

Institutional Equity Research

Ambuja Cements

Cements | India

4QCY18 Result Update | February 19, 2019

| | |
|------------------------|---------|
| CMP (Rs) | 198 |
| Upside/ (Downside) (%) | 22 |
| Bloomberg Ticker | ACEM IN |
| Market Cap. (Rs bn) | 394 |
| Free Float (%) | 36 |
| Shares O/S (mn) | 1,986 |



Target Price: Rs242

Subdued Performance; Recovery Expected in Subsequent Quarters

Ambuja Cements (ACEM) has reported a weak performance in 4QCY18, mainly marred by sharp increase in Power & Fuel expenditures and subdued realisation. EBITDA declined by a sharp 31% YoY to Rs3.1bn significantly missing our estimate of Rs4.9bn led by Rs69/tonne decline in average realisation vs. our estimates, and higher-than-estimated operating cost/tonne by Rs227/tonne. EBITDA/tonne stood at mere Rs498 as against Rs750 and Rs485 in 4QCY17 and 3QCY18, respectively. Sales volume grew by 4.4% YoY to 6.13mnT in 4QCY18. Operating cost/tonne stood at Rs4,012 (+8.4% YoY and -2.4% QoQ) mainly impacted by ~17% YoY increase in input cost/tonne to Rs1,502. Apart from one-time expenditure to the tune of Rs814mn pertaining to employees' separation scheme, ACEM also provided Rs485mn towards loans and interest thereupon given to one of its wholly owned subsidiary Dirk India Private Ltd.). We believe recent recovery in realisation in its key Western markets is likely to aid its operational performance from the current quarter onwards. **Trimming down our EBITDA estimate by 6.5%/6% for CY19E/CY20E to factor in soft realisation and higher input cost, and rolling over our estimates to CY20E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs242 (from Rs235 earlier).**

Moderate Growth in Sales Volume

Sales volume grew by 4.4% YoY to 6.13mnT in 4QCY18 (at a base of 15% YoY growth in 4QCY17). Revenue grew by ~6% YoY to Rs27.7bn mainly due to volume growth. Notably, sales volume grew by 5.6% YoY to 24.3mnT in CY18. Average utilisation stood at 83% in 4QCY18 vs. 79% in 4QCY17 and 74% in 3QCY18.

Tepid Realisation & High Input Cost Dragged Operating Performance

ACEM has reported its dismal operating performance due to higher cost pressure and soft realisation with its reported EBITDA declining by 31% YoY to Rs3.1bn, while EBITDA/tonne coming in at mere Rs495. EBITDA margin plunged by 580bps YoY to 11%. Average realisation stood weaker at Rs4,481/tonne (+0.7% YoY and -2.4% QoQ). Operating cost/tonne stood at Rs4,012 (+8.4% YoY and -2.4% QoQ) was mainly impacted by ~17% YoY increase in input cost/tonne at Rs1,502. Adjusted for tax reversal of Rs3.7bn and above mentioned one off expenditures, ACEM's net profit declined by 26% YoY (+41% QoQ) to Rs2.5bn.

Outlook & Valuation

ACEM's capacity expansion programme is moving as per schedule, which has eased the concerns of capacity constraints for the company. Notably, the Company has appointed Mr. Bimlendra Jha (ex- CEO of Tata Steel UK) as the MD & CEO with effect from 1st Mar'19. Further, recent spike in realisation in Western markets and spill-over favourable impact of reduction in fuel prices are likely to aid ACEM's operational performance from the current quarter. **Rolling over our estimates to CY20E, we maintain our BUY recommendation on the stock with a revised SOTP-based Target Price of Rs242 (from Rs235 earlier).**

Share price (%)

| | 1 mth | 3 mth | 12 mth |
|----------------------|-------|-------|--------|
| Absolute performance | (6.3) | (8.3) | (22.5) |
| Relative to Nifty | (3.9) | (7.2) | (25.0) |

Shareholding Pattern (%)

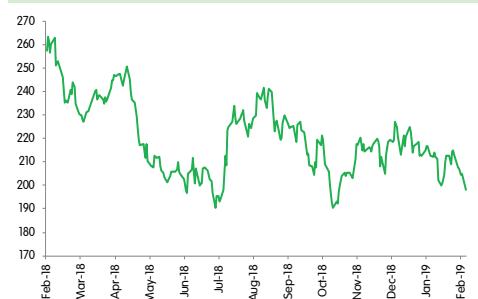
| | Sept'18 | Dec'18 |
|----------|---------|--------|
| Promoter | 63.5 | 63.5 |
| Public | 36.5 | 36.5 |

