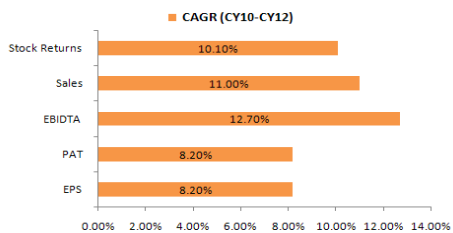


## Q4CY11 Result Update

Industry: **Cement**

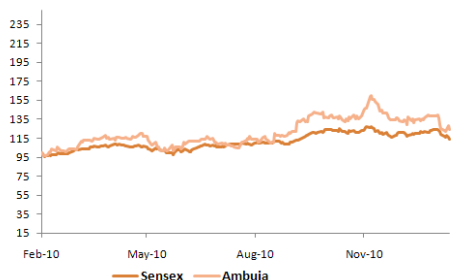


Price	125
Target Price	137
Expected share price return	10%
Expected dividend yield	1.0%
Expected total return	11%

### Market Data

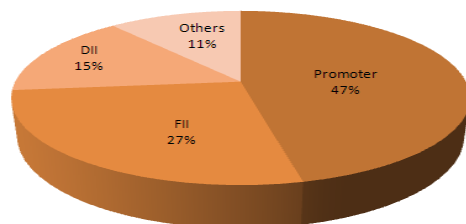
Market Cap.	₹191bn/ US\$4.2bn
Share Cap. (Rs. mn)	3060
52 Wk High/Low	166/95
Avg. Vol. (Weekly)	1512660

(Price Performance (RIC: SHCM.BO, BB: SRCM IN))



### Shareholding Pattern (As on 31<sup>st</sup> Dec 2010)

(%)



Financials (₹ Mn)	CY10	CY11E	CY12E
Net Sales	73,902	82,411	91,027
EBIDTA	18,230	20,466	23,143
PBT	16,612	18,788	21,265
PAT	12,630	13,060	14,793
EPS (Rs.)	8.3	8.6	9.7
EBIDTA Margin (%)	25%	25%	25%
PAT margin (%)	17%	16%	16%
Price/Earnings (x)	15.1	14.6	12.9
EV/EBIDTA	9.3	7.9	6.4
ROE (%)	18.28%	16.72%	16.78%
ROCE (%)	22.70%	22.44%	22.61%

## Ambuja Cements Ltd (ACEM IN)

February 4, 2011

Cost pressures continued to hamper the growth...

Buy (CMP: ₹125)

Market Cap ₹191bn; USD: 4.2bn

Ambuja Cements Ltd. (ACL) reported a topline of ₹17.9bn (flat to that of Q4CY09 topline) below our estimates of ₹18.7bn. The muted growth in topline is mainly driven by realization decline of 11% Y-o-Y during the quarter to ₹3324/tonne (blended). However, volumes have been decent and grew by 13.5% Y-o-Y during the quarter at 5.38 mnT. ACL's total dispatches for CY10 has seen a growth of 8.5% Y-o-Y to 20.34 mnT (includes 0.34 mnT of Clinker sales and 0.50 mnT export). As a result of the newly commissioned 4.4 mnT of Clinker Capacities (commissioned during the beginning of CY10), the Clinker purchase declined from 7.3% in Q4CY09 to 1.4% during Q4CY10. But owing to a significant increase in the Fuel and Freight expenditures the EBIDTA margins were dragged by 690 bps Y-o-Y and 50 bps sequentially. EBIDTA per tonne stood at ₹585 against ₹916 seen during Q4CY09. Further, interest and depreciation costs grew significantly during the quarter due to new commissioned capacity (4.4 mnT Clinker Plants, 3 mnT Grinding units and 63 MW CPP). ACL has adjusted tax credit amounting ₹371 mn related to previous year and hence tax expenditure during the quarter has been minimal. Net profit stood at ₹2.58bn (a growth of 7% Y-o-Y) way above our expectation of ₹2.45bn. We are not changing our estimates for CY11E and CY12E and maintain our positive stance on the stock with a "Hold" rating and our one year target price is ₹137/share.

