Index

Sharekhan Ltd
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Bharti Airtel

Apple Green

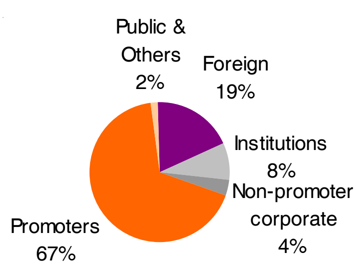
Stock Update

Earlier 3G auctions and MNP delay provide some respite

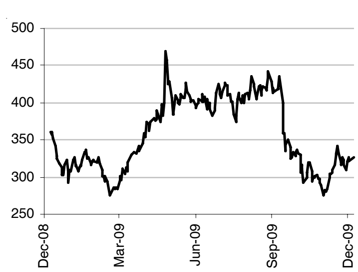
Hold; CMP: Rs326

Company details	
Price target:	Rs350
Market cap:	Rs123,587 cr
52 week high/low:	Rs495/229
NSE volume: (No of shares)	97.8 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTI
Free float: (No of shares)	122.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	14.9	-22.2	-19.1	-8.2
Relative to Sensex	9.8	-24.8	-31.7	-50.3

3G schedule delayed, government to try to hold 3G auction before FY2010 end

As per the initial 3G schedule, notice inviting applications (NIA)—a legally binding document containing the details on the slot—was scheduled to be issued on December 08, 2009. However, due to non-clarity on the spectrum availability, the NIA document (yet not sent to telecom operators) is now expected to be sent by January 07, 2010.

Despite these delays, we believe that the government would try to hold 3G auction before the end of FY2010, as there is possibility that the auction proceeds could be lower than the initial estimate of Rs35,000 crore in the scenario of weak balance sheets of telecom operators except Bharti Airtel (Bharti), ongoing intense price war and low interest level of new entrants.

More rational pricing through part payment clause for 3G auction—relief for incumbents

As per the initial 3G guidelines, the successful bidders have to pay the money within 15 days of the auction process. Now, the media is quoting a change in government's stance, whereby successful bidders are required to pay only 25% of the amount upfront, while the remaining 75% would be paid during the allotment of the airwaves (likely to take place in August 2010). We believe, the clarity that the 3G license would be available to four players (as against the initial media rounds stating that only three slots would be available) coupled with payment of only 25% of the amount upfront would provide some relief to the incumbents. Further, with four slots available, the risk of over payment for 3G license would be low, leading to a more rational price discovery.

3G auction before FY2010 end and delay in MNP rollout—likely impact analysis on Bharti

We believe that Bharti would benefit if 3G auctions were to be held before the end of FY2010 in the scenario when regulators are talking about possibility of delay in the rollout of mobile number portability (MNP). Our view stems from (1) the risk of over payment for the 3G license would be low given the weak balance

Valuation table

Particulars	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net profit (Rs cr)	4257.0	6700.2	8469.9	9191.6	9443.6
No. of shares (cr)	379.2	379.6	379.6	380.0	380.0
EPS (Rs)	11.2	17.7	22.3	24.2	24.8
YoY change (%)	*88.4*	*57.2*	*26.4*	*8.4*	*2.7*
PER (x)	29.0	18.4	14.6	13.5	13.1
Price/BV (x)	8.0	5.23	3.8	3.0	2.4
EV/EBIDTA(x)	17.2	11.6	8.4	7.5	6.9
Market cap/Sales	6.7	4.6	3.3	3.0	2.8
RoCE (%)	27.6	28.4	26.2	22.2	18.5
RoNW (%)	24.7	23.9	30.3	25.0	21.4

sheet position of other telecom players and availability of four slots in a circle; and (2) Bharti would be in better position to protect its post-paid and high-usage pre-paid subscribers if 3G network rolls out before the rollout of MNP. Further, this could help Bharti to protect its revenue and subscriber market share due to lower churn of high value customers (by moving to 3G network). We highlight that Bharti has the strong balance sheet with net debt/ equity ratio of 0.2x in FY2009.

Valuation and view

We believe that the potential benefits to Bharti from earlier 3G auction and delay in MNP rollout may provide only some respite in the current environment of intense competition in 2G space. Hence, we maintain our Hold recommendation and price target of Rs350 on the stock with cautious outlook on the sector. At the current market price, the stock trades at 13.1x its FY2011 estimated earnings and 6.9x enterprise value (EV)/earnings before interest, tax, depreciation and amortisation (EBITDA).

Table: 3G schedule

Timeline	Activity	Current status
December 08, 2009	Notice Inviting Applications (final availability of spectrum to be notified)	Yet not adhered
December 21, 2009	Final date of applications	The timetable likely to undergo changes based on the current situation
December 24, 2009	Publications of ownership details of applicants	
January 04, 2010	Bidder ownership compliance certificate	
January 07, 2010	Pre-qualification of bidders	
January 11-12, 2010	Mock auction	
January 14, 2010	Start of 3G- WCDMA auction	
2 days post 3G auction ends	Start of EVDO and BWA auction	
Within 5 calendar days of auction close	Payment of bid deposit by successful bidders	
Within 15 calendar days of auction close	Payment of balance amount (successful bid amount less bid deposit)	Media states that 25% of the clearing price to be paid upfront, balance to be paid post allotment of air waves

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Special

Q3FY2010 FMCG earnings preview

We expect Q3FY2010 to be another quarter where almost all FMCG companies will see their bottom line growth far outpacing their top line growth. This will be on the back of subdued raw material cost (except for Tata Tea) on a year-on-year (y-o-y) basis. The top line of Sharekhan's FMCG universe is likely to grow by 14.2% year on year (yoy) in Q3FY2010, substantially driven by volume growth, as y-o-y pricing impact will be very minimal. Almost all the companies in our FMCG universe are likely to deliver handsome bottom line growth, which will be a combination of good growth in the sales volume and higher y-o-y margins. However, with sustenance of volume and market share pressures, Hindustan Unilever Ltd (HUL) is likely to register muted performance.

