

# Ambuja Cements

Estimate change	↔
TP change	↑
Rating change	↔

**CMP: INR254**      **TP: INR235 (-7%)**      **Neutral**

Bloomberg	ACEM IN
Equity Shares (m)	1,986
M.Cap.(INRb)/(USD\$b)	504.1 / 6.8
52-Week Range (INR)	255 / 137
1, 6, 12 Rel. Per (%)	15/14/26
12M Avg Val (INR M)	934
Free float (%)	36.9

## Financial Snapshot (INR b)

Y/E Dec	2020E	2021E	2022E
Sales	110.5	127.8	141.6
EBITDA	25.3	26.3	30.0
Adj. PAT	16.9	16.2	19.3
EBITDA Margin (%)	22.9	20.6	21.2
Adj. EPS (INR)	8.5	8.2	9.7
EPS Gr. (%)	10.7	-4.0	18.5
BV/Sh. (INR)	103.4	109.5	116.7

## Ratios

Net D:E	-0.1	-0.1	-0.2
RoE (%)	7.9	7.7	8.6
RoCE (%)	8.2	8.0	8.9
Payout (%)	199.5	24.4	25.8

## Valuations

P/E (x)	23.5	24.5	20.6
P/BV (x)	1.9	1.8	1.7
EV/EBITDA(x)	14.0	13.7	11.6
EV/ton (USD)	166.9	160.2	154.6
Div. Yield (%)	6.7	0.8	1.0
FCF Yield (%)	1.0	3.0	3.5

## Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	63.1	63.1	63.1
DII	13.5	13.8	12.8
FII	17.0	16.5	17.5
Others	6.4	6.6	6.7

FII Includes depository receipts

## Cost control drives margin improvement

### Volume growth turns positive, led by rural demand

- Ambuja Cements' (ACEM) 3QCY20 results highlight the strong rebound in volumes and benefits of fixed cost reduction. EBITDA grew 55% YoY (on a low base), with EBITDA/t of INR1,200/t – the highest reported over the last 10 years in the seasonally weak 3Q.
- ACEM announced interim dividend of INR17/share amounting to INR33.8b (~60% of cash pile), implying 7% dividend yield. However, this is only a one-time dividend. We expect dividends to revert to usual level of ~INR3/share.
- We broadly maintain our estimates and **Neutral** rating.

### In-line performance; Cost cutting drives 55% EBITDA growth

- Revenue/EBITDA/PAT at INR28.5b/INR6.8b/INR4.4b was up 9%/55%/88% YoY and was 2%/3%/5% above our estimate.
- Volume grew 8% YoY to 5.67mt (v/s est. 5.58mt), led by strong rural demand.
- Realization rose 2% YoY (-3% QoQ) to INR4,942/t (v/s est. INR4,939/t), driven by higher market prices.
- Cost per ton declined 8% YoY to INR3,831/t (+2% QoQ) (est. INR3,812/t). Majority of the reduction was led by 22% YoY decline in other expenses/t (largely due to cost cuts post COVID-19) and lower power and fuel costs.
- EBITDA/t improved 43% YoY (-16% QoQ) to INR1,200 (v/s est. INR1,185/t). EBITDA margins expanded by 7.1pp YoY to 23.9%.
- 9M CY20 revenue/EBITDA/Adj. PAT stands at INR78.6b/INR18.8b/INR12.9b, (-8%/+17%/+20% YoY).

### Highlights from management commentary

- Management expects demand to remain strong, led by multiple policy support measures to enhance rural incomes. Spend on infrastructure and affordable housing should boost demand in the mid-term.
- Marwar-Mundwa (3.1mtpa clinker, 1.8mtpa cement) is scheduled to be commissioned in 2QCY21 (Dec'20 earlier) and will strengthen the company's market position in the North and West.
- Network optimization has gained momentum due to acceleration of Master Supply Agreement (MSA) with ACC while hike in diesel prices was mitigated through renegotiation of contracts and logistic efficiencies.
- Sharp reduction in other expenses was achieved due to reduction in fixed costs coupled with various cost optimization initiatives.

