



Ambuja Cements

BSE SENSEX	S&P CNX	Rs125	Neutral
18,449	5,527		
Bloomberg	ACEMIN		
Equity Shares (m)	1,529.9		
52-Week Range (Rs)	167/95		
1,6,12 Rel. Perf. (%)	-3/5/9		
M.Cap. (Rs b)	191.2		
M.Cap. (US\$ b)	4.2		

Ambuja Cements' 4QCY10 operating performance is below estimate, with EBITDA margins of Rs3.15b (v/s our estimate of Rs3.6b) as realizations were lower than estimates. However lower tax boosted reported PAT of Rs2.52b (v/s our estimate of Rs2.14b). Key highlights include:

- Volumes grew by 5.6% 5.04mt (in-line). Realizations declined by 1.3% QoQ (~4.5% YoY) to Rs3,549 (v/s our estimate of Rs3,695/ton). Net sales up flat YoY to Rs17.9b (v/s our estimate of Rs18.6b).
- EBITDA de-grew by 28% YoY (~11% QoQ growth) to Rs3.15b (v/s our estimate of Rs3.6b) and margins declined by 690bp YoY (~50bp QoQ) to 17.6% (v/s our estimate of 19.3%). Cost push in form of energy (~5% QoQ) was negated by operating leverage.
- Lower tax provisioning due to tax credit of Rs371m boosted reported PAT to Rs2.5b, a growth of 4% YoY and 65% QoQ.
- The Board has declared final dividend of Rs1.4/share (total of Rs2.6/share for CY10).
- It has entered into agreement with Rajasthan State Industrial Development & Investment Corporation to set-up a 2.2mt clinker unit in Rajasthan with capex of ~Rs22b with expected commissioning in CY14.

Valuations and view: We are upgrading CY11 EPS by 3.4% to Rs8.7 and CY12 by 3.6% to Rs11.3, to factor in for the current pricing environment. The stock trades at premium valuation of 14.4x CY11E EPS, 8.4x EV/EBITDA and US\$138/ton. Maintain **Neutral** with target price of Rs146 (~10x CY11 EV/EBITDA).

QUARTERLY PERFORMANCE

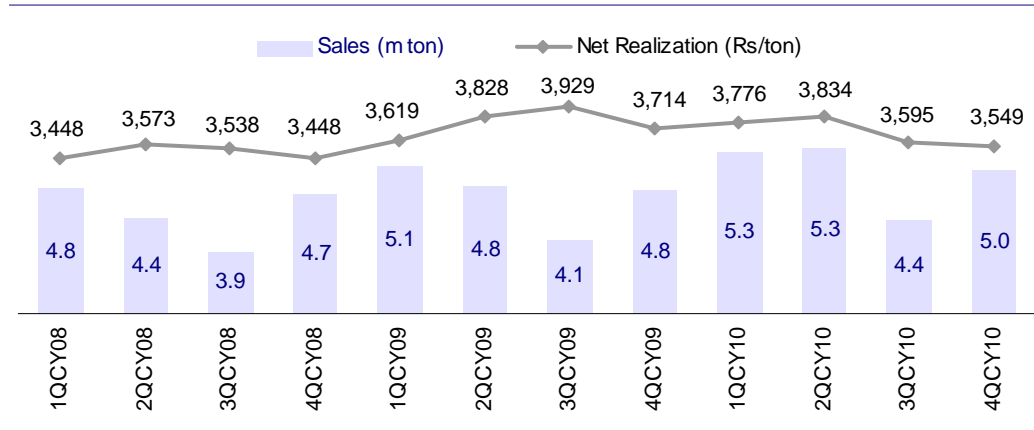
Y/E DECEMBER	(RS MILLION)											
	CY09				CY10				CY09	CY10	CY11E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales Volume (m ton)	5.10	4.83	4.10	4.77	5.27	5.34	4.35	5.04	18.80	20.00	22.20	
YoY Change (%)	6.3	10.3	4.6	1.5	3.3	10.6	6.1	5.6	5.6	6.4	11.0	
Realization (Rs/ton)	3,619	3,828	3,929	3,714	3,776	3,834	3,595	3,549	3,764	3,695	3,795	
YoY Change (%)	5.0	7.1	11.1	7.7	4.4	0.2	-8.5	-4.5	7.7	-1.8	2.7	
QoQ Change (%)	5.0	5.8	2.6	-5.5	1.7	1.5	-6.2	-1.3				
Net Sales	18,456	18,474	16,110	17,729	19,902	20,476	15,640	17,885	70,769	73,902	84,251	
YoY Change (%)	11.5	18.2	16.2	9.3	7.8	10.8	-2.9	0.9	259.6	183.5	73.8	
EBITDA	5,228	4,797	4,300	4,344	6,227	6,032	2,832	3,146	18,669	18,236	20,161	
Margins (%)	28.3	26.0	26.7	24.5	31.3	29.5	18.1	17.6	26.4	24.7	23.9	
Depreciation	686	704	719	860	767	1,001	1,018	1,086	2,970	3,872	4,709	
Interest	52	52	52	68	108	81	89	209	224	487	330	
Other Income	416	692	433	556	546	667	495	767	2,097	2,476	3,250	
PBT before EO Item	4,905	4,732	3,962	3,972	5,897	5,618	2,220	2,619	17,571	16,353	18,372	
Extraordinary Inc/(Exp)	0	0	462	0	265	0	0	0	462	265	0	
PBT after EO Exp/(Inc)	4,905	4,732	4,423	3,972	6,163	5,618	2,220	2,619	18,033	16,619	18,372	
Tax	1,565	1,486	1,238	1,560	1,476	1,705	699	102	5,849	3,983	5,052	
Rate (%)	31.9	31.4	28.0	39.3	24.0	30.4	31.5	3.9	32.4	24.0	27.5	
Reported Profit	3,341	3,247	3,185	2,412	4,687	3,912	1,521	2,517	12,184	12,636	13,320	
Adj PAT	3,341	3,247	2,852	2,412	4,421	3,912	1,521	2,517	11,872	12,434	13,320	
YoY Change (%)	1.2	6.7	21.3	-17.4	32.3	20.5	-46.7	4.3	2.2	4.7	7.1	

