

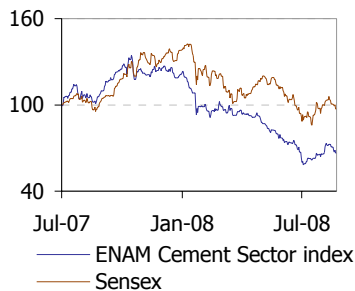
# Cement Skim

Sector avg. upside: 45% to 65%  
(mkt cap wtd)

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## Relative Performance



Source: Bloomberg, ENAM Research

## Our Current Ratings

Co Name	EV/ Ton# (\$)	Tgt Price	% Upside	Rel. to sec*
ACC	79	789	41	UP
ACEM	119	101	25	UP
Grasim	77	3,323	70	OP
UTCEM	72	1,010	71	OP
ICEM	87	217	55	N
MC	93	3,948	50	N
SRCM	31	1,617	175	OP
PRSC	49	57	63	N

Source: ENAM Research; \*All recommendations are relative to sector avg. OP: Outperformer; N: Neutral; U: Underperformer, #: FY10E

## Capacity additions (ENAM Estimates)

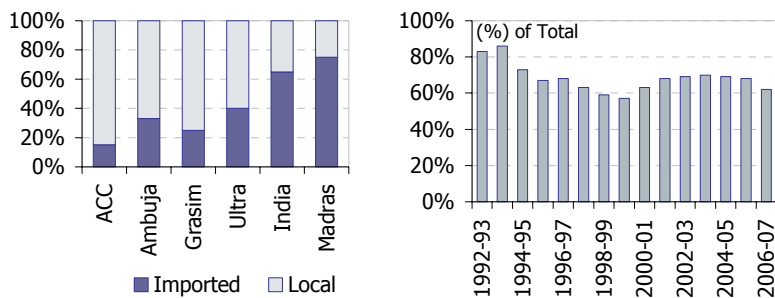
(mn tonnes)	FY09	FY10
North	10	4
East	1	8
South	14	11
West	5	2
Central	1	6
All India	30	30
Year end Capacity	225	255
Effective Supply*	191	225
Demand @	9%	8%
Demand (mn tonnes)	183	197
Demand/Eff. Supply	96%	88%

\*Assuming year beginning capacity at 95% utilization and capacity commissioned during the year at 80% utilization.

## COAL – BURNING KILN AND MARGINS TOO

Coal, accounting for almost 35-40% of cost of production of cement (directly as a fuel in clinker making and indirectly in generation of captive power), is in short supply. The proportion of linkage coal (from Coal India at notified prices and at a discount) is constantly declining. The industry is forced to buy local coal from the open market at a 30-60% premium and resort to costlier imports (adjusted for K/cal value). Imported coal currently accounts for ~20% of total requirement. Global thermal coal prices are currently cooling off after hitting a high of ~USD 200 recently. However, given the global coal shortage, upside risk to cement industry is clearly evident.

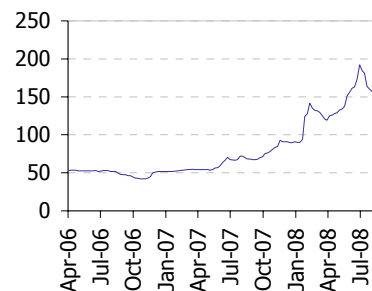
## Coal Sources: Imported vs Local Local Linkage Coal



Source: Company, CMA, ENAM Research

## Cost Increase (Imported Coal) Australia Steam Coal

(Rs/Bag)	USD/tonne (CIF)				
	125	150	200	250	
Imptd coal as % of Total	20	1	2	4	6
	40	2	3	7	11
	60	2	5	11	17
	80	3	7	15	22



Source: ENAM Research

In our view, Madras Cements, India Cements and other coastal players are vulnerable to a further rise in global coal prices. **This aggravates margin compression, given the govt's pressure to cap cement prices.** However, allocation of captive coal blocks is a big positive in the long term if bids are at reasonable prices. So far, only Prism Cement and Jaiprakash Associates have been allotted coal blocks, which will be ready in the next few years. We believe the deregulation of the coal sector in India will alter the cost dynamics in the long term (Ref to page 7).

