

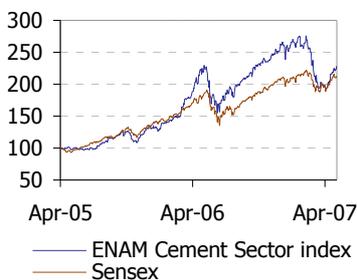
Cement Sector

Lead Analyst: **Jagdishwar Toppo**
 Email: jagdishwar@enam.com
 Tel: 9122 6754 7605

Associate: **Pallav Agarwal**
 Email: pallav@enam.com
 Tel: 9122 6754 7761

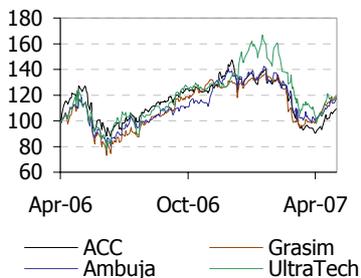
Associate: **Ravindra Deshpande**
 Email: ravindra.deshpande@enam.com
 Tel: 9122 6754 7627

Relative Performance



Source: Bloomberg, ENAM Research

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STATUS QUO ON PROFITABILITY

Modifying the differential excise duty of Rs 600/ tonne for cement sold above the retail price of Rs 190/ bag, the Finance Minister has introduced Ad Valorem duty of 12% for cement sold above Rs 190/ bag. Accordingly, while the imposition of excise on cement sold below retail price of Rs 190/ bag would be unaffected, the price above Rs 190/ bag will attract an ad valorem duty of 12% instead of specific duty of Rs 600/ tonne imposed in the Union Budget 2007-08.

Benefits to be passed on: The ad valorem duty would result in a saving of excise duty of ~Re 1-5/ bag depending upon the Maximum Retail Price (printed on bag) varying across states. The imposition of excise on cement sold at a retail price of Rs 250/ bag would be unaffected. We believe the new duty structure is likely to bring in some relief to consumers in places where cement is being sold at an MRP less than Rs 250/ bag. The benefit of the new excise duty will accrue to markets near the production locations or lower radial distances (*See table on Page 2*). The reduction in excise duty is expected to be passed on to the consumers and we believe profitability of cement manufacturers is likely to remain unchanged.

Outlook: Cement stocks have recovered to a large extent since the differential excise duty announcement in February 2007. We believe the movement in cement stock prices, would be driven by government signaling and the possible price increases by cement producers. We will monitor cement pricing developments in the light of changes in the duty structure, rising input cost pressures and signaling by the government. We maintain our sector **Outperformer** rating on Ambuja Cements, **Underperformer** rating on ACC and UltraTech while maintaining **Neutral** rating on Grasim.

Financial summary

Y/E	ACC (Rs 852)		Grasim (Rs 2,493)		Ambuja (Rs122)		UltraTech (Rs 834)	
	EPS (Rs)	P/E (x)	EPS (Rs)	P/E (x)	EPS (Rs)	P/E (x)	EPS (Rs)	P/E (x)
CY05/ FY06	20.5	26.1	98.1	21.0	3.0	32.1	18.2	37.6
CY06/ FY07E	56.0	15.2	211.7	9.9	8.5	12.6	63.1	12.2
CY07E/ FY08E	64.2	13.3	227.6	11.0	9.5	12.9	71.3	11.7
CY08E/ FY09E	66.5	12.8	256.2	9.7	9.5	12.8	75.6	11.0
Target P/E multiple	12x		10.2x		12x		10.2x	
Target price	Rs 771		Rs 2,321		Rs 126*		Rs 727	
Upside (%)	(10%)		(7%)		4%		(13%)	
RECO	Underperformer		Neutral		Outperformer		Underperformer	

Source: Company, ENAM estimates, Note: All recommendations are relative to the sector. *Ambuja target price including net cash & equivalents of Rs 12/ share.

Cement Valuation Summary

	ACC (Rs 852)		Grasim (Rs 2,493)		Ambuja (Rs 122)		UltraTech (Rs 834)	
	EV/EBITDA (x)	EV/Tonne (USD)	EV/EBITDA* (x)	EV/Tonne* (USD)	EV/EBITDA ^ (x)	EV/Tonne ^ (USD)	EV/EBITDA (x)	EV/Tonne (USD)
CY07E/ FY08E	8.5	199	6.6	170	9.2	230	7.5	153
CY08E/ FY09E	8.2	183	5.5	166	9.1	214	7.6	164

Source: Company, ENAM estimates. Note: * Consolidated EV for Grasim's cement business, adjusted for VSF& Other businesses. ^ Ambuja's EV adjusted for cash proceeds on sale of land.

Likely Savings in Excise Duty (1 Ton = 20 bags of 50 Kg each)

Current profit (Rs/Ton)	Op. Cost Excl. Freight (Rs/Ton)	Freight (Rs/Ton)	Wholesale Price (Rs/Ton)	Sales Tax (12.5%) (Rs/Ton)	Distributors margin (Rs/Ton)	Selling price earlier (Excl. Excise) (Rs/Bag)	Selling Price Earlier (incl. excise) (Rs/bag)	Maximum Retail Price (printed) (Rs/Bag)	Selling Price Now (including excise) (Rs/Bag)	Reduction in prices (Rs /Bag)
900	1,400	400	2,700	338	200	162	192	210	187	5
900	1,400	450	2,750	344	200	165	195	210	190	5
900	1,400	500	2,800	350	200	168	198	220	194	4
900	1,400	550	2,850	356	200	170	200	220	197	4
900	1,400	600	2,900	363	200	173	203	230	201	2
900	1,400	650	2,950	369	200	176	206	230	204	2
900	1,400	700	3,000	375	200	179	209	240	208	1
900	1,400	750	3,050	381	200	182	212	250	212	-
900	1,400	800	3,100	388	200	184	214	250	214	-

Source: ENAM Research

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