E: MOSL Estimates

Decline in realizations translates into decline in revenues

Volumes grew by 5.6% YoY (~15% QoQ) to 5.04MT, with 5.6% YoY growth in domestic volumes and 2.2% growth in exports to 0.1mt. Realizations declined by 1.3% QoQ (~4.5% YoY) to Rs3,549, which would have been impacted by pricing pressure in its key markets of North & East India as well as higher clinker sales (at ~Rs1,800-2,000/ton realizations). As a result, revenues de-grew by 1% YoY (~14% QoQ growth) to Rs17.9b.

Trend in dispatches and realizations

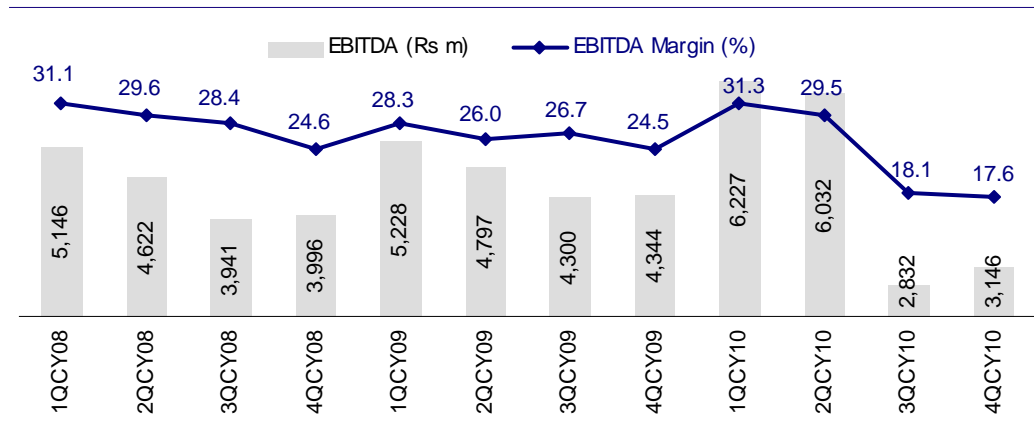


Source: Company/MOSL

Energy cost inflation diluted by operating leverage

EBITDA de-grew by 28% YoY (~11% QoQ growth) to Rs3.15b and margins declined by 690bp YoY (~50bp QoQ) to 17.6% (v/s est 19.3%). For 4QCY10, its EBITDA/ton was ~Rs624/ton (v/s Rs651/ton in 3QCY10 v/s Rs1,049/ton in 4QCY09). Energy cost inflation was ~5% QoQ due to increase in imported coal prices from US\$115/ton from US\$110/ton QoQ. It is carrying one month's inventory of imported coal and its current cost of imported coal would be ~US\$125-130/ton. Higher operating leverage helped off-setting energy cost inflation. During 4QCY10, it had to purchase clinker for its Himachal Pradesh plant as truckers strike disrupted operations for ~45 days, resulting in higher RM and freight cost. With operations normalizing at its HP plant, there would savings on these costs. However, lower tax provisioning due to tax credit of Rs371m boosted reported PAT to Rs2.52b.

