

**Rating matrix**

Rating	:	Buy
Target	:	₹ 280
Target Period	:	12-15 months
Potential Upside	:	16%

**What's Changed?**

Target	Unchanged
EPS CY17E	Changed from ₹ 6.5 to ₹ 6.4
EPS CY18E	Changed from ₹ 6.8 to ₹ 6.9
Rating	Unchanged

**Quarterly Performance**

	Q1CY17	Q1CY16	YoY (%)	Q4CY16	QoQ (%)
Revenue	2,533.4	2,406.0	5.3	2,196.7	15.3
EBITDA	365.1	425.5	-14.2	294.7	23.9
EBITDA (%)	14.4	17.7	-328 bps	13.4	99 bps
PAT	246.5	53.5	360.7	175.9	40.2

**Key Financials**

₹ Crore	CY15	CY16	CY17E	CY18E
Net Sales	9368.3	9148.1	10236.9	11413.3
EBITDA	1438.4	1577.3	2015.7	2282.2
PAT	807.6	971.5	1277.7	1369.4
Adjusted EPS (₹)	5.2	4.9	6.4	6.9

**Valuation summary**

	CY15	CY16	CY17E	CY18E
PE (x)	46.4	49.5	37.6	35.1
Target PE (x)	53.7	57.2	43.5	40.6
EV to EBITDA (x)	30.0	28.9	22.8	20.1
EV/Tonne(US\$)	166	171	167	167
Price to book (x)	3.6	2.5	2.4	2.4
RoNW (%)	7.8	5.1	6.5	6.8
RoCE (%)	7.9	3.8	7.1	7.9

**Stock data**

Particular	Amount
Market cap	₹ 48053 crore
Debt (CY16)	₹ 32 crore
Cash & Invest (CY16)	₹ 2479 crore
EV	₹ 45605 crore
52 week H/L	₹ 282 / 191
Equity capital	₹ 309.9 crore
Face value	₹ 2

**Price performance (%)**

	1M	3M	6M	12M
ACC	14.8	13.7	7.2	13.1
Ambuja Cement	7.7	5.6	1.9	11.8
Shree Cement	15.3	21.3	15.5	50.8
UltraTech Cement	6.6	15.3	6.7	34.1

**Research Analyst**

Rashesh Shah  
rashesh.shah@icicisecurities.com

Devang Bhatt  
devang.bhatt@icicisecurities.com

## Ambuja Cement (AMBCE)

**₹ 242**

### Higher realisation offsets cost headwinds...

- Ambuja's results were above our expectation mainly due to higher-than-expected topline. The beat on the topline front was led by 2.7% YoY increase in volumes to 6.0 MT, which came in as a positive surprise against 12% YoY decline in pan-India production volumes in Q1CY17 as per core industry data
- Revenues increased 5.3% YoY (up 15.3% QoQ) to ₹ 2,533.4 crore (above I-direct estimate of ₹ 2,202.0 crore) led by 2.7% YoY increase in volumes to 6.0 MT (above I-direct estimate of 5.2 MT) and 2.5% YoY increase in realisation to ₹ 4,208 (vs. I-direct estimate of 4,271)
- EBITDA margin fell 328 bps YoY to 14.4% (vs. I-direct estimate of 13.5%) due to a rise in power & fuel and freight cost. EBITDA/tonne declined 16.5% YoY to ₹ 606/tonne (better than I-direct estimate of ₹ 576/tonne mainly led by operating leverage benefit)

### Improving demand, pricing in company's key markets to drive growth

The government's focus on infrastructure development (as seen in the current Budget) and its new thrust on affordable housing projects are expected to drive cement demand in coming years. Further, healthy monsoons are expected to drive demand for rural housing thereby further boosting cement demand. Consequently, cement demand is expected to reach 311 MT by FY19E (i.e. at CAGR of 7.5%) vs. (CAGR of 4.7% in the last five years). In addition, we expect improvement in pricing to continue especially in north led by pick-up in demand. Consequently, we expect revenues to increase at a CAGR of 11.7% in CY16-18E.

### ACC-Ambuja restructuring to result in synergy benefits of ~₹ 900 crore

With FIPB approval, LafargeHolcim's stake in Ambuja increased from 50.5% to 61.1% (leading to equity dilution of 43.6 crore). Further, LafargeHolcim received ₹ 3,500 crore from Ambuja. In turn, Ambuja now owns LafargeHolcim's 50.05% stake in ACC. Although the cash outflow of ₹ 3500 crore from the books of Ambuja would lower the pace of major capex in the medium term, the synergy benefit in terms of cost saving (~₹ 900 crore) and dividend from ACC would start generating healthy cash flow from CY17E.

### Improving margins, efficient WC management to result in higher OCF

We expect the company to generate cash flow of ~₹ 4,200 crore over CY16-18E led by efficient working capital management and improving margins. Hence, despite meeting ₹ 3,000 crore capex requirement the company will be able to maintain debt free status in future.

### Cement cycle upturn, cost rationalisation to improve financials

The company's exposure to high growth regions like north and east is expected to result in higher utilisation in coming years. Further, increased focus of the government on infrastructure development is expected to drive cement demand in coming years. Consequently, we expect revenues to increase at a CAGR of 11.7% in CY16-18E. Further, cost control initiatives like higher share alternative fuels, better sales mix and synergy benefits will help the company in margin expansion, going forward. Hence, we continue to maintain our **BUY** rating with a target price of ₹ 280 share (i.e. valuing Ambuja's business at 16.0x CY18E EV/EBITDA and valuing stake in ACC at a discount of 10% on fair value that works out to implied valuation of \$185 EV/tonne on combined adjusted capacity).

