

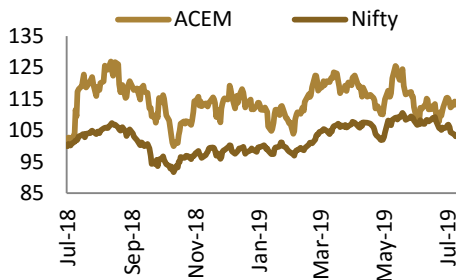
Market statistics

| | |
|-------------------------|-----------|
| Current stock price (₹) | 213 |
| Shares O/S (cr.) | 198.6 |
| Mcap (₹ cr) | 42,830 |
| 52W H/L (₹) | 245/ 188 |
| 6m avg. volume | 32,24,528 |
| Bloomberg | ACEM IN |

Shareholding pattern

| | |
|----------------------|-------|
| Promoters | 63.45 |
| Domestic Institution | 11.24 |
| Foreign Institution | 17.67 |
| Non-institution | 7.64 |
| of which > than 1% | |
| Govt. of Singapore | 2.16 |

ACEM vs Nifty



Capital efficiency & valuations

| Particulars | CY18 | CY19E | CY20E |
|---------------|-------|-------|-------|
| RoE (%) | 6.1 | 5.2 | 5.9 |
| RoCE (%) | 4.6 | 5.3 | 6.0 |
| P/B (x) | 1.5 | 1.5 | 1.4 |
| EV/OCF (x) | 278.3 | 18.3 | 15.9 |
| EV/EBITDA (x) | 18.8 | 16.0 | 13.8 |
| P/E (x) | 26.2 | 28.8 | 24.8 |

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Ambuja Cements (ACEM) reported strong operating performance on the back of higher cement prices while volumes declined sharply. ACEM's volume declined 9% YoY to 5.8mt impacted by slowdown in demand in weaker markets of North and West India during an election quarter. Cement net realization per ton increased 8% YoY to Rs5,117 aided by sharp rise in cement prices since February.

Aided by strong realization gains, EBITDA increased 12% YoY to Rs7b while EBITDA/t increased 23% YoY to Rs1,200/t highest since 2QCY12. Power and fuel cost per ton increased 2% YoY to Rs1,046 while S&A cost declined 8% to 1,272 on lower volumes. Maintain HOLD.

Beneficiary of sharp increase in cement prices; volumes declined

ACEM's volume declined 9% YoY to 5.8mt impacted by slowdown in demand and its concentration of capacities in weaker markets. Cement net realisation per ton increased 8% YoY to Rs5,117 on strong price recovery witnessed across all regions. ACEM's rising share of valued added solutions has aided higher reported realisation. Aided by strong realization gains, EBITDA increased 12% YoY to Rs7b while EBITDA/t increased 23% YoY to Rs1,200/t highest since 2QCY12.

Other expenses per ton increased 9% YoY to Rs808 while S&A expenses declined in line with volumes. Employee cost per ton increased 5% YoY to Rs290. There would be some respite on variable cost due to recent fall in fuel prices in coming quarters. Although North and West markets are experiencing weak demand, ACEM has market leading brands with large network of dealers which it is leveraging for improving trade volumes with its strong brand equity. As of now trade sales is more than 80% of total volumes. ACEM is focused on premium products such as Ambuja Plus Roof special, PowerCEM etc. and expects product mix to improve which aids in improvement in per ton blended realization.

Recent capacity addition plans to remove overhang of capacity constraint

ACEM is one of the largest cement manufacturers in India with installed capacity of 29.7mtpa. Its capacity grew at relatively slower pace than industry at 4% CAGR over last decade and incremental volume growth had become a key challenge in recent past. ACEM has announced incremental capex of Rs9.6b in December 2018 for adding ~1.8mtpa cement grinding capacity to its ongoing expansion at Marwar Mundwa, Rajasthan. Recently ACEM has completed Capex of Rs14b at Greenfield integrated plant at Marwar Mundwa to set up 1.71mtpa clinker unit. The new plant will be commissioned in 2HCY20.

Outlook & Valuation

ACEM is benefitting from higher pricing scenario in the near term however it will face constraint on volume growth if demand revives sharply in 2HCY19. We maintain ~6% volume growth assumption in CY19 and CY20. Cement prices are likely to dip in the near term being seasonally weak quarter and weaker demand post elections. Although government's focus on infrastructure remains strong, weakness in housing and overall consumer sentiments in rural India can put further pressure on cement prices. However there can be further dip in fuel costs in 2HCY19 which would benefit cement companies.

