

February 8, 2023

RESULT REPORT Q4 CY22 | Sector: Cement

Ambuja Cement

Focused efforts towards efficiencies to bridge valuation gap with leaders

Result Synopsis

Ambuja Cements (ACEM) reported a volume & NSR growth of 8% & 3% y/y translates in revenue growth of 11% y/y to Rs41.3bn (v/s YSECe of Rs40.8bn). EBITDA came in at Rs6.3bn up by 10% y/y with EBITDA Rs813/te (17% above YSECe) aided by muted cost/te up by 2% y/y (7% lower than YSECe). Reported PAT came in at Rs3.7bn (v/s Rs2.7bn YSECe) up by 47% y/y owing to substantial increase in other income to Rs890mn over dividend income from ACC. In recent years, ACEM narrowed the efficiency gap with its peers by adopting cost-effective measures optimization of lead distance under MSA and optimizing fixed costs & specific energy consumption under 'Parvat'. Furthermore, the efficiencies are expected to improve under the new management with fresh investments of ~Rs100bn in: 1) augmenting WHRS & RE capacities 2) Ramp up AFR usage 3) Installing Fly ash dryers & other debottlenecking measures to improve kiln efficiencies 4) Higher Trade & blending ratio (80 & 85% currently). Management guided that the ongoing expansion & cost efficiency measures to get completed in next 12-18months, totaling the overall capacity close to ~40MTPA including 1.5MTPA at Ropar by CY23E end and CAPEX of Rs35bn (\$66/te) for 7MTPA expansion in the east. ACEM is a net cash company holding a significant cash balance of Rs94.54bn as of Dec'22. Further, the promoter group committed Rs200bn towards subscribing share warrants, out of which Rs50bn (25%) has already received (remaining 75% will be subscribed in next 18month from date of issuance). We value ACEM on SOTP based valuation with a standalone entity valued at 14x EV/EBITDA and ACEM's stake in ACC at 10x EV/EBITDA on FY25E by adding Rs55bn net cash. Thus, we arrived at TP of Rs434 with an ADD rating.

Result Highlights

- Volume came +5% higher YSECe, increased by 8% y/y and 14% q/q to 7.7MT. While NSR increased by 3% y/y but declined by 2% q/q resulted in revenue of Rs41.3bn (v/s Rs40.8bn YSECe) up by 11% y/y and 13% q/q.
- Total cost/te came 7% below YSECe, up by +3% y/y but declined by 9% q/q (due to power & other cost/te moderation by 25/28% q/q), resulted in EBITDA of Rs813/te (v/s YSECe of Rs698/te) up by 3% y/y and 80% q/q.
- EBITDA of Rs6.3bn (+22% above YSECe) increased by +10% y/y and +106% q/q with EBITDA margins of 15.2% (flat y/y) in Q4CY22 v/s 10.3% in Q3CY22.
- Other income increased substantially to Rs890mn (+167% y/y and +89% q/q) as dividend received from ACC resulted in reported PAT of Rs3.7bn (Rs2.7bn YSECe) up by 47% y/y and 167% q/q.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	41,285	40,808	41,112	1.2	0.4	Topline came close to YSECe, while muted cost resulted in outperformance
EBITDA	6,261	5,123	5,879	22.2	6.5	
Margin (%)	15.2	12.6	14.3	261 bps	87 bps	
Adj. PAT	4,303	2,732	3,183	57.5	35.2	

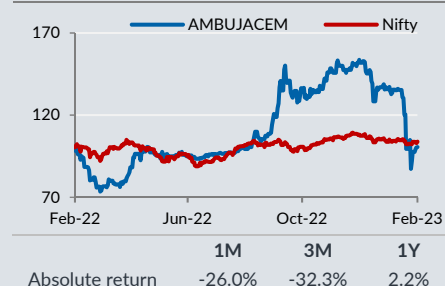
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 385
Target Price	: Rs 434
Potential Return	: +13%

Stock data (as on Feb 8, 2023)

Nifty	17,872
52 Week h/l (Rs)	598 / 274
Market cap (Rs/USD mn)	754049 / 9136
Outstanding Shares (mn)	1,986
6m Avg t/o (Rs mn):	4,928
Div yield (%)	1.3
Bloomberg code:	ACEM IN
NSE code:	AMBUJACEM

