Cement Industry: riding on price realization

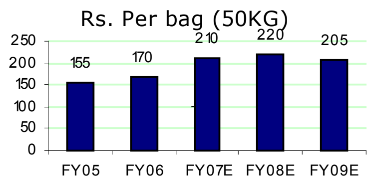
The cement prices have witnessed appreciation of Rs 5 per bag, second time post monsoon on account of robust demand in construction and infrastructure segment. The industry is going through a boom phase with substantial growth in demand. Currently, the country is witnessing a growth of 9.5-10.5% in cement consumption over and above the double-digit growth achieved in the previous year. On the other hand, the supply is growing at 8% creating the situation of shortage in the domestic market.

Looking at the planned infrastructure activities in real estate, housing sector, roads, railways, ports and SEZ, we expect the situation to continue for the next 1-2 years till additional capacities are set up. The cement prices have already firmed up significantly over the last few months and given the strong demand-supply scenario, the prices are expected to improve further.

Quarterly Performance:

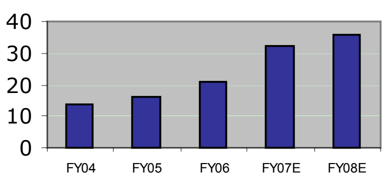
Cement industry's performance once again has beaten the market expectation in this quarter and registered a growth of 47.5% in topline and growth of 185% in bottomline. In the margin side-operating margin have reached to 28.40% on account of firm realization, demand-supply mismatch and reduction in coal prices. The net profit margin has almost doubled to 17.20% despite of huge tax provision and higher depreciation cost.

Firm Price realization:



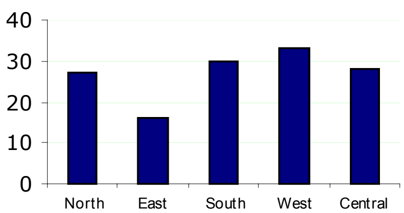
Source: Cris Infac

Improving EBIDTA margin%:



Source: Capitaline

Region wise % price growth:



Source: CMA

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Investment Arguments:

- For the month of Oct 2006, all India cement despatch figure has improved by 8% on YoY basis to 12.55mn ton and on sequential basis it has increased by 3.55%.

- The cement has witnessed the second time price appreciation by Rs. 5 per bag post monsoon on account of robust demand in construction and infrastructure segment.

- We expect 12m-16m TPA demand in addition to the normal 10% CAGR expected demand growth due to approvals of more than 130 SEZs with 250,000 acres land and NHB's project of 'A House For Rs. 1 Lakh' on massive scale.

- The proposed capacity expansion of cement capacities (nearly 70 MnT) are expected to come on stream over the next 2-3 years which may create surplus of supply but we believe that the most of the capacities will start after 1HFY08 and beyond. So for next one-year cement sector will experience deficit, which will give the positive outlook for cement prices.

Despatch for Oct. 2006:

	Oct-06	Oct-05	% Growth
ACC	1.64	1.51	8.61
UltraTech Cem	1.20	1.12	7.14
Shree Cement	0.44	0.27	62.96
Guj. Ambuja Cem	1.25	1.17	6.84
Grasim Industries	1.34	1.24	8.06
All India	**12.55**	**11.62**	**8.00**

Cement despatch figure has improved by 8% on YoY basis to 12.55mn ton and on sequential basis increase was 3.55%.

Cement despatches – Strong growth continues

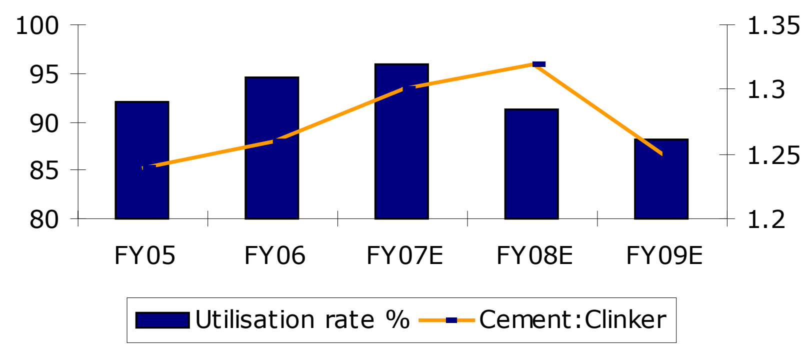
For the month of Oct 2006, all India cement despatch figure has improved by 8% on YoY basis to 12.55mn ton and on sequential basis it has increased by 3.55%. The capacity utilization of the industry has gone up from 90% to 93%. Eastern region has shown the strong growth in despatch to 22% on sequential basis to 1.94 mn ton. Southern region is the only region where the despatch has come down and particularly in two states of Tamilnadu and Andhra Pradesh on account of monsoon.

Particulars	Oct-06	Oct-05	%Change	Sep-06	% Change
Production	12.83	11.72	9.47	12.08	6.21
Despatches	12.55	11.62	8.00	12.12	3.55
Cap. Ut.(%)	93.00	90.00		88.00	

Most of the plants are operating at optimum level that will be constraint for supply & leads to positive outlook for price realisation.

Optimum utilization rate: constrained on supply

Most of the plants are operating at optimum level, which will be constraint for the supply. The capacity utilization of the industry has gone up from 90% to 93% for this month and we expect the optimum utilization level to 95-100% for FY07E, which has restrained the growth through improvement on capacity utilization. Industry has also reached the 1.3X blending (Cement: Clinker) so we can't expect the further increase in supply through improvement in blending in coming years. So we would expect the flat supply from existing plants, which will also create the situation of deficit & leads to positive outlook for pricing.



The companies are investing heavily to reduce the power cost by installing the captive power plants.

Operational efficiency: driving on captive power plant

The chief cost for cement companies are power and fuel cost. Power and fuel costs account for 28%-30% of the total production cost. Any reduction on these costs has a direct positive impact on the operating margins of the companies. So the companies are investing heavily to reduce the power cost by installing the captive power plants. After the commercialization of all the announced capacity the cement industry would be able to meet the 60%-65% of the power requirements, which will directly improve the operating margin of the cement industry.

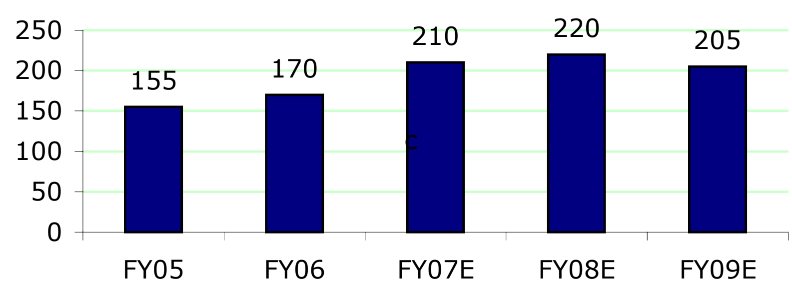
Looking at the surge in the construction activity post monsoon we expect further appreciation in cement prices by Rs 5-10 per bag.

