

CO TRADING AT A SUBSTANTIAL DISCOUNT TO PEERS ULTRATECH, SHREE CEMENT

Ambuja Cem, a Laggard for 5 Yrs, Builds a Case for Your Attention

Rajesh.Mascarenhas
@timesgroup.com

Mumbai: Ambuja Cement, which has underperformed its peers in the past five years, could be a dark horse investment idea with capacity addition and aggressive cost reduction measures after a change of guard in the corner room.

Ambuja Cement currently trades at a substantial discount to UltraTech and Shree Cement, compared with a premium before 2015.

“We believe the appointment of Neeraj Akhoury as MD and CEO is likely to bring about significant changes across various operating metrics, which in turn is likely to reverse the valuations back to pre-2015 levels,” said Sandeep Tulsian, analyst, JM Financial.

Cash Count

	12M ended Jun '20	FY21 Estimate
Revenue	24,098	28,016
EBITDA	4,430	5,098
Net Income	1,988	2,309
EPS	10.01	11.21
Growth%, YoY	-16.5	19

₹ Crore  SOURCE: Bloomberg

“There is a strong case for narrowing of valuation discount between Ambuja and other large-cap peers as the company regains its capacity addition pace and improves return on equities (ROE) to pre-2015 levels.”

Ambuja has given a return of only 4% in the last five years compared with 36% returns by UltraTech Cement and 77% by

Shree Cement. Currently, the stock trades at 23 times its CY20 estimated earnings. Shree Cement is trading at 52 times and UltraTech at 31 times.

The company lost market share due its grim capacity addition pace, deferral of merger with ACC and slow adoption of cost-saving measures. Also, ROE halved over the five years due to lack of cost-saving measures and falling Ebitda per tonne value.

Ambuja is expected to commission its 3.1 million tonne per annum of clinker expansion programme at Marwar Mundra by March 21. Additionally, the company has brownfield capabilities across its existing plants. As Ambuja's balance sheet remains strong with cash of ₹5,300 crore, analysts do not foresee any cash flow issues in execution of these projects.