

# Ambuja Cements

Estimate change



TP change



Rating change


**CMP: INR201**
**TP: INR207 (+3%)**
**Neutral**

## Cost reduction drives margin beat

### Lower costs to sustain in near term

- Ambuja Cements' (ACEM) 2QCY20 results were a surprise, led by sharp cost reduction owing to significant curtailment in discretionary costs. Volumes declined 29% QoQ due to the COVID-19 led lockdown but EBITDA declined just 1% QoQ.
- We have raised our CY20 EBITDA/PAT estimates by 17%/20%, after factoring in lower costs for the year. We expect EBITDA to turn positive from the current quarter. However, our CY21 estimates remain largely unchanged as discretionary costs should normalize next year. Maintain **Neutral**.

### Cost reduction led EBITDA beat

- Cement volumes declined 29% YoY to 4.2mt (v/s est. 4.1mt) due to the government directed plant shutdowns till Apr'20. This led to 27% YoY revenue decline to INR21.8b.
- Cement realization improved 7% QoQ (+3% YoY) to INR5,119/t (v/s est. INR5,013/t), driven by price hikes/ higher share of trade sales in the mix.
- Cost per ton declined 3% YoY/2% QoQ to INR3,775/t (v/s est. 4,155/t), led by lower freight cost (due to MSA with ACC) and sharp cuts in discretionary expenses (ad spends, travel, repairs, third-party services, etc.), which lowered other expenses.
- EBITDA/t improved 36% QoQ (+19% YoY) to INR1,421/t (v/s est. INR898/t), which is the highest ever.
- EBITDA of INR6.0b (-15% YoY) was 61% above our estimate due to lower costs. Margin expanded 6.01pp QoQ to 27.3% (+3.89pp YoY).
- Revenue/ EBITDA at INR21.8b/INR6.0b declined 27%/ 15% due to lower volumes. PAT at INR4.5b, however, rose 10% YoY as dividend of INR1.32b from ACC was received in 2QCY21 (v/s 1QCY21).
- Cash balance increased by INR7.2b to INR54.2b during 1HCY20.
- In 1HCY20, OCF stood at INR11.3b (v/s INR6.6b in 1HCY19) as working capital increased by a lower amount of INR0.5b (v/s INR3.3b in 1HCY19).

### Highlights from management commentary

- Management expects demand to rebound, led by normal monsoons and various policy support measures taken to enhance rural and agricultural incomes. Continued spend on infrastructure development and affordable housing should boost demand growth in the mid-term.
- 1HCY20 capex stood at INR3.25b (v/s INR2.9b in 1HCY19) as the planned expansion in Marwar-Mundwa progressed. Balance capex for Marwar-Mundwa stands at ~INR8b with scheduled commissioning by Mar'21.
- The company has achieved sharp reduction in other expenses due to reduction in other fixed costs coupled with various cost optimization measures.

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Bloomberg	ACEM IN
Equity Shares (m)	1,986
M.Cap.(INRb)/(USDb)	399.1 / 5.2
52-Week Range (INR)	225 / 137
1, 6, 12 Rel. Per (%)	-3/1/-8
12M Avg Val (INR M)	802
Free float (%)	36.9

### Financial Snapshot (INR b)

Y/E Dec	2019	2020E	2021E
Sales	116.7	105.4	126.9
EBITDA	21.5	23.1	24.3
Adj. PAT	15.3	15.4	14.6
EBITDA Margin (%)	18.4	21.9	19.1
Adj. EPS (INR)	7.7	7.7	7.4
EPS Gr. (%)	26.4	0.5	-4.7
BV/Sh. (INR)	111.8	118.3	124.2

### Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	7.1	6.7	6.1
RoCE (%)	7.4	7.0	6.4
Payout (%)	19.5	16.2	20.3

### Valuations

P/E (x)	15.4	15.4	16.1
P/BV (x)	1.1	1.0	1.0
EV/EBITDA(x)	8.1	7.0	6.9
EV/ton (USD)	82.2	76.4	74.4
Div. Yield (%)	0.9	0.7	0.9
FCF Yield (%)	3.6	1.3	4.4

### Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	63.1	63.1	63.1
DII	14.3	13.4	10.9
FII	15.9	16.8	18.3
Others	6.7	6.7	7.7

FII Includes depository receipts

## Valuation and view

- We see limited upside in ACEM on account of the expected margin pressure. This would be due to the fixed cost addition starting next year from its green-field plant (Marwar-Mundwa) with slow volume ramp-up. We value ACEM at 9x CY21E EV/EBITDA and value its stake in ACC at a 10% discount to the target price. We maintain our **Neutral** rating, with a target price of INR207.

