

October 24, 2018

# Ambuja Cements

## Q3CY18 Result Update

### Muted top-line growth; volumes missed estimates

The company registered net sales of INR 2614cr for the quarter, driven by a higher realization/ton of INR 4787. 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 5.46mt registering a growth of 9% YoY on the back of increased participation in the Building and Infrastructure segment. Cement demand grew by 9% in Q3CY18 led by good demand from the Housing and Infra segment

### High EBITDA due to cost rationalization

Input costs have been rising sequentially due to rising pet-coke, diesel and packing material (impacted by increase in crude) prices. Raw material cost/ton have shown improvement (-13% YoY) due to optimization of additive in the Raw mix. Freight cost/ton have risen 9% YoY due to increase in diesel prices. Other expenses/ton have also risen 5% due to an increase in packing bag prices as well as annual maintenance.

### Proposed capacity addition; next leg of growth

With capacity utilization hovering at 74% even in the monsoon quarter, the company's proposed plan of setting up a clinkerisation plant of 3.1mt in Mundwa, Rajasthan is well-timed. The first phase of 1.7mt is expected to be commissioned by H2CY20, incurring a capital expenditure of INR 1391cr.

### 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 as well as rising concretization of houses in rural India, 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) coupled with efficient cost management by the company will offset the cost pressure and maintain profitability. We remain positive on the stock with a target price of INR 248 giving an upside of 23%. (i.e. valuing the stock at CY20E EV/Ton of \$150/Ton, 10x CY20E EV/EBITDA)

### Financial Snapshot

(INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
Revenue	9160	10447	11486	12301	12921
<b>Growth%</b>	<b>-2%</b>	<b>14%</b>	<b>10%</b>	<b>7%</b>	<b>5%</b>
EBITDA	1683	1939	2244	2479	2615
<b>Growth%</b>	<b>10%</b>	<b>15%</b>	<b>16%</b>	<b>10%</b>	<b>5%</b>
Adjusted PAT	970	1250	1307	1417	1499
<b>Growth%</b>	<b>20%</b>	<b>29%</b>	<b>5%</b>	<b>8%</b>	<b>6%</b>
EPS (INR)	4.89	6.29	6.58	7.14	7.55
Sales Volume (MT)	21.1	23.0	25.0	26.3	27.3
EV/EBITDA (x)	22.8	27.1	15.7	13.9	12.8
EV/Ton (\$)	193.3	264.4	162.3	159.4	139.5
P/E (x)	42.2	44.8	30.4	28.2	26.6

Source: Company, NSPL Research

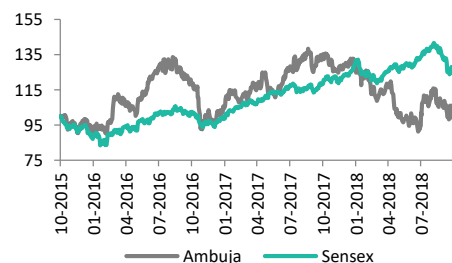
## STRONG BUY

Downside Scenario	Current Price	Price Target	Upside Scenario
	201	248	
		23%▲	

Market Data	
Industry	Cement
Sensex	33847
Nifty	10147
Bloomberg Code	ACEM:IN
Eq. Cap. (INR Crores)	397
Face Value (INR)	2
52-w H/L	189/289
Market Cap (INR Crores)	39941

Valuation Data	CY17	CY18E	CY19E
OPM	18.6%	19.5%	20.2%
NPM	12.0%	11.4%	11.5%
P/E (x)	44.8	30.4	28.2
EV/EBITDA (x)	27.1	15.7	13.9
EV/Ton (\$)	264.4	162.3	159.4

### Ambuja Cements Vs SENSEX



### Shareholding Pattern

	Sep'18	Jun'18	Sep'17
Promoters	63.11	63.11	63.11
FIIs	17.23	16.4	16.47
DIIs	11.73	12.69	12.12
Retail	7.35	7.1	7.55
Others	0.58	0.7	0.75
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

