

Ambuja Cement Ltd

Rs 124

KRChoksey
wealth enhancement solutions


Muted Performance

HOLD

Top line increases marginally on back of higher dispatch:

Ambuja Cement's net sales for the CY10 stood at Rs 7390 cr v/s Rs 7077 cr last year, sales were up by 4.4% on back of 6.4% growth in dispatches. Dispatches for CY10 was at 20 million tonnes (MT) in CY10 v/s 18.8 MT in CY09. Ambuja Cement's net sales for the quarter were at Rs 1788 cr; a growth of just 1 % despite a growth of 5.3% in its dispatches in the Q4CY10. The sales were flat for the quarter despite higher dispatches mainly on account of reduction in average realizations. The realizations for Q4CY10 stood at Rs 179/bag v/s Rs 187/bag in Q4CY09.

Operational Performance: Ambuja Cement per tonne realization declined marginally by 1.8% for CY10 to Rs 3695/tonne from Rs 3764/tonne in CY09. The OPM were down by 145 bps to 26.4% for the CY10 v/s 27.85% in CY09. Ambuja's per tonne realization for the quarter were also down by 4% y-o-y to Rs 3584/tonne. OPM for Q4CY10 stood at 19.7%, down by 560 bps on a y-o-y basis.

Cost Escalation & Lower realizations lead to Margin Contraction, however the new kiln helps to offset costs to some extent:

The OPM for Ambuja Cement for CY10 was at 26.4%, down by 145 bps on a y-o-y basis and OPM for Q4CY10 were at 19.7%, down by 560 bps on a y-o-y basis. One of the reasons for the dip in operating margins is increase in freight costs which shot up by 12%; because of the Himachal Pradesh transporters strike (in October 2010) wherein the company had to procure cement from plants that were located far away from the end markets and an increase in the railway freight. Power and fuel costs were also up by 12% on back of increase in international coal prices and non-availability of local coal linkages. Power cost is up also because of clinker units had been commissioned in Q1CY10. More than 80% of the requirement of the power for the cement plants was met through the captive power plants. Raw material costs for Ambuja was lower by 42% on a y-o-y basis on back of higher clinker production following the commissioning of two new kiln lines in Q1CY10. Clinker purchase for CY10 was at 3,60,000 tonnes v/s 17,00,000 tonnes in CY09.

Capex Update: During the CY10 Ambuja Cement commissioned two new 2.2 MTPA clinkerisation units, at Bhatapara (Chhattisgarh) & Rauri (HP) and two new 1.5 MTPA cement grinding facilities at Dadri (UP) and Nalagarh (HP). Post this expansion the cement capacity of Ambuja Cement Ltd has increased to 25 MTPA. Also captive power plants of 33 MW and 30 MW was commissioned at Bhatapara & Ambujanagar (Gujarat) respectively.

Ambuja aims to commission another 2 MTPA cement grinding capacity in CY2011 and the work for the same is going on at Bhatapara (Chhattisgarh) and Maratha (Maharashtra), post which the company cement capacity will be further increased to 27 MTPA.

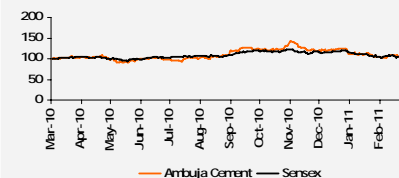
Valuation: Ambuja Cement is being priced at a premium to its other large cap peers, mainly because of its presence in markets where the dispatch growth is strong and the capacity utilization levels are high. We value Ambuja Cement at \$ 140/tonne, at a premium to the replacement cost of \$120/tonne on back of its presence in strong markets and strong cash flows with a target price of Rs 135. We recommend a buy on dip strategy for Ambuja Cement.

