

## Growth concerns now being addressed...

Ambuja Cement in its AGM has laid out ambitious growth plans to increase its capacities in India with the target of becoming a 50 MT player from current 29.7 MT. In terms of regions, the company is exploring opportunities in the markets of East and West India, with brownfield expansions in Bhatpara and Maratha plants. While its upcoming facility in Marwar Mundwa, Rajasthan will enhance clinker capacity by 3 MT, it would help improve cement sales by ~5 MT. Apart from this, the company is also looking at significant debottlenecking opportunities across all its plants to further enhance their cement capacity. Given the strong demand outlook, we believe these move would allay the growth concern, also enable it to capture the lost market share and maintain its position. Further, deployment of strong operating cash towards capacity expansion in an efficient manner would improve return ratios. Given these developments, we now upgrade the stock from HOLD to **BUY** recommendation.

### Cement demand to continue to remain robust

After witnessing modest demand decline of ~2.0% in FY21 cement demand is expected to witness a strong upcycle in FY22E led by urban housing recovery and infra push by the government. While demand in H1FY21 was largely driven by strong rural housing demand, urban housing and infra segment aided recovery in H2FY21. Going forward, higher budgetary allocation by the government on infrastructure (up 26% YoY ₹ 5.54 lakh crore), lower interest rates and recovery in private capex would continue to support the strong cement demand and help improve asset utilisation further to over 80% (ex-South) by FY23E from 68% in FY21.

### Strong b/s to support growth, help improve RoE

The ongoing capex at Marwa Mundwa with total investment of ₹ 2350 crore is mainly funded through internal accruals and would commence operations by Q3FY21. While we await clarity on capex on incremental capacity of ~15 MT, we believe the capex would be far lower on a per tonne basis than the capex required for brownfield expansions as majority of these new capacities would be added though de-bottlenecking. Hence, we believe the cash balance of over ₹ 2700 crore and annual OCF of ₹ 2500 crore is sufficient to support these expansions. Overall, this move would not only aid in gaining market share but also would help improve return ratios.

### Valuation & Outlook

With the growth concerns now being addressed, we expect Ambuja to get back to industry leading growth trajectory as and when this new capacity comes on stream. While we await clarity on the timeline and the quantum of amount required for these expansions, we revise our target multiple upwards to factor in this positive development and upgrade our rating from HOLD to **BUY** with a revised target price of ₹ 365/share (i.e. at CY22E EV/EBITDA of 14.0x, implied EV/tonne of \$154/t, factoring in additional 15 MT for Ambuja, earlier TP: ₹ 305).

#### Key Financial Summary

Key Financials	CY18	CY19	CY20	CY21E	CY22E	CAGR (CY20-22E)
Net Sales	11,357	11,668	11,372	14,404	15,070	15.1%
EBITDA	1,891	2,149	2,647	3,048	3,465	14.4%
EBITDA (%)	16.7	18.4	23.3	21.2	23.0	
PAT	1,245	1,529	1,790	2,049	2,418	16.2%
EPS (₹)	6.3	7.7	9.0	10.3	12.2	
EV/EBITDA - Adjusted	20.8	17.3	15.8	13.4	11.8	
EV/T (\$) - Consolidated	176	172	185	164	162	
RoNW (%)	13.5	14.7	20.3	20.7	21.4	
RoCE (%)	11.8	12.2	17.6	18.3	19.2	

Source: Company, ICICI Direct Research



#### Stock Data

Particular	Amount
Market cap	₹ 60562 crore
Debt (CY19)	₹ 72 crore
Cash & Invest (CY19)	₹ 4699 crore
EV	₹ 55935 crore
52 week H/L	₹ 240 / 136
Equity capital	₹ 397.1 crore
Face value	₹ 2

#### Price Performance

- Aims to increase capacity to ~50 MT from current 29.7 MT capacity
- Significant debottlenecking opportunities to add ~15 MT capacity
- Upcoming facility in Rajasthan to enhance clinker capacity by 3 MT, help improve cement sales by 5 MT
- Upgrade from HOLD to BUY with revised target price of ₹ 365

