

Accumulate

View: Fair valuation; maintain Accumulate

- Revenue, APAT and volumes were above estimates whereas realizations and EBITDA/tn in line.
- ACEM posted 12.1% YoY growth in revenue to Rs35.2 bn due to 7.2% YoY volume growth to 7.0 mt and +4.6% YoY (-0.3% QoQ) realization growth to Rs5,014. EBITDA increased by 40.3% YoY to Rs7.7 bn and APAT increased by 65.7% YoY to Rs5.0 bn. ACEM has declared dividend of Rs1/ share along with an interim dividend of Rs17/sh in Oct'20, resulting in huge cash outflow Rs36.6 bn in CY20. Cash on books as on Dec'20 stood at Rs29.2 bn.
- We expect 9.4%/ 8.2%/ 5.7% revenue/ EBITDA/ APAT CAGR over CY20-22E led by 13.8%/ 4.5% volume growth and -0.3%/ 1.0% cement realization growth in CY21E/ CY22E.
- We broadly maintain our CY21E/ CY22E estimates. The full benefit of uptick in volumes from planned expansion (3.1mtpa clinker and 1.8mtpa grinding at Marwar Mundwa in Rajasthan) will come in CY22E.
- The stock has run up 11% since our Q3CY20 result update note dated 22 Oct'20 thus leaving limited upside. Thus, we maintain Accumulate with a revised TP of Rs290 based on (12x standalone CY22E EV/EBITDA) and ACEM's 50% stake in ACC at 20% holding discount.

EBITDA/tn up 30.9%/ -8.7% YoY/ QoQ

Higher than estimated volume (+7.2% YoY/ +23.6% QoQ to 7.0 mt), in line realization (+4.6% YoY/ -0.3% QoQ to Rs5,014/tn), combined with in line operating cost/tn (-1.0% YoY/ +2.3% QoQ to Rs3,919) helped ACEM to post strong 30.9% YoY growth in EBITDA/tn to Rs1,095/tn. For CY20, EBITDA/tn grew 30.4% YoY to Rs1,170/ tn led by 3.1% YoY realization growth to Rs5,025/ tn coupled with lower cost/tn of 3.0% YoY to Rs3,856/ tn.

Q4CY20 Result (Rs Mn)

Particulars	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)
Revenue	35,151	31,359	12.1	28,525	23.2
Total Expense	27,473	25,885	6.1	21,721	26.5
EBITDA	7,678	5,474	40.3	6,803	12.9
Depreciation	1,257	1,487	(15.4)	1,287	(2.3)
EBIT	6,421	3,987	61.0	5,517	16.4
Other Income	394	656	(39.9)	523	(24.5)
Interest	233	237	(1.6)	185	26.2
EBT	6,583	4,407	49.4	5,855	12.4
Tax	1,612	(142)	(1232.7)	1,450	11.2
RPAT	4,971	4,549	9.3	4,405	12.8
APAT	4,971	3,000	65.7	4,405	12.8
			(bps)		(bps)
Gross Margin (%)	42.6	40.4	221	45.0	(239)
EBITDA Margin (%)	21.8	17.5	439	23.9	(201)
NPM (%)	14.1	14.5	(36)	15.4	(130)
Tax Rate (%)	24.5	(3.2)	2771	24.8	(27)
EBIT Margin (%)	18.3	12.7	555	19.3	(107)

CMP	Rs 283
Target / Upside	Rs 290 / 3%
NIFTY	15,119

Scrip Details

Equity / FV	Rs 3,971mn / Rs 2
Market Cap	Rs 562bn
	USD 8bn
52-week High/Low	Rs 291/ 137
Avg. Volume (no)	77,44,270
Bloom Code	ACEM IN
Price Performance	1M 3M 12M
Absolute (%)	8 9 37
Rel to NIFTY (%)	4 (8) 13

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	63.3	63.3	63.3
MF/Banks/FIs	13.6	13.3	11.5
FIIIs	16.3	16.8	18.1
Public / Others	6.9	6.7	7.1

Valuation (x)

	CY20A	CY21E	CY22E
P/E	31.4	30.2	28.1
EV/EBITDA	20.1	18.6	16.7
ROE (%)	8.4	8.8	8.9
RoACE (%)	8.7	9.1	9.1

Estimates (Rs mn)

	CY20A	CY21E	CY22E
Revenue	1,13,719	1,28,976	1,36,144
EBITDA	26,466	28,567	31,002
PAT	17,901	18,586	20,014
EPS (Rs.)	9.0	9.4	10.1

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Key highlights from management presentation

ACEM has renewed existing Master Supply Agreement ('MSA') with ACC for a period of 3 years w.e.f. May 03, 2021, on the same terms and conditions of the existing MSA. Cement industry has strong linkages with other sectors such as Infrastructure, Real Estate, Housing and Commercial segment. Post recovery from COVID-19, it is expected that cement demand will grow in range of 15-17% YoY for CY21.

Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	35,151	33,391	5.3	+5.1%/ +0.2% higher/ higher than estimated volume/ realization
EBITDA (Rs mn)	7,678	7,272	5.6	+0.2%/ +0.1% higher/ higher than estimated realization/ cost
EBITDA%	21.8	21.8	7 bps	
PAT (Rs mn)	4,971	4,279	16.2	Led by lower depreciation and interest cost coupled with higher other income

Source: Company, DART

Exhibit 2: Change in estimates - Broadly maintain CY21E/ CY22E estimates

(Rs mn)	CY21E			CY22E		
	New	Old	% change	New	Old	%change
Net revenues	1,28,976	1,24,569	3.5	1,36,144	1,32,775	2.5
EBIDTA	28,567	28,089	1.7	31,002	30,127	2.9
EBIDTA margin (%)	22.1	22.5	(40)	22.8	22.7	8
Adj. Net Profit	18,586	17,502	6.2	20,014	19,211	4.2
EPS (₹)	9.4	8.8	6.2	10.1	9.7	4.2

Source: DART, Company

Key earnings takeaways

Demand

- Demand continues to be strong and rural India continues to outperform vs. Urban India. Megatrends for demand continue to be increasing population, nuclearisation, increasing urbanization and govt. focus.
- Expect strong demand rebound in CY21E. Expect industry demand to grow by 15-17% from 295-300mt in CY20 to 345-350mt in CY21E. Utilization of cement industry is expected to remain high.
- Ambuja's focus will be on retail segment and to increase market share via volumes.
- Increase in demand in CY21E will come from Housing, Infra and Industrial & Commercial segment. CY21E volumes are expected to grow 5-7% vs. CY20 and double digit growth in CY21E vs. CY20.
- Current utilization is 80%+.
- Trade segment is 80% and premium cement is 12% in Q4CY20 vs. 8% in Q1CY20 of trade segment in Q4CY20. Premium cement has increased 16% YoY.
- 'Kawach' a premium cement brand is an expensive product (Rs50/ bag higher vs. base product). Fixed price for entire year.
- MSA agreement helped Ambuja increase its utilization levels and helped ACC to increase its volumes. MSA led to direct addition of Rs2.5 bn to EBITDA. MSA will help to add 5%+/ 5% on PBT levels to Ambuja/ ACC.

- Ambuja directionally moving towards increase in market share.
- Will utilize underutilized grinding capacities between ACC and Ambuja.

Cost

- Ambuja has saved Rs200/tn in CY20 led by cost efficiencies like “I CAN program” and MSA.
- Ambuja doesn't keep petcoke inventory of more than 2-3 months as they don't believe in speculation.
- Will absorb fly ash in North region to help manage clinker factor.
- Other expenses will increase with increase in volumes.

Expansion & Capex

- Expect Marwar Mundwa plant (1.8mtpa GU + 3mtpa Clinker) to commission by Jun'21. Volumes will accelerate post this expansion and expect full ramp up in CY22E.
- Post Marwar Mundwa plant, Ambuja's plans are underway where they have base for raw materials, Like they plan to utilize Bhatapara raw materials to expand in East and Maratha raw materials to expand in West regions. Ambuja has enough money to fund capex even after paying huge dividend (Rs.17+1/share).
- Expect green power contribution to increase from 5% (CY20) to 38% (CY22E). Expect WHRS capacity to increase from 2% now to 21%+ by CY22E. 54MW WHRS plants in Darlaghat, Bhatapara and Marwar Mundwa will commence by CY22E. Couple of plants are expected to commence in Ambuja Nagar and Maratha as well. Capex for WHRS plants is Rs90mn per MW. Solar capacity contribution is also expected to move higher than 15%.
- Current WHRS capacity is 6.5 MW and 53.4 MW capex is going on and expect additional 30 MW soon. Current TPP capacity is 291 MW.
- Will focus on clinker factor in CY21E as well as on special products and premium cement.
- By end of CY21E, will decide on new capex plans.
- Greenfield expansion takes 15-16 months to commence once land is secured and brownfield takes 12-13 months to commence.

