

FIRST GLOBAL

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India Research



Sector: Indian Cement

Ambuja Cements Ltd. (ACEM.IN) (GACM.BO)

Market Perform (CMP: Rs.120.60, Mkt Cap: Rs.164.7 bn, Mkt. Cap: \$3.7 bn May 08, '07)
Relevant Index: NIFTY: 4077 (May 08, '07)

Strong cement prices and positive demand-supply scenario to remain intact in the absence of any major capacity expansion

Stock now appears to be among the better bets in the cement sector as valuation differential with other players narrows down

Last report's recommendation: Market Perform (MP: Rs. 105.55, April 04'07)

Relevant Index: NIFTY: 3690.7, April 04'07)

Relative Performance since Last Rating Change: NIFTY: Up 10.5%, ACEM: Up 14.3%

May 08, 2007

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IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT.



Price and Rating History Chart

Ratings Key

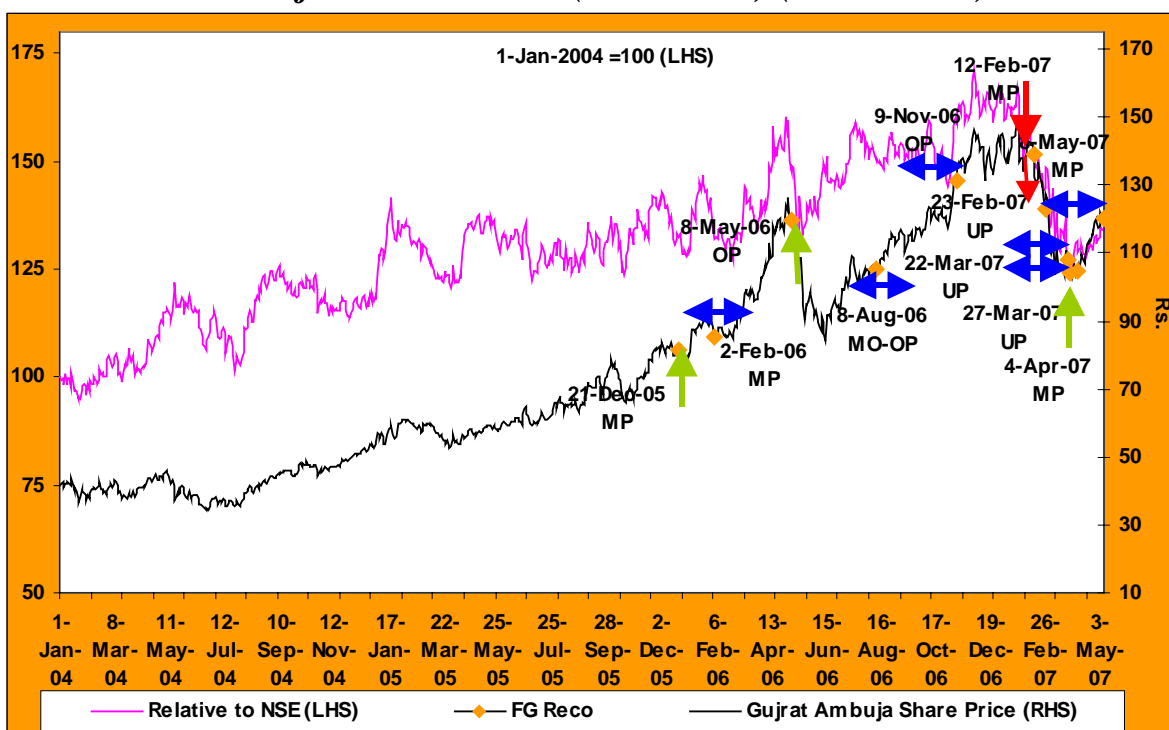
Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP = Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Rating	S = Sell	SS = Sell into Strength	UP = Underperform
	A = Avoid	MO-UP = Moderate Underperform	S-UP = Sector Underperform

ST: Short Term

MT: Medium Term

LT: Long Term

Ambuja Cements Ltd. (ACEM.IN) (GACM.BO)