## Quarterly Perf. (S/A)

(INR Million)

Y/E December	CY19				CY20E				CY19	CY20E	Est. 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Sales Volume (m ton)*	6.39	5.87	5.26	6.54	5.77	4.19	5.10	6.33	24.06	21.39	4.11	2
YoY Change (%)	2.2	-8.1	-4.2	6.7	-9.7	-28.6	-3.0	-3.2	-0.8	-11.1	-30.0	
Realization (INR/ton)	4,455	4,961	4,859	4,645	4,783	5,119	4,919	4,672	4,719	4,849	5,013	2
YoY Change (%)	0.8	8.3	5.8	3.0	7.4	3.2	1.2	0.6	4.3	2.8	1.1	
QoQ Change (%)	-1.2	11.3	-2.0	-4.4	3.0	7.0	-3.9	-5.0			4.8	
<b>Net Sales</b>	<b>29,276</b>	<b>29,783</b>	<b>26,261</b>	<b>31,359</b>	<b>28,275</b>	<b>21,768</b>	<b>25,419</b>	<b>29,919</b>	<b>116,679</b>	<b>105,381</b>	<b>20,760</b>	5
YoY Change (%)	2.3	-1.3	0.5	9.5	-3.4	-26.9	-3.2	-4.6	2.7	-9.7	-30.3	
Total Expenditure	-24,644	-22,799	-21,863	-25,885	-22,243	-15,815	-19,760	-24,501	-95,190	-82,320	-17,071	-7
<b>EBITDA</b>	<b>4,633</b>	<b>6,984</b>	<b>4,398</b>	<b>5,474</b>	<b>6,033</b>	<b>5,952</b>	<b>5,659</b>	<b>5,418</b>	<b>21,489</b>	<b>23,061</b>	<b>3,689</b>	61
Margins (%)	15.8	23.4	16.7	17.5	21.3	27.3	22.3	18.1	18.4	21.9	17.8	
Depreciation	1,314	1,309	1,329	1,487	1,379	1,289	1,350	1,373	5,438	5,391	1,400	
Interest	175	208	216	237	231	183	200	217	835	830	210	
Other Income	2,402	580	628	656	881	1,922	550	566	4,265	3,919	1,900	
<b>PBT before EO Item</b>	<b>5,546</b>	<b>6,047</b>	<b>3,481</b>	<b>4,407</b>	<b>5,304</b>	<b>6,402</b>	<b>4,659</b>	<b>4,394</b>	<b>19,480</b>	<b>20,760</b>	<b>3,979</b>	61
Extraordinary Inc/(Exp)	0	0	0	0	0	0	0	0	0	0	0	
<b>PBT after EO Exp/(Inc)</b>	<b>5,546</b>	<b>6,047</b>	<b>3,481</b>	<b>4,407</b>	<b>5,304</b>	<b>6,402</b>	<b>4,659</b>	<b>4,394</b>	<b>19,480</b>	<b>20,760</b>	<b>3,979</b>	61
Tax	1,276	1,926	1,135	-142	1,313	1,868	1,165	1,051	4,195	5,398	995	
Rate (%)	23.0	31.9	32.6	-3.2	24.8	29.2	25.0	23.9	21.5	26.0	25.0	
<b>Reported Profit</b>	<b>4,270</b>	<b>4,121</b>	<b>2,346</b>	<b>4,549</b>	<b>3,991</b>	<b>4,534</b>	<b>3,494</b>	<b>3,343</b>	<b>15,285</b>	<b>15,362</b>	<b>2,984</b>	52
<b>Adj PAT</b>	<b>4,270</b>	<b>4,121</b>	<b>2,346</b>	<b>4,549</b>	<b>3,991</b>	<b>4,534</b>	<b>3,494</b>	<b>3,343</b>	<b>15,285</b>	<b>15,362</b>	<b>2,984</b>	52
YoY Change (%)	57.1	-17.5	31.4	75.3	-6.5	10.0	48.9	-26.5	26.4	0.5	-27.6	

