

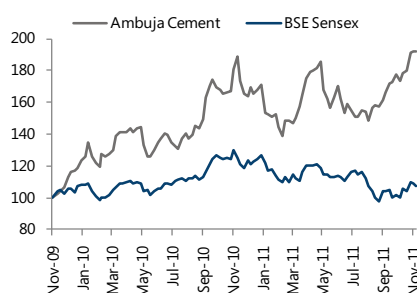
Result Update - Q3CY11

SELL

| | |
|--------------------|------------|
| Reco | Maintained |
| CMP | ₹ 163 |
| Target Price | ₹ 138 |
| Downside Potential | 15.3% |

Price Performance

| | |
|--------------------|---------|
| 52 wk Hi/Lo | 167/112 |
| All time Hi/Lo | 167/11 |
| 6 mnth Average Vol | 1951038 |
| Stock Beta | 0.79 |



Valuation

| | CY10 | CY11P | CY12P |
|----------|------|-------|-------|
| P/E (x) | 17.3 | 20.1 | 18.5 |
| P/BV (x) | 2.9 | 3.1 | 2.8 |
| RONW (%) | 18.0 | 16.0 | 15.7 |
| ROCE (%) | 18.7 | 16.6 | 16.5 |

Peer Valuation (FY13P / CY12P)

| | UltraT | ACC |
|------|--------|------|
| PE | 17.5 | 17.2 |
| P/BV | 2.4 | 2.9 |

Equity Data

| | |
|------------------------|------|
| Market Cap. (₹ bln) | 250 |
| Face value (₹) | 2 |
| No of shares o/s (mln) | 1533 |

| | Sep'10 | Sep'11 | Δ % |
|-----------|--------|--------|--------|
| Promoters | 46.37 | 50.35 | 8.58 |
| DFI's | 15.33 | 14.46 | -5.67 |
| FII's | 27.06 | 23.97 | -11.42 |
| Public | 11.24 | 11.22 | -0.18 |

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November 11, 2011

Ambuja Cement Ltd. (ACL)

No respite from higher costs

ACL's Q3 performance was marginally on the lower side than anticipated mainly on account of continued higher costs which majorly offset the impact of top line growth. Yet ACL was able to post 13% y-o-y growth at PAT level primarily on account of higher non operating income (interest and other) earned during the quarter. Y-o-y numbers look impressive also due to low base of last year however sequential performance is weak on all fronts.

Net revenue growth of 16% on the back of higher volumes and realisations

ACL recorded revenue growth of 16% for Q3CY11 at ₹ 18337mln driven by 8% and 7% y-o-y improvement in volumes and realisations respectively. Recent rounds of price hikes in Western, Northern and Eastern region have enabled ACL to post an average realisation of ₹ 3849/ tonne (₹ 3595/ tonne for Q3CY10). Company sold 4.69mt cement during the quarter up 8% y-o-y from 4.35mt sold during the year ago period.

EBITDA growth restricted to 6% due to continued higher costs.

Increased cost push mitigated the impact of top line growth. Total costs increased by 18% y-o-y restricting EBITDA growth to 6%. Company witnessed y-o-y higher input, power, freight and other costs. Power and fuel costs rose sharply on the back of 30% increase in coal prices during Q1CY11. ACL reported Q3 EBITDA at ₹ 3194mln against ₹ 3022mln for Q3CY10 and EBITDA margins at 17.4% against our expectations of 18.2%, which are down 167bps y-o-y

Reported PAT improved by 13% y-o-y driven by higher interest income

ACL witnessed higher interest, depreciation and tax for Q3. However on the back of higher non operating income mainly the y-o-y higher interest income, ACL was able to report Net profit growth of 13% y-o-y at ₹ 1715mln (₹ 1521mln for Q3CY10).

However on q-o-q basis ACL reported de- growth on all fronts. Its top line, EBITDA and PAT declined by 16%, 47% and 50% respectively as a result of sequentially lower volumes, realisation coupled with higher costs.

