

Ambuja Cement (GUJAMB)

Rs 141

WHAT'S CHANGED...

PRICE TARGET Changed from 118 to 130
 EPS (CY11E) Changed from Rs 10.5 to Rs 9.4
 EPS (CY11E) Introducing at 10.9
 RATING..... Changed from Sell to Reduce

Realisation fall, costs rise dent margins...

Ambuja Cement reported net sales of Rs 1564 crore (-3% YoY and 24% QoQ) and EBITDA of Rs 283.2 crore (34% YoY, 53% QoQ). These were below our respective estimates of Rs 1593.3 crore and Rs 368.1 crore, respectively. Net profit at Rs 152.1 crore was below our estimate of Rs 223.9 crore. The operating margin declined by 858 bps YoY (1135 bps QoQ down) to 18.1% on account of a significant decline in realisation and increase in input costs. The company has increased its capacity to 26 MTPA after commissioning of 4.4 MTPA of clinker units and 3 MTPA of grinding units. We expect volume growth of 8% CAGR (CY09-11E). Margins are expected to be under pressure in CY10E despite savings in raw material costs as pricing pressure is inevitable in CY10E on the back of a decline in capacity utilisation. We are changing our rating our rating to Reduce from Sell with revised target price of Rs 130 per share.

- **Sales volume and realisation impacted on subdued demand**
 Ambuja reported sales volume of 4.35 MTPA that increased by 5.7% YoY. However, volumes declined by 18.5% on sequential basis. Net realisations have declined by 8.1% YoY and 6.2% QoQ to Rs 3595 per tonne.
- **EBITDA per tonne declines 38% YoY and 42% QoQ**
 The EBITDA per tonne has declined by 37.7% YoY to Rs 651 on account of decline in realisations coupled with increase in total cost by 2.6% YoY to Rs 2945 per tonne. The increase in total cost was mainly due to increase in power & fuel cost and employee cost. On a QoQ basis, the EBITDA per tonne has declined by 42.4%. Thus, the EBITDA margin has declined by 858 bps YoY and 1135 bps QoQ to 18.1%.

Valuation

At the CMP of Rs 141, the stock is trading at 18.5x and 15x its CY10E and CY11E earnings, respectively. The stock is trading at an EV/EBITDA of 10.8x and 8.1x CY10E and CY11E EBITDA, respectively. On EV/tonne, the stock is trading at \$164 and \$156 its CY10E and CY11E capacities, respectively. We are introducing CY12 estimates and valuing the company at its CY12E capacity of 26 MTPA. We are changing our rating from Sell to Reduce with revised target price of Rs 130 per share. At the target price, the stock trades at \$130 per tonne at CY12E capacity, which is 8% premium to the current replacement cost of \$120 per tonne.

Exhibit 1: Financial Performance

	Q3CY10	Q3CY10E	Q3CY09	Q2CY10	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	1564.0	1593.4	1611.0	2047.6	-2.9	-23.6
EBITDA	283.2	368.1	430.0	603.2	-34.2	-53.1
EBITDA Margin (%)	18.1	23.1	26.7	29.5	858 bps down	1135 bps down
Depreciation	101.8	100.0	71.9	100.1	41.5	1.7
Interest	8.9	8.5	5.2	8.1	71.6	10.4
Adjusted PAT	152.1	223.9	318.5	391.2	-52.2	-61.1
EPS (Rs)	1.0	1.5	2.1	2.6	20.5	-12.5

Source: Company, ICICIdirect.com Research

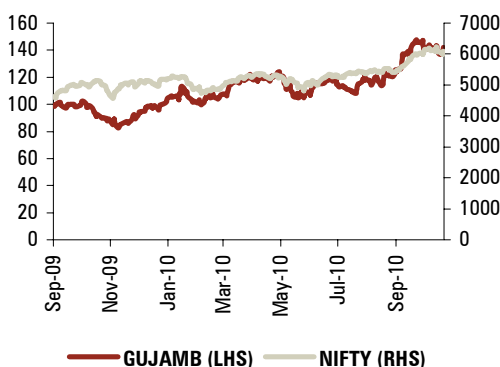
Rating matrix	
Rating	: Reduce
Target	: Rs 130
Target Period	: 12-15 months
Potential Upside	: -8%

Key Financials				
	CY09	CY10E	CY11E	CY12E
Net Sales	7076.9	7326.7	8393.0	9633.0
EBITDA	1866.9	1817.2	2306.0	2636.1
EBITDA margin (%)	26.4	24.8	27.5	27.4
Net Profit	1218.4	1160.7	1435.1	1659.8
EPS (Rs)	8.0	7.6	9.4	10.9

