

Industry : Cement

CMP : Rs.130

Price Target : Rs.155

Buy

 Analyst:  
 Rajan Kumar  
 +91 22 22836307  
 rajan@networthstock.com

**Highlights for the quarter**

- Gujarat Ambuja Cement Q6CY06 results were below our expectations on account of lower sales volume, higher raw material, freight cost and other expenses. The company posted 72% y-o-y increase in sales to Rs.13.29bn on back of 21% growth in dispatches and 41% growth in realization to 160 per bag as against our assumption of Rs.161 per bag. Ambuja Cement Eastern Limited was merged with the company with effect from 1<sup>st</sup> jan 2006 and to that extent Q6CY06 number and 18 month CY06 result are not comparable
- EBIDTA showed a 137% increase y-o-y to Rs.4.79bn with margin increasing by 995 basis points to 36.1%. EBIDTA per tons of cement increased to Rs.1163 from Rs.596 in Q3FY06 and Rs.1107 during Q5CY06.
- On the cost front operating cost per ton of cement was at Rs.2056 during the quarter as against Rs.1655 during Q3FY06 and Rs.1958 during Q1FY07. The rise in cost was mainly attributed to raw material (Up 36 % y-o-y and 12.3 % q-o-q to Rs.169 per ton) freight cost (Up 50% y-o-y and 5.36% q-o-q to Rs.621/ton) while power and fuel cost were contained at Rs.556 per ton (2.78 y-o-y and 6.9% lower q-o-q) and higher other expenses (Rs.545/ton as against Rs.512 in Q3FY06 during Q1FY06 and Rs.510/ton during Q5CY06).
- PBT increased 267% to Rs.4.58bn on account of lower interest and higher other income, while lower tax provision( at 26% vs. 29% last year) led to net profit growing by 285% to Rs.3.38 bn.
- The company has announced a capex of Rs.33.5bn over next three years towards setting up 6 million cement capacity (3 million MT in Bhatapara in Chattisgarh and 3 million MT in HP) and towards setting up 178 MW power plants various location. The capex could solely be financed through internal accrual leading to a debt equity ratio of current 0.22 to 0.14 by CY08 end.

**Valuation**

At Rs.130 the stock is trading at of 12.07 and 13.68x CY07E and CY08E standalone EPS and 7.52 and 9.07x CY07E and CY08E EV/EBIDTA. On EV/Ton basis, the stock trades at 248 USD per ton and 191 USD per tons of its CY07E and CY08E end capacity of 16.2 million MT and 22 MT cement. With firm price outlook on cement price, cost saving from power plant and possibility of increased sale through higher blending, we remain positive on the prospects of the company and maintain **"BUY"** with reduced one year price target of Rs.155. At this price the stock would be valued at 13.3x and 15x CY07E and CY08E standalone EPS and 8.37x and 10x CY07E and CY08E standalone EV/EBIDTA and 275 USD per ton and 211 USD per ton of CY07E and CY08E capacity (Rs.145 /share) and (Rs.10/share value of put option for 33% stake in ACIL).

Current	
Recommendation	BUY
CMP (INR)	130.00
Target Price (INR)	155.00

**Key Data**

Bloomberg code	<u>GAMB@IN</u>
Reuters code	GACM.BO
BSE code	500425
NSE code	GUJAMBCEM
Face Value (INR)	2.00
Market Cap. (INR mn.)	19877.37
52 Week High (INR)	150.00
52 Week low (INR)	77.00

**Scrip Scan**

Equity Rs.mn	3033.70
FY07 E EPS	10.81
FY08 E EPS	9.54
EV/EBIDTA (CY07)	7.55
EV/EBIDTA (CY08)	9.1
EV/TON USD (CY07)	248.00

**Shareholding (31.12.06) (%)**

Promoters	31.19
MF	3.4
Banks, FI and Insurance	12.78
FII's	34.31
PCB's	1.55
Indian Public	11.51
NRI/OCB's	1.56
Others	3.70
Total	100.00

