

June 19, 2024

Event Update

☒ Change in Estimates | ☒ Target | ☐ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	697		683	
Sales (Rs. m)	3,80,448	4,34,457	3,87,092	4,42,001
% Chng.	(1.7)	(1.7)		
EBITDA (Rs. m)	86,022	1,08,326	82,865	1,05,595
% Chng.	3.8	2.6		
EPS (Rs.)	15.8	21.8	15.4	21.5
% Chng.	2.6	1.5		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	3,89,368	3,31,596	3,80,448	4,34,457
EBITDA (Rs. m)	51,222	63,995	86,022	1,08,326
Margin (%)	13.2	19.3	22.6	24.9
PAT (Rs. m)	27,550	32,920	38,846	53,751
EPS (Rs.)	13.9	15.0	15.8	21.8
Gr. (%)	(2.7)	8.0	5.3	38.4
DPS (Rs.)	2.5	1.8	2.2	2.4
Yield (%)	0.4	0.3	0.3	0.4
RoE (%)	9.7	9.0	8.2	9.7
RoCE (%)	12.1	13.0	13.8	15.1
EV/Sales (x)	3.4	4.1	3.9	3.4
EV/EBITDA (x)	25.6	21.3	17.2	13.6
PE (x)	48.6	45.0	42.7	30.9
P/BV (x)	4.2	3.6	3.1	2.9

Key Data

ABUJ.BO | ACEM IN

52-W High / Low	Rs.690 / Rs.404	
Sensex / Nifty	77,301 / 23,558	
Market Cap	Rs.1,660bn / \$ (2,14,68,26,273)m	
Shares Outstanding	2,463m	
3M Avg. Daily Value	Rs.2479.09m	

Shareholding Pattern (%)

Promoter's	70.32
Foreign	9.90
Domestic Institution	12.94
Public & Others	6.84
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.9	28.2	46.2
Relative	4.1	18.6	19.9

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Ambuja Cement (ACEM IN)

Rating: ACCUMULATE | CMP: Rs674 | TP: Rs697

Penna to improve Southern exposure

Ambuja Cement (ACEM) is set to acquire 100% shares of South based unlisted Penna Cement Industries Ltd (PCIL) at an EV of Rs104.2bn. Incorporated in 1991, PCIL has 10mtpa operational cement capacity in Andhra Pradesh (5.8mtpa IU), Telangana (3.2mtpa IU) and Maharashtra (1mtpa GU) along with 7.3mtpa clinker capacity. It also has 2mtpa under construction capacities at AP and Jodhpur each along with 3mtpa clinker capacity which can be commissioned over next 6-12 months. As this EV includes cost of completion of under construction projects, considering unspent capex of ~Rs16bn, EV/t works out at ~USD76/t. The deal will give ACEM an entry into new Southern markets - mainly AP and Telangana where ACEM has no material presence and both states are expected to benefit from recent regime change. It also complements ACEM's portfolio with five port based bulk terminals in South & East India which would aid ACEM to supply undersupplied markets immediately.

With strong balance sheet and remarkable execution speed, we believe ACEM's consolidated performance would improve substantially going forward. We expect ACEM to deliver incremental 5-6mt volumes from PCIL assets in FY26 once the deal gets consummated over next few months. We have not yet incorporated PCIL into ACEM estimates however with Proforma P&L, ACEM FY26E EBITDA gets upgraded by 11% with ~6mt volumes and TP can see additional ~Rs40 hike. We have tweaked our estimates post incorporating FY24 annual report and maintain Accumulate with revised TP of Rs 697 (Rs683 earlier) on the stock. Stock trades at EV of 17.2x and 13.6x FY25E/26E EBITDA.

