

December 2, 2010

### Price Performance

ACC (Rs1000, Accumulate)				
(%)	1M	3M	6M	12M
Absolute	(2)	14	21	24
Rel. to Sensex	1	4	2	6

Ambuja (Rs140, HOLD)				
(%)	1M	3M	6M	12M
Absolute	(2)	12	27	49
Rel. to Sensex	1	2	7	28

Grasim (Rs2337, ACCUMULATE)				
(%)	1M	3M	6M	12M
Absolute	(0)	14	30	29
Rel. to Sensex	2	4	10	11

Ultratech (Rs1091, REDUCE)				
(%)	1M	3M	6M	12M
Absolute	4	27	22	37
Rel. to Sensex	7	15	3	17

India Cements (Rs110, SELL)				
(%)	1M	3M	6M	12M
Absolute	(3)	3	2	(3)
Rel. to Sensex	(0)	(7)	(14)	(17)

Madras Cements (Rs109, REDUCE)				
(%)	1M	3M	6M	12M
Absolute	(9)	6	6	(8)
Rel. to Sensex	(6)	(4)	(11)	(21)

Orient Paper (Rs56, BUY)				
(%)	1M	3M	6M	12M
Absolute	(7)	0	(3)	18
Rel. to Sensex	(5)	(9)	(19)	1

Shree Cements (Rs2030, ACCUM)				
(%)	1M	3M	6M	12M
Absolute	(1)	12	4	15
Rel. to Sensex	2	2	(13)	(1)

Source: Bloomberg

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## Top 5 players report dispatches decline of 3.2% yoy

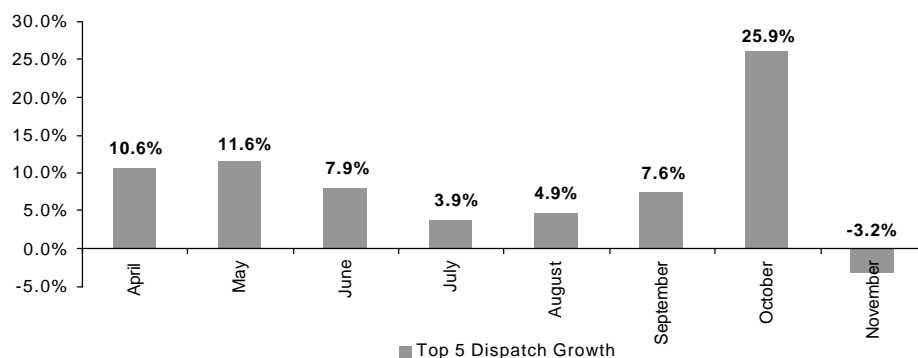
- **Unseasonal rains, labor shortage due to festive season impact dispatches in November. Top 5 players report aggregate dispatch decline of 3.2%**
- **Cement prices see some softness across regions - cuts of Rs 2-10/bag; across North, central & south. Dealers expect prices to remain sluggish till mid December owing to poor demand**
- **Demand growth remains key to sustain prices hikes taken in October. Seasonal logistical bottlenecks (wagons supply to food grains & crop) could provide some support to prices**
- **Remain NEUTRAL on sector, positive on ACC, Grasim & Shree, negative on Ultratech, India Cement & Madras Cement**

### Top 5 players report aggregate dispatches decline of 3.2% yoy

Cement companies posted muted dispatches for the month of Nov 2010 with top 5 cement producers registering aggregate dispatches decline of 3.2% yoy. Cement offtake got impacted due to:

- No significant pick up in infra projects
- Un-seasonal rains (impact of 3-5 days across country)
- Diwali which occurred in November this year as compared to October last year (usually leads to some slowdown in construction activity for 4-5 days)
- Labor shortage on account of harvesting & festive season

