

India Update

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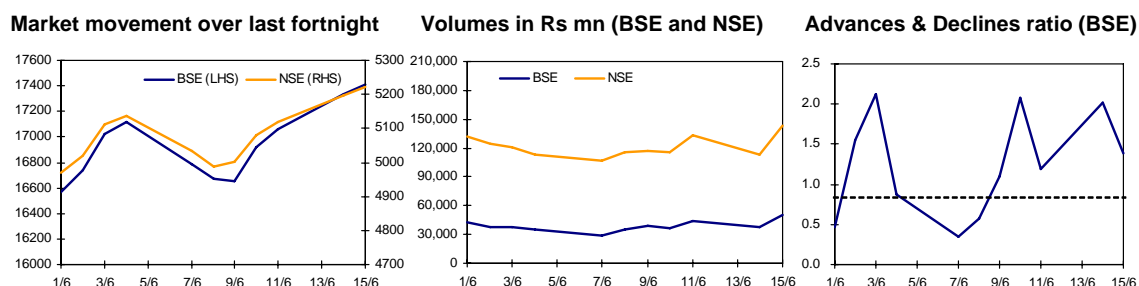
Highlights

Sector/event	Impact
CEMENT:	Cement despatch grew 8.3% YoY (down 1.7% MoM) to 17.83mnte in May '10 (9.7% rise on rolling 12-month basis versus 10.3% in FY10). Though reported pan-India capacity utilisation dipped to ~81%, actual utilisation is likely higher as newer capacities are yet to be fully operational. On a rolling 12-month basis, despatches from North & Central India rose 13.3%, from East 10% and in South & West ~7%. We maintain our positive view on Cement as we expect the pace of capacity addition to decelerate and demand to be robust. All-India FY11E effective utilisation is unlikely to fall below 82%; in extended North (North, Central & East), it is unlikely to fall below 88%. Hence, we prefer players with higher capacities in extended North. Ambuja Cement (ACEM) and Shree Cement (SCL) are our top picks in the sector. We prefer Jaiprakash Associates (JPA) as an integrated infra play. Continuous positive surprise on the demand front is the key.
- Sector update	

News Snippets

Corporate

- Reliance Infratel has all but approved a complicated merger deal that could see its tower assets combine with GTL Infrastructure in exchange for Rs150bn in cash and a significant stake in a new entity for shareholders of its parent company. (The Economic Times)
- Reliance Infrastructure, which is implementing 11 road projects worth ~Rs120bn, has approached the Foreign Investment Promotion Board seeking permission for raising overseas funds for investment in the road sector. (DNA)
- Kick-starting another round of big-ticket disinvestment, which could fetch it Rs175bn, the government has decided to sell 10% stake each in Coal India and Hindustan Copper. It has also approved the issue of fresh equity of 10% of the pre-issue paid-up capital of Hindustan Copper. (Business Line)
- Tata Motors is contemplating a price hike of Rs5,000-15,000 of the new *Nano* from August-September this year. (The Economic Times)
- Cipla said it would invest US\$65mn in three years to acquire 40% stake in an Indian biotech company and 25% stake in a similar company in Hong Kong, as part of its foray into biosimilars or generics of off-patent biotech drugs. (Business Standard)



Market data as on June 15, 2010

INDICES			% chg (DoD)
BSE Sensex	17413		0.43
S&P CNX Nifty	5222		0.47
BSE 100	9266		0.49
BSE 200	2206		0.46

OVERSEAS MARKETS			% chg (DoD)
Dow Jones	10405		2.10
Nasdaq Comp.	2306		2.76
S&P 500	1115		2.35
Hang Seng	20062		0.05
Nikkei	10041		1.55

ADVANCES/DECLINES (BSE)			
Group	A	B	S
Advances	123	1137	265
Declines	72	835	192
Unchanged	3	76	14

