

Ambuja Cements

BUY

Pricing kicker continues

We recommend a BUY on Ambuja Cements with a TP of Rs 240 (SOTP based). In 3QCY19, strong pricing more than offsets weak demand. Thus, standalone net sales/EBITDA/PAT rose 1/23/31% YoY to Rs 26.26/4.40/2.35bn respectively.

HIGHLIGHTS OF THE QUARTER

- Utilization slumps on weak demand:** Sales volume declined 4/10% YoY/QoQ to 5.2mn MT, driven by industry wide weak demand during the quarter. Utilization declined to 71% from 74/79% YoY/QoQ.
- Robust pricing despite weak demand:** Ambuja surprised positively on NSR front. Despite heavy rains and floods in its markets, its NSR fell a modest 2% QoQ (up 5% YoY) to Rs 5021/MT vs our est of 5.5% decline. This indicates Ambuja has been price-focused in the trade segment and did not push volumes during weak demand.
- Opex inflation jumped 7% QoQ (+1% YoY)** to Rs 4,180/MT. The co reported 3% higher unitary input costs QoQ and 25% higher unitary other expense, which led to a sharp inflation QoQ. Consumption of high cost fuel inventory led to higher unitary input costs. Higher advertisement and maintenance expense further drove up the other expenses, even though volumes declined. Amidst these, Ambuja further cut its unitary logistics cost by 1% QoQ, leading to a 10% YoY reduction. This moderated opex inflation YoY at +1%.

Financial Summary (Standalone)

Year Ending Dec (Rs mn)	3QCY19	3QCY18	YoY (%)	2QCY19	QoQ (%)	CY17	CY18	CY19E	CY20E	CY21E
Net Sales	26,261	26,139	0.5	29,783	(11.8)	104,55	113,568	115,058	122,578	133,868
EBITDA	4,398	3,582	22.8	6,984	(37.0)	18,955	18,905	21,546	23,480	25,768
APAT	2,346	1,786	31.4	4,121	(43.1)	12,049	12,081	13,823	15,053	15,937
Diluted EPS (Rs)	1.2	0.9	31.4	2.1	(43.1)	6.1	6.1	7.0	7.6	8.0
EV / EBITDA (x)						13.6	13.8	11.8	10.5	9.2
EV/MT (USD)						139	134	135	132	122
P/E (x)						34.1	34.0	29.7	27.3	25.8
RoE (%)						6.1	5.9	6.4	6.7	6.8

Source: Company, HDFC sec Inst Research

- Robust margin show continues aided by pricing tailwinds:** Ambuja's 3QCY19 unitary EBITDA jumped 28% YoY to Rs 841/MT to its 7-year high (in a monsoon qtr)! Thus, despite weak demand, robust pricing drove up EBITDA/PAT by 23/31% YoY.
- Other highlights:** Share of traded goods purchased (mainly with ACC) increased to 1.1% vs 0.8/0.1% QoQ/YoY. Also, Ambuja is still evaluating the recently announced changes in corporate tax rate, the same hasn't been incorporated in its 3Q numbers.
- Near term outlook:** Dragged by volume decline in 2Q/3Q, we estimate ACEM's overall CY19 vol to decline 3%. However, we expect demand recovery in CY20, and with ACEM's expansions in north, the company should drive 6% CAGR growth in CY19-21E. With robust-pricing lifting ACEM's unitary EBITDA to 7-yr high in CY19, cost tailwinds should further boost its margin expansion during CY20/21E.

STANCE

We recommend BUY with a SOTP based TP of Rs240. We value ACEM's standalone cement biz 11x its Jun-21E EBITDA and its 50% stake in ACC at a 20% holding disc. While ACEM's upcoming expansions would not arrest market share, robust profitability has made its valuations attractive. The stock currently trades at 10.5/9.2x its CY20/21E EBITDA and at an EV of USD 120/MT.

