

Ambuja Cements

BSE SENSEX	S&P CNX
39,298	11,662
Bloomberg	ACEM IN
Equity Shares (m)	1,986
M.Cap.(INRb)/(USD\$)	412.3 / 5.8
52-Week Range (INR)	244 / 184
1, 6, 12 Rel. Per (%)	-1/-12/-18
12M Avg Val (INR M)	736
Free float (%)	36.9

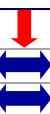
CMP: INR208
TP: INR220 (+6%)
Neutral
Earnings miss as costs rise; cut estimates by 6-14%

- Volumes decline but realizations improve:** Volumes declined 5% YoY to 5.23mt in 3QCY19, as demand was impacted by heavy rain and floods in various states. Realizations increased 6% YoY, but were down 2% QoQ to INR4,887/t due to price roll back post May'19 in core markets. Revenues grew 1% YoY to INR26.3b, vs our estimate of INR25.3b.
- EBITDA/t impacted by higher costs:** Cost/t increased 2% YoY to INR4,180 (our estimate: INR3,963) due to higher other expenses/t and power & fuel cost/t. EBITDA/t came in at INR841 (+29% YoY). EBITDA grew 23% YoY to INR4.4b (our estimate: INR5.0b), translating into a margin of 16.7% (+3pp YoY, -6.7pp QoQ). PAT stood at INR2.3b (+31% YoY; our estimate: INR2.8b).
- Key highlights from management presentation:** (1) The board approved the amalgamation of Dirk India Pvt Ltd, a wholly owned subsidiary, with effect from 1st Jan'20, subject to regulatory approvals. (2) Premium product sales increased 17% YoY.
- 9M CY19 performance:** Volumes declined 4% YoY, while sales/EBITDA/PAT were up 0%/8%/13% YoY. For 4QCY19, we expect volumes to decline 3% YoY, but sales/EBITDA/PAT to increase 2%/34%/35% YoY.
- Valuation view:** We cut our EBITDA estimate by 6% for CY19 to factor in higher reported costs. Consequently, our PAT growth estimate for the year is down by 6%. Alongside, we cut our EBITDA/PAT estimate by 12%/14% for CY20. The stock trades at 10x/9.5x CY19/20E EV/EBITDA. We value ACEM at 10x Jun'21E EBITDA, while the company's stake in ACC is valued at a holding company discount of 10% to arrive at a TP of INR220. Maintain **Neutral**.

Financials & Valuations (INR b)

Y/E Dec	2018	2019E	2020E
Sales	113.6	114.5	119.0
EBITDA	18.9	21.4	21.4
NP	12.1	14.2	14.2
Adj. EPS (INR)	6.1	7.2	7.1
EPS Gr. (%)	-3.2	17.8	-0.3
BV/Sh. (INR)	105.8	111.3	116.9
RoE (%)	5.9	6.6	6.3
RoCE (%)	6.5	6.9	6.5
P/E (x)*	22.5	19.1	19.1
P/BV (x)*	1.3	1.2	1.2
EV/EBITDA (x)*	12.1	10.1	9.5
EV/Ton (USD)*	107	102	96

*Adjusting for 50% of stake in ACC

Estimate change
TP change
Rating change

Quarterly Performance (S/A)

