

Ambuja Cements

Performance Highlights

Quarterly results (Standalone)

Y/E Dec. (₹ cr)	2QCY2015	1QCY2015	% chg qoq	2QCY2014	% chg yoy
Net Sales	2,493	2,425	2.8	2,706	(7.9)
Operating profit	384	510	(24.7)	588	(34.7)
OPM (%)	15.4	21.0	(564bp)	21.7	(541)bp
Rep. Net Profit	226	318	(28.8)	409	(44.6)

Source: Company, Angel Research

For 2QCY2015, Ambuja Cements (ACEM) reported an in-line set of numbers on the operational front. It reported a 0.5% yoy growth in cement volume to 5.88mt as against our estimate of 5.7mt (3.4% yoy de-growth). The realization/tonne declined by 8.4% yoy to ₹4,239 as against our estimate of ₹4,302. The EBITDA fell by 34.7% yoy to ₹383.8cr, but beat our estimate of ₹367.6cr. The EBITDA/tonne at ₹653, down by 35% on a yoy basis, was in line with our estimate of ₹650.

OPM down 632bp yoy: For 2QCY2015 ACEM's operating performance was in line with our estimates. Its standalone top-line fell by 7.9% yoy to ₹2,492.8cr, impacted by a steep fall in realization. Realization was down by a steep 8.4% yoy. The company's volume rose by 0.5% yoy to 5.88mn tonne. The OPM fell by 632bp yoy to 15.4%, impacted by a fall in realization and increase in freight costs and employee expenses. The Reported PAT fell by 44.6% yoy to ₹226.4cr, and was in line with our estimate.

Outlook and valuation: We expect ACEM's top-line growth to remain under pressure due to pricing pressure in its key regions of North and West. We expect ACEM to register a 10.2% CAGR in top-line over CY2014-16E. The bottom-line is expected to grow at a slower pace, ie at a CAGR of 5.4%, for the same period due to high cost pressures and poor pricing scenario. At the current market price, the stock is trading at an EV/tonne of US\$170 on CY2016E capacity, which we believe is fairly valued. We maintain our Neutral rating on the stock with a fair price of ₹233 on 12x EV/EBIDTA and EV/tonne of US\$170 on CY2016E installed capacity.

Key financials (Standalone)

Y/E Dec. (₹ cr)	CY2013	CY2014	CY2015E	CY2016E
Net sales	9,176	9,978	10,643	12,082
% chg	(6.1)	9.1	6.6	13.8
Adj. net profit	1,030	1,496	1,349	1,661
% chg	(34.7)	45.3	(9.9)	23.1
OPM (%)	18.4	19.5	20.7	22.2
FDEPS (₹)	6.7	9.7	8.7	10.7
P/E (x)	35.0	24.1	26.8	21.7
P/BV (x)	3.8	3.6	3.4	3.2
RoE (%)	11.3	15.3	13.0	15.2
RoCE (%)	11.8	13.3	14.6	17.6
EV/Sales	3.5	3.2	3.0	2.6
EV/EBITDA (x)	19.1	16.3	14.4	11.8

Source: Company, Angel Research; Note: CMP as of July 28, 2015

NEUTRAL

CMP ₹233
 Target Price -

Investment Period -

Stock Info

Sector	Cement
Market Cap (₹ cr)	36,322
Net Debt (₹ cr)	(4,610)
Beta	1.3
52 Week High / Low	287/202
Avg. Daily Volume	1,747,759
Face Value (₹)	2
BSE Sensex	27,459
Nifty	8,337
Reuters Code	ABUJ.BO
Bloomberg Code	ACEM@IN

Shareholding Pattern (%)

Promoters	50.3
MF / Banks / Indian Fls	13.6
FII / NRIs / OCBs	26.4
Indian Public / Others	9.8

