

Capacity expansion and operational efficiency to drive growth ahead

CMP: INR 380

Rating: Accumulate

Target Price: INR 449

Stock Info

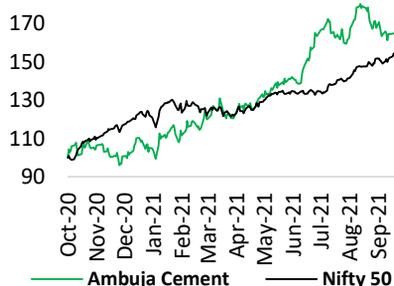
BSE	500425
NSE	AMBUJA
Bloomberg	ACEM IN
Reuters	ACEM.BO
Sector	Cement
Face Value (INR)	2
Equity Capital (INR Cr)	397
Mkt Cap (INR Cr)	75,524
52w H/L (INR)	442/ 226
Avg Yearly Vol (in 000')	6,063

Shareholding Pattern %

(As on September, 2021)

Promoters	63.26
Public & Others	36.74

Ambuja Cements Ltd. Vs Nifty



Source: Arihant Research, NSE

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Shrey Gandhi

Shrey.gandhi@arihantcapital.com

022 4225 4865

Ambuja Cement Limited reported weak set of numbers for Q3CY21. Revenue from operations grew by 14% YoY, however declined by 4% QoQ to INR 3237 cr above our estimates of INR 3070 cr. YoY growth was backed by good growth in volumes & realization. Sales volume grew by 5.3% YoY, however declined by 5.2% QoQ to 6.0 mn tons in line with our estimates of 6.0 mn tonnes. Growth in YoY sales volume was backed by increase in demand for urban housing and infrastructure. YoY and MSA agreement has also led to volume optimization. Realization/ton grew by 7.8% YoY, and 1.3% QOQ to INR 5395 per tonne against our expectation of INR 5117 per tonne. Growth in realization was mainly supported by volume growth and increased share of value added products

EBIDTA grew mutedly by 3.4% YoY however declined by 26.7% QoQ to INR 703 cr below our estimate of INR 720 Cr. EBIDTA margin contracted by 213 bps YoY and 673 bps QoQ to 21.7% led by rise in operating costs notably in fuel. However the operational efficiency programs at plants along with logistics efficiency partly mitigated the impact. EBIDTA /ton declined by 1.8% YoY and 22.7% QOQ to INR 1172/ton against our expectation of INR1200/ton. Power and fuel cost per tonne rose by 23% YoY to INR 1245/ton

PAT remained flat YoY and declined by 39% QoQ to INR 441 cr below our estimate of INR 490 cr. PAT margin contracted by 179 bps YoY and 782 bps QOQ to 13.6% Pressure on PAT margin can be attributed to subdued operating performance and reduction in other income.

Q3CY21 Operational Highlights

The Company has commenced the commercial production at Marwar plant , which enhances Ambuja's clinker capacity by 3.0 MTPA and cement sales potential by 5.0 MTPA.

Outlook & valuation: We expect demand for cement to remain strong in medium term backed by robust domestic demand supported by Government's continued focus on capital expenditure and reforms to support growth. Government thrust on Infrastructure and affordable housing coupled with real estate construction expected to witness growth will help in pickup of demand in cement. Commencement of production at Marwar plant will aid top line growth. Company's focus on product premiumisation will result in better pricing and improved margin going ahead. We believe margin to be impacted in near term led by higher input cost, however operational efficiency through I CAN program will aid in mitigating cost headwinds to some extent. At CMP of INR 380, Ambuja Cement is trading at EV/EBITDA of 19.4x and 16.1x to its CY21E and CY22E. We value the standalone business to 15.5x to its CY22E EBITDA of INR 4187 cr and arrive at a fair value of INR 367/share while Ambuja's 50% stake in ACC has been valued at INR 82.1 per share (based on our ACC's TP of INR 2479). Our SOTP valuation yields a fair value of INR 449 per share. We maintain Accumulate rating on the stock.

Q3 CY21 - Quarterly Performance (Standalone)

(in INR Cr)

INR Cr (standalone)	Q3CY21	Q2CY21	Q3CY20	Q-o-Q	Y-o-Y
Net Revenue	3,237	3,371	2,852	-4.0%	13.5%
Operating Costs	1,836	1,752	1,570	4.8%	16.9%
Employee cost	169	162	162	4.3%	4.3%
Other Expenses	529	498	440	6.2%	20.2%
EBITDA	703	959	680	-26.7%	3.4%
<i>EBITDA margin %</i>	<i>21.7%</i>	<i>28.4%</i>	<i>23.8%</i>	<i>-673bps</i>	<i>-213bps</i>
Depreciation	126	130	129	-3.1%	-2.2%
EBIT	577	829	551	-30.4%	4.7%
Other Income	36	161	52	-77.5%	-30.4%
Finance cost	21	24	18	-12.5%	15.0%
PBT	592	966	585	-38.7%	1.3%
Tax Expense	151	243	145	-37.9%	4.1%
<i>Effective tax rate %</i>	<i>25.5%</i>	<i>25.2%</i>	<i>24.8%</i>	<i>34bps</i>	<i>71bps</i>
PAT	441	723	440	-39.0%	0.3%
<i>PAT margin %</i>	<i>13.6%</i>	<i>21.4%</i>	<i>15.4%</i>	<i>-782bps</i>	<i>-179bps</i>
EPS (INR)	2.22	3.64	2.21	-39.0%	0.0%

Source: Company, Arianth Research

Valuations

INR Cr	CY22E
EV/EBITDA (x)	15.5
EBITDA	4187
EV	64903
Debt	64
Cash	8060
Market Cap	72900
No shares	199
Value/Share (INR)	367.1
ACC Stake Valuation	
ACC Target Price (INR)	2,479
ACC Market Cap	46,605
Ambuja's Stake in ACC (50%)	23,303
Holding Co. Discount	30%
Value of Stake	16,312
Value/Share (INR)	82.1
Ambuja Fair Value (INR) (TP)	449
CMP (INR)	380
Upside (%)	18.2%

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	14,264	16,105
<i>Change (%)</i>	2.7%	-2.5%	25.4%	12.9%
Total Expenses	9,519	8,725	10,698	11,918
EBITDA	2,149	2,646	3,566	4,187
Other Income	427	372	385	403
Depreciation	544	521	536	555
Interest	84	83	80	89
PBT	1,948	2,414	3,335	3,946
Extra-ordinary	0	0	0	0
PBT after ext-ord.	1,948	2,414	3,335	3,946
Tax	419	624	834	987
<i>Rate (%)</i>	21.5%	25.9%	25.0%	25.0%
PAT	1,529	1,790	2,501	2,960
Adjusted PAT	1,529	1,790	2,501	2,960
<i>Change (%)</i>	-5.5%	17.1%	39.7%	18.3%

Source: Company,
Arihant Research

Key Ratios

Y/E March	CY19	CY20	CY21E	CY22E
Per share (INR)				
EPS	7.7	9.0	12.6	14.9
CEPS	10.4	11.6	15.3	17.7
BVPS	111.8	102.3	113.9	126.8
DPS	1.5	18.3	1.0	2.0
Div. Payout (%)	20.0%	202.5%	7.9%	13.4%
Valuation (x)				
P/E	49.4	42.1	30.2	25.5
P/CEPS	36.4	32.6	24.8	21.5
P/BV	3.4	3.7	3.3	3.0
EV/EBITDA	32.9	27.4	19.4	16.1
Dividend Yield (%)	0.4%	4.8%	0.3%	0.5%
Return Ratio (%)				
EBIDTA Margin	18.4%	23.3%	25.0%	26.0%
PAT Margin	13.1%	15.7%	17.5%	18.4%
ROE	6.9%	8.8%	11.1%	11.8%
ROCE	5.9%	8.3%	9.9%	10.7%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.1	-0.3	-0.3
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, Arihant
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	22,221	24,784
Net Worth	22,205	20,316	22,618	25,181
Loan Funds	35	44	54	64
MI, Deferred Tax & other Liabilities	216	186	887	887
Other long term liability	36	337	1,301	1,301
Current Liability & Provision	4,498	4,599	5,823	6,618
Capital Employed	26,991	25,481	30,683	34,051
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	586	662
Inventories	954	747	977	1,103
Cash & Bank Balance	4,699	2,924	6,367	8,060
Loans & Advances & other CA	681	568	1,382	1,537
Total Current Assets	6,848	4,431	9,533	11,583
Application of Funds	26,991	25,481	30,683	34,051

Source: Company, Arihant
Research

Cash Flow Statement

Y/E March (INR Cr)	CY19	CY20	CY21E	CY22E
PBT	1,948	2,414	3,335	3,946
Depreciation	544	521	536	555
Interest & others	-379	-626	-1,606	-1,107
Cash flow before WC changes	2,292	2,926	2,159	3,394
(Inc)/dec in working capital	1,836	714	486	439
Operating CF after WC changes	4,129	3,639	2,646	3,833
Less: Taxes	-419	-624	-834	-987
Operating Cash Flow	3,709	3,015	1,812	2,847
(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	942	1,897
Loan raised/(repaid)	-4	8	10	10
Equity raised	0	0	0	0
Interest & others	461	589	2,085	1,571
Dividend	-306	-3,625	-199	-397
Cash Flow from Financing Activities	151	-3,028	1,896	1,183
Net inc /(dec) in cash	1,549	-1,775	3,443	1,693
Opening balance of cash	3,150	4,699	2,924	6,367
Closing balance of cash	4,699	2,924	6,367	8,060

Source: Company, Arihant
Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880