

Institutional Equity Research

Ambuja Cements

Cements | India

4QCY17 Result Update | February 21, 2018

CMP (Rs)	264
Upside/ (Downside) (%)	17
Bloomberg Ticker	ACEM IN
Market Cap. (Rs bn)	524
Free Float (%)	36
Shares O/S (mn)	1,986

BUY 

Target Price: Rs310

Healthy Performance on All Counts

Ambuja Cements (ACL) has reported a better-than-estimated operating performance in 4QCY17, mainly owing to higher-than-expected volume growth and better operational efficiencies. Operating profit grew by sharp 48% YoY and 39% QoQ to Rs4.4bn vs. our estimate of Rs3.9bn. Despite a sharp spike in Power & Fuel cost/tonne and freight cost/tonne, operating cost/tonne declined by 1% YoY and 6% QoQ to Rs3,681, led by cost optimisation initiatives. EBITDA/tonne stood at Rs746 vs. Rs586 and Rs628 in 4QCY16 and 3QCY17, respectively. EBITDA margin rose by 322 bps YoY to 16.8%. ACL's sales volume surged by 16% YoY and 17% QoQ to 5.9mnT led by better demand scenario in Eastern, Northern and Gujarat markets. Though we moderately tone down our EBITDA estimates by 6% and 3% for CY18E and CY19E, respectively to factor in higher fuel prices and realisation pressure in the quarter, we continue to believe that ACL is on a firm footing to witness a traction, going forward on the back of likely recovery in realisation, sound demand environment and improvement in operational efficiencies. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs310 (from Rs320 earlier).**

Healthy Sales Volume Drives Revenue

A robust sales volume growth of 16% YoY and 17% QoQ to 5.9mnT led to 19% YoY growth in revenue to Rs26.1bn. A healthy demand scenario in Northern, Eastern (barring Bihar) and Gujarat markets aided robust volume. Further, average realisation/tonne came in-line at Rs4,427 (+3% YoY and -2% QoQ). Improvement in yearly realisation is mainly on account of exposure to Gujarat markets. We expect sales volume to remain strong in ensuing quarters led by firm demand environment in key markets.

Robust Operating Performance

Despite a sharp spike in Power & Fuel cost/tonne and freight cost/tonne, operating cost/tonne declined by 1% YoY and 6% QoQ to Rs3,681 led by cost optimisation initiatives and utilisation uptick. Resultantly, reported EBITDA surged by 48% YoY and 39% QoQ to Rs4.4bn. Operating cost/tonne stood at Rs3,681 (-1% YoY and -6% QoQ). EBITDA/tonne improved to Rs746 vs. Rs586 and Rs628 in 4QCY16 and 3QCY17, respectively. Further, credit of Rs331mn pertaining to VAT incentives for prior period and higher operating profit led to 89% YoY jump in net profit to Rs3.4bn.

Outlook & Valuation

A higher-than-estimated growth in sales volume, cost control measures and higher contribution of premium products led to a healthy performance. Looking forward, we expect ACL to get decent traction on the back of strong brand equity, premium product portfolio, value-based pricing and expected pick-up in demand. **We maintain our BUY recommendation on the stock with a revised SOTP-based Target Price of Rs310 (from Rs320 earlier).**

Key Financials (Rs mn)	CY16	CY17	CY18E	CY19E
Sales	91,604	102,507	114,062	128,504
EBITDA	15,736	17,440	21,997	26,597
APAT	9,701	12,493	13,855	16,989
EPS (Rs)	4.9	6.3	7.0	8.6
DPS (Rs)	2.5	3.6	3.6	3.6
P/E (x)	54.0	42.0	37.8	30.9
P/B (x)	2.7	2.7	2.6	2.5
EV/EBITDA (x)	23.0	19.5	14.8	12.3
RoE (%)	6.6	6.5	7.0	8.3
Divi. Yield (%)	1.1	1.6	1.6	1.6

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(1.0)	0.3	11.6
Relative to Nifty	4.0	(0.2)	(5.8)

Shareholding Pattern (%)	Sept '17	Dec'17
Promoter	63.6	63.6
Public	36.4	36.4

1 Year Stock Price Performance



Note: * CMP as on February 20, 2018

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Risks to the View

- Government's failure to revive infrastructure projects.
- Significant surge in operating cost and dip in realisation.

