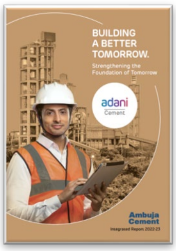
Ambuja Cements

BSE SENSEX	S&P CNX
65,996	19,633



Stock Info

Bloomberg	ACEM IN
Equity Shares (m)	1986
M.Cap.(INRb)/(USDb)	919.2 / 11.1
52-Week Range (INR)	598 / 315
1, 6, 12 Rel. Per (%)	9/20/10
12M Avg Val (INR M)	5093
Free float (%)	36.9

Financials Snapshot (INR b)

Y/E Mar	FY23*	FY24E	FY25E
Sales	199.9	182.2	202.7
EBITDA	32.2	36.7	46.1
Adj. PAT	25.2	23.8	29.8
EBITDA Margin (%)	16.1	20.1	22.7
Adj. EPS (INR)	12.7	12.0	12.1
EPS Gr. (%)	18.2	-5.8	1.2
BV/Sh. (INR)	143.6	152.0	191.1
Ratios			
Net D:E	-0.3	-0.2	-0.4
RoE (%)	18.4	13.5	11.1
RoCE (%)	20.4	14.0	11.5
Payout (%)	19.4	29.3	37.2
Valuations			
P/E (x)	28.9	30.7	30.3
P/BV (x)	2.6	2.4	1.9
EV/EBITDA(x)	19.7	17.3	16.0
EV/ton (USD)	243	243	227
Div. Yield (%)	0.5	0.8	1.0
FCF Yield (%)	-0.1	-0.7	-0.1

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

CMP: INR463 TP: INR450 (-3%) Neutral

Capacity expansion announced; cost reductions a key focus

The key highlights of ACEM's FY23 annual report: 1) announcing cement capacity expansion of 14mtpa through organic growth; the capacity is expected to be commissioned in the next 24-months; 2) implementing cost-reduction initiatives by increasing its green power share to ~43% by FY24; the objective is being realized through the installation of WHRS and solar power plants; and 3) has given advances of INR9.25b to a related party to secure the rights for raw material/fuel under a long-term supply arrangement for its upcoming cement manufacturing plant at Mundra, Gujarat (likely to commissioned by FY26E).

Announces grinding capacity expansion of 14mtpa in next 24 months

- ACEM announced organic clinker/cement capacity expansion of 8mtpa/ 14mtpa in the next 24-months. The company plans to add clinker capacity of 4mtpa (each) at its two existing locations- Bhatapara, Chhattisgarh, and Maratha, Maharashtra. Additionally, the company is increasing grinding capacities in multiple states, including Maharashtra, Chhattisgarh, Uttar Pradesh, and West Bengal. The company has already placed orders for the main plant and equipment.
- ACEM's sales volumes grew ~12% YoY (on a like-to-like comparison). The company's cement capacity utilization stood at 86% in FY23 vs. 82% in CY21. Higher volume growth was aided by accelerated volume under MSA with ACC. The company sold 4.1mt in FY23 (vs 1.1mt in CY21) to ACC under MSA.

Rise in input prices and high energy prices adversely impacted profitability in FY23

- FY23 was a challenging year due to cost inflation (higher raw material and fuel prices). Raw material cost/t of cement rose 5% in FY23 vs. CY21 due to an increase in slag and gypsum prices. Power and fuel cost/t raised 26% in FY23 vs. CY21 due to a sharp increase in fuel (both coal and petcoke).
- Blended realization improved 2% in FY23 vs. CY21. However, due to significant cost pressures (up 11% in FY23 vs. CY21), EBITDA margin declined to 16% in FY23 vs. 23% in CY21. EBITDA/t stood at INR845 in FY23 vs. INR1,182 in CY21. We estimate EBITDA margin to improve to 20%/23% in FY24/FY25.
- In FY23, it installed cumulative 53MW of WHRS capacity at various locations at a total capex of INR5.5b. While 27.5 MW capacity is at an advanced stage to be commissioned in FY24. It plans to raise WHRS/Solar power capacity to 87.6MW/100MW by FY24, at its existing plants. It is focusing to increase green power share to ~43% in total power consumption by FY24.

Higher capex is likely to lead FCF outflow of INR10b/INR5b in FY24/FY25

- ACEM's FCF turned negative in FY23 due to lower profitability, higher capex, and advances, under the long-term supply arrangement. In FY23, the company has given advances to a related party (Mundra Petrochem, a subsidiary of Adani Enterprises) for securing rights for raw material/fuel for its upcoming cement plant at Mundra, which is likely to be commissioned in FY26.

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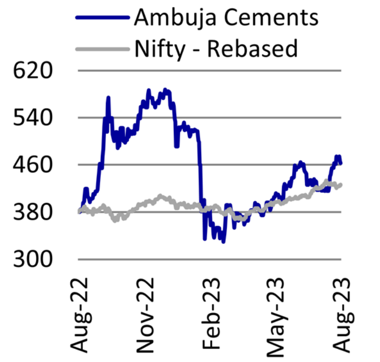
Mudit Agarwal - Research analyst (Mudit.Agarwal@MotilalOswal.com)

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	63.2	63.2	63.1
DII	14.4	14.7	15.2
FII	12.5	11.3	12.9
Others	9.9	10.9	8.7

FII Includes depository receipts

Stock Performance (1-year)

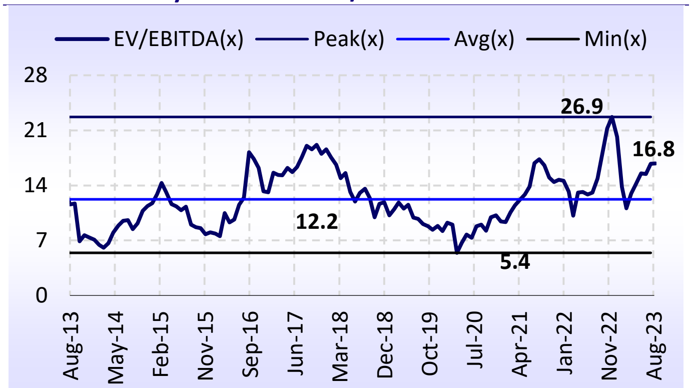


- Going forward, we expect OCF to improve in FY24/FY25, led by profitability improvement. However, given the robust expansion plan, we estimate an FCF outflow of INR7b/INR1b in FY24/FY25 (in our current assumptions, we have not considered the recent announcement of acquisition of Sanghi Industries).

Expensive valuations; reiterate Neutral

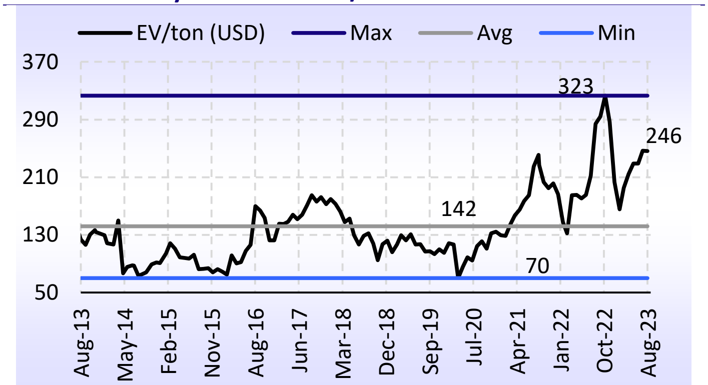
- ACEM announced capacity expansion of 14mtpa in the next 24-months. Looking, ahead the company aims to double its overall capacity by FY28 by involving a combination of greenfield projects, brownfield expansions, and de-bottlenecking efforts. ACEM's clinker/cement capacity stood at 21mtpa/31.5mtpa; however, with the successful completion of these expansion initiatives, the cement/clinker capacity will increase to 29mtpa/ 45.5mtpa by FY25-end.
- Recently, the company has also announced acquisition of Sanghi Industries (SNGI) having clinker/cement capacity of 6.6mtpa/6.1mtpa in Kutch, Gujarat. The acquisition is subject to CCI clearance and other regulatory approvals. ACEM plans to increase SNGI grinding capacity to 10mtpa (from 6.1mtpa currently) with an investment of INR5b by Mar'24 and further expansion to 15mtpa at an investment of INR30b by FY26E.
- The company is taking various cost-optimization initiatives such as adding WHRS/ Solar power plants, ramp-up of coal mining from Gare-Palma IV coal block and Dahegaon Gowari, reduction in lead distance and rail:road mix optimization. The management targets sustainable cost reduction of INR400/t.
- ACEM trades at 17.3x/16x FY24E/FY25E EV/EBITDA. The stock has traded at an average EV/EBITDA of 12.5x over the last 5/10 years. We value it at 15x FY25E EV/EBITDA to arrive at our TP of INR450 and reiterate our Neutral rating on the stock.

