

Axis Annual Analysis 2021





Capacity Expansion, Value-added & Premium Products along with Efficiency Measures to Drive Growth

Summary

The company commissioned an integrated cement plant with a clinker capacity of 3 million tonnes per annum (mtpa) and cement manufacturing of 1.8 mtpa at Marwar-Mundwa (Rajasthan), augmenting its production capacity to 31.45 mtpa.

The company has unveiled capacity expansion plans comprising a brownfield expansion of 1.5 mtpa at Ropar (Punjab) by 2023. It intends to undertake further expansions in Eastern and Western India by setting up the plant to reach a capacity of 50 mtpa in the next few years.

It continues to strengthen its market reach along with improving its sale of premium products.

The company continues to enhance its share of green power through significant investments in WHRS and Solar power plants. It has undertaken ESG initiatives to reduce carbon emissions with a focus on sustainable production.

Key Highlights

Net sales grew by 23% on a YoY basis to Rs 13,794 Cr. The growth can be attributed to robust market demand, improvement in realisations, and a favourable product mix.

With an installed capacity of 31.5 mtpa of cement, Ambuja Cements continues to be a leading cement player in India with the retail segment contributing ~80% of the sales. Share of premium products in revenue, too, increased healthy by 170bps during the year.

The company incurred a Capex of Rs 580 Cr to expand capacity and strengthen its market position in core markets through low-cost brownfield and greenfield expansions.

Key Competitive Strengths: a) Pan-India presence (except South); b) Sustainable business model; c) Robust Financial strength; d) Experienced management bandwidth, and e) Higher proportion of trade and blended cement sales.

Strategies Implemented: a) **Expanded solutions and products:** The company continues to scale up volume and revenue and strengthen its position in products and solutions segments through continuous investments in innovation; b) **Revived and launched a new campaign trail with 'Viraat Comprehensive Strength'** to connect with customers across digital platforms, and mainline and regional television channels. c) **Strengthened market penetration** with an addition of 1,850 new dealers across markets. d) **Undertook Digitalization initiatives** across the supply chain to optimize costs further. Transport Analytics Center (TAC) is being used for finding deviations on the ground.

Growth Drivers: a) Flagship affordable housing scheme (Pradhan Mantri Awas Yojana); b) Increased urbanization creating more demand for new homes; c) The government's push to the Infrastructure sector; d) Increasing rural income levels, and e) Increasing demand driven by improving standards of living.

Key focus areas moving forward: a) Accelerating growth and strengthening market position through capacity expansion in the core markets; b) Focus on sustainability c) Focus on improving the contribution of premium products along with undertaking cost efficiency projects; d) Expanding solution and products business, and e) Digitalization of system and processes.

Outlook & Recommendation: With its recent acquisition by Adani Group, we foresee the release of significant synergies in terms of logistics, renewable power, and raw materials, among others, post full integration with other Adani group companies moving forward. The company is well-positioned to grow owing to favourable attributes such as its focus on selling premium products along with sharp cost optimization, new capacity expansion, higher sales of blended cement, and its existing synergies with ACC under MSA. We expect the expansion program to support further growth under the new regime.

We expect the company to deliver Volume/Revenue/EBITDA/APAT CAGR of 5%/8%/6%/6% over CY21-CY23E as we factor in the impact of higher costs on the company's margins. The stock is currently trading at 15x and 12x its CY22E and CY23E EV/EBITDA. We value ACL at 13x CY23E EV/EBITDA (including Ambuja stake in ACC with no holding company discount) to arrive at the TP of Rs 405/share, implying an upside of 11% from the CMP and maintain our BUY rating on the stock.

Key Financials

(Rs Cr)	CY21	CY22E	CY23E
Net Sales	13,965	15,345	16,532
EBITDA	3,207	2,916	3,609
Net Profit	2,146	1,820	2,277
EPS (Rs)	13	12.5	15
PER (x)	32	42	33
EV/EBITDA (x)	15	17	14
P/BV (x)	3	3.3	3
ROE (%)	10	8	10

Source: Company, Axis Research

(CMP as of 8th June, 2022)

CMP (Rs)	365
Upside /Downside (%)	11%
High/Low (Rs)	443/274
Market cap (Cr)	72456
Avg. daily vol. (6m) Shrs.	25,79,416
No. of shares (Cr)	198

Shareholding (%)

	Sep-21	Dec-21	Mar-22
Promoter	63.1	63.1	63.1
FIIIs	16.5	14.7	12.9
MFs / UTI	5.3	6.6	7.5
Banks / FIs	0.3	0.4	0.5
Others	14.9	15.3	15.9

Financial & Valuations

Y/E Mar (RsCr)	CY21	CY22E	CY23E
Net Sales	13,965	15,345	16,532
EBITDA	3,207	2,916	3,609
Net Profit	2,146	1,820	2,277
EPS (Rs)	13	12.5	15
PER (x)	32	42	33
EV/EBITDA (x)	15	17	14
P/BV (x)	3	3.3	3
ROE (%)	10	8	10

Change in Estimates (%)

Y/E Mar	CY22E	CY23E
Sales	3	2
EBITDA	0	6
PAT	0	7

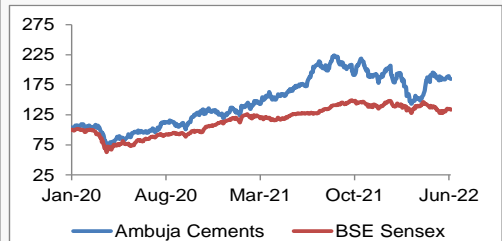
ESG disclosure Score**

Environmental Disclosure Score	70
Social Disclosure Score	54
Governance Disclosure Score	71
Total ESG Disclosure Score	67

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

Uttam K Srimal

Research Analyst

Email: uttamkumar.srimal@axissecurities.in

Shikha Doshi

Research Analyst

Email: shikha.doshi@axissecurities.in

Company Overview

Ambuja Cements is one of the leading and responsible cement manufacturers with a presence across Northern, Eastern, Central, and Western parts of India. The company's present cement manufacturing capacity stands at 31.45 mntpa with 6 integrated and 8 grinding units, 5 bulk cement terminals, and captive power plant capacity (MW) spread across its operating regions. The company has a 7-8% market share in the Indian Cement Industry.

CY21-Performance Round-up

- **Highest-ever annual sales volume:** The company recorded the highest ever annual sales volume with a 17% growth on a YoY basis. The total volume for CY21 stood at 27.02 mtpa. Net sales grew by 23% YoY to Rs 13,965 Cr. This growth can be attributed to robust market demand, improvement in realizations, and affordable product mix. Blend realization improved by 3% from Rs 5,104/tonne to Rs 5,168/tonne.
- **Robust improvement in the core business performance:** EBITDA for the year improved to Rs 3,207 Cr from Rs 2,647 Cr in CY20, a rise of 21% and EBITDA/tonne improved to Rs 1,187 from Rs 1,167. Profit after tax rose by 16% YoY to Rs 2,081 Cr. Robust improvement in the core business performance and low-interest outgo resulted in strong profit growth.
- **Higher input costs dent margins:** Margins came under pressure due to the increase in input costs. The operating EBITDA margins declined by 40bps while the net profit margin declined by 90bps. Cost/tonne increased by 3.5% to Rs 3,981 from Rs 3,847 primarily on account of rise in power/fuel cost.
- **Leading cement player in India in terms of installed capacity:** With an installed capacity of 31.45 mtpa of cement, the company continues to be a leading cement player in India with the retail segment contributing ~80% of its sales. Share of premium products in revenue increased by 170bps and formed 17% of total sales. The earnings per share for the year stood at Rs 10.5/share.
- **Net cash balance stood** at 3,985 Cr at the end of 2021 against Rs 2,717 Cr at the end of 2020.
- The company declared a dividend of Rs 6.3/per share for CY21.

