

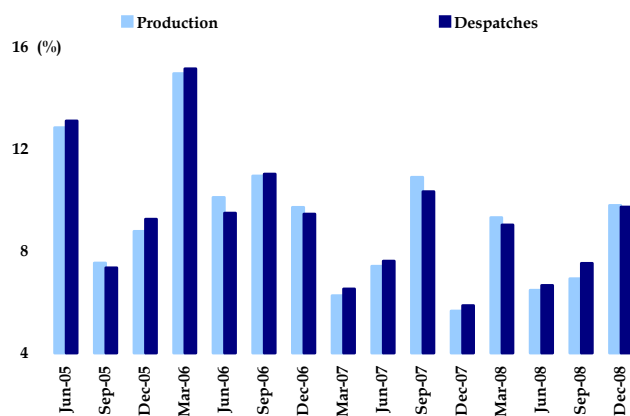
Key Highlights

- ✓ Grappling economic performances at domestic and macro front had squeezed cement demand for FY09; however, fourth quarter saw surprise up tick in production and dispatches
- ✓ Firm regional demand in Eastern, Central and Northern states catered a balanced scenario, whereas Southern states are moving towards low utilizations with weak demand drivers and aggressive capacity ramp-up
- ✓ Marginal hike in realizations and better volume growth would arrest declining margins to some extent, whereas cooling cost front, substantial captive power plants and inflation at year's low will add up towards profitability
- ✓ Northern region remained firm with heightened pre-election infra activities, whereas strong individual housing demand, on the back of reduced construction costs, amazed cement players in Eastern and Western regions.
- ✓ This time cement has been able to buck the trend since all other commodities were on a down spiral, whereas cement prices have infect moved up in last quarter

Demand Scenario

Sluggish global scenario and swelling slowdown in economic performance had squeezed cement demand during current year, which is expected to grow at ~ 8%, lower than that factored over last few years. Waning demand and worst liquidity conditions had stalled various real estate projects, whereas IT/ITES sector had shoved almost their expansion plans on account of cost cutting measures. Nevertheless, pre-election infrastructure spending by government and unexpected rise in housing demand from rural areas, joining seasonally best quarter, would post strong demand during 4QFY09.

Growth Rate YoY (%)

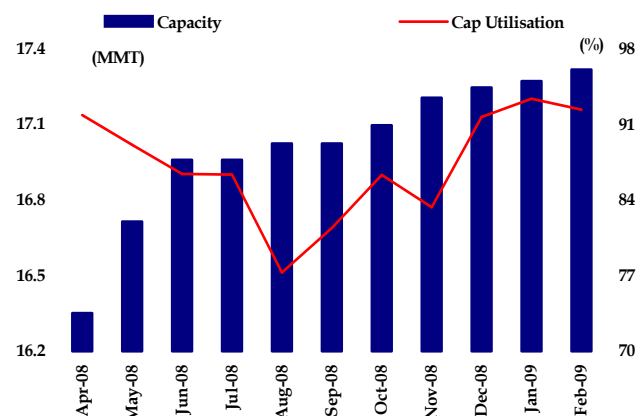


Source: Khandwala Research, CMA, Bloomberg

Supply Outlook

Aggressive capacity expansion steps undertaken, on the back of positive demand prospects over past few years, are likely to add up near to 80-85 MT over the coming two years. Most of the capacity addition plans delayed during FY09 on account of new plant set ups, stabilization and regulatory hard cores, whereas chunk of new capacities are planned to be commission by the end of Mar'09. New capacities are expected to contribute mainly from FY10. Demand supply scenario remained favorable during the quarter on account of strong demand and low exploitations of new commissioning.