Price Target: Rs 135

| Market Data | March 8 th , 2011 |
|--------------------|------------------------------|
| Shares outs (Cr) | 152.6 |
| Equity Cap (Rs Cr) | 76.3 |
| Mkt Cap (Rs Cr) | 19,039 |
| 52 Wk H/L (Rs) | 166.5/100 |
| Avg Vol (1yr avg) | 3,82,658 |
| Face Value (Rs) | 2 |
| Bloomberg Code | ACEM.IN |

Market Info:

| | |
|--------|--------|
| SENSEX | 18,439 |
| NIFTY | 5,520 |

Price Performance**Share Holding pattern (%)**

| Particulars | 31-Dec | 30-Sept | Chg |
|-----------------|--------------|--------------|----------|
| Promoters | 46.24 | 46.37 | (0.13) |
| Institutions | 14.72 | 15.33 | (0.61) |
| FII's | 27.71 | 27.06 | 0.65 |
| Public & others | 11.33 | 11.24 | 0.09 |
| Total | 100.0 | 100.0 | - |

Source: BSE

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Financial Snapshot:

| Particulars | CY09 | CY10 | CY11E |
|-------------|--------|--------|--------|
| Net Sales | 7076.9 | 7390.2 | 8361.4 |
| EBIDTA | 1970.3 | 1950.4 | 2176.6 |
| Net Profit | 1216.8 | 1263.0 | 1277.2 |
| EPS | 8.0 | 8.3 | 8.4 |
| OPM % | 27.8% | 26.4% | 26.0% |
| NPM % | 17.2% | 17.1% | 15.3% |
| EV/EBIDTA | 8.9 | 8.5 | 7.7 |
| EV/Ton (\$) | 173.6 | 164.0 | 134.7 |

Source: Company, KRChoksey Research

Q4CY10 Result: (Rs Crore)

| Ambuja Cement | Q4CY10 | Q4CY09 | Y-o-Y | Q3CY10 | Q-o-Q |
|--|---------------|---------------|--------------|----------------|--------------|
| Sales in MT | 5.0 | 4.7 | 5% | 4.3 | 15.3% |
| Sales price per Tonne | 3584.1 | 3740.3 | -4% | 3612.9 | -0.8% |
| Net Sales | 1788.5 | 1772.9 | 1% | 1564.02 | 14.4% |
| Other Income | 38.9 | 14.8 | 162% | 19.02 | 104.5% |
| TOTAL INCOME | 1827.4 | 1787.7 | 2% | 1583.0 | 15.4% |
| EXPENDITURE | | | | | |
| (Increase)/Decrease in Stock | 17.7 | 7.3 | 144% | -59.2 | -129.9% |
| Raw Materials Clinker | 24.6 | 0.0 | - | 0.2 | - |
| Raw Materials Others | 123.1 | 212.6 | -42% | 119.92 | 2.6% |
| Employees Cost | 77.5 | 78.4 | -1% | 98.91 | -21.7% |
| Power & Fuel | 446.1 | 327.2 | 36% | 442.58 | 0.8% |
| Freight | 407.9 | 292.9 | 39% | 342.54 | 19.1% |
| Depreciation | 108.6 | 86.0 | 26% | 101.8 | 6.7% |
| Other Expenditure | 377.6 | 420.2 | -10% | 335.91 | 12.4% |
| Total Expenditure | 1583.1 | 1424.5 | 11% | 1382.66 | 14.5% |
| Profit from Opt before Oth Inc, Int & Exp Items | 244.3 | 363.2 | -33% | 200.4 | 21.9% |
| Interest Income | 28.3 | 0.0 | - | 22.53 | 25.7% |
| Other Income | 9.5 | 40.8 | -77% | 7.99 | 19.0% |
| Profit before Interest & Exceptional Items | 282.1 | 404.0 | -30% | 230.9 | 22.2% |
| Interest | 20.9 | 6.8 | 208% | 8.94 | 133.4% |
| Profit after Interest but before Exceptional Items | 261.3 | 397.2 | -34% | 222.0 | 17.7% |
| Exceptional items | 7.0 | 0.0 | - | 0 | - |
| Profit/Loss before tax | 268.3 | 397.2 | -32% | 222.0 | 20.9% |
| Tax Expense | 10.2 | 156.0 | -93% | 69.87 | -85.4% |
| Net Profit | 258.0 | 241.2 | 7% | 152.1 | 69.7% |
| EPS | 1.7 | 1.6 | 7% | 1.0 | 69.7% |
| OPM (%) | 19.7% | 25.3% | (560) bps | 19.3% | 41 bps |
| NPM (%) | 14.4% | 13.6% | 82 bps | 9.7% | 470 bps |