Exhibit 1: Revenue Share in CY21 region-wise

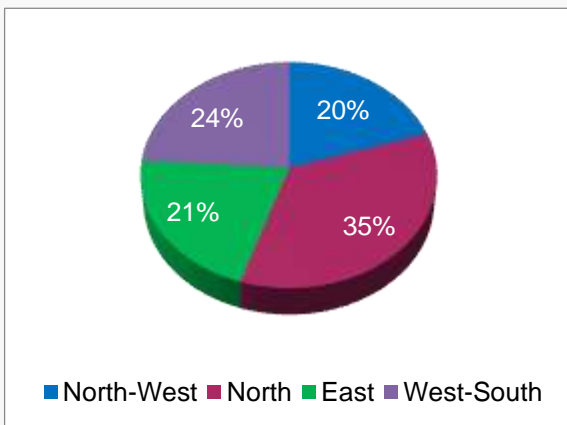
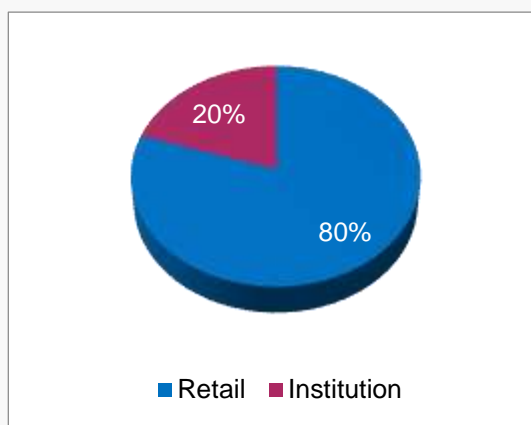


Exhibit 2: Segment-wise cement sale in CY21



Source: Company, Axis Securities

Key Subsidiary Performance Analysis

Particulars (Rs Cr)	CY20	CY21	Change	Comment/Analysis
Revenues				
Dirk India Private Limited	3.45	9.62	179%	Not material
ACC Limited	13,486.83	15,814.40	17%	Sales increased owing to higher volume and realization
Oneindia BSC Private Limited	16.35	-		Not material
Net Worth				
M.G.T. Cements Private Limited	(0.01)	(0.02)		Not material
Chemical Limes Mundwa Private Limited	-	(0.24)		Not material
Dirk India Private Limited	(33.68)	(30.93)	-8%	Not material
Dang Cement Industries Private Limited	6.66	5.84	-12%	Not material
ACC Limited	12,702.37	14,312.18	13%	Higher profit increased the net worth of the company
Oneindia BSC Private Limited	6.54	6.67		
PAT				
M.G.T. Cements Private Limited	-	(0.01)		-
Chemical Limes Mundwa Private Limited	(0.20)	(0.24)	20%	Not material
Dirk India Private Limited	(1.03)	2.66	158%	Not material
Dang Cement Industries Private Limited	(0.92)	(0.83)	-10%	Not material
ACC Limited	1430.26	1863.10	30%	Higher revenue, volume and realization contributed to higher profits.
Oneindia BSC Private Limited	(0.65)	0.13	80%	

Source: Company; Axis Securities

Note: Except ACC Limited, other subsidiaries' performance are not material, no comment or analysis is required.

Cost Optimization Measures

- **Power/Fuel Cost:** In CY21, power/fuel cost per tonne stood at Rs 1,266 vs. Rs 993 in CY20. The increase in cost is due to a steep increase in fuel prices. The company is undertaking important cost optimisation initiatives in the areas of captive fuel security and rail infrastructure. Waste heat recovery systems (WHRS) of 80 MW are under various stages of implementation across plants to help increase the use of green energy as well as optimize resource utilization.
- **Freight/Forwarding Cost:** Freight/forwarding cost per tonne was Rs 1,224 in CY21, down 2.8% from CY20 levels. This was a result of the company's digitization efforts in logistics as well as increased volume under the master supply agreement with ACC Limited. Furthermore, the company is reducing distribution and logistics costs by enhancing movement by rail in collaboration with Indian Railways as per agreed terms of long-term freight revenue commitment and assurance on the availability of wagons. During the year, the sea/rail/road mix stood at 12%/23%/65% against 12%/23%/66% in CY21. Direct dispatch by road stood at 57% against 60% in the last year. Lead distance during the year reduced to 248 km from 278 km last year which helped in saving overall freight cost.
- **Raw Material Cost:** Raw material costs per tonne increased by 8.8% due to an increase in input material cost. It relentlessly optimised input costs, uses alternative raw materials, and industrial waste helping in reducing the consumption of natural resources.
- **Other Expenses:** The company's other expenses stood higher by 4% per tonne over CY20 owing to an elevated packing material cost during the year.
- **Other Cost Optimization Measures:** To emerge as the most cost-competitive cement manufacturer in the country, the company continues to deploy investments in the areas of clinker factor reduction, energy efficiency, raw material mix, fuel mix optimisation, and enhancing the use of alternative fuels and raw materials in the manufacturing processes.
- **Cost optimisation initiatives through 'Plants of Tomorrow':** In the prevailing inflationary environment, the company has been undertaking several cost optimisation initiatives in operations and logistics through 'Plants of Tomorrow' and other programmes. Total cost per tonne reported a 3% increase during the year.

Key Operational Activities During the Year

- **Sales:** Backed by strong retail demand, the company's cement sales volume reported a growth of 17% despite the challenging Q1FY22, when COVID 2.0 resulted in local restrictions and inflationary pressures.
- **Capacity:** The cement production stood at 25.9 mtpa, reflecting a growth of 16% over 2020.
- **Capacity Expansion:** Commissioning of the Marwar integrated plant helped increase its clinker capacity by 3 mtpa and cement manufacturing by 1.8 mtpa. The company has finalized a brownfield expansion of 1.5 mtpa cement at an existing plant in Ropar (Punjab) at a total investment of Rs 310 Cr.
- **Capital Expenditure:** The company has spent a Capex of Rs 580 Cr to expand capacity and strengthen its market position in its core markets through low-cost brownfield and greenfield expansions.
- **Fuel Linkage** At the Gare Palma coal mine, the company has started underground mining operations this year, providing fuel linkage to its Bhatapara plant in Chhattisgarh.
- **WHRS (West Heat Recovery Plant):** The company is setting up a 52 MW WHRS plant at its plant in Marwar, Daralghat and Bhatapara at a total investment of Rs 550 Cr. The projects are expected to be completed by Q2CY22. The company is also looking to set up WHRS at its plant in Ambuja Nagar and Maratha Plants in Gujarat and Maharashtra.
- **Logistics:** To strengthen its logistical capability and enhance customer outreach, a new railway siding project at Rabriyawas has been commissioned at a total investment of ~210 Cr. Clinker and cement despatch by rail started from Oct'21.
- **Quality Improvement:** The company continues to invest in quality control and quality assurance measures. To ensure consistent results, it follows the round-robin test methodology to identify issues and resolve the same.

Key Growth Drivers

- **Affordable Housing:** The government continues to focus on its flagship affordable housing scheme – the Pradhan Mantri Awas Yojana (PMAY). While the execution of PMAY (Urban) slowed down in FY21 (Apr'20-Mar'21), it is expected to see a sharp uptick in the next 2-3 years. Rural affordable housing has already seen a sharp pick-up in FY21 (Apr'20- Mar'21) and execution is expected to continue robust in FY22 (Apr'21-Mar'22) as well. Of the total housing units targeted till 2025, 47% have been completed under PMAY (Urban) and 57% under PMAY (Rural), leaving healthy room for further demand. Moreover, the Union Budget 2022 has allocated Rs 48,000 Cr towards the PMAY scheme and the completion of 8 Mn houses is envisaged in FY23 (Apr'22-Mar'23). Activity in residential housing projects across towns and cities has also witnessed a sharp rebound and is approaching pre-COVID levels.
- **Increase in rural incomes:** Rural income in the recent years has increased due to higher returns on cultivated produce and an increase in budgetary outlay for various rural income schemes such as Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), PM Kisan, fertiliser subsidy scheme, and Pradhan Mantri Grameen Sadak Yojana (PMGSY). Average daily rural wage rates have gone up 5% CAGR over the last six years.
- **Infrastructure:** The infrastructure sector is expected to record healthy growth over the medium term led by the government's thrust on the National Infrastructure Pipeline. The NIP projects are worth Rs 111 Lc Cr and 80% of this is to be invested in the road, energy, urban rail, and irrigation sectors. National highway and road development have been resilient through the pandemic and the momentum is expected to continue. The Union Budget 2022 has set a target to construct 25,000 km of national highways and has increased allocation for PMGSY by 36%. The overall capital expenditure allocation in Union Budget 2022 for FY23 is up by 17% YoY with the allocation for core infrastructure sectors improving by 10% YoY. The government's proposal to grant infrastructure status to data centres and energy storage systems and its focus on multi-modal logistics parks and cargo terminals will also be a positive factor for cement demand in the coming years.

Sales & Distribution

- The company continued to bolster Below the Line and Above the Line, activities to strengthen its market penetration across geographies.
- Revived and launched a new campaign trail with 'Viraat Comprehensive Strength' to connect with customers across digital platforms, mainline, and regional television channels.
- Strengthened market penetration with the addition of 300 channel partners, 1,850 new dealers across the market and onboarded 4,200 new retailers in 2021.

