

# Ambuja Cement

**SELL**

INDUSTRY	CEMENT
<b>CMP (as on 24 Oct 2017)</b>	<b>Rs 282</b>
<b>Target Price</b>	<b>Rs 220</b>
Nifty	10,208
Sensex	32,607

**KEY STOCK DATA**

Bloomberg/Reuters	ACEM IN
No. of Shares (mn)	1,986
MCap (Rs bn) / (\$ mn)	560/8,613
6m avg traded value (Rs mn)	720

**STOCK PERFORMANCE (%)**

<b>52 Week high / low</b>	<b>Rs 292 / 191</b>		
	3M	6M	12M
Absolute (%)	5.3	14.4	14.1
Relative (%)	4.2	4.5	(1.6)

**SHAREHOLDING PATTERN (%)**

Promoters	63.59
FIs & Local MFs	12.21
FPIs	16.60
Public & Others	7.60

Source : BSE

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## Strong volumes, offset by costs

Ambuja Cement (ACEM) reported an EBITDA/t of Rs 617 (vs. estimate of Rs 766/t, (2.0)/(38.9)% YoY/QoQ). While volumes (5.03 mT, 9.8% YoY) and realisations (Rs 4,612/t, 5.9/(0.8)% YoY/QoQ) were strong, operating costs jumped 7.2/9.7% YoY/QoQ to Rs3,996/t. Both RM (12.1/7.0% YoY/QoQ) and P&F costs (1.0/3.7% YoY/QoQ) spiked, with reported numbers likely being understated due to large inventory booked (Rs447mn).

While strong volume growth is positive, headline delivery remains weak, and rising energy costs are a challenge. High operating costs are also worrisome, especially compared to peers. ACEM remains the most expensive cement company in our coverage universe, with a challenging outlook. Maintain SELL, with a TP of Rs 220 (11/9x Sep-19 EV/EBITDA for ACEM/ACC).

### Financial Summary (Standalone)

(Rs mn)	3QCY17	3QCY16	YoY (%)	2QCY17	QoQ (%)	CY15	CY16	CY17E	CY18E	CY19E
Net Sales	23,200	19,950	16.3	28,233	(17.8)	93,683	91,604	101,757	116,317	128,885
EBITDA	3,102	2,882	7.6	6,131	(49.4)	15,357	16,767	19,999	22,716	26,379
PAT	2,658	2,476	7.4	3,922	(32.2)	8,565	11,997	13,390	16,020	19,875
Diluted EPS (Rs)	1.34	1.61	(17.0)	1.98	(32.2)	5.52	6.04	6.74	8.07	10.01
P/E (x)						51.1	32.8	29.3	24.5	19.8
EV / EBITDA (x)						36.1	23.8	19.6	16.7	13.6
RoE (%)						8.4	13.6	17.4	18.9	20.6

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

### Highlights of the quarter

- ACEM took a reversal of Rs446mn on account of DMF provisioning for period Jan-Sep 2015, recently struck down by Supreme Court. Further, it did not recognize Rs 380mn in VAT (now SGST) incentives, pending state government notifications. The EBITDA/t of Rs 617 is adjusted for these. Cement companies continue to report sharp jumps in both P&F (pet-coke driven) and RM cost (both fly-ash and slag prices have risen significantly), and ACEM witnessed similar hardening.
- Near-term outlook:** Pricing should improve once labour availability improves and demand picks up. ACEM is least impacted by sand shortages (no exposure to UP/TN) and this should work in its favour. Petcoke prices continue to harden, and it is likely that these prices increases will be passed through once demand revives.

