

Better than expected realization growth drives Topline

ACEM reported net income of ₹30.2bn (+5.7% YoY, +5.4% QoQ). Realization for the quarter stood at ₹4736/ton (+0.4% YoY, +2.9% QoQ). Better than expected realization attributed towards ACEM's focus on selling more premium products. Cement dispatches stands at 6.37MnT (+5.3% YoY, +2.4% QoQ).

Cost rationalization drives EBITDA

Cost savings and productivity measures helped ACEM report EBITDA of ₹6.22bn (-4.4% YoY, +22.7% QoQ). EBITDA/ton for the quarter stood at ₹977/ton (-9.2% YoY, +19.7% QoQ). EBITDA margin stood at 20.6% (-218bps YoY, +291bps QoQ). Cost rationalisation efforts resulted in cost/ton coming in at ₹3759 (+3.2% YoY, -0.7%QoQ).

PAT at ₹ 4.99bn ahead of estimates

Better than expected operating performance coupled with higher than expected other income helped ACEM report APAT of ₹4.99bn (+27.3% YoY, +83.7% QoQ).

Next leg of growth

ACEM to set up a 3.1MnT (9500 tpd) clinkerisation plant at Mundwa in Rajasthan. In first phase, ₹13.91bn will be spent in setting up 1.7MnT (5000 tpd) capacity which is expected to be commissioned in the H2CY20. ACEM's capacity will expand to 31.35MnT. Post commissioning of Phase 2, the capacity will reach to 32.75MnT.

View

Govt's increased focus on Infra and Housing development (Rural & Urban) coupled with increasing rural income (MSP), provides volume growth visibility. We believe ACEM's focus towards premium products, various cost efficiency measures and mining at Gare Palma would help the company in sustaining margins over medium term. We expect revenue CAGR of 9.2% over CY17-19E to drive EBITDA and PAT CAGR by 9.7% and 5.4% respectively. At CMP ACEM is trading at 13.9x/12.0x, CY18E/19E EV/EBITDA. we maintain Accumulate rating on the stock with a TP of ₹ 252/share.

Q2CY18 Result (₹ Mn)

Particulars	Q2CY18	Q2CY17	YoY (%)	Q1CY18	QoQ (%)
Net Sales	29,270	28,170	3.9	27,630	5.9
Operating Income	899	375	139.9	996	(9.7)
Net Income	30,169	28,545	5.7	28,626	5.4
Total Expenditure	23,946	22,035	8.7	23,555	1.7
EBITDA	6,223	6,510	(4.4)	5,071	22.7
Depreciation	1,364	1,439	(5.2)	1,393	(2.0)
EBIT	4,859	5,071	(4.2)	3,679	32.1
Other Income	1,911	560	241.3	507	276.8
Interest	192	165	16.4	257	(25.4)
PBT	6,578	5,466	20.3	3,928	67.5
Tax	1,586	1,544	2.7	1,211	31.0
RPAT	4,993	3,922	27.3	2,718	83.7
APAT	4,993	3,922	27.3	2,718	83.7
EPS (₹)	2.5	2.0	27.3	1.4	83.7
Volumes (MnT)	6.4	6.1	5.3	6.2	2.4
Realisation / ton	4,736	4,718	0.4	4,602	2.9
Total Cost / ton	3,759	3,642	3.2	3,787	(0.7)
EBITDA / ton	977	1,076	(9.2)	815	19.8
EBITDA Margin (%)	20.6	22.8	(218) bps	17.7	291 bps

CMP	₹ 225
Target / Upside	₹ 252/12%
BSE Sensex	36,858
NSE Nifty	11,132

Script Details

Equity / FV	₹ 3,971mn/₹2/-
Market Cap	₹ 447bn
	USD 6.5bn
52-week High/Low	₹ 291/189
Avg. Volume (no)	3,974,769
NSE Symbol	AMBUJACEM
Bloomberg Code	ACEM IN

Shareholding Pattern June'18 (%)

Promoters	63.1
MF/Banks/FIs	12.7
FIs	17.7
Public / Others	6.5

Valuation (x)

	CY17	CY18E	CY19E
P/E	35.8	35.7	32.2
EV/EBITDA	15.1	13.9	12.0
ROE	6.4	6.2	6.6
ROCE	5.0	5.1	5.7

Estimates (₹ mn)

