

**HOLD**

TP: Rs 375 | ▼ 2%

**AMBUJA CEMENTS**

Cement

04 May 2023

### Soft realisations weigh on margins

- Q4 revenue growth muted at 8% YoY on tepid realisations and limited volumes owing to a labour strike
- EBITDA margin down 160bps YoY despite savings from softer fuel cost and logistics cost control
- We cut FY24/FY25 EPS by 5%/4%, translating to a revised TP of Rs 375 (vs. Rs 387); maintain HOLD as positives priced in

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**Realisations soft:** ACEM reported muted Q4FY23 revenue growth of 8% YoY (+3% QoQ) to Rs 42.6bn primarily owing to weak realisations. Volumes grew 8% YoY (+5% QoQ) to 8.1mn tonnes, while realisations stayed flat YoY (-2% QoQ) at Rs 5,255/t. The impact of a labour strike at the company's Himachal Pradesh unit was partly countered by clinker shift from Rajasthan to cater North and supported by an increase in blended cement).

**Operating cost pressure easing:** Operating cost rose 2% YoY to Rs 4,282/t (-6% QoQ) as energy cost (adj to RM cost) grew 13% YoY (-8% QoQ) to Rs 2,350/t, with the clinker factor down from 62.5% to 60.6%. Kiln cost fell 10%, from 2.3/kcal to Rs 2.1/kcal on a better fuel mix and group coal procurement synergies. RM cost rose 51% YoY (+11% QoQ) to Rs 1,073/t due to higher external purchases, logistics cost fell 1% YoY (+6% QoQ) to Rs 1,151/t on better direct dispatches (78% from 64%) and a higher rail mix (30% from 26%). Other expenditure at Rs 4.6bn fell ~15% YoY/ QoQ.

**EBITDA margin contracts YoY:** EBITDA at Rs 7.9bn was flat YoY (+26% QoQ) due to poor realisations. EBITDA margin shrank 160bps YoY (+335bps QoQ) to 18.5% and EBITDA/t declined 8% YoY (+20% QoQ) to Rs 973/t. PAT was flat YoY (+36% QoQ) at Rs 5bn. Excluding restructuring cost of Rs 0.8bn, PAT grew 18% YoY (+36% QoQ).

**Capacity expansion plans:** ACEM announced no plans beyond the greenfield capacity additions at Chandrapur (Maharashtra), Bhatpara (W. Bengal) and Mundra (Gujarat), where commissioning is targeted by Q2FY25 – an ambitious schedule, in our view, given that equipment ordering is yet to commence.

**Maintain HOLD:** ACEM's operating efficiency drive is a key positive, though capacity building is unlikely to contribute meaningfully before FY25. The stock is currently trading at 13x FY25E EV/EBITDA. We cut our FY24/FY25 EPS estimates by 5%/4% to bake in ACEM's accounting year change, leading to a revised SOTP-based TP of Rs 375 (vs. Rs 387), set at an unchanged 13x FY25E standalone EV/EBITDA. Our TP implies a replacement cost of Rs 14bn/mt (consolidated capacity) – 2x premium to the industry average. Upsides appear capped at current valuations and hence we retain HOLD.

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ACEM IN/Rs 384
Market cap	US\$ 9.3bn
Free float	37%
3M ADV	US\$ 56.9mn
52wk high/low	Rs 598/Rs 315
Promoter/FPI/DII	63%/11%/17%

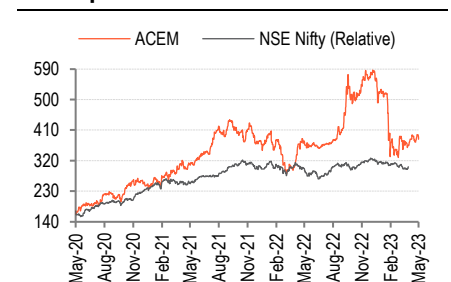
Source: NSE | Price as of 3 May 2023

### Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	3,84,062	3,70,071	4,16,513
EBITDA (Rs mn)	51,223	55,789	68,431
Adj. net profit (Rs mn)	29,024	25,404	29,899
Adj. EPS (Rs)	11.7	12.8	15.1
Consensus EPS (Rs)	11.7	15.6	17.9
Adj. ROAE (%)	9.3	7.6	9.0
Adj. P/E (x)	32.8	30.0	25.5
EV/EBITDA (x)	14.2	9.8	7.6
Adj. EPS growth (%)	(20.0)	9.4	17.7

