

May 01, 2019

## Ambuja Cements Ltd.

### Q1CY19 Result Update

#### Marginal growth in topline; Realization missed estimates

The company registered net sales growth of 2.3% y-o-y & 2.2% q-o-q to INR 2927.6 crore, driven by realization/ton growth of 0.6% to INR 4469 per ton and volume growth of 2.4% y-o-y to 6.37mt. This was primarily due to the company's increased focus on its premium products (Compocem and Roof Special). The company introduced various innovative products to deliver superior experience and to become a preferred partner for the customers on the back of increased participation in the building and Infrastructure segment. In Jan-Mar 19 demand is expected to remain firm between 7.5-8.5% due to accelerated pre-election spending & faster execution of government sponsored housing & infrastructure projects.

#### EBITDA slumped on y-o-y basis on the back of high raw material and power cost

Input costs have been rising due to higher pet-coke, diesel and packing material (impacted by increase in crude) prices. Raw material cost spiked by 21% y-o-y and 21% q-o-q to INR 256.7 crore. Capacity utilization improved during the quarter to 86.6%. Distribution costs improved due to cost mitigation initiatives. Selling General and Administrative expenses declined on a y-o-y basis.

#### 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 239 giving an upside of 9.8%. (i.e. valuing the stock at CY20E EV/Ton of \$150/Ton, 11x CY20E EV/EBITDA) and ACC's stake valued at INR 66/share

#### Financial Snapshot

(INR Crores)	CY16	CY17	CY18	CY19E	CY20E
Revenue	9160	10447	11357	12301	12921
<b>Growth%</b>		<b>14%</b>	<b>9%</b>	<b>8%</b>	<b>5%</b>
EBITDA	1683	1939	1890	2367	2493
<b>Growth%</b>		<b>15%</b>	<b>-3%</b>	<b>25%</b>	<b>5%</b>
Adjusted PAT	970	1250	1486	1364	1453
<b>Growth%</b>		<b>29%</b>	<b>19%</b>	<b>-8%</b>	<b>7%</b>
EPS (INR)	4.89	6.29	7.5	6.9	7.3
EV/EBITDA (x)	22.8	27.1	23.5	18.0	16.5
EV/Ton (\$)	193.3	264.4	205.3	196.3	178.6
P/E (x)	42.2	44.8	29.1	31.7	29.8

Source: Company, NSPL Research

\* Read last page for disclaimer & rating rationale

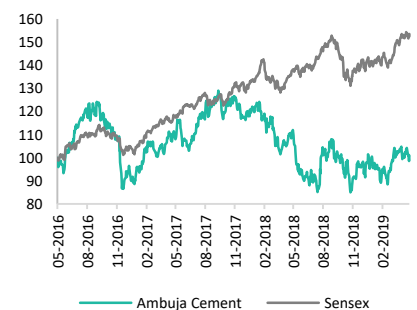
# BUY\*

Downside Scenario	Current Price	Price Target	Upside Scenario
	218	239	
		9.8 ▲	

Market Data	
Industry	Cement
Sensex	39031
Nifty	11748
Bloomberg Code	ACEM:IN
Eq. Cap. (INR Crores)	397
Face Value (INR)	2
52-w H/L	188/252
Market Cap (INR Crores)	43823.2

Valuation Data	CY18	CY19E	CY20E
P/E (x)	32.1	35.0	32.9
EV/EBITDA (x)	23.5	18.0	16.5
EV/Ton (\$)	205.3	196.3	178.6

#### Ambuja Cements Vs SENSEX



#### Shareholding Pattern

	Mar'19	Dec'18	Mar'18
Promoters	63.45	63.46	63.55
FIIs	17.91	17.05	16.45
DIIs	10.92	11.72	13.09
Others	7.72	7.77	6.91
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



