BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 579 | ⮝ 11%

AMBUJA CEMENTS | Cement | 30 January 2025

Growth intact; transition pain visible; maintain HOLD

- **Volume-driven revenue growth (SA) as realisation weakens by 11.0% YoY due to aggressive push despite weak demand in key markets**
- **Cost structure drags EBITDA (standalone) sharply lower to Rs 4.1bn. EBITDA/t falls steeply to Rs 407 due to operating cost stress**
- **We value ACEM's consolidated business at 13x 1-year forward and lower our TP to Rs 579 (earlier Rs 640). Retain HOLD**

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Dent in realisations offsets volume gains, checks revenue growth: ACEM reported Q3FY25 (standalone) revenue growth of 9%/15% YoY/QoQ to Rs 48.5bn due to weak realisations as volume grew by a healthy 23%/16% YoY/QoQ to 10.1mn tonnes. Realisation weakened by 11% YoY (flat QoQ) to Rs 4,806/t. Consolidated revenue grew 15%/24% YoY/QoQ at Rs 93.28bn, as volumes increased 17%/16.2% YoY/QoQ to 16.5mnt. Blended cement formed 82% of total trade volumes and premium product share was 26% (+400bps YoY).

EBITDA margin continues to be under pressure: Operating cost softening was arrested YoY and increased 9% QoQ to Rs 4,399/t. Power and fuel costs (adjusted to raw material cost) jumped by 10%/12% YoY/QoQ to Rs 2,671/t in Q3FY25 from Rs 2,422/t in Q3FY24 due to adverse raw material movement. Kiln fuel cost reduced by 10% to Rs 1.66/kcal from 1.84/kcal on account of increased use of low cost imported pet-coke. Freight cost fell by 14% to Rs 955/t YoY. EBITDA margin dropped sharply to 9%, from 19%/17% YoY/QoQ. EBITDA/t was at Rs 407, steeply down YoY/QoQ.

Capacity expansion on track: With the acquisition of Penna Cement and Orient Cement, ACEM's cement capacity will reach ~104mn tonnes (mnt) by FY25-end. ACEM's 4mnt clinker unit at Bhatapara (Chhattisgarh) and grinding unit at Sankrail and Farakka (West Bengal) and Sindri (Jharkhand) will go on stream 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/FY27 by 13%/11%/11% to factor in slower realisation growth in FY25 and increased competitive pressure in FY26/FY27. The full impact of inorganic growth (ORCMNT + Penna) transition is hitting performance and may continue in the near/medium term. We estimate revenue/EBITDA/PAT CAGR of 17%/14%/12% 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 579 (from Rs 640). 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 522
Market cap	US$ 12.0bn
Free float	37%
3M ADV	US$ 18.5mn
52wk high/low	Rs 707/Rs 453
Promoter/FPI/DII	63%/11%/17%

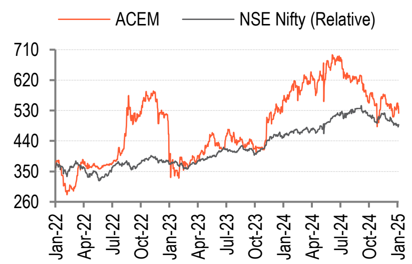
Source: NSE | Price as of 29 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	3,25,442	4,07,022	4,58,726
EBITDA (Rs mn)	63,995	61,296	76,552
Adj. net profit (Rs mn)	33,652	27,448	34,571
Adj. EPS (Rs)	16.1	12.5	15.7
Consensus EPS (Rs)	16.1	13.2	19.1
Adj. ROAE (%)	10.1	7.4	8.4
Adj. P/E (x)	32.5	41.8	33.2
EV/EBITDA (x)	14.6	14.9	15.0
Adj. EPS growth (%)	37.6	(22.4)	26.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Earnings call highlights

