

CMP: ₹ 665

Target: ₹ 785 (18%)

Target Period: 12 months

August 1, 2024

BUY

On a strong growth path...

About the stock: Ambuja Cements, a part of Adani Group, is a Pan-India cement manufacturer with a market share of ~14% at present

- As of March 2024, company's cement capacity stands at 78.9 million tonnes (mtpa). Northern & eastern region contributes ~27% each to total sales volumes, followed by western (~24%), central (~14%) and southern (~9%).
- Company's revenues have increased by 25.4% CAGR over the period FY21-24 while EBITDA and PAT have grown at 26.4% and 36.1% CAGR respectively over the same period

Q1FY25 Result: Consolidated revenue declined by 4.6% YoY to ₹ 8311 crores, led by lower sales realization (-7% YoY), which offset the ~3% YoY volume growth. EBITDA/ton was down 25.2% YoY to ₹ 810/ton, due to lower sales realization & higher raw material cost. Subsequently, EBITDA declined by 23.2% YOY (-24.7% QoQ) to ₹ 1280 crores. PAT declined by 30.5% YoY (-48.2% QoQ) to ₹ 790 crores

Investment Rationale:

- Volume growth to remain strong, led by aggressive capacity additions:** we believe that company would be able to grow its volumes in double-digits & better-than-industry, led by aggressive capacity additions (through organic & in-organic routes) coupled with demand pick-up expectations across regions. Company's capacity is expected to reach 112 mtpa by FY26E and 140 mtpa by FY28E (from 89 mtpa at present which includes 14 mtpa of Penna Cement). We estimate volume CAGR of 13.4 % CAGR over FY24-27E to ~86 mtpa in FY27E (from ~59 mtpa in FY24)
- Focus on operational efficiencies to further improve EBITDA/ton:** Though EBITDA/ton contracted in Q1FY25 on lower realisations, we believe that company's profitability to improve in the coming period led by focus on cost savings and operating leverage benefits. Management guides total cost savings of ₹ 530/ton by FY28E (from FY24 level) and targets EBITDA/ton of ₹ 1500+/ton by FY28E. The cost efficiency measures would be primarily led by increasing share of lower-cost green power (targets 60% by FY28E from ~18% at present), increasing share of captive coal, further optimising logistics & raw material cost (driven by group synergies) & increase in premium cement share

Rating and Target Price

- With a strong focus on increasing overall market share (through strategic capacity expansion plans), further operational efficiencies and cash rich balance sheet, we believe that Ambuja Cements' operational performance to improve substantially in the coming period. We expect revenue growth of 13.5% CAGR over FY24-27E, while EBITDA & PAT CAGR at 22.7% & 24.9% respectively over the same period
- We value FY27E consolidated EBITDA at 18x EV/EBITDA and adjusted the minorities (ACC & Sanghi) value. We recommend BUY on Ambuja Cements with a target price of ₹ 785 per share

Key Financial Summary

(Year-end March)	CY20	CY21	FY23*	FY24	3 Year CAGR (FY20-24) [^]	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Revenues	24,516	28,965	38,937	33,160	10.6%	35,464	42,101	48,497	13.5%
EBITDA	5,006	6,210	5,122	6,400	8.5%	6,364	9,150	11,814	22.7%
EBITDA margin (%)	20.4	21.4	13.2	19.3		17.9	21.7	24.4	
Net Profit	2,365	2,780	2,583	3,577	14.8%	3,208	5,243	6,976	24.9%
EPS (Rs)	11.9	14.0	13.0	18.0		13.0	21.3	28.3	
P/E (x)	52.8	46.1	51.1	38.8		51.1	31.2	23.5	
EV/EBITDA (x)#	36.6	29.5	35.8	28.6		28.8	20.0	15.5	
RoCE (%)	18.8	21.3	13.3	14.3		10.4	13.9	16.6	
RoE (%)	11.0	11.3	8.2	8.2		6.1	9.2	11.1	

Source: Company, ICICI Direct Research * FY23 is 15 months period [^] CAGR calculated after adjusting FY23 for 12 months

