Ambuja Cement

SELL

INDUSTRY	**CEMENT**
CMP *(as on 24 July 2017)*	**Rs 268**
Target Price	**Rs 220**
Nifty	9,966
Sensex	32,246

KEY STOCK DATA

Bloomberg/Reuters	ACEM IN
No. of Shares (mn)	1,986
MCap (Rs bn) / ($ mn)	531/8,273
6m avg traded value (Rs mn)	683

STOCK PERFORMANCE (%)

52 Week high / low			**Rs 282 / 191**
	3M	6M	12M
Absolute (%)	8.7	20.0	1.2
Relative (%)	(0.1)	2.2	(14.8)

SHAREHOLDING PATTERN (%)

Promoters	63.60
FIs & Local MFs	11.57
FPIs	16.87
Public & Others	7.96

Source : BSE

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Realisations-driven beat

Ambuja Cement (ACEM) reported an EBITDA/t of Rs 1,010/t (vs. estimate of Rs 885/t, 2.2% YoY, 67.1% QoQ). Strong pricing in both West (~40% of dispatches) and also East (~25%), drove realisations up 10.9% QoQ (Rs 4,651/t, 7.6% YoY, est 8.0% QoQ). Other operating income was also higher (Rs 380mn, 94.1% YoY, 30.8% QoQ), and this added to the earnings beat (Rs 3.71bn, -13.2% YoY, 59.1% QoQ).

We remain cautious despite the pricing-driven beat. We note that 1HCY17 EBITDA is still down 3% YoY as we enter the weak season. Our revised 2HCY16 numbers imply 5.9/6.8% increase in pricing/ volumes respectively. ACEM trades at a 15.0/11.5x CY18/19 EV/EBITDA and USD170/t (CY18 exit basis), expensive for a company delivering mid-teen return ratios. Maintain SELL with a TP of Rs 220 (ACC/ACEM at 9.0/10.0x June 19 EV/EBITDA).

Highlights of the quarter

- Overall costs came in broadly in line with estimates (Rs 3,641/t, 9.2% YoY, 1.4% QoQ. RM costs surged ~15.9% QoQ and 10.9% YoY. We believe this was driven by restricted fly ash availability, especially in the north, as power plants run at lower utilisations. The YoY net income decline is largely on account of lower other income, driven by purchase of ACC stake in 3QCY16.

- **Near-term outlook**: Cement prices continue to remain strong, with some downward adjustments made owing to GST (~3 to 4% or Rs 10 to 15) in certain regions. However, demand is likely to dip now, given the strong onset of monsoon. Continuing issues with sand availability in some key states (UP, Punjab, Tamil Nadu), will further weigh on demand. We expect fly ash availability to be a key concern for all companies in Punjab and Rajasthan.

Financial Summary(Standalone)

(Rs mn)	2QCY17	2QCY16	*YoY (%)*	1QCY17	*QoQ (%)*	CY15	CY16	CY17E	CY18E	CY19E
Net Sales	28,233	25,281	*11.7*	25,334	*11.4*	93,683	91,604	104,321	122,357	136,619
EBITDA	6,131	5,782	*6.0*	3,651	*67.9*	15,357	16,822	19,366	23,113	28,310
PAT	3,922	4,520	*(13.2)*	2,255	*73.9*	8,565	12,052	12,096	15,751	20,638
Diluted EPS (Rs)	1.98	2.94	*(32.9)*	1.14	*73.9*	5.52	6.07	6.09	7.93	10.39
P/E (x)						48.4	30.4	30.3	23.3	17.8
EV / EBITDA (x)						33.9	22.1	18.6	15.0	11.5
RoE (%)						8.4	13.5	15.6	18.5	21.3

Source: Company, HDFC sec Inst Research
P/E and EV/EBITDA multiples based on standalone nos and Market cap/EV adjusted for embedded ACC stake

Strong pricing-driven beat on estimates, even as volumes remain lacklustre

Quarterly Financials Snapshot

(Rs mn)	2QCY17	2QCY16	YoY (%)	1QCY17	QoQ (%)
Net Sales	**28,233**	**25,281**	***11.7***	**25,334**	***11.4***
Power & Fuel	5,647	4,675	*20.8*	5,388	*4.8*
Freight Expenses	7,375	6,605	*11.7*	7,412	*(0.5)*
RM Costs	2,379	2,068	*15.0*	2,043	*16.4*
Employee costs	1,697	1,569		1,677	
Change in inventory	(90)	(34)		311	
Other Operating Expenses	5,096	4,616	*10.4*	4,853	*5.0*
EBITDA	**6,131**	**5,782**	***6.0***	**3,651**	***67.9***
Other operating income	380	196	*94.1*	290	*30.8*
Other Income	560	1,704		809	
Interest Cost	165	212	*(22.1)*	377	*(56.2)*
Depreciation	1,439	1,507		1,460	
PBT	5,466	5,963	*(8.3)*	2,913	*87.6*
Tax	1,544	1,443		658	
RPAT	3,922	4,520	*(13.2)*	2,465	*59.1*
E/o (adj for tax)	-	-		210	
APAT	**3,922**	**4,520**	***(13.2)***	**2,255**	***73.9***

