



Gujarat Ambuja Cements

| | |
|--------------------|--------------|
| STOCK INFO. | BLOOMBERG |
| BSE Sensex: 14,516 | GAMB IN |
| | REUTERS CODE |
| S&P CNX: 4,215 | GACM.BO |

5 February 2007

Buy

Rs143

Previous Recommendation: Buy

| | |
|-----------------------|---------|
| Equity Shares (m) | 1,516.0 |
| 52-Week Range | 150/77 |
| 1,6,12 Rel. Perf. (%) | -1/2/20 |
| M.Cap. (Rs b) | 217.0 |
| M.Cap. (US\$ b) | 4.9 |

| 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 |
| 12/05A | 31,056 | 5,563 | 4.1 | 69.7 | 34.8 | 8.1 | 27.0 | 22.4 | 5.5 | 20.3 |
| 12/06E | 49,258 | 14,352 | 9.5 | 130.1 | 15.1 | 6.6 | 50.7 | 44.8 | 3.9 | 10.9 |
| 12/07E | 58,049 | 17,893 | 11.8 | 24.7 | 12.1 | 5.0 | 46.8 | 51.7 | 3.2 | 7.9 |
| 12/08E | 60,744 | 16,964 | 11.2 | -5.2 | 12.8 | 4.0 | 34.8 | 41.5 | 2.9 | 7.6 |

Gujarat Ambuja's 6QCY06 results (consolidated) are lower than our estimates with consolidated PAT at Rs3.75b, primarily due to lower-than-expected volumes at 4.12m ton and higher cost push. Reported numbers are not comparable due to merger of ACEL w.e.f. 1 January 2006.

- On a like-to-like basis, 6QCY06 consolidated revenues are up 48.7% YoY to Rs13.3b, driven by 6.7% YoY volume growth to 4.1m ton and 39% YoY (~4.4% QoQ) higher realizations to Rs3,226/ton.
- EBITDA for 6QCY06 grew by 103% YoY to Rs4.8b, translating into EBITDA margins of 36%. Margin expansion would have been higher but for higher raw material cost and higher freight cost. Consolidated PAT grew by 164% YoY to Rs3.75b.
- The company is investing Rs33.5b to increase capacity via brownfield (4.8m ton) and greenfield (3m ton) initiatives, along with setting up a thermal captive power plant (178MW).
- We have revised our CY07 earnings marginally downward by 4%, due to lowering of our price increase assumption to Rs5/bag in 1QCY07 (v/s Rs7.5/bag earlier). Our consolidated earnings (for ACEL and ACC) are at Rs11.8 for CY07E and Rs11.2 for CY08E respectively. Valuations at 12.1x CY07E EPS and 7.9x CY07E EV/EBITDA appear reasonable, given the positive cement price outlook. Maintain **Buy**.