### Revenue below expectation

ACL has reported a flat revenue growth on yearly basis to ₹17.9bn during Q4CY10, which is 4% below our estimates. The insipid growth in topline is mainly on account of 11% decline in blended realization, which stood at ₹3324/tonne. ACL's total volume during the quarter stood at 5.38 mnT (a Y-o-Y growth of 13.5%), whereas total volume for CY10 was 20.34 mnT (8.5% growth Y-o-Y). ACL has sold 0.34 mnT of clinker and 0.50 mnT exported.

### Margins declined, led by costs pressure

Despite a significant reduction in purchase of clinker as % of sales (1.4% v/s 7.3%) driven by two clinker plants of 2.2 mnT each commissioned during the beginning of the last calendar year, ACL's Q4CY10 EBIDTA margins fell severely by 690 bps on yearly basis to 17.6%, mainly because of a sharp increase in the Fuel & Transportation cost. Net profit stood at ₹2.58bn against the estimate of ₹2.45bn, mainly driven by lower tax expenditures during the quarter.

### Capacities outlook / update

ACL commissioned 2.2 mnT of two Clinker plants in Bhatapada and Rauri and 1.5 mnT of two grinding units in Nalagarh and Dadri and 66 MW of Captive Power plants during CY10. Currently it is in the process of commissioning 2 mnT of grinding facilities (1 mnT each in Bhatapada and Maratha), which will take its total capacity to 27 mnT in the near term. ACL has also signed up an agreement with the Rajasthan State Industrial Development and Investment Corporation to set up a 2.2 mnT clinker unit in Nagaur district.

### Valuation and Outlook

ACL has been commanding a premium against all cement majors, mainly on account of its better geographical presence, state of the art plant & machinery and strong cash flow & balancesheet. We expect this premium to sustain going forward and maintain our positive stance on the stock with one year price target of ₹137/share with a "HOLD" rating. At CMP, it is trading 7.9x and 6.4x EV/EBIDTA and US\$133 and US\$123 EV per tonne for CY11E and CY12E respectively.

Binod Modi

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**Table 1: Q3FY11 & 9MFY11 Result Table**

Rs mn	Q4CY10	Q4CY09	% change	CY10	CY09	% change
Net Sales	17,884.7	17,728.8	0.9%	73,902.1	70,768.7	4.4%
(Increase) / Decrease in stock in trade	176.9	56.1		-542.8	494.4	
<b>Consumption of RM</b>						
Clinker Purchased	245.6	1,290.9	-81.0%	1,237.0	5,707.4	-78.3%
% sales	1.4%	7.3%		1.7%	8.1%	
Others	1,230.7	952.2	29.2%	4,725.8	3,936.9	20.0%
% sales	6.9%	5.4%		6.4%	5.6%	
Purchase of Cement	0.0	0.0				
Employee Cost	774.7	783.8	-1.2%	3,436.6	2,728.4	26.0%
% sales	4.3%	4.4%		4.7%	3.9%	
Power and Fuel	4,461.0	3,272.3	36.3%	16,973.4	14,227.5	19.3%
% sales	24.9%	18.5%		23.0%	20.1%	
Freight and Forwarding	0.0					#DIV/0!
On finished products	3,152.6	2,941.2	7.2%	12,580.7	11,216.9	12.2%
% sales	17.6%	16.6%		17.0%	15.9%	
On inter unit clinker transferred	926.6	730.4	26.9%	3,520.1	2,257.5	55.9%
% sales	5.2%	4.1%		4.8%	3.2%	
Other Expenditures	3,770.3	3,358.3	12.3%	13,735.1	11,530.9	19.1%
% sales	21.1%	18.9%		18.6%	16.3%	
Total Expenditures	14738.4	13385.2	10.1%	55665.9	52099.9	6.8%
EBIDTA	3146.3	4343.6	-27.6%	18236.2	18668.8	-2.3%
Margin	17.6%	24.5%		24.7%	26.4%	
Depreciation and Amortisation	1,086.0	859.9	26.3%	3,871.9	2,969.9	30.4%
Interest	208.7	67.8	207.8%	486.9	224.3	117.1%
Other Income	767.4	556.3	37.9%	2,476.0	2,558.4	-3.2%
Exceptional Items	64.5	0.0		265.3	0.0	
PBT	2683.5	3972.2	-32.4%	16618.7	18033.0	-7.8%
Tax	102.3	1,560.3	-93.4%	3,982.6	5,849.3	-31.9%
% tax	3.8%	39.3%		24.0%	32.4%	
PAT	2581.2	2411.9	7.0%	12636.1	12183.7	3.7%
Net margin	14.4%	13.6%		17.1%	17.2%	
EPS (Rs)	1.7	1.6	7.0%	8.3	8.0	3.5%

