

Ambuja Cement

HOLD

Moving towards its expansion targets

Summary

Ambuja Cements (ACEM) Q3FY25 EBITDA came lower than consensus estimates by 40%, impacted by higher operating expenses. With its ongoing inorganic expansion, ACEM is on track to become an industry leader. The company is also focused on reducing operational expenses and improving EBITDA through WHRS enhancements and an increased share of renewable energy, & has achieved 30% of its target so far. We revise our target price (TP) for ACEM to Rs586 and maintain a HOLD rating, valuing it at 23x FY27E EV/EBITDA, with its ACC stake discounted by 20% to the current market price (CMP). Capex intensity is expected to remain high, with FY25E capex at Rs90bn, 65% of which has been utilized as of 9MFY25. The company's capacity expansion plan to 140 MTPA will be funded through internal accruals and operating cash flows, with targets set at 104mtpa by FY25, 118mtpa by FY26, and 140mtpa by FY28.

Result Highlights and Investment Rationale

- **Q3FY25 snapshot:** Standalone revenue at Rs48.5bn +15% QoQ, EBITDA/t was down QoQ at Rs403 and is lower than reported by peers like Ultratech. PAT Stood At Rs17.5bn the PAT was higher due to a tax credit received during the quarter. Sales volume stood at 10.3 MTPA, up 16% QoQ, driven primarily by increased volumes from Sanghi and Penna Cement.
- **Cost reduction Plan:** ACEM targets a total cost reduction of Rs530/t, with Rs100/t in FY26E and Rs150/t in FY27E, aiming for Rs650/t by FY28E. Key drivers include coal mines, green power savings from RE and WHRS, optimized raw material procurement, streamlined logistics via railway wagons, reduced lead distance, and warehouse optimization.

TP	Rs586
CMP	Rs522
Potential upside/downside	12%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.8)	(9.2)	(9.0)
Rel to Sensex	(2.0)	(4.4)	(15.4)

V/s Consensus

EPS (Rs)	FY25E	FY26E	FY27E
IDBI Capital	15	13	18
Consensus	13	19	24
% difference	11.9	(31.8)	(24.0)

Key Stock Data

Bloomberg/Reuters	ACEM IN / ABUJ.BO
Sector	Cement
Shares o/s (mn)	2,463
Market cap. (Rs mn)	1,286,243
3-m daily avg Trd value (Rs mn)	248.6
52-week high / low	Rs707 / 453
Sensex / Nifty	76,533 / 23,163

Shareholding Pattern (%)

Promoters	67.6
FII	9.1
DII	14.4
Public	8.9

Financial snapshot

(Rs mn)

Year	15MFY23	FY24	FY25E	FY26E	FY27E
Revenue	1,99,854	1,79,193	1,91,665	2,22,714	2,56,121
Change (yoy, %)	43	(10)	7	16	15
EBITDA	32,204	33,708	25,461	33,737	44,070
Change (yoy, %)	0	5	(24)	33	31
EBITDA Margin(%)	16.1	18.8	13.3	15.1	17.2
Adj.PAT	27,108	23,505	33,574	29,470	40,615
EPS (Rs)	14	11	15	13	18
Change (yoy, %)	26.1	(22)	43	(12)	38
PE(x)	38.2	49	34	39	28
Dividend Yield (%)	1.7	0	1	1	1
EV/EBITDA (x)	31.4	31.4	40.7	30.6	23.2
RoE (%)	10.7	7	9	7	9
RoCE (%)	9	7	4	5	8