\* Read last page for disclaimer &amp; rating rationale

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## Q3CY18 Result Analysis

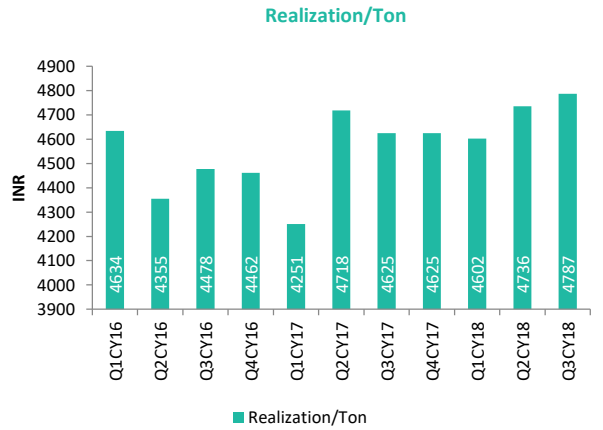
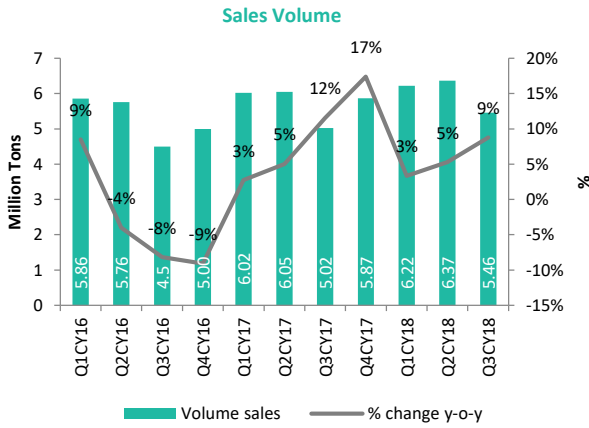
(INR Crores)	Q3CY18	Q3CY17	Q2CY18	Y-o-Y	Q-o-Q
<b>Revenue</b>	<b>2614</b>	<b>2322</b>	<b>3017</b>	<b>12.6%</b>	<b>-13.4%</b>
COGS	308	271	211	13.7%	45.8%
Employee Expenses	163	161	176	1.3%	-7.1%
Power and Fuel	550	486	655	13.1%	-16.0%
Freight and Forwarding	731	612	878	19.5%	-16.8%
Other Expenses	504	437	474	15.1%	6.1%
<b>Total Expenses</b>	<b>2256</b>	<b>1967</b>	<b>2395</b>	<b>14.7%</b>	<b>-5.8%</b>
<b>EBITDA</b>	<b>358</b>	<b>354</b>	<b>622</b>	<b>1.1%</b>	<b>-42.5%</b>
Depreciation	136	140	136	-3.1%	-0.3%
Other Income	48	153	191	-68.5%	-74.8%
<b>EBIT</b>	<b>270</b>	<b>367</b>	<b>677</b>	<b>-26.3%</b>	<b>-60.1%</b>
Finance Cost	19	31	19	-38.6%	0.0%
<b>PBT</b>	<b>251</b>	<b>336</b>	<b>658</b>	<b>-25.2%</b>	<b>-61.8%</b>
Taxes	73	63	159	14.4%	-54.2%
<b>Net Profit</b>	<b>179</b>	<b>272</b>	<b>499</b>	<b>-34.4%</b>	<b>-64.2%</b>

