

CMP: Rs 246

Rating: HOLD

Target Price: Rs 262

Stock Info

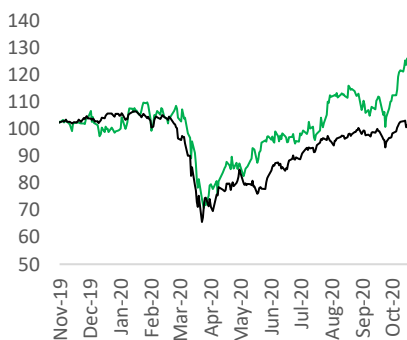
BSE	500425
NSE	AMBUJA
Bloomberg	ACEM IN
Reuters	ACEM.BO
Sector	Cement
Face Value (Rs)	2
Equity Capital (Rs Cr)	397
Mkt Cap (Rs Cr)	49,591
52w H/L (Rs)	256 / 137
Avg Yearly Vol (in 000')	4,063

Shareholding Pattern %

(As on September, 2020)

Promoters	63.3
FII	16.8
DII	13.3
Public & Others	6.6

Ambuja Cements Ltd. Vs Nifty



Source: Arihant Research, NSE

Ambuja Cement has reported good set of numbers during Q3CY20 with strong volume growth and margin beat. Company has posted a volume growth of 8% YoY//35% QoQ in 3QCY20, owing to pent-up demand and strong recovery in rural market. Revenue for the quarter grew by 9% YoY/31% QoQ, driven by strong volume growth and better pricing. EBITDA during the quarter grew by 55% YoY/14% QoQ to Rs 680 cr, largely due to tight control over fixed cost. EBITDA margin improved sharply to 23.9% during the quarter from 16.8% in Q3CY19. Profit for the quarter grew by 88% YoY to Rs 441 cr. Company has announced an interim dividend of Rs 17/share, resulting into outflow of Rs 3379 cr, implying a dividend yield of 6.7%. We maintain our Hold rating on the stock with a revised target price of Rs 262.

Q3CY20 Operational Highlights

- Ambuja has reported strong volume growth of 8% YoY at 5.67MT. Realization increased marginally by 0.2% YoY/-3.2% QoQ to Rs 5,031/t.
- EBITDA/t increased by 43% YoY to Rs 1,200/t, largely led by significantly lower fixed costs. Total cost/t stood at Rs 3,832/t, a decline of 8% YoY. Decline in Petcoke/coal prices led to lowering of power/fuel costs which has decreased by 11% YoY to Rs 1,014/t.
- The greenfield project at Marwar - Mundwa, Rajasthan is expected to be commissioned by Q2CY21 which will aid into volume growth.
- Network optimization has gained momentum due to acceleration of Master Supply Agreement (MSA) with ACC while hike in diesel prices was mitigated through negotiation of contracts and logistic efficiencies.

Outlook and Valuations: Ambuja cement has reported strong result with good volume growth and strong operational efficiencies, which we believe will continue. Company's upcoming Rajasthan greenfield project will aid into volume growth during CY21E. We increase our EBITDA estimates for CY20E/CY21E by 19%/14% respectively, factoring in the cost control benefits. Consequently, our PAT estimates increased by 21%/15% respectively for CY20/21E. Superior margins, strong growth visibility and negligible debt status of the company should drive re-rating in the stock.

At CMP of Rs 248, Ambuja Cement is trading at EV/EBITDA of 19.6x and 18.2x to its CY20E and CY21E. We increase our valuation multiple for standalone business to 15x to its CY21E EBITDA (earlier 13x) and arrived at a fair value of Rs 205/share while Ambuja's 50% stake in ACC has been valued at Rs 57 per share (based on our ACC's TP of Rs 1,724). Our SOTP valuation yields a fair value of Rs 262 per share. We continue to maintain our 'Hold' rating on the stock.

Q2 CY20 - Quarterly Performance (Standalone)

(in Rs Cr)

Rs Cr (standalone)	Q3CY20	Q2CY20	Q3CY19	Q-o-Q	Y-o-Y	9MCY20	9MCY19	Y-o-Y
Net Revenue	2,852	2,177	2,626	31.0%	8.6%	7,857	8,537	-8.0%
Operating Costs	1,570	1,149	1,492	36.7%	5.2%	4,274	4,936	-13.4%
Employee cost	162	149	168	8.5%	-3.3%	484	504	-3.9%
Other Expenses	440	283	526	55.3%	-16.4%	1,220	1,496	-18.5%
EBITDA	680	595	440	14.3%	54.7%	1,879	1,601	17.3%
<i>EBITDA margin %</i>	<i>23.9%</i>	<i>27.3%</i>	<i>16.8%</i>	<i>-349bps</i>	<i>710bps</i>	<i>23.9%</i>	<i>18.8%</i>	<i>515bps</i>
Depreciation	129	129	133	-0.2%	-3.2%	395	395	0.1%
EBIT	552	466	307	18.3%	79.8%	1,483	1,206	23.0%
Other Income	52	192	63	-72.8%	-16.7%	333	361	-7.9%
Finance cost	18	18	22	1.0%	-14.5%	60	60	-0.2%
PBT	585	640	348	-8.5%	68.2%	1,756	1,507	16.5%
Tax Expense	145	187	113	-22.4%	27.7%	463	434	6.8%
<i>Effective tax rate %</i>	<i>24.8%</i>	<i>29.2%</i>	<i>32.6%</i>	<i>-442bps</i>	<i>-784bps</i>	<i>26.4%</i>	<i>28.8%</i>	<i>-240bps</i>
PAT	441	453	235	-2.8%	87.8%	1,293	1,074	20.4%
<i>PAT margin %</i>	<i>15.4%</i>	<i>20.8%</i>	<i>8.9%</i>	<i>-538bps</i>	<i>651bps</i>	<i>16.5%</i>	<i>12.6%</i>	<i>388bps</i>
EPS (Rs)	2.22	2.28	1.18	-2.8%	87.8%	6.51	5.41	20.4%

