

Q3CY2011 Review
 Sector: Cement
 BSE Sensex: 17,481

AMBUJA CEMENTS

 Maintain HOLD
 CMP Rs155
 TP Rs142

Margins Touch A Nadir

Ambuja Cement's (ACEM) Q3CY11 results were disappointing as margins slumped to a new low of 17.4%. Volumes during the weak monsoon quarter were down 10.6% QoQ to 4.8mn mt, while realisations declined 7.7% to Rs3.8k/mt. Although realisations were marginally lower (~1%) than expected, a higher other operating income helped ACEM post a revenue of Rs18.3bn, inline with estimates. The sequential drop in realisations and increase in fuel costs led to margins plummeting to an all time low of 17.4% (PINCe 20.9%). As a result net profit at Rs1.7bn was 23.5% lower than our estimate.

Lacklustre volumes: As construction activity slowed across the country, volumes declined 10.6% QoQ to 4.8mn mt. On a YoY basis, the low base effect helped the company post a growth of 7%. ACEM's volumes have been under pressure in the current year and in 9MCY11 the company has posted a modest 1.4% growth. ACEM also commissioned a 1.1mn mt grinding unit at Bhatapara taking its total installed capacity to 27mn mt.

7.7% QoQ decline in realisations: With the lower demand for cement during the monsoon season, realisations declined 7.7% QoQ to Rs3.8k/mt and were marginally lower than expected. However a higher other operating income, Rs286mn as against our estimate of Rs200mn, helped the company post a topline of Rs18.3bn.

Margins at all time low: While realisations declined on a sequential basis, costs especially on the fuel front saw an upward movement thus squeezing margins. Freight costs per mt too were up 13.4% YoY. As a result margins contracted 170bps YoY and 990bps QoQ to 17.4%. EBITDA/mt slumped 40% QoQ to Rs671 as against our estimate of Rs811. Sequentially profits halved to Rs1.7bn as against our estimate of Rs2.2bn.

Outlook: We maintain our volume estimates for CY11 and CY12 at 20.8mn mt and 22.4mn mt respectively. Despite the margin disappointment of the current quarter we maintain our margin estimates for CY11 and CY12. Consequently our earnings estimate for CY11 and CY12 are unchanged at Rs7.9 and Rs8.8 respectively. Additionally we introduce CY13 earnings estimate of Rs10.6.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at rich valuations of 9.3x CY12E EV/EBITDA and EV/mt of USD154. We maintain our 'HOLD' recommendation on the stock with a revised target price of Rs142 (earlier Rs135), discounting CY12E EBITDA 8.5x.

KEY FINANCIALS					
	(Rs mn)				
	CY09	CY10	CY11E	CY12E	CY13E
Net Sales	70,769	73,902	80,015	88,596	100,468
YoY Gr. (%)	13.8	4.4	8.3	10.7	13.4
EBITDA	19,682	19,349	19,819	21,538	25,064
EBITDA Margin (%)	27.4	25.8	24.5	24.0	24.7
Adjusted Net Profit	12,184	12,371	12,021	13,494	16,274
YoY Gr. (%)	11.4	1.5	(2.8)	12.3	20.6
KEY RATIOS					
Dil. EPS (Rs)	8.0	8.1	7.9	8.8	10.6
ROCE (%)	27.0	22.2	21.0	21.5	23.7
RoE (%)	20.1	17.9	15.7	16.2	17.9
PER (x)	19.3	19.1	19.7	17.5	14.5
EV/EBDITA (x)	11.3	11.0	10.4	9.3	7.8
EV/mt (USD)	211	177	159	154	151

01 November 2011

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Sales	22,225	21,891	18,337
YoY Gr. (%)	10.1	4.8	15.8
EBITDA	6,270	5,984	3,194
EBITDA Mar %	28.2	27.3	17.4
Adj. Net Profit	4,075	3,475	1,715
YoY Gr. (%)	(6.2)	(11.2)	12.7

