

**HOLD**  
 TP: Rs 640 | ▲ 12%

**AMBUJA CEMENTS**

| Cement

| 29 October 2024

**Steady 2Q show, gearing for demand revival; retain HOLD**

- Volume-driven revenue growth as realisation weakens by 6.0% YoY due to weak demand in key markets
- Cost structure pulls EBITDA growth lower to 9% and EBITDA/t stabilising at Rs 810 indicates operating cost stress
- We value ACEM’s consolidated business at 13x 1-year forward and lower our TP to Rs 640 (earlier Rs 667). Retain HOLD

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**Dent in realisations offsets volume gain, checks revenue growth:** ACEM reported Q2FY25 (standalone) revenue growth of 6% YoY (down 6% QoQ) to Rs 42.1bn due to weak realisations as volume grew by a healthy 14% YoY (-6% QoQ) to 8.7mn tonnes. Realisation weakened by 7% YoY (flat QoQ) to Rs 4,843/t. Consolidated revenue growth was flat YoY (-10% QoQ) at Rs 75.2bn, as volumes increased 8% YoY (down 10% QoQ to 14.2mnt. Blended cement formed 84% of total trade volumes and premium product share was 26% (200bps QoQ).

**EBITDA margin continues to be under pressure:** Operating cost fell 4%/3% YoY/QoQ to Rs 4,033/t. Though energy cost fell 27%/5% YoY/QoQ to Rs 923/t as kiln fuel cost declined 15% YoY to Rs 1.57/kcal (from Rs 1.85/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 fell by 10%/9% YoY/QoQ to Rs 1,001/t. Effectively, EBITDA margin was 16.7%, down 280bps YoY (+240bps QoQ). EBITDA/t fell 20% YoY (+17% QoQ) to Rs 810.

**Capacity expansion on track:** With the acquisition of Penna Cement and Orient Cement, ACEM’s operating cement capacity will reach ~100mn 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 FY26 is well defined.

**Maintain HOLD:** We reduce our EBITDA estimates for FY25/FY26 earnings by 11%/10% to factor in slower volume growth in FY25 and increased competitive pressure in FY26. However, we raise our FY27 EBITDA estimates by 2% to factor in the full impact of inorganic growth (ORCMNT + Penna). We estimate revenue/EBITDA/ PAT CAGR of 17%/19%/18% over FY24-FY27. We value ACEM’s consolidated business by assigning EV/EBITDA of 13x 1-year forward earnings and lower our TP to Rs 640 from Rs 667. Our TP implies a replacement cost of Rs 10bn/mnt – ~33% premium to the industry. We retain HOLD.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	ACEM IN/Rs 569
Market cap	US\$ 13.4bn
Free float	37%
3M ADV	US\$ 22.7mn
52wk high/low	Rs 707/Rs 404
Promoter/FPI/DII	63%/11%/17%

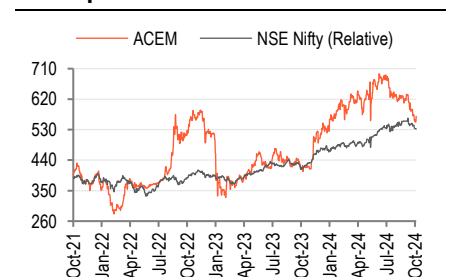
Source: NSE | Price as of 28 Oct 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,25,442	4,06,890	4,60,220
EBITDA (Rs mn)	63,995	70,121	85,672
Adj. net profit (Rs mn)	33,652	34,684	41,685
Adj. EPS (Rs)	16.1	15.8	19.0
Consensus EPS (Rs)	16.1	15.7	22.5
Adj. ROAE (%)	10.1	8.8	9.5
Adj. P/E (x)	35.4	36.1	30.0
EV/EBITDA (x)	16.1	14.3	14.5
Adj. EPS growth (%)	37.6	(1.9)	20.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

