

Higher Expenditure Limits Profitability

26th Oct, 2017

CMP: Rs. 276
Target Price Rs. 289
Rating: **NEUTRAL**

Stock Info

BSE Group	A
BSE Code	500425
NSE Symbol	AMBUJACEM
Bloomberg	ACEM.IN
Reuters	ABUJ.BO
BSE Sensex	33,147
NSE Nifty	10,344

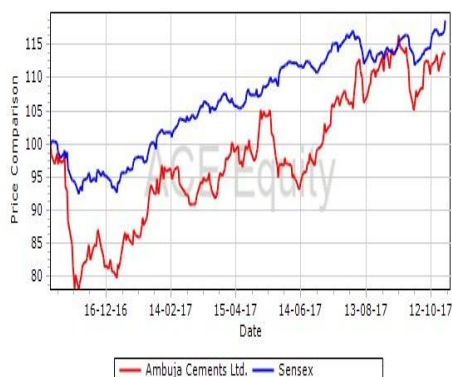
Market Info

Market Capital	Rs. 54,833 cr
Equity Capital	Rs. 397 cr
Avg. Trading Vol.	27,15,430 cr
52 Wk High/ Low	291/191
Face Value	2

Shareholding Pattern (%)

Promoters	63.59
Domestic Institutions	12.21
Foreign Institutions	16.60
Public & Others	7.60

Price Chart:



Ambuja Cements Ltd. reported 10% rise in its net profit for the quarter ended June, 2017, which came in at Rs 272 crore vs. Rs 248 crore in corresponding quarter of the previous year owing to the higher income from operations. Total income of the company increased by 15% to Rs 2,320 crore for quarter under review as compared to Rs 2,015 crore for the corresponding quarter of previous year. Top line grew strongly on account of higher sales growth and value-based pricing but company faced cost pressures on account of rising input costs on fuel, packing and other raw material.

EBITDA

EBITDA for the quarter came in at Rs 354 crore increased by 14% as compared to corresponding quarter of previous year. EBITDA margins stood steady at 15.3% compared to YoY basis. This was supported by higher realization and strong volumes, however, was offset by higher per ton cost. EBITDA per ton was Rs705 up 7% YoY.

Volumes

Cement volume for the quarter was up by 11% to 5 million tonnes (MT) as compared to 4.5 MT in corresponding quarter of previous year.

Recent developments

Ambuja Cements Ltd participated in e-auction tender 3D-1, Harima Pithasar lime stone block in Rajasthan. The company has secured an estimated limestone resource of 200 million tonnes at a price of final bid price of 41.6% of mineral value.

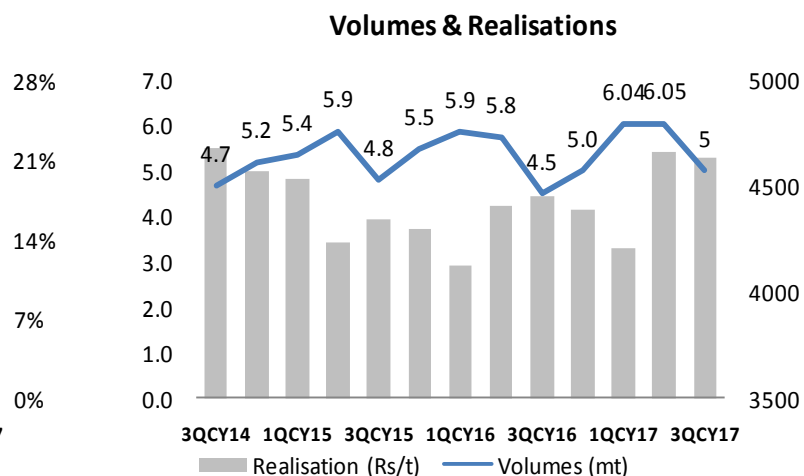
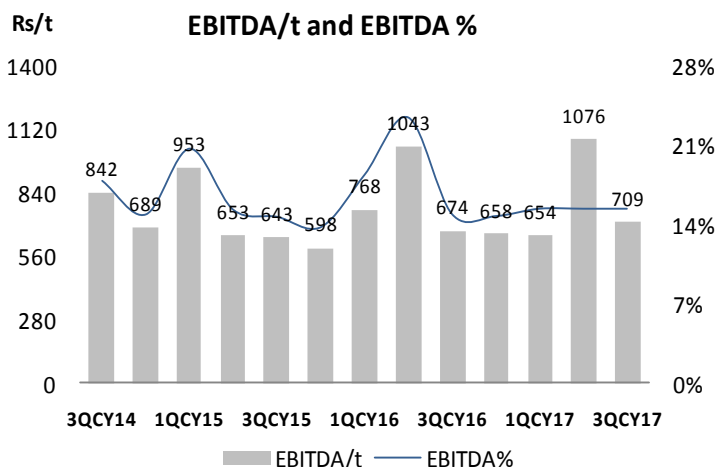
Valuation

The government has identified the construction and infrastructure sector as one of the key sectors that will help improve overall economic growth. Infrastructure projects in the areas of power, irrigation, roads, metros and railways, as well as dedicated freight and industrial corridors, are likely to generate strong cement demand in the country. Furthermore, increased spending on affordable and low cost housing coupled with the normal monsoon is expected to boost the rural economy which augurs well for the cement industry. We have valued stock on EV/EBITDA of 24(x) its CY19 estimates and have arrived at a fair value of Rs 289 per share. We have '**NEUTRAL**' rating on the stock.

