Equities

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India Cement Sector

Material Upside: Building a Buy Case

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- **We turn positive** — 1) The demand-supply equation is moving in favor of producers: we expect ~23mtpa of additional demand and ~18mtpa of new supply through FY15; 2) Plants are more difficult to set up. The better outlook will make it easier to pass on cost hikes. Stocks have already outperformed, but we expect EBITDA/t to continue its upward trajectory (~Rs1,000 to ~Rs1,300) and further stock upside (20-40%).
- **Ambuja Top Pick** — We upgrade Ambuja, ACC and UltraTech from Sell to Buy (in that order). Ambuja trades at 6.7x CY12 EV/EBITDA, offers higher margins (vs peers) and has negligible exposure to south India (maximum surplus). Grasim remains Buy, with low valuations but the stock price will likely lag pure cement plays in an upcycle. **Key risks**: government penalties (industry will appeal) and inability to pass on cost hikes.
- **The worst is over** — The last two years have been tough: demand has been weak, costs have been rising & investigations on price collusion continue. Despite setbacks, cement prices rose in this difficult period to protect margins. We feel the worst is over.
- **Supply slowing** — The last three years saw a widening gap between demand and supply as demand was subdued and supply increase was close to 95mt. We expect additional demand of 68mt during FY13-15 while output from new capacity would be ~60mt (could be lower). Utilization should improve from 74% in FY12 to 83% in FY15.
- **Demand to get better** — Demand during FY11/ FY12 was subdued with growth of 5-6.7% (mostly from rural housing and some infrastructure demand), below the 10-yr avg of 9.5%. We expect future growth to be 9-10% with a likely pick-up in infrastructure spend pre-elections (2014) and some improvement in urban demand. South India demand (30% of total) has been declining for two years; growth would provide a boost.
- **Cost challenges remain** — Rail freight has been hiked (by ~20%) and excise duties raised (both have been passed on). Future hikes expected: domestic coal and diesel prices. Industry will have to cope with rising raw material costs/longer lead distances.
- **Changing valuation method** — We earlier used replacement costs as our primary valuation tool due to oversupply and expected volatility in profitability. However, better discipline among producers led to an uptrend in margins. With a better outlook we expect greater earnings predictability/leverage and move to EV/EBITDA as our primary valuation tool. Lack of good limestone and land will make new projects more difficult (longer gestation) allowing profitable pan-India companies to trade at a premium.

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
ABUJ.BO	Sell 3	Buy 1	Rs117.00	Rs219.00	Rs7.83	Rs11.75	Rs8.18	Rs14.28
ACC.BO	Sell 3	Buy 1	Rs996.00	Rs1,685.00	Rs57.60	Rs83.46	Rs60.25	Rs107.06
GRAS.BO	Buy 1	Buy 1	Rs2,728.00	Rs3,299.00	Rs270.10	Rs284.57	Rs266.16	Rs319.00
ULTC.BO	Sell 3	Buy 1	Rs1,000.00	Rs1,770.00	Rs71.30	Rs82.04	Rs64.17	Rs108.28

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Investment Summary

FY11 and FY12 were difficult years but, despite this, producers managed to raise prices.

A combination of three key factors led to a decline in profitability for the industry in FY11/FY12: 1) The substantial capacity hike of 52mtpa in FY10 (2.5x demand) 2) lower demand growth rates of 5-6.7% in FY11/FY12 and 3) unprecedented cost hikes on most major fronts: coal, freight, labour and raw materials. Despite the oversupply, and fragmented nature of the industry, producers have managed to raise prices and tried to maintain margins.

We feel the worst is over.

We expect demand growth to be 9-10% p.a. through FY15 on the back of better infrastructure demand (pre-general elections in 2014) and a pick-up in pockets of urban demand. After a widening gap between demand-supply in the past three years, we expect additional demand of ~68mtpa during FY13-15 whereas supply is likely to be ~56-60mtpa (and perhaps lower). This should make it easier for producers to hike prices to compensate for expected cost hikes (coal and diesel). A recent example of this is a cement price hike to compensate for 1) higher rail freight and 2) higher excise duties for cement sales to institutional clients.

The demand supply gap should narrow in favour of producers.

The combination of slower supply and better demand should lead to the demand-supply equation moving in favour of the producers. We expect EBITDA/t to rise from Rs950-1,050 in the past three years to Rs1,250-1,400 in the coming 2-3 years. We expect this momentum to result in further stock price upside (~20% to 40%). We upgrade Ambuja, ACC and UltraTech from Sell to Buy. Ambuja currently offers the best value as it trades at lower valuations, offers higher margins (relative to peers) and is our top pick followed by ACC and UltraTech. Grasim remains a Buy as it has low valuations but we expect it to lag the pure cement plays in an upcycle.

We change our valuation methodology from EV/tonne to EV/EBITDA.

We earlier used replacement costs as our primary valuation tool due to the oversupply and the expectations of low and volatile profits. As it happened, better discipline among producers led to an uptrend and did not lead to downturn that we expected. With a better demand-supply outlook, we expect better earnings predictability and leverage and hence shift to using EV/EBITDA as our primary valuation tool. It is getting increasingly difficult to acquire good-quality limestone. Acquiring land can be time consuming and expensive, with longer gestation periods. This allows large, profitable pan-Indian players to trade at premium valuations.

European perspective on Indian Cement.

We recently went across India to meet up with cement companies in Delhi, Mumbai and Chennai with our European Building Material analysts. Please click on the link to see the Indian cement space through their eyes. ***(Click here to access report)***

Stock Price Performance

Figure 1. India Cement Sector – Share Price Performance

		Absolute Performance (%)								Relative Performance (%)							
	CMP	1D	1W	1M	3M	6M	1Y	18M	YTD	1D	1W	1M	3M	6M	1Y	18M	YTD
Cement Index		-3%	-5%	-3%	18%	22%	18%	21%	15%	-2%	-3%	0%	12%	18%	29%	37%	3%
ACC	1,237	-5%	-8%	-7%	11%	9%	13%	22%	9%	-5%	-7%	-4%	5%	5%	23%	37%	-2%
Ambuja Cements	160	-4%	-5%	-2%	6%	10%	7%	13%	3%	-4%	-3%	1%	0%	6%	18%	28%	-9%
Grasim Industries	2,576	-1%	-2%	-6%	7%	11%	2%	9%	3%	-1%	-1%	-4%	1%	7%	13%	25%	-9%
India Cements	97	-8%	-15%	-5%	37%	31%	-2%	-19%	47%	-7%	-13%	-3%	30%	27%	8%	-3%	35%
Madras Cements Ltd	144	-4%	-6%	3%	39%	45%	35%	23%	41%	-3%	-5%	5%	33%	41%	46%	38%	29%
Shree Cement Ltd	2,868	-3%	-8%	-1%	39%	60%	47%	40%	32%	-3%	-6%	1%	32%	56%	58%	55%	21%
UltraTech Cement	1,489	-1%	-1%	1%	31%	37%	38%	35%	28%	0%	0%	3%	24%	33%	49%	51%	17%

Source: Citi Investment Research and Analysis. Prices as on 11 April 2012

Cement – Comparative Valuations

Figure 2. India Cement Sector – Statistical Abstract

Company	Ticker	Rating	CMP (Rs)	Mkt Cap ($bn)	Target Price (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			EV/tonne (US$)		
						CY11 FY12	CY12 FY13	CY13 FY14	CY11 FY12	CY12 FY13	CY13 FY14	CY11 FY12	CY12 FY13	CY13 FY14	CY11 FY12	CY12 FY13	CY13 FY14
ACC	ACC.BO	1	1,237	4.5	1,685	57.6	83.5	107.1	21.5	14.8	11.5	9.9	6.9	5.4	146	136	129
Ambuja	ABUJ.BO	1	160	4.8	219	8.1	11.7	14.3	19.7	13.7	11.2	9.7	6.7	5.5	158	146	141
Grasim	GRAS.BO	1	2,576	4.6	3,299	284.6	319.0	384.9	9.0	8.1	6.7	5.9	5.1	3.9	92	94	64
UltraTech	ULTC.BO	1	1,489	7.9	1,770	82.0	108.3	128.0	18.1	13.7	11.6	10.5	8.0	6.5	162	157	142

Source: Citi Investment Research and Analysis. Prices as on 11 April 2012

Figure 3. Global Cement Peer Valuations

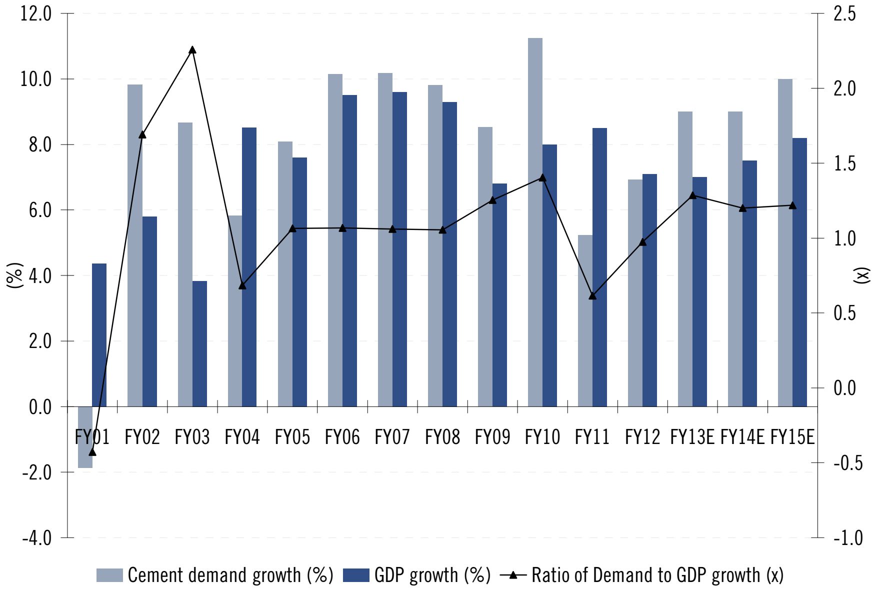
Company	Ticker	Rating	Y/E	Mkt Cap (US$m)	Ccy	CMP	Target Price	P/E (x)			EV/EBITDA (x)			EBITDA Margin (%)			RoE (%)		
								CY11 FY12	CY12 FY13	CY13 FY14	CY11 FY12	CY12 FY13	CY13 FY14	CY11 FY12	CY12 FY13	CY13 FY14	CY11 FY12	CY12 FY13	CY13 FY14
ACC	ACC.BO	3	31-Dec	4,593	INR	1,237	1,685	21.5	14.8	11.5	9.9	6.9	5.4	18%	21%	22%	15%	20%	22%
Ambuja Cements	ABUJ.BO	3	31-Dec	4,815	INR	160	219	19.6	13.6	11.2	9.7	6.7	5.5	22%	25%	26%	15%	20%	21%
Grasim	GRAS.BO	1	31-Mar	4,615	INR	2,576	3,299	9.0	8.1	6.7	5.9	5.1	3.9	22%	23%	25%	15%	15%	15%
UltraTech	ULTC.BO	3	31-Mar	7,870	INR	1,489	1,770	18.1	13.7	11.6	10.5	8.0	6.5	21%	23%	24%	18%	19%	19%
Anhui Conch Cement	0914.CN	1	31-Dec	17,779	HKD	26	28	9.4	11.5	8.6	6.2	6.8	5.1	40%	34%	36%	30%	20%	23%
China National Building Material	3323.CN	1	31-Dec	7,412	HKD	11	13	5.8	6.9	5.0	6.9	7.9	6.5	22%	24%	26%	35%	23%	26%
Semen Gresik	SMGR.ID	1	31-Dec	7,809	IDR	12,050	12,400	18.0	14.4	12.5	13.0	10.4	8.7	32%	34%	34%	30%	32%	31%
Indocement	INTP.ID	1	31-Dec	7,381	IDR	18,350	19,500	18.0	14.4	12.0	11.6	9.1	7.2	39%	40%	40%	26%	28%	28%
Holcim Indonesia	SMCB.ID	3	31-Dec	2,030	IDR	2,425	2,000	18.5	15.5	11.5	11.2	10.2	7.9	23%	22%	23%	14%	14%	16%
Siam Cement	SCC.TH	1	31-Dec	13,329	THB	343	432	16.2	13.7	10.2	11.6	10.1	7.4	11%	12%	14%	20%	20%	24%
Holcim	HOLN.CH	3	31-Dec	19,962	CHF	56	46	18.0	16.3	13.3	7.8	7.3	6.6	19%	19%	20%	2%	6%	8%
Lafarge SA	LAFP.FR	2	31-Dec	11,975	EUR	32	37	16.7	13.9	9.0	7.2	6.2	5.4	21%	21%	22%	1%	4%	6%
Heidelberg Cement	HEIG.DE	2	31-Dec	10,490	EUR	43	47	13.4	13.3	10.5	7.8	7.4	6.6	18%	18%	19%	3%	5%	6%

Source: Citi Investment Research and Analysis estimates. Prices as on 11 April 2012

Demand is picking up

Demand growth in the past ten years has on average been 9.5% pa. The average ratio of cement demand growth to GDP growth has been 1.14x in the past ten years. The growth in FY11 was below expectations at 5.2% and was 6.7% in FY12. We expect demand growth to be 9% p.a. in FY13 and FY14 and 10% in FY15.

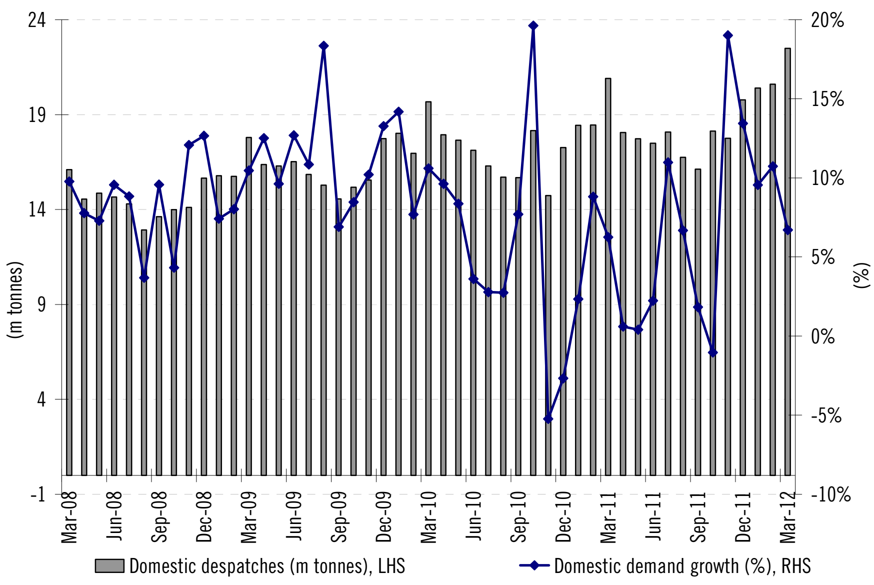
Figure 4. Cement demand growth (%) vs. GDP growth (%)



Source: Cement Manufacturers' Association (CMA), Company Reports, CIRA estimates

Cement demand trends had been quite weak in April-October 2011, with domestic demand growing only ~2.9% yoy. The main reasons for this are: 1) slower infrastructure demand, particularly in South India and 2) lower demand from some urban real estate markets.

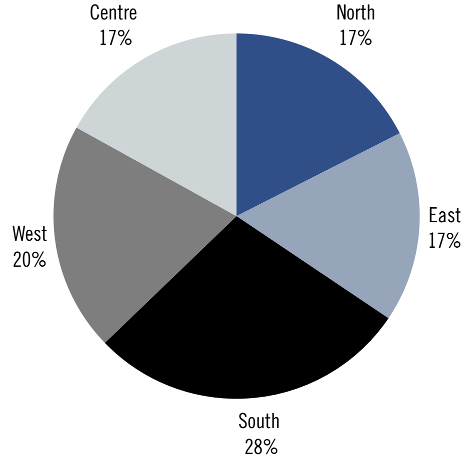
Figure 5. Monthly domestic cement consumption (m tonnes) and growth (% YoY)



Source: Cement Manufacturers' Association (CMA), Company Reports, Citi Investment Research and Analysis

The Southern region used to consume the largest proportion of cement (33%) in India. However with negative demand growth in the south for the past two years, its share of consumption has fallen to 28%. The west consumes 20% while each of the other regions each consume similar shares of 17%.

