

HOLD
 TP: Rs 580 | ▼ 2%

AMBUJA CEMENTS

Cement

08 May 2024

Cost savings key driver; upside priced in, retain HOLD

- Standalone Q4 revenue grew 12% YoY backed by strong volume gains of 17%, partially offsetting weak realisations
- EBITDA/t fell 12% YoY to Rs 840/t as cost efficiencies couldn't fully cushion the dent in realisation
- Maintain HOLD with new TP of Rs 580 (vs. Rs 552), revising FY25/FY26 earnings by ~3% each. We value ACEM at 13x FY26E EV/EBITDA

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Volume key revenue driver: ACEM reported standalone Q4FY24 revenue growth of 12%/8% YoY/QoQ to Rs 47.8bn backed by double-digit volume growth of 17%/16 YoY/QoQ to 9.5mn tonnes (including master supply agreement or MSA sales of 1.46mnt to ACC). Realisations weakened by 4%/7% YoY/QoQ. Consolidated revenue grew 9%/12% YoY/QoQ to Rs 88.9bn net of MSA sales, as volumes increased 17% YoY/QoQ to 16.6mt. Blended cement formed 86% of total volumes and premium product contribution made up 24% of trade sales (+180bps YoY).

Cost efficiencies aided operating performance: Operating cost fell 2%/4% YoY/QoQ to Rs 4,192/t due to overall cost rationalisation. Energy cost fell 26% YoY (-11% QoQ) to Rs 934/t on a 17% YoY fall in kiln fuel cost to Rs 1.84/kcal, whereas logistics cost softened 4%/1% YoY/QoQ to Rs 1,102/t. Clinker purchase cost was elevated at Rs 8.9bn, rising 2.3x YoY/QoQ. However, this fell short to offset the price weakness and EBITDA/t fell (12%/19% YoY/QoQ) to Rs 840/t and SA EBITDA grew 2% (-6% QoQ) to ~Rs 8.0bn.

Mega capacity expansion underway: ACEM expects to add 21.0mnt of cement capacity by FY26. Clinker expansion projects of 4mnt each at Bhatapara (CTG) /Maratha (Maharashtra) are due to be commissioned by Q4FY25/Q2FY26 respectively. This apart, ACEM will set up brownfield cement plants of 2.4mnt in West Bengal (2x2 plants), Jharkhand (one) in FY25 and one each in Punjab, Rajasthan and Uttar Pradesh by FY26 (to create 140mnt of capacity by FY28).

Maintain HOLD: We rationalise FY25 earnings by +3% despite slower volume growth due to cost-saving initiatives. We also revise FY26 forecasts by 3% to factor in better pricing and cost savings leading to a revenue/EBITDA/ PAT CAGR of 7%/25%/18% over FY23-FY26. We continue our SOTP-based valuations and raise our TP to Rs 580 (from Rs 552), wherein we value the standalone business at Rs 476 based on an unchanged EV/EBITDA of 13x FY26E earnings and add Rs 104 for the ACC stake. Our TP implies a replacement cost of Rs 13bn/mnt – ~2x premium to the industry – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ACEM IN/Rs 595
Market cap	US\$ 14.4bn
Free float	37%
3M ADV	US\$ 24.4mn
52wk high/low	Rs 649/Rs 396
Promoter/FPI/DII	63%/11%/17%

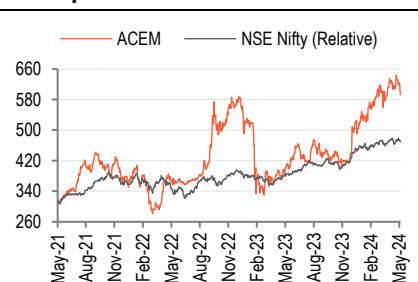
Source: NSE | Price as of 8 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	3,31,596	4,26,188	4,69,288
EBITDA (Rs mn)	70,242	80,036	99,643
Adj. net profit (Rs mn)	33,652	39,643	47,427
Adj. EPS (Rs)	16.1	18.0	21.6
Consensus EPS (Rs)	16.1	17.8	22.1
Adj. ROAE (%)	10.1	9.0	10.3
Adj. P/E (x)	37.0	33.0	27.6
EV/EBITDA (x)	15.3	13.0	13.1
Adj. EPS growth (%)	37.6	12.1	19.6