	Q3FY25	Q2FY25	Our view
Volumes and realisations	Demand is expected to grow by 4-5% in FY25, further supported by the pro-infra and housing Budget 2025. As per management, ACEM will continue to grow at a faster pace than the industry. Blended cement formed 82% of total trade volumes, and premium product share as a percentage of trade sales was 26% (vs 22% YoY).	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).	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. However, this may continue to impact the performance in the medium term.
Margins & cost reduction	Continuous decline in realisation impact on cost reduction initiatives undertaken by ACEM due to transition is visible. Power and fuel costs slid by 7% to Rs 1,260/t in Q3FY25 from Rs 1,353/t in Q3FY24. Freight cost declined by 6% to Rs 1,239/t YoY. The overall lead reduced by 4km (from 289km to 285km). Kiln fuel cost reduced by 10% to Rs 1.66/kcal from 1.84/kcal due to increased use of low cost imported pet-coke. Management has indicated a cost reduction target of Rs 530/t to Rs 3,650/t by FY28 with progressive Rs 100-150/t in cost savings every year.	Continuous decline in realisation was offset to some extent by 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.	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. However, the transitionary phase is clearly hitting the core performance and will be watched keenly.
Capacity	With the Sindri, Farakka and Sankrail grinding units in advanced stages of completion, acquisition of Orient Cements (OCL) transaction, operational capacities to reach 104mt by Q4FY25, 118mt by FY26 and 140mt target by FY28. Bhatapara Line 3 of clinker capacity is expected to be commissioned in Q4FY25 to supply the above GU. By Mar'25 ACEM expects Sanghi and Penna to reach a capacity utilisation of 80-85% from the current low levels of 40-50%.	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.	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.
Green energy	Waste Heat Recovery System (WHRS) is currently at 197MW and targeted to reach 218MW by Q4FY25 as per management. The commissioned 200MW of solar power at Khavda will lower power costs in upcoming quarters as a part of ACEM's ongoing investments in 1,000MW of renewable energy (RE). Green power share increased to 21.5% from 15.8% YoY	Waste Heat Recovery System is currently at 196MW and targeted to reach 208MW by Q4FY25, as per management. ACEM has ongoing investments in 1,000MW of renewable energy, 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	ACEM's initiatives to shift to alternative energy sources, which were delayed initially, have picked up pace. However, thermal power remains key for core clinker/cement production.

	Q3FY25	Q2FY25	Our view
		7% YoY, and green fuel mix to 18.2% vs 15.6% YoY.	
Capex	ACEM spent Rs 62bn on capex in 9MFY25 and expects to end FY25 with a capex of Rs 90bn.	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.	Capex guidance is in line with the capacity growth ACEM has targeted.
Other relevant information	Cash and cash equivalent was Rs 87.55bn by Q3FY25. 631mt of limestone reserves was acquired in Q3FY25 taking total reserves to 8.3bnt. Besides this, high quality limestone reserves of OCL adds to existing resources. Eight new RMC plants commissioned in Q3FY25 taking the total to 100. Merger of Penna and Sanghi Cement with Adani Cement is awaiting regulatory approvals and going forward management intends to reduce the number of entities.	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. ACEM won bids for two new limestone mines having reserves of 70mt each in Madhya Pradesh and Maharashtra.	ACEM's balance sheet is healthy despite strong capex plans as of now.

Source: Company, BOBCAPS Research

Fig 2 – Key quarterly metrics

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Volumes (mn mt)	10.1	8.2	23.2	8.7	16.1	9.02	11.97
Cement realisations (Rs/t)	4,806	5,414	(11.2)	4,843	(0.8)	4873	(1.38)
Operating costs (Rs/t)*	4,399	3,818	15.2	4,033	9.1	3968	10.86
EBITDA/t (Rs)	407	1,038	(60.8)	810	(49.8)	905	(55.03)

