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

BUY

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).**

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

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

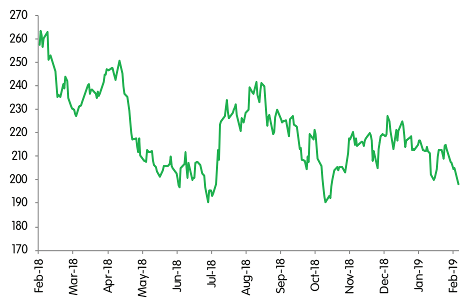
Key Financials

(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



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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 finshed 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 tone (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

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
EBIDTA per tonne	579	606	1,010	628	750	655	831	485	498

Source: Company, RSec Research

Exhibit 3: Revised vs. Old Estimates

	CY19E			CY20E		
(Rs mn)	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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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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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 Gene. / (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/tone	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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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%

NAVEEN KULKARNI

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