

Lower sales but even lower expenses led margin improvement

CMP: Rs 201

Rating: HOLD

Target Price: Rs 221

Stock Info

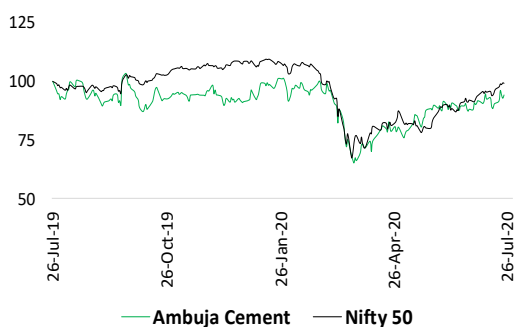
| | |
|--------------------------|-----------|
| BSE | 500425 |
| NSE | AMBUJA |
| Bloomberg | ACEM IN |
| Reuters | ACEM.BO |
| Sector | Cement |
| Face Value (Rs) | 2 |
| Equity Capital (Rs Cr) | 397 |
| Mkt Cap (Rs Cr) | 39,901 |
| 52w H/L (Rs) | 225 / 137 |
| Avg Yearly Vol (in 000') | 4,063 |

Shareholding Pattern %

(As on June, 2020)

| | |
|-----------------|------|
| Promoters | 63.3 |
| FII | 16.3 |
| DII | 13.9 |
| Public & Others | 6.6 |

Ambuja Cements Ltd. Vs Nifty



Source: Arihant Research, NSE

Ambuja Cement reported a rather better than expected set of numbers in Q2CY20 despite a more than month long lockdown across the country. The standalone revenue stood at Rs 2,177 Cr, down by 27.0% YoY/23.0% QoQ, EBITDA fell by 14.8% YoY/1.3% QoQ to Rs 595 Cr and Net Profits stood at Rs 453 Cr, declining by 10.0% YoY/13.6% QoQ. EBITDA margins improved to 27.3% during the quarter from 21.3% in Q1CY20 and 23.4% in Q2CY19. Sales volume during the quarter de-grew by 29% YoY to 4.19 MT (million tonnes) while realization per tonne increased by 2% YoY. Total operating cost of the company fell sharply by 30.0% YoY/ 26.2% QoQ. Both Power & Fuel and Freight expenses per tonne fell by 5% YoY while raw material and other expenses per tonne fell by 16% YoY leading to the sharp uptick in EBITDA margins. EBITDA per tonne improved by 19% YoY to Rs 1,422 per tonne.

Q2CY20 Operational Highlights

- Volume decline of 29% YoY owing to Covid-19 related lockdown from the last week of March quarter. However, realization growth was helpful, mainly on account of fall in overall expenses.
- EBITDA/tn increased by 19% YoY to Rs 1,422/tn on the back of lower cost backed by savings in fuel cost and logistics cost. Total cost/tn stood at Rs 3,778/tn, a decline of 3% YoY.
- The greenfield project at Marwar, Mundwa, Rajasthan is progressing.

Outlook and Valuations

Going forward, the sales volume is expected to pick-up growth apart from the interference of strong monsoon throughout the country. Hence, CY20 outlook of the company to be impacted owing to the continuing spread of the pandemic. However, most of the cement makers have kept the price levels intact leading to higher realizations despite the low demand. At CMP of Rs 201, Ambuja Cement is available at EV/EBITDA of 18.9x and 16.2x its CY20E and CY21E. We had earlier revised our FY20E estimates downward to factor in the volume de-growth and introduced FY21E. We value Ambuja's standalone business at 13x CY21E EV/EBITDA which gives a value of Rs 173, while Ambuja's 50% stake in ACC has been valued at Rs 48 per share giving 30% holding company discount to its market cap (valued at our target price of Rs 1,457 on ACC). We believe the domestic cement industry will revive by the last quarter of CY20 and hence maintain our positive expectations considering the experienced management & low debt levels. Our SOTP valuation yields a fair value of Rs 221 for the stock. We continue to maintain our 'Hold' rating on the stock.