Supply Chain & Logistics

- **Unit locations:** The company's six integrated manufacturing units, eight strategically located grinding units and a network of more than 50,000 channel partners help it cater to the northern, western, central, and, eastern markets of the country as well as continue its growth momentum.
- **Technology as a driver for cost:** Digitalization initiatives across the supply chain helped optimize costs. Transport Analytics Center (TAC) is being used for finding deviations on the ground. The company are also using best-in-class tools for network optimization, Sales & Operations Planning, and e-platforms for freight procurement, among others. All their logistics excellence projects are driven through automated dashboards.
- **Freight reduction:** Several initiatives are being taken to improve efficiency and negotiate contracted rates. The company is using the latest e-procurement platforms to discover real-time freight rates. Vendor performances are being closely tracked and monitored to improve its value proposition.

Key Strategies Moving Forward

Digitalization

This remains its key focus area and will continue to shape the way the company operate – from running the plants and managing logistics and supply chain, to market and customer connection. The company's objective is to effectively predict demand fluctuations, schedule maintenance, and improve logistics, and transportation capabilities. Under the 'Plants of Tomorrow' initiative, being implemented across units, the company expects to enhance operational efficiency significantly in comparison to conventional cement plants.

Capacity Expansion

To better capitalize on the emerging growth opportunities, the company has embarked on its next phase of capacity expansion with a 3.2 mtpa brownfield clinker capacity in Bhatapara and cement grinding units with a total capacity of 7 mtpa in Farakka and Sankrail (existing units), and Barh (new Greenfield location). The estimated Capex for these projects is Rs 3,500 Cr.

Focus on Sustainability

The company continues to conduct business sustainably and inclusively along with the introduction of responsible products. To emerge as one of the most cost-competitive cement manufacturers in the country, it continues to make investments in the areas of clinker factor reduction, energy efficiency, raw material mix, fuel mix optimisation and enhanced use of alternative fuels and raw materials in the production. In this regard, the company has taken several initiatives to grow its business sustainably and expended Rs 154 Cr during CY2021 on environment related issues.

Expanding solution and product business

This is an important focus area of the company and it has taken proactive initiatives to help reduce carbon footprint while enhancing product quality and brand promise. In 2021, it continued to scale up sustainable products and solutions. Launched in 2020, Ambuja Kawach has emerged as a preferred product for its unmatched attributes. The product has seen overall growth in volume by 328% on a YoY basis.

Ambuja Cool Walls – green solution for walls, is made of pre-cast autoclaved aerated concrete with a special heat-barrier technology that helps keep homes cooler during summer and warm during winters. In 2021, it added six new plants for Ambuja Cool Walls manufacturing, reaching a total of 18 plants pan-India, and a 25% volume growth on a YoY basis. The company continue to scale up volumes and revenue and strengthen its position in this segment. The company aims to augment top-line revenue growth by over 40% in 2022 in the solution and product business.

Focus on Premium products and Cost-efficiency project

The company is reinforcing its core position in profitable markets and in the retail segment through a wide range of premium offerings – Ambuja Plus, Ambuja Kawach, and Composer. This will enhance its brand image and improve average realisation.

The ongoing initiatives under the ICAN flagship program continue to deliver significant improvements across the value chain. A key focus in the coming year will be to further improve logistics efficiencies by reducing lead and delivery costs, ensuring direct dispatches from rake points, network optimisation, and leveraging Master Supply Agreement with ACC Limited.

Business Outlook

Significant headroom for growth:

India continues to remain the second-largest cement producer in the world. The industry offers significant headroom for growth aided by low per-capita consumption and a massive government push for infrastructure and affordable housing. The Union Budget 2022-23 saw a significant increase in proposed capital expenditure, vindicating the government's sustained focus on developing the country's infrastructure.

Infrastructure status:

The Pradhan Mantri Awas Yojana's target of 8 Mn houses by 2023 will further push cement demand. The recovery in the real estate sector, backed by historically low-interest rates, also augurs well for the industry. Furthermore, the e-commerce boom which is spurring demand for warehouse space, data centres and energy storage systems, will attract more investment as the company has been granted infrastructure status.

Increasing presence in the existing and new markets:

The company is well-braced to meet the expanding demand. As part of its growth strategy, the company is investing in the cement grinding expansion plan of 7 mtpa across locations, including in a greenfield project at Barh, Bihar. This will help it move closer to its target of achieving 50 mtpa capacity (presently at 31.45 mtpa) in the near future. Furthermore, the company is increasing its presence in the existing and new markets through its strong distribution network and dealer partnerships.

Risks & Mitigation

Market position: External macro factors remain extremely volatile. Many factors such as policy uncertainty, access to funds, higher interest rates, and the continuation of the pandemic may impact growth prospects.

- ✓ **Mitigation:** With the government spending focused on infrastructure and housing, the cement sector is well-poised for growth. This is further backed by favourable interest rates and government policies. The company has a presence in both key and emerging markets and progressively expanding its market reach. The company is always evaluating the emerging socio-political and economic trends and aligning its strategies accordingly.

Input cost and availability: Continuous rise in prices of key inputs and limited availability of natural resources could impact its operations as well as profitability.

- ✓ **Mitigation:** The company continuously looks for new sources of raw materials and alternative raw materials. It recently started underground mining of Gare PalmaCoal Block, securing coal supply for its Bhatapara unit. The company's investments in WHRS units across plants are helping it utilize waste better and reduce input costs. Infrastructure for enhanced use of fly ash is under construction.

Sustainable construction and green buildings: To guarantee the long-term viability of the sector, it is imperative to ensure optimum resource utilization and minimise the environmental impact of building materials. There is a likelihood of stronger regulatory measures to ensure sustainable practices and products

- ✓ **Mitigation:** The company promote sustainable construction with focused product development, R&D and technical assistance to its customers. It has created a sustainable product portfolio; more than 89% of its responsible products such as PuraSand, AAC Cool Wall Blocks, Ambuja Kawach, Ambuja Plus, Compozem etc.

Logistics: Increasing logistics expenses and distribution costs are of concern for the industry. Rail is a preferred mode of transport for distances above 250 km. However, rail transport gets impacted by the shortage of wagons, particularly during the peak period. Policies of the Indian Railways (preference for food and power companies) have posed challenges in the movement of cement to the consumption centers, adversely impacting the production schedule and increasing the overall transportation cost.

- ✓ **Mitigation:** The company is using ships that run on biodiesel to optimize costs and reduce its carbon footprint. The company is further reducing distribution and logistics costs by enhancing movement by rail in collaboration with Indian Railways as per agreed terms of long-term freight revenue commitment and assurance on the availability of wagons. The company is also increasingly leveraging digitalization and a Master Service Agreement (MSA) with ACC

Mining: The key challenges associated with mining operations are land acquisition, mineral distribution, mineral quality, mine rehabilitation, biodiversity, and groundwater table intersection

- ✓ **Mitigation:** Limestone from its captive mines allows it to have better operational control and maintain product quality. The company is using state-of-the-art, environmentally friendly, and safe mining techniques that cause minimal disturbance to the people, land, and the environment. The company has installed Overland Belt Conveyor (OLBC) systems for the transportation of limestone from the mines to its plants. The company has instituted policies on mine rehabilitation and biodiversity protection post-mining.

Regulatory changes: Changes in law and regulations may result in disruptions. Non-compliance can lead to reputational and financial consequences, although compliance comes at a cost of innovation, alternatives, transformation, and upgradation, among others

- ✓ **Mitigation:** The company ensures compliance in all areas. New emission control systems have been installed to comply with the new emission standards for the cement industry.

Progress on Sustainability

At Ambuja cement, the company has always embedded social and environmental considerations into its operations and decision-making, which has strengthened its competitive edge. It understands that the company can play a significant role in promoting sustainable development and limiting climate change. It has stringent controls in place to ensure that the company manufactures sustainably through prudent resource allocation, energy-saving initiatives, efficient waste management, and the adoption of technologies that reduce its carbon imprint. It is increasingly using waste-derived raw materials; waste-derived alternative fuels, and evolving its product mix to create greener products.

Climate & Energy

Carbon emission

Aware of the cement industry's contribution to GHG emissions globally, the company has undertaken a four-pronged strategy to reduce its carbon emission: Use of alternative materials to reduce clinker factor, Waste heat recovery and use of Renewable Energy (RE), Improve energy efficiency (thermal and electrical) and process technology and optimize fuel composition along with the use of waste as an alternative fuel.

Carbon footprint

Sensing the urgency to combat climate change, the company has developed carbon emission reduction targets - 2030, validated by the Science Based Targets initiative (SBTi). The company is also enriching the low-carbon building materials value chain with innovative green solutions, such as Ambuja Kawach which has a 30% lower carbon footprint as compared to OPC products and Ambuja Buildcem which uses fly ash to produce high strength Portland Pozzolana cement (PPC) while conserving natural resources. Ambuja Cool Walls replaces clay brick walls with pre-cast concrete inbuilt with a special heat barrier technology that keeps houses 5C cooler during summers and warmer in winters.