Firm price realization:

The cement prices has continued its momentum and has experienced the second time price appreciation by Rs. 5 per bag post monsoon on account of robust demand in construction and infrastructure segment. Southern region is the only region where the prices have come down and particularly in two states of Tamilnadu and Andhra Pradesh where the prices have moved down by Rs5 per bag due to monsoon.

We would expect the average realization to be around Rs. 210 for FY07E, which is 23% higher on YoY basis. Looking at the surge in the construction activity post monsoon we would expect further appreciation in cement prices by Rs 5-10 per bag.

Rs. Per bag (50KG)



Demand-supply mismatch

Cement Consumption (Mn tones)

Region	Q2FY07E	Q2FY06	% Change
North	6.8	6.4	6.25
West	5.2	5.1	1.96
South	11.2	9.4	19.15
East	4.8	4.7	2.13
Central	4.9	4.4	11.36
Total	32.9	30	9.67

We are experiencing the robust double-digit growth in the cement demand from last two year and we expect the firm demand will continue on account of infrastructure thrust to maintain the GDP growth of above 8%. On the other hand supply is growing at 8%, which has created the situation of shortage.

Different companies have announced large amount of capacities but on an average, it requires a gestation period of around 18 to 24 months to start commercial production, so we do not expect oversupply situation till mid FY09. Thus, we expect prices to remain firm till that time.

Demand would be buoyant on account of growth in housing sector, increased infrastructure spending and capex plan.

Demand-Supply= Deficit (Firm price realization)

Demand Supply Status	FY05	FY06	FY07E	FY08E	FY09E
Annual Installed Cap.	151.6	160.2	170.3	189.9	208.4
Idle Cap.	7.0	7.0	7.0	5.0	3.0
Cement Effective Cap.	144.6	153.2	163.3	184.9	205.4
Cement Domestic Demand	123.1	135.6	149.8	162.1	175.6
YoY% Change		10.2	10.5	8.2	8.3
Cement & Clinker Export	10.1	9.2	6.8	6.5	5.5
Total Cement Demand	133.2	144.8	156.6	168.6	181.1
Req. Utilization Rate %	**92.1**	**94.5**	**95.9**	**91.2**	**88.2**

Most of the proposed capacity expansion (nearly 70 MnT) is expected to come on stream from 1HFY08 and beyond.

Proposed capacities expansion:

The proposed capacity expansion of cement (nearly 70 MnT) are expected to come on stream over the next 2-3 years which may create surplus of supply but we believe that most of the capacities will start after 1HFY08 and beyond. So we still expect the better future prospect for the industry.

In Mn tonnes	Completion Year		
Region	**FY07E**	**FY08E**	**FY09E**
North	1.7	9.5	10.0
West	1.1	0.5	5.3
South	0.6	4.9	18.3
East	0.5	--	12.7
Central	0.5	4.7	--
Total	**4.4**	**19.6**	**46.3**

We expect the additional demand to further improve the price realization in near future.

Additional demand drivers:

- We expect 12m-16m TPA demand in addition to the normal 10% CAGR expected demand growth due to approvals of more than 130 SEZs with 250,000 acres land.
- NHB is working on project of 'A House for Rs. 1 Lakh' on massive scale all over India, which will give the boost to addition demand for cement consumption.

Outlook:

Looking at the demand-supply mismatch, firm realization, operational efficiency and robust demand we believe the sector still has the potential to perform in near future. Despite sharp increase in the stock price are bullish on some of the stocks in the sector like Ultratech cement, Shree Cement and India Cement.

Quarterly Performance:

Cement industry's performance has once again beaten the market expectations in this quarter and registered the growth of 47.5% in topline and growth of 185% in bottomline. In the margin side, operating margin have reached to 28.4% on account of firm realization, demand-supply mismatch and reduction in coal prices. The net profit margin has almost doubled to 17.2% despite huge tax provisions and higher depreciation cost.

Cement Industry Fact Sheet: (Quarterly performance)

	Net Sales			PBIDT			RPAT			Ann. EPS
Co_Name	Q2FY07	Q2FY06	% Change	Q2FY07	Q2FY06	% Change	Q2FY07	Q2FY06	% Change	FY07E
Grasim Industries	2010.8	1639.1	22.7	582.4	352.7	65.1	337.8	187.7	80.0	147.2
ACC	1373.5	1011.4	35.8	366.0	152.3	140.4	224.7	228.3	-1.6	48.0
UltraTech Cem.	1004.5	640.0	57.0	266.4	73.1	264.6	127.4	0.1	159200.0	40.9
Guj. Ambuja Cem	984.1	647.3	52.0	381.4	171.6	122.3	244.7	75.3	225.0	7.2
India Cements	516.4	391.4	31.9	173.4	68.9	151.8	117.3	5.9	1905.5	21.3
Madras Cement	407.3	246.1	65.5	160.0	52.4	205.3	90.1	18.8	378.8	298.2
Birla Corp.	364.7	260.6	39.9	103.2	31.6	226.7	67.5	18.2	271.9	35.1
Shree Cement	316.0	155.4	103.3	147.0	52.9	177.6	77.8	37.4	108.2	89.3
J K Cements Ltd	268.2	205.8	30.3	68.6	29.7	131.0	34.0	4.9	593.9	19.5
Dalmia Cement	249.6	140.9	77.1	93.3	23.5	297.0	52.0	8.9	485.6	48.7
OCL India	187.1	132.9	40.9	33.1	19.4	70.7	11.1	7.6	45.2	11.6
Chettinad Cement	186.8	121.9	53.3	65.3	32.3	102.4	34.2	10.3	232.1	46.3
JK Lakshmi	163.2	125.8	29.7	40.3	21.6	86.1	23.4	8.5	174.0	16.4
Prism Cement	159.5	99.2	60.7	44.9	12.8	252.2	22.2	-1.3	1803.8	3.0
Mysore Cement	150.7	84.9	77.5	33.6	-5.3	736.9	20.3	-22.3	191.2	5.1
Amb. Cem. East.	146.9	98.1	49.8	44.2	17.0	160.5	33.5	6.1	450.5	7.0
Mangalam Cement	119.5	75.9	57.5	35.1	9.4	271.7	20.3	3.9	424.8	28.8
Guj. Sidhee Cem.	89.4	57.6	55.3	16.3	8.5	92.2	8.6	0.6	1469.1	2.4
Saurashtra Cem.	85.3	51.0	67.3	28.7	7.5	281.5	12.4	-9.6	229.0	12.5
K C P	58.2	42.8	36.2	21.1	12.0	75.8	10.0	7.0	42.3	31.0
Deccan Cements	40.7	30.2	34.6	12.0	2.5	378.4	7.0	0.9	695.5	40.0
NCL Inds.	36.4	23.3	55.8	9.2	3.9	133.8	6.7	1.2	454.5	9.2
Kakatiya Cements	28.6	24.5	16.7	7.9	5.1	53.1	2.5	1.5	68.2	12.8
Sagar Cements	27.4	16.0	71.0	10.7	0.9	1114.8	5.2	-0.6	918.8	18.8
Vinay Cements	13.3	5.9	127.1	2.5	0.9	188.5	1.6	0.3	507.7	6.3

Accumulate

Shree Cement Limited — CMP: Rs. 1343

Key Data:

