

## New capacity to revive growth...

At 96% capacity utilisation, the company operated almost at full capacity in Q1CY21. This, along with the low base of last year led to sales volume growth of 25.7% YoY to 7.24 MT (vs. I-direct estimate: 7.32 MT). Realisations were also up 1.9% YoY to ₹ 5002/t (flat QoQ) vs. I-direct estimate of ₹ 5025/t leading to revenue growth of 28.1% YoY. Absolute EBITDA increased 61.9% YoY to ₹ 977 crore (vs. I-direct estimate: ₹ 786 crore). On QoQ basis, EBITDA/t was up ₹ 267/t to ₹ 1,349/t (up 28.8% YoY) vs. I-direct estimate: ₹ 1074/t. Key contributors to margin expansion (on QoQ basis) include 1) benefit of inventory adjustments (₹ 161/t), improvement in logistic efficiencies aided by master supply agreement (₹ 12/t) and other cost optimisation (₹ 83/t) that led to overall cost reduction of ₹ 256/t on a QoQ basis. The greenfield project at Marwar Mundwa, Rajasthan (1.8 MT GU, 3 MT clinker) is expected to be commissioned by Q3CY21E. This would help improve sales volume by ~5 MT in the north and west regions. With ambition to reach 50 MT capacity in mid-term through significant de-bottlenecking opportunities, we expect the company to get back to industry leading growth trajectory once these new capacities comes on stream.

## To enhance capacity to ~50 MT from current 29.7 MT

The company has laid out growth plans to increase their capacity in India with the target to become a 50 MT player from current 29.7 MT. In terms of regions, the company is exploring opportunities in markets of east and west India, with brownfield expansions in Bhatpara and Maratha plants. While its upcoming facility in Marwar Mundwa, Rajasthan will enhance clinker capacity by 3 MT, it would help improve cement sales by ~5 MT. Apart from this, the company is also looking at significant debottlenecking opportunities across all its plants to further enhance their cement capacity.

## Strong b/s to support expansion, help improve RoE

The ongoing capex at Marwar Mundwa with total investment of ₹ 2350 crore is mainly funded through internal accruals and would commence operations by Q3FY21. While we await clarity on capex on incremental capacity of ~15 MT, we believe the capex would be far lower on a per tonne basis than the capex required for brownfield expansions as majority these new capacities would be added though de-bottlenecking. Hence, we believe the cash balance of over ₹ 2700 crore and annual OCF of ₹ 2500 crore is sufficient to support these expansions. Overall, this move would not only aid in gaining market share but also would help improve return ratios.

## Valuation & Outlook

While short-term demand may get impacted due to Covid induced restrictions, the long-term growth trajectory of the company to remain healthy with capacity expansions backed with strong b/s. Hence, we maintain **BUY** rating with unchanged TP of ₹ 365 (implying a consolidated EV/t of \$154 on expanded capacity and 14.5x CY22E EV/EBITDA).

### Key Financial Summary

Key Financials	CY18	CY19	CY20	CY21E	CY22E	CAGR (CY20-22E)
Net Sales	11,357	11,668	11,372	13,722	14,891	14.4%
EBITDA	1,891	2,149	2,647	3,371	3,287	11.4%
EBITDA (%)	16.7	18.4	23.3	24.6	22.1	
PAT	1,245	1,529	1,790	2,178	2,318	13.8%
EPS (₹)	6.3	7.7	9.0	11.0	11.7	
EV/EBITDA - Adjusted	20.9	17.4	15.9	12.5	12.4	
EV/T (\$) - Consolidated	178	173	186	165	163	
RoNW (%)	13.5	14.7	20.3	21.7	20.4	
RoCE (%)	11.8	12.2	17.6	19.1	18.4	

Source: Company, ICICI Direct Research



### Stock Data

Particular	Amount
Market cap	₹ 62349 crore
Debt (CY20)	₹ 72 crore
Cash & Invest (CY20)	₹ 686 crore
EV	₹ 61735 crore
52 week H/L	₹ 240 / 136
Equity capital	₹ 397.1 crore
Face value	₹ 2

### Key Highlights

- Aims to increase capacity to ~50 MT from current 29.7 MT capacity
- Significant debottlenecking opportunities to add ~15 MT capacity
- Upcoming facility in Rajasthan to enhance clinker capacity by 3 MT and help improve cement sales by 5 MT
- Maintain BUY with target price of ₹ 365/share