Source: IDBI Capital Research

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Conference call highlights

- Cement demand witnessed modest growth of 1.5-2% during H1FY25 (1.2% in Q1FY25 and 0.7% in Q2FY25). However, Q3FY25 saw a significant rebound, with demand growing by 7-8%. Looking ahead, demand is expected to further improve in Q4FY25, driven by acceleration in construction activities within the infrastructure and housing segments. The pro-infra and housing-focused Budget 2025, along with increased government spending on infrastructure and construction, is expected to further support this growth. Cement demand for FY25E is projected to grow in the range of 4-5%.
- In Q3FY25, consolidated cement volumes stood at 16.5 million tons (mt), reflecting a 17.0% YoY and 15.9% QoQ increase. MSA volumes reached 4.5 mt in Q3FY25, compared to 3.7 mt in Q2FY25 and 2.93 mt in Q3FY24.
- ACEM maintains its target of achieving a total cost reduction of Rs530/t, with reductions of Rs100/t in FY26E and Rs150/t in FY27E, aiming to bring costs down to Rs650/t by FY28E. The company views its coal mines as a key game changer, alongside cost savings from green power initiatives through the commissioning of renewable energy (RE) and waste heat recovery system (WHRS) capacity. Additional cost efficiencies are expected from the long-term procurement of critical raw materials, streamlining logistics costs via railway wagons, reducing lead distance, and optimizing warehouse operations.
- Ambuja Cements expects to complete the acquisition of Orient Cement by Q4FY25E. Orient Cement has cement and clinker capacity of 8.5 MTPA and 5.6 MTPA, respectively, along with captive power capacity of 95 MW, waste heat recovery system (WHRS) capacity of 10 MW, and renewable energy (RE) capacity of 33 MW. These assets are spread across Telangana, Karnataka, and Maharashtra. Additionally, the company has statutory clearance to expand its cement and clinker capacity by another 8.1 MTPA and 6.0 MTPA, respectively. It also holds a limestone mining lease in Chittorgarh, which will support the establishment of an integrated unit (IU) with a cement and clinker capacity of 6 MTPA and 4 MTPA in North India.
- In Q3FY25, the lead distance stood at 285 km, compared to 271 km in Q2FY25 and 289 km in Q3FY24. The secondary lead distance was recorded at 46 km in Q3FY25, slightly lower than 47 km in Q2FY25. The company aims to reduce the lead distance to 100 km by FY28 through capacity expansion, enabling better service to both new and existing markets.

Exhibit 1: Financial snapshot (Rs mn)

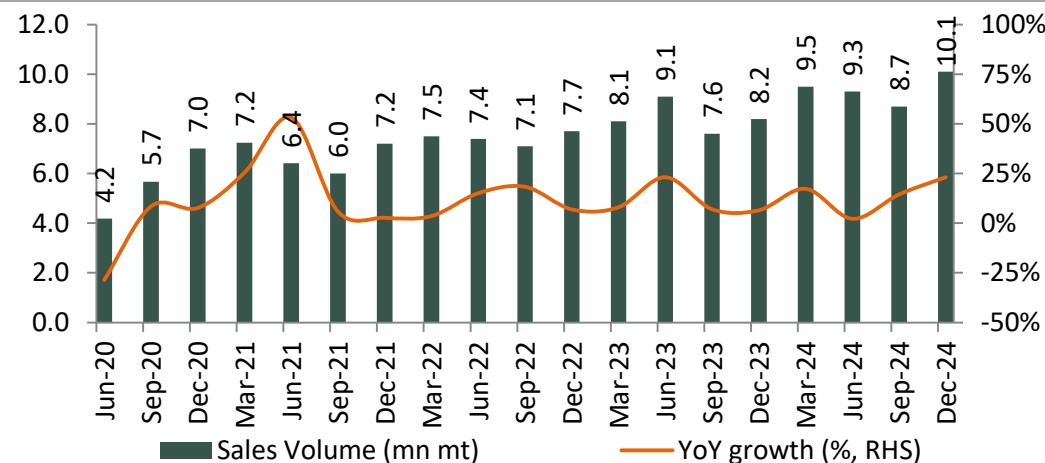
Particulars	Q3FY25	Q2FY25	QoQ % Chg	Q3FY24	YoY % Chg
Net Sales	48,500	42,132	15.1	44,395	9.2
EBITDA	4,075	6,805	(40.1)	8,511	(52.1)
EBITDA margin (%)	8.4	16.2	-775bps	19.2	-1077bps
Other income	9,649	2,650	264.1	1,082	791.7
Depreciation	2,529	2,398	5.5	2,335	8.3
Interest	355	323	9.9	454	(21.8)
Pre tax profit	10,840	6,735	61.0	6,804	59.3
Tax	-6,740	1,728	(490.1)	1,668	(504.2)
Profit after tax	17,580	5,007	251.1	5,137	242.2
Extra ordinary income/ (exp.)	(1,932)	-	NA	-	NA
Adjusted net profit	15,649	5,007	212.6	5,137	204.6

