

Ambuja Cements

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	ACEM IN
Equity Shares (m)	1986
M.Cap.(INRb)/(USDb)	763.2 / 9.3
52-Week Range (INR)	598 / 274
1, 6, 12 Rel. Per (%)	-26/-1/-1
12M Avg Val (INR M)	4574
Free float (%)	36.9

Financial Snapshot (INR b)

Y/E Dec	FY23E*	FY24E	FY25E
Sales	199.6	168.7	185.3
EBITDA	31.1	33.3	39.5
Adj. PAT	23.2	22.0	25.9
EBITDA Margin (%)	15.6	19.7	21.3
Adj. EPS (INR)	11.7	11.1	10.5
EPS Gr. (%)	8.9	-5.2	-4.8
BV/Sh. (INR)	142.8	146.9	182.8

Ratios

Net D:E	-0.2	-0.1	-0.4
RoE (%)	17.1	12.9	10.2
RoCE (%)	17.7	13.3	10.5
Payout (%)	52.8	63.3	66.5

Valuations

P/E (x)	24.8	26.2	27.5
P/BV (x)	2.0	2.0	1.6
EV/EBITDA(x)	16.3	15.3	14.8
EV/ton (USD)	195	197	181
Div. Yield (%)	1.7	1.8	1.8
FCF Yield (%)	-2.6	-0.4	-0.8

*FY23E is 15m period due to change in accounting year

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	63.2	63.2	63.1
DII	17.0	16.5	15.3
FII	10.8	11.2	14.8
Others	9.1	9.2	6.7

FII Includes depository receipts

CMP: INR384 TP: INR375 (-2%) Neutral

Focus on cost efficiencies; clarity on capex missing

Roadmap of doubling capacities in next five years will be monitored

- Ambuja Cements (ACEM)'s result beat our estimates in 4QFY23 led by higher volumes (+6% v/s estimates). EBITDA was at INR6.3b v/s estimated INR5.7b and EBITDA/t was at INR812 v/s estimated INR788. Adj. PAT was at INR4.1b v/s our estimate of INR2.7b aided by higher other income and lower ETR.
- Cost savings and operational improvement strategies will be the key focus areas of the company led by higher usage of green energy and leveraging on the group's expertise/exposure into various businesses such as logistics, coal, power etc. Management reiterated its aim to double capacities in next five years; though no clear roadmap was shared as of now.
- We cut our FY25E EPS by 20% due to issuance of convertible warrants to the promoter group entity, which we assume to be subscribed and converted into equity shares in FY25E. We maintain our **Neutral rating** with a TP of INR375 (valuing it at 15x Sep'24E EV/EBITDA).

Sales volumes up 8% YoY; Opex/t down 5% QoQ

- ACEM's standalone revenue/EBITDA/Adj. PAT stood at INR41.3b/INR6.3b/INR4.1b (+11%/+10%/+38% YoY and 6%/10%/50% above our estimates), respectively. Sales volumes at 7.7mt grew 8% YoY/ 10% QoQ. Realization improved 3% YoY/QoQ each.
- Opex/t was up 3% YoY (down 5% QoQ) due to a 21% rise in variable costs. However, freight costs/employee costs/other expenses per ton declined 8%/17%/22% YoY, respectively. OPM was flat YoY (up 6.9pp QoQ) at 15.2%. EBITDA/t rose 2% YoY (+88% QoQ) to INR812 during the quarter.
- Over Jan-Dec'22, revenue grew 13% YoY driven by 10%/3% YoY growth in volume/realizations. EBITDA declined 25% YoY to INR24b due to cost pressure (Opex/t increased 13% YoY). EBITDA/t was down 32% YoY to INR812. Adjusted PAT declined 10% YoY to INR19b.
- CFO in Jan-Dec'22 was at INR8.4b v/s INR24.8b last year led by lower profits and increase in working capital (up INR5b YoY). Capex (including capital advances) was at INR26.2b v/s INR11.6b in CY21. Other non-currents (including capital advances) rose INR17.3b YoY to INR22.8b. Cash stood at INR68.3b (INR50b proceeds from warrants) v/s INR41.7b in Dec'21.

