

Ambuja Cements (ACEM)

Cements | Company Update

BUY

CMP: Rs665 | Target Price (TP): Rs1,010 | Upside: 52%

June 14, 2024

Penna deal is value accretive for Ambuja Cement

Key Points

- Ambuja Cements has entered into a binding agreement to acquire a 100% stake in Penna Cement Industries Ltd (PCIL) for an enterprise value of Rs104.2bn.
- The acquisition will take the total production capacity of Adani's cement business to 89MTPA as of June'24.
- **Huge cost Savings to improve EBITDA/T by Rs300-400/T:** Adani group would require an additional capex of Rs1–2.5bn to run the plant at full capacity. The railway sidings (90% of the plants are supported by railway sidings) will reduce the logistics costs by one-third. The captive power plants and waste heat recovery systems will bring in additional savings of 15-20%. Currently, the plant is running at negative EBITDA.
- **1BnT of high-quality reserves:** PCIL's sufficient limestone reserves of 1,022 Mn T will allow the Adani group to increase cement capacity through debottlenecking and additional investment.
- The break-up of reserves at various locations:
 - 250 Mn t Tadipatri
 - 187 Mn t Ganeshpahad
 - 585 Mn t Boyireddypalli
- According to NBIE research, the acquisition cost based on EV/T is US\$73/T for 17MTPA, which includes 10MTPA of operational and 7MTPA non-operational capacities at Krishnapatnam (2MTPA) and Jodhpur (2MTPA). Besides the surplus clinker at the Jodhpur plant, which will support an additional 3MTPA cement grinding capacity. This valuation does not factor the limestone reserves acquired. The deal is ~25% cheaper when relatively compared to greenfield project cost @USD100/T as per NBIE estimates.
- We maintain a BUY rating on Ambuja Cements, valuing the stock at 12x March'26E EV/EBITDA with a TP of Rs1,010.

About Penna Cement: Penna Cement, one of India's largest privately held cement companies, boasts of an installed cement capacity of 10MTPA. Established in 1991, PCIL operates directly and through its subsidiaries in India and Sri Lanka. PCIL's total cement capacity is 14MTPA, with 10MTPA operational and 4MTPA under construction at Krishnapatnam (2MTPA) and Jodhpur (2MTPA), expected to be completed within 6-12 months. Around 90% of the cement capacity has railway sidings while some facilities are also supported by captive power plants & waste heat recovery systems. Additionally, surplus clinker at the Jodhpur plant will support an extra 3MTPA cement grinding capacity, bringing the total potential capacity to 17MTPA. As per NBIE research, the company recorded a volume of 2.5MTPA and realization of Rs250-260/bag with ~25% CU. The consolidated turnover of PCIL has consistently declined by ~37% between FY22 and FY24. The turnover stood at Rs12.4bn/Rs20.0bn/Rs 32.0bn in FY24/FY23/FY22.

Est Change	Upgrade
TP Change	Upgrade
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	ABUJ.BO
Bloomberg:	ACEM IN Equity
Mkt Cap (Rsbn/US\$bn):	1,636.7 / 19.6
52 Wk H / L (Rs):	680 / 404
ADTV-3M (mn) (Rs/US\$):	2,336.7 / 28.0
Stock performance (%) 1M/6M/1yr:	13.0 / 30.5 / 44.8
Nifty 50 performance (%) 1M/6M/1yr:	5.9 / 6.4 / 24.8

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	63.2	63.2	66.7
DII's	15.5	15.8	14.5
FII's	11.7	11.9	11.1
Others	9.6	9.1	7.7
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23*	FY24	FY25E	FY26E
Net Sales	3,89,370	3,31,596	4,21,160	6,25,995
Growth YoY%	34.4	(14.8)	27.0	48.6
EBITDA	51,224	63,995	1,09,135	1,61,442
EBITDA margin %	13.2	19.3	25.9	25.8
Adj PAT	29,964	45,036	72,624	1,07,952
Growth YoY%	(18.8)	50.3	61.3	48.6
Adj EPS	15.2	20.5	36.5	54.3
RoE	6.8	11.1	16.1	20.4
EV/EBITDA	21.7	22.5	11.9	7.8
EV/mt (\$)	205.9	228.4	162.3	118.9
P/E(x)	43.7	32.5	18.2	12.2

Note :

Company use to follow Calendar Year till 2021.