INDUSTRY	CEMENT
CMP (as on 18 Oct 2019)	Rs 207
Target Price	Rs 240
Nifty	11,662
Sensex	39,298

KEY STOCK DATA

Bloomberg	ACEM IN
No. of Shares (mn)	1,986
MCap (Rs bn) / (\$ mn)	412/5,791
6m avg traded value (Rs mn)	681

STOCK PERFORMANCE (%)

52 Week high / low	Rs 244/184		
	3M	6M	12M
Absolute (%)	(4.3)	(11.0)	(5.3)
Relative (%)	(5.3)	(11.4)	(18.3)

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	63.5	63.4
FIs & Local MFs	11.2	12.7
FPIs	17.7	17.0
Public & Others	7.6	6.9
Pledged Shares	-	-

Source : BSE

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Weak demand continues to mute revenue growth of yet another quarter

However, robust pricing buoyed EBITDA/PAT

EBITDA margin rebound to a 7-yr high (in a monsoon qtr)!

ACEM did not move to the new-reduced corp tax rate regime and is still evaluating its options

Strong price focus continues to yield in higher NSR

Continuous improvements in logistics cost moderated the impact of rise in adv and maintenance spend

Robust pricing + benign cost = healthy margins YoY

Quarterly Financials' Snapshot: Standalone

Standalone (Rs mn)	3QCY19	3QCY18	YoY (%)	2QCY19	QoQ (%)	9MCY19	9MCY18	YoY (%)
Net Sales	26,261	26,139	0.5	29,783	(11.8)	85,320	84,934	0.5
Raw Materials	3,786	4,707	(19.6)	4,506	(16.0)	12,629	12,882	(2.0)
Power and Fuel	5,988	5,498	8.9	6,085	(1.6)	19,172	18,396	4.2
Employee	1,678	1,633	2.7	1,688	(0.6)	5,037	5,087	(1.0)
Transport	5,146	5,684	(9.5)	5,816	(11.5)	17,559	18,812	(6.7)
Other Exp	5,265	5,035	4.6	4,703	12.0	14,910	14,882	0.2
EBITDA	4,398	3,582	22.8	6,984	(37.0)	16,015	14,876	7.7
<i>EBITDA margin (%)</i>	<i>16.7</i>	<i>13.7</i>	<i>305</i>	<i>23.4</i>	<i>(670)</i>	<i>17.5</i>	<i>18.8</i>	<i>126</i>
Depreciation	1,329	1,360	(2.2)	1,309	1.6	3,952	4,116	(4.0)
EBIT	3,069	2,222	38.1	5,675	(45.9)	12,063	10,760	12.1
Other Income (Including EO Items)	628	482	30.2	580	8.3	3,609	2,900	24.4
Interest Cost	216	192	12.3	208	3.7	599	641	(6.7)
PBT - Reported	3,481	2,512	38.6	6,047	(42.4)	15,074	13,019	15.8
Tax	1,135	726	56.3	1,926	(41.1)	4,337	3,522	23.1
<i>Tax rate (%)</i>	<i>32.6</i>	<i>28.9</i>	<i>369</i>	<i>31.9</i>	<i>74</i>	<i>27.1</i>	<i>28.8</i>	<i>172</i>
Minority Interest								
RPAT	2,346	1,786	31.4	4,121	(43.1)	10,736	9,496	13.1
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	516	-	-
APAT	2,346	1,786	31.4	4,121	(43.1)	10,221	9,496	7.6
<i>Adj PAT margin</i>	<i>8.9</i>	<i>6.8</i>	<i>210</i>	<i>13.8</i>	<i>(490)</i>	<i>11.2</i>	<i>12.0</i>	<i>80</i>