Key Financials

| (Rs mn) | CY17 | CY18E | CY19E |
|---------------|---------|---------|---------|
| Sales | 102,414 | 109,770 | 118,726 |
| EBITDA | 17,336 | 15,117 | 18,161 |
| Net profit | 12,496 | 12,016 | 12,415 |
| EPS (Rs) | 6.3 | 6.1 | 6.3 |
| DPS (Rs) | 2.8 | 1.5 | 2.0 |
| P/E (x) | 31.5 | 32.7 | 31.7 |
| P/B (x) | 2.0 | 1.9 | 1.8 |
| EV/EBITDA (x) | 14.3 | 15.1 | 12.4 |
| ROE (%) | 6.4 | 7.2 | 5.8 |

Change of Estimates

| (% change) | FY19E | FY20E |
|------------------------|-------|-------|
| Realization (Rs/tonne) | (3.2) | (4.2) |
| Sales | (4.3) | (3.1) |
| EBITDA | (6.6) | (5.8) |
| PAT | (5.4) | (6.0) |

1 Year Stock Price Performance**Quarterly Performance**

| Rs mn | 4QCY18 | 4QCY17 | % yoy | 3QCY18 | % qoq |
|-----------------------------|---------------|---------------|---------------|---------------|-------------|
| Net Sales | 27,650 | 26,120 | 5.9 | 25,220 | 9.6 |
| Total Expenditures | 24,595 | 21,719 | 13.2 | 22,558 | 9.0 |
| EBIDTA | 3,055 | 4,401 | (30.6) | 2,662 | 14.8 |
| EBIDTA Margin | 11.0 | 16.8 | (579.9) | 10.6 | 49.4 |
| EBIDTA per tone (Rs) | 495 | 750 | (34.0) | 485 | 2.1 |
| PBT | 2,042 | 4,243 | (51.9) | 2,512 | (18.7) |
| PAT | 5,373 | 3,384 | 58.8 | 1,786 | 200.9 |
| APAT | 2,511 | 3,384 | (25.8) | 1,786 | 40.6 |

Source: Company, RSec Research

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Target Price: Rs242

Risks to the View

- Government's failure to revive infrastructure projects
- Significant surge in operating cost and dip in realisation.

Exhibit 1: Quarterly Performance (Consolidated)

| Rs mn | 4QCY18 | 4QCY17 | % yoy | 3QCY18 | % qoq |
|---|---------------|---------------|----------------|---------------|---------------|
| Net Sales | 27,650 | 26,120 | 5.9 | 25,220 | 9.6 |
| (Increase) / Decrease in stock in trade | (291) | (1,308) | (77.8) | 893 | (132.5) |
| Consumption of RM | 2,386 | 2,409 | (1.0) | 2,158 | 10.6 |
| Purchase of Stock in Trade | 18 | 0 | | 28 | |
| % sales | 7.6 | 4.2 | | 12.2 | |
| Employee Cost | 1,709 | 1,627 | 5.0 | 1,633 | 4.6 |
| % sales | 6.2 | 6.2 | | 6.5 | |
| Power and Fuel | 7,094 | 6,448 | 10.0 | 5,498 | 29.0 |
| % sales | 25.7 | 24.7 | | 21.8 | |
| Freight and Forwarding | | 0 | | | |
| On finished products | 6,502 | 5,942 | 9.4 | 5,684 | 14.4 |
| % sales | 23.5 | 22.7 | | 22.5 | |
| On inter unit clinker transferred | 1,890 | 1,873 | 0.9 | 1,627 | 16.2 |
| % sales | | 7.2 | | 6.5 | |
| Other Expenditures | 5,287 | 4,727 | 11.8 | 5,035 | 5.0 |
| % sales | 19.1 | 18.1 | | 20.0 | |
| Total Expenditures | 24,595 | 21,719 | 13.2 | 22,558 | 9.0 |
| Operating Costs/tonne (Rs) | 3,986 | 3,700 | 7.7 | 4,109 | (3.0) |
| Input Cost/tonne (Rs) | 1,492 | 1,286 | 16.0 | 1,562 | (4.5) |
| EBIDTA | 3,055 | 4,401 | (30.6) | 2,662 | 14.8 |
| EBIDTA Margin | 11.0 | 16.8 | (579.9) | 10.6 | 49.4 |
| EBIDTA per tonne (Rs) | 495 | 750 | (34.0) | 485 | 2.1 |
| Depreciation and Amortisation | 1,365 | 1,427 | (4.4) | 1,360 | 0.4 |
| Interest | 182 | 217 | (16.3) | 192 | (5.2) |
| Other Income | 1,833 | 1,487 | 23.3 | 1,402 | 30.8 |
| Exceptional Items | -1,300 | | | | |
| PBT | 2,042 | 4,243 | (51.9) | 2,512 | (18.7) |
| Tax | -3,332 | 859 | | 726 | (558.8) |
| % tax | (163.2) | 20.2 | | 28.9 | |
| PAT | 5,373 | 3,384 | 58.8 | 1,786 | 200.9 |
| APAT | 2,511 | 3,384 | (25.8) | 1,786 | 40.6 |
| Net margin | 9.1 | 13.0 | | 7.1 | |

