

October 19, 2011

Price Performance

ACC (Rs1,105, HOLD)

(%)	1M	3M	6M	12M
Absolute	6	12	0	14
Rel. to Sensex	7	24	14	37

Ambuja (Rs152, REDUCE)

(%)	1M	3M	6M	12M
Absolute	6	21	1	11
Rel. to Sensex	7	33	15	34

Grasim (Rs2,334, ACCUM)

(%)	1M	3M	6M	12M
Absolute	2	8	(3)	3
Rel. to Sensex	3	19	11	24

Ultratech (Rs1,122, REDUCE)

(%)	1M	3M	6M	12M
Absolute	(0)	13	8	(0)
Rel. to Sensex	1	25	23	20

India Cements (Rs74, Under review)

(%)	1M	3M	6M	12M
Absolute	6	2	(28)	(36)
Rel. to Sensex	7	12	(17)	(23)

Madras Cements (Rs96, ACCUM)

(%)	1M	3M	6M	12M
Absolute	(5)	16	(9)	(15)
Rel. to Sensex	(4)	28	4	3

Orient Paper (Rs58, BUY)

(%)	1M	3M	6M	12M
Absolute	(4)	7	4	(4)
Rel. to Sensex	(4)	18	18	16

Shree Cements (Rs1,867, ACCUM)

(%)	1M	3M	6M	12M
Absolute	11	4	(4)	(8)
Rel. to Sensex	12	15	10	10

Source: Bloomberg

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- **Avg cement prices up by 6.6% mom (+Rs16/bag). Producers cut supplies to non-trade segment in north & central to exploit the premium in the trade segment**
- **North (+Rs23/bag) & Central (+Rs24/bag) region see sharp price hikes followed by Eastern region (Rs21/bag). Dealers expect further hikes**
- **Sharp price hikes led by very short Pre-Diwali construction season this year (~25 days vs 40-45 days) coupled with rollback of discounts simultaneously**
- **Unavailability of sand impacted cement offtake in western region while monsoon and the fluid political situation in Telangana continue to hamper consumption in south**
- **Cost push likely to continue led by shortage of coal & hike in surcharges by railways in Oct-11. Though Q2FY12 dispatches grew +6% on low base, demand yet to reflect strength.**
- **Solid demand pick up remains a key trigger to sustain the ensuing seasonal price uptick. Prefer ACC,SRM & Grasim. Maintain REDUCE on ACEM & UTCEM**

Key Highlights of our interaction with cement dealers across the country:

Northern Region: Prices surge driven by supply shortage

- Prices in this region have surged by Rs 20-30/bag over the last month. Cement producers have reduced production levels leading to shortage in the market with no sales in the non trade segment and supplies being diverted to trade segment to exploit the premium of Rs10-15/bag.
- The region is showing slight improvement in the offtake but dealers believe that this could be a result of stocking up of the commodity as the market expects prices to go up further post the 20th of October.

Eastern region: Moderate improvement in offtake aides further hikes

- Post durga pooja , cement offtake in the region has improved driving price hikes of Rs20-30 / bag . This is the third successive month where producers have hiked price in the region. From the lows of Rs235/bag in July-11 cement prices have improved by ~Rs30/bag (+13-14%) to current levels of Rs265-270/bag.
- Dealers expect the offtake to improve in the coming weeks with further hikes expected to be announced by cement producers.

Western Region: Unavailability of Sand impacting cement offtake

- Cement prices in this region have increased by Rs5-10/bag over the last one month. Post the monsoon season demand in the region was expected to show a good uptick, however, the unavailability of sand due to delayed auctioning issue has hampered construction activities.
- However dealer in certain parts like Ahmedabad and Nashik expect the offtake to improve and another round of price hikes (of Rs5-10/bag) to kick in by Nov-11

Central Region: The Fall and Rise of the Centre

- With slight improvement in demand as compared to last month, this region witnessed cement prices hiked by Rs15-35/bag over the last one month. The supply issue due to production cuts impacted the sale of cement in the non trade segment similar to that witnessed in the northern region.
- Prices are now just Rs10-15 / bag away from their YTD highs. Dealers are suggesting that any positive improvement in demand in the coming weeks post Diwali, along with the production discipline would trigger another round of hikes.

Southern Region: Cement producers pushed against the wall...

- Prices of cement in the southern region have increased by Rs10-15/bag over the last one month. This increase is primarily led by 1.Acute shortage for coal (led by strike at SCL) impacting cement production in AP 2.Rollback of discounts given to dealers 3.Continuing impasse over the Telangana issue affecting distribution channels with freight charges increasing by 10-15% over the last one month.
- Demand in the region remains subdued as difficulties with distribution has had a cascading impact, while the ongoing agitation in Andhra Pradesh has resulted in reduced momentum of real estate and other construction activities in the region.

