

Results marginally below estimates- Maintain REDUCE

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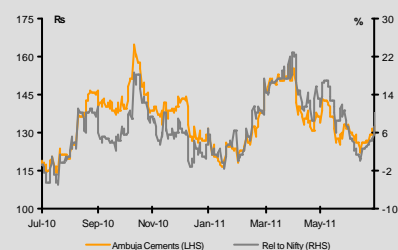
Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs133	Rs140
EPS change CY 11E/12E (%)	-5.2 / -4.2
Target Price change (%)	NA
Nifty	5,488
Sensex	18,210

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(12)	1	13
Rel. to Nifty	2	(6)	3	11

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	ACEM@IN
Equity Capital (Rs mn)	3064
Face Value(Rs)	2
No of shares o/s (mn)	1532
52 Week H/L	167/112
Market Cap (Rs bn/USD mn)	204/4,624
Daily Avg Volume (No of sh)	467038
Daily Avg Turnover (US\$m)	1.4

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	50.4	46.2	46.3
FII/NRI	26.7	30.1	30.0
Institutions	14.6	14.7	14.7
Private Corp	0.6	1.1	1.0
Public	7.8	7.9	8.0

Source: Capitaline

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- Q2CY11 EBIDTA at Rs5.8 bn (-3.4% yoy) marginally higher than est, APAT at Rs3.47 bn – marginally below due to higher tax rate. Effect of Coal price hikes visible -P&F cost increase 25% qoq. EBITDA/t at RS1101 (+1.6% qoq) slightly above est
- Rev at Rs21.7bn in line-effect of lower volumes (-2.2% yoy) offset by higher realizations- Higher exit prices for FY11 sustained in April & pushed quarter avg realizations to Rs4108/t (v/s est of Rs4031/t)
- Sluggish cement demand (-0.5% ytd) starts impacting cement prices- down ~Rs20/bag from April-11 peaks. New mining tax could be another blow- could increase limestone & coal cost
- Downgrade CY11/12 earnings by 5.2%/ 4.2% factoring in for lower volume growth & higher costs. Stock trades at PER of 16.8X & EV/ton of USD143 on CY11E- Valuation leaves little upside- Maintain REDUCE TP-Rs140

Volumes disappoint but higher realizations help post inline Q2 EBIDTA

Though ACL's volumes this quarter dropped by 2.2% yoy (5.29 mnt) , higher than estimated realizations of Rs4108/t (+8.5% yoy) vs our est of Rs4031/t helped post in line revenues of Rs21.7bn (+6.1% yoy). Realizations improved as the effect of higher exit prices of Q1CY11 sustained till mid- May leading to higher than expected prices for the quarter. Consequently EBITDA of Rs5.8bn (3.4% yoy) was marginally above estimates (Rs5.7bn) with EBITDA/t of Rs1101 (-1.2% yoy) slightly above estimates. However higher than expected tax rate of 34.7% (v/s est of 30%) resulted in APAT of Rs3.47bn (-11.2% yoy) , slightly below estimates of Rs3.62bn.

Effect of 30%+ hike in domestic coal prices visible, P&F cost up 25% qoq

Power and fuel costs per tonne for the quarter increased by 27% yoy and 25% qoq to Rs1065/t (vs est of Rs971/t) reflecting the 30% increase in domestic coal prices taken in March,2011 along with the imported coal prices increasing 30% yoy. Also freight on sales increased by 10% yoy to Rs693/t (vs est of Rs655/t). Total cost per tonne increased 12.6% yoy and 6.3% qoq to Rs3007.

Downgrade Earnings

Factoring in for the weak demand growth and the higher than estimated costs impacting margins, we are downgrading our earnings estimates for ACL by 5.2% for CY11 (EPS of Rs7.9) and 4.2% for CY12 (EPS of Rs9.3).

