BUY (Maintained)

CMP: **INR 603** Target Price: **INR 831 (INR 668)** ▲ 38%

ICICI Securities

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11 March 2024

India | Equity Research | Company Update

Ambuja Cements

Cement

In the catbird seat

Under Adani Group, Ambuja Cement (ACEM; consol) has narrowed the margin gap considerably versus peers, mainly led by cost control. And we believe, it has 'just scratched the surface' given its ongoing plan of significant green power addition and a resolve to boost efficiency in other areas by leveraging group synergies. While plans to add ~32mtpa capacity is in the works, the upcoming fund infusion of INR 150bn (promoter warrant conversion due in Apr'24) has potential to expedite (by organic and/or inorganic route) ACEM reaching the 140mtpa capacity target well ahead of its initial guidance of FY28 (76mtpa currently). Given the odds, ACEM comes across as a rare opportunity which makes a favourable investment argument irrespective of the sector's outlook. Retain **BUY;** TP revised to INR 831 (vs. INR 668).

Cost cuts bridge margin gap to peers; scope to outpace exists

In the past three quarters, ACEM's margins have not only narrowed the gap (of >600bps) to large peers, but have even consistently stood superior to a few industry majors (exhibit 1), largely driven by cost control. All this, even as ACEM is yet to benefit from ongoing investments to scale up its low share of green power (WHR capacity additions of 105MW and 1,000MW of renewable energy; exhibit 9). With its resolve to further cost efficiency (in logistics and raw material sourcing), there exists scope to exhibit industry-superior margins.

Upcoming fund infusion – a shot in the arm?

Tracking the announcements made so far (towards capacity creation and efficiency enhancement), ACEM is potentially pursuing a mammoth capex of ~INR 250bn. In this backdrop, the upcoming promoter fund infusion of INR 150bn (which will boost Q3FY24 cash balance of INR 86bn) is ammunition enough to usher in the 140mtpa target well ahead of its FY28 guidance.

Holding all the aces; maintain BUY

Set amid the ongoing industry-wide race for capacity creation, the cushion of rising cost efficiency will likely give ACEM a leg up versus peers. With core RoE (excluding cash) seen sustaining at ~11-14% and the high odds of industry superior earnings growth over the medium term, we value ACEM consol. at 20x FY26E EV/EBITDA (SoTP earlier). Retain **BUY** with a revised TP of INR 831. (assuming 24% equity dilution post upcoming warrant conversion in Apr'24).

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	3,89,370	3,32,709	3,83,543	4,41,311
EBITDA	51,224	65,654	82,283	1,06,354
EBITDA (%)	13.2	19.7	21.5	24.1
Net Profit	25,834	36,876	43,693	61,921
EPS (INR)	14.5	18.4	17.6	25.0
EPS % Chg YoY*	-	-	(4.4)	42.0
P/E (x)	41.7	32.7	34.2	24.1
EV/EBITDA (x)^	26.0	20.9	18.7	14.3
RoCE (%) (post-tax)	7.7	8.7	8.6	9.1
RoE (%)	11.0	12.9	10.4	10.9

^Enterprise value is adjusted for the minority holding (%) in ACC & Sanghi Industries; * NA as FY23 was 15 months, hence not comparable for FY23 & FY24E

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Market Data

Market Cap (INR)	1,198bn
Market Cap (USD)	14,477mn
Bloomberg Code	ACEM IN
Reuters Code	ABUJ.BO
52-week Range (INR)	625 /341
Free Float (%)	37.0
ADTV-3M (mn) (USD)	28.5

Price Performance (%)	3m	6m	12m
Absolute	19.4	37.3	56.5
Relative to Sensex	12.8	25.4	33.4

