

India Cement

3QFY11 Earnings Preview: Sequential improvement

- Pricing recovery q/q, though skewed regionally:** Cement prices recovered q/q, however, South India saw the sharpest price recovery with estimated q/q price increase of 29%, followed by West India showing a price increase of 5% q/q. North as per our estimates would show a modest q/q decline, while East would have a 5% decline q/q. National average cement prices should be up 5% q/q. While Oct and Nov were relatively strong months for cement prices, we estimate cement prices saw a modest correction in Dec. Given this back drop, we expect companies with exposure to South India to show the sharpest q/q improvement in margins and earnings (though admittedly volumes would still be low).
- Cost pressures- More to come in the March quarter:** We expect cost pressures to remain elevated, but a large part of the recent imported coal price increase would flow with a lag for cement companies, with recent spike in coal only flowing in the March/June quarter. Domestic e-auction coal prices are also up sharply, adding to cost pressures.
- Grasim- VSF to remain strong; UTCEM to benefit from South India recovery:** We estimate GRASIM undertook Rs8/kg price increase in VSF through the quarter (from average price of Rs116/kg in Q2), though full benefits of the price increases would flow in the March quarter. We expect cost pressures to remain benign in VSF. We expect blended EBITDA/MT for UTCEM to increase 64% q/q to Rs789/MT mainly on South India price increases.
- ACC and ACEM to have noisy quarters given year end, though underlying profitability to see improvement:** Given that ACC and ACEM both have Dec year ends, the quarter tends to be noisy, especially with tax rates. However, underlying profitability should improve, though cement price decline in East India, should limit EBITDA/MT expansion for ACC, and muted price increase in North India should do the same for ACEM.

India Cement

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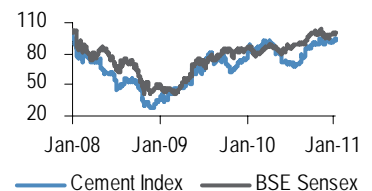
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JPM Cement Index performance v/s BSE 30



Source: Bloomberg, Priced as of Jan 7, 2011.

Table 1: JPMorgan 3QFY11E Estimates

	3QFY11E		% Q/Q change		% Y/Y change	
	EBITDA	PAT	EBITDA	PAT	EBITDA	PAT
Ambuja	4,651	2,664	53.9%	75.1%	2.4%	8.4%
ACC	4,382	2,536	98.1%	153.5%	-14.7%	-9.2%
UltraTech	7,371	3,210	68.4%	177.3%	83.8%	63.7%
Grasim	11,478	4,913	46.1%	52.0%	-20.3%	-31.3%

Source: Company reports and J.P. Morgan estimates.

Table 2: Region wise pricing for the quarter

	Price (Rs/bag)	% Q/Q change	% Y/Y change
North	232	-2%	-3%
South	269	29%	24%
East	245	-5%	-5%
West	229	5%	0%

Source: CMA and J.P. Morgan.

See page 4 for analyst certification and important disclosures, including non-US analyst disclosures.

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Cement – Off a very weak 2QFY11

We expect earnings for cement players to be significantly better after a very poor 2Q results, which witnessed low volume and close to trough prices in many markets. 3Q realizations saw improvement with large hikes in South India (prices were increased Rs80-90/bag over Sep-Oct) and West India. North India players saw a good start to the quarter, but prices and volumes declined in November due to festivals and weather. Average realization is expected to increase 4-8% for the large players. While volumes in the quarter were lower than our expectation (with a weak Nov and muted recovery in Dec), dispatches for the large cement players (ACC, ACEM, UTCEM, Jaypee and Dalmia) increased 11% q/q and 9% y/y. However, costs are likely to remain elevated with higher coal, fly ash and freight costs in the quarter. While we expect EBITDA/MT to improve sequentially, they would still be below the 1QFY11 levels for most companies.

Table 3: 3QFY11 Key Metrics

	3QFY11E	2QFY11	3QFY10	% Q/Q	% Y/Y
Cement-National (Rs/bag)	243	232	236	5.3%	3.2%
Coal (\$/MT)	106	94	77	12.8%	37.7%

Source: Bloomberg, Metal Bulletin, CMA and J.P. Morgan.

Table 4: Cement - 3QFY11 Key Assumptions

	Volumes	3QFY11E Realization	EBITDA/MT	Volumes	% Q/Q Change Realization	EBITDA/MT	Volumes	% Y/Y Change Realization	EBITDA/MT
Ambuja	5.0	3,767	930	14.9%	3.5%	33.9%	5.0%	0.3%	-2.5%
ACC	5.6	3,636	784	15.7%	4.0%	71.2%	4.3%	-1.8%	-18.2%
UltraTech	9.3	3,868	789	2.7%	8.5%	64.0%	-	-	-

Source: Company reports and J.P. Morgan estimates.

Ambuja: The company volume was impacted by the truckers strike in its HP plants during the quarter. But strong volumes from other plants helped improve volumes by 15% q/q and 5% y/y. We forecast realizations to improve 3.5% q/q. We expect EBITDA of Rs4.6bn with captive clinker benefits offset by other cost pressures. We expect Ambuja's PAT at Rs2.7bn.

