

July 26, 2021

Beats estimates with strong margins...

About the stock: Ambuja Cement (a Holcim group company) is a large cement player with capacity of over 29.7 MT spread across North-Central (40%), West (~35%) and East (~25%) India. It has a large marketing set-up, pan-India presence and strong operational linkages with ACC.

- The upcoming new capacity at Rajasthan will enhance its cement capacity by 1.8 MT to 31.5 MT and clinker capacity by 3.0 MT
- In the long run, the company plans to reach over ~50 MT capacity through significant de-bottlenecking and setting up of satellite grinding units

Q1FY22 Results: Ambuja Cement reported 149 bps QoQ expansion in margins leading to better profitability despite cost pressure.

- Clocked revenue of ₹ 3,371 crore, down 6.9% QoQ led by sales volumes de-growth of 11.3% to 6.4 MT. On a YoY basis, revenues were up 53.2%
- EBITDA/t was up 10.8% QoQ to ₹ 1,495/t (vs. last quarter EBITDA/t of ₹ 1,349/t). EBITDA margin was at 28.5%, up 149 bps QoQ, 112 bps YoY
- Reported PAT was at ₹ 723.1 crore, up 59.5% YoY, 8.8% QoQ vs. (our estimate: ₹ 542 crore)

What should investors do? Strong brand with pan India presence, cost efficient and robust balance sheet are key positives.

- With new capacities coming on stream from Q3CY21, we expect healthy double digit growth during CY20-22E. Hence, we maintain **BUY** rating

Target Price and Valuation: We value Ambuja at ₹ 490 i.e. 17x CY22E EV/EBITDA.

Key triggers for future price performance:

- New clinker capacity at Marwar Mundwa, Rajasthan (1.8 MT Cement, 3 MT clinker) to generate incremental sales of ~5 MT per annum from Q3CY21
- With ambition to reach 50 MT capacity, the company has further embarked upon new brownfield expansion of 1.5 MT cement grinding unit in Punjab.
- Strong b/s and efficient cement player in the industry

Alternate Stock Idea: Apart from Ambuja, in our cement sector coverage we also like UltraTech Cement.

- It is a market leader with strong brand in the retail segment. It has robust balance sheet and aims to become debt free by FY23E
- BUY with a target price of ₹ 8,700/share



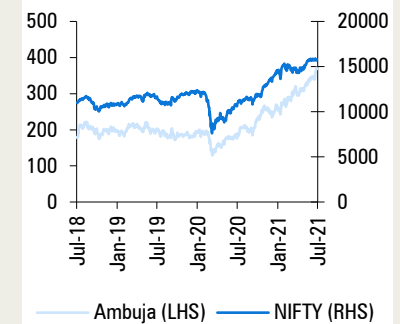
Particulars

Particular	Amount
Market cap	₹ 80816 crore
Debt (CY20)	₹ 72 crore
Cash & Invest (CY20)	₹ 686 crore
EV	₹ 80202 crore
52 week H/L	₹ 410 / 196
Equity capital	₹ 397.1 crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	63.3	63.3	63.3	63.3
FII	16.8	18.1	17.8	17.7
DII	13.3	11.5	12.4	12.5
Others	6.6	7.1	6.6	6.5

Price Chart



Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in prices of imported coal/petcoke may impact margins

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Key Financial Summary

Key Financials	CY16	CY18	CY19	CY20	3 Year CAGR (%)	CY21E	CY22E	2 Year CAGR (%)
Net Sales	9,197	11,357	11,668	11,372	7.3	14,222	15,367	16.2
EBITDA	1,692	1,891	2,149	2,647	16.1	3,418	3,706	18.3
EBITDA (%)	18.4	16.7	18.4	23.3		24.0	24.1	
PAT	932	1,245	1,529	1,790	24.3	2,298	2,615	20.9
EPS (₹)	4.7	6.3	7.7	9.0		11.6	13.2	
EV/EBITDA - Adjusted	46	28.2	23.6	21.0		15.1	13.9	
EV/T (\$) - Consolidated	249	239	235	247		222	219	
RoNW (%)	6.7	13.5	14.7	20.3		22.7	22.2	
RoCE (%)	12.8	11.8	12.2	17.6		20.0	20.0	

