

HOLD
 TP: Rs 435 | ▼ 5%

AMBUJA CEMENTS

Cement

11 August 2023

Stepping on the pedal but growth priced in

- Q1 consolidated topline grew 9% YoY as volumes increased 9% while realisations stayed flat
- EBITDA/t improves to Rs 1,253 on cost efficiency but sustainability to be monitored; capacity to rise ~10% to 73.6mtpa by FY24-end
- TP revised to Rs 435 (vs. Rs 375) on 3%/13% higher EBITDA estimates for FY24/FY25 to factor in new capacity; maintain HOLD

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Consolidated volume growth slightly behind industry: ACEM reported Q1FY24 consolidated revenue growth of 9% YoY to Rs 87.1bn as volumes grew 9% to 15.4mn tonnes but realisations stayed flat at Rs 5,657/t. Revenue growth was supported by initiatives to improve the brand visibility and positioning of premium products, though these are yet to reflect in realisations. Management retained its topline growth guidance of 10-15% for FY24, stating that 100%+ utilisation at the standalone level was sustainable

Cost efficiencies aid operating performance: Operating cost/tonne moderated 8% to Rs 4,404/t from Rs 4,812/t in the year-ago quarter (Rs 4,570/t in Q4FY23) driven by other expenditure and fuel cost savings. Fuel cost dropped by ~Rs 400/t YoY to Rs 1,501/t whereas other expenditure fell to Rs 10bn compared to Rs 11.7bn in Q1FY23. Freight and raw material cost also softened YoY. EBITDA/t ~40% Rs 1,253/t from Rs 900/t and EBITDA grew ~40% to Rs 19.3bn (consolidated).

Sanghi Industries acquisition to expedite capacity expansion: The acquisition of Sanghi Industries (SIL: clinker/cement capacity of 6.6mtpa/6.1mtpa, 130MW captive power plant and 13MW WHRS) will increase ACEM's consolidated cement capacity (including ACC and SIL) from 67.5mtpa to 73.6mtpa in FY24. With ACEM's ongoing capex to add 14mtpa by FY25 in tandem with the commissioning of 5.5mtpa at Dahej and Ametha in Q2FY24, the Adani Group's total cement capacity will reach 101mtpa by 2025, on course to achieving its target of 140mtpa by 2028.

Maintain HOLD: ACEM is currently trading at 13x FY25E EV/EBITDA. To factor in the capacity addition (organic and SIL acquisition), we raise our FY24/FY25 EBITDA estimates by 3%/13% and EPS by 7%/17, leading to a revised SOTP-based TP of Rs 435 (vs. Rs 375). We ascribe an unchanged FY25E EV/EBITDA multiple of 13x to the standalone business and add in Rs 84/sh for the ACC stake. Our TP implies a replacement cost of Rs 14bn/mt (consolidated capacity) – a 2x premium to the industry average. Even so, upside potential looks capped at current valuations and hence we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ACEM IN/Rs 457
Market cap	US\$ 11.0bn
Free float	37%
3M ADV	US\$ 24.9mn
52wk high/low	Rs 598/Rs 315
Promoter/FPI/DII	63%/11%/17%

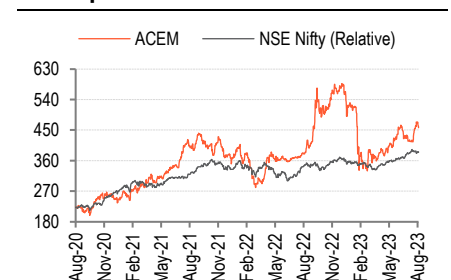
Source: NSE | Price as of 10 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,84,449	3,75,440	4,49,691
EBITDA (Rs mn)	51,224	57,338	77,054
Adj. net profit (Rs mn)	29,024	27,088	35,072
Adj. EPS (Rs)	11.7	13.6	17.7
Consensus EPS (Rs)	11.7	15.6	22.1
Adj. ROAE (%)	9.3	8.0	10.1
Adj. P/E (x)	39.1	33.5	25.9
EV/EBITDA (x)	17.2	15.1	11.0
Adj. EPS growth (%)	(20.0)	16.7	29.5

