

Apr 09 dispatch grow @13.1%, prices increase 2.91%

18 May 2009

## Price Performance

### ACC (Rs635, BUY)

(%)	1M	3M	6M	12M
Absolute	3	16	52	(7)
Rel. to Sensex	(4)	(10)	17	33

### Ambuja Cement (Rs76, HOLD)

(%)	1M	3M	6M	12M
Absolute	(11)	3	40	(32)
Rel. to Sensex	(18)	(20)	8	(3)

### Grasim (1882, REDUCE)

(%)	1M	3M	6M	12M
Absolute	16	39	84	(17)
Rel. to Sensex	7	8	42	18

### Ultratech (567, BUY)

(%)	1M	3M	6M	12M
Absolute	1	38	76	(19)
Rel. to Sensex	(6)	7	35	15

### India Cements (Rs115, BUY)

(%)	1M	3M	6M	12M
Absolute	(12)	8	39	(31)
Rel. to Sensex	(19)	(16)	8	(1)

### Madras Cement (Rs81, HOLD)

(%)	1M	3M	6M	12M
Absolute	(0)	22	30	(45)
Rel. to Sensex	(8)	(5)	0	(21)

### Shree Cement (Rs819, BUY)

(%)	1M	3M	6M	12M
Absolute	(1)	49	90	(6)
Rel. to Sensex	(8)	16	46	34

### Orient Paper & Ind (Rs32, BUY)

(%)	1M	3M	6M	12M
Absolute	6	49	43	(29)
Rel. to Sensex	(2)	16	10	2

Source: Bloomberg

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## Key Highlights

- The cement industry delivered yet another month of stellar performance with dispatches growing by 13.1% yoy to 16.65mnt. Cement dispatches have registered an average growth of 11% since Nov 08 mainly on account of strong demand from rural housing and higher demand on account of pre election spend.
- Cumulatively dispatch growth of cement majors (ACC, Ambuja, Grasim & Ultratech) at 13.87%yoy was inline with industry growth. AV Birla Group companies Grasim and Ultratech witnessed high dispatch growth with Grasim registering dispatch growth of 20.83% yoy while the same for Ultratech stood at 22.40%. Ambuja dispatch growth for April stood at 10.74% yoy while ACC was the laggard in the pack registering growth of 4.05% yoy.
- On a regional basis Northern region witnessed the highest dispatch growth of 19.6% while South, West and Central registered 12.8%, 11.2% and 10.5% respectively. Dispatch growth was lower in East at 8.8%.
- Cement prices continued their upward trend during the month of April 09 registering a yoy growth of 2.91% to Rs245. Even on a m-o-m basis, cement prices were up by Re1. We believe that the price rise is the result of strong dispatch growth observed over the past 6 months aided by robust demand outlook at least till the onset of monsoon.
- On a regional basis, the Central region continued to register the highest growth in prices with April 09 growth pegged at 13.32% yoy while on a m-o-m basis, prices increased by Rs2 to Rs249/bag. South and North witnessed price increase of 3.85% and 2.49% to Rs262 and Rs246/bag respectively while prices fell in Eastern and Western regions by 2.25% and 2.07% respectively.
- During the month of Apr 09, International coal prices witnessed a yoy decline of 42.55% to USD62.4. International coal prices are now down 65% from peak levels witnessed in July 08. However on a m-o-m basis, international coal prices had risen by 6.76%. As on 15<sup>th</sup> May 09, international coal prices were ruling at USD 58.8/ton.
- With the onset of monsoon, we expect cement dispatches and prices to witness some softening. Based on our cement demand growth assumption of 6.9% for FY10E, we expect cement dispatches to fall by around 10% qoq this monsoon (July September 22009) and cement prices to fall by 4.3% -5.3% i.e. Rs10-13/bag to Rs232-234 (for details refer our Sector update 'Monsoon trends' dated 11<sup>th</sup> May 2009). We further assume the prices to continue to decline to Rs220 by Mar 10. However even in this case the cement price for the year would average Rs230/bag for FY2010. In our earnings estimates for cement companies we have factored in FY2010 average cement prices of Rs230/bag. Consequently we see little risk of downside to our earnings estimates for cement companies. We maintain positive view on the sector and our top picks are ACC, Ambuja, Ultratech, India Cement and Shree Cement.

