

On strong growth footing through aggressive expansion

About the stock: Ambuja Cement (now Adani group conglomerate part) is a large cement player with 31.5 MT capacity spread across north (35%), south (24%), west (~20%), east (~21%) in India. It has a large marketing set-up & pan-India presence.

- The upcoming new capacity in Punjab (1.5 MT) and eastern region (7.0 MT including clinker 3.2 MT) will enhance its cement capacity by ~8.5 MT to 40 MT. In phase II, the company plans to reach over ~50 MT capacity through capacity expansion in western region along with significant de-bottlenecking
- The management plans to double its consolidated capacity to 140 MT (ACC + Ambuja) from current 70 MT in the next five years

Q3CY22 Results: Ambuja Cement's results remained below our estimates.

- Net revenues were up 13.4% YoY to ₹ 3670.4 crore while it declined 8.1% QoQ due to monsoons
- EBITDA margins were down 885 bps QoQ to 8.3% (lower than our estimate of 12.3%), led by higher power & fuel expenses (up 63% YoY, 17.5% QoQ)
- PAT declined 68.7% YoY, 86.8% QoQ to ₹ 137.9 crore due to lower margins

What should investors do? Strong brand with pan-India presence, cost efficient and robust balance sheet are key positives.

- With aggressive expansion strategy and focus on cost efficiencies, we expect healthy revenue growth in CY21-23E despite high base. Hence, we maintain BUY rating

Target Price and Valuation: We value Ambuja at ₹ 610 i.e. 21x CY23E EV/EBITDA

Key triggers for future price performance:

- The management plans to increase consolidated capacity to ~140 MT in the next five years (i.e. at 16% CAGR). Promoter to make equity infusion of ₹ 20,000 for the said purpose
- The new clinker capacity at Marwar Rajasthan (1.8 MT cement, 3 MT clinker) and GU in Punjab (1.5 MT) to come on stream by end of CY23 while capacity expansion (7 MT cement, 3.2 MT clinker) in the east (capex of ₹ 3500 crore) is likely to get completed by Q4CY24E
- It has strong b/s. Also, the group's exposure to energy and logistics will help them to improve cost dynamics and gain supply chain efficiencies

Alternate Stock Idea: In our cement universe, we also like UltraTech Cement.

- It is a market leader with strong brand in the retail segment
- BUY with a target price of ₹ 7,700/share



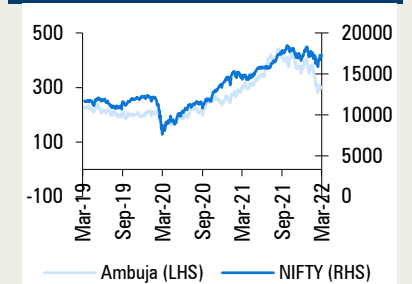
Particulars

Particular	Amount
Market cap	₹ 102658 crore
Debt (CY21)	₹ 44 crore
Cash & Invest (CY21)	₹ 4163 crore
EV	₹ 98539 crore
52 week H/L	₹ 410 / 196
Equity capital	₹ 397.1 crore
Face value	₹ 2

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	63.3	63.2	63.2	63.2
FII	16.5	14.7	13.0	12.8
DII	13.6	15.4	16.5	15.2
Others	6.6	6.8	7.3	8.7

Price Chart



Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in prices of imported coal/petcoke may impact margins

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Key Financial Summary

Key Financials	CY18	CY19	CY20	CY21	3 Year CAGR (%)	CY22E	CY23E	2 Year CAGR (%)
Net Sales	11,357	11,668	11,372	13,965	7.1	15,300	16,956	10.2
EBITDA	1,891	2,149	2,647	3,207	19.2	2,456	3,651	6.7
EBITDA (%)	16.7	18.4	23.3	23.0		16.1	21.5	
Adjusted PAT	1,245	1,529	1,790	2,146	19.9	2,116	2,388	5.5
EPS (₹)	6.3	7.7	9.0	10.8		10.7	12.0	
EV/EBITDA - Adjusted	36.1	30.4	26.1	20.9		27.2	17.7	
EV/T (\$) - Consolidated	302	298	304	289		292	247	
RoNW (%)	13.5	14.7	21.0	20.6		19.2	20.1	
RoCE (%)	11.8	12.2	18.6	17.8		14.5	17.4	