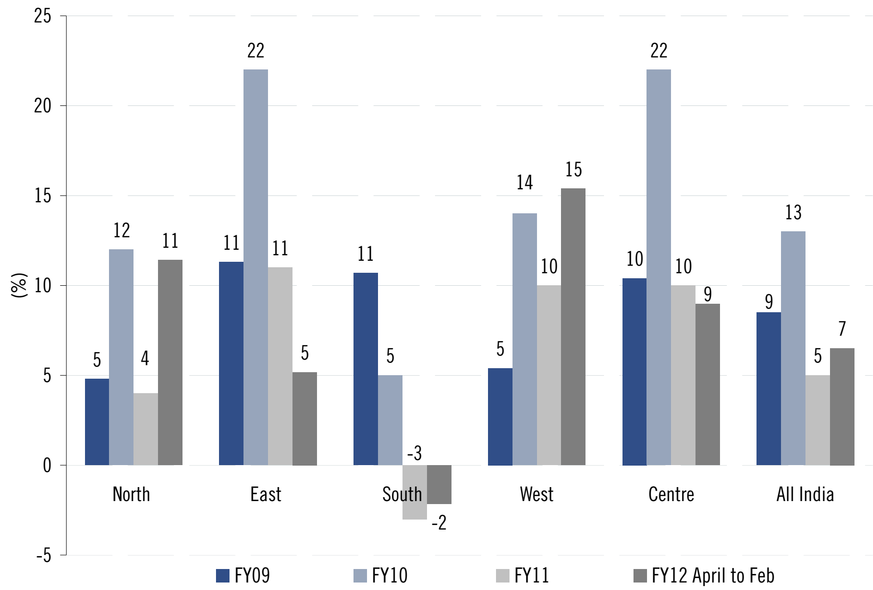
Figure 6. April – Feb 2012 region-wise cement consumption (in volume terms)



Source: CMA, Citi Investment Research and Analysis

Figure 6 gives indicative trends for demand as data from ACC and Ambuja are not available from FY10 onwards. Limited infrastructure creation is taking place in South India, particularly Andhra Pradesh. Western and northern India continue to report relatively strong demand growth.

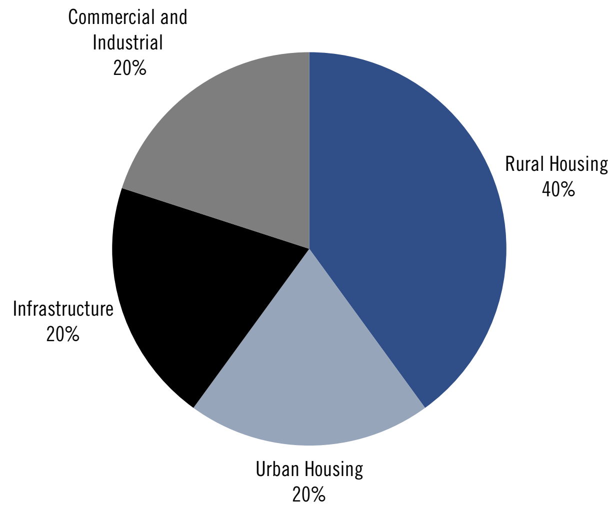
Figure 7. Region-wise demand growth (%)



Source: CMA, Citi Investment Research and Analysis

Together, urban and rural housing account for ~60% of India's cement consumption. India is in the early stages of economic growth and cement is mainly sold in bagged form. Bulk cement and RMC form less than 5% of sales and brands still earn premium prices. Anecdotal evidence (from industry sources and press reports) suggests that urban demand is sluggish. Much of the incremental growth is also coming from rural India and low income housing. The good monsoon of FY12 should have a positive impact on rural demand growth in FY13.

Figure 8. India Cement Consumption by sector

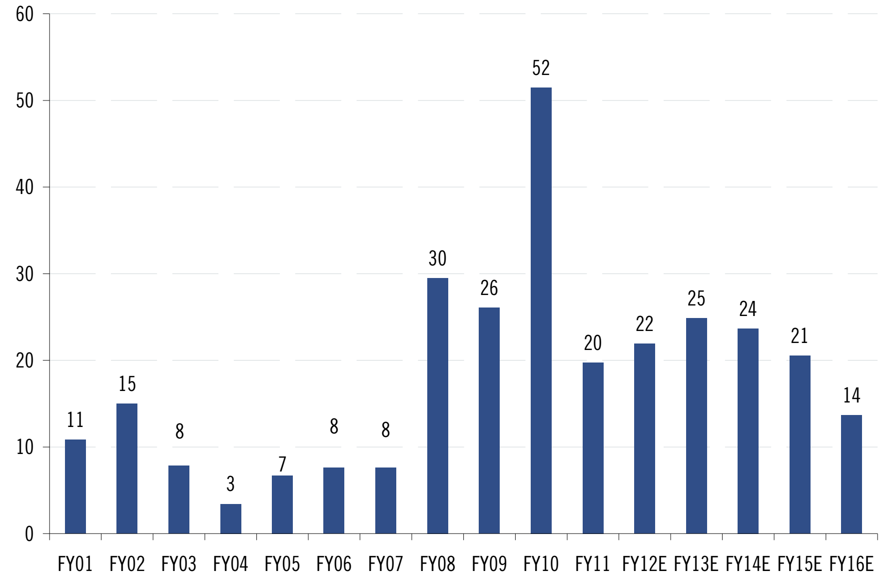


Source: Citi Investment Research and Analysis

Supply is slowing down

In the last three years, 94mt of cement capacity has been set up, an increase of 42% over the FY09 base. In contrast, cumulative demand growth has been 25% (45mt) in the same period. Another 69mtpa (+22%) of capacity is expected over the next three years, but some of this is likely to be delayed.

Figure 9. India – Yearly capacity addition (mtpa)



Source: CMA, Company Reports, Citi Investment Research and Analysis estimates

While the oversupply continues, the good news is that it the demand-supply gap is narrowing in favor of the cement producers. Utilization rates were around 74% in FY11 and FY12 and should rise to 75% in FY13. We expect utilization to be around 82-83% in FY14 and FY15. Better utilization rates should make it easier for producers to benefit from better prices.

Figure 10. India – Domestic Cement Demand and Supply

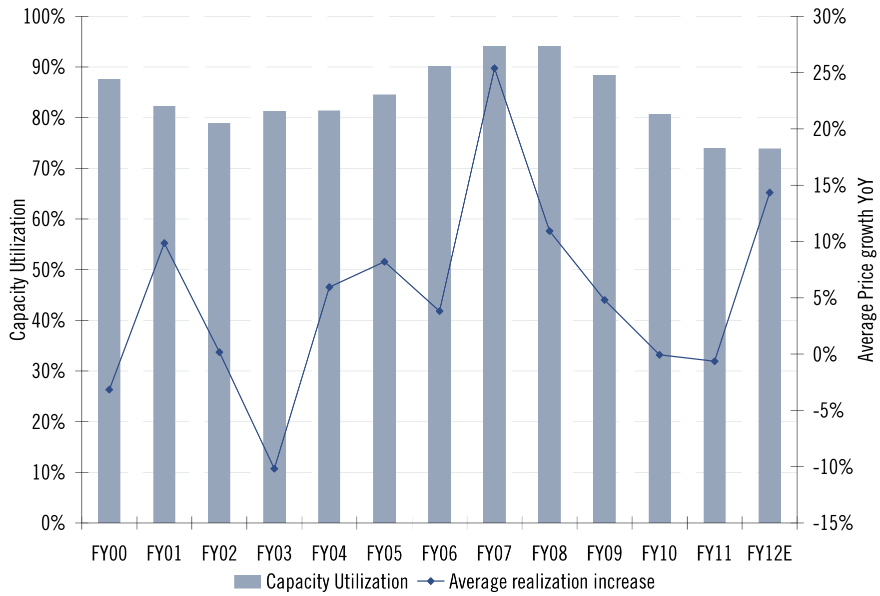
Year	Capacity m tpa	Prod m tpa	Prod gr (%)	Capacity utilisation (%)	Domestic Despatches m tpa	Dom demand gr (%)	Cement exports m tpa	Clinker exports m tpa	Surplus/ deficit m tpa
FY2000	107	94	15	87.6	91.9	15.2	2.0	1.2	0.2
FY2001	118	93	-1	82.3	90.2	-1.9	3.1	2.0	0.1
FY2002	133	102	10	78.9	99.0	9.8	3.4	1.8	0.0
FY2003	141	111	9	81.3	107.6	8.7	3.5	3.5	0.3
FY2004	144	118	6	81.4	113.9	5.8	3.4	5.6	0.3
FY2005	151	128	9	84.6	123.1	8.1	4.1	6.0	0.4
FY2006	158	142	11	90.2	135.6	10.1	6.0	3.2	0.2
FY2007	166	156	10	94.1	149.4	10.2	5.9	3.1	0.4
FY2008	195	168	8	94.2	164.0	9.8	3.7	2.4	0.6
FY2009	221	182	8	88.3	178.0	8.5	3.2	2.9	0.4
FY2010	273	201	11	80.7	198.0	11.2	2.3	3.1	0.4
FY2011	293	211	5	74.0	208.4	5.2	2.0	2.0	0.2
FY2012	315	225	7	73.7	222.3	6.7	1.9	2.2	0.5
FY2013E	339	275	22	84.5	242.8	9.0	2.0	2.0	30.3
FY2014E	363	291	6	82.2	264.2	9.0	2.0	2.0	24.6
FY2015E	384	315	8	83.2	290.6	10.0	2.0	2.0	22.1
FY2016E	397	326	4	83.0	319.6	10.0	2.0	2.0	4.6

Note: Capacity utilization is adjusted for period for which the plant is available.

Source: CMA, Company Reports, Citi Investment Research and Analysis estimates

Average cement prices have shown higher average YoY growth in periods when industry capacity creation in the preceding years has been muted. This enables utilization levels to be high and has a positive impact on cement price trends. Note that the highest price rise since FY01 was in FY07 when utilization levels were at 94%. Current utilization levels range between 70-80%.

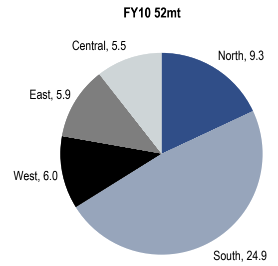
Figure 11. Cement Capacity utilization (%) vs. average domestic price change (%)



Source: CMA, Company Reports, Citi Investment Research and Analysis estimates

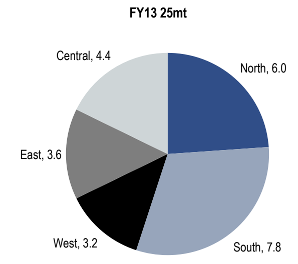
New capacity creation tends to be region-centric and is largely based on immediate past demand trends in that region. For instance, robust demand growth (10-14% during FY07-09) in South India led to substantial new capacity in FY09 and FY10. South India then witnessed a big price drop in 1HFY11. However prices have recovered in the region and are quite stable despite the oversupply.

Figure 12. Regional capacity addition – FY10



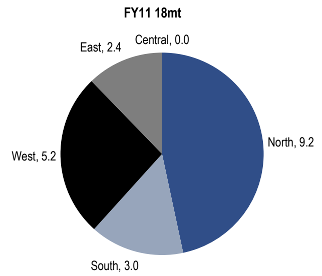
Source: Company Reports, CMA, CIRA

Figure 13. Regional capacity addition – FY13E



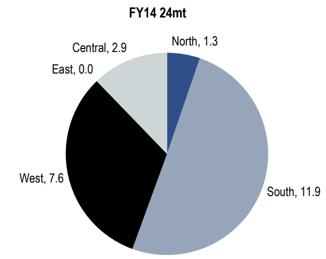
Source: Company Reports, CMA, CIRA

Figure 14. Regional capacity addition – FY11



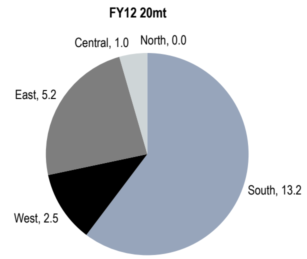
Source: Company Reports, CMA, CIRA

Figure 15. Regional capacity addition – FY14E



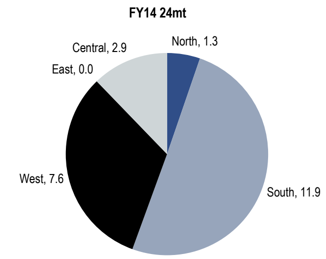
Source: Company Reports, CMA, CIRA

Figure 16. Regional capacity addition – FY12E



Source: Company Reports, CMA, CIRA

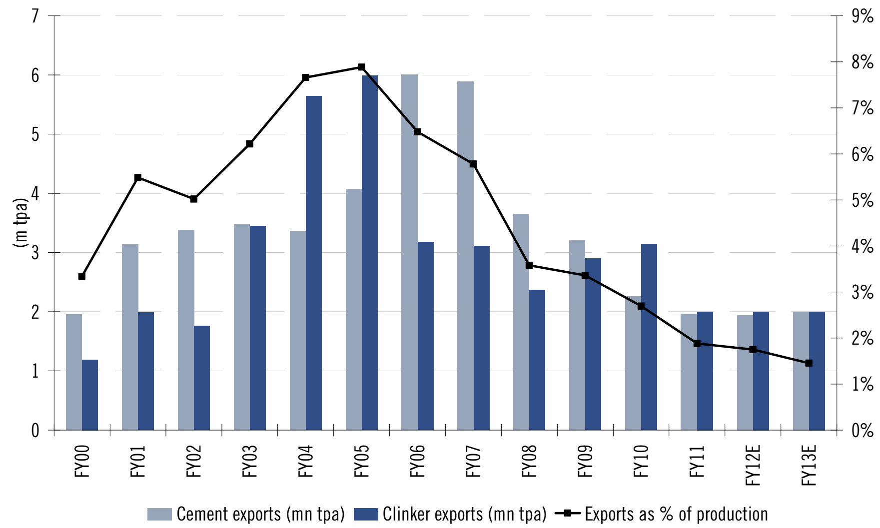
Figure 17. Regional capacity addition – FY15E



Source: Company Reports, CMA, CIRA

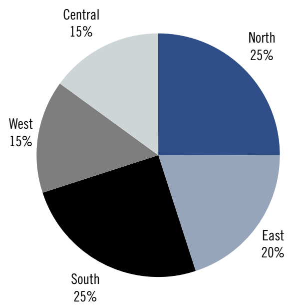
Exports are only used as a balancing factor in India. Most of India's exports are sent out from Western India. Ambuja and UltraTech are among the biggest exporters in India and major export markets are Sri Lanka, Nepal and the Middle East.

Figure 18. Cement + Clinker Exports as a % of Production



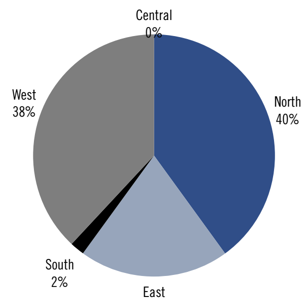
Source: CMA, Company Reports, Citi Investment Research and Analysis

Figure 19. ACC sales by Region



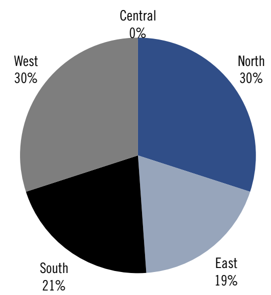
Source: Company Reports, CMA, CIRA

Figure 20. Ambuja sales by Region



Source: Company Reports, CMA, CIRA

Figure 21. UltraTech sales by Region

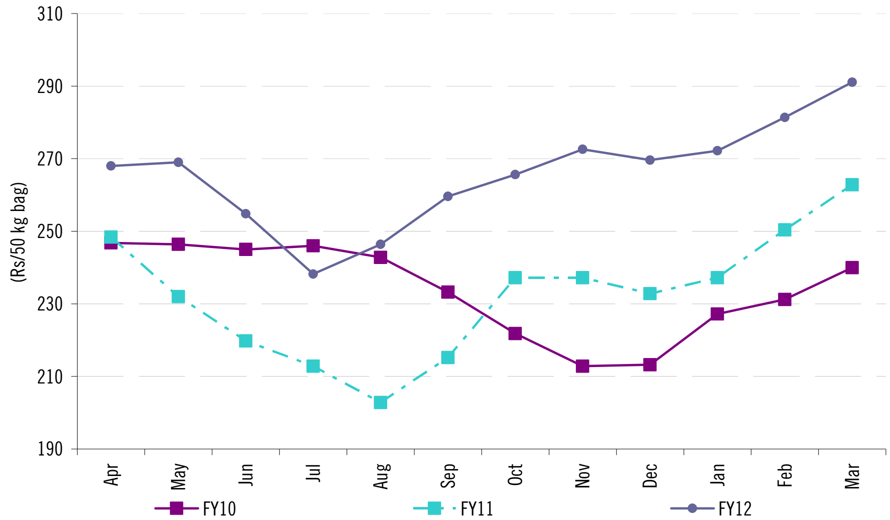


Source: Company Reports, CMA, CIRA

Pricing compensates for cost hikes

Since FY08, cement prices have largely remained in a range between Rs210 and Rs250 per 50kg bag. The surge in supply creation led to a collapse in prices in 1HFY11. Since October 2011 average cement prices have largely been on an uptrend as producers have controlled output in line with sluggish demand trends in an effort to compensate for surging costs. The worst period of oversupply is behind us and recent trends indicate that producers are managing to overcompensate for cost hikes. However the Indian market is still fragmented and there are risks of government action and possibly difficulties in passing on cost hikes.