Source: Company, HDFC sec Inst Research

Quarterly Performance Analysis

	3QCY19	3QCY18	YoY (%)	2QCY19	QoQ (%)	9MCY19	9MCY18	YoY (%)
Sales vol (mn MT)	5.2	5.5	(4.2)	5.8	(10.1)	17.4	18.1	(3.7)
Rs/MT trend								
NSR	5,021	4,787	4.9	5,117	(1.9)	4,898	4,693	4.4
Raw materials	724	862	(16.0)	774	(6.5)	725	712	1.8
Power & fuel	1,145	1,007	13.7	1,046	9.5	1,101	1,016	8.3
Freight (inward +outward)	984	1,041	(5.5)	999	(1.5)	1,008	1,039	(3.0)
Employee	321	299	7.2	290	10.6	289	281	2.9
Other Exp	1,007	922	9.2	808	24.6	856	822	4.1
Opex	4,180	4,131	1.2	3,917	6.7	3,978	3,871	2.8
EBITDA	841	656	28.2	1,200	(29.9)	919	822	11.8

Source: Company, HDFC sec Inst Research

We estimate a 3% vol decline in CY19; however, we forecast 6% vol CAGR in CY19-21E on demand recovery and on upcoming expansion in Rajasthan (3.1mn MT clinker and 1.8mn MT grinding during CY20E)

We estimate NSR to grow at 2.7% CAGR during CY18-21E

We are also modelling in lower cost inflation of 1.5% CAGR during CY18-21E, due to the softening of fuel/diesel prices

Operational Trends and Assumptions

Particulars	CY15	CY16	CY17	CY18	CY19E	CY20E	CY21E
Cement Cap (mn MT)	29.6	29.6	29.6	29.6	29.6	31.4	31.4
Sales Volume (mn MT)	21.8	21.5	23.0	24.2	23.5	24.7	26.4
YoY change (%)	(1.6)	(1.5)	7.0	5.2	(2.9)	5.0	7.0
Utilisation (%)	73.7	72.7	77.8	81.8	79.5	78.7	84.2
(Rs/ MT trend)							
NSR (1)	4,342	4,283	4,550	4,697	4,899	4,970	5,073
YoY change (%)	(3.6)	(1.3)	6.2	3.2	4.3	1.5	2.1
Raw material cost	669	619	655	696	740	764	789
Power and fuel cost	942	853	972	1,054	1,070	1,038	1,059
Transport cost	861	880	963	1,047	1,010	1,020	1,041
Employee cost	271	275	288	281	285	285	285
Other expenses	897	866	847	837	876	911	923
Total Opex	3,639	3,494	3,725	3,915	3,981	4,018	4,096
YoY change (%)	0.6	(4.0)	6.6	5.1	1.7	0.9	1.9
EBITDA per MT	703	789	825	782	917	952	976
YoY change (%)	(19.3)	12.3	4.5	(5.2)	17.3	3.8	2.6

Source: Company, HDFC sec Inst Research

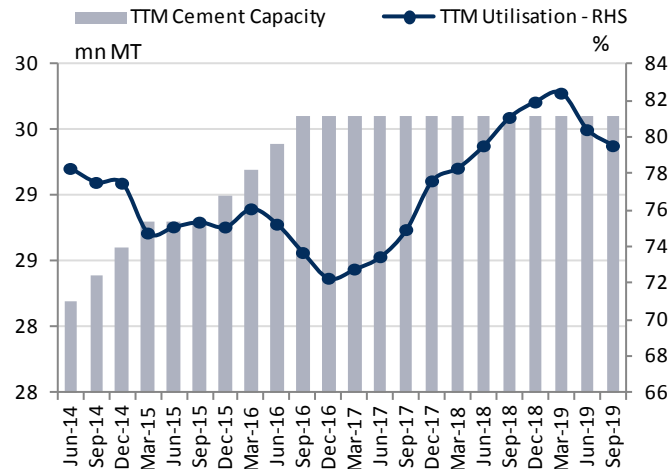
We have plotted ACEM's operating matrices on trailing 12-month (TTM) basis to show long term performance trends

Lack of capacity expansion plans have been a bane for the company as its volume growth and market share have continued to suffer