Exhibit 1: One-year forward EV/EBITDA chart



Source: Company, MOFSL

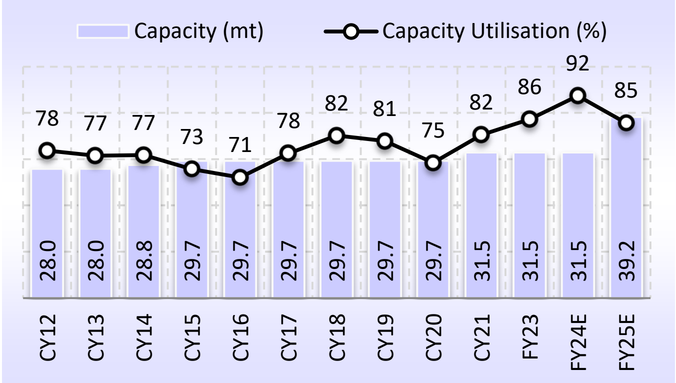
Exhibit 2: One-year forward EV/t chart



Source: Company, MOFSL

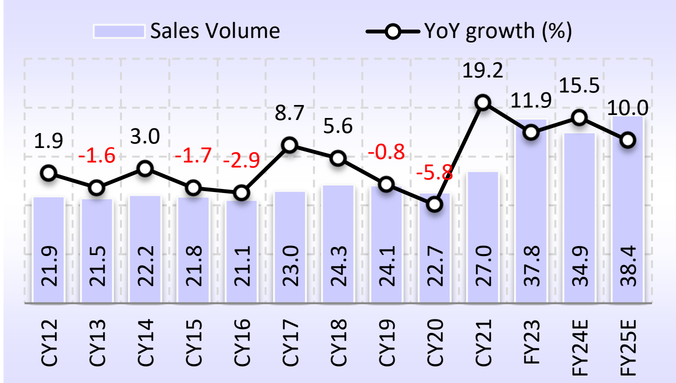
Story in charts

Exhibit 3: ACEM's capacity utilization stood at 86% in FY23



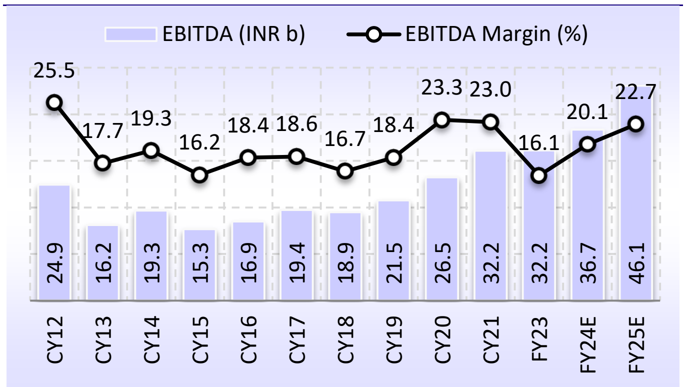
Source: MOFSL, Company; Note: FY23 was a 15M period;

Exhibit 4: Volume grew ~12% YoY (on like-to-like) in FY23



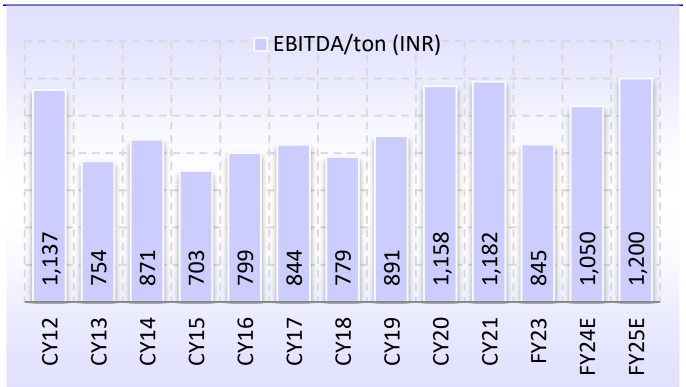
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 5: Cost pressure led to a decline in OPM



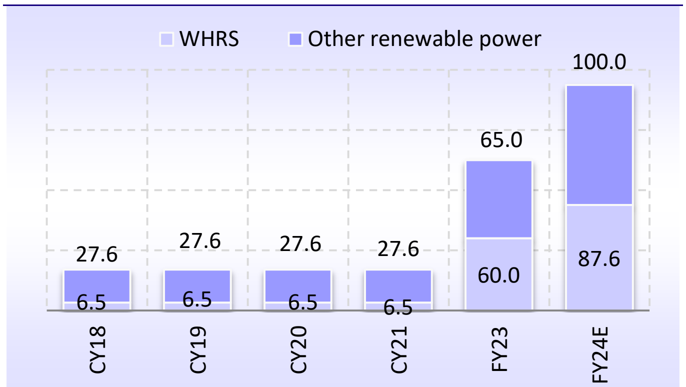
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 6: EBITDA/t stood at INR845 in FY23



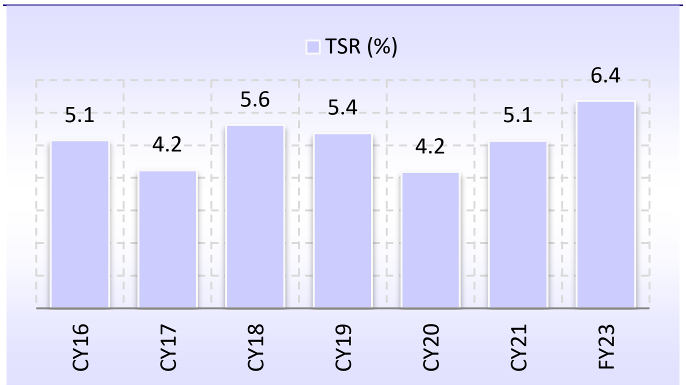
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 7: Increasing renewable power capacity…



Source: MOFSL, Company; Note: FY23 was a 15M period

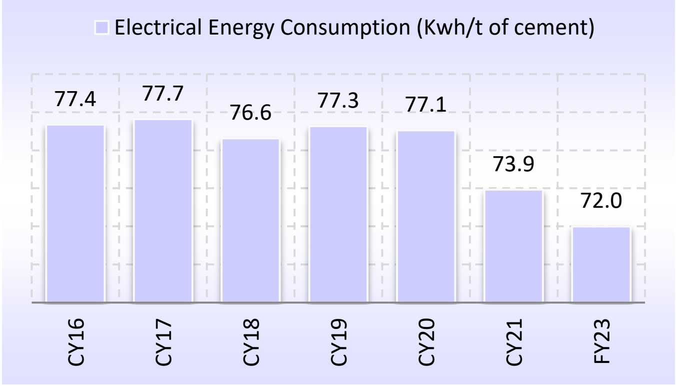
Exhibit 8: …as well as thermal substitution rate



Source: MOFSL, Company; *Thermal Substitution rate; Note: FY23 was a 15M period

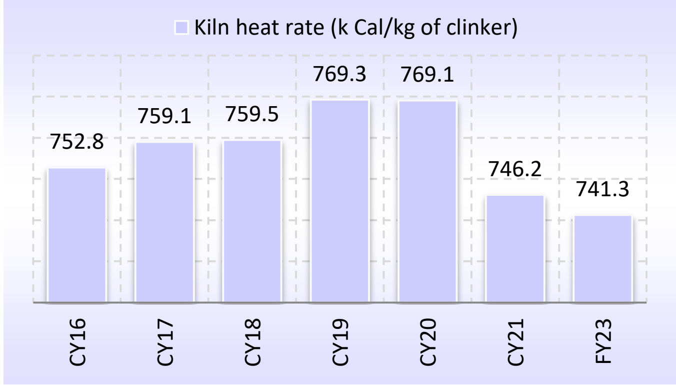
Story in charts

Exhibit 9: Electrical energy intensity reduced in FY23



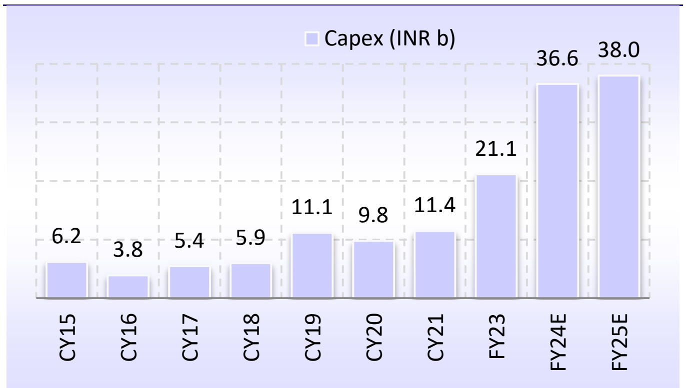
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 10: ...similar was the case with thermal energy



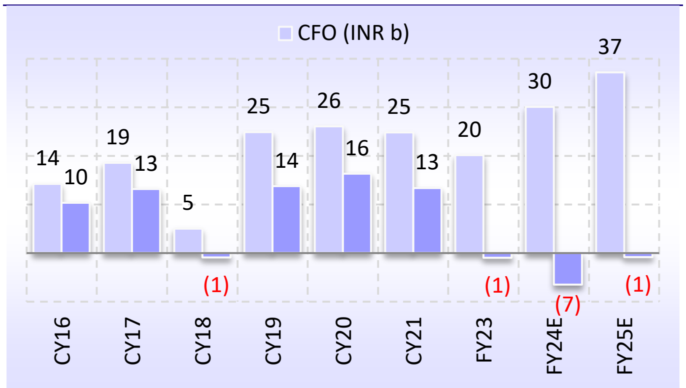
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 11: Capex is estimated to increase in FY24-25...



