

INDIA

## Indian cement sector

4 May 2007

### Analysts

Rakesh Arora, CFA

91 22 6653 3054

Arijay Prasad

91 22 6653 3052

rakesh.arora@macquarie.com

arijay.prasad@macquarie.com

## Chance to end confrontation

### Event

- The Finance Minister has changed excise duty from a flat dual structure to ad-valorem at 12% of the maximum retail selling price (MRP) above Rs190/bag.

### Impact

- **Reduction in excise duty limited to Rs2–2.5/bag:** The average selling price on an all-India basis is Rs224/bag, and at 12%, the excise duty works out to Rs28.4/bag compared with the existing Rs30.6/bag. The figure of Rs7/bag claimed by the Finance Minister is the maximum benefit possible at a selling price of Rs191/bag.
- **Customised MRP (maximum retail price) can reduce the costs further:** Cement sold at different prices even within one state depending on the freight cost, and the MRP is fixed as the highest possible selling price in that state. Customised printing of MRP for each consignment can lead to a further reduction in the payable excise duty.
- **Positive response from industry to end confrontation:** We believe that, with some positive response from the cement industry in terms of passing on this benefit, this can lead to an end of confrontation with the government and can open the door for possible cement price increases later this year.
- **Demand supply to remain constrained for next two years:** Cement supply is estimated to remain constrained for the next two years on account of delays in Greenfield capacities, although demand driven by the Commonwealth games in 2010 can surprise on the upside.
- **Imports – facing infrastructure hurdle:** The imports reported from land routes and sea routes have been limited to only 500t each, and that has been stuck for almost a month awaiting clearances from the Bureau of Indian Standards and customs. We expect this to remain only a trickle and not to severely affect the demand supply.

### Outlook

- **Earnings upgrades to drive stocks:** The consensus estimates for major cement stocks are 20–25% below our estimates, and we expect earnings upgrades over the next two quarters as the Street factors in the real scenario.
- **Attractive valuations:** We expect sentiment towards cement stocks to improve, and, given their high profitability and attractive valuations, we recommend that investors accumulate our top picks: Grasim Industries (GRASIM IN, Rs2, 495, Outperform, Target price: Rs3,125) and Gujarat Ambuja (GAMB IN, Rs122, Outperform, Target price: Rs168).

## Important disclosures:

## Recommendation definitions

## Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)  
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)  
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

## Macquarie Asia

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie First South Securities (South Africa)

Outperform – expected return >+5%  
 Neutral – expected return from -5% to +5%  
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

## Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	44.37%	58.37%	42.60%
Neutral	44.01%	21.30%	46.80%
Underperform	11.62%	20.33%	10.60%

For quarter ending 31 March 2007

## Volatility index definition\*

This is calculated from the volatility of historic price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ stocks only

## Financial definitions

All "Adjusted" data items have had the following adjustments made:  
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa\*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

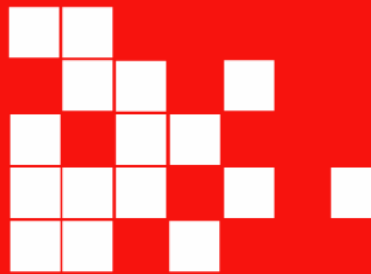
**Analyst Certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues, including investment banking revenues, of Macquarie Bank Ltd ABN 46 008 583 542 (AFSL No.237502)("Macquarie") and its related entities ("the Macquarie group") and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Disclaimers:** Macquarie Securities (Australia) Ltd; Macquarie Europe Ltd; Macquarie Securities (USA) Inc; Macquarie Securities Ltd; Macquarie Securities (Singapore) Pte Ltd; and Macquarie Securities (New Zealand) Ltd are not authorised deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie. Macquarie provides a guarantee to the Monetary Authority of Singapore in respect of Macquarie Securities (Singapore) Pte Ltd for up to SGD25m under the Securities and Futures Act (Chapter 289). Macquarie does not otherwise guarantee or provide assurance in respect of the obligations of any of the above mentioned entities. This research has been prepared for the general use of the wholesale clients of the Macquarie group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader. Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