Energy management

The company is undertaking measures to reduce its energy intensity across the cement value chain. It is working relentlessly to increase the share of renewables such as solar, biomass, and wind in its energy mix. It is using alternative fuel and raw material (AFR) and waste heat recovery to increase its energy efficiency. The company uses waste-derived raw materials such as fly ash, slag, and waste gypsum in its manufacturing process, resulting in a lower clinker factor. The company has also optimised its processes for use of low-grade limestone and waste-derived alternative fuels. It uses biomass at the captive power plants as well.

Water & Nature

Water is among the key pillars of its Sustainable Development Plan 2030. The company's dry process of cement production requires significantly less water than other processes. And now, its products are helping minimise the use of water in construction. The company's steadfast efforts in ensuring water efficiency enabled it to turn 8x water positive in 2021. Five of their plants are located in water-scarce regions. At the community level, the company have undertaken water conservation and rainwater harvesting projects under the aegis of the Ambuja Cement Foundation (ACF), its CSR arm

Biodiversity

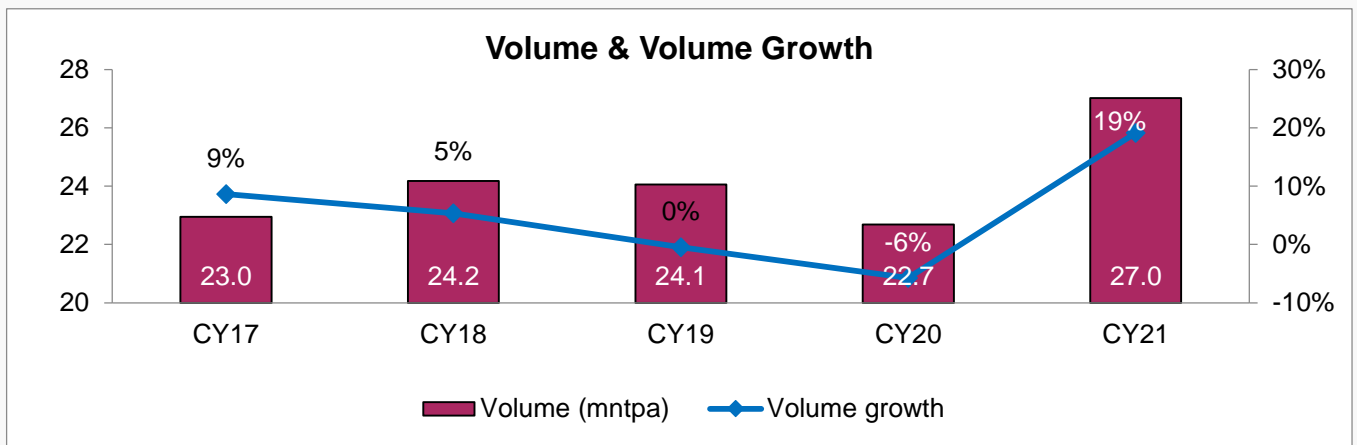
As part of its Sustainable Development Plan 2030, the company are committed to achieving 'Positive Change in Biodiversity' (net positive impact) by 2030. For all its sites, the company carefully classify its ecological assets and maintain a biodiversity inventory. The company also assess the net positive impact through set KPIs every three years. For measuring this, the company has implemented a new baseline biodiversity assessment at its sites through a Biodiversity Indicator and Reporting System (BIRS) developed by experts from the International Union for Conservation of Nature (IUCN). BIRS assessments were conducted in 2017, 2019 and 2020.

The company is in the process of implementing a mitigation hierarchy for its biodiversity management and conservation efforts which includes three key elements: avoid, minimise and restore. It avoids undertaking operations near any of the World Heritage Sites and IUCN Category I-IV protected areas. Its operating sites are not located adjacent to indigenous peoples' territories. The company plant trees on the overburden and area around the mines and on the mine lease boundaries, which helps reduce dust pollution and promotes the absorption of carbon emissions and preservation of regional biodiversity.

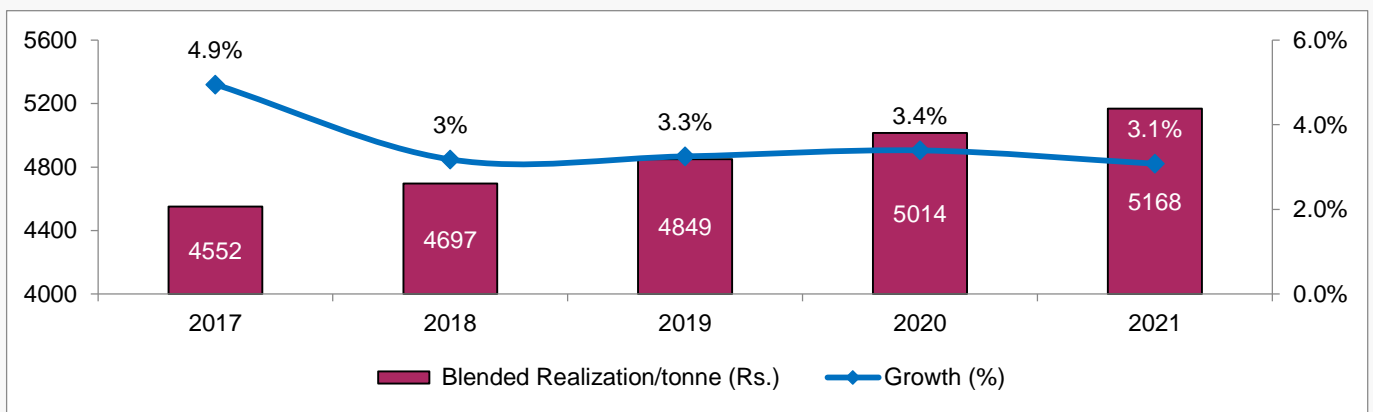
Profitability Analysis (Rs Cr)

Particulars	CY20	CY21	Change	Comments/Analysis
Sales	11,372	13,965	23%	Growth attributed to the increase in volume, higher realization, and favourable product mix
Raw Materials	875	1,159	32%	Higher due to higher volume and cost inflation
Gross Profits	5,079	6,076	20%	Increased due to higher sales and volume
Operating Expenses	6,293	7,889	25%	Increased owing to higher volume and cost inflation; particularly high power/fuel cost.
Interest	83	91	10%	
EBIT	2,497	2,942	18%	Increased due to higher sales
PAT	1,790	2,080	16%	Increase in profit due to improvement in core business
EPS	9	10.5	16%	EPS is in line with PAT

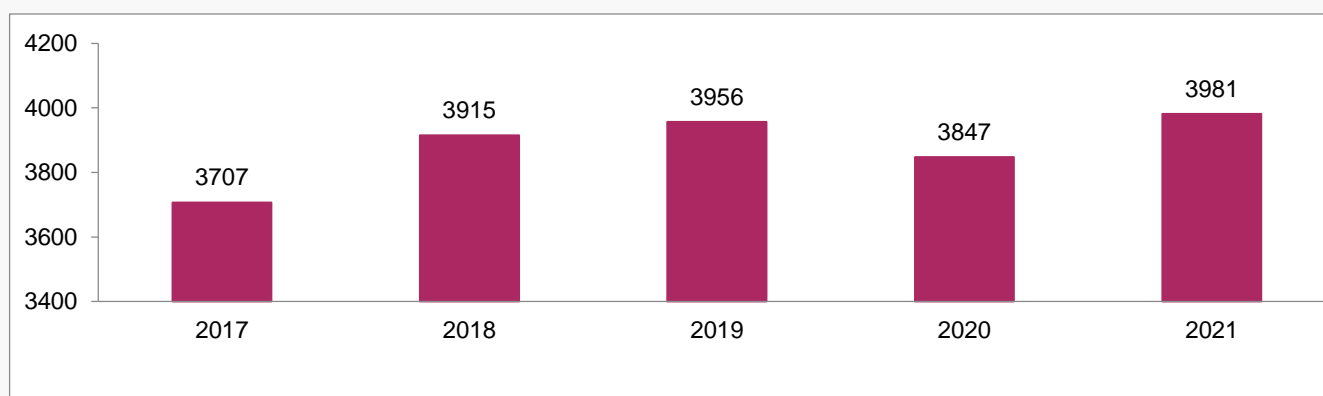
Source: Company; Axis Securities

Exhibit 4: Volume and Growth trend


Source: Company, Axis Securities

Exhibit 5: Realization/tonne and Growth Trend


Source: Company, Axis Securities

Exhibit 6: Cost/tonne Trend


Source: Company, Axis Securities

Growth Indicators (Rs Cr)

