

November 1, 2023

RESULT REPORT Q2 FY24 | Sector: Cement

Ambuja Cements

Reclaiming market share with 140MTPA target

Result Synopsis

Ambuja Cements (ACEM) reported a healthy performance, where revenue grew by 8% y/y aided by +13% y/y volume growth which got offset by 4% y/y NSR decline in Q2FY24. Power cost/te declined by 40% y/y resulted in 16% y/y total cost/te reduction translates in EBITDA of Rs1018/te to Rs7.7bn (+154% y/y) in Q2FY24. On account of higher other income, PAT exceeded expectations by 26% reaching Rs6.4bn in Q2FY24 against Rs1.5bn in Q2FY23. ACEM narrowed the efficiency gap with its peers by adopting cost-effective measures. Management has aspirational target of +Rs1400/te of EBITDA by improving the efficiencies with a fresh set of investments in 1) augmenting WHRS & RE capacities, 2) Ramping up AFR usage, 3) upgrading equipment & debottlenecking for kiln efficiencies 4) Higher trade & premium sales 5) Reduction in lead distance/logistic cost.

Under new management, ACEM targets to reach 140MTPA by FY28E to regain the lost market share. In this endeavor, ACEM plans to add 14MTPA GU and 12.75MTPA clinker units with a capex outlay of ~Rs70bn (65% ACEM standalone). Also, Sanghi industries (SNGI) acquisition at EV of Rs50bn (\$100/te) has a 6.1MTPA cement/ 6.5MTPA clinker capacity with 1000MT of limestone reserve and its future expansion. This strategic move will increase the console capacity to 101MTPA (45.5MTPA standalone and excl. group capacity) by FY26E. As a result, incremental volume from new capacities is expected from FY25E onwards, while standalone cement volume should grow at 10% CAGR over FY24-26E complimented by master supply agreement. The promoter group committed to infuse Rs200bn towards subscribing share warrants, of which Rs50bn has been received and the rest is expected to exercise on or before April'24. We valued ACEM on SOTP based valuation with a standalone entity valued at 14x EV/EBITDA and ACEM's stake in ACC at 10x EV/EBITDA on FY26E by adding Rs40bn net cash and SNGI at Rs50bn EV. Thus, we arrived at TP of Rs487 with a BUY rating.

Result Highlights

- Revenue came 4% below YSECe to Rs39.7bn up by +8% y/y aided by volume growth of 13% y/y, although NSR corrected by 4% y/y in Q2FY24.
- Total cost/te largely came in-line with our est., declined by 16% y/y due to power / freight & other cost moderation by 40/10 & 33% y/y in Q2FY24.
- As expected, EBITDA came at Rs7.7bn up by +154% y/y translates in EBITDA/te of Rs1018 v/s YSECe Rs957/te in Q2FY24 due to better NSR than expected.
- Whereas EBITDA margin came in at 19.5% (18.7% YSECe) as compared to 8.3% in Q2FY23 and 20.1% in Q1FY24.
- Adj. PAT came at Rs6.4bn in Q2FY24 against Rs1.5bn in Q2FY23 and flat q/q aided by higher other income.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	39,698	41,152	46,458	(3.5)	(14.6)	Largely in-line performance, higher other result in PAT beat
EBITDA	7,734	7,704	9,471	0.4	(18.3)	
Margin (%)	19.5	18.7	20.4	76 bps	-90 bps	
Adj. PAT	6,438	5,125	7,690	25.6	(16.3)	

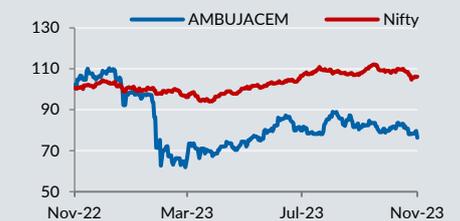
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 407
Target Price	: Rs 487
Potential Return	: +20%

Stock data (as on Nov 1, 2023)

Nifty	18,989
52 Week h/l (Rs)	598 / 315
Market cap (Rs/USD mn)	842807 / 10126
Outstanding Shares (mn)	1,986
6m Avg t/o (Rs mn):	2,916
Div yield (%):	0.6
Bloomberg code:	ACEM IN
NSE code:	AMBUJACEM

Stock performance



	1M	3M	1Y
Absolute return	-4.3%	-11.9%	-25.3%

Shareholding pattern (As of Sep'23 end)

Promoter	63.2%
FII+DII	27.2%
Others	9.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	SELL
Target Price	487	396