**July'08 Demand:** Domestic consumption growth was steady at 9% YoY with South, East and West registering a strong growth of ~12%. Mid-size players such as Shree, Madras Cements and Jaiprakash Associates posted 15-30% growth in July dispatches.

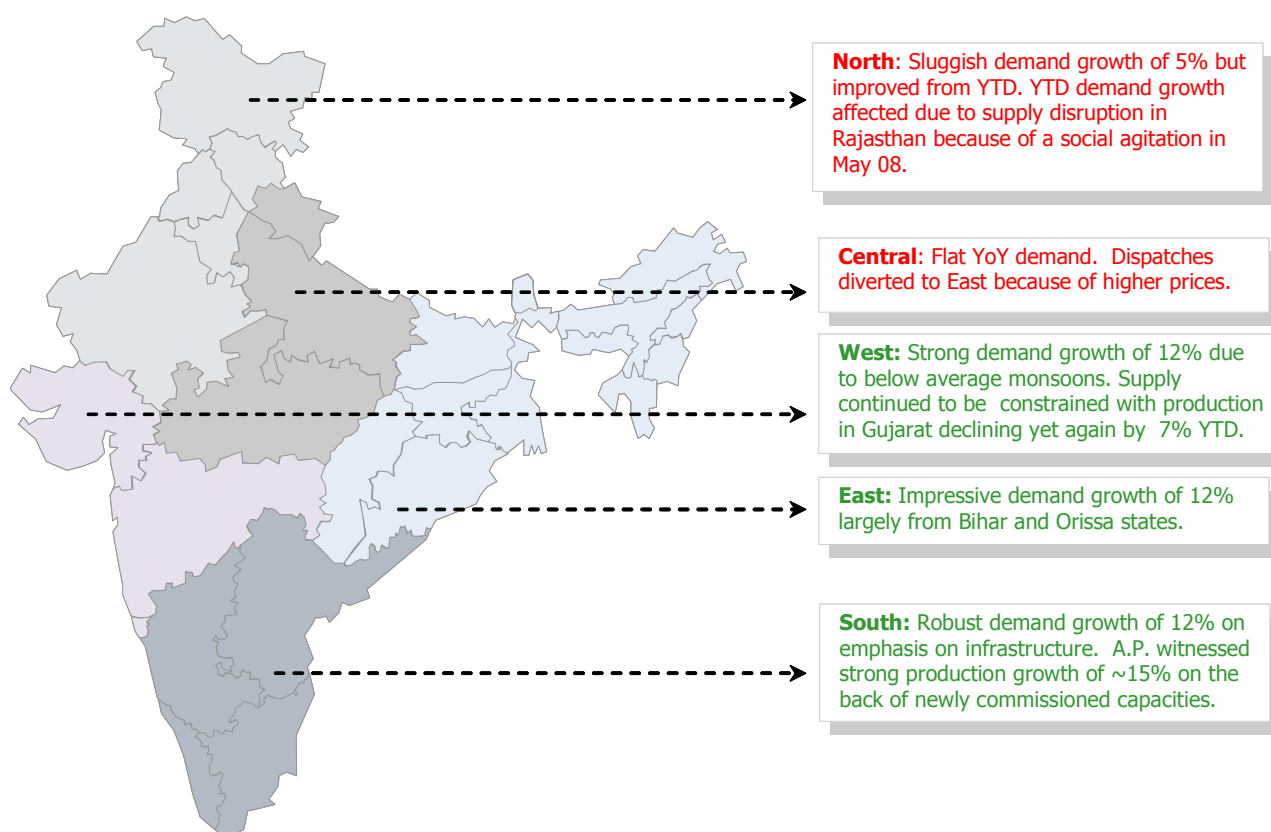
**Supply outlook:** No new capacity commissioned during July'08. Small players are also facing delays in capacity additions along with large players like ACC and Grasim. Sagar Cements' 2mn tonne AP brownfield expansion, which was to come on stream by the end of April'08, is not yet commissioned. We expect the supply situation to continue to remain tight for the rest of FY09.

