25 February 2011

Indian Cement Sector

Cementing ties with discipline

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MF Global Sector Report

Indian Cement Industry

Growing with seasonal bumps

- The Indian cement industry, the second largest in the world, has recorded 18-year consumption CAGR of 8.1% (FY93-FY11E). A strong long-term CAGR has urged the industry to create more capacities ahead of demand.
- Robust capacity additions have put some concerns on the near-term pricing trend. However, all other trends support a strong long-term fundamental outlook for the industry.
- Cement prices have started recovering significantly across regions now. However, the sustainability of this recovery is a concern. But we believe that this recovery is sustainable and expect cement prices to remain firm, taking a call on the behavior of cement manufacturers.

Investment Rationale

- We strongly believe that even if the consumption growth is robust (+10%) for the next few years, the surplus in capacity is real.
- In our opinion, it is more important to take a call on the discipline of these cement manufacturers in order to predict the near-term outlook for the industry.
- In this report, we have tried and analysed the long-term behavioral pattern of the industry vis-à-vis pricing, despatches across regions and across players. We have also tried and analysed the behavior of cement manufactures vis-à-vis their size and come to a conclusion that the players, irrespective of their size (barring too small players), on a relative basis, tend to move in tandem with other players and the industry, at large.
- An interesting fact is that despite such an aggressive capacity addition (~140mtpa over FY05-11E), the capacity utilisations of these incremental capacities has been much lower than the industry standard of +80%. All these new capacities, on a cumulative basis (since May '05), have operated at a mere capacity utilisation of 53%, which signals the discipline or the intent of these cement manufacturers.
- The industry has obviously seen bad times in the recent past quarters when there were unreasonable price cuts. However, we believe, this was on account of a breach in the discipline of players (especially the smaller ones) when most of them wanted to garner incremental market shares. The bloodbath of the recent times has made these players (even smaller ones) realize the importance of discipline.
- The cement industry today operates at the lowest ever capacity utilization, but still we have seen phenomenal price hikes across India in Q4FY11E (Rs 20-Rs 45 per bag). This is possible only with a highly disciplined and cohesive approach. If it was a pure economics of demand and supply, such kind of price hikes would not have been possible. We have tried to analyse this behavioural pattern of Indian cement manufacturers in this report and we clearly see a very strong understanding at least amongst the Top 15 manufacturers. Top 15 players today constitute ~80% of the industry.

COMPANIES

ACC	CMP Rs 1011
Reco	NEUTRAL
Target Price	Rs 1,038
AMBUJA CEMENTS	CMP Rs 124
Reco	BUY
Target Price	Rs 161
INDIA CEMENTS	CMP Rs 93
Reco	BUY
Target Price	Rs 140
MANGALAM CEMENT	CMP Rs 110
Reco	BUY
Target Price	Rs 161
SHREE CEMENT	CMP Rs 1725
Reco	BUY
Target Price	Rs 2,075
ULTRATECH CEMENT	CMP Rs 966
Reco	BUY
Target Price	Rs 1,180

» Taking a call on this discipline, we expect average pan-India cement prices to grow by minimum of 5% on a YoY basis till FY13E. On a sustainable basis, the Indian cement manufacturers target an EBITDA/tonne in the range of ~Rs800-Rs1000, which we believe is achievable in the next 12-18 months, given the kind of price hikes happening at the moment. The long-term target of the industry is to reach ~600mn tonnes installed capacity by 2020 (CAGR of 8.4% FY11-20E), implying an incremental investment of ~US$ 23bn.

Risks

» Breach of discipline, especially by cement majors like that of ACC, Ambuja or UltraTech. Our recent dealer checks confirm that players with very high aggression, like Jaypee Cement, have a tendency to spoil the whole market sentiment by way of huge undercutting of the cement price.

» Unreasonable hike in input costs and other operating costs, which may put pressure on profit margins.

» Lower-than-expected demand growth.

Valuations

» The following table captures the valuations of companies under our coverage. Our target valuations are benchmarked to replacement cost at US$ 120/tonne. UltraTech Cement is our preferred long term pick in the large-cap cement space.

VALUATION MATRIX

COMPANY	CMP	RATING	TARGET PRICE	% UPSIDE / DOWNSIDE ON TARGET PRICE	SALES, (RS BN) FY12E	SALES, (RS BN) FY13E	EPS, (RS) FY12E	EPS, (RS) FY13E	P/E, X FY12E	P/E, X FY13E
ACC LTD.*	1,011	NEUTRAL	1,038	3%	97	110	68.4	88.7	14.8	11.4
AMBUJA CEMENTS LTD.*	124	BUY	161	30%	87	96	10.1	12.2	12.2	10.2
ULTRATECH CEMENT LTD.	966	BUY	1,180	22%	166	190	65.9	92.3	14.7	10.5
INDIA CEMENTS LTD.	93	BUY	131	40%	42	46	4.8	7.4	19.2	12.6
SHREE CEMENT LTD.	1,725	BUY	2,075	20%	42	51	107.9	151.9	16.0	11.4
MANGALAM CEMENT LTD.	110	BUY	161	46%	6	7	28.3	39.0	3.9	2.8

Source: Company, MF Global India Research Estimates

* Calendar year end company

VALUATION MATRIX

COMPANY	EV/SALES, X FY12E	EV/SALES, X FY13E	EV/EBITDA, X FY12E	EV/EBITDA, X FY13E	EV/TONNE, US$ FY12E	EV/TONNE, US$ FY13E	ROE % FY12E	ROE % FY13E	ROCE % FY12E	ROCE % FY13E	ROIC % FY12E	ROIC % FY13E	TARGET EV/EBITDA FY12E	TARGET EV/TONNE FY12E	DISC./PREM (FY12E/CY11E) TO REPLACEMENT COST AT US$120/TONNE ON CMP
ACC LTD.*	1.9	1.5	8.8	6.3	133.8	123.1	19.3	22.1	13.7	15.5	21.6	26.4	9.0	137	15%
AMBUJA CEMENTS LTD.*	1.8	1.5	6.6	5.2	130.5	119.5	19.9	20.9	16.3	17.3	25.6	30.2	9.0	179	49%
ULTRATECH CEMENT LTD.	1.9	1.6	8.5	6.3	138.3	112.9	15.9	19.0	11.2	13.9	17.1	20.2	10.0	163	36%
INDIA CEMENTS LTD.	1.2	1.1	8.5	6.5	74.7	72.2	3.7	5.7	4.0	5.2	6.8	8.4	4.5	90	-25%
SHREE CEMENT LTD.	1.7	1.2	6.1	3.9	86.9	59.9	16.5	19.6	10.2	14.5	45.1	58.9	7.1	114	-5%
MANGALAM CEMENT LTD.	0.3	0.1	1.6	0.4	18.5	5.6	17.0	19.8	12.3	14.6	19.8	24.5	3.0	34	-72%

Source: Company, MF Global India Research Estimates

* Calendar year end company

CONTENTS

Companies Section

Note: Report priced as of 23 February 2011

Sector snapshot

ALL INDIA – QUICK SNAPSHOT

SUMMARY FOR:	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E	CAGR 02-10	CAGR 11-14E
EOP CEMENT CAPACITY (MTPA)	134.4	139.6	144.5	151.6	152.6	158.5	183.9	211.1	251.7	290.9	302.2	332.8	372.5	8.2%	8.6%
AVERAGE CEMENT CAPACITY (MTPA)	129.8	137.0	141.7	148.6	148.5	157.5	166.3	201.2	232.7	268.3	292.0	305.2	336.7	7.6%	7.9%
GROWTH YOY		*5.6%*	*3.4%*	*4.9%*	*-0.1%*	*6.0%*	*5.6%*	*21.0%*	*15.7%*	*15.3%*	*8.8%*	*4.5%*	*10.3%*		
CEMENT PRODUCTION (MN TONNES)	102.4	111.3	117.5	127.6	141.8	154.7	168.3	181.4	200.7	207.0	226.6	247.9	271.3	8.8%	9.4%
GROWTH YOY		*8.7%*	*5.6%*	*8.5%*	*11.1%*	*9.1%*	*8.8%*	*7.8%*	*10.7%*	*3.2%*	*9.4%*	*9.4%*	*9.4%*		
CEMENT CONSUMPTION (MN TONNES)	99.0	107.6	113.9	123.1	135.6	149.0	164.0	177.8	196.6	206.4	225.9	247.2	270.5	9.0%	9.4%
GROWTH YOY		*8.7%*	*5.8%*	*8.1%*	*10.1%*	*9.9%*	*10.1%*	*8.4%*	*10.6%*	*5.0%*	*9.4%*	*9.4%*	*9.4%*		
CEMENT EXPORTS (MN TONNES)	3.4	3.5	3.4	4.1	6.0	5.9	3.6	3.2	2.0	2.2	2.4	2.6	2.9		
AVERAGE PAN-INDIA CEMENT PRICES (RS/BAG)	149	138	141	156	166	209	233	239	243	243	255	268	281	6.3%	5.0%
GROWTH YOY		*-7.5%*	*2.7%*	*10.1%*	*6.9%*	*25.7%*	*11.2%*	*2.8%*	*1.5%*	*0.1%*	*5.0%*	*5.0%*	*5.0%*		
CLINKER PRODUCTION (MN TONNES)	88.2	97.3	102.7	109.4	116.3	121.0	129.6	138.4	153.6	159.6	176.3	194.8	215.4	7.2%	10.5%
CLINKER EXPORTS (MN TONNES)	1.8	3.5	5.6	6.0	3.2	3.1	2.4	2.9	3.1	3.8	4.5	5.4	6.5		
CEMENT:CLINKER, X	1.18	1.19	1.21	1.23	1.25	1.31	1.33	1.34	1.34	1.33	1.32	1.31	1.30		
AVERAGE CEMENT CAPACITY UTILISATION, (%)	79%	81%	83%	86%	95%	98%	101%	90%	86%	77%	78%	81%	81%		

Source: CMA, Crisil, MF Global India Research Estimates

- **Indian cement industry, second only to China, and still growing:** The Indian cement industry is the second largest globally. The industry has added ~140mn tonnes of capacity since FY05. The majority of these capacities have come since FY07 (~114mn tones). Further 82mn tonnes of capacity is under the execution stage and likely to be added until FY14E. The long-term target of the industry remains to reach a capacity of ~600mtpa (CAGR of 8.4%) in line with consumption.
- **FY11E consumption growth likely to be an aberration to the long-term trend; CAGR remains healthy;** We believe that FY11E growth has been an aberration to the long-term trend in India, mainly on account of lower offtake from the infrastructure space, prolonged monsoons and the unstable political environment in some of the high-consuming states in India. FY11YTD (April-Dec'10) consumption has grown at a CAGR of 5.2%, which is surprisingly lower than the GDP growth. The long-term consumption CAGR (FY93-11E) has been at ~8.1%. We expect consumption to get back on track from FY12E onwards on the back of increased infrastructure spend by the government. We have factored in a consumption growth of ~9.4% YoY for the next two years in our estimates.
- **Utilisations touch the bottom of the long-term trend, further correction unlikely:** On account of aggressive capacity built up, pan-India capacity utilisations of the industry have dropped to an all-time low (since FY93) of 76%. The previous low for the industry was registered in FY99 at 78%. Factoring in ~9% consumption growth, we do not expect average capacity utilisations to correct further. In our opinion, the worst of the cycle is now over and the industry will now move back to the growth track, though the transition would be slow and steady.
- **The play is on discipline:** A disciplined approach to the market is the only rescue for the cement industry in this scenario. The surplus in capacity is real, but so is the discipline and understanding amongst cement manufacturers. The kind of price hikes that the industry is witnessing in Q4FY11E (Rs 20-Rs 45 per bag) with the lowest ever capacity utilisations is a clear example of the level of understanding that these cement manufacturers intent to work with. There have been price hikes in Jan '11 and Feb '11 across parts of India and the same is likely to continue for the next 3-4 months as January-June is the period when the industry can comfortably increase prices on account of a stable demand. In an overcapacity scenario, this is all possible only with a disciplined approach and the recent bloodbath in South India has made these players realize the importance of a disciplined approach. The industry also looks forward to cut down the blending ratio and is already vigorously screening the production levels. Obviously, there have been highly aggressive players, like Jaypee Cement, who have at times tried to breach this discipline in order to establish their market, but this kind of approach by such players is unlikely to last very long. Industry has breached the bottom of the long term cycle and we strongly believe that the industry is now in a recovery mode.

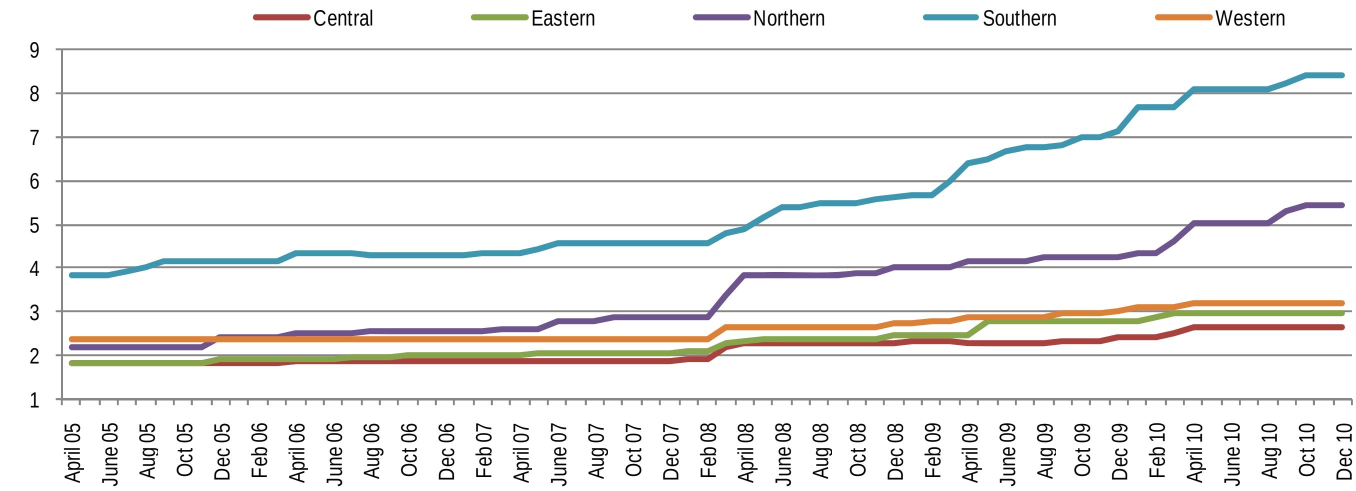
Capacity overhang is real

The Indian cement industry has been on an aggressive capex phase since FY07. Consequently, the industry has already added ~114mtpa of capacity since FY07. As on 31 Dec '10, the installed capacity of the industry was reported at ~272mtpa. This is likely to increase to ~373mtpa by FY14E, as per the current scheduled expansion plans. However, a delay in this next phase of capacity addition is also highly likely, which will give a breather to the industry. Also, many of these next phase capacity expansions are only in the announced stage and equipment orders have not yet been placed.

The cement business in India is a pure regional play and the country is divided into five different regions: North, South, East, West and Central India. South India has been the most aggressive on capacity addition (55mtpa over April '05 till date), followed by the North (39 mtpa over April '05 till date).

Even with high demand growth of +10% p.a., the surplus in the capacity is likely to remain and is real. Our recent conversations with many cement manufacturers across India suggest no hurry to announce further expansions unless these new capacities get stabilised. In fact players have rolled back capacity additions for the time-being on account of overcapacity. This clearly indicates the intent of the cement manufacturers to not disturb the demand-supply matrix any further by way of further adding up capacities in the near term.

REGION-WISE CAPACITY MOVEMENT SINCE APRIL '05 (MN TONNES)



Source: CMA, Company, MF Global India Research

Clearly, South India is the largest capacity in India today with an installed capacity of over 100mtpa. South India may continue to remain an unpredictable market for some more time, unless the region sees a stable pricing environment consistently for a few months. Other regions (except South India and North India) have not seen any significant additions as depicted in the graph above. We will elaborate the statistics on each of these regions separately in our regional section.

Incremental production from the new capacities

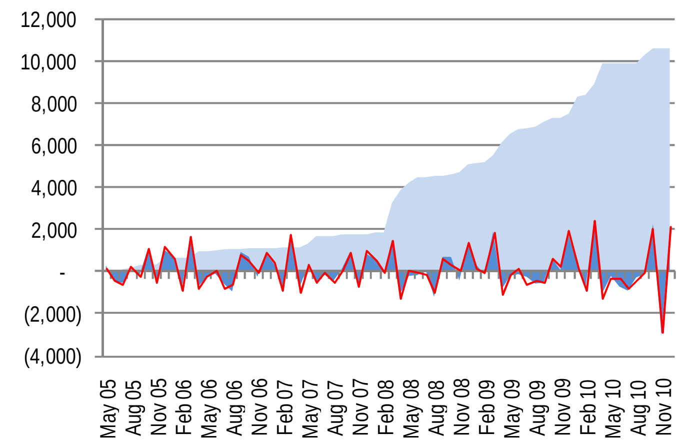
We will now try and analyse what has been the incremental cement production from these new cement capacities and how has the industry managed its production cuts or corrections in average capacity utilisation.

On a cumulative basis, since May '05 till Dec '10, the new capacities put together on a pan-India level, have operated at a mere capacity utilisation of 53%. South India has observed the lowest production from its new capacities at 31% capacity utilisation, while Central India has seen the maximum production from these new capacities at 107% capacity utilisation (on a cumulative basis, for the mentioned period).

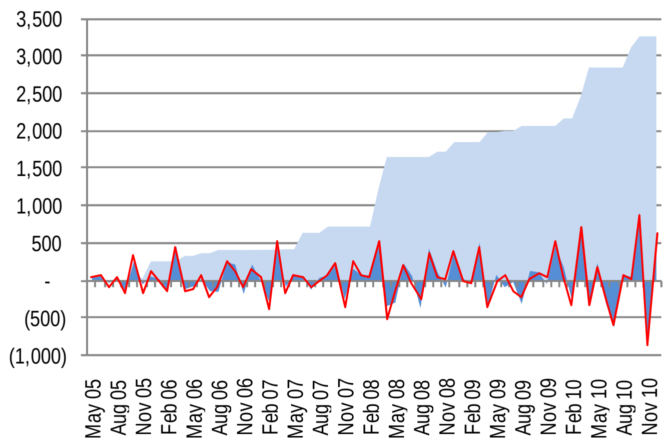
The following graphs highlight the incremental capacity additions on a cumulative basis and the monthly production from these plants. It is to be noted that many of these capacity additions have been at an existing operational plant location, hence, we have tried to capture incremental production from these plants vis-à-vis the available capacity at that location.

Incremental Production & Despatches from New Capacities

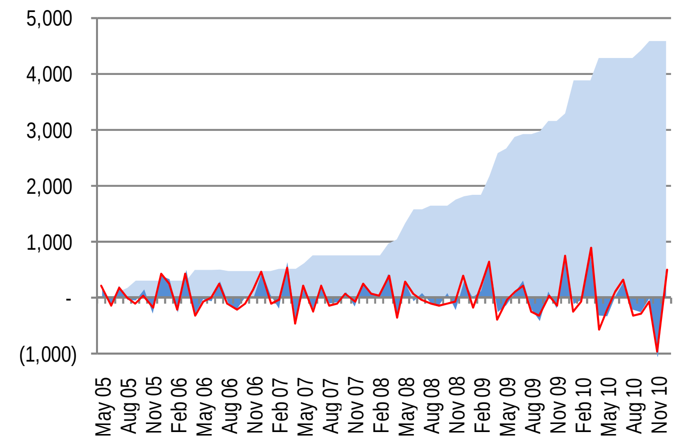
ALL-INDIA ('000 TONNES)



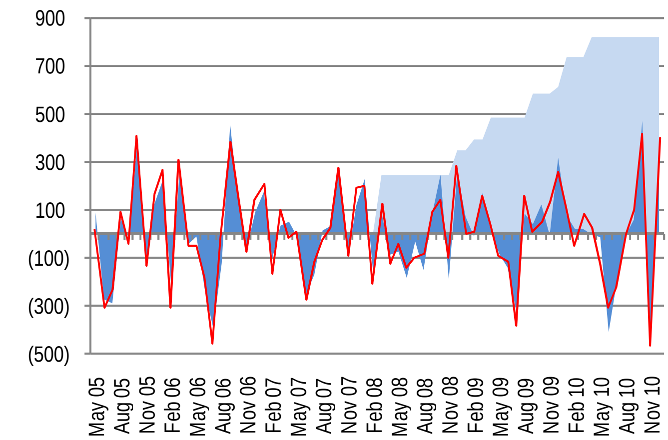
NORTH INDIA ('000 TONNES)



SOUTH INDIA ('000 TONNES)

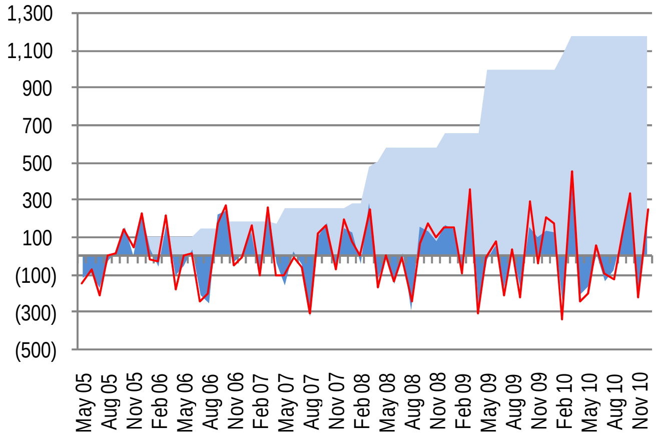


WEST INDIA ('000 TONNES)

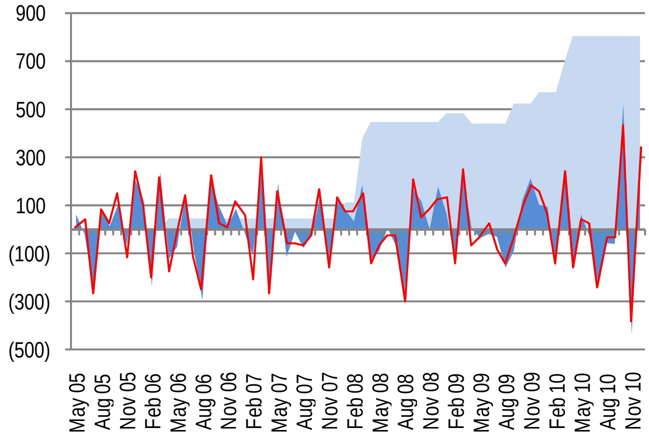


Incremental capacity (Cumulative since May 05)
Incremental production from these capacities (MoM basis)
Incremental despatch from these capacities (MoM basis)

EAST INDIA ('000 TONNES)



CENTRAL INDIA ('000 TONNES)



Source: CMA, Company, MF Global India Research

Across regions, we get a sense that the incremental production from these new capacities have been substantially low than what is actually possible (+80%). This clearly indicates the capability of the Indian cement manufacturers to hold production to significantly lower levels from new capacities and operate them as per their needs. The industry is capable enough to sustain a very slow ramp-up (~30-50% of capacity utilisation) of new capacities and move in line with market conditions. Hence, we believe that increasing capacity will not obviously always mean increasing supply. Correction in capacity utilisations have been mainly on account of lower capacity utilisations of the new capacities. The old capacities still operate at significantly higher utilisation levels than the newer ones.

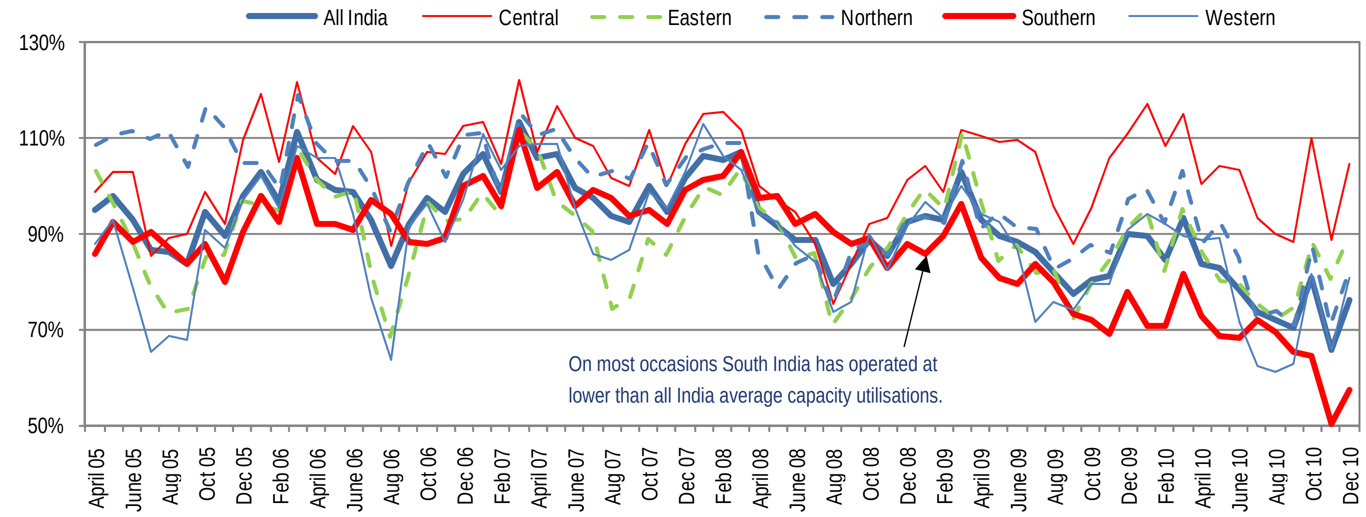
It is interesting to note that The Cement Manufacturers' Association of India (CMA) has already chosen not to publish and distribute the monthly cement data from January '11 onwards. The CMA is not renewing annual subscription to these data publications and will only honour their past commitments. CMA is the leading and the representative association of the cement industry in India. CMA's move is clearly a step forward to further strengthen the understanding of cement manufacturers as tracking the monthly cement data at plant level will become a virtually impossible task. At the company level, we can still get the data for the companies who do report their monthly cement numbers, but tracking the same at the micro level (plant level, region level) could become an impossible task. CMA has been delaying its publications since the last few months and now the association has decided to roll back its monthly publications all together. These kind of moves gives complete freedom to the cement manufacturers to operate their plants as per their wish, as third party access to production and despatch numbers gets much more limited and difficult (especially at plant and regional levels). These moves, we believe, have been made to avoid allegations of cartelisation. We also strongly believe that all these moves will further strengthen their association and also enable a further smooth uptick in cement prices.

What led to the bloodbath in South India?

South India is a classic example of price corrections despite the fact that the region observed the lowest capacity utilisations from the new capacities at 31%. This, we believe, was mainly on account of the following reasons:

- South India has always been the largest in size in terms of installed capacity. In April '05, South India had an installed capacity of ~46mtpa, with a capacity utilisation of ~86%. At most times, South India has operated at capacity utilizations, which is below the industry standard, or other regions as depicted in the graph below:

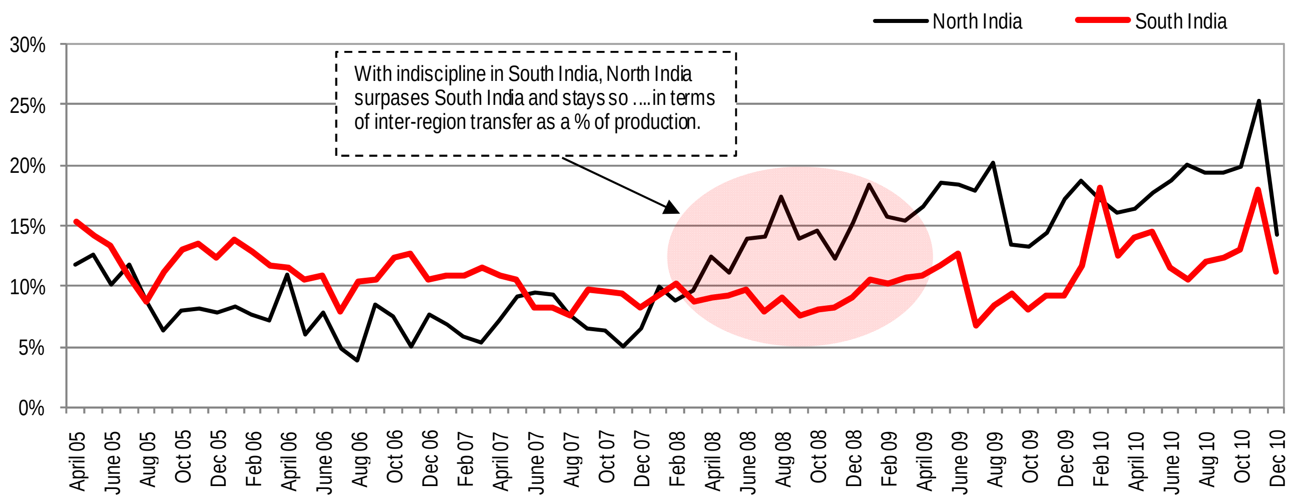
MOVEMENT OF AVERAGE CAPACITY UTILISATIONS



Source: CMA, Company, MF Global India Research

- A huge number of players (21), coupled with large mini-cement plants, makes it much more difficult to maintain discipline in the market and hence, the discipline in South India continues to remain fragile. However, the recent bloodbath in South India has possibly made these players realize the importance of such discipline and hence, we believe that history will not be repeated. Every player in South India, especially the smaller ones, tried to garner incremental market shares which probably led to the unpredictable crash in cement pricing. Lack of marketing set-up in other regions, a large number of non-reported mini-cement plants and political instability in high-consuming states, like that of Andhra Pradesh, further added to the problem.
- Low potential of incremental inter-region transfer from South to West India as other regions (mainly North) have also been feeding the West. In the current over-capacity scenario, North India clearly leaded South India in terms of inter-region transfers to other regions as shown in following graph. This is mainly on account of breach of discipline in South India and the North Indian players took benefit of the same. The following graph highlights the inter-region transfer as a percentage of monthly cement production from South India and North India.

INTER-REGION TRANSFERS AS % OF PRODUCTION FROM SOUTH AND NORTH INDIA



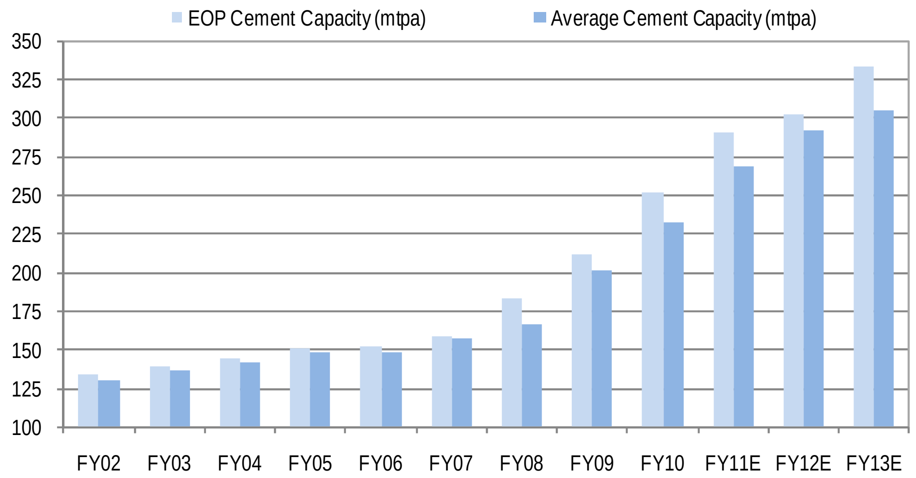
Source: CMA, Company, MF Global India Research

Very clearly, North India took the benefit of the indiscipline in South India and surpassed South India in terms of inter-region transfer, which has provided further stability to the North Indian cement market. However, it is to be noted that South India has seen an unprecedented discipline in the previous few months. As a result, prices have now recovered sharply, and we expect and believe that the discipline is now here to stay in South India.

Movement of all-India capacity and average cement capacity

As mentioned, India has added ~140mtpa over FY05-11E. The graph below highlights the movement of available and average capacity of the industry as on the fiscal year end, since FY02.

ALL-INDIA INSTALLED CAPACITY AND AVERAGE CAPACITY MOVEMENT



Capacity additions in FY12E to go on a relatively passive mode, and which will eventually help industry to support higher cement prices.

Source: CMA, Company, MF Global India Research Estimates

As depicted in the graph, capacity addition in FY12E is likely to be much more passive than what the industry has been experiencing since the past few years. With no significant capacity addition in FY12E (especially in South), we believe that price hikes in FY12E should not be a major problem for the industry. In fact, we also strongly believe that industry is very much capable of surprising us on the positive side as far as cement pricing is concerned.

The capacity reported by the industry at the end of Dec '11 was at ~272mtpa. Assuming the remaining 18 mtpa additions go through in FY11E itself, no significant incremental additions are due in FY12E. FY12E is likely to see total additions to the tune of mere 11 mtpa. This will mean that the industry will get enough time in FY12E to stabilise its production from the existing capacities and this might also further help the industry to behave in a much more disciplined fashion. In total, another 82mn tonnes of capacity is likely to come on stream by the end of FY14E (as per schedule). However, our recent conversations with industry experts suggests that the next phase of capacity additions can be much slower than what one may expect and project delays will continue to form an integral part of the next phase of capacity addition as well.

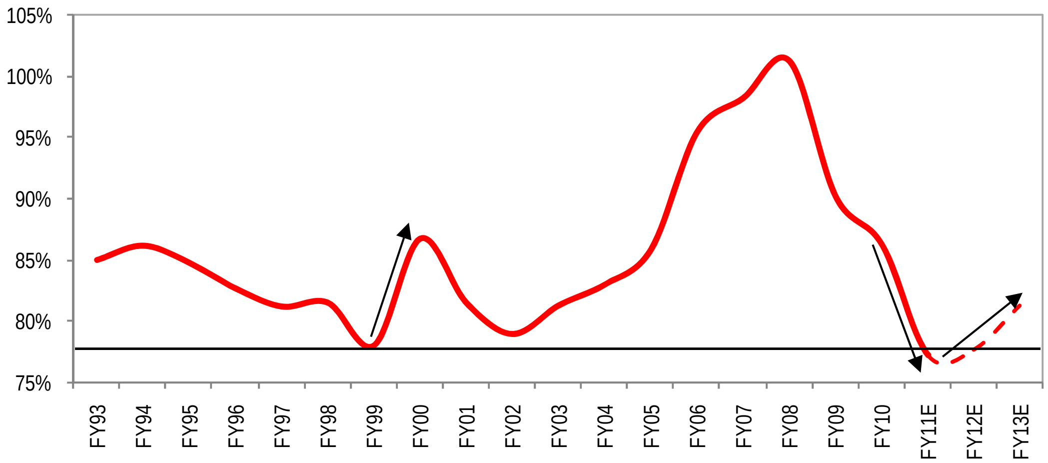
For a list of all capacities added since FY02 and expected till FY14E, please refer Annexure on page 41

Utilisations touch the bottom of the cycle

The Indian cement industry has undergone a huge capex cycle over the past few years. Another 82mn tonnes of capacity is likely to be added on a pan-India basis by FY14E. The installed capacity and average available capacity have grown at a CAGR (FY07-10) of 16.7% and 13.9%, respectively. The additions are likely to continue, however, the growth is likely to correct by almost half. We expect the installed capacity and average available capacity to grow at a CAGR of 8.6% and 7.9%, respectively.

Historically, the industry has seen operating capacity utilisation remain range-bound between 75%-85%. However, the lack of adequate capacities and increasing demand pushed these utilisations consistently. As a result, the industry operated at more than full capacity utilisations (101%) in FY08. Utilisations then started correcting, on account of capacity add-ups. The additions have been aggressive and way ahead of the consumption CAGR of 9.1% (FY07-10). Aggressive additions have forced the industry to operate at an utilization, which has been the lowest since FY93. The industry currently operates at ~76%, which is lower than all the previous lows of 78%. The same is illustrated in the graph below:

CAPACITY UTILISATION, %



Current bottom breaches the previous bottom. Pick up in capacity utilisations to be slow and steady on account of huge capacity built up.

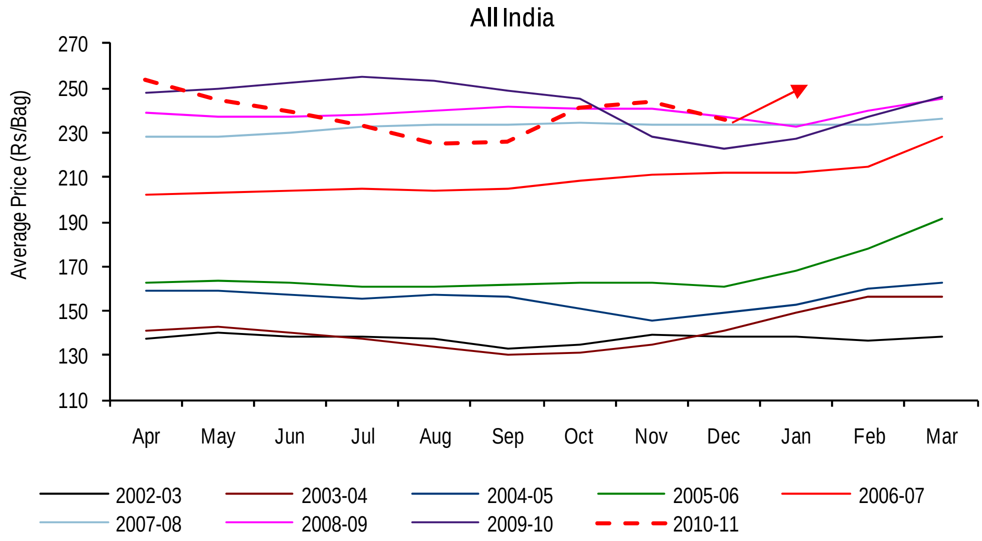
Source: CMA, Company, MF Global India Research Estimates

We strongly believe that the industry has now hit the bottom of the cycle and the utilisations will start improving from now on, given the slowdown in capacity addition and factoring in ~9% consumption growth on a pan-India basis. The spike in the improvement may not be as steep as the previous one (FY05-08), however, the cycle will start turning favourable, given the slowdown in capacity addition. We also believe that delays in capex plans are very much likely, especially by new entrants. It is also to be noted that after the recent bloodbath, particularly in South India, most of the smaller and marginal players have been forced to move out or stop production at their plants and become available for sale to the larger players and rethink their expansion plans, if any.

South India is the biggest surplus capacity in India today (+100 mtpa). We believe that a slowdown in capacity addition in South India will be a big support to the entire cycle. In fact, our communication with few major players in South India speaks for the unprecedented discipline they observe today in pricing and utilisations. Though this discipline might be fragile, it is real. A similar discipline has been observed in other regions as well, which we will further elaborate in latter parts of the report.

Cement prices

9-YEAR MONTHLY MOVEMENTS OF PAN-INDIA CEMENT PRICES



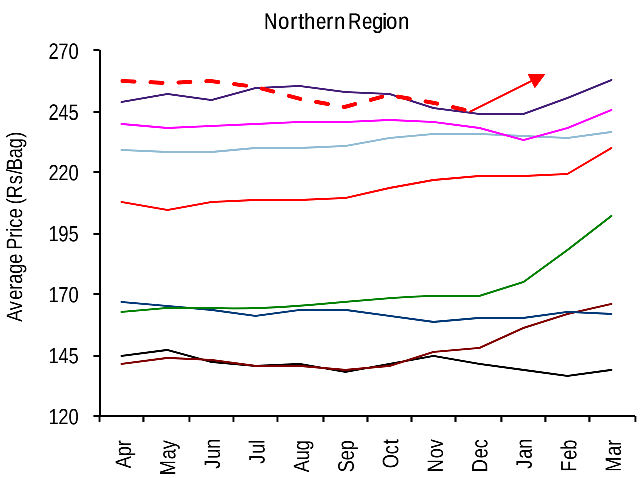
As depicted, average monthly pan-India cement prices at the start of every new fiscal is higher than that of the previous fiscal. Also, prices have recovered sharply in the current quarter and the trend is very likely to continue for FY12E as well with the dotted line moving up.

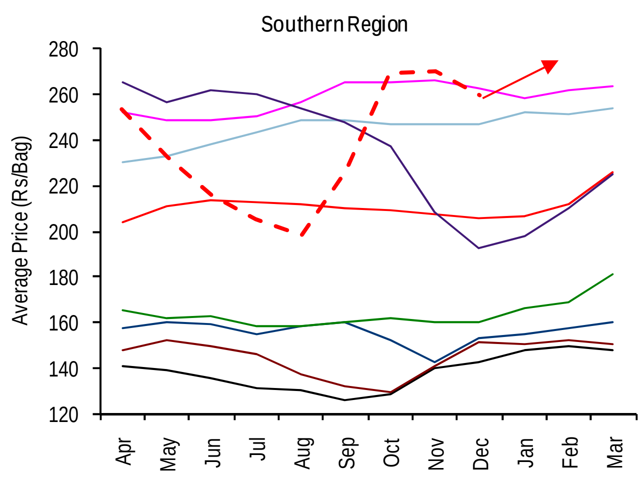
Source: Crisil, MF Global India Research

The graph above depicts the average monthly pan-India cement prices since FY03. It is very clear from this graph, since FY03, that the bechmark pan-India average cement prices at the start of every new fiscal have been higher than that at the start of the previous fiscal. Prices have reacted adversely in the current fiscal, especially Q2FY11 (-7% QoQ on average pan-India). 3QFY11 saw some bounce-back in cement prices (+5% QoQ on average pan-India) and now, cement prices are on a steep recovery mode. Sources already suggest major price hikes (Rs 20-Rs 45 per bag) across various parts of the country. Jan '11 prices are very likely to breach the pink line (2008-09) in the graph and move northwards. We strongly believe that the industry will curtail supply in the next six months to once again see higher average pan-India cement prices than that at the start of the fiscal FY11 (Rs 253/bag). Average pan-India prices for the month of Dec '10 and FY11YTD (Apr-Dec '10) were reported at Rs 236 per bag and Rs 238 per bag, respectively.

Our channel checks suggest a steep price hike of ~Rs 20-Rs 45 per bag across regions, which is a huge price hike. Even with marginal price corrections, average prices for FY12E can be easily up by 5% on a YoY basis over FY11E as assumed in our estimates.

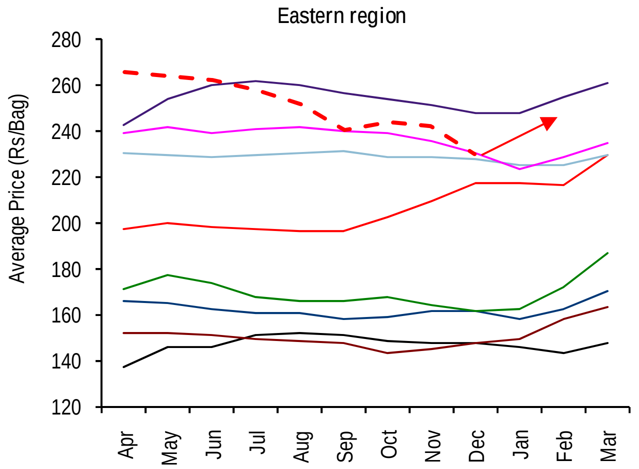
REGIONAL CEMENT PRICES

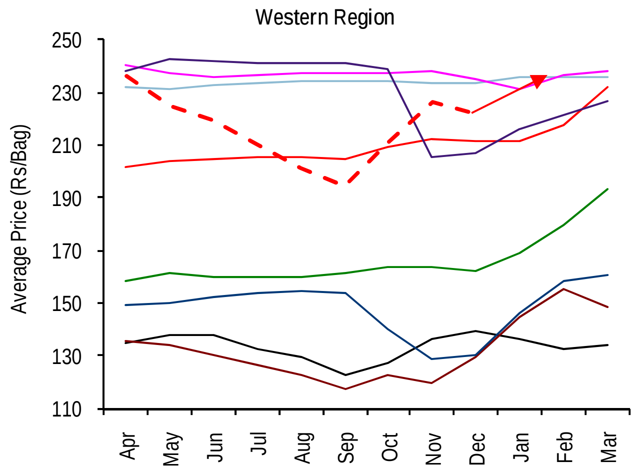


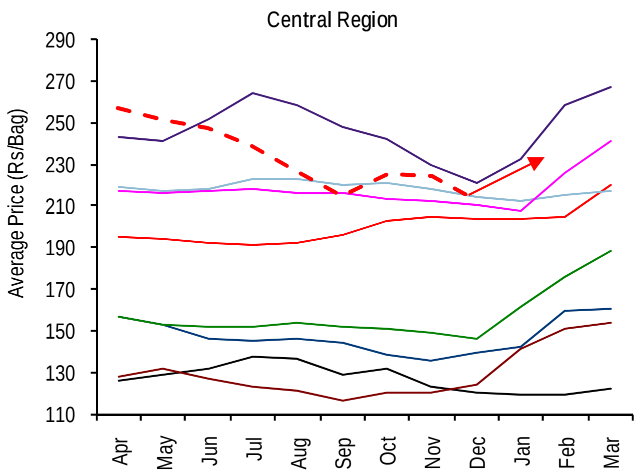


Source: Crisil, MF Global India Research

REGIONAL CEMENT PRICES







__In 3 out of 5 regions (except West and South), the above argument of higher prices at the start of every new fiscal holds true as depicted in these regional price graphs. However, it is also to be noted that both South and West have seen a very sharp recovery in prices in current quarter and we expect our argument to hold true for all the 5 regions in FY12E.__

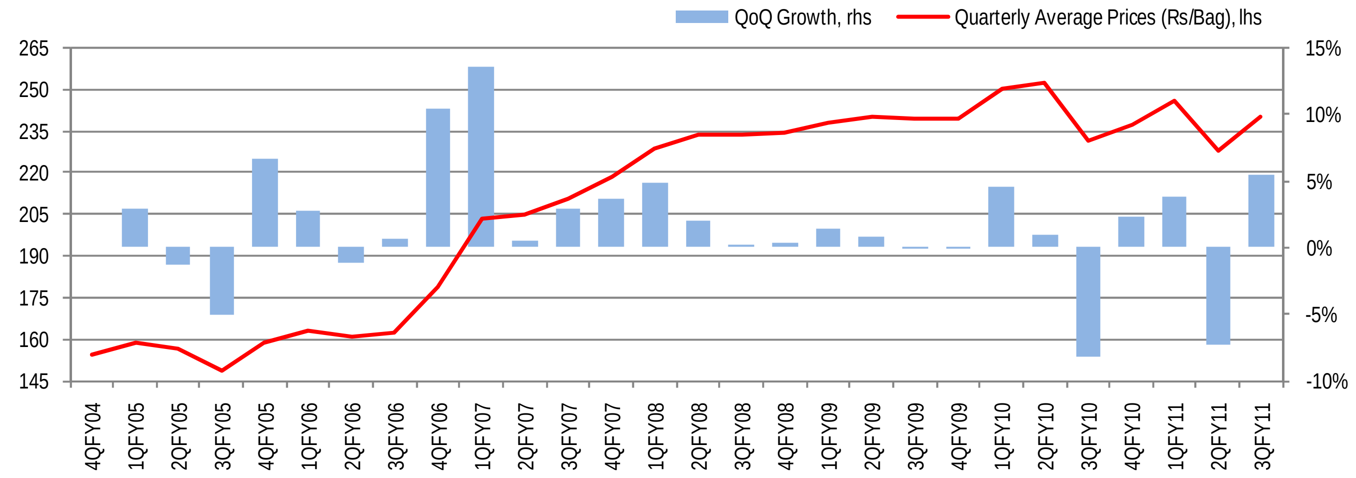
2002-03 2003-04 2004-05 2005-06 2006-07 2007-08 2008-09 2009-10 2010-11

Source: Crisil, MF Global India Research

Again on a regional basis, in three out of five regions (North, East & Central), average cement prices at the start of every new fiscal were higher than that of the previous fiscal. Prices in South India have recovered very sharply and average prices in South India are currently higher than any other region (Rs 260 per bag). We strongly believe that FY12E is likely to see a similar trend in average pricing and prices in April '11 will be higher than the average pricing in the respective region than April '10.

Quarterly average price movement

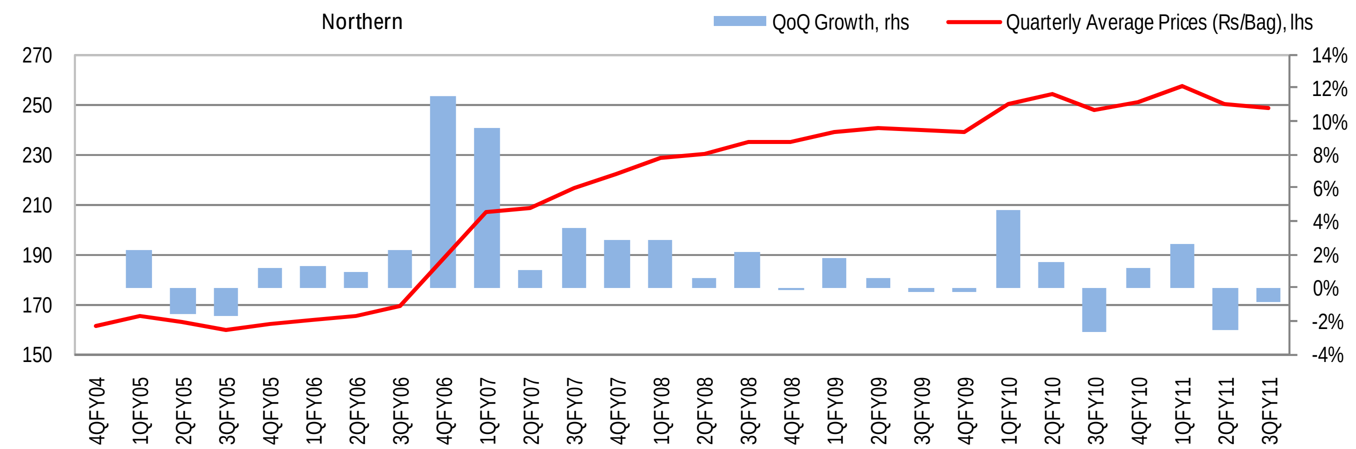
ALL INDIA



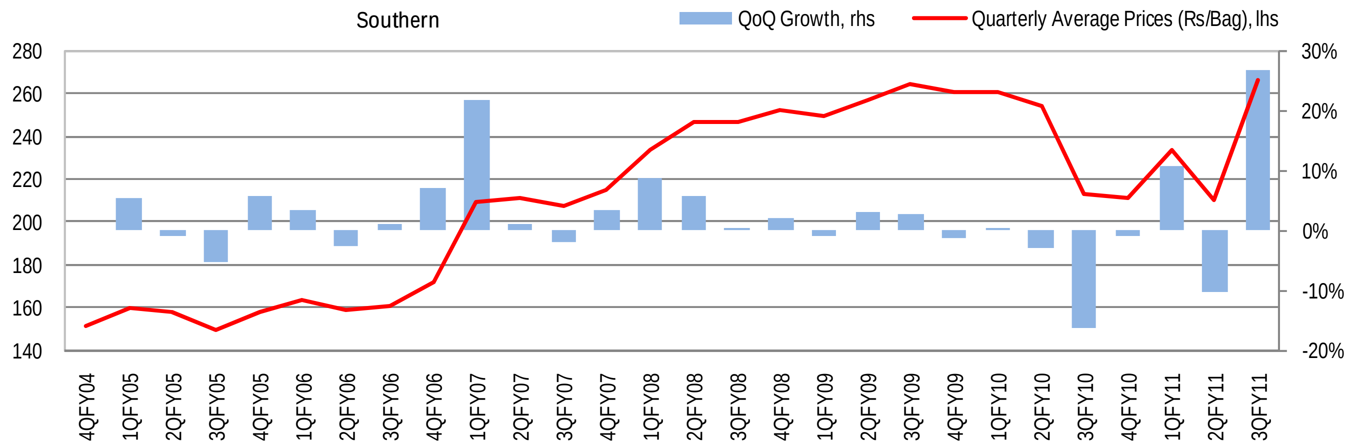
Source: Crisil, MF Global India Research

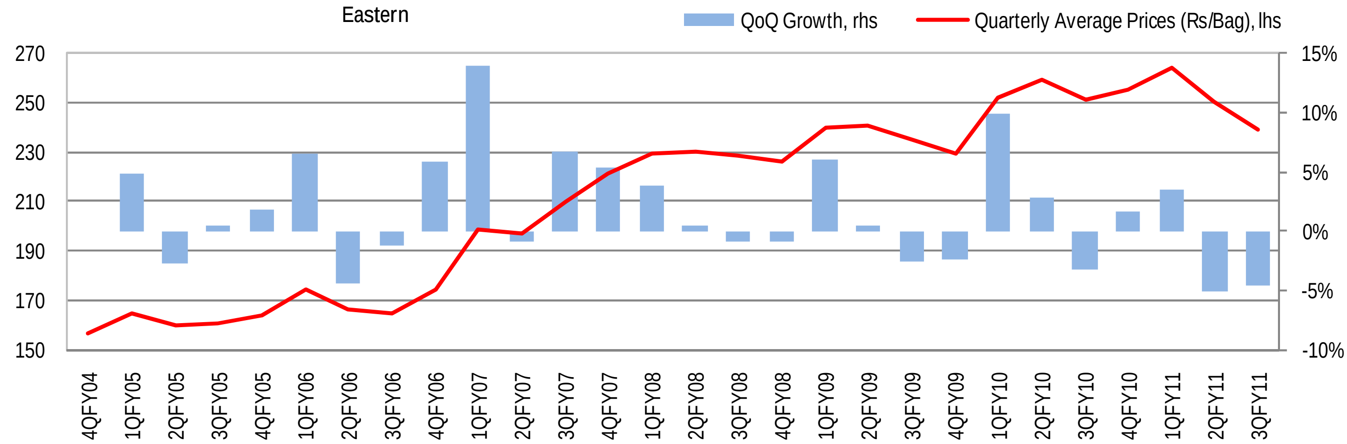
In the last seven years (28 quarters), average pan-India cement prices have seen pricing corrections on a sequential basis in only five quarters. Of these, the corrections were in the second quarter of the fiscal three times, and twice, the corrections were in the third quarter of the fiscal. Between Q2FY06 and Q3FY10, there has not been a single instance when average pan-India quarterly prices have corrected on a sequential basis. 1Q and 4Q have been the quarters to report maximum price upticks. We expect a similar trend in the current Q4FY11 and Q1FY12. A disciplined approach in the monsoon, with no significant capacities due to be commissioned in FY12E, can be a further support to pan-India average cement prices.