Highlights from the management commentary

- Management reiterated its aim to double capacities in next five years. Focus will be on cost savings led by improvement in operational efficiencies and leveraging synergies from the group's exposure into different businesses.
- Contract for coal procurement was not a related party transaction (RPT). It was an agreement for procurement of 1.5mt coal over a period of six months. Any RPT will be done on an arm's length basis.
- Currently, the merger of ACEM and ACC is not on cards; though internally both these companies are running as one entity.

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Valuation and view

- The company has set up an ambitious target of achieving a capacity of 140mtpa in the next five years v/s 67.5mtpa at present. We believe that ACC and ACEM have approvals for ~20mtpa of clinker capacity expansion primarily in the East and West regions.
- ACEM and ACC (Adani group entities) are net cash positive companies, with a consolidated cash balance of INR98b as of Dec'22. Cash reserves along with remaining proceeds from warrants will help in capex plans.
- There needs to be a better clarity on capex (both for capacity enhancements and operational efficiencies improvement), which is missing. We believe that organic expansions will need more time and in absence of a clear roadmap, we have not considered significant expansions in our estimates (except 7mtpa of ACEM, which was disclosed in Jan'22 by erstwhile management).
- Valuations at 15.3x/14.8x FY24/FY25E EV/EBITDA appear rich and we maintain our **Neutral** rating on the stock (based on 15x Sep'24E EV/EBITDA).

Standalone quarterly performance

(INR b)

Y/E December/March	CY21				FY23*					CY21	FY23E*	MOFSL 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	5QE				
Net Sales	36.2	33.7	32.4	37.4	39.3	39.9	36.7	41.3	42.5	139.6	199.6	39.0	(1)
Change (YoY %)	28.1	54.9	13.5	6.3	8.4	18.5	13.4	10.5	8.2	22.8	43.0	4.5	
EBITDA	9.8	9.6	7.0	5.7	7.9	6.8	3.0	6.3	7.1	32.1	31.1	5.7	10
Margin (%)	27.0	28.5	21.7	15.2	20.1	17.1	8.3	15.2	16.7	23.0	15.6	14.6	55
Depreciation	1.3	1.3	1.3	1.7	1.5	1.5	1.6	1.6	1.7	5.5	7.9	1.6	4
Interest	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.3	0.3	0.9	1.2	0.2	10
Other Income	0.6	1.6	0.4	0.3	0.4	5.9	0.5	0.9	0.6	2.9	8.2	0.3	170
PBT before EO Item	8.9	9.7	5.9	4.1	6.5	10.9	1.7	5.3	5.7	28.5	30.1	4.2	24
Extraordinary Inc./ (Exp.)	0.0	0.0	0.0	-0.7	0.0	0.4	-0.2	-0.6	0.0	-0.7	-0.3	0.0	
PBT after EO Exp./ (Inc.)	8.9	9.7	5.9	3.4	6.5	11.4	1.6	4.6	5.7	27.9	29.8	4.2	10
Tax	2.2	2.4	1.5	0.9	1.6	0.9	0.2	0.9	1.7	7.0	5.4	1.5	
Rate (%)	25.0	25.2	25.5	26.1	24.3	7.9	11.8	20.4	30.5	25.3	18.0	35.0	
Reported Profit	6.6	7.2	4.4	2.5	5.0	10.5	1.4	3.7	4.0	20.8	24.5	2.7	34
Adjusted PAT	6.6	7.2	4.4	3.0	5.0	8.7	1.5	4.1	4.0	21.3	23.2	2.7	50
Change (YoY %)	66.5	59.5	0.2	(40.1)	(25.5)	19.9	(66.3)	38.4	(20.2)	18.9	8.9	(8.2)	

Source: MOFSL, Company *Note: FY23 is 15-month period as the company changed its accounting year-end from December to March

