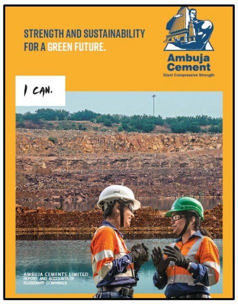
MOTILAL OSWAL

26 April 2022

Annual Report Update | Sector: Cement

# Ambuja Cements

| BSE SENSEX | S&P CNX |
|---|---|
| 57,357 | 17,201 |




### Stock Info

| | |
|---|---|
| Bloomberg | ACEM IN |
| Equity Shares (m) | 1,986 |
| M.Cap.(INRb)/(USDb) | 764.8 / 10 |
| 52-Week Range (INR) | 443 / 274 |
| 1, 6, 12 Rel. Per (%) | 29/8/8 |
| 12M Avg Val (INR M) | 1711 |
| Free float (%) | 36.9 |

### Financials Snapshot (INR b)

| Y/E Dec | 2021 | 2022E | 2023E |
|---|---|---|---|
| Sales | 139.6 | 155.1 | 158.3 |
| EBITDA | 32.1 | 28.4 | 34.7 |
| Adj. PAT | 21.3 | 20.8 | 23.5 |
| EBITDA Margin (%) | 23.0 | 18.3 | 21.9 |
| Adj. EPS (INR) | 10.7 | 10.5 | 11.8 |
| EPS Gr. (%) | 18.9 | -2.0 | 12.5 |
| BV/Sh. (INR) | 111.8 | 115.8 | 120.7 |
| **Ratios** | | | |
| Net D:E | -0.2 | -0.2 | -0.2 |
| RoE (%) | 22.3 | 19.1 | 19.9 |
| RoCE (%) | 22.9 | 19.7 | 20.5 |
| Payout (%) | 60.1 | 61.9 | 59.2 |
| **Valuations** | | | |
| P/E (x) | 27.8 | 28.3 | 25.2 |
| P/BV (x) | 2.7 | 2.6 | 2.5 |
| EV/EBITDA(x) | 16.8 | 18.9 | 15.1 |
| EV/ton (USD) | 223.6 | 222.4 | 217.1 |
| Div. Yield (%) | 1.6 | 1.7 | 1.8 |
| FCF Yield (%) | 1.7 | 2.1 | 1.8 |

### Shareholding pattern (%)

| As On | Mar-22 | Dec-21 | Mar-21 |
|---|---|---|---|
| Promoter | 63.1 | 63.1 | 63.1 |
| DII | 16.5 | 15.3 | 12.3 |
| FII | 13.1 | 14.8 | 18.0 |
| Others | 7.3 | 6.7 | 6.6 |

FII Includes depository receipts

**CMP: INR385** | **TP: INR350 (-9%)** | **Neutral**

## Emphasizing on growth, efficiency and sustainability

### Capacity additions to drive volume growth

- Ambuja Cements (ACEM) is a leading cement player with an installed cement capacity of 31.5mtpa as of CY21. In this note, we analyze ACEM's CY21 Annual Report (AR). The key highlights of our analysis are as follows: a) ACEM completed the expansion project at Marwar, Mundwa and announced the next phase of expansion in East India; b) its increased capex on development and efficiency to improve profitability and return ratios; and c) the management validated sustainability targets to reduce carbon emissions.
- The management estimates cement demand to grow at more than 7% YoY in CY22 backed by: a) structural demand from housing, rural, and infrastructure and b) pick-up in industrial/commercial capex. The management estimated an industry volume growth of 13% YoY in CY21 v/s 8.6% YoY in CY20.

### Announces capacity expansion in the East, timely completion is vital

- ACEM commissioned the Greenfield integrated cement plant having clinker capacity of 3mtpa and grinding capacity of 1.8mtpa at Marwar Mundwa, Rajasthan. With this expansion, ACEM's clinker/grinding capacity increased 18%/6.1% to 20.8mtpa/31.5mtpa, respectively as of CY21.
- Further, the company has announced 7mtpa grinding capacity expansion in East India (in addition of 1.5mtpa in Ropar, Punjab). Post-completion of these expansions (by CY24E), ACEM's grinding capacity will rise 27% to 40mtpa.
- Apart from these, ACEM is identifying debottlenecking opportunities in its East and West India plants to achieve its medium-term capacity target of 50mtpa.

### Robust volume growth and efficiency measure to drive profitability

- In CY21, ACEM posted 21% YoY EBITDA growth to INR32b mainly fueled by strong 19% YoY volume growth to 27mt. Its capacity utilization rose 9.5pp YoY to 86%.
- The share of premium products in revenue increased 170bp YoY to 12%, which improved realization. Blended realization rose 3% YoY to INR5,168 in CY21.
- Total operating costs grew 3.4% YoY to INR3,989/t due to a spike in fuel prices, higher raw material costs and increase in fixed overheads. However, cost optimization measures (reduction in clinker factor, energy efficiency, raw material mix, fuel mix optimization and lower lead distance) partly offset the adverse impact of higher input material costs.
- In CY21, ACEM's EBITDA/t was up 2% YoY to INR1,180 (the highest after CY07). However, EBITDA margin contracted slightly by 30bp YoY to 23%.
- ACEM spent INR3.8b towards development and efficiency capex in CY21. It commissioned the Railway Siding at Rabriyawas. ACEM is installing Waste heat recovery system (WHRS) at various locations (53MW capacity in CY22E), setting up fly ash dryers/hot air generators at different locations to ensure dry fly ash availability and acquiring limestone mines to secure long-term limestone requirements.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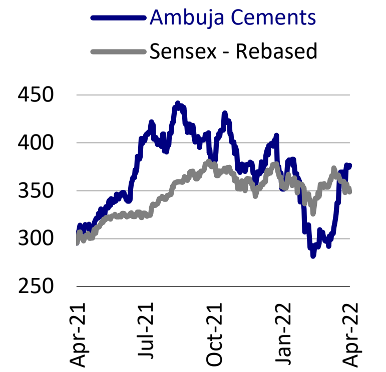
**Stock Performance (1-year)**




## Higher cash conversion days due to increase in inventory

- ACEM's cash conversion cycle increased (16 days in CY21 v/s 2 days in CY20), mainly due to an increase in inventory days in CY21 led by higher fuel price.
- ACEM has been generating strong cash flows since CY19 and its cumulative OCF stood at INR76b during CY19-21 (v/s INR38b over CY16-18). FCF stood at INR43b during CY19-21 (v/s INR23b over CY16-18).
- ACEM has continued to remain a net cash company since CY07 and it has a net cash balance of INR41b in CY21 v/s INR29b in CY20. We expect its net cash to be at INR44b in CY22/CY23.
- ACEM has recommended a dividend of INR6.3/share (60% payout) in CY21 v/s INR18.5/share (205% payout that included a special dividend of INR17) in CY20.

## Expensive valuations; maintain Neutral

- ACEM completed its expansion in the North during CY21 that increased its clinker capacity by 3.1mtpa (to 20.8mtpa) and grinding capacity by 1.8mtpa (to 31.4mtpa). The company aims to increase its grinding capacity to 50mtpa in the medium term through: 1) capacity expansion of 7mtpa/1.5mtpa in the East/North regions, respectively, and 2) debottlenecking at various plants.
- The various cost saving initiatives (commissioning of WHRS/Solar power plants, start of coal mining from Gare-Palma IV coal block, benefits from MSA with ACC, etc.) will help ACEM control its operating costs. Moreover, the management believes that there is further scope for cost improvements (INR300/t achieved in the last two years).
- ACEM trades at 18.9x/15.1x CY22E/23E EV/EBITDA and USD222/USD217 CY22E/23E EV/ton, respectively. The stock has traded at an average EV/EBITDA of 12.8x over the last 10 years. We value it at 12.5x CY23E EV/EBITDA and 20% HoldCo discount for its holding in ACC to arrive at our TP of INR350. Our TP implies a potential downside of 9% from CMP. Hence, we maintain our Neutral rating on the stock. In the near term, ACEM's stock price movement will be governed by news flows related to its promoter group Holcim's exit from India.

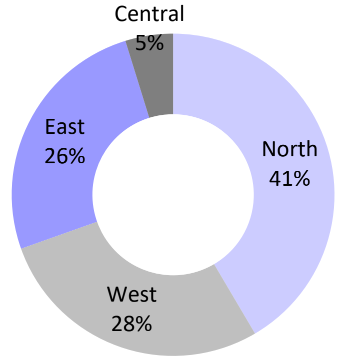
## Story in charts

**Exhibit 1: Recent capacity expansions and announcements in North and East India**

| Location | State | Clinker (mtpa) | Cement (mtpa) | Timeline | Mode of expansion |
|---|---|---|---|---|---|
| Marwar Mundwa | Rajasthan | 3 | 1.8 | 4QCY21 | Greenfield |
| Ropar | Punjab | - | 1.5 | CY23E | Brownfield |
| Bhatapara | Chhattisgarh | 3.2 | - | CY24E | Brownfield |
| Farakka | West Bengal | - | 1.6 | CY24E | Brownfield |
| Sankrail | West Bengal | - | 1.6 | CY24E | Brownfield |
| Barh | Bihar | - | 3.0 | CY24E | Greenfield |