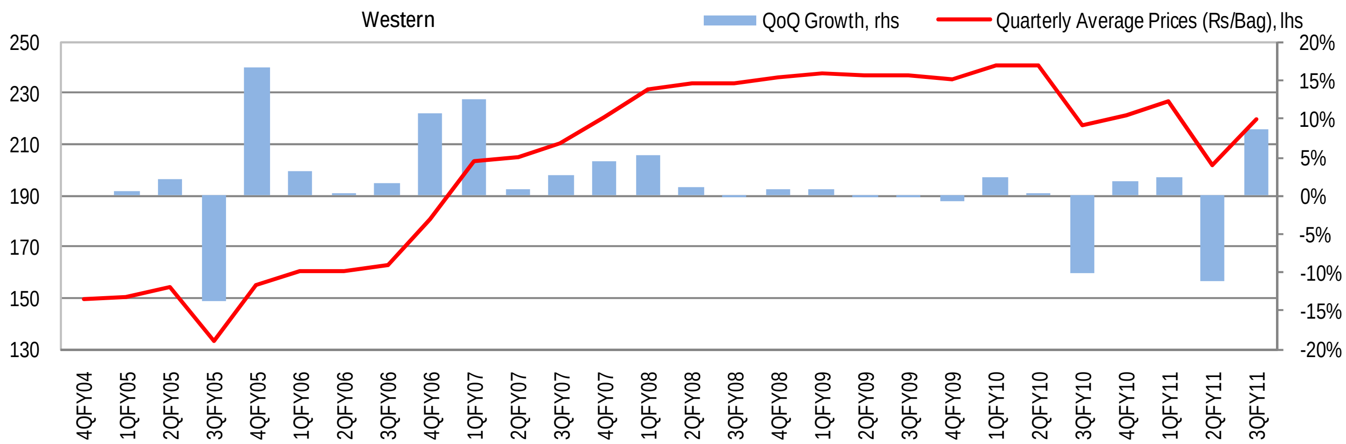
The following charts highlights the regional trend of quarterly average cement prices:



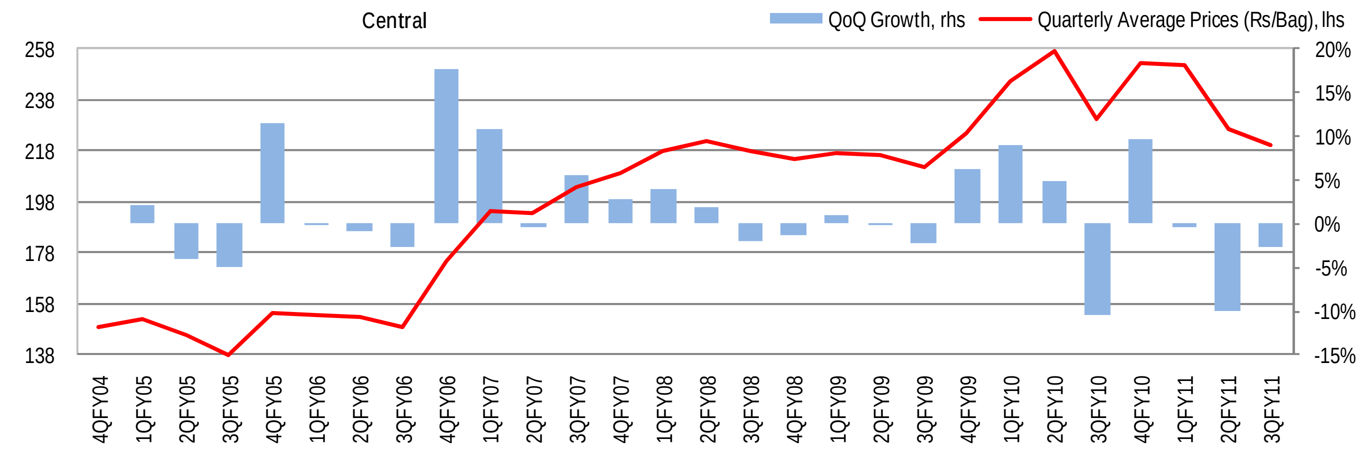
Source: Crisil, MF Global India Research







Source: Crisil, MF Global India Research



Source: Crisil, MF Global India Research

The following table summarises the number of times prices corrected/increased in a quarter on a sequential basis (QoQ) in the last seven years (28 quarters).

QUARTER WISE INCREASE / DECREASE IN CEMENT PRICE ON SEQUENTIAL BASIS FOR THE LAST 7 YEARS

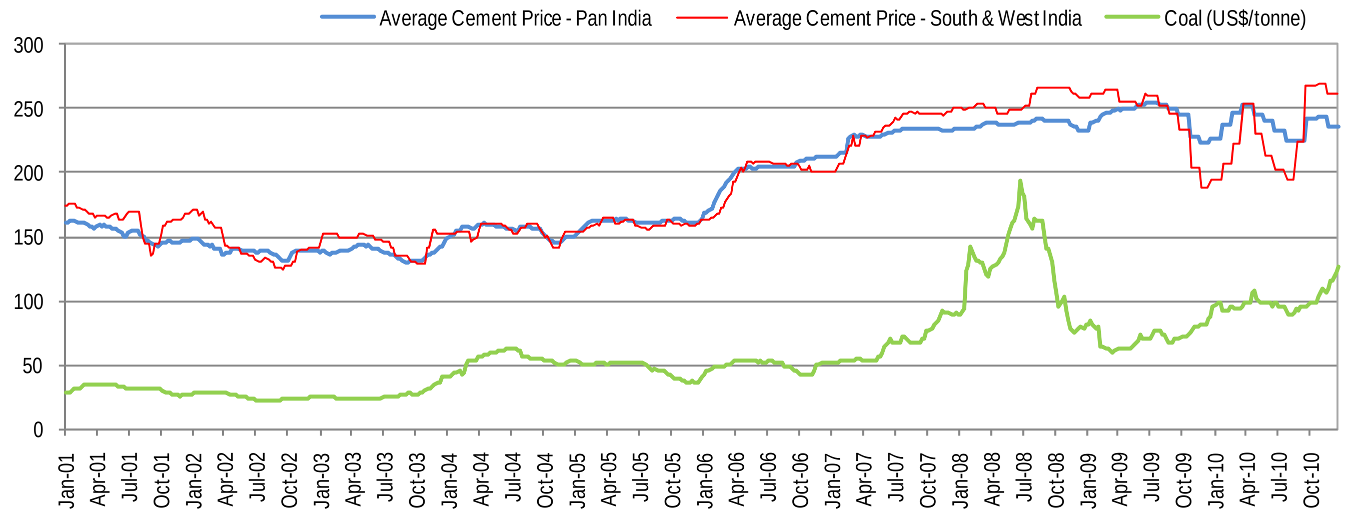
DECREASE (TIMES) - QOQ	1Q	2Q	3Q	4Q	TOTAL
ALL INDIA		3	2		5
NORTH		2	3		5
SOUTH	1	4	3	2	10
WEST		1	2	1	4
EAST		4	5	2	11
CENTRAL		3	6	1	10
INCREASE (TIMES) - QOQ	1Q	2Q	3Q	4Q	TOTAL
ALL INDIA	7	4	5	6	22
NORTH	7	5	4	6	22
SOUTH	6	3	3	5	17
WEST	7	6	4	6	23
EAST	7	3	2	4	16
CENTRAL	7	4	1	5	17

Source: Crisil, MF Global India Research

As we can see, it's only once in the last 28 quarters across regions that prices have corrected in 1Q - in the South in Q1FY09. 27/28 times cement prices have show a increase in 1Q. 4Q remains another strong season where we have seen maximum price hikes. Hence, we strongly believe that the pricing outlook for the next six months remains very bullish and given the kind of discipline we are currently observing, price hikes are definitely on the cards.

Price hikes to absorb the fuel cost push

INTERNATIONAL COAL VS AVERAGE CEMENT PRICE



Source: Bloomberg, Crisil, MF Global India Research

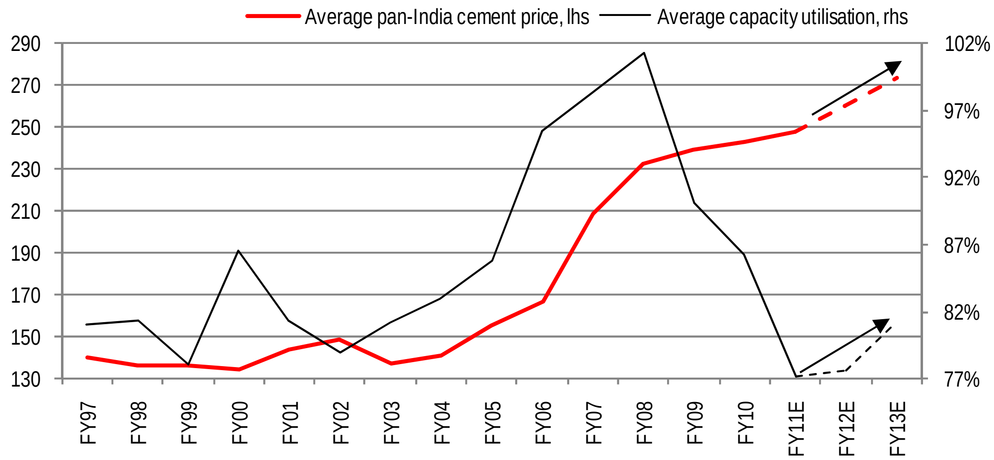
South India and West India are two regions that are highly dependent on international coal for their fuel requirements on account of closer proximity to coastal areas. Cement players could not hike prices sufficiently during peak coal pricing (July '08) as cement prices were constantly under scrutiny by the government. The correction in international coal prices was a relief to the industry, but international coal prices have once again started showing an increasing trend.

At the beginning of Q3FY11, international coal prices were at US$ 94 per tonne, which was reported at US$ 126 per tonne (+34%) at the end of the same quarter. However, since January '11, international coal prices have remained fairly range-bound. The last reported fuel cost in the first week of February '11 was at ~US$ 127 per tonne. Power and fuel costs account for ~20%-40% of the total operating cost of a cement manufacturer and a movement from US$ 94 per tonne to US$ 127 per tonne can compress EBITDA/bag by ~Rs 15. However, we believe that the phenomenal price hikes in Q4FY11E (Rs 20 - Rs 45 per bag) across regions will more than absorb this increase in coal prices. We do expect that a strong margin expansion in Q4FY11E is inevitable and we expect the same to sustain in FY12E and FY13E on the back of robust cement pricing.

Average cement prices vs. Average capacity utilisations

Now, let's take a look at the behaviour of pan-India average prices vs. average capacity utilisations in different time horizons. We have classified our analysis in four different scenarios, that is, long-term trend, short-term monthly trend, near-term monthly trend and very-near term monthly trend.

LONG-TERM TREND (FY97 ONWARDS)

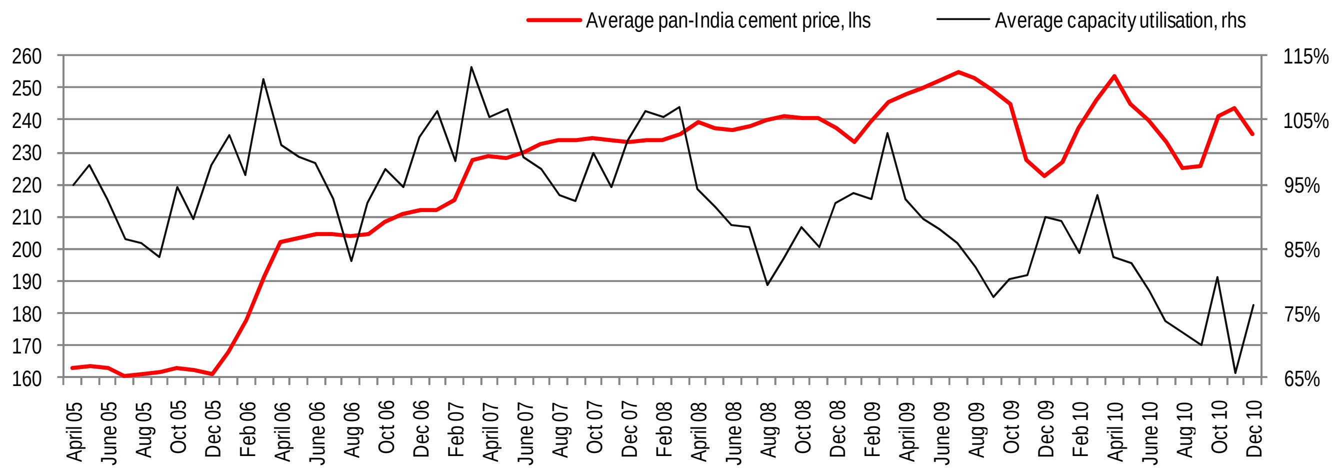


Despite correction in average capacity utilisations, pan-India average prices still holds on in the long term. With improving utilisations, prices can sustain and move upwards from here-on by ~5% on YoY basis.

Source: CMA, Crisil, MF Global India Research Estimates

Considering the long-term trend, FY97-FY11E, average cement prices have more or less followed the path of average capacity utilisations until FY08. FY97-04 saw cement prices remaining largely range-bound (Rs 135-Rs 150 per bag) while average capacity utilisation for the same period ranged between 78%-87%. Post FY04, with lack of capacities, utilisations started to pick up further and cement prices moved in tandem with average capacity utilisations. Rs 220 per bag became the benchmark cement pricing post FY08 and despite the fall in capacity utilisation, cement prices on a pan-India average level failed to correct below this benchmark pricing. However, regional correction was higher (especially in South India). On a pan-India basis surprisingly, we can clearly observe that even with a significant downfall in capacity utilisations, pan-India average pricing failed to correct. Hence we believe that it is not really only capacity utilisation which determines the absolute movement in cement pricing. There can be other factors as well that are qualitative in nature and hence, difficult to predict. We believe that utilisations will start improving from hereon and we expect average pan-India cement prices to show a growth of minimum 5% YoY for the next two fiscals.

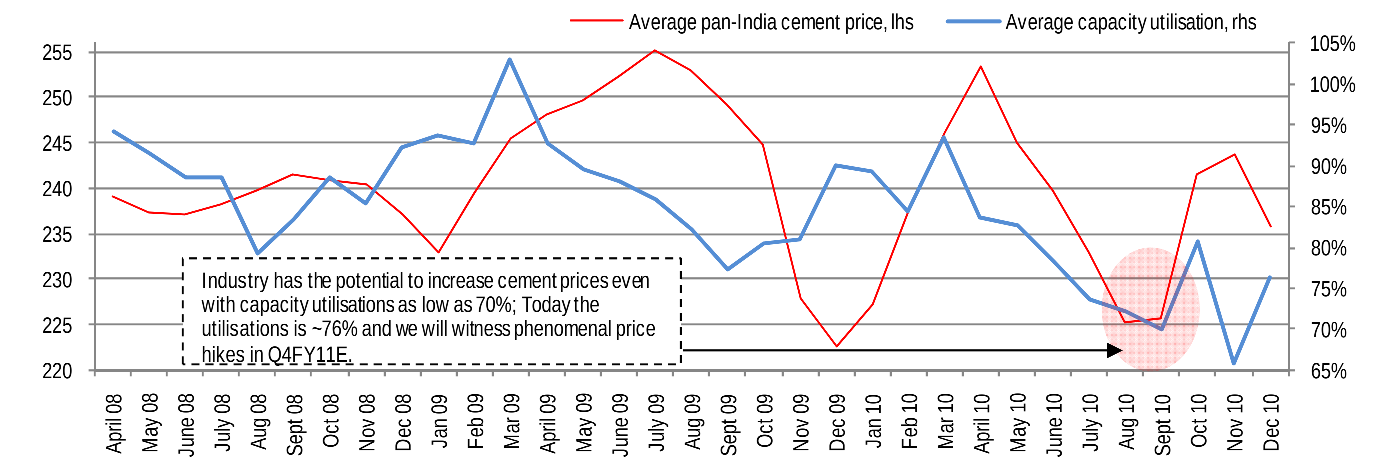
SHORT-TERM MONTHLY TREND



Source: CMA, Crisil, MF Global India Research

Considering the relatively near-term monthly trend (April '05-Dec '10) of average cement pricing, prices started its uptick post Jan '06 and the trend largely continued until Oct '09. Pan-India capacity utilisations ranged between 77%-113% during these months, a too-wide range, but pricing still remained buoyant. This was also a period when there was no significant overcapacity. Post Oct '09, average capacity utilisation ranged between 66%-93%, while pan-India cement prices ranged between Rs 223-Rs 253 per bag. Prices fell and recovered and even with lowest-ever average capacity utilisation since FY93, average cement prices are rising and continue to rise. Hence, even in the short-term monthly trend, we can clearly sense that though average capacity utilisations are a very important indicator, it is not the only factor to rule pricing. Pricing definitely also depends on factors other than capacity utilisations that are largely qualitative in nature.

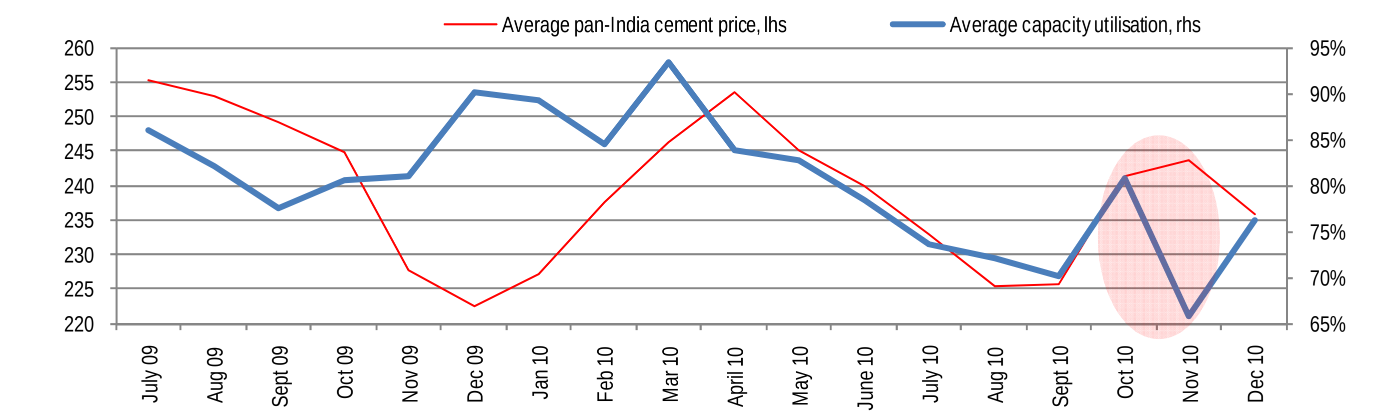
NEAR-TERM MONTHLY TREND (OVERCAPACITY SCENARIO)



Source: CMA, Crisil, MF Global India Research

Squeezing it further and looking at the period of overcapacity (April '08 onwards), average cement prices have definitely been a function of average capacity utilisations on most occassions. However, it is to be noted that average capacity utilisations have touched as low as 65-70% on a monthly basis, but prices have still increased. Even with ~70% utilisations if industry can increase cement prices, it clearly highlights the industry's potential and control over cement pricing. Even in the near-term monthly trend, though capacity utilisations have been an important factor, there have been other factors ruling the cement pricing.

VERY NEAR-TERM MONTHLY TREND (LAST 18 MONTHS)



Source: CMA, Crisil, MF Global India Research

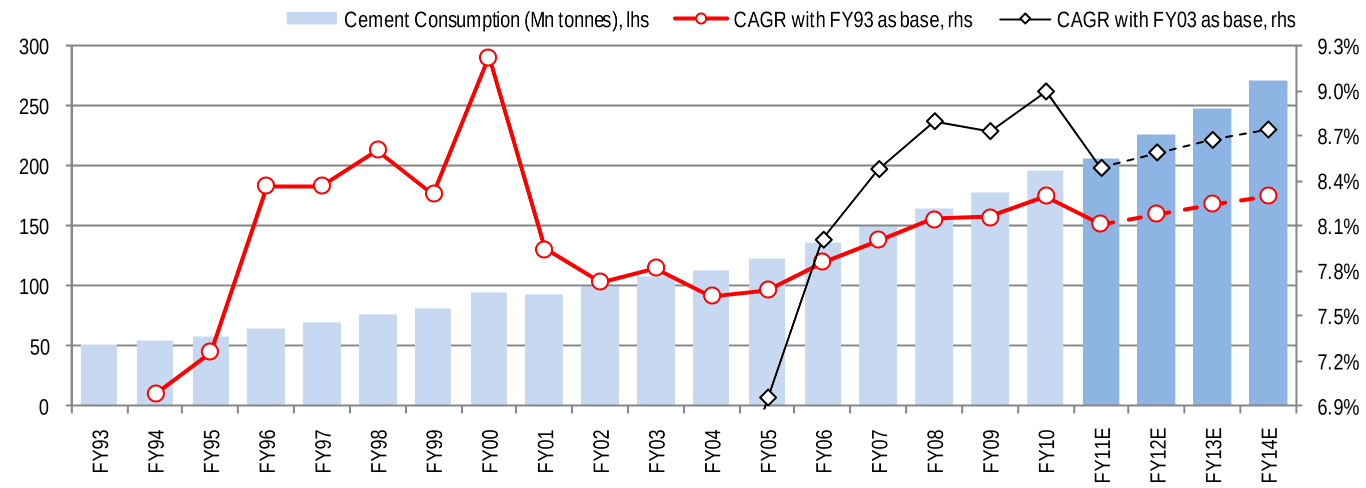
Even in the very near-term monthly scenario, we can clearly see a similarilty between average capacity utilisation and pricing patterns. Prices have remained highly volatile post July ’09 until Sept ’10 as utilisations remained subdued. Despite being volatile, price corrections were significantly lower than correction in average capacity utilisations. Despite lower capacity utilisations, there have been price hikes in the recent past on account of sustained cost push pressures faced by the industry and also on account of dicipline. We believe and foresee a 80%-85% capacity utilisation mark, where prices can be supported and stay firm with marginal upticks. Regional disparities in cement pricing may continue for some more time.

However, we believe that a long-term price call on average pan-India prices becomes much more critical and important at this stage and we expect cement prices to remain strong and firm. Marginal dips and corrections may reoccur, but the same should not be considered as a trend. In our opinion, average pan-india cement prices will see growth of ~5% YoY for the next two fiscals. Historically, on a relative basis, prices have sustained higher levels or have recovered to higher levels, despite significant correction in capacity utilisation. Though there might be similarilty in patterns of movement of average prices and utilisation, there are factors other than average capacity utilisation which also governs the pricing of cement. We have tried to relate cement pricing to other variables as well in our report to try and figure out if there is a correlation between them.

Cement consumption

FY11E – An aberration to the long-term demand trend

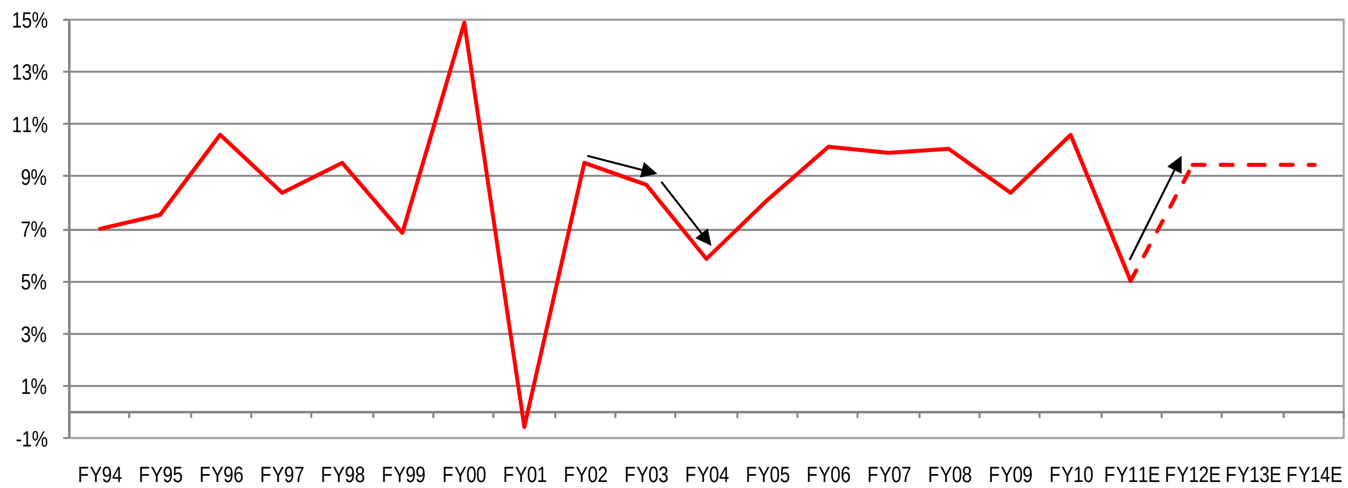
CONSUMPTION CAGR



Source: CMA, Company, MF Global India Research

Since FY93, the Indian cement industry has seen consumption CAGR of 8.3% (FY93-FY10). The CAGR for the period FY03-10 (half of this mentioned long-term period) has been at 9.0%. FY11E is likely to see a drop in the consumption growth rates on account of slowdown in infrastructure spending and reasonably high monsoons. However, keeping in mind the long-term trend of the CAGR, we expect it to gain momentum, in line with its long-term average, over the next three years. We have factored in a consumption growth rate of ~9.4% for the next three years on a YOY basis till FY14E.

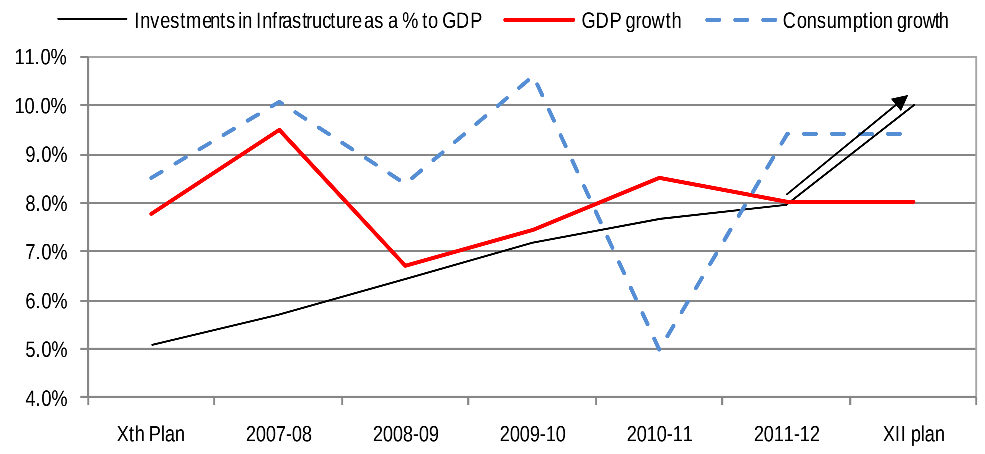
CONSUMPTION GROWTH – YOY



Source: CMA, Company, MF Global India Research

Historically since FY94, there has only been one instance where the cement consumption growth rates (on a YoY basis) have dropped two years consecutively (FY02-04). FY01 was an aberration, when consumption growth rate was marginally negative. Otherwise as depicted, FY11E consumption growth rate should clearly be the bottom and history suggests there will be a pick-up in consumption growth rates from here-on. In the previous down cycle (FY99), when capacity utilisation was at 78%, the consumption growth rate on a YoY basis was somewhat similar at 7%. FY00, the subsequent year, saw a significant jump in consumption growth rate at ~15% YoY and capacity utilisations bounced back to 87%. We expect a similar trend in FY12E on the back of increased government spending in infrastructure space.

INVESTMENTS IN INFRASTRUCTURE AS A % TO GDP, GDP GROWTH AND CEMENT CONSUMPTION GROWTH ON A YOY BASIS SINCE XTH FIVE YEAR PLAN



A 3% jump in Investments in Infrastructure as % to GDP is very likely to support the cement demand growth rate. We believe, cement demand can be pulled back to ~10% growth rate very shortly, with the plans made in Infrastructure development.

Source: CMA, Company, MF Global India Research

INVESTMENTS IN INFRASTRUCTURE AS % TO GDP V/S GDP GROWTH V/S CONSUMPTION GROWTH

	XTH PLAN	2007-08	2008-09	2009-10	2010-11	2011-12	XII PLAN
INVESTMENTS IN INFRASTRUCTURE AS A % TO GDP	5.1%	5.7%	6.4%	7.2%	7.7%	7.9%	10.0%
GDP GROWTH	7.8%	9.5%	6.7%	7.4%	8.5%	8.0%	8.0%
CONSUMPTION GROWTH	8.5%	10.1%	8.4%	10.6%	5.0%	9.4%	9.4%

Source: MF Global India Research Estimates

The XII Five Year Plan expects investments in infrastructure, as a percentage of GDP, to increase to 10% (expected at 7% in the XIth Five Year Plan). The average consumption growth rate in cement consumption in the XIth Plan is likely at ~8.7%. We strongly believe that a 3% jump in infrastructure investments in the XIIth Plan should be sufficient enough to pull the cement demand growth rate closer to 10%. Also, we strongly believe that FY11E cement demand is likely to be an aberration to the long-term trend as it is very rare for the cement demand growth rate to fall below the GDP growth rate of the country and which is given in FY11E. There is definitely a potential for the demand to surprise positively in FY12E, given the kind of trends this industry has seen in the past.

Prices vs. Volumes

In this report, we have tried to analyse the behavior of prices as against absolute despatch volumes. Although average capacity utilisation is a very important factor/indicator and prices tend to move in tandem with average capacity utilisations, we have tried to analyse the movement of average prices as against the absolute despatch volumes and try to see if the industry is really able to manage supply in order to maintain prices:

We have bifurcated the recent past into two different periods, as under:

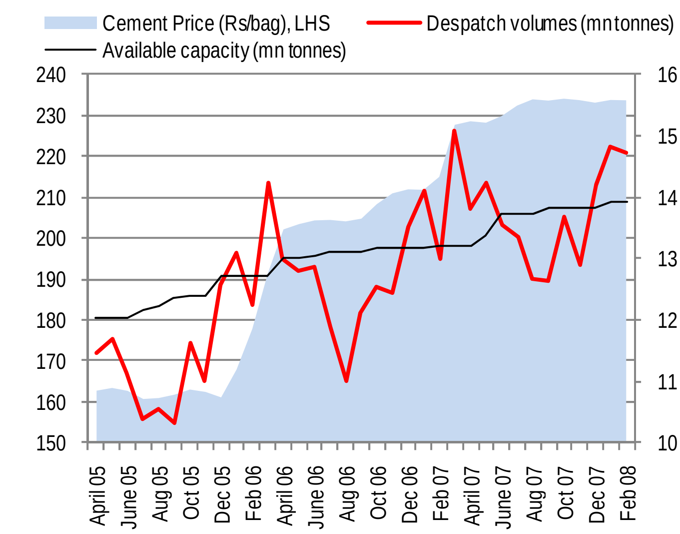
Period I (period of capacity constraint): April '05 - February '08: This was the period when industry faced a capacity constraint and hence, production remained curtailed to the extent of maximum possible production from the available capacity. This is highlighted in Period I below. We can clearly see that average prices kept on increasing as the industry kept on producing the best possible capacity utilisations.

Period II (period of over capacity): March '08 - Dec '10: This period analyses the behavior of the industry as and when capacity started building up, which happened from March '08 onwards. It is very interesting to note and study the Period II graph below. The following are the key observations which one can make out very clearly.

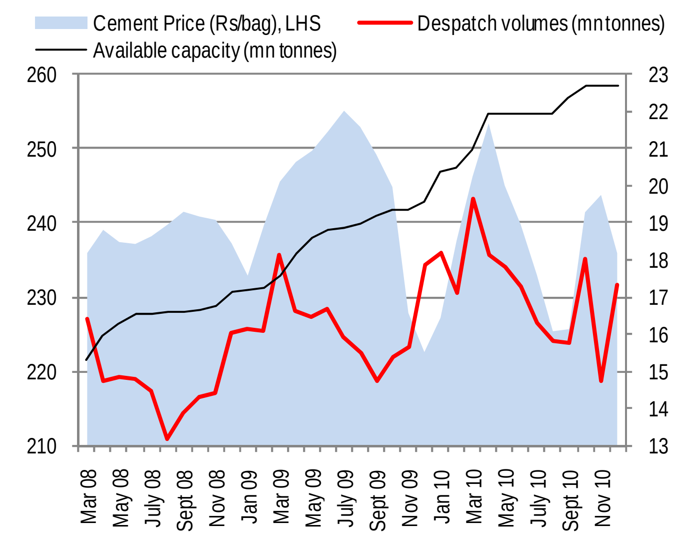
- Most times, the industry observed that the prices are on a spurt, the despatch volumes were curtailed initially in order to support the upward movement.
- As and when the prices increased further, the volumes were increased and the industry has tried at most times to maximize the despatches at higher cement prices.
- Most times, when the industry saw prices correcting, the volumes were also curtailed in order to minimize its impact on profitability.

ALL INDIA

PERIOD I



PERIOD II



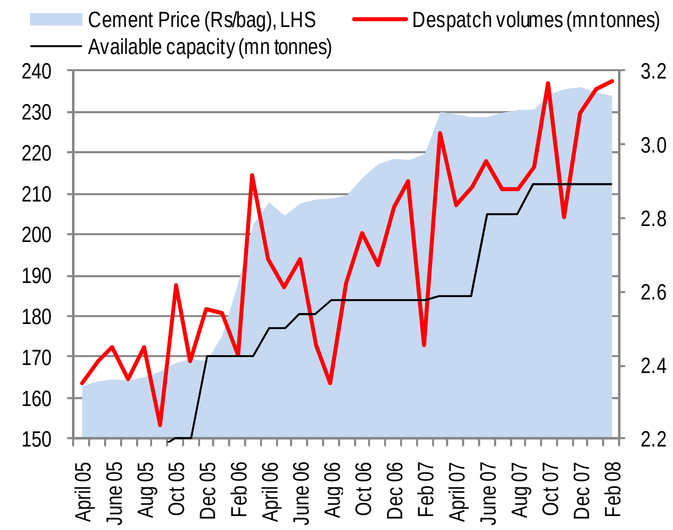
Source: CMA, Company, MF Global India Research

We see that the observations made in period II largely hold true across this period and hence, we can confidently assume that the industry is well placed to manage cement prices as and when required.

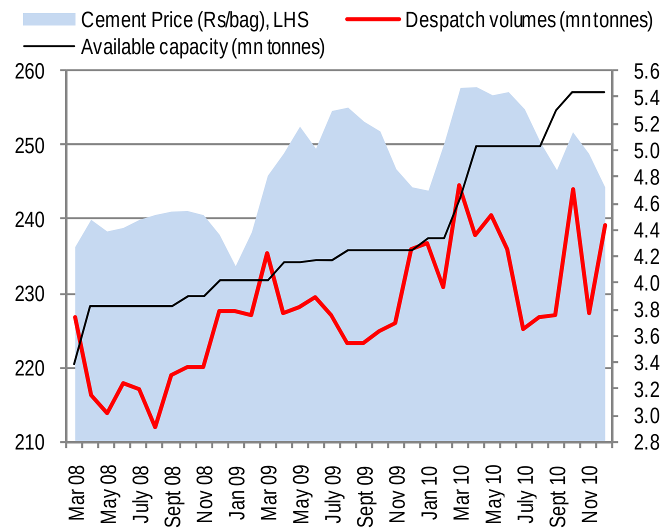
We have tried to analyse the same hypothesis, region-wise, as well and the following are the graphs, if we go on a region-wise basis.

NORTHERN REGION

PERIOD I



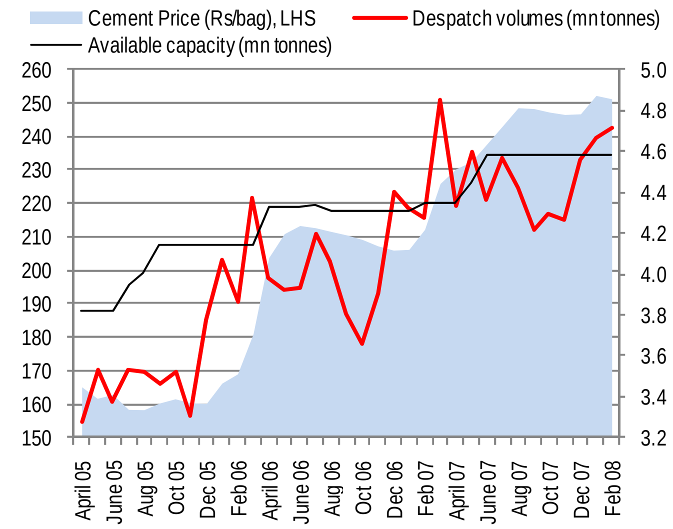
PERIOD II



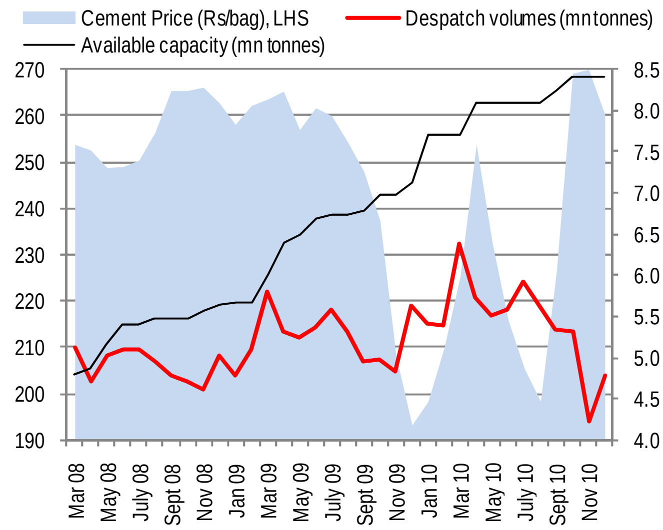
Source: CMA, Company, MF Global India Research

SOUTHERN REGION

PERIOD I



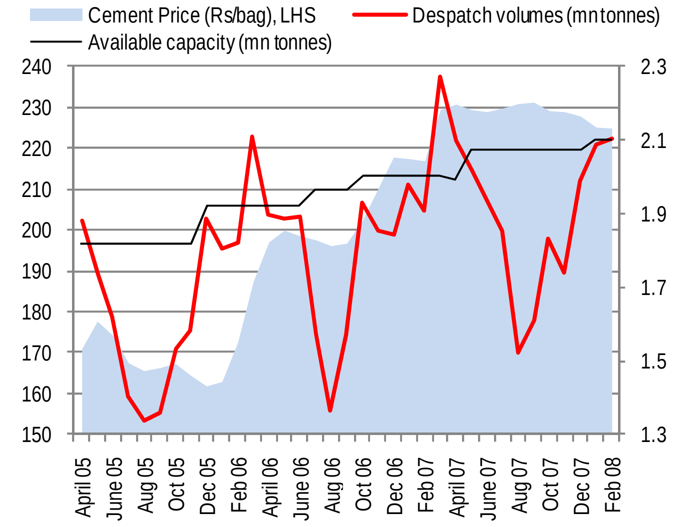
PERIOD II



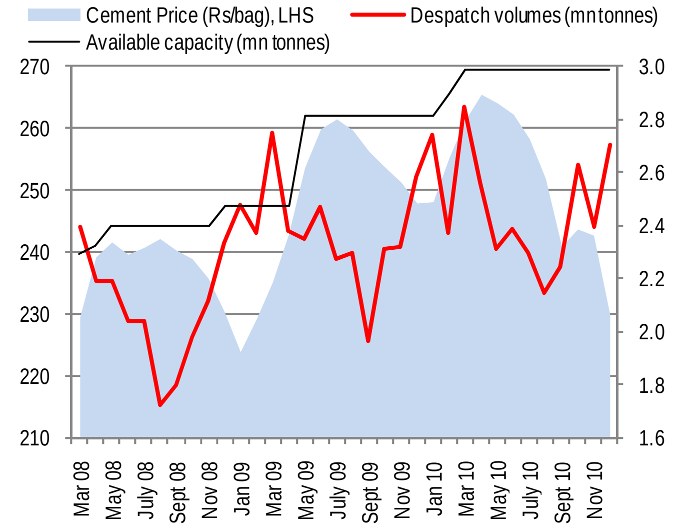
Source: CMA, Company, MF Global India Research

EASTERN REGION

PERIOD I:



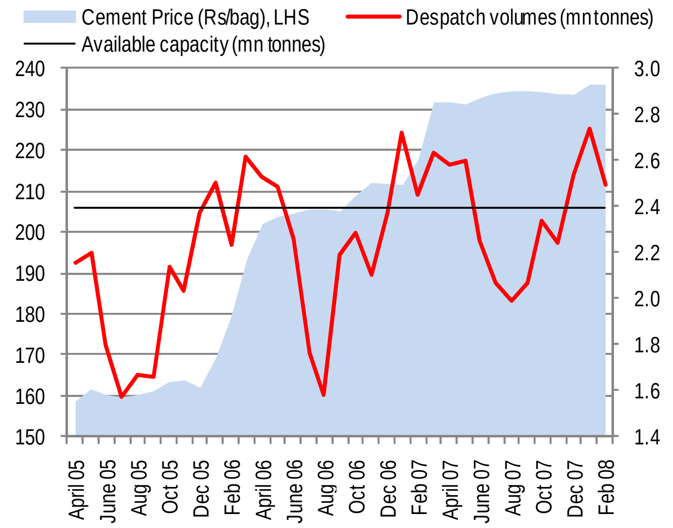
PERIOD II



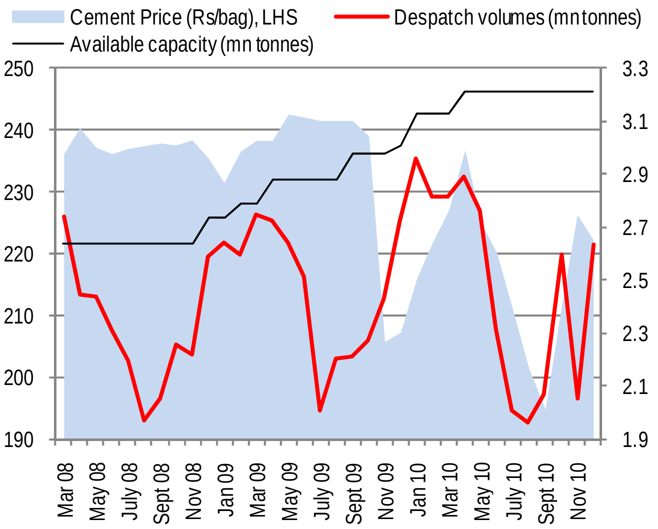
Source: CMA, Company, MF Global India Research

WESTERN REGION

PERIOD I



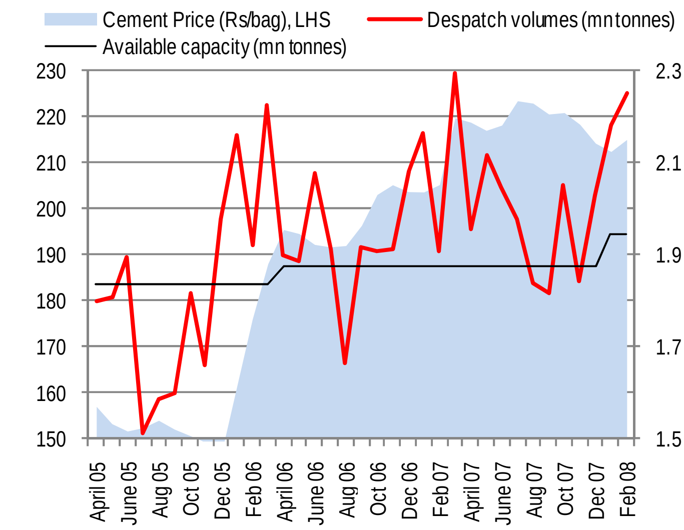
PERIOD II



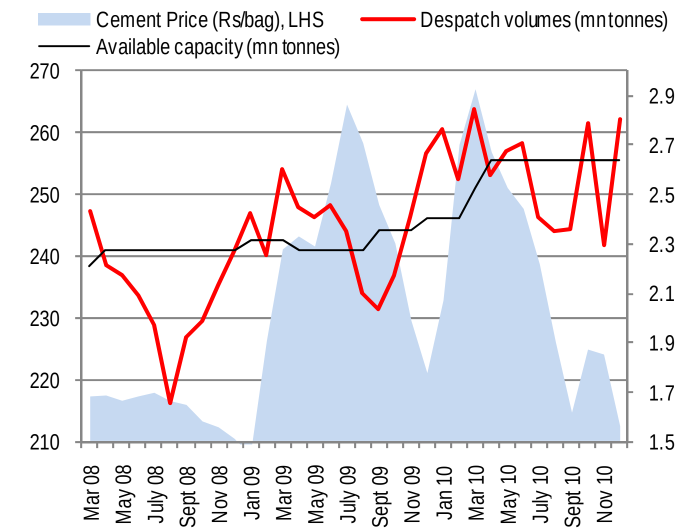
Source: CMA, Company, MF Global India Research

CENTRAL REGION

PERIOD I



PERIOD II



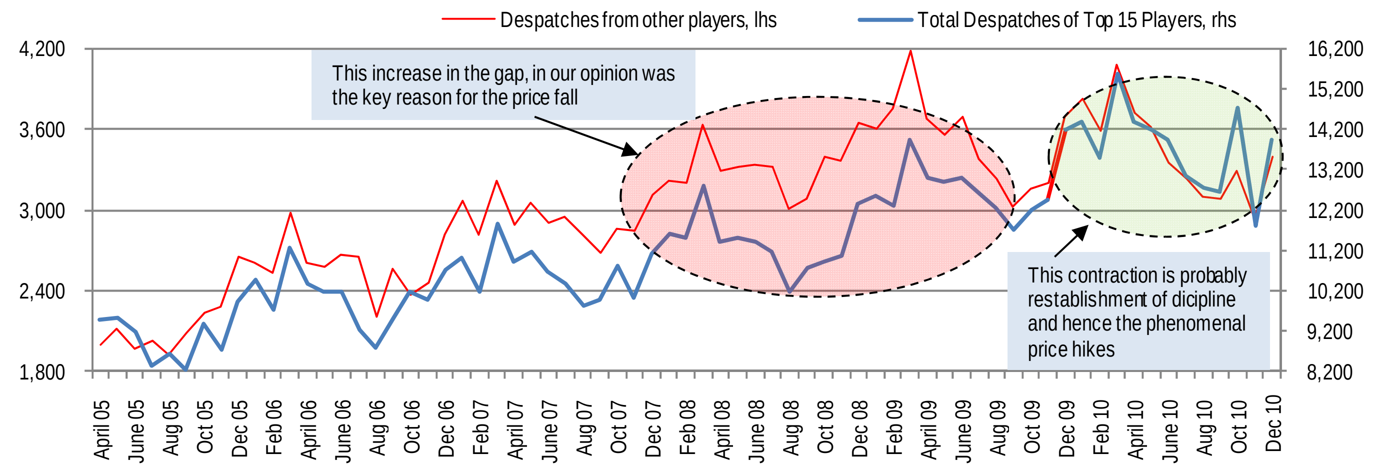
Source: CMA, Company, MF Global India Research

Very clearly, despatches have moved in tandem with cement prices or we can say that pricing and despatches have moved in a similar fashion in the period of overcapacity across regions. There has been a lag effect in some cases, but more or less, we can see that prices have increased whenever the despatches were increased and vice-versa. We strongly believe and expect recovery in despatch volumes with recovery in cement prices across regions.

Player discipline

We also tried to analyse the movement of absolute despatches of the Top 15 players (80% of the industry) vis-à-vis the other cement manufacturers. It is interesting to notice that the despatches of these Top 15 players largely move in tandem with that of other cement manufacturers. The gap widened between December '07 and August '09 as overcapacity started building up and probably this was the key reason for price corrections in the following months. The smaller players continued to increase their supply till August '08 at a relatively higher pace than larger ones (Top 15) and thereafter, the gap started contracting. There could have been lag effects in price corrections as it spoils the entire market sentiments with high inventories, unjustified pricing, production disruptions etc. However, this also proves that it is mainly the larger players who take a hit on their despatches in order to observe discipline in the market. As prices have started bouncing, the movement has once again become absolutely similar (Infact better than the period when there was a capacity constraint (April '05 – March '08) between both these categories of players and the kind of discipline we are observing today is absolutely unprecedented and extraordinary.

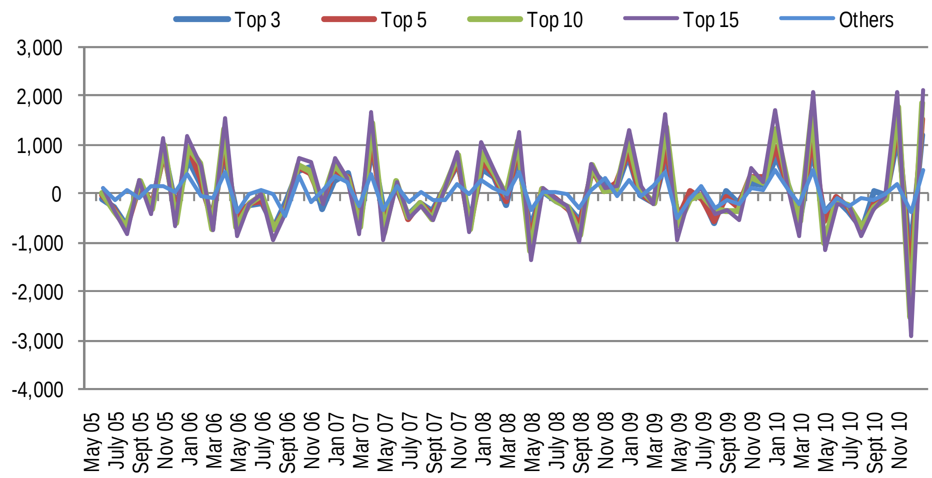
MOVEMENT OF ABSOLUTE DESPATCHES OF TOP 15 V/S OTHER PLAYERS



Source: CMA, Company, MF Global India Research

We have also tried to plot the incremental despatches of cement manufacturers by categorizing players into different categories, that is, Top 3, Top 5, Top 10, Top 15 and others. Again, we find that the incremental despatches across all these categories move in tandem, which gives a clear indication that the industry (atleast the Top 15) behaves in a cohesive way in order to maintain discipline in the market place. The pattern we observe in the incremental despatches of these Top 15 players is absolutely unmatched. Obviously, there would be few players who may try and break this discipline, but largely this discipline has stayed in place and this is the only key reason, which we believe makes price hikes possible even at the bottom of the cycle.

INCREMENTAL DESPATCH PATTERN OF THE TOP 15 PLAYERS ('000 TONNES)

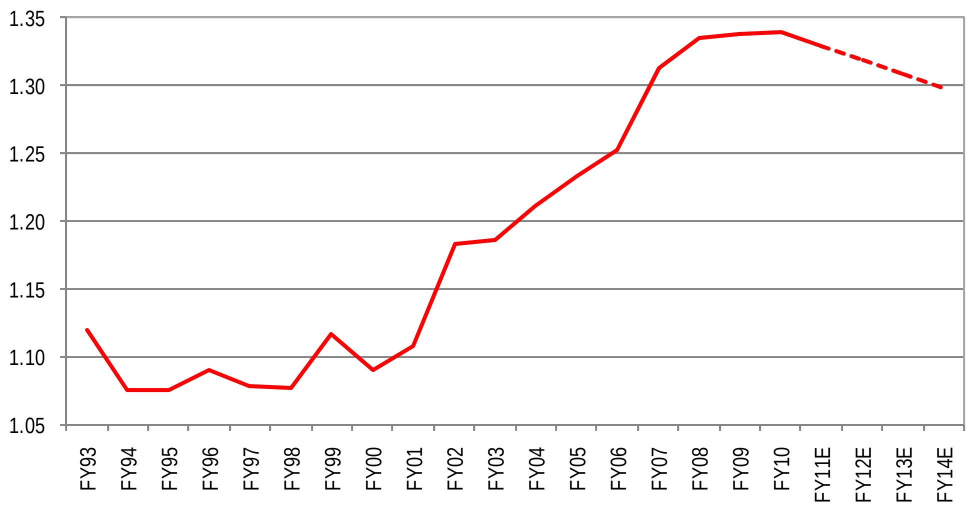


All Top 15 players of the industry move absolutely in tandem in terms of their incremental despatches on MoM basis. The discipline we have observed here is unparalleled and extraordinary.

Source: CMA, Company, MF Global India Research

Correction in blending ratio can be another big support to the demand-supply matrix

CEMENT: CLINKER, X



A correction in blending ratio can be a huge relief to the industry. At 1.27-1.28x the industry can possible absorb a further ~10mn tonnes of clinker capacity. Conversation with most cement manufacturers clearly indicate a intent to cut down on this ratio.

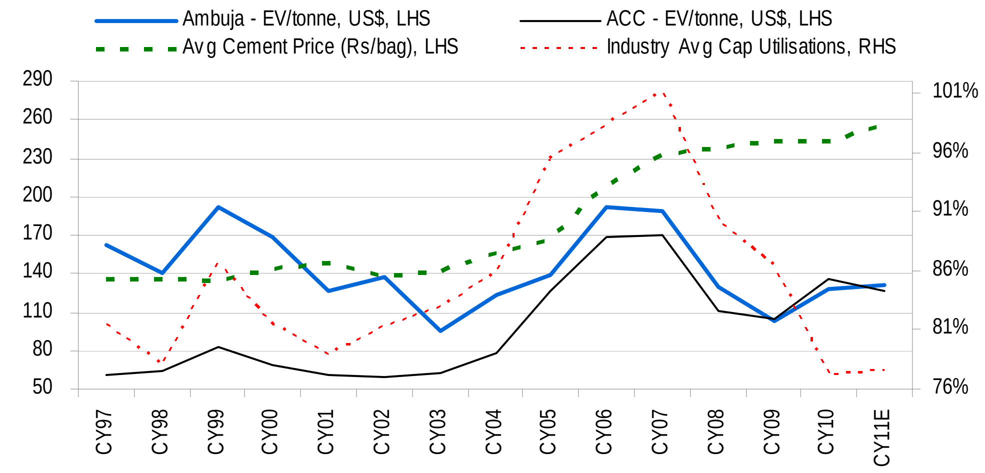
Source: CMA, Company, MF Global India Research Estimates

Lack of adequate capacity and increasing demand forced the Indian cement industry to blend higher to meet the demand. Historically, this ratio has been substantially lower, ranging from 1.08x-1.21x. However, with the increasing demand and inadequate capacity to service this demand, the blending ratio gradually started increasing. Today, this ratio has increased to 1.34x. However, the increasing cost of fly ash and overcapacity is likely to make the industry reconsider this blending ratio. Though the ratio may not come down to as low as 1.20x, we believe that the ratio will gradually start correcting and the industry should settle somewhere at 1.27-1.28x. At 1.28x, from the current 1.34x, it should help the industry to absorb ~10mn tonnes of clinker capacity and thereby further stabilise kiln productions.

