Cement

Strong Demand + Delayed Supply = Good Times to Continue

analysis adds up

India Equity Research I Cement | August 14, 2009 | INITIATING COVERAGE

We initiate coverage on the India Cement Industry with an Overweight view. We believe that the consensus is exaggerating the impact of increased supply in the industry and neglecting the positives of strong demand and pricing discipline. We are estimating close to 68mn tons of capacity addition over the next two years and believe strong demand growth of 10.2% CAGR over F2009-11 along with pricing discipline will lead to CAGR of 7% in Cash EPS for our coverage universe. We also believe that weak monsoon is not a big threat for cement demand and advice buying cement stocks on recent underperformance. We have a buy rating on Ultratech (Top Pick), Ambuja and ACC and Sell on Grasim.

Volume sacrifice will lead to stable pricing: We expect companies to sacrifice volumes and operate capacities at lower utilization rates to control pricing in the markets. We believe cement realizations for the companies will be slightly higher in F2010 even if the retail prices come down by 3-4%, due to benefit of excise duty cuts not passed on to the consumers. For F2011 we are estimating YoY fall of 5% in realizations due to excess supply.

Excess Supply concerns exaggerated: We are estimating addition of 68mn tons of capacity (31% of March 2009 Capacity) by F2011. However we do not see pricing disruptions due to this supply due to 1) slow progress in plant stabilization, 2) delay in market establishment and 3) pricing discipline exhibited by the players. Moreover we believe that the industry may resort to measures like increased OPC production (to cater to infrastructure demand and to keep clinker utilization levels optimal) and reduced blending ratios to contain the additional supply.

Cement Demand growth to be robust at 10% p.a. for the next two years: We believe that the strong growth in dispatches shown by the industry in the last 6 months as a result of government expenditure and rural, semi urban housing demand is likely to continue for the next couple of years. The government in the recent budget 2009-10 has announced massive infrastructure spending which coupled with target of US$500bn infrastructure investments during XIth plan will lead to healthy demand for cement.

Key Risks: Key risks to our call are 1) faster of capacity addition leading to short term supply glut in the market, 2) aggressive pricing and 3) increase in operating costs like coal, freight and power.

We Prefer companies with volume growth and cost control: Ultratech is our top pick in the sector due to higher volume growth and benefits of higher captive power usage along with attractive valuation. Grasim we have a sell rating mainly due to expected prolonged drag of VSF business profitability and relatively expensive valuation.

Overweight

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Company	Rating	Target Price	Upside / Downside
Ultratech	Buy	1090	45%
ACC	Buy	1019	20%
Ambuja	Buy	124	19%
Grasim	Sell	2391	-10%

Inside this Report:

- **Ultratech: Top pick in the sector**
- **ACC: Largest player in India set to benefit from positive outlook**
- **Ambuja: 2QC09 earnings miss offers good entry opportunity**
- **Grasim: High valuations and declining VSF profitability makes us cautious**

Company	Rating	CMP	Target Price	Upside / Downside	12M Fwd P/E	12M Fwd P/B	12 M Fwd EV/EBIDTA	12M Fwd EV/Ton	OPM	ROE
Ultratech	Buy	753	1090	45%	8.1	1.8	4.8	92	28%	26%
ACC	Buy	849	1019	20%	12.7	2.4	6.6	104	26%	23%
Ambuja	Buy	104	124	19%	11.2	2.2	6.6	124	31%	22%
Grasim	Sell	2671	2391	-10%	10.9	1.7	5.9	NA	25%	18%

Source: Company, Quant Broking

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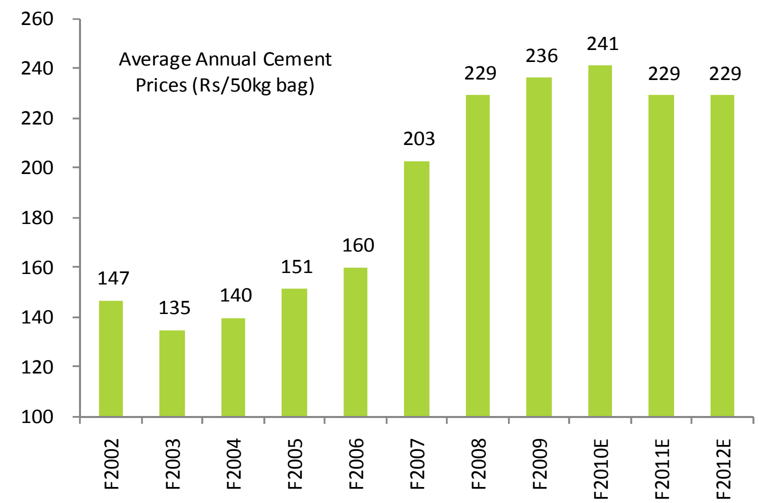
Volume sacrifice will lead to stable pricing

Even though we expect almost 68mn tons of capacity addition over the next two years, we believe the impact of this increased supply on pricing will be minimal. We expect companies to sacrifice volumes and operate their capacities at lower utilization rates to control pricing in the markets. We believe average cement realizations will be marginally higher or flat during the year F2010 and may reduce marginally (-5%) in F2011. The excise duty cut of 4% during various stimulus package given out by the government has helped companies to increase their net realization by similar amount as they have not passed on this benefit to the consumers. Even though during the year retail prices come down by 4-5% the net realization will remain flat or marginally higher. During F2011, we expect average prices to fall by 5% due to excess supply in certain regions like South and West. We also believe that the following year i.e. F2012, increased demand will likely reduce the deficit from the market keeping prices stable.

Exhibit 1: Our Pricing Assumptions for the next three years



Source: Quant Broking Estimates

We do not expect pricing wars to disturb the markets and take overall pricing down substantially as we believe

1) Aggressive pricing can help volume growth only for a shorter period as this temporary volume growth subsides after other players in the market place reduce pricing. Hence **players will rather go slow on volumes and maintain prices**.

2) Many companies which are expanding capacities are already running plants with over 100% utilization. Post expansion volume growth is likely to come from new plants while the older plants will reduce production levels, thereby maintaining the volumes in the market.

Evidence of pricing discipline

During the first half of C2008, the cement industry saw addition of 30.4mn tons of capacity. This addition represents 18% of December 2007 total capacity of 169mn tons. This entire capacity addition was absorbed by the industry without any impact on prices. In fact, the prices increased marginally post this capacity addition. Moreover demand growth during first half of C2008 was higher than in 2HC2008. We attribute greater pricing discipline and comparatively higher utilizations as key reasons for firm prices.

Now during the first half of C2009, we have again seen significant capacity addition of 25mn tons which constitutes 12% of December 2008 capacity. The demand growth during 1HC2009 has been highest since C2006 and we believe that this higher demand growth coupled with pricing discipline will again keep prices stable despite increasing supply.

Exhibit 2: Capacity addition as % of total capacity in 1H

mn tons	1HC2008	1HC2009
Starting Capacity	173.1	207.0
Capacity Addition	30.4	25.0
Addition as %	**18%**	**12%**
Demand Growth in 1H	9%	10%
Demand Growth in 2H	8%	NA

Source: Quant Broking Estimates

We have seen evidences of pricing discipline exhibited by cement companies earlier. ACC during December 2008 had shut its Kiln at Gagal (H.P.) for around one month due to lack of demand. Ultratech and Grasim both had commissioned their clinkerisation units well ahead of cement mills. In Northern region, during F2008, Shree Cement doubled its capacity from 4.5mn tons to 9.1mn tons. Despite this massive addition and Shree dispatches growing at 34% in F2008, prices were maintained. During the June quarter of F2010, Northern region has grown consumption at 21% YoY growth, whereas ACC's dispatches have grown at 2% despite Jamul and Lakheri (both North based) plants operating below 90% utilization.

Finally most of the new plants which were commissioned last year are still operating at subpar utilization levels due to delays in plant stabilization or market establishment. The following exhibit details the new plants as well as expanded plants along with its current utilization levels. Clearly the average utilization of greenfield plants at 62% and brownfield plants at 82% is below average emphasizing the point mentioned above.

Exhibit 3: Both green field and brown field capacities operating below par

Company		State	Region	Month of Commissioning	Capacity as on Dec-07	Capacity as on Jun-09	Addition	Production Jun-09	Utilization
New Capacity									
OCL india Ltd	G	ORISSA	EAST	May-08	-	113	113	101	90%
Rain Industries		ANDHRA PRADESH	SOUTH	Jun-08	-	167	167	86	51%
India Cements	G	TAMIL NADU	SOUTH	Aug-08	-	92	92	68	74%
Ultratech Cement	G	KARNATAKA	SOUTH	Sep-08	-	108	108	43	39%
						479	**479**	**297**	**62%**
Expansion									
Managalam Cement		RAJASTHAN	NORTH	Sep-08	33	83	50	60	72%
JK Cement		RAJASTHAN	NORTH	Sep-08	8	39	31	31	80%
Madras Cement		TAMIL NADU	SOUTH	Apr-08	63	150	88	118	79%
Rain Industries		ANDHRA PRADESH	SOUTH	Jun-08	83	117	33	92	79%
Rain Industries		ANDHRA PRADESH	SOUTH	Jun-08	42	50	8	35	71%
Kesoram Cement		ANDHRA PRADESH	SOUTH	Nov-08	75	125	50	123	98%
					304	**564**	**260**	**460**	**82%**

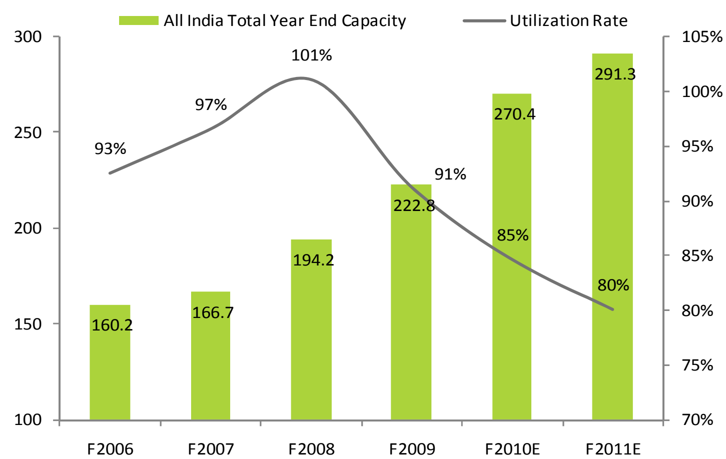
G = Grinding Unit   Data in 000' tons, Monthly Capacity

Source: CMA, Company data, Quant Broking Estimates

Excess supply concerns are exaggerated

We believe market concerns of supply glut are exaggerated as we have already seen significant delays in capacity commissioning and slow rate of plant stabilization. Moreover strong demand and exports are helping absorb the new supply coming in the market. We expect addition of 68mn tons of new cement capacity over F2010-11 period taking the total capacity in the industry by F2011 to 291mn tons. Our capacity addition expectations are optimistic and may have downside as we have not assumed significant delays in capacity addition plans. As a result of this addition, we believe average capacity utilizations will go down to 80% in F2011 compared to 91% in F2009.

Exhibit 4: India Cement Capacity and Utilization estimates



Source: CMA data, Quant Broking Estimates

Region wise we expect maximum fall in capacity utilization in South and West due to high capacity addition in both regions and lower demand growth in South (on higher base). South will have the lowest capacity utilization of 77% followed by North at 79%. Prices in south are on an average 6.5% higher than all India average and may see some correction due to excess supply. Higher demand growth for North at 13% will help maintain the prices in that region despite capacity additions. East remains a favourable region with highest F2011 utilizations and decent demand growth.

Exhibit 5: Region wise break down of Capacity and Utilization

Region	F2006	F2007	F2008	F2009	F2010E	F2011E
Year End Capacity (mn tons)						
North	38.4	41.1	55.4	60.7	74.0	79.2
East	24.2	25.0	28.7	29.9	37.3	38.7
South	51.0	53.5	58.8	77.9	95.8	96.8
West	46.6	47.1	51.2	54.3	63.2	76.5
All India	**160.2**	**166.7**	**194.2**	**222.8**	**270.4**	**291.2**
Regional Capacity as % of Total						
North	24%	25%	29%	27%	27%	27%
East	15%	15%	15%	13%	14%	13%
South	32%	32%	30%	35%	35%	33%
West	29%	28%	26%	24%	23%	26%
All India	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Growth in Capacity (% YoY)						
North		7%	35%	10%	22%	7%
East		3%	15%	4%	25%	4%
South		5%	10%	32%	23%	1%
West		1%	9%	6%	16%	21%
All India		**4%**	**16%**	**15%**	**21%**	**8%**
Regionwise Utilization (%)						
North	89%	94%	91%	84%	80%	79%
East	90%	88%	85%	87%	77%	83%
South	88%	93%	94%	89%	75%	77%
West	89%	96%	98%	92%	83%	80%
All India	**93%**	**97%**	**101%**	**91%**	**85%**	**80%**

Source: CMA data, Quant Broking Estimates

New capacities are delayed by 6-12 months which has kept demand supply mismatch in check

During F2009 only 26.5mn tons of capacity was added compared to earlier expectation of almost 52mn tons of addition. Most of the Greenfield capacity has been delayed by 6-12 months due to 1) delays in land acquisition, 2) delays in regulatory approvals, 3) unavailability of skilled labour and 4) delays in sourcing critical components of the plant. Few companies have delayed or deferred their capacities which were slated to come by F2011-12. Moreover, the commissioned capacity has also taken time to stabilize the plant and find the market for the new supplies without disturbing pricing. We believe that the delayed supply is paving the way for the increased demand to match the supply thereby averting the demand supply mismatch and keep prices stable. If the Greenfield capacities we expect to come during F2011 are also delayed by similar time frame, the demand will catch up to maintain or increase the current price levels.

Grasim and Ultratech both commissioned their clinkerisation units in March 2008. However the cement mills started functioning only in March 2009. Similarly for Jaiprakash, its Dalla plant, which was supposed to be commissioned in October 2008, was commissioned in April 2009 and is currently producing only clinker. Baga plant is also delayed by around six months and now will come in 3QF2010. Siddhi plant commissioned in April 2009 instead of November 2008 as envisaged earlier and in that also cement mill has not started. Other unlisted players like Raghuram cement and Murli agro have seen around 12months delay in commissioning their capacities. Ambuja cements has deferred its grinding unit at Barh in Bihar as NTPC power plant which was supposed to supply fly ash to the units is delayed.

Exhibit 6: Expected Capacity addition over the next two quarters

Company	State	Region	Time	Capacity
Birla Industries	RAJASTHAN	NORTH	3QC09	0.50
JK Cement	RAJASTHAN	NORTH	3QC09	1.21
Jaiprakash	HIMACHAL PRADESH	NORTH	4QC09	2.00
Grasim Cements Ltd	RAJASTHAN	NORTH	4QC09	3.10
Ambuja Cements Ltd	HIMACHAL PRADESH	NORTH	4QC09	2.20
ACC Ltd	TAMIL NADU	SOUTH	3QC09	0.22
ACC Ltd	KARNATAKA	SOUTH	3QC09	3.60
India Cements	ANDHRA PRADESH	SOUTH	3QC09	0.25
Ultratech Cement	ANDHRA PRADESH	SOUTH	3QC09	1.20
Kesoram Cement	KARNATAKA	SOUTH	3QC09	1.70
India Cements	ANDHRA PRADESH	SOUTH	3QC09	1.50
JK Cement	KARNATAKA	SOUTH	3QC09	3.00
Madras Cement	TAMIL NADU	SOUTH	4QC09	0.40
Birla Industries	MADHYA PRADESH	WEST	3QC09	1.40
Jaiprakash	GUJARAT	WEST	4QC09	1.20
Murli Agro	MAHARASHTRA	WEST	4QC09	2.50
Ambuja Cements Ltd	CHHATTISGARH	EAST	3QC09	2.20
ACC Ltd	ORISSA	EAST	3QC09	1.18
Total (mn tons)				**29.36**

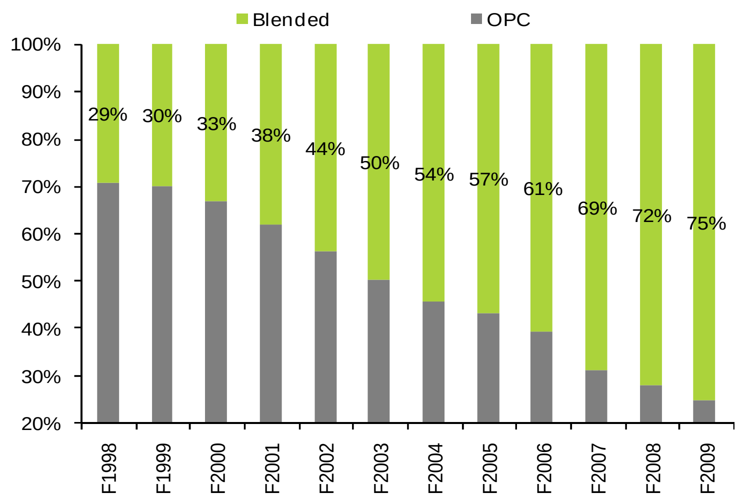
Source: Quant Broking Estimates

How can companies control additional supply?

1) By producing more OPC cement

Over the last decade, production of blended cement has gradually gone up as the environment ministry became more stringent on disposal of fly ash. During F1998, the proportion of blended cement production to total production was only 29% which has now increased to 75%. This growth has been possible because it made economic sense to the players as blending reduces the overall operating cost of cement since it is cheaper than clinker. However going forward we expect the rate of OPC production to be higher as demand from infrastructure will be higher. OPC cement is more suited for infrastructure construction than housing construction. Increase in OPC production will maintain the clinker utilization levels but reduce the overall supply coming in the market.

Exhibit 7: India Cement Capacity and Utilization estimates



Source: CMA data, Quant Broking

2) By reducing blending ratios

We did a study on our cement production estimates assuming lower blending ratio of 15% instead of 20%. We find that if companies reduce blending ratios to maintain their clinker utilization they can reduce the overall supply in the market by around 3%. The cement to clinker ratio currently is at a historically high value of 1.31 and we believe the companies may resort to lower blending ratios to reduce supply in the market even if the production costs edge up slightly. The drop in clinker capacity utilization is less severe if the supply is controlled through less blending.

Exhibit 8: Impact on supply if blending ratios go down by 5%

mn tons	F2006	F2007	F2008	F2009	F2010e	F2011e
Cement Capacity	153.2	161.1	166.4	198.7	235.7	274.5
Cement Production	**141.8**	**155.6**	**168.3**	**181.4**	**199.6**	**220.0**
Growth Rate	12.9%	9.8%	8.1%	7.8%	10.0%	10.2%
Utilization Rate	**93%**	**97%**	**101%**	**91%**	**85%**	**80%**
Blended Cement %	60.6%	68.8%	72.0%	75.2%	73.2%	71.2%
Total Blended Cement Produc	**86.0**	**107.2**	**121.2**	**136.4**	**146.1**	**156.6**
Total OPC Production	55.84	48.49	47.09	45.01	53.51	63.37
Production assuming 15% blending					**193.5**	**213.4**
Reduction in Supply					**3.0%**	**3.0%**

Source: CMA data, Quant Broking

Exhibit 9: Reduction in Cement to clinker ratio leads to higher clinker utilization rates

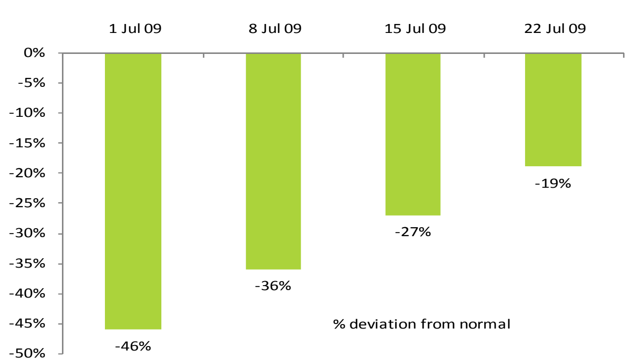
mn tons	F2006	F2007	F2008	F2009	F2010e	F2011e
Wt avg Net Capacity	153.2	161.1	166.4	198.7	235.7	274.5
Cement Production	141.8	155.6	168.3	181.4	199.6	220.0
Cement Utilization Rate	**93%**	**97%**	**101%**	**91%**	**85%**	**80%**
Cement to Clinker Ratio	1.22	1.28	1.30	1.31	**1.29**	**1.27**
Clinker Production	116.3	121.6	129.7	138.6	154.9	173.4
Clinker Capacity	125.7	125.9	128.2	151.8	180.1	209.7
Clinker Utilization Rate					**86%**	**83%**

Source: CMA data, Quant Broking

Weak Monsoon is not a big threat

Although the advancement of monsoon has improved over the month of July, there are some concerns on demand side if monsoon is weak. As per IMD estimates, rainfall during this year is expected to be 93% of its long term average, whereas cumulative rainfall till the week ended 22nd July 2009 was 81% of LTA. During 2002 and 2004, when the monsoon was much weaker leading to draught situation, cement demand was fairly robust in the same as well as next year which signifies that the impact of monsoon on cement demand is minimal. Assuming that the monsoon indeed is around 93% of LTA we do not see any impact on our demand estimates.