*Despite strong volume growth, EBITDA/t remains weak (Rs 617, (2.0)/ (38.9)% YoY/QoQ)*

*Sharp jump in operating costs driven by a) RM costs, likely on account of costlier flyash/slag and b) higher P&F costs, driven by costlier petcoke*

### Quarterly Financials Snapshot

(Rs mn)	3QCY17	3QCY16	YoY (%)	2QCY17	QoQ (%)
<b>Net Sales<sup>1</sup></b>	<b>23,200</b>	<b>19,950</b>	<b>16.3</b>	<b>28,233</b>	<b>(17.8)</b>
Power & Fuel	4,860	4,374	11.1	5,647	(13.9)
Freight Expenses	6,118	5,376	13.8	7,375	(17.0)
RM Costs	2,262	1,716	31.8	2,379	(4.9)
Employee costs	1,613	1,378		1,697	
Change in inventory	447	(405)		(90)	
Other Operating Expenses <sup>2</sup>	4,799	4,630	3.7	5,096	(5.8)
<b>EBITDA</b>	<b>3,102</b>	<b>2,882</b>	<b>7.6</b>	<b>6,131</b>	<b>(49.4)</b>
Other operating income	376	199		380	
Other Income	1,531	1,736		560	
Interest Cost	313	198	58.0	165	89.4
Depreciation	1,403	1,592		1,439	
PBT	3,293	3,026	8.8	5,466	(39.8)
Tax	635	551		1,544	
APAT	2,658	2,476	7.4	3,922	(32.2)
E/o	66	-		-	
<b>RPAT</b>	<b>2,724</b>	<b>2,476</b>	<b>10.0</b>	<b>3,922</b>	<b>(30.5)</b>

Source: Company, HDFC sec Inst Research

<sup>1</sup>Including Rs 380 mn in VAT incentives <sup>2</sup>Including Rs 449mn in DMF provision reversal

### Per Tonne Analysis

Per tonne data	3QCY17	3QCY16	YoY (%)	2QCY17	QoQ (%)
Volumes (incl. clinker, mT)	5.03	4.58	9.8	6.07	(17.1)
Realisations (Rs/T)	4,612	4,356	5.9	4,651	(0.8)
<b>P&amp;F costs (Rs/T)</b>	<b>966</b>	<b>955</b>	<b>1.2</b>	<b>930</b>	<b>3.9</b>
Freight costs (Rs/T)	1,216	1,174	3.6	1,215	0.1
<b>RM costs (Rs/T)</b>	<b>450</b>	<b>375</b>	<b>20.0</b>	<b>392</b>	<b>14.7</b>
Employee costs (Rs/T)	321	301	6.6	280	14.7
Other cost (Rs/T)	1,043	922	13.1	825	26.5
<b>Cement EBITDA/T (Rs/T)</b>	<b>617</b>	<b>629</b>	<b>(2.0)</b>	<b>1,010</b>	<b>(38.9)</b>
<b>Total costs (Rs/T)</b>	<b>3,996</b>	<b>3,727</b>	<b>7.2</b>	<b>3,641</b>	<b>9.7</b>

Source: Company, HDFC sec Inst Research

*Ambuja Cement is now the most expensive cement company in our coverage universe.*

### Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EV/EBITDA (x)		P/E (x)		EV/T (US\$)	
					FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
UltraTech Cement	1,161.0	4,227	NEU	3,835	16.1	12.9	43.5	29.2	226	217
Shree Cement	656.5	18,842	SELL	15,624	15.5	13.0	24.5	22.1	250	237
<b>Ambuja Cement<sup>1</sup></b>	<b>560.3</b>	<b>282</b>	<b>SELL</b>	<b>220</b>	<b>16.7</b>	<b>13.6</b>	<b>24.5</b>	<b>19.8</b>	<b>183</b>	<b>173</b>
ACC <sup>1</sup>	334.5	1,778	SELL	1,542	13.1	11.3	24.0	19.7	147	146
Ramco Cements	167.8	705	NEU	690	12.9	13.1	20.1	21.0	215	214
Birla Corp	77.8	1,010	BUY	1,160	9.7	8.9	18.8	16.2	119	114
Orient Cement	32.5	158	NEU	165	9.7	7.8	16.4	11.5	97	90
Sanghi Industries	27.1	123	NEU	98	6.9	5.7	11.2	9.8	117	101
Deccan Cements	8.0	570	BUY	734	4.6	5.0	8.8	9.7	50	48

