

Volume push drives topline; maintain HOLD

Ambuja Cements reported a strong set of numbers, broadly beating I-direct estimates. Topline growth came in at 9.5% YoY to ₹ 3,136 crore (I-direct estimate: ₹ 3,005 crore), mainly led by 6.7% volume growth to 6.54 MT (I-direct estimate: 6.12 MT). Realisation grew 2.7% YoY to ₹ 4,795/t (I-direct estimate: ₹ 4,910/t). Profitability improved led by higher realisations and controlled production costs. EBITDA margin was at 17.5%, expanding 335 bps YoY (I-direct estimate: 17.5%). EBITDA/t for the quarter increased 27% YoY to ₹ 837/t (I-direct estimate: ₹ 860/t). Total costs per tonne by 1.4% YoY mainly driven by reduction in P&F and freight costs, offset partly by higher raw material costs and inventory adjustments. EBITDA grew 35.5% YoY to ₹ 547 crore (I-direct estimate: ₹ 526 crore). The company has elected to shift to the new tax regime. Accordingly, its tax expenses are significantly lower YoY. Adjusting for exceptional items in the base quarter, PAT increased 54% YoY to ₹ 455 crore (I-direct estimate of ₹ 377 crore).

Growth to revive with commissioning of clinker unit

CY19 was a mixed year for the cement industry. While volume growth remained muted, cement companies did find some respite in the form of improved realisations. Ambuja Cement saw its volumes decline 1% YoY to 24 MT for CY19. However, cement realisations being higher by 3.7% YoY supported the 2.7% growth in revenues. While affordable and low cost housing held their share of demand, infrastructure demand was subdued owing to general weakness in the economy. Announcement of NIP provides visibility on infra projects and government spending for the coming three to five years. Timely execution of this should revive cement demand from the infra space. However, Ambuja is not expected to report meaningful volume growth in CY20 owing to already high levels of utilisation. Commissioning of its upcoming greenfield IU is expected to fuel volume growth from CY21E. Over CY19-21E, we model 5.4% CAGR in volumes.

Strong EBITDA growth expected in CY21E; B/S to remain firm

Considering the additional volumes expected with the ramping up of the new plant, we expect EBITDA to also grow at a healthy pace post CY20E. EBITDA CAGR of 8.3% expected over CY19-21E would be mainly contributed by 12% growth in CY21E. Furthermore, the expansion being funded by cash on books and internal accruals, would keep the balance sheet strength intact.

Valuation & Outlook

Ambuja Cements continues to have sufficient liquidity on its books despite being in capex mode. However, its slow pace of growth is not encouraging in comparison to its peers and also considering the cash flow strength that the company possesses. We thus maintain our **HOLD** rating on the stock with a target price of ₹ 200.



Stock Data

Particular	Amount
Market cap	₹ 41699 crore
Debt (CY19)	₹ 72 crore
Cash & Invest (CY19)	₹ 4699 crore
EV	₹ 37071 crore
52 week H/L	₹ 244 / 184
Equity capital	₹ 397.1 crore
Face value	₹ 2

Key Highlights

- Strong growth in topline contributed mainly by 6.7% growth in volumes
- Cost control and better realisations support EBITDA margin expansion
- Expect volume growth to arrive from CY21E
- Return ratios to improve led by higher operating profits
- Maintain HOLD with a TP of ₹ 200 (Earlier: ₹ 190)

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Key Financial Summary

Key Financials	CY17	CY18	CY19E	CY20E	CY21E	CAGR (CY19-21E)
Net Sales	10,447	11,357	11,668	12,083	13,463	7.4%
EBITDA	1,940	1,891	2,149	2,246	2,520	8.3%
EBITDA (%)	18.6	16.7	18.4	18.6	18.7	
PAT	1,250	1,245	1,529	1,553	1,711	5.8%
EPS (₹)	6.3	6.3	7.7	7.8	8.6	
EV/EBITDA	20	20	17	18	15	
EV/T (\$) - Consolidated	138	138	133	141	126	
RoNW (%)	8.6	8.4	10.0	10.2	10.7	
RoCE (%)	11.3	11.4	13.2	14.5	15.3	

