
Monthly Sector Update

Indian Cement Sector : Dispatch Performance - Nov. 2011

- **Healthy dispatch growth for Holcim group ACC & Ambuja Cement and UltraTech Cement during November 2011**
- **We estimate the total cement industry production and dispatches for November 2011 to grow 27% Y-o-Y and 22% Y-o-Y to 19.16 mn tonnes and 18.76 mn tonnes respectively**
- **Demand to revive going ahead for the cement industry**
- **Frontline cement companies to witness healthy dispatch growth in 2HFY12**
- **Realization to remain firm and the sector is expected to outperform the market**
- **We continue to remain positive on the companies under our coverage (ACC, Ambuja Cement, UltraTech, India Cement and Shree Cement)**
- **We retain our target price on these companies at this point**

Recommendation History

Company	Recommendation Date	Rating	CMP	Tgt Price
ACC	23rd Nov 2011	Buy	1214.0	1278
Ambuja Cement	23rd Nov 2011	Buy	160.6	170
UltraTech	23rd Nov 2011	Buy	1176.7	1274
India Cement	23rd Nov 2011	Buy	75.6	79
Shree Cement	23rd Nov 2011	Buy	2131.6	2417

We had initiated coverage on the sector with a buy rating on all the frontline stocks (ACC, Ambuja Cement, UltraTech, India Cement and Shree Cement) on 23rd November 2011, citing improved demand in the second half of the current fiscal and healthy pricing environment that would enable the industry to post healthy growth in top-line and profitability in 2HFY12 and FY13.

Quote

"We see value pick emerging in the cement industry from a medium to long term perspective as the demand is set to improve due to accelerated infrastructure spending towards the end of the 11th Five Year Plan (FYP) and fresh allocation for the 12th FYP. The demand growth is expected to be faster than the supply growth in the years ahead that would narrow the demand supply gap and thus would improve the capacity utilization and pricing power of the cement industry... We believe that the cement industry is set for a cyclical upturn now; following slow down in capacity addition as most of the macro parameters for the industry is set to improve".

Unquote

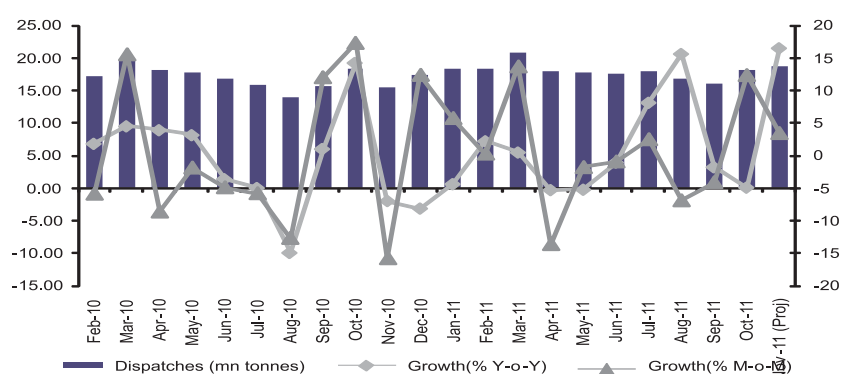
(From "FinQuest Sec- Indian Cement - Beginning of new up-cycle - Initiating Coverage" dated November 23, 2011).

Amid huge volatility in the global equity markets during the past 2-3 months, the Indian cement sector stocks (especially the frontlines) outperformed the benchmark Nifty by a huge margin; rising by 15-20% during the past 3 months. Improved cement realization during Q2FY12 as compared to the same period last year has helped the cement companies in India to improve their margins despite rise in input costs (mainly imported coal costs). As a result the companies managed to easily pass through the rise in raw material costs. The cement realizations firmed further in several markets after September 2011, thus enabling the cement sector to outperform the market.

Despite concerns of slowing economy contributed mainly by the macro issues in the Euro zone and the Indian government's evident policy paralysis that has hampered further infrastructure spending, we remain positive on the sector at this point. We believe that the industry will witness sequential growth in production and dispatches beginning 2HFY12 due to the accelerated infrastructure spending towards the end of the 11th Five Year Plan (FYP) and pre election spending in many states in FY13 and FY14. There is expected to be very little negative impact on cement realization going ahead due to increasing capacity and we continue to believe that the industry will maintain production discipline in order to maintain prices, while intermittently increasing the prices in some regions as the demand improves. Our belief that the cement demand will improve beginning with the second half of the current fiscal is further strengthened by the Cement Manufacturers Association (CMA) data of cement production and dispatches in October 2011. The industry production and dispatches in October 2011 rose by 17% and 12% sequentially to 18.63 mn tonnes and 18.13 mn tonnes respectively. Even during the month of November 2011, Holcim group companies in India posted excellent growth in dispatches helped by improving demand in their primary markets. For the current fiscal till October 2011, the cement production and dispatches grew by 5% each to 123.37 mn tonnes and 122.62 mn tonnes respectively. We estimate the total cement industry production and dispatches for November 2011 to grow 27% Y-o-Y and 22% Y-o-Y to 19.16 mn tonnes and 18.76 mn tonnes respectively. We continue to believe that the cement stocks will outperform the market for the current fiscal.

