

Ambuja Cement

Focused on expansions and cost reductions

We met with the CFO of Ambuja Cements. The management outlined its various projects and how these would lead to its consolidated operating cost reduction by INR 530/MT to INR 3650/MT by FY28 (over Q4FY24). Ambuja estimates major savings from energy cost reduction, followed by logistics and raw material costs decline, gradually till FY28. Ambuja has also worked out its organic expansion plans that will expand its cement capacity to 140mn MT in FY28E (75% increase over FY24 end). We have detailed the key takeaways in the subsequent paragraphs. Most capacities should come on stream in FY27/28E, while major benefits from cost reduction programs should materialise from FY26E onwards, in our view. Ambuja has guided for a total Capex of ~INR 650bn in these four years. We maintain our ADD rating on the company with an unchanged target price of INR 620/share (16.5x consolidated FY26E EBITDA). We estimate Ambuja will deliver 13.5% volume CAGR during FY24-26, driven by Sanghi ramp-up and upcoming expansions. Supported by gradual savings from ongoing cost reduction programs, we estimate unit EBITDA will expand to INR 1,290/MT in FY26E.

- Large savings expected from energy cost reduction:** Ambuja is targeting 60% green power consumption by FY28. In this regard, it is commissioning 1GW captive solar/wind power commissioning by FY26. It is using the expertise of premises of a group company Adani Green for the project execution. Ambuja is also adding 258MW WHRS across various kilns by FY28. The company estimates its blended power cost to come off by ~INR 3/kWh by FY28. Ambuja will be ramping up its captive coal mines, which should marginally lower blended fuel costs and also supply free fly ash. It is working to expand AFR share to 27% by FY28 vs 11% currently. The new upcoming clinker capacities will also be more energy efficient. Overall, Ambuja expects its energy consumption cost to reduce by ~INR 250/MT by FY28.
- Freight cost initiatives:** Ambuja is also bolstering its logistics infrastructure. It plans to double the share of sea transport to >10% by FY28 (on expanded capacity). The upcoming multiple split grinding units across India will reduce its lead distance and increase direct dispatch share. These along with increased digitization are expected to lower opex by ~INR 150/MT by FY28.
- Raw materials cost savings:** It is also investing in 26 BCFC railway wagons which will ferry both fly ash and cement. It is also commissioning loading/unloading infrastructure across plants. These will mostly be available by FY26 end and will help reduce fly ash freight costs. It is also targeting to raise the blending ratio. These along with increasing plant efficiencies are expected to add ~INR 100/MT to the operating margin. Additionally, Ambuja is estimating to sweat out another ~INR 30/MT in cost reduction through productivity enhancement. Cumulatively, the company is hopeful of reducing its cement opex to INR 3650/MT by FY28 (INR 530/MT reduction vs Q4FY24).
- Expansion pipeline:** The company noted its expansions are on track to reach 140mn MT aggregate cement capacity by FY28. This would be backed by ~82mn MT clinker capacity. Ambuja is planning to add nine kilns, each of ~4mn MT (except Mundra project – 2mn MT), along with WHRS and AFR installations. It is targeting to set up 3 grinding units each at/around the kiln locations (of 2.4mn MT each), along with railway sidings. The complete project of 4/7mn MT clinker/cement (along with support infrastructure) is expected to cost ~USD 90 per MT. Of the planned expansions, ~20% would be commissioned under ACC. Ambuja has also shut down ~5mnMT of clinker capacities across some of its old, inefficient plants in Ambuja and ACC.

ADD

CMP (as on 9 May 2024)	INR 574
Target Price	INR 620
NIFTY	21,958

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 620	INR 620
EBITDA revision %	FY25E	FY26E
	0.0	0.0

KEY STOCK DATA

Bloomberg code	ACEM IN
No. of Shares (mn)	2,463
MCap (INR bn) / (\$ mn)	1,415/16,939
6m avg traded value (INR mn)	2,191
52 Week high / low	INR 649/396

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.3)	37.3	41.6
Relative (%)	(1.5)	25.6	24.3

SHAREHOLDING PATTERN (%)

	Mar-24	Apr-24
Promoters	66.74	70.33
FIs & Local MFs	14.24	12.73
FPIs	11.09	9.90
Public & Others	7.92	7.06
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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- **Expansions thought process:** The company plans to set up some major clinker clusters at a few locations which would cater to multiple grinding locations around these plants. This is being planned to generate greater production efficiencies. With this view, it is targeting to expand Sanghi's clinker capacity to ~15mn MT by FY28 vs 6.6mn MT currently, in two phases. A few more locations will see similar expansions.
- **Internal accruals to fund growth and cost reduction projects:** Ambuja is targeting a total Capex outgo of ~INR 650bn during FY25-28 towards its targeted 140mnMT capacity and various cost reduction projects. The management expects its current cash balance (INR 250bn, including warrants conversion in April-24) and operating cashflows during the said period to meet the total fund requirements. Hence, it may not need to raise any debt for the same.
- **Cement business consolidation:** The management noted that the promoter group is clear that all cement entities would ultimately be combined under one listed entity as against three entities currently. However, the timeline for the same is not decided. The whole team is currently focused on executing the announced expansion plan.