#### Key risks to our call

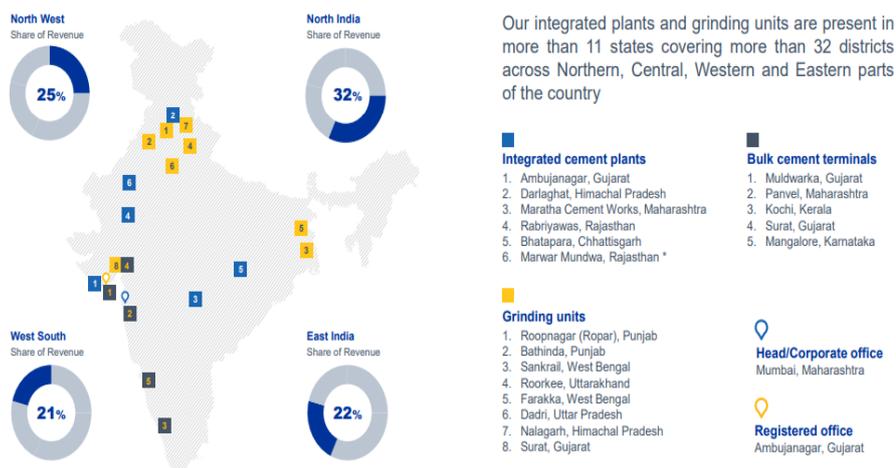
- Any delay in commissioning of new capacity may impact growth and return ratios negatively
- Inability to increase cement prices further due to rise in competition may impact margins

#### Research Analyst

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Exhibit 2: Plant locations mainly spread across north and western regions

Strong presence with strategically located plants



Source: Reuters, ICICI Direct Research

Exhibit 3: Capacity expansion plan for CY21E

Particulars	Capacity (MT)
<b>Existing Grinding capacity(MT)</b>	<b>29.7</b>
<b>Ongoing expansion:</b>	
Marwar, Rajasthan (3.0 MT clinker capacity)	1.8
<b>Total</b>	<b>1.8</b>
<b>Total capacity by CY21E (MT)</b>	<b>31.5</b>

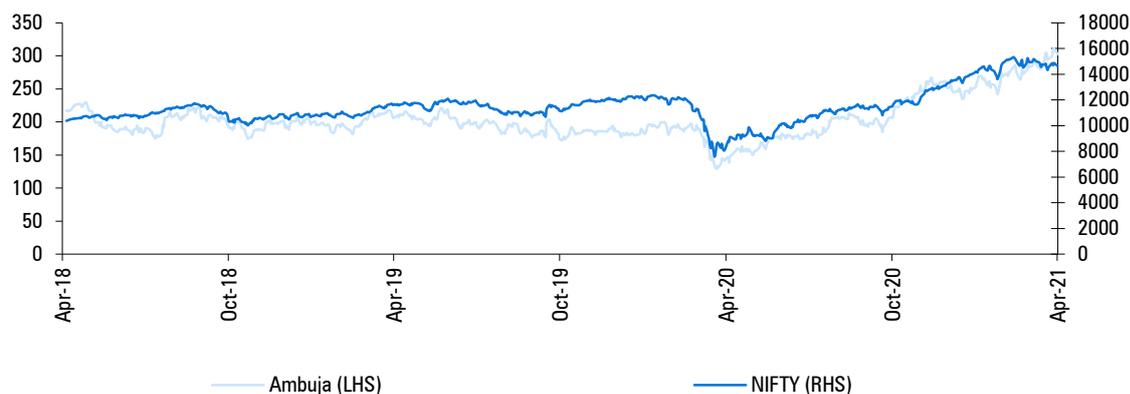
Source: Company, ICICI Direct Research

Exhibit 4: Fair value calculation - SOTP

Fair value calculation	in ₹ crore
EBITDA Estimates CY22E	3465
Target EV/EBITDA	16
Target Enterprise value	55447
Debt	72
Balance Cash and cash equivalents	1887
Target equity value	57262
No. of shares outstanding	199
<b>Fair value of Ambuja [A]</b>	<b>288</b>
ACC's fair equity valuation	42255
<b>Valuation of 50% stake [B]</b>	<b>21128</b>
Holding company discount	25%
Net value to Ambuja	15846
No. of shares outstanding	199
<b>Fair value of Investment in ACC [B]</b>	<b>80</b>
<b>Fair value per share [A+B]</b>	<b>365</b>

Source: Company, ICICI Direct Research

Exhibit 5: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 6: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S Position (m)	Change
1	Holderind Invst	31-Mar-20	63.1, 1,253.16m	0.00m
2	Life Insurance	31-Mar-20	3.9, 77.79m	(17.89)m
3	Hdfc Asset Ma	30-Jun-20	3.7, 72.92m	(3.50)m
4	Republic Of Sir	31-Mar-20	2.1, 42.49m	(0.14)m
5	Vanguard Grou	30-Jun-20	1.3, 26.13m	(2.27)m
6	Nomura	20-Jul-20	1.2, 24.58m	(0.00)m
7	Sbi Funds Mar	30-Jun-20	1.0, 19.14m	0.14m
8	Blackrock	17-Jul-20	0.9, 17.27m	(4.32)m
9	Jpmorgan Cha:	31-Mar-20	0.8, 15.41m	(6.40)m
10	Uti Asset Mani	30-Jun-20	0.6, 11.09m	1.14m

Source: Reuters, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	63.28	63.27	63.27	63.27	63.29
FII	15.66	16.25	16.80	18.07	17.75
DII	14.16	13.60	13.30	11.54	12.37
Others	6.90	6.88	6.63	7.12	6.59

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Total operating Incor</b>	<b>11,667.9</b>	<b>11,371.9</b>	<b>14,404.2</b>	<b>15,069.9</b>
Growth (%)	2.7	-2.5	26.7	4.6
Raw material	1125.5	1072.2	1404.6	1450.1
Power & Fuel	2586.4	2251.9	3095.8	3134.6
Employees	672.6	668.8	735.7	809.2
Freight	3094.2	2854.9	3683.1	3808.4
Others	2040.3	1763.4	2436.5	2402.2
<b>Total Operating Exp.</b>	<b>9,519.0</b>	<b>8,611.2</b>	<b>11,355.7</b>	<b>11,604.4</b>
<b>EBITDA</b>	<b>2,148.9</b>	<b>2,760.7</b>	<b>3,048.4</b>	<b>3,465.4</b>
Growth (%)	13.6	28.5	10.4	13.7
Depreciation	543.8	521.2	620.7	624.8
Interest	83.5	83.1	89.7	89.7
Other Income	426.5	372.0	400.0	480.0
Exceptional items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>1,948.1</b>	<b>2,528.5</b>	<b>2,738.0</b>	<b>3,231.0</b>
Total Tax	419.5	624.3	689.2	813.2
<b>PAT</b>	<b>1,528.6</b>	<b>1,904.2</b>	<b>2,048.9</b>	<b>2,417.7</b>
<b>Adjusted PAT</b>	<b>1,528.6</b>	<b>1,790.1</b>	<b>2,048.9</b>	<b>2,417.7</b>
Growth (%)	22.8	17.1	14.5	18.0
<b>Adjusted EPS (₹)</b>	<b>7.7</b>	<b>9.0</b>	<b>10.3</b>	<b>12.2</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Liabilities</b>				
Equity Capital	397.1	397.1	397.1	397.1
Reserve and Surplus	21,808.1	20,222.5	21,278.6	22,703.5
Total Shareholders funds	22,205.2	20,619.7	21,675.7	23,100.6
<b>Total Debt</b>	<b>71.7</b>	<b>71.7</b>	<b>71.7</b>	<b>71.7</b>
Deferred Tax Liability	1,122.3	1,022.3	872.3	722.3
<b>Total Liabilities</b>	<b>23,399.2</b>	<b>21,713.7</b>	<b>22,619.7</b>	<b>23,894.6</b>
<b>Assets</b>				
Gross Block	14,112.9	14,411.6	17,421.6	18,281.6
Less: Acc Depreciation	8,300.4	8,856.6	9,477.4	10,102.2
Net Block	5,812.5	5,554.9	7,944.2	8,179.4
Capital WIP	1,108.7	2,760.0	500.0	90.0
<b>Total Fixed Assets</b>	<b>6,921.2</b>	<b>8,314.9</b>	<b>8,444.2</b>	<b>8,269.4</b>
Investments	11,789.0	11,789.0	11,789.0	11,789.0
Inventory	954.1	946.4	1,342.4	1,052.2
Debtors	513.2	421.5	762.5	476.2
Other assets	2,113.8	2,650.9	2,750.5	2,900.5
Cash	4,699.5	685.8	1,887.1	2,846.5
Total Current Assets	8,280.6	4,704.5	6,742.5	7,275.4
Creditors	2,673.8	2,622.7	3,691.5	2,914.5
Provisions	917.8	472.1	664.5	524.6
Total Current Liabilities	3,591.5	3,094.8	4,355.9	3,439.1
Net Current Assets	4,689.0	1,609.8	2,386.5	3,836.3
<b>Application of Funds</b>	<b>23,399.2</b>	<b>21,713.7</b>	<b>22,619.7</b>	<b>23,894.6</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Profit after Tax</b>	<b>1,528.6</b>	<b>1,790.1</b>	<b>2,048.9</b>	<b>2,417.7</b>
Add: Depreciation	543.8	521.2	620.7	624.8
(Inc)/dec in Current Assets	188.3	-437.7	-836.7	426.5
Inc/(dec) in CL and Provisions	587.7	-596.8	1,111.1	-1,066.8
<b>CF from operating activit</b>	<b>2,848.3</b>	<b>1,276.8</b>	<b>2,944.1</b>	<b>2,402.3</b>
(Inc)/dec in Investments	24.8	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1,191.3	-1,914.9	-750.0	-450.0
Others				
<b>CF from investing activit</b>	<b>-1,166.6</b>	<b>-1,914.9</b>	<b>-750.0</b>	<b>-450.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	23.7	0.0	0.0	0.0
Dividend paid & dividend tax	-929.3	-3,375.6	-992.8	-992.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	593.4	0.0	0.0	0.0
<b>CF from financing activit</b>	<b>-312.2</b>	<b>-3,375.6</b>	<b>-992.8</b>	<b>-992.8</b>
Net Cash flow	1,369.5	-4,013.7	1,201.3	959.4
Opening Cash	3,330.0	4,699.5	685.8	1,887.1
<b>Closing Cash</b>	<b>4,699.5</b>	<b>685.8</b>	<b>1,887.1</b>	<b>2,846.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Per share data (₹)</b>				
Adjusted EPS	7.7	9.0	10.3	12.2
Cash EPS	10.4	11.6	13.4	15.3
BV	111.8	103.8	109.2	116.3
DPS	4.0	17.0	5.0	5.0
Cash Per Share	23.7	3.5	9.5	14.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.4	23.3	21.2	23.0
PAT Margin	13.1	15.7	14.2	16.0
Inventory days	34.9	30.5	29.0	29.0
Debtor days	15.4	15.0	15.0	15.0
Creditor days	79.4	85.0	80.0	80.0
<b>Return Ratios (%)</b>				
RoE	14.7	20.3	20.7	21.4
RoCE	12.2	17.6	18.3	19.2
RoIC	27.7	32.8	28.8	31.0
<b>Valuation Ratios (x)</b>				
P/E	39.6	33.8	29.6	25.0
EV / EBITDA	17.3	15.8	13.4	11.3
EV / Net Sales	4.8	5.3	4.1	3.8
Market Cap / Sales	5.2	5.3	4.2	4.0
Price to Book Value	2.7	2.9	2.8	2.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.3	1.5	1.5	2.1
Quick Ratio	1.0	1.3	1.1	1.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Cement)

