

# Ambuja Cement | HOLD



## Outperformance on realisation growth; medium term concerns remain

ACEM posted robust 2QCY17 result as volumes witnessed 5% growth YoY and realisations improved by 6%/11% YoY/QoQ. EBITDA/t was reported at Rs1,002/t grew marginally as realisation improvement was offset by cost escalations. Power & fuel costs and freight costs increased materially on higher petcoke/coal prices and diesel prices. We expect ACEM to outperform market on back of the result. However, we believe ACEM's long term growth is constrained by limited expansion plans (Marwar Mundwa plant at land acquisition stage). As a result we expect ACEM's market share to decline in the interim and see limited upside from current levels. We are rolling forward multiple valuing the stock at 12x EVE to arrive at TP of Rs255 (Sep'18). Maintain HOLD.

- Revenues +12% YoY on higher volumes/realisations:** 2QCY17 revenues stood at Rs28.6bn growing c.12% YoY (+11.7% QoQ) on 5%/6.4% volume/realisation growth. Volume for the quarter stood at 6.05mnT with capacity utilisation at 82%. Realisations for the quarter were at Rs4,613/t growth at 6.4%/10.9% YoY/QoQ. Realisation grew on cement price hike taken during the quarter and higher proportion of premium products sales. Company's investment in concrete laboratories, technical services and new products helped improve sales during the quarter.
- Realisation improvement more than offsets cost escalations:** EBITDA for the quarter stood at Rs6.5bn growing at 9% YoY. EBITDA/t on a YoY was flat at Rs1,002/t vs Rs992/t in 2QCY16. Marginal growth in EBITDA/t was on account of better realisation (Rs277/t of positive impact) offset by cost escalations – Power and fuel costs on higher petcoke/coal prices (+15% YoY, -Rs121/t impact on EBITDA/t) and freight costs on higher diesel prices (+7.5% YoY, -Rs65/t impact on EBITDA/t). PAT at Rs3.9bn in 2QCY17 was 13% lower YoY primarily on higher other income in base quarter as company booked dividend of Rs560mn from ACC during 2QCY16 under IndAS.
- Other details:** i) ACEM is setting up a 1.7MTPA greenfield clinker plant at Marwar Mundwa in Rajasthan. Land acquisition for the project is in advance stage; ii) Company won the bid for a limestone mine at Nandgaon Ekodi, in Chandrapur, Maharashtra with 42.1 MT of reserves. Winning bid was 125.05% of the value of mineral dispatched. ACEM has 4.5MTPA integrated plant in Chandrapur; iii) Board recommended an interim dividend of Rs1.6/share, same as last year
- Maintain HOLD:** While demand expected to rise materially in the next one to two years on affordable housing schemes and infrastructure spend, we see limited benefits accruing to ACEM, as clinker capacity acts as a bottleneck. We expect ACEM to grow at 9.4%/22.3% in volume/EBITDA terms over CY16-19E, but lower visibility of growth beyond this period could limit the upside. ACEM is trading at 14.6x/11.3x CY18/19E EV/EBITDA (adjusted for ACC stake). Maintain HOLD as we value ACEM at 12x EV/E to arrive at a Sep'18 TP of Rs255.

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### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	255
Upside/(Downside)	-4.9%
Previous Price Target	230
Change	10.9%

### Key Data – ACEM IN

Current Market Price	Rs268
Market cap (bn)	Rs532.4/US\$8.3
Free Float	30%
Shares in issue (mn)	1,985.7
Diluted share (mn)	1,985.7
3-mon avg daily val (mn)	Rs868.1/US\$0.9
52-week range	282/191
Sensex/Nifty	32,246/9,966
Rs/US\$	64.3

