

## Ambuja Cements

### Performance Highlights

#### Quarterly results (Standalone)

Y/E Dec. (₹ cr)	3QCY2015	2QCY2015	% chg qoq	3QCY2014	% chg yoy
Net Sales	2,095	2,493	(16.0)	2,188	(4.2)
EBIDTA	310	384	(19.2)	393	(21.2)
EBIDTA Margin (%)	14.7	15.4	(70bp)	17.9	(317bp)
Net Profit	154	226	(32.2)	239	(35.8)

Source: Company, Angel Research

For 3QCY2015, Ambuja Cements (ACEM) reported an in line set of numbers on the operational front. The company reported a 1.7% yoy growth in cement volumes to 4.9mt (marginally below our estimate of 4.95mt). The realization/tonne declined by 5.8% yoy to ₹4,276 (below our estimate of ₹4,345). The EBITDA fell by 21.2% yoy to ₹310.1cr (in line with our estimate of ₹318.6cr). The EBITDA/tonne at ₹633, is down by 22.5% on a yoy basis (in line of our estimate of ₹643).

**EBIDTA margin down 317bp yoy:** For 3QCY2015, ACEM's top-line fell by 4.2% yoy to ₹2,095.2cr, impacted by weak demand and fall in realization. The company's volume rose by 1.7% yoy (fell 16.7% qoq) to 4.9mt, while realization was down by 5.8% yoy due to pricing pressure in its key markets of North and West regions. However, the operating performance was in line with our estimates, led by operational efficiency. The company's EBIDTA declined by 21.2% yoy to ₹310.1cr but was in line with our estimate of ₹318.9cr. The EBIDTA decline was led by weak realization and increase in other expenses (led by ₹40cr provision for DMF). Hence the EBIDTA margin, at 14.7%, declined by 317bp yoy, but was in line with our estimate. The Reported PAT fell by 35.8% yoy to ₹153.6cr (below our estimate of ₹220.2cr), mainly due to higher depreciation and lower other income.

**Outlook and valuation:** Going forward, we expect ACEM's volume growth to remain under pressure due to lack of capacity, for the next two years. However, we expect the top-line to register an 8.1% CAGR over CY2014-17E. At the current market price, the stock is trading at an EV/tonne of US\$150 on CY2017E installed capacity and 10.6x EV/EBIDTA of CY2017E. **We maintain our Accumulate rating on the stock with target price of ₹233 on 12.5x EV/EBIDTA and EV/tonne of US\$165 on CY2017E installed capacity.**

#### Key financials (Standalone)

Y/E Dec. (₹ cr)	CY2013	CY2014	CY2015E	CY2016E	CY2017E
Net sales	9,176	9,978	10,241	11,624	12,616
% chg	(6.1)	9.1	2.6	13.8	8.6
Adj. net profit	1,030	1,496	1,026	1,375	1,568
% chg	(34.7)	45.3	(31.4)	34.0	14.1
OPM (%)	18.4	19.5	16.8	19.4	20.7
FDEPS (₹)	6.7	9.7	6.6	8.9	10.1
P/E (x)	31.1	21.4	31.3	23.3	20.5
P/BV (x)	3.4	3.2	3.1	2.9	2.8
RoE (%)	11.3	15.3	10.0	12.8	13.8
RoCE (%)	11.8	13.3	10.4	14.2	16.0
EV/Sales	3.1	2.8	2.7	2.4	2.2
EV/EBITDA (x)	16.7	14.2	16.2	12.4	10.6

Source: Company, Angel Research; Note: CMP as of October 29, 2015

## ACCUMULATE

CMP	₹207
Target Price	₹233

Investment Period	12 Months
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#### Stock Info

Sector	Cement
Market Cap (₹ cr)	32,396
Net Debt (₹ cr)	(4,610)
Beta	1.1
52 Week High / Low	287/196
Avg. Daily Volume	193,085
Face Value (₹)	2
BSE Sensex	26,838
Nifty	8,112
Reuters Code	ABUJ.BO
Bloomberg Code	ACEM@IN

#### Shareholding Pattern (%)

Promoters	50.3
MF / Banks / Indian Fls	12.8
FII / NRIs / OCBs	27.1
Indian Public / Others	9.9