Y/E December	CY18				CY19				CY18	CY19E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			Est. 3QE	Var. (%)
Sales Volume (m ton)*	6.25	6.39	5.49	6.13	6.37	5.82	5.23	5.94	24.26	23.36	5.11	2
YoY Change (%)	3.5	5.3	8.9	4.4	1.9	-8.9	-4.7	-3.0	5.6	-3.7	-7.0	
Realization (INR/ton)	4,421	4,581	4,594	4,511	4,469	5,003	4,887	4,810	4,525	4,783	4,833	1
YoY Change (%)	5.4	-1.5	1.5	1.4	1.1	9.2	6.4	6.6	1.4	5.7	5.2	
QoQ Change (%)	-0.7	3.6	0.3	-1.8	-0.9	11.9	-2.3	-1.6			-3.4	
Net Sales	28,626	30,169	26,139	28,633	29,276	29,783	26,261	29,196	1,13,568	1,14,516	25,289	4
YoY Change (%)	11.7	5.4	12.7	5.6	2.3	-1.3	0.5	2.0	8.6	0.8	-3.3	
Total Expenditure	-23,555	-23,946	-22,558	-24,595	-24,644	-22,799	-21,863	-23,785	-94,653	-93,090	-20,234	8
EBITDA	5,071	6,223	3,582	4,039	4,633	6,984	4,398	5,411	18,915	21,426	5,055	-13
Margins (%)	17.7	20.6	13.7	14.1	15.8	23.4	16.7	18.5	16.7	18.7	20.0	
Depreciation	1,393	1,364	1,360	1,365	1,314	1,309	1,329	1,314	5,481	5,265	1,315	
Interest	257	192	192	182	175	208	216	198	823	796	200	
Other Income	507	1,911	482	491	2,402	580	628	532	3,391	4,142	580	
PBT before EO Item	3,928	6,578	2,512	2,983	5,546	6,047	3,481	4,432	16,002	19,506	4,120	-16
Extraordinary Inc/(Exp)	0	0	0	2,779	0	0	0	0	2,779	0	0	
PBT after EO Exp/(Inc)	3,928	6,578	2,512	5,762	5,546	6,047	3,481	4,432	18,781	19,506	4,120	-16
Tax	1,211	1,586	726	388	1,276	1,926	1,135	929	3,911	5,266	1,236	
Rate (%)	30.8	24.1	28.9	6.7	23.0	31.9	32.6	21.0	20.8	27.0	30.0	
Reported Profit	2,718	4,993	1,786	5,374	4,270	4,121	2,346	3,503	14,870	14,239	2,884	-19
Adj PAT	2,718	4,993	1,786	2,594	4,270	4,121	2,346	3,503	12,091	14,239	2,884	-19
YoY Change (%)	10.2	27.3	-34.4	-23.3	57.1	-17.5	31.4	35.0	-3.2	17.8	61.5	

E: MOFSL Estimates

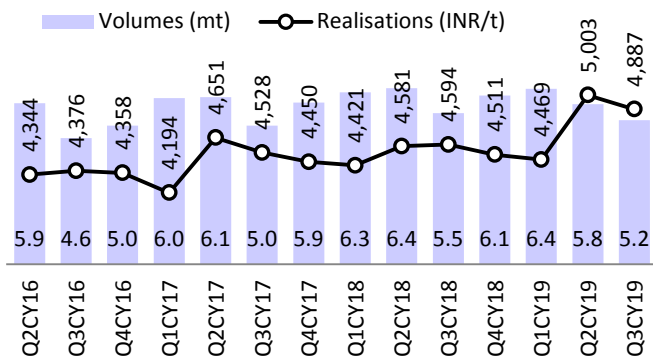
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Investors are advised to refer through important disclosures made at the last page of the Research Report.

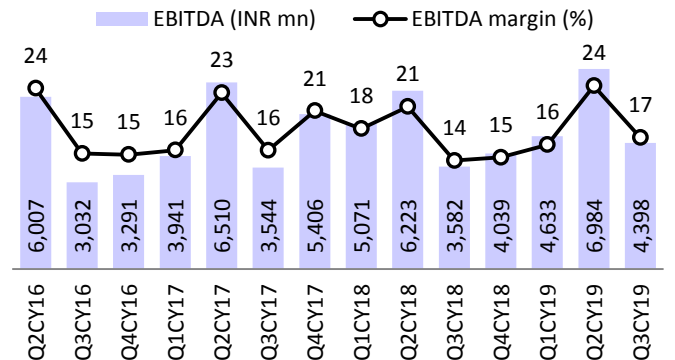
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: Volume down 5% YoY, but realizations up 6% YoY in 3QCY19