Source: Company, ICICI Direct Research

Key performance highlights

- Domestic sales volumes were at 6.42 MT (down 11.3% QoQ) while blended realisations were up 5% QoQ to ₹ 5,251/tonne, up 1.1% YoY
- Capacity utilisation was at 87% vs. 97% in Q4FY21. Blended cement ratio were more than 90% for the quarter
- Cost of production was up 2.8% QoQ to ₹ 3756/t, led by a sharp rise in the diesel, petcoke, coal prices (up 6%, 12%, 19% QoQ, respectively)
- However, EBITDA/t improved sequentially by 10.8% to ₹ 1495/t (vs. I-direct estimate: ₹ 1,301/t) on back of higher realisations

Other key highlights

- Sales of value added products are up 69% YoY in Q2FY21, contributing 12% of revenues
- Waste heat recovery system (WHRS) projects of 54 MW at Bhatpara, Darlaghat and Marwar Mundwa are as per their schedule
- The greenfield project at Marwar Mundwa, Rajasthan (1.8 MT Cement, 3 MT clinker) is expected to be commissioned by Q3CY21. This will take its total capacity to 31.5 MT. This would further improve cement sales by ~5 MT
- With ambition to reach ~50 MT capacity, the company has further embarked upon a new brownfield expansion of ~1.5 MT cement grinding unit at Ropar, Punjab

Exhibit 1: Variance Analysis

	Q2CY21	Q2CY21E	Q2CY20	YoY(%)	Q1CY21	QoQ(%)	Comments
Net Sales	3,371	3,163	2,177	54.9	3,621	-6.9	Sales volume were down 11.3% QoQ while realisation remained higher by 5% leading QoQ revenue de-growth of 6.9% only.
Other Incomes	161	75	192	-16.2	55	191.9	
Total cost	2,412	2,364	1,582	52.5	2,645	-8.8	
EBITDA	960	799	595	61.2	977	-1.8	
EBITDA Margin (%)	28.5	25.3	27.3	112 bps	27.0	149 bps	Higher realisations supported margin expansion despite cost increase of 2.8% QoQ.
Adjusted PAT	723.1	542.3	453	59.5	665	8.8	

Key Metrics

Volume (MT)	6.42	6.14	4.19	53.2	7.24	-11.3
Realisation (₹)	5,251	5,150	5,195	1.1	5,002	5.0
EBITDA per Tonne (₹)	1,495	1,301	1,421	5.2	1,349	10.8

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY21E			CY22E		
	Old	New	% Change	Old	New	% Change
Revenue	13,722	14,222	3.6	14,891	15,367	3.2
EBITDA	3,161	3,196	1.1	3,287	3,706	12.8
EBITDA Margin (%)	23.0	22.5	-2.5	22.1	24.1	9.3

Source: Company, ICICI Direct Research

Key triggers for future price performance

To enhance capacity to ~50 MT from current ~29.7 MT

The company has laid out growth plans to increase its capacity in India with the aim to become a 50 MT player from current 29.7 MT. In terms of regions, Ambuja is exploring opportunities in 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.

Strong b/s to support expansion, help improve return ratios

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 through debottlenecking. 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

While short-term demand has got impacted due to Covid induced restrictions, the long-term growth trajectory of the company remains healthy with capacity expansions backed by strong b/s. Hence, we maintain **BUY** rating with a target price of ₹ 365 (implying a consolidated EV/t of \$154 on expanded capacity and 14.5x CY22E EV/EBITDA).