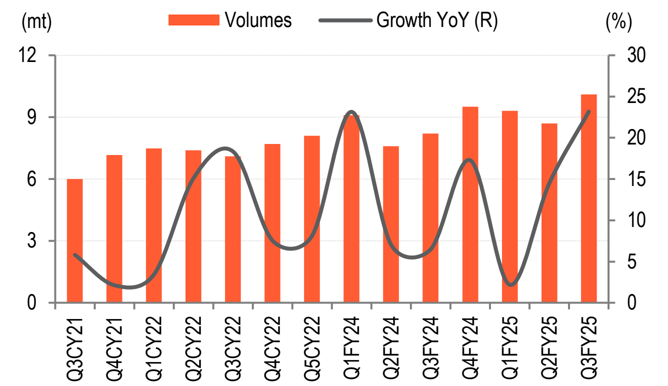
Source: Company, BOBCAPS Research

Fig 3 – Key quarterly metrics

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Net Sales	48,537	44,395	9.3	42,132	15.2	43,953	10.4
Expenditure							
Change in stock	1,233	561	119.8	(121)		(111)	
Raw material	7,552	6,842	10.4	5,145	46.8	5,940	27.1
Purchased products	9,532	3,875	146.0	7,647	24.7	6,729	41.7
Power & fuel	8,662	8,582	0.9	8,030	7.9	8,280	4.6
Freight	9,643	9,133	5.6	8,709	10.7	9,020	6.9
Employee costs	1,425	1,369	4.1	1,318	8.2	1,311	8.7
Other exp	6,377	5,522	15.5	4,357	46.4	4,618	38.1
Total Operating Expenses	**44,426**	**35,885**	**23.8**	**35,084**	**26.6**	**35,788**	**24.1**
EBITDA	**4,111**	**8,511**	**(51.7)**	**7,048**	**(41.7)**	**8,165**	**(49.7)**
EBITDA margin (%)	8.5	19.2	(1,070bps)	16.7	(826bps)	18.6	(1,011bps)
Other Income	2,546	1,082	135.3	2,650	(3.9)	1,091	133.4
Interest	355	454	(21.8)	323	9.9	338	4.9
Depreciation	2,529	2,335	8.3	2,398	5.5	2,411	4.9
PBT	3,774	6,804	(44.5)	6,977	(45.9)	6,507	(42.0)
Non-recurring items	7,066	0	0.0	0	0.0	0	NM
PBT (after non-recurring items)	(3,293)	6,804	(148.4)	6,977	(147.2)	6,507	(150.6)
Tax	1,508	1,668	(9.6)	1,728	(12.7)	1,562	0.0
Reported PAT	**17,580**	**5,137**	**242.2**	**5,249**	**234.9**	**4,945**	**255.5**
Adjusted PAT	2,266	5,137	(55.9)	5,249	(56.8)	4,945	(54.2)
NPM (%)	4.7	11.6	(690bps)	12.5	(779bps)	11.3	(658bps)
Adjusted EPS (Rs)	**1.1**	**2.6**	**(55.9)**	**2.6**	**(56.8)**	**2.5**	**(54.2)**