**Pricing:** Cement prices were stable during July'08. The WPI for cement was flat during the month.

**Outlook:** The 3 month 'no hike' moratorium ended in mid August. We expect, cement prices to see an upswing in the second half as tightness continues in FY09.

**Investment Strategy:** Margin pressure would escalate in Q2 of FY09 and therefore companies with surplus volume are best placed. **Shree** is our top pick in a short-term view. Given attractive valuations, companies such as **UltraTech, Grasim** remain relatively favorable picks on a one-year investment horizon.

## Regional Snapshot (Demand & Supply)



(mn tonnes)	Capacity	Additions	Capacity	Demand growth YoY (%)	
	Mar-08	YTD FY09	Jul-08	Jul-08	YTD FY09
North	46	-	46	5	4
East	26	-	26	12	10
South	61	4	65	12	12
West	31	-	31	12	9
Central	31	-	31	0	5
<b>All India</b>	<b>195</b>	<b>4</b>	<b>199</b>	<b>9</b>	<b>9</b>

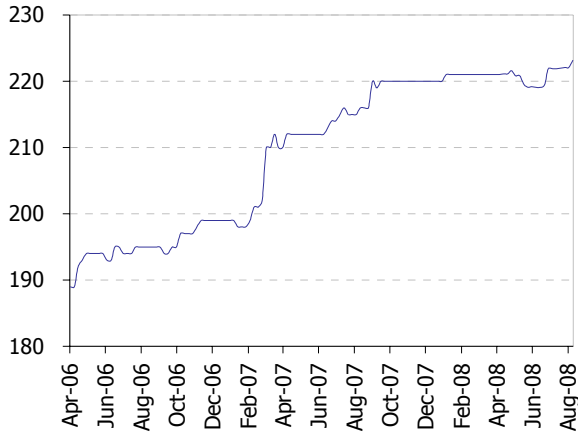
\* Total capacity as per CMA as at June 08 is 204mn tonnes. Our figure is only for integrated operations (clinker + cement). Source: CMA, ENAM Research

## Cement Dispatches – July 2008

(mn tonnes)	July-08	Change YoY (%)	YTD FY09	Change YoY (%)
ACC	1.7	4.6	6.9	1.9
Ambuja Cem	1.4	(1.2)	5.9	1.6
Grasim	1.3	1.2	5.3	(1.5)
UltraTech Cem	1.1	3.7	5.1	2.4
India Cem	0.9	5.8	3.2	4.3
JP Associate	0.6	22.9	2.6	17.0
Madras Cem	0.5	14.7	2.1	13.3
Shree Cem	0.6	30.8	2.4	27.7
Century Textiles	0.6	11.1	2.4	4.1
Prism Cem	0.2	(0.1)	0.8	4.1
<b>All India</b>	<b>14.5</b>	<b>8.2</b>	<b>58.8</b>	<b>6.8</b>

