

In September 2008, India's cement consumption grew 9.6% yoy, a sharp contrast to the weak performance in the previous month. However, the strong consumption growth is unlikely to sustain in coming months as the real estate market (largest consumer) in North and Central region continues to weaken. South market witnessed strong demand supporting firm pricing (up 4.7% yoy) in the region. However, prices might correct in the upcoming monsoon season. International coal prices and freight cost have come off significantly from their peaks but the sharp rupee depreciation of 6.3% during the month neutralizes the beneficial impact to an extent. The key concern remains the weakening cement demand due to a dip in construction and infrastructure activities in the country. We believe that cyclical downturn will start impacting realization sooner than later, leading to further contraction in margins of cement manufacturers. This could lead to de-growth in earnings for many industry players.

#### Rebound in consumption growth; Central and South region outperform

Indian cement consumption grew by 9.6% yoy in September 2008. Continued strong growth in South (16.3% yoy) and West (9.8% yoy) along with pick up in cement demand in the Central region (14.3% yoy) compensated for the slow growth in the North (3.7% yoy) and West (2.1% yoy) region. We believe the demand growth could slowdown to 7-7.5% this fiscal against expectations of 10-11% growth during the beginning of the year.

#### Contradictory pricing trend emerge; realizations remained robust in South

All-India cement prices were flat mom and higher by 1.5% yoy in September 2008. Prices continued to be buoyant in the tight-supply market of South (up 3.2% mom and 4.7% yoy). Prices remained weak in Central region (down 0.9% mom and 2.5% yoy) despite a substantial demand pick-up. Realizations were flat mom in West, North and East region. We expect all-India cement prices to remain flat over the next two-three months and then dip subsequently on account of ~30mtpa capacity coming on stream and further softening in demand.

#### Capacity utilization improves mom but remains lower yoy

All-India capacity utilization stood at 81.4% in the month of September as against 88.5% in September 2007. August saw a sharp decline at 77.3%. No new capacity addition took place in September. The all-India capacity stands at 204.3mtpa. We expect capacity utilization at 78-80% in the current fiscal.

#### Key performers were players who have recently added capacities

North and Central-based companies registered a robust dispatch growth on account of a spike in construction activity ahead of the festive season. Companies like Shree Cement, Jaypee Cement and Birla Corp (North and Central based companies) registered healthy double-digit dispatch growth during the month. South-based companies that have recently expanded capacity such as Kesoram Industries (14.2% yoy), Madras Cement (22.8% yoy) and Orient Paper (14.0% yoy) continued their robust performance.

#### Coal prices cool from peak; freight index falls to the lowest levels since 2002.

During September 2008, international coal prices fell to US\$148/ton from US\$190/ton in August. On end-of-month basis, prices were down 23.4% mom and up 45.3% yoy, while on average rate basis; prices were lower 8.9% mom and higher 75.8% yoy. The Baltic Freight Index, a measure of commodity shipping costs declined by 53% over the month to 3,504 level. This has further corrected in the month of October to 885 levels, which is the lowest since 2002.

#### Company valuations

Company	CMP (Rs)	Revenues (Rs mn)		Operating Profit (Rs mn)		P/E (x)	
		FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
ACC*	507	73,780	78,925	16,325	13,907	9.0	10.9
Ambuja Cement*	63	63,102	64,286	14,879	13,026	8.4	9.3
Grasim	1,131	173,256	184,526	40,325	38,788	4.7	5.3
India Cement	91	38,456	41,256	10,560	9,852	4.3	4.8
Ultratech	373	64,256	69,856	14,898	14,325	5.6	5.8

\*CY for ACC and Ambuja Cements

## All-India

### All-India cement figures

(mn tons)	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD'08	YTD '07	yoy growth (%)
Production	13.86	12.76	13.16	8.62	5.32	132.08	122.76	7.59
Dispatches	13.87	12.65	13.19	9.64	5.16	131.86	122.37	7.76
Consumption	13.54	12.36	12.91	9.60	4.89	129.98	119.24	9.01
Cap Utilization (%)	<b>81.43</b>	<b>88.49</b>	<b>77.30</b>	-	-	<b>90.05</b>	<b>88.49</b>	-