Abs. (%)	3m	1yr	3yr
Sensex	0.2	5.7	60.2
ACEM	(0.1)	11.9	27.8

3 year price chart



Source: Company, Angel Research

Shrenik Gujrathi

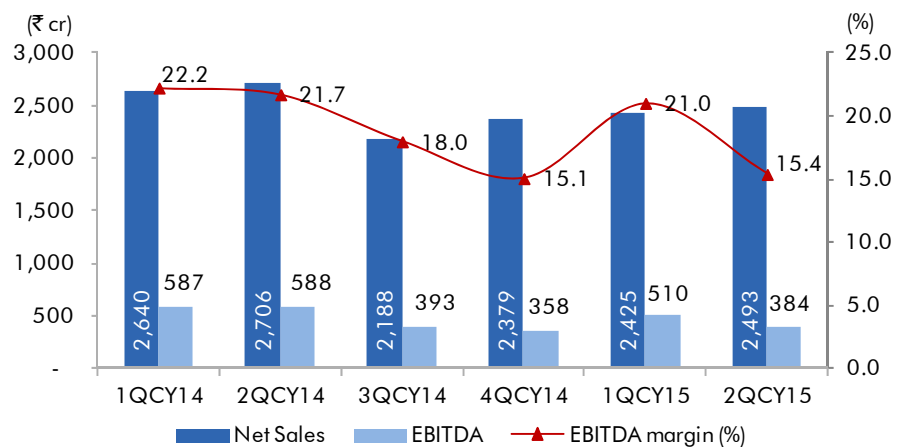
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Exhibit 1: 3QCY2013 performance (Standalone)

Y/E Dec. (₹ cr)	2QCY15	1QCY15	% chg qoq	2QCY14	% chg yoy	CY14	CY13	% chg
Net sales	2,493	2,424.57	2.8	2,706	(7.9)	9,911	9,087	9.1
Other operating income	18	38	(53.9)	14	29.3	67	90	(24.8)
Total operating income	2,510	2,463	1.9	2,720	(7.7)	9,978	9,176	8.7
Net raw-material costs	178	212	(16.1)	174	2.3	810	765	6.0
(% of sales)	7.1	8.6		6.4		8.1	8.3	
Power & fuel	584	537	8.9	624	(6.4)	2,265	2,063	9.8
(% of sales)	23.3	21.8		22.9		22.7	22.5	
Staff costs	150	148	1.4	141	6.7	582	502	15.8
(% of sales)	6.0	6.0		5.2		5.8	5.5	
Freight & forwarding	715	621	15.2	681	5.0	2,439	2,362	3.3
(% of sales)	28.5	25.2		25.0		24.4	25.7	
Other expenses	499	435	14.6	512	(2.6)	1,954	1,817	7.5
(% of sales)	19.9	17.7		18.8		19.6	19.8	
Total expenditure	2,127	1,953	8.9	2,132	(0.3)	8,050	7,509	7.2
Operating profit	384	510	(24.7)	588	(34.7)	1,928	1,668	15.6
OPM (%)	15.4	21.0	(564bp)	21.7	(632)bp	19.3	18.2	115bp
Interest	32	21	47.8	20	55.9	64	65	(0.9)
Depreciation	149	158	(5.9)	124	19.6	510	490	4.0
Other income	106	95	11.1	138	0.1	429	378	13.6
Exceptional Inc./ (Exp.)	-	-		-		0	266	
PBT	309	426	(27.4)	581	(46.8)	1,783	1,756	1.6
Provision for taxation	83	108	(23.3)	173	(51.9)	287	460	(37.6)
(% of PBT)	26.8	25.4		29.7		16.1	26.2	
Reported PAT	226	318	(28.8)	409	(44.6)	1,496	1,295	15.5
PATM (%)	9.0	12.9	(388bp)	15.0	(601bp)	15.0	14.1	88bp
EPS (₹)	1.5	2.1		2.6		9.7	6.7	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

Exhibit 3: 2QCY2015 – Actual vs Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	2,493	2,432	2.5
Operating profit	384	368	4.4
OPM (%)	15.4	15.1	30bp
Adjusted Net profit	226	226	0.0

Source: Company, Angel Research

Performance highlights
Top-line declines 7.9% yoy

ACEM's standalone top-line fell by 7.9% yoy to ₹2,492.8cr, impacted by a steep 8.4% yoy fall in realization. Realization/tonne fell 8.4% yoy to ₹4,239 and is below our estimate of ₹4,302, largely due to sharp cut in cement prices in its key regions of North and West. The company's volume rose by 0.5% yoy to 5.88mt and has come in above our estimate of 5.7mt.

OPM down 632bp yoy

ACEM's OPM fell by 632bp yoy to 15.4%, impacted by steep fall in realization and increase in raw material, freight and employee expenses. The raw material, freight and employee cost increased by 5.8%/5.0%/6.7% on a yoy basis. Operating profit declined by 34.7% yoy to ₹383.8cr and was above our estimate of ₹367.6cr. The EBITDA/tonne was down by 35% yoy to ₹653, in line with our estimate of ₹650.

