



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- The company improved its ROE from 13.21 in CY20 to 15.34 in FY21.
- ROCE of the company improved to 21.95% in CY21 from 17.55% in CY20.
- Revenue increased to Rs.8032.9 cr in Q2CY22 (+15.1% YoY) on improved realizations and strong growth in sales volume.

2. MANAGEMENT COMMENTARY:

- Company ongoing expansion projects include :1) grinding capacity of 1.5 mtpa in Ropar (Punjab), 2) 3.2 mtpa clinker expansion in Chhattisgarh, 3) 7 mtpa grinding capacity in East India (including a greenfield grinding unit in Bihar). The company is also setting up WHRS facility at multiple plants. Total WHRS capacity to reach 87 MW (post commissioning of all projects) from current capacity of 7.5 MW.
- The management continues to focus on sustainable growth, with a higher share (89%) of blended cement and a thermal substitution rate of 6%. The company processed the higher ever waste 2QCY22.
- The timely completion of growth plans and cost-saving strategies by the new management will be the key triggers for the stock's performance.
- Going ahead, the organization's solid spotlight stays on paying off its debt with higher sales and better cash flow generation.

3. PRICE PERFORMANCE (%)

Particulars	3 M	1 Y
Ambuja Cement	11.27	-3.06%
Nifty Commodities	4.27%	4.39%
Nifty 500	7.30%	3.52%

4. SHARP COST INCREASE LED TO 38% YoY DECLINE IN EBITDA/T

- Company standalone revenue/EBITDA/adjusted PAT stood at Rs.40 billion/ Rs.6.8 billion/ Rs.8.5 billion (+18%/-29%/+18% YoY and -1%/ +13%/+13%) in 2QCY22.
- Sales volume rose 15% YoY to 7.39 mt (in line). Blended realization improved 3% each YoY and QoQ to Rs. 5,404/t (1% below our estimate). Premium cement contributed over 16% of total trade sales in 2QCY22.
- OPEX/t rose 19% YoY and 7% QoQ led by an increase in variable costs and other expenses (higher coal and petcoke prices and inflationary impact). EBITDA/t stood at Rs.926 vs Rs.1495/Rs.1055 in 2QCY21/1QCY22.
- Other income (adjusted for one offs) grew 265% YoY to Rs. 5.9 billion (due to dividend income of Rs. 5.5 billion from ACC). As a result, adjusted PAT (adjusted for tax reversal of earlier year) was up 18% YoY to Rs. 8.5 billion (Estimated Rs.7.5 billion)
- In H1 CY22, revenue grew 13% YoY, backed by an increase in blended realization/ volume by 4%/9% YoY. However EBITDA declined by 24% YoY due to a sharp increase in operating cost/t (up 17% YoY)
- Company's OCF Stood at Rs.8 billion (vs Rs 12 billion in 1HCY21) largely due to higher tax payment of Rs.3.3 billion (vs Rs.279 million in 1HCY21). Capex stood at Rs.4.7 billion vs Rs.4.8 billion in 1HCY21.
- Net cash declined to Rs.38 billion from Rs.41 billion in Dec 21.

5. VALUATION AND OUTLOOK:

- Company reduced its specific CO2 emissions by 5% YoY to 519 kg/MT of cement in Q2.
- Company ongoing 8.5mn MT expansions (1.5mn MT Punjab by CY23 and 7mn MT in east) costing Rs.38 billion are on track, and these will increase its capacity to 40mn MT (no timeline mentioned for the east expansion)
- Company will be commissioning 53MW WHRS across plants in Q3CY22, reducing its power costs.
- As a key player in the cement industry with 12% market share, company is poised to capitalize on emerging opportunities.
- Company delivered material turnaround in earnings over last couple of years. The major contributors to this turnaround were multifold increase in volumes under MSA, optimization of fixed costs and reduction in specific energy consumption.
- Company is well-placed to pursue growth opportunities with a net cash of Rs.43.4b in CY23E.