Exhibit 1: Variance Analysis

	Q4CY19	Q4CY19E	Q4CY18	YoY(%)	Q3CY19	QoQ(%)	Comments
Net Sales	3,136	3,005	2,863	9.5	2,626	19.4	Revenues driven mainly by volume growth
Other Incomes	66	70	85	-22.8	63	4.5	
Raw Material Expenses	281	245	240	16.7	285	-1.6	
Employee Expenses	169	190	171	-1.1	168	0.7	
Change in stock	82.8	0.0	-29.1	N.A	-71.4	N.A	
Power and fuel	669	673	709	-5.7	599	11.8	P&F costs per tonne reduce 11.6% YoY
Freight	838	802	839	-0.2	679	23.3	Freight costs per tonne reduce 6.4% YoY
Others	549	569	529	3.9	527	4.3	
EBITDA	547	526	404	35.5	440	24.5	
EBITDA Margin (%)	17.5	17.5	14.1	335 bps	16.7	71 bps	Margins expand on the back of improved realisations and cost control
Interest	24	21	18	30.1	22	9.7	
Depreciation	149	132	136	8.9	133	11.8	
PBT	441	443	334	31.9	348	26.6	
Total Tax	-14.2	66.5	38.8	-136.6	113.5	-112.5	
Adjusted PAT	455	377	295	54.0	235	93.9	
Key Metrics							
Volume (MT)	6.54	6.12	6.13	6.7	5.23	25.0	
Realisation (₹)	4,795	4,910	4,671	2.7	5,021	-4.5	
EBITDA per Tonne (₹)	837	860	659	27.0	841	-0.5	Better realisations lead to improvement in profitability

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY19E			CY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	12,389	12,083	-2.5	NA	13,463	NA	We introduce CY21 estimates
EBITDA	2,304	2,246	-2.5	NA	2,520	NA	
EBITDA Margin (%)	18.6	18.6	-1 bps	NA	18.7	NA	
PAT	1,563	1,553	-0.6	NA	1,711	NA	
EPS (Diluted) (₹)	7.9	7.8	-0.6	NA	8.6	NA	

Source: Company, ICICI Direct Research

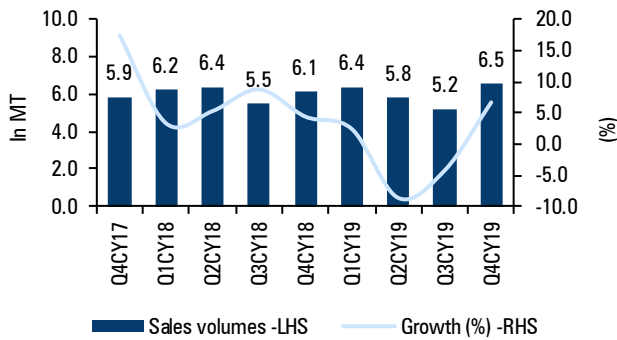
Exhibit 3: Key assumptions

	Current				Earlier		Comments
	CY18	CY19E	CY20E	CY21E	CY20E	CY21E	
Volume (MT)	24.2	24.0	24.4	26.6	24.8	NA	Commissioning of new unit to drive growth
Realisation (₹)	4,697	4,870	4,949	5,058	4,988	NA	
EBITDA per Tonne (₹)	782	897	920	947	928	NA	