**Variance analysis**

	Q1CY17	Q1CY17E	Q1CY16	YoY (%)	Q4CY16	QoQ (%)	Comments
Net Sales	2,533.4	2,202.0	2,406.0	5.3	2,196.7	15.3	Improving demand and higher realisation in company's key markets drove revenues during the quarter
Other Incomes	131.0	170.0	151.3	-13.5	75.5	73.6	
Raw Material Expenses	204.3	195.9	220.7	-7.4	177.6	15.1	
Employee Expenses	167.7	152.1	147.3	13.9	148.6	12.9	
Change in stock	31.1	0.0	-66.8	-146.6	80.4	N.A	
Power and fuel	538.8	448.5	511.8	5.3	415.3	29.7	The rise in power & fuel cost was mainly due to higher pet coke prices
Freight	741.2	592.9	696.7	6.4	578.0	28.2	Increase in diesel prices led to higher freight cost
Others	485.3	515.5	470.7	3.1	502.1	-3.3	
EBITDA	365.1	297.1	425.5	-14.2	294.7	23.9	
EBITDA Margin (%)	14.4	13.5	17.7	-328 bps	13.4	99 bps	EBITDA margin decline was led by increase in power and freight cost
Interest	37.7	18.1	18.8	100.5	13.6	176.6	
Depreciation	146.0	157.6	383.0	-61.9	156.3	-6.6	Depreciation expenses declined from ₹ 383 crore to ₹146 crore mainly led by absence of amortisation of goodwill in Q1CY17
PBT	312.4	291.4	175.1	78.4	200.3	56.0	
Total Tax	65.8	84.5	121.6	-45.9	24.4	169.8	
PAT	246.5	206.9	53.5	360.7	175.9	40.2	PAT during the quarter improved significantly due to fall in depreciation expenses

**Key Metrics**

Volume (MT)	6.02	5.20	5.86	2.7	5.00	20.4	
Realisation (₹)	4,208	4,271	4,106	2.5	4,393	-4.2	Better pricing in north led to higher realisation
EBITDA per Tonne (₹)	606	576	726	-16.5	589	2.9	EBITDA/t declined 16.5% YoY led by higher power and freight cost/t

Source: Company, ICICIdirect.com Research

**Change in estimates**

₹ Crore)	CY17E			CY18E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	10,857.0	10,236.9	-5.7	12,032.0	11,413.3	-5.1	Revenues are expected to increase at a CAGR of 11.7% over CY16-18E
EBITDA	2,132.4	2,015.7	-5.5	2,385.1	2,282.2	-4.3	
EBITDA Margin (%)	19.6	19.7	5 bps	19.8	20.0	17 bps	We expect EBITDA margins to improve 275 bps in CY16-18E led by cost rationalisation
PAT	1,281.4	1,277.7	-0.3	1,346.8	1,369.4	1.7	
EPS (Diluted) (₹)	6.5	6.4	-0.3	6.8	6.9	1.7	

Source: Company, ICICIdirect.com Research

**Assumptions**

	Current						Comments
	CY14	CY15	CY16	CY17E	CY18E	CY17E	
Volume (MT)	21.5	21.5	21.1	22.9	24.7	24.1	26.0
Realisation (₹)	4,601	4,351	4,331	4,478	4,612	4,499	4,633
EBITDA per Tonne (₹)	864	667	747	882	922	884	918

Source: Company, ICICIdirect.com Research

## Annual Report Analysis

### Robust capacity expansion plans

Ambuja reported a 1.9% YoY dip in volumes in vs. industry growth of 5.0%, which we believe is mainly due to loss in market share. However, we believe the expansion plans will help Ambuja regain lost market share. The company has guided to set up 1.7 MT clinkerisation plant at Marwar Mudwa, Nagpur district of Rajasthan. Site development, infrastructure, engineering, tendering and contracting of the project is expected to commence in CY17. Further, the company ultimately plans to set up 4.5 MT cement capacity with three grinding units.

### Other key developments

The new coal block acquired by Ambuja in Chhattisgarh and having extractable reserves of 50 MT is expected to commence mining operations in CY18. This new coal block will help the company reduce fuel cost volatility. Further, the company has secured limestone reserves at Bhatpara plant and Ambujanagar plants by acquiring new mining lease at Maldi Mopar mines and Loadhva mines.

### Cost rationalisation helps margin expansion

Ambuja's focus on cost reduction has enabled the company to lower its overall cost/t by 2.5% YoY. The company was able to achieve this by 9.1% YoY decline in power cost/tonne and reduction in raw material cost (mainly led by 10.0% decline in gypsum cost). The reduction in power and fuel cost/t was driven by higher usage of pet coke, alternative fuels and WHRMS. Going forward, we expect the cost structure to further improve led by expected synergy benefit for ACC-Ambuja over the next three years.

### Higher amortisation impacts depreciation

Depreciation increased 35.9% YoY mainly led by amortisation of goodwill of ₹ 240 crore arising on account of amalgamation of ACC.

### Better working capital management

Although there was a marginal increase in inventory days (from 35 days to 37 days), increase in payable days (from 83 days to 94 days) enabled the company to register an improvement in working capital cycle.

### Return ratio falls to all-time low

Return ratios dipped to 5.1% mainly due to lower capacity utilisation (down from 76.0% to 73.0% in CY16) and 0.3% YoY decline in realisation.

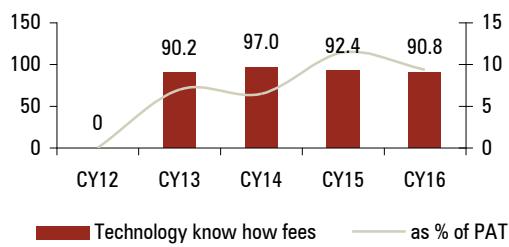
### Technical know how fees continue to rise

The company has paid ₹ 90.8 crore (increased from nil in CY12 to 9.4% of PAT in CY16) as technology know how fees to Holcim Technology. In addition, remuneration to top management, independent directors and non-executive directors accounted for 1.3% of PAT.