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional | 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	Q4FY23	Q3FY23	Our view
Volume and Realisation	<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% by FY27 and raise premium product share from 22% to 29-30%.</p>	NA	ACEM has traditionally been a trade business company. However, infrastructure-driven growth will imply a shift towards non-trade business or loss of market share.
Margins	<p>Initiatives to improve EBITDA/t by Rs 300-400/t in FY24 include raising waste heat recovery systems, renewable capacity, alternate fuel and raw material 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. This is guided to lower costs by Rs 250/t.</p> <p>With respect to freight and forwarding, ACEM aims to optimise warehousing by increasing direct dispatches and improving the rail-road mix. It is also exploring sea transportation options by procuring 10 rakes, of which 1 has already commenced. Management expects these initiatives to yield cost reduction of Rs 100/t.</p>	<p>Management expects EBITDA/t to rise to Rs 1,000 in the next couple of quarters backed by cost optimisation. This will be led by:</p> <p>(i) a reduction in fuel cost (kiln fuel cost has fallen substantially QoQ from Rs 2.8/kcal to Rs 2.5/kcal, resulting in a 14% sequential drop in overall fuel cost in Q3FY23), and</p> <p>(ii) lower logistics cost (on account of operational synergies with ACC and Adani Logistics, leading to rationalising of the warehouse network).</p>	Operating efficiency improvement driven by fuel cost easing, better logistics and warehouse management, and control over other expenses will continue to help ACEM improve earnings. However, muted realisations can be a cause for concern.
Capacity	ACEM has a five-year plan to add 40mt of clinker (9 lines brownfield and Mundra greenfield). A few clinker and grinding units are to be commissioned by Q2FY25.	NA	The medium-term expansion plan looks intact. However, any delay in capacity addition will mean a limited contribution in FY25.
Green Energy	ACEM plans to increase WHRS capacity from 80MW to 175MW by FY24, raise the share of alternate fuel and raw material in the fuel mix from 8.8% to 30% (midterm) and 15% by end-FY24, and increase renewable power by 200MW (solar) by FY24.	Management plans to increase WHRS capacity to 190MW by Mar'25 from the existing 65MW as of Dec'22 as part of its target of achieving a 30% thermal substitution rate by 2027.	A slow start in non-thermal energy initiatives is proving to be a pain point for ACEM, though the impact will be lower in the medium term.
Capex	<p>Capex for FY24 is guided at Rs 7.2bn.</p> <p>With respect to doubling capacity from 70mt to 140mt, capex will total Rs 460bn which will be funded through internal accruals.</p>	As a part of the growth strategy, Rs 100bn has been earmarked towards WHRS, debottlenecking, greenfield clinker grinding units and a brownfield kiln to be undertaken over the next 18 months.	Defined capex needs faster execution to retain market share in a strong demand recovery scenario.

Source: Company, BOBCAPS Research

**Fig 2 – Key metrics**

(Rs)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Volumes (mn mt)	8.1	7.5	8.1	7.7	5.2
Cement realisations (Rs/mt)	5,255	5,241	0.3	5,362	(2.0)
Operating costs (Rs/mt)	4,282	4,185	2.3	4,549	(5.9)
EBITDA (Rs/mt)	973	1,055	(7.8)	813	19.7

