Ambuja Cements

BSE SENSEX	S&P CNX
65,241	19,382

Stock Info

Bloomberg	ACEM IN
Equity Shares (m)	1986
M.Cap.(INRb)/(USDb)	941.6 / 11.4
52-Week Range (INR)	598 / 315
1, 6, 12 Rel. Per (%)	9/18/13
12M Avg Val (INR M)	5078
Free float (%)	36.9

Financials Snapshot (INR b)

Y/E Dec	FY23*	FY24E	FY25E
Sales	199.9	182.2	202.7
EBITDA	32.2	36.7	46.1
Adj. PAT	25.2	23.8	29.8
EBITDA Margin (%)	16.1	20.1	22.7
Adj. EPS (INR)	12.7	12.0	12.1
EPS Gr. (%)	18.2	-5.8	1.2
BV/Sh. (INR)	143.6	152.0	191.1
Ratios			
Net D:E	-0.3	-0.2	-0.4
RoE (%)	18.4	13.5	11.1
RoCE (%)	20.4	14.0	11.5
Payout (%)	19.4	29.3	37.2
Valuations			
P/E (x)	29.8	31.6	31.2
P/BV (x)	2.6	2.5	2.0
EV/EBITDA(x)	20.4	17.9	16.6
EV/ton (USD)	252	252	236
Div. Yield (%)	0.5	0.7	0.9
FCF Yield (%)	-0.1	-0.7	-0.1

*FY23E is 15m period due to change in accounting year

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	63.2	63.2	63.1
DII	14.4	14.7	15.2
FII	12.5	11.3	12.9
Others	9.9	10.9	8.7

FII Includes depository receipts

CMP: INR474 TP: INR450 (-5%) Neutral

One step closer to its long-term capacity target

Acquisition of Sanghi Ind. to strengthen its presence in the West region

- Ambuja Cements (ACEM) has announced acquisition of a majority stake (56.74%) in Sanghi Industries (SNGI) at an enterprise value of INR50b. ACEM is also making an open offer for a 26% additional stake to the shareholders of SNGI at a price of INR114.22, at 8% premium to SNGI's closing price as of 3rd Aug'23. This acquisition will be funded through internal accruals. This deal would depend on CCI clearance and other regulatory approvals.
- SNGI has a single location integrated cement plant in Kutch, Gujarat having clinker/cement capacity of 6.6mtpa/6.1mtpa. SNGI has 'A grade' marine limestone reserves of 1b tons spread over ~1,500 hectares with lease upto CY46. The plant is equipped with 100% captive power of 130MW (thermal power plant) and 13MW of WHRS. The plant also has a captive jetty and fleet of bulk cement carriers for cement transportation through sea route.
- The management of ACEM indicated that an investment of INR5b will help it to increase grinding capacity to 10mtpa by Mar'24 from 6.1mtpa currently. Considering this expansion, effective acquisition cost works out to be USD67/t. The grinding capacity would further be increased to 15mtpa within next two years at an investment of INR30b.

ACEM aims to make SNGI the lowest-cost producer of clinker in the country

- SNGI was among the least cost producers in the industry backed by low cost of raw material (due to use of surfaced mined limestone), proximity to lignite mines of GMDC, ability to import coal at its captive jetty and 100% captive power sources. However, lower blended cement share and longer lead distance (dependence on road transport as the company was not able to ramp-up sea transport) had impacted the profitability adversely.
- Over the past few years, SNGI's profitability was significantly hit by higher leverage (net debt increased to INR14.7b as of Mar'23 from INR3b/INR6b in FY18/FY19), sector headwinds (higher energy prices and inflationary impact in FY23) and its inability to ramp up the expanded capacity. In FY23, SNGI reported an operating loss of INR136m vs. avg. EBITDA of INR2b over FY17-22 (avg. OPM at 20%).
- ACEM aims to make SNGI one of the lowest cost producers of clinker in the country. The company will invest in expanding the captive port of SNGI to handle larger vessels. SNGI also has bulk cement terminals at Navlakhi Port in Gujarat and Dharamtar Port in Maharashtra. ACEM, by leveraging the group's adjacencies will use the sea route for transporting most of the cement and targets to achieve an EBITDA/t of +INR1,000 in the next 24 months.