Note: Prices as of October 24, 2017, close. US\$: INR = 64.65

<sup>1</sup>December YE

### Key Assumptions

	CY15	CY16	CY17E	CY18E	CY19E
Cement volumes (mn T)	21.8	21.5	22.5	23.8	25.1
Realisations (Rs/T)	4,303	4,247	4,519	4,883	5,130
P&F cost/tonne (Rs/T)	944	853	975	1,122	1,124
Raw material cost/tonne (Rs/T)	332	361	384	413	444
Freight cost/tonne (Rs/T)	1,137	1,151	1,147	1,217	1,276
<b>EBITDA/tonne</b>	<b>658</b>	<b>738</b>	<b>820</b>	<b>884</b>	<b>977</b>

Source: Company, HDFC sec Inst Research

### Changes In Estimates

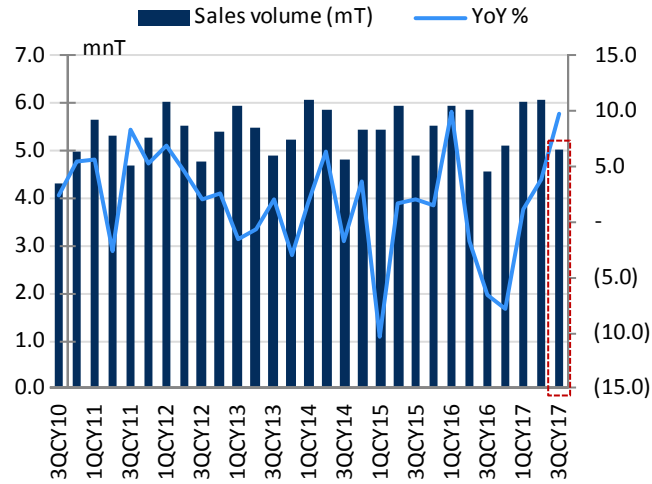
	Old			New			% Change		
	CY17E	CY18E	CY19E	CY17E	CY18E	CY19E	CY17E	CY18E	CY19E
Volumes (mT)	22.3	24.2	25.1	22.5	23.8	25.1	1.0	(1.6)	0.1
Realisations (Rs/T)	4,672	5,049	5,454	4,519	4,883	5,130	(3.3)	(3.3)	(5.9)
Revenues (Rs mn)	104,321	122,357	136,619	101,757	116,317	128,885	(2.5)	(4.9)	(5.7)
EBITDA (Rs mn)	19,366	23,113	28,310	19,999	22,716	26,379	3.3	(1.7)	(6.8)
PAT (Rs mn)	12,096	15,751	20,638	13,390	16,020	19,875	10.7	1.7	(3.7)

Source: Company, HDFC sec Inst Research

*We have revised our realisation estimates marginally lower*

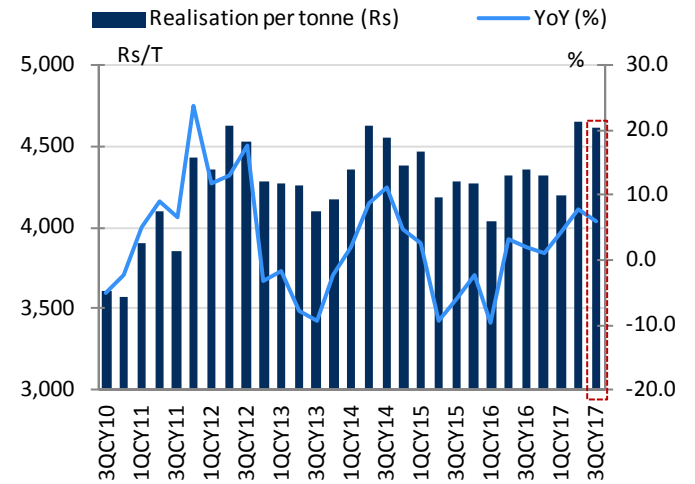
**ACEM reported EBITDA/t of ~Rs 617, a weak outcome led by sharply higher costs**