**Quarterly Performance**
**(Rs.mn)**

	Q6CY05	Q3FY06	Q5CY06 A	FY 05A	CY 06 E
Cement Sale (mn tn)	4.1	3.4	3.2	12.7	22.6
Revenue	13291.0	7731.5	9841.4	26057.9	62682.9
% Change (YoY)	71.9				140.6
Realization	3218.2	2282.4	3065.9	2046.3	2775.5
Operating Expenses	8495.0	5711.0	6285.2	18816.4	41352.0
EBIDTA	4796.0	2020.5	3556.2	7241.5	21330.9
% Change (YoY)	137.4				194.6
EBIDTA Margin (%)	36.1	26.1	36.1	27.8	34.0
EBIDTA/Ton	1161.3	596.5	1107.9	568.7	944.5
Interest	44.9	197.2	85.1	847.5	790.3
Depreciation	57.2	50.2	50.0	195.4	326.1
Other Income	402.6	-75.9	258.0	745.7	1136.6
PBT	4581.5	1245.5	3229.6	5185.6	18416.0
% Change (YoY)	267.8				
Tax	1189.7	355.5	783.0	502.5	3383.5
Share of Profit in associate					
Adj Net Profit	3382.9	879.0	2446.6	4683.1	15032.5
% Change (YoY)	284.9				221.0
Share of Profit in Associate					303.3
Equity	3012.0	2712.8	2712.8	2703.8	3033.0
EPS	2.2	0.6	1.8	3.5	9.9

**Income Statement (Standalone)**
**(Rs.mn)**

	<b>FY04</b>	<b>FY05</b>	<b>CY06</b>	<b>CY07</b>	<b>CY08</b>
Cement Sale	10.4	12.7	22.6	17.6	18.6
Net Sales	19681.1	26057.9	62682.9	57915.0	58432.5
% Change (Y-o-Y)	13.5	32.4	60.4	38.6	0.9
Total Expenditure	14310.8	18816.4	41352.0	33970.8	37530.5
% Change (Y-o-Y)	6.7	31.5	46.5	9.5	10.5
Raw Material	843.9	1242.3	3308.4	3071.3	3524.5
% of Sales	4.3	4.8	5.3	5.3	6.0
% of Expenses	5.9	6.6	8.0	9.0	9.4
Power and Fuel	4636.3	6784.0	12398.7	9343.5	10388.0
% of Sales	23.6	26.0	19.8	16.1	17.8
% of Expenses	32.4	36.1	30.0	27.5	27.7
Freight	3761.4	4713.5	11719.0	10705.5	11686.5
% of Sales	19.1	18.1	18.7	18.5	20.0
% of Expenses	26.3	25.0	28.3	31.5	31.1
Staff Cost	813.5	1055.3	2330.8	1900.0	2100.0
% of Sales	4.1	4.0	3.7	3.3	3.6
% of Expenses	5.7	5.6	5.6	5.6	5.6
Other Expenses	4368.4	5091.0	11495.7	8950.5	9831.5
% of Sales	22.2	19.5	18.3	15.5	16.8
% of Expenses	30.5	27.1	27.8	26.3	26.2
EBIDTA	5370.3	7241.5	21330.9	23944.3	20902.0
% Change (Y-o-Y)	325.0	34.8	96.4	68.4	-12.7
EBIDTA/Ton	514.4	568.7	944.5	1364.3	1126.8
EBIDTA margin (%)	27.3	27.8	34.0	41.3	35.8
Interest	784.3	847.5	790.3	400.0	400.0
Depreciation	1686.1	1954.1	3261.2	2445.0	2565.5
Other Income	504.9	745.7	1136.6	1059.5	1058.0
PBT	3404.8	5185.6	18416.0	22158.8	18994.5
Tax	467.1	502.5	3383.5	5761.3	4520.5
PAT	2937.7	4683.1	15032.5	16397.5	14474.0
% Change (Y-o-Y)	0.0	59.4	114.0	63.6	-11.7
Net profit margin (%)					
Equity	1794.0	2703.8	3033.7	3033.7	3033.7
EPS (Standalone)	3.3	3.5	9.9	10.8	9.5
Share in Profit of Associates				1743.1	1632.2
EPS (Standalone+ Share of Profit in Associate)				12.0	10.6