BSE Code	500387
NSE Code	SHREECEM
Sensex	13429
52 week H/L (Rs.)	1592.15
Market Cap (Rs Cr)	4680
Avg. daily vol. (6M)	14060
Face Value	10.00

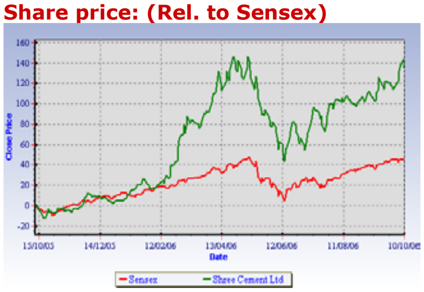
Source: Capitaline

Shareholding Pattern (%):

Promoters	63.72
Institution	09.35
Foreign	14.98
Non-promoter Corp.	04.58
Public & Others	07.38

Source: Capitaline

Share price: (Rel. to Sensex)



Source: Capitaline

Shree cement has posted an impressive result for this quarter backed by improved price realization and higher volume growth. The company has shown the improvement of 110 bps in its EBIDTA margin on sequential basis and 1240 on YoY basis. The net profit margin has shown the marginal improvement of 60 bps on YoY mainly due to provision for tax.

Quarterly highlights:

- **Strong volume growth:** The company has reported 45% growth in dispatches to 1.10 Mn tones from 0.76 Mn tones in Q2FY06. The robust growth in volumes was primarily due to capacity addition and good demand in the region.

- **Robust growth in operating performance:** The higher price realization coupled with cost management has led to the growth of 177% in EBIDTA to 147 Cr.

- **Tax provision-Restricted the growth of net margin:** The net margin has shown the marginal growth mainly due to the tax provision for this quarter from no tax provision in the previous quarter.

Valuation: At a price of Rs 1343, the scrip is available at 15.4XFY07E. On EV/EBIDTA multiple company is currently trading at 9.2XFY07E. We recommend accumulate rating on the stock with long-term perspective.

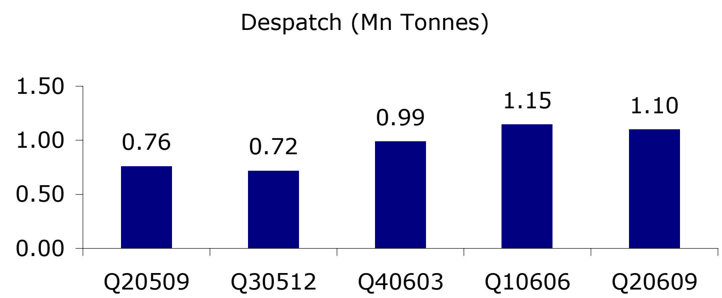
Quarterly Performance: (Year ending March)

Rs. Crore	Q20509	Q30512	Q40603	Q10606	Q20609	FY05	FY06	FY07E
Net Sales	155.38	144.29	225.50	309.39	315.95	582.08	667.69	1240.00
YonY (% Change)	10.58	6.49	38.02	117.09	103.34	23.00	14.71	85.71
Other Income	0.75	0.71	1.73	3.02	4.31	4.09	3.47	5.50
Total Exp.	103.19	101.10	143.91	171.91	173.28	412.24	445.99	711.51
EBIDTA	52.94	43.90	83.32	140.50	146.98	173.93	225.17	533.49
YonY (% Change)	30.59	10.03	97.07	215.31	177.64	31.39	29.46	136.93
EBIDTAM%	**34.07**	**30.42**	**36.95**	**45.41**	46.52	**29.88**	**33.72**	**43.02**
Interest	3.31	3.34	2.28	5.38	2.69	19.83	12.83	19.85
Depreciation	12.27	12.27	20.66	26.29	33.84	122.96	185.21	119.25
Tax	0.00	0.00	-1.07	18.13	32.33	2.44	1.32	89.59
RPAT	37.36	27.96	60.71	90.39	77.82	29.07	18.40	304.30
YonY (% Change)	119.76	69.56	191.31	247.65	108.30	122.93	-36.70	1511.35
PATM%	**24.04**	**19.38**	**26.92**	**29.22**	**24.63**	**4.99**	**2.76**	**24.58**
EPS (Unit Curr.)	10.72	8.03	17.43	25.94	22.34	8.34	5.28	87.49

QUARTERLY HIGHLIGHTS:

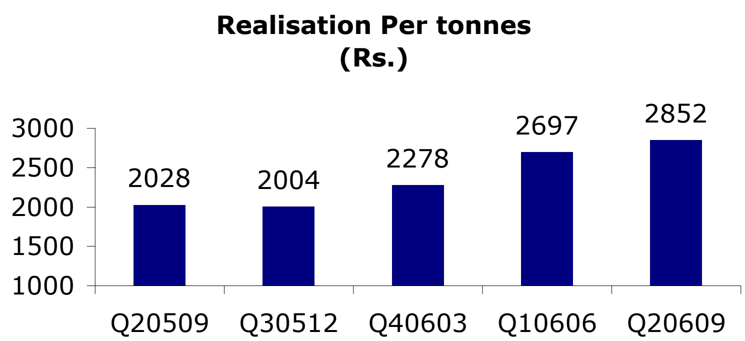
The robust growth in volumes was primarily driven by capacity addition and good demand in the region.

Strong Volume growth: The company has reported 45% growth in dispatches to 1.10 Mn tones from 0.76 Mn tones in Q2FY06. The robust growth in volumes was primarily driven by capacity addition and good demand in the region.



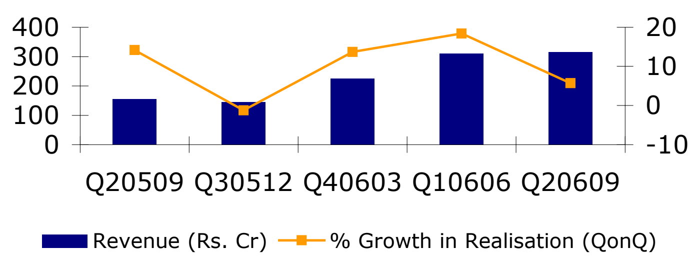
Firm realisation driven by inadequate supply and firm demand despite heavy monsoon and flood

Robust growth in price realization: The company has reported a 41% growth in price realisation to Rs. 2852 per tonne from Rs. 2028 per tonne. The growth in realisation was mainly driven by inadequate supply and firm demand despite heavy monsoon and flood.



The growth of revenue on account of 45% growth in volume coupled with 41% growth of price realisation.

Revenue driven by volume and realisation: The company has beat the market expectation of top line and gone up by 103% to Rs. 315.95 cr from Rs. 155.38 cr in corresponding quarter in previous driven by 45% growth in volume and 41% in price realisation.



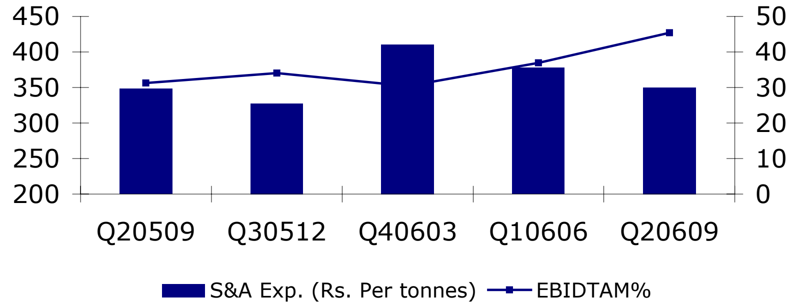
Robust growth in EBIDTA performance due to higher realisation and cost management.