Quarterly price trends

(Rs per bag)	North	Central	East	West	South	All India
Q1FY11	257	245	264	227	234	245
Jul-10	255	236	258	211	205	233
Aug-10	250	226	252	201	198	225
Sep-10	246	215	241	194	227	225
Q2FY11	250	225	250	202	210	228
Oct-10	252	221	243	211	269	239
Nov-10	249	220	242	226	270	241
Dec-10	244	209	230	222	260	233
Q3FY11	248	217	238	220	266	238
Jan-11	250	220	230	233	270	241
Feb-11	273	258	248	258	280	263
Mar-11	289	271	261	276	283	276
Q4FY11	270	250	247	255	278	260
FY11	257	234	250	226	247	243
Apr-11	286	264	259	278	285	274
May-11	282	255	248	269	286	268
Jun-11	272	241	239	255	279	257
Q1FY12	280	253	249	268	283	266
Jul-11	255	234	233	240	278	248
Aug-11	241	223	244	244	278	246
Sep-11	246	229	249	240	279	249
Q2FY12	247	229	242	241	278	247
Oct-11	264	252	264	241	288	262

*Not : Prices for Oct include averages only till Oct19, 2011

Monthly price trend

Region		Prices in Oct, 2011	Prices in Sept, 2011	YTD highs	% Change MoM	% fall from YTD highs	Expected trend
North	Delhi	268	243	285	10.3%	-6.0%	Up
	Karnal	260	233	280	11.6%	-7.1%	Up
	Rohtak	265	238	272	11.3%	-2.6%	Up
	Chandigarh	275	252	294	9.1%	-6.5%	Up
	Jaipur	255	235	271	8.5%	-5.9%	Up
	Simla	245	235	288	4.3%	-14.9%	Up
	Bhatinda	275	242	290	13.6%	-5.2%	Up
	Ludhiana	270	245	294	10.2%	-8.2%	Up
	Jammu	340	327	374	4.0%	-9.1%	Up
	Average	273	250	294	9.0%	-7.4%	
Central	Lucknow	265	227	285	16.7%	-7.0%	Up
	Meerut	275	250	275	10.0%	0.0%	Up
	Faizabad	270	250	285	8.0%	-5.3%	Up
	Bareilly	265	242	285	9.5%	-7.0%	Up
	Bhopal	240	225	253	6.7%	-5.1%	Up
		Average	263	239	277	10.1%	-4.9%
East	Calcutta	275	247	276	11.3%	-0.4%	Up
	Patna	265	240	265	10.4%	0.0%	Up
	Muzaffarpur	265	245	270	8.2%	-1.9%	Up
	Bhubneshwar	280	268	296	4.5%	-5.4%	Up
	Gauwhati	275	255	260	7.8%	5.8%	Up
		Average	272	251	273	8.4%	-0.5%
West	Bombay	275	265	302	3.8%	-8.9%	Up
	Nagpur	245	240	274	2.1%	-10.6%	Flat
	Pune	280	275	297	1.8%	-5.7%	Up
	Ahmedabad	220	215	288	2.3%	-23.6%	Up
	Rajkot	225	215	275	4.7%	-18.2%	Up
	Baroda	230	225	281	2.2%	-18.1%	Up
	Surat	235	220	295	6.8%	-20.3%	Up
		Average	244	236	287	3.3%	-15.0%
South	Chennai	280	262	275	6.9%	1.8%	Flat
	Trivandrum	312	312	320	0.0%	-2.5%	Up
	Calicut	310	310	325	0.0%	-4.6%	Up
	Bangalore	290	285	290	1.8%	0.0%	Up
	Hyderabad	280	265	265	5.7%	5.7%	Up
	Vishakapatnam	270	265	270	1.9%	0.0%	Up
	Goa	280	275	290	1.8%	-3.4%	Flat
		Average	289	282	291	2.4%	-0.6%

Outlook

As Pre Diwali construction season is the shortest this year (~25 days vs 40-45 days), and coupled with higher costs cement producers are up against the wall to protect their profitability. Though the price hikes this time around might seem to be very aggressive due to the above mentioned factors, post Diwali, the pace of price hikes is expected to moderate.

After registering a flattish demand growth in Q1FY12, cement dispatches in July –Sept 11 grew by 6% yoy. We attribute this growth more to the low base for FY11 as the aggregate demand is yet to reflect strength (twelve month rolling dispatches at 17.58 mnt /month is growing at a meager 3%). The low base effect of FY11 might continue to help growth numbers seem better till January 2012. However for a sustainable pricing power, the industry needs the cement demand to pick up. Though there are some anecdotal evidences like better monsoon helping rural cement consumption and the current pick up in awarding of road projects & construction activity in Metros helping cement demand from infrastructure, we are yet to see structural demand drivers in place. Hence a solid demand pick remains a key trigger to sustain the ensuing seasonal price uptick.

We maintain neutral stance on the sector. Prefer Shree cements, ACC (volume growth to help drive operating leverage and protect margins) and Grasim (attractive valuations). Maintain REDUCE ratings on Ambuja Cement & Ultratech Cement.

Valuations & Recommendations

Company Name	Reco	TP (Rs)	PE (x)			EV/EBITDA (X)			EV/tonne (USD)		
			FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
ACC	Hold	1,100	18.5	18.8	15.8	11.9	10.0	8.1	134	130	124
Ambuja Cements	Reduce	140	19.3	19.1	16.3	11.5	10.6	8.9	183	167	163
Grasim Industries	Accumulate	2,600	10.6	9.7	9.3	4.2	3.9	3.4	-	-	-
India Cements	Under Review	UR	34.4	14.8	13.7	10.4	6.7	5.8	53	56	54
Madras Cements	Accumulate	100	10.9	9.8	8.1	8.0	6.5	5.3	86	85	77
Orient Paper	Buy	82	7.8	6.2	5.1	5.4	4.0	3.1	61	55	45
Shree Cements	Accumulate	2,050	32.9	-84.9	13.6	7.9	6.4	4.6	104	97	80
Ultratech Cement	Reduce	1,050	19.3	15.9	13.6	10.1	8.7	7.4	141	137	136

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