CEMENT

The last mile

We had suspended the ratings on our coverage stocks, in the wake of government intervention in the cement sector. We are upgrading our fundamental view on the sector from a "SELL" to a "REDUCE, on the back of invalidation of price freeze by the scrapping of countervailing duty (CVD), demand-supply dynamics remaining tight till Q1FY09E, and no serious threat from imports. Valuations, however, of cement stocks seem to be reasonably priced, with trading opportunity in South stocks.

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Since our "book profit" recommendation on February 23, 2007, and 'SELL' recommendation on March 5, 2007, the following has happened:

- Government negotiated a price freeze agreement with manufacturers (March 9, 2007).
- Premium valuations fell from > USD 200/tonne (Feb 2007) to USD 178/tonne (May, 2007).
- Government abolished all import duties on cement (CVD and special additional duty on cement sold < INR 190/bag) on April 3, 2007 invalidating the price freeze agreement.

Our current view: Fundamental Reduce; Trading Buy (especially for south stocks)

Upgrading ratings to 'Reduce' from 'SELL'

- Core earnings estimates upgraded by 25% for FY08E and 32% for FY09E. This is given that the price freeze agreement has been invalidated post CVD ban and demand-supply fundamentals are likely to remain tight till Q1FY09E. We have assumed moderate domestic realisation hikes of INR 5/bag each in two quarters in FY08E. Thereafter, we expect prices to be stable before softening in Q2FY09E due to upcoming available capacity additions of ~ 50 mn tonne (FY08-09E) or ~ 85 mn tonne (FY08-10E).

- **Earnings growth is likely to slow down as envisaged earlier**—12% in FY09E, 31% in FY08E vis-à-vis 219% in FY07E. Hence, premium valuations (as witnessed in January 2007) are likely to be non-sustainable. However, companies present in price lucrative markets/enjoying strong volume additions are likely to record better growth in core earnings in FY08/CY07E—Madras Cements (49%), India Cements (48%), & ACC (38%),

- **Valuations are reasonably priced in at current levels.** In the last leg of the cycle upturn we are comfortable with one-year forward EV/EBITDA valuations at the mid-point of the trading bands during the current cycle upturn—7.5x-8.5x for larger companies such as Ambuja Cements (~ 8.5x), ACC (~8x), and UltraTech (~7.5x); and ~ 5.5x for medium sized, regional players such as Madras Cements and India Cements.

Trading upside in FY08E (especially South stocks), better exit opportunity for investors

- **Earnings surprises possible in FY08E**: We believe, if price hikes are higher than projected, then earnings surprises are possible. However, as valuations peak ahead of earnings (demonstrated in commodities), this leaves only a trading upside.
- **Trading upsides highest for South stocks:** South companies witnessed sharp price hikes just prior and post the price freeze which should translate into earnings surprises. In our March 5, 2007 update, *End of the Road*, we indicated the possibility of earning surprises in South due to unexpected price hikes; we re-iterate this.

Risks to this view

Fundamental 'Reduce' view

- Cycle elongation in FY09E due to higher-than-anticipated capacity delays.
- Domestic demand growth higher than the anticipated 10%.

Trading 'Upside' view

- Further adverse government intervention could curtail any trading upside.

Table 1: Financials at a glance

				Financials (INR mn)				Growth (%)				Valuations (X)		
Company	Price (INR)	Mkt cap US bn		Revenue	EBITDA	Net profit	Annual. EPS	Revenue	EBITDA	Net Profit	Annual. EPS	EV/tonne (USD)	EV/EBITDA	PE
ACC	875	4.0	CY05	31,602	5,192	5,442	18.8	8.4	11.3	91.8	(11.4)	218	24.4	46.5
			CY06	57,170	16,459	12,318	57.5	35.7	137.7	69.8	205.5	200	9.9	15.2
			CY07E	70,895	21,818	15,099	79.4	24.0	32.6	22.6	38.1	169	7.2	11.0
			CY08E	78,590	23,608	16,221	86.4	10.9	8.2	7.4	8.9	162	6.4	10.1
Ambuja Cement	124	4.5	FY05	26,247	7,517	4,683	3.5	32.7	35.5	39.0	36.3	321	23.6	35.6
			CY06U	63,400	22,048	15,033	6.6	61.0	95.6	114.0	89.9	286	13.1	18.8
			CY07E	60,685	23,160	20,660	8.2	43.6	57.6	106.2	25.1	227	8.4	15.0
			CY08E	62,876	23,083	17,326	9.8	3.6	(0.3)	(16.1)	19.0	223	8.3	12.6
India Cements	183	1.0	FY06	15,433	2,684	453	1.9	31.1	70.1	889.1	144.1	158	18.5	97.7
			FY07E	23,247	7,665	4,781	19.9	50.6	185.6	955.1	961.3	173	7.9	9.2
			FY08E	30,845	11,584	7,064	29.4	32.7	51.1	47.8	47.8	132	5.0	6.2
			FY09E	35,960	11,910	7,126	29.6	16.6	2.8	0.9	0.9	131	4.9	6.2
Madras Cement	2,827	0.8	FY06	10,085	2,126	790	65.4	36.3	35.4	41.3	41.3	162	18.7	43.2
			FY07E	15,857	5,895	3,388	280.5	57.2	177.3	328.7	328.7	160	7.0	10.1
			FY08E	21,425	8,672	5,054	418.4	35.1	47.1	49.2	49.2	129	5.1	6.8
			FY09E	29,807	10,699	6,033	499.5	39.1	23.4	19.4	19.4	96	4.0	5.7
UltraTech	806	2.4	FY06	33,965	5,873	2,251	18.1	25.1	58.5	NM	NM	162	19.2	44.5
			FY07E	49,687	14,316	7,849	63.1	46.3	143.7	248.7	248.7	163	7.9	12.8
			FY08E	58,854	15,972	8,547	68.7	18.4	11.6	8.9	8.9	159	7.1	11.7
			FY09E	66,709	16,891	9,625	77.4	13.3	5.8	12.6	12.6	127	6.6	10.4

Note: Ambuja Cement Eastern merged with Gujarat Ambuja wef January 2006. Figures for India Cement include Visaka Cement which has been merged w.e.f July '06

Price freeze, invalidated by the CVD ban in April 2007

Price freeze (imposed on March 9, 2007) was invalidated following the scrapping of the CVD in and special customs duty on imports on April 3, 2007. Further, the government has not specified which prices will be 'frozen', leading to ambiguity. We believe this not only gives manufacturers leeway to improve realizations by rationalizing prices across trade and non-trade segments and channel restructuring (i.e., lowering dealer discounts etc.), but also gives them the leeway to effect direct price hikes.

- Ambiguity on which prices were frozen by the government gave manufacturers leeway to improve realizations by:

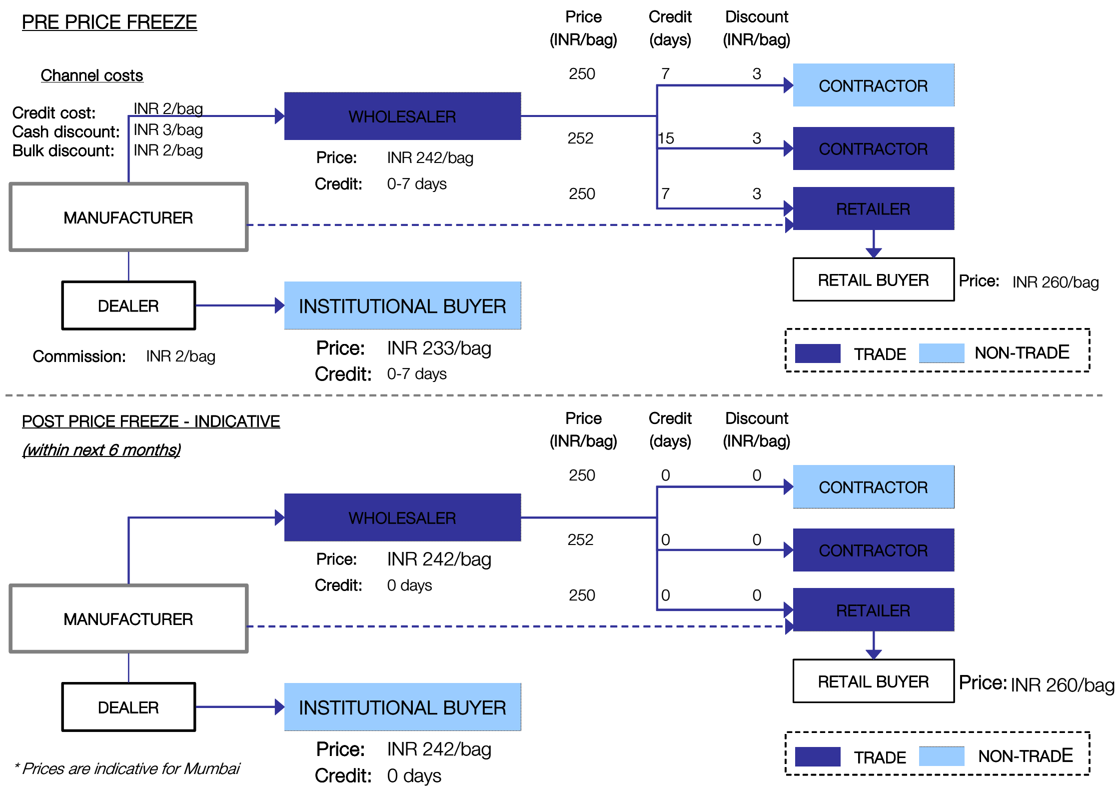
  - Rationalising prices across trade and non-trade segments: Currently, trade prices are up to INR 9/bag higher than non-trade prices. Non–trade accounts for ~ 15-30% of total domestic volumes (trade includes wholesaler-retailer network, while non-trade includes direct sales to institutional customers).

  - Rationalising channel incentives by: (a) gradual shift to cash and carry within next three-six months. This includes phase out of 7-15 day credit and complete withdrawal of cash discounts; (b) withdrawal of credit notes (equivalent of quantity discounts) given by manufacturers to dealers; and (c) withdrawal of overriding commissions given to dealers on non-trade sales.

  - Realisation gains of INR 11.8/bag in bulk cement: Prices of bulk cement were hiked by INR 12/bag to pass on the incremental INR 12/bag increase in excise duty levied by the government, but the additional excise duty burden is only INR 0.2/bag, i.e., gains of INR 11.8/bag. Bulk cement accounts for < 10% of total domestic volumes. For instance, Ambuja Cements' realization has improved due to 20% of its sales being in bulk.

Indicatively, we believe that this could result in benefits of up to INR 6/bag spread over three-six months (please note that the incentives mentioned above are on INR/bag basis, whereas the effective benefit which will flow to manufacturers will depend on the proportion of sales which avail these incentives). We understand, in some companies like Ambuja Cements, prices have already been rationalized across trade and non-trade segments and in other major companies efforts are underway to do so. Also, in May 2007, in Tamil Nadu, cement companies have raised prices of non-trade (i.e., institutional) segment by INR 5-7/bag, thereby rationalizing prices between the trade and non-trade segments.

Fig. 1: Indicative channel re-structuring post price freeze



Source: Edelweiss research

Note: Incentives mentioned above are on INR/bag basis, whereas the effective benefit which will flow to manufacturers will depend on the proportion of sales which avail of these incentives.

- **Greater thrust on increasing blended volumes, especially to the non-trade segment**

  We understand that cement companies are increasing thrust on blended cements (subject to availability of blended inputs) post the 'price freeze directive' to all end-users, except NHAI contracts, where ordinary portland cement is specified.

- **Post scrapping of the CVD and special customs duty on imports, price freeze agreement stands invalidated**

  We understand that with the scrapping of the CVD and special customs duty, the verbal price freeze agreement has been invalidated. Imposition of the 12% ad valorem excise duty (on MRP> INR 190/bag) is beneficial since it allows manufacturers to lower excise duty to less than INR 30/bag (for MRP < INR 250/bag). Reactions to this move have been mixed: North has cut prices, passing on the excise duty benefit (profit neutral), while many Andhra Pradesh manufacturers have absorbed the excise duty benefit (profit accretive).

- **Our price outlook**

  We believe that subject to no further government intervention, domestic prices are likely to remain at Q1FY08 levels in the monsoons (Q2FY08) and rise moderately by INR 5/bag each in Q3FY08 and Q4FY08. Thereafter, we expect prices to be stable and correct marginally by ~ 3-5% in Q2FY09E, with the upcoming capacity additions. For South cement companies we have assumed price hikes in Q1 FY08E and Q4FY08E.

✻ Demand-supply likely to remain tight till Q1FY09E and reverse thereafter

We expect cement demand is likely to grow by 10% in FY08-09E (given the strong cement:GDP multiplier of ~ 1.3-1.35) with SEZs likely to contribute to an additional 2 mn tonnes per annum to demand from FY09E onwards. The pace of capacity addition is likely to be slow in FY08E with ~11mn tonnes coming on stream.