Source: Company; IDBI Capital Research

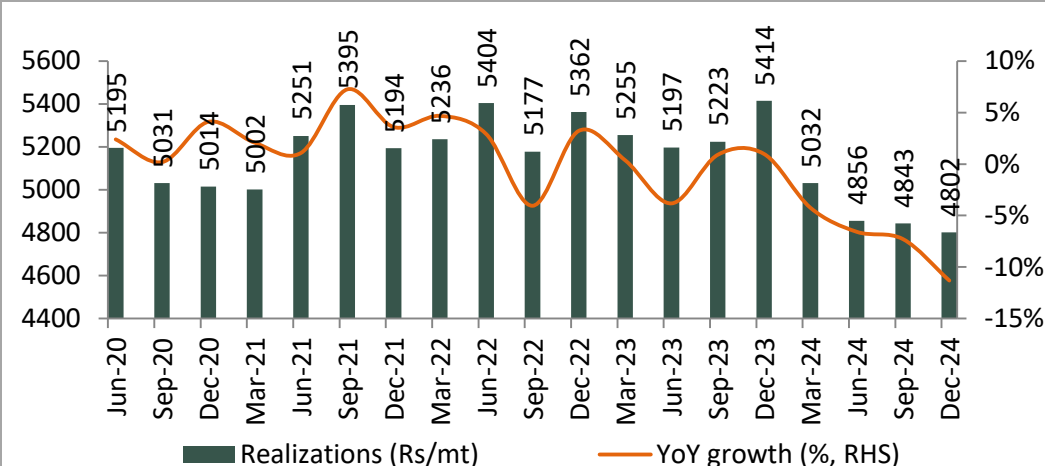
Exhibit 2: Operational snapshot

Year-end: December	Q3FY25	Q2FY25	QoQ % Chg	Q3FY24	YoY % Chg
Sales (mn mt)	10.1	8.7	16.1	8.2	23.2
Net realization Rs per mt	4,802	4,843	(0.8)	5,414	(11.3)
Total expenditure Rs per mt	4,399	4,061	8.3	4,376	0.5
Composite raw materials Rs per mt	1,814	1,484	22.2	1,375	31.9
Employees Cost Rs per mt	141	151	(6.8)	167	(15.5)
Power & Fuel Cost Rs per mt	858	923	(7.1)	1,047	(18.0)
Freight & Handling Expenses Cost Rs per mt	955	1,001	(4.6)	1,114	(14.3)
Other Expenditure Rs per mt	631	501	26.1	673	(6.2)
EBITDA Rs per mt	403	782	(48.4)	1,038	(61.1)

