HOLD Ambuja Cements

Progress on capacity expansion is key

Cement ‣ Result Update ‣ **May 3, 2023**

TARGET PRICE (Rs) : 415

In-line quarter

For standalone Jan-Mar 2023 quarter (Q5FY23), Ambuja Cement's (Ambuja) EBITDA stood flat YoY and increased 23% QoQ to Rs7.9bn, in-line with our estimates. EBITDA/ton declined 8% YoY and increased 18% QoQ to Rs977 (Emkay Est.: Rs990). Management has reiterated its key focus areas: i) doubling of capacity from ~68mt to 140mt in five years; ii) Rs300-400/ton improvement in FY24 EBITDA by optimizing manufacturing and logistics cost; and iii) enhancing sales and marketing initiatives to improve the topline. The group is looking to set up 40mt clinker capacity (likely 10 lines of 4mt each); equipment ordering is in advanced stage and is likely to be announced soon in a phased manner, as per management. Consolidated net cash increased Rs1.7bn YoY/Rs21bn QoQ to Rs115bn as of Mar-23. We have broadly maintained our FY24-25 EBITDA estimates. However, factoring in the reduction in ACC's TP, we have revised our Mar-24 TP for Ambuja to Rs415/share (earlier Rs425), based on 15x EV/E.

Ambuja Cements: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	CY20	CY21	15MFY23	FY24E	FY25E
Revenue	113,719	139,650	199,854	163,627	175,794
EBITDA	26,466	32,075	32,204	32,662	36,731
Adj. PAT	16,868	21,462	27,108	22,262	25,246
Adj. EPS (Rs)	9.0	10.5	10.3	11.2	12.7
EBITDA margin (%)	23.3	23.0	16.1	20.0	20.9
EBITDA growth (%)	23.2	21.2	(19.7)	26.8	12.5
Adj. EPS growth (%)	17.1	16.2	(1.8)	9.0	13.4
RoE (%)	16.4	21.3	15.9	12.1	12.1
RoIC (%)	39.6	46.6	42.4	30.9	29.5
P/E (x)	34.9	27.0	28.3	26.9	23.4
EV/EBITDA (x)	20.7	18.3	17.5	15.8	13.7
P/B (x)	3.9	3.5	3.4	2.6	2.4
FCFF yield (%)	2.2	1.8	(0.1)	(0.7)	(2.7)

Source: Company, Emkay Research

Results Summary: Cement realization/ton (incl. other operating income) grew 1% YoY/fell ~2% QoQ to Rs5,273. Volumes (incl. clinker) rose 8% YoY and 5% QoQ to 8.1mt (Emkay est.: 7.8mt). Total cost/ton increased by ~3% YoY/declined ~5% QoQ to Rs4,531 vs. our estimate of Rs4,409, owing to lower-than-expected input cost and better operating leverage. Adj. PAT grew 18% YoY/36% QoQ to Rs5.8bn; it has been adjusted for 'exceptional item' of Rs807mn, which pertains to a one-time restructuring cost. Standalone net cash increased by Rs42bn YoY/~Rs18bn QoQ to Rs84bn as of Mar-23.

What we liked: Better-than-expected volume growth and cost initiatives

What we did not like: Lower-than-expected realization and an increase in related-party transactions (RPTs)

Earnings call KTAs: 1) Mgmt. has highlighted its key focus areas – i) Doubling of capacity from ~68mt to 140mt in five years, with the addition of 40mt clinker capacity. Ambuja is looking to set up 10 lines of 4mt each with 90% capacity addition likely through the brownfield route. Mgmt. indicated the entire capex of Rs460bn (over five years) will be funded through internal accruals and any warrants infusion by promoters will be an additional support. ii) Rs300-400/ton improvement in EBITDA for FY24 by optimizing manufacturing and logistics costs. Ambuja is looking to increase WHRS capacity from 70MW to 175MW by Q2FY25; the share of AFR is expected to increase from ~9% to 15% by FY24-end and ~30% in mid-term. Besides, mgmt. is targeting a reduction in lead distance, warehouse optimization and mode mix improvement; iii) Sales and marketing initiatives to focus on 10 high growth states, increase in the share of the B2B segment from 21% to 25% by FY27 and premium products from 22% to ~30%. 2) As per mgmt., outstanding for coal advances stood at Rs14bn, which are likely to be completed in the next few months. 3) RPT reported in ACC/Ambuja is related to the five-year, long-term branding arrangement entered with Adani Sportsline for marketing/sponsorship in several sports leagues (eg. women IPL and Kabaddi league). 4) Mgmt. indicated all upcoming clinker lines will be having adequate limestone reserves. The equipment order is in advanced stage and is likely to be announced soon in a phased-out manner