Capacity Utilisation Current Year



Source: Khandwala Research, CMA, Bloomberg

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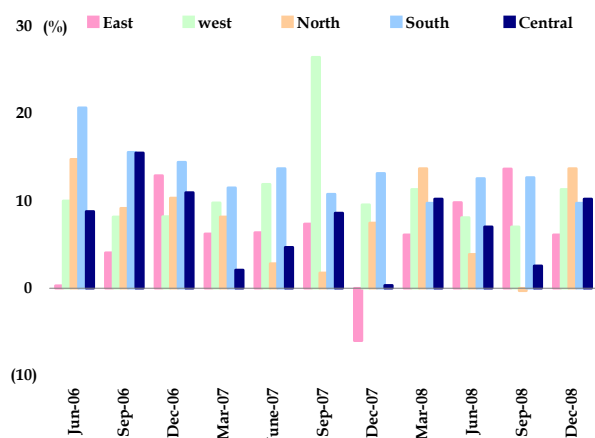
Regional Demand - Supply Outlook

Strong demand over the last few years led to highest capacity expansion plans in Southern region, on the back of growing IT/ITES sector and booming infrastructure. However, with bleak demand from IT and slowing infra projects in view of funding constraints, declining consumption growth during last few months. As new capacities are commissioning mainly in the end of 4QFY09 tying with waning demand, region would face low capacity utilization during 1HFY10.

Recent surprise in Northern demand, owing to pre-election infrastructure spending and re-imposition of CVD and special CVD in order to curtail cheap cement imports from Pakistan, led to strong cement off take during 4QFY09. However, these short-term demand drivers and absence of major projects will balance out demand supply scenario during the quarter.

Eastern and Central region, with buoyant housing demand and time lack in new capacities, are expected to absorb available supply. Western region with slowing demand growth, offered capacity plans and continuous off loading from other regions is likely to face equilibrium with slight surplus during 1HFY10.

Regional Cement Consumption YoY Growth (%)



Source: Khandwala Research, CMA, Bloomberg

Sliding Cost Front - To Relief Margins

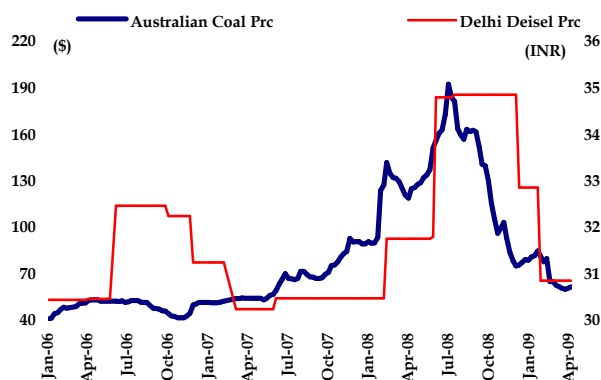
After peaking in July'08, Imported coal prices had been corrected by more than 60% during 4QFY09. With increased dependency on expensive e-auctioned and imported coal due to reduced coal linkages, we believe declining coal cost would add towards cement player's margins from 4QFY09. However, these

benefits have been partially offset by depreciating rupee against the dollar over last few months.

Recent announced cut in diesel prices during Dec'08 and Jan'09, backed by sharp decline in crude oil prices, will reduce freight cost. However, near to 7% increase in rail freight and enlarging distribution channels to offload surpluses would mitigate major benefits.

Cement players commissioning their captive power plant are expected to benefit from reduced power cost in coming period. We believe that drastic correction in coal prices and controlled inflation coming with low interest cost would help companies to save on cost front from the 4QFY09. Although full impact would be visible from the coming quarters as costs are still on higher side.

Australian Coal & Diesel Prices



Source: Khandwala Research, CMA, Bloomberg

Favorable Prospects

Increase in government focus towards infrastructure spending post elections, heavy investment planned in 11th five-year plans, private infrastructure projects and budge towards 'mid-end housing' are expected to boost cement demand. Falling coal prices, reducing freight cost and cooling inflation will improve margins for cement players. Cost cutting measures, efficient consumption norms and implementation of captive plants, is expected to add towards profitability.