	Q2FY25	Q1FY25	Our view
Volumes and realisations	<p>Management expects H2FY25 to grow at 8-9% and overall FY25 to grow at 4-5%. ACEM's current market share is about 15% (20% targeted by FY28E). Blended cement formed 84% of total trade volumes, and premium product share as a percentage of trade sales was 26% (vs 23% YoY).</p>	<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 24% (200bps QoQ).</p>	<p>Contributions from Sanghi Industries (SIL) and the Penna Cement acquisition should help ACEM stay ahead of industry growth in FY25. For FY26/FY27, Orient Cement and a clear capacity addition roadmap add comfort on volume growth.</p>
Margins & cost reduction	<p>Continuous decline in realisation offset by some extent due to cost reduction initiatives undertaken by ACEM. Power and fuel costs slid by 10% to Rs 1,276/t in Q2FY25 from Rs 1,425/t in Q2FY24. Freight cost declined by 7% to Rs 1,282/t YoY. The primary lead distance was 271km and secondary lead distance 47km in Q2FY25. Kiln fuel cost reduced by 13% to Rs 1.59 for 1.82/kcal.</p>	<p>EBITDA/t for Ambuja Cement (consolidated) was Rs 807 in Q1FY25, sharply down YoY and QoQ as cost-cutting initiatives could offset only marginally 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 aims 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>Logistics cost rationalisation, prudent rail-road mix and warehouse optimisation will be the key for ACEM as it improves further on the grinding units and its presence across additional regions. Energy cost benefits may be limited only to green energy usage due to the base effect.</p>
Capacity	<p>ACEM on track to achieve its targeted capacity of 100mt by FY25 end and 140mt by FY28. With the acquisition of Orient Cement, the operating cement capacity will add up to 97mt. ACEM has identified 13 additional grinding unit projects for which land acquisition and statutory approvals are in progress and will help ACEM reach 140mt by FY28.</p>	<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>Thus far ACEM's growth has been driven by inorganic growth. Organic growth will testify to the company's execution capacity. Capacity expansion on track with minor delays.</p>
Green energy	<p>Waste Heat Recovery System (WHRS) is currently at 196MW and targeted to reach 208MW by Q4FY25 as per management. ACEM has ongoing investments in 1,000MW of renewable energy (RE), expected to be commissioned by FY26. This would help to reduce the power cost by Rs 90/t by FY28. The first phase of 200MW at Khawra in Gujarat has been commissioned. Alternative Fuel and Raw Material improved to 9.5% vs 7% YoY, and green fuel mix to 18.2% vs 15.6% YoY.</p>	<p>ACEM aims to raise waste heat recovery system capacity to 186MW by FY26 from 165MW currently. ACEM is investing 1,000MW in renewable energy 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 Rs 90/t by FY28. The first phase of 200MW will be commissioned in Q2FY25.</p>	<p>ACEM's initiatives to shift to alternative energy sources, which were delayed initially, have caught up pace. However, thermal power remains key for core clinker/cement production.</p>
Capex	<p>ACEM spent Rs 35bn on capex in H1FY25 and expects to end FY25 with a capex of Rs 70bn-80bn. This will take the total cement capacity to 118mt by FY26.</p>	<p>Capex of ~Rs 60bn is the overall outlay for the 1,000MW initiative, out of which Rs 15bn has been invested and Rs 45bn will be incurred in the next 12 months.</p>	<p>Capex guidance is in line with capacity growth ACEM has targeted.</p>

	Q2FY25	Q1FY25	Our view
Other relevant information	<p>Cash and cash equivalent was Rs 101.35bn by Q2FY25. During H1FY25 ~Rs 147bn was utilised on account of acquisition and capex, and working capital requirements (increase in Ordinary Portland Cement sales has led to increase in receivables), and ACEM has added up coal inventory of ~65/70 days to expectedly reap the pricing benefit.</p> <p>ACEM won bids for two new limestone mines having reserves of 70mt, each in Madhya Pradesh and Maharashtra.</p>	<p>Consolidated cash &amp; 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.</p>	<p>ACEM's balance sheet is healthy despite strong capex plans.</p>

Source: Company, BOBCAPS Research

**Fig 2 – Key quarterly metrics**

(Rs)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Volumes (mn mt)	8.7	7.6	14.5	9.3	(6.5)	9.29	(6.36)
Cement realisations (Rs/t)	4,843	5,223	(7.3)	4,856	(0.3)	4790	1.10
Operating costs (Rs/t)*	4,033	4,206	(4.1)	4,161	(3.1)	4134	(2.46)
EBITDA/t (Rs)	810	1,018	(20.4)	695	16.6	656	23.53