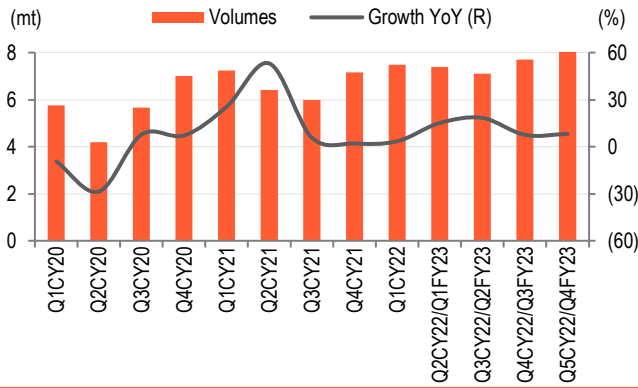
Source: Company, BOBCAPS Research |

**Fig 3 – Quarterly performance**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
<b>Net Sales</b>	<b>42,563</b>	<b>39,252</b>	<b>8.4</b>	<b>41,285</b>	<b>3.1</b>
<b>Expenditure</b>					
Change in stock	1,206	696	73.4	1,632	(26.1)
Raw material	3,590	3,117	15.2	3,782	(5.1)
Purchased products	3,899	1,499	160.1	2,066	88.7
Power & fuel	10,343	10,309	0.3	12,111	(14.6)
Freight	9,326	8,682	7.4	8,362	11.5
Employee costs	1,680	1,529	9.9	1,595	5.3
Other expenditure	4,637	5,517	(15.9)	5,475	(15.3)
Total Operating Expenses	34,681	31,348	10.6	35,024	(1.0)
<b>EBITDA</b>	<b>7,883</b>	<b>7,904</b>	<b>(0.3)</b>	<b>6,261</b>	<b>25.9</b>
EBITDA margin (%)	18.5	20.1	(162bps)	15.2	335bps
Other Income	1,740	367	373.9	890	95.5
Interest	335	214	56.5	253	32.6
Depreciation	2,047	1,515	35.1	1,648	24.2
PBT	7,241	6,543	10.7	5,250	37.9
Non-recurring items	(807)	0	-	(614)	NM
PBT (after non-recurring items)	6,434	6,543	(1.7)	4,637	38.7
Tax	1,410	1,591	(11.4)	947	48.8
Reported PAT	5,024	4,952	1.5	3,690	36.2
<b>Adjusted PAT</b>	<b>5,831</b>	<b>4,952</b>	<b>17.8</b>	<b>4,303</b>	<b>35.5</b>
NPM (%)	13.7	12.6	108bps	10.4	328bps
<b>Adjusted EPS (Rs)</b>	<b>2.9</b>	<b>2.5</b>	<b>17.8</b>	<b>2.2</b>	<b>35.5</b>

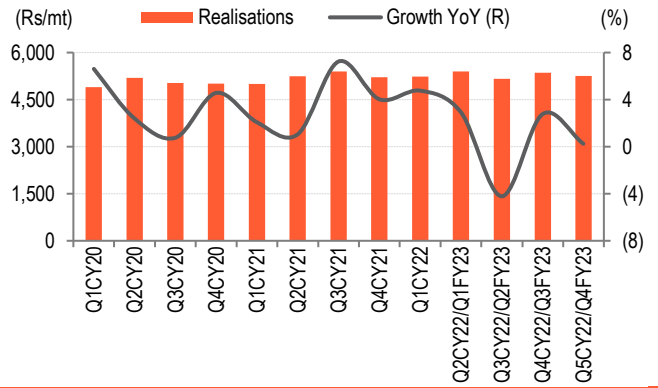
Source: Company, BOBCAPS Research

**Fig 4 – Volume gains hit by strike in one unit**



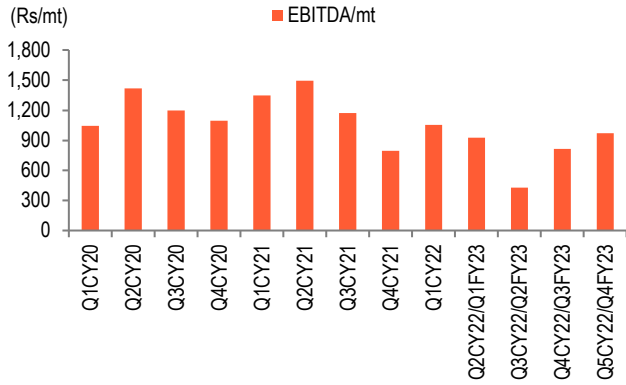
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar, thus, FY23 consists of 5 quarters