Source: Company, HDFC sec Inst Research

Sharp jump in RM costs, the likely cause being higher flyash costs owing to reduced availability.

Per Tonne Analysis

Per tonne data	2QCY17	2QCY16	YoY (%)	1QCY17	QoQ (%)
Volumes (mT)	6.07	5.85	*3.8*	6.04	*0.5*
Realisations (Rs/T)	4,651	4,322	*7.6*	4,194	*10.9*
P&F costs (Rs/T)	930	799	*16.4*	892	*4.3*
Freight costs (Rs/T)	1,215	1,129	*7.6*	1,227	*(1.0)*
RM costs (Rs/T)	392	354	*10.9*	338	*15.9*
Employee costs (Rs/T)	280	268	*4.2*	278	*0.7*
Other cost (Rs/T)	825	783	*5.3*	855	*(3.5)*
Cement EBITDA/T (Rs/T)	**1,010**	**988**	***2.2***	**604**	***67.1***
Total costs (Rs/T	**3,641**	**3,333**	***9.2***	**3,590**	***1.4***

Source: Company, HDFC sec Inst Research

Expensive valuation, vulnerable to structural downsides

Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EV/EBITDA (x)		P/E (x)		EV/T (US$)	
					FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
UltraTech Cement	1,152.8	4,198	SELL	3,763	19.1	14.6	43.6	34.8	239	221
Shree Cement	616.5	17,696	SELL	14,565	22.1	15.1	51.8	33.7	255	232
Ambuja Cement[1]	**530.8**	**268**	**SELL**	**220**	**18.6**	**15.0**	**30.3**	**23.3**	**170**	**171**
ACC[1]	324.6	1,725	SELL	1,459	15.6	12.1	29.9	22.0	144	140
Ramco Cements	160.8	676	NEU	690	13.3	11.7	22.0	19.9	198	189
Birla Corp	72.6	942	BUY	1,005	12.9	11.1	40.9	27.5	121	115
Orient Cement	32.8	160	NEU	165	11.6	8.4	44.5	15.1	72	69
Sanghi Industries	20.7	94	BUY	98	6.7	4.7	12.3	7.7	94	84
Deccan Cements	8.1	1,161	BUY	1,468	7.0	5.1	17.4	13.3	55	51

Note: Prices as of Jul25, 2017, close. US$: INR = 67
[1]December YE

Key Assumptions

	CY15E	CY16	CY17E	CY18E	CY19E
Cement volumes (mn T)	21.8	21.5	22.3	24.2	25.1
Realisations (Rs/T)	4,303	4,251	4,672	5,049	5,454
P&F cost/tonne (Rs/T)	944	853	976	1,112	1,124
Raw material cost/tonne (Rs/T)	332	361	377	405	436
Freight cost/tonne (Rs/T)	1,137	1,151	1,229	1,295	1,385
EBITDA/tonne	658	733	815	901	1,074

