

Ambuja Cement (ACEM IN)

Rating: BUY | CMP: Rs201 | TP: Rs235

July 27, 2020

Q2CY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY20E	CY21E	CY20E	CY21E
Rating	BUY		BUY	
Target Price	235		210	
Sales (Rs. m)	2,40,857	2,74,268	2,32,974	2,73,724
% Chng.	3.4	0.2		
EBITDA (Rs. m)	46,029	51,668	38,183	46,665
% Chng.	20.5	10.7		
EPS (Rs.)	10.1	11.3	7.8	9.6
% Chng.	29.1	17.1		

Key Financials - Consolidated

Y/e Dec	CY19	CY20E	CY21E	CY22E
Sales (Rs. bn)	271	241	274	288
EBITDA (Rs. bn)	44	46	52	54
Margin (%)	16.4	19.1	18.8	18.8
PAT (Rs. bn)	17	20	22	24
EPS (Rs.)	8.8	10.1	11.3	12.0
Gr. (%)	29.6	14.8	12.1	6.3
DPS (Rs.)	1.5	2.5	2.8	3.0
Yield (%)	0.7	1.3	1.4	1.5
RoE (%)	7.5	8.0	8.4	8.4
RoCE (%)	14.2	13.7	14.4	13.9
EV/Sales (x)	1.2	1.3	1.1	0.9
EV/EBITDA (x)	11.6	10.0	8.4	7.5
PE (x)	22.9	20.0	17.8	16.8
P/BV (x)	1.7	1.5	1.5	1.4

Key Data

ABUJ.BO | ACEM IN

52-W High / Low	Rs.225 / Rs.137
Sensex / Nifty	38,129 / 11,194
Market Cap	Rs.399bn / \$ 5,335m
Shares Outstanding	1,986m
3M Avg. Daily Value	Rs.1862.56m

Shareholding Pattern (%)

Promoter's	63.27
Foreign	16.25
Domestic Institution	13.60
Public & Others	6.88
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.5	(6.9)	(6.8)
Relative	(2.6)	1.6	(7.5)

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Set for re-rating as performance to sustain

Quick Pointers:

- EBITDA/t rose 25% YoY at Rs1,345 (PLe:Rs985) on a high base.
- Master Supply Agreement (MSA) with ACC gained momentum.

Ambuja Cement (ACEM) delivered strong set of Q2CY20 earnings with 35%/30% beat on ours/consensus EBITDA estimates. Lower than expected costs drove the beat in earnings.

Cement demand positively surprised us as well as the street with decline of 12% YoY in May (against street expectation/PLe of 40%/15% drop) and growth of 1% YoY in June (against street estimate/PLe of 15%/5% drop). Based on our channel checks, demand remained stable in July despite early monsoons and lockdowns. On prices front, we remain confident on sustainability of tight discipline given the demand uncertainty and delay in ongoing capacity expansions. Admittedly, cost would rise in absolute terms as some of the expenses like repairs & maintenance, advertisement (IPL in Q4CY20) and stores & spares would bounce back Q3CY20 onwards. However, higher volumes, elevated benefits of MSA, renegotiation of contracts and lower coal costs would outweigh the increase in fixed costs. Hence, we upgrade our EBITDA estimates for CY20/CY21 by 21%/11% to factor in higher margins. We reiterate BUY rating with revised TP of Rs235 (Earlier Rs210), EV/EBITDA of 10.5x CY21e.

- Lower than expected costs led the beat:** Volumes fell 29% YoY to 4.2mnt (PLe:4.2mnt). Realisations rose 7% QoQ/Rs335 (↑3% YoY/Rs160) to Rs5,120 (PLe:Rs5,100)/t. Cost/t fell 3% YoY at Rs3,775 (PLe:Rs4,110) on account of lower power & fuel cost and other expenses, partially offset by higher RM cost. Expansion in margins restricted the impact of 29% fall in volumes to 11% on EBITDA. Hence, EBITDA came above our expectation at Rs5.6bn (PLe:Rs4.2bn). Led by better operating performance and 80% YoY increase in other income (due to timing mismatch in divided income of Rs1.3bn from ACC), PAT grew 10% YoY at 4.5bn (PLe:Rs3.9bn). Tax rate came significantly above our estimate at 29% (PLe:20%) against 25%/29% QoQ/YoY.
- MSA on top priority:** Based on sharp increase in purchase of traded goods cost item in both ACC and ACEM, it is clearly visible that work on MSA has expedited significantly over last one year. We expect sharp increase in pace going forward on the back of change in management and upcoming capacity expansions. MSA has the potential to add 3% or Rs1.5bn (equivalent to Rs30/t) to consolidated EBITDA.
- Greenfield plant at Rajasthan set to commission in mid of CY21:** ACEM is setting up a Greenfield integrated plant with a clinker/cement capacity of 3.1mnt/1.8mnt at Marwar Mundwa in Rajasthan with a total outlay of Rs24bn. Owing to Covid-19 virus outbreak; we factor in delay of six months with commissioning likely by May-2021.

