

Industry  
Bloomberg  
BSE CODE

Building Materials  
ACEM IN  
500425

## PAT growth led by higher other income on account of dividend income

RATING	NEUTRAL
CMP	201
Price Target	228
Potential Upside	13%

Rating Change	↔
Estimate Change	↔
Target Change	↔

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

### RESEARCH ANALYST

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### 2QCY20 Result Update

- In 2QCY20, AMBUJACEM volumes declined by 28% YoY to 4.19 MT impacted on account of shut down of factories in the month of April due to turbulence caused by COVID-19.
- The Company's revenue de-grew by 26.9% YoY to Rs. 2369 cr. Impacted on account of lower volumes. Realization grew by 5.8% QoQ on account of increase in cement price/bag.
- EBITDA margin improved by 389 bps to 27.3% YoY driven by lower other expense, Power & Fuel and Freight cost.
- The Company's Power & Fuel, Freight cost and other expenses declined by 142/49/278 bps to 19%/23%/13% YoY led by low fuel cost, operational efficiency, supply chain efficiency, reduction in other fixed cost and cost optimization initiatives while employee expenses increased by 120 bps to 19% YoY.
- The Company's PAT stood at Rs. 453 cr. with PAT growth of 10% YoY led by higher other income on account of dividend received from ACC limited to the extent of Rs. 133 cr. while PAT margin stood at 20.8% in 2QCY20.

### View and Valuation

AMBUJACEM volumes de-grew by 28% YoY impacted on account of nationwide lockdown while realization grew by 5.8% QoQ. On a medium term we expect urban demand to remain under stress led by the rising number of COVID-19 cases while rural is expected to remain better than urban. On pricing, front prices are expected to remain at the same level for at least a few months. On Capacity expansion front 4.5 MTPA at Marwar, Mundwa, Rajasthan capacity is progressing. On Margin front, the company's continuous thrust on running the plants efficiently, benign fuel prices with fossil fuel substitution with alternative fuel, emphasis on reducing logistic cost through supply chain efficiency and re-negotiations of logistics contracts 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 local lockdown in many places, start of monsoon and increasing rate of spread of disease, we maintain our NEUTRAL rating with a target price of Rs. 228.

### Key Risks to our rating and target

- Slowdown in rural 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	11519
EBITDA	1692	1940	1891	2149	2734
EBIT	843	1367	1343	1605	2180
PAT	932	1250	1487	1529	1849
EPS (Rs)	4.7	6.3	7.5	7.7	9.3
EPS growth (%)	-10%	34%	19%	3%	21%
ROE (%)	5%	6%	7%	7%	8%
ROCE (%)	5%	6%	7%	7%	8%
BV	22.7	26.0	22.5	17.1	13.0
P/B (X)	2.1	2.7	2.2	1.9	1.7
P/E (x)	44	43	31	27	22

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## 2QCY20 Results Better than expectation

