

April 27, 2020

Q1CY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY20E	CY21E	CY20E	CY21E
Rating	BUY		BUY	
Target Price	190		190	
Sales (Rs. m)	2,32,537	2,74,710	2,32,537	2,74,325
% Chng.	-	0.1		
EBITDA (Rs. m)	34,302	44,424	34,302	44,053
% Chng.	-	0.8		
EPS (Rs.)	6.6	8.8	6.6	8.7
% Chng.	-	0.8		

Key Financials - Consolidated

Y/e Dec	CY18	CY19	CY20E	CY21E
Sales (Rs. bn)	260	271	233	275
EBITDA (Rs. bn)	40	44	34	44
Margin (%)	15.3	16.4	14.8	16.2
PAT (Rs. bn)	13	17	13	17
EPS (Rs.)	6.8	8.8	6.6	8.8
Gr. (%)	(6.7)	29.6	(24.4)	32.8
DPS (Rs.)	1.5	1.5	1.7	2.2
Yield (%)	0.9	0.9	1.0	1.3
RoE (%)	6.2	7.5	5.4	6.8
RoCE (%)	13.1	14.2	9.1	12.1
EV/Sales (x)	1.1	0.9	1.1	0.9
EV/EBITDA (x)	9.5	8.0	10.3	7.8
PE (x)	25.4	19.6	26.0	19.6
P/BV (x)	1.5	1.4	1.4	1.3

Key Data

ABUJ.BO | ACEM IN

52-W High / Low	Rs.240 / Rs.137
Sensex / Nifty	31,743 / 9,282
Market Cap	Rs.342bn / \$ 4,487m
Shares Outstanding	1,986m
3M Avg. Daily Value	Rs.1848.89m

Shareholding Pattern (%)

Promoter's	63.39
Foreign	16.38
Domestic Institution	13.27
Public & Others	6.96
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	21.7	(12.8)	(23.8)
Relative	14.3	7.8	(6.2)

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Beat across the counts, Maintain BUY

Quick Pointers:

- 7.5% increase in realisations and flat costs drove 55% YoY growth in EBITDA/t at Rs930 (PLe:Rs820)
- Plants and warehouse resumed operations at limited scale wef 20th April

Ambuja Cement (ACEM) delivered strong set of Q1CY20 earnings with 13% beat in EBITDA, led by better than expected realisations and lower RM costs.

India's cement demand has been under pressure since Q1FY20 due to dearth of liquidity, weak sentiments and low Govt spending. With the outbreak of novel covid-19 virus, India's cement demand is expected to fall 3% YoY in FY20e to 330mnt. In spite of weak volumes, sector is expected to deliver 15% earnings growth on the back of strong pricing discipline and lower costs. We expect 10% decline in India's cement demand for FY21e, followed by 16% growth in FY22e given the low base. On prices front, we expect sector to repeat tight discipline, partially offsetting volume fall. We keep our CY20e/CY21e earnings estimates unchanged for ACEM with BUY rating and TP of Rs190, EV/EBITDA of 10.5x CY21e.

- Better than expected realisations and lower RM costs led the beat:** Impacted by lockdown, volumes fell 10% YoY to 5.8mnt, in line with our estimate. Realisations rose 3% QoQ/Rs140 (↑7.5% YoY/Rs335) to Rs4,783 (PLe:Rs4,750)/t. Cost/t remained flat YoY at Rs3,855 (PLe:Rs3,925) on account of lower energy and freight cost, partially offset by higher other expenses (due to lower volumes). Driven by 55% increase in EBITDA/t offset by 10% decline in volumes, EBITDA rose 40% YoY to Rs5.4bn (PLe:Rs4.7bn). PAT grew 3% YoY to 4.0bn (PLe:Rs3.2bn). The growth was impacted by non-recognition of dividend amounting Rs1.3bn from ACC, wholly owned subsidiary, due to delay in AGM. Including the same, PAT would have stood at Rs5.3bn, up 37% YoY.
- Plants resumed at limited scale from 20th April:** ACEM's plant operations which were shut down since end of Mar'20 due to lock down. However, plants and warehouses have started to function from 20th April, though at a limited scale.
- Factoring delay of six months for upcoming new plant at Rajasthan:** ACEM is setting up a greenfield integrated plant with a clinker/cement capacity of 3.1mnt/1.8mnt at Marwar Mundwa in Rajasthan with a total outlay of Rs24bn. Due to Covid-19 virus outbreak, we factor in delay of six months with commissioning likely by May-2021.

