

Company Update

Cement

Target price: Rs410

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	63.2	63.2	63.2
Institutional investors	27.8	27.6	25.9
MFs and others	7.4	7.8	5.8
FIs/Insurance	7.7	8.8	8.8
FPI	12.7	11.0	11.3
Others	9.0	9.2	10.9

Source: NSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	77.0	73.7	(3.3)
Environment	81.2	77.0	(4.2)
Social	57.4	51.6	(5.8)
Governance	92.4	92.4	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

Ambuja Cement

HOLD

Maintain

Rs410

Walking the talk

Keeping up with its commitment (*given during FY23 earning call*) of placing equipment orders for capacity expansion soon, Ambuja Cement (ACEM) on May 12, '23 formally announced the placing of orders for 8mtpa clinker expansion. The capex, which will enable cement production of 14mtpa, is scheduled to commission in 24 months and will be funded entirely through internal accruals. The planned capex is a part of ACEM's (consolidated) undeterred vision to double production capacity in five years.

This is a positive development for ACEM as it offers growth visibility and confirms company's aspiration to pursue aggressive growth. However, for cement sector, we maintain our view that the start of capex cycle by ACEM can stoke race for capacity share among incumbents. We maintain *Neutral* view on the sector. We continue to value ACEM at 15x FY25E EV/EBITDA and maintain HOLD rating with an unchanged target price of Rs410/sh.

Key risks: Sharp cement price hikes, sharp fall in fuel cost.

► **Orders placed for 8mtpa clinker expansion:** ACEM has placed equipment orders to expand clinker capacity by 4mtpa each at Bhatpara (Chhattisgarh) and Maratha (Maharashtra) units. ACEM claims these units will have the highest ESG standards with 42MW of WHRS based power plants, provision to utilise 50% AFR (alternate fuels) and capability to operate on green power. While details of commensurate grinding units are yet to be shared, the expansion will be able to produce 14mtpa cement and is expected to be commissioned in 24 months (by Q1FY26).

While ACEM has not divulged the precise capex amount for this project, it is entirely proposed to be funded through internal accruals. It may be recalled that ACEM has already announced a capex outlay of Rs72bn for FY24 in its most recent earnings call and the above mentioned project is estimated to be well within the stated guidance.

► **Wins a limestone mine, too:** In another development, ACEM has been declared as the 'preferred bidder' for the Devalmari-Katepalli limestone block in an e-auction conducted by the Government of Maharashtra. The block is situated in Gadchiroli district (near Chandrapur cement cluster) with estimated limestone resource of ~150 mn tonnes. Though the mine could be a few years away from commencing operations, it nonetheless reaffirms ACEM's focus to pursue long-term growth.

► **Outlook and valuation – clearing the air:** Despite concerns around the parent Adani group finances (for the past few months), ACEM has not only reiterated its plan to double capacity but is also 'walking-the-talk' by placing equipment orders. Strong balance sheet (>Rs80bn net cash for FY23) and expected future cashflow offers the much-needed ammunition to pursue aggressive growth. With capex benefits slated to accrue FY26 onwards, we continue to value ACEM at 15x FY25E EV/EBITDA (at par with industry leader UltraTech Cement) and maintain HOLD rating with a target price of Rs410/sh.

Market Cap	Rs814bn/US\$9.9bn	Year to Dec	CY21	FY23P	FY24E	FY25E
Reuters/Bloomberg	ABUJ.BO/ACEM IN	Revenue (Rs mn)	1,39,650	1,99,791	1,63,908	1,79,359
Shares Outstanding (mn)	1,985.6	EBITDA (Rs mn)	32,075	32,085	30,053	36,641
52-week Range (Rs)	598/315	Net Income (Rs mn)	21,953	28,418	21,100	26,750
Free Float (%)	36.8	% Chg YoY*	23	NA	NA	27
FII (%)	11.3	P/E (x)	30	23	31	24
Daily Volume (US\$'000)	61625	EV/te (USD)	267	224	217	201
Absolute Return 3m (%)	13.6	EV/E (x)	19.1	17.8	18.6	14.8
Absolute Return 12m (%)	9.8	Dividend Yield	1.5	0.6	0.6	0.6
Sensex Return 3m (%)	2.3	RoCE (%)	24.1	23.2	15.5	17.9
Sensex Return 12m (%)	18.5	RoE (%)^	17.3	20.2	11.3	13.1

* Growth figs. Is not comparable as FY23 is a period of 5 qtrs, ^RoE is excl. the BV of investment (& dividend received) from ACC

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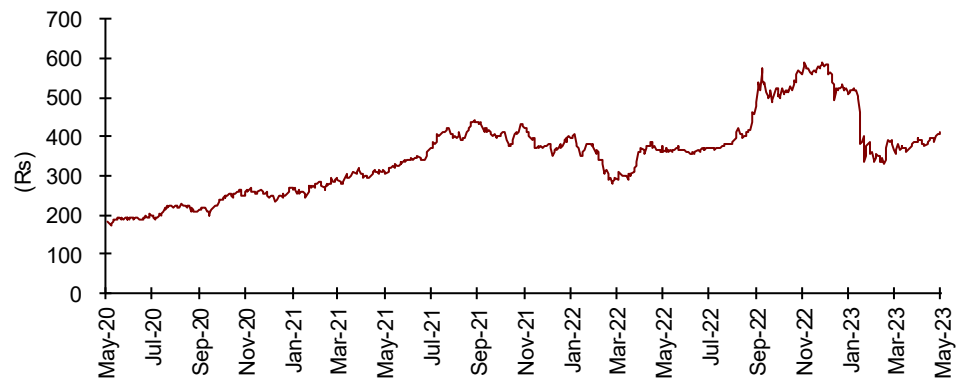
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Price chart