### Valuation and view

- While commissioning of Marwar-Mundwa capacity (in 2QCY21) should aid volume growth from 2HCY21, we expect ACEM's volume growth to lag industry over the next two quarters due to capacity constraints.
- Despite the expansion, we estimate CY19-22E CAGR of only 5% in volume and 8% in PAT (partly due to lower cash-pile post the high dividend payout).
- We value ACEM at INR235/share based on 9x CY22E EV/EBITDA, but take a 10% holding company discount for its stake in ACC. We maintain **Neutral**.

Quarterly Perf. (S/A)											(INR Million)	
Y/E December	CY19				CY20E				CY19	CY20E	Est. 3QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales Volume (m ton)*	6.39	5.87	5.26	6.54	5.77	4.19	5.67	6.55	24.06	22.18	5.58	2
YoY Change (%)	2.2	-8.1	-4.2	6.7	-9.7	-28.6	7.8	0.2	-0.8	-7.8	6.0	
Realization (INR/ton)	4,455	4,961	4,859	4,645	4,783	5,119	4,942	4,804	4,719	4,894	4,939	0
YoY Change (%)	0.8	8.3	5.8	3.0	7.4	3.2	1.7	3.4	4.3	3.7	1.6	
QoQ Change (%)	-1.2	11.3	-2.0	-4.4	3.0	7.0	-3.5	-2.8			-3.5	
<b>Net Sales</b>	<b>29,276</b>	<b>29,783</b>	<b>26,261</b>	<b>31,359</b>	<b>28,275</b>	<b>21,768</b>	<b>28,525</b>	<b>31,885</b>	<b>116,679</b>	<b>110,453</b>	<b>27,860</b>	2
YoY Change (%)	2.3	-1.3	0.5	9.5	-3.4	-26.9	8.6	1.7	2.7	-5.3	6.1	
Total Expenditure	-24,644	-22,799	-21,863	-25,885	-22,243	-15,815	-21,721	-25,368	-95,190	-85,147	-21,255	2
<b>EBITDA</b>	<b>4,633</b>	<b>6,984</b>	<b>4,398</b>	<b>5,474</b>	<b>6,033</b>	<b>5,952</b>	<b>6,803</b>	<b>6,518</b>	<b>21,489</b>	<b>25,306</b>	<b>6,604</b>	3
Margins (%)	15.8	23.4	16.7	17.5	21.3	27.3	23.9	20.4	18.4	22.9	23.7	
Depreciation	1,314	1,309	1,329	1,487	1,379	1,289	1,287	1,312	5,438	5,266	1,350	
Interest	175	208	216	237	231	183	185	193	835	791	200	
Other Income	2,402	580	628	656	881	1,922	523	293	4,265	3,619	550	
<b>PBT before EO Item</b>	<b>5,546</b>	<b>6,047</b>	<b>3,481</b>	<b>4,407</b>	<b>5,304</b>	<b>6,402</b>	<b>5,855</b>	<b>5,306</b>	<b>19,480</b>	<b>22,867</b>	<b>5,604</b>	4
Extraordinary Inc/(Exp)	0	0	0	0	0	0	0	0	0	0	0	
<b>PBT after EO Exp/(Inc)</b>	<b>5,546</b>	<b>6,047</b>	<b>3,481</b>	<b>4,407</b>	<b>5,304</b>	<b>6,402</b>	<b>5,855</b>	<b>5,306</b>	<b>19,480</b>	<b>22,867</b>	<b>5,604</b>	4
Tax	1,276	1,926	1,135	-142	1,313	1,868	1,450	1,315	4,195	5,946	1,401	
Rate (%)	23.0	31.9	32.6	-3.2	24.8	29.2	24.8	24.8	21.5	26.0	25.0	
<b>Reported Profit</b>	<b>4,270</b>	<b>4,121</b>	<b>2,346</b>	<b>4,549</b>	<b>3,991</b>	<b>4,534</b>	<b>4,405</b>	<b>3,992</b>	<b>15,285</b>	<b>16,922</b>	<b>4,203</b>	5
<b>Adj PAT</b>	<b>4,270</b>	<b>4,121</b>	<b>2,346</b>	<b>4,549</b>	<b>3,991</b>	<b>4,534</b>	<b>4,405</b>	<b>3,992</b>	<b>15,285</b>	<b>16,922</b>	<b>4,203</b>	5
YoY Change (%)	57.1	-17.5	31.4	75.3	-6.5	10.0	87.8	-12.3	26.4	10.7	79.2	

