

November 2, 2011

| Reco | Previous Reco |
|--------------------------|---------------|
| Hold | Reduce |
| CMP | Target Price |
| Rs157 | Rs165 |
| EPS change CY11E/12E (%) | - / +2.8 |
| Target Price change (%) | +18 |
| Nifty | 5,258 |
| Sensex | 17,465 |

Price Performance

| (%) | 1M | 3M | 6M | 12M |
|---------------|-----|----|----|-----|
| Absolute | 5 | 22 | 10 | 6 |
| Rel. to Nifty | (3) | 27 | 16 | 23 |

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

| | |
|-----------------------------|-----------|
| Sector | Cement |
| Bloomberg | ACEM@IN |
| Equity Capital (Rs mn) | 3065 |
| Face Value(Rs) | 2 |
| No of shares o/s (mn) | 1533 |
| 52 Week H/L | 167/112 |
| Market Cap (Rs bn/USD mn) | 240/4,872 |
| Daily Avg Volume (No of sh) | 2389799 |
| Daily Avg Turnover (US\$m) | 6.9 |

Shareholding Pattern (%)

| | Sep-11 | Jun-11 | Mar-11 |
|--------------|--------|--------|--------|
| Promoters | 50.4 | 50.4 | 46.2 |
| FII/NRI | 27.2 | 26.7 | 30.1 |
| Institutions | 14.5 | 14.6 | 14.7 |
| Private Corp | 0.6 | 0.6 | 1.1 |
| Public | 7.4 | 7.8 | 7.9 |

Source: Capitaline

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- **EBITDA of Rs3.1bn (+10% yoy) above estimates led by higher Cement realizations (Rs3848/t , +7% yoy, -11% qoq). Higher other income boost above est APAT (Rs1.9bn,+13% yoy)**
- **Though P&F costs at Rs1055/t was higher than est, tight control on fixed costs restricted cost pressures - Staff costs grew just 4.3% yoy while other expenses remained flat.**
- **Momentum in cement price hikes (Oct-11 prices already up Rs18-20/bag from Q3CY11 avg) lead to higher CY11 exit realizations driving 2.8% upgrade in CY12E EPS**
- **Introduce CY13 EPS at Rs11.2. Recent decline in petcoke & sharp cement price hikes to improve ACL's margins. Upgrade to Hold -revise TP to Rs165 by rolling over to CY13E numbers**

Higher realizations drive Q3CY11 profit beat

ACEM's Q3CY11 EBITDA at Rs3.11bn (+10% yoy) came in above estimates (Rs2.9bn) led by higher than expected cement realizations driving EBITDA/t to Rs664,(+2% yoy) above estimates of Rs605/t. Though volumes of 4.7 mnt (+7.8%) were lower than estimates, 7% growth in realizations (Rs3849/t) helped post 15.4% yoy growth in revenues (Rs18.05bn). As compared to ACC & UTCEM, ACEM managed to control fixed costs as employee costs (Rs1.03bn) grew just 4.3% yoy while other expenses (Rs3.35bn) remained flat yoy. Though P&F costs at Rs1055/t was higher than estimates of Rs1008/t, the same declined sequentially by 1% led by lower pet coke prices, providing some relief. Higher other income of Rs857mn and lower interest also helped net profit growth of 13% yoy to Rs1.92- above estimates to Rs1.7bn

Increased Momentum in price hikes lead to earnings upgrade for CY12

Though ACL's key markets witnessed sharp correction in prices from July to August, the uptick in prices which started in Sept-11 has gained momentum & as of Oct-11 all India cement prices at Rs265 are already up Rs18-20/bag from Q3CY11 average of Rs247/bag. This increased momentum in prices has led to upgrade in our earnings estimates for CY12 by 2.8 % (EPS of Rs9.6). However the industry remains exposed to the risk of proposed new mining tax as it would increase the limestone mining costs by Rs75+80/t and it remains a potential dampener.

Upgrade to HOLD

Though the aggregate demand momentum is yet to pick up, we expect the same to happen over next 3-4 quarter led by improving individual housing demand and pick up in infra spending after a prolonged standstill. We introduce CY13 numbers with EPS of Rs11.2 factoring in a moderate volume growth of 7% & a conservative 3% increase in ACL's ASPs. We expect ACL's margins to improve from CY11E levels of 23% to 25.6% by CY13. We expect Improving profitability with minimal capex to drive significant 24% free cash flow CAGR for ACL over CY11-13 (CY13E FCF/share of Rs6.7 as compared to Rs4.3 for CY11E). Continued volume growth momentum would ensure sweating of assets thereby improving RoCE from 21.7% in CY11E to 24.4% in CY13E. Currently the stock trades at valuations of 7.3X EV/EBITDA and EV/Tonne of USD155 for CY13 numbers. Upgrade to HOLD – revise target to Rs165 by rolling over valuations to CY13.