Abs. (%)	3m	1yr	3yr
Sensex	(1.5)	0.6	45.1
ACL	(9.4)	(6.8)	0.0

#### 3-year price chart



Source: Company, Angel Research

**Shrenik Gujrathi**

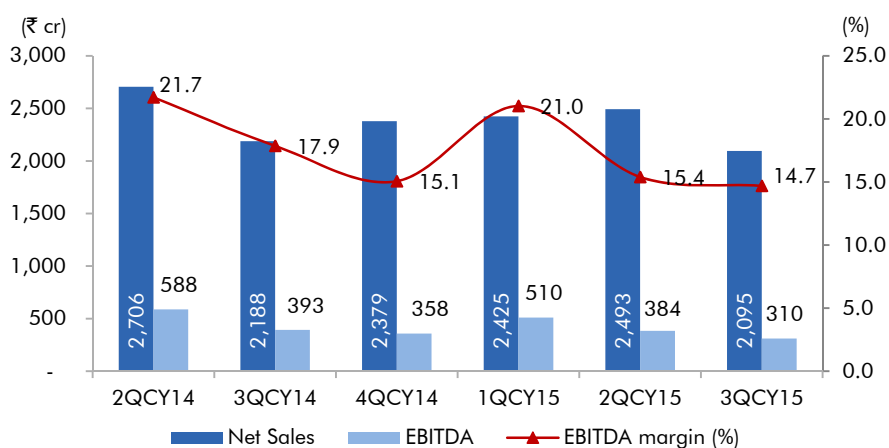
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**Exhibit 1: 3QCY2015 performance (Standalone)**

Y/E Dec. (₹ cr)	3QCY15	2QCY15	% chg qoq	3QCY14	% chg yoy	9MCY15	9MCY14	% chg
<b>Net sales</b>	<b>2,095</b>	<b>2,492.76</b>	<b>(16.0)</b>	<b>2,188</b>	<b>(4.2)</b>	<b>70,125</b>	<b>75,337</b>	<b>(6.9)</b>
Other operating income	16	18	(11.4)	15	8.3	719	377	90.5
<b>Total operating income</b>	<b>2,111</b>	<b>2,510</b>	<b>(15.9)</b>	<b>2,202</b>	<b>(4.1)</b>	<b>70,844</b>	<b>75,714</b>	<b>(6.4)</b>
Net raw-material costs	109	178	(38.9)	149	(26.7)	4,954	5,532	(10.5)
(% of sales)	5.2	7.1		6.8		7.0	7.3	
Power & fuel	486	584	(16.8)	510	(4.6)	16,073	17,123	(6.1)
(% of sales)	23.0	23.3		23.2		22.7	22.6	
Staff costs	151	150	0.9	142	6.4	4,497	4,122	9.1
(% of sales)	7.2	6.0		6.5		6.3	5.4	
Freight & forwarding	554	715	(22.5)	548	1.0	18,897	18,952	(0.3)
(% of sales)	26.2	28.5		24.9		26.7	25.0	
Other expenses	500	499	0.3	459	8.9	14,344	14,045	2.1
(% of sales)	23.7	19.9		20.9		20.2	18.5	
<b>Total expenditure</b>	<b>1,801</b>	<b>2,127</b>	<b>(15.3)</b>	<b>1,809</b>	<b>(0.4)</b>	<b>58,763</b>	<b>59,773</b>	<b>(1.7)</b>
<b>Operating profit</b>	<b>310</b>	<b>384</b>	<b>(19.2)</b>	<b>393</b>	<b>(21.2)</b>	<b>12,081</b>	<b>15,941</b>	<b>(24.2)</b>
OPM (%)	14.7	15.4	(70bp)	17.9	(317)bp	17.1	21.1	(400bp)
Interest	21	32	(34.3)	18	16.1	737	542	35.9
Depreciation	155	149	4.5	130	19.3	4,615	3,740	23.4
Other income	74	106	(29.9)	89	(16.3)	2,749	3,585	(23.3)
Exceptional Inc./ (Exp.)	-	-		-		0	0	
<b>PBT</b>	<b>208</b>	<b>309</b>	<b>(32.7)</b>	<b>334</b>	<b>(37.6)</b>	<b>9,478</b>	<b>15,244</b>	<b>(37.8)</b>
Provision for taxation	55	83	(34.2)	95	(42.4)	2,460	3,308	(25.6)
(% of PBT)	26.2	26.8		28.4		26.0	21.7	
<b>Reported PAT</b>	<b>154</b>	<b>226</b>	<b>(32.2)</b>	<b>239</b>	<b>(35.8)</b>	<b>7,018</b>	<b>11,936</b>	<b>(41.2)</b>
PATM (%)	7.3	9.0	(174bp)	10.9	(358bp)	9.9	15.8	(586bp)
<b>EPS (₹)</b>	<b>1.0</b>	<b>1.5</b>		<b>1.5</b>		<b>4.5</b>	<b>7.5</b>	

