

Stable operating performance, with improved realisation and cost optimisation resulting in higher EBITDA/ton; Recommend Neutral with revised TP of Rs 223

Current	Previous
CMP: Rs 213	
Rating: Neutral	Rating: Hold
Target: Rs 223	Target: Rs 232

(NR-Not Rated)

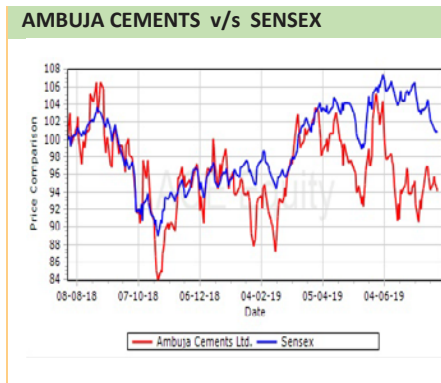
Stock Info	
INDEX	
BSE	500425
NSE	AMBUJACEM
Bloomberg	ACEM IN
Reuters	ABUJ.BO
Sector	Cement
Face Value (Rs)	2
Equity Capital (Rs Cr)	397
Market Cap (Rs Cr)	43,684
52w H/L (Rs)	253/188
Avg Weekly Vol (BSE+NSE)	3692210

Shareholding Pattern	%
(As on June, 2019)	
Promoters	63.4
Public & Others	36.6

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
AMBUJA CEMENTS	-5.5	5.4	-4.6
SENSEX	-3.0	5.2	2.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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Ambuja Cement reported stable set of numbers in Q2CY19, above our estimates. Standalone revenue for Q2CY19 stood at Rs 2978 cr, which was above our estimate of Rs 2934 cr, registering +1.7% QoQ/-1.3% YoY growth. Standalone EBITDA jumped 12.2% YoY to Rs 698 cr beating our estimate of Rs 560 cr, while EBITDA margin expanded +282bps YoY/+763bps QoQ to 23.4% against our estimate of 19.1%. Due to higher tax outgo, (+775bps YoY increase in tax rate) reported PAT witnessed a decline of -17.5% YoY/-3.5% QoQ to Rs 412 cr, however it was well above our estimate of Rs 395 cr. We are bullish on Cement Sector from medium term perspective, however due to expensive valuations, we downgrade our rating to Neutral from Hold with a revised target price of Rs 223.

Q2CY19 Operational Highlights

- Cement demand was muted during the quarter as the pace of construction activities slowed down due to liquidity issues in the market. Due to subdued cement demand, Ambuja's volume growth suffered, as the company reported 8.6% YoY de-growth in sales volume at 5.82 mt in Q2CY19 against 6.37 mt in Q2CY18.
- Despite higher fuel costs, Ambuja Cements did well by optimising logistics costs, reducing raw material and fixed costs. Fuel cost was higher in Q2CY19, which was partly mitigated by lower freight and forwarding costs due to factors like network optimization, re-negotiations of contracts and change in mode mix.
- Realisation for the quarter improved by +2.6% YoY and +1.7% QoQ to Rs 4859 per ton. Despite higher fuel costs, control on freight & forwarding costs and lower raw material costs helped the company to report 19% YoY jump in EBITDA per ton to Rs 1162 as against Rs 976 reported in Q2CY18. On QoQ basis EBITDA/ton grew 53.8%.

Outlook and Valuations

At CMP of Rs 213 Ambuja Cement is available at EV/EBITDA of 18.7x and 16.6x its CY19E and CY20E estimates respectively. After factoring in stable Q2CY19 results we keep our CY19E and CY20E estimates unchanged. We continue to value Ambuja's standalone business at 12.5x CY20E EV/EBITDA which gives a value of Rs 165.3, while Ambuja's 50% stake in ACC has been valued at Rs 57.5 per share giving 30% holding company discount to its market cap (valued @ our target price of Rs 1736 on ACC). Our SOTP valuation yields a fair value of Rs 223 for the stock. **Recommend 'Neutral'**.

Financial Performance

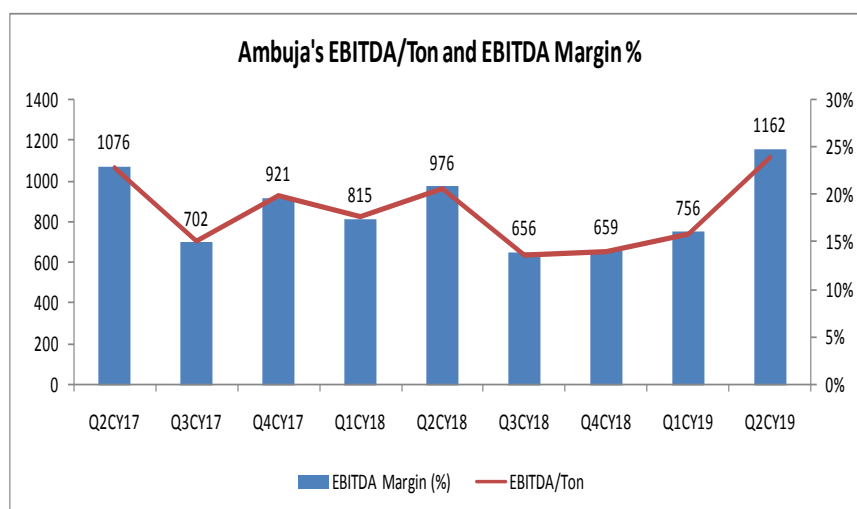
YE March (Rs Cr)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
CY17	10,446	1,940	1,250	6.3	18.6	6.3	33.8
CY18	11,357	1,891	1,617	8.1	16.7	7.7	26.2
CY19E	11,780	2,062	1,454	7.3	17.5	6.8	29.1
CY20E	12,368	2,288	1,565	7.9	18.5	7.2	27.0