Key performance highlights

- Sales volumes increased 12.3% YoY to 6.7 MT (vs. our estimate of 7.0 MT) while realisations improved 0.8% QoQ to ₹ 5446/t
- EBITDA margin was down 885 bps QoQ to 8.3% (lower than our estimate of 12.3%). This was driven by higher power & fuel expenses (up 63% YoY, 17.5% QoQ)
- On a per tonne basis, the company reported EBITDA/t ₹ 452/t (down 61.5% YoY, 51.3% QoQ), lower than I-direct estimate of ₹ 654/t
- Special incentive for certain key employees pursuant to changes in ownership and control led to additional expenses of ₹ 15.2 crore for the quarter
- Low margins led to a sharp drop in net profit. It declined 68.7% YoY, 86.8% QoQ to ₹ 137.9 crore

Other key highlights

- The company, with effect from September 16, 2022, has terminated its agreement with Holcim Technology for payment of technology and know-how fees@ 1% of eligible net sales
- In September 2022, WHRS projects at Bhatpara, Rauri (39 MW) and Marwar-Mundwa (15 MW) have been partially commissioned. The next wave of waste heat recovery system (WHRS) projects at Ambujanagar (15 MW) and Maratha plants (15 MW) are progressing well. Total WHRS capacity is expected to reach ~90 MW post implementation of the above projects from current WHRS capacity of 60 MW
- Production from underground mine Gare Palma also started providing fuel linkages to Ambuja's Bhatpara plant in the east
- The company is currently executing cement capacity expansion of 1.5 MT at Ropar, Punjab. This is likely to be commissioned in 2023
- The management plans to increase consolidated capacity to ~140 MT in the next five years (i.e. at 16% CAGR). Keeping this in mind, the new board of Ambuja (parent of ACC) has approved fund infusion of ₹ 20,000 crore by issuing warrants to promoter entity on a preferential basis at price of ₹ 419. Post conversion of these warrants, promoter's shareholding in Ambuja will increase to 70.3% vs. 63.2% at present
- The company is investing ₹ 3,500 crore for expansion of 7.0 MT GUs across their existing units at Sankrail and Farakka and at a greenfield location at Barh, in Bihar, supported by a 3.2 MT brownfield clinker expansion at existing integrated plant in Bhatpara, Chhattisgarh
- By 2025, the company expects eastern region utilisation to move to over 85% as per capita consumption currently remains very low at 216 kg vs. all India average of 242 kg. This is expected to improve significantly supported by major infra & housing projects

Exhibit 1: Variance Analysis

	Q3CY22	Q3CY22E	Q3CY21	YoY(%)	Q2CY22	QoQ(%)	Comments
Net Sales	3,670	3,711	3,237	13.4	3,993	-8.1	Volume growth came in at 12.3% YoY, realisations improved 0.9%
Other Incomes	47	50	36	29.8	632	-92.6	
Raw Material Expenses	427	350	366	16.5	477	-10.5	
Employee Expenses	153	173	169	-9.4	164	-6.4	
Change in stock	-130.9	0.0	-96.9	N.A	-155.4	N.A	
Power and fuel	1,415	1,325	771	83.4	1,320	7.2	Power & fuel cost increased sharply due to higher fuel prices
Freight	839	827	795	5.5	905	-7.2	
Others	663	578	529	25.4	599	10.7	
Total cost	3,366	3,253	2,534	32.8	3,309	1.7	
EBITDA	304.3	458	703	-56.7	685	-55.5	
EBITDA Margin (%)	8.3	12.3	21.7	-1343 bps	17.1	-885 bps	
Adjusted PAT	137.9	443.7	441	-68.7	1,048	-86.8	