Source: Company, Angel Research

**Exhibit 2: Financial performance**


Source: Company, Angel Research

**Exhibit 3: 3QCY2015 – Actual vs Angel estimates**

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	2,095	2,153	(2.7)
EBIDTA	310	319	(2.7)
EBIDTA Margin (%)	14.7	14.7	-
Net profit	154	220	(30.3)

Source: Company, Angel Research

**Performance highlights**
**Top-line declines 4.2% yoy**

ACEM's standalone top-line for the quarter fell by 4.2% yoy to ₹2,095.2cr (marginally below our estimate of ₹2.152.7cr), impacted by weak demand and higher-than-expected fall in realization. The company registered a volume growth of 1.7% yoy to 4.9mt, but the same was below our estimate of 4.95mt. Realization/tonne was down by 5.8% yoy to ₹4,276 (below our estimate of ₹4,345), mainly due to pricing pressure in its key markets of North and West regions.

**EBIDTA margin down 317bp yoy**

ACEM's EBIDTA margin fell by 317bp yoy to 14.7% impacted by fall in realization and increase in other expenses (led by ₹40cr provision for DMF). Total operating expenses were down by 0.4% yoy, led by 26.7% yoy fall in raw material costs and 4.6% yoy fall in power costs. Power costs were down mainly due to lower pet coke and imported coal prices. The EBIDTA declined by 21.2% yoy to ₹310.1cr and was in line with our estimate of ₹318.6cr. The EBITDA/tonne was down by 22.5% yoy to ₹633 (in line with our estimate of ₹643).

**Per-tonne analysis**

For 3QCY2015, ACEM's realization/tonne fell 5.8% on a yoy basis, (up 0.9% qoq). Raw material cost/tonne declined 17.3%/26.6% yoy/qoq. Freight cost/tonne declined by 0.6%/7.1% yoy/qoq to ₹1,130, led by fall in diesel prices. Power and fuel (P&F) costs/tonne fell by 6.2%/0.2% yoy/qoq to ₹992. Other expenses/tonne increased 7.1%/20.3% yoy/qoq to ₹1,021, mainly due to provision related to DMF. The operating profit/tonne stood at ₹633, down by 22.5% yoy, led by fall in realization and increase in other expenses.

**Exhibit 4: Per tonne analysis**

(₹/tonne)	3QCY15	3QCY14	2QCY15	% chg (yoy)	% chg (qoq)
Realization/tonne	4,276	4,538	4,239	(5.8)	0.9
Raw-material cost/tonne	222	269	303	(17.3)	(26.6)
Power and fuel cost/tonne	992	1,058	994	(6.2)	(0.2)
Freight cost/tonne	1,130	1,138	1,216	(0.6)	(7.1)
Other costs/tonne	1,021	953	848	7.1	20.3
Operating costs/tonne	3,675	3,752	3,617	(2.1)	1.6
Operating Profit/tonne	633	816	653	(22.5)	(3.0)

Source: Company, Angel Research

## Investment rationale

### Lack of capacity addition impacting top-line growth

ACEM has seen a 6.9% yoy decline in its top-line during 9MCY2015, led by soft demand and weak pricing environment in its key markets. There has been a volume de-growth of 4.2% yoy during the same period. Going forward, we believe the company will continue to lose market share as there is no visibility of new capacity addition for the next two years. We expect ACEM's volumes to grow at a CAGR of 4.1% during CY2014-17. Lack of capacity addition would lead to underperformance in terms of volume growth. However cement prices are expected to remain strong on back of demand boost led by government spending on infrastructure, housing and smart cities schemes.

### Outlook and valuation

Going forward, we expect ACEM's volume growth to remain under pressure due to lack of capacity. However, we expect the top-line to register an 8.1% CAGR over CY2014-17E. At the current market price, the stock is trading at an EV/tonne of US\$150 on CY2017E capacity and 10.6x EV/EBIDTA of CY2017E. **We maintain our Accumulate rating on the stock with a target price of ₹233 on 12.5x EV/EBIDTA and EV/tonne of US\$165 on CY2017E installed capacity.**

## **Company Background**

Swiss cement major, Holcim acquired a controlling stake in ACEM in 2005. In India, the Holcim Group currently controls one-fifth of the total cement capacity through ACEM and ACC. On a standalone basis, ACEM is the third largest cement player in India with total capacity of 27mtpa. The company majorly focuses on northern and western India, with no plants in southern India. Of its current total capacity, 40% capacity is in the western, 38% in northern, 16% in eastern and northeastern and 6% capacity is in the central region of the country.

