

Ambuja Cements Ltd.

BUY

Choice

Acquisition of Orient cement to benefit in EBITDA

Ambuja Cements Ltd. Q2FY25 volumes came at INR8.7mnt, up 14.8% YoY but down 6.5% QoQ, driven by high acceptance of premium products and Offering value added solutions beyond cement. Revenue for quarter came at INR42,132mn, up 6.1% YoY but down 6.7% QoQ. EBITDA/t for the quarter came at INR782/t, down 23.3% YoY but up 12.6% QoQ. The YoY decline in EBITDA/t was mainly led by Raw material cost. PAT for quarter stood at INR5,007mn, down 22.2% YoY and 12.3% QoQ. EPS for the quarter was INR2.0.

- Capex Plan:** Management has guided a capex of INR70,000-80,000mn for FY25E, with INR35,000mn spent in H1FY25 and the remaining to be deployed in H2FY25E. The company is expanding its cement capacity by 17 MTPA, with ongoing projects expected to complete by FY26E. Additionally, the board has approved the installation of 14 Cement Grinding Units (2.4 MTPA each) across 14 locations, with land acquisition and statutory approvals in progress, targeting completion by FY28E, bringing the total capacity to 140 MTPA. Key developments include the commissioning of a 4 MTPA clinker line (Line 3) at Bhatapara, Chhattisgarh, and a 4.8 MTPA grinding facility split between Sankrail and Farakka by Q4FY25E. Brownfield expansions at Bhatinda (Punjab), Marwar (Rajasthan), Kalamboli (Maharashtra), Dahej (Gujarat), Jodhpur Penna, and Krishnapatnam units are expected by Q3FY26E, increasing the cement capacity to 115MTPA. Additionally, the 4 MTPA Maratha clinker unit in Maharashtra and the Warisaliganj grinding unit in Bihar will be commissioned by FY26E, raising the total capacity to 118 MTPA by the close of the next financial year.
- Synergies of Orient Acquisition-** Ambuja Cements has acquired a 46.8% stake in Orient Cement Limited for INR81bn (INR395.40 per share), fully funded through internal accruals. This strategic acquisition will enhance Ambuja's operational capacity by adding 8.5 MTPA of cement production and 8.1 MTPA of projects ready for execution. The inclusion of a high-quality limestone mine in Chittorgarh, Rajasthan, offers the potential for an additional 6.0 MTPA of cement capacity in North India, all acquired at zero premium due to the pre-auction status of these reserves. With this acquisition, Adani Cement's total capacity will reach 97.4 MTPA, aiming to exceed 100 MTPA by March 2025. Significant synergies are expected, including improved operational efficiencies through a 95 MW captive power plant and renewable energy sources, along with an 18% usage of alternative fuels. Logistics optimization will further reduce costs, such as a projected INR150/t decrease in clinker rail freight to the Jalgaon unit. Overall, this acquisition strengthens Ambuja's market position while promoting sustainability and cost-effective operations through enhanced infrastructure and resource availability.

Valuation and Outlook: Management anticipates a demand growth of 4-5% in FY25E, with Ambuja Cement expected to outperform this at a growth rate of 8-9%. The company has set an ambitious target to reduce its total cost per ton by INR530/t by FY28E, driven by significant investments in green power initiatives, including WHRS, solar, and wind energy. In addition, improvements in AFR management, railway infrastructure, and fly ash handling systems are also part of this strategic approach, which is projected to enhance profitability significantly. Moreover, strong demand for infrastructure and ongoing needs in the housing and commercial sectors are expected to further bolster cement demand in the H2FY25E. These combined efforts position Ambuja Cement for robust growth and increased efficiency in an evolving market landscape. We expect Volume/Revenue/EBITDA to grow at a CAGR of 8.0%/4.9%/7.2% respectively over FY24-FY27E. We value ACEM on a SoTP basis to arrive at a TP of INR634 by assigning 23.0x on Sep-26E EBITDA, upgrading our rating to **BUY**.

Financial Snapshot

| Quarter end: March | CY21 | FY23 | FY24 | FY25E | FY26E |
|--------------------|----------|----------|----------|----------|----------|
| Revenue (INR Mn.) | 1,99,854 | 1,79,193 | 1,81,600 | 1,92,560 | 2,06,831 |
| EBITDA (INR Mn.) | 32,204 | 33,708 | 33,054 | 39,629 | 44,105 |
| EBITDA Margins (%) | 16.1 | 18.8 | 18.2 | 20.6 | 21.3 |
| PAT | 25,535 | 23,347 | 22,878 | 24,816 | 28,787 |
| PAT Margins (%) | 12.8 | 13.0 | 12.6 | 12.9 | 13.9 |
| EPS | 12.9 | 10.6 | 10.4 | 11.3 | 13.1 |

Source: Company, CEBPL

| Oct 29, 2024 | |
|----------------------|------|
| CMP (Rs.) | 569 |
| Target Price (Rs.) | 634 |
| Potential Upside (%) | 11.2 |

*CMP as on 28th Oct 2024

Company Info

| | |
|-------------------------|----------------|
| BB Code | ACEM IN EQUITY |
| ISIN | INE079A01024 |
| Face Value (Rs.) | 2.0 |
| 52 Week High (Rs.) | 706.9 |
| 52 Week Low (Rs.) | 404.0 |
| Mkt Cap (Rs bn) | 1,402.6 |
| Mkt Cap (\$ bn) | 16.7 |
| Shares o/s (Mn)/F.Float | 2,463.1/24 |
| FY24 EPS (Rs.) | 10.6 |
| FY27E EPS(Rs.) | 13.1 |

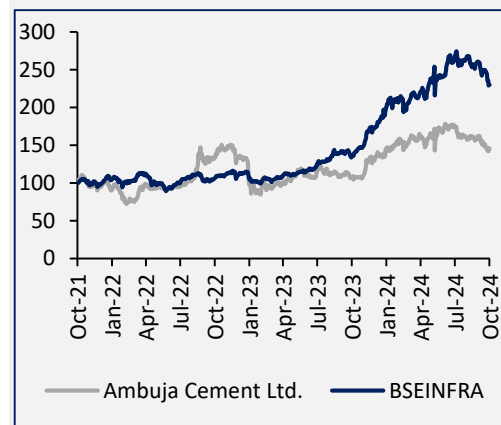
Shareholding Pattern (%)

| | Sep-24 | Jun-24 | Mar-24 |
|-----------|--------|--------|--------|
| Promoters | 67.57 | 70.33 | 66.74 |
| Fil's | 10.61 | 9.59 | 11.09 |
| Dil's | 14.98 | 13.03 | 14.24 |
| Public | 6.84 | 7.05 | 7.93 |

Relative Performance (%)

| YTD | 3Y | 2Y | 1Y |
|----------|-------|-------|------|
| BSEINFRA | 129.8 | 115.8 | 68.5 |
| Ambuja | 45.8 | 9.4 | 36.3 |

Rebased Price Performance



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Sequential Operating Performance

| Operating Metrics | INR/t | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 |
|----------------------------|-------|--------------|--------------|--------------|------------|------------|------------|
| Blended Realisation | | 5,209 | 5,237 | 5,414 | 5,032 | 4,856 | 4,843 |
| Raw Material Cost | | 522 | 491 | 473 | 429 | 582 | 591 |
| Employee Cost | | 144 | 197 | 167 | 139 | 149 | 151 |
| Power & Fuel Cost | | 1,290 | 1,274 | 1,047 | 934 | 978 | 923 |
| Freight & Handling Expense | | 1,153 | 1,125 | 1,114 | 1,102 | 1,095 | 1,001 |
| Other Expenses | | 605 | 663 | 673 | 550 | 459 | 501 |
| Total Costs | | 4,164 | 4,217 | 4,376 | 4,192 | 4,161 | 4,061 |
| EBITDA | | 1,045 | 1,020 | 1,038 | 840 | 695 | 782 |

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q2FY25

| Ambuja (INR Mn.) | Q2FY25 | Q2FY24 | YoY(%) | Q1FY25 | QoQ (%) | CEBPL Est. | Dev. (%) |
|---------------------|--------|--------|----------|--------|---------|------------|----------|
| Volumes | 8.7 | 7.6 | 14.8 | 9.3 | (6.5) | 8.3 | 4.5 |
| Revenues | 42,132 | 39,698 | 6.1 | 45,158 | (6.7) | 43,413 | (2.9) |
| COGS | 12,913 | 7,268 | 77.7 | 13,768 | (6.2) | | |
| Power and Fuel Cost | 8,030 | 9,653 | (16.8) | 9,099 | (11.7) | | |
| Freight Expense | 8,709 | 8,525 | 2.2 | 10,181 | (14.5) | | |
| Employee Cost | 1,318 | 1,490 | (11.5) | 1,382 | (4.6) | | |
| Other Expenses | 4,357 | 5,028 | (13.3) | 4,268 | 2.1 | | |
| EBITDA (INR Mn.) | 6,805 | 7,734 | (12.0) | 6,460 | 5.3 | 6,477 | 5.1 |
| EBITDA Margin (%) | 16.2 | 19.5 | (333)bps | 14.3 | 185 bps | 14.90 | 125 bps |
| Depreciation | 2,398 | 2,286 | 4.9 | 2,450 | (2.1) | | |
| EBIT (INR Mn.) | 4,407 | 5,449 | (19.1) | 4,010 | 9.9 | 4,800 | (8.2) |
| EBIT Margin (%) | 10.5 | 13.7 | (326)bps | 8.9 | 158 bps | 11.0 | (54)bps |
| Other Income | 2,650 | 3,781 | (29.9) | 4,203 | (37.0) | | |
| Interest | 323 | 435 | (25.8) | 409 | (21.1) | | |
| Exception Item | - | - | | (129) | | | |
| PBT | 6,735 | 8,795 | (23.4) | 7,675 | (12.3) | | |
| Tax | 1,728 | 2357 | (26.7) | 1,969 | (12.2) | | |
| PAT (INR Mn.) | 5,007 | 6,438 | (22.2) | 5,707 | (12.3) | 5,371 | (6.8) |
| Basic EPS (INR) | 2.0 | 3.2 | (37.3) | 2.3 | (12.3) | 2.2 | |

| | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|----------------|--------|--------|---------|--------|---------|
| NSR /t | 4,843 | 5,237 | (7.5) | 4,856 | (0.3) |
| Cement Cost /t | 4,061 | 4,217 | (3.7) | 4,161 | (2.4) |
| EBITDA/t | 782 | 1,020 | (23.3) | 695 | 12.6 |

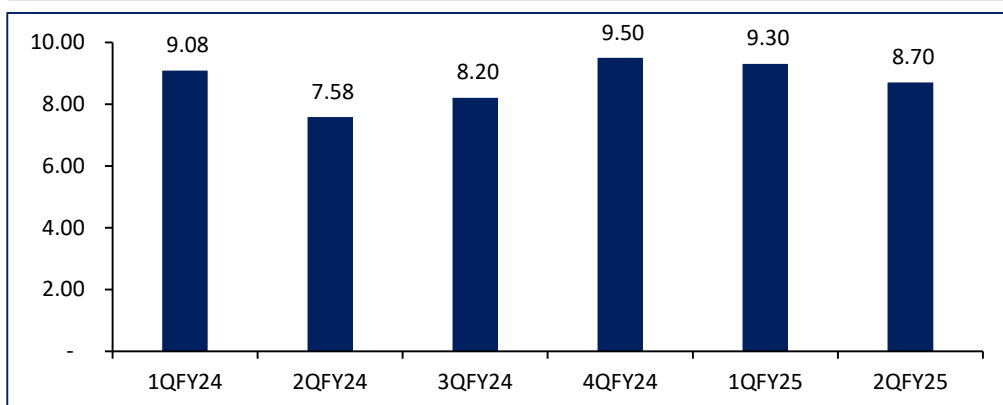
Source: Company, CEBPL

Change in estimates

| Income Statement (INR Mn.) | FY25E | | | FY26E | | | FY27E |
|-------------------------------|----------|----------|----------|----------|----------|----------|----------|
| | Old | New | Dev. (%) | Old | New | Dev. (%) | New |
| Revenues | 1,83,044 | 1,81,600 | (0.8) | 2,07,814 | 1,92,560 | (7.3) | 2,06,831 |
| Gross Profit Margin (%) | 70.2 | 70.8 | 60 bps | 72.7 | 70.6 | (205)bps | 68.4 |
| EBIT | 29,044 | 33,054 | 13.8 | 40,995 | 39,629 | (3.3) | 44,105 |
| EBIT Margin (%) | 15.9 | 18.2 | 233 bps | 19.7 | 20.6 | 85 bps | 21.3 |
| EPS | 11.6 | 10.4 | (10.5) | 14.6 | 11.3 | (22.6) | 13.1 |

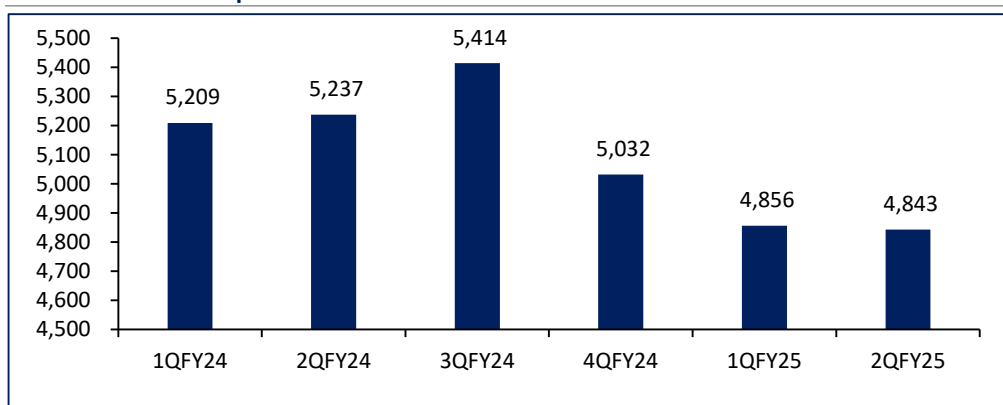
Source: Company, CEBPL

Sales Volume (MT)



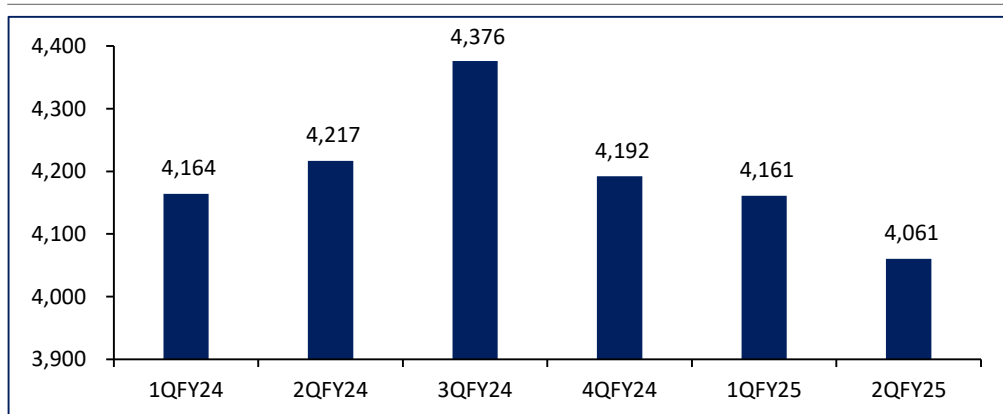
Source: Company, CEBPL

Sales Realisation Rs. per Tonne



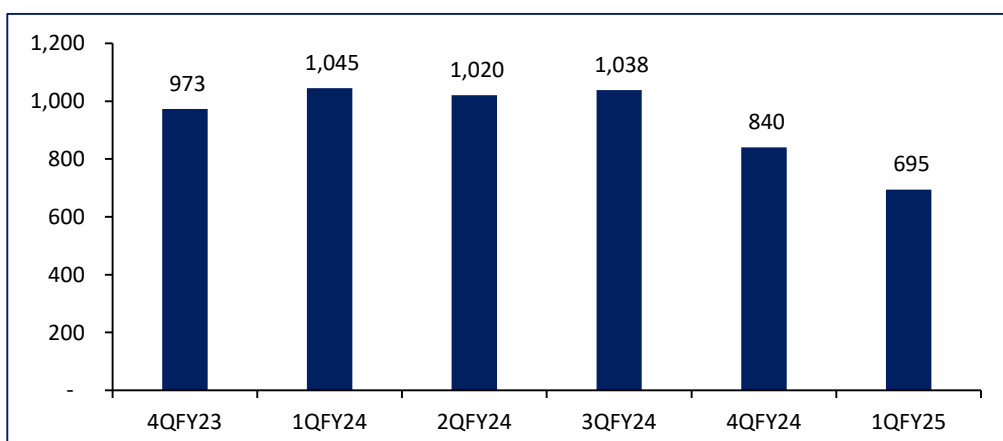
Source: Company, CEBPL

Total Costs per Tonne



Source: Company, CEBPL

EBITDA per Tonne



Source: Company, CEBPL

Management Call - Highlights

- **Cost Reduction Focus area-** Company have identified three key areas for cost reduction. First, they aim to decrease the average primary road lead distance by approximately 100kms. In the current quarter, the primary lead distance was 271kms, down from 272kms, while the secondary lead distance improved from 54kms to 47kms. This improvement has been achieved by enhancing direct road dispatch by 600bps. To further optimize its costs and logistics, company have ordered 11 GPWIS rakes, all of which have been delivered and are currently operating in approved circuits. These rakes will facilitate cost-efficient transportation of income from the mother plants. Additionally, they have ordered 26 BCFC rakes for the safe and economical transport of fly ash from thermal power plants to its facilities. So far, 3 of the 26 BCFC rakes have been delivered, with another 8 expected to arrive by March '25.
- Adani Cement currently holds a market share of approximately 15%, with an internal goal to reach 20% by FY28E.
- In Q2FY25, 70mnt of new limestone reserves were secured. By Q4FY25E, an expected 4mnt of clinkering capacity and 6.4mnt of cement capacity will come online, bringing the total capacity to over 100mtpa.
- In H1FY25, around INR147bn were utilized, with INR 123.5bn allocated for organic and inorganic growth initiatives, including the Tuticorin Grinding Unit, the Penna acquisition, and ongoing CapEx programs. Additionally, INR5.6bn were paid out as dividends, while the remaining funds were used for working capital, which included higher receivables, increased inventory, lower payables, and income tax payments, among other expenses.
- For the new 4mnt clinker line at Maratha in Chandrapur, a contract has been awarded to an EPC vendor. The EPC partner has completed 59% of the major equipment orders, and project execution has commenced, with an expected completion date in Q3FY26E.
- The waste heat recovery capacity was 40 megawatts. Company is now aiming to increase it to 218 megawatts by March 2025. Currently, the waste heat recovery system capacity stands at 196 megawatts.
- The company previously announced investments in 1,000MW of renewable energy, which is expected to be commissioned by FY26E. This initiative will ensure that 60% of its power requirements are met with green power, helping to reduce power costs by INR90/t by FY28E. The first phase of 200 megawatts at Khawra in Gujarat has been activated, and it will reach full capacity over the next two quarters.
- The share of AFR in the fuel mix has improved to 9.5%, up from 7%. Additionally, the proportion of green power in the fuel mix has risen from 15.6% to 18.2%.
- To ensure its limestone supply in Q2FY25, company have successfully secured bids for two new mines, each with reserves of 70 million tons—one located in Madhya Pradesh and the other in Maharashtra

Financial Summary (in INR Mn.)

| Income Statement (INR Mn.) | FY23 | FY24 | FY25E | FY26E | FY27E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 1,99,854 | 1,79,193 | 1,81,600 | 1,92,560 | 2,06,831 |
| Gross profit | 1,72,211 | 1,37,878 | 1,28,506 | 1,35,948 | 1,41,476 |
| EBITDA | 32,204 | 33,708 | 33,054 | 39,629 | 44,105 |
| Depreciation | 8,324 | 9,380 | 12,440 | 14,240 | 16,040 |
| EBIT | 33,403 | 32,855 | 31,999 | 34,355 | 38,804 |
| Other income | 9,523 | 8,526 | 11,385 | 8,966 | 10,740 |
| Interest expense | 1,280 | 1,623 | 1,222 | 1,496 | 1,927 |
| PAT | 25,535 | 23,347 | 22,878 | 24,816 | 28,787 |
| EPS (INR) | 12.9 | 10.6 | 10.4 | 11.3 | 13.1 |

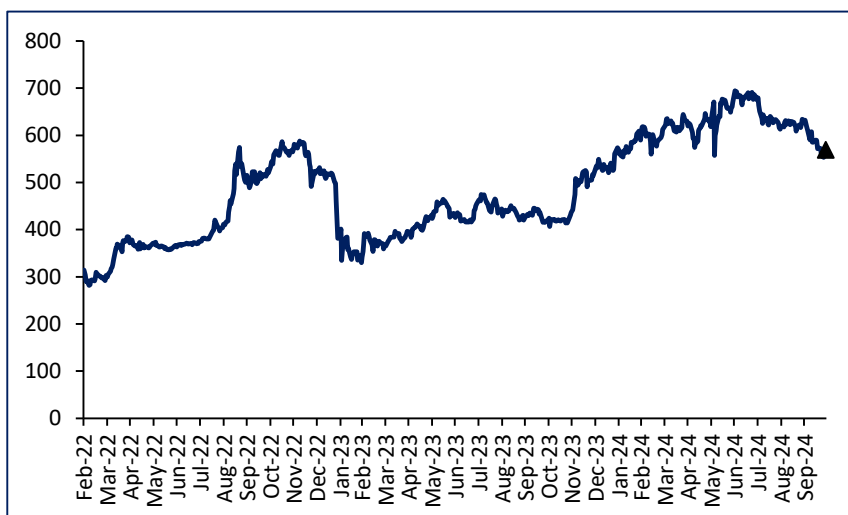
| Balance Sheet (INR Mn.) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Tangible fixed assets | 86,198 | 85,686 | 1,43,246 | 1,59,005 | 1,72,965 |
| Capital Work in Progress | 8,419 | 15,485 | 15,485 | 15,485 | 15,485 |
| Investments | 1,17,759 | 1,40,581 | 1,54,206 | 1,54,206 | 1,54,206 |
| Cash & Cash equivalents | 25,331 | 88,334 | 38,782 | 45,624 | 57,980 |
| Loans & Advances and Other Assets | 99,293 | 88,130 | 85,783 | 85,783 | 85,783 |
| Net Working Capital | 6,332 | 8,549 | 12,324 | 14,540 | 17,011 |
| Total assets | 3,43,330 | 4,26,765 | 4,49,826 | 4,74,643 | 5,03,429 |
| Shareholder's funds | 2,85,055 | 3,70,065 | 3,92,943 | 4,17,759 | 4,46,546 |
| Borrowings | 2,181 | 2,693 | 2,693 | 2,693 | 2,693 |
| Total Debt | 342 | 189 | 372 | 372 | 372 |
| Other Liabilities & Provisions | 55,752 | 53,818 | 53,818 | 53,818 | 53,818 |
| Total equity & liabilities | 3,43,330 | 4,26,765 | 4,49,826 | 4,74,643 | 5,03,429 |
| Capital Employed | 2,85,398 | 3,70,254 | 3,93,315 | 4,18,132 | 4,46,919 |
| Invested Capital | 2,51,648 | 2,66,435 | 3,39,048 | 3,57,023 | 3,73,454 |

| Cash Flows (INR Mn.) | FY23 | FY24 | FY25E | FY26E | FY27E |
|----------------------------|---------|---------|---------|---------|---------|
| Cash flows from Operations | 20,096 | 27,574 | 61,981 | 61,166 | 69,364 |
| Cash flows from Investing | -93,271 | -76,071 | -70,000 | -30,000 | -30,000 |
| Cash flows from financing | 36,116 | 56,970 | -1,222 | -1,496 | -1,927 |

| Ratio Analysis | FY23 | FY24 | FY25E | FY26E | FY27E |
|----------------------------|------|--------|-------|-------|-------|
| Growth Ratios (%) | | | | | |
| Revenues | 43.0 | (10.3) | 1.3 | 6.0 | 7.4 |
| Gross Profit | 34.3 | (19.9) | (6.8) | 5.8 | 4.1 |
| EBITDA | 0.2 | 4.7 | (1.9) | 19.9 | 11.3 |
| EBIT | 22.6 | (8.6) | (2.0) | 8.5 | 16.0 |
| Margin Ratios (%) | | | | | |
| Gross Profit Margin | 86.2 | 76.9 | 70.8 | 70.6 | 68.4 |
| EBITDA Margin | 16.1 | 18.8 | 18.2 | 20.6 | 21.3 |
| EBIT Margin | 16.7 | 18.3 | 17.6 | 17.8 | 18.8 |
| Profitability (%) | | | | | |
| Return on equity | 9.0 | 6.3 | 5.8 | 5.9 | 6.4 |
| Return on invested capital | 11.1 | 9.3 | 7.0 | 7.3 | 8.1 |
| Return on capital employed | 11.7 | 8.9 | 8.1 | 8.2 | 8.7 |
| Valuation | | | | | |
| OCF / IC (%) | 8.0 | 10.3 | 18.3 | 17.1 | 18.6 |
| EV / EBITDA (x) | 37.4 | 33.2 | 34.9 | 28.9 | 25.7 |
| EV/IC (x) | 4.8 | 4.2 | 3.4 | 3.2 | 3.0 |

Source: Company, CEBPL

Historical recommendations and target price: ACEM



Ambuja Cement Ltd.

| | | | |
|-----|------------|------------|-------------------|
| 1. | 21-02-2022 | ADD, | Target Price, 379 |
| 2. | 29-04-2022 | NEUTRAL, | Target Price, 404 |
| 3. | 20-07-2022 | NEUTRAL, | Target Price, 390 |
| 4. | 28-10-2022 | NEUTRAL, | Target Price, 507 |
| 5. | 09-02-2023 | ADD, | Target Price, 417 |
| 6. | 03-05-2023 | OUTPERFORM | Target Price, 502 |
| 7. | 03-08-2023 | ADD | Target Price 484 |
| 8. | 02-11-2023 | ADD | Target Price 450 |
| 9. | 01-02-2024 | ADD | Target Price 590 |
| 10. | 02-05-2024 | BUY | Target Price 665 |
| 11. | 01-08-2024 | REDUCE | Target Price 707 |
| 12. | 29-10-2024 | BUY, | Target Price 634 |

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| | |
|-------------------|---|
| OUTPERFORM | The security is expected to generate more than 25% returns over the next 12 months |
| BUY | The security is expected to generate greater than 5% to less than 25% returns over the next 12 months |
| REDUCE | The security expected to show downside or upside returns by 0% to 5% over the next 12 months |
| SELL | The security expected to show Below 0% next 12 months |

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