**Fig 5 – Realisations muted despite slower volume growth**



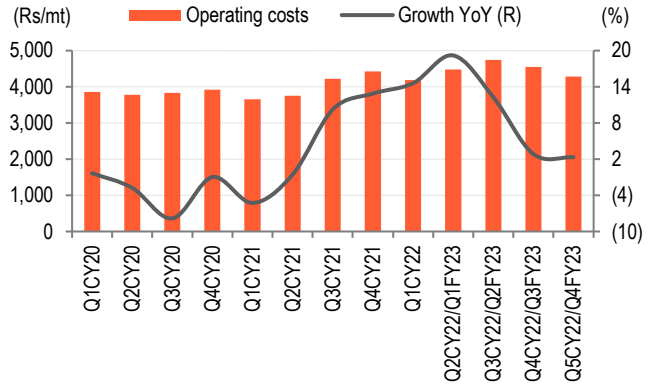
Source: Company, BOBCAPS Research

**Fig 6 – Muted pricing offsets cost savings, restricting EBITDA gains**



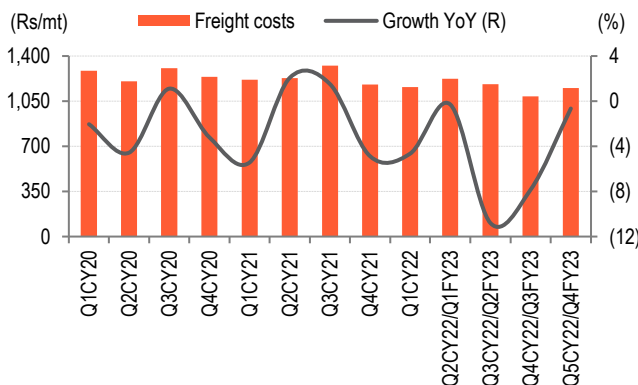
Source: Company, BOBCAPS Research

**Fig 7 – Operating cost control driven by energy cost savings**



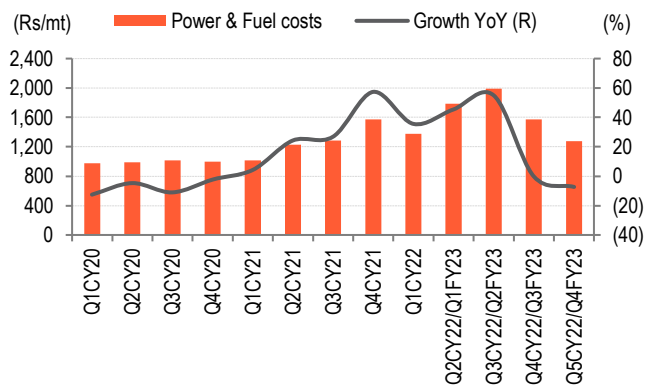
Source: Company, BOBCAPS Research

**Fig 8 – Freight cost savings on the rise**



Source: Company, BOBCAPS Research

**Fig 9 – Energy cost savings to continue in near term**



Source: Company, BOBCAPS Research

## Valuation methodology

ACEM's operating efficiency drive is a key positive, though capacity building is unlikely to contribute meaningfully before FY25 given that equipment ordering is yet to commence. The stock is currently trading at 13x FY25E EV/EBITDA. Factoring in the change in ACEM's accounting year-end from December to March, we lower our FY24/FY25 EBITDA estimates by ~3% each and EPS estimates by 5%/4%. This yields a revised SOTP-based TP of Rs 375 (vs. Rs 387).

We continue to value the standalone business at 13x FY25E EV/EBITDA with ACEM's 50% stake in ACC valued at 10% holding company discount. Our TP implies a replacement cost of Rs 14bn/mt (consolidated capacity) – 2x premium to the industry average. Upsides appear capped at current valuations and we hence retain HOLD.

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	370,071	416,513	373,473	420,333	(0.9)	(0.9)
EBITDA	55,789	68,431	57,656	70,196	(3.2)	(2.5)
Adj PAT	25,404	29,899	26,720	31,144	(4.9)	(4.0)
Adj EPS (Rs)	12.8	15.1	13.5	15.7	(5.2)	(3.8)

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	CY21	FY23	FY24E	FY25E
Volumes (mt)	27.2	37.8	32.6	35.6
Realisations (Rs/mt)	5,060	5,287	5,369	5,530
Operating costs (Rs/mt)	3,892	4,442	4,448	4,580
EBITDA/mt (Rs)	1,247	845	1,022	1,048

