

Strong pricing drives earnings outperformance; upgrade cycle continues

3 favorable trends, 3 positive expectations; Upgrading EPS 4-6%; potential for further 10-20% upgrade

Trend #1	Strong realizations across companies, beating estimates by wide margins
Trend #2	In-line costs, with no major surprises; cost push showing signs of moderation
Trend #3	Meaningful upgrades across companies; street yet to catch up
Expectation #1	Stabilizing cost factors should assuage cost inflation
Expectation #2	Strong realizations even in monsoon season to drive further upgrades
Expectation #3	Meaningful upgrades in consensus estimates to drive stock prices Prefer Ambuja and UltraTech/Grasim among large-caps, and Shree Cement among mid-caps.

1QFY13 numbers decipher more positives, no negatives

The cement majors have reported strong numbers for 1QFY13 (EBITDA 9-18% ahead of estimates), amidst a mixed bag of expectations – improvement in operations coupled with regulatory concerns post the adverse verdict by the Competition Commission of India (CCI). The robust performance is attributable to (1) strong QoQ improvement in realizations (6-8%), and (2) in-line volumes and cost push (which has been showing signs of stabilization). Given our positive outlook, we have upgraded our earnings estimates (4-11% for ACC, Ambuja and UltraTech), backed by 10-12% upward revision in realization assumptions.

Dispatch volumes in-line; realizations surprised positively

	Volumes (MT)					Realization (INR/ton)				
	Act.	Est	Var (%)	YoY (%)	QoQ (%)	Act.	Est	Var (%)	YoY (%)	QoQ (%)
ACC	6.1	6.1	-0.8	-2.8	-5.6	4,591	4,396	4.4	13.3	7.9
Ambuja	5.6	5.8	-3.2	13.6	3.6	4,556	4,380	4.0	10.7	6.9
UltraTech	10.3	10.4	-1.1	0.6	-7.0	4,913	4,014	22.4	12.7	6.2
Birla Corp	1.6	1.5	12.3	23.0	-10.0	4,042	3,761	7.5	10.3	1.3
Aggregate	23.6	23.8	-0.7	4.6	-9.3	4,686	4,186	11.9	12.2	6.4

Source: Company/MOSL

Favorable trends portend further upgrades

We expect stabilization in costs, driven by (1) declining prices of imported coal, (2) stabilization in freights, and (3) improving operating leverage, backed by higher utilization. Realizations are likely to remain healthy, even over seasonally weak periods, with only a moderate dip. Though we have significantly upgraded our realization estimates (10-12%), we see further upsides, as (1) implied realizations for FY13/FY14 are within 2-3% range of 1QFY13 levels, and (2) for new capacities to be viable (based on 15% CRoIC), realizations need to be ~12% higher than the current cement prices. Based on our current estimates, the large-cap cement companies are trading at historical average valuations (EV of ~8x FY14E EBITDA). While consensus estimates are upto 17% lower than our estimates, we expect meaningful upgrades in the same with positive outlook on price resilience, which should drive valuations.

Meaningful upgrades in EPS estimates, led by outlook of stronger realizations (INR b)

EPS (INR)	CY12E			CY13E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
ACC	74.4	66.8	11.3	87.8	83.0	5.9
Ambuja Cement	11.7	10.8	8.1	13.3	12.6	5.0
Ultratech Cement	109.7	103.4	6.1	121.9	116.9	4.3
Birla Corporation	32.6	24.1	35.3	32.9	26.9	22.2

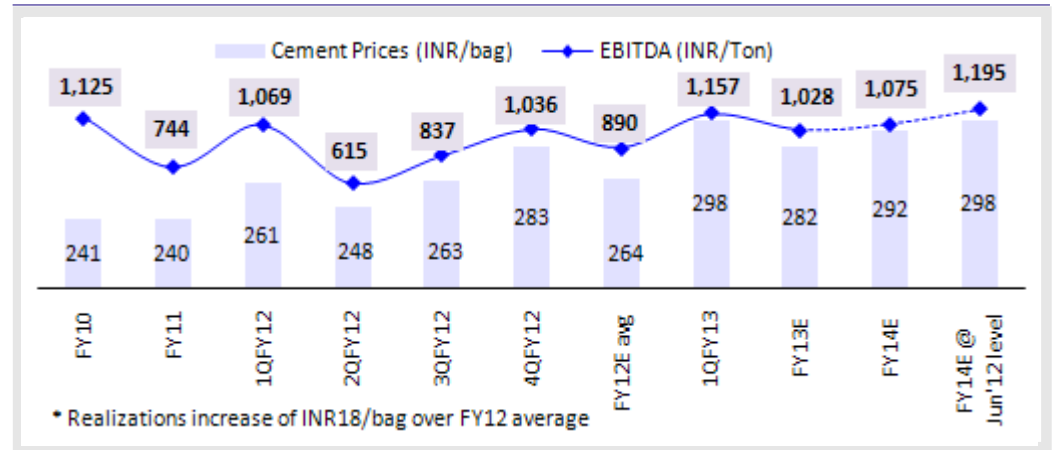
Source: Company/MOSL

Consensus estimates are 2-18% lower than our estimates

EPS	Bloomberg consensus (INR)		MOSL estimates (INR)		Variance (%)	
	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E
ACC	73	87	74	88	2	1
ACEM	10	12	12	13	14	12
UTCEM	97	110	110	122	13	11
GRASIM	294	336	345	372	17	11

Source: Bloomberg/MOSL

At July 2012 price levels, our FY14 EBITDA/ton estimate would see ~11% upgrade



Source: Company/MOSL

Worst behind; expect gradual improvement

We believe that the worst is behind for the cement industry. We expect gradual and consistent improvement in capacity utilization and operating performance. Long-term demand drivers remain in place. After the recent outperformance, cement stocks are trading at historical average valuations, leaving limited room for further re-rating. We expect strong earnings growth to drive stock performance, hereon. We prefer Ambuja Cement and UltraTech/Grasim among large-caps, and Shree Cement among mid-caps.

Government intervention – key risk

Any intervention by the government to curb cement prices is a key risk for the industry. In the past, the government has intervened (driven by the then Finance Minister, Mr P Chidambaram) in free pricing of cement to curb inflation. This had severely impacted operating performance of the cement companies and their stock prices.

Comparative Valuations

Reco	CMP (INR)	TP (INR)	Upside (%)	PE (x)			EV/EBITDA (x)			EV/TON (USD) - CAP			
				FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	
ACC*	Neutral	1,338	1,420	6	22.7	18.0	15.2	13.2	9.7	8.4	132	128	126
Ambuja*	Buy	193	208	8	23.6	16.5	14.6	13.8	9.7	8.3	175	171	167
Grasim #	Buy	3,018	3,333	10	10.5	8.7	8.1	6.7	6.0	4.8	123	126	92
Ultratech	Buy	1,654	1,821	10	18.9	15.1	13.6	11.3	9.6	8.2	165	169	138
Birla Corp	Buy	221	277	25	7.1	6.8	6.7	4.3	4.3	4.1	31	33	34
India Cements	Buy	86	140	64	8.9	7.2	5.5	5.5	4.7	3.7	60	58	53
Shree Cement	Buy	3,087	3,478	13	13.1	12.0	10.4	7.7	6.5	5.3	141	120	111
Sector Aggregate ^					24.3	18.9	15.0	14.7	10.9	8.7	146	140	136

*Y/E December; ^Aggregates excludes Grasim & JaiPrakash; # Merger/De-merger of Grasim's cement assets assumed from 2QFY11

1QFY13 numbers decipher more positives, no negatives

Upgrading earnings estimates across companies

- The cement majors have reported strong numbers for 1QFY13 (EBITDA 9-18% ahead of estimates), amidst a mixed bag of expectations – improvement in operations coupled with regulatory concerns post the adverse verdict by the CCI.
- The robust performance is attributable to (1) strong QoQ improvement in realizations (6-8%), and (2) in-line volumes and cost push (which has been showing signs of stabilization).
- Despite the benefit of higher realizations being diluted by in-line cost push, given the positive outlook for the sector, we have upgraded our earnings estimates (4-11% for ACC, Ambuja and UltraTech).

Trend #1

Growth in realizations has seen the highest positive variance from estimates in the last few quarters

Strong realizations across companies, beating estimates by wide margins

- **Realizations beat estimates by wide margins:** Growth in realizations has been a strong positive surprise. While average realization grew 12.2% YoY and 6.4% QoQ, the variance vis-à-vis our estimate was 11.9%. This has been the highest positive variance in the last few quarters.
- **Prices holding up well, aided by weak monsoon:** Prices improved by INR5-10/bag MoM across regions in June 2012 after a temporary blip in May 2012. Our channel checks suggest no meaningful seasonal moderation in July 2012. Stable demand scenario and weak monsoon have supported cement prices even during the seasonally weak period.
- **Dispatch volume growth has been in line with our expectations:** Dispatch volumes grew 4.6% YoY (declined 9.3% QoQ). The variance vis-à-vis our estimate was -0.7%. Most companies have hinted that steady progress in construction activities and delayed monsoons have rendered demand stability.
- **Strongest 1Q capacity utilization:** Capacity utilizations suggest steady seasonal upswing. 1QFY13 utilization and volume growth were the healthiest in the first quarter over FY11-13. Capacity utilization improved 250bp YoY (declined 800bp QoQ) to 75.5% in 1QFY13.