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	14.6	13.1
EPS (Old)	10.8	10.2
% Change	35%	28%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	183,546	196,912	215,230
Growth	N/A	7.3	9.3
EBITDA	39,212	45,772	54,501
Margin	21.4	23.2	25.3
Adj. PAT	28,961	32,320	38,073
Growth	N/A	11.6	17.8
EPS	14.6	13.1	15.5
ND/EBITDA	(0.1)	(3.2)	(2.9)
ROE	9.4	6.6	7.3
ROCE	12.8	9.1	10.0
EV/EBITDA	13.5	12.8	10.5

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q3CY22	Q4CY22	Q1CY23	Q1FY24	Q2FY24	y/y (%)	q/q (%)	FY23*	CY21	y/y (%)
Net Revenue	36,704	41,285	42,563	47,297	39,698	8.2	(16.1)	199,854	139,650	43.1
Total Expenses	33,661	35,024	34,681	37,812	31,964	(5.0)	(15.5)	167,650	107,575	55.8
COGS	2,960	7,480	8,695	8,827	7,268	145.5	(17.7)	27,644	11,595	138.4
Employee Expenses	1,532	1,595	1,680	1,309	1,490	(2.8)	13.8	8,002	6,777	18.1
Power & fuel	14,147	12,111	10,343	11,715	9,653	(31.8)	(17.6)	60,129	34,210	75.8
Freight Exp	8,395	8,362	9,326	10,465	8,525	1.6	(18.5)	43,835	33,083	32.5
Other Expenses	6,627	5,475	4,637	5,495	5,028	(24.1)	(8.5)	28,041	22,112	26.8
EBITDA	3,043	6,261	7,883	9,486	7,734	154.1	(18.5)	32,204	32,075	0.4
EBITDA (%)	8.3	15.2	18.5	20.1	19.5	1119 bps	-57 bps	16.1	23.0	-685 bps
D&A	1,571	1,648	2,047	2,319	2,286	45.5	(1.4)	8,324	5,512	51
Other Income	470	890	1,740	1,895	3,781	704.0	99.6	9,523	2,856	233
Interest Expense	228	253	335	396	435	90.8	9.8	1,280	909	41
Exceptional/EO items	152	614	807	-	-	(100.0)	-	1,573	657	139
Share JV/Associates	-	-	-	-	-	-	-	-	-	-
EBT	1,563	4,637	6,434	8,665	8,795	462.7	1.5	30,551	27,853	9.7
Tax	184	947	1,410	2,216	2,357	1,180.1	6.3	5,016	7,047	(28.8)
Reported PAT	1,379	3,690	5,024	6,449	6,438	366.9	(0.2)	25,535	20,805	22.7
Less: Minority Interest	-	-	-	-	-	-	-	-	-	-
Adj. PAT	1,531	4,303	5,831	6,449	6,438	320.5	(0.2)	27,108	21,462	26.3

Source: Company, YES Sec | Note: * Company changed its financial year end from Dec to Mar as result, the figure for current year is for 15months.

Exhibit 3: Quarterly Operational Performance Analysis (Standalone)

Particulars (Rs mn)	Q3CY22	Q4CY22	Q1CY23	Q1FY24	Q2FY24	y/y (%)	q/q (%)	FY23*	CY21	y/y (%)
Total Volumes (MMT)	6.7	7.7	8.1	9.1	7.6	12.8	(16.5)	37.8	27.0	39.8
NSR/te (Blended)	5,446	5,362	5,255	5,197	5,223	(4.1)	0.5	5,290	5,168	2.4
RM/te	439	971	1,073	970	956	117.8	(1.4)	732	429	70.5
Employees/te	227	207	207	144	196	(13.8)	36.2	212	251	(15.6)
Power/te	2,099	1,573	1,277	1,287	1,270	(39.5)	(1.3)	1,592	1,266	25.7
Freight/te	1,246	1,086	1,151	1,150	1,122	(9.9)	(2.5)	1,160	1,224	(5.2)
Others/te	983	711	572	604	662	(32.7)	9.6	742	818	(9.3)
Opex/te (Blended)	4,994	4,549	4,282	4,155	4,206	(15.8)	1.2	4,438	3,981	11.5
EBITDA/te (Blended)	452	813	973	1,042	1,018	125.4	(2.4)	852	1,187	(28.2)