### Key risks to our call

- Any delay in commissioning of new capacity may impact growth and return ratios negatively
- Inability to increase cement prices further due to rise in competition may impact margins

### Research Analyst

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**Exhibit 1: Variance Analysis**

	Q1CY21	Q1CY21E	Q1CY20	YoY(%)	Q4CY20	QoQ(%)	Comments
Net Sales	3,621	3,680	2,828	28.1	3,515	3.0	Sales volume were up 25.7% YoY. Reallisations broadly remained flat QoQ. Premium cement contributed 12% of total volume
Other Incomes	55	100	88	-37.4	39	39.9	
Raw Material Expenses	354	359	290	21.9	320	10.5	
Employee Expenses	169	184	172	-1.7	185	-8.6	
Change in stock	-10.4	0.0	-39.0	N.A	128.2	N.A	
Power and fuel	735	791	562	30.8	701	4.9	
Freight	880	937	742	18.6	869	1.3	
Others	516	623	496	4.0	544	-5.0	
EBITDA	977	786	603	61.9	768	27.2	
EBITDA Margin (%)	27.0	21.4	21.3	564 bps	21.8	513 bps	Lower CoP mainly led by inventory adjustment drives 513bps QoQ margin expansion
Interest	20	22	23	-11.5	23	-12.4	
Depreciation	125	155	138	-9.0	126	-0.2	
PBT	886	709	530	67.1	658	34.6	
Total Tax	221.5	178.4	131.3	68.7	161.2	37.4	
Adjusted PAT	664.6	530	399	66.5	497	33.7	
<b>Key Metrics</b>							
Volume (MT)	7.24	7.32	5.76	25.7	7.01	3.3	
Realisation (₹)	5,002	5,025	4,909	1.9	5,014	-0.2	
EBITDA per Tonne (₹)	1,349	1,074	1,047	28.8	1,095	23.2	

Source: Company, ICICI Direct Research

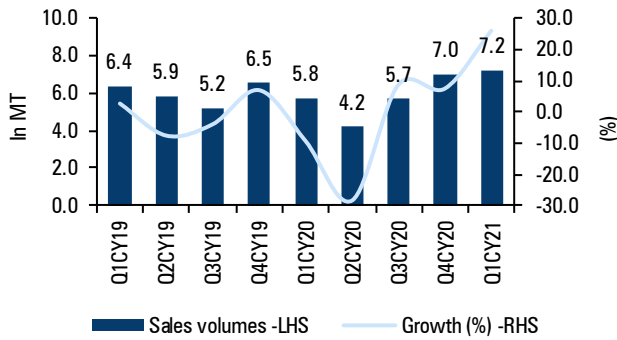
**Exhibit 2: Change in estimates**

(₹ Crore)	CY21E			CY22E		
	Old	New	% Change	Old	New	% Change
Revenue	13,021	13,722	5.4	14,098	14,891	5.6
EBITDA	2,985	3,361	12.6	3,190	3,287	3.0
EBITDA Margin (%)	22.9	24.5	6.8	22.6	22.1	-2.5