↑ Represents an Upgrade

↓ Represents a Downgrade

↔ Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report



Financial Snapshot (Consolidated)*

<i>Key Financials</i>						
(YE Dec) (All Figures in Rs. mn except per share amt.)	2002	2003	2004	2005	2006 18 M	2007E 12 M
Sales Volumes (mn MT)	7.2	9.8	10.4	12.7	21.6	15.0
Net Revenues	17301	21726	24178	30855	64053	51523
Net Revenues Growth YoY (%)		26%	11%	28%	NA	NA
EBITDA	4896	5694	6506	8152	21361	19197
EBITDA Growth YoY (%)		16%	14%	25%	NA	NA
EBIT	3156	3632	4424	5957	18082	16806
EBIT Growth YoY (%)		15%	22%	35%	NA	NA
Proforma Net Profit	1797	2919	2848	5181	16755	13542
Proforma Net Profit Growth YoY (%)		62%	-2%	82%	NA	NA
Shareholder Equity	13292	14147	17430	24013	39018	45863
No. of Diluted Shares (in Mn)	1318	1165	1363	1366	1366	1366
<i>Key Operating Ratios</i>						
(YE Dec 31)	2002	2003	2004	2005	2006 18 M	2007E 12 M
Proforma EPS (Rs) Diluted	1.4	2.5	2.1	3.8	12.3	9.9
EPS Growth YoY (%)		84%	-17%	81%	NA	NA
Book Value per share (Rs)	11.4	12.1	13.0	17.8	28.9	34.0
CEPS (Rs)	2.7	4.3	3.6	5.4	14.7	11.7
EBITDA (%)	28.3%	26.2%	26.9%	26.4%	33.3%	37.3%
EBIT (%)	18.2%	16.7%	18.3%	19.3%	28.2%	32.6%
NPM (%)	10.4%	13.4%	11.8%	16.8%	26.2%	26.3%
RoE (%)	12.6%	20.6%	17.5%	23.5%	50.7%	34.4%
RoCE (%)	6.6%	11.1%	9.9%	15.6%	36.2%	23.2%
Dividend payout (%)	49.9%	35.6%	41.7%	40.3%	31.6%	50.0%
Debt/Equity (x)	1.5	1.6	1.0	0.6	0.3	0.3
<i>Valuation Ratios</i>						
(YE Dec 31)	2002	2003	2004	2005	2006 18 M	2007E 12 M
P/E (x)					14.8	12.2
P/BV (x)					4.2	3.5
EV/Sales (x)					4.1	3.4
EV/EBIDTA (x)					12.2	9.0
Market Cap/ Sales (x)					3.8	3.2
Dividend Yield (%)					2.8%	4.9%
<i>DuPont Model</i>						
(YE Dec 31)	2002	2003	2004	2005	2006 18 M	2007E 12 M
EBIDTA/Sales (%)	28%	26%	27%	26%	33%	37%
Sales/Operating assets (x)	0.7	0.9	1.0	1.2	2.6	2.0
EBIDTA/Operating Assets (%)	21%	24%	26%	32%	88%	73%
Operating Assets/Net Assets (x)	0.6	0.6	0.7	0.7	0.6	0.6
Net Earnings/EBIDTA (%)	37%	51%	44%	64%	78%	83%
Net Assets/Net Worth (x)	2.7	2.6	2.2	1.6	1.2	1.0
RoE (%)	13%	21%	17%	23%	51%	34%