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Q2 CY20 - Quarterly Performance (Standalone)

(in Rs Cr)

| Rs Cr (standalone) | Q2CY20 | Q1CY20 | Q2CY19 | Q-o-Q | Y-o-Y | H1CY20 | H1CY19 | Y-o-Y |
|-----------------------------|--------------|--------------|--------------|---------------|----------------|--------------|--------------|---------------|
| Net Revenue | 2,177 | 2,828 | 2,984 | -23.0% | -27.0% | 5,004 | 5,911 | -15.3% |
| Operating Costs | 1,149 | 1,556 | 1,641 | -26.2% | -30.0% | 2,705 | 3,444 | -21.5% |
| Employee cost | 149 | 172 | 169 | -13.2% | -11.5% | 322 | 336 | -4.3% |
| Other Expenses | 283 | 496 | 476 | -42.9% | -40.4% | 780 | 970 | -19.6% |
| EBITDA | 595 | 603 | 698 | -1.3% | -14.8% | 1,198 | 1,162 | 3.2% |
| <i>EBITDA margin %</i> | <i>27.3%</i> | <i>21.3%</i> | <i>23.4%</i> | <i>601bps</i> | <i>394bps</i> | <i>23.9%</i> | <i>19.7%</i> | <i>430bps</i> |
| Depreciation | 129 | 138 | 131 | -6.5% | -1.5% | 267 | 262 | 1.7% |
| EBIT | 466 | 465 | 568 | 0.2% | -17.8% | 932 | 899 | 3.6% |
| Other Income | 192 | 88 | 58 | 118.0% | 231.6% | 280 | 298 | -6.0% |
| Finance cost | 18 | 23 | 21 | -20.8% | -12.3% | 41 | 38 | 7.9% |
| Exceptional Item | - | - | - | - | - | - | - | - |
| PBT | 640 | 530 | 605 | 20.7% | 5.9% | 1,171 | 1,159 | 1.0% |
| Tax Expense | 187 | 131 | 193 | 42.3% | -3.0% | 318 | 320 | -0.7% |
| <i>Effective tax rate %</i> | <i>29.2%</i> | <i>24.8%</i> | <i>31.9%</i> | <i>443bps</i> | <i>-267bps</i> | <i>27.2%</i> | <i>27.6%</i> | <i>-45bps</i> |
| PAT | 453 | 399 | 412 | 13.6% | 10.0% | 852 | 839 | 1.6% |
| <i>PAT margin %</i> | <i>20.8%</i> | <i>14.1%</i> | <i>13.8%</i> | <i>671bps</i> | <i>702bps</i> | <i>17.0%</i> | <i>14.2%</i> | <i>284bps</i> |
| EPS (Rs) | 2.28 | 2.01 | 2.08 | 13.6% | 10.0% | 4.29 | 4.23 | 1.6% |

Source: Company, Arianth Research

Valuations

| Rs Cr | CY18 | CY19E | CY20E | CY21E |
|-------------------------------|-------|-------|-------|--------------|
| EV/EBITDA (x) | 19.4 | 16.4 | 17.6 | 13.0 |
| EBITDA | 1891 | 2149 | 2042 | 2246 |
| EV | 36631 | 35257 | 35894 | 29196 |
| Debt | 40 | 35 | 45 | 55 |
| Cash | 3330 | 4699 | 4073 | 5194 |
| Market Cap | 39921 | 39921 | 39921 | 34335 |
| No shares | 199 | 199 | 199 | 199 |
| Value/Share (Rs) | | | | 172.9 |
| ACC Stake Valuation | | | | |
| ACC Target Price (Rs) | | | | 1,457 |
| ACC Market Cap | | | | 27,392 |
| Ambuja's Stake in ACC (50%) | | | | 13,696 |
| Holding Co. Discount | | | | 30% |
| Value of Stake | | | | 9,587 |
| Value/Share (Rs) | | | | 48.3 |
| Ambuja Fair Value (Rs) | | | | 221 |
| CMP (Rs) | | | | 201 |
| Upside (%) | | | | 10.0% |