Per-tonne analysis

For 2QCY2015, ACEM's realization/tonne fell 8.4% on a yoy basis, mainly due to pricing pressure in its key markets of North and West. Raw material cost/tonne increased by 5.3% yoy. Freight cost/tonne rose by 4.5% yoy to ₹1,216. Power and fuel (P&F) costs/tonne fell by 6.9% yoy to ₹994. Total operating cost/tonne declined by 0.8% yoy to ₹3,617 largely due to fall in power and fuel cost. The operating profit/tonne stood at ₹653, down by 35.0% yoy mainly due to sharp cut in realization per tonne.

Exhibit 4: Per tonne analysis

(₹/tonne)	2QCY15	2QCY14	1QCY15	% chg (yoy)	% chg (qoq)
Realization/tonne	4,239	4,626	4,532	(8.4)	(6.5)
Raw-material cost/tonne	303	288	389	5.3	(22.1)
Power and fuel cost/tonne	994	1067	1,003	(6.9)	(1.0)
Freight cost/tonne	1,216	1,164	1,160	4.5	4.8
Other costs/tonne	848	875	813	(3.1)	4.3
Operating costs/tonne	3,617	3,645	3,651	(0.8)	(0.9)
Operating Profit/tonne	653	1,005	953	(35.0)	(31.5)

Source: Company, Angel Research

Investment rationale

Lack of capacity addition impacting top-line growth

ACEM has seen a muted CAGR of 1.2% in its top-line during CY2012-14. The volume has grown at a mere CAGR of 1.7% during the same period, mainly due to lack of new capacity addition. During 1HCY2015 the volume declined by 6.5% over 1HCY2014. The realization during 1HCY2015 also declined by 1.6% yoy. Going forward, we believe cement companies adding capacity will gain market share when demand revives. Cement prices in the region of North and West are under pressure, mainly due to new capacity addition in the North region. This being a key region for ACEM, we expect earnings to remain under pressure over the next few quarters.

Outlook and valuation

We expect ACEM's top-line growth to remain under pressure due to pricing pressure in its key region of North and West. We expect ACEM to register a 10.2% CAGR in top-line over CY2014-16E. The bottom-line is expected to post a slower growth, ie of 5.4% (CAGR) for the same period, due to high cost pressures and poor pricing scenario. At the current market price, the stock is trading at an EV/tonne of US\$170 on CY2016E capacity, which we believe is fairly valued. We maintain our Neutral rating on the stock with a fair price of ₹233 on 12x EV/EBIDTA and EV/tonne of US\$170 on CY2016E installed capacity.

Company Background

Swiss cement major, Holcim acquired a controlling stake in ACEM in 2005. In India, the Holcim Group currently controls one-sixth 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 western India, 38% in north, 16% in east and north east and 6% capacity is in the central region of the country.

Profit & loss statement (Standalone)

Y/E Dec (₹ cr)	CY2013	CY2014	CY2015E	CY2016E
Net Sales	9,087	9,911	10,569	12,022
Other operating income	90	67	74	60
Total operating income	9,176	9,978	10,643	12,082
% chg	(5.8)	8.7	6.7	13.5
Total Expenditure	7,509	8,050	8,454	9,413
Net Raw Materials	765	810	820	928
Other Mfg costs	2,063	2,265	2,337	2,602
Personnel	502	582	640	704
Other	4,179	4,393	4,657	5,179
EBITDA	1,668	1,928	2,190	2,669
% chg	(32.9)	15.6	13.5	21.9
(% of Net Sales)	18.4	19.5	20.7	22.2
Depreciation & Amortisation	490	510	545	594
EBIT	1,178	1,419	1,644	2,075
% chg	(38.7)	20.5	15.9	26.2
(% of Net Sales)	13.0	14.3	15.6	17.3
Interest & other Charges	65	64	71	76
Other Income	378	429	440	480
(% of PBT)	25	24	22	19
Recurring PBT	1,490	1,783	2,013	2,479
% chg	(31.7)	19.7	12.9	23.1
Extraordinary Expense/(Inc.)	(266)	-	-	-
PBT (reported)	1,756	1,783	2,013	2,479
Tax	460	287	664	818
(% of PBT)	26.2	16.1	33.0	33.0
PAT (reported)	1,295	1,496	1,349	1,661
ADJ. PAT	1,030	1,496	1,349	1,661
% chg	(34.7)	45.3	(9.9)	23.1
(% of Net Sales)	11.3	15.1	12.8	13.8
Basic EPS (₹)	6.7	9.7	8.7	10.7
Fully Diluted EPS (₹)	6.7	9.7	8.7	10.7

Balance sheet (Standalone)