Source: Bloomberg

Financial summary

Table 1: Profit and Loss statement

(Rs mn)

	CY21	FY23P	FY24E	FY25E
Operating Income (Sales)	1,39,650	1,99,791	1,63,908	1,79,359
Operating Expenses	1,07,575	1,67,706	1,33,855	1,42,719
EBITDA	32,075	32,085	30,053	36,641
% margin	23.0	16.1	18.3	20.4
Depreciation & Amortisation	5,512	8,323	7,953	8,475
Gross Interest	909	1,280	1,035	1,069
Other Income	2,856	9,655	7,132	8,652
Recurring PBT	28,509	32,137	28,197	35,748
Add: Extraordinaries	(657)	(1,573)	-	-
Less: Taxes	7,047	5,032	7,097	8,998
Less: Minority Interest	-	-	-	-
Net Income (Reported)	21,462	27,104	21,100	26,750
Recurring Net Income	21,953	28,418	21,100	26,750

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn)

	CY21	FY23P	FY24E	FY25E
Assets				
Total Current Assets	72,428	1,29,706	1,40,922	1,57,985
Current Liab. & Prov.	53,578	61,050	61,177	60,980
Net Current Assets	18,850	68,656	79,745	97,005
Investments	1,21,991	1,21,991	1,21,991	1,21,991
Net Fixed Assets	71,283	83,960	81,006	97,532
Capital Work-in-Progress	10,858	11,398	19,398	7,398
Intangible Assets	5,174	5,174	5,174	5,174
Total Assets	2,28,157	2,91,179	3,07,315	3,29,101
of which Cash & cash equiv.	41,631	83,919	94,995	1,11,613
Liabilities				
Borrowings	4,066	4,066	4,066	4,066
Deferred Tax Liability	2,018	2,018	2,018	2,018
Minority Interest	0	0	0	0
Equity Share Capital	3,971	3,971	3,971	3,971
Face value per share (Rs)	2	2	2	2
Reserves & Surplus	2,18,101	2,81,123	2,97,259	3,19,045
Net Worth	2,22,073	2,85,095	3,01,230	3,23,017
Total Liabilities	2,28,157	2,91,179	3,07,315	3,29,101

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn)

	CY21	FY23P	FY24E	FY25E
Operating Cashflow	29,278	33,855	29,053	35,225
Working Capital changes	(4,615)	(7,518)	(13)	(643)
Capital Commitments	(11,425)	(21,540)	(13,000)	(13,000)
Net Operating FCF	13,238	4,798	16,040	21,582
Investing Activities	2,607	-	-	-
Issue of Share Capital	-	50,000	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	-	-	-	-
Dividend paid	(2,021)	(12,510)	(4,964)	(4,964)
Others	(1,147)	-	-	-
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	12,677	42,288	11,076	16,618

Source: Company data, I-Sec research

Table 4: Key ratios

	CY21	FY23P	FY24E	FY25E
Per Share Data (Rs)				
EPS(Basic)	11	14	11	13
Diluted Recurring EPS	11	14	11	13
Diluted Recurring CEPS	14	19	15	18
Dividend per share	6	3	3	3
Book Value	112	144	152	163
Growth Ratios (% YoY)				
Operating Income	22.8	NA	NA	9.4
EBITDA	21.2	NA	NA	21.9
Recurring Net Income	22.6	NA	NA	26.8
Diluted Recurring EPS	22.6	NA	NA	26.8
Diluted Recurring CEPS	18.8	NA	NA	21.2
Valuation Ratios (x)				
P/E	29.6	22.9	30.8	24.3
P/CEPS	29.6	22.2	28.0	23.1
P/BV	3.7	2.9	2.7	2.5
EV / EBITDA	19.1	17.8	18.6	14.8
EV / te (US\$)	267	224	217	201
EV / Operating Income	4.4	2.9	3.4	3.0
Operating Ratios (%)				
Raw Material / Sales	8	14	12	12
Other expenses / Sales	16	14	14	13
Other Income / PBT	10	30	25	24
Effective tax rate	25	16	25	25
Inventory (x)	13	13	10	11
Receivables (days)	6	8	13	12
Payable (days)	81	56	82	76
D/E (x)	(0.2)	(0.3)	(0.3)	(0.3)
Profitability Ratios (%)				
Rec. Net Income Margins	15.7	14.2	12.9	14.9
RoCE	24.1	23.2	15.5	17.9
RoNW	17.3	20.2	11.3	13.1
Dividend Payout	9.3	46.2	23.5	18.6

Source: Company data, I-Sec research, RoE is excl. the BV of investment (& dividend received) from ACC

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