



Ambuja Cements

STOCK INFO.	BLOOMBERG
BSE Sensex: 8,701	ACEM IN
	REUTERS CODE
S&P CNX: 2,584	ABUJ.BO

24 October 2008

Neutral

Previous Recommendation: Neutral

Rs45

Equity Shares (m)	1,522.4
52-Week Range	161/43
1,6,12 Rel. Perf. (%)	-10/-13/-16
M.Cap. (Rs b)	68.4
M.Cap. (US\$ b)	1.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
12/07A	56,314	13,078	8.6	-2.8	5.2	1.5	32.2	43.0	0.9	2.4
12/08E	63,013	11,547	7.6	-11.7	5.9	1.3	22.9	32.1	0.8	2.9
12/09E	62,966	9,282	6.1	-19.6	7.4	1.2	16.6	22.8	0.9	3.9

- Ambuja Cements' 3QCY08 results were better than we had expected. The company managed cost push effectively, enabling it to post EBITDA margins of 29.2%.
- Revenues grew 8.5% to Rs14b, driven by 4.3% (flat QoQ) realization growth to Rs3,576/ton and volume growth of 4% to 3.92MT. Domestic dispatches grew 3% to 3.62MT, whereas exports grew 20% to 0.3MT. Blended realizations benefited from cement exports due to weak rupee. However, higher exports (~7.7% of dispatches v/s 1.7% in 2QCY08) restricted sequential improvement in realizations.
- EBITDA de-grew 8% to Rs4.1b and margins declined just by 100bp QoQ (~510bp YoY) to 29.2%. Cost push was marginal on QoQ basis, except for 10% QoQ increase in energy cost – partly benefiting from new CPP, which commenced operations during the quarter. However, higher tax provisioning at 32.6% of PBT (v/s 29.2% in 3QCY07) further impacted recurring PAT to Rs2.5b, a decline of 14%.
- We maintain our EPS estimate for CY08 at Rs7.6, but downgrade our CY09E EPS by 15.7% to Rs6.1 to factor in the change in cement price assumption to Rs10/bag decline in CY09 (v/s Rs5/bag decline earlier). The stock trades at 7.4x CY09E EPS, and an EV of 3.9x CY09E EBITDA. We maintain **Neutral**, with a target price of Rs66 (~6x CY09E EV/EBITDA).

QUARTERLY PERFORMANCE

(RS MILLION)

