

## Ambuja Cements Ltd.

BLOOMBERG: ACEM IN EQUITY | BSE: 500425 | NSE: AMBUJACEM

### Valuations full – downgrade to HOLD

Ambuja Cements (ACEM) is expected to report a strong Q1CY11 with 11% YoY topline growth and sequential EBITDA/t expansion of Rs 490. On the valuation front, the stock has outperformed the Sensex by ~23% over the past nine months and now appears fairly priced at 7.7x EV/EBITDA on CY12E. With full valuations and the onset of a seasonally soft period for cement prices, we downgrade ACEM to HOLD.

- ❖ **Cement prices correct in leading markets:** About 80% of ACEM's sales come from the fast-growing north, central and eastern markets. Cement prices have recently tapered off by Rs 5–10/bag in the north, central and western markets, while prices in the south are stable. As we move into the monsoon months, we would expect continued seasonal weakness. Price cuts would dampen investor sentiment towards cement stocks.
- ❖ **Capacity addition ahead of demand pick-up:** ACEM has increased capacity by 3mt to nearly 26mt in CY10. Also, the company recently received the environment ministry's nod for a proposed 4.5mt plant in Gujarat. These new capacities should boost volume growth for the company as demand picks up over the long term.
- ❖ **Fairly priced; downgrade to HOLD:** We maintain our earnings estimates for CY11/CY12. The stock is currently trading at 7.7x EV/EBITDA on CY12E and has outperformed the broader market by ~23% over the past nine months. On EV/t, it is trading at US\$ 175, much above the current replacement cost of US\$ 120–130/t.

Although ACEM could show better volume growth in the near term, we believe the positives are currently in the price and therefore downgrade the stock to HOLD. We believe investors could have more attractive entry points from a longer-term perspective, as the seasonal decline in cement prices gets factored into the stock.

#### Financial highlights

Year End: 31 Dec	CY08A	CY09A	CY10A	CY11E	CY12E
Revenue (Rs mn)	62,203	70,769	73,902	88,524	99,239
EBITDA (Rs mn)	17,425	18,669	18,236	22,926	27,001
Adj. PAT (Rs mn)	11,403	12,184	12,000	14,638	17,236
Adj. EPS (Rs)	7.5	8.0	7.8	9.5	11.2
Growth (%)	(12.1)	6.7	(2.3)	22.0	17.7
DPS (Rs)	2.2	2.4	2.4	2.4	2.4
ROIC (%)	20.8	18.8	17.9	19.7	22.3
ROE (%)	22.1	20.1	17.4	18.7	19.1
P/E (x)	20.0	18.8	19.2	15.7	13.4
EV/EBITDA (x)	11.9	11.1	11.4	9.0	7.7
P/BV (x)	2.3	2.9	3.2	2.8	2.4

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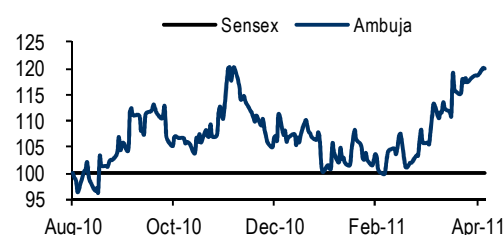
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<b>CMP</b>	<b>Rs 150</b>
<b>Target</b>	<b>Rs 155</b>
Previous	Rs 155
<b>Rating</b>	<b>HOLD</b>
Previous	BUY
<b>% Upside / (Downside)</b>	<b>3%</b>
+ Dividend yield	1%
<b>Total return</b>	<b>5%</b>

#### Company data

Market cap (Rs mn / US\$ mn)	231,404 / 5,205
Outstanding equity shares (mn)	1,536.6
BVPS (Rs)	48
Free float (%)	53.7
52-week high / low (Rs)	165 / 105
2-month avg. daily vol (mn)/ value (US\$ mn)	2 / 8

#### Stock performance



## Profit and Loss statement

Y/E 31 Dec (Rs mn)	CY08A	CY09A	CY10A	CY11E	CY12E
<b>Total revenue</b>	<b>62,203</b>	<b>70,769</b>	<b>73,902</b>	<b>88,524</b>	<b>99,239</b>
EBITDA	17,425	18,669	18,236	22,926	27,001
EBIT	14,827	15,699	14,364	18,345	22,014
Interest	(320)	(224)	(487)	(79)	(79)
Other income/(Expense)	2,109	2,558	2,476	2,738	3,138
Exceptional items	0	0	0	0	0
EBT	16,616	18,033	16,354	21,004	25,074
Income taxes	(5,676)	(5,849)	(3,983)	(6,366)	(7,838)
Extraordinary items	3,083	0	265	0	0
Min int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>14,024</b>	<b>12,184</b>	<b>12,636</b>	<b>14,638</b>	<b>17,236</b>
Adjustments	(2,621)	0	(636)	0	0
Adjusted net profit	11,403	12,184	12,000	14,638	17,236