**Volume Growth Of 9.8% YoY**



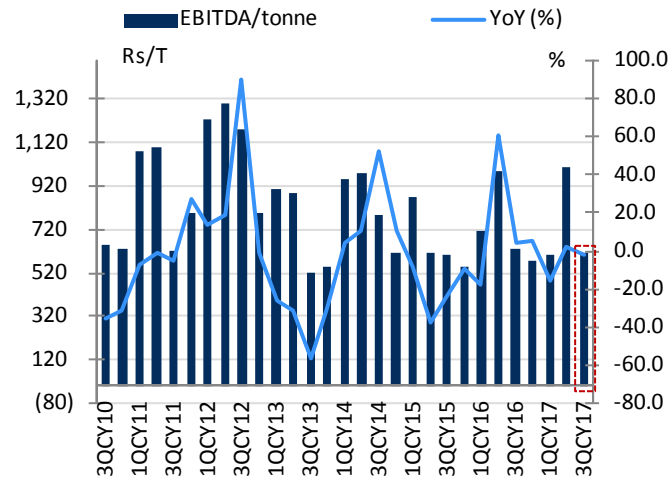
Source: Company, HDFC sec Inst Research

**Realisations Remained Flattish QoQ**



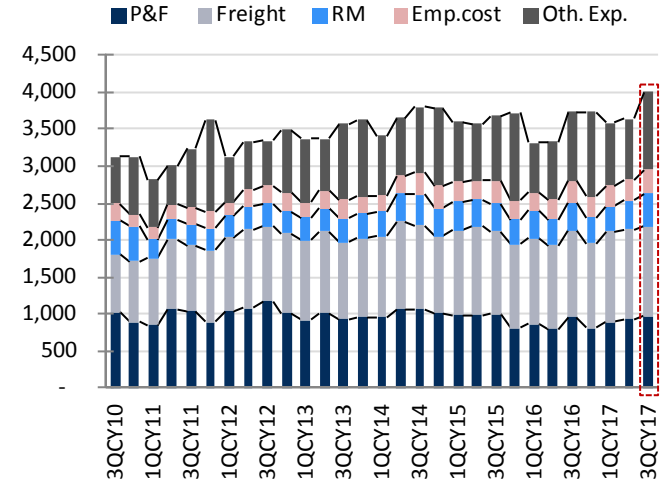
Source: Company, HDFC sec Inst Research

**EBITDA/t At ~Rs 617/t**



Source: Company, HDFC sec Inst Research

**Cost Increases Driven By P&F and RM Costs**



Source: Company, HDFC sec Inst Research

**Income Statement**

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
<b>Net sales</b>	<b>93,683</b>	<b>91,604</b>	<b>101,757</b>	<b>116,317</b>	<b>128,885</b>
<b>Growth %</b>	<b>(5.5)</b>	<b>(2.2)</b>	<b>11.1</b>	<b>14.3</b>	<b>10.8</b>
Material Expenses	43,624	40,888	47,086	55,281	60,267
Employee Expenses	5,895	5,937	6,828	7,511	8,262
SG&A Expenses	24,781	25,234	25,796	28,546	31,474
Other operating expenses	5,067	3,852	3,575	3,932	4,326
<b>Operating profits</b>	<b>14,316</b>	<b>15,693</b>	<b>18,472</b>	<b>21,048</b>	<b>24,556</b>
<b>Operating Profit Margin (%)</b>	<b>15.3</b>	<b>17.1</b>	<b>18.2</b>	<b>18.1</b>	<b>19.1</b>
Other operating income	1,041	1,074	1,527	1,668	1,823
<b>EBITDA</b>	<b>15,357</b>	<b>16,767</b>	<b>19,999</b>	<b>22,716</b>	<b>26,379</b>
<b>EBITDA %</b>	<b>16.4</b>	<b>18.3</b>	<b>19.7</b>	<b>19.5</b>	<b>20.5</b>
<b>EBITDA Growth %</b>	<b>(22.2)</b>	<b>9.2</b>	<b>19.3</b>	<b>13.6</b>	<b>16.1</b>
Depreciation	6,257	6,145	6,004	6,129	6,254
<b>EBIT</b>	<b>9,101</b>	<b>10,622</b>	<b>13,995</b>	<b>16,587</b>	<b>20,126</b>
Other Income (including EO items)	3,472	3,406	4,873	6,549	8,334
Interest	918	715	1,015	1,015	1,015
<b>PBT</b>	<b>11,654</b>	<b>13,314</b>	<b>17,853</b>	<b>22,121</b>	<b>27,445</b>
Tax	3,647	3,672	4,463	6,102	7,570
<b>RPAT</b>	<b>8,008</b>	<b>9,641</b>	<b>13,390</b>	<b>16,020</b>	<b>19,875</b>
EO (Loss) / Profit (Net Of Tax)	(557)	(2,356)	-	-	-
<b>APAT</b>	<b>8,565</b>	<b>11,997</b>	<b>13,390</b>	<b>16,020</b>	<b>19,875</b>
<b>APAT Growth (%)</b>	<b>(33.3)</b>	<b>40.1</b>	<b>11.6</b>	<b>19.6</b>	<b>24.1</b>
<b>Adjusted EPS (Rs.)</b>	<b>5.5</b>	<b>6.0</b>	<b>6.7</b>	<b>8.1</b>	<b>10.0</b>
<b>EPS Growth (%)</b>	<b>(33.6)</b>	<b>9.5</b>	<b>11.6</b>	<b>19.6</b>	<b>24.1</b>

