

Ambuja Cement

REDUCE

Better result priced-in

Summary

Ambuja Cement (ACEM) Q1CY21 EBITDA came-in 13% higher than our estimate. EBITDA/t expanded to Rs1362/t and it was supported by lower costs and operating leverage benefit from the volume growth. Overall, the cost saving is better than our estimate, as freight/t was lower QoQ (benefit from MSA, Paravt initiatives), employee cost is lower on QoQ and YoY basis. We have factored better than estimated result in CY21 and CY22 and increase the EBITDA by 5% pa. Our revised TP stands at Rs295 (earlier Rs269), this factors EBITDA upgrade, updated market cap of ACC where ACEM holds ~51%. But ACEM at the CMP is pricing in better than estimated result. And thus we downgrade the rating to REDUCE from HOLD. At CMP, ACEM is trading at replacement cost of USD160/t vs ACC at USD100/t.

Result Highlights and Investment Rationale

- Q1CY21 snapshot:** ACEM Q1CY21 Revenue / EBITDA increased by 28% / 62% YoY. Operationally, volume increased by 24% YoY with an quarterly EBITDA/t of Rs1362. Opex/t has declined by 4% on YoY, on account of lower input costs and efficiency programs. Absolute EBITDA has increased by 61% YoY, which is driven by higher volume and lower operating cost. ACEM reported PAT of Rs6.6bn up 67% YoY and 34% QoQ.
- Capacity addition and efficiency plans:** ACEM, has shared that it plans to reach 50 mtpa capacity but we await clarity on the timeline. In CY21, ACEM's is commissioning Marwar Mundwa, in Rajasthan a clinker capacity by 3 MTPA with expected cement sales of 5 MTPA. In efficiency improvement, ACEM plans to a) add 39MW WHR capacity in CY22, 2) Cost saving initiative from Master Supply Agreement with ACC (to rationalize costs), Parvat (renegotiation of warehouse rents, increased direct dispatches of sales).
- Expectations for CY21/22:** We factors ACEM volume to increase 21% and 8% YoY in CY21 and CY22. This will result in EBITDA to increase 25% and 5% YoY and company to report EBITDA/t of Rs1204 and Rs1167 respectively. Volume growth in CY21 factors Marwar plant commissioning.

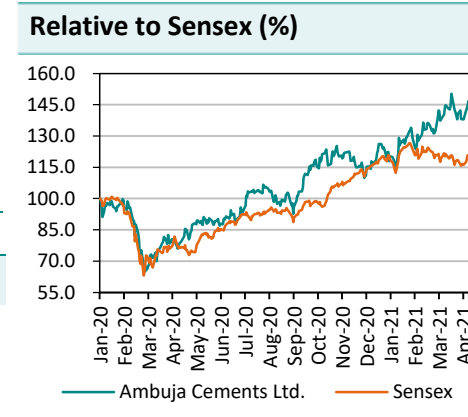
TP	Rs295
CMP	Rs314
Potential upside / downside	-6%
Previous Rating	HOLD

V/s Consensus		
EPS (Rs)	CY21E	CY22E
IDBI Capital	11.6	12.1
Consensus	10.0	11.3
% difference	16.3	6.9

Shareholding Pattern (%)	
Promoters	63.3
FII	17.8
DII	12.1
Public	6.9

Price Performance (%)			
	-1m	-3m	-12m
Absolute	6.4	29.0	85.3
Rel to Sensex	4.9	21.5	33.2

Key Stock Data	
Bloomberg/Reuters	ACEM IN / ABUJ.BO
Sector	Cement
Shares o/s (mn)	1,986
Market cap. (Rs mn)	623,493
Market cap. (US\$ mn)	8,421
3-m daily avg Trd value (Rs mn)	1,104.6
52-week high / low	Rs330 / 162
Sensex / Nifty	49,766 / 14,895



