

Industry	Building Materials
Bloomberg	ACEM IN
BSE CODE	500425

Higher realisation from value added products drives profitability

RATING **NEUTRAL**

CMP	208
Price Target	217
Potential Upside	5%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	244/184
Mkt Capital (Rs Cr)	41103
Free float (%)	36%
Avg. Vol 1M (,000)	129
No. of Shares (Cr)	199
Promoters Pledged %	NA

Research Analyst

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3QCY19 Result Update

- ❑ In 3QCY19, AMBUJACEM volumes declined by 4% YoY to 5.23 MT (vs. expect. of 5.41 MT) led by extended monsoon, slowdown in infrastructure activities and floods in UP, Bihar, Maharashtra and Gujarat where in the company has significant exposure which in turn impacted the realization by 1.9% QoQ.
- ❑ The Company's revenue remained in line with our expectation at Rs. 2626 cr.(vs. expect. of Rs. 2684 cr.) impacted due to lower volumes. Despite lower volumes revenue growth remained flat due to higher realization of 4.9% YoY led by higher mix of premium products in the portfolio.
- ❑ The Company's Gross margin improved by 364 bps to 91.9% YoY led by benign raw material prices while EBITDA margin improved by 304 bps to 16.7% YoY largely driven by reduction in freight cost.
- ❑ The Company's PAT remained in line with our expectation at Rs. 235 cr. (vs. expect. of Rs. 228 cr.) with PAT growth of 31.2% YoY and PAT margin at 8.9% YoY. Hence, the company is under process adopting new corporate tax and continued to be under old tax rate of 31.2% YoY in 3QCY19.
- ❑ The Company Premium Product Portfolio grew by 17% YoY and so in order to further increase its share the company is emphasizing on launching new value added products (Premium category) in order to drive Top line as well as bottom line.

View and Valuation

AMBUJACEM volumes remained impacted due to general economic slowdown, extended monsoon and reduced construction activity. Despite volume stress, the company posted flat revenue growth led by higher realization from premium product portfolio. On Margin front, benign RM prices, improved product mix and supply chain efficiency supported margin expansion. Going forward, we expect the company to continue launching new products in premium portfolio which will increase revenue share from value added products. The company's continuous thrust on fossil fuel substitution with alternative fuel and renewable energy will reduce dependence on natural resources and will also reduce cost in long run while emphasis on reducing logistic cost through supply chain efficiency will further reduce freight cost. In long run we remain positive with the stock and expect the revival in cement demand led by healthy monsoon, government initiatives like corporate tax cut & higher infrastructure spends. For now the demand scenario and movement in cement prices in north (where company has higher exposure) followed by other regions i.e. East, West & South will be the key watch out. Hence, after considering the current demand slowdown due to prevailing macroeconomic conditions we maintain NEUTRAL rating on this stock with the target price of Rs.214 (15x CY20e EV/EBITDA) with estimates unchanged.

Key Risks to our rating and target

- ❑ Further slow down in pick of volume demand.
- ❑ Steep increase in Raw material prices.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19E	CY20E
Net Sales	9707	10806	11732	12025	12967
EBITDA	1692	1940	1891	2206	2600
EBIT	843	1367	1343	1671	1962
PAT	932	1250	1487	1501	1596
EPS (Rs)	5	6	7	8	8
EPS growth (%)	-10%	34%	19%	1%	6%
ROE (%)	5%	6%	7%	7%	7%
ROCE (%)	5%	6%	7%	7%	7%
EV/EBITDA	22.7	26.0	22.5	17.1	14.3
P/B (X)	2.1	2.7	2.2	1.9	1.8
P/E (x)	44	43	31	27	26

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3QCY19 Results Inline with expectation