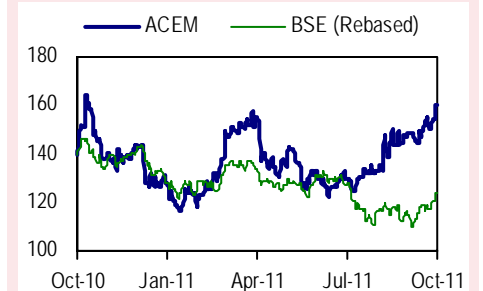
STOCK DATA

Market Cap	Rs238bn
Book Value per share	Rs47.9
Eq Shares O/S (FV Rs 2)	1.54bn
Free Float	50%
Avg Trad. Value (6 mnths)	Rs295mn
52 week High/Low	Rs167/112
Bloomberg Code	ACEM IN
Reuters Code	ABUJ.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	4.1	19.7	8.4
Relative	(2.1)	22.3	22.5

RELATIVE PERFORMANCE



Variance to PINC Estimate

(Rs mn)	Actual	Estimated	Var (%)	Comments
Net Sales	18,337	18,492	(0.8)	Inline with estimate
EBITDA	3,194	3,858	(17.2)	
EBITDA Margin (%)	17.4	20.9	-344 bps	Higher than expected raw material and fuel costs
Adjusted PAT	1,715	2,241	(23.5)	Profits below estimate due to lower margins

Financial Table

(Rs mn)	Sep-11	Sep-10	YoY%	Jun-11	QoQ%	9MCY11	9MCY10	YoY%
Net Sales	18,337	15,830	15.8	21,891	(16.2)	62,452	56,902	9.8
EBITDA	3,194	3,022	5.7	5,984	(46.6)	15,448	15,974	(3.3)
<i>EBITDA Margins (%)</i>	<i>17.4</i>	<i>19.1</i>	<i>-170bps</i>	<i>27.3</i>	<i>-990bps</i>	<i>24.7</i>	<i>28.1</i>	<i>-330bps</i>
Other Income	571	305	87.1	562	1.7	1,653	824	100.6
Interest	138	89	54.3	152	(9.2)	428	278	53.7
Depreciation	1,079	1,018	6.0	1,074	0.5	3,214	2,786	15.3
PBT	2,548	2,220	14.8	5,320	(52.1)	13,461	13,734	(2.0)
Tax	834	699	19.3	1,845	(54.8)	4,196	3,956	6.1
Reported PAT	1,715	1,521	12.7	3,475	(50.7)	9,265	10,055	(7.9)
Adj. PAT	1,715	1,521	12.7	3,475	(50.7)	9,265	9,778	(5.3)
Adj. EPS (Rs)	1.1	1.0	12.2	2.3	(50.7)	6.0	6.4	(5.7)

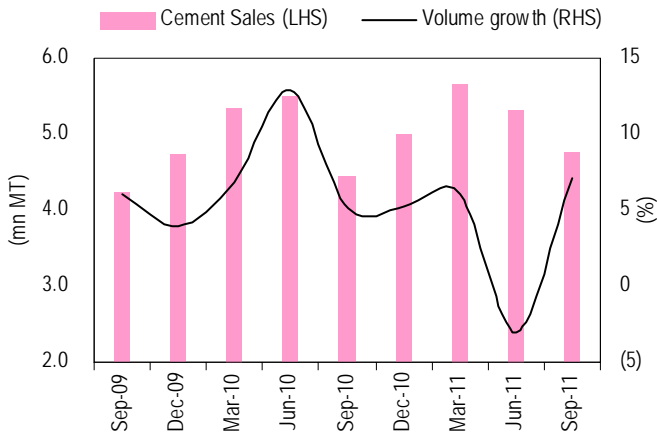
Volume (Mn MT)

	Sep-11	Sep-10	YoY%	Jun-11	QoQ%	9MCY11	9MCY10	YoY%
Cement Capacity	6.53	6.00	8.8	6.25	4.4	19.03	17.50	8.7
Cement Production	4.65	4.30	8.1	5.20	(10.7)	15.44	15.15	2.0
<i>Capacity Utilisation (%)</i>	<i>71.2</i>	<i>71.7</i>		<i>83.3</i>		<i>81.2</i>	<i>86.6</i>	
Total Cement Sales	4.76	4.44	7.1	5.32	(10.6)	10.99	10.83	1.4

