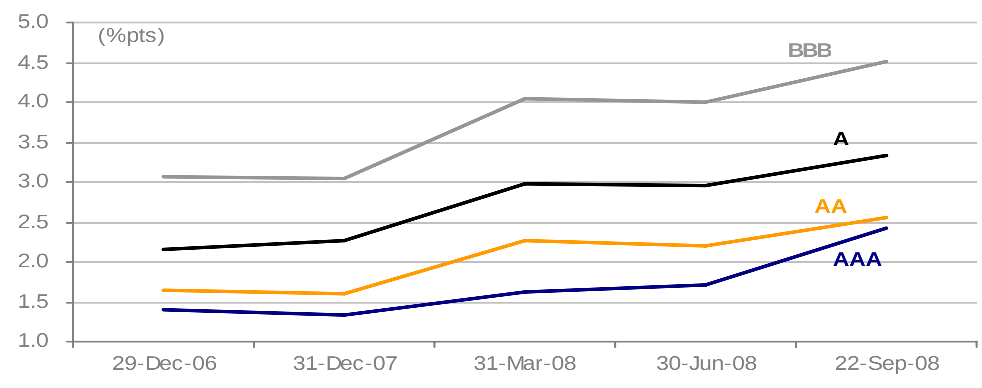
Figure 7: CASA (1Q09) – banks with high CASA would be less affected



Source: Companies, IIFL Research

Deposit-taking NBFCs are better off: Average cost of borrowings for wholesale borrowers has gone up in line with corporate spreads, hitting multi-year highs. However, NBFCs with access to retail deposits have more flexibility in terms of managing their funding costs. For instance, ~50% of HDFC's incremental borrowings in 1QFY09 came from deposits compared to 18-20% in the past, enabling better management of spreads.

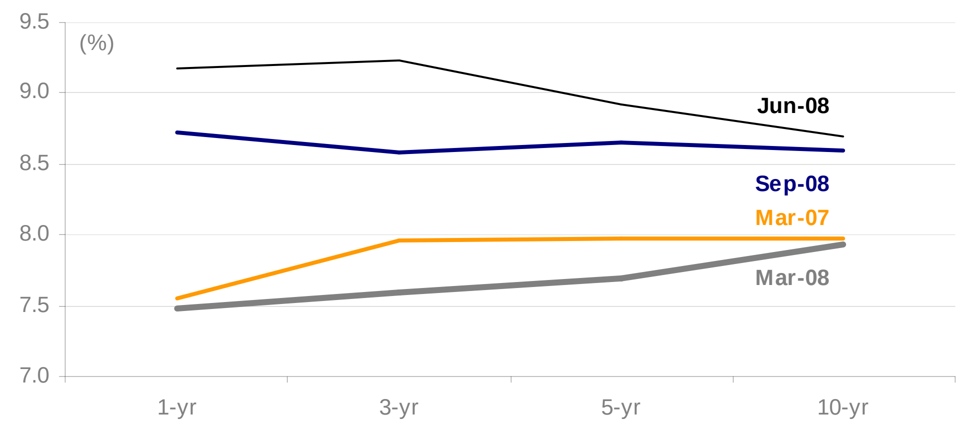
Figure 8: Domestic credit spreads have widened as well



Source: Bloomberg, IIFL Research

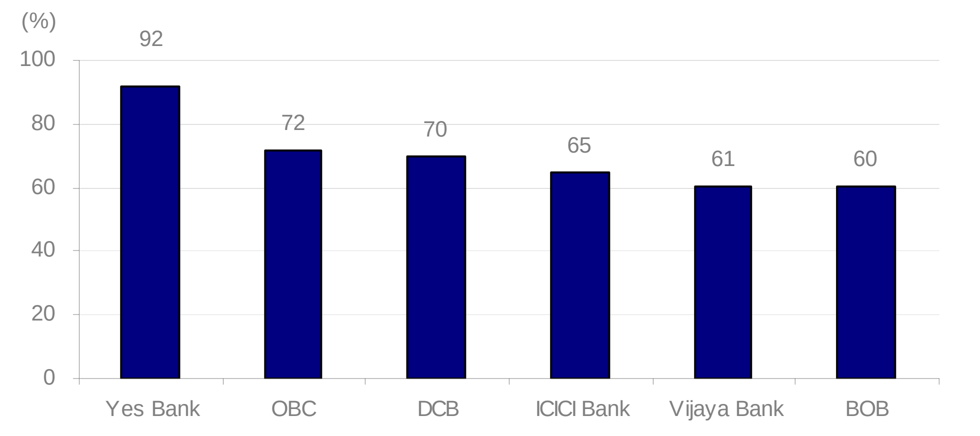
Deposit repricing will be a challenge: Banks reliant on short-term deposits would face repricing at higher rates, with their margins remaining under pressure. Based on our analysis, Yes Bank, DCB and ICICI Bank would be hardest hit. Among public-sector banks, OBC, Vijaya Bank and BOB face the highest repricing risk (figure 10).