Impressive operating performance: The company's EBIDTA margin was 100 bps more than the Q1FY07 and 1250 bps higher than Q2FY06 due to lower transporation cost, lower pet coke prices on sequential basis and energy cost lower than the those using coal.

Cost Management:

% of Net sales	Q2 FY06	Q1 FY07	Q2 FY07
Raw Material	13.2	11.4	11.5
Emp.Cost	4.8	3.7	3.7
Power & Fuel	19.6	15.2	16.9
S&A Exp.	17.2	14.0	12.3

The EBIDTA has shown a growth of 177% to Rs. 146.9 Cr from Rs. 52.9 Cr attributed by higher price realisation coupled with cost management.



The net margin's growth was restricted due to the tax provision for this quarter from no tax provision in the previous quarter and increasing provision for depreciation.

Tax provision restricted the net margin: The net margin has shown the marginal improvement of 60 bps to 24.6% and on sequential basis reduction of 460 bps mainly due to the tax provision of Rs. 32.3 Cr for this quarter from no tax provision in the Q2FY06 and Rs. 18.1 Cr in Q1FY07 and also increasing provision for depreciation on account of capacity addition. Net profit has reported a growth of 108% to Rs. 77.82 Cr from 37.36 Cr in Q2FY06.

The company has planned to increase the installed capacity to 10 Mn tonnes to maintain the growth momentum.

Capex plan to maintain the growth momentum: To maintain the growth momentum the company has decided to expand its capacity by an additional 3 Mn tones plant which will increase the total capacity to 10 Mn tones. To meet the additional demand of power the company has decided to set up new captive power plant of 18 MW.

The scrip is currently trading at PE of 15.4XFY07E and EV/EBIDTA of 9.2XFY07E.

Valuation: At a price of Rs 1343, the scrip is available at PE of 15.4XFY07E. On EV/EBIDTA multiple company is currently trading at 9.2XFY07E. Looking at the company's higher operating rate, expansion plan at opportune time, inadequate supply we feel that the company, as a lowest cost producer and leading player in north region, will provide good investment opportunity to medium to long term investor. We recommend an accumulate rating on the stock with long-term perspective.

ACC Limited

CMP: Rs. 1097

Key Data:

BSE Code	500410
NSE Code	ACC
Sensex	13429
52 week H/L (Rs.)	1060
Market Cap (Rs Cr)	19114
Avg. daily vol. (6M)	515205
Face Value	10

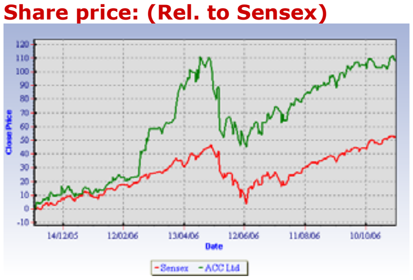
Source: Capitaline

Shareholding Pattern (%):

Promoters	35.23
Institution	20.62
Foreign	21.93
Non-promoter Corp.	3.72
Public & Others	18.51

Source: Capitaline

Share price: (Rel. to Sensex)



Source: Capitaline

ACC's this quarter results are not comparable due to amalgamation of Bargarh Cement and Tarmac (I) Ltd., and divestment of the refractory business. The company's net profit was below our expectation at Rs. 224.7 Cr mainly on account of repair and maintenance expenses. With the strong growth in realizations, EBIDTA margins jumped by 1230bps in Q3CY06 to 27%, resulting in a 151.6% YoY growth in EBIDTA to Rs 366 Cr.

Quarterly highlights:

- **Revenue growth driven by realization:** For Q3CY06 revenues grew by 35.8% YoY to Rs. 1373.5 Cr on the back of sharp rise in realization to Rs. 3050 per tones.
- **Robust operating margin but concern on input cost:** The operating profit has increased by 140.4% YoY due to better realizations, but on cost side, continued to face pressure on most of the operating heads.
- **Robust growth in net profit:** The net profit in corresponding quarter of last year included profit from the sale of its refractory business so it may seem that the net profit was decline by 2% in Q3CY06. But If we exclude the profit from the refractory business the net profit has reported robust growth of 367% YoY.

Valuation: Currently ACC is trading at 19.3xCY06E earnings 12.1xCY06E EV / EBITDA and at US$247 per ton on EV/ton basis. Looking at the high operating leverage to cement prices and sharp improvement in return ratios we recommend BUY rating.

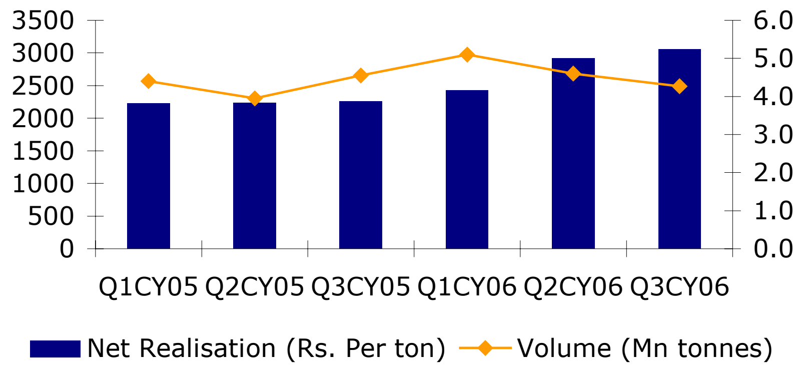
Quarterly Performance: (Year ending Dec.)

Rs. Crore	Q20509	Q30512	Q10603	Q20606	Q30609	FY0503	CY0512*	CY0612E
Net Sales	1011.4	1084.0	1321.8	1424.7	1373.5	3887.4	3177.7	5523.6
YonY (% Change)	14.7	13.7	19.0	29.9	35.8	18.7	-18.3	73.8
Total Exp.	859.1	942.1	1006.7	975.3	1007.5	3269.4	2655.0	4036.3
Operating Profit	152.3	141.9	315.1	449.4	366.0	618.1	522.7	1487.4
OPM%	**15.1**	**13.1**	**23.8**	**31.5**	**26.6**	**15.9**	**16.4**	26.9
YonY (% Change)	1.2	17.9	91.7	101.2	140.4	335.6	65.9	230.9
Other Income	205.4	148.4	53.7	168.1	21.8	101.1	389.5	274.6
Interest	20.2	21.3	19.4	14.7	14.4	88.2	63.8	79.6
Depreciation	52.9	60.7	59.4	57.9	59.3	186.9	164.4	241.3
Tax	56.5	15.8	54.5	139.3	89.4	65.7	139.9	377.6
RPAT	228.1	192.5	235.5	405.6	224.7	378.4	544.2	1063.5
NPM%	**22.5**	**17.8**	**17.8**	**28.5**	**16.4**	**9.7**	**17.1**	**19.3**
YonY (% Change)	190.3	262.6	42.3	184.7	-1.5	20.2	44	95
EPS	12.4	10.4	12.6	21.7	12.0	21.2	29.5	56.7

QUARTERLY HIGHLIGHTS:

Topline growth of 35.8% YoY to Rs. 1373.5 Cr on the back of sharp rise in realization to Rs. 3050 per tones.