Source: Company, Bloomberg, BOBCAPS Research | FY23 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE

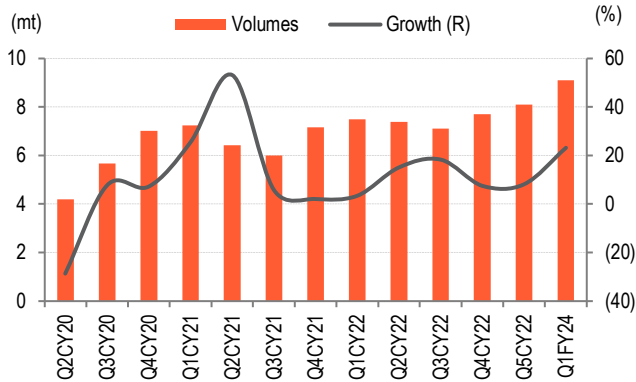


Fig 1 – Earnings call highlights

Parameter	Q1FY24	Q4FY23	Our view
Volume and Realisation	<p>ACEM indicated that industry volume growth stood at 9-10% YoY in Q1. The company retains its growth guidance of 10-15% for FY24, stating that 100%+ utilisation at the standalone level was sustainable. Q1 realisation was at Rs 5,657/t.</p> <p>Trade mix was stable at 75-78% of total volumes.</p>	<p>The share of blended cement increased to 92% in Q4 from 91% in Q3. Premium products formed 22% of trade sales.</p> <p>ACEM aims to increase B2B segment share from 21% to 25% and raise premium product share from 22% to 29-30% by FY27.</p>	<p>Consolidated volumes will be driven by demand and are expected to be largely in line with the industry in the short term.</p>
Margins	<p>ACEM has announced a target of 175MW of WHRS by Jul'24, to achieve its objective of improving EBITDA/t by Rs 300-400 in FY24/FY25.</p> <p>Freight and forwarding costs are likely to reduce further as the company leverages adjacent synergies with the Adani group.</p> <p>The SIL acquisition should support margin accretion as logistical dependence for this plant will mainly be on the low-cost sea route.</p>	<p>Initiatives to improve EBITDA/t by Rs 300- 400 in FY24 include raising WHRS and renewable capacity, AFR use, and undertaking fly ash sourcing of 14mt.</p> <p>Captive coal mine capacity at Gare Palma of 1.2mtpa and Dahegaon Bawri of 2mtpa will cater to 50% of current demand for kiln coal.</p> <p>With respect to freight and forwarding, ACEM aims to optimise warehousing by increasing direct dispatches and improving the rail-road mix.</p>	<p>Ongoing cost rationalisation will help improve overall operating performance.</p>
Capacity	<p>The first line of the 3.3mt Ametha unit is near completion, with production to start in Q2. Equipment orders for the 4mt Bhatapara/ Maratha facilities have been placed and will be commissioned in 24 months. A 1mt facility is proposed at Bhatinda grinding unit in Punjab. SIL's 6.6mt cement and 6.1mt clinker capacity will further boost to capacities in the short term.</p> <p>Management indicated that its RMX plant count will rise to ~100 from the current 78 by FY24-end.</p>	<p>ACEM has a five-year plan to add 40mt of clinker (9 brownfield lines and Mundra greenfield). A few clinker and grinding units are to be commissioned by Q2FY25.</p>	<p>To reach the 140mt target (organic and inorganic) by 2028, ACEM is targeting 35 new plants, of which 6 have been announced accounting for 14mt.</p>
Green energy	<p>18MW of WHRS was commissioned in Q1 and an additional 33MW will come online across three different locations by FY24-end. The Bhatapara and Maratha plants will each have 42MW of WHRS and utilise 50% of AFR.</p>	<p>ACEM plans to increase WHRS capacity from 80MW to 175MW by FY24, raise the share of AFR in the fuel mix from 8.8% to 30% (midterm) and 15% by end-FY24, and increase renewable power (solar) by 200MW by FY24.</p>	<p>The company is taking several initiatives to shift to alternate energy sources.</p>
Capex	<p>Q1 capex was ~Rs 5.8bn, funded through internal accruals, with guidance of Rs 6bn for Q2. The outlay for FY24 is guided at ~Rs 69.5bn for current projects under execution, with a 60-65% allocation to ACEM and the balance to ACC.</p>	<p>Capex for FY24 is guided at Rs 70bn. With respect to doubling capacity from 70mt to 140mt by 2028, capex will total Rs 460bn which will be funded through internal accruals.</p>	<p>The capex guidance is in line with the capacity growth targeted by ACEM.</p>