### Price Performance

%	1M	6M	12M
Absolute	10.2	20.0	1.2
Relative*	6.4	1.9	-12.8

\* To the BSE Sensex

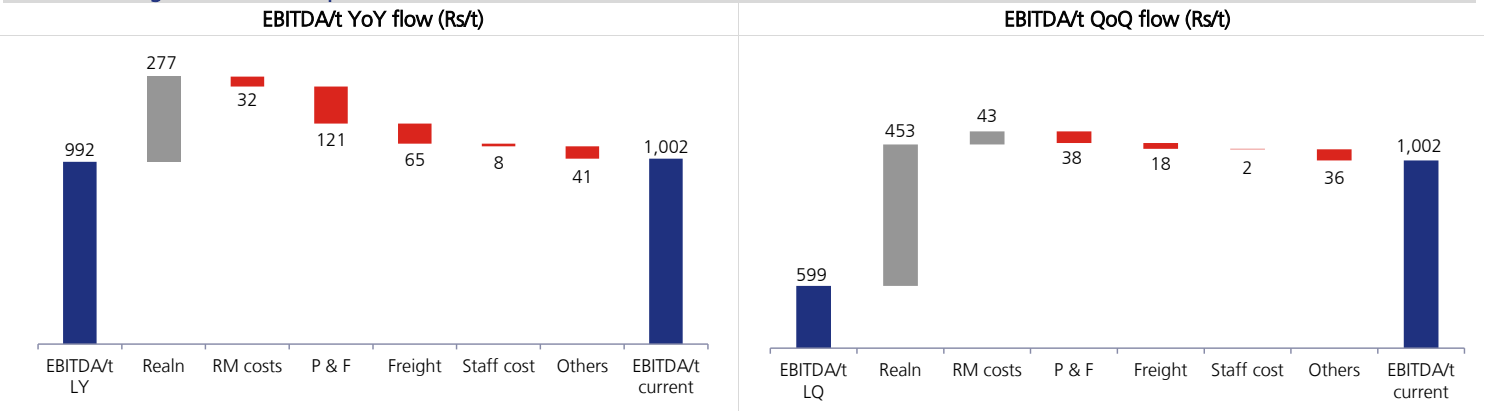
JM Financial Research is also available on:  
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(Rs mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Sales	93,683	91,604	102,364	119,288	137,384
Sales Growth	-5.5%	-2.2%	11.7%	16.5%	15.2%
EBITDA	15,315	16,827	19,017	25,121	30,794
EBITDA Margin	16.2%	18.2%	18.4%	20.9%	22.2%
Adjusted Net Profit	8,631	9,806	11,302	16,126	21,499
Diluted EPS (Rs.)	5.6	4.9	5.7	8.1	10.8
Diluted EPS Growth	-34.7%	-11.2%	15.3%	42.7%	33.3%
ROIC	12.4%	12.2%	19.4%	33.1%	54.5%
ROE	8.5%	6.7%	5.9%	8.4%	10.8%
P/E (x)	48.2	54.3	47.1	33.0	24.8
P/B (x)	4.0	2.8	2.8	2.7	2.6
EV/EBITDA (x)	31.5	30.2	26.4	19.5	15.3
Dividend Yield	1.0%	0.9%	1.9%	1.9%	1.9%

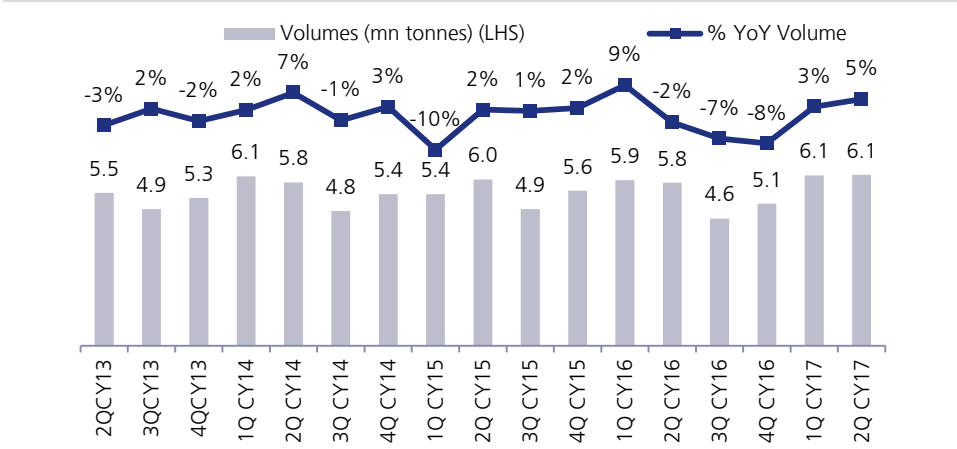
Source: Company data, JM Financial. Note: Valuations as of 24/Jul/2017

