

Cost benefits led better performance

CMP: Rs 168

Rating: HOLD

Target Price: Rs 186

Stock Info

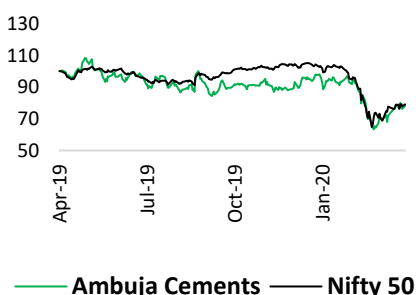
BSE	500425
NSE	AMBUJA
Bloomberg	ACEM IN
Reuters	ACEM.BO
Sector	Cement
Face Value (Rs)	2
Equity Capital (Rs Cr)	397
Mkt Cap (Rs Cr)	33,359
52w H/L (Rs)	240 / 137
Avg Yearly Vol (in 000')	3,537

Shareholding Pattern %

(As on March, 2020)

Promoters	63.3
FII	15.7
DII	14.1
Public & Others	6.9

Ambuja Cements Ltd. Vs Nifty



Source: Arihant Research, NSE

Ambuja Cement reported mix set of numbers in Q1CY20 with a revenue decline of 3% YoY. Lower sales was there on account of volume decline, led by nationwide lockdown in late March 2020 to curb Covid-19 impact. EBITDA during the quarter grew sharply by 30% YoY to Rs 603 cr owing to higher realization and lower cost. Sales volume during the quarter de-grew by 10% YoY to 5.77 MT (million tonnes) while realisation increased by 7% YoY to Rs 4,900/tn led by price hike taken in January and February 2020. Total operating cost of the company fell sharply by 14% YoY/ 17% QoQ, resulted into sharp increase in EBITDA at +30% YoY. EBITDA/tn increased by 44% YoY to Rs 1,045/tn. We expect continued lockdown post Q1CY20 to pull down the sales volume of the company going ahead. Hence, we revise our CY20E while maintain our Hold rating on the stock with a revised target price of Rs 186.

Q1CY20 Operational Highlights

- Volume decline of 10% YoY owing to Covid-19 related lockdown from the last week of March quarter. However, realization growth was higher, mainly on account of price hike taken in North, central and western regions.
- EBITDA/tn increased by 44% YoY to Rs 1045/tn on the back of lower cost backed by savings in fuel cost and logistics cost. Total cost/tn stood flat at Rs 3,858/tn YoY. Power & fuel cost declined by 12% YoY to Rs 975/tn.
- PAT during the quarter fell by 6.5% YoY to Rs 399 cr. PAT excluding ACC's dividend grew by 35% YoY to Rs 399 cr. Ambuja cement is yet to receive CY19 dividend, delayed due to postponement of AGM primarily due to lockdown.

Outlook and Valuations

Going forward, the volume de-growth is expected to continue due to ongoing lockdown and post that start of monsoon season. Hence, CY20 outlook of the company to remain muted till Q3CY20 while strong recovery is expected in CY2021, in our view. However, company's strong realisation and falling cost synergy should help the company to expand the margin further. At CMP of Rs 168, Ambuja Cement is available at EV/EBITDA of 15.7x and 13.3x its CY20E and CY21E estimate respectively. We have revised our FY20E estimates downward to factor in the volume de-growth and introduced FY21E. We value Ambuja's standalone business at 11x CY21E EV/EBITDA which gives a value of Rs 142, while Ambuja's 50% stake in ACC has been valued at Rs 44 per share giving 30% holding company discount to its market cap (valued @ our target price of Rs 1,335 on ACC). Our SOTP valuation yields a fair value of Rs 186 for the stock. We continue to maintain our 'Hold' rating on the stock.

Q1 CY20 - Quarterly Performance (Standalone)

(in Rs Cr)

Rs Cr (standalone)	Q1CY20	Q4CY19	Q1CY19	Q-o-Q	Y-o-Y
Net Revenue	2,828	3,136	2,928	-9.8%	-3.4%
Operating Costs	1,556	1,870	1,803	-16.8%	-13.7%
Employee cost	172	169	167	1.9%	3.0%
Other Expenses	496	549	494	-9.6%	0.5%
EBITDA	603	547	463	10.2%	30.2%
<i>EBITDA margin %</i>	<i>21.3%</i>	<i>17.5%</i>	<i>15.8%</i>	<i>+388 bps</i>	<i>+551 bps</i>
Depreciation	138	149	131	-7.2%	5.0%
EBIT	465	399	332	16.7%	40.2%
Other Income	88	66	240	34.3%	-63.3%
Finance cost	23	24	17	-2.6%	31.9%
Exceptional Item	-	-	-	-	-
PBT	530	441	555	20.4%	-4.4%
Tax Expense	131	-14	128	NA	2.9%
Effective tax rate %	24.8%	-	23.0%		
PAT	399	455	427	-12.3%	-6.5%
<i>PAT margin %</i>	<i>14.1%</i>	<i>14.5%</i>	<i>14.6%</i>	<i>-39 bps</i>	<i>-47 bps</i>
EPS (Rs)	2.0	2.3	2.2	-12.2%	-6.5%

