

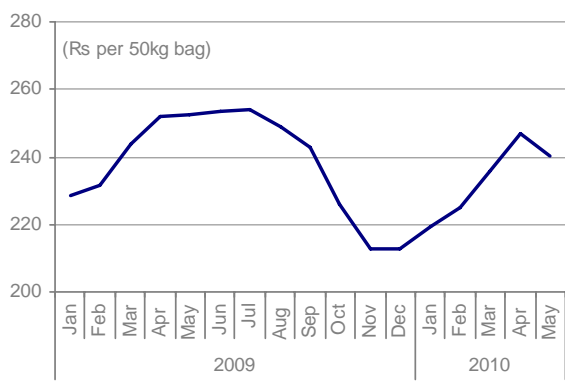
Industry concerns overshadow improving efficiency

In our recent meeting, Ambuja Cements's (ACL) management said cement prices are likely to be under pressure for the next two quarters, as construction activity slows down during the monsoon season, and supplies increase as new capacities stabilise. Among companies in our coverage, we believe ACL is best-placed to weather the adverse impact of falling cement prices. ACL's earnings resilience comes from reduced clinker purchases, increase in captive power capacity and superior volume growth with addition of new capacities. However, we retain SELL on the company, as we expect the sector to underperform the broader markets over the medium term, as demand growth trails the increase in supply. Key takeaways from the meeting:

Prices likely to be under pressure for the next two quarters: Cement prices have declined by Rs5-7 per bag in the past one month. Sluggishness in demand growth has led to prices declining. Demand is likely to decline for the next few months on account of the monsoon and some major construction projects related to Commonwealth Games coming to an end. On the other hand, supplies are likely to increase, with stabilisation of new capacities commenced in the past few months. This is likely to put pressure on cement prices for the next two quarters.

ACL's new plants stabilisation on track: ACL's 2.2mtpa Bhatapara clinker plant, which went on stream in end-4QCY09, is currently running at 50% utilisation, and its 2.2mtpa Rauri clinker plant commenced in 1QCY10 is running at 30%. Its two grinding units at Dadri and Nalagarh (1.5mtpa each), started in 1QCY10, have stabilised, and a 1.5mtpa grinding capacity addition in Bhatapara is likely to be completed in October 2010. ACL has stopped purchasing clinker for its Farakka unit, with increased clinker production from its new Bhatapara plant. It does purchase some clinker for the Dadri grinding unit, as the Rauri clinker unit is yet to stabilise. ACL expects to clock ~12% YoY volume growth in the coming quarters as its production capacity increases.

All-India average cement price trend



Source: Industry, IIFL Research

Financial Summary

Y/e 31 Dec	CY08A	CY09A	CY10ii	CY11ii	CY12ii
Revenues (Rs m)	62,347	70,769	74,756	80,587	93,078
EBITDA Margins (%)	28.5	26.4	27.4	26.0	29.5
Reported PAT (Rs m)	14,023	12,184	13,949	13,906	18,753
EPS (Rs)	7.2	8.0	9.0	9.1	12.3
Growth (%)	-7.7	11.5	12.8	1.1	34.9
PER (x)	15.1	13.5	12.0	11.8	8.8
ROE (%)	27.1	20.1	20.0	17.4	20.3
EV/EBITDA (x)	8.2	7.3	6.6	6.1	4.4
Price/Book (x)	2.9	2.5	2.2	1.9	1.6
EV/ton	186	164	140	134	124

Price as at close of business on 18 May 2010

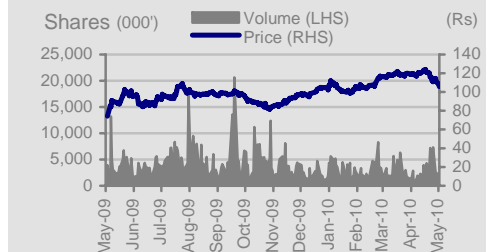
6-mth TP (Rs)96 (-11%)

Market cap (US\$ m)	3,566
52Wk High/Low (Rs)	126/74
Diluted o/s shares (m)	1524
Daily volume (US\$ m)	7
Dividend yield CY10ii (%)	2.4
Free float (%)	53.6

Shareholding pattern (%)	
Holcim	46.4
FIIIs	24.1
DIIs	16.5
Others	13.0

Price performance (%)			
	1M	3M	1Y
Ambuja	-11.0	-0.8	39.2
Rel. to Sensex	-6.3	-6.1	-3.9
ACC	-5.1	0.8	45.3
Grasim Inds	-7.7	-2.7	47.1
UltraTech Cem	-17.5	-6.2	63.7

Stock movement



J Radhakrishnan
radhakrishnan@iiflcap.com
91 22 4646 4653

Share of institutional segment sales to increase going forward:

