

Industry	Building Materials
Bloomberg	ACEM IN
BSE CODE	500425

## PAT impacted due to lower volumes amidst COVID-19

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>172</b>
<b>Price Target</b>	<b>190</b>
<b>Potential Upside</b>	<b>10%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	240/137
Mkt Capital (Rs Cr)	34213
Free float (%)	36%
Avg. Vol 1M (,000)	247
No. of Shares (Cr)	199
Promoters Pledged %	NA

### Research Analyst

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### 1QCY20 Result Update

- ❑ In 1QCY20, AMBUJACEM volumes declined by 10% YoY to 5.76 MT (vs. expect. of 5.70 MT) impacted on account of shut down of factories due to turbulence caused by COVID-19. However, till february the company did witness good volumes on account of robust demand.
- ❑ The Company's revenue remained largely in line with our expectation at Rs. 2827.5 cr. (vs. expect. of Rs. 2761 cr.) led by realization growth of 2.4% QoQ on account of increase in cement price/bag in all region except central India.
- ❑ EBITDA margin improved by 551 bps to 21.3% YoY driven by lower Power & Fuel and Freight cost.
- ❑ The Company's Power & Fuel and Freight cost declined by 437 bps and 11.29% YoY led by low fuel cost, operational efficiency and supply chain efficiency while employee expense increased by 38 bps led by increased expense on account of securing health & safety of employees amidst COVID-19.
- ❑ The Company's PAT stood at Rs. 399 cr. (vs. expect. of Rs. 383 cr.) with PAT de-growth of 6.5% YoY on account of lower volumes while PAT margin stood at 14.1% in 1QCY20.

### View and Valuation

AMBUJACEM volumes de-grew by 7% YoY with realization growth of 2.4% QoQ. However, the volumes in the last week of 1QCY20 remained impacted due to shut down of factories nationwide. The company has started its operation on a limited capacity in several plants but demand, supply chain and labor availability still remains the concern. On a medium term we expect demand to remain concern due to closure of all economic activities while prices are expected to remain in the same level for at least few months. On Capacity expansion front (4.5 MTPA at Marwar, Mundwa, Rajasthan) the company may delay the commercial production as the existing capacity will remain unutilized due to prevailing situation. On Margin front, the company's continuous thrust on running the plants efficiently, fossil fuel substitution with alternative fuel and emphasis on reducing logistic cost through supply chain efficiency which will ensure savings from power & fuel and freight cost will further contribute in improving EBITDA margin; Thus, we remain positive on the stock. However, considering the current scenario of lockdown and increasing rate of spread of disease, we expect the lockdown to extend which will hamper demand further. Thus, maintain our NEUTRAL rating with a target price of Rs. 190.

### Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19	CY20E
Net Sales	9707	10806	11732	12094	11941
EBITDA	1692	1940	1891	2149	2310
EBIT	843	1367	1343	1605	1756
PAT	932	1250	1487	1529	1516
EPS (Rs)	4.7	6.3	7.5	7.7	7.6
EPS growth (%)	-10%	34%	19%	3%	-1%
ROE (%)	5%	6%	7%	7%	6%
ROCE (%)	5%	6%	7%	7%	6%
EV/EBITDA	22.7	26.0	22.5	17.1	11.9
P/B (X)	2.1	2.7	2.2	1.9	1.3
P/E (x)	44	43	31	27	21

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## 1QCY20 Results Largely In-line

Fig in Rs Cr

Financials	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	YoY %	QoQ %	CY18	CY19	YoY %
Net Sales	2928	2978	2626	3136	2828	-3.4%	-9.8%	11357	11668	3%
Other Income	240	58	63	66	88	-63.3%	34.3%	375	427	14%
COGS	257	292	214	363	251	-2.0%	-30.8%	946	1125	19%
Gross Margin	91%	90%	92%	88%	91%	-0.1%	2.7%	92%	90%	-1%
Employee Cost	167	169	168	169	172	3.0%	1.9%	680	673	-1%
Other Expenses	494	470	527	549	496	0.5%	-9.6%	2016	2040	1%
EBITDA	463	698	440	547	603	30.2%	10.2%	1891	2149	14%
EBITDA%	16%	23%	17%	17%	21%	5.5%	3.9%	17%	18%	2%
Depreciation	131	131	133	149	138	5.0%	-7.2%	548	544	-1%
EBIT	332	568	307	399	465	40.2%	16.7%	1343	1605	19%
Interest	17	21	22	24	23	31.9%	-2.6%	82	84	1%
PBT	555	605	348	441	530	-4.4%	20.4%	1636	1948	19%
Exceptional	0	0	-	-	-	-	-	130	0	-
Tax	128	193	113	-14	131	3%	-1023%	19	419	2101%
PAT	427	412	235	455	399	-6.5%	-12.3%	1487	1529	3%
PAT Margin	15%	14%	9%	15%	14%	-0.5%	-0.4%	13%	13%	0%