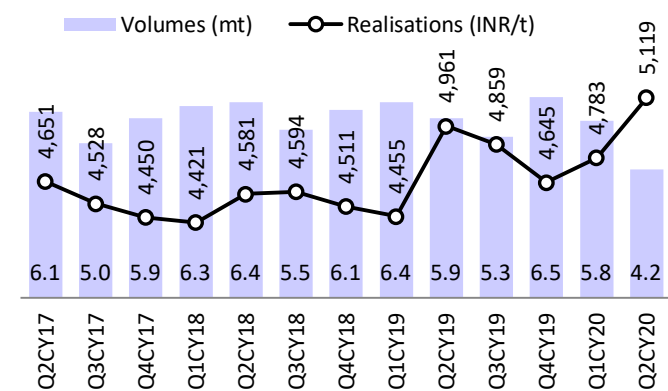
## Income statement (INR/ton)

	2QCY20	2QCY19	YoY (%)	1QCY20	QoQ (%)
<b>Net Realization</b>	<b>5,195</b>	<b>5,074</b>	<b>2%</b>	<b>4,900</b>	<b>6%</b>
Raw Material	553	497	11%	436	27%
Staff Cost	357	288	24%	298	20%
Power & Fuel	988	1,037	-5%	974	1%
Freight	1,201	1,261	-5%	1,286	-7%
Other exp	676	801	-16%	860	-21%
<b>Total Cost</b>	<b>3,775</b>	<b>3,884</b>	<b>-3%</b>	<b>3,855</b>	<b>-2%</b>
<b>EBITDA</b>	<b>1,421</b>	<b>1,190</b>	<b>19%</b>	<b>1,046</b>	<b>36%</b>

