

INDIAN ROOFING SECTOR

Asbestos Cement Sheets

Co's in focus:

- 1. Hyderabad Industries Ltd.**
- 2. Visaka Industries Ltd.**

The concept of roofing was driven by human need for protection against climatic elements, for protection of personal belongings, production processes and personnel.

- Roofing accounts for **25- 30%** of total building **construction cost**.
- The roofing options available and their market shares include **Asbestos Fiber Cement Sheets (10.5%)**, Corrugated Galvanized Iron (CGI) Sheets (13.5%), Color Coated Metal sheets (0.4%), Aluminium Corrugated Sheets (0.50%), Asphaltic Roofing (0.70%), Red Mud Plastic (0.1%), PVC (1.70%), Reinforced Cement Concrete (RCC) (55.0%) and Clay Tiles at (17.6%).
- **Asbestos Fiber Cement Sheets** are preferred over other roofing option mainly because of its characteristics like **Weather-proof, Non-corrosive, Strong, Durable** and as detailed below

Characteristics	Asbestos Fiber Cement Sheets	Corrugated Galvanized Iron Sheets	Aluminium Sheets	Red Mud Plastic
Life Span (Years)	50 (Min) Non-Corrosive	5-10 Not (Corrosive)	Available	5 (Tends to get Flattened)
Maintenance	Nil	Every 3-5 years	Nil	Nil
Fire Rating	Retardant	Tendency to twist & melt	Tendency to twist & melt	Fire Prone
Thermal Conductivity/ Insulation	Good	Poor	Poor	Fair
Accoustic rating	Good	Poor	Poor	Poor
Absorption of Rain & Wind Noise	Good (Deadens these noises)	Poor	Poor	Poor
Wind Resistance when installed	Good	Poor	Poor	Poor
Energy Consumption (KWH/Sqm)	3	36.6	33	48
Manpower Potential	Intensive	Low	Low	Low
Imported Content (Rs./SqM)	5.6	15-22.5	1	33

Asbestos Cement Sheets Market

Asbestos Cement Fiber Sheet (CFS) is an oligopoly market with the top four players collectively controlling ~60% of the market. There are 17 major players in this industry with about 63 manufacturing unit. **Everest Industries, Hyderabad Industries, Ramco Industries and Visaka Industries** are the major domestic players. CFS being predominantly a rural product has its fortunes closely linked with the rural economy. Branding and distribution reach are key parameters in the business.

- The sale of top four players has grown at an average CAGR of 16.97% in past 3 years whereas the bottom line grew at 39.78% for the same period. The top line grew at an average CAGR of 12.93% for preceding 7 years prior to past 3 years whereas the PAT at 34.6% for the same period.
- CFS industry is cyclical in nature with March and June quarters are the best quarters for the industry historically. The September and December quarter are weak quarters for the sector as shown below

Source: CMIE

(Rs. In Crores)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Company Name	Net sales							
Hyderabad Industries Ltd.	176.6	129.77	130.02	184.32	208.76	143.72	146.51	208.75
Sahyadri Industries Ltd.	86.2	52.57	47.86	65.56	102.34	50.19	58.69	84.46
Visaka Industries Ltd.	173.53	121.37	121.27	161.29	189.6	119.91	125.05	171.21

- A total addition of 270,000 MT in the sheeting industry during the year 2009-2010 of which 90000 MT is added by Hyderabad Industries, 108000 by Visaka Industries Ltd. and remaining by others. With 4.5% growth rate in sheeting industry has put pressure on pricing and sales volume.

Rationale for growth of the sector in India

- **Rural India:** - An estimate 0.826 billion people reside in rural India from a total population of 1.18 billion which is ~70% of India's total population. ~50% of Rural India living in Katcha & Semi Pucca homes thereby providing a vast opportunity for Pucca houses. Thatched roof need regular replacement and tiled roof need continued maintenance. Therefore, whenever the economic conditions improve the first choice of the rural poor to replace the roof over their head with an affordable asbestos cement sheets. The rural spending is going to further be strengthened due to adequate rainfall in current year.

