

AMBUJA CEMENTS

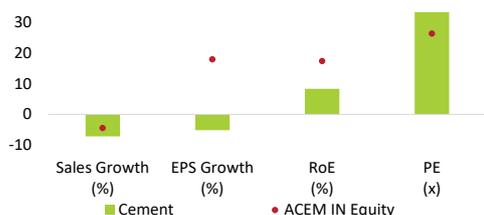
Edel Flash



KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	237
12 month price target (INR)	293
Market cap (INR bn/USD bn)	471/6.4
Free float/Foreign ownership (%)	36.9/16.8

INVESTMENT METRICS



Royalty overhang eliminated

Ambuja Cement's (ACEM) Board of Directors has approved renewal of the Technical and Know-How (TKH) agreement with parent Holcim Technology (HTL) on same terms as the current agreement. Accordingly, it will continue to pay TKH fee @ 1% of net sales each year for the next two years.

The development clears clouds over the TKH issue, which had weighed on ACEM's stock price since the past few weeks. Roll-over of the fee on existing terms will delight investors given Street's concern of a potential increase in the same. The development is in line with our expectation. Maintain 'BUY' with TP of INR293.

FINANCIALS

(INR mn)

Year to December	CY19A	CY20E	CY21E	CY22E
Revenue	1,16,679	1,11,469	1,35,007	1,47,867
EBITDA	21,488	25,995	30,332	33,245
Adjusted profit	15,285	18,005	20,395	22,672
Diluted EPS (INR)	7.7	9.1	10.3	11.4
EPS growth (%)	(5.5)	17.8	13.3	11.2
RoAE (%)	14.1	17.2	20.0	19.6
P/E (x)	20.4	17.3	15.3	13.7
EV/EBITDA (x)	12.3	11.0	9.2	8.0
Dividend yield (%)	0.6	7.2	1.7	1.7

TKH agreement renewal: Simple roll over

Much to the delight of investors, ACEM's Board has renewed the TKH agreement with HTL for the next two years (2021 and 2022) on the same terms as present in the current agreement. Accordingly, the company will continue paying TKH fee @ 1% of net sales i.e., nearly INR1.4bn each over the next two years.

TKH was first introduced in 2013 and initially approved for five years (2013-17). Thereafter, it was renewed in 2018, with no increase in fee, for three years (2018-20).

In 2018, the audit committee, comprising a majority of Independent Directors (and also chaired by an Independent Director), had recommended extension of the TKH agreement claiming benefits of INR12.45bn from 2013-17. This implied benefit of ~INR2.5bn p.a. against TKH fee of ~INR1.0bn p.a. These benefits were in the areas of energy optimisation (use of alternate fuels), manufacturing excellence, procurement, commercial excellence, innovation, sustainability and safety.

The renewal for 2021-22 is a simple roll over of the same agreement and is in line with our expectation.

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Outlook and valuation: On track to re-rate; maintain 'BUY'

ACEM's stock has been under pressure since the past few weeks owing to Street's concern of a potential rise in the TKH fee. Renewal on existing terms clears the overhang.

The company is on track to re-rate given its commitment to: a) completing the Marwah Mundhwa 3.1mtpa clinker capacity expansion within Q2CY21, which offers volume growth visibility; ii) improving energy efficiency by installing 54MW Waste Heat Recovery-based power plants (in phase I) and chances of pursuing such projects in future as well; iii) rationalising fixed cost; and iv) generating tangible logistical synergies with subsidiary ACC via a master supply agreement (MSA). Given these multiple positives and our positive sector view, we continue to value ACEM at 13x CY21E EV/EBITDA. We maintain 'BUY/SO' with TP of INR293/share.

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Aditya Narain

Head of Research

Aditya.Narain@edelweissfin.com