Figure 9: Yield curve inversion has deepened with the decline in bond yields



Source: Companies, IIFL Research

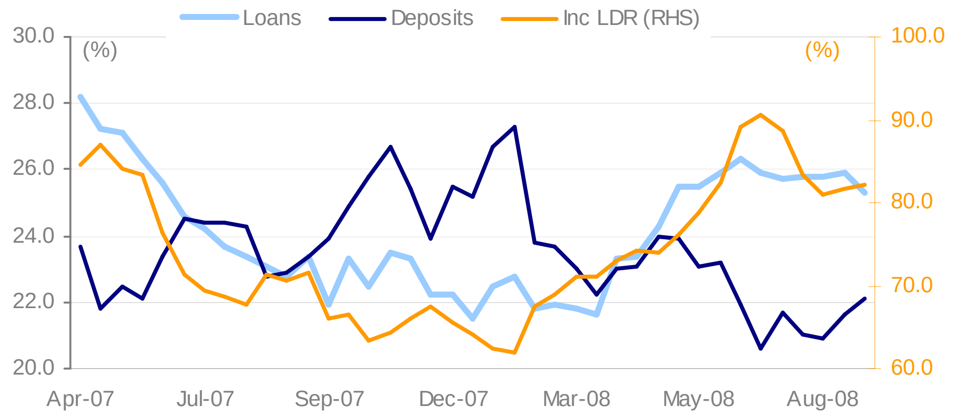
Figure 10: Deposits repricing within 1 year



Source: Companies, IIFL Research

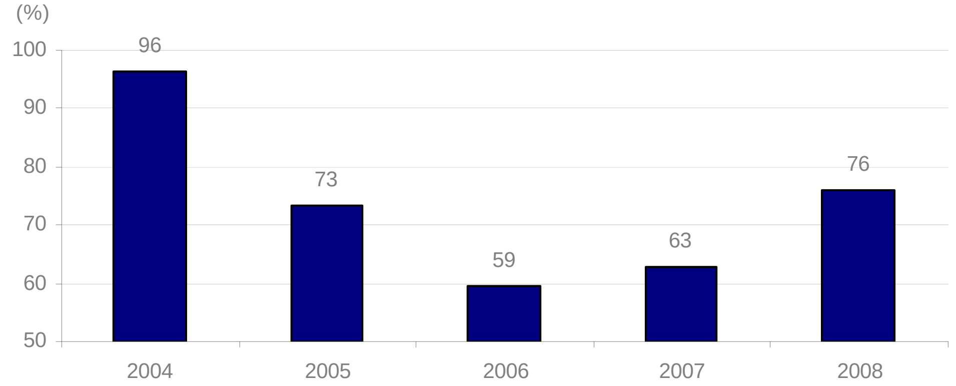
Busy lending season yet to come: For several years now, the bulk of the bank lending in any give year has been in the second half (figure 12). Assuming loan growth of 20% in FY09, 77% of lending in FY09 is yet to happen in the remaining seven months of the fiscal. This would continue to put pressure on the prevailing liquidity conditions and may lead to further increase in the cost of borrowings.