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	Q4FY24	Q3FY24	Our view
Volumes and realisations	<p>ACEM's Q4FY24 SA sales volume (including MSA sales of 1.46mnt to ACC) grew 17% YoY way ahead of industry growth as per 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 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>ACEM's Q3FY24 standalone sales volume (including MSA sales of 1.3mnt to ACC) grew 6.5% YoY, while the industry grew at 3.5% as per management. Management expects the industry to grow at 6% YoY in Q4, despite the impact of elections in some states.</p> <p>Blended cement formed 87% of total trade volumes and premium product share was at 22%.</p>	<p>Contribution from the Sanghi Industries (SIL) acquisition should help ACEM keep pace with industry growth in the medium term in FY25. For the long term, a clear capacity addition roadmap adds comfort on volume growth.</p>
Margins & cost reduction	<p>EBITDA/t stood at Rs 840/t 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 48</p> <p>Kiln fuel cost declined 17% YoY to Rs 1.84/kcal (from Rs 2.21/kcal in Q4FY23).</p>	<p>EBITDA/t stood at Rs 1,038/t in Q3FY24 with a 19.2% operating margin.</p> <p>Freight cost increased 2.5% YoY to Rs 1,114/t and average lead distance stood at 284km (291km previously), the rail coefficient stood at 26% and direct dispatch to customer improved to 52%.</p> <p>Kiln fuel cost declined 25% YoY to Rs 1.84/kcal (from Rs 2.45/kcal in Q3FY23).</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 of Q3FY24 continues with no change in the stance. Additionally, Sanghi Industry contribution will help ACEM tap the southern markets from Goa to Kerala via sea route.</p>	<p>The SIL acquisition has raised ACEM's cement/clinker capacity by 6.1mt/3.3mt.</p> <p>ACEM expects to commission the following by FY25: a 1.2mnt cement capacity at Bathinda (Punjab), a 2.4mnt (phase I) GU at Farakka (West Bengal), a 2.4mnt GU at Sankrail (WB), and a 1.6mnt GU at Sindri (Jharkhand). Further, a 2.4mnt GU each at Salai Banwa (Uttar Pradesh) and Marwar (Rajasthan) are both expected by Q1FY26. Lastly, a 4.8mnt Mundra (Gujarat) GU is scheduled for commissioning by FY27</p> <p>Clinker expansion at Bhatapara Line 3 of 4mnt is due to be commissioned by Q4FY25, followed by another 4mnt at Maratha line 2 by Q2FY26.</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>WHRS capacity as at Q4FY24 was at 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>WHRS capacity as at Q3FY24 was at 119MW and management aims to increase this to 186MW by Mar'25.</p>	<p>ACEM's initiatives to shift to alternate energy sources are commendable.</p>

Parameter	Q4FY24	Q3FY24	Our view
Capex	Management has guided for consolidated capex of Rs 75bn of growth capex for FY25. Capex growth from existing 78.9 to 140mtpa will be met through internal accruals and operating cash flows	Management has guided for consolidated capex of Rs 50bn-60bn p.a. over the next 3-4 years (actual cash) and Rs 80bn-100bn p.a. committed capex.	Capex guidance is in line with capacity growth targeted by ACEM.
Other relevant information	Consolidated cash & cash equivalents at the end of Q4FY24 totalled ~Rs 160bn. (Rs243bn including warrant money) Promoters have fully subscribed to the warrants programme in ACEM by further infusing Rs83.39bn in Apr and have increased their stake in ACEM by 3.6% to 70.3% (total infusion of Rs 200b).	Consolidated cash & cash equivalents at the end of Q3FY24 totalled ~Rs 85.9bn.	ACEM's balance sheet is healthy despite strong capex plans.

Source: Company, BOBCAPS Research | GU: Grinding Unit; EV: Enterprise Value; WHRS: Waste Heat Recovery System

Fig 2 – Key quarterly metrics

(Rs)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Volumes (mn tonnes)	9.5	8.1	17.3	8.2	15.9
Cement realisations (Rs/t)	5,032	5,255	(4.2)	5,414	(7.1)
Operating costs (Rs/t)*	4,192	4,293	(2.3)	3,818	9.8
EBITDA/t (Rs/t)	840	962	(12.7)	1,038	(19.1)