Stock performance



Shareholding pattern (As of Dec'22 end)

Promoter	63.2%
FII+DII	27.6%
Others	9.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	SELL
Target Price	434	453

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	198,241	164,590	170,555
Growth	NA	NA	3.6
EBITDA	32,094	30,595	35,573
Margin	16.2	18.6	20.9
Adj. PAT	23,496	19,446	22,530
Growth	NA	NA	15.9
EPS	11.8	9.8	11.3
ND/EBITDA	(3.3)	(3.7)	(3.8)
ROE	7.8	6.3	6.8
ROCE	11.0	8.7	9.4
EV/EBITDA	14.6	15.1	12.4

Note: Change of financial year end from Dec end to Mar end

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs m)	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	y/y (%)	q/q (%)	CY21	CY20	y/y (%)
Net Revenue	37,351	39,252	39,935	36,704	41,285	10.5	12.5	139,650	113,719	22.8
Total Expenses	31,672	31,348	33,089	33,661	35,024	10.6	4.0	107,575	87,253	23.3
COGS	3,709	5,312	3,217	2,960	7,480	101.7	152.7	11,595	11,863	(2.3)
Employee Expenses	1,778	1,529	1,637	1,532	1,595	(10.3)	4.1	6,777	6,688	1.3
Power & fuel	11,263	10,309	13,198	14,147	12,111	7.5	(14.4)	34,210	22,519	51.9
Freight Exp	8,441	8,682	9,048	8,395	8,362	(0.9)	(0.4)	33,083	28,549	15.9
Other Expenses	6,482	5,517	5,989	6,627	5,475	(15.5)	(17.4)	22,112	17,845	23.9
EBITDA	5,679	7,904	6,845	3,043	6,261	10.3	105.7	32,075	26,466	21.2
EBITDA (%)	15.2	20.1	17.1	8.3	15.2	(4 bps)	687 bps	23.0	23.3	(31 bps)
D&A	1,698	1,515	1,539	1,571	1,648	(2.9)	4.9	5,512	5,212	6
Other Income	332	367	6,324	470	890	167.8	89.2	2,856	3,720	(23)
Interest Expense	252	214	251	228	253	0.1	10.8	909	831	9
Exceptional/EO items	657	-	-	152	614	(6.6)	303.4	657	-	-
Share JV/Associates	-	-	-	-	-	-	-	-	-	-
EBT	3,405	6,543	11,380	1,563	4,637	36.2	196.7	27,853	24,144	15.4
Tax	888	1,591	901	184	947	6.7	414.4	7,047	6,243	12.9
Reported PAT	2,517	4,952	10,479	1,379	3,690	46.6	167.6	20,805	17,901	16.2
Less: Minority Interest	-	-	-	-	-	-	-	-	-	-
Adj. PAT	3,174	4,952	10,479	1,531	4,303	35.6	181.1	21,462	17,901	19.9

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis (Standalone)

Particulars (Rs m)	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	y/y (%)	q/q (%)	CY21	CY20	y/y (%)
Total Volumes (MMT)	7.2	7.5	7.4	6.7	7.7	7.5	14.2	27.0	22.7	19.2
NSR/te (Blended)	5,217	5,241	5,404	5,446	5,362	2.8	(1.5)	5,168	5,016	3.0
RM/te	518	709	435	439	971	87.5	121.2	429	523	(18.0)
Employees/te	248	204	221	227	207	(16.6)	(8.9)	251	295	(15.0)
Power/te	1,573	1,376	1,786	2,099	1,573	(0.0)	(25.1)	1,266	993	27.5
Freight/te	1,179	1,159	1,224	1,246	1,086	(7.9)	(12.8)	1,224	1,259	(2.8)
Others/te	905	737	810	983	711	(21.5)	(27.7)	818	787	4.0
Opex/te (Blended)	4,424	4,185	4,478	4,994	4,549	2.8	(8.9)	3,981	3,849	3.4
EBITDA/te (Blended)	793	1,055	926	452	813	2.5	80.1	1,187	1,167	1.7

