

Ambuja Cements

BSE SENSEX	S&P CNX
29,918	9,304
Bloomberg	ACEM IN
Equity Shares (m)	1,986
M.Cap.(INRb)/(USDb)	484.4 / 7.3
52-Week Range (INR)	282 / 191
1, 6, 12 Rel. Per (%)	6/-5/-5
Avg Val, INRm	623
Free float (%)	36.9

Financials & Valuations (INR b)

Y/E December	2016	2017E	2018E
Sales	91.6	100.4	112.3
EBITDA	15.8	16.4	18.3
NP	9.7	13.2	14.3
Adj. EPS (INR)	4.9	6.6	7.2
EPS Gr. (%)	-10.5	35.7	8.6
BV/Sh. (INR)	97.4	100.5	102.6
RoE (%)	5.0	6.7	7.1
RoCE (%)	6.9	7.0	7.4
P/E (x)	36.8	27.2	25.0
P/BV (x)	1.8	1.8	1.8

Estimate change



TP change



Rating change


CMP: INR246
TP: INR283(+15%)
Buy

Muted volume growth; utilization headroom lends confidence

- **Volume growth remains subdued:** 1QCY17 revenue of INR25.33b (+5% YoY) came in below estimate of INR25.6b, led by higher-than-expected decline in realizations and in-line volumes. Realizations of INR4,208 (+4.4% YoY, -2.5% QoQ) missed estimate of INR4,266 due to weak prices in the western market. Volumes declined 1% YoY, but grew 18% QoQ (in-line) to 6.02mt due to normalization of volumes in the month of March 2017.
- **Sequential improvement in profitability:** EBITDA fell 14% YoY (+24% QoQ) to INR3.65b, translating into a margin of 14.4% (-3.3pp YoY, +1pp QoQ). EBITDA/ton increased 5% QoQ to INR606 (+INR27 QoQ, -INR107 YoY) due to positive operating leverage. Depreciation declined 62% YoY to INR1.46b, as base quarter depreciation was restated to INR3.8b due to amortization of goodwill. Hence, PAT increased 4x YoY (+52% QoQ) to INR2.46b.
- **Power & fuel and freight cost up QoQ:** While unitary cost improved 4% QoQ to INR3,602/tonne in 1QCY17, it was primarily led by positive operating leverage. Freight cost rose 8% QoQ due to higher diesel prices and higher leads for fly ash sourcing. Power & fuel cost/t increased 10% QoQ due to rising fuel prices.
- **Valuation and view:** While ACEM's growth potential remains muted due to its limited expansion, we believe better utilization headroom in the faster-growing regions (north and east) should offer some resilience. ACEM's core strengths are intact, and its presence in north and west could lead to meaningful realization improvement. Stock trades at 17x CY18E EV/EBITDA and USD151/ton. Maintain **Buy** with a TP of INR283/share (15% upside).

Quarterly Performance (Standalone)

(INR Million)

