

Strong Quarter and multiple triggers ahead.

CMP: INR 267

Rating: BUY

Target Price: INR 349

Stock Info

BSE	500425
NSE	AMBUJA
Bloomberg	ACEM IN
Reuters	ACEM.BO
Sector	Cement
Face Value (INR)	2
Equity Capital (INR Cr)	397
Mkt Cap (INR Cr)	52,947
52w H/L (INR)	291/ 136
Avg Yearly Vol (in 000')	6,174

Shareholding Pattern %

(As on December, 2020)

Promoters	63.3
Public & Others	36.7

Ambuja Cement Limited reported good set of numbers for Q4CY20. Revenue from operations grew by 12.1% YoY and 23.6% QoQ to INR 3515 crore above our estimates of INR 3355 cr backed by good growth in volume & realization growth. Sales volume grew by 7.2 % YoY and 23.6% QoQ to 7.01 mn tons. Realization/ton grew by 4.6% YoY, however declined marginally by 0.3% to INR 5014 per tonne against our expectation of INR 4794 per tonne

EBIDTA grew by 40% YoY and 12% QoQ to INR 768 cr marginally below our estimate of INR 778 Cr backed by healthy topline growth and better operational efficiency in the plants coupled with logistics efficiency. EBIDTA margin expanded by 441 bps YoY, however declined by 200 bps QoQ to 21.8%. Rise in Power & fuel costs has put pressure on margins QoQ basis. Power & Fuel costs rose by 22% QoQ basis to INR 701 cr. EBIDTA /tonne grew by 30.9% YoY, however declined by 8.6% QoQ to INR 1096/tonne against our expectation of INR 1112/tonne.

PAT grew by 9.2% YoY and 12.8% QoQ to INR 497 cr above our estimate of INR 490 cr. PAT margin contracted by 37 bps YoY and 131 bps to 14.1% Increase in Tax expenses & finance costs coupled with decline in other income have put pressure on PAT margin. Other Income declined by 41% YoY & 25% QoQ to INR 39 Cr. Tax expenses stood at INR 161 cr in Q4CY20 as against tax refund of 14 cr in Q4CY19.

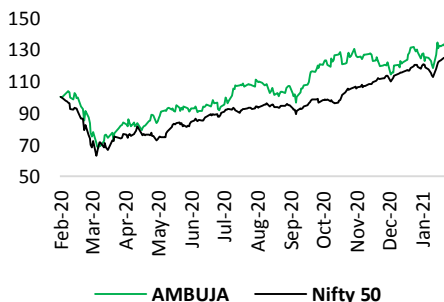
Q4CY20 Operational Highlights

Company declared a final dividend of INR 1 per share. Company has already paid Interim Dividend of INR 17 per share. The Greenfield project at Marwar Mundwa, Rajasthan will be commissioned this year. This will further improve Company's market position in North and West regions. This would add 1.8MTPA (3mtpa clinker) by Jun 21. The company is also looking for further brownfield expansion in Bhatapara & Maratha plants. Ambuja Cement has an advantage over its peers that it has nil presence in south where cement prices are struggling.

Outlook & valuation:

Demand for cement is likely to grow between 3-5% as compared to CY19 and in double digit in 2021, backed by government focus on infrastructure, Affordable housing, healthcare and rural and social development. Ambuja Cement will commission its north capacity by 2QCY21, which will boost growth CY21 onwards. Thereafter, it will also explore expansion at other locations. These initiatives will boost volume growth and improve its profitability. At CMP of INR 267, Ambuja Cement is trading at EV/EBITDA of 16.5x and 15.1x to its CY21E and CY22E. We value the standalone business to 16x to its CY22E EBITDA and arrive at a fair value of INR 281/share while Ambuja's 50% stake in ACC has been valued at INR 68 per share (based on our ACC's TP of INR 2042). Our SOTP valuation yields a fair value of INR 349 per share. We upgrade our rating from Hold to Buy on stock.

Ambuja Cements Ltd. Vs Nifty



Source: Arihant Research, NSE

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Q4 CY20 - Quarterly Performance (Standalone)

(in INR Cr)