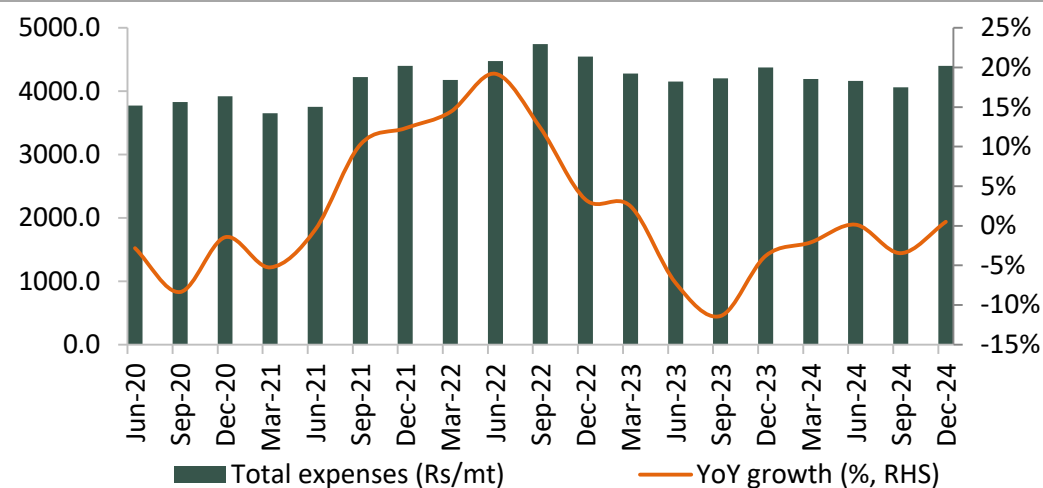
Source: Company; IDBI Capital Research

Exhibit 3: Q3FY25 volume up by 16% QoQ


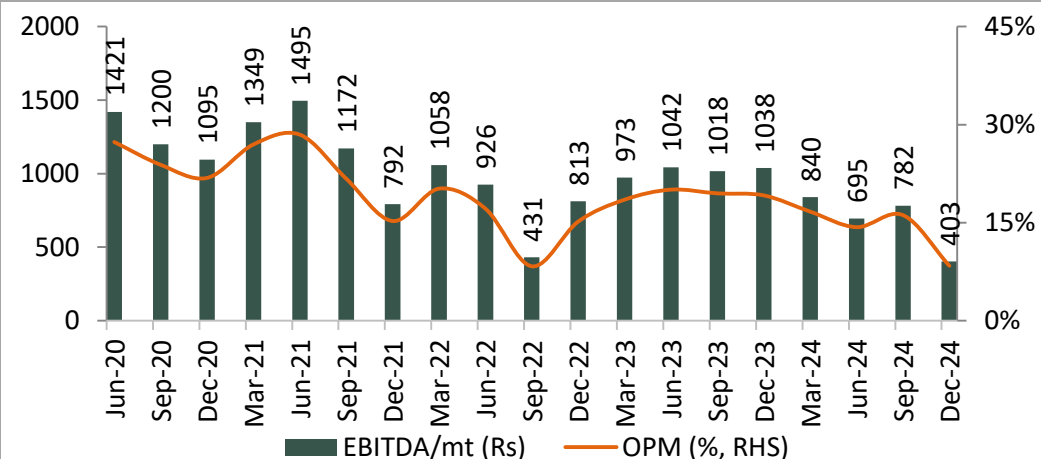
Source: IDBI Capital Research

Exhibit 4: Q3FY25 realizations down QoQ


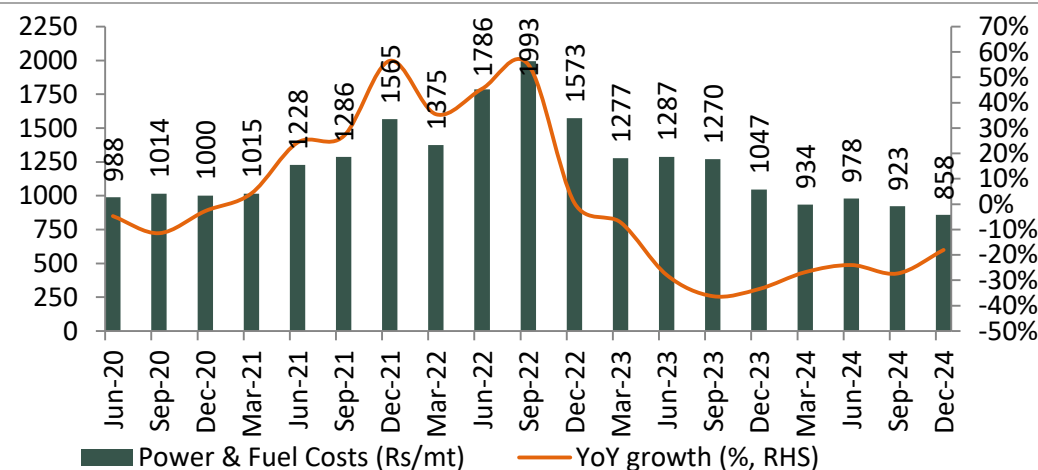
Source: IDBI Capital Research

Exhibit 5: Opex/t was increased QoQ in Q3FY25


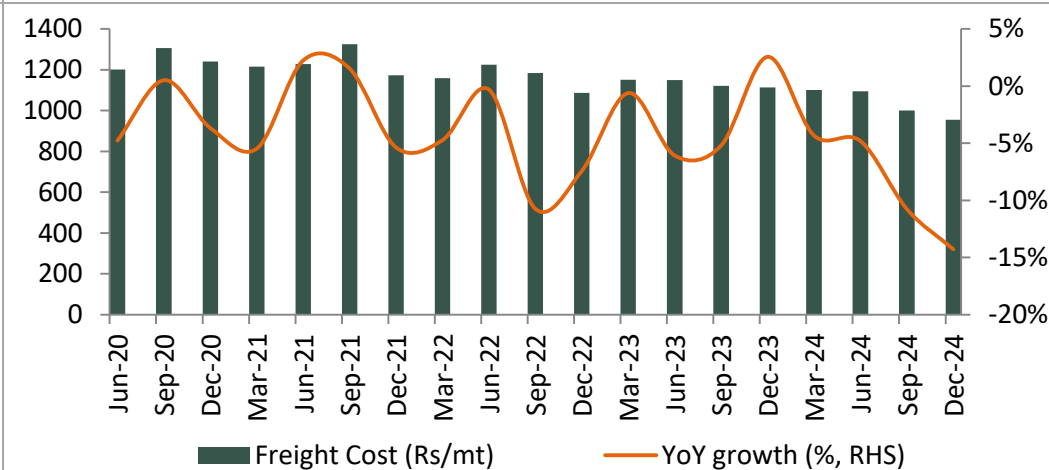
Source: IDBI Capital Research

Exhibit 6: EBITDA/t decreased 61% YoY, margins at 8%


Source: IDBI Capital Research

Exhibit 7: Power/t down by 18% YoY in Q3FY25

Source: IDBI Capital Research

Exhibit 8: Freight/t down by 14% YoY in Q3FY25

Source: IDBI Capital Research

Exhibit 9: Target Price

			FY27E
EBITDA			44,070
EV/EBITDA Multiple			23
EV	A		10,13,619
Market Cap of ACC			3,76,720
Ambuja's Stake at 20% Disc	B		1,52,195
FY27E Net Cash	C		1,24,268
Total Equity value	A + B + C		12,90,082
Target Price			586

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	CY21	15MFY23	FY24	FY25E	FY26E	FY27E
Net sales	1,39,790	1,99,854	1,79,193	1,91,665	2,22,714	2,56,121
<i>Change (yoy, %)</i>	23	43	(10)	7	16	15
Operating expenses	(1,07,639)	(1,67,650)	(1,45,485)	(1,66,204)	(1,88,976)	(2,12,050)
EBITDA	32,152	32,204	33,708	25,461	33,737	44,070
<i>Change (yoy, %)</i>	22	0	5	(24)	33	31
<i>Margin (%)</i>	23.0	16.1	18.8	13.3	15.1	17.2
Depreciation	(5,517)	(8,324)	(9,380)	(10,083)	(11,663)	(12,479)
EBIT	26,634	23,880	24,329	15,378	22,074	31,591
Interest paid	(910)	(1,280)	(1,623)	(1,437)	(1,369)	(1,438)
Other income	2,812	9,523	8,526	18,306	18,588	14,384
Pre-tax profit	28,536	32,123	31,233	32,247	39,293	44,538
Tax	(7,047)	(5,016)	(7,728)	1,327	(9,823)	(10,118)
<i>Effective tax rate (%)</i>	24.7	15.6	24.7	(4.1)	25.0	22.7
Minority Interest	-	-	-	-	-	-
Net profit	21,489	27,108	23,505	33,574	29,470	34,420
Exceptional items	-	-	-	-	-	-
Adjusted net profit	21,489	27,108	23,505	33,574	29,470	34,420
<i>Change (yoy, %)</i>	21	26	(13)	43	(12)	17
EPS	10.8	13.7	10.7	15.3	13.4	15.7
Dividend per sh	6.3	9.0	2.0	3.4	3.0	3.4
<i>Dividend Payout (%)</i>	58.2	66	19	22	22	22

Balance Sheet

(Rs mn)

Year-end: March	CY21	15MFY23	FY24	FY25E	FY26E	FY27E
Shareholders' funds	2,22,049	2,85,055	3,70,065	3,96,243	4,19,222	4,46,060
Share capital	3,971	3,971	4,395	4,395	4,395	4,395
Reserves & surplus	2,18,078	2,81,084	3,65,670	3,91,848	4,14,826	4,41,664
Total Debt	435	342	189	189	189	189
Other liabilities	5,777	9,409	6,389	6,389	6,389	6,389
Curr Liab & prov	53,567	64,235	64,645	70,381	78,944	88,157
Current liabilities	53,477	64,194	64,375	70,214	78,751	87,935
Provisions	90	41	270	166	193	222
Total liabilities	59,779	73,986	71,223	76,959	85,522	94,736
Total equity & liabilities	2,81,828	3,59,041	4,41,288	4,73,202	5,04,744	5,40,795
Net fixed assets	86,222	94,616	1,03,517	1,23,434	1,41,771	1,59,292
Investments	1,17,647	1,17,667	1,40,581	1,40,581	1,40,581	1,40,581
Other non-curr assets	10,155	34,293	47,129	47,129	47,129	47,129
Current assets	67,805	1,12,464	1,50,061	1,62,059	1,75,263	1,93,794
Inventories	14,641	16,394	15,903	17,273	20,071	23,081
Sundry Debtors	2,947	5,649	7,168	6,301	7,322	8,420
Cash and Bank	41,692	25,331	88,334	1,11,413	1,15,393	1,23,327
Loans and advances	8,524	65,090	38,656	27,072	32,478	38,965
Total assets	2,81,828	3,59,040	4,41,288	4,73,202	5,04,744	5,40,795

Cash Flow Statement

(Rs mn)

Year-end: March	CY21	15MFY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	27,879	30,551	31,233	32,247	39,293	44,538
Depreciation	5,517	8,324	9,380	10,083	11,663	12,479
Tax paid	(3,632)	(3,346)	(7,321)	1,327	(9,823)	(10,118)
Chg in working capital	(4,584)	(7,855)	1,567	5,234	4,744	5,105
Other operating activities	(415)	(7,578)	(7,127)	(16,869)	(17,218)	(12,946)
Cash flow from operations (a)	24,765	20,096	27,574	32,022	28,658	39,057
Capital expenditure	(11,430)	(21,116)	(19,932)	(30,000)	(30,000)	(30,000)
Chg in investments	192	(79,900)	(62,171)	18,306	18,588	14,384
Other investing activities	1,218	(77,708)	6,032	-	-	-
Cash flow from investing (b)	(8,868)	(93,272)	(76,071)	(11,694)	(11,412)	(15,616)
Equity raised/(repaid)						
Debt raised/(repaid)	(908)	(715)	48,613	(1,437)	(1,369)	(1,438)
Dividend (incl. tax)	(2,021)	(12,514)	(4,964)	(7,395)	(6,491)	(7,582)
Chg in monorities						
Other financing activities	(238)	(655)	(3,147)	-	-	-
Cash flow from financing (c)	(3,167)	36,116	56,970	(8,832)	(7,861)	(9,020)
Net chg in cash (a+b+c)	12,730	(37,059)	8,473	11,495	9,385	14,422

Financial Ratios

Year-end: March	CY21	15MFY23	FY24	FY25E	FY26E	FY27E
Book Value (Rs)	112	144	168	180	191	203
Adj EPS (Rs)	10.8	13.7	10.7	15.3	13.4	15.7
Adj EPS growth (%)	21	26	-22	43	-12	17
EBITDA margin (%)	23.0	16.1	18.8	13.3	15.1	17.2
Pre-tax margin (%)	20.4	16.1	17.4	16.8	17.6	17.4
Net Debt/Equity (x)	-0.2	-0.1	-0.2	-0.3	-0.3	-0.3
ROCE (%)	12	9	7	4	5	7
ROE (%)	10	11	7	9	7	8

DuPont Analysis

Asset turnover (x)	0.5	0.6	0.4	0.4	0.5	0.5
Leverage factor (x)	1.3	1.3	1.2	1.2	1.2	1.2
Net margin (%)	15.4	13.6	13.1	17.5	13.2	13.4

Working Capital & Liquidity ratio

Inventory days	38	30	32	33	33	33
Receivable days	8	10	15	12	12	12
Payable days	39	34	36	36	37	37

Valuations

Year-end: March	CY21	15MFY23	FY24	FY25E	FY26E	FY27E
PER (x)	48.2	38.2	48.8	34.2	38.9	33.3
Price/Book value (x)	4.7	3.6	3.1	2.9	2.7	2.6
EV/Net sales (x)	7.1	5.1	5.9	5.4	4.6	4.0
EV/EBITDA (x)	31.0	31.4	31.4	40.7	30.6	23.2
Dividend Yield (%)	1.2	1.7	0.4	0.6	0.6	0.7

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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