- **Government Initiatives:** - The Government of India with an aim to provide adequate shelter to the rural poor has introduced programmes like **Indira Awas Yojna** has allocated **Rs. 10,000 Crore**, Golden Jubilee Rural Housing Finance Scheme, Pradhan Mantri Adarsh Gram Yojana, Productive Housing in Rural Area and Rural Housing Fund. The pocket size of rural India has expanded to a great extent due to **increase in Minimum Support Price (MSP)** of the crops and loan wavier for farmers by the government.
- **Cement Prices:** - Cement is the major input for asbestos Cement Fiber Sheet manufacturers. Cement prices are expected to decline in 2010-11. Another 38.4 million tones of fresh capacity will come on stream during the year. Healthy demand and aggressive capacity addition will boost production by 13 per cent in 2010-11. However, a more-than-proportionate rise in capacity compared to dispatches will flood supplies in the market and put downward pressure on prices. Capacity addition of 21 million tones during April-September 2009 has already triggered a fall in cement prices in the second-half of 2009.

Price (Rs/50 kg bag)

Region	June,2010	May,2010	May, 2009	Reduction in Prices (June, 2010 to May,2009)
South	240	245	277	15.42%
Kolkata	260	270	275	5.77%
Hyderabad	160	180	225	40.63%
Mumbai	250	255	265	6.00%
Delhi	220	240	234	6.36%

Source: Business Line

- **India and China**, are expected to record the **fastest growth** in demand for **roofing and facades** due growth in population and urbanization on one hand and improved standard of living on the other is already generating demand for housing, including affordable housing. Additionally, in India, **demand** for roofing and facades is **also felt** in the **industrial building** segment including factory buildings, airport terminals, hangars, inland container depots, logistics parks, special economic zones and export processing zones, warehousing and food processing. With **construction accounting for 40-50%** of **India's capital expenditure** on projects in sectors likes roads and highways, railways, energy, airports and irrigation. **India** is likely to **corner a fair share** of the **global roofing demand** that is predicted to **expand 2.9%** annually, to more than **10.3 billion sqm**, by **2012**, and valued at a staggering **\$65 billion**. The Indian roofing market still has a long way to go.

Concerns for the industry

- **Increase in input costs:** - The continuous increase in cost of inputs is a matter of concern. Asbestos mining is totally banned in India and many other countries leading to very few supplier of the raw material Chrysotile and is 100% imported. This strengthens the bargaining power of suppliers. Despite of it constituting only 8% of the input it costs nearly 45-50% of the total raw material cost. Fly-ash which is procured from the thermal power stations was available either for free or at low cost earlier is now available through the tender mechanism at higher cost, resulting in increased cost.
- **Ban asbestos lobby:** - The activities of the 'Ban asbestos lobby' instigated by the manufacturers of substitute products continue to be a matter of concern.
- **Substitute Products:** - In case there is a new substitute these companies will be able to cope with the new substitute and start manufacturing sheets with the new substitute as they are in process of developing substitute of asbestos but no concrete results are yet out, as well as the top four players have a well diversified product mix.

Hyderabad Industries Limited

Hyderabad Industries Limited (HIL) is a flagship company of the C.K.Birla group of companies, incorporated on 17 June 1946. HIL's key product range include Fibre Cement Roofing Sheets sold under the brand name CHARMINAR, Autoclaved Aerated Concrete Blocks and Panels called AEROCON, and Calcium Silicate Insulation Product (thermal insulation) called HYSIL. The company is one of the leading manufacturers of Fibre Cement Sheets in India with a market share of about 20.5%. After starting out as a roofing manufacturing company, HIL has evolved into a multi product, green building products organization.

