DEEP DIVE

Ambuja Cement

INSTITUTIONAL RESEARCH

Ambuja Cement

Aggressive game plan

We deep-dive into Ambuja's growth story under Adani. Adani has operationally consolidated all the operations for both ACC and Ambuja under Ambuja, thus reducing overhead costs. Under the new management, Ambuja is executing aggressive expansions and bolstering low-cost green power infrastructure. It is also tightening its logistics which had temporarily inflated during management change. We estimate volume growth to accelerate to 12% CAGR during FY23-26, supported by both organic and inorganic expansions and increased focus on non-trade. We estimate unit EBITDA will expand by INR 110/MT (over CY21) by FY26E, driven by the rising share of low-cost green power/fuel, restoration of its logistics efficiency, royalty cost saving and overhead cost reductions. As Ambuja expands aggressively, the promoters have also committed INR 200bn equity infusion, thus preserving a net-cash balance sheet. We move to consolidated modelling for Ambuja as consolidated operations better capture Ambuja's growth story from here. We maintain ADD with a revised TP of INR 620/share (16.5x its consolidated FY26E EBITDA).

- **Business consolidation and expansions:** Post the acquisitions of Ambuja and ACC, Adani has consolidated the operations for both the listed entities under Ambuja. This is done to reduce manpower duplication and other overhead optimisation. Cement from recently acquired Sanghi Industries is also being sold under the Ambuja and ACC brands. Inter-company sales of cement/clinker and spare parts have been on the rise as part of the Material Supply Agreement (MSA). This makes it prudent to analyse Ambuja Cements as a consolidated entity as against the earlier practice of evaluating Ambuja and ACC as separate entities (pre-acquisition by Adani group). The combined entity is aggressively pursuing its ambition of doubling the capacity to 140 mn MT by FY28. It has already outlined expansions of 123mn MT by FY27 and more expansion projects are in the pipeline. This will help the company regain market share (as we estimate a 12% volume CAGR for FY23-26E), which it had been steadily losing under the Holcim ownership.
- **Major investments in low-cost green power to boost margin**: Both Ambuja and ACC lagged heavily on green power consumption (vs peers) as they did not make investments towards WHRS/solar/wind installations. This is changing under the new promoters as Ambuja has committed large Capex (INR 100bn) for beefing up both WHRS and renewal power capacity. Ambuja will be adding 258MW of WHRS by FY28 and 1006MW of renewal power capacity. Thus, captive WHRS/renewables should account for ~20/15% of Ambuja's total power requirements in FY26. This will further increase as it is targeting green power to account for 60% of total power requirements by FY28. We estimate that the rising share of low-cost green power will be a major cost saver and a margin booster for Ambuja (on a consolidated basis). We estimate consolidated unit EBITDA in FY26E will expand by INR 110/MT over CY21 (performance under Holcim), buoyed by savings in energy and overhead costs.
- **Other initiatives:** Under the new promoter, Ambuja is saving 1% of revenue (~INR 55/MT) as technology and know-how fees are no longer payable. Ambuja is again tightening its logistics practices to reduce the cost which had shot up during the management transition. It has also scaled up coal mine reserves, adding alternative fuel processing infrastructure to offset fuel price volatility impact. To support its aggressive expansion, it has acquired limestone mining leases at 10 locations.

ADD

CMP *(as on 28 Mar 2024)*	INR 613
Target Price	INR 620
NIFTY	22,327

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 560	INR 620

KEY STOCK DATA	
Bloomberg code	ACEM IN
No. of Shares (mn)	1,986
MCap (INR bn) / ($ mn)	1,216/14,867
6m avg traded value (INR mn)	1,939
52 Week high / low	INR 625/354

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	19.1	45.8	70.6
Relative (%)	17.4	33.4	42.8

SHAREHOLDING PATTERN (%)

	Dec-23	28-Mar-24
Promoters	63.19	66.74
FIs & Local MFs	15.83	14.43
FPIs	11.88	11.11
Public & Others	9.10	7.72
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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- **Balance sheet to remain net cash**: Strong volume growth and healthy margin uptick should fund most of the cash required for the planned doubling of capacity by FY28. The promoters would be infusing ~INR 200bn in Ambuja as they fully subscribe to the warrants issued to them soon after the change of ownership. The promoter group subscribed to 44.4% of the issued warrants on 28th March 2024. We expect the group to subscribe to the rest of the warrants in April-2024. This should further ensure that Ambuja remains a net cash company while achieving its stated capacity and green power infrastructure targets.
- **Valuation outlook**: Post the management change, Ambuja has streamlined its operations, increased focus on low-cost green power consumption and is expanding aggressively. However, its balance sheet should remain healthy on strong internal accruals and large cash infusion by promoters. This places Ambuja at par with peers in terms of its strong volume growth and healthy margin profile. Thus, we value Ambuja at 16.5x its FY26 consolidated EBITDA (in line with our target valuations for the other two pan-India cement majors UltraTech and Shree Cement), implying target price of INR 620/share.

Financial summary (consolidated)

Y/E Dec (INR bn)	CY19	CY20	CY21	*FY23	FY24E	FY25E	FY26E
Sales (mn MT)	51.85	46.20	53.19	69.15	59.75	66.92	76.95
NSR (INR/MT)	5,227	5,307	5,446	5,631	5,659	5,631	5,603
EBITDA(INR/MT)	888	1,083	1,168	741	1,086	1,191	1,281
Net Sales	271.04	245.16	289.66	389.37	338.10	376.78	431.13
EBITDA	46.05	50.06	62.10	51.22	64.86	79.67	98.54
APAT	21.03	25.41	29.01	29.02	34.79	37.88	52.73
Diluted EPS (Rs)	10.6	12.8	14.6	11.7	15.8	15.4	21.4
EV / EBITDA (x)	28.5	26.5	21.0	24.1	21.6	18.9	16.7
EV/MT (Rs bn)	20.95	21.18	19.85	18.09	17.97	17.62	17.45
P/E (x)	64.0	53.0	46.4	46.4	38.7	39.9	28.6
RoE (%)	7.3	8.6	9.4	6.5	7.9	6.8	8.2

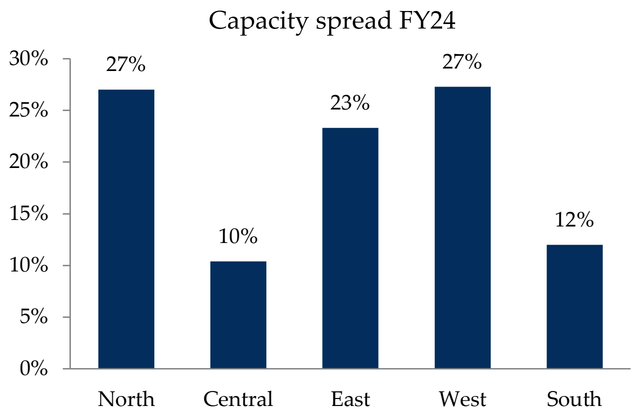
Source: Company, HSIE Research, *FY23 performance includes 15 months

Business consolidation for Ambuja and ACC under Adani

Post-acquisition of Ambuja and ACC, Adani has consolidated the operations of both companies. Adani has retained the legacy brands–ACC and Ambuja—as they enjoy premium positioning across various markets. The group has removed duplication of leadership across verticals for both companies. The scope of the Material Supply Agreement between both companies has been on the rise to squeeze in synergy benefits. Thus, standalone reported performances of ACC and Ambuja are skewed owing to double counting of MSA volumes. The merger of both entities is currently not on the cards. Ambuja has also been sharing the operating KPIs mostly for Ambuja at consolidated levels. Hence, evaluating Ambuja's performance on a consolidated level is more meaningful and comparable with peers like UltraTech, Shree Cement and Dalmia Bharat. We thus move on to consolidated financial modelling for Ambuja vs standalone earlier.