Source: Company, ICICI Direct Research

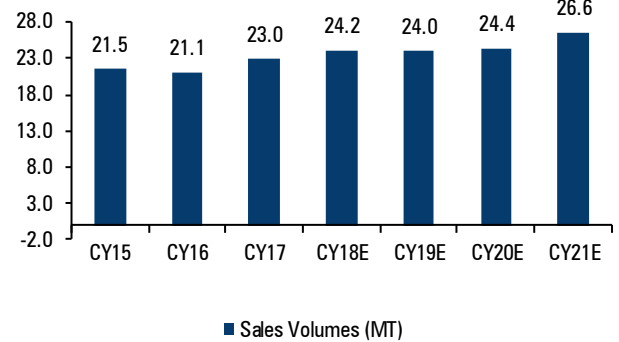
Financial story

Exhibit 4: Sales volumes rise 6.7% YoY



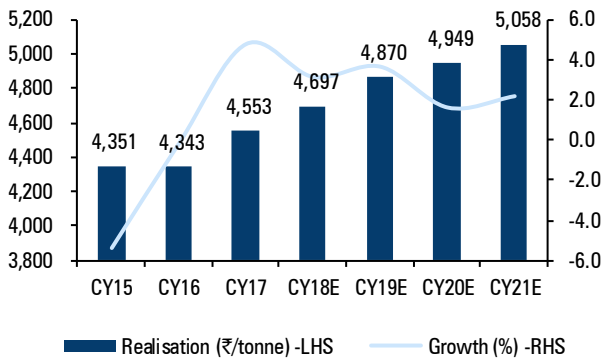
Source: Company, ICICI Direct Research

Exhibit 5: Volume growth from CY21E to be led by incremental capacity



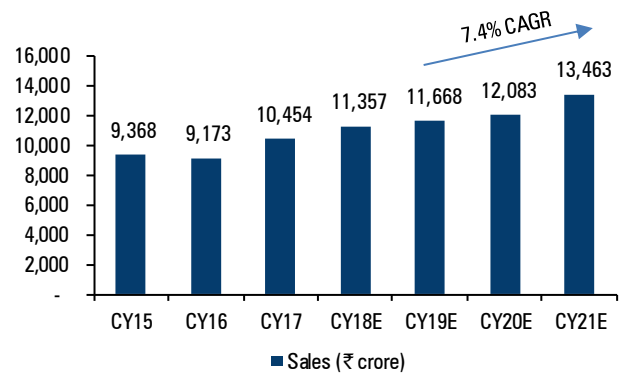
Source: Company, ICICI Direct Research

Exhibit 6: Realisations to grow at 2.7% CAGR over CY18-20E



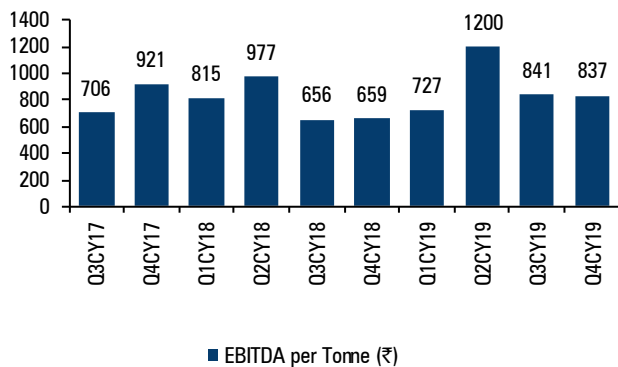
Source: Company, ICICI Direct Research

Exhibit 7: Revenue growth likely at 7.4% CAGR (CY19-21E)



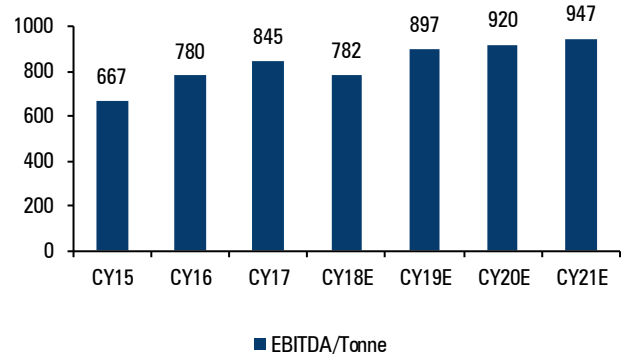
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA/t for Q4CY19 grows 27% YoY



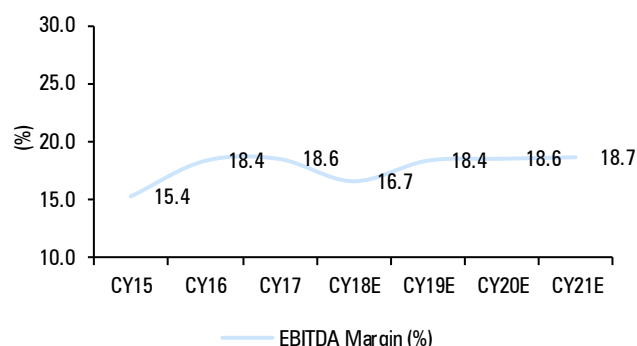
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t to increase at 2.7% CAGR over CY19-21E