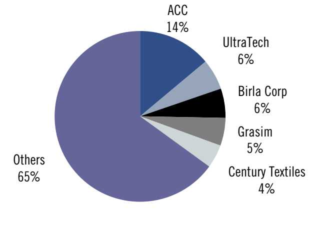
Figure 22. Average Cement Prices (Rs per 50kg bag)



Source: Industry Sources, Citi Investment Research and Analysis

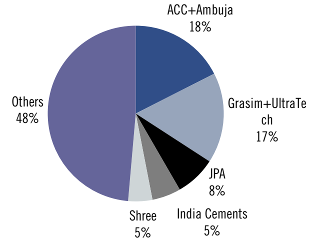
Consolidation in India has progressed since FY97. The Top 5 players accounted for 35% of capacity back then, but this has risen to 52% in FY11. However, there is still a long tail with ~30 players making up the balance 48%.

Figure 23. FY97 – Top 5 at 35%



Source: Citi Investment Research and Analysis

Figure 24. FY11 – Top 5 at 52%



Source: Citi Investment Research and Analysis

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy	**1**
from Sell	
Price (11 Apr 12)	Rs1,236.50
Target price	Rs1,685.00
from Rs996.00	
Expected share price return	36.3%
Expected dividend yield	2.8%
Expected total return	**39.1%**
Market Cap	Rs232,147M
	US$4,511M

Price Performance
(RIC: ACC.BO, BB: ACC IN)

ACC (ACC.BO)

Relying on the Old Warhorse

- **Upgrade to Buy** — We upgrade ACC to Buy based on our improved outlook for cement, ACC's well-diversified market mix, strong margins and relatively attractive returns on capital. ACC has spare capacity to match market growth in case this is higher than 8% and plans to raise capacity by ~15% to 35mtpa by CY15. ACC is also preparing for the future by buying land/limestone deposits.
- **New target price of Rs1,685** — We change from using replacement cost (useful in an oversupply scenario) to earnings valuations as these better capture the leverage impact for commodity stocks. We base our target price of Rs1,685 using 8.7x EV/EBITDA (its 12-yr avg) for June 13 (vs EV/t of US$120 for Sep 12). At our TP ACC would trade at 17.7x PE and US$191 EV/tonne reasonable value given ACC's strong EPS CAGR of 35% through CY14, high margins, good dividend yield and strong brand franchise which earns it price premiums.
- **A strong franchise; several advantages** — ACC is a 75-year old brand and has an unmatched presence in terms of brand recognition and reach which earn it a meaningful price premium. It has the best coal linkages among the cement players and, while it will be disproportionately hit when domestic coal prices are hiked, it will still pay lower in absolute terms than its competitors. Transport costs are relatively low as it has greater access to rail transport which is cheaper than road transport. All this translates into EBITDA/t of around Rs1,250.
- **Revising estimates** — We raise PAT by 45% in CY12 and 78% in CY13 and introduce CY14 estimates. Our estimate changes incorporate: 1) higher realisations by 15/20% in CY12/CY13 (we now expect realisations will rise 15% in CY12 vs 1% earlier and 7% in CY13 vs 3% earlier); 2) slightly lower volumes (by 2-3%); 3) higher costs based on CY11 annual report and current trends.
- **Strong balance sheet, good dividend yield** — A combination of robust earnings and judicious investments have resulted in ACC enjoying good returns relative to the industry. It has strong cash flows and enjoys a net cash position of Rs36bn. Its payout rate is 46% and dividend yield is 2.8%.
- **Expansion update** — ACC is going ahead with its plans to expand capacity in east India. Gross increase in capacity will be 5.1mtpa (capex Rs33bn), net capacity increase will be 3.8mtpa. Additionally debottlenecking will take its capacity to 35mtpa by 2015.
- **Risks** — Government action against producers; slower-than-expected demand growth; inability to pass on cost hikes.

Figure 1. ACC – Statistical Abstract

YE 31 Dec	Revenue (Rs m)	PAT (Rs m)	EBITDA (Rs m)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	EV/tonne (US$)
CY08	71,658	11,787	17,332	62.8	-8%	19.7	11.0	197
CY09	79,427	16,067	24,797	85.6	36%	14.4	8.0	167
CY10	76,022	10,137	15,540	54.0	-37%	22.9	11.2	158
CY11	93,347	10,811	16,991	57.6	7%	21.5	9.9	146
CY12E	116,112	15,669	24,425	83.5	45%	14.8	6.9	136
CY13E	133,580	20,101	29,903	107.1	28%	11.5	5.4	129
CY14E	155,887	25,472	37,315	135.7	27%	9.1	4.1	121

Source: Citi Investment Research and Analysis estimates, prices as on 11 April 2012, Rs/US$ at 50.

ACC.BO: Fiscal year end 31-Dec — Price: Rs1,236.50; TP: Rs1,685.00; Market Cap: Rs232,147m; Recomm: Buy

Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E
Sales revenue	76,022	93,347	116,112	133,580	155,887
Cost of sales	-55,783	-70,411	-85,386	-96,734	-110,932
Gross profit	20,239	22,936	30,726	36,846	44,955
Gross Margin (%)	26.6	24.6	26.5	27.6	28.8
EBITDA	**18,465**	**20,148**	**28,440**	**34,933**	**42,749**
EBITDA Margin (%)	24.3	21.6	24.5	26.2	27.4
Depreciation	-3,927	-4,753	-5,253	-5,403	-5,553
Amortisation	0	0	0	0	0
EBIT	**14,538**	**15,395**	**23,187**	**29,530**	**37,196**
EBIT Margin (%)	19.1	16.5	20.0	22.1	23.9
Net interest	-568	-969	-1,119	-1,219	-1,319
Associates	0	0	0	0	0
Non-op/Except	0	0	0	0	0
Pre-tax profit	**13,970**	**14,426**	**22,068**	**28,311**	**35,877**
Tax	-3,833	-3,615	-6,400	-8,210	-10,404
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net profit	**10,137**	**10,811**	**15,669**	**20,101**	**25,472**
Net Margin (%)	13.3	11.6	13.5	15.0	16.3
Core NPAT	10,137	10,811	15,669	20,101	25,472

Per share data	2010	2011	2012E	2013E	2014E
Reported EPS (Rs)	54.00	57.58	83.46	107.06	135.68
Core EPS (Rs)	54.00	57.58	83.46	107.06	135.68
DPS (Rs)	30.50	28.00	35.00	40.00	45.00
CFPS (Rs)	103.90	84.02	98.54	133.28	163.08
FCFPS (Rs)	60.70	60.67	74.57	66.70	85.84
BVPS (Rs)	344.59	383.09	425.73	486.16	569.36
Wtd avg ord shares (m)	188	188	188	188	188
Wtd avg diluted shares (m)	188	188	188	188	188

Growth rates	2010	2011	2012E	2013E	2014E
Sales revenue (%)	-4.3	22.8	24.4	15.0	16.7
EBIT (%)	-38.9	5.9	50.6	27.4	26.0
Core NPAT (%)	-36.9	6.6	44.9	28.3	26.7
Core EPS (%)	-36.9	6.6	44.9	28.3	26.7

Balance Sheet (Rsm)	2010	2011	2012E	2013E	2014E
Cash & cash equiv.	10,800	16,526	29,213	37,384	48,359
Accounts receivables	1,783	2,604	3,195	3,673	4,285
Inventory	9,150	10,997	13,572	15,421	17,776
Net fixed & other tangibles	66,452	66,429	65,676	72,773	81,720
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	22,827	22,302	24,000	25,250	26,250
Total assets	**111,013**	**118,857**	**135,656**	**154,501**	**178,388**
Accounts payable	14,615	19,321	23,374	27,028	31,440
Short-term debt	0	0	0	0	0
Long-term debt	5,238	5,107	5,107	5,107	5,107
Provisions & other liab	26,464	22,506	27,245	31,092	34,946
Total liabilities	**46,318**	**46,935**	**55,726**	**63,227**	**71,493**
Shareholders' equity	64,695	71,923	79,929	91,274	106,895
Minority interests	0	0	0	0	0
Total equity	**64,695**	**71,923**	**79,929**	**91,274**	**106,895**
Net debt	**-5,562**	**-11,418**	**-24,106**	**-32,277**	**-43,252**
Net debt to equity (%)	-8.6	-15.9	-30.2	-35.4	-40.5

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	22.9	21.5	14.8	11.5	9.1
PB (x)	3.6	3.2	2.9	2.5	2.2
EV/EBITDA (x)	12.2	10.9	7.4	5.8	4.6
FCF yield (%)	4.9	4.9	6.0	5.4	6.9
Dividend yield (%)	2.5	2.3	2.8	3.2	3.6
Payout ratio (%)	56	49	42	37	33
ROE (%)	16.2	15.8	20.6	23.5	25.7

Cashflow (Rsm)	2010	2011	2012E	2013E	2014E
EBITDA	18,465	20,148	28,440	34,933	42,749
Working capital	1,190	2,424	-627	1,078	946
Other	-147	-6,798	-9,313	-10,988	-13,077
Operating cashflow	**19,507**	**15,774**	**18,501**	**25,022**	**30,617**
Capex	-8,111	-4,383	-4,500	-12,500	-14,500
Net acq/disposals	-2,270	-500	-500	-500	-500
Other	578	2,517	4,016	5,030	5,433
Investing cashflow	**-9,803**	**-2,365**	**-984**	**-7,970**	**-9,567**
Dividends paid	-5,035	-6,873	-3,710	-7,662	-8,756
Financing cashflow	**-6,367**	**-7,683**	**-4,829**	**-8,881**	**-10,076**
Net change in cash	**3,337**	**5,725**	**12,688**	**8,171**	**10,975**
Free cashflow to s/holders	**11,396**	**11,391**	**14,001**	**12,522**	**16,117**

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For definitions of the items in this table, please click here.

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Estimate changes

Figure 2. ACC Estimate Changes CY12E-CY13E

	CY12E			CY13E		
	Old	New	% chg	Old	New	% chg
Sales volumes (m)	26.3	25.8	-2%	28.7	27.8	-3%
Net sales (Rs bn)	104.0	116.1	12%	115.7	133.6	15%
EBITDA (Rs bn)	18.3	24.4	33%	18.7	29.9	60%
Net profit (Rs bn)-adj	10.8	15.7	45%	11.3	20.1	78%
EPS (Rs)	57.6	83.5	45%	60.2	107.1	78%
Net realisation (Rs/t)	3,941	4,512	15%	4,020	4,828	20%
YoY change in average realisation (%)	0.9%	14.6%		2.7%	6.8%	

Source: Citi Investment Research and Analysis estimates

Figure 3. ACC 1-yr forward rolling EV/EBITDA

Source: Datastream, Company Reports, Citi Investment Research and Analysis

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Data as of: 06-Apr-12

Radar Screen Quadrant Definitions

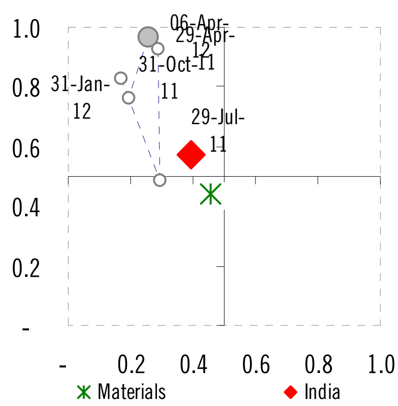
Glamour *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Quants View – Glamour

ACC lies in the Glamour quadrant of our Value-Momentum map with strong momentum but relatively weak value scores. It has been a resident there for the past five months. Compared with its peers in the Materials sector, ACC fares worse on the valuation metric but better on the momentum metric. Similarly, compared with its peers in its home market of India, ACC fares worse on the valuation metric but better on the momentum metric.

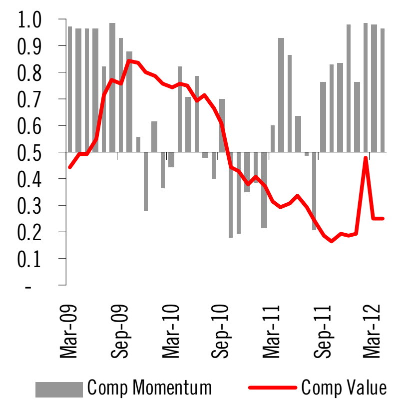
From a macro perspective, ACC has a low beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from growth underperformance, value underperformance, and tightening Asian interest rates.

Figure 4. Radar Quadrant Chart History



Source: CIRA

Figure 5. Radar Valuation and Momentum Scores



Source: CIRA

Figure 6. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	83.14	Implied Trend Growth (%)	1.14
FY(-1)	57.27	Trailing PE (x)	19.41
FY0	69.12	Implied Cost of Debt (%)	8.81
FY1	69.41	Standardised MCap	(0.03)
FY2	81.18		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 7. Stock Performance Sensitivity to Key Macro Factors

Region	0.71	Commodity ex Oil	0.24
Widening APACxJ CDS	(0.11)	Rising Oil Prices	(0.02)
Growth	(1.64)	Rising Asian IR's	(0.48)
Value	(3.06)	Rising EM Yields	0.20
Small Caps Outperform Large Caps	(0.09)	Weaker US$ (vs Asia)	0.45
Widening US Credit Spreads	(0.09)	Weaker ¥ (vs US$)	(0.42)

Source: Citi Investment Research and Analysis

Company Focus

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy	**1**
from Sell	
Price (11 Apr 12)	Rs159.55
Target price	Rs219.00
from Rs117.00	
Expected share price return	37.3%
Expected dividend yield	3.0%
Expected total return	**40.3%**
Market Cap	Rs245,045M
	US$4,761M

Price Performance
(RIC: ABUJ.BO, BB: ACEM IN)

Ambuja Cements (ABUJ.BO)

Building the Value Case

- **Upgrading to Buy: Top Pick** — We upgrade our recommendation on Ambuja to Buy (from Sell) on the back of a more favourable outlook for the cement industry. Ambuja is our top pick as it offers good value at current valuations trading at EV/EBITDA of 6.7x. It is one of India's lowest cost producers with relatively higher EBITDA margins due to its focus on logistics, sales in the retail market (higher realizations), and modern plants with low consumption norms.

- **Raising TP to Rs219** — We move from using replacement costs to earnings valuations. Our target price of Rs219 is set at 8.8x June 13 EV/EBITDA (vs US$120/t for Sep12 earlier). The target of 8.8x is based at a 10% premium to Ambuja's 12-year average EV/EBITDA of 8x as we expect the stock to trade at premiums relative to its history as the outlook for cement has increased due to better demand, slowdown in capacity and better producer discipline. Our TP equates to a June13 P/E of 16.8x and EV/tonne of US$208.

- **Earnings revised** — We raise our PAT estimates by 51% for CY12 and 76% for CY13 and introduce our CY14 earnings. We increase our volume estimates marginally and expect volumes to grow by 8% p.a. through CY13. Based on stronger price trends than expected we estimate Ambuja's prices to rise by 15% in CY12 and 7% in CY13. We also incorporate data from its CY11 annual report and updated cost trends.

- **Expansion/investment update** — Ambuja's current cement capacity of 27.4mtpa will rise to 31mtpa by 2015 (capex Rs18bn) when it completes its 2.2mtpa clinker unit in Rajasthan (cement capacity of 3.5mtpa). During CY11 it made investments in 1) Dang Cement Industries, Nepal (85% for Rs191m) which has limestone deposits; 2) Dirk India, Maharashtra (60% for Rs165m), a superfine flyash plant; 3) Coutinho Microfine Products (50% for Rs100m), a speciality cement plant. Ambuja has a 27.3% stake in a coal JV which is expected to begin production in 2015.