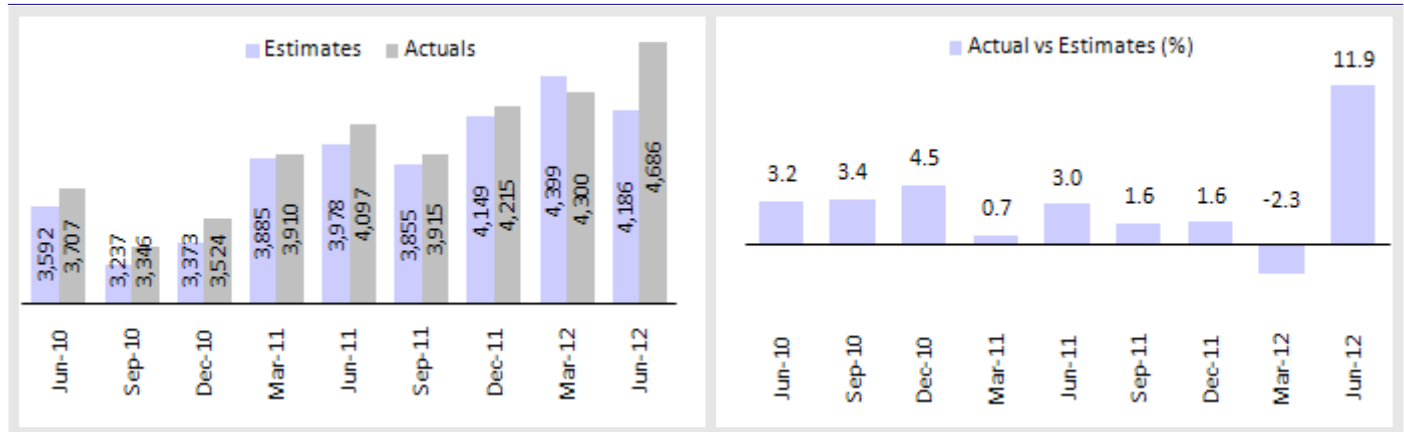
Dispatch volumes in-line; realizations surprised positively

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	Act.	Est	Var (%)	YoY (%)	QoQ (%)	Act.	Est	Var (%)	YoY (%)	QoQ (%)
ACC	6.1	6.1	-0.8	-2.8	-5.6	4,591	4,396	4.4	13.3	7.9
Ambuja	5.6	5.8	-3.2	13.6	3.6	4,556	4,380	4.0	10.7	6.9
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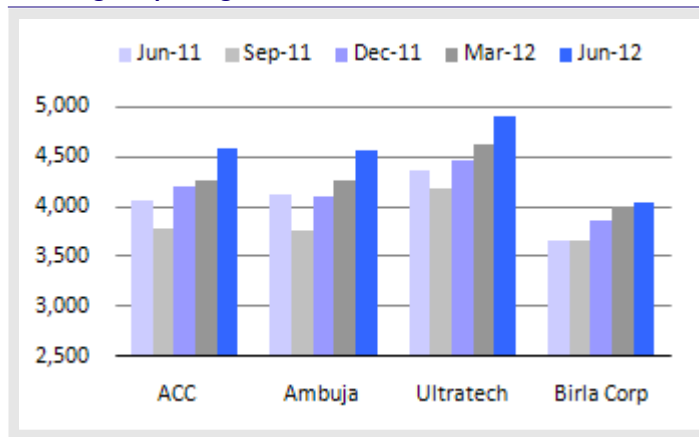
Source: Company/MOSL

1QFY13 utilization and volume growth were the healthiest in the first quarter over FY11-13

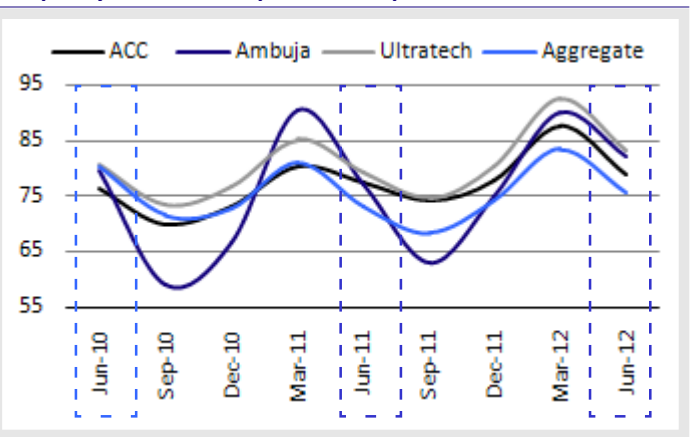
The positive surprise in 1QFY13 realizations (INR/ton) has been the highest in last few quarters (%)



Meaningful upswing in 1QFY13 realizations



Capacity utilization improves 250bp YoY



Source: Company/MOSL

Trend #2 In-line costs, with no major surprises; cost push showing signs of moderation

Energy cost moderated for select companies owing to reduction of imported coal prices

- **Cost push dilutes realization benefits...:** In-line cost push diluted the benefit of higher realizations on profitability (variable cost up 14.5% YoY and 3.3% QoQ; 1.5% variance with estimate).
- **...but signs of stabilization visible:** We see strong signs of cost stabilization. Energy cost moderated for select companies owing to reduction of imported coal prices though meaningfully diluted by depreciating rupee. Freight cost witnessed full impact of hike in rail tariff during 1QFY13. We see limited cost pressures hereon, except for potential increase in diesel prices.
- **Profitability ahead of estimate...:** EBITDA/ton beat our estimate by 13% (up 9.8% YoY and 12.8% QoQ) – driven by higher realizations and in-line costs.
- **...still far from peak:** Despite current EBITDA/ton being at peak, current EBITDA margin of ~25.6% is well below the peak margins of ~35% witnessed in June 2006.

In-line costs, with no major surprises

	Energy (INR/ton)					Freights (INR/ton)				
	Act.	Est	Var (%)	YoY (%)	QoQ (%)	Act.	Est	Var (%)	YoY (%)	QoQ (%)
ACC	998	1,030	-3.1	4.1	-0.8	949	685	38.6	61.7	11.1
Ambuja	1,064	1,035	2.8	-0.1	4.9	1,042	1,010	3.2	10.7	7.1
UltraTech	1,038	1,094	-5.1	0.0	2.0	990	970	2.1	14.6	6.4
Aggregate	1,034	1,061	-2.6	1.1	2.0	992	903	10.0	23.2	7.8

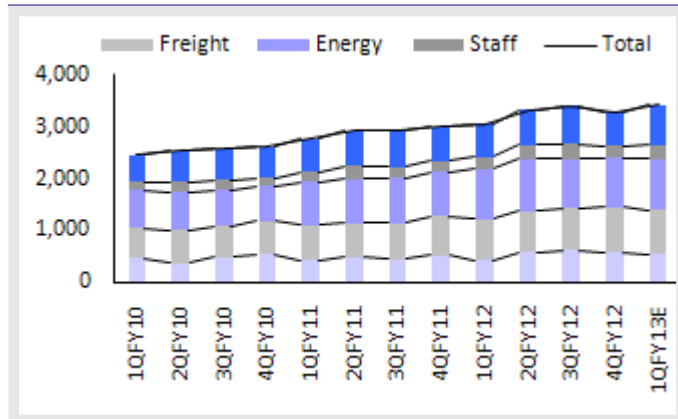
Source: Company/MOSL

In-line costs, with no major surprises

	RM (INR/ton)					Total variable cost (INR/ton)				
	Act.	Est	Var (%)	YoY (%)	QoQ (%)	Act.	Est	Var (%)	YoY (%)	QoQ (%)
ACC	498	615	-18.9	-6.3	-12.4	2,446	2,330	5.0	17.7	0.6
Ambuja	206	296	-30.3	315.7	-23.0	2,312	2,341	-1.2	12.5	2.5
UltraTech	711	649	9.7	40.9	8.3	2,740	2,713	1.0	13.8	5.2
Aggregate	524	548	-4.4	31.5	-2.0	2,550	2,512	1.5	14.5	3.3

Source: Company/MOSL

Cost push has been stabilizing

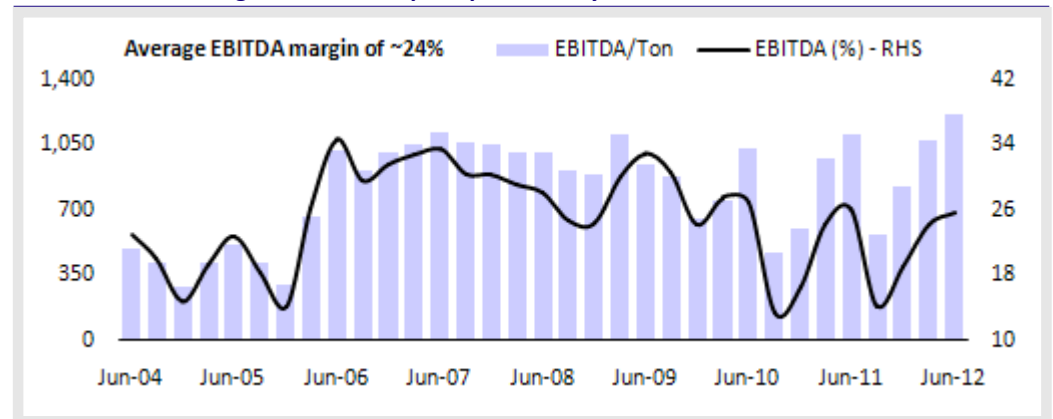


EBITDA/ton beat our estimate, up 9.8%YoY

	EBITDA (INR/Ton)				
	Actual	Est	Var (%)	YoY (%)	QoQ (%)
ACC	1,076	905	18.9	15.9	17.3
Ambuja	1,283	1,138	12.8	15.9	6.5
UltraTech	1,235	1,098	12.4	3.7	14.3
Aggregate	1,120	991	13.0	9.8	12.8

Source: Company/MOSL

Current EBITDA margins well below peak profitability of June 2006



Source: Company/MOSL

Trend #3 Meaningful upgrades across companies; street yet to catch up

- **Strong earnings upgrades...:** Positive outlook on realizations and no big downside risk to volume estimates led to meaningful earnings upgrades (4-11%) across cement majors.
- **...led by positive pricing outlook and...:** We expect FY13 realizations to improve by INR17-23/bag (earlier estimate of INR13-17/bag) over FY12 though we maintain our FY14 growth estimate of INR10/bag. Our current FY13 realization assumption is INR3/bag lower than 1QFY13 realizations.
- **...moderate volume downgrades:** We have downgraded FY13/14 volume estimates by upto 2pp, implying 8%/10% dispatch growth in FY13/14, against earlier estimates of 10%/12%.
- **Street yet to catch up:** While Bloomberg consensus earnings estimates are up by 3-4%, they are still lower than MOSL estimates by up to 17%. We expect the gap to reduce, with strong cement prices holding up.