Figure 11: Y0Y growth rates – loan growth has remained elevated



Source: RBI, IIFL Research

Figure 12: Bulk of the bank lending happens in second half of the year

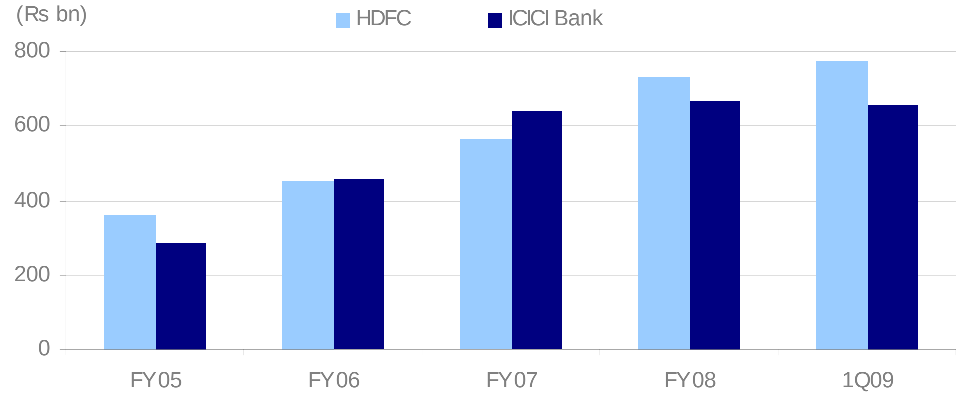


Source: RBI, IIFL Research

HDFC vs ICICI Bank – mortgage angle

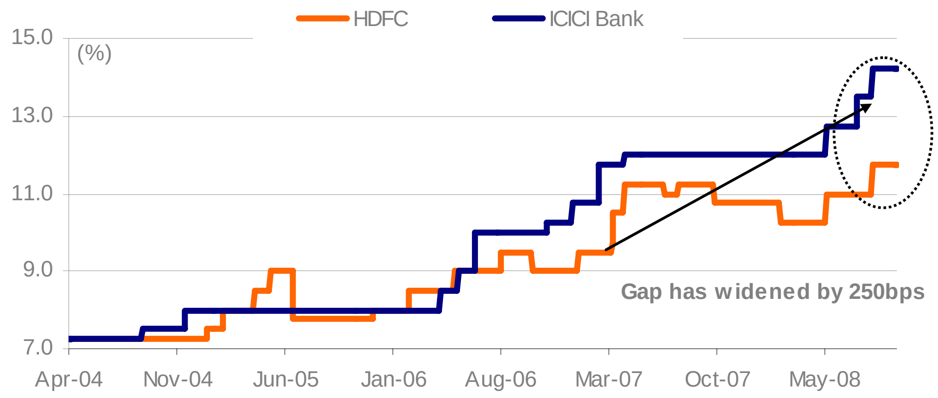
ICICI Bank, the largest mortgage lender among Indian banks, has gone slow in the segment and mortgage growth remained flat in 1QFY09 (figure 8). HDFC's mortgage growth, on the other hand, remains robust at 30%, much ahead of the growth rate of 14% witnessed by domestic banks. HDFC's mortgage portfolio as at end-1QFY09 stood at Rs773bn, as compared to Rs656bn for ICICI Bank. Higher funding costs for HDFC get compensated by its lower intermediation costs, making its cost structure much more competitive than ICICI Bank's (figure 15).

Figure 13: Mortgage book – HDFC retaining its leadership position



Source: Companies, IIFL Research

Figure 14: Floating mortgage rates – significantly higher for ICICI Bank



Source: Bloomberg, IIFL Research

Figure 15: Cost structure (incremental) – HDFC vs ICICI Bank

(%)	ICICI Bank	HDFC
Funding Mix		
- CASA deposits	24	NA
- Term deposits – retail	26	15
- Term deposits – institutional	32	NA
- Borrowings	18	85
Cost		
- CASA deposits	2.2	NA
- Term deposits – retail	9.5	10.2
- Term deposits – institutional	11.0	NA
- Borrowings	11.0	11.0
Blended cost	8.5	10.9
SLR *	0.6	0.3
CRR @ 9%	1.0	0.0
Costs inclusive of regulatory costs	10.1	11.2
Operating exp as % of avg assets	2.1	0.4
Total cost	12.3	11.6

* SLR for scheduled commercial banks is @ 25% and 12.5% for HDFC.
Source: Companies, IIFL Research

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Cement

Export surge to continue in the short term

26 September 2008

Cement plus clinker export volumes registered positive growth (45% YoY) in August 2008 after a gap of 19 months. We believe that sluggish demand in the western and northern regions, coupled with surging demand in the Middle East, has catalysed an increase in exports from Gujarat. Exports of Pakistani producers to the Middle East also continue to record strong growth, whereas those to northern India are declining. Exports from India and Pakistan to the Middle East also benefited as major cement-producing countries in the Middle East banned exports. We expect exports to moderate after 2-3 quarters, as supply tightness in the Middle East eases with substantial new capacities to come on stream.

Supply constraints in UAE have driven price rally: Cement price in the UAE has risen by more than 60% in the last one year because of a cement shortage. According to international dealers, at Dubai port, cement imports from Pakistan cost US$73/tonne and from India cost US$80/tonne. Net retention for cement producers in India works to US$65-70 per tonne. This compares with the net retention of US$60-70 (based on current cement price of Rs200-225/bag) in the Gujarat market. Dealers also said that some Indian producers are importing cement from Pakistan to sell it to the Middle East under Indian brands.

Supply pressure in the Middle East to ease from 2HCY09: We expect cement demand in the Middle East to remain strong, given the strong thrust on infrastructure development. On the supply side, we expect pressure to ease from 2HCY09, with a slew of capacities coming up by year-end. Emirates Cement, Star Cement and Fujairah are expanding capacities in the UAE; this would increase cement production capacity in the region from 20mtpa to 24mtpa, and clinker capacity from 12mtpa to 18mtpa. Production capacity in Iran and Saudi Arabia too is set to increase substantially in CY09. We expect the Middle East region, which is currently a net importer of cement, to turn into a net exporter by end-2009.

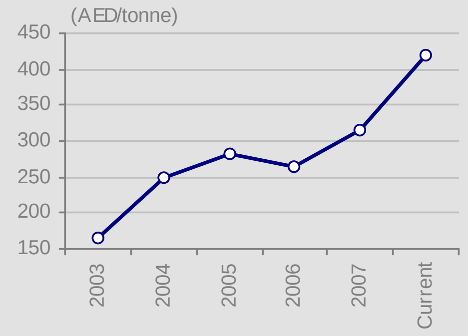
Extension of cement export ban by Egypt key for sustaining export growth in the short term: Egypt imposed a ban on cement exports for six months till end-September 2008. Egyptian cement companies exported ~6m tonnes of cement in the 12 months ended March 2008. Egypt's cement demand currently stands at ~36mtpa, as compared with production capacity of 42mtpa. The country's ban on cement exports has caused domestic prices to fall by 10% in the period. Saudi Arabia also imposed an export ban from June 2008. Saudi Arabia exports ~2.5m tonnes of cement per year. If Egypt does not extend the ban on exports, India's export growth may decelerate .