Financial snapshot

Year	CY18	CY19	CY20E	CY21E	CY22E
Revenue	113,568	116,679	113,719	137,719	149,729
EBITDA	18,915	21,489	26,466	33,075	34,771
EBITDA (%)	16.7	18.4	23.3	24.0	23.2
Adj. PAT	14,870	15,285	17,901	22,937	23,939
Adj.EPS (Rs)	7.5	7.7	9.0	11.6	12.1
EPS Growth (%)	19.0	2.8	17.1	28.1	4.4
PE (x)	41.9	40.8	34.8	27.2	26.0
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	31.2	26.8	22.5	17.8	16.7
RoE (%)	7.3	7.1	8.4	10.9	10.7
RoCE (%)	6.4	7.3	9.8	12.9	12.7

Source: Company; IDBI Capital Research

Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q1CY21	Q4CY20	QoQ % Chg	Q1CY20	YoY % Chg
Net Sales	36,214	35,151	3.0	28,275	28.1
EBITDA	9,768	7,678	27.2	6,032	61.9
<i>EBITDA margin (%)</i>	27.0	21.8	513bps	21.3	564bps
Other income	552	394	39.9	881	(37.4)
Depreciation	1,254	1,257	(0.2)	1,379	(9.0)
Interest	204	233	(12.4)	231	(11.5)
Pre-tax profit	8,861	6,583	34.6	5,304	67.1
Tax	2,215	1,612	37.4	1,313	68.7
Profit after tax	6,646	4,971	33.7	3,991	66.5

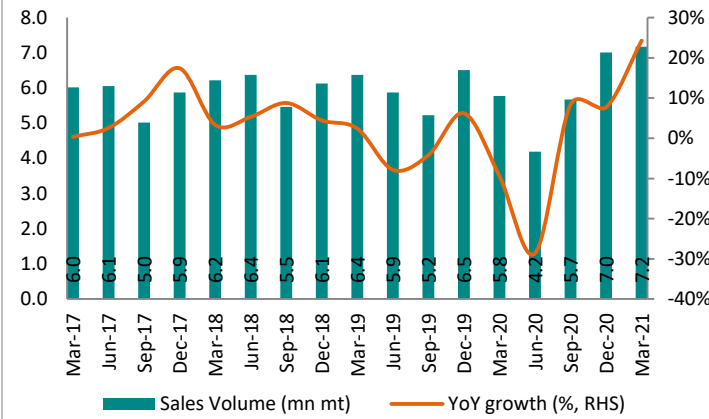
Source: Company; IDBI Capital Research

Exhibit 2: Operational snapshot

Year-end: December	Q1CY21	Q4CY20	QoQ % Chg	Q1CY20	YoY% Chg
Sales (mn mt)	7.2	7.0	2.3	5.8	24.3
Net realization Rs per mt	5,051	5,014	0.7	4,900	3.1
Total expenditure Rs per mt	3,688	3,919	(5.9)	3,855	(4.3)
Composite raw materials Rs per mt	479	640	(25.1)	436	10.0
Employees Cost Rs per mt	236	264	(10.6)	298	(20.9)
Power & Fuel Cost Rs per mt	1,025	1,000	2.5	974	5.2
Freight & Handling Expenses Cost Rs per mt	1,228	1,240	(1.0)	1,286	(4.6)
Other Expenditure Rs per mt	720	776	(7.1)	860	(16.3)
EBITDA Rs per mt	1,362	1,095	24.4	1,045	30.3