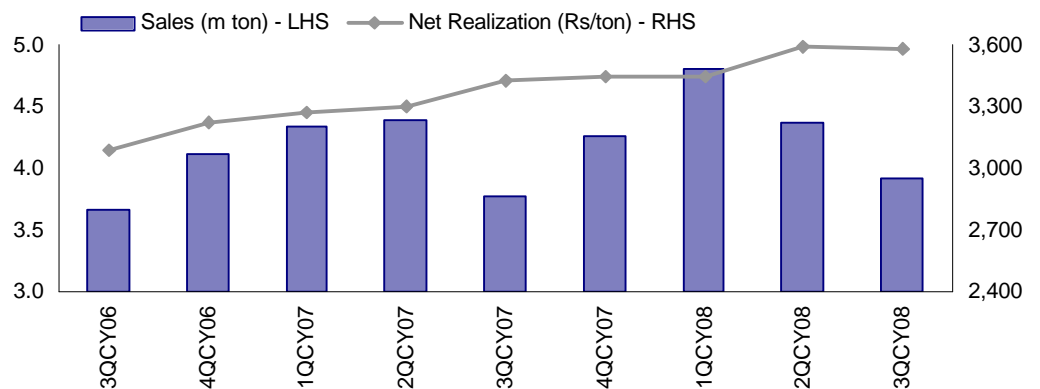
Y/E DECEMBER	CY07				CY08				CY07	CY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales Volume (m ton)	4.34	4.39	3.77	4.26	4.80	4.38	3.92	4.70	16.76	17.80
YoY Change (%)	3.8	1.7	3.0	3.4	10.6	-0.3	4.0	10.4	2.8	6.2
Realization (Rs/ton)	3,271	3,305	3,428	3,448	3,448	3,588	3,576	3,560	3,360	3,540
YoY Change (%)	27.3	8.6	10.9	6.9	5.4	8.6	4.3	3.3	13.0	100.1
QoQ Change (%)	1.4	1.0	3.7	0.6	0.0	4.1	-0.3	-0.5	64.2	19.0
Net Sales	14,195	14,507	12,924	14,687	16,549	15,698	14,019	16,748	56,314	63,013
YoY Change (%)	32.2	10.4	14.3	10.5	16.6	8.2	8.5	14.0	16.2	263.1
EBITDA	5,659	5,479	4,429	4,884	5,160	4,743	4,091	3,849	20,451	17,843
Margins (%)	39.9	37.8	34.3	33.3	31.2	30.2	29.2	23.0	36.3	28.3
Depreciation	598	583	584	598	618	616	654	510	2,363	2,398
Interest	119	94	56	490	57	57	59	64	759	236
Other Income	330	765	298	542	406	350	333	612	1,935	1,700
PBT before EO Item	5,272	5,568	4,088	4,338	4,890	4,420	3,711	3,887	19,265	16,908
Extraordinary Inc/(Exp)	2,408	5,747	-270	-26	-59	3,142	0	0	7,859	3,083
PBT after EO Exp/(Inc)	7,679	11,314	3,818	4,312	4,832	7,562	3,711	3,887	27,124	19,991
Tax	2,017	2,764	1,117	3,535	1,570	1,791	1,210	1,185	9,433	5,757
Rate (%)	26.3	24.4	29.2	82.0	32.5	23.7	32.6	30.5	34.8	28.8
Reported Profit	5,663	8,550	2,701	777	3,262	5,770	2,501	2,701	17,691	14,234
Adj PAT	3,582	3,808	2,910	2,797	3,302	3,043	2,501	2,701	13,078	11,547
YoY Change (%)	33.5	16.3	11.2	-17.2	-7.8	-20.1	-14.0	-3.4	-2.4	-11.7

E: MOST Estimates

Revenues grow 8.5%

Ambuja Cement’s revenues for 3QCY08 grew 8.5% to Rs14b, driven by 4.3% (flat QoQ) realization growth to Rs3,576/ton and volume growth of 4% to 3.92MT. Domestic dispatches grew 3% to 3.62MT, whereas exports grew 20% to 0.3MT. Blended realizations benefited from cement exports due to weak rupee. However, higher exports (~7.7% of dispatches v/s 1.7% in 2QCY08) restricted sequential improvement in realizations.