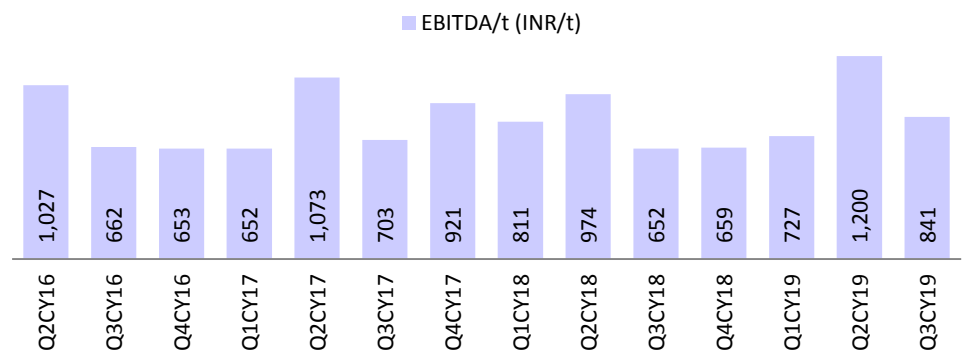
Source: Company, MOFSL

Exhibit 2: QoQ margins contracted 6.7ppQoQ



Source: Company, MOFSL

Exhibit 3: Trend in EBITDA/t



Source: MOFSL, Company

Exhibit 4: Income statement (INR/ton)

	3QCY19	3QCY18	YoY (%)	2QCY19	QoQ (%)
Net Realization	5021	4761	5%	5117	-2%
Raw Material	409	561	-27%	501	-18%
Staff Cost	321	298	8%	290	11%
Power & Fuel	1145	1002	14%	1046	10%
Freight	1299	1332	-2%	1272	2%
Other exp	1007	917	10%	808	25%
Total Cost	4180	4109	2%	3917	7%
EBITDA	841	652	29%	1200	-30%

Source: Company, MOFSL

Key highlights from management presentation

- The board approved the amalgamation of Dirk India Pvt Ltd, a wholly owned subsidiary, with the company with effect from 1st Jan'20 subject to regulatory approvals.
- Dirk India Pvt Ltd is in the business of processing of Fly ash into 'Pozzocrete.' It is also engaged in a job work for Ambuja Cement by manufacturing cement at its Nasik facility.
- Rationale for the merger:
 - The nature of business carried out by DIRK is complimentary to Ambuja's business.
 - The merger will help simplify management structure, leading to better administration and reduction in cost.
 - Pooling of resources (including manpower, management and administration and marketing resource) of both the companies should result in savings in costs.
- Premium product sales increased 17% YoY in the quarter.

Valuation and view

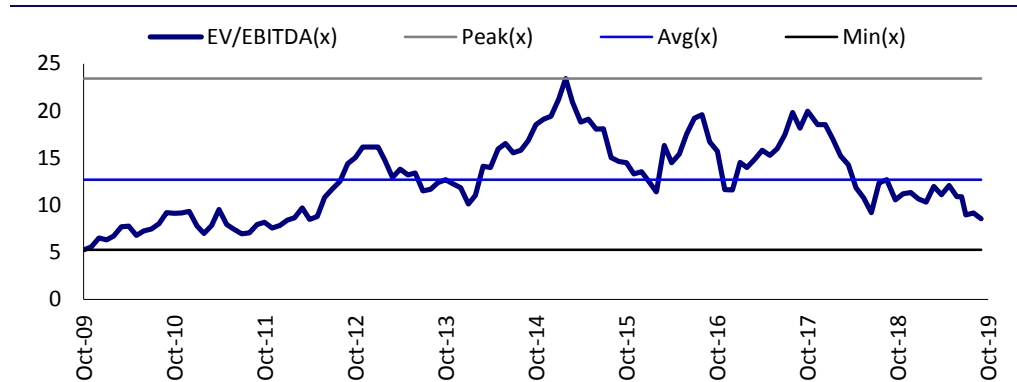
- We cut our EBITDA estimate by 6% for CY19 to factor in higher reported costs. Consequently, our PAT growth estimate for the year is down by 6%. Alongside, we cut our EBITDA/PAT estimate by 12%/14% for CY20. The stock trades at 10x/9.5x CY19/20E EV/EBITDA. We value ACEM at 10x Jun'21E EBITDA, while the company's stake in ACC is valued at a holding company discount of 10% to arrive at a TP of INR220. Maintain **Neutral**.