## Cement Dispatches

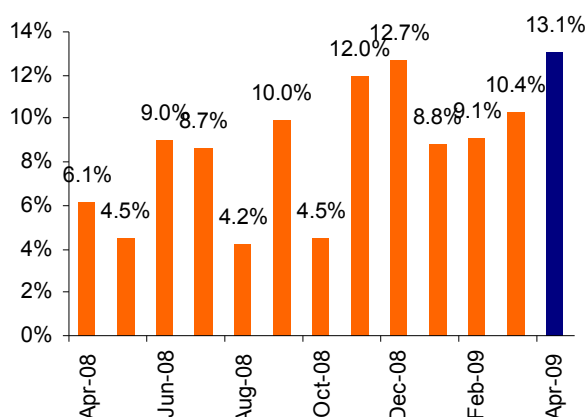
mn tonnes	Apr 09	Apr 08	yoy (%)
ACC	1.80	1.73	4.0%
Ambuja Cement	1.64	1.48	10.7%
Grasim	1.60	1.32	20.8%
Ultratech	1.79	1.46	22.4%
<b>Total cement majors</b>	<b>6.82</b>	<b>5.99</b>	<b>13.9%</b>
India Cement	0.78	0.77	1.4%
Madras Cement	0.61	0.51	19.6%
Jaypee	0.79	0.62	28.0%
Shree Cement	0.79	0.61	28.4%
Orient Paper	0.23	0.22	4.2%
<b>Industry</b>	<b>16.65</b>	<b>14.72</b>	<b>13.1%</b>

Source: CMA, Emkay Research

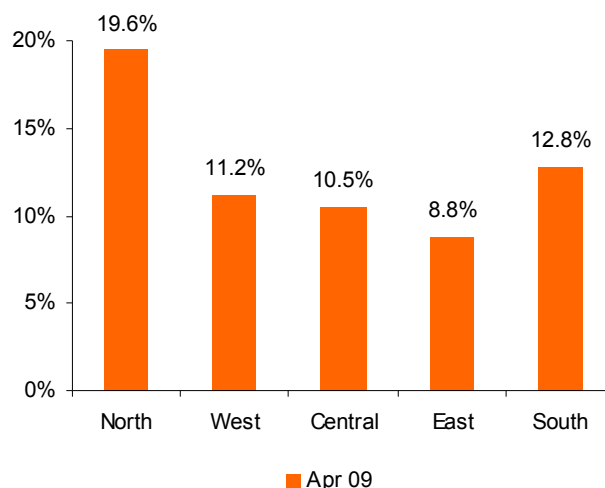
### Cement industry delivers yet another month of strong performance... April dispatch growth at 13.1%

Continuing its impressive performance, the cement industry delivered a 13.1% yoy dispatch growth at 16.65mnt for the month of April 09. Cement dispatches have registered an average growth of 11% since Nov 08 mainly on account of strong demand from rural housing and higher demand on account of pre election spend. On a regional basis Northern region witnessed the highest dispatch growth of 19.6% while South, West and Central registered 12.8%, 11.2% and 10.5% respectively. Dispatch growth was lower in East at 8.8%.