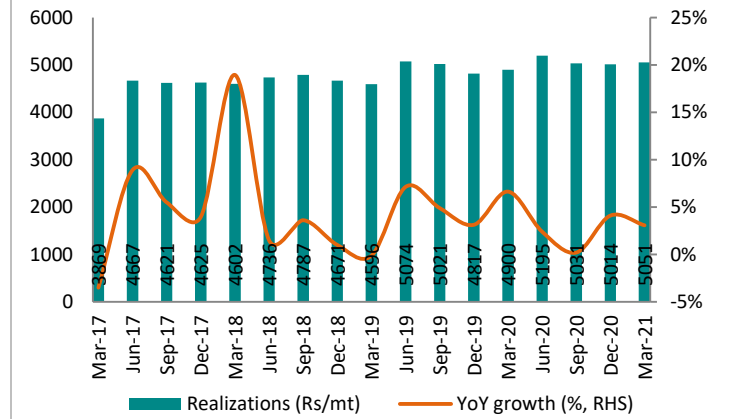
Source: Company; IDBI Capital Research

Exhibit 3: Q1CY21 volume up 24% YoY



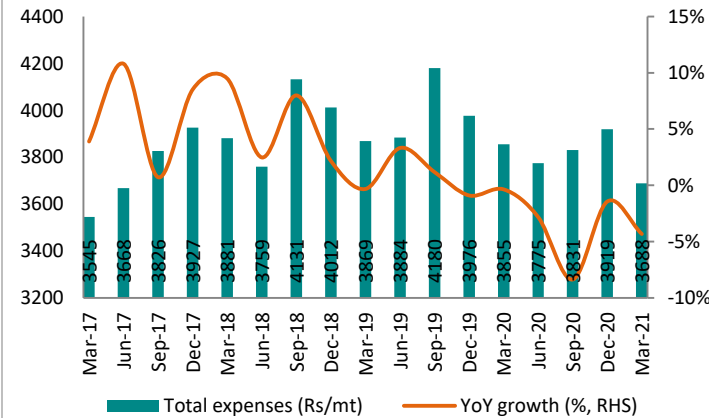
Source: IDBI Capital Research

Exhibit 4: Q1CY21 sale price up by 3% YoY



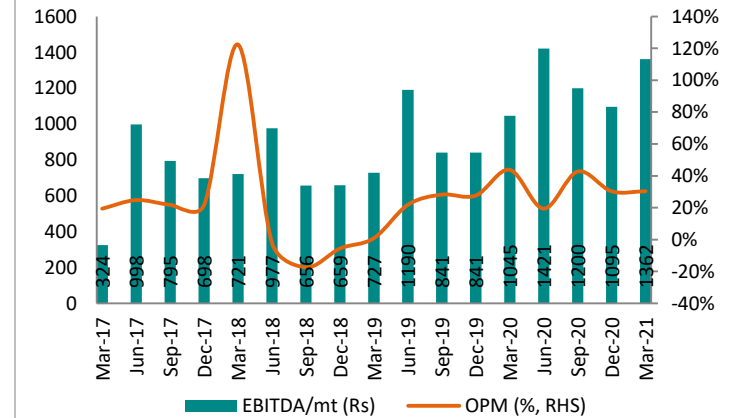
Source: IDBI Capital Research

Exhibit 5: Opex/t declined by 4% YoY in Q1CY21

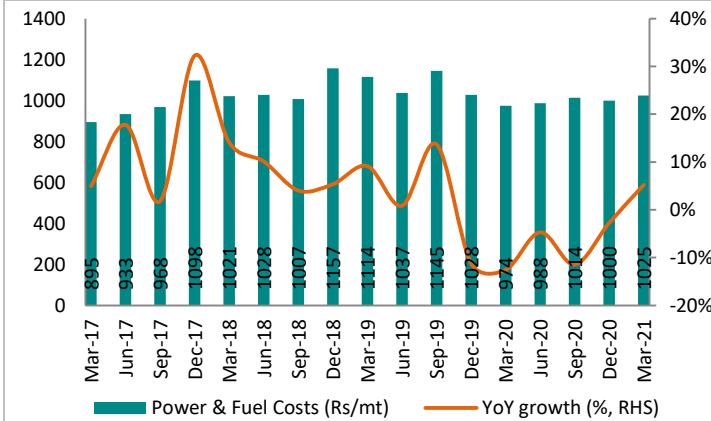


Source: IDBI Capital Research

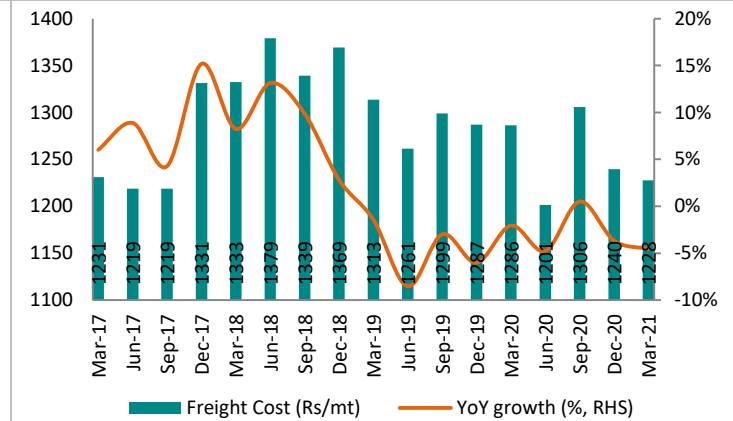
Exhibit 6: Q1CY21 EBITDA/t up 30% YoY to Rs1362



Source: IDBI Capital Research

Exhibit 7: Power/t up by 5% YoY in Q1CY21


Source: IDBI Capital Research

Exhibit 8: Freight/t decreased by 5% YoY in Q1CY21


Source: IDBI Capital Research

Exhibit 9: Capacity addition plans

Capacity	mtpa
Existing	29.7
Planned Capacity Addition	
Marwar Mundwa (Rajasthan)	
Clinker Capacity	3.2
Grinding Capacity	1.8
Total Capacity (factoring 5mtpa cement volume from 3mtpa clinker)	34.7

Source: IDBI Capital Research

Exhibit 10: Earnings Revision

Particulars (Rs mn)	Old estimates		New estimates		Change (%)	
	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Sales	135,411	147,319	137,719	149,729	2%	2%
EBITDA	31,618	33,139	33,075	34,771	5%	5%