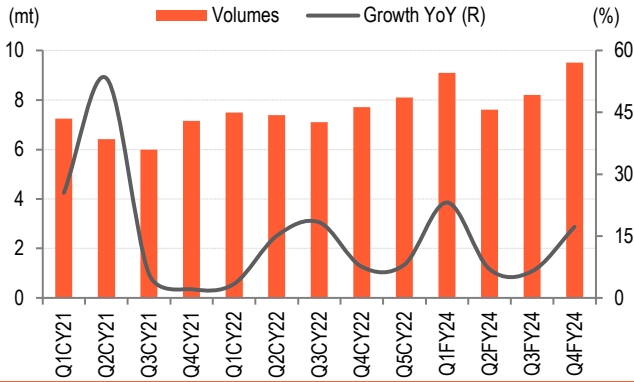
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance – Standalone

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net Sales	47,803	42,563	12.3	44,395	7.7
Expenditure					
Change in stock	879	1,206	(27.1)	561	56.7
Raw material	4,075	3,590	13.5	6,842	(40.4)
Purchased products	8,988	3,990	125.3	3,875	132.0
Power & fuel	8,878	10,343	(14.2)	8,582	3.4
Freight	10,465	9,326	12.2	9,133	14.6
Employee costs	1,319	1,680	(21.5)	1,369	(3.7)
Other expenditure	5,221	4,637	12.6	5,522	(5.5)
Total Operating Expenses	39,825	34,772	14.5	35,885	11.0
EBITDA	7,978	7,792	2.4	8,511	(6.3)
EBITDA margin (%)	16.7	18.3	(162bps)	19.2	(248bps)
Other Income	1,768	1,740	1.6	1,082	63.4
Interest	338	335	1.0	454	(25.5)
Depreciation	2,440	2,047	19.2	2,335	4.5
PBT	6,968	7,150	(2.5)	6,804	2.4
Non-recurring items	158	807	0.0	0	0.0
PBT (after non-recurring items)	6,810	6,343	7.4	6,804	0.1
Tax	1,487	1,410	5.5	1,668	(10.8)
Reported PAT	5,323	4,933	7.9	5,137	3.6
Adjusted PAT	5,481	5,740	(4.5)	5,137	6.7
NPM (%)	11.5	13.5	(202bps)	11.6	(10bps)
Adjusted EPS (Rs)	2.8	2.9	(4.5)	2.6	6.7

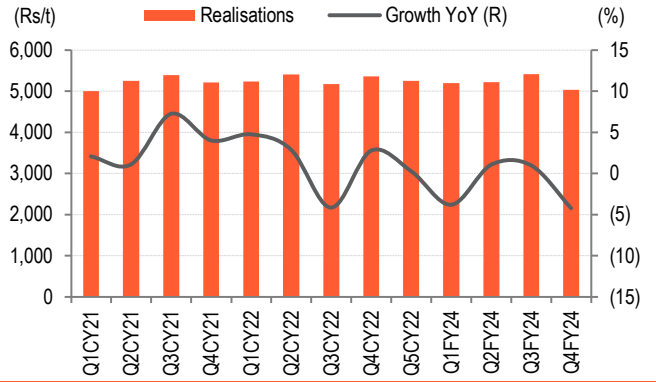
Source: Company, BOBCAPS Research | Other Income for Q2FY24 includes Rs 1,500mn related to tax adjustment of the previous period.

Fig 4 – Revenue gains driven by double-digit volume gains



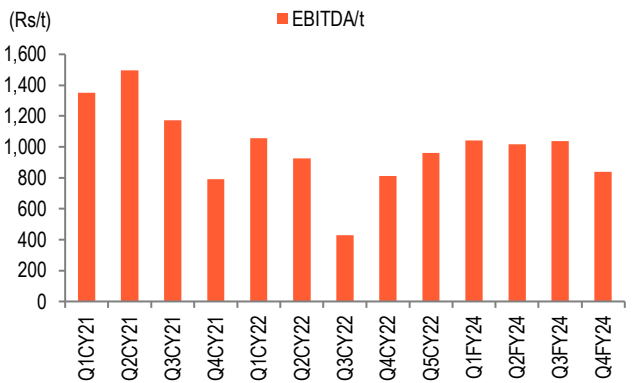
Source: Company, BOBCAPS Research | Note: ACEM has changed its accounting Y/E from Dec to Mar; thus, CY22/FY23 consists of 5 quarters