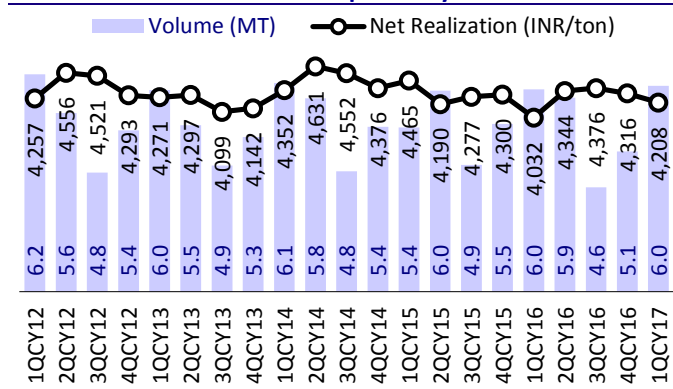
Y/E December	CY15				CY16				CY17	CY16	CY17E	Est.	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q			1QE	(%)
Sales Volume (m ton)*	5.43	5.95	4.90	5.48	5.97	5.85	4.58	5.09	6.02	21.49	22.82	6.00	0
YoY Change (%)	-10.4	1.8	1.9	0.8	9.9	-1.7	-6.5	-7.1	0.9	-1.2	6.2	0.6	
Realization (INR/ton)	4,465	4,190	4,277	4,300	4,032	4,344	4,376	4,316	4,208	4,263	4,398	4,266	-1
YoY Change (%)	2.6	-9.5	-6.0	-1.8	-9.7	3.7	2.3	0.4	4.4	-1.0	3.2	5.3	
QoQ Change (%)	2.0	-6.2	2.1	0.5	-6.2	7.7	0.7	-1.4	-2.5			-1.2	
Net Sales	24,246	24,928	20,952	23,558	24,060	25,412	20,043	21,967	25,334	91,604	100,364	25,594	-1
YoY Change (%)	-8.1	-7.9	-4.2	-1.0	-0.8	1.9	-4.3	-6.8	5.3	7.7	3.7	5.8	
EBITDA	4,715	3,661	2,944	3,042	4,255	5,813	2,760	2,947	3,651	15,755	16,356	3,218	13
Margins (%)	19.4	14.7	14.1	12.9	17.7	22.9	13.8	13.4	14.4	17.2	16.3	12.6	
Depreciation	1,578	1,485	1,553	1,641	3,830	1,511	1,595	1,563	1,460	8,501	5,894	1,500	
Interest	214	316	207	181	188	205	192	136	377	715	800	170	
Other Income	1,336	1,234	898	1,067	1,303	1,368	2,503	755	1,310	6,837	7,000	1,400	
PBT before EO Item	4,259	3,094	2,082	2,287	1,541	5,465	3,477	2,003	3,124	13,376	16,662	2,948	6
Rate (%)	25.4	26.8	26.2	36.4	69.4	26.9	20.3	14.3	21.1	27.5	21.0	28.0	
Reported Profit	3,177	2,264	1,536	1,100	535	3,995	2,770	1,627	2,465	9,703	13,163	2,122	16
Adj PAT	3,177	2,264	1,536	1,454	471	3,995	2,770	1,717	2,465	9,703	13,163	2,122	16
YoY Change (%)	-29.0	-44.6	-35.8	-43.2	-85.2	76.5	80.4	18.1	423.7	14.4	35.7	-26.5	

E: MOSL Estimates

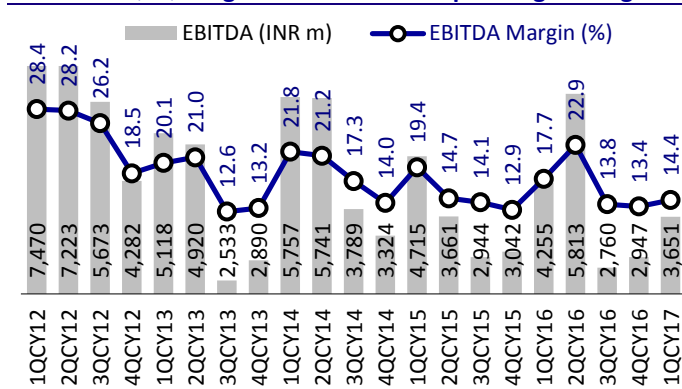
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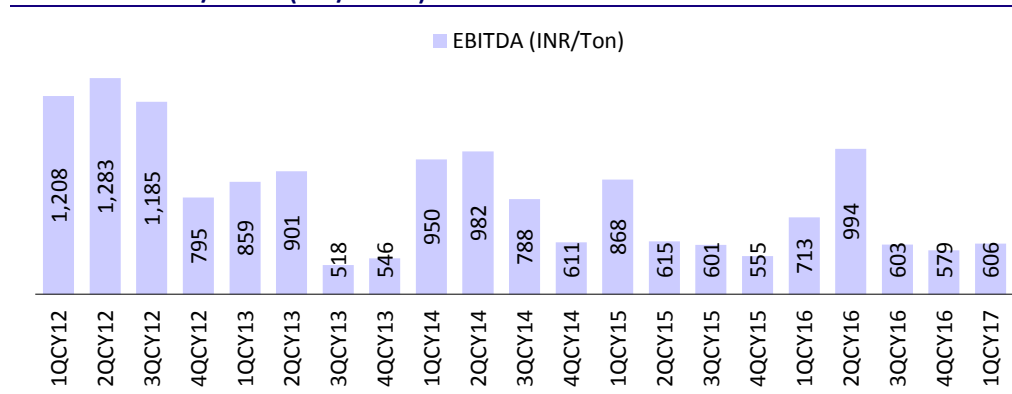
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Exhibit 1: Realization weak sequentially