	CY17	CY18E	CY19E
Net Income	104,469	113,986	124,564
EBITDA	19,401	20,817	23,343
PAT	12,496	12,513	13,883
EPS	6.3	6.3	7.0

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Exhibit 1: ACEM's per ton matrix

Particulars	Q2CY18	Q2CY17	YoY (%)	Q1CY18	QoQ (%)
Net Sales per ton	4,736	4,718	0.4	4,602	2.9
Cost per tonne	3,759	3,642	3.2	3,787	(0.7)
Cost of Material Consumed	452	393	15.1	435	4.1
Purchase of Stock in trade	2	0	NA	0	NA
Change in Inventories	(123)	(13)	846.7	(94)	30.5
Raw Material Cost	332	380	(12.8)	340	(2.6)
Employee benefit expenses	276	280	(1.6)	273	1.2
Power and Fuels	1,028	933	10.1	1,021	0.7
Freight and forwarding expenses	1,379	1,219	13.1	1,333	3.5
Other expenses	745	829	(10.2)	820	(9.2)
EBITDA per tonne	977	1,076	(9.2)	815	19.8

Source: Company, DART

Exhibit 2: ACEM's cost as a % of Net Sales

Particulars	Q2CY18	Q2CY17	YoY (bps)	Q1CY18	QoQ (bps)
Cost of Material Consumed	9.6	8.3	122	9.4	11
Purchase of Stock in trade	0.0	0.0	5	0.0	5
Change in Inventories	(2.6)	(0.3)	(232)	(2.0)	(55)
Raw Material Cost	7.0	8.1	(106)	7.4	(39)
Employee benefit expenses	5.8	5.9	(12)	5.9	(10)
Power and Fuels	21.7	19.8	192	22.2	(49)
Freight and forwarding exp.	29.1	25.8	328	29.0	16
Other expenses	15.7	17.6	(185)	17.8	(210)

Source: Company, DART

Key highlights from management presentation

Volume Commentary

- Volume growth was led by strong growth in IHB segment coupled with increased participation in building & infra segment.
- Q2CY18 cement capacity utilization stands at 86% v/s 82% in Q2CY17.
- Higher sales growth of premium brands namely Compocem and Roof Special led to improvement in Realization.

Cost Commentary

- RM cost was impacted by rise in Fly ash and gypsum cost on YoY basis.
- Rise in P&F cost is attributed towards increase in coal and petcoke prices which was partly mitigated by improved efficiencies and productivity improvements.
- Freight cost was higher on YoY basis primarily owing to high diesel prices and increased lead distance. Clinker was moved through external sidings due to unavailability of rakes (especially in Eastern region).
- Cost saving measures led to reduction in other expenses on YoY basis.

Other key highlights

- Improvements in productivity and efficiency parameters, combined with cost saving measures contributed to the increase in EBITDA by 8% in H1CY18.
- Cement demand to see positive growth backed by infrastructure development, housing and increased rural spends.
- ACEM partners in Kishanganga project (330MW Hydro Power) under which it will supply value added Micro fine products.
- Mining at Gare Palma Coal Block will be operational from this month (July'18).

View

Govt's increased focus on Infra and Housing development (Rural & Urban) coupled with increasing rural income (MSP), provides volume growth visibility. We believe ACEM's focus towards premium products, various cost efficiency measures and mining at Gare Palma (starting this month) would help the company in sustaining margins over medium term. We expect revenue CAGR of 9.2% over CY17-19E, which would drive EBITDA and PAT CAGR by 9.7% and 5.4% respectively. At CMP ACEM is trading at 13.9x/12.0x, CY18E/19E EV/EBITDA. we maintain Accumulate rating on the stock with a TP of ₹ 252/share.