Trend in EBITDA

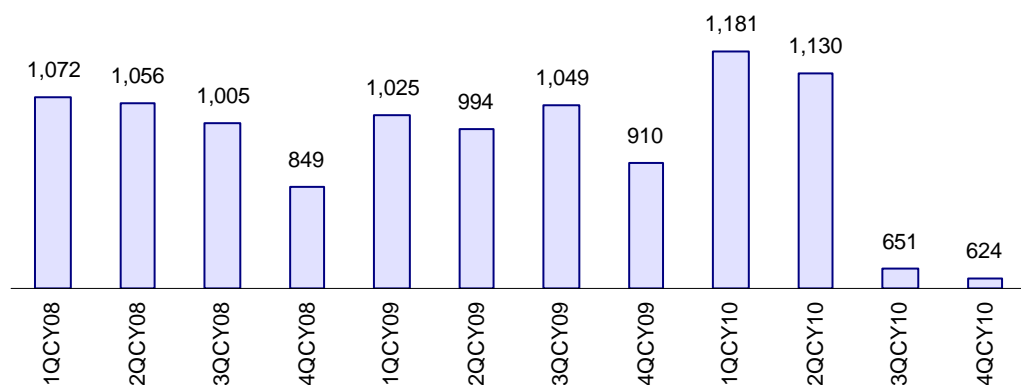


Source: Company/MOSL

Key operating indicators (Rs/ton)

	4QCY10	4QCY09	YoY (%)	3QCY10	QoQ (%)
Net Realization	3,549	3,714	-4.5	3,595	-1.3
Raw Material	328	482	-31.9	140	134.2
Staff Cost	154	164	-6.4	227	-32.4
Power & Fuel	885	685	29.1	1,017	-13.0
Freight	809	769	5.2	787	2.8
Other Expenditure	748	703	6.3	772	-3.1
Total Cost	2,924	2,804	4.3	2,945	-0.7
EBITDA	624	910	-31.4	651	-4.1

Source: Company/MOSL

Trend in EBITDA (Rs/Ton)

Source: Company/MOSL

Full impact of new capacities now reflecting; expect in-line performance with the industry

With commission of 4.4mt clinker units, Ambuja has entirely replaced purchased clinker with captive clinker during 4QCY10. Its CY09 profitability was severely impacted due to purchase of 1.7mt clinker (costing ~Rs3,360/ton of clinker). We estimate savings of Rs8-10/bag driven by replacement of purchased clinker with in-house clinker, which is fully reflecting since 3QCY10. Also, full benefit of 139MW CPP at its existing plants commissioned in last 12 months is also now fully reflecting in its performance. With increase in capacity at HP plant (~5.5mt or ~20% of total capacity), which enjoys fiscal incentives, we expects its tax rate to remain lower.

Upgrading estimates

We are upgrading our EPS estimates for CY11 by 3.4% to Rs8.7 and 3.6% for CY12 to Rs11.3, to factor in for a) current pricing environment, b) higher other income due to higher yields on treasury and b) lower tax rate due to tax exemption at HP.

We maintain our cement price assumption of Rs10/bag QoQ increase in 1QCY11, with average Rs5/bag average increase in CY11 (~Rs2/bag increase over current prices). We model in imported coal price of US\$130/ton for CY11.

Revised forecast (Rs m)

	CY11E			CY12E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	84,251	86,064	-2.1	99,334	101,409	-2.0
Net Profit	13,320	12,831	3.8	17,262	16,603	4.0
EPS (Rs)	8.7	8.4	3.4	11.3	10.9	3.6

Source: MOSL

Valuations and view

2HCY10 is expected to be bottom-of-the-cycle period for the cement industry. Cement prices are expected to be buoyant in 1HCY11 driven by recovery in demand. With full benefit of cost savings from new capacities and captive power plant now reflecting in its performance, Ambuja is expected to perform in-line with the industry. However, the stock trades at premium valuation of 14.4x CY11E EPS, 8.4x EV/EBITDA and US\$138/ton. Maintain **Neutral** with target price of Rs146 (~10x CY11 EV/EBITDA).

Ambuja Cements: an investment profile

Company description

Ambuja Cement, a part of Holcim group, is the third largest cement company in India with total capacity of 27m ton under its control. It is one of the lowest cost producers of cement with focus on structurally sound markets of North, West and East. It is also the largest exporter of cement from India.