Source: Company, MOSL

Exhibit 2: QoQ margin increase due to operating leverage

Source: Company, MOSL

Exhibit 3: EBITDA/Tonne (INR/Tonne) Trend

Source: Company, MOSL

Exhibit 4: Income statement (INR/ton)

	1QCY17	1QCY16	YoY (%)	4QCY16	QoQ (%)
Net Realization	4,208	4,032	4.4	4,316	-2.5
Raw Material	391	258	51.6	507	-22.9
Staff Cost	279	247	12.9	292	-4.6
Power & Fuel	895	858	4.3	816	9.7
Freight	1,231	1,168	5.4	1,136	8.4
Other exp	806	789	2.2	986	-18.3
Total Cost	3,602	3,319	8.5	3,737	-3.6

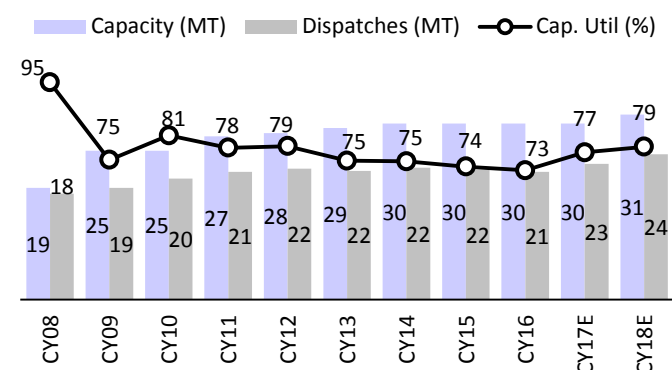
Source: MOSL, Company

Valuation discount offers comfort; Buy

- **Factoring in sub-normal volume growth, but profitability to normalize:** We expect ACEM to underperform growth volume due to limited expansion. However, better utilization headroom in faster growing regions viz. north and east (70% which is lower than regional utilizations) should offer resilience. We factor in for 4% CAGR in volume over CY15-CY17 v/s 7% for UTCCEM. Due to better utilisation, we expect north and west to post stronger realization growth, aiding normalization of profitability for ACEM with peers
- **Core strengths intact:** ACEM's core strengths are intact, with (a) efficient operations and cost saving initiatives (fuel mix, alternative fuels, logistics), (b) balance sheet strength (net cash of INR20b+ even after ACC buyout), (c) annual standalone OCF of INR20b-28b over CY16-17, and (d) high payout (45-50%). Holcim's focus on de-bottlenecking, synergies and payout would enhance its strengths.
- **Market mix turning favorable:** Market mix was a drag for ACEM in FY16, given the dismal price trends in the North and West (76% exposure v/s 62% for ACC) and no exposure to the South, where discipline boosted profitability. We believe the market mix that worked against ACEM in FY16 would now work in its favor, as the North is likely to see sharp price improvement and the West is likely to see stable to moderately higher prices
- **Valuation and views: Valuation and view:** While ACEM's growth potential remains muted due to its limited expansion, we believe better utilization headroom in the faster-growing regions (north and east) should offer some resilience. ACEM's core strengths are intact, and its presence in the north and west markets could lead to meaningful realization improvement. The stock trades at 17x CY18E EV/EBITDA and USD151/ton. Maintain **Buy** with a TP of INR283/share (15% upside).

