

Ambuja Cements

BUY**Maintained****Rs221**

Improving margins to narrow valuation gap

Ambuja Cements' (ACEM) various cost optimisation initiatives coupled with MSA synergies with ACC under Mr. Neeraj Akhoury, MD&CEO (also India head, LafargeHolcim) could achieve sustainable cost reduction (at least 15-20% of CY19 EBITDA/te, in our view) over the next few years. Commissioning of 3.1mnte clinkerisation plant at Marwa-Mundwa by H1CY21E would not only lend better volume visibility, but also improve overall profitability. With higher profitability, valuation gap vs peers may narrow. We maintain our CY20E-CY21E EBITDA estimates (~13% ahead of consensus) with the target price unchanged at Rs255/share (10x Mar'22E EV/E). ACEM currently trades at an attractive valuation of 8.3x CY21E EV/E (for consolidated capacity of ~66mnte). Maintain BUY.

- ▶ **ACEM's cost optimisation initiatives under program 'I can'** targets to achieve significant cost savings (at least 15-20% of CY19 EBITDA/te, in our view) via: a) unlocking efficiencies in procurement and supply chain (clinker factor reduction, decrease in spare inventory, source mix optimisation); b) reducing distribution costs (reduction in primary and secondary freight, higher direct despatches, warehousing cost rationalisation); and (c) fixed-cost rationalisation (via renegotiating contracts and curtailing a few expenses). Besides, ACEM plans to set up WHRS plants at Darlaghat and Bhatpara (19.5MW at each location) at a capex of Rs3.8bn by Q4CY21. Subsequently, the company may set up WHRS plants at Maratha and Ambujanagar in addition to solar plants totalling 40MW. Railway sidings project at capex of Rs2.1bn at Rabriyawas, Rajasthan, and underground mining at Gare-Palma coal block (at Rs3.6bn) are expected to be completed over next two years.
- ▶ **MSA with ACC could gain traction** under the leadership of Mr. Neeraj Akhoury, MD&CEO (also India head, LafargeHolcim), and deliver targeted synergies of 3-5% of PBT. ACEM-ACC likely achieved maximum volume swaps and more than doubled synergies during Jun'20 (up from Rs60mn-70mn p.m. during H2CY19) via network optimisation and better realisation, to be shared almost equally.
- ▶ **North expansion and various cost efficiencies to further aid profitable growth.** 3.1mnte clinker line at Marwar Mundwa, Rajasthan, along with 1.8mnte grinding unit is likely to be operational by H1CY21E, in our view. Besides, volumes from this expansion could see quicker ramp-up as it can also be serviced by ACC. This will strengthen ACEM's position in the core markets of North and Gujarat and aid volume growth / profitability from CY21E.
- ▶ **ACEM currently trades at an attractive valuation of 8.3x CY21E EV/E** (>30% discount to 10-year average). Consensus has raised ACEM's CY20E-CY21E EBITDA by ~10% over the past three months and we see upside risk to these estimates. ACEM has net cash of Rs52bn as at Jun'20, which is likely to increase further over CY20-CY22 even after factoring-in capex of Rs26bn.

Market Cap	Rs438bn/US\$5.9bn
Reuters/Bloomberg	ABUJ.BO/ACEM IN
Shares Outstanding (mn)	1,985.6
52-week Range (Rs)	231/136
Free Float (%)	38.7
FII (%)	16.3
Daily Volume (US\$'000)	13,466
Absolute Return 3m (%)	17.1
Absolute Return 12m (%)	8.9
Sensex Return 3m (%)	28.5
Sensex Return 12m (%)	5.4

Year to Dec	CY18	CY19	CY20E	CY21E
Revenue (Rs mn)	260,409	2,71,036	2,42,651	2,88,240
EBITDA (Rs mn)	40,108	45,970	46,202	54,769
Net Income (Rs)	13,687	18,407	20,651	25,067
% Chg YoY	(4.8)	34.5	12.2	21.4
P/E (x)	32.6	23.8	21.3	17.5
CEPS (Rs)	12.7	15.1	16.3	18.6
EV/E (x)	12.5	10.3	9.8	8.3
Dividend Yield	0.7	0.7	0.6	0.7
RoCE (%)	6.6	8.0	8.4	9.4
RoE (%)	6.4	7.9	8.3	9.3