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

**Balance Sheet**

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
<b>SOURCES OF FUNDS</b>					
Share Capital	3,104	3,971	3,971	3,971	3,971
Reserves	100,046	186,728	193,614	203,128	216,499
<b>Total Shareholders' Funds</b>	<b>103,149</b>	<b>190,700</b>	<b>197,585</b>	<b>207,100</b>	<b>220,470</b>
<b>Total Debt</b>	<b>227</b>	<b>236</b>	<b>186</b>	<b>136</b>	<b>86</b>
Deferred Taxes	5,649	4,929	4,929	4,929	4,929
Long-term Provisions & Others	414	532	532	532	532
<b>TOTAL SOURCES OF FUNDS</b>	<b>109,439</b>	<b>196,397</b>	<b>203,232</b>	<b>212,697</b>	<b>226,017</b>
<b>APPLICATION OF FUNDS</b>					
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	118,447	118,447	118,447	118,447
LT Loans and Advances	10,003	10,019	10,019	10,019	10,019
<b>Total Non-current Assets</b>	<b>76,133</b>	<b>191,453</b>	<b>188,449</b>	<b>185,320</b>	<b>182,066</b>
Inventories	8,955	9,375	10,338	14,233	12,993
Debtors	2,864	3,001	2,529	2,528	3,076
Other Current Assets	4,141	3,934	3,934	3,934	3,934
Cash & Equivalents	49,676	25,075	36,116	46,075	64,488
<b>Total Current Assets</b>	<b>65,635</b>	<b>41,386</b>	<b>52,918</b>	<b>66,771</b>	<b>84,491</b>
Creditors	6,798	8,970	10,663	11,922	13,104
Other Current Liabilities & Provns	25,462	27,139	27,139	27,139	27,139
<b>Total Current Liabilities</b>	<b>32,260</b>	<b>36,109</b>	<b>37,802</b>	<b>39,061</b>	<b>40,243</b>
<b>Net Current Assets</b>	<b>33,375</b>	<b>5,277</b>	<b>15,116</b>	<b>27,710</b>	<b>44,248</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>109,439</b>	<b>196,397</b>	<b>203,232</b>	<b>212,697</b>	<b>226,017</b>

