

SELL

TP: INR 175.00

▼ 26.8%

Ambuja Cement

ACEM IN

Demonetisation pangs

ACEM saw flattish YoY EBITDA growth for Q4CY16 (Rs 3.3bn) as volumes slid 8.7% YoY due to demonetisation. CY16 volumes slipped 1.4% YoY and are slated to stay muted amid zero visibility on expansion. Factoring low industry utilisation and high fuel costs, we see no upside risk to our CY17/CY18 EBITDA/t estimate of Rs 819/Rs 925 (CY16: Rs 783). With muted ROEs, we continue to value ACEM at 11x CY18E EV/ EBITDA and the 50% ACC stake at a 20% holding company discount. SELL; Mar'18 TP Rs 175.

- ➔ **Demonetisation hurts volumes:** The impact of demonetisation was more pronounced for ACEM vis-à-vis its peers, with its sales volumes sliding 8.7% YoY versus 2% fall for UTCEM and 4.5% growth for SRCM. Volumes for the full year contracted 1.4% YoY, making CY16 the fifth straight year of muted sales for ACEM. With no expansion in sight, volumes are likely to stay depressed going ahead as well. Realisations dipped 1.4% QoQ (+1.6% YoY) while remaining flat for CY16. Net sales dipped 6% to Rs 22.3bn.
- ➔ **Variable costs rise QoQ:** Owing to rising fuel prices, variable costs/t rose 2% QoQ though were still down 3% YoY. We expect operating costs to remain high with fuel prices likely to stay firm, even as pet coke prices have softened to ~US\$ 80/t from their recent peak of US\$ 96/t. EBITDA/t at Rs 579 rose 5% YoY.
- ➔ **Low tax rate props up PAT:** Even as EBITDA at Rs 3.3bn remained flat YoY, reported PAT surged 60% YoY on a low tax rate of 12% in Q4CY16 versus Q4CY15's 52% (which was buoyed by prior period adjustments). Adjusted PAT rose 13% YoY to Rs 1.86bn. The tax rate for CY16 stood at 27%.
- ➔ **No update on ACC merger:** Contrary to media speculations, no announcements were made on the impending merger with subsidiary ACC. While the Holcim management had in Jul'13 claimed synergy gains of ~Rs 9bn p.a. between the two companies, we have conservatively assumed benefits of Rs 1bn p.a. for ACEM.

Financial Highlights

Y/E 31 Dec	CY14A	CY15A	CY16A	CY17E	CY18E
Revenue (INR mln)	99,781	94,614	92,678	98,313	105,293
EBITDA (INR mln)	19,284	15,315	16,827	17,954	20,681
Adjusted net profit (INR mln)	12,849	8,631	9,596	9,520	11,822
Adjusted EPS (INR)	8.3	5.6	4.8	4.8	6.0
Adjusted EPS growth (%)	(1.0)	(32.9)	(13.1)	(0.8)	24.2
DPS (INR)	5.0	2.8	2.5	2.8	2.8
ROIC (%)	16.2	8.3	9.1	14.8	19.2
Adjusted ROAE (%)	13.1	8.5	6.5	5.0	6.0
Adjusted P/E (x)	28.8	43.0	49.4	49.8	40.1
EV/EBITDA (x)	17.2	21.3	19.1	19.3	16.5
P/BV (x)	3.7	3.6	2.5	2.5	2.4

Source: Company, Bloomberg, RCML Research



21 February 2017

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PRICE CLOSE (21 Feb 17)

INR 238.95

MARKET CAP

INR 475.4 bln

USD 7.1 bln

SHARES O/S

1,551.9 mln

FREE FLOAT

36.4%

3M AVG DAILY VOLUME/VALUE

2.0 mln / USD 6.3 mln

52 WK HIGH

INR 282.00

52 WK LOW

INR 185.00

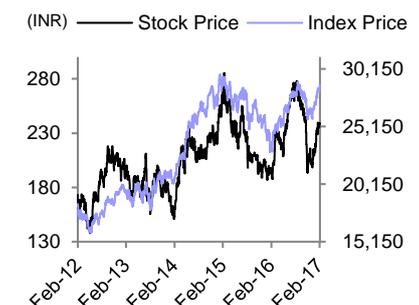




Fig 1 - Actuals vs. RCMLe and Bloomberg consensus

(Rs mn)	Actual	RCMLe	Var (%)	Consensus	Var (%)
Net Sales	21,967	21,798	0.8	22,190	(1.0)
EBITDA	3,291	2,743	20.0	2,818	16.8
EBITDA Margin (%)	15.0	12.6	240bps	12.7	228bps
PAT	1,759	978	79.8	1,565	12.4
EPS	0.9	0.5	79.8	0.8	12.4