Financial snapshot

	Market cap (US$ m)	3m avg. liquidity (US$ m)	CMP (Rs)	Rating	12-m target (Rs)	Upside /(Downside) (%)	EV/EBIDTA (x) FY09ii	EV/EBIDTA (x) FY10ii	PER (x) FY09ii	PER (x) FY10ii	EV/tonne (US$/tonne) FY10ii
ACC*	2,485	8.4	611	REDUCE	525	-14	6.6	8.3	10.7	14.0	93
Ambuja Cements*	2,796	3.2	85	REDUCE	77	-9	5.5	7.3	11.5	13.2	109
Grasim Inds	3,705	4.7	1,867	ADD	2,043	9	4.5	4.6	7.3	8.7	93
India Cements	833	3.0	137	REDUCE	122	-11	3.7	3.9	6.3	8.6	64
Kesoram Inds	227	0.4	229	REDUCE	245	7	4.1	4.9	3.1	4.0	53
Madras Cements	616	0.5	2,390	REDUCE	2,200	-8	5.3	4.9	6.3	7.3	72
Shree Cement	401	0.4	532	ADD	740	39	2.8	2.4	4.8	5.4	31
UltraTech Cement	1,486	0.9	551	REDUCE	520	-4	5.6	5.2	7.3	8.4	70

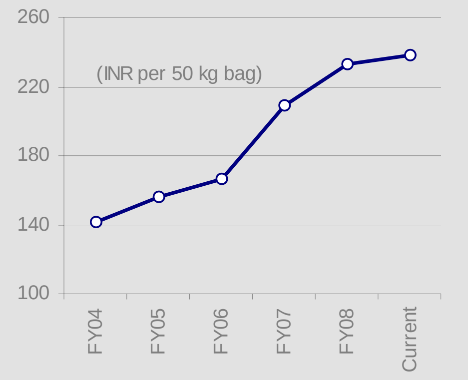
*CY08 and CY09 numbers
Prices as on 25 September 2008, Source: Bloomberg, IIFL Research

Sharp increase in UAE cement prices



Source: Industry, IIFL Research

Cement price in India tapering



Source: CMA, Industry, IIFL Research

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Middle East – short-term mismatch

Strong demand to continue, with thrust on infrastructure Construction activity in the Middle East is booming, with governments in the region keen on reducing their dependence on oil for economic growth. With oil prices ruling high, real estate is also witnessing a boom. Current investment on construction projects in Gulf countries is estimated at US$2.5trn. Cement demand growth in Gulf countries accelerated from 7% in 2006 to ~13% in 2007; in the UAE, demand increased even faster, by 21%. We expect demand to grow by a further 12-13% in each of the next two years.

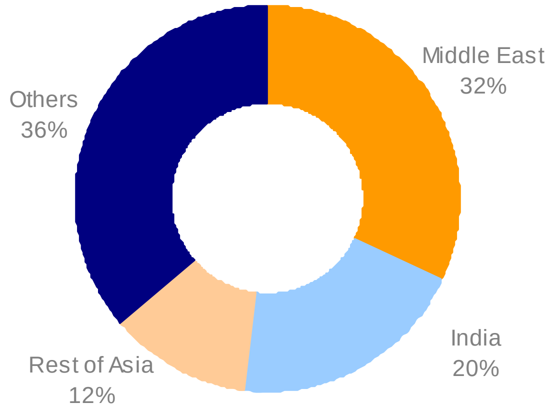
Supply addition to trail demand till 2QCY09: The sharp rise in demand has led to a cement shortage in the UAE, Kuwait and Qatar. In a bid to increase cement production, producers in the UAE have resorted to increasing grinding capacity, leading to a shortage of clinker. With demand soaring in neighbouring countries, Saudi Arabia and Egypt have increased export volumes—and this in turn has caused a shortage in these two countries, prompting them to ban exports. Egypt has banned exports for six months up to September 2008. Iran, which has a small cement surplus, has levied an export duty of US$110 per tonne. We expect supply pressures to recede after 2QCY09 as new plants commissioned recently and those due to be commissioned in the next two quarters would stabilise by 2QCY09.

Figure 1: Middle East cement supply-demand - imports to decline in 2009

m tonnes	2005	2006	2007	2008ii	2009ii
Year-end capacity	93	101	114	136	152
Production	80	89	103	119	135
Capacity utilisation (%)	86	88	91	88	89
Consumption	93	100	112	126	141
Consumption growth (%)		7	13	12	12
Net imports	12	12	8	10	4

Note: Data for GCC countries, Iraq and Iran
Non-operative capacities in Iraq to the tune of 14mtpa not considered
Source: Industry, Iran Cement Association, Yamama Cement, IIFL Research

Figure 2: Geographical distribution of global contracted new kiln capacity of FLSmidth from 2003 (excluding China)



