



## HOLD

## Cost reductions and increased realization drive profitability

BSE Code	500425
NSE Code	Ambujacem
Bloomberg Code	ACEM:IN
Current Price	262
Target Price	213.9
Mcap ₹ bn	405.0
Mcap US\$ bn	6.6
52 wk H/L	243/150
Face Value	2
2 wk avg vol (000)	1685

ACL posted numbers above our estimates for Q4 which was a good positive however the demand for cement has not witnessed any major uptick. ACL showed a good increase in realization during the quarter however we believe this will be rolled back as demand remains weak and there is still a major oversupply situation that persists. During Q4 CY14 ACL posted a revenue growth of 8.8% during the quarter with realizations higher by 6.9% YoY. The operating margin too increased over the previous year but was still the lowest during the current financial year. The profits too were higher but by only 3.8%. For CY14 the revenues grew by 8.9% again driven by higher realizations, the operating margin saw a slight uptick due to the higher prices which took off some pressure of cost increases and also it was also aided by cost cutting initiatives of the company. Profits for the year increased by a good 15.6% due to the increased margins, however with cash now expected to be used to buy ACC stake we believe profit growth could see some limitation.

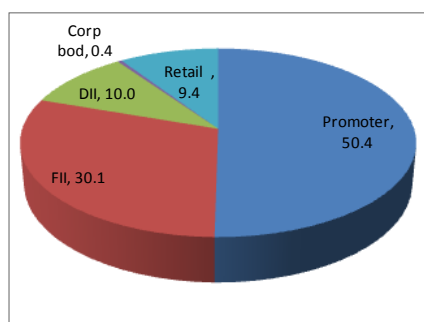
## Financial Snapshot

₹ mn	CY13	CY14E	CY15E
Net sales	91604	99781	109951
% ch	-5.86	8.93	10.19
EBIDTA	16508	19284	23427
%ch	-33.25	16.82	21.48
PAT	12946	14964	13534
%ch	-0.19	15.59	-9.55
EPS	8.37	9.68	6.84
BV	61.36	65.94	54.76
P/E	31.29	27.07	38.33
EV/EBIDTA	22.05	20.66	22.33
EV/tonne US\$	213.50	227.15	298.23

**Volumes growth muted:** ACL had posted a volume growth of 1.8% YoY for Q4 CY14 which is still a positive as the oversupply situation is still very strong. Demand for cement had remained relatively muted with not much activity pick up in either the real estate side or the infrastructure side. Even during this period for the full year CY14 ACL was able to grow its volumes by 2.6% which can be looked at positively. Demand offtake could see some green shoots post the budget as there are expectations of some benefits being granted to the housing and infrastructure sector by the government. Although we believe the low growth rates are now behind us we have seen the can being kicked down the road too often and hence we are not changing our expectations for CY15 just yet.

**Cement realizations increased:** This is where ACL was able to outperform our expectations; pricing power has not been with the cement industry as demand for cement has been much lower than available capacities. Even on the back of this situation ACL posted a realization increase of 6.9% for the quarter and 6.15 for the year. The price increases were largely to offset increase in prices. However going forward we don't see them being able to push prices further till we see a revival in demand.

## Shareholding Pattern



**Operating margins to remain buoyant:** The operating margins improved by 100bps over the previous year to 14.9% however they were the lowest during the year. The increase over the previous year was a combination of higher realizations and the cost cutting initiatives of the company bearing fruit. Going forward even though we don't see price increases we believe margins will improve as the reduction in crude and coal prices globally and locally will enable them to have lower cost of production and distribution during CY15E.

**Profitability to be impacted due to lower other income and higher taxes:** ACL is now going to use its excess cash to buy stake in ACC. With the depletion of cash the interest income will not be there in other income but would be replaced by dividend income. This dividend income would be tax free but would be lower in terms of returns basis than what cash currently generates. ACL also has a few tax write backs from a previous years which would not be there going forward. In effect the tax rate would be higher. Both these would bring the overall profitability for the company marginally lower going forward.

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### Valuations

At present ACL trades at a standalone P/E multiple of 27.8x and 38.3x a P/CEPS of 20.2x and 27.0x and an EV/EBIDTA of 22.3x and 18.8x its CY14 and CY15E respectively. Although these look expensive there will be significant value derived from the investment in ACC which at the initial stage would be 50% which would be increased to 60% through market buyback operations. We believe since ACL would be relatively debt free even after capital expenditure and the purchase of ACC it makes sense to value it on its cash earnings. We would assign a multiple of 15x its CY15E cash earnings and then add the value of ACC at a 25% discount. Based on this we had arrived at a target price of ₹214 since the ACL is trading well above this level we feel the upside in the near term is capped. However we believe ACL would be able to improve its profitability over the long term once the demand in cement revives. Although there may not be upside in the near term we are positive on the cement space and in the larger players in particular. In view of this we are upgrading our maintaining our HOLD recommendation for an investment horizon for over 2 year period.

