

**HOLD**

TP: Rs 667 | ▲ 0%

**AMBUJA CEMENTS**

| Cement

| 02 August 2024

**Weak present but promising future; retain HOLD**

- Volume-driven revenue growth as realisation weakens by 6.5% YoY owing to weak demand in key markets
- Cost structure pulls EBITDA lower at 15% and EBITDA/t stabilising at Rs 695 indicates operating cost stress
- We value ACEM’s consolidated business at 13x 1-year forward and increase our TP to Rs 667. Retain HOLD

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**Weak revenue growth due to dent in realisations:** ACEM reported Q1FY25 (standalone) revenue decline of 4.5%/5.5% YoY/QoQ to Rs 45.1bn due to weak realisations as volume grew 2.2% YoY (-2.1% QoQ) to 9.3mn tonnes. Realisation weakened by 6.5%/3.5% YoY/QoQ to Rs 4,856/t. Consolidated revenue grew 9%/12% YoY/QoQ to Rs 88.9bn net of master supply agreement (MSA) sales, as volumes increased 17% YoY/QoQ to 16.6mt. Blended cement formed 86% of total trade volumes and premium product share was 24% (200bps QoQ).

**Operating performance puts pressure on EBITDA margin:** Operating cost stayed flat YoY/QoQ to Rs 4,161/t. Though energy cost fell 24% YoY (+4.7% QoQ) to Rs 978/t as kiln fuel cost declined 17% YoY to Rs 1.73/kcal (from Rs 2.08/kcal in Q1FY25), the spurt in raw material cost (including clinker purchases) by a strong 50% YoY offset all the other benefits. Logistics cost also rose by 4.8%/0.6% YoY/QoQ to Rs 1,095/t. Effectively, EBITDA margin stood at 14.3%, down 570bps YoY (240bps QoQ). EBITDA/t fell (33.4%/17.3% YoY/QoQ) to Rs 695.

**Capacity expansion on track:** With the acquisition of Penna Cement, ACEM’s operating cement capacity will reach ~89mn tonnes (mnt) by FY25-end. ACEM is on course to commission the 4mnt clinkerisation unit at Bhatapara (Chhattisgarh) and associated grinding unit at Sankrail and Farakka in West Bengal and Sindri in Jharkhand by FY25-end. In our view, ACEM’s capacity expansion road map till FY28 is well defined.

**Maintain HOLD:** We reduce our EBITDA estimates for FY25/FY26 earnings by 2%/6% to factor in slower volume growth in FY25 and increased competitive pressure in FY26. However, our FY25/FY26 PAT estimates are revised upwards by 6%/flat due to better tax benefits. We introduce FY27 estimates with revenue/EBITDA/PAT CAGR of 7%/10%/10% over FY24-FY27. We value ACEM’s consolidated business by assigning EV/EBITDA of 13x 1-year forward earnings and raise our TP to Rs 667 from Rs 580. Our TP implies a replacement cost of Rs 13bn/mnt – ~2x premium to the industry. We retain HOLD.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	ACEM IN/Rs 664
Market cap	US\$ 15.7bn
Free float	37%
3M ADV	US\$ 31.1mn
52wk high/low	Rs 707/Rs 404
Promoter/FPI/DII	63%/11%/17%

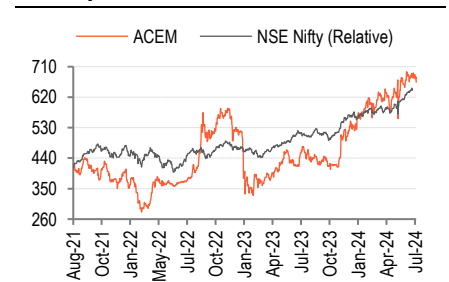
Source: NSE | Price as of 1 Aug 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,31,596	4,12,950	4,67,014
EBITDA (Rs mn)	75,793	79,021	95,552
Adj. net profit (Rs mn)	39,203	38,597	46,182
Adj. EPS (Rs)	18.7	17.6	21.0
Consensus EPS (Rs)	18.7	16.8	23.0
Adj. ROAE (%)	11.2	9.3	10.0
Adj. P/E (x)	35.4	37.8	31.6
EV/EBITDA (x)	15.9	14.7	15.2
Adj. EPS growth (%)	60.3	(6.3)	19.7

