

# Ambuja Cements

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## Shareholding (%)

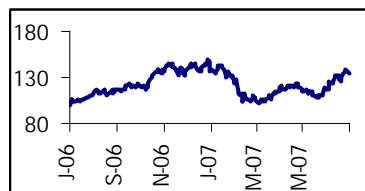
Foreign Promoters	32.3
Indian Promoters	4.7
FII's	27.7
MFs	2.4
Insurance Co.	13.4
Others	19.5

## Share price performance

52-week high/low (Rs)	153/97		
	-1m	-3m	-12m
Abs (%)	13.0	17.6	35.1
Rel* (%)	4.8	4.6	-19.6

\*to Nifty

## Stock chart



## Volume-led growth

Ambuja Cements Ltd. (ACL, formerly Gujarat Ambuja Cements) has announced impressive results for quarter ended June 2007, supported by firm cement prices and strong volumes. Higher realisations led to an 11.5% YoY growth, and firm cement prices and marginally higher volumes drove the 2.1% QoQ growth. Higher freight and other expenses, however, impacted margins.

ACL is currently trading at an EV/tonne and EV/EBIDTA of US\$207 per tonne and 7.9x. The current cement demand-supply scenario and the anticipated capacity expansions merit firm cement prices until Q2FY09. Subsequently, with fresh capacities becoming operational, cement prices may come under pressure. We maintain an 'Accumulate' rating on the stock.

## Key result highlights are:

- Higher realisations boost topline:** Buoyed by a 11.7% YoY growth in net realisations, ACL has reported a 11.5% growth in net sales. Volumes, however, remained almost flat YoY as the company operated at near to 100% utilisation levels. Even on a QoQ basis, while volumes were higher by 1.3%, firm cement prices enabled ACL register a 2.1% growth in net sales.
- Margins under pressure:** Despite higher realisations, ACL's operating profit margins fell to 37.2%, a decline of 210 bps QoQ and 200 bps YoY. An 8.5% QoQ increase in freight expenses per tonne and an 8.9% QoQ increase in other expenses impacted company's operating profit margins. EBIDTA per tonne thus stood at Rs1,245 per tonne (lower by 4.4% QoQ).
- Lower interest cost and extraordinary income provide fillip to net profit:** During the quarter, ACL's profit before tax increased 26.7% YoY and 5.6% QoQ to Rs5.6bn. Other income increased due to forex gains and net interest income aided further growth in profits. This apart, extraordinary income of Rs4.7bn enabled the company to report net profits of Rs8.8bn. During the quarter, ACL exercised its put option and sold 95.38mn shares of Ambuja Cement India Pvt Ltd (ACIPL) to Holding Investments Ltd; these shares were sold for Rs5.35bn at a profit of Rs2.19bn (net of tax). It may be

## Accumulate

**Rs135**

April 24, 2007

### Market cap

Rs bn 206  
US\$ bn 5

### Avg 3m dally volume

6,014,740

### Avg 3m dally value

USD mn 18

### Shares outstanding (mn)

1,521

### Reuters

GACM.BO

### Bloomberg

GAMB IN

### Sensex

15,732

### Nifty

4,619

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noted that in Q1CY07 the company had sold an equal number of shares in ACIPL for Rs5.26bn, at a profit of Rs2.08bn (net of tax). The company expects to sell the remaining 95.38mn shares in ACIPL during Q3CY07 for Rs5.89bn. Moreover, the company also sold its property at Kalina, Mumbai, at a profit of Rs2.55bn (net of tax), supporting the increase in net profits.

- Expansion plans:** Given the robust outlook for growth in cement demand, ACL has outlined a Rs35bn capacity expansion plan (see table 1). This expansion would take the company's cement capacity from 16mn tonne currently to 22mn tonne by 2009. The expansion plan is expected to be completed in phases. ACL has commissioned a 1mn tonne grinding unit at Farakka in West Bengal and the first phase of CPP of 30MW at Ambujanagar in Gujarat. The company is expected to commission a 1mn tonne unit at Roorkee in Uttaranchal during Q3CY07. In addition, the company is upgrading its plant at Rabriyawas in Rajasthan to increase its clinkering capacity by 0.5mn tonne to 2mn tonnes by Q3CY07. ACL has also commenced work on the second clinker plant in Chattisgarh to be commissioned in Q1CY09. Apart from these, the company is setting up a clinkering plant in Himachal Pradesh along with two grinding stations in Uttar Pradesh and Haryana; these grinding stations, with a combined capacity of 3mn tonne, would be commissioned in Q2CY09.