Income Statement (₹ mn)

Particulars	Dec16	Dec17	Dec18E	Dec19E
Net Sales	90,833	102,414	110,666	120,936
Operating Income	1,133	2,055	3,320	3,628
Net Income	91,966	104,469	113,986	124,564
Total Expenditure	75,043	85,067	93,169	101,221
Raw Materials Consumed	7,465	8,465	8,694	10,713
Employees Cost	5,909	6,614	7,016	7,516
Power & fuel	18,320	22,342	25,051	26,842
Freight & Forwarding exp	24,728	28,720	32,568	35,280
Other expenses	18,638	18,937	19,840	20,870
Self-consumption of cement	(17)	(10)	0	0
EBIDTA	16,924	19,401	20,817	23,343
Depreciation	8,489	5,729	5,797	5,862
EBIT	8,435	13,672	15,020	17,480
Interest	742	1,072	954	923
Other Income	5,102	3,591	3,447	3,275
PBT	12,795	16,191	17,513	19,833
Total Tax expense	3,472	3,696	5,000	5,950
PAT	9,322	12,496	12,513	13,883
APAT	9,322	12,496	12,513	13,883

Balance Sheet (₹ mn)

Particulars	Dec16	Dec17	Dec18E	Dec19E
Sources of Funds				
Equity Capital	3,971	3,971	3,971	3,971
Reserves & Surplus	189,597	195,761	201,379	208,366
Net Worth	193,569	199,732	205,350	212,338
Long Term borrowing	157	241	241	241
Short Term borrowing	132	0	0	0
Loan Funds	290	241	241	241
Long-term provisions	433	352	326	357
Net Deferred Tax Liability	4,973	4,584	4,351	4,351
Other Long-term liabilities	80	89	77	85
Total Capital Employed	199,343	204,999	210,346	217,371
Applications of Funds				
Gross Block	65,532	69,035	70,035	71,035
Less: Accumulated Dep	6,116	11,816	17,612	23,474
Net Block	59,416	57,220	52,423	47,561
Capital WIP	3,200	3,979	4,000	6,000
Non-Current Investment	118,447	118,447	118,447	118,447
LT loans & advances	649	665	736	847
Other non-current assets	9,678	10,938	11,067	12,094
Current Assets, Loans & Advances				
Inventories	9,375	10,525	12,128	13,253
Sundry Debtors	3,958	3,080	3,335	3,645
Cash and Bank Balance	25,785	34,971	39,816	48,256
ST Loans & Advances	350	303	332	363
Other Current Assets	2,668	6,043	6,529	7,135
sub total	42,137	54,922	62,140	72,652
Less: Current Liabilities & Provisions				
Other Current Liabilities	25,150	30,014	26,560	27,815
Trade payable	8,153	10,289	11,029	11,446
Provisions	881	871	878	967
sub total	34,185	41,173	38,467	40,229
Net Current Assets	7,952	13,749	23,673	32,423
Total Assets	199,343	204,999	210,346	217,371

E – Estimates

Cash Flow (₹ mn)

Particulars	Dec16	Dec17	Dec18E	Dec19E
PBT and EO	12,795	16,191	17,513	19,833
Net Interest Exp	742	1,072	954	923
Depreciation	8,489	5,729	5,797	5,862
Direct taxes paid	(3,187)	(3,101)	(5,000)	(5,950)
Change in Working Capital	325	2,313	(5,079)	(309)
Other	(5,005)	(3,663)	0	0
(A) CF from Opt. Activities	14,158	18,541	14,185	20,359
Capex	(3,911)	(5,623)	(1,021)	(3,000)
Free Cash Flow	10,248	12,918	13,164	17,359
(Inc.)/ Dec. in Investments	1,367	562	0	0
Other	(32,147)	2,926	(199)	(1,138)
(B) CF from Inv. Activities	(34,691)	(2,136)	(1,220)	(4,138)
Inc./(Dec.) in Debt	41	(27)	0	0
Interest exp net	(360)	(1,143)	(954)	(923)
Dividend Paid (Incl. Tax)	(6,482)	(6,357)	(6,895)	(6,895)
Other	(31)	41	(270)	37
(C) CF from Fin. Activities	(6,833)	(7,487)	(8,120)	(7,780)
Net Change in Cash	(27,365)	8,919	4,845	8,441
Adj. for FV gain on MF	5	230	0	0
Opening Cash balances	51,318	23,958	34,971	39,816
Closing Cash balances	23,958	33,106	39,816	48,256

