

# AMBUJA CEMENT

FEB 2016

AMBUJA CEMENT			
Rating	Accumulate		
Price	Rs 190/-		
Target Price	Rs 240/-		
Implied upside	25%		
<b>Shareholders</b>			
<b>STOCK PERFORMANCE</b>			
%	1m	6m	12m
absolute	-2.3	-13.10%	-22.9
relative	5.2	4.50%	-34
<b>How we differ from consensus</b>			
EPS	PL	Cons	% diff.
2016	7.5	11.8	-36.6
2017	9.1	11	-17
<b>MARKETS</b>			
SENSEX	22952		
NIFTY	6976		
<b>Prices an on February 11 2016</b>			
Market cap	299.6		
Shares o/s	1549.7		
3m avg daily value	423.1		

## Valuations provide an attractive entry point

Ambuja Cement (ACEM) reported Q4CY15 earnings below our expectation due to higher than expectation costs, negating the benefit of better realisations. Current valuations with an EV/EBITDA of 11x and EV/T of US\$130 CY17E provide an attractive long term play on efficient operations and strong balance-sheet. We maintain our Accumulate rating with TP of Rs230, EV/EBITDA of 14x CY17E

- Realisations above expectation; higher costs dented higher realisations:** Realisations fell 2.6% YoY /Rs115/t (-0.4% QoQ/Rs17) at Rs4260, above our expectation of Rs4,210/t. Volumes were in-line-with our expectation at 5.5m tonnes, up 1.7% YoY. Total cost/t fell 1.4% YoY/Rs54 to Rs3,710, higher than our expectation of Rs3,630. The miss was primarily on account of higher than expected freight cost. Hence, EBITDA/t came below our estimate at Rs550 (PLe:Rs579), down 10% YoY. EBITDA fell 8.5% YoY at Rs3.0bn (PLe:3.2bn). Adjusted PAT fell 32% YoY to Rs1.66bn (PLe:Rs1.73bn) due to 21% YoY increase in depreciation (due to change in useful life of assets under the new Cos act) and higher tax rate.

- Prices to recover on the back of settling of new capacities:** Admittedly, demandv growth in CY15 has been disappointing at 3-4% YoY against our expectation of 5-6%. However, we believe that demand would revive with growth in the range of 7-8% in CY16 on the back of govt's strong focus on

infrastructure spending (manifested by robust ordering activity) and low cost housing. Demand improved strongly in North and Eastern markets (constituting ~75% of its total markets) in past couple of months. However, prices fell sharply in these markets due to addition of new capacities. We believe that pressure on pricing would recede with the settling of new capacities and continued strength in demand.

Key financials y/e december	2014	2015	2016e	FY17E
Revenues	99107	93683	103221	114508
Growth%	9.2	-5.5	10.2	10.9
EBITDA	18610	14362	18468	22218
PAT	13207	8076	11567	14152
EPS	8.5	5.2	7.5	9.1
Growth%	27	-38.9	43.2	22.4
Net dps	5	2.8	5	4.9
Profitability and valuation	2014	2015	2016e	FY17E
EBITDA Margin	18.8	15.3	17.9	19.4
ROE	13.5	7.9	10.9	12.9
ROCE	13.9	8.4	11.5	13.6
EV/Sales	2.6	2.7	2.4	2.2
EV/EBITDA	13.7	17.9	13.7	11.3
PE	22.7	37.1	25.9	21.2
P/BV	3	2.9	2.8	2.7
Net dividend yield	2.6	1.4	2.6	2.6

Q4CY15 Result overview							
Y/e dec	Q4CY15	Q4CY14	Yoyo Gr	Q3CY15	CY15	CY14	Yoyo Gr%
Net sales	23558	23790	-1	20952	93683	99107	-5.5
Raw matrial	3271	2652	23.3	1090	8267	8508	-2.8
% of net sales	13.9	11.1		5.2	8.8	8.6	
staff costs	1399	1694	17.4	1515	5895	5816	1.4
% of net sales	5.9	7.1		7.2	6.3	5.9	
power & fuel	4479	5529	-19	4862	20552	22652	-9.3
% of net sales	19	23.2		23.2	21.9	22.9	
Freight	6200	5612	10.5	5539	25097	24389	2.9
% of net sales	26.3	23.6		26.4	26.8	24.6	
other expenses	5167	4978	3.8	5003	19511	19132	2
% of net sales	21.9	20.9		23.9	20.8	19.3	
Total expenditure	20516	20466	0.2	18007	79321	80497	-1.5
EBITDA	3042	3324	-8.5	2944	14362	18610	-22.8
Margin%	12.9	14		14.1	15.3	18.8	

<b>depreciation</b>	1641	1355	21.1	1553	6257	5095	22.8
<b>other income</b>	1067	894	19.3	898	4535	4964	-8.6
<b>EBIT</b>	2468	2863	-13.8	2290	12640	18479	-31.6
<b>Interest</b>	181	103	76.5	207	918	645	42.4
<b>PBT</b>	2287	2760	-17.2	2082	11722	17834	-34.3
<b>Extraordinary income/expense</b>	0	88		0	0	0	
<b>PBT</b>	2287	2848	-19.7	2082	11722	17834	-34.3
<b>Tax</b>	1187	-438	0	547	3647	2871	27
<b>% PBT</b>	51.9	0		26.2	31.1	16.1	
<b>Reported PAT</b>	1100	3286	-66.5	1536	8076	14964	-46
<b>Adjusted PAT</b>	1656	2418	-31.5	1536	8633	13207	-34.6