Exhibit 10: Average rainfall – deviation from long term average



Source: IMD

Exhibit 11: No visible impact of lower rainfall on cement demand

Year	Rainfall as % of LTA	Cement Demand
1998	107.1%	7.2%
1999	95.8%	16.0%
2000	92.2%	3.7%
2001	92.9%	2.3%
2002	**79.4%**	**11.3%**
2003	102.1%	5.3%
2004	**87.4%**	**8.4%**
2005	98.8%	8.5%
2006	99.4%	11.4%
2007	105.0%	9.4%
2008	98.0%	8.9%
2009	93.0%	9.2%*

* = data for the first six months only

Source: IMD

Cement Demand to be robust at 10% p.a. for the next two years

Cement sectors strong performance in the last one year can be attributed to strong demand for cement in the last 6-9 months. This strong demand has absorbed the additional suplpy that has hit the market during this period without affecting the prices. We expect this healthy demand growth to continue over the next few years.

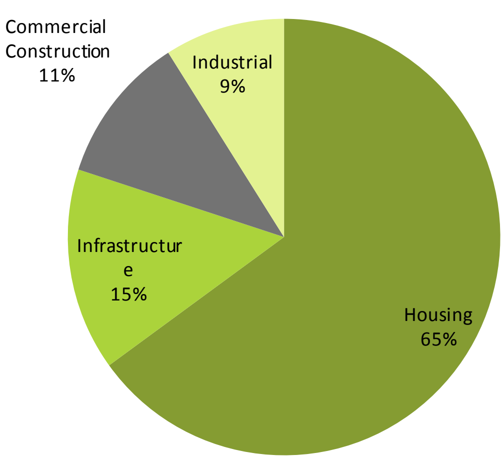
Cement Demand in India has grown at a healthy CAGR of 9.3% over the last five years. This has been possible due to strong 8.3% CAGR growth in India's GDP over the same period. Key contributors to the cement demand have been Housing and Infrastructure segments. While we expect housing to be a prominent contributory to the overall cement demand going forward, we believe growth in infrastructure spending by government is likely to accelerate the pace of demand growth further. Cement demand from Infrastructure segment in India is pretty low at only 15% of total demand. We expect this sector to grow at much faster pace due to increased government spending on infrastructure and thrust to large scale PPP projects. We are expecting 10% growth in Domestic Cement demand in F2010 and F2011.

Exhibit 12: Regional Demand Breakdown

Region	F2006	F2007	F2008	F2009	F2010E	F2011E
North	7.5%	10.9%	8.8%	6.4%	**13.3%**	9.6%
East	7.2%	4.5%	5.2%	11.7%	9.0%	10.4%
South	26.4%	13.2%	10.6%	10.5%	**7.8%**	10.6%
West	6.4%	8.0%	13.7%	6.8%	9.6%	9.5%
All India	**12.0%**	**9.9%**	**10.1%**	**8.4%**	**10.0%**	**10.0%**

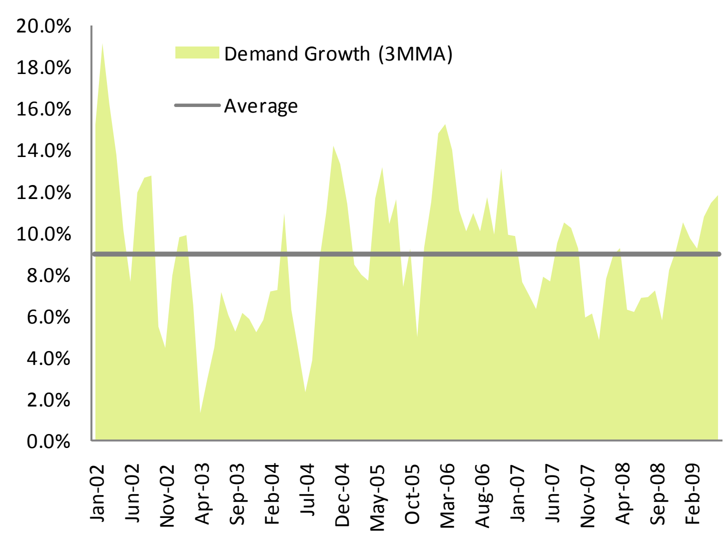
Source: CMA data, Quant Broking Estimates

Exhibit 13: Cement Demand Breakdown



Source: ACC Investor Presentation

Exhibit 14: Cement Demand growth has been robust over last five years



Source: CMA

Increased Infrastructure spending by the Government to boost cement demand

We expect infrastructurte segement to be a key contributor to the increased cement demand growth in India. Massive government spending and increased private sector participation will lead to higher investments and consequently higher cement demand going forward. Over the XIth plan period the government intends to increase its investments in infrastructure to Rs20.6tn from Rs8.7tn in Xth plan. This translates to investments of 11.4% of GDP during XIth plan compared to 7.2% in the Xth plan. We believe this massive government spending will sustain the current demand growth momentum for cement going forward even if housing sector demand slows down.

Exhibit 15: Increasing Infrastructure Investment as % of GDP

(Rs 00' bn)	F2003	F2004	F2005	F2006	F2007	X th Plan	F2008	F2009	F2010e	F2011e	F2012e	XI th Plan
GDP at factor cost (99-00 prices)	204.8	222.3	238.8	261.5	286.9	1,214	312.8	333.8	355.4	382.1	414.6	1,799
Growth Rate	3.8%	8.5%	7.5%	9.5%	9.7%		9.0%	6.7%	6.5%	7.5%	8.5%	
Investment in Infrastructure	14.5	14.4	16.1	19.5	22.5	87.1	27.0	32.2	38.9	47.9	59.6	205.6
as % of GDP	7.1%	6.5%	6.8%	7.5%	7.9%	**7.2%**	8.6%	9.6%	11.0%	12.5%	14.4%	**11.4%**
Growth Rate		-0.8%	11.8%	20.7%	15.6%		20.0%	19.0%	21.0%	23.1%	24.4%	

Source: Planning Commission of India

The growth in projected infrastructure investments in the XIth plan is spread well over the 10 core infrastructure sectors. Investments in most of the big cement consuming sectors like Roads, Irrigation, Ports and Airports is growing in excess of 100% in the XI th plan. Moreover the cumulative share of these sectors in the overall infrastructure pie has also increased by 160bps. Another positive feature of this plan is increasing Private sector participation (from 2.5% of GDP in F2008 to 4.5% in F2012) which we believe will make project executions faster leading to higher demand.

Exhibit 16: Breakdown of Investments in Core sectors of Infrastructure

Sectors (Investments in Rs. bn)	Tenth Plan	Share %	Eleventh Plan	Share %	Growth (%)
Electricity (incl. NCE)	2,919	33%	6,665	32%	128%
Roads and Bridges	1,449	17%	3,142	15%	117%
Telecommunication	1,034	12%	2,584	13%	150%
Railways (incl. MRTS)	1,197	14%	2,618	13%	119%
Irrigation (incl. Watershed)	1,115	13%	2,533	12%	127%
Water Supply and Sanitation	648	7%	1,437	7%	122%
Ports	141	2%	880	4%	525%
Airports	68	1%	310	2%	357%
Storage	48	1%	224	1%	364%
Gas	97	1%	169	1%	74%
Total	**8,714**	**100%**	**20,562**	**100%**	**136%**

Source: Planning Commission of India

Exhibit 17: Private Sector Participation to Increase

(Rs 00' bn)	F2008	F2009	F2010e	F2011e	F2012e	XI th Plan
Public	19.2	22.7	27.4	33.2	41.1	143.6
Private	7.8	9.4	11.6	14.7	18.5	62.0
Total	**27.0**	**32.2**	**38.9**	**47.9**	**59.6**	**205.6**
Private Sector Share as % of GDP	**2.5%**	**2.8%**	**3.3%**	**3.8%**	**4.5%**	**3.4%**

Source: Planning Commission of India

Government's Fiscal stimulus to act as catalyst for cement demand

The Government of India has announced various fiscal measures since December 2008 which has led to strong demand creation for cement. These measures were continued till the end of this year in the budget 2009-10 despite government running very high fiscal deficit at 6.5% of GDP. The government's approach of increasing spending to spur growth in economy augurs well for the cement demand in the country in our view. As a result of these measures cement demand has grown in double digits for the last six months and the profitability of the industry has also increased.

The cut in excise duties from 12% to 8% is the most significant measure according to us as the cement players have not passed on this benefit to consumers, thereby increasing the operating margins by 4%. Additionally increased budgetary allocation for various government schemes like JNNURM, NHDP, AIBP, and Bharat Nirman is another positive leading to higher cement demand. We have compiled these measures in the text below.

First Stimulus (announced on 7th December 2008)

- Across-the-board cut of four percent in the ad valorem central value-added tax
- Incentives for loans on housing for up to Rs.500,000, and up to Rs.2 million
- India Infrastructure Finance Co allowed to raise Rs.100 billion through tax-free bonds

Second stimulus (announced on 2nd January 2009)

- IIFCL, which was designated to act as refinancer for loans to the core sector, is being allowed to borrow Rs 30,000 crore by issuing tax-free bonds
- NBFCs, dealing exclusively with infrastructure financing, would be permitted to access ECB from multilateral or bilateral financial institutions, under the approval route of RBI.
- State governments have also been allowed to borrow an additional 0.5 per cent of their Gross State Domestic Product (GSDP), amounting to about Rs 30,000 crore, for capital expenditure
- Integrated townships permitted as an end-use of ECBs under RBI approval route
- Reintroduction of CVD and special CVD on cement

Third stimulus (announced on 24th February 2009)

- Extending previous excise cuts beyond March 31, 2009.

Budget 2009-10

- Allocation under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) increased by 87% YoY to INR 129 bn.
- Allocation for the National Highway Development Programme (NHDP) increased by 23% YoY to INR 159 bn.
- Allocation for Bharat Nirman increased by 45% YoY to INR 453 bn.
- Increase in outlays for Commonwealth games in 2010 from Rs21.12bn to Rs35bn

Inadequate Roads Infrastructure will require massive Investments

India has one of the largest road networks in the world with 3.3mn kms of roads spread across the country. However, 40% of the road traffic in India travels on National Highways which constitute meager 2% of the road network. Despite having such a small proportion with higher importance, national highways are grossly inadequate to handle high density, higher speed and comfortable ride. Massive investment is needed to revive the road transport sector in India which the government intends to do in the XIth Five Year Plan. The government has increased investments on roads by 117% over the Xth plan to Rs31tn. Another feature of the XIth plan is that the Private sector contribution towards road building in India is increasing multifold from Rs0.7tn to Rs.10.6tn.

In the budget 2009-10, the government has increased allocation to NHAI by 23%. NHAI is currently in process of constructing or awarding projects for roughly 22000kms of roads. Recently, Road transport and highways minister of India Mr Kamal Nath said during a summit that **the government plans to raise Rs1lakh Crore rupees through domestic and international sources to build 12,000kms of highways in the current financial year itself**. The ministry has set an ambitious target of building 20km of roads per day compared to current rate of 2kms/day. We believe this investment in roads is likely to increase cement consumption substantially over the next few years.

Exhibit 18: Private Sector Participation in Roads to Increase Multifold

Investment in Roads (Rs bn)	Tenth Plan	Share	Eleventh Plan	Share
Centre	7,153	49%	10,736	34%
States	6,635	46%	10,000	32%
Private	700	5%	10,679	34%
Total	**14,489**	**100%**	**31,415**	**100%**

Source: Planning Commission of India

Exhibit 19: Status of National Highways Projects

NHDP Component	Total Length (kms)	Completed 4 lane	Under Implementati	Balance for award
Golden Quadrilateral	5,846	5,721	125	-
NS-EW Corridor	7,142	3,436	2,915	791
Port Connectivity	380	206	168	6
Other National Highways	962	781	161	20
NHDP - Phase III	12,109	787	1,878	9,444
NHDP - Phase V	6,500	106	928	5,470
NHDP - Phase VII	700	-	19	681
Total	**33,639**	**11,037**	**6,194**	**16,412**

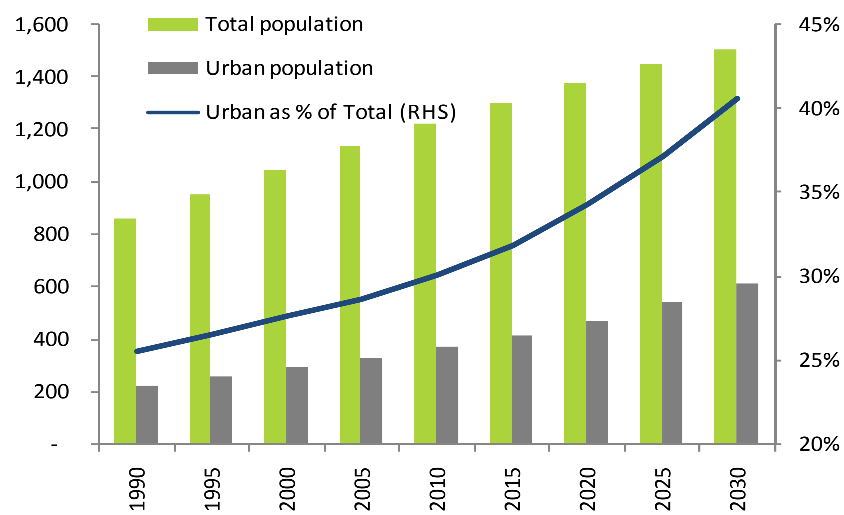
Source: Department of Road Transport and Highways

Demand from Housing Sector expected to be stable

Housing has been the main pillar of cement demand in India contributing over 60% of total cement consumption. Over the last 3-4 years, lower interest rates, easy credit availability, higher disposable income and high aspiration levels led to housing boom which resulted in strong cement demand. Even though the interest rates went up last year the cement demand continued to be robust due to housing demand from rural and semi urban areas.

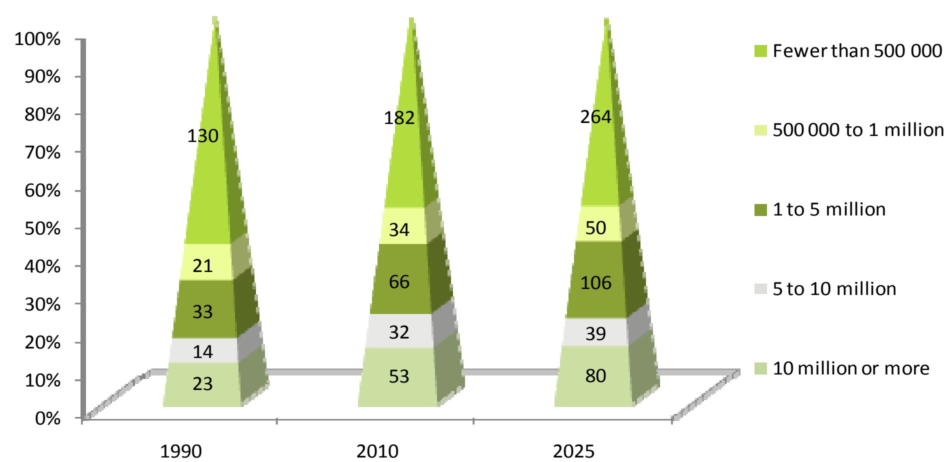
We expect stable demand from the housing segment going forward due to 1) government thrust on affordable housing 2) funding relaxation for integrated township development 3) Growth in urban population 4) increase in number of cities with more than 10mn population and 5) younger demographic profile.

Exhibit 20: Urban Population in India to increase at much rapid pace over the next two decades



Source: United Nations Population Database

Exhibit 21: Number of cities with 10mn and above population to triple



Source: United Nations Population Database

Affordable Housing and Slum Rehabilitation to pickup pace

We believe that renewed focus by real estate players on affordable housing and the government's vision to make india slum free in the next five years is likely to keep cement demand for housing relatively stable.

Anecdotal evidence suggest that the real estate players have cut prices by 20-25% in urban areas in order to boost demand which has led to a pickup in volumes in the last two quarters. Most of the real estate players were facing liquidity problems and hence shifted focus from premium housing projects to mid-income or affordable housing projects which led to increased volumes and improved cash flows for the players. HDIL launched two projects in Bombay at almost 20-25% lower prices which received very good response and got bookings for 70-75% of total units in the first few weeks. Similarly DLF's residential project in West Delhi with almost 1400 units sold out in first two weeks because the price points were 25% below the going rates in the vicinity. Unitech is doing the same thing for its new launches which has resulted in volume pickup for the company. In fact, the company announced in May 2009 that it plans to contruct 20,000 affordable houses at a cost of Rs 17bn over the next few years. The company went on to admit that they made a mistake by focussing on only top 2-3% of total population and now want to reach the masses and become top real estate company in India.

We believe that the demand for affordable housing is still very strong in India and received a further fillip with **government providing interest subvention on housing loans**. The Government announced in July 2009 that an interest subvention of one per cent on all housing loans up to Rs 10 lakh will be provided to individuals, provided the cost of the house does not exceed Rs 20 lakh. This interest subsidy would be routed though the scheduled commercial banks and the housing finance companies registered with the National Housing Bank.

Slum Rehabilitation – big opportunity for real estate players

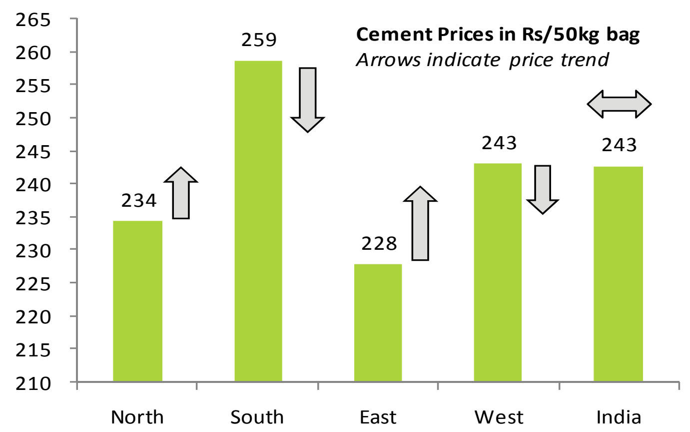
Apart from this, government is also very keen to make India slum free over the next five years. Through its National Urban Housing and Habitat policy, 2007, the government aims to provide equitable supply of shelter at affordable prices to all sections of the society. The Policy focuses on multiple stake-holders namely, the Private Sector, the Cooperative Sector, the Industrial Sector for labour housing and the Services/Institutional Sector for employee housing.

As per the Ministry of Housing and Urban Poverty Alleviation, out of the total 280mn population living in Urban areas, almost 80mn are poor and 60mn are slum dwellers. Slum dwelling population in city of Mumbai is as high as 54%. **Under the scheme of Rajiv Awas Yojna (RAY) for urban poor, an ambitious plan of building 5mn households for almost 60mn urban slum dwelling population is envisaged**. The government through this scheme intends to provide grant of maximum Rs 1.5 lakh per household along with 5% interest subsidy on loans of up to Rs 2.5 lakhs. We believe this will give a massive boost to cement consumption in urban areas.