TREND IN DISPATCHES & REALIZATIONS

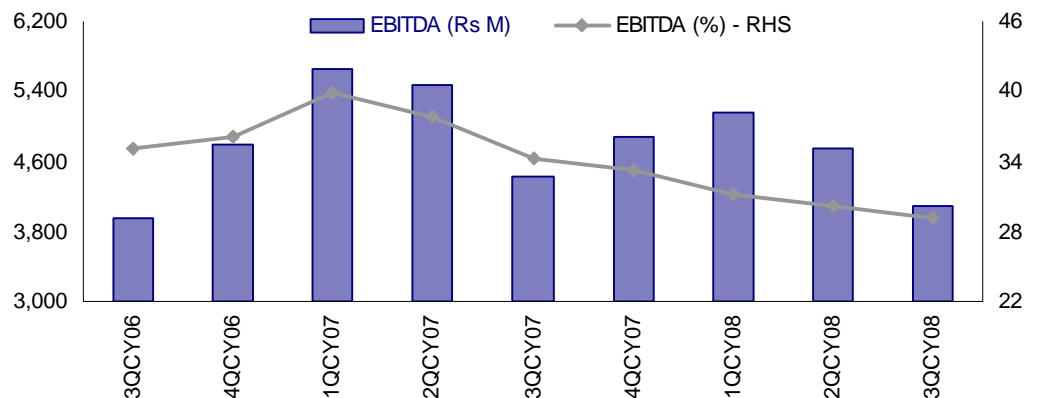


Source: Company/Motilal Oswal Securities

Cost control restricts erosion in margins

EBITDA declined 8% to Rs4.1b and margins declined just by 100bp QoQ (~510bp YoY) to 29.2%. Cost push was marginal on QoQ basis, except for 10% QoQ increase in energy cost – partly benefiting from new CPP which commenced operations during the quarter. However, higher tax provisioning at 32.6% of PBT (v/s 29.2% in 3QCY07) further impacted recurring PAT to Rs2.5b, a decline of 14%.

TREND IN EBITDA



Source: Company/Motilal Oswal Securities

The company has couple of levers to control cost in CY09. Decline in imported coal prices would benefit Ambuja only from 1QCY09, as it has contracts running till 4QCY08. It imports about 33% of its coal requirement. Further, the company's fixed cost would witness moderation in CY09, as implementation of SAP system is over and the software went live in August 2008.

INCOME STATEMENT (RS/TON)

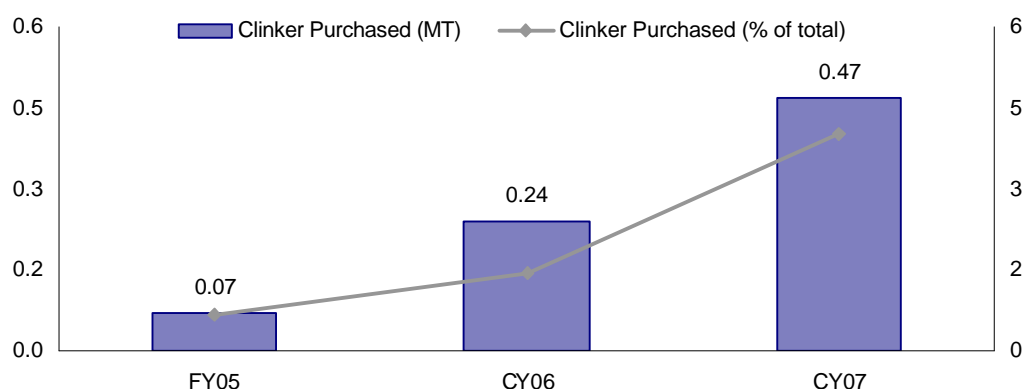
	3QCY08	3QCY07	YOY (%)	2QCY08	QOQ (%)
Net Realizations	3,576	3,428	4.3	3,588	-0.3
Raw Material	188	234	-19.4	263	-28.4
Staff Cost	165	163	1.4	147	12.4
Power & Fuel	801	607	32.1	731	9.6
Freight	749	709	5.7	742	0.9
Other expenditure	629	542	16.2	621	1.4
Total Cost	2,533	2,253	12.4	2,504	1.2
EBITDA	1,044	1,175	-11.2	1,084	-3.7

Source: Company/Motilal Oswal Securities

Volume growth to be driven by purchased clinker...

Ambuja Cements is currently facing capacity constraints, which limited its volume growth at 4% in CY07. The company was able to grow volumes by resorting to higher blending and clinker purchases. Although it is pursuing capacity expansion, new capacities would be operational only in CY09. In CY08, volume growth would be driven by purchased clinker, which the company would grind at its recently commissioned standalone grinding units. We estimate volume growth of 6.2% in CY08.

