

18 March 2024

India | Equity Research | Company Update

## Ambuja Cement

Cement

### Buckling up for ambitious growth

April 2024 is turning out to be an eventful month for Ambuja Cement (ACEM) with three key developments – 1) Promoter fund infusion of INR 83.4bn towards warrant conversion, being the last tranche of INR 200bn preferential warrants. Bulking up of cash reserves (to >INR 230bn) may usher in the 140mtpa capacity target well ahead of its FY28 guidance. 2) Acquisition of 1.5mtpa grinding at Tuticorin, Tamil Nadu, suggests efforts to increase the coastal movement of clinker from subsidiary Sanghi Industries (SIL) besides increasing the footprint in South India, and 3) SIL's plan to consider a proposal for fund raise on Apr 22, '24. Announcement of any growth capex at SIL may be seen in positive light. With ACEM evidently buckling up to take-off in its ambitious growth journey, we retain **BUY** with TP of INR 831.

### Promoter completes warrant conversion; bulks up cash reserve

The Adani Group has infused the last tranche of INR 83.4bn towards warrant conversion. Earlier, in Mar'24, it had infused INR 66.6bn while in Nov'22 it had provided INR 50bn, thereby, discharging its overall commitment of INR 200bn fund infusion. With this, the promoter stake has increased from 63.2% to 70.3%, thereby, suggesting its conviction and focus on the cement enterprise. The fresh fund infusion is likely to have bulked up ACEM's cash reserves to >INR 230bn (INR 85.6bn in Q3FY24) – which we believe is ammunition enough to usher in the 140mtpa capacity target well ahead of its FY28 guidance.

### An acquisition and a fund raise plan – gunning for growth?

To promote coastal movement of clinker from SIL plant in Gujarat, ACEM has recently acquired a 1.5mtpa grinding unit near Tuticorin port in Tamil Nadu at a reasonable valuation of USD 33/t. Further, SIL has recently announced plans to evaluate a proposal for raising funds. In our view, if the said objective turns out to be 'growth capex', it is likely to be seen in positive light for parent ACEM.

### In the catbird seat; maintain BUY

ACEM has every recipe to deliver sector outperformance, given – a) the company is 'walking-the-talk' towards capacity creation; b) its cushion of rising cost efficiency (which may give a leg up vs peers) and c) core RoE (excluding cash) seen sustaining at ~11-14%. We continue to value ACEM consol. at 20x FY26E EV/EBITDA and retain **BUY** with a TP of INR 831.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	3,89,370	3,32,709	3,83,543	4,41,311
EBITDA	51,224	65,654	82,283	1,06,354
EBITDA (%)	13.2	19.7	21.5	24.1
Net Profit	25,834	36,876	43,693	61,921
EPS (INR)	14.5	18.4	17.6	25.0
EPS % Chg YoY*	-	-	(4.4)	42.0
P/E (x)	41.7	32.7	34.2	24.1
EV/EBITDA (x)^	26.6	21.3	19.2	14.6
RoCE (%) (post-tax)	7.7	8.7	8.6	9.1
RoE (%)	11.0	12.9	10.4	10.9

^Enterprise value is adjusted for the minority holding (%) in ACC & Sanghi Industries; \* NA as FY23 was 15 months, hence not comparable for FY23 & FY24E.

#### Navin Sahadeo

navin.sahadeo@icicisecurities.com  
+91 22 6807 7622

#### Harsh Mittal

harsh.mittal@icicisecurities.com

#### Market Data

Market Cap (INR)	1,357bn
Market Cap (USD)	16,233mn
Bloomberg Code	ACEM IN
Reuters Code	ABUJ.BO
52-week Range (INR)	641 /373
Free Float (%)	37.0
ADTV-3M (mn) (USD)	26.4

Price Performance (%)	3m	6m	12m
Absolute	19.4	37.3	56.5
Relative to Sensex	12.8	25.4	33.4

#### Previous Reports

02-02-2024: [Q3FY24 results review](#)

02-11-2023: [Q2FY24 results review](#)

### Promoter fund infusion – a shot in the arm

- ACEM is sitting on a net cash balance of ~INR 86bn as of Q3FY24 and as such is capable to meet its capex requirements through further internal accruals.
- However, the balance sheet has received an INR 150bn boost of promoter fund infusion from the conversion of preferential convertible warrants.
- It may be recalled that in Nov'22, the promoters had committed to INR 200bn worth of equity infusion by subscribing to convertible warrants. Accordingly, an advance of INR 50bn was also infused. The warrants were due for conversion on or before Apr, 18, '24 at a price of INR 418.87/share.
- In Mar'24, the promoters had infused INR 66.6bn while the last balance amount of INR 83.4bn was infused in Apr'24.
- As a result, the promoter stake in the company has increased from 63.2% (prior to warrant allotment) to 70.3%.
- Huge fund infusion and stake increase suggests promoter's conviction and focus on the cement franchise.
- We view the fund influx as a shot in the arm for ACEM, which can help in meeting the capacity target of 140mtpa through organic as well as inorganic route.

