

HOLD
 TP: Rs 449 | ▲ 7%

AMBUJA CEMENTS

| Cement

| 04 November 2023

Relatively weak show

- Standalone Q2 revenue grew just 8% YoY (-16% QoQ) as net volumes dropped 9% (-18% QoQ)
- EBITDA/t shot up YoY to Rs 1,018/t off a weak base and on lower costs; EBITDA more than doubled to Rs 7.7bn
- TP revised to Rs 449 (vs. Rs 435) as we raise FY24/FY25 EBITDA by 15%/1%; maintain HOLD

Milind Raginwar | Shree Kirloskar
 research@bobcaps.in

Volume growth muted as floods dampened sales in key markets: ACEM reported standalone Q2FY24 revenue growth of only 8% YoY (-16% QoQ) to Rs 39.7bn as net volumes dropped 10% (-18% QoQ). Realisations stayed flat YoY/QoQ at Rs 5,223/t as ACEM's key operating markets were affected by floods. Consolidated revenue growth was also muted at 5% YoY to Rs 71.1bn as volumes grew only 2% to 13.1mn tonnes. Blended cement formed ~89% of total volumes while premium product contribution rose 80bps YoY to 23.4% of trade sales.

Cost efficiencies fueling operating performance: Operating cost/tonne fell 11% YoY to Rs 4,206/t from Rs 4,741/t (Rs 4,848/t in Q1FY24) as fuel cost dropped by Rs 700/t+ YoY to Rs 1,270/t. Energy cost adjusted for raw material also fell ~8% to Rs 2,226/t, and freight and raw material cost softened YoY. Consequently, EBITDA/t shot up YoY to Rs 1,018/t from a weak base of Rs 429/t (-16% QoQ) and standalone EBITDA grew more than 2x to Rs 7.7bn from Rs 3bn in the year-ago quarter (-18% QoQ). Consolidated EBITDA rose to Rs 12.7bn from a weak base of Rs 3.1bn in Q2FY23 and EBITDA/t jumped to Rs 995 from Rs 255.

Capacity expansion roadmap: Management reiterated that ~40mt of clinker capacity (10 new cement kilns) will be added as part of its medium-term plan of reaching 140mt largely in brownfield capacity by FY28. Further, ACEM is targeting ~35 new grinding units (2 units at the upcoming clinker facility at Bhatapara, Chattisgarh; and 1 each at Sankaren, Kolkata; Farakka, West Bengal; and Chandrapur, Maharashtra). ACEM is in the process of securing environment clearance for the Chandrapur unit.

Maintain HOLD: To factor in the cost savings & capacity addition (Sanghi Industries acquisition), we raise our FY24/FY25 EBITDA estimates by 15%/1% and EPS by 21%/3%, leading to a revised SOTP-based TP of Rs 449 (vs. Rs 435). We assign 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), which is a 2x premium to the industry average. However, upside potential appears limited at current valuations and hence we retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ACEM IN/Rs 421
Market cap	US\$ 10.2bn
Free float	37%
3M ADV	US\$ 16.3mn
52wk high/low	Rs 598/Rs 315
Promoter/FPI/DII	63%/11%/17%

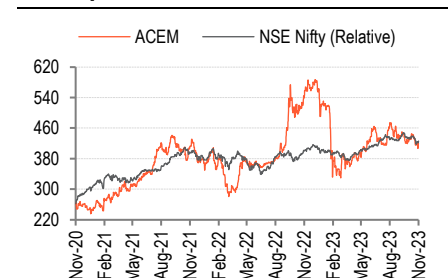
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	3,84,449	3,77,126	4,38,193
EBITDA (Rs mn)	51,224	65,987	77,738
Adj. net profit (Rs mn)	29,024	32,698	36,075
Adj. EPS (Rs)	11.7	16.5	18.2
Consensus EPS (Rs)	11.7	16.2	18.2
Adj. ROAE (%)	9.3	9.5	10.1
Adj. P/E (x)	36.0	25.6	23.2
EV/EBITDA (x)	15.8	12.0	9.8
Adj. EPS growth (%)	(20.0)	40.8	10.3