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 |
| <i>Change (%)</i> | 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 | 583 | 626 |
| Interest | 82 | 84 | 91 | 111 |
| PBT | 1,636 | 1,948 | 1,809 | 1,995 |
| Extra-ordinary | 130 | 0 | 0 | 0 |
| PBT after ext-ord. | 1,506 | 1,948 | 1,809 | 1,995 |
| Tax | 19 | 419 | 434 | 479 |
| <i>Rate (%)</i> | 1.3% | 21.5% | 24.0% | 24.0% |
| PAT | 1,487 | 1,529 | 1,375 | 1,516 |
| Adjusted PAT | 1,617 | 1,529 | 1,375 | 1,516 |
| <i>Change (%)</i> | 29.4% | -5.5% | -10.0% | 10.3% |

Source: Company,
Arihant Research

Key Ratios

| Y/E March | CY18 | CY19 | CY20E | CY21E |
|---------------------------|-------|-------|-------|-------|
| Per share (Rs) | | | | |
| EPS | 8.1 | 7.7 | 6.9 | 7.6 |
| CEPS | 10.9 | 10.4 | 9.9 | 10.8 |
| BVPS | 105.8 | 111.8 | 117.4 | 123.5 |
| DPS | 3.3 | 1.5 | 1.4 | 1.5 |
| Div. Payout (%) | 40.0% | 20.0% | 20.0% | 20.0% |
| Valuation (x) | | | | |
| P/E | 24.7 | 26.1 | 29.0 | 26.3 |
| P/CEPS | 18.4 | 19.3 | 20.4 | 18.6 |
| P/BV | 1.9 | 1.8 | 1.7 | 1.6 |
| EV/EBITDA | 19.4 | 16.4 | 17.6 | 15.5 |
| Dividend Yield (%) | 1.6% | 0.8% | 0.7% | 0.8% |
| Return Ratio (%) | | | | |
| EBIDTA Margin | 16.7% | 18.4% | 18.5% | 18.5% |
| PAT Margin | 14.2% | 13.1% | 12.5% | 12.5% |
| ROE | 7.7% | 6.9% | 5.9% | 6.2% |
| ROCE | 6.3% | 7.1% | 6.2% | 6.5% |
| Leverage Ratio (x) | | | | |
| Total D/E | 0.0 | 0.0 | 0.0 | 0.0 |
| Net D/E | -0.2 | -0.2 | -0.2 | -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, 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 | 22,908 | 24,121 |
| Net Worth | 21,013 | 22,205 | 23,305 | 24,519 |
| Loan Funds | | | | |
| MI, Deferred Tax & other Liabilities | 40 | 35 | 45 | 55 |
| | 372 | 216 | 216 | 216 |
| Capital Employed | 21,432 | 22,493 | 23,567 | 24,790 |
| 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 | 4,073 | 5,194 |
| Loans & Advances & other CA | 1,699 | 1,090 | 1,663 | 1,829 |
| Total Current Assets | 6,777 | 7,257 | 7,505 | 9,074 |
| Current Liabilities | 3,624 | 4,361 | 3,689 | 4,058 |
| Provisions | 180 | 136 | 0 | 0 |
| Net Current Assets | 2,973 | 2,761 | 3,817 | 5,016 |
| Total Assets | 21,432 | 22,493 | 23,567 | 24,790 |

Source: Company, Arihant
Research

Cash Flow Statement

| Y/E March (Rs Cr) | CY18 | CY19 | CY20E | CY21E |
|--|---------------|---------------|---------------|--------------|
| PBT | 1,636 | 1,948 | 1,809 | 1,995 |
| Depreciation | 548 | 544 | 583 | 626 |
| 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 | -434 | -479 |
| Operating Cash Flow | 799 | 3,120 | 31 | 1,803 |
| (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 | -569 | 1,153 |
| Loan raised/(repaid) | 16 | -4 | 10 | 10 |
| Equity raised | 0 | 0 | 0 | 0 |
| Interest & others | 31 | 460 | 179 | 336 |
| Dividend | -647 | -306 | -275 | -303 |
| Cash Flow from Financing Activities | -600 | 150 | -86 | 43 |
| Net inc /(dec) in cash | -167 | 1,370 | -627 | 1,122 |
| Opening balance of cash | 3,497 | 3,330 | 4,700 | 4,073 |
| Closing balance of cash | 3,330 | 4,700 | 4,073 | 5,195 |

Source: Company, Arihant
Research

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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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