**Exhibit 1. Marginal EBITDA/t improvement on better realisations**



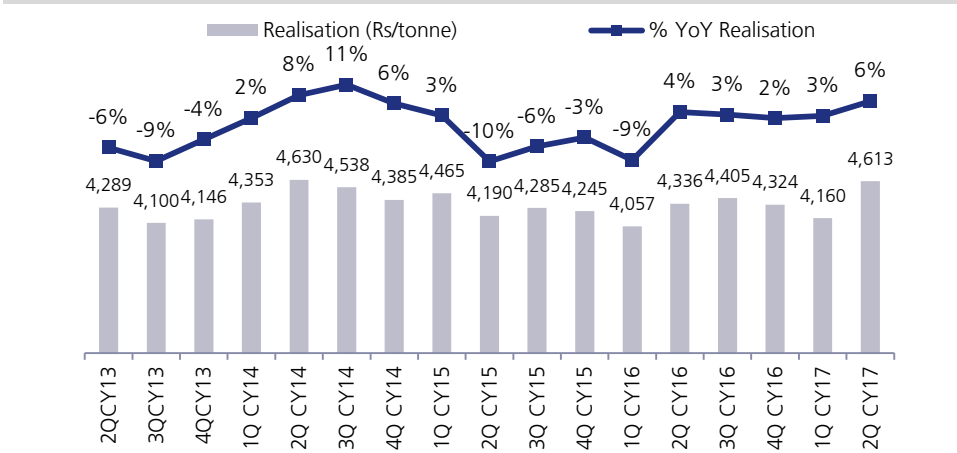
Source: Company, JM Financial

**Exhibit 2. Cement volume trends**



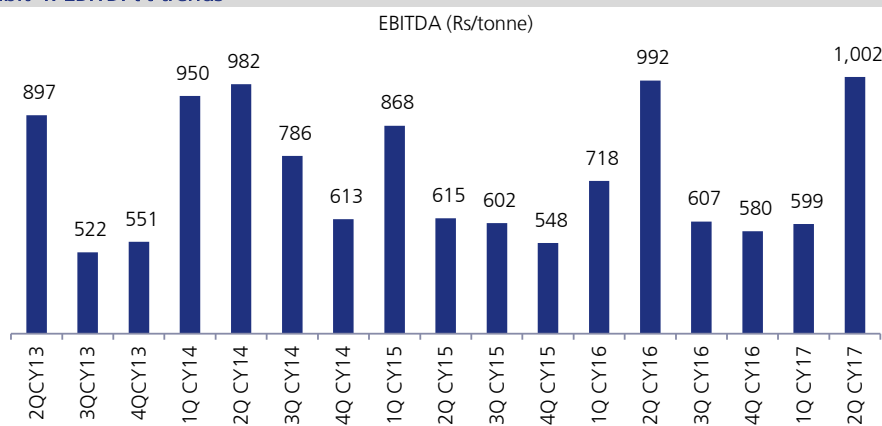
Source: Company, JM Financial

**Exhibit 3. Realisation trends**



Source: Company, JM Financial

## Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

## Exhibit 5. Results in brief

	(Rs mn)										
	2Q CY17	2Q CY16	%YoY	1Q CY17	%QoQ	1H CY17	1H CY16	%YoY	CY17E	CY16	%YoY
Net sales	28,233	25,281	11.7	25,334	11.4	53,567	49,341	8.6	102,364	91,351	12.1
Other Operating Income	380	196	94.1	290	30.8	670	459	46.0	1,024	1,074	-4.7
<b>Total Revenues</b>	<b>28,613</b>	<b>25,477</b>	<b>12.3</b>	<b>25,624</b>	<b>11.7</b>	<b>54,237</b>	<b>49,800</b>	<b>8.9</b>	<b>103,388</b>	<b>92,425</b>	<b>11.9</b>
Total expenditure	22,102	19,500	13.3	21,684	1.9	43,786	39,304	11.4	84,371	75,606	11.6
<b>EBITDA</b>	<b>6,510</b>	<b>5,978</b>	<b>8.9</b>	<b>3,941</b>	<b>65.2</b>	<b>10,451</b>	<b>10,496</b>	<b>-0.4</b>	<b>19,017</b>	<b>16,819</b>	<b>13.1</b>
<b>EBITDA Margin (%)</b>	<b>22.8</b>	<b>23.5</b>	<b>-71bps</b>	<b>15.4</b>	<b>737bps</b>	<b>19.3</b>	<b>21.1</b>	<b>-181bps</b>	<b>18.4</b>	<b>18.2</b>	<b>20bps</b>
Other income	560	1,704	-67.1	1,019	-45.1	1,579	2,954	-46.5	4,551	5,762	-21.0
Interest (net)	165	212	-22.1	377	-56.2	542	400	35.6	784	728	7.8
Depreciation	1,439	1,507	-4.5	1,460	-1.4	2,899	2,902	-0.1	6,639	8,501	-21.9
<b>PBT</b>	<b>5,466</b>	<b>5,963</b>	<b>-8.3</b>	<b>3,124</b>	<b>75.0</b>	<b>8,590</b>	<b>10,149</b>	<b>-15.4</b>	<b>16,145</b>	<b>13,352</b>	<b>20.9</b>
Tax	1,544	1,443	7.0	658	134.6	2,202	2,659	-17.2	4,844	3,672	31.9
Effective tax rate (%)	28.2	24.2		21.1		25.6	26.2		30.0	27.5	
<b>PAT (Adjusted)</b>	<b>3,922</b>	<b>4,520</b>	<b>-13.2</b>	<b>2,465</b>	<b>59.1</b>	<b>6,388</b>	<b>7,489</b>	<b>-14.7</b>	<b>11,302</b>	<b>9,680</b>	<b>16.8</b>
Exceptional items	0	0		0		0	-2,435		0	0	