Exhibit 3: Valuation matrix

	Sales	rowth	EPS	rowth	PE	EV/Tonne	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(\$)	(x)	(%)	(%)
CY18	11,357	-1.8	5.6	15.4	72	239	28.2	13.5	11.8
CY19	11,668	2.7	7.7	37.1	53	235	23.6	14.7	12.2
CY20	11,372	-2.5	9.0	17.1	45	247	21.0	20.3	17.6
CY21E	14,222	25.1	11.6	28.4	35	222	15.1	22.7	20.0
CY22E	15,367	8.1	13.2	13.8	31	219	13.9	22.2	20.0

Source: Company, ICICI Direct Research

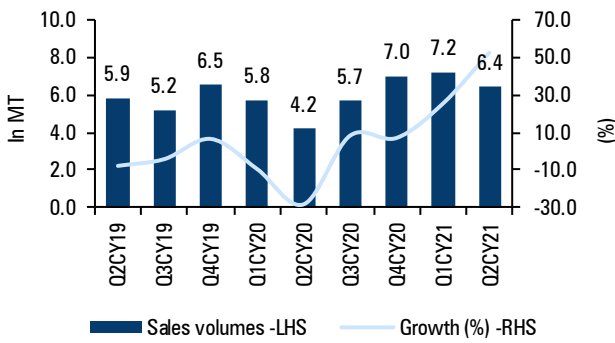
Exhibit 4: Fair Value Calculation - SOTP

Fair value calculation	in ₹ crore
EBITDA Estimates CY22E	3706
Target EV/EBITDA	20
Target Enterprise value	73381
Debt	72
Balance Cash and cash equivalents	1639
Target equity value	74949
No. of shares outstanding	199
Fair value of Ambuja [A]	377
ACC's fair equity valuation	52584
Valuation of 50% stake [B]	26292
Holding company discount	15%
Net value to Ambuja	22348
No. of shares outstanding	199
Fair value of Investment in ACC [B]	113
Fair value per share [A+B]	490

Source: Company, ICICI Direct Research

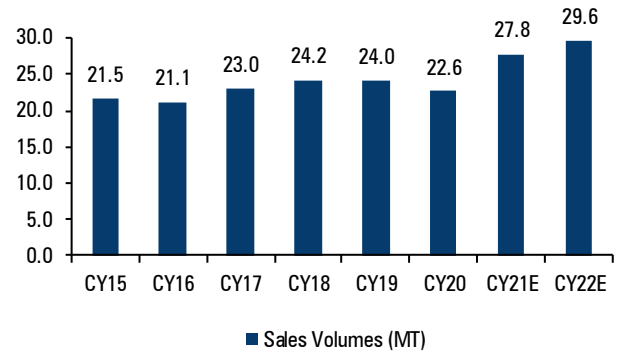
Financial story

Exhibit 5: Sales volumes decline 11.3% QoQ



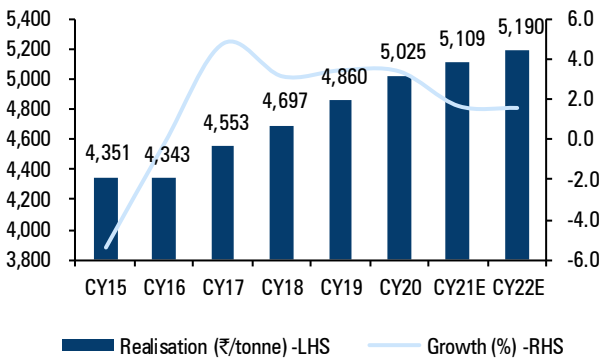
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 14.4% CAGR over CY20-22E