Fig in Rs Cr

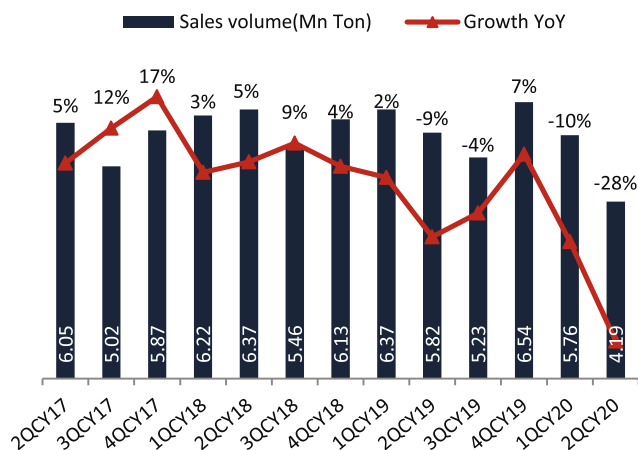
FINANCIALS	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	YoY%	QoQ%	CY18	CY19	YoY%
Net Sales	2978	2626	3136	2828	2177	<b>-26.9%</b>	<b>-23.0%</b>	11357	11668	<b>3%</b>
Other Income	58	63	66	88	192	<b>231.6%</b>	<b>118.0%</b>	375	427	<b>14%</b>
COGS	292	214	363	251	232	<b>-20.7%</b>	<b>-7.9%</b>	946	1125	<b>19%</b>
Gross Margin	90%	92%	88%	91%	89%	<b>-0.8%</b>	<b>-1.7%</b>	92%	90%	<b>-1%</b>
Employee Cost	169	168	169	172	149	<b>-11.5%</b>	<b>-13.2%</b>	680	673	<b>-1%</b>
Other Expenses	470	527	549	496	283	<b>-39.8%</b>	<b>-42.9%</b>	2016	2040	<b>1%</b>
EBITDA	698	440	547	603	595	<b>-14.8%</b>	<b>-1.3%</b>	1891	2149	<b>14%</b>
EBITDA%	23%	17%	17%	21%	27%	<b>3.9%</b>	<b>6.0%</b>	17%	18%	<b>2%</b>
Depreciation	131	133	149	138	129	<b>-1.5%</b>	<b>-6.5%</b>	548	544	<b>-1%</b>
EBIT	568	307	399	465	466	<b>-17.8%</b>	<b>0.2%</b>	1343	1605	<b>19%</b>
Interest	21	22	24	23	18	<b>-12.3%</b>	<b>-20.8%</b>	82	84	<b>1%</b>
PBT	605	348	441	530	640	<b>5.9%</b>	<b>20.7%</b>	1636	1948	<b>19%</b>
Exceptional Item	-	-	-	-	-	-	-	130	0	-
Tax	193	113	-14	131	187	<b>-3%</b>	<b>42%</b>	19	419	<b>2101%</b>
PAT	412	235	455	399	453	<b>10.0%</b>	<b>13.6%</b>	1487	1529	<b>3%</b>
PAT Margin	14%	9%	15%	14%	21%	<b>7.0%</b>	<b>6.7%</b>	13%	13%	<b>0%</b>

Fig in Rs Cr

CEMENT BUSINESS	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	YoY%	QoQ%
Sales	2,614	2,863	2,928	2,978	2,626	3,136	2,828	2,177	<b>10%</b>	<b>19%</b>
Vol (Mn Ton)	5.5	6.1	6.4	5.8	5.2	6.5	5.8	4.2	<b>7%</b>	<b>25%</b>
Real.(Rs./Ton)	4,787	4,671	4,596	5,117	5,021	4,795	4,909	5,195	<b>3%</b>	<b>-5%</b>

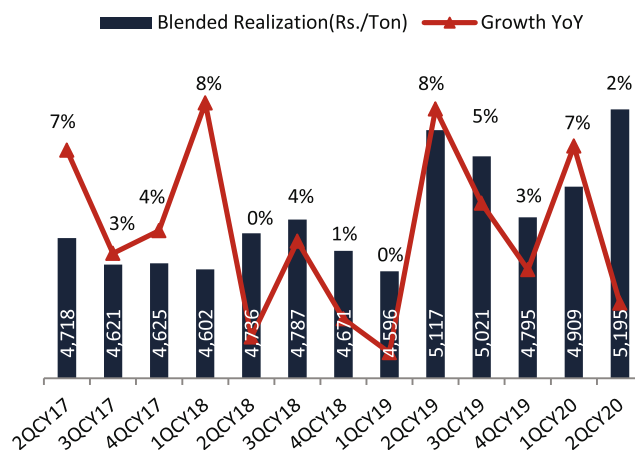
### Exhibit: Cement Volume trend

Cement volumes remained impacted led by shutdown of factories in April-20 amidst COVID-19.