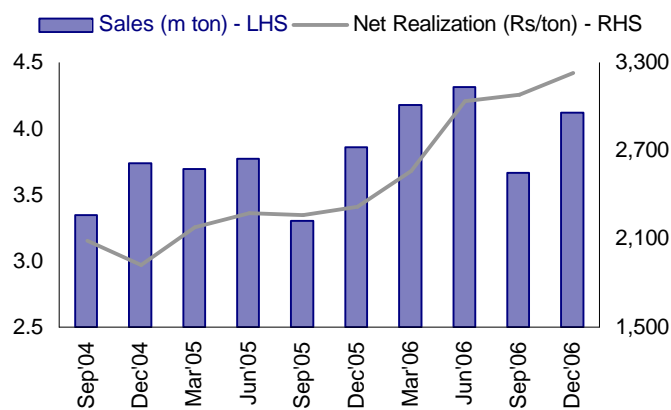
| Y/E DECEMBER | QUARTERLY PERFORMANCE (STANDALONE) | | | | | | | | | |
|-------------------------------|-------------------------------------|--------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|
| | FY05 [^] | | CY06 | | | | | | FY05 | CY06 |
| | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 5Q | 6Q | | |
| Sales Volume (m ton) | 3.18 | 3.28 | 2.94 | 3.42 | 3.65 | 3.77 | 3.21 | 4.12 | 12.74 | 21.11 |
| YoY Change (%) | 14.8 | 13.5 | 0.2 | 2.4 | 14.8 | 14.9 | 9.0 | 20.5 | 22.0 | 10.5 |
| Realization (Rs/ton) | 2,099 | 2,197 | 2,198 | 2,261 | 2,532 | 3,009 | 3,066 | 3,226 | 2,046 | 2,969 |
| YoY Change (%) | 3.9 | 6.7 | 7.9 | 21.8 | 20.7 | 37.0 | 39.5 | 42.7 | 8.3 | NA |
| Net Sales | 6,674 | 7,205 | 6,473 | 7,732 | 9,243 | 11,342 | 9,841 | 13,291 | 26,066 | 62,683 |
| YoY Change (%) | 19.3 | 21.1 | 8.1 | 24.7 | 38.5 | 57.4 | 52.0 | 71.9 | 32.4 | 60.3 |
| EBITDA | 1,991 | 2,219 | 1,703 | 2,021 | 3,213 | 4,433 | 3,556 | 4,791 | 7,236 | 21,331 |
| Margins (%) | 29.8 | 30.8 | 26.3 | 26.1 | 34.8 | 39.1 | 36.1 | 36.0 | 27.8 | 34.0 |
| Depreciation | -492 | -466 | -490 | -502 | -509 | -497 | -500 | -572 | -1,954 | -3,261 |
| Interest | -208 | -226 | -216 | -45 | -105 | -123 | -85 | -45 | -848 | -790 |
| Other Income | 85 | 131 | 13 | -76 | 180 | -100 | 258 | 403 | 746 | 1,137 |
| PBT before EO Item | 1,376 | 1,657 | 1,010 | 1,398 | 2,779 | 3,714 | 3,230 | 4,576 | 5,181 | 18,416 |
| Extraordinary Inc/(Exp) | 0 | 0 | 0 | 0 | 358 | 0 | 0 | 0 | 0 | 0 |
| PBT after EO Exp/(Inc) | 1,376 | 1,657 | 1,010 | 1,398 | 3,137 | 3,714 | 3,230 | 4,576 | 5,181 | 18,416 |
| Tax | -56 | 206 | 258 | 367 | 152 | 675 | 783 | 1,199 | 503 | 3,384 |
| Rate (%) | -4.0 | 12.4 | 25.5 | 26.3 | 4.8 | 18.2 | 24.2 | 26.2 | 9.7 | 18.4 |
| Reported Profit | 1,431 | 1,452 | 753 | 1,031 | 2,986 | 3,039 | 2,447 | 3,378 | 4,678 | 15,033 |
| Adj PAT | 1,431 | 1,452 | 753 | 1,031 | 2,645 | 3,039 | 2,447 | 3,378 | 4,678 | 15,033 |
| YoY Change (%) | -12.5 | 22.4 | -16.3 | 15.1 | 84.8 | 109.3 | 225.0 | 227.7 | 61.2 | 114.2 |
| Consolidate PAT | 1,556 | 1,712 | 1,081 | 1,215 | 3,157 | 3,601 | 2,800 | 3,751 | 5,181 | 16,647 |

E: M0St Estimates; ^ Year Ending June; Note: Quarterly results don't add up with full year results due to restating of past quarter results

Firm cement prices drive revenue growth

On a like-to-like basis, 6QCY06 consolidated revenues are up 48.7% YoY to Rs13.3b, driven by 6.7% YoY volume growth to 4.1m ton and 39% YoY (~4.4% QoQ) higher realizations to Rs3,226/ton.