<i>Commonsized Ratios</i>						
(YE Dec 31)	2002	2003	2004	2005	2006 18 M	2007E 12 M
Net Revenues	100.0	100.0	100.0	100.0	100.0	100.0
Raw Material	6.9	5.8	3.8	6.3	6.0	6.4
Employee Expenses	3.8	3.7	4.2	3.6	3.4	3.4
Power & Fuel	23.0	23.5	22.8	24.3	19.4	17.3
Freight & Forwarding Expenses	17.6	19.9	19.9	18.8	19.7	18.6
S, G&A and Other Expenses	20.4	20.8	22.4	20.6	18.2	17.0
EBITDA Margin	28.3	26.2	26.9	26.4	33.3	37.3
Depreciation	10.1	9.5	8.6	7.1	5.1	4.6
Total Costs	81.8	83.3	81.7	80.7	71.8	67.4
EBIT Margin	18.2	16.7	18.3	19.3	28.2	32.6
Non Operating Income	2.1	2.3	2.4	3.1	1.3	0.2
Extraordinaries (Net)	0.0	0.0	3.2	0.0	-0.2	4.7
Interest Expense	6.9	4.7	3.7	2.9	1.3	0.8
Share of Profits in Associates	0.0	0.0	0.0	0.6	2.8	2.6
PBT Margin	13.4	14.3	20.2	20.0	31.0	39.3
PBT Margin (excl. extraordinaries)	13.4	14.3	17.0	20.0	31.1	34.6
Taxes	2.6	-1.7	2.8	2.7	5.3	8.4
Reported PAT Margin	10.8	15.9	17.4	17.3	25.7	31.0
Minority Interest	0.4	2.5	0.9	0.5	0.01	0.00
Proforma PAT Margin	10.4	13.4	11.8	16.8	26.2	26.3

Source: Company Reports, FG Estimates

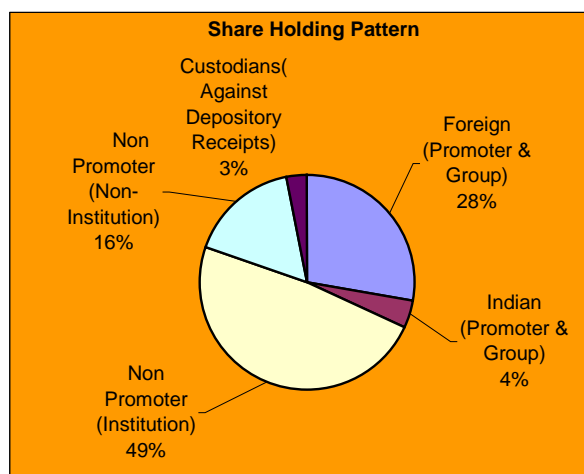
* Note: We have not considered the merger of ACEL and ACEM in our projections.

FY06 figures are for 18 months Dec ending

Valuation Ratios, Dupont model and Return ratios are annualized for comparison purpose

Key Statistics

Industry:	Cement Sector
52 Week High: Low:	Rs.153 / 70
CMP:	Rs.120.6
Avg Daily Volume (20 days):	5.61 mn
Avg Daily Value (20 days):	Rs.622.82 mn
Performance over 52 weeks:	
Ambuja Cement:	Up 0.77%
Nifty:	Up 16.40%

