RESULTS REVIEW

Ambuja Cements Limited — Sell

Share Data

Market Cap	Rs. 129.4 bn
Price	Rs. 85
BSE Sensex	14,633.07
Reuters	ABUJ.BO
Bloomberg	ACEM IN
Avg. Volume (52 Week)	1.1 mn
52-Week High/Low	Rs. 160.9/79.8
Shares Outstanding	1,522.5 mn

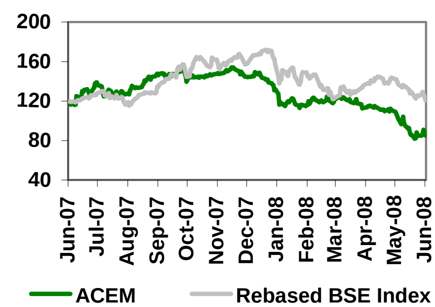
Valuation Ratios (Consolidated)

Year to 31 Dec	2008E	2009E
EPS (Rs.)	8.3	9.2
+/- (%)	(31.4%)	10.2%
PER (x)	10.2x	9.3x
EV/ tonnes (Rs.)	7,039	6,597
EV/ EBITDA (x)	6.7x	6.0x

Shareholding Pattern (%)

Promoters	48
FIIs	24
Institutions	14
Public & Others	14

Relative Performance



Feeling the pinch

Ambuja Cements Limited (ACL) could not shield its profits from the rising raw material and power costs, which resulted in 868 bps yoy fall in EBITDA margin. However, net sales grew by 17% yoy on the back of higher volumes. We downgrade our rating on the stock from Hold to Sell due to the following reasons:

Falling realisation rates likely to reduce top-line growth: On a sequential basis, the average realisation rate registered a decline of 2%. Owing to an expected excess supply scenario and the government's price control policies, the realisation rates are expected to dip further. Consequently, we have estimated a CAGR of 5% in the top line for the next two years.

Rising costs pulling down margins: Raw material costs doubled during the quarter, due to an increase in the prices of limestone, fly ash, and coal, a trend that is likely to persist due to the global inflationary pressures. Moreover, the Company is forced to purchase clinker from the market at an expensive rate as it is increasing its grinding capacity faster than its clinker capacity. Going forward, this trend is likely to continue as clinker capacity addition is expected only in the middle of CY09. Considering these factors, we expect that margins would drop significantly in CY08E. However, the clinker capacity addition is likely to stem the fall in margins for CY09E.

Key Figures (Standalone)

Quarterly Data	Q1'07	Q4'07	Q1'08	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	14,195	15,210	16,549	17%	9%
EBITDA	5,659	5,007	5,160	(9%)	3%
Adj. Net Profit	3,887	1,937	3,302	(15%)	70%
Margins(%)					
EBITDA	39.9%	32.9%	31.2%	(22%)	
NPM	27.4%	12.7%	20.0%	(27%)	
Per Share Data (Rs.)					
Adj. EPS	2.6	1.3	2.2	(15%)	70%

On the basis of DCF analysis and valuation, we conclude that the stock seems to be over valued at the current market price. Hence, we downgrade our rating from Hold to Sell.

Ongoing Expansion Projects

Type of Plant	Location	Capacity	Expected Completion
Clinker Expansion Project	Bhatapara	2.2 mtpa	2009
Clinker Expansion Project	Rauri	2.2 mtpa	2009
Captive Power Plants	Rariyawas/Maratha	112 MW	End 2008
Cement Grinding Unit	Gujarat	1.5 mtpa	2009
Cement Grinding Unit	Dadri (UP)	1.5 mtpa	2009
Cement Grinding Unit	Nalagarh (HP)	1.5 mtpa	2010
Cement Grinding Unit	Barh (Bihar)	1.0 mtpa	2010

Source: Company Data, Indiabulls Research

Result Highlights

Volumes leading to top line growth

Sales volume contributed to the rise in revenue

Net Sales increased by 17% yoy to Rs. 16,549 mn mainly on the back of the improvement in the sales volume, which increased by 11% yoy from 4.3 mt in Q1’07 to 4.8 mt in Q1’08.