Per tonne analysis

Y/E December/March	CY21				FY23*					CY21	FY23E*	MOFSL 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	5QE				
Volume	7.24	6.42	6.20	7.16	7.49	7.39	7.04	7.71	7.87	27.02	37.50	7.25	6
Change (YoY %)	25	53	9	2	3	15	14	8	5	19	39	1	
Blended Realization	5,002	5,251	5,226	5,217	5,241	5,404	5,217	5,352	5,396	5,168	5,324	5,387	(1)
Change (YoY %)	2.1	1.1	3.9	4.6	4.8	2.9	-0.2	2.6	3.0	3.0	3.0	3.3	
Raw Material	475	274	435	518	709	435	421	970	555	429	622	510	90
Staff Cost	234	252	273	248	204	221	218	207	209	251	212	224	(8)
Power and fuel	1,015	1,228	1,245	1,573	1,376	1,786	2,011	1,570	1,881	1,266	1,722	1,851	(15)
Freight	1,216	1,228	1,284	1,179	1,159	1,224	1,193	1,084	1,106	1,224	1,152	1,175	(8)
Other expenditure	713	775	853	905	737	810	942	710	746	818	786	840	(16)
Total cost	3,653	3,756	4,091	4,424	4,185	4,478	4,785	4,540	4,497	3,989	4,494	4,600	(1)
EBITDA	1,349	1,495	1,135	793	1,055	926	433	812	899	1,180	830	788	3

Source: MOFSL, Company *Note: FY23 is 15-month period as the company changed its accounting year-end from December to March



Highlights from the management commentary

Capex plans and future strategies

- There were no specific details shared about future growth targets; though the aim remains to double capacities in the next five years. A roadmap for the expansion plans will be shared in the next few months. Focus will be on cost savings strategies led by improvement in operational efficiencies and leveraging the group's expertise/exposure into various businesses such as logistics, coal, power, etc.
- Ametha, MP clinker unit of 3.3mtpa is expected to get completed by Mar'23 and commercial production should start in 2QFY24. Upgradation of Bhatapara and Rabriyawas units are also being undertaken. Grinding units in Ametha (1mtpa), Bhatinda, Sankrail, Farakka and two other locations are also in pipeline.
- The group is working on – 1) **Operational efficiencies**: increase in WHRS capacities – 190 MW by Mar'25 v/s 65MW in Dec'22; higher usage of alternate fuels – highest ever AFR consumption in 4Q; target is to use 30% alternate fuels by 2027; improving clinker factor; synergy benefits of the group- coal/fly ash procurement etc. 2) **Improvement in logistics**: increase in direct dispatches – 5-6pp improvement in Dec'23 from most of the plants; higher usage of railway transportation; leveraging group synergies (own wagons; terminals etc.) and vision is to serve customers at the lowest cost and 3) **Capex plans** – Greenfield opportunities as well as efficiency improvement of plants; sweating of existing assets etc. M&A – opportunities will be evaluated as and when they come. The group will also look at strategic limestone mines.
- The target is to increase power usage from WHRS to 40% by Mar'25. The group will also evaluate opportunities for increasing renewable power (solar and wind). AFR consumption was highest in the Dec'22 quarter.

Operational highlights (Consolidated)

- Volume growth of 7% QoQ was supported by an increase in blended cement (clinker factor reduced to 59.5% from 60.1%).
- Kiln fuel cost reduced 14% QoQ (to INR2.45/Kcal from INR2.84/Kcal) with change in coal mix and group synergies on coal procurement.
- Freight cost reduction was led by optimization of warehouse infrastructure, increased direct dispatches (to 50% from 44%), reduction in lead distance (to 248Kms from 263Kms) and higher rail dispatches.
- Improvement in realization was driven by higher share of trade sales (at 79% of total volume) and higher premium sales (~22% of trade sales).
- WHRS projects at Bhatapara, Chhattisgarh and Darlaghat, Himachal Pradesh have been partially commissioned and the full capacity of 39MW will be completed by Mar'23. Further, WHRS of 14MW at Marwar, Rajasthan plant has been fully commissioned. WHRS projects of 28MW at Ambuja Nagar, Gujarat and Maratha, Maharashtra are under implementation.

Other highlights

- **Payment for coal contracts**: The management mentioned that contract for coal procurement was not a related party transaction (RPT); though, the group company helped to enter into the coal deal with their expertise. ACC and ACEM will procure 1.47mt of coal in next six months capped at USD157/t (CIF basis). This price will be adjusted for any fall in global coal prices (benchmark index:

RB1). **Any RPT transaction will be on an arms' length basis (be it for fly ash or any other contracts).**

- ACEM has a captive coal mine (25-30% of requirements are being fulfilled) and ACC's dependence on imported coal is higher. This was the reason for entering into higher quantum of contract for ACC (0.96mt v/s 0.5mt for Ambuja).
- **Merger between ACC & Ambuja is not on cards:** There is a unified management team for running the entire cement business: all functional heads, marketing officers, and HR look at both the companies. Merger is not on the cards as of now; though internally both these companies are running as one entity.