Revenue growth driven by realization: For Q3CY07 revenues grew by 35.8% YoY to Rs. 1373.5 Cr on the back of sharp rise in realization to Rs. 3050 per tonne. The company has strong presence in western & southern markets where prices have increased by 34% YoY. In the volume sales the company has shown 8.4% growth on YoY basis for this quarter, which is lower than the Industry growth rate.



Operating profit has increased by 140.4% YoY due to better realizations but overall cost has gone up by 8%.

Robust operating margin but concern on input cost: The operating profit has increased by 140.4% YoY due to better realizations but on cost side continued to face pressure on most of the operating heads. The raw material costs on a per tonne basis were marginally lower but the overall costs grew by 8% YoY per tonne basis. Though the company managed to cut raw materials and staff costs but higher transportation cost and repair & maintenance have a negative impact on total costs during the quarter.

Cost (Rs. Per ton)	Q3CY06	Q3CY05	Variance (%
Raw Material	357.6	409.4	-12.
Staff Cost	164.4	189.5	-13.
Power & Fuel	522.4	534.5	-2.
Outward Freight Charge	469.1	407.2	15.
Excise Duty (Net)	37.1	53.8	-31.
Other Exp.	718.3	558.3	28.
Total Expenditure	2359.5	2180.5	8.

Adj. net profit has shown robust growth of 367%.

Robust growth in net profit: The net profit in corresponding quarter of last year included profit from the sale of its refractory business so it may seem that the net profit has declined by 2% in 3QCY06. But if we exclude the profit from the refractory business the net profit has reported exponential growth of 367% YoY.

Expansion of Bargarh plant to 2.14 Mn tones with captive power plant of 30MW.

Expansion plan:

ACC is expanding cement capacity to 2.14 million tons and setting up a 30 MW captive power plant at a total cost of Rs 550 Cr at its Bargarh plant. The capacity expansion at Lakheri along with a captive power plant of 25 MW would be commissioned by Dec. 06.

Segment wise performance:

Cement: Cement business posted revenue growth of 48% to Rs 1303.58 Cr. PBIT margins have improved from 14.47% to 27.46%. Thus, PBIT of the division has shoot up by 181% to Rs 358 Cr.

Ready Mix Concrete: RMC business post revenue growth of 24% to Rs 70.76 Cr. This segment a loss of Rs 0.79 Cr as compared to profit of Rs 3.34 Cr in the corresponding quarter in previous year.

	Net Sales			PBIT		
Rs. Cr	Q3CY06	Q3CY05	% Change	Q3CY06	Q3CY05	% Change
Cement	1303.6	882.1	47.8	358.0	127.6	180.5
RMC	70.8	57.3	23.6	-0.8	3.3	-123.7
Others	27.2	29.5	-8.0	9.1	2.5	263.2

Currently trading at 19.3xCY06E earnings, 12.1xCY06E EV / EBITDA and at US$247 per ton on EV/ton basis.

Valuation: At the price of Rs. 1097 the script is currently trading at 19.3xCY06E earnings 12.1xCY06E EV / EBITDA and at US$247 per ton on EV/ton basis. Looking at the high operating leverage to cement prices and sharp improvement in return ratios we recommend **BUY** rating.

India Cement Ltd. CMP: Rs. 218

Key Data:

BSE Code	530005
NSE Code	INDIACEM
Sensex	13429
52 week H/L (Rs.)	250/87
Market Cap (Rs Cr)	4804
Avg. daily vol. (6M)	1537989
Face Value	10

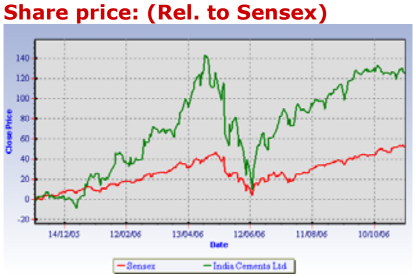
Source: Capitaline

Shareholding Pattern (%):

Promoters	28.67
Institution	22.18
Foreign	32.32
Non-promoter Corp.	06.23
Public & Others	10.60

Source: Capitaline

Share price: (Rel. to Sensex)



Source: Capitaline

India Cements Ltd is the third largest cement manufacturer in India and the largest cement manufacturer of the Southern India has reported impressive results for the quarter ended September 2006. The company has reported 31.9% growth in revenue to Rs 516.2 crore in the quarter-ended Sep'06 on the back of strong demand witnessed in the states of Tamil Nadu and Andhra Pradesh.

Quarterly highlights:

- **Revenue riding on strong realization:** India Cements' Q2FY07 results were in line with our expectation. The company reported 31.9% YonY growth in its net sales to Rs.516.2 crore in Q2FY07 from Rs. 391.4 crore in Q2FY06. The growth in revenues was primarily driven by 33% increase in average price realization and flat volumes.
- **EBITDA margin expand 1600 basis points:** The Company reported EBITDA of Rs.173.4 crore in Q2FY07 compared to EBITDA of Rs.68.9 crore in Q2FY07. EBITDA margin has improved by 1600 bps to 33.6% in Q2FY07 from 17.6% in Q2FY06 primarily driven by higher price realization.
- Net profit for the quarter stood at Rs 117.32 crore as compared to Rs 5.85 crore in the corresponding quarter in previous year.

Attractive Valuation: At a price of Rs 218, the scrip is available at 13X FY07E earnings & US $147 / tonne (FY06 Earnings), which looks attractive.

Quarterly Performance:

Rs. Crore	Q20509	Q30512	Q40603	Q10606	Q20609	FY05	FY06	FY07E
Net Sales	391.4	346.6	422.8	485.2	516.3	1162.1	1541.8	1962.3
YonY (% Change)	29.8	31.8	26.3	27.4	31.9	14.3	32.7	27.3
Other Income	0.9	10.3	4.7	5.4	0.8	80.3	16.8	15.0
Total Exp.	323.5	299.9	346.4	319.7	343.8	1025.6	1280.8	1310.5
EBIDTA	68.9	57.1	81.1	171.0	173.4	216.9	277.8	666.8
EBIDTAM%	**17.6**	**16.5**	**19.2**	**35.2**	**33.6**	**18.7**	**18.0**	34.0
YonY (% Change)	68.3	75.9	-20.0	141.7	151.7	66.2	28.1	140.1
Interest	42.7	29.6	31.4	38.9	36.4	133.5	148.9	132.6
Depreciation	19.7	19.7	19.7	19.2	19.3	78.8	78.9	88.2
Tax	0.6	0.6	2.9	0.3	0.4	0.0	4.7	62.2
RPAT	5.9	7.2	27.0	112.6	117.3	4.6	45.3	383.9
NPM%	**1.5**	**2.1**	**6.4**	**23.2**	**22.7**	**0.4**	**2.9**	19.6
YonY (% Change)	-133.0	-121.7	-63.3	2061.0	1904.6	0.0	889	747
EPS	0.4	0.4	1.4	5.4	5.3	0.3	2.4	16.8

Latest Result Analysis:

Growth of 33% in realisation has given the growth of 31.9% in turnover to Rs. 516.2 cr.

