

**RESULTS REVIEW**
**Ambuja Cements Limited**
**Hold**
**Share Data**

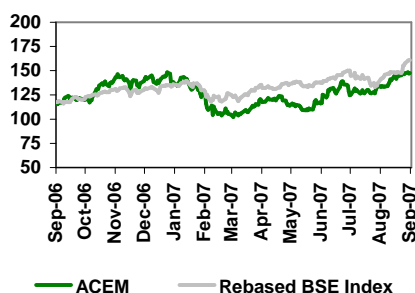
Market Cap	Rs. 224.6 bn
Price	Rs. 147.6
BSE Sensex	16,921.39
Reuters	GACM.BO
Bloomberg	ACEM IN
Avg. Volume (52 Week)	1.9 mn
52-Week High/Low	Rs. 154/99.8
Shares Outstanding	1,520.9 mn

**Valuation Ratios (Consolidated)**

Year to 31 Dec	2007E	2008E
EPS (Rs.)	10.1	11.5
+/- (%)	41.0%	13.3%
PER (x)	14.6x	12.8x
EV per tonne (Rs.)	13,407.4	12,377.0
EV/ EBITDA (x)	10.8x	9.8x

**Shareholding Pattern (%)**

Promoters	37
FII's	28
Institutions	17
Public & Others	18

**Relative Performance**

**Mounting production cost upset margins**

Ambuja Cements Limited (ACL) reported a modest growth in revenues at Rs. 14,643.6 mn with sales volume at 4.4 MT which is only 4.5% increase over last year. Average realisation rate during the quarter was higher at Rs. 3,338.7/tonne though, it could not help EBITDA margins from declining. On a yoy basis, EBITDA increased 5.8% to Rs. 5,453.1 mn while margins fell 200 bps. This was because of higher raw material costs, rise in freight charges and other expenses. Net profit stood at Rs. 4,035.7 mn in Q207, an increase of 23.2% yoy as a result of foreign exchange gain of Rs. 308.4 mn and net interest income of Rs. 210.6 mn. ACL's sales are expected to grow at a CAGR of 24.2% during CY06-CY08E as a result of growing construction sector and ability to realize better prices. However, rise in material and freight costs is likely to affect the margins, despite improved realization rates. So margins are expected to fall in CY08E as compared to CY07E. Currently, ACL is trading at 10.8x and 9.8x EV/EBITDA for CY07E and CY08E, respectively. At a P/E of 14.6x for CY07E, the stock is fairly valued and hence, we maintain **Hold** rating.

**Result Highlights**

ACL's net sales increased 11.5% yoy to Rs. 14,643.6 mn though on a qoq basis sales increased by just 2.1%. Sequentially, net sales was mainly driven by volume growth of 1.4% qoq from 4.3 MT to 4.4 MT as average realisation rates remained nearly flat at Rs. 3,338.7/tonne.

**Key Figures (Standalone)**

Quarterly Data	2Q'06	1Q'07	2Q'07	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	13,137	14,338	14,644	11.5%	2.1%
EBITDA	5,156	5,631	5,453	5.8%	(3.2%)
Net Profit	3,275	3,826	4,036	23.2%	5.5%
<b>Margins(%)</b>					
EBITDA	39.2%	39.3%	37.2%		
NPM	24.9%	26.7%	27.6%		
<b>Per Share Data (Rs.)</b>					
EPS	2.2	2.5	2.7	22.7%	5.2%

*Cement realisation rate improved despite government pressure*

On a yoy basis, realisation rate increased by 6.7%, though there was a marginal increase of 0.7% from the last quarter. However, cement prices are expected to rise by Rs. 3 per bag in the next quarter.

*Increasing raw material and freight costs continue to remain a major concern*

EBITDA increased 5.8% yoy to Rs. 5,453.1 mn; however, margins fell by 200 bps to 37.2%. Despite increase in realisation rate by 6.7%, raw material costs and freight costs increased considerably putting pressure on the margins. The Company is also facing higher captive power generation costs in certain units where production is based on liquid fuel and hence plans to purchase power from the state electricity boards instead.

*Profit margins rose on account of forex earnings and net interest income*

ACL's normalised net profit grew 23.2% yoy to Rs. 4,035.7 mn. Margins increased to 27.6% in Q207 from 24.9% in Q206. Major reason for such increase in margins despite fall in EBITDA margins was due to foreign exchange gains and net interest income. The Company had repaid non-convertible debentures (due 2007) worth Rs. 1,100 mn during the last quarter that reduced its interest expense to a large extent. ACL also earned an after-tax extraordinary income of Rs. 4,741.8 mn during the quarter from the sale of shares and property.

### Key Events

- First phase of thermal power plant at Ambujanagar commenced operations during the quarter providing 30 MW of additional power generating capacity.
- Cement grinding plants in Farakka and Roorkee with installed capacity of 1 MT are likely to commence operations during this quarter.
- Expansion of clinker capacity to 2 MT in the cement plant in Rajasthan is expected to complete in the second quarter.
- The Company has announced payment of one time special interim dividend of Rs. 1.3 per share (face value of Rs. 2) on account of non-recurring income and another interim dividend of Rs. 1.2 per share on account of operational performance.

### Key Risks

- Delay in the execution of capacity expansion plans might affect the projected sales volume and ratings.
- Government's initiative to freeze cement prices in the future will adversely affect the realisation rates and the Company's topline.
- There are concerns about the government's policy on cement import in the coming years.

### Outlook and Valuation

ACL is expected to improve sales volume by 2008 to 18.5 MT, at a CAGR of 6.3% driven by progressing construction sector and consecutive capacity expansions lined up. Realisation rates are expected to pick up in the later part of the quarter backed by strong demand growth. However, by 2008, the demand supply mismatch situation is likely to ease due to planned capacity additions across the industry and further increase in imports.

Currently, rising raw material and freight costs remains a concern. It is expected that ACL's sales volume might fall in the 3<sup>rd</sup> quarter as a result of plant shut down in Ambujanagar, Gujarat due to floods.

ACL is currently trading at a forward PE of 14.6x and 12.8x for CY07E and CY08E, respectively. Based on the relative valuation, we believe the stock is fairly priced; hence, we maintain **Hold**.

*ACL plans to expand capacity to 22 MT by CY09*

### Key Figures (Consolidated)

Year to December	FY05	18M CY06	CY06 <sup>(1)</sup>	CY07E	CY08E	CAGR (%)
(Figures in Rs. mn, except per share data)						(CY06-08E)
Sales Vol (mn tonnes)	14.6	22.6	16.3	17.0	18.5	6.3%
Net Sales	30,647	63,851	42,568	57,705	65,635	24.2%
EBITDA	8,228	21,504	14,336	21,199	23,387	27.7%
Net Profit	5,062	16,349	10,900	15,428	17,527	26.8%
<b>Margins(%)</b>						
EBITDA	26.7%	33.6%	33.6%	36.7%	35.6%	
NPM	16.4%	25.6%	25.6%	26.7%	26.7%	
<b>Per Share Data (Rs.)</b>						
Normalized EPS	3.7	10.8	7.2	10.1	11.5	26.4%
PER (x)	15.8x	13.1x	19.6x	14.6x	12.8x	

(1) Annualised figures based on 18M CY06

### Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.