Exhibit 5: Revision in estimates

(INR b)	CY19E			CY20E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	114.5	113.2	1.2	119.0	119.3	-0.3
EBITDA	21	23	-5.9	21	24	-12.4
Net Profit	14	15	-6.4	14	16	-13.6
EPS (INR)	7.2	7.7	-6.4	7.1	8.3	-13.6

Source: MOFSL, Company

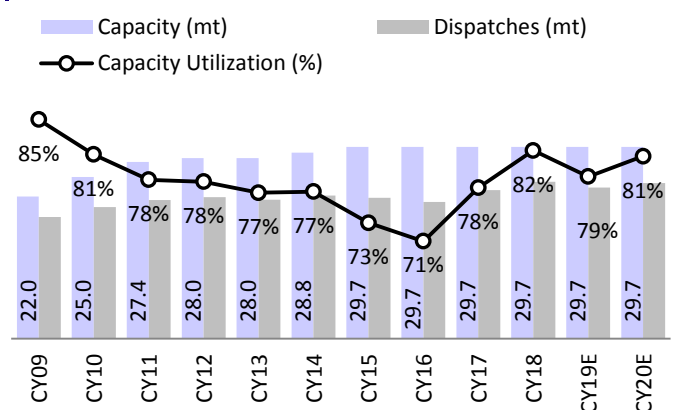
Exhibit 6: EV/EBITDA chart



Source: MOFSL, Company

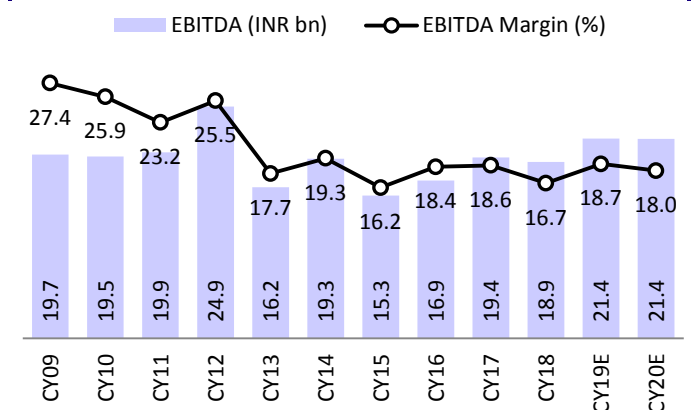
Story in charts

Exhibit 7: Utilizations to reach 81% in CY20



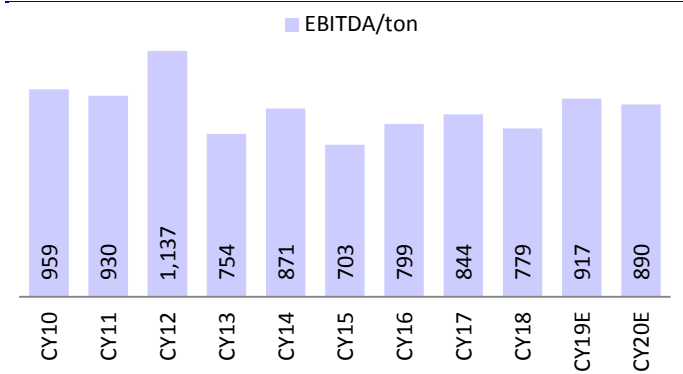
Source: Company, MOFSL

Exhibit 8: Trend in EBITDA margin



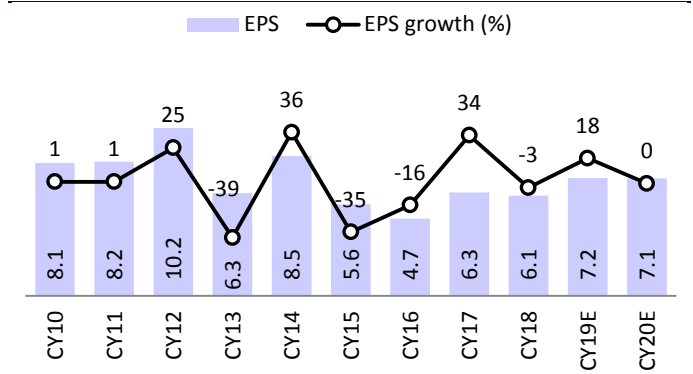
Source: Company, MOFSL

Exhibit 9: Trend in EBITDA/ton (INR)