**Table 1. Expansion plans**

Projects	Location	Expected year of completion
60MW power plant	Ambujanagar	
- Phase - 1		Commissioned
- Phase - 2		Q3CY07
0.5mn t clinker	Rabriyawas	Q3CY07
Grinding station		
- 1mn tonnes	Farraka	Commissioned
- 1mn tonnes	Roorkee	Q3CY07
2.3mn t clinkerisation plant	Chattisgarh	Jan-09
81MW power plants	Various locations	Dec-08
178MW Thermal power plant	-	Dec-08

Source: IISL research, company

- Power capacity expansion:** To maintain its cost of production, ACL is setting up captive power plants at various locations. A 30MW power plant at Ambuja Nagar was commissioned during the quarter and another 30MW capacity plant (under phase II) is expected to be commissioned in Q3CY07. The company is also setting up a thermal power plant of 178MW, to be completed by end 2008. This will take the company's total power generation capacity to 400MW by end 2008. The commissioning of power plants will reduce ACL's cost of production further.
- Valuation:** ACL is currently trading at an EV/tonne and EV/EBIDTA of US\$207 per tonne and 7.9x. The current cement demand-supply scenario and the anticipated capacity expansions merit firm cement prices until Q2FY09.

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Subsequently, with fresh capacities becoming operational, cement prices may come under pressure. We maintain an 'Accumulate' rating on the stock.

*Table 2. Quarterly result table*

	Apr-June-07	Apr-June-06	YoY (%)	Jan-Mar-07	QoQ (%)
Sales volume (mn tonnes)	4.4	4.4	(0.2)	4.3	1.3
Net Sales	14,643.6	13,137.4	11.5	14,338.4	2.1
Total Expenditure	9,190.5	7,981.6	15.1	8,707.6	5.5
Inc/Dec in stock	(28.9)	(25.7)	12.5	103.7	(127.9)
raw materials	1,071.5	853.0	25.6	951.0	12.7
staff cost	437.4	404.6	8.1	502.1	(12.9)
power&fuel	2,389.0	2,243.4	6.5	2,319.0	3.0
Freight	3,054.2	2,533.5	20.6	2,776.8	10.0
other exp	2,267.3	1,972.8	14.9	2,055.0	10.3
EBIDTA	5,453.1	5,155.8	5.8	5,630.8	(3.2)
Other Income	486.7	(68.3)	(812.6)	256.6	89.7
PBIDT	5,939.8	5,087.5	16.8	5,887.4	0.9
Interest	(210.6)	128.7	(263.6)	17.9	(1,276.5)
Gross Profit	6,150.4	4,958.8	24.0	5,869.5	4.8
Depreciation	583.0	564.3	3.3	598.1	(2.5)
PBT & EO	5,567.4	4,394.5	26.7	5,271.4	5.6
PBT	5,567.4	4,394.5	26.7	5,271.4	5.6
Tax	1,531.7	1,119.6	36.8	1,771.5	(13.5)
current	1,531.7	1,218.7	25.7	1,758.5	(12.9)
deferred	-	(99.1)	(100.0)	13.0	(100.0)
Net Profit	4,035.7	3,274.9	23.2	3,499.9	15.3
Extra-ordinary income	4,741.8	-	#DIV/0!	2,407.5	97.0
Net Profit	8,777.5	3,274.9	168.0	5,907.4	48.6
Equity	3,041.4	3,041.4	-	3,041.4	-
EPS	5.8	2.2	168.0	3.9	48.6
AdjustedEPS	2.7	2.2	23.2	2.3	15.3
<b>Key ratios (%)</b>					
EBIDTA Margin	37.2	39.2		39.3	
Interest/Sales	(1.4)	1.0		0.1	
GPM	40.6	37.9		40.2	
Tax/PBT	27.5	25.5		33.6	
NPM	26.7	25.1		24.0	

Source: IISL research, company

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