Outlook and Valuation

With slower than anticipated pace of demand recovery in post monsoon phase and no respite from higher costs in near future, we expect players to witness continued pressure on margins despite recent price hikes as these increases will offset the increase in costs and hence are little margin accretive. We expect pricing volatility and weakness in sentiment to continue in the light of pending full demand revival and rising costs. At CMP of ₹ 163, Ambuja Cement's current valuation appears expensive at 10x EV / EBITDA and EV/tonne of \$174 on CY12P. Maintain 'SELL' with target price of ₹ 138 at EV/tonne of \$132.

Summary Financials

| ₹ in Mln | CY09 | CY10 | CY11P | CY12P |
|--------------------|-------|-------|-------|-------|
| Net Sales | 71815 | 75176 | 83882 | 91333 |
| OPBDIT | 19715 | 19510 | 19885 | 21143 |
| Net Profit | 12184 | 12636 | 12287 | 13316 |
| EPS | 8.0 | 8.3 | 8.0 | 8.7 |
| Net worth | 64709 | 73301 | 80576 | 88879 |
| Debt | 1657 | 650 | 497 | 429 |
| Fixed Assets | 61545 | 65585 | 63724 | 61113 |
| Net Current Assets | 2383 | 7412 | 16394 | 27240 |

Exhibit 1: Quarterly Financials (Amt in ₹ mln)

| Period Ending | Q3CY11 | Q3CY10 | Y-o-Y | Q2CY11 | Q-o-Q |
|---------------|--------------|--------------|------------|--------------|-------------|
| Sales | 18337 | 15830 | 16% | 21891 | -16% |
| Expenditure | 15143 | 12809 | 18% | 15906 | -5% |
| EBITDA | 3194 | 3022 | 6% | 5984 | -47% |
| % margin | 17.4% | 19.1% | -167bps | 27.3% | -992bps |
| Interest | 138 | 89 | 54% | 152 | -9% |
| Depreciation | 1079 | 1018 | 6% | 1074 | 0% |
| Other Income | 571 | 305 | 87% | 562 | 2% |
| PBT | 2548 | 2220 | 15% | 5320 | -52% |
| Tax | 834 | 699 | 19% | 1845 | -55% |
| PAT | 1715 | 1521 | 13% | 3475 | -51% |
| % Margin | 9.4% | 9.6% | -26 | 15.9% | -652 |
| EPS | 1.1 | 1.0 | 12% | 2.3 | -51% |

Actual Vs MSFL Estimates

| ₹ (Mln) | Actual | Estimated | Difference |
|---------------|--------|-----------|------------|
| Net Sales | 18337 | 18542 | -1.1% |
| EBITDA | 3194 | 3366 | -5.4% |
| EBITDA Margin | 17.4% | 18.2% | -80bps |
| PAT | 1715 | 1877 | -8.6% |