**Profit & loss statement (Standalone)**

Y/E December (₹ cr)	CY2013	CY2014	CY2015E	CY2016E	CY2017E
Net Sales	9,087	9,911	10,166	11,564	12,556
Other operating income	90	67	74	60	60
<b>Total operating income</b>	<b>9,176</b>	<b>9,978</b>	<b>10,241</b>	<b>11,624</b>	<b>12,616</b>
% chg	(5.8)	8.7	2.6	13.5	8.5
<b>Total Expenditure</b>	<b>7,509</b>	<b>8,050</b>	<b>8,532</b>	<b>9,382</b>	<b>10,018</b>
Net Raw Materials	765	810	820	928	1,012
Other Mfg costs	2,063	2,265	2,337	2,544	2,699
Personnel	502	582	640	704	760
Other	4,179	4,393	4,736	5,205	5,547
<b>EBITDA</b>	<b>1,668</b>	<b>1,928</b>	<b>1,708</b>	<b>2,242</b>	<b>2,598</b>
% chg	(32.9)	15.6	(11.4)	31.3	15.9
(% of Net Sales)	18.4	19.5	16.8	19.4	20.7
Depreciation & Amortisation	490	510	545	594	643
<b>EBIT</b>	<b>1,178</b>	<b>1,419</b>	<b>1,163</b>	<b>1,648</b>	<b>1,955</b>
% chg	(38.7)	20.5	(18.0)	41.7	18.6
(% of Net Sales)	13.0	14.3	11.4	14.3	15.6
Interest & other Charges	65	64	71	76	76
Other Income	378	429	440	480	462
(% of PBT)	25	24	29	23	20
<b>Recurring PBT</b>	<b>1,490</b>	<b>1,783</b>	<b>1,531</b>	<b>2,052</b>	<b>2,341</b>
% chg	(31.7)	19.7	(14.1)	34.0	14.1
Extraordinary Expense/(Inc.)	(266)	-	-	-	-
<b>PBT (reported)</b>	<b>1,756</b>	<b>1,783</b>	<b>1,531</b>	<b>2,052</b>	<b>2,341</b>
Tax	460	287	505	677	772
(% of PBT)	26.2	16.1	33.0	33.0	33.0
<b>PAT (reported)</b>	<b>1,295</b>	<b>1,496</b>	<b>1,026</b>	<b>1,375</b>	<b>1,568</b>
<b>ADJ. PAT</b>	<b>1,030</b>	<b>1,496</b>	<b>1,026</b>	<b>1,375</b>	<b>1,568</b>
% chg	(34.7)	45.3	(31.4)	34.0	14.1
(% of Net Sales)	11.3	15.1	10.1	11.9	12.5
<b>Basic EPS (₹)</b>	<b>6.7</b>	<b>9.7</b>	<b>6.6</b>	<b>8.9</b>	<b>10.1</b>
<b>Fully Diluted EPS (₹)</b>	<b>6.7</b>	<b>9.7</b>	<b>6.6</b>	<b>8.9</b>	<b>10.1</b>

**Balance sheet (Standalone)**

Y/E December (₹ cr)	CY2013	CY2014	CY2015E	CY2016E	CY2017E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	309	310	310	310	310
Preference Capital	-	-	-	-	-
Reserves & Surplus	9,176	9,793	10,188	10,716	11,319
<b>Shareholders Funds</b>	<b>9,486</b>	<b>10,103</b>	<b>10,498</b>	<b>11,026</b>	<b>11,629</b>
Total Loans	40	21	21	21	21
Deferred Tax Liability	564	589	589	589	589
Other Long term liabilities	18	18	18	18	18
Long term provisions	248	248	248	248	248
<b>Total Liabilities</b>	<b>10,356</b>	<b>10,979</b>	<b>11,373</b>	<b>11,902</b>	<b>12,504</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	10,826	11,429	12,229	13,329	14,429
Less: Acc. Depreciation	4,764	5,202	5,747	6,341	6,985
<b>Net Block</b>	<b>6,063</b>	<b>6,227</b>	<b>6,482</b>	<b>6,988</b>	<b>7,444</b>
Capital Work-in-Progress	695	690	890	790	490
Other non current assets	-	289	289	289	289
Intangible assets	-	-	-	-	-
<b>Investments</b>	<b>1,788</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>
Long term loans and advances	647	647	647	647	647
Current Assets	3,771	3,874	3,660	3,963	4,587
Cash	2,341	2,458	1,971	1,986	2,445
Loans & Advances	208	254	287	332	383
Other	1,223	1,162	1,402	1,645	1,760
Current liabilities	2,609	2,922	2,769	2,948	3,126
<b>Net Current Assets</b>	<b>1,163</b>	<b>952</b>	<b>892</b>	<b>1,014</b>	<b>1,461</b>
Mis. Exp. not written off	-	-	-	-	-
<b>Total Assets</b>	<b>10,356</b>	<b>10,979</b>	<b>11,373</b>	<b>11,902</b>	<b>12,504</b>