Source: MOFSL, Company

Exhibit 12: ...will lead to FCF outflow



Source: MOFSL, Company

Exhibit 13: Du-pont analysis: Low asset turnover ratio and margin pressure adversely impacted RoE in FY23

(%)	CY17	CY18	CY19	CY20	CY21	FY23	FY24E	FY25E
PAT/PBT	77.2	75.6	74.0	74.1	74.7	78.5	74.4	74.4
PBT/EBIT	93.8	95.1	95.9	96.7	96.9	96.2	95.6	96.3
EBIT/Sales	16.5	14.8	17.4	22.0	21.1	16.7	18.3	20.5
Asset turnover (x)	1.3	1.3	1.2	1.2	1.5	1.2	1.0	0.7
Assets/Equity (x)	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0
RoE	16.1	14.1	14.8	19.1	22.7	14.9	13.6	11.1

Source: MOFSL, Company; Note: ROE adjusted for ACEM investment in ACC (50.05% subsidiary); Note: FY23 was a 15M period, so FY23 ratios have been annualized

Announced capacity expansion of 14mtpa…

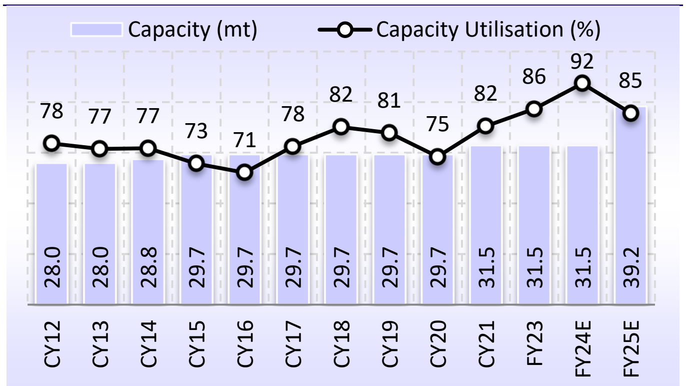
…likely to be commissioned in the next two years

- The company has announced to increase grinding capacity by 14mtpa through a combination greenfield projects and brownfield expansion. For this, the company has placed an order of 8mtpa clinker capacity at Bhatapara, Chhattisgarh, and Maratha, Maharashtra (4mtpa each). It will add grinding capacities in Maharashtra, Chhattisgarh, Uttar Pradesh, and West Bengal.
- These projects have provision to utilize 50% AFR and WHRS capacity of 42MW (21MW each). These projects are estimated to be commissioned in the next 24-months and will be funded through internal accruals.
- ACEM's clinker/cement capacity stood at 21mtpa/31.5mtpa; however, with the successful completion of these expansion initiatives, the cement/clinker capacity will increase to 29mtpa/ 45.5mtpa by FY25-end (based on capacity expansion plans announced).
- Recently, the company announced acquisition of SNGI having clinker/cement capacity of 6.6mtpa/6.1mtpa at Kutch, Gujarat. The acquisition is subject to CCI clearance and other regulatory approvals. The management of ACEM indicated that an investment of INR5b will help it to increase grinding capacity to 10mtpa by Mar'24 from its current 6.1mtpa. Considering this expansion, effective acquisition cost works out to be USD67/t. The grinding capacity would further be increased to 15mtpa within the next two years at an investment of INR30b. Although, in our estimates, we have not yet factored in the SNGI acquisition.

Volume grew 12% YoY in FY23 (on like-to-like); capacity utilization at ~92%

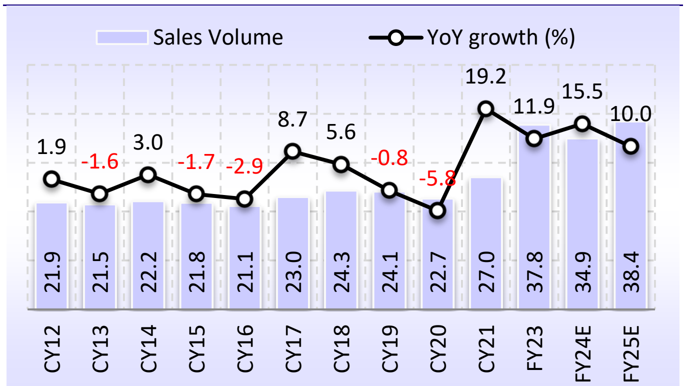
- ACEM's sales volumes grew ~12% YoY (like-to-like comparison). The company's cement capacity utilization stood at 86% in FY23 vs. 82% in CY21. Higher volume growth was aided by accelerated volume under MSA with ACC. The company sold 4.1mt in FY23 (vs. 1.1mt in CY21) to ACC under MSA.
- Cement demand is likely to grow 6-8% YoY in FY24, propelled by: a) Growing capex by the government to drive infrastructure development; b) strong demand in the real estate sector along with focused investments in the affordable housing; c) Consistent rise in the urbanization; and d) rise in rural income.
- We estimate ACEM's sales volume to grow 16%/10% YoY in FY24/FY25, aided by higher volume under MSA and capacity expansion.

Exhibit 14: ACEM's capacity utilization stood at 86% in FY23



Source: MOFSL, Company; Note: FY23 was a 15M period;

Exhibit 15: Volume grew ~12% YoY (on like-to-like) in FY23



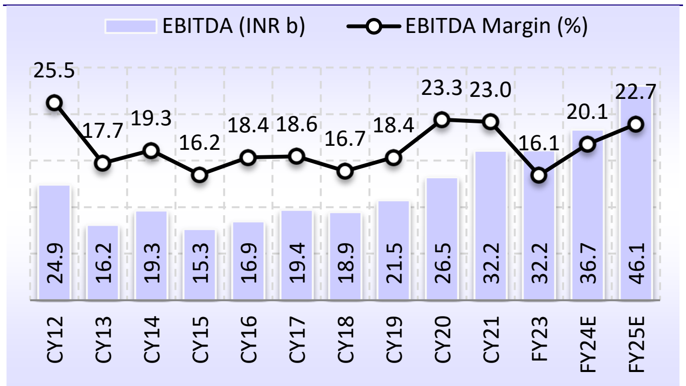
Source: MOFSL, Company; Note: FY23 was a 15M period

High energy prices and rising input cost impacted margin

EBITDA margin contracted to ~16% in FY23 vs. 23% in CY21

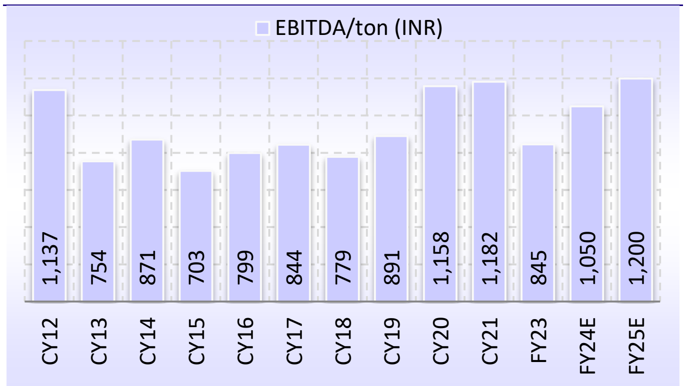
- FY23 was a challenging year due to cost inflation (higher raw material and fuel prices). The key cost trends in FY23 is as follows:
  - Raw material cost per tonne of cement rose 5% in FY23 vs. CY21 due to an increase in the cost of slag (up 48%) and gypsum (up 2%). However, fly ash landed cost declined 2% compared to CY21, owing to the utilization of wet/conditioned fly ash.
  - Power and fuel cost/t increased 26% in FY23 vs. CY21 due to an increase in kiln fuel cost (up 50%), captive power fuel cost (up 67%) and a sharp increase in coal and petcoke prices.
  - Freight cost/t (including inter-unit clinker transfer cost) declined 5% in FY23 vs. CY21 mainly due to initiatives to improve efficiency, reduce wasteful expenditure, improve direct dispatches by 4%, rationalization of warehouse footprint through consolidation of ACEM and ACC warehouses, C&F rate negotiation and higher volumes under MSA.
  - Other expenses/t declined 9% in FY23 vs. CY21 due to the termination of its agreement with Holcim for the payment of technical and know-how fee (i.e., 1% of revenue) and a reduction in fixed overheads.
- Blended realization improved 2% in FY23 vs. CY21. However, due to significant cost pressures (up 11% in FY23 vs. CY21), the company's EBITDA margin declined to 16% in FY23 vs. 23% in CY21. EBITDA/t stood at INR845 in FY23 vs. INR1,182 in CY21. We estimate EBITDA margin to improve to 20%/23% in FY24/FY25, led by a reduction in fuel prices and cost-effective measures taken by the company to improve efficiency and reduce opex. We estimate EBITDA/t to increase to INR1,028/INR1,188 in FY24/FY25.
- The share of premium products in revenue stood at 13% in FY23 vs. 12% in CY21. Among these products, 'Ambuja Kawach' (launched in CY20) has emerged as a preferred product. Kawach volume in total sales volume stood at 3.1% in FY23 vs. 2.8% in CY21.