Exhibit 1: Quarterly Performance (Consolidated)

(Rs mn)	4QCY17	4QCY16	% yoy	3QCY17	% qoq	CY17	CY16	% yoy
Net Sales	26,120	21,880	19.4	22,820	14.5	102,507	91,171	12.4
(Increase) / Decrease in stock in trade	(1,308)	804	(262.5)	447	(392.7)	-640	-302	112.0
Consumption of RM	2,409	1,776	35.7	2,262	6.5	9,093	7,767	17.1
% sales	4.2	11.8		11.9		8.2	8.2	
Employee Cost	1,627	1,490	9.2	1,613	0.9	6,614	5,909	11.9
% sales	6.2	6.8		7.1		6.5	6.5	
Power and Fuel	6,448	4,153	55.3	4,860	32.7	22,342	18,320	22.0
% sales	24.7	19.0		21.3		21.8	20.1	
Freight and Forwarding								
On finished products	5,942	4,513	31.7	4,800	23.8	22,123	18,898	17.1
% sales	22.7	20.6		21.0		21.6	20.7	
On inter unit clinker transferred	1,873	1,267	47.9	1,318	42.2	6,597	5,830	13.2
% sales	7.2	5.8		5.8		6.4	6.4	
Other Expenditures	4,727	4,895	(3.4)	4,353	8.6	19,029	18,848	1.0
% sales	18.1	22.4		19.1		18.6	20.7	
Total Expenditures	21,719	18,898	14.9	19,653	10.5	85,158	75,270	13.1
Operating Costs/tonne (Rs)	3,681	3,713	(0.8)	3,899	(5.6)	3,698	3,511	5.3
EBIDTA	4,401	2,982	47.6	3,168	38.9	17,350	15,901	9.1
EBIDTA Margin (%)	16.8	13.6	321.9	13.9		16.9	17.4	
EBIDTA per tone (Rs)	746	586	27.3	628	18.7	753	742	1.6
Depreciation and Amortisation	1,427	1,560	(8.5)	1,403	1.7	5,729	8,489	(32.5)
Interest	217	145	50.0	313	(30.4)	1,072	742	44.4
Other Income	1,487	777	91.4	1,908	(22.1)	5,643	6,124	(7.9)
PBT	4,243	2,055	106.5	3,359	26.3	16,192	12,795	26.6
Tax	859	262	227.6	635	35.2	3,696	3,472	6.4
% tax	20.2	12.8		18.9		22.8	27.1	
PAT	3,384	1,793	88.8	2,724	24.2	12,496	9,322	34.0

Source: Company, RSec Research

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Exhibit 2: A snapshot of cost/tonne analysis

Rs/tonne	4QCY15	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17
Cement Volumes (mn t)	5.52	5.94	5.83	4.58	5.09	6.02	6.07	5.04	5.90
Raw Material Consumed	593	259	349	286	507	391	377	537	187
Staff Cost	253	252	263	310	292	279	280	320	276
Power & fuel for generation	811	862	802	955	816	895	930	964	1,093
Freight & Forwarding	1,123	1,173	1,133	1,174	1,136	1,231	1,215	1,214	1,325
Other Expenditure	936	813	815	1,049	986	806	839	864	801
Total Cost per tonne	3,717	3,358	3,362	3,774	3,737	3,602	3,641	3,899	3,681
Realisation per tonne	4,268	4,071	4,359	4,376	4,316	4,208	4,651	4,528	4,427
EBITDA per tonne	551	713	997	603	579	606	1,010	628	746

Source: Company, RSec Research

Exhibit 3: Revised vs. Old Estimates

	CY18E			CY19E		
(Rs mn)	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	24.9	24.9	0.0	26.7	27.0	1.1
Realization (Rs/tonne)	4,614	4,579	(0.7)	4,799	4,763	(0.8)
Sales	114,920	114,062	(0.7)	128,054	128,504	0.4
EBITDA	23,488	21,997	(6.3)	27,521	26,597	(3.4)
EBITDA margins (%)	20.4	19.3		21.5	20.7	
EBITDA/tonne (Rs)	943	883	(6.3)	1,031	986	(4.4)
Adjusted PAT	15,111	13,855	(8.3)	17,873	16,989	(4.9)
EPS (Rs)	7.6	7.0	(8.2)	9.0	8.6	(4.9)

Source: RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	CY16	CY17	CY18E	CY19E
Revenue	91,604	102,507	114,062	128,504
% yoy growth	(2.2)	11.9	11.3	12.7
Total Cost	75,869	85,067	92,065	101,906
Raw Materials Consumed	7,465	8,465	9,461	10,176
Employee Costs	5,937	6,614	7,315	8,046
Power & Fuel	18,320	22,342	25,403	28,564
Freight & Forwarding	24,728	28,720	30,440	33,634
Others	19,418	18,927	19,446	21,487
EBITDA	15,736	17,440	21,997	26,597
EBITDA Margin (%)	17.2	17.0	19.3	20.7
Depreciation and Amortisation	8,501	5,729	5,968	6,044
Interest & Fin. Charges	715	1,072	1,085	1,085
Less : Self Consumption of clinker, cement and limestone	(17)	-	-	-
Other Income	6,837	5,549	5,827	6,002
Profit before Tax	13,373	16,188	20,772	25,470
Tax	3,672	3,696	6,917	8,482
% Tax	27.5	22.8	33.3	33.3
Net Profit	9,701	12,493	13,855	16,989
YoY Growth (%)	20.1	28.8	10.9	22.6
Net Profit Margin (%)	10.6	12.2	12.1	13.2
Adjusted profit	9,701	12,493	13,855	16,989