Source: Company, NSPL Research

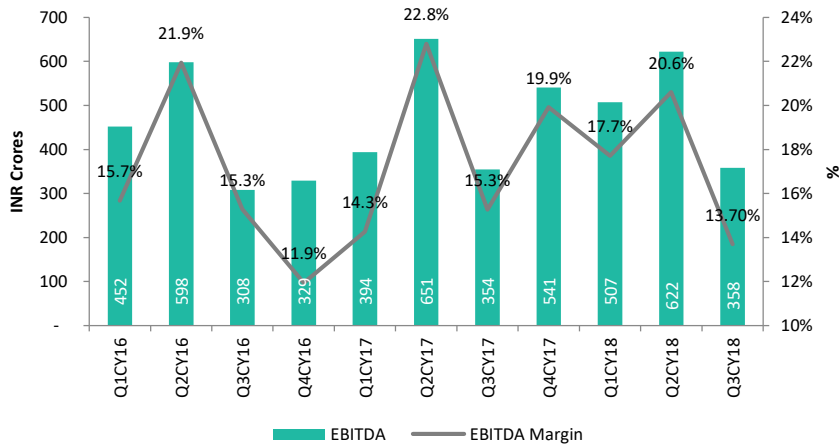
- The company's net sales grew 12.6% y-o-y (from INR 2322cr in Q3CY17) but declined 13.4% q-o-q (from INR 3017cr in Q2CY18) to INR 2614cr in Q3CY18
- EBITDA for the company stood at INR 358cr up from INR 354cr (1.1% Y-o-Y) but declined from INR 622cr (-42.5% Q-o-Q) with EBITDA Margins at 13.7% as against 15.3% in Q3CY17 and 20.6% in Q2CY18. The decline in margins was primarily due to higher freight costs (due to increase in diesel prices) and higher power and fuel costs (due to rise in petcoke and coal prices YoY) However, sales growth of the premium brands – Compecem and Roof Special, help offset the fall in margins to a certain extent
- EBITDA/Ton for the quarter stood at INR 656 down from INR 706 (-7.1% Y-o-Y) in Q3CY17 and INR 977 (-33% Q-o-Q) in Q2CY18. Total cement volumes for the quarter stood at 5.46mt. The cement volumes grew at 8.8% YoY and declined 14.3% QoQ
- Reported PAT stood at INR 179cr which was down by 34.4% Y-o-Y (from INR 272cr) and 64.2% Q-o-Q (from 499cr). PAT Margins stood at 6.8%, down from 11.7% in Q3CY17 and 16.5% in Q2CY18. Adjusting for ACC dividend of INR 103cr in Q3CY17, PAT (on a like-for-like basis) grew at 6% YoY
- Realization/ Ton has increased to INR 4787, up from INR 4625 (3.5% Y-o-Y) and INR 4736 (1.1% Q-o-Q)
- Capacity utilization was at 74% for the quarter vs 68% in Q3CY17
- Freight cost/ton increased 10% YoY 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
- Rise in petcoke and fuel prices coupled with improvement in efficiency parameters led to a marginal increase of 4% YoY in Power and Fuel cost/ton

(INR/Ton)	Q3CY18	Q3CY17	Q2CY18	Y-o-Y	Q-o-Q
Realization	4787	4625	4736	3.5%	1.1%
RM Cost	564	540	332	4.5%	70.1%
Employee Cost	299	321	276	-6.9%	8.4%
Power and Fuel	1007	968	1028	4.0%	-2.0%
Freight and Forwarding	1339	1219	1379	9.9%	-2.9%
Other Expenditure	922	871	745	5.8%	23.8%
Total Expenditure	4131	3919	3759	5.4%	9.9%
<b>EBITDA</b>	<b>656</b>	<b>706</b>	<b>977</b>	<b>-7.1%</b>	<b>-32.9%</b>

