

September 20, 2011

## Price Performance

### ACC (Rs1,069, HOLD)

(%)	1M	3M	6M	12M
Absolute	7	14	4	5
Rel. to Sensex	1	17	10	22

### Ambuja (Rs147, REDUCE)

(%)	1M	3M	6M	12M
Absolute	11	17	11	1
Rel. to Sensex	5	19	17	18

### Grasim (Rs2,320, ACCUM)

(%)	1M	3M	6M	12M
Absolute	11	15	(5)	3
Rel. to Sensex	5	18	(0)	20

### Ultratech (Rs1,145, REDUCE)

(%)	1M	3M	6M	12M
Absolute	16	21	12	6
Rel. to Sensex	9	24	18	23

### India Cements (Rs72, Under review)

(%)	1M	3M	6M	12M
Absolute	5	(7)	(22)	(40)
Rel. to Sensex	(1)	(5)	(17)	(30)

### Madras Cements (Rs103, ACCUM)

(%)	1M	3M	6M	12M
Absolute	21	24	5	(13)
Rel. to Sensex	14	27	11	2

### Orient Paper (Rs60, BUY)

(%)	1M	3M	6M	12M
Absolute	5	4	29	(3)
Rel. to Sensex	(1)	6	35	12

### Shree Cements (Rs1,786, ACCUM)

(%)	1M	3M	6M	12M
Absolute	8	6	(4)	(13)
Rel. to Sensex	1	8	1	2

Source: Bloomberg

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## First signs of seasonal up tick in prices

- **With monsoons coming to an end, cement producers hike prices in anticipation of demand pick up. All India Sept-11 cement prices improve by ~Rs4/bag m-o-m**
- **Despite moderate demand, North (+Rs9/bag) & Central (+Rs12/bag) region see highest price hikes followed by Eastern region (Rs7/bag). Dealers expect further hikes**
- **Prices in western and southern region remain flat, except Gujarat where prices have seen a sharp cut of Rs10-15/bag. Southern manufacturers likely to roll back seasonal discount**
- **Though July-Aug dispatches grew +8% on low base, demand is yet to reflect strength. Solid demand pick up remains a key trigger to sustain the ensuing seasonal price uptick. Prefer ACC,SRM & Grasim. Maintain REDUCE on ACEM & UTCM.**

### Key Highlights of our interaction with cement dealers across the country:

#### Northern Region: Prices hiked in anticipation of demand pick up

- Though cement demand in the region is yet to see a seasonal uptick cement prices in the region have been hiked by Rs10-15/bag in the last one week. Dealers suggest that this is due to stocking up of the commodity in anticipation of demand pick up before the festive season.
- Dealers expect one more round of hike in the next 2-3 weeks.

#### Central region: Prices bounce back

- After a sharp fall of ~Rs40-45/bag from its yearly highs, cement prices in this region have been hiked by Rs10-15/bag in the last one week. We had highlighted in our August-11 note that the cement producers were trying to arrest the fall in cement prices by pushing price hikes which is now clearly evident in September-11.
- Demand however still remains at average levels but dealers suggest that in anticipation of demand pick up producers might hike prices further in the next few weeks.

#### Eastern region: Demand still sluggish but prices hiked...

- Dealers suggest that demand has remained at average levels but is expected to pick up post Durga poojan. In anticipation of this pick up Prices in this region have been hiked by Rs5-10 in the last one week with further hikes of Rs10 expected in the next few weeks.
- After a sharp decline of 15% in cement prices from YTD highs witnessed in the month of July, prices in this region have been hiked consecutively in August and September and have surprised us positively.

#### Western Region: Maharashtra stable, Price in Gujarat fall after short recovery

- Though prices in Gujarat had witnessed some signs of recovery in August, cement producers have cut prices by Rs5-15/bag over the last one week impacted by sluggish demand. However dealers suggest that prices have almost bottomed out post this fall and will witness some stabilization in the coming weeks.
- Prices in Pune and Mumbai have increased by Rs5/bag although there is no real boost seen in demand backing up the hike.
- The issue of delayed auctioning of sand along with high prices continues to hamper construction activities, already affected by the monsoons Overall, we expect prices to stabilize from here on with hikes expected in the coming weeks in anticipation of better demand seen before the festive season begins.