However, ACEM's pricing has benefited from its strong focus on the trade segment (80%+ sales exposure)

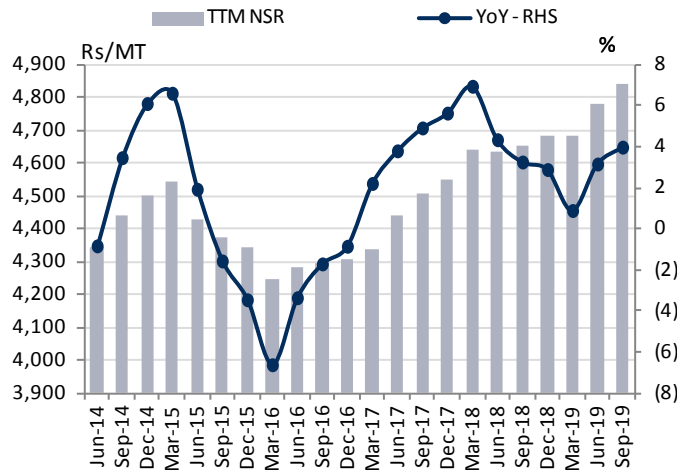
Long term performance trends

ACEM's utilization crossed 80% last year, but slumped again in CY19 so far amidst weak demand



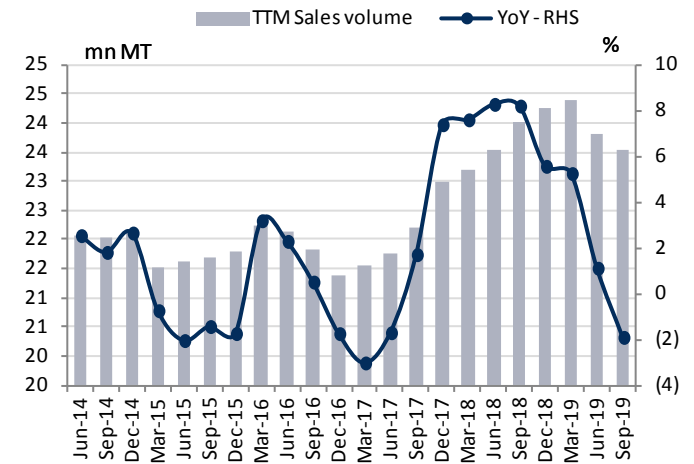
Source: Company, HDFC Sec Inst Research

ACEM's 80%+ trade sales exposure and focus on better realizations have bolstered NSR



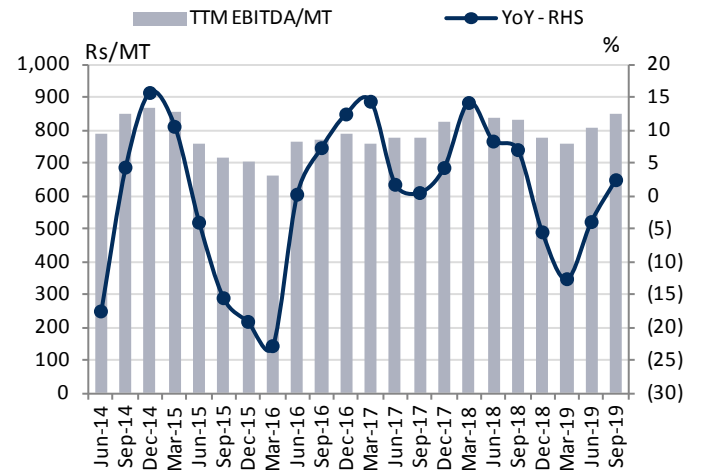
Source: Company, HDFC Sec Inst Research

Further as ACEM didn't add any capacities over the last several years, volumes have declined in CY19