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	Q2FY24	Q1FY24	Our view
Volumes and Realisation	<p>ACEM's Q2 sales volume fell 10% YoY (-18% QoQ) to 6.4mt due to weaker growth in July as floods hit its key northern markets. Management indicated double-digit volume growth in Oct'23 driven by 8-10% growth in the eastern region. Q2 realisation was at Rs 5,223/t.</p> <p>Blended cement formed 89% of total trade volumes and premium product share was at 23.4%.</p> <p>Volumes from the master supply agreement (MSA) with ACC totalled 1.2mt.</p>	<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 Rs 5,657/t.</p> <p>Trade mix was stable at 75-78% of total volumes.</p>	<p>The capacity addition roadmap lends comfort on volume growth. In the medium-term, the contribution from the Sanghi Industries (SIL) acquisition should help ACEM keep pace with industry growth.</p>
Margins & Cost reduction	<p>EBITDA/t came in at Rs 1,018/t (margin at 19.5%). Management has guided for EBITDA/t of Rs 1,450-1,500 within a span of ~36 months.</p> <p>WHRS capacity stands at 90MW and management aims to increase this to 175MW by Q4FY25.</p> <p>Freight cost declined 3.1% YoY to Rs 1,122/t with a reduction in primary lead distance (from 174km to 165km), and improvement in rail coefficient (26% to 28%) and direct dispatch to customers (44% to 49%).</p> <p>Other costs reduced by 13.5% YoY to Rs 829/t due to unifying of the employee hierarchy.</p>	<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>Overall operating performance is likely to improve with the ongoing cost rationalisation.</p>
Capacity	<p>The Ametha unit was commissioned in Q2FY24, enhancing clinker capacity by 3.3mt. Management reiterated that ~40mt of clinker capacity (10 new cement kilns) will be added as part of its medium-term plan of reaching 140mt largely in brownfield capacity by FY28.</p> <p>Management also is targeting the setup of ~35 grinding units at Jalgaon (MH), Farakka (WB), Kharagpur (WB), Bhatinda (Punjab) and Salai Banwa (UP).</p>	<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 these are due to be commissioned in 24 months. A 1mt facility is proposed at the Bhatinda grinding unit in Punjab.</p> <p>SIL's 6.6mt cement and 6.1mt clinker capacity will further boost 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>The capacity roadmap adds clarity on the company's growth path. Execution will be the key.</p>
Green energy	<p>ACEM is setting up a 200MW captive renewable power generation facility in Bihar which is to be commissioned by FY24.</p>	<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</p>	<p>The company is taking several initiatives to shift to alternate energy sources.</p>

Parameter	Q2FY24	Q1FY24	Our view
	Environmental clearance for setting up the Bhatapara plant has been received while the same is awaited for the Maratha plant.	will each have 42MW of WHRS and utilise 50% of AFR.	
Capex	Q2 capex was ~Rs 11bn, funded through internal accruals and cash in hand. Capex for FY24 is guided at Rs 75bn, of which Rs 50bn is allocated to ACEM and Rs 25bn is allocated to ACC.	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.	The capex guidance is in line with the capacity growth targeted by ACEM.
Sanghi acquisition	ACEM acquired SIL during Q2FY24 at an EV of Rs 50bn. The acquisition is expected to conclude in Q3FY24 and will be funded through internal accruals. Management expects the acquisition to assist capacity expansion plan of 140mtpa ahead of FY28.	NA	We expect a meaningful contribution from SIL from FY25.
Other relevant information	Consolidated cash & cash equivalents at the end of Q2FY24 totalled ~Rs 117bn. Total limestone reserves as on Q2FY24 are 584mt.	Consolidated cash & cash equivalents at the end of Q1FY24 stood at ~Rs 119bn.	A healthy balance sheet has been a hallmark of ACEM.

