

2 July 2012

Ambuja Cements

Demand to rise, but delay in start of new projects a concern; Hold

Rating: **Hold**

Target Price: ₹165

Share Price: ₹175

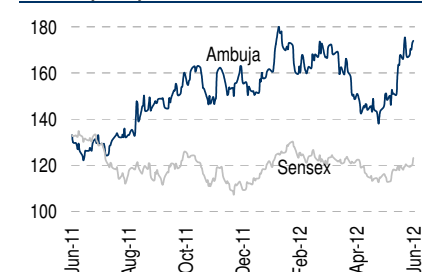
A management meet with Ambuja indicates a positive outlook on company prospects. Cost rationalization and capacity bottlenecks are immediate focus areas. We retain a Hold rating given steep valuations.

- To contest CCI penalty.** The CCI, which accused 10 companies of cartelization, has penalized Ambuja ₹11.6bn. Contesting the allegations, Ambuja will take the case to the Competition Appellate Tribunal; in six months it expects a verdict. The amount will be reflected as a contingent liability. The penalty is 14% of FY12 net worth (10-26% for the others).
- Demand outlook.** Ambuja expects cement demand in CY12 to be 9%, led by robust demand from retail/individual housing builders (82% contribution) supported by a strong network of 7,000 dealers and 25,000 retailers. Its strong presence in the growing and high utilization markets of the North, West and East put it in an advantageous position.
- Cost rationalization.** Ambuja aims at cost-rationalization via alternative raw materials (synthetic gypsum, fly ash), cost-efficient sea transport (now 14%) and alternative sources of energy (wind-turbines, waste-heat-recovery plants). We expect the resultant benefits to trickle in only from CY14. It expects cost rises in fuel to be lower in CY12 than in CY11.
- Growth plans.** Ambuja plans ₹18bn in CY12-13 on maintenance, logistics, efficiency improvements and remove capacity bottlenecks (to add 0.5m tons clinker, 0.9m-ton grinding). Delay in start of greenfield/brownfield clinker projects is a concern as it may curtail dispatch growth in CY13, affecting market share (now 10%). Clearance for a greenfield site in Rajasthan is under way; equipment orders are likely in Dec '12, with a 30-month set-up time.
- Valuation.** At our ₹165 price target, the stock would trade at 8x CY12e EV/ EBITDA. The price target implies a PE of 15.1x and an EV/ton of US\$157. **Risks:** Coal price hikes, weak cement prices.

Key data	ACEM IN / ABUJ.BO
52-week high / low	₹182 / ₹120
Sensex / Nifty	17430 / 5279
3-m average volume	US\$6.0m
Market cap	₹268bn / US\$6.0bn
Shares outstanding	1531.6m

Shareholding pattern (%)	Mar '12	Dec '11	Sep '11
Promoters	50.3	50.3	50.3
- of which, pledged	-	-	-
Free float	49.7	49.7	49.7
- Foreign institutions	25.8	25.0	24.0
- Domestic institutions	12.5	13.6	14.5
- Public	11.4	11.1	11.2

Relative price performance



Source: Bloomberg

Key financials (YE Dec)	CY09	CY10	CY11	CY12e	CY13e
Sales (₹m)	70,769	73,902	85,200	99,788	112,026
Net profit (₹m)	12,184	12,371	12,531	16,665	18,523
EPS (₹)	8.0	8.1	8.2	10.9	12.1
Growth (%)	11.3	1.1	1.1	33.0	11.2
PE (x)	21.9	21.6	21.4	16.1	14.5
EV/EBITDA (x)	13.5	13.5	12.5	8.8	7.6
EV/ton (US\$)	229	197	175	169	154
RoE (%)	20.1	17.9	16.3	19.4	19.1
RoCE (%)	23.3	19.1	17.6	22.5	22.1
Dividend yield (%)	1.4	1.5	1.8	2.0	2.1
Net gearing (x)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)

Source: Company, Anand Rathi Research

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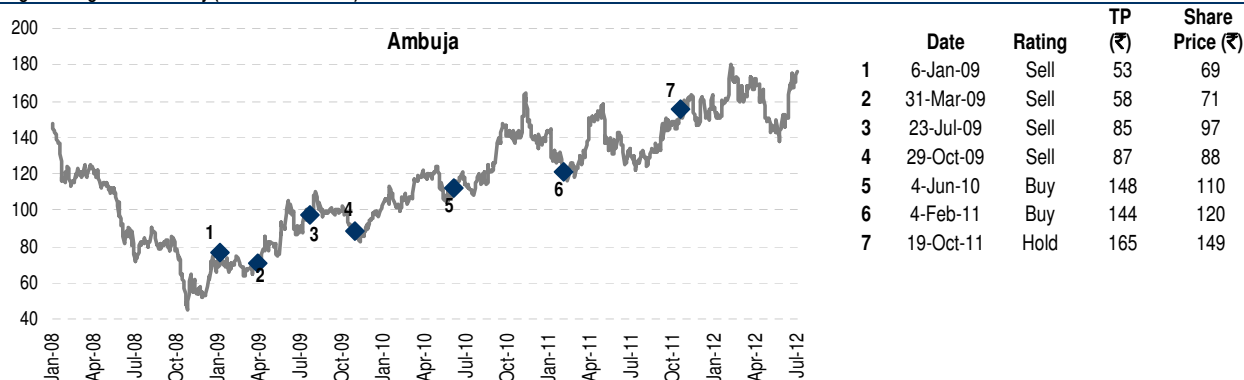
Appendix 1

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