Key operating assumptions

	CY18	CY19	CY20	CY21	FY23*	FY24	FY25E	FY26E
Sales Volume (mn MT)	52.6	51.9	46.2	53.2	69.2	59.2	66.2	76.2
<i>YoY change (%)</i>	6.9	(1.4)	(10.9)	15.1	4.0	6.9	12.0	15.0
NSR	4,953	5,227	5,307	5,446	5,631	5,606	5,578	5,550
<i>YoY change (%)</i>	3.1	5.5	1.5	2.6	3.4	(0.4)	(0.5)	(0.5)
Total Opex	4,190	4,339	4,223	4,278	4,890	4,524	4,373	4,261
Unit EBITDA	763	888	1,083	1,168	741	1,082	1,205	1,289

*FY23 performance includes 15 months as new promoter changed the financial year end to Mar vs Dec earlier
 FY23 volume growth is annualised

Financials

Consolidated Income Statement

YE Mar (INR mn)	CY21	*FY23	FY24	FY25E	FY26E
Revenues	289,655	389,370	331,596	369,531	422,836
<i>Growth %</i>	<i>18.1</i>	<i>7.5</i>	<i>6.5</i>	<i>11.4</i>	<i>14.4</i>
Raw Material	29,623	51,109	49,228	52,378	60,837
Power & Fuel	67,875	117,619	81,093	82,650	89,345
Freight Expense	71,329	95,237	80,006	87,815	100,987
Employee cost	15,292	18,565	13,528	19,601	21,710
Other Expenses	43,432	55,616	43,746	47,240	51,741
EBITDA	62,105	51,223	63,995	79,847	98,215
<i>EBITDA Margin (%)</i>	<i>21.4</i>	<i>13.2</i>	<i>19.3</i>	<i>21.6</i>	<i>23.2</i>
<i>EBITDA Growth %</i>	<i>24.1</i>	<i>(34.0)</i>	<i>56.2</i>	<i>24.8</i>	<i>23.0</i>
Depreciation	11,525	16,447	16,234	21,140	23,997
EBIT	50,580	34,777	47,761	58,707	74,218
Other Income	3,524	7,377	11,664	10,113	16,586
Interest	1,457	1,949	2,764	2,000	2,000
PBT	52,647	40,205	56,662	66,820	88,804
Tax	14,534	7,051	14,198	17,707	23,533
RPAT	27,804	25,834	35,768	38,364	52,630
EO (Loss) / Profit (Net Of Tax)	(1,205)	(3,190)	4,688	-	-
APAT	29,009	29,024	31,080	38,364	52,630
<i>APAT Growth (%)</i>	<i>14.1</i>	<i>(20.0)</i>	<i>33.9</i>	<i>23.4</i>	<i>37.2</i>
AEPS	14.6	11.7	14.1	15.6	21.4
<i>AEPS Growth %</i>	<i>14.1</i>	<i>(20.0)</i>	<i>20.9</i>	<i>10.1</i>	<i>37.2</i>

Source: Company, HSIE Research. *FY23 performance includes 15 months

Consolidated Balance Sheet

YE Mar (INR mn)	CY21	*FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital	3,971	3,971	4,395	4,926	4,926
Reserves And Surplus	249,566	313,011	410,155	517,953	554,794
Total Equity	253,537	316,982	414,551	522,879	559,720
Long-term Debt	4,062	4,487	5,180	5,180	5,180
Short-term Debt	706	740	1,811	1,811	1,811
Total Debt	4,767	5,227	6,990	6,990	6,990
Deferred Tax Liability	7,533	7,004	15,122	15,122	15,122
Long-term Liab+ Provisions	3,183	3,022	2,560	2,816	3,097
TOTAL SOURCES OF FUNDS	340,470	402,818	533,130	652,464	702,228
APPLICATION OF FUNDS					
Net Block	222,507	235,515	323,885	355,474	393,031
Capital WIP	21,677	25,259	26,585	36,585	46,585
Other Non-current Assets	35,668	43,821	52,719	42,719	42,719
Total Non-current Investments	1,705	1,861	623	623	623
Total Non-current Assets	281,557	306,455	403,811	435,400	482,958
Inventories	27,380	32,728	36,086	35,105	40,169
Debtors	6,191	11,544	12,131	13,673	15,645
Cash and Cash Equivalents	117,206	119,116	168,552	276,436	278,003
Other Current Assets (& Loans/adv)	19,683	47,372	32,029	24,584	24,584
Total Current Assets	170,460	210,760	248,798	349,798	358,401
Creditors	29,128	27,739	31,088	44,344	50,740
Other Current Liabilities & Provns	82,418	86,658	88,391	88,391	88,391
Total Current Liabilities	111,547	114,397	119,478	132,735	139,131
Net Current Assets	58,914	96,363	129,319	217,064	219,270
TOTAL APPLICATION OF FUNDS	340,470	402,818	533,130	652,464	702,228

