

## ANALYST CORNER

# Maintain 'buy' for Ambuja Cements with TP of ₹310

### Reliance Securities

**AMBUJA CEMENTS (ACL)** has reported a better-than-estimated operating performance in 4QCY17, mainly owing to higher-than-expected volume growth and better operational efficiencies. Operating profit grew by sharp 48% YoY and 39% QoQ to ₹440 crore vs our estimate of ₹390 crore.

Despite a sharp spike in Power & Fuel cost/tonne and freight cost/tonne, operating cost/tonne declined by 1% YoY and 6% QoQ to ₹3,681, led by cost optimisation initiatives.

EBITDA/tonne stood at ₹746 vs ₹586 and ₹628 in 4QCY16 and 3QCY17, respectively. EBITDA margin rose by 322 bps YoY to 16.8%.

ACL's sales volume surged by 16% YoY and 17% QoQ to 5.9mnT led by better demand scenario in Eastern, Northern and Gujarat markets. Though we moderately tone down our EBITDA estimates by 6% and 3% for CY18E and CY19E, respectively to factor in higher fuel prices and realisation pressure in the quarter, we continue to believe that ACL is on a firm footing to witness a traction, going forward on the back of likely recovery in realisation, sound

demand environment and improvement in operational efficiencies. We maintain our BUY recommendation on the stock with a revised Target Price of ₹310 (from ₹320 earlier).

A robust sales volume growth of 16% YoY and 17% QoQ to 5.9mnT led to 19% YoY growth in revenue to ₹2,610 crore. A healthy demand scenario in Northern, Eastern (barring Bihar) and Gujarat markets aided robust volume. Further, average realisation/tonne came in-line at ₹4,427 (+3% YoY and -2% QoQ). Improvement in yearly realisation is mainly on account of exposure to Gujarat markets. We expect sales volume to remain strong in ensuing quarters led by firm demand environment in key markets.

Despite a sharp spike in Power & Fuel cost/tonne and freight cost/tonne, operating cost/tonne declined by 1% YoY and 6% QoQ to ₹3,681 led by cost optimisation initiatives and utilisation uptick. Resultantly, reported EBITDA surged by 48% YoY and 39% QoQ to ₹4.4bn. Operating cost/tonne stood at ₹3,681 (-1% YoY and -6% QoQ).