Exhibit 1: Q2CY20 Result Overview (Rs mn)

Y/e Dec	Q2CY20	Q2CY19	YoY gr. (%)	Q1CY20	H1CY20	H1CY19	YoY gr. (%)
Net Sales	21,440	29,120	(26.4)	27,600	49,040	57,590	(14.8)
Raw Material	2,315	2,918	(20.7)	2,514	4,830	5,485	(11.9)
<i>% of Net Sales</i>	<i>10.8</i>	<i>10.0</i>		<i>9.1</i>	<i>9.8</i>	<i>9.5</i>	
Staff Costs	1,495	1,688	(11.5)	1,722	3,216	3,359	(4.3)
<i>% of Net Sales</i>	<i>7.0</i>	<i>5.8</i>		<i>6.2</i>	<i>6.6</i>	<i>5.8</i>	
Power & Fuel	4,139	6,085	(32.0)	5,622	9,761	13,184	(26.0)
<i>% of Net Sales</i>	<i>19.3</i>	<i>20.9</i>		<i>20.4</i>	<i>19.9</i>	<i>22.9</i>	
Freight	5,033	7,404	(32.0)	7,422	12,455	15,771	(21.0)
<i>% of Net Sales</i>	<i>23.5</i>	<i>25.4</i>		<i>26.9</i>	<i>25.4</i>	<i>27.4</i>	
Other Expenses	2,833	4,703	(39.8)	4,964	7,797	9,645	(19.2)
<i>% of Net Sales</i>	<i>13.2</i>	<i>16.2</i>		<i>18.0</i>	<i>15.9</i>	<i>16.7</i>	
Total Expenditure	15,815	22,799	(30.6)	22,243	38,059	47,443	(19.8)
EBITDA	5,625	6,321	(11.0)	5,357	10,982	10,148	8.2
<i>Margin (%)</i>	<i>26.2</i>	<i>21.7</i>		<i>19.4</i>	<i>22.4</i>	<i>17.6</i>	
Depreciation	1,289	1,309	(1.5)	1,379	2,668	2,623	1.7
Other income	2,249	1,242	81.0	1,557	3,806	3,935	(3.3)
EBIT	6,585	6,255	5.3	5,535	12,119	11,460	5.8
Interest	183	208	(12.3)	231	413	383	7.9
PBT	6,402	6,047	5.9	5,304	11,706	11,077	5.7
Extraordinary income/(expense)	-	-		-	-	516	
PBT (After EO)	6,402	6,047	5.9	5,304	11,706	11,593	1.0
Tax	1,868	1,926	(3.0)	1,313	3,181	3,202	(0.7)
<i>% PBT</i>	<i>29.2</i>	<i>31.9</i>		<i>24.8</i>	<i>27.2</i>	<i>27.6</i>	
Reported PAT	4,534	4,121	10.0	3,991	8,525	8,390	1.6
Adjusted PAT	4,534	4,121	10.0	3,991	14,850	16,205	(8.4)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e Dec	Q2CY20	Q2CY19	YoY gr. (%)	Q1CY20	H1CY20	H1CY19	YoY gr. (%)
Volume (mn te)	4.2	5.9	(28.6)	5.8	10.0	12.3	(18.8)
Net Realisations/t (Rs)	5,117	4,961	3.1	4,783	4,924	4,694	4.9
EBITDA/t (Rs)	1,342	1,077	24.7	928	1,103	827	33.3