We have maintained Accumulate rating on stock and value the stock at 25.6x FY23 earnings to arrive at the target of Rs.448

RECOMMENDATION – ACCUMULATE

CMP –415

TARGET – 448 (8%)

Industry	Cement Sector
NSE CODE	AMBUJACEM
BSE CODE	500425
Market Cap (₹ Cr)	82523
Shares outstanding (in Cr)	198.6
52 wk High/Low (₹)	442.5/274
P/E	34.2
P/BV	3.2
Face Value (₹)	2.0
Book Value (₹)	128.6
EPS (₹)	14.0
Dividend Yield (%)	1.7
Debt / Equity	0.0
Interest coverage	36.3

SHAREHOLDING PATTERN

	June 22	Mar 22	Dec 21
Promoters	63.2	63.2	63.2
Mutual Funds	7.05	7.5	6.6
FII/FPI	12.8	12.97	14.7
Non Institutions	8.8	7.3	6.7
Promoter Pledging	0.0	0.0	0.0

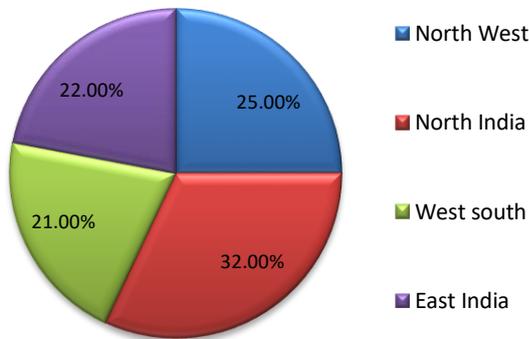
FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Core			
Sales	28966	32970	36220
Sales Gr. (%)	18.2	13.8	9.8
EBITDA	6199.5	5230	6850
EBITDA mrg. (%)	19.7	15.9	18.9
PAT	3690.8	2500	3400
EPS (₹)	14.0	12.7	17.5
EPS Gr. (%)	17.5	-9.3	37.8
Ratios			
RoE (%)	15.3	17.5	19.1
RoCE (%)	21.9	18.2	19.6
Valuation			
P/E (x)	26.9	30.1	25.6
Net Debt/ equity	0.02	0.00	0.00

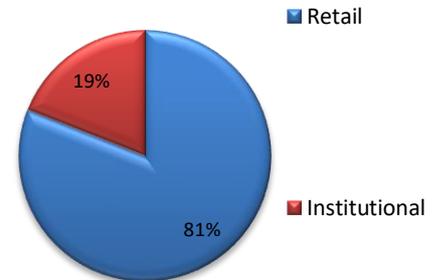
Particulars	TTM	5 Yr Avg
Historical P/E :	33.8	24.5
Industry P/E :	31.4	
Historical P/B :	3.1	2.3
Industry P/B :	3.3	

REVENUE SPLIT CY21(%)

Region Wise Contribution to Total Sales



% Trade Mix



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	CY20				CY21				CY22	CY21	CY22E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	3QE*		
Net sales	6250	4644	6169	7453	7715	6978	6647	7625	8200	28965	32970
YoY change (%)	-8.51	-34.3	1.52	4.58	23.4	50.3	7.74	2.31	23.4	18.2	13.83
Total Expenditure	5058	3522	4820	6110	5876	5151	5231	6497	6905	22755	27740
EBITDA	1191	1122	1350	1342	1838	1827	1416	1128	1295	6210	5230
Margins (%)	19	24.2	21.9	18.0	24	26.2	21	14.8	15.8	21	15.9
Depreciation	296	292	290	283	269	277	276	330	325	1152	1425
Interest	34	31	34	41	32	39	36	38	41	146	159
Other income	145	113	97	100	97	78	93	84	120	252	91
PBT	1007	912	1122	942	1635	1588	1197	724	1049	5164	3737
Tax	262	319	321	-20	413	432	311	297	262.2	1473	1237
Rate (%)	26	35	29	-2	25	27.2	26	41.0	25.0	28.5	33.1
Adjusted PAT	554	457	801	962	1222	1156	886	426	786.8	3691	2500
YoY change (%)		-26.6	51.35	34.39	65.32	95.83	10.7	-55.7	9.6	18.8	7.6
Key Performance Indicators											
RM Cost (% of Sales)	10.6	11.03	11.9	15.0	11.8	6.1	8.7	13.8	-	10.2	-
Staff Cost (% of Sales)	6.2	8.77	6.1	5.9	4.9	5.4	5.9	5.1	-	5.3	-
Other Costs (% of Sales)	83.2	80.02	82.0	80.1	83.3	88.5	85.4	81.1	-	84.5	-
EBITDA Margin (%)	19	24.2	21.9	18.0	24	26.2	21.0	14.8	15.8	21	15.9
PAT Margin (%)	8.9	9.8	12.9	12.9	15.8	16.6	13.3	5.6	9.6	12.7	7.6

Source: Company, Hem Securities Research.