#calculated adjusting ACC & Sanghi minority interest



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,63,709
FY24 Gross Debt (₹ Crore)	37
FY24 Cash(₹ Crore)	11,068
EV (₹ Crore)	1,52,677
52 Week H/L (Rs)	707/404
Equity Capital	439.5
Face Value	2.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	63.2	63.2	66.7	70.3
FII	11.7	11.9	11.1	9.6
DII	15.3	15.6	14.2	13.0
Others	9.4	9.4	7.9	7.0

Price Chart



Key risks

- (i) Slowdown in demand (ii) Delay in capacity expansion (iii) Increase in commodity prices (iv) High competition

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Q1FY25 Result Highlights:

- Consolidated revenue declined by 4.6% YoY to ₹ 8311 crores, led by lower sales realization which de-grew by 7% YoY, which offset the volume growth of 2.6% YoY to 15.8 million tonnes. On sequential basis, revenue de-grew by 6.5% led by decline in volumes by 4.8% coupled with de-growth in sales realization by 1.8%
- EBITDA/ton decreased by 25.2% YoY to ₹ 810/ton, driven by lower sales realization & higher raw material cost per tonne. On sequential basis, EBITDA/ton declined by 20.8%, led by lower sales realization and negative operating leverage
- Subsequently, EBITDA decreased by 23.2% YoY (-24.7% QoQ) to ₹ 1280 crores
- Thus, on account of decline in overall operational performance and higher interest & depreciation cost, PAT declined 30.5% YoY (-48.2% QoQ) to ₹ 790 crores

Q1FY25 earnings call highlights:

- Industry demand is estimated to have grown by 1-1.5% in Q1FY25 and expected to grow at 7-9% growth in FY25
- The market share of top 5 players is 60% at present (vs 45% in 2018)
- The company aims to increase its pan India market share of 20% by FY28 (from 14% at present)
- The company added 275 million tonne of limestone reserves in Q1FY25, with cumulative reserves currently stood at 8.1 billion metric tonnes. 19 limestone mines lease will be eligible for renewal by 2030
- The company is in process of expanding its consolidated capacity to 112 mtpa by FY26 & 140 mtpa by FY28 (from 89 mtpa at present, including Penna acquisition). The company has guided for capex of ₹ 10,000 crores (excluding Penna acquisition) for growth & maintenance in FY25
- The slowdown in demand lead to price decline, largely due to election. Demand is expected to recover post Q2FY25 onwards
- In terms of cost/ton, the company has guided for total cost saving of ₹ 530/ton by FY28, primarily led by operational efficiencies across raw material, power cost & freight cost
- The company plans to lower its cost through increasing its share of captive mines, entering into long term arrangement for critical minerals, increase the share of green power (Solar, WHHR & Wind) & increase the share of sea-freight. Capex for efficiency & productivity improvement will further help in cost optimization by 8-10%
- The company aim to increase its Waste Heat Recovery System to 186 MW by FY25 (165 MW at present) & increase its renewable capacity by 1000 MW (840 MW in solar, 140 in wind) with capex of ₹ 6000 crores (₹ 1500 crores already spent, balance to be spent over next 12 months) which is expected to reduce power cost by ₹ 90/ton. They want to increase green power share to 31% in FY25E & 60% by FY28 (from 18.9% at present). Power cost of wind power is ₹ 4/unit vs ₹ 7-7.5/unit at present
- Kiln cost declined from ₹ 2.02/kcal in Q4FY24 to ₹ 1.68/kcal in Q1FY25. Kilns at Sanghi Industries are currently under refurbishment which shall be completed by Oct/Nov24
- The company plans to reduce its lead distance time by ₹ 100/ton by FY29. Direct dispatches stood at 55% in Q1FY25 vs 54% in Q4FY24. Freight cost would further optimize with higher share of sea freight & usage of own BCFC rakes transport modes
- The company plan to consolidate Penna acquisition in Q2FY25, the benefit of which will start flowing from Q3FY25 onwards
- The share of premium products stood at 24% of trade sales