ACEM and UTCEM to compete closely in terms of capacities in the West

- Acquisition of SNGI will strengthen ACEM's presence in the West region and ACEM might become the largest player in the region (based on the capacity expansion plans announced by industry players). Apart from this acquisition, ACEM has also announced clinker capacity expansion of 4mtpa in the region.

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- We believe that UTCEM has clinker capacity of ~18mtpa in the West region and has not announced any clinker capacity expansion in this region till now. ACEM, post this expansion and its guidance of capacity expansion, will have a clinker capacity of ~20mtpa in the region (apart from ~2mtpa clinker capacity of ACC in Maharashtra). UTCEM might announce clinker capacity expansion of 4mtpa in the region, in our view.
- We estimate consolidation to intensify in the West with increase in capacity share of top-five players to ~82% by FY26 (two largest players will have a combined capacity share of ~69% by FY26 vs. 55% in FY23).

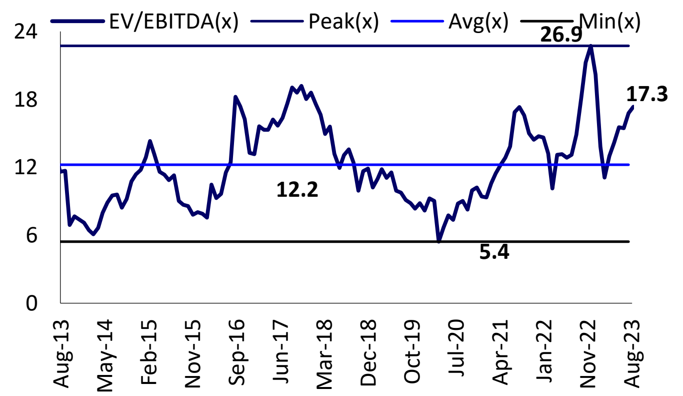
ACEM reiterated its capacity target of 140mtpa by FY28

- Adani Group's cement capacity will increase to 73.6mtpa from 67.5mtpa post-completion of SNGI's acquisition. The group is also increasing capacity through a mix of brownfield and Greenfield expansion across regions, except South.
- The group is likely to add grinding capacity (within the group companies) of 5.5mtpa at Dahej, Gujarat and Ametha, Madhya Pradesh in 2QFY24. Further, it has announced capacity expansion of 14mtpa, which is likely to be completed in the next 24 months. It also indicated expanding SNGI's capacity by ~9mtpa over next two years. Post-completion of all these plans, Adani Group's cement capacity is estimated to increase to 101mtpa by 1HFY26.
- Management highlighted its capacity expansion target of 140mtpa from 73.6mtpa, which is based on organic expansion plans. If any inorganic opportunity arrives, then this will expedite the achievement of the stated capacity target.

Valuation and View

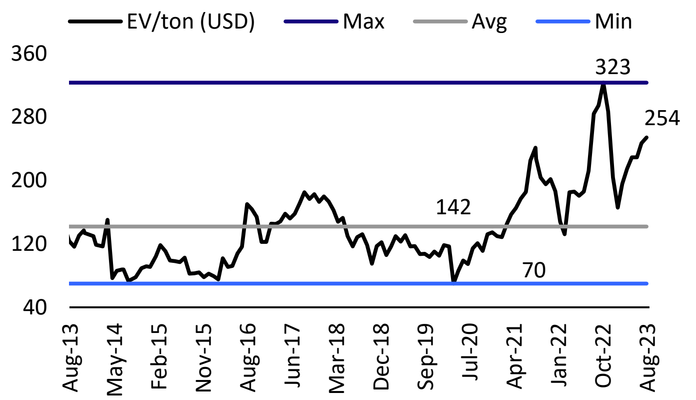
- ACEM has set an ambitious target of increasing grinding capacity to 140mtpa by FY28 (+100mtpa by FY25). We believe acquisition of SNGI will accelerate the company's growth plans.
- The company has also delivered very strong performance in 1QFY24, driven by better volumes and efficient cost-reduction measures. We will monitor the company's execution plan, sustainability of cost-saving measures and progress in improving profitability. Its valuations at 18x/16.6x FY24E/FY25E EV/EBITDA appear rich. **We maintain our Neutral rating on the stock with a TP of INR450, valued at 15x FY25E EV/EBITDA.**