Company update

Cement

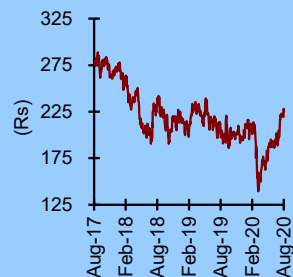
Target price Rs255

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	63.4	63.3	63.3
Institutional investors	29.7	29.8	29.9
MFs and others	5.5	7.0	6.9
FIs/Bank/Ins	7.8	7.0	6.7
FPI	16.4	15.8	16.3
Others	6.9	6.9	6.8

Source: NSE

Price chart



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Chart 1: Clinker factor improved marginally YoY in CY19

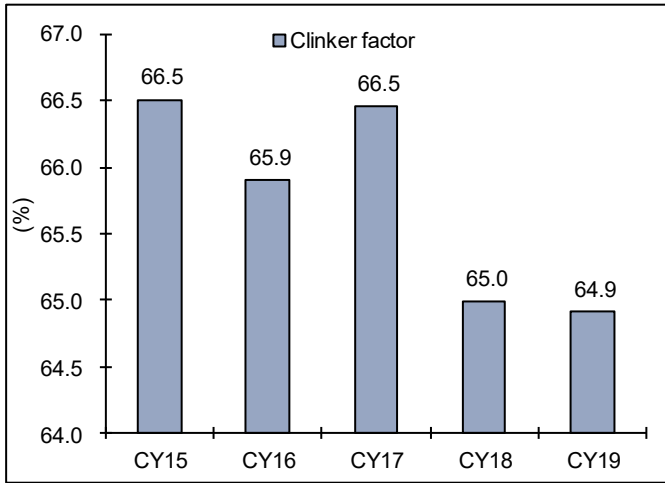


Chart 2: Fly ash utilisation broadly flat YoY in CY19

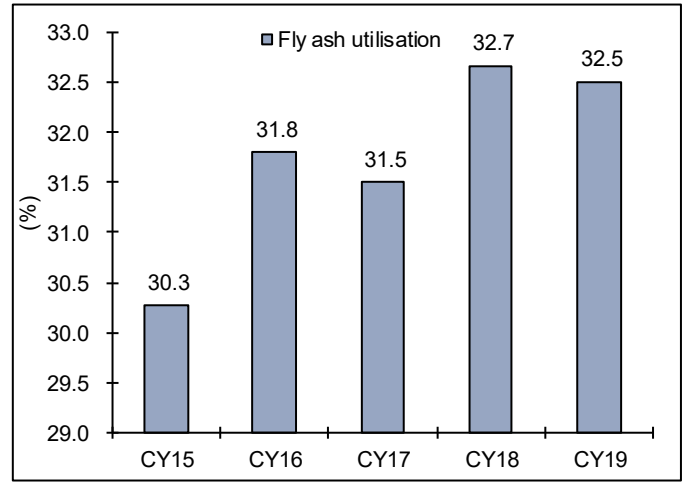


Chart 3: Power consumption broadly stood flat YoY...