Exhibit 1: Q1CY20 Result Overview (Rs mn)

Y/e Dec	Q1CY20	Q1CY19	YoY gr. (%)	Q4CY20	CY20E	CY19	YoY gr. (%)
Net Sales	27,600	28,470	(3.1)	30,380	97,714	1,13,530	(13.9)
Raw Material	2,514	2,567	(2.0)	3,633	9,663	11,255	(14.1)
<i>% of Net Sales</i>	<i>9.1</i>	<i>9.0</i>		<i>12.0</i>	<i>9.9</i>	<i>9.9</i>	
Staff Costs	1,722	1,671	3.0	1,690	6,861	6,726	2.0
<i>% of Net Sales</i>	<i>6.2</i>	<i>5.9</i>		<i>5.6</i>	<i>7.0</i>	<i>5.9</i>	
Power & Fuel	5,622	7,099	(20.8)	6,692	21,320	25,864	(17.6)
<i>% of Net Sales</i>	<i>20.4</i>	<i>24.9</i>		<i>22.0</i>	<i>21.8</i>	<i>22.8</i>	
Freight	7,422	8,367	(11.3)	8,377	26,618	30,942	(14.0)
<i>% of Net Sales</i>	<i>26.9</i>	<i>29.4</i>		<i>27.6</i>	<i>27.2</i>	<i>27.3</i>	
Other Expenses	4,964	4,941	0.5	5,493	19,167	20,403	(6.1)
<i>% of Net Sales</i>	<i>18.0</i>	<i>17.4</i>		<i>18.1</i>	<i>19.6</i>	<i>18.0</i>	
Total Expenditure	22,243	24,644	(9.7)	25,885	83,627	95,190	(12.1)
EBITDA	5,357	3,826	40.0	4,495	14,087	18,340	(23.2)
<i>Margin (%)</i>	<i>19.4</i>	<i>13.4</i>		<i>14.8</i>	<i>14.4</i>	<i>16.2</i>	
Depreciation	1,379	1,314	5.0	1,487	5,529	5,438	1.7
Other income	1,557	2,692	(42.2)	1,635	5,410	6,898	(21.6)
EBIT	5,535	5,205	6.3	4,643	13,967	19,800	(29.5)
Interest	231	175	31.9	237	733	835	(12.3)
PBT	5,304	5,030	5.4	4,407	13,234	18,964	(30.2)
Extraordinary income/(expense)	-	516		-	-	516	
PBT (After EO)	5,304	5,546	(4.4)	4,407	13,234	19,480	(32.1)
Tax	1,313	1,276	2.9	(142)	3,706	4,195	(11.7)
<i>% PBT</i>	<i>24.8</i>	<i>23.0</i>		<i>-3.2</i>	<i>28.0</i>	<i>21.5</i>	
Reported PAT	3,991	4,270	(6.5)	4,549	9,528	15,285	(37.7)
Adjusted PAT	3,991	3,873	3.1	3,516	9,528	11,679	(18.4)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e Dec	Q1CY20	Q1CY19	YoY gr. (%)	Q4CY20	CY20E	CY19	YoY gr. (%)
Volume (mn te)	5.8	6.4	(9.8)	6.5	20.6	24.1	(14.4)
Net Realisations/t (Rs)	4,783	4,448	7.5	4,645	4,742	4,717	0.5
EBITDA/t (Rs)	928	598	55.3	687	684	762	(10.3)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
Net Revenues	2,60,409	2,71,036	2,32,537	2,74,710
YoY gr. (%)	10.3	4.1	(14.2)	18.1
Cost of Goods Sold	32,379	36,837	32,082	37,990
Gross Profit	2,28,031	2,34,199	2,00,455	2,36,719
Margin (%)	87.6	86.4	86.2	86.2
Employee Cost	15,244	15,708	15,933	16,592
Other Expenses	44,829	45,531	41,234	45,514
EBITDA	39,748	44,459	34,302	44,424
YoY gr. (%)	5.2	11.9	(22.8)	29.5
Margin (%)	15.3	16.4	14.8	16.2
Depreciation and Amortization	11,539	11,525	11,773	13,085
EBIT	28,209	32,934	22,529	31,338
Margin (%)	10.8	12.2	9.7	11.4
Net Interest	1,705	1,699	1,519	1,794
Other Income	3,355	4,297	5,329	5,550
Profit Before Tax	28,700	37,043	26,338	35,094
Margin (%)	11.0	13.7	11.3	12.8
Total Tax	(542)	10,922	8,450	11,075
Effective tax rate (%)	(1.9)	29.5	32.1	31.6
Profit after tax	29,242	26,121	17,889	24,019
Minority interest	7,953	6,882	4,858	6,674
Share Profit from Associate	125	200	130	130
Adjusted PAT	13,445	17,418	13,160	17,474
YoY gr. (%)	(6.7)	29.6	(24.4)	32.8
Margin (%)	5.2	6.4	5.7	6.4
Extra Ord. Income / (Exp)	(757)	988	-	-
Reported PAT	21,414	19,439	13,160	17,474
YoY gr. (%)	41.2	(9.2)	(32.3)	32.8
Margin (%)	8.2	7.2	5.7	6.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,414	19,439	13,160	17,474
Equity Shares O/s (m)	1,986	1,986	1,986	1,986
EPS (Rs)	6.8	8.8	6.6	8.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
Non-Current Assets				
Gross Block	2,44,265	2,55,980	2,62,734	2,93,584
Tangibles	2,44,265	2,55,980	2,62,734	2,93,584
Intangibles	-	-	-	-
Acc: Dep / Amortization	37,906	48,967	60,740	73,825
Tangibles	37,906	48,967	60,740	73,825
Intangibles	-	-	-	-
Net fixed assets	2,06,359	2,07,013	2,01,994	2,19,759
Tangibles	2,06,359	2,07,013	2,01,994	2,19,759
Intangibles	-	-	-	-
Capital Work In Progress	15,786	19,967	34,788	28,931
Goodwill	-	-	-	-
Non-Current Investments	9,075	11,999	12,414	12,834
Net Deferred tax assets	(11,114)	(9,326)	(10,009)	(10,891)
Other Non-Current Assets	18,080	19,613	19,639	19,669
Current Assets				
Investments	-	-	-	-
Inventories	29,579	20,965	20,136	24,413
Trade receivables	13,045	10,686	9,664	11,497
Cash & Bank Balance	64,393	93,546	89,320	1,01,028
Other Current Assets	11,426	12,353	11,795	13,409
Total Assets	3,73,407	4,01,823	4,05,555	4,37,573
Equity				
Equity Share Capital	3,971	3,971	3,971	3,971
Other Equity	2,19,734	2,36,809	2,46,990	2,61,173
Total Networkth	2,23,705	2,40,780	2,50,961	2,65,145
Non-Current Liabilities				
Long Term borrowings	397	411	353	353
Provisions	1,815	2,888	2,888	2,888
Other non current liabilities	72	358	358	358
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	30,062	23,329	22,528	26,726
Other current liabilities	53,881	67,317	57,498	64,548
Total Equity & Liabilities	3,73,407	4,01,823	4,05,555	4,37,573

