March 03, 2011

Cement

SECTOR UPDATE

Headwinds Abound In FY12

The current price discipline prevalent in the cement industry will be threatened in FY12 by fresh supply and sluggish demand growth. We re-iterate our SELL stances on ACC and Ambuja Cements and HOLD stance on UltraTech Cements. We maintain our BUY stance on Shree Cement on account of diversification benefits from the Power business.

Cement demand fails to take off post the monsoons: Cement sales in 3QFY11 grew by a modest 3% YoY (similar to that in the subdued monsoon quarter, 2QFY11). This was due to adverse weather conditions, the slowdown in infrastructure project execution and to lower offtake in housing demand.

Cement demand growth to remain low until end of CY11: We expect the low demand growth (~5% YoY) to persist until October 2011 on account of the continuing slowdown in construction activity. The upcoming elections during May-June 2011 in five states (accounting for 20% of total cement consumption) would further impact demand growth as these State Governments shift focus towards populist rural and social spending. Beyond October 2011, we expect cement sales to firm up to 10% YoY as infrastructure and housing construction activities pick up. We estimate demand to grow by 3-5% YoY in FY11 and by 7.5% YoY in FY12.

Impending capacity addition to keep utilisation subdued: We expect overall addition of 50mn mt of cement capacity during FY11-12 with 30mn mt being added over the next one year. This should keep utilisation levels subdued at 74%, similar to FY11 levels.

Price discipline to be threatened from July 2011 onwards: While we expect price discipline to be in vogue across India over the next three months, muted demand growth in the rest of FY12 and lower utilisation will pose challenges to this price discipline and then lead to price declines. This should result in flattish realisation YoY for FY12 as the realisation growth YoY in 1HFY12 would be neutralized by YoY realisation decline in 2HFY12.

Cost pressure mounts: Coal prices have risen by 30% over the last three months after the floods in Australia in December 2010 disrupted supplies. Thereafter, the recent civil unrest in the Middle East has led to a surge in fuel oil prices which in turn pushed coal prices upward as it is an alternative to fuel oil in many cases. These cost increases should negatively impact operating margins (by 150-300bps) of all cement companies during FY11-13.

Union Budget 2012 impacts excise duty hike of Rs2-4/bag: While manufacturers may be able to pass on the hike in the near term due to the price discipline in vogue, we expect manufacturers' net realisation to be lowered by Re1/bag (~0.5%) in FY12. This should result in a 2-3% reduction in FY12 operating profits for cement companies under our coverage.

Implications for the stocks under coverage: We have a **BUY** stance on Shree Cement as the estimated increase in earnings from Power sales in FY12 should help cushion the lower profits from the cement business. Additionally, the negative impact of excise hike is expected to be neutralized by the lowering of the customs levy on pet coke. Our **SELL** stances on ACC and Ambuja Cements are driven by our concerns regarding softening PAT margins and an absence of positive catalysts. We have a **HOLD** on UltraTech.

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ACC (ACC.IN)	**SELL**
CMP:	Rs982
Target Price:	**Rs938**
Downside (%):	***4***
Mkt cap:	Rs185bn/US$4.1bn
52-wk H/L:	Rs1,133/700
3M ADV:	Rs540mn/US$12mn

Ambuja Cements (ACEM.IN)	**SELL**
CMP:	Rs122
Target Price	**Rs123**
Upside (%)	***1***
Mkt cap:	Rs186bn/US$4.2bn
52-wk H/L:	Rs167/100
3M Avg. daily vol.:	Rs286mn/US$8mn

Shree Cement (SRCM.IN)	**BUY**
CMP:	Rs1,725
Target Price :	**Rs2,064**
Upside (%)	***20***
Mkt cap:	Rs60bn/US$1.3bn
52-wk H/L:	Rs2,542/1,505
3M Avg. daily vol.:	Rs38mn/US$0.8mn

UltraTech (UTCEM.IN)	**HOLD**
CMP:	Rs957
Target Price :	**Rs1,100**
Upside (%)	***15***
Mkt cap:	Rs262bn/US$5.8bn
52-wk H/L:	Rs1,175/820
3M Avg. daily vol.:	Rs292mn/US$6.5mn

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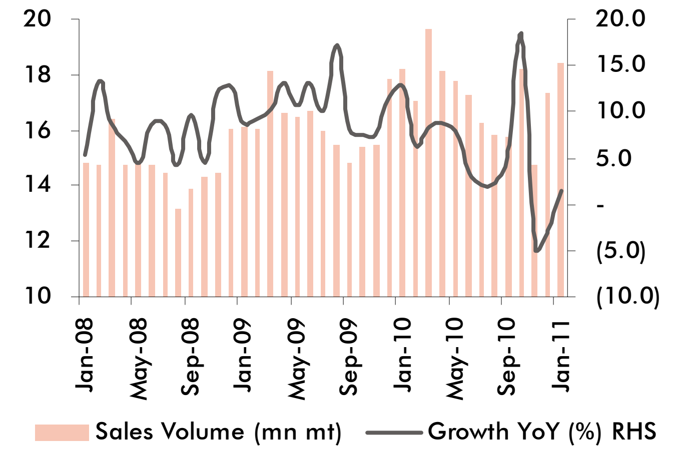
Headwinds abound in FY12

Cement demand growth fails to takeoff post monsoons

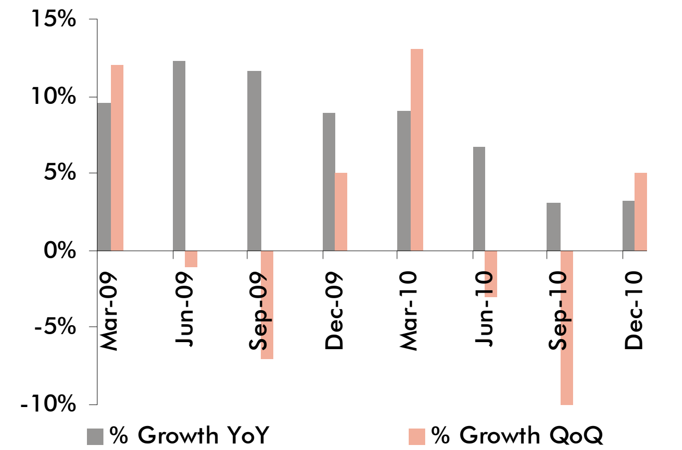
Cement sales in 3QFY11 grew by a modest 3% YoY, similar to the growth experienced during the subdued monsoon quarter (2QFY11). Whilst cement manufacturers claimed that demand growth was hampered by the extended monsoon in many parts of southern India and severe cold conditions in the northern half of India, our analysis (see below) points to some additional factors which are adversely impacting demand.