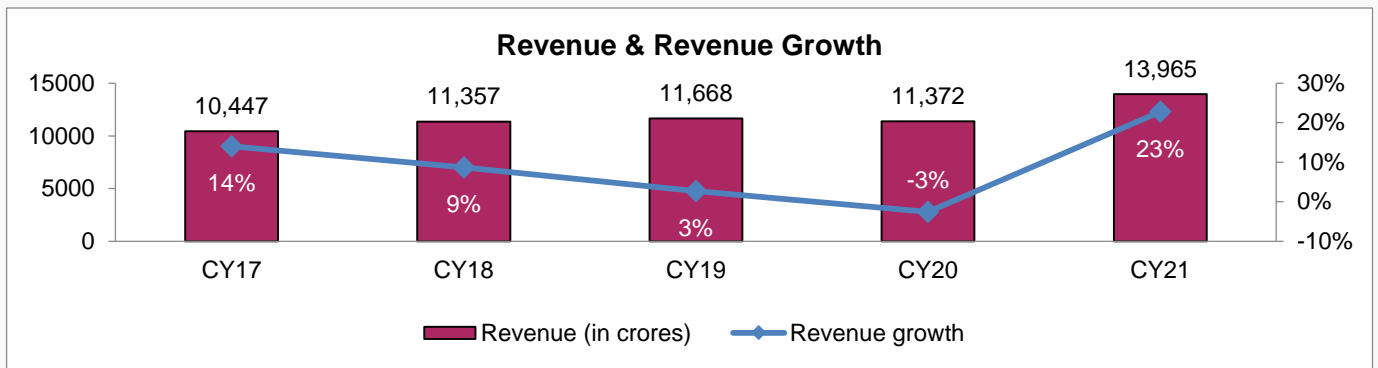
Particulars	CY20	CY21	Change	Comments/Analysis
Revenue	11,372	13,965	23%	Growth attributed to the increase in volume, higher realization, and favorable product mix
EBITDA	2,647	3,208	21%	Increase due to higher sales
PAT	1,790	2,081	16%	Increase in profit due to improvement in the core business.
EPS	9	10.5	16%	EPS is in line with PAT
Volume	22.70	27.02	19%	Owing to better demand in its operating regions.

Source: Company; Axis Securities

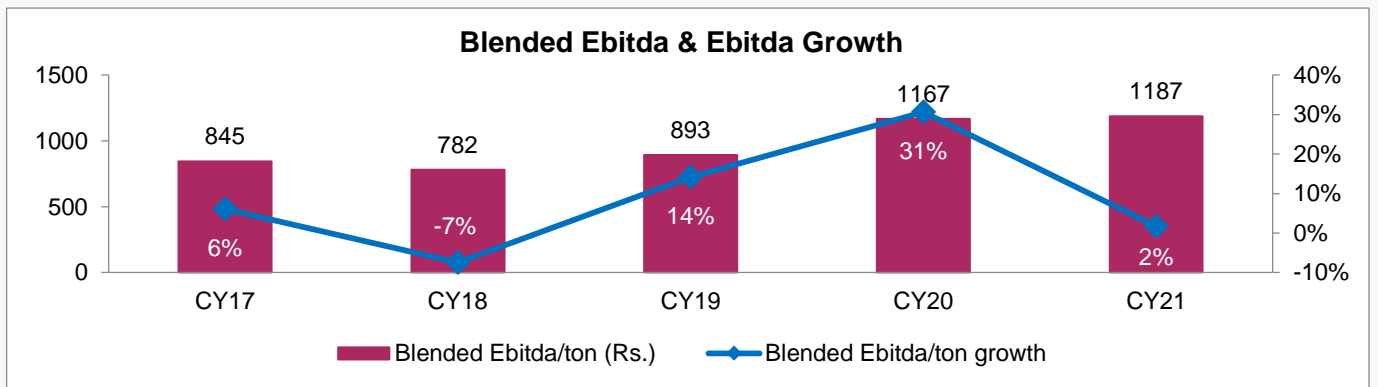
Profitability Margins

Particulars	CY20	CY21	Change	Comments/Analysis
GPM	44.66%	43.51%	-1.15	Impacted by high power/fuel and other costs during the year. P/F cost shot up 28% on a tonne basis YoY.
EBITDAM	23.27%	23.00%	-0.27	Impacted by high input costs as stated above and higher other expenses which shot up 4% on a tonne basis YoY.
PATM	15.7%	14.9%	-0.8	Impacted by higher cost and lower other income during the year.

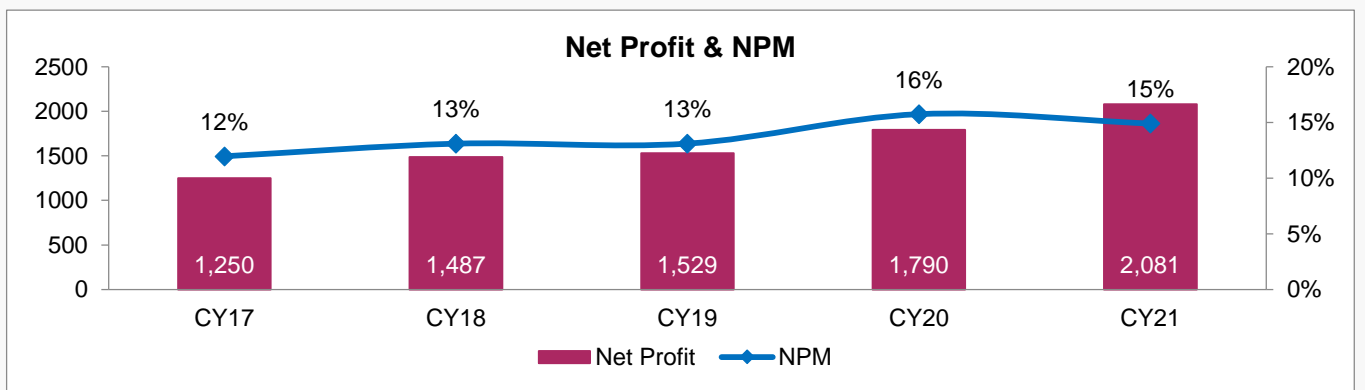
Source: Company; Axis Securities

Exhibit 7: Revenue and Revenue Growth Trend


Source: Company, Axis Securities

Exhibit 8: Blended EBITDA/tonne Trend


Source: Company, Axis Securities

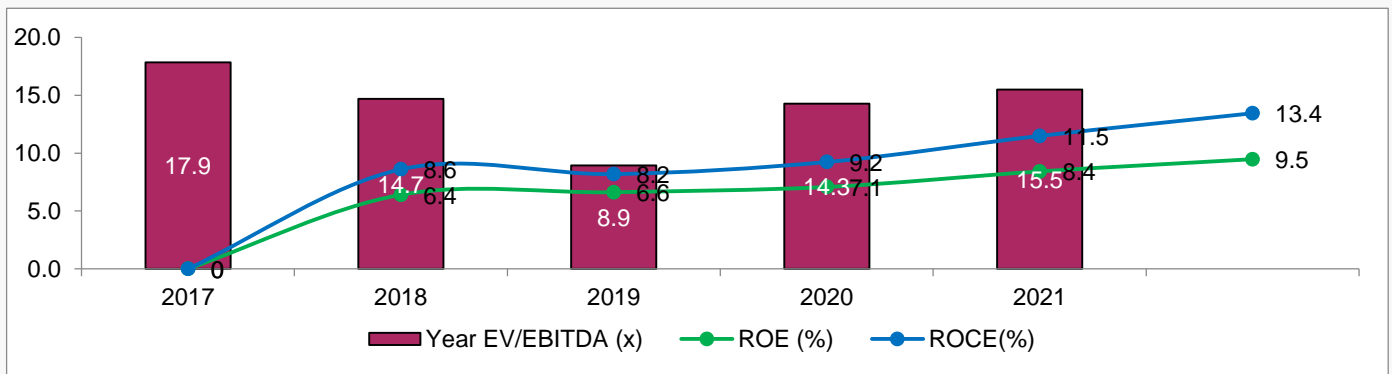
Exhibit 9: Net Profit and NPM Trend


Source: Company, Axis Securities

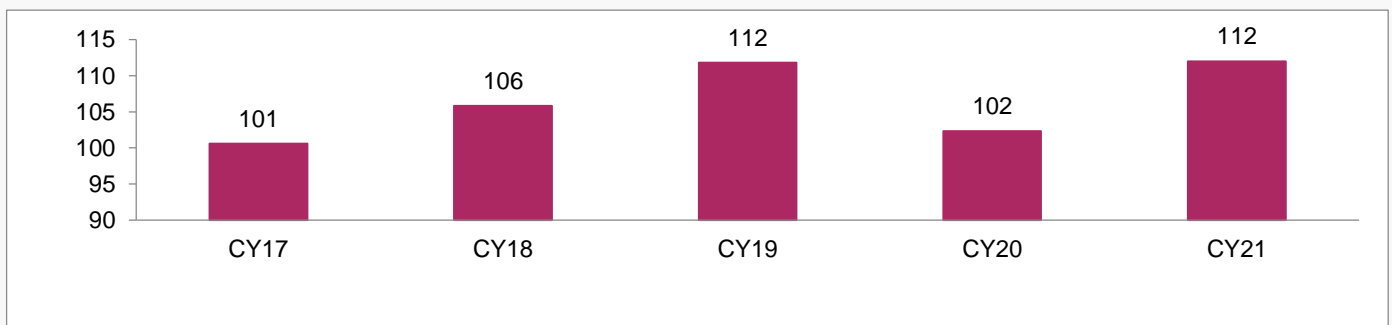
Financial Ratios

Particulars	CY20	CY21	Change	Comments/Analysis
ROE	8.4	9.5	1.1	Improved owing to higher profits during the year
ROCE	11.5	13	1.5	Improved owing to higher EBIT on better sales and volume
Asset Turn	1.3	1	-0.3	Reduced owing to increase in fixed assets for growth Capex on setting up a greenfield plant
Net Debt/Equity	-0.1	-0.2	-0.1	Net debt was further reduced due to higher cash/cash equivalent during the year
EV/EBITDA	14	15	1	Multiple increases as higher prices contributed to the higher market cap.