Revenue riding on strong realization: India Cements' Q2FY07 results were in line with our expectation. The company reported 31.9% YoY growth in its net sales to Rs.516.2 Cr in Q2FY07 from Rs 391.4 Cr in Q2FY06. The growth in revenues was primarily driven by 33% increase in average price realization and flat volumes.

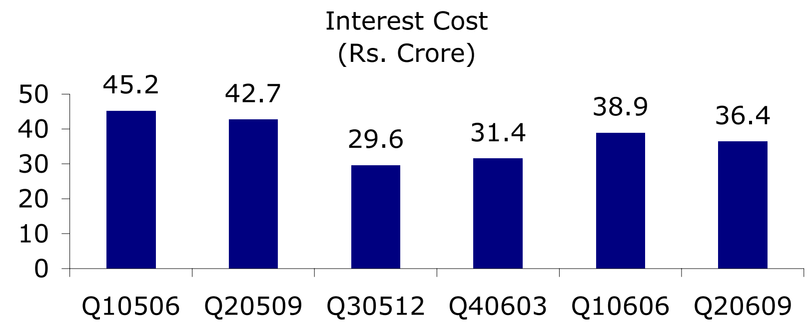
EBITDA margin has improved by 1600 bps to 33.6% in Q2FY07 from 17.6% in Q2FY06.

EBITDA margin expand 1600 basis points: The Company reported EBITDA of Rs.173.4 Cr in Q2FY07 compared to EBITDA of Rs.68.9 Cr in Q2FY07. EBITDA margin has improved by 1600 bps to 33.6% in Q2FY07 from 17.6% in Q2FY06 primarily driven by higher price realization. The company has also shown the improvement in cost efficiency. The power, oil & fuel cost on per tonne basis was flat but if we compare on % of net sales basis it has gone down significantly because company uses the gas based power plant of Coromandel Electric Company. All the expenses on % of sales basis have shown improvement and on per tonne basis the total expenditure has marginally gone up by 5.14%.

Cost break up (Rs. per tonne)	Q2FY07	% of NSales	Q2FY06	% of NSales	% Change
Raw Material Consumed	312.27	11.19	262.24	12.26	19.08
Employee Expenses	136.65	4.90	111.75	5.22	22.28
Power, Oil & Fuel	692.65	24.82	690.05	32.26	0.38
S&A Exp.	434.22	15.56	375.52	17.56	15.63
Other Expenses	333.41	11.95	318.20	14.88	4.78
TOTAL EXPENDITURE	**1858.27**	**66.59**	**1767.49**	**82.64**	**5.14**

Exponential growth of net profit was primarily driven by lower interest cost after restructuring, sales tax benefit.

Restructuring has led the Net profit to show exponential growth: The company's net profit has grown by 19 times to Rs. 117.3 Cr primarily driven by lower interest cost after restructuring, higher EBIDTA margin and sales tax benefit.



Cement consumption in the southern region has shown a growth of 24%.

Robust demand in southern region:

In FY06 cement consumption in the southern region grew by 24%. With large infrastructure projects and manufacturing bases of MNCs coming up in the region, consumption is expected to grow at a CAGR of 11% for the next few years. Also fresh capacities shall come up only in H1FY09. Hence cement prices are expected to remain firm for the next two years. India Cements being the largest player in this region the company would be a major beneficiary.

From January 2006 the dual structure of sales tax had abolished and a uniform rate of 14% is applicable which has given a benefit of at least Rs 10-12 per bag

Sales tax benefit:

Nearly 30% of ICL's sales are generated from Tamilnadu where manufacturers had to pay a tax of 16 per cent and 1 per cent surcharge to dealers on cement sold below Rs 135 per bag and 24 per cent tax and 5 per cent dealer surcharge on cement sold above that. In Tamilnadu, w.e.f 1st January 2006 the dual structure of sales tax had abolished and now a uniform rate of 14% is applicable, which has given a benefit of at least Rs 10-12 per bag that is directly added to the bottom line of the company.

Capacity expansion of 4 Mn tonnes by brownfield and greenfield project.

Expansion Plans:

Looking at the improvement in its financials after restructuring and strong demand, ICL plans to raise its capacity by 2 million tonne (brownfield expansion) by December 2007 at a cost of Rs 350 Cr. This shall take its total capacity to 11 million tonne. The entire capex shall be funded by the proceeds of a recent FCCB issue. It also plans to set up a 2-million-tonne greenfield plant at Himachal Pradesh by 2010 and is scouting for mining leases.

The scrip is available at 13X FY07E earnings and EV per tones of US$ 147.

Attractive Valuation: At a price of Rs 218, the scrip is available at 13X FY07E earnings. The company, as a leading player in southern region with full capacity utilization, cost cutting and higher price realization looks reasonable on EV per tonnes valuation of US$ 147 (FY06 earnings) as compared to its peers.

Ultratech Cement Limited

CMP: Rs. 881

Key Data:

BSE Code	532538
NSE Code	ULTRACEMCO
Sensex	13429
52 week H/L (Rs.)	936/381
Market Cap (Rs Cr)	10968
Avg. daily vol. (6M)	47778
Face Value	10

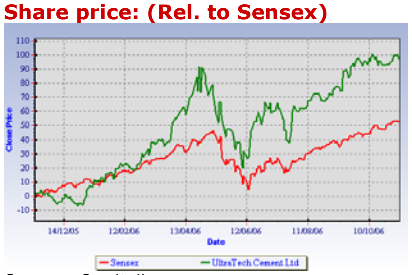
Source: Capitaline

Shareholding Pattern (%):

Promoters	51.08
Institution	9.53
Foreign	8.73
Non-promoter Corp.	14.42
Public & Others	16.24

Source: Capitaline

Share price: (Rel. to Sensex)



Source: Capitaline

Ultratech Cement has posted an impressive turnover of Rs. 1004.54 crore that is 57% higher than the Q2FY06 attributed by firm price realization. The company has shown the improvement 1510 bps in its operating margin on YonY basis. The company has reported a net profit of Rs. 127.44 crore against Rs. 0.08 crore in corresponding period.

Quarterly highlights:

- **Improvement in operating performance:** UltraTech Cement has shown improvement in its operating performance by 1510 bps driven by firm cement prices, better product mix and change in marketing mix.

- **Cost pressure driven by higher energy cost:** The Company's cost per ton has gone up by 11.5% on YonY basis to Rs. 2038 per tones and by 12.6% on QonQ basis on account of higher coal, furnace oil & Naphtha prices.

- **Volume growth affected by annual maintenance and monsoon:** The total sales volume for the quarter on QonQ has gone down by 17% to 3.68 Mn tones due to floods in Gujarat and addition to that the planned shut down on account of annual maintenance.

Valuation: At a price of Rs 881, the scrip is available at PE of 15.7XFY07E. On EV/EBIDTA multiple company is currently trading at 9XFY07E. We recommend a **BUY** rating on the stock with long-term perspective.

