

Gujarat Ambuja Cements

STOCK INFO.	BLOOMBERG
BSE SENSEX: 10,353	GAMB IN
S&P CNX: 3,023	REUTERS CODE
	GACM.BO

20 July 2006

Neutral
Previous Recommendation: Neutral
Rs103

		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
Equity Shares (m)	1,352.1	06/06A	34,788	7,356	5.4	57.1	19.0	5.4	30.8	27.6	3.6	11.1
52-Week Range	128/61	06/07E	40,978	8,925	6.6	21.3	15.7	4.4	31.0	34.0	3.0	8.9
1,6,12 Rel. Perf. (%)	9/6/27	06/08E	41,846	7,820	5.8	-12.4	17.9	3.9	23.3	27.6	3.0	10.1
M.Cap. (Rs b)	139.9											
M.Cap. (US\$ b)	3.0											

Gujarat Ambuja Cement reported strong operating numbers driven by all time high cement prices. The company reported EBITDA of Rs4.4b (our estimates of Rs3.9b) and adjusted net profit of Rs3.04b (our estimates of Rs2.77b). On consolidated basis, GAMB earned profits of Rs3.6b during the quarter.

- Revenues are up 57.4% to Rs11.3b in 4QFY06. Cement volumes moved up by 14.9% YoY to 3.77 mt. Realization per bag moved up 37% YoY and 18.8% QoQ to Rs150.4 per bag.
- EBITDA moved up 99.8% YoY to Rs4.4b on account of improved realizations. EBITDA margins improved by 829bp YoY and 432bp QoQ to 39.1%. EBITDA per ton increased by Rs500 per ton YoY and Rs296 per ton QoQ to Rs1,176 per ton. GAMB reported exchange loss of Rs185m which resulted in loss of Rs99.9m in 4QFY06 v/s other income of Rs131m previous year.
- Tax provision for the quarter was 18.2% of PBT against our expectation of 26%.

We have revised our FY07 standalone EPS upwards by 8.2% to Rs6.6 on account of higher cement prices. Including the share of associate companies, FY07 EPS will increase to Rs7.7. GAMB quotes at 13.6x FY07E PER (including profit from associate companies) and 9x FY07E EV/EBITDA which seems to be reasonable. However from asset valuation point of view, GAMB quotes at an EV per ton of US\$184per ton which is fairly stretched. Reiterate **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

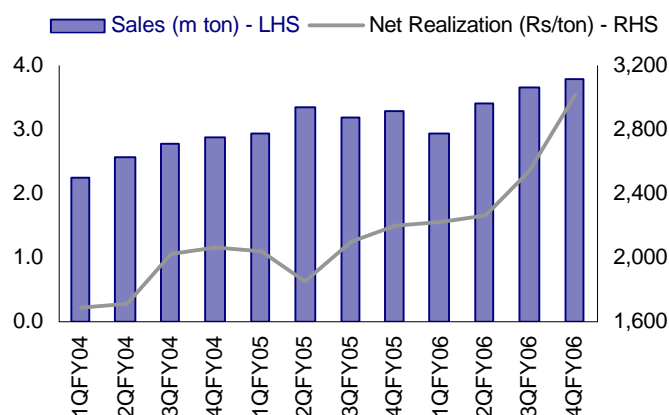
Y/E JUNE	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales Volume (m ton)	2.94	3.34	3.18	3.28	2.94	3.42	3.65	3.77	12.74	13.78
YoY Change (%)	31.3	31.1	14.8	13.5	0.0	2.4	14.8	14.9	22.0	8.2
Realization (Rs/ton)	2,037	1,856	2,099	2,197	2,227	2,261	2,532	3,009	2,046	2,525
YoY Change (%)	20.6	8.5	3.9	6.7	9.4	21.8	20.7	37.0	8.3	23.4
QoQ Change (%)	-1.1	-8.9	13.1	4.7	6.1	1.5	12.0	18.8		
Net Sales	5,989	6,198	6,674	7,205	6,549	7,732	9,243	11,342	26,066	34,788
YoY Change (%)	58.4	42.3	19.3	21.1	9.4	24.7	38.5	57.4	32.4	33.5
EBITDA	1,667	1,360	1,991	2,219	1,703	2,021	3,213	4,433	7,236	11,370
Margins (%)	27.8	21.9	29.8	30.8	26.0	26.1	34.8	39.1	27.8	32.7
Depreciation	-503	-493	-492	-466	-490	-502	-509	-497	-1,954	-1,997
Interest	-210	-203	-208	-226	-216	-197	-105	-123	-848	-641
Other Income	122	408	85	131	13	-76	180	-100	746	19
PBT before EO Item	1,076	1,072	1,376	1,657	1,010	1,246	2,779	3,714	5,181	8,750
Extraordinary Inc/(Exp)	0	0	0	0	0	0	358	0	0	-358
PBT after EO Exp/(Inc)	1,076	1,072	1,376	1,657	1,010	1,246	3,137	3,714	5,181	9,108
Tax	176	177	-56	206	258	367	152	675	503	1,451
Rate (%)	16.4	16.5	-4.0	12.4	25.5	29.5	4.8	18.2	9.7	15.9
Adj PAT	900	895	1,431	1,452	753	879	2,645	3,039	4,678	7,356
YoY Change (%)	858.4	158.2	-1.6	22.4	-16.3	-1.9	84.8	109.3	61.2	142.1