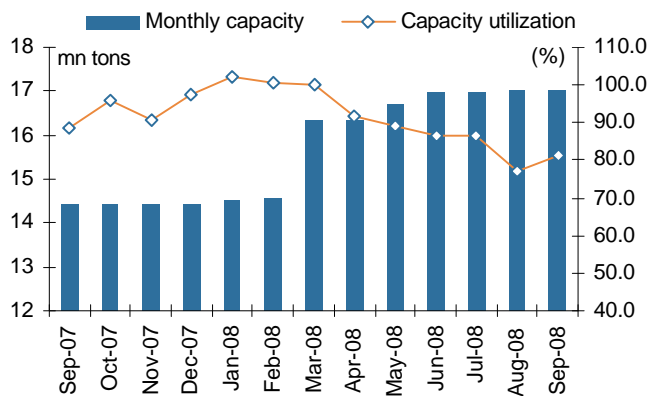
Source: CMA, Bloomberg

### Regional consumption

Region (mn tons)	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD'08	YTD '07	yoy growth (%)
South India	4.43	3.80	4.49	16.3	(1.5)	40.22	36.02	11.7
North India	2.85	2.75	2.41	3.7	18.2	25.33	23.82	6.4
West India	2.40	2.35	2.40	2.1	(0.2)	25.60	23.50	8.9
East India	1.96	1.72	1.75	14.3	11.9	18.63	17.46	6.7
Central India	1.91	1.74	1.86	9.8	3.0	20.20	18.44	9.6
<b>All India</b>	<b>13.54</b>	<b>12.36</b>	<b>12.91</b>	<b>9.6</b>	<b>4.9</b>	<b>129.98</b>	<b>119.24</b>	<b>9.0</b>