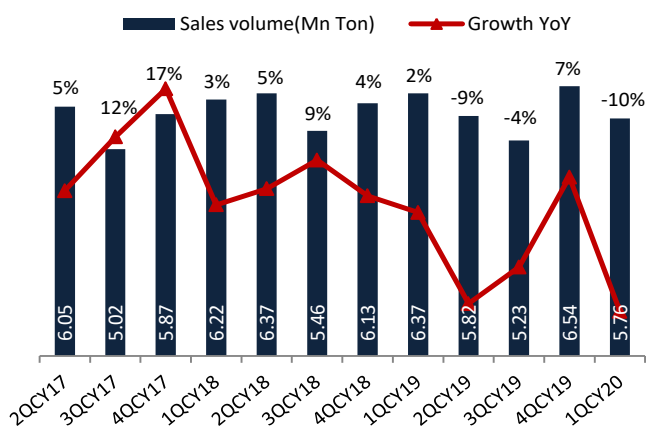
## CEMENT

Fig in Rs Cr

Cement	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	YoY %	QoQ %
Sales	3,017	2,614	2,863	2,928	2,978	2,626	3,136	2,828	10%	19%
Vol (Mn Ton)	6.4	5.5	6.1	6.4	5.8	5.2	6.5	5.8	7%	25%
Real.(Rs./Ton)	4,736	4,787	4,671	4,596	5,117	5,021	4,795	4,909	3%	-5%

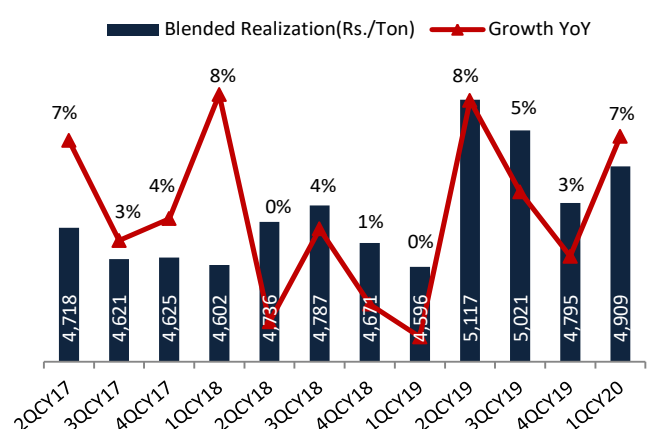
### Exhibit: Cement Volume trend

Cement volumes remained impacted led by shutdown of factories due to COVID-19 in last week of 1QCY20.



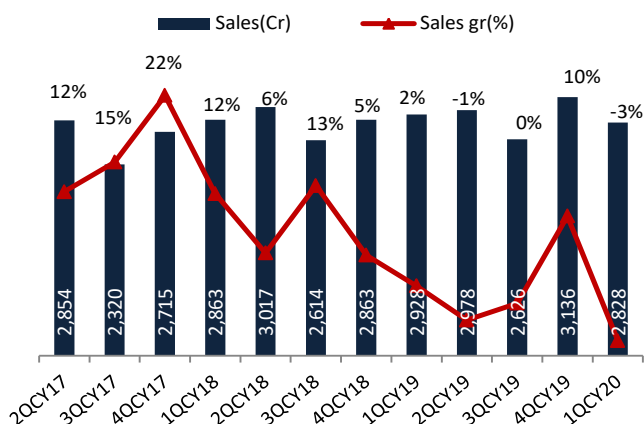
### Exhibit: Cement realization trend

Realization improvement led by led by improvement in cement prices and improved product mix.