Exhibit 1: Monthly cement sales growth slumped further post monsoons last year in 3QFY11



Source: CMA, Ambit Capital research

Exhibit 2: Quarterly cement sales growth YoY continued to remain weak in 3QFY11

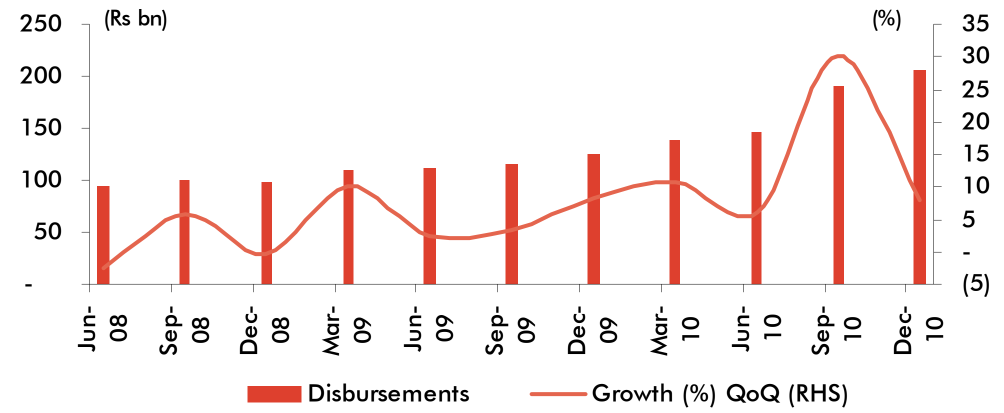


Source: CMA, Ambit Capital research

Real estate demand has weakened during the last six months after a sharp increase in prices across India. As a result, sales volume has suffered and builders have missed their new launch guidance by 20-25%. Low operating cash flows have worsened the debt:equity ratio of real estate developers who were impacted further as interest rates continued to rise. This reduction in new launches is partially responsible for lower cement demand growth even after the monsoon season.

Additionally, infrastructure project loans offtake has slowed down QoQ since October 2010 after strong disbursement growth in the preceding quarter – as reflected in data disbursement from IDFC — one of the leading infrastructure financers in India (exhibit 3). This slowdown in project loans reflects the slowdown in capex growth in India in the wake of the scam-driven gridlock in the political system. Obviously, such a widespread investment slowdown impacts cement demand adversely.

Exhibit 3: IDFC's infra project loan disbursements slowed in the Dec '10 quarter after a surge in 2QFY11



Source: IDFC, Ambit Capital research

Lower demand growth to persist over the next six months

In our previous cement thematic (*Firming Up After The Rains*, 1 December 2010), we had expected demand to pick up in 3QFY11. Now we are postponing the demand recovery to 3QFY12.

While we expect long term cement demand to grow at 10% CAGR, some near-term headwinds are likely to impact demand growth. The upcoming elections in 1QFY12 in three major states – Tamil Nadu, West Bengal and Kerala (which together comprise 20% of total cement demand) should keep demand growth further muted as Governments in these states would be focused more on populist measures such as rural and social spending. Then between June-September 2011 the monsoons are likely to impact demand growth. Therefore infrastructure project execution is expected to pick up only from October 2011 onwards.

Exhibit 4: We expect demand growth to remain muted until state elections are concluded (~20% of cement demand arises from the 5 states heading for elections)

Upcoming state elections in CY11

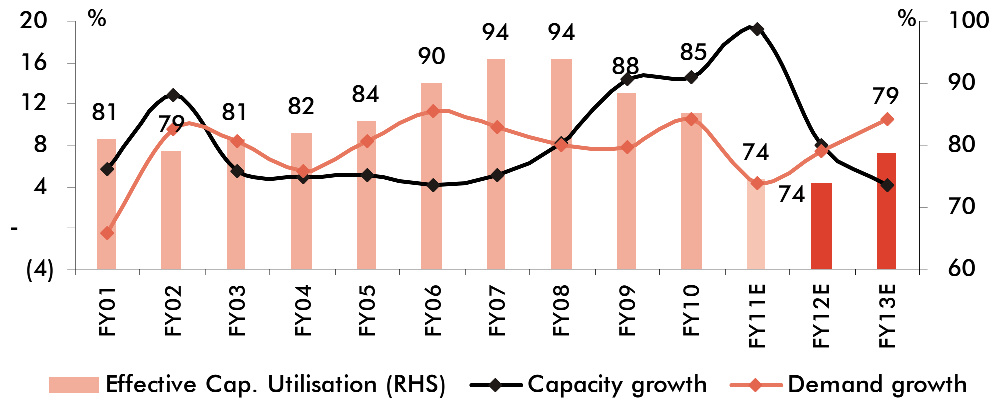
House/State	From	To	Cement demand (% of total demand)
Assam	29.05.2006	28.05.2011	1
Kerala	24.05.2006	23.05.2011	4
Pondicherry	29.05.2006	28.05.2011	0
Tamil Nadu	17.05.2006	16.05.2011	10
West Bengal	12.06.2006	11.06.2011	5

Source: CMA, Ambit Capital research

Expect demand growth to firm up from the end of CY11

Cement demand grew by 4% YoY in the first 10 months of FY11. With muted demand expected to prevail until Oct 2011, we expect FY11 demand growth of 3-5%. We expect demand growth to firm up to 10% YoY from 2HFY12 onwards as project execution picks up and is aided by the low FY11 base effect. However, the muted offtake of 5% YoY during 1HFY12 is likely to keep overall demand growth in FY12 at 7.5% YoY. However, despite demand firming up, we expect realisation to soften in 2HFY12 as price discipline is likely to wane from June 2011 onwards due to the monsoons and higher supply pressures.