Cyclical comparisons of EV/tonne valuations of ACC & Ambuja

In the graph below we have plotted average EV/tonne of ACC and Ambuja (Rolling 1-year forward) since CY97 vs. movement in average pan-India cement prices and average pan-India capacity utilisations.

CYCLICAL COMPARISONS OF EV/TONNE VALUATIONS FOR ACC LTD. AND AMBUJA CEMENTS



Average valuations of ACC and Ambuja were ~39% above replacement cost in the previous bottom. In the current bottom average valuations of ACC and Ambuja are ~7% above replacement cost. This clearly implies potential of upside on stock valuations.

Source: Company, Crisil, CMA, MF Global India Research Estimates

Considering the long term cycle, since CY97, EV/tonne valuations of cement majors ACC and Ambuja have clearly followed the path of average pan-India capacity utilisation until late CY09. Average capacity utilisations were the key driver for EV/tonne valuations of these majors. Ambuja traded at a premium to ACC on account of higher profitability margins. With margins getting closer, valuations contracted and both ACC and Ambuja came closer on valuations.

However, post CY09, EV/tonne valuations failed to correct in line capacity utilisations as utilisations corrected below 80% levels. This is where we believe, the pricing factor came into play and cement companies continued to command higher valuations (relative to average capacity utilisations) in anticipation of price hikes. Average capacity utilisations continued to correct but average pan-India pricing, in our opinion holded the valuations.

Going forward, we strongly believe, pricing will play a key factor in determining EV/tonne valuations for cement manufacturers.

Undoubtedly the Indian cement manufacturers have a very strong understanding and can manage production cuts in order to control pricing, as seen in the recent past. Obviously, with increasing costs, price hikes was the only rescue to cement manuufacturers to protect margins. Also to reach the target capacity of 600mtpa by 2020, industry expects a minimum EBITDA range of Rs800-1000/tonne. Events like Holcim (ACC and Ambuja) moving out of the Cement Manufacturers' Association (CMA) and discontinuation of publication of monthly statics by CMA on amonthly basis since January' 11 gives these players and the association complete freedom to manage the capacities as per their wish and necessities as data tracking on monthly basis at industry level will become a fairly impossible task.

EV/tonne valuations of cement manufacturers can go for a toss in two scenarios currently:

» **Cement pricing remains subdued:** EV/tonne valuations can get hugely impacted if cement prices goes for a toss. However, we strongly believe it is very unlikely that cement prices will correct from here-on. We say so, on account of the unprecedented dicipline and slow down in capacity addition in FY12E. All the recent price hikes are clear example of the cohesive behavior of cement price hikes even in a scenario when demand growth is fairly sub dued and when utilisations are at an all time low levels.

» **Unprecedented cost pressures:** Industry has been facing huge cost pressures, especially on fuel prices. However, the recent price hikes (4QFY11E) will more than offset these cost push for cement manufacturers, Given the understanding of cement manufacturers, we strongly believe any further cost hikes from here-on will be passed on to the consumers. Valuations can go for a toss if the industry is unable to pass on the cost hikes.

With the very sharp uptick in cement prices we do expect the valuations to expand further.It is to be noted as valuations are benchmarked to the the replacement cost, replacement cost in the previous down cycle was at ~US$80/tonne and which in the current bottom is a minimum of US$120/tonne (+50%).

Average valuations of ACC and Ambuja were ~39% above replacement cost in the previous bottom. In the current bottom average valuations of ACC and Ambuja are ~7% above replacement cost. This clearly implies potential of upside on stock valuations.

Taking ACC as an example, EBITDA/tonne of ACC was reported at ~Rs386/tonne in CY98/FY99 (the previous bottom). In CY10 (current bottom of cycle), ACC reported a blended EBITDA of Rs724/tonne (+88% than the previous bottom) and which was dragged mainly by two bad quarters in CY10 (Q3 and Q4). With steep price hikes Q1CY11 onwards, EBITDA/tonne expansion of ACC is clearly visible and is likely to see a expansion of minimum of 22% on YoY basis in CY11E. These EBITDA/tonne expansions are still not fully factored in the valuations of most cement stocks as the sustainability of the same gets questioned. However, witnessing the unprecendented discipline amongst manufacturers, we strongly believe further expansion in valuation multiples is very likely. Average valuations for ACC and Ambuja still post a 32% upside if we compare the same to the previous bottom of the cycle.

Regional section

The Indian cement industry is largely divided into five different regions, that is, North, South, East, West & Central. The following summarizes a region-wise snapshot of players and installed capacity as on December 2010 before we review each region individually.

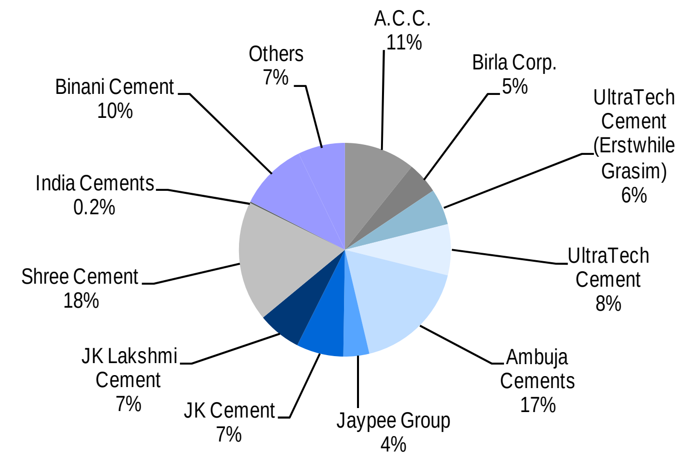
		CAPACITY (MTPA)						% CAPACITY				
RANK	PLAYER NAME	SOUTH	NORTH	WEST	EAST	CENTRAL	TOTAL	SOUTH	NORTH	WEST	EAST	CENTRAL
1	ULTRATECH CEMENT LTD.	12.6	11.1	12.8	6.6	5.6	48.7	26%	23%	26%	14%	11%
2	ACC LTD.	10.0	5.9	1.0	6.0	4.5	27.4	36%	22%	4%	22%	16%
3	AMBUJA CEMENTS	-	10.4	9.1	3.9	1.5	25.0	-	42%	37%	16%	6%
4	JAYPEE GROUP	-	3.9	2.7	-	10.5	17.1	-	23%	16%	-	61%
5	INDIA CEMENTS	13.0	1.8	1.1	-	-	15.9	82%	11%	7%	-	-
6	MADRAS CEMENTS	11.7	-	-	1.0	-	12.7	92%	-	-	8%	-
7	SHREE CEMENT	-	12.0	-	-	-	12.0	-	100%	-	-	-
8	DALMIA CEMENT	9.0	-	-	-	-	9.0	100%	-	-	-	-
9	CHETTINAD CEMENT	8.2	-	-	-	-	8.2	100%	-	-	-	-
10	CENTURY TEXTILES	-	-	1.9	2.1	3.8	7.8	-	-	24%	27%	49%
11	JK CEMENT LTD.	3.0	4.5	-	-	-	7.5	40%	60%	-	-	-
12	KESORAM INDUS.	7.3	-	-	-	-	7.3	100%	-	-	-	-
13	LAFARGE INDIA(P) LTD	-	-	-	6.5	-	6.5	-	-	-	100%	-
14	PENNA CEMENT	6.5	-	-	-	-	6.5	100%	-	-	-	-
15	BINANI CEMENT	-	6.3	-	-	-	6.3	-	100%	-	-	-
16	BIRLA CORP. LTD.	-	2.0	-	1.6	2.2	5.8	-	35%	-	28%	38%
17	OCL INDIA LIMITED	-	-	-	5.3	-	5.3	-	-	-	100%	-
18	ORIENT PAPER INDUS.	3.0	-	2.0	-	-	5.0	60%	-	40%	-	-
19	JK LAKSHMI CEMENT LTD.	-	4.2	0.5	-	-	4.7	-	88%	12%	-	-
20	RAIN INDUS. LTD.	4.0	-	-	-	-	4.0	100%	-	-	-	-
21	ZUARI CEMENT LTD.	3.4	-	-	-	-	3.4	100%	-	-	-	-
22	MY HOME INDUS. LTD.	3.2	-	-	-	-	3.2	100%	-	-	-	-
23	HEIDELBERG	0.6	-	1.0	-	1.5	3.1	18%	-	32%	-	49%
24	MEHTA GROUP	-	-	2.7	-	-	2.7	-	-	100%	-	-
25	SANGHI INDUS. LTD.	-	-	2.6	-	-	2.6	-	-	100%	-	-
26	MANGALAM CEMENT	-	2.0	-	-	-	2.0	-	100%	-	-	-
27	PRISM CEMENT	-	-	-	-	2.0	2.0	-	-	-	-	100%
28	ANDHRA CEMENTS	1.4	-	-	-	-	1.4	100%	-	-	-	-
29	C.C.I. LTD.	1.0	0.2	-	0.2	-	1.4	71%	14%	-	14%	-
30	SHREE DIGVIJAY	-	-	1.1	-	-	1.1	-	-	100%	-	-
31	CEMENT MANU. CO. LTD.	-	-	-	1.1	-	1.1	-	-	-	100%	-
32	KALYANPUR CEMENT	-	-	-	1.0	-	1.0	-	-	-	100%	-
33	TAMIL NADU CEMENT	0.9	-	-	-	-	0.9	100%	-	-	-	-
34	K.C.P. LTD.	0.7	-	-	-	-	0.7	100%	-	-	-	-
35	MALABAR CEMENT	0.6	-	-	-	-	0.6	100%	-	-	-	-
36	PANYAM CEMENTS	0.5	-	-	-	-	0.5	100%	-	-	-	-
37	SHRIRAM CEMENTS	-	0.4	-	-	-	0.4	-	100%	-	-	-
38	KHYBER INDUS.(P) LTD.	-	0.3	-	-	-	0.3	-	100%	-	-	-
39	BAGALKOT UDYOG LTD./KANORIA INDUSTRIES	0.3	-	-	-	-	0.3	100%	-	-	-	-
40	MEGHALAYA CEMENTS LTD.	-	-	-	0.3	-	0.3	-	-	-	100%	-
41	J&K LTD	-	0.2	-	-	-	0.2	-	100%	-	-	-
42	MAWMLUH CHERRA	-	-	-	0.2	-	0.2	-	-	-	100%	-
	TOTAL CAPACITY	100.8	65.3	38.6	35.9	31.6	272.2	37%	24%	14%	13%	12%

Source: CMA, Company, MF Global India Research

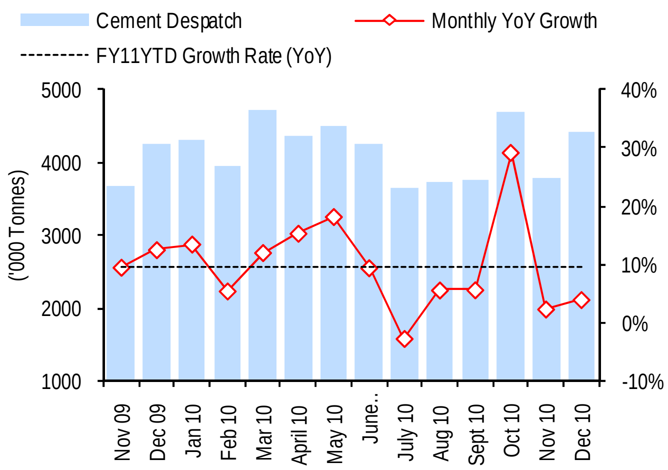
North India

North India is the second largest regional capacity in India. Shree Cement is the market leader in the North, followed by UltraTech Cement and Ambuja Cements. The following graphs and table maps the statistics of the North Indian cement industry and North Indian cement manufactuers.

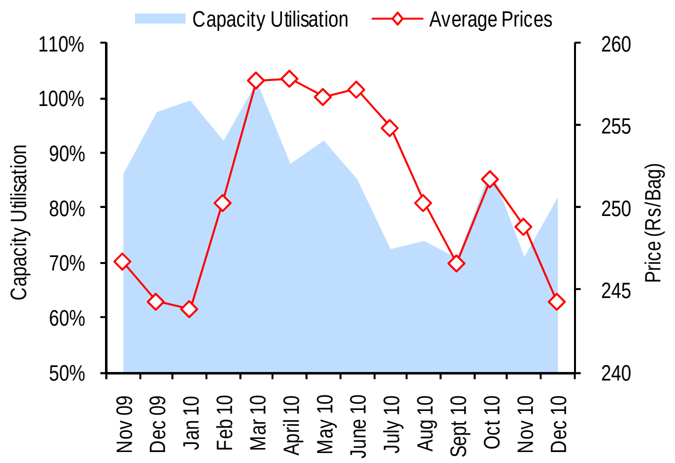
CAPACITY SHARE



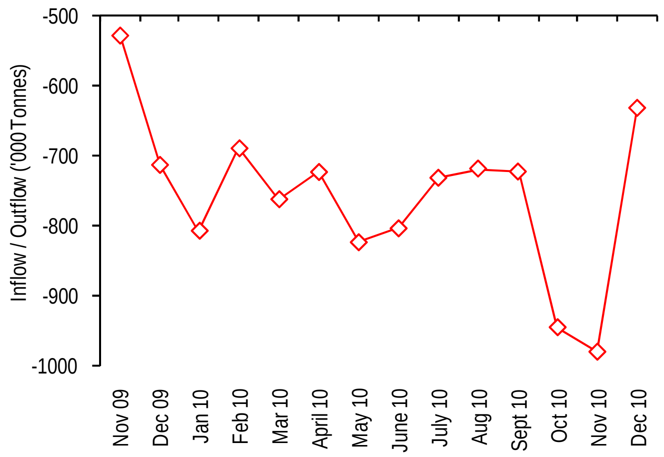
DESPATCH MOVEMENT



AVG. PRICES V/S UTILISATIONS



INTER – REGION TRANSFER (INFLOW(+) / OUTFLOW (-))



PLAYER COUNT (15)

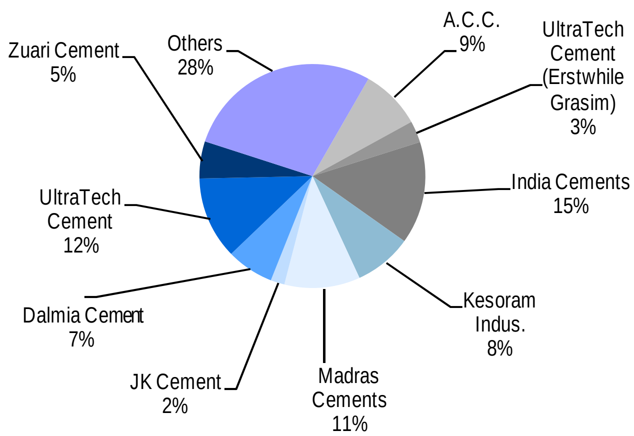
			FY11 YTD					FY10 YTD *					GROWTH			
RANK	PLAYERS	ANNUAL CAPACITY (MTPA)	CAPA-CITY	PROD-UCTION	DES-PATCH	CLINKER PROD-UCTION	CAPACITY UTILI-SATION	AVG CAP-ACITY	PROD-UCTION	DES-PATCH	CLINKER PROD-UCTION	CAPACITY UTILI-SATION	AVG CAPA-CITY	PROD-UCTION	DESP-ATCH	CLINKER PROD-UCTION
1	SHREE CEMENT	12.0	6.8	6.0	6.0	4.8	88%	6.1	5.9	5.9	5.4	98%	12%	1%	1%	-12%
2	ULTRATECH CEMENT LTD.	11.1	7.4	4.7	4.6	3.6	63%	4.3	3.7	3.7	2.7	86%	73%	27%	27%	33%
3	AMBUJA CEMENTS	10.4	7.0	5.4	5.4	2.7	78%	6.0	4.7	4.7	2.6	79%	17%	15%	15%	7%
4	BINANI CEMENT	6.3	4.2	3.4	3.4	3.0	82%	4.0	3.4	3.4	2.9	84%	4%	1%	1%	3%
5	ACC LTD.	5.9	3.9	3.5	3.5	2.6	88%	3.9	3.5	3.5	2.6	90%	0%	-2%	-1%	2%
6	JK CEMENT LTD.	4.5	3.0	2.4	2.4	1.9	80%	3.0	2.6	2.6	2.1	86%	0%	-8%	-8%	-11%
7	JK LAKSHMI CEMENT LTD.	4.2	2.8	2.2	2.2	2.3	78%	2.5	2.3	2.3	2.3	89%	11%	-4%	-3%	2%
8	JAYPEE GROUP	3.9	2.6	2.4	2.2	1.5	92%	0.7	0.6	0.6	-	95%	295%	282%	264%	
9	BIRLA CORP. LTD.	2.0	1.3	1.6	1.6	1.3	121%	1.3	1.5	1.5	1.2	112%	0%	8%	7%	15%
9	MANGALAM CEMENT	2.0	1.3	1.0	1.0	1.0	76%	1.3	1.1	1.1	1.1	85%	0%	-11%	-10%	-11%
11	INDIA CEMENTS	1.8	0.3	0.0	0.0	0.0	10%	-	-	-	-					
12	SHRIRAM CEMENTS	0.4	0.3	0.2	0.2	0.2	87%	0.2	0.2	0.2	0.2	100%	14%	-1%	-1%	0%
13	KHYBER INDUS.(P) LTD.	0.3	0.1	-	-	-	0%	-	-	-	-					
14	C.C.I. LTD.	0.2	0.1	0.1	0.1	0.1	65%	0.1	0.1	0.1	0.1	91%	0%	-28%	-28%	-22%
14	J&K LTD	0.2	0.1	0.1	0.1	0.1	70%	0.1	0.1	0.1	0.1	77%	0%	-9%	-9%	-15%
	TOTAL	65.3	41.3	33.0	32.7	25.0	80%	33.6	29.8	29.6	23.1	89%	23%	11%	10%	8%

Source: CMA, Company, Crisil, MF Global India Research *FY10YTD – (April – December 2009)

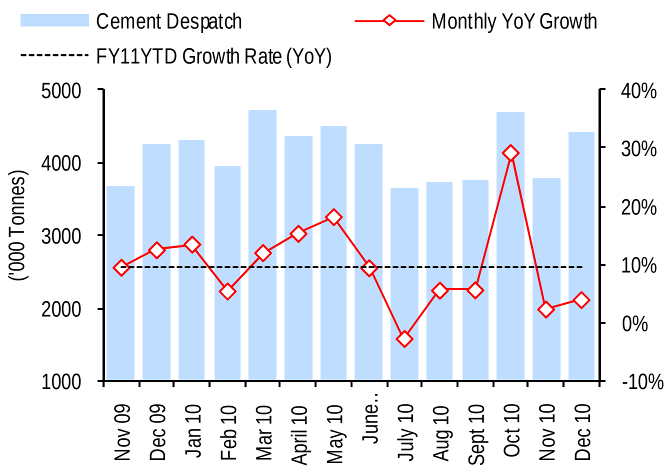
South India

South India is the largest cement capacity in India with more than 100mtpa of capacity. India Cements is currently the largest player in South India. The following graphs and table maps the statistics of the South Indian cement industry and South Indian cement manufactuers.

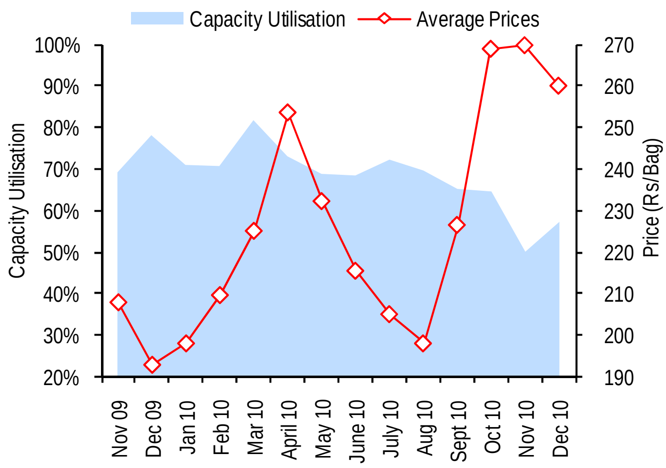
CAPACITY SHARE



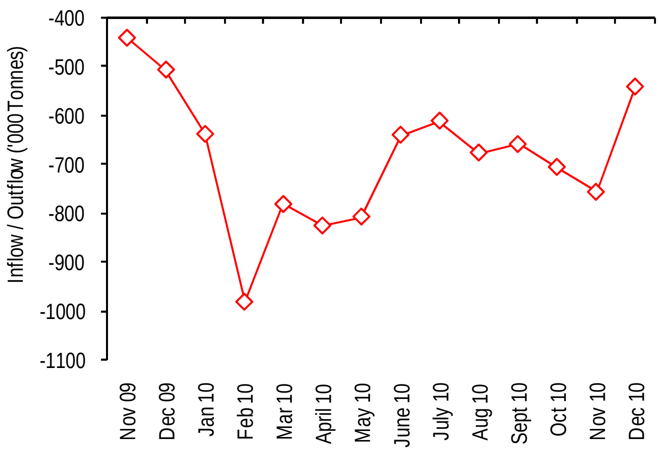
DESPATCH MOVEMENT



AVG. PRICES V/S UTILISATIONS



INTER – REGION TRANSFER (INFLOW(+) / OUTFLOW (-))



Source: CMA, Company, Crisil, MF Global India Research

PLAYER COUNT (21)

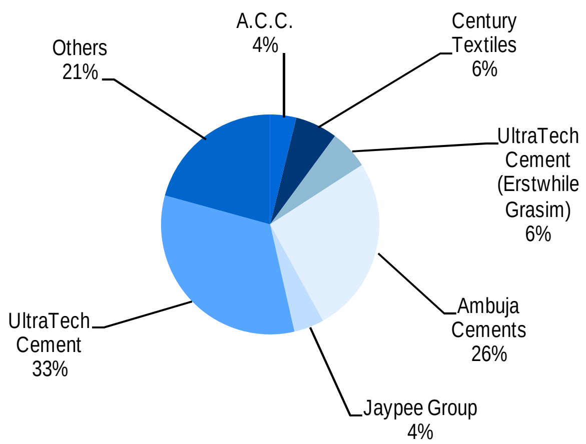
			FY11 YTD					FY10 YTD*					GROWTH			
RANK	PLAYERS	ANNUAL CAPACITY (MTPA)	CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION	CAPACITY UTILISATION	AVG CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION	CAPACITY UTILISATION	AVG CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION
1	INDIA CEMENTS	13.0	9.7	7.1	7.0	5.9	73%	8.6	7.3	7.3	6.5	85%	13%	-3%	-4%	-9%
2	ULTRATECH CEMENT LTD.	12.6	9.5	7.2	7.2	6.8	76%	8.6	6.5	6.4	6.5	76%	11%	11%	12%	5%
3	MADRAS CEMENTS	11.7	8.1	5.3	5.3	4.2	65%	7.2	5.7	5.7	4.4	79%	13%	-7%	-7%	-4%
4	ACC LTD.	10.0	7.5	4.2	4.2	3.2	56%	4.9	4.2	4.2	3.3	86%	52%	0%	0%	-2%
5	DALMIA CEMENT	9.0	6.7	3.3	3.3	2.5	49%	6.3	3.0	3.0	2.5	47%	7%	10%	9%	-2%
6	CHETTINAD CEMENT	8.2	6.1	3.3	3.3	2.6	54%	3.5	2.9	2.9	2.2	83%	75%	14%	14%	17%
7	KESORAM INDUS.	7.3	5.4	4.0	4.0	3.7	74%	4.2	4.1	4.1	4.0	97%	29%	-2%	-2%	-7%
8	PENNA CEMENT	6.5	3.9	2.9	2.9	2.6	75%	3.4	3.0	3.0	2.5	89%	15%	-3%	-4%	4%
9	RAIN INDUS. LTD.	4.0	3.0	1.8	1.8	1.5	59%	3.0	1.7	1.7	1.6	57%	0%	3%	4%	-4%
10	ZUARI CEMENT LTD.	3.4	2.5	2.6	2.6	2.5	102%	2.5	2.4	2.4	2.0	93%	0%	10%	7%	24%
11	MY HOME INDUS. LTD.	3.2	2.4	1.5	1.5	1.5	61%	2.4	2.0	2.0	1.7	83%	0%	-27%	-26%	-11%
12	JK CEMENT LTD.	3.0	2.3	1.0	1.0	0.8	43%	0.0	0.0	0.0	0.0					
12	ORIENT PAPER INDUS.	3.0	2.3	1.5	1.6	2.0	69%	1.8	1.4	1.4	1.6	78%	25%	10%	11%	25%
14	ANDHRA CEMENTS	1.4	1.1	0.2	0.2	0.1	21%	1.1	0.9	0.9	0.5	82%	0%	-75%	-75%	-78%
15	C.C.I. LTD.	1.0	0.7	0.4	0.4	0.4	55%	0.7	0.4	0.4	0.5	57%	0%	-3%	-3%	-19%
16	TAMIL NADU CEMENT	0.9	0.7	0.5	0.5	0.4	77%	0.7	0.5	0.5	0.5	78%	0%	-1%	1%	-6%
17	K.C.P. LTD.	0.7	0.5	0.5	0.5	0.5	109%	0.5	0.6	0.6	0.5	121%	0%	-10%	-10%	-4%
18	MALABAR CEMENT	0.6	0.5	0.4	0.4	0.3	86%	0.5	0.3	0.3	0.2	62%	0%	38%	39%	16%
19	HEIDELBERG	0.6	0.4	0.2	0.1	0.1	35%	0.4	0.1	0.1	0.1	27%	0%	28%	20%	52%
20	PANYAM CEMENTS	0.5	0.4	0.3	0.3	0.2	73%	0.4	0.3	0.3	0.3	78%	0%	-5%	-6%	-22%
21	BAGALKOT UDYOG LTD./KANORIA INDUSTRIES	0.3	0.2	0.1	0.1	0.1	47%	0.2	0.1	0.1	0.1	37%	-2%	23%	20%	-21%
	TOTAL	100.8	73.9	48.3	48.0	41.7	65%	60.9	47.4	47.2	41.1	78%	21%	2%	2%	1%

Source: CMA, Company, Crisil, MF Global India Research *FY10YTD – (April – December 2009)

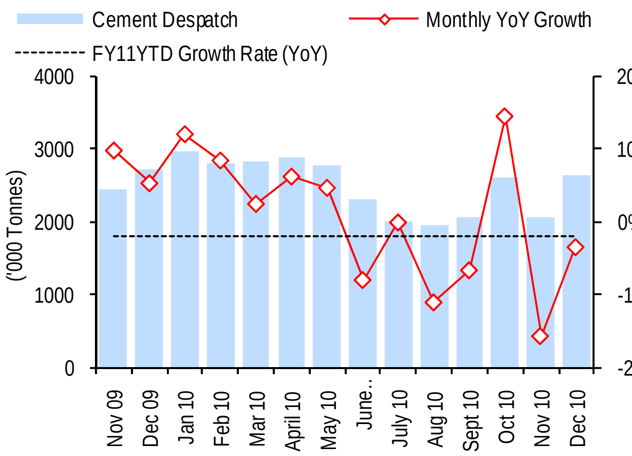
West India

West India is the 3rd largest cement capacity in India with ~39mtpa of capacity. UltraTech Cement and Ambuja Cements are the leading players in West. The following graphs and table maps the statistics of the West Indian cement industry and West Indian cement manufactuers.

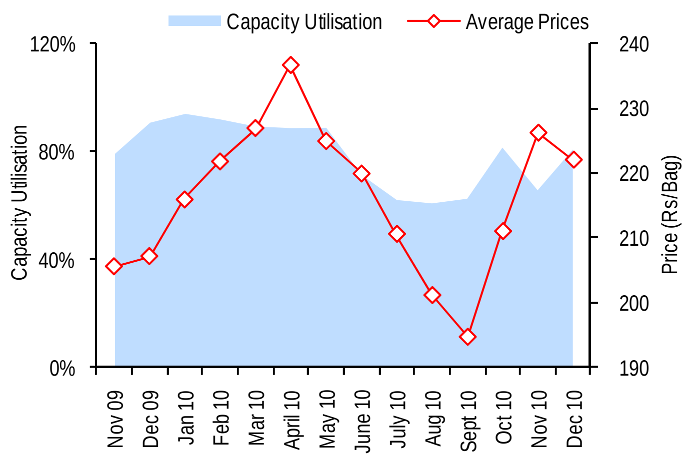
CAPACITY SHARE



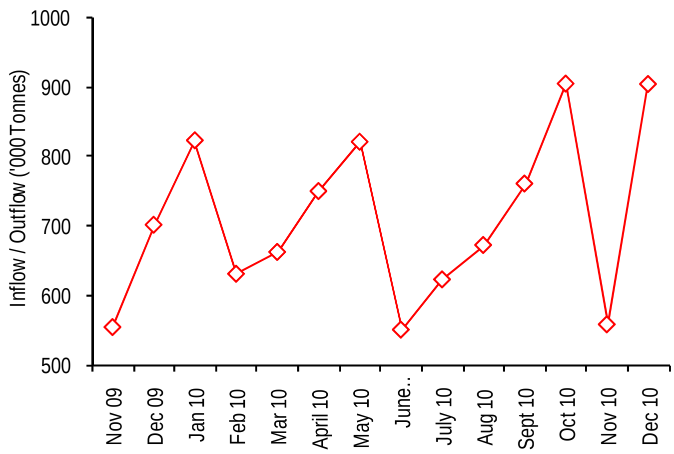
DESPATCH MOVEMENT



AVG. PRICES V/S UTILISATIONS



INTER – REGION TRANSFER (INFLOW(+) / OUTFLOW (-))



PLAYER COUNT (12)

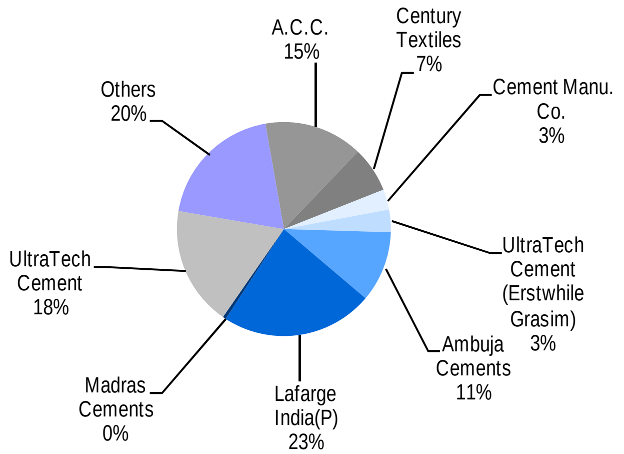
			FY11 YTD					FY10 YTD*					GROWTH			
RANK	PLAYERS	ANNUAL CAPACITY (MTPA)	CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION	CAPACITY UTILISATION	AVG CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION	CAPACITY UTILISATION	AVG CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION
1	ULTRATECH CEMENT LTD.	12.8	9.0	6.8	6.8	6.4	75%	8.2	6.4	6.4	7.3	77%	9%	7%	6%	-12%
2	AMBUJA CEMENTS	9.1	6.9	5.4	5.4	4.8	79%	6.9	6.2	6.1	4.5	90%	0%	-12%	-12%	6%
3	MEHTA GROUP	2.7	2.0	1.6	1.6	1.7	78%	1.8	1.8	1.8	1.9	102%	12%	-14%	-14%	-8%
4	JAYPEE GROUP	2.7	2.0	0.9	0.9	0.7	45%	0.4	0.1	0.1	0.2	26%	406%	759%	830%	238%
5	SANGHI INDUS. LTD.	2.6	2.0	1.3	1.3	1.4	67%	2.0	1.3	1.3	1.4	68%	0%	-2%	-3%	6%
6	ORIENT PAPER INDUS.	2.0	1.5	1.0	1.0	-	64%	0.7	0.7	0.7	-	89%	100%	44%	44%	
7	CENTURY TEXTILES	1.9	1.4	1.3	1.3	1.1	91%	1.4	1.3	1.3	1.1	90%	0%	1%	1%	-4%
8	INDIA CEMENTS	1.1	0.8	0.4	0.4	-	51%	0.8	0.3	0.3	-	34%	0%	49%	51%	
9	SHREE DIGVIJAY	1.1	0.8	0.6	0.6	0.7	78%	0.8	0.8	0.8	0.8	94%	0%	-17%	-17%	-13%
10	ACC LTD.	1.0	0.7	0.8	0.8	0.6	106%	0.7	0.8	0.8	0.6	106%	0%	-1%	-1%	0%
11	HEIDELBERG	1.0	0.7	0.3	0.3	-	45%	0.7	0.4	0.4	-	55%	0%	-20%	-18%	
12	JK LAKSHMI CEMENT LTD.	0.5	0.4	0.3	0.3	-	81%	0.4	0.4	0.4	-	97%	0%	-17%	-17%	
	TOTAL	38.6	28.3	20.8	20.7	17.4	73%	25.0	20.4	20.4	17.6	82%	13%	2%	2%	-2%

Source: CMA, Company, Crisil, MF Global India Research *FY10YTD – (April – December 2009)

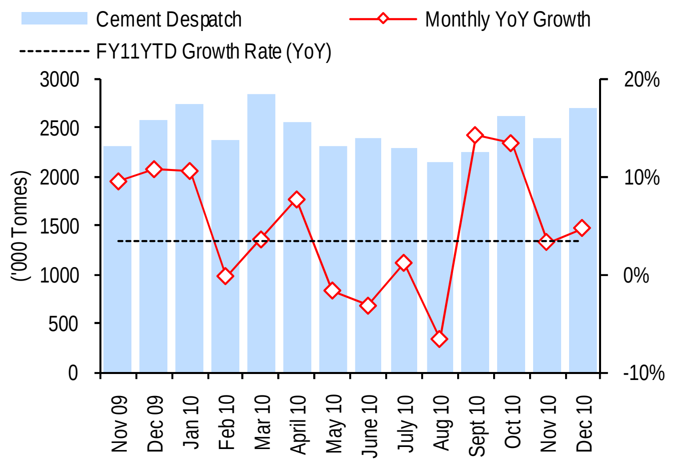
East India

East India is the 4th largest cement capacity in India with ~36mtpa of capacity. UltraTech Cement and Lafarge are the leading players of East India. The following graphs and table maps the statistics of the East Indian cement industry and East Indian cement manufactuers.

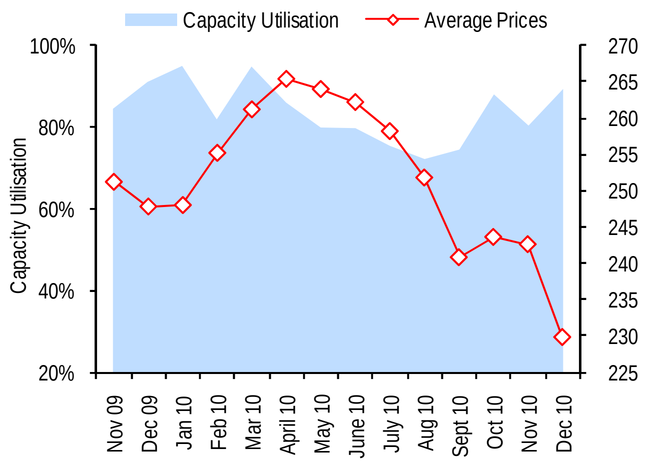
CAPACITY SHARE



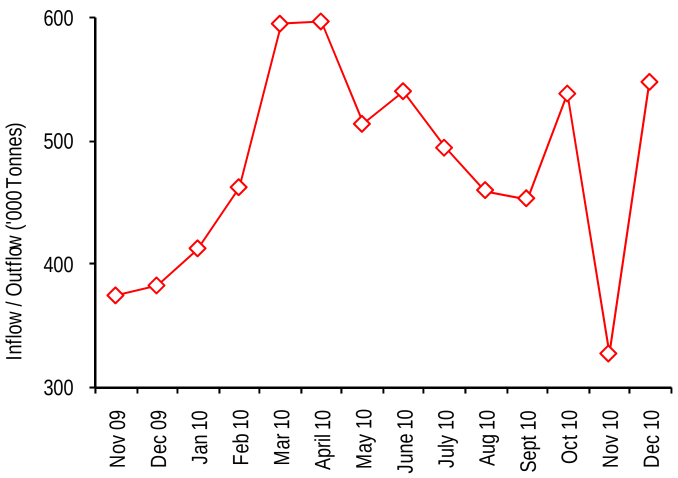
DESPATCH MOVEMENT



AVG. PRICES V/S UTILISATIONS



INTER – REGION TRANSFER (INFLOW(+) / OUTFLOW (-))



PLAYER COUNT (13)

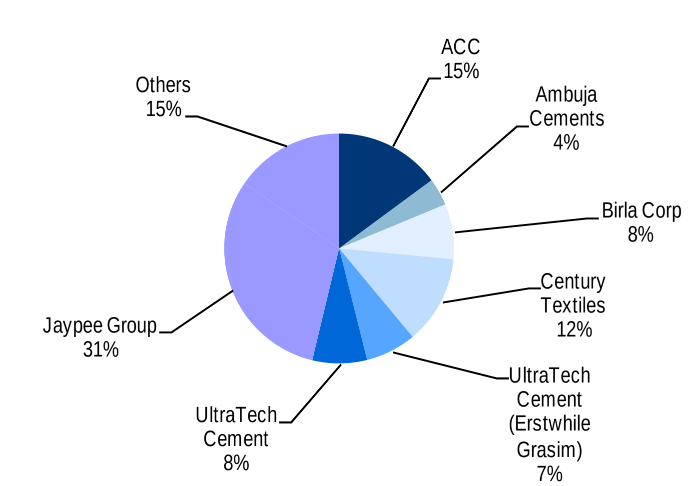
			FY11 YTD					FY10 YTD *					GROWTH			
RANK	PLAYERS	ANNUAL CAPACITY (MTPA)	CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION	CAPACITY UTILISATION	AVG CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION	CAPACITY UTILISATION	AVG CAPACITY	PRODUCTION	DESPATCH	CLINKER PRODUCTION
1	ULTRATECH CEMENT LTD.	6.6	4.9	4.7	4.7	3.0	94%	4.9	4.8	4.7	3.1	96%	0%	-2%	-2%	-2%
2	LAFARGE INDIA(P) LTD	6.5	4.9	5.0	5.0	2.9	101%	4.8	4.7	4.6	2.5	97%	2%	7%	7%	18%
3	ACC LTD.	6.0	4.5	3.2	3.2	1.7	72%	3.6	3.2	3.2	1.7	88%	24%	1%	1%	0%
4	OCL INDIA LIMITED	5.3	4.0	2.4	2.4	1.2	61%	3.8	2.2	2.2	0.8	57%	6%	12%	12%	49%
5	AMBUJA CEMENTS	3.9	2.9	2.3	2.3	1.0	79%	2.9	2.3	2.3	0.9	78%	0%	1%	1%	6%
6	CENTURY TEXTILES	2.1	1.6	1.5	1.5	1.1	94%	1.6	1.5	1.5	1.1	97%	0%	-2%	-2%	3%
7	BIRLA CORP. LTD.	1.6	1.2	0.8	0.8	-	65%	1.2	0.7	0.7	-	58%	0%	13%	10%	
8	CEMENT MANU. CO. LTD.	1.1	0.8	0.7	0.7	0.5	85%	0.8	0.7	0.7	0.4	83%	0%	2%	2%	21%
9	MADRAS CEMENTS	1.0	0.7	0.1	0.1	-	14%	-	-	-	-					
10	KALYANPUR CEMENT	1.0	0.7	0.5	0.5	0.3	69%	0.7	0.5	0.5	0.3	62%	0%	12%	14%	10%
11	MEGHALAYA CEMENTS LTD.	0.3	0.2	0.4	0.4	0.4	176%	0.2	0.4	0.4	0.4	192%	0%	-8%	-9%	1%
12	C.C.I. LTD.	0.2	0.2	0.1	0.1	0.1	58%	0.2	0.1	0.1	0.1	70%	0%	-18%	-18%	-2%
13	MAWMLUH CHERRA	0.2	0.2	0.0	0.0	0.0	26%	0.2	0.0	0.0	0.1	31%	0%	-15%	-15%	-29%
	TOTAL	35.9	26.9	21.7	21.7	12.3	81%	25.0	21.0	21.0	11.4	84%	8%	3%	3%	9%

Source: CMA, Company, Crisil, MF Global India Research *FY10YTD – (April – December 2009)

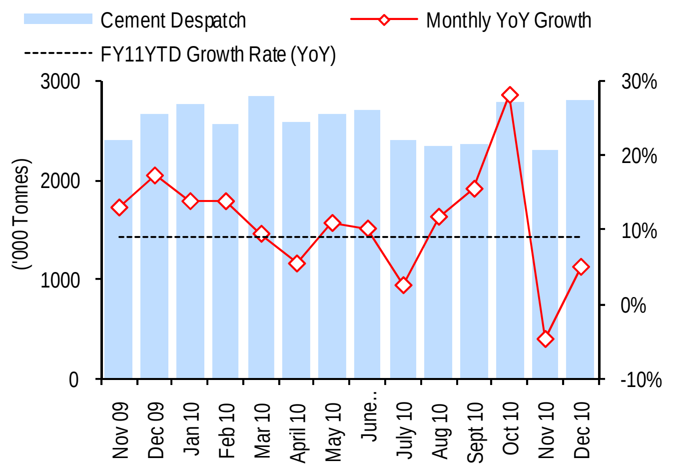
Central India

Central India is the smallest cement capacity in India with ~32mtpa of capacity. Jaypee Group and UltraTech Cement are the leading players of Central India. The following graphs and table maps the statistics of the Central Indian cement industry and Central Indian cement manufactuers.

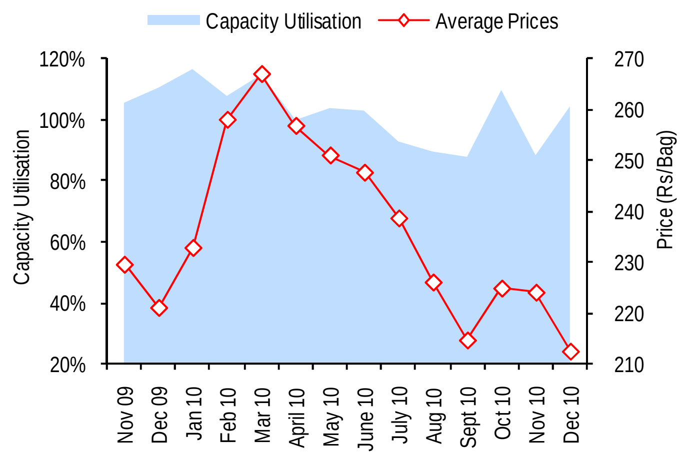
CAPACITY SHARE



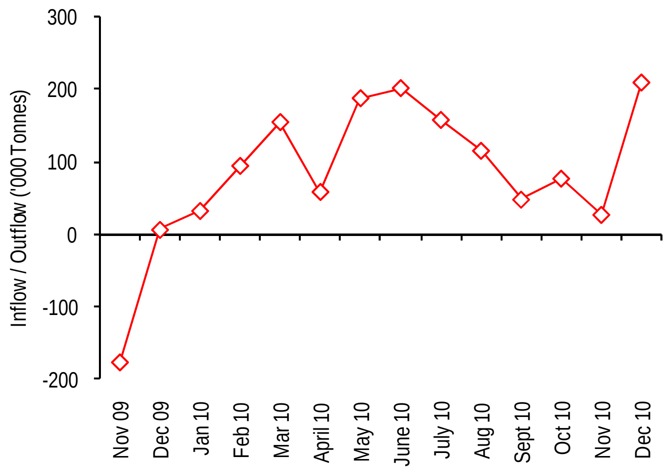
DESPATCH MOVEMENT



AVG. PRICES V/S UTILISATIONS



INTER – REGION TRANSFER (INFLOW(+) / OUTFLOW (-))



PLAYER COUNT (8)

			FY11 YTD					FY10 YTD*					GROWTH			
RANK	PLAYERS	ANNUAL CAPACITY (MTPA)	CAPA-CITY	PROD-UCTION	DES-PATCH	CLINKER PROD-UCTION	CAPACITY UTILI-SATION	AVG CAP-ACITY	PROD-UCTION	DES-PATCH	CLINKER PROD-UCTION	CAPACITY UTILI-SATION	AVG CAPA-CITY	PROD-UCTION	DESP-ATCH	CLINKER PROD-UCTION
1	JAYPEE GROUP	10.5	7.9	7.4	7.1	6.2	94%	7.1	6.8	6.4	5.6	96%	11%	8%	10%	10%
2	ULTRATECH CEMENT LTD.	5.6	4.2	3.4	3.4	2.6	81%	3.2	3.6	3.6	2.7	112%	30%	-6%	-6%	-5%
3	ACC LTD.	4.5	3.4	3.5	3.4	2.2	102%	3.4	3.5	3.4	2.2	102%	0%	0%	-1%	-1%
4	CENTURY TEXTILES	3.8	2.9	2.8	2.9	2.0	100%	2.9	2.7	2.7	2.1	96%	0%	4%	5%	-3%
5	BIRLA CORP. LTD.	2.2	1.6	1.8	1.8	1.5	107%	1.6	1.7	1.6	1.6	101%	0%	6%	10%	-7%
6	PRISM CEMENT	2.0	1.5	2.1	2.2	1.7	142%	1.5	1.9	1.9	1.7	126%	0%	12%	14%	4%
7	HEIDELBERG	1.5	1.1	1.4	1.4	0.8	120%	1.1	1.4	1.4	0.9	119%	0%	1%	1%	-9%
8	AMBUJA CEMENTS	1.5	1.1	0.9	0.9	-	79%	-	-	-	-					
	TOTAL	31.6	23.7	23.2	23.0	17.1	98%	20.8	21.5	21.1	16.9	104%	14%	8%	9%	1%

Source: CMA, Company, Crisil, MF Global India Research *FY10YTD – (April – December 2009)

INDUSTRY – KEY STATISTICS

	FY11YTD (APRIL-DECEMBER 2010)						MIRROR IMAGE - AS ON DECEMBER 2009 (FY10YTD*)					
SUMMARY FOR:	ALL INDIA	SOUTH	NORTH	WEST	EAST	CENTRAL	ALL INDIA	SOUTH	NORTH	WEST	EAST	CENTRAL
MARKET SIZE (BY OPERATIONAL INSTALLED CAPACITY) / RANK	-	1	2	3	4	5	-	1	2	3	4	5
DECEMBER 2010 (MN TONNES P.A.)	22.7	8.4	5.4	3.2	3.0	2.6	19.6	7.1	4.2	3.0	2.8	2.4
ANNUALISED (MTPA)	272.2	100.8	65.3	38.6	35.9	31.6	234.9	85.3	50.9	36.1	33.7	28.8
CEMENT DESPATCHES												
CEMENT DESPATCHES (INCLUDING EXPORTS, MN TONNES), DECEMBER 2010	17.3	4.8	4.4	2.6	2.7	2.8	17.9	5.6	4.3	2.7	2.6	2.7
DESPATCH GROWTH, DECEMBER 2010 YOY	-2.9%	-15.2%	4.0%	-3.4%	4.7%	5.0%	11.6%	12.0%	12.6%	5.3%	10.7%	17.3%
DESPATCH GROWTH, DECEMBER 2010 MOM	17.6%	12.9%	17.4%	28.2%	13.1%	22.0%	14.0%	16.7%	15.5%	12.0%	11.6%	10.7%
CEMENT DESPATCHES FY11YTD (MN TONNES)	151.1	48.0	37.2	21.3	21.7	23.0	144.9	47.2	33.9	21.7	21.0	21.1
DESPATCH GROWTH, FY10YTD	4.3%	1.7%	9.6%	-2.0%	3.5%	9.0%	10.9%	7.3%	15.6%	6.2%	13.9%	14.3%
CEMENT CONSUMPTION												
CEMENT CONSUMPTION (MN TONNES), DECEMBER 2010	17.8	4.2	3.8	3.5	3.3	3.0	15.7	4.6	3.2	3.0	2.5	2.4
CONSUMPTION GROWTH, DECEMBER 2010 YOY	0.5%	-17.4%	7.1%	3.2%	20.7%	12.6%	13.3%	11.9%	10.3%	13.4%	20.7%	12.4%
CONSUMPTION GROWTH, DECEMBER 2010 MOM	28.1%	22.0%	35.9%	35.3%	19.7%	29.5%	14.8%	16.9%	12.3%	14.7%	10.3%	19.7%
CEMENT CONSUMPTION FY10YTD (MN TONNES)	149.9	41.8	30.1	27.8	26.1	24.0	142.5	42.7	28.2	26.5	23.8	21.3
CONSUMPTION GROWTH, FY10YTD	5.2%	-2.0%	6.5%	5.2%	9.6%	13.0%	10.9%	6.1%	11.8%	8.5%	18.8%	14.8%
INTER REGION TRANSFER												
INTERNAL INFLOW / (EXTERNAL TRANSFER), DECEMBER 2010 (MN TONNES)	-	(0.5)	(0.6)	0.9	0.5	0.2	-	(0.5)	(0.7)	0.7	0.4	0.0
INTERNAL INFLOW / (EXTERNAL TRANSFER), NOVEMBER 2010 (MN TONNES)	-	(0.8)	(1.0)	0.6	0.3	0.0	-	(0.4)	(0.5)	0.6	0.4	(0.2)
INTERNAL INFLOW / (EXTERNAL TRANSFER), DECEMBER 2009 (MN TONNES)	-	(0.5)	(0.7)	0.7	0.4	0.0	-	(0.4)	(0.6)	0.4	0.1	0.1
CAPACITY UTILISATIONS												
CAPACITY UTILISATION, DECEMBER 2010	76.2%	57.2%	81.8%	80.9%	89.5%	104.7%	90.1%	77.9%	97.3%	90.9%	91.2%	110.8%
CAPACITY UTILISATION, FY11YTD	75.9%	65.3%	80.2%	73.7%	80.7%	98.0%	85.2%	77.8%	89.6%	82.6%	84.2%	103.5%
CAPACITY ADDITIONS												
DECEMBER 2010 CAPACITY ADDITION, ANNUALISED (MTPA)	0.0	0.0	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	1.0	0.0
CAPACITY ADDITION, ANNUALISED FY11YTD (MTPA)	20.4	8.4	9.7	1.0	0.0	1.3	23.7	13.4	2.6	2.6	4.0	1.1
CEMENT PRICES												
DECEMBER 2010 AVERAGE PRICE (RS/BAG)	236	260	244	222	230	212	223	193	244	207	248	221
DECEMBER 2010 AVERAGE PRICE GROWTH, YOY	6.0%	34.7%	0.0%	7.2%	-7.3%	-3.9%	-6.2%	-26.5%	2.7%	-11.9%	7.6%	5.1%
DECEMBER 2010 AVERAGE PRICE GROWTH, MOM	-3.2%	-3.6%	-1.8%	-1.8%	-5.3%	-5.2%	-2.3%	-7.2%	-1.0%	0.8%	-1.4%	-3.7%
FY11YTD AVERAGE PRICE (RS/BAG)	238	237	252	216	251	233	245	243	251	233	254	244
AVERAGE PRICE GROWTH (RS/BAG), FY11YTD (APRIL-DEC 10)	-1.9%	-9.1%	4.6%	-2.8%	7.6%	13.1%	5.9%	1.0%	9.3%	0.1%	10.4%	11.1%
BLENDING RATIO												
CEMENT: CLINKER, DECEMBER 2010, X	1.36	-	-	-	-	-	1.32	-	-	-	-	-
CEMENT: CLINKER, FY11YTD, X	1.36	-	-	-	-	-	1.34	-	-	-	-	-
CEMENT & CLINKER EXPORTS												
CEMENT EXPORTS, DECEMBER 2010 (MN TONNES)	0.13	-	-	-	-	-	0.13	-	-	-	-	-
CEMENT EXPORTS FY11YTD (APRIL-DEC 10)	1.14	-	-	-	-	-	1.51	-	-	-	-	-
CEMENT EXPORTS GROWTH, FY11YTD (APRIL-DEC 10)	-24.0%	-	-	-	-	-	-30.0%	-	-	-	-	-
CLINKER EXPORTS, DECEMBER 2010 (MN TONNES)	0.20	-	-	-	-	-	0.49	-	-	-	-	-
CLINKER EXPORTS FY11YTD (MN TONNES)	1.99	-	-	-	-	-	2.27	-	-	-	-	-
CLINKER EXPORTS GROWTH, FY11YTD	-12.6%	-	-	-	-	-	10.9%	-	-	-	-	-