**Other Disclaimers:** Securities research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947) in Australia, a participating organisation of the Australian Stock Exchange; Macquarie Securities (New Zealand) Ltd in New Zealand, a licensed sharebroker and New Zealand Exchange Firm; Macquarie Europe Ltd in the United Kingdom, which is authorised and regulated by the Financial Services Authority (No. 193905); Macquarie Securities Ltd in Hong Kong, which is licensed and regulated by the Securities and Futures Commission; Macquarie Securities (Japan) Limited in Japan, a member of the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co., Ltd and in Singapore, Macquarie Securities (Singapore) Pte Ltd (Company Registration Number: 198702912C), a Capital Markets Services licence holder under the Securities and Futures Act to deal in securities and provide custodial services in Singapore. Pursuant to the Financial Advisers (Amendment) Regulations 2005, Macquarie Securities (Singapore) Pte Ltd is exempt from complying with sections 25, 27 and 36 of the Financial Advisers Act. Economic research is issued and distributed in Australia by Macquarie; in New Zealand by Macquarie Securities (New Zealand) Ltd and in the United Kingdom by Macquarie Europe Ltd. Clients should contact analysts at, and execute transactions through, a Macquarie group entity in their home jurisdiction unless governing law permits otherwise. This research may be distributed in the United States only to major institutional investors and may not be circulated to any other person in the United States. Macquarie Securities (USA) Inc., which is a registered broker-dealer and member of the NASD, accepts responsibility for the content of each research report prepared by one of its non-US affiliates when the research report is distributed in the United States by Macquarie Securities (USA) Inc. All transactions by US investors involving securities discussed in this report must be effected through Macquarie Securities (USA) Inc. The information contained in this email is confidential. If you are not the intended recipient, you must not disclose or use the information in this email in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. Disclosures with respect to the issuers, if any, mentioned in this research are available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures). © Macquarie Group

<b>Auckland</b> Tel: (649) 377 6433	<b>Bangkok</b> Tel: (662) 694 7999	<b>Hong Kong</b> Tel: (852) 2823 3588	<b>Jakarta</b> Tel: (62 21) 515 1818	<b>Johannesburg</b> Tel: (27 11) 343 2258	<b>Kuala Lumpur</b> Tel: (60 3) 2059 8833
<b>London</b> Tel: (44 20) 7065 2000	<b>Manila</b> Tel: (63 2) 857 0888	<b>Melbourne</b> Tel: (613) 9635 8139	<b>Mumbai</b> Tel: (91 22) 6653 3000	<b>New York</b> Tel: (1 212) 231 2500	<b>Perth</b> Tel: (618) 9224 0888
<b>Seoul</b> Tel: (82 2) 3705 8500	<b>Shanghai</b> Tel: (86 21) 6841 3355	<b>Singapore</b> Tel: (65) 6231 1111	<b>Sydney</b> Tel: (612) 8232 9555	<b>Taipei</b> Tel: (886 2) 2734 7500	<b>Tokyo</b> Tel: (81 3) 3512 7900

Available to clients on the world wide web at [www.macquarie.com/research](http://www.macquarie.com/research) and through Thomson Financial, Reuters and Bloomberg.



## Research

### Automobiles/Auto Parts

Kurt Sanger (Japan, Asia)	(813) 3512 7859
Deepak Jain (India)	(9122) 6653 3157
Liny Halim (Indonesia)	(6221) 515 7343
Toshisuke Hayami (Japan)	(813) 3512 7873
Eunsook Kwak (Korea)	(822) 3705 8644

### Banks and Non-Bank Financials

Ismael Pili (Asia)	(65) 6231 2840
Nick Lord (Asia)	(852) 2823 4774
Christina Fok (China)	(852) 2823 3584
Chris Esson (Hong Kong)	(852) 2823 3567
Seshadri Sen (India)	(9122) 6653 3053
Liny Halim (Indonesia)	(6221) 515 7343
Kentaro Kogi (Japan)	(813) 3512 7865
Hwashin Lee (Korea)	(822) 3705 4994
Mark Barclay (Korea)	(822) 3705 8658
Young Chung Mok (Korea)	(822) 3705 8668
Chin Seng Tay (Malaysia, S'pore)	(65) 6231 2837
Gilbert Lopez (Philippines)	(632) 857 0898
Chris Hunt (Taiwan)	(8862) 2734 7526
Matthew Smith (Taiwan)	(8862) 2734 7514
Alastair Macdonald (Thailand)	(662) 694 7741

### Chemicals/Textiles

Scott Weaver (China, Taiwan)	(8862) 2734 7512
Jal Irani (India)	(9122) 6653 3040
Kitti Nathisuwan (Thailand)	(662) 694 7724

### Conglomerates

Gary Pinge (Asia)	(852) 2823 3557
Gilbert Lopez (Philippines)	(632) 857 0898

### Consumer

Ramiz Chelat (Asia)	(852) 2823 3587
Xiaopo Wei (China)	(852) 2823 4741
Nicolas Wang (Hong Kong)	(852) 2823 4625
Unmesh Sharma (India)	(9122) 6653 3042
Sarina Lesmina (Indonesia)	(6221) 515 7339
Duane Sandberg (Japan)	(813) 3512 7867
Christina Lee (Korea)	(822) 3705 8670
Paul Hwang (Korea)	(822) 3705 8678
Woochang Chung (Korea)	(822) 3705 8667
Edward Ong (Malaysia)	(603) 2059 8982
Nadine Javellana (Philippines)	(632) 857 0890