Source: Company, HDFC Sec Inst Research

... leading to steady margin recovery over the past few quarters

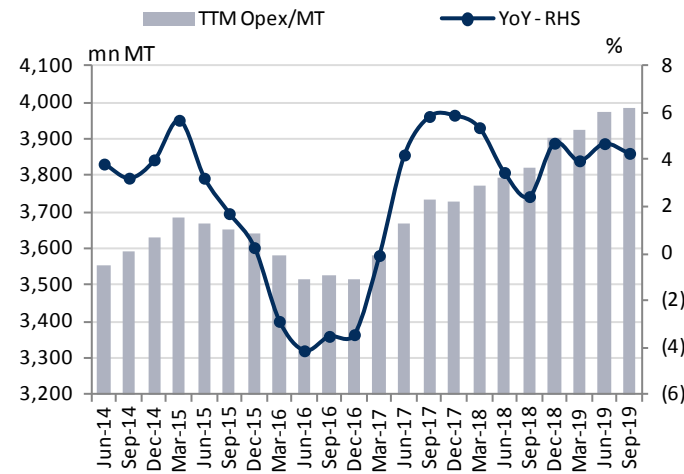


Source: Company, HDFC Sec Inst Research

ACEM is yet to deliver any improvement in its fixed cost or any benefits because of falling fuel prices

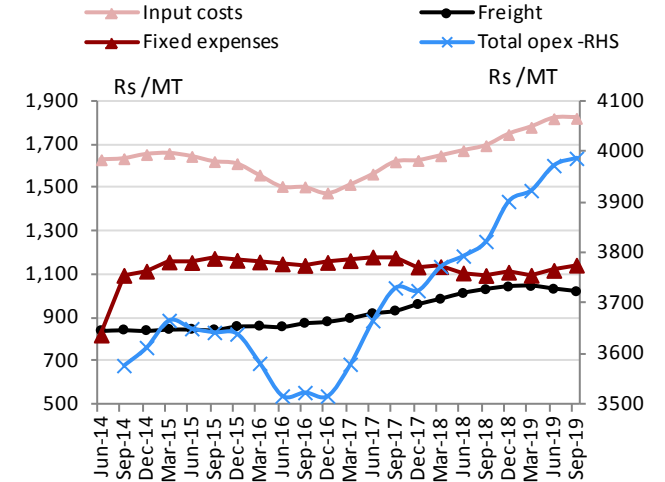
However, its freight cost has started to decline over the past year, which supports its margin-expansion

Opex continues to remain elevated, thus muting pricing gains



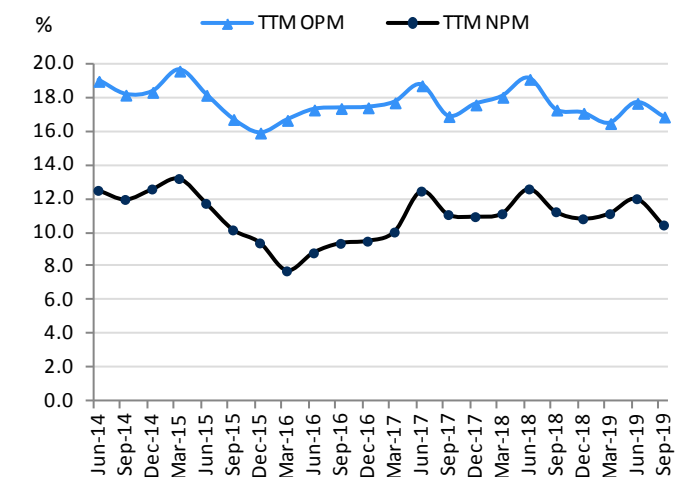
Source: Company, HDFC Sec Inst Research

ACEM's opex has grown led by rising input costs



Source: Company, HDFC Sec Inst Research

ACEM's EBITDA/PAT margin has remained range bound over the past four years



Source: Company, HDFC Sec Inst Research

We trim our volume estimates marginally on weak sales forecasts for CY19 but marginally increase pricing estimates on better realisations