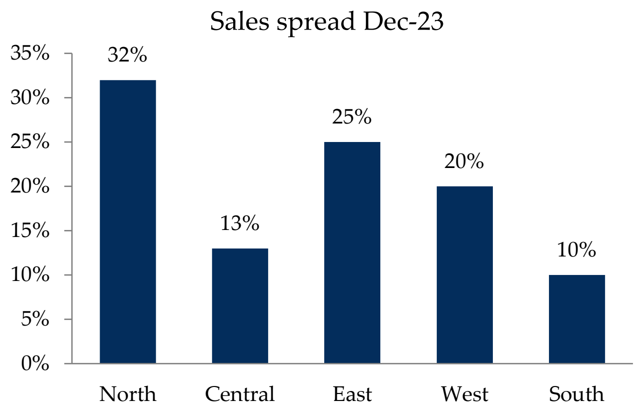
On a consolidated basis – Ambuja is currently the second-largest cement company in India with 78mn MT cement and 53mn MT clinker capacities. This includes the recently acquired Sanghi Industries' capacity. The ramp-up of Sanghi Industries will only increase inter-company sales as Ambuja has announced to sell cement from Sanghi plants under the Ambuja and ACC brands.

Ambuja capacity spread in FY24



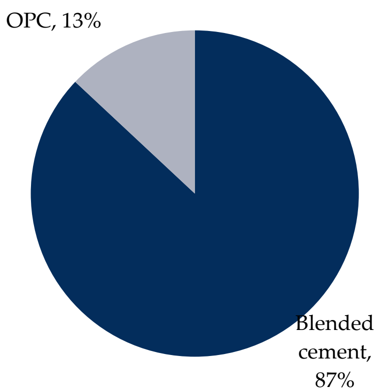
Source: Company, HSIE Research

Regional sales mix (Dec-23 quarter)



