RESULTS REVIEW

Share Data

Market Cap	Rs. 182.7 bn
Price	Rs. 120
BSE Sensex	15,760.52
Reuters	ABUJ.BO
Bloomberg	ACEM IN
Avg. Volume (52 Week)	1.5 mn
52-Week High/Low	Rs. 160.9/100.25
Shares Outstanding	1,522.4 mn

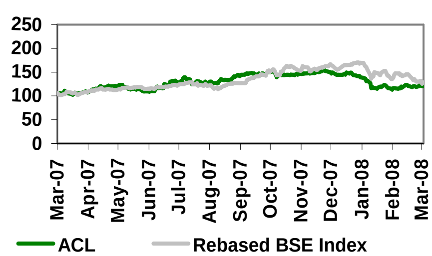
Valuation Ratios (Consolidated)

Year to 31 December	2008E	2009E
EPS (Rs.)	10.0	10.2
+/- (%)	3.2%	2.7%
PER (x)	12.0x	11.7x
EV/ tonnes (Rs.)	10,502	10,397
EV/ EBITDA (x)	8.3x	8.1x

Shareholding Pattern (%)

Promoters	48
FIIs	24
Institutions	15
Public & Others	13

Relative Performance



Ambuja Cements Limited Hold

Rising operating costs pressurising margins

Volumes to drive growth: The ongoing expansion projects of Ambuja Cements Ltd. (ACL) are expected to complete by the end of CY09. After the completion of these projects, the cement capacity is expected to increase to 19 mtpa and 22 mtpa in CY08E and CY09E, respectively, from the current level of 18 mtpa. As the expansion projects of the Company are concentrated in northern and eastern regions which are expected to experience slow growth, this is likely to limit the growth in the realization rate of cement. Hence, we believe that primarily the sales growth will come from these capacity expansion plans through the increase in sales volume.

Rising operating cost: On the operational front, the raw material cost is the major cause of concern as raw material cost per tonne has almost doubled from Q4’06 to Q4’07. Though power and fuel cost has also increased during the quarter, it is expected to moderate a little with the shift of captive power plants from liquid to solid fuel. According to the Company, this is expected to reduce energy costs by approx. Rs. 2 per unit.

Valuation: We have valued the stock using DCF. According to the valuation, the stock seems to be fairly valued at the current market price. Further, ACL is trading at a forward P/E of 12.0x CY08E and 11.7x CY09E which is ahead of its peer group. Considering that the operating margin of the Company is likely to come in line with the peer group, we believe that going forward it will be difficult for the Company to trade at a premium to its peers. Hence, we maintain our Hold rating.

Key Figures (Standalone)

Quarterly Data	Q4'06	Q3'07	Q4'07	YoY%	QoQ%	CY06	CY07	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	13,353	12,999	15,067	12.8%	15.9%	48,541	57,048	17.5%
EBITDA	4,853	4,332	5,036	3.8%	16.3%	17,670	20,451	15.7%
Net Profit	3,287	3,133	2,071	(37.0%)	(33.9%)	12,896	14,000	8.6%
Margins(%)								
EBITDA	36.3%	33.3%	33.4%			36.4%	35.8%	
NPM	24.6%	24.1%	13.7%			26.6%	24.5%	
Per Share Data (Rs.)								
Adj. EPS	2.2	2.1	1.4	(37.2%)	(33.9%)	8.8	9.2	4.2%

Result Highlights

Realisation rate and sales volume contributed to the rise in revenue

Net Sales increased by 12.8% yoy to Rs. 15,067 mn on the back of improvement in the sales volumes and the realisation rate. The sales volume has increased by 4.9% yoy from 4.1 mt in Q4'06 to 4.3 mt in Q4'07. The realisation rate of cement reached to Rs. 3,484 in Q4'07 from Rs. 3,239 in Q4'06 registering an increase of 7.6% yoy. We expect the improvement in the sales volume and realisation to continue till FY09E because of the mismatch in the demand and supply of cement. However, in comparison to the peer group, the Company is not expected to gain much as the expansion projects of the Company are concentrated in northern and eastern regions which are expected to experience slow growth, and also the majority of these projects are scheduled to be completed in CY09E.