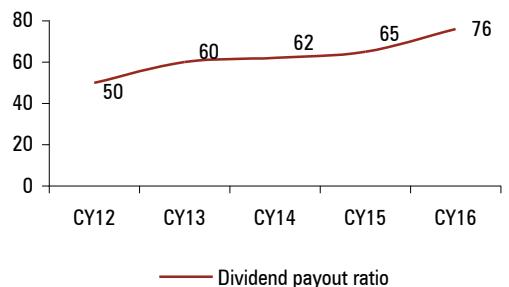
### Flat dividend per share despite rise in payout ratio

The company declared a dividend of ₹ 2.8 per share same as last year. However, dividend payout ratio increased from 66.0% to 76.0% mainly due to equity dilution.

### Technical know how fees trend



### Dividend payout ratio

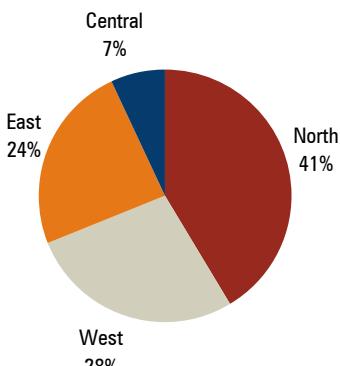


## Company Analysis

### Third largest player with no exposure to volatile southern region

Ambuja Cement is the third largest cement manufacturer in India with cement production capacity of ~29 MT. The company has a presence in all regions except south where the issue of overcapacity persists. Out of total capacity of ~29 MT, highest capacity is in the north region, which is ~12 MT while capacity in west, east and central regions are ~8 MT, ~7 MT and ~2 MT, respectively. Ambuja Cement has a market share of ~17% in the northern region, ~12% in the eastern region and ~24% in the western region.

#### Regional presence



### Strong presence in north keeps plant utilisation at healthy levels

Due to the company's strong focus on the northern region where demand is continuously rising, Ambuja has been able to maintain higher utilisation even in a difficult business environment. Along with higher utilisation level, availability of sea transport and majority of sale through robust retailers has helped the company to keep healthy EBITDA margins.

### To reach capacity of 34 MT by CY18E

The company is planning to expand its capacity to ~34 MTPA by CY18E. Out of the new capacity planned, 1.7 MTPA will come up in the northern region while the central region is expected to see capacity expansion by 3.0 MTPA respectively.

#### Exhibit 1: Capex plans

	State	Region	MT
Current Capacity in CY16			29.1
Additions :			
Marwar Mundwa, Nagaur	Rajasthan	North	1.7
Dadri, Gautam Buddha Nagar	Uttar Pradesh	Central	1.5
Osara, Mandsaur	Madhya Pradesh	Central	1.5
Total by CY18E			33.8

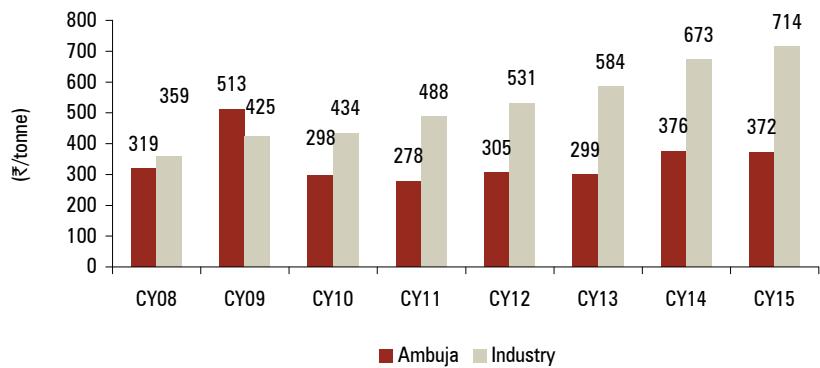
Source: Company, ICICIdirect.com Research

### Improving margins, efficient working capital management to result in higher OCF

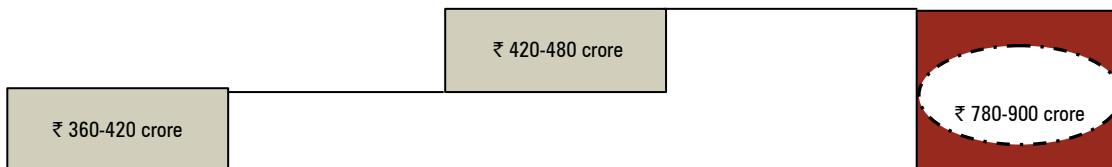
We expect the company to generate cash flow of ~₹ 4,200 crore over CY16-18E led by efficient working capital management and improving margins. Hence, despite meeting ₹ 3,000 crore capex requirement the company will be able to maintain debt free status in future.

### Lower raw material cost due to lower use of purchased clinker

The company has maintained lower raw material cost compared to the industry for many years. Raw material cost per tonne for the company has come down drastically after commissioning of two new clinkerisation plants at Bhatpara and Rauri in CY10, which reduced the amount of purchased clinker for the company. Barring CY09, its total RM cost has consistently remained below industry average.

**Exhibit 2: Lower raw material cost per tonne compared to industry**

*Source: Company, ICICIdirect.com Research*
**ACC's stake acquisition to drive synergy benefits in longer run**

The acquisition of ACC by Ambuja is expected to reduce cost through consolidation of shared services (like finance, HR and marketing) vendor consolidation and swapping of plants (to reduce lead distance). The restructuring is expected to result in synergy benefits of ~₹ 900 crore resulting in long term benefits for ACC and Ambuja. We expect the benefits of synergies to start flowing in CY17E.