(Rs Cr)	CY 16	CY 17E	CY 18E	CY 19E
Revenue from operations	9,268	10,045	10,638	11,589
EBITDA	1,683	1,850	2,009	2,220
PAT	970	1,086	1,176	1,329
EPS	4.9	5.5	5.9	6.7
ROE(%)	6.6	5.6	6.0	6.6
P/E (x)	42.3	45.6	42.1	37.3

Source: Ace Equity, Arihant Research

Per Tonnes Analysis	3QCY14	4QCY14	1QCY15	2QCY15	3QCY15	4QCY15	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17
Volumes (mt)	4.7	5.2	5.4	5.9	4.8	5.5	5.9	5.8	4.5	5.0	6.04	6.05	5
Realisation (Rs/t)	4684	4575	4532	4239	4346	4299	4127	4412	4454	4393	4208	4667	4639
RM	378	363	387	369	373	352	377	359	381	355	339	393	452
Employee cost	305	326	277	255	314	255	255	267	315	297	279	280	323
Power & Fuel	1092	1063	1003	990	1009	817	873	812	972	831	895	933	972


Valuations:

	CY 16	CY 17E	CY 18E	CY 19E
EV/EBITDA	22.4	24.9	22.8	24.0
EBITDA	1683	1850	2009	2220
EV	37744	46091	45818	53291
Debt/(Cash)	-3264	-3425	-3698	-4089
Market Cap	41008	49516	49516	57380
No shares	198.8	198.8	198.8	198.8
Target price				289
CMP				276
Upside				5%

Q3 CY17 Results

Rs in Crore	3QCY17	3QCY16	YOY (%)
Total Income	2320	2015	15.1
Expenditure	1965	1707	15.2
EBITDA	354	308	14.9
EBITDA Margins (%)	15.3	15.3	0.0
Other Income	153	174	
Interest	31	20	
Depreciation	140	159	
Tax	63	55	
PAT	272	248	9.8
Net Profit Margin (%)	12%	12%	
EPS (Rs)	1.4	1.3	9.6

Profit and Loss Account

Particulars, in Rs crore	CY 16	CY 17E	CY 18E	CY 19E
Income from Operations	9,268	10,045	10,638	11,589
Power & Fuel Cost	1832	2128	2253	2455
Employee Cost	594	623	660	718
Selling & Distribution Expense	1890	2039	2128	2318
Other Expenditure	3,270	3,406	3,589	3,877
Total Expenditure	7585	8195	8629	9368
EBITDA	1,683	1,850	2,009	2,220
Depreciation	850	773	828	865
EBIT	833	1,077	1,181	1,356
Other Income	576	552	585	637
Interest	71	79	86	95
PBT before Excp Items	1337	1551	1680	1898
Exceptional Income / Expenses	-	-	-	-
PBT	1337	1551	1680	1898
Provision for Tax	367	465	504	569
Net Profit	970	1086	1176	1329

Cash Flow Statement

Particulars, in Rs crore	CY 16	CY 17E	CY 18E	CY 19E
Operating Activities				
Profit before tax	1,337	1,551	1,680	1,898
Depreciation	850	773	828	865
Non-Operating Activities	(505)	(474)	(499)	(542)
Total	1,683	1,850	2,009	2,220
Taxes paid	(367)	(465)	(504)	(569)
Changes in Working Capital	1,389	59	34	173
Cash Flow from Operations	2,704	1,443	1,539	1,824
Investing Activities				
Investing activities	(11,169)	305	244	262
Capex	(643)	(450)	(546)	(610)
Cash Flow from Investing	(11,812)	(146)	(301)	(348)
Financing Activities				
Dividend & tax	(646)	(730)	(706)	(797)
Other financing activities	8,063	(406)	(256)	(285)
Cash Flow from Financing	7,417	(1,135)	(962)	(1,083)
Change in cash & equivalents	(1,691)	162	275	394
Opening Cash & Equivalents	5,032	3,341	3,503	3,779
Closing Cash & Equivalents	3,341	3,503	3,779	4,172

Note: Closing cash includes other investments

Balance Sheet

Particulars, in Rs crore	CY 16	CY 17E	CY 18E	CY 19E
Liabilities + Equity				
Share capital	398	398	398	398
Reserves and surplus	18676	19032	19502	20034
Shareholders' funds	19074	19430	19900	20431
Non-current liabilities	570	538	517	498
Current liabilities	3611	3609	3801	4157
Total - Equity and liabilities	23255	23577	24218	25086
Assets				
Non-current assets	19145	19105	19200	19357
Fixed Assets	5699	5387	4967	4602
Long-term loans and advances	683	717	753	790
Non-current investments	11845	12082	12323	12570
Current assets	4109	4472	5019	5729
Cash and bank balances	1413	1837	2225	2752
Total - Assets	23255	23577	24218	25086

Ratio Analysis

	CY 16	CY 17E	CY 18E	CY 19E
Profitability				
Revenue growth	-1.7%	8.4%	5.9%	8.9%
EBITDA%	18.2%	18.4%	18.9%	19.2%
Profit Growth	20.1%	11.9%	8.3%	13.0%
Du Pont ROAE breakup				
PAT Margin	10.5	10.8	11.1	11.5
Sales / Avg Total Fixed Assets	0.5	0.4	0.4	0.5
Avg Total Assets / Avg Eqty	1.3	1.2	1.2	1.2
ROE	6.6	5.6	6.0	6.6
Other Ratios				
Current Ratio	1.1	1.2	1.3	1.4
Debt / Equity	0.0	0.0	0.0	0.0
EPS	4.9	5.5	5.9	6.7
DPS	2.8	3.1	3.0	3.3
Valuation				
P/E	42.3	45.6	42.1	37.3
EV/EBITDA	22.4	24.9	22.8	24.0
P/BV	2.1	2.5	2.5	2.4

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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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