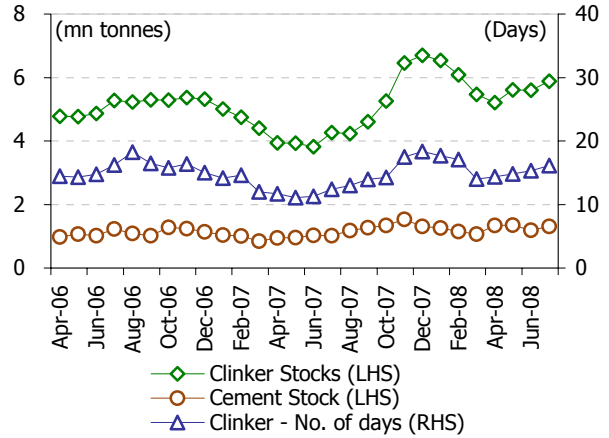
Source: CMA, ENAM Research

### Cement WPI (weekly)



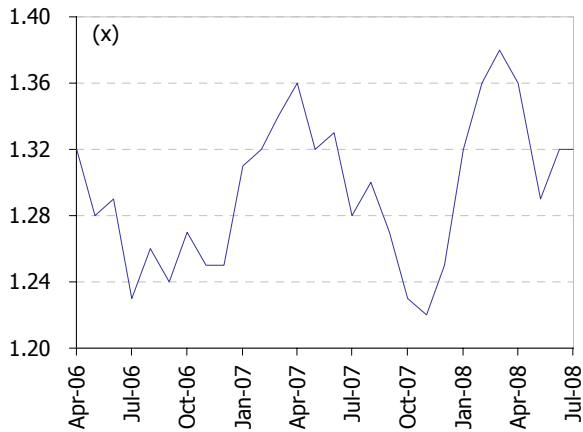
Source: OEA

### Clinker & Cement Inventory



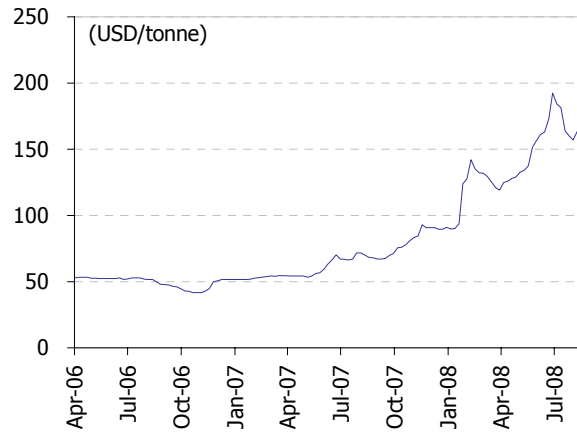
Source: CMA, ENAM Research

### Blending Ratio: Cement/Clinker (monthly)



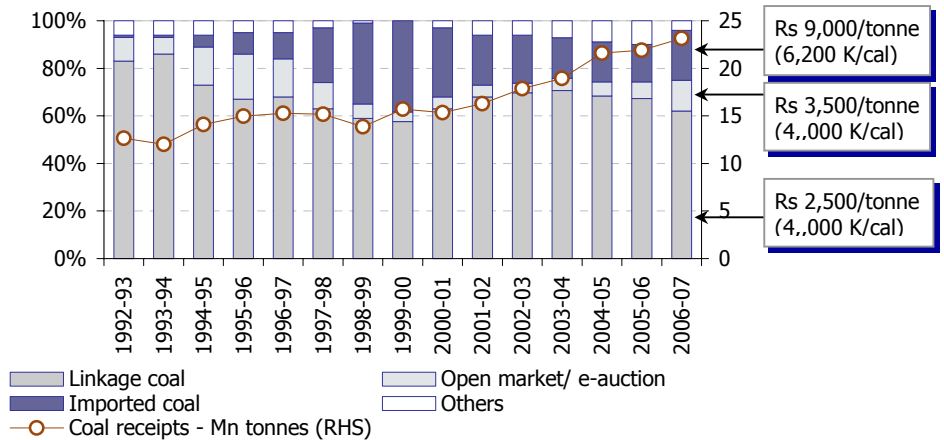
Source: CMA, ENAM Research

### Australia Steam Coal (FOB)



Source: Bloomberg

### Trend of Coal Procurement



Source: CrisInfac

## Valuation Summary

Co. Name	Period	Adj. PAT (Rs mn)	FDEPS (Rs)	FDEPS gwth (%)	RoCE (%)	RoE (%)	P/E (x)	EV/EBITDA (x)	D/E (x)	Div. Yield (%)	EV/Tonne (USD)
<b>ACC</b>	CY06	10,469	55.7	174	41	40	10.1	6.3	0.3	2.3	-
(CMP: Rs 561)	CY07	12,255	65.2	17	41	34	8.6	4.9	0.1	3.6	96
(MCap: USD 2.4bn)	CY08E	12,265	65.3	0	35	27	8.6	5.0	0.1	3.8	91
	CY09E	12,395	66.0	1	31	23	8.5	4.8	0.0	4.0	79
<b>Ambuja Cements</b>	CY06	12,926	8.5	185	40	43	9.5	7.1	0.2	2.4	-
(CMP: Rs 81)	CY07	12,888	8.5	(1)	40	30	9.6	5.4	0.1	4.3	138
(MCap: USD 2.8bn)	CY08E	12,898	8.5	0	35	25	9.6	5.6	0.0	4.5	125
	CY09E	13,271	8.7	3	32	22	9.3	5.5	0.0	4.7	119
<b>Grasim Industries</b>	FY07	18,757	204.6	108	34	29	9.6	5.5	0.6	1.4	-
(CMP: Rs 1956)	FY08	25,246	275.3	35	34	28	7.1	4.6	0.5	1.5	132
(MCap: USD 4.1bn)	FY09E	26,983	294.3	7	30	22	6.6	4.2	0.2	1.6	88
	FY10E	29,694	323.8	10	30	20	6.0	3.4	0.0	1.8	77
<b>UltraTech</b>	FY07	7,863	63.2	247	43	56	9.4	5.7	0.9	0.7	-