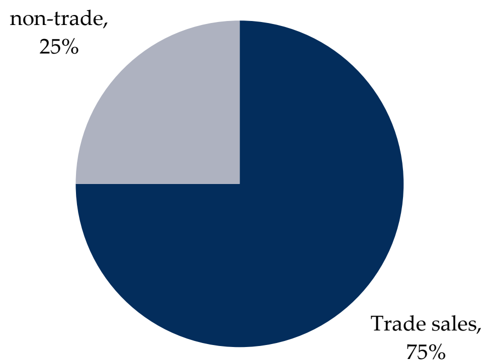
Source: Company, HSIE Research

Current production mix: 87% blended cement



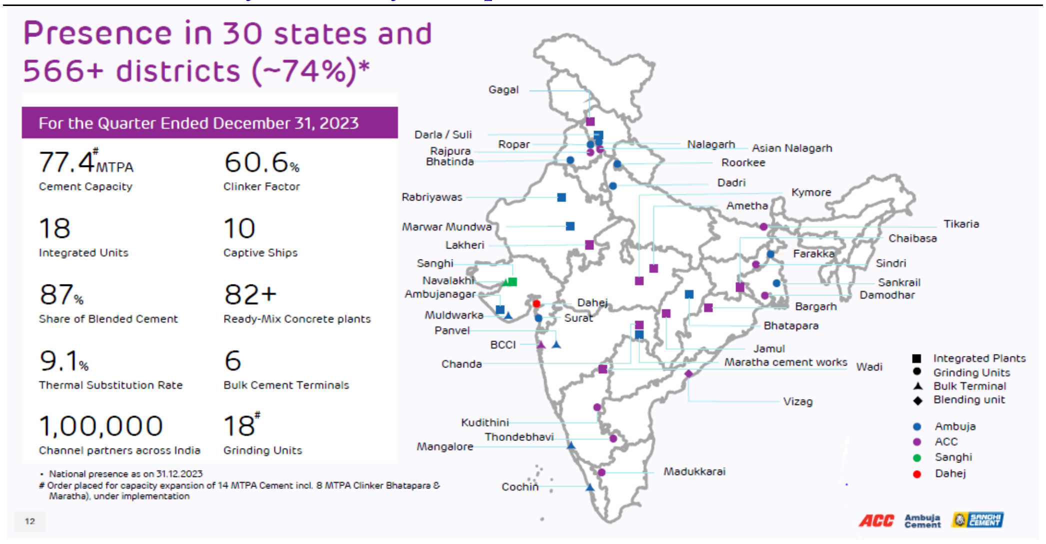
Source: Company, HSIE Research

Non-trade sales share has increased to 25% in Q3FY24



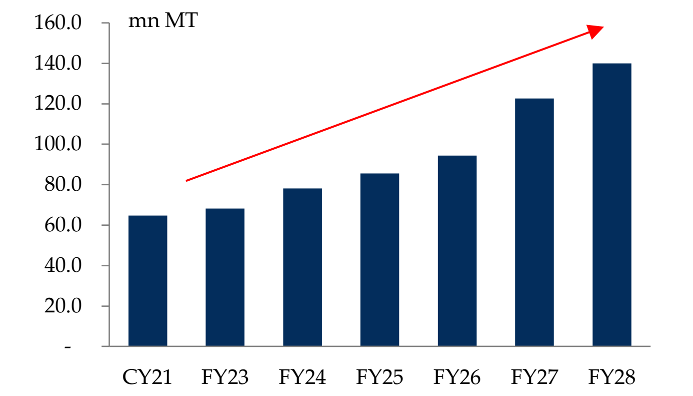
Source: Company, HSIE Research

The combined entity is currently well spread across India



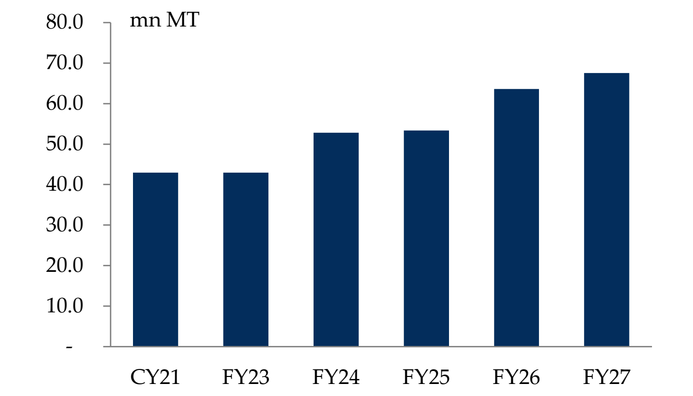
Source: Company, HSIE Research

Ambuja's cement expansion trajectory; more announcements to follow



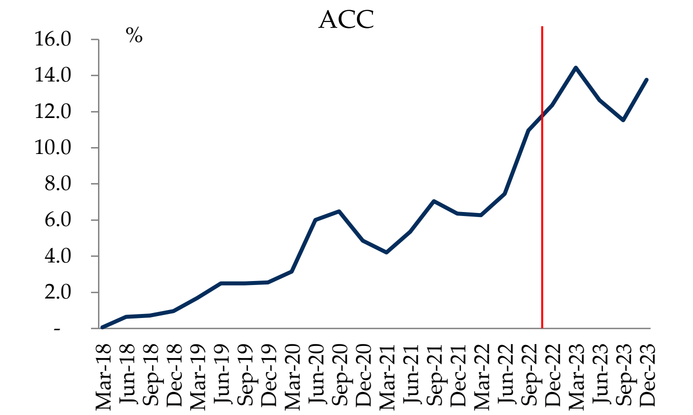
Source: Company, HSIE Research

And clinker expansion trajectory; more announcements to follow



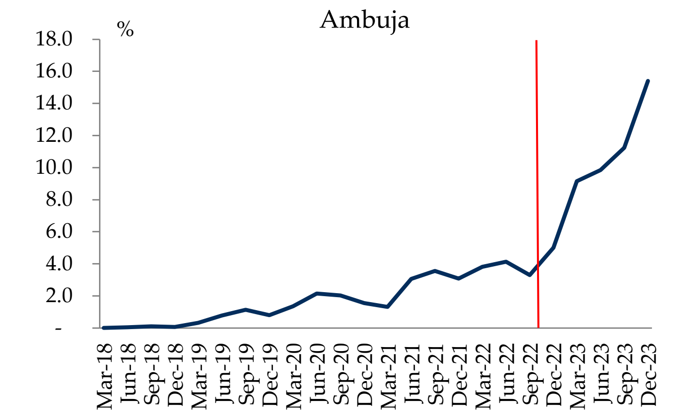
Source: Company, HSIE Research

Post acquisition, share of traded purchases with Ambuja has been on a rise



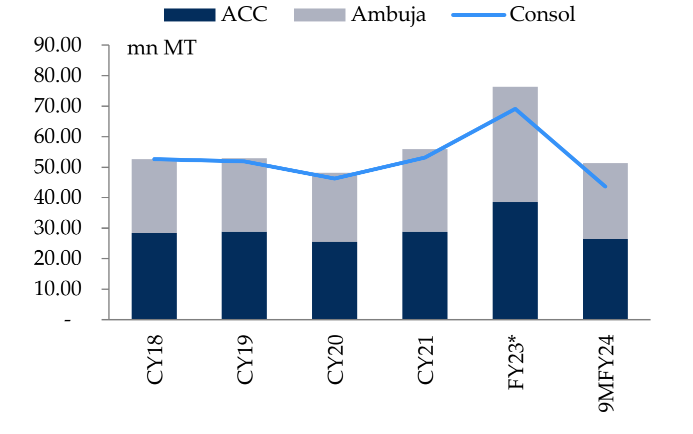
Source: Company, HSIE Research

Similar trend seen in Ambuja



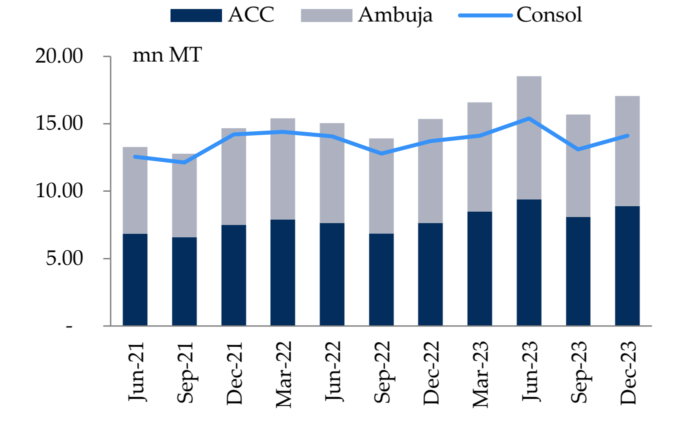
Source: Company, HSIE Research

Rising share of volumes under MSA has increased the divergence between consolidated and aggregate volumes



Source: Company, HSIE Research, FY23 includes 15months sales

The divergence between consolidated and aggregate volume accelerated post-acquisition (mid-FY23)



Source: Company, HSIE Research

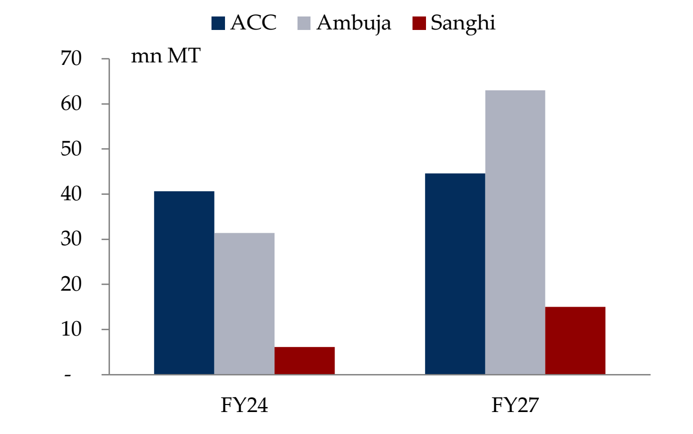
Fast-tracking expansions

The company is aggressively pursuing its plans to double combined capacity to 140mn MT by FY28 end (~72mn MT additions). For the same, the group has plans to add (organic and inorganic) 32 grinding units and 40mn MT clinker capacities.

During FY24, the group commissioned the long-due greenfield integrated plant at Ametha (3.3mn MT clinker and 1mn MT cement) under ACC and acquired a promoter stake in Sanghi Industries (6mn MT cement capacity) under Ambuja. It also acquired the remaining 55% stake in its associate company—Asian Concretes and Cements (2.8mn MT cement capacity).

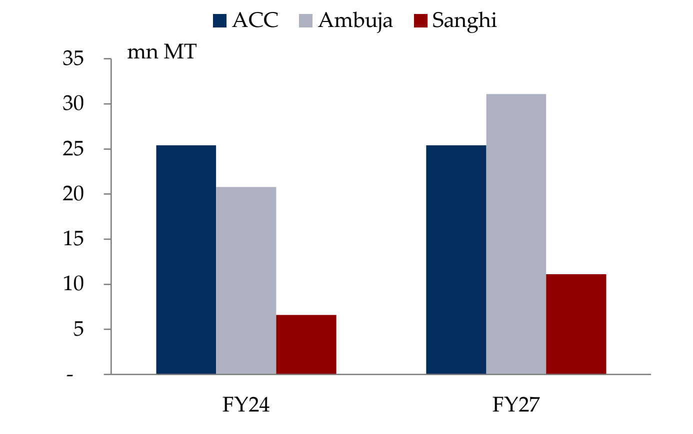
The group has detailed organic expansion plans whereby it will be doubling the cement capacity of Ambuja standalone to 63mn MT by FY27 (i.e. 32mn MT additions over FY23 exit). During the same period, it will be adding 8mn MT in ACC to reach 45mn MT by FY27. The group has earlier also indicated its intention to expand Sanghi Industries capacity to 15mn MT (i.e. 9mn MT additions in next few years). Thus, Ambuja's consolidated capacity will increase to 123mn MT by FY27. The company will be announcing more expansions in the coming months.

Current cement expansions are majority planned under Ambuja (standalone) and Sanghi Industries



Source: Company, HSIE Research

Clinker capacity expansion plans across all three entities



Source: Company, HSIE Research

On the clinker front, of the 40mn MT expansion plans, the group added 10mn MT during FY24 (Sanghi 6.6mn MT and Ametha (ACC) 3.3mn MT). It is currently working on brownfield expansions in Ambuja by 4mn MT each at Chandarpur (Maharashtra) and Bhatapara (Chhattisgarh), which are expected to be commissioned in FY26. Ambuja will also be setting up a greenfield IU plant at Mundra with a 2.3mn MT clinker capacity. Similarly, it has plans to almost double the Sanghi clinker capacity to 11mn MT (in line with cement expansion) over the next few years. These will cumulatively account for another 14mn MT expansions. Of the remaining 16mn MT clinker expansions – the group has indicated work is going on at various other sites, and announcements will follow.

Accelerating green power infrastructure

Catching up on the WHRS opportunity

Under Holcim, both ACC and Ambuja remained heavily under-invested in low-cost green power (WHRS, Solar and wind), despite being earlier proponents of reducing GHG emissions. However, this is changing under Adani's ownership. The group is aggressively working on increasing its green power portfolio – setting up both WHRS and solar power.