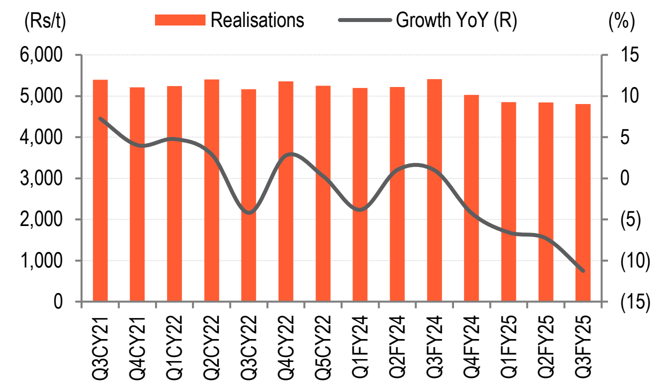
Source: Company, BOBCAPS Research

Fig 4 – Volume growth driven by aggressive push in eastern and southern region



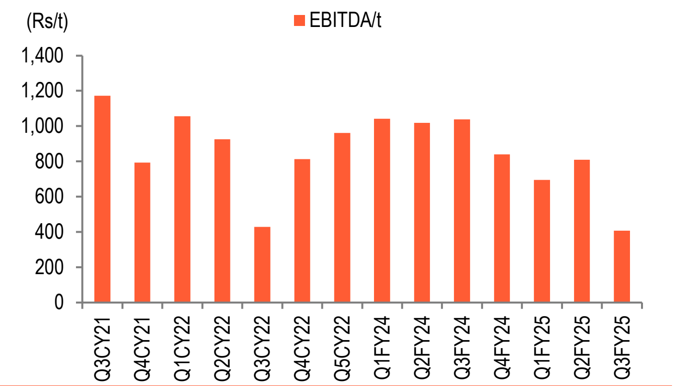
Source: Company, BOBCAPS Research

Fig 5 – Pricing pressure keeps realisations weak



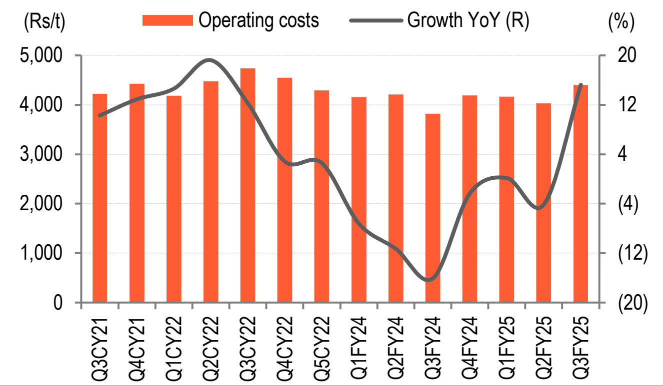
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t dented due to increasing presence in over-crowded markets



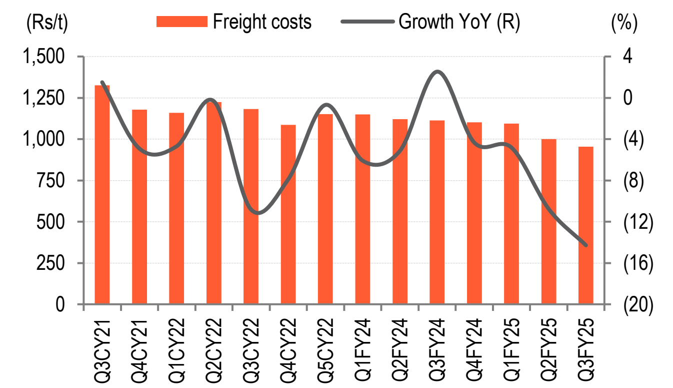
Source: Company, BOBCAPS Research

Fig 7 – Operating cost impacted by transition of acquired assets



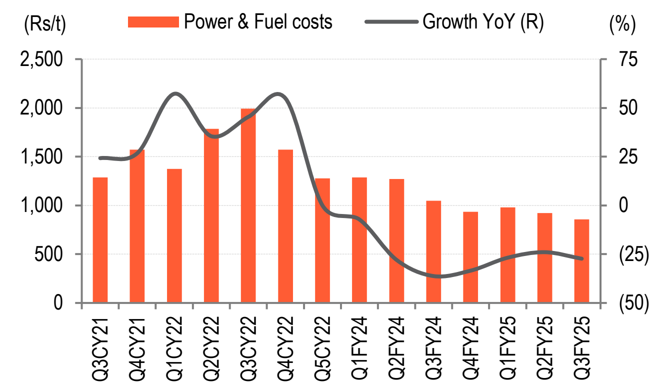
Source: Company, BOBCAPS Research

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/FY27 by 13%/11%/11% to factor in slower realisation growth in FY25 and increased competitive pressures in FY26/FY27. The full impact of inorganic growth (ORCMNT + Penna) transition is hitting ACEM's performance and may continue in the near/medium term. The current phase of transition of the newly-acquired assets, pressure in overcrowded markets on prices and excessive volume push may have some impact on the performance in the interim period. We will keenly watch this and accordingly remain vigilant to the changing business environment and performance of ACEM.