TREND IN DESPATCHES (M TON) AND REALIZATIONS (RS/TON)



Source: Company/Motilal Oswal Securities

CONSOLIDATED RESULTS: LIKE-TO-LIKE COMPARISON (RS M)*

| | DEC'06 | DEC'05 | YOY (%) | SEP'06 | QOQ (%) |
|-----------------------|--------|--------|---------|--------|---------|
| Volumes (m ton) | 4.1 | 3.9 | 6.7 | 3.7 | 12.5 |
| Realizations (Rs/ton) | 3,226 | 2,315 | 39.3 | 3,089 | 4.4 |
| Net Sales | 13,291 | 8,936 | 48.7 | 11,310 | 17.5 |
| EBITDA | 4,791 | 2,355 | 103.5 | 3,962 | 20.9 |
| EBITDA Margins (%) | 36.0 | 26.4 | 36.8 | 35.0 | 2.9 |
| EBITDA (Rs/ton) | 1,163 | 610 | 90.6 | 1,082 | 7.5 |
| PAT | 3,751 | 1,419 | 164.3 | 3,041 | 23.4 |

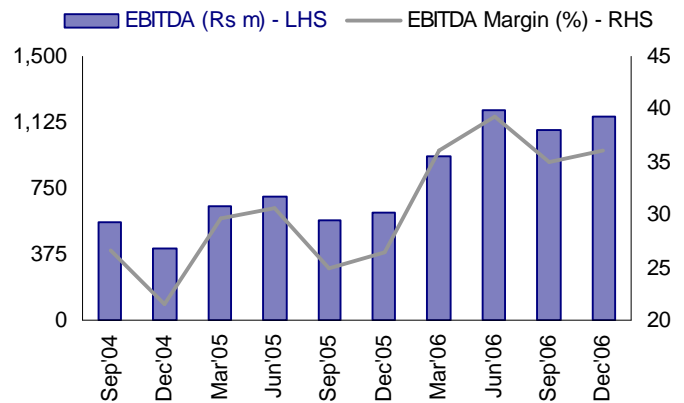
* incl. ACEL and share in ACC's profit

Source: Company/Motilal Oswal Securities

Cost push restricts margin expansion

EBITDA for 6QCY06 grew by 103% YoY to Rs4.8b, translating into EBITDA margins of 36%. Margin expansion would have been higher but for the higher raw material cost due to higher blending and higher freight costs as a result of the ban on overloading and higher fuel costs.

TREND IN EBITDA



Source: Company/Motilal Oswal Securities

Higher other income at Rs403m, lower interest cost to Rs45m and lower tax provisioning at 27% of PBT (v/s 28.5% in December 2005) boosted consolidated PAT growth to 164% YoY to Rs3.75b.

For CY06 (12 months), consolidated revenues were Rs49.3b, with EBITDA margins of 35.7% and PAT at Rs14.4b. Consolidated results for CY06 are not comparable due to ACEL merger.

Capex plans improves growth visibility

The company is investing Rs33.5b to increase capacity through brownfield (4.8m ton) and greenfield (3m ton) initiatives taking total capacity to ~24m ton by end of CY09. Also, it is setting up thermal captive power plants (178MW). This capacity expansion and captive power plants would not only enable volume growth, but also maintain cost competitiveness.

CAPEX

| LOCATION | CAP | COMMEN BY | CAPEX (RS M) |
|---------------------------------------|----------|-----------|---------------|
| Farakka, West Bengal (grinding) | 1m ton | Feb-07 | 1,600 |
| Roorkee, Uttaranchal (grinding) | 1m ton | Apr-07 | 1,600 |
| Rajasthan | 0.5m ton | Jul-07 | 1,300 |
| Bhatapara, Chattisgarh (clinker only) | 2.3m ton | Dec-08 | 6,500 |
| Himachal Pradesh | 3m ton | 2QCY09 | 15,000 |
| Thermal CPP at multiple locations | 178MW | | 7,500 |
| Total | | | 33,500 |

Source: Company/Motilal Oswal Securities

Valuation and view

We have revised our CY07 earnings marginally downward by 4%, due to lowering of our price increase assumption to Rs5/bag in 1QCY07 (v/s Rs7.5/bag earlier). Our consolidated earnings (for ACEL and ACC) stand at Rs11.8

for CY07E and Rs11.2 for CY08E respectively. Valuations at 12.1x CY07E EPS and 7.9x CY07E EV/EBITDA appear reasonable given positive cement price outlook. Maintain **Buy** with target price of Rs170 (~14x CY07E EPS).