Source: Company, MOFSL

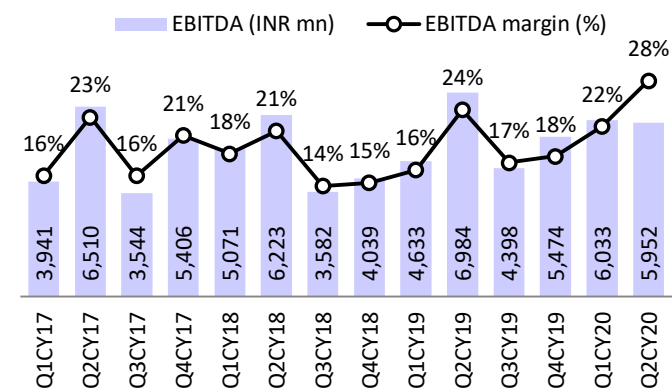
## Key exhibits

**Exhibit 1: Volumes declined 29% YoY while realizations were up 3% YoY in 2QCY20**



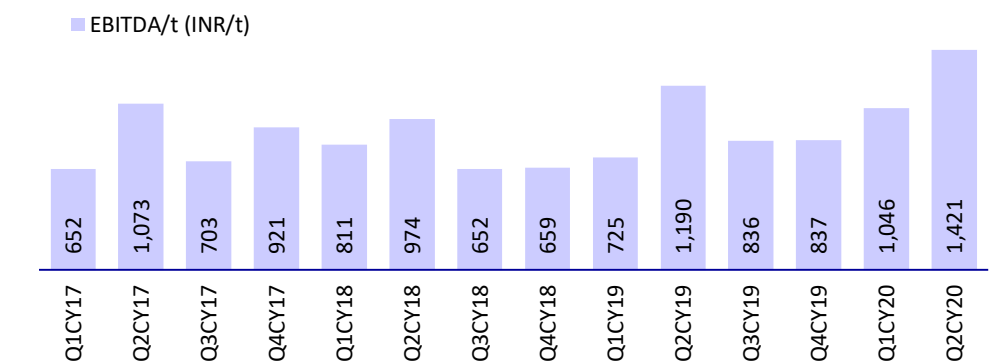
Source: Company, MOFSL

**Exhibit 2: Margin expanded by 601bp QoQ**



Source: Company, MOFSL

**Exhibit 3: Trend in EBITDA/t**



Source: MOFSL, Company

## Valuation and view

**Market share loss should stop:** ACEM has lost 250bp all-India volume market share (currently 7%) over the past 10 years due to the lack of capacity growth. This is expected to change from CY21 as the company is setting up a 3.1mt (17% expansion) clinker line and a 1.8mt cement grinding unit at its green-field Marwar-Mundwa plant in Rajasthan. While we expect volumes to decline by 11% YoY in CY20 due to the impact of COVID-19, it should grow faster than the market at 20% YoY in CY21 to 25.6mt (6% above CY19).

**Management change is positive:** ACEM has recently appointed Mr. Neeraj Akhoury as the new MD and CEO. Mr. Akhoury was earlier the MD and CEO of Ambuja's subsidiary ACC, where he is credited with arresting market share decline for the company after a gap of 10 years as well as implementing strong cost control. Under his leadership, we expect Ambuja to also deliver on costs as well as market share – both of which have been lagging industry peers so far. Moreover, he has also been appointed as the India CEO of LafargeHolcim and a Non-Executive Director on the board of ACC. This move should help in better strategic alignment between Ambuja

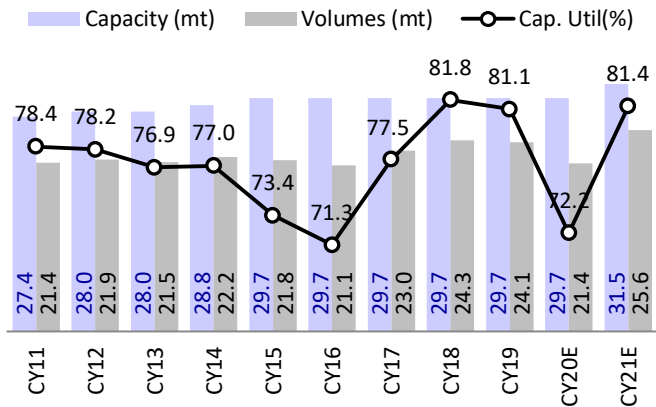
and its subsidiary ACC and help unlock benefits under the Master Supply Agreement (MSA) between the two companies.

**Margins to underperform due to Marwar-Mundwa expansion:** The new clinker unit to be commissioned at Marwar-Mundwa would increase fixed costs for ACEM while the volume ramp-up would happen only gradually; thus, fixed cost per ton would increase for ACEM in CY21. As a result, we expect ACEM's EBITDA per ton to be marginally lower in the next two years and underperform peers.

**Valuation and view:** We see limited upside in ACEM on account of the expected margin pressure. This would be due to the fixed cost addition starting next year from its green-field plant (Marwar-Mundwa) with slow volume ramp-up. We value ACEM at 9x CY21E EV/EBITDA and value its stake in ACC at a 10% discount to the target price. We maintain our **Neutral** rating, with a target price of INR207.