**Exhibit 3: Potential synergy benefit of ₹ 900 crore as indicated by management**


**Supply Chain Optimisation:**  
- Clinker Swaps  
-- 2 ACC plants supply clinker to 2 ACL units  
-- 2 ACL plants supply to 4 ACC units  
- Cement Swaps  
-- 13 ACL plants supply in parts of 21 states for ACC  
-- 10 ACC plants supply in parts of 16 states for ACL

**Shared Services/ Fixed Costs:**  
- Procurement  
- Fixed cost reduction through shared services in back-end processes  
-- Finance/Controlling  
-- Human Resources  
-- Marketing/Sales  
- Financial Optimisation

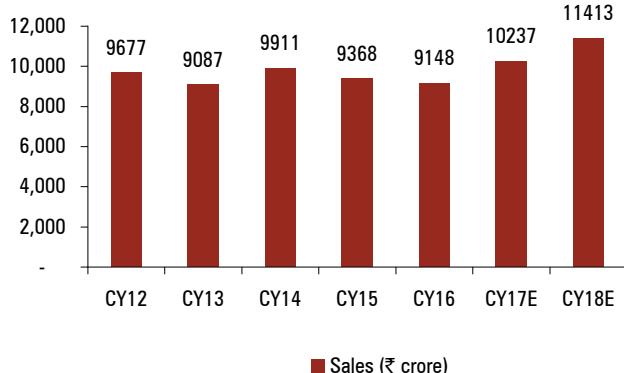
**Expected Synergies & Benefits:**  
- Replication of best practices  
- Annual saving potential to be realised in a phased manner over 2 years  
- Equally beneficial for ACL & ACC  
- 'India Management Committee' structure

*Source: Company, ICICIdirect.com Research*

### Expect revenue CAGR of 11.7% during CY16-18E

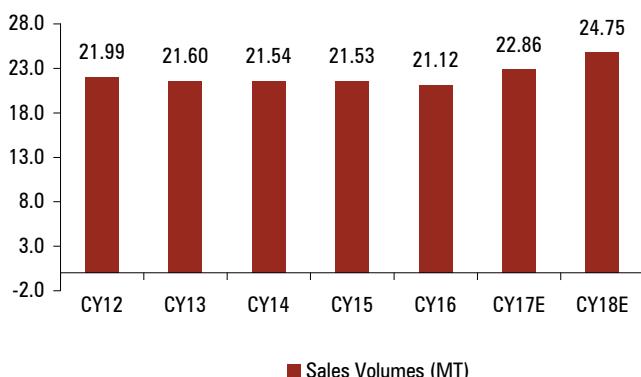
Revenues have grown at 1.4% CAGR in CY11-16 led by realisation CAGR of 1.1% and volume CAGR of 0.3% during the same period. For CY16-18E, we expect sales CAGR of 11.7% with realisation CAGR of 3.2% and volume CAGR of 8.2% during the same period led by increase in infra spend by the government. The company is well on track on the capacity expansion front and will expand current capacity of 29 MT to ~34 MT by CY18E.

#### Exhibit 4: Expect expansion led revenue CAGR of 11.7% during CY16-18E



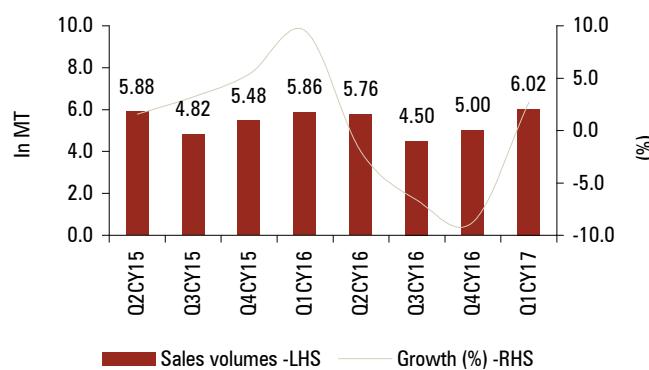
Source: Company, ICICIdirect.com, Research

#### Exhibit 6: Volume to grow at 8.2% CAGR during CY16-18E



Source: Company, ICICIdirect.com Research

#### Exhibit 8: Q1CY17 sales volume up 2.7% YoY



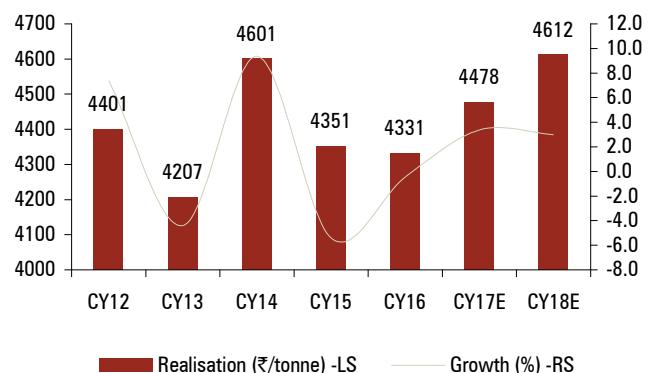
Source: Company, ICICIdirect.com Research

#### Exhibit 5: Capacity addition plans

	State	Region	MT
Current Capacity in CY16			29.1
Additions :			
Marwar Mundwa, Nagaur	Rajasthan	North	1.5
Dadri, Gautam Buddha Nagar	Uttar Pradesh	Central	1.5
Osara, Mandsaur	Madhya Pradesh	Central	1.5
Total by CY18E			33.6

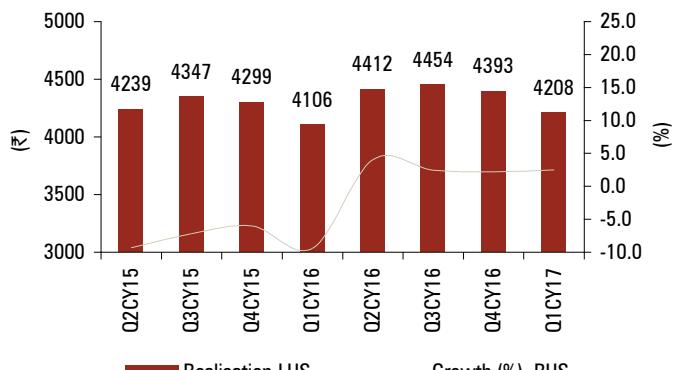
Source: Company, ICICIdirect.com, Research