Key investment arguments

- Best positioned geographically (#1 & #2 in North and West, respectively) to benefit from current upturn in cement prices.
- Geographical location gives flexibility to choose between domestic and export market.
- Financially well placed (zero net debt) to drive further consolidation in the industry.

Key investment risks

- Higher dependence on imported coal could impact profitability in price inflation environment.
- Any downturn in the export market would result in over-supply in the domestic market, resulting in pressure on prices in the key market of Gujarat.

Recent developments

- Transportation strike at its HP plant (~5.5mt capacity) from 7 October 2010 has been resolved from 22 November 2010, which had impacted operations during that period.
- It has entered into agreement with the Rajasthan State to set-up a 2.2mt clinker unit in Rajasthan with capex of ~Rs22b with expected commissioning in CY14.

Valuation and view

- The stock trades at premium valuation of 14.4x CY11E EPS, 8.4x EV/EBITDA and US\$138/ton.
- Maintain **Neutral** with target price of Rs146 (~10x CY11 EV/EBITDA).

Sector view

- Although sector would continue to be plagued by over-capacity at least till December 2011 and expect volatility in cement prices and cement companies' performance over next 6-9 months.
- However, we believe we have already witnessed bottom-of-the-cycle utilization & profitability, and it should gradually improve hereon given sustainable demand drivers.
- Next 6-9 months to witnessed increased level of volatility in cement prices

Comparative valuations

		Ambuja Cements	ACC	UltraTech Cement
P/E (x)	CY10E	15.4	17.4	21.9
	CY11E	14.4	17.4	16.1
P/BV (x)	CY10E	2.6	2.9	2.6
	CY11E	2.4	2.8	2.2
EV/Ton (x)	CY10E	148	116	126
	CY11E	138	111	120
EV/EBITDA (x)	CY10E	9.2	10.5	11.0
	CY11E	8.4	9.1	8.0

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	46.3	46.4	46.4
Domestic Inst	14.7	15.3	16.9
Foreign	30.0	29.4	26.2
Others	9.0	8.9	10.5

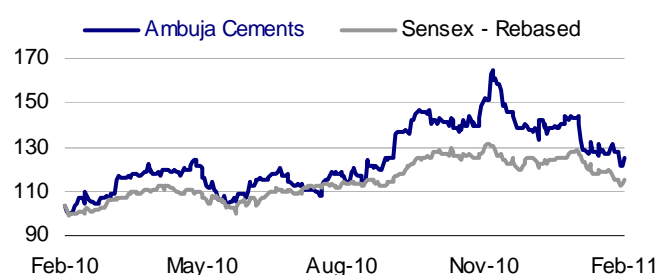
EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
CY11	8.7	8.7	-0.4
CY12	11.3	9.0	25.7

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
125	146	16.8	Neutral

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT		(Rs Million)				
Y/E DECEMBER	2009	2010	2011E	2012E	2013E	
Net Sales	70,769	73,902	84,251	99,334	116,824	
<i>Change (%)</i>	13.8	4.4	14.0	17.9	17.6	
EBITDA	18,669	18,236	20,161	25,402	31,520	
<i>Margin (%)</i>	26.4	24.7	23.9	25.6	27.0	
Depreciation	2,970	3,872	4,709	5,192	5,320	
EBIT	15,699	14,364	15,452	20,210	26,200	
Int. and Finance Charges	224	487	330	400	400	
Other Income - Rec.	2,097	2,476	3,250	4,000	5,000	
PBT before EO Exp.	17,571	16,353	18,372	23,810	30,800	
EO Expense(Income)	-462	-265	0	0	0	
PBT after EO Exp.	18,033	16,619	18,372	23,810	30,800	
Current Tax	5,308	3,983	4,685	6,071	7,854	
Deferred Tax	541	0	367	476	616	
<i>Tax Rate (%)</i>	32.4	24.0	27.5	27.5	27.5	
Reported PAT	12,184	12,636	13,320	17,262	22,330	
PAT Adj for EO Items	11,872	12,434	13,320	17,262	22,330	
<i>Change (%)</i>	2.2	4.7	7.1	29.6	29.4	

