Ambuja Cements - Buy

Investment overview

- Ambuja Cements is one of the leading cement manufacturing companies having around 10% market share on an all-India basis.
- It is the most profitable cement company in India, and one of the lowest cost producers of cement in the world.
- ACL's present capacity is about 25 million tonnes with five integrated cement plants and eight grinding units in India.
- Ambuja has now added sophisticated IT tools and global channel management tools to its traditional Indian model.

Business Overview

Ambuja Cements Ltd. (ACL) is one of the leading cement manufacturing companies in India. The Company, initially called Gujarat Ambuja Cements Ltd., was founded by NarotamSekhsaria in 1983 with a partner, Suresh Neotia. The global cement major Holcim acquired management control of ACL in 2006 and it held a little over 46 per cent equity in ACL.Ambuja is the most profitable cement company in India, and one of the lowest cost producer of cement in the world.

Its plants are some of the most efficient in the world. With environment protection measures that are on par with the finest in the developed world.Its current cement capacity is about 25 million tonnes. The Company has five integrated cement manufacturing plants and eight cement grinding units across the country. ACL enjoys a reputation of being one of the most efficient cement manufacturers in the world. Its environment protection measures are on par with the finest in the country.

ACL is the first Indian cement manufacturers to build a captive port with three terminals along the country's western coastline to facilitate timely, cost effective and environmentally cleaner shipments of bulk cement to its customers. The Company has its own fleet of ships. ACL has also pioneered the development of the multiple bio-mass co-fired technology for generating greener power in its captive plants.

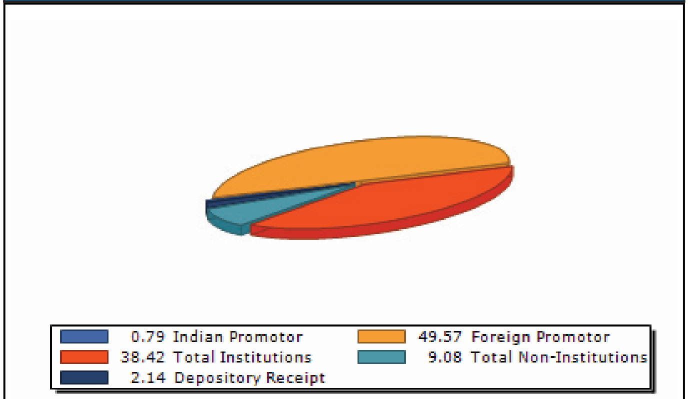
Financial Health

The Company has posted a net profit rise of 12.75% to Rs 171.48 crore for the quarter ended September 30, 2011 as compared to Rs 152.09 crore for the corresponding previous quarter. Total Income increased by 17.18% to Rs 1890.77 crore for the quarter against Rs 1613.56 crore for the quarter ended September 30, 2010. Revenue rose 16% year-on-year (y-o-y) to Rs 1,833.7 crore, driven by favourable market conditions. Also the higher cement prices during the quarter, saw realizations rise by around 7.3%.

In the month of November the Cement despatches of the company was up by 29% to 18.31 lakh tonnes compared to 14.16 lakh tonnes and for the period January-November, the despatches were up by to 190.28 lakh tonnes from 182.97 lakh tonnes. Though, the growth was considerable for the month of

Stock Data	04/01/2012
Current Mkt Price (Rs)	150.35
52 Week High	165.50
52 Week Low	112.00
Mkt Cap (Rs. in Cr.)	23049.00
Return in last one Month (%)	0.90

Share Holding



Performance in last one year

Y-o-Y Performance

(Rs. in Million)

Particulars	Dec 2010	Dec 2009	Change(%)
Net Sales	7376.44	7079.94	4.19
Other Income	218.43	213.33	2.39
Total Expenditure	5523.65	5170.55	6.83
Operating Profit	2071.22	2122.72	-2.43
Interest	48.69	22.43	117.08
Profits After Tax	1263.61	1218.37	3.71
Reserve & Surplus	0.00	0.00	13.90
Reported EPS(Rs)	8.26	8.00	3.30
Core EBITDA Margin (%)	22.36	24.59	-9.08

November but it was mainly because of low base effect.

