

Ambuja Cement

Healthy show to stay; sound valuations, Upgrade to BUY

Ambuja Cements (ACEM), reported EBITDA jump of 30% YoY to Rs6.03bn backed by ~6.5% realisation growth (Rs4,900/tn) and flattish cost inflation. This was despite ~ 9.5% decline in volume to 5.77 mn tonnes due to COVID 19 pandemic that impacted the construction activity in the busy 1QCY20. The jump in realisation was contributed by ~ 80% sales in remunerative north and western region. Further premium product sales rose YoY from ~9% to 11% in 1QCY20. Operating cost inflation was flat with marginal decline at Rs3,855/tn due to declining energy and logistic cost. Effectively, EBITDA margins strengthened to 21.3% from 15.8% and EBITDA/tn came at ~ Rs1,045 from Rs727/tn in 1QCY19. ACEM's APAT however rose only by ~6% YoY to Rs3.99bn from Rs3.77bn due to lower other income (ACC dividend not accounted in 1QCY20). Our consolidated earnings estimate for CY20 is revised downwards to Rs7.1 (earlier 8.2), however CY21 estimates are marginally revised upwards to Rs11.1 (earlier Rs10.7) to factor in the COVID 19 impact in the near term and earnings growth in CY21 following commissioning of the clinker capacities in North India. We have valued ACEM on the basis of SOTP valuation (based on replacement cost), valuing the standalone business at a replacement cost of Rs7.5bn/mt and arriving at a target price of Rs215 (Rs200 earlier). At our target price the stock trades at an EV/EBITDA of 6.5x CY21 earnings. We upgrade the stock to BUY from our ADD rating earlier factoring ACEM's clinker capacity addition, presence in price remunerative markets, focus on earnings and healthy balance sheet (cash of Rs90bn CY21E).

Volumes takes a hit; Realisation gains a saviour

ACEM reported ~10% YoY fall in sales volumes at 5.77mn tonnes (including clinker) impacted by the outbreak of Covid-19 pandemic. Effectively capacity utilisation in 1QCY20 fell to 74% compared to 87% in 1QCY19. However, the realisation grew by ~7% YoY to Rs4,909/tn (2.4% QoQ growth) which helped control the damage on revenues. Higher presence in the trade segment, remunerative pricing in north and western markets and contribution from premium products (3% YoY growth) led to strong realisation gains for ACEM. Effectively, revenue declined 3.4% YoY to settle at Rs28.3bn.

Cost savings—a positive surprise

ACEM's cost control in 1QCY20 was encouraging as both energy and logistics cost saw reduction. Energy cost (adjusted together with the raw material cost) declined by 7% YoY at Rs1,413/tn due to low cost fuel. Logistic cost (including inter-unit clinker transfers) fell by 2% YoY. However, the overall cost was flat YoY at Rs3,862/tn due to 8% YoY inflation in raw material cost. Lower fly ash availability due to decline in power demand in north escalated the raw material prices. Effectively EBITDA rose by ~30% YoY at ~Rs6bn while EBITDA/tn jumped 44% YoY to Rs1,047 from Rs727 in 1QCY19.

Capacity expansion in North marginally delayed, COVID 19 impact

The greenfield clinkerisation project (3.1mn tonnes) at Marwar Mundwa is on track and will be commissioned in ~ 1QCY21. The cement capacity will be enhanced to 31.0 mn tonnes, however clinker shortage currently faced by ACEM will be addressed helping to minimise external clinker purchases.

Earnings Revised

Our consolidated earnings estimate for CY20 is revised downwards to Rs7.1 (earlier 8.2) to factor in the COVID 19 impact in the near term. However, CY21 estimates are marginally revised upwards to Rs11.1 (earlier Rs10.7) following the on-track clinker capacity expansion in Rajasthan (North India).

Valuation and risks – Upgrade to BUY; sound operating and financial strength, valuations add comfort

We have valued ACEM on the basis of SOTP valuation (based on replacement cost), valuing the standalone business at a replacement cost of Rs7.5bn/mt and arriving at a target price of Rs215 (Rs200 earlier). At our TP the stock trades at an EV/EBITDA of 6.5x CY21 earnings. ACEM's clinker capacity addition will address its current clinker shortage issues. Further we expect savings from better operating leverage (~Rs50/tonne) following capacity utilisation improvement. The loss of incentives (from 1QCY20) will be offset by new capacity commissioning in ~ 1QCY21. Additionally, cost savings measures with captive coal block and new railway siding in Rajasthan will only boost/maintain earnings (even in challenging times). Healthy balance sheet (cash of Rs90bn CY21E) and debt free status only adds comfort. We upgrade the stock to BUY from our ADD rating earlier.