Exhibit 16: Cost pressure led to a decline in OPM



Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 17: EBITDA/t stood at INR845 in FY23



Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 18: Opex/t increased 11% in FY23 vs CY21; decline in employee cost/t led by restructuring

Particulars (per ton)	CY18	CY19	CY20	CY21	FY23	YoY (%)
Sales Volume - Cement (mt)	24.3	24.1	22.7	27.0	37.8	11.9
Realization (Including OOI)	**4,681**	**4,849**	**5,016**	**5,174**	**5,290**	**2.2**
Realization (excluding OOI)	**4,525**	**4,719**	**4,929**	**5,109**	**5,226**	**2.3**
Raw Material Cost	388	468	523	428	732	71.1
Power and Fuel	1051	1075	993	1267	1592	25.6
Freight Cost	1351	1286	1259	1225	1160	-5.3
Employee Benefits Expense	280	280	295	252	212	-16.0
Other Expenses	831	851	787	820	750	-8.5
Total Expenses	3902	3959	3858	3991	4445	11.4
EBITDA per ton	**779**	**891**	**1158**	**1182**	**845**	**-28.5**

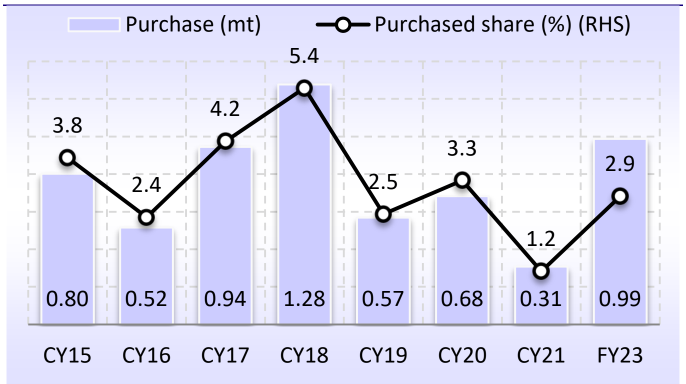
Source: MOFSL, Company, Note: 1) FY23 was a 15M period, 2) volume growth calculated by annualizing FY23 numbers

Exhibit 19: Common-size analysis – freight cost, other expenses, and employee costs declined in FY23

Particulars (INR m)	CY18	%	CY19	%	CY20	%	CY21	%	FY23	%
Net Revenue (Operations)	**1,13,568**	**100.0**	**1,16,679**	**100.0**	**1,13,719**	**100.0**	**1,39,650**	**100.0**	**1,99,854**	**100.0**
Raw Materials (incl. Change-in-inventory)	9,423	8.3	11,255	9.6	11,863	10.4	11,595	8.3	27,644	13.8
Power and Fuel	25,497	22.5	25,864	22.2	22,519	19.8	34,210	24.5	60,129	30.1
Freight and forwarding	32,776	28.9	30,942	26.5	28,549	25.1	33,083	23.7	43,835	21.9
Operating and Administrative Expenses	20,162	17.8	20,403	17.5	17,634	15.5	21,910	15.7	28,041	14.0
Personnel Cost	6,796	6.0	6,726	5.8	6,688	5.9	6,777	4.9	8,002	4.0
EBITDA	**18,915**	**16.7**	**21,489**	**18.4**	**26,466**	**23.3**	**32,075**	**23.0**	**32,204**	**16.1**
Depreciation	5,481	4.8	5,438	4.7	5,212	4.6	5,512	3.9	8,324	4.2
Other Income	3,391	3.0	4,265	3.7	3,720	3.3	2,856	2.0	9,523	4.8
EBIT	**16,825**	**14.8**	**20,315**	**17.4**	**24,974**	**22.0**	**29,419**	**21.1**	**33,403**	**16.7**
Financial Charges	823	0.7	835	0.7	831	0.7	909	0.7	1,280	0.6
PBT (Before Exceptional Items)	**16,002**	**14.1**	**19,480**	**16.7**	**24,144**	**21.2**	**28,509**	**20.4**	**32,123**	**16.1**
Exceptional items	2,779	2.4	0	0.0	0	0.0	-657	-0.5	-1,573	-0.8
PBT	**18,781**	**16.5**	**19,480**	**16.7**	**24,144**	**21.2**	**27,853**	**19.9**	**30,551**	**15.3**
Tax	3,911	3.4	4,195	3.6	6,243	5.5	7,047	5.0	5,016	2.5
PAT	**14,870**	**13.1**	**15,285**	**13.1**	**17,901**	**15.7**	**20,805**	**14.9**	**25,535**	**12.8**

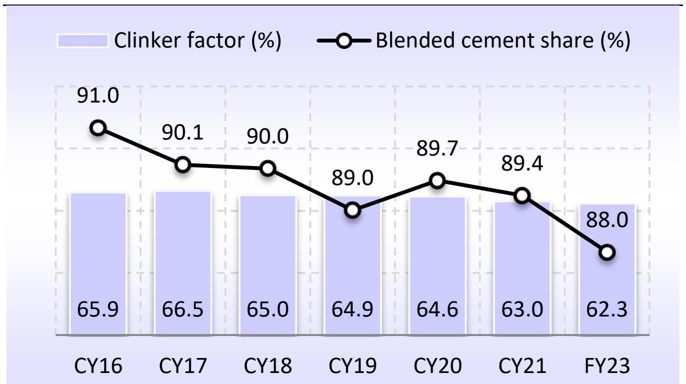
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 20: Limestone purchase share has increased in FY23



Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 21: Clinker factor reduced 73bp to 62.3%



Source: MOFSL, Company; Note: FY23 was a 15M period

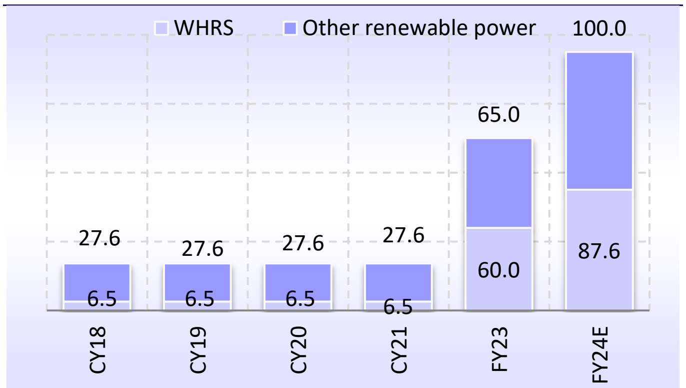
Focusing to increase renewable power share and alternative fuel

- The company is focusing on increasing green power share to ~43% in total power consumption by FY24. In FY23, the company installed cumulative 53MW of WHRS capacity at various locations at a total capex of INR5.5b. While, 27.5

MW capacity is at an advanced stage to be commissioned in FY24. It plans to raise WHRS/Solar power capacity to 87.6MW/100MW by FY24, at its existing plants.

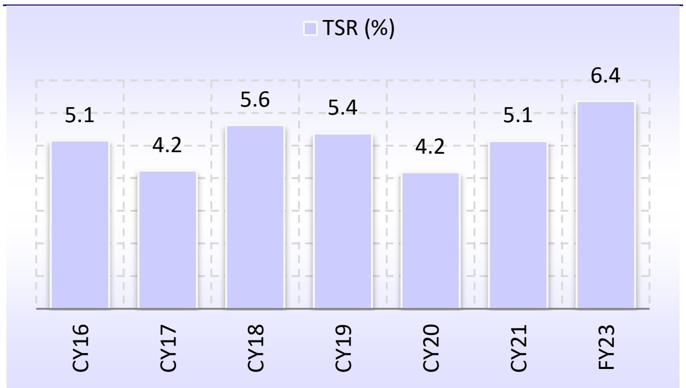
- In FY23, thermal substitution rate (TSR) has increased to 6.36% vs. 5.13% in CY21.