Regional Outlook

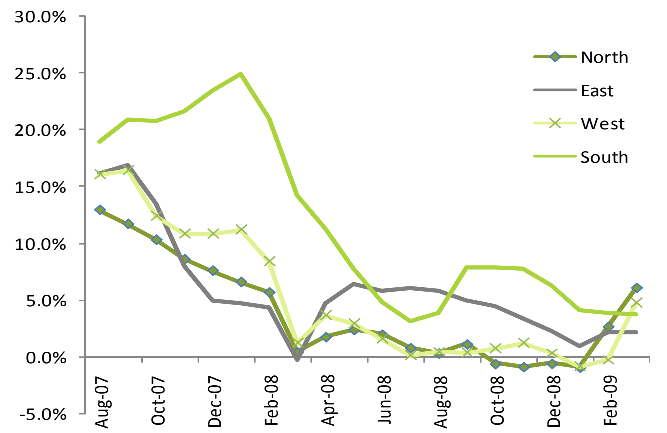
Based on our view on demand supply scenario, we believe delays in supply and strong domestic demand coupled with pricing discipline by industry players should lead to stable pricing for this year (F2010). For the industry we expect utilization levels to reach 78% in F2011, purely because we expect cement companies to sacrifice volumes for pricing. On regional basis, we expect North and East region to demonstrate pricing uptrend even in this year i.e. F2010, whereas for South and Western region we expect the prices to remain subdued.

Exhibit 22: Current Regional Prices and Trend



Source: CMA, Company data, Quant Broking

Exhibit 23: YoY Change in regional prices



Source: CMA, Company data, Quant Broking

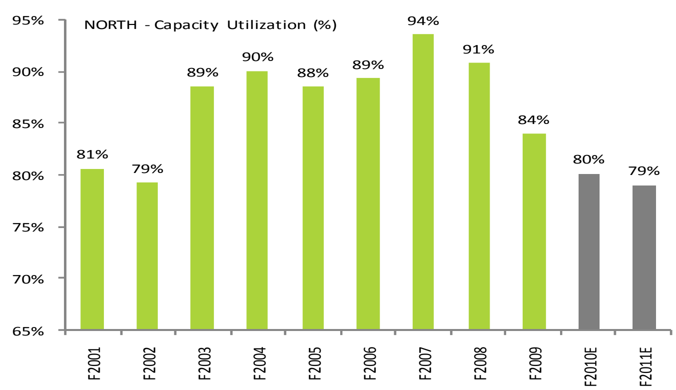
Northern Region

We expect Northern region's utilization rate to drop to 79% in F2011 due to addition of almost 16mn tons of capacity over the next 18 months (Appendix -2). Demand growth in North however is expected to be strong at 13% and 9% in F2010 and F2011 respectively due to increased spending by the government and renewd focus of real estate players on mid income housing projects. Commonwealth games in 2010 in Delhi will also help in increasing Cement demand in the region. We believe that higher demand growth may partially offsert the impact of increased supply in the region and prices will remain stable.

Northern region is highly consolidated with top 4 players (Holcim, Aditya Birla Group, Shree Cement and JK cement) constituting close to 65% of total despatches in the region. Most of the capacity expansion is being done by the top 4 players and hence we expect these companies to follow a rational approach in increasing despacthes thereby not affecting the pricing.

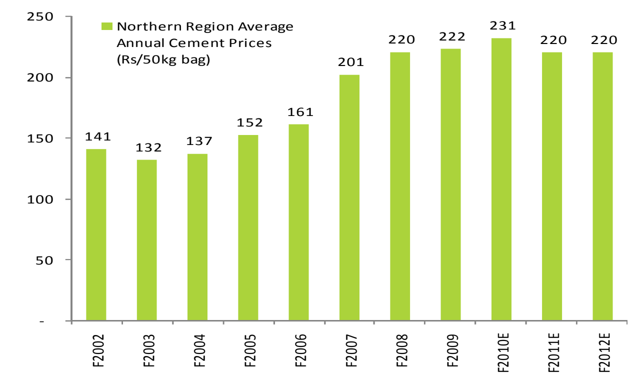
For the region we are bulding in 4% increase in average retail prices in F2010, followed by a 5% decline in F2011.

Exhibit 24: Northern Region Capacity Utilization to remain subdued around 80%



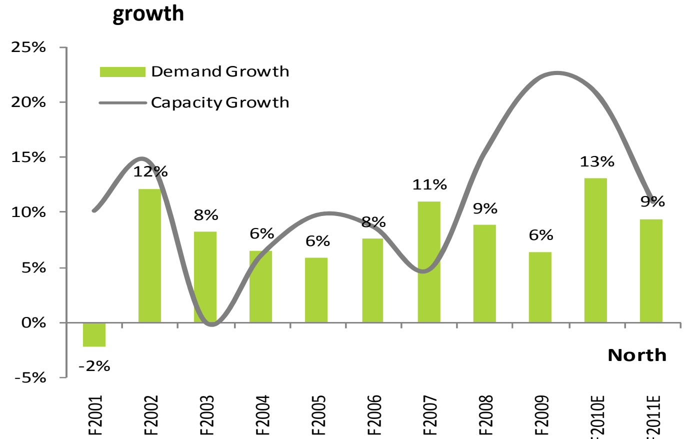
Source: CMA, Company Data, Quant Broking ;

Exhibit 25: Prices expected to hold up in F2010 due to strong demand



Source: CMA, Company Data, Quant Broking ;

Exhibit 26: Higher growth in capacity partly offset by higher demand growth



Source: CMA, Company Data, Quant Broking ;

Exhibit 27: Expected Capacity Addition over the next six months in North

Company	State	Region	Time	Capacity
Birla Industries	RAJASTHAN	NORTH	3QC09	0.5
JK Cement	RAJASTHAN	NORTH	3QC09	1.2
Jaiprakash	HIMACHAL PRADESH	NORTH	4QC09	2.0
Grasim Cements Ltd	RAJASTHAN	NORTH	4QC09	3.1
Ambuja Cements Ltd	HIMACHAL PRADESH	NORTH	4QC09	2.2
Total North Addition				**9.0**
Existing Capacity				63.5
Addition as % of existing capacity				**14%**

Source: Company Data, Quant Broking

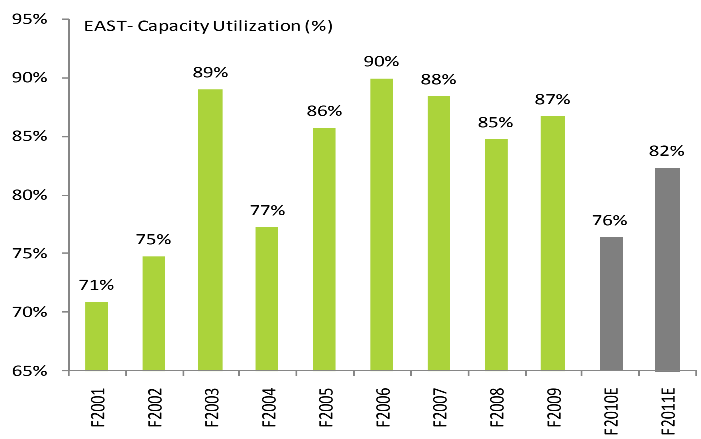
Eastern Region

Eastern region did not see any meaningful capacity addition from F2003. The utilization rate in the region was also moderate because of lower than average demand growth. However we believe that the region will show higher than average demand growth due to massive investments as the region lags other in terms of infrastructure and indutsry growth. Change in governments in Bihar and West Bengal is likely to result in higher cement demand in our view.

The prices in the Eastern region have gone up by 15-30% from January 2009 levels due to increased demand from government expenditure. Higher government expenditure also led to shortages of cement which was made up from supplies from other regions. Cement consumption during 1QF2010 in states like UP, Orissa and West Bengal was very high at 27%, 16% and 11% respectively. We expect higher demand growth in the region to continue leading to 9% demand growth in F2010 and in F2011.

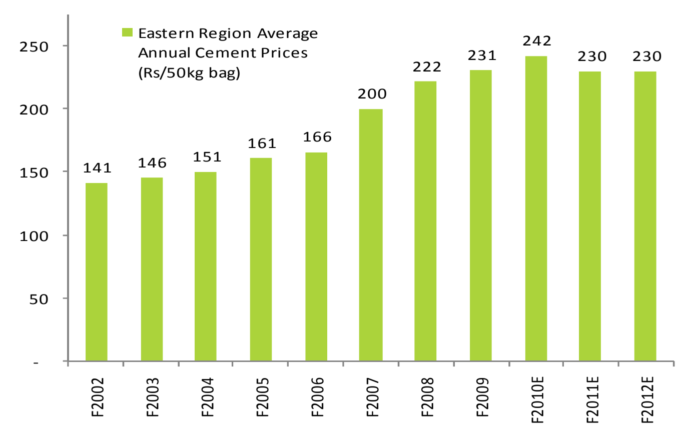
We conservatively expect average annual retail cement prices in the region to grow by 5% during F2010 and decline by 5% in F2011.

Exhibit 28: Utilization rates to drop sharply in F2010 only to recover again in F2011



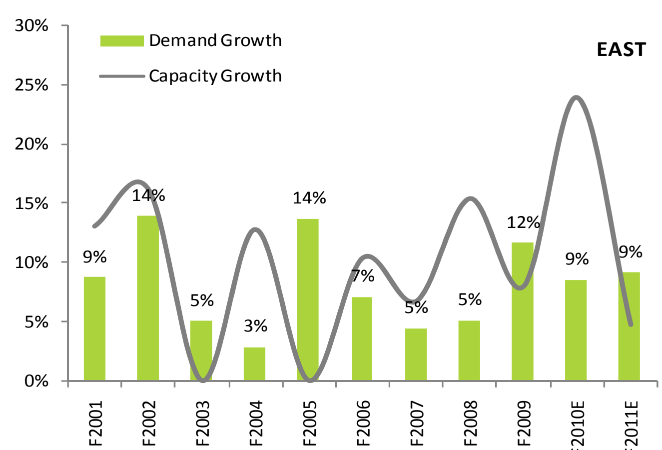
Source: CMA, Company Data, Quant Broking ;

Exhibit 29: Expect average prices in East to be higher in F2010



Source: CMA, Company Data, Quant Broking ;

Exhibit 30: Higher growth in capacity partly offset by higher demand growth



Source: CMA, Company Data, Quant Broking ;

Exhibit 31: Expected Capacity Addition over the next six months in East

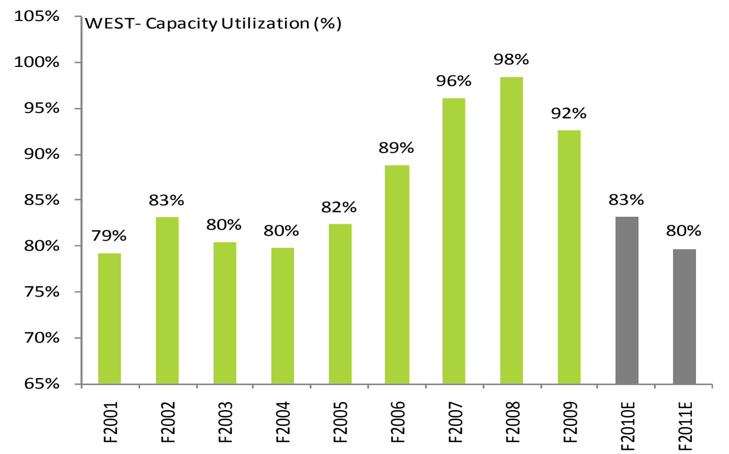
Company	State	Region	Time	Capacity
Ambuja Cements Ltd	CHHATTISGARH	EAST	3QC09	2.2
ACC Ltd	ORISSA	EAST	3QC09	1.2
Total Addition in East				**3.4**
Existing Capacity				32.9
Addition as % of existing capacity				**10%**

Source: Quant Broking Estimates

Western Region

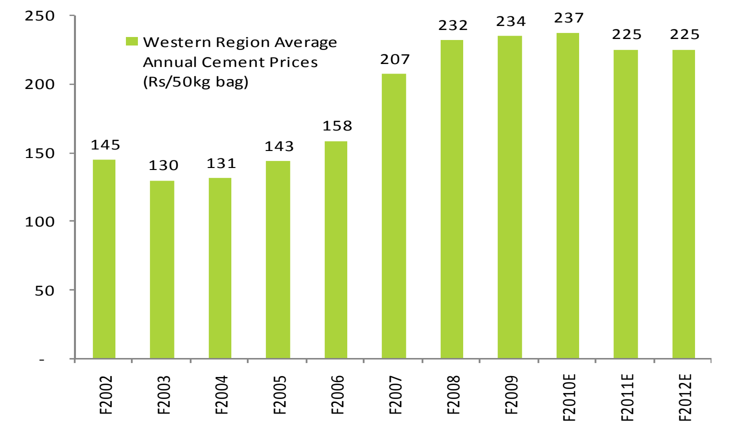
We expect Western region to see increased inflow of cement from the oversupplied Southern region. As a result despite marginal addition in capacity and moderate demand growth we expect utilization levels in North to reach 80% in F2011. Demand growth in the region is expected to be strong due to higher construction activity in both housing and infrastructure segment. We are estimating 9% and 10% demand growth for F2010 and F2011 respectyively. Prices in the region are very close to the all India average prices and we expect flat prices in F2010 followed by a 5% decline in F2011.

Exhibit 32: Western Region Capacity Utilization to decline to around 80%



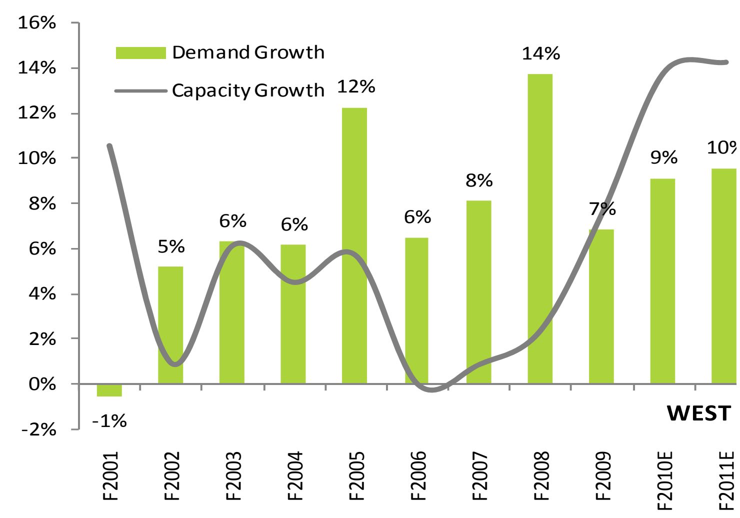
Source: CMA, Company Data, Quant Broking ;

Exhibit 33: Prices expected to be flat in F2010



Source: CMA, Company Data, Quant Broking ;

Exhibit 34: Capacity growth in the region is not high but increased supplies from Southern region are a concern



Source: CMA, Company Data, Quant Broking ;

Exhibit 35: Expected Capacity Addition over the next six months in West

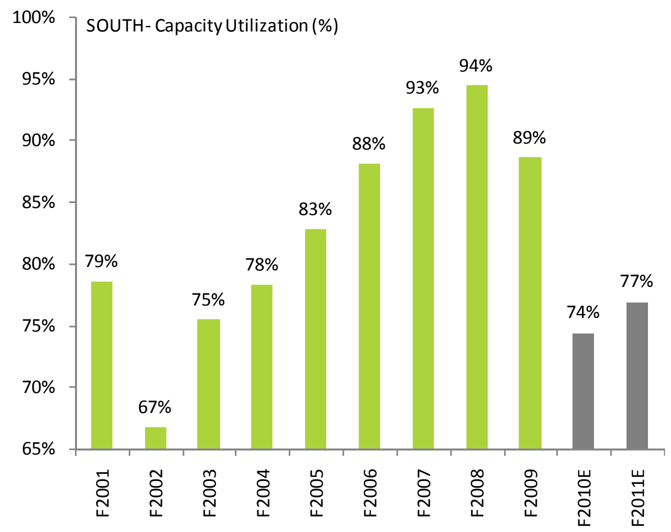
Company	State	Region	Time	Capacity
Birla Industries	MADHYA PRADESH	WEST	3QC09	1.4
Jaiprakash	GUJARAT	WEST	4QC09	1.2
Murli Agro	MAHARASHTRA	WEST	4QC09	2.5
Total Addition in West				**5.1**
Existing Capacity				55.4
Addition as % of existing capacity				**9%**

Source: Company Data, Quant Broking Estimates

Southern Region

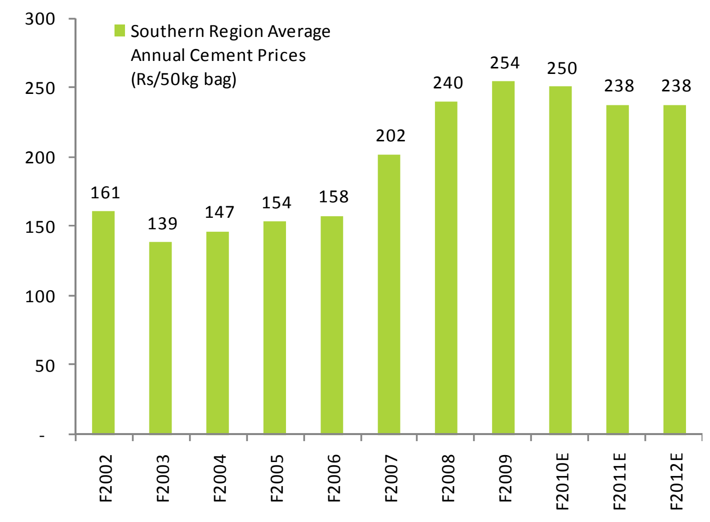
We expect utilization in Southern region to decline sharply from 89% in F2009 to 74% in F2010. We expect the region to face supply glut for some time during later part of the year and expect prices to remain subdued during F2010 and F2011 period. The region will see 30% YoY growth in capacity addition in F2010 which will put pressure on prices and hence we are projecting a decline of 1.5% in F2010 average prices. The prices in the 1QF2010 were 4% higher compared to the same period last year and hence 1.5% decline in average price is an aggressive estimate for the year.

Exhibit 36: Northern Region Capacity Utilization to remain subdued around 80%



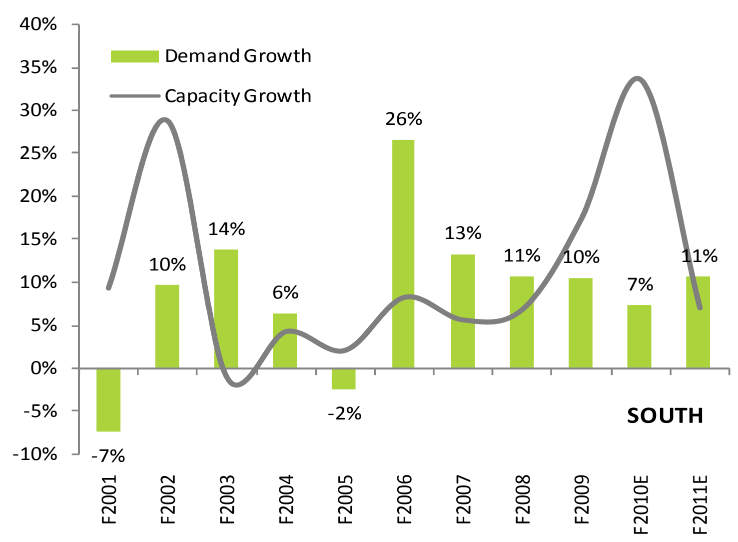
Source: CMA, Company Data, Quant Broking ;

Exhibit 37: Prices expected to hold up due to strong demand in F2010



Source: CMA, Company Data, Quant Broking ;

Exhibit 38: Twin effect of lower demand growth and very high growth in supply



Source: CMA, Company Data, Quant Broking ;

Exhibit 39: Expected Capacity Addition over the next six months in South is high at 15%

Company	State	Region	Time	Capacity
ACC Ltd	TAMIL NADU	SOUTH	3QC09	0.2
ACC Ltd	KARNATAKA	SOUTH	3QC09	3.6
India Cements	ANDHRA PRADESH	SOUTH	3QC09	0.3
Ultratech Cement	ANDHRA PRADESH	SOUTH	3QC09	1.2
Kesoram Cement	KARNATAKA	SOUTH	3QC09	1.7
India Cements	ANDHRA PRADESH	SOUTH	3QC09	1.5
JK Cement	KARNATAKA	SOUTH	3QC09	3.0
Madras Cement	TAMIL NADU	SOUTH	4QC09	0.4
Total Addition in South				**11.9**
Existing Capacity				81.4
Addition as % of existing capacity				**15%**

Source: Company Data, Quant Broking Estimates

Key Risks

Key risks to our positive call on cement are

1) Speeding up of capacity additions leading to short term supply glut in the market
2) Irrational players disturbing the markets for volume growth by resorting to pricing wars
3) Players adding large capacities in crowded markets leading to increased supplies
4) Increasing in operating costs like coal, power, freight and raw materials

Companies Covered

We are initiating coverage on India Cement Sector with Overweight view. We have a BUY rating on ACC, Ambuja and Ultratech and Sell on Grasim. Ultratech is our top pick in the sector and as the company is likely to show strong volume growth and lower costs leading to better growth in cash EPS. We believe that buoyancy in cement demand is likely to continue with governments intentions of increasing expenditure to revive growth. Moreover, supply is likely to be delayed which coupled with pricing discipline exhibited by industry players will keep cement prices stable, in our view.