Our current FY13 realization assumption is INR3/bag lower than 1QFY13 realizations

Meaningful upgrades in EPS estimates (4-11% for cement majors), led by outlook of stronger realizations (INR b)

	CY12E			CY13E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
ACC						
EPS (INR)	74.4	66.8	11.3	87.8	83.0	5.9
Volume growth (%)	7.3	8.0	-0.8	10.0	12.0	-2
Realizations Growth (INR/bag)	22.6	15.5	45.6	10.0	10.0	0.0
Ambuja Cement						
EPS (INR)	11.7	10.8	8.1	13.3	12.6	5.0
Volume growth (%)	8.5	10.0	-1.5	10.0	12.0	-2
Realizations Growth (INR/bag)	21.5	16.5	30.0	10.0	10.0	0.0
Ultratech Cement						
EPS (INR)	109.7	103.4	6.1	121.9	116.9	4.3
Volume growth (%)	8.0	9.5	-1.5	12.0	12.0	0
Realizations Growth (INR/bag)	17.3	11.8	46.8	10.0	10.0	0.0
Birla Corporation						
EPS (INR)	32.6	24.1	35.3	32.9	26.9	22.2
Volume growth (%)	5.0	2.5	2.5	10.0	10.0	0
Realizations Growth (INR/bag)	28.2	15.3	84.6	10.0	10.0	0.0

Source: Company/MOSL

MOSL estimates v/s Bloomberg consensus estimates

EPS	Bloomberg consensus (INR)		MOSL estimates (INR)		Variance (%)	
	CY12E	CY13E	CY12E	CY13E	CY12E	CY13E
ACC	73	87	74	88	2	1
ACEM	10	12	12	13	14	12
UTCEM	97	110	110	122	13	11
GRASIM	294	336	345	372	17	11

Source: Bloomberg/MOSL

Favorable trends portend further upgrades

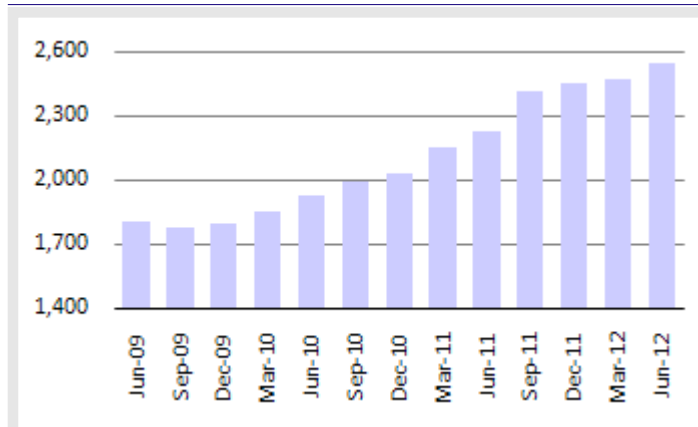
Stocks attractive, given earnings upgrade potential

- We expect stabilization in costs, driven by (1) declining prices of imported coal, (2) stabilization in freights, and (3) improving operating leverage, backed by higher utilization.
- Realizations are likely to remain healthy, even over seasonally weak periods, with only a moderate dip. Though we have significantly upgraded our realization estimates, we see further upsides, as (1) implied realizations for FY13/FY14 are within 2-3% range of 1QFY13 levels, and (2) for new capacities to be viable (based on 15% CRoIC), realizations need to be ~12% higher than the current cement prices.
- Based on our current estimates, the large-cap cement companies are trading at historical average valuations (EV of ~8x FY14E EBITDA). However, given the earnings upgrade potential, we believe that the large-cap cement stocks are still attractive.

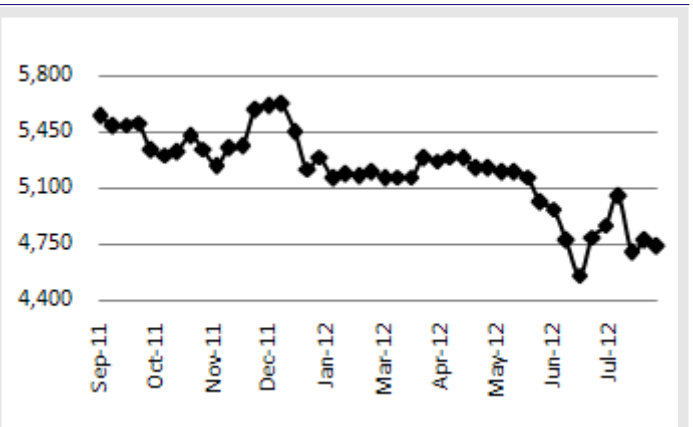
Expectation #1 Stabilizing cost factors should assuage cost inflation

- **Cost inflation to moderate:** Higher raw material cost, increase in coal prices (due to increase in domestic linkage coal prices by Coal India and INR depreciation), increase in freight cost (both rail and road) have severely diluted profitability despite healthy pricing. These are structural in nature but there have been strong signs of stabilization in these cost factors over CY12YTD.
- **Coal price pressure moderating:** The decline in international coal prices (down ~13% CY12YTD in INR terms) should benefit companies with higher dependence on imported coal/pet coke. Also, linkage coal prices are expected to remain stable.
- **Freight cost to stabilize:** The freight cost impact of hike in rail freight in 4QFY12 is already priced in and no further escalations in freight cost are anticipated, except for possible hike in diesel prices.
- **Operating leverage to dilute fixed costs:** We expect cement companies to witness steady improvement in operating leverage, backed by slow pace of capacity additions and steady demand, resulting in better absorption of fixed costs.
- We model decline in cost escalation to 7%/5% in FY13/14 v/s 12% in FY12.

Stabilizing variable costs (INR/ton)



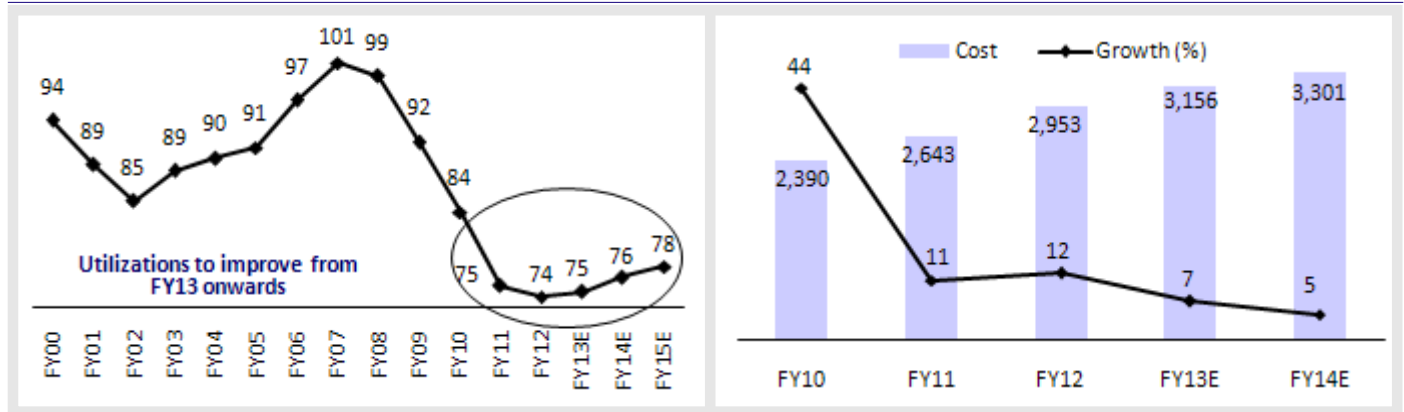
Decline in imported coal prices should be positive (INR/ton)



Source: Bloomberg/MOSL

Improvement in utilization to drive operating leverage

Expect downtrend in cost push (INR/ton)



Source: Company/MOSL

Expectation #2 Strong realizations even in monsoon season to drive further upgrades

Despite upward revisions, the realizations for FY13 are 2-3% lower than 1QFY13 levels

- **Expect a moderate price dip during monsoon:** In the backdrop of strong pricing outlook and stable demand, we model in a seasonal price drop of ~INR10/bag in 2QFY13 (lower against historical trend of INR13-20/bag in FY11-12), followed by steady improvement over 3Q/4Q.
- **Estimates not aggressive despite upgrades:** While we have revised our assumptions for improvement in realizations for FY13 to INR18-20/bag (v/s INR13-16/bag earlier), the downside risks seem to be limited, given that implied realizations for FY13 are 2-3% lower than 1QFY13 levels and implied realizations for FY14 are up by just 2-3%.

Despite sharp upgrades in realizations, implied prices are below 1QFY13 levels

	1QFY13	FY13E	Diff (%)	FY14E	Diff (%)
ACC	229.6	221.5	-3.5	231.5	0.8
Ambuja	227.8	220.3	-3.3	230.3	1.1
UltraTech	206.2	204.1	-1.0	214.1	3.9
Birla Corp	201.1	198.9	-1.1	208.9	3.9
Aggregate	217.0	212.0	-2.3	222.0	2.3

Source: Company/MOSL

- **Potential for upgrade of 8-12% in our FY14 estimates and up to 25% in consensus estimates, driven by strong pricing:** Our EBITDA/ton estimates for FY13 could see further upgrades, if cement prices sustain in a seasonally weak 2Q and improve thereafter. Favorable cost factors could be the additional trigger. While we factor in INR10/bag improvement in FY14, our estimates would see 8-12% upgrade, if price increase is INR15/bag and consensus estimates would see upgrade of up to 25%.