Source: Company, ICICI Direct Research

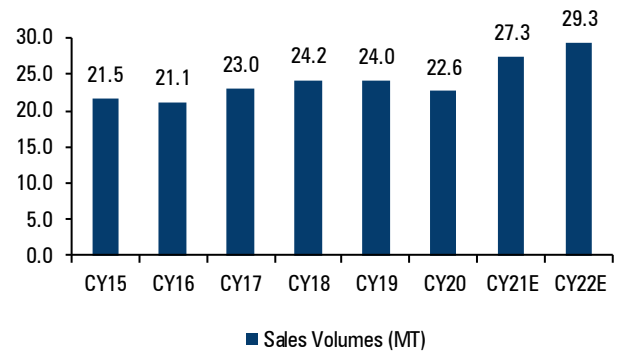
## Financial story

Exhibit 3: Sales Volumes improve 25.7% YoY



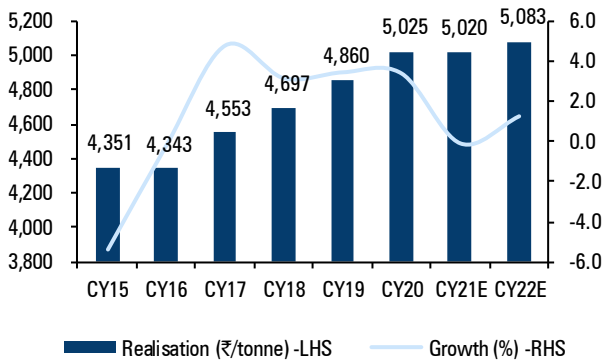
Source: Company, ICICI Direct Research

Exhibit 4: Volumes to grow at 13.8% CAGR over CY20-22E



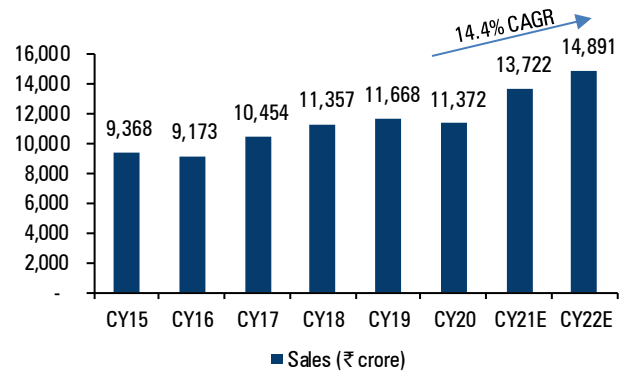
Source: Company, ICICI Direct Research

Exhibit 5: Realisations to moderate in CY21E with pick-up in volumes



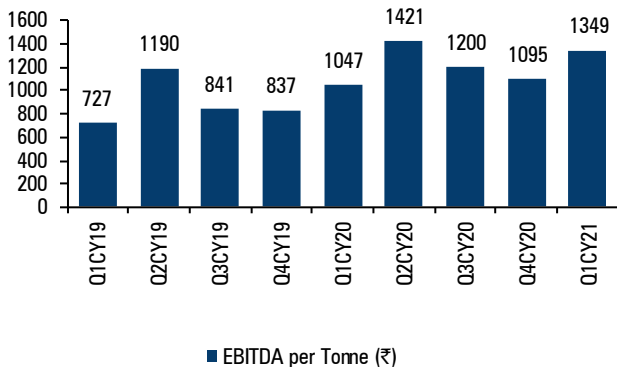
Source: Company, ICICI Direct Research

Exhibit 6: Revenue to grow at 14.4% CAGR CY20-22E



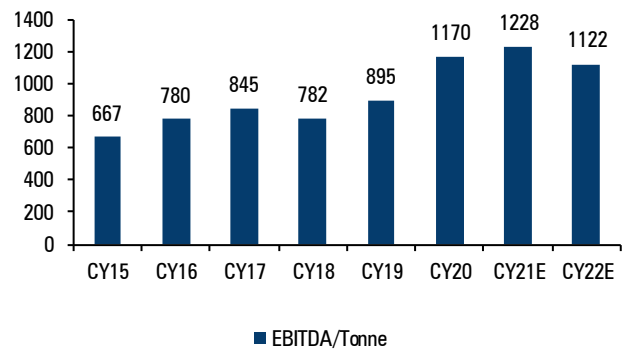
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/t for Q1CY21 grows 29% YoY



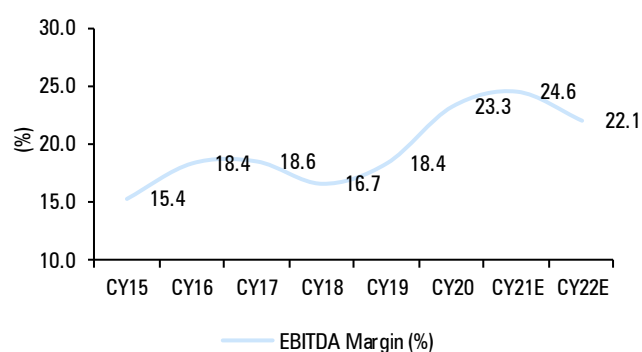
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA/t to remain healthy despite gradual rise in costs