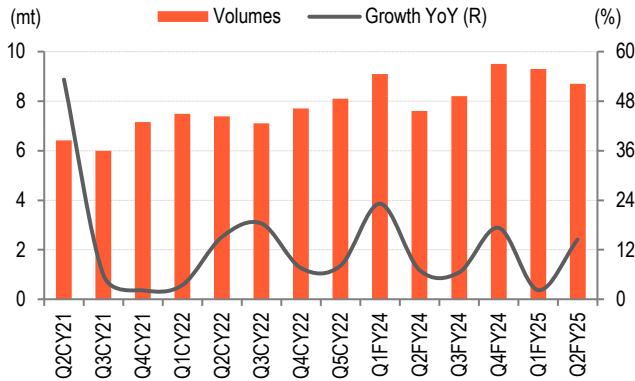
Source: Company, BOBCAPS Research

**Fig 3 – Key quarterly metrics**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
<b>Net Sales</b>	<b>42,132</b>	<b>39,698</b>	<b>6.1</b>	<b>45,158</b>	<b>(6.7)</b>	<b>44,502</b>	<b>(5.3)</b>
<b>Expenditure</b>							
Change in stock	(121)	(915)	(86.7)	(919)	(86.8)	(981)	(87.6)
Raw material	5,145	3,721	38.3	5,414	(5.0)	6,724	(23.5)
Purchased products	7,647	4,462	71.4	9,273	(17.5)	8,160	(6.3)
Power & fuel	8,030	9,653	(16.8)	9,099	(11.7)	8,900	(9.8)
Freight	8,709	8,525	2.2	10,181	(14.5)	9,709	(10.3)
Employee costs	1,318	1,490	(11.5)	1,382	(4.6)	1,372	(4.0)
Other exp	4,357	5,028	(13.3)	4,268	2.1	4,525	(3.7)
<b>Total Operating Expenses</b>	<b>35,084</b>	<b>31,964</b>	<b>9.8</b>	<b>38,698</b>	<b>(9.3)</b>	<b>38,410</b>	<b>(8.7)</b>
<b>EBITDA</b>	<b>7,048</b>	<b>7,734</b>	<b>(8.9)</b>	<b>6,460</b>	<b>9.1</b>	<b>6,093</b>	<b>15.7</b>
EBITDA margin (%)	16.7	19.5	(275bps)	14.3	242bps	13.7	304bps
Other Income	2,650	2,281	16.2	4,203	(37.0)	1,181	124.4
Interest	323	435	(25.8)	409	(21.1)	431	(25.2)
Depreciation	2,398	2,286	4.9	2,450	(2.1)	2,410	(0.5)
PBT	6,977	7,295	(4.4)	7,804	(10.6)	4,433	57.4
Non-recurring items	0	0	0.0	(129)	0.0	0	NM
PBT (after non-recurring items)	6,977	7,295	(4.4)	7,933	(12.0)	4,433	57.4
Tax	1,728	2,357	(26.7)	1,969	(12.2)	1,064	0.0
<b>Reported PAT</b>	<b>5,249</b>	<b>4,938</b>	<b>6.3</b>	<b>5,706</b>	<b>(8.0)</b>	<b>3,369</b>	<b>55.8</b>
Adjusted PAT	5,249	4,938	6.3	5,835	(10.0)	3,369	55.8
NPM (%)	12.5	12.4	2bps	12.9	(46bps)	7.6	489bps
<b>Adjusted EPS (Rs)</b>	<b>2.6</b>	<b>2.5</b>	<b>6.3</b>	<b>2.9</b>	<b>(10.0)</b>	<b>1.7</b>	<b>55.8</b>