INR Cr (standalone)	Q4CY20	Q3CY20	Q4CY19	Q-o-Q	Y-o-Y
Net Revenue	3,515	2,852	3,136	23.2%	12.1%
Operating Costs	2,018	1,570	1,871	28.5%	7.9%
Employee cost	185	162	169	14.2%	9.5%
Other Expenses	544	440	549	23.6%	-0.9%
EBITDA	768	680	547	12.9%	40.4%
<i>EBITDA margin %</i>	<i>21.8%</i>	<i>23.8%</i>	<i>17.4%</i>	<i>-199bps</i>	<i>441bps</i>
Depreciation	126	128	149	-1.6%	-15.4%
EBIT	642	552	398	16.3%	61.3%
Other Income	39	52	66	-25.0%	-40.9%
Finance cost	23	18	23	26.0%	0.0%
PBT	658	586	441	12.3%	49.2%
Tax Expense	161	145	-14	11.0%	-1250.0%
<i>Effective tax rate %</i>	<i>24.5%</i>	<i>24.8%</i>	<i>-3.2%</i>	<i>-29bps</i>	<i>2764bps</i>
PAT	497	441	455	12.8%	9.2%
<i>PAT margin %</i>	<i>14.1%</i>	<i>15.5%</i>	<i>14.5%</i>	<i>-131bps</i>	<i>-37bps</i>
EPS (Rs)	2.50	2.22	2.29	12.6%	9.2%

Source: Company, Arianth Research

Valuations

INR Cr	CY19	CY20	CY21E	CY22E
EV/EBITDA (x)	22.5	18.9	16.5	16.0
EBITDA	2149	2646	2908	3119
EV	48353	50136	47853	49896
Debt	35	44	54	64
Cash	4699	2924	5217	5945
Market Cap	53017	53017	53017	55778
No shares	199	199	199	199
Value/Share (INR)				280.9
ACC Stake Valuation				
ACC Target Price (Rs)				2,042
ACC Market Cap				38,390
Ambuja's Stake in ACC (50%)				19,195
Holding Co. Discount				30%
Value of Stake				13,436
Value/Share (INR)				67.7
Ambuja Fair Value (INR)				349
CMP (INR)				267
Upside (%)				30.6%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Q4 CY20 – Key Con-Call Highlights

Demand for cement had dipped during Q1 & Q2 CY20 due to covid but have shown sharp recovery post that backed by government focus and infrastructure Demand for cement likely to grow between 3-5% as compared to CY19 and in double digit in 2021.

Demand for cement normally mainly comes from three segments ie Housing, Infra & Industrial & commercial segment. In 2020 demand mainly came from housing and infra segment but in 2021 company is witnessing demand from Industrial & Commercial segment also.

Company Vision is to be most sustainable and competitive company in Industry.

Company has strong parentage of LafargeHolcim Group which provides company access to global expertise in area of sustainability , digital and research and development.

Company operates in diverse product portfolio for strengths of core like Ambuja PPC, Ambuja Plus, Ambuja Kawach etc and strength of decor like Cool wall, Blockol etc..

Company has strong presence with strategically located plants which will further strengthen with expansion coming up in Rajasthan likely to be commissioned in June 2021.

Despite challenges in volume company's sharp focus on cost resulted in 23% EBIDTA growth for full year FY20.

Realizations per tonne grew 6% for the quarter and ~5% for the full year supported by growth in price across regions mainly North region and focus on premium products like Ambuja Kawach, Ambuja Plus.

Premium products sales increased by 16% during the year Kawach was launched with fixed price model

Raw Material per tonne costs declined 3% for the quarter ended December 2020 and ~7% for the full year driven by lower input costs, better raw material mix and usage of wet fly ash.

EBITDA per tonne grew by 30% for the quarter ended December 2020 and 31%YoY basis for the full year end 2020 supported by growth in Special products, cost reduction and operational efficiency programs.

MSA agreement has yielded good results for both the companies for Ambuja it has helped in Capacity utilization and for ACC it has provided much needed volume growth.

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Q4 CY20 – Key Con-Call Highlights Continued

Company is setting up a greenfield plant at Marwar Mundwa (3.0 MTPA clinker; 1.8 MTPA grinding) which will help to drive the volume growth in coming times and in turn will help the company to gain market share.

Company plans to increase share of green power in power mix from 5% to 38% by CY22.

Company will work strongly on improvement of clinker factor which will work in improving cement capacity.

Company will also focus on special products and drive superior value proposition by leveraging group R&D facility.

Premium product Kawach recorded superior performance this year and is likely to continue in 2021.

Company is also working on launching new products in coming period under premium product segment,

Company will continue to focus on its flagship program I CAN which will help to drive good growth in bottom line.

Cement demand for India stood around 295-300 MT in CY20 and in CY21 it is expected to grow to 345-350 MT. Low per capita consumption in India of cement provides room for growth.

Affordable housing will be key demand lever for demand growth.

On the consolidated basis Revenue from operations grew by 5.5% to INR 7350 cr. EBIDTA grew by 32% YoY to INR 1472 cr. Operating EBIT grew by 24% YoY to INR 732 Cr.

Company generated cash of INR 2606 from operations led by improved performance and efficient working capital management.