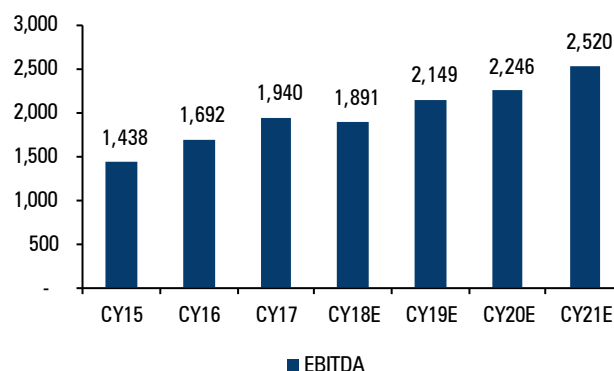
Source: Company, ICICI Direct Research

Exhibit 10: Margins to stabilise above 18%



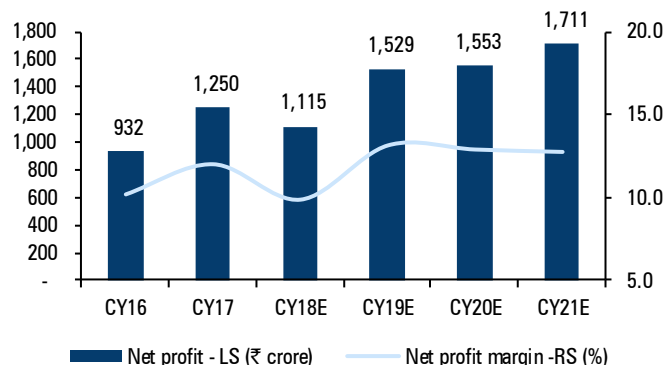
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA to grow at 8.3% CAGR over CY19-21E



Source: Company, ICICI Direct Research

Exhibit 12: PAT to witness 5.8% CAGR over CY19-21E



Source: Company, ICICI Direct Research

Exhibit 13: Capacity expansion plans

Particulars	Capacity (MT)
Existing Grinding capacity(MT)	29.7
Ongoing expansion:	
Marwar, Rajasthan (3.1 MT clinker capacity)	1.8
Total	1.8
Total capacity by CY20E (MT)	31.5

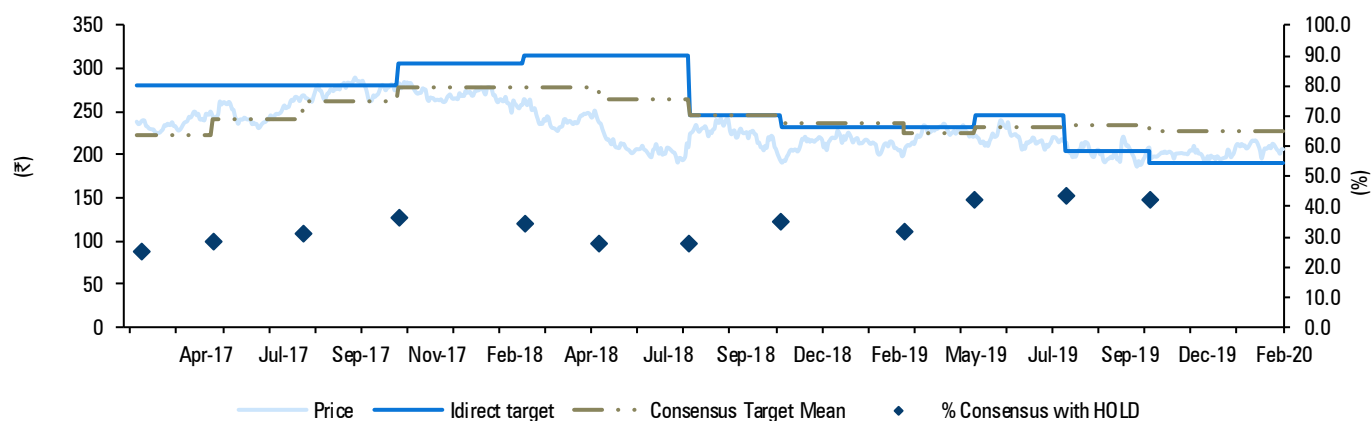
Source: Company, ICICI Direct Research

Exhibit 14: Fair value calculation - SOTP

Fair value calculation	in ₹ crore
EBITDA Estimates CY21E	2,519.8
Target EV/EBITDA	10
Target Enterprise value	23,938.0
Debt	33.1
Balance Cash and cash equivalents	3,140.3
Target equity value	27,045.2
No. of shares outstanding	198.6
Fair value of Ambuja [A]	136.2
Cost of Investment in ACC (50% stake) [A]	
ACC's fair equity valuation	10,909.9
ACC's fair equity valuation	30,799.2
Valuation of 50% stake [B]	15,399.6
Holding company discount	20.0%
Net value to Ambuja	12,319.7
No. of shares outstanding	198.6
Fair value of Investment in ACC [B]	61.0
Fair value per share [A+B]	200