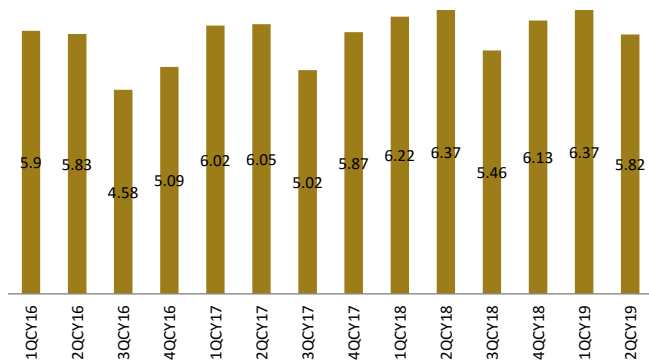
Over last decade ACEM has delivered 7%, 0% and 2% CAGR in revenue, EBITDA and PAT, respectively. It added 10mtpa since CY07 to reach 29.7mtpa however costs also increased and pricing remained only trigger for incremental revenue growth. We expect ACEM to deliver 10%, 15% and 3% CAGR growth over CY18-20E in revenue, EBITDA & PAT, respectively as new capacity will only come in 2HCY20. ACEM trades at one year forward EV/t of USD157 and EV of 13.8xCY20E EBITDA of Rs25b. Maintain **HOLD**.



Exhibit 1: Consolidated Quarter Performance

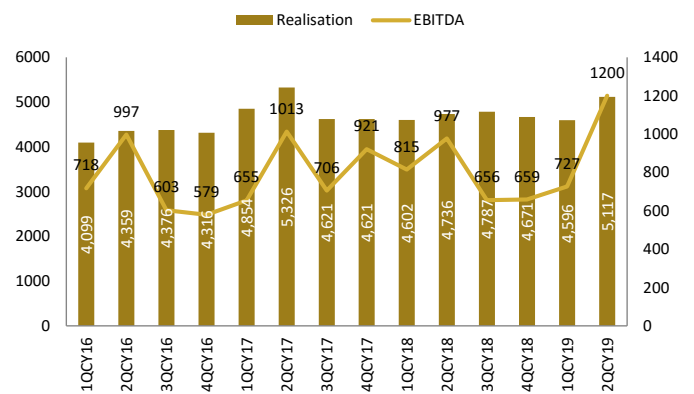
| Particulars (₹ mn) | 2Q CY18 | 1Q CY19 | 2Q CY19 | YoY Chg (%) |
|------------------------|---------------|---------------|---------------|-------------|
| Total Income | 30,169 | 29,276 | 29,783 | -1% |
| Total RM | 2,113 | 2,567 | 2,918 | 38% |
| Gross Profit | 28,056 | 26,710 | 26,865 | -4% |
| Gross Margin (%) | 93.0 | 91.2 | 90.2 | -279bps |
| Power & Fuel Cost | 6,547 | 7,099 | 6,085 | -7% |
| % of sales | 21.7 | 24.2 | 20.4 | -127bps |
| Freight charges | 8,784 | 8,367 | 7,404 | -16% |
| % of sales | 29.1 | 28.6 | 24.9 | -426bps |
| Other Expenditure | 4,744 | 4,941 | 4,703 | -1% |
| % of sales | 15.7 | 16.9 | 15.8 | 7bps |
| EBITDA | 6,223 | 4,633 | 6,984 | 12% |
| EBITDA Margin (%) | 20.6 | 15.8 | 23.4 | 282bps |
| Depreciation | 1,364 | 1,314 | 1,309 | -4% |
| Other Income | 1910.9 | 2402 | 580 | -70% |
| EBIT | 6,770 | 5,721 | 6,255 | -8% |
| EBIT Margin (%) | 22.4 | 19.5 | 21.0 | -144bps |
| Interest | 192 | 175 | 208 | 8% |
| PBT | 6,578 | 5,546 | 6,047 | -8% |
| Total Tax | 1,586 | 1,276 | 1,926 | 21% |
| Effective tax rate (%) | 24.1 | 23.0 | 31.9 | 775bps |
| Reported PAT | 4,993 | 4,270 | 4,121 | -17% |
| Adjusted PAT | 4,993 | 4,270 | 4,121 | -17% |