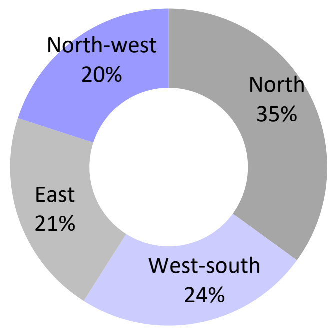
Source: MOFSL, Company

**Exhibit 2: Regional grinding capacity share in CY22E**



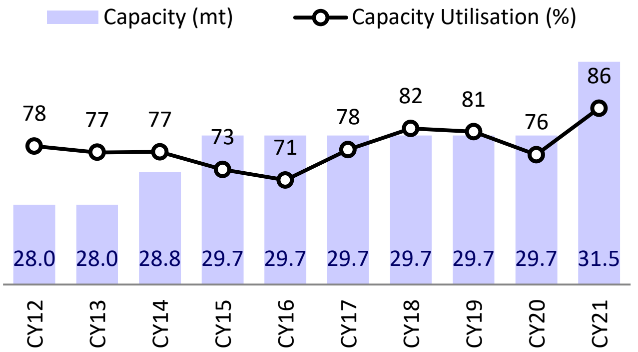

Source: Company, MOFSL

**Exhibit 3: Region wise revenue break-up in CY21**



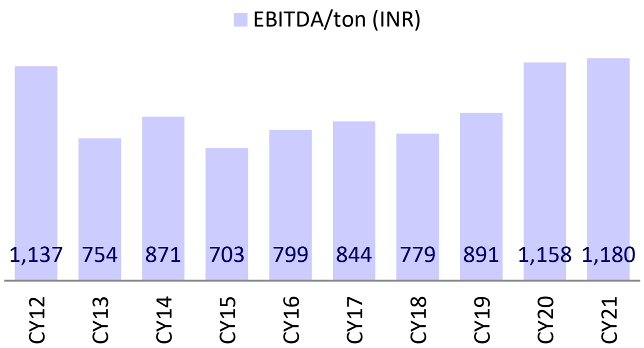

Source: Company, MOFSL

**Exhibit 4: Capacity utilization improved 9.5pp YoY in CY21**



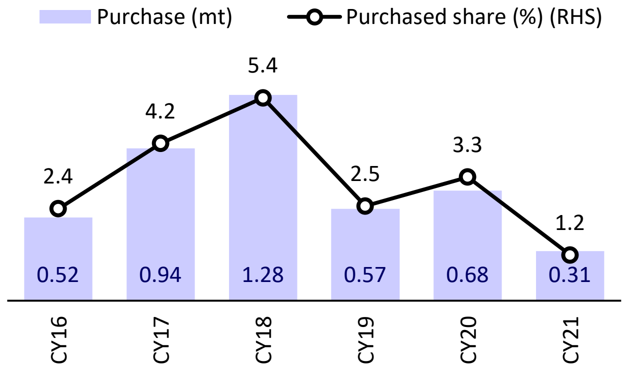

Source: Company, MOFSL

**Exhibit 5: EBITDA/t at INR1,180 in CY21, at a multi-year high**



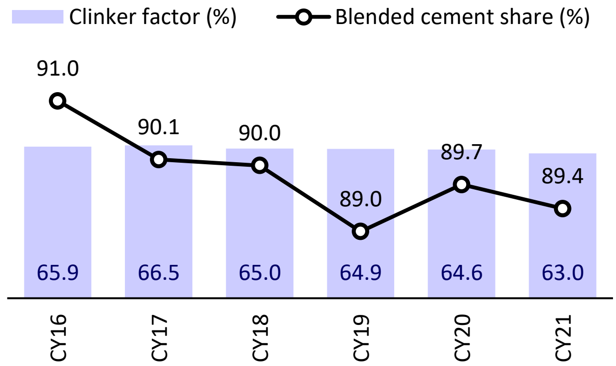

Source: Company, MOFSL

**Exhibit 6: Limestone purchase share declined**




Source: Company, MOFSL

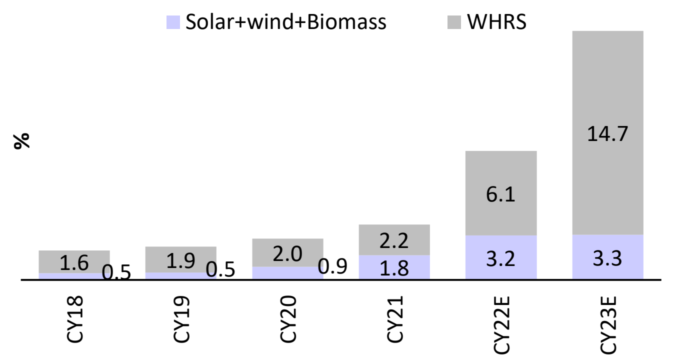
**Exhibit 7: Clinker factor reduced 1.6pp to 63%**




Source: Company, MOFSL

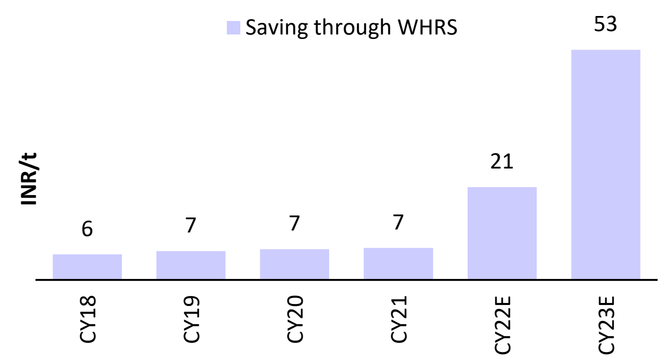
## Story in charts

**Exhibit 8: Green energy share expected at 18% in CY23**



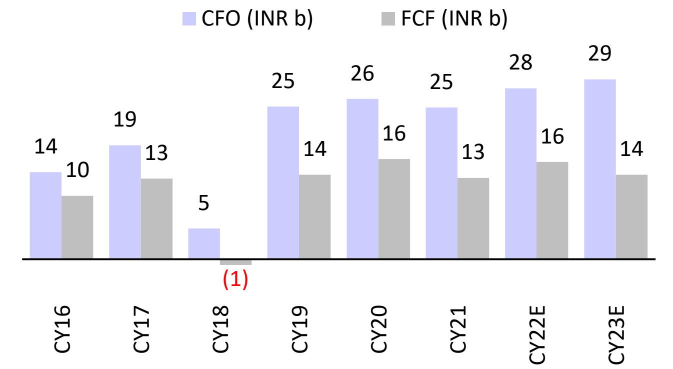

Source: Company, MOFSL

**Exhibit 9: Cost savings estimated through WHRS**



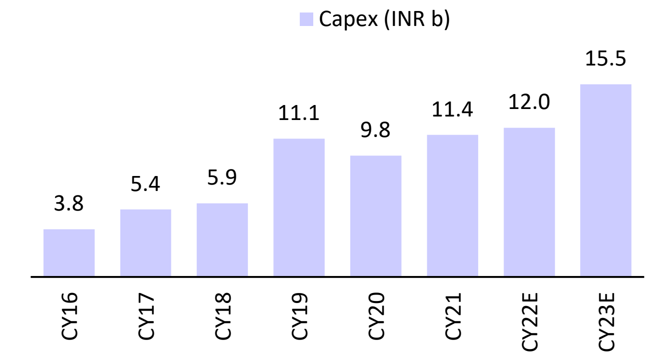

Source: Company, MOFSL

**Exhibit 10: OCF/FCF to improve in CY22-23E after a decline in CY21**




Source: MOFSL, Company

**Exhibit 11: Capex increased over the past three years, focus remains on growth plans**




Source: MOFSL, Company

**Exhibit 12: Du-pont analysis (Standalone) – Lower profitability to adversely impact RoE in CY22E**

| (%) | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|
| PAT/PBT | 72.9 | 77.2 | 75.6 | 74.0 | 74.1 | 74.6 | 74.7 | 74.7 |
| PBT/EBIT | 94.5 | 93.8 | 95.1 | 95.9 | 96.7 | 96.9 | 96.7 | 97.1 |
| EBIT/Sales | 14.7 | 16.5 | 14.8 | 17.4 | 22.0 | 21.1 | 18.6 | 20.4 |
| Asset turnover (x) | 1.0 | 1.3 | 1.3 | 1.2 | 1.2 | 1.4 | 1.4 | 1.3 |
| Assets/Equity (x) | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **RoE** | **10.5** | **15.5** | **13.7** | **14.5** | **18.8** | **22.3** | **19.2** | **20.0** |

Source: MOFSL, Company

**Exhibit 13: Annual report highlights**

| Year | Demand Scenario & Outlook | Expansion plan | Operational efficiency initiatives | YoY Change |
|---|---|---|---|---|
| CY17 | ❖ Industry volumes grew 6% YoY in CY17 despite a challenging market environment, GST hiccups and sand availability issues. | ❖ Environmental Clearance acquired for Maldi Mopar mines with a target to start operations by Jun'19. | ❖ Minimizing costs of fuel mix & working on fuel flexibility to mitigate the risks associated with a dynamic fuel market. | Volume: 8.7%<br>Revenue: 13.7%<br>EBITDA: 14.6%<br>PAT: 34% |
| CY18 | ❖ Sector displayed impressive growth of ~9% in 2018 backed by the execution of stalled infrastructure and construction projects. | ❖ INR23.5b investment for 3.1/1.8mtpa clinker/ cement units in Rajasthan. | ❖ Sharp focus on network optimization, change in mode-mix, and re-negotiation of transportation contracts. | Volume: 5.6%<br>Revenue: 8.6%<br>EBITDA: -2.5%<br>PAT: -3.2% |
| CY19 | ❖ Demand took a beating (2-3% growth) on general elections, labor shortages, weakness in the real estate sector and prolonged monsoon. | ❖ Technologies to comply with SO2 & NO2 emission norms are in place with an investment of INR1.25b. | ❖ Planned to set up WHRS at Darlaghat & Bhatapara for INR3.8b. | Volume: -0.8%<br>Revenue: 2.7%<br>EBITDA: 13.6%<br>PAT: 26.4% |
| | ❖ Outlook remained positive with the government's renewed focus on infrastructure development/housing sector. | ❖ Invested INR0.7b to purchase 50ha of land in Darlaghat, Ambujanagar, and Bhatapara for limestone purpose. | | |
| CY20 | ❖ Demand witnessed resurgence led by robust farm income and strong volumes in urban housing (all-time low interest rates) in 2HCY20. | ❖ Aimed to install 23.5/39.5MW of solar (Gujarat, Chhattisgarh) /WHRS (HP, Chhattisgarh) capacity by CY22. | ❖ Aimed to spend INR5.3b towards WHRS for enhanced use of green energy and optimization of operating cost. | Volume: -5.8%<br>Revenue: -2.5%<br>EBITDA: 23.2%<br>PAT: 17.1% |
| | ❖ Completion of pending affordable houses coupled with government spending on infrastructure lead to demand growth of 5-6%. | ❖ Acquired a new mining lease in Nandgaon Ekodi mine to secure limestone supply for the Maratha plant, Maharashtra. EC & other clearances are awaited. | ❖ Total 23.5/39.5MW of solar (Gujarat, Chhattisgarh) / WHRS (HP, Chhattisgarh) capacity to be commissioned till CY22. | |
| CY21 | ❖ Cement demand is expected to grow at more than 7% YoY in CY22. | ❖ Brownfield expansion of 1.5mtpa at Ropar, Punjab (North) by CY23 at estimated capex of INR3.1b | ❖ Spent INR3.8b towards development and efficiency capex | Volume: 19.2%<br>Revenue: 22.8%<br>EBITDA: 21.2%<br>PAT: 18.9% |
| | ❖ Key drivers – structural demand from housing, rural, infrastructure growth through National Infrastructure Pipeline (NIP) and growth in industrial/commercial segments. | ❖ Expansion in East India with a 3.2mtpa clinker capacity in Bhatapara, Chhattisgarh and grinding capacity of 7mtpa at Farakka and Sankrail (brownfield) as well as Barh (Greenfield), at an estimated capex of INR35b | ❖ Commissioned a new railway siding at Rabriyawas, Rajasthan (North) to support both inbound and outbound logistics. Further, Rabriyawas unit started sourcing solar-based power through PPA. | |
| | | | ❖ Commenced underground mining at Gare Palma sector IV/8 coal block in Chhattisgarh, acquired through e-auction. | |

Source: MOFSL, Company

## Announces growth capex in the North and East

### Aiming to reach a grinding capacity of 50mtpa in the medium term

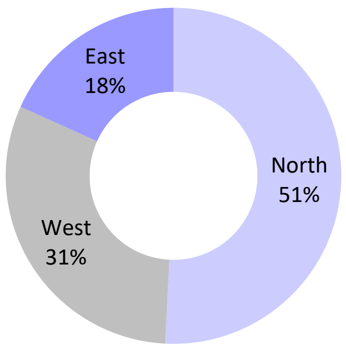
- In CY21, ACEM has commissioned a Greenfield integrated cement plant having clinker capacity of 3mtpa and grinding capacity of 1.8mtpa at Marwar Mundwa, Rajasthan (commenced commercial production from 01st Oct'21). With this expansion, ACEM's grinding capacity increased 6.1% to 31.5mtpa. The Marwar Mundwa plant is expected to support grinding capacity up to 5mtpa.
- ACEM announced a brownfield grinding capacity expansion of 1.5mtpa at Ropar, Punjab at an investment of INR3.1b with likely commissioning in CY23E.
- Further, the company has announced the next phase of expansion in East India that will help to raise the clinker capacity by 3.2mtpa (Bhatapara, Chhattisgarh) and grinding capacity by 7mtpa. Grinding capacity at its existing plants in Farakka and Sankrail, West Bengal will be increased by 1.6mtpa each (equipment guarantee will be higher) apart from setting up a grinding capacity of 3mtpa at Barh, Bihar. Capex for these projects should be at INR35b.
- With these expansions, ACEM's grinding capacity will increase 27% to 40mtpa over the next 2-3 years. Apart from the above expansion projects, ACEM is identifying debottlenecking opportunities in its East and West India plants to achieve its medium-term capacity target of 50mtpa.
- Cement demand is likely to grow at more than 7% YoY in CY22 propelled by: a) structural demand from housing; b) rise in rural income that will supplement cement demand for the housing segment; c) healthy infrastructure growth backed by NIP; and d) growth in industrial and commercial segments because of requirement of warehousing space due to e-commerce boom and data centers for back offices.