Key Metrics

Volume (MT)	6.74	7.00	6.00	12.3	7.39	-8.8
Realisation (₹)	5,446	5,301	5,395	0.9	5,404	0.8
EBITDA per Tonne (₹)	452	654	1,172	-61.5	926	-51.3

Per tonne	Q3CY22	Q3CY22E	Q3CY21	YoY(%)	Q2CY22	QoQ(%)	
Net Sales	5,446	5,301	5,395	0.9	5,404	0.8	
Raw Material Expenses	633	501	611	3.7	646	-1.9	
Employee Expenses	227	247	282	-19.4	221	2.7	
Change in stock	-194	0	-161	20.3	-210	-7.6	
Power and fuel	2,098.9	1,280.0	1,285.7	63.2	1,786.0	17.5	
Freight	1,246	1,240	1,326	-6.0	1,224	1.7	Freight cost trend downwards as master supply agreement started yielding results
Others	983	1,380	881	11.6	810	21.3	
EBITDA	452	654	1,172	-61.5	926	-51.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY22E			CY23E		
	Old	New	% Change	Old	New	% Change
Revenue	15,765	15,300	-2.9	16,837	16,956	0.7
EBITDA	2,857	2,456	-14.0	3,640	3,651	0.3
EBITDA Margin (%)	18.1	16.1	-200 bps	21.6	21.5	-10 bps

Source: Company, ICICI Direct Research

Update on ongoing expansion

The company has laid out growth plans to increase its capacity in India with target to become 50 MT player from current 31.5 MT in phase I. In terms of regions, the company is exploring opportunities in the markets of east and west India. The new clinker capacity at Marwar Rajasthan (1.8 MT Cement, 3 MT Clinker) and grinding unit (GU) in Punjab (1.5 MT) to come on stream by end of CY23 while capacity expansion (7 MT cement, 3.2 MT clinker) in east (capex of ₹ 3500 crore) is likely to get completed by Q4CY24E. Apart from this, Ambuja is also looking at significant debottlenecking opportunities across all its plants to further enhance its cement capacity.

Capital infusion to increase promoter shareholding to over 70%

The new board of Ambuja (parent company of ACC) has approved fund infusion of ₹ 20,000 crore through to promoter entity (Harmonia Trade and Investment) on a preferential basis. While Adani Group's shareholding in Ambuja is expected to increase to 70.3% vs. 63.2% at present, the effective shareholding in ACC is also expected to increase from 38.2% to 41.8%

Exhibit 3: Promoter holding post fund infusion

Shareholding structure						Effective holding of Adani group in ACC
ACC			Ambuja			
Promoter	No of shares (ln cr)	%	Promoter	No of shares (ln cr)	%	
Ambuja	9.4	50.1%	Adani Group	125.5	63.2%	31.6%
Adani Group	1.2	6.6%	NA			6.6%
Total promoter holding	10.6	56.7%	Total promoter holding	125.5	63.2%	38.2%
Total	18.8	100.0%	Total	198.8	100.0%	

Fund raising of ₹20,000 crore through issuance of 47.7 convertible warrants at ₹419/share by Ambuja						
Promoter	No of shares (ln cr)	%	Promoter	No of shares (ln cr)	%	
Ambuja	9.4	50.1%	Adani Group	173.2	70.3%	35.2%
Adani Group	1.2	6.6%	NA			6.6%
Total promoter holding	10.6	56.7%	Total promoter holding	173.2	70.3%	
Total	18.8	100.0%	Total shares post fund raise	246.5	100.0%	41.8%

Source: Company, ICICI Direct Research

Valuation & Outlook

While short-term performance has got impacted in the high cost environment, the long-term growth trajectory of the company remains healthy with capacity expansions backed by strong balance sheet. Hence, we maintain BUY rating with a revised target price of ₹ 610 (implying 21x CY23E adjusted EV/EBITDA).

