

July 25, 2021

Q2CY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY21E	CY22E	CY21E	CY22E
Rating	BUY		BUY	
Target Price	460		405	
Sales (Rs. m)	3,02,831	3,36,534	3,00,875	3,32,778
% Chng.	0.7	1.1		
EBITDA (Rs. m)	69,688	76,351	67,334	72,194
% Chng.	3.5	5.8		
EPS (Rs.)	16.0	17.8	14.9	16.1
% Chng.	6.8	10.7		

Key Financials - Consolidated

Y/e Dec	CY20	CY21E	CY22E	CY23E
Sales (Rs. bn)	245	303	335	370
EBITDA (Rs. bn)	50	70	77	87
Margin (%)	20.3	23.0	22.9	23.6
PAT (Rs. bn)	24	32	36	41
EPS (Rs.)	12.3	16.0	18.0	20.8
Gr. (%)	40.1	30.1	12.3	15.7
DPS (Rs.)	18.0	3.0	5.0	5.0
Yield (%)	4.5	0.7	1.2	1.2
RoE (%)	10.4	13.3	13.5	14.1
RoCE (%)	16.3	24.1	23.9	24.5
EV/Sales (x)	2.9	2.3	2.0	1.7
EV/EBITDA (x)	19.0	13.3	11.4	9.5
PE (x)	32.7	25.2	22.4	19.4
P/BV (x)	3.5	3.2	2.9	2.6

Key Data

ABUJ.BO | ACEM IN

52-W High / Low	Rs.410 / Rs.197
Sensex / Nifty	52,976 / 15,856
Market Cap	Rs.799bn/ \$ 10,736m
Shares Outstanding	1,986m
3M Avg. Daily Value	Rs.3176.45m

Shareholding Pattern (%)

Promoter's	63.28
Foreign	17.69
Domestic Institution	12.23
Public & Others	6.80
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	16.1	56.1	100.2
Relative	16.0	42.5	44.1

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Consistent performance and better visibility on expansions to drive further re-rating

Quick Pointers:

- Led by increased coverage of volumes under Master supply agreement (MSA), freight cost increased marginally by 2% YoY/1% QoQ
- Adjusted for royalty payment to parent, ACEM's margins for the quarter are at par with Ultratech's grey cement margins
- Announced expansion of cement grinding capacity of Ropar unit by 1.5mnt

Ambuja Cement (ACEM) delivered strong beat on both our and consensus estimates (CE) for the sixth consecutive quarter. EBITDA grew 61% YoY (down mere 2% QoQ despite 11% fall in volumes) at Rs9.6bn with a beat of 8%/23% on our/CE. Lower than expected costs drove the beat.

Operations show massive turnaround over last one year, way above our expectation. We credit entire of the revival to the new leadership. This is manifested by multifold increase in volumes under MSA, sharp acceleration in investments on waste heat recovery plants (share of renewable energy to increase by 6.6x to 38% by end of CY22) and other efficiency enhancement programs (Parvat project), aggressive volume push, new expansion plans (70% increase in capacity to 50mnt in medium term) and rejuvenated work culture. These constructive changes shall sustain the current strong margin trajectory and volume growth. Margins would get significant boost by addition of WHR capacity and reduction in lead distance and fixed cost with commissioning of upcoming plant in Rajasthan in Q3CY21. We see strong visibility on ACEM meeting its 50mnt capacity guidance, supported by renewed focus of parent on India with the completion of integration of Lafarge-Holcim merger and strong performance by company.