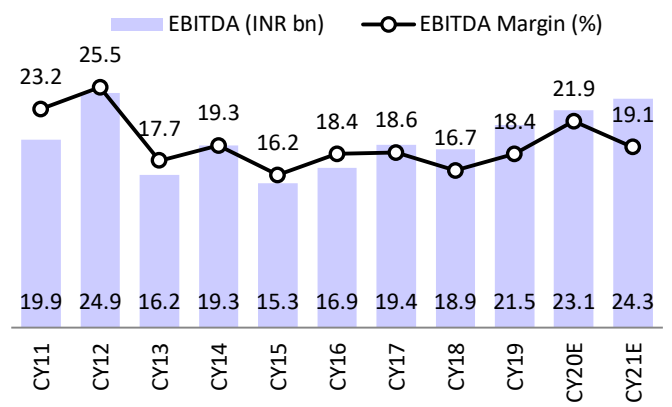
Story in charts

Exhibit 4: Utilizations to dip to 72% in CY20



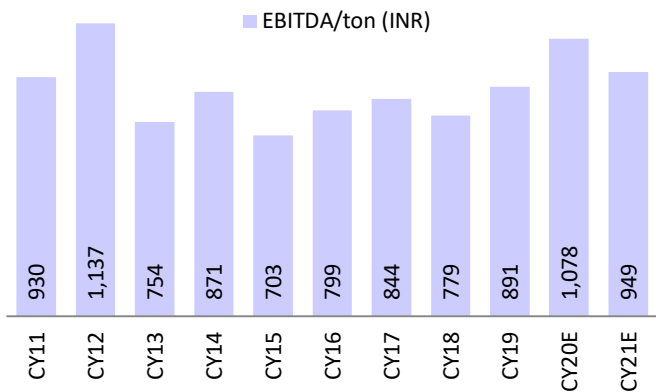
Source: Company, MOFSL

Exhibit 5: Expect EBITDA CAGR of 6.3% over CY19-21



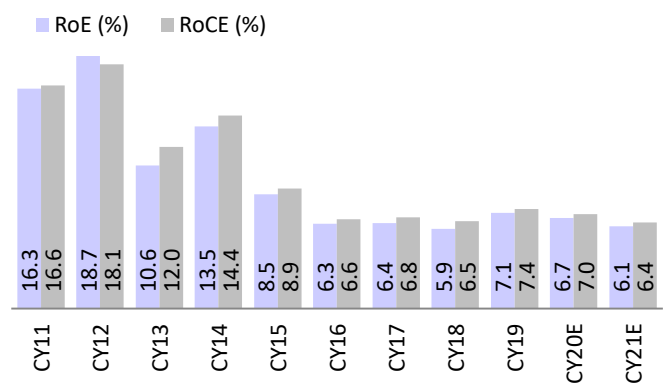
Source: Company, MOFSL

Exhibit 6: EBITDA/ton to improve in CY20E



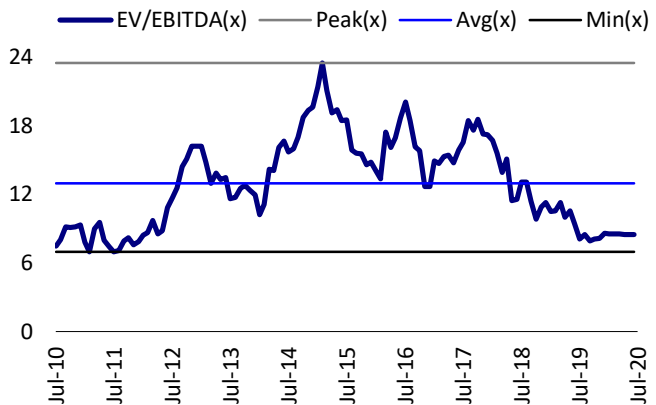
Source: Company, MOFSL

Exhibit 7: Return ratios to decline on lower profitability



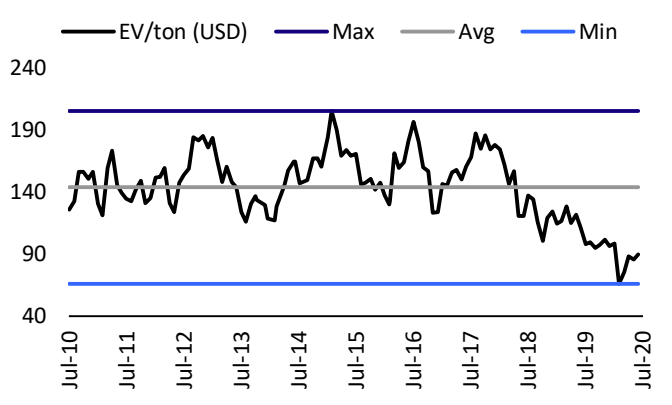
Source: Company, MOFSL

Exhibit 8: ACEM EV/EBITDA



Source: MOFSL, Company

Exhibit 9: ACEM EV/ton



Source: MOFSL, Company

## Financials and valuations

Income Statement							(INR M)	
Y/E December	2014	2015	2016	2017	2018	2019	2020E	2021E
Gross Sales	112,456	107,681	105,008	112,251	113,568	1,16,679	105,381	126,852
Less: Excise Duty	12,594	13,026	13,042	7,680	0	0	0	0
<b>Net Sales</b>	<b>99,862</b>	<b>94,655</b>	<b>91,966</b>	<b>104,571</b>	<b>113,568</b>	<b>1,16,679</b>	<b>105,381</b>	<b>126,852</b>
Change (%)	8.9	-5.2	-2.8	13.7	8.6	2.7	-9.7	20.4
Total Expenditure	80,577	79,340	75,043	85,170	94,653	95,190	82,320	102,573
% of Sales	80.7	83.8	81.6	81.4	83.3	81.6	78.1	80.9
<b>EBITDA</b>	<b>19,284</b>	<b>15,315</b>	<b>16,924</b>	<b>19,401</b>	<b>18,915</b>	<b>21,489</b>	<b>23,061</b>	<b>24,280</b>
