

April 28, 2008

Rating	Sell
Price	Rs113
Target Price	Rs110
Implied Upside	-3.0%
Sensex	17,016

(Prices as on April 28, 2008)

### Trading Data

Market Cap. (Rs bn)	172.9
Shares o/s (m)	1,525.3
Free Float	53.5%
Avg. Daily Vol ('000)	1,691.1
Avg. Daily Value (Rs m)	199.8

### Major Shareholders

Promoters	46.5%
Foreign	23.1%
Domestic Inst.	17.0%
Public & Others	13.4%

### Stock Performance

(%)	1M	6M	12M
Absolute	(8.3)	(21.5)	(3.3)
Relative	(12.2)	(9.9)	(25.7)

Price Performance (RIC: ABUJ.BO, BB: ACEM IN)



Source: Bloomberg

■ **Results:** Ambuja Cement reported adjusted PAT of Rs3.3bn, 7.8% decline below our expectation of Rs3.54bn, for Q1CY08. The decline was primarily on account of lower realisation and higher tax rate. Topline grew by 16.6% on the back of volume growth of 10.6% and realisation growth of 5.4%. Impacted by higher raw material cost in form of increased clinker purchase and higher power & fuel cost coupled with lower realisation, EBITDA declined by 8.8% to Rs5.16bn against our expectation of Rs5.23bn. EBITDA per tonne declined 17.6% to Rs1,075, almost 3% below our expectation of Rs1,108.

■ **Valuation:** At the current market price of Rs113, the stock trades at P/E of 12.9x and 13.7x CY08E and CY09E, while on EV/EBITDA, it trades at 7.7x and 8.6x CY08E and CY09E respectively. We believe that the current valuations are extremely expensive relative to its forward earnings as well as capacity base. The stock trades at EV/tonne of US\$237 and US\$179 CY08E and CY09E capacity respectively. We maintain Sell rating on the stock.

Key financials (Y/e Dec)	CY06	CY07	CY08E	CY09E
Revenues (Rs m)	62,745	57,048	68,264	66,030
Growth (%)	60.5	(9.1)	19.7	(3.3)
EBITDA (Rs m)	21,393	20,451	21,097	19,479
PAT (Rs m)	14,645	12,565	13,445	12,591
EPS (Rs)	9.6	8.2	8.8	8.3
Growth (%)	99.5	(14.3)	7.0	(6.4)
Net DPS (Rs)	1.5	3.5	4.2	4.6

Source: Company Data; PL Research

Profitability & valuation	CY06	CY07	CY08E	CY09E
EBITDA margin (%)	34.1	35.8	30.9	29.5
RoE (%)	57.6	36.0	26.6	24.3
RoCE (%)	32.8	42.2	33.5	27.1
EV / sales (x)	2.8	3.0	2.4	2.5
EV / EBITDA (x)	8.2	8.2	7.7	8.6
PE (x)	11.8	13.8	12.9	13.7
P / BV (x)	4.9	3.7	3.1	2.9
Net dividend yield (%)	1.3	3.1	3.7	4.1

Source: Company Data; PL Research

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## Highlights

### Topline up by 16.6%, fuelled by better volume growth

Topline grew by 16.6% to Rs16.5bn, driven by volume growth of 10.6% and realisation growth of 5.4%. A sizeable portion of the volume growth was contributed by the split grinding units commissioned in the last nine months. Net realisation increased by 5.4% to Rs3,448 per tonne.

### Higher RM, power & fuel cost drag margins to 31.2%

Total cost of sales rose by 33.4%, led by sharp rise in raw material and power & fuel cost, marginally offset by savings on freight cost realised with setting up of the split grinding units. EBITDA margin declined 869bps YoY and 174bps QoQ to 31.2%. Raw material cost per tonne went up by 53.3% on account of higher clinker purchase and rise in fly ash and gypsum cost. Power & fuel cost per tonne rose by 10.6% due to sharp rise in imported as well as domestic coal. Freight cost (excluding exports volume) per tonne declined by 4% on the back of savings from split grinding units at various locations. Other expenses went up by 38.8% due to sharp rise in advertisement, packing material and stores & spares cost. EBITDA per tonne declined by 17.6% to Rs1,075 compared to Rs1,304 in the corresponding quarter of previous year.

Other income rose by 23% on account of higher interest and dividend income. Adjusted PAT declined by 7.8% to Rs3.3bn. Previous quarter included profit of Rs2.41bn (post tax Rs2.08bn) on sale of investments in ACIL.

## Outlook

The company's earnings would remain under pressure due to absence of clinker-led capacity addition, huge capacity addition in its key markets, ban on exports and sharp rise in input prices, mainly coal.

## Valuation

Impacted by bleak pricing scenario and unprecedented rise in input prices, earnings are unlikely to report growth for the next couple of years (CY07-CY09E). At the current market price, the stock trades at P/E of 12.9x and 13.7x CY08E and CY09E, while on EV/EBITDA, it trades at 7.7x and 8.6x CY08E and CY09E respectively. Valuations are clearly ignoring the earning fundamentals and capacity base, which has compelled us to maintain Sell rating on the stock.

**Operating parameters**

Y/e March	Q1CY08	Q1CY07	YoY gr. (%)	Q4CY07	QoQ gr. (%)
Volume (mn te)	4.8	4.3	10.6	4.3	12.7
Net realisations (Rs/te)	3,448	3,271	5.4	3,571	(3.4)
EBITDA/ te (Rs/te)	1,075	1,304	(17.6)	1,175	(8.5)

**Q1CY08 result overview**
*(Rs m)*

Y/e March	Q1CY08	Q1CY07	YoY gr. (%)	Q4CY07	QoQ gr. (%)
Net sales	16,549	14,195	16.6	15,210	8.8
Raw material	2,554	1,438	77.6	1,572	62.5
<i>% of net sales</i>	<i>15.4</i>	<i>10.1</i>		<i>10.3</i>	
Staff costs	660	502	31.5	532	24.2
<i>% of net sales</i>	<i>4.0</i>	<i>3.5</i>		<i>3.5</i>	
Power & fuel	2,817	2,319	21.5	2,935	(4.0)
<i>% of net sales</i>	<i>17.0</i>	<i>16.3</i>		<i>19.3</i>	
Freight	2,744	2,393	14.7	2,213	24.0
<i>% of net sales</i>	<i>16.6</i>	<i>16.9</i>		<i>14.5</i>	
Other expenses	2,614	1,883	38.8	2,952	(11.5)
<i>% of net sales</i>	<i>15.8</i>	<i>13.3</i>		<i>19.4</i>	
Total expenditure	11,389	8,536	33.4	10,203	11.6
EBITDA	5,160	5,659	(8.8)	5,007	3.0
<i>Margin (%)</i>	<i>31.2</i>	<i>39.9</i>		<i>32.9</i>	
Depreciation	618	598	3.4	598	3.3
Other income	406	330	23.0	174	133.0
EBIT	4,947	5,391	(8.2)	4,583	7.9
Interest	57	119	(52.3)	77	(26.3)
PBT	4,890	5,272	(7.2)	4,506	8.5
Ex-od inc./ (exp)	(59)	2,408		(194)	
PBT (after EO)	4,832	7,679	(37.1)	4,312	12.0
Tax	1,570	2,017	(22.2)	1,843	(14.8)
<i>% PBT</i>	<i>32.5</i>	<i>26.3</i>		<i>42.7</i>	
Reported PAT	3,262	5,663	(42.4)	2,469	32.1
Adjusted PAT	3,302	3,582	(7.8)	2,580	28.0



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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