Exhibit 1: One-year forward EV/EBITDA chart



Source: Company, MOFSL

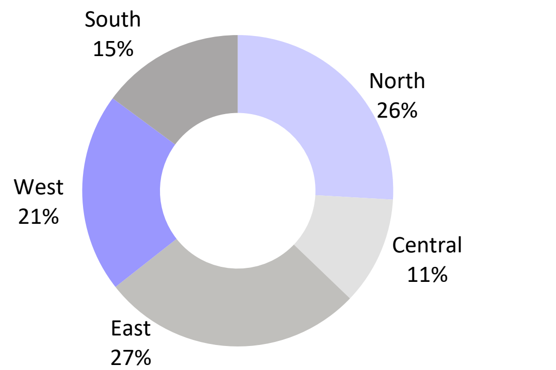
Exhibit 2: One-year forward EV/t chart



Source: Company, MOFSL

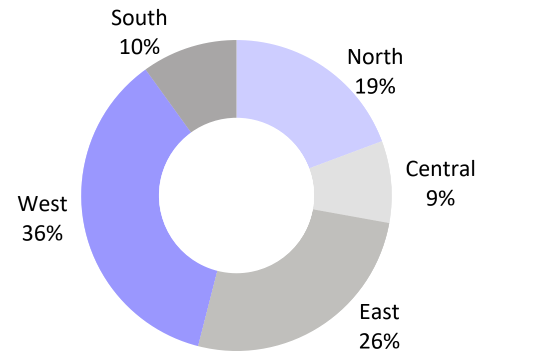
Story in charts

Exhibit 3: ACEM's consolidated regional capacity mix in FY23



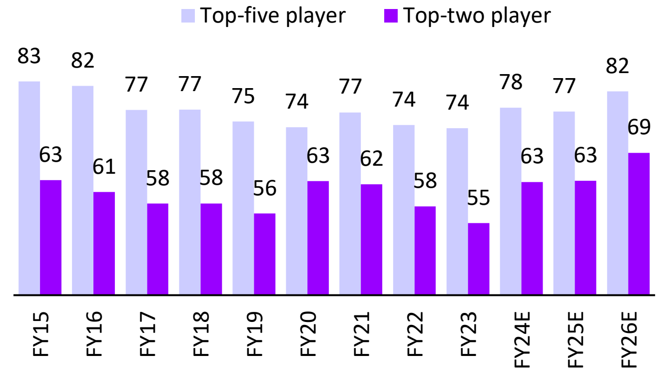
Source: MOFSL, Company

Exhibit 4: ACEM consolidated regional capacity mix by FY26E



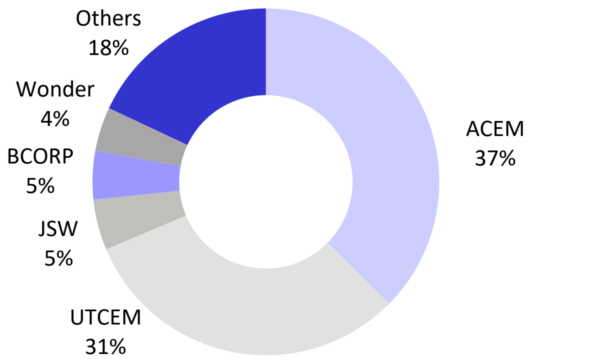
Source: MOFSL, Company

Exhibit 5: Top five/two players' capacity share trend in West



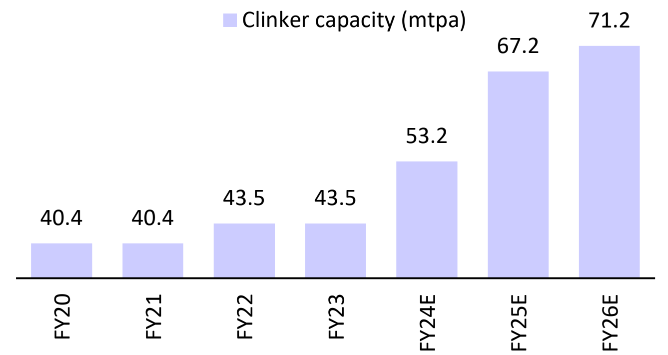
Source: MOFSL, Company

Exhibit 6: Top five players' capacity share in West by FY26E



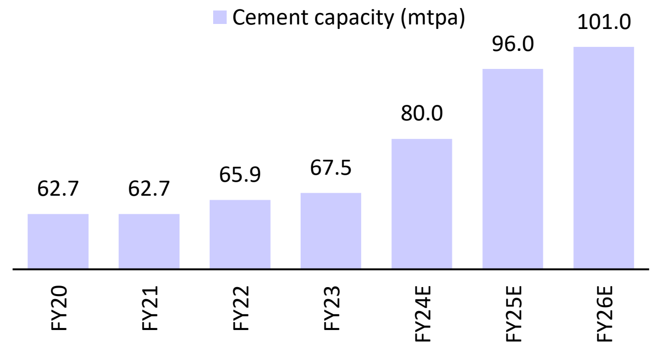
Source: MOFSL, Company

Exhibit 7: ACEM's consolidated clinker capacity growth



Source: MOFSL, Company; Note: Capacity is including ACC and SNGI

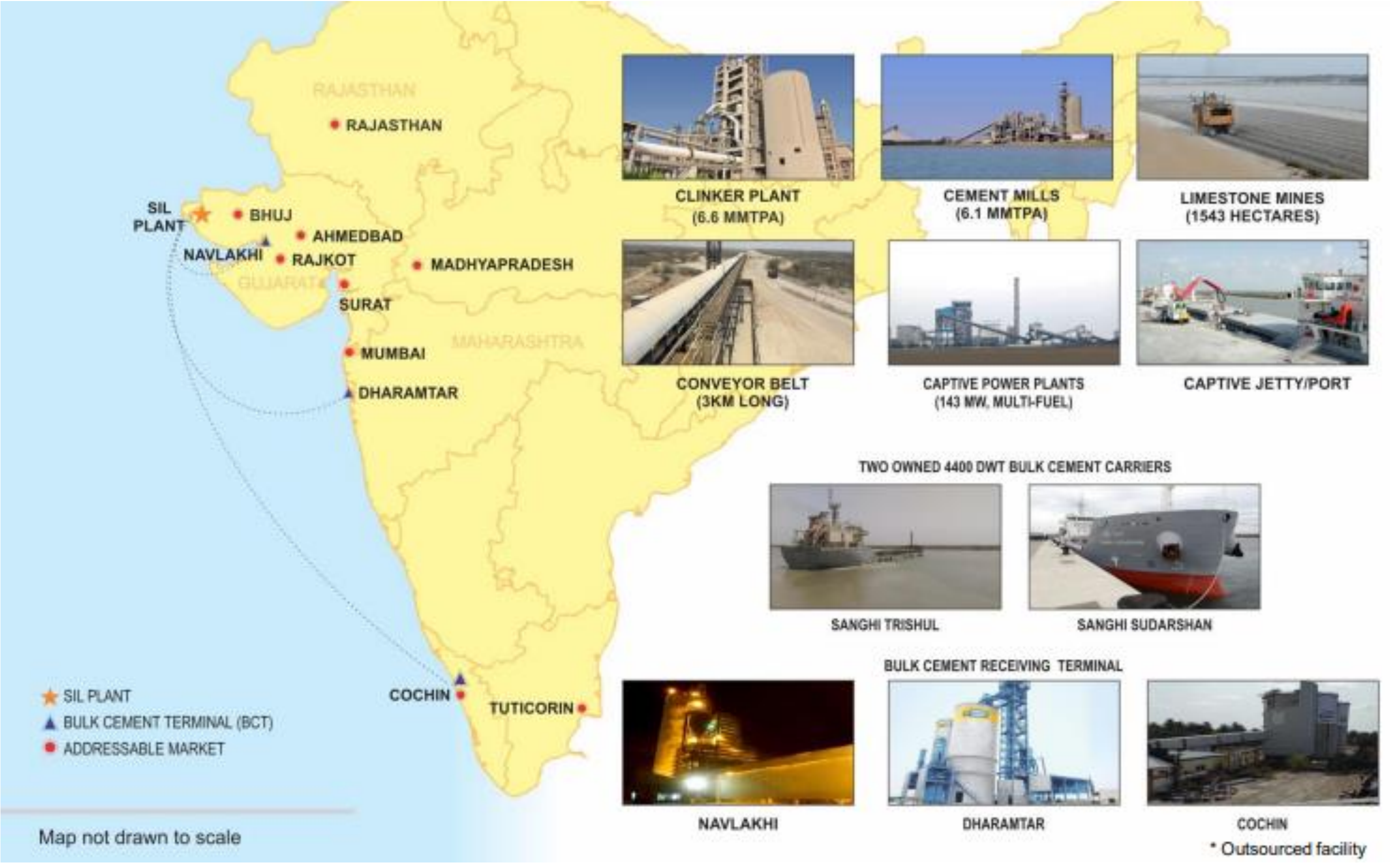
Exhibit 8: ACEM's consolidated grinding capacity growth



Source: MOFSL, Company; Note: Capacity is including ACC and SNGI

Story in charts

Exhibit 9: SNGI's capacities, facilities and capabilities at plant and addressable markets in detail



Source: MOFSL, Company; SNGI investor presentation

Exhibit 10: SNGI's key financial indicators

(INR m)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	9,975	10,264	10,610	8,875	9,392	11,294	9,284
YoY (%)	-1.8	2.9	3.4	-16.3	5.8	20.2	-17.8
EBITDA	1,982	2,158	1,540	1,929	2,405	1,918	-136
YoY (%)	31.1	8.9	-28.6	25.3	24.7	-20.3	n/a
EBITDA margin (%)	19.9	21.0	14.5	21.7	25.6	17.0	-1.5
Adj. PAT	631	933	526	654	782	406	-3,257
YoY (%)	-36.8	47.8	-43.6	24.3	19.6	-48.0	-901.8
Sales Volume (mt)	2.9	2.4	2.7	2.0	2.2	2.3	1.7
Capacity Utilization (%)	70	59	65	48	53	38	27
Realization/t	3,452	4,209	3,974	4,508	4,362	4,833	5,552
Cost/t	2,766	3,324	3,397	3,528	3,245	4,012	5,634
EBITDA/t	686	885	577	980	1,117	821	-81
Net debt	5,706	2,858	5,893	12,020	13,620	13,326	14,743
Net debt/EBITDA (x)	2.9	1.3	3.8	6.2	5.7	6.9	n/a

Source: MOFSL, Company

Standalone Financials and Valuations

Income Statement								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23***	**FY24E**	**FY25E**
Net Sales	**1,04,571**	**1,13,568**	**1,16,679**	**1,13,719**	**1,39,790**	**1,99,854**	**1,82,195**	**2,02,701**
Change (%)	13.7	8.6	2.7	-2.5	22.9	43.0	-8.8	11.3
Total Expenditure	85,170	94,653	95,190	87,253	1,07,639	1,67,650	1,45,525	1,56,635
As a percentage of Sales	81.4	83.3	81.6	76.7	77.0	83.9	79.9	77.3
EBITDA	**19,401**	**18,915**	**21,489**	**26,466**	**32,152**	**32,204**	**36,670**	**46,067**
Change (%)	14.6	-2.5	13.6	23.2	21.5	0.2	13.9	25.6
Margin (%)	18.6	16.7	18.4	23.3	23.0	16.1	20.1	22.7
Depreciation	5,729	5,481	5,438	5,212	5,517	8,324	8,457	10,057
EBIT	**13,672**	**13,434**	**16,050**	**21,254**	**26,634**	**23,880**	**28,212**	**36,009**
Interest	1,072	823	835	831	910	1,280	1,458	1,541
Other Income – Rec.	3,591	3,391	4,265	3,720	2,812	9,523	5,170	5,617
PBT before EO Exp.	**16,191**	**16,002**	**19,480**	**24,144**	**28,536**	**32,123**	**31,924**	**40,085**
EO Exp./(Inc.)	0	-2,779	0	0	657	1,573	0	0
PBT after EO Exp.	**16,191**	**18,781**	**19,480**	**24,144**	**27,879**	**30,551**	**31,924**	**40,085**
Current Tax	4,107	4,780	5,730	6,520	6,908	4,964	8,173	10,262
Deferred Tax	-411	-869	-1,535	-278	139	52	0	0
Tax Rate (%)	22.8	20.8	21.5	25.9	25.3	16.4	25.6	25.6
Reported PAT	**12,496**	**14,870**	**15,285**	**17,901**	**20,832**	**25,535**	**23,752**	**29,823**
PAT Adj. for EO Items	**12,496**	**12,091**	**14,415**	**17,901**	**21,323**	**25,212**	**23,752**	**29,823**
Change (%)	34.0	-3.2	19.2	24.2	19.1	18.2	-5.8	25.6
Margin (%)	11.9	10.6	12.4	15.7	15.3	12.6	13.0	14.7

Balance Sheet								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23***	**FY24E**	**FY25E**
Equity Share Capital	3,971	3,971	3,971	3,971	3,971	3,971	3,971	4,926
Money received against issue of warrants						50,000	50,000	
Total Reserves	1,95,761	2,06,154	2,18,081	1,99,187	2,18,078	2,31,084	2,47,886	4,65,670
Net Worth	**1,99,732**	**2,10,125**	**2,22,052**	**2,03,159**	**2,22,049**	**2,85,055**	**3,01,857**	**4,70,596**
Def. Liabilities	4,583	3,722	2,161	1,860	2,137	2,181	2,181	2,181
Total Loans	241	397	353	436	469	477	435	435
Capital Employed	**2,04,557**	**2,14,244**	**2,24,565**	**2,05,454**	**2,24,655**	**2,87,713**	**3,04,473**	**4,73,212**
Gross Block	69,035	73,721	80,435	86,658	1,08,864	1,26,928	1,49,428	2,06,928
Less: Accum. Depn.	11,816	17,085	22,310	27,343	32,407	40,731	49,188	59,245
Net Fixed Assets	**57,220**	**56,636**	**58,125**	**59,315**	**76,457**	**86,198**	**1,00,240**	**1,47,683**
Capital WIP	8,625	9,996	14,562	21,300	10,859	9,430	23,512	4,012
Investments in subsidiaries	1,18,151	1,18,138	1,17,890	1,17,877	1,17,647	1,17,667	1,17,667	1,17,667
Investments – Trade	15,128	2,305	6,537	788	5,266	17,180	17,180	17,180
Curr. Assets	**47,144**	**64,792**	**72,793**	**55,534**	**71,348**	**1,28,567**	**1,17,874**	**2,59,888**
Inventory	10,525	12,778	9,541	7,466	14,641	16,394	17,226	19,188
Debtors	3,080	4,703	5,132	1,915	2,947	5,649	6,425	7,157
Cash and Bank Bal.	20,189	31,045	40,638	28,500	36,942	68,280	54,729	1,92,799
Others	13,351	16,267	17,483	17,652	16,818	38,244	39,494	40,744
Curr. Liability and Prov.	**41,712**	**37,623**	**45,342**	**49,360**	**57,173**	**71,328**	**72,001**	**73,218**
Creditors	40,488	36,327	43,985	48,765	56,423	70,429	70,666	71,883
Provisions	1,223	1,296	1,357	595	750	899	1,335	1,335
Net Current Assets	**5,433**	**27,169**	**27,451**	**6,174**	**14,176**	**57,239**	**45,874**	**1,86,670**
Appl. of Funds	**2,04,557**	**2,14,244**	**2,24,565**	**2,05,454**	**2,24,404**	**2,87,713**	**3,04,473**	**4,73,212**

Source: Company, MOFSL; * Note: 15-month period due to change in accounting year from December to March

Financials and Valuations

Ratios								
Y/E December/March	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23***	**FY24E**	**FY25E**
Basic (INR)								
EPS	**6.3**	**6.1**	**7.3**	**9.0**	**10.7**	**12.7**	**12.0**	**12.1**
Cash EPS	9.2	8.8	10.0	11.6	13.5	16.9	16.2	16.2
BV/Share	100.6	105.8	111.8	102.3	111.8	143.6	152.0	191.1
DPS	3.6	1.5	1.5	18.5	6.3	2.5	3.5	4.5
Payout (%)	64.9	22.3	19.5	205.2	60.1	19.4	29.3	37.2
Valuation (x)								
P/E ratio		62.1	52.1	41.9	35.2	29.8	31.6	31.2
Cash P/E ratio		42.7	37.8	32.5	28.0	22.4	23.3	23.4
P/BV ratio		3.6	3.4	3.7	3.4	2.6	2.5	2.0
EV/Sales ratio		6.2	5.9	6.2	5.0	3.3	3.6	3.8
EV/EBITDA ratio		37.4	32.1	26.5	21.7	20.4	17.9	16.6
EV/t (Cap) - USD		289	281	286	268	252	252	236
Dividend Yield (%)		0.3	0.3	3.9	1.3	0.5	0.7	0.9
Return Ratios (%)								
RoE	15.8	13.8	14.6	18.7	22.3	18.4	13.5	11.1
RoCE	16.8	15.2	16.1	19.3	22.9	20.4	14.0	11.5
RoIC	18.2	18.9	23.6	35.3	41.0	26.3	20.9	20.0
Working Capital Ratios								
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.6	0.7	0.6	0.4
Debtor (Days)	10.7	15.1	16.1	6.1	7.7	10.3	12.9	12.9
Inventory (Days)	37	41	30	24	38	30	35	35
Work Cap (Days)	19.0	87.3	85.9	19.8	37.0	104.5	91.9	336.1
Leverage Ratio (x)								
Current Ratio	1.1	1.7	1.6	1.1	1.2	1.8	1.6	3.5
Debt/Equity ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23***	**FY24E**	**FY25E**
OP/(Loss) before Tax	16,191	15,061	19,480	24,144	27,879	30,551	31,924	40,085
Depreciation	5,729	5,481	5,438	5,212	5,517	8,324	8,457	10,057
Interest and Finance Charges	-58	-709	-1,515	-1,369	-214	-1,868	0	0
Direct Taxes Paid	-3,101	-6,251	-808	-4,648	-3,659	-3,346	-8,173	-10,262
(Inc.)/Dec. in WC	2,136	-6,166	3,877	3,676	-4,557	-7,855	-2,186	-2,726
CF from Operations	**20,898**	**7,416**	**26,472**	**27,015**	**24,966**	**25,807**	**30,023**	**37,154**
Others	-2,356	-2,406	-1,632	-952	-201	-5,711	0	0
CF from Operations incl. EO	**18,541**	**5,009**	**24,840**	**26,062**	**24,765**	**20,096**	**30,023**	**37,154**
(Inc.)/Dec. in FA	-5,427	-5,936	-11,114	-9,756	-11,430	-21,116	-36,581	-38,000
Free Cash Flow	**13,115**	**-927**	**13,726**	**16,307**	**13,336**	**-1,020**	**-6,559**	**-846**
(Pur.)/Sale of Investments	3,468	3,393	3,734	3,342	-4,096	-11,502	0	0
Others	-4,509	13,174	-3,999	5,819	2,370	7,744	0	0
CF from Investments	**-6,468**	**10,631**	**-11,379**	**-595**	**-13,156**	**-24,874**	**-36,581**	**-38,000**
Issue of Shares	0	0	0	0	0	0	0	955
Inc./(Dec.) in Debt	-793	216	0	-237	35	-31	-42	0
Interest Paid	-1,143	-513	-558	-633	-756	-679	0	0
Dividend Paid	-5,550	-4,498	-3,320	-36,646	-2,021	-12,514	-6,950	-11,084
Others	0	12	11	-88	-427	49,340	0	1,49,045
CF from Fin. Activity	**-7,487**	**-4,784**	**-3,868**	**-37,604**	**-3,169**	**36,115**	**-6,992**	**1,38,916**
Inc./Dec. in Cash	**4,587**	**10,856**	**9,593**	**-12,137**	**8,441**	**31,338**	**-13,550**	**1,38,070**
Opening Balance	15,602	20,189	31,045	40,638	28,500	36,942	68,280	54,729
Closing Balance	**20,189**	**31,045**	**40,638**	**28,500**	**36,941**	**68,279**	**54,729**	**1,92,799**

Source: Company, MOFSL; * Note: 15-month period due to change in accounting year from December to March

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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