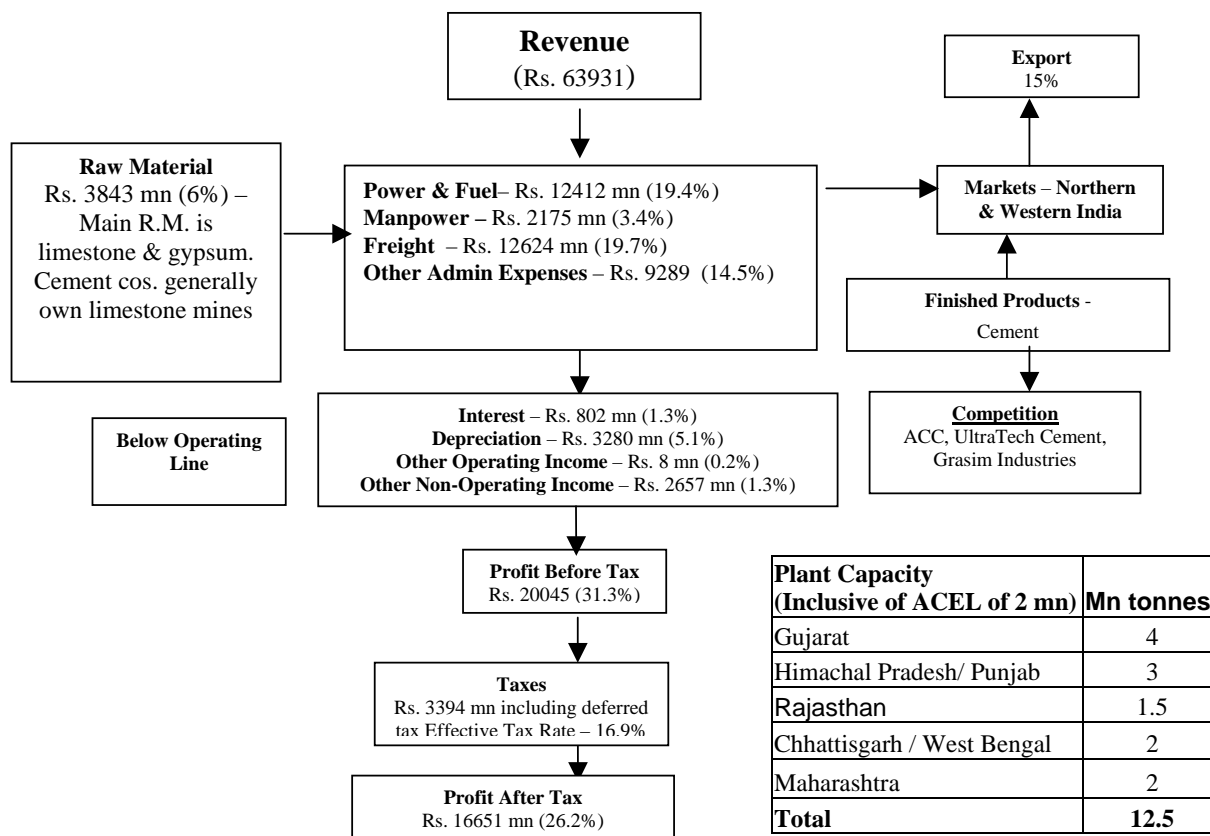




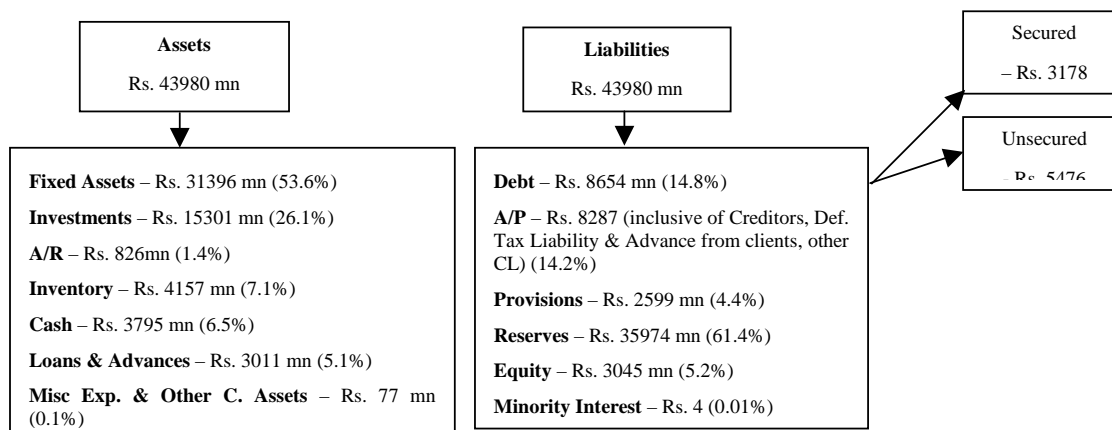
Ambuja Cement's Business in Pictures...

(18 Months ended Dec 2006)

(All percentages are % of revenues, unless otherwise stated)



Balance Sheet





The Story...

Ambuja Cements Ltd. (erstwhile Gujarat Ambuja Cements (ACEM.IN) (GACM.BO)) retained its position among the most efficient players in the cement pack and surpassed our as well as the market's expectations by delivering stellar numbers in Q1 CY07. Our faith in ACEM remains intact due to the consistently good performance delivered by the company over the years. The stock's valuation differential with the other players has narrowed down and unlike as in the past, ACEM now appears to be among the better bets in the cement sector. We reiterate our 'Market Perform' rating on the stock.