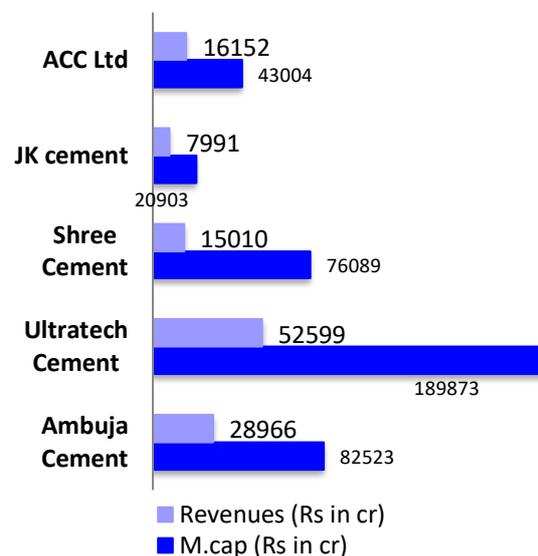
*Insights into the assumptions:

- 1> Expected to see sharp growth in CY22 on the back of Owing to the improving demand dynamics and a strong sales performance in Q1FY22.
- 2> We expect EBITDA and PAT margins to improve supported by favorable pricing and a boost in cement industry led by infrastructure growth in the country.

INDUSTRY OVERVIEW

- India is the second largest producer of cement in the world. It accounts for more than 7% of the global installed capacity.
- Of the total capacity, 98% lies with the private sector and the rest with public sector. The top 20 companies account for around 70% of the total cement production in India.
- As per Crisil Ratings, the Indian Cement industry is likely to add 80 million tonnes (MT) capacity by FY24, the highest since the last 10 years, driven by increasing spending on housing and infrastructure activities.
- As India has a high quantity and quality of limestone deposits throughout the country, the cement industry promises huge potential for growth.
- As per the Union Budget 2021-22, the government approved an outlay of Rs.1,18,101 cr (US\$ 16.22billion) for the ministry of Road transport and highways, and this step is likely to boost the demand for cement.
- The Union Budget allocated Rs.13,750 cr (US\$1.88 billion) and Rs.12,294 crore (US \$1.68 Billion) for Urban Rejuvenation Mission: AMRUT and smart cities mission and swachh bharat mission, respectively and Rs.27,500 cr (US\$ 3.77 billion) has been allotted under Pradhan mantra awas yojna.
- In the next 10 years, India could become the main exporter of clinker and gray cement to the middle east, Africa and other developing nations of the world.