Previous Reports

02-02-2024: Q3FY24 results review

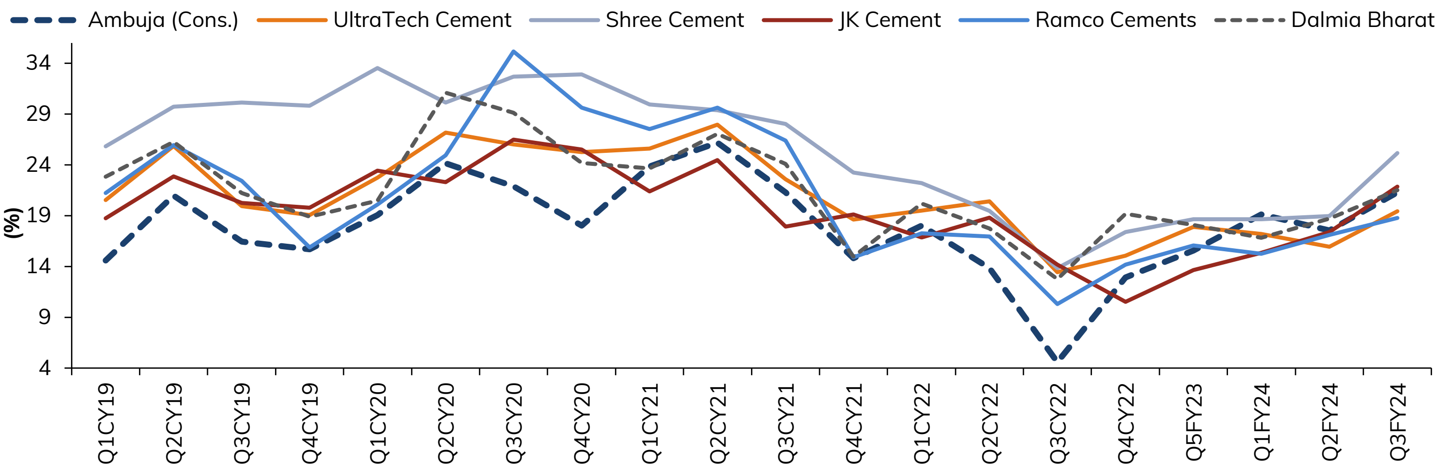
02-11-2023: Q2FY24 results review

Cost efficiency in focus; driving towards industry superior margins

Margin gap narrowed vs. peers… (has it 'just scratched the surface'?)

Historically, ACEM margins have been inferior to peers by ~400-800bps. However, under the Adani regime, the margin gap has not only narrowed but also been superior to a few industry majors consistently over the past three quarters.

Exhibit 1: ACEM margin versus peers – bridging the gap

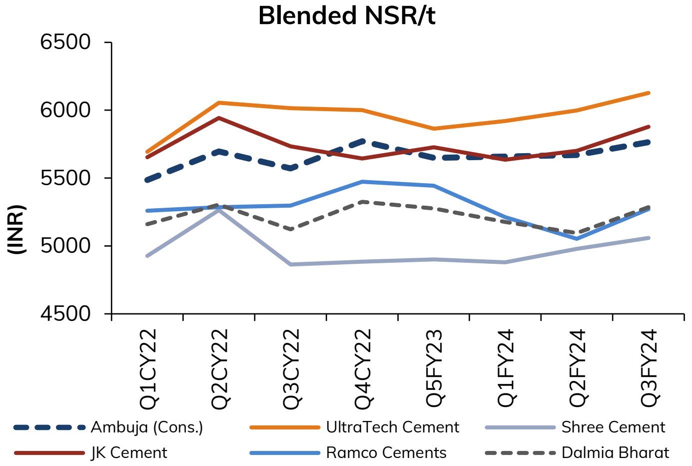


Source: I-Sec research, Company data

…mainly driven by cost efficiency

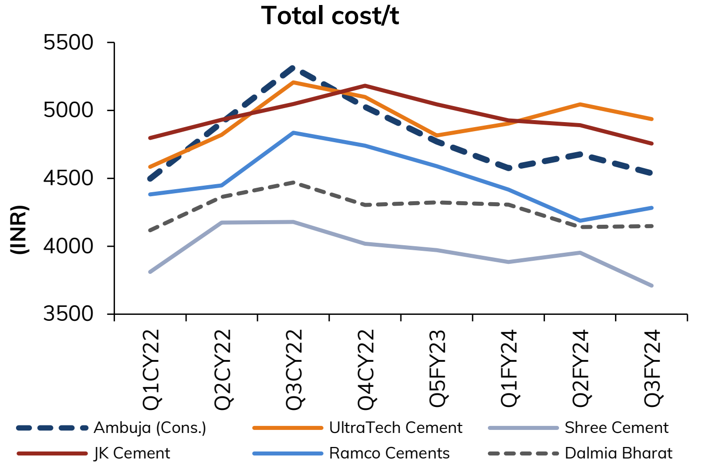
As can be seen in the charts below, the margin gap has been bridged mainly with a tight leash on costs – both fixed as well as variable.