Source: Company, HDFC sec Inst Research

We have revised our realisation/volume estimates marginally lower

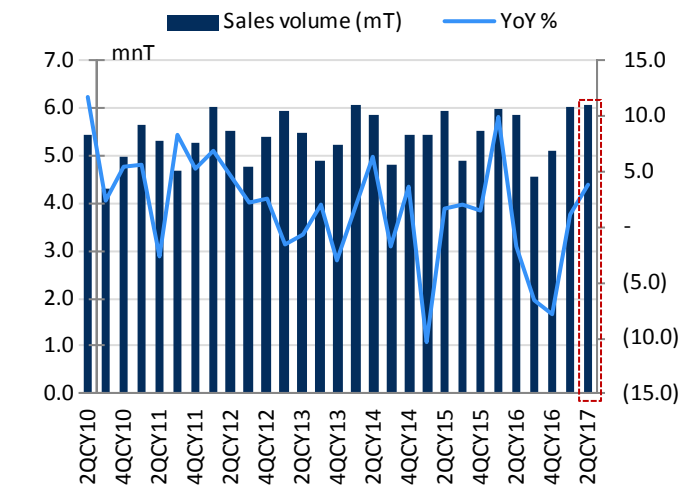
Changes In Estimates

	Old		New		% Change	
	CY17E	CY18E	CY17E	CY18E	*CY17E*	*CY18E*
Volumes (mT)	23.7	25.1	22.3	24.2	*(5.8)*	*(3.4)*
Realisations (Rs/T)	4,808	5,194	4,672	5,049	*(2.8)*	*(2.8)*
Revenues (Rs mn)	113,901	130,126	104,321	122,357	*(8.4)*	*(6.0)*
EBITDA (Rs mn)	21,383	27,409	19,366	23,113	*(9.4)*	*(15.7)*
PAT (Rs mn)	13,682	19,321	12,096	15,751	*(11.6)*	*(18.5)*

Source: Company, HDFC sec Inst Research

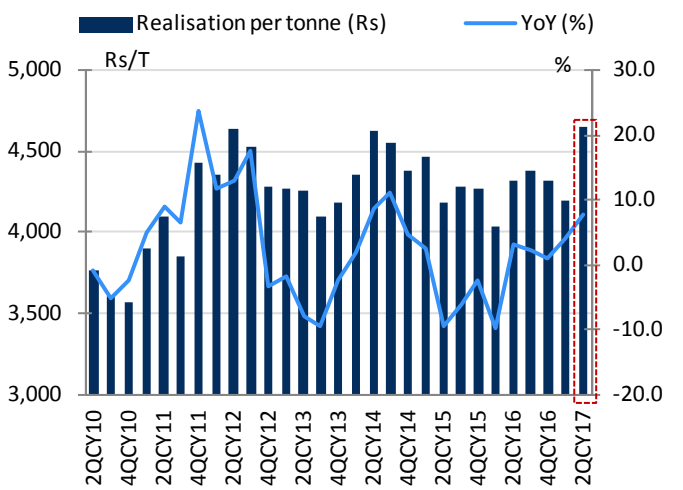
ACEM reported EBITDA/t of ~Rs 1010, owing to better realisations and flattish costs