Financial Snapshot

Rs Mn

| Y/E | Net sales | EBIDTA (Rs Mn) | PAT (%) | EPS (Rs Mn) | EPS (Rs) | EPS Chg (%) | ROE (%) | PE (x) | EV/EBIDTA (USD) | EV/T |
|-------|-----------|----------------|---------|-------------|----------|-------------|---------|--------|-----------------|------|
| Dec | | | | | | | | | | |
| CY10 | 73,902 | 18236 | 24.7 | 12371 | 8.1 | 4.7 | 17.9 | 18.9 | 11.6 | 183 |
| CY11E | 83,663 | 19398 | 23.2 | 12198 | 7.9 | (1.4) | 15.8 | 19.1 | 10.6 | 166 |
| CY12E | 93,523 | 22890 | 24.5 | 14684 | 9.6 | 20.4 | 17.1 | 15.9 | 8.7 | 160 |
| CY13E | 103,334 | 26459 | 25.6 | 17164 | 11.2 | 16.9 | 17.9 | 13.6 | 7.3 | 155 |

Result Table

| Rs mn | Q3CY10 | Q4CY10 | Q1CY11 | Q2CY11 | Q3CY11 | YoY(%) | QoQ (%) | YTD'CY11 | YTD'CY10 | YoY(%) |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|--------|---------|---------------|---------------|--------|
| Revenue | 15,640 | 17,885 | 22,071 | 21,733 | 18,051 | 15.4 | -16.9 | 61,854 | 56,017 | 10.4 |
| Expenditure | 12,809 | 14,744 | 15,955 | 15,906 | 14,936 | 16.6 | -6.1 | 46,798 | 40,927 | 14.3 |
| <i>as % of sales</i> | 81.9 | 82.4 | 72.3 | 73.2 | 82.7 | | | 75.7 | 73.1 | |
| Consumption of RM | 1,201 | 1,476 | 1,446 | 1,466 | 1,337 | 11.3 | -8.8 | 4,249 | 4,487 | -5.3 |
| <i>as % of sales</i> | 7.7 | 8.3 | 6.6 | 6.7 | 7.4 | | | 6.9 | 8.0 | |
| Stock adjustments | -592 | 177 | -163 | -1204 | 105 | -117.7 | -108.7 | -1262 | -720 | 75.4 |
| <i>as % of sales</i> | -3.8 | 1.0 | -0.7 | -5.5 | 0.6 | | | -2.0 | -1.3 | |
| Employee Cost | 989 | 775 | 946 | 1,099 | 1,032 | 4.3 | -6.1 | 3,078 | 2,662 | 15.6 |
| <i>as % of sales</i> | 6.3 | 4.3 | 4.3 | 5.1 | 5.7 | | | 5.0 | 4.8 | |
| Power & fuel for generation | 4426 | 4461 | 4816 | 5633 | 4950 | 11.8 | -12.1 | 15399 | 12512 | 23.1 |
| <i>as % of sales</i> | 28.3 | 24.9 | 21.8 | 25.9 | 27.4 | | | 24.9 | 22.3 | |
| Freight & Forwarding | 3425 | 4079 | 5086 | 4980 | 4161 | 21.5 | -16.4 | 14227 | 12022 | 18.3 |
| <i>as % of sales</i> | 21.9 | 22.8 | 23.0 | 22.9 | 23.1 | | | 23.0 | 21.5 | |
| Other expenditure | 3,359 | 3,776 | 3,823 | 3,932 | 3,351 | -0.2 | -14.8 | 11,107 | 9,965 | 11.5 |
| <i>as % of sales</i> | 21.5 | 21.1 | 17.3 | 18.1 | 18.6 | | | 18.0 | 17.8 | |
| EBITDA | 2,832 | 3,140 | 6,116 | 5,826 | 3,115 | 10.0 | -46.5 | 15,057 | 15,090 | -0.2 |
| Depreciation | 1,018 | 1,086 | 1,061 | 1,074 | 1,079 | 6.0 | 0.5 | 3,214 | 2,786 | 15.3 |
| EBIT | 1,814 | 2,054 | 5,055 | 4,753 | 2,036 | 12.3 | -57.2 | 11,843 | 12,304 | -3.7 |
| Other Income | 495.4 | 767 | 675.1 | 719.6 | 856.7 | 72.9 | 19.1 | 2251.4 | 1708.7 | 31.8 |
| Interest | 89 | 209 | 138 | 152 | 138 | 54.3 | -9.2 | 428 | 278 | 53.7 |
| PBT | 2,220 | 2,612 | 5,592 | 5,320 | 2,755 | 24.1 | -48.2 | 13,667 | 13,735 | -0.5 |
| Total Tax | 699 | 473 | 1,517 | 1,845 | 834 | 19.3 | -54.8 | 4,196 | 3,782 | 10.9 |
| Adjusted PAT | 1,521 | 2,139 | 4,075 | 3,475 | 1,921 | 26.3 | -44.7 | 9,471 | 9,953 | -4.8 |
| (Profit)/loss from JV's/Ass/MI | | | | | | | | | | |
| APAT after MI | 1,521 | 2,139 | 4,075 | 3,475 | 1,921 | 26.3 | -44.7 | 9,471 | 9,953 | -4.8 |
| Extra ordinary items | 0 | 436 | 0 | 0 | -206 | | | -206 | 103 | -301.3 |
| Reported PAT | 1,521 | 2,575 | 4,075 | 3,475 | 1,715 | 12.7 | -50.7 | 9,265 | 10,055 | -7.9 |
| Reported EPS | 1.0 | 1.4 | 2.7 | 2.3 | 1.3 | 26.3 | -44.7 | 6.2 | 6.5 | -4.8 |

