

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.

Navin Sahadeo

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

Harsh Mittal

harsh.mittal@icicisecurities.com

#### 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.

#### 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

#### 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)^\wedge	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

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

#### 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
FIIs/Banks	0.0	0.0	0.9
Insurance	7.8	7.8	7.1
FIIs	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 provisions	7,004	7,004	7,004	7,004
other Liabilities	2,649	2,649	2,649	2,649
Equity Share Capital	4,518	4,518	4,518	4,518
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>
<b>Closing cash &amp; balance</b>	<b>1,18,843</b>	<b>91,091</b>	<b>2,07,558</b>	<b>2,30,200</b>

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
RoIC (%)	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.

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

#### ANALYST CERTIFICATION

I/We, Navin Sahadeo, MBA; Harsh Mittal, MBA, CFA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

---

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

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** Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

---