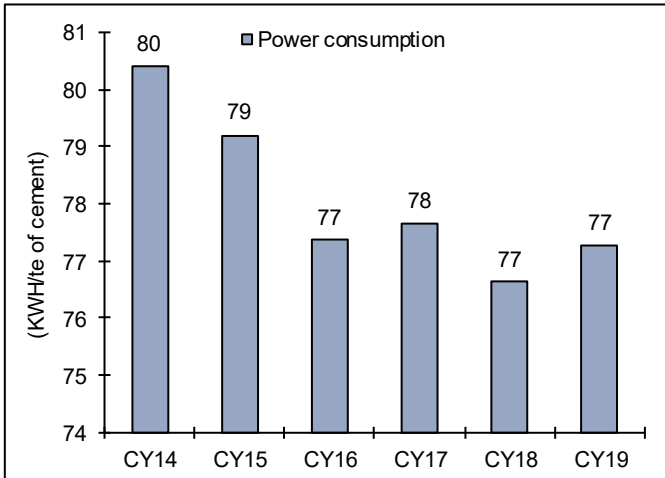


Chart 4: ...while fuel consumption has increased

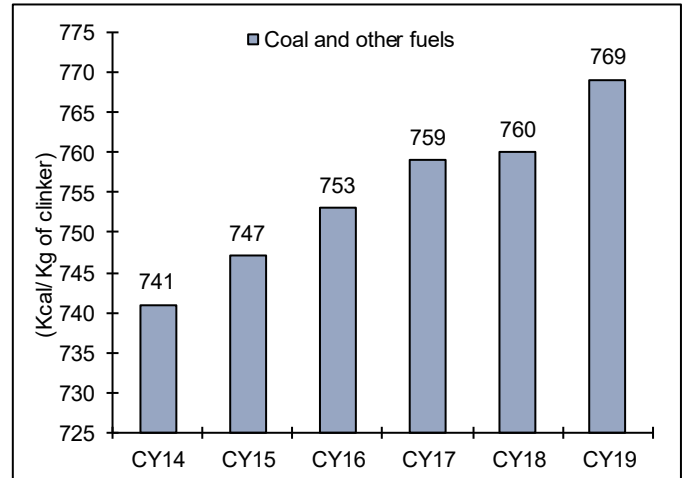
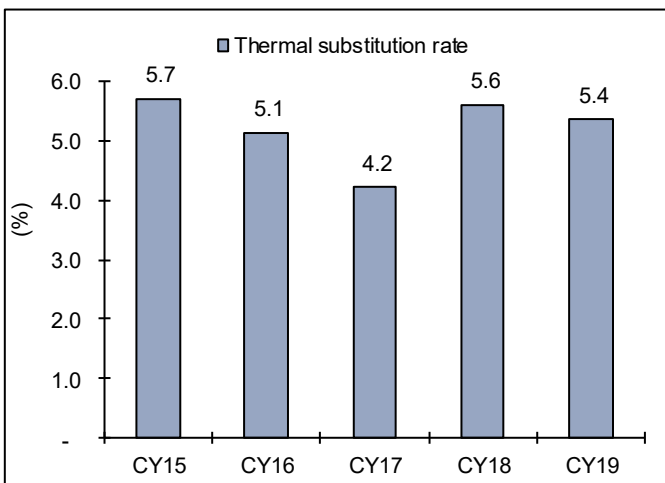
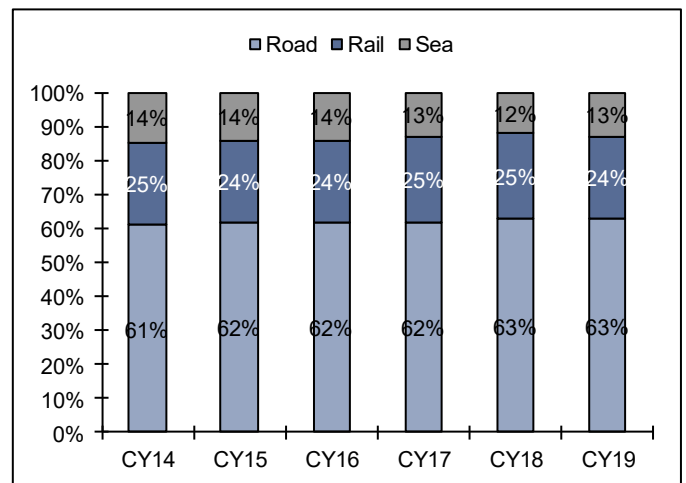