Financial and valuation summary

YE Dec (Rs mn)	1QCY20	1QCY19	YoY %	4QCY19	QoQ %	CY19	CY20E	CY21E
Revenue	28,275	29,276	(3.4)	31,359	(9.8)	265,471	231,490	291,289
EBITDA	6,032	4,633	30.2	5,474	10.2	45,970	36,902	51,462
EBITDA margin(%)	21.3	15.8	551bps	17.5	388bps	17.0	15.6	17.3
Adj. PAT	3,991	3,770	5.9	3,520	13.4	20,950	14,036	22,033
Diluted EPS	2.0	1.9	5.9	1.8	13.4	10.6	7.1	11.1
P/E(x)						16.3	24.3	15.5
EV/EBITDA(x)						5.4	6.8	4.8
RoE (%)						9.6	6.2	8.9

Source: Company, Centrum Research estimates, Quarterly numbers are standalone numbers while full year numbers are consolidated numbers

Please see Appendix for analyst certifications and all other important disclosures. In the interest of timeliness, this document is not edited.

Result Update

India I Cement

28 April 2020

Buy

Target Price: Rs215

Price: Rs172

Forecast return: 25%

Institutional Research

Market Data

Bloomberg:	ACEM IN
52 week H/L:	Rs240/137
Market cap:	Rs342bn
Shares outstanding:	1986mn
Free float:	29.6%
Avg. daily vol. 3mth:	5253482

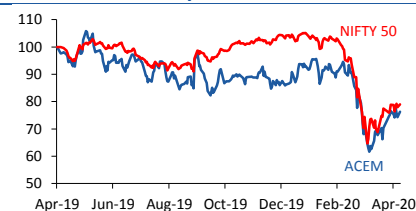
Source: Bloomberg

Changes in the report

Rating:	From Add to Buy
Target price:	To Rs215 from Rs200
EPS	-13.8% (CY20E), 3.7% (CY21E)

Source: Centrum Research

ACEM relative to Nifty 50



Source: Bloomberg

Shareholding pattern

	Mar-20	Dec-19	Sep-19	Jun-19
Promoter	63.3	63.4	63.4	63.5
FII	15.7	16.4	17.0	17.7
DII	14.1	13.2	12.7	11.2
Public/others	7.0	7.0	6.9	7.6

Source: BSE



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The Metals & Cement Team

Thesis Snapshot

Estimate revisions

YE Dec (Rs mn)	CY20E New	CY20E Old	% chg	CY21E New	CY21E Old	% chg
Net Sales	231,490	276,102	(16.2)	291,289	313,152	(7.0)
EBITDA	36,902	42,384	(12.9)	51,462	51,200	0.5
EBITDA margin (%)	15.6	15.1	49bps	17.3	16.1	124bps
Net profit	14,036	16,239	(13.6)	22,033	21,275	3.6
Diluted EPS (Rs)	7.1	8.2	(13.8)	11.1	10.7	3.7

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Dec (Rs mn)	Actual 1QCY20	Centrum 1QCY20	Variance (%)
Revenue	28,275	26,605	6.3%
EBITDA	6,032	4,631	30.2%
EBITDA margin(%)	21.3	17.4	393bps
Adj. PAT	3,991	3,935	1.4%
Diluted EPS	2.0	2.0	1.4%

Source: Company, Centrum Research estimates

Ambuja Cement versus Nifty50

	1m	6m	1 year
ACEM IN	21.7	(12.8)	(23.8)
Nifty 50	7.2	(20.2)	(21.0)

Source: Bloomberg, NSE

Key Assumptions

	CY17	CY18	CY19	CY20E	CY21E
Cement Capacity(mn MT)	29.25	29.25	29.25	31.05	31.05
Sales Volume(mn MT)	23.01	24.37	23.96	19.74	25.67
YoY change - %	9.1	5.9	(1.7)	(17.6)	30.1
Utilisation - %	79	83	82	64	83

Per tonne data(in Rs/MT)

