

*Muted results, higher realisation helped topline growth, but margin miss amidst tepid volume coupled with expensive valuation caps upside; Recommend Hold with TP of Rs 223*

Current	Previous
<b>CMP: Rs 208</b>	
<b>Rating: Hold</b>	<b>Rating: Neutral</b>
<b>Target: Rs 223</b>	<b>Target: Rs 223</b>

(NR-Not Rated)

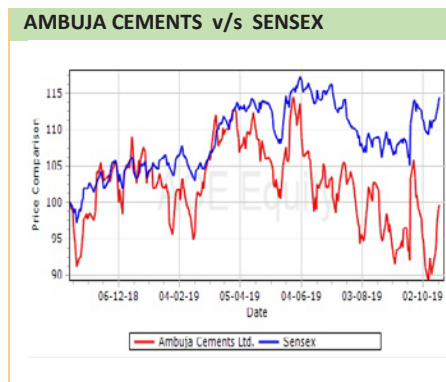
Stock Info	
INDEX	
BSE	500425
NSE	AMBUJACEM
Bloomberg	ACEM IN
Reuters	ABUJ.BO
Sector	Cement
Face Value (Rs)	2
Equity Capital (Rs Cr)	397
Market Cap (Rs Cr)	41,232
52w H/L (Rs)	244/184
Avg Weekly Vol (BSE+NSE)	10143060

Shareholding Pattern	%
<b>(As on Sept, 2019)</b>	
Promoters	63.4
Public & Others	36.6

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
AMBUJA CEMENTS	-4.3	-11.3	-4.8
SENSEX	1.0	0.4	13.0

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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**Ambuja Cement reported muted set of numbers in Q3CY19, mostly missing our estimate except on revenue front. Standalone revenue for Q3CY19 stood at Rs 2626 cr, which was slightly below our estimate of Rs 2650 cr, registering +0.5% YoY/-11.8% QoQ growth. Standalone EBITDA grew +22.8% YoY/-37.0% QoQ to Rs 440 cr missing our estimate of Rs 504 cr, while EBITDA margin expanded +305bps YoY/-670bps QoQ to 16.7% which was below our estimate of 19%. PAT saw a growth of +31.4% YoY/-43.1% QoQ to Rs 235 cr, however it was well below our estimate of Rs 292 cr. We are bullish on Cement Sector from medium term perspective, however due to expensive valuation of Ambuja, we feel near term upside will be capped. Hence we recommend a Hold rating on the stock with a TP of Rs 223.**

**Q3CY19 Operational Highlights**

- Cement demand was muted during the quarter due to slower pace of construction activities during monsoon. Also heavy rains and floods in states of UP, Bihar, Maharashtra and Gujarat impacted Ambuja's volume growth; as the company reported 4% YoY de-growth in sales volume at 5.23 MT in Q3CY19 against 5.46 MT in Q3CY18.
- Realisation for the quarter improved by +4.9% YoY to Rs 5021 per ton. Despite higher raw material costs, increase in staff expenses and higher power & fuel costs, control on logistics costs helped Ambuja to report 28.2% YoY jump in EBITDA per ton to Rs 841 as against Rs 656 reported in Q3CY18. Though on QoQ basis EBITDA/ton saw a de-growth of 29.9%.
- Despite higher raw material expenses and increased fuel costs, Ambuja Cement did well by optimising logistics costs which helped in increasing its EBITDA for the quarter. Also higher mix of premium products boosted topline growth. Going forward the company will be focusing on new value added products, which will help it to maintain its topline growth.

**Outlook and Valuations**

At CMP of Rs 208, Ambuja Cement is available at EV/EBITDA of 18.2x and 16.2x its CY19E and CY20E estimate respectively. After factoring in Q3CY19 results we keep our CY19E and CY20E estimate 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 'Hold'**.

**Financial Performance**

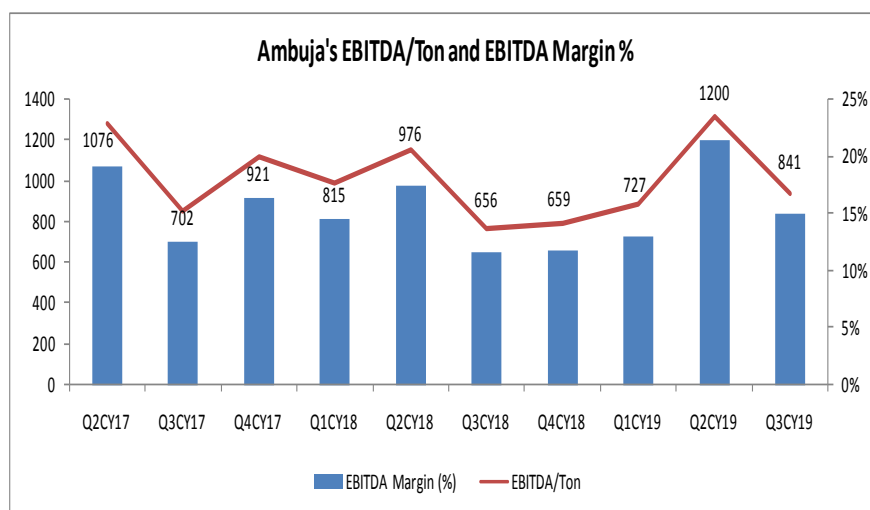
YE March (Rs Cr)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
CY17	10,446	1,940	1,250	6.3	18.6	6.3	33.1
CY18	11,357	1,891	1,617	8.1	16.7	7.7	25.5
CY19E	11,780	2,062	1,454	7.3	17.5	6.8	28.4
CY20E	12,368	2,288	1,565	7.9	18.5	7.2	26.4