| Margins (%) | | | | | | (bps) | (bps) | | | | (bps) |
|--------------------|------|------|------|------|------|-------|-------|------|------|------|-------|
| EBIDTA | 18.1 | 17.6 | 27.7 | 26.8 | 17.3 | -85 | -955 | 24.3 | 26.9 | -260 | |
| EBIT | 11.6 | 11.5 | 22.9 | 21.9 | 11.3 | -32 | -1059 | 19.1 | 22.0 | -282 | |
| EBT | 14.2 | 14.6 | 25.3 | 24.5 | 15.3 | 107 | -922 | 22.1 | 24.5 | -242 | |
| PAT | 9.7 | 12.0 | 18.5 | 16.0 | 10.6 | 92 | -535 | 15.3 | 17.8 | -246 | |
| Effective Tax rate | 31.5 | 18.1 | 27.1 | 34.7 | 30.3 | -122 | -442 | 30.7 | 27.5 | 317 | |

Per tonne analysis

| Rs/t | Q3CY10 | Q4CY10 | Q1CY11 | Q2CY11 | Q3CY11 | YoY (%) | QoQ (%) | YTD'CY11 | YTD'CY10 | YoY (%) |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|--------------|--------------|-------------|
| Cement Volumes (mn t) | 4.35 | 4.99 | 5.64 | 5.29 | 4.69 | 7.82 | -11.34 | 15.62 | 15.03 | 3.93 |
| Raw Material Consumed | 276 | 296 | 256 | 277 | 285 | 3.2 | 2.9 | 272 | 299 | -8.9 |
| Clinker Purchased | 0 | 49 | 5 | 0 | 3 | 628.1 | | 3 | 66 | -95.5 |
| Other | 276 | 247 | 251 | 277 | 282 | 2.2 | 1.7 | 269 | 233 | 15.7 |
| Stock adjustments | -136 | 35 | -29 | -228 | 22 | -116.4 | -109.8 | -81 | -48 | 68.7 |
| Staff Cost | 227 | 155 | 168 | 208 | 220 | -3.2 | 5.9 | 197 | 177 | 11.2 |
| Power & fuel for generation | 1017 | 894 | 854 | 1065 | 1055 | 3.7 | -0.9 | 986 | 832 | 18.4 |
| Freight & Forwarding | | | | | | | | | | |
| on sales | 614 | 632 | 647 | 692 | 684 | 11.5 | -1.2 | 674 | 627 | 7.4 |
| on inter unit clinker transfer | 174 | 186 | 255 | 249 | 203 | 16.8 | -18.5 | 237 | 173 | 37.5 |
| Other Expenditure | 772 | 757 | 678 | 743 | 715 | -7.5 | -3.9 | 711 | 663 | 7.3 |
| Total Cost per tonne | 2945 | 2955 | 2829 | 3007 | 3185 | 8.2 | 5.9 | 2996 | 2723 | 10.0 |
| Realisation per tonne | 3595 | 3584 | 3913 | 4108 | 3849 | 7.0 | -6.3 | 3960 | 3727 | 6.2 |
| EBIDTA per tonne | 651 | 629 | 1084 | 1101 | 664 | 2.0 | -39.7 | 964 | 1004 | -4.0 |