However, we expect the cycle to reverse post Q1FY09E due to available capacity additions of ~ 50mn tonnes in FY08-09E and ~85 mn tonnes in FY08-10E. This could potentially lead to a surplus of ~ 6 mn tonnes in FY09E and ~22 mn tonnes in FY10E (surplus calculation assumes a utilization factor of 85% for new plants and 95% for existing plants). (We have factored in adequate project delays and considered gestation periods as 24-30 months for a greenfield and ~ 18-24 months for a brownfield unit. Gestation defined as the time taken to commission post equipment ordering).

FY08E—Demand-supply likely to be tight: There is a strong possibility that exports (especially non-obligatory exports) could be partially curtailed to fulfill domestic demand.

FY09E—Demand-capacity ratio though reasonably strong is likely to decline by 10 percentage points to ~90% in FY09E vs FY08E. Demand to capacity ratio defined as demand+exports *divided by* operative available capacity, .

Table 2: Cycle to reverse in FY09E, though reversal to be less severe than the last cycle in FY97-00

Demand-supply projections Million tonnes	FY07E	FY08E	FY09E	FY10E
Available capacity	167.5	178.5	214.3	249.9
Non operational capacity	8.1	8.1	5.5	5.5
Effective capacity	159.4	170.4	208.7	244.4
Capacity addition	**9.4**	**11.2**	**35.7**	**35.6**
Capacity addition (% to existing capacity)	6.0	6.6	17.1	14.6
Total supply	159.4	170.4	208.7	244.4
Domestic demand@10%(1)	149.1	164.1	180.5	198.5
SEZ demand (2)			2.0	2.2
Exports (3)	9.0	6.0	6.0	6.0
Total demand (1+2+3)	**158.1**	**170.1**	**188.5**	**206.7**
Capacity utilisation (%)	**99.2**	**99.8**	**90.3**	**84.6**

Source: Edelweiss research

Note: Utilisation level is defined as (demand+exports)/effective capacity

Table 3: Capacity likely to outstrip demand post Q1FY09E

Mn tonnes	FY07E				FY08E				FY09E				FY10E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Effective capacity	40	40	40	40	41	42	44	44	48	52	52	56	60	60	61	63
Demand+Exports	39	34	41	43	43	37	43	48	47	41	47	53	52	45	52	58
Surplus/(Deficit)	0	5	(1)	(3)	(2)	5	1	(4)	1	10	5	4	8	15	10	6
Capacity Utilisation	100	87	102	109	104	89	97	109	98	80	90	93	87	76	84	91

Source: Edelweiss research

Table 4: Region-wise demand-supply trends

	FY06			FY07			FY08E			FY09E			FY10E		
Million tonnes	Dd	Cap	Dd/Cap (%)	Dd	Cap	Dd/Cap (%)	Dd	Cap	Dd/Cap (%)	Dd	Cap	Dd/Cap (%)	Dd	Cap	Dd/Cap (%)
Domestic															
North	41	33	126.2	46	36	126.2	51	42	121.6	58	62	94.7	66	68	96.7
West	33	46	90.9	35	47	94.6	38	47	93.3	41	49	95.3	44	59	85.6
East	23	22	101.1	24	24	99.7	25	26	97.6	27	30	89.9	28	36	77.7
South	39	49	79.6	44	52	84.1	49	55	90.5	56	67	83.5	63	82	77.4
Exports	9		-	9		-	6		-	6		-	6		-
Total	145	150	96.5	158	159	99.1	170	170	100.1	188	208	90.5	207	244	84.8

Source: Edelweiss research

Note: Base domestic demand is expected to grow fastest in the north and south (@12.4%) each and more moderately in the west (7.5%) and east.

In FY09 and FY10E, in addition to the base demand we have factored an SEZ demand of 2, 2.2 mn tonnes tonnes in FY09E and FY10E respectively.

(See list of projects with their gestation period in Annexure)

Imports: Not a serious threat, but a bargaining tool between end-users and cement companies

Though end-users are making inquiries for importing cement from China, Pakistan, and Indonesia, and these imports (post testing) could reach Indian shores post monsoons, sustainability of imports is questionable, given the united front of domestic cement manufacturers to thwart such imports through competitive pricing and infrastructure constraints. We believe that end-users are currently striving to strike a delicate balance of maintaining relationships with domestic cement companies (who they are dependent on for their cement requirements) while trying to negotiate better prices.

Risk to our view: Import threat is a greater reality if they are allowed from Pakistan via the land route. (Pakistan has surplus ~ 7 mn tonnes with cement plants concentrated in South Pakistan)

- Scrapping of CVD and special customs duty has made landed cost of imports cheaper by up to INR 37/bag, especially in Chennai, Kochi, and Mumbai

Table 5: Comparison of cement retail prices at the port

INR/bag	Avg prevailing price	Landed cost of imports	Diff
West Coast			
Mumbai	261	224	(36.6)
Kandla (proxy - Rajkot)	216	224	8.4
Kochi (proxy - Trivandrum)	248	224	(23.6)
East Coast			
Vizag	218	224	6.4
Kolkata	224	224	0.4
Chennai	232	224	(7.6)

Source: CMA, Edelweiss research

- Quantum of imports (if occur on a sustained basis) are unlikely to exceed 2 mn tonnes

  We believe that logistic constraints (port and hinterland logistics) and end-user consumption patterns limit the extent of imports.

Logistic constraints: Mumbai and Chennai are the main locations susceptible to imports. While landed cost of imports will be cheaper versus domestic prices, the port bulk facilities in these markets are restricted to ~ 1 mn tonnes each per annum or ~ 2 mn tonnes.

Table 6: Indicative port handling capacity and off take in Mumbai and Chennai

(mn tonnes)	Annual port dry bulk handling capability	Market size	Maximum Import share (%)
Mumbai	0.9	7.5	12.0
Chennai	1.2	4.0	30.0

Source: Industry, Edelweiss research

Note: Dry bulk handling facilities at Paradip, Vizag, and Haldia have not been included as prices at these locations are considered to be relatively competitive vis-a-vis imports

Hinterland transportation costs (~ INR1.25/tonne/km) limit penetration of imports: We understand that end-user off take requirements vary considerably by location. For instance, in Mumbai, there are sufficiently large end-users whose consumption requirements could be pooled together to handle imports of about 1 mn tonnes. However, other cities like Chennai or Kolkata may not have sufficient number of large users to import 1 mn tonnes per annum. This, coupled with prohibitive inland transportation costs make imports less economical.

- **Sample imports from Pakistan in, await BIS clearance**

  Four small cement consignments from Pakistan landed in India post March 29, 2007—three container shipments via sea to Mumbai (JNPT port) and one shipment via Wagah border by rail. We understand that these shipments came in on behalf of construction companies via importing agents (most likely shipping liners). These imports are awaiting clearance since they do not have Bureau of Industrial Standards (BIS) approval. BIS approval is mandatory for cement imports and includes testing of cement at the exporters' premise (Pakistan in this case) and takes typically three-four months (currently, BIS approval is available on cement imported from Bangladesh and Bhutan, countries from which we do not expect imports to materialize). Hence, import samples, while they have arrived in the country's ports, have not yet made inroads into the country.

Table 7: Imports from Pakistan to India

(mn tonnes)	Quantity (MT)	Rate (USD) cif	Arrival
Lucky Cement	5,000	66	JNPT
Javedan Cement	200	66	JNPT
Attock Cement	250	66	JNPT
Maple Leaf Cement	1,500	60	Rail

Source: Pakistan Cement Association, Edelweiss research

*(**Pakistan cement sector profile**: Pakistan's 9MFY07 (July-March) available capacity is 22.6 mn tonne p.a., despatches (inclusive of exports) for the same period are 17.6 mn tonne, resulting in an annual surplus of 6.7 mn tonne, which has a potential of entering the Indian market. Current prices in Pakistan per bag are in the range of ~ PNR 225-235 (INR 155-162)).*

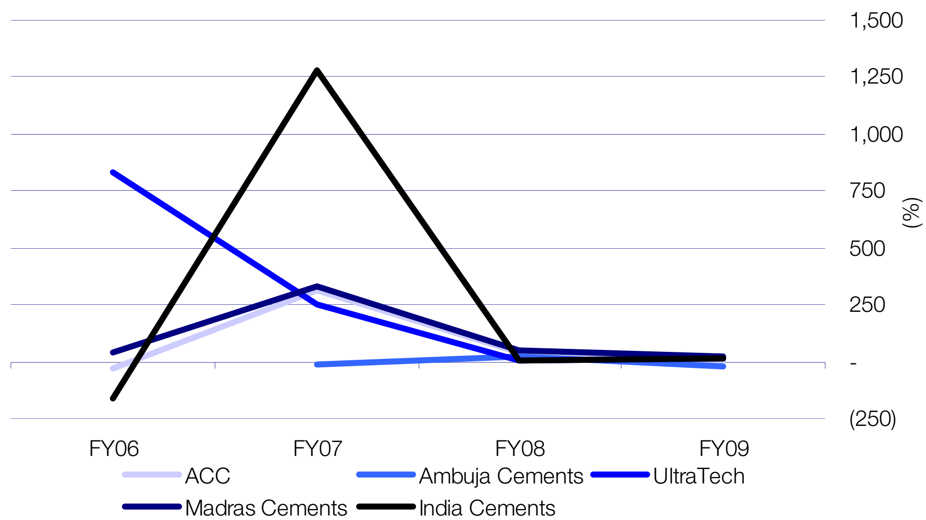
Valuations

Reasonably priced at current levels with trading opportunity in South stocks.

- **Y-o-Y earnings growth is likely to slow down; valuations likely to peak prior to earnings**

  Historically, we have seen valuations peaking ahead of earnings for cement companies. We expect earnings growth to slow down to 12% in FY09E vis-à-vis 219% growth in FY07.

Chart 1: Slow-down in earning growth down Y-o-Y



Source: Edelweiss research

- **Valuations do not provide much headroom in the last leg of cycle upturn**

  Valuations are reasonably priced in at current levels across companies. In the last leg of the cycle upturn, with reversal imminent in H2FY09E, we are comfortable with one-year forward EV/EBITDA valuations at the mid-point of their trading band during the current cycle upturn—7.5x-8.5x for larger companies such as Ambuja Cements (~ 8.5x), ACC (~8x), and UltraTech (~7.5x) and ~ 5.5x for smaller, regional players such as Madras Cements and India Cements.

- **Trading upside likely in FY08E, especially for South companies, leading to better exit opportunities for long-term investors**

  - **Earnings surprises possible in FY08E**: We believe, if price hikes are higher than projected then earnings surprises are possible. However, as valuations peak ahead of earnings (demonstrated in commodities), this leaves only a trading upside.

  - **Trading upsides to be the highest for South cement companies**: Cement companies in the South (especially in Tamil Nadu and Andhra Pradesh) raised prices by up to ~ INR 10/bag one-two weeks prior to the price freeze. In April-May FY08E as well, Southern manufacturers have raised prices by ~ INR 6/bag. In our March 5, 2007 update, *End of the road*, we had indicated that there could be earning surprises in the South due to unexpected price hikes; we maintain that view.

Table 8: Indicative region-wise price increases in January-May 2007

INR/bag		Jan	Feb	March	April	May	Jan till price freeze (Cum)	Post price price freeze (Cum)
East		(2.0)	5.0				3.0	
North		2.0	1.0		2.0		3.0	2.0
South	Andhra Pradesh	10.0	10.0	10.0	3-4	4.0	30.0	7-8
	Others	5.0	10.0	5.0	3.0	3.0	20.0	6.0
West	Maharashtra	5.0					5.0	
	Gujarat	2.0	3.0				5.0	

Source: Industry, Edelweiss research

The above table indicates change in trade prices, non trade prices have also risen by INR 10/bag (government sales) in AP in April and by INR 5-7/bag in other Southern states in May 2007.