ACC: We expect strong sales volume growth (16% q/q; 4% y/y) and higher realizations (+4% q/q) in its key markets of South and West India will help improve margins. However, higher cost (fly ash, coal and freight) will offset the volume and pricing gain. We expect ACC's 3QFY11E EBITDA at Rs4.4bn and PAT at Rs2.5bn.

UltraTech: While we expect UTCEM will see the strong improvement in realizations (+8% q/q) given the large price increase in South and West India, volume growth would be much lower (+2.7% q/q) given continued weak demand trends in South and slower recovery in North. We expect EBITDA of Rs7.4bn and PAT of Rs3.2bn.

Grasim (consolidated): We expect 3QFY11 EBITDA at Rs11.5bn and PAT at Rs4.9bn (-31% y/y; +52% q/q). VSF segment should see a much better quarter with strong volume growth (+20% q/q; flat y/y) and higher VSF prices (+3.5% q/q; +10% y/y) driving margin expansion. The company took two price increases (Oct and mid-Nov) given strong cotton prices. We expect margins to increase by ~600bps sequentially to 39% in the quarter.

Table 5: Cement - 3QFY11 Estimates Summary

	3QFY11E			% Q/Q Change			% Y/Y Change		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT	Sales	EBITDA	PAT
Ambuja	18,825	4,651	2,664	18.9%	53.9%	75.1%	5.3%	2.4%	8.4%
ACC	20,315	4,382	2,536	20.3%	98.1%	153.5%	2.4%	-14.7%	-9.2%
UltraTech	36,153	7,371	3,210	11.4%	68.4%	177.3%	-	-	-
Grasim	47,237	11,478	4,913	4.9%	46.1%	52.0%	-2.5%	-20.3%	-31.3%

Source: Company reports and J.P. Morgan estimates.

Table 6: Bloomberg versus J.P. Morgan 3QFY11 Earnings Overview

	BBG Estimates			% from JPM		
	Sales	EBITDA	PAT	Sales	EBITDA	PAT
Cement						
Ambuja	19,372	4,380	2,749	-3%	6%	-3%
ACC	21,804	5,171	3,253	-7%	-15%	-22%
Grasim	37,331	6,891	3,074	-3%	7%	4%
UltraTech	48,122	10,449	4,984	-2%	10%	-1%

Source: Bloomberg and J.P. Morgan estimates.