Financials

Income Statement

| Y/E, Dec (Rs. mn) | CY10 | CY11E | CY12E | CY13E |
|----------------------------------|---------------|---------------|---------------|----------------|
| Net Sales | 73,902 | 83,663 | 93,523 | 103,334 |
| Growth (%) | 4.4 | 13.2 | 11.8 | 10.5 |
| Total Expenditure | 55,780 | 64,266 | 70,633 | 76,874 |
| Raw Materials Cost | 5,963 | 5,794 | 6,674 | 7,615 |
| Employee Expenses | 3,437 | 4,223 | 4,434 | 4,656 |
| Power & Fuel cost | 16,973 | 20,861 | 22,841 | 24,559 |
| Freight & Handling | 16,101 | 19,227 | 21,534 | 24,016 |
| Others | 13,306 | 14,160 | 15,150 | 16,029 |
| EBITDA | 18236 | 19398 | 22890 | 26459 |
| Growth (%) | -2.3 | 6.4 | 18.0 | 15.6 |
| EBITDA margin (%) | 24.7 | 23.2 | 24.5 | 25.6 |
| Depreciation | 3,872 | 4,345 | 4,681 | 4,857 |
| EBIT | 16,840 | 18,016 | 21,272 | 24,765 |
| EBIT margin (%) | 22.8 | 21.5 | 22.7 | 24.0 |
| Other Income | 2476 | 2963 | 3063 | 3163 |
| Interest expenses | 487 | 590 | 590 | 590 |
| PBT | 16353 | 17426 | 20682 | 24175 |
| Tax | 3983 | 5228 | 5998 | 7011 |
| Effective tax rate (%) | 24.4 | 30.0 | 29.0 | 29.0 |
| Adjusted PAT | 12371 | 12198 | 14684 | 17164 |
| Growth (%) | 5.5 | -1.4 | 20.4 | 16.9 |
| Net Margin (%) | 16.7 | 14.6 | 15.7 | 16.6 |
| (Profit)/loss from JVs/Ass/MI | | | | |
| Adj. PAT After JVs/Ass/MI | 12371 | 12198 | 14684 | 17164 |
| E/O items | 265.3 | 0 | 0 | 0 |
| Reported PAT | 12636 | 12198 | 14684 | 17164 |
| Growth (%) | 3.7 | -3.5 | 20.4 | 16.9 |

Cash Flow

| Y/E, Dec (Rs. mn) | CY10 | CY11E | CY12E | CY13E |
|------------------------------|--------------|--------------|--------------|--------------|
| PBT (Ex-Other income) | 13877 | 14463 | 17620 | 21012 |
| Depreciation | 3872 | 4345 | 4681 | 4857 |
| Interest Provided | 487 | 590 | 590 | 590 |
| Other Non-Cash items | 730 | 0 | 0 | 0 |
| Chg in working cap | 3646 | -2510 | 0 | 0 |
| Tax paid | -3983 | -5228 | -5998 | -7011 |
| Operating Cashflow | 18630 | 11660 | 16893 | 19448 |
| Capital expenditure | -7710 | -5000 | -6720 | -9220 |
| Free Cash Flow | 10920 | 6660 | 10173 | 10228 |
| Other income | 2476 | 2963 | 3063 | 3163 |
| Investments | 1011 | 0 | 0 | 0 |
| Investing Cashflow | -4223 | -2037 | -3657 | -6057 |
| Equity Capital Raised | 33 | 0 | 0 | 0 |
| Loans Taken / (Repaid) | -1007 | 0 | 0 | 0 |
| Interest Paid | -487 | -590 | -590 | -590 |
| Dividend paid (incl tax) | -4647 | -4486 | -5401 | -6313 |
| Income from investments | 0 | 0 | 0 | 0 |
| Others | 0 | 0 | 0 | 0 |
| Financing Cashflow | -6108 | -5076 | -5990 | -6902 |
| Net chg in cash | 8299 | 4547 | 7245 | 6489 |
| Opening cash position | 8807 | 17482 | 22028 | 29273 |
| Closing cash position | 17482 | 22028 | 29273 | 35762 |