Company	CMP (₹)	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,888	BUY	73	85	81	13.2	12.9	10.9	122	106	104	17.4	14.5	16.0	11.9	12.6	11.0
Ambuja Cem*	305	BUY	7.7	9.0	10.3	17.3	15.8	13.4	172	185	164	12.2	17.6	18.3	14.7	20.3	20.7
UltraTech Cem	6,505	BUY	180	194	234	18.2	17.0	14.4	242	242	228	14.2	14.2	15.8	12.1	11.7	12.4
Shree Cement	29,900	BUY	435	624	666	25.7	23.6	20.0	278	262	259	13.8	18.2	18.0	12.1	15.1	14.2
Heidelberg Cem	231	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	2,813	BUY	51.8	99.5	101.6	17.5	13.6	12.8	174	163	168	16.2	18.9	17.3	12.8	20.2	17.5
JK Lakshmi Cen	408	BUY	7.0	7.1	6.8	16.6	14.2	13.7	76	76	70	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	98	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	1,050	BUY	25.7	29.5	30.2	20.5	16.5	15.5	180	175	171	7.5	8.6	8.7	12.3	12.5	11.4
Sagar Cement	725	BUY	17.1	80.0	86.2	11.6	5.4	5.3	53	54	41	7.2	17.5	15.4	4.2	15.4	14.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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