Change (%)	18.9	-20.6	10.5	14.6	-2.5	13.6	7.3	5.3
Margin (%)	19.3	16.2	18.4	18.6	16.7	18.4	21.9	19.1
Depreciation	5,095	6,257	8,489	5,729	5,481	5,438	5,391	7,240
<b>EBIT</b>	<b>14,189</b>	<b>9,058</b>	<b>8,435</b>	<b>13,672</b>	<b>13,434</b>	<b>16,050</b>	<b>17,671</b>	<b>17,040</b>
Interest	645	918	742	1,072	823	835	830	999
Other Income - Rec.	4,290	3,582	5,102	3,591	3,391	4,265	3,919	3,745
<b>PBT before EO Exp.</b>	<b>17,834</b>	<b>11,722</b>	<b>12,795</b>	<b>16,191</b>	<b>16,002</b>	<b>19,480</b>	<b>20,760</b>	<b>19,785</b>
EO Exp/(Inc)	-1,757	556	0	0	-2,779	0	0	0
<b>PBT after EO Exp.</b>	<b>19,591</b>	<b>11,166</b>	<b>12,795</b>	<b>16,191</b>	<b>18,781</b>	<b>19,480</b>	<b>20,760</b>	<b>19,785</b>
Current Tax	4,780	3,340	4,392	4,107	4,780	5,730	5,398	5,144
Deferred Tax	-153	-249	-920	-411	-869	-1,535	0	0
Tax Rate (%)	23.6	27.7	27.1	22.8	20.8	21.5	26.0	26.0
<b>Reported PAT</b>	<b>14,964</b>	<b>8,076</b>	<b>9,322</b>	<b>12,496</b>	<b>14,870</b>	<b>15,285</b>	<b>15,362</b>	<b>14,641</b>
<b>PAT Adj for EO Items</b>	<b>13,207</b>	<b>8,631</b>	<b>9,322</b>	<b>12,496</b>	<b>12,091</b>	<b>15,285</b>	<b>15,362</b>	<b>14,641</b>
Change (%)	36.5	-34.6	8.0	34.0	-3.2	26.4	0.5	-4.7
Margin (%)	13.2	9.1	10.1	11.9	10.6	13.1	14.6	11.5