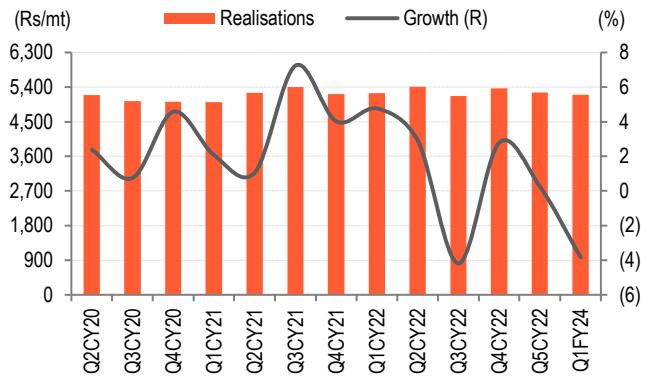
Source: Company, BOBCAPS Research | WHRS: Waste Heat Recovery System; RMX: Ready Mix Concrete; AFR: Alternate Fuels and Raw Material

Fig 2 – Volume gains (standalone) driven by master supply agreement (MSA) with ACC



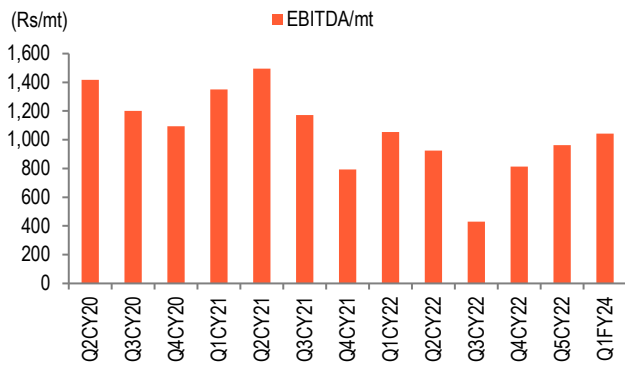
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar, thus, CY22/FY23 consists of 5 quarters