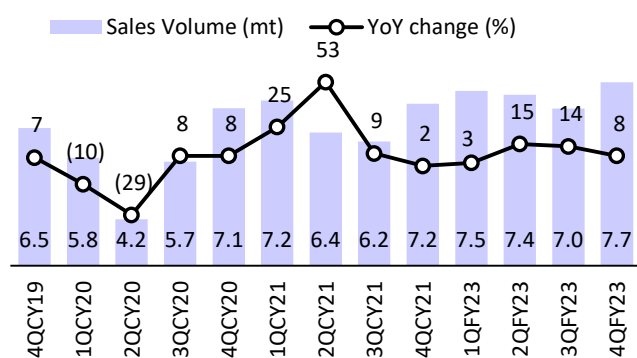
Exhibit 1: Revisions to our estimates

(INR b)	Revised estimate		Old estimate		Change (%)	
	FY24	FY25	FY24	FY25	FY24	FY25
Net Sales	166.2	182.9	158.7	171.5	4.7	6.6
EBITDA	33.3	39.5	33.3	40.2	0.1	(1.7)
Net Profit	22.0	25.9	22.4	26.2	(2.0)	(0.9)
EPS (INR)	11.1	10.5	11.3	13.2	(2.0)	(20.1)

Source: MOFSL Estimates; Note: Change in EPS in FY25 is attributable to issuance of warrants (convertible into equity shares)

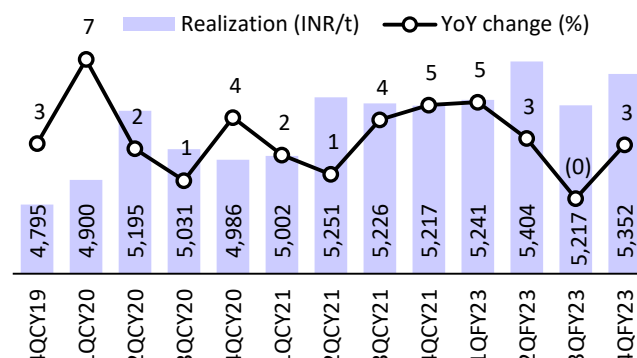
Story in charts

Exhibit 1: Sales volume (including clinker) up 8% YoY



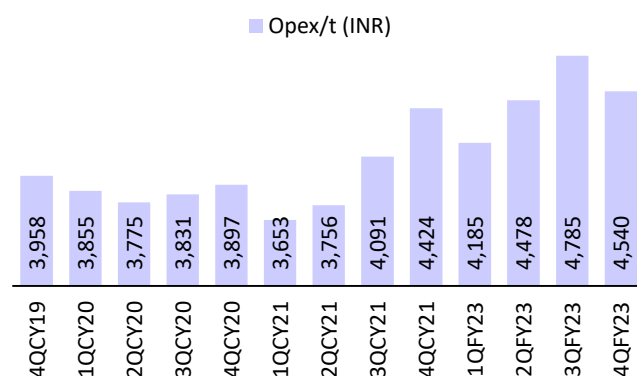
Source: Company, MOFSL; Note: FY23 is 15-month period

Exhibit 2: Realization increased 3% YoY and 3% QoQ



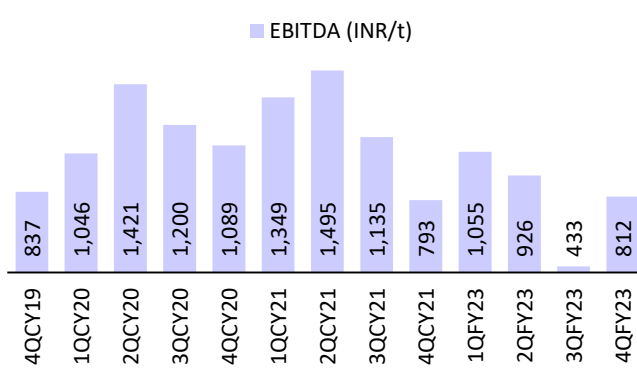
Source: Company, MOFSL; Note: FY23 is 15-month period