Source: Company and Systematix Institutional Research

## PROFIT & LOSS STATEMENT

Rs mn	CY08	CY09	CY10	CY11E	CY12E
Revenue	62,618	70,769	73,902	82,411	91,027
% yoy growth	9.5%	13.0%	4.4%	11.5%	10.5%
Total Cost	45,115	52,305	55,672	61,945	67,884
EBIDTA	17,503	18,463	18,230	20,466	23,143
EBIDTA Margin (%)	28.0%	26.1%	24.7%	24.8%	25.4%
Depreciation and Amortisation	2,601	2,973	3,872	4,526	4,871
Interest & Fin. Charges	326	224	487	162	126
Less: Self Consumption of clinker, cement and limestone	(212)	(193)	-	-	-
Add: Share of Profit in Associates	-	-	-	-	-
Other Income	1,755	2,558	2,476	3,010	3,119
Profit before Tax	16,543	18,018	16,612	18,788	21,265
Tax	5,679	5,849	3,983	5,729	6,471
% Tax	33.9%	26.6%	30.0%	30.0%	30.0%
Net Profit	10,864	12,168	12,630	13,060	14,793
YoY Growth (%)	2.8%	12.0%	3.8%	3.4%	13.3%
Net Profit Margin (%)	17.3%	17.2%	17.1%	15.8%	16.3%
Exceptional Items	3,033	-	-	-	-
Profit for the year	13,897	12,168	12,630	13,060	14,793

Source: Company, Systematix Institutional Research

## BALANCE SHEET

Rs mn	CY08	CY09	CY10	CY11E	CY12E
Share Capital	3,045	3,047	3,060	3,060	3,060
Reserves & Surplus	53,669	61,690	70,411	79,676	90,548
Total Shareholder's funds	56,714	64,738	73,471	82,736	93,608
Secured Loans	1,000	1,000	650	500	300
Unsecured Loans	1,887	657	-	900	400
Total Debt	2,887	1,657	650	1,400	700
Minority Interest	-	-	-	-	-
Deferred Tax Liability	3,808	4,858	5,309	5,349	5,389
<b>TOTAL LIABILITIES</b>	<b>63,408</b>	<b>71,253</b>	<b>79,430</b>	<b>89,484</b>	<b>99,697</b>
Gross Block	57,101	62,273	88,022	92,373	97,423
Less: Accumulated Depreciation	25,129	27,831	31,703	36,121	41,010
Net Block	31,972	34,442	56,319	56,252	56,413
CWIP	15,608	25,648	9,307	4,000	2,000
Advance against Capex.	3,865	1,496	-	-	-
Investments	3,278	7,224	6,211	8,834	9,629
Goodwill	-	-	-	-	-
Inventories	9,398	6,832	9,019	10,160	11,223
Sundry Debtors	2,246	1,522	1,282	2,709	2,993
Cash & Bank	8,521	8,809	17,689	23,751	34,952
Loans & Advances	2,997	2,528	3,403	2,800	2,902
Other Current Assets	234	102	166	115	118
Total Current Assets	23,396	19,793	31,559	39,535	52,186
Current Liabilities	10,048	10,697	13,005	13,160	14,588
Provisions	4,706	6,740	10,966	6,027	5,993
Net Current Assets	8,643	2,356	7,588	20,348	31,605
Miscellaneous Expenditures	43	86	5	50	50
Total Assets	63,408	71,253	79,430	89,484	99,697