Fig 3 – Realisations flattish on tepid demand



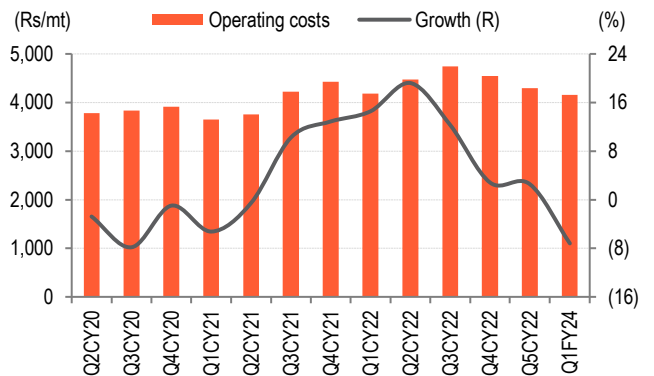
Source: Company, BOBCAPS Research

Fig 4 – Standalone EBITDA/t healthy, consolidated gains even healthier



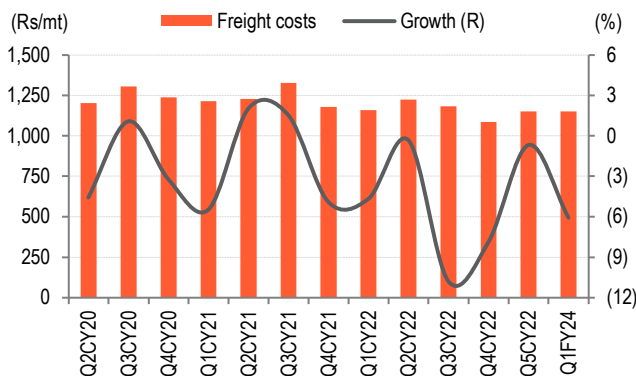
Source: Company, BOBCAPS Research

Fig 5 – Operating cost control driven by energy cost savings



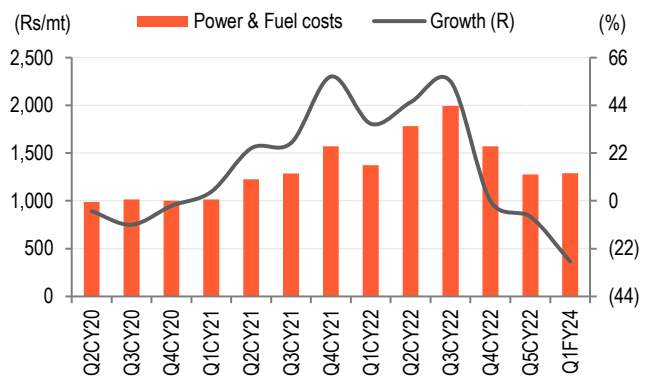
Source: Company, BOBCAPS Research

Fig 6 – Freight cost flat/softens YoY



Source: Company, BOBCAPS Research

Fig 7 – Energy cost savings commendable



Source: Company, BOBCAPS Research

Valuation methodology

ACEM's operating efficiency drive is a key positive and the focus on organic and inorganic growth should bring capacity build back on track after a brief lull (101mt planned by 2025 and 140mt by 2028). The company recently announced the acquisition of a 56.7% stake in SIL at an EV of Rs 50bn, to be followed by an open offer for purchase of a further 26% stake at a consideration of Rs 114.2/sh. The deal will be fully funded via internal accruals. We believe the acquisition is a good fit as SIL has quality assets in the form of superior marine limestone as compared to mineral limestone in mainland mines.

Further, the logistical issue of carrying material from the remote Kutch area to the mainland will be rectified through SIL's waterway connectivity (vessels + jetty) and supported by ACEM's deep pocketed new promoter, enabling the company to spread its reach to the western and southern coastal regions (Maharashtra, Karnataka, Kerala).

The stock is currently trading at 13x FY25E EV/EBITDA. To factor in the capacity addition (organic and SIL acquisition), we raise our FY24/FY25 EBITDA estimates by 3%/13% and EPS forecasts by 7%/17, leading to a revised SOTP-based TP of Rs 435 (vs. Rs 375). We ascribe an unchanged FY25E EV/EBITDA multiple of 13x to the standalone business for a value of Rs 351/sh and add in Rs 84/sh as the value of its ACC stake.

Our TP implies a replacement cost of Rs 14bn/mt (consolidated capacity) – a 2x premium to the industry average. Even so, upside potential looks capped at current valuations and hence we retain HOLD.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,75,440	416,513	4,49,691	416,513	1.5	8.0
EBITDA	57,338	68,431	77,054	68,431	2.8	12.6
Adj PAT	27,087.7	29,899	35,072.3	29,899	6.6	17.3
Adj EPS (Rs)	13.6	15.1	17.7	15.1	6.6	17.0

Source: BOBCAPS Research

Fig 9 – Key assumptions

Parameter (Consolidated)	CY21	FY23	FY24E	FY25E
Volumes (mt)	56.34	60.89	66.44	77.67
Realisations (Rs/mt)	5,060	5,287	5,369	5,530
Operating costs (Rs/mt)	3052.2	4549.7	4402.4	4483.7
EBITDA/mt (Rs)	1102.3	841.2	859.6	988.1