Fig 5 – Pricing under pressure as demand lacks pace



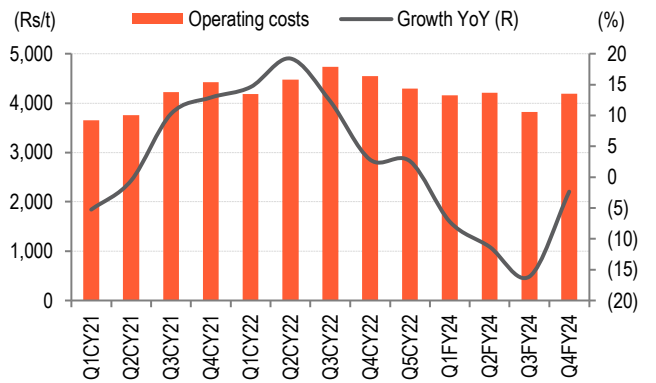
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/t blip likely to be temporary



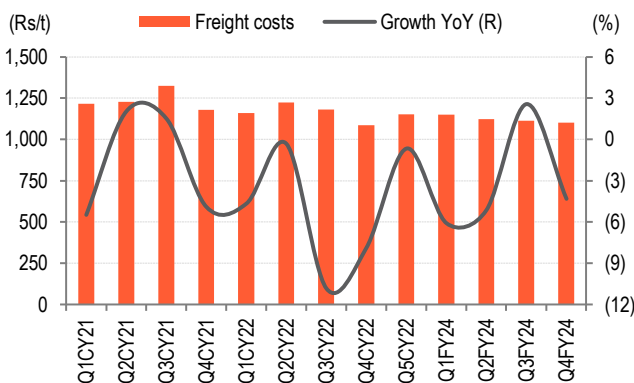
Source: Company, BOBCAPS Research

Fig 7 – Reducing operating cost will be the key



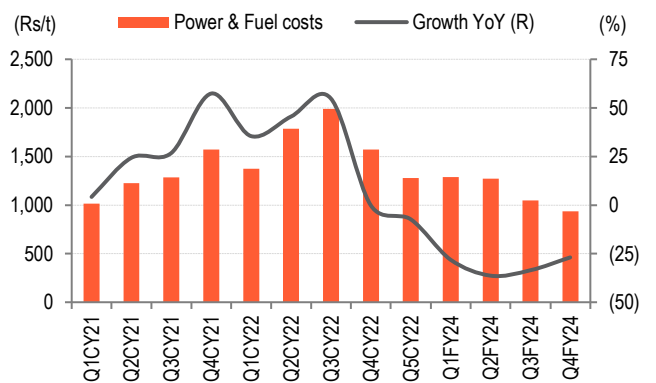
Source: Company, BOBCAPS Research

Fig 8 – Logistics cost expected to decline further



Source: Company, BOBCAPS Research

Fig 9 – Energy cost savings to be driven by green energy initiatives



Source: Company, BOBCAPS Research

Valuation methodology

We rationalise FY25E earnings by +3% despite slower volume growth due to cost-saving initiatives. We also revise FY26 forecasts by 3% to factor in better pricing and cost savings leading to a revenue/EBITDA/ PAT CAGR of 7%/25%/18% over FY23-FY26. With the plan of capacity addition well in place for the long term, in the short/medium term demand revival will be the key for prices to revive. In such a scenario, cost savings will be the key to drive the performance.

We raise our SOTP-based TP to Rs 580 (from Rs 552), wherein we value the standalone business at Rs 476 based on an unchanged EV/EBITDA of 13x FY26E earnings and add Rs 104 for the ACC stake. Our TP implies a replacement cost of Rs 13bn/mnt – ~2x premium to the industry – and offers just 1% upside, leading us to retain our HOLD rating.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	4,26,188	4,69,288	4,32,799	4,82,274	(1.5)	(2.7)
EBITDA	80,036	99,643	75,366	95,295	6.2	4.6
Adj PAT	39,643	47,427	34,699	41,496	14.2	14.3
Adj EPS (Rs)	18.0	21.6	17.5	20.9	3.1	3.3

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter (ACEM consolidated)	FY23	FY24E	FY25E	FY26E
Volumes (mt)	58.96	66.44	74.72	82.64
Realisations (Rs/t)	6,521	5,217	5,258	5,365
Operating costs (Rs/t)	5,743	5,217	4,720	4,555
EBITDA/t (Rs/t)	777	963	984	1,124