### Custom Products

Patrick Hansen (Japan)	(813) 3512 7876
------------------------	-----------------

### Emerging Leaders

Paul Quah (Hong Kong)	(852) 2823 4627
Saurabh Jain (India)	(9122) 6653 3046
Oliver Cox (Japan)	(813) 3512 7871
Robert Burghart (Japan)	(813) 3512 7853
Paul Hwang (Korea)	(822) 3705 8678
Woochang Chung (Korea)	(822) 3705 8667
Nadine Javellana (Philippines)	(632) 857 0890
Jeremy Chen (Taiwan)	(8862) 2734 7521
Scott Weaver (Taiwan)	(8862) 2734 7512

### Insurance

Chris Esson (China, Taiwan)	(852) 2823 3567
-----------------------------	-----------------

## Sales

### Regional Heads of Sales

Greg Gordon (Asia)	(852) 2823 3509
Peter Slater (Boston)	(1 617) 217 2103
Michelle Paisley (China, Hong Kong)	(852) 2823 3516
Ulrike Pollak-Tsutsumi (Frankfurt)	(49) 69 7593 8747
Daniel Fust (Geneva)	(41) 22 818 7710
Thomas Renz (Geneva)	(41) 22 818 7712
Ajay Bhatia (India)	(9122) 6653 3200
Stuart Smythe (India)	(9122) 6653 3200
Eugene Ha (Korea)	(822) 3705 8643
K. Y. Nam (Korea)	(822) 3705 8607
Derek Wilson (London) (N Asia)	(44) 20 7065 5856
Julien Roux (London)	(44) 20 7065 5887
Lena Yong (Malaysia)	(603) 2059 8888
Ismael Pili (Philippines)	(65) 6231 2840
Greg Norton-Kidd (New York)	(1 212) 231 2527

### Media

Ramiz Chelat (Asia)	(852) 2823 3587
Prem Jearajasingam (Malaysia)	(603) 2059 8989

### Metals and Mining

Simon Francis (Asia)	(852) 2823 3590
Rakesh Arora (India)	(9122) 6653 3054
Adam Worthington (Indonesia)	(6221) 515 7338
Christina Lee (Korea)	(822) 3705 8670
Amornrat Cheevavichawalkul (Thai)	(662) 694 7829

### Oil and Gas

David Johnson (Asia)	(852) 2823 4691
Scott Weaver (China, Taiwan)	(8862) 2734 7512
Jal Irani (India)	(9122) 6653 3040
Mark Barclay (Korea)	(822) 3705 8658
Edward Ong (Malaysia)	(603) 2059 8982
Kitti Nathisuwan (Taiwan)	(662) 694 7724

### Pharmaceuticals

Shubham Majumder (India)	(9122) 6653 3049
--------------------------	------------------

### Property

Matt Nacard (Asia)	(852) 2823 4731
Eva Lee (Hong Kong, China)	(852) 2823 3573
Siddhartha Gupta (India)	(9122) 6653 3048
Chang Han Joo (Japan)	(813) 3512 7885
Gilbert Lopez (Philippines)	(632) 857 0898
Tuck Yin Soong (Singapore)	(65) 6231 2838
Corinne Jian (Taiwan)	(8862) 2734 7529
Monchai Jaturanpinyo (Thailand)	(662) 694 7727

### Technology

Warren Lau (Asia)	(852) 2823 3592
Suveer Chainani (India)	(9122) 6653 3045
Damian Thong (Japan)	(813) 3512 7877
David Gibson (Japan)	(813) 3512 7880
George Chang (Japan)	(813) 3512 7854
Yoshihiro Shimada (Japan)	(813) 3512 7862
Do Hoon Lee (Korea)	(822) 3705 8641
Michael Bang (Korea)	(822) 3705 8659
Patrick Yau (Singapore)	(65) 6231 2835
Cheryl Hsu (Taiwan)	(8862) 2734 7522
Daniel Chang (Taiwan)	(8862) 2734 7516
Dominic Grant (Taiwan)	(8862) 2734 7528
Jessica Chang (Taiwan)	(8862) 2734 7518
Nicolas Teo (Taiwan)	(8862) 2734 7523

### Telecoms

Tim Smart (Asia)	(852) 2823 3565
Jake Lynch (China, Hong Kong)	(852) 2823 3583
Shubham Majumder (India)	(9122) 6653 3049
Richard Moe (Indonesia)	(662) 694 7753
Nathan Ramler (Japan)	(813) 3512 7875
Joel Kim (Korea)	(822) 3705 8677
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Ramakrishna Maruvada (Philippines, Singapore)	(65) 6231 2842
Dominic Grant (Taiwan)	(8862) 2734 7528
Richard Moe (Thailand)	(662) 694 7753