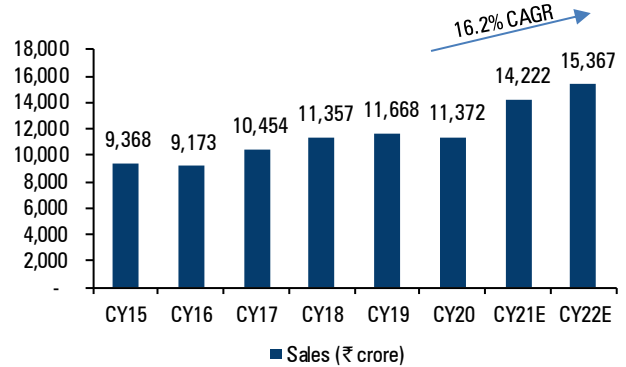
Source: Company, ICICI Direct Research

Exhibit 7: Realisations to remain firm on strong demand



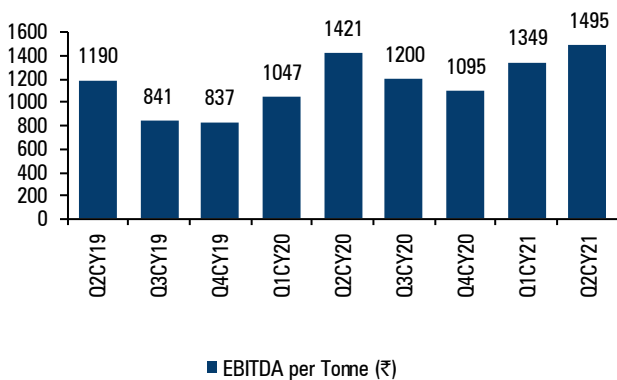
Source: Company, ICICI Direct Research

Exhibit 8: Revenue to grow at 16.2% CAGR CY20-22E



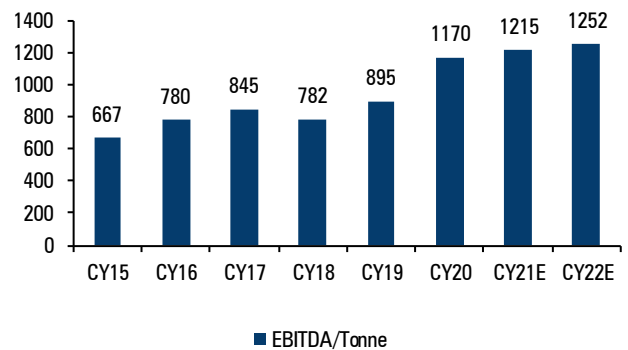
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t for Q2CY21 grows 5% YoY



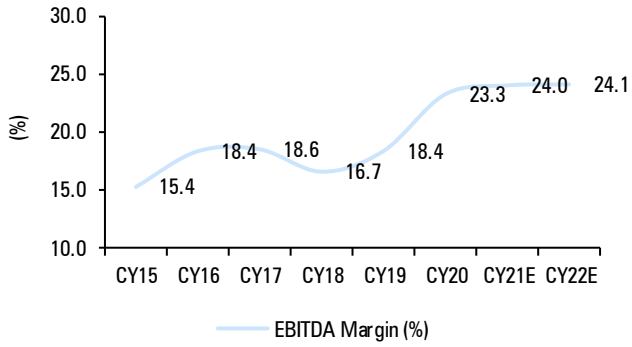
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t to remain healthy despite gradual rise in costs