Gujarat 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

- Setting up a 3m ton greenfield plant in Himachal Pradesh, by investing Rs15.2b, taking total capacity to ~24m ton by end of CY09.
- Declared final dividend of Rs0.8/share for CY06, taking total dividend for CY06 to Rs3.3/share.

Valuation and view

- On consolidated earnings, valuations at 12.1x CY07E EPS, 7.9x CY07E EV/EBITDA and at US\$240/ton on asset valuations (on expanded capacity of 17.8m ton).
- Valuation appears to be reasonable on both earnings as well as asset valuations (for strong earnings power of the asset), given positive cement price outlook. Maintain Buy with target price of Rs170.

Sector view

- Volume expected to grow 10%, driven by continuous momentum in housing and infrastructure projects.
- Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HFY09, resulting in strong pricing environment in the interim.

COMPARATIVE VALUATIONS

| | | GACL | ACC | ULTRATECH |
|---------------|-------|------|------|-----------|
| P/E (x) | FY07E | 15.1 | 17.7 | 17.7 |
| | FY08E | 12.1 | 12.9 | 14.4 |
| P/BV (x) | FY07E | 6.6 | 6.4 | 7.8 |
| | FY08E | 5.0 | 4.7 | 5.3 |
| EV/Sales (x) | FY07E | 3.9 | 3.5 | 3.0 |
| | FY08E | 3.2 | 2.7 | 2.6 |
| EV/EBITDA (x) | FY07E | 10.9 | 12.2 | 10.0 |
| | FY08E | 7.9 | 8.5 | 8.3 |

SHAREHOLDING PATTERN (%)

| | DEC.06 | SEP.06 | DEC.05 |
|---------------|--------|--------|--------|
| Promoter | 31.2 | 23.9 | 23.8 |
| Domestic Inst | 16.2 | 18.7 | 17.8 |
| Foreign | 39.6 | 41.6 | 42.9 |
| Others | 13.0 | 15.8 | 15.5 |

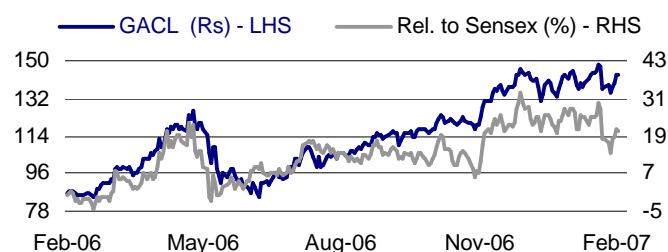
EPS: MOST FORECAST VS CONSENSUS (RS)

| | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|-------|---------------|--------------------|---------------|
| CY06E | 9.5 | 7.9 | 19.6 |
| CY07E | 11.8 | 9.3 | 26.9 |

TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|--------------------|-------------------|------------|-------|
| 143 | 170 | 18.8 | Buy |

STOCK PERFORMANCE (1 YEAR)