<b>PAT (Reported)</b>	<b>3,922</b>	<b>4,520</b>	<b>-13.2</b>	<b>2,465</b>	<b>59.1</b>	<b>6,388</b>	<b>5,055</b>	<b>26.4</b>	<b>11,302</b>	<b>9,680</b>	<b>16.8</b>
EPS (Rs)	2.0	2.9	-32.2	1.2	59.1	3.2	4.8	-33.3	0.0	4.9	
<b>Ambuja key operational</b>	<b>2Q CY17</b>	<b>2Q CY16</b>	<b>%YoY</b>	<b>1Q CY17</b>	<b>%QoQ</b>	<b>1H CY17</b>	<b>1H CY16</b>	<b>%YoY</b>	<b>CY17E</b>	<b>CY16</b>	<b>%YoY</b>
Cement Sales (mn tonnes)	6.12	5.83	5.0	6.09	0.5	12.21	11.76	3.8	22.97	21.39	7.4
Realisation (Rs/tonne)	4,613	4,336	6.4	4,160	10.9	4,408	4,218	4.5	4,476	4,296	4.2
EBITDA Rs/ tonne	1,002	992	1.0	599	67.1	801	854	-6.1	783	736	6.4

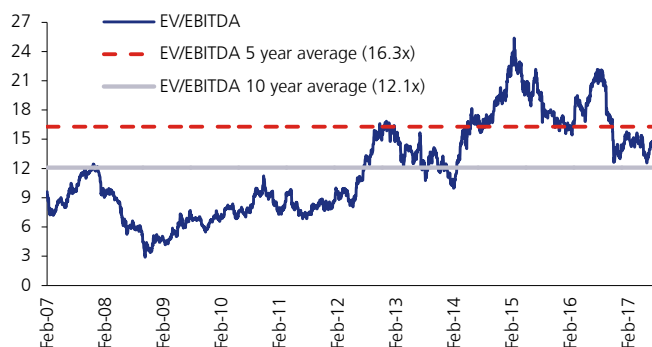
Source: Company, JM Financial

## Exhibit 6. Expense details

	(Rs mn)										
	2Q CY17	2Q CY16	%YoY	1Q CY17	%QoQ	1H CY17	1H CY16	%YoY	CY17E	CY16	%YoY
Raw materials	3,995	3,568	12.0	3,833	4.2	7,828	7,584	3.2	15,105	13,597	11.1
Rs/tonne	653	612	6.7	629	3.7	641	645	-0.6	657	636	3.4
Power & Fuel	5,647	4,675	20.8	5,388	4.8	11,035	9,793	12.7	20,660	18,320	12.8
Rs/tonne	923	802	15.1	885	4.3	904	833	8.5	899	856	5.0
Change in stock	-90	-34		311		221	-701		-334	-302	
Rs/tonne	-15	-6	154.2	51	-128.9	18	-60	-130.3	-15	-14	3.0
Freight & Fwdg	5,759	5,106	12.8	5,621	2.4	11,380	10,263	10.9	20,906	18,898	10.6
Rs/tonne	941	876	7.5	923	1.9	932	873	6.8	910	884	3.0
Purchase of stock in trade	0	0		0		0	0		0	0	
Rs/tonne	0	0		0		0	0		0	0	
Staff cost	1,697	1,569	8.2	1,677	1.2	3,374	3,041	10.9	6,568	5,945	10.5
Rs/tonne	277	269	3.0	275	0.7	276	259	6.8	286	278	2.9
Other Expenditure	5,096	4,616	10.4	4,853	5.0	9,948	9,323	6.7	21,465	19,148	12.1
Rs/tonne	833	792	5.2	797	4.5	815	793	2.8	934	895	4.4
<b>Total Expenditure</b>	<b>22,102</b>	<b>19,500</b>	<b>13.3</b>	<b>21,684</b>	<b>1.9</b>	<b>43,786</b>	<b>39,304</b>	<b>11.4</b>	<b>84,371</b>	<b>75,606</b>	<b>11.6</b>
Cost per tonne (Rs)	3,612	3,345	8.0	3,561	1.4	3,586	3,342	7.3	3,672	3,535	3.9