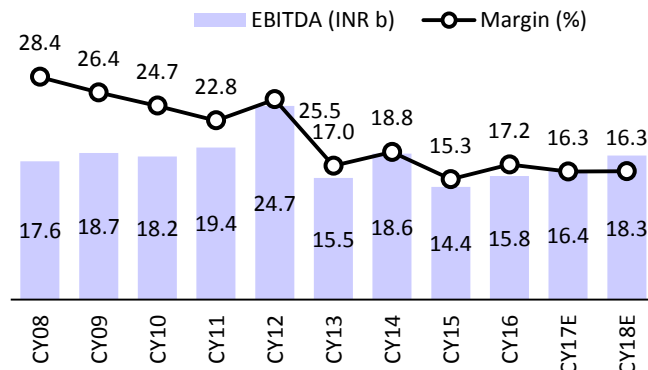
Story in charts

Exhibit 7: Growth to underperform due to limited expansion



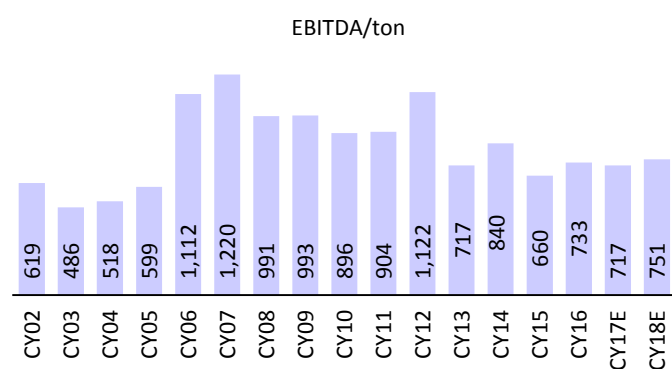
Source: Company, MOSL

Exhibit 8: Better realizations to benefit EBITDA margins



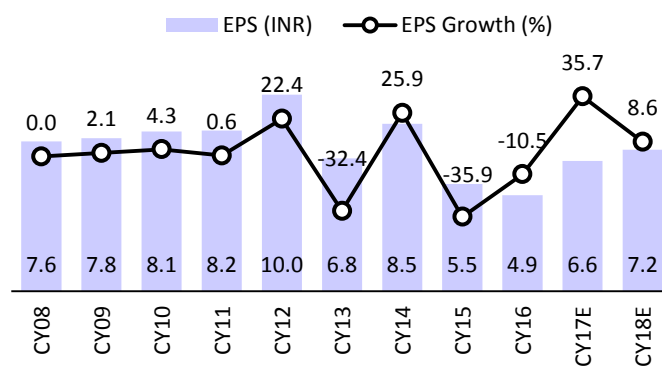
Source: Company, MOSL

Exhibit 9: Trend in EBITDA/ton



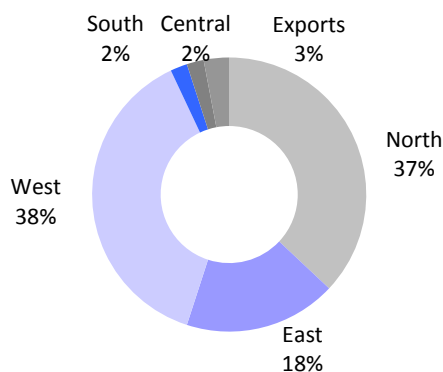
Source: Company, MOSL

Exhibit 10: Trend in EPS



Source: Company, MOSL

Exhibit 11: High mix of north and west



Source: Company, MOSL

Financials and Valuations (Standalone)

Income Statement								(INR Million)
Y/E December	2011	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	85,043	96,749	90,868	99,107	93,683	91,604	100,364	112,273
Change (%)	15.1	13.8	-6.1	9.1	-5.5	-2.2	9.6	11.9
Total Expenditure	65,656	72,074	75,386	80,497	79,321	75,849	84,008	93,934
% of Sales	77.2	74.5	83.0	81.2	84.7	82.8	83.7	83.7
EBITDA	19,387	24,675	15,482	18,610	14,362	15,755	16,356	18,338
Change (%)	6.3	27.3	-37.3	20.2	-22.8	9.7	3.8	12.1
Margin (%)	22.8	25.5	17.0	18.8	15.3	17.2	16.3	16.3
Depreciation	4,452	5,373	4,901	5,095	6,257	8,501	5,894	6,224
EBIT	14,935	19,302	10,581	13,515	8,105	7,254	10,462	12,114
Interest	526	757	651	645	918	715	800	850
Other Income - Rec.	2,978	4,042	4,349	4,964	4,535	6,837	7,000	7,800
PBT before EO Exp.	17,387	22,588	14,280	17,834	11,722	13,376	16,662	19,064
EO Exp/(Inc)	358	3,570	-3,269	-1,757	557	0	0	0
PBT after EO Exp.	17,029	19,018	17,549	19,591	11,165	13,376	16,662	19,064
Current Tax	3,613	6,048	4,603	4,627	3,090	3,672	3,499	4,385
Deferred Tax	1,127	0	0	0	0	0	0	381
Tax Rate (%)	27.8	31.8	26.2	23.6	27.7	27.5	21.0	25.0
Reported PAT	12,289	12,971	12,946	14,964	8,076	9,703	13,163	14,298
PAT Adj for EO Items	12,547	15,435	10,464	13,207	8,478	9,703	13,163	14,298
Change (%)	0.9	23.0	-32.2	26.2	-35.8	14.4	35.7	8.6
Margin (%)	14.8	16.0	11.5	13.3	9.1	10.6	13.1	12.7
Less: Mionrity Interest	0	0	0	0	0	0	0	0
Net Profit	12,547	15,435	10,464	13,207	8,478	9,703	13,163	14,298
No of Shares (Mn - FV: RsX)	1,534	1,542	1,546	1,550	1,552	1,985	1,985	1,985
Adj EPS	8	10	7	9	5	5	7	7