Marginal Volume Growth Of 3.8%



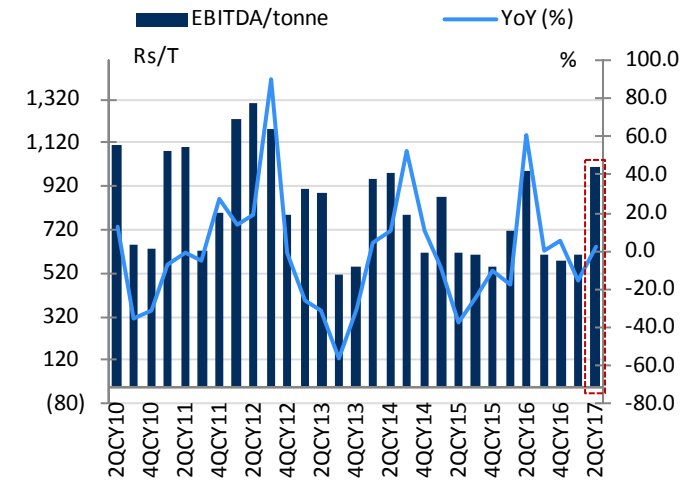
Source: Company, HDFC sec Inst Research

Realisations Improvement Driven By West, East



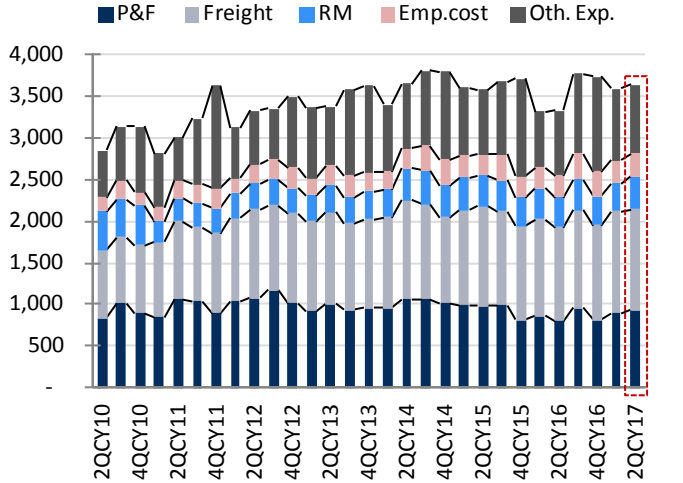
Source: Company, HDFC sec Inst Research

EBITDA/t At ~Rs1,010/t



Source: Company, HDFC sec Inst Research

Costs Remain Flattish, Despite RM Surge



Source: Company, HDFC sec Inst Research

Income Statement

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
Net sales	**93,683**	**91,604**	**104,321**	**122,357**	**136,619**
Growth %	***(5.5)***	***(2.2)***	***13.9***	***17.3***	***11.7***
Material Expenses	43,624	40,888	48,295	57,837	62,951
Employee Expenses	5,895	5,937	6,531	7,184	7,902
SG&A Expenses	24,781	25,179	25,810	29,225	31,677
Other operating expenses	5,067	3,852	5,491	6,275	7,173
Operating profits	**14,316**	**15,747**	**18,194**	**21,835**	**26,915**
Operating Profit Margin (%)	***15.3***	***17.2***	***17.4***	***17.8***	***19.7***
Other operating income	1,041	1,074	1,172	1,278	1,395
EBITDA	**15,357**	**16,822**	**19,366**	**23,113**	**28,310**
EBITDA %	***16.4***	***18.4***	***18.6***	***18.9***	***20.7***
EBITDA Growth %	***(22.2)***	***9.5***	***15.1***	***19.4***	***22.5***
Depreciation	6,257	6,145	6,004	6,129	6,254
EBIT	**9,101**	**10,677**	**13,362**	**16,984**	**22,056**
Other Income (including EO items)	3,472	3,406	4,634	6,232	8,141
Interest	918	715	715	715	715
PBT	**11,654**	**13,368**	**17,281**	**22,502**	**29,483**
Tax	3,647	3,672	5,184	6,750	8,845
RPAT	**8,008**	**9,696**	**12,096**	**15,751**	**20,638**
EO (Loss) / Profit (Net Of Tax)	(557)	(2,356)	-	-	-
APAT	**8,565**	**12,052**	**12,096**	**15,751**	**20,638**
APAT Growth (%)	***(33.3)***	***40.7***	***0.4***	***30.2***	***31.0***
Adjusted EPS (Rs.)	**5.5**	**6.1**	**6.1**	**7.9**	**10.4**
EPS Growth (%)	***(33.6)***	***10.0***	***0.4***	***30.2***	***31.0***

Source: Company, HDFC sec Inst Research, Standalone numbers displayed

Balance Sheet

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
SOURCES OF FUNDS					
Share Capital	3,104	3,971	3,971	3,971	3,971
Reserves	100,046	186,761	192,353	201,599	215,733
Total Shareholders' Funds	**103,149**	**190,733**	**196,324**	**205,571**	**219,704**
Total Debt	**227**	**236**	**186**	**136**	**86**
Deferred Taxes	5,649	4,929	4,929	4,929	4,929
Long-term Provisions & Others	414	532	532	532	532
TOTAL SOURCES OF FUNDS	**109,439**	**196,430**	**201,971**	**211,168**	**225,251**
APPLICATION OF FUNDS					
Net Block	58,160	54,515	51,011	47,382	43,628
CWIP	6,902	8,473	8,973	9,473	9,973
Investments	1,069	118,562	118,562	118,562	118,562
LT Loans and Advances	10,003	10,019	10,019	10,019	10,019
Total Non-current Assets	**76,133**	**191,569**	**188,565**	**185,436**	**182,182**
Inventories	8,955	9,375	10,880	14,968	13,893
Debtors	2,864	3,001	2,641	2,679	3,261
Other Current Assets	4,141	3,934	3,934	3,934	3,934
Cash & Equivalents	49,676	24,779	34,372	44,007	63,135
Total Current Assets	**65,635**	**41,090**	**51,827**	**65,588**	**84,223**
Creditors	6,798	8,970	11,161	12,597	13,931
Other Current Liabilities & Provns	25,462	27,139	27,139	27,139	27,139
Total Current Liabilities	**32,260**	**36,109**	**38,300**	**39,736**	**41,070**
Net Current Assets	**33,375**	**4,981**	**13,526**	**25,852**	**43,153**
TOTAL APPLICATION OF FUNDS	**109,439**	**196,430**	**201,971**	**211,168**	**225,251**