## Q1CY19 Result Analysis

(INR Crores)	Q1CY19	Q4CY18	Q1CY18	Y-o-Y	Q-o-Q
<b>Revenue</b>	<b>2927.6</b>	<b>2863.3</b>	<b>2862.6</b>	<b>2%</b>	<b>2%</b>
COGS	256.7	211.3	211.8	21%	21%
Employee Expenses	167.1	170.9	169.6	-1%	-2%
Power and Fuel	709.9	709.4	634.9	12%	0%
Freight and Forwarding	836.7	839.2	828.8	1%	0%
Other Expenses	494.1	528.7	510.4	-3%	-7%
<b>Total Expenses</b>	<b>2464.4</b>	<b>2459.5</b>	<b>2355.5</b>	<b>5%</b>	<b>0%</b>
<b>EBITDA</b>	<b>463.3</b>	<b>403.9</b>	<b>507.1</b>	<b>-9%</b>	<b>15%</b>
Depreciation	131.4	136.5	139.3	-6%	-4%
Other Income	240.2	85.0	50.7	374%	183%
<b>EBIT</b>	<b>572.1</b>	<b>352.3</b>	<b>418.6</b>	<b>37%</b>	<b>62%</b>
Finance Cost	17.5	18.2	25.7	-32%	-4%
Exceptional Items	0.0	130.0	0.0		
<b>PBT</b>	<b>554.6</b>	<b>204.2</b>	<b>392.8</b>	<b>41%</b>	<b>172%</b>
Taxes	127.6	-333.2	121.1	5%	-138%
<b>Net Profit</b>	<b>427.0</b>	<b>537.4</b>	<b>271.8</b>	<b>57%</b>	<b>-21%</b>

- The company's net sales grew 2% y-o-y and 2% q-o-q to INR 2927.6 crore in Q1CY19.
- EBITDA for the company declined by 9% y-o-y and inclined by 15% q-o-q to INR 463.3 crore in Q1CY19.
- EBITDA margins stood at 15.8% in Q1CY19 as against 17.7% in Q1CY18 and 14.1% in Q4CY18. The decline in margins was primarily due to higher raw material cost which grew by 21% y-o-y & q-o-q to INR 256.7 crore.
- EBITDA/Ton for the quarter declined by 10.8% y-o-y to INR 727 in Q1CY19. Cement volumes for the quarter stood at 6.37mt as compared to 6.22mt, thereby registering growth of 2.4% y-o-y.
- Sales growth of premium products such as 'Roof Special', 'Cool Walls' and 'Pura Sand' launched recently have seen a double digit growth in Q1CY19 as compared to the previous quarter over the last year.
- Reported PAT grew by 57% y-o-y and declined by 21% q-o-q to INR 427 crore in Q1CY19.
- PAT Margins stood at 14.6% in Q1CY19 as compared to 9.5% in Q1CY18 and 18.8% in Q4CY18.
- Realization/ Ton has increased marginally by 0.6% y-o-y to INR 4469 per ton.
- On the market side, the company introduced various innovative products to deliver superior experience and to become a preferred partner for the customers.
- The quarter saw increase of 12% y-o-y in power and fuel costs, however, continued focus on the use of alternative fuels helped to partly mitigate this impact.

(INR/Ton)	Q1CY19	Q4CY18	Q1CY18	Y-o-Y	Q-o-Q
Realization	4469	4511	4442	1%	-1%
RM Cost	403	345	340	18%	17%
Employee Cost	262	279	273	-4%	-6%
Power and Fuel	1114	1157	1021	9%	-4%
Freight and Forwarding	1313	1369	1333	-1%	-4%
Other Expenditure	776	862	821	-5%	-10%
<b>EBITDA</b>	<b>727</b>	<b>659</b>	<b>815</b>	<b>-11%</b>	<b>10%</b>