Source: Company, YES Sec

CONFERENCE CALL KEY TAKEWAYS

Key Highlights

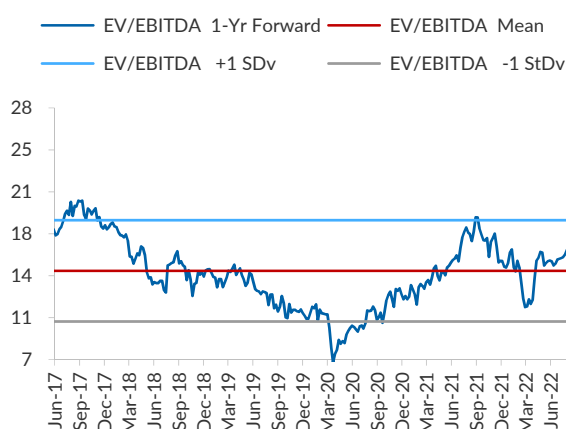
- In Q4CY22, the reduction in fuel consumption cost from Rs2.84kcal/kg to Rs2.45kcal/kg aided ACEM to lower the overall operating cost and the factors likes: a) change in coal basket b) higher low-cost domestic coal (Nil US Pet coke) c) Long term contract d) higher bargaining power as group entity e) expansion of owned Gara Palma coal mine.
- Warehouse infrastructure also optimized resulted in Direct sales improvement to 50% from 44% also lead-distance reduced from 263 kms to 248 kms and higher dispatches through rail. Additionally, management indicated these measures will continue to reduce logistics cost further.
- As on Dec'22, ACEM net cash position was Rs94.54bn
- ACEM commissioned Marwar 14MW of WHRS capacity. WHRS projects at Bhatapara, Rauri, Suli commissioned partially and likely to reach its full capacity of 39MW by Q4FY23. Additionally, WHRS projects at Ambujanagar and Maratha of 28MW are under implementation & progressing well.
- ACEM focused to improve the overall operating efficiencies for which Rs100bn CAPEX been envisaged by the management includes a) WHRS expansion to 110MW by FY24E v/s 35MW in Dec'21 b) higher AFR uses, expected to reach 30% by FY27E c) Flash Ash dryers d) Lower Clinker factor & Product mix e) Logistic optimization
- Management committed towards its 5-years capacity goal of 140MTPA through various greenfield & brownfield expansion at their existing capacities or holding limestone mines. Also, Management to carry out extensive debottlenecking at its all capacities to improve the capacity and efficiency.
- Currently, ACEM trade sales contribute ~85% and Blended sales ~80%. Management is looking to scale its B2B or Non-trade sales by increasing RMX capacities from 78 plants to 200 plants.
- ACEM entered into a long-term contract with supplier for supplying 1.47MT of coal at a price cap of US\$157 (Benchmarking on CIF price of RB1) will aid to reduce the fuel price volatility till Jun'23. This contract will take care of 25% of the cumulative coal requirement of both ACC & Ambuja.
- For improving its operating efficiencies, Management is optimistic toward dealing with the adjacencies business through RPT (Related party transactions)

Exhibit 4: Annual Operational Performance Estimates (Standalone)

Particulars (Rs m)	CY20	CY21	FY23E	FY24E	FY25E
Total Volumes (MMT)	22.7	27.0	37.4	29.8	31.2
Utilization (%)	75%	82%	114%	85%	75%
Cement Realization/te	4,815	4,993	5,048	5,157	5,075
Net Realization/te (Blended)	5,016	5,168	5,301	5,522	5,470
RM/te	523	429	658	659	658
Power/te	993	1,266	1,594	1,486	1,332
Freight/te	1,259	1,224	1,154	1,227	1,184
Employees/te	295	251	197	273	287
Others/te	787	818	839	850	869
Opex/te (Blended)	3,849	3,981	4,442	4,495	4,329
EBITDA/te (Blended)	1,167	1,187	858	1,026	1,141

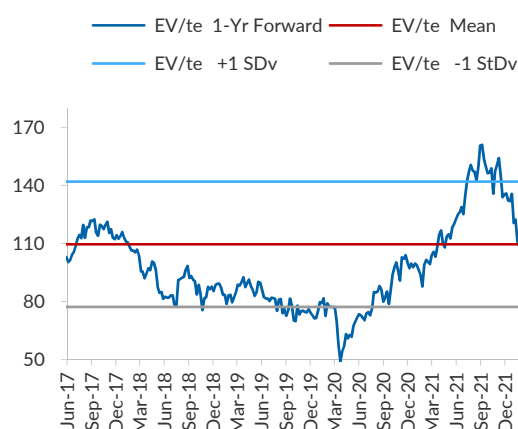
Source: Company, YES Sec, Note: Change of financial year end from December end to March end