KEY PLAYERS



PEER PERFORMANCE

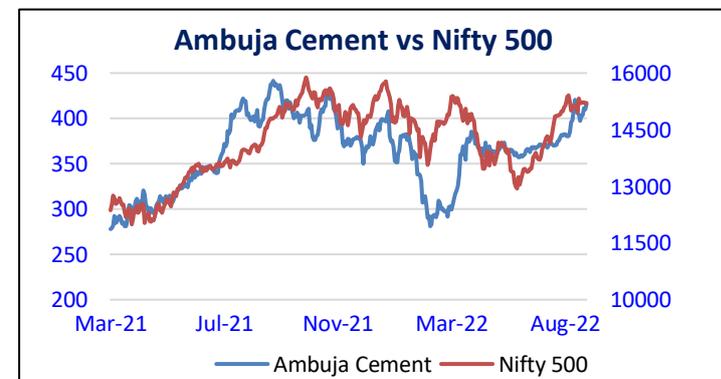
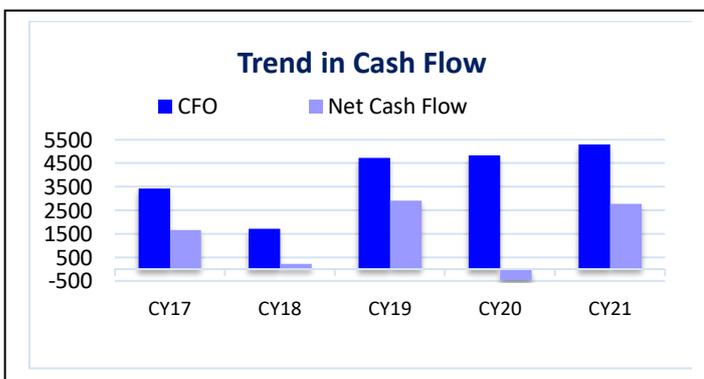
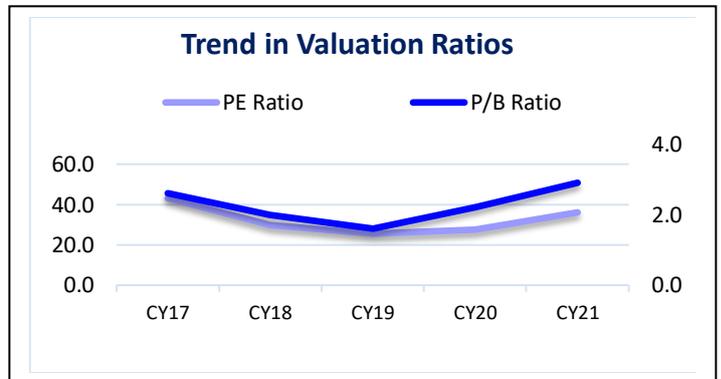
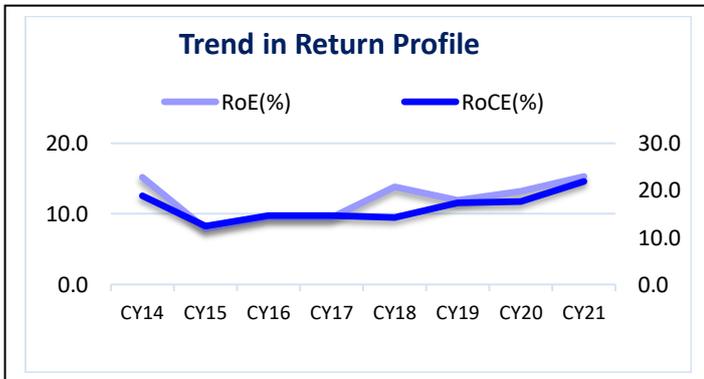
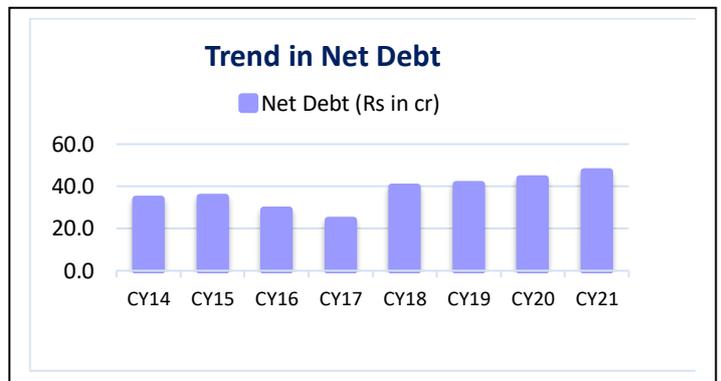
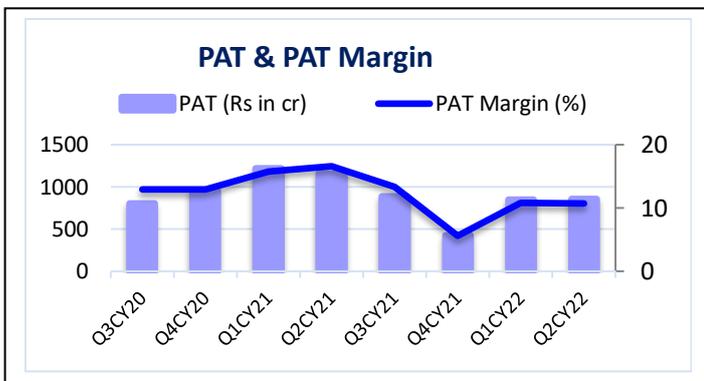
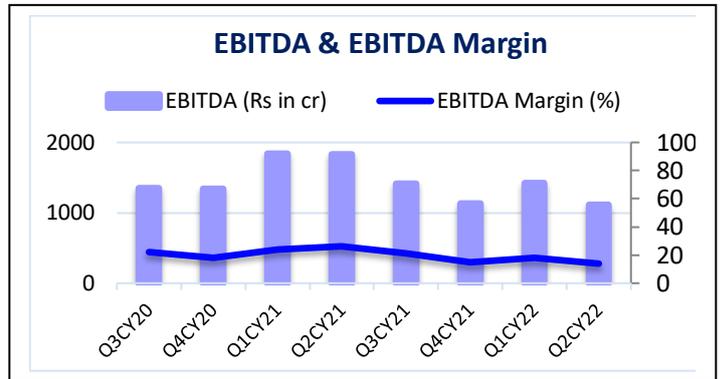
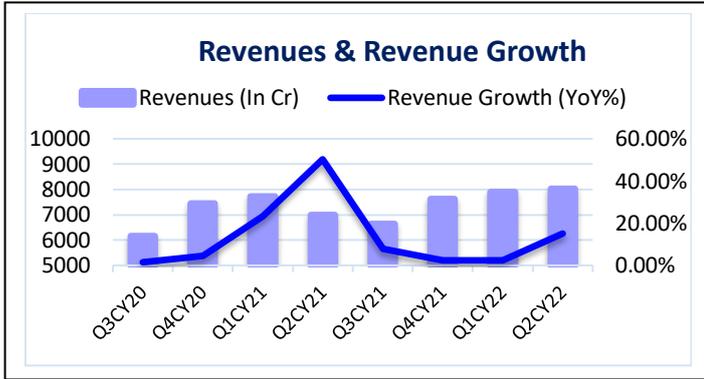
(₹ Cr)