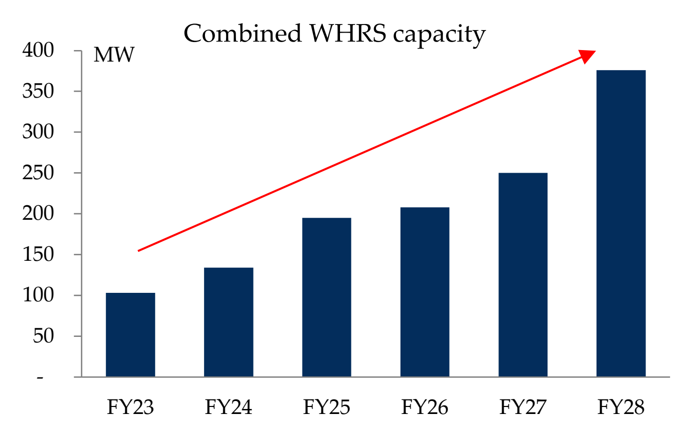
ACC commissioned 22.4/16.3MW WHRS during FY23/24 and has plans to further add 40MW across its Karnataka and Maharashtra plants. Thus, its WHRS capacity will increase to 85MW by next year.

Similarly, Ambuja (standalone) commissioned ~41MW WHRS across four locations in FY23 and another 28MW is under construction at its Gujarat and Maharashtra plants (expected by early FY25). These will increase the WHRS capacity to 86MW in FY25.

Additionally, Sanghi has 13MW of WHRS. Thus, the combined WHRS capacity will increase to ~185MW. Collectively, these should account for ~13/20% of power requirement for the cement business in FY24/25E (vs 6-7% contribution in FY23 and much lower before FY23).

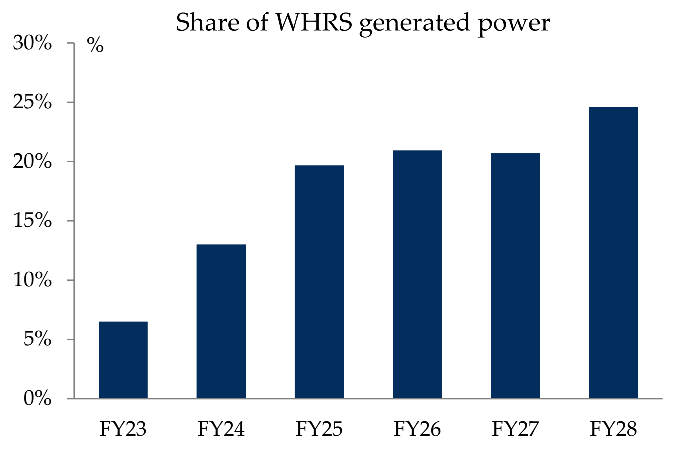
The group has plans to increase WHRS capacity by 258MW by FY28, incurring a Capex of INR 40bn. This will increase WHRS capacity to 377MW. Thus, in our view, the share of green power from WHRS alone should increase to 20% FY26 onwards and hence blended power consumption cost should continue to trend lower.

Ambuja will be more than tripling its WHRS capacity by FY28



Source: Company, HSIE Research

Share of low-cost WHRS power should expand, aiding margin uptick



Source: Company, HSIE Research

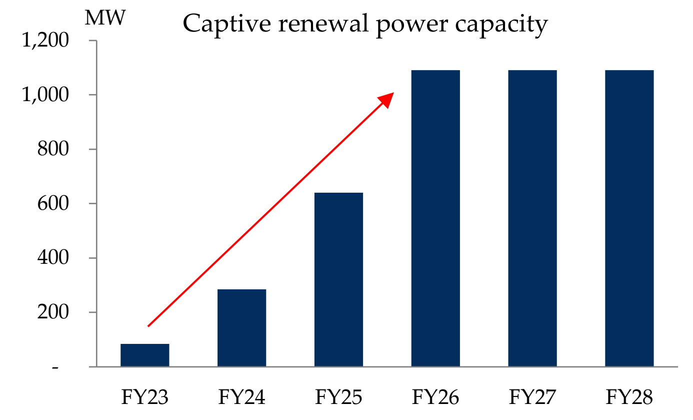
Large investments in renewal power

The group is also augmenting its renewal power portfolio. Currently, Ambuja has 83MW of wind and solar power combined captive capacity. It is investing INR 60bn during FY24-26 to add a total of 1,006MW of renewal power (850MW solar and 156MW wind). The group is setting up these units in Gujarat and Rajasthan and will be wheeling them for captive consumption. In our view, these units should meet ~15% of the group's electricity requirements in FY26E and should expand to 20-25% in subsequent years.

Additionally, Ambuja has stated its plan to use green power for ~60% of its requirements by FY28. Hence, we estimate that it would also be gradually scaling up the purchase of green power.

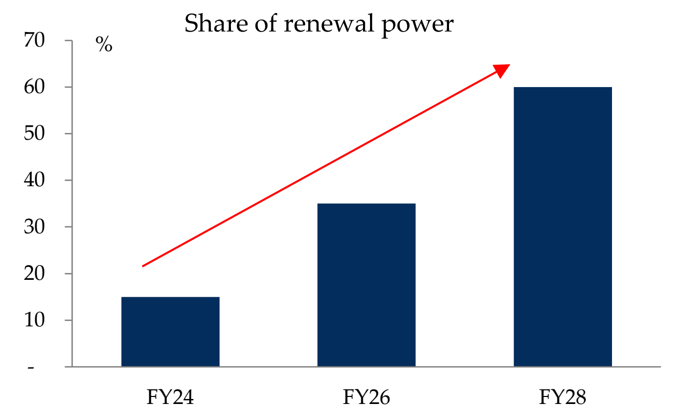
Captive generation of WHRS and green power would cost Ambuja less than INR 1/kWH vs blended power cost of INR 6-7/kWh. With the increasing share of low-cost green power to ~35% in FY26E vs 15% during FY24E, we estimate consolidated power cost will reduce by ~INR 85/MT in FY26 (vs FY24). It can further reduce by another INR 25/MT by FY28E, basis the green power consumption ramp-up.

Ambuja is doing large investments towards captive solar and wind power units in Gujarat and Rajasthan



Source: Company, HSIE Research

Share of green power (including WHRS) expected to soar, bolstering margin



Source: Company, HSIE Research

Fuel optimisation

Scaling up captive coal mining and alternative fuel consumption

Ambuja intends to become self-sufficient in its fuel requirements. Currently, it has captive coal mines at Gare Palma (since 2018) with an annual mining potential of 1.3mn MT. Ambuja has recently also won another large coal mine in Dahegaon-Gowari, with an annual mining potential of 2mn MT. It expects these two mines to cumulatively meet 30-40% of its kiln fuel requirements.

It is also augmenting the usage of AFR across kilns. AFR usage has increased from 3.4% in Q2FY23 (at the time of acquisition from Holcim) to 12.7% in Q3FY24. ACC is targeting to achieve an 18% AFR share in FY25 (standalone basis), basis various pre and co-processing systems it is installing at various locations. Even Ambuja is working on various such projects. At the upcoming brownfield clinker units in Bhatapara and Maratha, Ambuja is equipping the plants to achieve a 30% AFR usage.

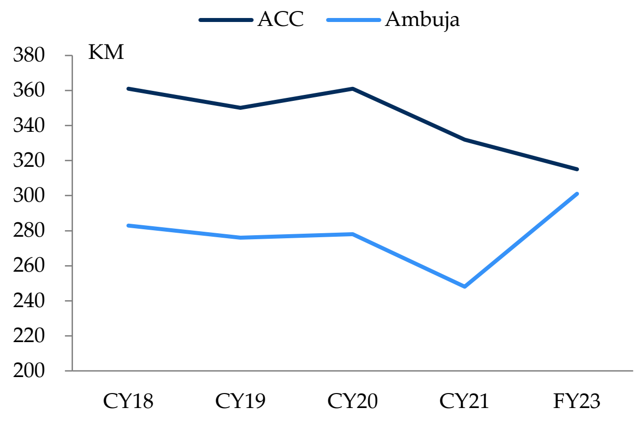
Focus on regaining logistic efficiency

Ambuja's logistics costs went up in 2022-2023 amid ownership change. Adani Group is focusing on three areas to reduce its overall logistics costs for its cement operations. Cumulatively, it is expecting to reduce its operating costs by INR 100/MT over the next few years through these initiatives (from its FY23 levels), thus regaining its low logistics costs.