BALANCE SHEET		(Rs Million)				
Y/E DECEMBER	2009	2010	2011E	2012E	2013E	
Equity Share Capital	3,047	3,060	3,060	3,060	3,060	
Total Reserves	61,632	70,206	77,491	89,409	105,949	
Net Worth	64,679	73,266	80,551	92,468	109,009	
Deferred Liabilities	4,858	5,309	5,676	6,152	6,768	
Total Loans	1,657	650	1,000	1,000	1,000	
Capital Employed	71,194	79,225	87,227	99,621	116,777	
Gross Block	62,283	88,032	100,339	107,339	114,339	
Less: Accum. Deprn.	27,841	31,713	36,422	41,614	46,934	
Net Fixed Assets	34,443	56,319	63,917	65,725	67,405	
Capital W/P	27,144	9,307	5,000	5,000	5,000	
Investments	7,224	6,211	12,040	21,146	34,898	
Curr. Assets	19,793	31,353	24,929	29,392	34,567	
Inventory	6,832	9,019	9,233	10,886	12,803	
Account Receivables	1,522	1,282	1,847	2,177	2,561	
Cash and Bank Balance	8,809	17,484	10,387	12,247	14,403	
Others	2,630	3,569	3,462	4,082	4,801	
Curr. Liability & Prov.	17,437	23,971	18,664	21,647	25,098	
Account Payables	10,697	13,005	14,047	16,204	18,697	
Provisions	6,740	10,966	4,617	5,443	6,401	
Net Current Assets	2,356	7,382	6,265	7,745	9,469	
Misc Expenditure	27	5	5	5	5	
Appl. of Funds	71,194	79,225	87,227	99,621	116,777	

E: MOSL Estimates

RATIOS						
Y/E DECEMBER	2009	2010	2011E	2012E	2013E	
Basic (Rs)						
EPS	7.8	8.1	8.7	11.3	14.6	
Cash EPS	9.7	10.7	11.8	14.7	18.1	
BV/Share	42.3	47.7	52.5	60.3	71.1	
DPS	2.4	2.6	3.5	3.5	3.5	
Payout (%)	35.1	36.7	36.8	31.0	25.9	
Valuation (x)						
P/E	16.0	15.4	14.4	11.1	8.6	
Cash P/E	12.8	11.7	10.6	8.5	6.9	
P/BV	3.0	2.6	2.4	2.1	1.8	
EV/Sales	2.5	2.3	2.0	1.6	1.2	
EW/EBITDA	9.4	9.2	8.4	6.3	4.5	
EW/Ton (Cap) - US\$	154	147	138	129	116	
Dividend Yield (%)	1.9	2.1	2.8	2.8	2.8	
Return Ratios (%)						
RoE	19.6	18.1	17.4	20.0	22.2	
RoCE	28.4	24.1	24.1	27.7	30.7	
Working Capital Ratios						
Asset Turnover (x)	1.0	0.9	1.0	1.0	1.0	
Debtor (Days)	8	6	8	8	8	
Working Capital Turnover (D)	12	36	27	28	30	
Leverage Ratio (x)						
Current Ratio	1.1	1.3	1.3	1.4	1.4	
Debt/Equity	0.0	0.0	0.0	0.0	0.0	

CASH FLOW STATEMENT (INCL ACEL)		(Rs Million)				
Y/E DECEMBER	2009	2010	2011E	2012E	2013E	
Op. Profit/(Loss) before Tax	18,669	18,236	20,161	25,402	31,520	
Interest/Dividends Recd.	2,097	2,476	3,250	4,000	5,000	
Direct Taxes Paid	-5,849	-3,983	-5,052	-6,548	-8,470	
(Inc)/Dec in WC	6,591	3,649	-5,980	380	432	
CF from Operations	21,507	20,378	12,379	23,234	28,482	
EO Income	462	265	0	0	0	
CF from Op. incl EO Ex	21,969	20,644	12,379	23,234	28,482	
(inc)/dec in FA	-13,157	-7,912	-8,000	-7,000	-7,000	
(Pur)/Sale of Investments	-3,901	1,013	-5,828	-9,107	-13,752	
CF from Investments	-17,058	-6,898	-13,828	-16,107	-20,752	
Issue of Shares	42	582	-1,135	0	0	
(Inc)/Dec in Debt	-163	-534	717	476	616	
Interest Paid	-224	-487	-330	-400	-400	
Dividend Paid	-4,275	-4,632	-4,899	-5,344	-5,790	
CF from Fin. Activity	-4,621	-5,070	-5,647	-5,268	-5,574	
Inc/Dec of Cash	291	8,675	-7,097	1,860	2,156	
Add: Beginning Balance	8,518	8,809	17,484	10,387	12,247	
Closing Balance	8,809	17,484	10,387	12,247	14,403	

E: MOST Estimates

N O T E S



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Ambuja Cements

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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