Particulars	Ambuja Cement	Ultratech Cement	Shree Cement	JK Cement	ACC Ltd
Market Cap	82523	189873	76089	20903	43004
Net Sales	28965.5	52598.8	15009.6	7990.8	16151.7
EBITDA	6199.5	11514.4	3705.3	1482.4	2962.8
PAT	3691	7172.6	2336.6	679.4	1851.5
EPS (Rs)	14.0	254.4	646.3	88.9	99.2
EBITDA MARGIN %	19.7	22.9	22.7	20.3	17.3
PAT MARGIN %	11.1	13.6	12.5	8.5	9.9
ROCE %	21.9	14.9	16.8	16.8	18.9
ROE %	15.3	15.2	14.2	16.9	13.7
P/E	33.8	26.0	40.3	31.2	31.7
P/B	79.0	250.3	549.2	85.1	72.1
EV/EBITDA	3.1	3.6	4.5	4.6	3.1
Debt to Equity	1.6	0.6	0.4	0.6	2.5
Return on assets	2.7	3.4	5.1	2.4	2.6

Source: Company, Hem Securities Research.



STORY IN CHARTS



INVESTMENT RATIONALE:

- Company with its large pan-India diversified market presence, premium brand positioning and increased focus on cost efficiencies is better placed to sustain/improve margins in the medium term.
- The timely completion of growth plans and cost-saving strategies by the new management will be the key triggers for the stock's performance in near future.
- Company delivered material turnaround in earnings over last couple of years. The major contributors to this turnaround were multifold increase in volumes under MSA, optimisation of fixed costs and reduction in specific energy consumption.
- The management continues to focus on sustainable growth, with a higher share (89%) of blended cement and a thermal substitution rate of 6%. The company processed the highest ever waste in 2QCY22.
- Company is gaining market share with ongoing expansion of 1.5 mtpa in Ropar (Punjab), 2) 3.2 mtpa clinker expansion in Chhattisgarh, 3) 7 mtpa grinding capacity in East India (including a greenfield grinding unit in Bihar). The company is also setting up WHRS facility at multiple plants. Total WHRS capacity to reach 87 MW (post commissioning of all projects) from current capacity of 7.5 MW.
- Margins are expected to improve on account of a) reduction in lead distance; b) increase in green power mix and c) control on fixed costs.
- A strong pipeline of expansion projects and scope for improvement in utilization of existing capacities offers strong growth visibility.
- Recent outperformance of the stock has been supported by ongoing corporate action (acquisition of Holcim's stake in ACEM by the Adani group and will be followed by an open offer).