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
PBT	29,185	38,753	26,338	35,094
Add. Depreciation	11,539	11,525	11,773	13,085
Add. Interest	1,705	1,699	1,519	1,794
Less Financial Other Income	3,355	4,297	5,329	5,550
Add. Other	(3,833)	(5,803)	(5,329)	(5,550)
Op. profit before WC changes	38,597	46,174	34,302	44,424
Net Changes-WC	(10,261)	6,512	(8,644)	2,977
Direct tax	(11,302)	(5,299)	(7,766)	(10,193)
Net cash from Op. activities	17,034	47,387	17,892	37,207
Capital expenditures	(10,904)	(16,070)	(21,575)	(24,994)
Interest / Dividend Income	-	-	-	-
Others	3,242	4,142	5,329	5,550
Net Cash from Inv. activities	(7,662)	(11,929)	(16,246)	(19,444)
Issue of share cap. / premium	-	-	-	-
Debt changes	216	-	(58)	-
Dividend paid	(6,495)	(5,174)	(4,294)	(4,260)
Interest paid	(922)	(1,130)	(1,519)	(1,794)
Others	-	-	-	-
Net cash from Fin. activities	(7,202)	(6,304)	(5,871)	(6,055)
Net change in cash	2,170	29,154	(4,225)	11,708
Free Cash Flow	5,954	30,713	(3,683)	12,213

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q2CY19	Q3CY19	Q4CY19	Q1CY20
Net Revenue	29,120	25,560	30,380	27,600
YoY gr. (%)	(0.5)	1.3	9.9	(3.1)
Raw Material Expenses	2,918	2,138	3,633	2,514
Gross Profit	26,202	23,422	26,747	25,086
Margin (%)	90.0	91.6	88.0	90.9
EBITDA	6,321	3,697	4,495	5,357
YoY gr. (%)	18.7	38.9	47.1	40.0
Margin (%)	21.7	14.5	14.8	19.4
Depreciation / Depletion	1,309	1,329	1,487	1,379
EBIT	5,013	2,368	3,009	3,978
Margin (%)	17.2	9.3	9.9	14.4
Net Interest	208	216	237	231
Other Income	1,242	1,329	1,635	1,557
Profit before Tax	6,047	3,481	4,407	5,304
Margin (%)	20.8	13.6	14.5	19.2
Total Tax	1,926	1,135	(142)	1,313
Effective tax rate (%)	31.9	32.6	(3.2)	24.8
Profit after Tax	4,121	2,346	4,549	3,991
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,121	2,346	3,516	3,991
YoY gr. (%)	(17.5)	31.4	45.6	3.1
Margin (%)	14.2	9.2	11.6	14.5
Extra Ord. Income / (Exp)	-	-	1,033	-
Reported PAT	4,121	2,346	4,549	3,991
YoY gr. (%)	(17.5)	31.4	(15.3)	(6.5)
Margin (%)	14.2	9.2	15.0	14.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,121	2,346	4,549	3,991
Avg. Shares O/s (m)	1,986	1,986	1,986	1,986
EPS (Rs)	2.1	1.2	1.8	2.0