Source: Company, BOBCAPS Research

**Fig 12 – Valuation summary**

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	13
EBITDA (Rs mn)	37,295
Target EV (Rs mn)	484,835
Total EV	484,835
Net debt	(63,177)
Target market capitalisation	548,012
ACEM's standalone value (Rs/sh) (A)	275.9
Weighted average shares (mn)	1,986
ACC Target M-cap	438,930
ACEM Holding in ACC (50.05%)	219,465
Holding Co discount (10%)	21,946
ACEM Holding in ACC (50.05%) (Post Hold Co Discount)	197,518.5
Total Equity Shares O/S (mn)	1,986
ACEM's value in ACC (Rs/sh) (B)	99.5
Target price (Rs/sh) (A+B)	375.4

Source: BOBCAPS Research

**Fig 13 – 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	375	14.2	9.8	7.6	286	215	204	5.2	6.4	7.0	9.2	11.1	13.0
ACC IN	HOLD	1,964	16.4	12.2	8.1	114	91	83	7.9	7.9	11.2	7.9	10.8	14.5
UTCEM IN	BUY	8,678	21.0	16.9	13.6	209	211	211	9.7	12.0	14.5	12.8	15.8	18.3
SRCM IN	HOLD	24,656	28.0	19.5	15.2	206	204	200	6.4	10.8	13.6	9.2	14.6	18.0

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- large capex announcements,
- strong pricing tailwinds in ACEM's key regions, and
- above-estimated cost savings.

Key downside risks are:

- slower-than-expected capacity growth, and
- continued high cost inflation, especially for fuel.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.0	1,744	1,964	HOLD
Ambuja Cements	ACEM IN	9.3	384	375	HOLD
Dalmia Bharat	DALBHARA IN	4.5	2,001	1,917	HOLD
JK Cement	JKCE IN	2.8	2,990	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	777	551	SELL
Orient Cement	ORCMNT IN	0.3	125	140	HOLD
Shree Cement	SRCM IN	10.7	24,259	24,656	HOLD
Star Cement	STRCEM IN	0.6	126	138	BUY
The Ramco Cements	TRCL IN	2.2	748	534	SELL
Ultratech Cement	UTCEM IN	26.5	7,507	8,678	BUY

Source: BOBCAPS Research, NSE | Price as of 3 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>2,41,160</b>	<b>2,85,926</b>	<b>3,84,062</b>	<b>3,70,071</b>	<b>4,16,513</b>
EBITDA	50,056	62,103	51,223	55,789	68,431
Depreciation	(11,618)	(11,525)	(16,447)	(12,875)	(14,059)
EBIT	42,934	54,103	42,154	45,797	57,240
Net interest inc./(exp.)	(1,402)	(1,457)	(1,949)	(1,735)	(1,665)
Other inc./(exp.)	4,496	3,524	7,377	2,883	2,868
Exceptional items	(1,760)	0	0	0	0
EBT	39,772	52,646	40,205	44,062	55,575
Income taxes	(8,848)	(14,534)	(7,051)	(13,769)	(17,166)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(7,270)	(9,104)	(4,130)	(4,888)	(8,510)
<b>Reported net profit</b>	<b>23,654</b>	<b>29,007</b>	<b>29,024</b>	<b>25,404</b>	<b>29,899</b>
Adjustments	1,760	0	0	0	0
<b>Adjusted net profit</b>	<b>25,415</b>	<b>29,007</b>	<b>29,024</b>	<b>25,404</b>	<b>29,899</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23P	FY24E	FY25E
Accounts payables	58,452	68,242	75,066	82,572	90,830
Other current liabilities	33,941	43,791	40,162	46,458	47,851
Provisions	2,926	3,062	2,795	2,935	3,082
Debt funds	4,644	4,429	4,622	4,517	4,562
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	3,13,011	3,31,902	3,55,288
Shareholders' fund	2,90,985	3,24,988	3,87,566	4,11,570	4,43,690
<b>Total liab. and equities</b>	<b>3,97,207</b>	<b>4,52,073</b>	<b>5,17,215</b>	<b>5,55,195</b>	<b>5,97,301</b>
Cash and cash eq.	89,356	1,16,943	39,960	2,20,341	2,49,452
Accounts receivables	5,611	6,458	11,544	10,646	11,982
Inventories	16,486	27,380	32,728	26,361	29,669
Other current assets	54,047	54,811	1,61,329	73,231	84,900
Investments	2,629	1,981	(8,213)	88	88
Net fixed assets	1,15,565	1,32,622	1,21,349	1,14,182	1,06,060
CWIP	1,10,996	1,09,160	1,55,804	1,07,634	1,12,441
Intangible assets	2,518	2,717	2,714	2,712	2,709
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>3,97,207</b>	<b>4,52,073</b>	<b>5,17,215</b>	<b>5,55,195</b>	<b>5,97,301</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>49,551</b>	<b>57,534</b>	<b>30,954</b>	<b>1,52,612</b>	<b>46,095</b>
Capital expenditures	(19,050)	(26,271)	(51,815)	42,464	(10,742)
Change in investments	6,741	7,547	(155)	(13,475)	(7,762)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(12,309)</b>	<b>(18,724)</b>	<b>(51,970)</b>	<b>28,989</b>	<b>(18,503)</b>
Equities issued/Others	(654)	(1,063)	(4,996)	225	225
Debt raised/repaid	3,869	(215)	193	(106)	45
Interest expenses	0	0	0	0	0
Dividends paid	(36,738)	(2,070)	(6,513)	(6,513)	(6,513)
Other financing cash flows	(695)	(976)	(55,000)	0	0
<b>Cash flow from financing</b>	<b>(34,218)</b>	<b>(4,324)</b>	<b>(66,316)</b>	<b>(6,394)</b>	<b>(6,243)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>3,024</b>	<b>34,486</b>	<b>(87,332)</b>	<b>1,75,207</b>	<b>21,349</b>
<b>Closing cash &amp; cash eq.</b>	<b>89,356</b>	<b>1,16,943</b>	<b>39,960</b>	<b>2,20,342</b>	<b>2,49,452</b>