E: MSt Estimates; Note: Quarterly results don't add up with full year results due to restating of past quarter results

Revenue growth driven by firm cement prices

Revenues are up 57.4% to Rs11.3b in 4QFY06. Revenue growth was driven by volume growth as well as realisation growth. Cement volumes moved up by 14.9% YoY to 3.77 mt. Realisation per bag moved up 37% YoY and 18.8% QoQ to Rs150.4 per bag.

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

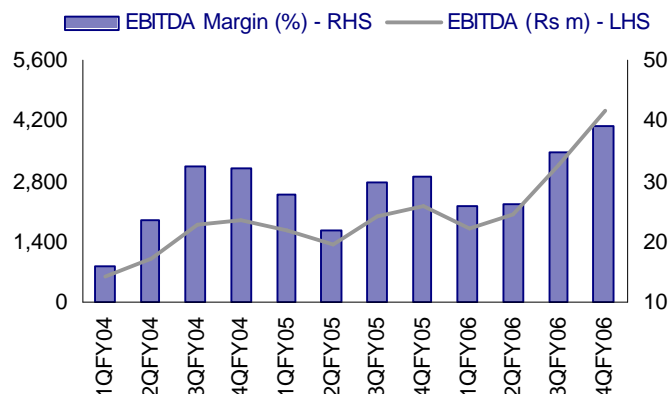


Source: Company/Motilal Oswal Securities

Realization growth driving margin expansion

EBITDA moved up 99.8% YoY to Rs4.4b on account of improved realisations. EBITDA margins improved by 829bps YoY and 432bps QoQ to 39.1%. EBITDA per ton increased by Rs500 per ton YoY and Rs296 per ton QoQ to Rs1176per ton. EBITDA per ton of Rs1,176 against our expectation of Rs1,006 per ton was a positive surprise for us which was driven by higher than expected improvement in realization.

EBITDA MARGINS



Source: Company/Motilal Oswal Securities

Impact of higher freight cost visible in operating cost

Operating cost per bag moved up by 20.6% yoy to Rs91.7 per bag. Cost increase is driven by higher freight cost (up by 46.8% yoy) and higher raw material cost. Sequentially also operating cost per ton increased by 10.9%. Overall operating cost per ton for GACL was also higher on account of higher ales in domestic market where cost of sales is higher than exports.

INCOME STATEMENT (RS/TON)

	4QFY06	YOY (%)	QOQ (%)
Net Selling Price	3,009	21.8	1.4
Raw Material	191	75.3	11.1
Staff Cost	96	25.9	-11.3
Power & Fuel	530	-0.1	1.8
Freight	577	46.8	30.2
Other Expenditure	439	6.6	7.5
Total Cost (per ton)	1,833	20.6	10.9
EBITDA	1176	73.9	33.6

Source: Company/Motilal Oswal Securities

The company has reported exchange loss of Rs185 mn which resulted in loss of Rs99.9 mn in 4QFY06 vs other income of Rs131 mn previous year. In spite of higher operating profits lower other income resulted in PBT of Rs3.7b which was in line with our expectation.

Tax provision for the quarter was 18.2% of PBT against our expectation of 26%. Company reported a standalone PAT of Rs3.04b against our expectation of Rs2.77b. On consolidated basis, GAMB earned profits of Rs3.6b during the quarter.

Upgrading FY07 and FY08 numbers

In line with higher than expected increase in cement prices we have revised our profit estimates for GAMB. We are revising our EPS estimate upward for FY07 by 8% to Rs6.6 per share on account of higher cement prices.