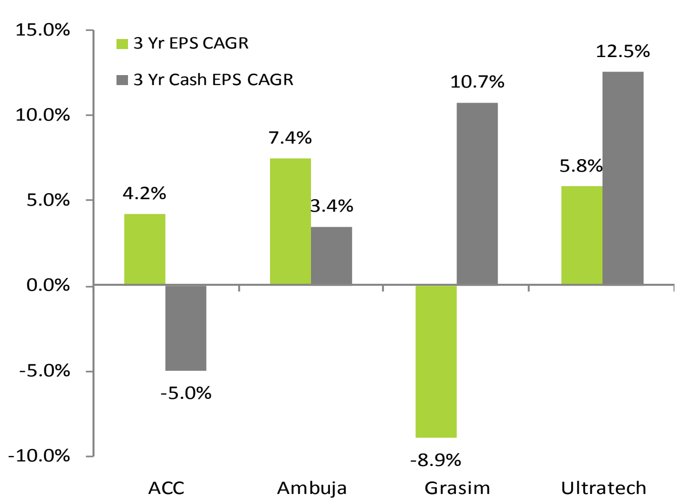
Our earnings estimates for Ultratech are are higher by 14% in F2010 and 24% in F2011. We also expect Ultratech to have highest operating rates during F2010-12 period amongst our coverage companies. We like ACC for its geographical diversification, increasing efficiency of the plants and cost controls. Our SELL recommendarion on Grasim stems from the outperformance in the recent past, stretched valuations and continuos drag on profits by the VSF business.

Exhibit 40: Summary of recommendation

Company	Rating	CMP	Target Price	Upside / Downside
ACC	Buy	875	1019	16%
Ambuja	Buy	105	124	18%
Grasim	Sell	2752	2417	-12%
Ultratech	Buy	814	1090	34%

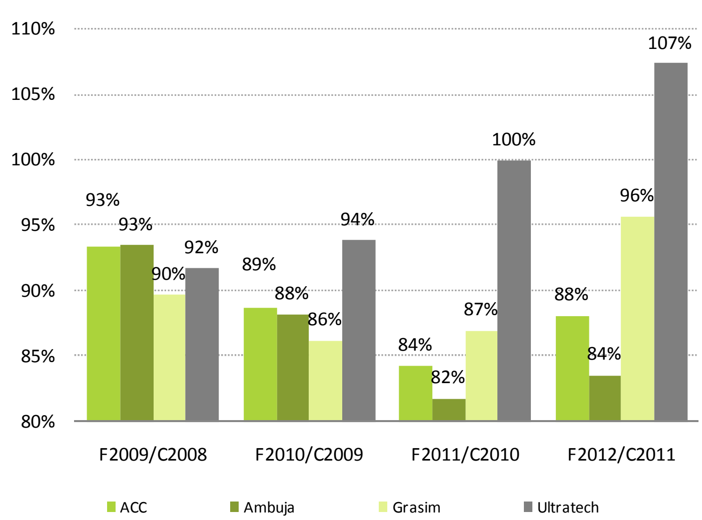
Source: Quant Broking Estimates

Exhibit 41: EPS and EPS CAGR for covered companies



Source: Quant Broking Estimates

Exhibit 42: Ultratech will have maximum utilization rate



Source: Quant Broking Estimates

Valuation Methodology

We have valued cement stocks using relative valuation method based on EV/EBIDTA multiples. We believe EV/EBIDTA is a superior way of valuing cement stocks compared to other measures like P/E or EV/ton. EV/EBIDTA captures the earnings capacity or the efficiency of the plants and also takes care of the capital structure of the company. As against this, P/E or EV/ton may not be compeletely reliable as companies have had negative earnings in the past distorting the P/E ratios and huge dispersion in premium or discount on EV/ton to replacement cost for different companies. Replacement cost can be difficult to ascertain because of difference in cost of green field and brownfield expansion. Also EV/ton fails to look at the age of the plants thereby valuing the old and new plants or greenfield or brownfield capacities at the same valuation. Moreover, recently many companies have started putting up captive power capacities which entails huge investments and leads to lower costs which does not get reflected in EV/ton valuation method.

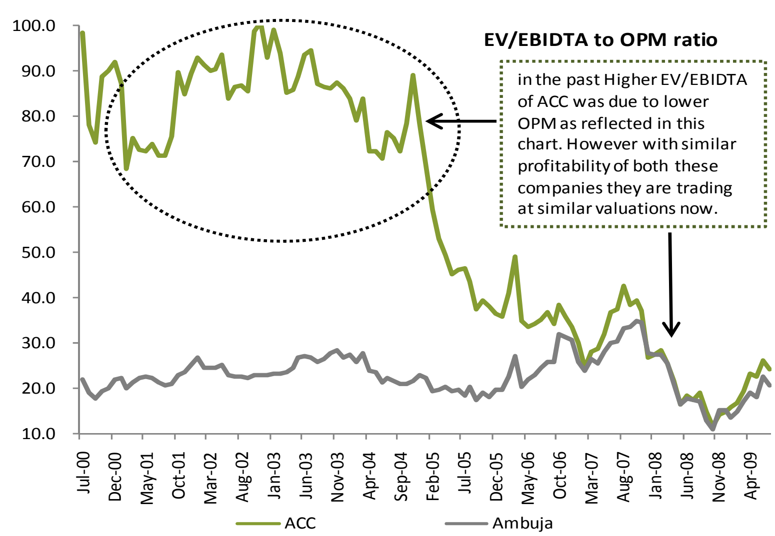
How we arrive at our target multiple?

To arrive at our target multiples for individual stocks we have taken average EV/EBIDTA multiples since January 2000 which includes two cement cycles. What we observe is that the behavior of multiples during different stages of cement cycle is different for different companies. For example, EV/EBIDTA of ACC was higher than Ambuja during F2001 downcycle due to very low operating profits of ACC (lower denominator). The EV/EBIDTA of ACC reverted to mean during current cycle when its profitability improved to be at par with peers. On the contrary, Ambuja's EV/EBIDTA average is lower as the company's operating profits have always been on the higher side as the company has shown higher profits even in down cycles by maintaining higher utilization rates.

Additionally, during F2005-F2006 period, Holcim made an open offer for Ambuja at historically high valuation of US$227 per ton making it the costliest deal in cement space in India which had kept the stock prices at higher levels, distorting the averages again.

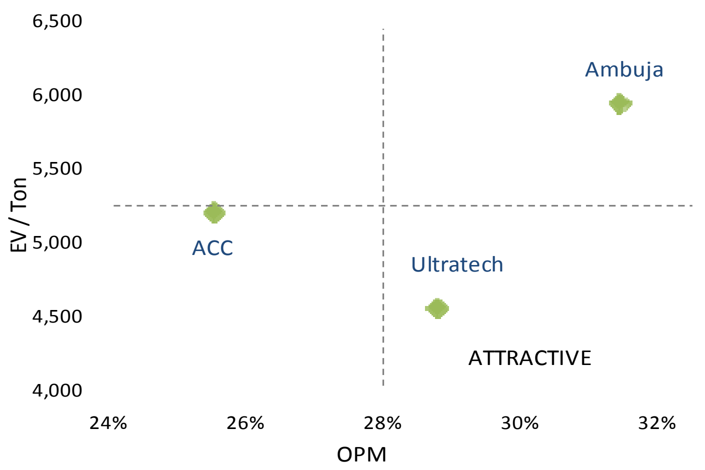
To overcome these issues we have looked at several parameters like 1) profitability of the companies during different time periods, 2) stages of the cement cycles and 3) possible corporate activities. We believe that Ambuja and ACC's long term EV/EBIDTA average multiple is a good indicator for valuaing these companies. Hence **we are using 8.0x one year forward EV/EBIDTA as target multiple** which is slightly above the average multiple of Ambuja and slightly below ACC's average multiple. For Ultratech and Grasim we use 7.5x one year forward EV/EBIDTA multiple to reflect the historical discount to ACC and Ambuja. Although historically Ultratech has traded at higher discounts to ACC and Ambuja we believe this should narrow given higher expected profitability of Ultratech.

Exhibit 43: EV/EBIDTA to OPM ratio reveals behavior of ACC's EV/EBIDTA multiple



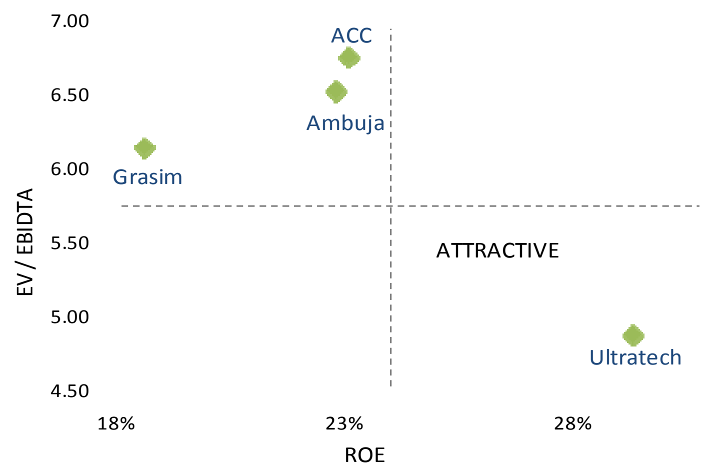
Source: Quant Broking Estimates

Exhibit 44: EV/Ton v/s OPM matrix



Source: Quant Broking Estimates

Exhibit 45: EV/EBIDTA v/s ROE matrix



Source: Quant Broking Estimates

Exhibit 46: Quant v/s consensus estimates

	F2010			F2011		
EPS	Consensus Estimates	Quant Estimates	% Change	Consensus Estimates	Quant Estimates	% Change
ACC	77.0	76.1	-1%	62.9	62.2	-1%
Ambuja	8.0	10.0	25%	7.3	8.9	22%
Grasim	267.0	250.9	-6%	241.9	238.4	-1%
Ultratech	85.7	96.7	13%	69.7	87.0	25%

Source: Bloomberg, Quant Broking Estimates

Exhibit 47: Price performance

	Absolute Performance (%)			Relative Performance (%)		
	1M	3M	1Yr	1M	3M	1Yr
ACC	11.9%	38.1%	35.1%	-3.3%	7.0%	31.4%
Ambuja	10.3%	36.2%	18.6%	-4.8%	5.5%	15.4%
Grasim	9.1%	48.1%	28.6%	-5.8%	14.7%	25.1%
Ultratech	4.3%	31.1%	18.4%	**-9.9%**	1.5%	15.2%

Source: Bloomberg, Quant Broking Estimates

Exhibit 48: Summary of recommendation

Company	Rating	CMP	Target Price	Upside / Downside
Ultratech	Buy	753	1090	45%
ACC	Buy	849	1019	20%
Ambuja	Buy	104	124	19%
Grasim	Sell	2671	2391	-10%

Source: Quant Broking Estimates

Appendix - 1

Exhibit 49: India Cement Demand Supply Model

mn Tons	F2006	F2007	F2008	F2009	F2010E	F2011E
North Capacity	38.4	41.1	55.4	60.7	74.0	79.2
East Capacity	24.2	25.0	28.7	29.9	37.3	38.7
South Capacity	51.0	53.5	58.8	77.9	95.8	96.8
West Capacity	46.6	47.1	51.2	54.3	63.2	76.5
All India Total Year End Capacity	**160.2**	**166.7**	**194.2**	**222.8**	**270.4**	**291.2**
Capacity not in production	4.4	4.4	4.4	4.4	4.4	4.4
Net Capacity	155.8	162.3	189.7	218.4	265.9	286.8
Wt Avg Capacity	**153.2**	**161.1**	**166.4**	**198.7**	**235.7**	**274.5**
Capacity Growth (%)	*3.9%*	*5.2%*	*3.3%*	*19.4%*	*18.6%*	*16.5%*
Production	**141.8**	**155.6**	**168.3**	**181.4**	**199.6**	**220.0**
Utilization Rate	*93%*	*97%*	*101%*	*91%*	*85%*	*80%*
Domestic Consumption	135.6	149.2	164.0	177.9	195.6	215.2
Exports	6.0	5.8	3.7	3.2	4.0	4.8
Total Demand	**141.6**	**155.0**	**167.7**	**181.0**	**199.6**	**220.0**
Demand growth	*11.3%*	*9.5%*	*8.2%*	*8.0%*	*10.3%*	*10.2%*

Source: Quant Broking Estimates

Appendix - 2

Exhibit 50: Region wise breakdown of capacity addition

REGIONWISE QUARTERLY CAPACITY ADDITION									
Region	**Mar-09**	**Jun-09**	**Sep-09**	**Dec-09**	**Mar-10**	**Jun-10**	**Sep-10**	**Dec-10**	**18Months**
NORTH	4.1	1.3	1.7	8.8	-	1.5	2.2	1.5	15.7
SOUTH	9.2	3.5	8.4	3.4	2.6	1.0	-	-	15.5
WEST	2.6	1.1	1.4	3.7	2.7	2.1	3.1	1.5	14.5
EAST	-	3.1	3.4	-	1.0	1.4	-	-	5.8
Total	**15.9**	**9.0**	**14.9**	**15.9**	**6.3**	**6.0**	**5.3**	**3.0**	**51.4**
REGION'S CONTRIBUTION TO TOTAL ADDITION									
Region	**Mar-09**	**Jun-09**	**Sep-09**	**Dec-09**	**Mar-10**	**Jun-10**	**Sep-10**	**Dec-10**	**18Months**
NORTH	26%	15%	11%	55%	0%	25%	42%	50%	31%
SOUTH	58%	39%	56%	21%	42%	17%	0%	0%	30%
WEST	16%	12%	9%	23%	43%	35%	58%	50%	28%
EAST	0%	34%	23%	0%	16%	23%	0%	0%	11%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Region	**Mar-09**	**Jun-09**	**Sep-09**	**Dec-09**	**Mar-10**	**Jun-10**	**Sep-10**	**Dec-10**	**18Months**
NORTH	60.7	62.0	63.7	72.5	72.5	74.0	76.2	77.7	77.7
SOUTH	77.9	81.4	89.9	93.3	95.9	96.9	96.9	96.9	96.9
WEST	54.3	55.4	56.8	60.5	63.2	65.3	68.4	69.9	69.9
EAST	29.9	32.9	36.3	36.3	37.3	38.7	38.7	38.7	38.7
Total	**222.8**	**231.8**	**246.7**	**262.6**	**268.9**	**274.9**	**280.2**	**283.2**	**283.2**
CAPACITY ADDITION AS % OF EXISTING CAPACITY									
Region	**Mar-09**	**Jun-09**	**Sep-09**	**Dec-09**	**Mar-10**	**Jun-10**	**Sep-10**	**Dec-10**	**18Months**
NORTH	7%	2%	3%	12%	0%	2%	3%	2%	25%
SOUTH	12%	4%	9%	4%	3%	1%	0%	0%	19%
WEST	5%	2%	2%	6%	4%	3%	5%	2%	26%
EAST	0%	9%	9%	0%	3%	4%	0%	0%	18%
Total	**7%**	**4%**	**6%**	**6%**	**2%**	**2%**	**2%**	**1%**	**22%**

Source: Quant Broking Estimates

Company section

1 Ultratech

2 ACC Ltd

3 Ambuja Cement

4 Grasim

Ultratech

Top pick in the sector

analysis adds up

Ultratech is our top pick in the sector with price target of Rs 1090, implying 45% upside from current market price. We believe Ultratech's profitability will be superior to peers due to higher usage of captive power, higher utilization levels of plants and lower freight and other expenditure through various logistical and modernizations initiatives.

Profitability and size of the company has improved and so should valuations - Ultratech inherited comparatively inefficient plants from L&T. Throughout the last 4-5 years, up gradation and modernization initiatives by the company, has led to improved profitability of the plants. We expect Ultratech's profitability to be at par with other industry majors like ACC and Ambuja which should lead to reduction in Ultratech's valuation discount to these two companies.

Higher profits despite lower pricing assumptions - The Company currently has 23.1mn tons of capacity with focuses on Western and Southern region. Although we expect pricing in both these regions to be weak, Ultratech's lower operating costs should help offset any margins pressures. Our pricing assumption for F2010 is lowest for Ultratech and still the EPS as well as cash EPS growth for Ultratech is higher.

Captive power to lower operating costs - During 1QF10, the company completed commissioning of all its captive power plants and now has 236MW capacity catering to 80% of the company's total requirement which will lead to lower P&F costs going forward. The last two year average unit cost of electricity purchased by the company is Rs4.7/unit and the same for captive power is Rs2.7/unit. During F2009 only 47% of the company's total requirement of electricity was generated internally.

Strong 1QF10 numbers: Ultratech during 1QF10 reported strong numbers with 31% YoY growth in sales and 58% YoY growth in net profits. The performance was driven by 1) 24% growth in volumes 2) 5% growth in realizations and 3) 5% decline in variable costs per ton. Lower cost of imported coal helped reduce the operating costs substantially. We believe this strong performance is likely to continue in the next quarter also and hence our numbers are 13% above estimates for F2010.

Valuation - We have valued Ultratech at a target multiple of 7.5x EV/EBIDTA which is lower than that of ACC and Ambuja to reflect the historical discount.