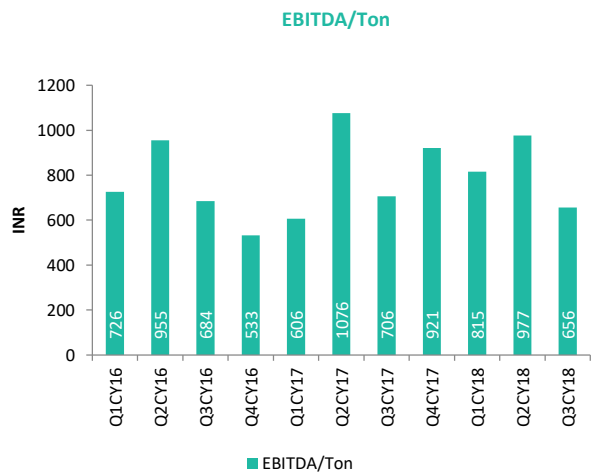
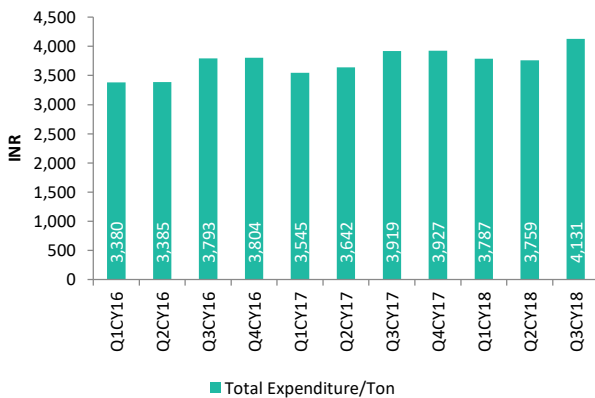
Source: Company, NSPL Research



### Margin declined due to an inflationary input cost environment



### Increasing cost pressure (YoY) due to rising pet-coke and diesel prices



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
<b>Net sales</b>	<b>9160</b>	<b>10447</b>	<b>11486</b>	<b>12301</b>	<b>12921</b>
COGS	746	847	914	969	1008
Employee Expenses	594	661	728	786	833
Power and fuel	1832	2234	2458	2605	2761
Transportation cost	2473	2872	3158	3315	3514
Other Expenses	1940	1894	2105	2147	2190
<b>EBITDA</b>	<b>1683</b>	<b>1939</b>	<b>2244</b>	<b>2479</b>	<b>2615</b>
D&A	850	573	591	657	665
Other income	576	360	360	360	360
<b>EBIT</b>	<b>1409</b>	<b>1726</b>	<b>2013</b>	<b>2182</b>	<b>2310</b>
Interest Expense	71	107	62	67	73
<b>PBT</b>	<b>1337</b>	<b>1619</b>	<b>1951</b>	<b>2115</b>	<b>2237</b>
Tax	367	370	644	698	738
Effective tax rate	27%	23%	33%	33%	33%
<b>PAT</b>	<b>970</b>	<b>1250</b>	<b>1307</b>	<b>1417</b>	<b>1499</b>

Balance Sheet (INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
Share Capital	397	397	397	397	397
Reserves & Surplus	18960	19576	20099	20736	21411
<b>Shareholder's Funds</b>	<b>19357</b>	<b>19973</b>	<b>20496</b>	<b>21134</b>	<b>21808</b>
Long-term borrowings	16	24	24	24	24
Deferred Tax Liability (Net)	497	458	458	458	458
Long term provisions	43	35	55	58	60
Other non-current liabilities	6	8	9	10	19
<b>Non-current liabilities</b>	<b>564</b>	<b>527</b>	<b>547</b>	<b>560</b>	<b>563</b>
Trade payables	815	1,029	1,127	1,327	1,381
Other current liabilities	1,097	1,491	1,646	1,454	1,512
Short-term provisions	1,519	1,598	1,598	1,598	1,598
<b>Current liabilities</b>	<b>3,432</b>	<b>4,117</b>	<b>4,370</b>	<b>4,379</b>	<b>4,490</b>
<b>Total Equity and Liabilities</b>	<b>23,353</b>	<b>24,617</b>	<b>25,413</b>	<b>26,072</b>	<b>26,861</b>

