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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Ambuja Cement Ltd

02 May 2024

Strong volume growth at the expense of prices

RESULT UPDATE

Sector: Cement **Rating:** HOLD
CMP: Rs 625 **Target Price:** Rs 652

Stock Info

Sensex/Nifty	74,611/ 22,648
Bloomberg	ACEM IN
Equity shares (mn)	2,463
52-wk High/Low	Rs.649/ 376
Face value	Rs.2
M-Cap	Rs.1,241Bn/ USD 15Bn
3-m Avg traded value	USD 23.2Mn

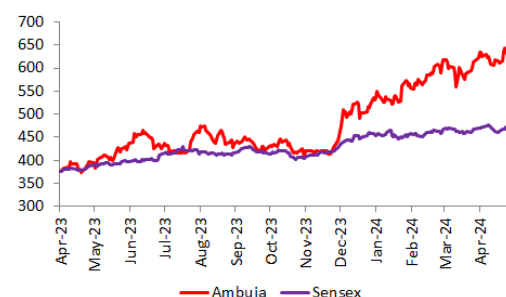
Financial Snapshot (Rs bn)

Y/E Mar	FY24	FY25E	FY26E
Sales	179	204	230
EBITDA	34	43	50
PAT	23	30	34
EPS (Rs)	10.2	11.8	13.8
PE (x)	58.4	51.4	45.2
EV/EBITDA (x)	31.8	24.3	20.7
RoE (%)	10.0	7.7	6.6
RoCE (%)	16.3	12.1	10.0
Dividend yield (%)	0.5	0.6	0.6

Shareholding pattern (%)

	Apr-24	Dec-23	Sep-23
Promoter	70.3	63.2	63.2
-Pledged (%)	-	-	-
FII	9.9	11.9	11.7
DII	12.7	15.6	15.3
Others	7.0	9.1	9.6

Stock Performance (1-year)



Ambuja came out with a mixed bag where Revenue and PAT were largely in line with expectations but missed EBITDA estimates due to substantially high purchases of stocks. With the successful conclusion three acquisitions (Sanghi, Asian Cements & GU in Tuticorin), Adani group's cement capacity increased by 11.4 MTPA taking total capacity to 78.9 MTPA. Standalone Revenue up by 12.3% YoY (+7.7% QoQ) to Rs47.8bn vs our est. of Rs45.7bn. This growth was supported by healthy volumes as realizations slipped. Volume up by 17.3% YoY (+15.9% QoQ) to 9.5mt (our est. 8.8mt). Blended Realization/tn declined 4.2% YoY and 7.1% QoQ. EBITDA was up a marginal 1.2% YoY (-6.3% QoQ) to Rs8.0bn; 6.6% below our est of Rs8.5bn. EBITDA/tn dipped 13.7% YoY to Rs840 due to exceptionally high purchases which rose 31% QoQ. However, other cost items like P&F, freight, employee, and other expenses witnessed a good 11%, 1%, 17%, 18% decline sequentially on a per tonne basis. Adj. PAT was down 6.0% YoY (+6.7% QoQ) to Rs5.5bn vs our estimate of Rs5.1bn. Capacity utilization improved from 84% to 95% YoY. We keep our FY25 estimates largely unchanged but raise our FY26E EBITDA/PAT estimates to factor in higher P&F and freight cost reduction. We raise our SOTP based TP to Rs652 from earlier Rs583 where we value its core standalone business by 16x EV/EBITDA on FY26E (Rs550/sh) and its stake in ACC by giving 30% holding discount which gives a value of Rs103/sh. We maintain a HOLD on the stock owing to rich valuations.

Capacity Expansion Update: Adani twins aim to increase market share to 20% by FY28 from the current 14%. This will be achieved through an extensive roadmap to grow at a CAGR of 15% to reach 140 MTPA by FY28. Despite an enormous outlay, the company is expected remain net debt free owing to the huge cash reserves. There is an ongoing cement capacity expansion of 20 MTPA under execution and balance 41 MTPA under various stages of development. The recent acquisition of the grinding unit in Tuticorin will strengthen the company's presence in the Southern markets while incremental benefits are expected to flow as Sanghi becomes the largest single location lowest cost plant in the quarters to come.

Valuation & Outlook: Through a slew of organic and inorganic expansions, Adani Cement went from having an installed capacity of 68.4 MTPA to 78.9 MTPA growing at a CAGR of 11% since the time of acquisition. Total cost/tn also reduced 12% in this period. Its ambitious Rs100bn plan which includes inching green energy share up to 60% presents a tremendous scope for further cost reduction. The group also boasts of a high clinker conversion factor of 1.65x along with one of the highest shares of premium products at 24% of trade sales. We like Ambuja for its strong balance sheet (further bolstered by promoter infusion of Rs200bn), revival in operating profitability, well-established synergies, and rapidly expanding pan-India presence. **However, we foresee limited upside given current valuations and maintain a HOLD with a target price of Rs652 (prev. Rs583), based on 16x FY26E EV/EBITDA and its stake in ACC at 30% holding discount.**

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Investors are advised to refer through disclosures made at the end of the research report.