Lead distance reduction: Ambuja's primary road lead distance is currently ~165-170km. It is targeting to reduce the same to 100km. This should help it to reduce its overall lead distance, which is already below 300km. This will be achieved by utilising synergy with group companies (Adani Logistics) and through more split grinding units getting commissioned. Adani Logistics is also assisting Ambuja in its rail-road strategy and in exploring sea transportation options.

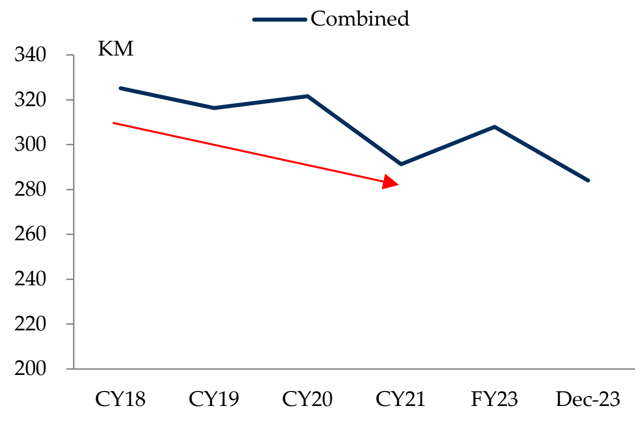
In Q3FY24, the consolidated lead distance came down to 284km from 291km YoY. As per Ambuja's FY23 annual report, its standalone total lead distance had come down to 248km in CY21 vs the average of 277km in the preceding three years (riding on various logistics initiatives taken by the erstwhile promoter). However, in FY23, this shot up to 301km. ACC had progressively reduced its lead distance to 315km in FY23 vs 361km in CY18. The combined lead distance had reduced to ~290km in CY21 from 325km in CY18 but again went up to ~310km in FY23. The new management is working to again tighten its lead distance through various initiatives.

Both ACC and Ambuja were already tightening their lead distance under erstwhile promoter



Source: Company, HSIE Research

Adani management has again brought down lead distance for the combined operations below 300Km

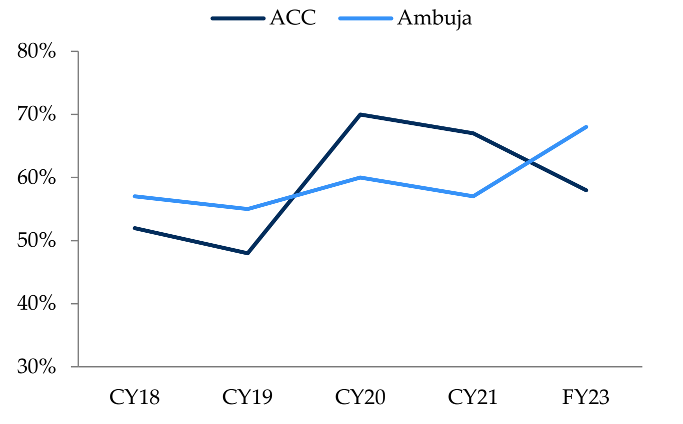


Source: Company, HSIE Research

Warehouse optimisation: Both ACC and Ambuja have been optimising their road logistics for the past several years to reduce operating costs. Both companies have individually reported high direct dispatch share in the past five years. ACC achieved a direct dispatch (of cement from griding units) share of 67-70% during CY20-21, but this dipped to 58% in FY23. Ambuja's (standalone) direct dispatches steadily rose to 68% in FY23 vs 55-57% three years ago.

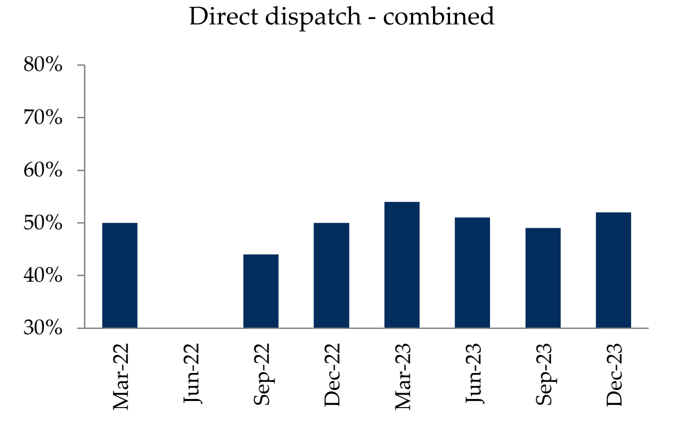
Post ownership change, the combined entity is currently reporting this ratio at 52%. Over the past eight quarters, this ratio has ranged between 44% to 54%. The company is aiming to increase this share thus reducing the requirements for warehouses (and hence costs). It has already reduced its warehouse count from 943 to 670 currently! In our view, common infrastructure sharing between ACC and Ambuja has also helped the group to reduce its warehouse count and expand the direct dispatch ratio, thus further rationalising operating costs.

Pre-acquisition, both ACC and Ambuja had already achieved higher share of direct dispatches (of cement)



Source: Company, HSIE Research

The new management is again working towards improving this ratio which got impacted in FY23

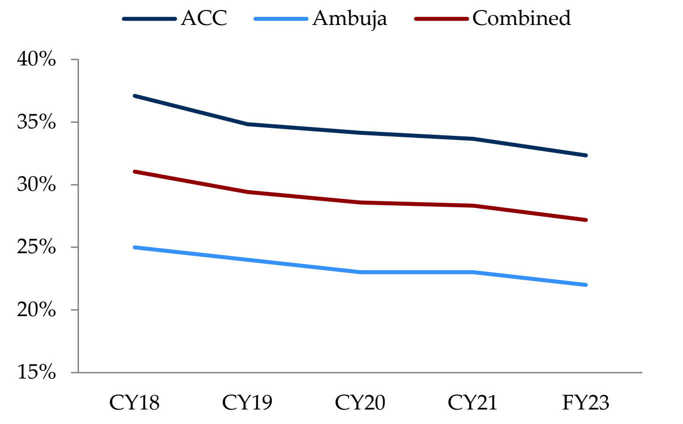


Source: Company, HSIE Research (Jun-22 data is not available)

Rail-road optimisation: Historically, in the past five years, ACC has had a higher share of its volume moving by rail (vs Ambuja). However, the rail coefficient for both ACC/Ambuja compressed from 37/25% in CY18 to 32/22% in FY23. The combined rail coefficient for the group has been hovering around 27-28% during FY23/FY24.

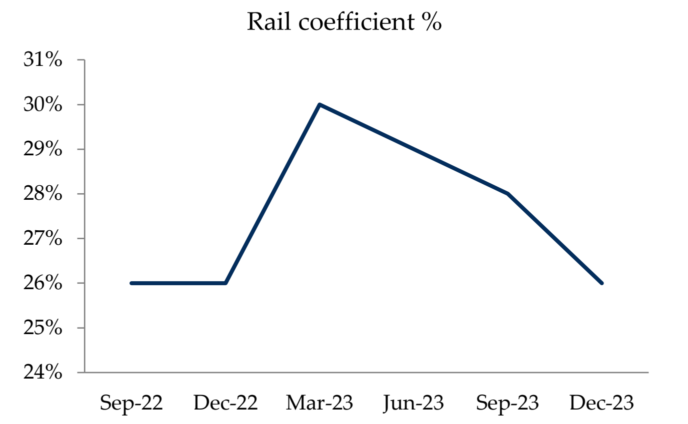
Ambuja has recently ordered 11 general-purpose wagons (seven received) for clinker movement to grinding units. Additionally, it has ordered BCFC rakes for fly-ash transportation from various thermal power plants to its grinding units, thus reducing overall raw-material movement costs.