Exhibit 2: ACEM realisation trend vs. peers



Source: I-Sec research, Company data

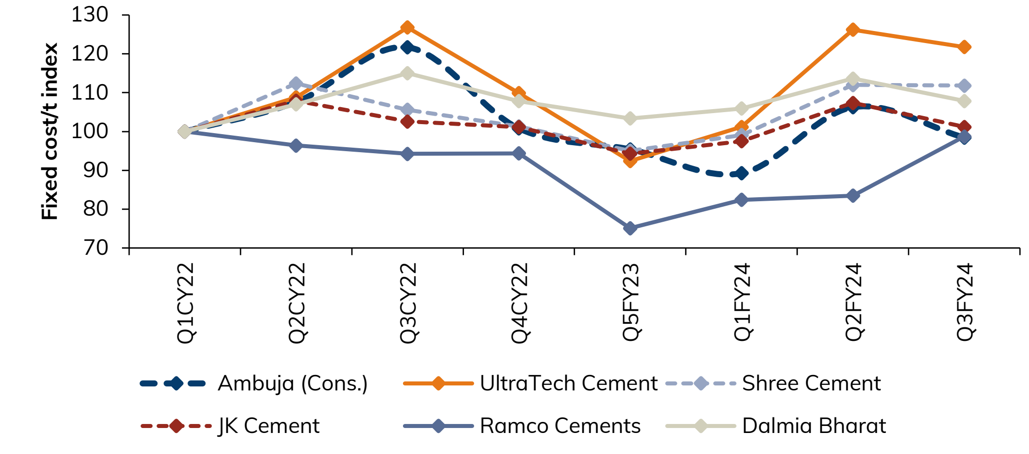
Exhibit 3: ACEM cost/t trend vs. peers



Source: I-Sec research, Company data

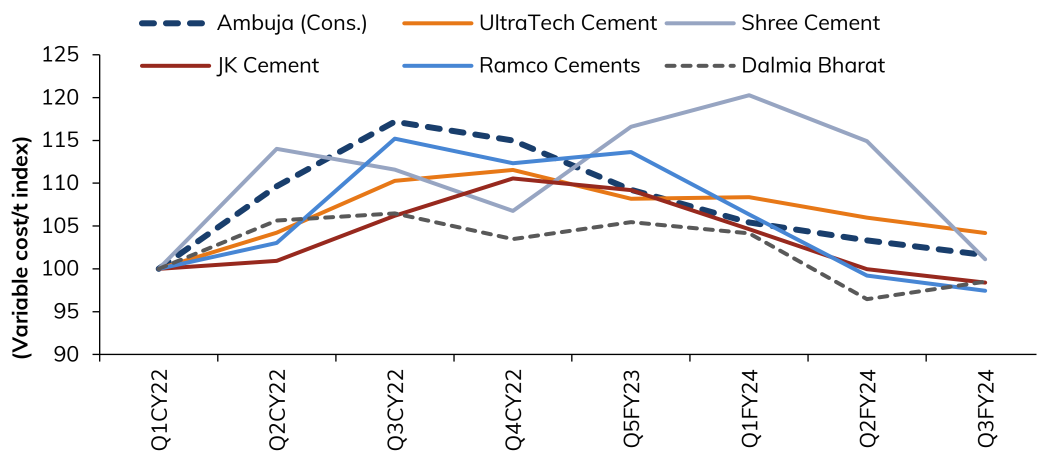
The improvement can be better appreciated when the costs are compared indexed to 100.