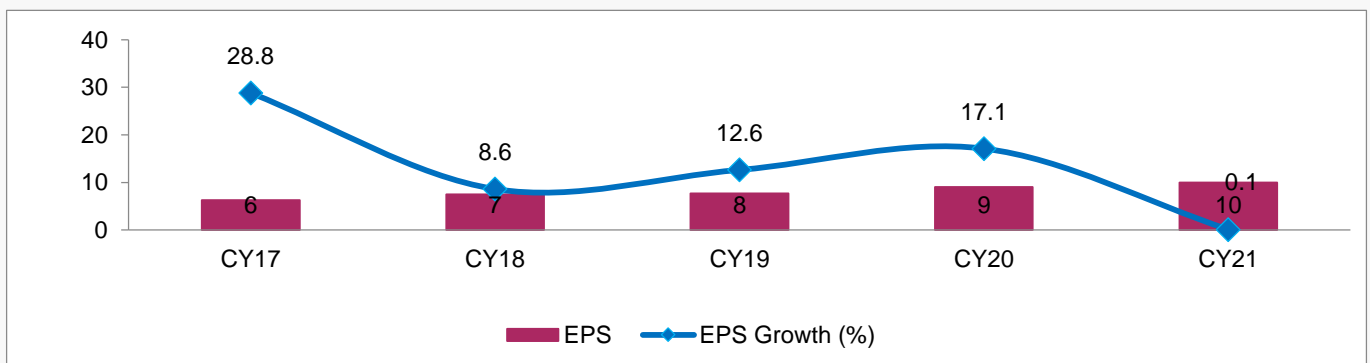
Source: Company; Axis Securities

Exhibit 10: EV/EBITDA, ROE, & ROCE Trend


Source: Company, Axis Securities

Exhibit 11: Book Value (Rs)


Source: Company, Axis Securities

Exhibit 12: EPS & EPS growth trend


Source: Company, Axis Securities

Key Balance Sheet Takeaways

Working Capital Management

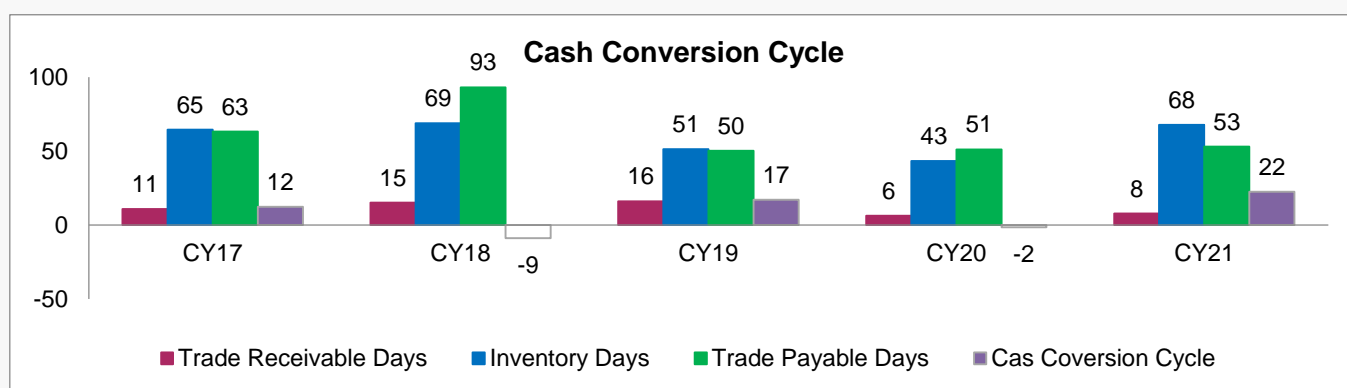
- During the year, the cash conversion cycle increased from -2 days in CY20 to 22 days in CY21. This was on account of higher inventory and payable days. During the year, OCF to EBITDA dipped to 88% from 116% in CY20 as working capital requirement increased by Rs 461 Cr.
- From CY16-CY21, 34% of total OCF (Rs 4,812 Cr) was utilized towards the company's Capex program. Overall Capex intensity during this period can be termed as normal. While CFO remained the major source of funding for the company, it generated an FCF of Rs 6,610 Cr during CY16-CY21.

Cash Conversion Cycle

Particulars	CY20	CY21	Change	Comments/Analysis
Inventory Days	43	68	25	Increased owing to higher cost of fuel and raw materials.
Trade Receivables	6	8	2	Marginally increased owing to higher sales during the year.
Trade Payables	51	53	2	Trade payable days increased due to better terms with suppliers
Cash Conversion Cycle	-2	22		Overall CCC increased on account of high inventory days during the year.

Source: Company; Axis Securities

Exhibit 13: Cash Conversion Cycle



Source: Company, Axis Securities

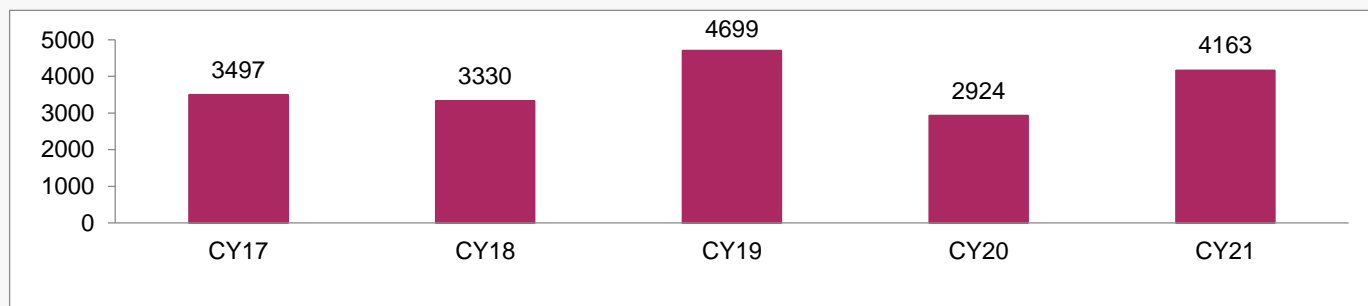
Key Balance Sheet Takeaways (Cont...)

- **Debt Levels:** The company is a debt-free company.
- **Fixed Capital Formation:** Gross fixed capital formation improved to Rs 10,372 Cr in CY21 from Rs 8,443 Cr in CY20, an improvement of 23% as the company is expanding its current capacity to sustain and grow with increased market share.
- **Capex plans:** Currently, the company is expanding its cement capacity to 50 mtpa from 31.5 mntpa. The first phase, which includes the addition of 7 mtpa of grinding capacity along with one clinker line

will cost Rs 3,500 Cr and will be funded out of the internal accruals of the company. These capacities are expected to be operational in the next 2-3 years time. The balance capacity expansion program and related costs are yet to be finalized

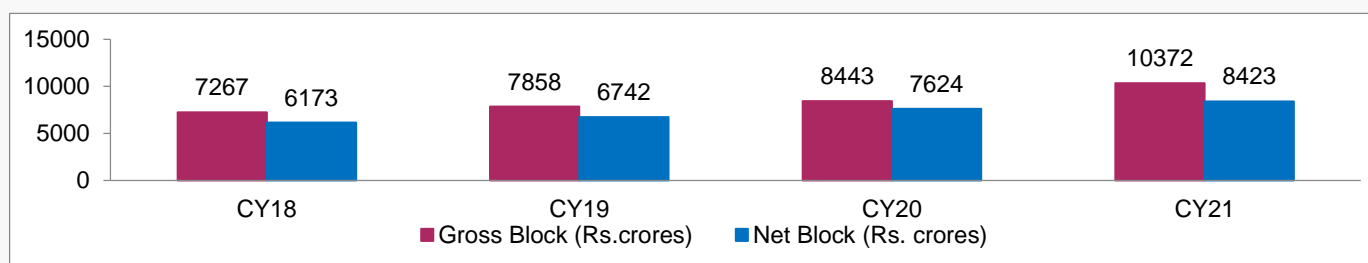
- **Cash and liquidity position:** The cash/cash equivalent along with bank balance as of 31st Dec'21 stood at Rs 4,163 Cr compared to Rs 2,924 Cr in CY20, an increase of 42%.