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

Fig 2 – Key quarterly metrics

(Rs)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (mn mt)	6.40	7.10	(9.9)	7.80	(17.9)
Cement realisations (Rs/mt)	5223	5170	1.0	5197	0.5
Operating costs (Rs/mt)	4206	4741	(11.3)	4848	(13.2)
EBITDA/t (Rs/mt)	1018	429	137.4	1216	(16.3)

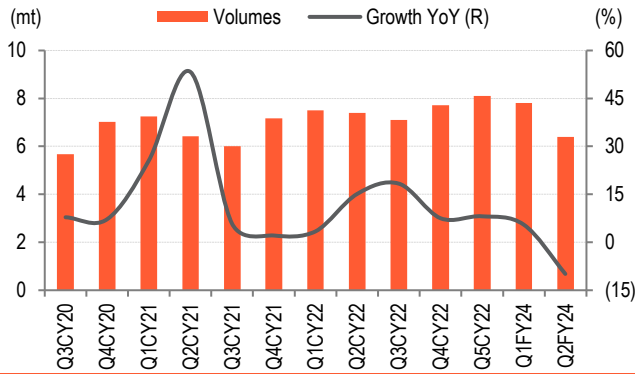
Source: Company, BOBCAPS Research

Fig 3 – Quarterly performance

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net Sales	39,698	36,704	8.2	47,297	(16.1)
Expenditure					
Change in stock	(915)	(1,309)	(30.1)	(573)	59.6
Raw material	3,721	3,057	21.7	4,743	(21.6)
Purchased products	4,462	1,212	268.2	4,658	(4.2)
Power & fuel	9,653	14,147	(31.8)	11,715	(17.6)
Freight	8,525	8,395	1.6	10,465	(18.5)
Employee costs	1,490	1,532	(2.8)	1,309	13.8
Other expenditure	5,028	6,627	(24.1)	5,495	(8.5)
Total Operating Expenses	31,964	33,661	(5.0)	37,812	(15.5)
EBITDA	7,734	3,043	154.1	9,485	(18.5)
EBITDA margin (%)	19.5	8.3	1119bps	20.1	(57bps)
Other Income	3,781	470	704.0	1,895	99.6
Interest	435	228	90.8	396	9.8
Depreciation	2,286	1,571	45.5	2,319	(1.4)
PBT	8,795	1,715	412.8	8,665	1.5
Non-recurring items	0	152	-	0	NM
PBT (after non-recurring items)	8,795	1,563	462.7	8,665	1.5
Tax	2,357	184	1,180.1	2,216	6.3
Reported PAT	6,438	1,379	366.9	6,449	(0.2)
Adjusted PAT	4,938	340	1,353.3	6,449	(23.4)
NPM (%)	12.4	0.9	1151bps	13.6	(119bps)
Adjusted EPS (Rs)	2.5	0.2	1,353.3	3.2	(23.4)

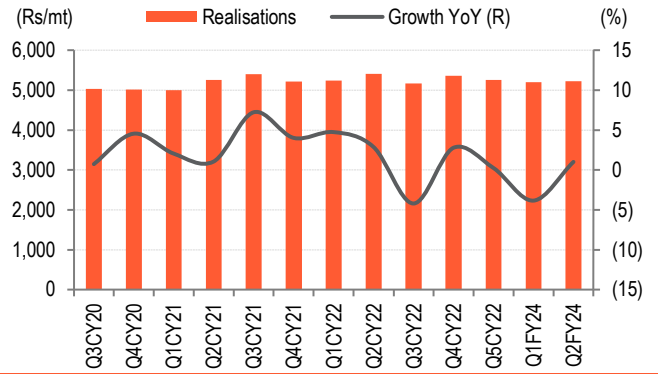
Source: Company, BOBCAPS Research | Other Income for Q2FY24 includes Rs 1500mn related to tax adjustment of previous period.

Fig 4 – Volume impact due to wet season in key markets



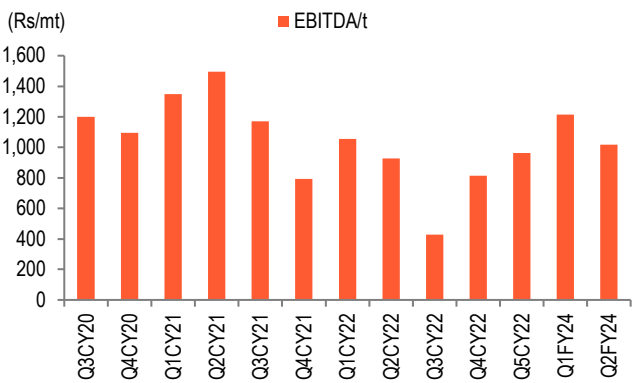
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar, thus, CY22/FY23 consists of 5 quarters

