

Super 1Q; Sell into strength



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Robust 1Q CY07 as expected; Sell into strength

Ambuja's 1Q CY07 results were ~5% above our expectations. Recurring PAT stood at ~Rs3.9bn; profit before tax grew 63% YoY and 17% QoQ (tax adjustments skew PAT comparison). We think profits will remain strong in CY07E and recommend Selling into strength due to low likelihood of cement price increases over the next few quarters & forecast earnings downturn in CY08E.

Earnings raised by 4-13%; outlook of CY08 downturn stays

We expect ~24% YoY earnings decline in CY08E & believe cement prices will fall in CY08E due to large capacity additions in the industry. However, we have raised earnings by ~13% for CY07E & 4% for CY08E. The upgrade captures ~5% increase in cement price forecasts primarily due to full pass-thru of the excise duty hike announced in the budget; we had earlier assumed 50% pass-thru. The EPS upgrade for CY08E is lower due to knock-down of associate income based on announced divestment of the ACC stake.

Cost savings boost 1Q; unwinding of ACC stake announced

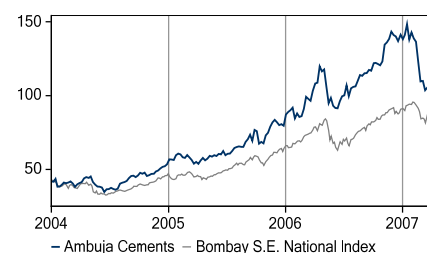
In 1Q CY07, Ambuja's EBITDA/ton rose 47% YoY & 12% QoQ to Rs1297/t. Operating costs fell 3% QoQ led by lower power & fuel costs (-4% QoQ per ton) & scale economies (overheads/t fell 13% QoQ). Cement prices for Ambuja were up 29% YoY & 2% QoQ. Volumes grew 4-5% YoY & QoQ, lagging industry growth. Along with results, Ambuja announced that it will sell its remaining ACC stake to Holcim in 2-tranches dtd Apr '07 & Apr '08; this will yield cash of ~Rs11bn.

New managing director appointed

Mr A.L. Kapur, who headed Ambuja's business in key regions, has been appointed as the new managing director following resignation of Mr. Anil Singhvi.

Stock Data

Price (Common / GDR)	Rs115.45 / US\$2.45
Investment Opinion	C-3-7 / C-3-7
Volatility Risk	HIGH / HIGH
52-Week Range	Rs77.00-Rs150.00
Market Value (mn)	US\$4,173
Shares Outstanding (mn)	1,520.7 / 1,520.7
Average Daily Volume	1,977,065
ML Symbol / Exchange	XBRIF / BSE
ML Symbol / Exchange	GUJTF / LUX
Bloomberg / Reuters	ACEM IN / GACM.BO
ROE (2007E)	49.7%
Net Dbt to Eqty (Dec-2006A)	11.0%
Est. 5-Yr EPS / DPS Growth	20.0% / 10.0%
Free Float	72.0%



Estimates (Dec)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	4,683	14,352	22,800	14,772	10,543
EPS	3.46	9.29	10.50	7.95	6.93
EPS Change (YoY)	50.8%	168.1%	13.1%	-24.3%	-12.8%
Dividend / Share	1.60	3.47	5.25	3.45	2.40
Free Cash Flow / Share	3.62	6.88	3.34	(0.823)	5.76
GDR EPS (US\$)	0.079	0.205	0.250	0.189	0.165
GDR Dividend / Share (US\$)	0.036	0.082	0.125	0.082	0.057

Valuation (Dec)

	2005A	2006A	2007E	2008E	2009E
P/E	33.33x	12.43x	10.99x	14.52x	16.65x
Dividend Yield	1.38%	3.00%	4.55%	2.99%	2.08%
EV / EBITDA*	24.12x	9.94x	7.67x	9.43x	9.99x
Free Cash Flow Yield*	2.79%	5.95%	2.89%	-0.713%	4.99%

* For full definitions of *iQmethod*SM measures, see page 5.

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*iQprofile*SM Ambuja Cements Ltd.