Valuation summary				
	CY09	CY10E	CY11E	CY12E
PE (x)	17.6	18.5	15.0	12.9
Target PE (x)	16.2	17.0	13.8	11.9
EV to EBITDA (x)	10.7	10.8	8.1	6.5
EV/Tonne(US\$)	198	164	156	144
Price to book (x)	3.3	2.9	2.6	2.2
RoNW (%)	20.1	16.8	18.3	18.5
RoCE (%)	27.1	22.0	25.0	25.6

Stock data	
Mcap	Rs 21941 crore
Debt (CY09)	Rs 166 crore
Cash & Invest(CY09)	Rs 1608 crore
EV	Rs 21029 crore
52 week H/L	Rs 126 / 82
Equity cap	Rs 304.5 crore
Face value	Rs 2
MF Holding(%)	16.3
FII Holding(%)	25.2

Price movement



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Net sales declines 2.9% YoY and 23.6% QoQ

Net sales declined by 2.9% YoY to Rs 1564 crore as the 5.7% YoY increase in sales volume to 4.35 MTPA, negated by 8.1% YoY decline in realisation to Rs 3595 per tonne. On a QoQ basis, net sales have declined by 23.6% on account of 18.5% QoQ decline in sales volume and 6.2% decline in realisation. Volumes were impacted during the quarter on account of slowdown in demand led by strong monsoon and delay in infrastructure activities. Prices during the quarter remained weak on account of subdued demand and capacity surplus across the major regions.

EBITDA margin declines 858 bps YoY and 1135 bps QoQ

The EBITDA margin has declined by 858 bps YoY to 18.1% as the total cost increased by 2.6% YoY to Rs 2945 per tonne and realisation declined by 8.1% YoY. Sequentially, the margin has declined by 1135 bps on account of a 8.9% increase in the total expenditure per tonne and 6.2% QoQ decline in realisation.

The raw material cost has declined by 54.9% YoY to Rs 276 per tonne on account of a significant decline in clinker purchases by the company. However, the raw material cost has remained flat on sequential basis. The power & fuel cost has increased by 30.2% YoY and 19.8% QoQ to Rs 1017 per tonne as a result of lower availability of linkage coal, and higher prices for imported coal and petcoke. The freight cost has increased by 8.8% YoY to Rs 787 per tonne on account of an increase in diesel prices and increased internal material transfers. Also, the cost increased on an increase in road transport after facing logistics issues like unavailability of railway wagons. The other expenditure has increased by 10.4% YoY and 11.3% QoQ to Rs 772 per tonne on account of an increase in repair & maintenance costs and higher selling and distribution expenses. Employee expenses have increased by 37.8% YoY and 34.8% QoQ to Rs 227 per tonne.

Hence, the total cost has increased by 2.6% YoY and 8.9% QoQ to Rs 2945 per tonne. EBITDA per tonne has declined by 37.7% YoY and 42.4% QoQ to Rs 651 per tonne.

Net profit declines 52.2% YoY and 61.1% QoQ

The adjusted net profit has declined by 52.2% YoY to Rs 152.1 crore on account of 34.2% YoY decline in operating profit, 44.6% decline in other income, 41.5% increase in depreciation and 71.6% YoY increase in interest cost. On a QoQ basis, the net profit declined by 61.1% as the operating profit declined by 53.1% coupled with a decline in other income and increase in depreciation and interest cost.

Exhibit 2: Per tonne analysis

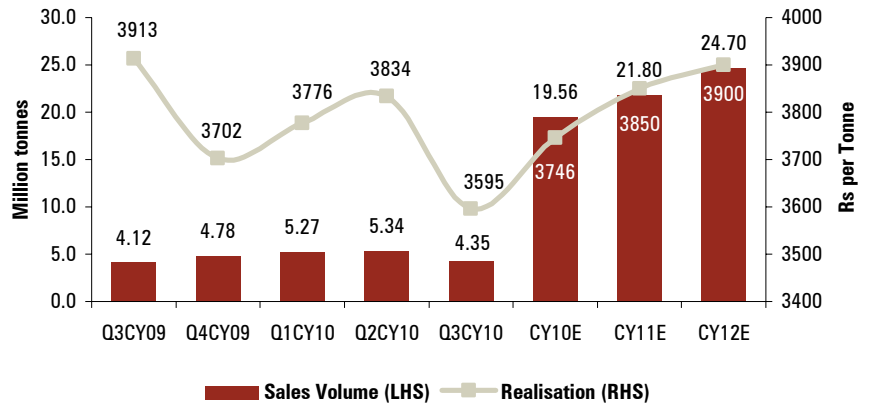
	Q3CY10	Q3CY09	YoY (%)	Q2CY10	QoQ (%)
Realisation	3595	3913	-8.1	3834	-6.2
Total expenditure	2945	2869	2.6	2705	8.9
Stock Adj	-136.1	-113	20.8	-117	16.6
Raw Material	276	612	-54.9	272	1.5
Power & Fuel	1017	781	30.2	849	19.8
Freight	787	723	8.8	838	-6.0
Employee	227	165	37.8	169	34.8
Others	772	699	10.4	694	11.3
EBITDA	651	1045	-37.7	1130	-42.4