BUY Rs. 753

Reuters: ULTC.BO; Bloomberg: UTCEM IN Equity

12m price target Rs 1090

Mangesh Bhadang
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Market Cap	Rs93.7 bn (US$1.9 bn)
52 Week High/Low:	920/245.3
Share o/s:	124.5
Share o/s (fully diluted):	124.5
Avg daily trading vol (3m):	397.5('000)
Avg daily trading val (3m):	Rs289.8 mn (US$6.0 mn)

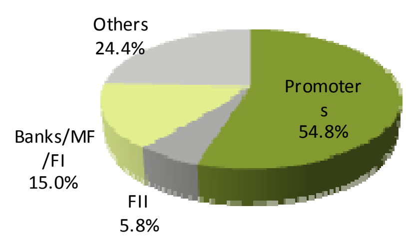
Quant vs. Consensus

	TP	EPS
Mean	741	69.7
High	1089	100.3
Low	424	45.9
Quant	1090	96.7

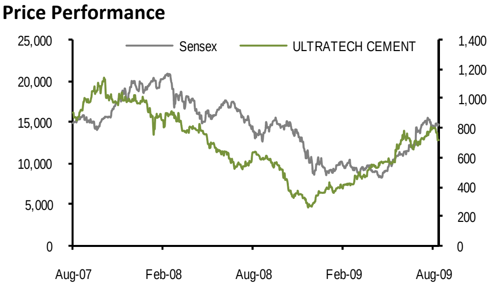
	Buy(S)	Hold(s)	Sell(S)
Nos	13	17	9

Source: Bloomberg

Share Holding Pattern



Price Performance



Y/E March	Sales (Rs mn)	Change (%)	OPM	PAT (Rs mn)	EPS	Change (%)	Capacity (mn tons)	ROE	ROCE	P/E	P/B	EV/EBIDTA	EV/Ton
FY08	56,238	13%	31%	10,101	81.1	29%	18.2	37%	43%	9.7	3.6	6.6	129
FY09	65,636	17%	26%	9,781	78.6	-3%	21.9	27%	28%	7.0	1.9	4.6	75
FY10E	74,323	13%	30%	12,037	96.7	23%	23.1	26%	35%	7.4	1.9	4.4	88
FY11E	76,295	3%	27%	10,833	87.0	-10%	23.1	19%	31%	8.3	1.6	4.8	88
FY12E	82,029	8%	26%	11,574	93.0	7%	23.1	17%	29%	7.7	1.3	4.6	88

Source: Company, Quant Broking

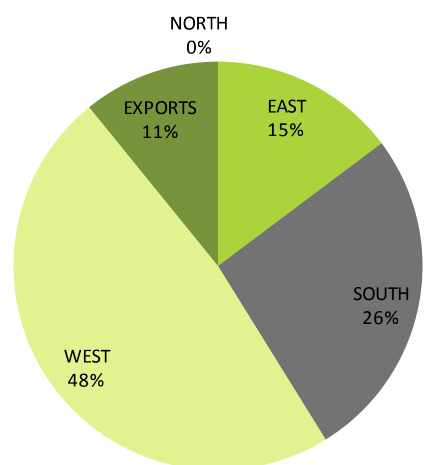
Top pick in the sector

Ultratech is our top pick in the sector with price target of Rs 1090, implying 52% upside from current market price. We believe Ultratech's profitability will be superior to peers due to 1) higher usage of captive power, 2) higher utilization levels of plants and 3) lower freight and other expenditure through various logistical and modernizations initiatives. Our pricing growth assumption for Ultratech is lowest amongst our coverage and still the profit growth is higher due to lower costs. With renewed capex focus on building further efficiencies in the business, we believe Ultratech can offset pricing pressures comfortably with lower costs.

Focus on Western and Southern region

The company currently has 23.1mn tons of capacity with focus on Western and Southern region. Although we expect pricing in both these regions to be weak compared to North and Eastern region, Ultratech's lower operating costs should help offset any margins pressures. Our pricing assumption for F2010 is lowest for Ultratech (+3% compared to +6-8% for ACC and Ambuja) and still the EPS as well as cash EPS growth for Ultratech is higher.

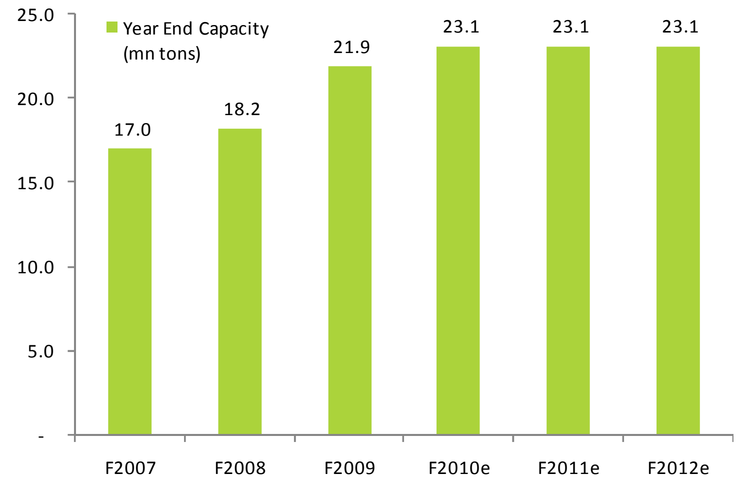
Exhibit 51: Geographical distribution skewed to West and South



Source: Company Data, Quant Broking

Ultratech's plants are situated in states of Gujarat, Maharashtra, Chhattisgarh and Andhra Pradesh. The key regions Ultratech caters to are West and South with little exposure to the Eastern region through HIrmi (Chhattisgarh) plant. Ultratech's Gujarat plant exports clinker as well. With capacity expansion in AP, Ultratech's exposure to Southern region is slated to increase. During 1QF10, Ultratech's volume growth was robust at 24%. We expect 13% volume growth for full year F2010 followed by 8% growth in F2011.

Exhibit 52: Capex program over

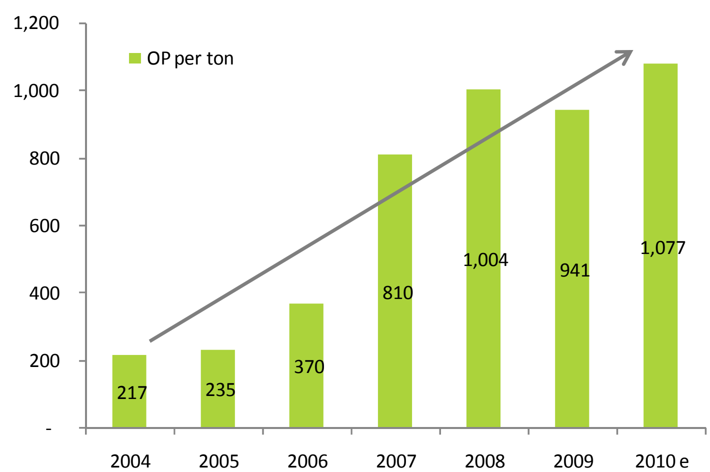


Source: Company Data, Quant Broking

Profitability and size of the company has improved so should valuations

Ultratech inherited comparatively inefficient plants from L&T. Throughout the last 4-5 years, up gradation and modernization initiatives by the company, has led to improved profitability of the plants. We expect Ultratech's profitability to be at par with other industry majors like ACC and Ambuja going forward.

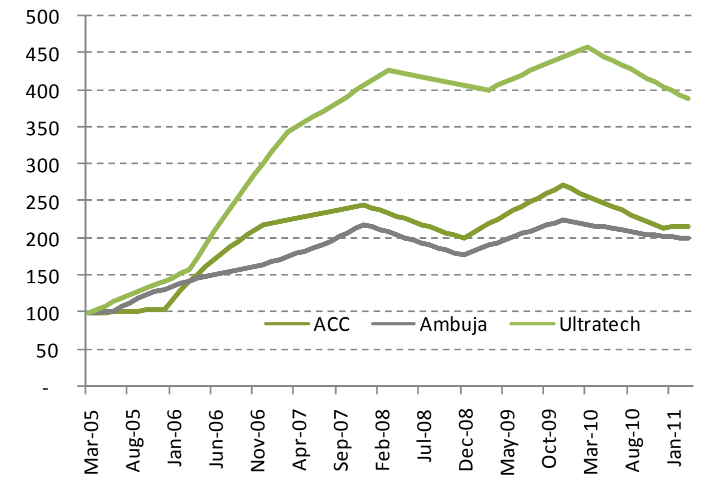
Exhibit 53: Operating profits per ton for Ultratech has improved due to combination of higher realizations and higher efficiency



Source: Company Data, Quant Broking

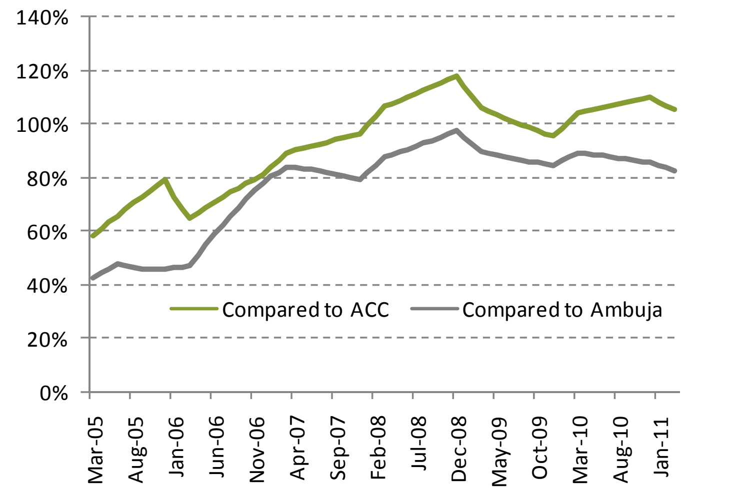
We believe that with this increase in profitability along with the size of the company should lead to reduction in Ultratech's valuation discount to ACC and Ambuja. Currently stock of Ultratech is trading at around 15% discount on EV/EBIDTA basis to ACC and Ambuja and 10%-20% discount on EV/Ton basis respectively. The following charts are self explanatory to emphasize this point.

Exhibit 54: Since March 2005 growth in operating profits of Ultratech has been higher . . . .



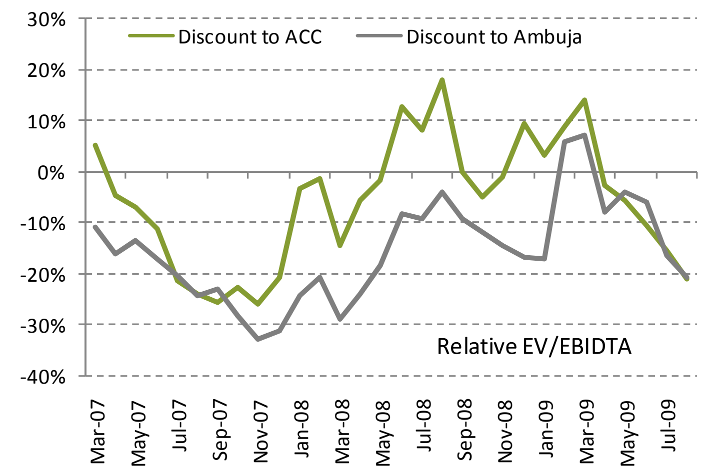
Source: Company Data, Quant Broking

Exhibit 55: . . . Which has taken the relative profitability of Ultratech very close to that of ACC and Ambuja



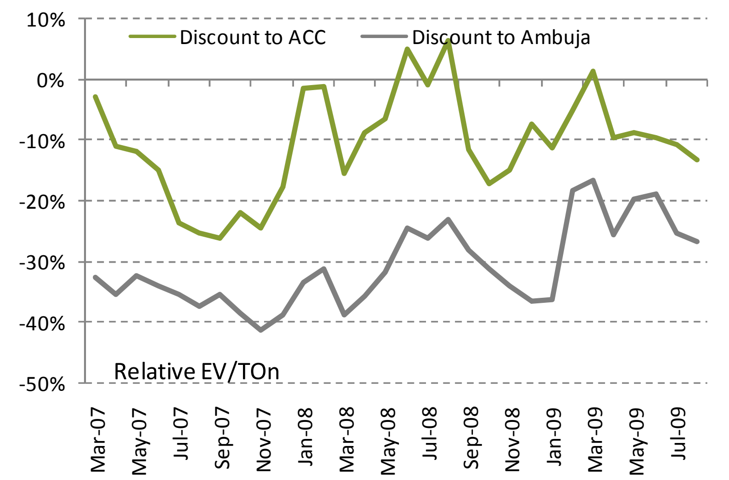
Source: Company Data, Quant Broking

Exhibit 56: The stock still trades at discount on EV/EBIDTA basis to ACC and Ambuja . . .



Source: Company Data, Quant Broking

Exhibit 57: . . . and also on EV/Ton basis

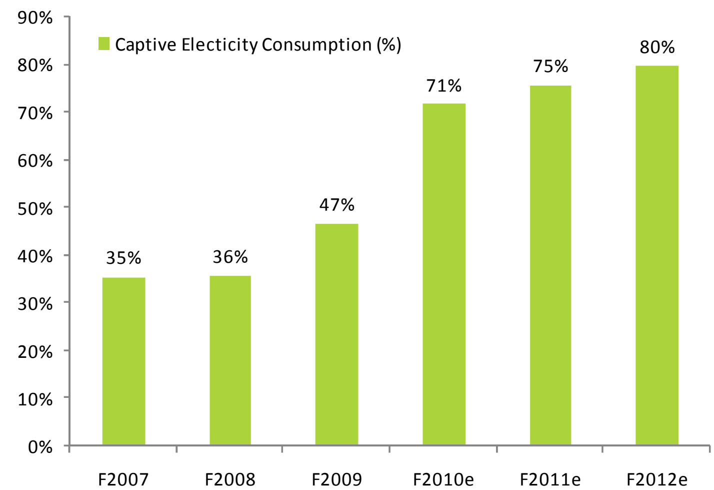


Source: Company Data, Quant Broking

Captive power to lower operating costs

During the last quarter the company commissioned all its captive power plants and now has 236MW capacity catering to 80% of the company's total requirement which will lead to lower P&F costs going forward. The last two year average unit cost of electricity purchased by the company is Rs4.7/unit and the same for captive power is Rs2.7/unit. During F2009 only 47% of the company's total requirement of electricity was generated internally.

Exhibit 58: Captive power usage to increase



Source: Company Data, Quant Broking

Valuation

We have valued Ultratech at a target multiple of 7.5x EV/EBIDTA which is lower than that of ACC and Ambuja to reflect the historical discount. If we value Ultratech at the same multiples, then our target price will go up by another 7%.

Exhibit 59: Valuation Summary

Particulars	Rs mn
1Yr Fwd EBIDTA	18,799
Multiple	7.5 x
EV	140,994
Net Debt	5,263
Equity Value	135,732
No of shares	124
Value per share	**1,090**

Source: Quant Broking

Exhibit 60: Financial Summary

Income Statement	F2008	F2009	F2010E	F2011E	F2012E
Net Sales	56,238	65,636	74,323	76,295	82,029
Inc / (Dec) in Stocks	(265)	(975)	(250)	(250)	(250)
Raw Materials Consumed	6,227	8,442	7,904	8,201	8,851
Manufacturing Expenses	17,026	22,686	23,615	25,791	28,312
Purchase of Finished Products	137	195	195	-	-
Employee exp	1,745	2,209	2,504	2,837	3,203
Sellind and admin exp	14,194	15,978	18,160	19,391	20,649
COGS	39,064	48,535	52,127	55,971	60,764
OP	17,174	17,101	22,196	20,324	21,265
OPM	31%	26%	30%	27%	26%
Other Income	998	1,007	1,048	1,094	1,144
Interest	757	1,256	1,046	551	236
Depreciation	2,383	3,244	4,130	4,602	4,798
Profit/(Loss) Before Tax Expenses	15,153	13,678	18,055	16,252	17,362
Tax	5,038	3,882	6,003	5,403	5,772
Profit After Minority Interest	10,101	9,781	12,037	10,833	11,574

Balanace Sheet	F2008	F2009	F2010E	F2011E	F2012E
Share Capital	1,245	1,245	1,245	1,245	1,245
Reserves and Surplus	25,773	34,851	45,791	55,527	65,638
Secured Loans	9,827	11,758	8,258	3,258	1,758
Unsecured Loans	7,578	9,671	5,171	1,671	1,171
Minority Interest	57	57	57	57	57
Deferred Tax Liabilities (Net)	5,454	7,276	7,276	7,276	7,276
Total Liabilities	49,942	64,865	67,805	69,041	77,153
Fixed Assets	-	-	-	-	-
Gross Block	49,972	74,262	87,044	92,866	94,807
Less: Depreciation	24,795	27,745	31,875	36,476	41,274
Net Block	25,177	46,517	55,169	56,390	53,532
Capital Work-in-Progress	22,834	6,782	4,000	1,000	-
Goodwill on consolidation	78	64	64	64	64
Investments	1,467	10,095	7,095	8,595	17,095
Inventories	6,197	7,056	7,193	8,145	8,361
Sundry Debtors	2,026	1,889	2,614	2,683	2,884
Cash and Bank Balances	1,143	1,066	1,271	2,240	6,347
Loans and Advances	3,830	3,909	4,300	4,730	5,203
Current Assets	13,196	13,919	15,378	17,798	22,796
Current Liabilities	11,546	11,290	12,191	13,082	14,190
Provisions	1,264	1,222	1,710	1,723	2,144
Curr Liabilities and Pro	12,809	12,512	13,901	14,805	16,334
Net Current Assets	387	1,407	1,477	2,993	6,461
Total Assets	49,942	64,865	67,805	69,041	77,153

Source: Company Data, Quant Broking

Exhibit 61: Financial Summary

Cash Flow Statement	F2008	F2009	F2010E	F2011E	F2012E
PAT	10,101	9,781	12,037	10,833	11,574
Add: Depreciation	2,383	3,244	4,130	4,602	4,798
Change in working cap	1,876	(1,098)	136	(547)	638
Change in Goodwill	14	14	-	-	-
Other cashflows	8	-	-	-	-
Cash Flow from operations	14,381	11,940	16,303	14,888	17,010
Capex	(18,056)	(8,532)	(10,000)	(2,822)	(941)
Investments	3,126	(8,628)	3,000	(1,500)	(8,500)
Cash flow from investing	(14,930)	(17,160)	(7,000)	(4,322)	(9,441)
Issue of shares	-	-	-	-	-
Increase in debt	1,619	4,024	(8,000)	(8,500)	(2,000)
Inc in Minority Interests	4	-	-	-	-
Dividends	(728)	(728)	(1,097)	(1,097)	(1,463)
Net cash from financing	691	5,143	(9,097)	(9,597)	(3,463)
Net Change in Cash	142	(77)	206	969	4,107
Opening cash	1,001	1,143	1,066	1,271	2,240
Closing cash	1,143	1,066	1,271	2,240	6,347

Key Ratios	F2008	F2009	F2010E	F2011E	F2012E
Growth					
Sales	15%	15%	12%	3%	8%
Operating Profits	20%	0%	30%	-8%	5%
Net Profits	29%	-3%	23%	-10%	7%
Leverage					
Debt:Equity	0.64	0.59	0.29	0.09	0.04
Net Debt:Equity	0.55	0.29	0.11	(0.10)	(0.30)
Profitability					
OPM	31%	26%	30%	27%	26%
NPM	18%	15%	16%	14%	14%
ROE	45%	31%	29%	21%	19%
ROCE	35%	26%	29%	25%	24%
Valuation					
P/E	9.67	9.99	8.11	9.02	8.44
P/B	3.61	1.90	2.11	1.75	1.48
EV/EBIDTA	6.56	4.63	4.70	4.59	3.70
EV/Ton	6,585	4,351	5,063	4,198	3,295

Source: Company Data, Quant Broking

ACC Ltd

Largest player in India set to benefit from positive outlook

We initiate coverage on ACC with a BUY rating and a target price of Rs. 1,019 implying 20% upside from current levels. Consistent with our view on Indian Cement Industry, we believe that strong demand and delayed supply is likely to keep the tight supply situation in check, leading to stabilization of prices at current levels. ACC with its pan India presence is likely to benefit from the positive outlook on cement.

Balanced geographical presence: ACC has well diversified presence across all regions in India with maximum exposure to Northern markets. This insulates the company from any weakness in a particular region. Further ACC has initiated cost cutting program which is likely to yield higher margins for the company going forward. Most of the company's plants are currently running at full capacity (except for Jamul plant) leading to greater utilization and lower operating costs.

Capacity to reach 30.5mn tons: The company's expansion at Wadi (Karnataka) and Chanda (Maharashtra) will be commissioned in C2009 and C2010 respectively taking the total capacity to 30.5mn tons. These new capacities will lead to higher volume growth in C2010 as well as help maintain market share for the company.

Reducing operating costs: The Company embarked on cost control initiatives 2-3 quarters back to shed its inefficient plants tag and improve profitability. Increased use of captive power, optimum energy consumption and controlled freight costs has helped the company reduce operating costs by 8% YoY in 2QC09. We are conservatively estimating 1% decline in operating costs per ton for C2009.

Strong balance sheet: The company's balance sheet is very healthy at 0.1x debt:equity ratio. We expect that the company can complete its capex program of Rs300bn using internal accruals and without resorting to high amount of debt.