- **Balance sheet and good dividend yield** — Like ACC Ambuja has been investing carefully and with its relatively strong free cash flows has built up a cash balance of Rs39bn. Since expansion capex is limited it has increased its dividend payout to ~49% and hence offers a good dividend yield of 3%.

- **Risk factors** — Government action; slower-than-expected demand growth; higher prices of imported coal; inability to pass on cost hikes.

Figure 1. Ambuja – Statistical Abstract

YE 31 Dec	Revenue (Rs m)	Net Profit (Rs m)	EBITDA (Rs m)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	EV/tonne (US$)
CY08	62,347	11,828	17,779	7.8	-16%	20.5	12.0	213
CY09	70,769	12,184	18,669	8.0	3%	20.0	10.8	208
CY10	73,902	12,434	18,236	8.1	2%	19.6	10.7	177
CY11	85,145	12,464	19,061	8.1	0%	19.6	9.7	158
CY12E	107,309	17,974	26,606	11.7	44%	13.6	6.7	146
CY13E	124,187	21,853	31,691	14.3	22%	11.2	5.5	141
CY14E	143,233	25,541	36,305	16.7	17%	9.6	4.6	134

Source: Citi Investment Research and Analysis estimates, prices as on 11 April 2012, Rs/US$ at 50.

ABUJ.BO: Fiscal year end 31-Dec — Price: Rs159.55; TP: Rs219.00; Market Cap: Rs245,045m; Recomm: Buy

Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E
Sales revenue	73,902	85,145	107,309	124,187	143,233
Cost of sales	-53,403	-63,191	-76,798	-88,102	-101,977
Gross profit	20,499	21,955	30,512	36,085	41,256
Gross Margin (%)	27.7	25.8	28.4	29.1	28.8
EBITDA	**20,712**	**22,249**	**30,436**	**36,079**	**41,476**
EBITDA Margin (%)	28.0	26.1	28.4	29.1	29.0
Depreciation	-3,872	-4,452	-4,840	-5,115	-5,390
Amortisation	0	0	0	0	0
EBIT	**16,840**	**17,798**	**25,596**	**30,964**	**36,087**
EBIT Margin (%)	22.8	20.9	23.9	24.9	25.2
Net interest	-487	-526	-619	-599	-599
Associates	0	0	0	0	0
Non-op/Except	0	0	0	0	0
Pre-tax profit	**16,353**	**17,271**	**24,978**	**30,366**	**35,488**
Tax	-3,919	-4,808	-7,004	-8,512	-9,947
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net profit	**12,434**	**12,464**	**17,974**	**21,853**	**25,541**
Net Margin (%)	16.8	14.6	16.7	17.6	17.8
Core NPAT	12,434	12,464	17,974	21,853	25,541
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Reported EPS (Rs)	8.13	8.15	11.75	14.28	16.70
Core EPS (Rs)	8.13	8.15	11.75	14.28	16.70
DPS (Rs)	2.60	3.20	4.80	5.40	6.50
CFPS (Rs)	12.25	10.57	11.38	14.67	17.36
FCFPS (Rs)	7.21	6.84	7.14	7.80	8.87
BVPS (Rs)	47.91	52.74	58.92	66.89	75.98
Wtd avg ord shares (m)	1,530	1,530	1,530	1,530	1,530
Wtd avg diluted shares (m)	1,530	1,530	1,530	1,530	1,530
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue (%)	4.4	15.2	26.0	15.7	15.3
EBIT (%)	-7.8	5.7	43.8	21.0	16.5
Core NPAT (%)	2.1	0.2	44.2	21.6	16.9
Core EPS (%)	1.6	0.2	44.2	21.6	16.9
Balance Sheet (Rsm)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash & cash equiv.	17,482	20,712	31,629	38,836	47,309
Accounts receivables	1,282	2,409	2,486	3,062	3,532
Inventory	9,019	9,250	11,979	14,692	17,210
Net fixed & other tangibles	65,585	67,637	69,298	74,683	82,294
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	9,831	14,556	14,393	14,943	15,493
Total assets	**103,197**	**114,564**	**129,785**	**146,217**	**165,838**
Accounts payable	11,063	13,432	15,440	17,937	21,028
Short-term debt	0	0	0	0	0
Long-term debt	650	494	494	494	494
Provisions & other liab	18,188	19,947	23,708	25,455	28,079
Total liabilities	**29,901**	**33,872**	**39,641**	**43,886**	**49,600**
Shareholders' equity	73,296	80,692	90,143	102,331	116,238
Minority interests	0	0	0	0	0
Total equity	**73,296**	**80,692**	**90,143**	**102,331**	**116,238**
Net debt	**-16,831**	**-20,219**	**-31,136**	**-38,343**	**-46,816**
Net debt to equity (%)	-23.0	-25.1	-34.5	-37.5	-40.3

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	19.6	19.6	13.6	11.2	9.6
PB (x)	3.3	3.0	2.7	2.4	2.1
EV/EBITDA (x)	11.3	10.3	7.3	6.0	5.1
FCF yield (%)	4.5	4.3	4.5	4.9	5.6
Dividend yield (%)	1.6	2.0	3.0	3.4	4.1
Payout ratio (%)	32	39	41	38	39
ROE (%)	18.0	16.2	21.0	22.7	23.4
Cashflow (Rsm)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBITDA	20,712	22,249	30,436	36,079	41,476
Working capital	-219	795	-329	-1,042	-147
Other	-1,750	-6,873	-12,691	-12,596	-14,763
Operating cashflow	**18,743**	**16,171**	**17,416**	**22,441**	**26,566**
Capex	-7,710	-5,701	-6,500	-10,500	-13,000
Net acq/disposals	1,662	-2,333	0	0	0
Other	715	841	3,830	4,388	5,172
Investing cashflow	**-5,332**	**-7,193**	**-2,670**	**-6,112**	**-7,828**
Dividends paid	-4,267	-5,252	-3,210	-8,522	-9,666
Financing cashflow	**-4,735**	**-4,748**	**-3,829**	**-9,121**	**-10,264**
Net change in cash	**8,675**	**4,231**	**10,917**	**7,207**	**8,473**
Free cashflow to s/holders	**11,033**	**10,471**	**10,916**	**11,941**	**13,566**

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For definitions of the items in this table, please click here.

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Estimate changes

Figure 2. Ambuja Estimate Changes CY12E-CY13E

	CY12E			CY13E		
	Old	**New**	**% chg**	**Old**	**New**	**% chg**
Sales volumes (m)	23.0	23.2	1%	24.8	25.0	1%
Net sales (Rs bn)	90.8	107.3	18%	100.0	124.2	24%
EBITDA (Rs bn)	18.8	26.6	41%	19.4	31.7	64%
Net profit (Rs bn)-adj	11.9	18.0	51%	12.4	21.9	76%
EPS (Rs)	7.8	11.7	51%	8.1	14.3	76%
Net Domestic Realisation (Rs)	3,962	4,655	17%	4,041	4,981	23%
YoY change in average realisation (%)	1%	15%		2%	7%	

Source: Citi Investment Research and Analysis estimates

Figure 3. Ambuja 1-yr forward rolling EV/EBITDA

Source: Datastream, Company Reports, Citi Investment Research and Analysis

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Data as of: 06-Apr-12

Radar Screen Quadrant Definitions

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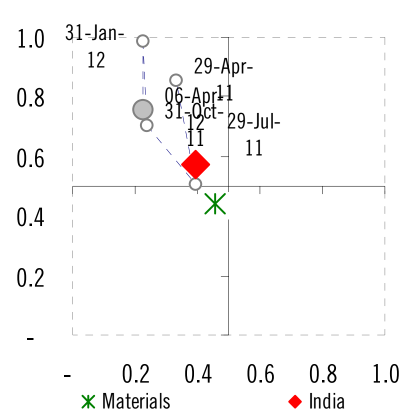
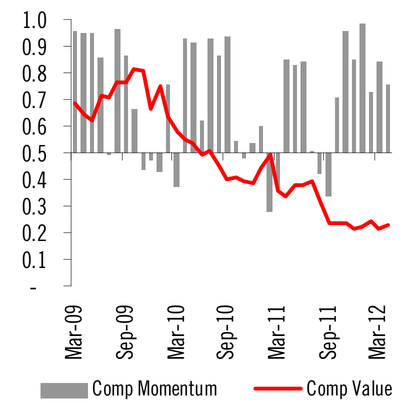
From a macro perspective, Ambuja Cements has a low beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from growth underperformance, value underperformance, tightening Asian interest rates, and a weaker US dollar.

Figure 4. Radar Quadrant Chart History



Source: CIRA

Figure 5. Radar Valuation and Momentum Scores



Source: CIRA

Figure 6. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	7.98	Implied Trend Growth (%)	7.77
FY(-1)	8.26	Trailing PE (x)	20.95
FY0	7.99	Implied Cost of Debt (%)	8.81
FY1	9.14	Standardised MCap	0.07
FY2	10.99		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 7. Stock Performance Sensitivity to Key Macro Factors

Region	0.68	Commodity ex Oil	0.06
Widening APACxJ CDS	(0.06)	Rising Oil Prices	(0.13)
Growth	(1.76)	Rising Asian IR's	(0.37)
Value	(2.11)	Rising EM Yields	0.23
Small Caps Outperform Large Caps	0.06	Weaker US$ (vs Asia)	1.68
Widening US Credit Spreads	0.13	Weaker ¥ (vs US$)	(0.18)

Source: Citi Investment Research and Analysis

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (11 Apr 12)	Rs2,573.30
Target price	Rs3,299.00
from Rs2,728.00	
Expected share price return	28.2%
Expected dividend yield	0.8%
Expected total return	**29.0%**
Market Cap	Rs235,997M
	US$4,586M

Price Performance
(RIC: GRAS.BO, BB: GRASIM IN)

Grasim Industries (GRAS.BO)

A Defensive way to Play Cement

- **Maintain Buy** — Grasim offers exposure to both cement and viscose staple fibre (VSF) together about 95% of sales. We are positive on cement and Grasim offers value even after applying a 30% holding company discount to our TP on UltraTech Cement (ULTC) in which Grasim holds 60%. Grasim's VSF business offers longer term downside protection as it should earn a steady EBITDA over the cycle (although near term margins are under pressure). We prefer ULTC to Grasim as a pure cement play would offer greater leverage to cement.

- **Revising TP to Rs3,299** — We value Grasim using SOTP. We value its 51mtpa cement capacity (ULTC) using Jun13 (vs Sep12) EV/EBITDA of 9x (vs US$120 EV/t earlier) but apply a 30% holding company discount to get a value of Rs2,234/share (vs Rs1,623) for Grasim's 60% holding in ULTC. Grasim's other businesses (VSF/Chemicals) are valued at an EV/EBITDA of 6x June13, at a premium to hard commodity businesses which are trading at ~5x (given its steady margin generating capability), giving a value of Rs1,065/share (vs Rs1,105). Our Grasim TP implies Jun13 EV/EBITDA of 6.2x and P/E of 10.9x. Our PAT estimates rise 5-41% in FY12-FY14 largely on higher cement profits despite lower VSF profitability.

- **Cement: View is positive** — ULTC has planned two brownfield capacities totaling 9.2mtpa (Chhattisgarh & Karnataka) at a total capex of Rs51bn (~US$120/t) by FY14. Additional capex of Rs59bn ($1.2bn) will be spent on logistics, power, modernisation and RMC. ULTC is targeting completion by FY14, but we assume full completion only by FY15. Cement prices have been relatively firm recently and, with slower capacity growth and better demand, the equation is more in favour of the producers. ULTC should benefit: well located across India, is a premium brand and has niche businesses (white cement/putty).

- **VSF: Near-term cautious** — Current capacity is 334ktpa (~11% of world) and is expected to be hiked by 156ktpa to 490ktpa by FY14. This includes 36ktpa of brownfield capacity in Karnataka (Rs4.5bn) and 120ktpa of greenfield capacity (to make specialty fibres) at Vilayat, Gujarat (Rs17bn). VSF prices have come off and while margins are expected to be lower vs FY10/FY11 they are likely to remain at ~25-30%. Grasim gains from its integrated capacity. Key risks include prices of cotton/PSF; pulp/caustic soda prices; Chinese VSF output.

- **Downside risks** — Government action versus cement producers; lower cement/VSF prices/demand; capacity additions; inability to pass on cost hikes.

Figure 1. Grasim – Statistical Abstract

YE 31 Mar	Revenue (Rs m)	Net Profit (Rs m)	EBITDA (Rs m)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	EV/tonne (US$)
FY08	169,735	28,914	49,589	315		8.2	6.6	
FY09	184,039	21,867	43,296	239	-24%	10.8	7.6	
FY10	199,334	30,955	57,874	338	42%	7.6	5.1	
FY11	212,690	22,790	46,832	249	-26%	10.4	7.6	89
FY12E	248,477	26,095	54,888	285	15%	9.0	5.9	92
FY13E	280,581	29,252	64,613	319	12%	8.1	5.1	94
FY14E	316,365	35,295	78,784	385	21%	6.7	3.9	64

Source: Citi Investment Research and Analysis estimates, prices as on 11 April 2012, Rs/US$ at 50.

GRAS.BO: Fiscal year end 31-Mar — Price: Rs2,573.30; TP: Rs3,299.00; Market Cap: Rs235,997m; Recomm: Buy

Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E
Sales revenue	199,334	212,690	248,477	280,581	316,365
Cost of sales	-122,800	-145,540	-185,961	-208,117	-230,928
Gross profit	76,534	67,150	62,516	72,464	85,437
Gross Margin (%)	38.4	31.6	25.2	25.8	27.0
EBITDA	**63,223**	**53,967**	**62,839**	**72,829**	**87,409**
EBITDA Margin (%)	31.7	25.4	25.3	26.0	27.6
Depreciation	-9,947	-11,384	-11,625	-12,238	-14,383
Amortisation	0	0	0	0	0
EBIT	**53,276**	**42,584**	**51,214**	**60,591**	**73,026**
EBIT Margin (%)	26.7	20.0	20.6	21.6	23.1
Net interest	-3,346	-4,056	-3,410	-4,187	-5,271
Associates	0	0	0	0	0
Non-op/Except	0	0	0	0	0
Pre-tax profit	**49,930**	**38,528**	**47,803**	**56,403**	**67,755**
Tax	-15,957	-11,084	-13,192	-15,762	-18,910
Extraord./Min.Int./Pref.div.	-3,018	-4,654	-8,516	-11,389	-13,550
Reported net profit	**30,955**	**22,790**	**26,095**	**29,252**	**35,295**
Net Margin (%)	15.5	10.7	10.5	10.4	11.2
Core NPAT	30,955	22,790	26,095	29,252	35,295
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Reported EPS (Rs)	337.57	248.53	284.57	319.00	384.89
Core EPS (Rs)	337.57	248.53	284.57	319.00	384.89
DPS (Rs)	30.00	20.00	20.00	20.00	20.00
CFPS (Rs)	526.58	388.17	456.33	681.97	723.81
FCFPS (Rs)	367.86	205.77	40.69	127.87	210.46
BVPS (Rs)	1,365.83	1,589.24	1,852.21	2,149.61	2,512.90
Wtd avg ord shares (m)	91.7	91.7	91.7	91.7	91.7
Wtd avg diluted shares (m)	91.7	91.7	91.7	91.7	91.7
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue (%)	8.3	6.7	16.8	12.9	12.8
EBIT (%)	36.0	-20.1	20.3	18.3	20.5
Core NPAT (%)	41.6	-26.4	14.5	12.1	20.7
Core EPS (%)	41.5	-26.4	14.5	12.1	20.7
Balance Sheet (Rsm)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash & cash equiv.	2,370	2,844	11,590	28,734	47,259
Accounts receivables	8,803	14,346	19,320	17,610	18,068
Inventory	21,835	27,216	33,905	34,460	35,816
Net fixed & other tangibles	145,527	157,907	184,384	222,957	255,648
Goodwill & intangibles	20,071	24,191	24,191	24,191	24,191
Financial & other assets	79,130	93,711	96,955	98,018	102,995
Total assets	**277,736**	**320,214**	**370,345**	**425,970**	**483,976**
Accounts payable	17,864	21,943	43,492	50,582	55,845
Short-term debt	0	0	0	0	0
Long-term debt	55,992	67,827	73,248	78,848	79,248
Provisions & other liab	41,085	41,197	32,211	37,116	43,372
Total liabilities	**114,941**	**130,967**	**148,951**	**166,546**	**178,466**
Shareholders' equity	125,246	145,734	169,848	197,119	230,433
Minority interests	37,548	43,514	51,546	62,304	75,077
Total equity	**162,795**	**189,248**	**221,393**	**259,423**	**305,510**
Net debt	**53,622**	**64,984**	**61,658**	**50,114**	**31,989**
Net debt to equity (%)	32.9	34.3	27.9	19.3	10.5

NAV: na, Discount to NAV: na

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	7.6	10.4	9.0	8.1	6.7
PB (x)	1.9	1.6	1.4	1.2	1.0
EV/EBITDA (x)	4.5	5.3	4.5	3.8	3.1
FCF yield (%)	14.3	8.0	1.6	5.0	8.2
Dividend yield (%)	1.2	0.8	0.8	0.8	0.8
Payout ratio (%)	9	8	7	6	5
ROE (%)	25.7	16.8	16.5	15.9	16.5
Cashflow (Rsm)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBITDA	63,223	53,967	62,839	72,829	87,409
Working capital	-1,497	-4,250	5,495	-7,240	1,018
Other	-13,438	-14,122	-26,488	-3,053	-22,054
Operating cashflow	**48,288**	**35,595**	**41,846**	**62,536**	**66,373**
Capex	-14,555	-16,727	-38,115	-50,811	-47,074
Net acq/disposals	-32,909	-19,087	-2,709	0	0
Other	12,325	3,721	7,951	8,216	8,626
Investing cashflow	**-35,139**	**-32,092**	**-32,873**	**-42,595**	**-38,448**
Dividends paid	-3,270	-3,290	-2,237	-4,210	-4,529
Financing cashflow	**-12,040**	**-3,107**	**-227**	**-2,798**	**-9,400**
Net change in cash	**1,109**	**396**	**8,746**	**17,144**	**18,525**
Free cashflow to s/holders	**33,733**	**18,869**	**3,731**	**11,725**	**19,299**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791
For definitions of the items in this table, please click here.