FY13 EPS sensitivity to cement prices (INR/share)

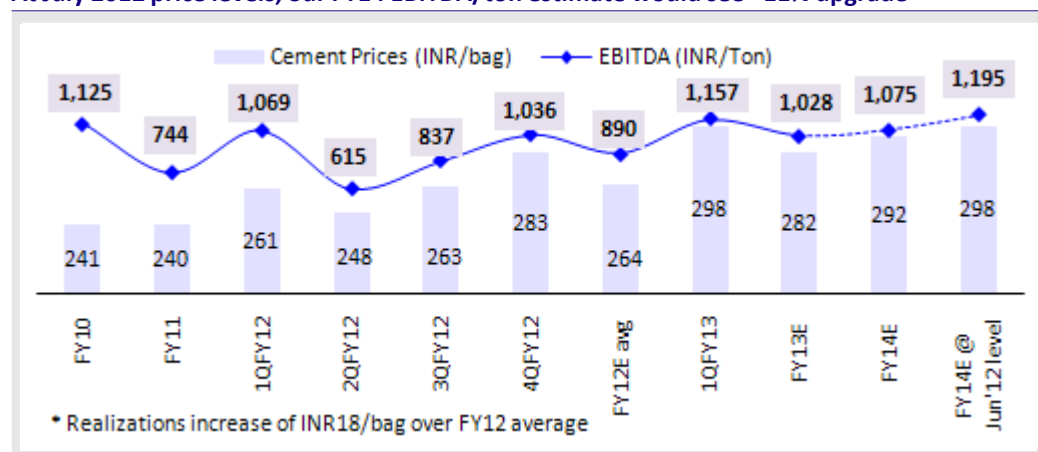
Price Chg.	ACC ^	Ambuja ^	UltraTech	Birla Corp	India Cement	Shree *
-200	12.2	5.0	47.8	-12.7	3.2	173.8
-100	21.7	6.1	59.2	-6.7	5.7	203.5
0	31.3	7.1	70.5	-0.8	8.3	233.3
100	40.8	8.2	81.9	5.1	10.9	263.1
200	50.4	9.3	93.2	11.1	13.5	292.8
400	69.5	11.4	115.9	22.9	18.6	352.4
600	88.6	13.5	138.6	34.8	23.8	411.9

Source: Company/MOSL

FY14 EPS sensitivity to cement prices (INR/share)

Price Chg.	ACC ^	Ambuja ^	UltraTech	Birla Corp	India Cement	Shree*
-100	56.3	13.3	84.1	13.7	7.4	201.5
0	66.8	9.8	96.7	20.1	10.1	233.2
100	77.3	10.9	109.3	26.5	12.9	264.9
200	87.8	12.1	121.9	32.9	15.6	296.6
300	98.3	13.3	134.5	39.3	18.4	328.3
400	108.8	14.4	152.1	45.7	21.2	360.0
500	119.3	15.6	159.6	52.1	23.9	391.7

Source: Company/MOSL

At July 2012 price levels, our FY14 EBITDA/ton estimate would see ~11% upgrade

Source: Company/MOSL

- **Prices at peak, but well below long-term viable pricing – implying lower downside risks:** Although current cement prices are at peak, they need to increase further to generate economic returns for new plants. Current cement prices are still INR40/bag below the longer-term viable pricing based on 15% CROIC requirement (15-year average). We believe higher capex cost of upcoming supplies will provide strong support to cement prices.

Implied cement prices based on target RoIC, based on last (INR/Ton)

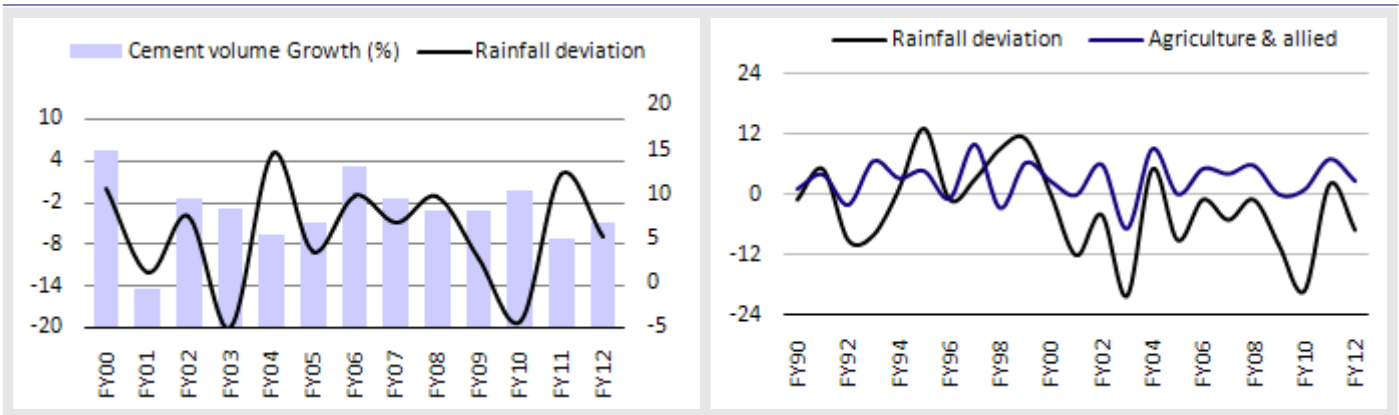
	15 Yr Avg	5 Yr Avg	3 Yr Avg
Project Cost @ USD140/ton	7,000	7,000	7,000
Debt:Equity (x)	1	1	1
RoIC (%)	10	15	20
CRoIC (%)	15	20	25
NOPAT	700	1,050	1,400
Tax Rate	30%	30%	30%
NOPBT (@ 30% Tax)	1,000	1,500	2,000
Interest (@ 10% interest rate & 1:1 D:E)	350	350	350
EBIT	1,350	1,850	2,350
Depreciation (@ 5%)	350	350	350
EBITDA	1,700	2,200	2,700
Normative cost @ 1QFY13	3,400	3,400	3,400
Implied Net Realizations (incl freight)	5,100	5,600	6,100
Indirect taxes, channel margins etc	83	90	96
Implied Cement Prices (INR/bag)	338	370	401
Current prices (INR/bag)	298	298	298
Implied price increases (INR/bag)	40	72	103

Source: Company/MOSL

- Weaker monsoon concerning, but impact on rural economy reducing:** We see the common concerns over weak monsoon impacting rural income (which has been a meaningful growth driver of cement demand in past years) and in turn cement demand growth, to have only moderate bearing on dispatch growth. The historical trend suggests (a) weak correlation between cement demand and rainfall, and (b) declining impact of rainfall on the rural economy. However we assume sequential drop of ~INR10/bag in realizations and 3%QoQ (+8%YoY) drop in volumes. Recent volume data has been a little disappointing with ACC/Ambuja reporting 1.9mt/1.7mt in July (~2.5% below estimates).

Weak correlation of rainfall and demand growth

Agri-GDP is much protected from whims of monsoon



Source: Company/MOSL

Expectation #3

Meaningful upgrades in consensus estimates to drive stock prices

Current cement prices are still INR40/bag below the longer-term viable pricing based on 15% CRoIC requirement (15-year average)

- Positive pricing outlook to drive up consensus estimates:** Post 1QFY13, consensus estimates for cement majors have been upgraded by 4-6%. However, they are still lower than our estimates by up to ~17%. We expect the gap to narrow, if our positive pricing outlook plays out.
- Earnings upgrade potential makes valuations attractive:** Based on current estimates, large-caps are trading at historical average valuations (~8x EV/EBITDA), implying limited scope of further re-rating. However, given potential earnings upgrades, cement stocks are still attractive.

FY13 EV/EBITDA sensitivity to cement prices (x)

Price Chg.	ACC ^	Ambuja ^	UltraTech	Birla Corp	India Cement	Shree*
-200	39.7	21.5	19.4	-26.3	7.5	8.6
-100	27.4	18.0	16.4	-157.6	6.4	7.7
0	20.8	15.5	14.2	37.7	5.6	6.9
100	16.7	13.5	12.4	16.5	4.9	6.2
200	13.9	12.0	11.1	10.4	4.4	5.6
400	10.3	9.8	9.1	5.8	3.6	4.7
600	8.1	8.2	7.6	3.9	2.9	4.0

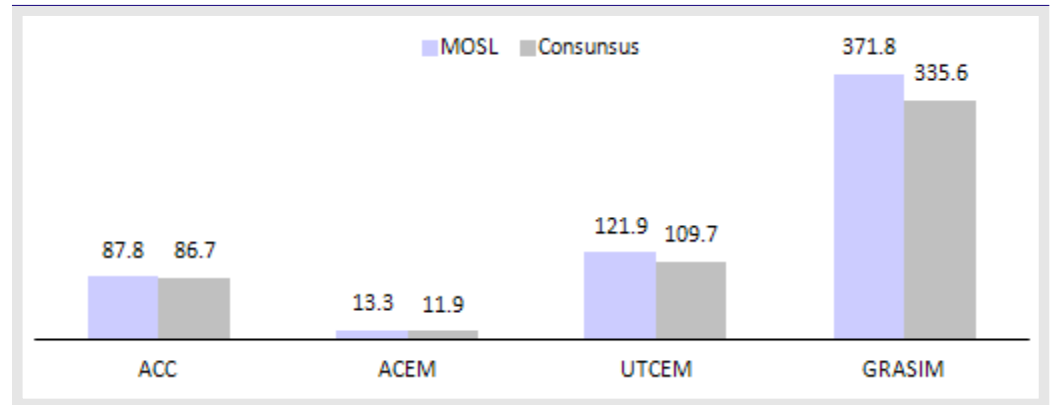
Source: Company/MOSL

Earnings upgrades led by price up-ticks to trim current multiples (FY14 EV/EBITDA)

Price Chg.	ACC^	Ambuja^	UltraTech	Birla Corp	India Cement	Shree*
-100	12.9	11.1	11.2	7.4	5.6	7.1
0	11.0	9.9	9.9	5.8	4.8	6.3
100	9.5	8.9	8.9	4.8	4.2	5.7
200	8.4	8.1	8.1	4.0	3.8	5.1
300	7.5	7.5	7.4	3.4	3.4	4.7
400	6.7	6.9	6.6	3.0	3.0	4.3
500	6.1	6.4	6.3	2.6	2.7	3.9