Cement prices soften -New Mining Tax could be another blow –REDUCE

Realizations in this quarter surprised us positively. However with the monsoon season impacting momentum of construction activities, we see cement prices coming under pressure (already down Rs20/bag from its April-11 peaks). The proposed new mining tax could be another blow to cement companies as it would increase the limestone mining costs by Rs75+80/t. Further given Coal India's strong pricing power, the coal behemoth could ask for a price hike to compensate for the higher incidence of tax. This could result in downside risks to the profitability of cement producers. We believe Ambuja's current valuations at PER of 16.8X, EV/EBIDTA of 9.2X & EV/ton of USD143, leaves little upside with potential of above mentioned risks not completely factored in. Maintain REDUCE with price target of Rs140.

Financial Snapshot

Y/E	Net sales	EBIDTA (Rs Mn)	PAT (Rs Mn)	EPS (Rs)	EPS Chg (%)	ROE (%)	PE (x)	EV/EBIDTA	EV/T (USD)
CY09	70,769	18669	11723	7.7	7.1	19.3	17.3	10.1	186
CY10	73,902	18236	12098	7.9	2.4	17.5	16.9	10.0	158
CY11E	83,911	19447	12198	7.9	0.8	15.8	16.8	9.2	143
CY12E	93,236	22505	14288	9.3	17.1	16.7	14.3	7.7	139

Result Table

Rs mn	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11	YoY(%)	QoQ (%)	YTD'CY11	YTD'CY10	YoY(%)
Revenue	20,476	15,640	17,885	22,071	21,733	6.1	-1.5	43,803	40,377	8.5
Expenditure	14,444	12,809	14,744	15,955	15,906	10.1	-0.3	31,861	28,119	13.3
as % of sales	70.5	81.9	82.4	72.3	73.2			72.7	69.6	
Consumption of RM	1,452	1,201	1,476	1,446	1,466	1.0	1.4	2,912	3,285	-11.4
as % of sales	7.1	7.7	8.3	6.6	6.7			6.6	8.1	
Stock adjustments	-623	-592	177	-163	-1204	93.2	640.0	-1367	-128	970.2
as % of sales	-3.0	-3.8	1.0	-0.7	-5.5			-3.1	-0.3	
Employee Cost	901	989	775	946	1,099	22.0	16.2	2,045	1,673	22.3
as % of sales	4.4	6.3	4.3	4.3	5.1			4.7	4.1	
Power & fuel for generation	4534	4426	4461	4816	5633	24.2	17.0	10449	8087	29.2
as % of sales	22.1	28.3	24.9	21.8	25.9			23.9	20.0	
Freight & Forwarding	4474	3425	4079	5086	4980	11.3	-2.1	10065	8596	17.1
as % of sales	21.8	21.9	22.8	23.0	22.9			23.0	21.3	
Other expenditure	3,706	3,359	3,776	3,823	3,932	6.1	2.8	7,756	6,606	17.4
as % of sales	18.1	21.5	21.1	17.3	18.1			17.7	16.4	
EBITDA	6,032	2,832	3,140	6,116	5,826	-3.4	-4.7	11,942	12,258	-2.6
Depreciation	1,001	1,018	1,086	1,061	1,074	7.3	1.2	2,135	1,768	20.8
EBIT	5,031	1,814	2,054	5,055	4,753	-5.5	-6.0	9,807	10,491	-6.5
Other Income	667.4	495.4	767	675.1	719.6	7.8	6.6	1394.7	1213.3	15.0
Interest	81	89	209	138	152	87.5	10.2	290	189	53.5
PBT	5,618	2,220	2,612	5,592	5,320	-5.3	-4.9	10,912	11,515	-5.2
Total Tax	1,705	699	473	1,517	1,845	8.2	21.6	3,362	3,083	9.0
Adjusted PAT	3,912	1,521	2,139	4,075	3,475	-11.2	-14.7	7,550	8,432	-10.5
(Profit)/loss from JV's/Ass/MI										
APAT after MI	3,912	1,521	2,139	4,075	3,475	-11.2	-14.7	7,550	8,432	-10.5
Extra ordinary items	0	0	436	0	0			0	103	-100.0
Reported PAT	3,912	1,521	2,575	4,075	3,475	-11.2	-14.7	7,550	8,534	-11.5
Reported EPS	2.6	1.0	1.4	2.7	2.3	-11.2	-14.7	5.0	5.5	-10.5