Target Price – 12M	Mar-24
Change in TP (%)	**(2.2)**
Current Reco.	HOLD
Previous Reco.	HOLD
Upside/(Downside) (%)	5.3
CMP (28-Apr-23) (Rs)	394.4

Stock Data	Ticker
52-week High (Rs)	598
52-week Low (Rs)	315
Shares outstanding (mn)	1,985.6
Market-cap (Rs bn)	783
Market-cap (USD mn)	9,564
Net-debt, FY24E (Rs mn)	-78,486
ADTV-3M (mn shares)	18
ADTV-3M (Rs mn)	6,639.5
ADTV-3M (USD mn)	81.1
Free float (%)	37-
Nifty-50	18,148
INR/USD	81.9
Shareholding, Mar-23	
Promoters (%)	63.2
FPIs/MFs (%)	11.2/14.7

Price Performance

(%)	1M	3M	12M
Absolute	7.9	11.9	4.3
Rel. to Nifty	3.2	8.6	(1.7)

1-Year share price trend (Rs)

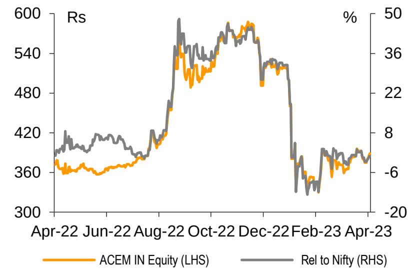

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Exhibit 1: Actual vs Estimates (Q5FY23) Standalone

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net sales	42,563	42,189	41,489	0.9	2.6	In-line
EBITDA	**7,883**	**7,735**	**8,271**	**1.9**	**(4.7)**	**In-line**
PAT	5,831	5,003	4,891	16.5	19.2	
Volumes (mt)	8.1	7.8		3.3		
Blended realisation (Rs/ton)	5,273	5,399		(2.3)		
EBITDA (Rs/ton)	977	990		(1.3)		

Source: Company, Bloomberg, Emkay Research

Exhibit 2: Standalone quarterly financials

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q5FY23	YoY (%)	QoQ (%)	FY22	FY23	% YoY
Revenue	**39,252**	**39,935**	**36,704**	**41,285**	**42,563**	**8.4**	**3.1**	**142,688**	**160,487**	**12.5**
Expenditure	**31,348**	**33,089**	**33,661**	**34,892**	**34,681**	**10.6**	**(0.6)**	**112,477**	**136,323**	**21.2**
Total RM	5,312	3,217	2,960	7,480	8,695	63.7	16.2	13,471	22,352	65.9
Power & Fuel	10,309	13,198	14,147	12,111	10,343	0.3	(14.6)	37,167	49,799	34.0
Freight	8,682	9,048	8,395	8,362	9,326	7.4	11.5	32,962	35,131	6.6
Staff cost	1,529	1,637	1,532	1,595	1,680	9.8	5.3	6,614	6,444	(2.6)
Other expenditure	5,517	5,989	6,627	5,344	4,637	(15.9)	(13.2)	22,262	22,597	1.5
EBITDA	7,904	6,845	3,043	6,393	7,883	(0.3)	23.3	30,211	24,164	(20.0)
Depreciation	1,515	1,539	1,571	1,648	2,047	35.1	24.2	5,773	6,805	17.9
EBIT	**6,389**	**5,306**	**1,473**	**4,745**	**5,836**	**(8.7)**	**23.0**	**24,438**	**17,359**	**(29.0)**
Other Income	367	5,878	470	759	1,740	373.9	129.4	2,672	8,846	231.1
Interest	214	251	228	253	335	56.5	32.6	919	1,066	15.9
PBT	**6,543**	**10,933**	**1,715**	**5,251**	**7,241**	**10.7**	**37.9**	**26,191**	**25,139**	**(4.0)**
Total Tax	1,591	2,398	184	947	1,410	(11.4)	48.8	6,423	4,939	(23.1)
Adjusted PAT	**4,952**	**8,534**	**1,531**	**4,303**	**5,831**	**17.8**	**35.5**	**19,768**	**20,200**	**2.2**
Extra ordinary items	-	1,945	(152)	(613)	(807)		31.6	(657)	372	(156.6)
Reported PAT	**4,952**	**10,479**	**1,379**	**3,690**	**5,024**	**1.5**	**36.2**	**19,111**	**20,572**	**7.6**
Adjusted EPS (Rs)	**2.5**	**4.3**	**0.8**	**2.2**	**2.9**	**17.8**	**35.5**	**10.0**	**10.2**	**2.2**

