

July 26, 2018

Ambuja Cements

Q2CY18 Result Update

Healthy top-line growth; better than expected realization

The company registered net sales of INR 3017cr for the quarter, driven by a higher realization/ton of INR 4736. This was primarily due to the company's increased focus on its premium products (Compocem and Roof Special). Cement volumes for the quarter stood at 6.37 mn tons registering a growth of 5% YoY on the back of strong growth in the IHB segment coupled with increased participation in the Building and Infrastructure segment.

High EBITDA due to cost rationalization

Input costs have been rising sequentially due to rising pet-coke and diesel prices. Raw material costs have also been impacted due to increase in fly-ash and gypsum prices in the quarter. Freight costs have risen 13% YoY due to increase in lead distance and diesel prices as well as usage of external sidings due to unavailability of rakes in the eastern region. However, due to various cost saving measures and productivity improvements, other expenses have declined by 11% YoY resulting in an EBITDA of INR 622cr (-4% YoY, 23% QoQ).

Proposed capacity addition; next leg of growth

With capacity utilization hovering at 87% for the quarter, the company's proposed plan of setting up a clinkerisation plant of 3.1mn ton in Mandawa, Rajasthan comes at the right time. Although sand-mining issues are somewhat prevalent in Rajasthan, demand has not been affected due to availability of sand from neighbouring states.

Valuations

The Government's increased focus on rural and affordable housing and infrastructure development, coupled with government initiatives like increase in MSP for kharif crops and expectations of a normal monsoon, gives us reason to believe that the increased volumes should sustain. Although increase in fuel prices and input material costs are expected to continue, we believe that the increase in demand (owing to PMAY, metro, roads and ports projects) will offset the cost pressure and maintain profitability. We remain positive on the stock with a target price of INR 246 giving an upside of 15.8%. (i.e. valuing the stock at CY19E EV/Ton of \$150/Ton, 13x CY19E EV/EBITDA)

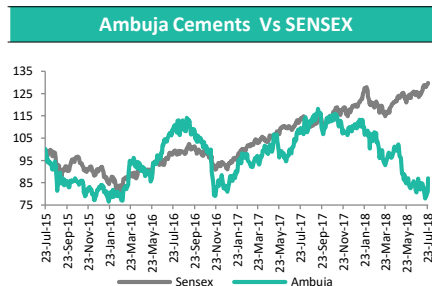
(INR Crores)	CY15	CY16	CY17	CY18E	CY19E
Revenue	9368	9160	10447	11713	12545
Growth%	-5%	-2%	14%	12%	7%
EBITDA	1531	1683	1939	2256	2487
Growth%	-21%	10%	15%	16%	10%
Adjusted PAT	808	970	1250	1315	1367
Growth%	-46%	20%	29%	5%	4%
EPS (INR)	5.20	4.89	6.29	6.62	6.89
Sales Volume (MT)	21.77	21.47	22.98	25.02	26.27
EV/EBITDA (x)	17.4	22.8	27.1	16.7	14.8
EV/Tonne (\$)	134	193	264	190	185
P/E (x)	39.1	42.2	44.8	42.6	41.2

BUY

Downside Scenario	Current Price	Price Target	Upside Scenario
	209	246	
		16%▲	

Stock Details	
Industry	Cement
Sensex	36858
Nifty	11132
Bloomberg Code	ACEM:IN
Eq. Cap. (INR. Cr.)	397
Face Value (INR.)	2
52-w H/L	189/291.5
Market Cap (INR. Cr.)	41599

Valuation Data			
	CY17	CY18E	CY19E
OPM	18.6%	19.3%	19.8%
NPM	12.0%	11.2%	10.9%
P/E (x)	44.8	42.6	41.2
EV/EBITDA (x)	27.1	16.7	14.8
EV/Ton (\$)	264.4	189.5	184.8



Shareholding Pattern			
	Jun'18	Mar'18	Jun'17
Promoters	63.11	63.11	63.11
FIIIs	16.4	16.48	16.78
DIIIs	12.69	12.86	11.48
Retail	7.1	6.87	7.86
Others	0.7	0.69	0.77
	100.0	100.0	100.0

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Q2CY18 Result Analysis

(INR Crores)	Q2CY18	Q2CY17	Q1CY18	Y-o-Y	Q-o-Q
Revenue	3017	2854	2863	5.7%	5.4%
COGS	211	230	212	-8.2%	-0.2%
Employee Expenses	176	170	170	3.6%	3.7%
Power and Fuel	655	565	635	15.9%	3.1%
Freight and Forwarding	878	737	829	19.1%	6.0%
Other Expenses	474	502	510	-5.4%	-7.0%
Total Expenses	2395	2203	2355	8.7%	1.7%
EBITDA	622	651	507	-4.4%	22.7%
Depreciation	136	144	139	-5.2%	-2.0%
Other Income	191	56	51	241.3%	276.8%
EBIT	677	563	419	20.2%	61.7%
Finance Cost	19	17	26	16.4%	-25.4%
PBT	658	547	393	20.3%	67.5%
Taxes	159	154	121	2.7%	31.0%
Net Profit	499	392	272	27.3%	83.7%