Source: CMA, Company, Crisil, MF Global India Research; *April-December 2009

Annexure

CAPACITY ADDITIONS SINCE FY02

MTPA	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E	REGION	TOTAL ADDITIONS
ACC	-	-	-	-	-	0.9	-	0.9	-	-	-	-	-	NORTH	-
ACC	-	-	-	-	-	(0.3)	-	0.7	3.6	-	-	-	-	SOUTH	-
ACC	-	-	-	-	-	-	-	-	-	3.0	-	-	-	WEST	3.0
ACC	-	-	-	-	-	-	-	0.3	1.1	-	-	-	2.2	EAST	2.2
ACC	-	-	-	-	-	-	-	0.8	-	-	-	-	-	CENTRAL	-
TOTAL - ACC LIMITED	-	-	-	-	-	0.6	-	2.7	4.7	3.0	-	-	2.2		5.2
AMBUJA CEMENTS	-	-	-	-	-	0.4	1.0	1.5	1.5	1.5	-	-	-	NORTH	1.5
AMBUJA CEMENTS	-	-	-	-	-	-	1.0	1.2	-	1.0	-	-	-	WEST	1.0
AMBUJA CEMENTS	-	-	-	-	-	-	-	-	1.5	1.5	-	-	-	CENTRAL	1.5
AMBUJA CEMENTS	-	-	-	-	-	-	1.0	0.9	-	1.0	-	-	-	EAST	1.0
TOTAL - AMBUJA CEMENTS	-	-	-	-	-	0.4	3.0	3.7	3.0	5.0	-	-	-		5.0
ANDHRA CEMENTS	-	-	-	-	-	-	-	(0.3)	-	-	-	-	-	SOUTH	-
TOTAL - ANDHRA CEMENTS	-	-	-	-	-	-	-	(0.3)	-	-	-	-	-		-
ABG CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	5.0	WEST	5.0
TOTAL - ABG CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	5.0		5.0
BAGALKOT INDUSTRIES	-	-	-	-	-	-	-	-	(0.0)	-	-	-	-	SOUTH	-
TOTAL - BAGALKOT INDUSTRIES	-	-	-	-	-	-	-	-	(0.0)	-	-	-	-		-
BINANI CEMENT	-	-	-	-	-	-	-	3.8	0.3	-	-	-	-	NORTH	-
TOTAL - BINANI CEMENT	-	-	-	-	-	-	-	3.8	0.3	-	-	-	-		-
BIRLA CORPORATION LIMTED	-	-	-	-	-	-	-	-	-	-	-	0.6	-	EAST	0.6
BIRLA CORPORATION LIMTED	-	-	-	-	-	-	-	-	-	-	-	-	3.0	NORTH	3.0
BIRLA CORPORATION LIMTED	-	-	-	-	-	-	-	-	-	-	-	1.5	-	CENTRAL	1.5
TOTAL - BIRLA CORPORATION LIMITED	-	-	-	-	-	-	-	-	-	-	-	2.1	3.0		5.1
CALCOM	-	-	-	-	-	-	-	-	-	-	1.0	-	-	EAST	1.0
TOTAL - CALCOM	-	-	-	-	-	-	-	-	-	-	1.0	-	-		1.0
CEMENT MANU. CO. LTD.	-	-	-	-	-	-	1.1	-	-	-	-	-	-	EAST	-
TOTAL - CEMENT MANU. CO. LTD.	-	-	-	-	-	-	1.1	-	-	-	-	-	-		-
CENTURY TEXTILES	-	-	-	-	-	-	0.4	-	-	-	-	1.5	-	WEST	1.5
CENTURY TEXTILES	-	-	-	-	-	-	0.8	-	-	-	-	-	1.5	CENTRAL	1.5
CENTURY TEXTILES	-	-	-	-	-	-	0.3	-	-	-	-	-	-	EAST	-
TOTAL - CENTURY TEXTILES	-	-	-	-	-	-	1.5	-	-	-	-	1.5	1.5		3.0
CHETTINAD CEMENT	-	-	-	-	-	-	-	2.0	4.4	-	-	2.3	-	SOUTH	2.3
TOTAL - CHETTINAD CEMENT	-	-	-	-	-	-	-	2.0	4.4	-	-	2.3	-		2.3
CMCL (STAR)	-	-	-	-	-	-	-	-	-	-	-	1.7	-	EAST	1.7
TOTAL - CMCL (STAR)	-	-	-	-	-	-	-	-	-	-	-	1.7	-		1.7
DALMIA CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	2.5	EAST	2.5
DALMIA CEMENT	-	-	-	-	-	2.3	-	0.5	5.0	-	-	2.5	-	SOUTH	2.5
TOTAL - DALMIA CEMENT	-	-	-	-	-	2.3	-	0.5	5.0	-	-	2.5	2.5		5.0
EMAMI	-	-	-	-	-	-	-	-	-	-	-	-	3.1	EAST	3.1
TOTAL - EMAMI CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	3.1		3.1
GRASIM INDUSTRIES / ULTRATECH CEMENT	-	-	-	-	-	-	1.3	-	-	-	-	-	-	WEST	-
GRASIM INDUSTRIES / ULTRATECH CEMENT	-	-	-	-	-	-	0.6	1.3	2.4	1.2	-	4.4	-	SOUTH	5.6
GRASIM INDUSTRIES / ULTRATECH CEMENT	-	-	-	-	-	-	1.9	-	1.6	4.7	-	-	-	NORTH	4.7
GRASIM INDUSTRIES / ULTRATECH CEMENT	-	-	-	-	-	-	1.3	-	-	1.3	-	-	-	CENTRAL	1.3
GRASIM INDUSTRIES / ULTRATECH CEMENT	-	-	-	-	-	-	1.1	-	-	-	-	4.8	-	EAST	4.8
TOTAL - GRASIM INDUSTRIES / ULTRATECH CEMENT	-	-	-	-	-	-	6.2	1.3	4.0	7.2	-	9.2	-		16.4
GREEN VALLEY	-	-	-	-	-	-	-	-	-	0.5	-	-	-	EAST	0.5
TOTAL - GREEN VALLEY	-	-	-	-	-	-	-	-	-	0.5	-	-	-		0.5
HILL CEMENT	-	-	-	-	-	-	-	-	-	0.5	-	-	-	EAST	0.5
TOTAL - HILL CEMENT	-	-	-	-	-	-	-	-	-	0.5	-	-	-		0.5
HEIDELBERG	-	-	-	-	-	-	-	-	-	-	-	1.3	1.9	CENTRAL	3.2
HEIDELBERG	-	-	-	-	-	-	-	-	-	-	0.8	-	-	SOUTH	0.8
TOTAL - HEIDELBERG	-	-	-	-	-	-	-	-	-	-	0.8	1.3	1.9		4.0
INDIA CEMENTS	-	-	-	-	-	-	-	-	-	1.8	-	-	-	NORTH	1.8
INDIA CEMENTS	-	-	-	-	-	-	0.8	1.1	2.2	-	-	-	-	SOUTH	-
INDIA CEMENTS	-	-	-	-	-	-	-	-	1.1	-	-	-	-	WEST	-
TOTAL - INDIA CEMENTS	-	-	-	-	-	-	0.8	1.1	3.3	1.8	-	-	-		1.8

CONTD... (MTPA)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E	FY14E	REGION	TOTAL ADDITIONS
JAIPRAKASH ASSOCIATES	-	-	-	-	-	-	1.0	-	2.9	1.5	-	-	-	NORTH	1.5
JAIPRAKASH ASSOCIATES	-	-	-	-	-	-	-	-	2.7	2.4	-	-	-	WEST	2.4
JAIPRAKASH ASSOCIATES	-	-	-	-	-	0.5	1.9	0.4	1.6	-	-	2.8	-	CENTRAL	2.8
JAIPRAKASH ASSOCIATES	-	-	-	-	-	-	-	-	-	-	3.5	-	1.0	SOUTH	4.5
JAIPRAKASH ASSOCIATES	-	-	-	-	-	-	-	-	-	2.2	2.1	-	-	EAST	4.3
TOTAL - JAIPRAKASH ASSOCIATES	-	-	-	-	-	0.5	2.9	0.4	7.2	6.1	5.6	2.8	1.0		15.5
JK CEMENT	-	-	-	-	-	0.6	-	0.4	-	-	-	2.2	-	NORTH	2.2
JK CEMENT	-	-	-	-	-	-	-	-	-	3.0	-	-	-	SOUTH	3.0
TOTAL - JK CEMENT	-	-	-	-	-	0.6	-	0.4	-	3.0	-	2.2	-		5.2
JK LAKSHMI CEMENT	-	-	-	-	-	-	-	-	-	-	-	2.7	-	EAST	2.7
JK LAKSHMI CEMENT	-	-	-	-	-	-	1.2	-	0.8	-	0.6	-	-	NORTH	0.6
JK LAKSHMI CEMENT	-	-	-	-	-	-	-	0.5	-	-	-	-	-	WEST	-
TOTAL - JK LAKSHMI CEMENT	-	-	-	-	-	-	1.2	0.5	0.8	-	0.6	2.7	-		3.3
JSW CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	5.0	SOUTH	5.0
TOTAL - JSW CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	5.0		5.0
KHYBER INDUS. (P) LTD.	-	-	-	-	-	-	-	-	-	0.3	-	-	-	NORTH	0.3
TOTAL - KHYBER INDUS. (P) LTD.	-	-	-	-	-	-	-	-	-	0.3	-	-	-		0.3
KCP	-	-	-	-	-	0.1	-	-	-	-	-	-	-	SOUTH	-
TOTAL - KCP	-	-	-	-	-	0.1	-	-	-	-	-	-	-		-
KESORAM INDUSTRIES	-	-	-	-	-	-	2.0	0.8	1.7	-	-	-	-	SOUTH	-
TOTAL - KESORAM INDUSTRIES	-	-	-	-	-	-	2.0	0.8	1.7	-	-	-	-		-
LAFARGE	-	-	-	-	-	-	0.2	-	1.4	-	1.2	-	-	EAST	1.2
TOTAL - LAFARGE	-	-	-	-	-	-	0.2	-	1.4	-	1.2	-	-		1.2
MADRAS CEMENT	-	-	-	-	-	-	-	-	1.0	-	-	-	-	EAST	-
MADRAS CEMENT	-	-	-	-	-	-	-	3.5	1.2	1.6	-	1.5	-	SOUTH	3.1
TOTAL - MADRAS CEMENT	-	-	-	-	-	-	-	3.5	2.2	1.6	-	1.5	-		3.1
MEHTA GROUP	-	-	-	-	-	-	-	-	0.3	-	-	-	-	WEST	-
TOTAL - MEHTA GROUP	-	-	-	-	-	-	-	-	0.3	-	-	-	-		-
MANGALAM CEMENT	-	-	-	-	-	-	-	1.0	-	0.0	-	-	-	NORTH	0.0
TOTAL - MANGALAM CEMENT	-	-	-	-	-	-	-	1.0	-	0.0	-	-	-		0.0
MEGHALAYA CEMENT	-	-	-	-	-	0.4	(0.1)	-	-	-	-	-	-	EAST	-
TOTAL - MEGHALAYA CEMENT	-	-	-	-	-	0.4	(0.1)	-	-	-	-	-	-		-
MY HOME INDUSTRIES	-	-	-	-	-	-	1.2	0.4	-	-	-	-	-	SOUTH	-
TOTAL - MY HOME INDUSTRIES	-	-	-	-	-	-	1.2	0.4	-	-	-	-	-		-
OCL INDIA	-	-	-	-	-	0.5	-	0.9	2.6	-	-	-	-	EAST	-
TOTAL - OCL INDIA	-	-	-	-	-	0.5	-	0.9	2.6	-	-	-	-		-
ORIENT PAPER	-	-	-	-	-	-	0.8	-	-	0.6	-	-	-	SOUTH	0.6
ORIENT PAPER	-	-	-	-	-	-	0.2	-	-	1.0	-	-	-	WEST	1.0
TOTAL - ORIENT PAPER	-	-	-	-	-	-	1.0	-	-	1.6	-	-	-		1.6
PENNA CEMENT	-	-	-	-	-	-	-	2.0	-	2.0	-	-	-	SOUTH	2.0
TOTAL - PENNA CEMENT	-	-	-	-	-	-	-	2.0	-	2.0	-	-	-		2.0
PRISM CEMENT	-	-	-	-	-	-	-	-	(0.5)	3.6	-	-	-	CENTRAL	3.6
TOTAL - PRISM CEMENT	-	-	-	-	-	-	-	-	(0.5)	3.6	-	-	-		3.6
RAIN INDUSTRIES	-	-	-	-	-	0.5	-	2.5	-	-	0.5	-	-	SOUTH	0.5
TOTAL - RAIN INDUSTRIES	-	-	-	-	-	0.5	-	2.5	-	-	0.5	-	-		0.5
RELIANCE CEMENTATION	-	-	-	-	-	-	-	-	-	-	-	-	5.0	WEST	5.0
RELIANCE CEMENTATION	-	-	-	-	-	-	-	-	-	-	-	-	5.0	CENTRAL	5.0
TOTAL - RELIANCE CEMENTATION	-	-	-	-	-	-	-	-	-	-	-	-	10.0		10.0
R K MARBLE	-	-	-	-	-	-	-	-	-	-	-	-	3.0	NORTH	3.0
TOTAL - R K MARBLE	-	-	-	-	-	-	-	-	-	-	-	-	3.0		3.0
SHREE CEMENT	-	-	-	-	-	-	4.6	-	-	2.9	1.1	-	-	NORTH	4.0
TOTAL - SHREE CEMENT	-	-	-	-	-	-	4.6	-	-	2.9	1.1	-	-		4.0
SHRIRAM CEMENTS	-	-	-	-	-	-	-	-	0.2	-	-	-	-	NORTH	-
TOTAL - SHRIRAM CEMENTS	-	-	-	-	-	-	-	-	0.2	-	-	-	-		-
SHIVA CEMENTS	-	-	-	-	-	-	-	-	-	-	0.5	-	-	EAST	0.5
TOTAL - SHIVA CEMENTS	-	-	-	-	-	-	-	-	-	-	0.5	-	-		0.5
TOSHALI CEMENTS PVT LIMITED	-	-	-	-	-	-	-	-	-	-	-	0.8	-	EAST	0.8
TOTAL - TOSHALI CEMENTS PVT LIMITED	-	-	-	-	-	-	-	-	-	-	-	0.8	-		0.8
ZUARI CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	1.5	SOUTH	1.5
TOTAL - ZUARI CEMENT	-	-	-	-	-	-	-	-	-	-	-	-	1.5		1.5
TOTAL CAPACITY ADDITIONS	-	-	-	-	-	5.9	25.4	27.2	40.6	39.1	11.3	30.6	39.7		120.7

Source: CMA, Company, MF Global India Research Estimates

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COMPANIES SECTION

Equity Research | India

25 February 2011

MF Global Initiating Report

ACC Ltd.

| Ideally-placed cement major

CEMENT

ACC IN: **NEUTRAL**

RS 1011

ACC Limited, a Holcim-controlled cement major, is the second largest cement capacity accounting for ~10% of pan-India cement capacity. The company enjoys a pan-India presence and is amongst the leading cement manufacturers in India.

Investment Rationale

» Strong track record of relatively higher average realisations vs. other cement majors (except sister concern, Ambuja Cements).

» Relatively less exposure to the vulnerable market of the South. High exposure to the North and East, regions where cement prices have remained more firm as compared to other regions (prices in the north have increased by ~Rs 30-Rs 45 per bag in Q4FY11E) and ACC is believed to command the highest realisations in the region currently.

» Significant scope for volume growth, even without capacity additions, for the next 2-3 years. However, we expect the company not to deliver more than 10% growth in volume by remaining highly disciplined, being a major.

» With a very strong balance sheet, ACC is amongst the very few cement companies which rewards investors with a dividend payout ratio as high as ~62% (CY10; including Platinum Jubilee Special Dividend). We strongly believe that ACC will continue to maintain its track record as a high dividend paying company and reward investors aptly.

Risks

» Being undisciplined and a shift in focus from volumes to pricing.

» Abnormal increase in input costs and the inability to pass it on to consumers.

Valuation

At the CMP of Rs1011/-, ACC trades at 14.8x &11.4x P/E, 8.8x & 6.3x EV/EBITDA and US$ 134 & 123 EV/tonne on CY11E & CY12E, earnings, respectively. At our target price of Rs1,038/-, it will trade at 15.2x & 11.7x P/E, 9.0x & 6.5x EV/EBITDA and US$ 137 & 127 EV/tonne on CY11E & CY12E, earnings, respectively.

TARGET RS 1038 (+3%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	188MN
MARKET CAP (RS) :	190BN
MARKET CAP (USD) :	4.2BN
52 - WK HI/LO (RS) :	1133 / 700
LIQUIDITY 3M (USD) :	10.5MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	48.2
FII / NRI :	15.9
FI / MF :	16.1
NON-PROMOTER CORP. HOLDINGS :	4.7
PUBLIC & OTHERS :	15.1

PRICE PERFORMANCE, %

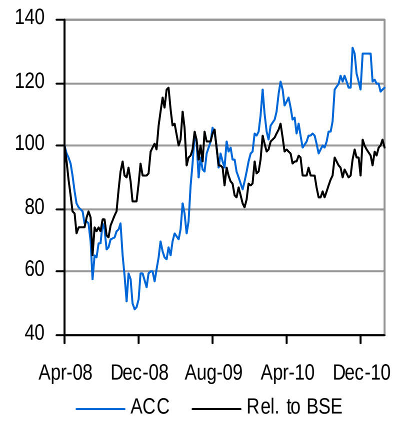
	1MTH	3MTH	1YR
ABS	1.9	0.9	12.1
REL TO BSE	6.3	8.6	13.3

VALUATION SUMMARY

Y/E DEC, RS MN	CY2008	CY2009	CY2010	CY2011E	CY2012E
NET SALES	77,197	84,796	82,588	96,851	110,240
NET SALES GROWTH, %	9.2	9.8	(2.6)	17.3	13.8
CORE EBIDTA	16,624	24,623	15,405	20,642	26,256
CORE EBIDTA MARGIN, %	21.5	29.0	18.7	21.3	23.8
MF GLOBAL NET PROFIT	10,570	15,639	10,775	12,859	16,665
NET PROFIT MARGIN, %	13.7	18.4	13.0	13.3	15.1
MF GLOBAL EPS, RS	56.3	83.2	57.3	68.4	88.7
EPS GROWTH, %	(13.3)	47.7	(31.1)	19.4	29.6
PER, X	17.9	12.2	17.6	14.8	11.4
EV/EBIDTA, X	11.1	7.6	12.0	8.8	6.3
EV/NET SALES, X	2.4	2.2	2.2	1.9	1.5
PRICE/BOOK VALUE, X	3.9	3.2	3.0	2.7	2.4
EV/TONNE (US$)	178	152	157	134	123
ROIC, %	24.5	31.0	19.1	21.6	26.4
ROE, %	23.5	29.2	17.7	19.3	22.1

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

Investment Overview

SUSTAINABLE COMPETITIVE ADVANTAGE	HIGHER-THAN-AVERAGE REALISATIONS THAN PEERS (EXCEPT SISTER CONCERN, AMBUJA CEMENTS).
FINANCIAL STRUCTURE	VERY STRONG BALANCE SHEET AND A NET CASH COMPANY.
SHAREHOLDER VALUE CREATION	BEING AMONGST THE HIGHLY DISCIPLINED PLAYERS OF THE INDUSTRY, IT ENSURES PREMIUM CEMENT REALISATIONS AND BETTER PROFITABILITY. ACC ALSO HAS THE HIGHEST DIVIDEND PAYOUT RATIO AMONGST PEERS.
EARNINGS VISIBILITY	EARNINGS GROWTH LIKELY TO BE VERY STRONG AT 19% AND 30% FOR CY11E AND CY12E, RESPECTIVELY.
VALUATION	TRADES CURRENTLY AT ~US$ 117/TONNE CY11E. TARGET VALUATION IMPLIES EV/TONNE OF US$ 126 ON CY11E EARNINGS, WHICH IS ALMOST THE CURRENT REPLACEMENT COST OF THE INDUSTRY.
MF GLOBAL VS. CONSENSUS	WE ARE ~20% HIGHER THAN CONSENSUS ESTIMATES FOR ACC IN CY11E.
FUTURE EVENT TRIGGERS	MORE-THAN-EXPECTED PRICE HIKES; ANY CONSOLIDATION MOVES BETWEEN ACC AND AMBUJA CEMENTS BY HOLCIM IS LIKELY TO REMAIN FAVOURABLE FOR BOTH THESE COMPANIES.
EXPECTED PRICE MOMENTUM	OUR PRICE TARGET IS AT RS1,038, WHICH IMPLIES A UPSIDE OF 3% FROM THE CURENT MARKET PRICE.

Source: MF Global India Research

Rating and Price Target

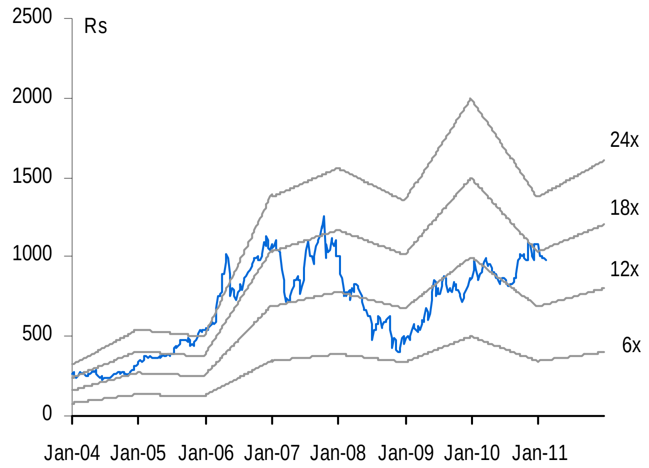
RATING	NEUTRAL
CY11E EBITDA (RS MN)	20642
CY11E EBITDA MARGIN, %	21%
CY11E EBITDA/SHARE (RS)	110
TARGET EV/EBITDA (X)	9.0
TARGET EV/SHARE (RS)	989
NET DEBT/SHARE	-49
EQUITY FAIR VALUE/SHARE (RS)	1,038
% UPSIDE	*3%*
CY11E IMPLIED TARGET EV/TONNE (US$)	137
CY11E IMPLIED TARGET P/E (X)	15.2
CY11E EV BASED ON CMP (RS MN)	180818
CY11E CAPACITY (EOP, MTPA)	30.4
CY11E EBITDA (RS MN)	20642
CY11E EV/EBITDA (X)	8.8
CY11E P/E (X)	14.8
CY11E EV/TONNE (US$)	134

Source: MF Global India Research Estimates

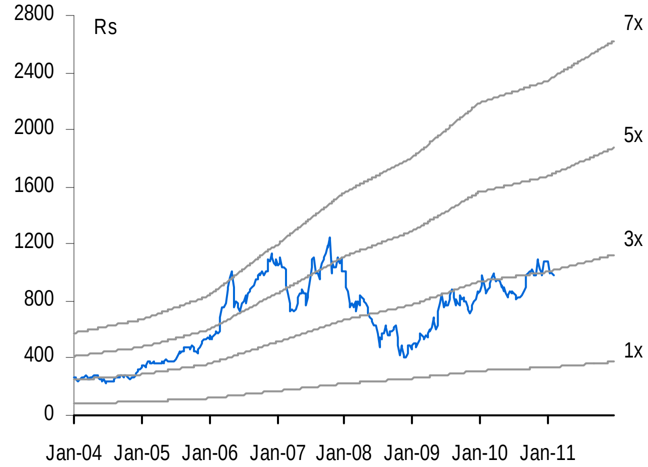
.

Absolute Rolling Valuation Band Charts

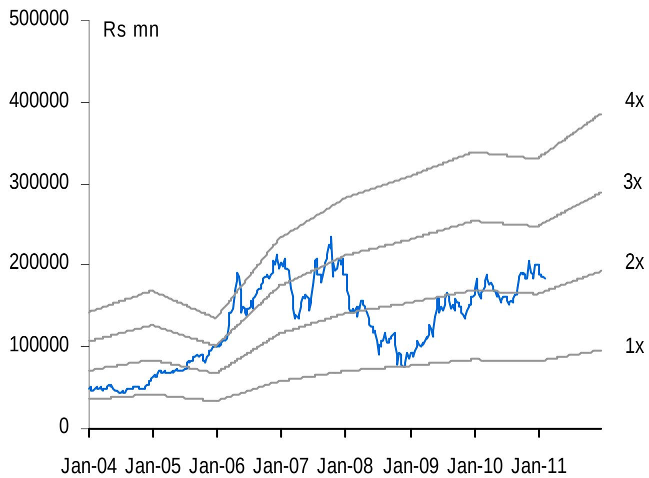
PE BAND



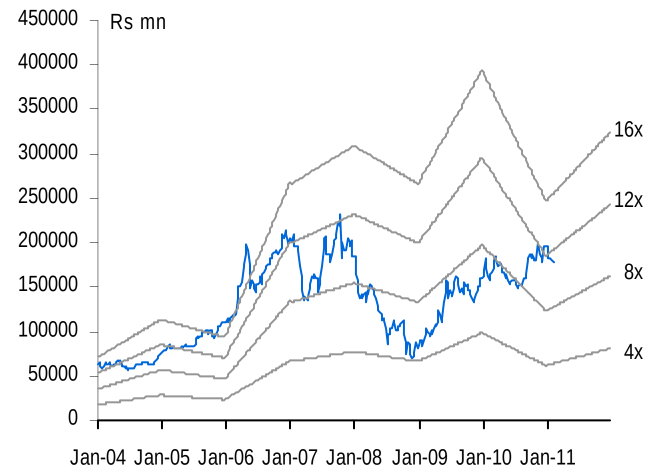
PBV BAND



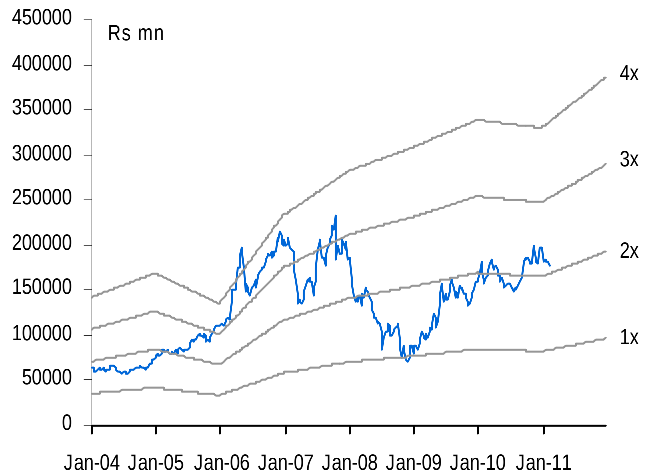
MCAP/SALES BAND



EV/EBIDTA BAND



EV/SALES BAND

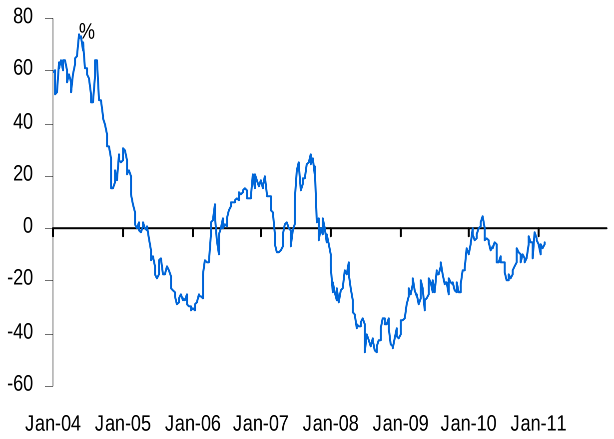


Source: MF Global India Research

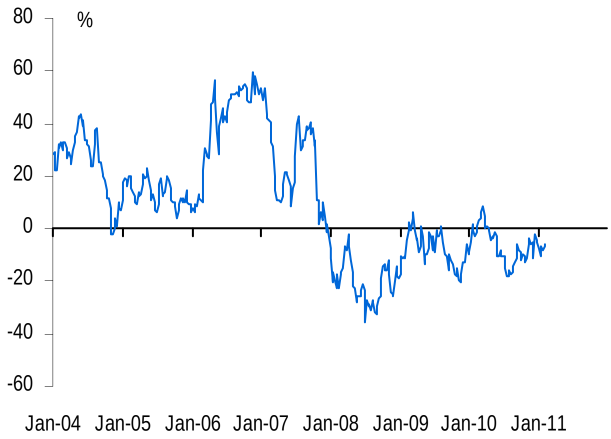
» ACC trades at marginal discount to its previous peak valuations in the near term around January '08 on one-year forward rolling valuations. However, we expect that the likely cement price hikes in CY11E and CY12E can provide further momentum to the valuations of ACC. Being a pan-India player, sustained favorable pricing environment in the longer term, can re-rate the stock to higher valuations than previous peak.

Premium/Discount to Sensex

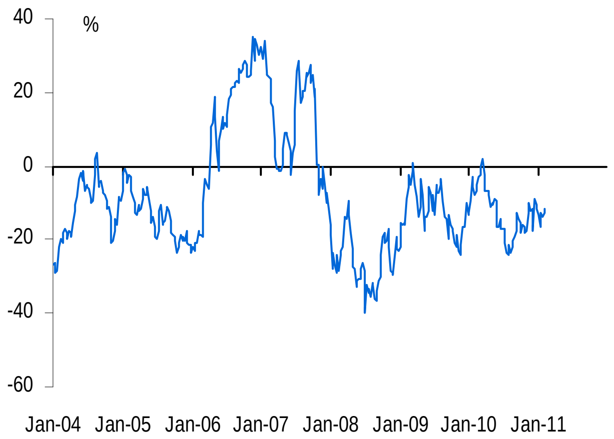
PE



PBV

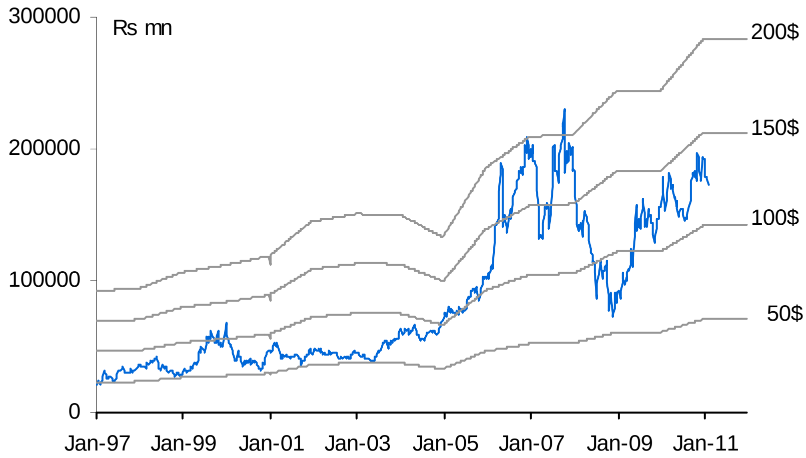


MCAP/SALES



Source: MF Global India Research

EV/TONNE BAND CHART



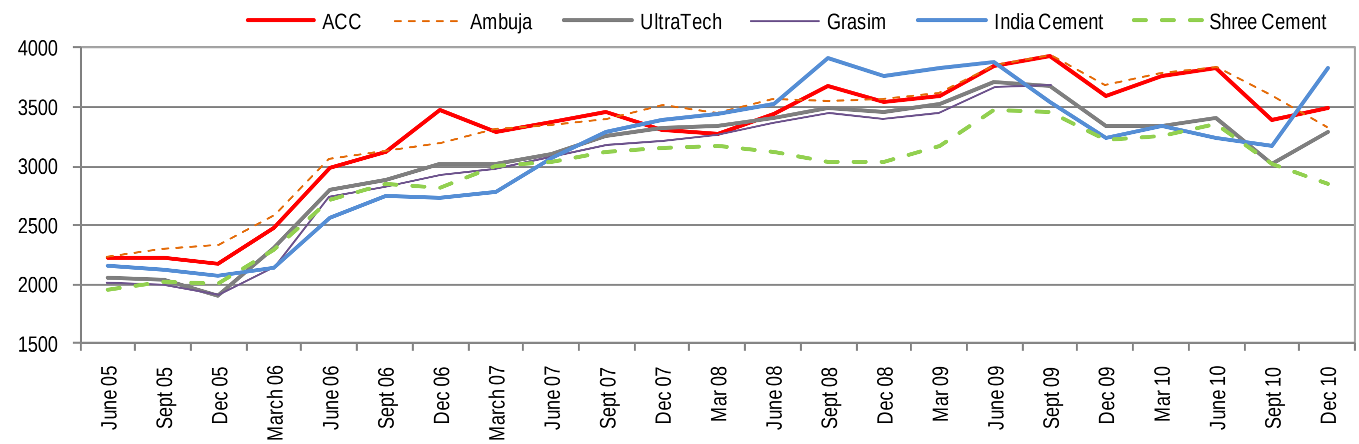
Source: MF Global India Research

» The stock currently trades near to the current replacement cost at US$134 EV/tonne on CY11E earning which, in our view, in the current scenario, is a reasonable valuation for ACC. Though the potential upside currently seems to be limited on valuations, constant increase in cement prices can lead to valuation expansion for ACC.

Investment Thesis

ACC Limited is the India's second largest cement major and accounts for ~10% of the pan-India capacity. Both Holcim-controlled majors, that is, ACC Ltd. and Ambuja Cements, have been known for their highly disciplined approach and maintaining its focus on pricing rather than volume. At the beginning of CY10, ACC had an installed capacity of ~26 mn tones, but the company chose to deliver a volume which is marginally lower than that of ~CY09 which clearly emphasizes the company's strategy to remain focused on pricing and not on volumes. We have factored in ~9% and 7% volume growth for ACC for CY12E and CY13E, respectively, and expect the company to continue to behave in a highly disciplined fashion.

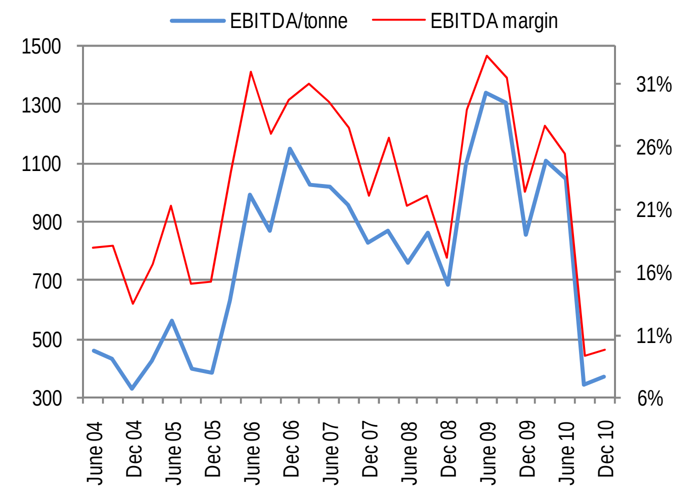
REALISATION OF ACC VS. PEERS

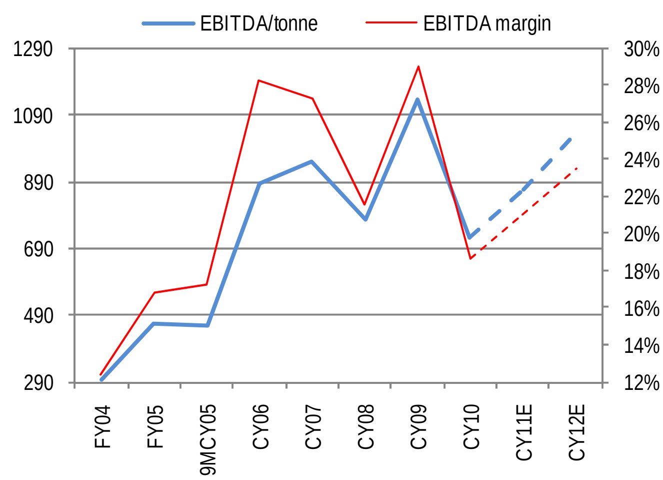


Source: Companies, MF Global India Research

Both ACC's and Ambuja's average realizations have been higher than peers as seen above. Both, ACC and Ambuja clearly derive a competitive advantage over peers and we believe that this premium in realization is mainly on account of high brand value. UltraTech is the next upcoming brand in India and both ACC and Ambuja are at a risk of losing their premium in realisations to UltraTech. Hence, both these majors will have to behave very cautiously, going forward, in order to be able to sustain this premium. We have factored in a 5% increase in average realizations for ACC for both CY11E and CY12E, respectively.

EBITDA/TONNE AND EBITDA MARGIN MOVEMENT

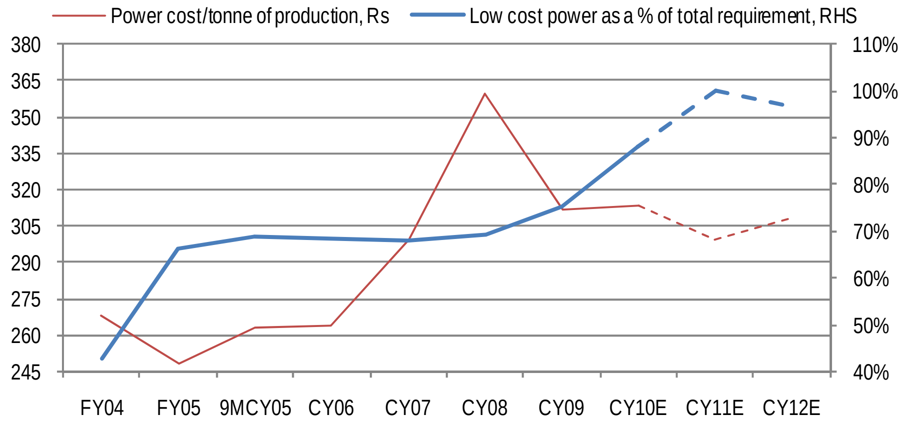




Source: Company, MF Global India Research

With increasing realizations, we believe that ACC's EBITDA/tonne and EBITDA margin have hit the bottom of the cycle. Cost pressures continue to bother industry, but we believe that the price hikes are capable enough of absorbing these higher cost pressures and expanding operating margins materially from Q4FY11E onwards. The price hikes have been robust and we strongly believe that average realisations will improve sharply from 4QFY11E onwards. We expect ACC's average blended EBITDA/tonne to improve to Rs 886 and Rs 1052, with an EBITDA margin of 21.3% and 23.8% for CY11E and CY12E, respectively.

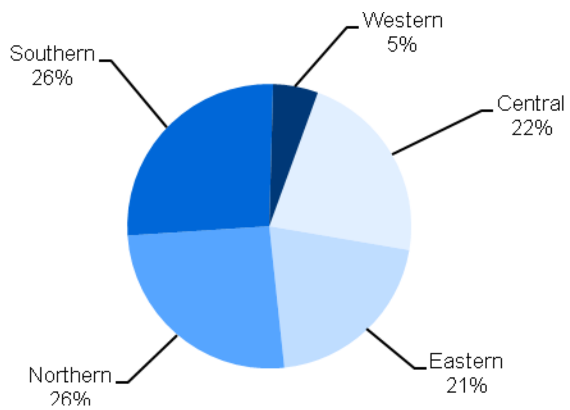
SELF-SUFFICIENCY IN POWER REQUIREMENTS TO ADD TO SAVINGS IN COST



Source: Company, MF Global India Research Estimates

ACC has ~320MW of captive thermal power plants and ~19MW of windmills as on date. The power capacity is likely to increase to ~360MW by 1QCY11E. This will make ACC almost self sufficient in its power requirement for the expected production in CY11E and CY12E. These captive power plants should help ACC save ~Re 1 per unit as compared to power purchased externally. Though the incremental savings from these power plants is not huge, self sufficiency in power requirements will help ACC control its power cost.

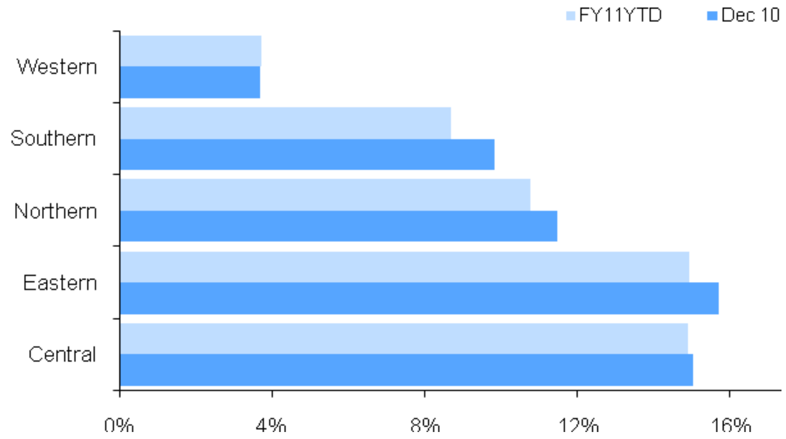
DESPATCH MIX OF ACC:



Source: MF Global India Research

North, East and West accounts for ~ 52% of ACC's total despatches, regions which have shown less vulnerability to cement pricing as compared to others. Also, South prices have now recovered substantially and are currently higher than all-India average pricing. We believe that ACC remains very well positioned with a fairly balanced despatch mix.

MARKET SHARE ACROSS REGIONS



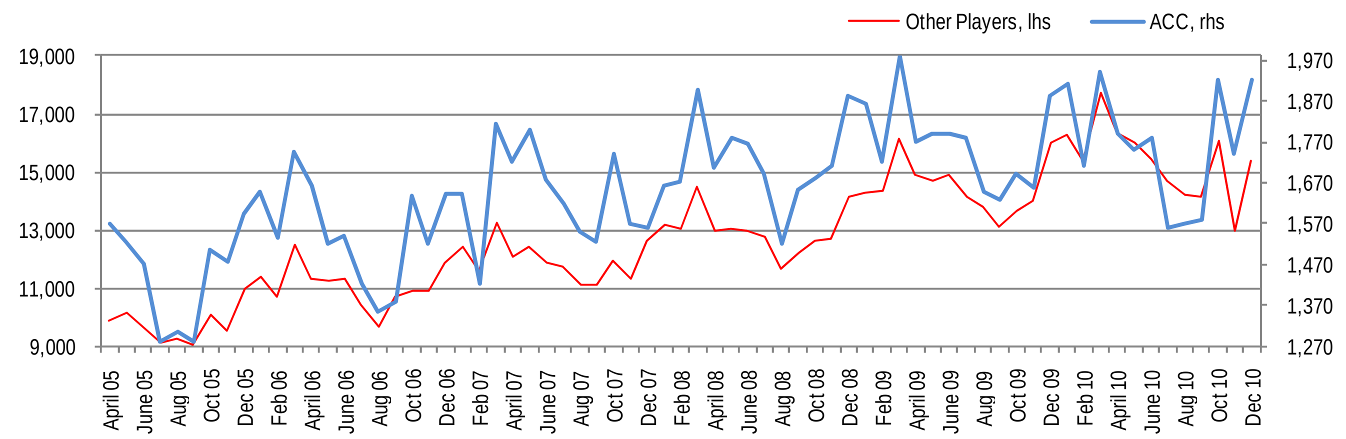
Source: MF Global India Research

ACC also enjoys a reasonable market share across regions (except West India). Considering the price hikes seen in a majority of the markets since Jan '11, ACC is very likely to surprise positively with its numbers in the coming quarters.

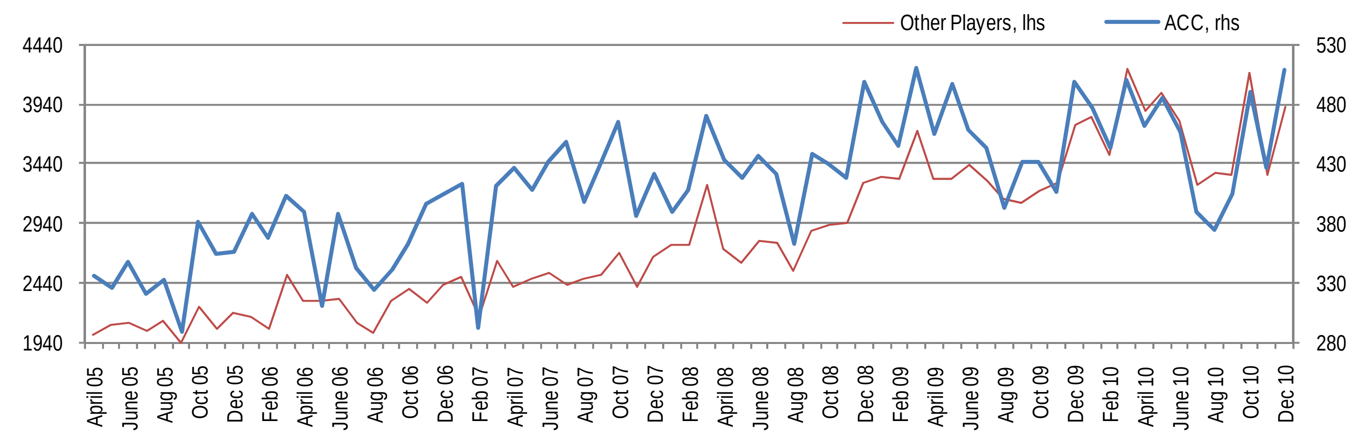
As in the regional section, we have tried to analyse the discipline of the cement manufacturers individually relative to the industry. The following graphs highlight the movement of despatches of ACC vs. industry on a pan-India and regional basis.

Discipline of ACC Ltd.

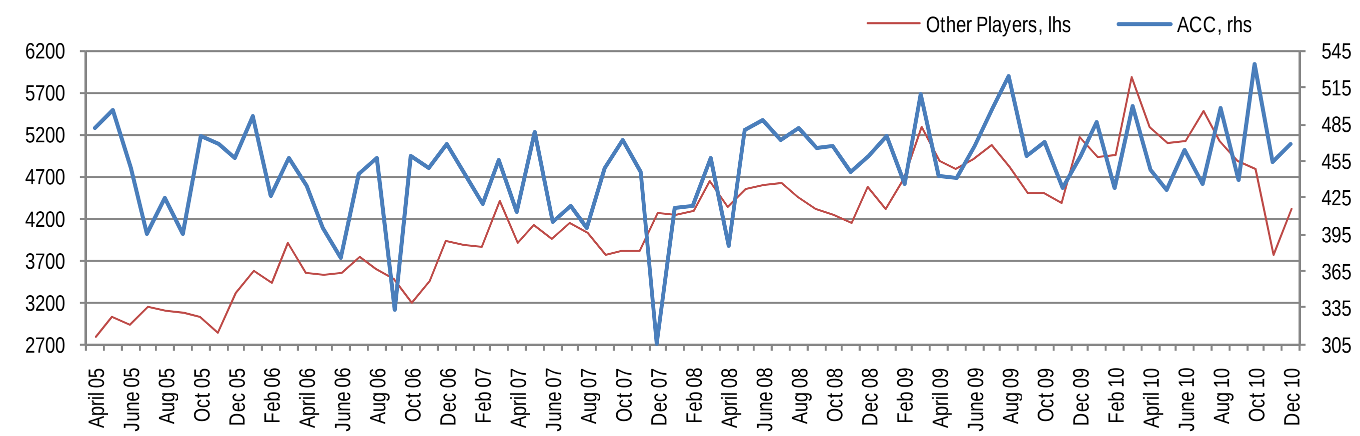
PAN INDIA: ACC VS. INDUSTRY ('000 TONNES)



NORTH INDIA ('000 TONNES)

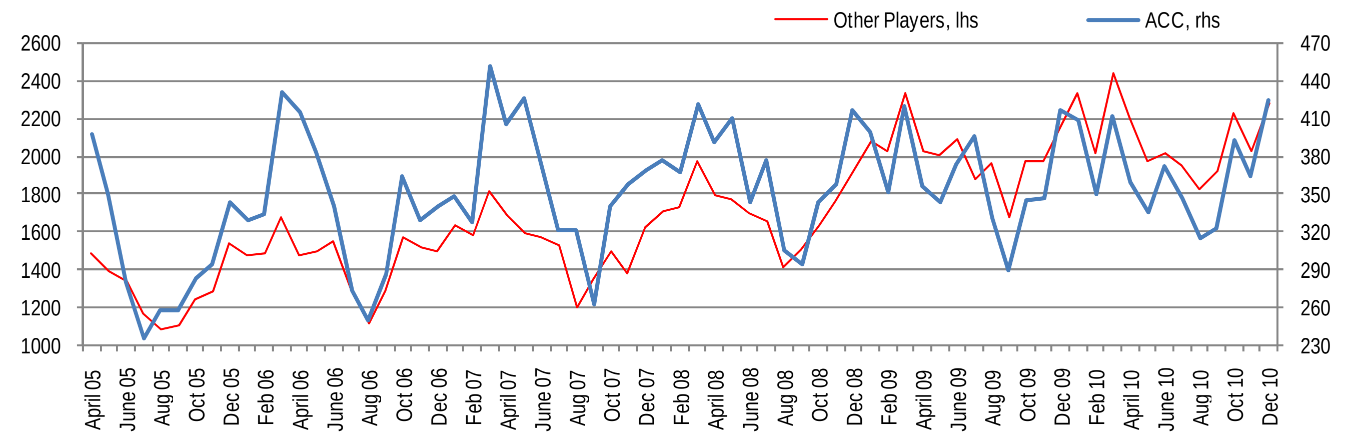


SOUTH INDIA ('000 TONNES)

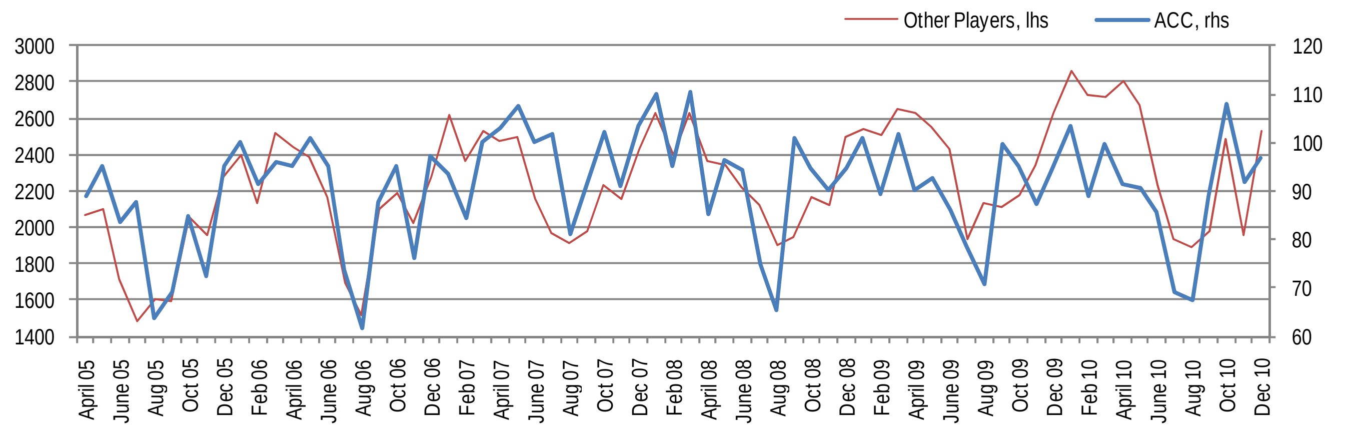


Source: Company, CMA, MF Global India Research

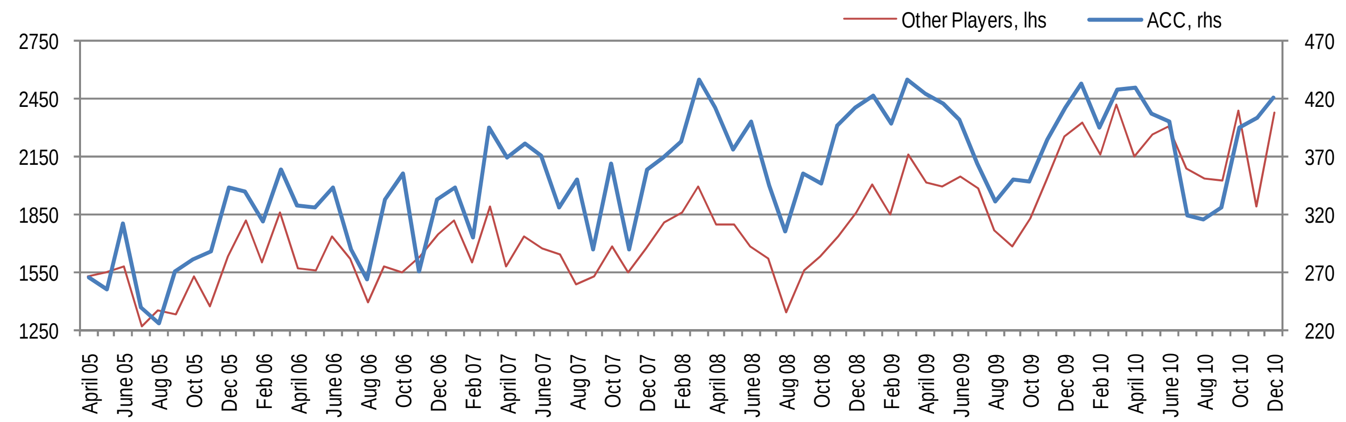
EAST INDIA ('000 TONNES)



WEST INDIA ('000 TONNES)



CENTRAL INDIA ('000 TONNES)



Source: Company, CMA, MF Global India Research

Across regions, we can see a similarity in the movement of despatches of ACC and other players at a regional or an all-India level. Very clearly with capacity constraint (pre-FY08), ACC moved in tandem, but the relative movement in ACC's despatches was higher than that of the industry as the company wanted to take full benefit of the buoyant pricing scenario. However, in the over-capacity scenario, ACC has cut down its despatches significantly and followed an identical pattern as compared to other players on both all-India and regional levels.