| INCOME STATEMENT (CONSOLIDATED) | | | | | (Rs Million) |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E DECEMBER | 2004 ^ | 2005# | 2006E# | 2007E | 2008E |
| Net Sales | 24,150 | 31,056 | 49,258 | 58,049 | 60,744 |
| Change (%) | | 28.6 | 58.6 | 17.8 | 4.6 |
| Total Expenditure | 17,643 | 22,596 | 31,683 | 34,031 | 37,462 |
| EBITDA | 6,506 | 8,461 | 17,574 | 24,018 | 23,282 |
| Margin (%) | 26.9 | 27.2 | 35.7 | 41.4 | 38.3 |
| Depreciation | 2,082 | 1,994 | 2,277 | 2,515 | 2,816 |
| Int. and Finance Charges | 901 | 869 | 380 | 268 | 328 |
| Other Income - Rec. | 593 | 1,055 | 2,200 | 2,473 | 2,351 |
| PBT before EO Exp. | 4,116 | 6,654 | 17,118 | 23,708 | 22,489 |
| EO Expense/(Income) | -425 | 0 | 0 | 0 | 0 |
| PBT after EO Exp. | 4,541 | 6,654 | 17,118 | 23,708 | 22,489 |
| Current Tax | 206 | 1,046 | 2,653 | 5,578 | 5,481 |
| Deferred Tax | 483 | -24 | 112 | 237 | 44 |
| Tax Rate (%) | 15.2 | 15.4 | 16.2 | 24.5 | 24.6 |
| Less: Minority Interest | 229 | 69 | 1 | 0 | 0 |
| Reported PAT | 3,624 | 5,563 | 14,352 | 17,893 | 16,964 |
| PAT Adj for EO Items | 3,263 | 5,563 | 14,352 | 17,893 | 16,964 |
| Change (%) | | 70.5 | 158.0 | 24.7 | -5.2 |
| Margin (%) | 13.5 | 17.9 | 29.1 | 30.8 | 27.9 |
| Less: Minority Interest | 229 | 69 | 4 | 0 | 0 |
| Net Profit | 3,035 | 5,494 | 14,348 | 17,893 | 16,964 |

| BALANCE SHEET (CONSOLIDATED) | | | | | (Rs Million) |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Y/E DECEMBER | 2004 ^ | 2005# | 2006E# | 2007E | 2008E |
| Equity Share Capital | 1,795 | 2,704 | 3,032 | 3,032 | 3,032 |
| Total Reserves | 15,520 | 21,244 | 29,682 | 40,662 | 50,713 |
| Net Worth | 17,314 | 23,948 | 32,714 | 43,694 | 53,745 |
| Deferred Liabilities | 3,209 | 3,811 | 4,196 | 4,433 | 4,478 |
| Minority Interest | 6,376 | 78 | 82 | 82 | 82 |
| Total Loans | 14,404 | 11,613 | 9,903 | 6,500 | 6,000 |
| Capital Employed | 41,302 | 39,450 | 46,894 | 54,709 | 64,304 |
| Gross Block | 42,931 | 38,015 | 43,869 | 48,769 | 56,269 |
| Less: Accum. Deprn. | 16,005 | 14,792 | 21,084 | 23,599 | 26,414 |
| Net Fixed Assets | 26,926 | 23,223 | 22,786 | 25,170 | 29,855 |
| Capital WIP | 1,503 | 1,196 | 2,500 | 8,000 | 2,500 |
| Investments | 10,856 | 13,008 | 13,821 | 13,529 | 23,825 |
| Curr. Assets | 7,305 | 6,490 | 17,701 | 15,709 | 16,494 |
| Inventory | 3,851 | 3,534 | 9,187 | 8,337 | 8,754 |
| Account Receivables | 694 | 482 | 2,016 | 1,755 | 1,843 |
| Cash and Bank Balance | 1,341 | 993 | 2,433 | 2,106 | 2,212 |
| Others | 1,420 | 1,481 | 4,065 | 3,510 | 3,686 |
| Curr. Liability & Prov. | 5,288 | 4,465 | 9,913 | 7,700 | 8,370 |
| Account Payables | 4,533 | 3,364 | 7,597 | 5,594 | 6,158 |
| Provisions | 755 | 1,101 | 2,316 | 2,106 | 2,212 |
| Net Current Assets | 2,017 | 2,024 | 7,788 | 8,009 | 8,125 |
| Appl. of Funds | 41,302 | 39,450 | 46,894 | 54,709 | 64,304 |