Source: Company, Arihant Research

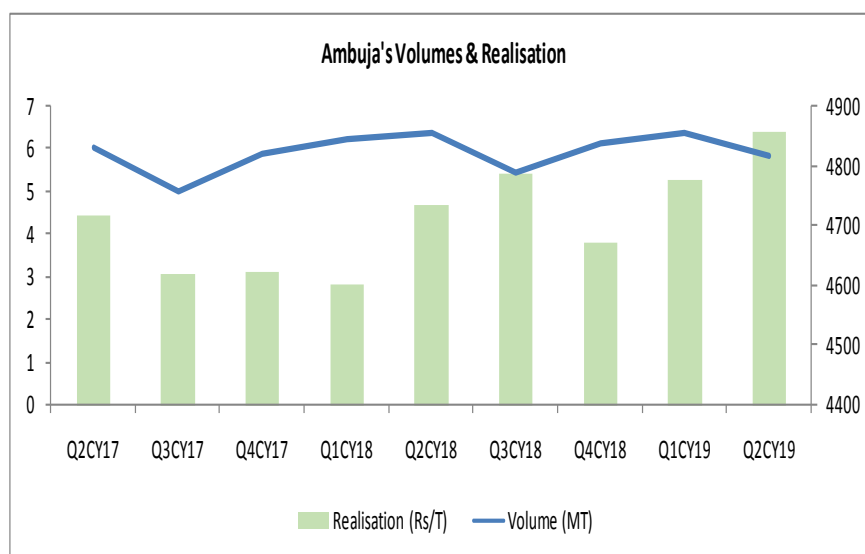
Per Ton Analysis	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19
Volumes (MT)	6.05	5	5.87	6.22	6.37	5.46	6.13	6.37	5.82
Realisation (Rs/T)	4718	4621	4625	4602	4736	4787	4671	4776	4859
RM	393	451	410	435	452	395	389	406	384
Employee Cost	280	321	277	273	276	299	279	273	275
Power & Fuel	933	968	1098	1021	1028	1007	1157	1158	993
Freight & Forwarding	737	612	782	829	878	731	839	837	740
Other Expenditure	502	437	475	510	474	504	529	494	470
Total Cost	2846	2789	3043	3067	3109	2936	3193	3167	2862

Source: Company, Arianth Research

Volume, Realisation, EBITDA margin and EBITDA per ton metrics of Ambuja Cements over the quarters



Source: Company, Arianth Research



Source: Company, Arianth Research

Q2CY19 Financial Performance

Rs Cr (standalone)	Q2CY19	Q1CY19	Q2CY18	Q-o-Q	Y-o-Y
Net Revenue	2,978	2,928	3,017	1.7%	-1.3%
Operating Costs	1,641	1,803	1,745	-9.0%	-6.0%
Employee cost	169	167	176	1.1%	-4.0%
Other Expenses	470	494	474	-4.8%	-0.7%
EBITDA	698	463	622	50.8%	12.2%
<i>EBITDA margin %</i>	<i>23.4%</i>	<i>15.8%</i>	<i>20.6%</i>	<i>+763bps</i>	<i>+282bps</i>
Depreciation	131	131	136	-0.4%	-4.1%
EBIT	568	332	486	71.0%	16.8%
Other Income	58	240	191	-75.9%	-69.7%
Finance cost	21	17	19	19.1%	8.4%
Exceptional Item	-	-	-	-	-
PBT	605	555	658	9.0%	-8.1%
Tax Expense	193	128	159	NA	21.5%
<i>Effective tax rate %</i>	<i>31.9%</i>	<i>23.0%</i>	<i>24.1%</i>	<i>+885bps</i>	<i>+775bps</i>
PAT	412	427	499	-3.5%	-17.5%
<i>PAT margin %</i>	<i>13.8%</i>	<i>14.6%</i>	<i>16.5%</i>	<i>-75bps</i>	<i>-271bps</i>
EPS (Rs)	2.1	2.2	2.5	-3.5%	-17.5%

Source: Company, Arianth Research

SOTP Valuations

Rs Cr	CY18	CY19E	CY20E
EV/EBITDA (x)	20.6	18.7	12.5
EBITDA	1891	2062	2288
EV	39004	38539	*28600
Debt	40	50	60
Cash	3330	3805	4291
Market Cap	42294	42294	32831
No shares	199	199	199
Value/Share (Rs)			165.3
ACC Stake Valuation			
ACC Target Price (Rs)			1,736
ACC Market Cap			32,637
Ambuja's Stake in ACC (50%)			16,318
Holding Co. Discount			30%
Value of Stake			11,423
Value/Share (Rs)			57.5
Ambuja Fair Value (Rs)			222.9
CMP (Rs)			213
Upside (%)			4.6%