Exhibit 4: ACEM's fixed cost/t trend vs. peers



Source: I-Sec research, Company data; Note: Data indexed to 100

Exhibit 5: ACEM's variable cost/t trend vs. peers

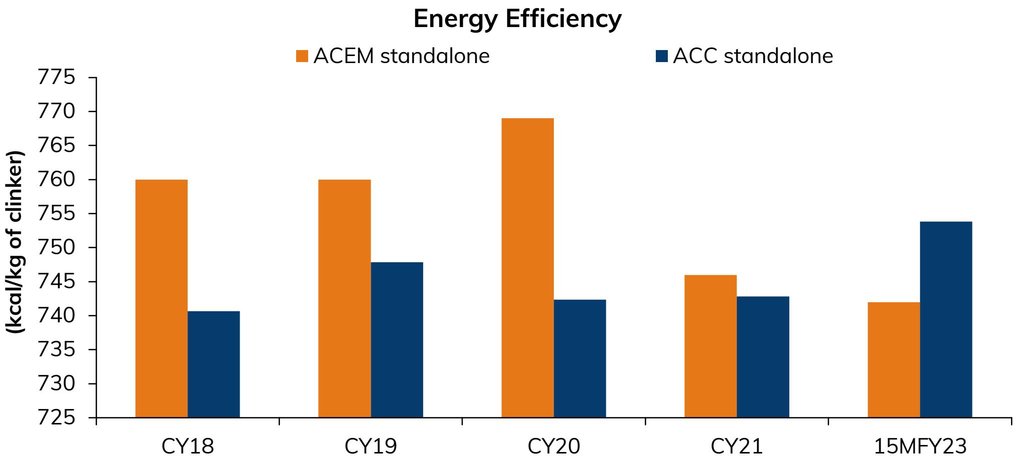


Source: I-Sec research, Company data; Note: Data indexed to 100

Efficiency parameters continue to improve under new management as well

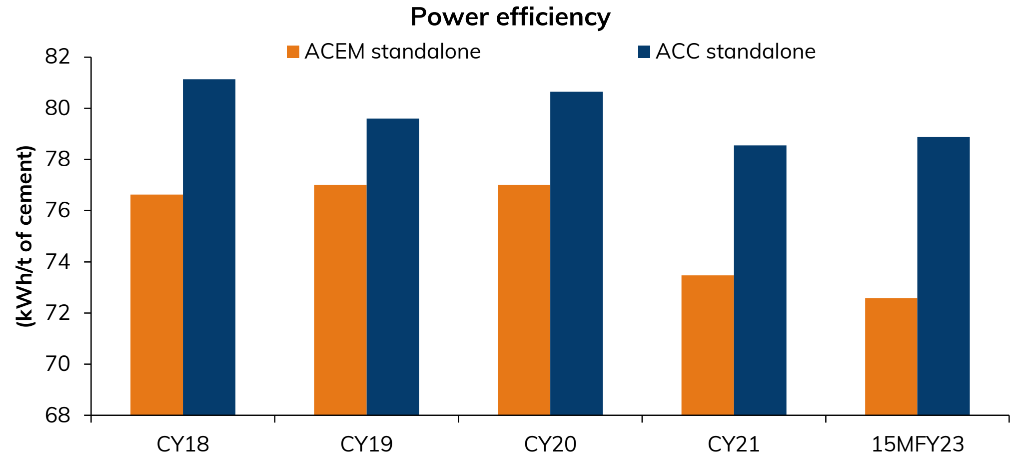
Efficiency parameters like – CC ratio, energy and power consumption (per tonne of cement) have been on an improving trend under the new management as well.

Exhibit 6: Improving trend of energy efficiency (kcals/kg of clinker)



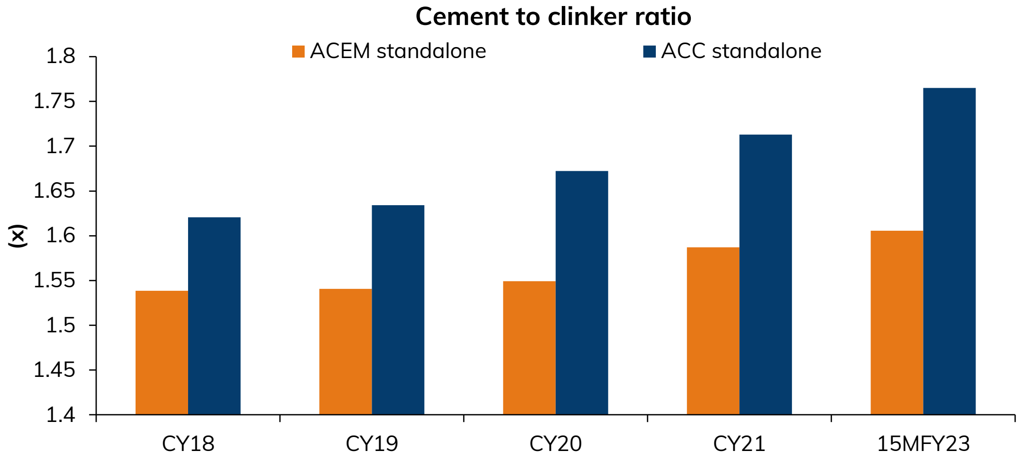
Source: I-Sec research, Company data

Exhibit 7: Improving power consumption (units/t of cement)



Source: I-Sec research, Company data

Exhibit 8: Sustained improvement in blend ratio



Source: I-Sec research, Company data

Huge investments committed to increase share of green power

- ACEM has historically had a low exposure to green power – across WHRS, solar and wind energy.
- However, new management has committed a huge INR 60bn capex towards renewal energy (850MW solar power + 156MW wind energy) besides executing plan to take its WHR capacity to 377MW by FY28.
- Post the ongoing capex, the green power capacity of ACEM is slated to rise to 1,466MW from a mere 173MW in FY23.

Exhibit 9: ACEM's green power capacity vs. large peers

	FY21	FY22	FY23	FY24E	FY25E
Green Power capacity (MW)					
Shree Cement	245	264	386	475	608
Ambuja (Cons.)	40	40	173	417	784
UltraTech Cement	273	436	555	745	-
Green power/Installed capacity					
Shree Cement	5.6	5.7	8.3	8.9	10.8
Ambuja (Cons.)	0.6	0.6	2.6	5.5	9.4
UltraTech Cement	2.5	3.8	4.4	5.4	-

Source: Company data, I-Sec research

As per ACEM, the renewable energy capacity addition of ~1,000MW has potential to save INR 90/t on its expanded capacity of 140mtpa. We concur, and assume a benefit of INR 80/t in our FY26 estimates.