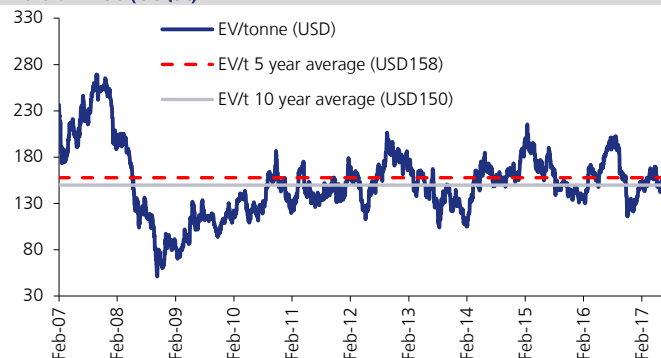
Source: Company, JM Financial

Exhibit 7. EV/EBITDA 1 year forward



Source: Bloomberg, Company, JM Financial

Exhibit 8. EV/t (US\$/t)



Source: Bloomberg, Company, JM Financial

## Company background

- Ambuja Cement, a part of the Holcim Group, is the third-largest cement company in India with total capacity of 29.65MT (Clinker capacity of 17.7MTPA) under its control. It is one of the most profitable and innovative cement companies in India. It is the lowest cost producers of cement with focus on structurally sound markets of the North, West and East. The company has five integrated cement manufacturing plants with 9 kilns and eight cement grinding units across the country.

## Key investment arguments

- Ambuja has added only 1.7MT capacity in the past three years and has no capacity addition plans over the next three years. The company has been losing its market share (decline from 8.5% in CY13 to 7.4% in CY16).
- With Ambuja's current clinker utilisation at 80% and no further capacity addition, the company's growth is contingent on further expansion. With demand expected to rise materially in the next one to two years, we see limited benefits accruing to Ambuja, as clinker capacity is fully utilised over the next two years.
- Ambuja is trading at 14.6/11.3x CY18/19E EV/E. With growth constrained by capacity, no expansion plans and losing market share we see a limited upside for Ambuja from current levels.

## Valuation and view

- We continue to value Ambuja at 12x EV/E to arrive at a Sep'18 TP of Rs 255. Currently, the stock is trading at CY18/19E EV/E 14.6x/11.3x (adjusted for ACC stake). Maintain HOLD.

## Key risks to our call

- (1) Execution of capacity expansion will help Ambuja tap the demand uptick and remove clinker capacity constraint; and (2) more-than-expected price hikes will augur well for the company.

Exhibit 9. Volumes, realisations and cost outlook

	CY15	CY16	CY17E	CY18E	CY18E
Cement Sales (mn tonnes)	21.8	21.4	23.0	25.2	27.9
YoY Growth (%)	-1.7	-1.7	7.4	9.9	10.7
Cement Realisations (Rs/tonne)	4,303	4,283	4,456	4,725	4,917
YoY Growth (%)	-3.8	-0.5	4.0	6.1	4.0
Power & Fuel (Rs/tonne)	943	856	899	935	963
Freight (Rs/tonne)	861	884	910	946	984
Raw Material (Rs/tonne)	368	363	374	385	397
Cement EBITDA (Rs/tonne)	661	736	783	948	1,053