Important Ratios

Particulars	Dec16	Dec17	Dec18E	Dec19E
(A) Measures of Performance (%)				
EBIDTA Margin	18.4	18.6	18.3	18.7
EBIT Margin	9.2	13.1	13.2	14.0
Gross Profit Margin	91.9	91.9	92.4	91.4
Tax/PBT	33.2	25.4	30.0	30.0
Adj. Net Profit Margin	10.1	12.0	11.0	11.1
(B) As Percentage of Net Income				
Raw Materials Consumed	8.1	8.1	7.6	8.6
Employees Cost	6.4	6.3	6.2	6.0
Manufacturing & Other exp	67.1	67.0	68.0	66.6
(C) Measures of Financial Status				
Debt / Equity (x)	0.0	0.0	0.0	0.0
Interest Coverage (x)	11.4	12.8	15.7	18.9
Average Cost of Debt (%)	251.7	403.9	395.5	382.6
Debtors Period (days)	15.7	10.8	10.7	10.7
Closing stock (days)	37.2	36.8	38.8	38.8
Creditor (days)	398.7	443.6	463.0	390.0
Fixed Assets Turnover (x)	1.5	1.8	2.2	2.6
Working Capital Turnover(x)	11.6	7.6	4.8	3.8
(D) Measures of Investment				
EPS (₹)	4.7	6.3	6.3	7.0
Adj. EPS (₹)	4.7	6.3	6.3	7.0
CEPS (₹)	9.0	9.2	9.2	9.9
DPS (₹)	2.8	3.6	3.0	3.0
Dividend Payout (%)	59.6	57.2	47.6	42.9
BV / share (₹)	97.5	100.6	103.4	106.9
RoE (%)	4.9	6.4	6.2	6.6
RoCE (%)	2.8	5.0	5.1	5.7
RoACI (%)	1.7	2.7	3.4	4.3
(E) Valuation Ratios				
CMP (₹)	225.0	225.0	225.0	225.0
P/E (x)	47.9	35.8	35.7	32.2
Market Cap. (₹ Mn)	446,771	446,771	446,771	446,771
MCap/ Sales (x)	4.9	4.4	4.0	3.7
EV (₹ Mn)	302,828	293,594	288,750	280,309
EV/Sales (x)	3.3	2.9	2.6	2.3
EV/EBDITA (x)	17.9	15.1	13.9	12.0
P/BV (x)	2.3	2.2	2.2	2.1
Dividend Yield (%)	1.2	1.6	1.3	1.3

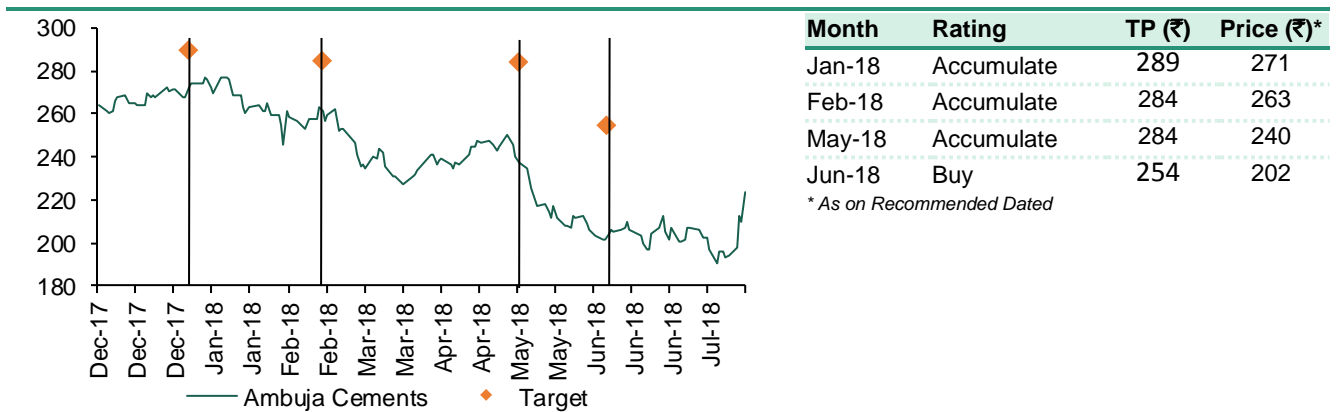
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



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