### Southern Region: Prices remain flat

- Though demand in the southern region continues to remain sluggish, pricing discipline displayed by cement producers has managed to sustain prices at almost same levels
- Prices have increased in selected pockets like Hyderabad on account of rollback of seasonal discounts given by cement manufacturers to dealers and has resulted in prices increasing by Rs8-10/bag in those regions. Dealers suggest that these discount rollbacks could also spread to other parts in this region. On an average prices in the region have remained flat.

Region		Prices in Sept, 2011	Prices in Aug, 2011	YTD highs	% Change MoM	% fall from YTD highs	Expected trend
North	Delhi	243	231	285	5.2%	-14.7%	Up
	Karnal	233	225	280	3.6%	-16.8%	Up
	Rohtak	238	225	272	5.8%	-12.5%	Up
	Chandigarh	252	245	294	2.9%	-14.3%	Up
	Jaipur	235	223	271	5.4%	-13.3%	Up
	Simla	235	233	288	0.9%	-18.4%	Up
	Bhatinda	242	234	290	3.4%	-16.6%	Up
	Ludhiana	245	233	294	5.2%	-16.7%	Up
	Jammu	327	319	374	2.5%	-12.6%	Up
	<b>Average</b>	<b>250</b>	<b>241</b>	<b>294</b>	<b>3.8%</b>	<b>-15.0%</b>	
Central	Lucknow	227	215	285	5.6%	-20.4%	Up
	Meerut	250	239	275	4.6%	-9.1%	Up
	Faizabad	250	240	285	4.2%	-12.3%	Up
	Bareilly	242	230	285	5.2%	-15.1%	Up
	Bhopal	225	210	253	7.1%	-11.1%	Up
	<b>Average</b>	<b>239</b>	<b>227</b>	<b>277</b>	<b>5.3%</b>	<b>-13.7%</b>	
East	Calcutta	247	239	276	3.3%	-10.5%	Up
	Patna	240	235	265	2.1%	-9.4%	Up
	Muzaffarpur	245	237	270	3.4%	-9.3%	Up
	Bhubneshwar	268	260	296	3.1%	-9.5%	Up
	Gauwhati	255	247	260	3.2%	-1.9%	Up
	<b>Average</b>	<b>251</b>	<b>244</b>	<b>273</b>	<b>3.0%</b>	<b>-8.2%</b>	
West	Bombay	265	260	302	1.9%	-12.3%	Up
	Nagpur	240	240	274	0.0%	-12.4%	Flat
	Pune	275	271	297	1.5%	-7.4%	Up
	Ahmedabad	215	232	288	-7.3%	-25.3%	Up
	Rajkot	215	225	275	-4.4%	-21.8%	Up
	Baroda	225	235	281	-4.3%	-19.9%	Up
	Surat	220	240	295	-8.3%	-25.4%	Up
	<b>Average</b>	<b>236</b>	<b>243</b>	<b>287</b>	<b>-2.8%</b>	<b>-17.7%</b>	
South	Chennai	262	262	275	0.0%	-4.7%	Flat
	Trivandrum	312	312	320	0.0%	-2.5%	Flat
	Calicut	310	310	325	0.0%	-4.6%	Flat
	Bangalore	285	284	290	0.4%	-1.7%	Flat
	Hyderabad	265	250	265	6.0%	0.0%	Flat
	Vishakapatnam	265	260	270	1.9%	-1.9%	Flat
	Goa	275	272	290	1.1%	-5.2%	Flat
	<b>Average</b>	<b>282</b>	<b>279</b>	<b>291</b>	<b>1.2%</b>	<b>-3.0%</b>	