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

	Q1FY25	Q4FY24	Our view
Volumes and realisations	<p>Management expects industry growth at ~7-9% and ACEM consolidated to beat industry growth. This is despite the weak demand in Q1FY25. ACEM's current market share is ~14% and its target is to hit ~20% by FY28. Blended cement formed 86% of total trade volumes and premium product share was at 24% (200bps QoQ).</p>	<p>ACEM's Q4FY24 standalone sales volume (including MSA sales of 1.46mnt to ACC) grew 17% YoY way ahead of industry growth, according to management. Management expects the industry to grow at 7-8% YoY in FY25, despite the impact of elections in 1QFY25 and ACEM to beat industry with a healthy margin as it did in 4Q. ACEM's current market share is ~14%, with a target to hit ~20% by FY28.</p> <p>Blended cement formed 86% of total trade volumes and premium product share was at 24% (200bps QoQ).</p>	<p>Contributions from Sanghi Industries (SIL) and the Penna Cement acquisition should help ACEM keep pace ahead of industry growth in FY25. For the long term, a clear capacity addition roadmap adds comfort on volume growth.</p>
Margins & cost reduction	<p>EBITDA/t for Ambuja Cement (consolidated) was Rs 807 in Q1FY25, sharply down YoY and QoQ as cost-cutting initiatives could only marginally offset the dent in realisation. Power and fuel costs decreased to Rs 1,304/t in Q1FY25 from Rs 1,501/t in Q1FY24. Freight cost fell by 8% YoY to Rs 1,299/t. The company targets to reduce primary lead distance by 100km. Primary lead distance was 270km and secondary lead distance 46km in Q1FY25. Direct dispatch to customers improved to 55%. Kiln fuel cost declined 17% YoY to Rs 1.73/kcal (from Rs 2.08/kcal in Q1FY25).</p>	<p>EBITDA/t stood at Rs 840 in Q4FY24, sharply down YoY and QoQ as cost cutting initiatives could only marginally offset the realisation dent.</p> <p>Freight cost fell by 4% YoY to Rs 1,102/t and average lead distance stood at 276km (271km in 4QFY23). The rail coefficient stood at 27% and direct dispatch to customer improved to 54%. Secondary lead distance, reduced by 4 km to 48km.</p> <p>Kiln fuel cost declined 17% YoY to Rs 1.84/kcal (from Rs 2.21/kcal in Q4FY23).</p>	<p>Logistics cost optimisation will be the key for ACEM as it further improves on the grinding units and its presence across additional regions. Energy cost benefits may be limited only to green energy usage due to base effect.</p>
Capacity	<p>The capacity expansion road map revealed earlier continues with no change in plans. With the ongoing acquisition of Penna Cement, the company's operating cement capacity is 89mnt. ACEM has identified 14 additional grinding unit projects that will enable the company to reach 140mnt by FY28. Approvals are awaited for these projects.</p>	<p>The Q3FY24 capacity expansion road map continues with no change in the company's stance. Additionally, Sanghi Industry's contribution will help ACEM tap southern markets – from Goa to Kerala via the sea route.</p>	<p>With organic and inorganic growth ACEM will not only have capacity addition but also help consolidate/add new markets in the near/medium future.</p>
Green energy	<p>ACEM aims to raise waste heat recovery system (WHRS) capacity to 186MW by FY26 from 165MW currently. ACEM is investing 1000MW in renewable energy (RE) which is expected to be commissioned by FY26. It will ensure 60% of ACEM's power requirement will be through green power which will help reduce power cost to Rs90/t by FY28. The first phase of 200MW is getting commissioned in Q2FY25.</p>	<p>WHRS capacity as at Q4FY24 was 134MW by FY24 end and management targets 186MW by Mar'25. The new clinkerisation units at Maratha and Bhatapara have 42MW of WHRS each.</p>	<p>ACEM's initiatives to shift to alternative energy sources are commendable.</p>

	Q1FY25	Q4FY24	Our view
Capex	Capex of ~Rs 60bn is the overall outlay for the 1000MW initiative, out of which Rs 15bn has been invested and Rs 45bn will be incurred in the next 12 months.	Management has guided for consolidated capex of Rs 75bn of growth capex for FY25. Capex growth from existing 78.9mtpa to 140mtpa will be met through internal accruals and operating cash flows.	Capex guidance is in line with capacity growth ACEM has targeted.
Other relevant information	Consolidated cash & cash equivalents at the end of Q1FY25 totalled ~Rs 182bn. ~Rs 60bn was utilised, of which Rs 33bn was for organic and inorganic growth namely the Tuticorin grinding unit acquisition, ongoing capex programme and Penna Cement acquisition, dividend outflow of Rs 6.3bn and the balance towards working capital.	Consolidated cash & cash equivalents at the end of Q4FY24 totalled ~Rs 160bn (Rs 243bn including warrant money). Promoters fully subscribed to the warrants programme in ACEM by further infusing Rs 83.39bn in Apr and increased their stake in ACEM by 3.6% to 70.3% (total infusion of Rs 200bn).	ACEM's balance sheet is healthy despite strong capex plans.