**Exhibit 14: Recent capacity expansions and announcements in North and East India**

| Location | State | Clinker (mtpa) | Cement (mtpa) | Timeline | Mode of expansion |
|---|---|---|---|---|---|
| Marwar Mundwa | Rajasthan | 3 | 1.8 | 4QCY21 | Greenfield |
| Ropar | Punjab | - | 1.5 | CY23E | Brownfield |
| Bhatapara | Chhattisgarh | 3.2 | - | CY24E | Brownfield |
| Farakka | West Bengal | - | 1.6 | CY24E | Brownfield |
| Sankrail | West Bengal | - | 1.6 | CY24E | Brownfield |
| Barh | Bihar | - | 3.0 | CY24E | Greenfield |

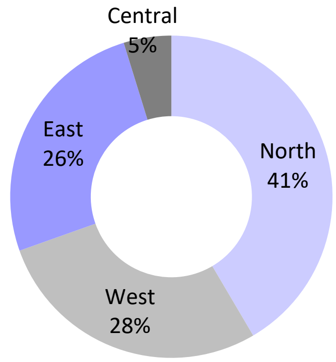
Source: MOFSL, Company

**Exhibit 15: Regional clinker capacity share in CY22E**




Source: MOFSL, Company

**Exhibit 16: Regional grinding capacity share in CY22E**



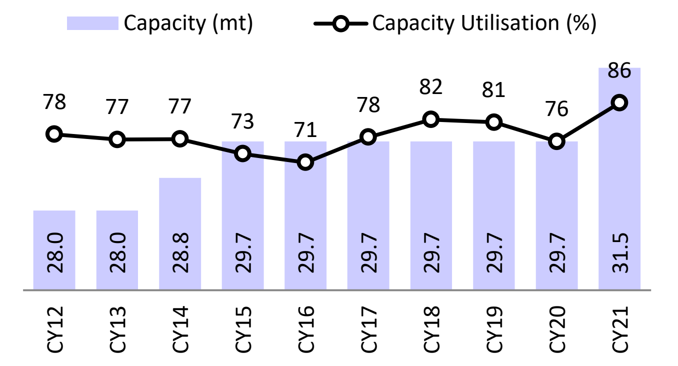

Source: MOFSL, Company

## Higher volume growth leads to improved performance

### Sales volume grows at 19% YoY; capacity utilization up 9.5pp YoY

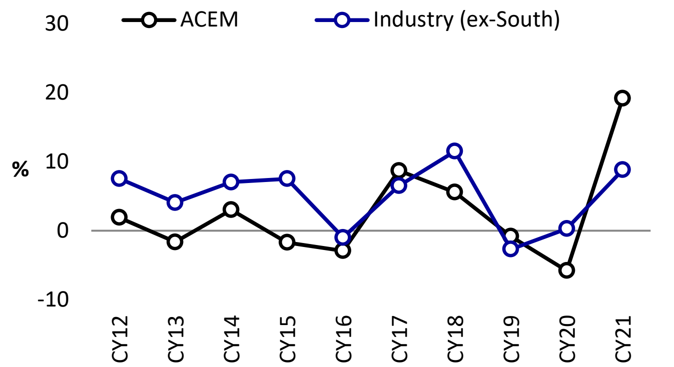
- ACEM's standalone revenue increased 23% YoY to INR139.7b backed by robust volume growth and higher realization. ACEM's sales volume grew 19.2% YoY to 27mt and blended realization improved 3% YoY to INR5,168/t in CY21.
- According to the management, cement demand grew 13% YoY in CY21 led by infrastructure, real estate and affordable housing segments. However, demand growth in the industrial and commercial segments was relatively lower.
- Cement capacity utilization improved 9.5pp to 86% for CY21 (at a decadal high).

**Exhibit 17: Capacity utilization improved 9.5pp YoY in CY21**



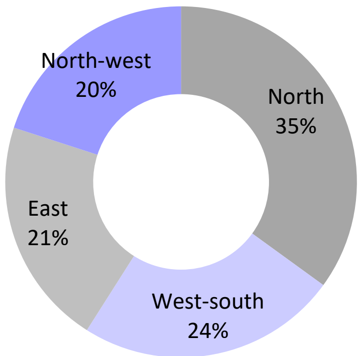

Source: MOFSL, Company

**Exhibit 18: Volumes grew ~19% YoY in CY21**




Source: MOFSL, Industry, Company

**Exhibit 19: Region wise revenue break-up in CY21**

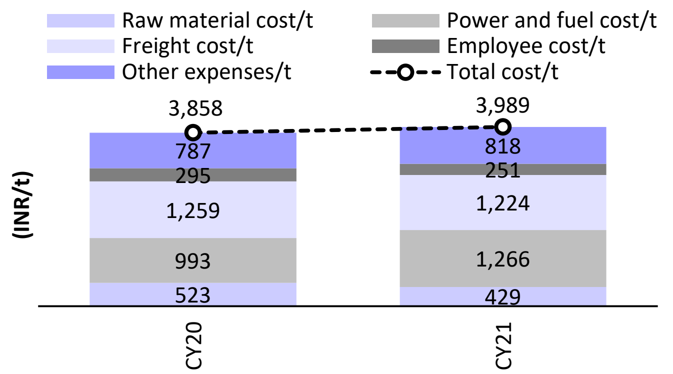



Source: MOFSL, Company

- The share of premium products in revenue increased 170bp YoY to 12%, which improved realization. ACEM offers 'Ambuja Plus', 'Ambuja Kawach' and 'Compocem' as its premium products. Among these products 'Ambuja Kawach' (launched in CY20) has emerged as a preferred product and reached a volume of 0.8mt in CY21 (~3% of total sales volume).
- Operating cost has increased 3.4% YoY to INR3,989/t due to higher raw material costs, fuel prices and other fixed overheads (ad spends, admin, repairs and rent). However, cost optimization measures (reduction in clinker factor, energy efficiency, raw material mix, fuel mix optimization and lower lead distance) partly offset the adverse impact of higher input material costs.
- The key cost-saving measures undertaken were: improvement in kiln heat rate (thermal energy consumption/t of clinker was down 3% YoY), electrical energy

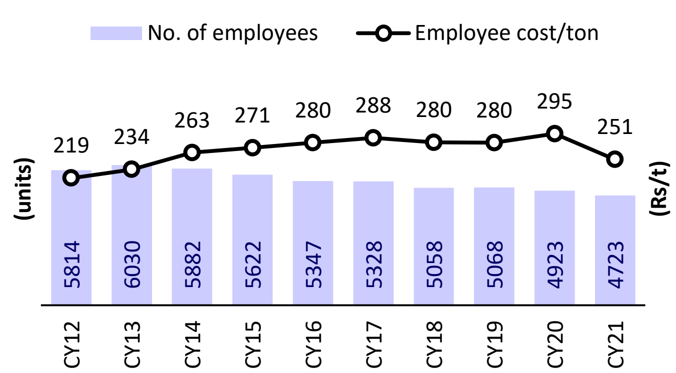
efficiency (power consumption/t of clinker/cement was down 2%/3.7% YoY, respectively), thermal substitution rate (to 5.1%), reduction in clinker factor (154bp YoY to 63%) and outbound lead distance (down 11% YoY to 248Kms). The total number of employees declined between CY14 and CY21, which led to a reduction in employee cost per ton.

**Exhibit 20: Total cost/t increased 3.4% YoY**




Source: Company, MOFSL

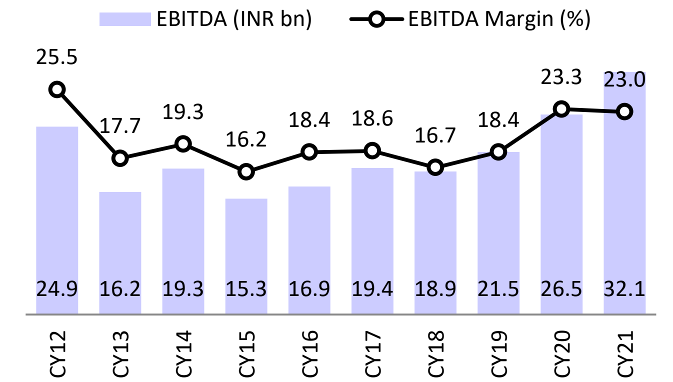
**Exhibit 21: Number of employees decreased 5% YoY**




Source: Company, MOFSL

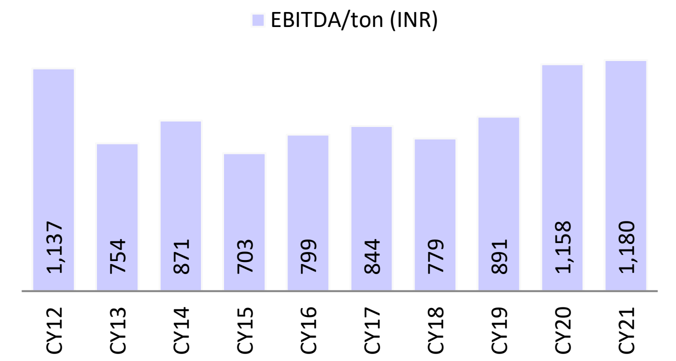
- EBITDA increased 21% YoY to INR32b; however, EBITDA margin contracted 30bp YoY at 23%, as better realization was offset by higher input costs and lower other operating income (down 13% YoY to INR1.7b).