Quicker entry into key Southern markets: With PCIL acquisition, ACEM has entered into key growing markets of AP/TG. We believe with strong balance sheet, ACEM will be able to quickly turnaround ailing PCIL assets and cater to southern markets. The bulk terminals at Kolkata, Gopalpur, Karaikal, Kochi and Colombo would aid ACEM to serve peninsular India and Sri Lanka. PCIL has supporting railway sidings at most of the locations and also 77MW CPP/ 32MW WHRS capacity. Surplus clinker at Jodhpur plant will support additional 3mtpa cement grinding capacity in future which makes the deal attractive.

Milestone based payment mechanism: As per terms of the deal, ACEM would release Rs74bn as initial payment and later Rs30bn as a milestone based payment mechanism post completion of ongoing expansion at Krishnapatnam (AP) & Jodhpur (RJ). This ensures timely execution of ongoing expansion as earlier mgmt. had put up the expansion plans on hold due to constraints of balance sheet.

Maximizing throughput from existing facilities: With acquisition of PCIL, ACEM would ramp up ailing PCIL capacity similar to recently acquired Sanghi assets. PCIL reported sales volumes of 6.7/3.9mt in FY22/23 respectively and in 1HFY24 it suffered EBITDA loss of Rs110mn due to reduced operational efficiencies, lower fixed cost absorption and weak NSR at just 1.5mt volumes. We expect ACEM to deliver incremental 5-6mt volumes in FY26 from PCIL assets.