Q4FY24 Adani Cement (Ambuja + ACC + Sanghi) Concall Highlights

Cost Initiatives:

- Company expects to achieve a total cost/tn of Rs3,650 by FY28; ~Rs500/tn reduction from FY24 levels, 40% to be led by logistic efficiencies and 55-60% by reduction in manufacturing costs.
- This will be achieved through increasing the share of green power to 60% of the total mix aiding Rs100-150/tn cost reduction.
- Improving logistics efficiency including warehouse footprint optimization, increasing direct dispatch to customers and target to reduce lead distance to 100kms (current: 276kms).
- The company will be able to fulfill 80-90% of its coal requirements through captive consumption.
- The company has signed contracts for long-term procurement of various critical raw materials.
- Kiln Cost has declined 17% from Rs2.21/kcal to Rs1.84/kcal

Capacity Expansion:

- Capacity to reach 100 MTPA by FY26
- Growth capex for the full year will be ~Rs50-60bn.
- 4 MTPA Clinkering & 4.8 MTPA Cement capacity targeted to commence in Q4FY '25
- The company targets to reach 82 MTPA of clinker by FY28 of which 80% is brownfield expansion and land and limestone is already in possession of the company for most of the remaining expansion.

Sanghi Industries:

- The company is working towards refurbishment of the two kilns at Sanghi which is expected to be completed by H1FY25.
- From H2F25 onwards the company expects to run both kilns at 100% utilization.
- The company will incrementally add 2 kilns of 4 MTPA each at Sanghi.
- Expects a volume of 5 MTPA from Sanghi in FY25.

Others:

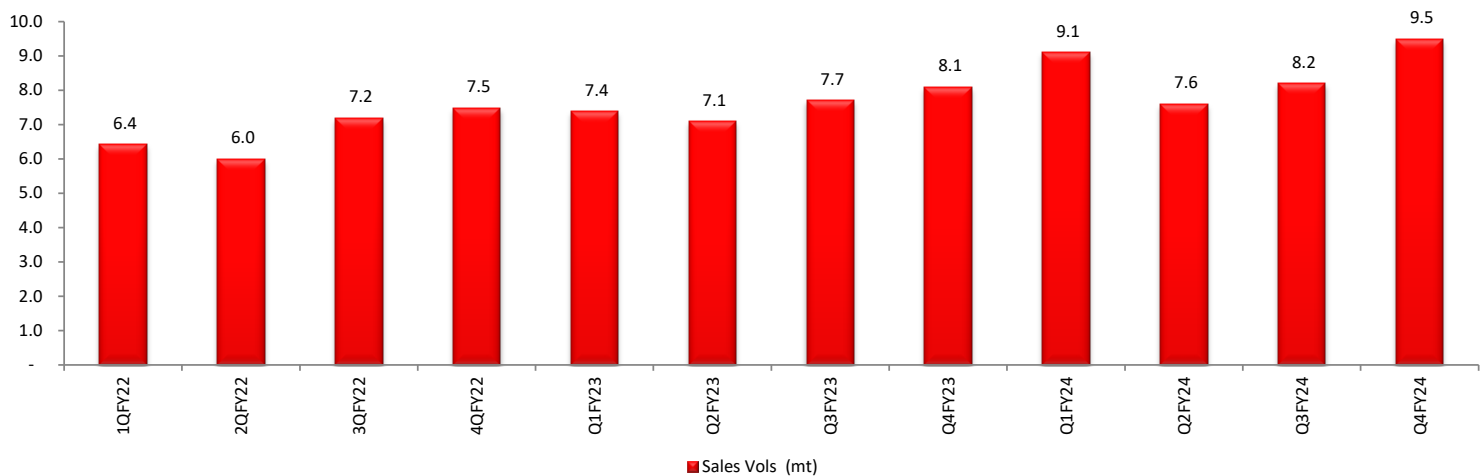
- Sea Freight expected to become 10% of the freight mix after 24 months.
- The company's product mix may shift in favor of OPC products as they incrementally cater to the country's infrastructure segment.