- Lower costs led the beat in earnings:** Volumes grew 53% YoY to 6.42mnt (PLe:6.35mnt) on back of weak base and strong volume push. Realisations increased by 5.3% QoQ/Rs260 (↑1.7% YoY/Rs85) at Rs5,206/t, in line with our estimates of Rs5,212/t. Cost fell 0.5% YoY at Rs3,755, above our estimate of Rs3,875 due to lower than expected RM and freight costs. Hence, EBITDA/t expanded by 8% YoY/11% QoQ to Rs1,495 (PLe:Rs1,395). PAT grew 59% YoY at Rs7.2bn (PLe:Rs7.0bn, CE:Rs5.9bn).
- Earnings revised upward:** We increase our EBITDA estimates for CY21e/CY22e by 3.5%/5.8% on back of higher realisations and lower freight cost. Most importantly, margins would further increase by 6%/Rs85/t to Rs1,440 in CY23e as full benefit of WHR would be available.
- Strong outlook to support further re-rating:** In spite of sharp run-up in stock, we see reasonable upside given the ample scope for positive surprise on margins, capacity growth and valuation re-rating. We reiterate BUY rating with revised TP of Rs460 (earlier Rs405), EV/EBITDA of 14.5x (earlier 13.5x) CY22e.

Exhibit 1: Q2CY21 Result Overview (Rs mn)

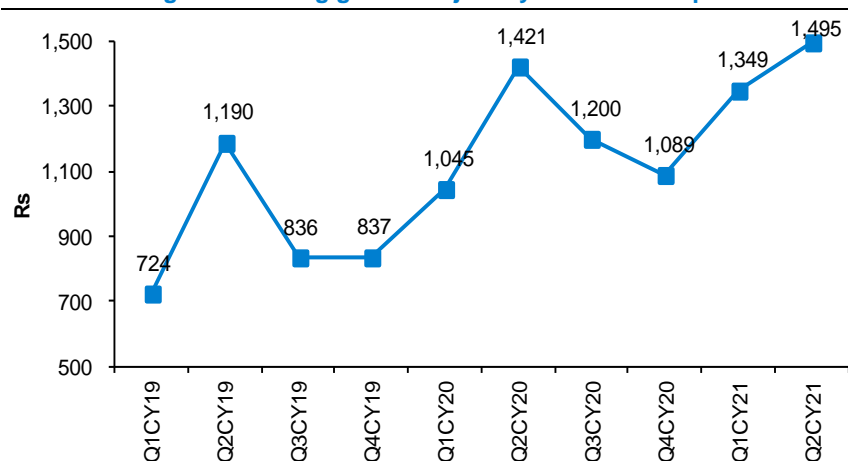
Y/e Dec	Q2CY21	Q2CY20	YoY gr. (%)	Q1CY21	H1CY21	H1CY20	YoY gr. (%)
Net Sales	33,420	21,450	55.8	35,790	69,210	49,050	41.1
Raw Material	1,757	2,315	(24.1)	3,436	5,192	4,830	7.5
<i>% of Net Sales</i>	5.3	10.8		9.6	7.5	9.8	
Staff Costs	1,616	1,495	8.1	1,692	3,307	3,216	2.8
<i>% of Net Sales</i>	4.8	7.0		4.7	4.8	6.6	
Power & Fuel	7,881	4,139	90.4	7,352	15,233	9,761	56.1
<i>% of Net Sales</i>	23.6	19.3		20.5	22.0	19.9	
Freight	7,885	5,033	56.7	8,803	16,688	12,455	34.0
<i>% of Net Sales</i>	23.6	23.5		24.6	24.1	25.4	
Other Expenses	4,977	2,833	75.7	5,164	10,141	7,797	30.1
<i>% of Net Sales</i>	14.9	13.2		14.4	14.7	15.9	
Total Expenditure	24,115	15,815	52.5	26,446	50,561	38,059	32.9
EBITDA	9,305	5,635	65.1	9,344	18,649	10,992	69.7
<i>Margin (%)</i>	27.8	26.3		26.1	26.9	22.4	
Depreciation	1,304	1,289	1.1	1,254	2,558	2,668	(4.1)
Other income	1,902	2,239	(15.0)	976	2,878	3,796	(24.2)
EBIT	9,903	6,585	50.4	9,065	18,968	12,119	56.5
Interest	239	183	30.6	204	443	413	7.1
PBT	9,665	6,402	51.0	8,861	18,526	11,706	58.3
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	9,665	6,402	51.0	8,861	18,526	11,706	58.3
Tax	2,434	1,868		2,215	4,649	3,181	46.1
<i>% PBT</i>	25.2	29.2		25.0	25.1	27.2	
Reported PAT	7,231	4,534	59.5	6,646	13,877	8,525	62.8
Adjusted PAT	7,231	4,534	59.5	6,646	13,877	8,525	62.8