Balance Sheet								(INR Million)
Y/E December	2011	2012	2013	2014	2015	2016	2017E	2018E
Equity Share Capital	3,069	3,084	3,092	3,100	3,104	3,971	3,971	3,971
Total Reserves	77,626	84,966	91,764	97,934	99,965	188,704	194,897	198,961
Net Worth	80,694	88,051	94,855	101,033	103,069	192,675	198,867	202,931
Def. Liabilities	6,436	5,483	5,643	5,890	5,649	5,649	5,649	6,030
Total Loans	466	395	292	191	227	500	500	500
Capital Employed	87,597	93,929	100,790	107,115	108,945	198,824	205,016	209,462
Gross Block	97,023	101,836	108,262	118,711	118,050	121,550	124,050	135,300
Less: Accum. Depn.	35,158	43,213	47,637	52,732	58,989	67,490	73,384	79,609
Net Fixed Assets	61,865	58,624	60,625	64,173	59,062	54,060	50,666	55,691
Capital WIP	4,868	5,201	6,949	5,000	6,000	7,500	10,000	10,000
Investments	8,643	16,558	17,885	21,727	22,261	120,106	120,106	120,106
Curr. Assets	40,043	43,864	44,187	48,108	54,297	47,154	57,332	60,668
Inventory	9,250	9,839	9,339	8,884	8,955	8,784	8,249	9,228
Debtors	2,409	2,134	2,315	2,280	2,864	2,133	2,337	2,615
Cash & Bank Bal	20,691	22,537	23,411	24,581	28,484	25,696	34,922	35,599
Others	7,694	9,353	9,122	12,364	13,995	10,541	11,824	13,227
Curr. Liability & Prov.	27,822	30,318	28,856	31,894	32,675	29,996	33,088	37,004
Creditors	15,909	15,904	17,845	19,806	21,477	18,702	20,714	23,162
Provisions	11,913	14,414	11,011	12,088	11,197	11,294	12,374	13,842
Net Current Assets	12,221	13,545	15,332	16,215	21,622	17,158	24,244	23,664
Appl. of Funds	87,597	93,929	100,790	107,115	108,945	198,824	205,016	209,462

Financials and Valuations (Standalone)

Ratios

Y/E December	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	8.2	10.0	6.8	8.5	5.5	4.9	6.6	7.2
Cash EPS	11.1	13.5	9.9	11.8	9.5	9.2	9.6	10.3
BV/Share	53.0	57.5	61.8	65.6	66.9	97.4	100.5	102.6
DPS	3.2	3.6	3.6	5.0	2.8	2.2	4.7	6.2
Payout (%)	46.4	49.5	49.9	61.8	44.9	29.6	53.0	71.6

Valuation (x)

P/E		24.4	36.0	28.6	44.7	36.8	27.2	25.0
Cash P/E		18.1	24.5	20.7	25.7	19.6	18.8	17.4
P/BV		4.2	3.9	3.7	3.6	1.8	1.8	1.8
EV/Sales		3.4	3.6	3.3	3.4	3.5	3.1	2.8
EV/EBITDA	17.6	13.5	21.3	17.6	22.4	20.6	19.1	17.0
EV/Ton (Cap) - US\$	186	178	171	166	163	164	159	151
Dividend Yield (%)		1.5	1.5	2.0	1.1	0.9	1.9	2.6

Return Ratios (%)

RoE	16.2	18.1	11.4	13.4	8.3	5.0	6.7	7.1
RoCE	16.5	18.6	11.9	14.3	8.9	6.9	7.0	7.4
RoIC	21.4	25.6	15.3	19.1	10.9	10.8	19.3	21.7

Working Capital Ratios

Asset Turnover (x)	1.0	1.0	0.9	0.9	0.9	0.5	0.5	0.5
Debtor (Days)	10	8	9	8	11.2	8.5	8.5	8.5
Inventory (Days)	40	37	38	33	35	35	30	30
Work Cap (Days)	52	51	62	60	84.2	68.4	88.2	76.9