**Apr 09 dispatches increase by 13.1%**



**North leads the way with a 19.6% growth**



Source: CMA

### Cement majors record marginally lower than industry average growth at 9%

Cumulatively dispatch growth of cement majors (ACC, Ambuja, Grasim & Ultratech) at 13.87%yoy was inline with industry growth. AV Birla Group companies Grasim and Ultratech witnessed high dispatch growth with Grasim registering dispatch growth of 20.83% yoy while the same for Ultratech stood at 22.40%. Ambuja dispatch growth for April stood at 10.74% yoy while ACC was the laggard in the pack registering growth of 4.05% yoy. Amongst the companies in the Emkay universe, Shree Cement and Madras Cement reported high growth in dispatches at 28.4% and 19.6% respectively while Orient Paper dispatch growth was lower at 4.2%. India Cement continued to trail the pack with a dismal dispatch growth of 1.4% mainly on account of continued shutdown at its Vishnupuram plant.

### Cement Dispatches

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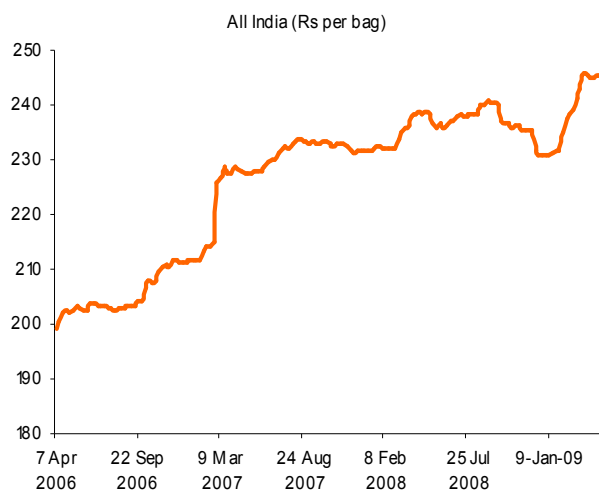
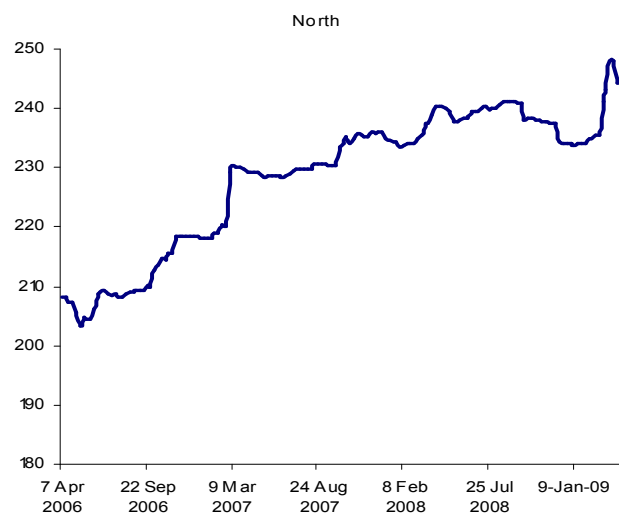
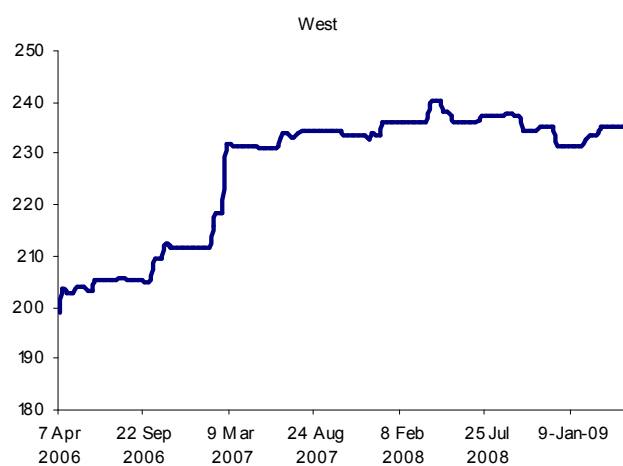
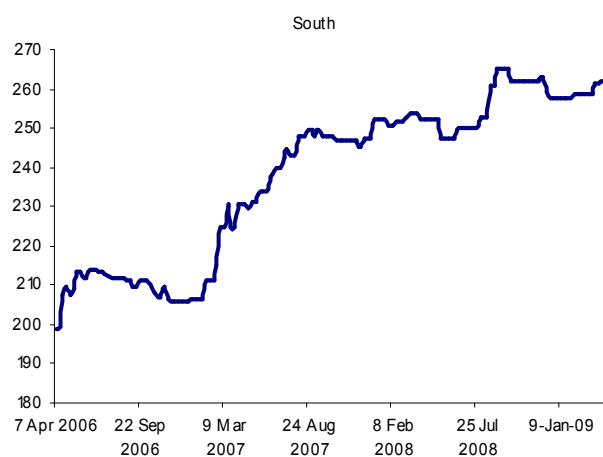
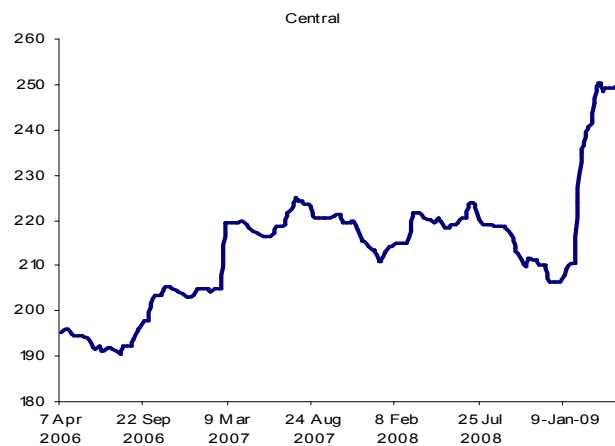
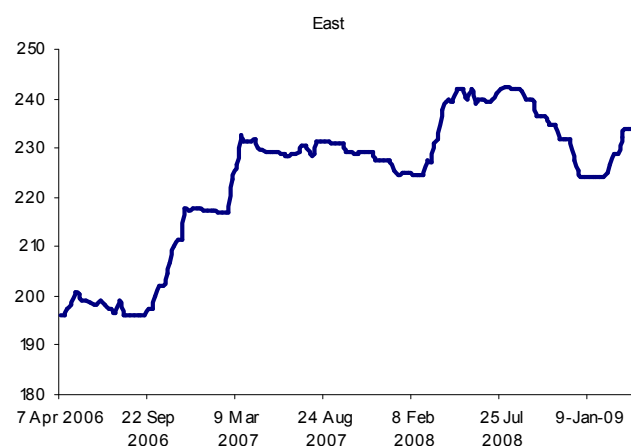
Source: CMA