### Tuticorin grinding unit to boost coastal movement of clinker

- In April 2024, ACEM has signed a definite agreement to acquire 1.5mtpa grinding unit at Tuticorin, Tamil Nadu.
- The unit has been acquired from south India major – My Home Industries at INR 4.14bn (implying a reasonable valuation of USD 33/t).
- Located near Tuticorin Port, the asset is likely to be value accretive as it will aid in enhancing ACEM's coastal footprint across southern markets of Tamil Nadu and Kerala.
- The plant is spread across 61 acres of land with a long-term fly ash supply agreement for raw material sourcing. We believe it has ample scope of further expansion as well.
- The acquisition increases the cement capacity of ACEM (consol) to 77.6mtpa (78.9mtpa for Adani Cement including the 1.3mtpa GU at Dahej, Gujarat).
- Further, the limited availability of limestone in Tamil Nadu presents a unique competitive advantage with coastal movement of clinker from the Sanghipuram Plant, thereby, ensuring cost-efficient operations.

### SIL plans fund raise; may be positive if it is for 'growth capex'

- SIL has informed the stock exchanges of its upcoming Board Meeting on Apr 22, '24 to consider and evaluate a proposal for raising funds by way of issuance of shares or such other instruments, through private placements, preferential issue or such other methods or combination thereof, as may be decided by the Board.
- The details of the quantum and objective of the fund raise are yet to be disclosed by the management.

- In our view, if the fund raise is towards pursuing 'growth capex', it will be seen in positive light for ACEM. We await clarity on the same.

## Outlook and valuation

In our report dated Mar 11, '24 titled '[In the catbird seat](#)' we have argued that -

- In the past three quarters (Q1-Q3 of FY24), ACEM's margins have not only narrowed the gap (of >600bps) to large peers, but have even consistently stood superior to a few industry majors, largely driven by cost control.
- ACEM is yet to benefit from ongoing investments to scale up its low share of green power (WHR capacity additions of 105MW and 1,000MW of renewable energy). With its resolve to further cost efficiency (in logistics and raw material sourcing), there exists scope to exhibit industry-superior margins.
- Amidst the ongoing industry-wide race for capacity creation, cushion of rising cost efficiency may give ACEM a formidable edge over peers. With core RoE (excluding cash) seen sustaining at ~11-14% and the high odds of industry superior earnings growth over medium term, we continue to value ACEM consol. at 20x FY26E EV/EBITDA.
- Maintain **BUY** with a TP of INR 831 (factoring the equity dilution post warrant conversion).

### Exhibit 1: Valuation working

Particulars (all items are in INR mn unless otherwise mentioned)	FY26E
Assumed EV/EBITDA multiple (x)	20.0
EBITDA	1,06,354
EV	21,27,086
Less: Net debt	(2,07,081)
Less: Minority interest in ACC	2,75,140
Less: Minority interest in Sanghi Inds	11,091
Mcap of Ambuja	20,47,936
Shares o/s (mn)	2,462
<b>Value per share (INR)</b>	<b>831</b>
Potential Upside (%)	35

Source: I-Sec research, Company data

**Key risks:** A sharp drop in cement prices, or sharp increase in fuel cost are the key risks to our recommendation.

### Exhibit 2: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	63.2	63.2	66.7
Institutional investors	27.2	27.7	25.5
MFs and others	6.5	6.6	6.1
FIs/Banks	0.0	0.0	0.9
Insurance	7.8	7.8	7.1
FIIIs	12.9	13.2	11.4
Others	9.6	9.1	7.8

Source: Bloomberg

### Exhibit 3: Price chart



Source: Bloomberg

## Financial Summary (consolidated)

### Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	3,89,370	3,32,709	3,83,543	4,41,311
<b>Operating Expenses</b>	<b>2,87,038</b>	<b>2,20,195</b>	<b>2,44,647</b>	<b>2,70,736</b>
EBITDA	51,224	65,654	82,283	1,06,354
<b>EBITDA Margin (%)</b>	<b>13.2</b>	<b>19.7</b>	<b>21.5</b>	<b>24.1</b>
Depreciation & Amortization	16,447	15,981	19,516	23,309
EBIT	34,777	49,673	62,767	83,046
Interest expenditure	1,949	2,552	2,481	2,457
Other Non-operating Income	7,377	11,429	13,439	19,699
Recurring PBT	40,205	58,550	73,725	1,00,287
Profit / (Loss) from Associates	280	270	270	270
Less: Taxes	7,051	14,930	18,800	25,573
PAT	33,154	43,619	54,925	74,714
Less: Minority Interest (M.I.)	4,410	7,013	11,502	13,063
Extraordinaries (Net)	-	-	-	-
Net Income before M.I. (Reported)	30,244	43,889	55,195	74,984
<b>Net Income after M.I. (Adjusted)</b>	<b>25,834</b>	<b>36,876</b>	<b>43,693</b>	<b>61,921</b>