**Exhibit 22: EBITDA increased 21% YoY; OPM down 30bp**




Source: MOFSL, Company

**Exhibit 23: EBITDA/t at INR1,080 in CY21, at a multi-year high**




Source: MOFSL, Company

**Exhibit 24: Opex/t increased 3.4% YoY in CY21; employee cost/t declined**

| Particulars (per ton) | CY17 | CY18 | CY19 | CY20 | CY21 | YoY (%) |
|---|---|---|---|---|---|---|
| Sales Volume - Cement (mt) | 23.0 | 24.3 | 24.1 | 22.7 | 27.0 | 19.2 |
| **Realization (Including OOI)** | **4,551** | **4,681** | **4,849** | **5,016** | **5,168** | **3.0** |
| **Realization (excluding OOI)** | **4,461** | **4,525** | **4,719** | **4,929** | **5,105** | **3.6** |
| Raw Material Cost | 368 | 388 | 468 | 523 | 429 | -18.0 |
| Power and Fuel | 972 | 1051 | 1075 | 993 | 1266 | 27.5 |
| Freight Cost | 1250 | 1351 | 1286 | 1259 | 1224 | -2.8 |
| Employee Benefits Expense | 288 | 280 | 280 | 295 | 251 | -15.0 |
| Other Expenses | 829 | 831 | 851 | 787 | 818 | 4.0 |
| Total Expenses | 3707 | 3902 | 3959 | 3858 | 3989 | 3.4 |
| **EBITDA per ton** | **844** | **779** | **891** | **1158** | **1180** | **1.9** |

Source: MOFSL, Company

- Earnings before tax and pre-exceptional items increased 18% YoY to INR28.5b and adjusted profit after tax rose 19% YoY to INR21.3b. In CY21, the company has charged INR657m on account of restructuring costs of employees and contract staff, as an exceptional item.

**Exhibit 25: Common-size analysis – raw material, freight and employee costs declined in CY21**

| Particulars (INR m) | CY17 | % | CY18 | % | CY19 | % | CY20 | % | CY21 | % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Revenue (Operations)** | **1,04,571** | **100.0** | **1,13,568** | **100.0** | **1,16,679** | **100.0** | **1,13,719** | **100.0** | **1,39,650** | **100.0** |
| Raw Materials (incl. Change-in-inventory) | 8,465 | 8.1 | 9,423 | 8.3 | 11,255 | 9.6 | 11,863 | 10.4 | 11,595 | 8.3 |
| Power and Fuel | 22,331 | 21.4 | 25,497 | 22.5 | 25,864 | 22.2 | 22,519 | 19.8 | 34,210 | 24.5 |
| Freight and forwarding | 28,720 | 27.5 | 32,776 | 28.9 | 30,942 | 26.5 | 28,549 | 25.1 | 33,083 | 23.7 |
| Operating and Administrative Expenses | 19,040 | 18.2 | 20,162 | 17.8 | 20,403 | 17.5 | 17,634 | 15.5 | 21,910 | 15.7 |
| Personnel Cost | 6,614 | 6.3 | 6,796 | 6.0 | 6,726 | 5.8 | 6,688 | 5.9 | 6,777 | 4.9 |
| **EBITDA** | **19,401** | **18.6** | **18,915** | **16.7** | **21,489** | **18.4** | **26,466** | **23.3** | **32,075** | **23.0** |
| Depreciation | 5,729 | 5.5 | 5,481 | 4.8 | 5,438 | 4.7 | 5,212 | 4.6 | 5,512 | 3.9 |
| Other Income | 3,591 | 3.4 | 3,391 | 3.0 | 4,265 | 3.7 | 3,720 | 3.3 | 2,856 | 2.0 |
| **EBIT** | **17,263** | **16.5** | **16,825** | **14.8** | **20,315** | **17.4** | **24,974** | **22.0** | **29,419** | **21.1** |
| Financial Charges | 1,072 | 1.0 | 823 | 0.7 | 835 | 0.7 | 831 | 0.7 | 909 | 0.7 |
| **PBT (Before Exceptional Items)** | **16,191** | **15.5** | **16,002** | **14.1** | **19,480** | **16.7** | **24,144** | **21.2** | **28,509** | **20.4** |
| Exceptional items | 0 | 0.0 | 2,779 | 2.4 | 0 | 0.0 | 0 | 0.0 | -657 | -0.5 |
| **PBT** | **16,191** | **15.5** | **18,781** | **16.5** | **19,480** | **16.7** | **24,144** | **21.2** | **27,853** | **19.9** |
| Tax | 3,696 | 3.5 | 3,911 | 3.4 | 4,195 | 3.6 | 6,243 | 5.5 | 7,047 | 5.0 |
| **PAT** | **12,496** | **11.9** | **14,870** | **13.1** | **15,285** | **13.1** | **17,901** | **15.7** | **20,805** | **14.9** |

Source: MOFSL, Company

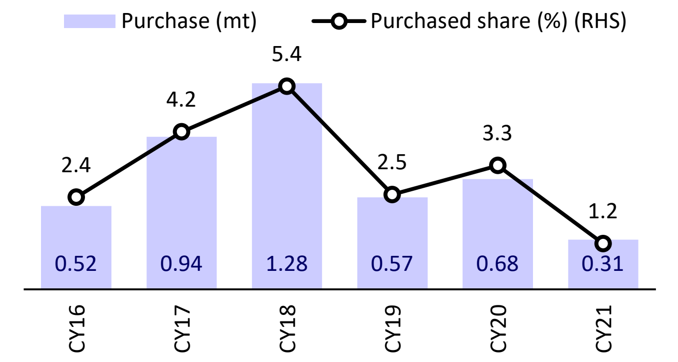
## ‘ICAN’ initiatives driving improvement in profitability

Initiatives under ‘ICAN’, a flagship cost efficiency program continued to deliver improvements across value chain. According to the management, cost savings of INR300/t have been achieved under its ‘ICAN’ initiatives over the last two years.

### Higher input material cost led to an increase in raw material cost

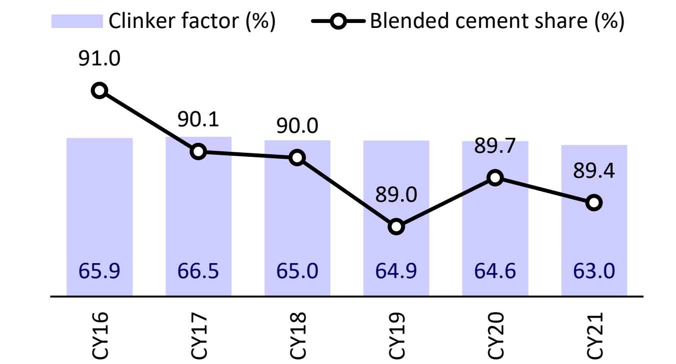
- Raw material cost increased 19% YoY to INR561/t due to higher fly ash and gypsum prices, up 5% and 18% YoY, respectively. Further, consumption of purchased goods increased INR1.8b YoY in CY21.
- Clinker factor was lowered by 1.6pp YoY to 63% backed by increasing usage of fly ash and other waste materials. Alternative raw materials’ share increased 50bp YoY to 32% in CY21. The company continued to maintain higher blended cement share of more than 89%.
- The company has taken various initiatives to ensure raw materials security. Some of these are: a) acquiring new mining leases in Maharashtra, Gujarat and Chhattisgarh to secure long-term limestone requirement and b) investing about INR1.4b (estimated capex increased INR400m YoY) for setting up fly ash dryers/ hot air generators at various plants to ensure adequate dry fly ash availability.

**Exhibit 26: Limestone purchase share declined**




Source: MOFSL, Company

**Exhibit 27: Clinker factor reduced 1.6pp to 63%**

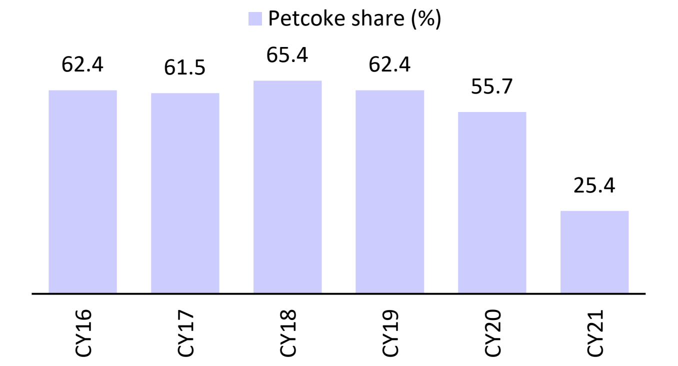



Source: MOFSL, Company

## Power and fuel costs escalate 27.5% YoY to INR1,266/t

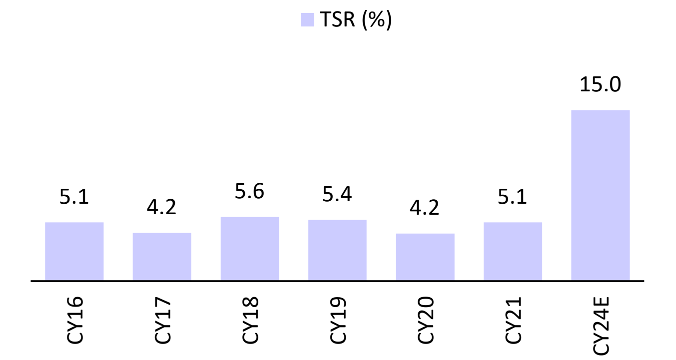
- Power and fuel cost in CY21 increased sharply due to steep rise in fuel prices. However, ACEM's efficiency measures had helped it partly offset the higher fuel price impact. It reduced petcoke shares in kiln/non-kiln fuel consumption to 25%/5% in CY21 v/s 56%/7% in CY20, respectively, and increased usages of cheaper fuels. Alternative fuel share in kilns increased 1pp YoY to 5.1% in CY21.
- It has also started underground mining from Oct'21 at Gare Palma Sector IV/8 in Chhattisgarh (East), acquired by e-auction in CY15.

**Exhibit 28: Petcoke usage reduced significantly in CY21**




Source: MOFSL, Company

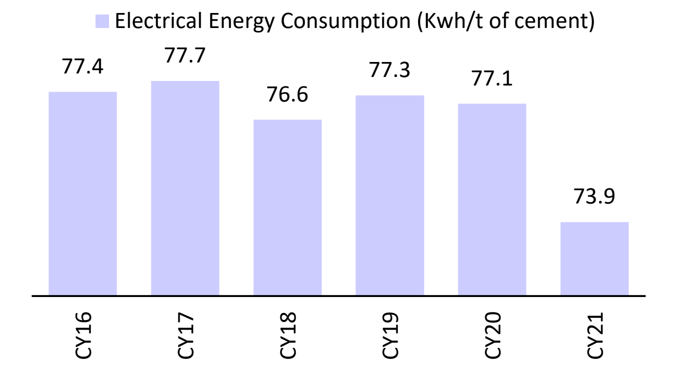
**Exhibit 29: Targets to triple TSR* over the next three years**




Source: MOFSL, Company; *Thermal Substitution rate

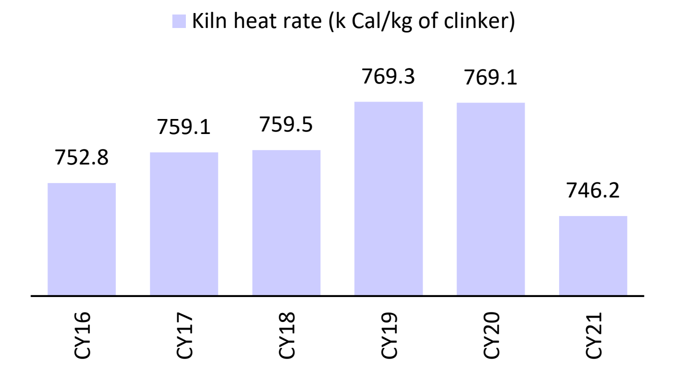
- Electrical energy consumption declined 4% YoY to 73.9 Kwh/t of cement and kiln heat rate reduced 3% YoY to 746 kCal/kg of clinker.