E: MOST Estimates; ^ Y/E June; # 12 months ending December

| RATIOS (CONSOLIDATED) | | | | | |
|-------------------------------|------------|------------|------------|-------------|-------------|
| Y/E DECEMBER | 2004 ^ | 2005# | 2006E# | 2007E | 2008E |
| Basic (Rs) | | | | | |
| EPS | 2.4 | 4.1 | 9.5 | 11.8 | 11.2 |
| Cash EPS | 4.0 | 5.6 | 11.0 | 13.5 | 13.0 |
| BV/Share | 12.9 | 17.7 | 21.6 | 28.8 | 35.5 |
| DPS | 1.6 | 1.8 | 3.3 | 4.0 | 4.0 |
| Payout (%) | 44.3 | 38.8 | 39.7 | 38.6 | 40.8 |
| Valuation (x) | | | | | |
| P/E | | 34.8 | 15.1 | 12.1 | 12.8 |
| Cash P/E | | 25.6 | 13.1 | 10.6 | 11.0 |
| P/BV | | 8.1 | 6.6 | 5.0 | 4.0 |
| EV/Sales | | 5.5 | 3.9 | 3.2 | 2.9 |
| EV/EBITDA | | 20.3 | 10.9 | 7.9 | 7.6 |
| EV/Ton (Cap) - US\$ | | 268 | 266 | 240 | 199 |
| Dividend Yield (%) | | 13 | 2.3 | 2.8 | 2.8 |
| Return Ratios (%) | | | | | |
| RoE | 19.5 | 27.0 | 50.7 | 46.8 | 34.8 |
| RoCE | 15.4 | 22.4 | 44.8 | 51.7 | 41.5 |
| Working Capital Ratios | | | | | |
| Asset Turnover (x) | 0.6 | 0.8 | 1.1 | 1.1 | 0.9 |
| Debtor (Days) | 9 | 5 | 13 | 10 | 10 |
| Leverage Ratio (x) | | | | | |
| Current Ratio | 1.4 | 1.5 | 1.8 | 2.0 | 2.0 |
| Debt/Equity | 0.8 | 0.5 | 0.3 | 0.1 | 0.1 |

| CASH FLOW STATEMENT (CONSOLIDATED) | | | | | (Rs Million) |
|------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Y/E DECEMBER | 2004 ^ | 2005# | 2006E# | 2007E | 2008E |
| Op. Profit/(Loss) before Tax | 6,856 | 8,568 | 17,574 | 24,018 | 23,282 |
| Interest/Dividends Recd. | 465 | 218 | 2,200 | 2,473 | 2,351 |
| Direct Taxes Paid | -284 | -484 | -2,765 | -5,815 | -5,525 |
| (Inc)/Dec in WC | 624 | -784 | -4,324 | -547 | -11 |
| CF from Operations | 7,661 | 7,519 | 12,686 | 20,129 | 20,098 |
| EO Expense | 154 | -7 | 0 | 0 | 0 |
| CF from Op. incl EO Exp | 7,815 | 7,512 | 12,686 | 20,129 | 20,098 |
| (inc)/dec in FA | -2,751 | -2,510 | -4,004 | -10,400 | -2,000 |
| (Pur)/Sale of Investments | -583 | -698 | -813 | 291 | -10,296 |
| CF from Investments | -3,334 | -3,208 | -4,817 | -10,109 | -12,296 |
| Issue of Shares | 163 | 190 | 0 | 0 | 0 |
| (Inc)/Dec in Debt | -1,045 | -1,440 | -1,326 | -3,166 | -456 |
| Interest Paid | -1,426 | -1,045 | -380 | -268 | -328 |
| Dividend Paid | -1,695 | -1,827 | -5,703 | -6,913 | -6,913 |
| CF from Fin. Activity | -4,002 | -4,122 | -7,409 | -10,347 | -7,697 |
| Inc/Dec of Cash | 480 | 181 | 460 | -326 | 105 |
| Add: Beginning Balance | 861 | 812 | 993 | 2,433 | 2,106 |
| Closing Balance | 1,341 | 993 | 1,453 | 2,106 | 2,212 |

E: MOST Estimates; ^ Y/E June; # 12 months ending December



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Gujarat Ambuja Cements

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 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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