Source: Company, KRChoksey Research

Q3CY10 Result (Per Tonne Breakup)**(Rs****per Tonne)**

| Ambuja Cement | Q4CY10 | Q4CY09 | Y-o-Y | Q3CY10 | Q-o-Q |
|--------------------------------|---------------|---------------|--------------|---------------|--------------|
| Realization/Tonne | 3584.1 | 3740.3 | -4% | 3612.9 | -0.8% |
| Realization/Bag | 179.2 | 187.0 | -4% | 180.6 | -0.8% |
| EBIDTA | 707.3 | 947.7 | -25% | 698.0 | 1.3% |
| Raw Materials | 295.9 | 448.4 | -34% | 277.5 | 6.6% |
| Power & Fuel | 894.0 | 690.4 | 29% | 1022.4 | -12.6% |
| Freight charges | 817.5 | 618.0 | 32% | 791.3 | 3.3% |
| Other Expenditure | 756.7 | 886.4 | -15% | 776.0 | -2.5% |
| TOTAL EXPENDITURE/tonne | 3172.4 | 3005.3 | 6% | 3193.9 | -0.7% |

Source: Company, KRChoksey Research

INCOME STATEMENT - Annual

| Particulars | CY09 | CY10 | Y-o-Y | CY11E | Y-o-Y |
|--|---------------|---------------|-----------------|---------------|-----------------|
| Net Sales | 7076.9 | 7390.2 | 4.4% | 8361.4 | 13.1% |
| Other Income | 104.6 | 127.3 | 21.7% | 147.3 | 15.7% |
| TOTAL INCOME | 7181.5 | 7517.6 | 4.7% | 8508.7 | 13.2% |
| EXPENDITURE | | | | | |
| (Increase)/Decrease in Stock | 49.5 | -54.3 | -209.7% | 0.0 | - |
| Raw Materials Clinker | 570.7 | 123.7 | -78.3% | 98.2 | -20.6% |
| Raw Materials Others | 393.7 | 472.6 | 20.0% | 533.3 | 12.8% |
| Employees Cost | 272.8 | 343.7 | 26.0% | 387.9 | 12.9% |
| Power & Fuel | 1422.8 | 1697.3 | 19.3% | 1916.9 | 12.9% |
| Freight | 1347.4 | 1610.1 | 19.5% | 1877.1 | 16.6% |
| Depreciation | 297.3 | 387.2 | 30.3% | 502.2 | 29.7% |
| Other Expenditure | 1154.3 | 1374.1 | 19.0% | 1518.8 | 10.5% |
| Total Expenditure | 5508.5 | 5954.4 | 8.1% | 6834.3 | 14.8% |
| Profit from Opt before Oth Inc, Int & Exp Items | 1673.0 | 1563.2 | -6.6% | 1674.4 | 7.1% |
| Interest Income | 131.5 | 85.7 | -34.8% | 120.7 | 40.8% |
| Other Income | 19.7 | 34.5 | 75.0% | 54.5 | 58.0% |
| Profit before Interest & Exceptional Items | 1824.2 | 1683.4 | -7.7% | 1849.6 | 9.9% |
| Interest | 22.4 | 48.7 | 117.1% | 25.0 | -48.7% |
| Profit after Interest but before Exceptional Items | 1801.8 | 1634.7 | -9.3% | 1824.6 | 11.6% |
| Exceptional items | 0.0 | 26.5 | - | 0.0 | -100.0% |
| Profit/Loss before tax | 1801.8 | 1661.2 | -7.8% | 1824.6 | 9.8% |
| Tax Expense | 584.9 | 398.3 | -31.9% | 547.4 | 37.4% |
| Net Profit | 1216.8 | 1263.0 | 3.8% | 1277.2 | 1.1% |
| EPS | 8.0 | 8.3 | 3.8% | 8.4 | 1.1% |
| OPM (%) | 27.8% | 26.4% | -145 bps | 26.0% | -36 bps |
| NPM (%) | 17.2% | 17.1% | -10 bps | 15.3% | -181 bps |

Source: Company, KRChoksey Research

Technical

| | |
|----------------------|--------|
| Last Price | 124 |
| 21 day EMA | 123.30 |
| 50 day EMA | 127.50 |
| C 200 day EMA | 129 |

The stock is moving sideways. The support for the stock exists at around 130 levels. The MACD indicator for the stock is moving upwards sloping in Negative zone. Investors can buy the stock at declines.



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