Chart 5: AFR usage remained at >5% in CY19



Source: Company data, I-Sec research

Chart 6: Share of road despatches has increased steadily



Source: Company data, I-Sec research

Table 1: Performance trend and assumptions for estimates (standalone)*(mn)*

	CY16	CY17	CY18	CY19	CY20E	CY21E
Capacity	29.7	29.7	29.7	29.7	29.7	31.5
Production	21.2	23.0	24.2	24.0	21.6	25.2
Capacity utilisation (%)	77	82	87	86	77	80
Volume (incl clinker)	21.6	23.0	24.3	24.1	21.6	25.2
Growth (%)	(1.1)	6.7	5.4	(0.8)	(10.4)	17.0
Realisation (Rs/te)	4,257	4,455	4,525	4,717	4,873	4,961
Growth (%)	(0.5)	4.7	1.6	4.2	3.3	1.8

Source: Company data, I-Sec research; Financials from CY17 based on Ind-AS

Table 2: Per-tonne analysis (standalone)*(Rs/te)*

	CY16	CY17	CY18	CY19	CY20E	CY21E
Net sales	4,249	4,455	4,525	4,717	4,873	4,961
Raw material consumed	616	655	696	755	769	792
Power & Fuel costs	850	970	1,051	1,075	1,015	1,043
Freight costs	877	961	1,044	998	962	981
Other expenses	1,176	1,134	1,111	1,127	1,108	1,092
Total operating expenses	3,518	3,721	3,902	3,955	3,855	3,908
Other operating income	50	89	157	131	73	47
EBITDA	780	824	780	893	1,091	1,100

Source: Company data, I-Sec research; Financials from CY17 based on Ind-AS

Table 3: SoTP-based valuation (standalone) on 10x Mar'22 EV/E*(Rs mn)*

Target EV/ EBITDA multiple (x)	10
Target EV (Rs mn)	296,157
Net debt / (cash) (Rs mn)	(56,346)
Target value (Rs mn)	352,503
No. of shares (mn)	1,986
Target price per share (Rs) for core ACEM	178
Proportionate 50% stake in ACC - per share	77
Target price per share (Rs)	255

Source: I-Sec research

Table 4: SoTP-based valuation (consolidated) on 10x Mar'22 EV/E*(Rs mn)*

Target multiple	10
Target EV	544,944
Add: Net cash	(113,815)
Target equity value	658,759
Target equity value/ share	332
Less: Minority interest in ACC at our target price	77
Target price per share (Rs)	255

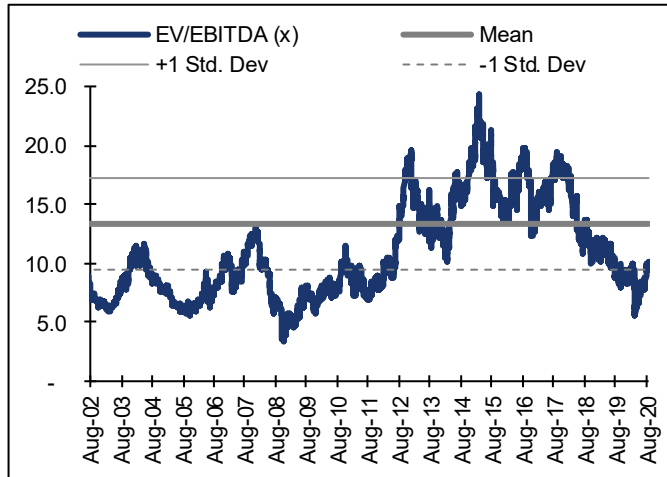
Source: I-Sec research

Table 5: Our CY20-CY21 EBITDA estimates are ~13% ahead of consensus

	I-Sec		Consensus		% chg	
	CY20E	CY21E	CY20E	CY21E	CY20E	CY21E
Revenues	1,06,707	1,26,394	1,04,256	1,21,314	2.4	4.2
EBITDA	23,546	27,754	21,213	24,590	11.0	12.9
PAT	15,507	18,538	14,417	16,373	7.6	13.2