Source: Company, ICICI Direct Research

Exhibit 15: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Holderind Invsts Ltd	30-Jun-19	63.1	1,253.2	0.0
2	Life Insurance Corp	30-Jun-19	4.9	96.7	0.0
3	Republic Of Singapor	30-Jun-19	2.2	42.7	10.6
4	Hdfc Asset Managemen	31-Dec-19	2.1	41.6	12.1
5	Nomura	28-Jan-20	1.6	31.7	-1.2
6	Vanguard Group	31-Dec-19	1.4	28.2	-0.5
7	Jpmorgan Chase & Co	30-Jun-19	1.1	21.6	-2.5
8	Sbi Funds Management	31-Dec-19	1.1	20.9	-0.5
9	Blackrock	24-Jan-20	1.0	19.9	0.0
10	Credit Agricole Grou	31-Oct-19	0.6	10.9	0.0

Source: Reuters, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Promoter	63.46	63.45	63.45	63.42	63.39
FII	17.05	17.91	17.67	17.04	16.38
DII	11.72	10.92	11.24	12.66	13.27
Others	7.77	7.72	7.64	6.88	6.96

Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	CY18	CY19E	CY20E	CY21E
Total operating Income	11,356.8	11,667.9	12,082.7	13,463.3
Growth (%)	8.7	2.7	3.6	11.4
Raw material	942.3	1125.5	1171.8	1304.3
Power & Fuel	2549.0	2586.4	2636.6	2947.9
Employees	679.5	672.6	706.3	755.7
Freight	3277.6	3094.2	3173.7	3526.8
Others	2016.9	2040.3	2148.4	2408.9
Total Operating Exp.	9,465.3	9,519.0	9,836.9	10,943.5
EBITDA	1,891.5	2,148.9	2,245.8	2,519.8
Growth (%)	-2.1	13.6	4.5	12.2
Depreciation	548.1	543.8	483.1	586.1
Interest	82.3	83.5	107.4	107.4
Other Income	375.0	426.5	420.0	460.0
Exceptional items	130.0	0.0	0.0	0.0
PBT	1,506.1	1,948.1	2,075.3	2,286.2
Total Tax	391.1	419.5	522.3	575.4
PAT	1,115.0	1,528.6	1,552.9	1,710.8
Adjusted PAT	1,245.0	1,528.6	1,552.9	1,710.8
Growth (%)	-0.4	22.8	1.6	10.2
Adjusted EPS (₹)	5.6	7.7	7.8	8.6

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	CY18	CY19E	CY20E	CY21E
Liabilities				
Equity Capital	397.1	397.1	397.1	397.1
Reserve and Surplus	20,615.4	21,808.1	22,431.7	23,213.2
Total Shareholders funds	21,012.5	22,205.2	22,828.8	23,610.3
Total Debt	48.1	71.7	33.1	33.1
Deferred Tax Liability	977.3	1,122.3	54.5	-95.5
Total Liabilities	22,037.8	23,399.2	22,916.4	23,547.9
Assets				
Gross Block	12,847.3	13,540.0	13,298.7	16,758.7
Less: Acc Depreciation	7,183.7	7,727.5	8,210.6	8,796.7
Net Block	5,663.6	5,812.5	5,088.1	7,961.9
Capital WIP	610.0	1,108.7	3,050.0	90.0
Total Fixed Assets	6,273.6	6,921.2	8,138.1	8,051.9
Investments	11,813.8	11,789.0	11,844.7	11,844.7
Inventory	1,277.8	954.1	1,065.2	1,221.7
Debtors	470.3	513.2	346.0	406.5
Other assets	2,021.3	2,113.8	2,271.0	2,306.6
Cash	3,330.0	4,699.5	2,356.4	3,140.3
Total Current Assets	7,099.3	8,280.6	6,038.6	7,075.0
Creditors	2,403.1	2,673.8	2,631.4	2,901.5
Provisions	745.8	917.8	473.6	522.3
Total Current Liabilities	3,148.9	3,591.5	3,105.0	3,423.8
Net Current Assets	3,950.5	4,689.0	2,933.6	3,651.2
Application of Funds	22,037.8	23,399.2	22,916.4	23,547.9