Exhibit 1: Complements ACEM's logistics assets to cater South & East

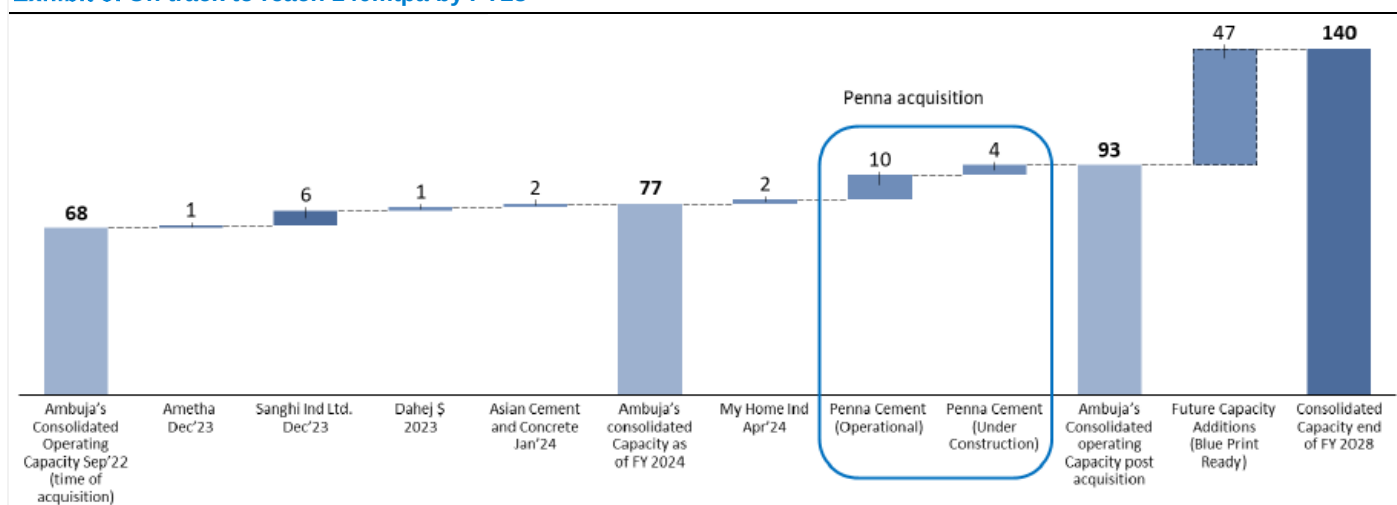


Source: Company, PL

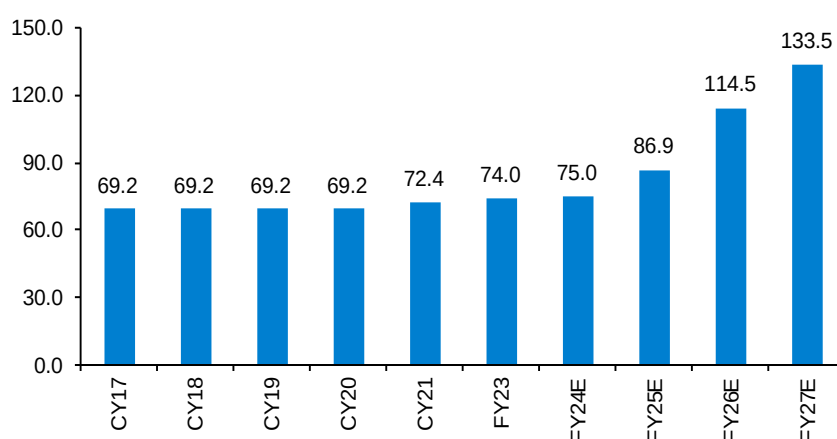
Exhibit 2: Penna Cement's capacity break up

Plant	Clinker (MTPA)	Cement (MTPA)	CPP/WHRS	Railway Siding
Talariceruvu, AP	1.3	1.8		No
Boyareddypalli, AP	3.5	2.0	WHRS 25 MW	Yes
Ganeshpahad, TG	1.0	1.2	CPP 77MW WHRS - 7MW	Yes
Tandur, TG	1.5	2.0		Yes
Krishnapatnam, AP	-	2.0		Yes
Patas, MH	-	1.0		Yes
Operational Capacity	7.3	10.0		
Jodhpur. RJ #	3.0	2.0		Yes
Krishnapatnam, AP		2.0		Yes
Under Construction Capacity	3.0	4.0		
Total Capacity	10.3	14.0		

Source: Company, PL #: Surplus clinker at Jodhpur plant will support an additional 3mtpa cement grinding capacity over and above 14mtpa.

Exhibit 3: On track to reach 140mtpa by FY28


Source: Company, PL

Exhibit 4: ACEM Consolidated capacity to grow to 114mt by FY26E


Source: Company, PL

Exhibit 5: Proforma P&L assuming deal consummation for FY26E estimates

ACEM - Cons P&L Statement (in Rs mn)	FY24	FY25E	FY26E	Proforma P&L	
				FY25E	FY26E
Net sales	3,25,298	3,80,448	4,34,457	3,80,448	4,66,368
Raw material consumption	49,228	58,532	65,306	58,532	68,185
Power & Fuel	81,093	84,581	91,137	84,581	98,525
Employee expenses	13,528	13,365	14,519	13,483	14,775
Freight	80,006	91,356	1,03,385	91,356	1,10,687
Other Expenses	43,746	46,592	51,786	46,592	54,192
Total expenditure	2,67,601	2,94,426	3,26,131	2,94,544	3,46,363
EBITDA	57,697	86,022	1,08,326	85,905	1,20,005
% of sales	17.7	22.6	24.9	22.6	25.7