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In a change of management, Mr. Anil Singhvi stepped down from the post of MD after serving the company for over two decades and has been

replaced by Mr. A L Kapur.

ACEM's performance in Q1 FY07 was remarkable, with the EBITDA margin coming in at a staggering 39.3%, marking one of the highest levels among the players in the cement pack. Revenues came in at Rs.14.33 bn, up 55% Y-o-Y. The net profit (excluding extraordinary) came in at Rs.3.5 bn in Q1 CY07, up 17% Y-o-Y.

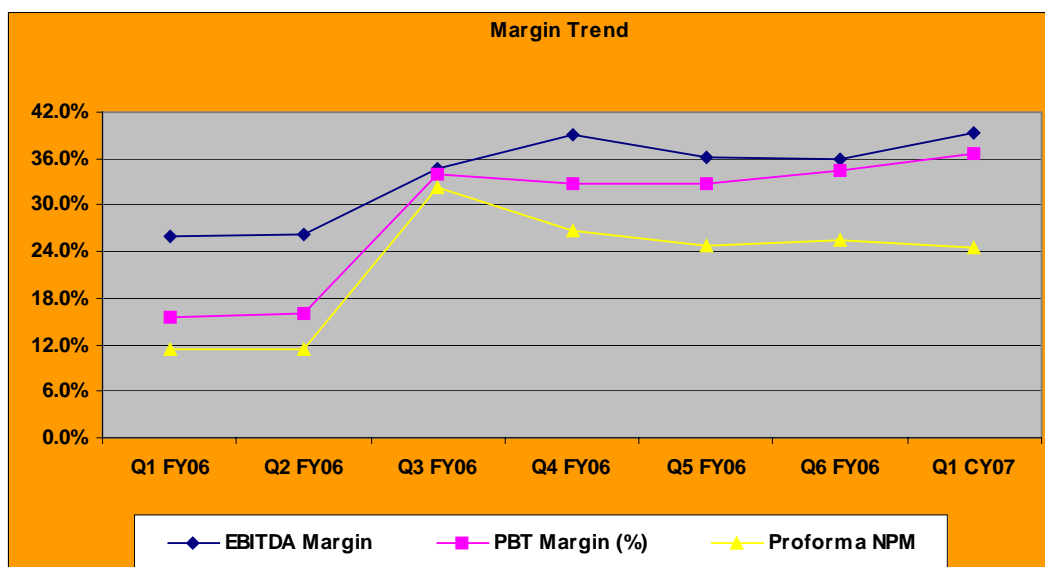
In volume terms, the company sold 4.34 mn MT of cement (as against 4.19 mn MT in Q1 CY06). Average realization improved by 30% Y-o-Y to Rs.3303 per tonne of cement on the back of higher cement prices that prevailed in the quarter. We believe that cement prices will remain strong for the next couple of quarters in the absence of any major capacity expansion in the near future.

ACEM total cost, including depreciation, increased by 42% Y-o-Y to Rs.9.30 bn, as compared to Rs.6.53 bn in Q1 CY06, thereby pushing the EBITDA margin up by 450bps Y-o-Y to 39.3%. This was the major factor that led to total cost as a percentage of sales remaining under control at 59.4%, thus pushing the EBITDA margin up 450bps to 39.3%. The PBT, excluding extraordinary income, rose by 280bps Y-o-Y to 36.8%.

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Margins remain strong in the year...



The capacity expansion at Farakka and Roorkee are progressing as per schedule and are expected to be commissioned in Q2 CY07. The Upgradation of its clinker capacity at the Rajasthan plant is as per schedule and is likely to be completed by July 2007. ACEM also commissioned a 30 MW power plant at Ambujanagar in Q1 CY07.

Given the higher-than-expected pricing in the quarter, as well as the positive demand-supply scenario in the absence of any major capacity expansion, we have now revised our EPS estimates upwards for ACEM. We now expect ACEM to post revenues of Rs.51.7 bn for CY07 (consolidated) and a diluted EPS of Rs. 9.9 (consolidated) in CY07 (as compared to our earlier revenue estimate of Rs.48.51 bn and EPS estimate of Rs. 8.7).