Financials

INCOME STATEMENT

Y/E DEC, RS MN	CY2008	CY2009	CY2010	CY2011E	CY2012E
NET SALES	77,197	84,796	82,588	96,851	110,240
GROWTH, %	*9.2*	*9.8*	*(2.6)*	*17.3*	*13.8*
OPERATING EXPENSES	(60,573)	(60,173)	(67,183)	(76,209)	(83,984)
EBITDA	16,624	24,623	15,405	20,642	26,256
GROWTH, %	*(14)*	*48*	*(37)*	*34*	*27*
MARGIN, %	*21.5*	*29.0*	*18.7*	*21.3*	*23.8*
DEPRECIATION	(3,205)	(3,731)	(4,277)	(4,968)	(5,702)
EBIT	13,419	20,891	11,128	15,674	20,554
GROWTH, %	*(14)*	*48*	*(37)*	*34*	*27*
MARGIN, %	*17.4*	*24.6*	*13.5*	*16.2*	*18.6*
NET INTEREST AND OTHERS	2,404	1,615	3,061	2,697	3,253
PRE-TAX PROFIT	15,822	22,506	14,189	18,371	23,807
TAX PROVIDED	(5,252)	(6,868)	(3,414)	(5,511)	(7,142)
MINORITIES	(0)	1	(0)	-	-
PROFIT AFTER TAX	10,570	15,639	10,775	12,859	16,665
MF GLOBAL NET PROFIT	10,570	15,639	10,775	12,859	16,665
GROWTH, %	*(13.2)*	*48.0*	*(31.1)*	*19.3*	*29.6*
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	426	-	-	-	-
UNADJ. SHARES (M)	188	188	188	188	188
WTD AVG SHARES (M)	188	188	188	188	188

CASH FLOW

Y/E DEC, RS MN	CY2008	CY2009	CY2010E	CY2011E	CY2012E
PRE-TAX PROFIT	15,822	22,506	14,189	18,371	23,807
DEPRECIATION	3,205	3,731	4,277	4,968	5,702
CHG IN DEBTORS	(520)	839	245	(431)	(404)
CHG IN INVENTORY	(576)	133	(1,398)	(1,599)	(1,501)
CHG IN LOANS & ADVANCES	(1,110)	287	582	(769)	(722)
CHG IN OTHER CURRENT ASSETS	(31)	97	(446)	(98)	(92)
CHG IN CURRENT LIABILITIES	3,036	2,961	416	3,824	3,589
CHG IN PROVISIONS	2,970	1,274	5,606	2,856	2,680
TOTAL TAX PAID	(5,211)	(6,742)	(3,292)	(5,386)	(7,017)
OTHER OPERATING ACTIVITIES	-	-	-	-	-
CASH FLOW FROM OPERATING ACTIVITIES (A)	17,585	25,086	20,179	21,735	26,042
CAPITAL EXPENDITURE	(15,540)	(16,372)	(7,626)	(13,015)	(5,000)
CHG IN INVESTMENTS	2,737	(6,752)	(2,148)	-	-
OTHER INVESTING ACTIVITIES	439	-	-	-	-
CASH FLOW FROM INVESTING ACTIVITIES (B)	(12,363)	(23,125)	(9,774)	(12,980)	(4,965)
FREE CASH FLOW (A+B)	5,222	1,961	10,405	8,755	21,077
EQUITY RAISED/(REPAID)	3	3	2	0	0
CHG IN MINORITIES	(56)	0	(0)	-	-
DEBT RAISED/(REPAID)	1,673	849	(430)	-	-
DIVIDEND (INCL. TAX)	(4,391)	(5,051)	(6,707)	(5,135)	(6,655)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(2,771)	(4,199)	(7,134)	(5,135)	(6,655)
NET CHG IN CASH (A+B+C)	2,450	(2,238)	3,271	3,619	14,422

BALANCE SHEET

AS AT 31ST DEC, RS MN	CY2008	CY2009	CY2010E	CY2011E	CY2012E
CASH & BANK	9,915	7,544	10,856	14,440	28,827
DEBTORS	3,579	2,739	2,494	2,925	3,329
INVENTORY	7,993	7,861	9,259	10,858	12,359
LOANS & ADVANCES	5,321	5,034	4,453	5,221	5,943
OTHER CURRENT ASSETS	220	123	569	668	760
TOTAL CURRENT ASSETS	27,028	23,302	27,630	34,112	51,219
GROSS FIXED ASSETS	61,140	71,650	85,209	108,866	113,866
LESS: DEPRECIATION	(24,536)	(27,866)	(32,143)	(37,111)	(42,813)
ADD: CAPITAL WIP	16,114	21,575	15,642	5,000	5,000
NET FIXED ASSETS	52,718	65,359	68,708	76,755	76,053
INVESTMENTS	5,169	11,921	14,069	14,069	14,069
TOTAL ASSETS	84,914	100,582	110,407	124,936	141,340
CURRENT LIABILITIES	18,763	21,724	22,140	25,963	29,552
NON-CURRENT LIABILITIES	17,896	20,144	25,442	28,423	31,229
TOTAL LIABILITIES	36,659	41,868	47,582	54,387	60,782
PAID-UP CAPITAL	1,879	1,880	1,880	1,880	1,880
RESERVES & SURPLUS	46,364	56,819	60,928	68,652	78,662
LESS: MISC. EXP.	(11)	(10)	(7)	(7)	(7)
SHAREHOLDERS' EQUITY	48,231	58,690	62,801	70,525	80,534
MINORITIES	25	24	24	24	24
TOTAL EQUITY & LIABILITIES	84,914	100,582	110,407	124,936	141,340

PER-SHARE DATA

	CY2008	CY2009	CY2010E	CY2011E	CY2012E
MF GLOBAL EPS (INR)	56.3	83.2	57.3	68.4	88.7
GROWTH, %	*(13.3)*	*47.7*	*(31.1)*	*19.4*	*29.6*
BOOK NAV/SHARE (INR)	257.2	312.4	334.2	375.4	428.6
FDEPS (INR)	56.3	83.2	57.4	68.4	88.7
CEPS (INR)	73.4	103.1	80.1	94.9	119.0
CFPS (INR)	81.5	122.6	88.0	101.5	123.7
DPS (INR)	20.0	23.0	30.5	23.4	30.3

FINANCIAL STRUCTURE

	CY2008	CY2009	CY2010E	CY2011E	CY2012E
TOTAL DEBT/EQUITY (%)	10.0	9.7	8.3	7.4	6.5
NET DEBT/EQUITY (%)	(10.6)	(3.2)	(8.9)	(13.0)	(29.3)

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	CY2008	CY2009	CY2010E	CY2011E	CY2012E
RETURN ON ASSETS (%)	13.5	17.2	10.6	10.9	12.3
RETURN ON EQUITY (%)	23.5	29.2	17.7	19.3	22.1
RETURN ON INVESTED CAPITAL (%)	24.5	31.0	19.1	21.6	26.4
ROIC/COST OF CAPITAL (X)	3.0	3.8	2.4	2.7	3.3
ROIC - COST OF CAPITAL (%)	16.4	22.8	11.0	13.5	18.3
RETURN ON CAPITAL EMPLOYED (%)	17.3	21.9	13.3	13.7	15.5
COST OF CAPITAL (%)	8.1	8.1	8.1	8.1	8.1
ROCE - COST OF CAPITAL (%)	9.2	13.8	5.2	5.6	7.5
ASSET TURNOVER (X)	1.7	1.5	1.3	1.4	1.6
SALES/TOTAL ASSETS (X)	1.0	0.9	0.8	0.8	0.8
SALES/NET FA (X)	1.7	1.4	1.2	1.3	1.4
WORKING CAPITAL/SALES (X)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
RECEIVABLE DAYS	16.9	11.8	11.0	11.0	11.0
INVENTORY DAYS	37.8	33.8	40.9	40.9	40.9
CURRENT RATIO (X)	1.4	1.1	1.2	1.3	1.7
QUICK RATIO (X)	1.0	0.7	0.8	0.9	1.3
INTEREST COVER (X)	N/A	48.5	19.2	N/A	N/A
DIVIDEND COVER (X)	2.8	3.6	1.9	2.9	2.9
PER (X)	17.9	12.2	17.6	14.8	11.4
PEG (X) - Y-O-Y GROWTH	(1.4)	0.3	(0.6)	0.8	0.4
PRICE/BOOK (X)	3.9	3.2	3.0	2.7	2.4
YIELD (%)	2.0	2.3	3.0	2.3	3.0
EV/NET SALES (X)	2.4	2.2	2.2	1.9	1.5
EV/EBITDA (X)	11.1	7.6	12.0	8.8	6.3
EV/EBIT (X)	11.1	7.6	12.0	8.8	6.3
EV/NOPLAT (X)	16.6	11.0	15.8	12.5	9.1
EV/CE	2.8	2.4	2.1	1.8	1.5
EV/IC (X)	4.1	3.4	3.0	2.7	2.4

Source: Company, MF Global India Research Estimates

Equity Research | India

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MF Global

25 February 2011

MF Global Initiating Report

Ambuja Cements Ltd.

| The most disciplined amongst cement majors

CEMENT

ACEM IN: **BUY**

RS 124

Ambuja Cements Ltd. (ACL) is another Holcim-controlled player with the third largest cement capacity in India. Except for the South, ACL enjoys a presence in all other four regions of India.

Investment Rationale

» Like ACC, ACL also enjoys premium realizations as compared to peers. Also, like ACC, ACL too is a company which relies more on pricing than volumes.

» Considering the relative movement of despatches of ACL vs. peers, ACL has observed the highest discipline and probably that is the key reason for the realisation premium of ACL vs. other players.

» No exposure to the south makes ACL a better bet than other pan-India peers as this region may continue to remain vulnerable for some more time as far as cement prices are concerned.

» ACL's profitability margins have remained higher than the closest peers (ACC and UltraTech) and are likely to remain so.

» ACL is a pure cement-focused player and has no presence in other related business like that of RMX concrete, etc. This makes ACL a better investment opportunity than peers amongst the large-cap cement stocks for investors who are looking for a pure cement player with no other related business.

Risks

» Shift in focus from pricing to volume.

» Unprecedented hikes in input costs.

Valuation

» At the CMP of Rs124/-, ACL trades at 12.2x & 10.2x P/E, 6.6x & 5.2x EV/EBITDA and US$ 131 & 107 EV/tonne on CY11E & CY12E, earnings, respectively. At our target price of Rs161, it will trade at 15.9x & 13.2x P/E, 9.0x & 7.2x EV/EBITDA and US$ 179 & 167 EV/tonne on CY11E & CY12E, earnings, respectively.

TARGET RS 161 (+30%)

SECTOR RATING

OW	N	UW
■		

STOCK RATING

BUY	NEUTRAL	SELL
■		
> 15%	-15% TO +15%	< -15%

COMPANY DATA	
O/S SHARES :	1530MN
MARKET CAP (RS) :	190BN
MARKET CAP (USD) :	4.2BN
52 - WK HI/LO (RS) :	167 / 102
LIQUIDITY 3M (USD) :	4.8MN
FACE VALUE (RS) :	2

SHARE HOLDING PATTERN, %	
PROMOTERS :	46.3
FII / NRI :	30.0
FI / MF :	14.7
NON-PROMOTER CORP. HOLDINGS :	1.0
PUBLIC & OTHERS :	8.0

PRICE PERFORMANCE, %	1MTH	3MTH	1YR
ABS	-1.6	-13.3	2.2
REL TO BSE	2.8	-5.6	3.4

VALUATION SUMMARY

Y/E DEC, RS MN	CY2008	CY2009	CY2010E	CY2011E	CY2012E
NET SALES	62,618	70,769	73,902	86,519	95,875
NET SALES GROWTH, %	8.1	13.0	4.4	17.1	10.8
CORE EBIDTA	17,715	18,669	18,230	23,923	27,730
EBIDTA MARGIN, %	28.3	26.4	24.7	27.7	28.9
MF GLOBAL NET PROFIT	10,864	12,184	12,364	15,523	18,618
NET PROFIT MARGIN, %	17.3	17.2	16.7	17.9	19.4
MF GLOBAL EPS, RS	7.1	8.0	8.1	10.1	12.2
EPS GROWTH, %	(17.4)	12.1	1.2	25.3	19.9
PER, X	17.3	15.4	15.3	12.2	10.2
EV/EBIDTA, X	10.3	9.7	9.4	6.6	5.2
EV/NET SALES, X	2.9	2.5	2.3	1.8	1.5
PRICE/BOOK VALUE, X	3.3	2.9	2.6	2.3	2.0
EV/TONNE (US$)	180	173	152	131	120
ROIC, %	24.3	21.4	21.5	25.6	30.2
ROE, %	20.7	20.1	17.9	19.9	20.9

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX

Source: Bloomberg, MF Global India Research

Investment Overview

SUSTAINABLE COMPETITIVE ADVANTAGE	PREMIUM REALISATIONS AS COMPARED TO PEERS (EXCEPT ACC, A SISTER CONCERN OF AMBUJA)
FINANCIAL STRUCTURE	VERY STRONG BALANCE SHEET AND NO SIGNIFICANT CAPEX ANNOUNCED
SHAREHOLDER VALUE CREATION	ANOTHER HIGHLY DICIPLINED PLAYER AND REWARDS SHAREHOLDERS WITH HIGH DIVIDEND PAYOUTS. PAYOUT RATIO IN CY10 IS LIKELY AT ~37%
EARNINGS VISIBILITY	NO EXPOSURE TO THE SOUTH AND MARGINAL EXPOSURE TO CENTRAL INDIA SHOULD MAKE ACL MUCH MORE COMFORTABLE TO SUSTAIN ITS PREMIUM REALISATIONS AND HENCE, STRONG EARNINGS
VALUATION	CURRENTLY TRADES AT US$131 EV/TONNE. OUR TARGET PRICE IMPLIES A EV/TONNE OF ~US$179 WHICH IS ~49% PREMIUM TO REPLACEMENT COST
MF GLOBAL VS. CONSENSUS	WE ARE ~21% HIGHER THAN CONSENSUS ESTIMATES FOR ACL IN CY11E
FUTURE EVENT TRIGGERS	MERGER OF ACC AND AMBUJA WILL HELP BOTH THE COMPANIES TO STRENGHTHEN MARKET SHARES AND POSITIONING ACROSS REGIONS.
EXPECTED PRICE MOMENTUM	OUR TARGET PRICE IMPLIES A UPSIDE OF ~30%

Source: MF Global India Research

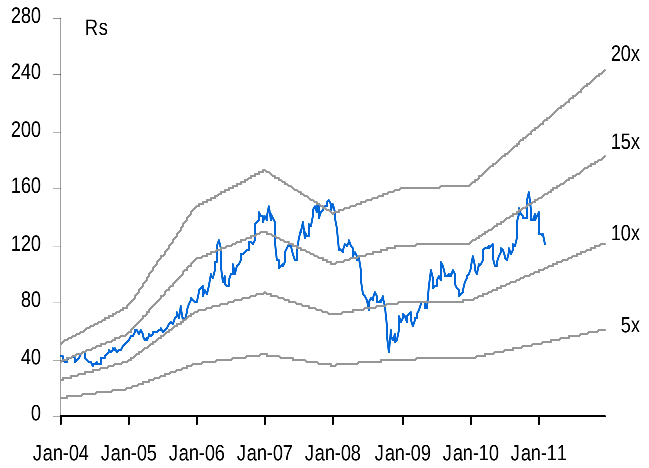
Rating and Price Target

RATING	BUY
CY11E EBITDA (RS MN)	23923
CY11E EBITDA MARGIN, %	28%
CY11E EBITDA/SHARE (RS)	16
TARGET EV/EBITDA (X)	9.0
TARGET EV/SHARE (RS)	141
NET DEBT/SHARE	-20
EQUITY FAIR VALUE/SHARE (RS)	161
% UPSIDE	*30%*
CY11E IMPLIED TARGET EV/TONNE (US$)	179
CY11E IMPLIED TARGET P/E (X)	15.8
CY11E EV BASED ON CMP (RS MN)	156805
CY11E CAPACITY (EOP, MTPA)	27.0
CY11E EBITDA (RS MN)	23923
CY11E EV/EBITDA (X)	6.6
CY11E P/E (X)	12.2
CY11E EV/TONNE (US$)	131

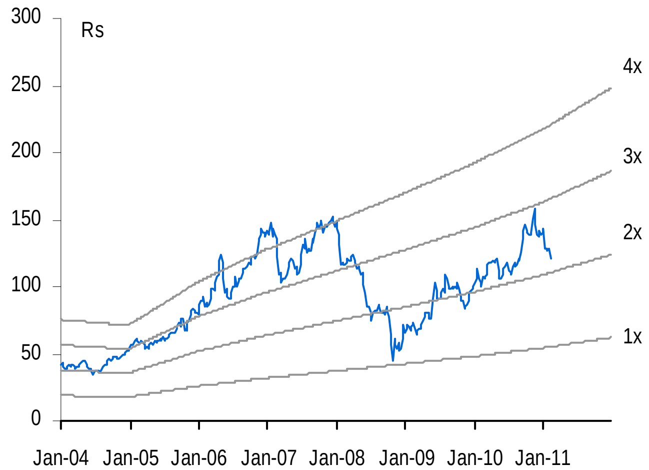
Source: MF Global India Research

Absolute Rolling Valuation Band Charts

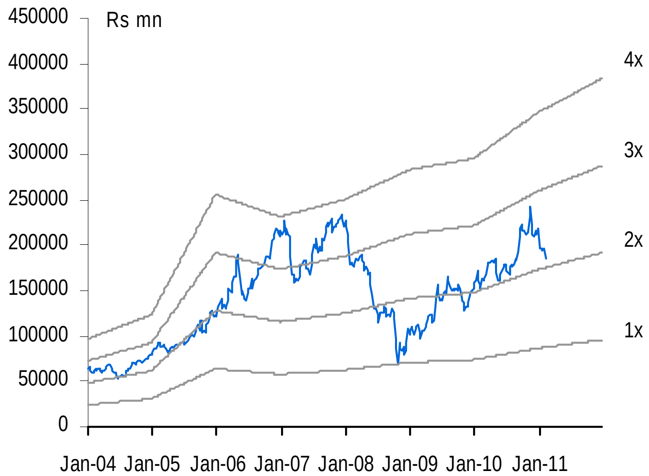
PE BAND



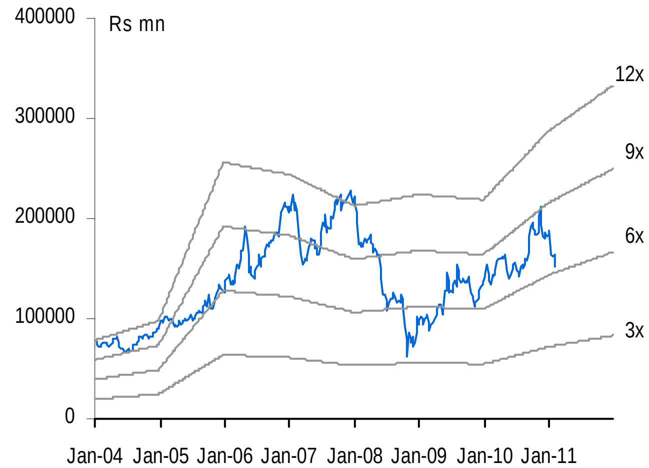
PBV BAND



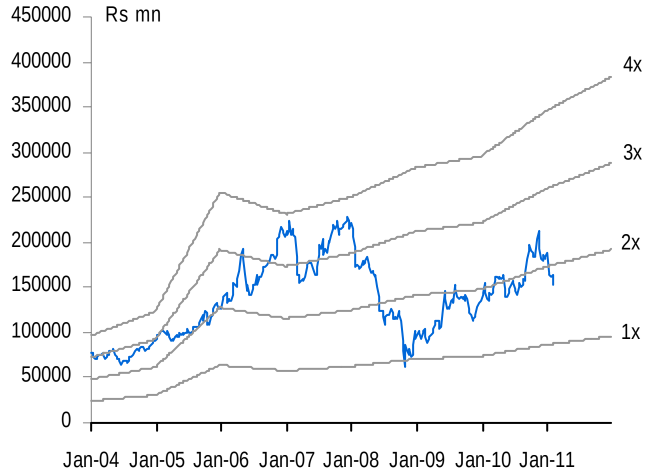
MCAP/SALES BAND



EV/EBIDTA BAND



EV/SALES BAND

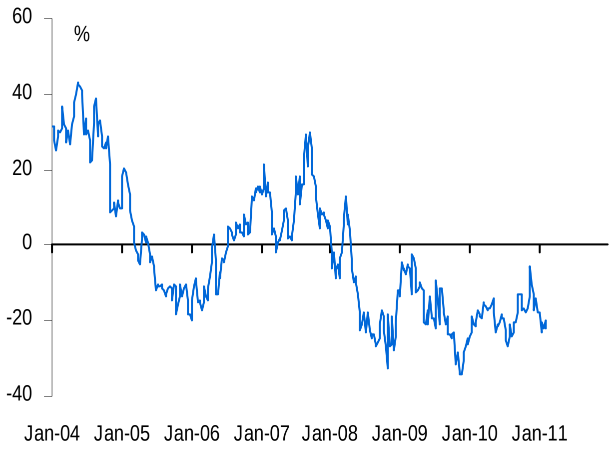


Source: MF Global India Research

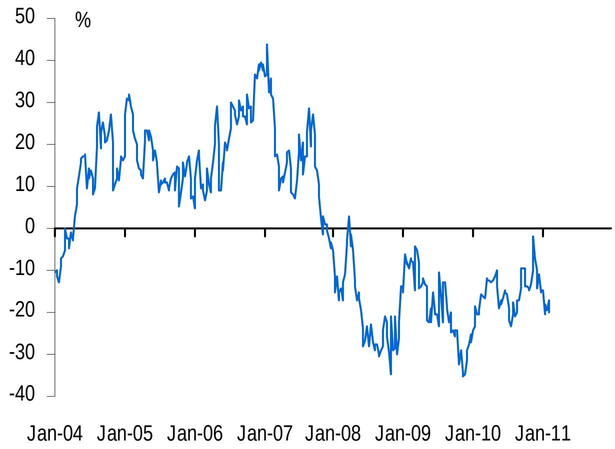
» Ambuja currently trades at discount to its previous peak valuations around Jan '08. Given the price hikes across regions in Q4FY11E, Ambuja's stock price is expected to gain momentum as the company gets back on track with higher profitability. No exposure to South India (largest regional capacity of India) makes Ambuja's profitability much more sustainable than that of ACC. We expect Ambuja's stock price to gain momentum with higher profitability of the company and thereby expansion in valuation multiples.

Premium/Discount to Sensex

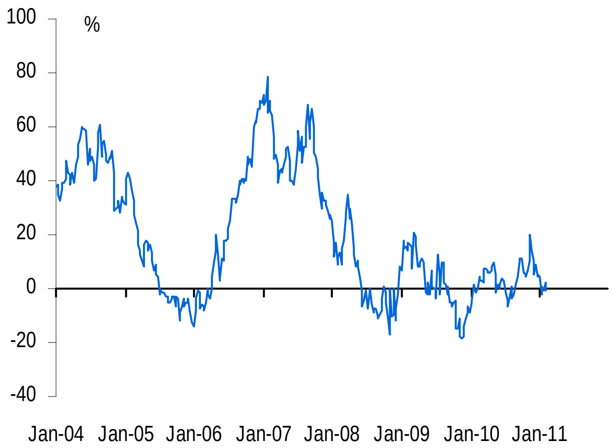
PE



PBV

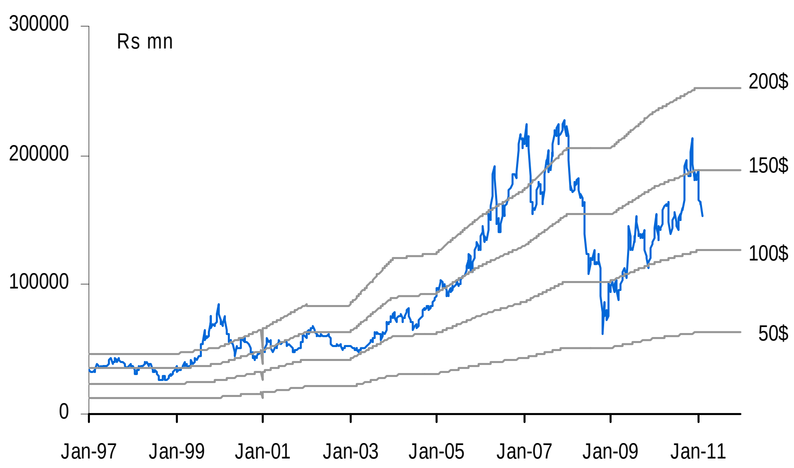


MCAP/SALES



Source: MF Global India Research

EV/TONNE BAND CHART

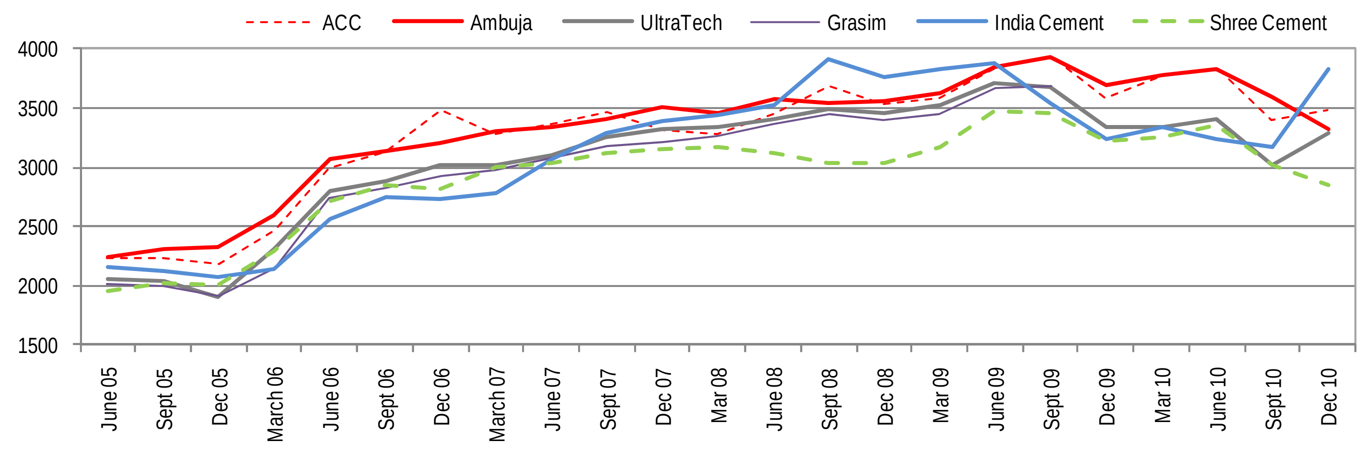


Source: MF Global India Research

» On EV/tonne ACL currently trades at ~US$131/tonne which is at a marginal discount even to ACC (US$134 EV/tonne). Better profitability margins and a better despatch mix (no exposure to South India, a region still at marginal risk of pricing) should lead to ACL outperforming ACC from here-on. In previous down cycle ACL traded at 70% premium to the replacement cost. Out target valuation of US179/tonne implies a 49% premium.

Investment Thesis

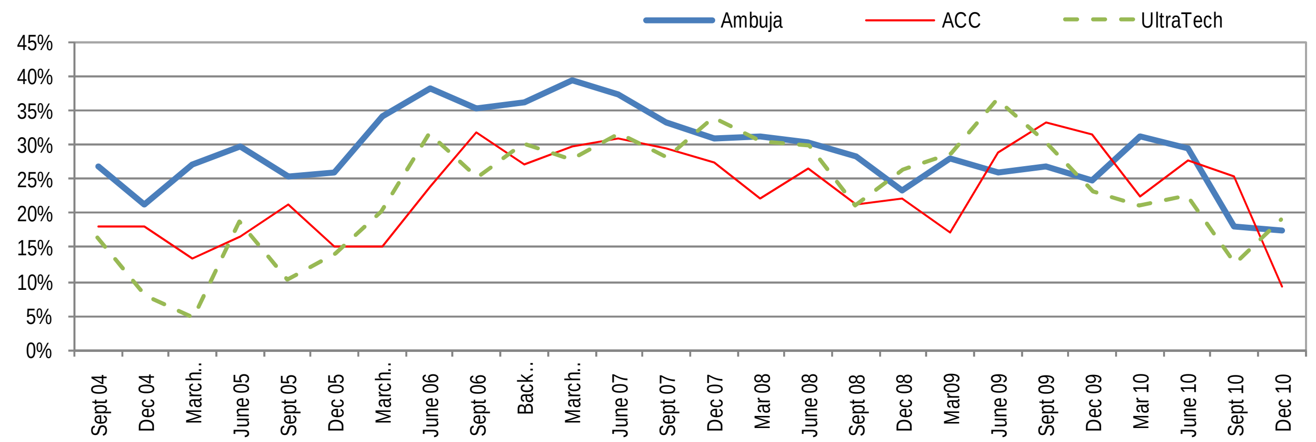
ACL'S AVERAGE REALISATIONS VS. PEERS (RS/TON)



Source: Company, MF Global India Research

Like ACC, ACL also enjoys premium realizations as compared to its peers in the sector. Both ACL and ACC are at a very strong competitive advantage over other players. However, a highly cautious approach by both these players is very essential in order to sustain this premium as UltraTech approaches closer on realisation front.

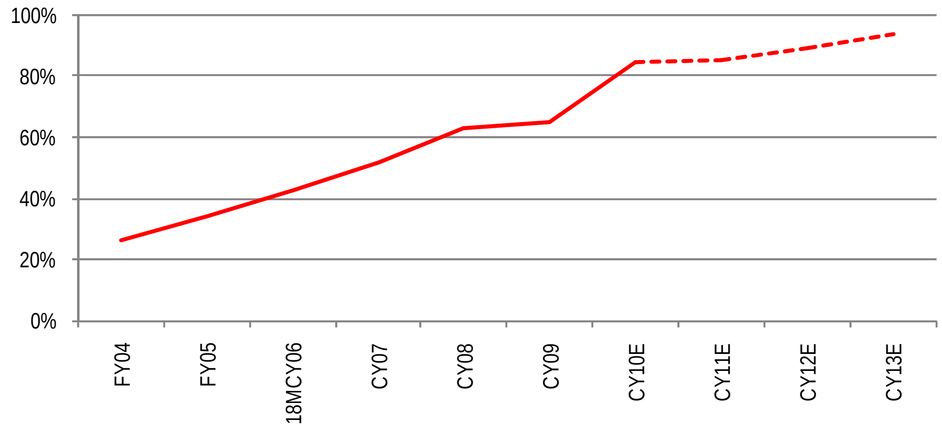
HIGHER PROFITABILITY THAN PEERS IS THE KEY REASON FOR PREMIUM VALUATIONS



Source: Company, MF Global India Research

On most occasions, ACL has reported better profitability than peers, which has also been the key reason for its valuation premium. Delayed commissioning of its Bhatapara clinkerisation unit led to a mismatch between the clinker and cement capacities of Ambuja Cements. As a result, there was a mismatch between ACL's clinker and cement capacities, which led to compression of ACL's margins last year. However, with the commissioning of both of its Bhatapara and Rauri clinker units, the temporary issue of clinker and grinding mismatch has been resolved. With growing realizations, we expect ACL to report further improvement in its EBITDA margins. UltraTech will remain the closest threat to Ambuja Cements. We expect ACL to report operating margins of ~27.7% and 28.9% for CY11E and CY12E, respectively.

LOW COST POWER AS A % OF TOTAL REQUIREMENT

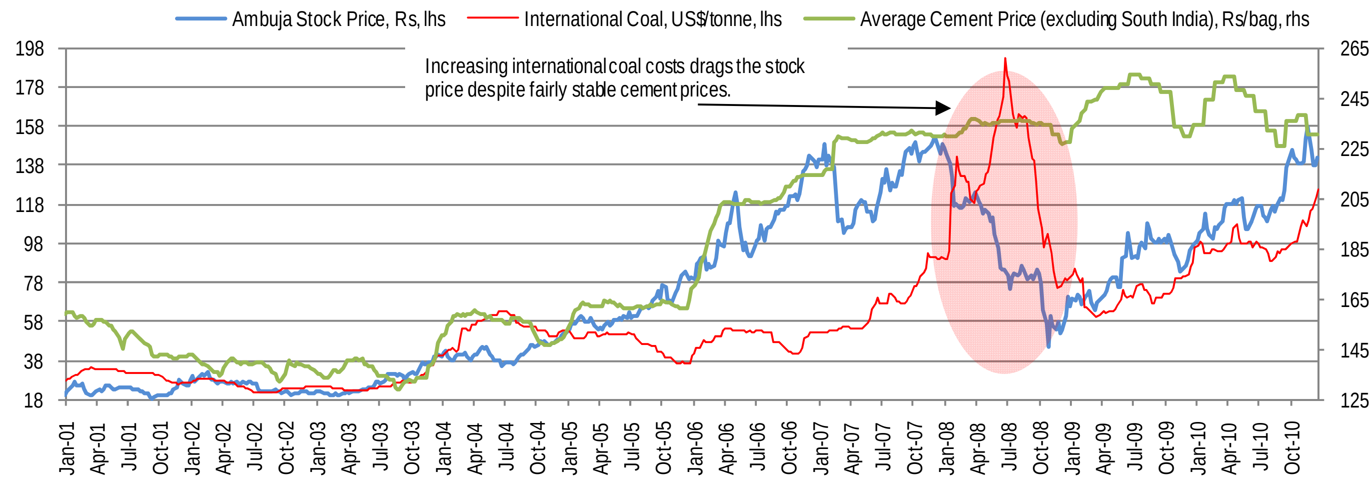


Low cost power to contribute ~90% of the total requirements for power for ACL by CY12E. With ~400 MWs of captive power, we expect ACL to make savings of ~Rs0.70/unit as compared to grid power cost/unit. Self-sufficiency in power requirement will balance the cost structure further for ACL.

Source: Company, MF Global India Research

Though power and fuel costs remain a key concern for the industry, with 400MW of captive power, Ambuja Cements is also very likely to become self sufficient for its power requirement. This should provide a further cushion for ACL's operating margins as the cost structure gets balanced. With the current fuel costs, we expect ACL to save ~Rs 0.70/unit of power (as compared to grid costs), going forward, from these power capacities. However, rising fuel costs remain a concern for Ambuja Cements. The following chart depicts the movement of the stock price of Ambuja Cement vis-à-vis international coal prices and average India cement prices (excluding South India).

STOCK PRICE MOVEMENT OF AMBUJA CEMENTS VS. INTERNATIONAL COAL PRICES AND AVERAGE CEMENT PRICES (EXCLUDING SOUTH INDIA)

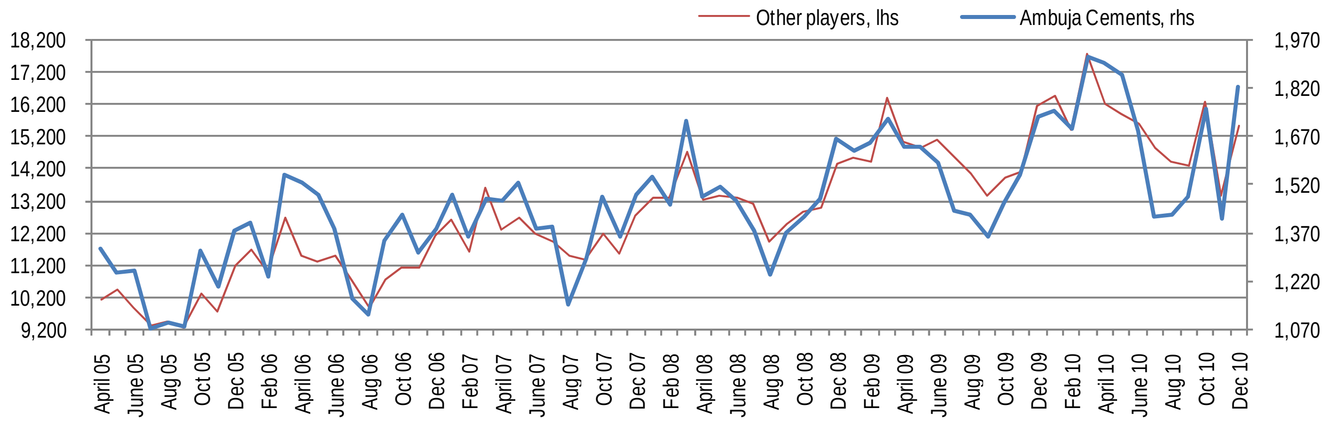


Source: Bloomberg, Crisil, MF Global India Research

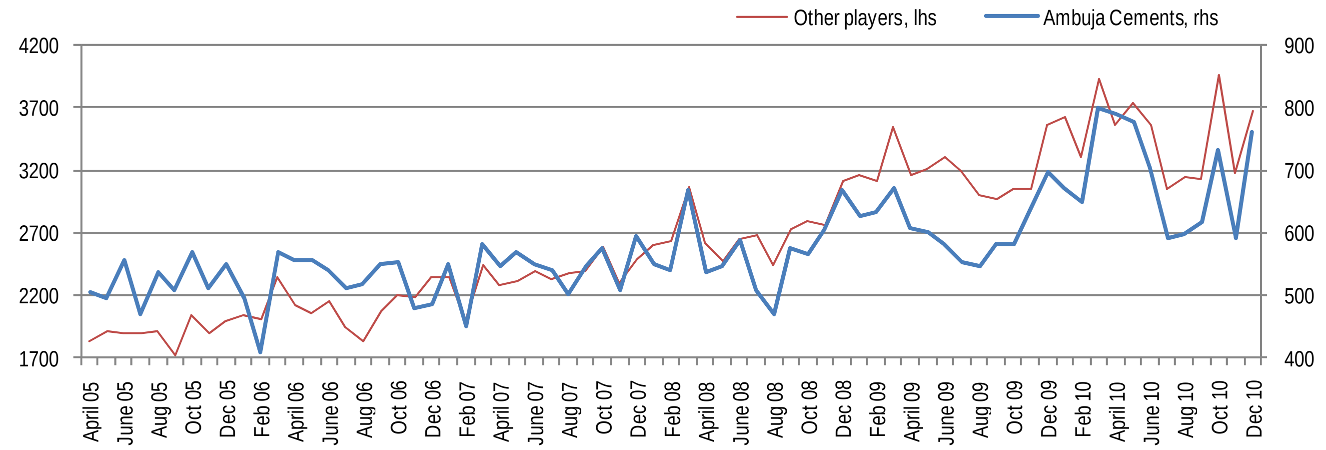
ACL is completely dependent on international coal for its Gujarat operations and it accounts for ~20% of its total capacity. As we can see, international coal costs clearly correlates to the stock price of Ambuja Cements. However, the impact on the stock price has been neutralised to the extent of cement price hikes (Jan'09 onwards). Coal prices still remain a concern. However, we believe that with the rising cement prices, the price hikes are likely to more than offset the incremental increase in fuel costs.

Disciline of Ambuja Cements

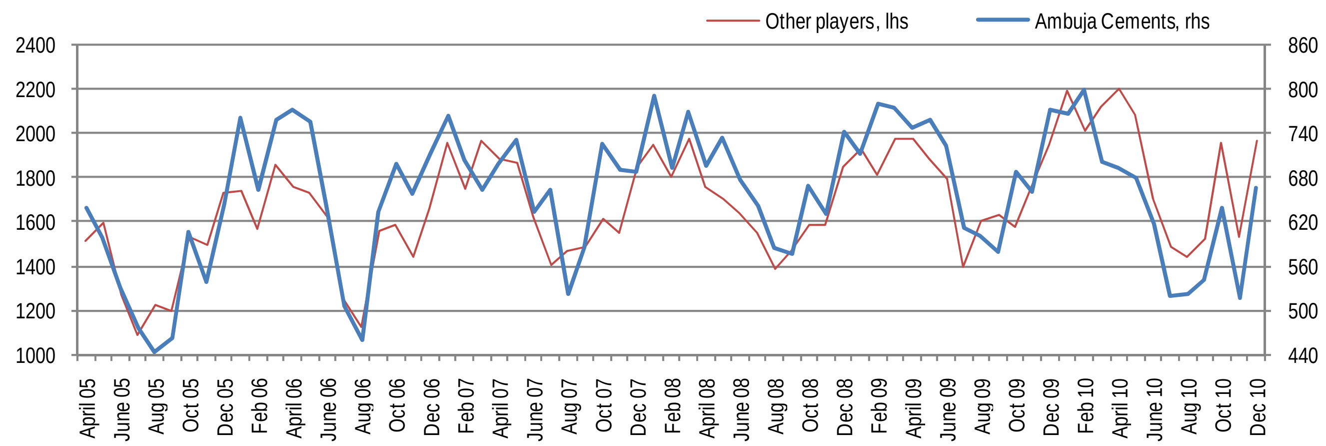
INDUSTRY



NORTH INDIA

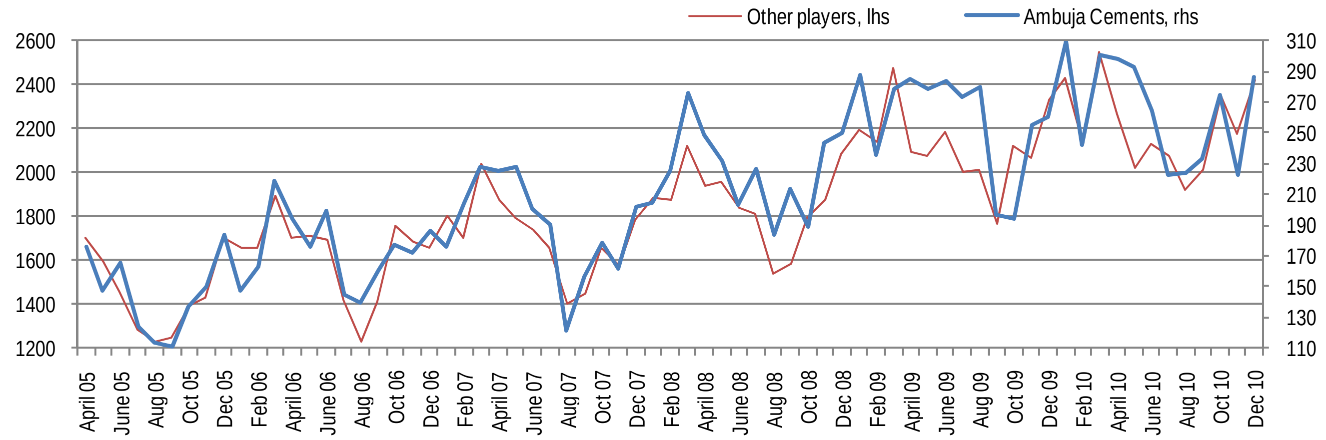


WEST INDIA

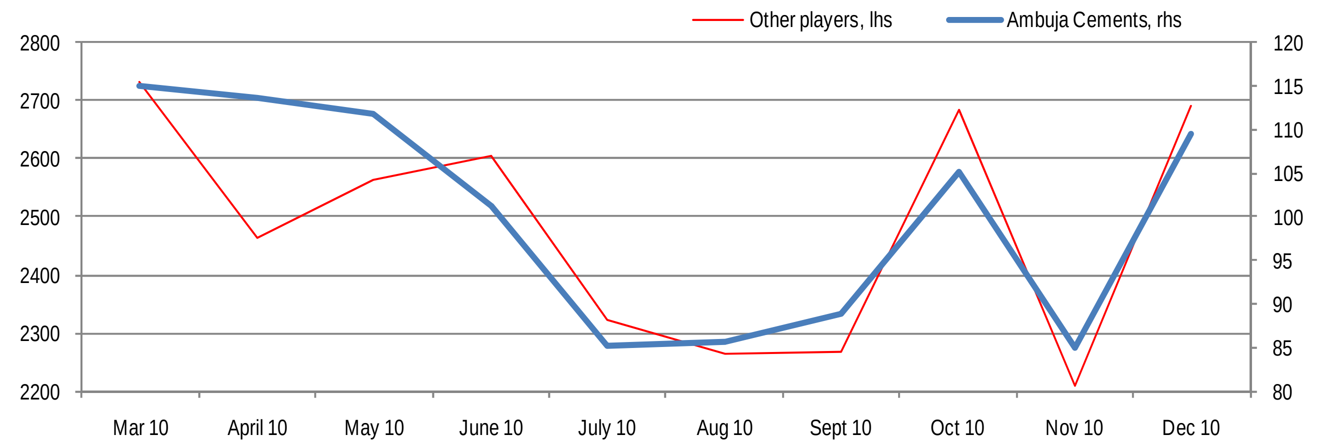


Source: Company, MF Global India Research

EAST INDIA



CENTRAL INDIA



Source: Company, MF Global India Research

Amongst all peers, ACL is the most disciplined cement major till date. Both in the periods of capacity constraint and overcapacity, ACL has clearly followed a path which has been identical to that of the other players in the region. Central India is the best example to highlight ACL's discipline. Even in a short span of 9 months, movement of ACL's despatches has very closely followed the relative movement of other players and this shows the importance of being disciplined for ACL.

Financials

INCOME STATEMENT

Y/E DEC, RS MN	CY2008	CY2009	CY2010	CY2011E	CY2012E
NET SALES	62,618	70,769	73,902	86,519	95,875
GROWTH, %	*8.1*	*13.0*	*4.4*	*17.1*	*10.8*
OPERATING EXPENSES	(44,903)	(52,100)	(55,672)	(62,596)	(68,145)
EBITDA	17,715	18,669	18,230	23,923	27,730
GROWTH, %	*(13)*	*5*	*(2)*	*31*	*16*
MARGIN, %	*28.3*	*26.4*	*24.7*	*27.7*	*28.9*
DEPRECIATION	(2,601)	(2,970)	(3,872)	(4,794)	(5,181)
EBIT	15,114	15,699	14,358	19,129	22,549
GROWTH, %	*(13)*	*5*	*(2)*	*31*	*16*
MARGIN, %	*24.1*	*22.2*	*19.4*	*22.1*	*23.5*
NET INTEREST AND OTHERS	1,429	2,334	1,989	3,046	4,048
PRE-TAX PROFIT	16,543	18,033	16,347	22,175	26,597
TAX PROVIDED	(5,679)	(5,849)	(3,983)	(6,653)	(7,979)
MINORITIES & PREF. DIVIDEND	-	-	-	-	-
PROFIT AFTER TAX	10,864	12,184	12,364	15,523	18,618
MF GLOBAL NET PROFIT	10,864	12,184	12,364	15,523	18,618
GROWTH, %	*(17.3)*	*12.1*	*1.5*	*25.5*	*19.9*
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	3,033	-	265	-	-
UNADJ. SHARES (M)	1,523	1,524	1,530	1,530	1,530
WTD AVG SHARES (M)	1,523	1,523	1,527	1,530	1,530

CASH FLOW

Y/E DEC, RS MN	CY2008	CY2009	CY2010E	CY2011E	CY2012E
PRE-TAX PROFIT	16,543	18,033	16,347	22,175	26,597
DEPRECIATION	2,601	2,970	3,872	4,794	5,181
CHG IN DEBTORS	(892)	724	240	(219)	(162)
CHG IN INVENTORY	(3,535)	2,565	(2,186)	(1,540)	(1,142)
CHG IN LOANS & ADVANCES	(945)	466	(873)	(581)	(431)
CHG IN OTHER CURRENT ASSETS	(181)	132	(64)	(28)	(21)
CHG IN CURRENT LIABILITIES	3,265	623	2,335	2,220	1,647
CHG IN PROVISIONS	(195)	2,035	4,225	1,872	1,388
TOTAL TAX PAID	(5,656)	(4,798)	(3,532)	(6,653)	(7,979)
CASH FLOW FROM OPERATING ACTIVITIES (A)	11,006	22,750	20,364	22,041	25,078
CAPITAL EXPENDITURE	(17,298)	(13,070)	(7,954)	(2,554)	(5,000)
CHG IN INVESTMENTS	11,525	(3,992)	1,059	-	-
OTHER INVESTING ACTIVITIES	1,176	87	821	-	-
CASH FLOW FROM INVESTING ACTIVITIES (B)	(4,597)	(16,975)	(6,074)	(2,554)	(5,000)
FREE CASH FLOW (A+B)	6,409	5,775	14,290	19,487	20,078
EQUITY RAISED/(REPAID)	19	17	47	0	0
CHG IN MINORITIES	(4)	-	-	-	-
DEBT RAISED/(REPAID)	(500)	(1,230)	(1,007)	-	-
DIVIDEND (INCL. TAX)	(3,919)	(4,277)	(4,654)	(5,719)	(6,860)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(4,404)	(5,490)	(5,614)	(5,719)	(6,860)
NET CHG IN CASH (A+B+C)	2,005	285	8,677	13,768	13,218

BALANCE SHEET

AS AT 31ST DEC, RS MN	CY2008	CY2009	CY2010E	CY2011E	CY2012E
CASH & BANK	8,521	8,807	17,484	31,252	44,469
DEBTORS	2,246	1,522	1,282	1,501	1,663
INVENTORY	9,398	6,832	9,019	10,558	11,700
LOANS & ADVANCES	2,997	2,531	3,403	3,984	4,415
OTHER CURRENT ASSETS	234	102	166	194	215
TOTAL CURRENT ASSETS	23,396	19,793	31,353	47,489	62,462
GROSS FIXED ASSETS	57,101	62,241	88,032	98,032	103,032
LESS: DEPRECIATION	(25,129)	(27,841)	(31,713)	(36,507)	(41,688)
ADD: CAPITAL WIP	19,472	27,144	9,307	1,861	1,861
NET FIXED ASSETS	51,445	61,545	65,627	63,386	63,206
INVESTMENTS	3,278	7,270	6,211	6,211	6,211
TOTAL ASSETS	78,119	88,608	103,191	117,086	131,879
CURRENT LIABILITIES	10,048	10,671	13,005	15,225	16,872
NON-CURRENT LIABILITIES	11,400	13,256	16,925	18,797	20,185
TOTAL LIABILITIES	21,448	23,926	29,930	34,022	37,057
PAID-UP CAPITAL	3,045	3,047	3,060	3,060	3,060
RESERVES & SURPLUS	53,669	61,662	70,206	80,009	91,767
LESS: MISC. EXP.	(43)	(27)	(5)	(5)	(5)
SHAREHOLDERS' EQUITY	56,671	64,682	73,261	83,064	94,822
MINORITIES	-	-	-	-	-
TOTAL EQUITY & LIABILITIES	78,119	88,608	103,191	117,086	131,879

PER-SHARE DATA

	CY2008	CY2009	CY2010E	CY2011E	CY2012E
MF GLOBAL EPS (INR)	7.1	8.0	8.1	10.1	12.2
GROWTH, %	*(17.4)*	*12.1*	*1.2*	*25.3*	*19.9*
BOOK NAV/SHARE (INR)	37.2	42.5	48.0	54.3	62.0
FDEPS (INR)	7.1	8.0	8.1	10.1	12.2
CEPS (INR)	8.8	9.9	10.6	13.3	15.6
CFPS (INR)	6.1	13.3	11.7	12.2	13.6
DPS (INR)	2.2	2.4	2.6	3.2	3.8

FINANCIAL STRUCTURE

	CY2008	CY2009	CY2010E	CY2011E	CY2012E
TOTAL DEBT/EQUITY (%)	5.1	2.6	0.9	0.8	0.7
NET DEBT/EQUITY (%)	(9.9)	(11.1)	(23.0)	(36.8)	(46.2)

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	CY2008	CY2009	CY2010E	CY2011E	CY2012E
RETURN ON ASSETS (%)	15.2	14.8	13.2	14.3	15.1
RETURN ON EQUITY (%)	20.7	20.1	17.9	19.9	20.9
RETURN ON INVESTED CAPITAL (%)	24.3	21.4	21.5	25.6	30.2
ROIC/COST OF CAPITAL (X)	3.0	2.7	2.7	3.2	3.8
ROIC - COST OF CAPITAL (%)	16.3	13.4	13.6	17.7	22.2
RETURN ON CAPITAL EMPLOYED (%)	17.2	16.9	15.1	16.3	17.3
COST OF CAPITAL (%)	8.0	8.0	7.9	7.9	7.9
ROCE - COST OF CAPITAL (%)	9.2	8.9	7.1	8.4	9.4
ASSET TURNOVER (X)	1.3	1.2	1.2	1.3	1.5
SALES/TOTAL ASSETS (X)	0.9	0.8	0.8	0.8	0.8
SALES/NET FA (X)	1.4	1.3	1.2	1.3	1.5
WORKING CAPITAL/SALES (X)	0.1	0.0	0.0	0.0	0.0
RECEIVABLE DAYS	13.1	7.8	6.3	6.3	6.3
INVENTORY DAYS	54.8	35.2	44.5	44.5	44.5
CURRENT RATIO (X)	2.3	1.9	2.4	3.1	3.7
QUICK RATIO (X)	1.4	1.2	1.7	2.4	3.0
INTEREST COVER (X)	46.4	70.0	29.5	69.7	82.2
DIVIDEND COVER (X)	3.2	3.3	3.1	3.2	3.2
PER (X)	17.3	15.4	15.3	12.2	10.2
PEG (X) - Y-O-Y GROWTH	(1.0)	1.3	12.3	0.5	0.5
PRICE/BOOK (X)	3.3	2.9	2.6	2.3	2.0
YIELD (%)	1.8	1.9	2.1	2.6	3.1
EV/NET SALES (X)	2.9	2.5	2.3	1.8	1.5
EV/EBITDA (X)	10.3	9.7	9.4	6.6	5.2
EV/EBIT (X)	10.3	9.7	9.4	6.6	5.2
EV/NOPLAT (X)	15.6	14.3	12.4	9.4	7.4
EV/CE	2.7	2.3	1.9	1.5	1.2
EV/IC (X)	3.8	3.1	2.7	2.4	2.2

Source: Company, MF Global India Research Estimates

VAIBHAV AGARWAL
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25 February 2011

MF Global Initiating Report

India Cements Ltd.

| Getting back to profitability

CEMENT

ICEM IN: **BUY**

RS 93

India Cements Ltd. (ICL) is the largest capacity of South India (~14.1mtpa) and accounts for ~15% of the South India market share. The company has recently expanded its footprint in North India with a small unit of ~1.5mtpa at Banswara, Rajasthan.

Investment Rationale

» Strong improvement in realizations in the South will help India Cements turn back significantly to good profitability from Q4FY11E onwards. India Cements' realisations have improved by almost ~Rs 692 per tonne in Q3FY11 and a further improvement of ~Rs 400-Rs 500 per tonne is expected in Q4FY11E.

» Power capacity expansions of ~120MW and mining rights acquisition in Indonesia will reasonably help ICL control its power and fuel costs. ICL expects a savings of ~US$20 per tonne from these coal mines in Indonesia. The shipments from Indonesia are likely to begin from Q2FY12E onwards.

» As ICL is the largest capacity in South India, we believe that the stock should trade at a minimum EV/tonne of US$ 90 per tonne (which is still at a discount of 25% on the current replacement cost of US$120 per tonne).

Risks

» ICL's high debt remains a concern. We do not expect the net debt:equity ratio to correct in the near future. However, the ratio is likely to remain under check with no significant capex.

» Discipline in South India remains the key to ICL's performance.

Valuation

At the CMP of Rs93/-, the stock trades at 19.2x & 12.6 x P/E, 8.5x & 6.5x EV/EBITDA and US$ 75 & 72 EV/tonne on FY12E & FY13E earnings. At our target price of Rs 140/- the stock will trade at 27.0x & 17.7x P/E, 10.1x & 7.8x EV/EBITDA and US$ 90 & 86 EV/tonne on FY12E & FY13E earnings.