Exhibit 3: OPEX/t up 3% YoY but declined 5% QoQ



Source: Company, MOFSL; Note: FY23 is 15-month period

Exhibit 4: EBITDA/t up 2% YoY and 88% QoQ



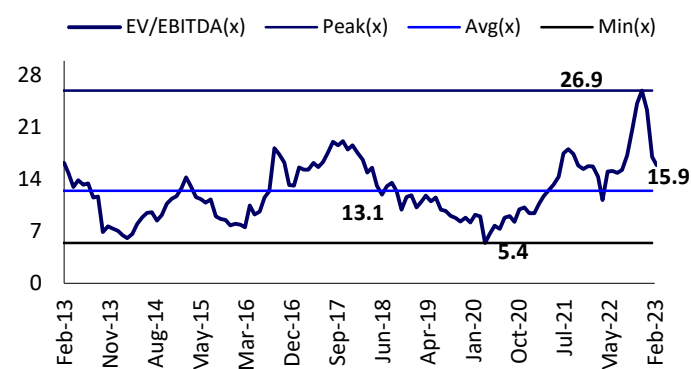
Source: Company, MOFSL; Note: FY23 is 15-month period

Exhibit 5: Key performance indicators – per ton analysis

INR/t	Dec'22	Dec'21	YoY (%)	Sep'22	QoQ (%)
Blended Realization	5,352	5,217	3	5,217	3
Raw Material	970	518	87	421	130
Staff Cost	207	248	(17)	218	(5)
Power and Fuel	1,570	1,573	(0)	2,011	(22)
Freight	1,084	1,179	(8)	1,193	(9)
Other exp.	710	863	(18)	942	(25)
Total Cost	4,540	4,424	3	4,785	(5)
EBITDA	812	793	2	433	88