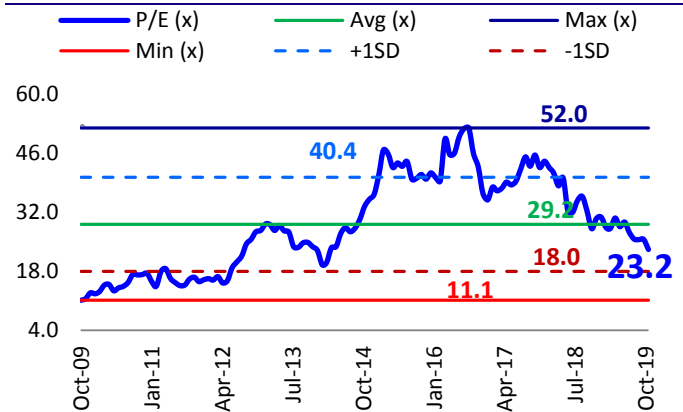
Source: Company, MOFSL

Exhibit 10: Trend in EPS (INR)



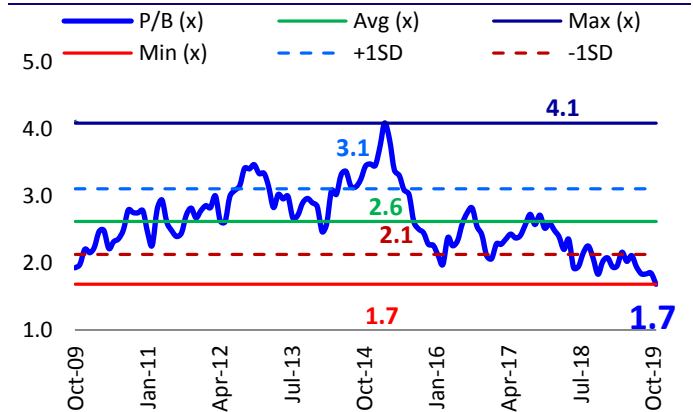
Source: Company, MOFSL

Exhibit 11: One-year forward P/E



Source: MOFSL, Company

Exhibit 12: One-year forward P/BV



Source: MOFSL, Company

Financials and Valuations (Standalone)

Income Statement						(INR Million)	
Y/E December	2014	2015	2016	2017	2018	2019E	2020E
Gross Sales	1,12,456	1,07,681	1,05,008	1,12,251	1,13,568	1,14,516	1,18,990
Less: Excise Duty	12,594	13,026	13,042	7,680	0	0	0
Net Sales	99,862	94,655	91,966	1,04,571	1,13,568	1,14,516	1,18,990
Change (%)	8.9	-5.2	-2.8	13.7	8.6	0.8	3.9
Total Expenditure	80,577	79,340	75,043	85,170	94,653	93,090	97,583
% of Sales	80.7	83.8	81.6	81.4	83.3	81.3	82.0
EBITDA	19,284	15,315	16,924	19,401	18,915	21,426	21,407
Change (%)	18.9	-20.6	10.5	14.6	-2.5	13.3	-0.1
Margin (%)	19.3	16.2	18.4	18.6	16.7	18.7	18.0
Depreciation	5,095	6,257	8,489	5,729	5,481	5,265	5,475
EBIT	14,189	9,058	8,435	13,672	13,434	16,160	15,932
Interest	645	918	742	1,072	823	796	815
Other Income - Rec.	4,290	3,582	5,102	3,591	3,391	4,142	4,329
PBT before EO Exp.	17,834	11,722	12,795	16,191	16,002	19,506	19,447
EO Exp/(Inc)	-1,757	556	0	0	-2,779	0	0
PBT after EO Exp.	19,591	11,166	12,795	16,191	18,781	19,506	19,447
Current Tax	4,780	3,340	4,392	4,107	4,780	5,266	5,251
Deferred Tax	-153	-249	-920	-411	-869	0	0
Tax Rate (%)	23.6	27.7	27.1	22.8	20.8	27.0	27.0
Reported PAT	14,964	8,076	9,322	12,496	14,870	14,239	14,196
PAT Adj for EO Items	13,207	8,631	9,322	12,496	12,091	14,239	14,196
Change (%)	36.5	-34.6	8.0	34.0	-3.2	17.8	-0.3
Margin (%)	13.2	9.1	10.1	11.9	10.6	12.4	11.9