Balance Sheet

| Y/E, Dec (Rs. mn) | CY10 | CY11E | CY12E | CY13E |
|-------------------------------|--------------|--------------|--------------|---------------|
| Equity share capital | 3073 | 3073 | 3073 | 3073 |
| Reserves & surplus | 70229 | 77941 | 87225 | 98076 |
| Net worth | 73289 | 81000 | 90284 | 101136 |
| Minority Interest | | | | |
| Secured Loans | 0 | 0 | 0 | 0 |
| Unsecured Loans | 650 | 650 | 650 | 650 |
| Loan Funds | 650 | 650 | 650 | 650 |
| Net deferred tax liability | 5309 | 5309 | 5309 | 5309 |
| Total Liabilities | 79261 | 86973 | 96257 | 107108 |
| Gross Block | 87788 | 97095 | 102095 | 104595 |
| Less: Depreciation | 31511 | 35855 | 40536 | 45394 |
| Net block | 56278 | 61240 | 61559 | 59202 |
| Capital work in progress | 9307 | 5000 | 6720 | 13440 |
| Investment | 6260 | 6260 | 6260 | 6260 |
| Current Assets | 31353 | 38041 | 46771 | 54738 |
| Inventories | 9019 | 10315 | 11530 | 12740 |
| Sundry debtors | 1282 | 2292 | 2562 | 2831 |
| Cash & bank balance | 17482 | 22028 | 29273 | 35762 |
| Loans & advances | 3406 | 3406 | 3406 | 3406 |
| Other current assets | 166 | 0 | 0 | 0 |
| Current lia & Prov | 23942 | 23572 | 25058 | 26537 |
| Current liabilities | 12976 | 12607 | 14093 | 15571 |
| Provisions | 10966 | 10966 | 10966 | 10966 |
| Net current assets | 7412 | 14468 | 21713 | 28202 |
| Misc. exp | 5 | 5 | 5 | 5 |
| Total Assets | 79260 | 86972 | 96256 | 107107 |

Key Ratios

| Y/E, Dec | CY10 | CY11E | CY12E | CY13E |
|----------------------------|-------|-------|-------|-------|
| Profitability (%) | | | | |
| EBITDA Margin | 24.7 | 23.2 | 24.5 | 25.6 |
| Net Margin | 16.7 | 14.6 | 15.7 | 16.6 |
| ROCE | 22.4 | 21.7 | 23.2 | 24.4 |
| ROE | 17.9 | 15.8 | 17.1 | 17.9 |
| RoIC | 38.7 | 30.1 | 33.8 | 40.9 |
| Per Share Data (Rs) | | | | |
| EPS | 8.1 | 7.9 | 9.6 | 11.2 |
| CEPS | 10.6 | 10.8 | 12.6 | 14.3 |
| BVPS | 47.7 | 52.7 | 58.8 | 65.8 |
| DPS | 2.6 | 2.5 | 3.0 | 3.5 |
| Valuations (x) | | | | |
| PER | 18.9 | 19.1 | 15.9 | 13.6 |
| P/CEPS | 14.4 | 14.1 | 12.1 | 10.6 |
| P/BV | 3.2 | 2.9 | 2.6 | 2.3 |
| EV / Sales | 2.9 | 2.5 | 2.1 | 1.9 |
| EV / EBITDA | 11.6 | 10.6 | 8.7 | 7.3 |
| Dividend Yield (%) | 1.7 | 1.6 | 2.0 | 2.3 |
| Gearing Ratio (x) | | | | |
| Net Debt/ Equity | -0.3 | -0.3 | -0.4 | -0.4 |
| Net Debt/EBIDTA | -0.9 | -1.1 | -1.3 | -1.3 |
| Working Cap Cycle (days) | -13.2 | 0.0 | 0.0 | 0.0 |

Recommendation History: Ambuja Cement – ACEM IN

| Date | Reports | Reco | CMP | Target |
|------------|--|--------|-----|--------|
| 28/07/2011 | Ambuja Cement Q2CY11 Result Update | Reduce | 133 | 140 |
| 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 |

Recent Research Reports

| Date | Reports | Reco | CMP | Target |
|------------|--|------------|-------|--------|
| 01/11/2011 | ACC Q3CY11 Result Update | Accumulate | 1,184 | 1,290 |
| 01/11/2011 | Century Plyboards Q2FY12 Result Update | Buy | 59 | 82 |
| 24/10/2011 | Grasim Industries Q2FY12 Result Update | Accumulate | 2,362 | 2,700 |
| 20/10/2011 | Ultratech Cement Q2FY12 Result Update | Hold | 1,111 | 1,170 |

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