Scope to improvise efficiencies further

- As per ACEM, there is scope for further efficiency enhancement in areas of raw-material sourcing as well as in logistics. These savings will accrue largely by leveraging on the synergies with parent Adani Group in areas of coal sourcing, fly ash sourcing and logistic optimisation (besides the expertise in the renewal energy domain). Collectively, these can generate savings of INR 150/t.
- Given the absence of any major capital commitment to achieve these savings, being conservative, we are not factoring in the benefits into our estimates. Efficiency demonstrated on these parameters will be an 'icing on the cake'.

Capacity creation to get a boost from upcoming fund infusion

Huge capex on anvil

- ACEM is pursuing a mammoth capex plan in its endeavour to scale capacity to 140mtpa (from 76mtpa currently) and towards efficiency enhancement.
- Towards the announcements made so far (plan announced to scale cement capacity to 108mtpa and green power additions), we believe ACEM is likely to spend INR 240-250bn. The capex outgo will increase as further announcements come through.

Exhibit 10: Capacity expansion snapshot

Entity	Location	Region	IU/Grinding	Type	Capacity (mtpa)		Assumed Capex cost/t (USD)	Capex (INR mn)	Expected timeline
					Clinker	Cement			
Capacity creation projects									
Asian Concrete								4,263	
Ambuja Cements	Sankrail, West Bengal	East	Grinding	BF	-	2.4	30	5,976	Q3FY25
Ambuja Cements	Farrakka, WB	East	Grinding	GF	-	4.8	30	11,952	Q3FY25 (Phase I)
Ambuja Cements	Bhatinda, Punjab	North	Grinding	BF	-	1.2	30	2,988	Q4FY25
ACC	Sindhri, Jharkhand	East	Grinding	BF	-	1.6	30	3,984	Q4FY25
Ambuja Cements	Bhatapara- Line-3	East	IU	BF	4.0	-	40	13,280	Q4FY25
Ambuja Cements	Marwar, Rajasthan	North	Grinding	BF	-	2.4	30	5,976	Q1FY26
ACC	Salai Banwa, UP	Central	Grinding	GF	-	2.4	30	5,976	Q1FY26
Ambuja Cements	Maratha Line 2	West	IU	BF	4.0	-	40	13,280	Q2FY26
Ambuja Cements	Mundra, Rajasthan	North	IU	GF	2.25	4.8	90	35,856	Q3FY26 (1st Line) Q1FY27 (2nd Line)
Ambuja Cements	Godda, Jharkhand	East	Grinding	GF	-	4.0	30	10,000	
Ambuja Cements	Hoshiarpur, Punjab	North	Grinding	GF	-	2.4	30	5,976	
Ambuja Cements	Jalgaon. Maharashtra	West	Grinding	GF	-	2.4	30	5,976	
Ambuja Cements	Amravati, Maharashtra	West	Grinding	GF	-	2.4	30	5,976	
Ambuja Cements	Pune, Maharashtra	West	Grinding	GF	-	2.4	30	5,976	
Ambuja Cements	Warisaliganj, Bihar	East	Grinding	GF	-	2.4	30	5,976	
Efficiency projects									
Solar power 1000MW								60,000	FY26
WHRS (67MW)								10,680	FY25
Mechanisation (various initiatives)								10,550	FY25
Geo Clean (AFR)								1,570	FY25
BCFC Rakes								8,450	FY25
BCFC unloading & Rail Infrastructure (14 locations)								7,110	FY25
Total					**14.3**	**35.6**		**2,41,770**	

Source: I-Sec research, Company data

Promoter fund infusion – a shot in the arm

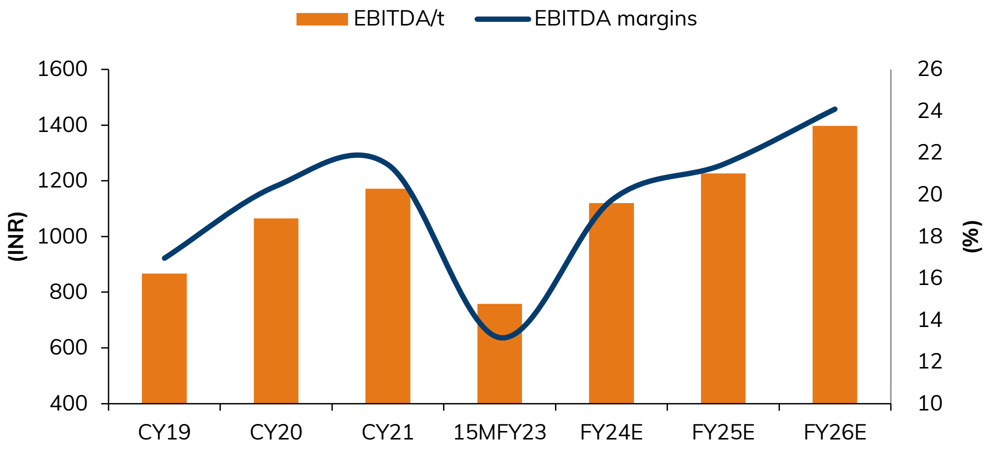
- ACEM is sitting on a net cash balance of ~INR 86bn as of Q3FY24 and as such is capable to meet its capex requirements through further internal accruals.
- However, the balance sheet is set to get an INR 150bn boost of promoter fund infusion from the upcoming conversion of preferential convertible warrants.
- It may be recalled that in Nov'22, the promoters had committed to INR 200bn worth of equity infusion by subscribing to convertible warrants. Accordingly, an advance of INR 50bn was also infused. The warrants are due for conversion on or before 18th April, 2024 at a price of INR 418.87/share.
- We view the fund influx as a shot in the arm for ACEM, which can help expedite meeting the capacity target of 140mtpa through organic as well as inorganic route.