Source: Company, BOBCAPS Research

Fig 12 – SOTP valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	13
EBITDA (Rs mn)	66,618
Target EV (Rs mn)	895,345
Total EV	895,345
Net debt	(50,300)
Target market capitalisation	9,45,645
ACEM's standalone value (Rs/sh) (A)	476.0
Weighted average shares (mn)	1,986
ACC Target M-cap	457,665
ACEM Holding in ACC (50.05%)	228,833
Holding Co discount (10%)	228,83
ACEM Holding in ACC (50.05%) (Post Hold Co Discount)	205,949
Total Equity Shares O/S (mn)	1,986
ACEM's value in ACC (Rs/sh) (B)	104.0
Target price (Rs/sh) (A+B)	580.0

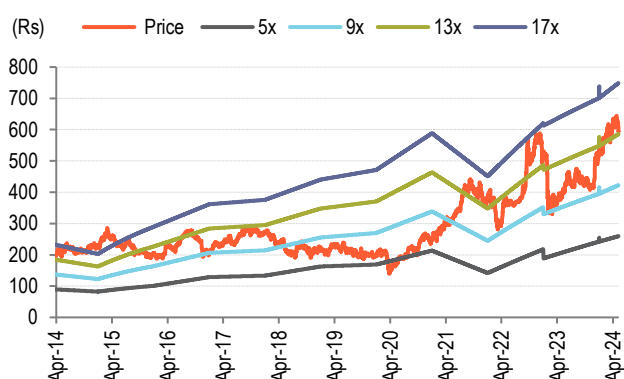
Source: BOBCAPS Research

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	580	15.3	13.0	13.1	193	183	175	10.1	9.0	10.3	12.8	12.4	14.1
ACC IN	HOLD	2,657	13.2	11.5	9.5	140	126	113	14.0	14.2	14.3	17.3	18.2	18.6
UTCEM IN	BUY	11,510	20.9	17.6	14.4	228.8	226.7	192.8	12.5	14.1	15.8	14.4	17.6	19.7
SRCM IN	HOLD	27,836	36.7	22.1	17.8	208	207	202	7.5	11.7	12.4	9.4	15.3	16.6

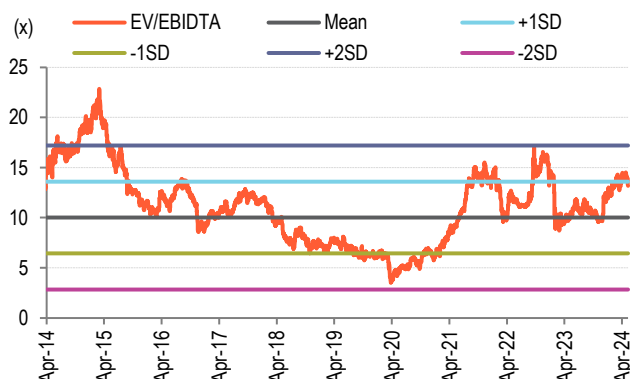
Source: Company, Bloomberg, BOBCAPS Research

Fig 14 – EV/EBITDA band: We value ACEM at 13x FY26E EBITDA



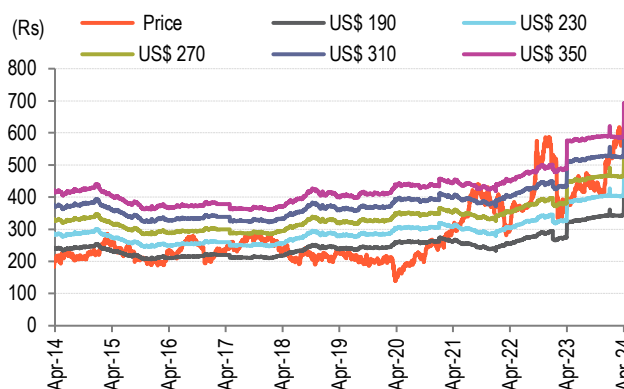
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Premium valuation currently deserving, but higher multiples from hereon challenging



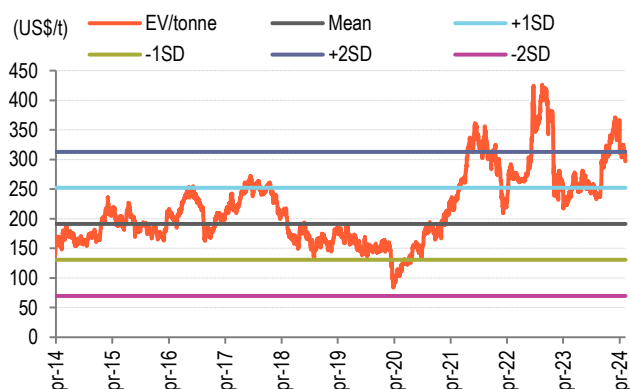
Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – ACEM (standalone) replacement cost band