Key Income Statement Data (Dec)

(Rs Millions)	2005A	2006A	2007E	2008E	2009E
Sales	26,058	49,258	58,426	59,077	63,078
Gross Profit	7,241	17,574	22,773	18,516	17,482
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	5,287	15,298	20,056	15,516	13,909
Net Interest & Other Income	(102)	370	812	767	165
Associates	0	0	0	0	0
Pretax Income	5,185	15,667	20,867	16,284	14,074
Tax (expense) / Benefit	(503)	(2,765)	(5,763)	(4,353)	(3,531)
Net Income (Adjusted)	4,683	14,352	22,800	14,772	10,543
Average Fully Diluted Shares Outstanding	1,352	1,517	1,521	1,521	1,521

Key Cash Flow Statement Data

Net Income (Reported)	4,683	14,087	15,968	12,091	10,543
Depreciation & Amortization	1,954	2,277	2,717	3,000	3,573
Change in Working Capital	(303)	(1,308)	(142)	(90)	(189)
Deferred Taxation Charge	104	87	265	509	437
Other Adjustments, Net	(935)	(1,184)	(864)	(161)	0
Cash Flow from Operations	5,503	13,959	17,945	15,349	14,364
Capital Expenditure	(605)	(3,517)	(12,868)	(16,601)	(5,607)
(Acquisition) / Disposal of Investments	(231)	(3,082)	5,716	2,858	0
Other Cash Inflow / (Outflow)	0	266	6,832	2,681	0
Cash Flow from Investing	(837)	(6,334)	(320)	(11,062)	(5,607)
Shares Issue / (Repurchase)	0	2,570	0	0	0
Cost of Dividends Paid	(2,157)	(5,259)	(7,982)	(5,245)	(3,654)
Cash Flow from Financing	(3,579)	(5,310)	(723)	592	(533)
Free Cash Flow	4,897	10,441	5,077	(1,252)	8,756
Net Debt	9,209	4,274	(5,368)	(4,411)	(9,513)
Change in Net Debt	(2,509)	(4,935)	(9,642)	957	(5,102)

Key Balance Sheet Data

Property, Plant & Equipment	23,633	31,396	41,546	55,148	57,183
Other Non-Current Assets	10,051	14,716	9,000	6,142	6,142
Trade Receivables	458	826	1,238	1,264	1,198
Cash & Equivalents	2,065	4,380	21,281	26,161	34,384
Other Current Assets	4,555	7,168	10,747	10,968	10,396
Total Assets	40,762	58,485	83,812	99,682	109,302
Long-Term Debt	5,605	4,227	11,487	17,324	20,445
Other Non-Current Liabilities	3,811	3,839	4,439	4,887	5,060
Short-Term Debt	5,669	4,427	4,427	4,427	4,427
Other Current Liabilities	3,958	7,047	10,566	10,784	10,222
Total Liabilities	19,043	19,540	30,918	37,421	40,152
Total Equity	21,720	38,945	52,894	62,261	69,150
Total Equity & Liabilities	40,762	58,485	83,812	99,682	109,302

*iQmethod*SM - Bus Performance*

Return On Capital Employed	13.1%	29.0%	23.8%	14.4%	11.5%
Return On Equity	22.4%	47.3%	49.7%	25.7%	16.0%
Operating Margin	20.3%	31.1%	34.3%	26.3%	22.1%
EBITDA Margin	27.8%	35.7%	39.0%	31.3%	27.7%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	1.2x	1.0x	0.8x	1.0x	1.4x
Asset Replacement Ratio	0.3x	1.5x	4.7x	5.5x	1.6x
Tax Rate (Reported)	9.7%	17.6%	27.6%	26.7%	25.1%
Net Debt-to-Equity Ratio	42.4%	11.0%	-10.1%	-7.1%	-13.8%
Interest Cover	5.8x	24.8x	34.8x	25.0x	10.8x

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 5.

Company Description

Ambuja Cements is India's third largest cement company, with an annual cement capacity of about 16mn tpa. It has 8 plants, located mainly in Western and Northern India. The company ranks among the lowest cost producers of cement in India. Global cement major, Holcim, is the controlling shareholder of Ambuja Cements.

Stock Data

Shares / GDR	1.00
Price to Book Value	3.3x

Table 1: 1Q CY07 results summary

	Jan-Mar '06	Oct-Dec '06	Jan-Mar '07	% YoY chng	% QoQ chng
Yr to 31 Dec					
Sales Volume (mn tonnes)	4.2	4.1	4.3	4%	5%
(Rs mn)					
Net turnover	10740	13,291	14,338	34%	8%
Operating Costs	7041	8,500	8,708	24%	2%
EBDIT	3700	4,791	5,631	52%	18%
<i>EBDIT Margin</i>	34.4%	36.0%	39.3%		
Depreciation	566	572	598	6%	5%
Operating profit	3133	4,219	5,033	61%	19%
Other Income/(expense)	213	328	257	21%	-22%
EBIT	3346	4,546	5,289	58%	16%
Interest	110	45	18	-84%	-60%
Profit before tax	3236	4,501	5,271	63%	17%
Tax	-534	1,199	1,422	-366%	19%
Recurring net profit	3770	3303	3850	2%	17%
<i>Net Margin</i>					
Non-recurring income/(expenses)	358	75	2058	475%	2647%
Reported Net Profit	4128	3378	5907	43%	75%