Margins (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q5FY23	YoY (%)	QoQ (%)	FY22	FY23	% YoY
EBIDTA	20.1	17.1	8.3	15.5	18.5	(162)	304	21.2	15.1	(612)
EBIT	16.3	13.3	4.0	11.5	13.7	(257)	222	17.1	10.8	(631)
EBT	16.7	27.4	4.7	12.7	17.0	34	429	18.4	15.7	(269)
PAT	12.6	21.4	4.2	10.4	13.7	108	328	13.9	12.6	(127)
Effective Tax rate	24.3	21.9	10.7	18.0	19.5			24.5	19.6	

Source: Company, Emkay Research; (FY23 includes four quarters for comparative purposes)

Exhibit 3: Standalone quarterly per ton analysis

Rs/ton	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q5FY23	YoY (%)	QoQ (%)	FY22	FY23	% YoY
Cement volumes (mt)	**7.5**	**7.4**	**7.1**	**7.7**	**8.1**	**7.8**	**4.8**	**27.3**	**30.2**	**10.8**
Blended Realization	**5,241**	**5,404**	**5,204**	**5,362**	**5,273**	**0.6**	**(1.7)**	**5,160**	**5,259**	**1.9**
Raw Material	709	435	420	971	1,077	51.9	10.9	494	740	49.7
Power & Fuel	1,376	1,786	2,006	1,573	1,281	(6.9)	(18.5)	1,363	1,648	20.9
Freight	1,159	1,224	1,190	1,086	1,155	(0.3)	6.4	1,209	1,163	(3.8)
Staff cost	204	221	217	207	208	1.9	0.5	243	213	(12.1)
Other expenditure	737	810	940	694	574	(22.0)	(17.2)	816	748	(8.4)
Operating cost	**4,185**	**4,478**	**4,773**	**4,531**	**4,296**	**2.7**	**(5.2)**	**4,125**	**4,512**	**9.4**
EBITDA/ton	**1,055**	**926**	**432**	**830**	**977**	**(7.5)**	**17.6**	**1,108**	**800**	**(27.8)**

Source: Company, Emkay Research; (FY23 includes four quarters for comparative purposes)

Exhibit 4: Annual analysis on a per-ton basis

Rs/ton	CY17	CY18	CY19	CY20	CY21	15MFY23	FY24E	FY25E
Blended realisation	**4,455**	**4,525**	**4,717**	**4,927**	**5,103**	**5,240**	**5,200**	**5,325**
% YoY	**4.9**	**1.6**	**4.2**	**4.5**	**3.6**	**2.7**	**(0.8)**	**2.4**
Raw materials consumed	655	696	755	831	750	1,035	1,000	1,025
Power & fuel costs	970	1,051	1,075	993	1,266	1,595	1,380	1,402
Freight costs	961	1,044	998	950	903	860	850	870
Staff cost	288	281	281	295	251	212	216	218
Other expenses	847	830	846	777	810	744	764	742
Total OpEx	**3,721**	**3,902**	**3,955**	**3,847**	**3,980**	**4,446**	**4,210**	**4,258**
% YoY	**5.8**	**4.9**	**1.3**	**(2.7)**	**3.5**	**11.7**	**(5.3)**	**1.1**
Other operating income	89	157	131	87	63	61	60	58
Blended EBITDA	**824**	**780**	**893**	**1,167**	**1,187**	**854**	**1,050**	**1,125**
% YoY	**5.5**	**(5.3)**	**14.5**	**30.7**	**1.7**	**(28.0)**	**22.9**	**7.1**

Source: Company, Emkay Research

Exhibit 5: Maintain HOLD with a TP of Rs415, based on 15x Mar'24E EV/EBITDA

EV/E method	Mar-24E
Mar25E EBITDA	37
Implied EV/E multiple (x)	14.9
EV	549
Net debt (Mar24E)	(83)
Equity value (standalone)	632
ACC- 50% of FV	193
SOTP value	825
No. of shares (mn)	1,986
Mar'24 Target Price (Rs)	**415**