### Top 5 players report aggregate dispatches decline of 3.2%



Source: Companies announcements

### Valuations & Recommendations

Co. Name	Reco	TP (Rs)	PE(x)			EV/EBITDA (X)			EV/tonne (USD)		
			FY10	FY11e	FY12e	FY10	FY11e	FY12e	FY10	FY11e	FY12e
ACC	Accumulate	1,035	11.7	16.3	14.0	6.9	9.2	7.2	141	119	110
Ambuja Cements	Hold	130	17.6	16.9	15.5	10.7	10.1	8.8	174	169	149
Grasim Industries	Accumulate	2,600	7.7	11.4	10.2	3.4	4.3	3.9	0	0	0
Ultratech Cement	Reduce	1,040	13.3	19.2	14.4	7.3	9.8	7.7	133	146	140
India Cements	Sell	114	10.9	30.5	18.8	6.2	10.6	8.1	83	85	75
Madras Cements	Reduce	113	7.6	11.8	9.8	6.0	7.3	6.3	104	91	88
Orient Paper	Buy	77	6.7	8.5	6.3	5.0	5.4	3.8	60	55	38
Shree Cements	Accumulate	2,330	9.8	18.6	12.6	4.9	6.7	4.8	148	108	91
<b>Average</b>			<b>10.6</b>	<b>16.7</b>	<b>12.7</b>	<b>6.3</b>	<b>7.9</b>	<b>6.3</b>	<b>105.2</b>	<b>96.6</b>	<b>86.4</b>

**ACC dispatches up 4.8% yoy:** ACC with 1.74 mnt dispatches registered a growth of 4.8% yoy (9.4% MoM decline. However on YTD basis ACC dispatches declined by 1.1% yoy.

**Ambuja Cements dispatches decline 8.4% yoy :** On account of strike by freight operators at its Himachal Plant (Rauri & Suli) Ambuja Cement reported a decline of 8.4% in dispatches. Its YTD growth still is healthy at 7.1%yoy.

**Ultratech volumes decline 9.2% yoy:** Ultratech reported volumes of 2.66mnt, a decline of 9.2%yoy. Volumes declined 22.2% MoM .

**Jaypee registers growth of 13.2% - slowest growth YTD :** Impacted by unseasonable monsoons in the northern & western region Japyee registered dispatches growth of just 13.2%, which is the slowest growth the company has registered during ytd FY11 (October FY11 ytd growth at 63%).

**Shree posts decline of 7.7% in cement dispatches:** Shree cement also disappointed with its cement dispatches declining by 7.7% for the month.

### Cement Dispatches

mnt	Nov-10	% yoy	%mom	FY11 YTD	% yoy	CY11 YTD	% yoy
ACC	1.74	4.8%	-9.4%	13.69	-1.1%	19.25	-1.2%
Ambuja	1.42	-8.4%	-18.9%	12.97	7.1%	18.32	7.1%
Ultratech	2.66	-9.2%	-22.2%	24.69	4.6%	34.90	6.1%
Jaypee	1.08	13.2%	-26.0%	9.79	55.4%	13.48	58.0%
Shree	0.65	-7.7%	-24.7%	5.98	1.2%	8.57	4.0%
Aggregate	7.55	-3.2%	-19.8%	67.12	8.7%	94.51	9.6%

*Note: does not include clinker numbers*

### We spoke to cement dealers across India and these are the key takeaways:

#### Northern Region

- Demand continues to be weak on account of lack of projects post the common wealth games activities.
- Prices in New Delhi (constitutes 15% of northern region consumption) have been cut by Rs10-15 per bag in the last one month. This comes after the price hike which was announced in October clearly highlighting that demand scenario is yet to pick up so as to be able to sustain these levels of cement prices.
- Chandigarh and Punjab which also constitute around 15% of northern cement consumption have seen subdued demand in the month of November. As a result of which prices have remained at the same levels and any further rounds of price hikes seem to be ruled out.
- Rajasthan, which has the maximum capacity in the northern region experienced price pressures as demand continues to lag. Dealers in this region are skeptical about sustainability of even the current price levels as overcapacity and lower demand scenario is expected to continue till December.
- Overall, prices in the northern region were under pressure on account of subdued demand as construction activity was hampered due to spoilers like monsoon and festive season.