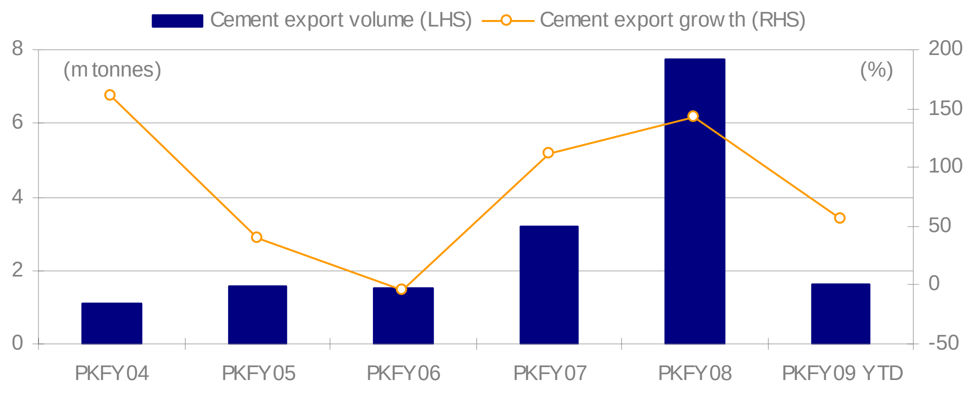
Source: FLSmidth

Pakistan – driven by exports

Exports increased sharply in PKFY08 and YTD PKFY09: Pakistan's cement exports increased by 142% to 7.7m tonnes in PKFY08 (fiscal year: July to June). In the two months ended August 2008, exports increased by 57% YoY. Exports to India stood at 0.8m tonnes in PKFY08. Sharp increase in inflation (currently running at 25%) has slowed down housing demand and infrastructure projects in Pakistan, leading to a ~15% fall in domestic demand in the first two months of the current fiscal. This had led producers in Pakistan to focus on exports and we expect this trend to continue in the quarters ahead.

Cost of production shoots up in Pakistan – south-based producers better placed: Pakistani producers depend heavily on imported coal for kiln operations. The sharp increase in international coal price has increased cost of production substantially. Transport cost has also shot up at a rapid pace, with diesel prices in the country increasing by nearly 80% since March 2008. As a result, cement producers in the north have incurred higher increases in coal cost, as they have to transport imported coal for 700-1,000km more than southern producers. Meanwhile, prices of gas, which most Pakistani producers use to run their captive power plants, rose by 68% in August. Producers have started passing on these increases in cement prices to domestic customers as well as the export market.

Figure 3: Pakistan cement exports on an upswing



Source: Pakistan Cement Industry

Figure 4: Pakistan demand supply scenario – growth from exports

	PKFY06	PKFY07	PKFY08	PKFY09ii	PKFY10ii	PKFY11ii
Effective capacity (mtpa)	19	26	34	40	44	47
Domestic demand (m tonnes)	17	21	22	24	25	26
Domestic demand growth (%)		24	7	6	6	5
Exports (m tonnes)	2	3	8	11	13	14
Exports growth (%)		111	142	40	20	10
Production (m tonnes)	18	24	30	35	38	41
Production growth (%)		31	24	15	10	7
Capacity utilisation (%)	95	95	89	86	87	87

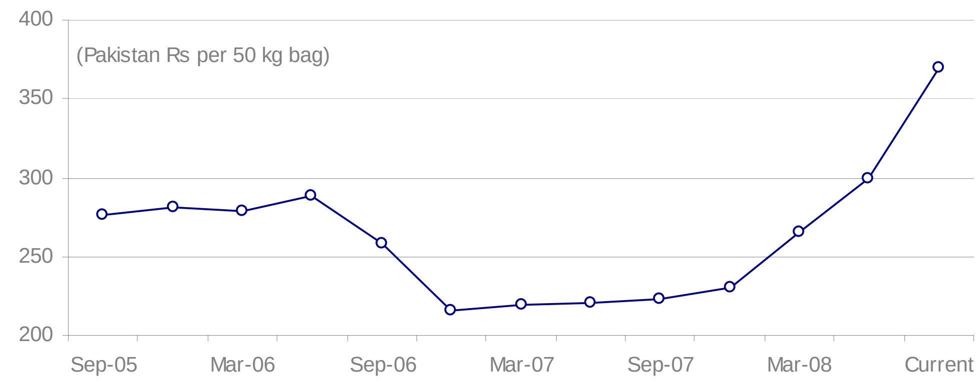
Source: Pakistan Cement Industry

Figure 5: Capacity expansion schedule of Pakistan cement plants

Company	Region	Capacity (mtpa)	Expected to start in
Gharibwal Cement	North	2.1	PKFY09
Kohat Cement	North	2.1	PKFY09
Dadabhoy Cement	South	0.7	PKFY09
Lucky Cement	South	1.3	PKFY09
Lucky Cement	South	1.3	PKFY10
Fauji Cement	North	2.1	PKFY11
Pakistan Cement	North	2.1	PKFY11