Industry Scenario

India is the world's second largest producer of cement.Indian Cement Industry is engaged in the production of several varieties of cement such as Ordinary Portland Cement (OPC), Portland Pozzolana Cement (PPC), Portland Blast Furnace Slag Cement (PBFS), Oil Well Cement, Rapid Hardening Portland Cement, Sulphate Resisting Portland Cement, White Cement, etc.The Industry recorded an exponential growth with the introduction of partial decontrol in 1982 culminating in total decontrol in 1989.The Indian cement industry is extremely energy intensive and is the third largest user of coal in the country.

On the regional front, Northern Region (including Uttar Pradesh, Rajasthan, Madhya Pradesh and Haryana) is leading the country in terms of cement consumption. Sufficient raw material availibility and various incentives provided by state governments make this region lucrative for investments. A number of domestic and international cement companies are striving hard to establish their production base in this region. At the regional front, Southern Region (including Andhra Pradesh, Tamil Nadu, and Karnataka) was leading the country in terms of cement production in 2009-10. Sufficient raw material availability and various incentives provided by the state governments make this region lucrative for investments. Numerous domestic and international cement companies are striving hard to establish their production base in this region.

In last couple of years, almost all cement majors expanded their installed capacity in the backdrop of government backed construction projects since these projects have created strong demand for cement in the country. Moreover, it is anticipated that industry players will continue to increase their annual cement output in coming years and the country's total cement production will grow at a CAGR of around 10.5% during 2010-11-2013-14.

India is the world's second largest producer of cement. The Indian cement industry has outpaced the growth rates of other prominent industries in the country on the back of factors, such as rising demand from the housing sector, increased activity in infrastructure, and construction recovery. Recent industry developments and the government supportive policies are attracting global cement giants and sparking off a spate of mergers & acquisitions to spur growth.

Latest developments:

NarotamSekhsaria, the founder promoters of Ambuja Cements has recently exited completely from the company.They had held a minority stake even after the company was taken over by Holcim.However, he will continue as Non-Executive Chairman of the Board until he turns 75 and as Chairman Emeritus thereafter, subject to rules.

Investment Rationale

- The Company maintained its strong position of approximately

Q-o-Q Performance

(Rs. in Million)

Particulars	Sep 2011	Sep 2010	Change(%)
Net Sales	1833.67	1583.04	15.83
Expenditure	1514.27	1280.86	18.22
Other Income	57.10	30.52	87.09
EBITDA	376.50	332.70	13.17
Interest	13.79	8.94	54.25
Net Profit	171.48	152.09	12.75
EBITDA Margin (%)	0.21	0.21	-2.30
NPM (%)	0.09	0.10	-2.66
EPS	1.12	1.00	12.00

Profit & Loss

(Rs. in Million)

Particulars	Dec 2010	Dec 2009	Change(%)
Net Sales	7376.44	7079.94	4.19
Total Income	7594.87	7293.27	4.14
Total Expenditure	5523.65	5170.55	6.83
Operating Profit	2071.22	2122.72	-2.43
Profits After Tax	1263.61	1218.37	3.71

Balance Sheet

(Rs. in Million)

Particulars	Dec 2010	Dec 2009	Change(%)
Share Capital	305.97	304.74	0.40
Reserve & Surplus	7022.79	6165.92	13.90
Total Liabilities	7395.13	6636.60	11.43
Investments	625.95	727.01	-13.90
Current Liabilities	1297.61	1067.05	21.61
Net Current Assets	741.15	238.25	211.08
Total Assets	7395.13	6636.60	11.43

Key Ratios

Particulars	Dec 2010	Dec 2009
Reported EPS (Rs)	8.26	8.00
Core EBITDA Margin (%)	22.36	24.59
EBIT Margin (%)	20.64	23.52
ROA (%)	18.01	19.34
ROE (%)	18.32	20.08
ROCE (%)	24.39	29.00
Price/Book (x)	2.99	2.44
Net Sales Growth (%)	4.19	14.48
EBIT Growth (%)	-6.31	-8.80
PAT Growth (%)	3.71	-13.11
Total Debt/Mcap (%)	0.00	0.01

Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E*
Ambuja Cements	201012	7376.44	1852.79	1263.61	17.13	8.26	19.66
Ultratech Cement	201103	13209.91	2542.36	1404.23	10.63	51.24	15.51
ACC	201012	7717.33	1553.98	1120.01	14.51	59.65	18.81
Shree Cement	201103	3511.87	884.83	209.70	5.97	60.19	39.74

16.5% market share in its primary markets, and around 10% on an all-India basis. In last year it witnessed significant industry capacity additions, totalling approximately 30 million tonnes, following 60 million tonnes already added during the previous two years. The impact of this surplus capacity, together with tepid demand in the second half of 2010, exerted considerable pressure on cement prices. Holcim's global experience has also helped the company in fine tuning its product quality management, by introducing best practices from other countries. It has helped in enhancing the overall marketing mix, clearly targeted at the retail market in rural and semi-urban sectors, and the large buyers in the metros and mega cities. The company has been able to improve operating efficiency by increasing its clinker capacity, which reduces the need to source clinker externally.

- Recently the founder promoter of the company exited completely from the company. The transaction value though not disclosed was estimated to be about Rs 185 crore. After the transaction, the stake held by Holderind Investments, a subsidiary of Holcim has gone up to 40.53 per cent. Ambuja Cement India Limited (ACIL), the local company of Holcim, owns 9.83 per cent in the company. Holcim now collectively owns 50.35 per cent stake in the company. ACIL and Holderind Investment also hold 50.01 per cent and 0.29 per cent stake, respectively in ACC, one of the largest cement makers in India. The other major investors in the company are Life Insurance Corporation (9.23 per cent), Genesis Indian Investment Company (4.44 per cent) and Aberdeen Asset Managers (3.07 per cent).

- Along with strong brand equity, Ambuja has evolved a unique model of channel management, based on values of trust and relationships. The strong bond between the dealer network and the Company has helped Ambuja to withstand severe competition for more than two decades. With the added support of Holcim's rich experience of operating in 70 countries, Ambuja has now added sophisticated IT tools and global channel management tools to its traditional Indian model. This has enhanced its capability to face the stiff competition resulting from a scenario of substantial oversupply. The Company has built a large network of over 7,500 dealers and 20,000 retailers across 18 states in India. Its reach and penetration helped the Company to manage the last mile delivery across the relevant markets, strengthening its position in core rural and semi-urban markets.

- Export markets remained in the doldrums, as a result of the slow global recovery, and particularly the slump in construction in the Gulf region. This created added pressure in the western region of India, as greater quantities of cement and clinker were diverted to the domestic market. On the supply side, there have been significant cement capacity additions, totalling approximately 60 million tonnes during the past two years, taking total industry capacity to around 300 million tonnes at the end of 2010. But during the last year, average industry capacity utilisation fell as low as 70%, and even lower in the southern region, which saw the highest capacity additions. The Company's network of port, bulk terminals, and bulk cement ships, on the West coast has supported a sustainable strong market position in Mumbai, Surat, and now Cochin.

- At the current market price of Rs 150, Ambuja Cements is trading at PE of 19.65x and 17.89x FY12E respectively, we would recommend 'BUY' in the scrip with a price target of Rs 194 for a medium to long term outlook. Domestic demand for cement had increased at a fast pace and at once it even surpassed the economic growth rate of the country. In what has become a challenging market environment, the Company capitalised on having new capacity available, and on its strong premium brand and distribution network, in order to improve its market position in relation to other major players. The cement industry is operating at 72-75% of its capacity, cement prices may not see a huge upside in the near term. Increased cement capacities, the pressure of inflation, higher interest rates, and repeated increases in oil and coal prices will further affect the margins of the cement industry in the coming year. Still there are many factors like various governmental programmes like National Rural Employment Guarantee, low-cost housing in urban and rural areas, that may prop up demand for cement in the coming days. Cement prices too are all set to inch up further due to the busy season.