Companies	Net sales (Rs cr)	% yoy	Comments
HUL	4,654.2	8.0	• Soap and detergent segment to register subdued y-o-y revenue growth, as soap and laundry bar categories continue to witness volume deceleration. • Personal care segment to grow by ~15.0% yoy resulting in high single-digit growth in health and personal care business.
ITC	4,481.9	16.2	• Cigarette business to register strong volume growth of ~6% yoy. • Non-cigarette FMCG business to post improved revenue growth of 15%+ yoy. • Agri business to register hefty revenue growth reaping benefits of high leaf tobacco exports and portfolio restructuring. • Despite recovery in occupancies, lower y-o-y ARRs would lead to ~17% y-o-y decline in the hotel business revenue.
Marico	709.7	13.9	• Sustenance of ~8-9% and ~15%+ growth rates in sales volume of *Parachute* and *Saffola*. • Hair oil portfolio to register strong value growth in the range of 16-17% yoy. • Despite y-o-y decline in same-clinic revenue, new clinic additions and good growth rates in the Middle East clinics to help Kaya to post 20%+ revenue growth.
GCPL	529.5	54.8	• ***Q3FY2010 results are not comparable on a y-o-y basis due to the consolidation of Godrej Sara Lee since Q2FY2010.*** • Sustenance of strong volume growth momentum to lead to ~15% y-o-y growth in soap sales volume. • Hair colour segment likely to witness revenue growth in the range of 25% yoy. • Keyline (UK business) likely to continue benefiting from the higher sales of sanitisers in the wake of swine flu pandemic.
Tata Tea	1,536.4	17.6	• Stand-alone (domestic) sales to register price-led growth of ~25% yoy. • Sustenance of good growth in Eight O Clock coffee (mostly price led) and expected recovery in export sales in stand-alone operations along with better realisations likely to help Tata Coffee's revenue to grow by ~17% yoy.
Zydus Wellness	70.0	32.0	• ***Q3FY2009 numbers are derived from FY2009 annual and H1FY2009 and Q4FY2009 numbers as reported by the company.*** • Led by high growth brands *EverYuth* and *Sugar Free* Zydus Wellness expected to post 30%+ revenue growth in Q3FY2010.
Total	**11,981.7**	**14.2**	

Sustenance in margin expansion…

Almost all FMCG companies (except Tata Tea) would witness expansion in their operating margins on account of benign raw material cost. However, with almost all companies utilising the savings accruing from lower y-o-y raw material cost towards higher advertisement and promotional spends, the margin expansions are likely to be curtailed to an extent. Thus a good top line growth and higher y-o-y margins are likely to lead to ~18.2% y-o-y growth in the bottom line of our FMCG universe (partially aided by consolidation of proportionate share of Sara Lee business in Godrej Consumer Products Ltd [GCPL]).

Sector outlook

While the key monitorables for FMCG companies in specific are mentioned in table below, we believe, for the sector as a whole one needs to watch out for any signs of stress in sales growth momentum particularly from the lower strata of population whose purchasing power is likely to come under pressure on account of high food inflation. Thus, while we believe FMCG companies will continue to post good growth rates, raw material prices and any pressure on sales from the bottom and mass end of the population need to be monitored. ***While GCPL remains our top pick in the mid cap FMCG space, we like ITC among the large caps.***

Companies	OPM bps (chg yoy)	Operating profit % yoy	Adj. net profit (Rs cr)	Adj. net % yoy	Comments
HUL	89.0	14.0	676.2	12.7	Despite lower sales growth, the adjusted net profit is expected to register double-digit growth on account of margin expansion.
ITC	82.0	18.8	1059.6	17.3	Increase in the margins of the cigarette business (on the back of improved revenue mix), lower losses in the non-cigarette FMCG business and the higher margins in agri business would result in overall profitability growth.
Marico	147.0	27.1	69.4	36.4	Copra, kardi oil and sunflower oil prices are down by ~23%, ~30% and ~22% respectively leading to ~150-basis-point improvement in the OPM, despite sharp increase in ad and promotional spends. This coupled with decline in interest cost would result in strong bottom line growth of 36.4% yoy.
GCPL	482.0	108	81.8	104.1	Robust revenue growth coupled with huge surge of 482 basis points yoy in the OPM would lead to a 104% y-o-y growth in the adjusted net profit.
Tata Tea	-	21	125.9*	14.3	Price hikes in key geographies would help margin to sustain at 14% and the operating profit to grow by 21.0% yoy during the quarter.
Zydus Wellness	-54.0	28.9	10.9	28.0	Higher spends towards brand building and promotional activities would result in marginal decline in the operating margins.