#### Southern Region

- Demand weakened by monsoons
- Price cuts of Rs10-15 per bag seen across the region. Chennai prices declined to Rs 250-255 levels from their October prices of Rs270/bag
- Tamil Nadu dealers indicated that consumption in the month of November have declined m-o-m by almost 40%
- Sluggishness expected in prices as monsoons continue to dampen the demand scenario

**Central Region**

- Prices have declined by Rs5-10/bag this month
- Demand continues to be low as construction activity is subdued due to labor shortage (on account of harvesting season)
- Sharp discounts by a few cement producers putting pressure on premium brand's pricing (like ACC), as they are trading at a 12-16% premium
- Dealers expect sluggishness in prices till mid December, 2010

**Eastern Region**

- Price cuts of Rs2-5 seen in Kolkata.
- Labor constraints affected the construction activity thereby affecting demand
- Supply from southern region at lower rates exerting pressure on prices in eastern region
- Sluggishness in prices expected till Dec 2010 post which demand supply scenario in this region could improve.

**Western Region**

- Prices in Maharashtra and Gujarat remain more or less at the same levels as October.
- Dealers indicate that lower demand might not support any further price hikes.

**Outlook- demand growth remains key to sustain cement prices**

The current scenario points towards poor demand continuing till mid December and thereby exerting some pressure on cement prices. Though seasonal logistical bottlenecks (like additional wagons supply to food grains & crop harvest during next 3-4 months) will provide some support to cement prices, we believe that sharp pick up in demand growth remains key to sustain cement prices.

**Recommendations****We remain NEUTRAL on the sector. We remain positive on ACC, Grasim & Shree.**

**ACC:** Stock trades USD 110 for its CY11 capacity, valuations though not cheap on absolute basis, are comparatively attractive (~15% discount to Ambuja Cement). Moreover, we expect ACC to deliver CY11E RoCE of ~25% (close to 1.5X cost of capital).

**Grasim :** Strong VSF demand to fuel earnings growth, valuation remain attractive - stock trades at 40% discount for its holding in Ultratech Cement.

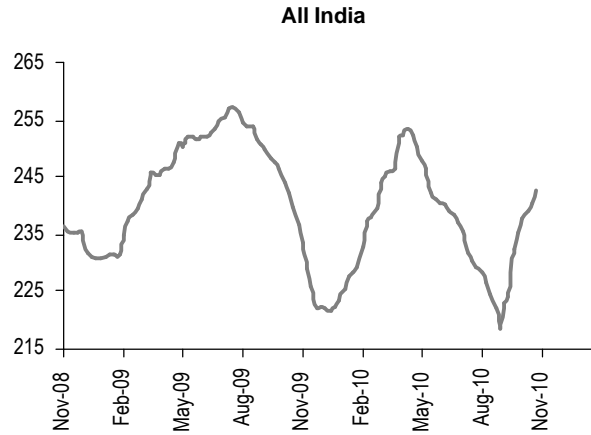
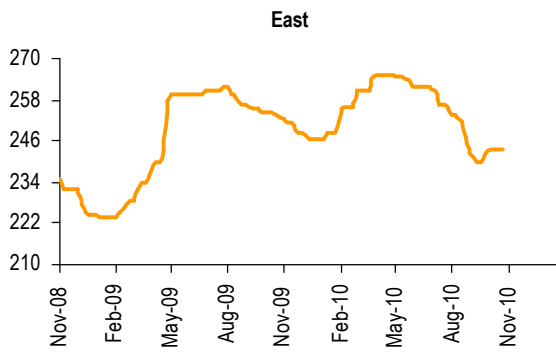
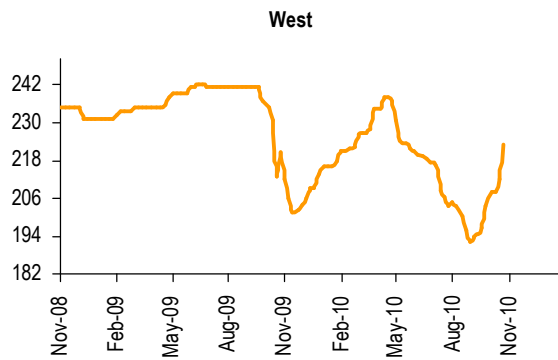
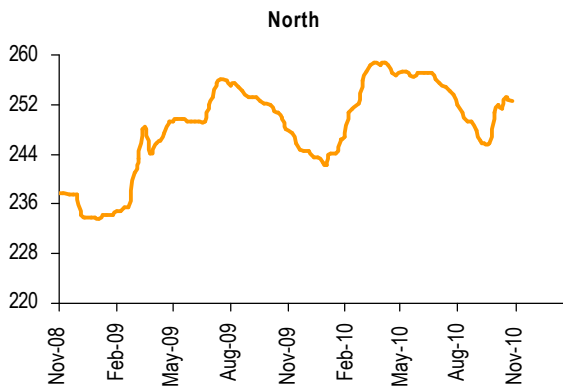
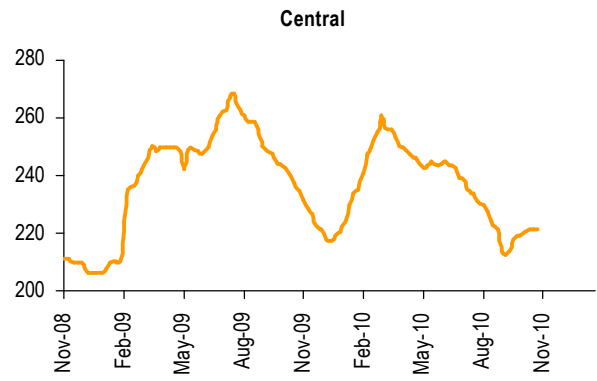
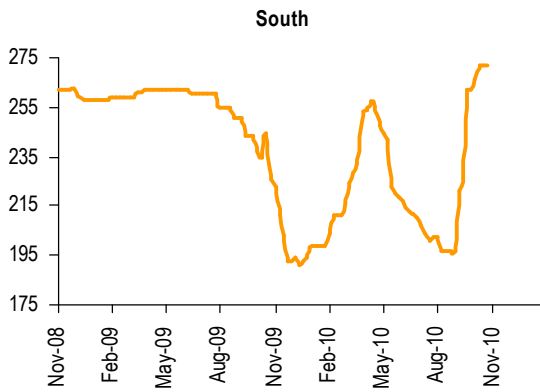
**Shree Cement :** Current valuation at 4.8x EV/EBITDA and EV/Ton of USD 91, ex value of power, remain attractive.