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – ACEM (standalone) replacement cost 1Y fwd



Source: Company, Bloomberg, BOBCAPS Research

Key risks

- 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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.6	2,440	2,657	HOLD
Ambuja Cements	ACEM IN	14.4	595	580	HOLD
Dalmia Bharat	DALBHARA IN	4.0	1,773	2,346	BUY
JK Cement	JKCE IN	3.7	3,947	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.1	791	637	SELL
Orient Cement	ORCMNT IN	0.6	227	147	SELL
Shree Cement	SRCM IN	11.3	25,661	27,836	HOLD
Star Cement	STRCEM IN	1.1	225	193	HOLD
The Ramco Cements	TRCL IN	2.2	764	728	SELL
Ultratech Cement	UTCEM IN	33.4	9,519	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 8 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24P	FY25E	FY26E
Total revenue	2,85,926	3,84,449	3,31,596	4,26,188	4,69,288
EBITDA	62,103	51,224	70,242	80,036	99,643
Depreciation	(11,525)	(16,447)	(16,234)	(17,466)	(20,995)
EBIT	54,103	42,154	59,425	68,071	84,106
Net interest inc./(exp.)	(1,457)	(1,949)	(2,764)	(2,875)	(3,382)
Other inc./(exp.)	3,524	7,377	5,417	5,500	5,458
Exceptional items	0	0	0	0	0
EBT	52,646	40,205	56,662	65,196	80,724
Income taxes	(14,534)	(7,051)	(11,626)	(17,396)	(21,356)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(9,104)	(4,130)	(11,383)	(8,157)	(11,941)
Reported net profit	29,007	29,024	33,652	39,643	47,427
Adjustments	0	0	0	0	0
Adjusted net profit	29,007	29,024	33,652	39,643	47,427

Balance Sheet

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24P	FY25E	FY26E
Accounts payables	68,242	72,283	79,512	87,463	96,209
Other current liabilities	43,791	42,707	39,537	45,308	46,667
Provisions	3,062	2,795	2,989	3,139	3,296
Debt funds	4,429	4,860	7,414	4,948	4,994
Other liabilities	7,562	7,004	15,491	15,801	16,117
Equity capital	3,971	3,971	3,971	4,395	4,395
Reserves & surplus	2,49,566	3,13,010	4,10,155	4,43,286	4,84,200
Shareholders' fund	3,24,988	3,87,565	5,08,035	5,49,971	6,03,050
Total liab. and equities	4,52,073	5,17,214	6,52,978	7,06,629	7,70,333
Cash and cash eq.	1,16,943	29,610	1,10,689	1,44,628	1,64,516
Accounts receivables	6,458	11,544	12,131	11,676	12,857
Inventories	27,380	32,728	36,086	29,191	30,857
Other current assets	54,811	1,80,423	1,35,118	2,09,800	2,16,771
Investments	1,981	2,137	7,863	2,585	2,844
Net fixed assets	1,32,622	1,42,485	1,54,542	1,81,641	2,10,497
CWIP	1,09,160	1,13,922	1,92,188	1,22,752	1,27,639
Intangible assets	2,717	4,366	4,361	4,356	4,351
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	4,52,073	5,17,215	6,52,978	7,06,629	7,70,333

Cash Flows

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	57,534	10,675	1,15,369	12,115	81,122
Capital expenditures	(26,271)	(31,773)	(1,06,552)	24,877	(54,733)
Change in investments	7,547	(155)	(5,726)	5,278	(259)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(18,724)	(31,928)	(1,12,278)	30,155	(54,992)
Equities issued/Others	(1,063)	(4,996)	11,942	649	225
Debt raised/repaid	(215)	431	2,554	(2,466)	46
Interest expenses	0	0	0	0	0
Dividends paid	(2,070)	(13,027)	(6,513)	(6,513)	(6,513)
Other financing cash flows	(976)	(48,487)	70,005	0	0
Cash flow from financing	(4,324)	(66,079)	77,988	(8,330)	(6,243)
Chg in cash & cash eq.	34,486	(87,333)	81,078	33,939	19,888
Closing cash & cash eq.	1,16,943	29,610	1,10,689	1,44,628	1,64,516