Exhibit 14: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 15: Gross & Net Block

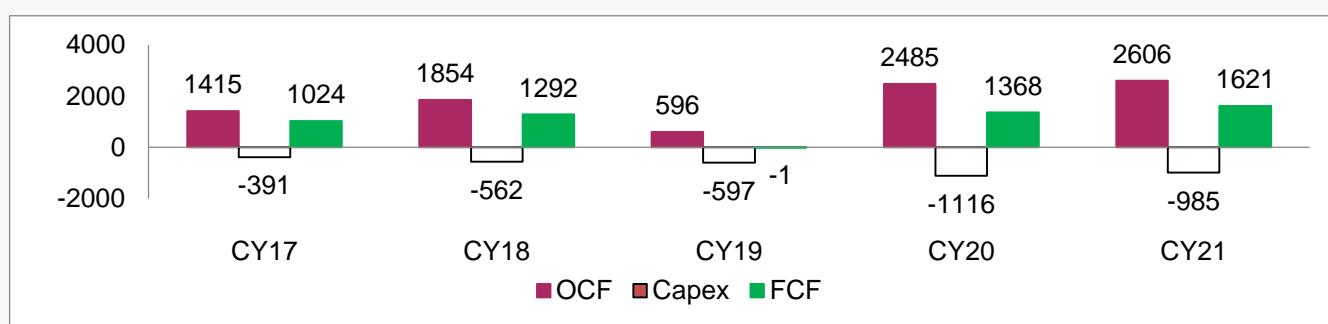


Source: Company, Axis Securities

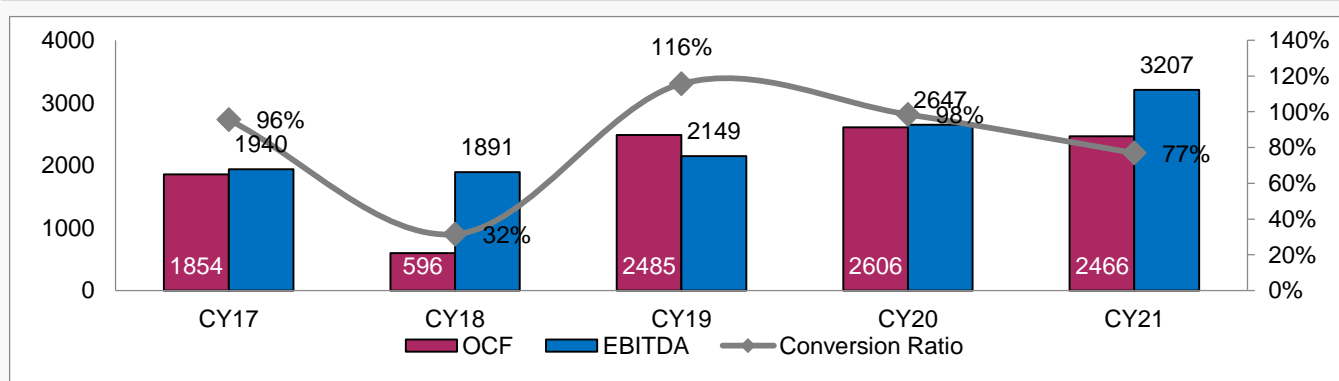
Key Cash Flow Takeaways

Particulars (Rs Cr)	CY20	CY21	Change	Comments/Analysis
PBT	2414	2785	15%	Increase in profit due to higher sales and volume during the year.
Non-cash expenses				
Depreciation	521	551	6%	Increase in cost due to higher capital expenditure.
Finance Cost	83	88	6%	Increased owing to higher deposits from dealers.
Others	-315	-547	73%	Decreased owing to lower interest recorded during the year.
Working Capital Adjustments	368	-462	-26%	Increase in working capital due to higher inventory during the year.
CFO	2606	2466	-5%	Lower CFO due to higher working capital requirement during the year.
CFI	-642	-882	-37%	CFI increased owing to fixed asset purchases.
CFF	-3760	-317	92%	Improvement in the CFF due to lower dividend payout
Capex	-986	-1160	18%	Increase in capital expenditure for capacity expansion
Free Cash Flow Generation	1559	1238	-21%	Lower FCFF due to lower CFO and higher Capex during the year

Source: Company, Axis Securities

Exhibit 16: OCF, Capex, FCF Trend (in Cr)


Source: Company, Axis Securities

Exhibit 17: OCF, EBITDA, and Conversion ratio trend (Cr)


Source: Company, Axis Securities

Forex Analysis

- The company's exposure to the risk of changes in foreign exchange rates relates primarily to the company operating activities. The company is not exposed to significant foreign currency risk. Based on sensitivity analysis, it has a well-defined forex exposure threshold limit approved by the Board of Directors, beyond which all forex exposure is fully hedged.

Particulars (RsCr)	CY20	CY21	Change	Comments/Analysis*
CHF	0.08	0.22	175%	NA
EURO	1.55	4.86	214%	NA
GBP	0.05	0		NA
JPY	0.20	1.19	95%	NA
SEK	0.34	0.44	29%	NA
SGD	0.01	0		NA
USD	148.28	130.77	-12%	NA
Total	150.51	137.48	-9%	NA
Hedge Book	167.71	216.46	29%	NA

Source: Company; Axis Securities; Since Forex exposure of the company is low, no specific comments are required.

Contingent Liability Analysis

Particulars (Rs Cr)	CY20	CY21	Change	Comments/Analysis
Labour	11	9	-2	
Land	47	19	-28	
Demand from the Competition Commission of India	1767	1898	131	Based on the legal opinion, no provision has been made.
Sales tax	273	273	0	Based on the legal opinion, no provision has been made.
Excise customs and service tax	255	258	3	Based on legal opinion, the company has treated the same as "possible"
Stamp duty	306	310	4	Based on the legal opinion, no provision has been made.
Income tax	489	486	-3	The company reassessed the risk and concluded that the risk of an Ultimate the outflow of funds for this matter is no longer probable
Others	128	152	24	
Total	3277	3406	129	

Source: Company; Axis Securities

Related Party Transaction Analysis

Particulars (Rs Cr)	CY20	CY21	Change	Comments/Analysis
Holcim Trading Ltd., Switzerland	-	199	199	Purchase of goods
Lafarge Holcim Energy Solutions S.A.S, France	235	-	-235	Purchase of goods
ACC Limited	220	479	259	Purchase of goods
ACC Limited	517	888	371	Sale of goods
ACC Limited	51	71	20	Receiving of services
Holcim Technology Ltd, Switzerland	108	131	23	Receiving of services
Holcim Services (South Asia) Limited	50	40	-10	Receiving of services
ACC Limited	39	56	17	Rendering of services