Leverage Ratio (x)

Current Ratio	1.4	1.4	1.5	1.5	1.7	1.6	1.7	1.6
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR Million) (INR Million)

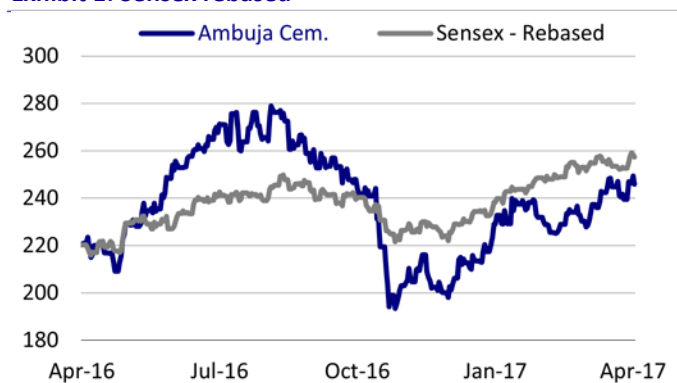
Y/E December	2011	2012	2013	2014	2015	2016	2017E	2018E
Op. Profit before Tax	20,260	25,393	15,482	18,610	14,362	15,755	16,356	18,338
Interest/Div. Recd.	1,555	2,340	4,349	4,964	4,535	6,837	7,000	7,800
Direct Taxes Paid	-4,722	-6,399	-4,603	-4,627	-3,090	-3,672	-3,499	-4,766
(Inc)/Dec in WC	-203	-417	-913	287	-1,505	1,676	2,140	1,257
CF from Operations	16,890	20,917	14,316	19,234	14,303	20,595	21,997	22,629
EO Income	0	0	3,269	1,757	-557	0	0	0
CF from Op. incl EO Exp	16,890	20,917	17,585	20,991	13,746	20,595	21,997	22,629
(inc)/dec in FA	-6,233	-6,870	-8,650	-6,694	-2,145	-5,000	-5,000	-11,250
Free Cash Flow	10,657	14,047	8,935	14,297	11,600	15,595	16,997	11,379
(Pur)/Sale of Invest.	-1,700	-7,157	-1,326	-3,843	-534	-97,845	0	0
CF from Investments	-7,933	-14,027	-9,976	-10,537	-2,679	-102,845	-5,000	-11,250
Issue of Shares	462	831	322	455	-2,412	82,779	0	0
(Inc)/Dec in Debt	738	-636	57	147	-206	273	0	381
Interest Paid	-251	-275	-651	-645	-918	-715	-800	-850
Dividend Paid	-5,697	-4,964	-6,462	-9,241	-3,629	-2,877	-6,970	-10,234
CF from Fin. Activity	-4,748	-5,044	-6,735	-9,284	-7,164	79,461	-7,770	-10,702
Inc/Dec of Cash	4,209	1,846	874	1,170	3,903	-2,788	9,227	677
Add: Beginning Bal.	16,482	20,691	22,537	23,411	24,581	28,484	25,696	34,922
Closing Balance	20,690	22,537	23,411	24,581	28,484	25,696	34,922	35,599

Corporate profile

Company description

Ambuja Cement, a part of the Holcim group, is the third largest cement company in India with total capacity of 28.8mt under its control. It is one of the lowest cost producers of cement, with focus on structurally sound markets of North, West and East. It is also the largest exporter of cement from India.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	63.1	63.1	50.3
DII	10.7	10.6	16.7
FII	19.0	19.2	25.2
Others	7.2	7.1	7.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIC of India	6.6
Europacific Growth Fund	2.4
Aberdeen Global Indian equity Limited	1.6

Source: Capitaline

Exhibit 4: Top management

Name	Designation
N S Sekhsaria	Chairman
Ajay Kapur	Managing Director & CEO
Rajiv Gandhi	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
B L Taparia	Haigreve Khaitan
Nasser Munjee	Omkar Goswami
Rajendra P Chitale	Shailesh Haribhakti
Usha Sangwan	Christof Haessig
Eric Olsen	Martin Kriegner

*Independent

Exhibit 6: Auditors

Name	Type
P M Nanabhoy & Co	Cost Auditor
Rathi & Associates	Secretarial Audit
S R B C & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
CY17	4.9	7.0	-30.3
CY18	6.6	9.7	-31.7
CY19	7.2	11.0	-34.6

Source: Bloomberg

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