Source: Company, BOBCAPS Research

## Valuation methodology

We reduce our EBITDA estimates for FY25/FY26 earnings by 2%/6% to factor in slower volume growth in FY25 and increased competitive pressure in FY26. However, our FY25/FY26 PAT estimates are revised upwards by 6%/flat due to better tax benefits. We introduce FY27 estimates with revenue/EBITDA/PAT CAGR of 7%/10%/10% over FY24-FY27.

We value ACEM’s consolidated business by assigning EV/EBITDA of 13x 1-year forward earnings and arrive at a higher TP of Rs 667 (earlier Rs 580). ACEM’s consolidated valuation helps value the core business with more clarity on operational parameters, growth and margins.

Our TP implies a replacement cost of Rs 13bn/mnt – ~2x premium to the industry. Retain HOLD.

**Fig 2 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,12,950	4,67,014	5,09,397	4,26,188	4,69,288	NA	3.5	0.3	NA
EBITDA	79,021	95,552	1,06,251	80,036	99,643	NA	(1.8)	(5.9)	NA
Adj PAT	38,597	46,182	51,851	39,643	47,427	NA	5.6	0.6	NA
Adj EPS (Rs)	17.6	21.0	23.6	18	21.6	NA	5.6	0.6	NA

Source: BOBCAPS Research

**Fig 3 – Valuation summary**

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	13
EBITDA	95,552
Target EV	1,251,729
Total EV	1,251,729
Net debt	(1,73,187)
Target market capitalisation	14,24,917
Target price (Rs/sh)	667
Weighted average shares (mn)	2197.7

Source: BOBCAPS Research | Valuations are 1-year forward, including partial FY27e earnings

## Key risks

Key upside/downside risks to our estimates are:

- Faster-than-expected demand revival can raise growth ahead of our estimates, representing an upside risk.
- Fierce competitive pressure can pose downside risks to our estimates.
- Rising fuel costs can pose downside risk to earnings.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>3,84,449</b>	<b>3,31,596</b>	<b>4,12,950</b>	<b>4,67,014</b>	<b>5,09,397</b>
EBITDA	51,224	75,793	79,021	95,552	1,06,251
Depreciation	(16,447)	(16,234)	(18,939)	(21,608)	(23,634)
EBIT	42,154	64,976	65,583	79,402	88,113
Net interest inc./(exp.)	(1,949)	(2,764)	(3,344)	(2,990)	(3,308)
Other inc./(exp.)	7,377	5,417	5,500	5,458	5,496
Exceptional items	0	0	0	0	0
EBT	40,205	62,212	62,239	76,412	84,806
Income taxes	(7,051)	(11,626)	(11,974)	(17,582)	(19,428)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(4,130)	(11,383)	(11,667)	(12,648)	(13,526)
<b>Reported net profit</b>	<b>29,024</b>	<b>39,203</b>	<b>38,597</b>	<b>46,182</b>	<b>51,851</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>29,024</b>	<b>39,203</b>	<b>38,597</b>	<b>46,182</b>	<b>51,851</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	72,283	79,512	87,463	96,209	1,05,830
Other current liabilities	42,707	39,537	45,308	46,667	48,067
Provisions	2,795	2,989	3,139	3,296	3,461
Debt funds	4,860	7,414	4,948	4,994	5,040
Other liabilities	7,004	15,491	15,801	16,117	16,439
Equity capital	3,971	3,971	4,395	4,395	4,395
Reserves & surplus	3,13,010	4,17,255	4,50,640	4,91,350	5,37,455
Shareholders' fund	3,87,565	5,15,135	5,60,836	6,14,418	6,74,273
<b>Total liab. and equities</b>	<b>5,17,214</b>	<b>6,60,078</b>	<b>7,17,494</b>	<b>7,81,700</b>	<b>8,53,110</b>
Cash and cash eq.	29,610	1,17,789	1,58,235	1,78,181	2,06,259
Accounts receivables	11,544	12,131	11,314	12,795	13,956
Inventories	32,728	36,086	28,284	30,708	33,495
Other current assets	1,80,423	1,35,118	2,09,800	2,16,771	2,24,117
Investments	2,137	7,863	2,585	2,844	3,128
Net fixed assets	1,42,485	1,54,542	1,80,168	2,08,411	2,35,038
CWIP	1,13,922	1,92,188	1,22,752	1,27,639	1,32,771
Intangible assets	4,366	4,361	4,356	4,351	4,347
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>5,17,215</b>	<b>6,60,078</b>	<b>7,17,494</b>	<b>7,81,700</b>	<b>8,53,110</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>10,675</b>	<b>1,20,919</b>	<b>17,322</b>	<b>80,140</b>	<b>89,225</b>
Capital expenditures	(31,773)	(1,06,552)	24,877	(54,733)	(55,388)
Change in investments	(155)	(5,726)	5,278	(259)	(284)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(31,928)</b>	<b>(1,12,278)</b>	<b>30,155</b>	<b>(54,992)</b>	<b>(55,672)</b>
Equities issued/Others	(4,996)	11,942	649	225	225
Debt raised/repaid	431	2,554	(2,466)	46	47
Interest expenses	0	0	0	0	0
Dividends paid	(13,027)	(4,964)	(5,212)	(5,473)	(5,746)
Other financing cash flows	(48,487)	70,005	0	0	0
<b>Cash flow from financing</b>	<b>(66,079)</b>	<b>79,537</b>	<b>(7,030)</b>	<b>(5,203)</b>	<b>(5,475)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(87,333)</b>	<b>88,178</b>	<b>40,447</b>	<b>19,946</b>	<b>28,078</b>
<b>Closing cash &amp; cash eq.</b>	<b>29,610</b>	<b>1,17,788</b>	<b>1,58,235</b>	<b>1,78,181</b>	<b>2,06,259</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	11.7	18.7	17.6	21.0	23.6
Adjusted EPS	11.7	18.7	17.6	21.0	23.6
Dividend per share	5.0	2.4	2.4	2.5	2.6
Book value per share	195.2	246.3	255.2	279.6	306.8