Source: Company, Aриhant Research

Valuations

Rs Cr	CY18	CY19E	CY20E	CY21E
EV/EBITDA (x)	15.9	13.4	15.7	11.0
EBITDA	1891	2149	2042	2246
EV	30069	28695	31981	24704
Debt	40	35	45	55
Cash	3330	4699	1424	3487
Market Cap	33359	33359	33359	28136
No shares	199	199	199	199
Value/Share (Rs)				141.7
ACC Stake Valuation				
ACC Target Price (Rs)				1,335
ACC Market Cap				25,098
Ambuja's Stake in ACC (50%)				12,549
Holding Co. Discount				30%
Value of Stake				8,784
Value/Share (Rs)				44.2
Ambuja Fair Value (Rs)				185.9
CMP (Rs)				168
Upside (%)				10.7%

Source: Aриhant Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Key Ratios

Y/E March	CY18	CY19	CY20E	CY21E
Per share (Rs)				
EPS	8.1	7.7	7.5	8.2
CEPS	10.9	10.4	9.7	10.6
BVPS	105.8	111.8	103.7	114.0
DPS	3.3	1.5	1.5	1.6
Div. Payout (%)	40.0%	20.0%	20.0%	20.0%
Valuation (x)				
P/E	20.6	21.8	22.5	20.5
P/CEPS	15.4	16.1	17.3	15.8
P/BV	1.6	1.5	1.6	1.5
EV/EBITDA	15.9	13.4	15.7	13.3
Dividend Yield (%)	1.9%	0.9%	0.9%	1.0%
Return Ratio (%)				
EBIDTA Margin	16.7%	18.4%	18.5%	18.5%
PAT Margin	14.2%	13.1%	13.4%	13.4%
ROE	7.7%	6.9%	7.2%	7.2%
ROCE	6.3%	7.1%	7.7%	7.7%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.2	-0.1	-0.2
Turnover Ratios				
Asset Turnover (x)	0.5	0.5	0.5	0.5
Receivable Days	15	15	15	15
Payable days	122	122	122	122

Source: Co, Arianth Research

Income Statement

Y/E March (Rs Cr)	CY18	CY19	CY20E	CY21E
Revenues	11,357	11,668	11,036	12,140
Change (%)	8.7%	2.7%	-5.4%	10.0%
Total Expenses	9,465	9,519	8,994	9,894
EBITDA	1,891	2,149	2,042	2,246
Other Income	375	427	441	486
Depreciation	548	544	442	477
Interest	82	84	91	111
PBT	1,636	1,948	1,951	2,144
Extra-ordinary	130	0	0	0
PBT after ext-ord.	1,506	1,948	1,951	2,144
Tax	19	419	468	515
Rate (%)	1.3%	21.5%	24.0%	24.0%
PAT	1,487	1,529	1,483	1,629
Adjusted PAT	1,617	1,529	1,483	1,629
Change (%)	29.4%	-5.5%	-3.0%	9.9%

Source: Company, Arianth Research

Balance Sheet

Y/E March (Rs Cr)	CY18	CY19	CY20E	CY21E
Sources of Funds				
Share Capital		397	397	397
Reserves & Surplus	20,615	21,808	20,193	22,234
Net Worth	21,013	22,205	20,590	22,631
Loan Funds	40	35	45	55
MI, Deferred Tax & other Liabilities	372	216	216	216
Capital Employed	21,432	22,493	20,852	22,902
Application of Funds				
Net Block	5,664	5,813	5,871	5,894
CWIP	610	1,109	1,109	1,109
Other Non-current Assets	340	1,021	1,021	1,021
Deferred Tax Assets	0	0	0	0
Net Fixed Assets	6,614	7,943	8,001	8,024
Investments	11,845	11,789	11,789	11,789
Debtors	470	513	454	499
Inventories	1,278	954	1,209	1,330
Cash & Bank Balance	3,330	4,699	1,424	3,487
Loans & Advances & other CA	1,699	1,090	1,663	1,829
Total Current Assets	6,777	7,257	4,750	7,146
Current Liabilities	3,624	4,361	3,689	4,058
Provisions	180	136	0	0
Net Current Assets	2,973	2,761	1,061	3,088
Total Assets	21,432	22,493	20,852	22,902

Source: Company, Arianth Research

Cash Flow Statement

Y/E March (Rs Cr)	CY18	CY19	CY20E	CY21E
PBT	1,636	1,948	1,951	2,144
Depreciation	548	544	442	477
Interest & others	-300	-379	-351	-375
Cash flow before WC changes	1,884	2,113	2,042	2,246
(Inc)/dec in working capital	-1,067	1,426	-1,576	36
Operating CF after WC changes	818	3,539	466	2,282
Less: Taxes	-19	-419	-468	-515
Operating Cash Flow	799	3,120	-3	1,768
(Inc)/dec in F.A + CWIP	-366	-1,956	-472	-574
(Pur)/sale of investment	0	56	0	0
Cash Flow from Investing	-366	-1,900	-472	-574
Free Cash Flow (FCF)	433	1,973	-503	1,268
Loan raised/(repaid)	16	-4	10	10
Equity raised	0	0	0	0
Interest & others	31	460	-2,515	1,186
Dividend	-647	-306	-297	-326
Cash Flow from Financing Activities	-600	150	-2,801	870
Net inc/(dec) in cash	-167	1,370	-3,276	2,063
Opening balance of cash	3,497	3,330	4,699	1,424
Closing balance of cash	3,330	4,700	1,424	3,487

Source: Company, Arianth Research

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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