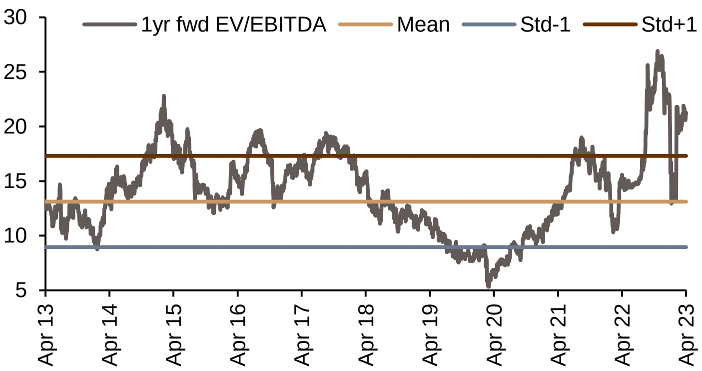
Source: Company, Emkay Research

Exhibit 6: We broadly maintain our estimates

Earnings revision	CY23E			CY24E		
	Old	New	% chg	Old	New	% chg
Revenue (Rs mn)	164,791	163,627	(0.7)	177,131	175,794	(0.8)
EBITDA (Rs mn)	**32,351**	**32,662**	**1.0**	**36,255**	**36,731**	**1.3**
PAT (Rs mn)	22,603	22,262	(1.5)	24,809	25,246	1.8

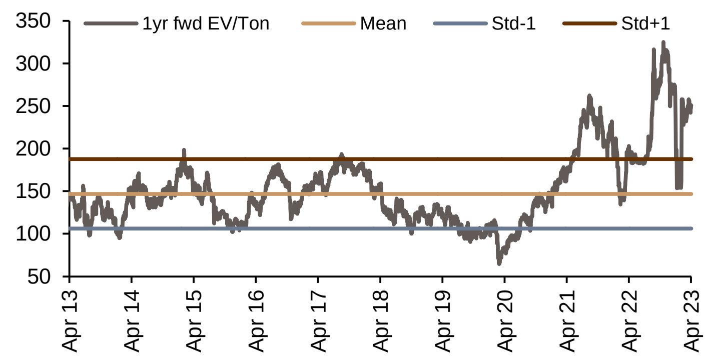
Source: Company, Emkay Research

Exhibit 7: 1-year forward EV/EBITDA



Source: Company, Emkay Research

Exhibit 8: 1-year forward EV/EBITDA



Source: Company, Emkay Research

Ambuja Cements : Standalone Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	CY20	CY21	15MFY23	FY24E	FY25E
Revenue	**113,719**	**139,650**	**199,854**	**163,627**	**175,794**
Revenue growth (%)	(2.5)	22.8	14.5	2.3	7.4
EBITDA	**26,466**	**32,075**	**32,204**	**32,662**	**36,731**
EBITDA growth (%)	23.2	21.2	(19.7)	26.8	12.5
Depreciation & Amortization	5,212	5,512	8,324	6,932	7,894
EBIT	**21,254**	**26,562**	**23,880**	**25,730**	**28,837**
EBIT growth (%)	32.4	25.0	(28.1)	34.7	12.1
Other operating income	0	0	0	0	0
Other income	3,720	2,856	9,523	5,347	6,256
Financial expense	831	909	1,280	1,196	1,206
PBT	**24,144**	**28,509**	**32,123**	**29,881**	**33,887**
Extraordinary items	1,033	(657)	(1,573)	0	0
Taxes	7,276	7,047	5,016	7,620	8,641
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	**17,901**	**20,805**	**25,535**	**22,262**	**25,246**
PAT growth (%)	17.1	16.2	(1.8)	9.0	13.4
Adjusted PAT	**16,868**	**21,462**	**27,108**	**22,262**	**25,246**
Diluted EPS (Rs)	**9.0**	**10.5**	**10.3**	**11.2**	**12.7**
Diluted EPS growth (%)	17.1	16.2	(1.8)	9.0	13.4
DPS (Rs)	**18.0**	**6.3**	**2.0**	**2.2**	**2.5**
Dividend payout (%)	**199.7**	**60.1**	**19.4**	**20.0**	**20.0**
EBITDA margin (%)	23.3	23.0	16.1	20.0	20.9
EBIT margin (%)	18.7	19.0	11.9	15.7	16.4
Effective tax rate (%)	30.1	24.7	15.6	25.5	25.5
NOPLAT (pre-IndAS)	**14,849**	**19,997**	**20,152**	**19,169**	**21,484**
Shares outstanding (mn)	1,985.7	1,985.7	1,985.5	1,985.5	1,985.5