**Maintain negative stance on India cements and Madras Cement**

**India cement:** Stock is trading at PER 18.8x, EV/EBIDTA of 8.1X and EV/ton of USD75 for its FY12E numbers. These valuations leave little upside considering that ICL'S FY12 RoCE at 6.3% is barely half the cost of capital)

**Madras cement:** Stock trading at 9.8X and EV/ton of USD88 on FY12 numbers leaves limited upside for the stock. Further estimated FY12 RoCE of 10.9%, is still below the cost of capital)

Cement prices across regions



Source: CMA

## Financials

Co. Name Rs mn	Sales			PAT			EPS			ROCE(%)			ROE(%)		
	FY10	FY11e	FY12e	FY10	FY11e	FY12e	FY10	FY11e	FY12e	FY10	FY11e	FY12e	FY10	FY11e	FY12e
ACC	80,272	77,788	86,424	16,067	11,493	13,386	85.5	61.2	71.2	37.5	23.3	24.7	29.4	18.0	18.7
Ambuja Cements	70,769	73,395	82,196	12,185	12,703	13,824	8.0	8.3	9.1	31.1	27.1	25.8	20.1	18.5	17.8
Grasim Industries	199,334	201,178	222,465	27,595	18,502	20,849	301.0	201.8	227.4	23.9	15.6	16.2	23.0	13.9	13.9
Ultratech Cement	70,497	69,130	79,387	10,932	7,532	10,048	86.4	59.6	79.4	25.3	15.9	18.7	26.6	15.3	17.5
India Cements	37,732	38,005	44,058	3,107	1,106	1,793	10.1	3.6	5.8	11.3	4.6	6.3	9.6	3.1	4.9
Madras Cements	28,009	28,124	32,849	3,536	1,983	2,565	14.9	8.3	10.8	15.3	9.4	11.0	25.4	12.2	14.0
Orient Paper	16,198	19,030	22,644	1,593	1,245	1,700	8.3	6.5	8.8	22.5	16.5	20.4	22.7	15.3	18.2
Shree Cements	36,321	38,054	48,431	7,395	3,912	5,759	212.3	112.3	165.3	31.5	15.9	21.1	48.6	19.6	24.0

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