## Quarterly price trends

(Rs per bag)	North	Central	East	West	South	All India
<b>Q1FY11</b>	<b>257</b>	<b>245</b>	<b>264</b>	<b>227</b>	<b>234</b>	<b>245</b>
Jul-10	255	236	258	211	205	233
Aug-10	250	226	252	201	198	225
Sep-10	246	215	241	194	227	225
<b>Q2FY11</b>	<b>250</b>	<b>225</b>	<b>250</b>	<b>202</b>	<b>210</b>	<b>228</b>
Oct-10	252	221	243	211	269	239
Nov-10	249	220	242	226	270	241
Dec-10	244	209	230	222	260	233
<b>Q3FY11</b>	<b>248</b>	<b>217</b>	<b>238</b>	<b>220</b>	<b>266</b>	<b>238</b>
Jan-11	250	220	230	233	270	241
Feb-11	273	258	248	258	280	263
Mar-11	289	271	261	276	283	276
<b>Q4FY11</b>	<b>270</b>	<b>250</b>	<b>247</b>	<b>255</b>	<b>278</b>	<b>260</b>
<b>FY11</b>	<b>257</b>	<b>234</b>	<b>250</b>	<b>226</b>	<b>247</b>	<b>243</b>
Apr-11	286	264	259	278	285	274
May-11	282	255	248	269	286	268
Jun-11	272	241	239	255	279	257
<b>Q1FY12</b>	<b>280</b>	<b>253</b>	<b>249</b>	<b>268</b>	<b>283</b>	<b>266</b>
Jul-11	255	234	233	240	278	248
Aug-11	241	223	244	244	278	246
Sep-11	243	225	248	243	278	247
<b>Q2FY12E</b>	<b>246</b>	<b>227</b>	<b>241</b>	<b>242</b>	<b>278</b>	<b>247</b>

\*Note : Prices for Sept include averages only till Sept19, 2011

### Outlook

After registering a flattish demand growth in Q1FY12, cement dispatches in July –Aug 11 grew by 8% yoy. We attribute this growth more to the low base for FY11 as the aggregate demand is yet to reflect strength (twelve month rolling dispatches at 17.57 mnt /month is growing at a meager 3%). The low base effect of FY11 might continue to help growth numbers seem better till January 2012. However for a sustainable pricing power, the industry needs the cement demand to pick up. Though there are some anecdotal evidences like better monsoon helping rural cement consumption and the current pick up in awarding of road projects & construction activity in Metros helping cement demand from infrastructure, we are yet to see structural demand drivers in place. Hence a solid demand pick remains a key trigger to sustain the ensuing seasonal price uptick.

We maintain neutral stance on the sector. Maintain REDUCE ratings on Ambuja Cement & Ultratech Cement. Prefer Shree cements, ACC (volume growth to help drive operating leverage and protect margins) and Grasim (attractive valuations).

## Valuations &amp; Recommendations

Company Name	Reco	TP (Rs)	PE (x)			EV/EBITDA (X)			EV/tonne (USD)		
			FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
ACC	Hold	1,100	16.8	17.1	14.3	10.7	8.9	7.2	121	116	111
Ambuja Cements	Reduce	140	16.8	16.7	14.3	9.9	9.1	7.6	158	143	139
Grasim Industries	Accumulate	2,600	9.9	9.1	8.7	3.9	3.6	3.2			
India Cements	Under Review	UR	31.3	13.5	12.4	10.0	6.4	5.6	50	54	52
Madras Cements	Accumulate	100	9.9	8.9	7.3	7.7	6.2	5.1	82	81	74
Orient Paper	Buy	82	7.8	6.2	5.1	5.4	4.0	3.1	61	55	45
Shree Cements	Accumulate	2,050	29.3	-186.0	11.2	7.1	5.4	3.8	93	85	67
Ultratech Cement	Reduce	1,050	18.5	15.2	12.9	9.6	8.3	7.0	135	131	130

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