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e Dec	Q2CY21	Q2CY20	YoY gr. (%)	Q1CY21	H1CY21	H1CY20	YoY gr. (%)
Volume (mn te)	6.4	4.2	53.2	7.2	13.7	10.0	37.1
Net Realisations/t (Rs)	5,206	5,119	1.7	4,943	5,067	4,925	2.9
EBITDA/t (Rs)	1,449	1,345	7.8	1,291	1,365	1,104	23.7

Source: Company, PL

Exhibit 3: Margins on strong growth trajectory over last six quarters


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
Net Revenues	245,162	302,831	335,110	369,751
YoY gr. (%)	(9.5)	23.5	10.7	10.3
Cost of Goods Sold	31,242	41,541	45,385	51,263
Gross Profit	213,919	261,290	289,725	318,487
Margin (%)	87.3	86.3	86.5	86.1
Employee Cost	15,404	15,548	16,325	17,142
Other Expenses	37,710	40,727	43,277	46,521
EBITDA	49,814	69,772	76,651	87,399
YoY gr. (%)	12.0	40.1	9.9	14.0
Margin (%)	20.3	23.0	22.9	23.6
Depreciation and Amortization	11,618	12,007	13,377	15,538
EBIT	38,196	57,765	63,274	71,862
Margin (%)	15.6	19.1	18.9	19.4
Net Interest	1,402	1,523	1,681	1,765
Other Income	4,254	1,788	2,616	3,842
Profit Before Tax	39,530	58,029	64,209	73,940
Margin (%)	16.1	19.2	19.2	20.0
Total Tax	8,848	15,541	17,392	19,997
Effective tax rate (%)	22.4	26.8	27.1	27.0
Profit after tax	30,682	42,488	46,817	53,942
Minority interest	7,414	10,863	11,272	12,790
Share Profit from Associate	144	130	130	130
Adjusted PAT	24,405	31,756	35,675	41,282
YoY gr. (%)	40.1	30.1	12.3	15.7
Margin (%)	10.0	10.5	10.6	11.2
Extra Ord. Income / (Exp)	(993)	-	-	-
Reported PAT	23,413	31,756	35,675	41,282
YoY gr. (%)	20.4	35.6	12.3	15.7
Margin (%)	9.5	10.5	10.6	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	23,413	31,756	35,675	41,282
Equity Shares O/s (m)	1,986	1,986	1,986	1,986
EPS (Rs)	12.3	16.0	18.0	20.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
Non-Current Assets				
Gross Block	266,356	299,844	307,944	350,044
Tangibles	266,356	299,844	307,944	350,044
Intangibles	-	-	-	-
Acc: Dep / Amortization	61,496	73,503	86,879	102,417
Tangibles	61,496	73,503	86,879	102,417
Intangibles	-	-	-	-
Net fixed assets	204,860	226,342	221,065	247,627
Tangibles	204,860	226,342	221,065	247,627
Intangibles	-	-	-	-
Capital Work In Progress	30,268	21,134	34,744	4,154
Goodwill	-	-	-	-
Non-Current Investments	15,637	16,057	16,477	16,897
Net Deferred tax assets	(6,231)	(6,557)	(6,944)	(7,393)
Other Non-Current Assets	18,365	18,392	18,422	18,452
Current Assets				
Investments	-	-	-	-
Inventories	16,486	22,310	24,777	27,278
Trade receivables	5,611	9,875	10,922	12,682
Cash & Bank Balance	89,356	106,183	137,873	187,604
Other Current Assets	12,250	14,090	14,879	16,111
Total Assets	397,207	438,750	483,521	535,162
Equity				
Equity Share Capital	3,971	3,971	3,971	3,971
Other Equity	223,605	247,417	273,161	304,513
Total Networkth	227,576	251,388	277,133	308,485
Non-Current Liabilities				
Long Term borrowings	900	436	436	436
Provisions	2,714	2,714	2,714	2,714
Other non current liabilities	401	401	401	401
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	22,134	28,228	31,710	35,125
Other current liabilities	70,006	72,234	78,070	83,730
Total Equity & Liabilities	397,207	438,750	483,521	535,162

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
PBT	39,916	58,029	64,209	73,940
Add. Depreciation	11,618	12,007	13,377	15,538
Add. Interest	1,402	1,523	1,681	1,765
Less Financial Other Income	4,254	1,788	2,616	3,842
Add. Other	(483)	(1,788)	(2,616)	(3,842)
Op. profit before WC changes	52,453	69,772	76,651	87,399
Net Changes-WC	7,572	(3,918)	4,701	3,267
Direct tax	(11,702)	(15,215)	(17,005)	(19,548)
Net cash from Op. activities	48,324	50,639	64,346	71,118
Capital expenditures	(17,253)	(24,354)	(21,710)	(11,510)
Interest / Dividend Income	-	-	-	-
Others	4,080	1,788	2,616	3,842
Net Cash from Inv. activities	(13,173)	(22,566)	(19,094)	(7,668)
Issue of share cap. / premium	-	-	-	-
Debt changes	(384)	(464)	-	-
Dividend paid	(37,959)	(9,259)	(11,881)	(11,955)
Interest paid	(864)	(1,523)	(1,681)	(1,765)
Others	(355)	-	-	-
Net cash from Fin. activities	(39,562)	(11,246)	(13,563)	(13,720)
Net change in cash	(4,412)	16,827	31,690	49,731
Free Cash Flow	30,987	26,285	42,636	59,608

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q3CY20	Q4CY20	Q1CY21	Q2CY21
Net Revenue	28,020	34,680	35,790	33,420
YoY gr. (%)	9.6	14.2	29.7	55.8
Raw Material Expenses	2,547	4,486	3,436	1,757
Gross Profit	25,473	30,194	32,354	31,664
Margin (%)	90.9	87.1	90.4	94.7
EBITDA	6,299	7,207	9,344	9,305
YoY gr. (%)	70.4	60.3	74.4	65.1
Margin (%)	22.5	20.8	26.1	27.8
Depreciation / Depletion	1,287	1,257	1,254	1,304
EBIT	5,012	5,950	8,090	8,001
Margin (%)	17.9	17.2	22.6	23.9
Net Interest	185	233	204	239
Other Income	1,027	865	976	1,902
Profit before Tax	5,855	6,583	8,861	9,665
Margin (%)	20.9	19.0	24.8	28.9
Total Tax	1,450	1,612	2,215	2,434
Effective tax rate (%)	24.8	24.5	25.0	25.2
Profit after Tax	4,405	4,971	6,646	7,231
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,405	4,971	6,646	7,231
YoY gr. (%)	87.8	41.4	66.5	59.5
Margin (%)	15.7	14.3	18.6	21.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,405	4,971	6,646	7,231
YoY gr. (%)	87.8	9.3	66.5	59.5
Margin (%)	15.7	14.3	18.6	21.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,405	4,971	6,646	7,231
Avg. Shares O/s (m)	1,986	1,986	1,986	1,986
EPS (Rs)	2.2	2.5	3.3	3.6