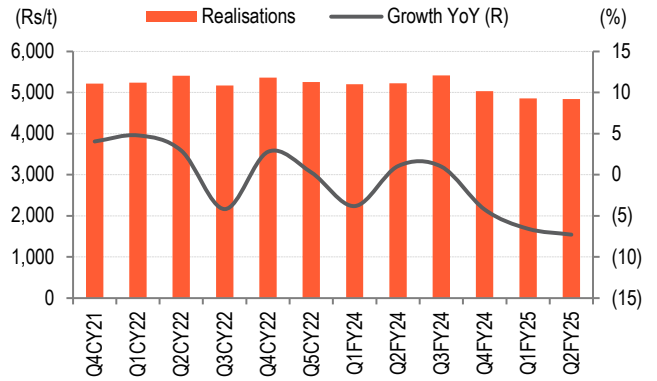
Source: Company, BOBCAPS Research

**Fig 4 – Volume growth drives revenue**



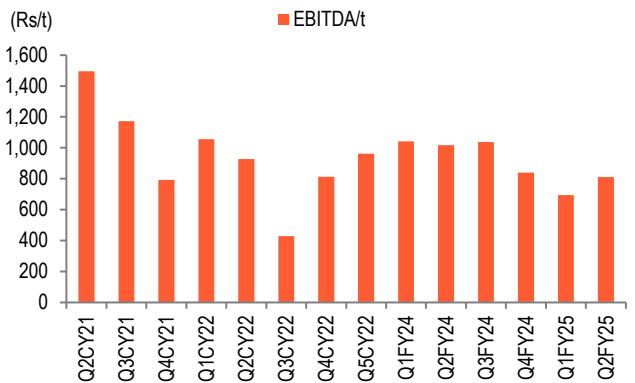
Source: Company, BOBCAPS Research

**Fig 5 – Pricing pressure keeps realisations weak**



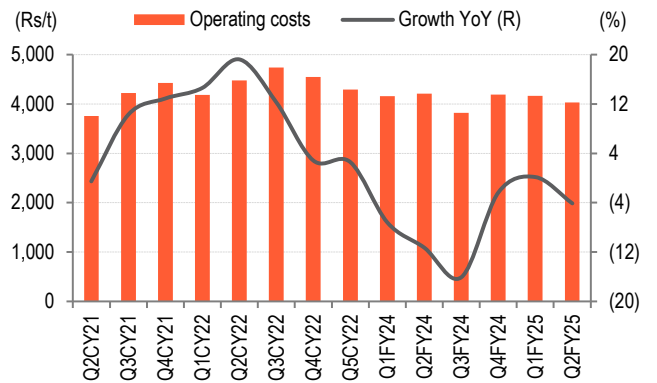
Source: Company, BOBCAPS Research

**Fig 6 – EBITDA/t only partially guarded by cost savings**



Source: Company, BOBCAPS Research

**Fig 7 – Operating cost can soften further, albeit limited**



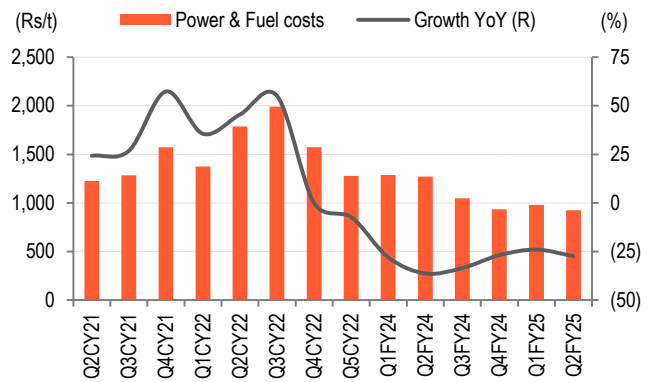
Source: Company, BOBCAPS Research

**Fig 8 – Freight cost likely to contribute savings in mid-term**



Source: Company, BOBCAPS Research

**Fig 9 – New coal blocks and green energy may further boost fuel cost savings**



Source: Company, BOBCAPS Research

### Valuation methodology

We reduce our EBITDA estimates for FY25/FY26 earnings by 11%/10% to factor in slower volume growth in FY25 and increased competitive pressure in FY26. However, we increase our FY27 EBITDA estimates by 2% to factor in the full impact of inorganic growth (ORCMNT + Penna). Sanghi Cement’s full impact and inorganic growth will be key drivers in the first phase of ACEM’s volume growth.

We estimate revenue/EBITDA/PAT CAGR of 17%/19%/18% over FY24-FY27. We value ACEM’s consolidated business by assigning EV/EBITDA of 13x 1-year forward earnings and lower our TP to Rs 640 from Rs 667.