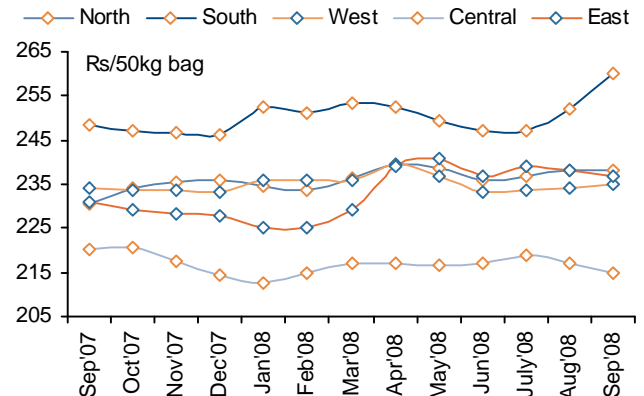
Source: CMA, Bloomberg

### All-India capacity utilization



Source: CMA, Bloomberg

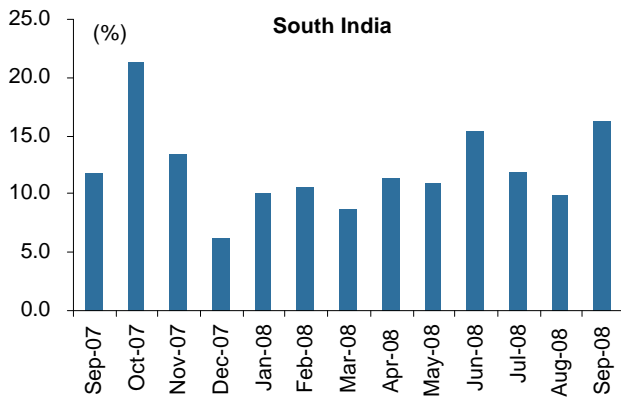
### Regional price trend



Source: Industry

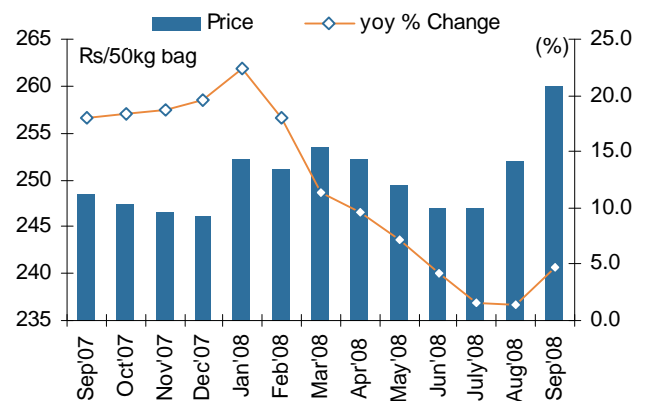
## South Zone

### Dispatch growth yoy



Source: Industry

### Price trend



Source: CMA

### State-wise consumption

State (mn tons)	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD '08	YTD '07	yoy growth (%)
Andhra Pradesh	1.35	1.02	1.38	32.6	(2.3)	12.79	10.60	20.7
Tamil Nadu	1.45	1.21	1.41	20.0	3.3	11.73	10.73	9.4
Karnataka	0.92	0.95	0.95	(3.3)	(2.5)	9.12	8.68	5.0
Kerala	0.61	0.53	0.68	14.7	(9.8)	5.80	5.23	10.9
Pondicherry	0.04	0.04	0.04	12.3	2.7	0.32	0.34	(5.2)
Goa	0.04	0.05	0.03	(23.4)	37.7	0.37	1.02	(64.0)
<b>Total South</b>	<b>4.43</b>	<b>3.80</b>	<b>4.49</b>	<b>16.3</b>	<b>(1.5)</b>	<b>40.22</b>	<b>36.02</b>	<b>11.7</b>

Source: CMA, Bloomberg

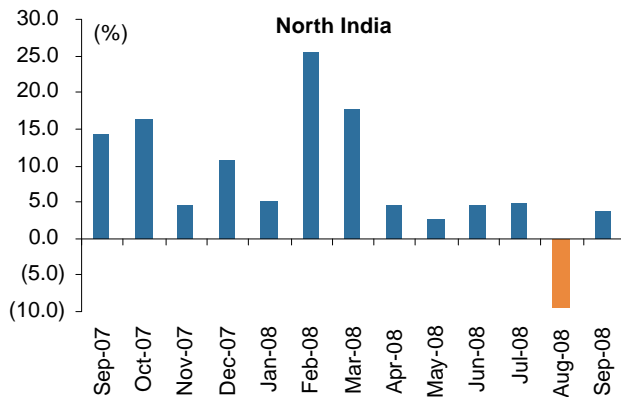
### Forthcoming cement capacities

South Zone	Capacity (mtpa)	Starting Date	Location
Madras Cement	2.0	Q3FY09	Ariyalur
India Cement	1.0	Q3FY09	Mutliple
Deccan Cement	1.1	Q4FY09	Cuddapah
Dalmia Cement	2.3	Q4FY09	Cuddapah
Kesoram Industries	1.7	Q4FY09	Sedam
India Cement	1.5	Q4FY09	Malkapur
Zuari	2.4	Q1FY10	Yerraguntla
JK Cement	3.5	Q1FY10	Karnataka
Chettinad Cement	2.0	Q1FY10	Tamilnadu
Dalmia Cement	2.0	Q1FY10	Ariyalur
Orient Cement	1.6	Q1FY10	Devapur
Raghuram Cement	2.0	Q2FY10	Cuddapah
ACC	3.0	Q2FY10	Wadi
NCL Industries	1.5	Q2FY10	Nalgonda
<b>Total</b>	<b>27.6</b>		