Moderating realisation rates

The average realisation rate registered an increase of 5% yoy; however, sequentially it fell by 2%.

Margins under pressure

Sharp rise in raw material cost eroding margins

Despite the top-line growth of 17% yoy, EBITDA declined by 9% yoy to Rs. 5,160 mn as rising raw material and fuel costs had a dampening effect on the margins. Raw material cost per tonne increased by 80% yoy due to a significant increase in the price of limestone and purchase of clinker at an expensive rate from the market. Power and fuel costs per tonne rose by 9% yoy. Nevertheless, with the commissioning of 66 MW captive power plants, the company could offset part of rising coal prices. Employee cost also surged 32% from Rs. 502 mn in Q1’07 to Rs. 660 mn in Q1’08.

The adjusted net profit increased 2% owing to increase in other incomes. However, excluding other incomes, the net profit declined marginally by 0.5%.

Quarterly Data	Q1'07	Q4'07	Q1'08	YoY %	QoQ%
Realisation rate (Rs. per tonne)	3,283	3,517	3,448	5%	(2%)
Sales Volume (mt)	4.3	4.3	4.8	11%	11%
Cost Per tonne (Rs.)					
Raw materials	244	257	438	80%	70%
Power and fuel	536	679	587	9%	(14%)
Freight and forwarding	642	618	665	4%	8%
Staff Cost	116	123	138	18%	12%
Other Expenditure	436	683	544	25%	(20%)
Total Expenditure	1,974	2,359	2,373	20%	1%
EBITDA	1,309	1,158	1,075	(18%)	(7%)

Source : Company Data, Indiabulls Research

Outlook

Rising operating costs and falling realisations are major concerns

Cement consumption growth is expected to remain stable in the medium term due to expanding infrastructure, increase in housing construction activities, and various upcoming power projects. However, according to the Cement Manufacturers Association, the industry is likely to create an additional capacity of 32 million tonnes in FY09E, which may lead to supply excess. This demand-supply mismatch is likely to moderate cement prices in FY09E. Moreover, the government's attempt to keep cement prices under check could further strain the average realisation rate.

We believe that the top line of the Company will feel the pinch of falling realisation rates, and accordingly we expect the top line to grow at significantly lower CAGR of 5% (07-09E), in comparison to the historical growth of around 30%.

Simultaneously, the cement–clinker capacity mismatch and rising prices of limestone, fly ash, and coal are likely to put pressure on the margins.

Valuation

ACL is trading at a forward P/E of 10.2x and 9.3X for CY08E and CY09E, respectively. On the EV/EBITDA basis, the stock is trading at 6.7x and 6.0x for CY08E and CY09E, respectively.

We have valued the Company using DCF analysis, assuming cost of equity at 13.6% and terminal growth rate of 5%. Our fair value estimate is Rs.67 relative to current market price of Rs. 85. This reflects a downside of 21% and therefore we downgrade our rating from Hold to Sell.

Key Figures (Consolidated)

Year to December	FY05	CY06	CY07	CY08E	CY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(CY07-09E)
Sales Vol (mn tonnes)	14.6	16.3	16.9	17.9	19.1	7%
Net Sales	30,647	42,609	57,921	60,096	64,115	5%
EBITDA	8,079	14,220	20,353	18,870	20,902	1%
Net Profit	4,873	10,868	13,230	12,640	13,934	3%
Margins(%)						
EBITDA	26.4%	33.4%	35.1%	31.4%	32.6%	
NPM	15.9%	25.5%	22.8%	21.0%	21.7%	
Per Share Data (Rs.)						
Adj. EPS	3.6	7.2	12.1	8.3	9.2	(13%)
PER (x)	16.4x	19.7x	7.0x	10.2x	9.3x	

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