Our TP implies a replacement cost of Rs 10bn/mnt – ~33% premium to the industry. We retain HOLD

**Fig 10 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	4,06,890	4,60,220	5,29,258	4,12,950	4,67,014	5,09,397	(1.5)	(1.5)	3.9
EBITDA	70,121	85,672	1,07,909	79,021	95,552	1,06,251	(11.3)	(10.3)	1.6
Adj PAT	34,684	41,685	56,363	38,597	46,182	51,851	(10.1)	(9.7)	8.7
Adj EPS (Rs)	15.8	19.0	25.6	17.6	21.0	23.6	(10.3)	(9.7)	8.7

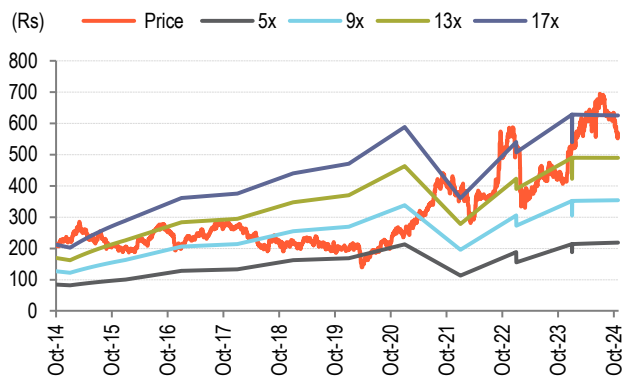
Source: BOBCAPS Research

**Fig 11 – Valuation summary**

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	13
EBITDA	1,07,909
Target EV	14,02,818
Total EV	14,02,818
Net debt	(1,59,149)
Target market capitalisation	15,61,967
<b>Target price (Rs/sh)</b>	<b>639.8</b>
Weighted average shares (mn)	2197.7

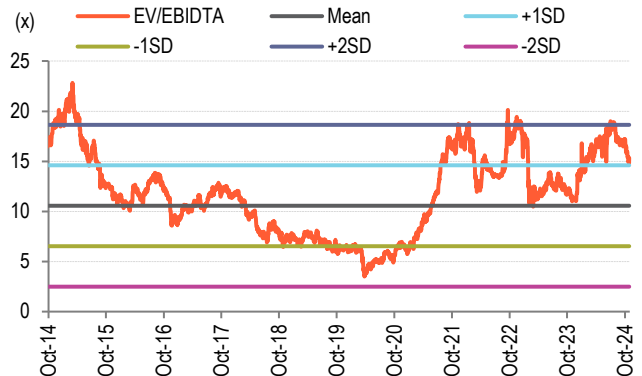
Source: BOBCAPS Research | Valuations are 1-year forward, including partial FY27e earnings

**Fig 12 – EV/EBITDA band: Current valuations may correct on earnings concerns**



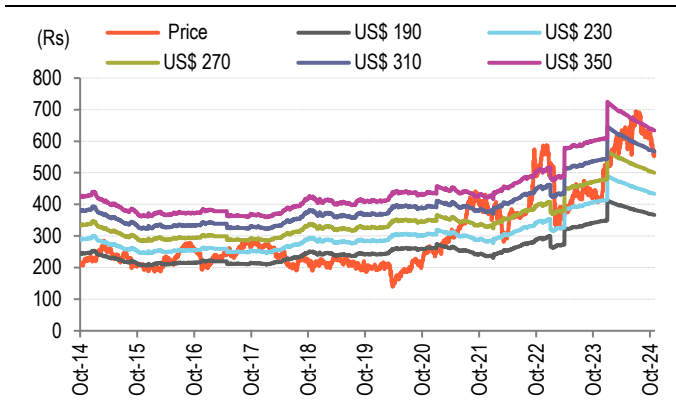
Source: Company, Bloomberg, BOBCAPS Research