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	3,89,368	3,31,596	3,80,448	4,34,457
YoY gr. (%)	34.4	(14.8)	14.7	14.2
Cost of Goods Sold	51,109	49,228	58,532	65,306
Gross Profit	3,38,259	2,82,369	3,21,916	3,69,152
Margin (%)	86.9	85.2	84.6	85.0
Employee Cost	18,565	13,528	13,365	14,519
Other Expenses	2,68,472	2,04,846	2,22,529	2,46,307
EBITDA	51,222	63,995	86,022	1,08,326
YoY gr. (%)	(17.5)	24.9	34.4	25.9
Margin (%)	13.2	19.3	22.6	24.9
Depreciation and Amortization	16,447	16,234	20,381	24,492
EBIT	34,775	47,761	65,641	83,834
Margin (%)	8.9	14.4	17.3	19.3
Net Interest	1,949	2,764	3,628	2,274
Other Income	6,814	11,664	8,855	12,502
Profit Before Tax	37,015	54,546	70,869	94,062
Margin (%)	9.5	16.4	18.6	21.7
Total Tax	7,051	11,626	20,303	25,963
Effective tax rate (%)	19.0	21.3	28.6	27.6
Profit after tax	29,964	42,920	50,566	68,099
Minority interest	4,410	11,612	11,720	14,348
Share Profit from Associate	280	229	-	-
Adjusted PAT	27,550	32,920	38,846	53,751
YoY gr. (%)	(2.7)	19.5	18.0	38.4
Margin (%)	7.1	9.9	10.2	12.4
Extra Ord. Income / (Exp)	(1,716)	(1,383)	-	-
Reported PAT	25,834	31,537	38,846	53,751
YoY gr. (%)	(7.1)	22.1	23.2	38.4
Margin (%)	6.6	9.5	10.2	12.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	25,834	31,537	38,846	53,751
Equity Shares O/s (m)	1,986	2,198	2,463	2,463
EPS (Rs)	13.9	15.0	15.8	21.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	3,23,358	4,25,956	5,00,956	5,75,956
Tangibles	3,23,358	4,25,956	5,00,956	5,75,956
Intangibles	-	-	-	-
Acc: Dep / Amortization	87,844	1,02,071	1,22,452	1,46,944
Tangibles	87,844	1,02,071	1,22,452	1,46,944
Intangibles	-	-	-	-
Net fixed assets	2,35,515	3,23,885	3,78,504	4,29,012
Tangibles	2,35,515	3,23,885	3,78,504	4,29,012
Intangibles	-	-	-	-
Capital Work In Progress	30,068	40,708	45,708	50,708
Goodwill	-	-	-	-
Non-Current Investments	33,573	12,688	12,688	12,688
Net Deferred tax assets	(7,004)	(15,122)	(15,122)	(15,122)
Other Non-Current Assets	25,565	26,806	26,806	26,806
Current Assets				
Investments	-	7,587	7,587	7,587
Inventories	32,728	36,086	36,481	41,660
Trade receivables	11,544	12,131	12,508	11,903
Cash & Bank Balance	29,610	1,10,689	1,78,593	1,85,088
Other Current Assets	39,489	24,597	24,597	24,597
Total Assets	5,17,215	6,52,978	7,81,274	8,47,851
Equity				
Equity Share Capital	3,971	4,395	4,926	4,926
Other Equity	3,13,011	4,10,155	5,26,018	5,73,808
Total Network	3,16,982	4,14,551	5,30,944	5,78,735
Non-Current Liabilities				
Long Term borrowings	1,082	2,000	2,000	2,000
Provisions	2,649	2,560	2,560	2,560
Other non current liabilities	373	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	27,739	31,088	31,270	35,709
Other current liabilities	86,658	88,391	88,391	88,391
Total Equity & Liabilities	5,17,215	6,52,978	7,81,274	8,47,851

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	37,295	59,006	70,869	94,062
Add. Depreciation	16,447	16,234	20,381	24,492
Add. Interest	1,949	2,764	3,628	2,274
Less Financial Other Income	6,814	11,664	8,855	12,502
Add. Other	(6,227)	(14,331)	(8,855)	(12,502)
Op. profit before WC changes	49,463	63,673	86,022	1,08,326
Net Changes-WC	(34,729)	1,941	(590)	(135)
Direct tax	(7,385)	(9,156)	(20,303)	(25,963)
Net cash from Op. activities	7,349	56,458	65,129	82,229
Capital expenditures	(1,49,280)	(99,801)	(80,000)	(80,000)
Interest / Dividend Income	-	-	-	-
Others	4,473	10,296	8,855	12,502
Net Cash from Invt. activities	(1,44,808)	(89,504)	(71,145)	(67,498)
Issue of share cap. / premium	50,005	66,610	82,966	-
Debt changes	(1,159)	(1,533)	-	-
Dividend paid	(17,955)	(5,848)	(5,419)	(5,961)
Interest paid	(1,581)	(2,341)	(3,628)	(2,274)
Others	-	-	-	-
Net cash from Fin. activities	29,310	56,888	73,920	(8,235)
Net change in cash	(1,08,148)	23,842	67,904	6,495
Free Cash Flow	(34,969)	11,634	(14,871)	2,229