Source: ML research

Analyst Certification

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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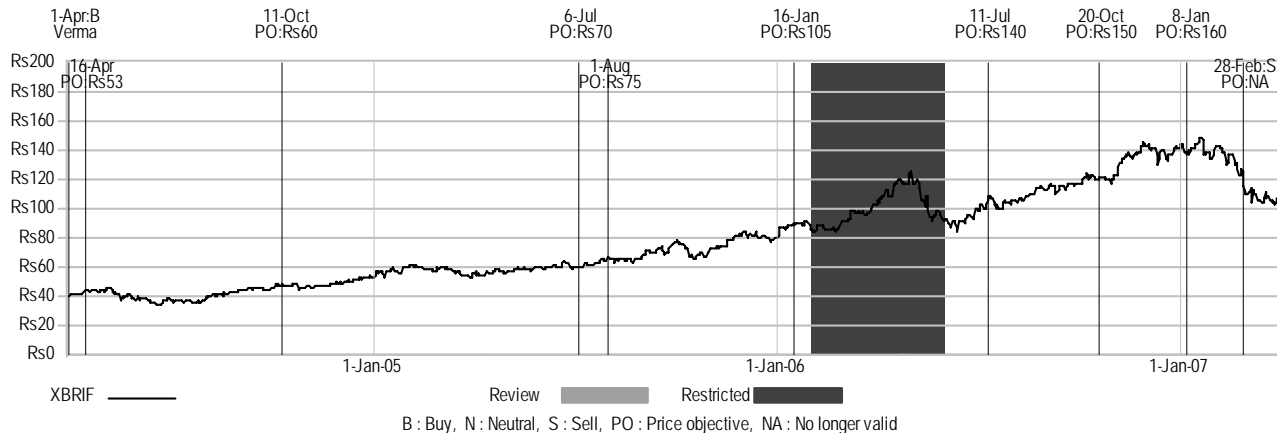
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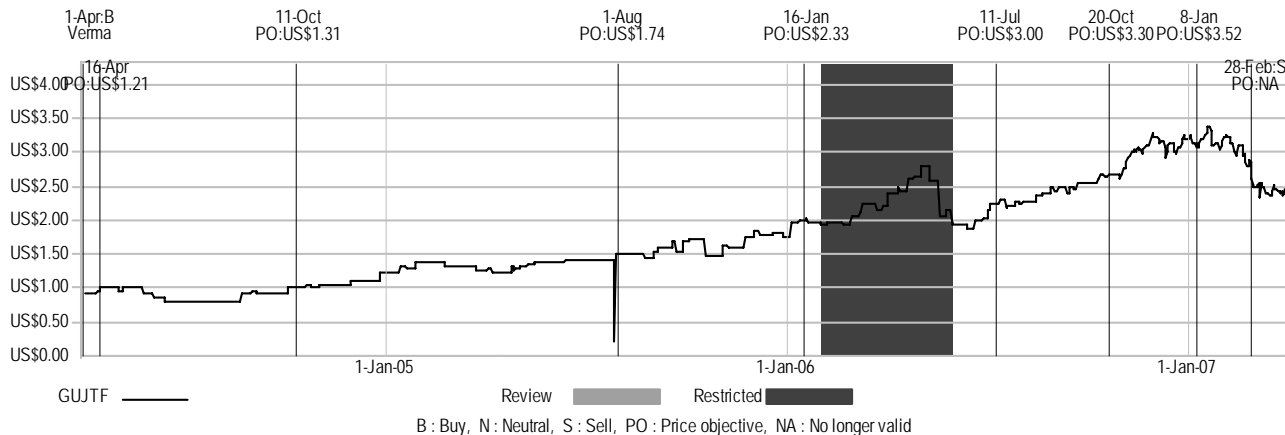
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XBRIF Price Chart



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GUJTF Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	47	47.96%	Buy	10	22.73%
Neutral	37	37.76%	Neutral	7	20.59%
Sell	14	14.29%	Sell	1	9.09%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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