Y/E Dec (₹ cr)	CY2013	CY2014	CY2015E	CY2016E
SOURCES OF FUNDS				
Equity Share Capital	309	310	310	310
Preference Capital	-	-	-	-
Reserves & Surplus	9,176	9,793	10,312	10,950
Shareholders Funds	9,486	10,103	10,622	11,260
Total Loans	40	21	21	21
Deferred Tax Liability	564	589	589	589
Other Long term liabilities	18	18	18	18
Long term provisions	248	248	248	248
Total Liabilities	10,356	10,979	11,497	12,136
APPLICATION OF FUNDS				
Gross Block	10,826	11,429	12,229	13,329
Less: Acc. Depreciation	4,764	5,202	5,747	6,341
Net Block	6,063	6,227	6,482	6,988
Capital Work-in-Progress	695	690	890	790
Other non current assets	-	289	289	289
Intangible assets	-	-	-	-
Investments	1,788	2,173	2,173	2,173
Long term loans and advances	647	647	647	647
Current Assets	3,771	3,874	3,804	4,248
Cash	2,341	2,458	2,104	2,234
Loans & Advances	208	254	298	352
Other	1,223	1,162	1,402	1,662
Current liabilities	2,609	2,922	2,788	3,000
Net Current Assets	1,163	952	1,016	1,248
Mis. Exp. not written off	-	-	-	-
Total Assets	10,356	10,979	11,497	12,136

Cash flow statement (Standalone)

Y/E Dec (₹ cr)	CY2013	CY2014	CY2015E	CY2016E
Profit before tax	1,756	1,783	2,013	2,479
Depreciation	490	510	545	594
(Inc)/Dec in Working Capital	(150)	328	(418)	(103)
Add: Interest expenses	65	64	71	76
Less: Other income	378	429	440	480
Less: Direct taxes paid	460	287	664	818
Cash Flow from Operations	1,322	1,969	1,108	1,749
(Inc)/ Dec in Fixed Assets	(885)	(598)	(1,000)	(1,000)
(Inc)/ Dec in Investments	(133)	(384)	-	-
Other income	378	429	440	480
Cash Flow from Investing	(640)	(553)	(560)	(520)
Issue of Equity	42	52	-	-
Inc./ (Dec.) in loans	(2)	(20)	-	-
Dividend Paid (Incl. Tax)	651	921	830	1,022
Others	(16)	409	71	76
Cash Flow from Financing	(595)	(1,298)	(901)	(1,098)
Inc./ (Dec.) in Cash	88	117	(354)	130
Opening Cash balances	2,253	2,341	2,458	2,104
Closing Cash balances	2,341	2,458	2,104	2,235

Key ratios

Y/E Dec	CY2013	CY2014	CY2015E	CY2016E
Valuation Ratio (x)				
P/E (on FDEPS)	35.0	24.1	26.8	21.7
P/CEPS	20.2	18.0	19.1	16.0
P/BV	3.8	3.6	3.4	3.2
Dividend yield (%)	1.5	2.1	1.9	2.4
EV/Sales	3.5	3.2	3.0	2.6
EV/EBITDA	19.1	16.3	14.4	11.8
EV / Total Assets	3.1	2.9	2.7	2.6
Per Share Data (₹)				
EPS (Basic)	6.7	9.7	8.7	10.7
EPS (fully diluted)	6.7	9.7	8.7	10.7
Cash EPS	11.5	12.9	12.2	14.6
DPS	3.6	5.0	4.5	5.5
Book Value	61.4	65.2	68.5	72.7
Dupont Analysis				
EBIT margin	12.8	14.2	15.5	17.2
Tax retention ratio	73.8	83.9	67.0	67.0
Asset turnover (x)	1.2	1.2	1.2	1.3
ROIC (Post-tax)	11.3	14.4	12.3	14.4
Returns (%)				
ROCE (Pre-tax)	11.8	13.3	14.6	17.6
Angel ROIC (Pre-tax)	16.6	18.7	20.1	23.6
ROE	11.3	15.3	13.0	15.2
Turnover ratios (x)				
Asset Turnover (Gross Block)	0.9	0.9	0.9	0.9
Inventory / Sales (days)	38	33	34	36
Receivables (days)	9	8	9	9
Payables (days)	129	125	123	112
WC cycle (ex-cash) (days)	(50)	(49)	(44)	(31)
Solvency ratios (x)				
Net debt to equity	(0.2)	(0.2)	(0.2)	(0.2)
Net debt to EBITDA	(1.4)	(1.3)	(1.0)	(0.8)
Interest Coverage (EBIT / Int.)	18.1	22.0	23.1	27.2

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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

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