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement

Y/E March (INR Cr)	CY19	CY20	CY21E	CY22E
Revenues	11,668	11,372	13,218	14,850
<i>Change (%)</i>	2.7%	-2.5%	16.2%	12.3%
Total Expenses	9,519	8,725	10,310	11,732
EBITDA	2,149	2,646	2,908	3,119
Other Income	427	372	357	371
Depreciation	544	521	536	555
Interest	84	83	80	89
PBT	1,948	2,414	2,649	2,846
Extra-ordinary	0	0	0	0
PBT after ext-ord.	1,948	2,414	2,649	2,846
Tax	419	624	662	712
<i>Rate (%)</i>	21.5%	25.9%	25.0%	25.0%
PAT	1,529	1,790	1,986	2,135
Adjusted PAT	1,529	1,790	1,986	2,135
<i>Change (%)</i>	-5.5%	17.1%	11.0%	7.5%

Source: Company, Aриhant Research

Key Ratios

Y/E March	CY19	CY20	CY21E	CY22E
Per share (INR)				
EPS	7.7	9.0	10.0	10.7
CEPS	10.4	11.6	12.7	13.5
BVPS	111.8	102.3	111.3	120.1
DPS	1.5	18.3	1.0	2.0
Div. Payout (%)	20.0%	202.5%	10.0%	18.6%
Valuation (x)				
P/E	34.7	29.6	26.7	24.8
P/CEPS	25.6	22.9	21.0	19.7
P/BV	2.4	2.6	2.4	2.2
EV/EBITDA	22.5	18.9	16.5	15.1
Dividend Yield (%)	0.6%	6.8%	0.4%	0.7%
Return Ratio (%)				
EBIDTA Margin	18.4%	23.3%	22.0%	21.0%
PAT Margin	13.1%	15.7%	15.0%	14.4%
ROE	6.9%	8.8%	9.0%	9.0%
ROCE	5.9%	8.3%	8.1%	8.1%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.1	-0.2	-0.2
Turnover Ratios				
Asset Turnover (x)	0.4	0.4	0.5	0.5
Receivable Days	16	6	15	15
Payable days	141	148	149	150

Source: Co, Aриhant Research

Balance Sheet

Y/E March (INR Cr)	CY19	CY20	CY21E	CY22E
Sources of Funds				
Share Capital	397	397	397	397
Reserves & Surplus	21,808	19,919	21,707	23,444
Net Worth	22,205	20,316	22,104	23,841
Loan Funds	35	44	54	64
MI, Deferred Tax & other Liabilities	216	186	887	887
Other long term liability	36	337	921	833
Current Liability & Provision	4,498	4,599	5,396	6,103
Capital Employed	26,991	25,481	29,361	31,727
Application of Funds				
Net Block	5,634	5,383	5,867	5,549
CWIP	1,109	1,873	2,093	2,343
Intangible Asset under development	179	175	175	175
Other Non-current Assets	1,432	1,832	2,232	2,632
Investments	11,789	11,788	10,783	11,770
Total Non Current Asset	20,143	21,050	21,150	22,469
Current Asset				
Debtors	513	192	543	610
Inventories	954	747	905	1,017
Cash & Bank Balance	4,699	2,924	5,217	5,945
Loans & Advances & other CA	681	568	1,324	1,464
Total Current Assets	6,848	4,431	8,211	9,258
Application of Funds	26,991	25,481	29,361	31,727

Source: Company, Aриhant Research

Cash Flow Statement

Y/E March (INR Cr)	CY19	CY20	CY21E	CY22E
PBT	1,948	2,414	2,649	2,846
Depreciation	544	521	536	555
Interest & others	-379	-626	-1,197	-282
Cash flow before WC changes	2,292	2,926	1,987	3,119
(Inc)/dec in working capital	1,836	714	231	388
Operating CF after WC changes	4,129	3,639	2,219	3,506
Less: Taxes	-419	-624	-662	-712
Operating Cash Flow	3,709	3,015	1,556	2,795
(Inc)/dec in F.A + CWIP	-2,367	-1,764	-1,270	-1,350
(Pur)/sale of investment	56	1	1,005	-987
Cash Flow from Investing	-2,312	-1,762	-265	-2,337
Free Cash Flow (FCF)	2,562	1,651	686	1,845
Loan raised/(repaid)	-4	8	10	10
Equity raised	0	0	0	0
Interest & others	461	589	1,190	657
Dividend	-306	-3,625	-199	-397
Cash Flow from Financing Activities	151	-3,028	1,002	270
Net inc /(dec) in cash	1,549	-1,775	2,293	728
Opening balance of cash	3,150	4,699	2,924	5,216
Closing balance of cash	4,699	2,924	5,216	5,945

Source: Company, Aриhant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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