Financials – let the numbers to the talking

EBITDA estimated to sprint ~27% CAGR over FY25-FY26

- Owing to the benefits from the ramp-up of the recently commissioned Ametha clinker unit and of the acquired Sanghi Industries assets, we project volume to grow at 14% CAGR over FY25-FY26.
- Owing to the cost efficiency measures, we believe, ACEM has the potential to not only sustain the recent margin improvement, but also push the needle further in its quest for industry superiority.
- We estimate EBITDA/t to rise to INR 1,226 in FY25 and to INR 1,397 in FY26 versus INR 758 in FY23.

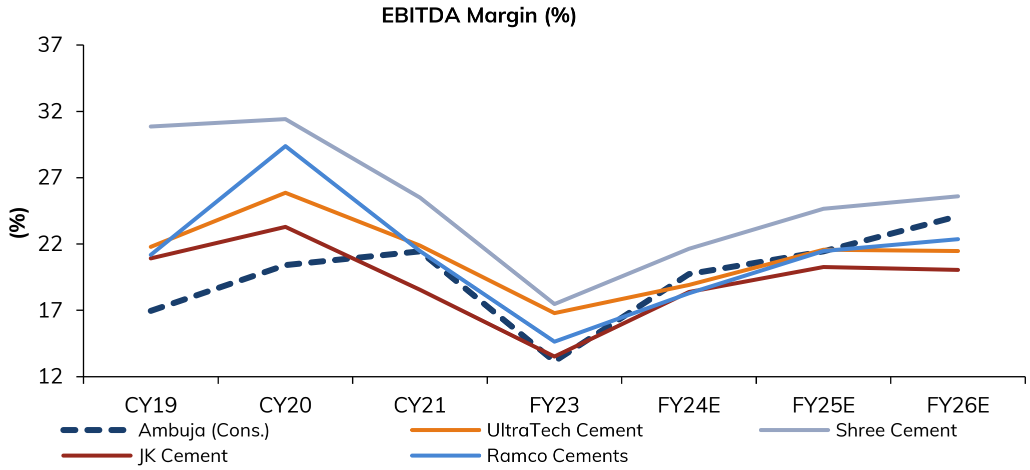
Exhibit 11: EBITDA/t and EBITDA margins for ACEM



Source: I-Sec research, Company data

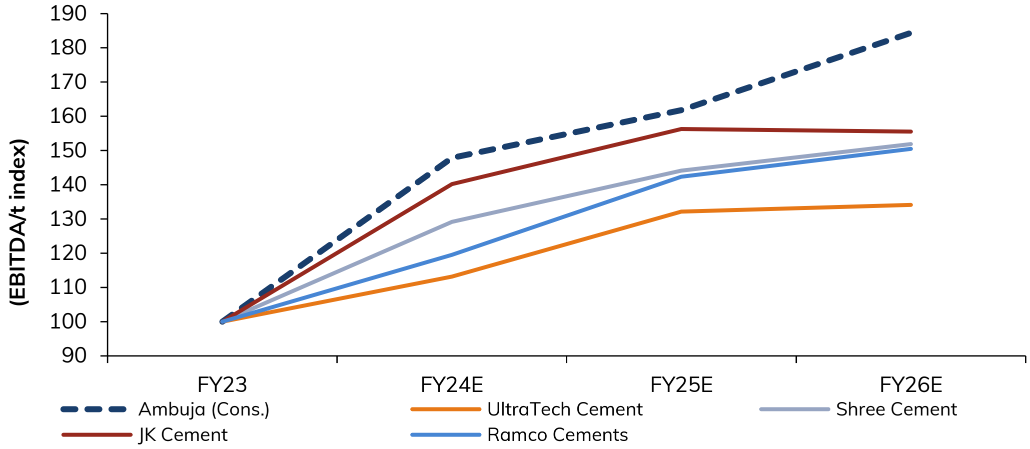
Gunning for industry-superior margins

Exhibit 12: ACEM's EBITDA margin trend vs. peers



Source: I-Sec research, Company data

Exhibit 13: EBITDA/t improvement from FY23 (ACEM vs. peers)