### All India Cement Prices at Rs245/bag - Companies continue to exercise pricing power

During the month of April 2009, cement prices continued their upward move with prices rising by 2.91% yoy to Rs245/bag while on a m-o-m basis, prices increased by Re1/bag. As at the end of April 2009, cement prices were ruling firm at Rs246/bag. The strong traction witnessed in cement prices is mainly on account of strong dispatch numbers posted by cement companies and continual delay in commencement of new capacities. However with the onset of monsoon, we expect cement prices to come down (Refer our cement sector update 'Monsoon trends' dated 11<sup>th</sup> May 2009).

### The region wise scenario on cement prices is given below.

- Cement prices in North witnessed an increase of 2.49% yoy to **Rs246**/bag while m-o-m the increase was Re1/bag. Barring Delhi, which witnessed a decline of 1% yoy, all the market in North witnessed an increase in cement prices. Ludhiana, Simla and Bhatinda witnessed significant price increase of 4.66%, 4.63% and 4.11% respectively, while Chandigarh and Jaipur averaged growth of around 3.41%.
- Central region continued to register the highest growth in prices with April 09 growth at 13.32% yoy. On a m-o-m basis, prices in the Central region witnessed an increase of Rs2/bag to **Rs249**. Prices in Lucknow soared by 21.87% yoy while Bareilly and Bhopal registered price growth of 16.03% and 11.97% respectively. We have been mentioning in our updates about unusual price hikes in Lucknow market.
- Cement prices in the Eastern region witnessed a decline of 2.25% yoy to **Rs234/bag**, however on a m-o-m basis, cement prices were up 0.72%.
- Western Region too witnessed a decline in cement prices of 2.07% yoy to **Rs235**/bag. However on a m-o-m basis, prices remained constant. Prices in Mumbai and Nagpur increased by 0.74% yoy to Rs273 and Rs234 respectively.
- South prices continued their upward rise, registering a growth of 3.85% yoy to **Rs262**/bag. On an m-o-m basis, price increase was marginal 0.66%. Prices in Tamil Nadu and Kerala witnessed a yoy increase of 7.75% and 7.61% respectively while Andhra Pradesh witnessed a yoy decline of around 1.32%.