Financials: We are building in 8.4% and 4.2% CAGR in Net sales and Net profits for the company over F2009-12 period. Our EPS numbers are in line with consensus for F2010 and11.

Valuations: ACC stock is currently trading at 6.5x forward EV/EBIDTA which we believe is reasonable given strong demand condition and likely benefits of delayed supply. We have valued the company on EV/EBIDTA basis with a target multiple of 8.0x which is a below its 8year average EV/EBIDTA of 9.25x.

BUY — Rs. 849

Reuters: ACC.BO; Bloomberg: ACC IN Equity

12m price target Rs 1019

Mangesh Bhadang
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+91 22 4088 0381

Market Cap	Rs159.3 bn (US$3.3 bn)
52 Week High/Low:	928.8/365
Share o/s:	187.8
Share o/s (fully diluted):	187.8
Avg daily trading vol (3m):	848('000)
Avg daily trading val (3m):	Rs671.5 mn (US$14.0 mn)

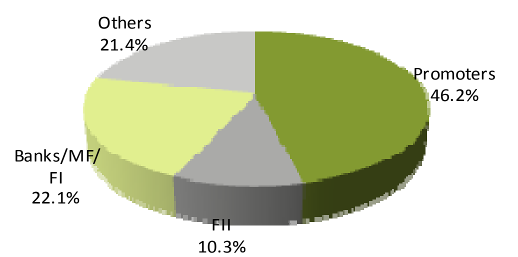
Quant vs. Consensus

	TP	EPS
Mean	735	63.3
High	1025	92.4
Low	466	25.5
Quant	1019	62.2

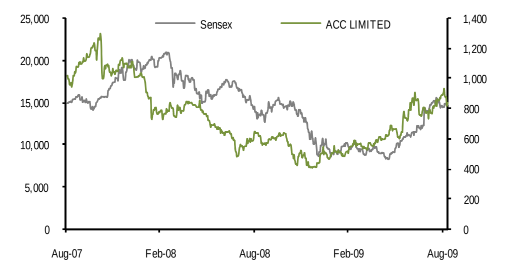
	Buy(S)	Hold(s)	Sell(S)
Nos	8	8	25

Source: Bloomberg

Share Holding Pattern



Stock Performance



Y/E March	Sales (Rs mn)	Change (%)	OPM	PAT (Rs mn)	EPS	Change (%)	Capacity (mn tons)	ROE	ROCE	P/E	P/B	EV/EBIDTA	EV/Ton
CY07	68,707	20%	29%	14,386	76.6	17%	22.4	35%	69%	13.4	4.6	9.3	171
CY08	76,914	12%	22%	10,997	58.5	-24%	22.6	23%	60%	8.2	1.5	4.5	72
CY09E	86,923	13%	28%	14,285	76.1	30%	27.6	24%	55%	11.2	2.6	6.1	112
CY10E	89,659	3%	24%	11,678	62.2	-18%	30.6	16%	35%	13.7	2.2	7.0	101
CY11E	98,033	9%	24%	12,430	66.2	6%	30.6	15%	31%	12.8	1.9	6.3	101

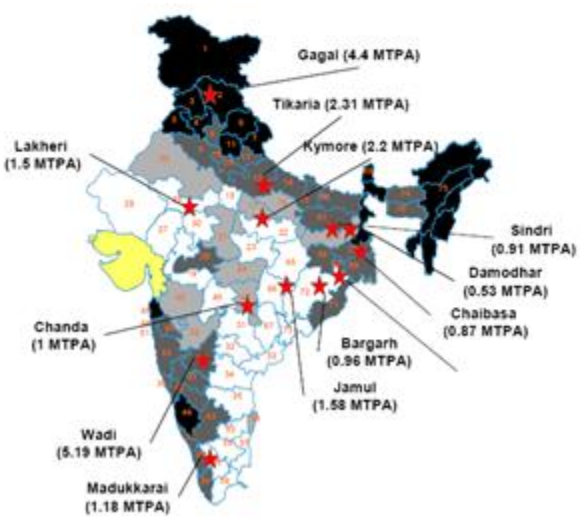
Source: Company, Quant Broking

Largest player in India set to benefit from positive outlook

Balanced geographical presence

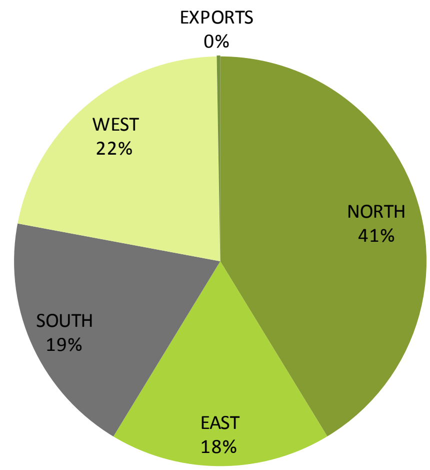
ACC is the only company in India with cement plants present in all regions. This balanced geographical spread insulates the company from demand supply imbalances in one region. Because of this wide presence, the company's despacthes are also spread well across the country with highest exposure to the Northern region (41% of total despatches. We believe that lower capacity additions in East and strong demand in North is likely to keep prices stable with an upward bias in these regions. ACC with almost 59% exposure to these two regions is likely to benefit from the same.

Exhibit 62: Pan India presence



Source: Company Data,

Exhibit 63: Balanced Regional presence

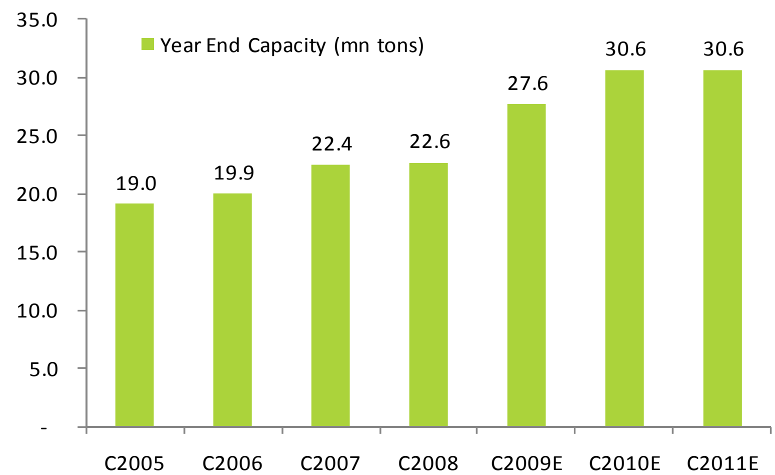


Source: Company Data, Quant Broking

Increasing Capacity by 8mn tons

ACC's current capacity is 22.5mn tons. The company's major expansion plans are currently underway at New Wadi (Karnataka) and Chanda (Maharashtra). Both these plants including the grinding units are of 3mn tons capacity each. The New Wadi plant along with grinding units at Kolar and Bellary will come on stream in phases from 3QC2009 to 1QC2010, whereas Chanda plant will be commissioned during second half of C2010. Also expansion at Bargarh in Orissa will also be complete by September 2009. This addition of almost 8mn tons of capacity translates to 35% of ACC's existing capacity. We believe that the company will be able maintain its market share and Leader position with this addition and it will also help in higher volume growth as currently most of the company's plants are running at full capacity.

Exhibit 64: ACC's capacity expansion program



Source: Company Data, Quant Broking

Operating costs have reduced

The company embarked on cost control initiatives 2-3 quarters back to shed its inefficient plants tag and improve profitability. These measures seem to have worked well for the company as the company's operating costs have gone down substantially over the last two quarters. Increased use of captive power, optimum energy consumption, and controlled freight costs have helped the company reduce operating costs by 8% YoY in 2QC09. We are conservatively estimating 1% decline in operating costs per ton for C2009.

Exhibit 65: Operating costs per ton

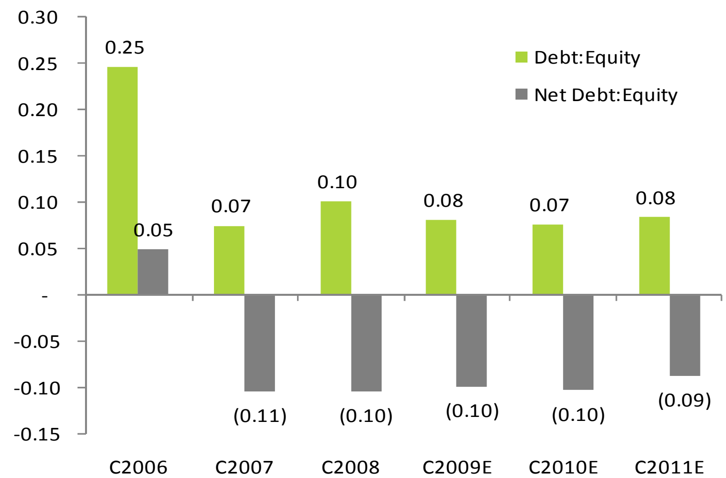
Expenses per Tonne	C3Q07	C4Q07	C1Q08	C2Q08	C3Q08	C4Q08	C1Q09	C2Q09	% YoY	% QoQ
Raw material	413	517	364	561	563	501	467	538	-4%	15%
Employee costs	209	158	147	198	203	311	153	195	-2%	28%
Power & Fuel	698	634	609	758	864	880	723	695	-8%	-4%
Freight	462	431	451	491	485	493	483	468	-5%	-3%
Others	869	963	742	964	1,033	827	675	744	-23%	10%
Purchase of Traded Product	49	0	51	57	56	71	58	66	15%	13%
Total	**2,629**	**2,682**	**2,454**	**2,928**	**3,068**	**3,223**	**2,651**	**2,697**	**-8%**	**2%**

Source: Company Data, Quant Broking

Healthy balance sheet

ACC's debt equity ratio stands at comfortable 0.1x as on C2008. The net debt to equity ratio is still comfortable making it a negative financial debt company. The company has adopted prudent policies to conserve cash and as a result has received AAA rating for both its debenture program and working capital facilities from Crisil.

Exhibit 66: Leverage ratios



Source: Company Data, Quant Broking

Financial Outlook and Assumptions

We expect 13% and 29% increase in net sales and net earnings for ACC in C2009. We also expect 585bps operating margin expansion in C2009 largely due to increase in realizations and partly by cost reductions. Considering that the company has shown 50% growth in earnings in the first half itself the numbers look conservative. Most of ACC's plants are operating at full capacity and hence we are estimating only 6% growth in volumes for the company in C2009. With the phased commissioning of new capacity we expect the volume growth to touch 10% from C2010 onwards. On realizations front the company in the first half has shown increase in realization of 10% and we expect full year realization growth of 7% considering the fact that prices may dampen during monsoons. For C2011 we are expecting 5% fall in average prices and stable costs leading to 3% growth in sales and 18% decline in net profits.

Valuations

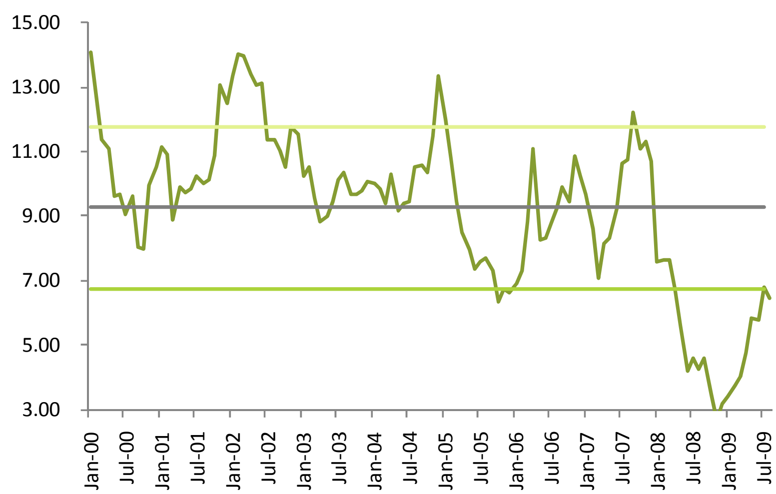
We value the stock using EV/EBIDTA multiple as we believe it best captures the value of the business since it takes care of earnings capability of the plants and leverage position. We use target multiple of 8x for valuing the company which is slightly below its 8yr EV/EBIDTA average.

Exhibit 67: Valuation summary

Particulars	Rs mn
1Yr Fwd EBIDTA	22,576
Multiple	8.0 x
EV	180,610
Net Debt	(10,725)
Equity Value	191,335
No of shares	188
Value per share	**1,019**

Source: Quant Broking

Exhibit 68: Rolling EV/EBIDTA



Source: Company Data, Quant Broking

Exhibit 69: Financial statements

Income Statement	C2006	C2007	C2008	C2009E	C2010E	C2011E
Net sales	57,170	68,707	76,914	86,923	89,659	98,033
Raw materials consumed	7,283	8,994	11,527	12,943	14,044	15,610
Power cost	9,727	11,376	16,118	15,820	17,029	17,651
Other manufacturing exp	7,147	8,445	9,741	9,922	10,634	11,410
Personnel costs	3,334	3,595	4,464	5,015	5,687	6,449
Selling & admin exp	12,978	16,586	17,928	18,893	21,063	23,536
Cost of goods sold	40,772	48,926	59,798	62,492	68,407	74,605
Operating profit	16,398	19,781	17,117	24,431	21,252	23,428
OPM	29%	29%	22%	28%	24%	24%
Other income	826	1,164	2,803	1,309	1,375	1,443
Interest (net)	520	239	363	576	581	801
Depreciation	2,543	3,130	3,205	3,843	4,615	5,518
Pre-tax profit	14,161	17,576	16,351	21,321	17,430	18,552
Taxation	3,740	5,121	5,252	7,036	5,752	6,122
Net profit	10,421	12,455	11,100	14,285	11,678	12,430
NPM	18%	18%	14%	16%	13%	13%

Balance Sheet	C2006	C2007	C2008	C2009E	C2010E	C2011E
Equity share capital	1,878	1,878	1,878	1,878	1,878	1,878
Reserves & Surplus	29,552	39,648	46,388	58,555	69,174	80,545
Net Worth	31,429	41,526	48,267	60,434	71,053	82,424
Debt	7,712	3,064	4,820	4,820	5,320	6,820
Deferred Tax	3,207	3,317	3,421	3,421	3,421	3,421
Total Liabilties	42,348	47,907	56,508	68,675	79,794	92,665
Gross Block	48,163	54,648	61,068	77,182	94,682	119,682
Less : Depreciation	18,938	21,993	24,213	27,513	31,584	36,559
Net block	29,225	32,656	36,854	49,669	63,097	83,123
Capital WIP	4,734	6,984	16,114	15,000	12,500	2,500
Investments	5,431	8,449	5,171	1,990	490	490
Current Assets	20,062	22,030	26,774	30,771	31,777	36,811
Inventories	6,241	7,309	7,993	8,436	8,878	9,923
Receivables	2,301	3,082	3,578	3,572	3,685	4,029
Cash & cash equiv.	6,202	7,435	9,882	10,837	12,721	14,082
Loans & advances	5,319	4,205	5,321	7,925	6,493	8,777
Less : Current Liabilities	17,114	22,212	28,417	28,767	28,082	30,270
Liabilities	11,696	15,549	18,763	17,979	19,637	21,455
Provisions	5,418	6,663	9,655	10,787	8,446	8,816
Net Current Assets	2,949	(182)	(1,643)	2,004	3,695	6,540
Total Assets	42,348	47,907	56,508	68,675	79,794	92,665

Source: Company Data, Quant Broking

Exhibit 70: Financial statements

Cash Flow Statement	C2006	C2007	C2008	C2009E	C2010E	C2011E
Profit after tax	12,267	14,307	11,525	14,285	11,678	12,430
Add : Depreciation	2,543	3,130	3,205	3,843	4,615	5,518
Cash flow from operations	14,809	17,437	14,730	18,128	16,293	17,948
Net change in Working capital	2,688	4,363	3,908	(2,691)	193	(1,485)
Net cash from operations	16,905	21,725	18,780	15,078	16,128	16,104
Capital expenditure	(4,399)	(8,726)	(15,561)	(15,000)	(15,000)	(15,000)
Sale of investments	(2,093)	(3,018)	3,279	3,180	1,500	0
Net cash from investing	(6,492)	(11,744)	(12,282)	(11,820)	(13,500)	(15,000)
Issue of shares	967	1	0	0	0	0
Increase in debt	(3,003)	(4,648)	1,756	0	500	1,500
Net cash from financing	(5,239)	(9,034)	(2,635)	(2,118)	(559)	441
Net Cash	5,174	946	3,862	1,140	2,069	1,545
Opening Cash	1,028	6,202	7,435	9,882	10,837	12,721
Closing Cash	6,202	7,435	9,882	10,837	12,721	14,082

Key Ratios	C2006	C2007	C2008	C2009E	C2010E	C2011E
Growth						
Net Sales	80%	20%	12%	13%	3%	9%
Operating Profits	198%	21%	-13%	43%	-13%	10%
Net Profits	272%	19%	-11%	29%	-18%	6%
Leverage						
Debt:Equity	0.25	0.07	0.10	0.08	0.07	0.08
Net Debt:Equity	0.05	(0.11)	(0.10)	(0.10)	(0.10)	(0.09)
Profitability						
OPM	29%	29%	22%	28%	24%	24%
NPM	18%	18%	14%	16%	13%	13%
ROE	40%	34%	25%	26%	18%	16%
ROCE	38%	39%	32%	35%	24%	22%
Valuation						
P/E	9.84	8.28	9.29	7.22	8.83	8.30
P/B	3.28	2.48	2.14	1.71	1.45	1.25
EV/EBIDTA	6.06	4.58	5.41	3.88	4.46	4.05
EV/Ton	4,992	4,046	4,094	3,434	3,101	3,105

Source: Company Data, Quant Broking

Ambuja Cement

2QC09 earnings miss offers good entry opportunity

India Equity Research I Cement | August 14, 2009 | INITIATING COVERAGE

We initiate coverage on Ambuja Cements Ltd with a BUY rating and a target price of Rs. 124 implying 19% returns from current levels. We believe Ambuja being one of the largest cement companies in India will be a beneficiary of positive undercurrents in the cement industry.

2QC09 quarterly performance of the company was very poor due to higher clinker purchases. We believe that despite this temporary shutdown, company is likely to deliver strong revenue and earnings growth in the current year at 19% and 27% respectively. The stock of Ambuja has underperformed the Sensex by 17% in the last 3 months possibly due to expected earnings disappointment in 2QC09 and we believe investors can use this underperformance as a good buying opportunity.

Reduced clinker purchases to lead to higher profitability - Ambuja's profitability recently has been impacted due to higher clinker purchases. We believe that with the commissioning of its Bhatpara clinkerisation unit and stabilization of the Maharashtra plant, clinker purchases will reduce substantially leading to higher operating margins.

Greater geographical diversification ahead - Western region has historically been key market for Ambuja. Currently it sells almost 42% of its total output to West with North forming 37%. With expansion at Bhatpara in Chhattisgarh and Rauri in Himachal Pradesh the share of Eastern and Northern region will go up and high reliance on western markets will reduce leading to greater geographical diversification. The Bhatpara and Rauri plants will each have clinkerisation capacity of 2.2mn each and for Rauri satellite grinding units are being constructed at Dadri in UP and Nalagarh in HP, both 1.5mn tons each and slated for commissioning in 4QC09 and 1QC10. After the completion of the expansion program, capacity of Ambuja will stand at 27mn tons.

We expect 9.5% and 3.5% CAGR in net sales and net earnings for Ambuja over C2008-11 period. For C2009 we expect 19% and 27% growth in net sales and net earnings. We expect operating costs to increase by 4% per ton in C2009 due to higher clinker purchases and expect the same to decline by 3% once the Bhatpara capacity is commissioned. Overall we expect OPM to increase by 280bps in C2009.

We value the stock using target EV/EBIDTA multiple of 8x which is at par with ACC's target multiple.