**Fig 13 – EV/EBITDA 1Y fwd: Current valuations clearly match forward estimates**



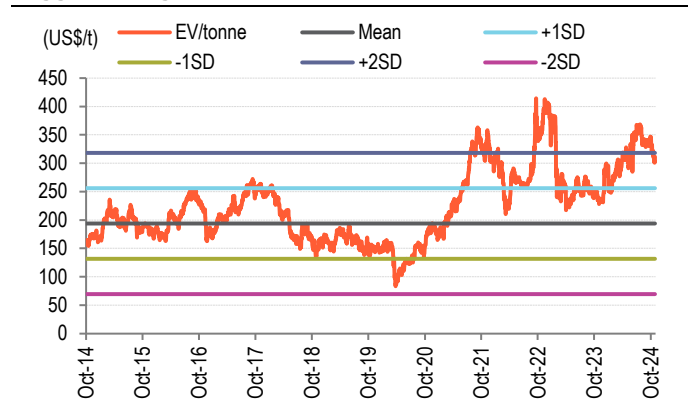
Source: Company, Bloomberg, BOBCAPS Research

**Fig 14 – EV/tonne: Replacement cost at fair valuations**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 15 – EV/tonne 1Y fwd: Valuations ahead relying on aggressive growth plans**



Source: Company, Bloomberg, BOBCAPS Research

### Key risks

Key upside/downside risks to our estimates are:

- Fierce competitive pressure can pose downside risks to our estimates.
- Faster-than-expected demand revival can raise growth ahead of our estimates, representing an upside risk.
- Rising fuel costs due to geo-political issues 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>3,25,442</b>	<b>4,06,890</b>	<b>4,60,220</b>	<b>5,29,258</b>
EBITDA	51,224	63,995	70,121	85,672	1,07,909
Depreciation	(16,447)	(16,234)	(18,939)	(21,608)	(23,634)
EBIT	42,154	59,425	60,811	73,635	93,898
Net interest inc./(exp.)	(1,949)	(2,764)	(3,344)	(2,990)	(3,308)
Other inc./(exp.)	7,377	11,664	9,628	9,572	9,623
Exceptional items	0	0	0	0	0
EBT	40,205	56,662	57,467	70,645	90,590
Income taxes	(7,051)	(11,626)	(11,115)	(16,313)	(20,701)
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>33,652</b>	<b>34,684</b>	<b>41,685</b>	<b>56,363</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>29,024</b>	<b>33,652</b>	<b>34,684</b>	<b>41,685</b>	<b>56,363</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	72,283	63,338	69,671	76,638	84,302
Other current liabilities	42,707	55,711	57,382	59,104	60,877
Provisions	2,795	2,989	3,139	3,296	3,461
Debt funds	4,860	7,414	7,025	7,059	7,095
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	4,10,155	4,39,627	4,75,839	5,26,456
Shareholders' fund	3,87,565	5,08,035	5,49,823	5,98,907	6,63,274
<b>Total liab. and equities</b>	<b>5,17,214</b>	<b>6,52,978</b>	<b>7,02,841</b>	<b>7,61,121</b>	<b>8,35,448</b>
Cash and cash eq.	29,610	1,10,689	1,35,354	1,43,902	1,66,244
Accounts receivables	11,544	12,131	11,148	12,609	14,500
Inventories	32,728	36,086	27,869	30,261	34,801
Other current assets	1,80,423	1,35,118	1,41,269	1,46,170	1,51,337
Investments	2,137	8,486	988	1,087	1,196
Net fixed assets	1,42,485	1,92,413	2,24,982	2,60,862	2,95,891
CWIP	1,13,922	1,22,211	1,25,407	1,30,428	1,35,699
Intangible assets	4,366	35,846	35,823	35,802	35,780
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>6,52,978</b>	<b>7,02,841</b>	<b>7,61,121</b>	<b>8,35,448</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>1,13,362</b>	<b>76,803</b>	<b>76,348</b>	<b>91,849</b>
Capital expenditures	(31,773)	(1,03,923)	(54,682)	(62,487)	(63,912)
Change in investments	(155)	(6,349)	7,497	(99)	(109)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(31,928)</b>	<b>(1,10,272)</b>	<b>(47,185)</b>	<b>(62,586)</b>	<b>(64,021)</b>
Equities issued/Others	(4,996)	1,00,331	649	225	225
Debt raised/repaid	431	2,554	(390)	35	35
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)	(19,933)	0	0	0
<b>Cash flow from financing</b>	<b>(66,079)</b>	<b>77,988</b>	<b>(4,953)</b>	<b>(5,213)</b>	<b>(5,486)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(87,333)</b>	<b>81,078</b>	<b>24,665</b>	<b>8,549</b>	<b>22,342</b>
<b>Closing cash &amp; cash eq.</b>	<b>29,610</b>	<b>1,10,689</b>	<b>1,35,354</b>	<b>1,43,902</b>	<b>1,66,244</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	11.7	16.1	15.8	19.0	25.6
Adjusted EPS	11.7	16.1	15.8	19.0	25.6
Dividend per share	5.0	2.4	2.4	2.5	2.6
Book value per share	195.2	242.9	250.2	272.5	301.8