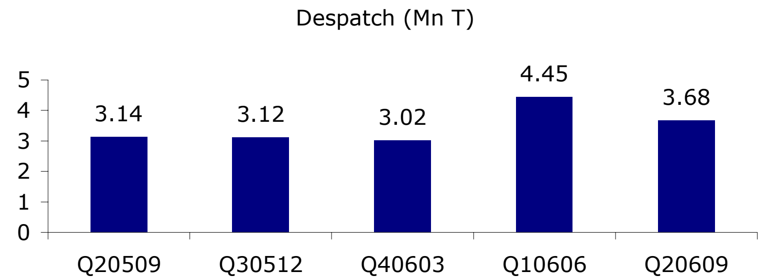
Quarterly Performance:

Rs. Crore	Q20509	Q30512	Q40603	Q10606	Q20609	FY05	FY06	FY07E
Net Sales	640.0	782.9	1060.4	1180.3	1004.5	2606.9	3299.5	4573.0
YonY (% Change)	12.1	18.6	50.6	48.8	57.0	15.8	26.6	38.6
Other Income	8.1	7.0	10.5	13.4	11.9	21.1	37.0	58.5
Total Exp.	575.0	672.6	845.7	805.7	750.1	2332.9	2745.2	3307.5
Operating Profit	65.0	110.4	214.6	374.6	254.5	274.0	554.3	1265.5
OPM%	**10.2**	**14.1**	**20.2**	**31.7**	**25.3**	**10.5**	**16.8**	**27.7**
YonY (% Change)	-31.1	109.2	558.3	151.0	291.3		102.3	128.3
Interest	22.4	22.8	22.3	22.6	23.7	106.9	89.6	92.6
Depreciation	52.1	51.5	59.9	54.4	54.7	221.8	216.0	233.2
Tax	-1.5	19.2	10.8	100.2	60.5	-36.5	55.8	299.2
RPAT	0.1	23.9	132.1	210.8	127.4	2.9	229.8	699.0
NPM%	**0.0**	**3.0**	**12.5**	**17.9**	**12.7**	**0.1**	**7.0**	**15.3**
YonY (% Change)	-134.9	-316.5	2574.3	251.3	15829	-68.0	7961.8	204.2
EPS	0.1	1.9	10.6	16.9	10.2	0.2	18.5	56.1

QUARTERLY HIGHLIGHTS:

The growth in volumes was primarily affected by floods and annual maintenance.

Volume growth affected by annual maintenance and monsoon: The total sales volume for the quarter on QoQ has gone down by 17% to 3.68 Mn tonnes due to floods in Gujarat and in addition to that the planned shut down on account of annual maintenance. But on YoY basis the company has shown a growth of 17% to 3.68 Mn tones from 3.14 Mn tones in Q2FY06.

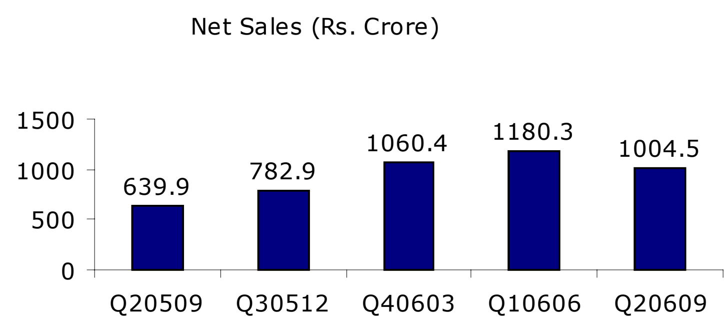


Firm realisation driven by inadequate supply and firm demand despite heavy monsoon and flood

Firm realization even in monsoon: The Company has reported a 34% growth in average price realisation to Rs. 2730 per tones. The growth in realisation was mainly driven by inadequate supply and firm demand despite heavy monsoon and flood. As the realizations have shown growth even in the monsoon season we expect realization to improve further post monsoon in Northern and Western markets that will drive the future growth of the company.

The growth of revenue on account of 34% growth in price realisation.

Revenue: driven by realisation: The Company has reported the growth of 57% to Rs. 1004.5 cr from Rs. 639.98 cr in corresponding quarter in previous year driven by 34% growth in price realisation.



Operating margin has improved by 1510 bps attributed by firm price realisation.

Improved operating performance: UltraTech Cement has shown improvement in its operating margins by 1510 bps driven by firm cement prices, better product mix and change in marketing mix. Looking at the mismatch in demand-supply and infrastructure growth we expect cement price to be firm and the company will continue to witness strong growth.

Increased cost on account of higher coal and furnace oil prices and overhead exp. due to annual maint. & flood.

Cost Management:

% of Net sales	Q2 FY06	Q1 FY07	Q2 FY07
Raw Material	8.75	7.70	8.3
Emp.Cost	2.98	2.32	2.9
Power & Fuel	28.67	24.19	24.7
S&A Exp.	22.73	20.80	20.5

Higher Cost restricted the margin: The Company's cost per ton has gone up by 11.5% on YoY basis to Rs. 2038 per tonne and by 12.6% on QoQ basis on account of higher coal prices driven by firm shipping freight.

So now the company has planned to set up a lignite/ coal-based captive power plant of 192MW. This plant is likely to be commissioned by the end of FY08 and would result in cost savings from FY09.

Net margin: The Company has reported net profit of Rs. 127.4 Cr, which has translated into the net margin of 12.7%, and we expect the margin to further improve on account of improvement in operating level and no unusual expenses after EBIDTA level in near future.

Investment of Rs.2, 698 crore to be spent over the next three years for capacity expansion

Aggressive capex plan: The Company has marked a capex of Rs.2,698 Cr to be spent over the next three years. This includes setting up of captive power plant's aggregating to 192 MW at its units in Gujarat, Chhattisgarh, Andhra Pradesh and a brownfield expansion of 4 mtpa at Andhra Pradesh.

The scrip is available at PE of 15.7XFY07E. On EV/EBIDTA multiple company is currently trading at 9XFY07E.

Valuation: At a price of Rs 881, the scrip is available at PE of 15.7XFY07E. On EV/EBIDTA multiple company is currently trading at 9XFY07E. Looking at the company's aggressive expansion plan, firm price realization, opportunity to improve the operating rate, inadequate supply we feel that the company, as a second largest player in India, will provide good investment opportunity to medium to long term investor. We recommend a **BUY** rating on the stock with long-term perspective.

Grasim Industries Ltd.