Source: Company, RSec Research

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Target Price: Rs242

Exhibit 2: A snapshot of cost/tonne analysis

| Rs/tonne | 4QCY16 | 1QCY17 | 2QCY17 | 3QCY17 | 4QCY17 | 1QCY18 | 2QCY18 | 3QCY18 | 4QCY18 |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Cement Volumes (mn t) | 5.09 | 6.02 | 6.07 | 5.04 | 5.87 | 6.23 | 6.41 | 5.49 | 6.13 |
| Raw Material Consumed | 507 | 391 | 377 | 537 | 188 | 340 | 330 | 561 | 345 |
| Staff Cost | 292 | 279 | 280 | 320 | 277 | 272 | 274 | 298 | 279 |
| Power & fuel for generation | 816 | 895 | 930 | 964 | 1,098 | 1,020 | 1,021 | 1,002 | 1,157 |
| Freight & Forwarding | 1,136 | 1,231 | 1,215 | 1,214 | 1,331 | 1,331 | 1,370 | 1,332 | 1,369 |
| Other Expenditure | 986 | 806 | 839 | 864 | 805 | 820 | 740 | 917 | 862 |
| Total Cost per tonne | 3,737 | 3,602 | 3,641 | 3,899 | 3,700 | 3,783 | 3,736 | 4,109 | 4,012 |
| Realisation per tonne | 4,316 | 4,208 | 4,651 | 4,528 | 4,450 | 4,438 | 4,566 | 4,594 | 4,511 |
| EBITDA per tonne | 579 | 606 | 1,010 | 628 | 750 | 655 | 831 | 485 | 498 |

Source: Company, RSec Research

Exhibit 3: Revised vs. Old Estimates

| (Rs mn) | CY19E | | | CY20E | | |
|------------------------|---------|---------|----------|---------|---------|----------|
| | Old | Revised | % change | Old | Revised | % change |
| Volume (mnT) | 26.1 | 25.8 | (1.2) | 27.3 | 27.6 | 1.1 |
| Realization (Rs/tonne) | 4,762 | 4,608 | (3.2) | 4,904 | 4,701 | (4.2) |
| Sales | 124,122 | 118,726 | (4.3) | 133,784 | 129,615 | (3.1) |
| EBITDA | 19,450 | 18,161 | (6.6) | 22,186 | 20,893 | (5.8) |
| EBITDA margins (%) | 15.7 | 15.3 | | 16.6 | 16.1 | |
| EBITDA/tonne (Rs) | 746 | 705 | (5.5) | 813 | 758 | (6.8) |
| Adjusted PAT | 13,117 | 12,415 | (5.4) | 14,791 | 13,896 | (6.0) |
| EPS (Rs) | 6.6 | 6.3 | (5.4) | 7.4 | 7.0 | (6.0) |