- The company's net sales grew 5.7% y-o-y (from INR 2854cr in Q2CY17) and grew 5.4% q-o-q (from INR 2863cr in Q1CY18) to INR 3017cr in Q1CY18.
- EBITDA for the company stood at INR 622cr down from INR 651cr (-4.4% Y-o-Y) and up from INR 507 cr (22.7% Q-o-Q) with EBITDA Margins at 20.6% as against 22.8% in Q2CY17 and 17.7% in Q1CY18. The decline in margins was primarily due to higher freight costs (due to unavailability of rakes in the eastern region) and higher raw material costs (due to increase in fly ash and gypsum cost yoy.) However, sales growth of the premium brands – Compocem and Roof Special, help offset the fall in margins to a certain extent.
- EBITDA/Ton for the quarter stood at INR 977 down from INR 1076 (-9.2% Y-o-Y) in Q2CY17 and up from INR 815 (19.8% Q-o-Q) in Q1CY18. Total cement volumes for the quarter stood at 6.37 mnT. The cement volumes grew at 5.3% YoY and 2.4% QoQ.
- Reported PAT stood at INR 499cr which was up by 27.3% Y-o-Y (from INR 392cr) and up by 84% Q-o-Q (from 272cr). PAT Margins stood at 16.5%, up from 13.7% in Q2CY17 and 9.5% in Q1CY18.
- Realization/ Ton has increased to INR 4736, up from INR 4718 (0.4% Y-o-Y) and INR 4602 (2.9% Q-o-Q).
- Capacity utilization was at 87% for the quarter vs 82% in Q2CY17.
- Freight cost/ton increased 13% YoY and 3.5% QoQ due to increase in lead and diesel prices and clinker movement through external sidings due to shortage of adequate availability of rakes in the east.