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Balance Sheet Statement

Y/E Mar (Rs mn)	CY16	CY17E	CY18E	CY19E
EQUITY AND LIABILITIES				
Share Capital	3,971	3,971	3,971	3,971
Reserves and Surplus	186,768	190,849	196,291	204,868
Shareholder's funds	190,740	194,820	200,263	208,839
Long-Term Borrowings	236	236	300	300
Deferred Tax Liabilities (Net)	4,929	4,584	4,584	4,584
Other Long-Term Liabilities	80	89	97	107
Long Term Provisions	453	352	381	422
Non-Current Liabilities	5,697	5,261	5,362	5,413
Trade Payables	8,970	10,289	11,135	12,325
Other Current Liabilities	14,643	30,014	31,529	34,899
Short-Term Provisions	12,497	871	942	1,043
Current Liabilities	36,110	41,173	43,606	48,268
Total Liabilities	232,546	241,254	249,231	262,520
ASSETS				
Tangible Assets	59,784	57,214	53,247	49,203
Intangible Assets	3	3	3	3
Capital Work-in-Progress	3,200	3,979	8,979	14,979
Fixed Assets	62,987	61,197	62,229	64,185
Non-Current Investments	118,447	118,447	118,447	118,447
Long term Loans and Advances	6,826	7,639	8,500	9,576
Other Non-Current Assets	3,193	3,969	4,416	4,975
Non-Current Assets	128,466	130,055	131,363	132,998
Current Investments	10,650	7,241	7,603	7,984
Inventories	9,375	10,525	11,711	13,194
Trade Receivables	3,001	3,080	3,427	3,861
Cash and Bank Balances	14,133	25,461	28,785	35,665
ST Loans and Advances	3,589	3,029	3,370	3,797
Other Current Assets	345	667	742	836
Current Assets	41,093	50,003	55,639	65,337
Total Assets	232,546	241,254	249,231	262,520

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Cash Flow Statement

Y/E Mar (Rs mn)	CY16	CY17E	CY18E	CY19E
Profit Before tax	13,373	16,188	20,772	25,470
Depreciation and Obsolescence	8,501	5,729	5,968	6,044
Interest and Finance charges	715	1,072	1,085	1,085
Others	(3,987)	-	-	-
Operating profit before WC changes	18,602	22,989	27,824	32,599
Change in Working Capital	358	2,395	(789)	640
Cash Generated from Operation	18,960	25,384	27,035	33,239
Direct Tax Paid	(3,187)	(4,041)	(6,917)	(8,482)
Net Cash from Operating Activities	15,773	21,343	20,118	24,757
Purchase / Sale of Fixed Assets	(3,832)	(3,939)	(7,000)	(8,000)
Others	3,335	-	-	-
Net Cash used in Investing Activities	(496)	(3,939)	(7,000)	(8,000)
Proceeds from Borrowings	141	-	64	-
Repayment of Borrowings	(101)	-	-	-
Interest and finance charges paid	(359)	(1,072)	(1,085)	(1,085)
Dividend Paid (including DDT)	(6,393)	(8,412)	(8,412)	(8,412)
Net Cash Generated / (Used) in Financing Activities	(6,712)	(9,484)	(9,433)	(9,497)
Net Inc. in Cash & Cash Equivalents	8,565	7,920	3,685	7,260

Key Ratio

Y/E Mar	CY16	CY17E	CY18E	CY19E
Valuation Ratio (x)				
P/E	54.0	42.0	37.8	30.9
P/CEPS	27.2	27.1	24.9	22.8
P/BV	2.7	2.7	2.6	2.5
EV/EBITDA	23.0	19.5	14.8	12.3
EV/Sales	3.4	2.9	2.6	2.3
EV/tonne (USD)	167	164	163	161
Dividend Payout (%)	59	67	61	50
Dividend Yield (%)	1.1	1.6	1.6	1.6
Per Share Data (Rs)				
EPS (Basic)	4.9	6.3	7.0	8.6
EPS (Diluted)	4.9	6.3	7.0	8.6
CEPS	9.2	9.2	10.0	11.6
DPS	2.5	3.6	3.6	3.6
Book Value	96	98	101	105
EBITDA/tonne	735	757	883	986
Returns (%)				
RoCE	9.6	8.9	11.0	13.0
RoE	6.6	6.5	7.0	8.3
Turnover ratios (x)				
Asset Turnover (Gross block)	0.6	0.7	0.7	0.8
Inventory (days)	37.4	37.5	37.5	37.5
Receivables (days)	12.0	11.0	11.0	11.0
Payables (days)	43.2	44.1	44.1	44.1
WCC (days)	6.2	4.3	4.3	4.3

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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