Source: Pakistan Cement Industry

Figure 6: Pakistan cement exports on an upswing

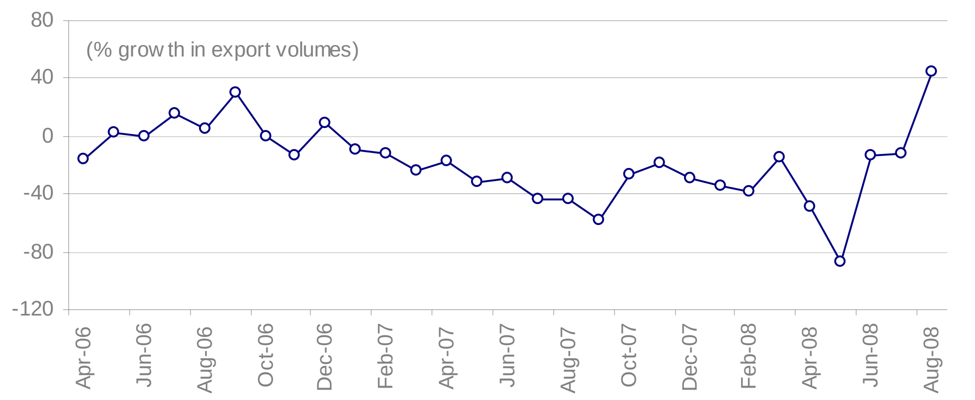


Source: Pakistan Cement Industry

India – mixed bag

Exports to increase with capacity constraints easing, growth to moderate from 2HCY09: Indian producers diverted export volumes to domestic market in the past two years as demand and prices were robust in the domestic market and capacity growth was low. Production capacity growth has picked up over the last two quarters, leading to supply pressure easing. The cement industry's export volumes took a hit in 1QFY09, as the government banned exports for six weeks in 1QFY09. Domestic demand growth also slowed down in the northern and western regions as housing demand declined. Producers in the western region have increased their emphasis on exports and we expect this to strengthen going forward, with sluggish growth in domestic markets and robust growth in Middle East. Nevertheless, we expect exports to remain flat for the full fiscal FY09, as the ban on exports in 1QFY09 would likely negate the expected surge in exports through the rest of FY09. We expect exports—particularly those to the Middle East—to decline from 2HCY09, as several large plants come up in that region.

Figure 7: Positive growth in export volumes (cement + clinker) after 19 months



Source: CMA

Sharp increase in south India cement prices could increase imports: Imports from Pakistan into western and southern India are yet to make any significant impact. Production capacity in southern Pakistan is low and is currently running at 90% utilisation. However, Pakistan's exports to India might increase from 2HCY09 as increased production capacity in the Middle East leads to a shrinkage of the export opportunity to that country. Production capacity in southern Pakistan currently stands at 10.3mtpa. Capacity utilisation was 61% in PKFY08 and rose to 90% for the period July-August 2008, thanks mainly to strong growth in exports. Lucky Cement, one of the leading cement producers in southern Pakistan, is increasing its production capacity by 1.3mtpa in the current year and another 1.3mtpa in PKFY10 to capture growing demand in the region.

Increase in cement costs has reduced viability of exports to northern India: Despite a sharp fall in demand, cement prices in Pakistan have gone up on account of sharp cost increases. Pakistani producers have increased export prices as well to make up for rising costs. Our conversations with trade representatives of Pakistani cement companies suggest that imports from that country into northern India have declined in the last two months by 50%, as some domestic brands are selling at lower prices.

Figure 8: India cement demand-supply scenario

	FY07	FY08	FY09ii	FY10ii	FY11ii
Effective cement capacity (m tonnes)	157	168	212	259	275
Production (m tonnes)	155	168	183	200	220
Capacity utilisation (%)	99	100	86	77	80
Despatches including exports (m tonnes)	155	168	182	198	217
Despatch growth (%)	10	8	9	9	9
Imports	-	0	1	1	0
Possible production	157	163	192	231	267
As a % of demand	101	97	105	117	123
Surplus/(Deficit) over demand (m tonnes)	2	-5	9	33	50

Source: CMA, Industry, IIFL Research

Figure 9: We expect positive growth in exports from Indian producers, with supply constraints easing for rest of FY09

	FY07	FY08	FY09ii	FY10ii	FY11ii
Cement	5.9	3.6	2.5	3.5	3.5
Clinker	3.1	2.4	3.5	2.5	2.5
Total export volumes	9	6	6	6	6
Growth (%)	-3	-33	0	0	0