Exhibit 1: Quarterly Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Operating Income	8,311.5	8,712.9	-4.6	8,894.0	-6.5	Revenue decreased due to decline in sales realisation
Other income	354.7	263.2	34.8	233.5	51.9	
Total Revenue	8,666.2	8,976.1	-3.5	9,127.5	-5.1	
Raw materials costs	1,577.3	1,113.8	41.6	1,586.4	-0.6	
Employees Expenses	317.0	377.7	-16.1	314.2	0.9	
Other Expenses	974.3	1,030.5	-5.5	1,157.7	-15.8	
Total Expenditure	7,031.7	7,046.0	-0.2	7,195.3	-2.3	
EBITDA	1,279.8	1,667.0	-23.2	1,698.7	-24.7	Margins declined due to lower sales realization & higher raw material cost per tonne
EBITDA margins (%)	15.4	19.1	-373 bps	19.1	-370 bps	
Interest	67.8	52.1		92.9		
Depreciation	467.4	371.7	25.8	453.1	3.2	
Tax	313.1	376.2	-16.8	75.4	315.4	
PAT	646.3	905.6	-28.6	1055.2	-38.7	

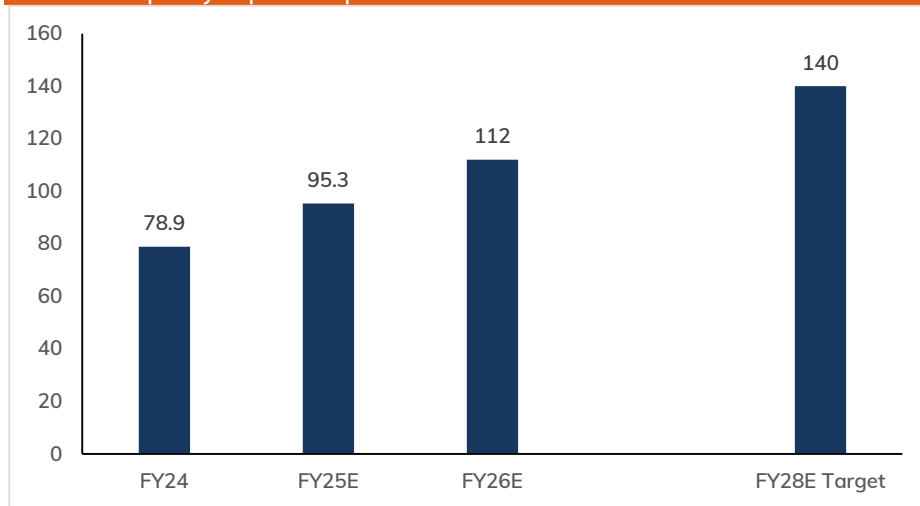
Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Rs Crore	FY25E			FY26E			FY27E	Comments
	Old	New	Change (%)	Old	New	Change (%)	New	
Revenue	36973.0	35463.8	-4.1	41943.0	42101.3	0.4	48496.9	Estimates revised downwards factoring in lower realisations
EBITDA	8053.0	6363.7	-21.0	10009.0	9150.3	-8.6	11814.5	
EBITDA Margin (%)	21.8	17.9		23.86	21.7		24.4	
PAT	4342.0	3208.2	-26.1	5402.0	5242.7	-2.9	6975.5	
EPS (Rs)	17.6	13.0	-26.0	21.9	21.3	-2.8	28.3	