Excise duty hikes or excise duty pass-throughs have been ignored. Cum = Cumulative

Annexure

Proposed capacity additions (mtpa)

Company	Location	Region	Quarter	Year	Estimated capacity (mtpa)
ACC	Lakheri	North	Q1	2007-08	0.90
Gujarat Ambuja (G)	Roorkee	East	Q1	2007-08	1.00
Shree Cements(G)	Gurgaon	North	Q1	2007-08	2.00
ACC	Sindri	East	Q2	2007-08	0.40
ACC (G)	Kymore	North	Q2	2007-08	0.50
Gujarat Ambuja	Rabriyawas	North	Q2	2007-08	1.00
My Home Cement	Andhra Pradesh	South	Q2	2007-08	1.50
ACC (G)	Wadi	South	Q3	2007-08	1.08
Anjani Portland Cement		South	Q3	2007-08	0.20
Binani Cement	Sirohi,Rajasthan	North	Q3	2007-08	3.05
Madras Cements	Jayanthipuram, Andhra Pradesh	South	Q3	2007-08	1.00
Madras Cements (G)	Kolkata	East	Q3	2007-08	1.00
Mangalam Cements	Rajasthan	North	Q3	2007-08	0.50
UTCL	Gujarat	West	Q3	2007-08	0.50
ACC	Madukkarai, Tamil Nadu	South	Q4	2007-08	0.20
Barak Valley Cements	Badarpurghat, Silchar	East	Q4	2007-08	0.20
					15.03
Grasim	Shambupura, Rajasthan	North	Q1	2008-09	3.43
Grasim (G)	Dadri, Uttar Pradesh	North	Q1	2008-09	1.30
India Cements (G)	Chennai, Tamil Nadu	South	Q1	2008-09	1.00
Jaiprakash Associates	Baga Bhalag, Himachal Pradesh	North	Q1	2008-09	3.00
Jaiprakash Associates (G)	Panipat	North	Q1	2008-09	1.00
Orissa Cement Limited	Rajgangpur,	East	Q1	2008-09	1.40
Sagar Cement	Andhra Pradesh	South	Q1	2008-09	2.25
Shree Cements	Pali, Rajasthan	North	Q1	2008-09	1.50
Trumboo	Kashmir	North	Q1	2008-09	0.50
Grasim	Kotputli, Rajasthan	North	Q2	2008-09	3.43
India Cements(G)	Parli, Maharashtra	West	Q2	2008-09	1.00
Madras Cements	Ariyalur,Tamil Nadu	South	Q2	2008-09	2.50
Orissa Cement Limited (G)	Orissa	East	Q2	2008-09	1.00
Rain Calcining	Kurnool, Andhra Pradesh	South	Q2	2008-09	1.00
UTCL	Andhra Pradesh	South	Q2	2008-09	4.00
Penna Cements	Ananthapur, Andhra Pradesh	South	Q3	2008-09	2.00
Shree Cements	Pali, Rajasthan	North	Q3	2008-09	1.50
ACC	Bargarh	East	Q4	2008-09	1.18
Dalmia Cement	Andhra Pradesh	South	Q4	2008-09	2.00
Hiedelberg	Gujarat	West	Q4	2008-09	1.00
Jaiprakash Associates	Dalla, Uttar Pradesh	North	Q4	2008-09	2.00
Jaiprakash Associates	Siddhi,Madhya Pradesh	West	Q4	2008-09	1.50
Lafarge India	Chattisgarh	East	Q4	2008-09	2.00
Lafarge India (G)	West Bengal, Mejia	East	Q4	2008-09	1.00
Murli Agro	Chandrapur	West	Q4	2008-09	2.60
Orient Cement	Maharashtra	West	Q4	2008-09	1.00
Penna Cements	Tandur,Andhra Pradesh	South	Q4	2008-09	1.00
Raghuram Cements	Andhra Pradesh	South	Q4	2008-09	1.00
					48.09

Company	Location	Region	Quarter	Year	Estimated capacity (mtpa)
Gujarat Ambuja	Bhatapara, Chattisgarh	East	Q1	2009-10	2.30
Jaiprakash Associates	Gujarat	West	Q1	2009-10	1.20
JK Cements	Mudhol, Karnataka	South	Q1	2009-10	3.00
Kamal Cement & Infrastructure Ltd	Satna, Madhya Pradesh	West	Q1	2009-10	2.00
Kesoram Cement	Vasavdatta	South	Q1	2009-10	1.60
NCL Industries	Nalgonda, Andhra Pradesh	South	Q1	2009-10	0.80
Saurashtra Cement	Gujarat	West	Q1	2009-10	1.20
Chettinad Cement	Ariyalur,Tamil Nadu	South	Q2	2009-10	2.50
Gujarat Ambuja	Himachal Pradesh	North	Q3	2009-10	3.00
Mangalam Cements	Rajasthan	North	Q3	2009-10	1.60
BK Group (Vinay Cmt & RCL Cements)	Cachar, Assam	East	Q4	2009-10	1.00
Italicementi	Yerraguntla, Andhra Pradesh	South	Q4	2009-10	2.20
My Home Cement	Andhra Pradesh	South	Q4	2009-10	1.49
Prism Cement	N.A.	North	Q4	2009-10	3.00
Rain Calcining	Nalgonda, Andhra Pradesh	South	Q4	2009-10	1.00
					27.89
ACC	Wadi	South	Q1	2010-11	3.00
Century Textiles	Chandrapur	West	Q1	2010-11	1.50
Century Textiles (G)	Malda,West Bengal	East	Q1	2010-11	1.00
India Cements	Shimla, Himachal Pradesh	North	Q1	2010-11	2.00
Lafarge India	Alsindi, Himachal Pradesh	North	Q1	2010-11	3.00
Sanghi Industries	Kutch, Gujarat	West	Q1	2010-11	3.20
Sanghi Industries	Guntur Andhra Pradesh	South	Q1	2010-11	1.20
Jaiprakash Associates	Chamba	West	Q2	2010-11	2.00
Jaiprakash Associates (G)	Satna, Madhya Pradesh	West	Q2	2010-11	1.00
Jaiprakash Associates (G)	Bhilai	East	Q2	2010-11	1.00
					55.47
Grand Total					91.01

Source: Edelweiss research

Note: Capacity additions mentioned are installed capacity additions. We have taken available capacity additions in our demand-supply forecasts.

N.A: Not available; G: Grinding unit

ACC

INR 875

Edelweiss
Ideas create, values protect

Marginal upside

REDUCE

May 15, 2007

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Upward revision in earnings estimates, but Y-o-Y earnings growth likely to remain muted in CY08E

We are revising our earnings estimates upwards for CY07E and CY08E by 11.5% and 23.5%, respectively, factoring in domestic realisation increases of INR 5/bag in Q4CY07E and Q1CY08E. We expect realizations to improve by 12.5% in CY07E. This will be driven by higher realisations at the start of CY07E (realizations in Q4CY06 were 7% higher than average realizations in CY06), direct domestic price hikes post invalidation of the price freeze agreement, and rationalization of prices between trade and non-trade segments. Thereafter, we expect realisation to soften in H2CY08E, leading to subdued realisation growth of 3.9% in CY08E. Volume growth is likely to be ~ 11% in CY07E and 7% in CY08E, factoring in the 3.4 mtpa capacity addition in Tikaria, Lakheri, Sindri, Kymore, Wadi, and Madukkarai. EBITDA/tonne is likely to rise to INR 1,062/tonne in CY08E from INR 879/tonne in CY06.

We expect ACC's core earnings to grow at a CAGR of ~23% in CY06-08E. However, on a Y-o-Y basis, core earnings growth is expected to slow down to 9% in CY08E from 38% in CY07E and 206% in CY06.

Cycle reversal in FY09E, though not likely to be severe

We expect the cycle to reverse in FY09E due to upcoming available capacity additions ~ of 60 mn tonnes (FY07-09E) and ~92 mn tonnes (FY07-10E) with demand-capacity ratio declining by ~ 10% to 90% in FY09E. However, ACC's two main markets—North and East which account for nearly 60% of total sales—are likely to witness sharper correction in demand-capacity ratio in the FY07-09E period as compared with the other regions.

Marginal upside in valuations, but risk of cycle reversal remains

One-year forward EV/EBITDA valuations for ACC have typically ranged between 6x and 11x during the current cycle upturn. As we are in the last leg of the cycle upturn (FY08E), an appropriate valuation would be mid-range of the EV/EBITDA valuations at about 8x. At CMP of INR 875/share, ACC is trading at EV/EBITDA of 7.2x CY07E and 6.4x CY08E. This indicates a marginal upside to the stock. However, given the impending cycle reversal in FY09E and trend of valuations peaking ahead of earnings, we are upgrading our recommendation to **'REDUCE'** from **'SELL'**.

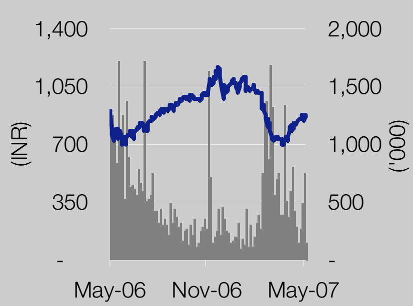
Reuters	:	ACC.BO
Bloomberg	:	ACC IN

Market Data

52-week range (INR)	:	1,192 / 625
Share in issue (mn)	:	186.9
M cap (INR bn/USD mn)	:	163.5 / 3,991.9
Avg. Daily Vol. BSE/NSE ('000)	:	1,524.7

Share Holding Pattern (%)

Promoters	:	41.0
MFs, FIs & Banks	:	18.9
FIIs	:	20.1
Others	:	20.0

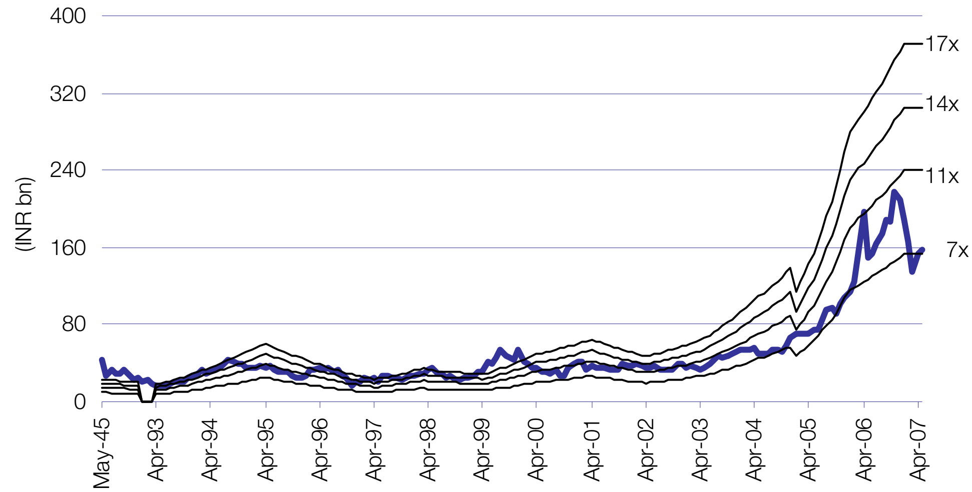


Financials

Year to December	CY05*	CY06	CY07E	CY08E
Revenues (INR mn)	31,602	57,170	70,895	78,590
Rev growth (%)	*8.4*	*35.7*	*24.0*	*10.9*
EBITDA (INR mn)	5,192	16,459	21,818	23,608
Net profit (INR mn)	5,442	12,318	15,099	16,221
Shares outstanding (mn)	184.2	187.8	187.8	187.8
EPS (INR)	18.8	57.5	79.4	86.4
EPS growth (%)	*(11.4)*	*205.5*	*38.1*	*8.9*
PE (x)	46.5	15.2	11.0	10.1
EV/tonne (USD)	216.9	198.9	168.4	161.3
EV/EBITDA (x)	24.4	9.9	7.2	6.4
ROE (%)	38.9	46.7	40.7	33.2

**CY05 is 9 months ending December*

Chart 1: ACC—Forward EV/EBITDA



Source: Edelweiss research

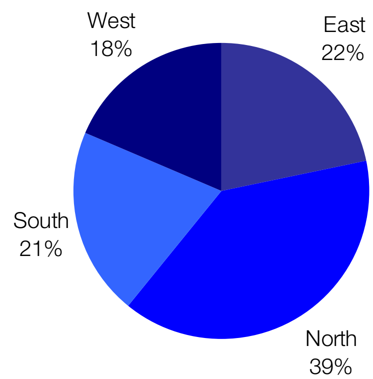
Key Risks

- Delayed cycle reversal in FY09E due to capacity delays or stronger demand growth could result in price increases higher than anticipated in FY09E.
- Corporate actions:
    - Holcim parent buying into ACC to increase its stake during trading lows.
    - Possible merger of ACC and Gujarat Ambuja with shareholding in favour of ACC shareholders.
- Any significant EBITDA expansion arising through use of alternate fuel technology.
- Earning upside from corporate actions such as M&A.

Company Description

ACC is the largest cement manufacturer in the country with an installed capacity of ~20 mn tonne p.a. for CY06, which will increase by ~3 mn tonne p.a. in CY07. The company is a pan-India player with 12 plants spread across the country. It is the leader in East and North India, with more than 60% of its sales focused in these locations. It is owned by Ambuja Cement India Ltd. (ACIL), the ownership of which vests with Holcim. ACIL holds 41% stake in the company, up from 35% held in December 2006. ACC also has a ready-mix concrete and consultancy services division, but cement forms ~94% of its total revenues.