Source: Company, HDFC sec Inst Research

**Cash Flow**

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
Reported PBT	11,654	13,314	17,853	22,121	27,445
Non-operating & EO items	(4,754)	(7,557)	(6,400)	(8,218)	(10,157)
Interest expenses	918	715	1,015	1,015	1,015
Depreciation	6,257	6,145	6,004	6,129	6,254
Working Capital Change	(2,379)	3,480	1,202	(2,635)	1,874
Tax paid	(3,647)	(3,672)	(4,463)	(6,102)	(7,570)
<b>OPERATING CASH FLOW ( a )</b>	<b>8,049</b>	<b>12,425</b>	<b>15,211</b>	<b>12,311</b>	<b>18,861</b>
Capex	(2,145)	(4,071)	(3,000)	(3,000)	(3,000)
Free cash flow (FCF)	5,904	8,354	12,211	9,311	15,861
Investments	(12)	(117,378)	-	-	-
Non-operating Income	4,513	6,837	6,400	8,218	10,157
<b>INVESTING CASH FLOW ( b )</b>	<b>2,356</b>	<b>(114,612)</b>	<b>3,400</b>	<b>5,218</b>	<b>7,157</b>
Debt Issuance/(Repaid)	9	(50)	(50)	(50)	(86)
Interest expenses	(918)	(715)	(1,015)	(1,015)	(1,015)
FCFE	9,508	14,426	17,546	16,463	24,917
Share Capital Issuance	4	85,378	-	-	-
Dividend	(5,084)	(6,505)	(6,505)	(6,505)	(6,505)
<b>FINANCING CASH FLOW ( c )</b>	<b>(5,988)</b>	<b>78,108</b>	<b>(7,570)</b>	<b>(7,570)</b>	<b>(7,605)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>4,417</b>	<b>(24,079)</b>	<b>11,041</b>	<b>9,959</b>	<b>18,413</b>
EO Items/Others	8	(522)			
<b>Closing Cash &amp; Equivalents</b>	<b>49,676</b>	<b>25,075</b>	<b>36,116</b>	<b>46,075</b>	<b>64,488</b>

Source: Company, HDFC sec Inst Research

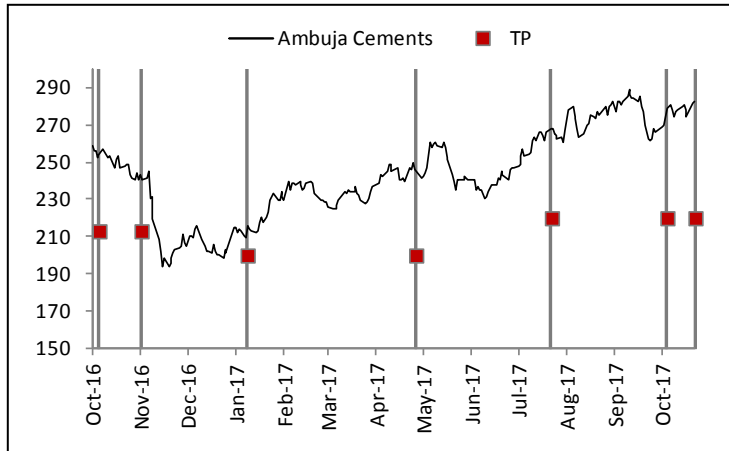
**Key Ratios**

	CY15	CY16	CY17E	CY18E	CY19E
<b>PROFITABILITY (%)</b>					
EBITDA Margin	16.4	18.3	19.7	19.5	20.5
RoE	8.4	13.6	17.4	18.9	20.6
Core RoCE	10.1	13.5	20.2	24.5	32.1
RoCE	8.4	11.5	18.4	19.7	21.4
<b>EFFICIENCY</b>					
Tax Rate (%)	31.3	27.6	25.0	27.6	27.6
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)	0.0	0.0	0.0	0.0	0.0
Net D/E	0.00	0.00	0.00	0.00	0.00
Interest Coverage	9.4	14.2	13.9	16.5	20.3
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	5.5	6.0	6.7	8.1	10.0
CEPS (Rs/sh)	9.2	8.0	9.8	11.2	13.2
DPS (Rs/sh)	2.8	2.8	2.8	2.8	2.8
BV (Rs/sh)	66.5	36.9	40.4	45.2	51.9
<b>VALUATION</b>					
P/E	51.1	32.8	29.3	24.5	19.8
P/BV	4.2	5.4	4.9	4.4	3.8
EV/EBITDA	36.1	23.8	19.6	16.7	13.6
OCF/EV (%)	1.3%	2.0%	2.5%	2.0%	3.1%
FCF/EV (%)	1.0%	1.4%	2.0%	1.5%	2.6%
FCFE/Market Cap (%)	1.7%	2.6%	3.1%	2.9%	4.4%
Dividend Yield (%)	1.0	1.0	1.0	1.0	1.0

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

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
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
6-Oct-17	274	SELL	220
25-Oct-17	282	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

**INSTITUTIONAL RESEARCH**
**Disclosure:**

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**Any holding in stock –No**

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