BUY **Rs. 104**

Reuters: ABUJ.BO; Bloomberg: ACEM In Equity

12m price target Rs. 124

Mangesh Bhadang
Mangesh.bhadang@quantcapital.co.in
+91 22 4088 0381

Market Cap	Rs158.1 bn (US$3.3 bn)
52 Week High/Low:	111.8/43
Share o/s:	1522.9
Share o/s (fully diluted):	1522.9
Avg daily trading vol (3m):	4087.1('000)
Avg daily trading val (3m):	Rs391.6 mn (US$8.1 mn)

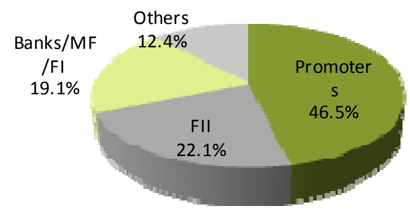
Quant vs. Consensus

	TP	EPS
Mean	82	7.3
High	120	11.0
Low	52	4.0
Quant	124	8.9

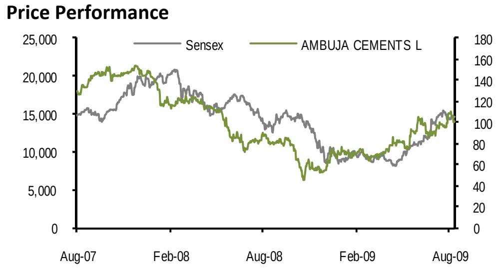
	Buy(S)	Hold(s)	Sell(S)
Nos	5	7	27

Source: Bloomberg

Share Holding Pattern



Price Performance



Y/E March	Sales (Rs mn)	OPM	PAT (Rs mn)	EPS	Change (%)	Capacity (mn tons)	ROE	ROCE	P/E	P/B	EV/EBIDTA	EV/Ton
CY07	56,734	36%	12,039	7.9	-20%	18.5	26%	47%	18.6	4.8	10.5	240
CY08	62,102	28%	11,107	7.3	-8%	19.5	20%	31%	9.6	1.9	5.8	107
CY09E	73,830	32%	15,170	10.0	37%	24.2	23%	34%	10.1	2.3	6.3	130
CY10E	75,649	31%	13,606	8.9	-10%	27.0	18%	26%	11.2	2.0	6.5	116
CY11E	81,603	30%	13,776	9.0	1%	27.0	16%	24%	11.1	1.8	6.1	116

Source: Company, Quant Broking

2QC09 earnings miss offers good entry opportunity

We initiate coverage on Ambuja Cements Ltd with a BUY rating and a target price of Rs. 124 implying 23% returns from current levels. We believe Ambuja being one of the largest cement company in India will be a beneficiary of positive cement outlook in India. The stock of Ambuja has underperformed the Sensex by 17% in the last 3 months possibly due to expected earnings disappointment in 2QC09. The poor performance in the quarter was largely attributed to higher clinker purchases as company's Maharashtra plant was shut down for repairs. We believe that despite this temporary shutdown, company is likely to deliver strong revenue and earnings growth in the current year at 19% and 27% respectively. If the clinker purchases were to be at the normal levels of around 120-140 thousand tons per quarter leading to raw material costs per ton of Rs400 per ton then operating profit margins would have improved by 5%. We believe that this high clinker purchase for Ambuja is behind us and we may expect raw material costs to stabilise going forward.

Exhibit 71: High raw material costs affected the 2QC09 performance

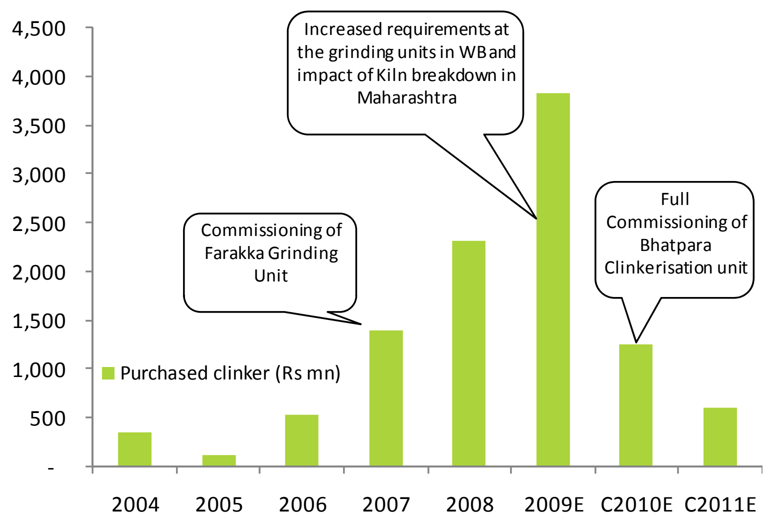
Rs mn	2QC09	2QC08	% YoY	1QC09	% QoQ
Net Sales	18,474	15,698	18%	18,476	0%
Total	13,677	10,955	25%	13,228	3%
Operating Profit	4,797	4,743	1%	5,247	-9%
OPM	26.0%	30.2%	-14%	28.4%	-9%
PAT	**3,247**	**2,628**	**24%**	**3,341**	**-3%**
Volumes (mn tonne)	4.80	4.38	10%	5.10	-6%
Net realisation per tonne	3,849	3,587	7%	3,623	6%
Exp per ton	2,849	2,503	14%	2,594	10%
Expenses Per Ton					
Raw material	639	401	**59%**	379	**69%**
Employee costs	143	147	-3%	113	27%
Power & Fuel	782	731	7%	782	0%
Freight	686	742	-8%	669	3%
Other Expenditure	566	620	-9%	508	12%
Total	**2,849**	**2,503**	**14%**	**2,594**	**10%**

Source: Company Data, Quant Broking

Clinker purchases to reduce substantially

Ambuja commisioned its Farakka grinding unit in June 2007 to cater to the growing eastern demand. However with existing Sankarail unit in the same region and no clinker manufacturing facility in place, the clinker requirement increased substantially which was met through market purchases. During middle of 2008, clinker purchases were required for the Maharashtra plant as well after the breakdown in Mid 2008 reduced the kiln speed and thus the output. Impact of using purchased clinker instead of produced clinker is anywhere between 200-400 bps. With the commissioning of the Bhatpara plant and stabilization of the Maharashtra plant we expect clinker purchases to slow down and result in higher margins for the company.

Exhibit 72: Clinker purchases to reduce going forward



Source: Company Data, Quant Broking

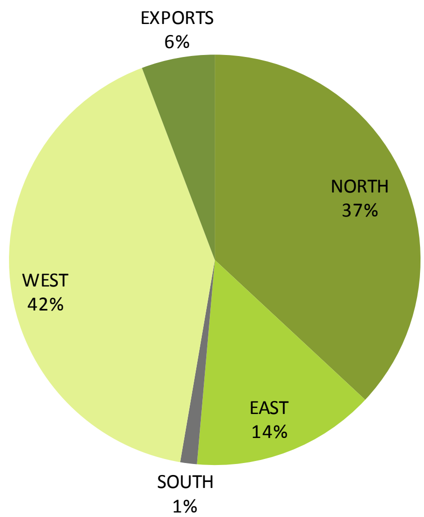
Lower coal costs to help

The company's power and fuel costs during the first half of C2009 were relatively higher mainly because of high cost coal inventory. We expect the power and fuel costs to come down in the second half leading to increased profitability. The international thermal coal prices have come down from the last year's highs of US$150 and are expected to remain subdued at current levels of US$70 due to lower demand. Ambuja will benefit from the lower international coal costs as it imports more than 65% of its total coal requirement.

Dependence on western region to reduce

Western region has historically been key market for Ambuja. Currently it sells almost 42% of its total output to West with North forming 37%. With expansion at Bhatpara in Chhattisgarh and Rauri in Himachal Pradesh the share of Eastern and Western region will go up and high reliance on western markets will reduce. We believe North and Eastern markets will show greater pricing stability compared to South leading to higher realizations for the company.

Exhibit 73: Geographical Breakdown of dispatches

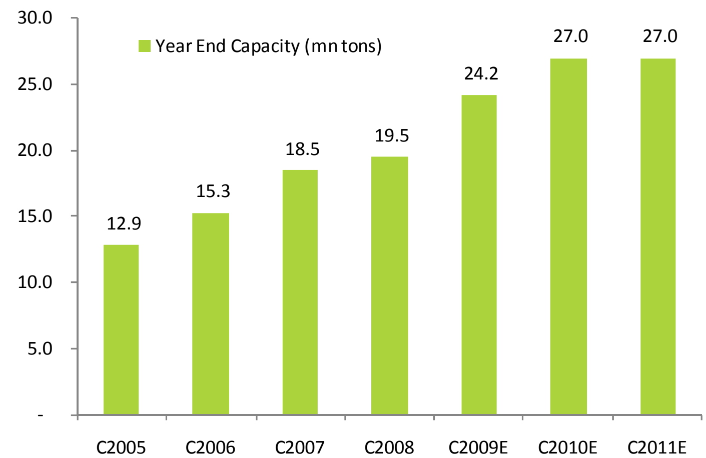


Source: Company Data, Quant Broking

Capacity expansion plans

The company believes in hub and spoke model for cement manufacturing and hence has various satellite grinding units close to the end consumer markets. During 1QC08 the company commissioned a one mn ton grinding unit at Surat which receives clinker from its Ambujabagar plant to service the Surat market. Similarly with planned clinkerisation plant at Bhatpara, the sankrail and farakka grinding units in West Bengal will start receiving clinker captively and the need for clinker purchases will reduce leading to higher margins. The Bhatpara and Rauri plants will each have clinkerisation capacity of 2.2mn each and for Rauri satellite grinding units are being constructed at Dadri in UP and Nalagarh in HP, both 1.5mn tons each and slated for commissioning in 4QC09 and 1QC10. After the completion of the expansion program, capacity of Ambuja will stand at 27mn tons. Apart from this the company wants to augment its captive power capacity by 90MW with CPPs at Ambujanagar, Bhatpara and Maratha taking the total captive power capacity to 400MW.

Exhibit 74: Capacity to reach 27mn tons post expansion

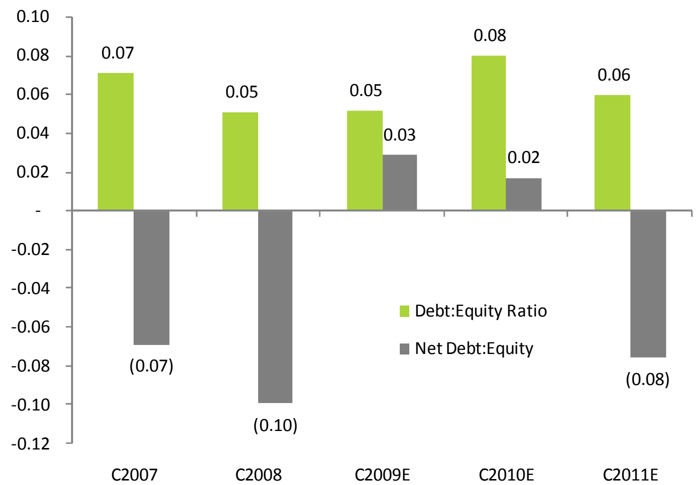


Source: Company Data, Quant Broking

Strong Balance sheet

Like ACC, Ambuja too has healthy balance sheet with very low debt:equity ratio of 0.05x as at C2008. The company during C2007 and C2008 sold its investments in subsidiaries and sold property which together raised more than Rs10bn. This helped the company to maintain very good cash levels and fund the expansion program through minimal debt requirement.

Exhibit 75: Comfortable gearing ratios



Source: Company Data, Quant Broking

During 2QC08, Ambuja reported its highest ever operating costs per ton due to twin effect of higher clinker purchases and relatively higher power and fuel costs. The company typically buys clinker to feed its West Bengal grinding units. During the quarter there were major repair works on a kiln at Maharashtra plant. This forced the company to buy clinker from market for the Maharashtra grinding units as well. The net impact was 59% increase in raw material costs per ton on YoY basis. This resulted in almost 14% YoY increase in operating costs. We expect overall clinker purchases for the company to reduce substantially with commissioning of Bhatpata unit.

Exhibit 76: Trends in Operating costs per ton

Costs Per Ton	C3Q07	C4Q07	C1Q08	C2Q08	C3Q08	C4Q08	C1Q09	C2Q09	YoY%	QoQ%
Raw material	222	384	334	401	326	338	379	639	59%	69%
Employee costs	161	123	138	147	166	161	113	143	-3%	27%
Power & Fuel	626	678	587	731	805	932	782	782	7%	0%
Freight	697	618	665	742	753	642	669	686	-8%	3%
Other Expenditure	578	643	544	620	632	717	508	566	-9%	12%
Total	**2,263**	**2,319**	**2,373**	**2,503**	**2,546**	**2,794**	**2,594**	**2,849**	**14%**	**10%**

Source: Company Data, Quant Broking

Financials and Assumptions

We expect 9.5% and 3.5% CAGR in net sales and net earnings for Ambuja over C2008-11 period. For C2009 we expect 19% and 27% growth in net sales and net earnings. Higher growth in C2009 will be followed by earnings decline in C2010 as we expect soft prices during that period. We are building in volume growth of 8.3% CAGR for C2008-11 period and we expect realizations to increase by 5% on an average in C2009 and then decline by similar amount in the next year. We expect operating costs to increase by 4% per ton in C2009 due to higher clinker purchases and expect the same to decline by 3% once the Bhatpara capacity is commissioned. Overall we expect OPM to increase by 280bps in C2009.

Valuations

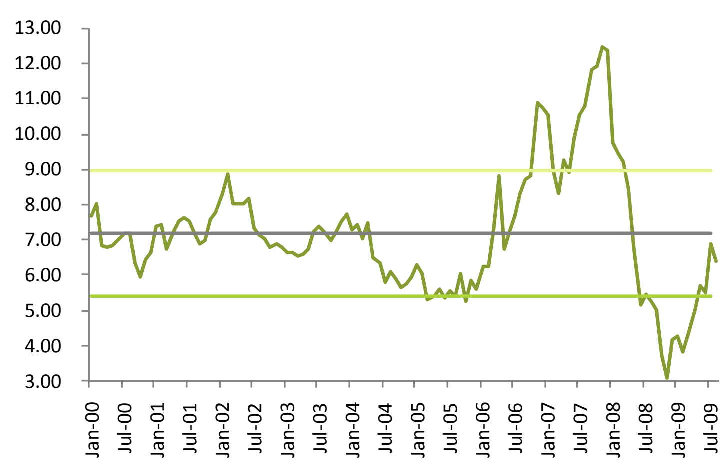
We value the stock using EV/EBIDTA multiple as we believe it best captures the value of the business since it takes care of earnings capability of the plants and leverage position. We use target multiple of 8x for valuing the company which is at par with ACC's target multiple.

Exhibit 77: Valuation Summary

Particulras	Rs mn
1 Yr Fwd EBIDTA	23,551
Multiple	8.0 x
EV	188,412
Net Debt	(64)
Equity Value	188,475
No of shares	1,522
Value per share	**124**

Source: Quant Broking

Exhibit 78: Rolling one Yr fwd EV/EBIDTA



Source: Company Data, Quant Broking

Exhibit 79: Financial Summary

Income Statement	C2007	C2008	C2009E	C2010E	C2011E
Net sales	56,734	62,102	73,830	75,649	81,603
Raw materials	4,453	6,228	9,601	8,176	8,118
Power cost	10,202	13,258	12,957	14,054	15,414
Other manufacturing exp	6,446	8,173	8,969	10,196	11,513
Personnel costs	2,086	2,668	3,070	3,503	3,966
Selling & admin exp	13,796	15,186	16,961	18,535	20,207
Cost of goods sold	36,415	44,870	51,307	54,214	58,968
Operating profit	20,319	17,231	22,523	21,435	22,635
OPM	36%	28%	31%	28%	28%
Other income	1,935	818	974	1,020	1,070
Interest (net)	759	(619)	(33)	80	132
Depreciation	2,363	2,818	3,497	4,836	5,750
Pre-tax profit	19,132	15,850	20,033	17,538	17,824
Taxation	9,442	5,679	5,810	5,262	5,347
Profit after Tax	17,541	13,237	14,249	12,299	12,499
PAT post extraordinaries	17,541	11,107	14,249	12,299	12,499

Balance Sheet	C2007	C2008	C2009E	C2010E	C2011E
Equity Capital	3,045	3,045	3,045	3,045	3,045
Reserves & Surplus	43,564	53,665	62,707	70,666	78,825
Net Worth	46,613	56,714	65,755	73,715	81,874
Debt	3,304	2,887	3,387	5,887	4,887
Net debt	(3,204)	(5,632)	1,888	1,259	(6,187)
Deferred Tax Liability	3,784	3,808	3,782	3,760	3,738
Total Liabilties	53,701	63,408	72,924	83,361	90,498
Net block	29,599	31,972	47,948	72,612	71,862
Capital WIP	5,100	15,608	15,000	500	500
Investments	12,889	3,278	3,278	3,278	3,278
Current Assets	15,873	23,396	14,381	18,561	26,178
Inventories	5,816	9,398	8,022	8,646	9,481
Receivables	1,496	2,480	2,447	2,142	2,773
Cash & cash equiv.	6,508	8,519	1,499	4,628	11,073
Loans & advances	2,054	2,999	2,414	3,145	2,851
Less : Current Liabilities	11,691	14,753	11,455	11,715	11,422
Liabilities	6,755	10,048	9,169	9,807	9,514
Provisions	4,936	4,706	2,287	1,908	1,908
Net Current Assets	4,182	8,643	2,926	6,846	14,756
Total Assets	53,701	63,408	72,924	83,361	90,498

Source: Company Data, Quant Broking

Exhibit 80: Financial Summary

Cash Flow Statement	C2007	C2008	C2009E	C2010E	C2011E
Profit after tax	17,541	13,237	14,249	12,299	12,499
Add : Depreciation	2,363	2,818	3,497	4,836	5,750
Cash flow from operations	19,904	16,054	17,746	17,135	18,249
Net Chg in Work Capital	3,305	(2,449)	(1,303)	(791)	(1,465)
Net cash from operations	22,628	16,135	16,417	16,322	16,761
Capital expenditure	(7,674)	(17,276)	(18,729)	(11,353)	(4,976)
Sale of investments	(1,558)	9,611	0	0	0
Net cash from investing	(9,232)	(7,664)	(18,729)	(11,353)	(4,976)
Issue of shares	323	(0)	0	0	0
Increase in debt	(5,350)	(418)	500	2,500	(1,000)
Dividends	(5,642)	(5,642)	(5,208)	(4,340)	(4,340)
Net cash from financing	(10,667)	(6,060)	(4,708)	(1,839)	(5,339)
Net Change in Cash	2,728	2,411	(7,020)	3,130	6,446
Opening Cash	3,781	6,508	8,519	1,499	4,628
Closing Cash	6,508	8,519	1,499	4,628	11,073

Key Ratios	C2007	C2008	C2009E	C2010E	C2011E
Growth					
Net Sales	37%	9%	19%	2%	8%
Operating Profits	43%	-15%	31%	-5%	6%
Net Profits	20%	-8%	28%	-14%	2%
Leverage					
Debt:Equity	0.07	0.05	0.05	0.08	0.06
Net Debt:Equity	(0.07)	(0.10)	0.03	0.02	(0.08)
Profitability					
OPM	36%	28%	31%	28%	28%
NPM	21%	18%	19%	16%	15%
ROE	30%	21%	23%	18%	16%
ROCE	39%	26%	29%	23%	21%
Valuation					
P/E	7.8	10.4	9.6	11.2	11.0
P/B	2.9	2.4	2.1	1.9	1.7
EV/EBIDTA	6.1	7.5	6.1	6.4	5.7
EV/Ton	6,601	6,857	5,575	4,728	4,472

Source: Company Data, Quant Broking

Grasim

High valuations and declining VSF profitability makes us cautious

INITIATING COVERAGE

We have initiated on Grasim with a SELL rating and price target of Rs 2391 implying 10% downside from current levels. Although Cement business of Grasim is likely to deliver strong growth in sales as well as profits, we believe that the company's VSF business is likely to remain subdued for the next few quarters.