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	47,297	39,698	44,395	47,803
YoY gr. (%)	18.3	8.2	7.5	12.3
Raw Material Expenses	8,827	7,268	11,278	13,942
Gross Profit	38,470	32,430	33,117	33,861
Margin (%)	81.3	81.7	74.6	70.8
EBITDA	9,486	7,734	8,511	7,978
YoY gr. (%)	38.2	154.1	35.9	1.2
Margin (%)	20.1	19.5	19.2	16.7
Depreciation / Depletion	2,319	2,286	2,335	2,440
EBIT	7,167	5,449	6,176	5,538
Margin (%)	15.2	13.7	13.9	11.6
Net Interest	396	435	454	338
Other Income	1,895	3,781	1,082	1,768
Profit before Tax	8,665	8,795	6,804	6,968
Margin (%)	18.3	22.2	15.3	14.6
Total Tax	2,216	2,357	1,668	1,487
Effective tax rate (%)	25.6	26.8	24.5	21.3
Profit after Tax	6,449	6,438	5,137	5,481
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,449	6,438	5,137	5,481
YoY gr. (%)	(28.3)	325.5	22.9	(3.1)
Margin (%)	13.6	16.2	11.6	11.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	6,449	6,438	5,137	5,481
YoY gr. (%)	(38.5)	366.9	39.2	9.1
Margin (%)	13.6	16.2	11.6	11.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,449	6,438	5,137	5,481
Avg. Shares O/s (m)	2,198	2,198	2,198	2,198
EPS (Rs)	2.9	2.9	2.3	2.5

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	13.9	15.0	15.8	21.8
CEPS	22.2	22.4	24.0	31.8
BVPS	159.6	188.6	215.6	235.0
FCF	(17.6)	5.3	(6.0)	0.9
DPS	2.5	1.8	2.2	2.4
Return Ratio(%)				
RoCE	12.1	13.0	13.8	15.1
ROIC	11.0	15.1	16.2	16.7
RoE	9.7	9.0	8.2	9.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	15	19	17	15
Valuation(x)				
PER	48.6	45.0	42.7	30.9
P/B	4.2	3.6	3.1	2.9
P/CEPS	30.4	30.1	28.0	21.2
EV/EBITDA	25.6	21.3	17.2	13.6
EV/Sales	3.4	4.1	3.9	3.4
Dividend Yield (%)	0.4	0.3	0.3	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Cons. Volume (mt)	69	59	68	77
Cons. Net Realisations (Rs/t)	5,557	5,495	5,526	5,621
Cons. EBITDA/ t (Rs/t)	663	975	1,257	1,409

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-May-24	Accumulate	683	622
2	02-May-24	Hold	652	626
3	09-Apr-24	Hold	600	629
4	11-Mar-24	Hold	586	603

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	3,509	2,580
2	Ambuja Cement	Accumulate	683	622
3	Dalmia Bharat	Accumulate	2,077	1,806
4	Hindalco Industries	BUY	779	673
5	Jindal Stainless	Hold	712	680
6	Jindal Steel & Power	Accumulate	987	939
7	JSW Steel	Accumulate	980	902
8	National Aluminium Co.	Sell	141	183
9	NMDC	Accumulate	279	258
10	Nuvoco Vistas Corporation	Accumulate	384	335
11	Shree Cement	BUY	29,225	25,820
12	Steel Authority of India	Sell	127	174
13	Tata Steel	Accumulate	172	164
14	Ultratech Cement	BUY	11,608	9,964

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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