(CMP: Rs 591)	FY08	10,100	81.1	28	41	45	7.3	5.0	0.6	0.8	115
(MCap: USD 1.7bn)	FY09E	10,449	83.9	3	33	33	7.0	4.7	0.4	1.1	91
	FY10E	11,056	88.8	6	33	27	6.7	3.8	0.1	1.1	72
<b>India Cements</b>	FY07	4,739	18.2	-	22	43	7.7	7.4	1.5	1.2	-
(CMP: Rs 140)	FY08	7,103	25.2	38	26	36	5.6	4.8	0.7	1.4	134
(MCap: USD 0.9bn)	FY09E	5,722	20.3	(19)	21	20	6.9	5.1	0.5	1.5	105
	FY10E	6,000	21.3	5	20	18	6.6	4.6	0.4	1.5	87
<b>Madras Cements</b>	FY07	3,082	255.2	-	42	58	10.3	6.8	1.0	0.9	-
(CMP: Rs 2633)	FY08	4,083	343.0	34	34	50	7.7	6.3	1.7	1.5	179
(MCap: USD 0.7bn)	FY09E	4,216	354.2	3	26	37	7.4	5.5	1.2	1.5	131
	FY10E	5,236	439.9	24	30	34	6.0	4.1	0.6	1.7	93
<b>Jaiprakash Asso.</b>	FY07	5,041	4.6	-	12	16	34.1	15.4	2.4	0.4	-
(CMP: Rs 157)	FY08	6,090	4.9	7	13	12	32.0	14.6	1.1	0.5	-
(JPAap: USD 4.2bn)	FY09E	7,263	5.8	19	12	11	26.8	13.1	1.0	0.5	-
	FY10E	9,372	7.5	29	14	13	20.8	10.8	0.9	0.6	-
<b>Century Textiles</b>	FY07	4,152	44.6	-	27	44	10.5	8.6	1.2	0.8	-
(CMP: Rs 468)	FY08	4,010	43.1	(3)	23	34	10.9	8.2	1.1	1.0	-
(MCap: USD 1bn)	FY09E	3,850	41.4	(4)	20	27	11.3	8.1	1.2	1.0	-
	FY10E	3,753	40.3	(3)	17	22	11.6	8.5	1.7	1.0	-
<b>Shree Cement</b>	FY07	1,573	45.1	-	18	42	13.0	4.4	2.0	1.0	-
(CMP: Rs 589)	FY08	3,408	97.8	117	29	60	6.0	2.6	2.0	1.4	58
(MCap: USD 0.5bn)	FY09E	4,228	121.4	24	30	49	4.9	2.1	1.2	2.0	47
	FY10E	5,641	161.9	33	35	43	3.6	1.5	0.7	2.4	31