*Adjusted PAT before minority interest/share of profit from associates

Key monitorables in coming quarters

Companies	Key monitorables
HUL	Pick-up in volume growth and market share recovery in key categories; increase in the prices of key inputs (such as palm oil and LAB).
ITC	Revival in hotel business; changes (any increase) in excise duty levy on cigarettes in the forthcoming budget. Performance of non-cigarette FMCG business.
Marico	Improvement in the same-clinic sales in Kaya; further development on the imposition of excise duty on coconut oil packs below 200ml; acquisition in health and wellness segment.
GCPL	Sustenance of strong volume growth, increase in prices of key inputs, likely acquisition of 51% in Godrej Sara Lee, other likely big acquisition in personal wash/hair care/household insecticide segments.
Tata Tea	Tetley's performance; increase in raw tea prices.
Zydus Wellness	Sustenance of strong growth in existing brands; expansion of product portfolio with new product launches and variants.

Other companies

Indian Hotels

- Improved macro environment and consequential improvement in tourism sector augur well for the entire hotel industry. With occupancies in few major cities recovering to their historical levels, we expect Indian Hotels' occupancy ratio to improve by 600 basis points year on year (yoy) in Q3FY2010 to ~75%.
- As the company is focussing on maintaining high occupancies, the room rates would continue to be lower ~20% yoy. Thus the overall net revenue is expected to decline by 7.6% yoy in Q3FY2010, which is much better than the 20.5% y-o-y decline witnessed in H1FY2010.
- With high operating leverage coming into play together with cost reductions undertaken by the company in the past year, we expect the operating profit margin to decline only by ~360 basis points and the operating profit to decline by 16.7% yoy in the quarter.
- Along with higher interest expense the adjusted net profit is likely to decline by 27.6%yoy to Rs69.1 crore.

Result estimates Rs (cr)

Net revenues		Operating profit		Adj. net profit	
Q3FY10E	% yoy	Q3FY10E	% yoy	Q3FY10E	% yoy
422	-7.6	137.9	-16.7	69.1	-27.6

Table 1: Key raw material prices

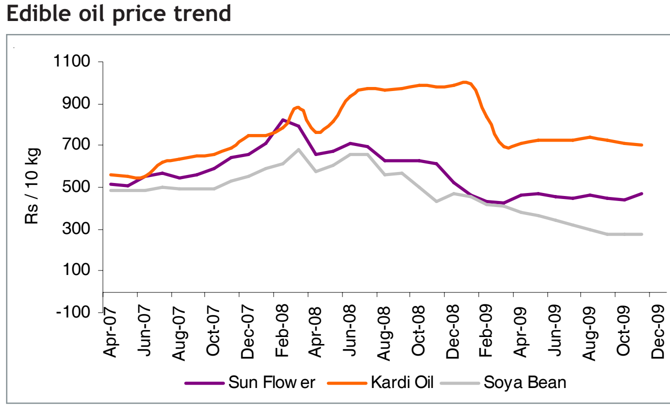
Particulars	Unit	Q3FY2010	Q3FY2009	% yoy	Q2FY2010	% qoq
Palm oil	MYR / tonne	2287.0	1599.1	43.0	2259.4	1.2
Sunflower oil	Rs / 10kg	459.0	586.1	-21.7	451.9	1.6
Corn oil	Rs / 10kg	385.7	405.0	-4.8	365.3	5.6
Kardi oil	Rs / 10kg	687.7	983.1	-30.0	732.0	-6.1
Rice bran oil	Rs / 10kg	328.0	400.0	-18.0	309.4	6.0
Copra	Rs / 100kg	3186.0	4136.7	-23.0	3173.3	0.4
LABfs	Rs / KL	26989.3	34848.7	-22.6	24739.1	9.1
HDPE	US$ / tonne	1228.8	916.0	34.1	1282.6	-4.2
Caustic soda (flakes)	Rs / Kg	21.0	27.3	-22.9	19.9	5.5
Soda ash	Rs / Kg	19.5	22.0	-11.4	23.1	-15.6
Auction tea	Rs / Kg	112.0	94.1	19.0	109.0	2.8

Source: Sharekhan Research, Bloomberg, CMIE and Marico

Currency translation (Rs)

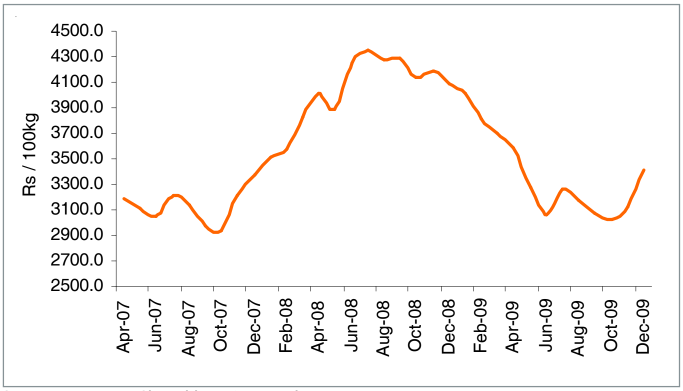
Product	Q3 FY10	Q3 FY09	% yoy	Q2 FY10	% qoq
GBP-INR	76.5	75.9	0.8	79.7	-4.0
USD-INR	46.7	49.5	-5.7	48.4	-3.5
ZAR-INR	6.2	5.1	21.6	6.3	-1.6
AED-INR	12.7	13.5	-5.9	13.2	-3.8
EGP-INR	8.5	9.0	-5.6	8.7	-2.3