VSF to remain drag on overall profitability - Grasim derives its revenues mainly from Cement (63% of sales), VSF (Viscose staple fiber) (28% of sales) and Sponge Iron (9% of sales) businesses. While we expect cement business to benefit from our positive outlook on the sector, we believe VSF business will continue to remain drag on the business. VSF demand will take a lot longer to revive as consumer spending globally has not strengthened. Even after the recovery in demand, it will take time for pricing increases as idle capacities in China will start flooding the markets with increased supply.

Grasim has increased its cement capacity by 8.9mn tons (68% of Grasim's F2007 capacity) which is situated entirely in the Northern region. This constitutes a massive 15% of total North region's capacity. We believe Grasim will take much longer time to establish a market for this production and its utilizations levels will likely be lower for the next two years. We also expect moderate volume growth for Grasim going forward as we expect the company to grow volumes rationally without disturbing the prices.

Grasim has embarked on **another round of capex for modernization and up gradation of plants,** Logistics initiatives, RMC and waste heat recovery systems. Out of the total capex of Rs21.1bn, to be spent over the next two years, almost Rs12.5bn will be spent on these initiatives and balance will go for the completion of the new capacities.

Given the diversified nature of business we have valued Grasim's Cement and VSF business separately at 7.5x and 5.0x EV/EBIDTA. We then add the value of Ultratech and other investments (at 50% discount to market value) to arrive at our target of Rs2391 implying 10% downside from current levels. On consolidated basis, the stock is trading at a higher end of its valuation range at 6.0x compared to average of 5.2x EV/EBIDTA.

BUY **Rs. 2671**

Reuters: GRAS.NS; Bloomberg: GRASIM IN Equity

12m price target Rs 2391

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Market Cap	Rs244.9 bn (US$5.1 bn)
52 Week High/Low:	2940/824
Share o/s:	91.7
Share o/s (fully diluted):	91.7
Avg daily trading vol (3m):	242.1('000)
Avg daily trading val (3m):	Rs592.2 mn (US$12.3 mn)

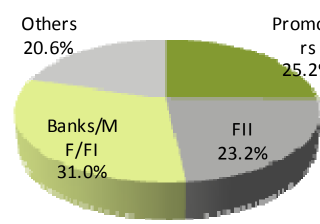
Quant vs. Consensus

	TP	EPS
Mean	2436	266.9
High	3353	333.0
Low	1214	201.0
Quant	2391	250.9

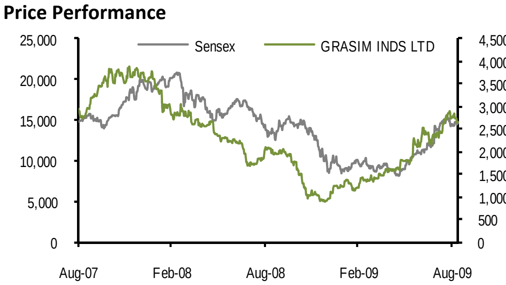
	Buy(S)	Hold(s)	Sell(S)
Nos	10	13	14

Source: Bloomberg

Share Holding Pattern



Price Performance



Y/E March	Sales (Rs mn)	OPM	PAT (Rs mn)	EPS	Change (%)	Capacity (mn tons)	ROE	ROCE	P/E	P/B	EV/EBIDTA	EV/Ton
FY08	169,739	29%	28,914	315.4	17%	16.8	32%	35%	8.2	2.6	5.7	NA
FY09	184,039	24%	21,867	238.5	-24%	19.7	19%	23%	6.6	1.3	4.4	NA
FY10E	185,156	27%	22,996	250.9	5%	23.6	17%	25%	10.5	1.8	5.7	NA
FY11E	193,140	25%	21,850	238.4	-5%	23.6	14%	22%	11.1	1.6	6.0	NA
FY12E	210,220	25%	25,247	275.4	16%	23.6	14%	22%	9.6	1.4	5.4	NA

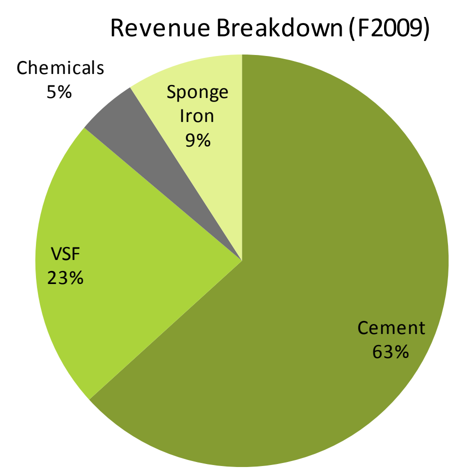
Source: Company, Quant Broking

High valuations and declining VSF profitability makes us cautious

We initiate on Grasim with a SELL rating and price target of Rs 2391 implying 10% downside from current levels. Although Cement business of Grasim is likely to deliver strong growth in sales as well as profits, we believe that the company's VSF business is likely to remain subdued for the next few quarters.

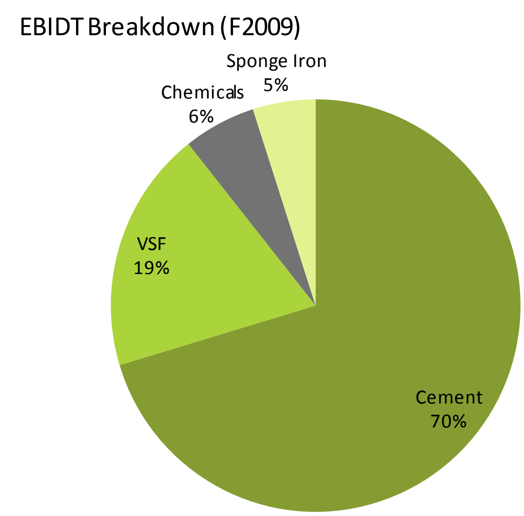
Grasim derives its revenues mainly from Cement (63% of sales), VSF and Chemicals (28% of sales) and Sponge Iron (9% of sales) businesses. Post the sell of sponge iron unit to Welspun group key businesses will remain as VSF and cement. We expect the cement business of Grasim to deliver strong growth on the back of high volumes due to completion of expansion programme and better realizations due to high exposure to northern region. Moreover increased captive power capacity is likely to result in lower P&F costs for the company. We expect cement revenues of the company to grow by 11% CAGR over F2009-12 period.

Exhibit 81: Segment wise Revenue breakdown



Source: Company Data, Quant Broking

Exhibit 82: Segment wise EBIT breakdown

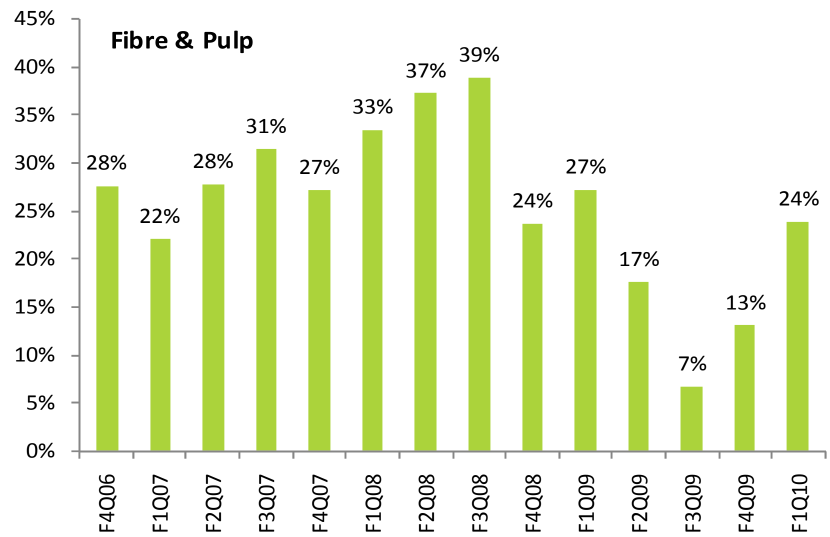


Source: Company Data, Quant Broking

VSF to remain a drag for some more time

Grasim has 12% market share in the global VSF markets and it is one of the lowest cost producers globally with integrated operations. The global demand for VSF has been moderate at 4-5% for the last 4-5 years. However during F2009 the demand was impacted adversely due to global recessionary trends. Exports of textile products fell sharply for Grasim due to lower demand and weakening of rupee also didn't help. The 1QF09 results for VSF were comparatively encouraging due to rebuilding of inventory in the value chain. The domestic prices also recovered partially because of the same. However, we do not expect this segment to recover in F2010 due to continuation of subdued consumer demand and massive idle capacity in China.

Exhibit 83: EBIT Margins improved in F1Q10 but not sustainable



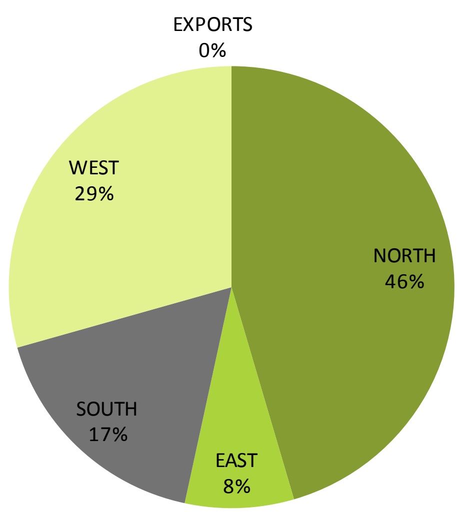
Source: Company Data, Quant Broking

Cement business fundamentals good but high exposure to North is a negative

Based on our positive view on the cement sector we believe Grasim will benefit from the strong demand currents and stable pricing in its key markets. However, Grasim has increased its cement capacity by 8.9mn tons (68% of Grasim's F2007 capacity) which is situated entirely in the Northern region only. This constitutes a massive 15% of total North region's capacity. We believe Grasim will take much longer time to establish a market for this production and its utilizations levels will likely be lower for the next two years.

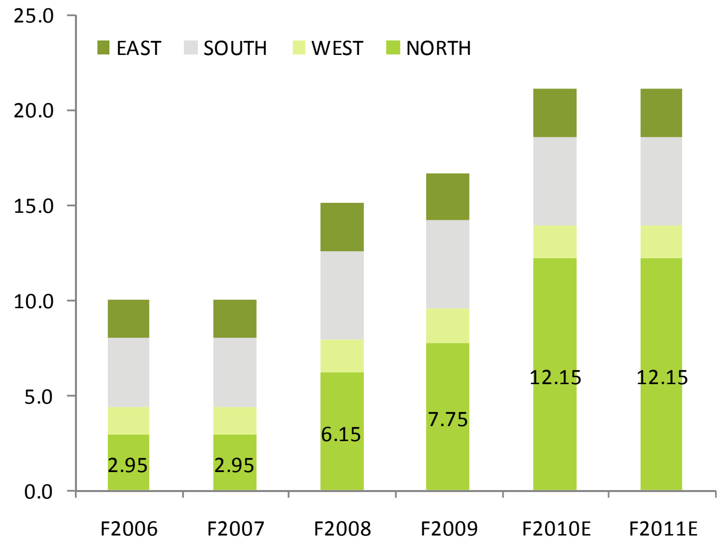
The company currently sells almost 46% of its total production in the Northern markets. With the commissioning of new capacities Grasim's exposure to North is going to increase considerable. This makes the company vulnerable to any adversities in one market.

Exhibit 84: Northern share of Grasim's dispatches will increase substantially from current 46%



Source: Company Data, Quant Broking

Exhibit 85: **Capacity addition largely in the Northern Area (mn tons)**



Source: Company Data, Quant Broking

Capex for capacity creation almost over now capex for efficiency improvement

Grasim till F2009 has incurred Rs38.8bn capex for its expansion plans in Rajasthan for its 8.9mn tons capacity. Now that the capex for capacity creation is over and the company has cash available at its disposal, it has embarked on another round of capex for modernization and upgradation of plants, Logistics initiatives, RMC and waste heat recovery systems. Out of the total capex of Rs21.1bn, to be spent over the next two years, almost Rs12.5bn will spent on these initiatives and balance will go for the completion of the new capacities.

Exhibit 86: **Capacity expansion program now shifting to efficiency improvement**

Initiatives	Total Costs	Spent till F2009	Net Capex
New Capacities and Expansion in Rajasthan	45,480	38,040	7,440
Bricks and RMC plant	2,050	190	1,860
Modernisation and Upgradation	700	-	700
Logistics	2,620	600	2,020
Waste heat recovery system	9,030	-	9,030
Total	**59,880**	**38,830**	**21,050**

Source: Company Data, Quant Broking

Valuations

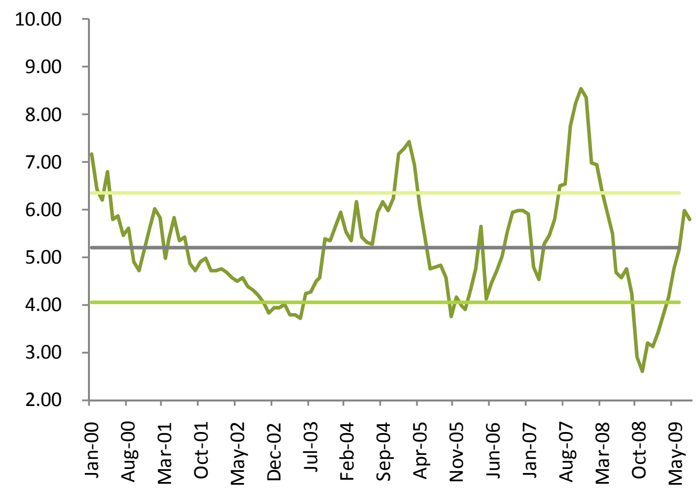
The stock of Grasim is currently trading above its long term average of around 5x EV/EBIDTA (consolidated EBIDTA). Reason for lower EV/EBIDTA multiple is its diversified nature and high quantum of EBIDTA coming from subsidiary Ultratech (51% owned). To value Grasim, we have segregated the cement and VSF business values in the standalone business and use different target EV/EBIDTA multiples to value the two key businesses of the company. We then add the proportionate value of the Ultratech stake. We have also added value of various investments in group companies at 50% discount to the market value and arrive at our target price of Rs 2391.

Exhibit 87: Valuation Summary

Particulars	Rs mn
Cement 1 Yr Fwd EBIDTA	20,554
Target Multiple	7.5 x
Cement EV	154,155
VSF 1 Yr Fwd EBIDTA	4,687
Target Multiple	5.0 x
VSF EV	23,435
Total EV of standalone business	**177,590**
Less: Net Debt	41,016
Equity Value	**136,574**
Value of Ultratech	69,223
Value of Investments at 50% discount	13,449
Total Value	**219,246**
No of shares	92
Value per share	**2,391**

Source: Quant Broking

Exhibit 88: Grasim's rolling EV/EBIDTA currently at +1 std dev from mean



Source: Company Data, Quant Broking Estimates

Exhibit 89: Financial Summary

Income Statement	F2008	F2009	F2010E	F2011E	F2012E
Net Sales	169,739	184,039	184,810	192,786	209,838
Stock adjustmernts	(1,743)	(906)	(450)	(450)	(450)
Raw Materials Consumed	37,040	40,680	34,901	37,345	40,314
Manufacturing Expenses	44,555	54,773	51,955	57,153	62,528
Purchases of Goods	743	1,245	835	640	640
Employee Costs	8,493	9,513	8,605	9,061	9,550
Selling and admin costs	31,961	35,438	39,147	42,072	45,173
COGS	121,049	140,743	134,993	145,819	157,755
OP	48,691	43,296	49,817	46,966	52,083
OPM	29%	24%	27%	24%	25%
Other Income	4,623	4,532	4,728	4,957	5,201
Interest	2,221	3,105	3,102	2,539	2,170
Depreciation	6,703	8,658	9,418	10,213	10,598
Total Expenditure	129,066	152,506	147,514	158,571	170,523
PBT and Exc. Items	45,296	36,066	42,024	39,172	44,516
Total Tax	14,658	9,914	13,122	12,200	13,836
PAT	28,914	21,867	26,244	21,654	25,018

Balance Sheet	F2008	F2009	F2010E	F2011E	F2012E
Share Capital	917	917	917	917	917
Reserves and Surplus	90,166	114,209	132,591	151,110	172,993
Minority Interest	12,760	16,704	22,948	27,524	32,251
Secured Loans	38,836	37,197	25,721	18,721	15,221
Unsecured Loans	16,935	21,964	16,860	13,360	12,860
Deferred Tax Liabilities	11,575	15,919	15,919	15,919	15,919
Total Liabilities	171,544	207,485	215,531	228,126	250,736
Gross Block	137,241	190,613	214,431	227,253	232,694
Less: Depreciation / Amortisation	63,397	68,254	76,928	87,184	97,827
Net Block	73,844	122,359	137,503	140,069	134,867
Capital Work-in-Progress	55,335	19,822	9,000	3,500	500
Investments	16,607	35,626	38,126	43,126	63,126
Goodwill	19,913	19,683	19,683	19,683	19,683
Inventories	17,443	22,210	18,545	20,381	21,565
Sundry Debtors	10,185	8,239	9,283	9,714	10,599
Cash and Bank Balances	2,900	2,598	1,341	10,895	21,530
Loans and Advances	12,047	12,615	15,804	16,809	17,886
Current Assets	42,582	45,671	44,978	57,805	71,584
Liabilities	30,350	29,123	28,927	31,216	33,762
Provisions	6,430	6,562	4,841	4,850	5,270
Current Liabilities	36,780	35,685	33,767	36,066	39,032
Net Current Assets	5,802	9,986	11,210	21,739	32,552
Total Assets	171,544	207,485	215,531	228,126	250,736

Source: Company Data, Quant Broking

Exhibit 90: Financial Summary

Cash flow statement	F2008	F2009	F2010E	F2011E	F2012E
PAT	28,914	21,867	26,244	21,654	25,018
Add: Depreciation	6,625	8,658	9,404	10,199	10,585
Change in working cap	1,991	(4,487)	(2,481)	(975)	(179)
Cash Flow from operations	36,835	26,268	33,168	30,878	35,424
Capex	(51,127)	(21,624)	(13,727)	(7,265)	(2,382)
Investments	6,112	(19,020)	(2,500)	(5,000)	(20,000)
Cash flow from investing	(45,015)	(40,644)	(16,227)	(12,265)	(22,382)
Issue of shares	59	62	-	-	-
Increase in debt	7,273	3,548	(16,580)	(10,500)	(4,000)
Increase in Minority Interests	4,173	3,944	6,244	4,576	4,727
Net cash from financing	7,387	14,074	(18,198)	(9,059)	(2,408)
Net Change in cash	(792)	(302)	(1,257)	9,554	10,634
Opening cash	3,692	2,900	2,598	1,341	10,895
Closing cash	2,900	2,598	1,341	10,895	21,530

Key Ratios	F2008	F2009	F2010E	F2011E	F2012E
Growth					
Net Sales	18%	7%	1%	5%	9%
Operating Profits	8%	-11%	15%	-6%	11%
Net Profits	17%	-24%	20%	-17%	16%
Leverage					
Debt:Equity	0.61	0.51	0.32	0.21	0.16
Net Debt:Equity	0.45	0.38	0.31	0.14	0.04
Profitability					
OPM	29%	24%	27%	24%	25%
NPM	17%	12%	14%	11%	12%
ROE	37%	21%	21%	15%	15%
ROCE	27%	18%	19%	17%	17%
Valuation					
P/E	5.02	6.63	11.37	12.02	10.40
P/B	2.58	1.25	1.94	1.71	1.49
EV/EBIDTA	5.68	4.37	6.05	5.99	5.12

Source: Company Data, Quant Broking

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BUY. We expect the stock to deliver >15% absolute returns

ACCUMULATE. We expect the stock to deliver 5-15% absolute returns

REDUCE. We expect the stock to deliver +5% to -5% absolute returns

SELL. We expect the stock to deliver negative absolute returns of >5%

Not Rated (NR). We have no investment opinion on the stock.

Sector rating system

Overweight. We expect the sector to relatively outperform Sensex

Underweight. We expect the sector to relatively underperform Sensex

Neutral. We expect the sector to relatively perform in-line with Sensex analysis adds up

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