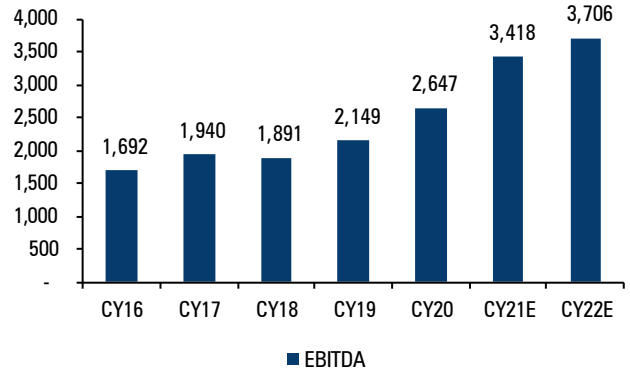
Source: Company, ICICI Direct Research

Exhibit 11: Margins to stabilise from CY21E onwards



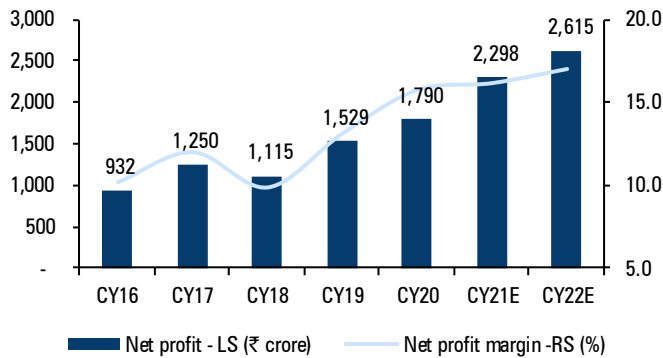
Source: Company, ICICI Direct Research

Exhibit 12: Expect EBITDA CAGR of 18.3% during CY20-22E



Source: Company, ICICI Direct Research

Exhibit 13: PAT to grow at CAGR of 20.9% during CY20-22E



Source: Company, ICICI Direct Research

Exhibit 14: Capacity expansion plans

Particulars	Capacity (MT)
Existing Grinding capacity (MT)	29.7
Ongoing expansion:	
Marwar, Rajasthan (3.0 MT clinker capacity)	1.8
Total	1.8
Total capacity by CY20E (MT)	31.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & Loss Account

(Year-end March)	CY19	CY20	CY21E	CY22E
Total operating Incor	11,667.9	11,371.9	14,221.8	15,367.4
Growth (%)	2.7	-2.5	25.1	8.1
Raw material	1125.5	1072.2	1436.0	1465.7
Power & Fuel	2586.4	2251.9	3263.3	3168.3
Employees	672.6	668.8	698.6	809.2
Freight	3094.2	2854.9	3497.6	3790.1
Others	2040.3	1763.4	2130.7	2428.0
Total Operating Exp.	9,519.0	8,611.2	11,026.2	11,661.3
EBITDA	2,148.9	2,760.7	3,195.6	3,706.1
Growth (%)	13.6	28.5	15.8	16.0
Depreciation	543.8	521.2	605.1	601.9
Interest	83.5	83.1	89.1	89.7
Other Income	426.5	372.0	346.2	480.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	1,948.1	2,528.5	2,847.6	3,494.6
Total Tax	419.5	624.3	771.5	879.6
PAT	1,528.6	1,904.2	2,076.1	2,615.0
Adjusted PAT	1,528.6	1,790.1	2,298.3	2,615.0
Growth (%)	22.8	17.1	28.4	13.8
Adjusted EPS (₹)	7.7	9.0	11.6	13.2

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet summary

(Year-end March)	CY19	CY20	CY21E	CY22E
Liabilities				
Equity Capital	397.1	397.1	397.1	397.1
Reserve and Surplus	21,808.1	20,222.5	21,528.0	23,150.2
Total Shareholders funds	22,205.2	20,619.7	21,925.2	23,547.3
Total Debt	71.7	71.7	71.7	71.7
Deferred Tax Liability	1,122.3	1,022.3	872.3	722.3
Total Liabilities	23,399.2	21,713.7	22,869.2	24,341.3
Assets				
Gross Block	14,112.9	14,411.6	16,621.6	17,771.6
Less: Acc Depreciation	8,300.4	8,856.6	9,461.8	10,063.7
Net Block	5,812.5	5,554.9	7,159.8	7,707.9
Capital WIP	1,108.7	2,760.0	1,800.0	1,400.0
Total Fixed Assets	6,921.2	8,314.9	8,959.8	9,107.9
Investments	11,789.0	11,789.0	11,789.0	11,789.0
Inventory	954.1	946.4	1,313.5	1,128.5
Debtors	513.2	421.5	747.5	515.6
Other assets	2,113.8	2,650.9	2,682.1	3,080.4
Cash	4,699.5	685.8	1,638.9	2,407.3
Total Current Assets	8,280.6	4,704.5	6,382.0	7,131.8
Creditors	2,673.8	2,622.7	3,611.5	3,124.9
Provisions	917.8	472.1	650.1	562.5
Total Current Liabilities	3,591.5	3,094.8	4,261.6	3,687.4
Net Current Assets	4,689.0	1,609.8	2,120.4	3,444.4
Application of Funds	23,399.2	21,713.7	22,869.2	24,341.3