Exhibit 3: Income statement (standalone)

Rs mn	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)	CY20	CY19	YoY (%)
Revenue from operation	35,151	31,359	12.1	28,525	23.2	1,13,719	1,16,732	(2.6)
Other Operating Income	0	0	-	0	-	0	0	-
Total Revenue	35,151	31,359	12.1	28,525	23.2	1,13,719	1,16,732	(2.6)
Raw Material Cost	4,486	3,633	23.5	2,547	76.1	11,863	11,255	5.4
Employee Expenses	1,850	1,690	9.5	1,622	14.0	6,688	6,726	(0.6)
Power and Fuel	7,010	6,692	4.7	5,749	21.9	22,519	25,864	(12.9)
Freight Cost	8,690	8,377	3.7	7,404	17.4	28,549	30,942	(7.7)
Other expenses	5,437	5,493	(1.0)	4,400	23.6	17,634	20,456	(13.8)
Total Expenditure	27,473	25,885	6.1	21,721	26.5	87,253	95,243	(8.4)
PBIDT (Excl. OI)	7,678	5,474	40.3	6,803	12.9	26,466	21,489	23.2
Other Income	394	656	(39.9)	523	(24.5)	3,720	4,265	(12.8)
Depreciation	1,257	1,487	(15.4)	1,287	(2.3)	5,212	5,438	(4.2)
EBIT	6,816	4,643	46.8	6,039	12.9	24,974	20,315	22.9
Interest	233	237	(1.6)	185	26.2	831	835	(0.6)
PBT (Excl. Exceptional Items)	6,583	4,407	49.4	5,855	12.4	24,144	19,480	23.9
Exceptional Items	0	0	-	0	-	0	0	-
PBT (Incl. Exceptional Items)	6,583	4,407	49.4	5,855	12.4	24,144	19,480	23.9
Tax	1,612	(142)	-	1,450	11.2	6,242	4,195	48.8
RPAT	4,971	4,549	9.3	4,405	12.8	17,901	15,285	17.1
Adjustment	0	(1,549)	-	0	-	0	-1,549	-
APAT	4,971	3,000	65.7	4,405	12.8	17,901	13,737	30.3
Adj. EPS (Rs)	2.50	1.51	65.7	2.22	12.8	9.02	6.92	30.3
			bps		bps			bps
EBIDTA Margin (excl. O.I.)	21.8	17.5	439	23.9	(201)	23.3	18.4	486
Tax Rate (%)	24.5	(3.2)	-	24.8	(27)	25.9	21.5	432
NPM (%)	14.1	9.6	457	15.4	(130)	15.7	11.8	397

Source: Company, DART

Exhibit 4: Volume, Realization and Cost/tn Analysis

Particulars	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)	CY20	CY19	YoY (%)
Volume (mt)	7.0	6.5	7.2	5.7	23.6	22.6	24.0	(5.6)
Realization/ tn (Rs)	5,014	4,795	4.6	5,031	(0.3)	5,025	4,872	3.1
EBITDA/ tn (Rs)	1,095	837	30.9	1,200	(8.7)	1,170	897	30.4
Cost/ tn (Rs)	3,919	3,958	(1.0)	3,831	2.3	3,856	3,975	(3.0)
Raw Material Cost/ tn (Rs)	640	555	15.2	449	42.5	524	470	11.6
Employee Expenses/ tn (Rs)	264	258	2.1	286	(7.8)	296	281	5.3
Power and Fuels/ tn (Rs)	1,000	1,023	(2.3)	1,014	(1.4)	995	1,079	(7.8)
Freight Expenses/ tn (Rs)	1,240	1,281	(3.2)	1,306	(5.1)	1,262	1,291	(2.3)
Other expenses/ tn (Rs)	776	840	(7.7)	776	(0.0)	779	854	(8.7)