RISK FACTORS:

- Due to coal shortage and oil price increases, margins are expected to remain under pressure in the short term owing to rising fuel costs.
- Economic slowdown and subdued infrastructural development might lead to a slowdown in construction projects, thus leading to a reduction in cement consumption in the country.
- The sharp resurgence of Covid-19 this time may negatively impact the demand environment over the short term.
- On the incremental basis, there is no meaningful scope for further cost reduction except savings in power cost due to increase in share of waste heat recovery plant.

COMPANY RECAP

- Ambuja Cements Ltd (Founded in 1993) is one of India's leading cement manufacturers, with a presence in 80 countries, and a focus on cement, aggregate and concrete. It is a part of Switzerland-based LafargeHolcim Limited, a global conglomerate with a 70-country presence.
- As per 2020, the company holds ~8% of the market share in India in the Cement industry with a presence in 11 states, covering 44 districts. **It has ~50,000 channel partners.**
- An established brand in India, Ambuja Cement is known for its high strength, high-performance Ordinary Portland Cement (OPC) and Pozzolana Portland Cement (PPC). OPC and PPC both are high quality active hydraulic binders and are preferred brands in the market for all construction applications. About 25% of the company's production of high strength Portland Pozzolana Cement (PPC) uses fly ash – a waste produced in thermal power plants – as a raw material. PPC currently constitutes 93% of the company's product portfolio.
- Region-Wise Revenue Share 2020: North West 25%, North 32%, East 22%, West South 21%.
- Blended cement sales 87% in 2020.
- Retail sales 81% and Non-trade sales 19% in 2020.
- Ambuja Cement is one of India's leading cement manufacturers with a presence across Northern, Central, Western and Eastern parts of the country. The Company has a total of 13 plants - 5 integrated plants, 8 grinding plants, 5 shipping terminals, a production capacity of 29.65 MTPA, CPP - 291 MW with 5 units.
- The Company's strategy aims to deliver strong returns to shareholders, best in-class and sustainable products to customers, and consistent value to all stakeholders. To achieve these, it focuses on four broad parameters.
 - Market Share increase: Capacity expansion and enhancing distribution reach and customer engagement.
 - Special Products: Kawach – A water repellent product, Ambuja Plus – Higher-strength Cement, Ambuja – Compocem.
 - Cost Optimization: I CAN program, Logistic efficiency, Digitization
 - Sustainability: Protecting the environment, strengthening the human capital, community development. (27.7).
- Apart from strengthening market reach, the company demonstrates a strong financial position which is reflected in its cash generation ability. The current expansion program is funded through internal accruals and it has sufficient liquidity to embark on future expansion to sustain growth.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