Source: Industry, India Infoline Research

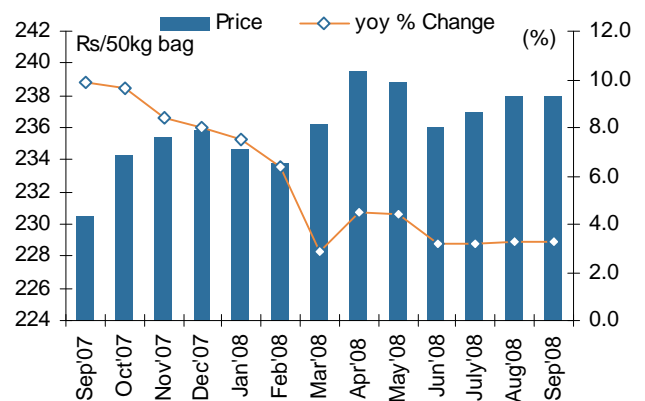
## North Zone

### Dispatch growth yoy



Source: Industry

### Price trend



Source: CMA

### State-wise consumption

State (mn tons)	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD '08	YTD '07	yoy growth (%)
Uttarranchal	0.19	0.20	0.14	(8.2)	32.6	1.87	1.76	6.0
Haryana	0.58	0.57	0.52	2.9	12.7	5.31	4.66	13.8
Punjab	0.54	0.59	0.43	(7.9)	25.5	4.45	4.94	(9.8)
Rajasthan	0.85	0.76	0.78	12.8	9.8	8.15	7.43	9.6
Himachal Pradesh	0.16	0.16	0.14	2.0	13.8	1.32	1.47	(10.0)
Chandigarh	0.03	0.04	0.03	(33.8)	(3.2)	0.28	0.31	(10.7)
Delhi	0.40	0.32	0.34	27.5	19.3	3.14	2.29	37.1
J&K	0.09	0.12	0.04	(21.8)	141.7	0.81	0.95	(14.6)
<b>Total North</b>	<b>2.85</b>	<b>2.75</b>	<b>2.41</b>	<b>3.7</b>	<b>18.2</b>	<b>25.33</b>	<b>23.82</b>	<b>6.4</b>

Source: CMA, Bloomberg

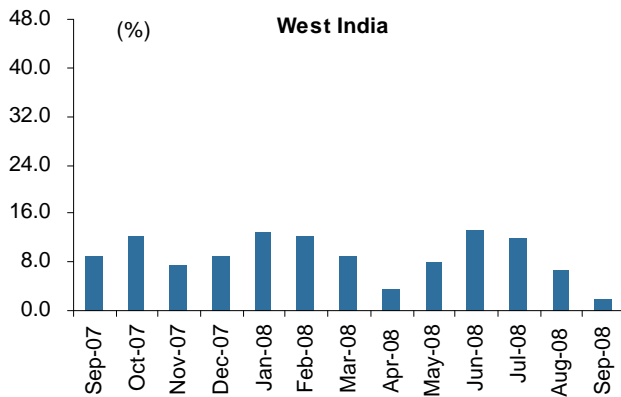
### Forthcoming cement capacities

North Zone	Capacity (mtpa)	Starting Date	Location
Grasim	4.4	Q4FY09	Kotputti
Jaiprakash Associates	3.0	Q1FY10	HP
JK Lakshmi	1.1	Q1FY10	Sirohi, Raj
Ambuja Cement	1.5	Q2FY10	Dadri
Ambuja Cement	1.5	Q4FY10	Panipat
Shree Cement	1.5	Q3FY10	Ras
JP Associates	2.0	Q4FY10	Chamba
<b>Total</b>	<b>15.0</b>		