Rail co-efficient trends for both ACC and Ambuja and combined operations



Source: Company, HSIE Research

Recent rail co-efficient trend for the consolidated operations under the new management



Source: Company, HSIE Research

Bidding for limestone mines to support capacity expansion

As the company is expanding aggressively, it is also bidding for limestone mines across the country. Over the past five quarters, Ambuja has won mining leases at 10 locations - one each in Odisha, Maharashtra, and Madhya Pradesh, two in Gujarat, and five in Rajasthan. These reserves total up to 586mn MT. The recently acquired Sanghi Industries also brings with it 1bn MT of limestone reserves. Ambuja will use these reserves to drive its cement capacity expansion.

As discussed earlier, Ambuja has secured coal mines with an annual output of ~3.2mn MT, which can potentially meet 30-40% of its kiln fuel requirements.

Ambuja has won 10 limestone mines across the country in past one year

State	Expected timelines for completion	Premium % (in %)	Geological Resource (in MT)	Area (in Ha)	Date of auction	Type of Auction (ML/CL)
Odisha	Uskalvagu Limestone Block	5.1	141	547	8th Feb'23	ML
Maharashtra	Devalmari-Katepalli	7.6	150	538	5th Sep'23	ML
Gujarat	Kukaras (Pvt)	5.8	6	29	18th Jul'23	ML
Gujarat	Kodidra	6.0	10	41	19th Jul'23	ML
Madhya Pradesh	Chorgadhi-Puraina	91.0	101	333	9th Jun'23	ML
Rajasthan	PSB01	36.1	3	5	9th Nov'23	ML
Rajasthan	PSB02	30.2	3	5	9th Dec'23	ML
Rajasthan	PSB06	38.1	3	5	18th Sep'23	ML
Rajasthan	PSB07	26.1	3	5	19th Sep'23	ML
Rajasthan	HPB20	29.2	167	548	10th Mar'23	ML
Total		585.0				

Source: Company, HSIE Research

Volume and margin outlook

During 9MFY24, consolidated volume rose 5% YoY. With the ramp-up of the recently commissioned clinker plant in Ametha (under ACC) and the acquired plants of Sanghi Industries, we expect consolidated volume growth to accelerate. During FY25, Ambuja will also be debottlenecking clinker capacity at Sanghi and in FY26, Ambuja will be commissioning ~10mn MT of clinker capacities across Chandarpur, (Maharashtra), Bhatapara (Chhattisgarh) and Mundra (Gujarat). Recently, Ambuja has also been aggressive in gaining market share in the non-trade market, which was missing under the old management. This should help the company ramp up utilization faster. These should support a 12% volume CAGR during FY23-26E, in our view.

Adani has further streamlined the cost structure of both ACC and Ambuja as all operating functions have been combined, and inter-company volume transactions have increased under the Material Supply Agreement (MSA). Additionally, under the new promoter, Ambuja is saving 1% of revenue (~INR 55/MT) as the *technology and know-how fees* are no longer payable.

The logistics efficiency was adversely impacted in 2022 (FY23) during the change of ownership. Adani has started to improve efficiency and has taken up major initiatives to beef up green power consumption (WHRS and renewables) which was missing under Holcim. Even in terms of raw material and fuel sourcing, Ambuja is securing both limestone and coal mines as well as increasing alternative fuel usage. We estimate Ambuja's consolidated opex will benefit from a rising share of green power and fuel consumption and overhead cost rationalisation. Thus, we estimate consolidated unit EBITDA in FY26E will expand by ~INR 110/MT from CY21 levels (~INR 530 per MT increase vs FY23).

Key operating assumptions

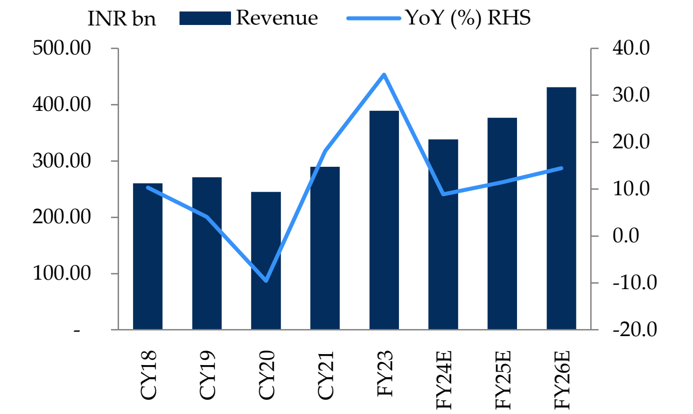
	CY18	CY19	CY20	CY21	FY23*	FY24E	FY25E	FY26E
Cement Cap (mn MT)	**63.0**	**62.6**	**62.6**	**65.8**	**68.2**	**78.1**	**85.6**	**94.4**
Sales Volume (mn MT)	**52.6**	**51.9**	**46.2**	**53.2**	**69.2**	**59.7**	**66.9**	**77.0**
YoY change (%)	*6.9*	*(1.4)*	*(10.9)*	*15.1*	*4.0*	*8.0*	*12.0*	*15.0*
Utilisation (%)	*83.5*	*82.8*	*73.8*	*80.8*	*101.4*	*76.5*	*78.2*	*81.5*
INR/MT								
NSR	**4,953**	**5,227**	**5,307**	**5,446**	**5,631**	**5,659**	**5,631**	**5,603**
YoY change (%)	*5.5*	*5.5*	*1.5*	*2.6*	*3.4*	*0.5*	*(0.5)*	*(0.5)*
Input cost	1,670	1,812	1,721	1,833	2,440	2,168	2,017	1,945
Freight cost	1,143	1,375	1,357	1,341	1,377	1,405	1,377	1,377
Emp cost	290	303	333	287	268	249	322	310
Other Expenses	1,086	849	811	817	804	752	725	691
Total Opex	**4,190**	**4,339**	**4,223**	**4,278**	**4,890**	**4,573**	**4,440**	**4,322**
YoY change (%)	*4.3*	*3.6*	*(2.7)*	*1.3*	*14.3*	*(6.5)*	*(2.9)*	*(2.7)*
Unit EBITDA	**763**	**888**	**1,083**	**1,168**	**741**	**1,086**	**1,191**	**1,281**

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

Cash flows

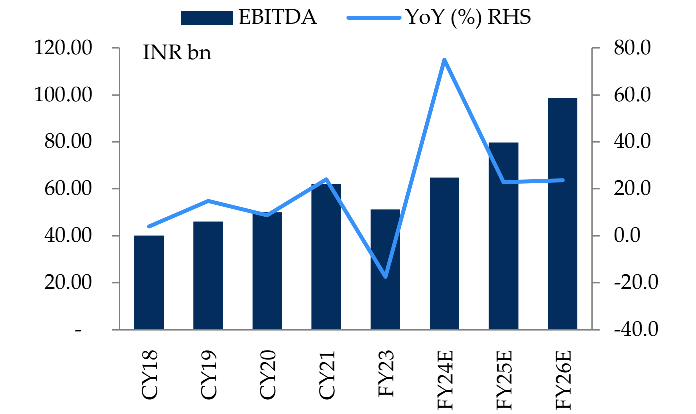
We estimate consolidated EBITDA will grow at 39% CAGR during FY23-26E, led by 12% volume CAGR and margin rebound. Pre-acquisition, the consolidated operations had negative working capital (ex-cash) during CY19-21. However, working capital surged by INR 44bn in FY23 and has further increased by INR 10bn in Sep-23 to +INR 27bn. We estimate the same will cool off to INR 2-4bn during FY25-26 as Ambuja is retightening its working capital balanced with ongoing expansions. Thus, we estimate a cumulative OCF of INR 202bn for FY24-26. We also estimate INR 150bn of equity infusion during March-April 2024 as the promoters convert the warrants (477.2mn shares at INR 419/share, of which 25% was received at the time of warrant issuance). This will further bolster Ambuja cash flows and fund expansions. We estimate ~INR 226bn in Capex for FY24-26 to be spent on the ongoing expansions, acquisition of majority stakes in Sanghi Industries, green power infrastructure creations, etc. Owing to large internal accruals and cash infusion by promoters, Ambuja should remain a net cash company despite its ongoing expansion.