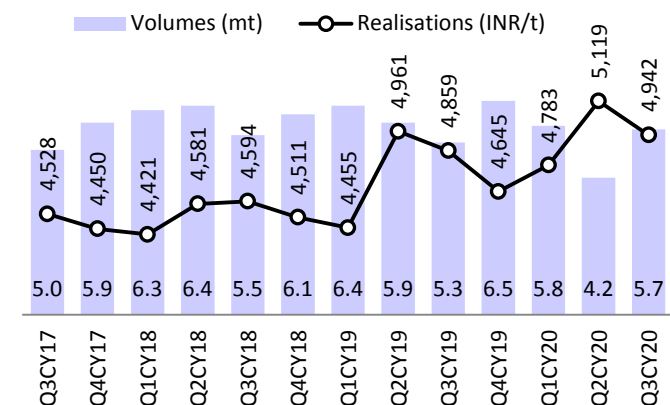
## Income statement (INR/ton)

	3QCY20	3QCY19	YoY (%)	2QCY20	QoQ (%)
<b>Net Realization</b>	<b>5,031</b>	<b>4,993</b>	<b>1%</b>	<b>5,195</b>	<b>-3%</b>
Raw Material	449	406	11%	553	-19%
Staff Cost	286	319	-10%	357	-20%
Power & Fuel	1,014	1,138	-11%	988	3%
Freight	1,306	1,292	1%	1,201	9%
Other exp	776	1,001	-22%	676	15%
<b>Total Cost</b>	<b>3,831</b>	<b>4,156</b>	<b>-8%</b>	<b>3,775</b>	<b>1%</b>
<b>EBITDA</b>	<b>1,200</b>	<b>836</b>	<b>43%</b>	<b>1,421</b>	<b>-16%</b>

Source: Company, MOFSL

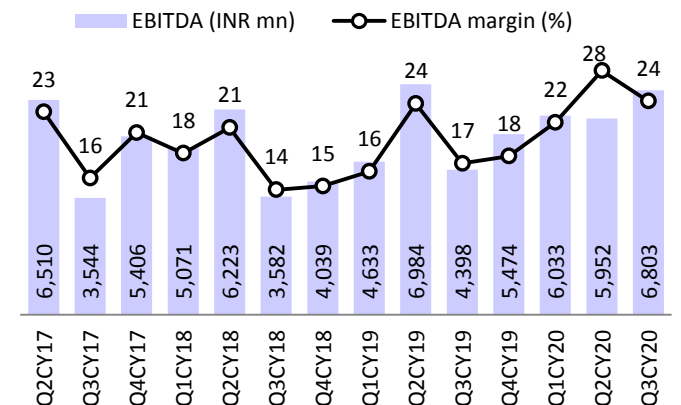
## Key exhibits

**Exhibit 1: Volume grew 8% YoY and realization by 2% YoY**



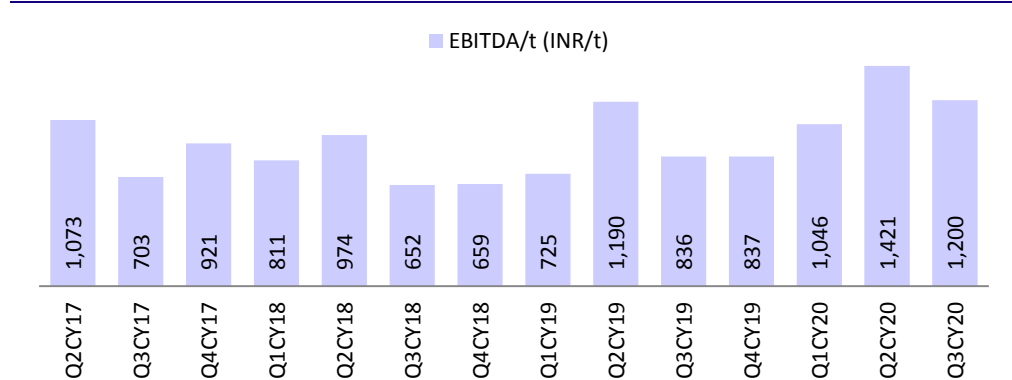
Source: Company, MOFSL

**Exhibit 2: Margin expanded by 710bp YoY**



Source: Company, MOFSL

**Exhibit 3: Achieved highest 3QCY20 EBITDA/t of INR1,200**



Source: MOFSL, Company

## Valuation and view

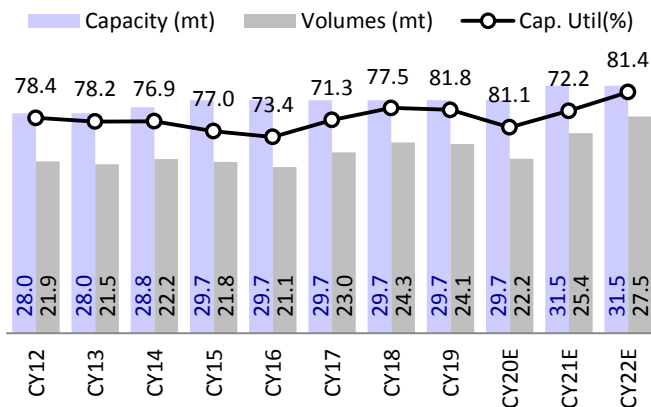
- Management change is positive:** ACEM has recently appointed Mr. Neeraj Akhoury as the MD and CEO. Mr. Akhoury was earlier the MD and CEO of Ambuja's subsidiary – ACC, where he is credited with arresting market share decline for the company after a gap of 10 years as well as implementing strong cost control. Moreover, he has also been appointed as the India CEO of Lafarge Holcim and a Non-Executive Director on the board of ACC. This move should help in better strategic alignment between Ambuja and its subsidiary ACC and help unlock benefits under the Master Supply Agreement (MSA) between the two companies.
- New capacity to arrest market share loss, but only till CY22:** ACEM has lost 250bp all-India volume market share (currently 7%) over the past 10 years due to the lack of capacity growth. While the green-field Marwar-Mundwa plant (3.1mtpa clinker, 1.8mtpa cement) in Rajasthan to be commissioned by Jun'21 should help ACEM grow in line with the market in CY21-22E (11% volume CAGR), we expect market share losses to start again in CY23 in the absence of any announced growth plan.
- Earnings growth to be muted:** Despite the capacity expansion, we expect EPS growth over CY20-22E to be muted at 7% CAGR due to (a) expiry of ~INR80/t incentive at Maratha plant in CY20, (b) lower other income owing to decline in yields as well as lower cash balance from CY21, which was on account of large

one-time dividend payout (INR17/share) in CY20, and (c) an increase in fixed costs as well as depreciation related to the greenfield Marwar-Mundwa project.

- **Valuation:** We value ACEM at INR235/share based on 9x CY22E EV/EBITDA, but take 10% holding company discount for its stake in ACC. We maintain our **Neutral** rating.

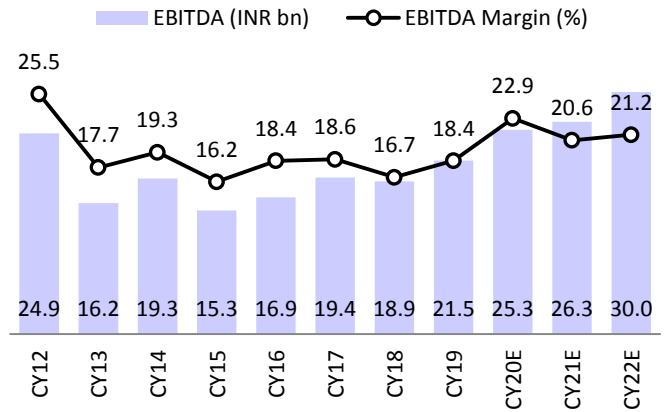
## Story in charts

**Exhibit 4: Expansion to aid volume growth over CY21-22E**



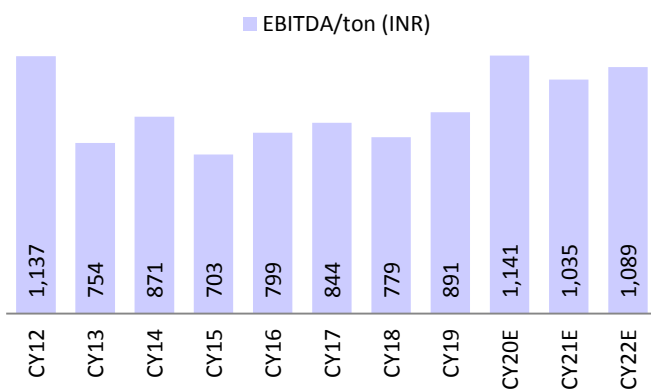
Source: Company, MOFSL

**Exhibit 5: Expect EBITDA CAGR of 9% over CY20-22E**



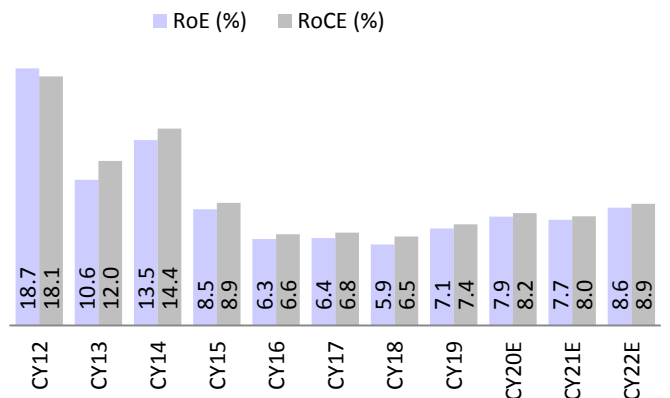
Source: Company, MOFSL

**Exhibit 6: EBITDA/t to decline over CY20-22E**



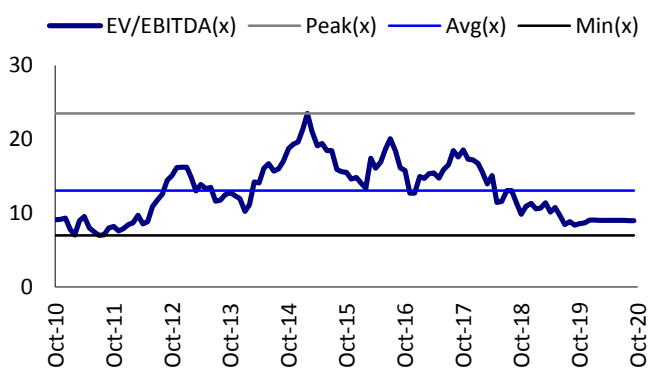
Source: Company, MOFSL

**Exhibit 7: Return ratios to improve only marginally**



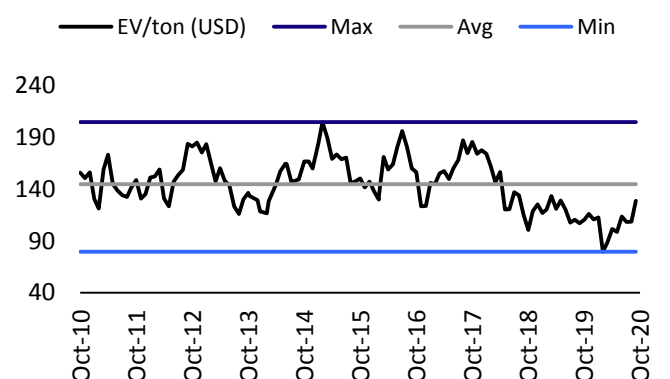
Source: Company, MOFSL

**Exhibit 8: ACEM EV/EBITDA**



Source: MOFSL, Company

**Exhibit 9: ACEM EV/t**



Source: MOFSL, Company

## Financials and valuations

Income Statement							(INR M)		
Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E	
Gross Sales	107,681	105,008	112,251	113,568	116,679	110,453	127,773	141,617	
Less: Excise Duty	13,026	13,042	7,680	0	0	0	0	0	
<b>Net Sales</b>	<b>94,655</b>	<b>91,966</b>	<b>104,571</b>	<b>113,568</b>	<b>116,679</b>	<b>110,453</b>	<b>127,773</b>	<b>141,617</b>	
Change (%)	-5.2	-2.8	13.7	8.6	2.7	-5.3	15.7	10.8	
Total Expenditure	79,340	75,043	85,170	94,653	95,190	85,147	101,468	111,613	
% of Sales	83.8	81.6	81.4	83.3	81.6	77.1	79.4	78.8	
<b>EBITDA</b>	<b>15,315</b>	<b>16,924</b>	<b>19,401</b>	<b>18,915</b>	<b>21,489</b>	<b>25,306</b>	<b>26,306</b>	<b>30,004</b>	
Change (%)	-20.6	10.5	14.6	-2.5	13.6	17.8	4.0	14.1	
Margin (%)	16.2	18.4	18.6	16.7	18.4	22.9	20.6	21.2	
Depreciation	6,257	8,489	5,729	5,481	5,438	5,266	6,148	6,441	
<b>EBIT</b>	<b>9,058</b>	<b>8,435</b>	<b>13,672</b>	<b>13,434</b>	<b>16,050</b>	<b>20,039</b>	<b>20,158</b>	<b>23,563</b>	
Interest	918	742	1,072	823	835	791	823	912	
Other Income - Rec.	3,582	5,102	3,591	3,391	4,265	3,619	2,620	3,370	
<b>PBT before EO Exp.</b>	<b>11,722</b>	<b>12,795</b>	<b>16,191</b>	<b>16,002</b>	<b>19,480</b>	<b>22,867</b>	<b>21,955</b>	<b>26,021</b>	
EO Exp/(Inc)	556	0	0	-2,779	0	0	0	0	
<b>PBT after EO Exp.</b>	<b>11,166</b>	<b>12,795</b>	<b>16,191</b>	<b>18,781</b>	<b>19,480</b>	<b>22,867</b>	<b>21,955</b>	<b>26,021</b>	
Current Tax	3,340	4,392	4,107	4,780	5,730	5,946	5,708	6,765	
Deferred Tax	-249	-920	-411	-869	-1,535	0	0	0	
Tax Rate (%)	27.7	27.1	22.8	20.8	21.5	26.0	26.0	26.0	
<b>Reported PAT</b>	<b>8,076</b>	<b>9,322</b>	<b>12,496</b>	<b>14,870</b>	<b>15,285</b>	<b>16,922</b>	<b>16,247</b>	<b>19,255</b>	
<b>PAT Adj for EO Items</b>	<b>8,631</b>	<b>9,322</b>	<b>12,496</b>	<b>12,091</b>	<b>15,285</b>	<b>16,922</b>	<b>16,247</b>	<b>19,255</b>	
Change (%)	-34.6	8.0	34.0	-3.2	26.4	10.7	-4.0	18.5	
Margin (%)	9.1	10.1	11.9	10.6	13.1	15.3	12.7	13.6	