GACL REVISED EARNINGS (RS M)

	FY07 REV.	FY07 OLD	FY08 REV.	FY07OLD
Revenues	40,978	37,944	41,846	38,457
PAT	8,925	8,222	7,820	7,750
EPS (Rs)	6.6	6.1	5.8	5.8

Source: Company/Motilal Oswal Securities

If we consolidate the associate companies profits, GAMB is likely to do an EPS of Rs 7.7 in FY07 and Rs6.9 in FY08.

Valuations and view

GACL 4QFY06 numbers are higher than our expectation and are reflection of improved margins of cement sector on the back of rising cement prices. Given the firmness in cement prices, we expect that GAMB will continue to report strong numbers over the next few quarters.

On a standalone earning GACL is quoting at 15.7x PER FY07E and 17.9x FY08E. On consolidated earnings GACL quotes at 13.6x FY07E PER (including profit from associate companies) and 9x FY07E EV/EBITDA which seems to be reasonable. However from asset valuation point of view, GAMB quotes at an EV per ton of US\$184per ton which is fairly stretched. Reiterate **Neutral** rating on the stock.

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

- Holcim has acquired 14.8% stake from the existing promoter at Rs105 per share (including Rs15 per share non compete fee)
- GACL board has approved the merger with Ambuja Cement Eastern Limited.

Valuation and view

- Adjusted standalone PAT is expect to grow by 38% CAGR between FY05-07 driven by higher realizations both in domestic and exports market
- The stock quotes at earning valuation of 13.6x PER and 9x EV/EBITDA FY07E. From asset valuation point of view stock is quoting at US\$184 per ton which seems to be fairly stretched. We reiterate **Neutral** rating on the stock.

Sector view

- Volume expected to grow by 8%, driven by continuous momentum in housing and infrastructure projects.
- Improved demand supply dynamics due to limited capacity addition in previous years. However, greenfield capacity addition can disturb the tight demand supply scenario envisaged by us.

COMPARATIVE VALUATIONS

		GACL	ACC	ULTRA-CEM
P/E (x)	FY07E	15.7	16.7	20.8
	FY08E	17.9	17.7	20.0
P/BV (x)	FY07E	5.4	5.2	5.7
	FY08E	4.4	4.3	4.7
EV/Sales (x)	FY07E	3.6	2.8	2.2
	FY08E	3.0	2.7	2.1
EV/EBITDA (x)	FY07E	11.1	11.0	10.1
	FY08E	8.9	10.8	9.7

SHAREHOLDING PATTERN (%)

	JUN.06	MAR.06	JUN.05
Promoters	9.2	9.0	23.6
Domestic Institutions	18.3	17.9	17.8
FII's/FDIs	55.5	57.5	43.0
Others	17.0	15.6	15.6

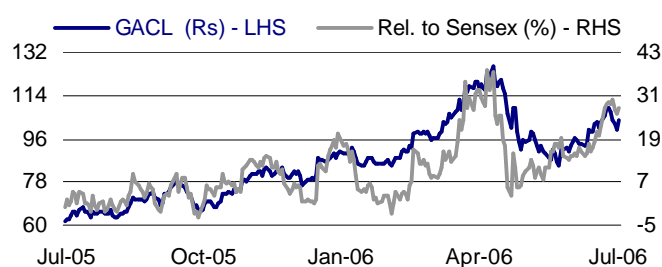
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07E	6.6	4.7	41.3
FY08E	5.8	5.8	-0.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
103	110	6.3	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E JUNE	2004	2005	2006E	2007E	2008E
Net Sales	19,681	26,058	34,788	40,978	41,846
Change (%)	13.4	32.4	33.5	17.8	2.1
Total Expenditure	14,283	18,818	23,419	27,138	29,383
EBITDA	5,399	7,240	11,370	13,841	12,463
Margin (%)	27.4	27.8	32.7	33.8	29.8
Depreciation	1,686	1,954	1,997	2,067	2,318
EBIT	3,713	5,286	9,372	11,774	10,144
Int. and Finance Charges	784	848	641	549	393
Other Income - Rec.	505	746	19	675	675
PBT before EO Exp.	3,433	5,184	8,750	11,900	10,427
EO Expense/(Income)	-430	0	-358	0	0
PBT after EO Exp.	3,863	5,184	9,108	11,900	10,427
Current Tax	203	399	1,684	2,380	2,085
Deferred Tax	264	104	-233	595	521
Tax Rate (%)	12.1	9.7	15.9	25.0	25.0
Reported PAT	3,396	4,682	7,657	8,925	7,820
PAT Adj for EO Items	3,018	4,682	7,356	8,925	7,820
Change (%)	36.0	55.1	57.1	21.3	-2.4
Margin (%)	15.3	18.0	21.1	21.8	18.7