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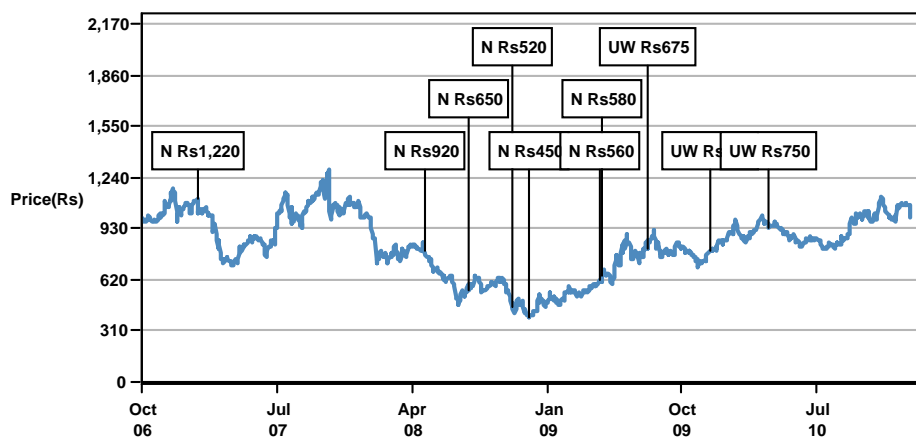
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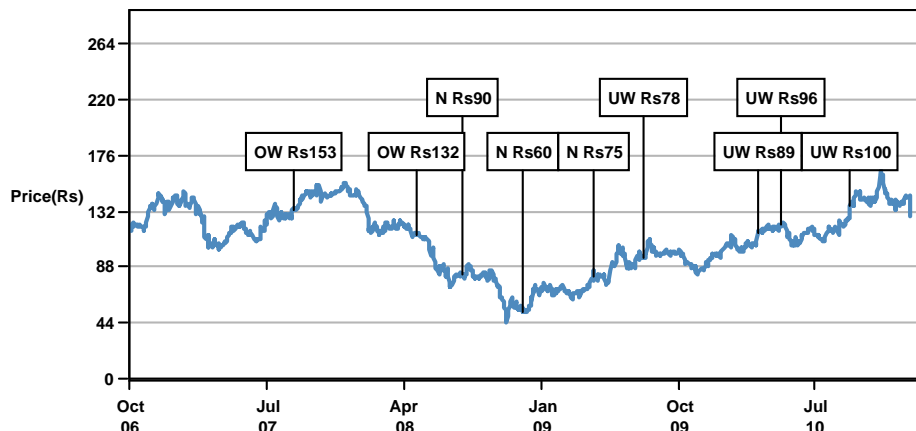
ACC Limited (ACC.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
22-Jan-07	N	1115.80	1220.00
24-Apr-08	N	798.10	920.00
24-Jul-08	N	560.75	650.00
23-Oct-08	N	452.15	520.00
25-Nov-08	N	397.15	450.00
16-Apr-09	N	616.50	560.00
22-Apr-09	N	645.75	580.00
23-Jul-09	UW	807.80	675.00
26-Nov-09	UW	794.05	650.00
24-Mar-10	UW	934.85	750.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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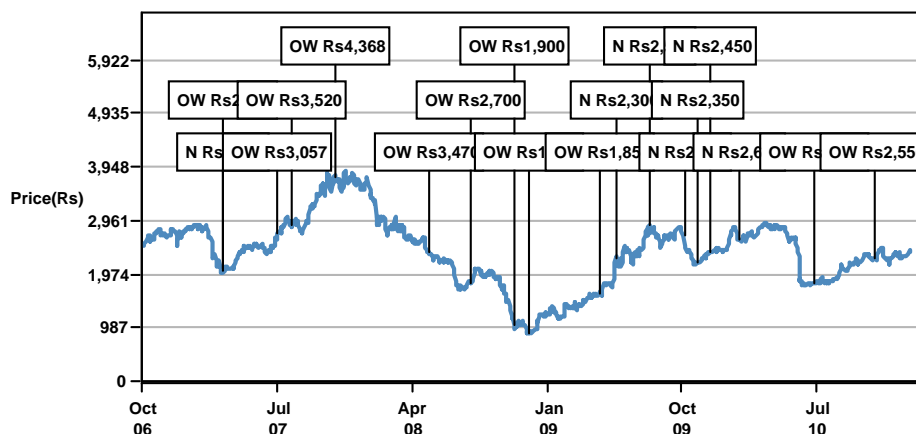
Ambuja Cements Limited (ABUJ.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
26-Aug-07	OW	133.20	153.00
26-Apr-08	OW	113.35	132.00
27-Jul-08	N	81.80	90.00
25-Nov-08	N	51.90	60.00
16-Apr-09	N	80.15	75.00
23-Jul-09	UW	96.15	78.00
09-Mar-10	UW	114.80	89.00
22-Apr-10	UW	121.05	96.00
07-Sep-10	UW	136.00	100.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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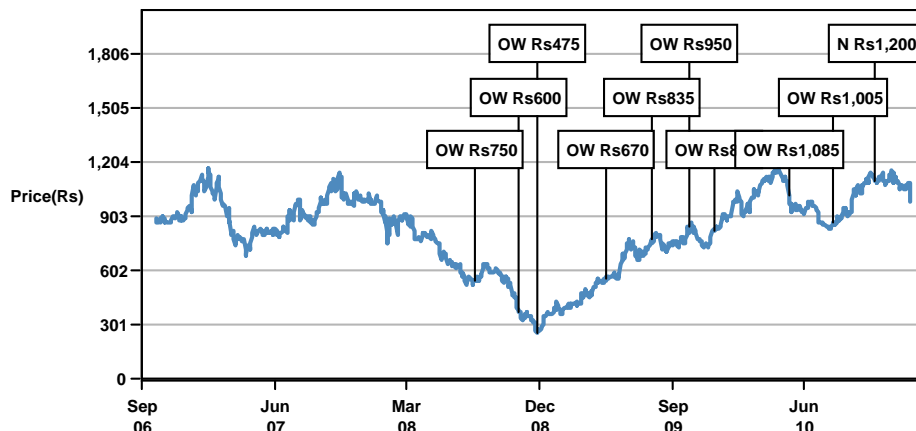
Grasim Industries Ltd (GRAS.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
13-Mar-07	N	2053.90	2800.00
14-Mar-07	OW	2028.60	2800.00
04-Jul-07	OW	2739.30	3057.00
30-Jul-07	OW	2861.60	3520.00
28-Oct-07	OW	3779.10	4368.00
04-May-08	OW	2380.45	3470.00
27-Jul-08	OW	1816.15	2700.00
24-Oct-08	OW	1033.70	1900.00
25-Nov-08	OW	898.90	1350.00
16-Apr-09	OW	1621.05	1850.00
20-May-09	N	2253.35	2300.00
28-Jul-09	N	2884.70	2550.00
05-Oct-09	N	2691.65	2300.00
01-Nov-09	N	2184.10	2350.00
26-Nov-09	N	2360.50	2450.00
23-Jan-10	N	2623.15	2640.00
25-Jun-10	OW	1798.75	2250.00
28-Oct-10	OW	2255.10	2550.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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UltraTech Cement Ltd (ULTC.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
20-Jul-08	OW	538.65	750.00
19-Oct-08	OW	368.15	600.00
25-Nov-08	OW	259.85	475.00
16-Apr-09	OW	559.70	670.00
21-Jul-09	OW	775.70	835.00
05-Oct-09	OW	848.95	950.00
26-Nov-09	OW	824.80	860.00
29-Apr-10	OW	1015.35	1085.00
29-Jul-10	OW	869.80	1005.00
26-Oct-10	N	1098.00	1200.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
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