Balance Sheet							(INR M)	
Y/E December	2014	2015	2016	2017	2018	2019	2020E	2021E
Equity Share Capital	3,100	3,104	3,971	3,971	3,971	3,971	3,971	3,971
Total Reserves	97,841	99,965	189,597	195,761	206,154	2,18,081	230,961	242,623
<b>Net Worth</b>	<b>101,033</b>	<b>103,069</b>	<b>193,569</b>	<b>199,732</b>	<b>210,125</b>	<b>2,22,052</b>	<b>234,932</b>	<b>246,595</b>
Def. Liabilities	5,890	5,649	4,973	4,583	3,722	2,161	2,161	2,161
Total Loans	384	387	157	241	397	353	353	353
<b>Capital Employed</b>	<b>107,307</b>	<b>109,105</b>	<b>198,699</b>	<b>204,557</b>	<b>214,244</b>	<b>2,24,565</b>	<b>237,445</b>	<b>249,108</b>
Gross Block	114,291	120,127	65,532	69,035	73,721	80,435	85,435	108,060
Less: Accum. Depn.	52,020	59,206	6,116	11,816	17,085	22,310	27,701	34,941
<b>Net Fixed Assets</b>	<b>62,271</b>	<b>60,920</b>	<b>59,416</b>	<b>57,220</b>	<b>56,636</b>	<b>58,125</b>	<b>57,734</b>	<b>73,119</b>
Capital WIP	9,301	7,865	6,501	8,625	9,996	14,562	25,137	7,512
Investments in subsidiaries	761	773	118,151	118,151	118,138	1,17,890	117,890	117,890
Investments-Trade	20,966	21,488	10,951	15,128	2,305	6,537	6,537	6,537
<b>Curr. Assets</b>	<b>45,709</b>	<b>50,573</b>	<b>38,509</b>	<b>47,144</b>	<b>64,792</b>	<b>72,793</b>	<b>75,127</b>	<b>90,688</b>
Inventory	8,884	8,955	9,375	10,525	12,778	9,541	9,947	11,971
Debtors	2,280	2,864	3,958	3,080	4,703	5,132	4,689	5,472
Cash & Bank Bal	24,581	28,714	15,602	20,189	31,045	40,638	42,498	54,742
Others	9,964	10,041	9,574	13,351	16,267	17,483	17,993	18,503
<b>Curr. Liability &amp; Prov.</b>	<b>31,701</b>	<b>32,514</b>	<b>34,829</b>	<b>41,712</b>	<b>37,623</b>	<b>45,342</b>	<b>44,980</b>	<b>46,638</b>
Creditors	19,613	21,317	33,516	40,488	36,327	43,985	43,647	45,304
Provisions	12,088	11,197	1,314	1,223	1,296	1,357	1,334	1,334
<b>Net Current Assets</b>	<b>14,008</b>	<b>18,059</b>	<b>3,680</b>	<b>5,433</b>	<b>27,169</b>	<b>27,451</b>	<b>30,147</b>	<b>44,050</b>
<b>Appl. of Funds</b>	<b>107,307</b>	<b>109,105</b>	<b>198,699</b>	<b>204,557</b>	<b>214,244</b>	<b>2,24,565</b>	<b>237,445</b>	<b>249,108</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E December	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
EPS	8.5	5.6	4.7	6.3	6.1	7.7	7.7	7.4
Cash EPS	11.8	9.6	9.0	9.2	8.8	10.4	10.5	11.0
BV/Share	65.1	66.4	97.5	100.6	105.8	111.8	118.3	124.2
DPS	5.0	2.8	2.8	3.6	1.5	1.5	1.3	1.5
Payout (%)	61.6	64.8	68.5	64.9	22.3	19.5	16.2	20.3
<b>Valuation (x)</b>								
P/E					19.5	15.4	15.4	16.1
Cash P/E					13.4	11.4	11.4	10.8
P/BV					1.1	1.1	1.0	1.0
EV/Sales					1.7	1.5	1.5	1.3
EV/EBITDA					10.2	8.1	7.0	6.9
EV/Ton (Cap) - US\$					91	82	76	74
Dividend Yield (%)					1	0.9	0.7	0.9
<b>Return Ratios (%)</b>								
RoE	13.5	8.5	6.3	6.4	5.9	7.1	6.7	6.1
RoCE	14.4	8.9	6.6	6.8	6.5	7.4	7.0	6.4
RoIC	15.4	9.1	9.4	18.2	18.9	23.6	25.3	20.9
<b>Working Capital Ratios</b>								
Asset Turnover (x)	0.9	0.9	0.5	0.5	0.5	0.5	0.4	0.5
Debtor (Days)	8	11.0	15.7	10.7	15.1	16.1	16.2	15.7
Inventory (Days)	32	35	37	37	41	30	34	34
Work Cap (Days)	51	69.6	14.6	19.0	87.3	85.9	104.4	126.7
<b>Leverage Ratio (x)</b>								
Current Ratio	1.4	1.6	1.1	1.1	1.7	1.6	1.7	1.9
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