Source: Company, YES Sec

CONFERENCE CALL KEY TAKEWAYS

- Management reiterated 140MTPA capacity expansion target by FY28E and for which company will augment 10 clinker plants totaling to 40MTPA and 35 grinding units across location on console basis.
 - Ordered equipment for the Bhatapara, Maratha, Sankrail and Mundra expansion and expected to commission by FY25-26E.
 - Total Capex – Rs70bn – GU Expansion of 14MTPA, Clinker Units Expansion of 12.75MTPA and towards debottlenecking and Efficiency Improvement.
- In Q2FY24, MSA volume came at 2.4MT of which 1.2MT each in ACC and ACEM
- Under ACC, 22.4MW of WHRS at Jamul & Kymore plants became fully operational taking the total capacity to 30MTPA and another 16.3MW is expected to be commissioned in Q3FY24 which will result in 46.3MW.
- ACEM commissioned 18MW of WHRS (standalone) at Bhatapara, Suli and Rauri in Q1FY24. Additional 33MW at Suli, Ametha and Maratha is expected in FY24 taking total on console WHRS capacity to 121MW by FY24 end.
- **Optimizing operating efficiencies measures:** Increase in WHRS capacity from 90MW in Jun'23 to 175MW by FY25E (v/s 121MW by end of FY24E). Increase AFR share in fuel mix from 7% to 13% by FY24 and 30% by FY27. Focus on captive renewable capacity (Solar 200MW) to enhance green power (100MW each in ACC/ACEM).
 - Entering long term Fly Ash sourcing contracts for assured long-term supplies.
 - Coal extraction from newly allotted coal mines – Dahegaon Gawri will aid to reduce dependency of imported fuel consumption (~40% of the total coal requirement can be fulfilled from mines under occupation).
 - ACEM's Kiln fuel cost reduced by 34% to Rs 1.79/kCal per kg and is expected further to reduce through mix and allotted coal mines.
 - ACC's electrical energy consumption improved by 6.4 kWh/t to 73.9 kWh/t with improving clinker factor from 57.2% to 56.6% coupled with reduction in Kiln fuel cost from Rs3.19/kCal per kg to Rs1.85/kCal per kg
- **Optimizing Logistics & Freight cost:** GU addition to significantly reduce lead distance to 100kms. Currently ~45% of sales volume is under 150kms lead distance and served directly to customers.
 - Rail-Road mix optimization, in Q1FY23 Rail/Road mix stood at 30%.
 - At console level, direct dispatches increased from 5% to 49% (ACC from 5% to 34%) in Q2FY24 and management reiterate its focus towards logistic cost saving through lead distance reduction, warehousing, and increasing Rail coefficient.
 - Ordered rail rakes for fly ash logistics from thermal power plants.
- For FY24E, management guided CAPEX of ~Rs70bn (65% under ACEM standalone and rest towards ACC).
- **Other Cost optimization measures:** Debottlenecking initiatives to improve plant capacity and change in product mix will improve realizations, also focuses to increase share of B2B sales. With implementation of cost reduction measures and synergies, management expects console ACEM's EBITDA to reach Rs1400-1500/te (Rs300-400/te reduction in cost for FY24 v/s Q4FY23 exit) in next 12-36month
- Maratha clinker expansion of 4MTPA will be catering 2MTPA of new grinding capacity each at Amaravati and Jalgaon and will be commissioned in next 24month
- Acquisition of Sanghi industries will aid ACC and Ambuja to fulfill its clinker requirement.

Exhibit 4: Annual Operational Performance Estimates (Standalone)

Particulars (Rs m)	CY21	FY23	FY24E	FY25E	FY26E
Total Volumes (MMT)	27.0	37.8	33.6	35.9	39.1
Utilization (%)	82%	86%	94%	69%	75%
Cement Realization/te	4,993	4,918	4,987	4,987	4,987
Net Realization/te (Blended)	5,168	5,290	5,469	5,492	5,500
RM/te	429	732	798	807	846
Power/te	1,266	1,592	1,336	1,223	1,175
Freight/te	1,224	1,160	1,146	1,153	1,152
Employees/te	251	212	257	265	267
Others/te	818	742	762	768	667
Opex/te (Blended)	3,981	4,438	4,300	4,216	4,107
EBITDA/te (Blended)	1,187	852	1,168	1,277	1,393

Source: Company, YES Sec

Exhibit 5: Key Estimate Revision

	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Revenues	165,090	183,546	11%	171,219	196,912	15%
EBITDA	31,913	39,212	23%	37,755	45,772	21%
PAT	21,411	28,961	35%	25,182	32,320	28%
EPS	10.8	14.6	35%	10.2	13.1	28%