Source: Company, Systematix Institutional Research

## CASH FLOW

Rs mn	CY08	CY09	CY10	CY11E	CY12E
Profit Before tax	16,543	18,018	16,612	18,788	21,265
Depreciation and Obsolescence	2,601	2,973	3,872	4,526	4,871
Interest and Finance charges	326	224	487	162	126
Others	-1,256	-1,614	0	0	0
Operating profit before working capital changes	18,214	19,601	20,971	23,477	26,262
Change in Working Capital	-2,749	4,724	5,595	-6,659	-16
Cash Generated from Operation	15,465	24,325	26,567	16,818	26,246
Direct Tax Paid	-5,754	-3,055	-4,433	-5,769	-6,511
Miscellaneous expenditure	-3	-43	81	-45	0
Exchange rate difference	29	21	0	0	0
Net Cash from Operating Activities	9,738	21,248	22,215	11,004	19,735
Purchase / Sale of Fixed Assets	-16,283	-13,361	-9,408	956	-3,050
Investments	6,573	449	1,013	-2,623	-794
Disposal of subsidiaries / JV / Associates	5,893	0	0	0	0
Others	1,250	951	0	0	0
Net Cash used in Investing Activities	-2,567	-11,961	-8,395	-1,667	-3,844
Proceed from issue of share capital	12	74	0	0	0
Proceeds from Borrowings	339	499	-1,007	750	-700
Repayment of Borrowings	-939	-1,136	0	0	0
Interest and finance charges paid	-589	-203	-487	-162	-126
Dividend Paid (including DDT)	-3,902	-3,900	-3,921	-3,921	-3,921
Others	-5	-4,332	475	58	58
Net Cash Generated / (Used) in Financing Activities	-5,083	-8,999	-4,940	-3,275	-4,689
Net Increase in Cash and Cash Equivalents	2,088	288	8,880	6,061	11,201

Source: Company, Systematix Institutional Research

## RATIOS

Y/E March	FY08	FY09	FY10	FY11E	FY12E
EPS (Rs)	7.1	8.0	8.3	8.6	9.7
CEPS (Rs)	8.8	9.9	10.8	11.5	12.9
EBIDTA Margin (%)	28.0%	26.1%	24.7%	24.8%	25.4%
PAT Margin (%)	17.3%	17.2%	17.1%	15.8%	16.3%
ROE (%)	20.6%	20.0%	18.3%	16.7%	16.8%
ROCE (%)	28.3%	27.1%	22.7%	22.4%	22.6%
Debt / Equity (x)	0.1	0.0	0.0	0.0	0.0
Book Value	37.2	42.5	48.0	54.1	61.2
Dividend Payout	36.1%	35.2%	31.0%	30.0%	26.5%
Dividend Yield	2.1%	2.2%	2.1%	2.1%	2.1%
Price / Earnings (x)	17.5	15.7	15.1	14.6	12.9
Price / CEPS (x)	14.1	12.6	11.5	10.8	9.7
Price / BV (x)	3.4	2.9	2.6	2.3	2.0
EV / EBIDTA (x)	10.5	9.6	9.3	7.9	6.4
EV / Sales (x)	2.9	2.5	2.3	2.0	1.6

Source: Company, Systematix Institutional Research

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### Stock Ratings

<b>BUY (B)</b>	The stock's total return is expected to exceed 20% over the next 12 months.
<b>ACCUMULATE (A)</b>	The stock's total return is expected to be within 10-20% over the next 12 months.
<b>HOLD (H)</b>	The stock's total return is expected to be within 0-10% over the next 12 months.
<b>SELL (S)</b>	The stock's is expected to give negative returns over the next 12 months.
<b>NOT RATED (NR)</b>	The analyst has no recommendation on the stock under review.

### Industry Views

<b>ATTRACTIVE (AT)</b>	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
<b>NEUTRAL (NL)</b>	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
<b>CAUTIOUS (CS)</b>	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

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