Source: ENAM Research, EV/tonne is calculated based on year end capacity, Note: prices as on 26<sup>th</sup> August 2008

## Valuation Summary

Co. Name	Period	Adj. PAT (Rs mn)	FDEPS (Rs)	FDEPS gwth (%)	RoCE (%)	RoE (%)	P/E (x)	EV/EBITDA (x)	D/E (x)	Div. Yield (%)	EV/Tonne (USD)
<b>Birla Corp</b>	FY07	3,251	42.2	-	60	62	3.9	3.1	0.4	2.1	-
(CMP: Rs 164)	FY08	3,933	51.1	21	51	47	3.2	2.6	0.3	2.4	59
(MCap: USD 0.3bn)	FY09E	3,446	44.8	(12)	36	30	3.7	2.6	0.2	2.9	40
	FY10E	3,786	49.2	10	33	26	3.3	1.8	0.1	2.3	30
<b>Dalmia Cement</b>	FY07	1,187	14.7	-	14	20	14.4	10.7	1.3	0.9	-
(CMP: Rs 211)	FY08	2,378	29.4	100	19	26	7.2	6.8	1.5	0.7	210
(MCap: USD 0.4bn)	FY09E	2,620	32.4	10	17	22	6.5	6.2	1.2	0.7	126
	FY10E	4,716	58.3	80	25	30	3.6	3.6	0.7	0.8	73
<b>Kesoram Industries</b>	FY07	2,657	58.1	-	29	50	4.7	5.5	1.3	1.4	-
(CMP: Rs 275)	FY08	3,834	83.8	44	33	47	3.3	3.6	1.2	2.0	95
(MCap: USD 0.3bn)	FY09E	3,980	87.0	4	27	34	3.2	3.3	0.9	2.1	55
	FY10E	4,176	91.3	5	25	27	3.0	2.6	0.5	2.2	41
<b>Mangalam Cement</b>	FY07	813	28.8	-	67	65	3.2	2.4	0.5	-	-
(CMP: Rs 92)	FY08	1,197	42.4	47	59	67	2.2	2.0	0.3	2.2	72
(MCap: USD 0.1bn)	FY09E	986	34.9	(18)	44	38	2.6	1.8	0.1	5.4	64
	FY10E	1,147	40.6	16	42	33	2.3	0.9	0.1	5.7	25
<b>Binani Cement</b>	FY07	956	4.7	-	21	34	11.4	7.7	2.3	3.7	-
(CMP: Rs 54)	FY08	1,758	8.7	84	26	49	6.2	5.4	1.9	4.6	90
(MCap: USD 0.2bn)	FY09E	2,842	14.0	62	34	54	3.8	3.5	1.0	5.1	63
	FY10E	3,685	18.1	30	42	47	3.0	2.2	0.3	5.6	50
<b>Sanghi Industries</b>	FY07	1,428	4.7	-	16	29	11.7	8.5	1.7	-	-
(CMP: Rs 55)	FY08	1,055	3.5	(26)	13	17	15.8	9.7	1.4	-	179
(SNGIap: USD 0.3bn)	FY09E	1,069	3.5	1	12	14	15.6	10.4	1.3	-	197
	FY10E	1,016	3.3	(5)	10	12	16.4	11.8	1.9	-	250
<b>Prism Cement</b>	FY07	1,928	6.5	-	78	58	5.4	2.7	-	2.9	-
(CMP: Rs 35)	FY08	2,416	8.1	25	62	47	4.3	2.3	-	2.9	59
(MCap: USD 0.2bn)	FY09E	2,497	8.4	3	39	34	4.2	3.0	0.4	2.9	61
	FY10E	3,090	10.4	24	31	32	3.4	3.0	0.6	2.9	49