#### Exhibit 7: Realisation to pick up led by recovery in demand



Source: Company, ICICIdirect.com Research

#### Exhibit 9: Q1CY17 realisations up 2.5% YoY

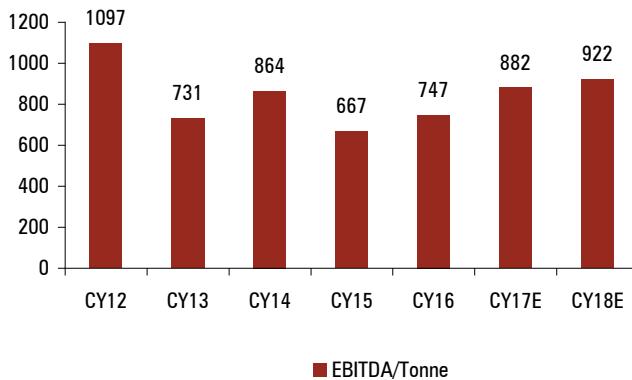


Source: Company, ICICIdirect.com Research

### Margins to improve led by higher realisation and cost rationalisation

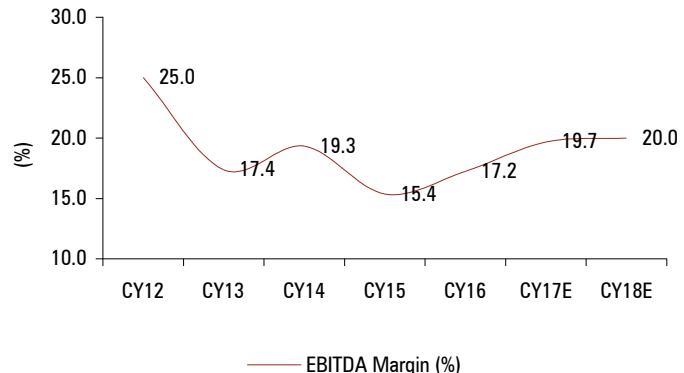
Given the up-tick in demand, we expect operating margins of Ambuja to improve led by higher realisation and better cost efficiency.

**Exhibit 10: Expect EBITDA/tonne of ₹ 922 by CY18E**



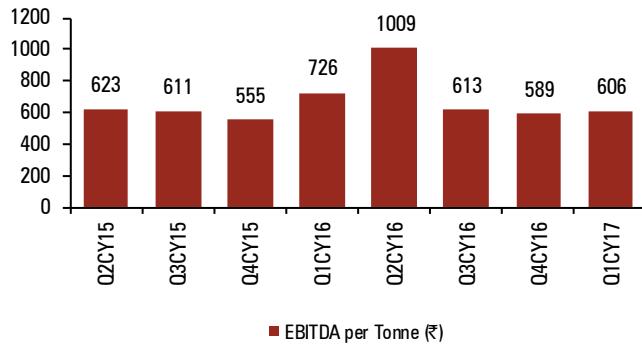
Source: Company, ICICIdirect.com Research

**Exhibit 11: Margins to improve led by cost efficiency**



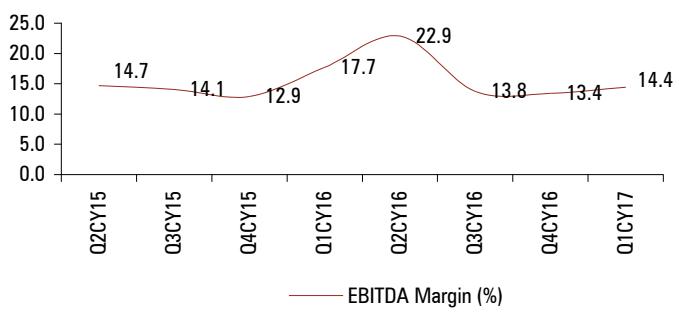
Source: Company, ICICIdirect.com Research

**Exhibit 12: Q1CY17 EBITDA/tonne declines 16.5% YoY**



Source: Company, ICICIdirect.com Research

**Exhibit 13: Margins decline due to higher power cost**

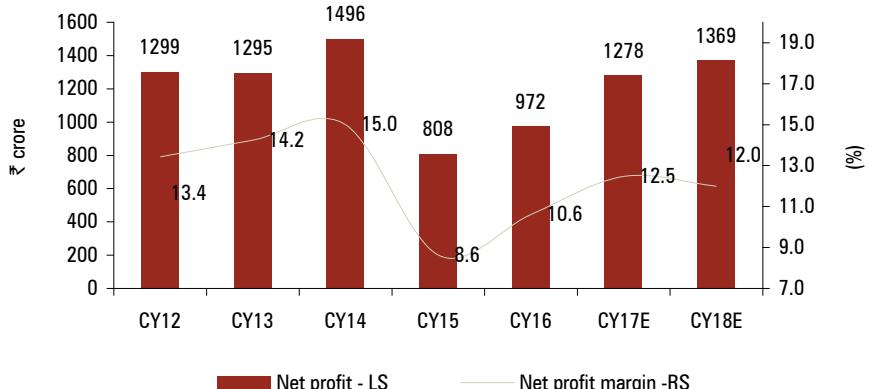


Source: Company, ICICIdirect.com Research

### Expect net profit to increase at CAGR of 18.7% in CY16-18E

We expect net margins to improve to 12.0% in CY18E (from 10.6% in CY16) led by better demand and higher realisation in CY18E. As a result we expect net profit to increase at a CAGR of 18.7% in CY16-18E.

**Exhibit 14: Profitability trend**



Source: Company, ICICIdirect.com Research

## Outlook and valuations

The company's exposure to high growth regions like north and east is expected to result in higher utilisation in coming years. Further, increased focus of the government on infrastructure development is expected to drive cement demand in coming years. Consequently, we expect revenues to increase at a CAGR of 11.7% over CY16-18E. Further, cost control initiatives like higher share alternative fuels, better sales mix and synergy benefits will help the company in margin expansion, going forward. Hence, we continue to maintain our **BUY** rating with a target price of ₹ 280 share (i.e. valuing Ambuja's business at 16.0x CY18E EV/EBITDA and valuing stake in ACC at a discount of 10% on fair value that works out to implied valuation of \$185 EV/tonne on combined adjusted capacity).