Cement Production & dispatches trend in November 2011

Cement industry dispatches trend



Source: CMA, Company, FQ Research

ACC

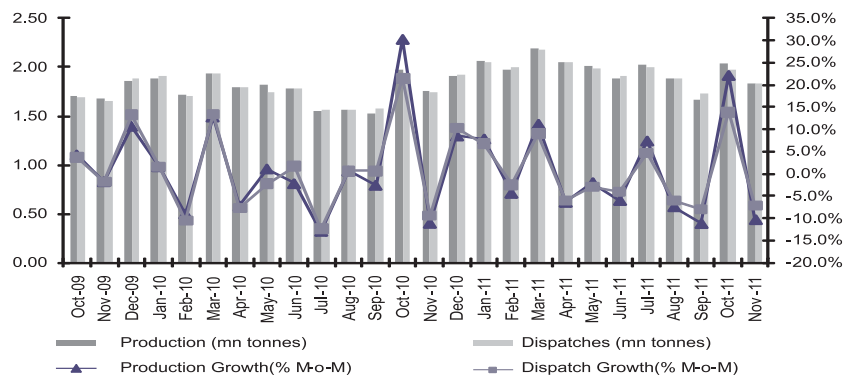
Increased capacity has enabled the company to post excellent Y-o-Y growth in production and dispatches during the year till date. Since September 2011, the company has started witnessing sequential growth in production & dispatches due to improved demand in its primary markets. ACC's cement production and dispatches during the month of November 2011 increased 4% Y-o-Y and 5.2% Y-o-Y to 1.83 mn tonnes each (down 10.3% M-o-M and 7.1% M-o-M). The company's production and dispatches for the current calendar year until November 2011 increased 12.2% Y-o-Y to 21.67 mn tonnes and 21.59 mn tonnes respectively.

ACC Ltd. - Monthly Volume Analysis

Units (mn tonnes)	Nov-11	Nov-10	Y-o-Y (%)	Oct-11	M-o-M (%)	YTD CY11	YTD CY10	Y-o-Y (%)
Production	1.83	1.76	4.0%	2.04	-10.3%	21.67	19.32	12.2%
Dispatches	1.83	1.74	5.2%	1.97	-7.1%	21.59	19.25	12.2%

Source: Company

ACC Ltd. Production and Dispatch growth trend



Source: CMA, Company, FQ Research

Ambuja Cement

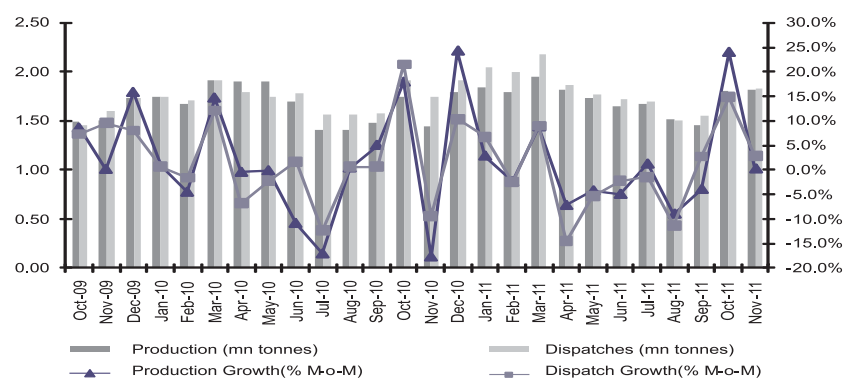
Ambuja Cement too witnessed healthy growth in production and dispatches during the past few months due to improved demand in its major markets. Rather the demand growth in November 2011 has been steep due to lower base of the previous year. Both the production and dispatches witnessed a steep increase of 26% Y-o-Y and 29% Y-o-Y (flat growth M-o-M) to 1.81 mn tonnes and 1.83 mn tonnes respectively.