Source: Company, ICICIdirect.com Research

The realisation declined by 8.1% YoY and 6.2% QoQ to Rs 3595 per tonne. The EBITDA per tonne has decreased by 37.7% YoY and 42.4% QoQ to Rs 651 per tonne as total expenditure per tonne increased by 2.6% YoY and 8.9% QoQ respectively despite lower raw material cost during the period.

Sales volumes increased to 4.35 MTPA in Q3CY10 as against 4.12 MTPA in Q3CY09 while reported a decline of 18.5% on a sequential basis. For CY10E and CY11E, we expect sales volumes at 19.56 MTPA and 21.80 MTPA, respectively, on account of capacity additions carried out by the company

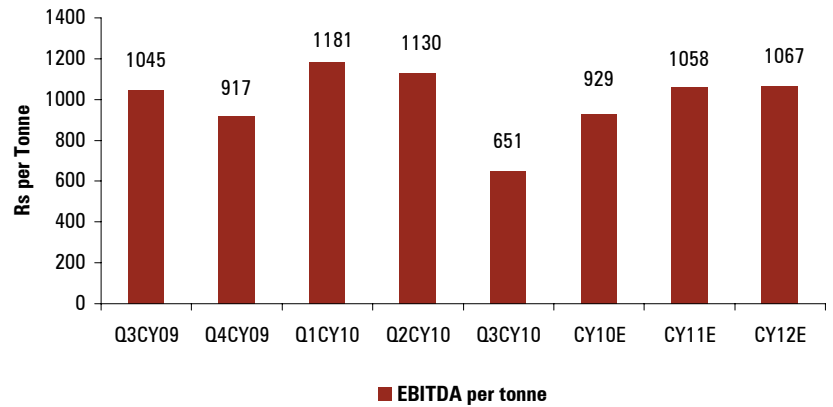
Exhibit 3: Sales volume (MTPA) and realisation (Rs per tonne)



Source: Company, ICICIdirect.com Research

The EBITDA per tonne has decreased by 37.7% YoY to Rs 651 per tonne in Q3CY10 as against Rs 1045 per tonne in Q3CY09. Decline in EBITDA per tonne was mainly on account of fall in sales realisation by 8.1% YoY. The EBITDA per tonne decreased by ~42% QoQ on higher power & fuel costs and Employee costs.

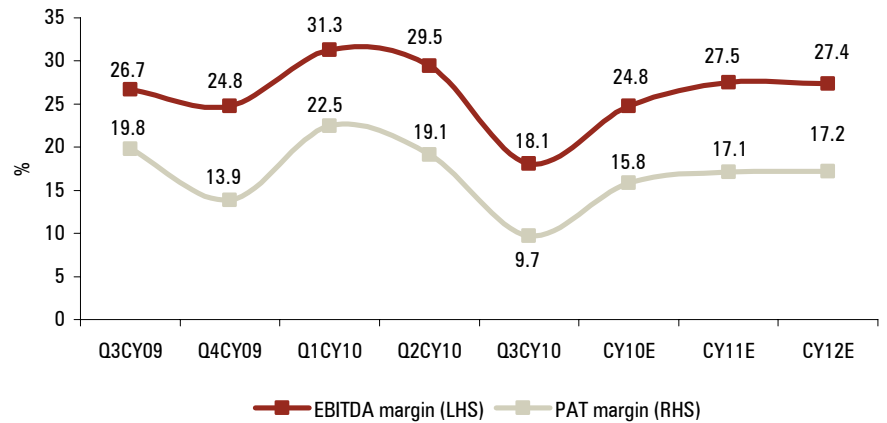
Exhibit 4: EBITDA per tonne increases



Source: Company, ICICIdirect.com Research

The EBITDA margin has contracted by 858 bps YoY and 1135 bps QoQ to 18.1% mainly on account of higher personnel and power & Fuel cost.

Exhibit 5: EBITDA margin (%) and PAT margin (%)



Source: Company, ICICIdirect.com Research

Capex plan

The company has started clinker production from the two newly commissioned clinker units of 2.2 MTPA each. The clinker units are located at Bhatapara, CG and Himachal Pradesh. Also, the two grinding units at Dadri, UP and Nalagarh, HP of 1.5 MTPA each started cement production. Now, the total cement production capacity has increased to 26 MTPA.