Source: RCML Research, Company

Fig 2 - Quarterly performance

Year to December (Rs mn)	Q4CY16	Q4CY15	% change	Q3CY16
Total Volumes (Mn tonnes)	5.09	5.52	(7.7)	4.58
Blended Realisation/tonne	4,316	4,270	1.1	4,376
Total Income	22,310	23,792	(6.2)	20,314
Raw material Consumed	3,847	4,746	(18.9)	2,566
Employee Expenses	1,486	1,399	6.3	1,418
Power, Oil & Fuel	4,153	4,479	(7.3)	4,374
Selling & Administrative Expense	4,513	4,726	(4.5)	4,121
Other Expenses	5,021	5,167	(2.8)	4,804
Total expenditure	19,020	20,516	(7.3)	17,283
EBITDA	3,291	3,276	0.5	3,032
Interest	136	181	(24.8)	192
Depreciation	1,563	1,641	(4.8)	1,595
Other income	411	833	(50.7)	2,232
Profit Before Tax	2,003	2,286	(12.4)	3,477
Less: Provision for Tax	244	1,187	(79)	707
Reported Profit	1,759	1,100	60.0	2,770

Source: RCML Research, Company

Fig 3 - Per tonne analysis

(Rs/t)	Q4CY16	Q4CY15	% change	Q3CY16	% change
Realisation	4,316	4,270	1.1	4,376	(1.4)
Raw material	756	860	(12.1)	560	34.9
Power	816	812	0.5	955	(14.6)
Freight	887	857	3.5	900	(1.5)
Staff	292	254	15.2	310	(5.7)
Others	986	937	5.3	1,049	(6.0)
Cost	3,737	3,719	0.5	3,774	(1.0)
EBITDA	579	551	5.0	603	(3.9)

Source: RCML Research, Company



Per Share Data

Y/E 31 Dec (INR)	CY14A	CY15A	CY16A	CY17E	CY18E
Reported EPS	9.7	5.2	4.9	4.8	6.0
Adjusted EPS	8.3	5.6	4.8	4.8	6.0
DPS	5.0	2.8	2.5	2.8	2.8
BVPS	65.2	66.4	96.1	97.5	100.1

Valuation Ratios

Y/E 31 Dec (x)	CY14A	CY15A	CY16A	CY17E	CY18E
EV/Sales	3.3	3.4	3.5	3.5	3.2
EV/EBITDA	17.2	21.3	19.1	19.3	16.5
Adjusted P/E	28.8	43.0	49.4	49.8	40.1
P/BV	3.7	3.6	2.5	2.5	2.4

Financial Ratios

Y/E 31 Dec	CY14A	CY15A	CY16A	CY17E	CY18E
Profitability & Return Ratios (%)					
EBITDA margin	19.3	16.2	18.2	18.3	19.6
EBIT margin	14.2	9.6	9.0	11.9	13.5
Adjusted profit margin	12.9	9.1	10.4	9.7	11.2
Adjusted ROAE	13.1	8.5	6.5	5.0	6.0
ROCE	12.1	6.1	4.1	4.4	5.3
YoY Growth (%)					
Revenue	8.9	(5.2)	(2.0)	6.1	7.1
EBITDA	16.8	(20.6)	9.9	6.7	15.2
Adjusted EPS	(1.0)	(32.9)	(13.1)	(0.8)	24.2
Invested capital	6.9	(2.4)	(20.5)	(5.3)	(5.7)
Working Capital & Liquidity Ratios					
Receivables (days)	8	11	12	12	12
Inventory (days)	107	113	130	120	116
Payables (days)	36	30	38	41	40
Current ratio (x)	1.9	2.0	1.1	1.3	1.5
Quick ratio (x)	0.8	0.9	0.4	0.6	0.8
Turnover & Leverage Ratios (x)					
Gross asset turnover	0.9	0.8	0.7	0.8	0.8
Total asset turnover	0.8	0.7	0.5	0.4	0.5
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	(0.2)	(0.3)	(0.1)	(0.1)	(0.1)