TREND IN CLINKER PURCHASED

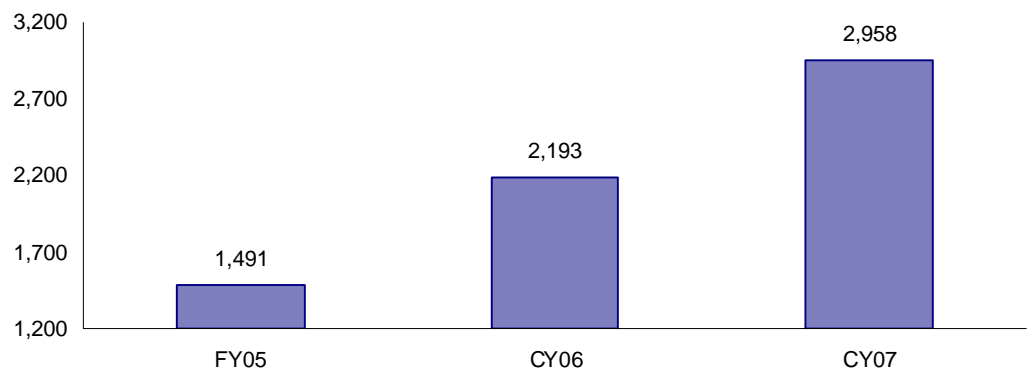


Source: Company/Motilal Oswal Securities

...thereby impacting profitability

To achieve volume growth in CY08, the company would purchase clinker, which would be ground at its recently commissioned grinding units. Incremental volumes would enjoy lower profitability, as purchased clinker costs more. In CY07, it purchased around 0.5m ton of clinker (~4% of total clinker grounded), at an average cost of Rs2,958/ton. Based on clinker cost of Rs2,958/ton, our estimates suggest that Ambuja Cements would have earned EBITDA margins of 22-27% on incremental volumes v/s blended margins of 36% in CY07. Cost of clinker purchases increased by 35% in CY07. While it is difficult to estimate the quantum of purchased clinker, we believe that cost of purchased clinker would go up further in CY08, impacting overall profitability.

TREND IN CLINKER COST (RS/TON)

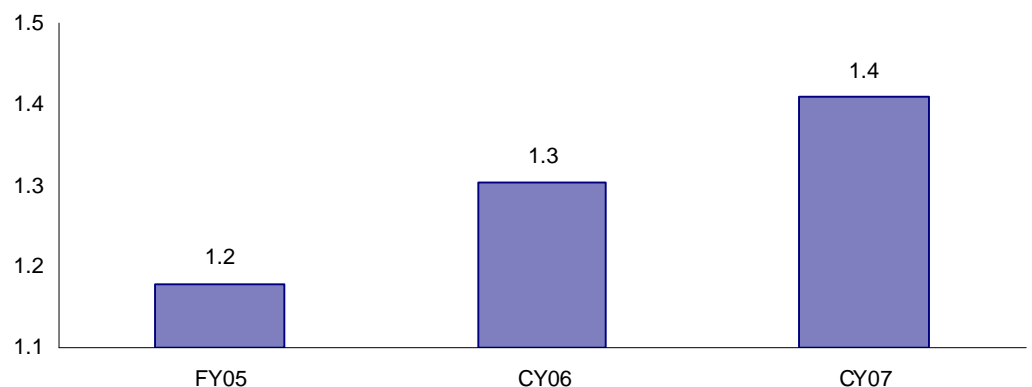


Source: Company /Motilal Oswal Securities

Limited blending potential

The company has limited scope to increase production by increasing blending. Its volume growth in CY07 was also aided by higher blending, with blending ratio of 1.45x (vs 1.34x in CY06). This increase in blending was also enabled by shifting of cement exports (mainly OPC) to domestic market (mainly PPC). Given that the company is only into fly-ash blending and not into slag blending, there is limited scope to increase its blending further to boost throughput.

BLENDING NEARING PEAK (X)



Source: Company /Motilal Oswal Securities

Strengthening sea transport infrastructure...

The company presently owns seven ships for transport of cement from Ambujanagar to Panvel, Surat and MulDwarka. The existing fleet is just sufficient to meet its current requirement. In order to meet growing cement demand, the company has placed an order for three ship with capacity of 4,500 DWT (2 nos.) and 2,800 DWT (1 no.). While one 4,500 DWT ship is expected by the end of 2008, other ships are for delivery by 2009. The addition of these three vessels will enhance its ability to cater to South Gujarat and Mumbai.