Comparative Valuations

Company	Year End	P/E (x)		P/S (x)		P/BV (x)		EV/EBITDA (x)		EV/SALES (x)		EV/Tonne (Rs.)		EBITDA %		RoCE %		Annual EPS Growth	Annual Sales Growth
		FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	FY07E	FY08E	08/07	08/07
Grasim	March	15	12	2.6	2.1	3.6	2.9	9.4	7.8	2.8	2.3	NA	NA	29%	27%	19%	25%	21%	
UltraTech	March	13	10	2.6	2.3	6.3	4.5	10.1	8.6	2.9	2.5	8569	7252	29%	56%	25%	20%	14%	
Gujarat Ambuja	December	15	12	3.8	3.2	4.2	3.5	12.2	9.0	4.1	3.4	12057	11603	33%	51%	36%	NA	NA	
ACC	December	15	13	2.8	2.3	5.1	4.0	10.2	8.4	3.0	2.5	9336	8290	29%	39%	27%	15%	18%	
India Cements	March	9.9	9.5	1.7	1.4	2.5	1.8	7.9	6.2	2.6	2.1	6636	6042	33%	47%	22%	4%	24%	

YE March 07 figures have been compared with YE Dec. 06 figures for December ending companies. Figures for ACEM FY07 are for YE Dec.06, annualised for comparison purpose.

* Figures for Grasim are on standalone basis and for rest on consolidated basis

Source: Company reports, FG estimates



In Q1 CY07, ACEM once again demonstrated its ability to remain way ahead of its peers on the margins front. ACEM trades at a P/E of 12x and an EV/EBIDTA of 9x based on our CY07 estimates, which is not particularly expensive in comparison to its peers. In fact, the premium valuation

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... we do not expect much cement import into India, mainly due to the unavailability of proper infrastructure. We also do not expect much improvement in cement prices, considering the price freeze, as well as upcoming monsoon season. We expect supply to overtake demand by the end of CY07 and anticipate pricing pressure to build up on cement manufactures

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Quarterly Analysis

YE Dec 31	2007	2006	Y-o-Y	2006	Sequential
Figures in mn of Rs.	Q1	Q3	Change	Q6	Change
Total Income	14338	9243	55%	13291	8%
Less:					
Raw Material Expenses	1055	627	68%	970	9%
Power & Fuel	2319	1901	22%	2298	1%
Freight & handling expenses	3279	2014	63%	2981	10%
SG&A and Other Expenses	2055	1489	38%	2252	-9%
EBITDA	5631	3213	75%	4791	18%
Depreciation & Amortization	598	509	18%	572	5%
Total Cost	9306	6539	42%	9073	3%
EBIT	5033	2704	86%	4219	19%
Other Income	257	538	-52%	403	-36%
Extraordinaries (Net)	2408	0		0	
Interest & Financing Charges	18	105	-83%	45	-60%
Profit Before tax	7679	3137	145%	4576	68%
Profit Before tax (excl. extraordinaries)	5271	3137	68%	4576	15%
Tax	1772	152	1069%	1199	48%
Net Income	5907	2986	98%	3378	75%
Proforma Net Income	3500	2986	17%	3378	4%
Diluted EPS (in Rs.)	2.6	2.2	17%	2.5	3.6%
No of diluted shares (in mn)	1366	1366		1366	
Margin Analysis:					
EBITDA Margin (%)	39.3%	34.8%		36.0%	
EBIT Margin (%)	35.1%	29.3%		31.7%	
PBT Margin (%)	53.6%	33.9%		34.4%	
PBT (excl. extraordinaries) Margin (%)	36.8%	33.9%		34.4%	
Reported NPM (%)	41.2%	32.3%		25.4%	
Proforma NPM (%)	24.4%	32.3%		25.4%	

Source: Company reports

Figures are on Standalone Basis



Financial Highlights

Average realization to sustain at high levels in Q2 FY07

ACEM's revenues increased by 55% Y-o-Y to Rs.14.33 bn in Q1 CY07. Sales volumes recorded a growth of 4 % Y-o-Y to 4.34 mn MT.