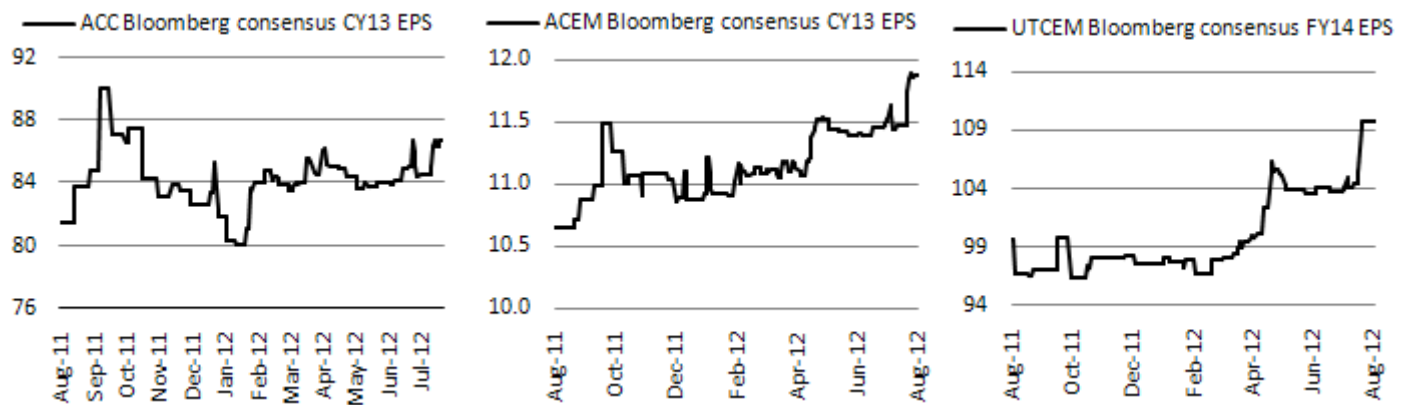
Source: Company/MOSL

MOSL estimates v/s Bloomberg consensus estimates (FY14)



Source: Bloomberg/MOSL

Potential upgrade of up to 25% in FY14 EPS for large-caps, after ~4% upgrade post 1QFY13 results



Source: Bloomberg/MOSL

Valuations reflect premium performances

Buy Ambuja Cement, UltraTech/Grasim and Shree Cement

- The worst is behind for the cement industry. We expect gradual and consistent improvement in capacity utilization and operating performance. Long-term demand drivers remain in place.
- After the recent outperformance, cement stocks are trading at historical average valuations. We expect strong earnings growth to drive stock performance, hereon.
- We prefer Ambuja Cement and UltraTech/Grasim among large-caps, and Shree Cement among mid-caps.

Investor focus to shift back to business fundamentals

Post CCI's ruling and penalty on the cement industry for alleged cartelization, which we believe is not tenable in the court, we expect investor focus to shift back to business fundamentals. The worst is behind for the industry and we expect gradual improvement in operating performance. Though the sector would continue to be plagued by over-capacity, there would be gradual and consistent improvement in capacity utilization. Long-term demand drivers continue to be present.

Earnings growth to drive stock performance

Post the recent outperformance, cement stocks are trading at historical average valuations, leaving limited room for further re-rating. We expect strong earnings growth to drive stock performance, hereon. We prefer Ambuja Cement and UltraTech/Grasim among large-caps, and Shree Cement in mid-caps.

Possible government intervention is the key risk

Our discussions with the major cement companies indicate that they have a good case against alleged charges of cartelization by the Competition Commission of India (CCI). None of them have provided for penalty, as they plan to appeal before the Competition Appellate Tribunal (COMPAT). Upon stay on the order by the tribunal, cement companies would have to deposit 10% of the penalty amount with the Registrar of COMPAT. We are not overtly worried about CCI's charges.

However, we believe any intervention by the government to curb cement prices is a key risk for the industry. In the past, the government has intervened (driven by the then Finance Minister, Mr P Chidambaram) in free pricing of cement to curb inflation. This had severely impacted operating performance of the cement companies and their stock prices.

Government's intervention in the past had impaired pricing power

When	Government initiative	Impact
Mar-12	Changing Excise to 12% of MRP less 30% abatement + INR120/ton	Negative
Feb-11	Changing Excise from 10% of MRP to 10% of ad-valorem + INR160/ton, for cement priced over INR190/bag	Positive
Jan-09	Reimposing CVD/SAD on imports	Positive
Dec-08	Reduces CENVAT rate by 4% to 8.5%	Positive
May-08	Lifts ban on exports from Gujarat, and to Nepal	Positive
Apr-08	Ban on cement exports	Negative
Apr-08	Shift to ad-valorem rate of excise at 12% for cement priced above INR250/bag MRP	Negative
May-07	Shift to ad-valorem rate of excise for cement prices above INR190/bag MRP	Positive
Apr-07	Exempting imported cement from CVD/SAD, if selling price in retail is below INR190/bag	Neutral
Mar-07	Cap on cement prices for 1 year till Feb'08	Negative
Feb-07	Differential excise duty structure on cement, with excise of INR600/ton for cement MRP above INR190/bag, else INR350/ton	Negative
Jan-07	Abolishment of 12.5% Import duty on cement	Neutral

Source: Company/MOSL

Comparative Valuations

	Reco	CMP (INR)	TP (INR)	Upside (%)	PE (x)			EV/EBITDA (x)			EV/TON (USD) - CAP		
					FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
ACC*	Neutral	1,338	1,420	6	22.7	18.0	15.2	13.2	9.7	8.4	132	128	126
Ambuja*	Buy	193	208	8	23.6	16.5	14.6	13.8	9.7	8.3	175	171	167
Grasim #	Buy	3,018	3,333	10	10.5	8.7	8.1	6.7	6.0	4.8	123	126	92
Ultratech	Buy	1,654	1,821	10	18.9	15.1	13.6	11.3	9.6	8.2	165	169	138
Birla Corp	Buy	221	277	25	7.1	6.8	6.7	4.3	4.3	4.1	31	33	34
India Cements	Buy	86	140	64	8.9	7.2	5.5	5.5	4.7	3.7	60	58	53
Shree Cement	Buy	3,087	3,478	13	13.1	12.0	10.4	7.7	6.5	5.3	141	120	111
Sector Aggregate ^					24.3	18.9	15.0	14.7	10.9	8.7	146	140	136

*Y/E December; ^Aggregates excludes Grasim & JaiPrakash; # Merger/De-merger of Grasim's cement assets assumed from 2QFY11

ACC

BSE SENSEX	S&P CNX	CMP: INR1,335	TP: INR1,420	Neutral						
17,602	5,337									
Bloomberg	ACC IN									
Equity Shares (m)	187.9									
52-Week Range (INR)	1,422/948									
1,6,12 Rel. Perf. (%)	3/-1/37									
M.Cap. (INR b)	250.9									
M.Cap. (USD b)	4.5									
Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/Ton
End	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	EBITDA	(USD)
12/10A	77,173	10,137	53.9	-38.2	-	-	16.2	16.3	-	135
12/11A	94,387	11,083	59.0	9.3	23.1	3.5	16.2	15.7	13.1	132
12/12E	112,721	13,981	74.4	26.1	18.4	3.3	18.8	20.2	9.7	128
12/13E	129,592	16,508	87.8	18.1	15.2	2.9	20.2	21.9	8.4	126

ACC's standalone performance in 2QCY12 was better than expected. EBITDA was INR6.6b v/s our estimate of INR5.5b and adjusted PAT was INR4.2b v/s our estimate of INR3.5b, aided by strong realizations and in-line cost. Key takeaways:

- Volumes grew 2% YoY (declined 10% QoQ) to 6.05mt v/s our estimate of 6.1mt. Realization improved 13% YoY (8% QoQ) to INR4,591/ton v/s our estimate of INR4,396/ton, driven by strong pricing across markets. Net sales grew 16% YoY (declined 3% QoQ) to INR27.8b v/s our estimate of INR26.8b.
- Cost push was largely in line with our estimate, with QoQ cost inflation in freight and other expenses. Despite cost push, higher realization led to improvement in profitability. EBITDA/ton was INR1,076 v/s INR898 in 1QCY12 and our estimate of INR905.
- EBITDA grew 18% YoY (8% QoQ) to INR6.5b. EBITDA margin expanded 50bp YoY (230bp QoQ) to 23.4% v/s our estimate of 20.6%.
- The RMC business continues to make loss, with PBIT loss of INR33m v/s INR88m in 2QCY11 and INR33.5m in 1QCY12.
- The company has announced an interim dividend of INR11/share v/s INR28/share in CY11.

Valuation and view: We are upgrading our EPS estimates by 11.3% to INR74.4 for CY12 and by 5.9% to INR87.8 for CY13 to factor in higher realizations and moderately lower volumes. The stock trades at 15.2x CY13E EPS, and at an EV of 8.4x CY13E EBITDA and USD114/ton. Maintain **Neutral** with a target price of INR1,420 (EV of ~9x CY13E EBITDA).