Revenue CAGR (FY23-26): 12%



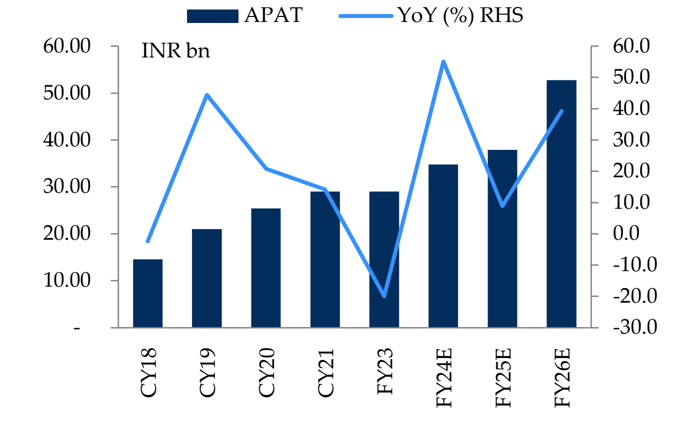
Source: Company, HSIE Research

EBITDA CAGR (FY23-26): 39%



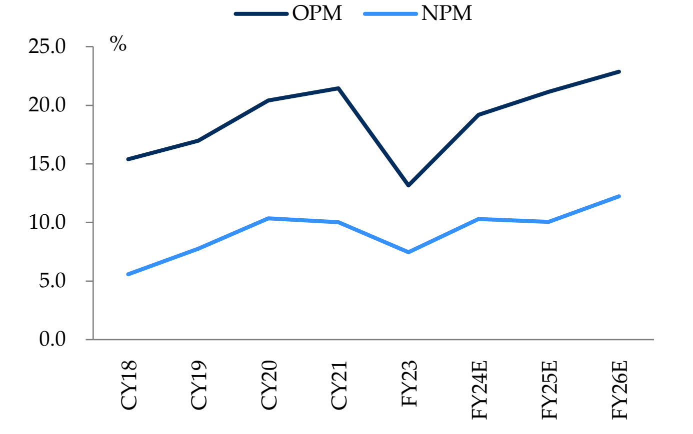
Source: Company, HSIE Research

APAT CAGR (FY23-26): 33%



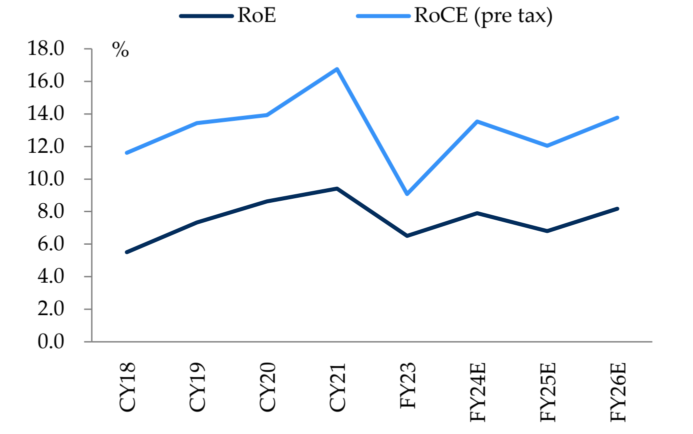
Source: Company, HSIE Research

OPM and NPM trends



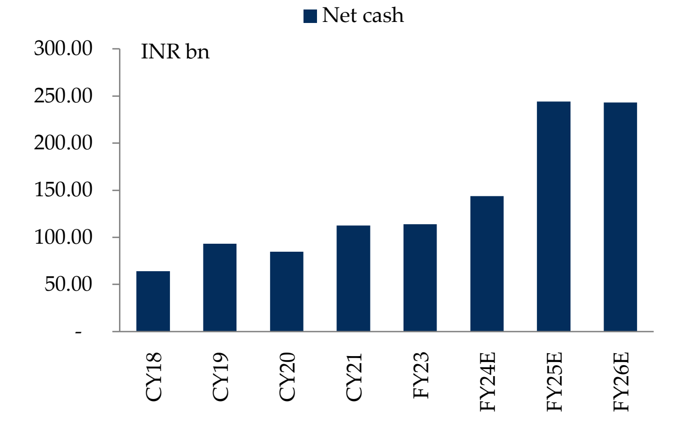
Source: Company, HSIE Research

Return ratio trends



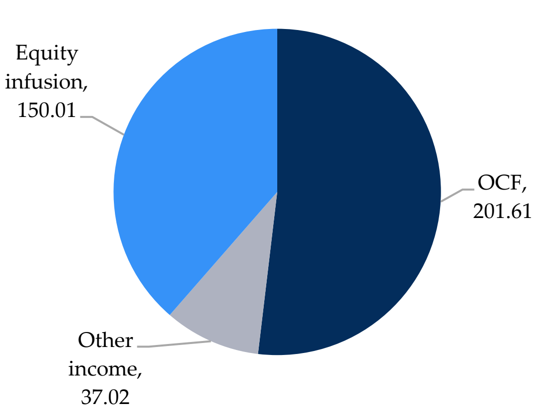
Source: Company, HSIE Research

Net cash balance on a rise despite expansions



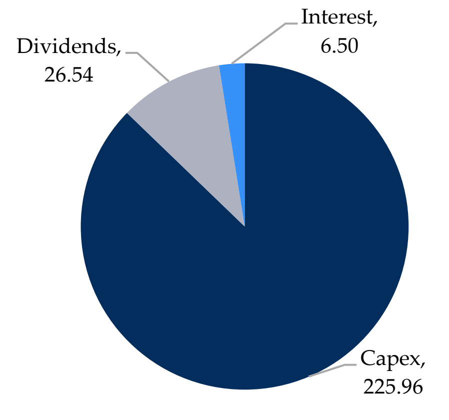
Source: Company, HSIE Research

Sources of cash inflow (INR bn) during FY24-26



Source: Company, HSIE Research

Sources of cash outflow (INR bn) during FY24-26



Source: Company, HSIE Research

Valuation and view

Post the management change, Ambuja has streamlined its operations, increased focus on low-cost green power consumption and is expanding capacity aggressively (but without balance sheet stress). The promoter would also be infusing INR 200bn in equity by April 2024 (Promoters have already infused INR 117bn by Mar 2024). These places Ambuja at par with peers in terms of its strong volume growth and healthy margin profile outlook. Thus, we value Ambuja at 16.5x its FY26 consolidated EBITDA, in line with our target valuation multiples for the other two pan-India cement majors—UltraTech and Shree Cement). We maintain ADD with a revised TP of INR 620/sh.

Financials

Consolidated Income Statement

YE Mar (INR mn)	CY21	*FY23	FY24E	FY25E	FY26E
Revenues	**2,89,655**	**3,89,370**	**3,38,098**	**3,76,776**	**4,31,126**
Growth %	***18.1***	***7.5***	***8.5***	***11.4***	***14.4***
Raw Material	29,623	51,109	44,158	46,984	54,572
Power & Fuel	67,875	1,17,619	85,363	87,958	95,083
Freight Expense	71,329	95,237	83,931	92,122	1,05,941
Employee cost	15,292	18,565	14,852	21,519	23,836
Other Expenses	43,432	55,616	44,938	48,527	53,150
EBITDA	**62,105**	**51,223**	**64,856**	**79,665**	**98,545**
EBIDTA Margin (%)	***21.4***	***13.2***	***19.2***	***21.1***	***22.9***
EBITDA Growth %	***24.1***	***(34.0)***	***58.3***	***22.8***	***23.7***
Depreciation	11,525	16,447	16,218	19,607	22,460
EBIT	50,580	34,777	48,638	60,059	76,085
Other Income	3,524	7,377	13,103	8,947	14,965
Interest	1,457	1,949	2,500	2,000	2,000
PBT	52,647	40,205	59,241	67,006	89,050
Tax	14,534	7,051	14,810	17,757	23,598
RPAT	**27,804**	**25,834**	**34,790**	**37,882**	**52,730**
EO (Loss) / Profit (Net Of Tax)	(1,205)	(3,190)	-	-	-
APAT	**29,009**	**29,024**	**34,790**	**37,882**	**52,730**
APAT Growth (%)	***14.1***	***(20.0)***	***49.8***	***8.9***	***39.2***
AEPS	14.6	11.7	15.8	15.4	21.4
AEPS Growth %	*14.1*	*(20.0)*	*35.4*	*(2.8)*	*39.2*