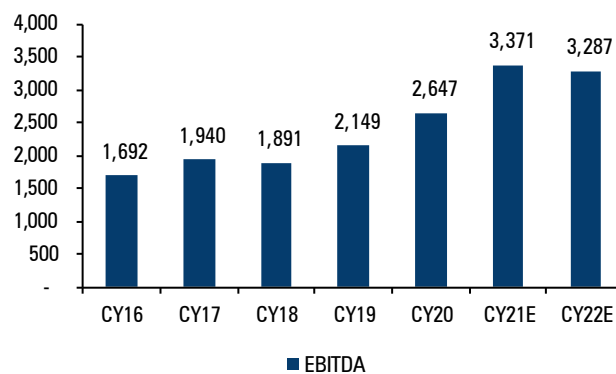
Source: Company, ICICI Direct Research

Exhibit 9: Margins to stabilise from CY21E onwards



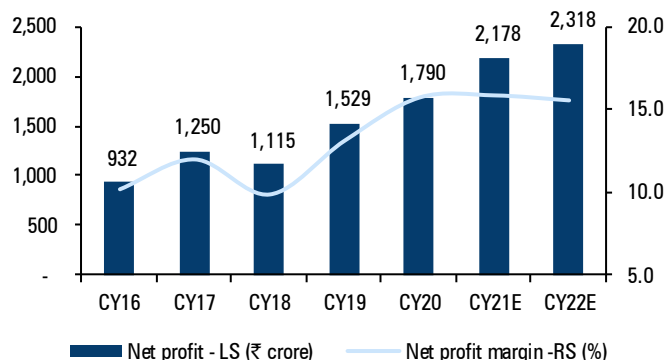
Source: Company, ICICI Direct Research

Exhibit 10: Expect EBITDA CAGR of 11.4% during CY20-22E



Source: Company, ICICI Direct Research

Exhibit 11: PAT to grow at CAGR of 13.8% during CY20-22E



Source: Company, ICICI Direct Research

Exhibit 12: Capacity expansion plans

Particulars	Capacity (MT)
<b>Existing Grinding capacity (MT)</b>	<b>29.7</b>
<b>Ongoing expansion:</b>	
Marwar, Rajasthan (3.0 MT clinker capacity)	1.8
<b>Total</b>	<b>1.8</b>
<b>Total capacity by CY20E (MT)</b>	<b>31.5</b>

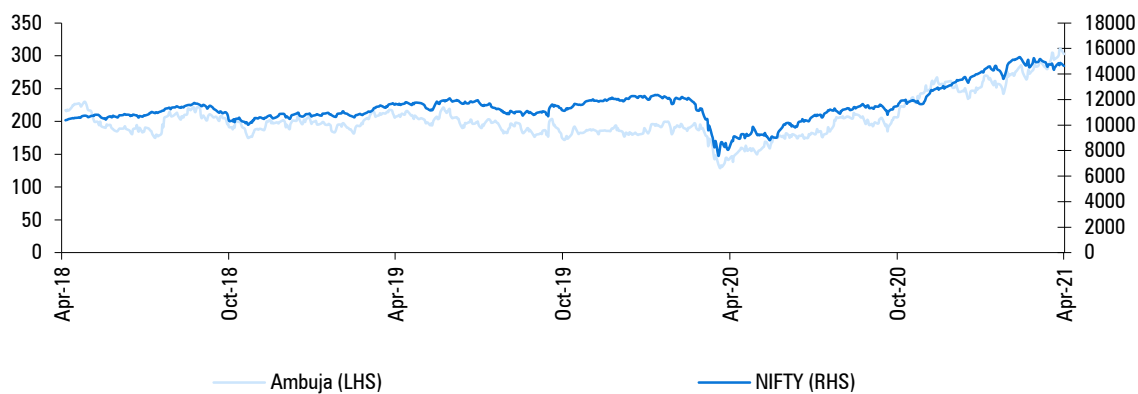
Source: Company, ICICI Direct Research

Exhibit 13: Fair value calculation - SOTP

Fair value calculation	in ₹ crore
EBITDA Estimates CY22E	3287
Target EV/EBITDA	16
Target Enterprise value	54038
Debt	72
Balance Cash and cash equivalents	1561
Target equity value	55527
No. of shares outstanding	199
<b>Fair value of Ambuja [A]</b>	<b>280</b>
ACC's fair equity valuation	42255
<b>Valuation of 50% stake [B]</b>	<b>21128</b>
Holding company discount	20%
Net value to Ambuja	17008
No. of shares outstanding	199
<b>Fair value of Investment in ACC [B]</b>	<b>86</b>
<b>Fair value per share [A+B]</b>	<b>365</b>

Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S Position	(m)	Change
1	Holderind Invst	31-Mar-20	63.1	1,253.16m	0.00m
2	Life Insurance	31-Mar-20	3.9	77.79m	(17.89)m
3	Hdfc Asset Ma	30-Jun-20	3.7	72.92m	(3.50)m
4	Republic Of Sir	31-Mar-20	2.1	42.49m	(0.14)m
5	Vanguard Grou	30-Jun-20	1.3	26.13m	(2.27)m
6	Nomura	20-Jul-20	1.2	24.58m	(0.00)m
7	Sbi Funds Mar	30-Jun-20	1.0	19.14m	0.14m
8	Blackrock	17-Jul-20	0.9	17.27m	(4.32)m
9	Jpmorgan Cha:	31-Mar-20	0.8	15.41m	(6.40)m
10	Uti Asset Man:	30-Jun-20	0.6	11.09m	1.14m

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	63.28	63.27	63.27	63.27	63.29
FII	15.66	16.25	16.80	18.07	17.75
DII	14.16	13.60	13.30	11.54	12.37
Others	6.90	6.88	6.63	7.12	6.59

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 17: Profit and loss statement				
	₹ crore			
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Total operating Inco</b>	<b>11,667.9</b>	<b>11,371.9</b>	<b>13,722.2</b>	<b>14,891.4</b>
Growth (%)	2.7	-2.5	20.7	8.5
Raw material	1125.5	1072.2	1338.6	1450.1
Power & Fuel	2586.4	2251.9	2775.6	3134.6
Employees	672.6	668.8	720.9	809.2
Freight	3094.2	2854.9	3466.8	3808.4
Others	2040.3	1763.4	2059.4	2402.2
<b>Total Operating Exp.</b>	<b>9,519.0</b>	<b>8,611.2</b>	<b>10,361.3</b>	<b>11,604.4</b>
<b>EBITDA</b>	<b>2,148.9</b>	<b>2,760.7</b>	<b>3,360.9</b>	<b>3,287.0</b>
Growth (%)	13.6	28.5	21.7	-2.2
Depreciation	543.8	521.2	605.1	601.9
Interest	83.5	83.1	87.6	89.7
Other Income	426.5	372.0	220.6	480.0
Exceptional items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>1,948.1</b>	<b>2,528.5</b>	<b>2,888.7</b>	<b>3,075.4</b>
Total Tax	419.5	624.3	728.2	774.1
<b>PAT</b>	<b>1,528.6</b>	<b>1,904.2</b>	<b>2,160.5</b>	<b>2,301.3</b>
<b>Adjusted PAT</b>	<b>1,528.6</b>	<b>1,790.1</b>	<b>2,170.9</b>	<b>2,301.3</b>
Growth (%)	22.8	17.1	21.3	6.0
<b>Adjusted EPS (₹)</b>	<b>7.7</b>	<b>9.0</b>	<b>10.9</b>	<b>11.6</b>

Source: Company, ICICI Direct Research

Exhibit 19: Balance sheet				
	₹ crore			
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Liabilities</b>				
Equity Capital	397.1	397.1	397.1	397.1
Reserve and Surplus	21,808.1	20,222.5	21,400.6	22,709.1
Total Shareholders funds	22,205.2	20,619.7	21,797.7	23,106.3
<b>Total Debt</b>	<b>71.7</b>	<b>71.7</b>	<b>71.7</b>	<b>71.7</b>
Deferred Tax Liability	1,122.3	1,022.3	872.3	722.3
<b>Total Liabilities</b>	<b>23,399.2</b>	<b>21,713.7</b>	<b>22,741.7</b>	<b>23,900.3</b>
<b>Assets</b>				
Gross Block	14,112.9	14,411.6	16,621.6	17,771.6
Less: Acc Depreciation	8,300.4	8,856.6	9,461.8	10,063.7
Net Block	5,812.5	5,554.9	7,159.8	7,707.9
Capital WIP	1,108.7	2,760.0	1,800.0	1,400.0
<b>Total Fixed Assets</b>	<b>6,921.2</b>	<b>8,314.9</b>	<b>8,959.8</b>	<b>9,107.9</b>
Investments	11,789.0	11,789.0	11,789.0	11,789.0
Inventory	954.1	946.4	1,234.1	1,132.2
Debtors	513.2	421.5	706.4	517.6
Other assets	2,113.8	2,650.9	2,494.8	3,089.3
Cash	4,699.5	685.8	1,560.9	1,963.8
Total Current Assets	8,280.6	4,704.5	5,996.1	6,702.9
Creditors	2,673.8	2,622.7	3,392.5	3,135.2
Provisions	917.8	472.1	610.7	564.3
Total Current Liabilities	3,591.5	3,094.8	4,003.2	3,699.6
Net Current Assets	4,689.0	1,609.8	1,993.0	3,003.4
<b>Application of Funds</b>	<b>23,399.2</b>	<b>21,713.7</b>	<b>22,741.7</b>	<b>23,900.3</b>