**Exhibit 30: Electrical energy intensity reduced in CY21**




Source: MOFSL, Company

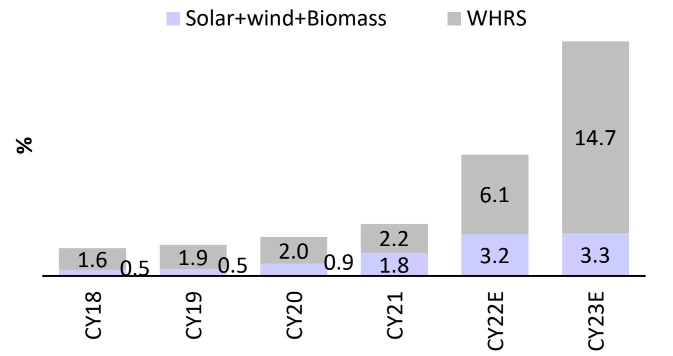
**Exhibit 31: ....similar was the case with thermal energy**




Source: MOFSL, Company

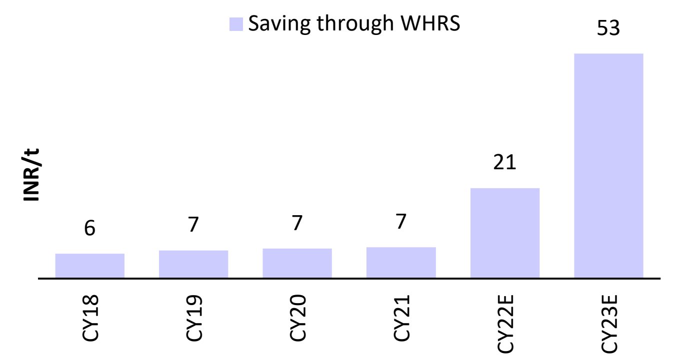
- Power generation increased 24% YoY to 44.1m units from waste heat recovery system (WHRS) and ~2x to 35m units from other renewable sources (solar/ wind/biomass). The company started sourcing power through Power Purchase Agreement (PPA) for its Rabriyawas unit in Rajasthan (project capacity of 5.14 MW) in CY21.
- The company is setting up WHRS capacity of 53MW at Marwar, Darlaghat and Bhatapara at a total capex of INR5.5b (estimated capex increased by INR250m YoY) to enhance the use of green energy. These projects are expected to complete by 2QCY22. Further, requisite approvals for WHRS projects at Ambujanagar and Maratha plants are in progress. ACEM targets to increase the WHRS capacity to 80MW over the next two years from the current 6.5MW.

**Exhibit 32: Green energy share expected at 18% in CY23**




Source: MOFSL, Company

**Exhibit 33: Cost savings estimated through WHRS**

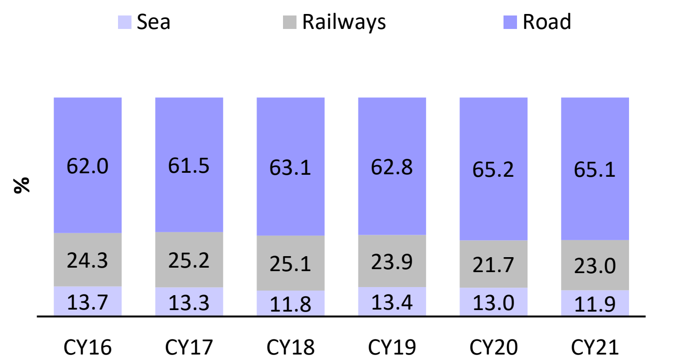



Source: MOFSL, Company

## Freight and forwarding costs decline 3% YoY to INR1,224/t

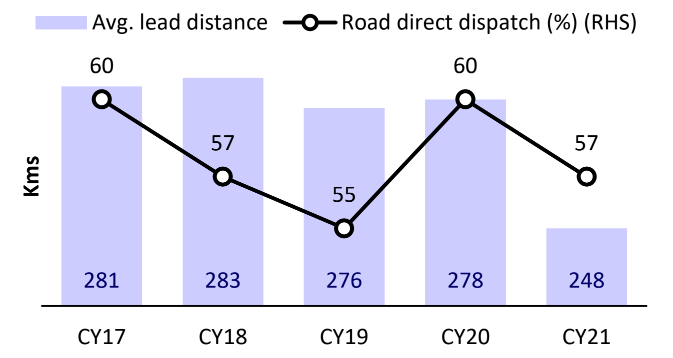
- Freight costs (including inter-clinker transfer) declined 3% YoY to INR1,224/t backed by digitization efforts, reduction in lead distance (outbound logistics) by 11% YoY to 248Kms and increased volume under MSA with ACC.
- The company has also commissioned a new railway siding at Rabriyawas, Rajasthan at a total investment of INR2.1b and started dispatches from Oct'21. It is estimated to facilitate efficient inbound and outbound logistics at plants.

**Exhibit 34: ACEM's outbound logistics mix**




Source: MOFSL, Company

**Exhibit 35: Outbound logistics lead distance reduced**




Source: MOFSL, Company

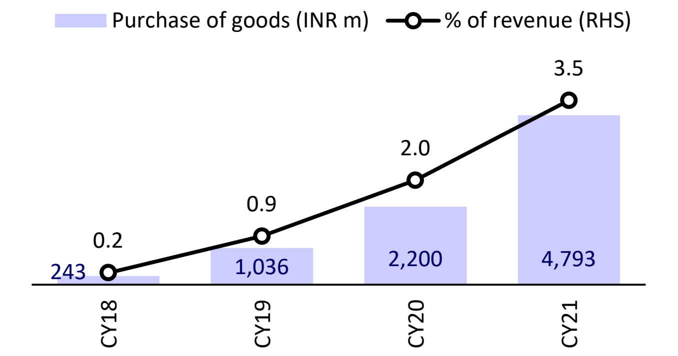
**Exhibit 36: 14bp margin contraction due to higher other expenses, although key costs witnessed 60bp increase**

| Other Expenses | CY18 | % of Revenue | CY19 | % of Revenue | CY20 | % of Revenue | CY21 | % of Revenue | Change YoY (%) |
|---|---|---|---|---|---|---|---|---|---|
| Packing materials | 4,153 | 3.7 | 3,839 | 3.3 | 3,450 | 3.0 | 5,010 | 3.6 | 0.6 |
| Stores Consumed | 2,937 | 2.6 | 3,152 | 2.7 | 2,248 | 2.0 | 2,743 | 2.0 | 0.0 |
| Repairs | 1,971 | 1.7 | 2,189 | 1.9 | 1,482 | 1.3 | 1,874 | 1.3 | 0.0 |
| Rent | 469 | 0.4 | 545 | 0.5 | 580 | 0.5 | 623 | 0.4 | -0.1 |
| Rates and taxes | 829 | 0.7 | 784 | 0.7 | 920 | 0.8 | 1,081 | 0.8 | 0.0 |
| Royalties on minerals | 2,496 | 2.2 | 2,549 | 2.2 | 2,311 | 2.0 | 2,926 | 2.1 | 0.1 |
| Technical and License fee | 1,095 | 1.0 | 1,126 | 1.0 | 1,079 | 0.9 | 1,313 | 0.9 | 0.0 |
| Advertisement | 532 | 0.5 | 855 | 0.7 | 639 | 0.6 | 893 | 0.6 | 0.1 |
| Other miscellaneous expenses | 5,691 | 5.0 | 5,425 | 4.6 | 5,137 | 4.5 | 5,649 | 4.0 | -0.5 |
| **Total** | **20,171** | **17.8** | **20,464** | **17.5** | **17,845** | **15.7** | **22,112** | **15.8** | **0.1** |

Source: MOFSL, Company

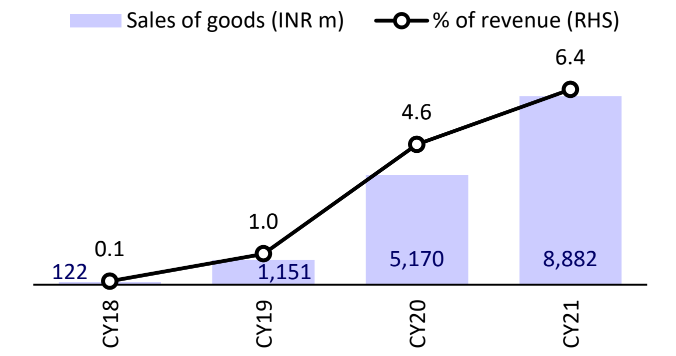
- Transactions under MSA increased significantly over the past three years, and helped improve profitability.

**Exhibit 37: Value of goods purchased from ACC doubled YoY**




Source: Company, MOFSL

**Exhibit 38: .... goods sold to ACC increased 72% YoY**

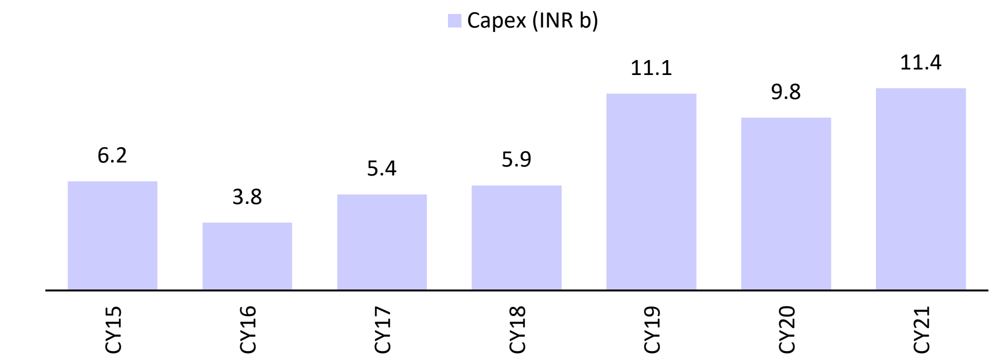



Source: Company, MOFSL

## Capex, fixed assets and cash flows

During CY21, ACEM commissioned a Greenfield integrated cement plant at Marwar Mundwa, Rajasthan (North) having clinker capacity of 3mtpa and grinding capacity of 1.8mtpa (on 1st Oct'21). ACEM capitalized Property, Plant and Equipment of INR18.8b mainly consisting of Marwar Mundwa expansion and routine maintenance capex. Total capex spent in CY21 stood at INR11.4b (INR5.8b for capacity expansion, INR3.8b for development and efficiency, and balance for routine maintenance).

**Exhibit 39: Capex spend increased over the past three years**




Source: MOFSL, Company

The company had a capital work-in-progress (CWIP) of INR9.5b in CY21 v/s INR18.7b in CY20. Higher CWIP in CY20 was largely due to the ongoing expansion in Marwar.

