Ambuja Cements ---------- Maintain NEUTRAL

1Q08 results in line: management's outlook now a familiar tune

EPS: ▼ TP: ◄►

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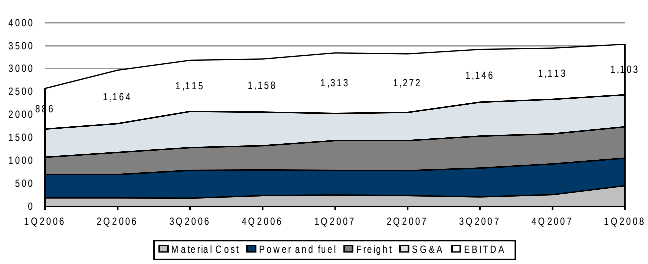
- Ambuja announced its 1Q08 results which were broadly in line with estimates on the operating level, although PAT was higher due to lower interest expenses and higher other income.
- Management's outlook was similar to that of most cement companies this quarter, saying that demand continues to be buoyant but that input cost increases pose a threat to margins.
- While margins remain healthy, they have fallen 810 bps since 1Q07, indicative of higher costs which Ambuja has not been able to pass on in the form of price hikes.
- We have revised our estimates to account for higher coal and fly ash costs than previously expected, and for higher sales volumes as export production is re-routed to the domestic market allowing for higher blending. Our EPS estimates for 2008 and 2009 now stand 5.2% and 3.4% lower respectively.
- We believe that as Ambuja is already operating at peak efficiency levels, any further costs savings will be difficult and input cost increases will flow straight to the bottom line. Maintain NEUTRAL.

Bbg/RIC	**ACEM IN / ABUJ.BO**	**Price (25 Apr 08, Rs)**			**114.80**
Rating (prev. rating)	**N (N)**	**TP (Rs) (prev. TP)**			**110 (110)**
Shares outstanding (mn)	1,522.37	Est. pot. % chg. to TP			(4)
Daily trad vol–6m avg (mn)	4.0	52-wk range (Rs)			153.90 - 109.10
Daily trad val–6m avg (US$ mn)	13.8	Mkt cap (Rs/US$ bn)			174.8/ 4.4
Free float (%)	54.0	**Performance**	**1M**	**3M**	**12M**
Major shareholders	Holcim - 45.7%	Absolute	(7.8)	(2.0)	(4.8)
		Relative	(12.7)	5.1	(20.9)

Year	**12/06A**	**12/07A**	**12/08E**	**12/09E**	**12/10E**
Revenues (Rs mn)	62,683	56,899	66,380	69,251	74,717
EBITDA (Rs mn)	21,331	20,302	21,467	23,062	22,267
Net profit (Rs mn)	14,619	13,265	13,153	13,646	12,589
EPS (Rs)	9.64	8.71	8.64	8.96	8.27
- Change from prev. EPS (%)	n.a.	n.a.	-5	-3	n.a.
- Consensus EPS (Rs)	n.a.	n.a.	9.40	9.00	0.00
EPS growth (%)	178.2	(9.6)	(0.8)	3.7	(7.8)
P/E (x)	11.9	13.2	13.3	12.8	13.9
Dividend yield (%)	2.9	3.0	3.0	3.0	3.0
EV/EBITDA (x)	7.9	7.8	7.5	7.1	7.4
P/B (x)	5.0	3.8	3.1	2.7	2.5
ROE (%)	41.9	28.5	23.4	21.5	18.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Note 1: Ambuja Cements (ACL) is one of India's lowest-cost cement producers and enjoys relatively high EBITDA margins due to its focus on the retail cement market (giving higher realisations), modern plants, and use of sea transport.

Figure 1: Operating trends – Ambuja (Rs/ton)



Source: Company data, Credit Suisse estimates.

Figure 2: Snapshot of Ambuja's Q1 results

(Rs mn)	**1Q08A**	**1Q08E**	**Diff (%)**	**1Q07A**	**YoY %**
Net Sales	16,549	16,730	-1.1%	14,338	15.4%
Cost of goods sold	2,104	2,082	1.0%	1,055	99.5%
Power and fuel	2,817	2,881	-2.2%	2,319	21.5%
Freight	3,194	3,179	0.5%	2,777	15.0%
Operating expenses	3,274	3,271	0.1%	2,557	28.0%
EBITDA	**5,160**	**5,216**	**-1.1%**	**5,631**	**-8.4%**
EBITDA margin (%)	**31.2%**	**31.2%**		**39.3%**	
Less: Depreciation	618	600	3.0%	598	3.4%
Less: Interest	57	280	-79.7%	18	217.9%
Add: Other income	406	363	11.8%	257	58.1%
PBT	4,890	4,699	4.1%	5,271	-7.2%
Prov for Tax	1,570	1,551	1.2%	1,445	8.6%
PAT	**3,321**	**3,148**	**5.5%**	**3,826**	**-13.2%**
Exceptional items	59			2,081	
PAT after exceptionals	**3,262**	**3,148**		**5,907**	

Source: Company data, Credit Suisse estimates.