Source: Company, Arihant Research

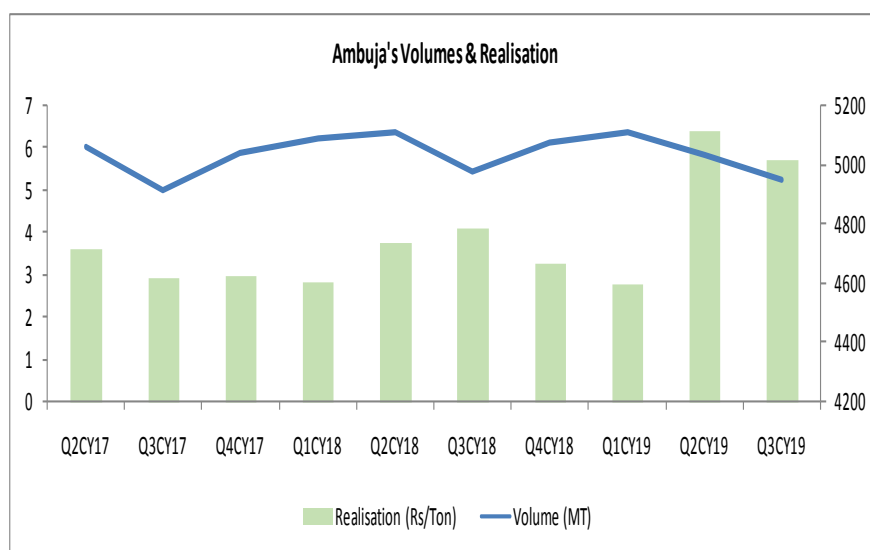
Per Ton Analysis	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19
Volumes (MT)	6.05	5	5.87	6.22	6.37	5.46	6.13	6.37	5.82	5.23
Realisation (Rs/T)	4718	4621	4625	4602	4736	4787	4671	4596	5117	5021
RM	393	451	410	435	452	395	389	391	404	488
Employee Cost	280	321	277	273	276	299	279	262	290	321
Power & Fuel	933	968	1098	1021	1028	1007	1157	1114	1046	1145
Freight & Forwarding	737	612	782	829	878	731	839	837	740	679
Other Expenditure	502	437	475	510	474	504	529	494	470	527
<b>Total Cost</b>	<b>2846</b>	<b>2789</b>	<b>3043</b>	<b>3067</b>	<b>3109</b>	<b>2936</b>	<b>3193</b>	<b>3098</b>	<b>2950</b>	<b>3159</b>

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

## Q3CY19 &amp; 9MCY19 Financial Performance

Rs Cr (standalone)	Q3CY19	Q2CY19	Q3CY18	Q-o-Q	Y-o-Y	H1CY19	H1CY18	Y-o-Y
Net Revenue	2,626	2,978	2,614	-11.8%	0.5%	8,532	8,493	0.5%
Operating Costs	1,492	1,641	1,589	-9.1%	-6.1%	4,936	5,010	-1.5%
Employee cost	168	169	163	-0.6%	2.7%	504	509	-1.0%
Other Expenses	527	470	504	12.0%	4.6%	1,491	1,487	0.2%
<b>EBITDA</b>	<b>440</b>	<b>698</b>	<b>358</b>	<b>-37.0%</b>	<b>22.8%</b>	<b>1,601</b>	<b>1,488</b>	<b>7.7%</b>
EBITDA margin %	16.7%	23.4%	13.7%	-670bps	+305bps	18.8%	17.5%	+126bps
Depreciation	133	131	136	1.6%	-2.2%	395	412	-4.0%
<b>EBIT</b>	<b>307</b>	<b>568</b>	<b>222</b>	<b>-45.9%</b>	<b>38.1%</b>	<b>1,206</b>	<b>1,076</b>	<b>12.1%</b>
Other Income	63	58	48	8.3%	30.2%	361	290	24.4%
Finance cost	22	21	19	3.7%	12.3%	60	64	-6.7%
Exceptional Item	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>348</b>	<b>605</b>	<b>251</b>	<b>-42.4%</b>	<b>38.6%</b>	<b>1,507</b>	<b>1,302</b>	<b>15.8%</b>
Tax Expense	113	193	73	-41.1%	56.3%	434	352	23.1%
Effective tax rate %	32.6%	31.9%	28.9%	+74bps	+369bps	28.8%	27.1%	+172bps
<b>PAT</b>	<b>235</b>	<b>412</b>	<b>179</b>	<b>-43.1%</b>	<b>31.4%</b>	<b>1,074</b>	<b>950</b>	<b>13.1%</b>
PAT margin %	8.9%	13.8%	6.8%	-490bps	+210bps	12.6%	11.2%	+140bps
<b>EPS (Rs)</b>	<b>1.2</b>	<b>2.1</b>	<b>0.9</b>	<b>-43.1%</b>	<b>31.4%</b>	<b>5.4</b>	<b>4.8</b>	<b>13.1%</b>