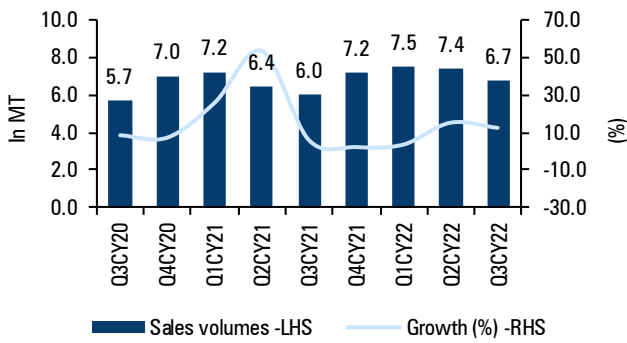
Exhibit 4: Fair value calculation - SOTP

Fair value calculation	in ₹ crore
EBITDA Estimates CY23E	3651
Target EV/EBITDA	26
Target Enterprise value	94926
Debt	44
Balance Cash and cash equivalents	4163
Target equity value	99045
No. of shares outstanding	199
Fair value of Ambuja [A]	499
ACC's fair equity valuation	48828
Valuation of 50% stake [B]	24414
Holding company discount	10%
Net value to Ambuja	21973
No. of shares outstanding	199
Fair value of Investment in ACC [B]	111
Fair value per share [A+B]	610

Source: Company, ICICI Direct Research

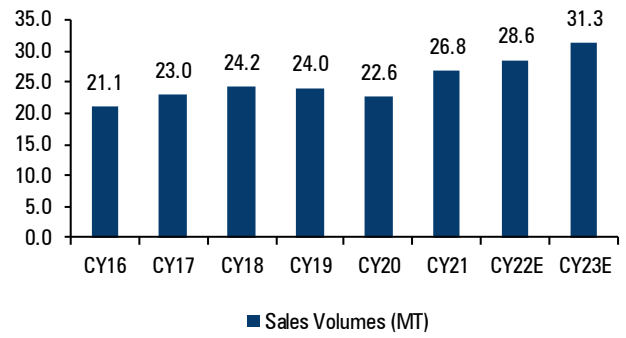
Financial story

Exhibit 5: Sales volumes grow 12.3% YoY



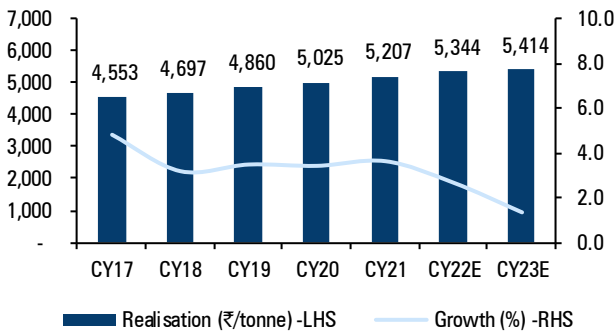
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 8.1% CAGR over CY21-23E