Margins (%)					(bps)	(bps)					(bps)
EBIDTA	29.5	18.1	17.6	27.7	26.8	-265	-90	27.3	30.4	-310	
EBIT	24.6	11.6	11.5	22.9	21.9	-270	-103	22.4	26.0	-359	
EBT	27.4	14.2	14.6	25.3	24.5	-295	-86	24.9	28.5	-361	
PAT	19.1	9.7	12.0	18.5	16.0	-312	-247	17.2	20.9	-365	
Effective Tax rate	30.4	31.5	18.1	27.1	34.7	432	755	30.8	26.8	404	

Per tonne analysis

Rs/t	Q2CY10	Q3CY10	Q4CY10	Q1CY11	Q2CY11	YoY(%)	QoQ (%)	YTD'CY11	YTD'CY10	YoY (%)
Cement Volumes (mn t)	5.41	4.35	4.99	5.64	5.29	-2.22	-6.21	10.93	10.68	2.34
Raw Material Consumed	268	276	296	256	277	3.3	8.1	266	308	-13.4
Clinker Purchased	43	0	49	5	0	-100.0	-100.0	3	93	-96.9
Other	226	276	247	251	277	22.7	10.5	264	215	22.6
Stock adjustments	-115	-136	35	-29	-228	97.6	688.9	-125	-12	945.7
Staff Cost	167	227	155	168	208	24.8	23.9	187	157	19.5
Power & fuel for generation	838	1017	894	854	1065	27.0	24.7	956	757	26.3
Freight & Forwarding										
on sales	629	614	632	647	692	10.1	7.1	669	633	5.7
on inter unit clinker transfer	198	174	186	255	249	25.6	-2.4	252	172	46.4
Other Expenditure	685	772	757	678	743	8.5	9.7	710	619	14.7
Total Cost per tonne	2670	2945	2955	2829	3007	12.6	6.3	2915	2633	10.7
Realisation per tonne	3785	3595	3584	3913	4108	8.5	5.0	4008	3781	6.0
EBIDTA per tonne	1115	651	629	1084	1101	-1.2	1.6	1093	1148	-4.8

Financials

Income Statement

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Net Sales	70,769	73,902	83,911	93,236
Growth (%)	13.8	4.4	13.5	11.1
Total Expenditure	52,293	55,780	64,464	70,731
Raw Materials Cost	9,644	5,963	5,729	6,557
Employee Expenses	2,728	3,437	4,223	4,561
Power & Fuel cost	14,228	16,973	20,775	22,683
Freight & Handling	13,474	16,101	19,292	21,170
Others	12,219	13,306	14,445	15,760
EBITDA	18669	18236	19447	22505
Growth (%)	7.1	-2.3	6.6	15.7
EBITDA margin (%)	26.4	24.7	23.2	24.1
Depreciation	2,970	3,872	4,345	4,704
EBIT	17,796	16,840	18,016	20,714
EBIT margin (%)	25.1	22.8	21.5	22.2
Other Income	2097	2476	2914	2914
Interest expenses	224	487	590	590
PBT	17571	16353	17426	20124
Tax	5848	4255	5228	5836
Effective tax rate (%)	33.3	26.0	30.0	29.0
Adjusted PAT	11723	12098	12198	14288
Growth (%)	7.2	3.2	0.8	17.1
Net Margin (%)	16.6	16.4	14.5	15.3
(Profit)/loss from JVs/Ass/MI				
Adj. PAT After JVs/Ass/MI	11723	12098	12198	14288
E/O items	461.6	538.1	0	0
Reported PAT	12185	12636	12198	14288
Growth (%)	-13.1	3.7	-3.5	17.1