Valuations

Ambuja has increased its capacity to 26 MTPA after commissioning of 4.4 MTPA of clinker units and 3 MTPA of grinding units. We expect volume growth of 8% CAGR over CY09-11E. Also, with this the company would be able to reduce its clinker purchase cost. However, increasing coal and freight costs are expected to put pressure on the margin.

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ICICIdirect.com coverage universe (Cement)

			Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
ACC								
Idirect Code	ACC CMP	981 CY08	7,308.6	64.5	15.2	10.0	24.6	26.6
MCap	18433 Target	1041 CY09	8,027.3	85.5	11.5	6.8	26.7	32.5
	% Upside	6% CY10E	7,554.5	54.7	17.9	9.9	15.6	17.4
		CY11E	8,705.9	61.4	16.0	8.3	15.9	19.2
Ambuja Cements								
Idirect Code	GUJAMB CMP	141 CY08	6,234.7	7.4	18.9	12.0	21.9	27.7
MCap	21484 Target	130 CY09	7,076.9	8.0	17.6	10.7	20.1	27.1
	% Upside	-8% CY10E	7,326.7	7.6	18.5	10.8	16.8	22.0
		CY11E	8,393.0	9.4	15.0	8.1	18.3	25.0
UltraTech Cements*								
Idirect Code	ULTCEM CMP	1116 FY09	6,383.1	78.9	14.1	18.3	27.5	24.3
MCap	30601 Target	954 FY10E	7,054.8	86.8	12.9	15.4	23.6	25.4
	% Upside	-15% FY11E	12,522.6	50.3	22.2	12.0	12.7	12.7
		FY12E	16,964.0	66.1	16.9	9.2	14.5	15.2
Shree Cement								
Idirect Code	SHRCM CMP	2048 FY09	2,715.0	165.9	12.3	7.7	61.4	33.9
MCap	7135 Target	2358 FY10E	3,625.4	204.7	10.0	4.9	46.9	30.4
	% Upside	15% FY11E	3,882.7	208.4	9.8	5.5	33.6	24.6
		FY12E	4,432.5	237.3	8.6	4.9	28.8	25.5
India Cements								
Idirect Code	INDCEM CMP	114 FY09	3,426.5	17.2	6.6	4.8	17.4	17.0
MCap	3502 Target	108 FY10E	3,771.3	10.6	10.8	6.1	10.1	11.3
	% Upside	-5% FY11E	4,051.4	2.6	44.2	11.6	2.3	3.9
		FY12E	4,621.5	4.7	24.3	7.9	4.0	6.5
JK Cement								
Idirect Code	JKCEM CMP	175 FY09	1,496.8	21.1	8.3	6.6	17.7	17.2
MCap	1224 Target	194 FY10E	1,826.8	32.3	5.4	4.9	22.6	17.9
	% Upside	11% FY11E	2,368.0	20.3	8.6	5.5	12.4	11.8
		FY12E	2,632.1	23.7	7.4	6.4	13.0	11.6
JK Lakshmi								
Idirect Code	JKCORP CMP	62 FY09	1,224.7	14.6	4.2	3.4	21.5	15.7
MCap	756 Target	77 FY10E	1,490.5	19.7	3.1	2.3	23.6	17.7
	% Upside	25% FY11E	1,315.9	3.4	18.4	5.9	4.0	4.6
		FY12E	1,465.5	9.3	6.7	4.2	10.3	9.2
Dalmia Bharat Sugar#								
Idirect Code	DALCEM CMP	51 FY09	1,753.6	17.4	2.9	7.2	11.7	10.8
MCap	413 Target	UR FY10E	2,154.3	21.9	2.3	8.5	13.1	8.9
	% Upside	FY11E	2,565.1	10.6	4.8	11.2	5.9	6.3
		FY12E	3,118.8	27.9	1.8	7.4	14.4	9.8
Orient Paper & Industries								
Idirect Code	ORIPAP CMP	60 FY09	1,503.2	12.0	5.0	4.0	41.3	43.1
MCap	1157 Target	69 FY10E	1,616.5	8.2	7.3	5.1	22.5	22.5
	% Upside	16% FY11E	1,815.0	9.1	6.6	3.7	20.9	22.2
		FY12E	2,053.6	12.2	4.9	2.4	23.3	26.1
Mangalam Cement								
Idirect Code	MANCEM CMP	157 FY09	563.7	37.5	4.2	2.8	33.0	35.2
MCap	419 Target	175 FY10E	613.7	45.7	3.4	1.6	29.8	40.0
	% Upside	11% FY11E	564.1	27.1	5.8	5.7	15.9	8.7
		FY12E	659.7	28.5	5.5	7.0	14.8	8.0

* includes samruddhi cement

consolidated numbers (including cement and power)

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