Source: Company, HSIE Research. *FY23 performance includes 15 months

Consolidated Cash Flow

YE Mar (INR mn)	CY21	*FY23	FY24	FY25E	FY26E
Reported PBT	51,645	37,295	59,006	66,820	88,804
Non-operating & EO Items	(1,711)	(6,184)	(14,331)	(10,111)	(16,586)
Interest Expenses	1,423	1,905	2,764	2,000	2,000
Depreciation	11,525	16,447	16,234	21,140	23,997
Working Capital Change	(3,314)	(34,729)	1,941	30,396	(358)
Tax Paid	(6,476)	(7,385)	(9,156)	(17,707)	(23,533)
OPERATING CASH FLOW (a)	53,092	7,349	56,458	92,538	74,324
Capex	(22,964)	(40,660)	(62,694)	(62,730)	(71,555)
Free Cash Flow (FCF)	30,128	(33,311)	(6,235)	29,809	2,770
Investments	67	(1,08,620)	(37,107)	-	-
Non-operating Income	2,826	4,473	10,296	10,113	16,586
INVESTING CASH FLOW (b)	(20,071)	(1,44,808)	(89,504)	(52,617)	(54,969)
Debt Issuance/(Repaid)	-	-	(1,533)	-	-
Interest Expenses	(1,072)	(1,275)	(2,341)	(2,000)	(2,000)
FCFE	29,056	(34,586)	(10,109)	27,809	770
Share Capital Issuance	-	50,000	66,610	83,398	-
Dividend	(3,299)	(17,986)	(5,848)	(5,572)	(15,789)
FINANCING CASH FLOW (c)	(4,371)	30,739	56,888	75,826	(17,789)
NET CASH FLOW (a+b+c)	28,650	(1,06,719)	23,842	1,15,747	1,567
Closing Cash & Equivalents	1,18,134	10,487	1,42,958	2,84,299	2,78,003

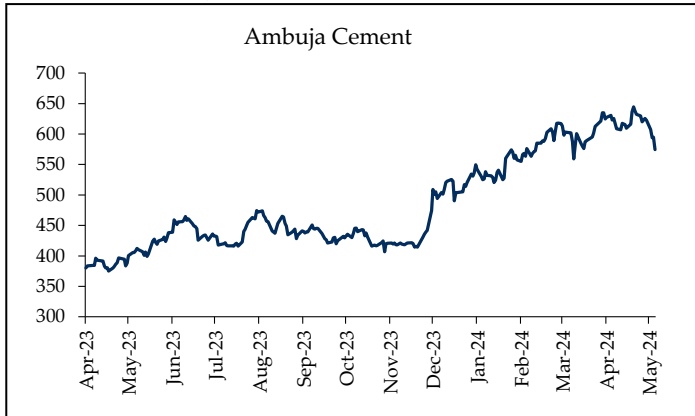
Source: Company, HSIE Research. *FY23 performance includes 15 months

Key Ratios

	CY21	*FY23	FY24	FY25E	FY26E
PROFITABILITY %					
EBITDA Margin	21.4	13.2	19.3	21.6	23.2
EBIT Margin	17.5	8.9	14.4	15.9	17.6
APAT Margin	10.0	7.5	9.4	10.4	12.4
RoE	9.4	6.5	6.9	6.8	8.1
RoIC (pre-tax)	23.1	11.0	14.7	15.9	18.5
RoCE (pre-tax)	16.8	9.1	12.7	11.6	13.4
EFFICIENCY					
Tax Rate %	27.6	17.5	25.1	26.5	26.5
Fixed Asset Turnover (x)	1.0	1.0	0.9	0.9	0.9
Inventory (days)	35	38	40	35	35
Debtors (days)	8	14	13	14	14
Other Current Assets (days)	70	85	93	66	58
Payables (days)	37	33	34	44	44
Other Current Liab & Provns (days)	108	84	100	90	79
Cash Conversion Cycle (days)	(33)	21	12	(19)	(16)
Net Debt/EBITDA (x)	(1.8)	(2.2)	(2.5)	(3.4)	(2.8)
Net D/E	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Interest Coverage	34.7	17.8	17.3	29.4	37.1
PER SHARE DATA (Rs)					
EPS	14.6	11.7	14.1	15.6	21.4
CEPS	20.4	18.3	21.5	24.2	31.1
Dividend	6.3	2.0	2.0	2.3	6.4
Book Value	163.7	156.1	231.4	254.8	274.9
VALUATION					
P/E (x)	43.5	43.5	40.6	36.9	26.9
P/Cash EPS (x)	32.1	29.8	24.3	23.8	18.5
P/BV (x)	5.0	4.0	3.0	2.7	2.5
EV/EBITDA (x)	19.7	22.4	20.2	17.2	15.5
EV/MT (Rs bn)	18.55	16.83	16.28	15.80	15.89
Dividend Yield (%)	1.1	0.3	0.3	0.4	1.1

Source: Company, HSIE Research, *FY23 performance includes 15 months

1 Yr Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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