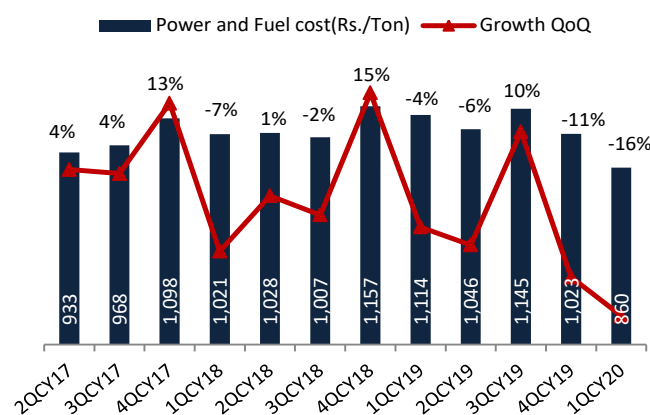
## Exhibit: Revenue and revenue growth trend

Sales remained impacted due to decline in volumes on account of lockdown due to COVID-19.



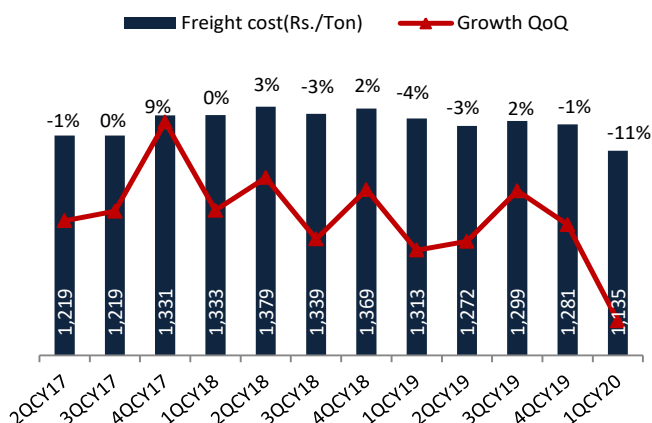
## Exhibit: Power & Fuel cost

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



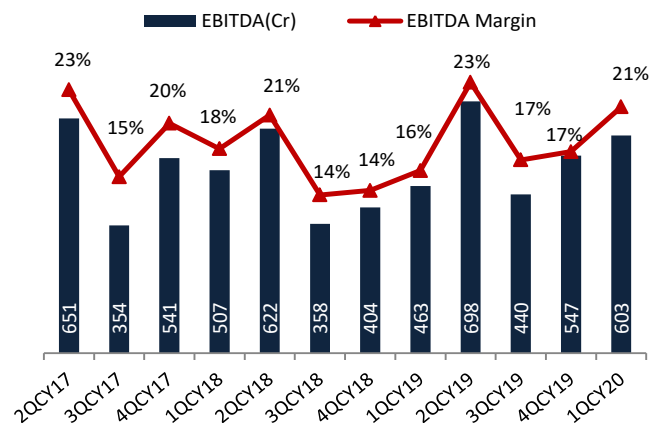
## Exhibit: Freight cost

Freight cost rationalization led by supply chain efficiency.



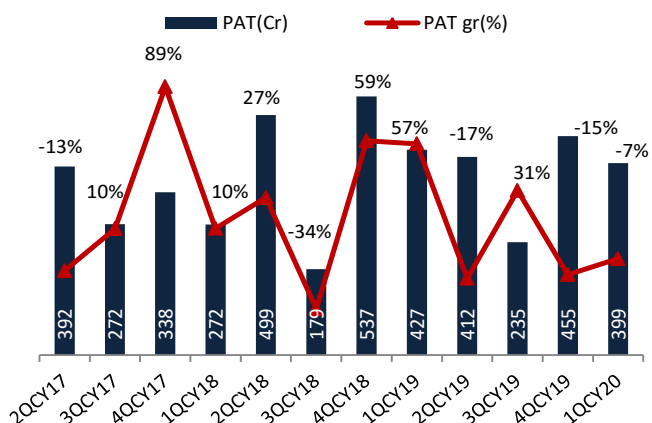
## Exhibit: EBITDA margin trend

EBITDA margin expansion led by improved product mix, premiumization, lower freight and power cost.