Powered by: dataCentral

Estimate changes

Figure 2. Grasim Estimate Changes FY12E-FY14E

	FY12E			FY13E			FY13E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Average Cement Realisation (Rs/t)	3,468	3,725	7%	3,532	4,081	16%	3,701	4,440	20%
Average VSF Realisation (Rs/kg)	132.9	130.8	-2%	139.6	126.9	-9%	146.6	129.4	-12%
Net sales (Rs bn)	234.3	248.5	6%	255.6	280.6	10%	277.9	316.4	14%
EBITDA (Rs bn)	52.6	54.9	4%	53.2	64.6	21%	59.4	78.8	33%
Net profit (Rs bn)-adj	24.8	26.1	5%	24.4	29.3	20%	25.0	35.3	41%
EPS - Consolidated (Rs)	270	285	5%	266	319	20%	273	385	41%

Source: Citi Investment Research and Analysis estimates

Figure 3. Grasim 1-yr forward rolling EV/EBITDA

Source: Datastream, Company Reports, Citi Investment Research and Analysis estimates

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Data as of: 06-Apr-12

Quants View – Attractive

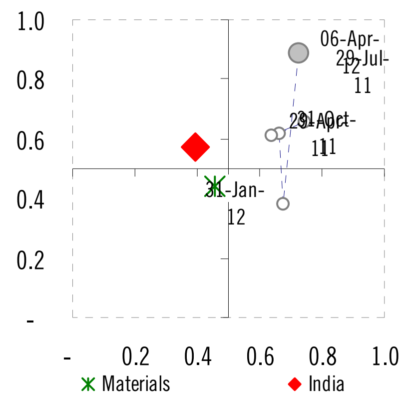
Grasim Industries lies in the Attractive quadrant of our Value-Momentum map with strong value and momentum scores. The stock has moved from the Contrarian quadrant to the Attractive quadrant in the past two months, indicating rising momentum (while valuations remain cheap) - which means the market has recognised the fact that the stock is an attractive investment proposition. Compared with its peers in the Materials sector, Grasim Industries fares better on the valuation metric and on the momentum metric. Similarly, compared with its peers in its home market of India, Grasim Industries fares better on the valuation metric and on the momentum metric.

From a macro perspective, Grasim Industries has a low beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from value underperformance, large cap outperformance, tightening Asian interest rates, and a weaker US dollar.

Radar Screen Quadrant Definitions

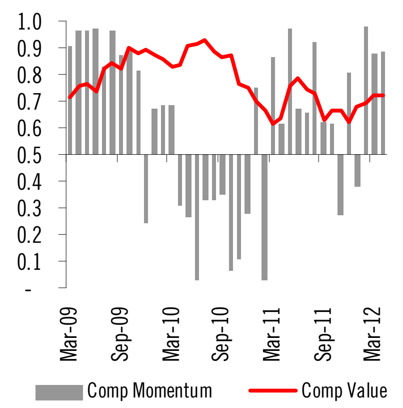
Glamour *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Figure 4. Radar Quadrant Chart History



Source: CIRA

Figure 5. Radar Valuation and Momentum Scores



Source: CIRA

Figure 6. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	238.49	Implied Trend Growth (%)	(2.75)
FY(-1)	337.47	Trailing PE (x)	8.93
FY0	248.35	Implied Cost of Debt (%)	6.05
FY1	275.13	Standardised MCap	(0.04)
FY2	233.04		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 7. Stock Performance Sensitivity to Key Macro Factors

Region	0.62	Commodity ex Oil	0.10
Widening APACxJ CDS	(0.16)	Rising Oil Prices	(0.08)
Growth	(0.55)	Rising Asian IR's	(0.53)
Value	(2.67)	Rising EM Yields	0.04
Small Caps Outperform Large Caps	(1.28)	Weaker US$ (vs Asia)	0.74
Widening US Credit Spreads	0.01	Weaker ¥ (vs US$)	(0.44)

Source: Citi Investment Research and Analysis

Company Focus

UltraTech Cement (ULTC.BO)

Strong Brand and Niche Businesses

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy	**1**
from Sell	
Price (11 Apr 12)	Rs1,482.60
Target price	Rs1,770.00
from Rs1,000.00	
Expected share price return	19.4%
Expected dividend yield	0.5%
Expected total return	**19.9%**
Market Cap	Rs406,329M
	US$7,895M

Price Performance
(RIC: ULTC.BO, BB: UTCEM IN)

- **Upgrade to Buy** — We raise our recommendation on ULTC to Buy (from Sell) on our outlook that better times are ahead for the cement industry on higher demand, slower supply and expected improvement in profitability. ULTC has the additional advantage of its niche white cement and putty divisions – small but profitable.

- **New TP of Rs1,770** — We set our TP at 9x June 2013 EV/EBITDA at a slight premium (2-3%) to the valuation we set for Ambuja/ACC. We use relative valuations for ULTC as it has a shorter valuation history. We ascribe a premium as ULTC is larger than Ambuja (by 80%) and ACC (by 60%). ULTC's EBITDA/t margins are slightly lower than Ambuja but higher than ACC's. At our target price, ULTC would trade at 18.6x June 13 P/E. While ULTC's EV/t at the TP works out to US$183 (lower than for Ambuja/ACC at their TP), this is partly because ULTC's capacity also includes its international cement business (3mtpa) which currently earns very low profits. If excluded, ULTC's EV/t would be ~US$210.

- **Changing estimates** — We raise our estimates for ULTC by 15% in FY12, 69% in FY13 and 113% in FY14. This change incorporates: no changes to our volume estimates but higher pricing by 19% YoY in FY12 (vs 11%), by 10% in FY13 (vs 2%) and 9% in FY14 (vs 5% earlier). This takes into account current pricing trends and expectations that prices will rise slightly when coal price hikes are announced. We also account for updated cost trends, both reported and based on anecdotal information.

- **Expansion update** — ULTC has 49mtpa of capacity based in India and another 3mtpa based largely in UAE. Capacity in India is to be raised by 9.2mtpa taking it to 58mtpa (total capacity to 61mtpa by FY14/FY15; capex Rs52 bn. A further Rs59bn will be spent on logistics, power, modernisation and RMC capacity.

- **Robust balance sheet** — ULTC has a reasonably robust balance sheet. Its debt to equity is likely to be 0.4x and, based on our estimates, it should have a net cash position by FY14 as capex requirements are easily covered by operational cash flows. ULTC has a strong parent (Grasim owns 60%) which will readily infuse funds from its strong cash generating Viscose Staple Fibre (VSF) business if required.

- **Risk factors** — Government action against producers; slower-than-expected demand growth; an inability to pass on cost hikes.

Figure 1. UltraTech – Statistical Abstract

YE 31 Mar	Revenue (Rs m)	Net Profit (Rs m)	EBITDA (Rs m)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	EV/tonne (US$)
FY08	56,234	10,101	18,359	81.1		18.3	11.6	221
FY09	65,636	9,781	18,178	78.6	-3%	18.9	11.4	178
FY10	71,751	10,950	21,052	88.0	12%	16.9	9.2	159
FY11	136,912	13,674	28,601	49.9	-43%	29.7	16.5	164
FY12E	189,824	22,481	44,043	82.0	64%	18.1	10.5	162
FY13E	220,647	29,674	55,177	108.3	32%	13.7	8.0	157
FY14E	250,078	35,073	65,030	128.0	18%	11.6	6.5	142

Source: Citi Investment Research and Analysis estimates, prices as on 11 April 2012, Rs/US$ at 50.

ULTC.BO: Fiscal year end 31-Mar — **Price: Rs1,482.60; TP: Rs1,770.00; Market Cap: Rs406,329m; Recomm: Buy**

Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E
Sales revenue	71,751	136,912	189,824	220,647	250,078
Cost of sales	-50,740	-107,175	-144,468	-164,083	-184,518
Gross profit	21,011	29,736	45,356	56,565	65,560
Gross Margin (%)	29.3	21.7	23.9	25.6	26.2
EBITDA	**21,052**	**28,601**	**44,043**	**55,177**	**65,030**
EBITDA Margin (%)	29.3	20.9	23.2	25.0	26.0
Depreciation	-3,897	-8,130	-9,757	-10,189	-11,533
Amortisation	0	0	0	0	0
EBIT	**17,155**	**20,471**	**34,286**	**44,988**	**53,497**
EBIT Margin (%)	23.9	15.0	18.1	20.4	21.4
Net interest	-1,178	-2,995	-2,880	-3,402	-4,304
Associates	0	0	0	0	0
Non-op/Except	0	0	0	0	0
Pre-tax profit	**15,978**	**17,476**	**31,406**	**41,586**	**49,193**
Tax	-5,011	-3,866	-9,066	-12,026	-14,233
Extraord./Min.Int./Pref.div.	-16	63	141	114	112
Reported net profit	**10,950**	**13,674**	**22,481**	**29,674**	**35,073**
Net Margin (%)	15.3	10.0	11.8	13.4	14.0
Core NPAT	10,950	13,674	22,481	29,674	35,073
Per share data	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Reported EPS (Rs)	87.96	49.90	82.04	108.28	127.98
Core EPS (Rs)	87.96	49.90	82.04	108.28	127.98
DPS (Rs)	6.00	6.00	7.00	8.00	9.00
CFPS (Rs)	127.99	72.92	113.30	181.08	187.56
FCFPS (Rs)	106.12	26.71	19.06	52.96	42.13
BVPS (Rs)	371.09	388.50	462.40	561.39	678.91
Wtd avg ord shares (m)	124	274	274	274	274
Wtd avg diluted shares (m)	124	274	274	274	274
Growth rates	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Sales revenue (%)	9.3	90.8	38.6	16.2	13.3
EBIT (%)	14.9	19.3	67.5	31.2	18.9
Core NPAT (%)	12.0	24.9	64.4	32.0	18.2
Core EPS (%)	12.0	-43.3	64.4	32.0	18.2
Balance Sheet (Rsm)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
Cash & cash equiv.	1,117	1,901	6,367	19,479	28,308
Accounts receivables	2,100	8,248	12,479	11,269	11,835
Inventory	8,270	20,935	26,378	27,198	28,577
Net fixed & other tangibles	52,185	135,064	151,122	176,044	204,365
Goodwill & intangibles	64	4,749	4,749	4,749	4,749
Financial & other assets	20,015	45,401	46,377	47,377	50,377
Total assets	**83,750**	**216,298**	**247,471**	**286,117**	**328,212**
Accounts payable	11,411	30,572	39,475	46,995	52,475
Short-term debt	0	0	0	0	0
Long-term debt	16,071	55,409	55,446	55,646	55,646
Provisions & other liab	9,997	23,195	25,317	29,230	33,751
Total liabilities	**37,479**	**109,176**	**120,238**	**131,871**	**141,872**
Shareholders' equity	46,195	106,466	126,718	153,844	186,051
Minority interests	75	656	515	401	289
Total equity	**46,271**	**107,122**	**127,233**	**154,246**	**186,340**
Net debt	**14,954**	**53,508**	**49,079**	**36,167**	**27,338**
Net debt to equity (%)	32.3	50.0	38.6	23.4	14.7

Valuation ratios	2010	2011	2012E	2013E	2014E
PE (x)	16.9	29.7	18.1	13.7	11.6
PB (x)	4.0	3.8	3.2	2.6	2.2
EV/EBITDA (x)	19.6	14.6	9.7	7.6	6.3
FCF yield (%)	7.2	1.8	1.3	3.6	2.8
Dividend yield (%)	0.4	0.4	0.5	0.5	0.6
Payout ratio (%)	7	12	9	7	7
ROE (%)	26.6	17.9	19.3	21.2	20.6
Cashflow (Rsm)	**2010**	**2011**	**2012E**	**2013E**	**2014E**
EBITDA	21,052	28,601	44,043	55,177	65,030
Working capital	-795	-1,971	-2,545	7,109	734
Other	-4,324	-6,647	-10,449	-12,663	-14,365
Operating cashflow	**15,933**	**19,983**	**31,049**	**49,623**	**51,399**
Capex	-2,723	-12,662	-25,827	-35,111	-39,854
Net acq/disposals	-6,283	-3,627	0	0	0
Other	574	-6,110	3,997	4,032	4,135
Investing cashflow	**-8,431**	**-22,399**	**-21,830**	**-31,079**	**-35,719**
Dividends paid	-728	-871	-1,911	-2,229	-2,548
Financing cashflow	**-7,404**	**2,481**	**-4,754**	**-5,431**	**-6,852**
Net change in cash	**98**	**65**	**4,466**	**13,113**	**8,829**
Free cashflow to s/holders	**13,210**	**7,321**	**5,222**	**14,512**	**11,546**

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791
For definitions of the items in this table, please click here.

Powered by: dataCentral

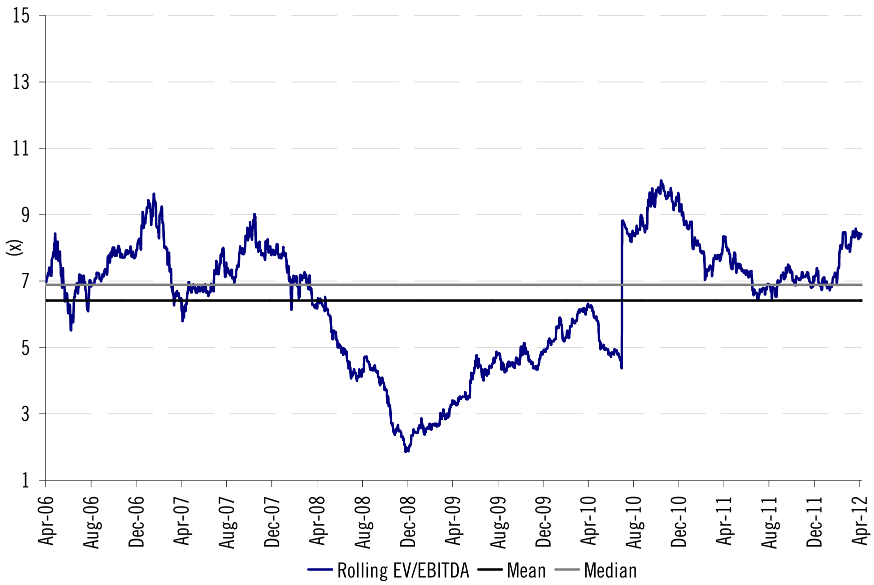
Estimate changes

Figure 2. UltraTech Estimate Changes FY12E-14E

	FY12E			FY13E			FY14E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Volumes - incl clinker (m tonnes)	43.4	43.6	0%	47.2	47.0	0%	49.7	49.7	0%
Net sales (Rs bn)	181.6	189.8	5%	198.5	220.6	11%	216.5	250.1	16%
EBITDA (Rs bn)	38.3	40.1	5%	37.7	51.1	36%	41.4	60.9	47%
Net profit (Rs bn)-adj	19.5	22.5	15%	17.6	29.7	69%	16.4	35.1	113%
EPS (Rs)	71.3	82.0	15%	64.2	108.3	69%	60.0	128.0	113%
Net realization (Rs/t)	3,468	3,725	7%	3,532	4,081	16%	3,701	4,440	20%
YoY change in average realisation (%)	11%	19%		2%	10%		5%	9%	

Source: Citi Investment Research and Analysis estimates

Figure 3. UltraTech 1-yr forward rolling EV/EBITDA



Source: Datastream, Company Reports, Citi Investment Research and Analysis

Quants View – Glamour

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paul.chanin@citi.com

Data as of: 06-Apr-12

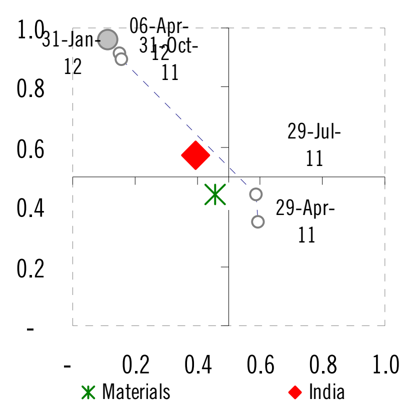
Radar Screen Quadrant Definitions

Glamour *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

UltraTech Cement lies in the Extreme corner of the Glamour quadrant of our Value-Momentum map with strong momentum but relatively weak value scores. It has been a resident there for the past five months. Compared with its peers in the Materials sector, UltraTech Cement fares worse on the valuation metric but better on the momentum metric. Similarly, compared with its peers in its home market of India, UltraTech Cement fares worse on the valuation metric but better on the momentum metric.