	4,421	4,587	4,839	4,984	5,084
Cement Realisation					
YoY change - %	2.0	3.8	5.5	3.0	2.0
Power & fuel cost	971	980	1038	982	1051
Freight cost	1,188	1,296	1,355	1,307	1,374
Operating cost	3,716	3,854	4,015	4,153	4,165
EBITDA/tonne	734	733	824	832	919

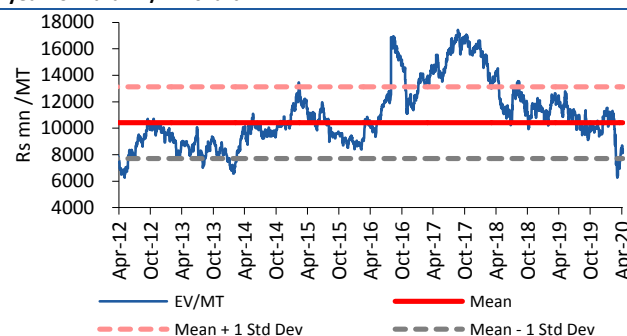
Source: Company, Centrum Research estimates

Valuations

We have valued ACEM on the basis of SOTP valuation (based on replacement cost), valuing the standalone business at a replacement cost of Rs7.5bn/mt and arriving at a target price of Rs215 (Rs200 earlier). At our TP the stock trades at an EV/EBITDA of 6.5x CY21 earnings.

ACEM Target Valuations (SA)	CY21E
Target Replacement Cost (\$)	100
Currency Assumption (Rs/\$)	75
Target Replacement Cost (Rs)	7,500
Total Capacity (Mn Tonnes)	31.1
Target EV (Rs mn)	2,32,875
Total Net Debt (Rs mn)	-19,308
Target M-cap (Rs mn)	2,52,183
Total Equity Shares O/S (mn)	1,552
Target Price	162
	CY21E
ACC Target M-cap	2,35,996
ACEM Holding in ACC (50.05%)	1,18,116
Holding Co discount (30%)	35,435
Total Equity Shares O/S (mn)	1,552
ACEM's value in ACC	53.3
Target Price	215

1 year forward EV/MT chart



1-year forward EV/EBITDA



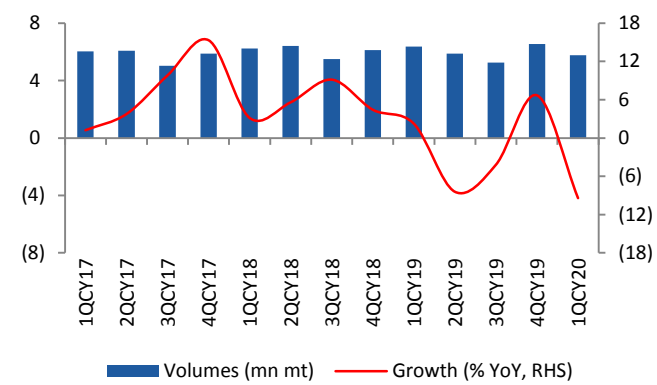
Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs bn	CAGR FY20E-FY22E (%)			EBITDA Margin (%)			EV/EBITDA (x)			FY22E EV/t (Rs mn/t)	RoE (%)			ROCE (%)		
		Rev	EBITDA	PAT	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Ambuja Cement	342	4.7	5.8	2.6	17.0	15.6	17.3	5.4	6.8	4.8	7,966	9.6	6.2	8.9	13.5	9.0	12.7
ACC	214	2.4	2.4	5.7	15.4	14.2	15.3	7.0	8.7	6.3	4,813	12.1	8.7	11.1	17.0	12.1	15.5
Ultratech Cement	970	6.7	7.6	7.0	20.3	20.8	20.6	12.9	12.9	10.9	9,508	12.0	9.2	11.3	12.7	10.7	12.1
Shree Cement	687	8.8	4.9	5.4	27.9	27.9	25.9	19.5	19.9	17.6	14,706	14.7	12.3	13.4	16.2	13.8	15.2