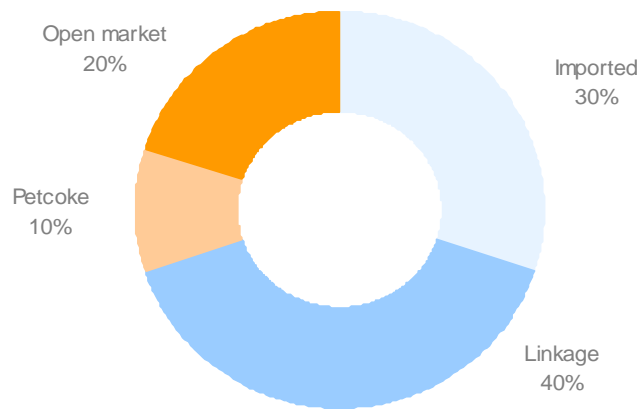
In CY09, the institutional segment accounted for ~15% of ACL's volumes. With increase in capacity and increasing sales to infrastructure segment, sales volumes to the institutional segment are likely to increase to 25-30% of the total sales going forward. *We expect increasing share of institutional segment sales to result in a marginally higher fall in ACL's realisations, as typically, institutional segment sales fetch lower realisations compared to retail sales.*

Low-cost coal to benefit till 2QCY10: Power and fuel costs declined sharply in 1QCY10, as ACL benefited from low-cost imported coal inventory at US\$90 per tonne. The low-cost coal inventory is likely to benefit in 2QCY10 as well, but cost will likely increase from 3QCY10, as the company is currently procuring imported coal at US\$120 per tonne. The present fuel mix for ACL is 30% imported coal, 10% pet-coke, 40% linkage coal, and the rest through open-market purchases and e-auctions.

Stabilisation of captive power capacities to reduce power costs:

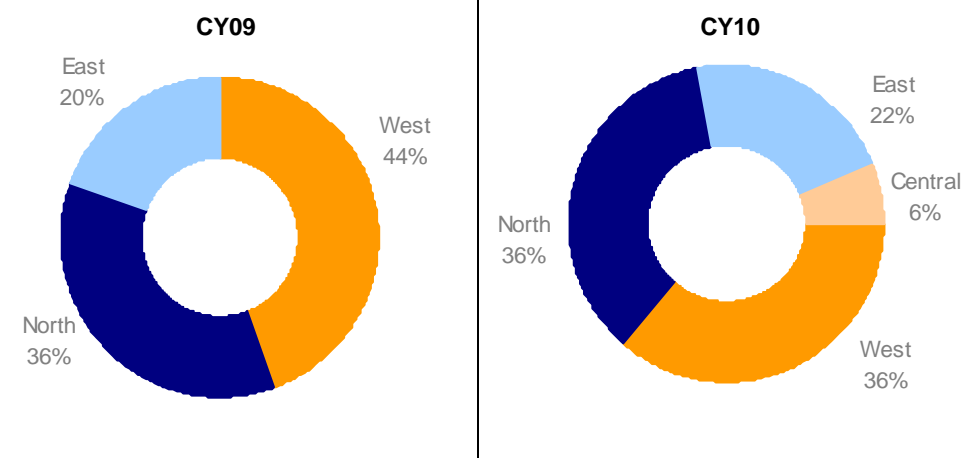
ACL has commenced a 33MW CPP in Chattisgarh in 1QCY10, and a 30MW CPP in Gujarat will soon start; stabilisation of these CPPs will reduce power cost going forward.