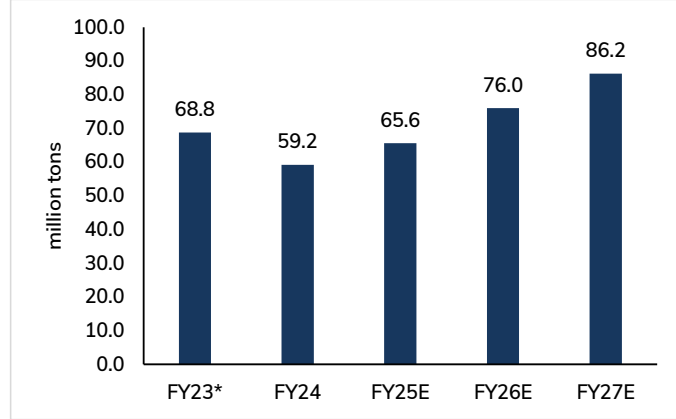
Source: Company, ICICI Direct Research

Exhibit 3: Capacity expansion plan over FY24-FY28E



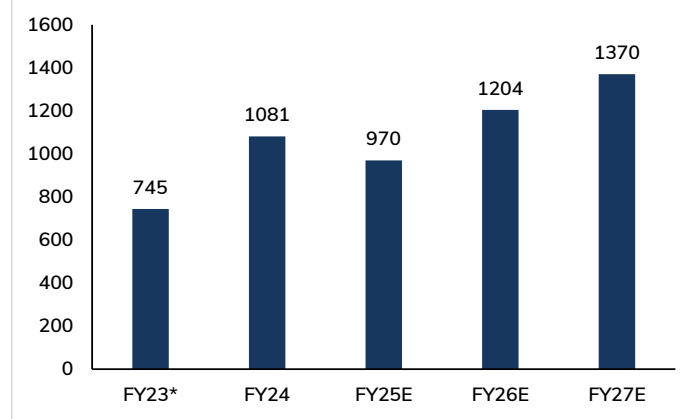
Source: Company, ICICI Direct Research

Exhibit 4: Volumes to grow at 13.4% CAGR over FY24-27E



Source: Company, ICICI Direct Research * FY23 is 15 months period

Exhibit 5: EBITDA/ton to improve over FY26E-FY27E



Source: Company, ICICI Direct Research * FY23 is 15 months period

Exhibit 6: Valuation table

	FY23*	FY24	FY25E	FY26E	FY27E
Blended Realisation	5659	5601	5405	5540	5623
Per tonne costs					
RM Cost	743	831	985	985	985
Employee Cost	270	229	219	202	194
Power & Fuel cost	1710	1370	1265	1235	1195
Freight Cost	1384	1351	1280	1268	1256
Others	808	739	687	646	624
Total Expenditure/ton	4915	4520	4435	4336	4254
EBITDA/tonne	745	1081	970	1204	1370

Source: Company, ICICI Direct Research

Exhibit 7: Valuation table

Ambuja Consol FY27E EBITDA (₹ crore)	11814
EV/EBITDA (x)	18.0
Enterprise Value (₹ crore)	212660
FY27E Consol Net Debt (₹ crore)	-5433
Ambuja Equity Value	218094
Less: ACC Minority stake value (49.95%)	23750
Less : Minority stake Sanghi (41.92%)	1041
Ambuja Target market Cap (₹ crore)	193303
NoS (crore)	246.3
Target Price	785

Source: Company, ICICI Direct Research

Financial summary - Consolidated

Exhibit 8: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Revenue	33,160	35,464	42,101	48,497
% Growth	(14.8)	6.9	18.7	15.2
Other income	1,166	1,341	1,543	1,774
Total Revenue	33,160	35,464	42,101	48,497
% Growth	(14.8)	6.9	18.7	15.2
Total Raw Material Costs	4,923	6,463	7,485	8,495
Employee Expenses	1,353	1,434	1,534	1,672
Other expenses	20,485	21,204	23,932	26,515
Total Operating Expenditure	26,760	29,100	32,951	36,682
Operating Profit (EBITDA)	6,400	6,364	9,150	11,814
% Growth	24.9	(0.6)	43.8	29.1
Interest	276	276	248	224
PBDT	7,290	7,429	10,444	13,365
Depreciation	1,623	2,270	2,779	3,152
PBT before Exceptional Items	5,666	5,159	7,666	10,213
Total Tax	1,163	1,032	1,533	2,043
PAT before MI	4,715	4,127	6,133	8,170
PAT	3,577	3,208	5,243	6,976
% Growth	38.5	(10.3)	63.4	33.1
EPS	16.3	13.0	21.3	28.3