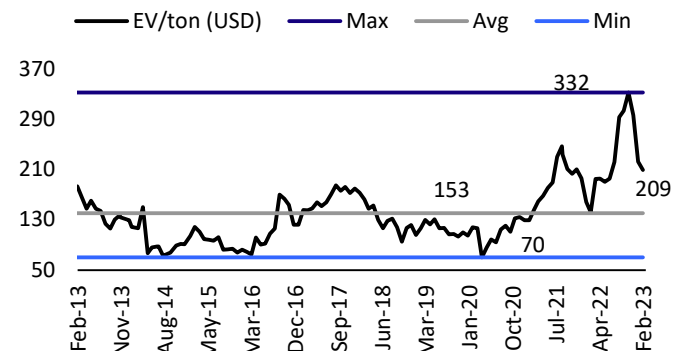
Source: Company, MOFSL

Exhibit 6: One-year forward EV/EBITDA chart



Source: Company, MOFSL

Exhibit 7: One-year forward EV/t chart



Source: Company, MOFSL

Standalone financials and valuations

Income Statement						(INR m)		
Y/E December	CY17	CY18	CY19	CY20	CY21	FY23E*	FY24E	FY25E
Net Sales	1,04,571	1,13,568	1,16,679	1,13,719	1,39,650	1,99,645	1,68,656	1,85,320
Change (%)	13.7	8.6	2.7	-2.5	22.8	43.0	-15.5	9.9
Total Expenditure	85,170	94,653	95,190	87,253	1,07,575	1,68,515	1,35,356	1,45,777
As a percentage of Sales	81.4	83.3	81.6	76.7	77.0	84.4	80.3	78.7
EBITDA	19,401	18,915	21,489	26,466	32,075	31,130	33,300	39,542
Change (%)	14.6	-2.5	13.6	23.2	21.2	-2.9	7.0	18.7
Margin (%)	18.6	16.7	18.4	23.3	23.0	15.6	19.7	21.3
Depreciation	5,729	5,481	5,438	5,212	5,512	7,949	6,995	8,349
EBIT	13,672	13,434	16,050	21,254	26,562	23,181	26,305	31,193
Interest	1,072	823	835	831	909	1,209	970	1,013
Other Income – Rec.	3,591	3,391	4,265	3,720	2,856	8,158	4,066	4,537
PBT before EO Exp.	16,191	16,002	19,480	24,144	28,509	30,130	29,400	34,718
EO Exp./(Inc.)	0	-2,779	0	0	657	319	0	0
PBT after EO Exp.	16,191	18,781	19,480	24,144	27,853	29,811	29,400	34,718
Current Tax	4,107	4,780	5,730	6,520	6,908	6,856	7,438	8,784
Deferred Tax	-411	-869	-1,535	-278	139	0	0	0
Tax Rate (%)	22.8	20.8	21.5	25.9	25.3	23.0	25.3	25.3
Reported PAT	12,496	14,870	15,285	17,901	20,805	24,452	21,962	25,934
PAT Adj. for EO Items	12,496	12,091	14,415	17,901	21,278	23,178	21,962	25,934
Change (%)	34.0	-3.2	19.2	24.2	18.9	8.9	-5.2	18.1
Margin (%)	11.9	10.6	12.4	15.7	15.2	11.6	13.0	14.0

Balance Sheet						(INR m)		
Y/E December	CY17	CY18	CY19	CY20	CY21	FY23E*	FY24E	FY25E
Equity Share Capital	3,971	3,971	3,971	3,971	3,971	3,971	3,971	4,926
Money received against issue of warrants						50,000	50,000	
Total Reserves	1,95,761	2,06,154	2,18,081	1,99,187	2,18,101	2,29,647	2,37,709	4,45,446
Net Worth	1,99,732	2,10,125	2,22,052	2,03,159	2,22,073	2,83,618	2,91,681	4,50,373
Def. Liabilities	4,583	3,722	2,161	1,860	2,018	2,018	2,018	2,018
Total Loans	241	397	353	436	435	435	435	435
Capital Employed	2,04,557	2,14,244	2,24,565	2,05,454	2,24,526	2,86,071	2,94,134	4,52,826
Gross Block	69,035	73,721	80,435	86,658	1,08,864	1,38,377	1,60,877	2,18,377
Less: Accum. Depn.	11,816	17,085	22,310	27,343	32,407	40,355	47,350	55,699
Net Fixed Assets	57,220	56,636	58,125	59,315	76,457	98,021	1,13,526	1,62,678
Capital WIP	8,625	9,996	14,562	21,300	10,858	10,845	23,845	4,345
Investments in subsidiaries	1,18,151	1,18,138	1,17,890	1,17,877	1,17,877	1,17,877	1,17,877	1,17,877
Investments – Trade	15,128	2,305	6,537	788	4,843	4,843	4,843	4,843
Curr. Assets	47,144	64,792	72,793	55,534	71,699	1,13,308	93,380	2,23,420
Inventory	10,525	12,778	9,541	7,466	14,636	17,277	14,119	15,531
Debtors	3,080	4,703	5,132	1,915	2,932	6,479	5,465	6,012
Cash and Bank Bal.	20,189	31,045	40,638	28,500	36,880	54,301	37,294	1,64,126
Others	13,351	16,267	17,483	17,652	17,252	35,252	36,502	37,752
Curr. Liability and Prov.	41,712	37,623	45,342	49,360	57,209	58,824	59,339	60,338
Creditors	40,488	36,327	43,985	48,765	56,469	57,490	58,004	59,003
Provisions	1,223	1,296	1,357	595	740	1,334	1,335	1,335
Net Current Assets	5,433	27,169	27,451	6,174	14,490	54,485	34,041	1,63,082
Appl. of Funds	2,04,557	2,14,244	2,24,565	2,05,454	2,24,526	2,86,071	2,94,134	4,52,826

Source: Company, MOFSL; *Note: FY23 is 15-month period as the company changed its accounting year-end from December to March