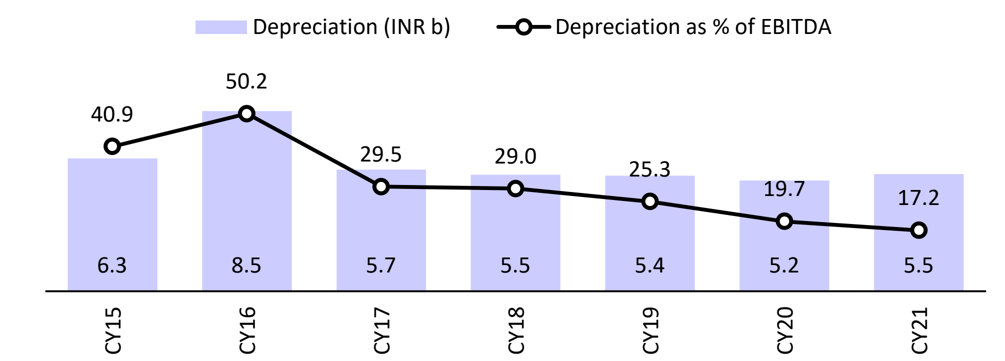
**Exhibit 40: Details of major projects under work-in-progress**

| Capital work-in-progress (INR m) | CY20 | CY21 |
|---|---|---|
| Integrated plant at Marwar | 13,920 | 3,372 |
| Coal Block | 1,036 | 316 |
| Railway Siding | 1,449 | 659 |
| Waste Heat Recovery System | 984 | 2,687 |
| Flyash Dryer | 0 | 430 |
| Others | 1,349 | 2,049 |
| **Total** | **18,737** | **9,513** |

Source: MOFSL, Company

During CY21, depreciation stood at INR5.5b v/s INR5.2b in CY20. Depreciation as a % of EBITDA was at 17.2% v/s 25.3% in CY19 on improved operating performance.

**Exhibit 41: Depreciation at INR5.2-5.7b over the last few years**




Source: MOFSL, Company

In CY21, ACEM reported robust volume growth of 19% YoY that led to improvement in asset turnover and hence, improved RoE. Going forward, the company has announced expansion plans in North and East India at an estimated total capex of INR38.1b to be spent over the next three years. We expect asset turnover to be at 1.41x/1.33x in CY22/23E v/s 1.45x in CY21 (average of 1.11x over CY15-19). Lower profitability assumption in CY22E due to the increase in energy costs is likely to impact RoE adversely. We estimate RoE of 19%/20% in CY22E/23E, respectively.

**Exhibit 42: Du-pont analysis: Lower profitability to adversely impact RoE in CY22E**

| (%) | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|
| PAT/PBT | 72.9 | 77.2 | 75.6 | 74.0 | 74.1 | 74.6 | 74.7 | 74.7 |
| PBT/EBIT | 94.5 | 93.8 | 95.1 | 95.9 | 96.7 | 96.9 | 96.7 | 97.1 |
| EBIT/Sales | 14.7 | 16.5 | 14.8 | 17.4 | 22.0 | 21.1 | 18.6 | 20.4 |
| Asset turnover (x) | 1.0 | 1.3 | 1.3 | 1.2 | 1.2 | 1.4 | 1.4 | 1.3 |
| Assets/Equity (x) | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| **RoE** | **10.5** | **15.5** | **13.7** | **14.5** | **18.8** | **22.3** | **19.2** | **20.0** |

Source: MOFSL, Company; Note: ROE adjusted for ACEM investment in ACC (50.05% subsidiary)

ACEM had witnessed a sharp reduction in Receivables days to six in CY20 v/s 14 over the last five year average, led by better collections and strict credit norms. In CY21, the company had Receivables days of eight.

Likewise inventory days declined to 24 in CY20 v/s 37 over the last five year average. However in CY21, higher fuel (sharp increase in fuel prices) and clinker inventories led to an increase in inventory days to 39.

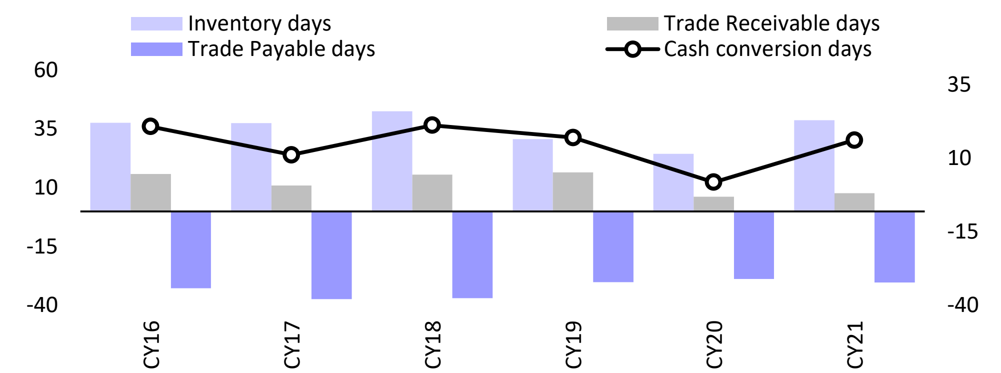
**Exhibit 43: Higher fuel and clinker inventories led to an increase in inventory days in CY21**

| Break-up of inventory days | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 |
|---|---|---|---|---|---|---|
| Raw Materials | 3 | 2 | 2 | 2 | 2 | 2 |
| Work-in-progress and stock-in-trade | 8 | 11 | 11 | 9 | 7 | 13 |
| Finished goods | 4 | 3 | 4 | 3 | 2 | 3 |
| Stores and Spares | 8 | 8 | 9 | 7 | 7 | 5 |
| Packing Materials | 1 | 1 | 0 | 1 | 1 | 1 |
| Fuels | 13 | 13 | 16 | 9 | 6 | 15 |
| **Total inventory days** | **38** | **37** | **42** | **31** | **24** | **39** |

Source: MOFSL, Company

Trade payable days in CY21 was at 30 v/s 29 in CY20 (last five year average at 33 days). Hence, ACEM's cash conversion cycle increased to 16 days in CY21 v/s 2 days in CY20 (last five year average at 15 days).

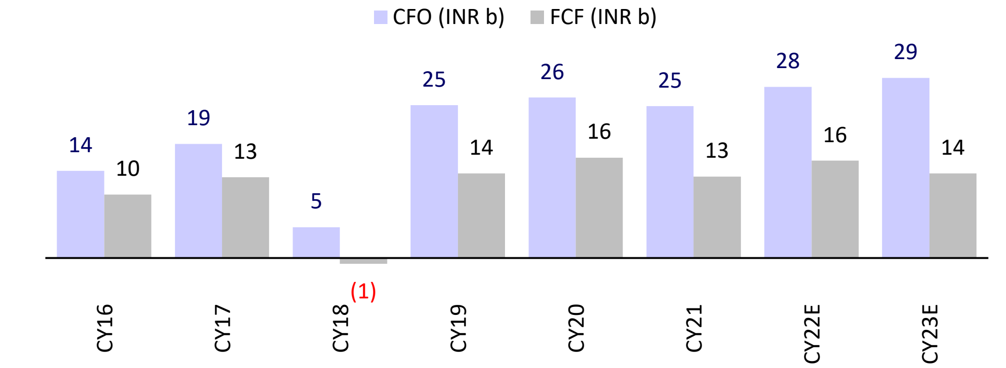
**Exhibit 44: ACEM cash conversion cycle increased in CY21 due to higher inventory days**




Source: MOFSL, Company

ACEM has been generating strong cash flows since CY19 and the cumulative OCF stood at INR76b during CY19-21 (v/s INR38b over CY16-18). FCF stood at INR43b during CY19-21 (v/s INR23b during CY16-18). Going forward, we expect OCF to improve in CY22/CY23 driven by working capital optimization and profitability improvement. We estimate a capex of INR12b/15.5b in CY22/23, respectively, towards expansion, efficiency and development projects. As a result, ACEM is likely to generate healthy FCF of INR16b/14b in CY22/CY23E, respectively.

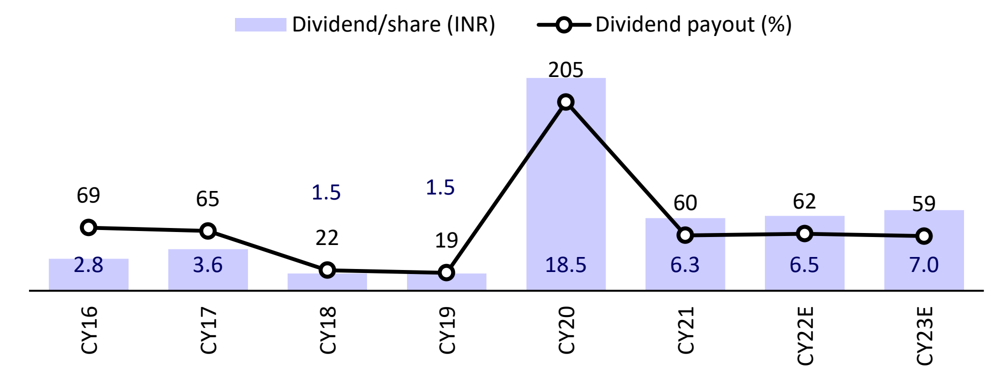
**Exhibit 45: OCF and FCF to improve in CY22-23E after a decline in CY21**




Source: MOFSL, Company

ACEM was following a conservative dividend policy and reduced its payout during CY18-19 (dividend was constant at INR1.5/share). Dividend payout as a % of profits was 21-25% in CY18-19 v/s 57-59% in CY16-17. In CY20, the company announced a special dividend of INR17/share. In CY21, ACEM announced a payout of 60% (dividend of INR6.3/share). Going forward, we expect the company to maintain ~60% payout (dividend of INR6.5/INR7 per share in CY22/CY23), despite growth capex announcement as the company is likely to generate healthy FCF.

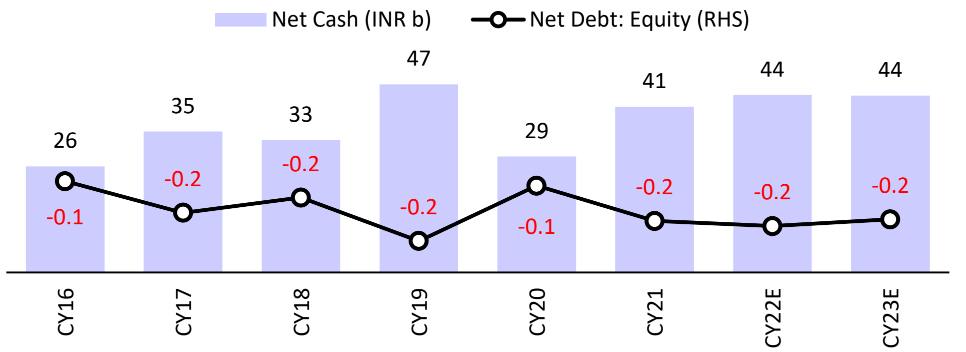
**Exhibit 46: Dividend payout is expected to maintain at CY21 level**




Source: MOFSL, Company

ACEM has continued to remain a net cash company since CY07 and it has a net cash balance of INR41b in CY21 v/s INR29b in CY20. We expect its net cash to be at INR44b in CY22/CY23, despite: a) higher capex and b) sustaining dividend payouts. We believe that ACEM will be able to fund its future capex plans through internal accruals.