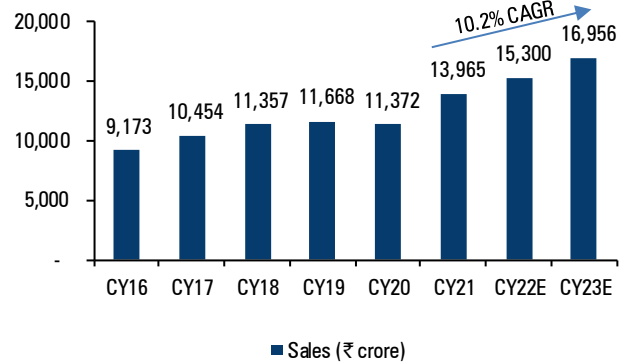
Source: Company, ICICI Direct Research

Exhibit 7: Realisations to remain firm on back of high cost environment



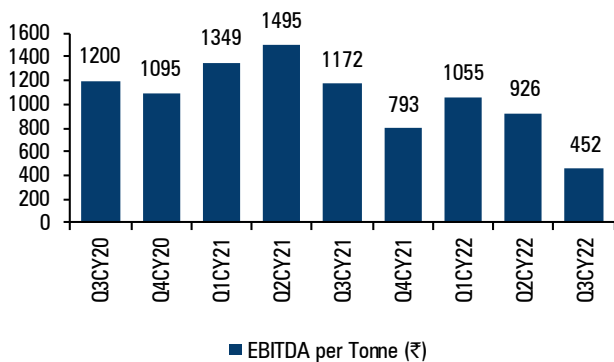
Source: Company, ICICI Direct Research

Exhibit 8: Revenue to grow at 10.2% CAGR in CY21-23E



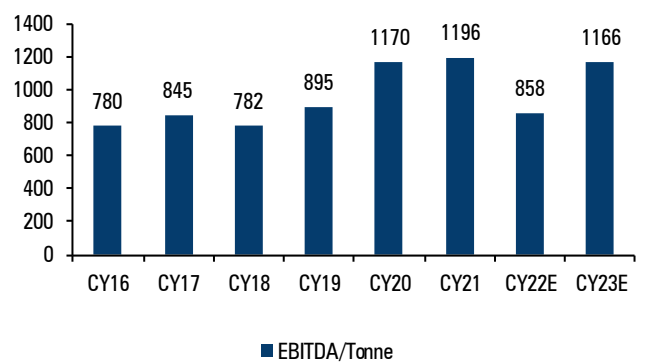
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA/t for Q3CY22 declines 61% YoY



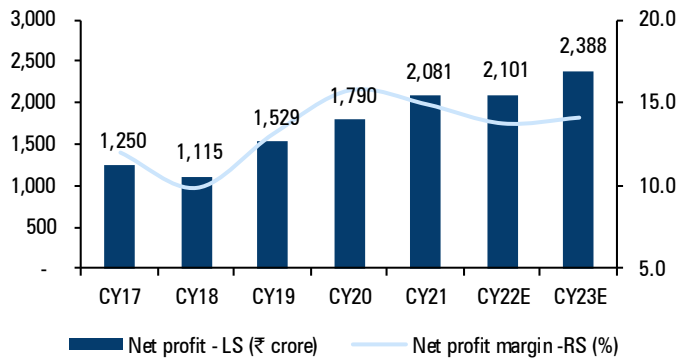
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t assumption



Source: Company, ICICI Direct Research

Exhibit 11: PAT growth trajectory



Source: Company, ICICI Direct Research

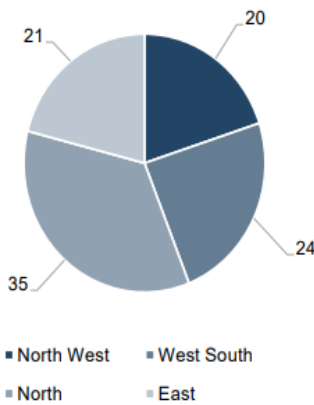
Exhibit 12: Capacity expansion plans

Particulars	Capacity (MT)	Timeline
Existing Cement capacity	31.5	
Expansion plans:		
Ropar, Punjab (1.5MT Grinding unit)	1.5	2023
Grinding units in Eastern region (Sankrail, Farraka and Barh, Bihar)	7.0	H2CY24E
Total	8.5	
Total capacity post expansion	40.0	

Source: Company, ICICI Direct Research

Exhibit 13: Region wise revenue share

Region-wise share of revenue (%)



Note: All figures are for CY 2021



Integrated cement plants

1. Ambujanagar, Gujarat
2. Darlaghat, Himachal Pradesh
3. Maratha Cement Works, Maharashtra
4. Rabriyawas, Rajasthan
5. Bhatapara, Chhattisgarh
6. Marwar, Rajasthan

Grinding units

1. Roonagar (Ropar), Punjab
2. Bathinda, Punjab
3. Sankrail, West Bengal
4. Roorkee, Uttarakhand
5. Farakka, West Bengal
6. Dadri, Uttar Pradesh
7. Nalagarh, Himachal Pradesh
8. Surat, Gujarat