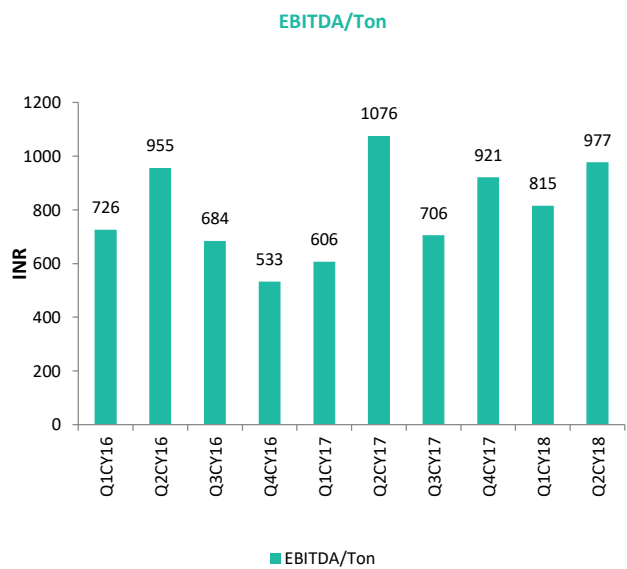
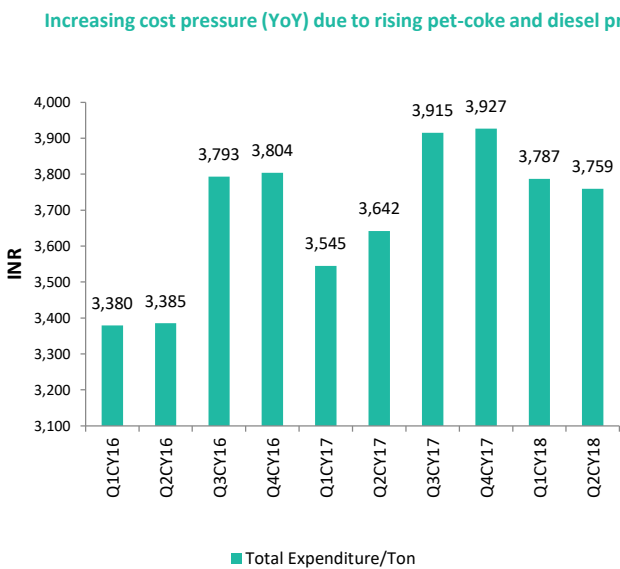
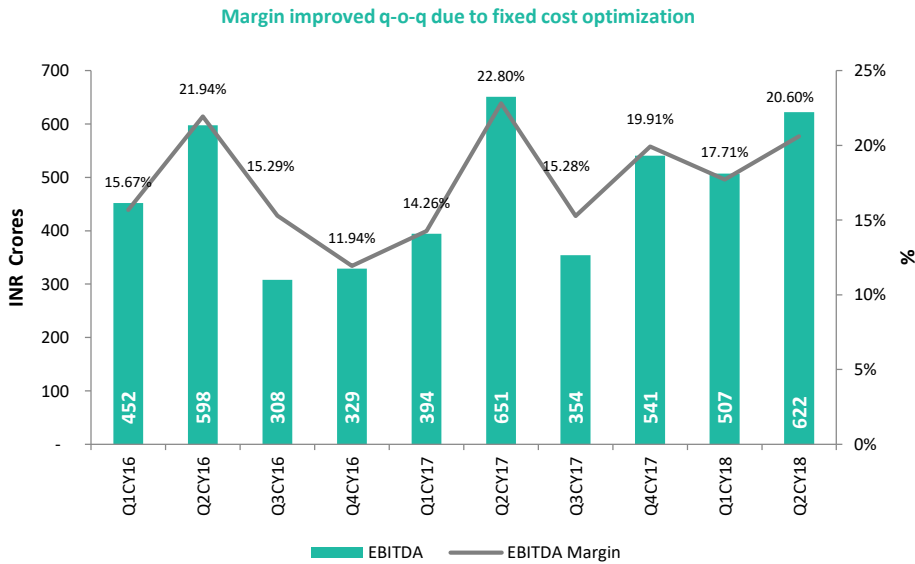
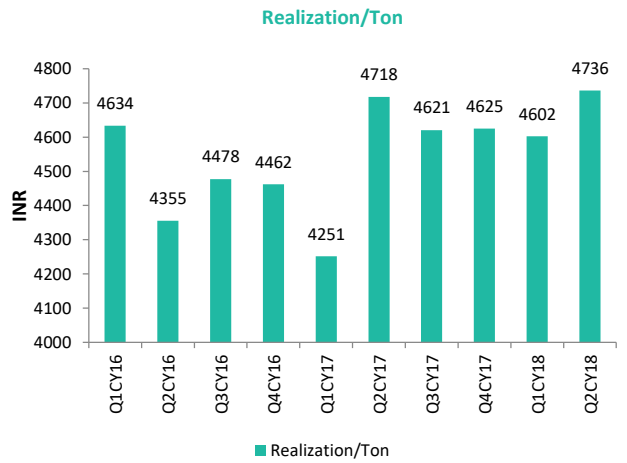
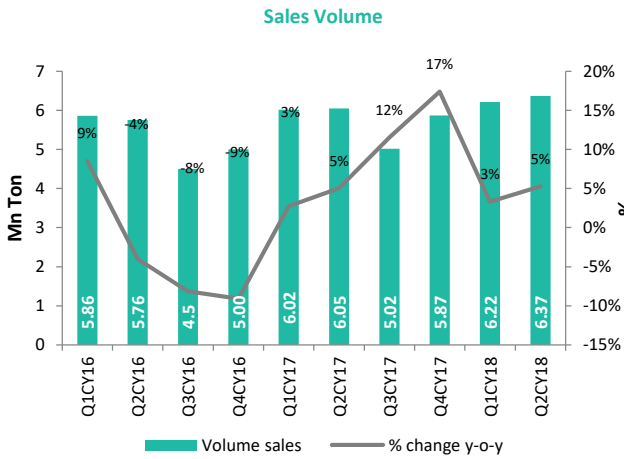
(INR/Ton)	Q2CY18	Q2CY17	Q1CY18	Y-o-Y	Q-o-Q
Realization	4736	4718	4602	0.4%	2.9%
RM Cost	332	380	340	-12.8%	-2.6%
Employee Cost	276	280	273	-1.6%	1.2%
Power and Fuel	1028	933	1021	10.1%	0.7%
Freight and Forwarding	1379	1219	1333	13.1%	3.5%
Other Expenditure	745	829	820	-10.2%	-9.2%
Total Expenditure	3759	3642	3787	3.2%	-0.7%
EBITDA	977	1076	815	-9.2%	19.8%

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Source: Company, NSPL Research