Exhibit 5: We expect demand growth to firm up to 10% YoY from 2HFY12 onwards



Source: CMA, Ambit Capital research

Capacity expansion during FY11-13 to remain broadly unchanged

Cement capacity of 15mn mt was added during 9mFY11 raising installed capacity to 280mn mt. We expect another 30mn mt of new capacity to be added by FY12 followed by a further ~13mn mt of capacity in FY13. The recent headwinds should lead to some deferment in the case of new project offtake (due to commissioning late FY13 onwards) led by higher funding costs and delays in land and license clearances.

Exhibit 6: Regionwise capacity expansion (mn mt) over the next three years

	North	East	Central	West	South	Total
FY11E	7.5	5.7	7.1	6.4	8.2	**35**
FY12E	0	4.7	0	0	11.3	**16**
FY13E	0.9	0.9	0	5.1	4.1	**11**
Total	**8.4**	**11.3**	**7.1**	**11.5**	**23.6**	**61.9**

Source: CMA, Industry, Ambit Capital research

Exhibit 7: Cumulative installed capacity (mn mt) distribution across regions

	North	East	Central	West	South	Total
FY10	59	37	31	41	98	**265**
FY11E	66	43	38	47	106	**300**
FY12E	66	47	38	47	118	**316**
FY13E	67	48	38	52	122	**327**

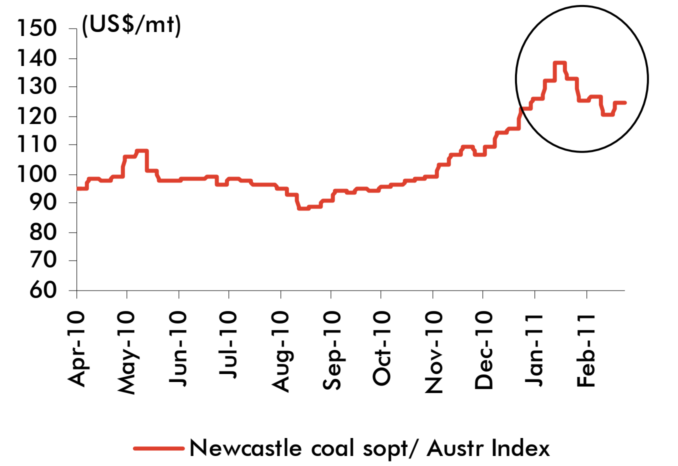
Source: CMA, Industry, Ambit Capital research

Cost pressure mounts led by global issues

Fuel cost has surged by ~30% over the last three months after the floods in Australia in December 2010 disrupted coal exports from the country. Power and fuel cost together constitute ~30% of operating cost for cement manufacturers. Indian cement manufacturers are highly dependent on imported coal due to the relatively low availability of coal linkages within India and from the e-auction markets. The larger manufacturers import 30-50% of their energy requirement.

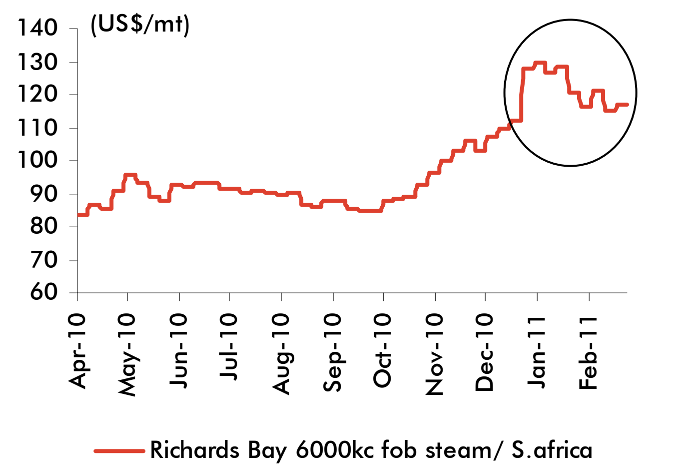
The recent civil unrest in the Middle East has pushed oil prices upward; coal prices too have risen as coal is a substitute for oil in many cases. Hence the sharp increase in imported coal prices should negatively impact operating margins (by 150-300bps) of all cement manufacturers in India in FY11-13.

Exhibit 8: Coal prices were impacted by the supply disruption in Australia



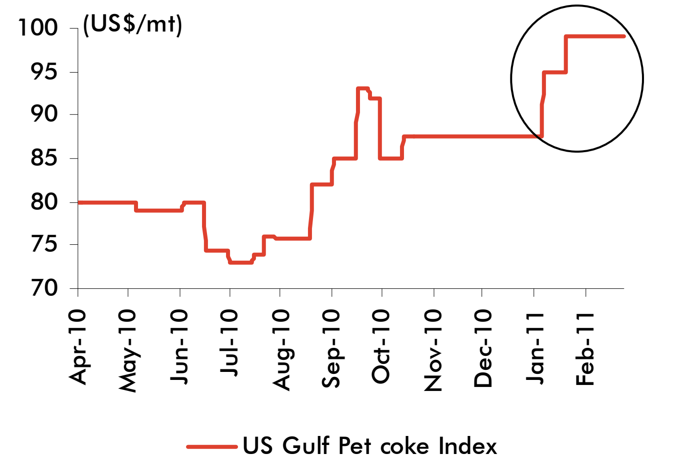
Source: Bloomberg, Ambit Capital research

Exhibit 9: South African coal prices are also rising



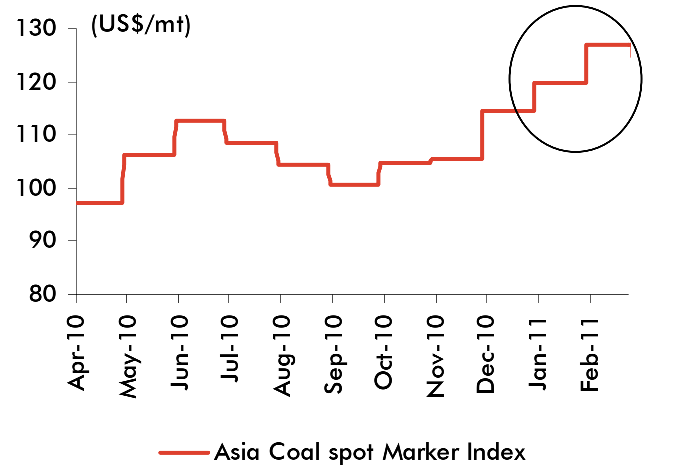
Source: Bloomberg, Ambit Capital research