Source: Industry, India Infoline Research

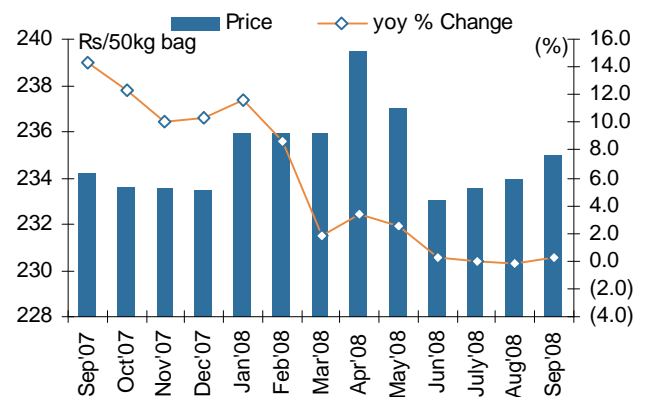
## West Zone

### Dispatch growth yoy



Source: Industry

### Price trend



Source: CMA

### State-wise consumption

State (mn tons)	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD '08	YTD '07	yoy growth (%)
Gujarat	0.86	0.81	0.78	6.3	10.4	9.15	8.53	7.3
Maharashtra	1.53	1.54	1.62	(0.2)	(5.3)	16.45	14.98	9.8
<b>Total West</b>	<b>2.40</b>	<b>2.35</b>	<b>2.40</b>	<b>2.1</b>	<b>(0.2)</b>	<b>25.60</b>	<b>23.50</b>	<b>8.9</b>

Source: CMA, Bloomberg

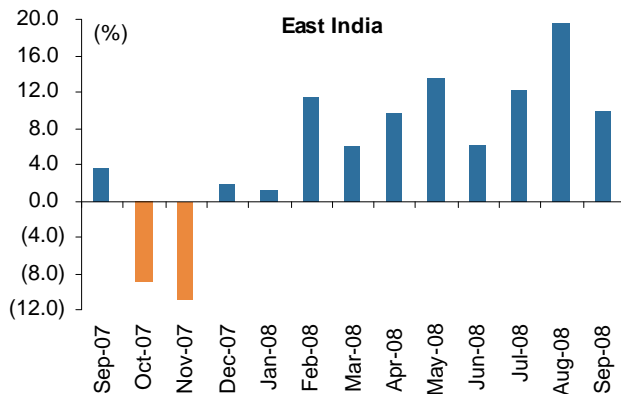
### Forthcoming cement capacities

West Zone	Capacity (mtpa)	Starting Date	Location
JP Associates	2.4	Q4FY09	Kutch
Murli Agro	2.9	Q4FY09	Chandrapur
Century Textile	2.0	Q3FY10	Kutch
Sanghi	4.0	Q3FY10	Manikgarh
<b>Total</b>	<b>11.3</b>		

Source: Industry, India Infoline Research

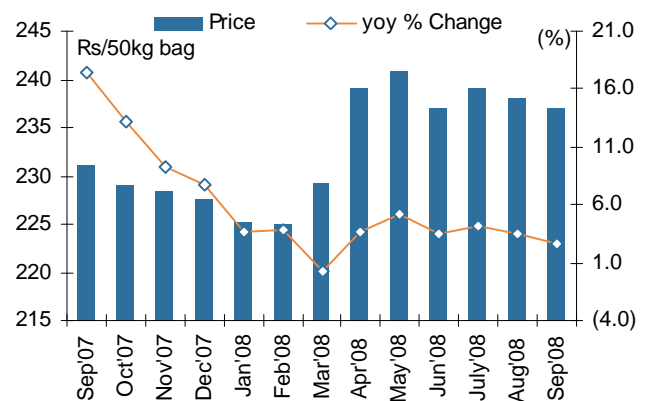
## East Zone

### Dispatch growth yoy



Source: Industry

### Price trend



Source: CMA

### State-wise consumption

State (mn tons)	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD '08	YTD '07	yoy growth (%)
Assam	0.13	0.04	0.11	202.0	15.2	1.06	0.63	67.3
Meghalaya	0.05	0.06	0.05	(19.1)	3.9	0.79	0.70	11.6
Bihar	0.34	0.35	0.33	(3.6)	4.2	3.77	3.44	9.6
Jharkhand	0.24	0.20	0.21	16.0	12.8	2.16	2.01	7.7
Orissa	0.31	0.31	0.33	0.5	(7.8)	3.70	3.44	7.5
West Bengal	0.56	0.49	0.55	13.9	2.5	5.60	5.45	2.8
Chattisgarh	0.26	0.28	0.26	(7.3)	2.2	3.08	2.77	11.3
<b>Total East</b>	<b>1.91</b>	<b>1.74</b>	<b>1.86</b>	<b>9.8</b>	<b>3.0</b>	<b>20.20</b>	<b>18.44</b>	<b>9.6</b>