**Cash flow statement (Standalone)**

Y/E December (₹ cr)	CY2013	CY2014	CY2015E	CY2016E	CY2017E
Profit before tax	1,756	1,783	1,531	2,052	2,341
Depreciation	490	510	545	594	643
(Inc)/Dec in Working Capital	(150)	328	(427)	(108)	12
Add: Interest expenses	65	64	71	76	76
Less: Other income	378	429	440	480	462
Less: Direct taxes paid	460	287	505	677	772
<b>Cash Flow from Operations</b>	<b>1,322</b>	<b>1,969</b>	<b>776</b>	<b>1,457</b>	<b>1,838</b>
(Inc)/ Dec in Fixed Assets	(885)	(598)	(1,000)	(1,000)	(800)
(Inc)/ Dec in Investments	(133)	(384)	-	-	-
Other income	378	429	440	480	462
<b>Cash Flow from Investing</b>	<b>(640)</b>	<b>(553)</b>	<b>(560)</b>	<b>(520)</b>	<b>(338)</b>
Issue of Equity	42	52	-	-	-
Inc./ (Dec.) in loans	(2)	(20)	-	-	-
Dividend Paid (Incl. Tax)	651	921	632	846	965
Others	(16)	409	71	76	76
<b>Cash Flow from Financing</b>	<b>(595)</b>	<b>(1,298)</b>	<b>(703)</b>	<b>(922)</b>	<b>(1,041)</b>
Inc./ (Dec.) in Cash	88	117	(487)	15	459
<b>Opening Cash balances</b>	<b>2,253</b>	<b>2,341</b>	<b>2,458</b>	<b>1,971</b>	<b>1,986</b>
<b>Closing Cash balances</b>	<b>2,341</b>	<b>2,458</b>	<b>1,972</b>	<b>1,986</b>	<b>2,445</b>



**Key ratios**

Y/E December	CY2013	CY2014	CY2015E	CY2016E	CY2017E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	31.1	21.4	31.3	23.3	20.5
P/CEPS	17.9	16.0	20.4	16.3	14.5
P/BV	3.4	3.2	3.1	2.9	2.8
Dividend yield (%)	1.7	2.4	1.7	2.2	2.5
EV/Sales	3.1	2.8	2.7	2.4	2.2
EV/EBITDA	16.7	14.2	16.2	12.4	10.6
EV / Total Assets	2.7	2.5	2.4	2.3	2.2
<b>Per Share Data (₹)</b>					
EPS (Basic)	6.7	9.7	6.6	8.9	10.1
EPS (fully diluted)	6.7	9.7	6.6	8.9	10.1
Cash EPS	11.5	12.9	10.1	12.7	14.3
DPS	3.6	5.0	3.4	4.6	5.2
Book Value	61.4	65.2	67.7	71.1	75.0
<b>Dupont Analysis</b>					
EBIT margin	12.8	14.2	11.4	14.2	15.5
Tax retention ratio	73.8	83.9	67.0	67.0	67.0
Asset turnover (x)	1.2	1.2	1.1	1.2	1.3
ROIC (Post-tax)	11.3	14.4	8.7	11.4	13.1
<b>Returns (%)</b>					
ROCE (Pre-tax)	11.8	13.3	10.4	14.2	16.0
Angel ROIC (Pre-tax)	16.6	18.7	14.2	18.7	20.9
ROE	11.3	15.3	10.0	12.8	13.8
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	0.9	0.9	0.9	0.9	0.9
Inventory / Sales (days)	38	33	35	38	39
Receivables (days)	9	8	9	9	9
Payables (days)	129	125	122	111	111
WC cycle (ex-cash) (days)	(50)	(49)	(46)	(32)	(28)
<b>Solvency ratios (x)</b>					
Net debt to equity	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net debt to EBITDA	(1.4)	(1.3)	(1.1)	(0.9)	(0.9)
Interest Coverage (EBIT / Int.)	18.1	22.0	16.3	21.6	25.6

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Disclosure of Interest Statement	Ambuja Cements
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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