Source: ENAM Research, EV/tonne is calculated based on year end capacity, Note: prices as on 26<sup>th</sup> August 2008

## Coal Sector Deregulation?

# Regulator may usher in free market era in coal

Proposed body will bring in transparency in pricing policy

Shaleen Agrawal, New Delhi

The proposed coal regulator will likely develop coal trading in India into a free market concept with greater transparency in award of coal blocks to help the consumers, and clear pricing policy to help the producers.

"The coal regulator will ultimately strive to develop coal business in India as a free market," a coal ministry official told *DNA Money*.

Thermal grade coal in India is currently priced at about 35% of the international prices, the official said.

India has state-controlled coal production, where the coal production for commercial selling can be undertaken only by a government company.

Coal mines are also allocated to companies for captive use to generate power, make steel and other purposes, on the condition that the fossil produced from such mines cannot be traded in the market for commercial considerations.

The Prime Minister Manmohan Singh, in his capacity as the Union minister of coal, approved the draft Coal Regulatory Authority Bill over the last weekend to be circulated among the other affected ministries.

The coal ministry hopes to take the Bill to the Cabinet Committee on Economic Affairs by the end of September, after it receives comments and inputs from other ministries, the ministry official said.

With the establishment of a regulator, the coal markets may develop from the transparency,



objectivity and accountability in pricing and other commercial matters that the regulatory institution promises to bring in the sector, Dipesh Dipu, principal consultant for mining with the PricewaterhouseCoopers said.

## Coal-to-cash

The Prime Minister Manmohan Singh has approved the draft Coal Regulatory Authority Bill over the last weekend to be circulated among the other affected ministries.

The coal ministry hopes to take the Bill to the Cabinet Committee on Economic Affairs by the end of September.

"Regulators may help improve the investment environment through streamlining of the processes of coal block allocation to project implementation," Dipu told *DNA Money*, adding that new project implementations can be ensured through effective monitoring mechanism.

Major coal consumers, on the other hand, are also expected to benefit by a more transparent pricing policy expected, an analyst said.

"Coal regulator may ensure prudent pricing of coal and also ensure the enforcement of fuel supply agreements which would help consistent supply of agreed quality of coal," Dipu of PwC said.

In the process, if there is an increase in the prices of the commodity in line with the international markets, it will be good for the coal industry as the coal companies will realise good returns and fair valuations, said the analyst.

It is, however, unlikely that the coal regulator will allow coal to be priced freely for power generation, which itself is a regulated industry, said Dipu. It is more likely that the coal regulator will work under the ambit of the current policy framework only, he said.

It may, however, allow a free pricing of coal to be used by other sectors such as steel and cement, the impact of which has already been well thought of, Dipu said. The prices of steel in the international markets have risen significantly in the recent past, but have been stagnant in India for some time due to the government intervention. The thinking is that prices of domestic commodities should be gradually aligned with the import parity prices, Dipu said.

Source: DNA Money, dated 27-8-2008

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Disclosure of interest statement (As of Aug 25 2008)	Grasim	UltraTech	Ambuja	ACC	Century Tex.	India Cem	JPA	Madras Cem	Shree cem	Prism Cem
1. Analyst ownership of the stock	No	No	No	No	No	No	No	No	No	No
2. Firm ownership of the stock	No	No	No	No	Yes	No	No	No	No	No
3. Directors ownership of the stock	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes
4. Investment Banking mandate	No	No	No	No	No	No	No	No	No	No
5. Broking relationship	No	No	No	No	No	No	No	No	No	No

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