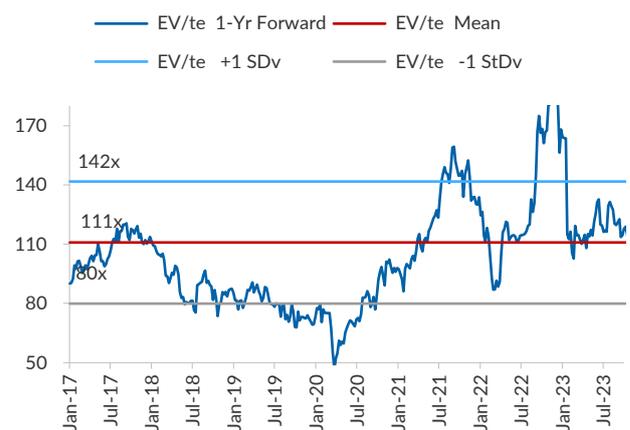
Source: Company, YES Sec

Exhibit 6: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 7: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet (Standalone)

Y/e 31 Dec (Rs mn)	CY21	FY23	FY24E	FY25E	FY26E
Equity capital	3,971	3,971	3,971	4,926	4,926
Reserves	218,078	231,084	255,080	281,243	313,158
Net worth	222,049	285,055	309,052	486,170	518,086
Other LT Liabilities	2,980	6,370	6,370	6,370	6,370
LT provision.	660	858	858	858	858
Minority interest	-	-	-	-	-
Long-term Borrowing	435	342	332	322	312
Deferred tax liabilities. (net)	2,137	2,181	2,181	2,181	2,181
Current Liabilities					
Trades Payables	11,457	15,711	12,365	11,280	11,866
Short-term Borrowing	34	135	26	25	25
Other current liabilities	41,985	48,348	48,348	48,348	48,348
Short Term Provision	90	41	41	41	41
Total Liabilities	281,828	359,041	379,573	555,596	588,086
Assets					
Total Net Block	73,083	77,765	73,922	104,421	123,127
CWIP & Other Assets	13,139	16,851	40,554	45,554	45,554
Investments	117,739	117,759	142,269	142,269	142,269
Other Non-current Asset	10,063	34,201	34,206	34,206	34,206
Deferred tax asset (net)	-	-	-	-	-
Current Assets					
Inventories	14,641	16,394	13,379	13,865	15,061
Trades Receivables	2,947	5,649	4,123	4,091	4,432
Other current assets	8,476	65,047	65,047	65,047	65,047
Short Term Loans & advances	48	44	63	67	74
Cash & Bank Balances	41,692	25,331	6,011	146,075	158,316
Total Assets	281,828	359,041	379,573	555,596	588,086

Source: Company, YES Sec

Exhibit 9: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	CY21	FY23	FY24E	FY25E	FY26E
Net Revenue	139,650	199,854	183,546	196,912	215,230
EBITDA	32,075	32,204	39,212	45,772	54,501
D&A	5,512	8,324	7,043	9,600	11,394
EBIT	26,562	23,880	32,168	36,172	43,107
Interest Expense	909	1,280	896	954	952
Other Income	2,856	9,523	7,342	7,876	8,609
Exceptional/EO items	657	1,573	-	-	-
EBT	27,853	30,551	38,614	43,094	50,764
Tax	7,047	5,016	9,654	10,773	12,691
Share of Profit/(Loss) in JV/Associates	-	-	-	-	-
Reported PAT	20,805	25,535	28,961	32,320	38,073
Less: Minority Interest	-	-	-	-	-
Adj. PAT	21,462	27,108	28,961	32,320	38,073

Source: Company, YES Sec

Exhibit 10: Cash Flow (Standalone)

Y/e 31 Dec (Rs mn)	CY21	FY23	FY24E	FY25E	FY26E
Cash flow from operation	23,367	(16,596)	37,181	40,377	48,510
Profit before tax	28,509	32,123	38,614	43,094	50,764
Depreciation	5,512	8,324	7,043	9,600	11,394
Tax paid	(7,047)	(5,016)	(9,654)	(10,773)	(12,691)
Working capital Δ	(2,951)	(50,455)	1,177	(1,544)	(957)
Other operating items	(657)	(1,573)	-	-	-
Cash flow from Investing Activities	(9,213)	(40,857)	(26,908)	(45,100)	(30,100)
Capital expenditure	(13,682)	(16,719)	(26,903)	(45,100)	(30,100)
Change in other non-current assets	4,469	(24,139)	(5)	-	-
Free cash flow	9,685	(33,314)	10,278	(4,723)	18,410
Cash flow from Financing activities	(1,705)	41,091	(29,593)	144,787	(6,169)
Equity raised	10,595	42,435	-	150,956	0
Investments	183	(20)	(24,510)	-	-
Debt financing/disposal	33	8	(119)	(11)	(11)
Dividends paid	(12,510)	(4,964)	(4,964)	(6,158)	(6,158)
Other items	(7)	3,632	-	-	-
Net Δ in cash	12,449	(16,362)	(19,320)	140,064	12,241

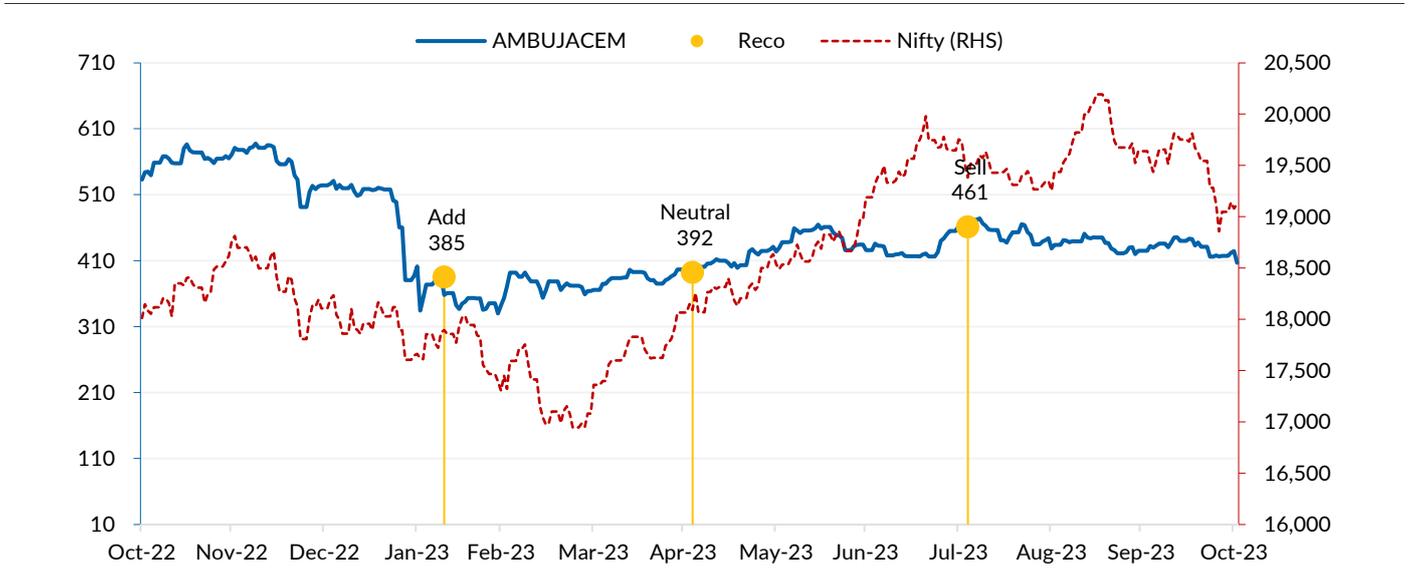
Source: Company, YES Sec

Exhibit 11: Ratio Analysis (Standalone)

Y/e 31 Dec	CY21	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue	22.8	43.1	(8.2)	7.3	9.3
EBITDA	21.2	0.4	21.8	16.7	19.1
EBT	15.4	9.7	26.4	11.6	17.8
PAT	16.2	22.7	13.4	11.6	17.8
EPS	16.2	22.7	13.4	(10.0)	17.8
Profitability ratios (%)					
EBITDA (%)	23.0	16.1	21.4	23.2	25.3
EBIT (%)	21.1	16.7	21.5	22.4	24.0
PAT (%)	14.9	12.8	15.8	16.4	17.7
RoCE	13.2	11.7	12.8	9.1	10.0
RoE	9.4	9.0	9.4	6.6	7.3
RoA	25.2	29.6	27.0	22.6	23.6
Per share ratios (Rs)					
EPS	10.5	12.9	14.6	13.1	15.5
Dividend per share	6.3	2.5	2.5	2.5	2.5
Cash EPS	13.3	17.1	18.1	17.0	20.1
Book value per share	112	144	156	197	210
Payout (%)					
Dividend payout	60	19	17	19	16
Tax payout	25	16	25	25	25
Liquidity ratios					
Debtor days	147	83	83	83	83
Inventory days	54	43	43	43	43
Creditor days	6	8	8	8	8
Leverage ratios (x)					
Interest coverage	32.3	26.1	44.1	46.1	54.3
Net debt / equity	(0.7)	(0.5)	(0.5)	(0.6)	(0.6)
Net debt / EBITDA	(1.3)	(0.8)	(0.1)	(3.2)	(2.9)

Source: Company, YES Sec

Recommendation Tracker



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DISCLOSURE OF INTEREST

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The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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