Source: Company; Axis Securities

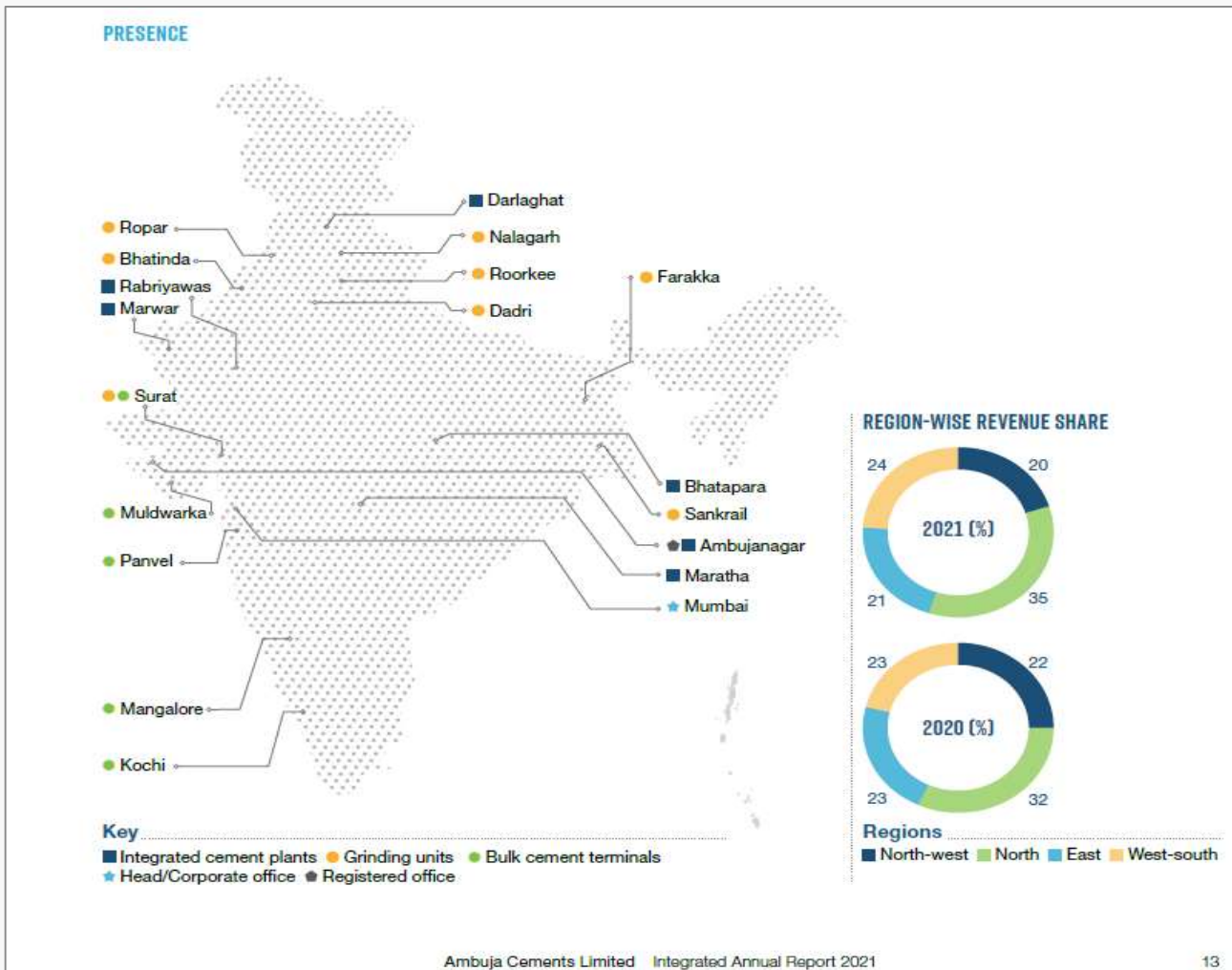
Corporate Social Responsibility

- While the company invests in its CSR initiatives, the company has also created a multiplier effect and leveraged other like-minded organizations to join hands with it to implement its program models across extended geographies. Due to such partnerships, the Ambuja Cement Foundation, acting as an implementing partner, has reached 11 states covering 43 districts in India, and has succeeded in bringing about a change in the lives of 2.7 Mn people.
- It remains focused on the existing initiatives and embarks on new projects in key intervention areas. During CY21, the company expended Rs 64.4 Cr against Rs 52.3 Cr in CY20.

Corporate Governance Philosophy

At Ambuja Cements, Corporate Governance has been an integral part of the way the company conducts its business. The company believes that good Corporate Governance emerges from the application of the best and sound management practices and compliance with the laws coupled with adherence to the highest standards of transparency and business ethics. The company places great emphasis on values such as empowerment and integrity of its employees, the safety of the employees and communities surrounding its plants, transparency in the decision-making process, fair and ethical dealings with all, a pollution-free clean environment and last but not the least, accountability to all the stakeholders.

Exhibit 18: Ambuja Cements Plant Location



Source: Company AR, Axis Securities Ltd

Exhibit 19: Product Profile



Source: Company AR, Axis Securities Ltd

Financials (Standalone)
Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	CY21	CY22E	CY23E
Net sales	13965	15345	16532
Other operating income	0	0	0
Total income	13965	15345	16532
Raw Material	1160	1467	1526
Power & Fuel	3421	4554	4600
Freight & Forwarding	3308	3412	3582
Employee benefit expenses	678	687	721
Other Expenses	2191	2309	2494
EBITDA	3207	2916	3609
Other income	286	270	331
PBITD	3493	3186	3940
Depreciation	551	656	783
Interest & Fin Chg.	91	109	121
E/o income / (Expense)	66	0	0
-Pre-tax profit	2785	2421	3036
Tax provision	705	601	759
RPAT	2081	1820	2277
Minority Interests	0	0	0
Associates	0	0	0
APAT after Comprehensive Income	2081	1820	2277

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	CY21	CY22E	CY23E
Total assets	28173	29114	31087
Net Block	8423	8995	10196
CWIP	951	300	300
Investments	0	0	0
Wkg. cap. (excl cash)	612	517	549
Cash / Bank balance	4163	4401	5103
Misc. Assets	14024	14900	14940
Capital employed	28173	29114	31087
Equity capital	397	397	397
Reserves	21810	22379	24160
Minority Interests	0	0	0
Borrowings	44	44	44
Def tax Liabilities	202	202	202
Other Liabilities and Provision	5721	6092	6285

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	CY21	CY22E	CY23E
Profit before tax	2785	2421	3036
Depreciation	551	656	783
Interest Expenses	88	109	121
Non-operating/ EO item	-228	-270	-331
Change in W/C	-461	241	122
Income Tax	363	601	759
Operating Cash Flow	2372	2556	2972
Capital Expenditure	-1160	-1228	-1984
Investments	16	0	0
Others	263	270	331
Investing Cash Flow	-882	-957	-1653
Borrowings	-43	0	0
Interest Expenses	-76	-109	-121
Dividend paid	-202	-1251	-496
Others	4	0	0
Financing Cash Flow	-317	-1360	-617
Change in Cash	1268	238	702
Opening Cash	2717	3985	4223
Closing Cash	3985	4223	4924

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E Mar	CY21	CY22E	CY23E
Sales growth	23%	10%	8%
OPM	23.0%	19.0%	21.8%
Op. profit growth	21%	-9%	24%
COGS / Net sales	56%	61%	59%
Overheads/Net sales	21%	20%	19%
Depreciation / G. block	5.2%	5.3%	5.4%
Efficiency Ratios			
Total Asset turnover (x)	1.35	1.25	1.16
Sales/Gross block (x)	1.32	1.23	1.15
Sales/Net block(x)	1.62	1.67	1.59
Working capital/Sales (x)	-0.18	-0.18	-0.18
Valuation Ratios			
PER (X)	36	42	33
P/BV (x)	3.42	3.33	3.09
EV/EBITDA (x)	15.5	17.0	13.5
EV/Sales (x)	3.56	3.22	2.95
EV/Tonne (x)	216	215	203
Return Ratios			
ROE	9.5	8.1	9.6
ROCE	13.4	11.0	13.0
ROIC	16.6	13.5	16.5
Leverage Ratios			
Debt / equity (x)	0.05	0.00	0.00
Net debt/ Equity (x)	-0.17	-0.18	-0.20
Interest Coverage ratio (x)	-1.20	-1.41	-1.33
Net debt/ EBITDA (x)	32.35	23.13	26.15
Cash Flow Ratios			
OCF/Sales	0.20	0.21	0.23
OCF/EBITDA	0.88	1.08	1.03
OCF/Capital Employed	0.13	0.14	0.15
FCF/Sales	0.10	0.09	0.06
Payout ratio (Div/NP)	19.1	68.7	21.8
AEPS (Rs)	13.3	12.5	15.4
AEPS Growth	12.6	-9.7	25.1
CEPS (Rs)	13	12	15
DPS (Rs)	2	6	3

Source: Company, Axis Securities

Ambuja Cement Price Chart and Recommendation History



Date	Reco	TP	Research
07-May-21	BUY	350	Initiating Coverage
09-Jul-21	BUY	375	AAA
26-Jul-21	BUY	450	Result Update
26-Oct-21	BUY	435	Result Update
21-Feb-22	HOLD	365	Result Update
28-Apr-22	HOLD	370	Result Update
16-May-22	BUY	405	Sector Update
09-Jun-22	BUY	405	AAA

Source: Axis Securities

About the analyst


Analyst: Uttam Kumar Simal

Email: uttamkumar.simal@axissecurities.in

Sector: cement/Infra

Analyst Bio: Uttam K Simal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research.

About the analyst


Analyst: Shikha Doshi

Email: shikha.doshi@axissecurities.in

Sector: Cement/Infra

Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Uttam Simal, (MBA-Finance) and Shikha Doshi (Master of Science in Finance), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or

solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously,

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

not all customers may receive this report at the same time. ASL will not treat recipients as customers by their receiving this report.

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022-40508080/ 022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582. SEBI-Portfolio Manager Reg. No. INP000000654