Cash Flow

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
PBT (Ex-Other income)	18033	13877	14513	17211
Depreciation	2970	3872	4345	4704
Interest Provided	-498	487	590	590
Other Non-Cash items	-870	1003	0	0
Chg in working cap	4712	3646	-2510	0
Tax paid	-3055	-4255	-5228	-5836
Operating Cashflow	21292	18630	11709	16669
Capital expenditure	-13361	-7710	-6000	-8500
Free Cash Flow	7931	10921	5709	8169
Other income	1400	2476	2914	2914
Investments	0	1011	0	0
Investing Cashflow	-11961	-4223	-3087	-5587
Equity Capital Raised	74	33	0	0
Loans Taken / (Repaid)	-637	-1000	0	0
Interest Paid	-203	-487	-590	-590
Dividend paid (incl tax)	-3900	-4647	-4486	-5255
Income from investments	0	0	0	0
Others	-4376	0	0	0
Financing Cashflow	-9042	-6101	-5076	-5845
Net chg in cash	288	8306	3547	5238
Opening cash position	8518	8807	17482	21029
Closing cash position	8807	17482	21029	26266

Balance Sheet

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity share capital	3050	3073	3073	3073
Reserves & surplus	61660	70229	77941	86974
Net worth	64710	73289	81001	90034
Minority Interest				
Secured Loans	1000	0	0	0
Unsecured Loans	650	650	650	650
Loan Funds	1650	650	650	650
Net deferred tax liability	4858	5309	5309	5309
Total Liabilities	71219	79261	86973	96007
Gross Block	62241	87788	97095	103095
Less: Depreciation	27841	31511	35855	40560
Net block	34400	56278	61240	62535
Capital work in progress	27144	9307	6000	8500
Investment	7270	6260	6260	6260
Current Assets	19793	31353	37078	43721
Inventories	6832	9019	10345	11495
Sundry debtors	1522	1282	2299	2554
Cash & bank balance	8807	17482	21029	26266
Loans & advances	2531	3406	3406	3406
Other current assets	102	166	0	0
Current lia & Prov	17411	23942	23610	25015
Current liabilities	10671	12976	12644	14049
Provisions	6740	10966	10966	10966
Net current assets	2383	7412	13468	18706
Misc. exp	27	5	5	5
Total Assets	71224	79260	86972	96006

Key Ratios

Y/E, Dec	CY09	CY10	CY11E	CY12E
Profitability (%)				
EBITDA Margin	26.4	24.7	23.2	24.1
Net Margin	16.6	16.4	14.5	15.3
ROCE	26.4	22.4	21.7	22.6
ROE	19.3	17.5	15.8	16.7
RoIC	52.3	38.7	30.2	32.8
Per Share Data (Rs)				
EPS	7.7	7.9	7.9	9.3
CEPS	9.6	10.4	10.8	12.4
BVPS	42.4	47.7	52.7	58.6
DPS	2.4	2.6	2.5	2.9
Valuations (x)				
PER	17.3	16.9	16.8	14.3
P/CEPS	13.8	12.8	12.4	10.8
P/BV	3.1	2.8	2.5	2.3
EV / Sales	2.7	2.5	2.1	1.9
EV / EBITDA	10.1	10.0	9.2	7.7
Dividend Yield (%)	1.8	1.9	1.9	2.2
Gearing Ratio (x)				
Net Debt/ Equity	-0.2	-0.3	-0.3	-0.4
Net Debt/EBITDA	-0.4	-0.9	-1.0	-1.1
Working Cap Cycle (days)	-11.9	-13.2	0.0	0.0

Recommendation History: Ambuja Cement – ACEM IN

Date	Reports	Reco	CMP	Target
27/04/2011	Ambuja Cement Q1CY11 Result Update	Reduce	151	140
03/02/2011	Ambuja Cement Q4CY10 Result Update	Hold	125	130
21/10/2010	Ambuja Cement Q3CY10 Result Update	Hold	142	130
23/07/2010	Ambuja Cements Q2CY2010 Result Update	Hold	112	112

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/07/2011	Ultratech Cement Q1FY12 Result Update	Reduce	1,028	1,050
22/07/2011	Century Plyboards Q1FY12 Result Update	Buy	72	84
21/07/2011	IRB Infrastructure Q1FY12 Result Update	Buy	185	250
13/06/2011	Cement Sector Update			

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