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement				
	₹ crore			
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Profit after Tax</b>	<b>1,528.6</b>	<b>1,790.1</b>	<b>2,170.9</b>	<b>2,301.3</b>
Add: Depreciation	543.8	521.2	605.1	601.9
(Inc)/dec in Current Assets	188.3	-437.7	-416.5	-303.9
Inc/(dec) in CL and Provisions	587.7	-596.8	758.4	-453.6
<b>CF from operating activit</b>	<b>2,848.3</b>	<b>1,276.8</b>	<b>3,117.9</b>	<b>2,145.8</b>
(Inc)/dec in Investments	24.8	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1,191.3	-1,914.9	-1,250.0	-750.0
Others				
<b>CF from investing activit</b>	<b>-1,166.6</b>	<b>-1,914.9</b>	<b>-1,250.0</b>	<b>-750.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	23.7	0.0	0.0	0.0
Dividend paid & dividend tax	-929.3	-3,375.6	-992.8	-992.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	593.4	0.0	0.0	0.0
<b>CF from financing activit</b>	<b>-312.2</b>	<b>-3,375.6</b>	<b>-992.8</b>	<b>-992.8</b>
Net Cash flow	1,369.5	-4,013.7	875.1	403.0
Opening Cash	3,330.0	4,699.5	685.8	1,560.9
<b>Closing Cash</b>	<b>4,699.5</b>	<b>685.8</b>	<b>1,560.9</b>	<b>1,963.8</b>

Source: Company, ICICI Direct Research

Exhibit 20: Key ratios				
(Year-end March)	CY19	CY20P	CY21E	CY22E
<b>Per share data (₹)</b>				
Adjusted EPS	7.7	9.0	10.9	11.6
Cash EPS	10.4	11.6	14.0	14.6
BV	111.8	103.8	109.8	116.4
DPS	4.0	17.0	5.0	5.0
Cash Per Share	23.7	3.5	7.9	9.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.4	23.3	24.6	22.1
PAT Margin	13.1	15.7	15.8	15.5
Inventory days	34.9	30.5	29.0	29.0
Debtor days	15.4	15.0	15.0	15.0
Creditor days	79.4	85.0	80.0	80.0
<b>Return Ratios (%)</b>				
RoE	14.7	20.3	21.7	20.3
RoCE	12.2	17.6	19.1	18.3
RoIC	27.7	32.8	36.4	30.7
<b>Valuation Ratios (x)</b>				
P/E	39.9	34.1	28.1	26.5
EV / EBITDA	17.4	15.9	12.6	12.0
EV / Net Sales	4.8	5.3	4.3	4.0
Market Cap / Sales	5.2	5.4	4.4	4.1
Price to Book Value	2.7	3.0	2.8	2.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.3	1.5	1.5	1.8
Quick Ratio	1.0	1.3	1.1	1.3

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (Cement)

Company	CMP (₹)	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,876	BUY	73	85	101	14.2	13.4	9.6	131	113	110	17.4	14.5	18.6	11.9	12.6	13.3
Ambuja Cem*	314	BUY	7.7	9.0	10.9	21.0	19.0	15.1	209	221	198	12.2	17.6	19.1	14.7	20.3	21.7
UltraTech Cem	6,375	BUY	180	194	234	18.2	17.0	14.4	242	242	228	14.2	14.2	15.8	12.1	11.7	12.4
Shree Cement	28,400	BUY	435	624	666	25.7	23.6	20.0	278	262	259	13.8	18.2	18.0	12.1	15.1	14.2
Heidelberg Cem	233	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	2,786	BUY	51.8	99.5	101.6	17.5	13.6	12.8	174	163	168	16.2	18.9	17.3	12.8	20.2	17.5
JK Lakshmi Cen	402	BUY	7.0	7.1	6.8	16.6	14.2	13.7	76	76	70	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	98	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	987	BUY	25.7	29.5	30.2	20.5	16.5	15.5	180	175	171	7.5	8.6	8.7	12.3	12.5	11.4
Sagar Cement	711	BUY	17.1	80.0	86.2	11.6	5.4	5.3	53	54	41	7.2	17.5	15.4	4.2	15.4	14.4

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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