Source: RSec Research

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Target Price: Rs242

Profit & Loss Statement

| Y/E Dec (Rs mn) | CY17 | CY18 | CY19E | CY20E |
|--|----------------|----------------|----------------|----------------|
| Revenue | 102,414 | 109,770 | 118,726 | 129,615 |
| % yoy growth | 12.7 | 7.2 | 8.2 | 9.2 |
| Total Cost | 85,077 | 94,653 | 100,565 | 108,722 |
| Raw Materials Consumed | 8,465 | 9,364 | 11,414 | 12,215 |
| Employee Costs | 6,614 | 6,796 | 7,135 | 7,806 |
| Power & Fuel | 22,342 | 25,497 | 26,646 | 28,485 |
| Freight & Forwarding | 28,720 | 32,776 | 33,712 | 36,804 |
| Others | 18,937 | 20,162 | 21,593 | 23,342 |
| EBITDA | 17,336 | 15,117 | 18,161 | 20,893 |
| EBITDA Margin (%) | 16.9 | 13.8 | 15.3 | 16.1 |
| Depreciation and Amortisation | 5,729 | 5,481 | 5,770 | 6,955 |
| Interest & Fin. Charges | 1,072 | 823 | 948 | 992 |
| Less : Self Consumption of clinker, cement and limestone | (10) | - | - | - |
| Exceptional Items | - | 1,300 | - | - |
| Other Income | 5,646 | 7,547 | 7,170 | 7,887 |
| Profit before Tax | 16,191 | 15,060 | 18,613 | 20,834 |
| Tax | 3,696 | 191 | 6,198 | 6,938 |
| % Tax | 22.8 | 1.3 | 33.3 | 33.3 |
| Net Profit | 12,496 | 14,870 | 12,415 | 13,896 |
| YoY Growth (%) | 34.0 | 19.0 | (16.5) | 11.9 |
| Net Profit Margin (%) | 12.2 | 13.5 | 10.5 | 10.7 |
| Adjusted profit | 12,496 | 12,016 | 12,415 | 13,896 |

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Balance Sheet Statement

| Y/E Dec (Rs mn) | CY17 | CY18E | CY19E | CY20E |
|--------------------------------|----------------|----------------|----------------|----------------|
| EQUITY AND LIABILITIES | | | | |
| Share Capital | 3,971 | 3,971 | 3,971 | 3,971 |
| Reserves and Surplus | 195,764 | 207,049 | 214,684 | 223,800 |
| Shareholder's funds | 199,735 | 211,020 | 218,655 | 227,772 |
| Long-Term Borrowings | 241 | 400 | 400 | 400 |
| Deferred Tax Liabilities (Net) | 4,591 | 3,722 | 3,722 | 3,722 |
| Other Long-Term Liabilities | 72 | 72 | 76 | 82 |
| Long Term Provisions | 352 | 385 | 409 | 443 |
| Non-Current Liabilities | 5,256 | 4,579 | 4,607 | 4,647 |
| Trade Payables | 10,289 | 11,095 | 11,788 | 12,744 |
| Other Current Liabilities | 20,052 | 19,098 | 20,389 | 22,042 |
| Short-Term Provisions | 10,842 | 6,962 | 7,396 | 7,996 |
| Current Liabilities | 41,183 | 37,154 | 39,572 | 42,782 |
| Total Liabilities | 246,175 | 252,753 | 262,835 | 275,200 |
| ASSETS | | | | |
| Tangible Assets | 57,220 | 56,636 | 52,866 | 67,912 |
| Intangible Assets | 3 | 3 | 3 | 3 |
| Capital Work-in-Progress | 3,979 | 6,100 | 15,100 | 5,000 |
| Fixed Assets | 61,202 | 62,739 | 67,969 | 72,915 |
| Non-Current Investments | 118,447 | 118,138 | 118,138 | 118,138 |
| Long term Loans and Advances | 1,137 | 1,107 | 1,197 | 1,307 |
| Other Non-Current Assets | 10,467 | 12,337 | 13,343 | 14,567 |
| Non-Current Assets | 130,051 | 131,581 | 132,678 | 134,012 |
| Inventories | 10,525 | 12,778 | 13,820 | 15,088 |
| Trade Receivables | 3,080 | 4,703 | 5,086 | 5,553 |
| Cash and Bank Balances | 34,971 | 34,183 | 35,959 | 39,640 |
| ST Loans and Advances | 970 | 890 | 963 | 1,051 |
| Other Current Assets | 5,377 | 5,880 | 6,359 | 6,942 |
| Current Assets | 54,922 | 58,433 | 62,187 | 68,274 |
| Total Assets | 246,175 | 252,753 | 262,835 | 275,200 |

