

Capacity expansion and operational efficiency to drive growth ahead

CMP: INR 338

Rating: Accumulate

Target Price: INR 383

Stock Info

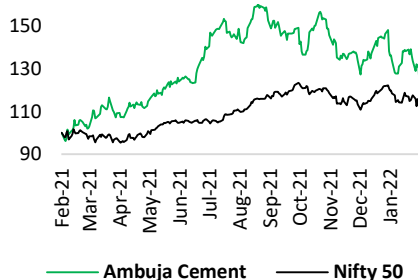
BSE	500425
NSE	AMBUJA
Bloomberg	ACEM IN
Reuters	ACEM.BO
Sector	Cement
Face Value (INR)	2
Equity Capital (INR Cr)	397
Mkt Cap (INR Cr)	67,174
52w H/L (INR)	442/ 261
Avg Yearly Vol (in 000')	4,451

Shareholding Pattern %

(As on December, 2021)

Promoters	63.21
Public & Others	36.79

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 Q4CY21 and were below our estimate especially on operating profit and bottom line front. Revenue from operations grew by 6.3% YoY, and 15.4% QoQ to INR 3735 cr above our estimates of INR 3668 cr. Growth in topline was backed by volume growth, better product mix and improved realization. Sales volume remained flat YoY, however grew by 16.7% QoQ to 7.0 mn tons marginally below our estimates of 7.1 mn tonnes. Growth in QoQ sales volume was backed by increase in demand for urban housing and infrastructure and MSA agreement has also led to volume optimization. Realization/ton grew by 6.3% YoY, however declined by 1% QoQ to INR 5336 per tonne above our expectation of INR 5166 per tonne. Growth in realization on YoY basis was mainly supported by price hike taken across the region and increased share of value added products.

EBIDTA declined by 26% YoY and 19% QoQ to INR 569 cr below our estimate of INR 644 Cr. EBIDTA margin contracted by 661 bps YoY and 648 bps QoQ to 15.2% led by rise in operating costs and high other expense. Operating cost grew by 16% YoY and 27.5% QoQ to INR 2340 cr led by rise in energy and fuel cost. Other expense grew by 19% YoY and 22.5% QoQ to INR 648 cr. However efficiencies delivered under flagship ICAN program partly mitigated the impact of cost headwinds. EBIDTA /ton declined by 26% YoY and 30.6% QoQ to INR 813/ton below our expectation of INR 907/ton.

PAT declined by 49% YoY and 43% QoQ to INR 252 cr below our estimate of INR 424 cr PAT margin contracted by 740 bps YoY and 689 bps QoQ to 6.7%. Decline in bottom line was mainly due poor operating performance, higher depreciation expenses and exception item

Q4CY21 Operational Highlights

During the quarter and year ended 31st December 2021, there was a charge of { 65 .69 crore on account of restructuring cost included in exceptional item.

Company announced 7mnt capacity expansion in East region at a cost of INR 3500 cr. This will include 3.2mnt of brownfield clinker expansion at Bhatapara, Chhattisgarh. Company will also put a greenfield grinding unit in Bihar at Barh.

The Board of Directors have recommended a dividend on equity shares of 6.30 per equity share

Outlook & valuation: At a CMP of INR 338 Ambuja Cement is trading at EV/EBITDA of 12.1(x) & 11(x) to its CY22E & CY23E Cement demand growth is expected to remain positive backed by increased demand for housing combined with the government's thrust on infrastructure development. Company's on-going capacity expansion plan and MSA agreement with ACC will bring volume growth going ahead. 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. We value the stock at EV/EBIDTA of 14(x) to its CY23E to arrive at a target price of INR 383 and have accumulate rating on the stock

Q4 CY21 - Quarterly Performance (Standalone)

(in INR Cr)

INR Cr (standalone)	Q4CY21	Q3CY21	Q4CY20	Q-o-Q	Y-o-Y
Net Revenue	3,735	3,237	3,515	15.4%	6.3%
Operating Costs	2,340	1,836	2,018	27.5%	16.0%
Employee cost	178	169	185	5.3%	-3.8%
Other Expenses	648	529	544	22.5%	19.1%
EBITDA	569	703	768	-19.1%	-25.9%
<i>EBITDA margin %</i>	<i>15.2%</i>	<i>21.7%</i>	<i>21.8%</i>	<i>-648bps</i>	<i>-661bps</i>
Depreciation	170	126	126	34.9%	34.9%
EBIT	399	577	642	-30.8%	-37.9%
Other Income	33	36	39	-8.8%	-15.4%
Finance cost	25	21	23	20.0%	9.6%
Exceptional item	66				
PBT	341	592	658	-42.5%	-48.2%
Tax Expense	89	151	161	-41.1%	-44.7%
Effective tax rate %	26.1%	25.5%	24.5%	62bps	165bps
PAT	252	441	497	-42.9%	-49.3%
<i>PAT margin %</i>	<i>6.7%</i>	<i>13.6%</i>	<i>14.1%</i>	<i>-689bps</i>	<i>-740bps</i>
EPS (INR)	1.27	2.22	2.50	-42.8%	-49.2%

Source: Company, Arianth Research

Con Call highlights

- Commercial production at Marwar Mundwa, Rajasthan (greenfield project of 1.8 MT cement, 3 MT clinker) commenced from September 2021 got stabilised in Q4CY21. This would further improve cement sales by ~5 MT
- Waste heat recovery system (WHRS) projects of 54 MW at Bhatapara, Darlaghat and Marwar Mundwa are as per their schedule
- Production from underground mine Gare Palma also started that has started providing fuel linkages to Ambuja's Bhatapara plant in east
- The company is currently executing cement capacity expansion of 1.5 MT at Ropar, Punjab. This is likely to be commissioned in 2023
- With ambition to reach ~50 MT capacity, the board has given its in-principle approval for an investment of | 3,500 crore for an expansion of 7.0 MT GUs across their existing units at Sankrail and Farakka and at a greenfield location at Barh, in Bihar, supported by a 3.2 MT brownfield clinker expansion at existing integrated plant in Bhatapara, Chhattisgarh