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Net Revenues	2,71,036	2,40,857	2,74,268	2,87,823
YoY gr. (%)	4.1	(11.1)	13.9	4.9
Cost of Goods Sold	36,837	31,816	37,035	39,089
Gross Profit	2,34,199	2,09,041	2,37,233	2,48,734
Margin (%)	86.4	86.8	86.5	86.4
Employee Cost	15,708	15,299	15,930	16,727
Other Expenses	45,531	38,175	42,304	44,026
EBITDA	44,459	46,029	51,668	54,129
YoY gr. (%)	11.9	3.5	12.3	4.8
Margin (%)	16.4	19.1	18.8	18.8
Depreciation and Amortization	11,525	11,773	13,151	14,554
EBIT	32,934	34,256	38,517	39,575
Margin (%)	12.2	14.2	14.0	13.7
Net Interest	1,699	1,577	1,799	1,894
Other Income	4,297	5,523	6,470	7,709
Profit Before Tax	37,043	38,202	43,187	45,389
Margin (%)	13.7	15.9	15.7	15.8
Total Tax	10,922	11,985	13,522	14,212
Effective tax rate (%)	29.5	31.4	31.3	31.3
Profit after tax	26,121	26,217	29,665	31,177
Minority interest	6,882	6,348	7,374	7,480
Share Profit from Associate	200	130	130	130
Adjusted PAT	17,418	19,999	22,421	23,828
YoY gr. (%)	29.6	14.8	12.1	6.3
Margin (%)	6.4	8.3	8.2	8.3
Extra Ord. Income / (Exp)	988	-	-	-
Reported PAT	19,439	19,999	22,421	23,828
YoY gr. (%)	(9.2)	2.9	12.1	6.3
Margin (%)	7.2	8.3	8.2	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19,439	19,999	22,421	23,828
Equity Shares O/s (m)	1,986	1,986	1,986	1,986
EPS (Rs)	8.8	10.1	11.3	12.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Non-Current Assets				
Gross Block	2,55,980	2,62,734	2,95,584	3,04,934
Tangibles	2,55,980	2,62,734	2,95,584	3,04,934
Intangibles	-	-	-	-
Acc: Dep / Amortization	48,967	60,740	73,891	88,445
Tangibles	48,967	60,740	73,891	88,445
Intangibles	-	-	-	-
Net fixed assets	2,07,013	2,01,994	2,21,693	2,16,489
Tangibles	2,07,013	2,01,994	2,21,693	2,16,489
Intangibles	-	-	-	-
Capital Work In Progress	19,967	30,288	18,431	28,931
Goodwill	-	-	-	-
Non-Current Investments	11,999	12,414	12,834	13,254
Net Deferred tax assets	(9,326)	(10,320)	(11,432)	(12,613)
Other Non-Current Assets	19,613	19,639	19,669	19,699
Current Assets				
Investments	-	-	-	-
Inventories	20,965	20,885	24,475	25,761
Trade receivables	10,686	9,286	10,649	11,201
Cash & Bank Balance	93,546	1,04,112	1,23,158	1,44,073
Other Current Assets	12,353	12,035	13,305	13,806
Total Assets	4,01,823	4,16,457	4,50,125	4,79,236
Equity				
Equity Share Capital	3,971	3,971	3,971	3,971
Other Equity	2,36,809	2,53,828	2,71,248	2,89,470
Total Network	2,40,780	2,57,800	2,75,220	2,93,442
Non-Current Liabilities				
Long Term borrowings	411	353	353	353
Provisions	2,888	2,888	2,888	2,888
Other non current liabilities	358	358	358	358
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	23,329	23,365	26,727	28,089
Other current liabilities	67,317	58,925	64,592	66,930
Total Equity & Liabilities	4,01,823	4,16,457	4,50,125	4,79,236

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
PBT	38,753	38,202	43,187	45,389
Add. Depreciation	11,525	11,773	13,151	14,554
Add. Interest	1,699	1,577	1,799	1,894
Less Financial Other Income	4,297	5,523	6,470	7,709
Add. Other	(5,803)	(5,523)	(6,470)	(7,709)
Op. profit before WC changes	46,174	46,029	51,668	54,129
Net Changes-WC	6,512	(6,991)	2,379	930
Direct tax	(5,299)	(10,991)	(12,410)	(13,031)
Net cash from Op. activities	47,387	28,047	41,637	42,028
Capital expenditures	(16,070)	(17,075)	(20,994)	(19,850)
Interest / Dividend Income	-	-	-	-
Others	4,142	5,523	6,470	7,709
Net Cash from Invst. activities	(11,929)	(11,552)	(14,524)	(12,141)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	(58)	-	-
Dividend paid	(5,174)	(4,294)	(6,268)	(7,078)
Interest paid	(1,130)	(1,577)	(1,799)	(1,894)
Others	-	-	-	-
Net cash from Fin. activities	(6,304)	(5,928)	(8,067)	(8,972)
Net change in cash	29,154	10,566	19,046	20,915
Free Cash Flow	30,713	10,972	20,643	22,178