Source: CMA, Bloomberg

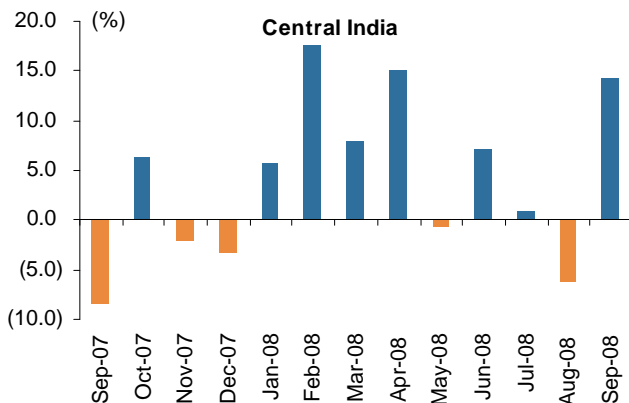
### Forthcoming cement capacities

East Zone	Capacity (mtpa)	Starting Date	Location
Lafrage	3.0	Q3FY09	Sonadh
OCL	2.0	Q4FY09	Orissa
ACC	1.2	Q1FY10	Bargarh
Calcom Cement	1.3	Q2FY10	Assam
<b>Total</b>	<b>7.5</b>		

Source: Industry, India Infoline Research

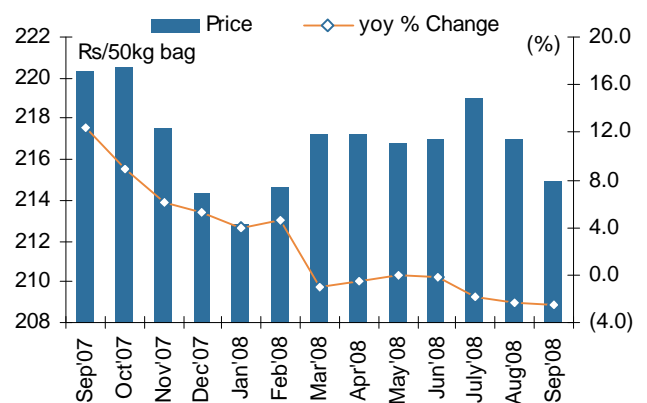
## Central Zone

### Dispatch growth yoy



Source: Industry

### Price trend



Source: CMA

### State-wise consumption

Central India Region	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD '08	YTD '07	yoy growth (%)
Uttar Pradesh	1.34	1.20	1.18	12.1	14.2	12.58	12.03	4.6
Madhya Pradesh	0.62	0.52	0.58	19.2	7.3	6.05	5.43	11.5
<b>Total Central</b>	<b>1.96</b>	<b>1.72</b>	<b>1.75</b>	<b>14.3</b>	<b>11.9</b>	<b>18.63</b>	<b>17.46</b>	<b>6.7</b>

Source: CMA, Bloomberg

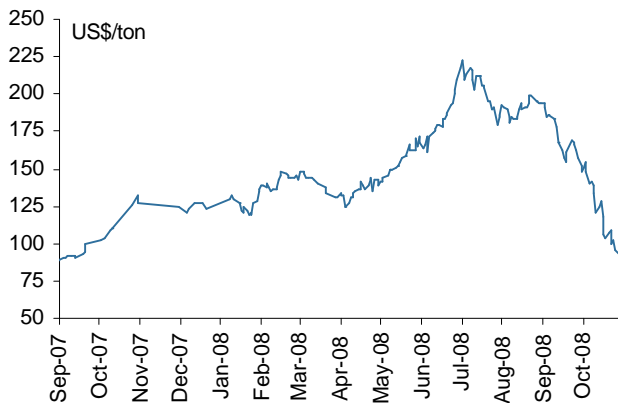
### Forthcoming cement capacities

Central Zone	Capacity (mtpa)	Starting Date	Location
JP Associates	2.4	Q3FY09	UP
Birla Corp	1.4	Q3FY09	Satna
JP Associates	2.0	Q4FY09	Rewa-Sidhi
<b>Total</b>	<b>5.8</b>		