Source: Company Data, PL Research

Key Financial Metrics

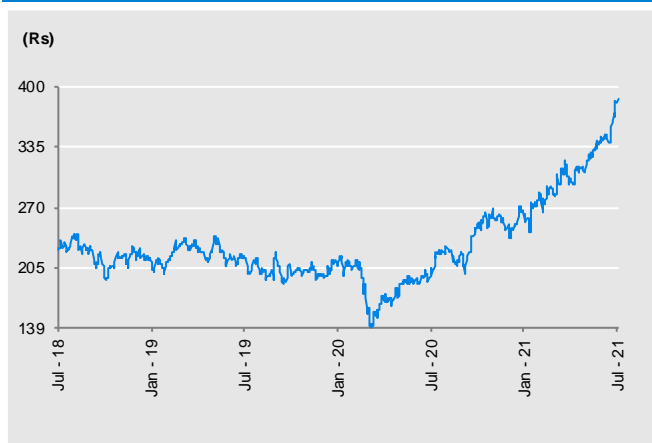
Y/e Dec	CY20	CY21E	CY22E	CY23E
Per Share(Rs)				
EPS	12.3	16.0	18.0	20.8
CEPS	18.1	22.0	24.7	28.6
BVPS	114.6	126.6	139.6	155.4
FCF	15.6	13.2	21.5	30.0
DPS	18.0	3.0	5.0	5.0
Return Ratio(%)				
RoCE	16.3	24.1	23.9	24.5
ROIC	20.4	31.6	36.4	49.6
RoE	10.4	13.3	13.5	14.1
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.5)	(0.6)
Net Working Capital (Days)	0	5	4	5
Valuation(x)				
PER	32.7	25.2	22.4	19.4
P/B	3.5	3.2	2.9	2.6
P/CEPS	22.2	18.3	16.3	14.1
EV/EBITDA	19.0	13.3	11.4	9.5
EV/Sales	2.9	2.3	2.0	1.7
Dividend Yield (%)	4.5	0.7	1.2	1.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Dec	CY20	CY21E	CY22E	CY23E
Stand. Volume	22.7	26.6	29.5	31.3
Stand. Net Realisations (Rs/te)	4,929	5,127	5,332	5,385
Stand. EBITDA/ te (Rs/te)	1,081	1,291	1,352	1,438
Stand. RM cost (Rs/ te)	481	464	469	468
Stand. Power, Oil & Fuel (Rs/ te)	1,010	1,115	1,275	1,231
Stand. Freight Charges (Rs/ te)	1,259	1,251	1,257	1,273
Cons. Volume	48.2	55.9	59.4	64.8
Cons. Net Realisations (Rs/te)	5,086	5,418	5,641	5,709
Cons. EBITDA/ te (Rs/te)	1,033	1,248	1,290	1,349

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Jul-21	BUY	405	340
2	1-Jul-21	BUY	405	341
3	30-Apr-21	BUY	375	314
4	7-Apr-21	BUY	340	306
5	3-Mar-21	BUY	315	279
6	20-Feb-21	BUY	315	275
7	9-Jan-21	BUY	285	270
8	24-Dec-20	BUY	280	247
9	23-Oct-20	BUY	285	254
10	6-Oct-20	BUY	255	225

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,460	2,152
2	Ambuja Cement	BUY	405	340
3	Coal India	Hold	160	146
4	Dalmia Bharat	BUY	2,175	1,970
5	Heidelberg Cement India	Reduce	225	261
6	Hindalco Industries	BUY	455	383
7	Hindustan Zinc	Reduce	271	331
8	Jindal Steel & Power	Accumulate	500	387
9	JK Lakshmi Cement	BUY	690	599
10	JSW Steel	Reduce	652	668
11	NMDC	Accumulate	175	167
12	Shree Cement	Hold	28,625	27,000
13	Steel Authority of India	Accumulate	155	123
14	Tata Steel	Accumulate	1,400	1,190
15	The Ramco Cements	Reduce	950	1,033
16	Ultratech Cement	BUY	8,600	7,459

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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