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	CY20	CY21	15MFY23	FY24E	FY25E
Share capital	3,971	3,971	3,971	3,971	3,971
Reserves & Surplus	199,187	218,101	281,084	298,893	319,090
Net worth	**203,159**	**222,073**	**285,055**	**302,864**	**323,061**
Minority interests	0	0	0	0	0
Deferred tax liability (net)	1,860	2,018	2,181	2,236	2,291
Total debt	**436**	**435**	**477**	**477**	**477**
Total liabilities & equity	**205,454**	**224,526**	**287,713**	**305,577**	**325,829**
Net tangible fixed assets	53,829	71,283	75,562	73,937	105,228
Net intangible assets	1,746	1,742	2,393	2,393	2,393
Net ROU assets	3,740	3,433	8,240	8,240	8,240
Capital WIP	18,737	9,513	8,419	36,396	44,183
Goodwill	0	0	0	0	0
Investments [JV/Associates]	117,877	117,877	117,667	117,667	117,667
Cash & equivalents	**29,288**	**41,723**	**84,207**	**78,963**	**59,185**
Current assets (ex-cash)	29,596	36,164	62,552	59,191	61,682
Current Liab. & Prov.	49,360	57,209	71,327	71,210	72,748
NWC (ex-cash)	**(19,764)**	**(21,045)**	**(8,775)**	**(12,019)**	**(11,066)**
Total assets	**205,454**	**224,526**	**287,713**	**305,577**	**325,829**
Net debt	(28,852)	(41,288)	(83,730)	(78,486)	(58,708)
Capital employed	205,454	224,526	287,713	305,577	325,829
Invested capital	**39,551**	**55,413**	**77,420**	**72,551**	**104,795**
BVPS (Rs)	102.3	111.8	114.9	152.5	162.7
Net Debt/Equity (x)	(0.1)	(0.2)	(0.3)	(0.3)	(0.2)
Net Debt/EBITDA (x)	(1.1)	(1.3)	(2.6)	(2.4)	(1.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**11.6**	**13.7**	**10.4**	**10.5**	**11.1**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	CY20	CY21	15MFY23	FY24E	FY25E
PBT	24,144	28,509	32,123	29,881	33,887
Others (non-cash items)	3,924	4,397	-827	2,835	2,901
Taxes paid	-4,648	-3,629	-3,346	-7,620	-8,641
Change in NWC	3,676	-4,615	-7,855	3,244	-953
Operating cash flow	**27,095**	**24,663**	**20,096**	**28,341**	**27,193**
Capital expenditure	-9,778	-11,425	-21,116	-33,284	-46,972
Acquisition of business	3,133	-50	-336	-0	0
Interest & dividend income	3,481	2,415	7,724	5,347	6,256
Investing cash flow	**-3,164**	**-9,060**	**-13,727**	**-27,936**	**-40,716**
Equity raised/(repaid)	-	-	50,000	-	-
Debt raised/(repaid)	-62	35	5	-	-
Payment of lease liabilities	-	-	-	-	-
Interest paid	-896	-1,183	-679	-1,196	-1,206
Dividend paid (incl tax)	-36,646	-2,021	-12,514	-4,452	-5,049
Others	-	-	-697	-	-
Financing cash flow	**-37,604**	**-3,168**	**36,115**	**-5,649**	**-6,255**
Net chg in Cash	-13,674	12,435	42,484	-5,244	-19,778
OCF	26,062	24,663	20,096	28,341	27,193
Adj. OCF (w/o NWC chg.)	22,386	29,278	27,951	25,097	28,146
FCFF	16,284	13,238	(1,019)	(4,943)	(19,779)
FCFE	16,222	13,273	(1,015)	(4,943)	(19,779)
OCF/EBITDA (%)	98.5	76.9	62.4	86.8	74.0
FCFE/PAT (%)	96.2	61.8	(3.7)	(22.2)	(78.3)
FCFF/NOPLAT (%)	**109.7**	**66.2**	**(5.1)**	**(25.8)**	**(92.1)**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	CY20	CY21	15MFY23	FY24E	FY25E
P/E (x)	34.9	27.0	28.3	26.9	23.4
P/CE(x)	35.5	29.0	27.6	26.8	23.6
P/B (x)	3.9	3.5	3.4	2.6	2.4
EV/Sales (x)	6.7	5.4	3.5	4.4	4.2
EV/EBITDA (x)	20.7	18.3	17.5	15.8	13.7
EV/EBIT(x)	35.5	27.9	36.6	27.4	25.1
EV/IC (x)	19.1	13.4	9.0	9.7	6.9
FCFF yield (%)	2.2	1.8	(0.1)	(0.7)	(2.7)
FCFE yield (%)	2.2	1.8	(0.1)	(0.7)	(2.7)
Dividend yield (%)	4.6	1.6	0.5	0.6	0.6
DuPont-RoE split					
Net profit margin (%)	14.8	15.4	13.6	13.6	14.4
Total asset turnover (x)	0.5	0.6	0.6	0.6	0.6
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**7.9**	**10.1**	**8.6**	**7.6**	**8.1**
DuPont-RoIC					
NOPLAT margin (%)	13.1	14.3	10.1	11.7	12.2
IC turnover (x)	2.6	2.9	3.0	2.2	2.0
RoIC (%)	**33.7**	**42.1**	**24.3**	**25.6**	**24.2**
Operating metrics					
Core NWC days	(63.4)	(55.0)	(20.0)	(26.8)	(23.0)
Total NWC days	**(63.4)**	**(55.0)**	**(20.0)**	**(26.8)**	**(23.0)**
Fixed asset turnover	1.4	1.4	1.4	1.3	1.2
Opex-to-revenue (%)	60.1	62.5	64.4	61.0	60.1