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end March)	CY18	CY19E	CY20E	CY21E
Profit after Tax	1,115.0	1,528.6	1,552.9	1,710.8
Add: Depreciation	548.1	543.8	483.1	586.1
(Inc)/dec in Current Assets	-613.8	188.3	-101.1	-252.5
Inc/(dec) in CL and Provisions	-484.8	587.7	-1,554.3	168.8
CF from operating activities	564.5	2,848.3	380.6	2,213.2
(Inc)/dec in Investments	30.9	24.8	-55.7	0.0
(Inc)/dec in Fixed Assets	-701.8	-1,191.3	-1,700.0	-500.0
Others				
CF from investing activities	-670.9	-1,166.6	-1,755.7	-500.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	15.0	23.7	-38.7	0.0
Dividend paid & dividend tax	-929.3	-929.3	-929.3	-929.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	853.6	593.4	0.0	0.0
CF from financing activities	-60.7	-312.2	-968.0	-929.3
Net Cash flow	-167.1	1,369.5	-2,343.1	783.9
Opening Cash	3,497.1	3,330.0	4,699.5	2,356.4
Closing Cash	3,330.0	4,699.5	2,356.4	3,140.3

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	CY18	CY19E	CY20E	CY21E
Per share data (₹)				
Adjusted EPS	5.6	7.7	7.8	8.6
Cash EPS	8.4	10.4	10.3	11.6
BV	105.8	111.8	115.0	118.9
DPS	4.0	4.0	4.0	4.0
Cash Per Share	16.8	23.7	11.9	15.8
Operating Ratios (%)				
EBITDA Margin	16.7	18.4	18.6	18.7
PAT Margin	9.8	13.1	12.9	12.7
Inventory days	34.8	34.8	30.5	31.0
Debtor days	12.5	12.5	10.2	10.2
Creditor days	85.3	85.3	80.0	75.0
Return Ratios (%)				
RoE	8.4	10.0	10.2	10.7
RoCE	11.4	13.2	14.5	15.3
RoIC	10.5	13.4	14.6	13.6
Valuation Ratios (x)				
P/E	33.5	27.3	26.9	24.4
EV / EBITDA	14.0	11.6	11.8	10.5
EV / Net Sales	3.4	3.2	3.3	2.9
Market Cap / Sales	3.7	3.6	3.5	3.1
Price to Book Value	2.0	1.9	1.8	1.8
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.3	2.3	1.9	2.1
Quick Ratio	1.2	1.0	1.2	1.1

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap		EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	
ACC*	1,454	1,640	HOLD	27,326	73	82	87	10.6	10.4	9.9	95	97	82	16.7	16.3	15.9	11.4	11.5	11.2	
Ambuja Cem*	210	200	HOLD	41,699	6.3	6.3	7.7	19.7	20.3	17.3	138	138	133	11.3	11.4	13.2	8.6	8.4	10.0	
UltraTech Cem	4,414	5,450	BUY	121,120	88	142	177	19.0	13.7	11.7	207	202	196	9.0	12.9	14.7	7.6	11.1	12.2	
Shree Cement	24,089	27,900	BUY	86,922	318	468	618	33.9	23.8	20.0	295	248	228	11.5	14.1	17.9	11.5	12.6	14.6	
Heidelberg Cem	197	220	HOLD	4,464	9.7	13.3	14.3	10.7	8.9	8.0	140	131	111	21.8	24.3	25.2	20.5	23.5	21.5	
India Cement	73	100	HOLD	2,250	2.2	9.3	7.2	9.1	6.4	6.6	58	63	61	4.5	6.4	6.6	1.3	5.2	4.0	
JK Cement	1,418	1,650	BUY	9,916	42.0	73.9	81.8	14.1	10.0	8.4	145	135	134	12.5	15.9	17.4	11.2	16.9	16.2	
JK Lakshmi Cem	336	425	BUY	3,955	6.8	22.2	26.8	12.5	7.2	6.0	60	58	54	5.2	15.0	15.4	5.2	15.0	15.4	
Mangalam Cem	275	300	BUY	734	-3.7	31.6	25.2	23.3	5.4	6.3	51	48	45	3.2	16.6	12.6	-2.0	14.4	10.3	
Star Cement	87	103	BUY	3,637	7.2	7.4	7.8	7.8	8.0	7.2	126	127	86	19.5	18.1	17.6	17.8	16.7	15.4	
Ramco Cement	790	950	BUY	18,808	22.2	27.4	33.6	19.3	16.1	12.6	203	179	166	8.2	9.2	11.1	11.7	13.2	14.5	
Sagar Cement	520	640	BUY	1,144	6.2	16.5	32.7	10.8	9.3	8.1	51	51	56	6.4	7.4	9.1	1.6	3.8	6.5	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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