Gross Block	15,289	15,789	16,289	16,429	16,629
Less: Accum. Depreciation	9,310	9,883	10,474	11,131	11,796
Net Fixed Assets	6,262	6,120	5,815	5,298	4,832
Non-current investments	11,845	11,845	11,845	11,845	11,845
Long term Loans	183	193	193	193	193
Other Non-current Assets	850	967	967	967	967
<b>Non-current Assets</b>	<b>19,139</b>	<b>19,125</b>	<b>18,820</b>	<b>18,303</b>	<b>17,837</b>
Inventories	938	1,053	1,152	1,274	1,325
Trade receivables	396	308	360	506	531
Cash and cash equivalents	2,579	3,497	4,619	5,431	6,584
Short term Loans	249	568	395	492	517
Other current assets	53	67	67	67	67
<b>Current Assets</b>	<b>4,214</b>	<b>5,492</b>	<b>6,593</b>	<b>7,770</b>	<b>9,024</b>
<b>Total Assets</b>	<b>23,353</b>	<b>24,617</b>	<b>25,413</b>	<b>26,072</b>	<b>26,861</b>

Source: Company, NSPL Research

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Cash Flow (INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
PBT	1337	1619	1951	2115	2237
Depreciation & Amortization	850	573	591	657	665
(Incr)/Decr in Working Capital	0	231	294	-343	13
<b>Cash Flow from Operating</b>	<b>1416</b>	<b>1854</b>	<b>2254</b>	<b>1798</b>	<b>2250</b>
(Incr)/ Decr in Gross PP&E	-383	-560	-286	-140	-200
<b>Cash Flow from Investing</b>	<b>-3469</b>	<b>-191</b>	<b>-286</b>	<b>-140</b>	<b>-200</b>
(Decr)/Incr in Debt	4	-3	0	0	0
Finance costs	-36	-114	-62	-67	-73
Dividend Paid	-648	-636	-784	-779	-824
<b>Cash Flow from Financing</b>	<b>-683</b>	<b>-749</b>	<b>-846</b>	<b>-847</b>	<b>-897</b>
Incr/(Decr) in Balance Sheet Cash	-2736	915	1122	812	1153
Cash at the Start of the Year	5132	2396	3497	4619	5431
<b>Cash at the End of the Year</b>	<b>2396</b>	<b>3311</b>	<b>4619</b>	<b>5431</b>	<b>6584</b>
Bank balances not included in cash	183	186	0	0	0

RATIOS	CY16	CY17	CY18E	CY19E	CY20E
<b>Particulars</b>					
EBITDA/Ton	733.7	754.6	817.1	867.6	884.0
Sales Volume (mn tons)	21.1	23.0	25.0	26.3	27.3
<b>Growth (%)</b>					
Total Sales	-2.2%	14.0%	9.9%	7.1%	5.0%
EBITDA	9.9%	15.2%	15.7%	10.5%	5.5%
PAT	20.1%	28.8%	4.6%	8.4%	5.8%
<b>Profitability (%)</b>					
EBITDA Margin	18.4%	18.6%	19.5%	20.2%	20.2%
NPM	10.6%	12.0%	11.4%	11.5%	11.6%
RoE (%)	5.0%	6.3%	6.4%	6.7%	6.9%
RoCE (%)	7.1%	8.4%	9.6%	10.1%	10.3%
<b>Debt Ratios</b>					
Net Debt/EBITDA	-1.5	-1.8	-2.0	-2.2	-2.5
Net Debt/Equity	-0.1	-0.2	-0.2	-0.3	-0.3
Interest Coverage	19.7	16.1	32.4	32.4	31.6
<b>Per share data / Valuation</b>					
EPS (INR.)	4.9	6.3	6.6	7.1	7.5
BPS (INR.)	97.5	100.6	103.2	106.4	109.8
P/E (INR.)	42.2	44.8	30.4	28.2	26.6
EV/EBITDA (x)	22.8	27.1	15.7	13.9	12.8
EV/Ton (\$)	193.3	264.4	162.3	159.4	139.5

Source: Company, NSPL Research



Ambuja Cements Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 24, 2018	201	248	Strong Buy	Buy	5% - 15%
July 26, 2018	209	246	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO