

Ambuja Cements

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR275 **TP: INR275** **Neutral**

Bloomberg	ACEM IN
Equity Shares (m)	1,986
M.Cap.(INRb)/(USDb)	546.5 / 7.7
52-Week Range (INR)	291 / 137
1, 6, 12 Rel. Per (%)	2/-10/10
12M Avg Val (INR M)	1411
Free float (%)	36.9

Financial Snapshot (INR b)

Y/E Dec	2020	2021E	2022E
Sales	113.7	128.1	142.7
EBITDA	26.5	27.0	31.9
Adj. PAT	17.9	17.5	20.7
EBITDA Margin (%)	23.3	21.1	22.3
Adj. EPS (INR)	9.0	8.8	10.4
EPS Gr. (%)	24.2	-2.1	18.1
BV/Sh. (INR)	102.3	109.1	117.1

Ratios

Net D:E	-0.2	-0.2	-0.2
RoE (%)	8.4	8.4	9.2
RoCE (%)	8.7	8.6	9.5
Payout (%)	188.6	22.7	24.0

Valuations

P/E (x)	21.2	21.7	18.4
P/BV (x)	1.9	1.8	1.6
EV/EBITDA(x)	12.3	12.6	10.3
EV/ton (USD)	153.6	150.3	145.6
Div. Yield (%)	6.2	0.7	0.9
FCF Yield (%)	2.7	1.3	3.2

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	63.1	63.1	63.1
DII	11.8	13.5	13.4
FII	18.3	17.0	16.8
Others	6.8	6.4	6.7

FII Includes depository receipts

Expansion to improve near-term volumes

But growth visibility remains weak beyond CY22

- ACEM's 4QCY20 result highlights gradual normalization of fixed costs curtailed due to the COVID-19 pandemic. Capacity constraints resulted in below industry growth in volumes at 8% YoY.
- Commissioning of Marwar-Mundwa capacity (in 2QCY21) should help volume grow in line with the industry at 11% CAGR over CY20-22E. We, however, maintain our **Neutral** rating due to weak growth visibility beyond CY22.

Higher cost led to 7% EBITDA miss

- Revenue/EBITDA/adjusted PAT stood at INR35.2b/INR7.7b/INR5b, up 12%/40%/52% YoY and +2%/-7%/-5% against our estimate.
- Volume grew 8% YoY to 7.05mt (v/s our expectation of 6.91mt and below industry growth of 10%). EBITDA/t declined 9% QoQ (+30% YoY) to INR1,089 (9% below our estimate) due to a 2% QoQ increase in cost to INR3,897/t (-2% YoY). Staff cost and other expenses were above our expectation due to gradual normalization of fixed costs curtailed due to the pandemic.
- Realization declined by 1% QoQ (+4% YoY) to INR4,986/t (in line with our estimate) due to weaker pricing in East India.
- The Board recommended a final dividend of INR1/share. The company had already announced an interim dividend of INR17/share for CY20.
- Net cash balance stood at INR29.2b (v/s INR45.1b in CY19 due to the dividend payout). CY20 OCF/capex/FCF stood at INR24.7b/INR9.8b/INR14.9b.
- Revenue/EBITDA/adjusted PAT came in at INR113.7b/INR26.5b/INR17.9b in CY20 (-3%/+23%/+24% YoY), while volumes declined 6% YoY to 22.67mt.

Management's focus on costs and expansion

- The management is evaluating capacity expansion plans across regions, with Bhatapara (Chhattisgarh) and Maratha (Maharashtra) being first in line. There is however no clarity on the timeline for the same.
- Commercial production at Marwar Mundwa (3mt clinker and 1.8mt grinding unit) will start from Jun'21 and achieve optimal utilization in CY22. Capacity utilization stood at 75%/90% in CY20/4Q.
- The Master Supply Agreement (MSA) between ACC and ACEM has resulted in combined cost savings of INR2.5bn and boosted PBT by 5% each in CY20. The 5% savings target at the PBT level will continue with the renewal of the MSA.
- In CY20, it achieved INR200/t in cost savings on account of project 'I CAN' and COVID-related cost cuts. Savings from 'I CAN' would increase with the commissioning of 54MW WHRS in CY22, which will increase its mix in power to 21% from 2% at present.

Weak growth visibility beyond CY22, valuation fair

- Commissioning of Marwar-Mundwa capacity (in 2QCY21) should help volume grow in line with the industry at 11% CAGR over CY20-22E. But growth visibility remains weak beyond CY22 as no expansion has been announced.
- Valuation at 10.3x CY22E EV-to-EBITDA seems fair. We maintain our **Neutral rating**. We value ACEM at INR275/share, based on 10x CY22E EV-to-EBITDA, but offer a 10% holding company discount for its stake in ACC.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Standalone quarterly performance

(INR m)

Y/E December	CY19				CY20				CY19	CY20	4Q CY20E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales Volume (mt)*	6.39	5.87	5.26	6.54	5.77	4.19	5.67	7.05	24.06	22.67	6.91	2
YoY Change (%)	2.2	-8.1	-4.2	6.7	-9.7	-28.6	7.8	7.8	-0.8	-5.8	5.7	
Realization (INR/t)	4,455	4,961	4,859	4,645	4,783	5,119	4,942	4,919	4,719	4,929	4,923	0
YoY Change (%)	0.8	8.3	5.8	3.0	7.4	3.2	1.7	5.9	4.3	4.5	6.0	
QoQ Change (%)	-1.2	11.3	-2.0	-4.4	3.0	7.0	-3.5	-0.5			-0.4	
Net Sales	29,276	29,783	26,261	31,359	28,275	21,768	28,525	35,151	116,679	113,719	34,433	2
YoY Change (%)	2.3	-1.3	0.5	9.5	-3.4	-26.9	8.6	12.1	2.7	-2.5	9.8	
Total Expenditure	-24,644	-22,799	-21,863	-25,885	-22,243	-15,815	-21,721	-27,473	-95,190	-87,253	-26,192	5
EBITDA	4,633	6,984	4,398	5,474	6,033	5,952	6,803	7,678	21,489	26,466	8,241	-7
Margin (%)	15.8	23.4	16.7	17.5	21.3	27.3	23.9	21.8	18.4	23.3	23.9	
Depreciation	1,314	1,309	1,329	1,487	1,379	1,289	1,287	1,257	5,438	5,212	1,312	
Interest	175	208	216	237	231	183	185	233	835	831	211	
Other Income	2,402	580	628	656	881	1,922	523	394	4,265	3,720	293	
PBT before EO Item	5,546	6,047	3,481	4,407	5,304	6,402	5,855	6,583	19,480	24,144	7,011	-6
Extraordinary Inc./ (Exp.)	0	0	0	0	0	0	0	0	0	0	0	
PBT after EO Exp./ (Inc.)	5,546	6,047	3,481	4,407	5,304	6,402	5,855	6,583	19,480	24,144	7,011	-6
Tax	1,276	1,926	1,135	-142	1,313	1,868	1,450	1,612	4,195	6,243	1,758	
Rate (%)	23.0	31.9	32.6	-3.2	24.8	29.2	24.8	24.5	21.5	25.9	25.1	
Reported Profit	4,270	4,121	2,346	4,549	3,991	4,534	4,405	4,971	15,285	17,901	5,253	-5
Adjusted PAT	4,104	4,475	2,576	3,261	3,991	4,534	4,405	4,971	14,415	17,901	5,253	-5
YoY Change (%)	51.0	-10.4	44.2	25.7	-2.7	1.3	71.0	52.4	19.2	24.2	15.5	

Income Statement (INR/t)

	4QCY20	4QCY19	YoY	3QCY20	QoQ
Net realization	4,986	4,795	4%	5,031	-1%
Raw Material	636	555	15%	449	42%
Staff Cost	262	258	2%	286	-8%
Power and Fuel	994	1,023	-3%	1,014	-2%
Freight	1,233	1,281	-4%	1,306	-6%
Other expenses	771	840	-8%	776	-1%
Total cost	3,897	3,958	-2%	3,831	2%
EBITDA	1,089	837	30%	1,200	-9%

Source: Company, MOFSL

Highlights from the management commentary

Key highlights

- Capacity utilization stood at 75%/90% in CY20/4Q. It clocked its highest ever quarterly cement production and sales volume at 7.05mt (8% YoY) in 4QCY20.
- The management expects 15% demand growth in CY21, led by strong housing demand and revival in institutional and commercial demand. Focus on the Infrastructure sector and rural economy in Union Budget 2021-22 will aid demand growth.
- Commercial production at Marwar Mundwa (3mt clinker and 1.8mt grinding unit) will start from Jun'21 and achieve optimal utilization in CY22.
- The management is evaluating capacity expansion plans across regions and at locations with adequate raw material availability. It is evaluating expansions at Bhatapara and Maratha to strengthen its presence in East and West India and has enough cash to fund its capex plans.
- The MSA between ACC and ACEM has resulted in combined cost savings of INR2.5bn and boosted PBT by 5% each in CY20. The 5% savings target at the PBT level will continue with the renewal of the MSA.
- In CY20, it achieved INR200/t in cost savings on account of project 'I CAN' and COVID-related cost cuts. Savings from 'I CAN' would increase with the

commissioning of 54MW WHRS in CY22, but fixed costs like advertising spends would rise.

Operational highlights

- Capacity utilization stood at 75%/90% in CY20/4Q.
- In 4QCY20, it clocked its highest ever quarterly cement production and sales volume at 7.05mt (8% YoY).
- Clinker factor stood at 64.5% in CY20 v/s 64.9% in CY19.
- Trade sales mix stands at 84%.
- Sales of Specialty products grew 16% YoY and accounted for 12% of trade sales volume in 4QCY20 v/s ~10% in 1Q.
- In CY20, margin expansion was driven by higher share of Specialty products, synergies from the MSA with ACC, increase in direct dispatches, operational cost efficiency measures, fixed cost optimization, and better raw material mix.

Capex and projects

- In CY22, 54MW of WHRS would be commissioned at Darlaghat, Bhatapara and Marwar Mundwa.
- The company is setting up a railway siding at Rabriyawas.
- It has also begun mining operations at the Gare Palma Coal block, which would produce 1mtpa and substitute imported coal and petcoke.

Key exhibits

Exhibit 1: Volume/realization grew 8%/6% YoY

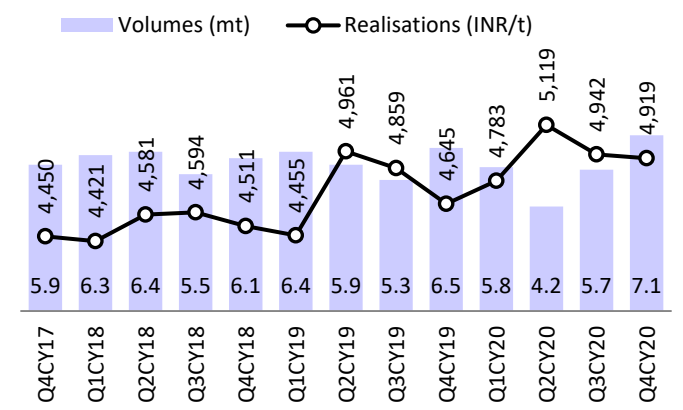


Exhibit 2: Margin expanded 439bp YoY

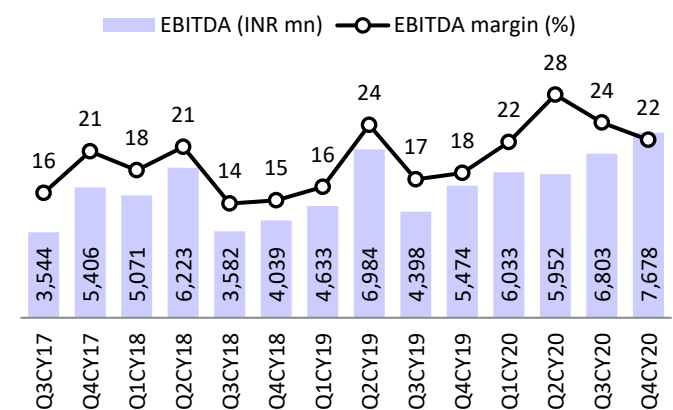
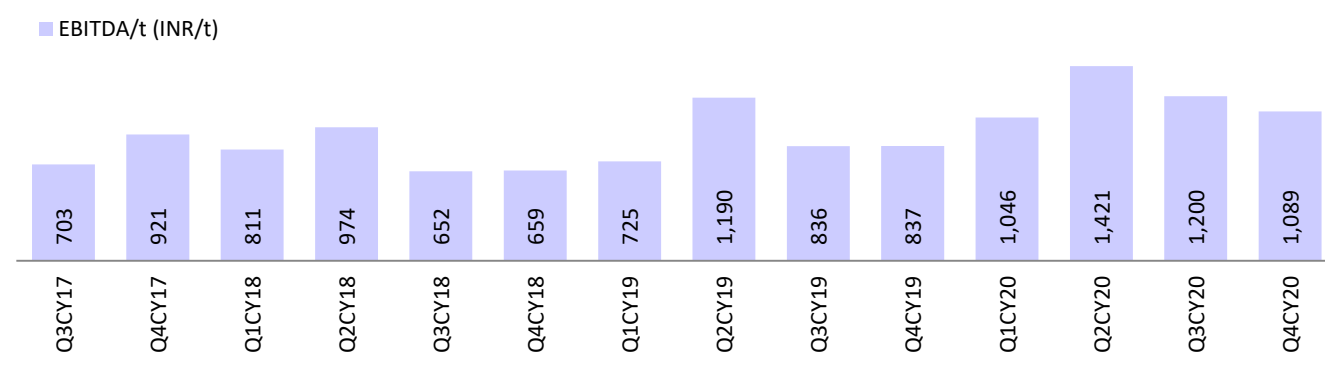


Exhibit 3: EBITDA/t up 30% YoY



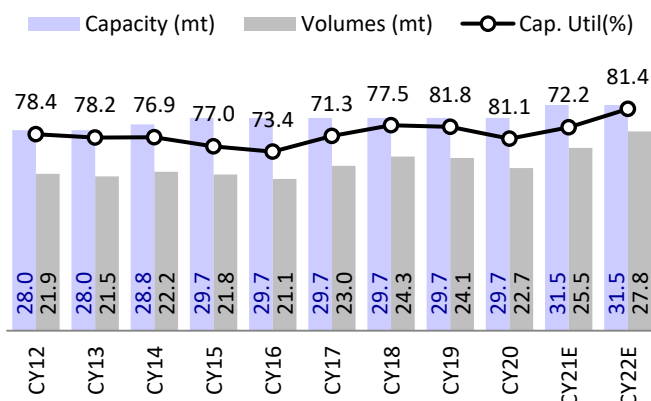
Source: MOFSL, Company

Valuation and view

- New capacity to arrest market share loss, but only till CY22:** ACEM has lost an all-India volume market share of 250bp (currently at 7%) over the past decade due to the lack of capacity growth. While the greenfield Marwar-Mundwa plant (3mtpa clinker, 1.8mtpa cement) in Rajasthan, to be commissioned by Jun'21, should help it grow in line with the market in CY20-22E (11% volume CAGR), we expect market share losses to start again in CY23E in the absence of any announced growth plan.
- New management structure is business friendly:** LafargeHolcim had tweaked its India management structure in early CY20 by appointing ACEM MD and CEO Mr. Akhoury as India CEO of LafargeHolcim as well as the Non-Executive Director on the board of ACC. This move should aid better strategic alignment between ACEM and its subsidiary ACC and help unlock benefits under the Master Supply Agreement (MSA) between the two companies.
- Earnings growth to remain muted:** Despite the capacity expansion, we expect EPS growth over CY20-22E to be muted at 8% CAGR due to: a) normalization of fixed costs that were cut once the COVID-19 pandemic ends, and b) lower other income due to a smaller cash balance after a large one-time dividend payout (INR17/share) in CY20.
- Valuation:** We value ACEM at INR275/share, based on 10x CY22E EV-to-EBITDA, but offer a 10% holding company discount for its stake in ACC. We maintain our **Neutral** rating.

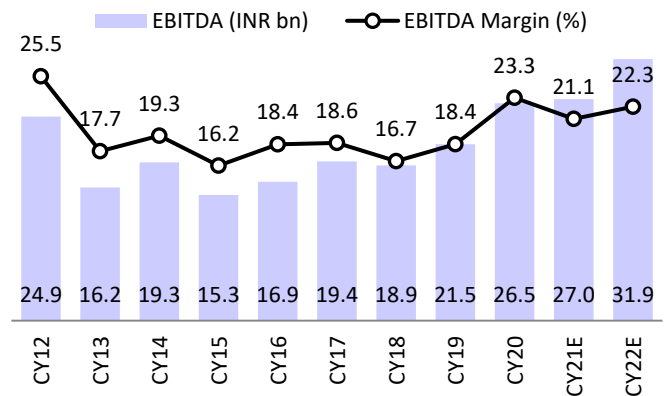
Story in charts

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



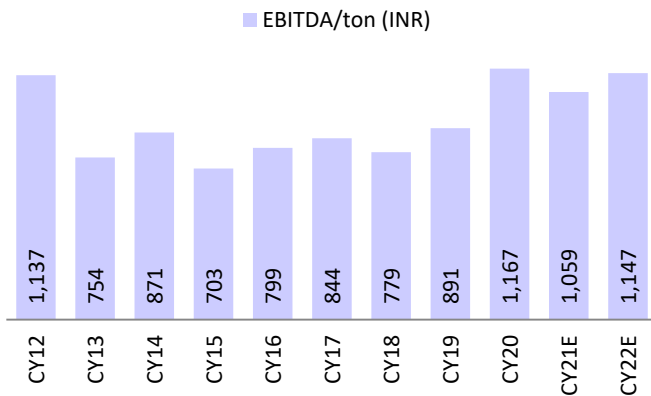
Source: Company, MOFSL

Exhibit 5: Expect 10% EBITDA CAGR over CY20-22E



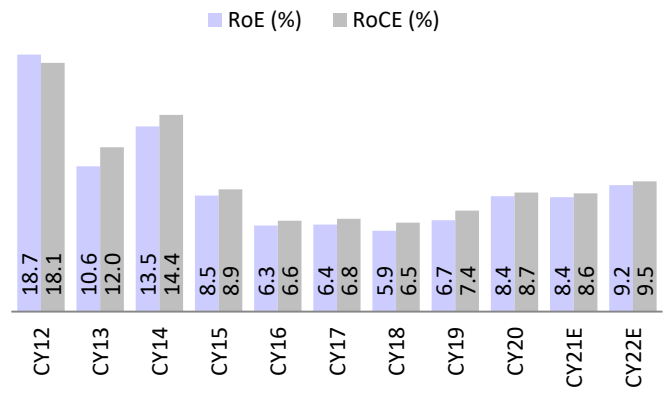
Source: Company, MOFSL

Exhibit 6: EBITDA/t to decline in the near term



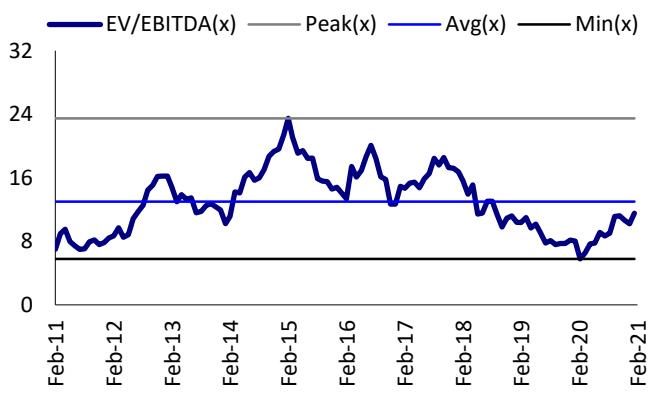
Source: Company, MOFSL

Exhibit 7: Return ratios to improve only marginally



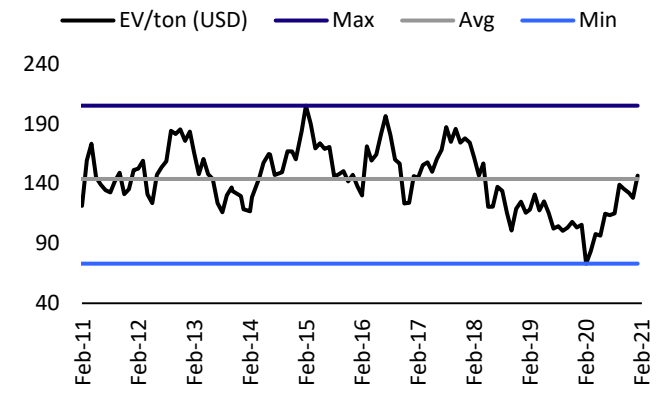
Source: Company, MOFSL

Exhibit 8: EV-to-EBITDA back to its long-term average...



Source: MOFSL, Company

Exhibit 9: ...and so is EV-to-capacity



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR M)	
Y/E December	2015	2016	2017	2018	2019	2020	2021E	2022E
Gross Sales	107,681	105,008	112,251	113,568	116,679	113,719	128,142	142,663
Less: Excise Duty	13,026	13,042	7,680	0	0	0	0	0
Net Sales	94,655	91,966	104,571	113,568	116,679	113,719	128,142	142,663
Change (%)	-5.2	-2.8	13.7	8.6	2.7	-2.5	12.7	11.3
Total Expenditure	79,340	75,043	85,170	94,653	95,190	87,253	101,162	110,806
% of Sales	83.8	81.6	81.4	83.3	81.6	76.7	78.9	77.7
EBITDA	15,315	16,924	19,401	18,915	21,489	26,466	26,980	31,857
Change (%)	-20.6	10.5	14.6	-2.5	13.6	23.2	1.9	18.1
Margin (%)	16.2	18.4	18.6	16.7	18.4	23.3	21.1	22.3
Depreciation	6,257	8,489	5,729	5,481	5,438	5,212	5,799	6,387
EBIT	9,058	8,435	13,672	13,434	16,050	21,254	21,181	25,470
Interest	918	742	1,072	823	835	831	826	919
Other Income - Rec.	3,582	5,102	3,591	3,391	4,265	3,720	3,289	3,383
PBT before EO Exp.	11,722	12,795	16,191	16,002	19,480	24,144	23,645	27,934
EO Exp/(Inc)	556	0	0	-2,779	0	0	0	0
PBT after EO Exp.	11,166	12,795	16,191	18,781	19,480	24,144	23,645	27,934
Current Tax	3,340	4,392	4,107	4,780	5,730	6,520	6,114	7,223
Deferred Tax	-249	-920	-411	-869	-1,535	-278	0	0
Tax Rate (%)	27.7	27.1	22.8	20.8	21.5	25.9	25.9	25.9
Reported PAT	8,076	9,322	12,496	14,870	15,285	17,901	17,531	20,712
PAT Adj for EO Items	8,631	9,322	12,496	12,091	14,415	17,901	17,531	20,712
Change (%)	-34.6	8.0	34.0	-3.2	19.2	24.2	-2.1	18.1
Margin (%)	9.1	10.1	11.9	10.6	12.4	15.7	13.7	14.5

Balance Sheet							(INR M)	
Y/E December	2015	2016	2017	2018	2019	2020	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	199,187	212,747	228,495
Net Worth	103,069	193,569	199,732	210,125	222,052	203,159	216,719	232,466
Def. Liabilities	5,649	4,973	4,583	3,722	2,161	1,860	1,860	1,860
Total Loans	387	157	241	397	353	436	353	353
Capital Employed	109,105	198,699	204,557	214,244	224,565	205,454	218,931	234,678
Gross Block	120,127	65,532	69,035	73,721	80,435	86,837	115,337	125,117
Less: Accum. Depn.	59,206	6,116	11,816	17,085	22,310	27,522	33,321	39,708
Net Fixed Assets	60,920	59,416	57,220	56,636	58,125	59,315	82,016	85,409
Capital WIP	7,865	6,501	8,625	9,996	14,562	18,737	3,002	1,112
Investments in subsidiaries	773	118,151	118,151	118,138	117,890	117,877	117,877	117,877
Investments-Trade	21,488	10,951	15,128	2,305	6,537	6,188	6,188	6,188
Curr. Assets	50,573	38,509	47,144	64,792	72,793	52,697	61,670	76,918
Inventory	8,955	9,375	10,525	12,778	9,541	7,466	8,651	9,588
Debtors	2,864	3,958	3,080	4,703	5,132	1,915	5,191	5,753
Cash & Bank Bal	28,714	15,602	20,189	31,045	40,638	29,243	32,506	45,006
Others	10,041	9,574	13,351	16,267	17,483	14,072	15,322	16,572
Curr. Liability & Prov.	32,514	34,829	41,712	37,623	45,342	49,360	51,822	52,826
Creditors	21,317	33,516	40,488	36,327	43,985	48,765	50,488	51,492
Provisions	11,197	1,314	1,223	1,296	1,357	595	1,334	1,334
Net Current Assets	18,059	3,680	5,433	27,169	27,451	3,337	9,848	24,092
Appl. of Funds	109,105	198,699	204,557	214,244	224,565	205,454	218,931	234,678

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	5.6	4.7	6.3	6.1	7.3	9.0	8.8	10.4
Cash EPS	9.6	9.0	9.2	8.8	10.0	11.6	11.7	13.6
BV/Share	66.4	97.5	100.6	105.8	111.8	102.3	109.1	117.1
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	188.6	22.7	24.0
Valuation (x)								
P/E				31.4	26.4	21.2	21.7	18.4
Cash P/E				21.6	19.1	16.4	16.3	14.0
P/BV				1.8	1.7	1.9	1.8	1.6
EV/Sales				3.0	2.7	2.9	2.6	2.3
EV/EBITDA				17.8	14.8	12.3	12.6	10.3
EV/Ton (Cap) - US\$				159	150	154	150	146
Dividend Yield (%)				1	1	6	0.7	0.9
Return Ratios (%)								
RoE	8.5	6.3	6.4	5.9	6.7	8.4	8.4	9.2
RoCE	8.9	6.6	6.8	6.5	7.4	8.7	8.6	9.5
RoIC	9.1	9.4	18.2	18.9	23.6	34.6	29.9	27.7
Working Capital Ratios								
Asset Turnover (x)	0.9	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Debtor (Days)	11.0	15.7	10.7	15.1	16.1	6.1	14.8	14.7
Inventory (Days)	35	37	37	41	30	24	25	25
Work Cap (Days)	69.6	14.6	19.0	87.3	85.9	10.7	28.1	61.6
Leverage Ratio (x)								
Current Ratio	1.6	1.1	1.1	1.7	1.6	1.1	1.2	1.5
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	2020	2021E	2022E
(INR M)								
OP/(Loss) before Tax	11,166	12,795	16,191	15,061	19,480	24,144	23,645	27,934
Depreciation	7,186	8,489	5,729	5,481	5,438	5,212	5,799	6,387
Interest & Finance Charges	-1,072	-1,247	-58	-709	-1,515	-1,369	0	0
Direct Taxes Paid	-3,332	-3,187	-3,101	-6,251	-808	-4,648	-6,114	-7,223
(Inc)/Dec in WC	82	325	2,136	-6,166	3,877	3,676	-3,249	-1,744
CF from Operations	14,031	17,173	20,898	7,416	26,472	27,015	20,082	25,354
Others	1,497	-3,015	-2,356	-2,406	-3,147	-2,321	0	0
CF from Operating incl EO	15,528	14,158	18,541	5,009	23,325	24,694	20,082	25,354
(Inc)/Dec in FA	-6,169	-3,832	-5,427	-5,936	-11,114	-9,756	-12,765	-7,890
Free Cash Flow	9,360	10,327	13,115	-927	12,211	14,938	7,317	17,464
(Pur)/Sale of Investments	5,339	-30,859	3,468	3,393	3,734	3,341	0	0
Others	-1,597	14,253	-4,509	12,476				
CF from Investments	-2,426	-20,438	-6,468	9,933	-7,380	-6,415	-12,765	-7,890
Issue of Shares	-88	868	0	0	0	0	0	0
Inc/(Dec) in Debt	-1,392	-957	-793	216	0	-237	-83	0
Interest Paid	-389	-360	-1,143	-513	-558	-633	0	0
Dividend Paid	-7,444	-5,516	-5,550	-4,498	-3,320	-36,646	-3,971	-4,964
Others	344	-868	0	12	11	-88	0	0
CF from Fin. Activity	-8,969	-6,833	-7,487	-4,784	-3,868	-37,604	-4,055	-4,964
Inc/Dec of Cash	4,133	-13,112	4,587	10,158	12,077	-19,326	3,262	12,500
Opening Balance	24,581	28,714	15,602	20,189	31,045	40,638	29,243	32,506
Closing Balance	28,714	15,603	20,189	30,347	43,121	21,312	32,506	45,006

E: MOFSL Estimates

NOTES

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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