...enabling entry into Southern market

The company is setting up a bulk cement terminal at Kochi in Kerala, with total carriage capacity of 1MT. The total investment in this project is estimated at Rs850m. This terminal will give access to fast growing Southern India, by sea route cost effectively. It is scheduled to be commissioned by December 2008 and would enable the company to channelize its exports to Southern market.

New capacity only from 2QCY09

The company's capex plan to add around 6mt (2.2mt clinker unit each at Chattisgarh and HP, with supporting split grinding units) are on track to commence operations from 3QCY09 onwards. In the interim volume growth would be driven by recent augmentation of clinker capacity (by 0.5mt at Rajasthan) and higher blending driven by new grinding units being feed by purchased clinker. Further, it is investing Rs2.5b in ships and bulk terminal facilities to improve its coastal logistics.

CAPACITY EXPANSION – ENSURES VOLUME GROWTH

LOCATION	CAP	COMMIN BY	CAPEX (RS M)
Bhatapara, Chattisgarh	2.2m ton	2QCY09	8,000
Rauri, HP	2.2m ton	3Q/4QCY09	8,000
Dadri, UP	1.5m ton	3QCY09	2,750
Nalagarh, HP	1.5m ton	1HCY10	2,750
Barh, Bihar	1m ton	1HCY10	1,800
Ahmedabad, Gujarat	1.5m ton	2QCY09	2,700
Thermal CPP at multiple locations	112MW		8,250
Total			34,250

Source: Company/Motilal Oswal Securities

Revising estimates

We maintain our EPS estimate for CY08 at Rs7.6, but downgrade our CY09E EPS by 15.7% to Rs6.1 to factor in the change in cement price assumption to Rs10/bag decline in CY09 (v/s Rs5/bag decline earlier).

REVISED FORECAST (RS M)

	CY09E		
	REV	OLD	CHG (%)
Net Sales	62,966	68,673	-8.3
Net Profit	9,282	11,013	-15.7
EPS (Rs)	6.1	7.2	-15.7

Source: Motilal Oswal Securities

Valuation and view

Ambuja commanded premium valuations as compared to its peers, as it earned higher margins, with higher volume growth. Its profitability has been severely impacted by increasing share of traded cement (by purchasing clinker due to back-ended capacity addition), spiraling imported coal cost (40-50% imported coal) and higher fixed cost (due to investment in SAP). As a result, its profitability has been declining since 1QCY07 (~18% in 1QCY08 to Rs1,075), bringing it in line with the industry average. Also, Ambuja Cement's key market could witness excess supply earlier than estimated due to ban on exports (West) and new capacity additions (North), thereby impacting pricing and profitability. The stock trades at 7.4x CY09E EPS and an EV of 3.9x CY09E EBITDA. Maintain **Neutral** with target price of Rs66 (~6x CY09E EV/EBITDA).

Ambuja Cements: an investment profile

Company description

Gujarat Ambuja is the third largest cement company in India with total capacity of 14.9m ton under its control. It is one of the lowest cost producers of cement with focus on structurally sound markets of North, West and East. It is also the largest exporter of cement from India.

Key investment arguments

- Best positioned geographically (#1 & #2 in North and West, respectively) to benefit from current upturn in cement prices.
- Geographical location gives flexibility to choose between domestic and export market.
- Financially well placed (zero net debt) to drive further consolidation in the industry.

Key investment risks

- Exhausting sales tax benefit in Gujarat, coupled with implementation of VAT, could impact margins adversely.
- Any downturn in the export market would result in over-supply in the domestic market, resulting in pressure on prices in the key market of Gujarat.

Recent developments

- Nil.