TARGET RS 131 (+40%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	307MN
MARKET CAP (RS) :	29BN
MARKET CAP (USD) :	0.6BN
52 - WK HI/LO (RS) :	143 / 81
LIQUIDITY 3M (USD) :	2.4MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	25.2
FII / NRI :	34.0
FI / MF :	15.4
NON-PROMOTER CORP. HOLDINGS :	16.6
PUBLIC & OTHERS :	8.9

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-5.7	-16.5	-20.1
REL TO BSE	-1.4	-8.8	-31.7

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	34,290	37,453	36,594	41,943	46,110
NET SALES GROWTH, %	12.5	9.2	(2.3)	14.6	9.9
CORE EBIDTA	9,213	7,313	4,266	6,165	7,768
EBIDTA MARGIN, %	26.9	19.5	11.7	14.7	16.8
MF NET PROFIT	5,099	3,025	782	1,488	2,273
NET PROFIT MARGIN, %	14.9	8.1	2.1	3.5	4.9
EPS, RS	18.1	9.8	2.5	4.8	7.4
EPS GROWTH, %	(26.1)	(45.5)	(74.1)	90.3	52.7
PER, X	5.2	9.5	36.6	19.2	12.6
EV/EBIDTA, X	5.0	7.0	12.4	8.5	6.5
EV/NET SALES, X	1.3	1.4	1.4	1.2	1.1
PRICE/BOOK VALUE, X	0.7	0.7	0.7	0.7	0.7
EV/TONNE (US$)	71	77	76	75	72
ROIC, %	13.8	8.5	4.9	6.8	8.4
ROE, %	15.2	8.0	1.9	3.7	5.7

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX

Source: Bloomberg, MF Global India Research

Investment Overview

SUSTAINABLE COMPETITIVE ADVANTAGE	THE LARGEST CAPACITY IN THE SOUTH AND IS LIKELY TO SUSTAIN ITS LEADERSHIP POSITION.
FINANCIAL STRUCTURE	HIGH ON DEBT:EQUITY. NET DEBT:EQUITY AT ~0.6X IN FY11E. WE DO NOT FORESEE THE NET DEBT OF THE COMPANY TO CORRECT SIGNIFICANTLY IN THE NEXT TWO YEARS.
SHAREHOLDER VALUE CREATION	COAL MINE ACQUISITIONS IN INDONESIA, POWER CAPACITY ADDITIONS SHOULD HELP THE COMPANY TO ARREST THE FREQUENT IMPACT ON PROFITABILITY ON ACCOUNT OF FLUCTUATING COAL COSTS. POWER AND FUEL COSTS ACCOUNT FOR ~31%-40% OF THE TOTAL OPERATING COSTS FOR INDIA CEMENTS (AMONGST THE HIGHEST IN THE INDUSTRTY).
EARNINGS VISIBILITY	WE EXPECT ICL TO DELIVER EARNINGS GROWTH OF 90% AND 53% IN FY12E AND FY13E, RESPECTIVELY, ON THE BACK OF STRONG REALISATION GROWTH AND A STABLE COST STRUCTURE.
VALUATION	OUR TARGET VALUATION IS BASED ON A EV/TONNE OF US$90 EV/TONNE WHICH IS STILL AT A 25% DISCOUNT TO THE CURRENT REPLACEMENT COST. THE STOCK CURRENTLY TRADES AT US$75 EV/TONNE ON FY12E EARNINGS.
MF GLOBAL VS. CONSENSUS	OUR PAT ESTIMATES FOR ICL ARE ~4% LOWER THAN THE CONSENSUS.
FUTURE EVENT TRIGGERS	INCREASED SPONSORSHIP REVENUE FROM ICL CAN HELP BOOST THE EBITDA SIGNIFICANTLY.
EXPECTED PRICE MOMENTUM	WE EXPECT ICL TO TRADE AT A MINIMUM OF US$ 90/TONNE, WHICH IMPLIES A TARGET PRICE OF RS 131/SHARE.

Source: MF Global India Research

Rating and Price Target

FY12E CAPACITY (MTPA)	15.6
TARGET EV/TONNE (US$)	90
US$:INR	45
TARGET EV (RS MN)	62978
NET DEBT AS ON FY12E (RS MN)	22860
EQUITY FAIR VALUE (RS MN)	40118
TARGET PRICE (RS/SHARE)	131
CURRENT MARKET PRICE (RS/SHARE)	93
% UPSIDE	*40%*

Source: MF Global India Research Estimates

We have valued ICL on an EV per tonne basis. High debt remains a concern and hence, an EV/EBITDA-based valuation technique does not give an ideal picture for ICL. Our implied target EV/tonne for other companies on CY11E/FY12E are as under:

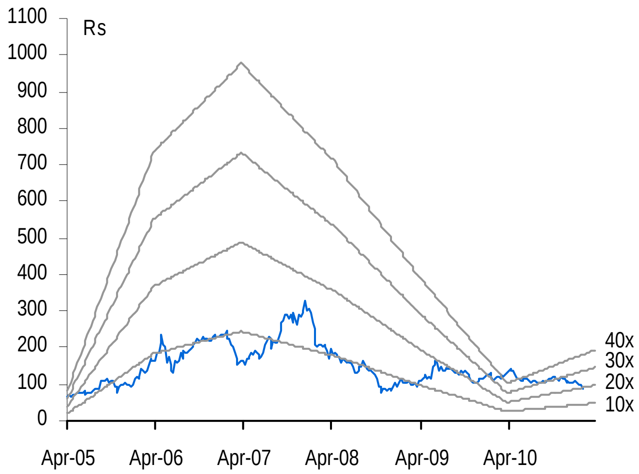
TARGET VALUATION OF PEERS BENCHMARKED TO REPLACEMENT COST

	EV/TONNE (US$) CY11E/FY12E	PREMIUM/ DISCOUNT TO REPLACEMENT COST @ US$ 120/TONNE
ACC LTD.	137	15%
AMBUJA CEMENTS	179	49%
ULTRATECH CEMENT	163	36%
SHREE CEMENT	114	-5%

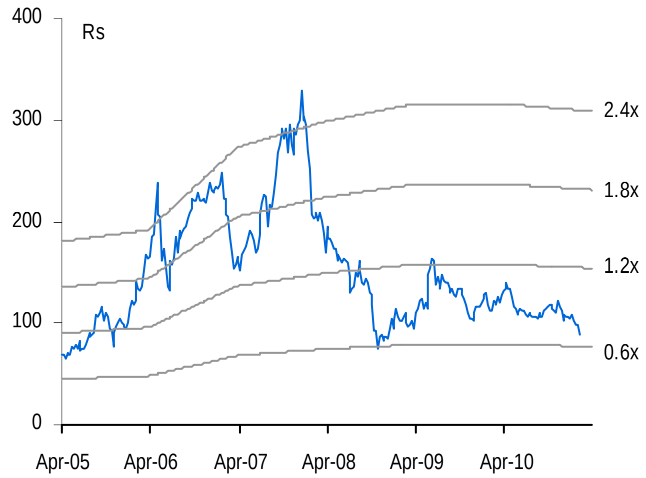
Source: MF Global India Research Estimates

Absolute Rolling Valuation Band Charts

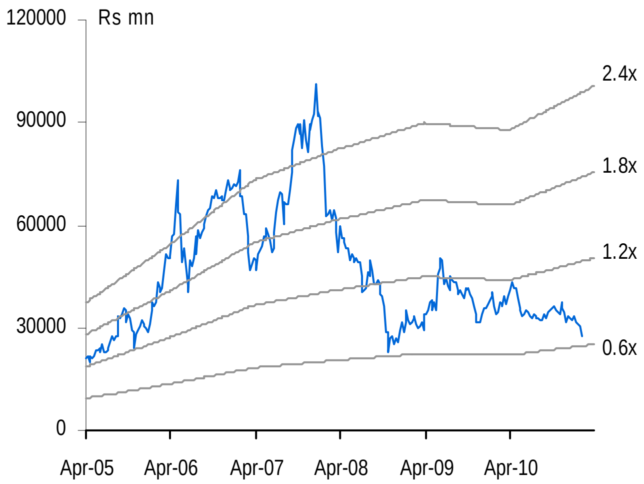
PE BAND



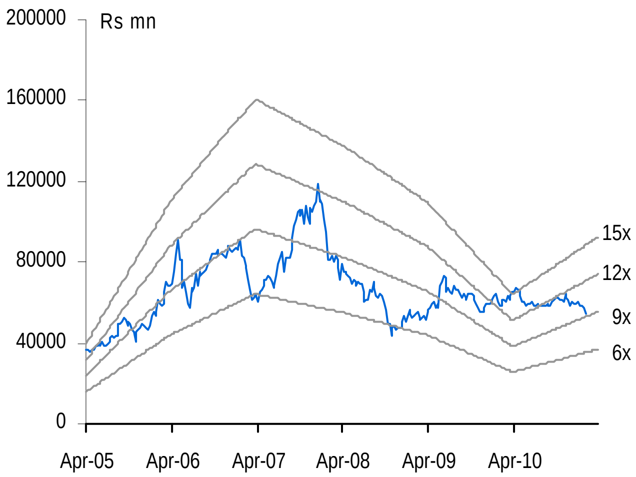
PBV BAND



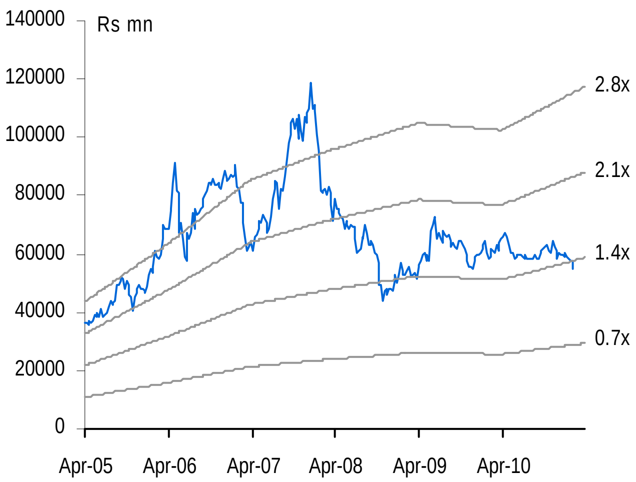
MCAP/SALES BAND



EV/EBIDTA BAND



EV/SALES BAND

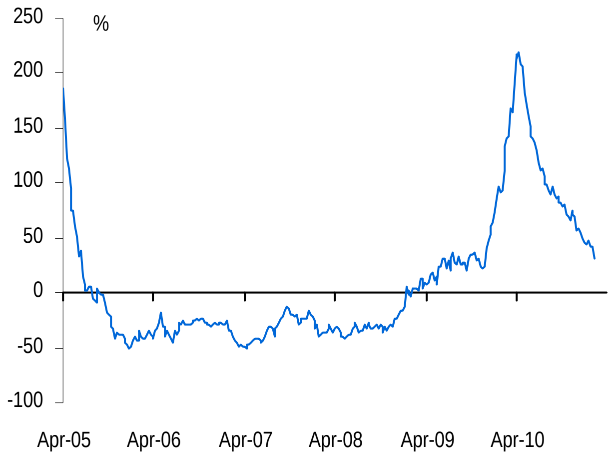


Source: MF Global India Research

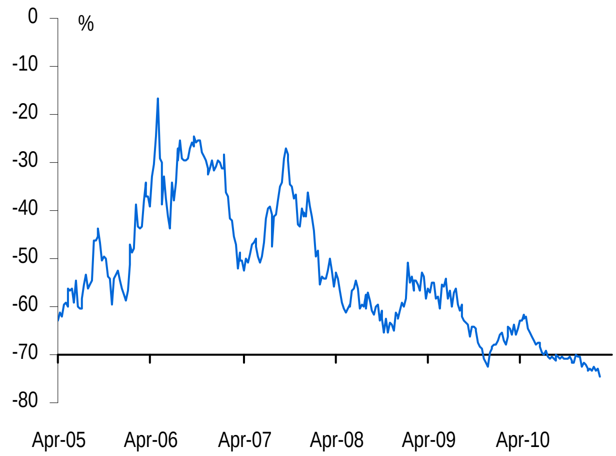
» ICL trades in the lower end of its valuation band charts across multiples which definitely are on account of concerns on pricing in South India and high debt of ICL. We are cautiously optimistic on the discipline of the South Indian cement manufacturers and expect a turnaround in the pricing trends of the South India region. With price hikes, we expect the valuation multiples to gain momentum from hereon and expect ICL to trade in the mid-level bank valuations in the near term.

Premium/Discount to Sensex

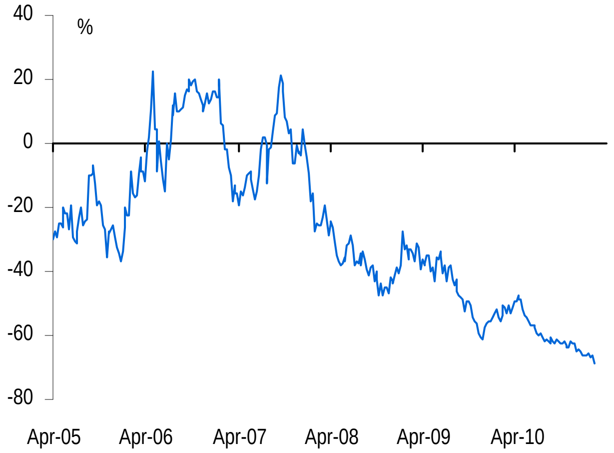
PE



PBV

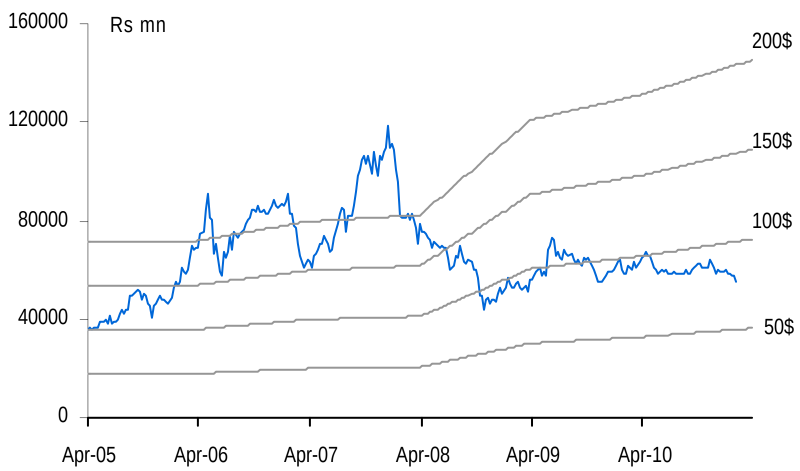


MCAP/SALES



Source: MF Global India Research

EV/TON BAND CHART



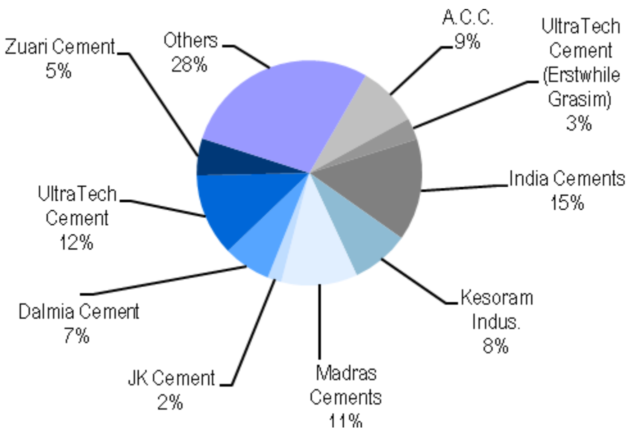
Source: MF Global India Research

» Strong recovery in realisation should help the valuations expand. Concerns remain on the sustainability of these realisations. Taking a call on the current discipline in South India, we believe these realisations are sustainable. Sustained realisations will pull back the investor confidence in South India pricing over the next few quarters and resultantly the valuations should see a recovery as well.

Investment Thesis

India Cements Ltd. (ICL) is the largest capacity of South India and enjoys ~15% capacity share. UltraTech Cement is the nearest competitor to ICL in South India. ICL has been posting a dismal set of numbers for the past few quarters. However, Q3FY11 saw a recovery of ~Rs 692 per tonne and we expect a recovery of a further Rs 400-Rs 500 per tonne in South India in the current quarter. This should help ICL post much better numbers from Q4FY11E onwards.

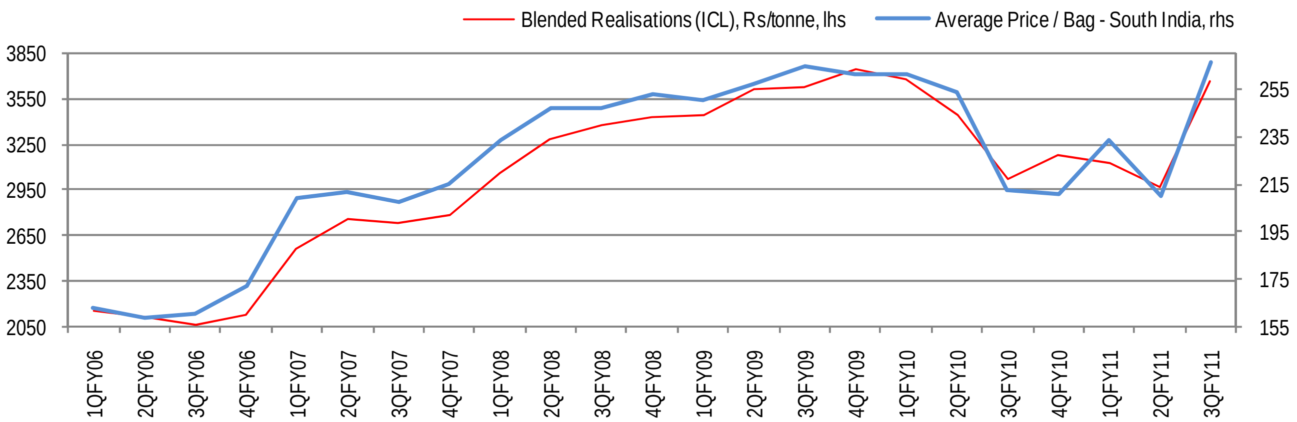
CAPACITY SHARE OF SOUTH INDIA



ICL is the largest player of South India with~15% capacity share. Being the largest player, we believe, our target valuations (which are at a discount of 25% to replacement cost) are reasonable for a stock like that of ICL.

Source: CMA, MF Global India Research

REALISATIONS OF ICL VS. AVERAGE PRICES SOUTH INDIA



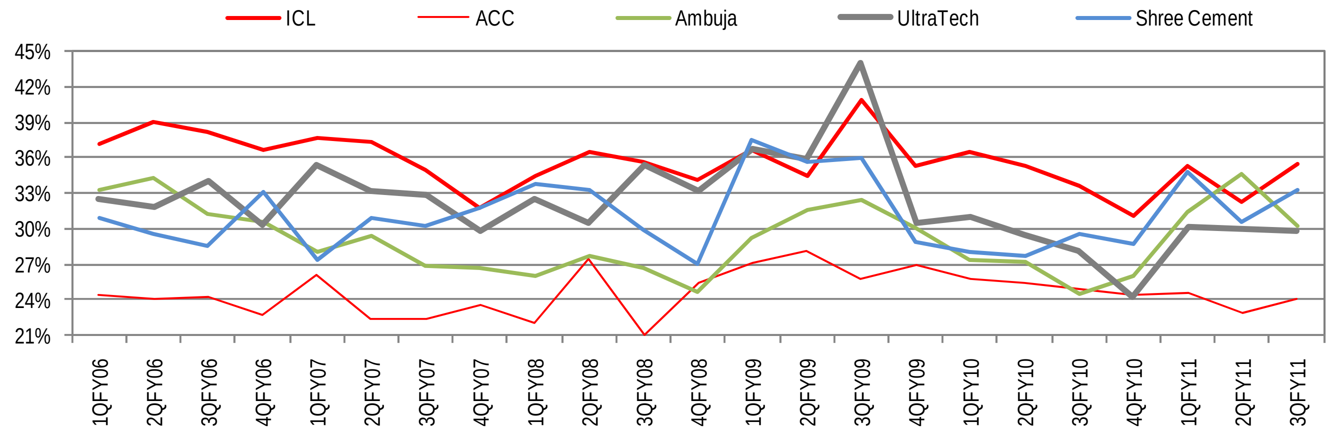
Source: Company, MF Global India Research

ICL's average realisation undoubtedly moves absolutely in tandem with average South India realisations. Recovery of prices in the South will surely help ICL boost profitability from Q4FY11E onwards. It is to be noted as per the last reported prices in Dec '10, South India prices were higher than any other regions of the country.

Power and Fuel Costs (P&F)

ICL's power and fuel costs as a percentage of total costs, is one of the highest amongst its peers. ICL is largely dependent on international coal for its fuel requirement. The following graph compares P&F cost as a percentage to total operating costs of various cement manufacturers.

ICL VS. PEERS ON POWER AND FUEL COSTS

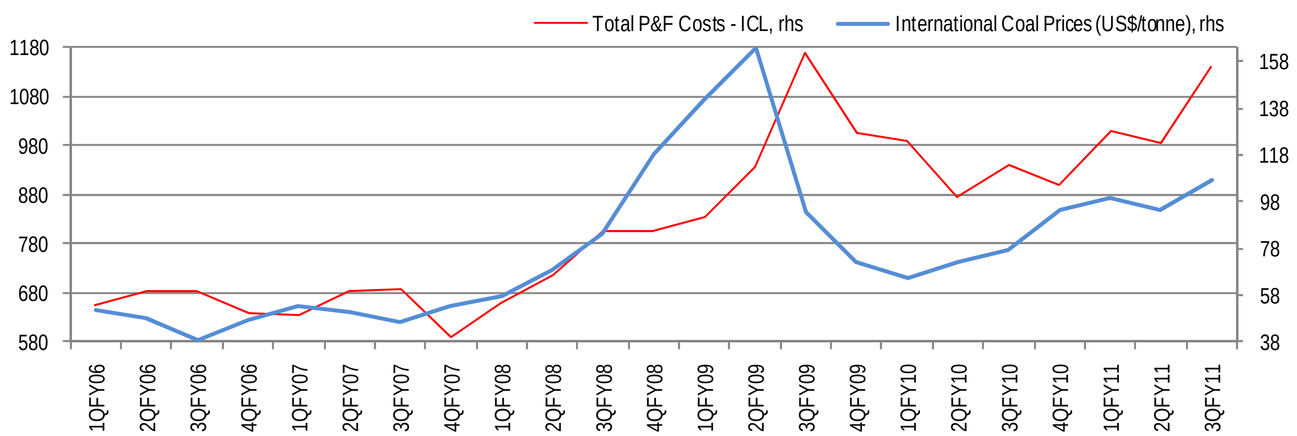


Source: Company, MF Global India Research

As seen, ICL has most of the times had higher P&F costs, which has been a key drag on ICL's profitability. ICL has recently acquired coal mining rights in Indonesia with proven coal reserves of ~30mn tonnes. ICL plans to import coal from these mines from Q2FY12E onwards. The expected development and mining costs in Indonesia is likely at US$ 35 per tonne. ICL has committed an upfront investment of ~US$ 20mn and of this, US$ 5mn has already been paid. The rest will have to be paid before the first shipment from Indonesia. Over and above, ICL is liable to pay a royalty of ~US$ 1.5 per tonne on coal mined. Even including shipping costs and other development costs, ICL expects a savings of ~US$ 15-20 per tonne of coal from these coal mines.

The following graph plots movement in ICL P&F cost per tonne and the movement in international fuel prices.

ICL'S POWER AND FUEL COST VS. INTERNATIONAL COAL PRICES



Source:Company, Bloomberg

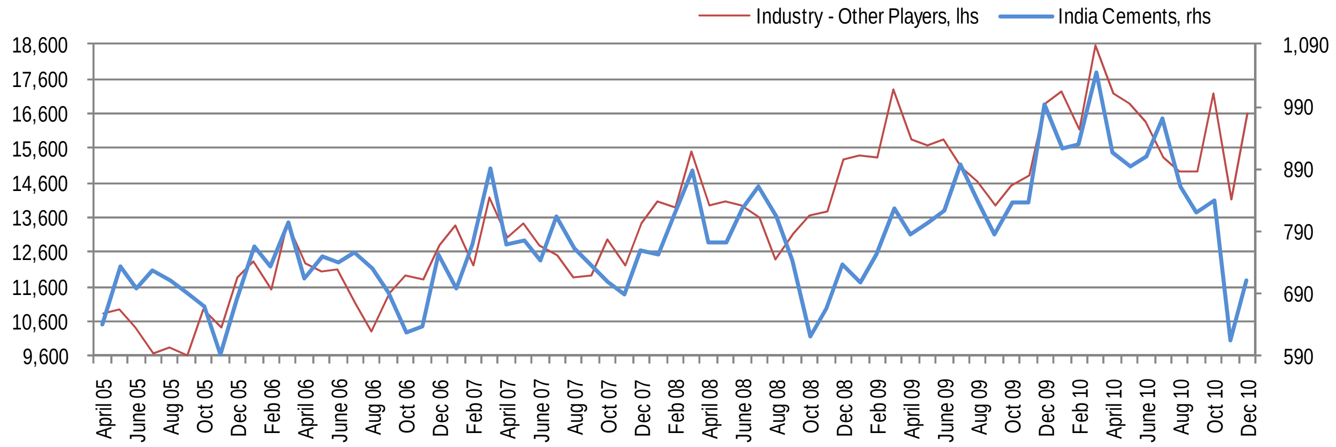
Evidently, international coal prices drive the P&F cost per tonne for ICL and this huge dependence on international coal has been the key concern for ICL on the cost front.

ICL has planned two captive thermal power plants of 50MW each in Tamil Nadu and Andhra Pradesh due to be commissioned in 1QFY12E and 1QFY13E, respectively. A 20MW captive thermal power plant has also been planned in Rajasthan in 1QFY12E. The company already enjoys a dedicated supply of ~47MW of power supply from the Coromandel Gas Company and Andhra Pradesh Grid and has captive 8MW Waste Heat Recovery. All put together, ICL will have ~175MW of captive power, which should suffice to meet ICL's volume target of ~12mn tonnes in FY12E and FY13E.

On the fuel front, the coal mined from the mines in Indonesia will have a calorific value of ~5700 Kcal/Kg, which can be directly used in power plants. However, for the kilns, ICL plans to blend this coal with higher calorific value coal to make optimum use of the coal mined from Indonesia. ICL plans to start importing ~30,000-40,000 of coal per month initially from Q2FY11E onwards, which can be ramped up to 1 lakh tonnes/month in 12-18 months. At full ramp-up, the mine should meet ~75%-80% of ICL's total fuel requirement, both Power and Fuel.

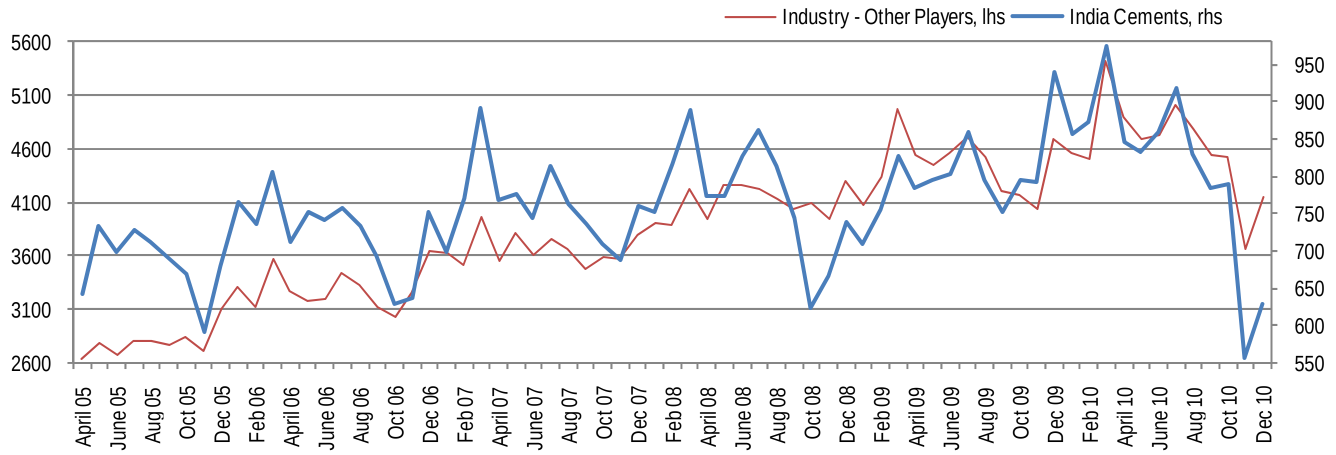
Discipline of India Cements

INDIA CEMENTS VS. INDUSTRY



Source: CMA, MF Global India Research

INDIA CEMENTS VS. OTHER PLAYERS IN SOUTH INDIA



Source: CMA, MF Global India Research

ICL is amongst one of the most disciplined players in South India. Also in comparison with the overall cement industry, ICL's despatches have moved absolutely in tandem with the rest of the players. As we can see in the graph, during downturns and even when prices have started ticking upwards, ICL has always tried to further control despatches to support the upward movement in prices and despatch higher quantities at higher prices. This kind of behaviour has not only been favourable to the company, but also to the industry at large in South India.

We like the stock purely on the basis of attractive valuations of 75US$/tonne FY12E earnings. We strongly believe and expect a strong price uptick in South India in 2HFY11E and ICL will be one of the key beneficiaries from this price uptick on account of its relative size and being the largest capacity in South India. Our target valuation of US$ 90 per tonne implies a discount of 25% to the replacement cost of US$ 120 per tonne (the minimum benchmark replacement cost for the industry currently).

Financials

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	34,290	37,453	36,594	41,943	46,110
GROWTH, %	*12.5*	*9.2*	*(2.3)*	*14.6*	*9.9*
OPERATING EXPENSES	(25,077)	(30,140)	(32,328)	(35,777)	(38,342)
EBITDA	9,213	7,313	4,266	6,165	7,768
GROWTH, %	*(14.1)*	*(20.6)*	*(41.7)*	*44.5*	*26.0*
MARGIN, %	*26.9*	*19.5*	*11.7*	*14.7*	*16.8*
DEPRECIATION	(2,045)	(2,345)	(2,832)	(3,452)	(3,824)
EBIT	7,167	4,968	1,434	2,714	3,944
GROWTH, %	*(24.1)*	*(30.7)*	*(71.1)*	*89.3*	*45.3*
MARGIN, %	*20.9*	*13.3*	*3.9*	*6.5*	*8.6*
NET INTEREST AND OTHERS	106	(166)	(266)	(492)	(551)
PRE-TAX PROFIT	7,273	4,802	1,168	2,222	3,393
TAX PROVIDED	(2,174)	(1,777)	(385)	(733)	(1,120)
MINORITIES	-	-	-	-	-
PROFIT AFTER TAX	5,099	3,025	782	1,488	2,273
MF NET PROFIT	5,099	3,025	782	1,488	2,273
GROWTH, %	*(25.9)*	*(40.7)*	*(74.1)*	*90.3*	*52.7*
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	(875)	493	-	-	-
UNADJ. SHARES (M)	282	307	307	307	307
WTD AVG SHARES (M)	282	307	307	307	307

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	7,273	4,802	1,168	2,222	3,393
DEPRECIATION	2,045	2,345	2,832	3,452	3,824
CHG IN DEBTORS	(495)	(1,309)	115	(715)	(557)
CHG IN INVENTORY	(417)	(771)	103	(643)	(501)
CHG IN LOANS & ADVANCES	(2,573)	(754)	(500)	(500)	(500)
CHG IN CURRENT LIABILITIES	1,865	2,205	(319)	1,988	1,549
CHG IN OTHER DEFERRED LIABILITIES	302	138	58	111	170
TOTAL TAX PAID	(2,174)	(1,777)	(385)	(733)	(1,120)
CASH FLOW FROM OPERATING ACTIVITIES	5,825	4,879	3,072	5,182	6,258
CAPITAL EXPENDITURE	(9,368)	(9,315)	(4,970)	(6,970)	(3,970)
CHG IN INVESTMENTS	(195)	(1,608)	-	-	-
OTHER INVESTING ACTIVITIES	(911)	490	-	-	-
CASH FLOW FROM INVESTING ACTIVITIES	(10,473)	(10,433)	(4,970)	(6,970)	(3,970)
FREE CASH FLOW	(4,648)	(5,554)	-	-	-
EQUITY RAISED/(REPAID)	154	3,041	0	(1,529)	0
DEBT RAISED/(REPAID)	1,773	3,118	2,084	3,670	(1,750)
DIVIDEND (INCL. TAX)	(661)	(716)	(185)	(352)	(538)
CASH FLOW FROM FINANCING ACTIVITIES	1,266	5,443	1,899	1,789	(2,288)
NET CHG IN CASH	(3,382)	(111)	0	0	0

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	880	768	768	768	768
DEBTORS	3,694	5,003	4,888	5,603	6,159
INVENTORY	3,731	4,502	4,399	5,042	5,543
LOANS & ADVANCES	10,034	10,789	11,289	11,789	12,289
OTHER CURRENT ASSETS	204	204	204	204	204
TOTAL CURRENT ASSETS	18,544	21,266	21,548	23,405	24,963
INVESTMENTS	3,525	5,133	5,133	5,133	5,133
GROSS FIXED ASSETS	53,360	57,400	71,690	80,690	85,690
LESS: DEPRECIATION	(15,121)	(18,011)	(21,445)	(25,498)	(29,924)
ADD: CAPITAL WIP	9,040	14,291	5,000	3,000	2,000
NET FIXED ASSETS	47,280	53,679	55,245	58,192	57,767
OTHER NON-CURRENT ASSETS	-	-	-	-	-
TOTAL ASSETS	69,348	80,077	81,926	86,730	87,862
CURRENT LIABILITIES	11,716	13,921	13,601	15,590	17,139
NON-CURRENT LIABILITIES	22,447	25,703	27,846	31,627	30,047
TOTAL LIABILITIES	34,163	39,624	41,447	47,217	47,186
PAID-UP CAPITAL	2,824	3,072	3,072	3,072	3,072
SHARE PREMIUM	13,957	16,593	16,593	15,063	15,063
RESERVES & SURPLUS	11,675	14,474	15,071	16,207	17,941
OTHER RESERVES INCLUDING REVALUATION RESERVES	6,887	6,315	5,743	5,172	4,600
LESS: MISC. EXP.	(158)	-	-	-	-
SHAREHOLDERS' EQUITY	35,185	40,453	40,479	39,513	40,676
TOTAL EQUITY & LIABILITIES	69,348	80,077	81,926	86,730	87,862

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
EPS (INR)	18.1	9.8	2.5	4.8	7.4
GROWTH, %	*(26.1)*	*(45.5)*	*(74.1)*	*90.3*	*52.7*
BOOK NAV/SHARE (INR)	124.6	131.7	131.7	128.6	132.4
FDEPS (INR)	18.1	9.8	2.5	4.8	7.4
CEPS (INR)	25.3	17.5	11.8	16.1	19.8
CFPS (INR)	16.3	11.8	5.5	11.9	14.9
DPS (INR)	2.3	2.3	0.6	1.1	1.8

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	56.5	56.9	62.0	72.8	66.4
NET DEBT/EQUITY (%)	54.0	55.0	60.1	70.8	64.5

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	8.8	5.3	2.3	3.3	4.2
RETURN ON EQUITY (%)	15.2	8.0	1.9	3.7	5.7
RETURN ON INVESTED CAPITAL (%)	13.8	8.5	4.9	6.8	8.4
ROIC/COST OF CAPITAL (X)	1.6	1.0	0.5	0.8	0.9
ROIC - COST OF CAPITAL (%)	5.0	(0.3)	(4.0)	(2.2)	(0.6)
RETURN ON CAPITAL EMPLOYED (%)	10.6	6.4	2.7	4.0	5.2
COST OF CAPITAL (%)	8.8	8.8	8.9	9.0	8.9
ROCE - COST OF CAPITAL (%)	1.7	(2.5)	(6.2)	(5.0)	(3.7)
ASSET TURNOVER (X)	0.7	0.7	0.6	0.7	0.7
SALES/TOTAL ASSETS (X)	0.5	0.5	0.5	0.5	0.5
SALES/NET FA (X)	0.8	0.7	0.7	0.7	0.8
WORKING CAPITAL/SALES (X)	0.2	0.2	0.2	0.2	0.2
RECEIVABLE DAYS	39.3	48.8	48.8	48.8	48.8
INVENTORY DAYS	39.7	43.9	43.9	43.9	43.9
CURRENT RATIO (X)	1.6	1.5	1.6	1.5	1.5
QUICK RATIO (X)	1.3	1.2	1.3	1.2	1.1
INTEREST COVER (X)	6.4	3.5	0.9	1.3	1.8
DIVIDEND COVER (X)	7.7	4.2	4.2	4.2	4.2
PER (X)	5.2	9.5	36.6	19.2	12.6
PEG (X) - Y-O-Y GROWTH	(0.2)	(0.2)	(0.5)	0.2	0.2
PRICE/BOOK (X)	0.7	0.7	0.7	0.7	0.7
YIELD (%)	2.5	2.5	0.6	1.2	1.9
EV/NET SALES (X)	1.3	1.4	1.4	1.2	1.1
EV/EBITDA (X)	5.0	7.0	12.4	8.5	6.5
EV/EBIT (X)	5.0	7.0	12.4	8.5	6.5
EV/NOPLAT (X)	7.1	11.1	18.5	12.6	9.7
EV/CE	0.8	0.8	0.8	0.7	0.7
EV/IC (X)	1.0	0.9	0.9	0.9	0.8

Source: Company, MF Global India Research Estimates

VAIBHAV AGARWAL
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25 February 2011

MF Global Initiating Report

Mangalam Cement Ltd.

| Too attractive on valuations

CEMENT

MGC IN: **BUY**

RS 110

Mangalam Cement Ltd. (MCL) is a small capacity in North India with an installed capacity of 2mtpa. It accounts for ~3% of the North India cement capacity. The company trades at very attractive valuations of mere US$18 & 6 EV/tonne on FY12E and FY13E earnings, respectively. We rate the stock a 'Buy' with a target price of Rs161, which implies an EV/tonne of US$ 34 & 21 on FY12E and FY13E earnings, respectively.

Investment Rationale

» MCL has been posting a very disappointing set of numbers over the previous few quarters on account of lower cement realizations. EBITDA margin for the company has fallen as low as 2% in the previous quarter (Rs 54/tonne on a blended basis), which we believe is the bottom for MCL. Our channel checks suggest a recovery of ~Rs 30-Rs 45 per bag in this quarter till date and which we believe has not yet been factored in the valuations.

» Despite being a very small capacity, we believe that the current valuation of the company is unwarranted. The company holds no debt on books and is cash positive. Recovery in cement prices will help the company post better results from hereon, which should help to improve the valuations.

Risks

» Unsustainable recovery of cement realisations.

» Lower-than-expected volume growth.

» Merger of Mangalam Timber with MCL can have a negative impact on MCL's earnings in FY12E. We have not factored the same in our valuations.

» High clinker sales/choosing to sell more clinker than cement.

Valuation

At the CMP of Rs110/-, the stock trades at 3.9x & 2.8x P/E, 1.6x & 0.4x EV/EBITDA and US$ 18 & 6 EV/tonne on FY12E & FY13E earnings. At our target price of Rs the stock trades at 5.7x & 4.1x P/E, 3.0x & 1.5x EV/EBITDA and US$ 34 & 21 EV/tonne on FY12E & FY13E earnings.

TARGET RS 161 (+46%)

SECTOR RATING

OW	N	UW
■		

STOCK RATING

BUY	NEUTRAL	SELL
■		
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	27MN
MARKET CAP (RS) :	2.9BN
MARKET CAP (USD) :	65MN
52 - WK HI/LO (RS) :	218 / 90
LIQUIDITY 3M (USD) :	0.1MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	26.0
FII / NRI :	2.8
FI / MF :	4.1
NON-PROMOTER CORP. HOLDINGS :	35.1
PUBLIC & OTHERS :	32.0

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-9.1	-22.7	-32.3
REL TO BSE	-4.9	-15.1	-43.9

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	5,641	6,137	5,139	6,239	6,799
SALES GROWTH, %	10.6	8.8	(16.3)	21.4	9.0
EBIDTA	1,362	1,914	566	999	1,229
EBIDTA MARGIN, %	24.2	31.2	11.0	16.0	18.1
PROFIT AFTER TAX	997	1,188	261	755	1,041
PAT MARGIN, %	17.7	19.4	5.1	12.1	15.3
ANNUALISED EPS, RS	35.4	43.4	9.8	28.3	39.0
EPS GROWTH, %	(11.8)	22.5	(77.5)	189.4	38.0
PER, X	3.1	2.5	11.3	3.9	2.8
EV/EBIDTA, X	2.1	1.2	4.4	1.6	0.4
EV/NET SALES, X	0.5	0.4	0.5	0.3	0.1
PRICE/BOOK VALUE, X	1.1	0.8	0.7	0.6	0.5
ROIC, %	25.6	27.8	9.8	19.8	24.5
DIVIDEND YIELD, %	5.0	5.3	0.7	2.1	3.0

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX

Source: Bloomberg, MF Global India Research

Investment Overview

SUSTAINABLE COMPETITIVE ADVANTAGE	CAN SUSTAIN A HIGHER LEVEL OF UTILISATIONS AS COMPARED TO PEERS AS MCL IS TOO SMALL A CAPACITY CURRENTLY. TOO SMALL PLAYERS LIKE MCL MAY NOT FOLLOW THE PATH OF INDUSTRY AND CAN OPT TO CHOOSE THEIR WAY INDEPENDENTLY.
FINANCIAL STRUCTURE	NO DEBT ON BOOKS CURRENTLY EXCEPT DEALER DEPOSITS, MCL HAS A HIGHLY CAUTIOUS MANAGEMENT AND THOUGH THE COMPANY CAN GO AHEAD WITH EXPANSIONS ON NEW DEBT, MCL HAS OPTED NOT TO DO SO.
SHAREHOLDER VALUE CREATION	A TOO-CHEAP VALUATION OFFERS SHAREHOLDERS SIGNIFICANT SCOPE FOR VALUE ACCRETION IN THE STOCK WITH RECOVERY IN THE MARKETS.
EARNINGS VISIBILITY	COMPLETE DEPENDENCE ON CAPTIVE POWER, PICK-UP IN REALISATIONS AND 11% VOLUME GROWTH IN FY12E, WE EXPECT MCL TO REPORT EARNINGS GROWTH OF ~189% (YOY).
VALUATION	EXTREMELY CHEAP VALUATIONS, MCL TRADES AT A SIGNIFICANT DISCOUNT OF ~85% TO REPLACEMENT COST (AT US$ 120/TONNE).
MF GLOBAL VS. CONSENSUS	OUR EPS ESTIMATES FOR MCLFOR FY12E ARE SIGNIFICANTLY HIGHER THAN CONSENSUS AT 28.3 VS. CONSENSUS OF 11.1
FUTURE EVENT TRIGGERS	ANNOUNCEMENT OF NEW EXPANSIONS AND MERGER OF MANGALAM TIMBER WITH MCL.
EXPECTED PRICE MOMENTUM	CHEAP VALUATIONS CAN PROVIDE REASONABLE STOCK PRICE MOMENTUM TO MCL. EVEN AT OUR TARGET PRICE OF RS161, THE STOCK WILL TRADE AT 34$ EV/TONNE (DISCOUNT OF 72% TO REPLACEMENT COST).

Source: MF Global India Research

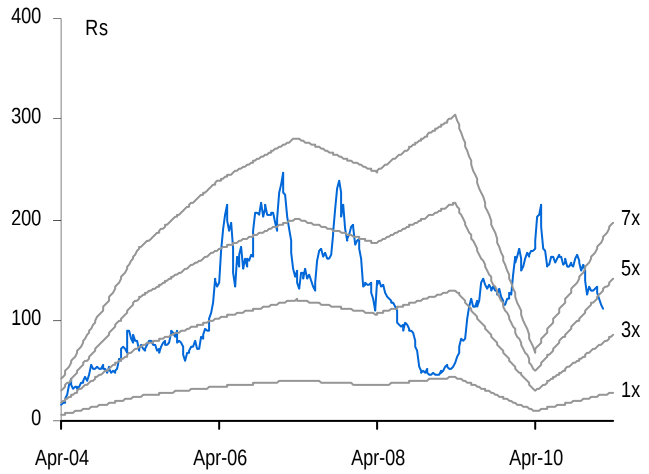
Rating and Price Target

RATING	BUY
FY12E EBITDA (RS MN)	999
FY12E EBITDA MARGIN, %	16
FY12E EBITDA/SHARE (RS)	37.4
TARGET EV/EBITDA (X)	3.0
TARGET EV/SHARE (RS)	112
NET DEBT/SHARE	-48
EQUITY FAIR VALUE/SHARE (RS)	161
UPSIDE	*46%*
FY12E IMPLIED TARGET EV/TONNE (US$)	34
FY12E IMPLIED TARGET P/E (X)	5.7
FY12E EV BASED ON CMP (RS MN)	1645
FY12E CAPACITY (EOP, MTPA)	2.0
FY12E EBITDA (RS MN)	999
FY12E EV/EBITDA (X)	1.6
FY12E P/E (X)	3.9
FY12E EV/TONNE (US$)	18

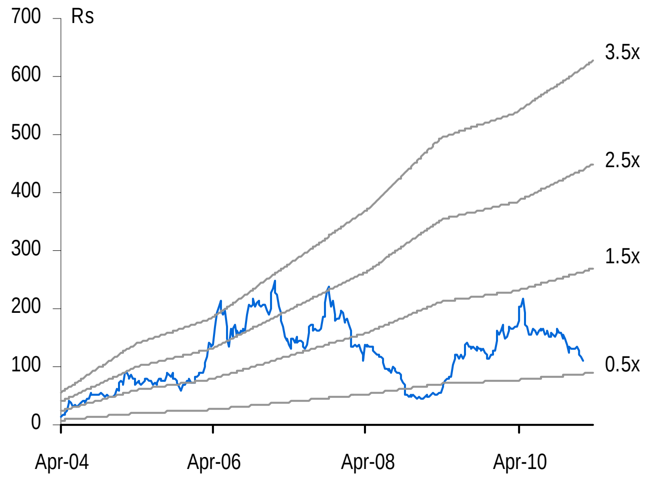
Source: MF Global India Research

Absolute Rolling Valuation Band Charts

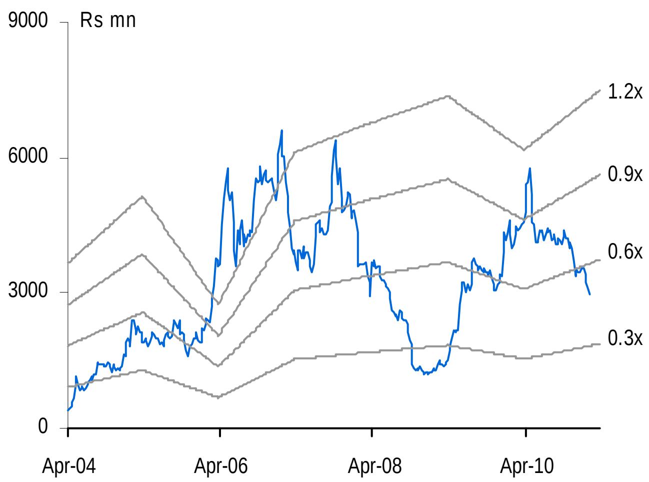
PE BAND



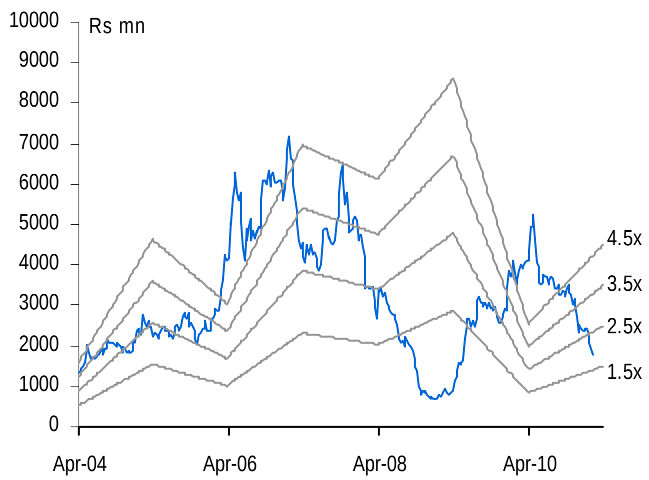
PBV BAND



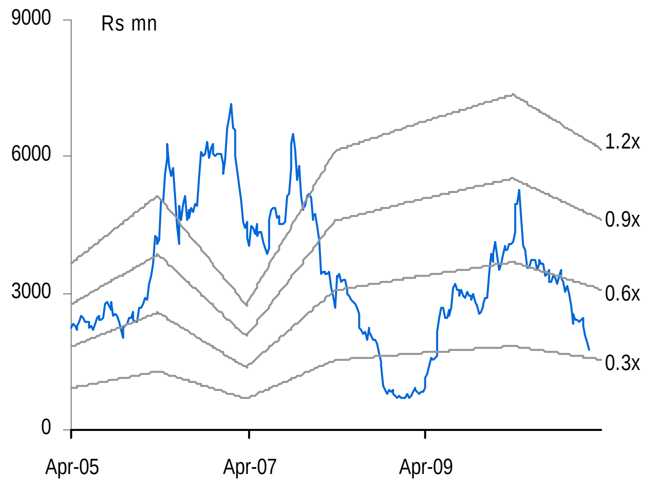
MCAP/SALES BAND



EV/EBIDTA BAND



EV/SALES BAND



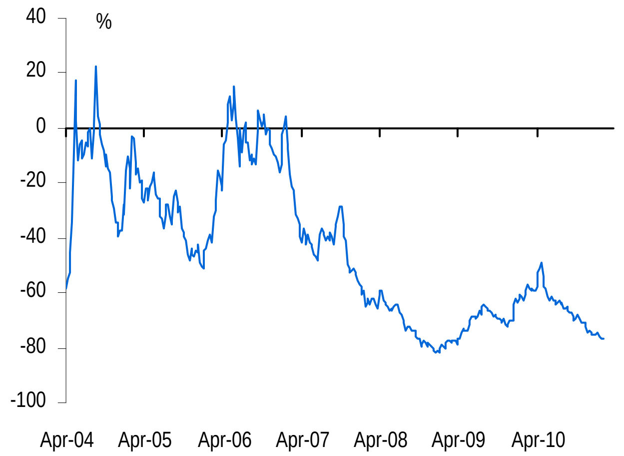
» MCL trades at the almost lower end of the multiples across band charts. Lower realisations have significantly impacted MCL's profitability margins in the recent past quarters. With profitability getting improved, we expect MCL's valuations to gain momentum with a bounce-back in stock price.

Source: MF Global India Research

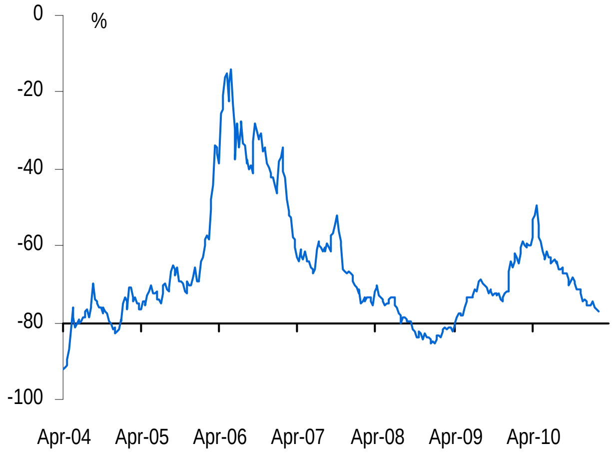
Premium/Discount to Sensex

PE

PBV

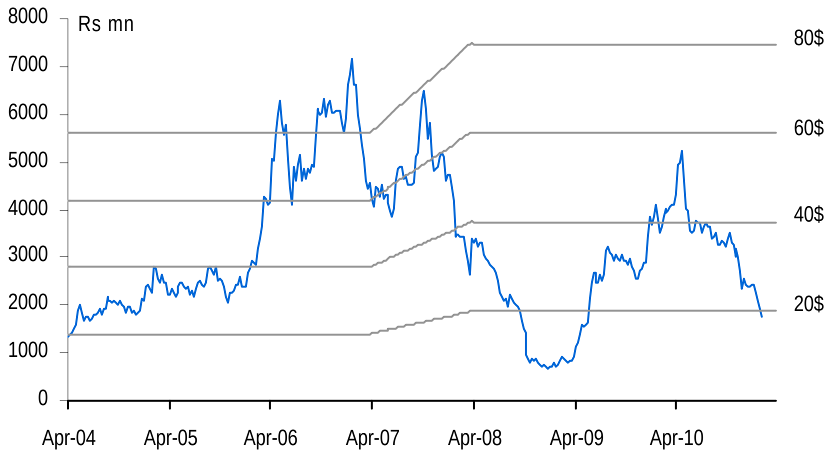


MCAP/SALES



Source: MF Global India Research

EV/TON BAND CHART



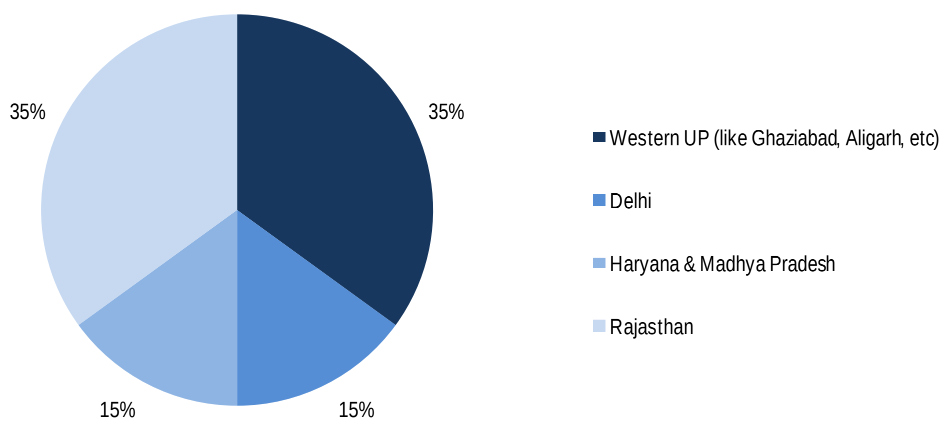
Source: MF Global India Research

» We believe, the valuations of MCL are unwarranted at US$18/tonne. Better cement prices should help MCL boost profitability significantly. Our target price implies a valuation of US$34/tonne. We strongly believe, MCL has a strong potential to move upwards and the down side risk in this stock remains very limited.