Source: Company, Arihant 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
<b>Value/Share (Rs)</b>			<b>165.3</b>
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
<b>Value/Share (Rs)</b>			<b>57.5</b>
<b>Ambuja Fair Value (Rs)</b>			<b>222.9</b>
CMP (Rs)			208
<b>Upside (%)</b>			<b>7.1%</b>

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

## Standalone Financials

## Income Statement

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

Source: Company, Arianth Research

## Balance Sheet

Y/E March (Rs Cr)	CY17	CY18	CY19E	CY20E
<b>Sources of Funds</b>				
Share Capital	397	397	397	397
Reserves & Surplus	19,576	20,615	20,988	21,340
<b>Net Worth</b>	<b>19,973</b>	<b>21,013</b>	<b>21,385</b>	<b>21,737</b>
<b>Loan Funds</b>				
	<b>24</b>	<b>40</b>	<b>50</b>	<b>60</b>
MI, Deferred Tax & other Liabilities	458	372	372	372
<b>Capital Employed</b>	<b>20,465</b>	<b>21,432</b>	<b>21,807</b>	<b>22,169</b>
<b>Application of Funds</b>				
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
<b>Net Fixed Assets</b>	<b>6,460</b>	<b>6,614</b>	<b>6,545</b>	<b>6,440</b>
<b>Investments</b>				
	<b>11,845</b>	<b>11,845</b>	<b>11,845</b>	<b>11,845</b>
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
<b>Total Current Assets</b>	<b>6,313</b>	<b>6,777</b>	<b>7,355</b>	<b>8,018</b>
Current Liabilities	3,034	3,624	3,937	4,134
Provisions	1,118	180	0	0
<b>Net Current Assets</b>	<b>2,160</b>	<b>2,973</b>	<b>3,417</b>	<b>3,884</b>
<b>Total Assets</b>	<b>20,465</b>	<b>21,432</b>	<b>21,807</b>	<b>22,169</b>

Source: Company, Arianth Research

**Cash Flow Statement**

Y/E March (Rs Cr)	CY17	CY18	CY19E	CY20E
<b>PBT</b>	<b>1,619</b>	<b>1,636</b>	<b>1,864</b>	<b>2,059</b>
Depreciation	573	548	569	604
Interest & others	-261	-300	-372	-375
Cash flow before WC changes	1,931	1,884	2,062	2,288
<b>(Inc)/dec in working capital</b>	<b>134</b>	<b>-1,067</b>	<b>31</b>	<b>19</b>
Operating CF after WC changes	2,065	818	2,092	2,307
Less: Taxes	-370	-19	-410	-494
<b>Operating Cash Flow</b>	<b>1,695</b>	<b>799</b>	<b>1,682</b>	<b>1,813</b>
(Inc)/dec in F.A + CWIP	81	-366	-500	-500
(Pur)/sale of investment	0	0	0	0
<b>Cash Flow from Investing</b>	<b>81</b>	<b>-366</b>	<b>-500</b>	<b>-500</b>
<b>Free Cash Flow (FCF)</b>	<b>1,759</b>	<b>433</b>	<b>1,182</b>	<b>1,313</b>
Loan raised/(repaid)	8	16	10	10
Equity raised	0	0	0	0
Interest & others	-311	31	-136	-211
Dividend	-555	-647	-582	-626
<b>Cash Flow from Financing Activities</b>	<b>-858</b>	<b>-600</b>	<b>-707</b>	<b>-827</b>
<b>Net inc /(dec) in cash</b>	<b>919</b>	<b>-167</b>	<b>475</b>	<b>486</b>
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
<b>Per share (Rs)</b>				
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%
<b>Valuation (x)</b>				
P/E	33.1	25.5	28.4	26.4
P/CEPS	22.7	19.1	20.4	19.0
P/BV	2.1	2.0	1.9	1.9
EV/EBITDA	19.5	20.1	18.2	16.2
Dividend Yield (%)	1.3%	1.6%	1.4%	1.5%
<b>Return Ratio (%)</b>				
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%
<b>Leverage Ratio (x)</b>				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.2	-0.2	-0.2
<b>Turnover Ratios</b>				
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% to -12%
SELL	<-12%

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