Exhibit 5: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 6: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet (Standalone)

Y/e 31 Dec (Rs m)	CY20	CY21	FY23E	FY24E	FY25E
Equity capital	3,971	3,971	3,971	3,971	3,971
Reserves	199,187	218,101	288,956	305,761	325,650
Net worth	203,159	222,073	292,928	309,732	329,621
Other LT Liabilities	3,368	2,980	2,980	2,980	2,980
LT provision.	556	651	651	651	651
Minority interest	-	-	-	-	-
Long-term Borrowing	436	435	415	405	395
Deferred tax liabilities. (net)	1,860	2,018	2,018	2,018	2,018

Current Liabilities

Trades Payables	8,809	11,444	13,357	14,585	12,439
Short-term Borrowing	-	-	-	-	-
Other current liabilities	36,588	42,044	42,043	42,042	42,041
Short Term Provision	39	89	89	89	89
Total Liabilities	254,814	281,734	354,481	372,503	390,235

Assets

Total Net Block	55,575	73,025	73,138	76,677	87,155
CWIP & Other Assets	22,477	12,946	17,946	25,946	14,946
Investments	117,922	117,969	117,969	117,969	117,969
Other Non-current Asset	14,531	10,048	10,048	10,048	10,048
Deferred tax asset (net)	-	-	-	-	-

Current Assets

Inventories	7,466	14,636	15,463	12,247	11,784
Trades Receivables	1,915	2,932	4,360	6,216	5,742
Other current assets	5,639	8,501	8,501	8,501	8,501
Short Term Loans & advances	44	48	68	56	58
Cash & Bank Balances	29,243	41,631	106,987	114,842	134,032
Total Assets	254,814	281,734	354,481	372,503	390,235

Source: Company, YES Sec; Note: Change of financial year end from December end to March end

Exhibit 8: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	CY20	CY21	FY23E	FY24E	FY25E
Net Revenue	113,719	139,650	198,241	164,590	170,555
EBITDA	26,466	32,075	32,094	30,595	35,573
D&A	5,212	5,512	7,986	6,662	7,622
EBIT	21,254	26,562	24,108	23,933	27,951
Interest Expense	831	909	1,213	939	938
Other Income	3,720	2,856	8,300	3,037	3,147
Exceptional/EO items	-	657	766	-	-
EBT	24,144	27,853	30,430	26,032	30,161
Tax	6,243	7,047	7,699	6,587	7,631
Share of Profit/(Loss) in JV/Associates	-	-	-	-	-
Reported PAT	17,901	20,805	22,730	19,446	22,530
Less: Minority Interest	-	-	-	-	-
Adj. PAT	17,901	21,462	23,496	19,446	22,530

Source: Company, YES Sec; Note: Change of financial year end from December end to March end

Exhibit 9: Cash Flow (Standalone)

Y/e 31 Dec (Rs m)	CY20	CY21	FY23E	FY24E	FY25E
Cash flow from operation	30,495	23,409	30,352	28,706	28,940
Profit before tax	24,144	28,509	31,195	26,032	30,161
Depreciation	5,212	5,512	7,986	6,662	7,622
Tax paid	(6,243)	(7,047)	(7,699)	(6,587)	(7,631)
Working capital Δ	7,383	(2,909)	(365)	2,599	(1,211)
Other operating items	-	(657)	(766)	-	-
Cash flow from Investing Activities	(14,259)	(8,947)	(13,100)	(18,200)	(7,100)
Capital expenditure	(14,053)	(13,430)	(13,100)	(18,200)	(7,100)
Change in other non-current assets	(207)	4,483	-	-	-
Free cash flow	16,443	9,978	17,252	10,506	21,840
Cash flow from Financing activities	(33,988)	(2,074)	48,105	(2,651)	(2,651)
Equity raised	(148)	10,618	50,766	-	-
Investments	(32)	(47)	-	-	-
Debt financing/disposal	83	(1)	(20)	(10)	(10)
Dividends paid	(36,646)	(12,510)	(2,641)	(2,641)	(2,641)
Other items	2,755	(135)	-	-	-
Net Δ in cash	(17,752)	12,387	65,356	7,855	19,189