Source: Company Data, PL Research

Key Financial Metrics

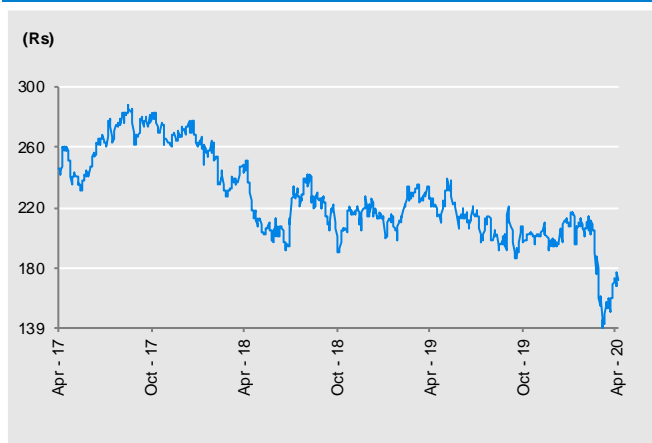
Y/e Dec	CY18	CY19	CY20E	CY21E
Per Share(Rs)				
EPS	6.8	8.8	6.6	8.8
CEPS	12.6	14.6	12.6	15.4
BVPS	112.7	121.3	126.4	133.5
FCF	3.0	15.5	(1.9)	6.2
DPS	1.5	1.5	1.7	2.2
Return Ratio(%)				
RoCE	13.1	14.2	9.1	12.1
ROIC	19.0	16.7	9.8	13.6
RoE	6.2	7.5	5.4	6.8
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	18	11	11	12
Valuation(x)				
PER	25.4	19.6	26.0	19.6
P/B	1.5	1.4	1.4	1.3
P/CEPS	13.7	11.8	13.7	11.2
EV/EBITDA	9.5	8.0	10.3	7.8
EV/Sales	1.1	0.9	1.1	0.9
Dividend Yield (%)	0.9	0.9	1.0	1.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Dec	CY18	CY19	CY20E	CY21E
Stand. Volume	24.3	24.1	20.6	24.3
Stand. Net Realisations (Rs/te)	4,525	4,719	4,742	4,742
Stand. EBITDA/ te (Rs/te)	623	762	684	732
Stand. RM cost (Rs/ te)	417	451	469	465
Stand. Power, Oil & Fuel (Rs/ te)	1,043	1,076	1,035	1,073
Stand. Freight Charges (Rs/ te)	1,351	1,286	1,292	1,315
Cons. Volume	52.6	53.0	45.2	53.2
Cons. Net Realisations (Rs/te)	4,948	5,119	5,148	5,164
Cons. EBITDA/ te (Rs/te)	755	840	759	835

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-20	BUY	190	150
2	24-Feb-20	Accumulate	230	206
3	03-Jan-20	Hold	207	203
4	21-Oct-19	Hold	207	208
5	03-Oct-19	Hold	216	196
6	25-Jul-19	Hold	225	213
7	04-Jul-19	Hold	210	216
8	02-May-19	Hold	205	221

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,340	1,137
2	Ambuja Cement	BUY	190	150
3	Coal India	Accumulate	195	149
4	Heidelberg Cement India	Accumulate	175	147
5	Hindalco Industries	BUY	171	124
6	Hindustan Zinc	Hold	200	175
7	J.Kumar Infraprojects	BUY	340	185
8	Jindal Steel & Power	BUY	150	92
9	JK Lakshmi Cement	Hold	16,680	16,064
10	JSW Steel	Reduce	145	177
11	NMDC	Hold	90	80
12	Shree Cement	Accumulate	560	464
13	Steel Authority of India	Reduce	25	28
14	Tata Steel	Reduce	242	293
15	The Ramco Cements	Reduce	725	810
16	Ultratech Cement	BUY	4,350	3,256

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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