

November 13, 2006

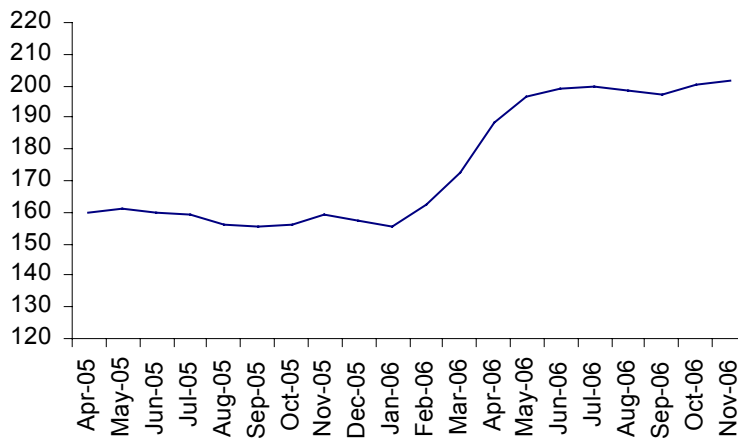
Second price revision post monsoon

Cement prices moved up again from 1st of November 2006, as monsoon ended and post festive season construction activities started in West and North. Cement prices moved by Rs5 in November. This was over and above the cement price hike of Rs3 in the first week of October 2006. The bigger price increase of Rs5 after an increase of Rs3 shows the strong expectation of higher demand in the coming months by the Cement producers.

The average cement price per bag at Mumbai is ruling in the range of Rs223 up from Rs215 in September 2006. Average cement price at Delhi is ruling at Rs208. Price at Kolkata also has picked up by Rs8-10 and ruling around Rs205-215. The only region where the prices have come down is in South and particularly in two states of Tamilnadu and Andhra Pradesh where the prices have moved down by Rs5 per bag due to monsoon, whereas the price at Kerala and Karnataka are stable. Cement price at Chennai is ruling at Rs185-195.

Our interaction with industry players tells us that strong demand in the coming months is expected as construction activity picks up and another round of upward price revision is expected in next quarter if the demand continues to be strong.

All India Price movement of cement price (Rs per bag)



Source: Industry, India Infoline estimates

Cement despatches – Strong growth continues

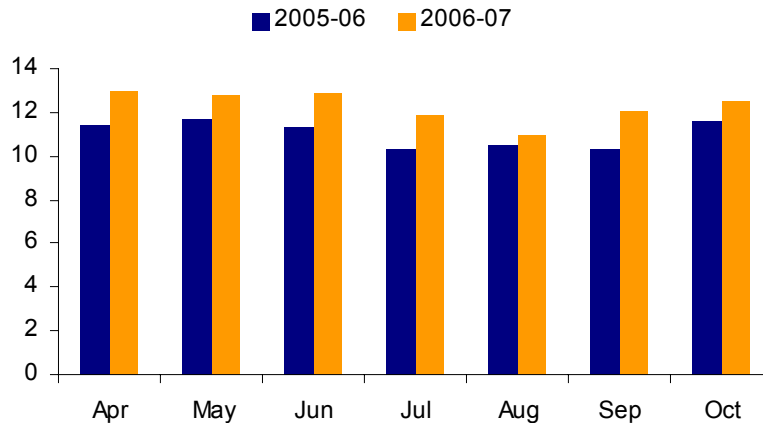
All India cement despatch figures improved by 7.96% y-o-y to 12.55mn ton and m-o-m increase was 3.64%. Despatch for the 7 month period ended October 2006 increased by 9.98% to 86.27 mn ton. The Industry has seen increase in despatches grow by 7.96% despite increase in production capacity by 5.96% only. The capacity utilization of the industry has gone up from 90.24% to 93.24%.

Eastern region star performer in October 2006

Eastern region scored strongly in despatch growth figures for October 2006 with 22% m-o-m to 1.93 mn ton. At y-o-y level the increase was more vibrant at 26.27%. Despatch for the cumulative period increased by 11.46% for Eastern region to 12.11 mn ton.

Despatches dipped m-o-m in Southern region as heavy rains affected despatches in Tamilnadu and Andhra Pradesh. Southern region reported reduction in despatches by 3.83% to 3.66 mn ton, but increased y-o-y by 4.13%. The cumulative despatch figures for Southern region was at 12.87% the second highest after Western region which had a cumulative despatch increase of 14.48%. North and Central region showed recorded 5.39% and 5.06% growth for the month on y-o-y basis and 7.7% and 10.35% on cumulative basis respectively.

All India monthly Cement despatches (in mn ton)



Source: CMA, India Infoline estimates

Company-wise Despatches – Shree Cement continues to have strong y-o-y growth

Despatches of Shree Cement (SCL) continued strong growth for October 2006 also, which recorded 64.18% y-o-y and 13.49% m-o-m. Despatch of SCL has been recording above 50% growth from March 2006 after its new unit with 1.9mn ton capacity has started stabilizing. Capacity utilization shot up to 124.31% for the month of October 2006 on the enhanced capacity. Sanghi Industries has recorded second highest growth of 45.79% y-o-y but went down m-o-m by 9.18% to 0.19 mn ton.