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Target Price: Rs242

Cash Flow Statement

| Y/E Dec (Rs mn) | CY17 | CY18E | CY19E | CY20E |
|--|---------------|---------------|---------------|---------------|
| Profit Before tax | 16,191 | 15,060 | 18,613 | 20,834 |
| Depreciation and Obsolescence | 5,729 | 5,481 | 5,770 | 6,955 |
| Interest and Finance charges | 1,072 | 823 | 948 | 992 |
| Others | (2,057) | - | - | - |
| Operating profit before WC changes | 20,935 | 21,364 | 25,331 | 28,780 |
| Change in Working Capital | 2,313 | (10,134) | (629) | (490) |
| Cash Generated from Operation | 23,248 | 11,230 | 24,702 | 28,290 |
| Direct Tax Paid | (3,101) | (1,060) | (6,198) | (6,938) |
| Net Cash from Operating Activities | 20,147 | 10,170 | 18,504 | 21,352 |
| Purchase / Sale of Fixed Assets | (5,604) | (7,018) | (11,000) | (11,900) |
| LT Investment | - | 309 | - | - |
| Others | 1,848 | 2 | - | - |
| Net Cash used in Investing Activities | (3,756) | (6,707) | (11,000) | (11,900) |
| Proceeds from Borrowings | 105 | 159 | - | - |
| Repayment of Borrowings | (132) | - | - | - |
| Interest and finance charges paid | (1,143) | (823) | (948) | (992) |
| Dividend Paid (including DDT) | (6,307) | (3,585) | (4,780) | (4,780) |
| Net Cash Gen. / (Used) in Financing Activi. | (7,477) | (4,249) | (5,727) | (5,771) |
| Net Increase in Cash and Cash Equivalents | 8,914 | (786) | 1,776 | 3,681 |

Key Ratio

| Y/E Dec | CY17 | CY18E | CY19E | CY20E |
|------------------------------|------|-------|-------|-------|
| Valuation Ratio (x) | | | | |
| P/E | 31.5 | 32.7 | 31.7 | 28.3 |
| P/CEPS | 20.3 | 18.2 | 21.6 | 18.9 |
| P/BV | 2.0 | 1.9 | 1.8 | 1.7 |
| EV/EBITDA | 14.3 | 15.1 | 12.4 | 10.7 |
| EV/Sales | 2.1 | 2.0 | 1.8 | 1.6 |
| EV/tonne (USD) | 111 | 111 | 111 | 110 |
| Dividend Payout (%) | 51 | 24 | 38 | 34 |
| Dividend Yield (%) | 1.6 | 0.9 | 1.2 | 1.2 |
| Per Share Data (Rs) | | | | |
| EPS (Basic) | 6.3 | 6.1 | 6.3 | 7.0 |
| EPS (Diluted) | 6.3 | 6.1 | 6.3 | 7.0 |
| CEPS | 9.2 | 10.2 | 9.2 | 10.5 |
| DPS | 2.8 | 1.5 | 2.0 | 2.0 |
| Book Value | 101 | 106 | 110 | 115 |
| EBITDA/tonne | 754 | 622 | 705 | 758 |
| Returns (%) | | | | |
| RoCE | 8.8 | 7.7 | 9.1 | 9.8 |
| RoE | 6.4 | 7.2 | 5.8 | 6.2 |
| Turnover ratios (x) | | | | |
| Asset Turnover (Gross block) | 1.5 | 1.5 | 1.6 | 1.3 |
| Inventory (days) | 37.5 | 42.5 | 42.5 | 42.5 |
| Receivables (days) | 11.0 | 15.6 | 15.6 | 15.6 |
| Payables (days) | 44.1 | 42.8 | 42.8 | 42.8 |

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Target Price: Rs242

Rating History

| Date | Reco | CMP | TP |
|-----------|------|-----|-----|
| 23-Oct-18 | BUY | 201 | 235 |
| 26-Jul-18 | BUY | 224 | 270 |
| 7-May-18 | BUY | 235 | 285 |
| 21-Feb-18 | BUY | 264 | 310 |
| 25-Oct-17 | BUY | 285 | 320 |
| 25-Jul-17 | HOLD | 268 | 265 |
| 28-Apr-17 | HOLD | 246 | 240 |
| 21-Feb-17 | HOLD | 239 | 255 |

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Rating Guides

| Rating | Expected absolute returns (%) over 12 months |
|--------|--|
| BUY | >10% |
| HOLD | -5% to 10% |
| REDUCE | >-5% |

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