Source: Company, DART

Exhibit 5: % of Revenue

Particulars	Q4CY20	Q4CY19	YoY (%)	Q3CY20	QoQ (%)	CY20	CY19	YoY (%)
Raw Material Cost	12.8	11.6	118	8.9	383	10.4	9.6	79
Employee Expenses	5.3	5.4	(13)	5.7	(42)	5.9	5.8	12
Power and Fuels	19.9	21.3	(140)	20.2	(21)	19.8	22.2	(235)
Freight Expenses	24.7	26.7	(199)	26.0	(123)	25.1	26.5	(140)
Other expenses	15.5	17.5	(205)	15.4	4	15.5	17.5	(202)

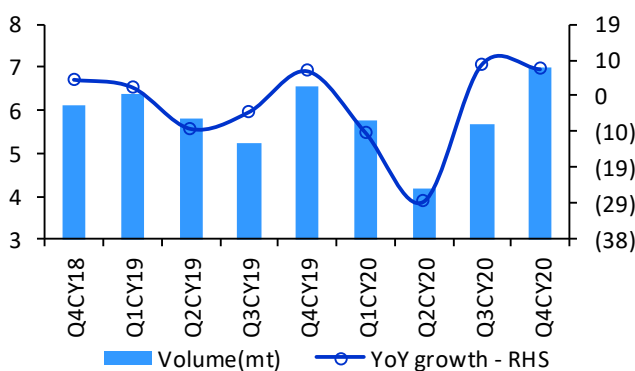
Source: Company, DART

Exhibit 6: Valuation

Particulars	(Rs mn)
Assumed EV/EBITDA multiple (x)	12
EBITDA (CY22E)	31,002
EV	3,72,024
Less: Net Debt (CY22E)	(42,783)
MCap	4,14,807
Shares o/s	1,986
(a) Value/share (Rs)	209
ACC Mcap based on our TP	4,01,677
ACEM's stake (50.05%) value in ACC	2,01,039
Holding company discount (%)	20
ACEM's stake value in ACC post discount	1,60,831
(b) Value/share (Rs)	81
Target price (Rs) (a+b)	289.9
CMP (Rs)	282.8
Up/(down)side (%)	2.5

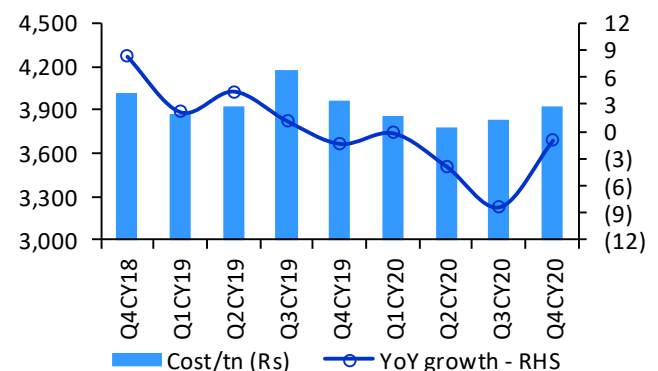
Source: Company, DART

Exhibit 7: Volume (mt)



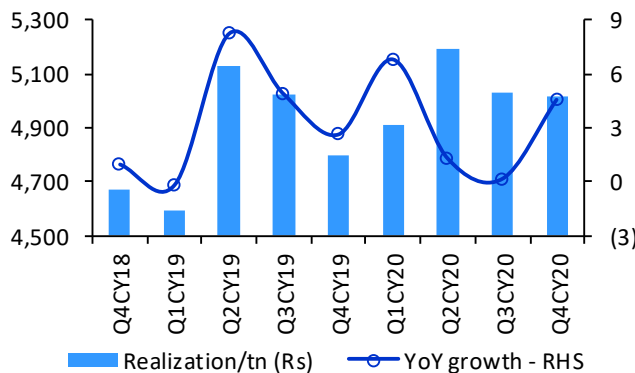
Source: Company, DART

Exhibit 8: Cost/tn (Rs)



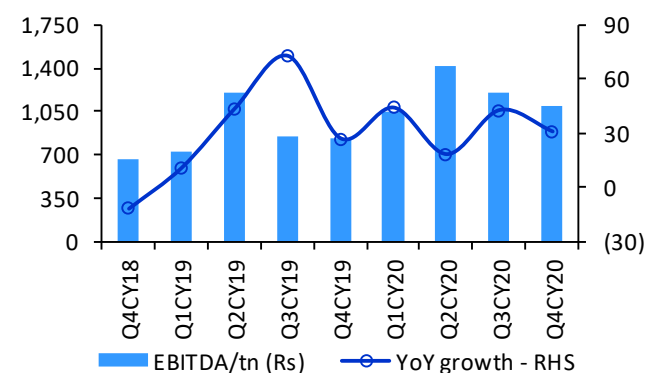
Source: Company, DART

Exhibit 9: Realization/tn (Rs)