Bulk cement terminals

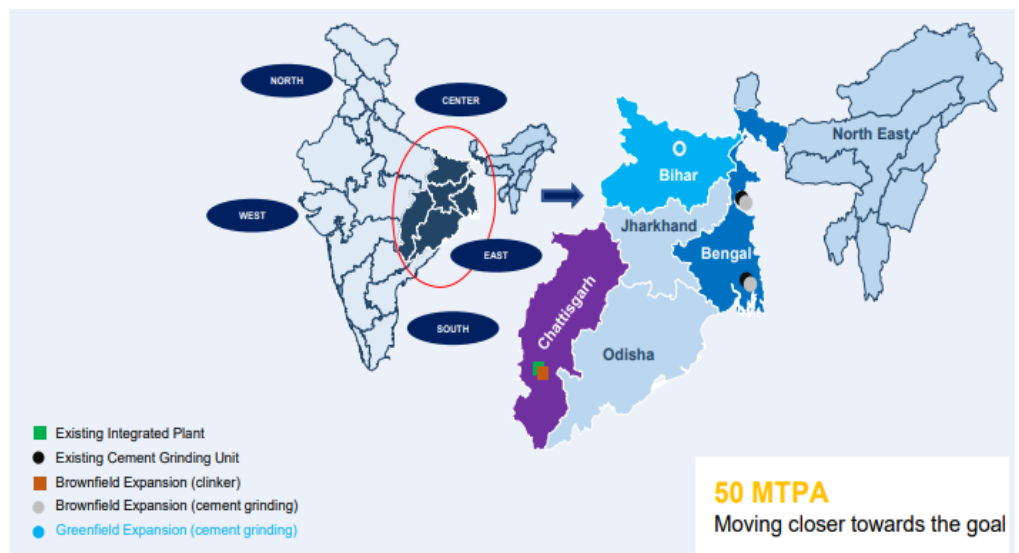
1. Muldwarka, Gujarat
2. Panvel, Maharashtra
3. Kochi, Kerala
4. Surat, Gujarat
5. Mangalore, Karnataka

Source: Company, ICICI Direct Research

Exhibit 14: Expansion plans

The Board has approved in principle an investment of ₹ 3,500 crore for :

- 7.0 MTPA potential cement grinding expansion across our existing grinding units at Sankrail and Farakka and greenfield grinding unit at Barh, Bihar
- 3.2 MTPA brownfield clinker expansion at our existing integrated plant in Bhatapara, Chattisgarh



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & Loss Account

(Year-end March)	CY20	CY21	CY22E	CY23E
Total operating Inco	11,371.9	13,965.0	15,300.1	16,955.6
Growth (%)	-2.5	22.8	9.6	10.8
Raw material	1186.3	1159.6	1534.4	2010.2
Power & Fuel	2251.9	3421.0	4676.5	4071.6
Employees	668.8	677.7	691.2	739.6
Freight	2854.9	3308.2	3439.5	3758.4
Others	1763.4	2191.0	2502.4	2724.8
Total Operating Exp.	8,725.3	10,757.5	12,844.0	13,304.6
EBITDA	2,646.6	3,207.5	2,456.2	3,651.0
Growth (%)	23.2	21.2	-23.4	48.6
Depreciation	521.2	551.2	697.2	750.8
Interest	83.1	91.0	82.9	54.4
Other Income	372.0	285.6	763.2	345.0
Exceptional items	0.0	65.7	15.2	0.0
PBT	2,414.4	2,785.2	2,424.2	3,190.8
Total Tax	624.3	704.6	323.6	803.1
PAT	1,790.1	2,080.5	2,100.6	2,387.7
Adjusted PAT	1,790.1	2,146.2	2,115.8	2,387.7
Growth (%)	17.1	19.9	-1.4	12.9
Adjusted EPS (₹)	9.0	10.5	10.6	12.0