### Per Share

Y/E 31 Mar (Rs)	CY20A	CY21A	FY23P	FY24E	FY25E
Reported EPS	11.9	14.6	11.7	12.8	15.1
Adjusted EPS	12.8	14.6	11.7	12.8	15.1
Dividend per share	18.5	1.0	2.2	2.8	2.8
Book value per share	146.5	163.7	195.2	207.3	223.4

### Valuations Ratios

Y/E 31 Mar (x)	CY20A	CY21A	FY23P	FY24E	FY25E
EV/Sales	2.8	2.3	1.9	1.5	1.2
EV/EBITDA	13.5	10.5	14.2	9.8	7.6
Adjusted P/E	30.0	26.3	32.8	30.0	25.5
P/BV	2.6	2.3	2.0	1.9	1.7

### DuPont Analysis

Y/E 31 Mar (%)	CY20A	CY21A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	77.8	72.4	82.5	68.7	69.1
Interest burden (PBT/EBIT)	96.7	97.3	95.4	96.2	97.1
EBIT margin (EBIT/Revenue)	17.8	18.9	11.0	12.4	13.7
Asset turnover (Rev./Avg TA)	60.4	67.3	79.2	69.0	72.3
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	11.0	12.4	9.3	7.6	9.0

### Ratio Analysis

Y/E 31 Mar	CY20A	CY21A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(9.2)	18.6	7.5	20.4	12.5
EBITDA	8.9	24.1	(34.0)	36.1	22.7
Adjusted EPS	21.3	14.1	(20.0)	9.4	17.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.4	21.4	13.2	14.8	16.2
EBIT margin	17.5	18.6	10.8	12.2	13.5
Adjusted profit margin	10.5	10.1	7.6	6.9	7.2
Adjusted ROAE	11.0	12.4	9.3	7.6	9.0
ROCE	14.1	16.9	9.2	11.1	13.0
<b>Working capital days (days)</b>					
Receivables	8	8	14	11	11
Inventory	25	35	39	26	26
Payables	109	109	101	94	93
<b>Ratios (x)</b>					
Gross asset turnover	1.3	1.4	1.8	1.7	1.9
Current ratio	1.7	1.8	2.1	2.5	2.7
Net interest coverage ratio	30.6	37.1	21.6	26.4	34.4
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 accounting 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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