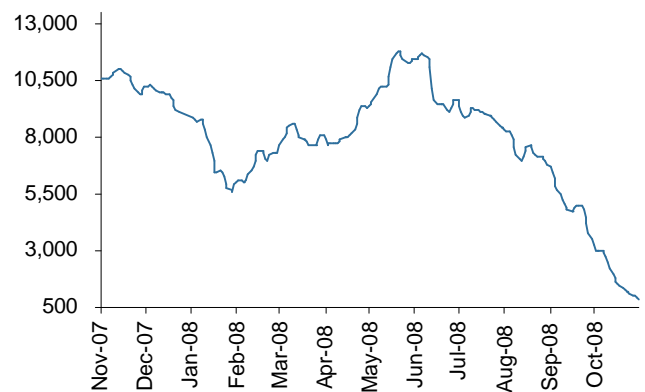
Source: Industry, India Infoline Research

## Other Data

### International coal price trend



### Baltic Dry Index trend



Source: Bloomberg

### Company-wise dispatch performance

Company	Sep-08	Sep-07	Aug-08	yoy growth (%)	mom growth (%)	YTD '08	YTD '07	yoy growth (%)
ACC	1.65	1.52	1.52	8.4	8.8	15.35	14.77	3.9
Gujarat Ambuja	1.37	1.29	1.24	6.3	10.4	13.17	12.54	5.0
Birla Corp	0.30	0.23	0.30	26.4	(2.9)	2.78	1.94	43.4
Century Textile	0.53	0.51	0.49	3.1	7.1	5.30	5.06	4.7
Chettianand Cem	0.25	0.24	0.26	6.4	(4.0)	2.35	2.06	14.0
Grasim	1.25	1.26	1.08	(0.7)	15.8	11.99	11.97	0.2
Ultra Tech	1.13	1.08	1.09	4.8	3.3	11.50	11.43	0.6
India cement	0.74	0.74	0.81	1.2	(8.5)	7.25	6.96	4.1
J.K. Group	0.61	0.62	0.55	(1.4)	10.6	2.41	2.35	2.5
Jaypee Group	0.61	0.51	0.51	19.6	20.0	5.50	5.08	8.2
Kesoram Ind	0.40	0.35	0.44	14.2	(8.9)	3.90	3.12	24.9
Lafarage	0.40	0.36	0.38	10.7	3.8	4.03	3.63	11.2
Madras Cement	0.53	0.43	0.56	22.8	(5.2)	4.66	4.11	13.4
Mangalam Cem	0.15	0.11	0.14	32.1	6.8	1.18	1.08	9.2
Mysore Cement	0.14	0.16	0.15	(12.5)	(6.4)	1.57	1.64	(4.7)
Orient paper	0.23	0.20	0.23	14.0	0.3	2.06	1.66	24.5
Prism Cement	0.20	0.19	0.20	6.6	0.3	1.66	1.78	(6.5)
Zuari cement	0.29	0.25	0.30	16.3	(4.5)	2.72	2.47	10.5
Shree Cement	0.60	0.47	0.60	26.4	(0.1)	4.94	4.10	20.5
Others	2.50	2.14	2.33	17.1	7.3	27.54	24.63	11.80
<b>Total</b>	<b>13.87</b>	<b>12.65</b>	<b>13.19</b>	<b>9.6</b>	<b>5.2</b>	<b>131.86</b>	<b>122.37</b>	<b>7.8</b>

Source: CMA, Bloomberg

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