Visaka Industries Limited

Visaka Industries Limited (VIL), established in 1981, is the second largest cement sheet manufacturer in India with the total installed capacity of 6,30,000 tones. VIL is well diversified company engaged in the manufacture of fiber cement products and synthetic blended yarn. Company has pan India presence with 6 manufacturing plant for asbestos making plants and two manufacturing plant for garments.

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FY10		Source: CMIE and Market sources	
Particulars	Hyderabad Ind.	Visaka Ind.	
Net Sales (Rs. In crores)	707.74	606.26	
PBDITA (Rs. In crores)	157.74	115.69	
PAT (Rs. In crores)	89.72	57.21	
PBDITA Margin (%)	22.29%	19.08%	
Cash profits (Rs. In crores)	104.32	78.43	
Depreciation (Rs. In crores)	15.55	18.39	
Debt (Rs. In crores)	64.63	148.63	
Equity Capital (Rs. In crores)	7.46	15.88	
ROCE	34.48%	19.86%	
Debt Equity Ratio	0.25	0.63	
Debt Coverage Ratio	2.44	0.78	
Interest (Rs. In crores)	6.25	10.93	
Interest Coverage Ratio	25.24	10.58	
Raw material turnover	7.14	7.48	
Finished goods turnover	12.03	10.76	
Debtors turnover	13.9	12.13	
Creditors turnover	7.79	7.82	
WIP Cycle (Days)	3.1	14.68	
Net working capital cycle (Days)	47.01	72.82	
Sales /Avg. net fixed assets	3.38	3.01	
Experience (Years)	65	30	
Sales Depots (Nos.)	52	35	
Sales Point (Nos.)	5000	N.A	
Market Share (%)	20.50%	15%	
Sh Price (Rs. As on 07/07/2010)	736.15	179.3	
EPS (Rs.)	120.47	37.13	
Cash EPS (Rs.)	141.31	48.71	
Price/Cash EPS	5.21	3.68	
PE (As on 07/07/2010)	6.11	4.83	
PB (As on 07/07/2010)	2.14	1.21	
Div Yield (%)	2.31	3.71	
Market Cap (Rs. In crores as on 07/07/2010)	549.36	284.75	
Mkt Cap/PAT	6.12	4.98	
Mkt Cap/PAT+Depriciation	5.22	3.77	
Promoter Group	C.K.Birla Group	Dr.G.Vivekanand and Andhra Pradesh Industrial Development Corporation	
Share holding (%)	Mar-10	Mar-10	
Promoters	43.12	37.7	
Public	32.5	32.61	
FII's	3.18	3.12	
Others	21.2	26.57	
Plant Location	Orissa, 2 in Haryana, Jharkhand, Uttar Pradesh, 3 in Andhra Pradesh, Kerela, Tamil Nadu, Maharashtra.	West Bengal, 3 in Andhra Pradesh, Maharashtra, 2 in Karnataka, Tamil Nadu, Uttar Pradesh.	

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We are optimistic for both the companies because of their market position, well diversified product mix, driving growth factors for the sector and because of their Market Capitalization/PAT+Depreciation ratio as well as continuous initiatives by the management for the growth of the company. The various initiatives taken by the management are stated below: -

- **Visaka Industries** has signed MOU with Orissa government for **setting up 1050 MW thermal power plant**. After the commissioning of power plant PBDITA margin would increase as **Flyash** which is raw material for CFS can be **sourced from the power plant** which it's **by product** as well reduction in cost of power.
- **Hyderabad Industries** is setting up of a **new unit** at Golan, near Surat, Gujarat for manufacture of **AAC Blocks** was completed in a record time of 14 months and trial production was started in March 2010. After satisfactory completion of trial runs, we expect the plant to start its commercial production during the year **2010**. This will help the company to cater to the growing market for AAC Blocks in the western part of the country, as the demand for this product is expanding due to its inherent advantages of light weight, good compressive strength heat and sound insulation and faster rate of construction.

From NAYAN M. VALA SECURITIES PVT.LTD.RESEARCH

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