Chart 2: ACC—FY06 sales mix



Source: Edelweiss research

Financial Statement

Income statement (INR mn)

Year to December	FY05	CY05*	CY06	CY07E	CY08E
Total volume (million tonnes)	15	13	18	20	22
% growth	*5.4*	*11.8*	*8.1*	*11.3*	*6.9*
Income from operations	38,874	31,602	57,170	70,895	78,590
Raw material cost	9,134	5,688	7,586	8,679	9,954
Stores and tools	393	312	402	500	555
Power and fuel	7,750	6,699	9,727	11,352	12,761
Freight	5,063	5,247	8,458	11,409	12,794
Employee cost	2,148	1,848	3,282	3,558	3,990
Factory and administrative expenses	6,825	4,580	8,134	9,938	11,038
Selling and adv expenses	1,344	2,035	3,123	3,642	3,889
Total operating expenses	32,655	26,410	40,711	49,078	54,981
EBITDA	6,219	5,192	16,459	21,818	23,608
Total other income	1,093	1,176	1,560	1,505	1,706
PBDIT	7,311	6,369	18,019	23,322	25,314
Interest	977	670	752	560	332
Depreciation and amortisation	1,888	1,644	2,543	2,897	3,354
Provisions	0	57	61	0	0
Profit before tax	4,446	3,998	14,664	19,866	21,628
Extraordinary items	-5	2,843	1,531	200	0
Provision for tax	657	1,399	3,877	4,966	5,407
Profits after tax	3,784	5,442	12,318	15,099	16,221
Shares outstanding	179	184	188	188	188
Dividend per share	8.0	9.1	17.1	20.1	21.6
Dividend payout (%)	37.7	30.9	26.0	25.0	25.0

Common size metrics- as % of net revenues

Year to December	FY05	CY05*	CY06	CY07E	CY08E
Operating expenses	84.0	83.6	71.2	69.2	70.0
Depreciation	4.9	5.2	4.4	4.1	4.3
Interest expenditure	2.5	2.1	1.3	0.8	0.4
EBITDA margins	16.0	16.4	28.8	30.8	30.0
Net profit margins	9.7	17.2	21.5	21.3	20.6

Growth Metrics (%)

Year	FY05	CY05	CY06	CY07E	CY08E
Revenues	18.8	8.4	35.7	24.0	10.9
EBITDA	62.2	11.3	137.7	32.6	8.2
PBT	69.8	19.9	175.1	35.5	8.9
Net Profit	89.0	91.8	69.8	22.6	7.4
EPS	74.6	(11.4)	205.5	38.1	8.9

*Note: *CY05 is 9 months ending December*

Balance sheet (INR mn)

As on 31st December	FY05	CY05*	CY06	CY07E	CY08E
Equity capital	1,792	1,855	1,878	1,878	1,878
Reserves & surplus	14,185	19,512	29,552	40,876	53,042
Shareholders funds	15,977	21,368	31,429	42,754	54,919
Secured loans	11,411	9,501	7,210	2,884	1,521
Unsecured loans	3,680	2,261	1,950	1,950	1,950
Borrowings	15,091	11,762	9,160	4,834	3,471
Deferred tax	2,955	3,004	3,207	3,207	3,207
Sources of funds	34,022	36,133	43,796	50,795	61,597
Gross block	40,941	46,286	48,163	59,447	65,151
Depreciation	15,767	17,223	18,938	21,834	25,188
Net block	25,175	29,064	29,225	37,612	39,962
Capital work in progress	3,543	2,157	4,734	2,954	7,422
Investments	2,791	2,938	9,721	10,017	13,747
Inventories	5,424	6,010	6,241	7,376	8,378
Sundry debtors	1,905	1,992	2,140	2,653	2,941
Cash and bank balances	573	1,028	1,516	1,880	2,084
Loans and advances	4,191	4,868	5,319	5,319	5,319
Other current assets	44	315	161	0	0
Total current assets	12,137	14,212	15,377	17,228	18,722
S. Creditors and others	7,739	9,133	10,247	12,003	13,242
Provisions	2,009	3,168	5,023	5,023	5,023
Total current liab. & provisions	9,748	12,301	15,270	17,026	18,265
Net current assets	2,389	1,911	107	202	456
Others	124	64	9	9	9
Uses of funds	34,022	36,133	43,796	50,795	61,597
Book value per share (BV) (INR)	89	116	167	228	292

Cash flow statement

Year to December	FY05	CY05*	CY06	CY07E	CY08E
PBIT	5,158	4,444	14,829	19,421	20,754
Less: Actual tax paid	455	699	3,928	4,966	5,407
Less: Tax shield on interest	145	137	180	140	83
Add: Tax on interest & investment income	39	57	155	251	301
NOPLAT	4,597	3,665	10,876	14,566	15,566
Add: Depreciation	1,888	1,644	2,543	2,897	3,354
Gross cash flow	6,486	5,309	13,418	17,462	18,920
Less: Capital expenditure	5,885	4,147	5,281	9,504	10,172
Less: Working capital investment	705	(693)	(454)	(107)	50
Less: Increase in other assets	104	948	297	(161)	-
Add: Increase in other liabilities/provisions	233	1,188	2,136	-	-
Free cash flow	24	2,095	10,430	8,227	8,698

**CY05 is 9 months ending December*

Ratios

Year to December	FY05	CY05*	CY06	CY07E	CY08E
ROE (%)	25.6	38.9	46.7	40.7	33.2
ROCE (%)	16.8	17.7	38.6	43.2	39.1
Inventory days	50.9	52.1	39.8	38.0	38.9
Debtors days	17.9	17.3	13.7	13.7	13.7
Fixed assets T/o (x)	1.5	1.4	2.0	1.9	2.0
Debt/Equity	0.9	0.6	0.3	0.1	0.1

Valuation parameters

Year to December	FY05	CY05*	CY06	CY07E	CY08E
Annualised core EPS (INR.)	21.2	18.8	57.5	79.4	86.4
Y-o-Y growth (%)	*74.6*	*(11.4)*	*205.5*	*38.1*	*8.9*
Annualised core CEPS (INR)	31.8	30.7	71.0	94.8	104.3
PE (x)	41.2	46.5	15.2	11.0	10.1
Price/BV(x)	9.8	7.5	5.2	3.8	3.0
EV/tonne (USD)	244	217	199	168	161
EV/Sales (x)	4.3	4.0	2.8	2.2	1.9
EV/EBITDA (x)	27.0	24.4	9.9	7.2	6.4

**CY05 is 9 months ending December*

AMBUJA CEMENT

INR 124

Limited valuation upside REDUCE

May 15, 2007

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Upward revision in earnings estimates, but earnings growth likely to remain muted in CY08E Y-o-Y

We are revising our EBITDA estimates upwards for CY07E and CY08E by 21% and 32%, respectively, factoring in domestic realisation increases of INR 5/bag in Q4CY07E and Q1CY08E and nearly INR 750 mn annualized savings from the proposed 178 MW power projects expected to be commissioned in the next two years. We expect Ambuja Cements' realizations to improve by 12% in CY07E driven by 8.5% higher realizations in Q4CY06 over average 12MCY06 realizations, direct domestic price hikes post invalidation of the price freeze agreement and price rationalization between trade and non-trade segments.

Thereafter, we expect realisation to soften in H2CY08E leading to subdued realisation growth of 3.3% in CY08E. Volume growth is likely to be ~ 11% in CY07E over 12MCY06 and flat in CY08E, factoring in the 3 mtpa capacity addition in Farakka, Roorkee, and Surat. EBITDA/tonne is likely to rise to INR 1,266/tonne in CY08E from INR 1078/tonne in 12MCY06. We expect PBT (prior to extraordinary items) to grow at a CAGR of 13.2% in 12MCY06-CY08E. However, on a Y-o-Y basis, PBT (prior to extraordinary items) growth is expected to be flat in CY08E. Net profits (including extraordinary items) are expected to grow 60% in CY07E over 12MCY06 and decline by 16% in CY08E.

Cycle reversal in FY09E, though not likely to be severe

We expect the cycle to reverse in FY09E due to ~ 60 mn tonnes of upcoming available capacity additions (FY07-09E) and ~92 mn tonnes (FY07-10E), with the demand-capacity ratio declining by ~ 10% to 90% in FY09E. The company's two main markets are North and West (85% of total sales), of which North is likely to become self sufficient by FY09E.

Valuations leave little upside; risks of cycle reversal remain

One-year forward EV/EBITDA valuations have typically ranged between 7x and 10x during the current cycle upturn. As we are in the last leg of the cycle upturn (FY08E), an appropriate EV/EBITDA valuation will be mid-range of the band at about 8.5x. At CMP of INR 124/share, the stock is trading at 8.4x CY07E and 8.3x CY08E indicating a marginal upside. However, given the impending cycle reversal in FY09E and intrinsic trend of valuations peaking ahead of earnings, we are upgrading our recommendation to **'REDUCE'** from **'SELL'**.

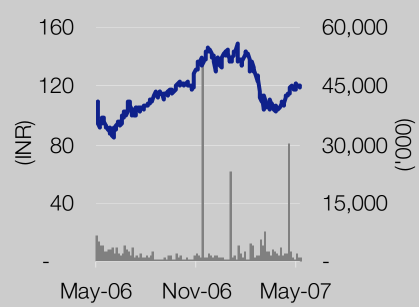
Reuters	:	GACM.BO
Bloomberg	:	ACEM IN

Market Data

52-week range (INR)	:	150 / 77
Share in issue (mn)	:	1.516.8
M cap (INR bn/USD mn)	:	187.3/4,572.2
Avg. Daily Vol. BSE/NSE ('000)	:	7,002.4

Share Holding Pattern (%)

Promoters	:	35.1
MFs, FIs & Banks	:	15.7
FIIs	:	32.0
Others	:	19.7

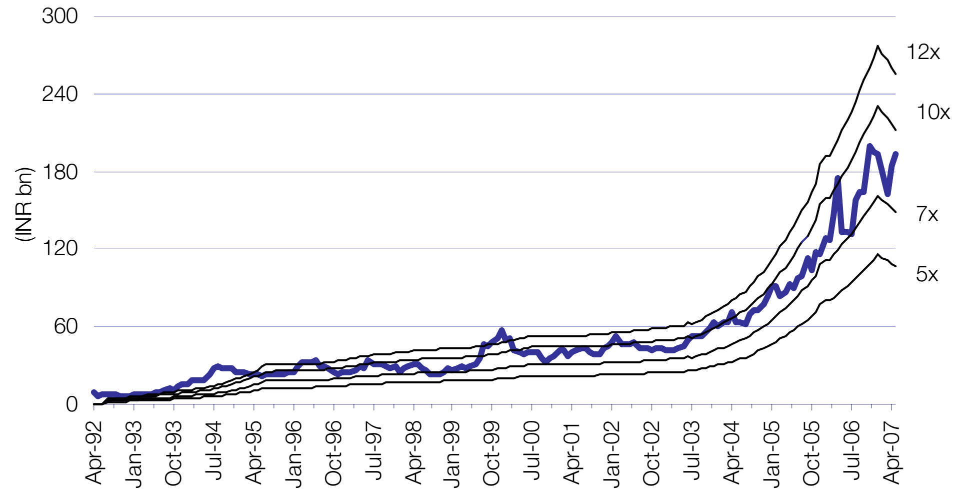


Financials

Year to December	FY05	CY06*	CY07E	CY08E
Revenues (INR mn)	26,247	63,400	60,685	62,876
Rev growth (%)	*32.7*	*61.0*	*43.6*	*3.6*
EBITDA (INR mn)	7,517	22,048	23,160	23,083
Net profit (INR mn)	4,683	15,033	20,660	17,326
Shares outstanding (mn)	1,351.0	1,522.6	1,522.6	1,522.6
EPS (INR)	3.5	6.6	8.2	9.8
EPS growth (%)	*36.3*	*89.9*	*25.1*	*19.0*
P/E (x)	35.6	18.8	15.0	12.6
EV/tonne ($/tonne)	321.4	285.7	227.4	222.7
EV/EBITDA (x)	23.6	13.1	8.4	8.3
ROE (%)	22.3	35.3	49.6	32.1

**Note: CY06 is 18 months ended Dec., & incl. financials of Ambuja Eastern (merged wef from Jan. 2006)*

Chart 1: Ambuja Cement—Forward- EV/EBITDA



Source: Edelweiss research

Key Risks

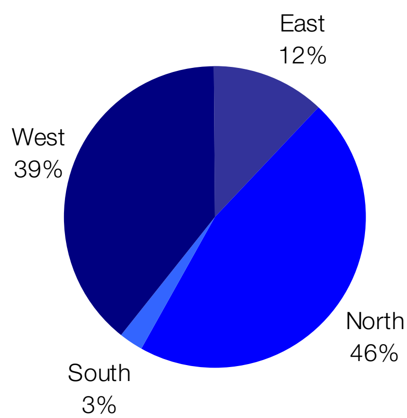
- Delayed cycle reversal in FY09E due to capacity delays or stronger demand growth could result in price hikes higher than anticipated in FY09E.
- Corporate actions such as Holcim parent buying into Ambuja Cements to increase its stake during trading lows.
- Any significant EBITDA expansion arising through use of alternate fuel technology.
- Earning upside from corporate actions such as M&A.