Exhibit 1: Result Snapshot

Particulars (Rs bn)	Q4FY24	Q4FY23	Q3FY24	YoY%	QoQ%	Estimates	Variance (%)
Revenue (Incl.OOI)	47.8	42.6	44.4	12.3	7.7	45.7	4.7
EBITDA	8.0	7.9	8.5	1.2	(6.3)	8.5	(6.6)
<i>EBITDA Margin (%)</i>	<i>16.7</i>	<i>18.5</i>	<i>19.2</i>	<i>65bps</i>	<i>(248)bps</i>	18.7	(201)bps
PBT	7.0	7.2	6.8	(3.8)	2.4		
Tax	1.5	1.4	1.7	5.5	(10.8)		
<i>Effective Tax Rate (%)</i>	<i>21.3</i>	<i>19.5</i>	<i>24.5</i>	<i>187bps</i>	<i>(317)bps</i>		
Recurring PAT	5.5	5.8	5.1	(6.0)	6.7	5.1	7.4
Extord. Items	(15.8)	(80.7)	-	-	-		
Reported PAT	5.3	5.0	5.1	5.9	3.6		
<i>PAT Margin (%)</i>	<i>11.1</i>	<i>11.8</i>	<i>11.6</i>	<i>(67)bps</i>	<i>(44)bps</i>		
Blended Realization (Rs/tn)	5,032	5,255	5,414	(4.2)	(7.1)		
Total volumes (mt)	9.5	8.1	8.2	17.3	15.9	8.8	8.1
<i>Capacity Utilization (%)</i>	<i>95</i>	<i>98</i>	<i>84</i>	<i>(318)bps</i>	<i>1090bps</i>		
Blended EBITDA (Rs/tn)	840	973	1,038	(13.7)	(19.1)		
Per ton cost (Rs)	Q4FY24	Q4FY23	Q3FY24	YoY%	QoQ%		
Raw Material Cost	1,468	1,073	1,375	36.7	6.7		
Staff Cost	139	207	167	(33.0)	(16.8)		
Power and Fuel Cost	934	1,277	1,047	(26.8)	(10.7)		
Freight Cost	1,102	1,151	1,114	(4.3)	(1.1)		
Other Expenditure	550	572	673	(4.0)	(18.4)		
Total Cost	4,192	4,282	4,376	(2.1)	(4.2)		

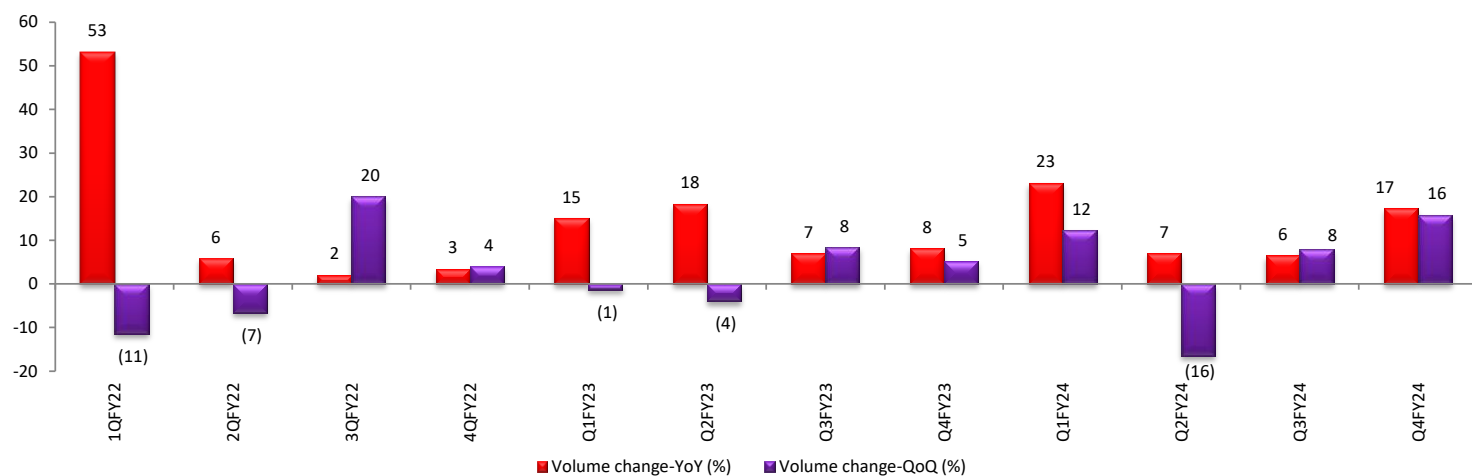
Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly sales volumes