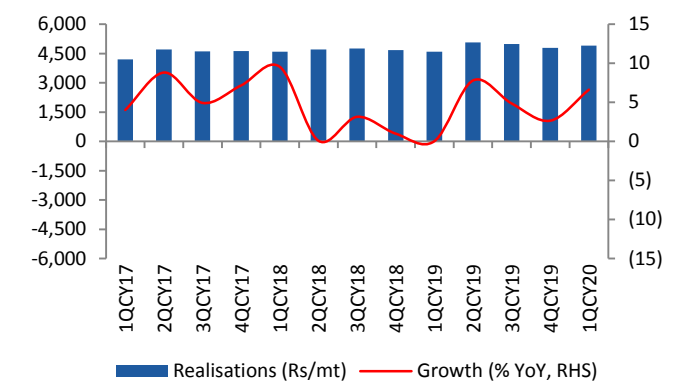
Source: Company, Centrum Research estimates, ACC and ACEM have fiscal year end in December

Fig 1: Volumes impacted by countrywide shutdown on outbreak of covid-19 pandemic



Source: Company, Centrum Research

Fig 2: Sale in remunerative markets and higher premium products contribution aide realisation gains



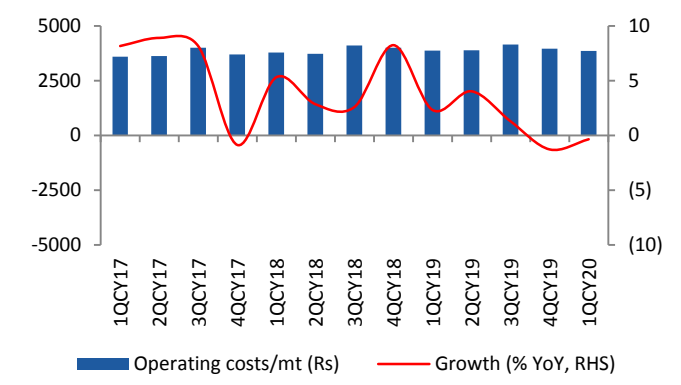
Source: Company, Centrum Research

Fig 3: Realisation gains and cost control drives EBITDA/tn



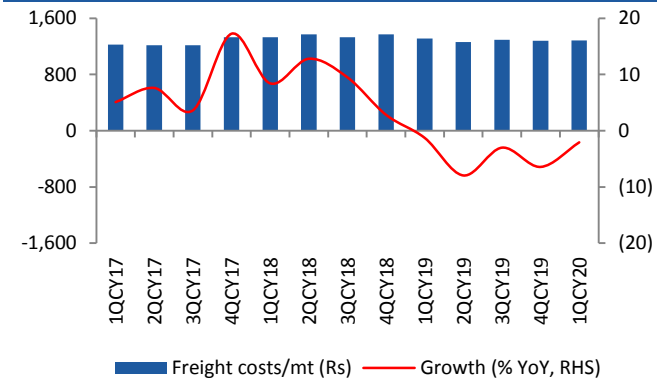
Source: Company, Centrum Research

Fig 4: Energy and logistics cost savings helps EBITDA gains



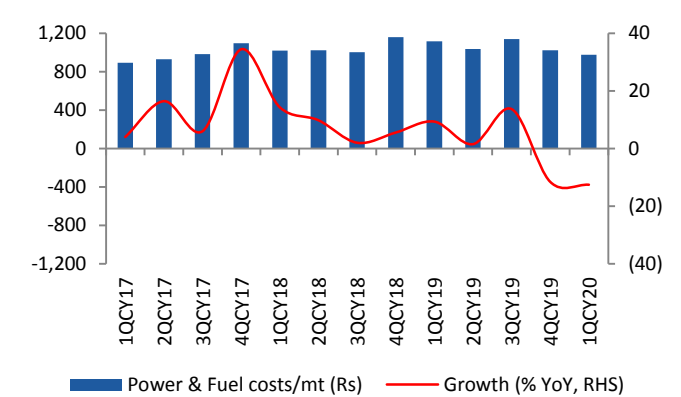
Source: Company, Centrum Research

Fig 5: Freight cost savings helped by supply chain optimisation



Source: Company, Centrum Research

Fig 6: Fuel cost savings as high cost inventory exhausted



Source: Company, Centrum Research

Quarterly financial analysis

Fig 7: Quarterly financials

(Rs mn)	1QCY20	1QCY19	YoY %	4QCY19	QoQ %	1QCY20E	Deviation %
Net Sales	28,275	29,276	(3.4)	31,359	(9.8)	26,605	6.3
Expenditure							
Change in stock	(390)	(17)		828		(112)	
Raw material	2,522	2,489	1.4	2,553	(1.2)	2,722	(7.3)
Purchased products	382	95	302.2	252	51.7	98	289.9
Power & fuel	5,622	7,099	(20.8)	6,692	(16.0)	5,555	1.2
Freight	7,422	8,367	(11.3)	8,377	(11.4)	7,046	5.3
Employee costs	1,722	1,671	3.0	1,690	1.9	1,721	0.0
Other exp	4,964	4,941	0.5	5,493	(9.6)	4,944	0.4
Total Operating Expenses	22,243	24,644	(9.7)	25,885	(14.1)	21,974	1.2
EBITDA	6,032	4,633	30.2	5,474	10.2	4,631	30.2
EBITDA margin (%)	21.3	15.8	551bps	17.5	388bps	17.4	393bps
Other Income	881	1,902	(53.7)	656	34.3	1,998	(55.9)
Interest	231	175	31.9	237	(2.6)	255	(9.6)
Depreciation	1,379	1,314	5.0	1,487	(7.2)	1,456	(5.3)
PBT	5,304	5,046	5.1	4,407	20.4	4,918	7.8
Non-recurring items	0	(500)	(100.0)	0	NM	0	NM
PBT (after non recurring items)	5,304	5,546	(4.4)	4,407	20.4	4,918	7.8
Tax	1,313	1,276	2.9	887	48.1	984	0.0
Reported PAT	3,991	4,270	(6.5)	3,520	13.4	3,935	1.4
Adjusted PAT	3,991	3,770	5.9	3,520	13.4	3,935	1.4
NPM (%)	14.1	12.9	124bps	11.2	289bps	14.8	-67bps
Adjusted EPS (Rs)	2.0	1.9	5.9	1.8	13.4	2.0	1.4

Source: Company, Centrum Research estimates

P&L					