Source: Company, ICICI Direct Research *FY23 is 15 months period

Exhibit 9: Cash flow statement

₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	3,577	3,208	5,243	6,976
Depreciation	1,623	2,270	2,779	3,152
Interest	276	276	248	224
Cash Flow before WC changes	5,477	5,754	8,270	10,351
Changes in inventory	(336)	(181)	(709)	(683)
Changes in debtors	(59)	(69)	(240)	(231)
Changes in loans & Advances	2	(1)	-	(1)
Changes in other current assets	1,491	(23)	(465)	(448)
Net Increase in Current Assets	3,264	(1,203)	(2,347)	(2,699)
Changes in creditors	335	214	622	599
Changes in provisions	28	(11)	14	2
Net Inc in Current Liabilities	611	352	1,366	1,305
Net CF from Operating activities	9,351	4,903	7,290	8,957
Changes in deferred tax assets	1,091	-	-	-
(Purchase)/Sale of Fixed Assets	(10,593)	(20,500)	(6,000)	(5,000)
Net CF from Investing activities	(7,136)	(19,716)	(7,621)	(5,476)
Dividend and Dividend Tax	(496)	(659)	(791)	(887)
Net CF from Financing Activities	5,893	7,457	(1,040)	(1,109)
Net Cash flow	8,108	(7,356)	(1,371)	2,372
Opening Cash/Cash Equivalent	2,960	11,068	3,712	2,341
Closing Cash/ Cash Equivalent	11,068	3,712	2,341	4,712

Source: Company, ICICI Direct Research *FY23 is 15 months period

Exhibit 10: Balance sheet

₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Equity Capital	440	493	493	493
Reserve and Surplus	41,015	51,903	56,354	62,443
Total Shareholders funds	41,454	52,395	56,847	62,936
Total Debt	37	37	37	38
Total Liabilities	53,186	64,127	68,578	74,668
Gross Block	23,033	46,107	55,107	61,107
Acc: Depreciation	9,492	11,761	14,540	17,692
Net Block	19,957	34,345	40,567	43,414
Capital WIP	2,658	6,500	3,500	2,500
Total Fixed Assets	35,047	53,277	56,499	58,346
Non Current Assets	5,336	4,553	6,174	6,649
Inventory	3,609	3,789	4,498	5,182
Debtors	1,213	1,283	1,523	1,754
Other Current Assets	2,460	2,482	2,947	3,395
Cash	11,068	3,712	2,341	4,712
Total Current Assets	24,093	17,939	18,915	23,986
Current Liabilities	3,109	3,323	3,945	4,544
Provisions	256	90	91	92
Total Current Liabilities	12,111	12,463	13,830	15,135
Net Current Assets	11,982	5,476	5,085	8,851
Total Assets	53,186	64,127	68,578	74,668

Source: Company, ICICI Direct Research *FY23 is 15 months period

Exhibit 11: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
EPS	18.0	13.0	21.3	28.3
Cash per Share	59.6	18.1	12.6	22.2
DPS	14.0	14.0	15.0	16.0
BV	208.8	212.7	230.8	255.5
EBITDA Margin	19.3	17.9	21.7	24.4
PAT Margin	10.8	9.0	12.5	14.4
RoE	8.2	6.1	9.2	11.1
RoCE	14.3	10.4	13.9	16.6
RoC	15.7	8.4	11.7	14.9
EV / EBITDA	28.6	28.8	20.0	15.5
P/E	38.8	51.1	31.2	23.5
EV/ton (\$)	280	232	197	178
EV / Net Sales	4.6	4.5	3.8	3.3
Sales / Equity	0.8	0.7	0.7	0.8
Market Cap / Sales	4.9	4.6	3.9	3.4
Price to Book Value	3.2	3.1	2.9	2.6
Asset turnover	0.8	0.7	0.7	0.8
Debtors Turnover Ratio	28.0	28.4	30.0	29.6
Creditors Turnover Ratio	11.3	11.0	11.6	11.4
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.9	1.0	1.1
Quick Ratio	0.4	0.4	0.5	0.5

Source: Company, ICICI Direct Research *FY23 is 15 months period

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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