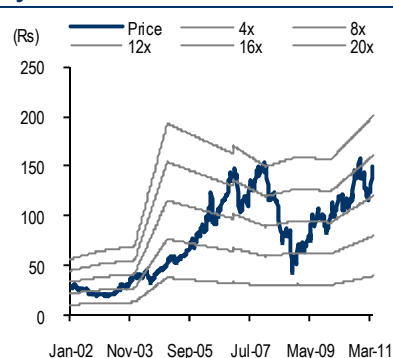
## Balance sheet

Y/E 31 Dec (Rs mn)	CY08A	CY09A	CY10A	CY11E	CY12E
Accounts payable	8,802	9,223	11,063	11,399	12,507
Other current liabilities	1,230	1,448	1,913	1,913	1,913
Provisions	4,706	6,741	10,967	11,150	11,150
Debt funds	2,890	1,657	657	657	657
Other liabilities	0	0	0	0	0
Equity capital	3,045	3,050	3,073	3,073	3,073
Reserves & surplus	53,680	61,659	70,228	80,551	93,473
Shareholder's funds	56,725	64,709	73,301	83,625	96,546
<b>Total liabilities</b>	<b>74,353</b>	<b>83,778</b>	<b>97,916</b>	<b>108,651</b>	<b>122,680</b>
Cash and cash eq	8,518	8,807	17,482	18,890	24,779
Accounts receivable	2,246	1,522	1,282	2,425	3,263
Inventories	9,398	6,832	9,019	10,783	12,073
Other current assets	3,233	2,633	3,571	3,571	3,571
Investments	3,324	7,270	6,260	11,260	16,260
Net fixed assets	31,928	34,400	56,278	67,003	68,017
CWIP	19,472	27,144	9,307	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,808)	(4,858)	(5,309)	(5,309)	(5,309)
Other assets	43	27	27	27	27
<b>Total assets</b>	<b>74,353</b>	<b>83,778</b>	<b>97,916</b>	<b>108,651</b>	<b>122,680</b>

## Cash flow statement

Y/E 31 Dec (Rs mn)	CY08A	CY09A	CY10A	CY11E	CY12E
Net income + Depreciation	16,622	15,154	16,508	19,219	22,222
Interest expenses	321	224	487	79	79
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,484)	4,712	(554)	(2,480)	(1,019)
Other operating cash flow	(4,781)	1,202	2,301	0	0
Cash flow from operations	9,677	21,292	18,742	16,818	21,282
Capital expenditure	(16,614)	(13,475)	(8,509)	(6,000)	(6,000)
Change in investments	4,784	(3,738)	2,313	(5,000)	(5,000)
Other investing cash flow	1,551	877	923	0	0
Cash flow from investing	(10,279)	(16,337)	(5,273)	(11,000)	(11,000)
Issue of equity	12	74	551	0	0
Issue/repay debt	(327)	(637)	(908)	0	0
Interest expenses	0	0	0	(79)	(79)
Dividends paid	(3,902)	(3,900)	(4,248)	(4,223)	(4,314)
Other financing cash flow	(511)	(203)	(189)	0	0
Cash flow from financing	(4,728)	(4,667)	(4,794)	(4,302)	(4,393)
Change in cash & cash eq	(5,330)	288	8,675	1,516	5,889
Closing cash & cash eq	8,518	8,807	17,482	18,998	24,887

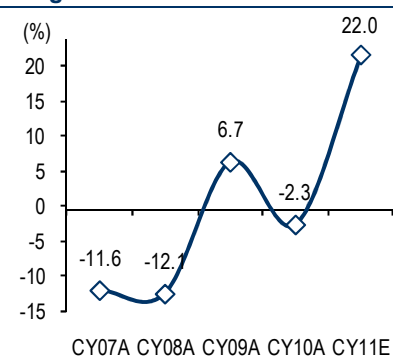
## 1-yr fwd P/E band



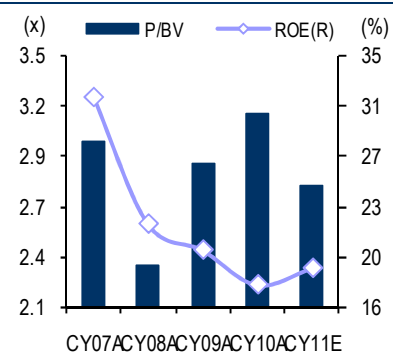
## 1-yr fwd EV/EBITDA band



## EPS growth



## ROE vs P/BV



## Per share data

Y/E 31 Dec (Rs)	CY08A	CY09A	CY10A	CY11E	CY12E
Reported EPS	9.2	8.0	8.2	9.5	11.2
Adjusted EPS	7.5	8.0	7.8	9.5	11.2
DPS	2.2	2.4	2.4	2.4	2.4
BVPS	37.3	42.4	47.7	54.4	62.8