YE Dec (Rs mn)	CY17	CY18	CY19	CY20E	CY21E
Revenues	230,936	254,226	265,471	231,490	291,289
Materials cost	35,772	41,524	45,261	35,521	44,314
% of revenues	15.5	16.3	17.0	15.3	15.2
Power & fuel	49,529	55,525	57,222	44,227	57,022
% of revenues	21.4	21.8	21.6	19.1	19.6
Others	112,180	123,290	122,668	120,033	143,909
% of revenues	48.6	48.5	46.2	51.9	49.4
EBITDA	38,575	40,108	45,970	36,902	51,462
EBITDA margin (%)	16.3	15.4	17.0	15.6	17.3
Depreciation & Amortisation	12,195	11,539	11,525	11,984	12,503
EBIT	29,606	32,283	40,252	28,310	42,295
Interest expenses	2,058	1,705	1,699	1,777	1,723
Other income	3,226	3,714	5,807	3,392	3,335
Exceptional items	-	(1,518)	-	-	-
PBT	27,549	29,061	38,553	26,533	40,572
Taxes	8,229	8,185	10,922	7,802	11,928
Effective tax rate (%)	30%	28%	28%	29%	29%
PAT	19,320	20,876	27,632	18,730	28,643
Minority/Associates	(4,158)	(7,828)	(6,682)	(4,695)	(6,610)
Extraordinary Items	-	8,726	-	-	-
Reported PAT	15,163	21,774	20,950	14,036	22,033
Adjusted PAT	15,163	14,566	20,950	14,036	22,033

Ratios					
YE Dec	CY17	CY18	CY19	CY20E	CY21E
Growth Ratio (%)					
Revenue	14.9	10.1	4.4	(12.8)	25.8
EBITDA	23.4	4.0	14.6	(19.7)	39.5
Adjusted PAT	30.7	(3.9)	43.8	(33.0)	57.0
Margin Ratios (%)					
Operating	14.5	13.3	15.2	13.7	15.8
EBITDA	16.3	15.4	17.0	15.6	17.3
Adjusted PAT	6.6	5.7	7.9	6.1	7.6
Return Ratios (%)					
ROE	7.9	8.3	9.6	6.2	8.9
ROCE	11.5	11.7	13.5	9.0	12.7
ROIC	10.3	11.0	13.3	9.0	12.5
Turnover Ratios (days)					
Gross block turnover ratio (x)	1.1	1.2	1.2	1.0	1.2
Debtors	15	19	15	19	20
Inventory	39	42	29	41	42
Creditors	106	96	93	108	91
Cash conversion cycle	(53)	(35)	(50)	(48)	(29)
Solvency Ratio (x)					
Net debt-equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Debt-equity	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio	14.4	18.9	23.7	15.9	24.5
Gross debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.8	1.9	1.9	2.0
Per share Ratios (Rs)					
Adjusted EPS	7.6	7.3	10.6	7.1	11.1
BVPS	126.9	139.0	150.2	156.4	167.7
CEPS	13.8	13.1	16.4	13.1	17.4
DPS	3.2	2.8	2.8	2.8	2.8
Dividend payout %	44	45	31	46	30
Valuation (x)*					
P/E (adjusted)	22.5	23.4	16.3	24.3	15.5
P/BV	1.4	1.2	1.1	1.1	1.0
EV/EBITDA	7.2	6.9	5.4	6.8	4.8
Dividend yield %	1.9	1.6	1.6	1.6	1.6

