



Index

- ♦ Sector Update >> [Cement](#)
- ♦ Sector Update >> [Automobiles](#)

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aditya Birla Nuvo	06-Dec-05	714	1,164	1,280
♦ Ceat	28-Nov-06	122	129	190
♦ India Cements	28-Sep-06	220	232	315
♦ Lupin	06-Jan-06	403	549	565
♦ Thermax	14-Jun-05	124	383	425

Cement

Sector Update

Buoyancy continues

The cement majors have reported buoyant dispatch numbers for the month of November 2006. Cumulatively these majors have reported a strong 8.8% year-on-year (y-o-y) growth in the cement dispatches to 53 lakh tonne. The AV Birla group (which includes Grasim Industries and UltraTech) recorded a y-o-y growth of 12.7% to 24.7 lakh tonne whereas Gujarat Ambuja recorded a smart 9.5% y-o-y growth to 13.11 lakh tonne. ACC's growth remained subdued at 2.7% at 15.2 lakh tonne which could probably be attributed to the heavy monsoons in the south where it has significant exposure. Year-till-date (ytd), all the three majors have approximately reported a growth of 8.8% yoy.

This mirrors the continuation of the vibrant activity in the housing and construction sector across the country, which had picked up in the month of September after a slump on account of the monsoons.

Dispatches grow unabated

Particulars	Nov-06*	% yoy chg	YTD*	% yoy chg
ACC	15.2	2.7	73.1	6.7
GACL	13.1	9.0	59.2	9.4
AV Birla	24.7	12.7	117.7	9.7
Cumulative	53.0	8.8	250.0	8.8

Figures in lakh tonne

Dispatch numbers continue to be buoyant

After witnessing a slump in the month of August on account of the rains across the country, the cement dispatch numbers of the top three players had witnessed a sharp bounce back in the month of September recording a healthy growth of 16% year on year (yoy). The trend has continued in the month of October and November as well. The growth in the last two months prima facie appears subdued as against a growth of 16% for the month of September primarily on account of the base effect. Nevertheless, it reaffirms the buoyancy in the housing and construction industry.

Cement prices maintain momentum along with cement consumption

On account of the hectic activity in the housing, infrastructure and industrial segments, the cement prices have maintained an upward growth trajectory. For the first six months of the fiscal the cement prices have moved up by 23.2% on a y-o-y basis to stand at Rs200 per bag. The cement prices are rising unabated all across the country which can be seen from the fact that Maharashtra witnessed an increase of Rs5 per bag in the last month whereas starting from December 1, 2006 Rajasthan has witnessed an increase of Rs5 per bag.

Outlook

Going forward we expect the cement dispatches to maintain the growth momentum on the back of vibrant construction activity across the country and thus expect cement prices to firm up further. The fact that the prices continued to remain firm in the July-September quarter even after witnessing heavy rains across the country confirms our view on the same. This will be extremely positive for the cement companies, as their earnings would receive a tremendous fillip by the double impact of rising volumes and substantially higher cement realisations.

Even though the cement producers have announced big capacity addition plans, the high gestation period for these projects coupled with the continued buoyancy in the cement consumption would mean that the capacity utilisation levels will be comfortably placed even in FY2009 (refer our previous note dated November 23, 2006). We thus maintain our positive view on the sector and rate ACC, UltraTech and Madras Cement as our top picks in the sector.

Company	Price	PER		EV/EBITDA		EV/Tonne	
	Target	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E
ACC	1,250	20.0	16.6	11.1	8.9	213.7	191.8
Grasim	3,350	13.8	11.6	7.0	5.5		
UTCL	1,100	16.4	13.4	8.0	6.8	157.0	152.8
JP Associates	800	33.2	23.1	12.9	10.0		
Shree Cement	1,700	14.7	11.0	9.3	6.4	245.6	170.6
Madras Cement	4,000	12.4	10.5	7.1	6.1	143.0	129.8
JK cement	295	8.9	6.1	5.8	4.4	84.7	79.0
Orient Paper	800	8.9	6.5	5.3	4.0	86.4	66.4
India Cements	315	11.8	8.2	8.0	5.6	137.2	108.3

Automobiles

Sector Update

A power-packed performance by ALL

Ashok Leyland

- ◆ Ashok Leyland's November sales are ahead of our expectations. The company reported an overall growth of 64% year on year (yoy) as its vehicle sales jumped to 6,923 units in the month. Its domestic sales grew by 59% while its exports rose by a whopping 179%.
- ◆ The medium-duty vehicle (MDV) goods segment (which accounts for the bulk of the company's sales) turned a brilliant performance, reporting a growth of 108% yoy with sales of 5,439 vehicles. The MDV passenger segment witnessed a decline of 3% in November as the company has lost considerable market share in the segment to Tata Motors.
- ◆ In November the sales of its light commercial vehicles stood at 21 units, marking a decline of 78% yoy.
- ◆ Looking at the year-till-date numbers, the company has reported an overall growth of 39.2% with the MDV goods segment growing by 61.6% yoy and the MDV passenger segment marking a decline of 13%.
- ◆ The company has drawn up aggressive expansion plans for the next four to five years. It proposes to spend about Rs5,250 crore to raise its production capacity by 140,000 units over this period. It also plans to set up a new facility, which would start with an initial capacity of 60,000 units and whose capacity would be scaled up to 100,000 units in three years. The location for the same has not been finalised yet but the same could be in the northern or central region of the country. Apart from this, the company has also selected Uttaranchal to set up a capacity of 40,000 units with an investment of Rs1,250 crore.

Sales numbers

	Nov-06	Nov-05	% yoy	Oct-06	% mom	YTD-07	YTD-06	% yoy
MDV passenger	1,463	1,506	-2.9	1,539	-4.9	8,957	10,269	-12.8
MDV goods	5,439	2,611	108.3	5,688	-4.4	41,922	25,935	61.6
LCV	21	96	-78.1	28	-25.0	235	505	-53.5
Total sales	6,923	4,213	64.3	7,255	-4.6	51,114	36,709	39.2

The author doesn't hold any investment in any of the companies mentioned in the article.

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
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Universal Cables
Wockhardt

Vulture's Pick

Esab India
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[Home](#)

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