**Exhibit 47: Net cash increased in CY21; further improvement expected in CY22**




Source: MOFSL, Company

## Other important points from the AR

Contingent liabilities remained high primarily due to the fines of INR11.6b imposed by the Competition Commission of India (CCI) in 2012. The case is still sub-judice in the Supreme Court over the company's appeal against NCLAT's (earlier known as COMPAT) order of upholding CCI order and imposing penalty. However, the Supreme Court directed the company to follow the NCLAT interim order to deposit 10% of the penalty amount and levy 12% p.a. interest in case the appeal is decided against the company.

Interest accrued on this penalty stood at INR7.04b at CY21-end v/s INR5.74b at CY20-end. Increase in contingent liabilities in CY21 was due to the rise in accrued interest on the above penalty.

**Exhibit 48: Contingent liabilities increased due to interest accrued on CCI penalty**

| Matters related to contingent liabilities | CY20 (INR m) | CY21 (INR m) |
|---|---|---|
| Labour | 112 | 89 |
| Land | 473 | 190 |
| Demand from Competition Commission of India | 17,677 | 18,981 |
| Sales tax | 2,733 | 2,732 |
| Excise customs and service tax | 2,549 | 2,582 |
| Stamp duty | 3,059 | 3,103 |
| Income tax | 4,888 | 4,864 |
| Others | 1,282 | 1,517 |
| **Total** | **32,771** | **34,057** |
| **% of Net worth** | **16.1** | **15.3** |

Source: MOFSL, Company

In CY21, remunerations to directors and key management personnel (KMP) declined mainly due to a change in the MD & CEO and KMP posts. The remuneration paid to MD & CEO and KMP in CY20 included performance-linked incentives for CY19.

**Exhibit 49: Remunerations to directors and KMP declined in CY21**

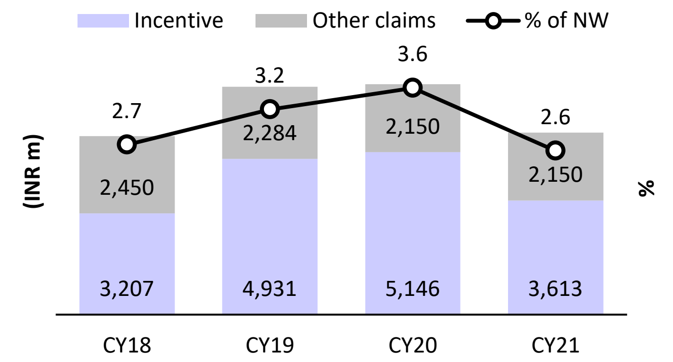
| Salary of directors and KMP | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 |
|---|---|---|---|---|---|---|
| Remuneration to Directors & KMPs (INR m) | 128 | 181 | 199 | 213 | 271 | 239 |
| % of PBT | 1.0 | 1.1 | 1.2 | 1.1 | 1.1 | 0.8 |
| Auditor's salary (INR m) | 34.7 | 21.0 | 24.9 | 22.4 | 21.4 | 21.3 |
| % of PBT | 0.3 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 |

Source: MOFSL, Company

### Incentive receivables decline

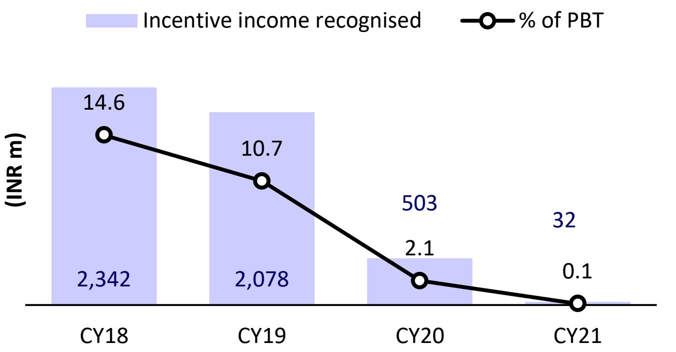
- ACEM's incentive income (government grant) declined sharply in CY20/21 as its Maratha plant incentives expired in Mar'20. Incentives declined to INR32m in CY21 v/s INR503m in CY20.
- We note that incentive receivable from the government declined 30% YoY to INR3.6b in CY21. While, other claims receivable from the government remained flattish at INR2.2b.

**Exhibit 50: Outstanding government incentives declined YoY**




Source: Company, MOFSL

**Exhibit 51: Incentive from Maratha plant expired in Mar'20**




Source: Company, MOFSL

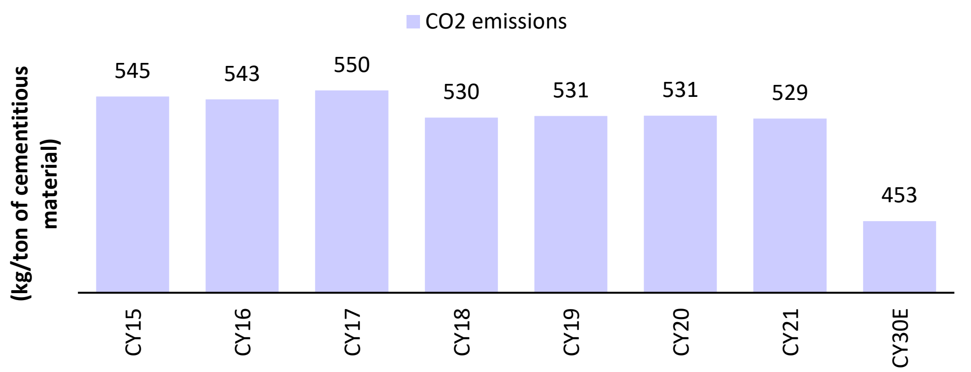
### Key sustainability highlights of CY21

- Increased usage of waste consumption to 8.6mt from 8.2mt in CY20.
- Reduction in specific NOx emission by 27% YoY to 595.8 g/t of cement.
- Reduction in specific water consumption by 25% YoY to 58 ltr/ton of cement (77 ltr/t of cement in CY20). ACEM achieved water positivity rate of 8x.
- Increased CSR spent by 19% YoY to INR644m (from INR540m in CY20).
- Using the 'bubble curtain' technology to remove plastic waste from India's rivers. A pilot project in Agra launched and three other projects are in the pipeline. ACEM targets 10 additional bubble barriers to be set up by 2025.

### Targets to reduce carbon emissions

ACEM intends to become a carbon-neutral building materials and construction solutions business by 2050. The company aims to reduce $CO_2$ intensity to 453kg/t of cementitious material by 2030 v/s 528.8 kg in CY21.

**Exhibit 52: Aims to reduce carbon emission by 14% between CY21 and CY30E**




Source: Company, MOFSL

## Expensive valuations; retain Neutral

ACEM completed its expansion in the North during CY21 that increased its clinker capacity by 3.1mtpa (to 20.8mtpa) and grinding capacity by 1.8mtpa (to 31.4mtpa). The company has announced further expansion plans of 3mtpa clinker capacity and 7mtpa grinding capacity in the East (apart from a grinding capacity addition of 1.5mtpa at Ropar, Punjab which was announced earlier). The company is also evaluating brownfield expansion opportunities at other plants and aims to increase its grinding capacity to 50mtpa in the medium term.

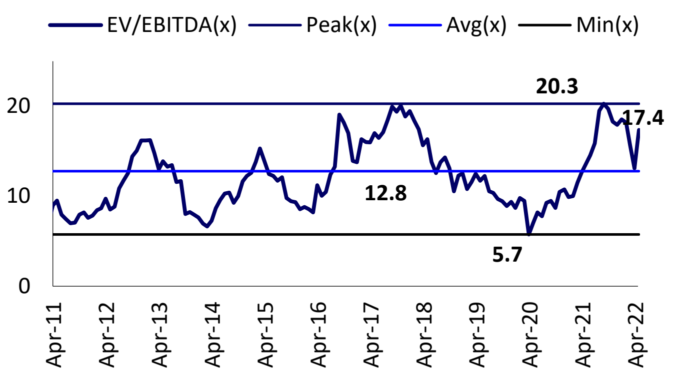
Capacity additions and cost-saving initiatives (commissioning of WHRS/Solar power plants, start of coal mining from Gare-Palma IV coal block, benefits from MSA with ACC, etc.) will help the company control its operating costs. The management hinted that cost savings due to efficiency programs and MSA with ACC stood at INR300/t in the last two years and believes that there is further scope for improvements.

ACEM has been generating strong cash flows since CY19 and its cumulative OCF stood at INR76b during CY19-21 (v/s INR38b over CY16-18). FCF stood at INR43b during CY19-21 (v/s INR23b over CY16-18). Going forward, we expect OCF to improve in CY22/CY23 driven by working capital optimization and profitability improvement. ACEM is likely to generate a healthy FCF of INR16b/INR14b in CY22/CY23E, respectively.

In CY21, ACEM reported robust volume growth of 19% YoY, which led to an improvement in asset turnover and hence, improved RoE (22.3% in CY21 v/s 19.7% in CY20). We estimate an RoE of 19%/20% in CY22E/23E, respectively (average of 14.7% over the last 10 years).

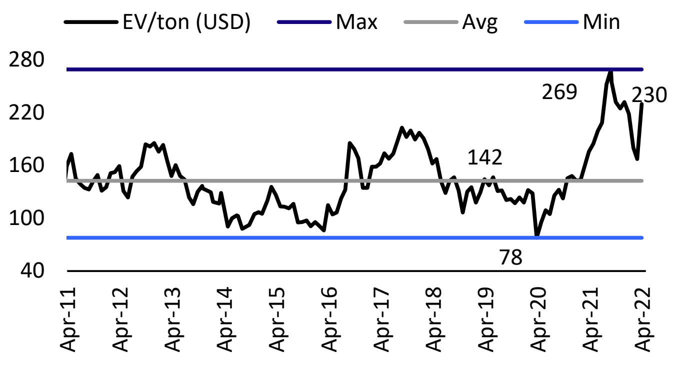
ACEM trades at 18.9x/15.1x CY22E/23E EV/EBITDA and USD222/USD217 CY22E/ 23E EV/ton, respectively. The stock has traded at an average EV/EBITDA of 12.8x over the last 10 years. We value it at 12.5x CY23E EV/EBITDA and 20% HoldCo discount for its holding in ACC to arrive at our TP of INR350. Our TP implies a potential downside of 9% from CMP. Hence, we maintain our Neutral rating on the stock. In the near term, ACEM's stock price movement will be governed by news flows related to its promoter group Holcim's exit from India.