**All India prices increase by 2.91% to Rs245/bag****North prices up 2.49% to Rs246/bag****West prices declined by 2.07% to Rs235/bag****South prices rise by 3.85% to Rs262/bag****Central prices up 13.32% to Rs249/bag****East prices decline by 2.25% to Rs234/bag**

Source: CMA

## Monsoons to have no impact on our earnings estimates for cement companies

During monsoons season (July - Sept period), cement dispatches usually decline on sequential basis (as compared to April-June period) on account of slowdown in pace of construction activity. This **USUALLY** (not always) results in softening of cement prices during the monsoon season. We analyzed trend in cement dispatches and cement price for last 8 years to validate this theory of onset of monsoon and softening of cement prices the results of the same are detailed as follows.

- The analysis revealed that usually with the onset of monsoon, cement dispatches decline by an average of 9-10% sequentially. However we saw divergent trends in behaviour of cement prices for the period under review.
- During FY02-06, cement dispatches and prices both declined during the monsoon period. However during the last 3 years (FY07-09) decline in cement dispatches was not accompanied by a simultaneous decline in cement prices. One reason for this firmness in cement prices was a comparatively lower decline in cement dispatches (6-7% decline) in FY07-09 period as compared to double digits declines in FY02-FY06. A higher capacity utilisation rate during the FY07-09 as compared to earlier periods, is another reason attributed to this firmness in cement prices.
- With 25-30 million tonnes of new cement capacities lined up for H1FY10, the March 2009 capacity utilisation rate is expected to see a steep fall to 80% for H2FY10E. Consequently this monsoon season (i.e. July Sept 2009), we may not see the repeat of last three year's firmness in cement prices.
- Based on our cement demand growth assumption of 6.9% for FY10E, we expect cement dispatches to fall by around 10% qoq this monsoon which is higher than the single digits drop we saw in last three years. Hence we see this year monsoon resembling the earlier periods of FY2002-04, which incidentally were the worst sort of declines witnessed in last 8 year period. During the same period cement prices fell by 4.3-5.3% qoq.
- Taking the above as worst case scenario, we expect cement prices to fall Rs10-13/bag (to Rs232-234) in this monsoon season and continue to decline further to levels of Rs220 by March 2010. However even in this case the cement price for the year would average Rs230. FY2009 average cement prices stood at Rs237/bag.
- In our earnings estimates for cement companies we have factored in FY2010 average cement prices of Rs230/bag. Consequently we see little risk of downside to our earnings estimates for cement companies.

### Dispatches trend in monsoon season

Dispatches (mn tonnes)	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010E
April-June	8.78	9.54	9.94	10.40	11.76	12.88	13.88	14.78	16.06
July-September	7.59	8.57	8.98	9.79	10.51	11.68	12.88	13.87	14.42
% Change QoQ	-14%	-10%	-10%	-6%	-11%	-9%	-7%	-6%	-10%