Valuation and view

- Dilution in superior profitability, inorganic volume growth and concentrated market mix would act as catalysts to alignment of valuations with peers.
- The stock trades at 7.4x CY09E EPS and an EV of 3.9x CY09E EBITDA. Maintain **Neutral** with target price of Rs66 (~6x CY09E EV/EBITDA).

Sector view

- Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth
- Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HFY09
- Imports not a significant threat, due to infrastructural bottlenecks

COMPARATIVE VALUATIONS

		GACL	ACC	ULTRATECH
P/E (x)	CY08E	5.9	7.3	4.6
	CY09E	7.4	10.1	4.9
P/BV (x)	CY08E	1.3	1.6	1.2
	CY09E	1.2	1.5	1.0
EV/Sales (x)	CY08E	0.8	0.8	0.8
	CY09E	0.9	0.9	0.6
EV/EBITDA (x)	CY08E	2.9	3.5	3.1
	CY09E	3.9	5.8	2.7

EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
CY08	7.6	8.1	-6.3
CY09	6.1	7.2	-15.4

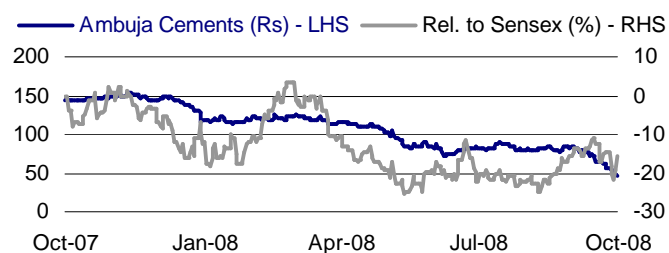
TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
45	66	47.0	Neutral

SHAREHOLDING PATTERN (%)

	SEP-08	JUN-08	SEP-07
Promoter	46.5	46.5	37.8
Domestic Inst	15.6	15.8	17.2
Foreign	26.6	26.3	32.7
Others	11.3	11.4	12.3

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E DECEMBER	2005#	2006E#	2007	2008E	2009E
Net Sales	31,056	48,479	56,314	63,013	62,966
Change (%)	28.6	56.1	6.2	11.9	-0.1
EBITDA	8,461	17,608	20,451	17,843	14,820
Margin (%)	27.2	36.3	36.3	28.3	23.5
Depreciation	1,994	2,269	2,363	2,398	3,078
EBIT	6,467	15,338	18,088	15,444	11,741
Int. and Finance Charges	869	377	759	236	225
Other Income - Rec.	1,055	1,199	1,935	1,700	1,650
PBT before EO Exp.	6,654	16,160	19,265	16,908	13,166
EO Expense/(Income)	0	0	-7,859	-3,083	0
PBT after EO Exp.	6,654	16,160	27,124	19,991	13,166
Current Tax	1,046	2,648	9,442	5,629	3,818
Deferred Tax	-24	112	-9	128	66
Tax Rate (%)	15.4	17.1	34.8	28.8	29.5
Reported PAT	5,563	13,401	17,691	14,234	9,282
PAT Adj for EO Items	5,563	13,401	13,078	11,547	9,282
Change (%)	70.5	140.9	-2.4	-11.7	-19.6