FII TURNOVER (BSE+NSE)* (Rs mn)		
Bought	Sold	Net
19,290	15,490	3,810

NEW HIGHS AND LOWS (BSE)			
Group	A	B	S
High	7	72	16
Low	0	18	1

CURRENCY

US\$1 = Rs46.73

* FII turnover (BSE + NSE) as on June 14, 2010

Sector update

CEMENT

Cautious optimism

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Cement despatch grew 8.3% YoY (down 1.7% MoM) to 17.83mnte in May '10 (9.7% rise on rolling 12-month basis versus 10.3% in FY10). Though reported pan-India capacity utilisation dipped to ~81%, actual utilisation is likely higher as newer capacities are yet to be fully operational. On a rolling 12-month basis, despatches from North & Central India rose 13.3%, from East 10% and in South & West ~7%. We maintain our positive view on Cement as we expect the pace of capacity addition to decelerate and demand to be robust. All-India FY11E effective utilisation is unlikely to fall below 82%; in extended North (North, Central & East), it is unlikely to fall below 88%. Hence, we prefer players with higher capacities in extended North. Ambuja Cement (ACEM) and Shree Cement (SCL) are our top picks in the sector. We prefer Jaiprakash Associates (JPA) as an integrated infra play. Continuous positive surprise on the demand front is the key.

- **North-based players lead growth.** AV Birla Group's (Grasim + UltraTech Cement) May despatches grew 5.8% YoY to 3.33mnte, ACEM's 13.7% YoY to 1.86mnte, JPA's 54% YoY to 1.24mnte and SCL's 15% YoY to 0.846mnte. ACC's despatches were down 3.5% YoY to 1.75mnte. Utilisations, on an MoM basis, were higher ~4% for North (87%) and Central (102%), stable for West (87%) and lower 4% and 8% for South (70%) and East (77%) respectively.
- **Price likely to bottom out by Q3FY11.** Cement prices were down Rs40-50/bag in the South and ~Rs10/bag in most regions in the past two months. The pre-monsoon price dip reflects the impact of oversupply and decelerating demand growth. Pricing pressure is likely to continue till Q3FY11 on seasonality, but prices should bounce back post November '10. We factor in ~3-4% average price decline for FY11E.
- **Utilisation in extended North unlikely to fall below 88% in the next three years,** while that in extended South (i.e. South & West) to be within 71-73%. Overall, utilisation is unlikely to fall below 82% in FY11E and then increase to 85% in FY13E. We factor in higher demand growth of 11% over the next three years, led by increased infrastructure thrust. On the other hand, ~105mnte capacities have been added in the past three years versus ~70mnte likely to be added over the next three years. We expect the Street to turn incrementally positive over the next 6-9 months.
- **We prefer ACEM & SCL on low risk to earnings.** ACEM is best placed versus peers in terms of volume growth, market mix, realisation, cost efficiencies and cashflow – net cash of US\$300mn. Similarly, diversification in power would de-risk SCL. Also, it is a low-cost cement producer and market leader in North India.

Table 1: Valuations summary

	Reco	P/E (x)		EV/E (x)		EV/te (US\$)	
		FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
ACC	BUY	12.3	11.4	7.2	6.2	121	104
ACEM	BUY	12.8	11.6	7.8	6.8	140	124
Grasim	BUY	8.3	8.2	4.3	3.7	NA	NA
UltraTech	BUY	14.1	12.2	7.2	6.0	117	101
JPA	BUY	25.7	19.5	13.4	11.0	NA	NA
Shree Cement	BUY	9.0	8.9	4.9	4.1	99	88

Note: EV/te is only for Shree Cement's cement division; standalone figures for JPA; Source: I-Sec Research