		Oct-06	Oct-06	Growth	Capacity	Apr-Oct	Apr-Oct	Growth
		(mn ton)	(mn ton)	(%)	Utilisation	2006	2005	(%)
ACC	Production	1.66	1.49	11.55	100.08	10.53	9.89	6.38
	Despatch	1.64	1.51	8.74		10.52	9.94	5.87
Kesoram Industries	Production	0.26	0.22	18.68	109.61	1.92	1.7	12.88
	Despatch	0.26	0.23	13.86		1.91	1.69	13.30
Shree Cement	Production	0.47	0.27	73.53	124.31	2.72	1.77	53.73
	Despatch	0.44	0.27	64.18		2.69	1.77	52.32
Ultratech Cement	Production	1.19	1.10	7.43	83.74	8.06	7.47	7.96
	Despatch	1.20	1.12	6.50		8.05	7.43	8.33
All India	Production	12.83	11.72	9.48	93.24	86.98	78.76	10.44
	Despatch	12.55	11.62	7.96		86.27	78.44	9.98

South based cement companies have shown smaller or negative growth in despatches due to intensifying of monsoon in Tamilnadu and Andhra Pradesh. India Cements recorded 7.29% drop in y-o-y despatches and 9.73% drop in m-o-m despatches. Chettinad Cement Corporation and Madras Cements recorded mom declines in despatches but recorded 7.72% and 2.32% yoy growth respectively. Dalmia Cement (Bharat) too recorded m-o-m decline of 17.52% in despatches to 0.18 mn ton.

Outlook

We expect cement sector to have strong performance till FY08 as we expect 10% growth in demand. Our FY09 outlook is neutral at present. We expect tightness even in FY09 with capacity utilization at 88.70% if most of the capacities announced come on steam. We feel if there is any delay in capacity expansion or demand increase above 10% the capacity utilization is going to remain above 90% in FY09 also.

Cement Demand Supply expectation in India

	FY05	FY06	FY07P	FY08P	FY09P	FY10P
Effective Capacity (mn ton)	150.14	157.15	163.48	177.82	212.44	227.19
Demand (mn ton)	125.14	141.57	155.73	171.30	188.43	207.27
Capacity Utilisation (%)	83.63	90.24	95.26	96.34	88.70	91.23
Demand Growth (%)		13.13	10.00	10.00	10.00	10.00
Capacity Growth (%)		4.67	4.03	8.77	19.47	6.94

Source: CMA, Cement Companies, India Infoline estimates

We expect cement price to be strong till FY08 with a possibility of slowdown in FY09 if demand continues at the present levels of 10%. If the demand grows at a higher rate or delays in capacity expansion happens, we expect price levels to maintain in FY09 also. We see possibilities of higher demand growth if economy grows at 8-9%.

Valuations

Our top picks in the sector are Kesoram Industries, Shree Cement and Ultratech Cement. Kesoram Industries is expected to commence production of cement from its new 1.65 mn ton capacity from mid of December 2006 and with rubber prices stabilizing its tyre margins are also set to improve. We expect Shree Cement to benefit from strong pricing environment and slew of capacity additions in FY07 and FY08. Our re-rating of the stock from HOLD to BUY stems from increase in capacity utilization of its expanded capacity from 107% in September 2006 to 124% in October 2006. We expect Ultratech Cement to benefit from strong prices and reduction in furnace oil and naphtha prices and maintain our BUY rating. We maintain our HOLD rating on ACC.

Company	Share Price	Adjusted EPS			PE			Target (Rs)	Upside (%)	Rating
		FY06	FY07	FY08	FY06	FY07	FY08			
ACC	999	14.10	55.20	74.30	70.9	18.1	13.4	1115	11.6	Hold
Kesoram Industries	503	10.00	54.70	64.10	50.3	9.2	7.8	641	27.4	Buy
Shree Cement	1307	41.18	104.32	138.75	31.7	12.5	9.4	1526	16.8	Buy
Ultratech Cement	889	18.47	63.16	75.69	48.1	14.1	11.7	1060	19.2	Buy

Source: Companies, India Infoline estimates

J. Radhakrishnan

Published in November 2006. © India Infoline Ltd 2006-07.

This report is for information purposes only and does not constitute any investment, legal or taxation advice. It is not intended as an offer or solicitation for the purchase and sale of any financial instrument. Any action taken by you on the basis of the information contained herein is your responsibility alone and India Infoline Ltd (hereinafter referred to as IIL) and its subsidiaries or its employees or directors, associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained herein, but do not represent that it is accurate or complete. IIL or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this publication. The recipients of this report should rely on their own investigations. IIL and/or its subsidiaries and/or directors, employees or associates may have interests or positions, financial or otherwise in the securities mentioned in this report.