Source: Company, Centrum Research estimates

Balance Sheet					
YE Dec (Rs mn)	CY17	CY18	CY19	CY20E	CY21E
Equity Share Capital	3,971	3,971	3,971	3,971	3,971
Reserves & surplus	202,012	219,646	236,808	244,331	259,851
Shareholders' fund	205,983	223,617	240,780	248,302	263,822
Total Debt (incl. pref shares if its thr)	331	480	775	814	1,091
Def tax liab. (net)	11,392	11,153	9,367	9,555	9,746
Minority interest	46,080	52,312	57,368	62,270	69,096
Total Liabilities	263,786	287,562	308,290	320,941	343,755
Gross Block	154,498	163,094	174,809	204,036	221,524
Less: Acc. Depreciation	(26,687)	(37,906)	(48,967)	(60,951)	(73,453)
Net Block	127,811	125,188	125,842	143,086	148,070
Capital WIP	87,843	91,253	96,716	93,613	93,468
Net Fixed Assets	215,654	216,441	222,558	236,698	241,539
Investments	26,664	11,753	16,269	15,954	23,383
Inventories	24,583	29,579	20,965	26,003	33,119
Sundry debtors	9,315	13,045	10,686	12,050	15,961
Cash	37,642	54,858	79,433	75,573	73,748
Loans & Advances	39,991	46,494	50,674	49,800	54,780
Other assets	771	1,150	1,239	1,283	1,321
Total Current Asset	112,302	145,126	162,997	164,708	178,228
Trade payables	57,398	57,824	57,557	59,283	61,062
Other current Liab.	30,245	24,927	31,990	32,950	33,938
Provisions	3,193	3,007	3,987	4,186	4,396
Net Current Assets	21,467	59,369	69,464	68,289	78,833
Total Assets	263,786	287,562	308,290	320,941	343,755

Cash Flows					
YE Dec (Rs mn)	CY17	CY18	CY19	CY20E	CY21E
Operating profit bef working capital changes	(106,363)	40,279	49,614	38,517	53,074
Trade and other receivables	(1,680)	(3,730)	2,360	(1,365)	(3,911)
Trade payables	29,625	(4,892)	6,796	2,686	2,767
Net change - WC	17,537	(20,686)	14,480	(2,686)	(13,069)
Direct Taxes	(20,433)	(8,425)	(12,707)	(7,615)	(11,737)
Cash flow from operations	(109,259)	11,169	51,387	28,216	28,268
Net Capex	(138,111)	12,006	17,177	26,125	17,343
Acquisitions, net	-	-	-	-	-
Others	1,287	14,912	(4,516)	315	(7,430)
Cash flow from investing activities	139,398	2,906	(21,693)	(25,810)	(24,773)
FCF	30,139	14,075	29,694	2,407	3,495
Issue of share capital	(710)	650	88	-	-
Increase/(decrease) in debt	12	150	295	39	277
Dividend	(9,677)	(6,513)	(6,513)	(6,513)	(6,513)
Cash flow from financing	(9,459)	3,141	(5,119)	(6,266)	(6,020)
Net change in cash	20,680	17,216	24,575	(3,860)	(2,525)

Source: Company, Centrum Research estimates

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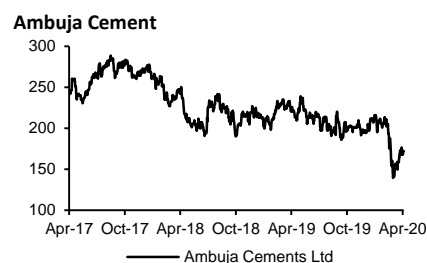
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Source: Bloomberg

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