Per Share

Y/E 31 Mar (Rs)	CY21A	FY23A	FY24P	FY25E	FY26E
Reported EPS	14.6	11.7	16.1	18.0	21.6
Adjusted EPS	14.6	11.7	16.1	18.0	21.6
Dividend per share	1.0	5.0	2.7	2.5	2.5
Book value per share	163.7	195.2	242.9	250.2	274.4

Valuations Ratios

Y/E 31 Mar (x)	CY21A	FY23A	FY24P	FY25E	FY26E
EV/Sales	3.8	3.0	3.2	2.4	2.8
EV/EBITDA	17.6	22.6	15.3	13.0	13.1
Adjusted P/E	40.7	50.8	37.0	33.0	27.6
P/BV	3.6	3.0	2.4	2.4	2.2

DuPont Analysis

Y/E 31 Mar (%)	CY21A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	72.4	82.5	79.5	73.3	73.5
Interest burden (PBT/EBIT)	97.3	95.4	95.3	95.8	96.0
EBIT margin (EBIT/Revenue)	18.9	11.0	17.9	16.0	17.9
Asset turnover (Rev./Avg TA)	67.3	79.3	56.7	62.7	63.5
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.3	1.3
Adjusted ROAE	12.4	9.3	10.1	9.0	10.3

Ratio Analysis

Y/E 31 Mar	CY21A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	18.6	7.6	7.8	28.5	10.1
EBITDA	24.1	(34.0)	71.4	13.9	24.5
Adjusted EPS	14.1	(20.0)	37.6	12.1	19.6
Profitability & Return ratios (%)					
EBITDA margin	21.4	13.1	20.8	18.5	20.9
EBIT margin	18.6	10.8	17.6	15.7	17.7
Adjusted profit margin	10.1	7.5	10.1	9.3	10.1
Adjusted ROAE	12.4	9.3	10.1	9.0	10.3
ROCE	16.9	9.2	12.8	12.4	14.1
Working capital days (days)					
Receivables	8	14	13	10	10
Inventory	35	39	40	25	24
Payables	109	97	109	91	93
Ratios (x)					
Gross asset turnover	1.4	1.6	1.3	1.4	1.3
Current ratio	1.8	2.2	2.4	2.9	2.9
Net interest coverage ratio	37.1	21.6	21.5	23.7	24.9
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

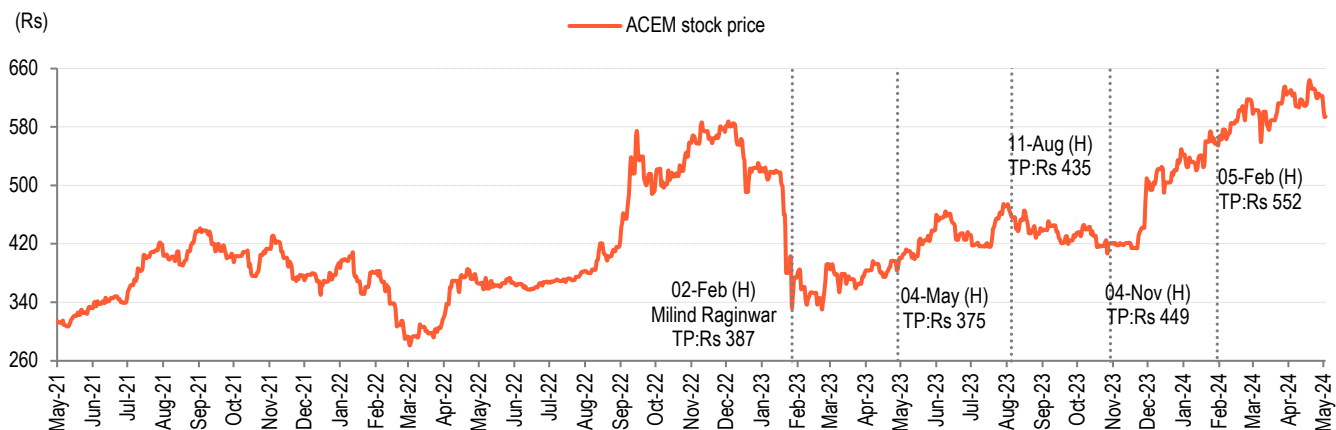
HOLD – Expected return from -6% to +15%

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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