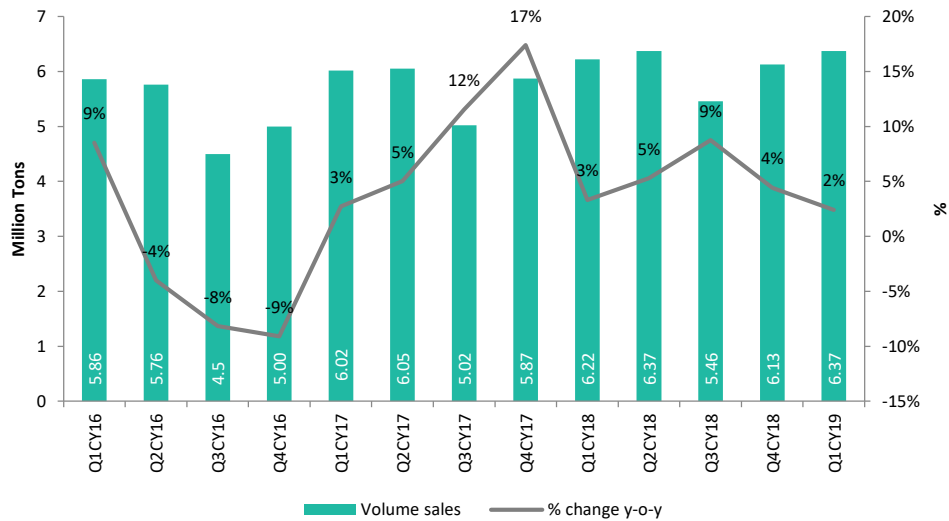
Source: Company, NSPL Research



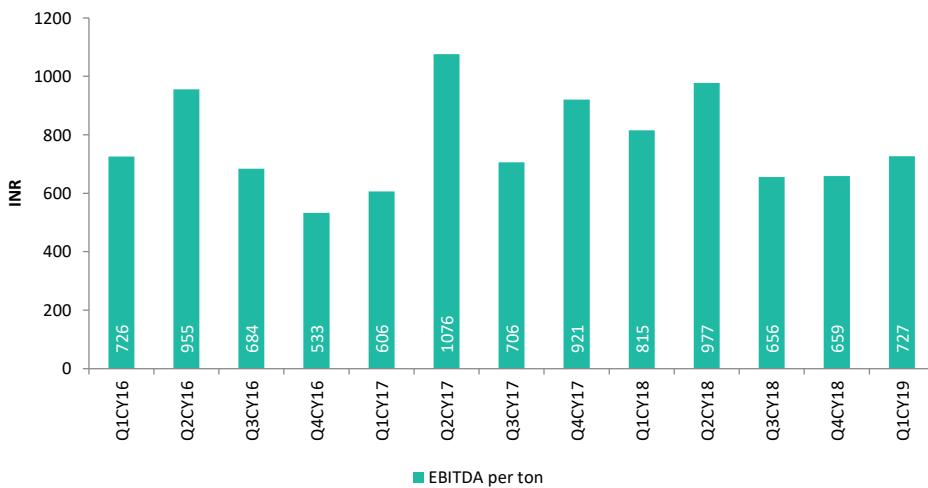
Realization/Ton



Sales Volume



EBITDA/Ton



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	CY16	CY17	CY18	CY19E	CY20E
<b>Net sales</b>	<b>9160</b>	<b>10447</b>	<b>11357</b>	<b>12301</b>	<b>12921</b>
COGS	746	847	942	999	1039
Employee Expenses	594	661	680	734	778
Power and fuel	1832	2234	2550	2703	2865
Transportation cost	2473	2872	3278	3441	3648
Other Expenses	1940	1894	2017	2057	2099
<b>EBITDA</b>	<b>1683</b>	<b>1939</b>	<b>1890</b>	<b>2367</b>	<b>2493</b>
D&A	850	573	548	657	665
Other income	576	360	375	394	413
<b>EBIT</b>	<b>1409</b>	<b>1726</b>	<b>1717</b>	<b>2104</b>	<b>2241</b>
Interest Expense	71	107	82	67	73
<b>PBT</b>	<b>1337</b>	<b>1619</b>	<b>1635</b>	<b>2036</b>	<b>2168</b>
Exceptional Items	-	-	130	0	0
Tax	367	370	19	672	716
<b>PAT</b>	<b>970</b>	<b>1250</b>	<b>1486</b>	<b>1364</b>	<b>1453</b>