With reduction in blending (i.e. shift from PPC to OPC) cement players are likely to affect utility and prices positively. However, long-term outlook towards cement sector remains intact considering the development front, increasing urbanization and low per capita cement consumption. Recent stimuli are likely to boost demand.



Stimulus Packages

After, the first stimulus declaring across the board cut in excise duty by 4% and second stimulus re - imposing CVD and special CVD on imports, government had announced third stimulus of 2% cut in excise duty over bulk cements (making it par with retail cements at 8%) and continuity of earlier excise cut beyond Mar'09.

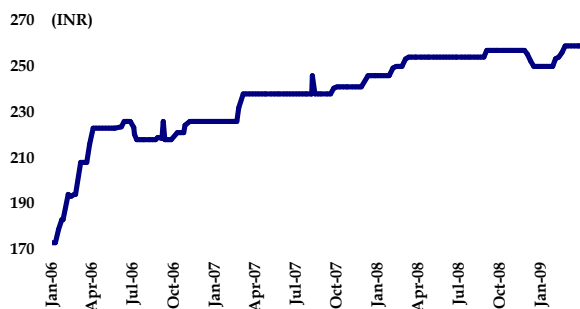
However, with small percentage of bulk cement share in overall consumption, only few large consumers are expected to get benefit out of it. As part of the excise benefits have been passed on to end users, stimulus remained less attractive for cement players. We believe that these incentives will indirectly benefit cement players through increase in consumer base. Economic performance would continue to strain the demand and downward growth targets would be of major concern.

Price Outlook

Cement prices remained firm during quarter after facing marginal decline on account of excise cuts passed on by cement players. With the surprised up tick in cement demand in Northern, Central and Eastern region, cement prices in most of the regions have been increased by Rs10-15 per bag.

We expect cement prices to soften as demand slowdown from major demand drivers and imminent glut scenario starting from 2HFY10. Despite of huge capacities planned, delayed production and timings in ramp up of new capacities, will maintain the prices by the 1QFY10. We believe that current price hikes remain short-lived, as last efforts from cement players to maintain cement prices.

Cement Prices Per Bag - ACC



Source: Khandwala Research, Capitaline

Concerns

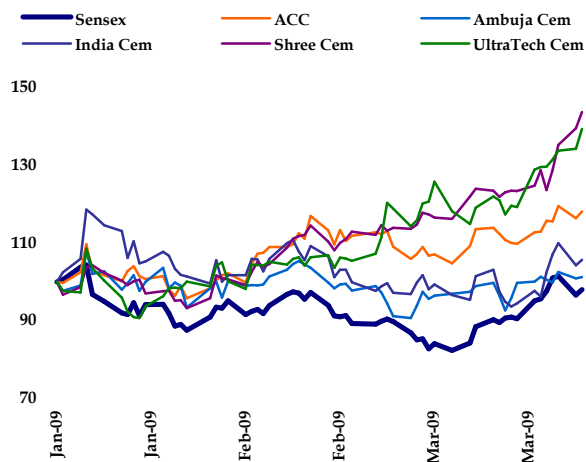
Hold back in global economies, reduced activity levels of major demand driver i.e. realty and infra players had affected cement demand adversely on domestic as well as macro front. Cement Industry remains mainly pretentious with upcoming bunch of capacities, declining demand and waning realizations. Depreciating rupee at year's low had dented cost benefits of various cement players.

Recommendation

Cement stocks had outperformed benchmark over last few months owing to strong demand environment and government's measures to boost demand. Companies in the stage of completing its expansion plans and who have already completed, are more certain towards their future earnings and cash flows. Early commissioning will allow these players to reap the benefits by extending market share in case any delay from the competitor's capacity materialization. Cement companies with captive operations are capitalizing the deference of high cost grid cost and captive cost.