Ambuja Cement - Monthly Volume Analysis

Units (mn tonnes)	Nov-11	Nov-10	Y-o-Y (%)	Oct-11	M-o-M (%)	YTD CY11	YTD CY10	Y-o-Y (%)
Production	1.81	1.44	25.7%	1.81	0.0%	19.06	18.34	3.9%
Dispatches	1.83	1.42	28.9%	1.78	2.8%	19.41	18.51	4.9%

Source: Company

Ambuja Cement Production and Dispatch growth trend



Source: CMA, Company, FQ Research

UltraTech Cement

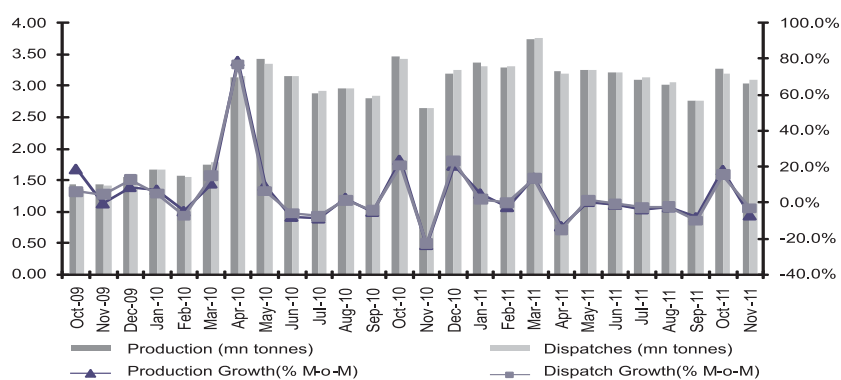
Aditya Birla Group owned, UltraTech too delivered impressive performance in November 2011, as the company's production and dispatches increased 13.9% Y-o-Y and 16.3% Y-o-Y (down 7.1% M-o-M and 3% M-o-M) to 3.04 mn tonnes and 3.09 mn tonnes respectively.

UltraTech Cement Ltd. - Monthly Volume Analysis

Units (mn tonnes)	Nov-11	Nov-10	Y-o-Y (%)	Oct-11	M-o-M (%)	YTD (FY12)	YTD (FY11)	Y-o-Y (%)
Production	3.04	2.67	13.9%	3.27	-7.1%	24.91	24.77	0.6%
Despatches	3.09	2.66	16.3%	3.19	-3.0%	24.89	24.69	0.8%

Source: Company

UltraTech Production and Dispatch growth trend

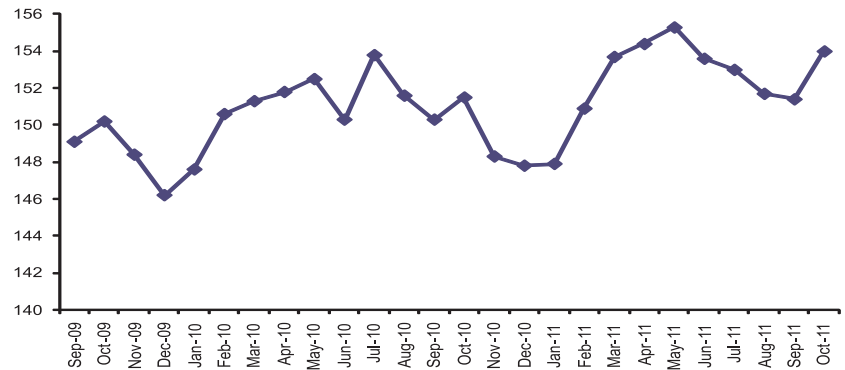


Source: CMA, Company, FQ Research

Annexure

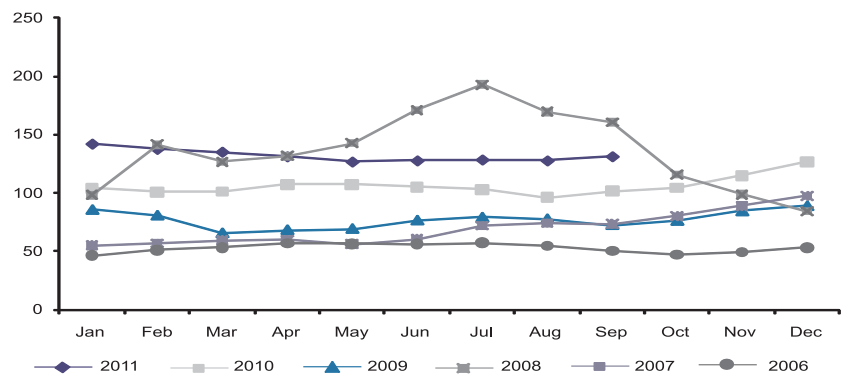
Cement WPI

Cement WPI - Monthly trend



Source: Office of Economic Advisory

International Coal Price (Australian thermal coal) USD/tonnes



Source: CSS

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