Average realization increased by 30% Y-o-Y to Rs.3303 per tonne of cement on the back of improved cement prices in Q1 CY07. In fact, in the past 10 quarters, ACEM's average realization has improved remarkably from Rs.2021 per tonne in Q1 FY05 to Rs.3303 per tonne in Q1 CY07, on the back of buoyant cement prices. *We expect the company's realization to sustain at high levels in Q2 FY07.*

Managing to keep costs under control

Particulars	Costs as % of sales		Cost Per tonne (Rs)		
	March' 06	March' 07	March' 06	March' 07	% Change
Raw Material Consumed	6.5%	6.6%	173.7	219.1	26.2%
Payment for employees & provisions	4.0%	3.5%	108.6	115.7	6.6%
Power & Fuel	19.4%	16.0%	520.7	534.3	2.6%
Outward freight	16.5%	19.2%	443.1	639.8	44.4%
Other expenses	15.2%	14.2%	408.0	473.5	16.1%
Total Cost	61.7%	59.4%	1654.1	1982.5	19.9%
Realizations			2532.0	3303.0	30.5%

Raw material expenses increased by 68% Y-o-Y to Rs.1055 mn in Q1 CY07, as compared to Rs.627 mn in Q1 CY06. Despite a rise in diesel prices, the company managed to keep costs under check, as the per tonne cost of power and fuel rose by merely 2.6% to Rs.534.3 per tonne in Q1 CY07, while it declined, as a percentage of sales, from 19.4% in Q1 CY06 to 16% in Q1 CY07. Increased blending was one of the factors that provided relief in power and fuel costs, although it was offset by an increase of Rs.45 per tonne in raw material expenses.

Freight expenses increased by 63% Y-o-Y to Rs.3279 mn, mainly due to a hike in diesel prices and sea freight rates. Freight expenses, as a percentage of sales, increased from 16.5% of sales in Q1 CY06 to 19.2% Q1 CY07. 'Other expenses' increased by 38% Y-o-Y to Rs.2055 mn, but declined to 14.2% of sales from 15.2% in Q1 CY06. Depreciation expenses rose by 18% Y-o-Y to Rs.598 mn, while interest charges declined by 83% Y-o-Y to Rs.18 mn. The decline in interest rates was mainly due to repayment of debt from company's strong cash generation.

The company recorded a gain of Rs. 2407 mn from the sale of its stake in ACIL to Holcim, thus pushing the PBT up 145% to Rs.7.67 bn in Q1 CY07, as compared to Rs.3.13 bn in Q1 CY06.

Spurt in cement prices & volumes drive profits & margins

In Q1 CY07, the EBITDA rose by 75% to Rs.5631 mn, driven mainly by a spurt in cement prices and volumes over the quarter. The EBITDA margin rose by 450 bps Y-o-Y to 39.3% in the quarter.

The PBT (excl. extraordinaries) for the quarter was Rs.5271 mn, marking a spectacular increase of 68%. The PBT margin increased by 290bps to 39.3% and the NPM stood at 24.4% in Q1 FY07.



Earnings Model Ambuja Cements Ltd.