<b>Operating metrics</b>							
<b>Y/E Dec</b>	<b>Q4CY15</b>	<b>Q4CY14</b>	<b>Yoyo Gr</b>	<b>Q3CY15</b>	<b>CY15</b>	<b>CY14</b>	<b>Yoyo Gr%</b>
<b>Volume</b>	5.5	5.4	1.7	4.9	21.81	22.2	-1.5
<b>net realisation</b>	4260	4376	-2.6	4277	4296	4474	-4
<b>EBITDA/TE</b>	550	611	-10	601	659	840	-21.6

<b>Income statement</b>				
<b>Y/E december</b>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>
<b>Net revenue</b>	99107	93683	103221	114508
<b>Raw material expenses</b>	8508	8267	8815	10456
<b>gross profit</b>	90599	85416	94406	104052
<b>Employee cost</b>	5816	5895	6310	6815
<b>Other expenses</b>	66173	65159	69627	75020
<b>EBITDA</b>	18610	14362	18468	22218
<b>Depr.&amp; amortization</b>	5095	6257	6423	6869
<b>net interest</b>	645	918	1012	1122
<b>other income</b>	4964	4535	4596	4898
<b>profit before tax</b>	17834	11722	15631	19125
<b>total tax</b>	2871	3647	4064	4972

profit after tax	14964	8076	11567	14152
ex od items /min.int.	-1757	0	0	0
Adj.PAT	13207	8076	11567	14152
Avg shares O/S	1549.8	1549.8	1549.8	1549.8
EPS	8.5	5.2	7.5	9.1
<b>Cash flow abstract</b>				
Y/e december	2014	2015	2016E	2017E
C/F From operations	16753	9750	14103	21831
C/F From investing	-4633	-2150	-3088	-11874
C/F From financing	-7171	-9878	-6929	-9274
Inc./dec. in cash	4948	-2278	4085	683
opening cash	39606	44587	42309	46393
closing cash	44587	42309	46393	47076
FCFF	13636	1981	10900	21645
FCFE	13523	1880	10799	21639

<b>Balance sheet abstract</b>				
Y/E december	2014	2015	2016E	2017E
Shareholders funds	101033	104639	107116	112295
Total debt	292	191	90	84
other liabilities	5983	5748	5435	5052
total liabilities	107307	110577	112641	117432
net fixed assets	71572	70989	71129	79859
goowill	0	0	0	0
investments	1057	1057	1057	1057
net current assets	34678	38531	40455	36515
cash and equivalents	45251	42973	47058	47741
other current assets	21128	21053	22762	24494
current liabilities	31701	25495	29365	35720
other assets	0	0	0	0
total assets	107307	110577	112641	117432

**Quarterly financials**

Y/E dec	Q1CY15	Q2CY15	Q3CY15	Q4CY15
Net revenue	24246	24928	20952	23558
EBITDA	4715	3661	2944	3042
% Of Revenue	19.4	14.7	14.1	12.9
depr.& amortization	1578	1485	1553	1641
net interest	-1122	-919	-691	-886
other income	1336	1234	898	1067
profit before tax	4259	3094	2082	2287
total tax	1082	831	547	1187
profit after tax	3177	2264	1536	1100
adj PAT	3177	2264	1536	1657

**Key operating metrics**

Y/E Dec	2014	2015	2016E	2017E
Volume	22	22	23	25
net realisations	4474	4296	4424	4645
EBITDA/Te	840	659	792	901
RM Cost	360	379	378	424
power oil and fuel	1028	942	920	933
Freight charges	1101	1151	1178	1219

**Key financial metrics**

Y/E March	2014	2015	2016E	2017E
<b>growth</b>				
revenue	9.2	-5.5	10.2	10.9
EBITDA %	18.4	-22.8	28.6	20.3
PAT%	27.3	-38.9	43.2	22.4
EPS	27	-38.9	43.2	22.4
<b>Profitability</b>				
EBITDA Margin	18.8	15.3	17.9	19.4
PAT Margin	13.3	8.6	11.2	12.4
ROCE	13.9	8.4	11.5	13.6
ROE	13.5	7.9	10.9	12.9

<b>Balance sheet</b>				
<b>Net debt equity</b>	-0.4	-0.4	-0.4	-0.4
<b>net working cap</b>	-452	-350	-294	-396
<b>valuation</b>				
<b>PER</b>	22.7	37.1	25.9	21.2
<b>P/B</b>	3	2.9	2.8	2.7
<b>EV/EBITDA</b>	13.7	17.9	13.7	11.3
<b>EV/Sales</b>	2.6	2.7	2.4	2.2
<b>Earnings quality</b>				
<b>Eff.tax rate</b>	16.1	31.1	26	26
<b>others inc/PBT</b>	27.8	38.7	29.4	25.6
<b>Eff.depr.rate</b>	4.5	5.2	4.9	5.1
<b>FCFE/PAT</b>	102.4	23.3	93.4	152.9


  
**Ray Research & Consulting Pvt Ltd**