Exhibit 10: Pet coke prices soar in the US in the wake of the Middle East crisis



Source: Bloomberg, Ambit Capital research

Exhibit 11: The surging Asian Coal index shows no signs of fatigue

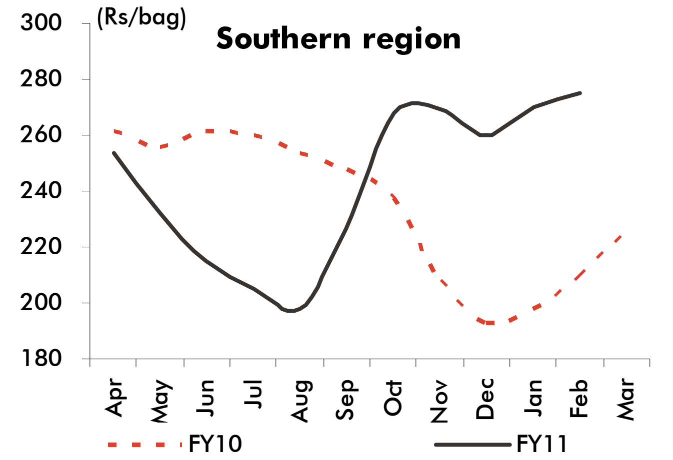


Source: Bloomberg, Ambit Capital research

Manufacturers play the price discipline game

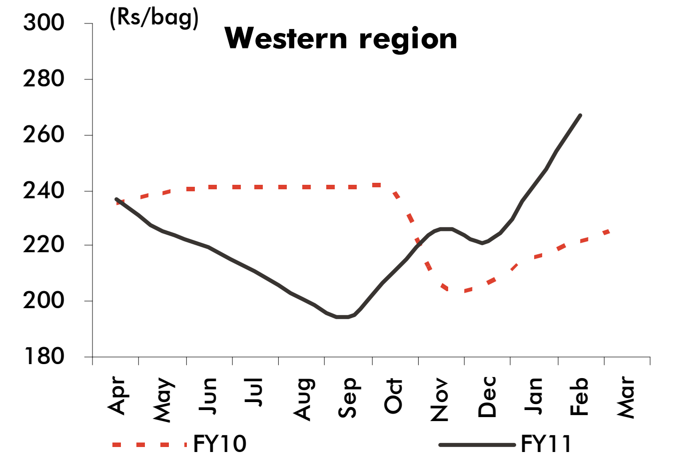
Price discipline started to take shape from October 2010 onwards in the southern markets after manufacturers' profits in the region were hit badly in 2QFY11 (operating margins contracted 800-1000bps QoQ). Hence, cement manufacturers cut production, squeezed supplies and raised prices by ~40% during Sep-Oct 2010. Subsequently, price discipline has been maintained. This also helped prices to recover in the adjoining western markets where cement realisations had declined during 2QFY11due to the supply influx from the southern region.

Exhibit 12: Price discipline kicked in in 3QFY11 in south



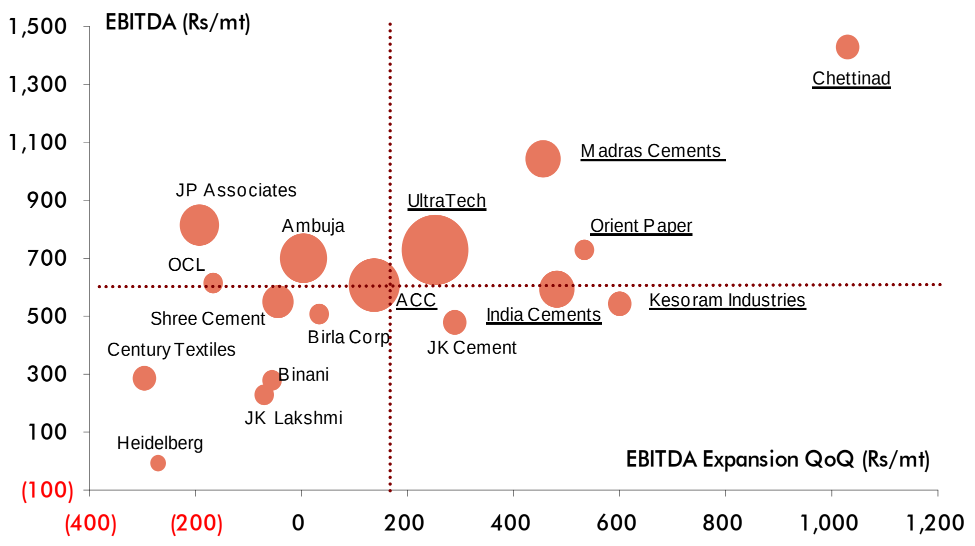
Source: CMA, Ambit Capital research

Exhibit 13: ... and in the west



Source: CMA, Ambit Capital research

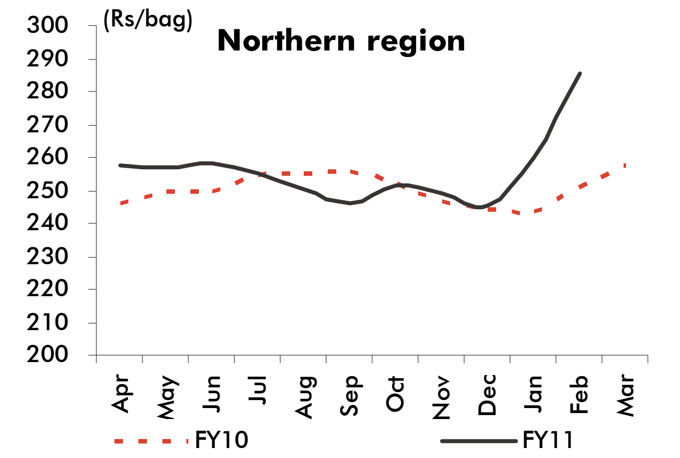
Exhibit 14: Price discipline helped the strong 3QFY11 performance by south and west based manufacturers (underlined companies)



Source: Company, CMA, Ambit Capital research *Bubble size in proportion to installed cement capacity*