Y/E December	Quarterly Performance (Standalone)								(INR Million)			
	CY11				CY12				CY11	CY12E	MOSL	2QE Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Cement Sales (m ton)	6.16	5.93	5.69	5.95	6.72	6.05	6.15	6.54	23.7	25.5	6.1	-0.8
YoY Change (%)	10.4	12.5	17.8	6.1	9.1	2.0	8.0	9.8	11.5	7.3	2.9	
Cement Realization	3,893	4,052	3,779	4,206	4,256	4,591	4,391	4,492	3,978	4,429	4,396	4
YoY Change (%)	3.4	5.7	11.5	20.5	9.3	13.3	16.2	6.8	9.7	11.4	8.5	
QoQ Change (%)	11.6	4.1	-6.8	11.3	1.2	7.9	-4.4	2.3			3.3	
Net Sales	23,982	24,030	21,500	25,027	28,602	27,778	26,986	29,354	94,387	112,721	26,817	4
YoY Change (%)	14.1	18.9	31.3	27.8	19.3	15.6	25.5	17.3	22.3	19.4	11.6	
Total Expenditure	18,439	18,527	19,296	21,134	22,442	21,270	22,528	24,053	77,395	90,293	21,297	
EBITDA	5,542	5,503	2,204	3,893	6,161	6,508	4,458	5,301	16,992	22,428	5,521	18
Margins (%)	23.1	22.9	10.3	15.6	21.5	23.4	16.5	18.1	18.0	19.9	20.6	
Depreciation	1,125	1,158	1,199	1,270	1,305	1,356	1,375	1,411	4,753	5,448	1,315	3
Interest	253	271	253	192	316	301	300	299	969	1,216	300	0
Other Income	669	771	944	982	948	1,157	1,050	995	3,518	4,150	950	22
PBT before EO Item	4,834	4,845	1,695	3,414	5,487	6,009	3,833	4,585	14,788	19,914	4,856	24
EO Income/(Expense)	0	0	617	2,280	-3,354	0	0	0	2,897	-3,354	0	
PBT after EO Item	4,834	4,845	2,312	5,693	2,134	6,009	3,833	4,585	17,685	16,560	4,856	24
Tax	1,327	1,479	637	2,466	580	1,829	1,131	1,345	4,431	4,885	1,335	37
Rate (%)	27.5	30.5	27.5	43.3	27.2	30.4	29.5	29.3	25.1	29.5	27.5	
Reported PAT	3,507	3,366	1,676	3,227	1,554	4,179	2,702	3,240	13,254	11,675	3,520	19
Adjusted PAT	3,507	3,366	1,229	1,935	3,859	4,179	2,702	3,240	11,083	13,981	3,520	19
Margins (%)	14.6	14.0	5.7	7.7	13.5	15.0	10.0	11.0	11.7	12.4	13.1	
YoY Change (%)	-13.4	-6.2	22.8	39.2	10.1	24.2	120.0	67.4	9.3	26.1	4.6	

E: MOSL Estimates

Financials and Valuation

Income Statement		(INR Million)				
Y/E December	CY09	CY10	CY11	CY12E	CY13E	
Net Sales	80,272	77,173	94,387	112,721	129,592	
Change (%)	10.2	-3.9	22.3	19.4	15.0	
Total Expenditure	54,995	61,634	77,395	90,293	104,091	
EBITDA	25,277	15,540	16,992	22,428	25,501	
Change (%)	45.8	-38.5	9.3	32.0	13.7	
Margin (%)	31.5	20.1	18.0	19.9	19.7	
Depreciation	-3,421	-3,927	-4,753	-5,448	-5,736	
Int. and Fin. Charges	-843	-568	-969	-1,216	-750	
Other Income - Rec.	2,404	2,925	3,518	4,150	4,400	
PBT Before EO Item	23,418	13,970	14,788	19,914	23,415	
EO Income/(Expense)	-474	1,465	2,897	-3,354	0	
PBT After EO Item	22,944	15,435	17,685	16,560	23,415	
Tax	6,877	4,234	4,431	4,885	6,907	
Tax Rate (%)	30.0	27.4	25.1	29.5	29.5	
Reported PAT	16,067	11,200	13,254	11,675	16,508	
Adjusted PAT	16,399	10,137	11,083	13,981	16,508	
Change (%)	39.1	-38.2	9.3	26.1	18.1	
Margin (%)	20.4	13.1	11.7	12.4	12.7	

Balance Sheet		(INR Million)				
Y/E December	CY09	CY10	CY11	CY12E	CY13E	
Share Capital	1,880	1,879	1,879	1,879	1,879	
Reserves	58,282	62,815	70,043	75,121	84,482	
Net Worth	60,162	64,695	71,923	77,001	86,362	
Loans	5,669	5,238	5,107	3,000	3,000	
Deferred Tax Liability	3,493	3,615	5,184	5,598	5,949	
Capital Employed	69,324	73,548	82,214	85,598	95,311	
Gross Block	68,263	80,770	96,454	105,307	115,307	
Less: Accum. Deprn.	26,680	29,945	34,378	39,826	45,562	
Net Fixed Assets	41,583	50,824	62,075	65,481	69,745	
Capital WIP	21,562	15,628	4,353	3,000	8,000	
Investments	14,756	17,027	16,250	17,720	18,258	
Curr. Assets, Loans&Ad	22,562	27,533	36,179	43,405	49,902	
Inventory	7,790	9,150	10,997	13,125	15,089	
Account Receivables	2,037	1,783	2,604	3,088	3,550	
Cash and Bank Balan	7,464	10,800	16,526	19,301	22,190	
Others	5,271	5,801	6,053	7,890	9,071	
Curr. Liab. and Prov.	31,139	37,464	36,644	44,007	50,594	
Account Payables	16,334	17,730	20,687	24,706	28,404	
Other Liabilities	3,305	3,209	5,416	5,404	6,213	
Provisions	11,500	16,525	10,540	13,897	15,977	
Net Current Assets	-8,578	-9,931	-464	-602	-692	
Application of Funds	69,324	73,548	82,214	85,598	95,311	

E: MOSL Estimates

Ratios						
Y/E December	CY09	CY10	CY11	CY12E	CY13E	
Basic (INR)						
EPS	87.2	53.9	59.0	74.4	87.8	
Consolidated EPS	84.7	52.4	57.7	72.4	87.8	
Cash EPS	105.4	74.8	84.3	103.4	118.4	
BV/Share	320.1	344.3	382.7	409.7	459.6	
DPS	23.0	30.5	28.0	30.0	32.5	
Payout (%)	31.5	59.5	46.0	56.5	43.3	
Valuation (x)						
P/E			23.1	18.4	15.2	
Cash P/E			15.8	12.9	11.3	
EV/Sales			2.4	1.9	1.6	
EV/EBITDA			13.1	9.7	8.4	
P/BV			3.5	3.3	2.9	
Dividend Yield			2.1	2.2	2.4	
EV/ton (USD-Cap)			132	128	126	
Return Ratios (%)						
RoE	30.0	16.2	16.2	18.8	20.2	
RoCE	34.5	16.3	15.7	20.2	21.9	
Working Capital Ratios						
Debtor (Days)	9	8	10	10	10	
Asset Turnover (x)	1.2	1.0	0.9	0.8	0.7	
Leverage Ratio						
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0	

* EPS numbers are annualized.

Cash Flow Statement		(INR Million)				
Y/E December	CY09	CY10	CY11	CY12E	CY13E	
OP/(Loss) before Tax	25,277	15,540	16,992	22,428	25,501	
Interest/Dividends R	2,404	2,925	3,518	4,150	4,400	
Direct Taxes Paid	-6,742	-4,112	-2,863	-4,471	-6,556	
(Inc)/Dec in WC	6,138	4,690	-3,741	2,914	2,979	
CF from Operations	27,077	19,043	13,906	25,020	26,324	
EO Income/(Expense)	-474	1,465	-2,897	3,354	0	
CF from Op. incl EO Exj	26,604	20,507	16,803	21,666	26,324	
(inc)/dec in FA	-15,840	-7,234	-4,729	-7,500	-15,000	
(Pur)/Sale of Investm	-7,966	-2,270	777	-1,470	-538	
CF from Investments	-23,806	-9,504	-3,952	-8,970	-15,538	
Issue of Shares	-123	1	69	0	0	
(Inc)/Dec in Debt	849	-431	-131	-2,107	0	
Interest Paid	-843	-568	-969	-1,216	-750	
Dividend Paid	-5,059	-6,668	-6,095	-6,597	-7,147	
CF from Fin. Activity	-5,177	-7,666	-7,126	-9,920	-7,897	
Inc/Dec of Cash	-2,379	3,337	5,725	2,776	2,889	
Add: Beginning Balar	9,842	7,464	10,800	16,526	19,301	
Closing Balance	7,464	10,800	16,526	19,301	22,190	

E: MOSL Estimates

Ambuja Cements

BSE SENSEX	S&P CNX	CMP: INR191	TP: INR208	Buy						
17,602	5,337									
Bloomberg	ACEM IN									
Equity Shares (m)	1,534.4									
52-Week Range (INR)	191/120									
1,6,12 Rel. Perf. (%)	10/7/51									
M.Cap. (INR b)	292.3									
M.Cap. (USD b)	5.3									
Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/Ton
End	(INR m)	(INR m)	(INR)	GR. (%)	(X)	(X)	(%)	(%)	EBITDA	(USD)
12/10A	73,902	12,434	8.1	4.3	-	-	18.1	24.1	-	-
12/11A	85,306	12,547	8.2	0.6	23.3	3.6	16.3	23.2	13.6	174
12/12E	102,540	17,940	11.7	43.0	16.3	3.3	21.1	30.7	9.5	169
12/13E	117,913	20,364	13.3	13.5	14.4	2.9	21.3	30.9	8.1	165

Ambuja Cements' 2QCY12 performance is above estimates with EBITDA of INR7.2b (v/s est INR6.6b) driven by above estimated realizations and in-line cost. Key highlights:

- Volumes grew 6.5% YoY (-9% QoQ) to 5.63MT (v/s est 5.8MT) incl clinker. Realization improved by 7% QoQ (10.7% YoY) to INR4,556/ton (v/s est INR4,380/ton). Net sales improved by 18% YoY (-3% QoQ) to INR25.7b (v/s est INR25.5b).
- EBITDA/ton improved by ~INR80 QoQ to INR1,283 in 1QCY12 (v/s est INR1,138). Costs were largely in-line with estimates, as higher than freight and other expenses were offset by lower than estimated fuel cost.
- EBITDA grew 23% YoY (-3% QoQ) to INR7.2b (v/s est INR6.6b) and margins were flat QoQ (+30bp YoY) at 28.2% (v/s est 26%). Adj PAT grew 35% YoY (-8% QoQ) to INR4.7b (v/s est INR4.3b).
- The board has announced interim dividend of INR1.4/sh (v/s INR3.2/sh for CY11).