PAT	21,844	22,715	22,937	23,939	5%	5%
Volume mt	27	29	27	30	2%	2%
Cement Realizations Rs/t	5,014	5,050	5,013	5,050	0%	0%

Source: IDBI Capital Research

Exhibit 11: Target Price

		NEW CY22E
EBITDA		34,771
EV/EBITDA Multiple		12
EV	A	417,251
Market Cap of ACC		352,251
Ambuja's Stake at 25% disc	B	133,415
Net Cash	C	34,297
Total Equity value	A + B + C	584,963
Target Price		295

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	CY19	CY20	CY21E	CY22E
Net sales	116,679	113,719	137,719	149,729
<i>Growth (%)</i>	2.7	(2.5)	21.1	8.7
Operating expenses	(95,190)	(87,253)	(104,644)	(114,959)
EBITDA	21,489	26,466	33,075	34,771
<i>Growth (%)</i>	13.6	23.2	25.0	5.1
Depreciation	(5,438)	(5,212)	(5,170)	(5,596)
EBIT	16,050	21,254	27,905	29,175
Interest paid	(835)	(831)	(804)	(772)
Other income	4,265	3,720	3,447	3,516
Pre-tax profit	19,480	24,144	30,548	31,918
Tax	(4,195)	(6,243)	(7,611)	(7,980)
<i>Effective tax rate (%)</i>	21.5	25.9	24.9	25.0
Minority Interest	-	-	-	-
Net profit	15,285	17,901	22,937	23,939
Exceptional items	-	-	-	-
Adjusted net profit	15,285	17,901	22,937	23,939
<i>Growth (%)</i>	2.8	17.1	28.1	4.4
<i>Shares o/s (mn nos)</i>	1,986	1,986	1,986	1,986