Balance Sheet							(INR M)		
Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E	
Equity Share Capital	3,104	3,971	3,971	3,971	3,971	3,971	3,971	3,971	
Total Reserves	99,965	189,597	195,761	206,154	218,081	201,246	213,522	227,813	
<b>Net Worth</b>	<b>103,069</b>	<b>193,569</b>	<b>199,732</b>	<b>210,125</b>	<b>222,052</b>	<b>205,218</b>	<b>217,493</b>	<b>231,784</b>	
Def. Liabilities	5,649	4,973	4,583	3,722	2,161	2,161	2,161	2,161	
Total Loans	387	157	241	397	353	353	353	353	
<b>Capital Employed</b>	<b>109,105</b>	<b>198,699</b>	<b>204,557</b>	<b>214,244</b>	<b>224,565</b>	<b>207,731</b>	<b>220,007</b>	<b>234,298</b>	
Gross Block	120,127	65,532	69,035	73,721	80,435	85,435	108,060	114,060	
Less: Accum. Depn.	59,206	6,116	11,816	17,085	22,310	27,577	33,724	40,166	
<b>Net Fixed Assets</b>	<b>60,920</b>	<b>59,416</b>	<b>57,220</b>	<b>56,636</b>	<b>58,125</b>	<b>57,858</b>	<b>74,336</b>	<b>73,894</b>	
Capital WIP	7,865	6,501	8,625	9,996	14,562	25,137	7,512	7,512	
Investments in subsidiaries	773	118,151	118,151	118,138	117,890	117,890	117,890	117,890	
Investments-Trade	21,488	10,951	15,128	2,305	6,537	6,537	6,537	6,537	
<b>Curr. Assets</b>	<b>50,573</b>	<b>38,509</b>	<b>47,144</b>	<b>64,792</b>	<b>72,793</b>	<b>45,599</b>	<b>60,254</b>	<b>76,043</b>	
Inventory	8,955	9,375	10,525	12,778	9,541	10,409	12,049	13,322	
Debtors	2,864	3,958	3,080	4,703	5,132	4,907	5,508	6,090	
Cash & Bank Bal	28,714	15,602	20,189	31,045	40,638	11,799	22,964	35,648	
Others	10,041	9,574	13,351	16,267	17,483	18,483	19,733	20,983	
<b>Curr. Liability &amp; Prov.</b>	<b>32,514</b>	<b>34,829</b>	<b>41,712</b>	<b>37,623</b>	<b>45,342</b>	<b>45,290</b>	<b>46,523</b>	<b>47,579</b>	
Creditors	21,317	33,516	40,488	36,327	43,985	43,956	45,189	46,245	
Provisions	11,197	1,314	1,223	1,296	1,357	1,334	1,334	1,334	
<b>Net Current Assets</b>	<b>18,059</b>	<b>3,680</b>	<b>5,433</b>	<b>27,169</b>	<b>27,451</b>	<b>308</b>	<b>13,732</b>	<b>28,464</b>	
<b>Appl. of Funds</b>	<b>109,105</b>	<b>198,699</b>	<b>204,557</b>	<b>214,244</b>	<b>224,565</b>	<b>207,731</b>	<b>220,007</b>	<b>234,298</b>	

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E
<b>Basic (INR)</b>								
EPS	5.6	4.7	6.3	6.1	7.7	8.5	8.2	9.7
Cash EPS	9.6	9.0	9.2	8.8	10.4	11.2	11.3	12.9
BV/Share	66.4	97.5	100.6	105.8	111.8	103.4	109.5	116.7
DPS	2.8	2.8	3.6	1.5	1.5	17.0	2.0	2.5
Payout (%)	64.8	68.5	64.9	22.3	19.5	199.5	24.4	25.8
<b>Valuation (x)</b>								
P/E				32.9	26.0	23.5	24.5	20.6
Cash P/E				22.6	19.2	17.9	17.8	15.5
P/BV				1.9	1.8	1.9	1.8	1.7
EV/Sales				3.1	2.9	3.2	2.8	2.5
EV/EBITDA				18.8	15.6	14.0	13.7	11.6
EV/Ton (Cap) - US\$				167	158	167	160	155
Dividend Yield (%)				1	0.6	6.7	0.8	1.0
<b>Return Ratios (%)</b>								
RoE	8.5	6.3	6.4	5.9	7.1	7.9	7.7	8.6
RoCE	8.9	6.6	6.8	6.5	7.4	8.2	8.0	8.9
RoIC	9.1	9.4	18.2	18.9	23.6	28.4	24.0	24.1
<b>Working Capital Ratios</b>								
Asset Turnover (x)	0.9	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Debtor (Days)	11.0	15.7	10.7	15.1	16.1	16.2	15.7	15.7
Inventory (Days)	35	37	37	41	30	34	34	34
Work Cap (Days)	69.6	14.6	19.0	87.3	85.9	1.0	39.2	73.4
<b>Leverage Ratio (x)</b>								
Current Ratio	1.6	1.1	1.1	1.7	1.6	1.0	1.3	1.6
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

Y/E December	2015	2016	2017	2018	2019	2020E	2021E	2022E
<b>(INR M)</b>								
OP/(Loss) before Tax	11,166	12,795	16,191	15,061	19,480	22,867	21,955	26,021
Depreciation	7,186	8,489	5,729	5,481	5,438	5,266	6,148	6,441
Interest & Finance Charges	-1,072	-1,247	-58	-709	-1,515	0	0	0
Direct Taxes Paid	-3,332	-3,187	-3,101	-6,251	-808	-5,946	-5,708	-6,765
(Inc)/Dec in WC	82	325	2,136	-6,166	3,877	-1,695	-2,258	-2,049
<b>CF from Operations</b>	<b>14,031</b>	<b>17,173</b>	<b>20,898</b>	<b>7,416</b>	<b>26,472</b>	<b>20,493</b>	<b>20,136</b>	<b>23,648</b>
Others	1,497	-3,015	-2,356	-2,406	-3,147	0	0	0
<b>CF from Operating incl EO</b>	<b>15,528</b>	<b>14,158</b>	<b>18,541</b>	<b>5,009</b>	<b>23,325</b>	<b>20,493</b>	<b>20,136</b>	<b>23,648</b>
(Inc)/Dec in FA	-6,169	-3,832	-5,427	-5,936	-11,114	-15,575	-5,000	-6,000
<b>Free Cash Flow</b>	<b>9,360</b>	<b>10,327</b>	<b>13,115</b>	<b>-927</b>	<b>12,211</b>	<b>4,918</b>	<b>15,136</b>	<b>17,648</b>
(Pur)/Sale of Investments	5,339	-30,859	3,468	3,393	3,734	0	0	0
Others	-1,597	14,253	-4,509	12,476				
<b>CF from Investments</b>	<b>-2,426</b>	<b>-20,438</b>	<b>-6,468</b>	<b>9,933</b>	<b>-7,380</b>	<b>-15,575</b>	<b>-5,000</b>	<b>-6,000</b>
Issue of Shares	-88	868	0	0	0	0	0	0
Inc/(Dec) in Debt	-1,392	-957	-793	216	0	0	0	0
Interest Paid	-389	-360	-1,143	-513	-558	0	0	0
Dividend Paid	-7,444	-5,516	-5,550	-4,498	-3,320	-33,756	-3,971	-4,964
Others	344	-868	0	12	11	0	0	0
<b>CF from Fin. Activity</b>	<b>-8,969</b>	<b>-6,833</b>	<b>-7,487</b>	<b>-4,784</b>	<b>-3,868</b>	<b>-33,756</b>	<b>-3,971</b>	<b>-4,964</b>
<b>Inc/Dec of Cash</b>	<b>4,133</b>	<b>-13,112</b>	<b>4,587</b>	<b>10,158</b>	<b>12,077</b>	<b>-28,838</b>	<b>11,165</b>	<b>12,684</b>
Opening Balance	24,581	28,714	15,602	20,189	31,045	40,638	11,799	22,964
<b>Closing Balance</b>	<b>28,714</b>	<b>15,603</b>	<b>20,189</b>	<b>30,347</b>	<b>43,121</b>	<b>11,799</b>	<b>22,964</b>	<b>35,648</b>

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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