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India | Equity Research | Company Update

## Ambuja Cements

Cement

### Committed to growth

We hosted Ambuja Cement's (ACEM) management for an investor roadshow in South-East Asia. Highlights: 1) ACEM sees industry consolidation continuing over the next few years, thereby enabling margin improvement in the medium-to-long run. 2) Penna Cement (Penna) acquisition is a 'shot in the arm' given Penna balances its regional mix and substitutes time required for organic expansion (besides being a quality asset). 3) ACEM is committed to scale capacity to 140mtpa (89mtpa currently, post Penna acquisition; on track to achieve 110mtpa by FY26 post-completion of projects in hand) and also demonstrate INR 530/t of cost rationalisation by FY28 (with bulk of the optimisation plan being capex-led). 4) ACEM will eventually consolidate all its cement companies under a single entity at an appropriate time. We remain enthused about the industry-superior growth prospects for ACEM and maintain **BUY** with a TP of INR 831.

### Penna deal – a shot in the arm

The recently acquired Penna Cement is a great fit for ACEM given it: 1) catapults ACEM's share in south India, bringing it broadly at par to industry leader UltraTech Cement; 2) helps substitute organic expansion in the south and augments ACEM's presence in north India; 3) offers a unique opportunity to increase share of low-cost sea logistics and dominate coastal distribution of cement (by leveraging parent group's expertise in the domain). Having completed two acquisitions at lucrative valuations (Sanghi Ind. at an effective USD 73/t and Penna at an effective USD 78/t), ACEM is open to evaluate more deals; however, it will refrain from being a desperate buyer.

### Committed to meet capacity expansion and cost savings target

ACEM remains committed to meet its 140mtpa capacity target by FY28 and is pursuing organic expansions at multiple locations. ACEM takes pride in bringing in cost focus for the industry and endeavours to demonstrate cost savings of INR 530/t by FY28. Cost rationalisation is being targeted in areas of energy (green power + captive coal mining), logistics (lead distance optimisation as well as from sea logistics) and leveraging group synergies towards long-term sourcing of key raw materials.

### Remains 'in the catbird seat'; maintain BUY

Given its industry-superior growth prospects, we continue to value ACEM (consol.) at 20x FY26E EV/EBITDA and retain **BUY** with a TP of INR 831.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	3,89,370	3,31,596	3,71,182	4,34,897
EBITDA	51,224	63,995	78,105	1,06,244
EBITDA (%)	13.2	19.3	21.0	24.4
Net Profit	25,834	35,767	42,876	60,396
EPS (INR)	14.5	16.8	17.3	24.4
EPS % Chg YoY*	-	-	2.9	41.1
P/E (x)	47.3	40.7	39.6	28.1
EV/EBITDA (x)^	29.0	22.7	22.1	16.0
RoCE (%)	7.7	8.3	7.6	9.1
RoE (%)	11.0	11.8	10.2	10.7

^Enterprise value is adjusted for the minority holding (%) in ACC & Sanghi Industries; \* NA as FY23 was 15 months, hence not comparable for FY23 & FY24P.

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#### Market Data

Market Cap (INR)	1,688bn
Market Cap (USD)	20,210mn
Bloomberg Code	ACEM IN
Reuters Code	ABUJ.BO
52-week Range (INR)	707 /404
Free Float (%)	33.0
ADTV-3M (mn) (USD)	32.3

Price Performance (%)	3m	6m	12m
Absolute	11.0	29.6	64.5
Relative to Sensex	0.3	19.3	42.3

#### Previous Reports

14-06-2024: [Company Update](#)

03-05-2024: [Q4FY24 results review](#)

### Group synergies can catapult cost savings

ACEM takes pride in the fact that most of the Adani Group companies have potential to generate operational synergies with one-another. The group synergies can help catapult cost savings in areas of green power generation, coal mining, coal/fly ash sourcing and sea logistics. As such, 70% of ACEM's cost has potential to leverage group synergies.

### Cost rationalisation – journey from capex to opex

ACEM's endeavour to reduce its operating expenditure (opex) by INR 530/t is not just an aspirational target but is backed by huge capital expenditure (capex).

ACEM plans to spend INR 60bn towards installing ~1,000MW of renewal energy power plants over and above the capex required to scale WHRS power share to 30% (15% currently) in the overall green power target of 60% by FY28.