Fig 5 – Realisation stay muted, a negative surprise



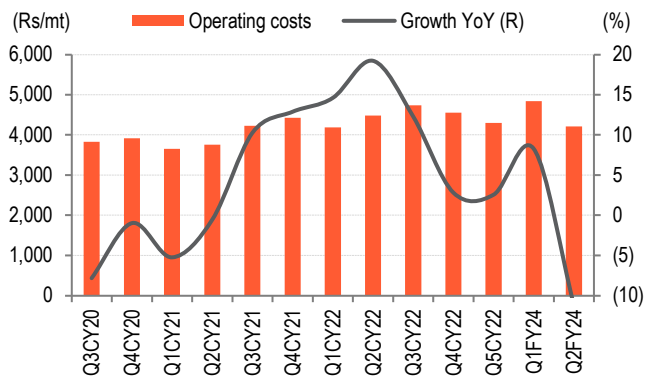
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t driven largely by cost savings



Source: Company, BOBCAPS Research

Fig 7 – Operating cost savings driven by fuel cost



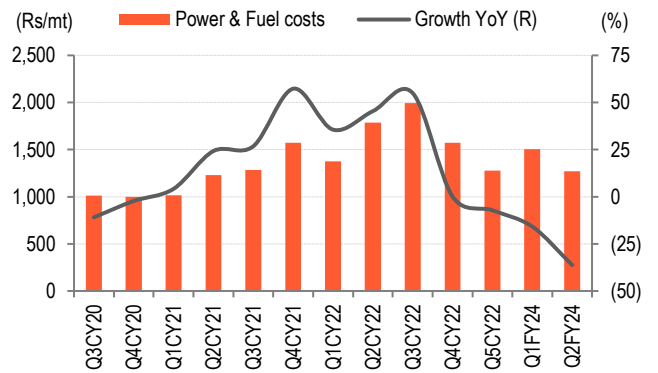
Source: Company, BOBCAPS Research

Fig 8 – Logistics cost savings largely driven by MSA synergies



Source: Company, BOBCAPS Research

Fig 9 – Fuel cost savings due to lower cost and partially due to MSA synergies



Source: Company, BOBCAPS Research

Valuation methodology

To factor in ACEM's cost savings & partial capacity addition (Sanghi Industries acquisition), we raise our FY24/FY25 EBITDA estimates by 15%/1% and EPS estimates by 21%/3%, leading to a revised SOTP-based TP of Rs 449 (vs. Rs 435). Capacity expansion is largely beyond FY25 (except for SIL acquisition) and hence the full impact will be reflected from FY26.

We assign 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), which is a 2x premium to the industry average. However, upside potential appears limited at current valuations and hence we retain our HOLD rating.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,77,126	4,38,193	3,75,440	4,49,691	0.4	(2.6)
EBITDA	65,987	77,738	57,388	77,054	15.0	0.9
Adj PAT	32,698	36,075	27,088	35,072	21	3.0
Adj EPS (Rs)	16.5	18.2	13.6	17.7	21.1	3.0

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	27.17	29.12	33.62	39.57
Realisations (Rs/mt)	5,060	5,212	5,369	5,543
Operating costs (Rs/mt)	3052.2	4549.7	4168.0	4343.4
EBITDA/mt (Rs)	1028	777	899	941

Source: Company, BOBCAPS Research

Fig 12 – SOTP valuation summary

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	13
EBITDA (Rs mn)	50,085
Target EV (Rs mn)	663125.5
Total EV	663125.5
Net debt	(63,177)
Target market capitalisation	7,26,303
ACEM's standalone value (Rs/sh) (A)	366
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)	449