Company Description

Ambuja Cements Ltd. (ACL) is the country's fourth-largest cement manufacturer with an installed capacity of 16 mn tonne p.a. in CY06, which will increase to 18 mn tonne p.a. in CY07. With a pan-India presence, the company accounted for 10.7% of all India despatches in FY07 with ~85% of its sales being in the North and West.

Ambuja Cements has nine manufacturing facilities spread across the North—Himachal Pradesh, Punjab; West—Gujarat, Rajasthan, and Maharashtra; and East—Chhattisgarh and a grinding unit in West Bengal. Following the merger of Ambuja Cement Eastern with Ambuja Cements, Holcim effectively holds ~ 30% in the company.

Chart 2: Ambuja Cement—FY06 sales mix



Source: Edelweiss research

Financial Statements

Income statement (INR mn)

Year to December	FY05	CY06*	CY07E	CY08E
Total volume (million tonnes)	13	23	18	18
% growth	*22.1*	*18.5*	*20.7*	*0.3*
Income from operations	26,246.8	63,399.9	60,684.8	62,875.6
Material costs	2,820	3,932	4,547	4,834
Stores and tools	981	2,034	1,964	1,989
Power and fuel	6,784	12,399	9,822	10,613
Freight	3,853	11,719	11,934	12,731
Employee cost	1,055	2,331	2,164	2,298
Factory & administrative expenses	2,385	7,535	5,202	5,373
Selling and Advertisement expenses	853	1,403	1,892	1,954
Total operating expenses	18,730	41,352	37,525	39,793
EBITDA	7,517	22,048	23,160	23,083
Total other income	506	762	901	1,653
PBDIT	8,023	22,810	24,061	24,736
Interest	918	1,132	779	723
Depreciation and amortisation	1,954	3,261	2,708	3,296
Provisions/VRS	(34)	-	-	-
Profit before tax	5,185	18,416	20,574	20,717
Extraordinary income/(loss)	-	-	8,120	2,410
Provision for tax	503	3,384	8,034	5,801
Profit after tax	4,683	15,033	20,660	17,326
Shares outstanding (mn)	1,351	1,523	1,523	1,523
Dividend per share (INR)	1.6	3.5	4.7	4.0
Dividend payout (%)	46.1	35.0	35.0	35.0

Common size metrics- as % of net revenues

Year to December	FY05	CY06*	CY07E	CY08E
Operating expenses	71.4	65.2	61.8	63.3
Material cost	10.7	6.2	7.5	7.7
Power and fuel	25.8	19.6	16.2	16.9
Freight	14.7	18.5	19.7	20.2
Depreciation and amortisation	7.4	5.1	4.5	5.2
Interest expenditure	3.5	1.8	1.3	1.2
EBITDA margins	28.6	34.8	38.2	36.7
Net profit margins	17.8	23.7	34.0	27.6

Growth metrics (%)

Year to December	FY05	CY06*	CY07E	CY08E
Revenues	32.7	61.0	43.6	3.6
EBITDA	35.5	95.6	57.6	(0.3)
PBT	35.2	136.8	67.6	0.7
Net profit	39.0	114.0	106.2	(16.1)
EPS	36.3	89.9	25.1	19.0

**Note: CY06 is 18 months ended December, and includes financials of Ambuja Eastern (merged wef from January 2006)*
Extra-ordinary items in CY07E and CY08E include INR 3.3bn on sale of Kalina land & INR 7.2bn on exercising of the put option to sell 33% stake sale to Ambuja Cement India Ltd

Balance sheet				(INR mn)
As on 31st December	FY05	CY06*	CY07E	CY08E
Equity capital	2,704	3,045	3,045	3,045
Reserves & surplus	19,080	31,872	45,301	56,563
Shareholders funds	21,784	34,917	48,346	59,608
Secured loans	5,493	3,178	3,178	1,943
Unsecured loans	5,781	5,476	5,476	5,476
Borrowings	11,275	8,654	8,654	7,420
Deferred tax (net)	3,811	3,839	3,839	3,839
Sources of funds	36,870	47,410	60,838	70,866
Gross block	37,092	45,425	57,343	67,772
Depreciation	14,639	20,533	23,241	26,537
Net block	22,452	24,892	34,102	41,234
Capital work In progress	1,181	6,349	6,247	5,724
Investments	2,679	2,760	17,254	19,490
Inventories	3,170	4,088	6,077	5,877
Sundry debtors	458	900	1,291	1,338
Cash and bank balances	865	3,781	3,034	3,144
Loans and advances	1,367	2,957	1,367	2,957
Other current assets	8,590	8,622	0	0
Total current assets	14,450	20,348	11,770	13,316
Sundry creditors and others	2,890	5,329	6,924	7,288
Provisions	1,068	1,687	1,687	1,687
Total current liabilities & provisions	3,957	7,016	8,611	8,975
Net current assets	10,493	13,332	3,158	4,341
Misc expenditure	65	77	77	77
Uses of funds	36,870	47,410	60,838	70,866
Book value per share (BV) (INR)	16	23	32	39

Cash flow statement				(INR mn)
Year to December	FY05	CY06*	CY07E	CY08E
PBIT	5,562	18,787	20,452	19,787
Less: Actual tax paid	399	3,384	8,034	5,801
Less: Tax shield on interest	89	208	218	203
Add: Tax on interest & investment income	49	140	252	463
NOPLAT	5,124	15,335	12,452	14,246
Add: Depreciation	1,954	3,261	2,708	3,296
Gross cash flow	7,078	18,596	15,160	17,543
Less: capital expenditure	605	10,869	11,815	9,906
Less: Working capital investment	585	(829)	786	(517)
Less: Increase in other assets	129	1,623	(10,212)	1,590
Add: Increase in other liabilities/provisions	410	871	-	-
Free cash flow	6,169	7,804	12,771	6,564

Ratios

Year to December	FY05	CY06*	CY07E	CY08E
ROE (%)	22.3	35.3	49.6	32.1
ROCE (%)	16.6	30.9	39.5	32.6
Inventory (days)	44	35	37	34
Debtors (days)	6	8	8	8
Assets turnover (x)	1.2	1.7	1.8	1.5
Debt/Equity (x)	0.5	0.2	0.2	0.1
Interest cover (x)	8.7	20.1	30.9	34.2

Valuation parameters

Year to December	FY05	CY06*	CY07E	CY08E
Annualised EPS (INR)	3.5	6.6	8.2	9.8
Y-o-Y growth (%)	*36.3*	*89.9*	*25.1*	*19.0*
Annualised CEPS (INR)	4.9	12.0	10.0	12.0
PE (x)	35.6	18.8	15.0	12.6
Price/BV(x)	7.7	5.4	3.9	3.2
EV/tonne (USD)	321	286	227	223
EV/Sales (x)	6.7	4.5	2.9	2.7
EV/EBITDA (x)	23.6	13.1	8.4	8.3

INDIA CEMENTS

INR 183

Price led trading gains

REDUCE

* Upward revision in earnings estimates, but risk of softening prices in FY09E

We are revising our earnings estimates upwards for FY08E and FY09E by 28.3% and 43.7% (excluding Visaka), respectively. This is on the back of stronger-than-anticipated price increases in Q4FY07 (of INR 30/bag in AP and INR 23/bag in the rest of South) which increased the base for FY08 prices, moderate but continuous price hikes post invalidation of the price freeze agreement, and continuing tight demand-supply equation till Q1FY09E. We have taken a INR5/bag realization increase in Q1FY08E above the base of Q4FY07E and INR 5/bag increase post monsoons in Q4FY08E. In the light of the above, we expect realizations to improve by 18.1% in FY08E. Thereafter, we expect realisations to marginally soften in Q2FY09E by 5% due to supply tightness easing due to commissioning of 12.5 mn tonnes capacity in the south in FY09E.

Accordingly, India Cements' EBITDA/tonne is likely to increase to INR 1,227 for FY08E vis-à-vis INR 913 in FY07 but decline in FY09E to INR 1,080 with flat realizations. Volume gains are likely to be muted in FY08E and grow by 16.8% in FY09E on the back of 1 mtpa each expansions at Maharashtra and Tamil Nadu becoming operational. As a result, earnings are likely to grow by 48% in FY08E and be flat in FY09E.

* Marginal upside in valuations; trading upside in the interim (Q1/Q2FY08E)

One-year forward EV/EBITDA valuations for India Cements have typically ranged between 4x and 7x during the current cycle upturn. As we are in the last leg of the cycle upturn, we consider EV/EBITDA multiple around 5.5x to be an appropriate valuation.

At CMP of INR 183/share, India Cements is trading at EV/EBITDA of 5.0x FY08E and 4.9x FY09E. This indicates a marginal upside to the stock. Given the impending cycle reversal in FY09E and intrinsic trend of valuations peaking ahead of earnings, we are upgrading our recommendation from 'SELL' to 'REDUCE'.

Trading Upside: South has witnessed the sharpest cumulative price increases ~ INR 23-30/bag (INR 3-5/bag for other regions) in Q4FY07 and INR 6/bag hike in April-May 2007. We believe that this will translate into earnings surprises in the interim.

Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenues (INR mn)	15,433	23,247	30,845	35,960
Growth (%)	*31.1*	*50.6*	*32.7*	*16.6*
EBITDA (INR mn)	2,684	7,665	11,584	11,910
Net profit (INR mn)	453	4,781	7,064	7,126
Shares outstanding (mn)	190.8	240.4	240.4	240.4
EPS (fully diluted) (INR)	1.9	19.9	29.4	29.6
EPS growth (%)	*144.1*	*961.3*	*47.8*	*0.9*
PE (x)	97.7	9.2	6.2	6.2
EV/tonne (USD)	158.4	172.9	131.6	131.4
EV/EBITDA (x)	18.5	7.9	5.0	4.9
ROE (%)	7.1	37.0	36.6	29.4

May 15, 2007

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Bloomberg	:	ICEM IN

Market Data

52-week range (INR)	:	255 / 103
Share in issue (mn)	:	220.4
M cap (INR bn/USD mn)	:	40.3 / 984.5
Avg. Daily Vol. BSE/NSE ('000)	:	5,986.1

Share Holding Pattern (%)

Promoters	:	26.9
MFs, FIs & Banks	:	23.8
FIIs	:	22.2
Others	:	27.1

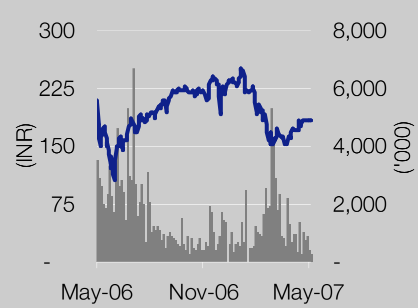
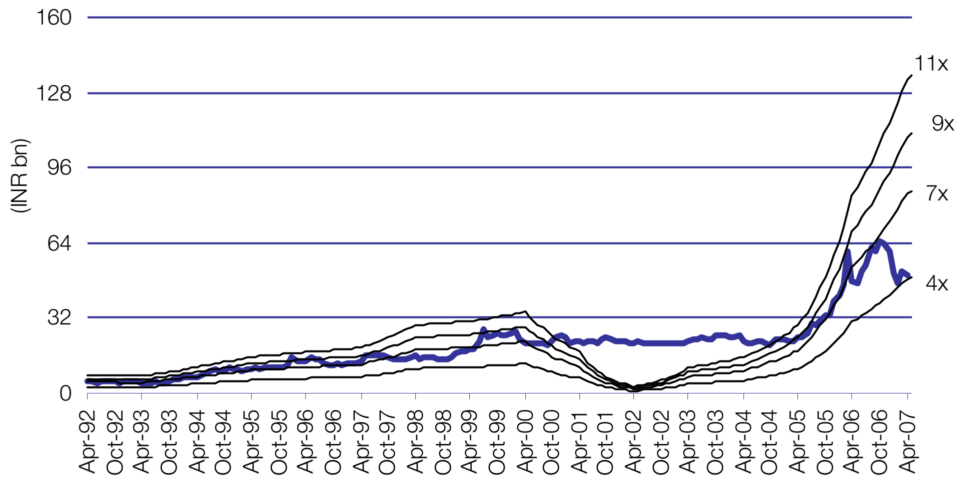


Chart 1: India Cements—Forward EV/EBITDA



Source: Edelweiss research

Key Risks

* Fundamental reduce

Delayed cycle reversal in FY09E due to capacity delays or stronger demand growth could result in higher than anticipated price increases in FY09E.