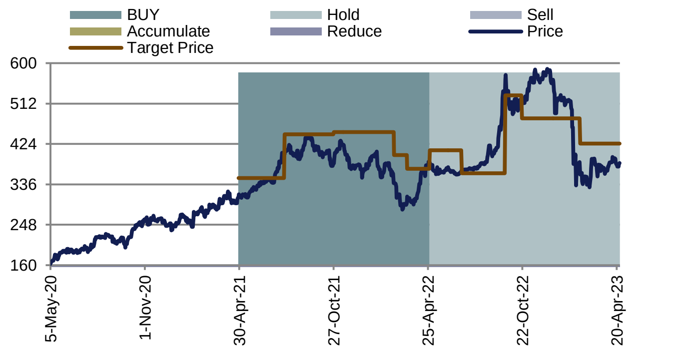
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (Rs)	TP (Rs)	Rating	Analyst
27-Mar-23	370	425	Hold	Dharmesh Shah
02-Mar-23	371	425	Hold	Dharmesh Shah
09-Feb-23	358	425	Hold	Dharmesh Shah
05-Feb-23	374	480	Hold	Dharmesh Shah
29-Dec-22	523	480	Hold	Dharmesh Shah
05-Dec-22	573	480	Hold	Dharmesh Shah
05-Nov-22	559	480	Hold	Dharmesh Shah
21-Oct-22	513	480	Hold	Dharmesh Shah
04-Oct-22	492	530	Hold	Dharmesh Shah
19-Sep-22	565	530	Hold	Dharmesh Shah
04-Sep-22	416	360	Hold	Dharmesh Shah
20-Jul-22	368	360	Hold	Dharmesh Shah
04-Jul-22	369	360	Hold	Dharmesh Shah
28-Jun-22	366	360	Hold	Dharmesh Shah
16-May-22	368	410	Hold	Dharmesh Shah
28-Apr-22	383	410	Hold	Dharmesh Shah
16-Mar-22	309	370	Buy	Dharmesh Shah
19-Feb-22	338	400	Buy	Dharmesh Shah
31-Dec-21	378	450	Buy	Dharmesh Shah
19-Dec-21	369	450	Buy	Dharmesh Shah
02-Dec-21	377	450	Buy	Dharmesh Shah
27-Oct-21	382	450	Buy	Dharmesh Shah
05-Sep-21	437	445	Buy	Dharmesh Shah
25-Jul-21	402	445	Buy	Dharmesh Shah
06-Jun-21	332	350	Buy	Dharmesh Shah
30-Apr-21	309	350	Buy	Dharmesh Shah
28-Apr-21	309	350	Buy	Dharmesh Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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