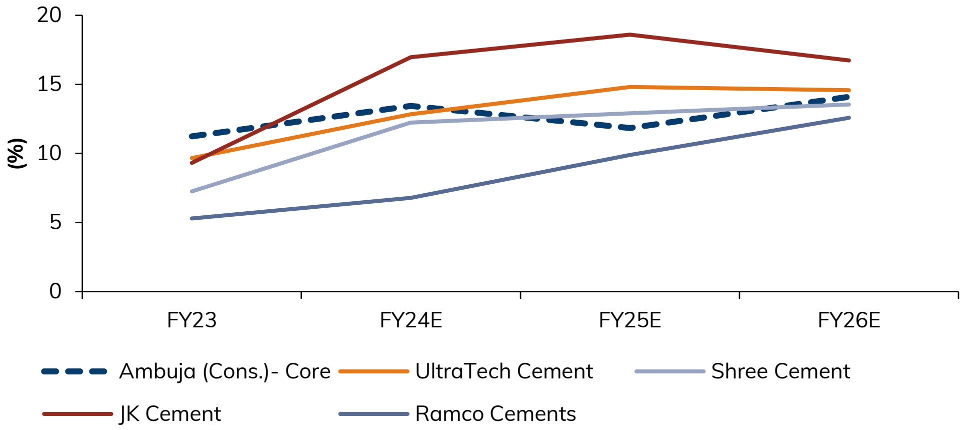


Source: I-Sec research, Company data, note: Data indexed to 100

Core RoE to stay buoyant

We estimate ACEM's core RoE (excluding the cash on books) to rise from 11.2% in FY23 to 14.1% in FY26. However, the reported RoE is likely to stay flat at ~11%.

Exhibit 14: Return on equity on the rise



Source: I-Sec research, Company data

Outlook and valuation

Compelling investment story

- Amidst the ongoing industry-wide race for capacity creation, cushion of rising cost efficiency will likely give ACEM a formidable edge over peers. With core RoE (excluding cash) seen sustaining at ~11-14% and the high odds of industry superior earnings growth over the medium term, we value ACEM consol. at 20x FY26E EV/EBITDA (SoTP earlier).
- Maintain **BUY** with a revised TP of INR 831 (assuming 24% equity dilution post upcoming warrant conversion in Apr'24).

Exhibit 15: Valuation working

Particulars	FY26E
Assumed EV/EBITDA multiple (x)	20.0
EBITDA (INR mn)	1,06,354
EV (INR mn)	21,27,086
Less: Net debt	(2,07,081)
Less: Minority interest in ACC	2,75,140
Less: Minority interest in Sanghi Inds	11,091
Mcap of Ambuja	20,47,936
Shares o/s (mn)	2,462
Value per share (INR)	**831**
Potential Upside (%)	38

Source: I-Sec research, Company data

Key risks: A sharp drop in cement prices, or sharp increase in fuel cost are the key risks to our recommendation.

Exhibit 16: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	63.2	63.2	63.2
Institutional investors	26.9	27.2	27.7
MFs and others	5.6	6.5	6.6
FIs/Banks	0.1	0.0	0.0
Insurance	7.7	7.8	7.8
FIIs	13.5	12.9	13.2
Others	9.9	9.6	9.1

Source: Bloomberg

Exhibit 17: Price chart

Source: Bloomberg

Financial Summary (Consolidated)

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	3,89,370	3,32,709	3,83,543	4,41,311
Operating Expenses	**2,87,038**	**2,20,195**	**2,44,647**	**2,70,736**
EBITDA	51,224	65,654	82,283	1,06,354
EBITDA Margin (%)	**13.2**	**19.7**	**21.5**	**24.1**
Depreciation & Amortization	16,447	15,981	19,516	23,309
EBIT	34,777	49,673	62,767	83,046
Interest expenditure	1,949	2,552	2,481	2,457
Other Non-operating Income	7,377	11,429	13,439	19,699
Recurring PBT	40,205	58,550	73,725	1,00,287
Profit / (Loss) from Associates	280	270	270	270
Less: Taxes	7,051	14,930	18,800	25,573
PAT	33,154	43,619	54,925	74,714
Less: Minority Interest (M.I.)	4,410	7,013	11,502	13,063
Extraordinaries (Net)	-	-	-	-
Net Income before M.I. (Reported)	30,244	43,889	55,195	74,984
Net Income after M.I. (Adjusted)	**25,834**	**36,876**	**43,693**	**61,921**

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	2,10,484	1,83,746	3,07,132	3,37,636
of which cash & cash eqv.	1,18,843	91,091	2,07,558	2,30,200
Total Current Liabilities & Provisions	1,15,002	1,14,120	1,17,042	1,20,542
Net Current Assets	**95,482**	**69,625**	**1,90,090**	**2,17,094**
Investments	2,137	2,137	2,137	2,137
Net Fixed Assets	1,53,175	2,17,194	2,84,624	3,48,031
ROU Assets	-	-	-	-
Capital Work-in-Progress	39,318	34,318	46,654	25,068
Total Intangible Assets	82,340	93,324	93,324	93,324
Other assets	16,315	16,315	16,315	16,315
Deferred Tax assets	-	-	-	-
Total Assets	**4,02,213**	**4,46,359**	**6,46,589**	**7,15,415**
Liabilities				
Borrowings	477	477	477	477
Deferred Tax Liability	7,004	7,004	7,004	7,004
provisions	2,649	2,649	2,649	2,649
other Liabilities	4,518	4,518	4,518	4,518
Equity Share Capital	3,971	3,971	4,926	4,926
Reserves & Surplus	3,13,011	3,44,923	5,32,697	5,88,460
Total Net Worth	**3,16,982**	**3,48,894**	**5,37,623**	**5,93,386**
Minority Interest	70,584	82,817	94,319	1,07,382
Total Liabilities	**4,02,213**	**4,46,359**	**6,46,589**	**7,15,415**

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	**49,463**	**74,801**	**93,511**	**1,23,866**
Working Capital Changes	(34,729)	(1,027)	(2,683)	(3,049)
Capital Commitments	(40,659)	(80,763)	(99,282)	(65,130)
Free Cashflow	**48,009**	**1,39,606**	**1,71,310**	**1,60,373**
Other investing cashflow	(1,04,148)	-	-	-
Cashflow from Investing Activities	(1,44,808)	(80,763)	(99,282)	(65,130)
Issue of Share Capital	50,000	-	1,50,000	-
Interest Cost	(2,700)	-	-	-
Inc (Dec) in Borrowings	(36)	-	-	-
Dividend paid	(17,955)	(5,833)	(6,278)	(7,472)
Others	-	-	-	-
Cash flow from Financing Activities	29,310	(5,833)	1,43,721	(7,472)
Chg. in Cash & Bank balance	**(1,08,148)**	**(27,752)**	**1,16,467**	**22,642**
Closing cash & balance	1,18,843	91,091	2,07,558	2,30,200

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	14.5	18.4	17.6	25.0
Adjusted EPS (Diluted)	14.5	18.4	17.6	25.0
Cash EPS	22.8	26.5	25.6	34.5
Dividend per share (DPS)	6.3	2.5	2.0	2.5
Book Value per share (BV)	159.6	175.7	218.3	240.9
Dividend Payout (%)	4,352.8	1,356.1	1,143.2	998.8
Growth (%) ^				
Net Sales	NA	NA	15.3	15.1
EBITDA	NA	NA	25.3	29.3
EPS (INR)	NA	NA	(4.4)	42.0
Valuation Ratios (x)				
P/E	41.7	32.7	34.2	24.1
P/CEPS	26.5	22.8	23.6	17.5
P/BV	3.8	3.4	2.8	2.5
EV / EBITDA*	26.0	20.9	18.7	14.3
EV / te (USD)*	274.2	219.7	222.0	186.6
Dividend Yield (%)	1.0	0.4	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	86.9	85.9	85.2	85.4
EBITDA Margins (%)	13.2	19.7	21.5	24.1
Effective Tax Rate (%)	17.5	25.5	25.5	25.5
Net Profit Margins (%)	6.6	11.1	11.4	14.0
NWC / Total Assets (%)	23.7	15.6	29.4	30.3
Net Debt / Equity (x)	(0.4)	(0.3)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(2.3)	(1.4)	(2.5)	(2.2)
Profitability Ratios				
RoCE (%) (Post Tax)	7.7	8.7	8.6	9.1
RoE (%)	11.0	12.9	10.4	10.9
RoIC (%)	14.6	14.9	14.8	17.1
Fixed Asset Turnover (x)	2.6	1.8	1.5	1.4
Inventory Turnover Days	42	57	55	57
Receivables Days	8	13	12	12
Payables Days	39	48	46	48

Source Company data, I-Sec research, *Enterprise value is adjusted for the minority holdings (%) in ACC & Sanghi Industries; ^NA as FY23 was 15 months, hence not comparable for FY23A and FY24E.

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