Exhibit 1: Trend in Cement volume growth (in mt)



Source: Company, Trust

Exhibit 2: Trend in realization and EBITDA/t (in Rs)



Source: Company, Trust



Financials – Standalone

P&L Statement

| Y/E Mar (₹ mn) | CY16 | CY17 | CY18 | CY19E | CY20E |
|--------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Net Sales | 91,604 | 1,11,769 | 1,13,568 | 1,25,197 | 1,36,715 |
| Change (%) | -2.2 | 22.0 | 1.6 | 10.2 | 9.2 |
| RM Cost | 7,465 | 16,043 | 9,423 | 11,061 | 11,962 |
| Power & Fuel Cost | 18,320 | 22,342 | 25,490 | 27,830 | 30,098 |
| Freight Cost | 24,728 | 28,720 | 32,776 | 35,785 | 38,701 |
| Employee Cost | 5,935 | 6,614 | 6,796 | 7,000 | 7,210 |
| Other Cost | 19,401 | 19,029 | 20,169 | 22,020 | 23,815 |
| EBITDA | 15,755 | 19,022 | 18,915 | 21,855 | 24,951 |
| Change (%) | 9.7 | 20.7 | -0.6 | 15.5 | 14.2 |
| Margin (%) | 17.2 | 17.0 | 16.7 | 17.5 | 18.3 |
| Depreciation | -6,145 | -5,729 | -5,481 | -5,981 | -6,481 |
| Int. and Fin. Charges | -715 | -1,072 | -823 | -864 | -908 |
| Other Income - Rec. | 6,251 | 3,971 | 3,750 | 4,300 | 4,850 |
| PBT After EO Item | 15,147 | 16,191 | 15,061 | 19,309 | 22,412 |
| Tax | 3,585 | 3,696 | 191 | 4,634 | 5,379 |
| Tax Rate (%) | 23.7 | 22.8 | 1.3 | 24.0 | 24.0 |
| Reported PAT | 11,562 | 12,496 | 14,870 | 14,675 | 17,033 |
| Adjusted PAT | 11,562 | 12,496 | 16,153 | 14,675 | 17,033 |
| Change (%) | 43.1 | 8.1 | 29.3 | -9.2 | 16.1 |

Balance Sheet

| Y/E Mar (₹ mn) | CY16 | CY17 | CY18 | CY19E | CY20E |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Share Capital | 3,971 | 3,971 | 3,971 | 3,971 | 3,971 |
| Total Reserves | 1,94,238 | 2,02,751 | 2,19,734 | 2,28,452 | 2,38,336 |
| Minority Interest | 43,702 | 46,080 | 52,312 | 52,312 | 52,312 |
| Net Worth | 2,41,912 | 2,52,802 | 2,76,017 | 2,84,735 | 2,94,619 |
| Long Term Borrowings | 157 | 241 | 397 | 397 | 397 |
| Deferred Tax Liability | 10,153 | 11,384 | 11,114 | 11,114 | 11,114 |
| Non Current Liabilities | 12,245 | 13,517 | 13,409 | 13,409 | 13,409 |
| Trade Payables | 20,685 | 28,160 | 30,062 | 33,803 | 37,651 |
| Other Current Liabilities | 38,939 | 44,581 | 44,817 | 44,817 | 44,817 |
| Short Term Provisions | 14,457 | 16,032 | 9,064 | 9,064 | 9,064 |
| Current Liabilities | 74,081 | 88,773 | 83,943 | 87,684 | 91,532 |
| Total Liabilities | 3,28,238 | 3,55,092 | 3,73,369 | 3,85,828 | 3,99,561 |
| Net Fixed Assets | 2,14,103 | 2,08,982 | 2,06,359 | 2,05,379 | 2,03,898 |
| Capital WIP | 5,820 | 6,672 | 10,082 | 10,082 | 15,082 |
| Non current Investments | 10,223 | 10,876 | 11,489 | 11,489 | 11,489 |
| Long term loans & advances | 15,210 | 17,617 | 21,224 | 21,224 | 21,224 |
| Current Assets | 82,882 | 1,10,946 | 1,24,215 | 1,37,655 | 1,47,869 |
| Inventory | 21,635 | 24,583 | 29,579 | 34,238 | 39,257 |
| Account Receivables | 9,241 | 9,315 | 13,045 | 14,525 | 16,020 |
| Cash and Bank Balance | 45,640 | 62,316 | 64,393 | 71,694 | 75,393 |
| Short term loans & advances | 5,273 | 12,235 | 11,606 | 11,606 | 11,606 |
| Total Assets | 3,28,238 | 3,55,092 | 3,73,369 | 3,85,828 | 3,99,561 |