* Trading upside

- Further adverse government intervention to cap cement prices could cap trading ups.
- ICL has made loans and advances to group companies amounting to INR 6.1 bn and a provision in the balance sheet for diminution in the value of investments and advances of INR 1.2 bn, as of March 2007. This is a cause of concern as these loans and advances are significantly high at 28% of FY08E networth.

Company Description

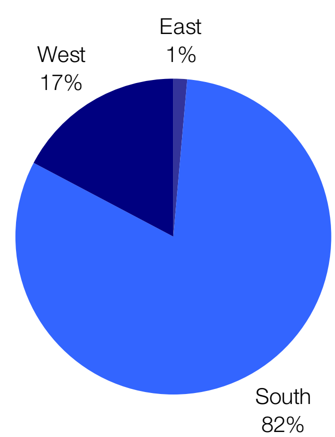
India Cements Ltd. (ICL) is a leading player in South India. ICL, including Visaka, has seven plants with an installed capacity of 8.8 mn tonne p.a. The company is also engaged in real estate, property development, and has a wind farm in Coimbatore, although cement accounted for 99.5% of its total revenues in FY07. It is primarily a southern player with ~89.4% despatches in the South and ~9% in the West.

* **Merger of Visaka Cements with ICL**

  Visaka Cement, an unlisted 1.4 mn tonne p.a. Andhra Pradesh-based cement unit, is in the process of getting merged with ICL w.e.f. July 1, 2006. Visaka has a 1 mn tonne p.a. greenfield expansion in the pipeline at Parli, Maharastra. Currently, Visaka plant serves Maharashtra and Andhra Pradesh (AP) markets in the ratio of 66:34. Visaka was a loss making entity with accumulated losses, but it turned around through corporate debt restructuring programme in FY06. ICL held ~50% in Visaka Cement through its wholly-owned subsidiaries. With the proposed merger, 20 mn shares of ICL will be issued in accordance with the swap ratio of one share of ICL for every five shares of Visaka. This translates into 10% equity dilution for ICL.

  ICL will enjoy tax benefits from this merger in FY08 due to INR 3.3 bn tax shelter in Visaka (INR 2.6 bn on account of unabsorbed depreciation and INR 700 mn of accumulated losses).

Chart 2: India Cements—FY06 sales mix



Source: Edelweiss research
Note: Includes Visaka Cements

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Total volume (mn tonnes)	5	7	8	9	11
% growth	*1.3*	*33.0*	*15.1*	*12.5*	*16.8*
Income from operations	11,776	15,433	23,247	30,845	35,960
Materials costs	1,111	1,772	2,004	2,592	3,209
Stores and tools	337	432	469	659	816
Power and fuel	4,340	4,830	5,674	6,721	8,534
Freight	1,641	2,391	3,607	4,541	5,619
Employee cost	893	917	1,083	1,218	1,501
Factory & administrative expenses	520	619	714	923	1,143
Selling and advertisement expenses	1,356	1,788	2,031	2,606	3,226
Total operating expenses	10,199	12,750	15,582	19,261	24,050
EBITDA	1,577	2,684	7,665	11,584	11,910
Total other income	14	52	539	388	525
PBDIT	1,591	2,736	8,204	11,973	12,436
Interest	1,335	1,489	1,719	1,727	1,617
Depreciation and amortisation	788	789	1,030	1,159	1,233
Provisions/VRS	57	54	83	83	83
Profit before tax	(588)	404	5,372	9,003	9,502
Extraordinary income/(loss)	634	96	0	0	0
Provision for tax	0	47	591	1,939	2,375
Profit after tax	46	453	4,781	7,064	7,126
Shares outstanding (mn)	139	191	240	240	240
Dividend per share (INR)	-	173.9	6.6	8.8	8.9
Dividend payout (%)	-	7,321.4	33.0	30.0	30.0

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Operating expenses	86.6	82.6	67.0	62.4	66.9
Material cost	9.4	11.5	8.6	8.4	8.9
Power and fuel	36.9	31.3	24.4	21.8	23.7
Freight	13.9	15.5	15.5	14.7	15.6
Depreciation and amortisation	6.7	5.1	4.4	3.8	3.4
Interest expenditure	11.3	9.6	7.4	5.6	4.5
EBITDA margins	13.4	17.4	33.0	37.6	33.1
Net profit margins	0.4	2.9	20.6	22.9	19.8

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	15.5	31.1	50.6	32.7	16.6
EBITDA	28.8	70.1	185.6	51.1	2.8
PBT	57.5	NM	1,229.3	67.6	5.5
Net profit	NM	889.1	955.1	47.8	0.9
EPS	51.6	144.1	961.3	47.8	0.9

Note: Visaka financials consolidated (line by line) with India Cements from FY07E (w.e.f July '06). Visaka reported revenues of INR 2.75bn and PBT of INR 750mn for 9MFY07

Balance sheet					(INR mn)
As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	1,525	2,047	2,404	2,404	2,404
Pref. capital	250	250	0	0	0
Reserves & surplus	1,994	6,702	14,410	19,355	24,343
Shareholders funds	3,769	8,999	16,814	21,759	26,747
Secured loans	18,453	14,034	15,484	13,484	13,484
Unsecured loans	1,420	1,218	1,218	1,218	1,218
Borrowings	19,872	15,252	16,702	14,702	14,702
Deferred tax (net)	463	486	486	486	486
Sources of funds	24,105	24,738	34,003	36,948	41,936
Gross block	20,730	21,457	27,077	27,557	30,577
Depreciation	7,834	9,188	11,497	12,656	13,889
Net block	12,896	12,270	15,580	14,901	16,688
Capital work in progress	30	310	0	1,620	2,100
Intangible assets	0	0	2,600	2,600	2,600
Investments	348	348	3,505	4,260	6,248
Inventories	1,799	1,930	2,244	2,769	3,401
Sundry debtors	1,834	2,406	3,624	4,808	5,606
Cash and bank balances	29	436	465	617	719
Loans and advances	9,805	10,144	9,144	9,144	9,144
Other current assets	217	208	628	628	628
Total current assets	13,684	15,124	16,105	17,966	19,498
Sundry creditors and others	3,059	3,731	4,203	4,817	5,615
Provisions	14	-	-	-	-
Total current liabilities & provisions	3,073	3,731	4,203	4,817	5,615
Net current assets	10,612	11,393	11,901	13,150	13,883
Misc expenditure	219	417	417	417	417
Uses of funds	24,105	24,738	34,003	36,948	41,936
Book value per share (BV)(INR)	27	47	70	91	111

Cash flow statement					(INR mn)
Year to March	FY05	FY06	FY07E	FY08E	FY09E
PBIT	790	1,895	6,635	10,425	10,677
Less: Actual tax paid	-	-	591	1,939	2,375
Less: Tax shield on interest	-	139	189	372	485
Add: Tax on interest & investment income	-	5	59	84	158
NOPLAT	790	1,761	5,915	8,198	7,974
Add: Depreciation	788	789	1,030	1,159	1,233
Gross cash flow	1,577	2,549	6,944	9,357	9,207
Less: capital expenditure	133	443	1,000	2,100	3,500
Less: Working capital investment	215	819	1,060	1,097	631
Less: Increase in other assets	(222)	330	2,576	755	1,988
Add: Increase in other liabilities/provisions	25	775	-	-	-
Free cash flow	1,476	1,733	2,308	5,405	3,088

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	1.2	7.1	37.0	36.6	29.4
ROCE (%)	3.1	7.8	24.1	30.2	28.2
Inventory (days)	56	46	35	33	35
Debtors (days)	57	57	57	57	57
Assets turnover (x)	0.9	1.3	1.5	2.1	2.2
Debt/Equity (x)	5.3	1.7	1.0	0.7	0.5
Interest cover (x)	1.2	1.8	4.8	6.9	7.7

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR)	(4.2)	1.9	19.9	29.4	29.6
Y-o-Y growth (%)	*51.6*	*144.1*	*961.3*	*47.8*	*0.9*
CEPS (INR)	6.0	6.5	24.2	34.2	34.8
PE (x)	(43.1)	97.7	9.2	6.2	6.2
Price/BV(x)	6.7	3.9	2.6	2.0	1.6
EV/tonne (USD/tonne)	144	158	173	132	131
EV/Sales (x)	3.8	3.2	2.6	1.9	1.6
EV/EBITDA (x)	28.7	18.5	7.9	5.0	4.9

MADRAS CEMENTS

INR 2,827

Price and volume led trading gains

REDUCE

May 15, 2007

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✻ Upward revision in earnings estimates, but risk of softening prices in FY09E

We are revising our earnings estimates upwards for FY08E and FY09E by 35.8% and 41%, respectively. This is based on stronger-than-anticipated price increases in Q4FY07E, which increased the base for FY08E prices (our estimated Q4 realization being 6% higher than average FY07E realization), direct price hikes post invalidation of the price freeze agreement and tight demand-supply till Q1FY09E. We have taken a INR5/bag realization increase in Q1FY08E above the base of Q4FY07E and INR 5/bag increase post monsoons in Q4FY08E. Accordingly, we expect realizations to improve by 16.4% in FY08E. Thereafter, we expect realisations to marginally soften in Q2FY09E by 5% due to supply tightness easing due to 12.5 mn tonnes capacity getting commissioned in south in FY09E.

Accordingly, Madras Cements EBITDA/tonne is likely to increase to INR 1,308 for FY08E vis-à-vis INR 1,033 in FY07E but decline in FY09E to INR 1,156 due to flat realizations. We expect the benefits of capacity addition to flow in from Q3FY08E onwards with 1 mtpa brownfield expansion at Jayanthipuram and 1 mtpa grinding unit at Kolkata. Another 2.5 mtpa greenfield expansion at Alathiyur, TN, is expected to come on stream from Q2FY09E. Accordingly, we estimate volumes to improve Y-o-Y by 16% in FY08E and 40% in FY09E leading to PAT growth of 49.2% in FY08E and 19.4% in FY09E.

✻ Marginal upside in valuations, trading upside in the interim (Q1/Q2FY08E)

One-year forward EV/EBITDA valuations for Madras Cements have typically ranged between 5x and 7x during the current cycle upturn. Considering that the sector provides limited upsides, this being the last leg of the cycle upturn, an appropriate valuation would be around 5.5x. At CMP of INR 2,827/share, Madras Cements is trading at EV/EBITDA of 5.1x FY08E and 4.0x FY09E. This indicates a marginal upside to the stock. However, given the impending cycle reversal in FY09E and intrinsic trend of valuations peaking ahead of earnings, we are upgrading the recommendation from 'SELL' to **'REDUCE'**

Trading Upside: South has witnessed the sharpest cumulative price increases ~ INR 23-30/bag (INR 3-5/bag for other regions) in Q4FY07 and INR 6/bag hike in April-May 2007. We believe this will translate into earnings surprises in the interim.

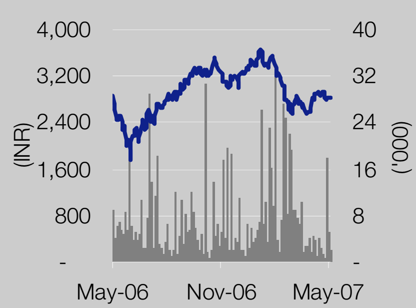
Reuters	:	MSCM.BO
Bloomberg	:	MC IN

Market Data

52-week range (INR)	:	3,699 / 1,731
Share in issue (mn)	:	12.1
M cap (INR bn/USD mn)	:	34.2 / 833.6
Avg. Daily Vol. BSE/NSE ('000)	:	12.3

Share Holding Pattern (%)

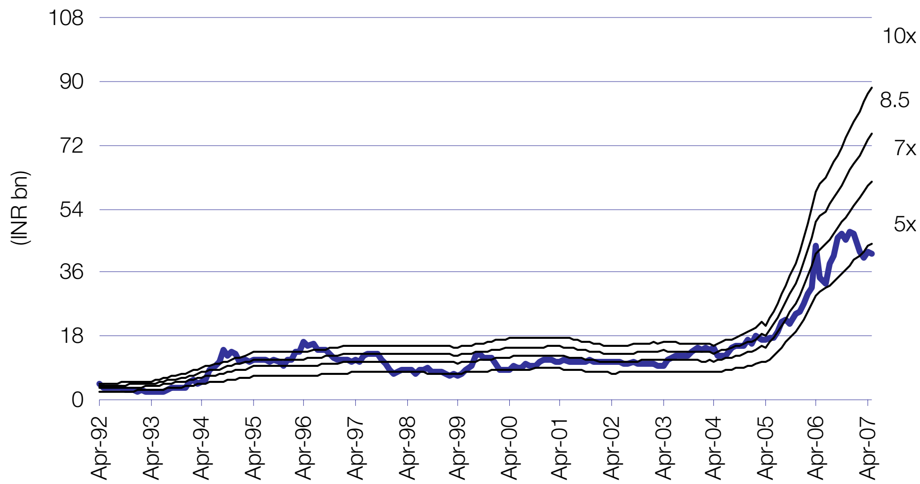
Promoters	:	42.5
MFs, FIs & Banks	:	25.3
FIIs	:	2.2
Others	:	30.0



Financials

Year to March	FY06	FY07E	FY08E	FY09E
Revenues (INR mn)	10,085	15,857	21,425	29,807
Growth (%)	*36.3*	*57.2*	*35.1*	*39.1*
EBITDA (INR mn)	2,126	5,895	8,672	10,699
Net profit (INR mn)	790	3,388	5,054	6,033
Shares outstanding (mn)	12.1	12.1	12.1	12.1
EPS (fully diluted) (INR)	65.4	280.5	418.4	499.5
EPS growth (%)	*41.3*	*328.7*	*49.2*	*19.4*
PE (x)	43.2	10.1	6.8	5.7
EV/tonne (USD)	162	160	129	95.6
EV/EBITDA (x)	18.7	7.0	5.1	4.0
ROE (%)	21.7	65.1	60.4	48.2

Chart 1: Madras Cements—Forward EV/EBITDA



Source: Edelweiss research

Key Risks

- Fundamental reduce
  - Delayed cycle reversal in FY09E due to capacity delays or stronger demand growth could result in higher than anticipated price increases in FY09E.