Source: Company, Arianth Research

Valuations

Rs Cr	CY18	CY19	CY20E	CY21E
EV/EBITDA (x)	24.1	20.6	19.6	15.0
EBITDA	1891	2149	2428	2549
EV	45557	44183	47631	38240
Debt	40	35	45	55
Cash	3330	4699	1261	2481
Market Cap	48847	48847	48847	40665
No shares	199	199	199	199
Value/Share (Rs)				204.8
ACC Stake Valuation				
ACC Target Price (Rs)				1,724
ACC Market Cap				32,411
Ambuja's Stake in ACC (50%)				16,206
Holding Co. Discount				30%
Value of Stake				11,344
Value/Share (Rs)				57.1
Ambuja Fair Value (Rs)				262
CMP (Rs)				246
Upside (%)				6.5%

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

Key Financials

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	8,608	9,590
EBITDA	1,891	2,149	2,428	2,549
Other Income	375	427	441	486
Depreciation	548	544	583	626
Interest	82	84	91	111
PBT	1,636	1,948	2,196	2,299
Extra-ordinary	130	0	0	0
PBT after ext-ord.	1,506	1,948	2,196	2,299
Tax	19	419	527	552
Rate (%)	1.3%	21.5%	24.0%	24.0%
PAT	1,487	1,529	1,669	1,747
Adjusted PAT	1,617	1,529	1,669	1,747
Change (%)	29.4%	-5.5%	9.2%	4.7%

Source: Company,
Arihant Research

Key Ratios

Y/E March	CY18	CY19	CY20E	CY21E
Per share (Rs)				
EPS	8.1	7.7	8.4	8.8
CEPS	10.9	10.4	11.3	11.9
BVPS	105.8	111.8	103.2	109.8
DPS	3.3	1.5	17.0	2.2
Div. Payout (%)	40.0%	20.0%	202.5%	25.0%
Valuation (x)				
P/E	30.2	32.0	29.3	28.0
P/CEPS	22.6	23.6	21.7	20.6
P/BV	2.3	2.2	2.4	2.2
EV/EBITDA	24.1	20.6	19.6	18.2
Dividend Yield (%)	1.3%	0.6%	6.9%	0.9%
Return Ratio (%)				
EBIDTA Margin	16.7%	18.4%	22.0%	21.0%
PAT Margin	14.2%	13.1%	15.1%	14.4%
ROE	7.7%	6.9%	8.1%	8.0%
ROCE	6.3%	7.1%	8.9%	8.7%
Leverage Ratio (x)				
Total D/E	0.0	0.0	0.0	0.0
Net D/E	-0.2	-0.2	-0.1	-0.1
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, Arihant
Research

Balance Sheet

Y/E March (Rs Cr)	CY18	CY19	CY20E	CY21E
Sources of Funds				
Share Capital	397	397	397	397
Reserves & Surplus	20,615	21,808	20,098	21,408
Net Worth	21,013	22,205	20,495	21,805
Loan Funds	40	35	45	55
MI, Deferred Tax & other Liabilities	372	216	216	216
Capital Employed	21,432	22,493	20,756	22,077
Application of Funds				
Net Block	5,664	5,812	5,829	5,854
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	7,959	7,984
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	1,261	2,481
Loans & Advances & other CA	1,699	1,090	1,663	1,829
Total Current Assets	6,777	7,257	4,694	6,361
Current Liabilities	3,624	4,361	3,689	4,058
Provisions	180	136	0	0
Net Current Assets	2,973	2,761	1,006	2,303
Total Assets	21,432	22,493	20,756	22,077

Source: Company, Arihant
Research

Cash Flow Statement

Y/E March (Rs Cr)	CY18	CY19	CY20E	CY21E
PBT	1,636	1,948	2,196	2,299
Depreciation	548	544	583	626
Interest & others	-300	-379	-351	-375
Cash flow before WC changes	1,884	2,113	2,428	2,549
(Inc)/dec in working capital	-1,067	1,426	-1,576	36
Operating CF after WC changes	818	3,539	852	2,586
Less: Taxes	-19	-419	-527	-552
Operating Cash Flow	799	3,120	325	2,034
(Inc)/dec in F.A + CWIP	-366	-1,956	-572	-724
(Pur)/sale of investment	0	56	0	0
Cash Flow from Investing	-366	-1,900	-572	-724
Free Cash Flow (FCF)	433	1,973	-275	1,384
Loan raised/(repaid)	16	-4	10	10
Equity raised	0	0	0	0
Interest & others	31	460	178	337
Dividend	-647	-306	-3,379	-437
Cash Flow from Financing Activities	-600	150	-3,191	-90
Net inc /(dec) in cash	-167	1,370	-3,438	1,220
Opening balance of cash	3,497	3,330	4,700	1,262
Closing balance of cash	3,330	4,700	1,262	2,482

Source: Company, Arihant
Research

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880