**Cash Flow**

| Cash Flow Statement (₹ mn) | CY16 | CY17 | CY18 | CY19E | CY20E |
|--------------------------------|------------------|---------------|---------------|---------------|----------------|
| PBT before EO items | 15,147 | 16,191 | 16,360 | 19,309 | 22,412 |
| Add : Depreciation | 10,642 | 6,961 | 5,211 | 5,981 | 6,481 |
| Interest | 715 | 1,072 | 823 | 864 | 908 |
| Less : Direct taxes paid | 3,585 | 3,696 | 191 | 4,634 | 5,379 |
| (Inc)/Dec in WC | -13,151 | -853 | 19,623 | 2,398 | 2,666 |
| CF from Operations | 36,069 | 21,382 | 2,580 | 19,123 | 21,755 |
| CF from Op after extra | 36,069 | 21,382 | 1,281 | 19,123 | 21,755 |
| (Incr)/Decr in FA | 1,60,203 | 1,460 | 6,268 | 5,000 | 10,000 |
| (Pur)/Sale of Investments | -14,408 | 652 | 613 | 0 | 0 |
| Others | -715 | -1,072 | -823 | -864 | -908 |
| CF from Invest. | -1,46,509 | -3,184 | -7,705 | -5,864 | -10,908 |
| Inc/(Dec) in equity | 90,438 | 2,689 | 6,878 | 0 | 0 |
| Inc/(Dec) in debt | -81 | 84 | 156 | 0 | 0 |
| Inc/(Dec) in Minority Interest | 43695 | 2377 | 6232 | 0 | 0 |
| Dividend paid | 6,505 | 6,672 | 4,766 | 5,957 | 7,148 |
| CF from fin. activity | 1,27,548 | -1,522 | 8,501 | -5,957 | -7,148 |
| Incr/Decr of Cash | 17,107 | 16,676 | 2,077 | 7,301 | 3,699 |
| Add: Opening Balance | 28533 | 45640 | 62316 | 64393 | 71694 |
| Closing Balance | 45,640 | 62,316 | 64,393 | 71,694 | 75,393 |

Key Ratios

| Y/E Mar (%) | CY16 | CY17 | CY18 | CY19E | CY20E |
|------------------------------|------|------|------|-------|-------|
| Raw Material Cost/Sales | 8.1 | 14.4 | 8.3 | 8.8 | 8.7 |
| Manpower Cost/Sales | 6.5 | 5.9 | 6.0 | 5.6 | 5.3 |
| Operating & Other Cost/Sales | 68.2 | 62.7 | 69.1 | 68.4 | 67.7 |
| Revenue Growth | -2.2 | 22.0 | 1.6 | 10.2 | 9.2 |
| EBITDA Margins | 17.2 | 17.0 | 16.7 | 17.5 | 18.3 |
| Net Income Margins | 12.6 | 11.2 | 14.2 | 11.7 | 12.5 |
| ROCE | 3.8 | 5.0 | 4.6 | 5.3 | 6.0 |
| ROE | 6.7 | 5.1 | 6.1 | 5.2 | 5.9 |

Valuation Parameters

| Y/E Mar | CY16 | CY17 | CY18 | CY19E | CY20E |
|---------------------------------|-------|-------|-------|-------|-------|
| EPS (₹) | 5.8 | 6.3 | 8.1 | 7.4 | 8.6 |
| P/E (x) | 36.6 | 33.8 | 26.2 | 28.8 | 24.8 |
| BV (₹) | 121.8 | 127.3 | 139.0 | 143.4 | 148.4 |
| EV/t (USD) | 180 | 172 | 171 | 168 | 157 |
| EV/EBITDA (x) | 23.8 | 18.8 | 18.8 | 16.0 | 13.8 |
| Fixed assets turnover ratio (x) | 3.6 | 3.2 | 3.3 | 3.1 | 2.9 |
| Net Debt/Equity (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/Sales (x) | 4.1 | 3.2 | 3.1 | 2.8 | 2.5 |

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Hold 15% to -15%

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