We estimate revenue/EBITDA/PAT CAGR of 17%/14%/12% 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 579 (from Rs 640).

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	4,07,022	4,58,726	5,25,628	4,06,890	4,60,220	5,29,258	0.0	(0.3)	(0.7)
EBITDA	61,296	76,552	95,901	70,121	85,672	1,07,909	(12.6)	(10.6)	(11.1)
Adj PAT	27,448	34,571	46,997	34,684	41,685	56,363	(20.9)	(17.1)	(16.6)
Adj EPS (Rs)	12.5	15.7	21.4	15.8	19.0	25.6	(21.0)	(17.2)	(16.5)

Source: BOBCAPS Research

Fig 11 – Valuation summary

Business (Rs mn)	FY27E
Target EV/EBITDA (x)	13
EBITDA	95,901
Target EV	11,99,724
Total EV	11,99,724
Net debt	(1,35,771)
Target market capitalisation	13,35,496
Target price (Rs/sh)	**579**
Weighted average shares (mn)	2197.7

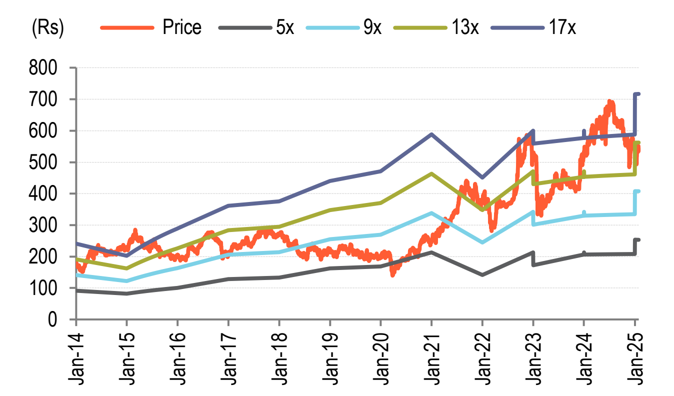
Source: BOBCAPS Research| Valuations are 1-year forward Dec-2026

Fig 12 – 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	579	14.9	15.0	12.1	193	183	175	7.4	8.4	9.9	9.5	11.0	12.9
ACC IN	HOLD	2,282	11.3	8.2	7.7	110.6	101.2	90.9	12.0	13.0	13.0	14.0	15.4	15.2
UTCEM IN	BUY	13,137	25.3	17.6	14.4	286.8	259.8	236.6	10.0	14.4	16.8	12.9	17.8	21.1
SRCM IN	HOLD	24,140	22.3	21.6	17.8	182	179	172	6.7	10.2	12.8	8.8	13.1	16.1