Investment Thesis

- An unwarranted valuation of US$18 EV/tonne in our opinion is an unreasonable valuation.
- The company is under a no-debt burden as on date (except from the dealer deposits, which is a customary deposit in the Indian cement industry).
- Realisations are already up by ~Rs 500-Rs 600 per tonne in January ’11 and we expect these realizations to stay firm. We have factored in another 5% improvement in average realization on a YoY basis for the company for the next two years.
- MCL is evaluating an increase in its clinkerisation capacity by another 0.2mtpa (~11% increase by doing plant level modifications and incurring a capex of ~Rs 60-Rs 65 crore. The company also plans to increase its cement producing capacity by ~0.25mtpa and plans to install a split grinding unit in Haryana at a capex of Rs 80-Rs 85 crore. However, this capex is still in the planning stage.
- Taking into account the current market dynamics (overcapacity scenario) and the fact that MCL has an extremely conservative management, MCL has rolled back its capacity expansion of 2mn tonnes at the existing site. Though MCL will lose its volume growth with the rollback of this capacity expansion, we believe that this is a positive step by the company as it will enable it to strengthen its balance sheet from existing capabilities. With a net worth of Rs 4.1bn, going ahead with this expansion would have led debt equity ratio of MCL getting skewed and get back in the debt trap.
- Also the rollback in its expansion is positive not only for MCL, but also for the industry at large as this will help existing capacities to get absorbed by the market at a faster pace.
- MCL earlier had installed power capacities of 17.5MW (Thermal) and 13.65MW (Windmills). The company has expanded its power capacity by another 17.5MW (Thermal). This expansion was in order to support the earlier planned expansion of 2mtpa at the existing site. However, despite the rollback of the cement capex, MCL decided to move ahead with its power capacity expansions and it has now increased the captive thermal power generation capacity to ~35MW.
- As a result, MCL now has a surplus of ~10MW of power, which it intends to sell in the open market and which will be an incremental revenue stream for the company from FY12E onwards.
- We believe that the downside risk on this stock remains highly protected. We rate this stock a “Buy” with a target price of Rs161. Even at our target price, the stock with trade at an EV/tonne of US$34 (a discount of ~72% to the replacement cost at 120US$/tonne)

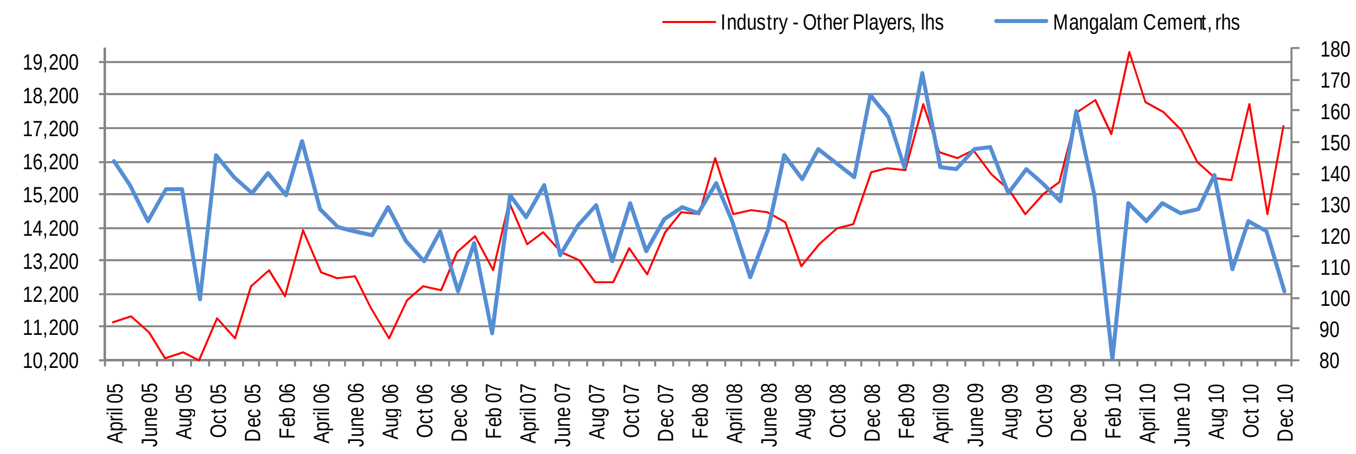
DESPATCH MIX OF MCL



Source: Company, MF Global India Research

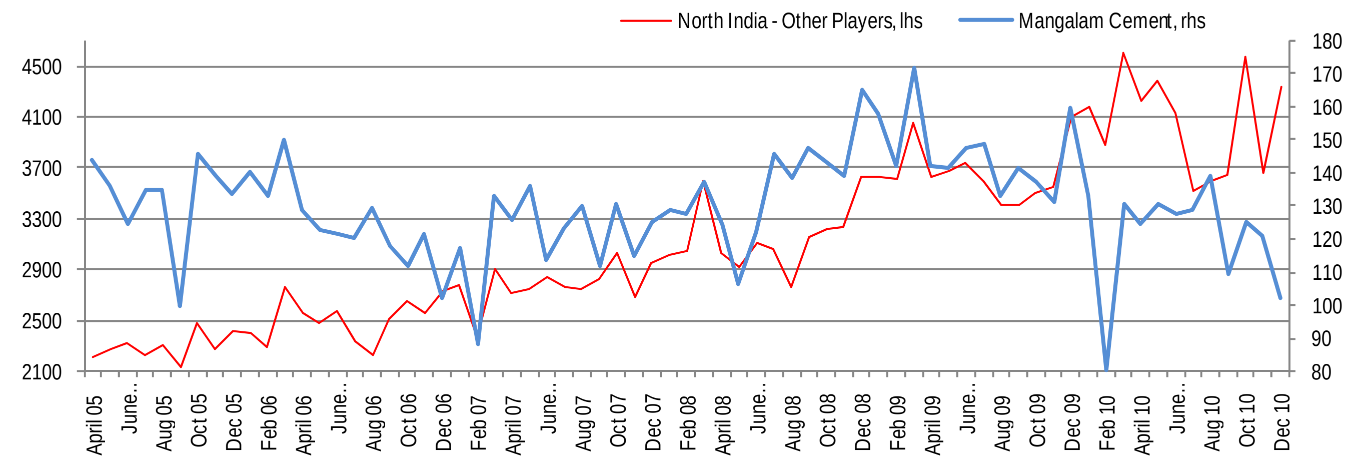
Discipline of Mangalam Cement

MCL VS. INDUSTRY



Source: CMA, MF Global India Research

MCL VS. NORTH INDIA



Source: CMA, MF Global India Research

In both these graphs, it's very clear that being a very small capacity, MCL has been operating independent of the industry, which is not the case with other larger or relatively larger players. In terms of despatches, smaller players like MCL are neither followers nor trend setters. In terms of pricing obviously, these players get impacted by pricing of larger players. On operational front, MCL is highly independent from industry, and hence, the company can clearly choose to continue to operate at higher capacity utilisations, whatever the market conditions may be. Our "Buy" rating on MCL is mainly on account of its highly unwarranted valuations.

Financials

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	5,641	6,137	5,139	6,239	6,799
GROWTH, %	*10.6*	*8.8*	*(16.3)*	*21.4*	*9.0*
OPERATING EXPENSES	(4,279)	(4,222)	(4,573)	(5,240)	(5,570)
EBITDA	1,362	1,914	566	999	1,229
GROWTH, %	*(11.9)*	*40.5*	*(70.4)*	*76.5*	*23.0*
MARGIN, %	*24.2*	*31.2*	*11.0*	*16.0*	*18.1*
DEPRECIATION	(243)	(254)	(364)	(403)	(416)
EBIT	1,120	1,661	202	596	813
GROWTH, %	*(11.9)*	*40.5*	*(70.4)*	*76.5*	*23.0*
MARGIN, %	*19.8*	*27.1*	*3.9*	*9.5*	*12.0*
NET INTEREST AND OTHERS	226	180	105	159	229
PRE-TAX PROFIT	1,346	1,841	307	755	1,041
TAX PROVIDED	(348)	(653)	(46)	-	-
PROFIT AFTER TAX	997	1,188	261	755	1,041
GROWTH, %	*(12.2)*	*19.1*	*(78.0)*	*189.4*	*38.0*
MARGIN, %	*17.7*	*19.4*	*5.1*	*12.1*	*15.3*
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	(26)	-	-	-	-
UNADJ. SHARES (M)	28	27	27	27	27
WTD AVG SHARES (M)	28	27	27	27	27

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	1,346	1,841	307	755	1,041
DEPRECIATION	243	254	364	403	416
CHG IN DEBTORS	(4)	(31)	14	(16)	(8)
CHG IN INVENTORY	387	(190)	106	(117)	(60)
CHG IN LOANS & ADVANCES	(451)	(345)	(132)	(251)	(124)
CHG IN CURRENT LIABILITIES	56	200	(115)	127	64
CHG IN PROVISIONS	353	284	(204)	225	114
TOTAL TAX PAID	(292)	(686)	(46)	-	-
CASH FLOW FROM OPERATING ACTIVITIES (A)	1,637	1,326	295	1,125	1,445
CAPITAL EXPENDITURE	(477)	(635)	(430)	(200)	(200)
CHG IN INVESTMENTS	(21)	(114)	-	-	-
OTHER INVESTING ACTIVITIES	(36)	(25)	-	-	-
CASH FLOW FROM INVESTING ACTIVITIES (B)	(534)	(774)	(430)	(200)	(200)
FREE CASH FLOW (A+B)	1,103	552	(135)	925	1,245
EQUITY RAISED/(REPAID)	(58)	(51)	-	-	-
DEBT RAISED/(REPAID)	(569)	(54)	-	-	-
DIVIDEND (INCL. TAX)	(180)	(187)	(25)	(73)	(101)
CASH FLOW FROM FINANCING ACTIVITIES (C)	(808)	(291)	(25)	(73)	(101)
NET CHG IN CASH (A+B+C)	295	260	(160)	852	1,143

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	441	701	541	1,393	2,536
DEBTORS	58	89	74	90	98
INVENTORY	463	653	547	664	723
LOANS & ADVANCES	1,244	1,589	1,721	1,972	2,097
OTHER CURRENT ASSETS	0	0	0	0	0
TOTAL CURRENT ASSETS	2,205	3,032	2,883	4,119	5,455
GROSS FIXED ASSETS	5,015	5,082	6,082	6,282	6,482
LESS: DEPRECIATION	(2,250)	(2,501)	(2,865)	(3,268)	(3,684)
ADD: CAPITAL WIP	48	613	43	43	43
NET FIXED ASSETS	2,813	3,194	3,260	3,057	2,840
INVESTMENTS	81	195	195	195	195
TOTAL ASSETS	5,099	6,421	6,338	7,371	8,490
CURRENT LIABILITIES	507	706	591	718	782
NON-CURRENT LIABILITIES	1,649	1,847	1,643	1,868	1,982
TOTAL LIABILITIES	2,156	2,553	2,234	2,586	2,764
PAID-UP CAPITAL	280	267	267	267	267
RESERVES & SURPLUS	2,472	3,448	3,683	4,365	5,305
SHARE PREMIUM	191	153	153	153	153
SHAREHOLDERS' EQUITY	2,943	3,868	4,104	4,785	5,725
TOTAL EQUITY & LIABILITIES	5,099	6,421	6,338	7,371	8,490

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
MF GLOBAL EPS (INR)	35.4	43.4	9.8	28.3	39.0
GROWTH, %	*(11.8)*	*22.5*	*(77.5)*	*189.4*	*38.0*
BOOK NAV/SHARE (INR)	104.6	141.4	153.7	179.3	214.5
FDEPS (INR)	35.6	44.5	9.8	28.3	39.0
CEPS (INR)	44.1	52.7	23.4	43.4	54.6
CFPS (INR)	49.0	41.1	6.4	35.8	45.2
DPS (INR)	5.5	5.9	0.8	2.4	3.3

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	5.3	2.6	2.5	2.1	1.8
NET DEBT/EQUITY (%)	(9.7)	(15.5)	(10.7)	(27.0)	(42.5)

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	21.2	20.8	4.3	11.1	13.2
RETURN ON EQUITY (%)	38.6	34.9	6.5	17.0	19.8
RETURN ON INVESTED CAPITAL (%)	25.6	27.8	9.8	19.8	24.5
ROIC/COST OF CAPITAL (X)	3.2	3.5	1.2	2.5	3.1
ROIC - COST OF CAPITAL (%)	17.5	19.8	1.8	11.9	16.5
RETURN ON CAPITAL EMPLOYED (%)	23.6	23.3	4.8	12.3	14.6
COST OF CAPITAL (%)	8.0	8.0	8.0	8.0	8.0
ASSET TURNOVER (X)	1.4	1.4	1.0	1.2	1.4
SALES/TOTAL ASSETS (X)	1.2	1.1	0.8	0.9	0.9
SALES/NET FA (X)	2.1	2.0	1.6	2.0	2.3
WORKING CAPITAL/SALES (X)	0.2	0.3	0.3	0.3	0.3
RECEIVABLE DAYS	3.7	5.3	5.3	5.3	5.3
INVENTORY DAYS	29.9	38.8	38.8	38.8	38.8
CURRENT RATIO (X)	4.4	4.3	4.9	5.7	7.0
QUICK RATIO (X)	3.4	3.4	4.0	4.8	6.0
INTEREST COVER (X)	35.3	84.7	10.3	57.0	77.8
DIVIDEND COVER (X)	6.5	7.4	12.0	12.0	12.0
PER (X)	3.1	2.5	11.3	3.9	2.8
PRICE/BOOK (X)	1.1	0.8	0.7	0.6	0.5
YIELD (%)	5.0	5.3	0.7	2.1	3.0
EV/NET SALES (X)	0.5	0.4	0.5	0.3	0.1
EV/EBITDA (X)	2.1	1.2	4.4	1.6	0.4
EV/EBIT (X)	2.1	1.2	4.4	1.6	0.4
EV/NOPLAT (X)	2.8	1.9	5.2	1.6	0.4
EV/CE	0.6	0.4	0.4	0.2	0.1
EV/IC (X)	0.7	0.5	0.5	0.3	0.1

Source: Company, MF Global India Research Estimates

VAIBHAV AGARWAL
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MF Global

25 February 2011

MF Global Initiating Report

Shree Cement Ltd

| The undisputed trend setter and North Indian leader

CEMENT
SRCM IN: **BUY**
RS 1727

Shree Cement (SCL) is the undisputed leader of the North Indian cement market and has been amongst the fastest growing Indian cement manufacturers. SCL has always reaped the advantages of being the first mover amongst its peers and many other cement manufacturers have tried to replicate its business model. Its foray into power is the most recent example of the company setting the trend.

Investment Rationale

» At 13.1mtpa installed capacity, SCL has enough scope to grow in line with the industry even with no further committed capex on cement capacity.

» Earnings from the power business will grow substantially from FY12E onwards with more than 350MW of power being made available for merchant power sales. Power EBITDA to contribute ~29% and 43% to the total EBITDA of the company by the end of FY12E and FY13E, respectively.

» Increasing EBITDA contribution from power also cushions investors from the cyclicality of the cement business.

» In addition, a potential demerger of its cement and power business may lead to significant value-unlocking in both of its businesses and this is likely to prove value accretive to its shareholders.

Risks

» Getting too aggressive on its cement volume growth.

» Unsustainable demand/cement pricing.

» Unreasonable correction in power rates (like in 2QFY11).

Valuation

At the CMP of Rs1,725/-, the stock trades at 16.0x & 11.4x P/E, 6.1x & 3.9x EV/EBITDA and US$ 87 & 60 EV/tonne (adjusted) on FY12E & FY13E earnings, respectively. At our target price of Rs 2,075 the stock will trade at 19.2x & 13.7x P/E, 7.1x & 4.7x x EV/EBITDA and US$ 114 & 123 EV/tonne (adjusted) on FY12E & FY13E earnings.

TARGET RS 2075 (+20%)

SECTOR RATING

OW	N	UW

STOCK RATING

BUY	NEUTRAL	SELL
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	35MN
MARKET CAP (RS) :	60BN
MARKET CAP (USD) :	1.2BN
52 - WK HI/LO (RS) :	2542 / 1505
LIQUIDITY 3M (USD) :	0.6MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	64.8
FII / NRI :	17.4
FI / MF :	6.4
NON-PROMOTER CORP. HOLDINGS :	7.5
PUBLIC & OTHERS :	4.0

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-1.8	-17.4	-20.1
REL TO BSE	-2.6	-9.7	-31.8

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	27,150	36,321	34,719	41,910	51,173
NET SALES GROWTH, %	31.4	33.8	(4.4)	20.7	22.1
CORE EBIDTA	9,508	15,025	8,875	12,010	15,986
EBIDTA MARGIN, %	35.0	41.4	25.6	28.7	31.2
MAN NET PROFIT	6,089	7,395	2,936	3,758	5,293
NET PROFIT MARGIN, %	22.4	20.4	8.5	9.0	10.3
MAN EPS, RS	174.8	212.3	84.3	107.9	151.9
EPS GROWTH, %	103.5	21.5	(60.3)	28.0	40.9
PER, X	9.9	8.1	20.5	16.0	11.4
EV/EBIDTA, X	7.4	5.1	8.8	6.1	3.9
EV/NET SALES, X	2.6	2.1	2.3	1.7	1.2
PRICE/BOOK VALUE, X	5.0	3.3	2.9	2.4	2.0
EV/TONNE; UNADJUSTED (US$)	155	135	133	124	106
ROIC, %	64.8	70.8	35.1	45.1	58.9
ROE, %	64.7	48.6	14.9	16.5	19.6

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX

Source: Bloomberg, MF Global India Research

Investment Overview

SUSTAINABLE COMPETITIVE ADVANTAGE	WELL-DIVERSIFIED REVENUE PORTFOLIO FROM CEMENT AND POWER. SHREE CEMENT HAS ALWAYS BEEN THE FIRST MOVER AND OTHERS FOLLOW ITS MODEL. HOWEVER, NO OTHER CEMENT MAJOR SO FAR HAS THOUGHT OF SELLING POWER IN SUCH HUGE VOLUMES.
FINANCIAL STRUCTURE	A STRONG BALANCE SHEET CAN EASILY HELP THE COMPANY TAKE FURTHER EXPANSIONS AS AND WHEN REQUIRED; NET WORTH AT ~RS 21BN AND NET DEBT OF ~RS 2BN.
SHAREHOLDER VALUE CREATION	A REASONABLY DE-RISKED BUSINESS MODEL HELPS SHREE CEMENT ALWAYS REPORT HIGHER MARGINS THAN PEERS. EVEN IN THE DOWN CYCLE; THE LOWEST EBITDA MARGIN REPORTED BY SHREE CEMENT WAS AT 19.9%, WHICH IS FAR ABOVE ANY OF ITS NEAREST PEERS.
EARNINGS VISIBILITY	WITH MORE THAN 380MW OF POWER AVAILABLE FOR MERCHANT SALES AND BOUYANT CEMENT PRICES IN NORTH INDIA, SCL IS LIKELY TO REPORT 36% AND 49% EARNINGS GROWTH IN FY12E AND FY13E, RESPECTIVELY.
VALUATION	AT THE CMP OF RS 1,725 THE STOCK TRADES AT US$87/TONNE (ADJUSTED). OUR TARGET PRICE IMPLIES A EV/TONNE OF US$114 EV/TONNE ON FY12E EARNINGS (ADJUSTED).
MF GLOBAL VS. CONSENSUS	OUR PAT ESTIMATES FOR SHREE CEMENT ARE LOWER THAN CONSENSUS, BUT THAT IS MAINLY ON ACCOUNT OF A HIGHER DEPRECIATION CHARGE IN FY12E. OUR EBITDA ESTIMATES ARE HIGHER BY 1% THAN THE CONSENSUS.
FUTURE EVENT TRIGGERS	DEMERGER OF CEMENT ASSETS AND POWER ASSETS INTO SEPARATE COMPANIES CAN CREATE A HIGHLY VALUE-ACCRETIVE PROPOSITION FOR INVESTORS.
EXPECTED PRICE MOMENTUM	WE RATE THE STOCK A BUY WITH A PRICE TARGET OF RS 2,075.

Source: MF Global India Research

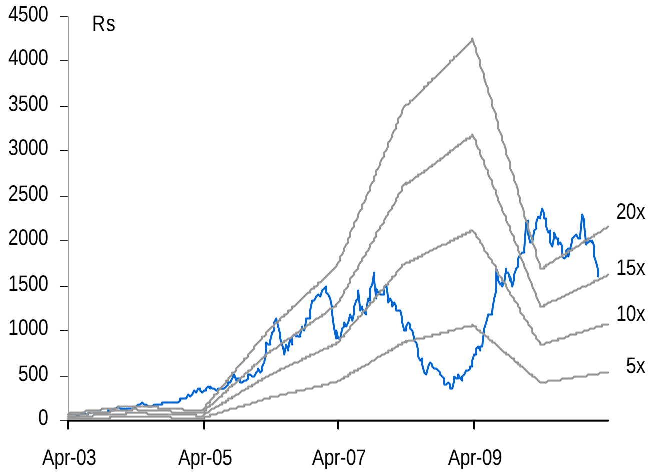
Rating and Price Target

RATING	BUY
FY12E CEMENT EBITDA (RS MN)	8485
FY12E CEMENT EBITDA MARGIN, %	25
FY12E EBITDA/SHARE (RS)	244
TARGET EV/EBITDA (X)	8.0
TARGET EV/SHARE (RS) - A	1948
FY12E POWER EBITDA (RS MN)	3525
FY12E POWER EBITDA MARGIN, %	43
FY12E EBITDA/SHARE (RS)	101
TARGET EV/EBITDA (X)	5.0
TARGET EV/SHARE (RS) - B	506
TARGET EV/SHARE (A+B)	2454
NET DEBT/SHARE	379
EQUITY FAIR VALUE/SHARE (RS)	2,075
% UPSIDE	*20%*
FY12E IMPLIED TARGET EV/TONNE (US$)	114
FY12E EV BASED ON CMP (RS MN)	73314
FY12E EBITDA	12010
FY12E EV/EBITDA BASED ON CMP	6.1
FY12E CEMENT EBITDA	8485
FY12E CEMENT EV BASED ON CMP	51794
FY12E EV/TONNE (US$) BASED ON CMP	87

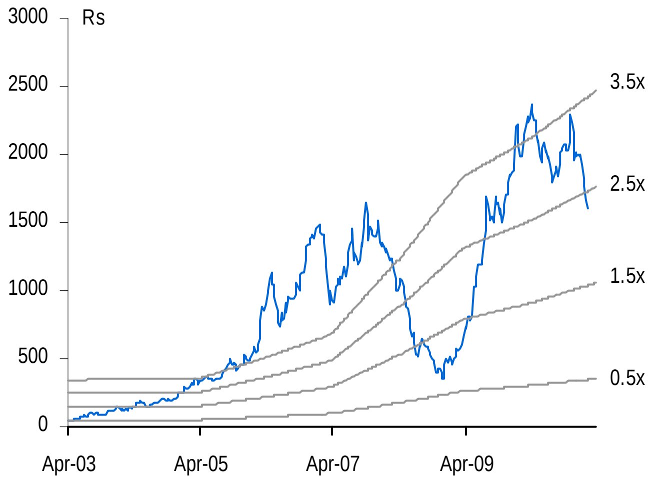
Source: MF Global India Research

Absolute Rolling Valuation Band Charts

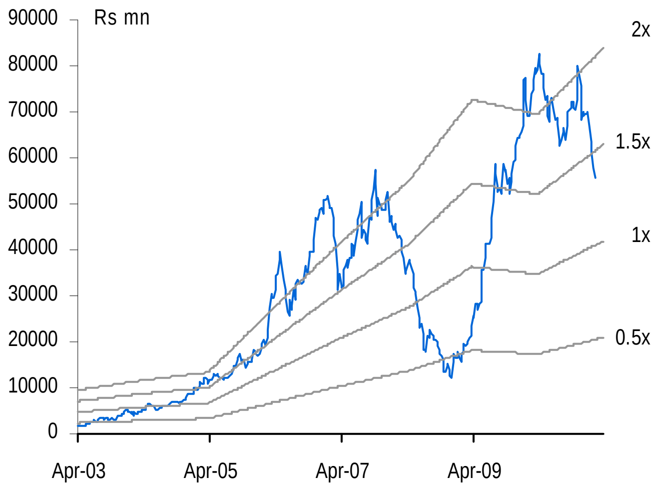
PE BAND



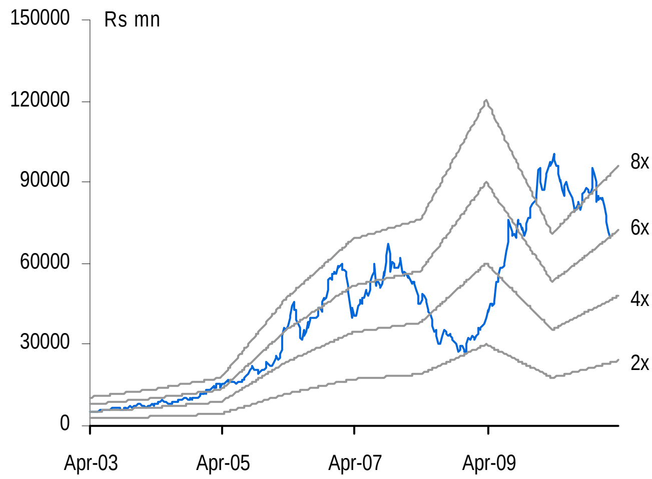
PBV BAND



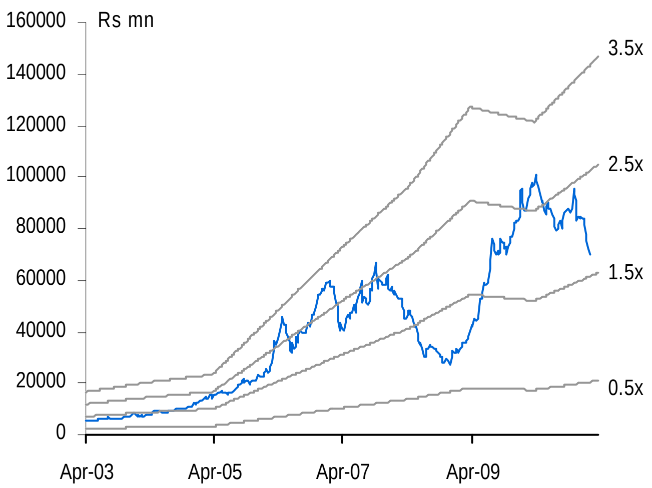
MCAP/SALES BAND



EV/EBIDTA BAND



EV/SALES BAND

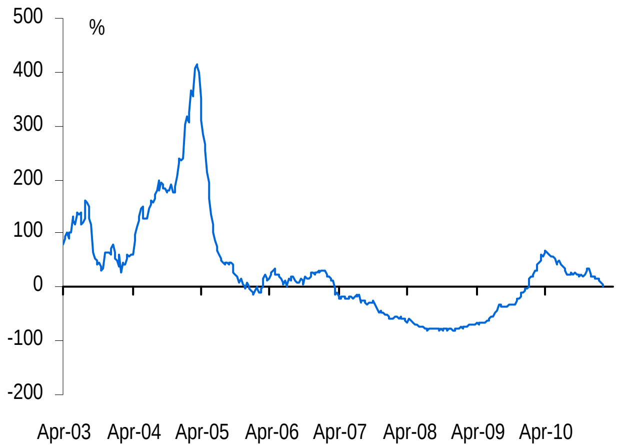


Source: MF Global India Research

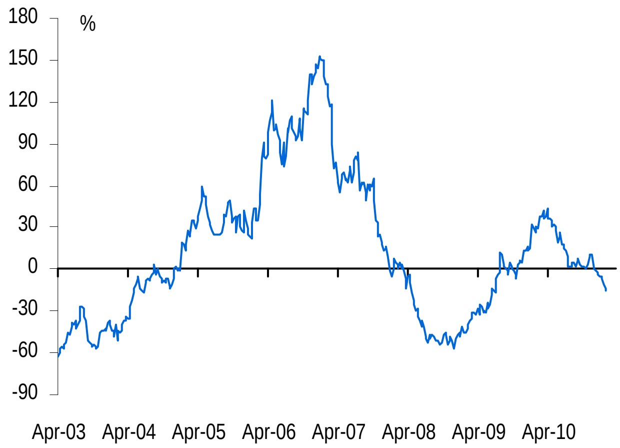
» Shree Cement currently trades at valuations, which are at +25% discount to peak valuations. With significant price hikes in North India in 4QFY11E, SCL is likely to see a significant boost in its profitability. Also, with the power plants getting on stream in FY12E, we believe that the power earnings are not completely factored in the current valuations. We expect SCL's stock price to gain momentum as market conditions in North India improve.

Premium/Discount to Sensex

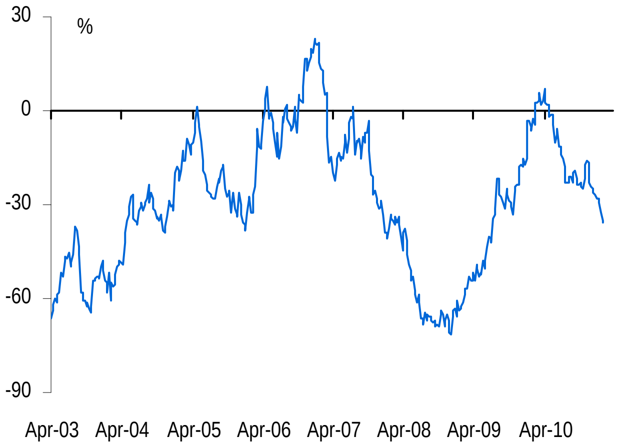
PE



PBV

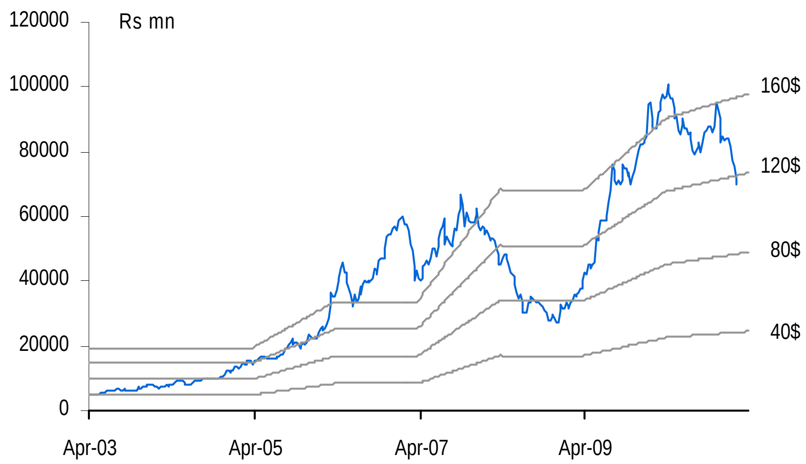


MCAP/SALES



Source: MF Global India Research

EV/TONNE BAND CHART (UNADJUSTED FOR POWER)



Source: MF Global India Research

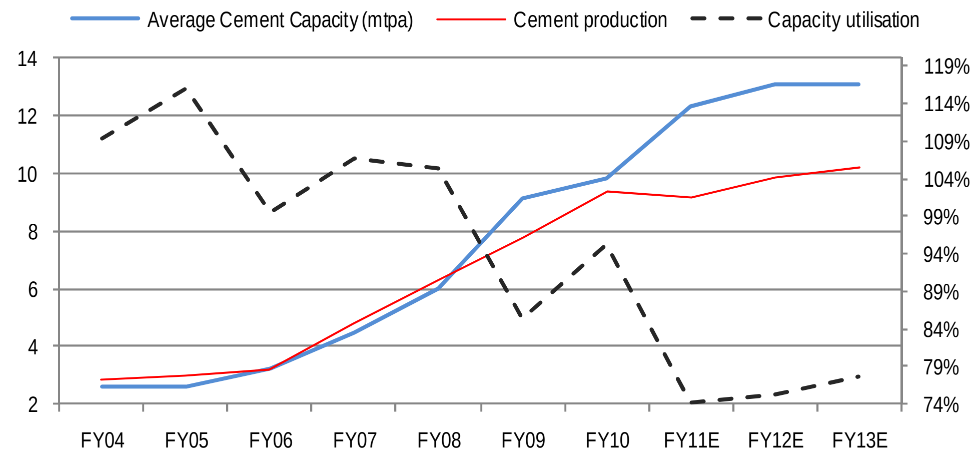
» The band charts shows EV/tonne valuations for SCL (unadjusted for power business). We believe, price up-ticks in North India and recovery in power rates are not yet fully factored in these valuations. We expect a strong recovery in operating margins of Shree Cement Q4FY11E onwards which will very likely pull back the EV/tonne valuations for SCL.

Investment Thesis

Shree Cement (SCL) is the undisputed leader of North India and enjoys ~18% capacity share. The company has posted robust growth in capacity from mere 2.6mtpa in FY05 to ~13.1mtpa in FY11E (CAGR of 26%). SCL is also the undisputed leader of execution and has set world records of commissioning 1mtpa kilns in 367 days (Unit 7). The company broke its own record with its next kiln (Unit 8) by commissioning it in a record time of 330 days. The company has always enjoyed its first mover advantage and the recent example is of its foray into the power business to de-risk its cement business model, which is now being followed by other cement manufacturers in the Indian cement industry.

Capacity Movement

CEMENT CAPACITY AND PRODUCTION

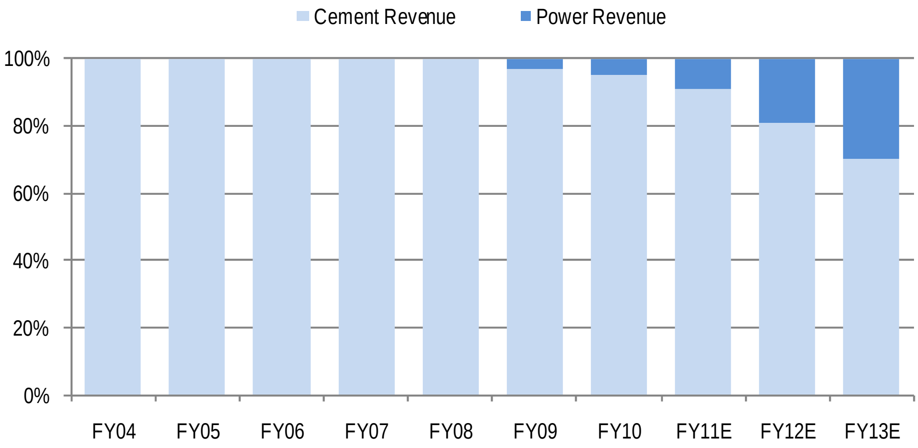


Source: Company, MF Global India Research Estimates

Shree Cement has been a leader in execution and has in turn, grown its installed capacity from a mere of 2.6mtpa in FY05 to 13.1mtpa by the end of FY11E. The company has also been a leader in achieving optimum utilisation of its capacity by producing more than 100% consistently until the end of FY08. FY09 saw the company operating at less than 100% capacity utilisation only on account of production cuts, that were required by the industry in order to maintain a favourable cement pricing scenario. FY11E is expected to see the lowest average utilisations for Shree Cement at ~74%, which we expect to improve from here on.

Shree Cement has not made any further announcement with regard to its cement capacity addition. The company is likely to announce another expansion in Rajasthan and also announce its entry into the South Indian cement market with a 3mtpa capacity in Karnataka. With the commissioning of its grinding unit at Jaipur, we expect Shree Cement to post muted total volume (cement + clinker) growth of ~2% and 1% in FY12E and FY13E, respectively. Pure cement sales are, however, likely to grow by ~7% and 3% (YoY) in FY12E and FY13E, respectively.

REVENUE MIX



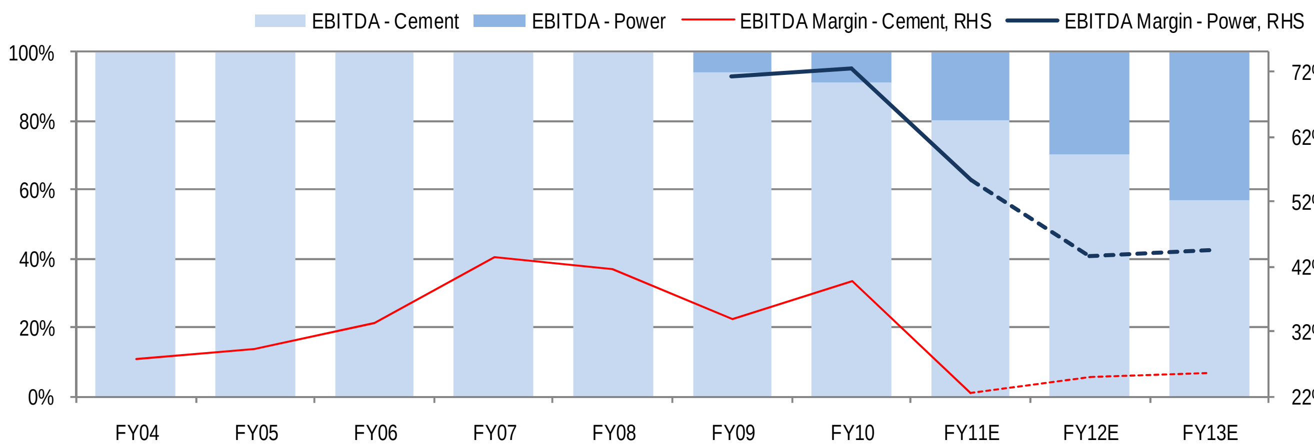
Source: Company, MF Global India Research Estimates

Cement has been the only business contributing to Shree Cement's revenue till FY08. With its foray into the power segment, the company has tried to de-risk the cyclicality of the cement business and is now in the advanced stages of installing 300MW (2X150MW) of thermal power plants dedicated to merchant sales. The company already has ~260MW of captive power plants, which includes a 43MW Waste Heat Recovery Plant. The current capacity is more than sufficient for the current production requirements of its cement plants. With the commissioning of these two captive power plants (due in phases by end of 3QFY12E), Shree Cement will have more than 380MW of power available for merchant sales. As a result, power is likely to contribute ~30% to Shree Cement's total revenues by the end of FY13E.

The foray into the power business has not only enabled Shree Cement to de-risk itself from the cyclicality of the cement business, but also enables the company to post a remarkable revenue growth of ~20% YoY for FY12E and FY13E, even with a muted volume growth in its cement business.

With lower than 80% average capacity utilisation in the cement business and in line with other North India based producers, Shree Cement is comfortably placed when compared to any other cement manufacturer and is very much likely to move in a diciplined manner along with the trends in the North India market.

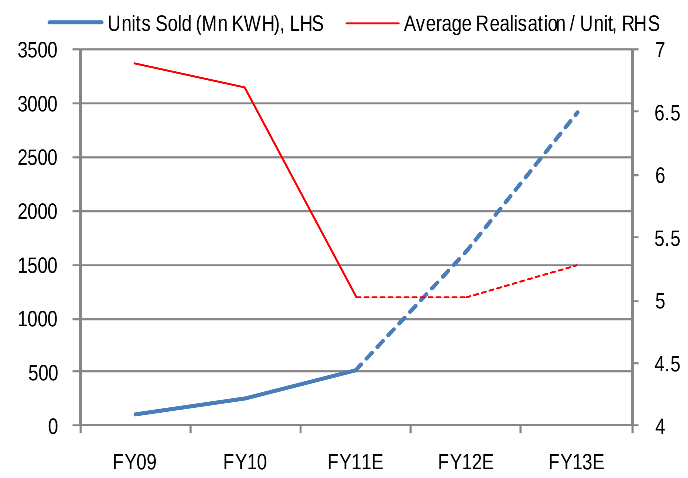
EBITDA & EBITDA MIX

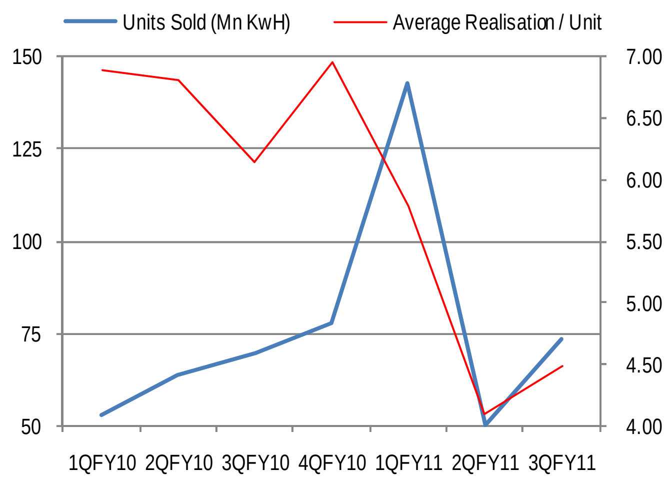


Source: Company, MF Global India Research Estimates

Power is likely to contribute ~43% to Shree Cement's total EBITDA by the end of FY13E. This, we believe, will be a signicant shift in its business model. EBITDA margins of its power business have been substantially higher than that of the cement business. Cost push in the recent quarters, coupled with cement price correction, has put further pressure on EBITDA margin of the cement business. However, Q4FY11E is likely to see some robust price hikes (Rs 20-Rs 45 per bag) in North India and we expect Shree Cement's margins to recover significantly from Q4FY11E onwards.

UNITS SOLD AND AVERAGE REALISATION/UNIT – POWER BUSINESS



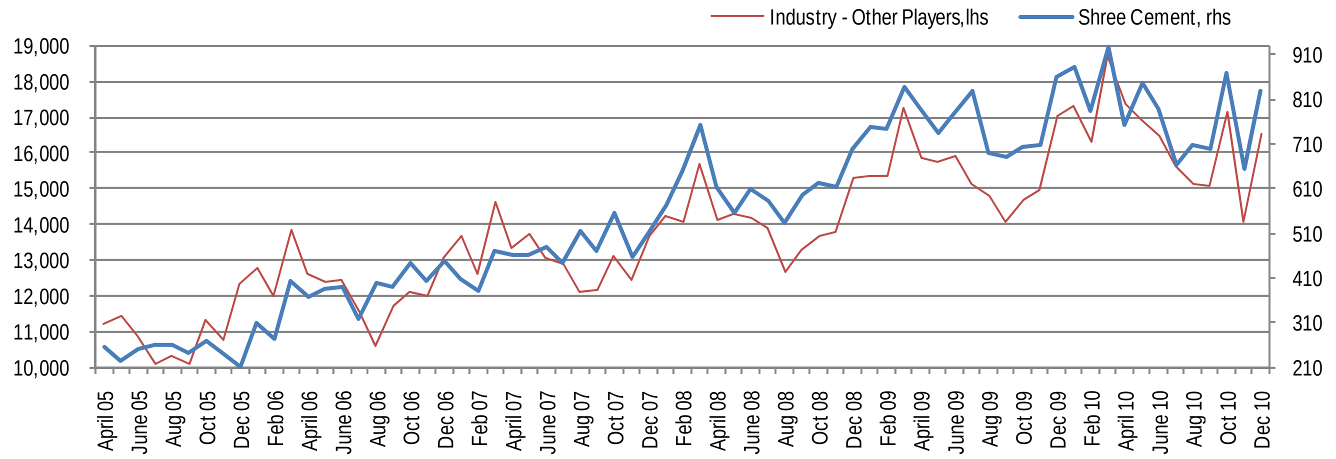


Source: Company, MF Global India Research Estimates

We expect the company's power units' sale to start picking up from the current quarter with recovery in power rates. Q2FY11 saw a significant fall in the number of units sold as realisations were unreasonably down during the quarter. Q3FY11 has seen a recovery in power sales to 74mn units (+47% QoQ; +6% YoY) as average realisations improved by 40paise/unit to Rs 4.49/unit. We expect robust growth in power unit sales from Q4FY11E onwards. Q4FY11E is expected to post power sales of ~246mn units (+234% QoQ). FY12E and FY13E are likley to see power unit sales being increased to 1614 and 2919mn units, a growth of 215% and 81% for FY12E and FY13E, respectively.

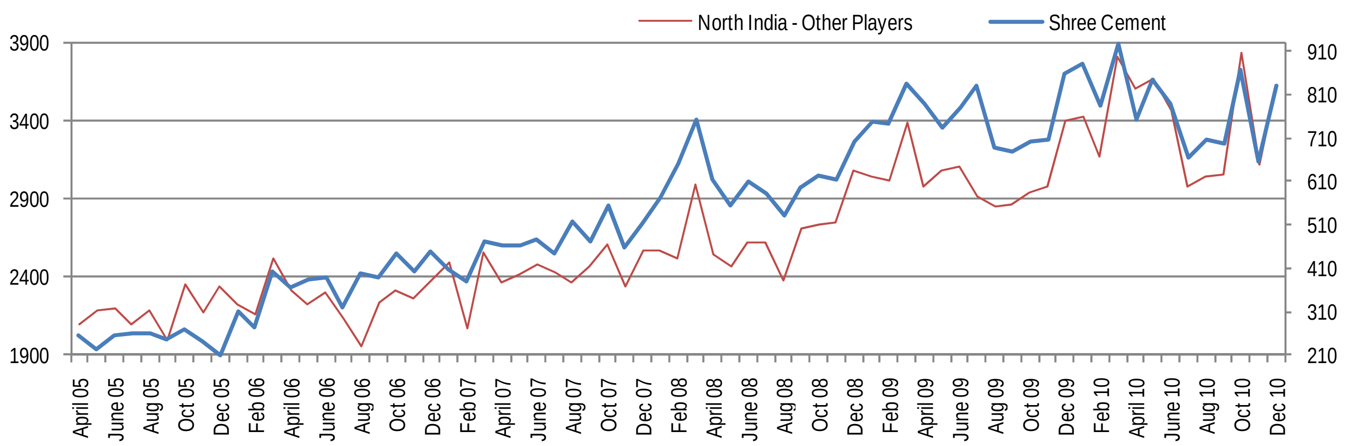
Discilpline of Shree Cement

SHREE CEMENT VS. INDUSTRY



Source: CMA, MF Global India Research

SHREE CEMENT VS, NORTH INDIA



Source:CMA, MF Global India Research

As seen, SCL has been clearly following a pattern of despatches in line with both industry and other players in North India. One especially needs to take into account the kind of discipline SCL is observing with other North Indian players from March '10 onwards.

MF Global

Financials

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	27,150	36,321	34,719	41,910	51,173
GROWTH, %	*31*	*34*	*-4*	*21*	*22*
OPERATING EXPENSES	-17,643	-21,296	-25,844	-29,900	-35,186
EBITDA	9,508	15,025	8,875	12,010	15,986
GROWTH, %	*10*	*58*	*-41*	*35*	*33*
MARGIN, %	*35*	*41*	*26*	*29*	*31*
DEPRECIATION	-2,054	-5,704	-5,500	-7,924	-9,334
EBIT	7,454	9,321	3,375	4,086	6,652
GROWTH, %	*94*	*25*	*-64*	*21*	*63*
MARGIN, %	*27*	*26*	*10*	*10*	*13*
NET INTEREST AND OTHERS	85	-7	80	335	910
PRE-TAX PROFIT	7,538	9,313	3,454	4,421	7,562
TAX PROVIDED	-1,449	-1,918	-518	-663	-2,269
PROFIT AFTER TAX	6,089	7,395	2,936	3,758	5,293
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	0	0	0	0	0
MF NET PROFIT	6,089	7,395	2,936	3,758	5,293
GROWTH, %	*103*	*21*	*-60*	*28*	*41*
UNADJ. SHARES (M)	35	35	35	35	35
WTD AVG SHARES (M)	35	35	35	35	35

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	7,538	9,313	3,454	4,421	7,562
DEPRECIATION	2,054	5,704	5,500	7,924	9,334
CHG IN WORKING CAPITAL	-3,862	-6,857	402	-431	-589
TOTAL TAX PAID	-1,369	-1,938	-515	-663	-2,269
CASH FLOW FROM OPERATING ACTIVITIES	4,361	6,223	8,841	11,251	14,039
CAPITAL EXPENDITURE	-5,332	-11,841	-9,674	-6,000	-3,000
OTHER INVESTING ACTIVITIES	-309	-634	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES	-5,641	-12,475	-9,674	-6,000	-3,000
FREE CASH FLOW	-1,280	-6,252	-833	5,251	11,039
DEBT RAISED/(REPAID)	1,655	6,101	1,362	-5,041	-10,770
DIVIDEND (INCL. TAX)	-326	-408	-529	-210	-269
CASH FLOW FROM FINANCING ACTIVITIES	1,328	5,693	833	-5,251	-11,039
NET CHG IN CASH	49	-559	0	0	0

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	4,723	4,164	4,164	4,164	4,164
DEBTORS	583	824	788	951	1,161
INVENTORY	1,545	3,581	3,423	4,132	5,046
LOANS & ADVANCES	7,368	7,140	6,825	8,238	10,059
TOTAL CURRENT ASSETS	14,218	15,709	15,200	17,485	20,430
GROSS FIXED ASSETS	22,559	29,509	39,183	48,857	54,857
LESS: DEPRECIATION	-16,291	-21,989	-27,489	-35,413	-44,747
ADD: CAPITAL WIP	4,789	9,674	9,674	6,000	3,000
NET FIXED ASSETS	11,057	17,194	21,368	19,444	13,110
OTHER NON-CURRENT ASSETS	8,524	16,035	16,035	16,035	16,035
TOTAL ASSETS	33,800	48,938	52,603	52,965	49,575
CURRENT LIABILITIES	6,842	9,667	9,241	11,155	13,620
NON-CURRENT LIABILITIES	14,858	20,938	22,303	17,262	6,492
TOTAL LIABILITIES	21,699	30,605	31,544	28,417	20,112
PAID-UP CAPITAL	348	348	348	348	348
RESERVES & SURPLUS	11,752	17,984	20,710	24,200	29,114
SHAREHOLDERS' EQUITY	12,100	18,332	21,059	24,548	29,463
TOTAL EQUITY & LIABILITIES	33,800	48,938	52,603	52,965	49,575

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
MF GLOBAL EPS (INR)	174.8	212.3	84.3	107.9	151.9
GROWTH, %	*103.5*	*21.5*	*-60.3*	*28.0*	*40.9*
BOOK NAV/SHARE (INR)	347.3	526.2	604.5	704.6	845.7
FDEPS (INR)	174.8	212.3	84.3	107.9	151.9
CEPS (INR)	233.7	376.0	242.2	335.3	419.9
CFPS (INR)	176.4	360.4	222.9	287.2	361.1
DPS (INR)	11.7	15.2	6.0	7.7	10.9

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	123.6	114.9	106.5	70.8	22.4
NET DEBT/EQUITY (%)	84.6	92.2	86.7	53.9	8.3

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	22.5	19.7	7.0	8.2	11.0
RETURN ON EQUITY (%)	64.7	48.6	14.9	16.5	19.6
RETURN ON INVESTED CAPITAL (%)	64.8	70.8	35.1	45.1	58.9
ROIC/COST OF CAPITAL (X)	6.9	7.6	3.8	5.0	7.0
ROIC - COST OF CAPITAL (%)	55.4	61.5	25.9	36.1	50.5
RETURN ON CAPITAL EMPLOYED (%)	28.1	24.6	8.6	10.2	14.5
COST OF CAPITAL (%)	9.3	9.3	9.2	9.0	8.4
ROCE - COST OF CAPITAL (%)	18.7	15.3	-0.6	1.2	6.1
ASSET TURNOVER (X)	2.3	2.2	1.6	1.9	2.7
SALES/TOTAL ASSETS (X)	0.9	0.9	0.7	0.8	1.0
SALES/NET FA (X)	2.9	2.6	1.8	2.1	3.1
WORKING CAPITAL/SALES (X)	0.1	0.1	0.1	0.1	0.1
FIXED CAPITAL/SALES (X)	0.0	0.0	0.0	0.0	0.0
RECEIVABLE DAYS	7.8	8.3	8.3	8.3	8.3
INVENTORY DAYS	20.8	36.0	36.0	36.0	36.0
PAYABLE DAYS	0.0	0.0	0.0	0.0	0.0
CURRENT RATIO (X)	2.1	1.6	1.6	1.6	1.5
QUICK RATIO (X)	1.9	1.3	1.3	1.2	1.1
INTEREST COVER (X)	10.0	7.9	3.4	4.5	12.1
DIVIDEND COVER (X)	14.9	14.0	14.0	14.0	14.0
PER (X)	9.9	8.1	20.5	16.0	11.4
PEG (X) - Y-O-Y GROWTH	0.1	0.4	-0.3	0.6	0.3
PRICE/BOOK (X)	5.0	3.3	2.9	2.4	2.0
YIELD (%)	0.7	0.9	0.3	0.4	0.6
EV/NET SALES (X)	2.6	2.1	2.3	1.7	1.2
EV/EBITDA (X)	7.4	5.1	8.8	6.1	3.9
EV/EBIT (X)	7.4	5.1	8.8	6.1	3.9
EV/NOPLAT (X)	9.2	6.5	10.4	7.2	5.6
EV/CE	2.6	2.0	1.8	1.8	1.7
EV/IC (X)	5.9	4.6	3.6	3.2	3.3

Source: Company, MF Global India Research Estimates

Equity Research | India

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MF Global

25 February 2011

MF Global Initiating Report

UltraTech Cement

| From big to bigger; aims to be the biggest

CEMENT

UTCEM IN: **BUY**

RS 966

UltraTech Cement, the largest cement capacity in India, is our preferred pick amongst large-cap cement players. The company's growth potential remains robust on the back of continuous capacity expansions. A pan-India presence with a fairly distributed despatch mix across regions makes this player an attractive bet in the Indian cement space. The company enjoys the leadership position in 2 out of 5 regions and is the second largest player in the other three regions. Overseas acquisition of ETA Star also provides synergies, as UltraTech is amongst the leading exporters of clinker and cement from the country. We believe that UltraTech's valuations will be considered as a benchmark valuation for the Indian cement industry, going forward. We rate the stock a Buy with a price target of Rs1,180 on FY12E earnings.

Investment Rationale

» Further re-rating of the stock is inevitable. With the single largest capacity, the stock has a clear competitive advantage over its peers. Ambitious and aggressive growth plans (+25mn tonnes in the next five years) signifies its strategy to grow ahead of the market and peers.

» Savings from captive power plants, increasing realizations coupled with volume growth, will trigger earnings growth for FY12E and FY13E. The company is a highly disciplined player and with the largest capacity, a breach of discipline in the future is highly unlikely.

Risks

» Excessive production cuts and delays in capex execution.

» Demand slowdown / Price cuts.

Valuations

At the CMP of Rs966/-, the stock trades at 14.7x & 10.5x P/E, 8.5x & 6.3x EV/EBITDA and US$ 138 & 113 EV/tonne on FY12E & FY13E earnings. At our target price of Rs the stock trades at 17.9x & 12.8x P/E, 10.0x & 7.5x EV/EBITDA and US$ 163 & 134 EV/tonne on FY12E & FY13E earnings.