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q3CY19	Q4CY19	Q1CY20	Q2CY20
Net Revenue	25,560	30,380	27,600	21,440
YoY gr. (%)	1.3	9.9	(3.1)	(26.4)
Raw Material Expenses	2,138	3,633	2,514	2,315
Gross Profit	23,422	26,747	25,086	19,125
Margin (%)	91.6	88.0	90.9	89.2
EBITDA	3,697	4,495	5,357	5,625
YoY gr. (%)	38.9	47.1	40.0	(11.0)
Margin (%)	14.5	14.8	19.4	26.2
Depreciation / Depletion	1,329	1,487	1,379	1,289
EBIT	2,368	3,009	3,978	4,336
Margin (%)	9.3	9.9	14.4	20.2
Net Interest	216	237	231	183
Other Income	1,329	1,635	1,557	2,249
Profit before Tax	3,481	4,407	5,304	6,402
Margin (%)	13.6	14.5	19.2	29.9
Total Tax	1,135	(142)	1,313	1,868
Effective tax rate (%)	32.6	(3.2)	24.8	29.2
Profit after Tax	2,346	4,549	3,991	4,534
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,346	3,516	3,991	4,534
YoY gr. (%)	31.4	45.6	3.1	10.0
Margin (%)	9.2	11.6	14.5	21.1
Extra Ord. Income / (Exp)	-	1,033	-	-
Reported PAT	2,346	4,549	3,991	4,534
YoY gr. (%)	31.4	(15.3)	(6.5)	10.0
Margin (%)	9.2	15.0	14.5	21.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,346	4,549	3,991	4,534
Avg. Shares O/s (m)	1,986	1,986	1,986	1,986
EPS (Rs)	1.2	1.8	2.0	2.3

Source: Company Data, PL Research

Key Financial Metrics

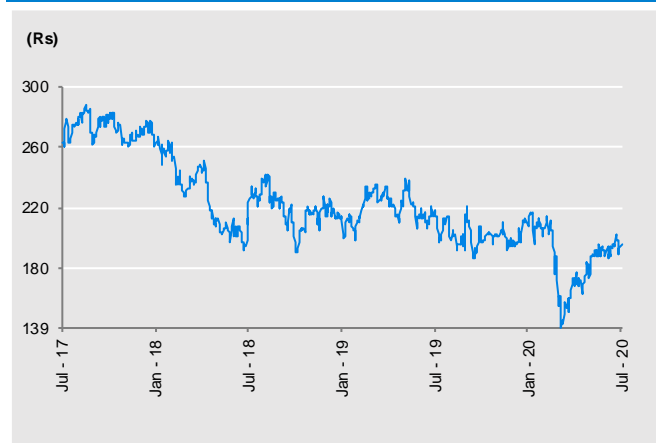
Y/e Dec	CY19	CY20E	CY21E	CY22E
Per Share(Rs)				
EPS	8.8	10.1	11.3	12.0
CEPS	14.6	16.0	17.9	19.3
BVPS	121.3	129.8	138.6	147.8
FCF	15.5	5.5	10.4	11.2
DPS	1.5	2.5	2.8	3.0
Return Ratio(%)				
RoCE	14.2	13.7	14.4	13.9
ROIC	16.7	16.2	18.4	19.3
RoE	7.5	8.0	8.4	8.4
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)
Net Working Capital (Days)	11	10	11	11
Valuation(x)				
PER	22.9	20.0	17.8	16.8
P/B	1.7	1.5	1.5	1.4
P/CEPS	13.8	12.6	11.2	10.4
EV/EBITDA	11.6	10.0	8.4	7.5
EV/Sales	1.2	1.3	1.1	1.0
Dividend Yield (%)	0.7	1.3	1.4	1.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Dec	CY19	CY20E	CY21E	CY22E
Stand. Volume	24.1	20.9	24.5	26.4
Stand. Net Realisations (Rs/te)	4,719	4,915	4,841	4,841
Stand. EBITDA/ te (Rs/te)	762	1,022	979	986
Stand. RM cost (Rs/ te)	451	468	465	461
Stand. Power, Oil & Fuel (Rs/ te)	1,076	1,018	1,036	1,034
Stand. Freight Charges (Rs/ te)	1,286	1,267	1,299	1,322
Cons. Volume	53.0	46.2	53.3	55.6
Cons. Net Realisations (Rs/te)	5,119	5,216	5,146	5,173
Cons. EBITDA/ te (Rs/te)	840	997	969	973

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jul-20	BUY	210	196
2	16-Jun-20	BUY	210	192
3	27-Apr-20	BUY	190	172
4	09-Apr-20	BUY	190	150
5	24-Feb-20	Accumulate	230	206
6	03-Jan-20	Hold	207	203
7	21-Oct-19	Hold	207	208
8	03-Oct-19	Hold	216	196

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,505	1,335
2	Ambuja Cement	BUY	210	196
3	Coal India	Hold	155	130
4	Heidelberg Cement India	Accumulate	191	173
5	Hindalco Industries	BUY	180	165
6	Hindustan Zinc	Accumulate	200	183
7	Jindal Steel & Power	BUY	215	172
8	JK Lakshmi Cement	BUY	350	281
9	JSW Steel	Reduce	140	197
10	NMDC	Accumulate	87	86
11	Shree Cement	Hold	19,000	22,452
12	Steel Authority of India	Reduce	25	37
13	Tata Steel	Reduce	250	345
14	The Ramco Cements	Hold	600	646
15	Ultratech Cement	BUY	4,300	3,787

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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