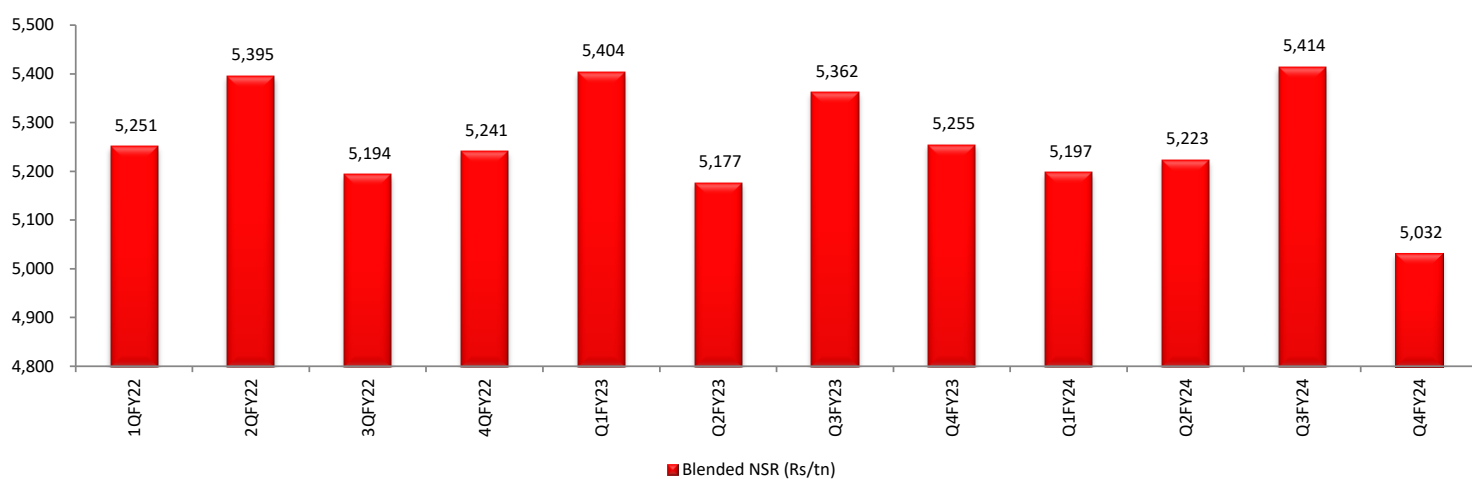
Source: Company, Systematix Institutional Research

Exhibit 3: Change in volumes, YoY and QoQ



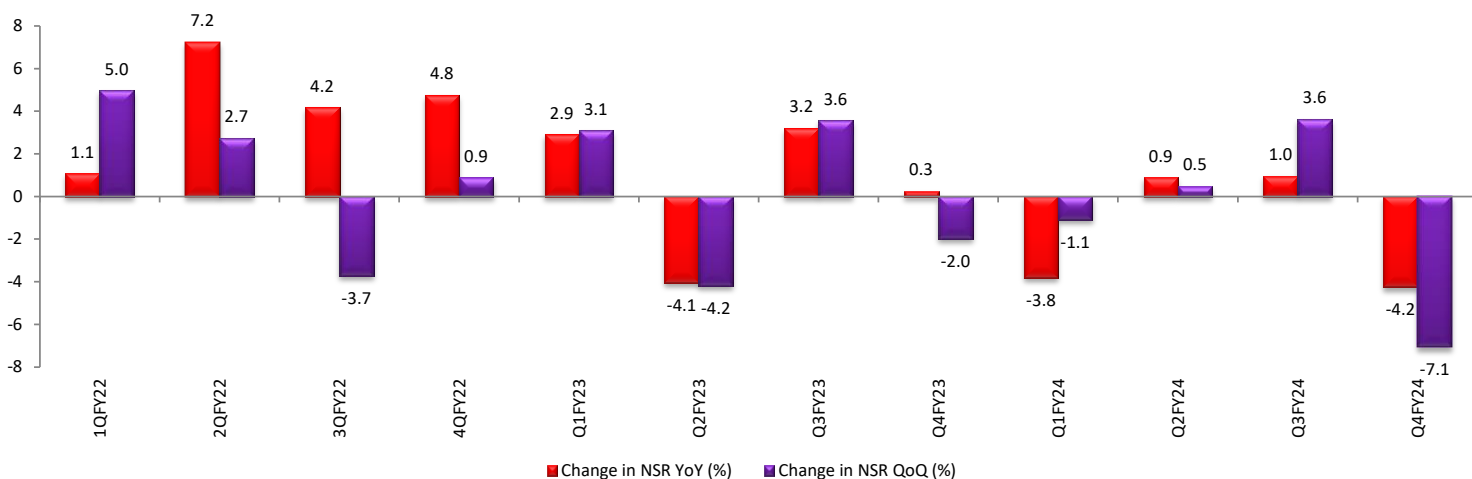
Source: Company, Systematix Institutional Research