Exhibit 22: Increasing renewable power capacity…



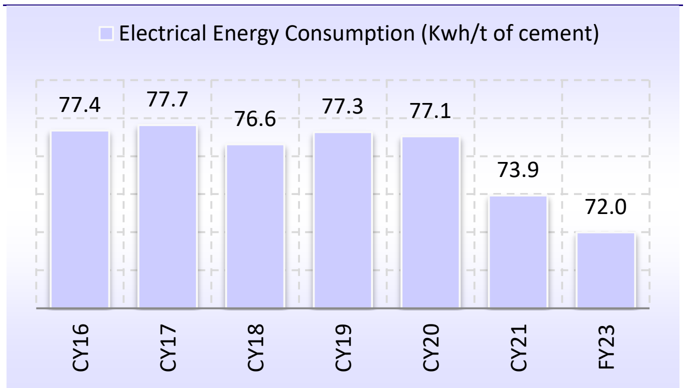
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 23: …as well as thermal substitution rate



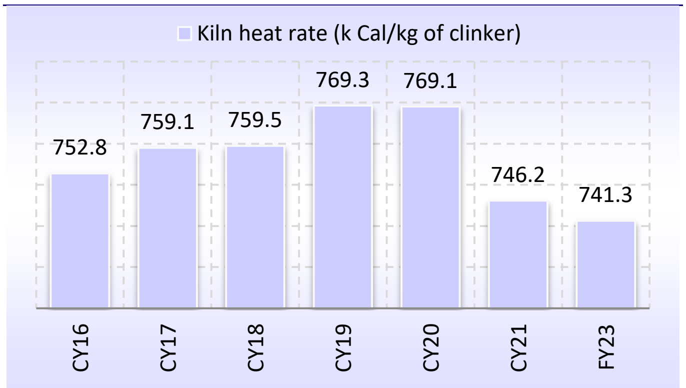
Source: MOFSL, Company; *Thermal Substitution rate; Note: FY23 was a 15M period

Exhibit 24: Electrical energy intensity reduced in FY23



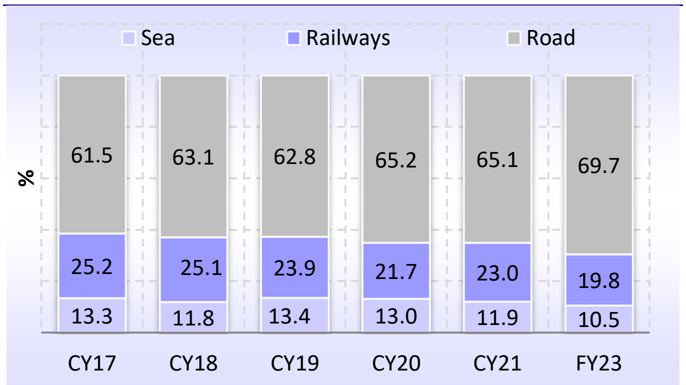
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 25: …similar was the case with thermal energy



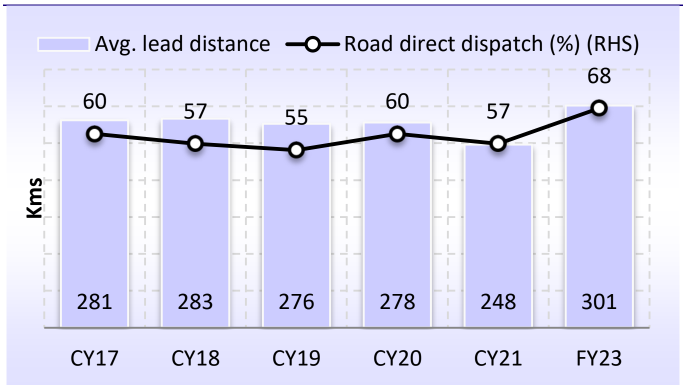
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 26: ACEM's outbound logistics mix



Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 27: Outbound logistics lead distance has increased



Source: MOFSL, Company; Note: FY23 was a 15M period

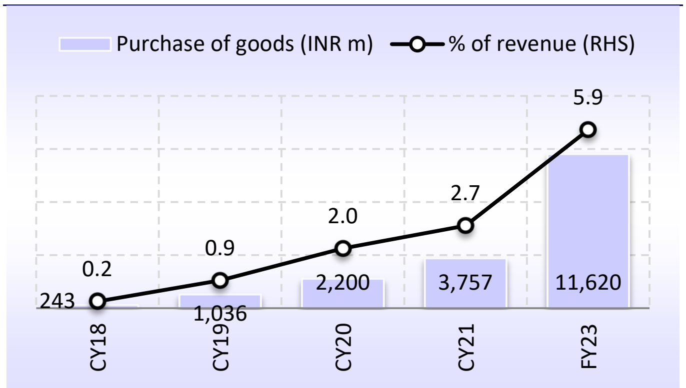
Exhibit 28: Other expenses declined 1.7pp in FY23 vs. CY22 with reduction in key cost elements

Other Expenses	CY19	% of Revenue	CY20	% of Revenue	CY21	% of Revenue	CY22	% of Revenue	Change YoY (%)
Packing materials	3,839	3.3	3,450	3.0	5,026	3.6	6,350	3.2	-0.4
Stores Consumed	3,152	2.7	2,248	2.0	2,747	2.0	3,810	1.9	-0.1
Repairs	2,189	1.9	1,482	1.3	1,878	1.3	2,735	1.4	0.0
Rent	545	0.5	580	0.5	624	0.4	810	0.4	0.0
Rates and taxes	784	0.7	920	0.8	1,082	0.8	1,129	0.6	-0.2
Royalties on minerals	2,549	2.2	2,311	2.0	2,926	2.1	3,751	1.9	-0.2
Technical and License fee	1,126	1.0	1,079	0.9	1,313	0.9	993	0.5	-0.4
Advertisement	855	0.7	639	0.6	893	0.6	1,225	0.6	0.0
Other miscellaneous expenses	5,425	4.6	5,137	4.5	5,659	4.0	7,517	3.8	-0.3
Total	**20,464**	**17.5**	**17,845**	**15.7**	**22,147**	**15.8**	**28,321**	**14.2**	**-1.7**

Source: MOFSL, Company; Note: FY23 was a 15M period

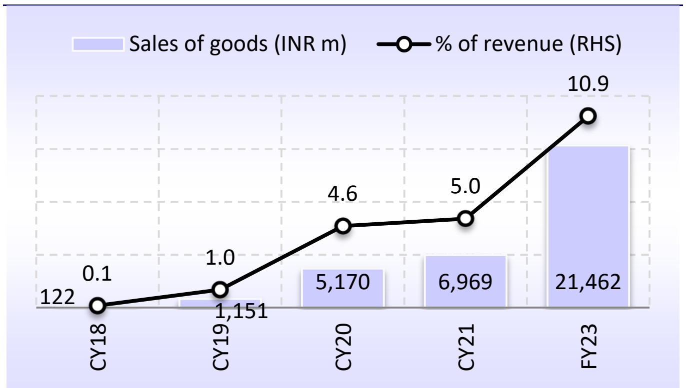
- The company continues to explore the MSA arrangement with ACC for higher revenues and profitability. The company-approved master supply agreement (MSA) in Mar'23 for one more year.

Exhibit 29: Value of goods purchased from ACC increased…



Source: Company, MOFSL; Note: FY23 was a 15M period

Exhibit 30: …so the case with value of goods sold to ACC



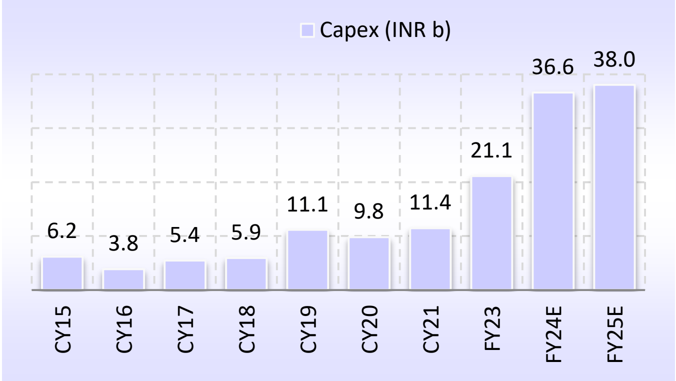
Source: Company, MOFSL; Note: FY23 was a 15M period

Capex, fixed assets and cash flows

ACEM capitalized Property, Plant, and Equipment of INR13.1b in FY23, mainly consisting of WHRS, routine maintenance, and efficiency/productivity improvement capex. Total capex in FY23 stood at INR21b vs. INR11.4b in CY21. We estimate capex of INR37b/INR38b in FY24/FY25, given the expansion plans announced by the company.

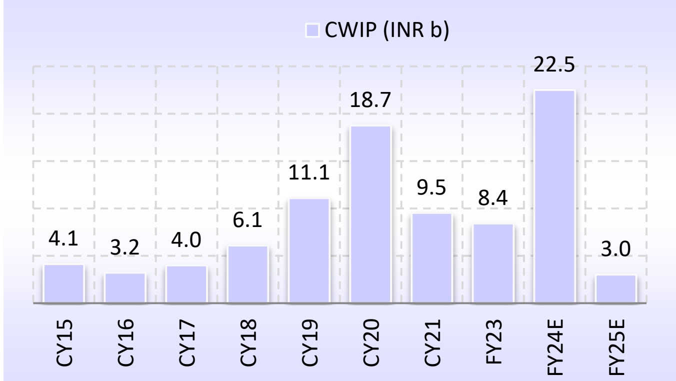
The company has a capital work-in-progress (CWIP) of INR8.4b in FY23 vs. INR9.5b in CY21. CWIP comprises capex incurred toward various projects and expansion spread over all units.

Exhibit 31: Capex is estimated to increase in FY24-25



Source: Company, MOFSL; Note: FY23 was a 15M period

Exhibit 32: ACEM's CWIP trends



Source: Company, MOFSL; Note: FY23 was a 15M period

In FY23, ROE declined due to lower margins and a reduction in fixed-asset turnover. We estimate asset turnover to decline further due to higher cash balance (the company is issuing equity share to group company aggregating INR200b, 25% of the same has been received in FY23), leading to lower ROE in FY25.