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet summary

(Year-end March)	CY20	CY21	CY22E	CY23E
Liabilities				
Equity Capital	397.1	397.1	397.1	397.1
Reserve and Surplus	19,918.7	21,810.1	22,391.6	23,260.2
Total Shareholders funds	20,315.9	22,207.3	22,788.7	23,657.3
Total Debt	43.6	43.5	43.5	43.5
Other liabilities	1,407.4	1,688.5	1,688.5	1,688.5
Total Liabilities	21,766.8	23,939.3	24,520.7	25,389.3
Assets				
Gross Block	14,753.1	17,018.5	18,369.9	19,169.9
Less: Acc Depreciation	8,821.6	9,372.8	10,070.0	10,820.8
Net Block	5,931.5	7,645.7	8,299.9	8,349.1
Capital WIP	1,873.7	951.3	1,500.0	2,800.0
Total Fixed Assets	7,805.2	8,597.0	9,799.9	11,149.1
Investments	11,787.7	11,787.7	11,787.7	11,787.7
Inventory	746.6	1,463.6	1,135.4	1,280.2
Debtors	191.5	293.2	964.4	429.2
Other assets	1,873.8	1,750.3	2,109.1	2,049.8
Cash	2,924.3	4,163.1	3,010.6	3,624.8
Total Current Assets	5,736.2	7,670.1	7,219.4	7,384.1
Creditors	3,558.5	4,106.7	4,277.0	4,920.9
Provisions	3.9	8.9	9.3	10.7
Total Current Liabilities	3,562.4	4,115.6	4,286.3	4,931.5
Net Current Assets	2,173.9	3,554.5	2,933.2	2,452.5
Application of Funds	21,766.8	23,939.3	24,520.7	25,389.3

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement

(Year-end March)	CY20	CY21	CY22E	CY23E
Profit after Tax	1,790.1	2,080.5	2,100.6	2,387.7
Add: Depreciation	521.2	551.2	697.2	750.8
(Inc)/dec in Current Assets	1,455.8	-835.9	-701.8	449.6
Inc/(dec) in CL and Provisions	-322.5	847.8	170.7	645.3
CF from operating activit	3,444.6	2,643.7	2,266.7	4,233.3
(Inc)/dec in Investments	1.3	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1,405.3	-1,343.0	-1,900.0	-2,100.0
Others	0.0	127.3	0.0	0.0
CF from investing activit	-1,404.0	-1,215.7	-1,900.0	-2,100.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-28.1	-0.1	0.0	0.0
Dividend & dividend tax	-3,973.1	-1,472.4	-1,519.1	-1,519.1
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	293.7	1,283.2	0.0	0.0
CF from financing activit	-3,707.5	-189.2	-1,519.1	-1,519.1
Net Cash flow	-1,666.9	1,238.8	-1,152.5	614.2
Opening Cash	4,699.5	2,924.3	4,163.1	3,010.6
Closing Cash	2,924.3	4,163.1	3,010.6	3,624.8

Source: Company, ICICI Direct Research

Exhibit 18: Ratio sheet

(Year-end March)	CY20	CY21	CY22E	CY23E
Per share data (₹)				
Adjusted EPS	9.0	10.5	10.6	12.0
Cash EPS	11.6	13.3	14.1	15.8
BV	102.3	111.8	114.8	119.1
DPS	17.0	6.3	6.5	6.5
Cash Per Share	14.7	21.0	15.2	18.3
Operating Ratios (%)				
EBITDA Margin	23.3	23.0	16.1	21.5
PAT Margin	15.7	14.9	13.7	14.1
Inventory days	27.3	28.9	31.0	26.0
Debtor days	11.3	6.3	15.0	15.0
Creditor days	100.0	100.2	100.0	99.0
Return Ratios (%)				
RoE	21.0	20.6	19.2	20.1
RoCE	18.6	17.8	14.5	17.4
RoIC	47.3	40.9	22.9	43.7
Valuation Ratios (x)				
P/E	57.3	47.8	48.5	43.0
EV / EBITDA	26.1	20.9	27.2	17.7
EV / Net Sales	8.8	7.1	6.5	5.8
Market Cap / Sales	9.0	7.4	6.7	6.1
Price to Book Value	5.1	4.6	4.5	4.3
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	1.7	1.6	1.4
Quick Ratio	0.6	0.7	0.9	0.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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