Y/E December	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>(INR M)</b>								
OP/(Loss) before Tax	19,591	11,166	12,795	16,191	15,061	19,480	20,760	19,785
Depreciation	4,383	7,186	8,489	5,729	5,481	5,438	5,391	7,240
Interest & Finance Charges	-2,025	-1,072	-1,247	-58	-709	-1,515	0	0
Direct Taxes Paid	-4,380	-3,332	-3,187	-3,101	-6,251	-808	-5,398	-5,144
(Inc)/Dec in WC	1,187	82	325	2,136	-6,166	3,877	-835	-1,659
<b>CF from Operations</b>	<b>18,756</b>	<b>14,031</b>	<b>17,173</b>	<b>20,898</b>	<b>7,416</b>	<b>26,472</b>	<b>19,918</b>	<b>20,222</b>
Others	-2,003	1,497	-3,015	-2,356	-2,406	-3,147	0	0
<b>CF from Operating incl EO</b>	<b>16,753</b>	<b>15,528</b>	<b>14,158</b>	<b>18,541</b>	<b>5,009</b>	<b>23,325</b>	<b>19,918</b>	<b>20,222</b>
(Inc)/Dec in FA	-8,202	-6,169	-3,832	-5,427	-5,936	-11,114	-15,575	-5,000
<b>Free Cash Flow</b>	<b>8,551</b>	<b>9,360</b>	<b>10,327</b>	<b>13,115</b>	<b>-927</b>	<b>12,211</b>	<b>4,343</b>	<b>15,222</b>
(Pur)/Sale of Investments	3,601	5,339	-30,859	3,468	3,393	3,734	0	0
Others	-3,810	-1,597	14,253	-4,509	12,476			
<b>CF from Investments</b>	<b>-8,411</b>	<b>-2,426</b>	<b>-20,438</b>	<b>-6,468</b>	<b>9,933</b>	<b>-7,380</b>	<b>-15,575</b>	<b>-5,000</b>
Issue of Shares	-82	-88	868	0	0	0	0	0
Inc/(Dec) in Debt	-1,106	-1,392	-957	-793	216	0	0	0
Interest Paid	-318	-389	-360	-1,143	-513	-558	0	0
Dividend Paid	-6,173	-7,444	-5,516	-5,550	-4,498	-3,320	-2,482	-2,978
Others	508	344	-868	0	12	11	0	0
<b>CF from Fin. Activity</b>	<b>-7,171</b>	<b>-8,969</b>	<b>-6,833</b>	<b>-7,487</b>	<b>-4,784</b>	<b>-3,868</b>	<b>-2,482</b>	<b>-2,978</b>
<b>Inc/Dec of Cash</b>	<b>1,170</b>	<b>4,133</b>	<b>-13,112</b>	<b>4,587</b>	<b>10,158</b>	<b>12,077</b>	<b>1,861</b>	<b>12,244</b>
Opening Balance	23,411	24,581	28,714	15,602	20,189	31,045	40,638	42,498
<b>Closing Balance</b>	<b>24,581</b>	<b>28,714</b>	<b>15,603</b>	<b>20,189</b>	<b>30,347</b>	<b>43,121</b>	<b>42,498</b>	<b>54,742</b>
	<b>24,581</b>	<b>28,714</b>	<b>15,602</b>	<b>20,189</b>	<b>31,045</b>	<b>40,638</b>	<b>42,498</b>	<b>54,742</b>

E: MOFSL Estimates

NOTES



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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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