## Balance Sheet

	(Rs.mn)				
	Jun-04	Jun-05	Dec-06	Dec-07	Dec-08
<b>SOURCES OF FUNDS</b>					
Equity share capital	1794.0	2703.8	3033.7	3033.7	3033.7
Reserves & Surplus	18422.9	19080.1	31970.0	43234.4	51719.8
<b>Networth</b>	<b>20216.9</b>	<b>21783.9</b>	<b>35003.7</b>	<b>46268.1</b>	<b>54753.6</b>
<b>Loan funds</b>	<b>12696.8</b>	<b>11274.5</b>	<b>7610.0</b>	<b>7610.0</b>	<b>7610.0</b>
<b>Deferred Tax Liability</b>	<b>3707.1</b>	<b>3810.9</b>	<b>3810.9</b>	<b>3810.9</b>	<b>3810.9</b>
<b>Capital Employed</b>	<b>36621.5</b>	<b>36869.6</b>	<b>46424.9</b>	<b>57689.3</b>	<b>66174.8</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	36580.7	37091.7	46269.1	48679.1	50799.1
Less: Depreciation and impairment	12841.4	14639.3	20811.2	23256.2	25821.7
<b>Net Block</b>	<b>23739.3</b>	<b>22452.4</b>	<b>25457.9</b>	<b>25422.9</b>	<b>24977.4</b>
Capital WIP	1013.5	750.3	3532.4	5000.0	25690.0
<b>Investments</b>	<b>10109.7</b>	<b>11250.6</b>	<b>11750.6</b>	<b>11750.0</b>	<b>11750.0</b>
Inventories	2542.8	3170.0	4660.0	5677.3	6272.2
Sundry Debtors	427.1	458.4	870.0	1031.4	1040.6
Cash & Bank Bal	688.3	865.3	4370.0	13789.7	4226.5
Loans & Advances	1249.2	1366.6	1500.0	1600.0	1800.0
<b>Curr Assets, Loans &amp; Adv</b>					
Curr Liabilities	2760.7	2889.8	4120.0	5000.0	6000.0
Provision	713.4	1067.7	1615.0	1600.0	1800.0
<b>Curr Liab &amp; Prov</b>	<b>3474.1</b>	<b>3957.5</b>	<b>5735.0</b>	<b>6600.0</b>	<b>7800.0</b>
<b>Net Current Assets</b>	<b>1440.7</b>	<b>1920.9</b>	<b>5683.1</b>	<b>15516.5</b>	<b>3757.4</b>
<b>Miscellaneous expenditure</b>					
<b>Total Assets</b>	<b>36621.5</b>	<b>36869.6</b>	<b>46424.0</b>	<b>57689.4</b>	<b>66174.8</b>

