

Visit highlights – Jaiprakash Cement



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Visit reaffirms large cement expansion program

We met with the senior management of Jaiprakash Associates (Jaypee; not-rated) for an update on their cement expansion plans. Jaypee ranks among the top 5 cement producers in India & its large expansion program is important to the industry's supply-demand outlook, especially in north & central India. Jaypee is working to double its capacity from ~9mn tpa currently to 18mn tpa by March 2009; the expansion represents nearly 20% of the industry's capacity pipeline over FY08-09E. The progress of Jaypee's expansion program reaffirms our expectation of capacity overhang in the Indian cement industry by Mar '09E.

Himachal & Uttar Pradesh expansion by March 2008

Jaiprakash told us that their 3mn tpa greenfield plant at Himachal, the 1mn tpa split grinding unit at Panipat, and their 2.5mn tpa modernization & upgradation of UP Cement will be commissioned in FY08. The company confirmed that it has overcome various site-related issues in Himachal & erection of equipment at site is now underway. Commissioning of the above expansions will broadly coincide with other large additions in north India, from Grasim & Shree Cement, around 4Q FY08/1Q FY09.

Additional 3mn tpa in FY09, further projects also underway

In FY09, Jaypee will commission an additional 3mn tpa of greenfield capacity viz the 1.2mn tpa Gujarat unit & 1.5mn tpa Madhya Pradesh unit. Land acquisition and equipment ordering for both projects has been completed. Further, in FY10E, Jaypee expects to add 4mn tpa via a 2mn tpa slag-cement (Sail-Bhilai) plant in Chhattisgarh & a 2mn tpa greenfield plant at Chamba in Himachal Pradesh.

Jaypee is bullish on cement prices, short term & long term

The company believes robust demand & tight supply could drive cement prices higher over the next few quarters, by around 3-4%, especially in north & central India. Longer-term, the company expects cement prices to be stable until FY10-11E & foresees another round of supply-demand tightness thereafter.

We remain Neutral; strong FY08 but downturn in FY09

We remain Neutral on the Indian cement sector as likely trading upside in FY08 seems to be mostly offset by risk of downturn in FY09. In contrast with Jaypee's expectation of stable cement prices until FY10-11, we expect cement prices to fall in 2H FY09E led by large capacity additions in the industry. In the short-term, however, we agree with Jaypee that there could be 3-5% upside to cement prices given continued supply tightness & recent easing of government pressures. Grasim remains our preferred stock in the Indian cement sector.

Table 1: industry - Supply-demand outlook

As on 31 March (mn tpa)	FY06	FY07	FY08E	FY09E
Cement Capacity	161	166	184	229
Effective Clinker Capacity	126	131	143	183
Capacity growth	5%	3%	9%	28%
Cement Demand	141	155	167	180
Demand growth	13%	10%	8%	8%
Domestic Consumption	135	149	161	174
Growth in domestic consumption	12%	10%	8%	8%
Exports	6.0	5.9	5.9	5.9
Export growth	48%	-2%	0%	0%
Cement - Capacity Utilisation	88%	93%	91%	78%
Cement/Clinker Ratio	1.28	1.33	1.33	1.33
Blended Cement as % of total production	61%	70%	70%	70%
Clinker Exports	3.2	3.1	3.1	3.1
Clinker - Capacity Utilisation (incl. Exports)	90%	92%	90%	75%
Clinker - Capacity Utilisation (excl. Exports)	88%	89%	88%	74%

Source: ML research

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Table 2: Valuation comparison of Indian cement majors

	Share Price	Market Cap (US\$ mn)	PE Relative (FY08E)	
ACC (ADCLF, C-2-7/NEUTRAL)	868	3559	0.7	
Grasim- Cement (GRSJF/GRSJY, C-2-7/NEUTRAL)	2452	5483	0.6	
Ambuja Cements (XBRIF/GUJTF, C-2-7/NEUTRAL)	123	3695	0.7	
UltraTech (XDJNF, C-2-7/NEUTRAL)	823	2381	0.7	
Shree Cement (SREEF, C-2-7/NEUTRAL)	1050	813	0.6	
India Cements (INIAF/IAMZY, C-2-9/NEUTRAL)	185	1066	0.4	
BSE30	13796			
Yr to 31 March	FY06A	2006A/FY07E	2007E/FY08E	2008E/FY09E
EV/Capacity (US\$/ton)				
ACC	215	213	193	159
Grasim- Cement (Consolidated)	135	136	139	90
Ambuja Cements	na	262	258	252
UltraTech	154	153	151	123
Shree Cement	204	209	159	104
India Cements	162	146	121	83
REPLACEMENT COST BENCHMARK (India)	80-100	80-100	80-100	80-100
P/E (x)				
ACC	35.7	14.7	11.5	14.1
Grasim- Overall	21.7	11.4	9.9	11.0
Ambuja Cements	na	13.2	11.7	15.5
UltraTech	50.8	13.1	11.0	14.4
Shree Cement	25.0	9.0	9.4	16.7
India Cements	93.4	8.4	6.9	9.4
Local Market PE	25.9	19.4	16.6	14.9
EV/EBITDA (x)				
ACC	22.6	10.0	7.7	9.3
Grasim- Cement (Consolidated)	13.0	5.9	5.5	5.5
Ambuja Cements	na	10.1	8.2	9.8
UltraTech	21.1	8.2	7.2	8.1
Shree Cement	17.8	6.5	5.6	8.0
India Cements	23.4	6.9	5.6	6.9
Local Market EV/EBITDA	12.6	12.5	11.2	10.4

ACC & Gujarat Ambuja have year-ending Dec, for e.g. FY07 pertains to year ending Dec '06. Source: ML research

Analyst Certification

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