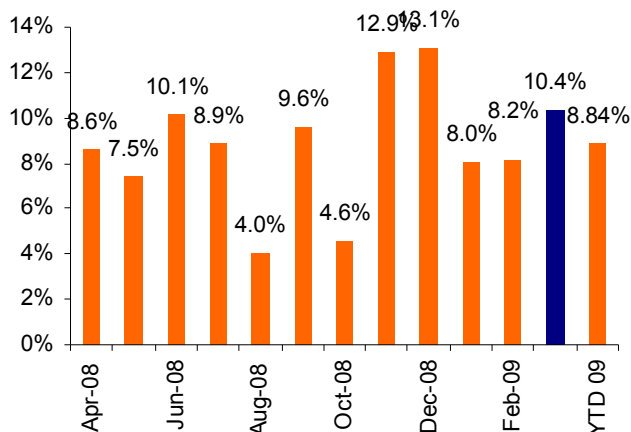
### Price trend in monsoon season

Prices (Rs/bag)	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010E
April-June	155	138	141	158	163	202	228	237	242
July-September	149	137	134	156	161	203	233	239	232
% Change QoQ	-4.3%	-1.3%	-5.3%	-1.5%	-1.5%	0.4%	1.9%	0.7%	-4.4%

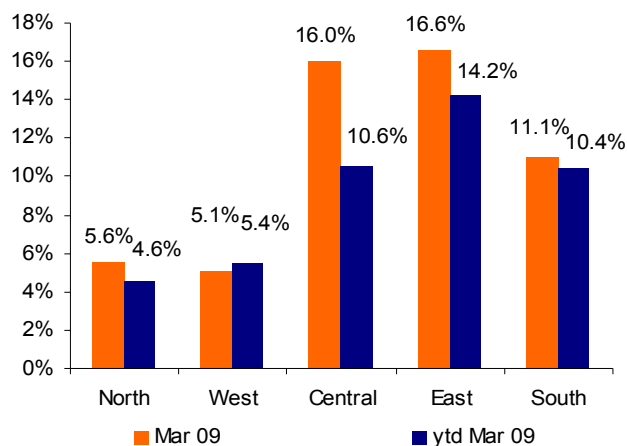
### Cement consumption grows at 8.84% during FY2009

Cement consumption for the month of March 2009 recorded a robust growth of 10.4% yoy. For FY2009 consumption growth at 8.84% yoy surpassed our expectation of 8% growth. On a regional basis, the cement consumption growth was the highest in East at 16.6% closely followed by Central at 16%. South recorded consumption growth of 11.1% while North and West trailed the pack at 5.6% and 5.1% yoy growth. For full year 2009, the pattern was similar with East registering highest increase at 14.2%, Central at 10.6% and South at 10.4% while North and West trailed at 4.6% and 5.4% respectively.