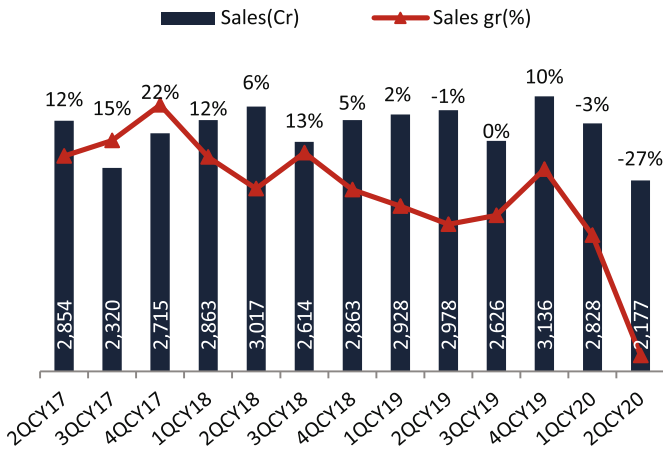
### Exhibit: Cement realization trend

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



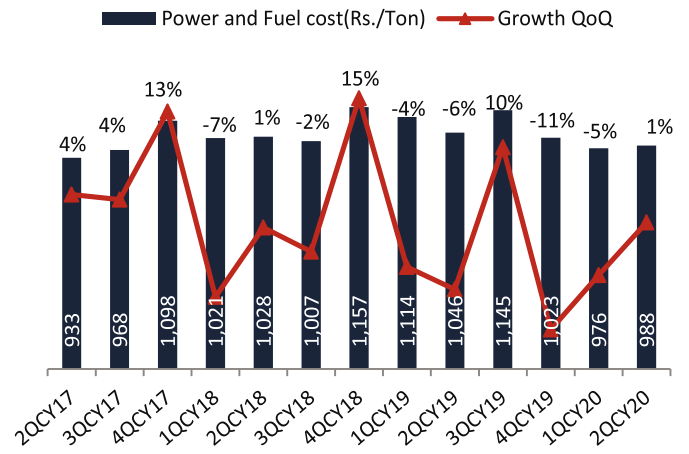
## Exhibit: Revenue and revenue growth trend

Sales remained impacted due to shut down of operations on account of lockdown due to COVID-19.



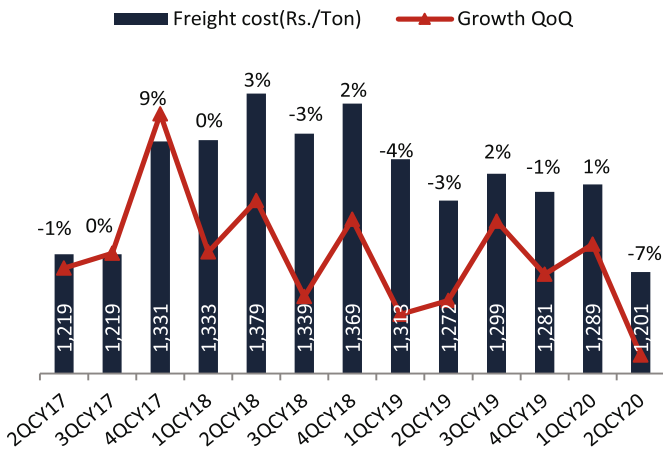
## Exhibit: Power & Fuel cost

Power & Fuel cost increased by only 1% YoY led by lower fuel cost and operational efficiencies.



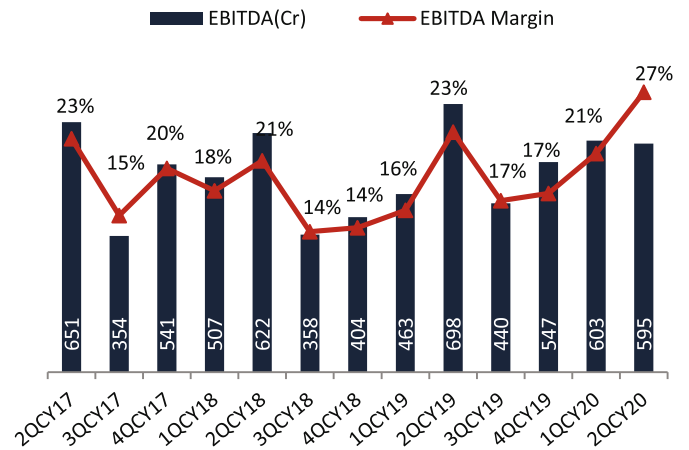
## Exhibit: Freight cost

Freight cost rationalization led by supply chain efficiency and re-negotiations of contracts.