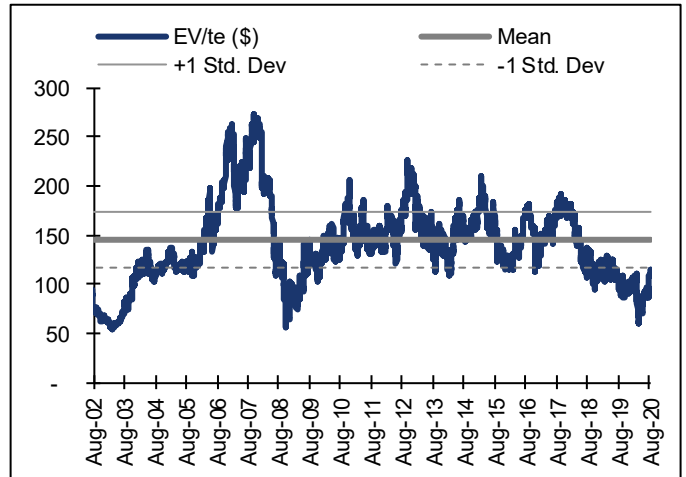
Source: Bloomberg, I-Sec research

Chart 7: Rolling EV/EBITDA band



Source: I-Sec research

Chart 8: Rolling EV/te



Financial summary (standalone)

Table 6: Profit and loss statement

(Rs mn, year ending December 31)

	CY18	CY19	CY20E	CY21E
Operating Income (Sales)	109,770	1,13,530	1,05,133	1,25,213
Other operating income	3,798	3,149	1,574	1,181
Operating Expenses	94,653	95,190	83,161	98,640
EBITDA	18,915	21,489	23,546	27,754
% margin	16.7	18.4	22.1	22.0
Depreciation & Amortisation	5,481	5,438	5,297	5,395
Gross Interest	823	835	851	861
Other Income	3,391	4,265	4,442	4,612
Recurring PBT	16,002	19,480	21,841	26,111
Add: Extraordinaries	3,229	1,549	-	-
Less: Taxes	4,361	5,743	6,334	7,572
- Current tax	5,230	6,246	6,280	7,517
- Deferred tax	(869)	(502)	54	55
Net Income (Reported)	14,870	15,285	15,507	18,538
Recurring Net Income	11,641	13,737	15,507	18,538

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending December 31)

	CY18	CY19	CY20E	CY21E
Assets				
Total Current Assets	43,736	55,549	65,250	70,338
Current Liab. & Prov.	37,623	45,342	45,165	47,607
Net Current Assets	6,113	10,207	20,085	22,731
Investments of which	145,394	1,45,147	1,45,147	1,45,147
Strategic/Group	118,138	1,17,890	1,17,890	1,17,890
Marketable	27,257	27,257	27,257	27,257
Net Fixed Assets*	62,736	69,212	72,187	84,847
of which				
Capital Work-in-Progress	6,100	11,087	1,109	1,164
Total Assets	214,244	2,24,565	2,37,418	2,52,725
of which cash & cash equi.	33,300	46,995	54,958	55,058
Liabilities				
Borrowings	397	353	353	353
Deferred Tax Liability	3,722	2,161	2,215	2,270
Equity Share Capital	3,971	3,971	3,971	3,971
Face value per share (Rs)	2	2	2	2
Reserves & Surplus	206,154	2,18,081	2,30,879	2,46,131
Less: Misc. Exp	-	-	-	-
Net Worth	210,125	2,22,052	2,34,851	2,50,102
Total Liabilities	214,244	2,24,565	2,37,418	2,52,725

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending December 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	25,560	30,380	27,600	21,450
% growth (YoY)	1.3	9.9	(3.1)	(26.3)
Recurring EBITDA	4,398	5,474	6,032	5,952
Margin (%)	17.2	18.0	21.9	27.7
Other income	628	656	881	1,992
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	2,346	3,516	3,991	4,534

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending December 31)