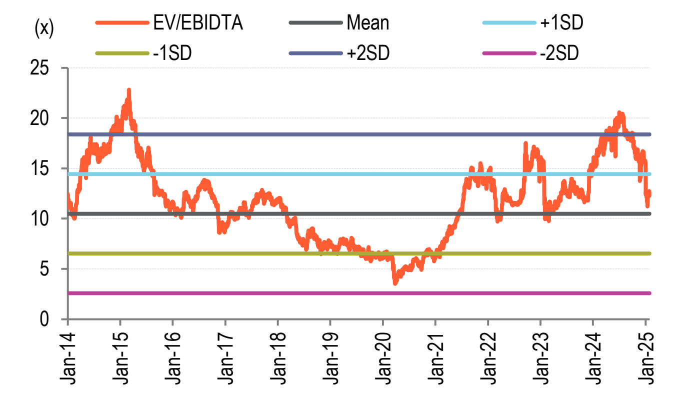
Source: BOBCAPS Research

Fig 13 – EV/EBITDA band: Current valuations may correct on earnings concerns



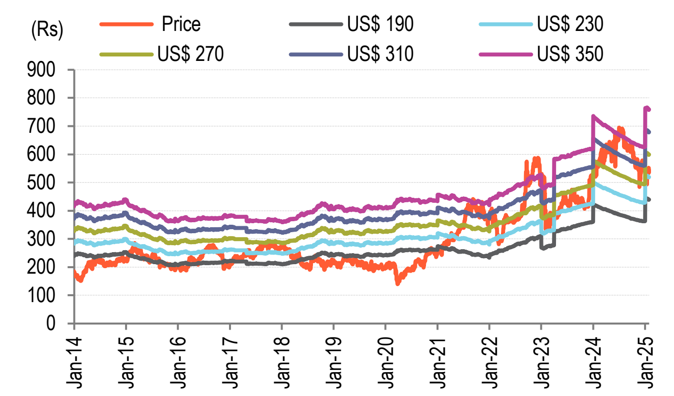
Source: Company, Bloomberg, BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: Current valuations clearly match forward concerns for earnings



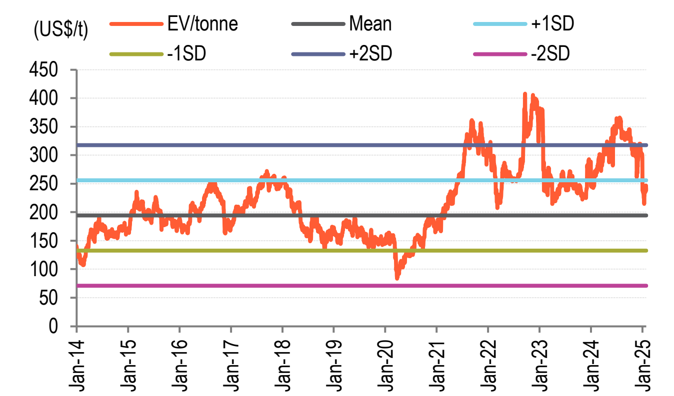
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/tonne: Replacement cost at fair valuations



Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne 1Y fwd: Valuations ahead can soften further



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key 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.

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	**3,84,449**	**3,25,442**	**4,07,022**	**4,58,726**	**5,25,628**
EBITDA	51,224	63,995	61,296	76,552	95,901
Depreciation	(16,447)	(16,234)	(18,939)	(21,608)	(23,634)
EBIT	42,154	59,425	51,985	64,516	81,890
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	48,641	61,526	78,582
Income taxes	(7,051)	(11,626)	(9,527)	(14,307)	(18,059)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(4,130)	(11,383)	(11,667)	(12,648)	(13,526)
Reported net profit	**29,024**	**33,652**	**27,448**	**34,571**	**46,997**
Adjustments	0	0	0	0	0
Adjusted net profit	**29,024**	**33,652**	**27,448**	**34,571**	**46,997**