Exhibit 4: Quarterly NSR

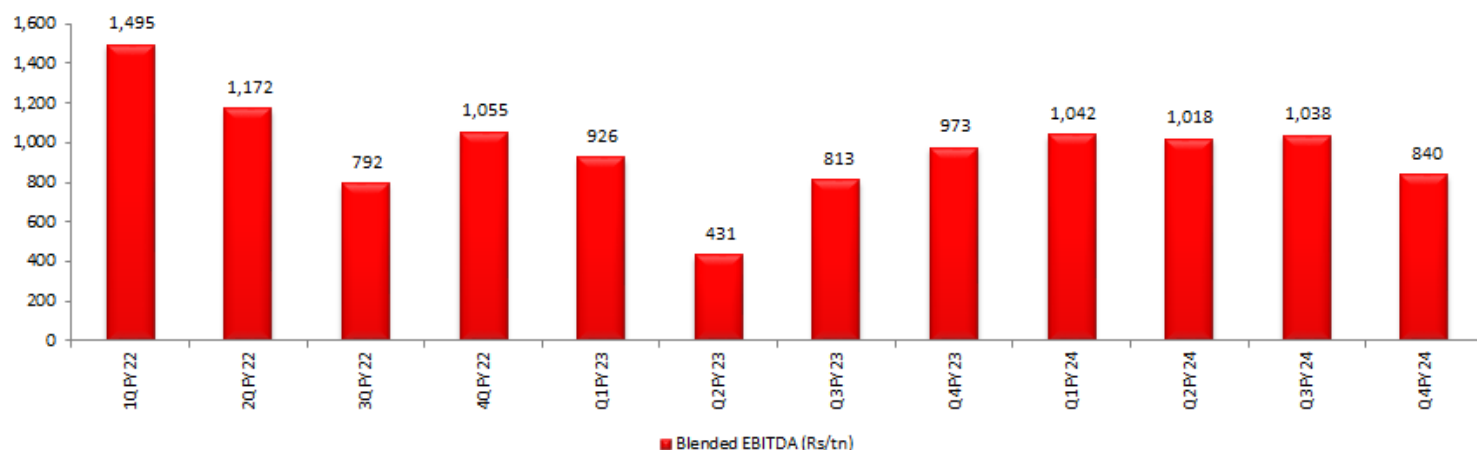


Source: Company, Systematix Institutional Research

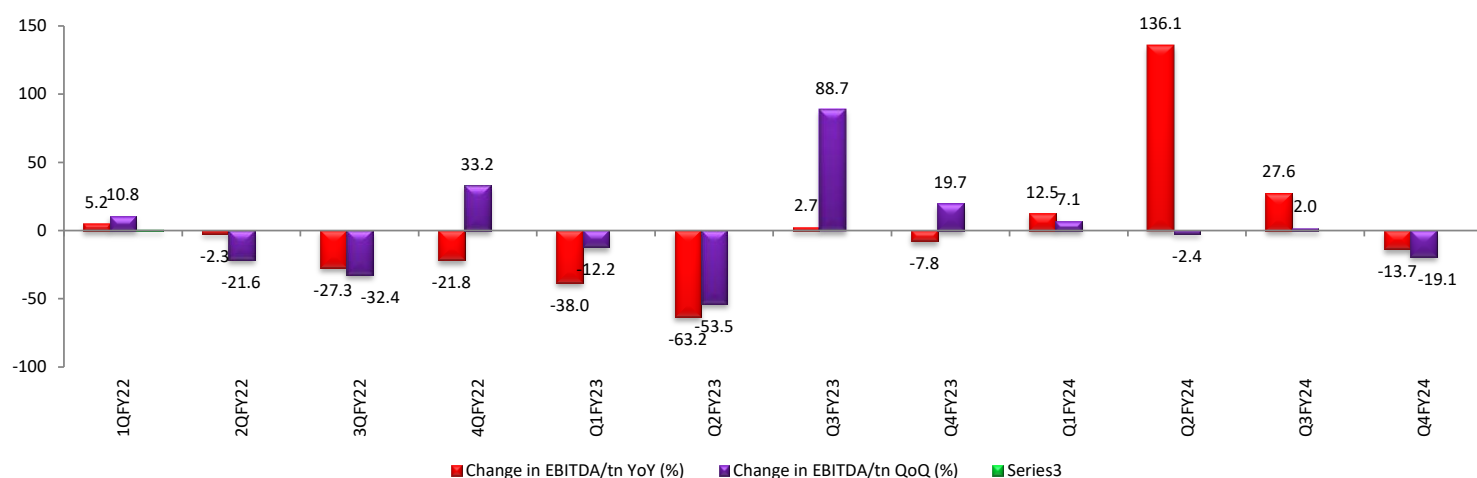
Exhibit 5: Change in NSR, YoY and QoQ



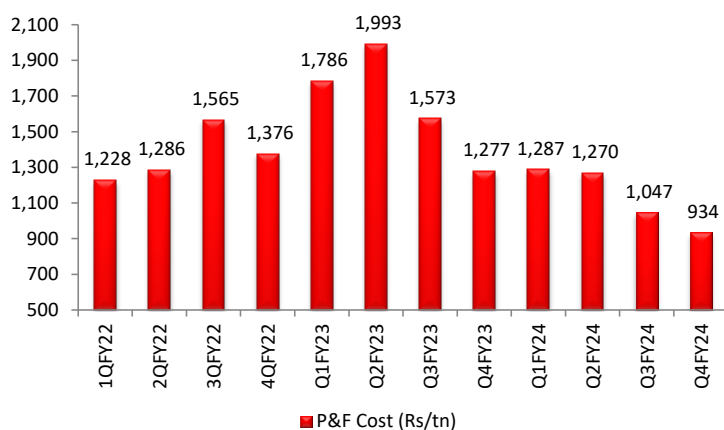
Source: Company, Systematix Institutional Research

Exhibit 6: Blended EBITDA/tn fell by 13.7% YoY and 19.1% QoQ

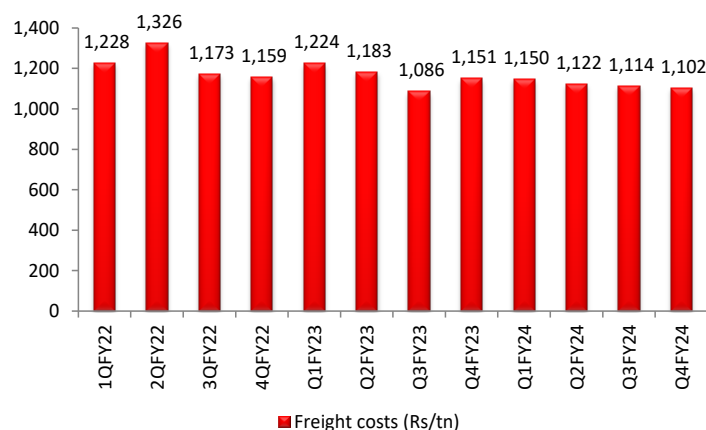
Source: Company, Systematix Institutional Research

Exhibit 7: Change in EBITDA/tn, YoY and QoQ

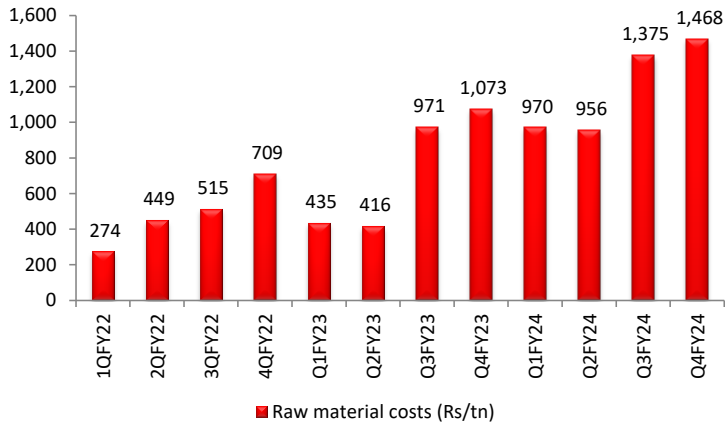
Source: Company, Systematix Institutional Research

Exhibit 8: P&F cost/tn fell by 26.8% YoY and 10.7% QoQ

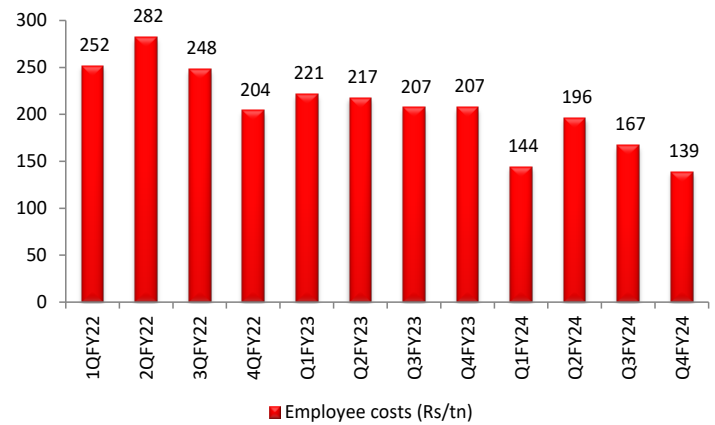
Source: Company, Systematix Institutional Research

Exhibit 9: Freight Cost/tn was down 4.3% YoY and 1.1% QoQ

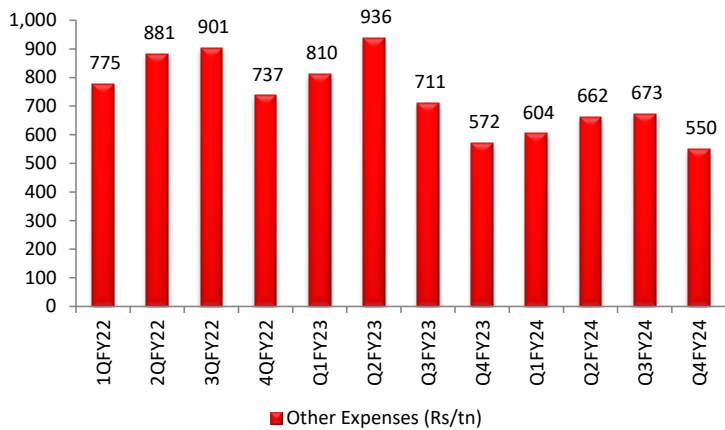
Source: Company, Systematix Institutional Research

Exhibit 10: RM Cost/tn up sharply by 36.7% YoY and 6.7% QoQ

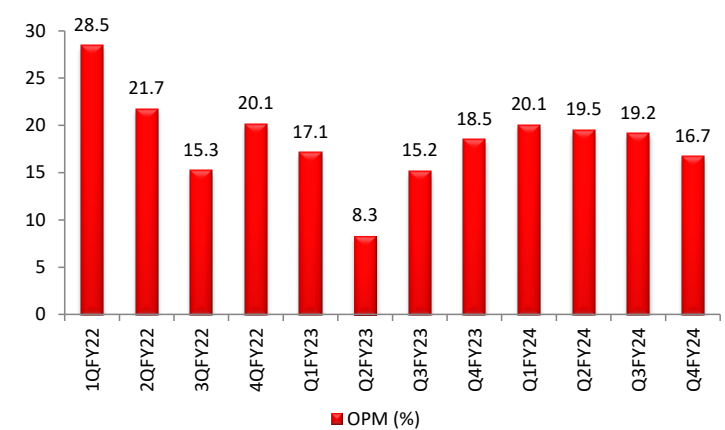
Source: Company, Systematix Institutional Research

Exhibit 11: Employee Cost/tn down by 33.0% YoY and 16.8% QoQ

Source: Company, Systematix Institutional Research

Exhibit 12: Other Expenses/tn fell 4% YoY and 18.4% QoQ

Source: Company, Systematix Institutional Research

Exhibit 13: Margin contracted to 16.7% in 4Q'24 from 18.5% in 4Q'23

Source: Company, Systematix Institutional Research

Exhibit 14: Adani Cement's priority projects

Project	Capacity (MTPA)		Expected timelines for completion	Entity
	Clinker	Cement		
Bathinda	-	1.2	Q2 FY'26	Ambuja
Bhatapara Line 3 (CU)	4.0	-	Q4 FY'25	Ambuja
Maratha Line 2 (CU)	4.0	-	Q2 FY'26	Ambuja
Sankrail (GU)	-	2.4	Q3 FY'25	Ambuja
Marwar (GU)	-	2.4	Q2 FY'26	Ambuja
Farakka (GU)	-	4.8	Q3 FY'25 (Phase I)	Ambuja
Sindri (GU)	-	1.6	Q4 FY'25	ACC
Salai Banwa (GU)	-	2.4	Q1 FY'26	ACC
Mundra (GU)	-	4.8	Q3 FY'26 (1st Line)	Ambuja
			Q1 FY'27 (2nd Line)	Ambuja
Total expansion Projects	8.0	19.6		

Source: Company, Systematix Institutional Research

Exhibit 15: Change in Estimates

Key parameters	FY25E			FY26E		
(Rs mn)	Old	New	% Chg	Old	New	% Chg
Revenue	197	204	3.7	218	230	5.8
EBITDA	41	43	4.7	46	50	7.7
Net profit	28	30	6.9	31	34	11.0
FDEPS (Rs)	11.4	12.2	6.9	12.4	13.8	11.0

Source: Company, Systematix Institutional Research

Exhibit 16: Key assumption table

Particulars	FY21	FY22	FY23	FY24	FY25E	FY26E
Cement Sales Volume (mt)	23	27	38	34	39	44
Blended Realisation (Rs/tn)	5,018	5,174	5,290	4,549	5,841	5,847
EBITDA (Rs/tn)	1,168	1,190	852	856	1,233	1,266
Per tonne costs						
Raw material	474	558	732	1,201	1,215	1,240
Employee cost	295	252	212	171	174	178
Power & Fuel	994	1,267	1,592	1,129	1,049	1,029
Freight	1,260	1,225	1,160	1,122	1,112	1,102
Other expenses	778	812	742	607	601	595
Total cost	3,801	4,114	4,438	4,229	4,151	4,143

Source: Company, Systematix Institutional Research

Exhibit 17: ACEM valued on SOTP Valuation

Particulars	(Rs mn)
Core business	
EBITDA (FY26E)	49,816
Target Multiple (x)	16
Enterprise Value	7,97,056
Less: Net Debt & CWIP	-2,94,448
Equity Value	10,91,504
No of shares	1,986
Equity Value (Rs/share)	550
Stake in ACC	
Target price (Rs./sh)	3,100
No. Of Shares O/S (m)	94
Value (Rs mn)	2,91,350
At 30% Haircut	2,03,945
ACEM shares (mn)	1,986
Value/share	103
Target price per share	652

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,39,790	1,99,854	1,79,193	2,04,135	2,30,081
Growth (%)	22.9	43.0	-10.3	13.9	12.7
Total Expenditure	1,07,639	1,67,650	1,45,485	1,61,054	1,80,265
EBITDA	32,152	32,204	33,708	43,081	49,816
Growth (%)	21.5	0.2	4.7	27.8	15.6
EBITDA margin (%)	23.0	16.1	18.8	21.1	21.7
Depreciation	5,517	8,324	9,380	10,285	11,676
EBIT	29,446	33,403	32,855	41,492	47,011
EBIT margin (%)	21.1	16.7	18.3	20.3	20.4
Other Income	2812	9523	8526	8697	8871
Interest expenses	910	1280	1623	1704	1789
PBT	28,536	32,123	31,233	39,789	45,222
Tax	7047	5016	7728	9844	11189
Effective tax rate (%)	24.7	15.6	24.7	24.7	24.7
Adjusted PAT	21,489	27,108	23,505	29,944	34,033
Reported PAT	20,832	25,535	23,347	29,944	34,033
Growth (%)	16.4	22.6	(8.6)	28.3	13.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity share capital	3,971	3,971	4,395	4,926	4,926
Reserves & surplus	2,18,078	2,81,084	3,65,670	5,84,925	6,18,958
Net worth	2,22,049	2,85,055	3,70,065	5,89,851	6,23,884
Loan Funds	435	342	189	189	189
Net deferred tax liability	2,137	2,181	2,693	2,693	2,693
Total Liabilities	2,24,621	2,87,578	3,72,947	5,92,733	6,26,766
Net block	76,708	86,198	88,032	1,14,232	1,37,556
Capital work in progress	9,513	8,419	15,485	14,000	14,000
Investment	1,17,739	1,17,759	1,40,581	1,40,581	1,40,581
Current Assets	77,867	1,46,666	1,97,190	3,86,677	4,05,217
Inventories	14,641	16,394	15,903	12,304	13,868
Sundry debtors	2,947	5,649	7,168	8,166	9,204
Cash & bank balance	41,692	25,331	88,334	2,79,564	2,94,637
Loans & advances	5,607	20,777	27,297	27,570	27,846
Other current assets	12,979	78,516	58,488	59,072	59,663
Current liability & Prov.	57,207	71,463	68,341	62,756	70,588
Net current assets	20,660	75,203	1,28,849	3,23,920	3,34,629
Total Assets	2,24,621	2,87,578	3,72,947	5,92,733	6,26,766

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT (Ex-Other income)	27,879	30,551	31,075	31,092	36,352
Depreciation	5,517	8,324	9,380	10,285	11,676
Interest Provided	(214)	(1,868)	(4,036)	1,704	1,789
Other Non-Cash items	(201)	(5,711)	(3,090)	-	-
Chg in working cap	(4,557)	(7,855)	1,567	(3,841)	4,364
Tax paid	(3,659)	(3,346)	(7,321)	(9,844)	(11,189)
Operating Cashflow	24,765	20,096	27,574	29,396	42,991
Capital expenditure	(11,425)	(21,116)	(19,932)	(35,000)	(35,000)
Free Cash Flow	13,341	(1,020)	7,641	(5,604)	7,991
Other income	83	350	249	8,697	8,871
Investments	2,480	(72,506)	(56,388)	-	-
Investing Cashflow	(8,862)	(93,272)	(76,071)	(26,303)	(26,129)
Equity Capital Raised	-	50,000	66,610	2,00,001	-
Loans Taken / (Repaid)	(391)	(692)	(141)	-	-
Interest Paid	(756)	(679)	(1,388)	(1,704)	(1,789)
Dividend paid (incl tax)	(2,021)	(12,514)	(4,964)	(10,159)	-
Income from investments	-	-	-	-	-
Others	-	-	(3,147)	-	-
Financing Cashflow	(3,169)	36,115	56,970	1,88,138	(1,789)
Net chg in cash	12,734	(37,061)	8,473	1,91,231	15,073
Opening cash position	28,958	62,391	79,861	88,334	2,79,564
Closing cash position	41,692	25,331	88,334	2,79,564	2,94,637

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Profitability (%)					
EBITDA Margin	23.0	16.1	18.8	21.1	21.7
Net Margin	15.4	13.6	13.1	14.7	14.8
ROCE	30.3	24.1	16.3	12.1	10.0
ROE	18.0	16.9	10.0	7.7	6.6
RoIC	50.0	15.0	11.9	37.6	32.1
Per Share Data (Rs)					
EPS	10.8	13.7	10.7	12.2	13.8
CEPS	13.6	17.8	15.0	16.3	18.6
BVPS	111.8	143.6	168.4	239.5	253.3
DPS	6.3	2.5	3.2	3.7	3.7
Valuations (x)					
PER	57.8	45.8	58.4	51.4	45.2
P/CEPS	46.0	35.0	41.8	38.3	33.7
P/BV	5.6	4.4	3.7	2.6	2.5
EV / Sales	7.0	5.0	6.0	5.1	4.5
EV / EBITDA	30.6	31.1	31.8	24.3	20.7
Dividend Yield (%)	1.0	0.4	0.5	0.6	0.6
Gearing Ratio (x)					
Net Debt/ Equity	-0.2	-0.1	-0.2	-0.5	-0.5
Net Debt/EBITDA	-0.1	-0.2	-0.5	-0.5	0.0
Working Cap Cycle (days)	-101.5	-88.6	-89.7	-73.4	-73.4

Source: Company, Systematix Institutional Research

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