	CY18	CY19	CY20E	CY21E
Operating Cashflow	11,372	20,405	16,626	19,533
Working Capital changes	(6,166)	3,877	(2,126)	(2,702)
Capital Commitments	(5,936)	(11,114)	(8,272)	(18,055)
Net Operating FCF	(730)	13,168	6,229	(1,225)
Investing Activities	3,393	3,734	4,442	4,612
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	216	-	-	-
Dividend paid	(4,498)	(3,320)	(2,708)	(3,287)
Others	12	11	0	(0)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	(1,608)	13,592	7,963	100

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending December 31)

	CY18	CY19	CY20E	CY21E
Per Share Data (Rs)				
EPS(Basic)	7.5	7.7	7.8	9.3
Diluted Recurring EPS	5.9	6.9	7.8	9.3
Diluted Recurring CEPS	8.6	9.7	10.5	12.1
Dividend per share	1.5	1.5	1.4	1.7
Book Value	46	52	59	67
Growth Ratios (% YoY)				
Operating Income	8.6	2.7	(8.5)	18.4
EBITDA	(0.2)	13.6	9.6	17.9
Recurring Net Income	(3.4)	18.0	12.9	19.5
Diluted Recurring EPS	(3.4)	18.0	12.9	19.5
Diluted Recurring CEPS	(3.7)	12.0	8.5	15.0
Valuation Ratios (x)				
P/E	37.7	31.9	28.3	23.7
P/CEPS	25.6	22.9	21.1	18.3
P/BV	4.8	4.2	3.8	3.3
EV / EBITDA	14.6	12.2	10.8	9.3
EV / te (US\$)	124	118	115	109
EV / Operating Income	3.6	3.4	3.6	3.0
EV / Operating FCF	44.3	10.9	17.6	22.8
Operating Ratios (%)				
Raw Material / Sales	26	27	25	26
Other expenses / Sales	60	57	54	53
Other Income / PBT	21	22	20	18
Effective Tax Rate	27	29	29	29
NWC / Total Assets	0.0	(0.0)	(0.0)	(0.0)
Inventory (x)	5.1	5.5	5.6	6
Receivables (days)	13	16	17	16
Payable (days)	42	39	38	32
D/E Ratio (x)	(0.1)	(0.2)	(0.2)	(0.2)
Profitability Ratios (%)				
Rec. Net Income Margins	10.0	11.4	14.0	14.2
RoCE	11.9	12.8	13.1	14.1
RoNW	11.8	12.7	12.8	13.9
Dividend Payout	25.6	21.7	17.5	17.7

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 11: Profit and loss statement

(Rs mn, year ending December 31)

	CY18	CY19	CY20E	CY21E
Operating Income (Sales)	260,409	2,71,036	2,42,651	2,88,240
Operating Expenses	220,302	2,25,066	1,96,449	2,33,471
EBITDA	40,108	45,970	46,202	54,769
% margin	15.4	17.0	19.0	19.0
Depreciation & Amortisation	11,539	11,525	11,785	11,905
Gross Interest	1,705	1,699	1,472	1,494
Other Income	3,356	4,813	5,554	5,614
Recurring PBT	30,219	37,559	38,624	47,121
Add: Extraordinaries	8,095	2,543	-	-
Less: Taxes	8,704	12,470	11,764	14,256
- Current tax	9,886	13,163	11,348	13,755
- Deferred tax	(1,182)	(693)	416	501
Less: Minority interest	7,953	6,882	6,335	7,798
Net Income (Reported)	21,782	20,950	20,651	25,067
Recurring Net Income	13,687	18,407	20,651	25,067

Source: Company data, I-Sec research

Table 12: Balance sheet

(Rs mn, year ending December 31)