Balance Sheet (INR Crores)	CY16	CY17	CY18	CY19E	CY20E
Share Capital	397	397	397	397	397
Reserves & Surplus	18960	19576	20615	21570	22515
<b>Shareholder's Funds</b>	<b>19357</b>	<b>19973</b>	<b>21013</b>	<b>21968</b>	<b>22912</b>
Long-term borrowings	16	24	41	24	24
Deferred Tax Liability (Net)	497	458	372	372	372
Other non-current liabilities	43	35	7	20	21
Long Term Provisions	6	8	39	60	62
<b>Non-current liabilities</b>	<b>564</b>	<b>527</b>	<b>459</b>	<b>476</b>	<b>479</b>
Trade payables	815	1,029	1109	1368	1423
Other current liabilities	1,097	1,491	1294	1498	1558
Short-term provisions	1,519	1,598	1312	1312	1312
<b>Current liabilities</b>	<b>3,432</b>	<b>4,117</b>	<b>3715</b>	<b>4179</b>	<b>4294</b>
<b>Total Equity and Liabilities</b>	<b>23,353</b>	<b>24,617</b>	<b>25187</b>	<b>26623</b>	<b>27685</b>

Gross Block	15,289	15,789	16289	16429	16629
Less: Accum. Depreciation	9,310	9,883	10474	11131	11796
Net Fixed Assets	6,262	6,120	6274	5298	4832
Non-current investments	11,845	11,845	11814	11814	11814
Long term Loans	183	193	111	111	111
Other Non-current Assets	850	967	1234	1234	1234
<b>Non-current Assets</b>	<b>19,139</b>	<b>19,125</b>	<b>19432</b>	<b>18456</b>	<b>17990</b>
Inventories	938	1,053	1278	1314	1366
Trade receivables	396	308	470	506	531
Cash and cash equivalents	2,579	3,497	3330	5268	6692
Short term Loans	249	568	89	492	517
Other current assets	53	67	588	588	588
<b>Current Assets</b>	<b>4,214</b>	<b>5,492</b>	<b>5755</b>	<b>8167</b>	<b>9694</b>
<b>Total Assets</b>	<b>23,353</b>	<b>24,617</b>	<b>25187</b>	<b>26623</b>	<b>27685</b>

Source: Company, NSPL Research



Cash Flow (INR Crores)	CY16	CY17	CY18	CY19E	CY20E
PBT	1337	1619	1506	2036	2168
Depreciation & Amortization	850	573	548	657	665
(Incr)/Decr in Working Capital	0	231	1705	2761	2907
<b>Cash Flow from Operating</b>	<b>1416</b>	<b>1854</b>	<b>1681</b>	<b>2784</b>	<b>2922</b>
(Incr)/ Decr in Gross PP&E	-383	-560	-625	-672	-716
<b>Cash Flow from Investing</b>	<b>-3469</b>	<b>-191</b>	<b>1056</b>	<b>2112</b>	<b>2206</b>
(Decr)/Incr in Debt	4	-3	0	0	0
Finance costs	-36	-114	-82	-67	-73
Dividend Paid	-648	-636	-440	-409	-508
<b>Cash Flow from Financing</b>	<b>-683</b>	<b>-749</b>	<b>-522</b>	<b>-477</b>	<b>-582</b>
Incr/(Decr) in Balance Sheet Cash	-2736	915	-168	1938	1425
Cash at the Start of the Year	5132	2396	3497	3330	5268
<b>Cash at the End of the Year</b>	<b>2396</b>	<b>3311</b>	<b>3329</b>	<b>5268</b>	<b>6692</b>
Bank balances not included in cash	183	186	1	0	0