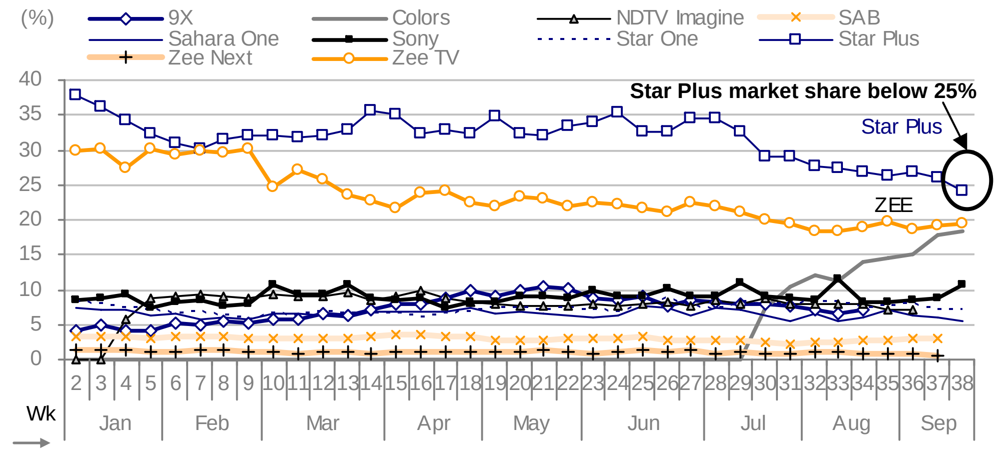
Source: CMA, Industry, IIFL Research

Star loses colours

Market share of *Star Plus* has dropped below 25% for the first time since the beginning of January 2007, according to TAM data for Hindi General Entertainment (GEC) channels for the week ended 20 September (week 38). With *Zee TV* and *Colors* both increasing their market share this week and the difference between market shares of the top three GECs narrowing, competition has intensified further. *Colors's* market share has been increasing steadily and if it manages to increase breadth of its content, it could pose a challenge to the leaders, *Star Plus* and *Zee*.

- Total GRPs for GECs increased to 1,190 in week 38 from 1,111 in week 37, with both weekend and weekday GRPs increasing by the same percentage (7.2%).
- The leader, *Star Plus,* lost GRPs marginally, from 289 to 287, while *Zee* improved from 212 to 232. *Colors* also increased GRPs from 198 to 217. Overall, *Star* lost market share (-180bps) while *Zee* (+40bps) and *Colors* (+30bps) gained. **This is for the first time since January 2007 that *Star Plus's* market share has dropped below 25%.**
- *Colors* has managed to steadily improve its market share since launch and with ~18% market share is a well-entrenched No. 3 now, leaving the previous incumbent, Sony (10.7% market share), far behind.
- While *Zee* has managed to retain its market share at the same level since the time *Colors* was launched, the leader, *Star Plus,* has lost market share by 420bps (from 29% in the *Colors* launch week to 24% in week 38). **Overall, *Colors* has taken market share from *Star Plus* and marginal channels, while *Zee* has managed to protect its market share until now.**

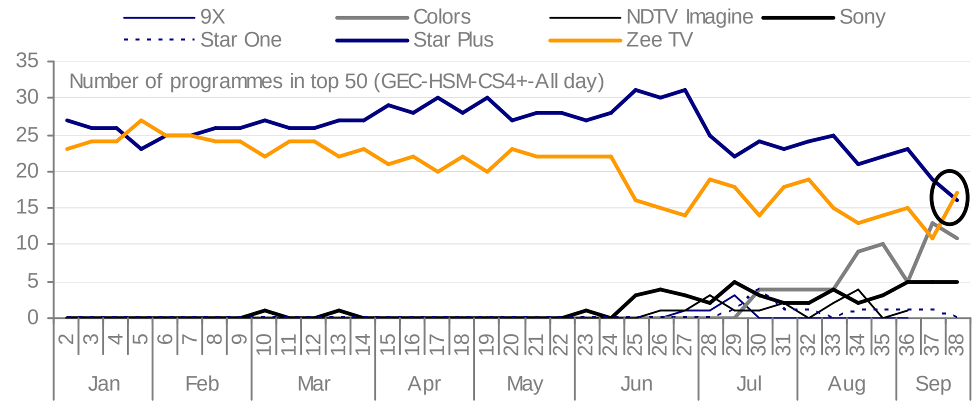
Figure 1: GEC market share



Source: TAM, IIFL Research

- However, note that *Colors* is draws ~80% of GRPs from its three programmes: 1) reality show *Big Boss* (27%); 2) family drama *Balika Vadhu* (34%); and 3) mythology-based serial *Jai Shri Krishna* (19%). Leaders *Star Plus* and *Zee TV,* on the other hand, are drawing their GRPs through a much wider portfolio of programmes.
- In the top 50 programmes (GEC-HSM-CS4+All Day), leader *Star Plus* had 16, a loss of three slots over week 37, while *Zee* stood at 17, up six slots from last week. *Colors* lost two slots to Zee and had 11 slots compared to 13 last week**. This is also the first time since February 07 that *Star Plus* has fewer slots in the top 50 programmes than *Zee TV*.**

Figure 2: Zee has more programmes in the top 50 than Star Plus



GEC: general entertainment channels. HSM: Hindi-speaking markets. CS4: Audience above 4 yrs of age. All day: all seven days of the week.
Source: TAM, IIFL Research

- In week 37, in the top 50 programmes, reality shows had cornered seven slots, whereas this week they managed just four. The loss of slots was entirely due to *Colors's* flagship show *Big Boss* losing slots (five in week 37 vs two in week 38). This further validates our stand that reality shows attract eyeballs only for a short period, and for sustained viewership and market share, GECs need to offer diversified content.