#### Mar 09 consumption increase by 10.4%



#### East leads the way with a 16.6% growth

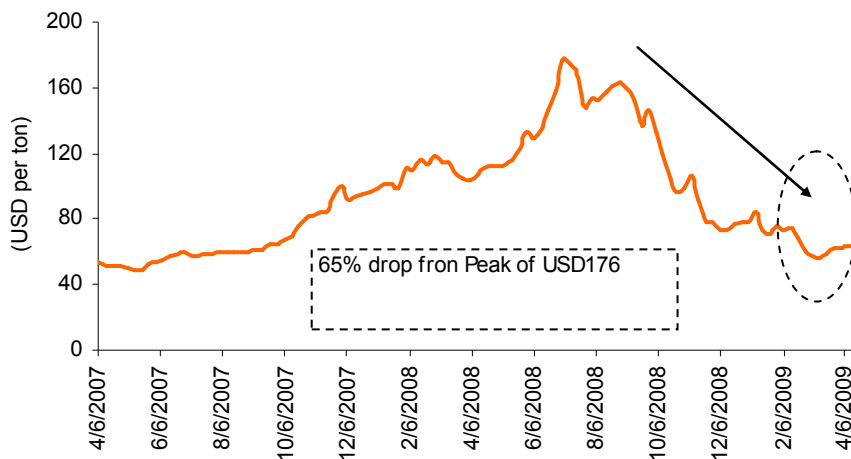


Source: CMA

### International Coal prices up 6.76% m-o-m to USD62.4

During the month of Apr 09, International coal prices were ruling at USD62.4/ton, down 42.55% yoy. April 09 prices were down 65% from the peak coal prices witnessed in July 2008. However on a m-o-m basis, international coal prices were up 6.76%. As on 15th May 09, international coal prices were ruling at USD 58.8/ton. This is significantly positive for cement companies like Ultratech Cement, India cement, and Ambuja Cement which procure significant proportion of their coal requirement through international markets. In our earnings estimates for cement companies for FY2010 we had assumed an average rate of USD 100 for international coal and INR at Rs48 to a USD. We now factor in average international coal price at USD 80 and INR at Rs50 to a USD.

#### International coal prices down 65% from the peak



Source: Bloomberg, Emkay Research

## Valuation and recommendations

We acknowledge that the outlook on macros for cement sector has not improved as a possible FY2010 cement surplus scenario is likely to weaken the recent pricing power of the sector. However we opine after the recent jump in cement prices coupled with sharp drop in coal, pet coke and HDPE prices, earnings of cement companies are likely to show a lot of resilience. Currently Emkay cement universe is trading at 6.9X its FY2010E and USD 65.8 for FY2010 capacity. We believe even after the recent run in cement stocks valuation are reasonably attractive considering further possibilities of earnings upgrade. We maintain positive view on the sector and our top picks are ACC, Ambuja, Ultratech, India Cement and Shree Cement.

## Financials

	Sales (Rs mn)		EBITDA (Rs mn)		PAT (Rs mn)		EPS (Rs)		BV / share (Rs)		ROCE (%)		ROE (%)	
	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
ACC	71,896	76,297	17,332	19,037	11,689	11,990	62.2	63.8	262.3	311.1	34.9	29.9	34.9	29.9
Ambuja	62,347	65,606	17,779	18,135	10,938	11,077	7.2	7.3	37.6	42.3	30.7	26.0	19.1	17.2
Grasim	167,867	161,724	41,649	42,082	21,294	19,514	232.3	212.9	1204.4	1388.7	22.0	18.8	19.3	15.3
India Cem	33,924	35,501	10,502	11,759	5,600	6,079	19.9	21.6	109.0	126.6	16.7	16.4	18.2	17.0
Madras Cem	25,301	26,062	8,159	9,462	4,000	4,478	16.8	18.8	55.2	72.4	24.7	23.0	30.4	23.0
Orient Paper	13,960	16,365	3,489	4,116	1,926	2,313	10.0	12.0	33.9	46.1	36.0	29.5	29.4	26.0
Shree Cem	27,150	28,938	9,509	10,471	5,781	4,587	165.9	131.6	347.9	459.6	31.3	23.7	48.8	28.0
Ultratech	63,831	66,371	17,066	18,592	9,772	9,682	78.0	77.3	287.7	359.4	29.2	25.4	27.1	21.5

## Valuations

	CMP	Reco	TP	PE (x)		P/BV (x)		EV/EBITDA (x)		EV/ton (USD)	
				FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
ACC	635	Buy	697	10.2	9.9	2.4	2.0	6.2	5.6	92.5	78.2
Ambuja	76	Hold	85	10.6	10.5	2.0	1.8	6.0	5.7	97.2	83.3
Grasim	1,882	Reduce	1,565	8.1	8.8	1.6	1.4	4.8	4.2	98.1	79.6
India Cem	115	Buy	139	5.8	5.3	1.1	0.9	4.4	3.9	68.5	67.7
Madras Cem	81	Hold	76	4.8	4.3	1.5	3.0	3.6	1.1	61.4	50.0
Orient Paper	32	Buy	39	3.2	2.7	0.9	0.7	3.0	2.1	58.3	32.0
Shree Cem	820	Buy	942	4.9	6.2	2.4	1.8	2.6	2.8	55.7	64.0
Ultratech	567	Buy	668	7.3	7.3	2.0	1.6	5.3	4.3	82.6	71.5

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