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement

(Year-end March)	CY19	CY20	CY21E	CY22E
Profit after Tax	1,528.6	1,790.1	2,298.3	2,615.0
Add: Depreciation	543.8	521.2	605.1	601.9
(Inc)/dec in Current Assets	188.3	-437.7	-724.3	18.5
Inc/(dec) in CL and Provisions	587.7	-596.8	1,016.8	-724.3
CF from operating activit	2,848.3	1,276.8	3,196.0	2,511.2
(Inc)/dec in Investments	24.8	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1,191.3	-1,914.9	-1,250.0	-750.0
Others				
CF from investing activit	-1,166.6	-1,914.9	-1,250.0	-750.0
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
CF from financing activit	-312.2	-3,375.6	-992.8	-992.8
Net Cash flow	1,369.5	-4,013.7	953.1	768.3
Opening Cash	3,330.0	4,699.5	685.8	1,638.9
Closing Cash	4,699.5	685.8	1,638.9	2,407.3

Source: Company, ICICI Direct Research

Exhibit 18: Ratio sheet

(Year-end March)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
Adjusted EPS	7.7	9.0	11.6	13.2
Cash EPS	10.4	11.6	14.6	16.2
BV	111.8	103.8	110.4	118.6
DPS	4.0	17.0	5.0	5.0
Cash Per Share	23.7	3.5	8.3	12.1
Operating Ratios (%)				
EBITDA Margin	18.4	23.3	24.0	24.1
PAT Margin	13.1	15.7	16.2	17.0
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
Return Ratios (%)				
RoE	14.7	20.3	22.7	22.2
RoCE	12.2	17.6	20.0	20.0
RoIC	27.7	32.8	36.8	35.5
Valuation Ratios (x)				
P/E	52.9	45.1	35.2	30.9
EV / EBITDA	23.6	21.0	15.1	14.2
EV / Net Sales	6.5	7.1	5.6	5.1
Market Cap / Sales	6.9	7.1	5.7	5.3
Price to Book Value	3.6	3.9	3.7	3.4
Solvency Ratios				
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	1.9
Quick Ratio	1.0	1.3	1.1	1.3

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Cement)

Company	CMP		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
ACC*	2,287	BUY	73	85	125	17.6	16.5	10.5	167	139	134	17.4	14.5	20.6	11.9	12.6	16.0
Ambuja Cem*	399	BUY	7.7	9.0	10.9	17.4	15.9	12.6	173	186	166	12.2	17.6	19.1	14.7	20.3	21.7
UltraTech Cem	7,460	BUY	124	191	238	26.3	20.2	17.1	286	279	274	11.4	14.7	16.7	9.3	12.7	14.0
Shree Cement	28,100	BUY	435	641	706	26.4	24.2	21.5	286	265	261	13.8	18.2	18.5	12.1	15.2	14.6
Heidelberg Cem	266	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	3,142	HOLD	51.8	99.6	107.0	20.3	15.5	14.1	201	183	187	16.2	18.6	18.2	12.8	20.6	18.6
JK Lakshmi Cerr	705	BUY	7.0	7.1	6.8	20.2	17.4	16.9	94	94	86	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	117	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	1,107	BUY	25.7	29.8	31.5	20.5	16.4	15.1	180	175	171	7.5	8.6	8.9	12.3	12.7	11.8
Sagar Cement	1,272	BUY	-1.9	12.9	5.8	24.2	18.6	19.2	89	94	77	5.4	8.1	6.4	-0.5	3.4	1.6

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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