Change in Estimates

Rs bn	CY19E Old	CY19E Revised	Change %	CY20E Old	CY20E Revised	Change %	CY21E Old	CY21E Revised	Change %
Net Revenues	114.4	115.1	0.5	124.6	122.6	(1.6)	139.6	133.9	(4.1)
EBITDA	20.7	21.5	4.1	22.4	23.5	5.0	25.2	25.8	2.4
APAT	14.1	13.8	(2.2)	14.6	15.1	2.9	15.8	15.9	0.7
AEPS	6.8	7.0	1.8	7.1	7.6	7.0	7.6	8.0	6.1

Source: HDFC sec Inst Research

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA (x)			EV/MT (USD)			Net D:E (x)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
UltraTech Cement	1,170.1	4,260	BUY	5,330	20.1	14.8	12.2	213	184	178	0.7	0.4	0.3	8.9	12.8	13.6
Shree Cement	633.7	18,190	NEU	19,200	22.2	16.4	13.9	234	219	203	(0.2)	(0.3)	(0.4)	13.5	17.2	17.0
Ambuja Cements	410.6	207	BUY	240	13.7	11.7	10.5	135	132	121	(0.7)	(0.7)	(0.7)	5.9	6.4	6.7
ACC	288.3	1,535	BUY	1,940	12.1	10.4	9.1	124	120	118	(0.3)	(0.4)	(0.4)	11.0	13.1	13.7
Ramco Cements	175.2	744	BUY	800	18.4	13.9	12.3	195	176	159	0.3	0.4	0.4	12.1	16.7	16.2
Dalmia Bharat	155.6	807	BUY	1,470	9.7	7.9	7.0	110	109	83	0.3	0.3	0.2	2.8	5.9	5.6
JK Cements	82.5	1,067	BUY	1,321	12.3	9.8	8.8	107	89	91	0.8	0.9	0.8	10.5	15.1	15.7
Star Cement	39.3	94	BUY	138	8.6	8.1	6.6	161	129	115	(0.1)	(0.2)	(0.3)	17.9	16.5	17.4
JK Lakshmi	33.7	286	BUY	376	11.1	7.5	7.2	65	64	65	0.8	0.7	0.6	5.3	13.6	14.5
Orient Cement	17.3	84	BUY	150	9.6	5.9	5.5	57	55	57	1.2	0.9	0.9	4.6	16.0	16.9
Deccan Cement	4.7	335	BUY	670	4.1	3.2	3.5	27	31	35	(0.2)	(0.0)	0.1	11.9	19.5	16.2

Source: Company, HDFC sec Inst Research, For ACC and Ambuja, the financial year is CY18/CY19E/CY20E resp

Standalone Income Statement

(Rs Mn)	CY17	CY18	CY19E	CY20E	CY21E
Revenues	104,559	113,568	115,058	122,578	133,868
Growth %	13.7	8.6	1.3	6.5	9.2
Raw Material	15,062	16,826	17,381	18,850	20,809
Power & Fuel	22,331	25,497	25,132	25,597	27,937
Freight Expense	22,123	25,314	23,729	25,164	27,464
Employee cost	6,614	6,796	6,694	7,029	7,521
Other Expenses	19,475	20,231	20,575	22,458	24,370
EBITDA	18,955	18,905	21,546	23,480	25,768
EBITDA Margin (%)	18.1	16.6	18.7	19.2	19.2
EBITDA Growth %	11.9	(0.3)	14.0	9.0	9.7
Depreciation	5,729	5,481	5,831	7,063	8,321
EBIT	13,226	13,424	15,716	16,417	17,447
Other Income (Including EO Items)	4,037	6,529	3,864	4,825	4,990
Interest	1,072	823	900	900	900
PBT	16,190	19,130	18,679	20,342	21,537
Tax	3,696	4,269	4,857	5,289	5,600
Minority Int	-	-	-	-	-
RPAT	12,495	14,860	13,823	15,053	15,937
EO (Loss) / Profit (Net Of Tax)	446	2,779	-	-	-
APAT	12,049	12,081	13,823	15,053	15,937
APAT Growth (%)	29.0	0.3	14.4	8.9	5.9
AEPS	6.1	6.1	7.0	7.6	8.0
AEPS Growth %	29.0	0.3	14.4	8.9	5.9