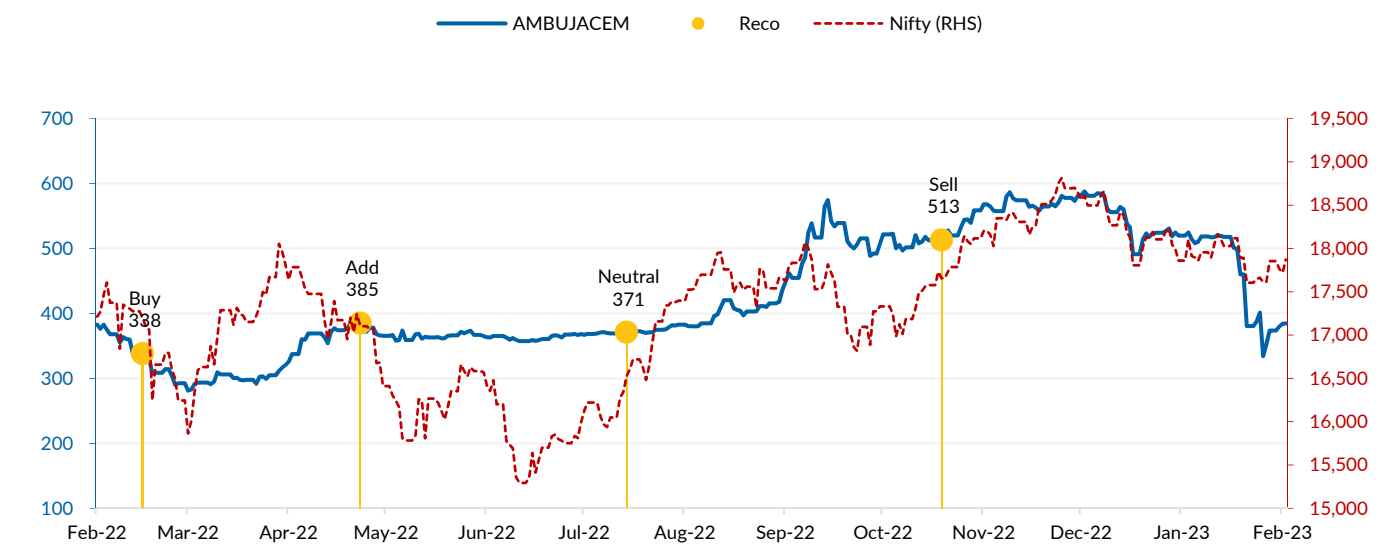
Source: Company, YES Sec; Note: Change of financial year end from December end to March end

Exhibit 10: Ratio Analysis (Standalone)

Y/e 31 Dec	CY20	CY21	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue	(2.5)	22.8	N/A	N/A	3.6
EBITDA	23.2	21.2	N/A	N/A	16.3
EBT	23.9	15.4	N/A	N/A	15.9
PAT	17.1	16.2	N/A	N/A	15.9
EPS	17.1	16.2	N/A	N/A	15.9
Profitability ratios (%)					
EBITDA (%)	23.3	23.0	16.2	18.6	20.9
EBIT (%)	22.0	21.1	16.3	16.4	18.2
PAT (%)	15.7	14.9	11.5	11.8	13.2
RoCE	12.3	13.2	11.0	8.7	9.4
RoE	8.8	9.4	7.8	6.3	6.8
RoA	24.1	25.2	25.9	19.6	22.8
Per share ratios (Rs)					
EPS	9.0	10.5	11.8	9.8	11.3
Dividend per share	18.0	6.3	1.3	1.3	1.3
Cash EPS	11.6	13.3	15.5	13.1	15.2
Book value per share	102	112	148	156	166
Payout (%)					
Dividend payout	205	60	12	14	12
Tax payout	26	25	25	25	25
Liquidity ratios					
Debtor days	92	130	92	92	92
Inventory days	70	54	54	54	54
Creditor days	11	6	13	13	13
Leverage ratios (x)					
Interest coverage	30.1	32.3	26.7	28.7	33.2
Net debt / equity	(0.7)	(0.7)	(0.8)	(0.7)	(0.8)
Net debt / EBITDA	(1.1)	(1.3)	(3.3)	(3.7)	(3.8)

Source: Company, YES Sec; Note: Change of financial year end from December end to March end

Recommendation Tracker



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4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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