BALANCE SHEET					
(Rs Million)					
Y/E JUNE	2004	2005	2006E	2007E	2008E
Equity Share Capital	1,795	2,704	2,704	2,704	2,704
Other Reserves	18,334	19,015	23,321	28,891	32,898
Total Reserves	18,334	19,015	23,321	28,891	32,898
Net Worth	20,129	21,720	26,025	31,595	35,602
Deferred liabilities	3,707	3,811	3,578	4,173	4,694
Total Loans	12,697	11,275	9,103	6,589	4,630
Capital Employed	36,533	36,805	38,706	42,356	44,920
Gross Block	36,581	37,092	38,592	43,592	48,592
Less: Accum. Deprn.	12,841	14,639	16,636	18,703	21,022
Net Fixed Assets	23,739	22,452	21,955	24,888	27,570
Capital WIP	1,243	1,181	1,500	1,500	1,500
Investments	10,110	11,251	11,251	11,251	11,251
Curr. Assets	4,914	5,878	9,140	10,687	10,980
Inventory	2,543	3,170	4,839	5,658	5,813
Account Receivables	427	458	860	1,006	1,033
Cash and Bank Balance	688	865	1,290	1,509	1,550
Others	1,255	1,385	2,151	2,515	2,584
Curr. Liability & Prov.	3,473	3,958	5,140	5,970	6,380
Account Payables	2,760	2,890	3,850	4,461	4,830
Provisions	713	1,068	1,290	1,509	1,550
Net Current Assets	1,441	1,921	4,000	4,717	4,600
Appl. of Funds	36,533	36,805	38,706	42,356	44,921

E: MOST Estimates

RATIOS					
Y/E JUNE	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	2.2	3.5	5.4	6.6	5.8
Cash EPS	3.5	4.9	6.9	8.1	7.5
BV/Share	15.0	16.1	19.2	23.4	26.3
DPS	16	18	2.0	2.2	2.5
Payout (%)	47.2	46.0	39.8	37.6	48.8
Valuation (x)					
P/E		29.9	19.0	15.7	17.9
Cash P/E		21.1	15.0	12.7	13.8
P/BV		6.4	5.4	4.4	3.9
EV/Sales		5.0	3.6	3.0	3.0
EV/EBITDA		17.9	11.1	8.9	10.1
Standalone EV/Ton (Cap) - US\$		212.2	192.3	175.6	167.9
Dividend Yield (%)		17	19	2.1	2.4
Return Ratios (%)					
RoE	16.7	22.4	30.8	31.0	23.3
RoCE	12.7	18.3	27.6	34.0	27.6
Working Capital Ratios					
Asset Turnover (x)	0.5	0.7	0.9	1.0	0.9
Debtor (Days)	7	6	8	8	8
Leverage Ratio (x)					
Current Ratio	1.4	1.5	1.8	1.8	1.7
Debt/Equity	0.6	0.5	0.3	0.2	0.1

CASH FLOW STATEMENT					
(Rs Million)					
Y/E JUNE	2004	2005	2006E	2007E	2008E
Op. Profit/(Loss) before Tax	5,399	7,240	11,370	13,841	12,463
Interest/Dividends Recd.	505	746	19	675	675
Direct Taxes Paid	-467	-503	-1,451	-2,975	-2,607
(Inc)/Dec in WC	4,489	-303	-1,654	-499	158
CF from Operations	9,925	7,180	8,284	11,042	10,690
EO Expense	-430	0	-358	0	0
CF from Op. incl EO Exp	10,356	7,180	8,642	11,042	10,690
(inc)/dec in FA	-6,549	-605	-1,819	-5,000	-5,000
(Pur)/Sale of Investments	907	-1,141	0	0	0
CF from Investments	-5,641	-1,746	-1,819	-5,000	-5,000
Issue of Shares	2,216	-939	-301	0	0
(Inc)/Dec in Debt	-4,162	-1,319	-2,405	-1,919	-1,438
Interest Paid	-784	-848	-641	-549	-393
Dividend Paid	-1,604	-2,152	-3,050	-3,355	-3,813
CF from Fin. Activity	-4,335	-5,257	-6,397	-5,823	-5,643
Inc/Dec of Cash	380	177	425	219	46
Add: Beginning Balance	309	688	865	1,290	1,509
Closing Balance	688	865	1,291	1,509	1,555



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Disclosure of Interest Statement

Gujarat Ambuja Cements

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|---|----|
| 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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