The company is looking at developing two coal mines which seeks to reduce dependence on imported fuel.

Upcoming network of grinding units, at multiple locations, will likely help reduce lead distance. It has earmarked a capex of ~INR 15bn towards buying BCFC rakes and developing rail infrastructure for the same. ACEM is also enhancing its port-handling capabilities and will augment port-based packaging units to help increase share of sea logistics to 10% by FY28.

### Other key takeaways

- ACEM endeavours to operate its capacities at 85% utilisation, and as such, its market share will be higher than its capacity share.
- The company is laying huge focus on digitalisation, mainly for logistics and dealer network management. It strongly believes, digitalisation can help address the supply malpractices in the industry and improve efficiency
- ACEM will also explore de-bottlenecking at multiple plants, which can help maximise volumes from existing assets.
- Remains positive on the industry's demand outlook and sustainable margin improvement going ahead.

### Exhibit 1: Valuation working

Particulars (all items in INR mn, unless otherwise stated)	FY26E
Assumed EV/EBITDA multiple (x)	20.0
EBITDA	1,06,354
EV	21,27,086
Less: Net debt	(2,37,881)
Less: Minority interest in ACC	3,07,159
Less: Minority interest in Sanghi Ind.	11,091
M-cap of Ambuja	20,46,717
Shares o/s (mn)	2,463
<b>Value per share (INR)</b>	<b>831</b>

Source: I-Sec research, Company data

**Key risk:** A sharp drop in cement prices, or sharp increase in fuel cost are the key risks to our recommendation.

### Exhibit 2: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	63.2	66.7	70.3
Institutional investors	27.7	25.6	21.9
MFs and others	6.6	6.1	5.5
FIs/Banks	0.0	0.0	0.1
Insurance	7.8	7.1	6.4
FIIIs	13.2	12.4	9.9
Others	9.1	7.7	7.9

Source: Bloomberg

### Exhibit 3: Price chart



Source: Bloomberg

## Financial Summary (consolidated)

### Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
<b>Net Sales</b>	<b>3,89,370</b>	<b>3,31,596</b>	<b>3,71,182</b>	<b>4,34,897</b>
Operating Expenses	2,87,038	2,18,373	2,28,927	2,55,344
<b>EBITDA</b>	<b>51,224</b>	<b>63,995</b>	<b>78,105</b>	<b>1,06,244</b>
<b>EBITDA Margin (%)</b>	<b>13.2</b>	<b>19.3</b>	<b>21.0</b>	<b>24.4</b>
Depreciation & Amortization	16,447	16,234	18,976	22,789
EBIT	34,777	47,761	59,128	83,455
Interest expenditure	1,949	2,764	2,481	2,457
Other Non-operating Income	7,377	11,664	15,569	18,840
Recurring PBT	40,205	56,660	72,216	99,838
<b>Profit / (Loss) from Associates</b>	<b>280</b>	<b>229</b>	<b>229</b>	<b>229</b>
Less: Taxes	7,051	11,626	18,415	25,459
PAT	33,154	45,034	53,801	74,379
Less: Minority Interest	4,410	11,613	11,154	14,212
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>30,244</b>	<b>47,379</b>	<b>54,030</b>	<b>74,608</b>
<b>Net Income (Adjusted)</b>	<b>25,834</b>	<b>35,767</b>	<b>42,876</b>	<b>60,396</b>

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
<b>Total Current Assets</b>	<b>2,10,484</b>	<b>2,52,870</b>	<b>3,04,923</b>	<b>3,36,259</b>
of which cash & cash eqv.	1,18,843	1,60,471	2,10,212	2,38,358
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,15,002</b>	<b>1,17,712</b>	<b>1,16,622</b>	<b>1,20,617</b>
<b>Net Current Assets</b>	<b>95,482</b>	<b>1,35,158</b>	<b>1,88,301</b>	<b>2,15,641</b>
Investments	2,137	2,137	2,137	2,137
<b>Net Fixed Assets</b>	<b>1,53,175</b>	<b>2,06,941</b>	<b>2,74,911</b>	<b>3,38,838</b>
ROU Assets	-	-	-	-
Capital Work-in-Progress	39,318	49,138	61,474	39,888
<b>Total Intangible Assets</b>	<b>82,340</b>	<b>93,324</b>	<b>93,324</b>	<b>93,324</b>
Other assets	16,315	16,315	16,315	16,315
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>4,02,213</b>	<b>5,16,459</b>	<b>6,49,907</b>	<b>7,19,589</b>
<b>Liabilities</b>				
Borrowings	477	477	477	477
Deferred Tax Liability	7,004	7,004	7,004	7,004
provisions	2,649	2,649	2,649	2,649
other Liabilities	4,518	4,518	4,518	4,518
Equity Share Capital	3,971	3,971	4,926	4,926
Reserves & Surplus	3,13,011	4,10,423	5,31,762	5,87,232
<b>Total Net Worth</b>	<b>3,16,982</b>	<b>4,14,394</b>	<b>5,36,689</b>	<b>5,92,158</b>
Minority Interest	70,584	87,417	98,571	1,12,784
<b>Total Liabilities</b>	<b>4,02,213</b>	<b>5,16,459</b>	<b>6,49,907</b>	<b>7,19,589</b>