Figure 3: Genre-wise break-up of top 50 programmes (week 37)

	Reality Show	Mythology	Serials	Others	Total
ZEE	0	0	11	0	11
Star Plus	0	2	16	1	19
Star One	0	0	0	1	1
Colors	5	3	5	0	13
Sony	2	0	0	3	5
NDTV Imagine	0	1	0	0	1
Total	7	6	32	5	50

Source: TAM, IIFL Research

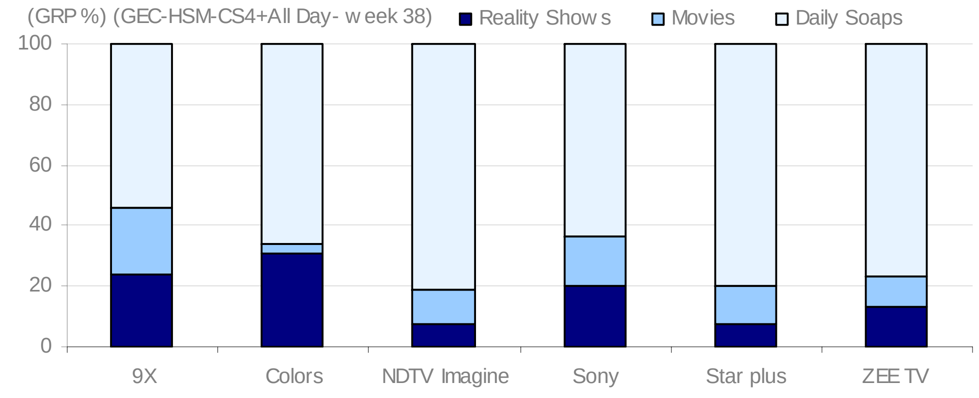
Figure 4: Genre-wise break-up of top 50 programmes (week 38)

	Reality Show	Mythology	Serials	Others	Total
ZEE	0	0	17	0	17
Star Plus	0	1	15	0	16
Colors	2	4	5	0	11
Sony	3	0	0	2	5
NDTV Imagine	0	1	0	0	1
Total	5	6	37	2	50

Source: TAM, IIFL Research

- *Zee* and *Colors* emerged as winners this week, with GRP and market share gains. However, with *Colors* drawing the bulk of its GRPs from just three programmes, we believe the channel will have to improve its content breadth to sustain its market share.

Figure 5: Leaders draw the bulk of GRPs from daily soaps



Source: TAM, IIFL Research

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Events calendar – September 2008

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1 Jul Imports ↑ 48% July Exports ↑ 31%	2	3	4 WPI for 23 Aug — 12.3%	5	6
8	9	10 SAIL	11 WPI for 30 Aug — 12.1%	12 July IIP ↑ 7.1%	13
15	16	17	18 WPI for 6 Sep	19	20
22	23	24	25 WPI for 13 Sep	26	27
29 Idea Cellular	30 1QFY09 BoP				Infosys – 10 Oct HDFC – 17 Oct HDFC Bank – 16 Oct Bajaj Fin – 22 Oct Bajaj Auto – 23 Oct Bajaj holding – 23 Oct

Black: Quarterly results, Blue: Economic data, Orange: AGM

Events

Oct-08	• **JSW** – Capacity expansion to 6.8mtpa • **HSM** modernization – 2.5mtpa to 3.2mtpa • Bar and Rod mill 1.5mtpa • **Concor** - Container traffic data for month of September at major ports • **Tata Motors** - Launch of the eagerly awaited Nano. • **Tata Motors** - Rights issue of Rs52bn in two tranches 1) Rights issue in ratio of 1:6 at Rs340 per share 2) Rights issue in ratio of 1:6 at Rs305 per share, differential shares with lower voting rights and higher dividend • **Maruti** - A-star launch
Nov-08	• US Presidential elections
Dec 08	• **Sun Pharma** - Israeli supreme court decision on enforceability of special tender offer rule in Taro acquisition • **Nalco** – Phased commissioning of 2nd phase expansion • Increase alumina capacity from 1.57mtpa to 2.1mtpa • Increase aluminium capacity from 345ktpa to 460ktpa • Increase power capacity from 960MW to 1200MW • **Lakshmi Energy** and Foods 2nd 15MW power plant to begin commercial production.
Oct-Dec 08	• **Jubilant Organosys** - generic sestamibi approval by US FDA
Nov-Dec 08	• **Dr Reddy's Labs** - Imitrex authorized generic launch in US
Oct-Dec 08	• Indus Tower expected to get towers from three shareholders **Bharti, Vodafone and Idea** • 3G auctions expected to be held • **Grasim's** Shambupura 4.5mtpa cement plant to start commercial prod. • Commercial production from **RIL** KG D-6 starts • Commercialisation of **RPL** refinery • **Unitech** - Dilution of stake in its telecom subsidiary • **Madras Cements** 2mtpa cement plant at Ariyalur to start Prod.

Jan-Mar 09	• **RCOM** expected to launch GSM services nationwide • **Grasim's** Kotputli 4.4 mtpa expansion to commence prod.
Apr-Jun 09	• India's national elections
Oct-Mar 09	• **DLF** - Buy back of shares- upto Rs 11bn & cap price at Rs600/share • **DLF** - Capital raising by DAL • **Sobha** - Right issue upto Rs3.5bn • **Sintex** - Announcement of new international acquisition in composite segment • **Arshiya International** - Capital raising to fund its FTWZ & Rail business • **Puravankara Projects** - Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project
Oct-Dec 09	• **BHEL** Capacity goes up from 10 GW to 15 GW

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.
Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.