Source: Company, BOBCAPS Research

Fig 10 – Valuation summary

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	13
EBITDA (Rs mn)	47,007
Target EV (Rs mn)	633,654.8
Total EV	633654.8
Net debt	(63,177)
Target market capitalisation	6,96,832
ACEM's standalone value (Rs/sh) (A)	351
Weighted average shares (mn)	1,986
ACC Target M-cap	369218
ACEM Holding in ACC (50.05%)	1,84,609
Holding Co discount (10%)	18460.9
ACEM Holding in ACC (50.05%) (Post Hold Co Discount)	166148.1
Total Equity Shares O/S (mn)	1,986
ACEM's value in ACC (Rs/sh) (B)	84
Target price (Rs/sh) (A+B)	435

Source: BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
ACEM IN	HOLD	435	18.0	12.6	9.1	286	215	204	5.2	6.8	8.1	9.2	11.7	14.7
ACC IN	HOLD	1,964	22.9	14.9	9.8	115	92	84	5.2	8.1	11.2	7.9	11.0	14.5
UTCEM IN	HOLD	9,396	24.7	17.9	13.6	228	226	192	9.6	12.5	15.5	12.0	16.4	20.0
SRCM IN	HOLD	24,656	27.9	19.4	15.1	205	203.8	199	6.4	10.8	13.6	9.2	14.6	18.0

Source: BOBCAPS Research

Key risks

- Faster-than-expected demand revival can take growth ahead of our estimates, representing an upside risk.
- Downside risks to our estimates include higher fuel cost and also increased competition that can lead to price pressure, impacting realisations and operating performance.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.5	1,961	1,964	HOLD
Ambuja Cements	ACEM IN	11.0	457	435	HOLD
Dalmia Bharat	DALBHARA IN	4.5	2,003	1,934	HOLD
JK Cement	JKCE IN	3.1	3,336	3,474	HOLD
JK Lakshmi Cement	JKLC IN	0.9	639	551	SELL
Shree Cement	SRCM IN	10.6	24,175	24,656	HOLD
The Ramco Cements	TRCL IN	2.5	856	585	SELL
Ultratech Cement	UTCEM IN	28.5	8,102	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 10 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23A	FY24E	FY25E
Total revenue	2,41,160	2,85,926	3,84,449	3,75,440	4,49,691
EBITDA	50,056	62,103	51,224	57,338	77,054
Depreciation	(11,618)	(11,525)	(16,447)	(14,500)	(17,477)
EBIT	42,934	54,103	42,154	48,385	65,078
Net interest inc./(exp.)	(1,402)	(1,457)	(1,949)	(1,935)	(2,165)
Other inc./(exp.)	4,496	3,524	7,377	5,548	5,500
Exceptional items	(1,760)	0	0	0	0
EBT	39,772	52,646	40,205	46,450	62,913
Income taxes	(8,848)	(14,534)	(7,051)	(14,474)	(19,330)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(7,270)	(9,104)	(4,130)	(4,888)	(8,510)
Reported net profit	23,654	29,007	29,024	27,088	35,072
Adjustments	1,760	0	0	0	0
Adjusted net profit	25,415	29,007	29,024	27,088	35,072

Balance Sheet

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23A	FY24E	FY25E
Accounts payables	58,452	68,242	72,283	79,512	87,463
Other current liabilities	33,941	43,791	42,707	43,988	45,308
Provisions	2,926	3,062	2,795	2,935	3,082
Debt funds	4,644	4,429	4,860	4,904	4,948
Other liabilities	6,260	7,562	7,004	7,144	7,287
Equity capital	3,971	3,971	3,971	3,971	3,971
Reserves & surplus	2,23,605	2,49,566	3,13,010	3,33,585	3,62,145
Shareholders' fund	2,90,985	3,24,988	3,87,565	4,13,253	4,50,547
Total liab. and equities	3,97,207	4,52,073	5,17,214	5,51,735	5,98,634
Cash and cash eq.	89,356	1,16,943	29,610	45,485	68,116
Accounts receivables	5,611	6,458	11,544	10,800	12,936
Inventories	16,486	27,380	32,728	26,744	32,033
Other current assets	54,047	54,811	1,80,423	2,01,122	2,25,293
Investments	2,629	1,981	2,137	2,350	2,585
Net fixed assets	1,15,565	1,32,622	1,42,485	1,56,276	1,44,063
CWIP	1,10,996	1,09,160	1,13,922	1,04,597	1,09,252
Intangible assets	2,518	2,717	4,366	4,361	4,356
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	3,97,207	4,52,073	5,17,215	5,51,735	5,98,634