YE Dec 31	FY06	FY06	FY06	FY06	FY06	FY06	FY06	CY07	CY07E	CY07E	CY07E	CY07E
Figures in mn of Rs.	Q1	Q2	Q3	Q4	Q5	Q6	18 M	Q1	Q2E	Q3E	Q4E	12 M
Net Revenue	6549	7732	9243	11342	9841	13291	57998	14338	12969	10760	11664	49730
Less:												
Raw Material Expenses	343	408	627	719	433	970	3498	1055	742	623	668	3088
Power & Fuel	1728	1849	1901	1998	1912	2298	11685	2319	2485	1944	2132	8879
Freight & handling expenses	1432	1721	2014	2538	2301	2981	12987	3279	2719	2388	2586	10972
SG&A and Other Expenses	1343	1734	1489	1654	1640	2252	10112	2055	2205	1829	1983	8072
EBITDA	1703	2021	3213	4433	3556	4791	19717	5631	4817	3976	4296	18720
Depreciation & Amortization	490	502	509	497	500	572	3069	598	606	588	588	2380
Total Cost	5336	6213	6539	7406	6785	9073	41350	9306	8758	7372	7956	33391
EBIT	1213	1519	2704	3937	3057	4219	16648	5033	4211	3388	3708	16340
Other Income	13	(76)	538	(100)	258	403	1037	257	65	54	58	434
Extraordinaries (Net)	0	0	0	0	0	0	0	2408	0	0	0	2408
Interest & Financing Charges	216	197	105	123	85	45	771	18	151	151	151	472
Profit Before tax	1010	1246	3137	3714	3230	4576	16913	7679	4124	3290	3615	18708
PBT (excl. Extra-ordinaries)	1010	1246	3137	3714	3230	4576	16913	5271	4124	3290	3615	16301
Tax	258	367	152	675	783	1199	3432	1772	949	757	831	4308
Net Income	753	879	2986	3039	2447	3378	13481	5907	3176	2534	2783	14400
Proforma Net Income	753	879	2986	3039	2447	3378	13481	3500	3176	2534	2783	11993
Diluted EPS (in Rs.)	0.6	0.6	2.2	2.2	1.8	2.5	9.9	2.6	2.3	1.9	2.0	8.8
No of diluted common shares (in mn)	1366	1366	1366	1366	1366	1366	1366	1366	1366	1366	1366	1366
Cost Analysis:												
Raw Material Expenses	5%	5%	7%	6%	4%	7%	6%	7%	6%	6%	6%	6%
Freight & handling expenses	22%	22%	22%	22%	23%	22%	22%	23%	21%	22%	22%	22%
SG&A and Other Expenses	21%	22%	16%	15%	17%	17%	17%	14%	17%	17%	17%	16%
Depreciation & Amortization	7%	6%	6%	4%	5%	4%	5%	4%	5%	5%	5%	5%
Effective Tax rate	25%	29%	5%	18%	24%	26%	20%	23%	23%	23%	23%	23%
Margin Analysis:												
EBITDA Margin (%)	26.0%	26.1%	34.8%	39.1%	36.1%	36.0%	34.0%	39.3%	37.1%	37.0%	36.8%	37.6%
EBIT Margin (%)	18.5%	19.6%	29.3%	34.7%	31.1%	31.7%	28.7%	35.1%	32.5%	31.5%	31.8%	32.9%
PBT Margin (%)	15.4%	16.1%	33.9%	32.7%	32.8%	34.4%	29.2%	53.6%	31.8%	30.6%	31.0%	37.6%
PBT (excl. extraordinaries) Margin (%)	15.4%	16.1%	33.9%	32.7%	32.8%	34.4%	29.2%	36.8%	31.8%	30.6%	31.0%	32.8%
Reported NPM (%)	11.5%	11.4%	32.3%	26.8%	24.9%	25.4%	23.2%	41.2%	24.5%	23.5%	23.9%	29.0%
Proforma NPM (%)	11.5%	11.4%	32.3%	26.8%	24.9%	25.4%	23.2%	24.4%	24.5%	23.5%	23.9%	24.1%

Source: First Global estimates, Company Reports

Figures are on Standalone Basis and hence different from those given in Financial Snapshot, given on page 2 & 3.

YE for FY05 is June and for FY06 is 18-month period ended Dec 2006



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, Discounted Cash Flow (DCF) and its stock price history

The risk factors that may impede achievement of the price target/investment thesis are -

- Change in macro economic factors, including inflation and lower spending by government on the infrastructure.
- Price competition in the industry affecting the market share and/or margins.
- Input/freight/power prices increase at a rapid pace.
- Government intervention in pricing mechanism of cement or ban on export of cement.



Rating system of First Global

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: S&P CNX Nifty

Positive Ratings

(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.

(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.

(iii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.

Neutral Ratings

(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.

(ii) Marketperform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.

Negative Ratings

(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.

(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.

(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.

(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.



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