Source: Company, JM Financial

## Financial Tables (Standalone)

Income Statement						(Rs mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E	
Net Sales	93,683	91,604	102,364	119,288	137,384	
Sales Growth	-5.5%	-2.2%	11.7%	16.5%	15.2%	
Other Operating Income	931	1,074	1,024	1,193	1,374	
<b>Total Revenue</b>	<b>94,614</b>	<b>92,678</b>	<b>103,388</b>	<b>120,481</b>	<b>138,758</b>	
Cost of Goods Sold/Op. Exp	8,267	7,465	8,258	9,347	10,656	
Personnel Cost	5,895	5,937	6,568	7,434	8,475	
Other Expenses	65,137	62,449	69,544	78,580	88,833	
<b>EBITDA</b>	<b>15,315</b>	<b>16,827</b>	<b>19,017</b>	<b>25,121</b>	<b>30,794</b>	
EBITDA Margin	16.2%	18.2%	18.4%	20.9%	22.2%	
EBITDA Growth	-20.6%	9.9%	13.0%	32.1%	22.6%	
Depn. & Amort.	6,257	8,501	6,639	7,869	8,019	
EBIT	9,058	8,326	12,379	17,251	22,775	
Other Income	3,582	5,762	4,551	5,801	7,679	
Finance Cost	918	715	784	870	961	
PBT before Excep. & Forex	11,722	13,373	16,145	22,183	29,493	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	11,722	13,373	16,145	22,183	29,493	
Taxes	3,091	3,567	4,844	6,057	7,993	
Extraordinary Inc./Loss(-)	-556	-105	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	8,076	9,701	11,302	16,126	21,499	
<b>Adjusted Net Profit</b>	<b>8,631</b>	<b>9,806</b>	<b>11,302</b>	<b>16,126</b>	<b>21,499</b>	
Net Margin	9.1%	10.6%	10.9%	13.4%	15.5%	
Diluted Share Cap. (mn)	1,551.9	1,985.7	1,985.7	1,985.7	1,985.7	
<b>Diluted EPS (Rs.Rs Rupees)</b>	<b>5.6</b>	<b>4.9</b>	<b>5.7</b>	<b>8.1</b>	<b>10.8</b>	
Diluted EPS Growth	-34.7%	-11.2%	15.3%	42.7%	33.3%	
Total Dividend + Tax	5,230	5,742	11,616	11,616	11,616	
Dividend Per Share (Rs.Rs Rupees)	2.8	2.5	5.0	5.0	5.0	

Source: Company, JM Financial

Balance Sheet						(Rs mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E	
Shareholders' Fund	103,069	190,736	190,421	194,931	204,814	
Share Capital	3,104	3,971	3,971	3,971	3,971	
Reserves & Surplus	99,965	186,764	186,450	190,960	200,843	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	233	132	132	132	132	
Def. Tax Liab. / Assets (-)	5,649	4,930	4,930	4,930	4,930	
<b>Total - Equity &amp; Liab.</b>	<b>108,951</b>	<b>195,797</b>	<b>195,483</b>	<b>199,993</b>	<b>209,876</b>	
Net Fixed Assets	65,062	62,987	59,348	54,479	49,459	
Gross Fixed Assets	120,127	152,888	155,888	158,888	161,888	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	59,206	93,102	99,741	107,610	115,629	
Capital WIP	4,141	3,200	3,200	3,200	3,200	
Investments	22,261	129,097	129,097	129,097	129,097	
Current Assets	54,297	40,458	47,769	61,831	81,742	
Inventories	8,955	9,375	10,480	12,213	14,066	
Sundry Debtors	2,864	3,001	3,399	3,961	4,562	
Cash & Bank Balances	28,484	14,129	19,936	31,704	49,160	
Loans & Advances	9,411	9,836	9,836	9,836	9,836	
Other Current Assets	4,583	4,118	4,118	4,118	4,118	
Current Liab. & Prov.	32,669	36,746	40,732	45,415	50,422	
Current Liabilities	6,893	9,206	13,192	17,875	22,882	
Provisions & Others	25,776	27,540	27,540	27,540	27,540	
Net Current Assets	21,628	3,713	7,037	16,416	31,319	
<b>Total - Assets</b>	<b>108,951</b>	<b>195,797</b>	<b>195,482</b>	<b>199,992</b>	<b>209,876</b>	