Cement stocks had corrected up to significant levels from their highs after factoring the worst-case scenario. Cheap valuations and strong balance sheets have led cement stocks to emerge out with a kind of value buying. We recommend investors should accumulate the good quality stocks from medium and long-term perspectives.

BSE Sensex - Cement Stock Performance



Source: Khandwala Research, Bloomberg



4QFY09 Results Estimates

Descriptions (INR Mn)	Recom.	Mar-09 4QFY09E	Mar-08 4QFY08	YoY' % Growth	Dec-08 3QFY09	QoQ' % Growth	FY 2009E	FY 2008	YoY' % Growth
ACC(*)	MKTPER								
Total Income		20,485	18,614	10.1%	19,962	2.6%	77,212	75,973	1.6%
EBITDA		4,953	4,706	5.3%	4,108	20.6%	16,566	17,332	-4.4%
EBITDA Margin		25.0%	26.2%	-1.2%	21.8%	3.2%	22.2%	23.7%	-1.5%
PAT		3,137	3,575	-12.3%	3,004	4.5%	9,929	12,128	-18.1%
Equity		1,879	1,878	-	1,879	-	1,879	1,879	-
FDEPS (INR)		16.7	19.0	-12.3%	16.0	4.5%	52.8	64.6	-18.1%
Ambuja Cement(*)	UNDPER								
Total Income		18,133	16,954	7.0%	16,747	8.3%	63,848	64,100	-0.4%
EBITDA		4,961	5,160	-3.8%	4,256	16.6%	16,745	18,250	-8.2%
EBITDA Margin		28.1%	31.2%	-3.1%	25.7%	2.4%	26.9%	29.1%	-2.2%
PAT		2,972	3,262	-8.9%	2,490	19.4%	9,564	14,023	-31.8%
Equity		3,045	3,045	-	3,045	-	3,045	3,045	-
FDEPS (INR)		2.0	2.1	-8.9%	1.6	19.4%	6.3	9.2	-31.8%
India Cements	MKTPER								
Total Income		10,216	8,765	16.6%	7,669	33.2%	35,936	30,954	16.1%
EBITDA		2,945	2,629	12.0%	2,945	0.0%	10,719	10,794	-0.7%
EBITDA Margin		29.6%	31.1%	-1.6%	29.6%	0.0%	30.3%	35.5%	-5.2%
PAT		1,672	1,044	60.0%	618	170.5%	5,054	6,375	-20.7%
Equity		2,824	2,819	-	2,824	-	2,824	2,819	-
FDEPS (INR)		5.9	3.7	59.8%	2.2	170.5%	17.9	22.6	-20.9%
Shree Cement	MKTPER								
Total Income		7,320	6,646	10.1%	6,836	7.1%	27,044	21,503	25.8%
EBITDA		2,536	2,537	0.0%	2,536	0.0%	8,918	8,769	1.7%
EBITDA Margin		35.5%	39.0%	-3.5%	34.1%	1.4%	34.0%	42.3%	-8.2%
PAT		1,459	411	255.1%	1,239	17.7%	4,882	2,993	63.1%
Equity		348	348	-	348	-	348	348	-
FDEPS (INR)		41.9	11.8	255.1%	35.6	17.7%	140.1	85.9	63.1%
UltraTech Cement	MKTPER								
Total Income		18,136	16,017	13.2%	16,512	9.8%	64,114	56,149	14.2%
EBITDA		4,260	4,885	-12.8%	4,308	-1.1%	15,993	17,243	-7.2%
EBITDA Margin		23.8%	30.5%	-6.7%	26.4%	-2.6%	25.3%	31.3%	-5.9%
PAT		2,251	2,829	-20.4%	2,384	-5.6%	8,927	10,076	-11.4%
Equity		1,245	1,245	-	1,245	-	1,245	1,245	-
FDEPS (INR)		18.1	22.7	-20.4%	19.1	-5.6%	71.7	80.9	-11.4%

Source: Khandwala Research, Companies

* ACC & Ambuja Cements have December year-end



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