FY23 includes 15 Months period from 4Q22 to 4Q23.

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

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Ambuja – Penna deal - Ambuja Cements has signed a binding agreement to acquire PCIL at an enterprise value of Rs 104.2bn. Penna has a total debt of Rs24bn. Ambuja Cements will acquire 100% of PCIL's shares from its existing promoter group, Mr. P. Pratap Reddy & family. The acquisition will be fully funded through internal accruals and is valued at USD73/T (@17MTPA capacity, including Jodhpur additional capacity). The completion of this deal is subject to necessary government and regulatory approvals.

EBITDA/T to improve by ~Rs300-400/T: We believe that the acquisition of PCIL is a highly positive and value-accretive deal for Ambuja Cements. This acquisition positions the company to expand its market presence in Southern India and reinforces its status as a pan-India leader in the cement industry. PCIL's strategic locations and substantial limestone reserves of 1,022Mnt (250Mnt at Tadipatri, 87Mnt at Ganeshpahad and 585Mnt at Boyireddypalli) offer significant opportunities for increasing cement capacity through debottlenecking and additional investment. Around 90% of PCIL's cement capacity is supported by railway sidings and its proximity to various Ambuja Cements integrated units will significantly reduce logistics costs by 1/3rd (delivered cost of cement and clinker). As per NBIE research, the lead distance is expected to reduce by ~5-7kms. Furthermore, this acquisition will bolster Adani Cement's sea transportation logistics through its five bulk cement terminals (BCT) located at Kolkata, Gopalpur, Karaikal, Kochi and Colombo, enhancing services to peninsular India. The BCT network will also provide access to Eastern and Southern peninsular India besides an entry into Sri Lanka via sea routes.


Exhibit 1: Penna Cement plant-wise capacity

Penna - Plants	Clinker (MTPA)	Cement (MTPA)	CPP/WHRS	Railway Siding
Talariceruvu, AP	1.3	1.8	WHRS-25 MW CPP - 77MW &WHRS -7 MW	No
Boyareddypalli, AP	3.5	2.0		Yes
Ganeshpahad, TG	1.0	1.2		Yes
Tandur, TG	1.5	2.0		Yes
Krishnapatnam, AP	-	2.0		Yes
Patas, MH	-	1.0		Yes
Operational Capacity	7.3	10.0		
Jodhpur, RJ*	3.0	2.0		Yes
Krishnapatnam, AP		2.0		Yes
Under construction capacity	3.0	4.0		
Total Capacity	10.3	14.0		

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Roadmap to 140MTPA capacity by FY28

Expansion Project	Capacity(MTPA)		Expected timelines for completion	Status Update
	Clinker	Cement		
Bathinda	-	1.2	Q2 FY'26	- Land available, EC applied, expected Jul' 24
Bhatapara Line 3 (CU)	4.0	-	Q4 FY'25	- Civil work 67 % completed, Overall project 30 % completed Receipt of major equipment commenced
Maratha Line 2 (CU)	4.0	-	Q2 FY'26	- EPC contract awarded -- Project activities started
Sankrail (GU)	-	2.4	Q3 FY'25	- EPC contract awarded - 90% of pilling work & 52 % Civil work has been completed. Overall project 27 % completed.
Marwar (GU)	-	2.4	Q2 FY'26	- EC recd. LOI Issued, EPC contract to be awarded by May'24 - Pre project activities started
Farakka (GU)	-	4.8	Q3 FY'25 (Phase I)	- Phase I, 2.4 MTPA and balance will be taken as Phase II - EPC contract awarded, 87% of pilling work & 40 % Civil work has been completed. Overall project 27 % completed.
Sindri (GU)	-	1.6	Q4 FY'25	- EPC contract awarded - Project activities started
Salai Banwa (GU)	-	2.4	Q1 FY'26	- EPC contract awarded - Project activities started
Mundra (GU)	-	4.8	Q3 FY'26 (1st Line) Q1 FY'27 (2nd Line)	- CTE / EC approvals expected by May'24 - LOI Issued - Pre Project activity under progress
Total	8.0	19.6		