Valuation and view: We are upgrading our EPS for CY12 by 8% to INR11.7 and CY13 EPS by 5% to INR13.3, to factor in higher than estimated realizations. We are factoring in volume CAGR of 9.2% (v/s 11% earlier) in CY12-13. We are modeling in realization improvement of ~INR21/bag in CY12 (~INR7/bag lower than 2QCY12 level) and INR10/bag in CY13. The stock trades at 13.3x CY13E EPS, 8.1x EV/EBITDA and USD150/ton. Maintain **Buy** with target price of INR208 (~9x CY13E EV/EBITDA).

Y/E December	CY11				CY12				CY11	CY12E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			Est.	Var (%)
Sales Volume (m ton)	5.64	5.29	4.81	5.71	6.18	5.63	5.19	6.27	21.45	23.27	5.82	-3.2
YoY Change (%)	6.7	-3.5	6.7	12.6	9.6	6.5	8.0	9.7	5.4	8.5	10.0	
Realization (INR/ton)	3,923	4,114	3,754	4,092	4,260	4,556	4,356	4,457	3,977	4,406	4,380	4
YoY Change (%)	4.2	10.1	8.1	16.0	8.6	10.7	16.0	8.9	9.5	10.8	6.6	
QoQ Change (%)	11.2	4.9	-8.7	9.0	4.1	6.9	-4.4	2.3			2.8	
Net Sales	22,125	21,764	18,051	23,366	26,333	25,660	22,619	27,928	85,306	102,540	25,489	1
YoY Change (%)	11.2	6.3	15.4	30.6	19.0	17.9	25.3	19.5	76.0	82.1	17.3	
EBITDA	6,170	5,853	3,115	4,285	7,445	7,223	5,289	7,064	19,315	27,021	6,619	9
Margins (%)	27.9	26.9	17.3	18.3	28.3	28.2	23.4	25.3	22.6	26.4	26.0	
Depreciation	1,061	1,074	1,079	1,238	1,209	1,215	1,265	1,306	4,452	4,995	1,250	-3
Interest	138	152	138	99	168	180	160	137	526	646	150	20
Other Income	621	693	857	937	1,147	908	1,000	1,195	3,050	4,250	925	-2
PBT before EO Item	5,592	5,320	2,755	3,886	7,215	6,736	4,864	6,816	17,387	25,630	6,144	10
Extraordinary Inc/(Exp)	0	0	-206	-243	-2,791	0	0	0	-358	-2,791	0	
PBT after EO Exp/(Inc)	5,592	5,320	2,548	3,643	4,424	6,736	4,864	6,816	17,029	22,839	6,144	10
Tax	1,517	1,845	834	544	1,301	2,047	1,459	2,044	4,740	6,852	1,813	13
Rate (%)	27.1	34.7	32.7	14.9	29.4	30.4	30.0	30.0	27.8	30.0	29.5	
Reported Profit	4,075	3,475	1,715	3,099	3,122	4,689	3,405	4,771	12,289	15,987	4,332	8
Adj PAT	4,075	3,475	1,854	3,305	5,075	4,689	3,405	4,771	12,547	17,940	4,332	8
YoY Change (%)	-7.8	-11.2	21.9	31.2	24.5	34.9	83.7	44.4	0.9	43.0	24.7	

E: MOSL Estimates

Financials and Valuation

Income Statement		(INR Million)				
Y/E December	2009	2010	2011	2012E	2013E	
Net Sales	70,769	73,902	85,306	102,540	117,913	
Change (%)	13.8	4.4	15.4	20.2	15.0	
Total Expenditure	52,100	55,666	65,991	75,519	87,192	
% of Sales	73.6	75.3	77.4	73.6	73.9	
EBITDA	18,669	18,236	19,315	27,021	30,722	
Change (%)	5.9	-2.3	5.9	39.9	13.7	
Margin (%)	26.4	24.7	22.6	26.4	26.1	
Depreciation	2,970	3,872	4,452	4,995	5,380	
EBIT	15,699	14,364	14,863	22,026	25,342	
Int. and Finance Char	224	487	526	646	600	
Other Income - Rec.	2,097	2,476	3,050	4,250	4,350	
PBT before EO Exp.	17,571	16,353	17,387	25,630	29,092	
EO Expense/(Income)	-462	-265	358	2,791	0	
PBT after EO Exp.	18,033	16,619	17,029	22,839	29,092	
Current Tax	5,308	3,532	3,613	5,938	7,855	
Deferred Tax	541	450	1,127	914	873	
Tax Rate (%)	32.4	24.0	27.8	30.0	30.0	
Reported PAT	12,184	12,636	12,289	15,987	20,364	
PAT Adj for EO Items	11,872	12,434	12,547	17,940	20,364	
Change (%)	2.2	4.7	0.9	43.0	13.5	

Balance Sheet		(INR Million)				
Y/E December	2009	2010	2011	2012E	2013E	
Equity Share Capital	3,047	3,060	3,069	3,069	3,069	
Total Reserves	61,632	70,241	77,626	86,636	98,922	
Net Worth	64,679	73,301	80,694	89,704	101,990	
Deferred Liabilities	4,858	5,309	6,436	7,350	8,222	
Total Loans	1,657	650	494	500	500	
Capital Employed	71,194	79,260	87,624	97,554	110,713	
Gross Block	62,283	87,788	97,023	104,796	114,796	
Less: Accum. Deprn.	27,841	31,511	35,158	40,153	45,533	
Net Fixed Assets	34,443	56,278	61,865	64,642	69,262	
Capital WIP	27,144	9,307	5,773	5,000	8,000	
Investments	7,224	6,260	8,643	13,597	17,057	
Curr. Assets	19,793	31,353	38,283	42,140	48,458	
Inventory	6,832	9,019	9,250	11,237	12,922	
Account Receivables	1,522	1,282	2,409	2,809	3,231	
Cash and Bank Balan	8,809	17,482	20,712	22,474	25,844	
Others	2,630	3,571	5,913	5,619	6,461	
Curr. Liability & Prov.	17,437	23,942	26,942	27,827	32,067	
Account Payables	10,697	12,976	15,881	14,483	16,722	
Provisions	6,740	10,966	11,061	13,344	15,345	
Net Current Assets	2,356	7,412	11,341	14,312	16,391	
Misc Expenditure	27	5	3	3	3	
Appl. of Funds	71,194	79,260	87,624	97,554	110,713	

E: MOSL Estimates

Ratios						
Y/E December	2009	2010	2011	2012E	2013E	
Basic (INR)						
EPS	7.8	8.1	8.2	11.7	13.3	
Cash EPS	9.7	10.7	11.1	14.9	16.8	
BV/Share	42.3	47.8	52.4	58.3	66.3	
DPS	2.4	2.6	3.2	3.5	4.0	
Payout (%)	35.1	36.7	46.7	44.9	39.7	
Valuation (x)						
P/E			23.3	16.3	14.4	
Cash P/E			17.2	12.7	11.4	
P/BV			3.6	3.3	2.9	
EV/Sales			3.1	2.5	2.1	
EV/EBITDA			13.6	9.5	8.1	
EV/Ton (Cap) - US\$			174	169	165	
Dividend Yield (%)			1.7	1.8	2.1	
Return Ratios (%)						
RoE	19.6	18.1	16.3	21.1	21.3	
RoCE	28.4	24.1	23.2	30.7	30.9	
Working Capital Ratios						
Asset Turnover (x)	1.0	0.9	1.0	1.1	1.1	
Debtor (Days)	8	6	10	10	10	
Working Capital Turnc	12	37	49	51	51	
Leverage Ratio (x)						
Current Ratio	1.1	1.3	1.4	1.5	1.5	
Debt/Equity	0.0	0.0	0.0	0.0	0.0	

Cash Flow Statement		(INR Million)				
Y/E December	2009	2010	2011	2012E	2013E	
Op. Profit/(Loss) before	18,669	18,236	19,315	27,021	30,722	
Interest/Dividends Re	2,097	2,476	3,050	4,250	4,350	
Direct Taxes Paid	-5,849	-3,983	-4,740	-6,852	-8,728	
(Inc)/Dec in WC	6,591	3,617	-699	-1,209	1,291	
CF from Operations	21,507	20,347	16,926	23,210	27,635	
EO Income	462	265	-358	-2,791	0	
CF from Op. incl EO Exp	21,969	20,612	16,568	20,419	27,635	
(inc)/dec in FA	-13,157	-7,870	-6,504	-7,000	-13,000	
(Pur)/Sale of Investme	-3,901	965	-2,384	-4,953	-3,460	
CF from Investments	-17,058	-6,905	-8,888	-11,953	-16,460	
Issue of Shares	42	618	846	204	0	
(Inc)/Dec in Debt	-163	-534	972	920	873	
Interest Paid	-224	-487	-526	-646	-600	
Dividend Paid	-4,275	-4,632	-5,741	-7,181	-8,078	
CF from Fin. Activity	-4,621	-5,035	-4,449	-6,703	-7,806	
Inc/Dec of Cash	291	8,673	3,231	1,762	3,370	
Add: Beginning Balan	8,518	8,809	17,482	20,712	22,474	
Closing Balance	8,809	17,482	20,712	22,474	25,844	

E: MOSL Estimates

UltraTech Cement

BSE SENSEX	S&P CNX	CMP: INR1,638	TP: INR1,821	Buy						
17,602	5,337									
Bloomberg	UTCEM IN									
Equity Shares (m)	274.0									
52-Week Range (INR)	1,647/941									
1,6,12 Rel. Perf. (%)	6/21/62									
M.Cap. (INR b)	449.0									
M.Cap. (USD b)	8.1									
Year	Net Sales	PAT	EPS	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
End	(INR m)	(INR m)	(INR)	GR. (%)	(X)	(X)	(%)	(%)	EBITDA	Ton (\$)
03/11A*	132,062	14,042	51.2	-41.7	-	-	18.4	19.6	-	-
03/12A	181,664	23,982	87.5	70.8	18.7	3.5	20.4	22.6	11.2	164
03/13E	212,698	30,059	109.7	25.3	14.9	2.9	21.3	24.8	9.5	168
03/14E	246,819	33,404	121.9	11.1	13.4	2.5	19.8	24.1	8.1	137

* Merger of Grasim's cement business assumed w.e.f 1 July 2010

UltraTech Cement's 1QFY13 performance is above estimates with EBITDA/ton of INR1,235 (v/s est INR1,098), driven by higher than estimated realizations and in-line cost, translating into PAT of INR7.8b (v/s est INR6.7b).