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

Consolidated Balance Sheet

YE Mar (INR mn)	CY21	*FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital	3,971	3,971	4,395	4,926	4,926
Reserves And Surplus	2,49,566	3,13,011	4,08,769	5,24,018	5,60,929
Total Equity	**2,53,537**	**3,16,982**	**4,13,164**	**5,28,944**	**5,65,855**
Long-term Debt	4,062	4,487	4,487	4,487	4,487
Short-term Debt	706	740	740	740	740
Total Debt	**4,767**	**5,227**	**5,227**	**5,227**	**5,227**
Deferred Tax Liability	7,533	7,004	7,004	7,004	7,004
Long-term Liab+ Provisions	3,183	3,022	3,305	3,616	3,957
TOTAL SOURCES OF FUNDS	**3,40,470**	**4,02,818**	**5,09,124**	**6,36,582**	**6,86,556**
APPLICATION OF FUNDS					
Net Block	2,22,507	2,35,515	2,60,797	2,93,845	3,32,865
Capital WIP	21,677	25,259	58,259	68,259	78,259
Other Non-current Assets	35,668	43,821	43,821	43,821	43,821
Total Non-current Investments	1,705	1,861	19,186	19,186	19,186
Total Non-current Assets	**2,81,557**	**3,06,455**	**3,82,062**	**4,25,110**	**4,74,130**
Inventories	27,380	32,728	33,810	35,794	40,957
Debtors	6,191	11,544	13,524	15,071	17,245
Cash and Cash Equivalents	1,17,206	1,19,116	1,49,122	2,49,424	2,48,475
Other Current Assets (& Loans/adv)	19,683	47,372	47,372	35,519	35,519
Total Current Assets	**1,70,460**	**2,10,760**	**2,43,827**	**3,35,807**	**3,42,196**
Creditors	29,128	27,739	30,108	37,678	43,113
Other Current Liabilities & Provns	82,418	86,658	86,658	86,658	86,658
Total Current Liabilities	**1,11,547**	**1,14,397**	**1,16,766**	**1,24,335**	**1,29,770**
Net Current Assets	**58,914**	**96,363**	**1,27,062**	**2,11,472**	**2,12,426**
TOTAL APPLICATION OF FUNDS	**3,40,470**	**4,02,818**	**5,09,124**	**6,36,582**	**6,86,556**

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

Consolidated Cash Flow

YE Mar (INR mn)	CY21	*FY23	FY24E	FY25E	FY26E
Reported PBT	51,645	37,295	59,441	67,006	89,050
Non-operating & EO Items	(1,711)	(6,184)	(12,826)	(8,945)	(14,965)
Interest Expenses	1,423	1,905	2,500	2,000	2,000
Depreciation	11,525	16,447	16,218	19,607	22,460
Working Capital Change	(3,314)	(34,729)	(410)	16,202	(1,561)
Tax Paid	(6,476)	(7,385)	(14,810)	(17,757)	(23,598)
OPERATING CASH FLOW (a)	**53,092**	**7,349**	**50,112**	**78,113**	**73,385**
Capex	(22,964)	(40,660)	(74,500)	(62,655)	(71,480)
Free Cash Flow (FCF)	30,128	(33,311)	(24,388)	15,459	1,905
Investments	67	(1,08,620)	(17,325)	-	-
Non-operating Income	2,826	4,473	13,103	8,947	14,965
INVESTING CASH FLOW (b)	**(20,071)**	**(1,44,808)**	**(78,722)**	**(53,707)**	**(56,514)**
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(1,072)	(1,275)	(2,500)	(2,000)	(2,000)
FCFE	29,056	(34,586)	(26,888)	13,459	(95)
Share Capital Issuance	-	50,000	66,610	83,398	-
Dividend	(3,299)	(17,986)	(5,219)	(5,502)	(15,819)
FINANCING CASH FLOW (c)	**(4,371)**	**30,739**	**58,892**	**75,896**	**(17,819)**
NET CASH FLOW (a+b+c)	**28,650**	**(1,06,719)**	**30,281**	**1,00,302**	**(948)**
Closing Cash & Equivalents	**1,18,134**	**10,487**	**1,49,398**	**2,49,424**	**2,48,475**

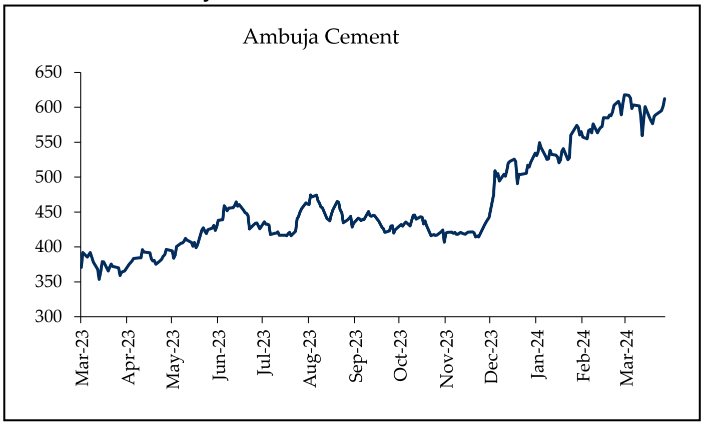
Source: Company, HSIE Research. *FY23 performance includes 15 months

Key Ratios

	CY21	*FY23	FY24E	FY25E	FY26E
PROFITABILITY %					
EBITDA Margin	21.4	13.2	19.2	21.1	22.9
EBIT Margin	17.5	8.9	14.4	15.9	17.6
APAT Margin	10.0	7.5	10.3	10.1	12.2
RoE	9.4	6.5	7.9	6.8	8.2
RoIC (pre tax)	23.1	11.0	15.1	16.1	18.4
RoCE (pre tax)	16.8	9.1	13.5	12.0	13.8
EFFICIENCY					
Tax Rate %	27.6	17.5	25.0	26.5	26.5
Fixed Asset Turnover (x)	1.0	1.0	1.0	1.0	1.0
Inventory (days)	35	38	37	35	35
Debtors (days)	8	14	15	15	15
Other Current Assets (days)	70	85	98	77	67
Payables (days)	37	33	33	37	37
Other Current Liab & Provns (days)	108	84	97	87	77
Cash Conversion Cycle (days)	(33)	21	20	2	3
Net Debt/EBITDA (x)	(1.8)	(2.2)	(2.2)	(3.1)	(2.5)
Net D/E	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)
Interest Coverage	34.7	17.8	19.5	30.0	38.0
PER SHARE DATA (Rs)					
EPS	14.6	11.7	15.8	15.4	21.4
CEPS	20.4	18.3	23.2	23.3	30.5
Dividend	6.3	2.0	2.4	2.2	6.4
Book Value	163.7	156.1	224.6	252.0	272.2
VALUATION					
P/E (x)	46.4	46.4	38.7	39.9	28.6
P/Cash EPS (x)	34.3	31.9	26.4	26.3	20.1
P/BV (x)	5.3	4.3	3.3	2.9	2.7
EV/EBITDA (x)	21.0	24.1	21.6	18.9	16.7
EV/MT (Rs bn)	19.85	18.09	17.97	17.62	17.45
Dividend Yield (%)	1.0	0.3	0.4	0.4	1.0

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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