Ambuja announced its results for 1Q2008, which were broadly in line with our estimates on the operating level – net revenues missed our forecasts by 1.1% due to higher indirect taxes, whilst EBITDA margins stood at 31.2% as we had estimated. PAT was 5.5% higher than forecasted, owing to lower interest expenses and higher other income.

Management's outlook was in somewhat the same vein as other cement companies this quarter, saying that although demand from construction continues to be buoyant, increasing input costs would put pressure on margins going forward. While margins remain healthy, they have fallen 810bps since 1Q2007, indicative of higher costs which Ambuja has not been able to pass on in the form of price hikes.

Figure 3: Summary of changes to our estimates

	Old Estimates		**Revised Estimates**		**% change**	
(Rs mn)	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
Cement (mn tonnes)	18.7	20.7	18.9	20.4	0.9%	-1.4%
Net Sales	64,645	69,325	66,371	69,247	2.7%	-0.1%
Cost of goods sold	5,273	5,679	5,830	5,190	10.6%	-8.6%
Power and fuel	10,999	11,672	12,754	12,519	15.9%	7.3%
Freight	12,860	14,218	13,109	14,123	1.9%	-0.7%
SG&A	13,042	14,488	13,219	14,357	1.4%	-0.9%
EBITDA	**22,471**	**23,267**	**21,459**	**23,057**	**-4.5%**	**-0.9%**
EBITDA margin (%)	**34.8%**	**33.6%**	**32.3%**	**33.3%**	**-2.4%**	**-0.3%**
PBT	20,707	21,070	19,624	20,363	-5.2%	-3.4%
Provision for Tax	6,833	6,953	6,476	6,720	-5.2%	-3.4%
PAT	**13,873**	**14,117**	**13,148**	**13,643**	**-5.2%**	**-3.4%**
EPS	**9.1**	**9.3**	**8.6**	**9.0**	**-5.2%**	**-3.4%**

Source: Company data, Credit Suisse estimates.

We have revised our estimates to account for higher coal and fly ash costs than previously expected, and for higher sales volumes as export production is rerouted to the domestic market, allowing increased blending. This has also resulted in some cost savings for Ambuja on purchase of clinker. Our EPS estimates for 2008 and 2009 now stand 5.2% and 3.4% lower respectively. Ambuja is already operating at peak efficiency levels and we believe further input cost increases will flow straight to the bottom line. Maintain NEUTRAL.

Companies Mentioned *(Price as of 25 Apr 08)*
Ambuja Cements Ltd (ABUJ.BO, Rs114.80, NEUTRAL, TP Rs110.05)

Disclosure Appendix

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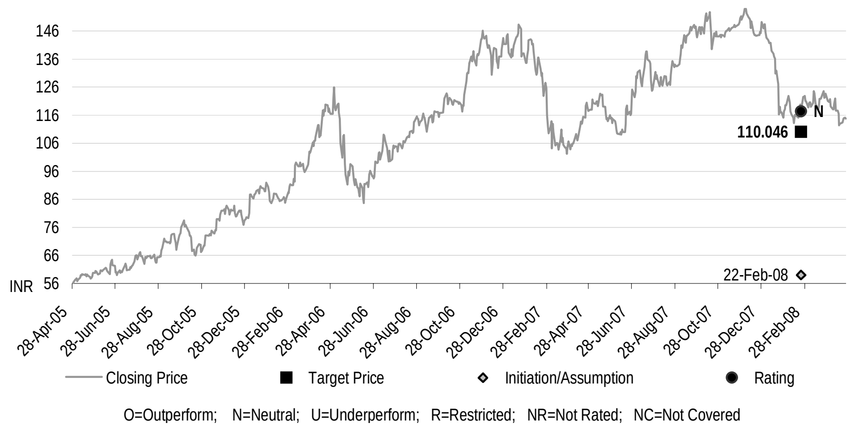
3-Year Price, Target Price and Rating Change History Chart for ABUJ.BO

ABUJ.BO Date	Closing Price (INR)	Target Price (INR)	Rating	Initiation/ Assumption
22-Feb-08	117.35	110.046	N	X



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Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Restricted	2%	

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Price Target: (12 months) for (ABUJ.BO)

Method: Our target price of Rs 110 is based on a DCF valuation, assuming 1) Cost of Equity of 13% based on a risk free rate of 7.5%, market risk premium of 5% and Equity beta of 1.1 2) WACC of 11.7% based on COE of 13%, post tax cost of debt of 6.9%, and target gearing of 20% 3) Explicit earnings forecast until FY13E 4) Terminal growth rate of 4% from FY14E onwards

Risks: 1) Input prices could surprise negatively, 2) Cement prices could surprise negatively on oversupply, 3) Overall India macro risks

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