Ongoing Expansion Projects

Type of Plant	Location	Capacity	Expected Completion Year
Clinker Expansion Project	Bhatapara	2.2 mtpa	2009
Clinker Expansion Project	Rauri	2.2 mtpa	2009
Captive Power Plants	Ropar/Rariyawas/Maratha	178 MW	End 2008
Cement Grinding Unit	Gujarat	1.5 mtpa	2009
Cement Grinding Unit	Dadri	1.5 mtpa	2009
Cement Grinding Unit	Nalagarh	1.5 mtpa	2009

Source: Company Data, Indiabulls Research

Sharp rise in raw material cost eroding margins

Despite the top-line growth of 12.8% yoy, EBITDA increased by just 3.8% yoy to Rs. 5,036 mn as rising raw material and power and fuel costs had a dampening effect on the margins. Raw material cost per tonne increased by 94% yoy and power and fuel cost increased by 21.8% yoy. In absolute terms, there was a rise in staff cost by 27.8% yoy. Going forward, we expect power and fuel cost to reduce moderately as the Company is replacing the liquid fuel-based captive power plant with the solid fuel-based captive power plant at its Ambujanagar plant and is also setting up new captive power plants at various locations.

Cost per tonne (in Rs)

	Q4'07	Q4'06	YoY %
Realisation rate per tonne	3,483.7	3,238.7	7.6%
Cost Per tonne			
Raw materials	387.3	199.6	94.0%
Power and fuel	678.5	557.3	21.8%
Freight and forwarding	617.9	622.1	(0.7%)

Source : Company Data, Indiabulls Research

Net adjusted profit fell by 37% yoy to Rs. 2,071 mn. Hitherto, while computing the income tax provision, the Company had considered sales tax incentives for certain units as capital receipts which were not liable to tax. During the year, the above mentioned tax treatment was reconsidered in view of the subsequent contrary decision of High Court and accordingly, as a prudence measure, the Company has recognised Rs. 2,020 mn as tax provision with respect to sales tax incentives relating to earlier years. Considering the above change, we have increased our estimate of the effective tax rate which has resulted in a reduction in our net profit estimates.

Key Risks

- Any further increase in raw material costs will have an adverse effect on the margins. Moreover, a substantial increase in coal prices can also lead to a rise in power costs and hence, pose a threat to our rating.
- Inability to complete the capacity expansion plans on time might affect the top-line growth.

Outlook

Cement consumption growth is expected to remain stable in the medium term due to expanding infrastructure, increase in housing construction activity, and setting up of various power projects. The demand and supply mismatch is expected to drive cement prices till mid-2009. However, post FY09, supply is expected to exceed demand, thereby, moderating the increase in prices.

Going forward, sales volume is expected be the top-line driver

As per the schedule of expansion projects, it is expected that in CY08E the capacity of cement will far exceed the clinker capacity which can probably lead to an increase in purchase of clinker from external suppliers; however, this trend is expected to reverse in CY09E as the ongoing projects for clinker capacity addition are likely to get commissioned by that time. The installed capacity of cement is likely to increase to 22 mtpa by CY09E. Going forward, top-line growth will primarily depend on the increase in sales volume as the improvement in the realisation rate is expected to slow down. We have downgraded our estimates of cement sales volume for CY08E from 18.5 mt to 17.9 mt, as we anticipate some delay in the completion of expansion projects.

On the operational front, the Company is working at almost maximum efficiency level, so the scope of improvement in operational efficiency is limited. Though the Company is in the process of setting up captive thermal power plants to cater to the power needs of its new cement plants, we don't expect this to add to its operating margin as the Company is already using captive power for its existing plants. We feel that the only thing that could aid in the margin improvement is the replacement of its liquid fuel-based captive power plants with solid fuel.

Raw material costs have almost doubled during the quarter, and are expected to increase further. Considering this, we have downgraded our EBITDA margin estimates for CY08E by 120 bps.

Valuation: We have valued the stock using DCF. According to the valuation, the stock seems to be fairly valued at the current market price. Further, ACL is trading at a forward P/E of 12.0x CY08E and 11.7x CY09E which is ahead of its peer group. Considering that the operating margin of the Company is likely to come in line with the peer group, we believe that going forward it will be difficult for the Company to trade at a premium to its peers. Hence, we maintain our Hold rating.

Key Figures (Consolidated)

Year to December	FY05	CY06	CY07	CY08E	CY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(CY07-09E)
Sales Vol (mn tonnes)	14.6	16.3	16.9	17.9	18.0	3.4%
Net Sales	30,647	49,320	57,921	64,386	66,335	7.0%
EBITDA	8,079	17,637	20,353	22,535	23,284	7.0%
Net Profit	4,873	14,100	14,702	15,165	15,577	2.9%
Margins(%)						
EBITDA	26.4%	35.8%	35.1%	35.0%	35.1%	
NPM	15.9%	28.6%	25.4%	23.6%	23.5%	
Per Share Data (Rs.)						
Adj. EPS	3.6	9.3	9.7	10.0	10.2	2.9%
PER (x)	16.4x	15.2x	12.4x	12.0x	11.7x	

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