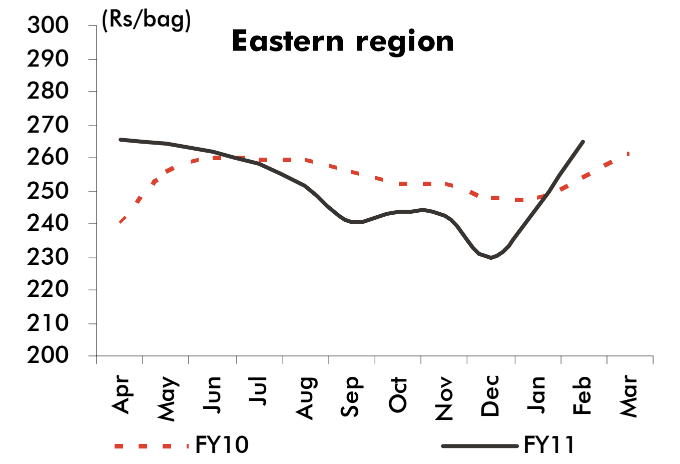
Price discipline in the northern region started to take shape in December 2010 led by the larger manufacturers and this has now spread across the northern half of India. Over the last two months, cement prices in the northern half of India have increased by Rs50-70/bag (20-25% rise over December 2010 prices) as manufacturers cut production and squeezed supply in line with the lower demand offtake. Cement dealers expect companies to hike prices by Rs10-15/bag over the next month, which would bring cement prices closer to Rs300/bag.

Exhibit 15: The north, India's least volatile cement market, has witnessed price discipline kicking in



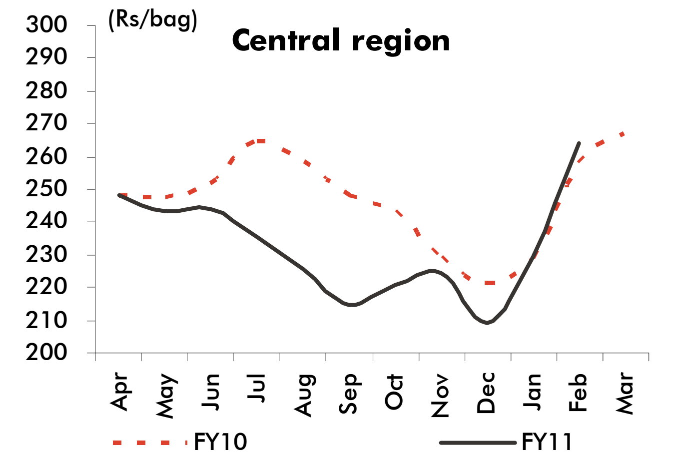
Source: CMA, Ambit Capital research

Exhibit 16: Price discipline leads to realisation growth in 4QFY11



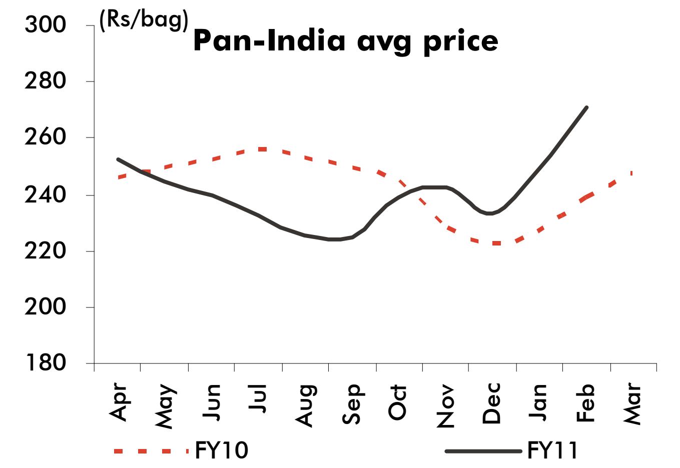
Source: CMA, Ambit Capital research

Exhibit 17: In central India, prices in 4QFY11 rebound above the previous year's level led by price discipline



Source: CMA, Ambit Capital research

Exhibit 18: The pan-India average price grows YoY on the back of price discipline in 2HFY11



Source: CMA, Ambit Capital research

Price discipline to be challenged from July 2011 onwards

All of this being said, we expect price discipline to come under pressure led by lower demand growth over the next six to eight months coupled with impact of 30mn mt of new capacity additions over the next one year. We expect the 5-7% YoY realisation gain during 1HFY12 (on account of price discipline) to be neutralized by the subsequent decline in realisation over the next three to four months. However, we expect realisation to increase by 5% YoY in FY13 on the back of demand firming up.

Impact of Union Budget 2012

Exhibit 19: The Union Budget has, in effect, increased the excise duty for cement

	Earlier structure	New structure
Excise duty on cement	If cement retail price >Rs190/bag, 10% on MRP If cement retail price <=Rs190/bag, Rs14.5/bag	If cement retail price >Rs190/bag, 10% ad valorem + Rs8/bag If cement retail price <=Rs190/bag, 10% ad valorem + Rs4/bag
Customs duty on Pet coke	5%	2.50%
Customs duty on Gypsum	5%	2.50%

Source: Union Budget, Ambit Capital research

Changes in the excise duty structure have led to an effective increase in the excise levy by Rs2-4/bag for various cement companies. While manufacturers may be able to pass on the hike in the near term due to the price discipline in vogue, we expect manufacturers' net realisation to be lowered by Re1/bag (Rs20/mt) in FY12. This should result in a 2-3% reduction in FY12 operating profits for cement companies under coverage.

While the reduction in customs duty on gypsum has a marginal positive impact, reduction in customs duty on pet coke prices will have a positive impact of ~Re1/bag for cement companies like Shree Cement and other small companies like J K Lakshmi and J K Cement which depend on pet coke for cement operations.

Implications for stocks under our coverage

We expect the EBITDA margins of stocks under our coverage to be negatively impacted during FY12/CY11 on account of flat realisation growth and cost pressure. Hence, we have SELL stances on ACC and Ambuja Cements and a HOLD stance on UltraTech Cements. We have factored in the marginal impact of an excise levy hike for these three companies.

We have a BUY stance on Shree Cement as the estimated increase in earnings from Power sales in FY12 should help cushion the lower profits from the cement business. Additionally, the negative impact of the excise hike is expected to be neutralized by the lower customs duty on pet coke.