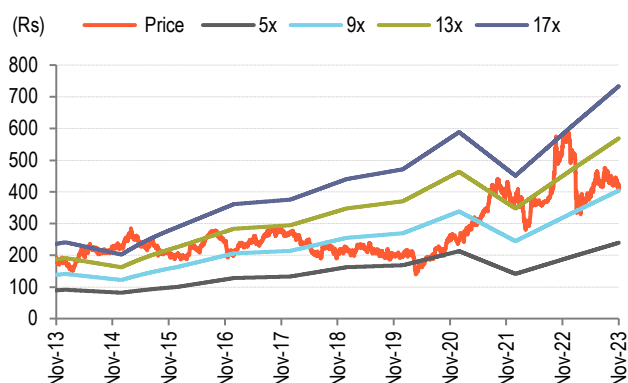
Source: BOBCAPS Research

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	449	18.0	10.8	8.9	286	215	204	9.3	9.5	10.1	9.2	13.8	14.6
ACC IN	BUY	2,158	22.9	12.2	9.0	121	106	98	5.2	8.1	11.2	7.9	11.0	14.5
UTCEM IN	HOLD	9,396	24.9	18.0	13.7	227	226	193	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

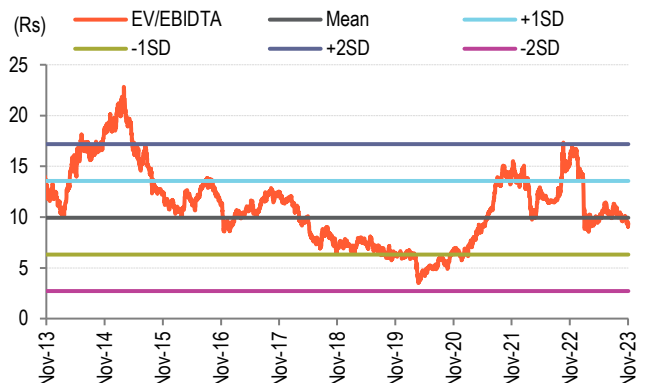
Source: BOBCAPS Research

Fig 14 – Fairly valued leaving limited upside



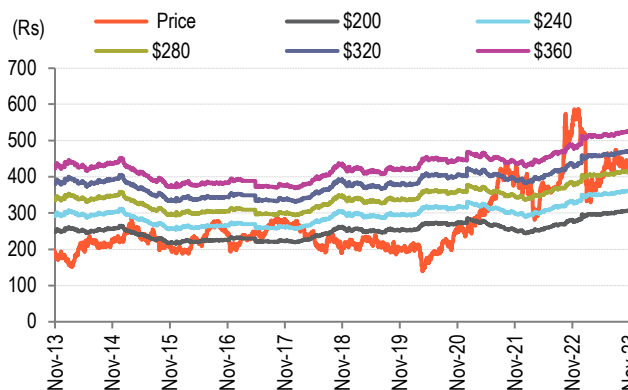
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – Valuations at the long term mean currently



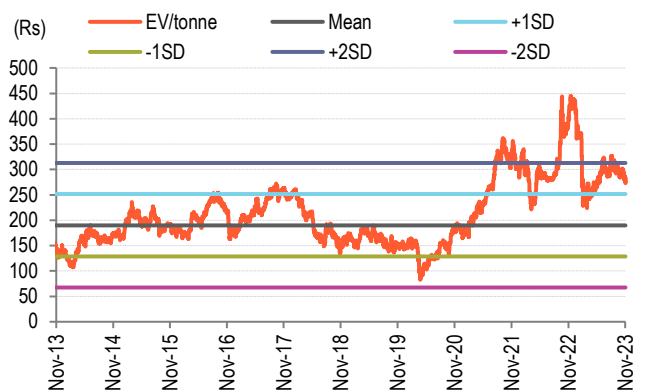
Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – Replacement cost premium is well deserved



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – Size matters for premium replacement cost valuations