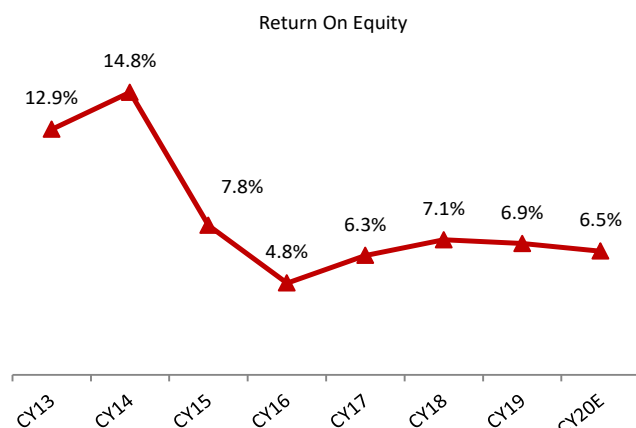
## Exhibit: PAT and PAT growth trend

PAT remained impacted on account of lower volumes on account of turbulence caused by COVID-19.



## Exhibit: Return On Equity

ROE is expected to be at 6.5% 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	22967
<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>23364</b>
Debt	29	29	23	16	24	40	35	38
Total Capital Employed	9515	10132	10330	19373	19997	21052	22240	23402
<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>8626</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	21848
<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>948</b>
Debtors	232	228	286	396	308	470	513	510
Cash & Bank	2341	2458	2848	2579	3497	3330	4699	4140
Other Current Assets	2031	2421	2518	302	635	677	681	677
Current Assets	5537	5995	6549	4214	5492	5755	6848	6275
<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>930</b>
Provisions	1076	1176	1084	88	87	91	85	85
Other Current Liabilities	792	1343	1462	2528	3001	2515	3426	3403
Curr Liabilities	2843	3138	3226	3432	4117	3715	4447	4417
<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>1857</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>28123</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>11589</b>
Change (%)	0%	9%	-5%	-3%	14%	9%	3%	-1%
Other Income	378	429	358	510	359	375	427	352
<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>2310</b>
Change (%)	0%	21%	-21%	11%	15%	-3%	14%	8%
Margin (%)	17%	19%	16%	18%	19%	17%	18%	20%
Depr & Amor.	490	510	626	849	573	548	544	554
<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>1756</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>2026</b>
Exp Item	-25	0	0	0	0	130	0	0
Tax	<b>220</b>	<b>287</b>	<b>365</b>	<b>347</b>	<b>370</b>	<b>19</b>	<b>419</b>	<b>510</b>
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1221	1496	808	932	1250	1487	1529	1516
<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>1516</b>
Change (%)	<b>0%</b>	<b>23%</b>	<b>-46%</b>	<b>15%</b>	<b>34%</b>	<b>19%</b>	<b>3%</b>	<b>-1%</b>
Margin(%)	13%	15%	9%	10%	12%	13%	13%	13%

## Financial Details

### Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
ROE	13%	15%	8%	5%	6%	7%	7%	6%
ROCE	13%	15%	8%	5%	6%	7%	7%	6%
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	21.4
P/E	23	24	39	44	43	31	27	21
Price / Book Value	3.0	3.5	3.1	2.1	2.7	2.2	1.9	1.3
EV/EBITDA	16	17	19	23	26	23	17	12
FCF per Share	3.1	5.5	6.0	5.2	6.5	(0.0)	6.9	(0.8)
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	2026
(inc)/Dec in Working Capital	45	15	23	32	231	-592	388	-19
Non Cash Op Exp	490	510	626	849	573	548	544	554
Int Paid (+)	65	64	92	74	107	82	84	82
Tax Paid	-510	-289	-42	-319	-310	-625	-81	-510
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>2108</b>
(inc)/Dec in FA & CWIP	-688	-820	-617	-383	-560	-594	-1111	-2259
Free Cashflow	475	852	931	1025	1292	-1	1366	-151
(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>-2259</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	-588
<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	4112

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