Standalone financials and valuations

Ratios								
Y/E December/March	CY17	CY18	CY19	CY20	CY21	FY23E*	FY24E	FY25E
Basic (INR)								
EPS	6.3	6.1	7.3	9.0	10.7	11.7	11.1	10.5
Cash EPS	9.2	8.8	10.0	11.6	13.5	15.7	14.6	13.9
BV/Share	100.6	105.8	111.8	102.3	111.8	142.8	146.9	182.8
DPS	3.6	1.5	1.5	18.5	6.3	6.5	7.0	7.0
Payout (%)	64.9	22.3	19.5	205.2	60.1	52.8	63.3	66.5
Valuation (x)								
P/E ratio		47.6	39.9	32.1	27.0	24.8	26.2	27.5
Cash P/E ratio		32.7	29.0	24.9	21.5	18.5	19.9	20.8
P/BV ratio		2.7	2.6	2.8	2.6	2.0	2.0	1.6
EV/Sales ratio		4.7	4.4	4.6	3.7	2.5	3.0	3.2
EV/EBITDA ratio		28.2	23.9	19.8	16.3	16.3	15.3	14.8
EV/t (Cap) - USD		218	210	215	202	195	197	181
Dividend Yield (%)		0.4	0.4	4.8	1.6	1.7	1.8	1.8
Return Ratios (%)								
RoE	15.8	13.8	14.6	18.7	22.3	17.1	12.9	10.2
RoCE	16.8	15.2	16.1	19.3	22.9	17.7	13.3	10.5
RoIC	18.2	18.9	23.6	35.3	41.0	22.0	18.0	16.5
Working Capital Ratios								
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.6	0.7	0.6	0.4
Debtor (Days)	10.7	15.1	16.1	6.1	7.7	11.8	11.8	11.8
Inventory (Days)	37	41	30	24	38	32	31	31
Work Cap (Days)	19.0	87.3	85.9	19.8	37.9	99.6	73.7	321.2
Leverage Ratio (x)								
Current Ratio	1.1	1.7	1.6	1.1	1.3	1.9	1.6	3.7
Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement								(INR m)
Y/E December	CY17	CY18	CY19	CY20	CY21	FY23E*	FY24E	FY25E
OP/(Loss) before Tax	16,191	15,061	19,480	24,144	27,853	29,811	29,400	34,718
Depreciation	5,729	5,481	5,438	5,212	5,512	7,949	6,995	8,349
Interest and Finance Charges	-58	-709	-1,515	-1,369	-259	0	0	0
Direct Taxes Paid	-3,101	-6,251	-808	-4,648	-3,629	-5,359	-7,438	-8,784
(Inc.)/Dec. in WC	2,136	-6,166	3,877	3,676	-4,615	-22,573	3,435	-2,209
CF from Operations	20,898	7,416	26,472	27,015	24,862	9,828	32,392	32,074
Others	-2,356	-2,406	-1,632	-952	-199	0	0	0
CF from Operations incl. EO	18,541	5,009	24,840	26,062	24,663	9,828	32,392	32,074
(Inc.)/Dec. in FA	-5,427	-5,936	-11,114	-9,756	-11,425	-29,500	-35,500	-38,000
Free Cash Flow	13,115	-927	13,726	16,307	13,238	-19,672	-3,108	-5,926
(Pur.)/Sale of Investments	3,468	3,393	3,734	3,342	2,607	0	0	0
Others	-4,509	13,174	-3,999	5,819	-4,297	0	0	0
CF from Investments	-6,468	10,631	-11,379	-595	-13,115	-29,500	-35,500	-38,000
Issue of Shares	0	0	0	0	0	0	0	955
Inc./(Dec.) in Debt	-793	216	0	-237	-275	0	0	0
Interest Paid	-1,143	-513	-558	-633	-908	0	0	0
Dividend Paid	-5,550	-4,498	-3,320	-36,646	-2,021	-12,907	-13,900	-17,242
Others	0	12	11	-88	35	50,000	0	1,49,045
CF from Fin. Activity	-7,487	-4,784	-3,868	-37,604	-3,168	37,093	-13,900	1,32,758
Inc./Dec. in Cash	4,587	10,856	9,593	-12,137	8,380	17,422	-17,008	1,26,832
Opening Balance	15,602	20,189	31,045	40,638	28,500	36,880	54,301	37,294
Closing Balance	20,189	31,045	40,638	28,500	36,880	54,301	37,294	1,64,126

Source: Company, MOFSL; *Note: FY23 is a 15-month period as the company changed its accounting year-end from December to March

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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