We estimate asset turnover to be at 1x/0.7x in FY24/FY25 v/s 1.2x in FY23 (average of 1.3x over CY17-21). We estimate RoE of 14%/10% in FY24E/25E.

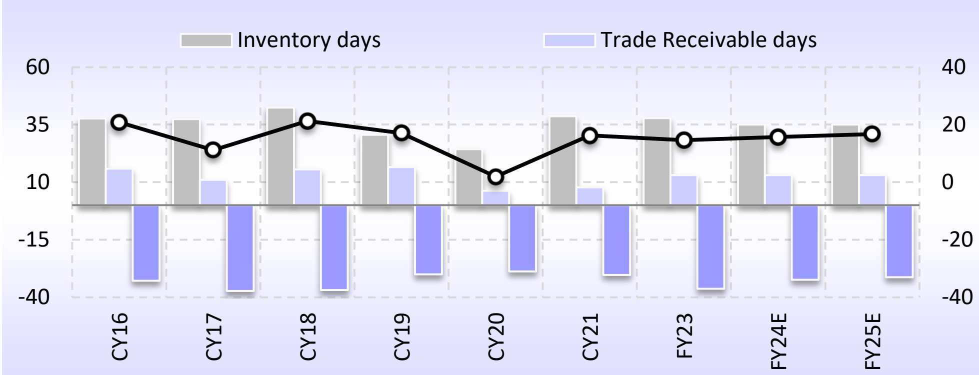
Exhibit 33: Du-pont analysis: Low asset turnover ratio and margin pressure adversely impacted RoE in FY23

(%)	CY17	CY18	CY19	CY20	CY21	FY23	FY24E	FY25E
PAT/PBT	77.2	75.6	74.0	74.1	74.7	78.5	74.4	74.4
PBT/EBIT	93.8	95.1	95.9	96.7	96.9	96.2	95.6	96.3
EBIT/Sales	16.5	14.8	17.4	22.0	21.1	16.7	18.3	20.5
Asset turnover (x)	1.3	1.3	1.2	1.2	1.5	1.2	1.0	0.7
Assets/Equity (x)	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0
RoE	16.1	14.1	14.8	19.1	22.7	14.9	13.6	11.1

Source: MOFSL, Company; Note: ROE adjusted for ACEM investment in ACC (50.05% subsidiary); Note: FY23 was a 15M period, so FY23 ratios have been annualized

ACEM's receivables days increased to 13 in FY23 vs. 8 in CY21. However, despite a sharp increase in fuel prices, inventory days largely remains the same in FY23 compared with CY21. Its trade payable days increased to 36 in FY23 vs. 30 in CY21. ACEM's cash conversion cycle largely remained stable in FY23 to 15 vs. 16 in CY21. We estimate cash conversion cycle to remain largely stable in FY24/FY25.

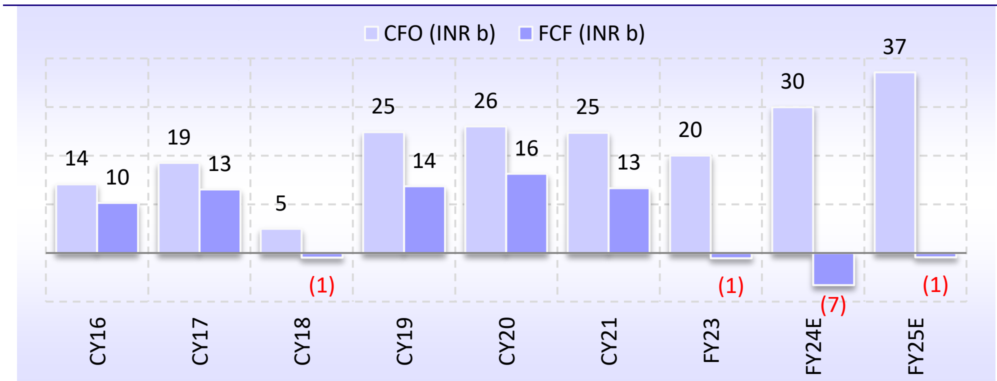
Exhibit 34: ACEM cash conversion cycle remains stable in FY23 vs. CY21



Source: MOFSL, Company

ACEM's FCF turned negative in FY23 due to lower profitability, higher capex, and advances, under long-term supply arrangement. In FY23, the company has given advances of INR9.25b to a related party (Mundra Petrochem, a subsidiary of Adani Enterprises) for securing rights for raw material/fuel for its upcoming cement manufacturing plant at Mundra, which is likely to be commissioned in FY26E. The company is planning to set up an integrated cement plant at Mundra, Gujarat, with a clinker/cement capacity of 2.3mtpa/4mtpa. It has already procured land and environmental clearances. This plant's location offers a significant competitive advantage, enabling multi-model logistic supply chain and easy access to abundant raw materials. Going forward, we expect OCF to improve in FY24/FY25, led by profitability improvement. However, given the robust expansion plan, we estimate FCF outflow of INR7b/INR1b in FY24/FY25.

Exhibit 35: OCF to improve in FY24-25 after a decline in FY23



Source: MOFSL, Company

Other important points from the AR

Contingent liabilities remained high, primarily due to the fines of INR11.6b imposed by the Competition Commission of India (CCI) in 2012. The case is still sub-judice in the Supreme Court over the company's appeal against NCLAT's (earlier known as COMPAT) order of upholding CCI order and imposing penalty. However, the Supreme Court directed the company to follow the NCLAT interim order to deposit 10% of the penalty amount and levy 12% p.a. interest in case the appeal is decided against the company.

Interest accrued on this penalty stood at INR8.7b at FY23-end vs. INR7.04b at CY21-end. Increase in contingent liabilities in CY21 was due to the rise in accrued interest on the above penalty.

Exhibit 36: Contingent liabilities increased due to interest accrued on CCI penalty

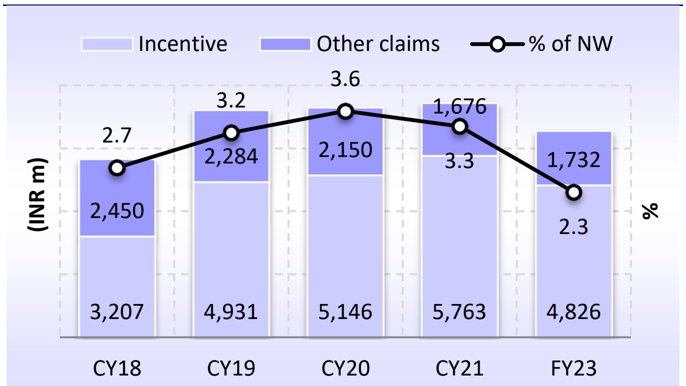
Matters related to contingent liabilities	CY21 (INR m)	FY23 (INR m)
Labour, railway dispute, electricity tariff issue	909	850
Land	897	923
Demand from Competition Commission of India	18,981	20,617
Sales tax	2,480	2,480
Excise customs and service tax	2,587	2,579
Stamp duty	3,103	3,103
Income tax	4,864	4,864
Others	507	1,014
Total	**34,328**	**36,430**
% of Net worth	**15.5**	**12.8**

Source: MOFSL, Company

Incentive receivables decline

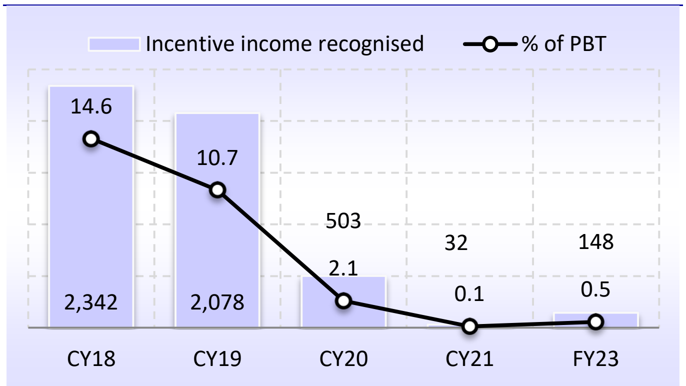
- ACEM's incentive income (government grant) stood at INR148m in FY23 vs. INR32m in CY21.
- We note that incentive receivable from the government declined to INR4.8b vs. INR5.8b in CY21. While, other claims receivable from the government increased to INR1.73b vs. INR1.68b in CY21.