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	4,32,391	4,61,489	5,02,740
Shareholders' fund	3,87,565	5,08,035	5,42,586	5,84,557	6,39,558
Total liab. and equities	**5,17,214**	**6,52,978**	**6,95,604**	**7,46,772**	**8,11,732**
Cash and cash eq.	29,610	1,10,689	1,28,104	1,29,692	1,42,866
Accounts receivables	11,544	12,131	11,151	12,568	14,401
Inventories	32,728	36,086	27,878	30,163	34,562
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
Total assets	**5,17,215**	**6,52,978**	**6,95,604**	**7,46,772**	**8,11,732**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	**10,675**	**1,13,362**	**69,554**	**69,386**	**82,682**
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
Cash flow from investing	**(31,928)**	**(1,10,272)**	**(47,185)**	**(62,586)**	**(64,021)**
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
Cash flow from financing	**(66,079)**	**77,988**	**(4,953)**	**(5,213)**	**(5,486)**
Chg in cash & cash eq.	**(87,333)**	**81,078**	**17,416**	**1,587**	**13,175**
Closing cash & cash eq.	**29,610**	**1,10,689**	**1,28,104**	**1,29,692**	**1,42,866**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	11.7	16.1	12.5	15.7	21.4
Adjusted EPS	11.7	16.1	12.5	15.7	21.4
Dividend per share	5.0	2.4	2.4	2.5	2.6
Book value per share	195.2	242.9	246.9	266.0	291.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	2.9	2.2	2.5	2.2
EV/EBITDA	19.8	14.6	14.9	15.0	12.1
Adjusted P/E	44.6	32.5	41.8	33.2	24.4
P/BV	2.7	2.1	2.1	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	82.5	79.5	80.4	76.7	77.0
Interest burden (PBT/EBIT)	95.4	95.3	93.6	95.4	96.0
EBIT margin (EBIT/Revenue)	11.0	18.3	12.8	14.1	15.6
Asset turnover (Rev./Avg TA)	79.3	55.6	60.4	63.6	67.5
Leverage (Avg TA/Avg Equity)	1.4	1.3	1.3	1.3	1.3
Adjusted ROAE	9.3	10.1	7.4	8.4	9.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	7.6	5.8	25.1	12.7	14.6
EBITDA	(34.0)	56.2	(4.2)	24.9	25.3
Adjusted EPS	(20.0)	37.6	(22.4)	26.0	35.9
Profitability & Return ratios (%)					
EBITDA margin	13.1	19.3	14.8	16.4	18.0
EBIT margin	10.8	17.9	12.6	13.9	15.4
Adjusted profit margin	7.5	10.3	6.7	7.5	8.9
Adjusted ROAE	9.3	10.1	7.4	8.4	9.9
ROCE	9.2	12.8	9.5	11.0	12.9
Working capital days (days)					
Receivables	14	14	10	10	10
Inventory	39	40	25	24	24
Payables	97	86	72	72	70
Ratios (x)					
Gross asset turnover	1.6	1.0	1.1	1.0	1.1
Current ratio	2.2	2.4	2.4	2.3	2.3
Net interest coverage ratio	21.6	21.5	15.5	21.6	24.8
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%

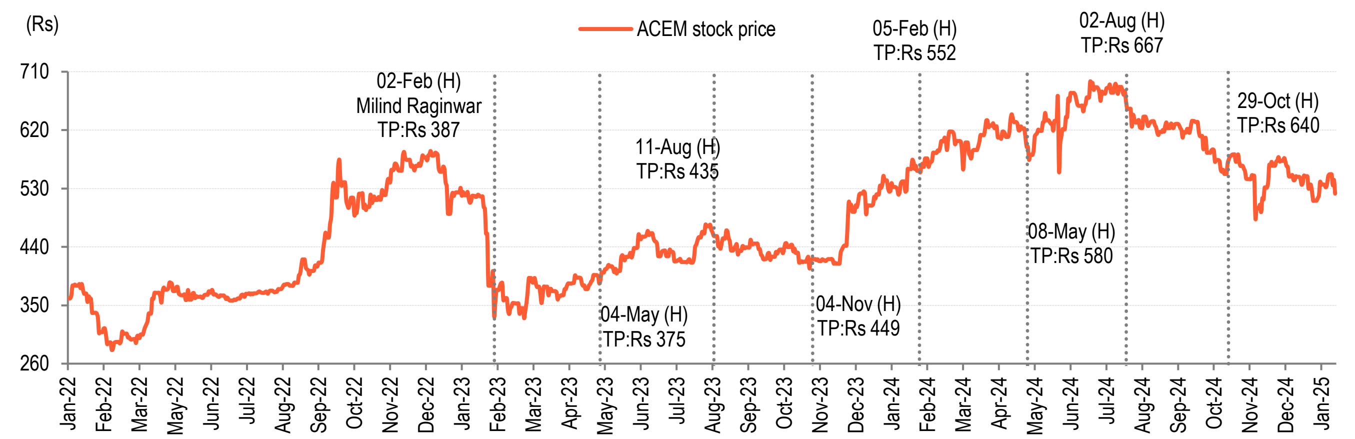
HOLD – Expected return from -6% to +15%

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.

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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