Edible oil price trend



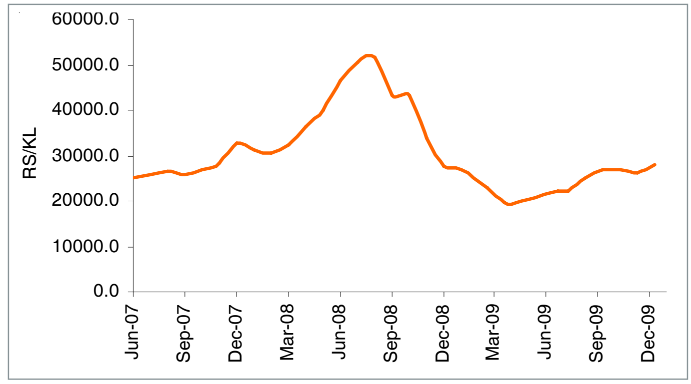
Source: Marico, Sharekhan Research

Copra prices



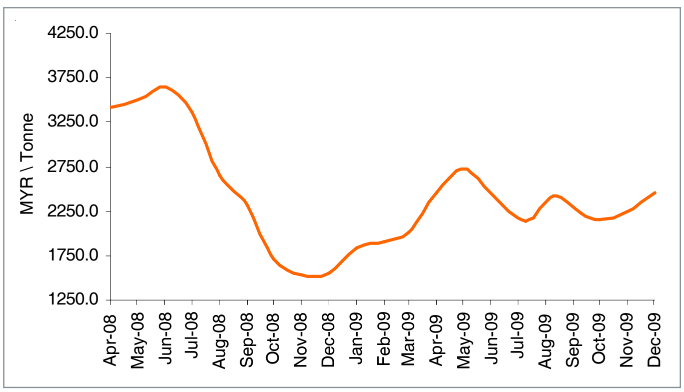
Source: Marico, Sharekhan Research

LAB (feed stock) prices



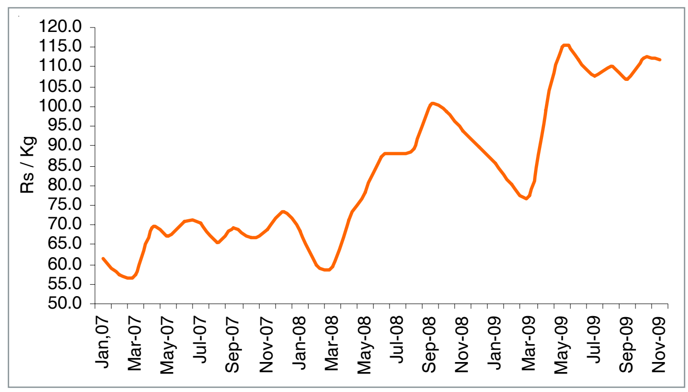
Source: Sharekhan Research

Palm oil prices



Source: Bloomberg

Auction tea prices (all India)



Source: Tea Board of India

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Special

Q3FY2010 Auto earnings preview

Automobile sales volume in the first two months of Q3FY2010 continued to be robust on account of festive season in October and continual healthy demand environment due to easing liquidity conditions. We expect the high growth to continue in the remaining months of FY2010 on account of the low base of the last year and on incremental volume of new launches.

For the first two months of Q3FY2010, the passenger car sales volume grew by 38% year on year (yoy) with the segment leader Maruti Suzuki outperforming the segment with a 48% year-on-year (y-o-y) growth. We expect Maruti Suzuki sales volume to grow by 47.7% yoy for Q3FY2010.

In the two-wheeler segment, Bajaj Auto reported a growth of 65.4% yoy for the first two months of Q3FY2010 as against the segment growth of 23.5% yoy. And we expect the company to maintain its growth momentum for Q3FY2010 on account of the low base of the last year.

In the commercial vehicle segment, the volumes have seen a sharp recovery on the back of pick-up in industrial and construction activities and reported a robust volume growth of 67% in October and November 2009. The volumes will pace up further on account of pre-buying due to implementation of Euro IV emission norms in the 11 major cities of India.

Key things to watch out for in Q3FY2010

Volume growth to be robust in December

Automobile sales volume has grown impressively so far on strong demand across all the segments and with the new launches being well received by the market. For the year to date (YTD; April-November 2009) period, the industry as whole has reported a strong volume growth of 16.6% yoy with all the segments witnessing good growth. After a dull FY2009, the volume has grown at higher rates on account of the low base of the last year and the return of consumer confidence on easing liquidity constraints.

Traditionally, automobile sales slow down in December as consumers postpone their purchase till the start of the new year. Though we expect automobile companies to post robust growth in December on a y-o-y basis aided by the low base of last year, the same is likely to decline on a month-on- month (m-o-m) basis.

Hefty revenue growth driven by volume

We expect the Sharekhan auto universe to report a top line growth of 60.8% yoy on account of a handsome 56.2% y-o-y growth in volumes.