### Exhibit 15: Fair value calculations (in ₹ crore)

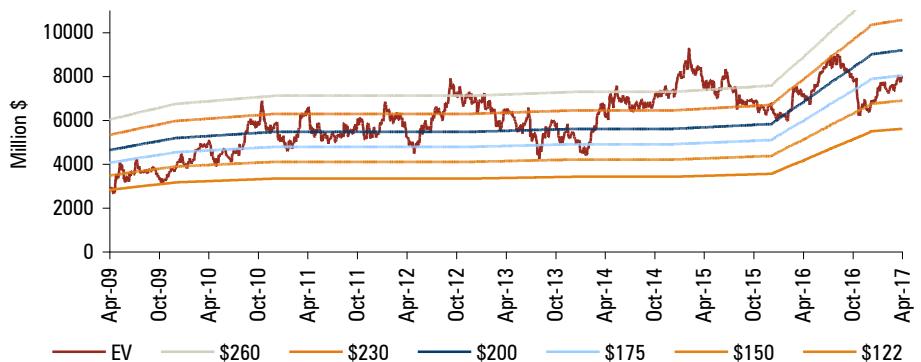
Fair value calculation	in ₹ crore
EBITDA Estimates CY18E	2,282.2
Target EV/EBITDA	16.4
Target Enterprise value	37,428.0
Debt	31.5
Balance Cash (post investment)	2,479.3
Target equity value	39,875.8
O/s shares post ACC deal	198.6
Fair value of Ambuja [A]	200.8
Cost of Investment in ACC (50% stake) [A]	10,909.9
ACC's fair equity valuation	34,724.5
Valuation of 50% stake [B]	17,362.3
Holding company discount	10.0%
Net value to Ambuja	15,626.0
O/s shares post ACC deal	198.6
Fair value of Investment in ACC [B]	78.7
Fair value per share [A+B]	280

Source: Company, ICICIdirect.com Research

### Exhibit 16: Assumptions

₹ per tonne	CY13	CY14	CY15	CY16	CY17E	CY18E
Sales Volume (mtpa)	22	22	22	21	23	25
Net Realisation	4207	4601	4351	4331	4478	4612
Total Expenditure	3476	3737	3684	3585	3596	3690
Stock Adjustment	55	7	12	-14	14	0
Raw material	302	388	372	368	339	360
Power & Fuel	955	1052	955	867	895	950
Employees	233	270	274	280	279	275
Freight	1092	1137	1166	1171	1231	1250
Others	840	884	906	913	838	855
EBITDA per Tonne	731	864	667	747	882	922

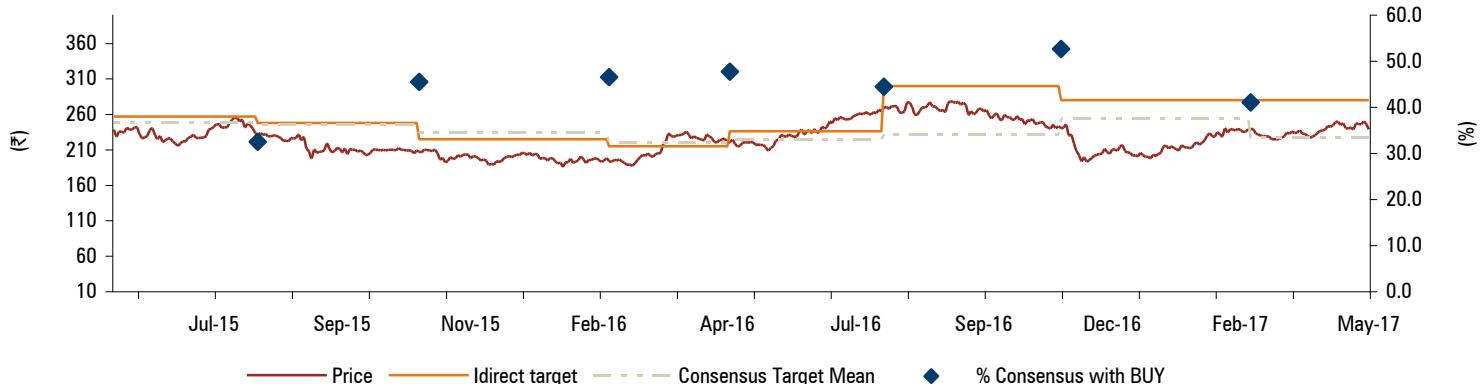
Source: Company, ICICIdirect.com Research

**Exhibit 17: One year forward EV/Tonne**

*Source: Company, ICICIdirect.com Research*
**Exhibit 18: Valuation**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/Tonne (\$)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY15	9368.3	9.8	5.2	15.2	46.4	165.8	30.0	7.8	7.9
CY16	9148.1	-2.4	4.9	-6.1	49.5	171.0	28.9	5.1	3.8
CY17E	10236.9	11.9	6.4	31.5	37.6	166.6	22.8	6.5	7.1
CY18E	11413.3	11.5	6.9	7.2	35.1	166.7	20.1	6.8	7.9