Exhibit 37: Outstanding government incentives declined



Source: Company, MOFSL

Exhibit 38: Income from government incentives was low



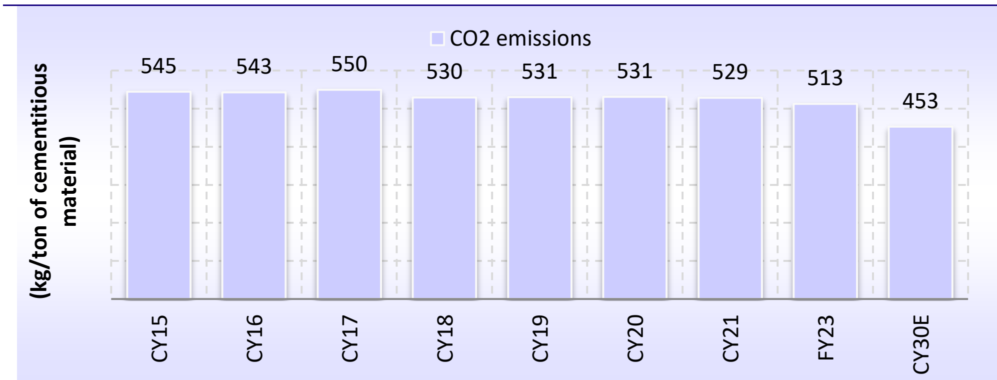
Source: Company, MOFSL

Sustainability developments and targets

Sustainability key focus area

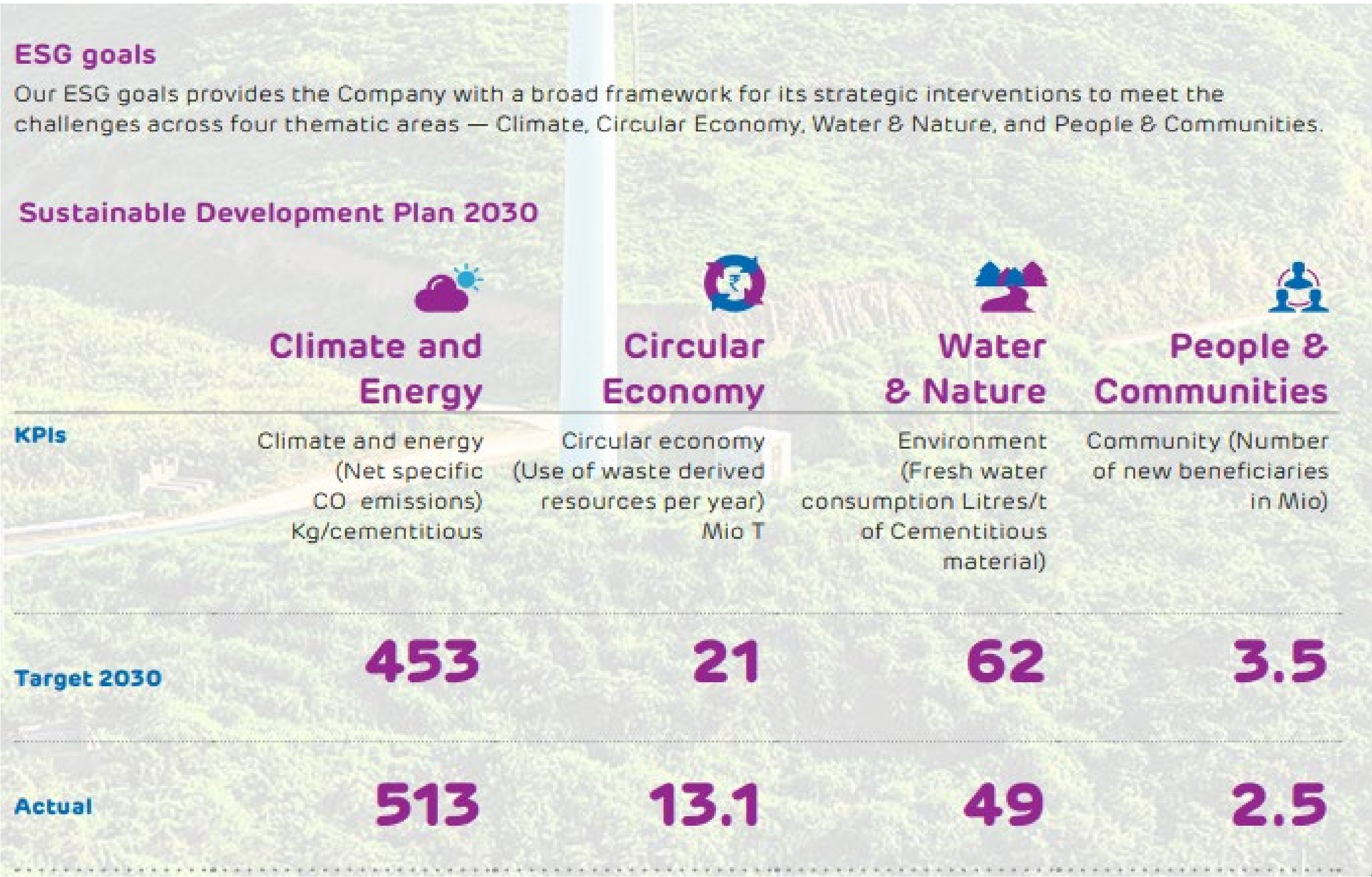
ACEM to reinforce its commitment to the 'net-zero pledge' by installing WHRS, renewable power capacities, and setting up alternative fuels and raw materials (AFR) co-processing facilities. The company reduced scope 1 emissions by 3% to 513kg/ton of cement, taking CY18 as the baseline year. It targets to reduce CO2 intensity by ~12% to 453kg/ton of cement by 2030 as compared to FY23.

Exhibit 39: Aims to reduce carbon emission by 12% between FY23 and CY30E



Source: Company, MOFSL

Exhibit 40: Sustainable development 2030 (SD 2030) plan



Source: Company, MOFSL

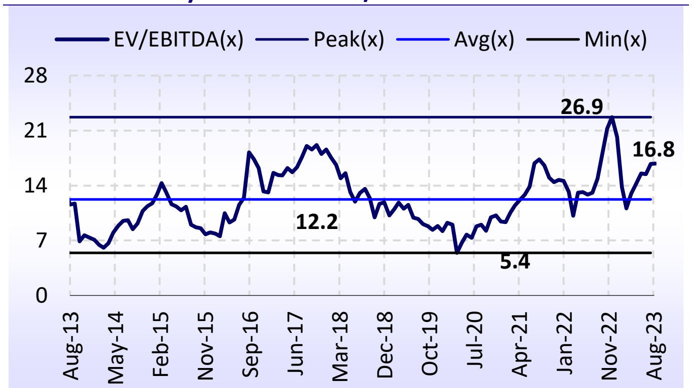
Expensive valuations; retain Neutral

ACEM reiterated its capacity target of 140mtpa by FY28. ACEM's (consolidated) grinding capacity is estimated to increase to 73.6mtpa from 67.5mtpa post-completion of SNGI's acquisition (subject to requisite approvals). The company is also increasing capacity through a mix of brownfield and Greenfield expansion across regions, except South. It is likely to add grinding capacity (within the group companies) of 5.5mtpa at Dahej, Gujarat, and Ametha, Madhya Pradesh in 2QFY24. Further, it has announced capacity expansion of 14mtpa, which is likely to be completed in the next 24 months. It also indicated expanding SNGI's capacity by ~9mtpa over the next two years. After the successful completion of all these plants, Adani Group's cement capacity is estimated to increase to 101mtpa by 1HFY26.

The company is taking various cost-optimization initiatives such as adding WHRS/ Solar power plants, ramp-up of coal mining from Gare-Palma IV coal block and Dahegaon Gowari, reduction in lead distance and rail:road mix optimization. The management targets sustainable cost reduction of INR400/t.

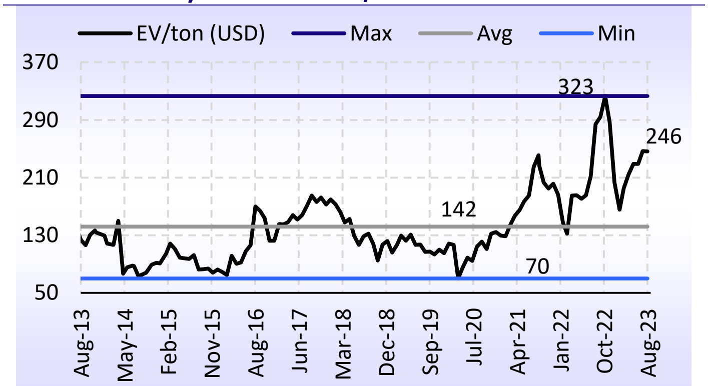
ACEM trades at 17.3x/16x FY24E/FY25E EV/EBITDA. The stock has traded at an average EV/EBITDA of 12.5x over the last 5/10 years. We value it at 15x FY25E EV/EBITDA to arrive at our TP of INR450 and reiterate our Neutral rating on the stock.