Financials

Profit & Loss

In Rs million	CY12	CY13	CY14E	CY15E
Net sales	97,303	91,604	99,781	109,951
YoY (%)	14.3	(5.9)	8.9	10.2
Total expenses	72,573	75,095	80,497	86,525
EBIDTA	24,730	16,508	19,284	23,427
YoY (%)	29.7	(33.2)	16.8	21.5
EBIDTA (%)	25.4	18.0	19.3	21.3
Other income	3,489	3,936	4,290	2,427
PBIDT	28,218	20,445	23,574	25,854
Depreciation	5,652	4,901	5,095	5,650
PBIT	22,566	15,544	18,479	20,204
Interest	757	651	645	869
PBT	21,810	14,893	17,834	19,335
(-) Tax	6,048	2,196	2,871	5,800
Current Tax	7,020	4,300	2,871	5,800
tax adjustments	(19)	(2,408)	0	0
Deferred Tax	(954)	303	0	0
Fringe benefit tax	0	0	0	0
Tax/ PBT	28	15	16	30
PAT	15,762	12,698	14,964	13,534
Extra-ordinary expenses	(2,791)	248	0	0
Net Profit	12,971	12,946	14,964	13,534
YoY (%)	5.5	(0.2)	15.6	(9.6)

Cash Flow

In Rs million	CY12	CY13	CY14E	CY15E
Net profit	12,971	12,946	14,964	13,534
Depn and w/o	8,444	4,901	5,095	5,650
Deferred tax	(954)	303	0	0
Change in wrkg cap	1,956	(2,025)	2,137	1,905
Other income	(3,489)	(3,936)	(4,290)	(2,427)
<b>Operating cash flow</b>	<b>25,906</b>	<b>20,061</b>	<b>26,485</b>	<b>23,517</b>
Other income	(3,489)	(3,936)	(4,290)	(2,427)
Capex	(5,146)	(8,173)	(5,000)	(25,000)
Investments	(7,915)	(1,326)	(30,661)	0
<b>Investing cash flow</b>	<b>(16,550)</b>	<b>(13,436)</b>	<b>(39,950)</b>	<b>(27,427)</b>
Dividend	(6,448)	(6,509)	(7,878)	(7,917)
Equity	16	7	0	868
Debt	(82)	(55)	1,950	10,000
<b>Financing cash flow</b>	<b>(6,514)</b>	<b>(6,556)</b>	<b>(5,928)</b>	<b>2,951</b>
Others	429	0	0	0
<b>Net change in cash</b>	<b>3,270</b>	<b>69</b>	<b>(19,393)</b>	<b>(960)</b>

Balance Sheet

In Rs million	CY12	CY13	CY14E	CY15E
Equity capital	3,084	3,092	3,092	3,960
Reserves	84,966	91,764	98,849	104,466
Net worth	88,051	94,855	101,941	108,426
Total borrowings	346	292	2,242	12,242
non current liabilities	5,741	6,067	5,931	5,958
Current liabilities	30,109	28,432	35,317	38,894
<b>Total liabilities</b>	<b>124,247</b>	<b>129,646</b>	<b>145,430</b>	<b>165,519</b>
Net block	58,624	60,625	62,479	61,829
CWIP	5,201	6,949	5,000	25,000
Investments	16,558	17,885	48,545	48,545
Current assets	37,310	38,531	23,750	24,489
Inventories	9,839	9,339	12,302	13,556
Debtors	2,134	2,315	4,101	4,519
Cash	22,537	23,411	3,882	2,950
Loans and advances	2,491	2,894	2,894	2,894
other current assets	310	572	572	572
non current ssets	80	2,451	2,451	2,451
Loans	6,473	3,206	3,206	3,206
<b>Total assets</b>	<b>124,247</b>	<b>129,646</b>	<b>145,430</b>	<b>165,519</b>

Key Ratios

	CY12	CY13	CY14E	CY15E
EPS (Rs)	8.4	8.4	9.7	6.8
CEPS (Rs)	11.5	11.7	13.0	9.7
Book value (Rs)	57.1	61.4	65.9	54.8
DPS (Rs)	3.6	3.6	4.4	3.4
Debt-equity (x)	0.0	0.0	0.0	0.1
ROCE	26.6	16.9	18.5	18.0
ROE	15.4	14.2	15.2	12.9

Valuations

	CY12	CY13	CY14E	CY15E
PE (x)	31.2	31.3	27.1	38.3
Cash PE (x)	22.9	22.3	20.2	27.0
Price/book value (x)	4.6	4.3	4.0	4.8
Dividend yield	1.4	1.4	1.7	1.3
Market cap/sales	4.2	4.4	4.1	4.7
EV/sales (x)	3.8	4.0	4.0	4.8
EV/EBDITA (x)	14.8	22.1	20.7	22.3

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