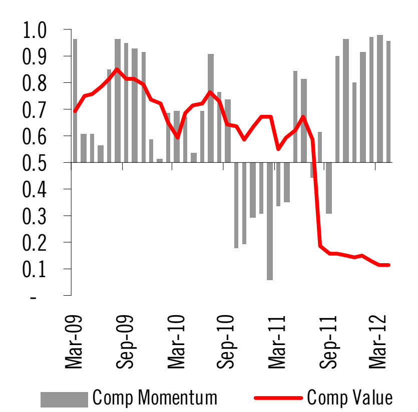
From a macro perspective, UltraTech Cement has a low beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from value underperformance, .

Figure 1. Radar Quadrant Chart History



Source: CIRA

Figure 2. Radar Valuation and Momentum Scores



Source: CIRA

Figure 3. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	78.57	Implied Trend Growth (%)	(0.69)
FY(-1)	87.95	Trailing PE (x)	30.34
FY0	61.37	Implied Cost of Debt (%)	5.25
FY1	74.25	Standardised MCap	0.10
FY2	82.78		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 4. Stock Performance Sensitivity to Key Macro Factors

Region	0.77	Commodity ex Oil	0.20
Widening APACxJ CDS	(0.08)	Rising Oil Prices	0.03
Growth	(0.87)	Rising Asian IR's	(0.17)
Value	(2.28)	Rising EM Yields	(0.03)
Small Caps Outperform Large Caps	0.47	Weaker US$ (vs Asia)	(0.12)
Widening US Credit Spreads	0.00	Weaker ¥ (vs US$)	(0.43)

Source: Citi Investment Research and Analysis

ACC

Company description

ACC is India's second largest cement company with a capacity of ~30m tpa. ACC is located in all the major domestic markets and hardly exports any cement. ACC's market breakdown is as follows: north 40%, south and west 40% and east 20%. ACC is also present in the Ready Mixed Concrete business through a 100% subsidiary, ACC Concrete. Holcim holds a 50.3% stake in ACC. Adding the market presence of Holcim's other group company in India (Ambuja Cements) takes Holcim's total capacity to 57.8m tpa in India and gives it an 18% overall market share and a significant presence in several key markets. In the past few years, ACC has focused on cost-cutting, selling unviable cement capacity and exiting non-cement businesses. ACC has been allocated coal blocks in Madhya Pradesh, which are likely to be operational in 2-3 years. ACC is going ahead with plans to expand capacity to 35m tpa by CY15 which will include a net increase of 3.8m tpa in east India and debottlenecking of capacity at various locations. We expect cement sales volumes to rise by 8% in CY12 and CY13 and ACC does have the potential to grow at a faster rate if domestic demand is stronger. ACC continues to focus on use of alternative fuels and raw materials (tyres, industrial waste, plastic waste) however overall usage is still quite small.

Investment strategy

Our recommendation on ACC is Buy, with a target price of Rs1,685. Cement prices have been relatively firm in the past year despite the oversupply as producers have focused on profitability rather than volumes. The rate of capacity growth is slowing while demand growth is gradually picking up and the demand-supply balance is slowly moving in favour of the producers. This narrowing of the demand supply gap should continue to help domestic cement producers to maintain margins and pass on cost hikes which are expected to come through. Based on pricing trends so far we expect EBITDA margins to gradually rise in the coming years as producers seek to earn higher returns on investment. ACC has several advantages relative to its peers: 1) it is located all over India and has a strong brand recall (helps earn premium prices in several markets) 2) it has best access to linkage coal which is relatively cheap (a price hike by Coal India will have a disproportionate impact on ACC; but its coal will still be relatively cheaper); 3) it transports more than half of its cement by rail (which is relatively cheaper than road).

Valuation

We use EV/EBITDA to value ACC, which is a common metric used to value cement companies. We set our target price at Rs1,685, at 8.7x June 2013 EV/EBITDA, which is in line with its 12-year average EV/EBITDA multiple. We believe that with a slowdown in cement capacity and increased producer discipline, cement profits are much more predictable than before and move from using replacement costs to earnings multiples. Earnings multiples would better capture the earnings leverage for commodity stocks, especially in case of ACC which enjoys considerable sensitivity in an up-cycle (5.5% change in CY12 PAT for every 1% change in price). Our target price of Rs1,685 equates to a P/E of 17.7x and EV/tonne of US$191.

Risks

The main downside risks to our target price include: 1) Government action against producers; 2) Slower-than-expected demand growth; 3) Faster capacity completion; 4) An inability to pass on cost hikes.

Ambuja Cements

Company description

Ambuja Cements (ACL) is one of India's lowest-cost cement producers with relatively much higher EBITDA margins due to its focus on the retail cement market (giving higher realizations), modern plants with low power and fuel consumption, and use of sea transport. Its capacity is currently 27.4m tpa and it is going ahead with plans to set up ~3.5mtpa of cement capacity in Rajasthan (clinker capacity expected to be 2.2m tpa). Its largest markets are North India (40% of sales volumes) and West India (40%). East India accounts for 20% of its volumes. Holcim holds around 50.3% in ACL. Adding on the capacity of ACC gives the Holcim Group a total capacity of 57.8m tpa in India and a significant presence in several key markets.

Investment strategy

We rate ACL Buy with a target price of Rs219. ACL has generally enjoyed the highest EBITDA/tonne margins among its peers as it has focused on location advantages, high proportion of blended cements and very efficient operations. Ambuja has only a marginal presence in south India, which has the highest level of oversupply and the slowest rate of demand growth and hence the highest downside risk. Cement prices have been relatively firm in the past year despite the oversupply situation as producers have focused on profitability rather than volumes. The rate of capacity growth is slowing while demand growth is gradually picking up and the demand-supply balance is slowly moving in favour of the producers. This narrowing of the demand supply gap should continue to help domestic cement producers to maintain margins and pass on cost hikes which are expected to come through. We expect ACL's EBITDA margins to remain robust and EBITDA/tonne to remain relatively high. We expect Ambuja's realizations to rise 17% in CY12 and 7% in CY13. We expect ACL's volumes to grow 8% p.a. in CY12 and CY13 with a potential to grow at a faster rate if necessary.

Valuation

We use EV/EBITDA to value ACL, a common metric used to value cement companies. We set our target price at Rs219, at 8.8x June 13 EV/EBITDA. The target EV/EBITDA is at a 10% premium to ACL's 12-year average EV/EBITDA of 8x as we expect the stock to trade at premium multiples relative to its history as the outlook for cement has improved due to an expected slowdown in capacity and increased producer discipline. Moreover it has relatively lower risk as it has hardly any presence in south India which suffers due to negative demand growth and higher levels of overcapacity relative to other regions. We move from using replacement costs to using earnings multiples. Earnings multiples would better capture the earnings leverage for commodity stocks. ACL offers attractive sensitivity in an up-cycle (4.4% change in CY12 PAT for every 1% change in price). Our target price of Rs219 equates to a June 13 P/E of 16.8x and EV/tonne of US$208.

Risks

Key downside risks to our target price include: 1) Government action against producers; 2) Slower-than-expected demand growth; 3) Higher prices of imported coal/faster rupee depreciation than we expect; 4) Faster capacity completion; 5) An inability to pass on cost hikes.

Grasim Industries

Company description

Grasim is a diversified company with two main businesses - cement and viscose staple fibre (VSF). These two core businesses account for ~95% of sales. It has other minor divisions such as chemicals and textiles. Grasim holds 60.3% in UltraTech Cement (ULTC), which has 49m tpa of capacity and is India's largest cement company. ULTC also controls ETA Star Cement which has 3m tpa of capacity based in the UAE, Bahrain and Bangladesh, taking the group's total cement capacity to 52mtpa. VSF capacity is based within Grasim (capacity 334,000 tonnes) and accounts for ~17% of sales. Grasim has a relative cost advantage in VSF due to its backward integration (100% caustic soda and 80% of pulp including JVs). Grasim's VSF capacity accounts for 10% of the global market, and is expected to rise to 490k tpa by FY14 (100% caustic soda and ~65% of pulp). The non-cement businesses account for ~27% of Grasim's consolidated EBITDA. ULTC plans to set up 9.2mtpa of cement capacity by FY14/FY15 in order to maintain its market share.

Investment strategy

We rate Grasim as Buy with a target price of Rs3,299. Grasim offers exposure to both cement and VSF. It is a defensive way to gain exposure to the India cement sector, and it offers value even after applying a 30% holding company discount to replacement cost to value its cement capacity of 51mtpa (Grasim holds 60.3% in ULTC). Its VSF/chemical business (22-27% of cons. EBITDA) offers some downside protection and should generate steady EBITDA of Rs12-13bn pa. We expect a decline in VSF EBITDA in FY13 if current price weakness continues and cost pressures remain. However we expect a pick up in FY14. Grasim will continue to remain fully integrated in caustic soda and well-integrated in case of pulp. ULTC plans to set up 9.2mtpa of brownfield cement capacity (4.8mtpa at Chhattisgarh & 4.4mtpa at Karnataka) at a total capex of Rs51bn (~US$120/t), with completion expected by early-FY14. Cement prices have been relatively firm in the several quarters despite the excess cement supply in India. Looking ahead we see that capacity growth is rising at a slower rate whereas demand is now beginning to pick up. The combination of these two factors is helping the demand-supply equation move in favour of the producers. ULTC is well placed to benefit from a positive cement outlook as it is well located across India, is a premium brand (with premium pricing), has the advantage of producing white cement and putty, both of which earn superior margins and has been developing superior logistics.

Valuation

We value Grasim using SOTP. We value its 51mtpa cement capacity (ULTC) using EV/EBITDA (a common metric used for cement companies) of 9x for June13, at a slight premium to peers such as ACC and Ambuja as ULTC has a shorter valuation history (listed since 2006) and its size also changed substantially in FY11 when it was merged with the cement business of Grasim. We take a small premium versus ACC and Ambuja in valuing ULTC. We take a 3% premium to ACC’s EV/EBITDA due to ULTC’s relatively larger size, presence in niche markets such as white cement/putty, access to strong cash flows from a cash rich parent (Grasim). Though ULTC’s EBITDA/t is lower than Ambuja’s we take a 2% as ULTC is ~80% bigger than Ambuja. Our TP for ULTC works out to Rs1,770. We apply a 30% holding company discount which imputes a value of Rs2,234 per Grasim share for Grasim’s 60.3% holding in ULTC.

Grasim's other businesses (VSF/Chemicals) are valued at an EV/EBITDA of 6x June13, at a premium to hard commodity businesses which are trading at ~5x (given its steady margin generating capability), giving a value of Rs1,065 per Grasim share. Our Grasim target price of Rs3,299 implies June13 EV/EBITDA of 6.2x and P/E of 10.9x.

Risks

Key downside risks to our target price include: 1) Government action against cement producers; 2) An inability by cement producers to pass on cost hikes; 3) A fall in prices of VSF and/or competing fibres which would negatively impact margins; and 4) Changes in the duty/tax regime to the detriment of producers.

UltraTech Cement

Company description

UltraTech Cement (ULTC) is India's largest cement company (49m tpa) and incorporates the cement businesses of the Aditya Birla group. Its acquisition of ETA Star Cement in September 2010 has taken its capacity to 52mtpa. ULTC plans to hike its capacity in India by 9.2mtpa (to 58mtpa) taking overall capacity to 61mtpa by FY14/FY15 at a capex of Rs52bn (~$120/t). A further Rs59bn ($1.2bn) will be spent on logistics, power, modernisation and RMC capacity. Based on its capacity for FY12, its market share was ~16%. Its markets are well spread out, and it sells 30% in north India, 30% in west, 21% in south and 19% in the east. It sells a small amount in the export market. ULTC also has 0.6m tpa of white cement capacity, RMC capacity and ~500 MW of captive thermal power capacity. ETA Star Cement (3m tpa of capacity) has operations in UAE, Bahrain and Bangladesh. ETA Star Cement operates at 85-90% utilization levels but profitability is relatively low. In India, ULTC is known for the consistent high quality of its cement, and manages to earn a premium price over other cement brands in several markets. Grasim owns 60% of ULTC.

Investment strategy

We rate ULTC as Buy with a target price of Rs1,770. Cement prices have been relatively firm in the several quarters despite the excess cement supply in India. Producers have consciously focused on meeting demand rather than overproducing and have as a result improved profitability. Looking ahead we see that the capacity growth is rising at a slower rate whereas demand which was sluggish in most of FY11 and early FY12 is now beginning to pick up. The combination of these two factors is helping the demand-supply equation move in favour of the producers. This narrowing of the demand supply gap should continue to help domestic cement producers to maintain margins and pass on cost hikes which are expected to come through. Based on pricing trends so far we expect EBITDA margins to gradually rise in the coming years as producers seek to earn higher returns on investment. UltraTech is well placed to benefit from a positive cement outlook as it is well located across India, is a premium brand (with premium pricing), has the advantage of producing white cement and putty, both of which earn superior margins and has been developing superior logistics (including moving towards sea transport in a small way). This combination translates into a higher EBITDA/tonne relative to ACC, though still lower than Ambuja Cements.

Valuation

We use EV/EBITDA to value ULTC, a common metric used to value cement companies. We set our target price at Rs1,770, at 9.0x June 2013 EV/EBITDA. We set ULTC's valuations with reference to its peers such as ACC and Ambuja as ULTC was only listed in 2006. Its size also changed in FY11 when it was merged with the cement business of Grasim. We take a small premium versus ACC and Ambuja in valuing ULTC. With ACC the premium of 3% is due to 1) ULTC's relatively larger size of 49mtpa vs ACC's 30m; 2) presence in niche markets such as white cement; putty; 3) access to strong cash flows from a cash rich parent (Grasim). Though ULTC's EBITDA/t is lower than Ambuja's we take a 2% premium as ULTC is ~80% bigger than Ambuja. ULTC is reasonably sensitive to price changes (4.3% change in FY13 PAT for every 1% change in price). At our TP ULTC's June 2013 EV/tonne works out US$184 which is lower than the EV/tonne for ACC (US$191) and Ambuja (US$208) because a part of ULTC's capacity is located abroad and is currently earning lower profits. ULTC would trade at 18.7x June 13 P/E at our target price.