Source Company data, I-Sec research

### Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
<b>Operating Cashflow</b>	<b>49,463</b>	<b>75,239</b>	<b>91,421</b>	<b>1,22,855</b>
Working Capital Changes	(34,729)	2,819	(2,697)	2,120
Capital Commitments	(40,659)	(85,583)	(99,282)	(65,130)
<b>Free Cashflow</b>	<b>48,009</b>	<b>1,52,016</b>	<b>1,69,591</b>	<b>1,64,647</b>
Other investing cashflow	(1,04,148)	-	-	-
<b>Cashflow from Investing Activities</b>	<b>(1,44,808)</b>	<b>(85,583)</b>	<b>(99,282)</b>	<b>(65,130)</b>
Issue of Share Capital	50,000	66,610	83,390	-
Interest Cost	(2,700)	-	-	-
Inc (Dec) in Borrowings	(36)	-	-	-
Dividend paid	(17,955)	(5,833)	(4,675)	(6,241)
Others	-	-	-	-
Cash flow from Financing Activities	29,310	60,777	78,714	(6,241)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(1,08,148)</b>	<b>41,628</b>	<b>49,741</b>	<b>28,147</b>
Closing cash & balance	5,439	47,066	96,807	1,24,954

Source Company data, I-Sec research

### Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	14.5	16.8	17.3	24.4
Adjusted EPS (Diluted)	14.5	16.8	17.3	24.4
Cash EPS	22.8	25.0	25.0	33.7
Dividend per share (DPS)	6.3	2.5	1.6	2.0
Book Value per share (BV)	159.6	208.7	217.9	240.4
Dividend Payout (%)	43.5	14.9	9.3	8.2
<b>Growth (%) ^</b>				
Net Sales	-	-	11.9	17.2
EBITDA	-	-	22.0	36.0
EPS (INR)	-	-	2.9	41.1
<b>Valuation Ratios (x)</b>				
P/E	47.3	40.7	39.6	28.1
P/CEPS	30.1	27.4	27.4	20.3
P/BV	4.3	3.3	3.1	2.9
EV / EBITDA*	29.0	22.7	22.1	16.0
EV / te (USD)*	305.4	229.7	248.8	208.8
Dividend Yield (%)	0.9	0.4	0.2	0.3
<b>Operating Ratios</b>				
Gross Profit Margins (%)	86.9	85.2	82.7	83.1
EBITDA Margins (%)	13.2	19.3	21.0	24.4
Effective Tax Rate (%)	17.5	20.5	25.5	25.5
Net Profit Margins (%)	6.6	10.8	11.6	13.9
NWC / Total Assets (%)	23.7	26.2	29.0	30.0
Net Debt / Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(2.3)	(2.5)	(2.7)	(2.2)
<b>Profitability Ratios</b>				
RoCE (%) (Post Tax)	7.7	8.3	7.6	9.1
RoE (%)	11.0	11.8	10.2	10.7
RoC (%)	14.6	15.5	14.5	17.1
Fixed Asset Turnover (x)	2.6	1.8	1.5	1.4
Inventory Turnover Days	42	60	58	56
Receivables Days	8	13	13	12
Payables Days	39	51	49	48

Source Company data, I-Sec research. \*Enterprise value is adjusted for the minority holdings (%) in ACC &amp; Sanghi Industries; ^ANA as FY23 was 15 months, hence not comparable for FY23A and FY24P.

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