*EV on basis of target EV/EBITDA multiple of 12.5x

Standalone Financials

Income Statement

Y/E March (Rs Cr)	CY17	CY18	CY19E	CY20E
Revenues	10,446	11,357	11,780	12,368
Change (%)	13.2%	8.7%	3.7%	5.0%
Total Expenses	8,506	9,465	9,719	10,080
EBITDA	1,940	1,891	2,062	2,288
Other Income	382	375	471	495
Depreciation	573	548	569	604
Interest	130	82	99	119
PBT	1,619	1,636	1,864	2,059
Extra-ordinary	0	130	0	0
PBT after ext-ord.	1,619	1,506	1,864	2,059
Tax	370	19	410	494
Rate (%)	22.8%	1.3%	22.0%	24.0%
PAT	1,250	1,487	1,454	1,565
Adjusted PAT	1,250	1,617	1,454	1,565
Change (%)	34.0%	29.4%	-10.1%	7.6%

Source: Company, Arian Research

Balance Sheet

Y/E March (Rs Cr)	CY17	CY18	CY19E	CY20E
Sources of Funds				
Share Capital	397	397	397	397
Reserves & Surplus	19,576	20,615	20,988	21,340
Net Worth	19,973	21,013	21,385	21,737
Loan Funds	24	40	50	60
MI, Deferred Tax & other Liabilities	458	372	372	372
Capital Employed	20,465	21,432	21,807	22,169
Application of Funds				
Net Block	5,722	5,664	5,595	5,491
CWIP	398	610	610	610
Other Non-current Assets	340	340	340	340
Deferred Tax Assets	0	0	0	0
Net Fixed Assets	6,460	6,614	6,545	6,440
Investments	11,845	11,845	11,845	11,845
Debtors	308	470	484	508
Inventories	1,053	1,278	1,291	1,355
Cash & Bank Balance	3,497	3,330	3,805	4,291
Loans & Advances & other CA	1,455	1,699	1,775	1,864
Total Current Assets	6,313	6,777	7,355	8,018
Current Liabilities	3,034	3,624	3,937	4,134
Provisions	1,118	180	0	0
Net Current Assets	2,160	2,973	3,417	3,884
Total Assets	20,465	21,432	21,807	22,169

Source: Company, Arian Research

Cash Flow Statement

Y/E March (Rs Cr)	CY17	CY18	CY19E	CY20E
PBT	1,619	1,636	1,864	2,059
Depreciation	573	548	569	604
Interest & others	-261	-300	-372	-375
Cash flow before WC changes	1,931	1,884	2,062	2,288
(Inc)/dec in working capital	134	-1,067	31	19
Operating CF after WC changes	2,065	818	2,092	2,307
Less: Taxes	-370	-19	-410	-494
Operating Cash Flow	1,695	799	1,682	1,813
(Inc)/dec in F.A + CWIP	81	-366	-500	-500
(Pur)/sale of investment	0	0	0	0
Cash Flow from Investing	81	-366	-500	-500
Free Cash Flow (FCF)	1,759	433	1,182	1,313
Loan raised/(repaid)	8	16	10	10
Equity raised	0	0	0	0
Interest & others	-311	31	-136	-211
Dividend	-555	-647	-582	-626
Cash Flow from Financing Activities	-858	-600	-707	-827
Net inc /(dec) in cash	919	-167	475	486
Opening balance of cash	2,579	3,497	3,330	3,805
Closing balance of cash	3,497	3,330	3,805	4,291

Source: Company, Arianth Research

Key Ratios

Y/E March	CY17	CY18	CY19E	CY20E
Per share (Rs)				
EPS	6.3	8.1	7.3	7.9
CEPS	9.2	10.9	10.2	10.9
BVPS	100.6	105.8	107.7	109.5
DPS	2.8	3.3	2.9	3.2
Div. Payout (%)	44.4%	40.0%	40.0%	40.0%
Valuation (x)				
P/E	33.8	26.2	29.1	27.0
P/CEPS	23.2	19.5	20.9	19.5
P/BV	2.1	2.0	2.0	1.9
EV/EBITDA	20.0	20.6	18.7	16.6
Dividend Yield (%)	1.3%	1.5%	1.4%	1.5%
Return Ratio (%)				
EBIDTA Margin	18.6%	16.7%	17.5%	18.5%
PAT Margin	12.0%	14.2%	12.3%	12.7%
ROE	6.3%	7.7%	6.8%	7.2%
ROCE	6.7%	6.3%	6.8%	7.6%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.2	-0.2	-0.2
Turnover Ratios				
Asset Turnover (x)	0.5	0.5	0.5	0.6
Receivable Days	11	15	15	15
Payable days	145	122	122	122

Source: Co, Arianth Research

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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