Risks

The key downside risks to our target price include: 1) Government action against producers; 2) Slower-than-expected demand growth; 3) Faster capacity completion; 4) An inability to pass on cost hikes.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

ACC (ACC.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Pradeep Mahtani

	Date	Rating	Target Price	Closing Price
1	28-Apr-09	3M	*540.00	643.75
2	27-Jul-09	3M	*635.00	848.20
3	28-Oct-10	*3L	*975.00	984.20
4	30-Sep-11	3L	*996.00	1,098.15
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*3	996.00	1,111.75

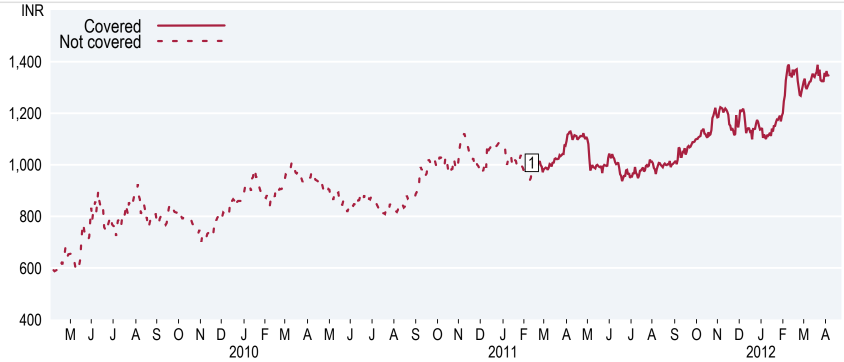
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ACC (ACC.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Pradeep Mahtani



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	977.20

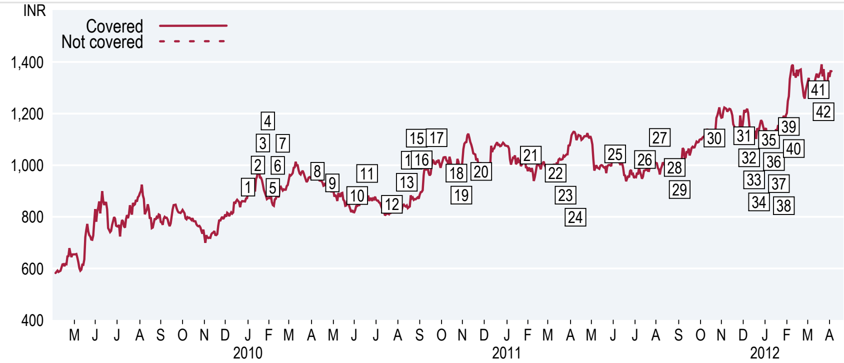
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ACC Ltd (ACC.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



#	Date	Rating	Target Price	Closing Price
1	1-Jan-10	*3	-	872.45
2	15-Jan-10	*4	-	980.80
3	22-Jan-10	*2	-	923.95
4	29-Jan-10	*1	-	871.70
5	5-Feb-10	*2	-	845.55
6	12-Feb-10	*3	-	885.90
7	19-Feb-10	*2	-	901.85
8	9-Apr-10	*3	-	955.70
9	30-Apr-10	*1	-	905.05
10	4-Jun-10	*2	-	841.90
11	18-Jun-10	*1	-	862.10
12	23-Jul-10	*2	-	819.95
13	13-Aug-10	*3	-	844.00
14	20-Aug-10	*2	-	871.05
15	27-Aug-10	*1	-	872.10
16	3-Sep-10	*2	-	896.65
17	24-Sep-10	*1	-	1,014.60
18	22-Oct-10	*4	-	983.55
19	29-Oct-10	*5	-	985.35
20	26-Nov-10	*4	-	1,003.00
21	4-Feb-11	*5	-	974.70
22	11-Mar-11	*4	-	992.50
23	25-Mar-11	*3	-	1,037.80
24	8-Apr-11	*2	-	1,120.85
25	3-Jun-11	*3	-	1,028.65
26	15-Jul-11	*4	-	980.15
27	5-Aug-11	*5	-	964.15
28	26-Aug-11	*4	-	992.55
29	2-Sep-11	*3	-	1,015.25
30	21-Oct-11	*4	-	1,118.05
31	2-Dec-11	*3	-	1,214.00
32	9-Dec-11	*4	-	1,163.80
33	16-Dec-11	*3	-	1,128.75
34	23-Dec-11	*2	-	1,139.05
35	6-Jan-12	*3	-	1,103.10
36	13-Jan-12	*4	-	1,124.45
37	20-Jan-12	*3	-	1,150.05
38	27-Jan-12	*4	-	1,191.70
39	3-Feb-12	*2	-	1,267.25
40	10-Feb-12	*1	-	1,347.00
41	16-Mar-12	*3	-	1,339.90
42	23-Mar-12	*2	-	1,372.05

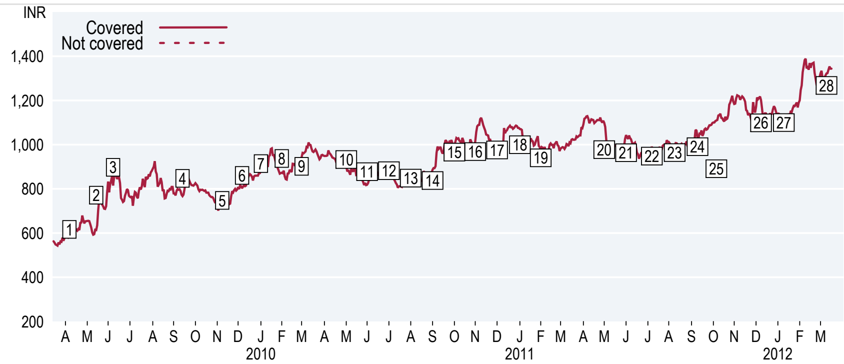
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ACC Ltd (ACC.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



#	Date	Rating	Target Price	Closing Price
1	7-Apr-09	*5	-	580.90
2	14-May-09	*3	-	613.65
3	8-Jun-09	*2	-	814.90
4	14-Sep-09	*1	-	767.10
5	9-Nov-09	*4	-	720.20
6	7-Dec-09	*3	-	802.60
7	1-Jan-10	*4	-	871.50
8	1-Feb-10	*5	-	873.20
9	1-Mar-10	*7	-	922.95
10	1-May-10	*2	-	906.15
11	1-Jun-10	*7	-	818.55
12	1-Jul-10	*2	-	866.90
13	1-Aug-10	*4	-	831.45
14	1-Sep-10	*6	-	886.80
15	1-Oct-10	*2	-	1,000.00
16	1-Nov-10	*9	-	1,014.35
17	1-Dec-10	*8	-	997.55
18	1-Jan-11	*7	-	1,075.60
19	1-Feb-11	*8	-	973.95
20	1-May-11	*5	-	1,108.25
21	1-Jun-11	*6	-	1,043.30
22	7-Jul-11	*8	-	991.40
23	9-Aug-11	*6	-	996.05
24	9-Sep-11	*8	-	1,030.65
25	6-Oct-11	*5	-	1,106.75
26	8-Dec-11	*6	-	1,201.65
27	10-Jan-12	*8	-	1,115.80
28	9-Mar-12	*4	-	1,322.05

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ambuja Cements (ABUJ.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Pradeep Mahtani

	Date	Rating	Target Price	Closing Price
1	28-Apr-09	3M	*70.00	80.85
2	27-Jul-09	3M	*71.00	95.25
3	28-Oct-10	*3L	*108.00	140.95
4	30-Sep-11	3L	*117.00	148.60
5	7-Oct-11	Stock rating system changed		
6	7-Oct-11	*3	117.00	145.15

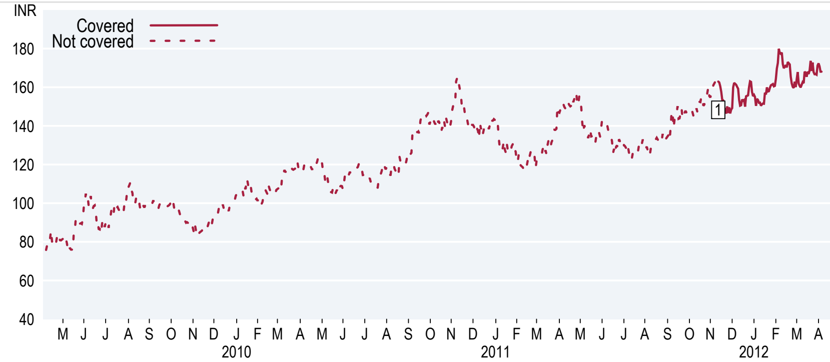
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ambuja Cements (ABUJ.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Pradeep Mahtani



	Date	Rating	Target Price	Closing Price
1	11-Nov-11	*ADD LP	-	162.95

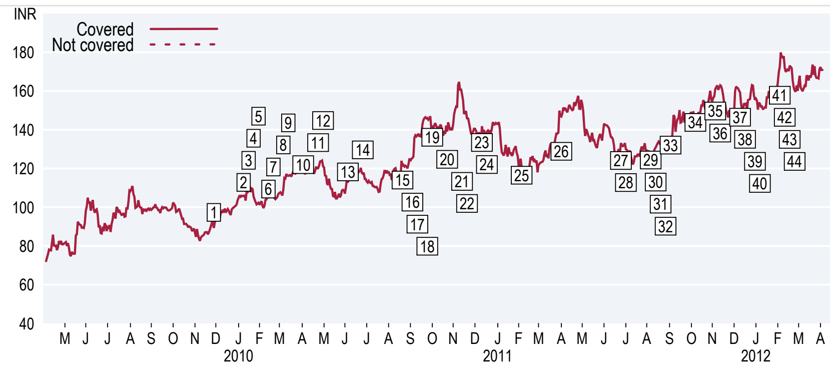
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ambuja Cements Ltd (ABUJ.BO)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



	Date	Rating	Target Price	Closing Price
1	27-Nov-09	*2	-	89.25
2	8-Jan-10	*3	-	105.75
3	15-Jan-10	*4	-	112.80
4	22-Jan-10	*3	-	105.55
5	29-Jan-10	*2	-	102.30
6	12-Feb-10	*4	-	106.80
7	19-Feb-10	*1	-	105.50
8	5-Mar-10	*2	-	109.15
9	12-Mar-10	*3	-	116.15
10	2-Apr-10	*4	-	118.30
11	23-Apr-10	*2	-	120.10
12	30-Apr-10	*1	-	121.15
13	4-Jun-10	*3	-	112.70
14	25-Jun-10	*1	-	117.25
15	20-Aug-10	*2	-	121.45
16	3-Sep-10	*1	-	125.35
17	10-Sep-10	*2	-	136.50
18	24-Sep-10	*3	-	146.10
19	1-Oct-10	*1	-	141.95
20	22-Oct-10	*3	-	139.05
21	12-Nov-10	*4	-	158.15
22	19-Nov-10	*3	-	145.55
23	10-Dec-10	*4	-	141.80
24	17-Dec-10	*3	-	138.40
25	4-Feb-11	*4	-	120.70
26	1-Apr-11	*2	-	146.80
27	24-Jun-11	*3	-	133.10
28	1-Jul-11	*4	-	129.90
29	5-Aug-11	*3	-	124.35
30	12-Aug-11	*4	-	130.85
31	19-Aug-11	*3	-	132.20
32	26-Aug-11	*4	-	132.10
33	2-Sep-11	*5	-	135.35
34	7-Oct-11	*4	-	145.15
35	4-Nov-11	*3	-	161.00
36	11-Nov-11	*2	-	162.95
37	9-Dec-11	*3	-	159.25
38	16-Dec-11	*4	-	153.05
39	30-Dec-11	*3	-	155.40
40	6-Jan-12	*2	-	153.40
41	3-Feb-12	*5	-	172.55
42	10-Feb-12	*3	-	172.00
43	17-Feb-12	*4	-	173.05
44	24-Feb-12	*3	-	160.20

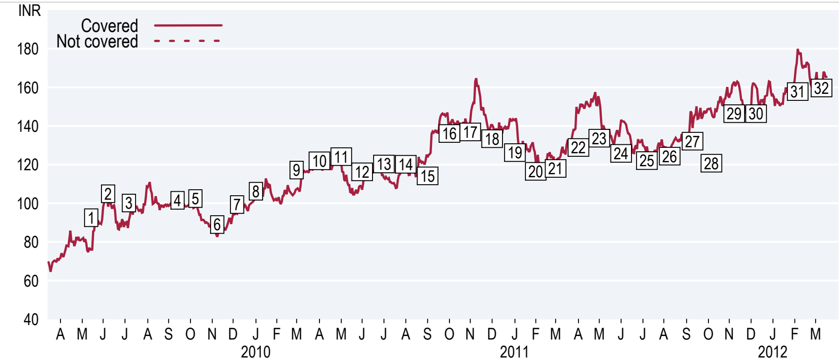
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ambuja Cements Ltd (ABUJ.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	14-May-09	*2	-	75.95
2	8-Jun-09	*1	-	98.20
3	7-Jul-09	*2	-	91.25
4	14-Sep-09	*1	-	96.95
5	8-Oct-09	*2	-	98.50
6	9-Nov-09	*1	-	82.60
7	7-Dec-09	*6	-	94.55
8	1-Jan-10	*7	-	103.70
9	1-Mar-10	*3	-	106.90
10	1-Apr-10	*8	-	118.30
11	1-May-10	*3	-	121.15
12	1-Jun-10	*7	-	107.00
13	1-Jul-10	*3	-	113.20
14	1-Aug-10	*6	-	117.50
15	1-Sep-10	*4	-	123.80
16	1-Oct-10	*3	-	141.95
17	1-Nov-10	*8	-	142.70
18	1-Dec-10	*7	-	140.50
19	1-Jan-11	*4	-	143.05
20	1-Feb-11	*8	-	121.45
21	1-Mar-11	*9	-	121.80
22	1-Apr-11	*7	-	146.80
23	1-May-11	*5	-	155.40
24	1-Jun-11	*7	-	143.15
25	7-Jul-11	*9	-	129.35
26	9-Aug-11	*6	-	128.15
27	9-Sep-11	*9	-	138.95
28	6-Oct-11	*6	-	149.00
29	8-Nov-11	*4	-	162.90
30	8-Dec-11	*5	-	160.20
31	6-Feb-12	*6	-	179.90
32	9-Mar-12	*7	-	162.65

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Grasim Industries (GRAS.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Pradeep Mahtani

	Date	Rating	Target Price	Closing Price
1	28-Apr-09	3M	*1,265.16	1,615.88
2	27-Jul-09	3M	*2,232.11	2,609.89
3	28-Oct-10	*1L	*2,640.00	2,281.95
4	17-Mar-11	1L	*3,010.00	2,438.60
5	30-Sep-11	1L	*2,728.00	2,343.60
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*1	2,728.00	2,336.45

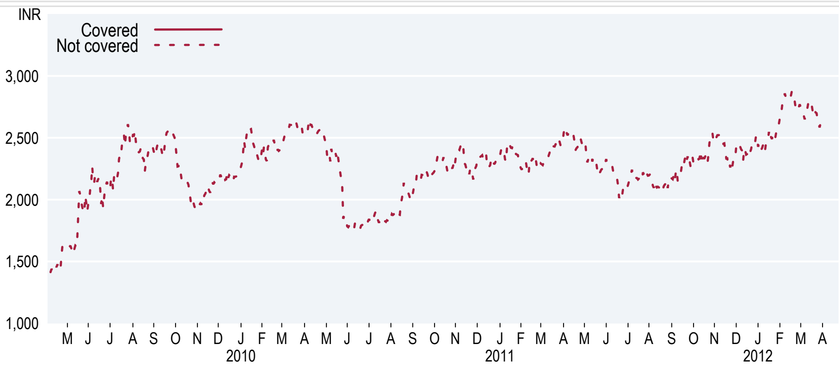
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Grasim Industries (GRAS.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Pradeep Mahtani



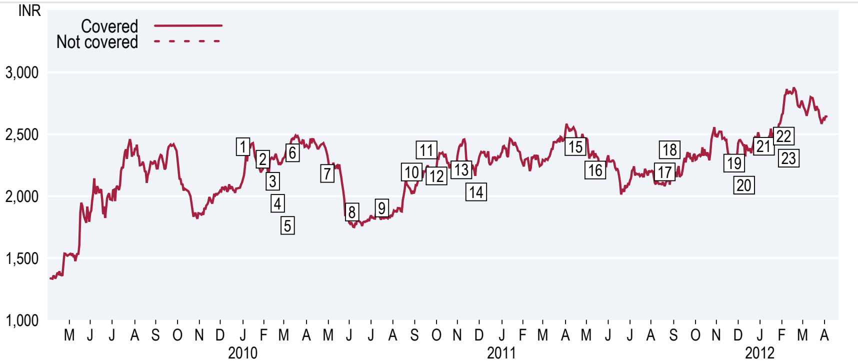
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Grasim Industries Ltd (GRAS.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