DuPont Analysis

Y/E 31 Dec (%)	CY14A	CY15A	CY16A	CY17E	CY18E
Tax burden (Net income/PBT)	72.0	73.6	71.8	73.0	73.0
Interest burden (PBT/EBIT)	125.7	129.4	160.6	111.9	113.8
EBIT margin (EBIT/Revenue)	14.2	9.6	9.0	11.9	13.5
Asset turnover (Revenue/Avg TA)	77.6	70.3	51.0	42.9	45.1
Leverage (Avg TA/Avg equities)	131.3	131.8	123.8	119.2	118.9
Adjusted ROAE	13.1	8.5	6.5	5.0	6.0

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Results Review

**INDIA
CEMENT****Income Statement**

YE 31 Dec (INR mln)	CY14A	CY15A	CY16A	CY17E	CY18E
Total revenue	99,781	94,614	92,678	98,313	105,293
EBITDA	19,284	15,315	16,827	17,954	20,681
EBIT	14,189	9,058	8,327	11,652	14,232
Net interest income/(expenses)	3,645	2,664	5,048	1,390	1,962
Other income/(expenses)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	17,834	11,722	13,374	13,042	16,194
Income taxes	(2,871)	(3,647)	(3,672)	(3,521)	(4,372)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	14,964	8,076	9,702	9,520	11,822
Adjustments	(2,115)	556	(106)	0	0
Adjusted net profit	12,849	8,631	9,596	9,520	11,822

Balance Sheet

YE 31 Dec (INR mln)	CY14A	CY15A	CY16A	CY17E	CY18E
Accounts payables	6,185	6,798	8,970	9,127	9,400
Other current liabilities	13,529	14,619	14,643	14,643	14,643
Provisions	11,762	10,843	12,497	12,497	12,497
Debt funds	191	227	236	236	236
Other liabilities	418	414	532	532	532
Equity capital	3,100	3,104	3,971	3,971	3,971
Reserves & surplus	97,934	99,965	186,764	189,613	194,763
Shareholders' fund	101,033	103,069	190,736	193,584	198,734
Total liabilities and equities	133,117	135,970	227,613	230,620	236,043
Cash and cash eq.	45,251	49,676	24,779	30,775	39,088
Accounts receivables	2,280	2,864	3,001	3,158	3,385
Inventories	8,884	8,955	9,375	9,532	9,864
Other current assets	3,537	3,992	3,934	3,934	3,934
Investments	1,057	1,069	118,447	118,447	118,447
Net fixed assets	62,271	60,920	59,420	56,117	52,668
CWIP	9,364	7,913	3,566	3,566	3,566
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,890)	(5,649)	(4,929)	(4,929)	(4,929)
Other assets	6,364	6,231	10,019	10,019	10,019
Total assets	133,117	135,970	227,613	230,620	236,043

Cash Flow Statement

YE 31 Dec (INR mln)	CY14A	CY15A	CY16A	CY17E	CY18E
Net income + Depreciation	20,059	14,332	18,202	15,823	18,271
Interest expenses	(3,435)	(2,257)	(5,048)	(1,390)	(1,962)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,742)	(194)	(382)	(3,677)	(4,659)
Other operating cash flows	2,871	3,647	3,672	3,521	4,372
Cash flow from operations	16,753	15,528	16,445	14,277	16,023
Capital expenditures	(8,202)	(6,169)	(2,653)	(3,000)	(3,000)
Change in investments	840	1,449	(117,378)	0	0
Other investing cash flows	2,761	3,890	5,762	2,222	2,794
Cash flow from investing	(4,601)	(829)	(114,269)	(778)	(206)
Equities issued	426	256	84,012	0	0
Debt raised/repaid	(113)	36	9	0	0
Interest expenses	(318)	(320)	(715)	(832)	(832)
Dividends paid	(7,225)	(8,941)	(6,047)	(6,672)	(6,672)
Other financing cash flows	59	0	0	0	0
Cash flow from financing	(7,171)	(8,969)	77,259	(7,504)	(7,504)
Changes in cash and cash eq	4,980	5,730	(20,564)	5,995	8,313
Closing cash and cash eq	44,587	50,317	29,753	31,416	39,729

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