Out of the total capex, Greenfield projects – 55% Brownfield projects – 45%

In addition, Board has also approved

- 2.25 MTPA Clinker Unit in Mundra (Calcium Hydroxide process)
- 17 Cement Grinding Units (2.4 MTPA) each identified at 17 locations (Land acquisitions and statutory approvals for these projects are under progress)

Capacity Details:

	Mn T
Existing Capacity	79
Projects under execution	20
Addl. Projects at various stages	41
Total Capacity	140

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Ambuja Cements' footprint post Penna Cement's acquisition



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Change in estimates

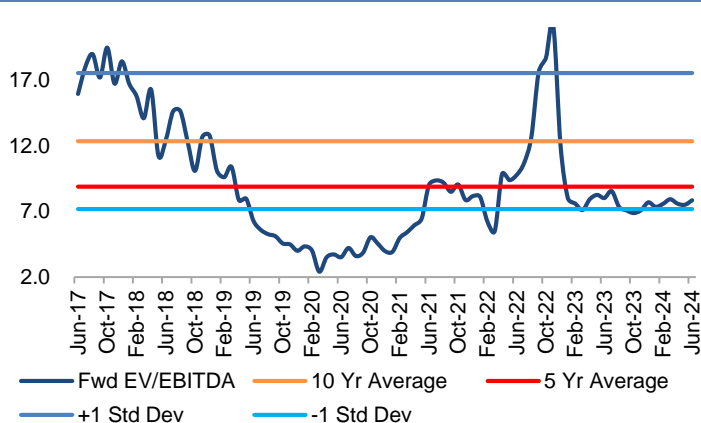
Particulars	FY25E			FY26E		
(Rs mn)	Old	New	Change (%)	Old	New	Change (%)
Revenue	4,37,835	4,21,160	(3.8)	5,86,349	6,25,995	6.8
EBITDA	1,13,406	1,09,135	(3.8)	1,51,206	1,61,442	6.8
PAT	76,313	72,624	(4.8)	1,01,257	1,07,952	6.6
EPS	38.4	36.5	(4.8)	50.9	54.3	6.6

Source: Nirmal Bang Institutional Equities Research

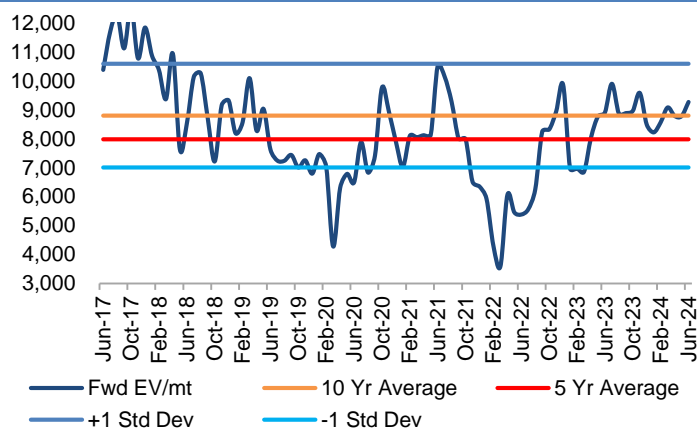
Exhibit 5: Valuation summary

Particulars	(Rs mn)
March'26E EBITDA	1,61,442
Target multiple (x)	12x
Enterprise value	19,37,303
Less: Net debt	(67,576)
Equity value	20,04,879
No of shares (mn)	1,986
Value per share (Rs)	1,010
CMP (Rs)	665
Upside / (downside) %	52%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Rolling valuation charts


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 7: Income statement

YE March, Rs mn	CY21	FY23*	FY24	FY25E	FY26E
Net Sales	2,89,655	3,89,370	3,31,596	4,21,160	6,25,995
Raw Material Consumed	29,177	50,640	49,228	31,037	45,256
Power & Fuel Cost	67,875	1,17,619	81,093	1,22,401	1,86,757
Employee Cost	15,292	18,565	13,528	16,866	23,037
Freight and Forwarding	71,329	95,237	80,006	92,160	1,34,979
Other expenses	43,878	56,085	43,746	49,560	74,524
Total Expenditure	2,27,551	3,38,147	2,67,601	3,12,025	4,64,553
Operating profit	62,104	51,224	63,995	1,09,135	1,61,442
Operating profit margin (%)	21%	13%	19.3%	25.9%	26%
Other Income	3,524	7,377	11,664	12,178	12,690
Interest	1,457	1,949	2,764	3,151	3,204
Depreciation	11,525	16,447	16,234	21,175	26,761
PBT	52,647	40,205	56,662	96,987	1,44,167
Exceptional items	(1,205)	(3,190)	-	-	-
PBT post exc items	51,442	37,015	56,662	96,987	1,44,167
Tax	14,534	7,051	11,626	24,363	36,215
Tax rate (%)	28%	19%	21%	25%	25%
PAT	36,908	29,964	45,036	72,624	1,07,952
EPS (Rs)	18.7	15.2	20.5	36.5	54.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance Sheet

YE March, Rs mn	CY21	FY23*	FY24	FY25E	FY26E
Equity Capital	3,971	3,971	4,395	4,395	4,395
Reserves and Surplus	3,21,016	3,83,594	4,16,116	4,76,225	5,71,663
Networth	3,24,988	3,87,566	4,20,511	4,80,621	5,76,059
Total Debt	469	477	435	435	436
Deferred tax liability	7,562	7,004	7,004	7,004	7,004
Other non current liabilities	6,809	7,167	3,145	3,313	3,500
Trade Payables	29,128	27,739	28,850	33,059	45,804
Other Current Liabilities	83,089	87,263	68,223	74,186	85,631
Total Current Liabilities	1,12,252	1,15,137	97,074	1,07,246	1,31,435
Total liabilities	4,52,046	5,17,215	5,28,169	5,98,618	7,18,434
Net Block	2,17,557	2,30,542	3,16,301	3,94,405	4,58,011
CWIP	21,677	25,259	26,585	6,000	6,001
Investment	1,705	1,861	1,624	1,624	526
Other non current assets	35,944	62,087	50,479	53,099	57,039
Inventories	27,380	32,728	34,268	34,991	35,728
Sundry Debtors	6,191	11,544	11,774	12,010	12,250
Cash and Bank	1,16,930	28,701	18,879	22,580	68,012
Other current assets	19,683	1,18,612	60,675	66,326	73,284
Total Current Assets	1,70,184	1,91,585	1,25,596	1,35,906	1,89,275
Total Assets	4,52,046	5,17,215	5,28,169	5,98,618	7,18,434

Source: Company, Nirmal Bang Institutional Equities Research

Note :

Company use to follow Calendar Year till 2021.

FY23 includes 15 Months period from 4Q22 to 4Q23.

Exhibit 9: Cash flow statement

YE March, Rs mn	CY21	FY23*	FY24	FY25E	FY26E
Profit before tax	51,645	37,295	56,662	96,987	1,44,167
Add : Depreciation	11,525	16,447	16,234	21,175	26,761
Add: Interest Exp	1,457	1,949	2,764	3,151	3,204
Cash flow from ops before WC changes	64,626	55,691	75,659	1,21,313	1,74,132
Net change in Working capital	5,062	1,06,858	38,238	3,563	16,253
Tax paid	(14,534)	(7,051)	(11,626)	(24,363)	(36,215)
Net cash from operations	55,154	(58,218)	1,02,271	1,00,513	1,54,171
Capital expenditure	(26,660)	(33,916)	1,05,020	(78,695)	(90,367)
Sale of investments	(308)	(155)	512	-	1,098
Net cash from investing	(24,239)	(60,202)	(93,177)	(81,314)	(93,209)
Issue of shares	8,041	(867)	424	-	-
Increase in debt	33	8	(42)	-	1
Dividends paid incl. tax	(2,021)	(12,514)	(12,514)	(12,514)	(12,514)
Interest paid	(1,457)	(1,949)	(2,764)	(3,151)	(3,204)
Net cash from financing	(3,342)	30,192	(18,917)	(15,498)	(15,530)
Net Cash	27,574	(88,228)	(9,823)	3,701	45,432
Opening Cash	89,356	1,16,930	28,701	18,879	22,580
Closing Cash	1,16,930	28,701	18,879	22,580	68,012

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

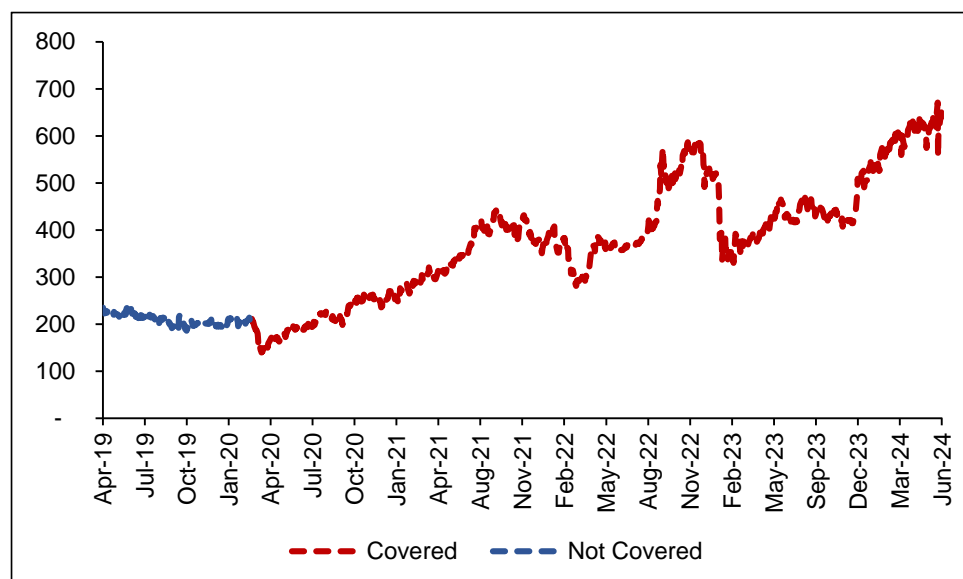
YE March	CY21	FY23*	FY24	FY25E	FY26E
Growth (%)					
Sales	18.1	7.5	(14.8)	27.0	48.6
Operating Profits	24.3	(34.0)	24.9	70.5	47.9
Net Profits	5.0	(34.8)	48.9	61.3	48.6
Leverage (x)					
Net Debt:Equity	(0.36)	(0.07)	(0.04)	(0.05)	(0.12)
Interest Cover(x)	42.64	26.28	23.16	34.63	50.39
Total Debt/EBITDA	0.01	0.01	0.01	0.00	0.00
Profitability (%)					
OPM	21.4	13.2	19.3	25.9	25.8
NPM	12.7	7.7	13.6	17.2	17.2
ROE	12.0	6.8	11.1	16.1	20.4
ROCE	19.9	12.2	17.5	25.6	31.7
Turnover ratios (x)					
GFAT	1.1	1.3	0.9	0.9	1.1
Debtors Turnover(x)	49	44	28	35	52
WC days	3	10	19	14	5
Valuation (x)					
P/E	35.6	43.7	32.5	18.2	12.2
P/B	4.1	3.4	3.5	2.8	2.3
EV/EBITDA	16.5	21.7	22.5	11.9	7.8
EV/mt (\$)	207.0	205.9	228.4	162.3	118.9

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 March 2020	Accumulate	205	223
13 April 2020	Accumulate	159	158
28 April 2020	Accumulate	172	173
17 July 2020	Sell	193	173
27 July 2020	Accumulate	201	223
23 September 2020	BUY	207	239
16 October 2020	BUY	243	239
23 October 2020	Accumulate	254	265
22 February 2021	Accumulate	275	276
8 April 2021	Sell	310	276
29 April 2021	Sell	314	289
25 June 2021	Sell	347	290
25 July 2021	Sell	403	325
26 September 2021	Sell	410	354
27 October 2021	Sell	380	354
21 February 2022	Accumulate	339	355
23 February 2022	Accumulate	335	367
29 April 2022	Accumulate	383	365
13 June 2022	Sell	366	324
20 July 2022	Sell	371	315
20 September 2022	Under Review	656	-
25 October 2022	Under Review	513	-
12 January 2023	BUY	508	612
8 February 2023	BUY	374	477
22 March 2023	BUY	369	496
3 August 2023	BUY	461	548
1 November 2023	BUY	407	602
1 February 2024	BUY	560	915
2 May 2024	BUY	626	973
14 June 2024	BUY	665	1,010

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No.: 91 22 6273 8000/1; Fax.: 022 6273 8010