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.4	3.6	2.8	3.1	2.9
EV/EBITDA	25.3	15.9	14.7	15.2	13.9
Adjusted P/E	56.8	35.4	37.8	31.6	28.1
P/BV	3.4	2.7	2.6	2.4	2.2

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	82.5	81.3	80.8	77.0	77.1
Interest burden (PBT/EBIT)	95.4	95.7	94.9	96.2	96.2
EBIT margin (EBIT/Revenue)	11.0	19.6	15.9	17.0	17.3
Asset turnover (Rev./Avg TA)	79.3	56.3	60.0	62.3	62.3
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
Adjusted ROAE	9.3	11.2	9.3	10.0	10.1

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	7.6	7.8	24.5	13.1	9.1
EBITDA	(34.0)	85.0	4.3	20.9	11.2
Adjusted EPS	(20.0)	60.3	(6.3)	19.7	12.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.1	22.4	18.9	20.2	20.6
EBIT margin	10.8	19.2	15.6	16.8	17.1
Adjusted profit margin	7.5	11.8	9.3	9.9	10.2
Adjusted ROAE	9.3	11.2	9.3	10.0	10.1
ROCE	9.2	13.9	11.7	13.0	13.2
<b>Working capital days (days)</b>					
Receivables	14	13	10	10	10
Inventory	39	40	25	24	24
Payables	97	111	94	93	94
<b>Ratios (x)</b>					
Gross asset turnover	1.6	1.3	1.3	1.3	1.2
Current ratio	2.2	2.5	3.0	3.0	3.0
Net interest coverage ratio	21.6	23.5	19.6	26.6	26.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**BUY** – Expected return >+15%

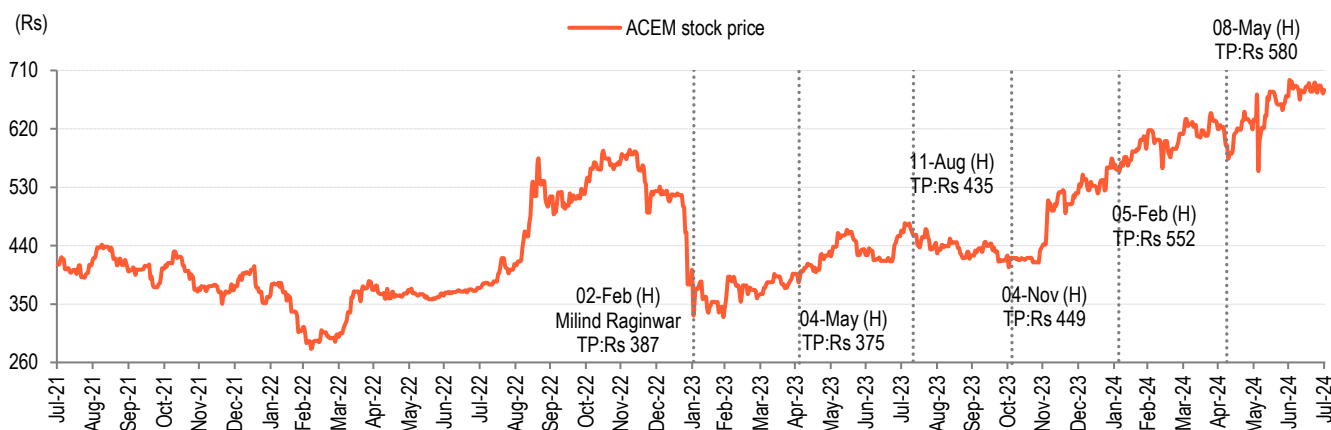
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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### 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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