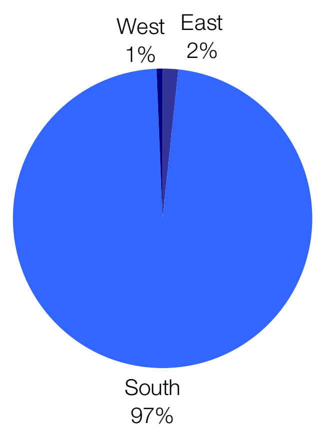
- Trading upside
  - Further adverse government intervention to cap cement prices could cap trading ups.
  - Madras Cements has a total exposure of INR 1.25 bn in Ramco Systems, a loss-making group company, accounting for 12% of Madras Cements' projected FY08 net worth. Lending any additional support to Ramco Systems or delay in the latter's financial turnaround could be risky for Madras Cements.
  - The company relies largely on imported coal. Since imported coal prices are dependent on international coal demand-supply situation and freight rates, they are highly volatile. Any major increase in the price of this input could hit Madras Cements' margins.

Company Description

Madras Cements, flagship of the Ramco Group, is a major player in South India with an installed capacity of 5.99 mn tonne p.a. in FY07 and market share of ~11% in FY06. The company has four facilities, two in Tamil Nadu, and one each in Andhra Pradesh and Karnataka. Tamil Nadu is Madras Cements' largest market, accounting for 48% of its total despatches in FY06, followed by Kerala (25%), Andhra Pradesh (17%), and Karnataka (6.5%).

Besides cement, Madras Cements also operates a ready mix concrete plant (112 cum/hour capacity) near Chennai and a dry mortar division. However, cement accounted for majority of its revenues at ~94% in FY07. Cement is sold under its popular *Ramco* brand of cements like *Ramco Super Steel Cement* and *Ramco Super Grade Cement*. Blended cement accounted for 92.7% of its product mix in FY06. Madras Cements' in-house power generation includes 34.4 MW of wind power at Muppandal and Poolavadi in Tamil Nadu, and Mathod in Karnataka, and a 36 MW thermal power plant at Alathiyur, Tamil Nadu. These facilities meet 56% of the company's total power requirement.

Chart 2: Madras Cements—FY06 sales mix



Source: Company, Edelweiss research

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Total volume (mn tonnes)	4	5	6	7	9
% growth	*1.3*	*22.7*	*21.4*	*16.1*	*39.7*
Income from operations	7,400	10,085	15,857	21,425	29,807
Materials costs	1,053	1,529	1,875	2,524	3,738
Stores and tools	177	273	331	442	655
Power and fuel	2,131	2,538	3,094	3,878	5,759
Freight	905	1,699	2,062	2,656	3,952
Employee cost	405	462	514	614	897
Factory & administrative expenses	930	1,146	1,669	2,112	3,290
Selling and advertisement expenses	229	312	416	527	817
Total operating expenses	5,830	7,959	9,963	12,753	19,108
EBITDA	1,570	2,126	5,895	8,672	10,699
Total other income	51	49	257	257	257
PBDIT	1,621	2,175	6,152	8,929	10,956
Interest	376	363	366	517	807
Depreciation and amortisation	633	652	679	794	1,054
Profit before tax	612	1,160	5,107	7,618	9,094
Prior period adjustments	(18)	(7)	-	-	-
Provision for tax	35	363	1,719	2,564	3,061
Profit after tax	559	790	3,388	5,054	6,033
Shares outstanding (mn)	12.1	12.1	12.1	12.1	12.1
Dividend per share (INR)	11.4	17.1	70.1	104.6	124.9
Dividend payout (%)	24.6	26.2	25.0	25.0	25.0

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Operating expenses	78.8	78.9	62.8	59.5	64.1
Material cost	14.2	15.2	11.8	11.8	12.5
Power and fuel	28.8	25.2	19.5	18.1	19.3
Freight	12.2	16.8	13.0	12.4	13.3
Depreciation and amortisation	8.6	6.5	4.3	3.7	3.5
Interest expenditure	5.1	3.6	2.3	2.4	2.7
EBITDA margins	21.2	21.1	37.2	40.5	35.9
Net profit margins	7.6	7.8	21.4	23.6	20.2

Growth metrics (%)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
Revenues	6.5	36.3	57.2	35.1	39.1
EBITDA	(4.0)	35.4	177.3	47.1	23.4
PBT	9.8	94.0	343.0	49.2	19.4
Net profit	67.4	41.3	328.7	49.2	19.4
EPS	67.4	41.3	328.7	49.2	19.4

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07E	FY08E	FY09E
Equity capital	121	121	121	121	121
Reserves & surplus	3,228	3,811	6,352	10,142	14,667
Shareholders funds	3,348	3,932	6,473	10,263	14,788
Secured loans	2,472	1,908	3,512	3,116	1,708
Unsecured loans	4,438	4,117	4,117	7,506	8,127
Borrowings	6,910	6,024	7,628	10,622	9,835
Deferred tax (net)	1,923	1,958	1,958	1,958	1,958
Sources of funds	12,181	11,914	16,059	22,843	26,581
Gross block	15,705	16,405	17,058	22,648	29,278
Depreciation	5,876	6,506	7,186	7,980	9,034
Net block	9,829	9,899	9,873	14,669	20,244
Capital work In progress	19	113	1,756	3,065	0
Investments	796	887	3,027	3,027	3,027
Inventories	1,311	1,009	1,239	1,642	2,453
Sundry debtors	453	493	970	1,311	1,824
Cash and bank balances	434	493	476	643	894
Loans and advances	951	1,275	1,275	1,275	1,275
Total current assets	3,149	3,271	3,959	4,870	6,446
Sundry creditors and others	1,505	1,841	2,142	2,374	2,723
Provisions	151	446	446	446	446
Total current liabilities & provisions	1,656	2,287	2,588	2,819	3,168
Net current assets	1,493	984	1,372	2,050	3,278
Misc expenditure	44	32	32	32	32
Uses of funds	12,181	11,914	16,059	22,843	26,581
Book value per share (BV) (INR)	277	326	536	850	1,224

Cash flow statement (INR mn)

Year to March	FY05	FY06	FY07E	FY08E	FY09E
PBIT	937	1,474	5,215	7,878	9,644
Less: Actual tax paid	74	328	1,719	2,564	3,061
Less: Tax shield on interest	22	114	123	174	272
Add: Tax on interest & investment income	3	15	87	87	87
NOPLAT	843	1,047	3,460	5,226	6,398
Add: Depreciation	633	652	679	794	1,054
Gross cash flow	1,477	1,699	4,139	6,020	7,452
Less: capital expenditure	1,150	816	2,296	6,899	3,565
Less: Working capital investment	684	(249)	342	512	976
Less: Increase in other assets	115	414	2,140	-	-
Add: Increase in other liabilities/provisions	54	580	-	-	-
Free cash flow	(419)	1,298	(640)	(1,391)	2,912

Ratios

Year to March	FY05	FY06	FY07E	FY08E	FY09E
ROE (%)	17.8	21.7	65.1	60.4	48.2
ROCE (%)	8.5	12.6	39.1	41.8	40.1
Inventory (days)	65	37	29	28	30
Debtors (days)	22	22	22	22	22
Assets turnover (x)	0.8	1.0	1.6	1.5	1.5
Debt/Equity (x)	2.1	1.5	1.2	1.0	0.7
Interest cover (x)	4.3	6.0	16.8	17.3	13.6

Valuation parameters

Year to March	FY05	FY06	FY07E	FY08E	FY09E
EPS (INR)	46.3	65.4	280.5	418.4	499.5
Y-o-Y growth (%)	*67.4*	*41.3*	*328.7*	*49.2*	*19.4*
CEPS (INR)	98.7	119.4	336.8	484.2	586.8
PE (x)	61.1	43.2	10.1	6.8	5.7
Price/BV(x)	10.2	8.7	5.3	3.3	2.3
EV/tonne (USD)	166	162	160	129	96
EV/Sales (x)	5.5	3.9	2.6	2.1	1.4
EV/EBITDA (x)	25.9	18.7	7.0	5.1	4.0

ULTRATECH CEMENT

INR 806

Priced in

REDUCE

Edelweiss
Ideas create, values protect

May 15, 2007

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Upward revision in earnings estimates, but earnings growth to be muted in FY07-09E due to back-ended capacity additions

We are revising our earnings estimates upwards for FY08E and FY09E by 7% and 11%, respectively, factoring in domestic realisation increases of INR 5/bag in Q3FY08E and Q4FY08E. We had already factored in savings of ~ INR 1.4 bn on an annualized basis from the proposed 142 MW power projects expected to be commissioned by FY09E. We expect realizations to improve by 12% in FY08E driven by 7% higher realizations in Q4FY07 over average FY07 realisation, direct domestic price hikes post invalidation of the price freeze agreement, and rationalization of prices between trade and non-trade segments.

Thereafter, we expect realisations to soften from Q2FY09E leading to subdued realisation growth of 0.7% in FY08E. Volume growth is likely to be ~ 7% in FY08E and 13% in FY09E factoring in the 4 mtpa capacity addition in Tadpatri in FY09E. Accordingly, EBITDA/tonne is likely to range between INR 852/tonne in FY08E and INR 799/tonne in FY09E. We expect earnings to grow at a CAGR of 11% in FY07-09E, with earnings growing by 13% in FY09E driven by volume additions.

Cycle reversal in FY09E, though not likely to be severe

We expect the cycle to reverse in FY09E due to upcoming available capacity additions of ~ 60 mn tonnes (FY07-09E) and ~92 mn tonnes (FY07-10E). UltraTech's two main markets are West and East (72% of total sales), likely to grow slower than the North & South.

Valuations leave little upside and risk of cycle reversal remains

One-year forward EV/EBITDA valuations for UltraTech have typically ranged between 6.5x and 10.5x during the current cycle upturn. We are in the last leg of the cycle upturn (FY08E), an appropriate valuation would be mid-range of the EV/EBITDA valuations at about 7.5x.

At CMP of INR 806/share, UltraTech is trading at EV/EBITDA of 7.1x FY08E and 6.6x FY09E. This indicates little upside to the stock, and given the impending cycle reversal in FY09E we are revising our recommendation to **'REDUCE'** from **'SELL'**.