*Source: Company, ICICIdirect.com Research*

## Recommendation History vs. Consensus Estimate



Source: Bloomberg, Company, ICICIdirect.com Research

## Key events

Date	Event
Jan-11	Starts commercial production in a new cement mill at a cost of ~₹ 185 crore at Bhatapara plant. Also, commissions a new cement mill of 0.9 MT cement grinding capacity at Maratha Cement Works plant at a cost of ~₹ 61 crore
Jun-11	Makes strategic investments in Dang Cement Industries Pvt Ltd, Nepal and acquires 85% shareholding for ₹ 19.13 crore to help further expansion of capacity in north India and Nepal
Sep-11	Acquires 60% shareholding in Dink India Pvt Ltd, Maharashtra for ₹ 16.51 crore. The company enters into a joint venture for speciality cement manufacturing facility in Goa with Counto Microfine Products Pvt Ltd
Jun-12	CCI imposes a fine of 50% of annual profit of fiscal year ending 2010 and 2011, a total of ₹ 6000 crore, on 11 cement companies including Ambuja cement for alleged cartelisation
Sep-12	The inter-ministerial panel recommends de-allocation of coal blocks held by five companies, including Ambuja Cement
Dec-12	Ambuja Cement discontinues providing monthly production and sales updates citing provision in new accounting norms
Mar-13	Obtains a stay on penalty of ₹ 1163 crore imposed on it by CCI but ordered to deposit 10% of the amount
Jul-13	Holcim Group to consolidate its holding in ACC through Ambuja Cements. The transaction will result in Ambuja holding 50% stake in ACC, in which Holcim India currently holds 50.01%
Mar-15	Ambuja Cement secures block at Gare-Palma Sector-IV/8 in the state of Chhattisgarh
Feb-16	Ambuja commissions 0.9 mt grinding unit at Sankrail
Aug-16	Ambuja acquires 50.05% stake in ACC

Source: Company, ICICIdirect.com Research

## Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Holcim Group	31-Mar-17	63.1	1,253.2	0.0
2	Life Insurance Corporation of India	31-Mar-17	6.6	131.4	0.0
3	Capital Research Global Investors	31-Mar-17	2.4	46.7	0.0
4	Aberdeen Asset Management (Asia) Ltd.	28-Feb-17	2.1	41.2	0.0
5	J.P. Morgan Asset Management (Hong Kong) Ltd.	28-Feb-17	1.4	28.7	0.0
6	The Vanguard Group, Inc.	31-Mar-17	1.2	23.9	0.3
7	BlackRock Institutional Trust Company, N.A.	31-Mar-17	0.9	17.1	1.0
8	Harding Loevner LP	28-Feb-17	0.8	15.7	-0.6
9	T. Rowe Price Hong Kong Limited	28-Feb-17	0.5	10.2	-0.3
10	British Columbia Investment Management Corp.	31-Mar-16	0.5	8.8	-1.7

## Shareholding Pattern

	(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	51.04	50.80	61.62	63.61	63.62	
FII	24.02	25.21	20.49	18.53	18.35	
DII	16.96	14.44	10.87	10.68	10.77	
Others	7.98	9.55	7.02	7.18	7.26	

Source: Reuters, ICICIdirect.com Research

## Recent Activity

Investor name	Buys			Sells		
	Value	Shares	Investor name	Value	Shares	
Union Investment Luxembourg S.A.	6.8	2.2	HSBC Global Asset Management (Hong Kong) Limited	-8.7	-2.8	
BlackRock Institutional Trust Company, N.A.	3.5	1.0	Lyxor Asset Management	-8.3	-2.3	
City of London Investment Management Co. Ltd.	1.6	0.5	L&T Investment Management Limited	-4.6	-1.3	
The Vanguard Group, Inc.	1.0	0.3	Tata Asset Management Limited	-2.6	-0.7	
Northern Trust Global Investments	0.8	0.2	DSP BlackRock Investment Managers Pvt. Ltd.	-2.6	-0.7	

Source: Reuters, ICICIdirect.com Research

## Financial summary

Profit and loss statement		₹ Crore	
(Year-end March)	CY15	CY16	CY17E
Total operating Income	9,368.3	9,148.1	10,236.9
Growth (%)	-6.1	-2.4	11.9
Raw material	826.7	746.5	807.0
Power & Fuel	2052.9	1832.0	2046.0
Employees	589.5	591.1	636.9
Freight	2509.7	2472.8	2814.5
Others	1951.1	1928.1	1916.7
Total Operating Exp.	7,929.9	7,570.5	8,221.1
<b>EBITDA</b>	<b>1,438.4</b>	<b>1,577.6</b>	<b>2,015.7</b>
Growth (%)	-25.4	9.7	27.8
Depreciation	625.7	850.1	615.9
Interest	91.8	72.1	150.8
Other Income	451.3	683.7	536.4
Exceptional items	0.0	0.0	0.0
PBT	1,172.3	1,339.0	1,785.5
Total Tax	364.7	367.2	507.8
<b>PAT</b>	<b>807.6</b>	<b>971.8</b>	<b>1,277.7</b>
Adjusted PAT	807.6	971.5	1,277.7
Growth (%)	-46.0	20.3	31.5
<b>Adjusted EPS (₹)</b>	<b>4.1</b>	<b>4.9</b>	<b>6.4</b>
			<b>6.9</b>

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore	
(Year-end March)	CY15	CY16	CY17E
Profit after Tax	807.6	971.5	1,277.7
Add: Depreciation	625.7	850.1	615.9
(Inc)/dec in Current Assets	-238.3	-12.0	-113.4
Inc/(dec) in CL and Provisions	81.3	394.8	162.2
<b>CF from operating activities</b>	<b>1,276.3</b>	<b>2,204.4</b>	<b>1,942.4</b>
(Inc)/dec in Investments	-43.7	-10,723.3	0.0
(Inc)/dec in Fixed Assets	-214.5	-642.7	-1,500.0
Others	-24.1	-72.0	0.0
<b>CF from investing activities</b>	<b>-282.3</b>	<b>-11,438.0</b>	<b>-1,500.0</b>
Issue/(Buy back) of Equity	0.4	86.8	0.0
Inc/(dec) in loan funds	0.4	2.9	0.0
Dividend paid & dividend tax	-509.3	-654.4	-720.2
Inc/(dec) in Sec. premium	0.0	0.0	0.0
Others	-95.1	8,364.2	0.0
<b>CF from financing activities</b>	<b>-603.6</b>	<b>7,799.5</b>	<b>-720.2</b>
Net Cash flow	390.4	-1,434.2	-277.8
Opening Cash	2,458.1	2,848.4	1,414.3
<b>Closing Cash</b>	<b>2,848.4</b>	<b>1,414.3</b>	<b>1,136.5</b>
			<b>1,116.5</b>