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.9	3.2	2.5	2.7	2.4
EV/EBITDA	21.6	16.1	14.3	14.5	11.7
Adjusted P/E	48.7	35.4	36.1	30.0	22.2
P/BV	2.9	2.3	2.3	2.1	1.9

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	82.5	79.5	80.7	76.9	77.1
Interest burden (PBT/EBIT)	95.4	95.3	94.5	95.9	96.5
EBIT margin (EBIT/Revenue)	11.0	18.3	14.9	16.0	17.7
Asset turnover (Rev./Avg TA)	79.3	55.6	60.0	62.9	66.3
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
Adjusted ROAE	9.3	10.1	8.8	9.5	11.1

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	7.6	5.8	25.0	13.1	15.0
EBITDA	(34.0)	56.2	9.6	22.2	26.0
Adjusted EPS	(20.0)	37.6	(1.9)	20.2	35.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.1	19.3	17.0	18.3	20.1
EBIT margin	10.8	17.9	14.7	15.8	17.5
Adjusted profit margin	7.5	10.3	8.5	9.1	10.6
Adjusted ROAE	9.3	10.1	8.8	9.5	11.1
ROCE	9.2	12.8	11.0	12.3	14.3
<b>Working capital days (days)</b>					
Receivables	14	14	10	10	10
Inventory	39	40	25	24	24
Payables	97	86	74	73	72
<b>Ratios (x)</b>					
Gross asset turnover	1.6	1.0	1.1	1.0	1.1
Current ratio	2.2	2.4	2.4	2.4	2.5
Net interest coverage ratio	21.6	21.5	18.2	24.6	28.4
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%

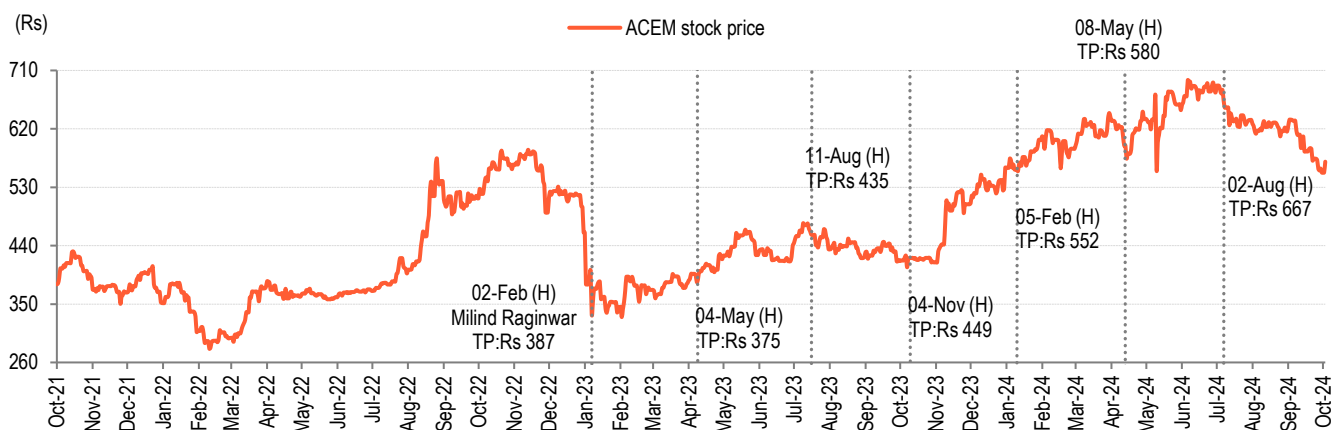
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

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.

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