Reuters	:	ULTC.BO
Bloomberg	:	UTCEM IN

Market Data

52-week range (INR)	:	1,205 / 501
Share in issue (mn)	:	124.4
M cap (INR bn/USD mn)	:	100.3 / 2,447.0
Avg. Daily Vol. BSE/NSE ('000)	:	112.2

Share Holding Pattern (%)

Promoters	:	53.0
MFs, FIs & Banks	:	8.0
FIIs	:	9.4
Others	:	29.6

Financials

Year to March	FY06	FY07	FY08E	FY09E
Revenues (INR mn)	33,965	49,687	58,854	66,709
growth (%)	*25.1*	*46.3*	*18.4*	*13.3*
EBITDA (INR mn)	5,873	14,316	15,972	16,891
Net profit (INR mn)	2,251	7,849	8,547	9,625
Shares outstanding (mn)	124.4	124.4	124.4	124.4
EPS (INR)	18.1	63.1	68.7	77.4
EPS growth (%)	*829.8*	*248.7*	*8.9*	*12.6*
PE (x)	44.5	12.8	11.7	10.4
EV/tonne (USD)	162	163	159	127
EV/EBITDA (x)	19.2	7.9	7.1	6.6
ROE (%)	22.2	57.0	40.9	33.2

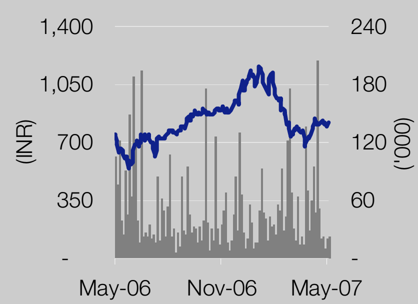
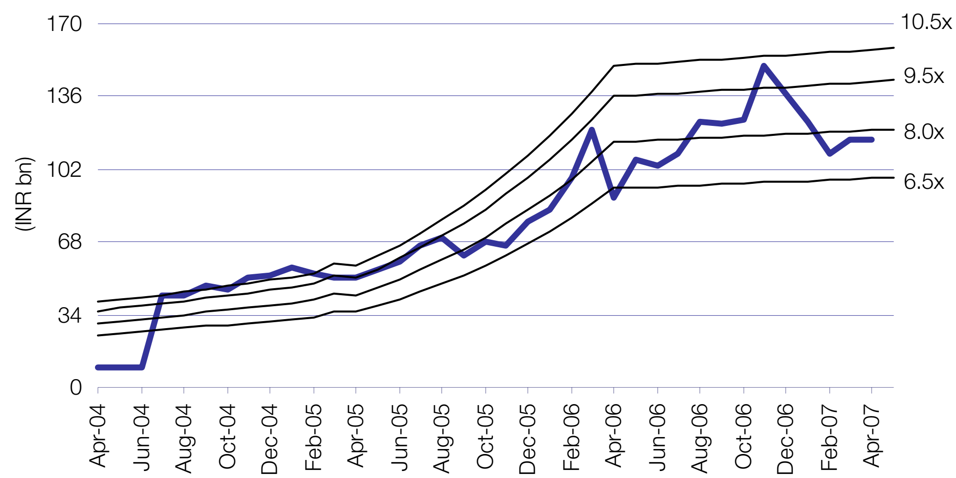


Chart 1: UltraTech Cement—Forward EV/EBITDA



Source: Edelweiss research

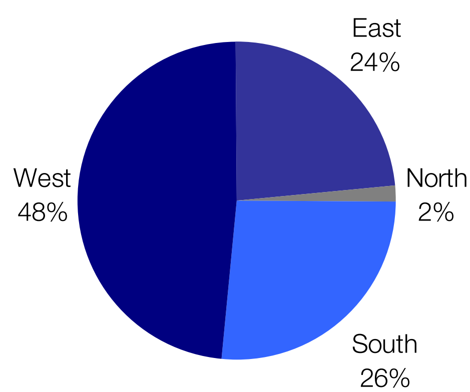
Key Risks

- Delayed cycle reversal in FY09E due to capacity delays or stronger demand growth could result in higher-than-anticipated price increases in FY09E.
- Any significant EBITDA expansion arising through use of alternate fuel technology or higher-than-anticipated savings in power costs.
- Earning upside from corporate actions such as M&A.

Company Description

UltraTech Cement Ltd. (UltraTech) is a pan-India player with an existing installed capacity (including Narmada Cement's 1.5 mn tonnes per annum) of 17 mn tonne p.a., which will increase to 21.5 mn tonne p.a. in FY09E through brownfield expansion. The company is the second-largest cement manufacturer in the country, with about 9% overall market share on a standalone basis and 19% market share with Grasim for FY07. It is a leader in West India, with a 15.3% share and has second-largest presence in the East with ~ 7.4% market share (FY06). UltraTech has 10 plants (including three plants of Narmada Cement) spread across the country. It is the second-largest exporter of cement and largest exporter of clinker. Grasim, the flagship of the AV Birla Group, is a majority shareholder in UltraTech with 53% ownership.

Chart 2: UltraTech Cement—FY06 sales mix



Source: Company Edelweiss research

Financial Statements

Income statement (INR mn)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Total volume (million tonnes)	15	16	17	19	21
% Growth	*(3.9)*	*2.6*	*12.1*	*6.9*	*12.6*
Income from operations	27,143	33,965	49,687	58,854	66,709
Materials costs	3,082	4,605	6,358	9,510	11,350
Stores and tools	2,279	2,489	-	3,252	3,845
Power and fuel	9,419	9,686	11,392	12,641	13,535
Freight	4,999	7,783	10,150	12,529	15,125
Employee cost	947	981	1,190	1,358	1,758
Factory & administrative expenses	1,278	1,288	6,281	1,778	2,062
Selling and advertisement expenses	1,436	1,261	-	1,814	2,144
Total operating expenses	23,438	28,092	35,371	42,882	49,818
EBITDA	3,705	5,873	14,316	15,972	16,891
Total other income	81	104	592	89	113
PBDIT	3,786	5,978	14,908	16,061	17,003
Interest	1,093	901	868	872	1,145
Depreciation and amortisation	2,485	2,306	2,287	2,406	3,001
Provisions/VRS	(4)	(88)	-	-	-
Profit before tax	211	2,860	11,753	12,783	12,857
Extraordinary income/(loss)	(776)	-	-	-	-
Minority Interest	(13)	(16)	(18)	(18)	(18)
Provision for tax	(44)	593	3,887	4,218	3,214
Profit after tax	(534)	2,251	7,849	8,547	9,625
Shares outstanding (mn)	124.4	124.4	124.4	124.4	124.4
Dividend per share (INR)	0.9	2.0	7.0	7.6	8.5
Dividend payout (%)	NM	11.0	11.0	11.0	11.0

Common size metrics- as % of net revenues

Year to March	FY05	FY06	FY07	FY08E	FY09E
Operating expenses	86.4	82.7	71.2	72.9	74.7
Material cost	11.4	13.6	12.8	16.2	17.0
Power and fuel	34.7	28.5	22.9	21.5	20.3
Freight	18.4	22.9	20.4	21.3	22.7
Depreciation and amortisation	9.2	6.8	4.6	4.1	4.5
Interest expenditure	4.0	2.7	1.7	1.5	1.7
EBITDA margins	13.6	17.3	28.8	27.1	25.3
Net profit margins	(2.0)	6.6	15.8	14.5	14.4

Growth metrics (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Revenues	17.8	25.1	46.3	18.4	13.3
EBITDA	10.4	58.5	143.7	11.6	5.8
PBT	1,316.1	1,255.3	311.0	8.8	0.6
Net profit	(410.6)	NM	248.7	8.9	12.6
EPS	40.8	829.8	248.7	8.9	12.6

Balance sheet (INR mn)

As on 31st March	FY05	FY06	FY07	FY08E	FY09E
Equity capital	1,244	1,244	1,244	1,244	1,244
Reserves & surplus	8,493	9,170	16,152	23,756	32,318
Minority interest	41	48	46	64	81
Shareholders funds	9,778	10,461	17,443	25,064	33,644
Secured loans	12,599	12,221	13,330	13,349	12,344
Unsecured loans	2,780	2,299	2,378	2,378	2,378
Borrowings	15,380	14,520	15,708	15,728	14,722
Deferred tax (Net)	5,817	5,776	5,622	5,622	5,622
Sources of funds	30,974	30,757	38,773	46,413	53,987
Gross block	45,301	46,338	49,684	51,619	74,749
Depreciation	18,794	20,745	23,031	25,437	28,438
Net block	26,508	25,593	26,653	26,182	46,311
Capital work in progress	497	1,412	7,065	14,130	0
Intangible assets	1,530	105	105	105	105
Investments	0	1,482	1,482	1,494	2,263
Inventories	3,335	3,868	4,719	5,829	6,927
Sundry debtors	1,745	1,621	3,195	3,784	4,289
Cash and bank balances	602	684	994	1,177	1,334
Loans and advances	1,525	1,588	1,525	1,588	1,525
Total current assets	7,207	7,761	10,432	12,379	14,076
Sundry creditors and others	4,520	5,188	5,938	6,774	7,545
Provisions	247	407	1,025	1,102	1,221
Total current liabilities & provisions	4,767	5,595	6,964	7,876	8,766
Net current assets	2,440	2,166	3,469	4,503	5,309
Uses of funds	30,974	30,757	38,773	46,413	53,987
Book value per share (BV) (INR)	79	84	140	201	270

Cash flow statement (INR mn)

Year to March	FY05	FY06	FY07	FY08E	FY09E
PBIT	1,269	3,620	12,030	13,566	13,889
Less: Actual tax paid	(44)	593	4,040	4,218	3,214
Less: Tax shield on interest	85	187	287	288	286
Add: Tax on interest & investment income	2	11	195	29	28
NOPLAT	1,230	2,851	7,898	9,089	10,417
Add: Depreciation	2,485	2,306	2,287	2,406	3,001
Gross cash flow	3,715	5,157	10,185	11,495	13,418
Less: capital expenditure	254	881	9,000	9,000	9,000
Less: Working capital investment	1,941	344	1,052	865	832
Less: Increase in other assets	664	63	(63)	63	(63)
Add: Increase in other liabilities/provisions	1,462	142	618	77	119
Free cash flow	2,317	4,011	814	1,644	3,769

Ratios

Year to March	FY05	FY06	FY07	FY08E	FY09E
ROE (%)	(5.3)	22.2	56.3	40.2	32.8
ROCE (%)	4.1	12.2	36.3	32.1	27.9
Inventory (days)	44.8	41.6	34.7	36.2	37.9
Debtors (days)	23.5	23.5	23.5	23.5	23.5
Assets turnover (x)	1.0	1.3	1.9	2.2	1.4
Debt/Equity (x)	1.6	1.4	0.9	0.6	0.4
Interest cover (x)	3.5	6.6	17.2	18.4	14.8

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E	FY09E
EPS (INR.)	1.9	18.1	63.1	68.7	77.4
Y-o-Y growth (%)	*39.9*	*829.8*	*248.7*	*8.9*	*12.6*
CEPS (INR)	21.9	36.6	81.5	88.0	101.5
PE (x)	414.1	44.5	12.8	11.7	10.4
Price/BV(x)	10.3	9.6	5.7	4.0	3.0
EV/tonne	182	162	163	159	127
EV/Sales (x)	4.2	3.3	2.3	1.9	1.7
EV/EBITDA (x)	31.0	19.2	7.9	7.1	6.6

FY07 financials are broad actuals while balance sheet figures are estimates. NM: Not meaningful

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Naresh Kothari – 2286 4246	Head, Institutional Equities
Vikas Khemani – 2286 4206	Head, Institutional Equities

INDIA RESEARCH			SECTOR	INSTITUTIONAL SALES		
Shriram Iyer	-	2286 4256	Head – Research	Nischal Maheshwari	-	2286 4205
Gautam Roy	-	2286 4305	Airlines, Textile	Rajesh Makharia	-	2286 4202
Ashutosh Goel	-	2286 4287	Automobiles, Auto Components	Vikrant Oak	-	4019 4712
Vishal Goyal, CFA	-	2286 4370	Banking & Finance	Shabnam Kapur	-	2286 4394
Revathi Myneni	-	2286 4413	Cement	Abhijit Chakraborty	-	4019 4823
Sumeet Budhraja	-	2286 4430	FMCG	Balakumar V	-	(044) 4263 8283
Harish Sharma	-	2286 4307	Infrastructure, Auto Components, Mid Caps	Ashish Agrawal	-	2286 4301
Priyanko Panja	-	2286 4300	Infrastructure, Engineering, Telecom	Nikhil Garg	-	2286 4282
Hitesh Zaveri	-	2286 4424	Information Technology	Swati Khemani	-	2286 4266
Parul Inamdar	-	2286 4355	Information Technology	Neha Shahra	-	2286 4276
Priyank Singhal	-	2286 4302	Media, Retail	Priya Ramchandran	-	2286 4389
Prakash Kapadia	-	4097 9843	Mid Caps	Anubhav Kanodia	-	2286 4361
Niraj Mansingka	-	2286 4304	Oil & Gas, Petrochemicals	Tushar Mahajan	-	2286 4439
Nimish Mehta	-	2286 4295	Pharmaceuticals, Agrochemicals	Harsh Biyani	-	2286 4419
Manika Premsingh	-	4019 4847	Economist	Nirmal Ajmera	-	2286 4258
Sunil Jain	-	2286 4308	Alternative & Quantitative	Ankit Doshi	-	2286 4671
Yogesh Radke	-	2286 4328	Alternative & Quantitative	Dipesh Shah	-	2286 4434

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period