Company	Net sales (Rs cr)			Volume estimates (in lakh)		
	Q3 FY10E	Q3 FY09	% yoy	Q3 FY10E	Q3 FY09	% yoy
Maruti Suzuki	7289	4592	58.7	2.56	1.73	47.7
Bajaj Auto	3366	2103	60.0	8.12	4.94	64.4
M&M	4469	2519	77.4	1.08	0.68	59.3
Apollo Tyres*^	1226	903	35.8	0.80	0.59	35.6
Subros	223	136	64.1	1.83	1.27	44.3
Greaves Cotton#	357	277	28.7	-	-	-
Sharekhan auto universe	**16930**	**10531**	**60.8**	**14.39**	**9.21**	**56.2**

*Stand-alone numbers # June ending company
^Volume in tonne

Likely lower margins qoq on account of an up-tick in raw material prices

Though the prices of key raw material used in automobile industry such as steel, aluminium and natural rubber at present are lower than those in Q3FY2009, they are still above Q2FY2010 levels. We expect this rise in raw material prices to lead to some contraction in the margins of automobile companies on a quarter-on-quarter (q-o-q) basis. However, on a y-o-y basis, the margins will see handsome expansion mainly backed by higher scale of operations and lower commodity prices in the quarter as compared to those in Q3FY2009.

We expect the operating profit margin (OPM) of the automobile companies under Sharekhan universe to expand by a sharp 584 basis points yoy to 14.6% in Q3FY2010. Consequently, on account of a higher volume growth and better operating profitability, we expect the companies to post a strong 190.6% y-o-y growth in their net profit.

Company	OPM (%)			Adj. PAT (Rs cr)		
	Q3 FY10E	Q3 FY09	bps chg	Q3 FY10E	Q3 FY09	% yoy
Maruti Suzuki	10.4	6.6	377	548.2	213.6	156.7
Bajaj Auto	21.4	14.5	689	509.3	227.3	124.1
M&M	16.9	8.8	814	505.9	121.2	317.4
Apollo Tyres*	12.6	5.8	679	73.1	5.5	1228.4
Subros	10.2	9.1	111	6.7	0.8	701.8
Greaves Cotton#	14.3	8.0	625	29.6	7.3	305.7
Sharekhan auto universe	**14.6**	**8.7**	**584**	**1672.7**	**575.7**	**190.6**

*Stand-alone numbers # June ending company

Key monitorables going ahead

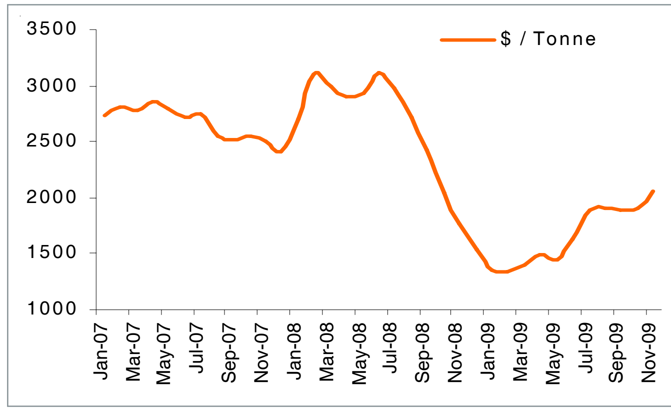
Rollback of excise duty cuts

The automobile industry benefited significantly from the excise duty cut by the government last year. However, any announcement on rolling back the excise duty cut, which seems probable in the upcoming Union Budget FY2010-11, could be negative for the industry.

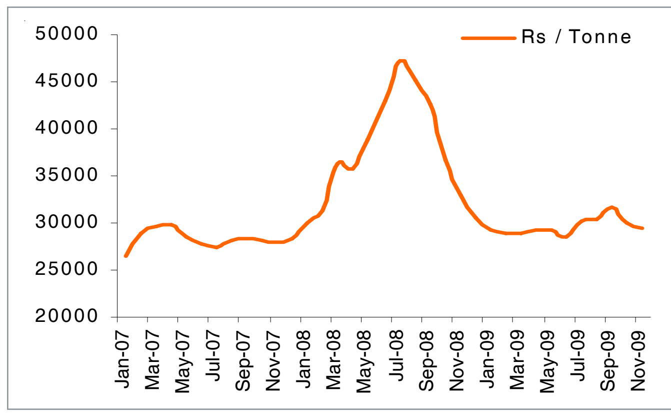
Rising raw material cost

Any sharp increase in the commodity prices is a key concern for the industry going ahead. Though we see the increase in the prices of the raw material being mitigated by way of price hikes by the companies, it would be difficult for the auto makers to pass on the full impact.