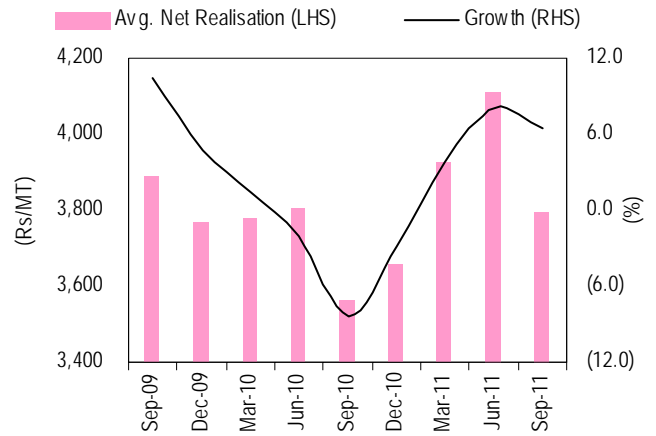
Rs Per MT

	Sep-11	Sep-10	YoY%	Jun-11	QoQ%	9MCY11	9MCY10	YoY%
Net Realisations	3,794	3,565	6.4	4,112	(7.7)	5,685	5,254	8.2
Raw Material Costs	303	137	120.9	49	515.0	272	348	(21.8)
Power & Fuel Costs	1,040	997	4.4	1,058	(1.7)	1,402	1,155	21.3
Employee Expenses	217	223	(2.6)	206	5.1	280	246	14.0
Freight Expenses	875	771	13.4	935	(6.5)	1,295	1,110	16.7
Other Expenditure	748	756	(1.1)	739	1.2	1,030	920	11.9
EBITDA	671	680	(1.3)	1,124	(40.3)	1,406	1,475	(4.7)