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore	
(Year-end March)	CY15	CY16	CY17E
Liabilities			
Equity Capital	310.4	397.1	397.1
Reserve and Surplus	9,996.5	18,677.9	19,235.4
Total Shareholders funds	10,306.9	19,075.0	19,632.5
Total Debt	28.7	31.5	31.5
Deferred Tax Liability	564.9	492.9	492.9
<b>Total Liabilities</b>	<b>10,900.5</b>	<b>19,599.4</b>	<b>20,157.0</b>
Assets			
Gross Block	11,792.9	12,935.6	14,435.6
Less: Acc Depreciation	5,786.8	6,636.9	7,252.7
Net Block	6,006.1	6,298.7	7,182.8
Capital WIP	500.0	0.0	0.0
Total Fixed Assets	6,506.1	6,298.7	7,182.8
Investments	2,505.7	13,229.0	13,229.0
Inventory	895.5	937.5	1,109.8
Debtors	286.4	300.1	356.2
Loans and Advances	1,057.0	1,041.6	923.9
Other Current Assets	62.9	34.5	37.1
Cash	2,848.4	1,414.3	1,136.5
Total Current Assets	5,150.1	3,728.0	3,563.6
Creditors	2,141.8	2,361.2	2,670.2
Provisions	1,119.7	1,295.0	1,148.2
Total Current Liabilities	3,261.5	3,656.3	3,818.4
Net Current Assets	1,888.6	71.7	-254.9
<b>Application of Funds</b>	<b>10,900.5</b>	<b>19,599.4</b>	<b>20,157.0</b>
			<b>20,782.9</b>

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	CY15	CY16	CY17E	CY18E
Per share data (₹)				
Adjusted EPS	4.1	4.9	6.4	6.9
Cash EPS	9.2	9.2	9.5	10.3
BV	66.5	96.1	98.9	102.0
DPS	2.8	2.8	3.1	3.2
Cash Per Share	18.4	7.1	5.7	5.6
Operating Ratios (%)				
EBITDA Margin	15.4	17.2	19.7	20.0
PAT Margin	8.6	10.6	12.5	12.0
Inventory days	34.8	36.6	36.5	36.5
Debtor days	10.0	11.7	11.7	11.7
Creditor days	80.1	89.8	89.7	89.7
Return Ratios (%)				
RoE	7.8	5.1	6.5	6.8
RoCE	7.9	3.8	7.1	7.9
RoIC	16.7	4.4	8.0	8.8
Valuation Ratios (x)				
P/E	46.4	49.5	37.6	35.1
EV / EBITDA	30.0	28.9	22.8	20.1
EV / Net Sales	4.6	5.0	4.5	4.0
Market Cap / Sales	5.1	5.3	4.7	4.2
Price to Book Value	3.6	2.5	2.4	2.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.6	1.0	0.9	0.9
Quick Ratio	0.7	0.6	0.6	0.6

Source: Company, ICICIdirect.com Research

**ICICIdirect.com coverage universe (Cement)**

Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	
ACC*	1584	1850	Buy	29,770	31.3	35.6	63.7	24.3	22.6	15.1	155	155	133	6.0	6.9	11.4	7.0	7.7	12.7
Ambuja Cement*	242	280	Buy	48,053	4.1	4.9	6.4	30.0	28.9	22.8	166	171	167	7.9	3.8	7.1	7.8	5.1	6.5
UltraTech Cem	4,181	4750	Buy	114,727	86.4	95.8	118.9	25.5	22.8	19.6	290	279	277	11.6	12.3	14.1	11.3	11.0	12.4
Shree Cement	18,928	17000	Hold	65,869	202	366	565	48.5	28.5	19.0	411	383	382	6.5	12.3	18.5	10.9	16.8	20.8
Heidelberg Cem	136	135	Hold	3,059	1.7	1.8	3.6	13.4	19.7	18.7	124	120	113	8.4	6.0	6.2	6.8	4.3	4.4
India Cement	209	175	Buy	6,420	4.3	5.9	8.5	12.0	11.5	9.6	101	100	97	8.5	8.8	10.4	4.0	4.8	6.5
JK Cement	958	990	Hold	6,699	15.4	32.7	31.4	18.2	14.4	15.0	127	124	125	8.9	12.2	11.4	6.3	12.6	10.6
JK Lakshmi Cem	467	550	Buy	5,497	2.0	6.9	12.3	19.9	26.1	18.2	143	122	87	7.8	5.4	9.0	7.2	1.8	5.8
Mangalam Cem	366	340	Buy	977	-7.8	13.0	25.2	38.7	11.8	7.7	67	53	52	1.7	9.4	15.2	NA	6.8	11.8
SFCL	140	115	Hold	3,114	4.1	4.5	4.4	9.7	10.3	8.8	173	173	170	12.0	11.8	12.3	12.3	12.0	11.0

Source: Company, ICICIdirect.com Research, \*FY16E,FY17E,FY18E is CY15,CY16,CY17,

## RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Strong Buy:** >15%/20% for large caps/midcaps, respectively, with high conviction;

**Buy:** >10%/15% for large caps/midcaps, respectively;

**Hold:** Up to +/-10%;

**Sell:** -10% or more;



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1<sup>st</sup> Floor, Akruti Trade Centre,  
Road No. 7, MIDC,  
Andheri (East)  
Mumbai – 400 093**

[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

We /I, Rakesh Shah, CA, and Devang Bhatt, PGDBM Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Rakesh Shah, CA, and Devang Bhatt, PGDBM Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Rakesh Shah, CA, and Devang Bhatt, PGDBM Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.