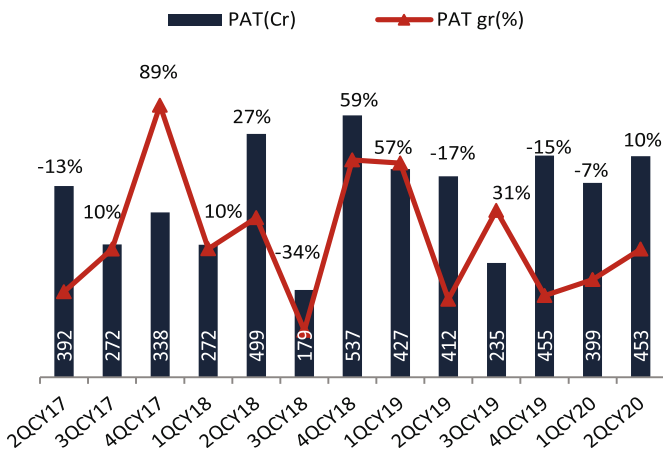
## Exhibit: EBITDA margin trend

EBITDA margin expansion led by higher realization, lower fixed cost and lower freight & power cost.



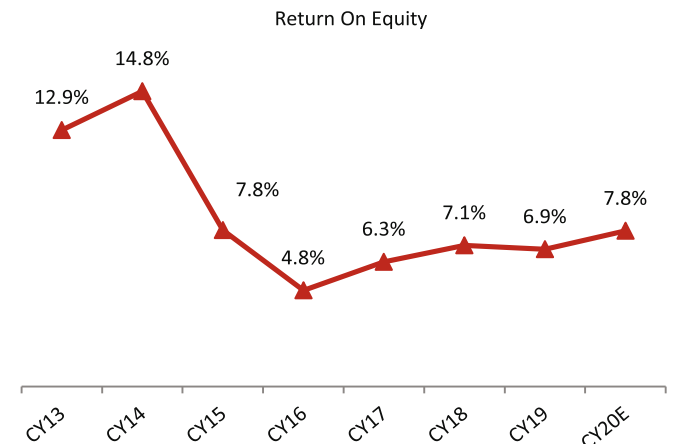
## Exhibit: PAT and PAT growth trend

PAT growth led by higher other income on account of dividend from ACC limited to the extent of Rs. 133 cr.



## Exhibit: Return On Equity

ROE is expected to be at 7.8% 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	23300
<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>23697</b>
Debt	29	29	23	16	24	40	35	38
Total Capital Employed	9515	10132	10330	19373	19997	21052	22240	23735
<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>911</b>
Debtors	232	228	286	396	308	470	513	490
Cash & Bank	2341	2458	2848	2579	3497	3330	4699	4386
Other Current Assets	2031	2421	2518	302	635	677	681	651
Current Assets	5537	5995	6549	4214	5492	5755	6848	6438
<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>894</b>
Provisions	1076	1176	1084	88	87	91	85	82
Other Current Liabilities	792	1343	1462	2528	3001	2515	3426	3273
Curr Liabilities	2843	3138	3226	3432	4117	3715	4447	4249
<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>2190</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>28286</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>11146</b>
Change (%)	0%	9%	-5%	-3%	14%	9%	3%	-4%
Other Income	378	429	358	510	359	375	427	373
<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>2734</b>
Change (%)	0%	21%	-21%	11%	15%	-3%	14%	27%
Margin (%)	17%	19%	16%	18%	19%	17%	18%	25%
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>2180</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>2471</b>
Exp Item	-25	0	0	0	0	130	0	0
Tax	220	287	365	347	370	19	419	622
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1221	1496	808	932	1250	1487	1529	1849
<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>1849</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>21%</b>
Margin(%)	13%	15%	9%	10%	12%	13%	13%	17%

## Financial Details

### Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
ROE	13%	15%	8%	5%	6%	7%	7%	8%
ROCE	13%	15%	8%	5%	6%	7%	7%	8%
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	26.6
P/E	23	24	39	44	43	31	27	22
Price / Book Value	3.0	3.5	3.1	2.1	2.7	2.2	1.9	1.7
EV/EBITDA	16	17	19	23	26	23	17	13
FCF per Share	3.1	5.5	6.0	5.2	6.5	(0.0)	6.9	0.4
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	2471
(inc)/Dec in Working Capital	45	15	23	32	231	-592	388	-124
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	-622
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>2336</b>
(inc)/Dec in FA & CWIP	-688	-820	-617	-383	-560	-594	-1111	-2259
Free Cashflow	475	852	931	1025	1292	-1	1366	77
(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	-360
<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	4340

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