Source: Company, HDFC sec Inst Research

Standalone Balance Sheet

(Rs mn)	CY17	CY18	CY19E	CY20E	CY21E
SOURCES OF FUNDS					
Share Capital	3,971	3,971	3,971	3,971	3,971
Reserves And Surplus	195,761	206,154	215,346	225,768	235,917
Total Equity	199,732	210,125	219,317	229,739	239,888
Minority Interest	-	-	-	-	-
Long-term Debt	241	397	397	397	397
Short-term Debt	-	-	-	-	-
Total Debt	241	397	397	397	397
Deferred Tax Liability	4,584	3,722	3,722	3,722	3,722
Long-term Liab+ Provisions	89	84	96	110	127
TOTAL SOURCES OF FUNDS	204,646	214,328	223,532	233,969	244,134
APPLICATION OF FUNDS					
Net Block	57,220	56,636	54,805	75,743	72,121
Capital WIP	3,979	6,100	16,100	3,100	7,100
Goodwill	-	-	-	-	-
Other Non-current Assets	11,604	13,444	12,404	12,591	16,504
Total Non-current Investments	118,447	118,138	118,138	118,138	118,138
Total Non-current Assets	191,250	194,318	201,447	209,572	213,864
Inventories	10,525	12,778	12,294	12,762	13,937
Debtors	3,080	4,703	4,098	4,030	4,401
Cash and Cash Equivalent	34,971	33,300	39,993	45,645	55,919
Other Current Assets	6,346	6,770	5,880	5,880	5,880
Total Current Assets	54,922	57,549	62,265	68,316	80,136
Creditors	10,289	11,095	10,718	11,082	12,103
Other Current Liabilities & Provns	31,237	26,445	29,462	32,837	37,763
Total Current Liabilities	41,526	37,540	40,180	43,920	49,866
Net Current Assets	13,396	20,010	22,085	24,397	30,270
TOTAL APPLICATION OF FUNDS	204,646	214,328	223,532	233,969	244,134

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

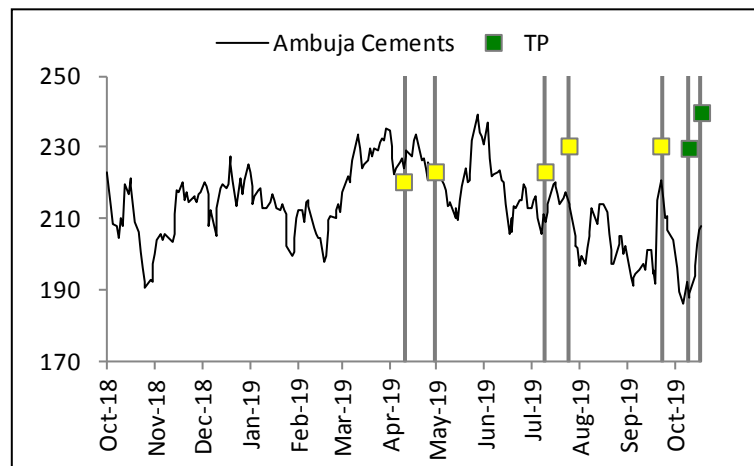
(Rs mn)	CY17	CY18	CY19E	CY20E	CY21E
Reported PBT	16,191	15,061	18,679	20,342	21,537
Non-operating & EO Items	(3,663)	(3,230)	(3,864)	(4,825)	(4,990)
Interest Expenses	1,072	823	900	900	900
Depreciation	5,729	5,481	5,831	7,063	8,321
Working Capital Change	2,136	(5,922)	5,671	3,167	503
Tax Paid	(3,101)	(6,251)	(4,857)	(5,289)	(5,600)
OPERATING CASH FLOW (a)	18,364	5,962	22,361	21,358	20,672
Capex	(5,427)	(5,936)	(14,000)	(15,000)	(8,700)
Free Cash Flow (FCF)	12,938	26	8,361	6,358	11,972
Investments	580	503	-	-	-
Non-operating Income	2,888	2,890	3,864	4,825	4,990
Others					
INVESTING CASH FLOW (b)	(1,959)	(2,543)	(10,136)	(10,175)	(3,710)
Debt Issuance/(Repaid)	(27)	216	-	-	-
Interest Expenses	(1,143)	(745)	(900)	(900)	(900)
FCFE	11,767	(503)	7,461	5,458	11,072
Share Capital Issuance	-	-	-	-	-
Dividend	(6,357)	(4,509)	(4,631)	(4,631)	(5,789)
FINANCING CASH FLOW (c)	(7,527)	(5,039)	(5,531)	(5,531)	(6,689)
NET CASH FLOW (a+b+c)	8,878	(1,620)	6,694	5,652	10,273
EO Items, Others					
Closing Cash & Equivalents	34,664	33,351	39,993	45,645	55,919