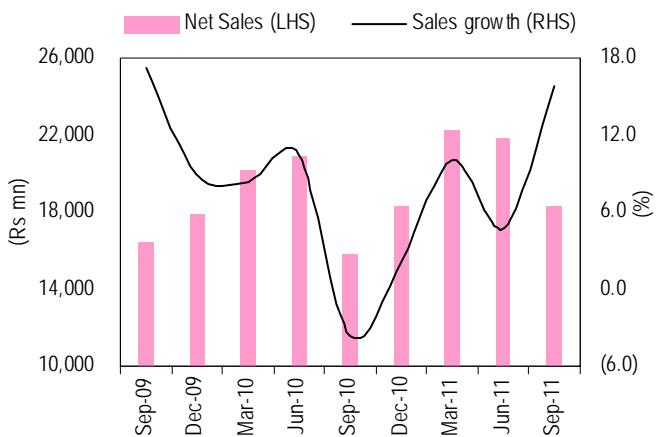
Volume trend



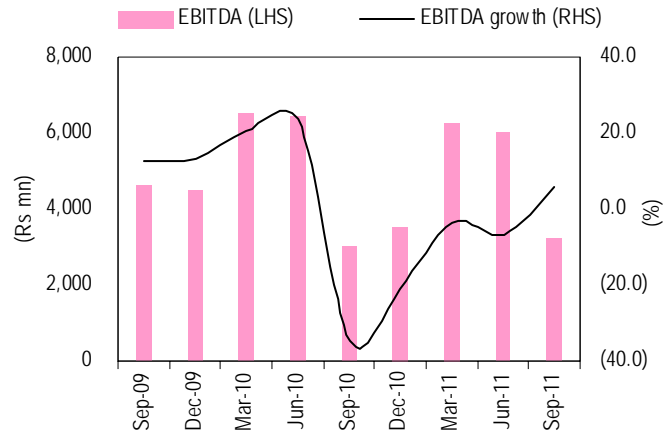
Realisation trend



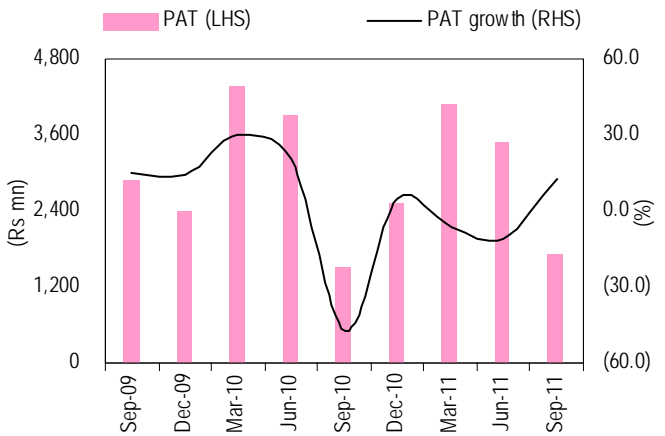
Net sales trend



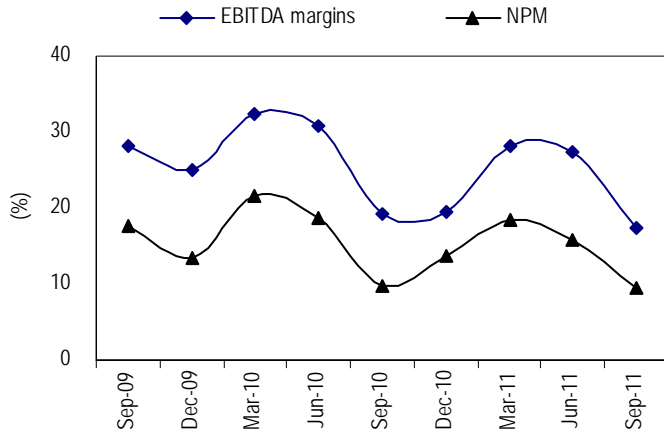
Operating profit trend



Net profit trend



Profitability Trend



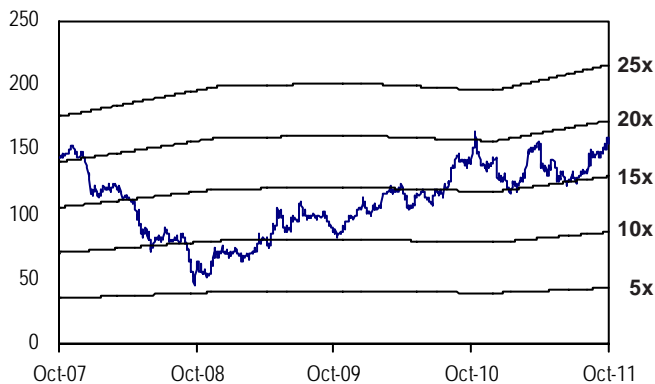
Income Statement	CY09	CY10	CY11E	CY12E	CY13E
Net Sales	70,769	73,902	80,015	88,596	100,468
Growth (%)	13.8	4.4	8.3	10.7	13.4
Operating profit	18,669	18,236	18,912	20,565	24,018
Other operating income	1,013	1,113	906	973	1,046
EBITDA	19,682	19,349	19,819	21,538	25,064
Growth (%)	8.6	(1.7)	2.4	8.7	16.4
Depreciation	(2,970)	(3,872)	(4,448)	(4,822)	(5,197)
Other income	1,546	1,363	2,152	2,761	3,582
EBIT	18,257	16,840	17,523	19,477	23,449
Interest paid	(224)	(487)	(350)	(200)	(200)
PBT (before E/o items)	18,033	16,353	17,173	19,277	23,249
Tax provision	(5,849)	(3,983)	(5,152)	(5,783)	(6,975)
E/o Income / (loss)	-	265	-	-	-
Net profit	12,184	12,636	12,021	13,494	16,274
Adjusted net profit	12,184	12,371	12,021	13,494	16,274
Growth (%)	11.4	1.5	(2.8)	12.3	20.6
Diluted EPS (Rs)	8.0	8.1	7.9	8.8	10.6
Diluted EPS Growth (%)	11.3	1.1	(2.8)	12.3	20.6