Aluminium prices



Steel prices

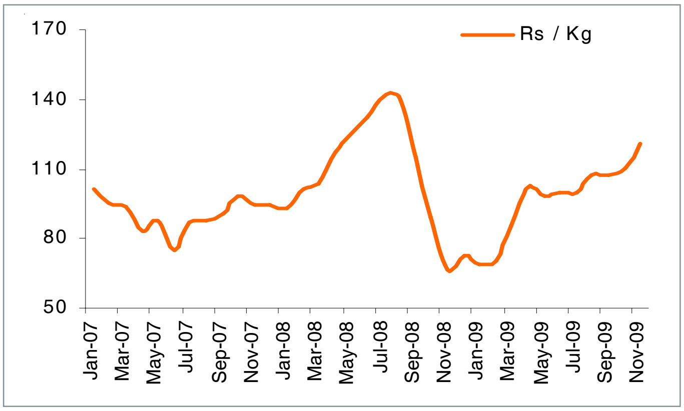


Raw material cost as percentage to sales (%)

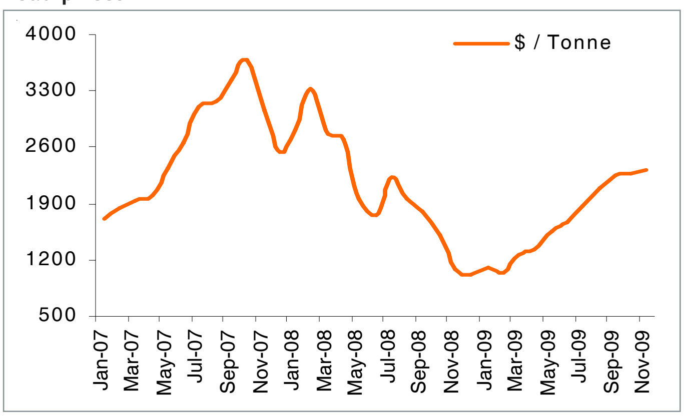
Company	Q3FY10E	Q3FY09	Chg in bps (yoy)	Q2FY10	Chg in bps (qoq)	Comments
Maruti Suzuki	78.0	79.7	-170	77	100	Increase in the prices of raw material such as aluminium on a q-o-q basis may lead to some margin contraction.
Bajaj Auto	67.0	72.3	-530	66.2	80	Though the prices of aluminium and steel have increased, the company has covered its 60% steel requirement till December 2009.
M&M	64.8	71.5	-670	64.3	50	Better product mix in the utility vehicle segment and cost synergies post the merger of Punjab Tractors to help mitigate q-o-q rise in commodity prices to some extent.
Apollo Tyres	64.4	75.7	-1130	60.1	430	Natural rubber prices have soared up to Rs140/kg as against Rs99/kg in H1FY2010; likely to impact the margins by 430 basis points on a q-o-q basis despite increase in tyre prices.
Subros	74.2	73.4	80	73.3	90	Higher volumes and better realisations on a y-o-y basis to mitigate the higher raw material prices.
Greaves Cotton*	69.2	73	-380	68.5	70	Marginal increase in the raw material prices likely on a q-o-q basis.

*June ending company

Natural rubber prices



Lead prices



Sector outlook

Automobile sector saw the volumes growing by an astounding 16.6% YTD (April-November 2009) and the demand environment continues to be favourable with increasing availability of finance at lower interest rates. Thus, though we believe that with favourable business dynamics the automobile companies will continue to post decent growth going into FY2011, the key risk factors are the higher base of FY2010, rolling back of excise duty cuts, substantial up-move in the raw material prices and any let-up in consumer sentiments.

Our top pick in the large-cap space is Bajaj Auto while Apollo Tyres and Greaves Cotton are our preferred picks among the mid-caps.

Valuations

Company	CMP	EPS (Rs)		PE (x)	
	30-12-09	FY10E	FY11E	FY10E	FY11E
Maruti Suzuki	1570	74	85.1	21.2	18.4
Bajaj Auto	1699	114.8	127.1	14.8	13.4
M&M	1062	72	77.5	14.8	13.7
Apollo Tyres*	48.6	7.1	7.4	6.8	6.6
Subros	43	3.8	5.2	11.3	8.3
Greaves Cotton	285	22	28.6	13.0	10.0

*Consolidated numbers

The author doesn't hold any investment in any of the companies mentioned in the article.

Sharekhan Special

Q3FY2010 Cement earnings preview

- Cement industry witnessed impressive volume growth in October and November 2009 as infrastructure activities picked up with monsoon drawing to an end. We estimate the total dispatches for Q3FY2010 to grow by 10.4% year on year (yoy) to 38.5 million metric tonne (MMT; the numbers exclude dispatches of ACC and Ambuja Cement due to non availability of data). We see the volume growth in the quarter to be a combined effect of capacity addition, stable rural demand and post-monsoon pick-up in infrastructure activities. The industry saw the capacity increasing by 16% yoy in the quarter. The industry is likely to post utilisation rate of 81% for Q3FY2010 at all-India level.
- On a quarter-on-quarter (q-o-q) basis, the dispatches are expected to increase by 4.5%.

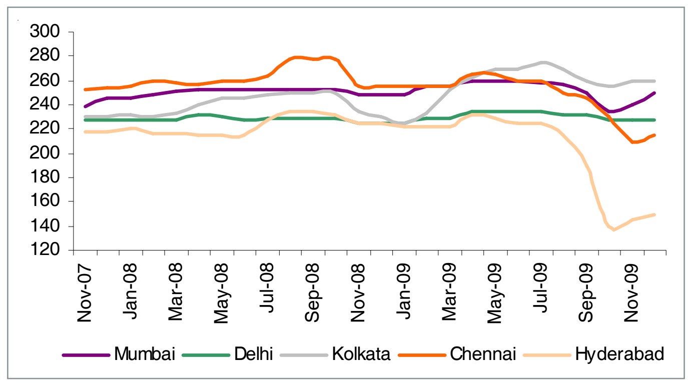
Region-wise data

Region	Q3FY10E	Q3FY09	% yoy	Q2FY10	% qoq
North	8.4	7.5	11.7	8.0	4.5
South	13.7	13.0	5.8	14.4	-4.5
West	5.0	4.7	6.0	4.4	14.5
East	5.4	4.5	20.0	4.6	15.2
Central	6.1	5.2	15.8	5.4	11.4
All India	**38.5**	**34.9**	**10.4**	**36.9**	**4.5**