Source: Company, MSFL Research

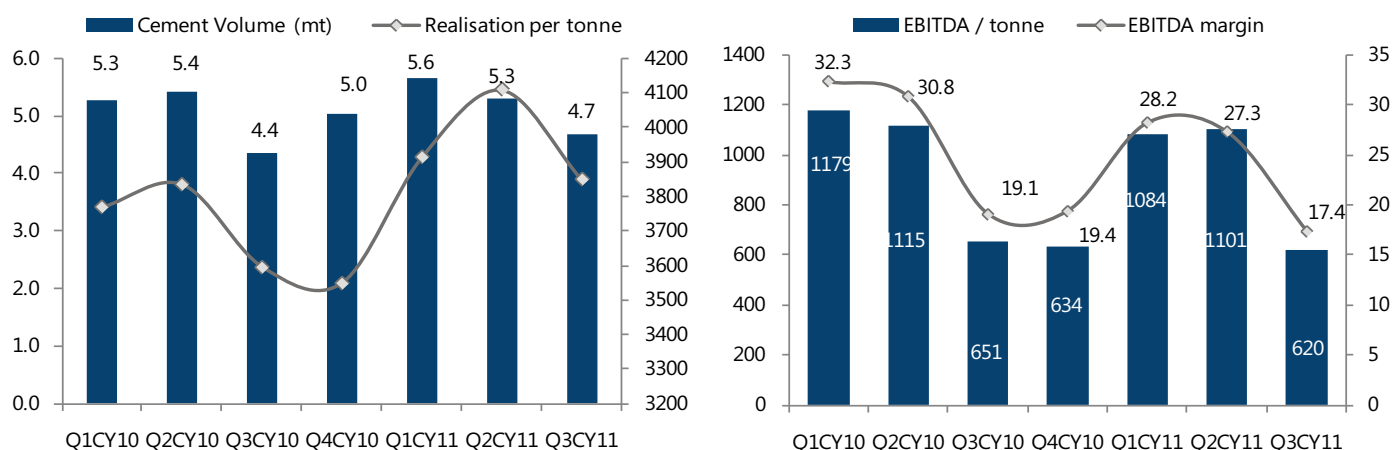
Q3CY11 Key Result Highlights

Ambuja cement's Q3 performance was marginally below expectations mainly on account of lower than anticipated realisations coupled with higher costs. Though ACL reported 16% y-o-y growth in revenue on the back of y-o-y higher volumes and realisations, impact was offset by even higher increase in costs that have dragged EBITDA growth and operating margins down y-o-y.

Key Result highlights

- ACL volumes for the quarter grew by 8% y-o-y and declined by 11% q-o-q at 4.69mt. Net realisation stood at ₹ 3849 up 7% y-o-y (₹ 3595 for year ago period). Net revenue observed a 16% y-o-y growth at ₹ 18337mln against ₹ 15830mln for Q3CY10
- EBITDA for the quarter grew by 7% y-o-y at ₹ 3194mln (₹ 3022mln for Q3CY10) as a result of higher cost push. Higher costs on all fronts pushed total expenses 18% up y-o-y. Power and fuel costs were higher mainly because of 30% hike in coal prices during March2011. Cost savings achieved by higher in house clinker production was not able to offset the impact of increased costs on all fronts. Freight costs also went up by 20% y-o-y on the back of diesel price hiked in 2011.
- ACL witnessed EBITDA margin contraction of 167bps y-o-y at 17.4% v/s 19.1% in Q3CY10
- Interest, Depreciation though were higher on y-o-y basis, were in line with the sequential trends. On account of y-o-y higher interest income, Ambuja recorded growth of 13% in bottom line at ₹ 1715mln (₹ 1521mln for year ago period)
- EPS for Q2 stood at ₹ 1.12 v/s ₹ 1.0 for year ago period
- EBITDA per tonne declined by 4.8% y-o-y to ₹ 620 per tonne mainly due to y-o-y increase in costs higher than in increase in Q3 realisation.

Exhibit 2: Operational trend



Source: Company, MSFL Research

Exhibit 3: Per tonne Analysis

| Key data | Q3CY11 | Q3CY10 | y-o-y | Q2CY11 | q-o-q |
|---------------------|-------------|-------------|--------------|-------------|---------------|
| Volumes | 4.69 | 4.35 | 7.8% | 5.29 | -11.3% |
| Cement Realisation | 3849 | 3595 | 7.0% | 4108 | -6.3% |
| Raw Material cost | 307 | 140 | 119.5% | 50 | 520.4% |
| Power and Fuel cost | 1055 | 1017 | 3.7% | 1065 | -0.9% |
| Employee cost | 220 | 227 | -3.2% | 208 | 5.9% |
| Freight expenses | 887 | 787 | 12.7% | 941 | -5.7% |
| Other expenses | 759 | 772 | -1.8% | 743 | 2.1% |
| Total cost | 3229 | 2944 | 9.7% | 3007 | 7.4% |
| EBITDA | 620 | 651 | -4.7% | 1101 | -43.7% |

Expansion update

- Ambuja has commissioned 1.1mt new cement mill at Bhatapara (Chhattisgarh) Chandrapur. Total annual capacity now stands at 27mt
- During Q3CY11, ACL has also acquired 60% stake from its existing promoters in Dirk India Ltd. - a Maharashtra based fly ash producer for a consideration of ₹ 165.1mn. Dirk India has an annual capacity of 2500TPD.