### Regional Heads of Sales cont'd

Luke Sullivan (New York)	(1 212) 231 2507
Mark Lawrence (New York)	(1 212) 231 2516
Sheila Schroeder (San Francisco)	(1 415) 835 1235
Giles Heyring (Singapore)	(65) 6231 2888
Mark Duncan (Taiwan)	(8862) 2734 7510
Angus Kent (Thailand)	(662) 694 7601
Dominic Henderson (Tokyo)	(813) 3512 7820
Nick Cant (Tokyo)	(813) 3512 7821
Charles Nelson (UK/Europe)	(44) 20 7065 2032
Rob Fabbro (UK/Europe)	(44) 20 7065 2031

### Sales Trading

Anthony Wilson (Asia)	(852) 2823 3511
Mona Lee (Hong Kong)	(852) 2823 3519
Stuart Goddard (Europe)	(44) 20 7065 2033
Brendan Rake (India)	(9122) 6653 3204

### Transport & Logistics

Paul Huxford (Asia)	(65) 6231 2841
Michael Chan (Asia)	(852) 2823 3595
Anderson Chow (China, Hong Kong)	(852) 2823 4773
Bin Liu (China)	(852) 2823 4761
Eunsook Kwak (Korea)	(822) 3705 8644

### Utilities

Sylvia Chan (Asia)	(852) 2823 3579
Gopal Ritolia (India)	(9122) 6653 3055
Adam Worthington (Indonesia)	(6221) 515 7338
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Dante Tinga (Philippines)	(632) 857 0815

### Commodities

Jim Lennon	(4420) 7065 2014
Adam Rowley	(4420) 7065 2013
Max Layton	(4420) 7065 2000
Bonnie Liu	(4420) 7065 2014
Henry Liu	(4420) 7065 2014

### Data Services

Liz Dinh (Asia)	(852) 2823 4762
Brent Borger (Japan)	(813) 3512 7852

### Economics

Roland Randall (Asean)	(852) 2823 3572
Bill Belchere (Asia)	(852) 2823 4636
Eli Polatinsky (Asia)	(852) 2823 4074
Richard Gibbs (Australia)	(612) 8232 3935
Paul Cavey (China)	(852) 2823 3570
Richard Jerram (Japan)	(813) 3512 7855

### Quantitative

Martin Emery (Asia)	(852) 2823 3582
Viking Kwok (Asia)	(852) 2823 4735
George Platt (Australia)	(612) 8232 6539
Raelene de Souza (Australia)	(612) 8232 8388

### Strategy/Country

Tim Rocks (Asia)	(852) 2823 3585
Daniel McCormack (Asia)	(852) 2823 4073
Desh Peramunetilleke (Asia)	(852) 2823 3564
Jake Lynch (China)	(852) 2823 3583
Seshadri Sen (India)	(9122) 6653 3053
Peter Eadon-Clarke (Japan)	(813) 3512 7850
Eugene Ha (Korea)	(822) 3705 8643
Uday Jayaram (Malaysia)	(603) 2059 8988
Gilbert Lopez (Philippines)	(632) 857 0898
Tuck Yin Soong (Singapore)	(65) 6231 2838
Chris Hunt (Taiwan)	(8862) 2734 7526
Kitti Nathisuwan (Thailand)	(662) 694 7724

### Find our research at

Macquarie:	<a href="http://www.macquarie.com.au/research">www.macquarie.com.au/research</a>
Thomson:	<a href="http://www.thomson.com/financial">www.thomson.com/financial</a>
Reuters:	<a href="http://www.rbr.reuters.com">www.rbr.reuters.com</a>
Bloomberg:	MAC GO
Email <a href="mailto:macresearch@macquarie.com">macresearch@macquarie.com</a> for access	

### Sales Trading cont'd

Howard Yoon (Korea)	(822) 3705 8601
Edward Robinson (London)	(44) 20 7065 5883
Robert Risman (New York)	(1 212) 231 2555
Isaac Huang (Taiwan)	(8862) 2734 7582
Kenichi Ohtaka (Tokyo)	(813) 3512 7830

### Index Sales

Margaret Hartmann	(612) 8232 9834
-------------------	-----------------

### Alternative Strategies

Convertibles - Roland Sharman	(852) 2823 4628
Depository Receipts - Robert Ansell	(852) 2823 4688
Derivatives - Vipul Shah	(852) 2823 3523
Futures - Tim Smith	(852) 2823 4637
Hedge Fund Sales - Darin Lester	(852) 2823 4736
Structured Products - Andrew Terlich	(852) 2249 3225