BALANCE SHEET					
(Rs Million)					
Y/E DECEMBER	2005^	2006*	2007	2008E	2009E
Equity Share Capital	2,704	3,034	3,045	3,045	3,045
Total Reserves	19,080	31,884	43,568	51,568	54,616
Net Worth	21,784	34,917	46,613	54,613	57,661
Deferred Liabilities	3,811	3,839	3,784	3,912	3,978
Total Loans	11,275	8,654	3,304	3,000	3,000
Capital Employed	36,870	47,410	53,701	61,525	64,638
Gross Block	37,092	45,425	52,311	53,811	75,811
Less: Accum. Deprn.	14,639	20,533	22,712	25,110	28,189
Net Fixed Assets	22,452	24,892	29,599	28,700	47,622
Capital WIP	1,181	6,349	6,968	12,000	1,500
Investments	11,251	11,331	12,889	15,985	11,395
Curr. Assets	5,846	11,776	15,873	16,107	14,992
Inventory	3,170	4,088	5,816	7,322	7,546
Account Receivables	458	900	1,457	1,952	2,012
Cash and Bank Balance	865	3,781	6,508	3,905	2,415
Others	1,352	3,007	2,093	2,929	3,019
Curr. Liability & Prov.	3,958	7,016	11,691	11,330	10,933
Account Payables	2,890	5,329	6,755	7,425	7,914
Provisions	1,068	1,687	4,936	3,905	3,019
Net Current Assets	1,888	4,760	4,182	4,777	4,059
Misc Expenditure	97	77	62	62	62
Appl. of Funds	36,870	47,410	53,701	61,525	64,638

E: MOSt Estimates; ^ Y/E June; # 12months ending December; * 18 month period end

RATIOS					
Y/E DECEMBER	2005#	2006E#	2007	2008E	2009E
Basic (Rs)					
EPS	4.1	8.8	8.6	7.6	6.1
Cash EPS	5.6	10.3	10.1	9.2	8.1
BV/Share	16.0	23.0	30.4	35.7	37.7
DPS	18	3.3	3.5	3.5	3.5
Payout (%)	38.8	39.2	35.2	43.8	67.2
Valuation (x)					
P/E		5.1	5.2	5.9	7.4
Cash P/E		4.3	4.4	4.9	5.5
P/BV		2.0	1.5	1.3	1.2
EV/Sales		1.1	0.9	0.8	0.9
EV/EBITDA		3.1	2.4	2.9	3.9
EV/Ton (Cap) - US\$		66	52	55	46
Dividend Yield (%)		7.3	7.8	7.8	7.8
Return Ratios (%)					
RoE	28.5	47.4	32.2	22.9	16.6
RoCE	23.3	43.3	43.0	32.1	22.8
Working Capital Ratios					
Asset Turnover (x)	0.8	1.0	1.0	1.0	1.0
Debtor (Days)	5	6	8	10	10
Leverage Ratio (x)					
Current Ratio	15	17	14	14	14
Debt/Equity	0.5	0.2	0.1	0.1	0.1

CASH FLOW STATEMENT (INCL ACEL)					
(Rs Million)					
Y/E DECEMBER	2005^	2006*	2007	2008E	2009E
Op. Profit/(Loss) before Tax	7,562	22,002	21,185	17,843	14,820
Interest/Dividends Recd.	64	357	1,000	1,700	1,650
Direct Taxes Paid	-371	-4,503	-4,489	-5,757	-3,884
(Inc)/Dec in WC	-791	463	-1,110	-3,198	-772
CF from Operations	6,464	18,319	16,587	10,588	11,814
EO Income	0	0	0	3,083	0
CF from Op. incl EO Exp	6,464	18,319	16,587	13,671	11,814
(inc)/dec in FA	-1,709	-7,564	-5,284	-6,532	-11,500
(Pur)/Sale of Investments	-887	935	2,668	-3,095	4,589
CF from Investments	-2,596	-6,629	-2,616	-9,627	-6,911
Issue of Shares	153	481	323	0	0
(Inc)/Dec in Debt	-1,169	-3,402	-5,253	-176	66
Interest Paid	-848	-1,202	-483	-236	-225
Dividend Paid	-1,827	-4,766	-5,832	-6,234	-6,234
CF from Fin. Activity	-3,691	-8,889	-11,244	-6,647	-6,393
Inc/Dec of Cash	177	2,802	2,726	-2,603	-1,490
Add: Beginning Balance	688	980	3,782	6,508	3,905
Closing Balance	865	3,781	6,508	3,905	2,415

E: MOSt Estimates; ^ Y/E June; # 12months ending December; * 18 month period end

N O T E S



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Ambuja Cements

- | | |
|---|----|
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| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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