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
Reported PBT	11,654	13,368	17,281	22,502	29,483
Non-operating & EO items	(4,754)	(7,557)	(5,805)	(7,510)	(9,536)
Interest expenses	918	715	715	715	715
Depreciation	6,257	6,145	6,004	6,129	6,254
Working Capital Change	(2,379)	3,480	1,047	(2,690)	1,827
Tax paid	(3,647)	(3,672)	(5,184)	(6,750)	(8,845)
OPERATING CASH FLOW (a)	**8,049**	**12,480**	**14,057**	**12,394**	**19,897**
Capex	(2,145)	(4,071)	(3,000)	(3,000)	(3,000)
Free cash flow (FCF)	5,904	8,409	11,057	9,394	16,897
Investments	(12)	(117,493)	-	-	-
Non-operating Income	4,513	6,837	5,805	7,510	9,536
INVESTING CASH FLOW (b)	**2,356**	**(114,727)**	**2,805**	**4,510**	**6,536**
Debt Issuance/(Repaid)	9	(50)	(50)	(50)	(86)
Interest expenses	(918)	(715)	(715)	(715)	(715)
FCFE	4,995	7,644	10,292	8,629	16,096
Share Capital Issuance	4	84,501	-	-	-
Dividend	(5,084)	(6,505)	(6,505)	(6,505)	(6,505)
FINANCING CASH FLOW (c)	**(5,988)**	**77,232**	**(7,269)**	**(7,269)**	**(7,305)**
NET CASH FLOW (a+b+c)	**4,417**	**(25,016)**	**9,593**	**9,635**	**19,128**
EO Items/Others	8	119			
Closing Cash & Equivalents	**49,676**	**24,779**	**34,372**	**44,007**	**63,135**

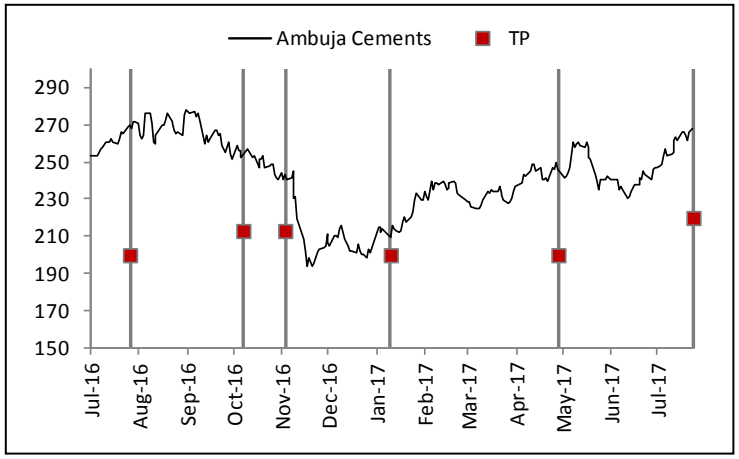
Source: Company, HDFC sec Inst Research

Key Ratios

	CY15	CY16	CY17E	CY18E	CY19E
PROFITABILITY (%)					
EBITDA Margin	16.4	18.4	18.6	18.9	20.7
RoE	8.4	13.5	15.6	18.5	21.3
Core RoCE	10.1	13.4	17.6	23.8	33.3
RoCE	8.4	11.4	16.2	19.0	21.8
EFFICIENCY					
Tax Rate (%)	31.3	27.5	30.0	30.0	30.0
Asset Turnover (x)	1.0	1.0	1.1	1.3	1.5
Inventory (days)	35	37	35	39	39
Debtors (days)	10	12	10	8	8
Payables (days)	25	31	35	35	35
Cash Conversion Cycle (days)	19	17	10	11	11
Debt/EBITDA (x)	-	-	-	-	-
Net D/E	-	-	-	-	-
Interest Coverage	9.4	14.3	17.6	22.7	29.6
PER SHARE DATA					
EPS (Rs/sh)	5.5	6.1	6.1	7.9	10.4
CEPS (Rs/sh)	9.2	8.0	9.1	11.0	13.5
DPS (Rs/sh)	2.8	2.8	2.8	2.8	2.8
BV (Rs/sh)	66.5	96.1	98.9	103.5	110.6
VALUATION					
P/E	48.4	30.4	30.3	23.3	17.8
P/BV	4.0	2.8	2.7	2.6	2.4
EV/EBITDA	33.9	22.1	18.6	15.0	11.5
OCF/EV (%)	1.4%	2.1%	2.4%	2.2%	3.5%
FCF/EV (%)	1.0%	1.4%	1.9%	1.6%	2.9%
FCFE/Market Cap (%)	0.9%	1.4%	1.9%	1.6%	3.0%
Dividend Yield (%)	1.0	1.0	1.0	1.0	1.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
27-Jul-16	270	SELL	200
7-Oct-16	253	SELL	213
4-Nov-16	243	SELL	213
10-Jan-17	211	SELL	200
1-May-17	246	SELL	200
25-Jul-17	268	SELL	220

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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