Data is excluding dispatches from ACC & Ambuja cement

For the quarter, all the regions are expected to post an impressive volume growth with the eastern region likely to register the highest consumption growth of 20% yoy. The central and northern regions are likely to post robust volume growth of 15.8% and 11.7% respectively on account of higher government spending on infrastructure and the Commonwealth Games 2010. However, volume growth in the southern and western regions is expected to remain below the all-India average growth of 10.4%. Further, on sequential basis, the southern region is likely to post negative volume growth.

Cement price chart



- Cement prices whipsawed during Q3FY2010. In the beginning of the quarter, the prices remained under pressure and declined by an average Rs10-15 per bag of 50kg across the country. However, the same increased in the western and southern regions by Rs5-7 per bag in November and December. This has come as a positive surprise for the domestic cement industry. The increase in the price was on the back of supply shortage, as the government gave priority in allotment of railway wagons to food grains and fertilisers.

Quarterly estimates Rs (cr)

Company	Net sales			OPM (%)			Adj. PAT		
	Q3FY10E	Q3FY09	% yoy	Q3FY10E	Q3FY09	bps	Q3FY10E	Q3FY09	% yoy
Grasim*	3,104.2	2,690.1	15.4	32.7	19.9	1,273	660.3	329.6	100.3
Ultratech#	1,720.0	1,630.8	5.5	29.3	26.4	289	266.7	238.4	11.9
Shree Cement	888.8	665.3	33.6	44.0	34.1	985	236.3	127.8	84.9
Orient Paper & Industries	355.1	345.9	2.7	20.3	24.8	-451	38.7	51.2	-24.4
India Cements	911.9	754.8	20.8	27.6	23.9	372	107.2	70.0	53.0
Madras Cement	668.5	609.2	9.7	32.0	26.0	603	88.6	62.7	41.3
Total	**7,648.4**	**6,696.0**	**14.2**				**1397.7**	**879.7**	**58.9**

*Including the cement business on stand-alone basis # On stand-alone basis

- As per our interaction with cement dealers, the logistic problem continues and as a result the prices in Mumbai, Pune and other major cities of Maharashtra have increased by another Rs5 per bag effective December 21, 2009. At present, average cement price in the Mumbai comes to Rs245-248.
- Cement prices in the major cities of Gujarat like Ahemdabad, Baroda, Bharuch, Mehsana and Surat increased by Rs5 per bag effective December 15, 2009. The average cement price in Baroda, Surat and Bharuch comes in the range of Rs200-205 per bag.
- In Hyderabad, cement prices have touched a low of Rs130 per bag in November 2009 but are now quoting higher at Rs150 per bag. In Delhi, cement price have increased by Rs3 per bag to Rs230.
- In the eastern region (Kolkata) cement prices have remained unchanged and at present quoting at Rs260 per bag. However, according to dealers going ahead the prices can come under pressure due to increased supply from nearby areas.
- We believe, the recent price hike is temporary and with the improvement in the supply of railway wagons, the prices are likely to come under pressure again on account of increase in supply through stabilisation of upcoming capacities. Moreover, in spite of the recent price hike the average cement price in Q3FY2010 will be lower than that in Q2FY2010. Hence, we expect the average realisation of the cement companies to fall on a sequential basis.

Dispatches

Company	Volumes		
	Q3FY10E	Q3FY09	% yoy
Grasim	4.6	4.1	13.1
UltraTech	4.8	4.6	3.9
Shree Cement	2.5	2.1	19.2
Orient Paper & Industries	0.8	0.7	2.4
India Cements	2.7	2.0	32.6
Madras Cement	1.8	1.5	17.1
Total	**17.0**	**15.0**	**13.6**

Overall, cement companies in the Sharekhan universe are expected to register a cumulative 13.6% growth in volumes in Q3FY2010 as against the all-India average volume growth of 10.4%. India Cements, Shree Cement and Madras Cement are likely to report an impressive volume growth of 32.6%, 19.2% and 17.1% respectively in the quarter.

Revenue growth mainly driven by strong volume growth

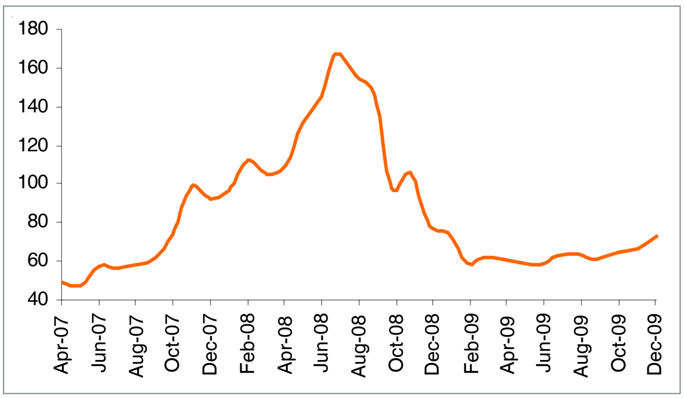
Company	Growth (yoy)		
	Volume	Realisation	Sales
Grasim	13.1	8.2	15.4
Ultratech	3.9	1.5	5.5
Shree Cement	19.2	10.5	33.6
Orient Paper & Industries	2.4	0.6	2.7
India Cements	32.6	-10.6	20.8
Madras Cement	17.1	-6.7	9.7