Balance Sheet						(INR Million)	
Y/E December	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	3,100	3,104	3,971	3,971	3,971	3,971	3,971
Total Reserves	97,841	99,965	1,89,597	1,95,761	2,06,154	2,17,109	2,28,071
Net Worth	1,01,033	1,03,069	1,93,569	1,99,732	2,10,125	2,21,081	2,32,042
Def. Liabilities	5,890	5,649	4,973	4,583	3,722	3,722	3,722
Total Loans	384	387	157	241	397	397	397
Capital Employed	1,07,307	1,09,105	1,98,699	2,04,557	2,14,244	2,25,199	2,36,160
Gross Block	1,14,291	1,20,127	65,532	69,035	73,721	76,721	79,721
Less: Accum. Depn.	52,020	59,206	6,116	11,816	17,085	22,350	27,826
Net Fixed Assets	62,271	60,920	59,416	57,220	56,636	54,371	51,895
Capital WIP	9,301	7,865	6,501	8,625	9,996	19,396	27,621
Investments in subsidiaries	761	773	1,18,151	1,18,151	1,18,138	1,18,138	1,18,138
Investments-Trade	20,966	21,488	10,951	15,128	2,305	2,305	2,305
Curr. Assets	45,709	50,573	38,509	47,144	64,792	68,468	74,206
Inventory	8,884	8,955	9,375	10,525	12,778	13,007	13,598
Debtors	2,280	2,864	3,958	3,080	4,703	4,787	5,004
Cash & Bank Bal	24,581	28,714	15,602	20,189	31,045	33,113	38,033
Others	9,964	10,041	9,574	13,351	16,267	17,561	17,571
Curr. Liability & Prov.	31,701	32,514	34,829	41,712	37,623	37,478	38,005
Creditors	19,613	21,317	33,516	40,488	36,327	36,144	36,671
Provisions	12,088	11,197	1,314	1,223	1,296	1,334	1,334
Net Current Assets	14,008	18,059	3,680	5,433	27,169	30,989	36,201
Appl. of Funds	1,07,307	1,09,105	1,98,699	2,04,557	2,14,244	2,25,199	2,36,160

E: MOFSL Estimates

Financials and Valuations (Standalone)

Ratios

Y/E December	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)							
EPS	8.5	5.6	4.7	6.3	6.1	7.2	7.1
Cash EPS	11.8	9.6	9.0	9.2	8.8	9.8	9.9
BV/Share	65.1	66.4	97.5	100.6	105.8	111.3	116.9
DPS	5.0	2.8	2.8	3.6	1.5	1.4	1.4
Payout (%)	61.6	64.8	68.5	64.9	22.3	23.1	22.8
Valuation (x)							
P/E					22.5	19.1	19.1
Cash P/E					15.4	13.9	13.8
P/BV					1.3	1.2	1.2
EV/Sales					2.0	1.9	1.7
EV/EBITDA					12.1	10.1	9.5
EV/Ton (Cap) - US\$					107	102	96
Dividend Yield (%)					1	0.7	0.7
Return Ratios (%)							
RoE	13.5	8.5	6.3	6.4	5.9	6.6	6.3
RoCE	14.4	8.9	6.6	6.8	6.5	6.9	6.5
RoIC	15.4	9.1	9.4	18.2	18.9	21.5	21.8
Working Capital Ratios							
Asset Turnover (x)	0.9	0.9	0.5	0.5	0.5	0.5	0.5
Debtor (Days)	8	11.0	15.7	10.7	15.1	15.3	15.4
Inventory (Days)	32	35	37	37	41	41	42
Work Cap (Days)	51	69.6	14.6	19.0	87.3	98.8	111.0
Leverage Ratio (x)							
Current Ratio	1.4	1.6	1.1	1.1	1.7	1.8	2.0
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