Exhibit 20: Relative valuation summary

Company	CMP (Rs)	Mcap (US$ bn)	Target Price (Rs)	Recommendation	P/E (x)			EV/EBITDA (x)		
					FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
ACC Ltd	982	4.10	938	SELL	15.5	22.5	16.0	8.8	10.5	7.9
Ambuja Cements	122	4.13	123	SELL	15.0	17.8	14.8	8.3	8.8	6.8
Shree Cement	1,725	1.34	2,064	BUY	26.6	29.7	10.9	7.9	6.7	4.9
UltraTech Cement	957	5.83	1,100	HOLD	43.5	55.6	79.8	22.0	17.2	12.0

Source: Company, Ambit Capital research

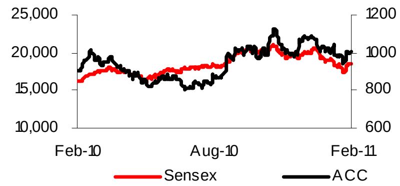
ACC (ACC IN) SELL

CMP:	Rs982
Target Price:	**Rs938**
Downside (%):	***4***
Mkt cap:	Rs185bn/US$4.1bn
52-wk H/L:	Rs1,133/700
3M ADV:	Rs540mn/US$12mn

Stock Performance (%)

	1M	3M	12M
Absolute	0.5	-1.7	6.4
Rel. to Sensex	-1.8	5.4	-5.9

Performance (%)



Source: Bloomberg, Ambit Capital research

We expect ACC's sales volume to grow at 6% YoY during CY11 and CY12 on account of lower overall demand growth. We have also included the flat realisation in CY11 to reflect the weak demand scenario along with the impact of 30mn mt of capacity addition in India by March 2012. Further, we have assumed power and fuel cost to firm up from current levels led by an increase in coal prices in both domestic and import markets. We also expect freight cost to remain high. We have lowered our CY11 and CY12 net realisation estimates by ~Rs20/mt on account of the excise duty hike announced in the recent Union Budget 2012.

Exhibit 21: Key assumptions

	CY07	CY08	CY09	CY10P	CY11E	CY12E
Cement & clinker sales (mn mt)	19.9	21.1	21.5	21.3	22.5	24.1
Net cement realisation (Rs/mt)	3,274	3,392	3,680	3,553	3,535	3,747
Power and fuel cost (Rs/mt)	625	758	717	750	827	865
Freight & handling cost (Rs/mt)	475	475	491	502	525	550

Source: Company, Ambit Capital research

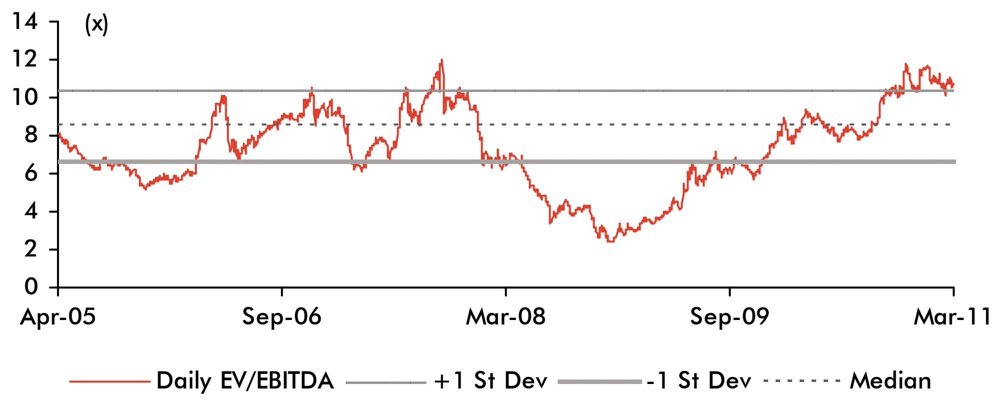
Subsequently, we expect operating margins to decline 410bps and EPS to decline 31% YoY in CY11. The excise hike has impacted our previous CY11 EBITDA and net profit estimates downwards by ~2% each. Subsequently, our DCF-based valuation implies a fair value of Rs938/share (1% lower than our previous estimate of Rs948/share). The fair value discounts CY11E and CY12E EBITDA 10x and 7.5x respectively and implies a replacement cost of US$120/mt.

Exhibit 22: Key financials

Y/E Dec	Revenues	EBITDA	EBITDA margin	PAT	EPS	EPS growth	FCF	P/E	EV/ EBITDA	P/B	RoCE	RoE
	(Rs mn)	(Rs mn)	(%)	(Rs mn)	(Rs)	(%)	(Rs mn)	(X)	(X)	(X)	(%)	(%)
CY09	81,909	26,466	32.3	16,067	85	38	6,909	11.5	6.5	3.1	26	29
CY10	79,758	18,836	23.6	11,894	63	(26)	11,787	15.5	8.8	2.9	17	19
CY11E	83,373	16,247	19.5	8,193	44	(31)	2,181	22.5	10.5	2.7	11	12
CY12E	94,247	20,925	22.2	11,536	61	41	9,679	16.0	7.9	2.5	15	16

Source: Company, Ambit Capital research; Note: Above estimates are for stand-alone financials

Exhibit 23: 1 yr fwd EV/EBITDA trend



Source: Company, Ambit Capital research

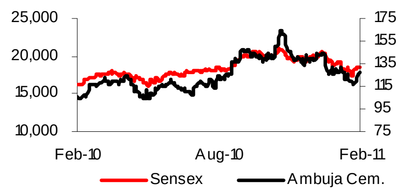
AMBUJA CEMENT (ACEM IN) SELL

CMP:	Rs122
Target Price	**Rs123**
Upside (%)	***1***
Mkt cap:	Rs186bn/US$4.2bn
52-wk H/L:	Rs167/100
3M Avg. daily vol.:	Rs286mn/US$8mn

Stock Performance (%)

	1M	3M	12M
Absolute	0.5	-13.5	13.8
Rel. to Sensex	-1.9	-6.4	1.6

Performance (%)



Source: Bloomberg, Ambit Capital research

In line with lower cement demand offtake in CY11, we expect Ambuja's sales volume to grow by 6% YoY in CY11 and CY12. We have factored in flat realisation in CY11 to reflect the pressure on realisations arising from the impact of commissioning the expected new cement capacity in India by March 2012. We have accounted for higher fuel and freight cost as coal prices have increased in the domestic and import markets. We have lowered our CY11 and CY12 net realisation estimates by ~Rs20/mt in-line with the excise duty hike declared in the Union Budget 2012.