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	2,10,484	1,83,746	3,07,132	3,37,636
of which cash & cash eqv.	1,18,843	91,091	2,07,558	2,30,200
Total Current Liabilities & Provisions	1,15,002	1,14,120	1,17,042	1,20,542
<b>Net Current Assets</b>	<b>95,482</b>	<b>69,625</b>	<b>1,90,090</b>	<b>2,17,094</b>
Investments	2,137	2,137	2,137	2,137
Net Fixed Assets	1,53,175	2,17,194	2,84,624	3,48,031
ROU Assets	-	-	-	-
Capital Work-in-Progress	39,318	34,318	46,654	25,068
Total Intangible Assets	82,340	93,324	93,324	93,324
Other assets	16,315	16,315	16,315	16,315
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>4,02,213</b>	<b>4,46,359</b>	<b>6,46,589</b>	<b>7,15,415</b>
<b>Liabilities</b>				
Borrowings	477	477	477	477
Deferred Tax Liability	7,004	7,004	7,004	7,004
provisions	2,649	2,649	2,649	2,649
other Liabilities	4,518	4,518	4,518	4,518
Equity Share Capital	3,971	3,971	4,926	4,926
Reserves & Surplus	3,13,011	3,44,923	5,32,697	5,88,460
<b>Total Net Worth</b>	<b>3,16,982</b>	<b>3,48,894</b>	<b>5,37,623</b>	<b>5,93,386</b>
Minority Interest	70,584	82,817	94,319	1,07,382
<b>Total Liabilities</b>	<b>4,02,213</b>	<b>4,46,359</b>	<b>6,46,589</b>	<b>7,15,415</b>

Source Company data, I-Sec research

### Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Operating Cashflow</b>	<b>49,463</b>	<b>74,801</b>	<b>93,511</b>	<b>1,23,866</b>
Working Capital Changes	(34,729)	(1,027)	(2,683)	(3,049)
Capital Commitments	(40,659)	(80,763)	(99,282)	(65,130)
<b>Free Cashflow</b>	<b>48,009</b>	<b>1,39,606</b>	<b>1,71,310</b>	<b>1,60,373</b>
Other investing cashflow	(1,04,148)	-	-	-
Cashflow from Investing Activities	(1,44,808)	(80,763)	(99,282)	(65,130)
Issue of Share Capital	50,000	-	1,50,000	-
Interest Cost	(2,700)	-	-	-
Inc (Dec) in Borrowings	(36)	-	-	-
Dividend paid	(17,955)	(5,833)	(6,278)	(7,472)
Others	-	-	-	-
Cash flow from Financing Activities	29,310	(5,833)	1,43,721	(7,472)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(1,08,148)</b>	<b>(27,752)</b>	<b>1,16,467</b>	<b>22,642</b>
Closing cash & balance	1,18,843	91,091	2,07,558	2,30,200

Source Company data, I-Sec research

### Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	14.5	18.4	17.6	25.0
Adjusted EPS (Diluted)	14.5	18.4	17.6	25.0
Cash EPS	22.8	26.5	25.6	34.5
Dividend per share (DPS)	6.3	2.5	2.0	2.5
Book Value per share (BV)	159.6	175.7	218.3	240.9
Dividend Payout (%)	43.5	13.6	11.4	10.0
<b>Growth (%) ^</b>				
Net Sales	NA	NA	15.3	15.1
EBITDA	NA	NA	25.3	29.3
EPS (INR)	NA	NA	(4.4)	42.0
<b>Valuation Ratios (x)</b>				
P/E	41.7	32.7	34.2	24.1
P/CEPS	26.5	22.8	23.6	17.5
P/BV	3.8	3.4	2.8	2.5
EV / EBITDA*	26.6	21.3	19.2	14.6
EV / te (USD)*	280.3	224.4	227.3	191.2
Dividend Yield (%)	1.0	0.4	0.3	0.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	86.9	85.9	85.2	85.4
EBITDA Margins (%)	13.2	19.7	21.5	24.1
Effective Tax Rate (%)	17.5	25.5	25.5	25.5
Net Profit Margins (%)	6.6	11.1	11.4	14.0
NWC / Total Assets (%)	23.7	15.6	29.4	30.3
Net Debt / Equity (x)	(0.4)	(0.3)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(2.3)	(1.4)	(2.5)	(2.2)
<b>Profitability Ratios</b>				
RoCE (%) (Post Tax)	7.7	8.7	8.6	9.1
RoE (%)	11.0	12.9	10.4	10.9
RoC (%)	14.6	14.9	14.8	17.1
Fixed Asset Turnover (x)	2.6	1.8	1.5	1.4
Inventory Turnover Days	42	57	55	57
Receivables Days	8	13	12	12
Payables Days	39	48	46	48

Source Company data, I-Sec research, \*Enterprise value is adjusted for the minority holdings (%) in ACC &amp; Sanghi Industries; ^NA as FY23 was 15 months, hence not comparable for FY23A and FY24E.

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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