## Ratios

	2004-2005	Dec-06*	Dec-07	Dec-08
<b>Growth (%)</b>				
Net Sales	32.4	60.4	38.6	0.9
Adjusted Net Profit	59.4	114.0	63.6	(11.7)
EBITDA	34.8	96.4	68.4	(12.7)
EPS	139.1	90.7	63.6	(11.7)
CEPS	43.5	88.8	54.5	(9.6)
Gross Fixed Assets	1.4	24.7	5.2	4.4
Capital Employed	0.7	25.9	24.3	14.7
<b>Valuation</b>				
EPS (Rs.)	3.5	9.9	10.8	9.5
CEPS (Rs.)	4.9	12.1	12.4	11.2
BVPS (Rs)	16.1	23.1	30.5	36.1
DPS	2.1	3.3	3.0	3.5
Payout ratio	0.4	0.3	0.3	0.4
Dividend Yield	1.6	2.5	2.3	2.7
PER (x)	37.7	13.2	12.1	13.7
PEG (x)	0.3	0.1	0.2	(1.2)
P/CEPS (x)	26.6	10.8	10.5	11.6
P/BV (x)	8.1	5.7	4.3	3.6
EV/EBITDA (x)	24.2	8.9	7.5	9.1
EV/Net Sales (x)	6.7	3.0	3.1	3.2
EV/Ton	281.0	296.5	246.9	191.5
<b>Profitability</b>				
ROCE (%)	14.3	38.9	37.3	27.7
ROE (%)	21.5	42.9	35.4	26.4
EBIDTA Margin (%)	27.8	34.0	41.3	35.8
EBDTA Margin (%)	24.5	32.8	40.7	35.1
Net Profit Margin (%)	18.0	24.0	28.3	24.8
Tax/PBT (%)	9.7	18.4	26.0	23.8
<b>Turnover</b>				
<b>Inventory Turnover</b>	61.5	61.7	61.0	61.0
Avg. Collection Period (Days)	6	8	7	7
Avg. Payment Period (Days)	55	50	42	49
Net Fixed Assets (x)	1.2	1.6	2.3	2.3
Total Assets (x)	0.7	0.9	1.0	0.9
<b>Other Financial Ratios</b>				
Interest Coverage (x)	8.5	27.0	59.9	52.3
Debt to Equity Ratio (x)	0.5	0.2	0.2	0.1
<b>Basic Data</b>				
Sh. Price	130.5	130.5	130.5	130.5
Market Capitalisation	17,642.3	19,795.0	19,795.0	19,795.0
Enterprise Value	17,558.2	18,944.0	18,002.1	18,958.4

**Networth Research: E-mail- research@networthstock.com**

Research	Sector	E-mail id	Telephone nos.
Janish Shah	Head of Research (Auto/FMCG/Power)	janish@networthstock.com	022-22836307/8/11
Kanan Shah	Banking / Metals / Shipping	kanan@networthstock.com	022-22836307/8/11
Rajan Kumar	Cement / Pharmaceuticals	rajan@networthstock.com	022-22836307/8/11
Sumit Gupta	Macro Economy / Capital Goods	sumit@networthstock.com	022-22836307/8/11
Rati Pandit	Hotels / Aviation	rati@networthstock.com	022-22836307/8/11
Rishi Maheshwari	Information Technology	rishim@networthstock.com	022-22836307/8/11
Surya N. Nayak	Associate	suryanarayan@networthstock.com	022-22836307/8/11
Brijesh Rajvanshi	Associate	brijeshrajvanshi@networthstock.com	022-22836307/8/11
Shashin Shah	Mid Caps	sdshah@networthstock.com	
Taral Mehta	Associate	taral@networthstock.com	
Viral Doshi	Equity Strategist	viral@networthstock.com	022-22836307/8/11
Amar More	Production	amar@networthstock.com	022-22836307/8/11

**Networth Institutional Sales: E-mail- dealing@networthstock.com**

Raj Bhandari / Jignesh Desai / Rameshwar Singh 022-22633020/1/2

**Disclaimer:** This document has been prepared by Networth Stock Broking Ltd. (NSBL). NSBL is a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. NSBL or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NSBL and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. NSBL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, NSBL is under no obligation to update or keep the information current. Nevertheless, NSBL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither NSBL nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. 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 company or companies and its or their securities, 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. Analyst holding in stock: no.

**Networth Stock Broking Ltd.**

<b>Regd. Office:-</b>	5 Churchgate House, 2nd floor, 32/34 Veer Nariman Road, Fort, Mumbai - 400001. Tel Phone nos. : 022 - 22850428/4/5/6 Fax nos. : 022 - 22856191
<b>Corporate Office :-</b>	143-B, Mittal Court, 224, Nariman Point, Mumbai – 400021. Tel Phone nos. : 022 - 22836307/8/11 Fax nos. : 022 - 22836313