- Volumes were 10.33MT (+5% YoY, -10% QoQ v/s est 10.44MT), and blended realization at INR4,913/ton (+6.2% QoQ v/s est INR4,749/ton). Grey cement realization is estimated to have improved ~6% QoQ (~10% YoY) to INR4,124/ton (v/s est INR4,014/ton).
- Sales was up 17% YoY at INR50.75b (v/s est INR49.6b) and PAT up 14% YoY at INR7.8b (v/s est INR6.7b). EBITDA was up 9% YoY at INR12.9b (v/s est INR11.6b), translating into EBITDA margins of 25.5% (+180bp QoQ & -180bp YoY; v/s est 23.4%). Higher other income, and lower depreciation & interest boosted PAT.
- The company has indicated that it does not see any meaningful benefit from softer imported coal prices given weaker INR. It has not provided for CCI's penalty of INR11.8b for alleged cartelization as it believes it has a good case, and will appeal before the Competition Appellate Tribunal. UTCEM has further increased capex by INR10b to INR120b, with incremental capex towards modernization and RMC business.
- **Company outlook:** "The cement industry is likely to grow over 8% linked to the Government's focus on infrastructure development. The surplus scenario is likely to continue for the next three years. Any rise in input costs will impact margins."
- We are upgrading our FY13/14 EPS estimates by 5%/6% to INR109/124, to factor in higher than estimated cement realizations. The stock trades at FY13/14 P/E of 14.9x/13.4x, EV/EBITDA of 9.5x/8.1x and EV/ton of USD156/147. Maintain **Buy** with target price of INR1,821 (9x FY14E EV/EBITDA).

Y/E March	FY12				FY13				FY12	FY13	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			Est.	Variance
											1Q	(%)
Sales (m ton)	9.86	9.22	10.11	11.54	10.33	9.98	10.95	12.54	40.7	43.8	10.44	-1
YoY Change (%)	-3.9	0.3	3.2	6.9	4.8	8.2	8.3	8.7	1.7	7.5	5.9	
Grey Cement Realn.(INR/ton) *	3,749	3,507	3,759	3,894	4,124	3,924	4,024	4,227	3,738	4,083	4,014	3
YoY Change (%)	11.8	19.3	19.0	10.3	10.0	11.9	7.1	8.5	14.7	9.2	6.7	
QoQ Change (%)	6.2	-6.5	7.2	3.6	5.9	-4.8	2.5	5.0			3.1	
Net Sales	43,515	39,101	45,681	53,366	50,748	47,019	52,768	62,163	181,664	212,698	49,577	2
YoY Change (%)	9.1	21.6	23.0	18.9	16.6	20.3	15.5	16.5	37.6	17.1	13.6	
EBITDA	11,882	5,837	9,647	12,641	12,918	9,468	12,048	15,531	40,007	49,964	11,606	11
Margins (%)	27.3	14.9	21.1	23.7	25.5	20.1	22.8	25.0	22.0	23.5	23.4	200bp
Depreciation	2,230	2,228	2,236	2,332	2,281	2,325	2,400	2,231	9,026	9,236	2,350	-3
Interest	712	660	281	586	498	500	565	571	2,239	2,135	600	-17
Other Income	641	1,002	876	2,000	849	1,100	900	2,051	4,520	4,900	750	13
PBT before EO expense	9,583	3,952	8,005	11,723	10,987	7,743	9,983	14,780	33,262	43,493	9,406	17
PBT after EO Expense	9,583	3,952	8,672	11,723	10,987	7,743	9,983	14,780	33,929	43,493	9,406	17
Tax	2,752	1,162	2,503	3,050	3,203	2,246	2,895	4,269	9,467	12,613	2,728	17
Rate (%)	28.7	29.4	28.9	26.0	29.2	29.0	29.0	28.9	27.9	29.0	29.0	20bp
Reported PAT	6,831	2,790	6,169	8,673	7,784	5,498	7,088	10,511	24,462	30,880	6,678	17
Adj PAT	6,831	2,790	5,695	8,673	7,784	5,498	7,088	10,511	23,982	30,880	6,678	17
YoY Change (%)	22.5	141.0	78.5	19.3	14.0	97.1	24.5	21.2	70.8	28.8	-2.2	

E: MOSL Estimates; * Grey cement realization is our estimate

Financials and Valuations

Income Statement (Post-Merger)*		(INRMillion)			
Y/E March	2011	2012	2013E	2014E	
Net Sales	132,062	181,664	212,698	246,819	
Change (%)	87.3	37.6	17.1	16.0	
Total Expenditure	106,465	141,657	163,890	190,253	
EBITDA	25,597	40,007	48,808	56,566	
Margin (%)	19.4	22.0	22.9	22.9	
Depreciation	7,657	9,026	9,236	12,042	
Int. and Finance Charges	2,725	2,239	2,135	2,226	
Other Income - Rec.	2,619	4,520	4,900	4,750	
PBT	17,833	33,262	42,337	47,048	
EO Expense/(Income)	0	-666	0	0	
PBT after EO expense	17,833	33,929	42,337	47,048	
Tax	3,791	9,467	12,278	13,644	
Tax Rate (%)	21.3	27.9	29.0	29.0	
Reported PAT	14,042	24,462	30,059	33,404	
Adj PAT	14,042	23,982	30,059	33,404	
Change (%)	28.4	70.8	25.3	11.1	
Margin (%)	10.6	13.2	14.1	13.5	

Balance Sheet (Post-Merger) *		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Equity Share Capital	2,740	2,741	2,741	2,741	
Reserves	103,726	125,504	151,741	180,368	
Net Worth	106,466	128,244	154,482	183,109	
Deferred liabilities	17301	17378	19918	22741	
Loans	41,446	38,117	38,117	33,117	
Capital Employed	165,213	183,739	212,516	238,966	
Gross Block	179,435	194,755	215,755	275,755	
Less: Accum. Deprn.	65,420	74,446	83,682	95,724	
Net Fixed Assets	114,015	120,310	132,073	180,031	
Capital WIP	11,053	15,000	50,000	25,000	
Investments	37,303	37,888	19,475	21,475	
Curr. Assets	37,575	56,235	62,831	72,643	
Inventory	19,565	20,359	26,223	30,430	
Account Receivables	6,023	7,660	8,741	10,143	
Cash and Bank Balance	1,448	1,882	1,644	1,640	
Others	10,539	26,334	26,223	30,430	
Curr. Liability & Prov.	34,539	45,340	51,863	60,183	
Account Payables	28,804	37,132	43,122	50,040	
Provisions	5,735	8,207	8,741	10,143	
Net Current Assets	3,036	10,895	10,968	12,460	
Appl. of Funds	165,407	184,093	212,516	238,966	

E: MOSL Estimates; * Assuming merger w.e.f July 1, 2010

Ratios (Post-Merger) *		2011	2012	2013E	2014E
Basic (INR)					
EPS		51.2	87.5	109.7	121.9
Cash EPS		79.2	120.4	143.4	165.8
BV/Share		388.5	467.9	563.7	668.1
DPS		6.0	8.0	12.0	15.0
Payout (%)		13.6	10.4	12.7	14.3
Valuation (x)					
P/E			18.7	14.9	13.4
Cash P/E			13.6	11.4	9.9
P/BV			3.5	2.9	2.5
EV/Sales			2.5	2.2	1.9
EV/EBITDA			11.2	9.5	8.1
EV/Ton (Cap-US\$)			164	168	137
Dividend Yield (%)			0.5	0.7	0.9
Return Ratios (%)					
RoE		18.4	20.4	21.3	19.8
RoCE		19.6	22.6	24.8	24.1
Working Capital Ratios					
Asset Turnover (x)		0.8	1.0	1.0	1.0
Debtor (Days)		17	15	15	15
Inventory (Days)		54	41	45	45
Leverage Ratio					
Debt/Equity		0.4	0.3	0.2	0.2

Cash Flow Statement (Post-Merger) *		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Op. Profit/(Loss) before Tax	25,597	40,007	48,808	56,566	
Interest/Dividends Recd.	2,619	4,520	4,900	4,750	
Direct Taxes Paid	-3,791	-9,390	-9,737	-10,821	
(Inc)/Dec in WC	-692	-7,425	-310	-1,496	
CF from Operations	23,733	27,712	43,660	48,999	
CF from Operating incl EO exper	23,733	28,378	43,660	48,999	
(inc)/dec in FA	-80,715	-19,267	-56,000	-35,000	
(Pur)/Sale of Investments	-20,608	-585	18,412	-2,000	
CF from investments	-101,322	-19,852	-37,588	-37,000	
Issue of Shares	57,241	-136	0	0	
(Inc)/Dec in Debt	25,401	-3,329	0	-5,000	
Interest Paid	-2,725	-2,239	-2,135	-2,226	
Dividend Paid	-1,911	-2,548	-3,822	-4,777	
CF from Fin. Activity	78,006	-8,252	-5,956	-12,003	
Inc/Dec of Cash	416	274	116	-4	
Add: Beginning Balance	837	1,448	1,882	1,644	
Closing Balance	1,254	1,722	1,998	1,640	

E: MOSL Estimates; * Assuming merger w.e.f April 1, 2010

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