Profit & Loss (INR Crores)	CY15	CY16	CY17	CY18E	CY19E
Net sales	9368	9160	10447	11713	12545
COGS	827	746	847	914	969
Employee Expenses	590	594	661	728	764
Power and fuel	2053	1832	2234	2569	2723
Transportation cost	2510	2473	2872	3220	3413
Other Expenses	1951	1940	1894	2146	2189
EBITDA	1531	1683	1939	2256	2487
D&A	626	850	573	591	739
Other income	358	576	360	360	360
EBIT	1264	1409	1726	2025	2108
Interest Expense	92	71	107	62	67
PBT	1172	1337	1619	1963	2041
Tax	365	367	370	648	673
Effective tax rate	31%	27%	23%	33%	33%
PAT	808	970	1250	1315	1367

Balance Sheet (INR Crores)	CY15	CY16	CY17	CY18E	CY19E
Share Capital	310	397	397	397	397
Reserves & Surplus	9996	18960	19576	20102	20717
Shareholder's Funds	10307	19357	19973	20499	21115

Long-term borrowings	23	16	24	24	24
Deferred Tax Liability (Net)	565	497	458	458	458
Long term provisions	35	43	35	55	271
Other non-current liabilities	6	8	9	10	19
Non-current liabilities	629	564	527	547	773
Trade payables	680	815	1,029	1,127	1,327
Other current liabilities	1,462	1,097	1,491	1,646	1,454
Short-term provisions	1,084	1,519	1,598	1,598	1,598
Current liabilities	3,226	3,432	4,117	4,370	4,379
Total Equity and Liabilities	14,162	23,353	24,617	25,416	26,266

Gross Block	12,013	15,289	15,789	16,289	16,429
Less: Accum. Depreciation	5,921	9,310	9,883	10,474	11,213
Net Fixed Assets	6,506	6,262	6,120	5,815	5,216
Non-current investments	107	11,845	11,845	11,845	11,845
Long term Loans	721	183	193	193	193
Other Non-current Assets	280	850	967	967	967
Non-current Assets	7,613	19,139	19,125	18,820	18,221
Inventories	895	938	1,053	1,152	1,274
Trade receivables	286	396	308	368	593
Cash and cash equivalents	2,848	2,579	3,497	4,608	5,534
Short term Loans	336	249	568	402	577
Other current assets	63	53	67	67	67
Current Assets	6,549	4,214	5,492	6,597	8,046
Total Assets	14,162	23,353	24,617	25,416	26,266

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Cash Flow (INR Crores)	CY15	CY16	CY17	CY18E	CY19E
PBT	1172	1337	1619	2061	2434
Depreciation & Amortization	626	850	573	762	773
(Incr)/Decr in Working Capital	23	0	231	279	-287
Cash Flow from Operating	1653	1416	1,854	2,248	1,886
(Incr)/ Decr in Gross PP&E	-617	-383	-560	-286	-140
Cash Flow from Investing	-83	-3469	-191	-286	-140
(Decr)/Incr in Debt	4	4	-3	0	0
Dividend Paid	-744	-648	-636	-789	-752
Finance costs	-39	-36	-114	-62	-67
Cash Flow from Financing	-897	-683	-749	-851	-819
Incr/(Decr) in Balance Sheet Cash	673	-2736	915	1111	927
Cash at the Start of the Year	4459	5132	2396	3497	4608
Cash at the End of the Year	5132	2396	3311	4608	5534
Bank balances not included in cash	0	183	186	0	0

RATIOS	CY15	CY16	CY17	CY18E	CY19E
Particulars					
EBITDA/Ton	660.7	733.7	754.6	822.1	870.5
Sales Volume (mn tons)	21.5	21.1	23.0	25.0	26.3
Growth (%)					
Total Sales	-5.5%	-2.2%	14.0%	12.1%	7.1%
EBITDA	-20.6%	9.9%	15.2%	16.4%	10.2%
PAT	-46.0%	20.1%	28.8%	5.3%	3.9%
Profitability (%)					
EBITDA Margin	16.3%	18.4%	18.6%	19.3%	19.8%
NPM	8.6%	10.6%	12.0%	11.2%	10.9%
RoE (%)	7.8%	5.0%	6.3%	6.4%	6.5%
RoCE (%)	11.6%	7.1%	8.4%	9.6%	9.6%
Debt Ratios					
Net Debt/EBITDA	-1.3	-1.3	-1.6	-1.9	-2.2
Net Debt/Equity	-0.2	-0.3	-0.3	-0.4	-0.5
Interest Coverage	12.6	13.7	17.7	21.9	23.4
Per share data / Valuation					
EPS (INR.)	5.2	4.9	6.3	6.6	6.9
BPS (INR.)	66.4	97.5	100.6	103.2	106.3
P/E (INR.)	39.1x	42.2x	44.8x	42.6x	41.2x
EV/EBITDA (x)	17.4x	22.8x	27.1x	16.7x	14.8x
EV/Ton (\$)	134.0x	193.3x	264.4x	189.5x	184.8x



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