Details to follow in our report 'Cautious optimism' dated June 16, 2010

Recent reports/updates		
Analyst	Company/Sector	Date
Amit Mishra/Gagan Dixit	Reliance Industries: Exploring new vistas	June 14
Shaleen/Gaurav Pathak	Real Estate: Primed to outperform	June 11
Krupal/Sandeep/Varun	Allied Digital: Compelling valuations	June 10
Sanjay / Pratik	Colgate: Irrational exuberance	June 9
Sandeep/Krupal/Varun	TCS: Gearing up	June 9
Vikash/Satish	Media Monitor – June '10	June 7
Rajesh Vora	Dishman Pharma: Better times ahead	June 7
Sandeep/Krupal/Varun	MindTree: Product woes continue	June 4
Rajesh Vora	Cadila Healthcare: Moving into big league	June 3
Abhijit Mitra	Adhunik Metaliks: Fortified for future	June 3
Gaurav / Shaleen	Lanco Infratech: Strong project flow	June 1
Krupal / Varun	Jaiprakash Associates: Low on margin; strong on execution	June 1
Sanjay / Pratik	Britannia: More pain	June 1
Vikash/Satish	IBN18: Too attractive to be a concern	June 1
Gaurav / Shaleen	Texmaco: Attractive growth avenues	June 1
Abhijit Mitra	Steel Sector: SAIL shimmers, Tata Steel tarnishes	May 31
Prakash / Sanket	GSFC: Gaining from all quarters	May 31
Gaurav / Shaleen	Unitech: Robust pipeline	May 31
Rajesh Vora	Dishman Pharma: Disappoints again	May 31
Rajesh Vora	Glenmark Pharma: At inflection	May 31
Amit/Gagan	ONGC: Dry-well expense mars impressive performance	May 31
Vikash/Satish	Sun TV: Pay TV boost	May 31
Sanjay / Pratik	Asian Paints: The debate is on margins	May 31
Abhijit Mitra	SAIL: Poised to outperform	May 31
Gaurav / Shaleen	HDIL: Strong TDRs; Execution on focus	May 28
Prakash / Sanket	Nagarjuna Fertilizers: Tailwinds no more	May 28
Sandeep/Krupal/Varun	Mphasis: Walking the tight rope	May 28
Abhijit Mitra	Hindalco: In line with expectations	May 28
Prakash / Sanket	Power Grid: Continued underperformance	May 28
Sanjay / Pratik	Colgate: Fully priced	May 28
Prakash / Sanket	Tata Power: Unappealing valuations	May 28
Amit/Gagan	Cairn India: Steady performance	May 28
Amit/Gagan	BPCL: Contingent to policy	May 28
Vikash/Satish	Jagran Prakashan: Leading the print pack	May 28
Gaurav / Shaleen	GMR Infrastructure: Execution to remain the key	May 27
Sunil Teluja	BHEL: Momentum continues	May 27
Amit/Gagan	IGL: Sturdy performance to continue	May 27
Amit/Gagan	Oil India: Impressive production growth	May 27
Amit/Gagan	HPCL: Awaiting subsidy surprise	May 27
Sanjay / Pratik	Paints: Structural growth continues	May 27
Sanjay / Pratik	HUL: Look beyond FY11	May 27
Shaleen / Gaurav	Godrej Properties: Goodwill to facilitate	May 26
Rajesh Vora	Sun Pharma: The eclipse folds	May 25
Vikash/Satish	TV Today: Unjustified entry into loss-making...	May 25
Sandeep/Krupal/Varun	Infosys Technologies: Fortified and growing	May 24
Rajesh Vora	Divi's Laboratories: Thumping resilience	May 24
Krupal / Varun	Shree Cement: Margin blues	May 24
Sanjay / Pratik	ITC: Strong quarter	May 24
Rajesh Vora	SPARC: The glow brightens	May 21
Krupal / Varun	Grasim: Margin pressure	May 21
Vikash / Satish	ENIL: Cost control pays off	May 21
Sunil Teluja	Crompton Greaves: Margin surge	May 19
Prakash/Sanket	NTPC: Not a great quarter	May 19
Gaurav / Shaleen	Mundra Port & SEZ: On course	May 19
Gaurav / Shaleen	DLF (BUY): Cashflows turning positive	May 19
Amit/Gagan	GAIL: Sturdy performance	May 18
Krupal/Sandeep/Varun	Educomp Solutions: Sags a little but still ahead	May 18
Prakash / Sanket	Reliance Infrastructure: Mixed bag	May 18
Abhijit Mitra	NALCO : Impressive quarter	May 18
Prakash / Sanket	Reliance Power: Relocating & resizing	May 17
Vikash / Satish	MTNL: Staring at the 3G wall	May 17
Siddharth/Abhishek	SBI: Favourable risk reward	May 17

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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