TARGET RS 1180 (+22%)

SECTOR RATING

OW	N	UW
■		

STOCK RATING

BUY	NEUTRAL	SELL
■		
> 15%	-15% TO +15%	< -15%

COMPANY DATA

O/S SHARES :	274MN
MARKET CAP (RS) :	265BN
MARKET CAP (USD) :	5.9MN
52 - WK HI/LO (RS) :	1175 / 820
LIQUIDITY 3M (USD) :	6.7MN
FACE VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	63.4
FII / NRI :	15.4
FI / MF :	8.5
NON-PROMOTER CORP. HOLDINGS :	5.0
PUBLIC & OTHERS :	7.8

PRICE PERFORMANCE, %

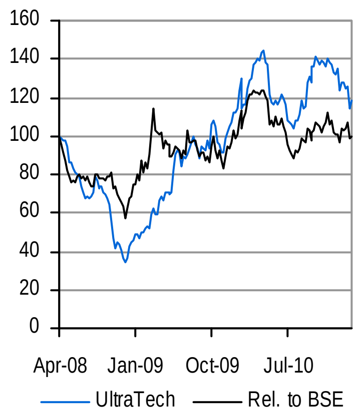
	1MTH	3MTH	1YR
ABS	-5.1	-13.6	-5.4
REL TO BSE	-0.8	-5.9	-17.0

VALUATION SUMMARY

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	65,636	71,751	123,144	165,963	189,609
NET SALES GROWTH, %	16.7	9.3	71.6	34.8	14.2
CORE EBIDTA	17,185	19,847	24,349	38,068	48,893
EBIDTA MARGIN, %	26.2	27.7	19.8	22.9	25.8
NET PROFIT	9,781	10,952	11,455	18,060	25,283
NET PROFIT MARGIN, %	14.9	15.3	9.3	10.9	13.3
MF GLOBAL EPS, RS	78.6	88.0	41.8	65.9	92.3
EPS GROWTH, %	(3.2)	12.0	(52.6)	57.7	40.0
PER, X	12.3	11.0	23.1	14.7	10.5
EV/EBIDTA, X	8.2	6.8	13.3	8.5	6.3
EV/NET SALES, X	2.1	1.9	2.6	1.9	1.6
PRICE/BOOK VALUE, X	3.3	2.6	2.5	2.2	1.8
EV/TONNE (US$)	143	125	140	138	113
ROIC, %	23.8	24.9	16.7	17.1	20.2
ROE, %	31.0	26.7	15.2	15.9	19.0

Source: Company, MF Global India Research Estimates

PRICE VS. SENSEX



Source: Bloomberg, MF Global India Research

Investment Overview

SUSTAINABLE COMPETITIVE ADVANTAGE	PAN-INDIA PRESENCE; SINGLE LARGEST CAPACITY IN INDIA AND LIKELY TO REMAIN SO. BEING THE LARGEST PLAYER, ULTRATECH CEMENT WILL CONTINUE TO HAVE VERY HIGH BARGAINING POWER VS. PEERS.
FINANCIAL STRUCTURE	NET DEBT:EQUITY AT 0.27X; VERY STRONG BALANCE SHEET ENABLES ULTRATECH CEMENT TO EXPAND CAPACITY COMFORTABLY AND RAPIDLY (THROUGH THE INORGANIC ROUTE).
SHAREHOLDER VALUE CREATION	MERGER OF SAMRUDHHI (GRASIM'S CEMENT DIVISION) WITH ULTRATECH HAS SIGNIFICANTLY RE-RATED THE STOCK. ULTRATECH CEMENT WILL EVENTUALLY BECOME THE BENCHMARK VALUATION FOR THE INDIAN CEMENT INDUSTRY (WHICH WAS EARLIER REPRESENTED BY AMBUJA CEMENTS).
EARNINGS VISIBILITY	EARNINGS VISIBILITY REMAINS STRONG VS. PEERS ON ACCOUNT OF VOLUME GROWTH AND PREMIUM REALISATIONS. ULTRATECH'S REALISATIONS ARE APPROACHING THAT OF ACC AND AMBUJA CEMENT AND IS LIKELY MOVE HIGHER. REALISATION PREMIUM FOR ULTRATECH IS EXPECTED TO EXPAND FURTHER AND WE EXPECT ULTRATECH TO REPORT REALISATIONS WHICH WILL BE AT A REASOBNABLE PREMIUM TO THAT OF ITS NEAREST PEERS, THAT IS ACC LTD. AND AMBUJA CEMENTS.
VALUATION	ULTRATECH CEMENT WILL BE THE BENCHMARK VALUATION TO THE SECTOR AND HENCE IS VERY LIKELY TO TRADE AT A MAXIMUM PREMIUM AMONGST PEERS. CURRENTLY, THE STOCK TRADES AT US$138 EV/TONNE ON FY12E EARNINGS. AT OUR TARGET PRICE OF RS 1180, THE STOCK WILL TRADE AT US$163 EV/TONNE ON FY12E EARNINGS.
MF GLOBAL VS. CONSENSUS	OUR PAT ESTIMATES FOR ULTRATECH ARE LARGELY IN LINE WITH CONSENSUS FOR FY12E.
FUTURE EVENT TRIGGERS	NEW CAPEX ANNOUNCEMENTS BY THE COMPANY TO ENSURE ITS LEADERSHIP POSITION AND INORGANIC GROWTH THROUGH ACQUISTIONS, IF ANY.
EXPECTED PRICE MOMENTUM	WE EXPECT THE STOCK TO SUSTAIN ITS PREMIUM. OUR TARGET PRICE DENOTES 22% UPSIDE TO THE CURRENT MARKET PRICE.

Source: MF Global India Research

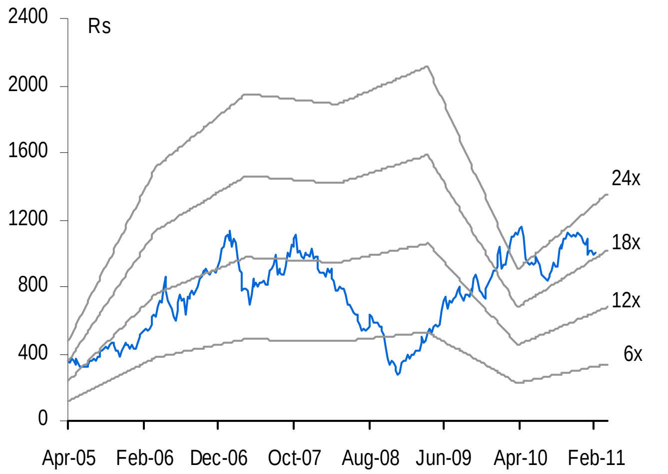
Rating and Price Target

RATING	BUY
FY12E EBITDA (RS MN)	38068
FY12E EBITDA MARGIN, %	23
FY12E EBITDA/SHARE (RS)	139
TARGET EV/EBITDA (X)	10.0
TARGET EV/SHARE (RS)	1,389
NET DEBT/SHARE	209
EQUITY FAIR VALUE/SHARE (RS)	1,180
% UPSIDE	22%
FY12E IMPLIED TARGET EV/TONNE (US$)	163
FY12E IMPLIED TARGET P/E (X)	17.9
FY12E EV BASED ON CMP (RS MN)	322100
FY12E CAPACITY (EOP, MTPA)	51.8
FY12E EBITDA (RS MN)	38068
FY12E EV/EBITDA (X)	8.5
FY12E P/E (X)	14.7
FY12E EV/TONNE (US$)	138

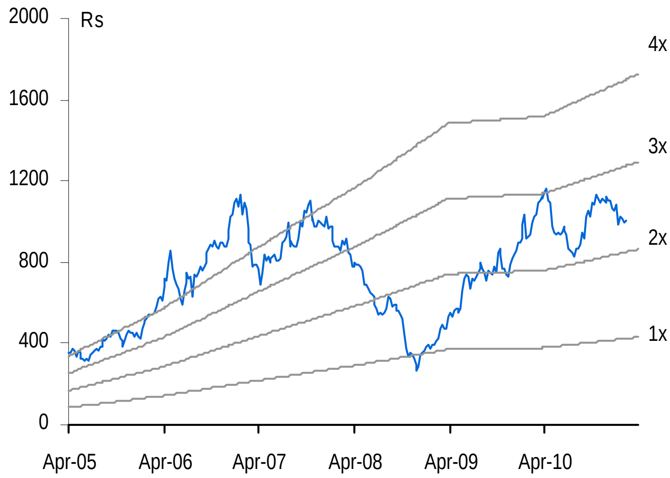
Source: MF Global India Research Estimates

Absolute Rolling Valuation Band Charts

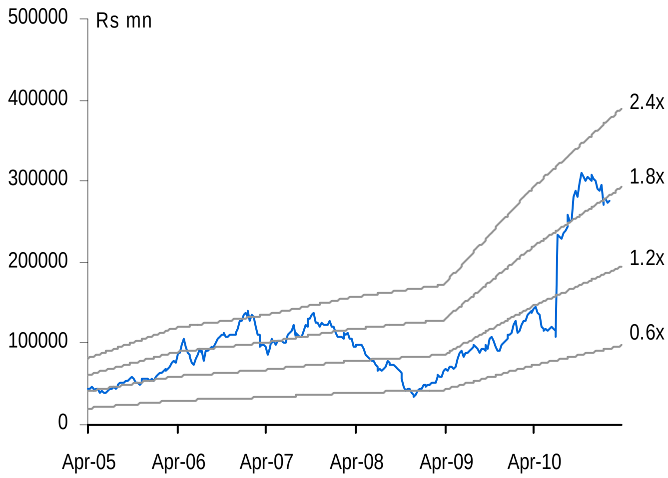
PE BAND



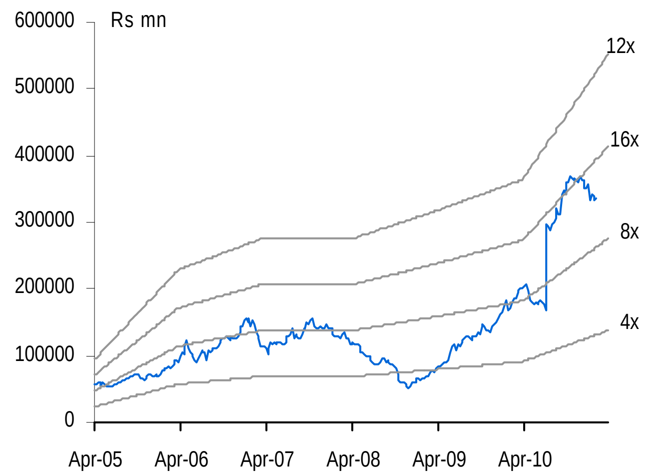
PBV BAND



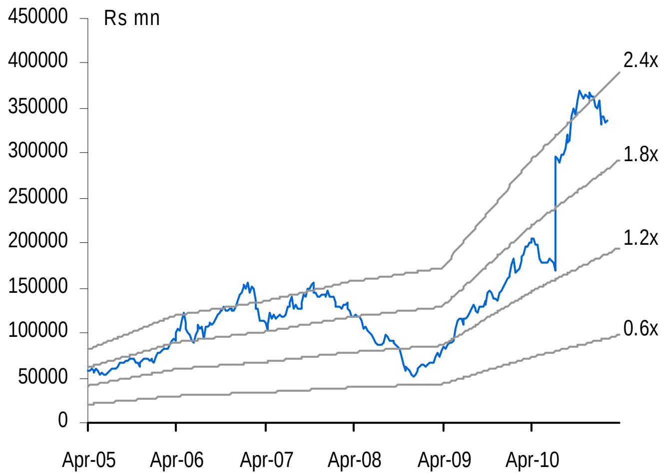
MCAP/SALES BAND



EV/EBIDTA BAND



EV/SALES BAND

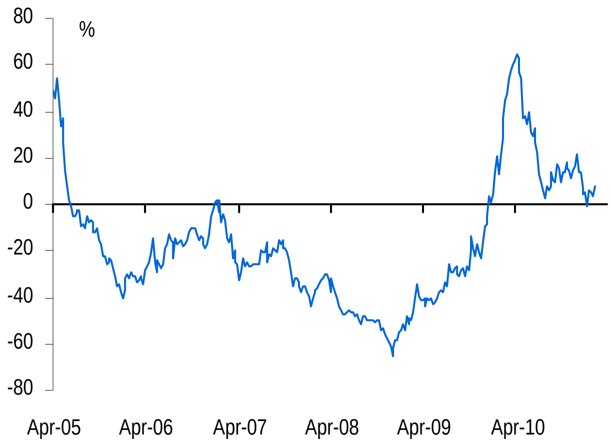


Source: MF Global India Research

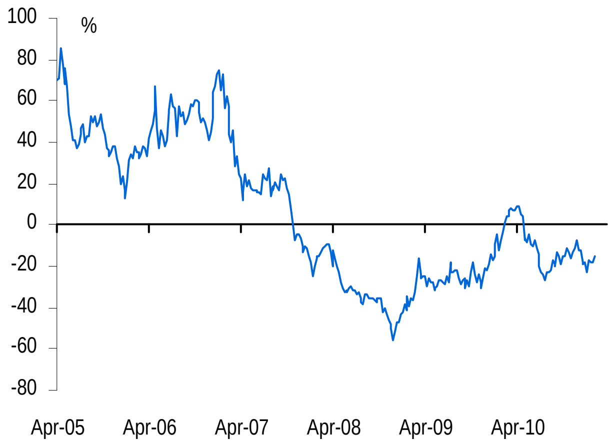
» We expect UltraTech to sustain these valuations and re-rate further as the capacity grows. We strongly believe, the size of the capacity plays a significant role in determining valuations for cement manufacturers. The recent spike in valuations is mainly on account of merger of Grasim's cement division with UltraTech Cement. We strongly believe a further re-rating is due in the stock (which will happen over with time) on account of it being the largest cement capacity in India and Ultratech valuation's will become the benchmark to the valuations of the Indian cement industry.

Premium/Discount to Sensex

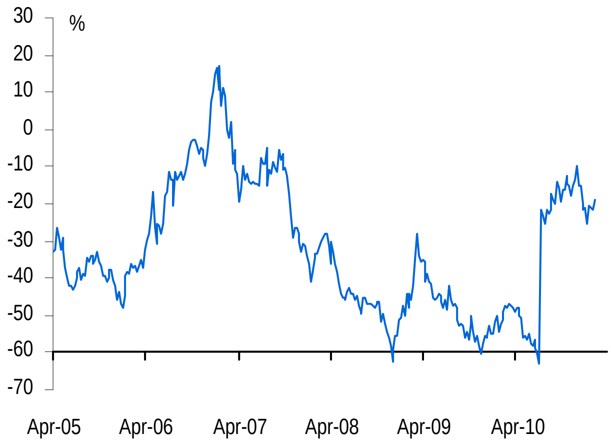
PE



PBV

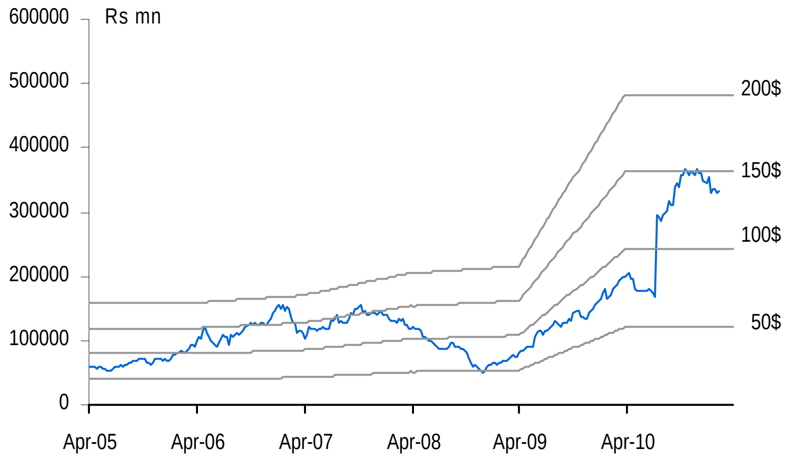


MCAP/SALES



Source: MF Global India Research

EV/TON BAND CHART



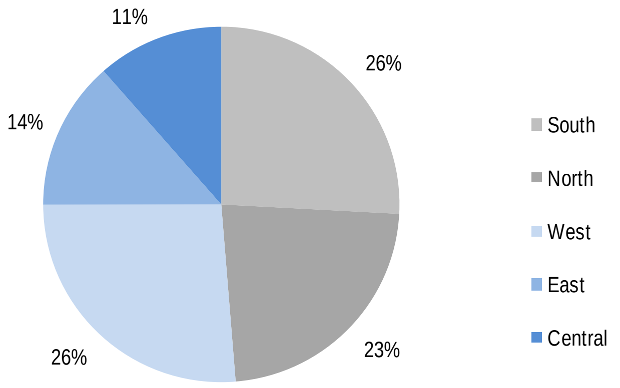
Source: MF Global India Research

- EV/tonne valuations of UltraTech are very likely to gain much more premium to replacement cost as size of the capacity grows. Our current target price denotes an EV/tonne valuation of US$ 163/tonne on FY12E earnings.

Investment Thesis

UltraTech Cement is the single largest cement producer in India with a capacity of ~48.8mtpa in India and 3mn tonnes overseas. Its pan-India presence and ambitious and aggressive growth plans make this company the most attractive and preferred play in the Indian cement space. We also believe that given the size of capacity of the company and its aggressive expansion plans, UltraTech's valuation will be treated as a benchmark to valuations of the Indian cement industry. UltraTech has plans to increase its capacity by 25mn tonnes over the next five years, of which ~9.2mn tonnes is already firm with the equipment order being placed. We expect UltraTech Cement to trade at a premium of 36% over replacement cost at US$163/tonne.

REGIONAL CAPACITY BREAK-UP

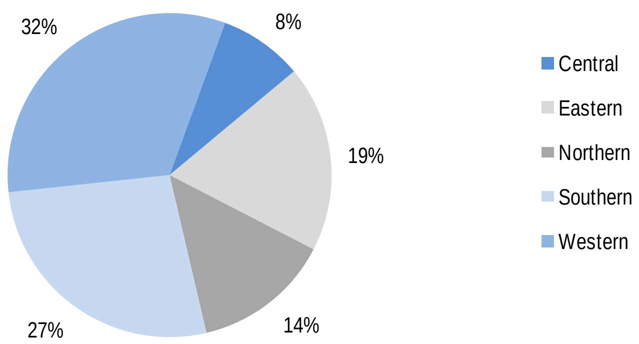


Source: CMA

UltraTech Cement is currently the largest capacity in the West and East and the second largest capacity in all the other regions (North, Central and South). The merger of Grasim's cement division with the company has enabled the company to climb the ladder fast and move ahead of peers, such as ACC Ltd. and Ambuja Cements, very quickly. The company has already announced firm expansions of ~9.2mn tonnes in the East (4.8mtpa at Raipur, Chattisgarh) and South (4.4mtpa at Malkhed, Karnataka) which is scheduled to get operational by 1QFY14E. This will increase UltraTech's domestic cement capacity to ~58mn tonnes. The major equipment orders have already been placed for this 9.2mtpa expansion.

The company targets a growth rate ahead of the industry. However, we believe that the growth may be more or less in line with industry on account of disciplined play, but this aggressive expansion will certainly help UltraTech maintain its leadership position in the Indian cement space.

YTD DESPATCH MIX



Source: CMA

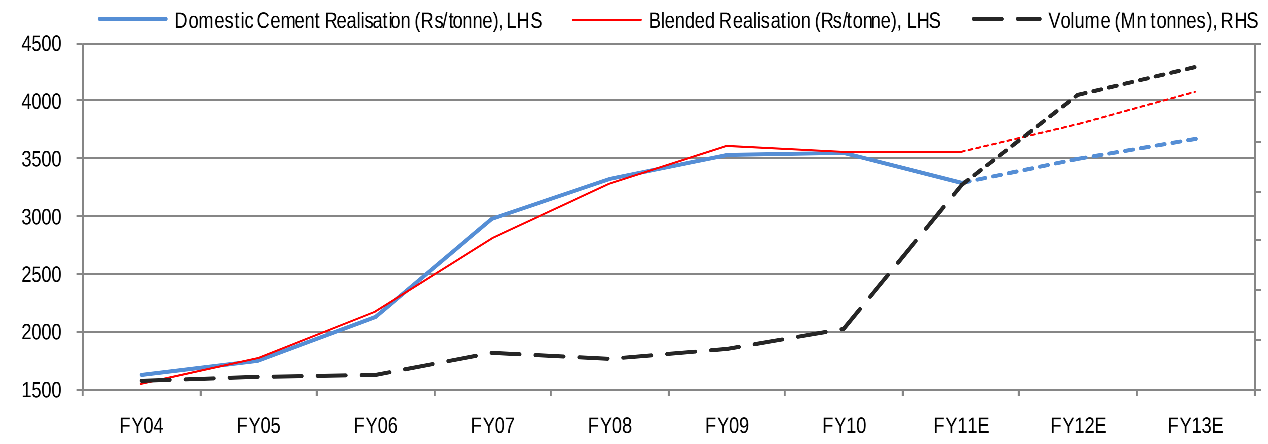
FY11YTD UltraTech Cement has despatched ~27.8mn tonnes of cement (+4% YoY). Though, it appears that the despatches are skewed towards the West and South, heavy inter-region transfers makes the company a fairly balanced player across all the regions of the country.

Realisation and Volume Growth

UltraTech's average blended realizations have grown very marginally (~1%) over 9MFY11YTD (YoY). We expect and have factored in a realization growth of 5% YoY each, for both FY12E and FY13E.

UltraTech Cement's volumes (adjusted) are expected to post a growth of 10% and 7% YoY for FY12E and FY13E, respectively. Its ETA Star of 3mn tonnes is working on full capacity utilization, which gives a boost to the company's overall volume.

UTCL—VOLUMES AND REALISATIONS

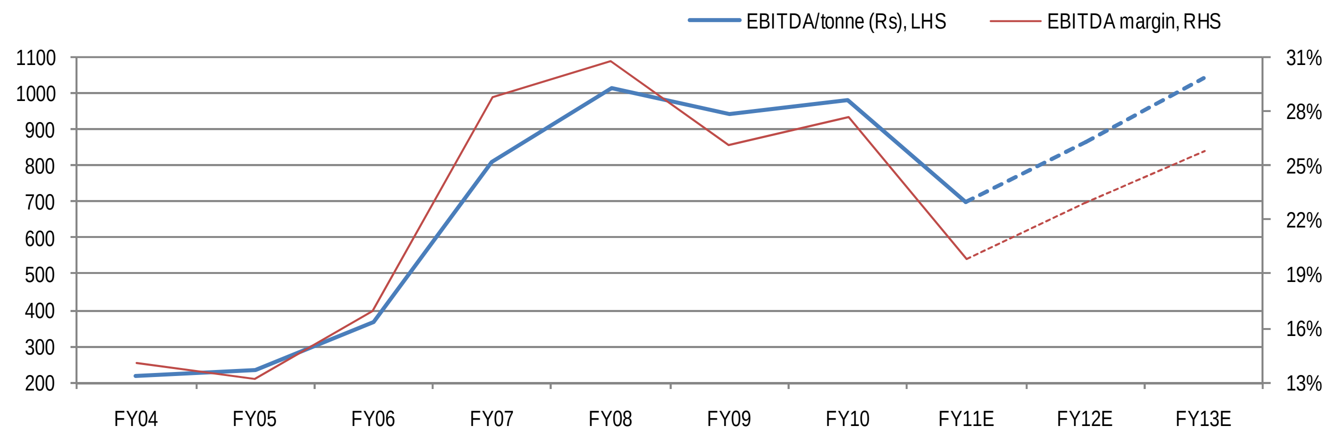


Source: Company, MF Global India Research

EBITDA/tonne and EBITDA margin

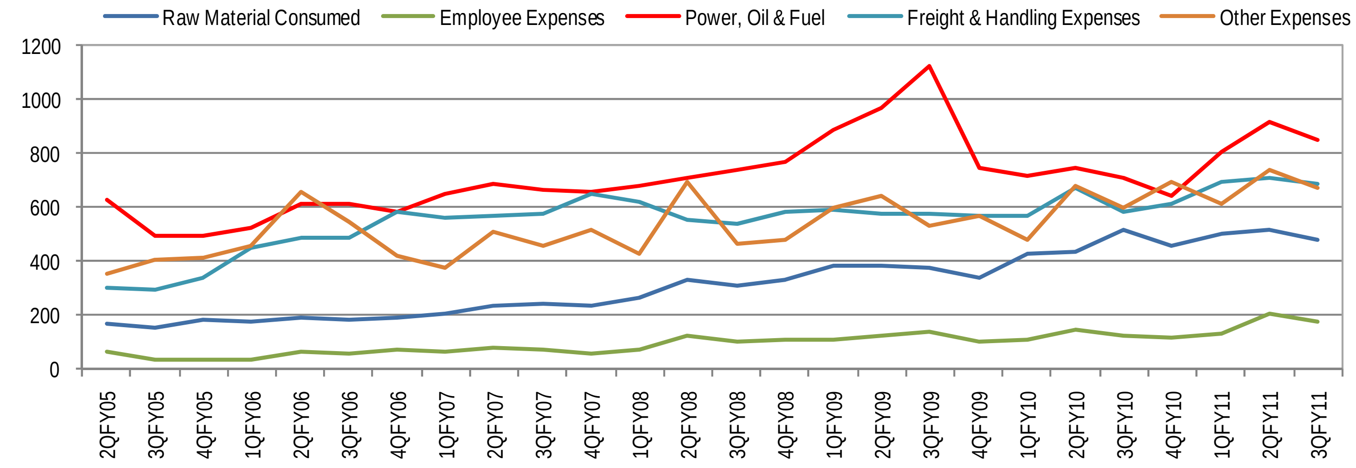
UltraTech's 9MFY11 EBITDA/tonne was reported at Rs 610 with an EBITDA margin of 17.4%. With price upticks in 4QFY11E and better cost efficiencies, we expect its EBITDA/tonne to improve to Rs 698 for FY11E (-29% YoY). Our recent interaction with the management suggests a target EBITDA/tonne of Rs 1000 on a sustainable basis. However, we do not foresee such improvement happening so soon. We expect EBITDA/tonne to improve from Rs 698 in FY11E to Rs 865 (+24% YoY) and Rs 1,043 (+21% YoY) in FY12E and FY13E, respectively. We expect operating margins to be reported at 19.8%, 22.9% and 25.8% for FY11E, FY12E and FY13E, respectively.

UTCL— EBITDA MARGIN AND EBITDA/TONNE MOVEMENT



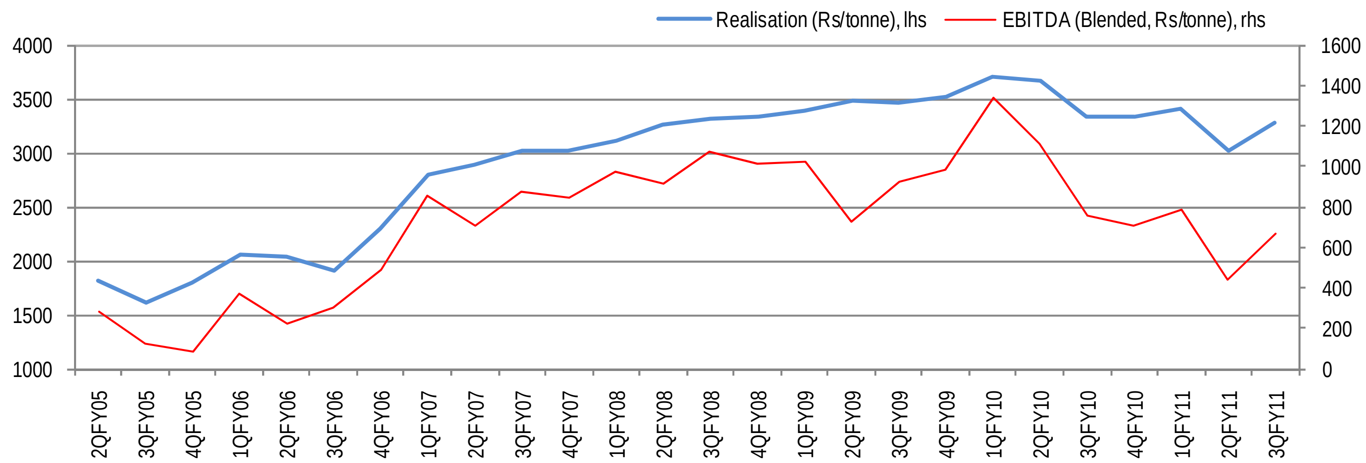
Source: Company, MF Global India Research Estimates

OPERATING COST MOVEMENT ON A QUARTERLY BASIS (RS/TONNE)



Source: Company, MF Global India Research

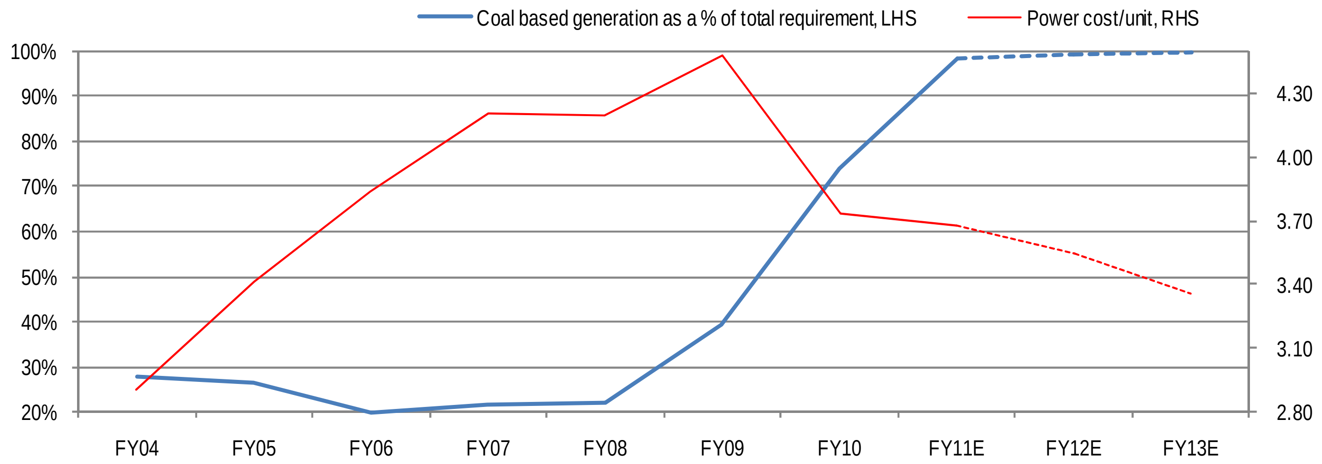
UTCL—REALISATION AND EBITDA/TONNE ON A QUARTERLY BASIS



Source: Company, MF Global India Research

It is clearly visible that increasing power and fuel costs have been the key drag on EBITDA/tonne in recent quarters. Though there have been increases in other operating costs as well, the significant part of the impact on EBITDA has come in from the increases in fuel cost. Inability of players to pass on this cost-push has significantly impacted margins. However, we believe that the bloodbath has now made the industry realize the importance of being disciplined. With the price hikes, we expect the 4QFY11E performance to be much better than that of the previous quarters. We also expect better cost efficiencies, with the company becoming almost self sufficient with regard to its power requirements. The following graph highlights the same.

POWER COST

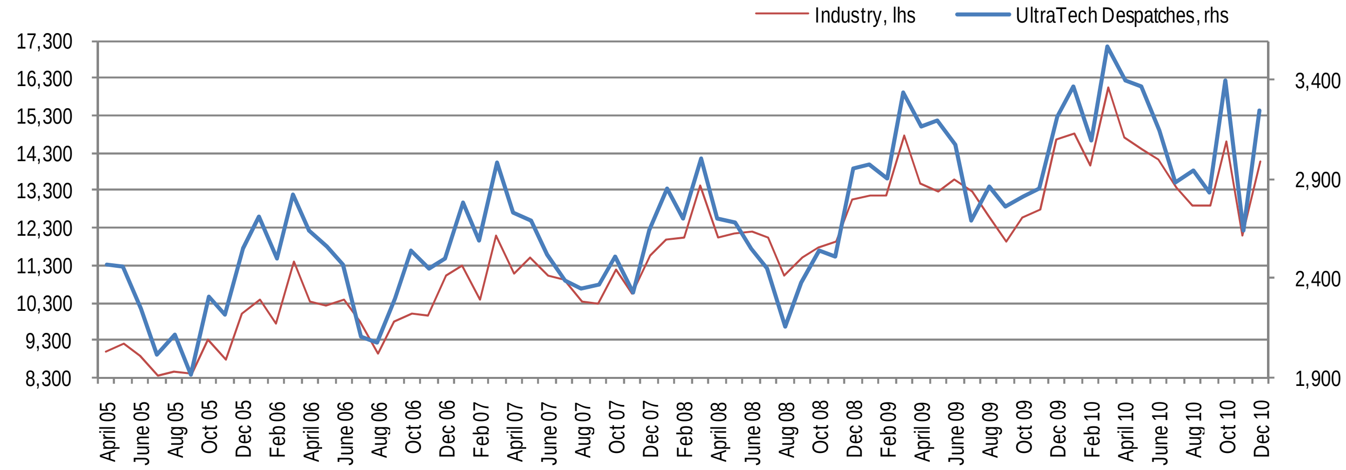


Source: Company, MF Global India Research Estimates

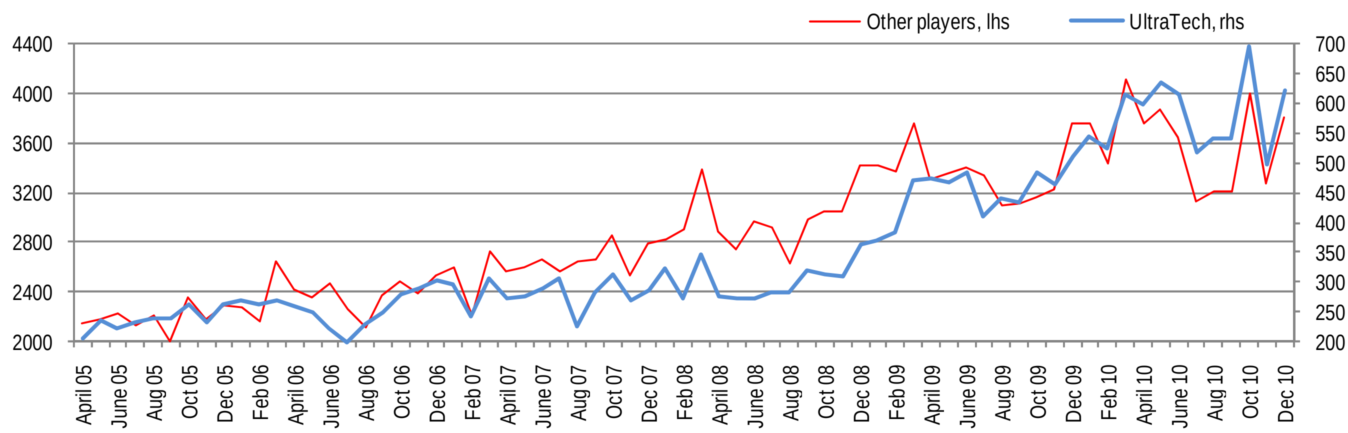
As we can see, UltraTech Cement has now become almost self sufficient for its power requirements from FY11E onwards, based on the currrent and expected capacity utilisation of the company. We believe that this self-sufficiency will arrest the increase in overall power costs. Complete dependency on captive power will help UltraTech save ~Rs 1.5bn annually (taking into account the purchased power by the company in FY08). Fuel cost may remain a concern, just like it is for the other cement companies. UltraTech's average fuel cost in 3QFY11 was at US$ 125 per tonne as compared to US$ 92 per tonne in 3QFY10.

Discipline of UltraTech Cement

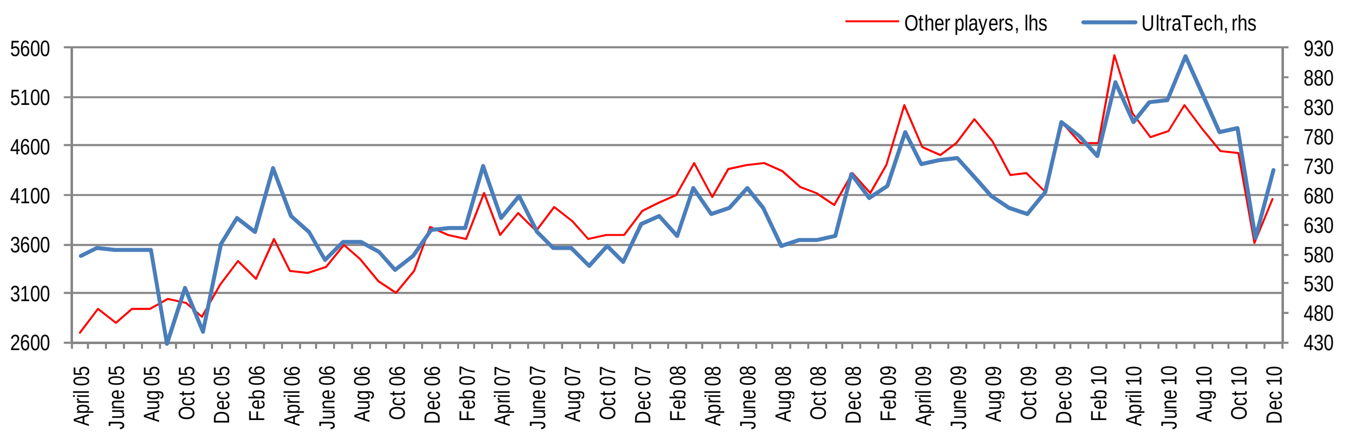
DESPATCH TREND OF ULTRATECH VS. INDUSTRY ('000 TONNES)



NORTH INDIA ('000 TONNES)

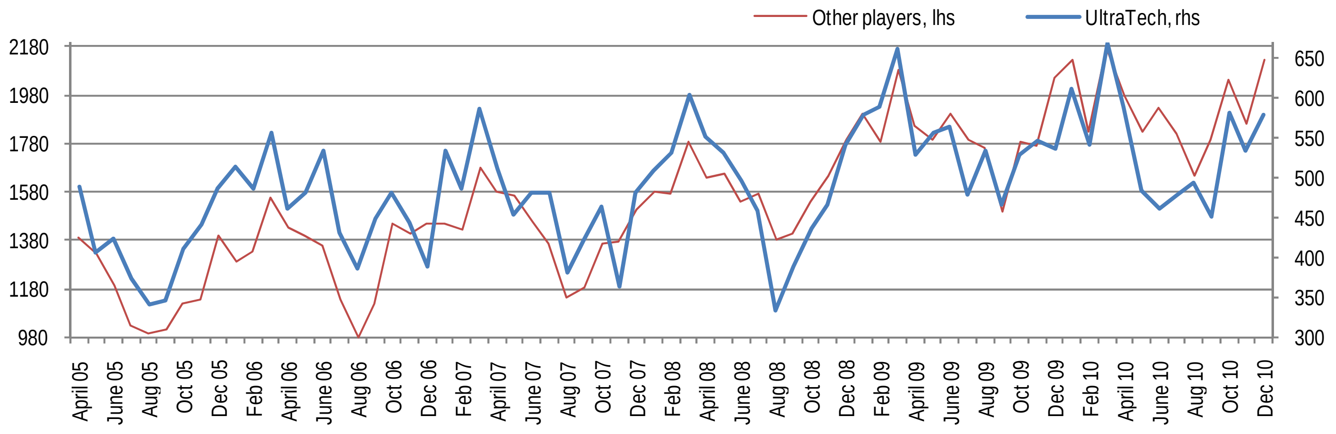


SOUTH INDIA ('000 TONNES)

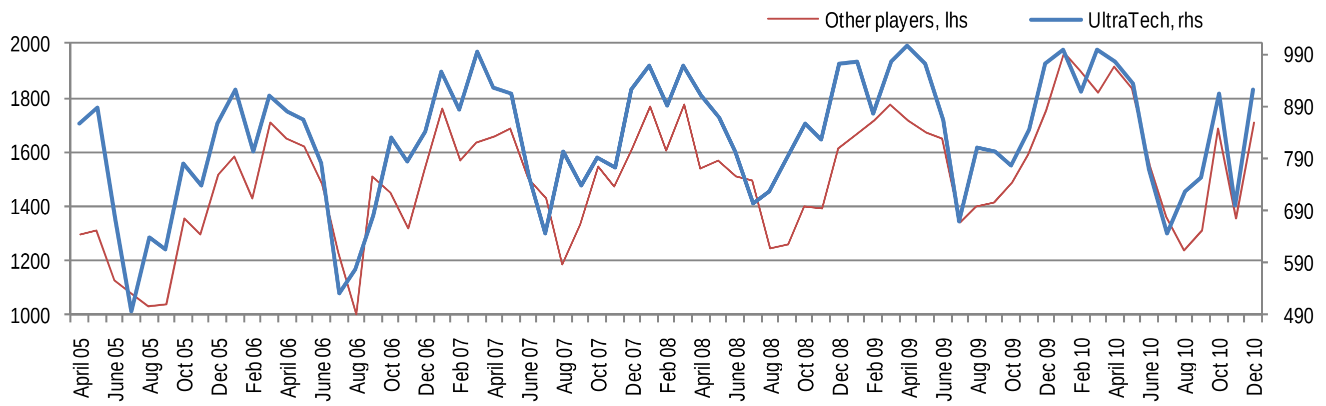


Source: CMA, MF Global India Research

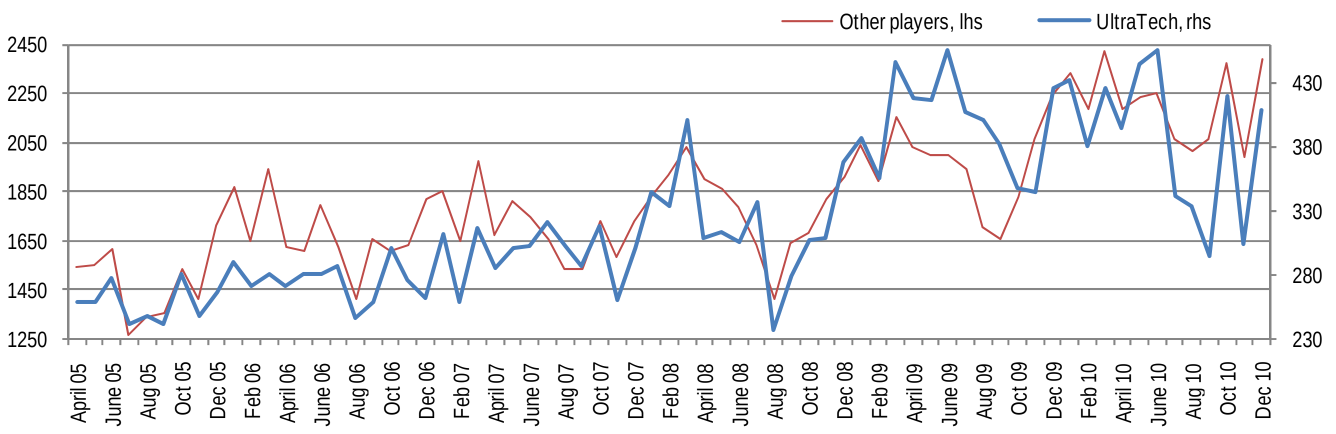
EAST INDIA ('000 TONNES)



WEST INDIA ('000 TONNES)



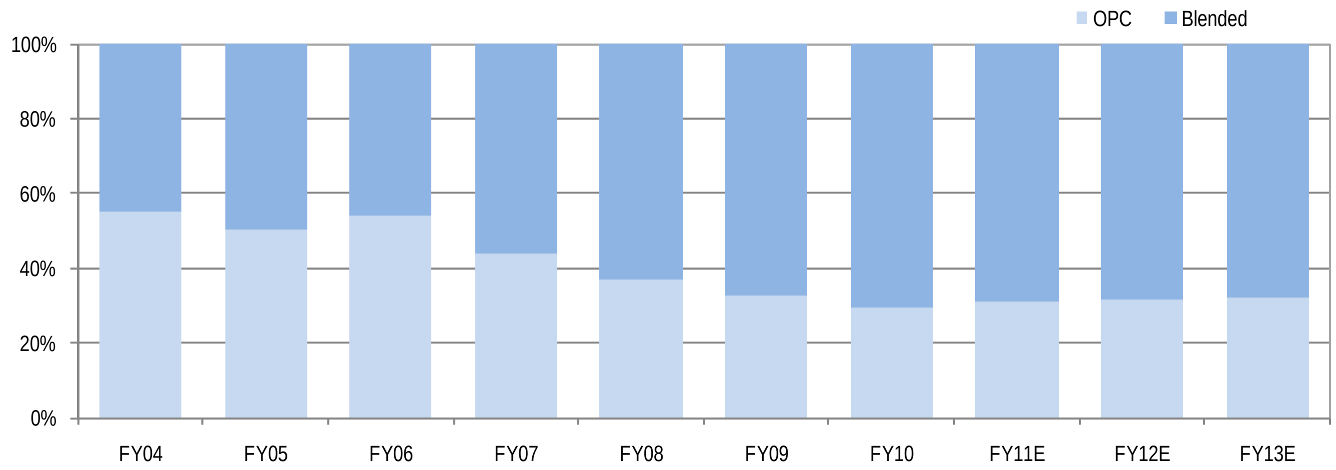
CENTRAL INDIA ('000 TONNES)



Source: CMA, MF Global India Research

In the charts above, we have included the despatch of Grasim's cement division as well for a better comparison. Clearly in all the charts above, UltraTech has followed a path identical to the industry at all times. We like to reiterate that UltraTech being the market leader, the company will have to be extra careful in terms of its despatch growth. We believe that the aggressive growth plans of the company are geared towards maintaining its leadership position rather than increasing its market share. The market share across regions will increase, however, the growth in volume is likely to be slow and steady and would be in line with the market. Inorganic acquisitions, if any, will help UltraTech more effectively to increase its market share in a spurt rather than new capacity additions. We reiterate that new capacity additions will only enable UltraTech to maintain its leadership position with a significant gap from the next closest player.

OPC & BLENDED CEMENT MIX



Source: Company, MF Global India Research Estimates

Elaborating further on the dicipline, the optimum way is to put a check on the blending ratio and we expect UltraTech to do this. Though the same may not decline substantially so soon, the company will for sure not increase this ratio from the current levels. Our estimates factor in a fairly stable OPC: Blended cement mix for UltraTech till FY13E.

We like the stock, as we believe, with time, UltraTech's valuations will be the becnhmark for the Indian cement industry. The valuation premium will expand and UltraTech will trade at the highest premium to any other cement player in the industry as the size of the company grows.

Financials

INCOME STATEMENT

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
NET SALES	65,636	71,751	123,144	165,963	189,609
GROWTH, %	*16.7*	*9.3*	*71.6*	*34.8*	*14.2*
OPERATING EXPENSES	(48,452)	(51,904)	(98,795)	(127,896)	(140,717)
EBITDA	17,185	19,847	24,349	38,068	48,893
GROWTH, %	*(0.7)*	*15.5*	*22.7*	*56.3*	*28.4*
MARGIN, %	*26.2*	*27.7*	*19.8*	*22.9*	*25.8*
DEPRECIATION	(3,258)	(3,913)	(7,567)	(10,352)	(11,295)
EBIT	13,927	15,933	16,782	27,715	37,597
GROWTH, %	*(6.6)*	*14.4*	*5.3*	*65.2*	*35.7*
MARGIN, %	*21.2*	*22.2*	*13.6*	*16.7*	*19.8*
NET INTEREST AND OTHERS	(249)	45	(94)	(1,406)	(767)
PRE-TAX PROFIT	13,678	15,978	16,688	26,309	36,831
TAX PROVIDED	(3,882)	(5,010)	(5,232)	(8,249)	(11,548)
MINORITIES	(16)	(16)	-	-	-
PROFIT AFTER TAX	9,781	10,952	11,455	18,060	25,283
MF GLOBAL NET PROFIT	9,794	10,969	11,455	18,060	25,283
GROWTH, %	*(3.2)*	*12.0*	*4.4*	*57.7*	*40.0*
EXTRAORDINARY ITEMS: GAINS/(LOSSES)	-	-	-	-	-
UNADJ. SHARES (M)	124	124	274	274	274
WTD AVG SHARES (M)	124	124	274	274	274

CASH FLOW

Y/E MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
PRE-TAX PROFIT	13,678	15,978	16,688	26,309	36,831
DEPRECIATION	3,258	3,913	7,567	10,352	11,295
CHG IN WORKING CAPITAL	(1,075)	(615)	(11,036)	(4,173)	(2,304)
TOTAL TAX PAID	(2,060)	(3,930)	(4,565)	(8,249)	(11,548)
CASH FLOW FROM OPERATING ACTIVITIES	13,801	15,347	8,654	24,240	34,274
CAPITAL EXPENDITURE	(8,584)	(2,761)	(86,008)	(20,000)	(20,000)
CASH FLOW FROM INVESTING ACTIVITIES	(17,186)	(9,035)	(54,345)	(20,000)	(20,000)
FREE CASH FLOW	(3,385)	6,312	(45,691)	4,240	14,274
EQUITY RAISED/(REPAID)	9	3	1,475	0	-
DEBT RAISED/(REPAID)	4,024	(5,358)	45,556	(2,806)	(12,266)
DIVIDEND (INCL. TAX)	(728)	(871)	(910)	(1,434)	(2,008)
CHANGE IN MINORITIES	(16)	(16)	-	-	-
CASH FLOW FROM FINANCING ACTIVITIES	3,289	(6,242)	46,121	(4,240)	(14,274)
NET CHG IN CASH	(96)	70	430	0	(0)

BALANCE SHEET

AS AT 31ST MAR, RS MN	FY2009	FY2010	FY2011E	FY2012E	FY2013E
CASH & BANK	1,047	1,117	1,547	1,547	1,547
DEBTORS	1,889	2,100	5,244	7,067	8,074
INVENTORY	7,056	8,270	20,111	27,105	30,966
LOANS & ADVANCES	3,909	3,648	9,047	12,193	13,930
OTHER CURRENT ASSETS	-	-	-	-	-
TOTAL CURRENT ASSETS	13,900	15,134	35,950	47,912	54,518
GROSS FIXED ASSETS	74,309	81,051	159,663	169,663	189,663
LESS: DEPRECIATION	(27,754)	(31,470)	(39,037)	(49,389)	(60,685)
ADD: CAPITAL WIP	6,782	2,604	10,000	20,000	20,000
NET FIXED ASSETS	53,338	52,185	130,626	140,273	148,978
OTHER NON-CURRENT ASSETS	64	64	64	64	64
TOTAL ASSETS	77,396	83,749	198,135	219,745	235,055
CURRENT LIABILITIES	11,357	11,487	19,660	26,471	30,231
NON-CURRENT LIABILITIES	29,926	26,068	73,466	71,640	59,915
TOTAL LIABILITIES	41,283	37,554	93,127	98,111	90,146
PAID-UP CAPITAL	1,245	1,245	2,740	2,740	2,740
RESERVES & SURPLUS	34,868	44,950	102,268	118,894	142,169
SHAREHOLDERS' EQUITY	36,113	46,195	105,008	121,634	144,910
TOTAL EQUITY & LIABILITIES	77,396	83,749	198,135	219,745	235,056

PER-SHARE DATA

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
EPS (INR)	78.6	88.0	41.8	65.9	92.3
GROWTH, %	*(3.2)*	*12.0*	*(52.6)*	*57.7*	*40.0*
BOOK NAV/SHARE (INR)	290.1	371.1	383.2	443.9	528.8
FDEPS (INR)	78.7	88.1	41.8	65.9	92.3
CEPS (INR)	104.8	119.5	69.4	103.7	133.5
CFPS (INR)	102.7	113.5	22.3	78.7	114.9
DPS (INR)	5.0	6.0	2.8	4.5	6.3

FINANCIAL STRUCTURE

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
TOTAL DEBT/EQUITY (%)	59.3	34.8	58.7	48.4	32.1
NET DEBT/EQUITY (%)	56.4	32.4	57.2	47.1	31.1

PROFITABILITY, PRODUCTIVITY, LIQUIDITY AND VALUATION RATIOS

	FY2009	FY2010	FY2011E	FY2012E	FY2013E
RETURN ON ASSETS (%)	15.2	14.6	9.4	9.9	12.2
RETURN ON EQUITY (%)	31.0	26.7	15.2	15.9	19.0
RETURN ON INVESTED CAPITAL (%)	23.8	24.9	16.7	17.1	20.2
ROIC/COST OF CAPITAL (X)	1.8	1.9	1.3	1.3	1.5
ROIC - COST OF CAPITAL (%)	10.5	11.5	3.4	4.3	7.1
RETURN ON CAPITAL EMPLOYED (%)	18.1	17.0	10.5	11.2	13.9
COST OF CAPITAL (%)	13.3	13.4	13.3	12.8	13.1
ROCE - COST OF CAPITAL (%)	4.8	3.6	(2.8)	(1.6)	0.8
ASSET TURNOVER (X)	1.3	1.3	1.2	1.1	1.1
SALES/TOTAL ASSETS (X)	0.9	0.9	0.9	0.8	0.8
SALES/NET FA (X)	1.3	1.4	1.3	1.2	1.3
WORKING CAPITAL/SALES (X)	0.0	0.0	0.1	0.1	0.1
RECEIVABLE DAYS	10.5	10.7	15.5	15.5	15.5
INVENTORY DAYS	39.2	42.1	59.6	59.6	59.6
CURRENT RATIO (X)	1.2	1.3	1.8	1.8	1.8
QUICK RATIO (X)	0.6	0.6	0.8	0.8	0.8
INTEREST COVER (X)	11.1	13.6	6.4	6.8	10.5
DIVIDEND COVER (X)	15.7	14.7	14.7	14.7	14.7
PER (X)	12.3	11.0	23.1	14.7	10.5
PEG (X) - Y-O-Y GROWTH	(3.9)	0.9	(0.4)	0.3	0.3
PRICE/BOOK (X)	3.3	2.6	2.5	2.2	1.8
YIELD (%)	0.5	0.6	0.3	0.5	0.7
EV/NET SALES (X)	2.1	1.9	2.6	1.9	1.6
EV/EBITDA (X)	8.2	6.8	13.3	8.5	6.3
EV/EBIT (X)	8.2	6.8	13.3	8.5	6.3
EV/NOPLAT (X)	11.4	9.9	19.4	12.3	9.2
EV/CE	2.1	1.9	1.8	1.7	1.5
EV/IC (X)	2.7	2.5	3.2	2.1	1.9

Source: Company, MF Global India Research Estimates

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Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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