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Con Call highlights Continued

- By 2025, the company expects eastern region utilisations to move to over 85% as per capita consumption currently remains very low at 216 kg vs. all India average of 242 kg. This is expected to improve significantly supported by major infra and housing projects
- Capacity utilisation was at 91% vs. 94% last year and 84% last quarter

Valuations

INR Cr	CY23E
EV/EBITDA (x)	14.0
EBITDA	3975
EV	55650
Debt	44
Cash	3987
Market Cap	59593
No shares	199
Value/Share (INR)	299.5
ACC Stake Valuation	
ACC Target Price (INR)	2,515
ACC Market Cap	47,282
Ambuja's Stake in ACC (50%)	23,641
Holding Co. Discount	30%
Value of Stake	16,549
Value/Share (INR)	83.2
Ambuja Fair Value (INR) (TP)	383
CMP (INR)	338
Upside (%)	13.2%

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement

Y/E March (INR Cr)	CY20	CY21	CY22E	CY23E
Revenues	11,372	13,965	15,813	16,933
Change (%)	-2.5%	22.8%	13.2%	7.1%
Total Expenses	8,611	11,114	12,310	12,959
EBITDA	2,761	2,851	3,502	3,975
Other Income	372	286	300	345
Depreciation	521	551	697	751
Interest	83	91	54	54
PBT	2,528	2,495	3,051	3,514
Extra-ordinary	0	0	0	0
PBT after ext-ord.	2,528	2,429	3,051	3,515
Tax	624	705	768	885
Rate (%)	25.9%	25.0%	25.0%	
PAT	1,790	2,146	2,283	2,630
Adjusted PAT	1,790	2,145	2,283	2,630
Change (%)	17.1%	19.9%	6.4%	15.2%

Source: Company,
Arihant Research

Key Ratios

Y/E March	CY20	CY21	CY22E	CY23E
Per share (INR)				
EPS	9.0	10.5	11.5	13.2
CEPS	11.6	13.3	15.0	17.0
BVPS	102.3	111.8	115.7	121.3
DPS	17.0	6.3	6.5	6.5
Valuation (x)				
P/E	37.5	32.2	29.4	25.6
P/CEPS	32.6	29.0	25.4	22.5
EV/EBITDA	17.0	13.6	12.1	11.0
Dividend Yield (%)	0.4%	4.8%	0.3%	0.5%
Return Ratio (%)				
EBITDA Margin	23.3%	23.0%	22.0%	23.5%
PAT Margin	15.7%	14.9%	14.4%	15.5%
ROE	21.0%	20.6%	20.4%	21.4%
ROCE	18.6%	17.8%	17.6%	18.6%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Turnover Ratios				
Asset Turnover (x)	2.2	2.0	1.9	1.8
Receivable Days	11	6	15	15
Payable days	100	100	100	99

Source: Co, Arihant
Research

Balance Sheet

Y/E March (INR Cr)	CY20	CY21	CY22E	CY23E
Sources of Funds				
Share Capital	397	397	397	397.0
Reserves & Surplus	19,919	21,810	22,574	23685.0
Net Worth	20,316	22,207	22,971	24,082
Loan Funds	44	44	44	44.0
other Liabilities	1,412	1,696	1,698	1698
Creditors	3,559	4,107	4,558	4628
Total Current Liability	4,971	5,803	6,256	6,326
Capital Employed	25,330	28,054	29,271	30,452
Application of Funds				
Net Block	5,932	7,646	8,299	8349
CWIP	1,873	951	1,500	2800
Total Fixed Asset	7,805	8,597	9,799	11,149
Current Asset				
Investment	11,788	11,788	11,788	11788
Debtors	192	293	1,007	385
Inventories	747	1,463	1,222	1190
Cash & Bank Balance	2,924	4,163	3,253	3987
Loans & Advances & other CA	1,874	1,750	2,202	1953
Total Current Assets	17,525	19,457	19,472	19,303
Application of Funds	25,330	28,054	29,271	30,452

Source: Company, Arihant
Research

Cash Flow Statement

Y/E March (INR Cr)	CY20	CY21	CY22E	CY23E
PBT	1,790	2,081	2,283	2630
Depreciation	521	551	697	751
Inc/Dec in CA	1,456	-836	-924	902
Inc/Dec in CL & Provision	-323	848	452	70
Operating Cash Flow	3,444	2,644	2,509	4254
(Inc)/dec in F.A + CWIP	-1,406	-1,343	-1,900	-2100
(Pur)/sale of investment	1	0	0	0
Cash Flow from Investing	-1,405	-1,343	-1,900	-2,100
Cash Flow from Financing				
Loan raised/(repaid)	-28	0	0	0
Equity raised	0	0	0	
Interest & others	294	1,283	0	0
Dividend	-3,973	-1,472	-1,519	-1519
Cash Flow from Financing Activities	-3,707	-189	-1,519	-1,519
Net inc /(dec) in cash	-1,667	1,112	-910	734
Opening balance of cash	4,699	2,924	4,163	3253
Closing balance of cash	3,033	4,036	3,253	3987

Source: Company, Arihant
Research

Arihant Research Desk

Email: 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