Cash Flow Statement

(Rs mn)

Year-end: Dec.	CY19	CY20	CY21E	CY22E
Pre-tax profit	19,480	24,144	30,548	31,918
Depreciation	5,438	5,212	5,170	5,596
Tax paid	(808)	(4,648)	(7,611)	(7,980)
Chg in working capital	3,877	3,676	2,751	2,118
Other operating activities	(3,147)	(2,321)	(2,643)	(2,744)
Cash flow from operations (a)	24,840	26,063	28,215	28,910
Capital expenditure	(11,114)	(9,778)	(14,000)	(14,000)
Chg in investments	-	-	-	-
Other investing activities	2,402	(118)	3,447	3,516
Cash flow from investing (b)	(7,380)	(6,415)	(10,553)	(10,484)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(558)	(439)	(804)	(772)
Dividend (incl. tax)	(3,320)	(36,646)	(9,294)	(9,759)
Chg in minorities	-	-	-	-
Other financing activities	38	(516)	-	-
Cash flow from financing (c)	(3,841)	(37,601)	(10,098)	(10,531)
Net chg in cash (a+b+c)	13,620	(17,954)	7,564	7,894

Balance Sheet

(Rs mn)

Year-end: Dec.	CY19	CY20	CY21E	CY22E
Net fixed assets	69,212	78,052	86,882	95,286
Investments	117,890	117,922	117,922	117,922
Other non-curr assets	14,325	14,531	14,531	14,531
Current assets	68,481	44,308	56,828	66,793
Inventories	9,541	7,466	10,187	11,486
Sundry Debtors	5,132	1,915	4,150	4,923
Cash and Bank	45,123	27,169	34,733	42,627
Marketable Securi.	1,872	2,074	2,074	2,074
Loans and advances	45	44	44	44
Total assets	269,907	254,814	276,164	294,533
Shareholders' funds	222,052	203,159	216,801	230,980
Share capital	3,971	3,971	3,971	3,971
Reserves & surplus	218,081	199,187	212,830	227,009
Total Debt	353	436	436	436
Secured loans	353	436	436	436
Unsecured Loans	-	-	-	-
Other liabilities	2,525	5,228	5,228	5,228
Curr Liab & prov	44,978	45,992	53,699	57,889
Current liabilities	43,621	45,397	52,603	56,745
Provisions	1,357	595	1,096	1,144
Total liabilities	47,856	51,655	59,363	63,552
Total equity & liabilities	269,907	254,814	276,164	294,533
Book Value (Rs)	112	102	109	116

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	CY19	CY20	CY21E	CY22E
Adj. EPS (Rs)	7.7	9.0	11.6	12.1
Adj. EPS growth (%)	2.8	17.1	28.1	4.4
EBITDA margin (%)	18.4	23.3	24.0	23.2
Pre-tax margin (%)	16.7	21.2	22.2	21.3
ROE (%)	7.1	8.4	10.9	10.7
ROCE (%)	7.3	9.8	12.9	12.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.4	0.4	0.5	0.5
Leverage factor (x)	1.2	1.2	1.3	1.3
Net margin (%)	13.1	15.7	16.7	16.0
Net Debt/Equity (x)	(0.2)	(0.1)	(0.2)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	30	24	27	28
Receivable days	16	6	11	12
Payable days	36	37	39	40

Valuation

Year-end: Dec.	CY19	CY20	CY21E	CY22E
P/E (x)	40.8	34.8	27.2	26.0
Price / Book value (x)	2.8	3.1	2.9	2.7
PCE (x)	30.1	27.0	22.2	21.1
EV / Net sales (x)	4.9	5.2	4.3	3.9
EV / EBITDA (x)	26.8	22.5	17.8	16.7
Dividend Yield (%)	0.4	0.4	0.4	0.4



Notes

Dealing (91-22) 6836 1111 dealing@idbicapital.com

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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