Cash Flow Statement	CY09	CY10	CY11E	CY12E	CY13E
Pre-tax profit	18,033	16,619	17,173	19,277	23,249
Depreciation	2,699	3,670	4,448	4,822	5,197
Total tax paid	(3,053)	308	(5,651)	(4,783)	(5,975)
Chg in working capital	4,459	(552)	(1,253)	1,450	115
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	22,138	20,044	14,717	20,767	22,587
Capital expenditure	(12,844)	(7,710)	(2,343)	(8,650)	(11,650)
Chg in investments	449	1,151	(191)	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(12,395)	(6,558)	(2,534)	(8,650)	(11,650)
Free cash flow (a+b)	9,743	13,486	12,182	12,117	10,937
Equity raised/(repaid)	89	573	-	-	-
Debt raised/(repaid)	(1,230)	(1,007)	(85)	-	-
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(3,919)	(4,267)	(5,151)	(6,192)	(7,077)
Other financing activities	-	30	-	-	-
Cash flow from fin. (c)	(5,060)	(4,670)	(5,237)	(6,192)	(7,077)
Net chg in cash (a+b+c)	4,684	8,815	6,946	5,924	3,860

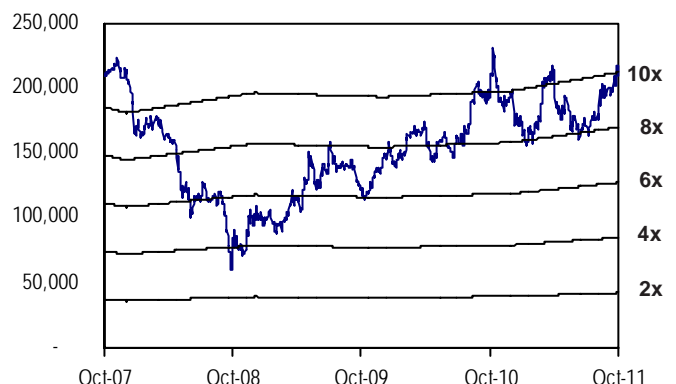
Balance Sheet	CY09	CY10	CY11E	CY12E	CY13E
Equity capital	3,050	3,073	3,073	3,073	3,073
Reserves & surplus	61,659	70,228	76,941	83,358	92,556
Shareholders' funds	64,682	73,296	80,010	86,427	95,624
Minorities interests	-	-	-	-	-
Total Debt	1,657	650	565	565	565
Capital Employed	66,339	73,947	80,575	86,992	96,189
Net fixed assets	61,545	65,584	63,480	67,307	73,760
Cash & Cash Eq.	14,431	23,247	30,193	36,117	39,977
Net other Current Assets	(6,424)	(10,070)	(7,974)	(10,809)	(11,425)
Investments	1,646	494	686	686	686
Net Deferred Tax Assets	(4,858)	(5,309)	(5,809)	(6,309)	(6,809)
Total assets	66,339	73,947	80,575	86,992	96,189

Key ratios	CY09	CY10	CY11E	CY12E	CY13E
EBITDA Margin (%)	27.4	25.8	24.5	24.0	24.7
Net margin (%)	17.2	16.7	15.0	15.2	16.2
Dividend yield (%)	1.6	1.7	1.9	2.6	2.6
Net debt/Equity (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (days)	(22)	(22)	(7)	(12)	(13)
Asset turnover (x)	0.8	0.8	0.7	0.8	0.8
ROCE (%)	27.0	22.2	21.0	21.5	23.7
RoE (%)	20.1	17.9	15.7	16.2	17.9
PER (x)	19.3	19.1	19.7	17.5	14.5
Price/Book (x)	3.6	3.2	3.0	2.7	2.5
EV/EBITDA (x)	11.3	11.0	10.4	9.3	7.8
EV/mt (USD)	211	177	159	154	151

P/E Band



EV/EBITDA Band



T E A M

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