	2017	2018	2019	2020	2021	2022E	2023E
March							
Revenue from operations	23,608.7	26,040.9	27,103.6	24516	28965.5	32970	36220
Growth YoY (%)	17.3	10.3	4.1	-9.5	18.1	13.83	9.9
Total Expenditure	19,751	22,030.2	22506.6	19510	22765.9	27740	29370
(%) of sales	83.7	84.6	83	79.6	78.6	84.1	81.1
EBITDA	3857.6	4010.8	4597.0	5005.6	6199.5	5230	6850
EBITDA Growth (%)	12.9	4.8	18.2	5.4	20.3	-15.6	30.9
EBITDA Margin (%)	16.5	15.5	17.0	19.7	19.7	15.9	18.9
Depreciation	1219.5	1154	1152.5	1161.8	1152.5	1425	1521
EBIT	3974.4	4211.7	5007.9	5314.9	6417.2	3805	5329
Growth (%)	34.5	3.9	30.8	2.3	28.5	-40.7	40.0
Interest Expenses	205.8	170.5	169.9	140.2	145.7	159	174
Other Income	322.6	371.4	580.7	449.6	363.3	91	151
Exceptional Items	-	-151.8	-	-176.0	-120.5	-	-
Earnings before Taxes	2755	2906.0	3855.3	3977.2	5144.2	3737	5306
Growth (%)	37.8	5.5	32.7	3.2	29.4	-27.4	41.9
EBT Margin (%)	11.7	11.2	14.2	16.2	17.8	11.3	14.6
Tax-Total	822.9	-54.2	1092.2	884.8	1453.4	1237	1906
Rate of tax (%)	29.9	-1.9	28.3	22.2	28.3	33.1	5.3
Net Profit	1932.1	2960.2	2763.2	3092.4	3690.8	2500	3400
Growth (%)	35.8	53.2	-6.7	11.9	19.4	32.3	36
PAT Margin (%)	7.6	10.4	9.1	11.2	11.1	7.6	9.4
EPS	7.6	11.0	10.6	11.9	14.0	12.7	17.5
EPS Growth (%)	37.22	43.6	-3.8	12.9	17.5	-9.3	37.8

Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Equity Share Capital	397	397	397	397	397
Reserves & Surplus	20,275	21,973	23,681	22,360	24,957
Total Shareholder's Funds (A)	20672	22370	24078	22757	25354
Long Term Borrowings	24	40	35	44	44
Non-Controlling Interest	4608	5231	5737	6341	7145
Total Non-Current Liabilities (B)	4632	5271	5772	6385	7189
Advance from customers	289	314	236	279	395
Trade Payables	2816	3006	2333	2213	2913
Other Liability Items	7100	6430	7760	8083	9355
Total Current Liabilities (C)	10205	9750	10329	10575	12663
Total Equity and Liabilities (A+B+C)	35509	37391	40179	39717	45206
Property, Plant & Equipment	20898	20636	20701	20486	22254
Capital Work in progress	667	1008	1554	2422	2196
Investments	153	133	150	167	198
Total Non-Current Assets (A)	21718	21777	22405	23075	24648
Inventory	2458	2958	2096	1649	2738
Debtors	932	1305	1069	561	646
Cash and Bank Balance	6232	6439	9355	8936	11694
Loans and advances	2006	2200	2263	2115	2413
Other Current Assets	2164	2711	2990	3382	3065
Total Current Assets (B)	13792	15613	17773	16643	20556
Total Assets(A+B)	35509	37391	40179	39717	45206

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2017	2018	2019	2020	2021
Profitability and return ratios					
Net profit margin (%)	7.6	10.4	9.1	11.2	11.1
EBITDA margin (%)	16.5	15.5	16.9	19.7	19.7
EBIT margin (%)	11.7	10.9	13.2	14.9	15.9
ROE (%)	9.5	13.8	11.9	13.2	15.3
ROCE (%)	14.6	14.3	17.3	17.6	21.9
Working Capital & liquidity ratios					
Payables (Days)	46.5	49.4	44.6	267.5	320.7
Inventory (Days)	33.4	34.9	30.2	24.7	24.1
Receivables (Days)	13.4	14.4	14.2	10.8	6.6
Current Ratio (x)	1.3	1.5	1.6	1.4	1.5
Valuations Ratios					
EV/sales (x)	2.0	1.5	1.1	1.7	2.2
EV/EBITDA (x)	11.4	8.7	5.7	7.4	9.7
P/E (x)	35.5	6.0	18.6	20.9	26.9
P/BV (x)	2.6	1.9	1.6	2.2	2.9
Dividend Yield (%)	1.3	0.7	0.8	7.2	1.7
Return on Assets (%)	5.7	8.1	7.1	7.7	8.7
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021
CF from Operating activities (A)	3416	1703	4739	4832	5309
CF from Investing Activities (B)	-762	-766	-1193	-1317	-2007.05
CF from Financing Activities (C)	-1015	-719	-629	-3956	-516
Net Cash Flow	1639.5	218.2	2916.5	-441.2	2786
Add: Opening Bal.	4210	5874	6093	9013	8572
Closing Balance	5874	6093	9012	8572	11358

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
2 nd Sep 2022	ACCUMULATE	448

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