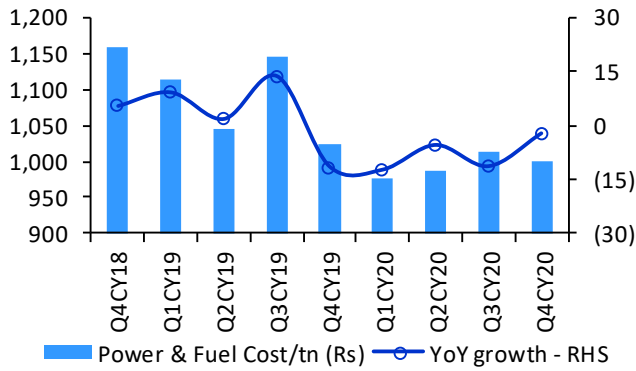
Source: Company, DART

Exhibit 10: EBITDA/tn (Rs)



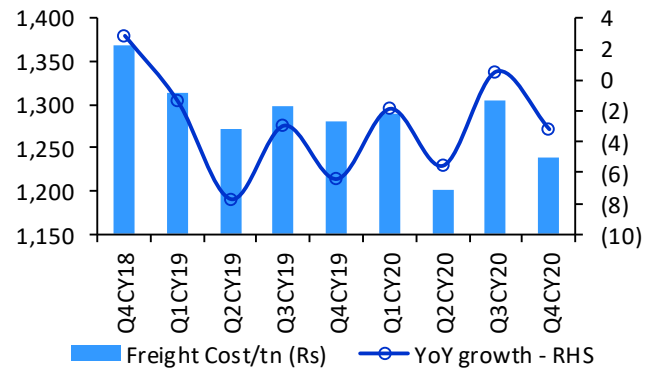
Source: Company, DART

Exhibit 11: Power & fuel cost/tn (Rs)



Source: Company, DART

Exhibit 12: Freight cost/tn (Rs)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	CY19A	CY20A	CY21E	CY22E
Revenue	1,16,679	1,13,719	1,28,976	1,36,144
Total Expense	95,190	87,253	1,00,409	1,05,142
COGS	68,061	62,931	71,956	74,999
Employees Cost	6,726	6,688	7,490	8,015
Other expenses	20,403	17,634	20,963	22,128
EBIDTA	21,489	26,466	28,567	31,002
Depreciation	5,438	5,212	6,132	7,062
EBIT	16,050	21,254	22,435	23,940
Interest	835	831	831	831
Other Income	4,265	3,720	3,233	3,635
Exc. / E.O. items	0	0	0	0
EBT	19,480	24,144	24,837	26,745
Tax	4,195	6,243	6,252	6,732
RPAT	15,285	17,901	18,586	20,014
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	15,285	17,901	18,586	20,014

Balance Sheet

(Rs Mn)	CY19A	CY20A	CY21E	CY22E
Sources of Funds				
Equity Capital	3,971	3,971	3,971	3,971
Minority Interest	0	0	0	0
Reserves & Surplus	2,18,081	1,99,187	2,13,802	2,29,844
Net Worth	2,22,052	2,03,159	2,17,773	2,33,815
Total Debt	353	436	282	212
Net Deferred Tax Liability	2,161	1,860	1,860	1,860
Total Capital Employed	2,24,565	2,05,454	2,19,915	2,35,887

Applications of Funds

Net Block	58,125	59,315	79,183	77,122
CWIP	11,087	18,737	4,000	10,000
Investments	1,17,890	1,17,922	1,17,922	1,17,922
Current Assets, Loans & Advances	82,806	58,839	69,458	84,149
Inventories	9,541	7,466	10,085	10,614
Receivables	5,132	1,915	5,425	5,710
Cash and Bank Balances	46,995	29,243	30,356	42,995
Loans and Advances	45	44	49	52
Other Current Assets	21,093	20,170	23,543	24,779
Less: Current Liabilities & Provisions	45,342	49,360	50,649	53,306
Payables	9,360	8,809	9,894	10,413
Other Current Liabilities	35,982	40,551	40,755	42,893
	<i>sub total</i>			
Net Current Assets	37,464	9,480	18,809	30,843
Total Assets	2,24,565	2,05,454	2,19,915	2,35,887