**Exhibit 53: One-year forward EV/EBITDA chart**




Source: MOFSL, Company

**Exhibit 54: One-year forward EV/ton chart**




Source: MOFSL, Company

# Financials and Valuations

### Standalone Income Statement

(INR m)

| Y/E December | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **91,966** | **1,04,571** | **1,13,568** | **1,16,679** | **1,13,719** | **1,39,650** | **1,55,119** | **1,58,258** |
| Change (%) | -2.8 | 13.7 | 8.6 | 2.7 | -2.5 | 22.8 | 11.1 | 2.0 |
| **EBITDA** | **16,924** | **19,401** | **18,915** | **21,489** | **26,466** | **32,075** | **28,386** | **34,720** |
| Change (%) | 10.5 | 14.6 | -2.5 | 13.6 | 23.2 | 21.2 | -11.5 | 22.3 |
| Margin (%) | 18.4 | 18.6 | 16.7 | 18.4 | 23.3 | 23.0 | 18.3 | 21.9 |
| Depreciation | 8,489 | 5,729 | 5,481 | 5,438 | 5,212 | 5,512 | 6,269 | 6,452 |
| Interest | 742 | 1,072 | 823 | 835 | 831 | 909 | 960 | 930 |
| Other Income - Rec. | 5,102 | 3,591 | 3,391 | 4,265 | 3,720 | 2,856 | 6,754 | 4,074 |
| **PBT before EO Exp.** | **12,795** | **16,191** | **16,002** | **19,480** | **24,144** | **28,509** | **27,911** | **31,412** |
| EO Exp/(Inc) | 0 | 0 | -2,779 | 0 | 0 | 657 | 0 | 0 |
| **PBT after EO Exp.** | **12,795** | **16,191** | **18,781** | **19,480** | **24,144** | **27,853** | **27,911** | **31,412** |
| Current Tax | 4,392 | 4,107 | 4,780 | 5,730 | 6,520 | 6,908 | 7,062 | 7,948 |
| Deferred Tax | -920 | -411 | -869 | -1,535 | -278 | 139 | 0 | 0 |
| Tax Rate (%) | 27.1 | 22.8 | 20.8 | 21.5 | 25.9 | 25.3 | 25.3 | 25.3 |
| **Reported PAT** | **9,322** | **12,496** | **14,870** | **15,285** | **17,901** | **20,805** | **20,849** | **23,464** |
| **PAT Adj for EO Items** | **9,322** | **12,496** | **12,091** | **14,415** | **17,901** | **21,278** | **20,849** | **23,464** |
| Change (%) | 8.0 | 34.0 | -3.2 | 19.2 | 24.2 | 18.9 | -2.0 | 12.5 |
| Margin (%) | 10.1 | 11.9 | 10.6 | 12.4 | 15.7 | 15.2 | 13.4 | 14.8 |

### Standalone Balance Sheet

(INR m)

| Y/E December | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|
| Equity Share Capital | 3,971 | 3,971 | 3,971 | 3,971 | 3,971 | 3,971 | 3,971 | 3,971 |
| Total Reserves | 1,89,597 | 1,95,761 | 2,06,154 | 2,18,081 | 1,99,187 | 2,18,101 | 2,26,044 | 2,35,610 |
| **Net Worth** | **1,93,569** | **1,99,732** | **2,10,125** | **2,22,052** | **2,03,159** | **2,22,073** | **2,30,015** | **2,39,581** |
| Def. Liabilities | 4,973 | 4,583 | 3,722 | 2,161 | 1,860 | 2,018 | 2,018 | 2,018 |
| Total Loans | 157 | 241 | 397 | 353 | 436 | 435 | 435 | 435 |
| **Capital Employed** | **1,98,699** | **2,04,557** | **2,14,244** | **2,24,565** | **2,05,454** | **2,24,526** | **2,32,468** | **2,42,034** |
| Gross Block | 65,532 | 69,035 | 73,721 | 80,435 | 86,658 | 1,08,864 | 1,20,877 | 1,23,377 |
| Less: Accum. Depn. | 6,116 | 11,816 | 17,085 | 22,310 | 27,343 | 32,407 | 38,676 | 45,128 |
| **Net Fixed Assets** | **59,416** | **57,220** | **56,636** | **58,125** | **59,315** | **76,457** | **82,201** | **78,249** |
| Capital WIP | 6,501 | 8,625 | 9,996 | 14,562 | 21,300 | 10,858 | 10,845 | 23,845 |
| Investments in subsidiaries | 1,18,151 | 1,18,151 | 1,18,138 | 1,17,890 | 1,17,877 | 1,17,877 | 1,17,877 | 1,17,877 |
| Investments-Trade | 10,951 | 15,128 | 2,305 | 6,537 | 788 | 4,843 | 4,843 | 4,843 |
| **Curr. Assets** | **38,509** | **47,144** | **64,792** | **72,793** | **55,534** | **71,699** | **76,255** | **76,439** |
| Inventory | 9,375 | 10,525 | 12,778 | 9,541 | 7,466 | 14,636 | 14,705 | 13,713 |
| Debtors | 3,958 | 3,080 | 4,703 | 5,132 | 1,915 | 2,932 | 3,259 | 3,325 |
| Cash & Bank Bal | 15,602 | 20,189 | 31,045 | 40,638 | 28,500 | 36,880 | 39,789 | 39,649 |
| Others | 9,574 | 13,351 | 16,267 | 17,483 | 17,652 | 17,252 | 18,502 | 19,752 |
| **Curr. Liability & Prov.** | **34,829** | **41,712** | **37,623** | **45,342** | **49,360** | **57,209** | **59,552** | **59,220** |
| Creditors | 33,516 | 40,488 | 36,327 | 43,985 | 48,765 | 56,469 | 58,219 | 57,886 |
| Provisions | 1,314 | 1,223 | 1,296 | 1,357 | 595 | 740 | 1,334 | 1,334 |
| **Net Current Assets** | **3,680** | **5,433** | **27,169** | **27,451** | **6,174** | **14,490** | **16,702** | **17,219** |
| **Appl. of Funds** | **1,98,699** | **2,04,557** | **2,14,244** | **2,24,565** | **2,05,454** | **2,24,526** | **2,32,468** | **2,42,035** |

Source: Company, MOFSL

# Financials and Valuations

**Standalone Ratios** (INR m)

| Y/E December | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|
| **Basic (INR)** | | | | | | | | |
| **EPS** | **4.7** | **6.3** | **6.1** | **7.3** | **9.0** | **10.7** | **10.5** | **11.8** |
| Cash EPS | 9.0 | 9.2 | 8.8 | 10.0 | 11.6 | 13.5 | 13.7 | 15.1 |
| BV/Share | 97.5 | 100.6 | 105.8 | 111.8 | 102.3 | 111.8 | 115.8 | 120.7 |
| DPS | 2.8 | 3.6 | 1.5 | 1.5 | 18.5 | 6.3 | 6.5 | 7.0 |
| Payout (%) | 68.5 | 64.9 | 22.3 | 19.5 | 205.2 | 60.1 | 61.9 | 59.2 |
| **Valuation (x)** | | | | | | | | |
| P/E | | | 48.9 | 41.0 | 33.0 | 27.8 | 28.3 | 25.2 |
| Cash P/E | | | 33.6 | 29.8 | 25.6 | 22.1 | 21.8 | 19.7 |
| P/BV | | | 2.8 | 2.7 | 2.9 | 2.7 | 2.6 | 2.5 |
| EV/Sales | | | 4.8 | 4.5 | 4.8 | 3.9 | 3.5 | 3.3 |
| EV/EBITDA | | | 29.0 | 24.6 | 20.4 | 16.8 | 18.9 | 15.1 |
| EV/Ton (Cap) - US$ | | | 241 | 233 | 238 | 224 | 222 | 217 |
| Dividend Yield (%) | | | 0.4 | 0.4 | 4.8 | 1.6 | 1.7 | 1.8 |
| **Return Ratios (%)** | | | | | | | | |
| RoE | 10.4 | 15.8 | 13.8 | 14.6 | 18.7 | 22.3 | 19.1 | 19.9 |
| RoCE | 11.0 | 16.8 | 15.2 | 16.1 | 19.3 | 22.9 | 19.7 | 20.5 |
| RoIC | 9.4 | 18.2 | 18.9 | 23.6 | 35.3 | 41.0 | 26.9 | 33.9 |
| **Working Capital Ratios** | | | | | | | | |
| Asset Turnover (x) | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 | 0.7 |
| Debtor (Days) | 15.7 | 10.7 | 15.1 | 16.1 | 6.1 | 7.7 | 7.7 | 7.7 |
| Inventory (Days) | 37 | 37 | 41 | 30 | 24 | 38 | 35 | 32 |
| Work Cap (Days) | 14.6 | 19.0 | 87.3 | 85.9 | 19.8 | 37.9 | 39.3 | 39.7 |
| **Leverage Ratio (x)** | | | | | | | | |
| Current Ratio | 1.1 | 1.1 | 1.7 | 1.6 | 1.1 | 1.3 | 1.3 | 1.3 |
| Debt/Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

**Standalone Cash Flow Statement** (INR m)

| Y/E December | CY16 | CY17 | CY18 | CY19 | CY20 | CY21 | CY22E | CY23E |
|---|---|---|---|---|---|---|---|---|
| OP/(Loss) before Tax | 12,795 | 16,191 | 15,061 | 19,480 | 24,144 | 27,853 | 27,911 | 31,412 |
| Depreciation | 8,489 | 5,729 | 5,481 | 5,438 | 5,212 | 5,512 | 6,269 | 6,452 |
| Interest & Finance Charges | -1,247 | -58 | -709 | -1,515 | -1,369 | -259 | 0 | 0 |
| Direct Taxes Paid | -3,187 | -3,101 | -6,251 | -808 | -4,648 | -3,629 | -7,062 | -7,948 |
| (Inc)/Dec in WC | 325 | 2,136 | -6,166 | 3,877 | 3,676 | -4,615 | 697 | -657 |
| **CF from Operations** | **17,173** | **20,898** | **7,416** | **26,472** | **27,015** | **24,862** | **27,816** | **29,260** |
| Others | -3,015 | -2,356 | -2,406 | -1,632 | -952 | -199 | 0 | 0 |
| **CF from Operating incl EO** | **14,158** | **18,541** | **5,009** | **24,840** | **26,062** | **24,663** | **27,816** | **29,260** |
| (Inc)/Dec in FA | -3,832 | -5,427 | -5,936 | -11,114 | -9,756 | -11,425 | -12,000 | -15,500 |
| **Free Cash Flow** | **10,327** | **13,115** | **-927** | **13,726** | **16,307** | **13,238** | **15,816** | **13,760** |
| (Pur)/Sale of Investments | -30,859 | 3,468 | 3,393 | 3,734 | 3,342 | 2,607 | 0 | 0 |
| Others | 14,253 | -4,509 | 13,174 | -3,999 | 5,819 | -4,297 | | |
| **CF from Investments** | **-20,438** | **-6,468** | **10,631** | **-11,379** | **-595** | **-13,115** | **-12,000** | **-15,500** |
| Issue of Shares | 868 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inc/(Dec) in Debt | -957 | -793 | 216 | 0 | -237 | -275 | 0 | 0 |
| Interest Paid | -360 | -1,143 | -513 | -558 | -633 | -908 | 0 | 0 |
| Dividend Paid | -5,516 | -5,550 | -4,498 | -3,320 | -36,646 | -2,021 | -12,907 | -13,900 |
| Others | -868 | 0 | 12 | 11 | -88 | 35 | 0 | 0 |
| **CF from Fin. Activity** | **-6,833** | **-7,487** | **-4,784** | **-3,868** | **-37,604** | **-3,168** | **-12,907** | **-13,900** |
| **Inc/Dec of Cash** | **-13,112** | **4,587** | **10,856** | **9,593** | **-12,137** | **8,380** | **2,909** | **-140** |
| Opening Balance | 28,714 | 15,602 | 20,189 | 31,045 | 40,638 | 28,500 | 36,880 | 39,789 |
| **Closing Balance** | **15,603** | **20,189** | **31,045** | **40,638** | **28,500** | **36,880** | **39,789** | **39,649** |

Source: Company, MOFSL

| 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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