	CY18	CY19	CY20E	CY21E
Assets				
Total Current Assets	100,888	1,07,591	1,31,238	1,40,176
Current Liab. & Prov.	85,841	93,956	95,293	1,02,345
Net Current Assets	15,047	13,636	35,945	37,831
Investments of which	55,962	71,633	71,189	71,189
Strategic/Group	1,332	1,459	1,015	1,015
Marketable	54,630	70,174	70,174	70,174
Net Fixed Assets*	137,742	1,43,743	1,45,364	1,71,679
of which				
Capital Work-in-Progress	10,082	15,544	10,902	3,123
Goodwill	78,815	78,815	78,815	78,815
Total Assets	287,566	3,07,826	3,31,313	3,59,515
of which cash & cash equi.	64,393	93,583	1,12,490	1,10,853
Liabilities				
Borrowings	397	353	353	353
Deferred Tax Liability	11,153	9,326	8,903	9,092
Minority Interest	52,312	57,368	63,335	69,567
Equity Share Capital	3,971	3,971	3,971	3,971
Face value per share (Rs)	2	2	2	2
Reserves & Surplus	219,734	2,36,809	2,54,751	2,76,531
Less: Misc. Exp	-	-	-	-
Net Worth	223,705	2,40,780	2,58,723	2,80,503
Total Liabilities	287,566	3,07,826	3,31,313	3,59,515

Source: Company data, I-Sec research

Table 13: Quarterly trend

(Rs mn, year ending December 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	59,570	69,630	61,290	45,440
% growth (YoY)	1.4	6.4	(8.4)	(34.4)
Recurring EBITDA	9,989	11,173	11,913	11,222
Margin (%)	16.8	16.0	19.4	24.7
Other income	1,125	952	1,418	1,108
Extraordinary Inc / (Loss)	-	1,033	-	-
Recurring Net Income	3,851	4,883	5,543	4,571

Table 14: Cashflow statement

(Rs mn, year ending December 31)

	CY18	CY19	CY20E	CY21E
Operating Cashflow	26,373	39,745	29,042	32,229
Working Capital changes	(10,261)	6,512	(5,244)	(3,893)
Capital Commitments	(10,918)	(16,070)	(12,866)	(38,220)
Net Operating FCF	5,194	30,186	10,933	(9,885)
Investing Activities	3,256	4,142	5,554	5,614
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	216	-	-	-
Dividend paid	(6,495)	(5,174)	(2,708)	(3,287)
Others	12	11	5,128	5,921
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	2,182	29,165	18,907	(1,637)

Source: Company data, I-Sec research

Table 15: Key ratios

(Year ending December 31)

	CY18	CY19	CY20E	CY21E
Per Share Data (Rs)				
EPS(Basic)	11.0	10.6	10.4	12.6
Diluted Recurring EPS	6.9	9.3	10.4	12.6
Diluted Recurring CEPS	12.7	15.1	16.3	18.6
Dividend per share	1.5	1.5	1.4	1.7
Book Value	113	121	130	141
Growth Ratios (% YoY)				
Operating Income	10.3	4.1	(10.5)	18.4
EBITDA	6.2	14.6	0.5	17.9
Recurring Net Income	(4.8)	34.5	12.2	19.5
Diluted Recurring EPS	(4.8)	34.5	12.2	21.4
Diluted Recurring CEPS	(5.0)	18.7	8.4	14.0
Valuation Ratios (x)				
P/E	32.6	23.8	21.3	17.5
P/CEPS	17.4	14.7	13.5	11.9
P/BV	2.0	1.8	1.7	1.6
EV / EBITDA	12.5	10.3	9.8	8.3
EV / te (US\$)	114	101	97	91
EV / Operating Income	1.4	1.3	1.3	1.1
EV / Operating FCF	43.4	8.8	13.7	11.6
Operating Ratios (%)				
Raw Material / Sales	17	18	16	17
Other expenses / Sales	58	52	52	52
Other Income / PBT	11	13	14	12
Effective Tax Rate	29	33	30	30
NWC / Total Assets	0.0	(0.0)	(0.0)	(0.0)
Inventory (x)	1.7	1.9	2.0	2.2
Receivables (days)	16	16	18	17
Payable (days)	48	43	41	37
D/E Ratio (x)	(0.2)	(0.3)	(0.4)	(0.4)
Profitability Ratios (%)				
Rec. Net Income Margins	5.2	6.7	8.3	8.5
RoCE	6.6	8.0	8.4	9.4
RoNW	6.4	7.9	8.3	9.3
Dividend Payout	21.8	16.2	13.1	13.1

Source: Company data, I-Sec research

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