Exhibit 24: Key assumptions

	CY07	CY08	CY09	CY10P	CY11E	CY12E
Cement & clinker sales (mn mt)	16.8	17.6	18.8	20.0	21.2	22.5
Net cement realisation (Rs/mt)	3,349	3,537	3,766	3,739	3,721	3,944
Power and fuel cost (Rs/mt)	608	754	757	848	949	1,000
Cement & clinker sales (mn mt)	650	711	717	805	830	860

Source: Company, Ambit Capital research

We expect muted realisation growth and cost pressure to lead to a 330bps decline in operating margins and 16% decline in net profits for CY11. The excise hike has resulted in our previous CY11 EBITDA and net profit estimates coming downwards by ~2% each.

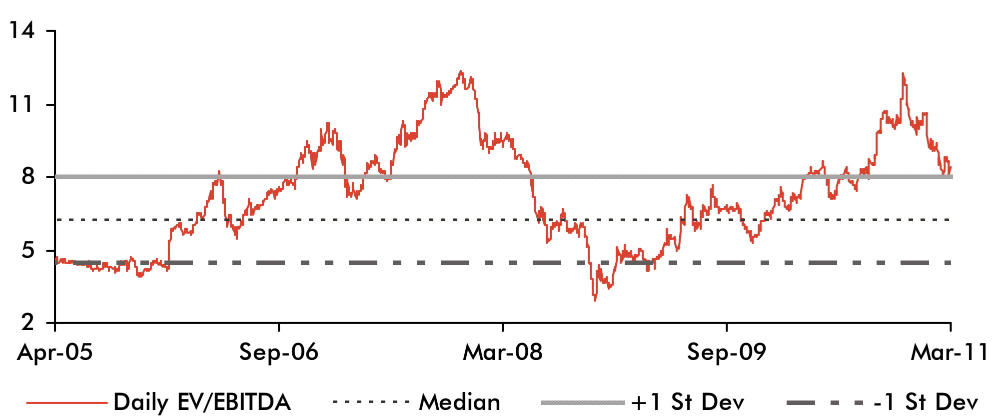
Subsequently, our DCF-based valuation implies a fair value of Rs123/share (1% lower than our previous estimate of Rs125/share). The fair value discounts CY11E and CY12E EBITDA 9x and 7x respectively and implies a replacement cost of US$132/mt.

Exhibit 25: Key financials

Y/E Dec	Revenues	EBITDA	EBITDA margin	PAT	EPS	EPS growth	FCF	P/E	EV/ EBITDA	P/B	RoCE	RoE
	(Rs mn)	(Rs mn)	(%)	(Rs mn)	(Rs)	(%)	(Rs mn)	(X)	(X)	(X)	(%)	(%)
CY09	71,781	19,682	27.4	12,089	7.9	10	5,583	15.4	8.8	2.9	18	20
CY10	75,176	19,510	26.0	12,371	8.1	2	11,130	15.0	8.3	2.6	17	18
CY11E	79,111	17,928	22.7	10,399	6.8	(16)	11,233	17.8	8.8	2.3	13	14
CY12E	88,793	21,644	24.4	12,550	8.2	21	13,105	14.8	6.8	2.1	14	15

Source: Company, Ambit Capital research

Exhibit 26: 1 yr fwd EV/EBITDA trend



Source: Company, Ambit Capital research

Cement

SHREE CEMENT (SRCM IN) BUY

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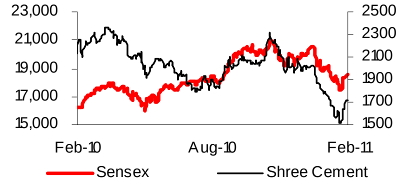
52-wk H/L:	Rs2,542/1,505
3M Avg. daily vol.:	Rs38mn/US$0.8mn

Stock Performance (%)

	1M	3M	12M
Absolute	5.6	-17.5	-19.3
Rel. to Sensex	3.3	-10.4	-31.6

Performance (%)



Source: Bloomberg, Ambit Capital research

We have factored in 5% cement sales volume growth in FY12 and FY13 while we expect realisation growth to remain muted in FY12. Additionally, we have accounted for cost pressure in FY12 on account of a surge in pet coke and fuel prices. In the Power business, we expect timely commissioning of the 300MW of thermal power plants during 1HFY12 to boost power sales volume in FY12-13. We have factored in lower power realisation in line with expected realisation in the northern markets while generation cost is expected to remain firm.

Exhibit 27: Key assumptions

	FY08	FY09	FY10	FY11E	FY12E	FY13E
Cement & clinker sales (mn mt)	6.6	8.4	10.2	10.2	10.7	11.4
Net cement realisation (Rs/mt)	3,227	3,203	3,457	3,232	3,265	3,460
Power and fuel cost - cement (Rs/mt)	556	721	538	731	836	844
Freight & handling cost (Rs/mt)	597	642	744	760	796	818
Power sales volume (mn kWh)		117	264	485	2,324	2,748
Net power realisation (Rs/kWh)		6.9	6.7	4.9	4.5	4.7
Power generation cost (Rs/kWh)		2.5	2.2	3.3	3.3	3.4

Source: Company, Ambit Capital research

Increased contribution from the Power business during F12-13 should help cushion the lower profits from the cement business. We estimate operating margin to contract by 320bps YoY in FY12 and to increase by 340bps in FY13.

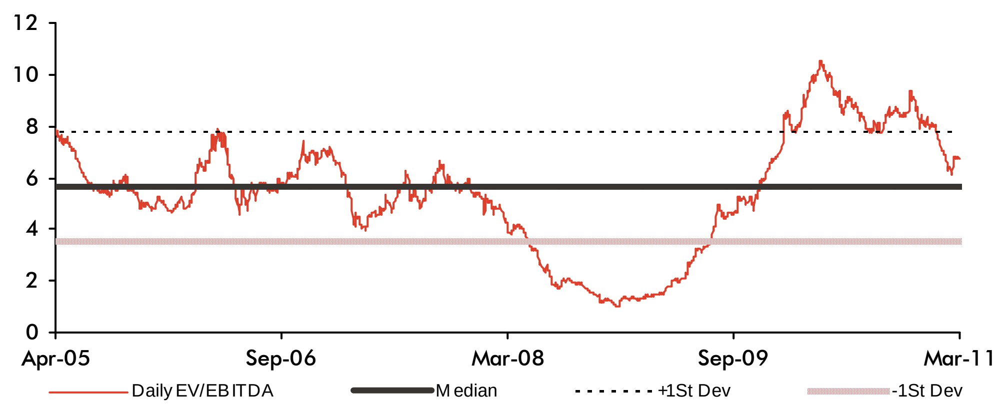
Our DCF-based valuation implies a fair value of Rs2,064/share for the stock. The fair value discounts FY12E and FY13E EBITDA 8x and 6x respectively and implies a replacement cost of US$74/mt for the cement business.