Source: Company, JM Financial

Cash Flow Statement						(Rs mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E	
Profit before Tax	11,722	13,373	16,145	22,183	29,493	
Depn. & Amort.	6,257	8,501	6,639	7,869	8,019	
Net Interest Exp. / Inc. (-)	918	715	784	870	961	
Inc (-) / Dec in WCap.	228	358	2,483	2,388	2,554	
Others	-506	-5,226	-4,551	-5,801	-7,679	
Taxes Paid	-3,091	-3,567	-4,844	-6,057	-7,993	
<b>Operating Cash Flow</b>	<b>15,528</b>	<b>14,154</b>	<b>16,657</b>	<b>21,452</b>	<b>25,354</b>	
Capex	-6,169	-3,832	-3,000	-3,000	-3,000	
Free Cash Flow	9,360	10,322	13,657	18,452	22,354	
Inc (-) / Dec in Investments	1,457	-33,108	0	0	0	
Others	3,882	2,913	4,551	5,801	7,679	
<b>Investing Cash Flow</b>	<b>-829</b>	<b>-34,026</b>	<b>1,551</b>	<b>2,801</b>	<b>4,679</b>	
Inc / Dec (-) in Capital	256	0	0	0	0	
Dividend + Tax thereon	-8,941	-6,478	-11,616	-11,616	-11,616	
Inc / Dec (-) in Loans	36	41	0	0	0	
Others	-2,148	11,954	-784	-870	-961	
<b>Financing Cash Flow</b>	<b>-10,796</b>	<b>5,517</b>	<b>-12,400</b>	<b>-12,486</b>	<b>-12,577</b>	
<b>Inc / Dec (-) in Cash</b>	<b>3,903</b>	<b>-14,355</b>	<b>5,808</b>	<b>11,768</b>	<b>17,457</b>	
Opening Cash Balance	24,581	28,484	14,129	19,936	31,704	
Closing Cash Balance	28,484	14,129	19,936	31,704	49,160	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Margin	9.1%	10.6%	10.9%	13.4%	15.5%
Asset Turnover (x)	0.9	0.6	0.5	0.6	0.7
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
RoE	8.5%	6.7%	5.9%	8.4%	10.8%

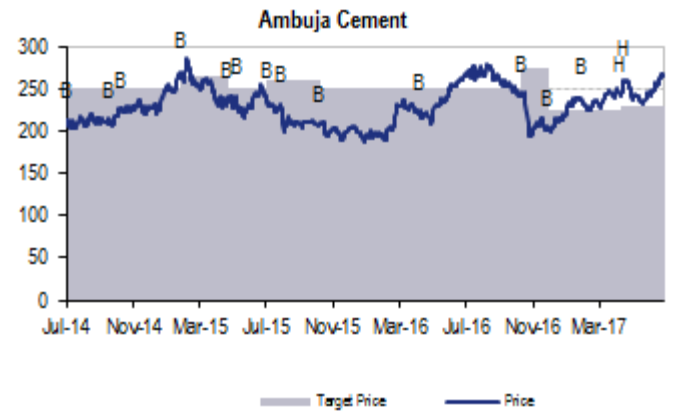
Key Ratios					
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
BV/Share (Rs.)	66.4	96.1	95.9	98.2	103.1
ROIC	12.4%	12.2%	19.4%	33.1%	54.5%
ROE	8.5%	6.7%	5.9%	8.4%	10.8%
Net Debt/Equity (x)	-0.5	-0.1	-0.2	-0.2	-0.3
P/E (x)	48.2	54.3	47.1	33.0	24.8
P/B (x)	4.0	2.8	2.8	2.7	2.6
EV/EBITDA (x)	31.5	30.2	26.4	19.5	15.3
EV/Sales (x)	5.1	5.5	4.9	4.1	3.4
Debtor days	11	12	12	12	12
Inventory days	35	37	37	37	37
Creditor days	31	43	56	68	77

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
4-Mar-14					190	
27-Mar-14					190	0.0
25-Apr-14					210	10.5
18-Jul-14					250	19.0
25-Jul-14					250	0.0
10-Oct-14					250	0.0
30-Oct-14					250	0.0
18-Feb-15					265	6.0
13-May-15					250	-5.7
1-Jun-15					250	0.0
27-Jul-15	12.7				260	4.0
19-Aug-15	12.7	0.0			260	0.0
29-Oct-15	12.1	-4.7			250	-3.8
29-Apr-16	10.5	-13.2			250	0.0
3-Nov-16	8.7	-17.1	11.7		275	10.0
19-Dec-16			9.1		225	
21-Feb-17			8.8		225	

Recommendation History



## APPENDIX I

### JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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