Fig in Rs Cr										
Financials	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	YoY %	QoQ%	CY17	CY18	YoY %
Net Sales	2614	2863	2928	2978	2626	0.5%	-11.8%	10447	11357	9%
Other Income	48	85	240	58	63	30.2%	8.3%	359	375	4%
COGS	308	211	257	292	214	-30.5%	-26.7%	845	942	11%
Gross Margin	88%	93%	91%	90%	92%	3.6%	1.7%	92%	92%	0%
Employee Cost	163	171	167	169	168	2.7%	-0.6%	661	680	3%
Other Expenses	504	529	494	470	527	4.6%	12.0%	1894	2016	6%
EBITDA	358	404	463	698	440	22.7%	-37.0%	1940	1891	-3%
EBITDA%	14%	14%	16%	23%	17%	3.0%	-6.7%	19%	17%	-2%
Depreciation	136	136	131	131	133	-2.2%	1.6%	573	548	-4%
EBIT	222	267	332	568	307	38.0%	-45.9%	1367	1343	-2%
Interest	19	18	17	21	22	12.3%	3.7%	107	82	-23%
PBT	251	334	555	605	348	38.5%	-42.4%	1619	1636	1%
Exceptional	-	130	-	-	-	-	-	-	130	-
Tax	73	-333	128	193	113	56%	-41%	370	19	-95%
PAT	179	537	427	412	235	31.2%	-43.1%	1250	1487	19%
PAT Margin	7%	19%	15%	14%	9%	2.1%	-4.9%	12%	13%	1%

CEMENT

										Fig in Rs Cr	
Cement	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	YoY %	QoQ %	
Sales	2,715	2,863	3,017	2,614	2,863	2,928	2,978	2,626	0%	-12%	
Vol (Mn Ton)	5.9	6.2	6.4	5.5	6.1	6.4	5.8	5.2	-4%	-10%	
Real.(Rs./Ton)	4,625	4,602	4,736	4,787	4,671	4,596	5,117	5,021	5%	-2%	

Exhibit: Cement Volume trend

Volumes declined on account of heavy rainfall and flood condition in UP, Bihar, Maharashtra and Gujarat.

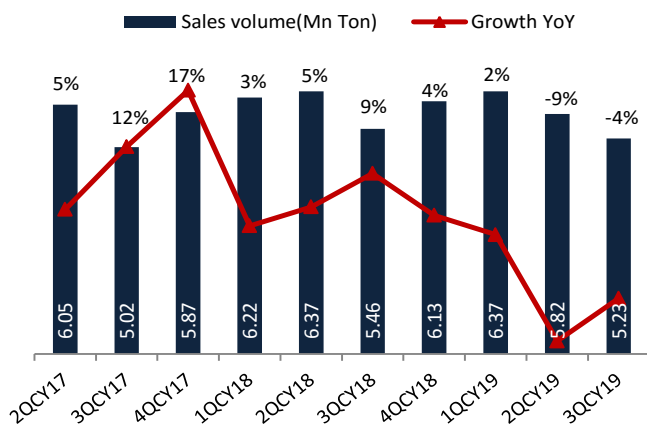


Exhibit: Cement realization trend

Realization improved on YoY basis but declined QoQ by 1.9% due to correction in cement prices.

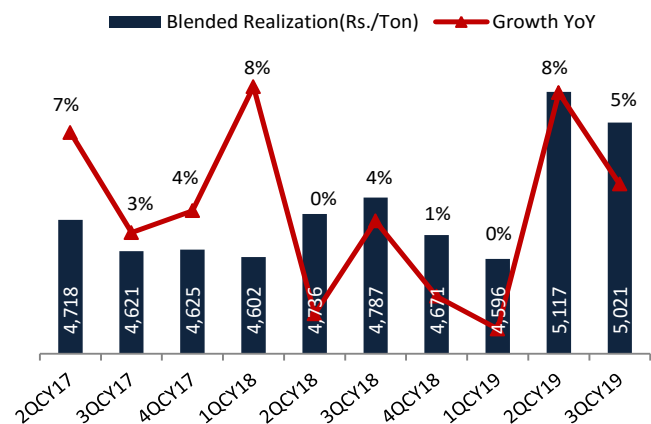


Exhibit: Revenue and revenue growth trend

Sales remained impacted due to lower volumes driven by extended monsoon.

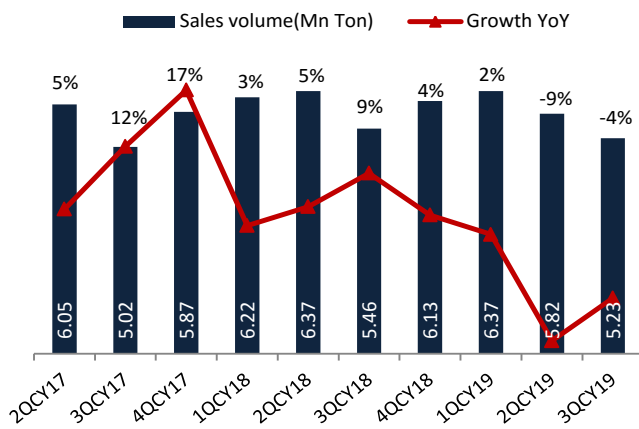


Exhibit: Power & Fuel cost

Focussing on changing fuel mix by substituting fossil fuel with alternative fuel and renewable energy.

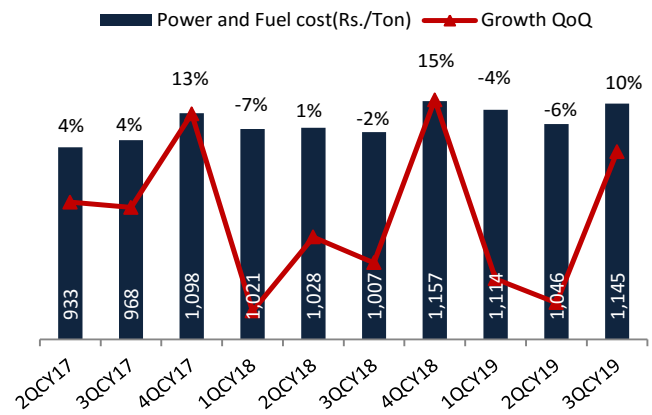


Exhibit: Freight cost

Freight cost rationalization on YoY basis led by supply chain efficiency.

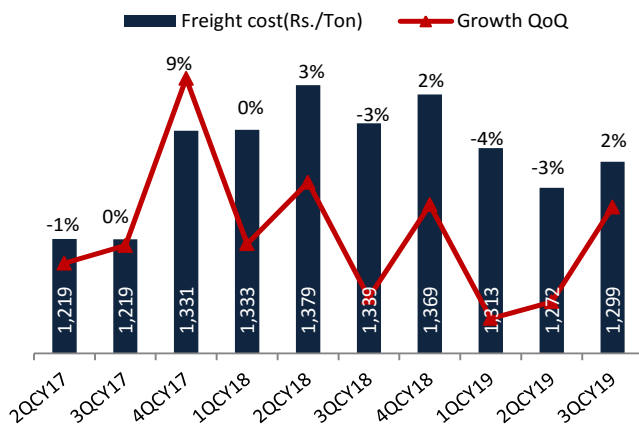


Exhibit: EBITDA margin trend

EBITDA improvement was led by product mix, lower freight cost and premiumization.

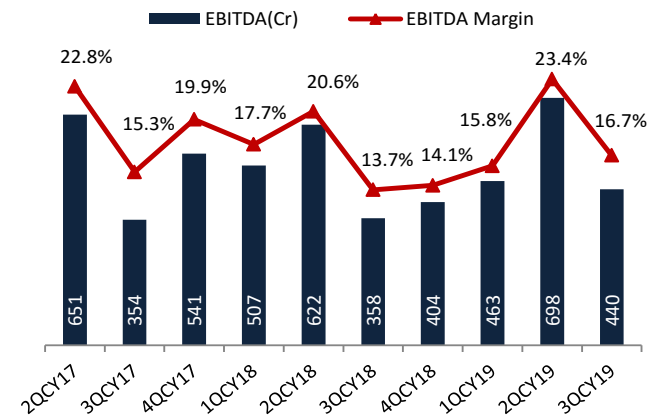


Exhibit: PAT and PAT growth trend

PAT remained high on account of higher realization from companies premium product and EBITDA improvement.

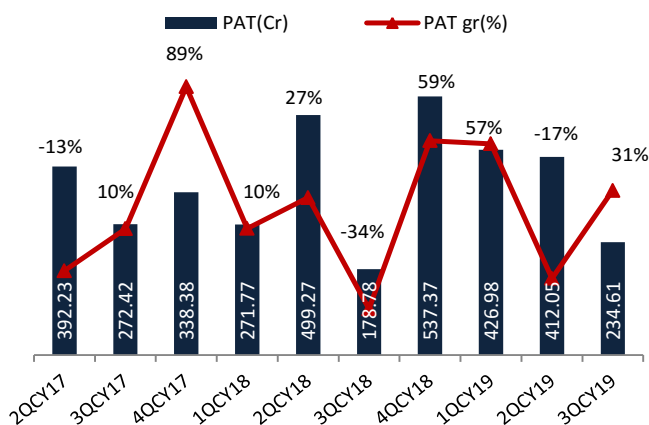
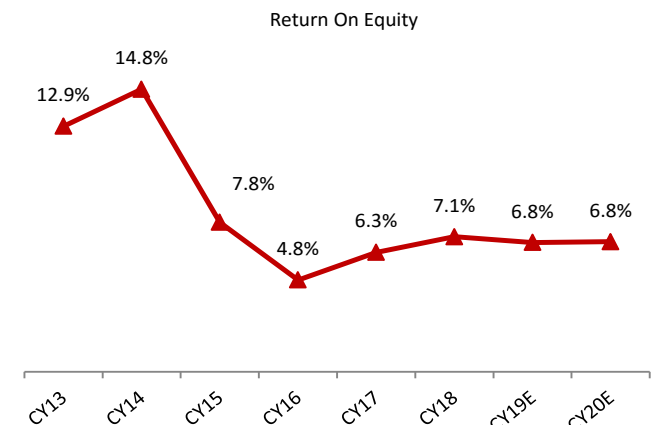


Exhibit: Return On Equity

ROE is expected to be at 6.8% for CY20.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
Share Capital	309	310	310	397	397	397	397	397
Reserves	9176	9793	9996	18960	19576	20615	21759	22998
Networth	9486	10103	10307	19357	19973	21013	22156	23395
Debt	29	29	23	16	24	40	38	38
Total Capital Employed	9515	10132	10330	19373	19997	21052	22194	23433
Net Fixed Assets (incl CWIP)	6757	6917	6506	6262	6120	6274	7183	7995
Non Current Investments	105	106	107	30	30	0	0	0
Other Non Current Assets	566	883	1000	12848	12975	13158	13158	13158
Non Current Assets	7428	7906	7613	19139	19125	19432	20341	21153
Inventory	934	888	895	938	1053	1278	1306	1431
Debtors	232	228	286	396	308	470	481	527
Cash & Bank	2341	2458	2848	2579	3497	3330	3592	4143
Other Current Assets	2031	2421	2518	302	635	677	692	758
Current Assets	5537	5995	6549	4214	5492	5755	6071	6859
Creditors	975	618	680	815	1029	1109	1134	1242
Provisions	1076	1176	1084	88	87	91	93	102
Other Current Liabilities	792	1343	1462	2528	3001	2515	2571	2816
Curr Liabilities	2843	3138	3226	3432	4117	3715	3798	4161
Net Current Assets	2694	2858	3323	782	1375	2040	2273	2698
Total Assets	12965	13901	14162	23353	24617	25187	26412	28013

Income Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
Revenue from Operation	9174	9978	9461	9197	10447	11357	11610	12718
Change (%)	0%	9%	-5%	-3%	14%	9%	2%	10%
Other Income	378	429	358	510	359	375	415	249
EBITDA	1593	1928	1531	1692	1940	1891	2206	2600
Change (%)	0%	21%	-21%	11%	15%	-3%	17%	18%
Margin (%)	17%	19%	16%	18%	19%	17%	19%	20%
Depr & Amor.	490	510	626	849	573	548	534	638
EBIT	1103	1419	906	843	1367	1343	1671	1962
Int. & other fin. Cost	65	64	92	74	107	82	80	78
EBT	1415	1783	1172	1279	1619	1636	2006	2132
Exp Item	-25	0	0	0	0	130	0	0
Tax	220	287	365	347	370	19	505	537
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1221	1496	808	932	1250	1487	1501	1596
Adjusted PAT	1221	1496	808	932	1250	1487	1501	1596
Change (%)	0%	23%	-46%	15%	34%	19%	1%	6%
Margin(%)	13%	15%	9%	10%	12%	13%	13%	13%

Financial Details

Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
ROE	13%	15%	8%	5%	6%	7%	7%	7%
ROCE	13%	15%	8%	5%	6%	7%	7%	7%
Asset Turnover	0.7	0.7	0.7	0.4	0.4	0.5	0.5	0.5
Debtor Days	9	8	11	16	11	15	15	15
Inv Days	37	32	35	37	37	41	41	41
Payable Days	39	23	26	32	36	36	36	36
Int Coverage	16.9	22.0	9.9	11.4	12.8	16.3	20.9	25.2
P/E	23	24	39	44	43	31	27	25
Price / Book Value	3.0	3.5	3.1	2.1	2.7	2.2	1.8	1.7
EV/EBITDA	16	17	19	23	26	23	17	14
FCF per Share	3.1	5.5	6.0	5.2	6.5	(0.0)	3.5	5.1
Div Yield	2%	2%	1%	1%	1%	1%	1%	1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19E	CY20E
PBT	1514	1783	1172	1279	1619	1506	2006	2132
(inc)/Dec in Working Capital	45	15	23	32	231	-592	33	142
Non Cash Op Exp	490	510	626	849	573	548	534	638
Int Paid (+)	65	64	92	74	107	82	80	78
Tax Paid	-510	-289	-42	-319	-310	-625	-505	-537
others	-404	-408	-317	-500	-366	-323	0	0
CF from Op. Activities	1200	1675	1553	1416	1854	596	2148	2454
(inc)/Dec in FA & CWIP	-688	-820	-617	-383	-560	-594	-1443	-1450
Free Cashflow	475	852	931	1025	1292	-1	705	1004
(Pur)/Sale of Inv	-35	74	270	-3524	58	50	0	0
others	250	286	264	438	289	289	0	0
CF from Inv. Activities	-474	-460	-83	-3469	-214	-254	-1443	-1450
inc/(dec) in NW	37	43	26	0	0	0	0	0
inc/(dec) in Debt	-2	-11	4	4	-3	22	-2	0
Int. Paid	-27	-32	-39	-36	-114	-75	-80	-78
Div Paid (inc tax)	-647	-722	-894	-552	-555	-398	-357	-357
others	13	6	7	-100	-77	-51	0	0
CF from Fin. Activities	-626	-717	-897	-683	-749	-503	-439	-435
Inc(Dec) in Cash	101	498	573	-2736	892	-161	266	568
Add: Opening Balance	3860	3961	4459	5132	2396	3311	3330	3592
Closing Balance	3961	4459	5032	2395	3288	3150	3596	4160

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Analyst's ownership of the stocks mentioned in the Report	NIL
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