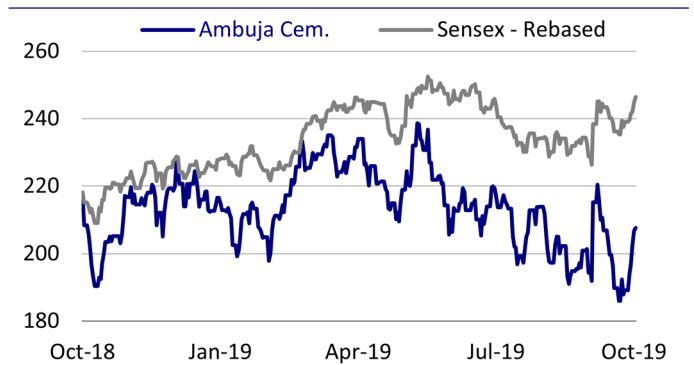
Y/E December	2014	2015	2016	2017	2018	2019E	2020E
(INR Million)							
OP/(Loss) before Tax	19,591	11,166	12,795	16,191	15,061	19,506	19,447
Depreciation	4,383	7,186	8,489	5,729	5,481	5,265	5,475
Interest & Finance Charges	-2,025	-1,072	-1,247	-58	-709	0	0
Direct Taxes Paid	-4,380	-3,332	-3,187	-3,101	-6,251	-5,266	-5,251
(Inc)/Dec in WC	1,187	82	325	2,136	-5,922	-1,753	-291
CF from Operations	18,756	14,031	17,173	20,898	7,659	17,752	19,380
Others	-2,003	1,497	-3,015	-2,356	-1,697	0	0
CF from Operating incl EO	16,753	15,528	14,158	18,541	5,962	17,752	19,380
(Inc)/Dec in FA	-8,202	-6,169	-3,832	-5,427	-5,936	-12,400	-11,225
Free Cash Flow	8,551	9,360	10,327	13,115	26	5,352	8,155
(Pur)/Sale of Investments	3,601	5,339	-30,859	3,468	3,393	0	0
Others	-3,810	-1,597	14,253	-4,509	12,476		
CF from Investments	-8,411	-2,426	-20,438	-6,468	9,933	-12,400	-11,225
Issue of Shares	-82	-88	868	0	0	0	0
Inc/(Dec) in Debt	-1,106	-1,392	-957	-793	-311	0	0
Interest Paid	-318	-389	-360	-1,143	-745	0	0
Dividend Paid	-6,173	-7,444	-5,516	-5,550	-3,983	-3,284	-3,235
Others	508	344	-868	0	0	0	0
CF from Fin. Activity	-7,171	-8,969	-6,833	-7,487	-5,039	-3,284	-3,235
Inc/Dec of Cash	1,170	4,133	-13,112	4,587	10,856	2,068	4,920
Opening Balance	23,411	24,581	28,714	15,602	20,189	31,045	33,113
Closing Balance	24,581	28,714	15,603	20,189	31,045	33,113	38,033

Corporate profile

Company description

Ambuja Cements Ltd, a part of the global conglomerate Lafarge Holcim, is one of the leading cement companies in India with total capacity of 29.6mt under its control. It is one of the lowest cost producers of cement, with focus on structurally sound markets of North, West and East. It is also the largest exporter of cement from India.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	63.1	63.1	63.1
DII	12.8	11.2	11.7
FII	17.5	18.1	17.8
Others	6.7	7.6	7.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	4.9
Government Of Singapore	2.1
Nomura India Investment Fund Mother Fund	1.2
SBI MAGNUM TAXGAIN SCHEME	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
N S Sekhsaria	Chairman
Jan Jenisch	Vice Chairman
Bimlendra Jha	Managing Director
Rajiv Gandhi	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Christof Haessig	Shailesh Haribhakti*
Martin Kriegner	Shikha Sharma*
Roland Kolher	Mahendra Kumar Sharma
Nasser Munjee*	Praveen Kumar Molri
Omkar Goswami*	Ranjit Shahani
Rajendra P Chitale*	Then Hwee Tan

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory
P M Nanabhoy & Co	Cost Auditor
Rathi & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
CY19	7.20	7.24	-0.58
CY20	7.10	8.12	-12.53

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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