Exhibit 28: Key financials

Y/E Mar	Revenues	EBITDA	EBITDA margin	PAT	EPS	EPS growth	FCF	P/E	EV/ EBITDA	P/B	RoCE	RoE
	(Rs mn)	(Rs mn)	(%)	(Rs mn)	(Rs)	(%)	(Rs mn)	(X)	(X)	(X)	(%)	(%)
FY10	36,509	14,914	40.8	7,198	207	25	1,879	8.3	4.1	3.3	24	47
FY11E	34,734	8,391	24.2	2,260	65	(69)	(3,966)	26.6	7.9	3.0	10	12
FY12E	45,006	9,473	21.0	2,022	58	(11)	3,533	29.7	6.7	2.8	9	10
FY13E	52,506	12,795	24.4	5,521	158	173	1,439	10.9	4.9	2.3	17	24

Source: Company, Ambit Capital research

Exhibit 29: 1 yr fwd EV/EBITDA trend



Source: Company, Ambit Capital research

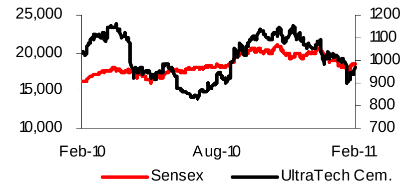
AMBIT
Acumen at work

CMP:	Rs957
Target Price :	**Rs1,100**
Upside (%)	*15*
Mkt cap:	Rs262bn/US$5.8bn
52-wk H/L:	Rs1,175/820
3M Avg. daily vol.:	Rs292mn/US$6.5mn

Stock Performance (%)

	1M	3M	12M
Absolute	-4.0	-16.8	-8.1
Rel. to Sensex	-6.4	-9.7	-20.4

Performance (%)



Source: Bloomberg, Ambit Capital research

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In line with lower cement demand offtake in FY12, we expect UltraTech's sales volume to grow by 5% YoY in FY12 and FY13. We have factored in muted realisation growth in FY12 to reflect the pressure on realisations. Further, we have accounted for higher fuel and freight costs as coal prices have increased. We have lowered our FY12E and FY13E net realisations by ~Rs20/mt to reflect the impact of the recent excise duty hike.

Exhibit 30: Key assumptions

	FY08	FY09	FY10	FY11E	FY12E	FY13E
Cement & clinker sales (mn mt)	17.1	18.2	20.2	35.6	43.5	45.7
Net cement realisation (Rs/mt)	3,223	3,415	3,419	3,283	3,296	3,461
Power and fuel cost (Rs/mt)	733	950	707	887	973	1,069
Freight & handling cost (Rs/mt)	713	743	768	746	761	774

Source: Company, Ambit Capital research

We estimate operating margins to remain flat during FY12 despite weakness in the grey cement business as we expect realisation in ready mix concrete (RMC), putty and white cement businesses to improve by ~4% YoY in FY12. These three businesses constitute ~15% of UltraTech's sales in FY12. The excise hike has impacted our FY12 EBITDA and net profits estimates downwards by 3%.

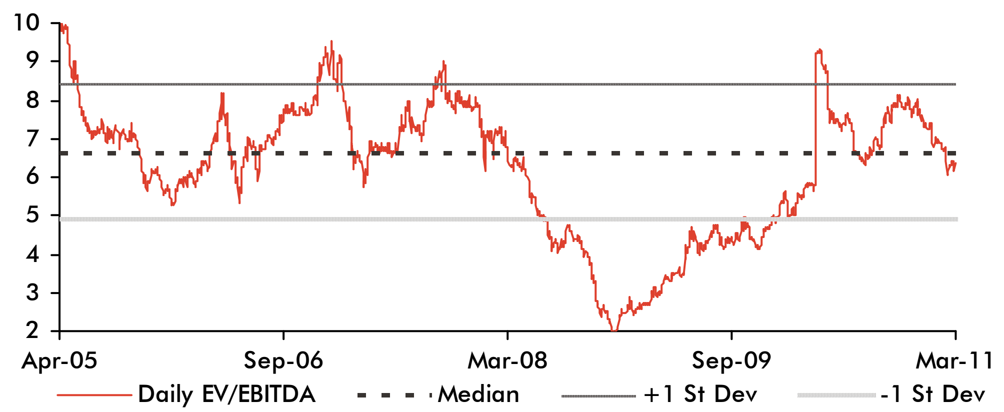
Subsequently, our DCF-based valuation implies a fair value of Rs1,100/share (1% lower than our earlier estimate of Rs1,114) for UltraTech. The fair value discounts FY12E and FY13E EBITDA 10x and 7.3x respectively and implies a replacement cost of US$135/mt.

Exhibit 31: Key financials

Y/E Mar	Revenues	EBITDA	EBITDA margin	PAT	EPS	EPS growth	FCF	P/E	EV/ EBITDA	P/B	RoCE	RoE
	(Rs mn)	(Rs mn)	(%)	(Rs mn)	(Rs)	(%)	(Rs mn)	(X)	(X)	(X)	(%)	(%)
FY10	70,497	19,711	28.0	10,932	88	12	11,144	10.9	13.3	2.6	17	27
FY11E	132,119	25,895	19.6	11,918	43	(50)	(10,738)	22.0	10.6	2.4	12	16
FY12E	165,482	31,692	19.2	15,230	56	28	5,806	17.2	8.5	2.1	10	13
FY13E	184,835	41,281	22.3	21,875	80	44	8,821	12.0	6.3	1.8	13	16

Source: Company, Ambit Capital research

Exhibit 32: 1 yr fwd EV/EBITDA trend



Source: Company, Ambit Capital research

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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