E – Estimates

Important Ratios

Particulars	CY19A	CY20A	CY21E	CY22E
(A) Margins (%)				
Gross Profit Margin	41.7	44.7	44.2	44.9
EBIDTA Margin	18.4	23.3	22.1	22.8
EBIT Margin	13.8	18.7	17.4	17.6
Tax rate	21.5	25.9	25.2	25.2
Net Profit Margin	13.1	15.7	14.4	14.7
(B) As Percentage of Net Sales (%)				
COGS	58.3	55.3	55.8	55.1
Employee	5.8	5.9	5.8	5.9
Other	17.5	15.5	16.3	16.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	19.2	25.6	27.0	28.8
Inventory days	30	24	29	28
Debtors days	16	6	15	15
Average Cost of Debt	222.8	210.6	231.2	336.1
Payable days	29	28	28	28
Working Capital days	117	30	53	83
FA T/O	2.0	1.9	1.6	1.8
(D) Measures of Investment				
AEPS (Rs)	7.7	9.0	9.4	10.1
CEPS (Rs)	10.4	11.6	12.4	13.6
DPS (Rs)	2.4	18.0	2.0	2.0
Dividend Payout (%)	31.3	199.7	21.4	19.8
BVPS (Rs)	111.8	102.3	109.7	117.8
RoANW (%)	7.1	8.4	8.8	8.9
RoACE (%)	7.3	8.7	9.1	9.1
RoAIC (%)	9.0	12.0	12.3	12.5
(E) Valuation Ratios				
CMP (Rs)	283	283	283	283
P/E	36.7	31.4	30.2	28.1
Mcap (Rs Mn)	5,61,540	5,61,540	5,61,540	5,61,540
MCap/ Sales	4.8	4.9	4.4	4.1
EV	5,14,898	5,32,733	5,31,467	5,18,758
EV/Sales	4.4	4.7	4.1	3.8
EV/EBITDA	24.0	20.1	18.6	16.7
P/BV	2.5	2.8	2.6	2.4
Dividend Yield (%)	0.9	6.4	0.7	0.7
(F) Growth Rate (%)				
Revenue	2.7	(2.5)	13.4	5.6
EBITDA	13.6	23.2	7.9	8.5
EBIT	19.5	32.4	5.6	6.7
PBT	29.3	23.9	2.9	7.7
APAT	27.4	17.1	3.8	7.7
EPS	27.4	17.1	3.8	7.7

Cash Flow

(Rs Mn)	CY19A	CY20A	CY21E	CY22E
CFO	24,846	26,062	15,363	25,499
CFI	(7,366)	(6,415)	(9,457)	(8,202)
CFF	(3,888)	(37,604)	(4,794)	(4,658)
FCFF	13,682	16,208	4,101	14,499
Opening Cash	45,123	29,243	30,356	42,995
Closing Cash	46,995	29,243	30,356	42,995

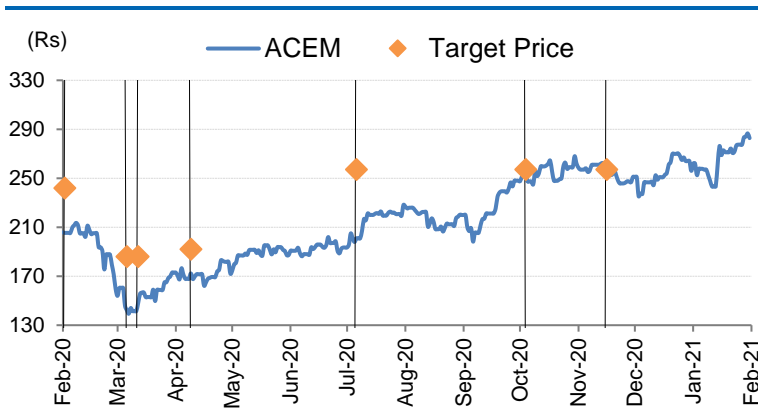
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	242	205
Mar-20	Accumulate	186	142
Mar-20	Accumulate	186	148
Apr-20	Accumulate	192	172
Jul-20	Accumulate	257	201
Oct-20	Accumulate	257	254
Dec-20	Accumulate	257	253

*Price as on recommendation date

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