CMP: Rs. 2675

Key Data:

BSE Code	500300
NSE Code	GRASIM
Sensex	12429
52 week H/L (Rs.)	2818/1238
Market Cap (Rs Cr)	24503
Avg. daily vol. (6M)	64890
Face Value	10

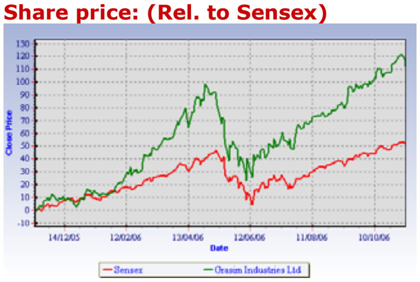
Source: Capitaline

Shareholding Pattern (%):

Promoters	24.98
Institution	22.20
Foreign	36.49
Non-promoter Corp.	03.29
Public & Others	13.05

Source: Capitaline

Share price: (Rel. to Sensex)



Source: Capitaline

Grasim Industries Ltd., the flagship company of the Aditya Birla Group has beaten the market expectation and posted excellent results for this quarter on the back of 41% higher realization from cement business and 15% higher realization from VSF business. The company has shown 36% growth in consolidated revenues at Rs. 3,184 Cr and 109% growth in net profit to Rs. 418 Cr in spite of substantially higher provision for tax.

Quarterly highlights:

- **Cement business driven by higher capacity utilization and Strong realization:** The company has reported a 46.5% growth in turnover on account of 47% growth in realization, 101% capacity utilization, improvement in blending, change in transportation mix.

- **VSF business has shown improvement in margins:** The company has shown the growth of 41% in its operating profit and operating margin has improved by higher price realization coupled with cost management . This has led to growth of 177% in EBIDTA to 146.98 Cr.

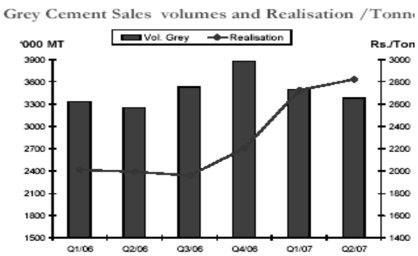
- EBITDA grew by 65% YoY to Rs 582 Cr driven by improvement by 750 bps in margin to 29.5%.

Valuation: At a price of Rs 2675, the scrip is available at a P/E of 12.6XFY07E. We recommend HOLD rating on the stock with long-term perspective.

Quarterly Performance: (Year ending March)

Rs. Crore	Q20509	Q30512	Q40603	Q10606	Q20609	FY05	FY06
Net Sales	1639.1	1648.2	1815.1	1877.0	2010.8	6252.4	6655.7
YonY (% Change)	6.9	5.7	10.5	20.8	22.7	19.5	6.4
Other Income	30.8	15.2	61.6	37.5	50.2	201.4	173.2
Total Exp.	1317.3	1329.1	1408.6	1363.7	1428.4	4726.8	5233.9
EBIDTA	**352.7**	**334.3**	**468.2**	**550.7**	**582.4**	**1727.0**	**1595.0**
EBIDTAM%	**21.5**	**20.3**	**25.8**	**29.3**	**29.0**	**27.6**	**24.0**
YonY (% Change)	-17.9	-22.3	11.4	25.2	65.1	14.8	-7.6
Interest	23.7	23.5	23.6	23.5	24.1	138.8	97.3
Depreciation	72.0	73.3	75.9	74.1	75.6	284.6	291.6
Tax	69.3	75.7	105.9	141.3	144.9	418.0	342.8
RPAT	**187.7**	**161.9**	**262.7**	**311.9**	**337.8**	**885.7**	**863.2**
NPM%	**11.4**	**9.8**	**14.5**	**16.6**	**16.8**	**14.2**	**13.0**
YonY (% Change)	-14.7	-25.4	14.5	24.3	80.0	-33.0	-3
EPS	20.5	17.7	28.7	34.0	36.8	96.6	94.1

Quarterly performance analysis:



Cement business driven by higher capacity utilization and Strong realization: The Company has reported 46.5% growth in turnover to Rs. 1049.6 Cr on account of 47% growth in realization to Rs. 2822 per tonne. The company has also increased the blending ratio from 51% to 63%. On the other hand the company has controlled the increasing freight cost by increasing the transportation through rail from 34% to 49%, which has led to the improvement in operating margin by 910 bps to 31.2%.

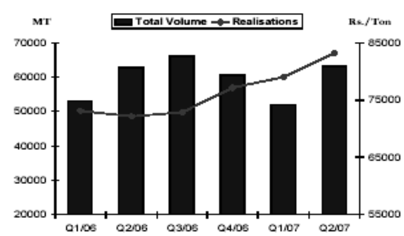
Grey Cement	Q2FY07	Q2FY06	% Change
Sales Volume (Mn Tonnes)	3.38	3.25	4.0
Avg. Realization (Rs./T)	2822	1993	41.6
Net Sales (Rs. Cr)	1049.6	713.2	47.2
White Cement			
Sales Volume (Tonnes)	90253	81557	10.7
Avg. Realization (Rs./T)	6614	5815	13.7
Net Sales (Rs. Cr)	91.6	65.9	39.0
PBDIT (Rs. Cr)	**356**	**172.5**	**106.4**
PBDITM%	**31.2**	**22.1**	

Firm realisation driven by inadequate supply and firm demand, despite heavy monsoon and flood

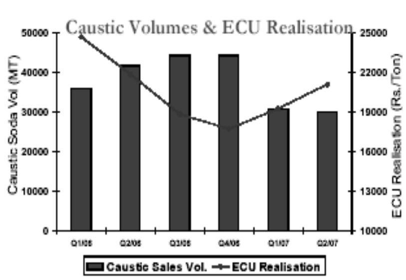
VSF business: boost in realizations

In Q2FY07 VSF business revenues grew by 15.4% YoY to Rs 559.6 Cr primarily driven by 15.4% increase in realization. During the quarter, volume grew marginally to 63,000 tons on the high base of last year but we can expect further improvement in sales volume on the basis of strong demand from domestic and export segment and potential structural shift in consumer preference globally for VSF due to higher price of competing fibres. On account of higher realization, operating margins improved by 570 bps YoY to 31.1%, despite increase in pulp prices by 9% YoY.

Volume vs Realisation trend:



VSF	Q2FY07	Q2FY06	% Change
Sales Volume (M.T)	63119	62776	0.5
Net Realizations (Rs./M.T)	83279	72160	15.4
Net Sales	559.6	485.1	15.4
PBDIT	174.3	123.4	41.2
PBDITM%	31.1	25.4	



Sponge Iron Business still pressurized by high cost of production and inadequate availability of natural gas: In Q2 FY07, the revenue from sponge iron has gone down by 17% to Rs. 140.8 Cr primarily due to reduction in sales volume and high input cost. The sales volume has gone down by 21% due to inadequate availability of Natural gas.

Robust growth in EBIDTA performance due to higher realisation and cost management.

- **EBIDTA margin expansion:** The EBIDTA margin has shown in EBIDTA margin by 750 bps to 26.5% in spite of higher cost in cement business due to maintenance shutdown and dip in chemical business margin. PAT has gone up by 79% to Rs336 crore on account of margin expansion coupled with higher other income.

- **Aggressive capex plans:** The Company has planned Rs. 4600 crore-capex plan in the area of cement by 9 million tons, captive power plants by 102 MW, RMC by 3.3 million cum p.a. and VSF 49,275 tons to be spent over F2007-08E.

Trading at 12.6x FY07E.

Valuation: At a price of Rs 2675, the scrip is available at a P/E of 12.6XFY07E. Looking at tight demand-supply situation, firm prices, improving VSF division's realization, we recommend a HOLD rating on the stock with long-term prospective.

Disclaimer: