

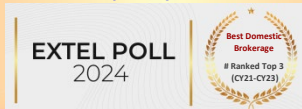
Ambuja Cements

BSE SENSEX
79,044

S&P CNX
23,914



Motilal Oswal values your support in the EXTEL POLL 2024 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



Stock Info

Bloomberg	ACEM IN
Equity Shares (m)	2463
M.Cap.(INRb)/(USDb)	1263.6 / 15
52-Week Range (INR)	707 / 416
1, 6, 12 Rel. Per (%)	-8/-23/-1
12M Avg Val (INR m)	2350
Free Float (%)	32.5

Financials Snapshot (INR b)

Y/E Dec	FY25E	FY26E	FY27E
Sales	335.2	413.1	471.1
EBITDA	54.8	79.6	99.8
Adj. PAT	22.2	33.4	42.9
EBITDA Margin (%)	16.4	19.3	21.2
Adj. EPS (INR)	9.0	13.6	17.4
EPS Gr. (%)	-35.3	50.7	28.4
BV/Sh. (INR)	221	231	245

Ratios

Net D:E	-0.3	-0.2	-0.3
RoE (%)	4.6	6.0	7.3
RoCE (%)	4.7	7.1	8.8
Payout (%)	23.0	22.1	23.0

Valuations

P/E (x)	47.3	31.4	24.4
P/BV (x)	1.9	1.8	1.7
EV/EBITDA(x)	23.6	16.3	12.7
EV/ton (USD)	179	140	130
Div. Yield (%)	0.4	0.6	0.8
FCF Yield (%)	-1.3	0.6	4.3

CMP: INR513

TP: INR710 (+38%)

BUY

Potential to deliver strong growth; valuation attractive

- Ambuja Cement (ACEM) has corrected ~30% in the last 4-5 months amid concerns of a demand slowdown in the sector, persistent pricing pressure across markets, and allegations by the US Department of Justice and US SEC on directors of Adani group. Adani group has denied the allegations and termed them baseless.
- In Jan'23, ACEM stock had corrected ~40% in one month after a Hindenburg research report alleged Adani group companies of irregularities. However, the stock subsequently had appreciated by 90%+ between Feb'23 and Jul'24.
- Setting aside the current development on the Adani group, we believe ACEM, the second largest player in the Indian cement industry, has potential to deliver strong earnings growth, led by capacity expansions and cost-saving initiatives. The company is committed to increasing its capacity to 140mtpa by FY28E through organic and inorganic expansions. Further, it is working on improving cost efficiencies and targeting cost savings of INR530/t by FY28E.
- We estimate ACEM to deliver a CAGR of 12%/16% in consol. revenue/EBITDA over FY24-27. We estimate a 13% CAGR in consol. volume, aided by capacity expansions. Further, we estimate EBITDA/t to increase to INR1,160 by FY27 from INR870 in FY25E. Moreover, after the recent correction, the stock is trading attractively at 16x/13x FY26E/FY27E EV/EBITDA and USD140/USD130 EV/t. We maintain our constructive view on the company given its value-accretive acquisitions, increasing scale of operation, balanced capacity mix across markets, and cost-saving initiatives. We value ACEM at 20x Sep'26E EV/EBITDA to arrive at our TP of INR710.

Committed to reaching capacity target of 140mtpa by FY28E

- Following Adani's acquisition of ACEM in Sep'22, the new promoter plans to double the company's consolidated capacity to 140mtpa over the next five years. The promoter with a clear intent of capacity expansion and growth in the cement business infused funds of INR200b. The fund infusion has helped the company to grow inorganically in the initial phase, and reach closer to its capacity expansion target in a short span of time.
- Over the last 18 months, the company announced five small and large acquisitions. ACEM completed the acquisition of 19.1mtpa grinding capacity. Its recent acquisition of Orient Cement with grinding capacity of 8.5mtpa is pending for regulatory approvals. After the completion of this acquisition, the company's grinding capacity will increase to 97.5mtpa. Besides, ACEM's organic brownfield expansions of 6.4mtpa grinding capacity is expected to be completed by FY25-end. Hence, ACEM's consolidated grinding capacity is estimated to increase to 103.5mtpa by FY25-end vs. 67.6mtpa operational at the time of acquisition (Sep'22).

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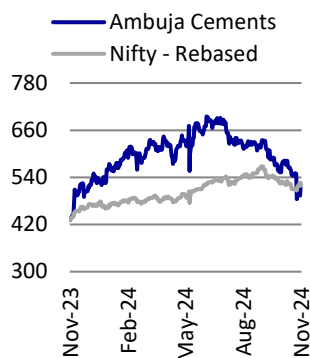
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shareholding Pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	67.5	70.3	63.2
DII	15.2	13.3	15.5
FII	10.7	9.6	11.7
Others	6.6	6.8	9.6

FII includes depository receipts

Stock Performance (1-year)

- In its next phase of expansions, ACEM plans to commission 14.6mtpa grinding capacity during FY26, for which work is under progress at multiple locations. The company has also identified 14 additional grinding unit projects for which land acquisition and statutory approvals are under progress. It targets to increase its total grinding capacity to 118.1mtpa by FY26-end and 140mtpa by FY28-end. Further, the cement companies it acquired have potential to expand capacities given the availability of resources (such as land, limestone reserve etc.), which ensure long-term growth opportunities for the company.

Unlocking efficiency in operations and maximizing profitability

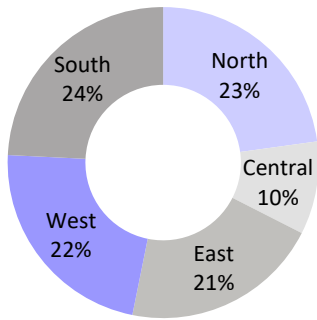
- The company remains focused on improving operations efficiencies and reducing costs. Key cost-reduction drivers would be: 1) long term tie-ups for sourcing major raw materials; 2) increasing WHRS and other renewable power share; 3) increase in AFR's share in the fuel mix; 4) increase captive coal supplies and reduce buying of imported petcoke; 5) optimization of rail-road mix and reduce lead distance, optimization of warehouses and increase direct dispatches; and 6) controlling fixed overheads. With these initiatives the company targets total cost savings of INR530/t by FY28 (achieved INR150/t so far).
- The company is committed to investing INR100b in green power projects. It aims to increase WHRS/solar & wind capacity to 376MW/1GW by FY28 and renewable power share to 60% for the planned capacity of 140mtpa (vs. ~18% currently). The company expects savings in power costs by INR90/t by FY28. Recently, it started power generation from a 200MW solar power plant at Khavda, Gujarat. It is also focusing on increasing AFR to reduce costs and carbon footprints. It installed AFR preprocessing and feeding systems and implemented a gas bypass system to improve the utilization of AFR. ACEM achieved a TSR of 9.5% and targets to increase it to 27.0% by FY30.
- ACEM is working on improving its cost structure and reducing the cost gap with the leading players in the industry. Further, higher capacity expansion will help it to gain market share. ACEM's targets to increase its market share from ~15% currently to ~20% by FY28E. We estimate ACEM to deliver a CAGR of ~12%/16% in consol. revenue/EBITDA over FY24-27. Further, we estimate EBITDA/t to increase to INR1,160 by FY27 from INR870 in FY25E.

Valuation and view: Strong balance sheet, valuation attractive; retain BUY

- ACEM has a net cash balance of INR101.4b as of Sep'24. Considering cash outflow of INR59b for the acquisition of Orient Cement (including proposed open offer), ACEM is estimated to remain a net cash positive company. We estimate the company to generate sufficient operating cash flows to fund its future organic expansions.
- 1HFY25 was a challenging period due to a demand slowdown and persistent pricing pressure. However, pent-up demand, a pick-up in construction activities, and infrastructure projects after the festive period should lead to demand recovery going forward. Further, strong demand is estimated to drive price growth for the industry. We believe ACEM, with a pan-India presence, should benefit from a recovery in cement demand, prices and cost-saving initiatives. The stock is trading attractively at 16x/13x FY26E/FY27E EV/EBITDA and USD140 /USD130 EV/t. We value ACEM at 20.0x Sep'26E EV/EBITDA to arrive at our TP of INR710. Reiterate BUY.

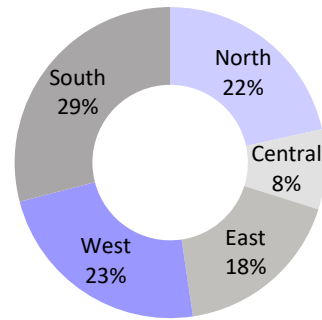
Story in charts

Exhibit 1: ACEM’s current consol. regional capacity mix



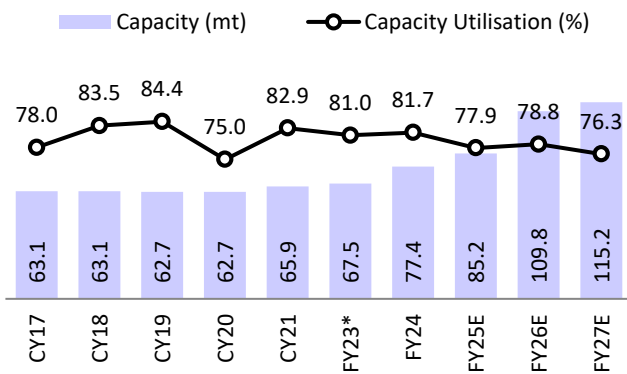
Source: MOFSL, Company

Exhibit 2: ACEM’s consol. regional capacity mix by FY25-end



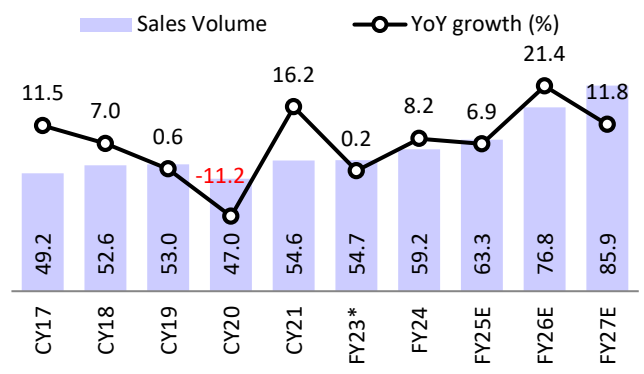
Source: MOFSL, Company

Exhibit 3: ACEM’s (consol.) capacity utilization trend



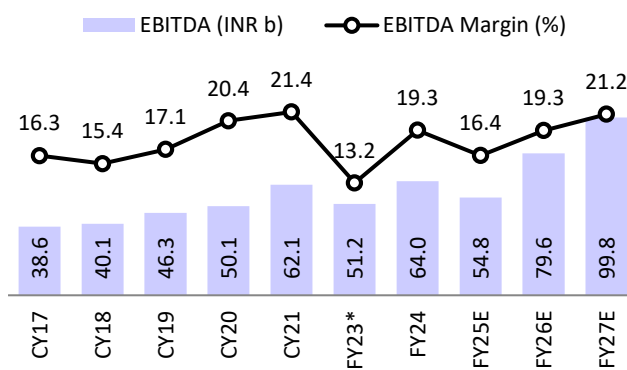
Source: MOFSL, Company; Note: FY23* volume annualized for like to like comparison; Estimates not includes Orient Cement pending acquisition

Exhibit 4: ACEM (consol.) volume and growth



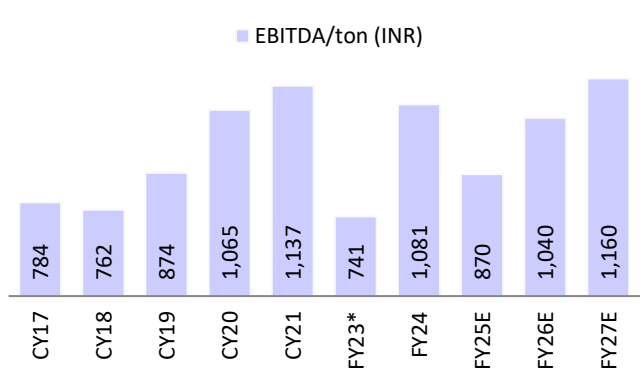
Source: MOFSL, Company; Note: FY23* volume annualized for like to like comparison; Estimates not includes Orient Cement pending acquisition

Exhibit 5: Consol. EBITDA margin is estimated to improve



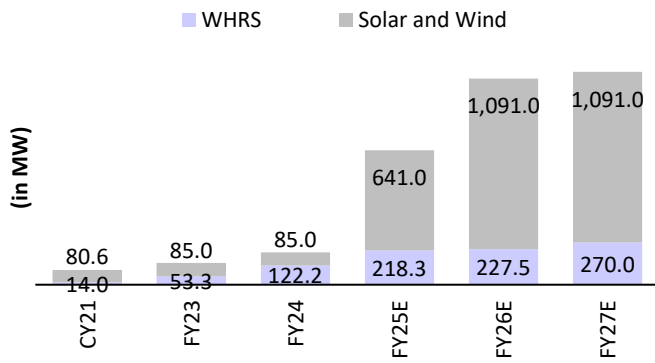
Source: MOFSL, Company; Note: FY23 was a 15M period; Estimates not includes Orient Cement pending acquisition

Exhibit 6: Consol. EBITDA/t improves over FY26-27E



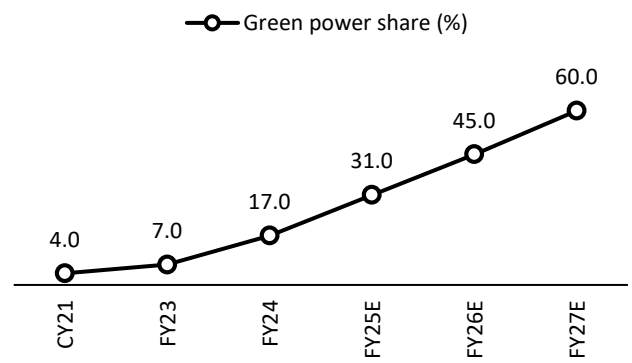
Source: MOFSL, Company; Note: FY23 was a 15M period; Estimates not includes Orient Cement pending acquisition

Exhibit 7: Increasing its renewable power capacity...



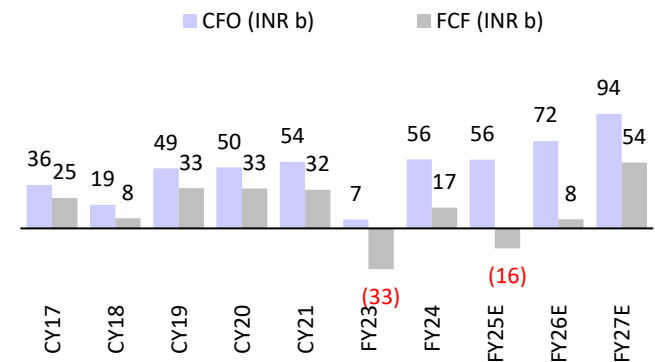
Source: Company, MOFSL

Exhibit 8: ...to drive higher green power share



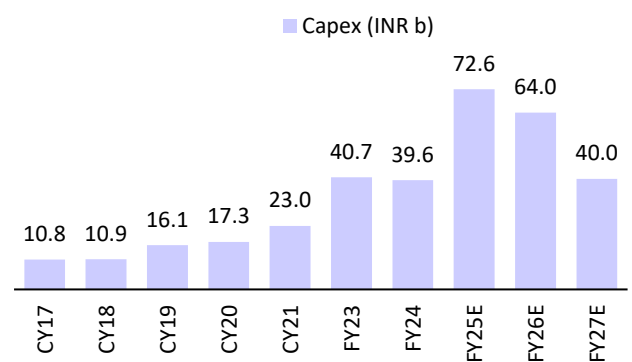
Source: Company, MOFSL

Exhibit 9: CFO and FCF to improve over FY26-27E



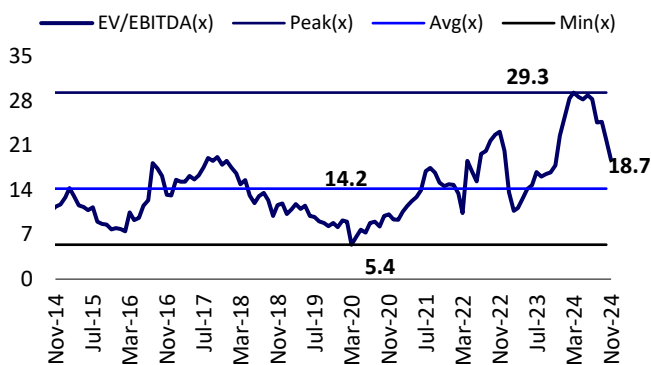
Source: Company, MOFSL; Note: FY23 was a 15M period

Exhibit 10: Capex to remain high over FY25-26E



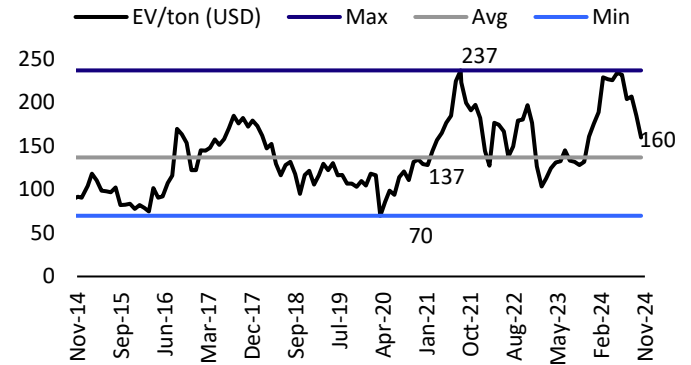
Source: Company, MOFSL; Note: FY23 was a 15M period

Exhibit 11: One-year forward EV/EBITDA chart



Source: Company, MOFSL

Exhibit 12: One-year forward EV/t chart



Source: Company, MOFSL

Consolidated financials and valuations

Income Statement								(INR m)
Y/E December/March	CY19	CY20	CY21	FY23*	FY24	FY25E	FY26E	FY27E
Net Sales	2,71,036	2,45,162	2,89,655	3,89,370	3,31,596	3,35,179	4,13,145	4,71,108
Change (%)	4.1	-9.5	18.1	7.5	6.5	1.1	23.3	14.0
Total Expenditure	2,24,774	1,95,106	2,27,551	3,38,147	2,67,601	2,80,374	3,33,533	3,71,316
As a Percentage of Sales	82.9	79.6	78.6	86.8	80.7	83.6	80.7	78.8
EBITDA	46,261	50,056	62,104	51,224	63,995	54,804	79,611	99,792
Change (%)	15.3	8.2	24.1	-34.0	56.2	-14.4	45.3	25.3
Margin (%)	17.1	20.4	21.4	13.2	19.3	16.4	19.3	21.2
Depreciation	11,525	11,618	11,525	16,447	16,234	23,245	26,881	29,990
EBIT	34,736	38,438	50,579	34,777	47,761	31,559	52,731	69,803
Interest	1,699	1,402	1,457	1,949	2,764	3,069	4,555	4,213
Other Income – Rec.	5,533	4,438	3,524	7,377	11,664	14,159	13,713	14,304
PBT Before EO Exp.	38,570	41,474	52,647	40,205	56,662	42,649	61,889	79,893
EO Exp./ (Inc.)	-275	1,702	1,205	3,190	-2,116	1,562	0	0
PBT After EO Exp.	38,845	39,772	51,442	37,015	58,777	41,087	61,889	79,893
Tax Expense	10,922	8,848	14,534	7,051	11,626	11,744	15,844	20,453
Tax Rate (%)	28.1	22.2	28.3	19.0	19.8	28.6	25.6	25.6
Add: Share of Profit from Associate	200	144	202	280	229	229	229	229
Less: Minority Interest	6,882	7,414	9,307	4,410	11,612	8,145	12,880	16,805
Reported PAT	21,241	23,654	27,804	25,834	35,768	21,427	33,394	42,865
PAT Adj. for EO Items	20,966	25,357	28,707	28,227	30,545	22,161	33,394	42,865
Change (%)	47.6	20.9	13.2	-21.3	35.3	-27.4	50.7	28.4
Margin (%)	7.7	10.3	9.9	7.2	9.2	6.6	8.1	9.1

Balance Sheet								(INR m)
Y/E December	CY19	CY20	CY21	FY23*	FY24	FY25E	FY26E	FY27E
Equity Share Capital	3,971	3,971	3,971	3,971	4,395	4,926	4,926	4,926
Money Received Against Issue of Warrants				50,000	27,797			
Total Reserves	2,36,809	2,23,605	2,49,566	2,63,010	3,82,359	5,38,244	5,65,190	5,99,142
Net Worth	2,40,780	2,27,576	2,53,537	3,16,982	4,14,551	5,43,171	5,70,116	6,04,069
Minority Interest	57,368	63,409	71,450	70,584	93,908	1,00,739	1,12,304	1,27,700
Def. Liabilities	9,367	6,260	7,562	7,004	15,122	15,122	15,122	15,122
Total Loans	353	436	435	477	368	435	435	435
Capital Employed	3,07,868	2,97,681	3,32,985	3,95,046	5,23,948	6,59,466	6,97,976	7,47,325
Gross Block	1,74,809	1,85,238	2,13,828	2,43,254	3,44,361	5,10,116	5,75,166	6,26,216
Less: Accum. Depn.	46,610	59,140	69,989	86,436	1,02,669	1,24,776	1,50,461	1,79,188
Net Fixed Assets	1,28,199	1,26,099	1,43,839	1,56,818	2,41,692	3,85,341	4,24,705	4,47,028
Capital WIP	15,544	24,219	21,964	25,259	26,585	37,616	36,591	25,566
Capital Advances	4,422	6,050	4,234	4,810	14,123	14,123	14,123	14,123
Goodwill	78,815	78,761	78,697	78,697	82,193	82,193	82,193	82,193
Investments in Subsidiaries	1,459	1,546	1,705	1,861	623	623	623	623
Investments – Trade	26,579	7,026	8,861	276	7,863	7,863	7,863	7,863
Curr. Assets	1,46,805	1,53,507	1,92,773	2,49,495	2,79,531	2,65,985	2,72,686	3,19,349
Inventory	20,965	16,486	27,380	32,728	36,086	38,358	44,792	49,087
Debtors	10,686	5,611	6,458	11,544	12,131	12,856	15,657	18,253
Cash and Bank Bal.	67,003	82,457	1,08,358	1,15,610	1,52,625	1,35,332	1,32,049	1,71,070
Others	48,152	48,953	50,577	89,613	78,689	79,439	80,189	80,939
Curr. Liability and Prov.	93,956	99,526	1,19,088	1,22,168	1,28,660	1,34,277	1,40,807	1,49,419
Creditors	89,969	96,601	1,16,026	1,19,373	1,25,671	1,31,287	1,37,818	1,46,430
Provisions	3,987	2,926	3,062	2,795	2,989	2,989	2,989	2,989
Net Current Assets	52,850	53,980	73,685	1,27,327	1,50,870	1,31,708	1,31,879	1,69,930
Appl. of Funds	3,07,868	2,97,681	3,32,985	3,95,046	5,23,948	6,59,466	6,97,976	7,47,325

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

Consolidated financials and valuations

Ratios

Y/E December/March	CY19	CY20	CY21	FY23*	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	10.6	12.8	14.5	14.2	13.9	9.0	13.6	17.4
Cash EPS	16.4	18.6	20.3	22.5	21.3	18.4	24.5	29.6
BV/Share	121.3	114.6	127.7	159.6	188.6	220.5	231.5	245.2
DPS	1.5	18.5	6.3	2.5	2.0	2.0	3.0	4.0
Payout (%)	14.0	155.3	45.0	19.2	12.3	23.0	22.1	23.0
Valuation (x)								
P/E Ratio	40.3	33.3	29.4	29.9	30.6	47.3	31.4	24.4
Cash P/E Ratio	26.0	22.8	21.0	18.9	20.0	23.1	17.4	14.4
P/BV Ratio	3.5	3.7	3.3	2.7	2.3	1.9	1.8	1.7
EV/Sales Ratio	4.1	4.5	3.8	2.8	3.5	3.9	3.1	2.7
EV/EBITDA Ratio	24.2	22.2	17.6	21.2	18.0	23.6	16.3	12.7
EV/t (Cap) - USD	211	210	196	191	176	179	140	130
Dividend Yield (%)	0.3	3.6	1.2	0.5	0.4	0.4	0.6	0.8
Return Ratios (%)								
RoE	9.1	10.9	12.0	10.0	8.4	4.6	6.0	7.3
RoCE	10.8	12.8	15.2	9.9	10.5	4.7	7.1	8.8
RoIC	11.0	14.5	18.6	12.4	12.8	5.4	7.7	9.6
Working Capital Ratios								
Asset Turnover (x)	0.9	0.8	0.9	1.0	0.6	0.5	0.6	0.6
Debtor (Days)	14.4	8.4	8.1	10.8	13.4	14.0	13.8	14.1
Inventory (Days)	28	25	35	31	40	42	40	38
Work Cap (Days)	71.2	80.4	92.9	119.4	166.1	143.4	116.5	131.7
Leverage Ratio (x)								
Current Ratio	1.6	1.5	1.6	2.0	2.2	2.0	1.9	2.1
Debt/Equity Ratio	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E December	CY19	CY20	CY21	FY23*	FY24	FY25E	FY26E	FY27E
(INR m)								
OP/(Loss) Before Tax	38,753	39,916	51,645	37,295	59,006	41,316	62,118	80,122
Depreciation	11,525	11,618	11,525	16,447	16,234	22,106	25,686	28,727
Interest and Finance Charges	1,705	1,699	1,402	1,905	2,764	2,764	3,069	4,555
Direct Taxes Paid	-5,299	-11,702	-6,476	-7,385	-9,156	-11,744	-15,844	-20,453
(Inc.)/Dec. in WC	2,407	8,492	-3,602	-40,913	-12,390	1,869	-3,454	971
CF from Operations	49,092	50,022	54,494	7,349	56,458	56,311	71,574	93,922
Others	0	0	0	0	0	0	0	0
CF from Operations incl. EO	49,092	50,022	54,494	7,349	56,458	56,311	71,574	93,922
(Inc.)/Dec. in FA	-16,070	-17,253	-22,963	-40,659	-39,611	-72,566	-64,025	-40,025
Free Cash Flow	33,022	32,769	31,530	-33,310	16,847	-16,255	7,549	53,897
(Pur.)/Sale of Investments	4,142	4,080	2,893	2,668	-2,944	0	0	0
Others	-8,658	19,865	-1,963	8,585	-33,776	-1,04,220	0	0
CF from Investments	-20,587	6,692	-22,034	-29,407	-76,331	-1,76,786	-64,025	-40,025
Issue of Shares	0	0	0	0	424	531	0	0
Inc.)/(Dec.) in Debt	0	0	0	-1,155	-1,533	67	0	0
Interest Paid	-1,705	-1,699	-1,402	-1,581	-2,341	-2,764	-3,069	-4,555
Dividend Paid	-5,174	-37,959	-3,334	-12,514	-4,964	-4,926	-7,389	-9,853
Others	-1,120	-1,603	-1,823	44,560	65,302	1,10,274	-374	-468
CF from Fin. Activity	-7,999	-41,261	-6,560	29,310	56,888	1,03,182	-10,833	-14,875
Inc./Dec. in Cash	20,507	15,453	25,901	7,253	37,015	-17,293	-3,283	39,022
Opening Balance	46,497	67,003	82,457	1,08,358	1,15,610	1,52,625	1,35,332	1,32,049
Closing Balance	67,003	82,457	1,08,357	1,15,610	1,52,625	1,35,332	1,32,049	1,71,070

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

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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 within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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