RATIOS	CY16	CY17	CY18	CY19E	CY20E
<b>Particulars</b>					
EBITDA/Ton	733.7	754.6	675.8	825.0	839.5
Sales Volume (mn tons)	21.1	23.0	25.0	26.3	27.3
<b>Growth (%)</b>					
Total Sales	-2.2%	14.0%	9%	8%	5%
EBITDA	9.9%	15.2%	-3%	25%	5%
PAT	20.1%	28.8%	19%	-8%	6%
<b>Profitability (%)</b>					
EBITDA Margin	18.4%	18.6%	16.6%	19.2%	19.3%
NPM	10.6%	12.0%	13.1%	11.1%	11.2%
RoE (%)	5.0%	6.3%	7.1%	6.2%	6.3%
RoCE (%)	7.1%	8.4%	8.0%	9.4%	9.6%
<b>Debt Ratios</b>					
Net Debt/EBITDA	-1.5	-1.8	-1.7	-2.2	-2.7
Net Debt/Equity	-0.1	-0.2	-0.2	-0.2	-0.3
Interest Coverage	19.7	16.1	20.9	31.3	30.7
<b>Per share data / Valuation</b>					
P/E (INR.)	42.2	44.8	32.1	35.0	32.9
EV/EBITDA (x)	22.8	27.1	23.5	18.0	16.5
EV/Ton (\$)	193.3	264.4	205.3	196.3	178.6

Source: Company, NSPL Research

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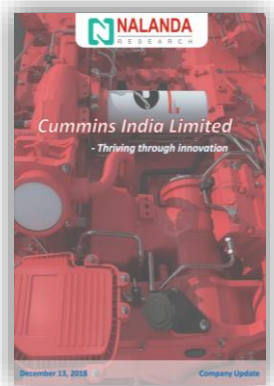
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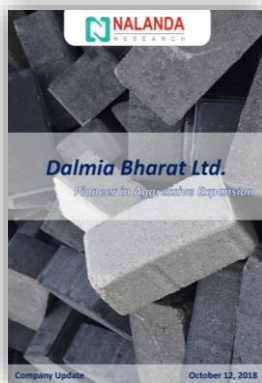
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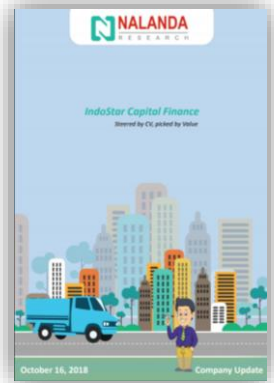
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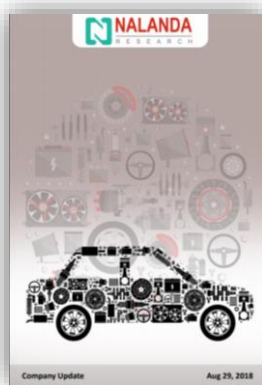
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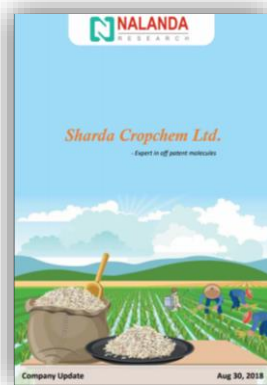
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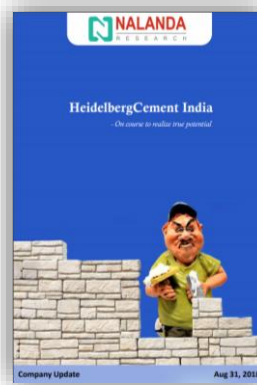
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Ambuja Cements Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
May 01, 2019	218	239	Buy	Buy	5% - 15%
October 24, 2018	201	248	Strong Buy	Hold	0 - 5%
July 26, 2018	209	246	Strong Buy	Reduce	-5% - 0
				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
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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 served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO