

Industry  
Bloomberg  
BSE CODE

Building Materials  
ACEM IN  
500425

## Higher volumes, improved realization along with operational efficiency drives profitability

RATING	NEUTRAL
CMP	208
Price Target	221
Potential Upside	6%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	244/184
Mkt Capital (Rs Cr)	41629
Free float (%)	36%
Avg. Vol 1M (,000)	198
No. of Shares (Crs)	199
Promoters Pledged %	0%

### 4QCY19 Result Update

- In 4QCY19, AMBUJACEM volumes grew by 7% YoY to 6.54 MT led by infrastructure activities and PMAY in Eastern India (contributes ~20% to the revenue) while Maharashtra also witnessed growth led by infrastructure development and rural housing.
- The Company's revenue remained largely in line with our expectation at Rs. 3136 cr. (vs. expect. of Rs. 3078 cr.) led by higher volumes and improved mix of premium products in the portfolio. The Company's premium portfolio grew by 14% YoY in 4QCY19.
- The Company's Gross margin contracted by 420 bps to 88.4% YoY on account of higher raw material prices while EBITDA margin improved by 335 bps to 17.5% YoY driven by lower Power & Fuel cost, freight cost and other expense.
- The Company's Power & Fuel/Freight/other expense declined by 343/260/95 bps led by low fuel cost, operational efficiency and supply chain efficiency.
- The Company's PAT stood at Rs. 455 cr. with PAT de-growth of 15.3% YoY on account of higher base due to incentive received from government (in 4QCY18) while PAT margin stood at 14.5% in 4QCY19.
- The Company after evaluating the new corporate tax has adopted the same and hence has reduced the tax charge and payments at 25.1 7% during the year.
- The Company's Greenfield project to add 4.5 MTPA at Marwar Mundwa, Rajasthan, is on track and is expected to commission by year end.

### View and Valuation

AMBUJACEM volumes grew by 7% YoY with realization growth of 2.7% YoY better than its peers despite general economic slowdown and reduced construction activity. Overall revenue grew by 9.5% YoY while margin expansion was driven by operational efficiency. Going forward, higher budget allocation towards infrastructure development, higher income in the hands of farmers, rural housing, capacity expansion all collectively are expected to bring demand while the company's continuous thrust on fossil fuel substitution with alternative fuel will ensure savings from power & fuel; Also the company's emphasis on reducing logistic cost through supply chain efficiency will further reduce freight cost. Profitability will also increase as the company has adopted new corporate tax rate (25.17%). Considering sluggish demand scenario we have maintained our NEUTRAL rating with a target price of Rs. 221.

### Key Risks to our rating and target

- Further slowdown in pick of volume demand.
- Steep increase in Raw material and fuel prices.

### RESEARCH ANALYST

**GAZAL NAWAZ**

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19	CY20E
Net Sales	9707	10806	11732	12094	12765
EBITDA	1692	1940	1891	2149	2601
EBIT	843	1367	1343	1605	1938
PAT	932	1250	1487	1529	1729
EPS (Rs)	4.7	6.3	7.5	7.7	8.7
EPS growth (%)	-10%	34%	19%	3%	13%
ROE (%)	5%	6%	7%	7%	7%
ROCE (%)	5%	6%	7%	7%	7%
BV	22.7	26.0	22.5	17.1	14.0
P/B (X)	2.1	2.7	2.2	1.9	1.8
P/E (x)	44	43	31	27	24

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## 4QCY19 Results Better than expectation

Fig in Rs Cr

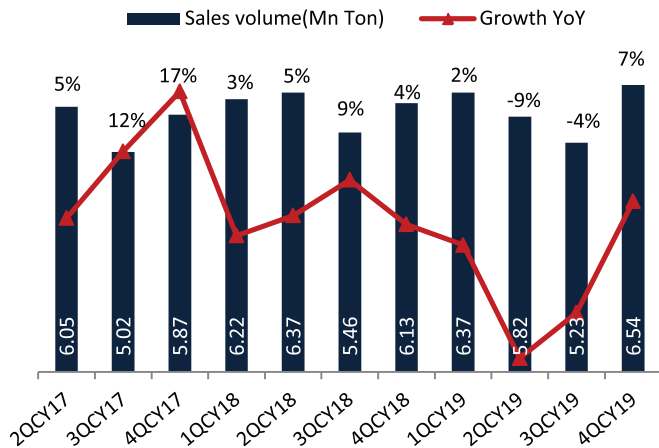
FINANCIALS	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	YoY %	QoQ%	CY18	CY19	YoY %
Net Sales	2863	2928	2978	2626	3136	9.5%	19.4%	11357	11668	3%
Other Income	85	240	58	63	66	-22.8%	4.5%	375	427	14%
COGS	211	257	292	214	363	71.9%	69.9%	946	1125	19%
Gross Margin	93%	91%	90%	92%	88%	-4.2%	-3.4%	92%	90%	-1%
Employee Cost	171	167	169	168	169	-1.1%	0.7%	680	673	-1%
Other Expenses	529	494	470	527	549	3.9%	4.3%	2016	2040	1%
EBITDA	404	463	698	440	547	35.5%	24.5%	1891	2149	14%
EBITDA%	14%	16%	23%	17%	17%	3.4%	0.7%	17%	18%	2%
Depreciation	136	131	131	133	149	8.9%	11.8%	548	544	-1%
EBIT	267	332	568	307	399	49.1%	29.9%	1343	1605	19%
Interest	18	17	21	22	24	30.1%	9.7%	82	84	1%
PBT	334	555	605	348	441	31.9%	26.6%	1636	1948	19%
Exceptional Item	130	0	-	-	-	-	-	130	0	-
Tax	-333	128	193	113	-14	-96%	-113%	19	419	2101%
PAT	537	427	412	235	455	-15.3%	93.9%	1487	1529	3%
PAT Margin	19%	15%	14%	9%	15%	-4.3%	5.6%	13%	13%	0%

Fig in Rs Cr

CEMENT BUSINESS	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	YoY%	QoQ%
Sales	2,863	3,017	2,614	2,863	2,928	2,978	2,626	3,136	10%	19%
Vol (Mn Ton)	6.2	6.4	5.5	6.1	6.4	5.8	5.2	6.5	7%	25%
Real.(Rs./Ton)	4,602	4,736	4,787	4,671	4,596	5,117	5,021	4,795	3%	-5%

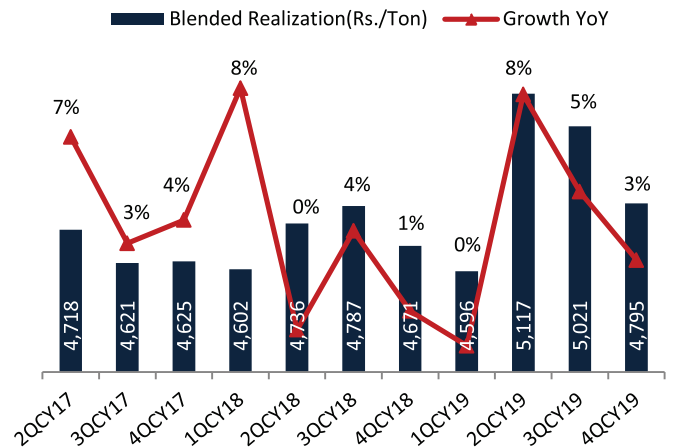
### Exhibit: Cement Volume trend

Volumes led growth driven by Eastern markets and Maharashtra.



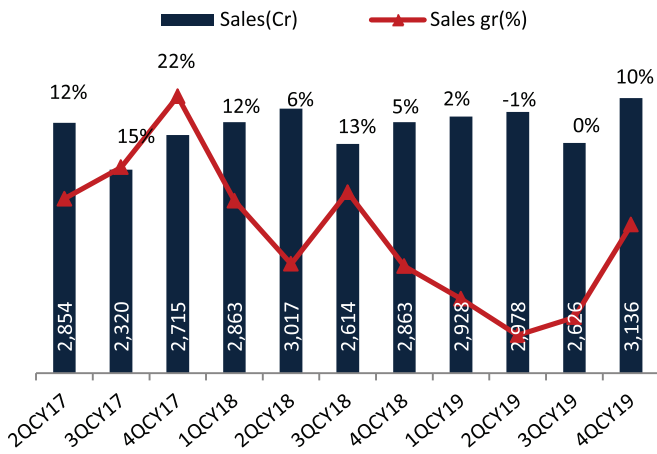
### Exhibit: Cement realization trend

Realization improvement led by improved product mix; The Company's premium portfolio grew by 14% YoY.



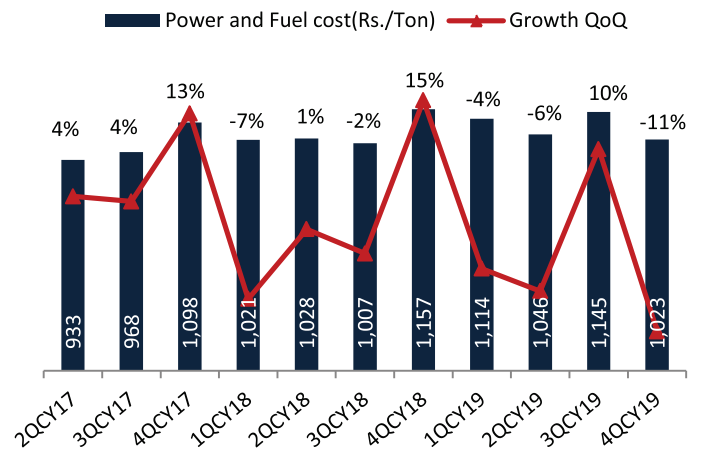
## Exhibit: Revenue and revenue growth trend

Sales growth was driven by higher volumes and improved realization on account of improved product mix.



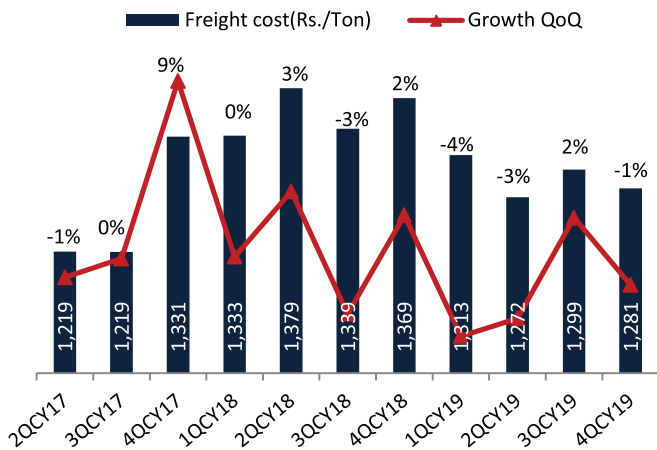
## Exhibit: Power & Fuel cost

Savings in Power & Fuel cost was led by lower fuel cost and operational efficiencies.



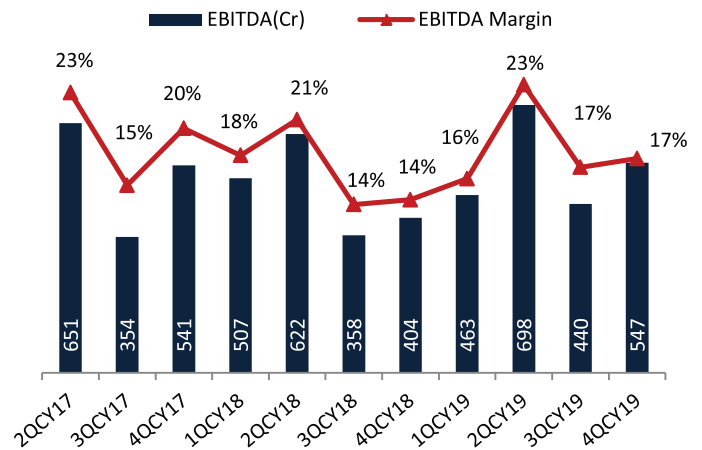
## Exhibit: Freight cost

Freight cost rationalization led by supply chain efficiency.



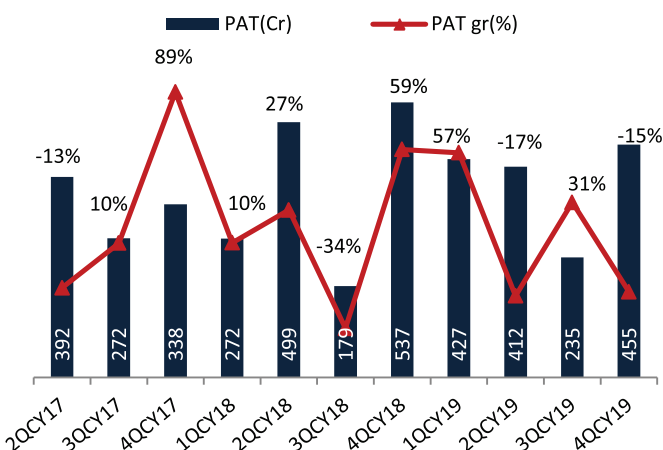
## Exhibit: EBITDA margin trend

EBITDA margin expansion was driven by improved product mix, lower freight cost and premiumization.



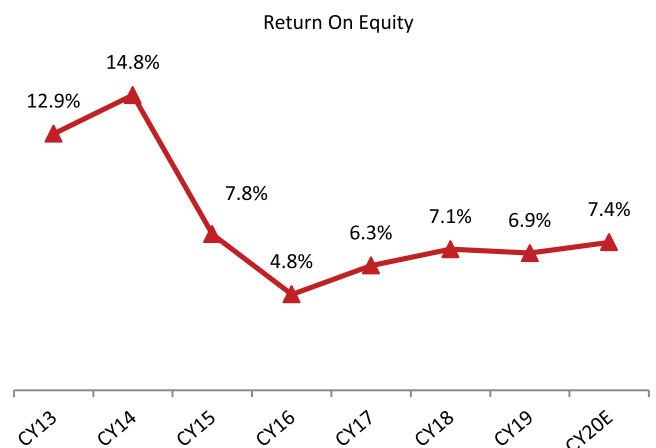
## Exhibit: PAT and PAT growth trend

PAT growth remained low on account of incentive received in corresponding previous quarter (4QCY18).



## Exhibit: Return On Equity

ROE is expected to be at 7.4% for CY20.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
Share Capital	309	310	310	397	397	397	397	397
Reserves	9176	9793	9996	18960	19576	20615	21808	23180
<b>Networth</b>	<b>9486</b>	<b>10103</b>	<b>10307</b>	<b>19357</b>	<b>19973</b>	<b>21013</b>	<b>22205</b>	<b>23577</b>
Debt	29	29	23	16	24	40	35	38
Total Capital Employed	9515	10132	10330	19373	19997	21052	22240	23615
<b>Net Fixed Assets (incl CWIP)</b>	<b>6757</b>	<b>6917</b>	<b>6506</b>	<b>6262</b>	<b>6120</b>	<b>6274</b>	<b>6921</b>	<b>8114</b>
Non Current Investments	105	106	107	30	30	0	0	0
Other Non Current Assets	566	883	1000	12848	12975	13158	13221	13221
Non Current Assets	7428	7906	7613	19139	19125	19432	20143	21336
<b>Inventory</b>	<b>934</b>	<b>888</b>	<b>895</b>	<b>938</b>	<b>1053</b>	<b>1278</b>	<b>954</b>	<b>1007</b>
Debtors	232	228	286	396	308	470	513	541
Cash & Bank	2341	2458	2848	2579	3497	3330	4699	5007
Other Current Assets	2031	2421	2518	302	635	677	681	719
Current Assets	5537	5995	6549	4214	5492	5755	6848	7274
<b>Creditors</b>	<b>975</b>	<b>618</b>	<b>680</b>	<b>815</b>	<b>1029</b>	<b>1109</b>	<b>936</b>	<b>988</b>
Provisions	1076	1176	1084	88	87	91	85	90
Other Current Liabilities	792	1343	1462	2528	3001	2515	3426	3615
Curr Liabilities	2843	3138	3226	3432	4117	3715	4447	4692
<b>Net Current Assets</b>	<b>2694</b>	<b>2858</b>	<b>3323</b>	<b>782</b>	<b>1375</b>	<b>2040</b>	<b>2401</b>	<b>2582</b>
<b>Total Assets</b>	<b>12965</b>	<b>13901</b>	<b>14162</b>	<b>23353</b>	<b>24617</b>	<b>25187</b>	<b>26991</b>	<b>28610</b>

### Income Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
<b>Revenue from Operation</b>	<b>9174</b>	<b>9978</b>	<b>9461</b>	<b>9197</b>	<b>10447</b>	<b>11357</b>	<b>11668</b>	<b>12311</b>
Change (%)	0%	9%	-5%	-3%	14%	9%	3%	6%
Other Income	378	429	358	510	359	375	427	455
<b>EBITDA</b>	<b>1593</b>	<b>1928</b>	<b>1531</b>	<b>1692</b>	<b>1940</b>	<b>1891</b>	<b>2149</b>	<b>2601</b>
Change (%)	0%	21%	-21%	11%	15%	-3%	14%	21%
Margin (%)	17%	19%	16%	18%	19%	17%	18%	21%
Depr & Amor.	490	510	626	849	573	548	544	663
<b>EBIT</b>	<b>1103</b>	<b>1419</b>	<b>906</b>	<b>843</b>	<b>1367</b>	<b>1343</b>	<b>1605</b>	<b>1938</b>
Int. & other fin. Cost	65	64	92	74	107	82	84	82
<b>EBT</b>	<b>1415</b>	<b>1783</b>	<b>1172</b>	<b>1279</b>	<b>1619</b>	<b>1636</b>	<b>1948</b>	<b>2311</b>
Exp Item	-25	0	0	0	0	130	0	0
Tax	220	287	365	347	370	19	419	582
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1221	1496	808	932	1250	1487	1529	1729
<b>Adjusted PAT</b>	<b>1221</b>	<b>1496</b>	<b>808</b>	<b>932</b>	<b>1250</b>	<b>1487</b>	<b>1529</b>	<b>1729</b>
<b>Change (%)</b>	<b>0%</b>	<b>23%</b>	<b>-46%</b>	<b>15%</b>	<b>34%</b>	<b>19%</b>	<b>3%</b>	<b>13%</b>
Margin(%)	13%	15%	9%	10%	12%	13%	13%	14%

## Financial Details

### Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	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	0.4	0.4
Debtor Days	9	8	11	16	11	15	16	16
Inv Days	37	32	35	37	37	41	30	30
Payable Days	39	23	26	32	36	36	29	29
Int Coverage	16.9	22.0	9.9	11.4	12.8	16.3	19.2	23.6
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	1.9	1.9
EV/EBITDA	16	17	19	23	26	23	17	15
FCF per Share	3.1	5.5	6.0	5.2	6.5	(0.0)	6.9	3.7
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	CY19	CY20E
PBT	1514	1783	1172	1279	1619	1506	1948	2311
(inc)/Dec in Working Capital	45	15	23	32	231	-592	388	153
Non Cash Op Exp	490	510	626	849	573	548	544	663
Int Paid (+)	65	64	92	74	107	82	84	82
Tax Paid	-510	-289	-42	-319	-310	-625	-81	-582
others	-404	-408	-317	-500	-366	-323	-398	-25
<b>CF from Op. Activities</b>	<b>1200</b>	<b>1675</b>	<b>1553</b>	<b>1416</b>	<b>1854</b>	<b>596</b>	<b>2484</b>	<b>2600</b>
(inc)/Dec in FA & CWIP	-688	-820	-617	-383	-560	-594	-1111	-1856
Free Cashflow	475	852	931	1025	1292	-1	1366	744
(Pur)/Sale of Inv	-35	74	270	-3524	58	50	157	0
others	250	286	264	438	289	289	216	0
<b>CF from Inv. Activities</b>	<b>-474</b>	<b>-460</b>	<b>-83</b>	<b>-3469</b>	<b>-214</b>	<b>-254</b>	<b>-738</b>	<b>-1856</b>
inc/(dec) in NW	37	43	26	0	0	0	0	0
inc/(dec) in Debt	-2	-11	4	4	-3	22	0	3
Int. Paid	-27	-32	-39	-36	-114	-75	-56	-82
Div Paid (inc tax)	-647	-722	-894	-552	-555	-398	-332	-357
others	13	6	7	-100	-77	-51	1	0
<b>CF from Fin. Activities</b>	<b>-626</b>	<b>-717</b>	<b>-897</b>	<b>-683</b>	<b>-749</b>	<b>-503</b>	<b>-387</b>	<b>-437</b>
Inc(Dec) in Cash	101	498	573	-2736	892	-161	1359	308
<b>Add: Opening Balance</b>	<b>3860</b>	<b>3961</b>	<b>4459</b>	<b>5132</b>	<b>2396</b>	<b>3311</b>	<b>3150</b>	<b>4699</b>
Closing Balance	3961	4459	5032	2395	3288	3150	4510	5007

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