Cash Flows

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23A	FY24E	FY25E
Cash flow from operations	49,551	57,534	10,675	41,294	39,023
Capital expenditures	(19,050)	(26,271)	(31,773)	(18,960)	(9,914)
Change in investments	6,741	7,547	(155)	(214)	(235)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(12,309)	(18,724)	(31,928)	(19,174)	(10,149)
Equities issued/Others	(654)	(1,063)	(4,996)	225	225
Debt raised/repaid	3,869	(215)	431	44	45
Interest expenses	0	0	0	0	0
Dividends paid	(36,738)	(2,070)	(13,027)	(6,513)	(6,513)
Other financing cash flows	(695)	(976)	(48,487)	0	0
Cash flow from financing	(34,218)	(4,324)	(66,079)	(6,245)	(6,244)
Chg in cash & cash eq.	3,024	34,486	(87,333)	15,875	22,630
Closing cash & cash eq.	89,356	1,16,943	29,610	45,486	68,116

Per Share

Y/E 31 Mar (Rs)	CY20A	CY21A	FY23A	FY24E	FY25E
Reported EPS	11.9	14.6	11.7	13.6	17.7
Adjusted EPS	12.8	14.6	11.7	13.6	17.7
Dividend per share	18.5	1.0	5.0	2.8	2.8
Book value per share	146.5	163.7	195.2	208.1	226.9

Valuations Ratios

Y/E 31 Mar (x)	CY20A	CY21A	FY23A	FY24E	FY25E
EV/Sales	3.4	2.8	2.3	2.3	1.9
EV/EBITDA	16.4	12.8	17.2	15.1	11.0
Adjusted P/E	35.7	31.3	39.1	33.5	25.9
P/BV	3.1	2.8	2.3	2.2	2.0

DuPont Analysis

Y/E 31 Mar (%)	CY20A	CY21A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	77.8	72.4	82.5	68.8	69.3
Interest burden (PBT/EBIT)	96.7	97.3	95.4	96.0	96.7
EBIT margin (EBIT/Revenue)	17.8	18.9	11.0	12.9	14.5
Asset turnover (Rev./Avg TA)	60.4	67.3	79.3	70.2	78.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	11.0	12.4	9.3	8.0	10.1

Ratio Analysis

Y/E 31 Mar	CY20A	CY21A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(9.2)	18.6	7.6	22.1	19.8
EBITDA	8.9	24.1	(34.0)	39.9	34.4
Adjusted EPS	21.3	14.1	(20.0)	16.7	29.5
Profitability & Return ratios (%)					
EBITDA margin	20.4	21.4	13.1	15.0	16.9
EBIT margin	17.5	18.6	10.8	12.7	14.2
Adjusted profit margin	10.5	10.1	7.5	7.2	7.8
Adjusted ROAE	11.0	12.4	9.3	8.0	10.1
ROCE	14.1	16.9	9.2	11.7	14.7
Working capital days (days)					
Receivables	8	8	14	11	11
Inventory	25	35	39	26	26
Payables	109	109	97	89	84
Ratios (x)					
Gross asset turnover	1.3	1.4	1.6	1.4	1.7
Current ratio	1.7	1.8	2.2	2.2	2.5
Net interest coverage ratio	30.6	37.1	21.6	25.0	30.1
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets | FY23 is for 15 months due to a change in year-end from December to March

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): AMBUJA CEMENTS (ACEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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