Outlook and Valuation: Expensive at CMP – maintain SELL

With slower than anticipated pace of demand recovery in post monsoon phase and no respite from higher costs in near future, we expect players to witness continued pressure on margins despite recent price hikes, as they are mainly to pass on the higher costs and hence are little margin accretive. We expect pricing volatility and weakness in sentiment to continue in the light of pending full demand revival and rising costs. However with better operational efficiency and presence into regions witnessing relatively better demand and prices we expect ACL to deliver better than peer performance going ahead.

At ₹ 163, ACL trades at an expensive valuation of 10 x EV/ EBITDA of CY12P. We have shifted our valuation base to CY12P and revised our rupee dollar assumption to 47. Maintain 'SELL' with the target of ₹ 138 valued at EV/tonne of \$ 132 (10% premium to current replacement cost)

Financial Summary

Profit & Loss

| Particulars (₹ in mln) | CY08 | CY09 | CY10 | CY11P | CY12P |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 62817 | 71815 | 75176 | 83882 | 91333 |
| Total Expenditure | 44779 | 52100 | 55666 | 63998 | 70191 |
| EBIDTA | 18038 | 19715 | 19510 | 19885 | 21143 |
| EBIDTA Margin (%) | 28.7% | 27.5% | 26.0% | 23.7% | 23.1% |
| Depreciation | 2598 | 2970 | 3872 | 4361 | 4611 |
| EBIT | 17718 | 19491 | 19023 | 19295 | 20435 |
| Interest cost | 321 | 224 | 487 | 590 | 708 |
| Operating Profit | 15120 | 16521 | 15151 | 14934 | 15824 |
| Other Income | 1495 | 1512 | 1203 | 2250 | 2800 |
| Extraordinary Item | 3083 | 0 | 265 | 0 | 0 |
| PBT | 19698 | 18033 | 16619 | 17184 | 18624 |
| Tax | 5676 | 5849 | 3983 | 4897 | 5308 |
| PAT | 14023 | 12184 | 12636 | 12287 | 13316 |
| PAT Margin (%) | 22% | 17% | 17% | 15% | 15% |
| EPS | 9.2 | 8.0 | 8.3 | 8.0 | 8.7 |
| Sales Growth (%) | 11.5% | 14.3% | 4.7% | 11.6% | 8.9% |
| EBITDA Growth (%) | -12% | 9% | -1% | 2% | 6.3% |
| PAT Growth (%) | -21% | -13% | 4% | -3% | 8% |

Key Assumption

| | CY08 | CY09 | CY10 | CY11P | CY12P |
|------------------------|------|------|------|-------|-------|
| Volume - Mt | 17.6 | 18.8 | 20.0 | 21.0 | 22.3 |
| Realization - ₹/ tonne | 3528 | 3766 | 3695 | 3951 | 4062 |
| Gypsum cost / tonne | 1335 | 1493 | 1398 | 1468 | 1483 |
| Fly Ash cost / tonne | 360 | 383 | 381 | 400 | 404 |