#	Date	Rating	Target Price	Closing Price
1	1-Jan-10	*3	-	2,111.10
2	29-Jan-10	*1	-	2,217.00
3	12-Feb-10	*3	-	2,311.89
4	19-Feb-10	*1	-	2,287.58
5	5-Mar-10	*2	-	2,400.00
6	12-Mar-10	*1	-	2,465.84
7	30-Apr-10	*2	-	2,327.88
8	4-Jun-10	*3	-	1,772.50
9	16-Jul-10	*2	-	1,834.10
10	27-Aug-10	*3	-	2,017.70
11	17-Sep-10	*2	-	2,230.35
12	1-Oct-10	*3	-	2,232.05
13	5-Nov-10	*4	-	2,402.60
14	26-Nov-10	*3	-	2,249.00
15	15-Apr-11	*2	-	2,521.90
16	13-May-11	*1	-	2,346.05
17	19-Aug-11	*5	-	2,081.70
18	26-Aug-11	*2	-	2,092.85
19	25-Nov-11	*1	-	2,271.80
20	9-Dec-11	*2	-	2,411.75
21	6-Jan-12	*1	-	2,418.50
22	3-Feb-12	*3	-	2,738.80
23	10-Feb-12	*1	-	2,833.65

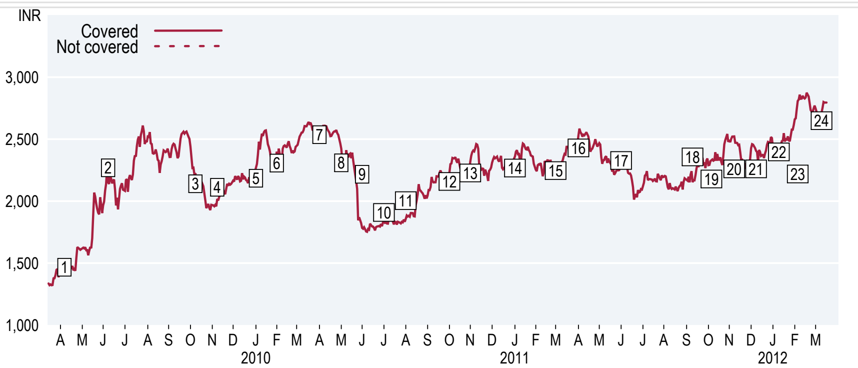
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Grasim Industries Ltd (GRAS.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



#	Date	Rating	Target Price	Closing Price
1	7-Apr-09	*2	-	1,416.44
2	8-Jun-09	*1	-	2,152.49
3	8-Oct-09	*2	-	2,224.74
4	9-Nov-09	*1	-	2,017.48
5	1-Jan-10	*5	-	2,239.07
6	1-Feb-10	*1	-	2,398.48
7	1-Apr-10	*3	-	2,556.30
8	1-May-10	*5	-	2,465.48
9	1-Jun-10	*3	-	1,783.85
10	1-Jul-10	*5	-	1,843.00
11	1-Aug-10	*2	-	1,833.45
12	1-Oct-10	*3	-	2,231.85
13	1-Nov-10	*7	-	2,317.70
14	1-Jan-11	*6	-	2,340.80
15	1-Mar-11	*3	-	2,292.55
16	1-Apr-11	*2	-	2,529.90
17	1-Jun-11	*1	-	2,327.80
18	9-Sep-11	*7	-	2,153.25
19	6-Oct-11	*2	-	2,322.55
20	8-Nov-11	*1	-	2,522.15
21	8-Dec-11	*2	-	2,405.90
22	10-Jan-12	*1	-	2,455.55
23	6-Feb-12	*2	-	2,807.70
24	9-Mar-12	*3	-	2,713.65

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UltraTech Cement (ULTC.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Pradeep Mahtani

#	Date	Rating	Target Price	Closing Price
1	28-Apr-09	3M	*500.00	569.60
2	27-Jul-09	3M	*745.00	796.25
3	28-Oct-10	*3L	*965.00	1,093.90
4	17-Mar-11	3L	*985.00	1,021.50
5	30-Sep-11	3L	*1,000.00	1,137.60
6	7-Oct-11	Stock rating system changed		
7	7-Oct-11	*3	1,000.00	1,093.35

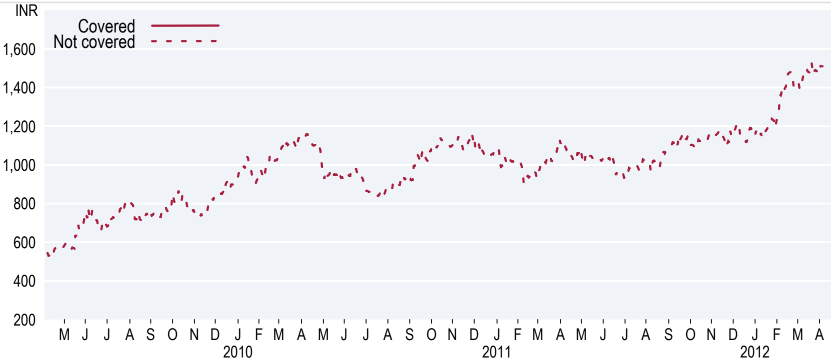
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UltraTech Cement (ULTC.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Pradeep Mahtani



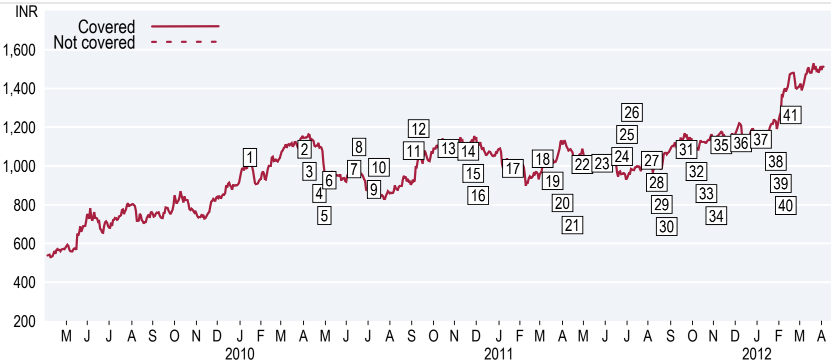
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ultratech Cement Ltd (ULTC.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



	Date	Rating	Target Price	Closing Price
1	15-Jan-10	*2	-	1,036.95
2	2-Apr-10	*1	-	1,144.25
3	9-Apr-10	*2	-	1,159.90
4	23-Apr-10	*3	-	1,094.75
5	30-Apr-10	*1	-	972.75
6	7-May-10	*2	-	945.45
7	11-Jun-10	*NR	-	974.60
8	18-Jun-10	*1	-	960.10
9	9-Jul-10	*2	-	858.25
10	16-Jul-10	*1	-	845.10
11	3-Sep-10	*2	-	920.20
12	10-Sep-10	*1	-	1,026.30
13	22-Oct-10	*4	-	1,112.80
14	19-Nov-10	*3	-	1,097.60
15	26-Nov-10	*4	-	1,123.55
16	3-Dec-10	*3	-	1,110.50
17	21-Jan-11	*4	-	1,024.00
18	4-Mar-11	*3	-	1,009.75
19	18-Mar-11	*2	-	1,036.75
20	1-Apr-11	*3	-	1,111.25
21	15-Apr-11	*4	-	1,070.55
22	29-Apr-11	*3	-	1,089.15
23	27-May-11	*1	-	1,034.55
24	24-Jun-11	*3	-	957.70
25	1-Jul-11	*2	-	936.05
26	8-Jul-11	*3	-	981.65
27	5-Aug-11	*2	-	1,000.45
28	12-Aug-11	*3	-	1,019.95
29	19-Aug-11	*1	-	987.95
30	26-Aug-11	*3	-	1,059.55
31	23-Sep-11	*5	-	1,162.00
32	7-Oct-11	*4	-	1,095.55
33	21-Oct-11	*3	-	1,120.75
34	4-Nov-11	*2	-	1,150.05
35	11-Nov-11	*3	-	1,176.40
36	9-Dec-11	*4	-	1,208.15
37	6-Jan-12	*3	-	1,150.60
38	27-Jan-12	*2	-	1,229.80
39	3-Feb-12	*1	-	1,275.80
40	10-Feb-12	*2	-	1,382.85
41	17-Feb-12	*3	-	1,476.30

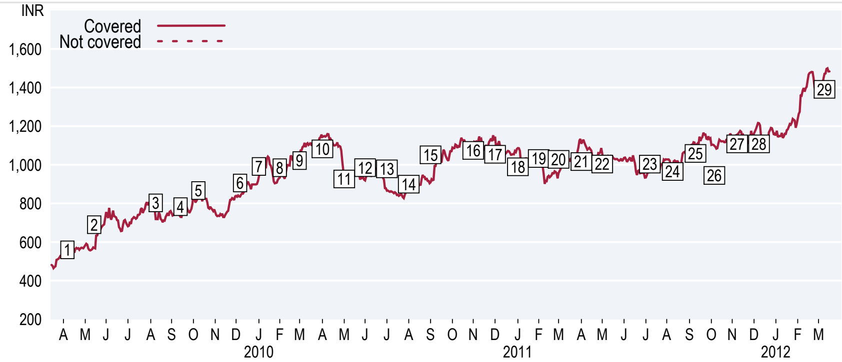
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Ultratech Cement Ltd (ULTC.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	7-Apr-09	*3	-	538.60
2	14-May-09	*2	-	569.85
3	10-Aug-09	*1	-	718.85
4	14-Sep-09	*2	-	730.15
5	8-Oct-09	*1	-	837.65
6	7-Dec-09	*2	-	835.50
7	1-Jan-10	*1	-	915.10
8	1-Feb-10	*3	-	932.90
9	1-Mar-10	*2	-	1,038.10
10	1-Apr-10	*7	-	1,144.20
11	1-May-10	*6	-	972.35
12	1-Jun-10	*7	-	919.00
13	1-Jul-10	*1	-	865.60
14	1-Aug-10	*2	-	864.35
15	1-Sep-10	*4	-	908.95
16	1-Nov-10	*9	-	1,101.15
17	1-Dec-10	*7	-	1,145.65
18	1-Jan-11	*5	-	1,082.15
19	1-Feb-11	*10	-	993.10
20	1-Mar-11	*7	-	957.20
21	1-Apr-11	*8	-	1,109.20
22	1-May-11	*5	-	1,086.80
23	7-Jul-11	*9	-	984.10
24	9-Aug-11	*6	-	991.70
25	9-Sep-11	*9	-	1,087.70
26	6-Oct-11	*6	-	1,103.65
27	8-Nov-11	*3	-	1,156.15
28	8-Dec-11	*4	-	1,215.25
29	9-Mar-12	*6	-	1,471.45

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Citi Investment Research & Analysis Ratings Distribution

	12 Month Rating			*Relative Rating*		
Data current as of 31 Mar 2012	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	52%	37%	11%	10%	79%	10%
% of companies in each rating category that are investment banking clients	44%	42%	40%	47%	42%	43%
Citi Investment Research & Analysis Quantitative World Radar Screen Model Coverage	30%	40%	30%			
% of companies in each rating category that are investment banking clients	23%	23%	19%			
Citi Investment Research & Analysis Quantitative Decision Tree Model Coverage	47%	0%	53%			
% of companies in each rating category that are investment banking clients	48%	0%	47%			
Citi Investment Research & Analysis Asia Quantitative Radar Screen Model Coverage	20%	60%	20%			
% of companies in each rating category that are investment banking clients	24%	22%	21%			
Citi Investment Research & Analysis Australia Radar Model Coverage	51%	0%	49%			
% of companies in each rating category that are investment banking clients	37%	0%	13%			

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CIRA's stock recommendations include an investment rating and an optional risk rating to highlight high risk stocks.
Risk rating takes into account both price volatility and fundamental criteria. Stocks will either have no risk rating or a High risk rating assigned.
Investment Ratings: CIRA's investment ratings are Buy, Neutral and Sell. Our ratings are a function of analyst expectations of expected total return ("ETR") and risk. ETR is the sum of the forecast price appreciation (or depreciation) plus the dividend yield for a stock within the next 12 months. The Investment

rating definitions are: Buy (1) ETR of 15% or more or 25% or more for High risk stocks; and Sell (3) for negative ETR. Any covered stock not assigned a Buy or a Sell is a Neutral (2). For stocks rated Neutral (2), if an analyst believes that there are insufficient valuation drivers and/or investment catalysts to derive a positive or negative investment view, they may elect with the approval of CIRA management not to assign a target price and, thus, not derive an ETR. Analysts may place covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and / or trading in the company's securities (e.g. trading suspension). As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis. To satisfy regulatory requirements, we correspond Under Review and Neutral to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation. **Relative three-month ratings:** CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

Prior to October 8, 2011, the firm's stock recommendation system included a risk rating and an investment rating. **Risk ratings,** which took into account both price volatility and fundamental criteria, were: Low (L), Medium (M), High (H), and Speculative (S). **Investment Ratings** of Buy, Hold and Sell were a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating. Additionally, analysts could have placed covered stocks "Under Review" in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed "Under Review" were monitored daily by management and as practically possible, the analyst published a note re-establishing a rating and investment thesis. For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings were:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return). For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings were:Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Citi Investment Research & Analysis (CIRA) Quantitative Research Investment Ratings:
CIRA Quantitative Research World Radar Screen recommendations are based on a globally consistent framework to measure relative value and momentum for a large number of stocks across global developed and emerging markets. Relative value and momentum rankings are equally weighted to produce a global attractiveness score for each stock. The scores are then ranked and put into deciles. A stock with a decile rating of 1 denotes an attractiveness score in the top 10% of the universe (most attractive). A stock with a decile rating of 10 denotes an attractiveness score in the bottom 10% of the universe (least attractive).
CIRA Asia Quantitative Radar Screen model recommendations are based on a regionally consistent framework to measure relative value and momentum for a large number of stocks across regional developed and emerging markets. Relative value and momentum rankings are equally weighted to produce a global attractiveness score for each stock. The scores are then ranked and put into quintiles. A stock with a quintile rating of 1 denotes an attractiveness score in the top 20% of the universe (most attractive). A stock with a quintile rating of 5 denotes an attractiveness score in the bottom 20% of the universe (least attractive).
CIRA Australia Quantitative Radar Screen model recommendations are based on a robust framework to measure relative value and momentum for a large number of stocks across the Australian market. Stocks with a ranking of 1 denotes a stock that is above average in terms of both value and momentum relative to the stocks in the Australian market. A ranking of 10 denotes a stock that is below average in terms of both value and momentum relative to the stocks in the Australian market.
CIRA Quantitative Decision Tree model recommendations are based on a predetermined set of factors to rate the relative attractiveness of stocks. These factors are detailed in the text of the report. The Decision Tree model forecasts whether stocks are attractive or unattractive relative to other stocks in the same sector (based on the Russell 1000 sector classifications).

For purposes of NASD/NYSE ratings-distribution-disclosure rules, a Citi Investment Research & Analysis (CIRA) Quantitative World Radar Screen recommendation of (1), (2) or (3) most closely corresponds to a buy recommendation; a recommendation from this product group of (4), (5), (6) or (7) most closely corresponds to a hold recommendation; and a recommendation of (8), (9) or (10) most closely corresponds to a sell recommendation. An (NR) recommendation indicates that the stock is no longer in the screen.
For purposes of NASD/NYSE ratings distribution disclosure rules, a CIRA Asia Quantitative Radar Screen recommendation of (1) most closely corresponds to a buy recommendation; a CIRA Asia Quantitative Radar Screen recommendation of (2), (3), (4) most closely corresponds to a hold recommendation; and a recommendation of (5) most closely corresponds to a sell recommendation. An (NR) recommendation indicates that the stock is no longer in the screen.
For purposes of NASD/NYSE ratings-distribution-disclosure rules, a CIRA Quantitative Research Decision Tree model or Quantitative Research Australia Radar Screen recommendation of "attractive" (1) most closely corresponds to a buy recommendation. All other stocks in the sector are considered to be "unattractive" (10) which most closely corresponds to a sell recommendation. An (NR)/(0) recommendation indicates that the stock is no longer in the

screen.
Recommendations are based on the relative attractiveness of a stock, thus can not be directly equated to buy, hold and sell categories. Accordingly, your decision to buy or sell a security should be based on your personal investment objectives and only after evaluating the stock's expected relative performance.

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Citigroup Global Markets India Private Limited	Pradeep Mahtani; Raashi Chopra, CFA
Citigroup Global Markets Singapore PTE LIMITED	Paul R Chanin

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