Exhibit 41: One-year forward EV/EBITDA chart



Source: Company, MOFSL

Exhibit 42: One-year forward EV/t chart



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23***	**FY24E**	**FY25E**
Net Sales	**1,04,571**	**1,13,568**	**1,16,679**	**1,13,719**	**1,39,790**	**1,99,854**	**1,82,195**	**2,02,701**
Change (%)	13.7	8.6	2.7	-2.5	22.9	43.0	-8.8	11.3
Total Expenditure	85,170	94,653	95,190	87,253	1,07,639	1,67,650	1,45,525	1,56,635
As a percentage of Sales	81.4	83.3	81.6	76.7	77.0	83.9	79.9	77.3
EBITDA	**19,401**	**18,915**	**21,489**	**26,466**	**32,152**	**32,204**	**36,670**	**46,067**
Change (%)	14.6	-2.5	13.6	23.2	21.5	0.2	13.9	25.6
Margin (%)	18.6	16.7	18.4	23.3	23.0	16.1	20.1	22.7
Depreciation	5,729	5,481	5,438	5,212	5,517	8,324	8,457	10,057
EBIT	**13,672**	**13,434**	**16,050**	**21,254**	**26,634**	**23,880**	**28,212**	**36,009**
Interest	1,072	823	835	831	910	1,280	1,458	1,541
Other Income – Rec.	3,591	3,391	4,265	3,720	2,812	9,523	5,170	5,617
PBT before EO Exp.	**16,191**	**16,002**	**19,480**	**24,144**	**28,536**	**32,123**	**31,924**	**40,085**
EO Exp./(Inc.)	0	-2,779	0	0	657	1,573	0	0
PBT after EO Exp.	**16,191**	**18,781**	**19,480**	**24,144**	**27,879**	**30,551**	**31,924**	**40,085**
Current Tax	4,107	4,780	5,730	6,520	6,908	4,964	8,173	10,262
Deferred Tax	-411	-869	-1,535	-278	139	52	0	0
Tax Rate (%)	22.8	20.8	21.5	25.9	25.3	16.4	25.6	25.6
Reported PAT	**12,496**	**14,870**	**15,285**	**17,901**	**20,832**	**25,535**	**23,752**	**29,823**
PAT Adj. for EO Items	**12,496**	**12,091**	**14,415**	**17,901**	**21,323**	**25,212**	**23,752**	**29,823**
Change (%)	34.0	-3.2	19.2	24.2	19.1	18.2	-5.8	25.6
Margin (%)	11.9	10.6	12.4	15.7	15.3	12.6	13.0	14.7

Balance Sheet								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23***	**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	2,18,078	2,31,084	2,47,886	4,65,670
Net Worth	**1,99,732**	**2,10,125**	**2,22,052**	**2,03,159**	**2,22,049**	**2,85,055**	**3,01,857**	**4,70,596**
Def. Liabilities	4,583	3,722	2,161	1,860	2,137	2,181	2,181	2,181
Total Loans	241	397	353	436	469	477	435	435
Capital Employed	**2,04,557**	**2,14,244**	**2,24,565**	**2,05,454**	**2,24,655**	**2,87,713**	**3,04,473**	**4,73,212**
Gross Block	69,035	73,721	80,435	86,658	1,08,864	1,26,928	1,49,428	2,06,928
Less: Accum. Depn.	11,816	17,085	22,310	27,343	32,407	40,731	49,188	59,245
Net Fixed Assets	**57,220**	**56,636**	**58,125**	**59,315**	**76,457**	**86,198**	**1,00,240**	**1,47,683**
Capital WIP	8,625	9,996	14,562	21,300	10,859	9,430	23,512	4,012
Investments in subsidiaries	1,18,151	1,18,138	1,17,890	1,17,877	1,17,647	1,17,667	1,17,667	1,17,667
Investments – Trade	15,128	2,305	6,537	788	5,266	17,180	17,180	17,180
Curr. Assets	**47,144**	**64,792**	**72,793**	**55,534**	**71,348**	**1,28,567**	**1,17,874**	**2,59,888**
Inventory	10,525	12,778	9,541	7,466	14,641	16,394	17,226	19,188
Debtors	3,080	4,703	5,132	1,915	2,947	5,649	6,425	7,157
Cash and Bank Bal.	20,189	31,045	40,638	28,500	36,942	68,280	54,729	1,92,799
Others	13,351	16,267	17,483	17,652	16,818	38,244	39,494	40,744
Curr. Liability and Prov.	**41,712**	**37,623**	**45,342**	**49,360**	**57,173**	**71,328**	**72,001**	**73,218**
Creditors	40,488	36,327	43,985	48,765	56,423	70,429	70,666	71,883
Provisions	1,223	1,296	1,357	595	750	899	1,335	1,335
Net Current Assets	**5,433**	**27,169**	**27,451**	**6,174**	**14,176**	**57,239**	**45,874**	**1,86,670**
Appl. of Funds	**2,04,557**	**2,14,244**	**2,24,565**	**2,05,454**	**2,24,404**	**2,87,713**	**3,04,473**	**4,73,212**

Source: Company, MOFSL; * Note: 15-month period due to change in accounting year from December to March

Financials and valuations

Ratios

Y/E December/March	CY17	CY18	CY19	CY20	CY21	FY23*	FY24E	FY25E
Basic (INR)								
EPS	**6.3**	**6.1**	**7.3**	**9.0**	**10.7**	**12.7**	**12.0**	**12.1**
Cash EPS	9.2	8.8	10.0	11.6	13.5	16.9	16.2	16.2
BV/Share	100.6	105.8	111.8	102.3	111.8	143.6	152.0	191.1
DPS	3.6	1.5	1.5	18.5	6.3	2.5	3.5	4.5
Payout (%)	64.9	22.3	19.5	205.2	60.1	19.4	29.3	37.2
Valuation (x)								
P/E ratio		60.3	50.5	40.7	34.2	28.9	30.7	30.3
Cash P/E ratio		41.5	36.7	31.5	27.1	21.7	22.6	22.7
P/BV ratio		3.5	3.3	3.6	3.3	2.6	2.4	1.9
EV/Sales ratio		6.0	5.7	6.0	4.8	3.2	3.5	3.6
EV/EBITDA ratio		36.3	31.1	25.6	21.0	19.7	17.3	16.0
EV/t (Cap) - USD		279	272	276	260	243	243	227
Dividend Yield (%)		0.3	0.3	4.0	1.4	0.5	0.8	1.0
Return Ratios (%)								
RoE	15.8	13.8	14.6	18.7	22.3	18.4	13.5	11.1
RoCE	16.8	15.2	16.1	19.3	22.9	20.4	14.0	11.5
RoIC	18.2	18.9	23.6	35.3	41.0	26.3	20.9	20.0
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	10.3	12.9	12.9
Inventory (Days)	37	41	30	24	38	30	35	35
Work Cap (Days)	19.0	87.3	85.9	19.8	37.0	104.5	91.9	336.1
Leverage Ratio (x)								
Current Ratio	1.1	1.7	1.6	1.1	1.2	1.8	1.6	3.5
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	FY23*	FY24E	FY25E
OP/(Loss) before Tax	16,191	15,061	19,480	24,144	27,879	30,551	31,924	40,085
Depreciation	5,729	5,481	5,438	5,212	5,517	8,324	8,457	10,057
Interest and Finance Charges	-58	-709	-1,515	-1,369	-214	-1,868	0	0
Direct Taxes Paid	-3,101	-6,251	-808	-4,648	-3,659	-3,346	-8,173	-10,262
(Inc.)/Dec. in WC	2,136	-6,166	3,877	3,676	-4,557	-7,855	-2,186	-2,726
CF from Operations	**20,898**	**7,416**	**26,472**	**27,015**	**24,966**	**25,807**	**30,023**	**37,154**
Others	-2,356	-2,406	-1,632	-952	-201	-5,711	0	0
CF from Operations incl. EO	**18,541**	**5,009**	**24,840**	**26,062**	**24,765**	**20,096**	**30,023**	**37,154**
(Inc.)/Dec. in FA	-5,427	-5,936	-11,114	-9,756	-11,430	-21,116	-36,581	-38,000
Free Cash Flow	**13,115**	**-927**	**13,726**	**16,307**	**13,336**	**-1,020**	**-6,559**	**-846**
(Pur.)/Sale of Investments	3,468	3,393	3,734	3,342	-4,096	-11,502	0	0
Others	-4,509	13,174	-3,999	5,819	2,370	7,744	0	0
CF from Investments	**-6,468**	**10,631**	**-11,379**	**-595**	**-13,156**	**-24,874**	**-36,581**	**-38,000**
Issue of Shares	0	0	0	0	0	0	0	955
Inc./(Dec.) in Debt	-793	216	0	-237	35	-31	-42	0
Interest Paid	-1,143	-513	-558	-633	-756	-679	0	0
Dividend Paid	-5,550	-4,498	-3,320	-36,646	-2,021	-12,514	-6,950	-11,084
Others	0	12	11	-88	-427	49,340	0	1,49,045
CF from Fin. Activity	**-7,487**	**-4,784**	**-3,868**	**-37,604**	**-3,169**	**36,115**	**-6,992**	**1,38,916**
Inc./Dec. in Cash	**4,587**	**10,856**	**9,593**	**-12,137**	**8,441**	**31,338**	**-13,550**	**1,38,070**
Opening Balance	15,602	20,189	31,045	40,638	28,500	36,942	68,280	54,729
Closing Balance	**20,189**	**31,045**	**40,638**	**28,500**	**36,941**	**68,279**	**54,729**	**1,92,799**

Source: Company, MOFSL; * Note: 15-month period due to change in accounting year from December to March

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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