## Valuation ratios

Y/E 31 Dec (x)	CY08A	CY09A	CY10A	CY11E	CY12E
EV/Sales	3.3	2.9	2.8	2.3	2.1
EV/EBITDA	11.9	11.1	11.4	9.0	7.7
P/E	20.0	18.8	19.2	15.7	13.4
P/BV	2.3	2.9	3.2	2.8	2.4

## Financial ratios

Y/E 31 Dec	CY08A	CY09A	CY10A	CY11E	CY12E
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	28.0	26.4	24.7	25.9	27.2
EBIT margin	23.8	22.2	19.4	20.7	22.2
Net profit margin	18.3	17.2	16.2	16.5	17.4
ROE	22.1	20.1	17.4	18.7	19.1
ROCE	21.2	19.6	17.6	18.6	19.1
<b>Working Capital &amp; Liquidity ratios</b>					
Receivables (days)	11	10	7	8	10
Inventory (days)	62	57	52	55	58
Payables (days)	59	63	67	62	60
Current ratio (x)	2.3	1.9	2.4	2.7	3.0
Quick ratio (x)	1.1	1.0	1.4	1.6	1.9
<b>Turnover &amp; Leverage ratios (x)</b>					
Gross asset turnover	1.1	1.2	1.0	0.9	0.9
Total asset turnover	0.9	0.9	0.8	0.9	0.9
Interest coverage ratio	46.3	70.1	29.5	232.7	279.2
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

## Quarterly trend

Particulars	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Revenue (Rs mn)	17,710	19,902	20,476	15,640	17,885
YoY growth (%)	9.1	7.7	10.8	(2.9)	1.0
QoQ growth (%)	9.9	12.4	2.9	(23.6)	14.4
EBITDA (Rs mn)	4,008	6,227	6,032	2,832	3,146
EBITDA margin (%)	22.6	31.3	29.5	18.1	17.6
Adj PAT (Rs mn)	2,174	4,421	3,912	1,521	2,146
YoY growth (%)	(13.3)	24.0	20.5	(45.7)	(1.3)
QoQ growth (%)	(22.4)	103.4	(11.5)	(61.1)	41.1

## DuPont analysis

(%)	CY08A	CY09A	CY10A	CY11E	CY12E
Tax burden (Net income/PBT)	68.6	67.6	73.4	69.7	68.7
Interest burden (PBT/EBIT)	112.1	114.9	113.8	114.5	113.9
EBIT margin (EBIT/Revenue)	23.8	22.2	19.4	20.7	22.2
Asset turnover (Revenue/Avg TA)	91.5	89.5	81.3	85.7	85.8
Leverage (Avg TA/Avg equity)	131.6	130.2	131.7	131.6	128.4
<b>Return on equity</b>	<b>22.1</b>	<b>20.1</b>	<b>17.4</b>	<b>18.7</b>	<b>19.1</b>

## Company profile

Holcim-owned Ambuja Cement will increase its capacity to 26 mn MT in CY10 from an installed capacity of 18.5mn MT in CY08. It has its presence across India, except in the southern region. Capacities are spread across north (35%), west (43%) and East (22%) in India. The company boasts of strong brand loyalty with a domestic market share of ~9.5%.

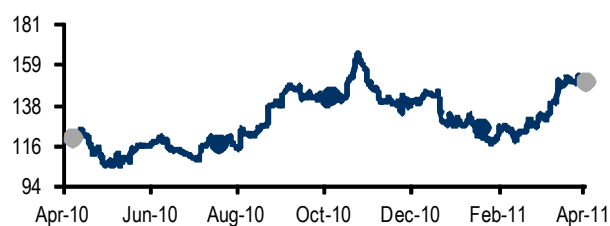
## Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	46.4	46.4	46.3
FIs	27.6	29.4	30.0
Banks and FIs	16.3	15.3	14.7
Public	9.7	8.9	9.0

## Recommendation history

Date	Event	Reco price	Tgt price	Reco
22-Apr-09	Results Review	79	68	Sell
24-Jul-09	Results Review	95	87	Sell
29-Oct-09	Results Review	88	82	Sell
23-Dec-09	Company Update	99	88	Sell
5-Feb-10	Results Review	100	99	Hold
30-Mar-10	Sector Update	119	113	Hold
23-Apr-10	Results Review	120	125	Hold
4-Aug-10	Sector Report	117	145	Buy
21-Oct-10	Results Review	142	165	Buy
3-Feb-11	Results Review	125	155	Buy
18-Apr-11	Company Update	150	155	Hold

## Stock performance



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<b>Recommendation</b>	<b>Expected absolute returns (%) over 12 months</b>
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

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