Figure 1: ACL's coal source mix



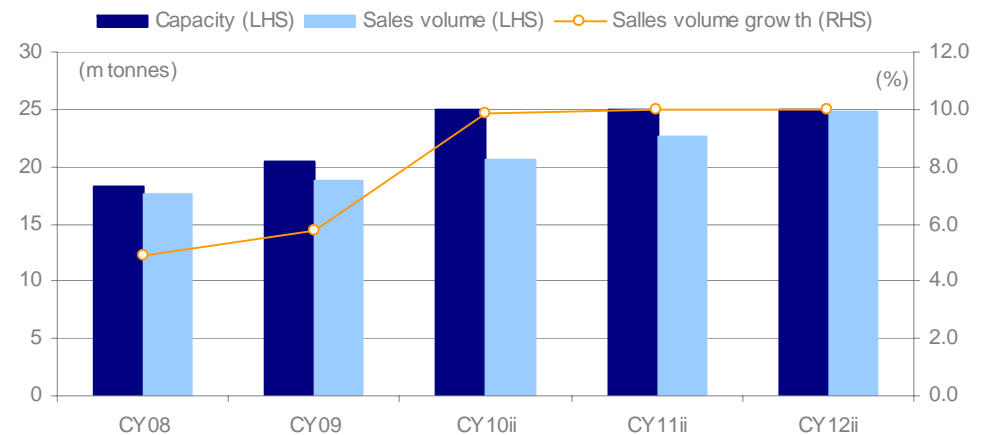
Source: Company

Figure 2: Region-wise capacity of Ambuja Cements



Source: Company

Figure 3: Capacity expansions to boost Ambuja Cements's volume growth in CY10



Source: Company, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Dec	CY08A	CY09A	CY10ii	CY11ii	CY12ii
Revenue	62,347	70,769	74,756	80,587	93,078
EBIDTA	17,779	18,669	20,518	20,926	27,451
EBIT	16,936	18,257	19,652	20,297	27,222
Interest Expense	-321	-224	-431	-431	-431
Depreciation	-2,598	-2,970	-3,256	-3,419	-3,419
PBT	16,615	18,033	19,221	19,866	26,791
Taxes	-5,676	-5,849	-5,473	-5,960	-8,037
Net Profit	10,939	12,184	13,748	13,906	18,753
PAT after EO	14,023	12,184	13,949	13,906	18,753

Cashflow summary (Rs m)

Y/e 31 Dec	CY08A	CY09A	CY10ii	CY11ii	CY12ii
EBIT	16,936	18,257	19,652	20,297	27,222
Depr & Amortisation	2,598	2,970	3,256	3,419	3,419
Working capital Δ	-2,464	6,562	-1,732	274	172
Other operating items	-1,163	-3,219	0	0	0
Net Interest/ Tax/ Others	-6,245	-3,279	-5,905	-6,391	-8,468
Operating Cash flow	9,662	21,292	15,272	17,599	22,344
Capital Expenditure	-16,614	-13,475	-7,500	-7,500	-7,500
Disposal of Subsidiaries etc.	5,893	0	0	0	0
Free Cash Flow	-1,059	7,816	7,772	10,099	14,844
Debt financing/disposal	-434	0	0	0	0
Dividends paid	-3,902	-3,900	-3,855	-3,855	-3,855
Other items	4,549	0	201	0	0
Net Change in cash	-847	3,916	4,118	6,244	10,989

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Dec	CY08A	CY09A	CY10ii	CY11ii	CY12ii
Cash & Cash equivalents	11,842	16,077	20,195	26,439	37,429
Sundry Debtors	2,246	1,522	1,608	1,733	2,002
Inventories - trade	9,398	6,832	7,113	7,824	8,606
Other current assets	234	102	102	102	102
Fixed assets	51,400	61,545	65,788	69,869	73,951
Other term assets	3,042	2,558	2,558	2,558	2,558
Total assets	78,161	88,635	97,363	108,525	124,647
Short term debt	4,706	6,740	4,937	4,937	4,938
Sundry Creditors	10,032	10,671	11,108	12,219	13,441
Long term debt	2,887	1,657	1,657	1,657	1,657
Other long term liabilities	3,808	4,858	4,858	4,858	4,858
Networth	56,729	64,709	74,803	84,854	99,752
Total liability and equity	78,161	88,635	97,363	108,525	124,647

Ratio Analysis

Y/e 31 Dec	CY08A	CY09A	CY10ii	CY11ii	CY12ii
Revenue growth (%)	10.7	13.5	5.6	7.8	15.5
Op EBIDTA growth (%)	-13.1	5.0	9.9	2.0	31.2
Op EBIT growth (%)	-15.4	7.8	7.6	3.3	34.1
Op EBIDTA margin (%)	28.5	26.4	27.4	26.0	29.5
Op EBIT margin (%)	27.2	25.8	26.3	25.2	29.2
Net Profit margin (%)	17.5	17.2	18.4	17.3	20.1
Dividend payout (%)	35.2	32.0	28.0	27.7	20.6
Tax rate (%)	34.2	32.4	28.5	30.0	30.0
Net Debt/Equity (%)	-9.1	-14.8	-18.3	-23.5	-31.0
Net Debt/Op EBIDTA (x)	-0.3	-0.5	-0.7	-1.0	-1.1
Return on Equity (%)	27.1	20.1	20.0	17.4	20.3
Return on Assets (%)	22.6	17.4	17.7	15.7	18.1

Source: Company data, IIFL Research



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

Published in 2010. © India Infoline Ltd 2010

This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information of the clients of IIFL, a division of India Infoline, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

India Infoline or any persons connected with it do not accept any liability arising from the use of this document. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information.

India Infoline or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons. India Infoline generally prohibits its analysts from having financial interest in the securities of any of the companies that the analysts cover. In addition, the company prohibits its employees from conducting F&O transactions or holding any shares for a period of less than 30 days.