Balance Sheet

| Particulars (₹ in mln) | CY08 | CY09 | CY10 | CY11P | CY12P |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Sources of Funds | | | | | |
| Share Capital | 3045 | 3047 | 3060 | 3060 | 3060 |
| Reserves & Surplus | 53680 | 61659 | 70228 | 77502 | 85805 |
| Net worth | 56729 | 64709 | 73301 | 80576 | 88879 |
| Secured Loans | 1000 | 1000 | 0 | 0 | 0 |
| Unsecured Loans | 1887 | 657 | 650 | 497 | 429 |
| Total Loans | 2887 | 1657 | 650 | 497 | 429 |
| Deferred Tax Liability | 3808 | 4858 | 5309 | 5309 | 5309 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 63423 | 71224 | 79260 | 86382 | 94617 |
| Application of Funds | | | | | |
| Net Fixed Assets | 51400 | 61545 | 65585 | 63724 | 61113 |
| Investment | 3324 | 7270 | 6260 | 6260 | 6260 |
| Current Assets | 23395 | 19793 | 31353 | 41533 | 53636 |
| Current Liabilities | 14738 | 17411 | 23942 | 25139 | 26396 |
| Net Current Assets | 8657 | 2383 | 7412 | 16394 | 27240 |
| Misc Expense not w/o | 43 | 27 | 5 | 5 | 5 |
| TOTAL | 63423 | 71224 | 79260 | 86382 | 94617 |

Cash Flows

| Particulars (₹ in mln) | CY08 | CY09 | CY10 | CY11P | CY12P |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| Internal accruals | 16620 | 15154 | 16508 | 16647 | 17927 |
| (Inc)/Dec in Net Current Assets | 2382 | -6562 | -3646 | -620 | -119 |
| Cash flow from Operations | 14239 | 21716 | 20154 | 17267 | 18046 |
| Inc/(Dec) in Debt | -418 | -1230 | -1007 | -153 | -68 |
| Inc/(Dec) in Equity | 0 | 1 | 23 | 1 | 0 |
| Dividend | 3919 | 4277 | 4625 | 5013 | 5013 |
| Cash flow from Financing | -4336 | -5506 | -5608 | -5165 | -5081 |
| Fixed Asset formation | 17263 | 12844 | 7710 | 2500 | 2000 |
| Inc/(Dec) in Investment | -9566 | 3946 | -1011 | 0 | 0 |
| Cash flow from Investment | 7698 | 16790 | 6699 | 2500 | 2000 |
| Net Change in Cash | 2205 | -580 | 7847 | 9602 | 10966 |

Ratios

| Valuation Ratio | CY08 | CY09 | CY10 | CY11P | CY12P |
|--------------------|-------|-------|-------|-------|-------|
| P/E | 7.6 | 13.0 | 17.3 | 20.3 | 18.8 |
| P/BV | 1.9 | 2.4 | 3.0 | 3.1 | 2.8 |
| EV/EBIDTA | 5.6 | 7.7 | 10.4 | 11.2 | 10.0 |
| EV/Sales | 1.6 | 2.1 | 2.7 | 2.7 | 2.3 |
| Dividend Yield (%) | 3.1 | 2.3 | 1.8 | 1.6 | 1.7 |
| EPS | 9.2 | 8.0 | 8.3 | 8.0 | 8.7 |
| DPS | 2.2 | 2.4 | 2.6 | 2.6 | 2.8 |
| Book Value | 37.2 | 42.4 | 47.9 | 52.7 | 58.1 |
| RONW | 27.1% | 20.1% | 18.3% | 16.0% | 15.7% |
| ROCE | 26.2% | 19.7% | 18.7% | 16.6% | 16.5% |

Solvency Ratio (x)

| | | | | | |
|-------------|-----|-----|-----|-----|-----|
| Debt/Equity | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt/EBIDTA | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |

Turnover Ratio (x)

| | | | | | |
|----------------|------|-----|-----|-----|-----|
| Asset Turnover | 1.4 | 1.3 | 1.2 | 1.3 | 1.5 |
| Current Ratio | 1.6 | 1.1 | 1.3 | 1.7 | 2.0 |
| Debtors (days) | 10.8 | 9.6 | 6.8 | 5.8 | 5.8 |

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| Rating | Expected Return |
|------------|-----------------|
| Buy | > 15% |
| Accumulate | 5 to 15% |
| Hold | -5 to 5% |
| Sell | < -5% |
| Not Rated | - |

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