Source: Company, Bloomberg, 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 increased competition that can lead to price pressure, impacting realisations and operating performance.
- Delays in planned capacity execution can take performance below our estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.3	1,860	2,158	BUY
Ambuja Cements	ACEM IN	10.2	421	449	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,074	2,286	HOLD
JK Cement	JKCE IN	2.9	3,132	3,474	HOLD
JK Lakshmi Cement	JKLC IN	1.1	745	551	SELL
Orient Cement	ORCMNT IN	0.5	205	128	SELL
Shree Cement	SRCM IN	11.4	25,958	25,731	HOLD
Star Cement	STRCEM IN	0.8	157	159	HOLD
The Ramco Cements	TRCL IN	2.8	984	585	SELL
Ultratech Cement	UTCEM IN	29.9	8,523	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 Nov 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	3,77,126	4,38,193
EBITDA	50,056	62,103	51,224	65,987	77,738
Depreciation	(11,618)	(11,525)	(16,447)	(14,135)	(17,239)
EBIT	42,934	54,103	42,154	57,399	65,999
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	55,464	63,834
Income taxes	(8,848)	(14,534)	(7,051)	(17,133)	(19,602)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(7,270)	(9,104)	(4,130)	(5,633)	(8,157)
Reported net profit	23,654	29,007	29,024	32,698	36,075
Adjustments	1,760	0	0	0	0
Adjusted net profit	25,415	29,007	29,024	32,698	36,075

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	3,39,196	3,68,758
Shareholders' fund	2,90,985	3,24,988	3,87,565	4,19,608	4,57,551
Total liab. and equities	3,97,207	4,52,073	5,17,214	5,58,090	6,05,638
Cash and cash eq.	89,356	1,16,943	29,610	51,307	75,668
Accounts receivables	5,611	6,458	11,544	10,849	12,606
Inventories	16,486	27,380	32,728	26,864	31,214
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	1,56,641	1,44,665
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	5,58,090	6,05,638

Cash Flows

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23A	FY24E	FY25E
Cash flow from operations	49,551	57,534	10,675	47,115	40,753
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)	21,697	24,361
Closing cash & cash eq.	89,356	1,16,943	29,610	51,307	75,668

Per Share

Y/E 31 Mar (Rs)	CY20A	CY21A	FY23A	FY24E	FY25E
Reported EPS	11.9	14.6	11.7	16.5	18.2
Adjusted EPS	12.8	14.6	11.7	16.5	18.2
Dividend per share	18.5	1.0	5.0	2.8	2.8
Book value per share	146.5	163.7	195.2	211.3	230.4

Valuations Ratios

Y/E 31 Mar (x)	CY20A	CY21A	FY23A	FY24E	FY25E
EV/Sales	3.1	2.5	2.1	2.1	1.7
EV/EBITDA	15.0	11.6	15.8	12.0	9.8
Adjusted P/E	32.9	28.8	36.0	25.6	23.2
P/BV	2.9	2.6	2.2	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	CY20A	CY21A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	77.8	72.4	82.5	69.1	69.3
Interest burden (PBT/EBIT)	96.7	97.3	95.4	96.6	96.7
EBIT margin (EBIT/Revenue)	17.8	18.9	11.0	15.2	15.1
Asset turnover (Rev./Avg TA)	60.4	67.3	79.3	70.1	75.3
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.3
Adjusted ROAE	11.0	12.4	9.3	9.5	10.1

Ratio Analysis

Y/E 31 Mar	CY20A	CY21A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(9.2)	18.6	7.6	22.6	16.2
EBITDA	8.9	24.1	(34.0)	61.0	17.8
Adjusted EPS	21.3	14.1	(20.0)	40.8	10.3
Profitability & Return ratios (%)					
EBITDA margin	20.4	21.4	13.1	17.2	17.5
EBIT margin	17.5	18.6	10.8	15.0	14.9
Adjusted profit margin	10.5	10.1	7.5	8.7	8.2
Adjusted ROAE	11.0	12.4	9.3	9.5	10.1
ROCE	14.1	16.9	9.2	13.8	14.6
Working capital days (days)					
Receivables	8	8	14	11	11
Inventory	25	35	39	26	26
Payables	109	109	97	92	87
Ratios (x)					
Gross asset turnover	1.3	1.4	1.6	1.4	1.6
Current ratio	1.7	1.8	2.2	2.3	2.5
Net interest coverage ratio	30.6	37.1	21.6	29.7	30.5
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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 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
 Brand Name: **BOBCAPS**
 Trade Name: **www.barodaetrade.com**
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HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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