- In terms of top line growth, the cement companies under Sharekhan's coverage are likely to register a 14.2% growth in the revenue on a cumulative basis. Shree Cement and India Cements are expected to post an impressive sales growth of 33.6% and 20.8% respectively due to capacity addition carried out by these companies and delay in capacity addition by their competitors.
- In terms of average realisation, baring south-based companies, all the other companies are likely to post improvement in their average realisation on a year-on-year (y-o-y) basis. However, on a sequential basis, cement prices have declined across the country on increased supply from new capacities. Region wise, companies operating in the south have been affected more than those in other regions. North-based companies have been less effected by pricing pressure due to strong regional consumption. However, in the western and southern regions cement prices have moved up by Rs5-7 on account of logistic problem. We believe this will marginally mitigate the impact of price decline for the companies operating in western and southern regions.
- The adjusted profit after tax of the companies under Sharekhan coverage is expected to increase by 58.9% in the quarter on the back of strong volume growth and improved operating profit margin (OPM). Save Orient Paper & Industries, companies under Sharekhan coverage are expected to post sharp increase in their OPM. Grasim Industries, Madras Cement and Shree Cement are expected to see sharp improvement in their OPM, while Orient Paper & Industries is expected to register a decline in its OPM. However the bottom line growth of these companies will be restricted by a surge in the interest and depreciation charges during the quarter.

Sharp correction in coal prices

As can be seen from the chart above, the price of imported coal has been moving up. Coal price that stood at US$ 60.8 per tonne at the end of Q2FY2010 has risen to US$72.85 per tonne currently. The rising coal price is likely to adversely impact the earnings before interest, depreciation, tax and amortisation (EBIDTA) margin of the domestic cement makers, especially UltraTech, Ambuja Cement, India Cement etc that depend on imported coal. However, the prices currently are far lower than the peak levels in July 2008 (US$193 per tonne) and even marginally lower when considered on a y-o-y basis.

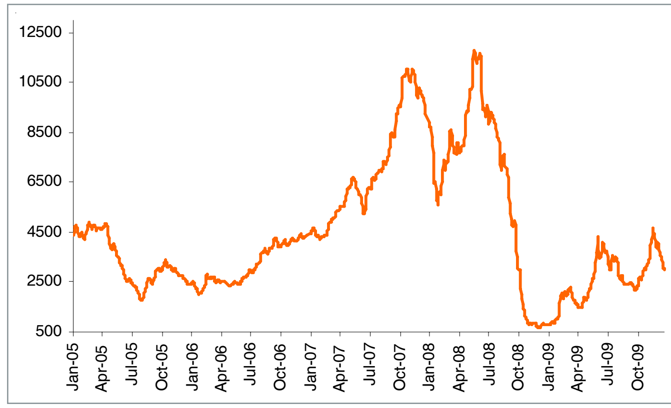
South African coal expot prices price (USD/MT)



Baltic Dry Index

The Baltic Dry Index (BDI), an index of freight rates, currently trading at 3005 levels is significantly lower than than the high of 4661 during Q3FY2010. The same however when compared to 2220 levels in Q2FY2010 is higher by 35%. The upward movement in BDI impacts the domestic cement makers as most of the cement companies import coal through South Africa and Indonesia. However, the same has corrected significantly from the peak of 11689 on June 2008.

Baltic Dry Index



Valuation table

Company	CMP (30-12-09)	EPS (Rs) FY2010	EPS (Rs) FY2011	PE (x) FY2010	PE (x) FY2011
Grasim*	2,454	241.5	214.1	10.2	11.5
Ultratech#	900	90.2	68.5	10.0	13.1
Shree Cement	1,913	244.8	177.5	7.8	10.8
Orient Paper	49	8.9	10.9	5.5	4.5
India Cements	123	17.0	14.7	7.3	8.4
Madras Cement	112	19.6	16.8	5.7	6.6

*Including its hived off cement business on stand-alone basis

On stand-alone basis

The author doesn't hold any investment in any of the companies mentioned in the article.

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj Finserv
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Sintex Industries
State Bank of India
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Dhampur Sugar Mills
IDBI Bank
Madras Cements
Phillips Carbon Black
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Alphageo India
Allied Digital Services
Axis Bank (UTI Bank)
Balrampur Chini Mills
Cadila Healthcare
Emco
Greaves Cotton
Max India
Network 18 Media & Investments
Opto Circuits India
Patels Airtemp India
Thermax
Zydus Wellness

Ugly Duckling

BASF India
Deepak Fertilisers & Petrochemicals Corporation
India Cements
Ipca Laboratories
ISMT
Jaiprakash Associates
Mold-Tek Technologies
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Ratnamani Metals and Tubes
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
Zensar Technologies

Vulture's Pick

Esab India
Mahindra Lifespace Developers
Orient Paper and Industries
Unity Infraprojects
Tata Chemicals