Source: Company, HDFC sec Inst Research

Standalone Key Ratios & Valuations

	CY17	CY18	CY19E	CY20E	CY21E
PROFITABILITY %					
EBITDA Margin	18.1	16.6	18.7	19.2	19.2
EBIT Margin	12.6	11.8	13.7	13.4	13.0
APAT Margin	11.5	10.6	12.0	12.3	11.9
RoE	6.1	5.9	6.4	6.7	6.8
RoIC	19.2	18.2	18.1	17.9	18.4
RoCE	6.4	6.4	6.6	6.9	6.9
EFFICIENCY					
Tax Rate %	22.8	22.3	26.0	26.0	26.0
Fixed Asset Turnover (x)	1.6	1.6	1.5	1.3	1.2
Inventory (days)	37	41	39	38	38
Debtors (days)	11	15	13	12	12
Other Current Assets (days)	22	22	19	18	16
Payables (days)	36	36	34	33	33
Other Current Liab & Provns (days)	109	85	93	98	103
Cash Conversion Cycle (days)	(75)	(43)	(57)	(63)	(70)
Net Debt/EBITDA (x)	(1.8)	(1.7)	(1.8)	(1.9)	(2.2)
Net D/E (x)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)
Interest Coverage (x)	12.3	16.3	17.5	18.2	19.4
PER SHARE DATA (Rs)					
EPS	6.1	6.1	7.0	7.6	8.0
CEPS	9.0	8.8	9.9	11.1	12.2
Dividend	3.6	1.5	2.0	2.0	2.5
Book Value	100.6	105.8	110.4	115.7	120.8
VALUATION					
P/E (x)	34.1	34.0	29.7	27.3	25.8
P/Cash EPS (x)	22.6	20.2	20.9	18.6	16.9
P/BV (x)	2.1	2.0	1.9	1.8	1.7
EV/EBITDA (x)	13.6	13.8	11.8	10.5	9.2
EV/MT(USD)	134	135	132	122	116
Dividend Yield (%)	1.7	0.7	1.0	1.0	1.2
OCF/EV (%)	7.1	2.3	8.8	8.6	8.7
FCFF/EV (%)	5.0	0.0	3.3	2.6	5.0
FCFE/M Cap (%)	3.1	0.0	2.0	1.5	2.9

Source: Company, HDFC sec Inst Research,

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
10-Apr-19	227	NEU	220
2-May-19	221	NEU	223
10-Jul-19	211	NEU	223
26-Jul-19	215	NEU	230
22-Sep-19	215	NEU	230
10-Oct-19	192	BUY	230
18-Oct-19	207	BUY	240

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, 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. HSL has no material adverse disciplinary history as on the date of publication of this report. 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.

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