

CMP: ₹ 355

Target: ₹ 500 (41%)

Target Period: 12 months

BUY

February 9, 2023

Improved operational efficiencies via group synergies

About the stock: Ambuja Cement (now Adani group conglomerate) is a large cement player with capacity of 31.5 MT across North (35%), South (24%), West (~20%), East (~21%) in India. It has a large marketing set-up & pan-India presence.

- The upcoming new capacity in Punjab (1.5 MT) and eastern region (7.0 MT including clinker 3.2 MT) will enhance its cement capacity by ~8.5 MT to 40 MT. In phase II, the company plans to reach over ~50 MT capacity through capacity expansion in western region along with significant de-bottlenecking
- The management plans to double its consolidated capacity to 140 MT (ACC + Ambuja) from current ~70 MT in the next five years

Q4CY22 Results: Ambuja Cements' financial performance for Q4CY22 improved sharply backed by improved operational efficiencies through group synergies.

- Net revenues were up 10.4% YoY, 12.5% QoQ to ₹ 4128.5 crore, led by better sales volume
- EBITDA margin rose 687 bps QoQ to 15.2% (vs. I-direct estimate: 12.2%). On per tonne basis, EBITDA/t was ₹ 813/t vs. I-direct estimate of ₹ 678/t
- While the company incurred exceptional expenditure of ₹ 56 crore towards IT transition costs, better margins and higher other income led to net profit growth of 46% YoY, 167% QoQ to ₹ 369 crore

What should investors do? Strong brand with pan-India presence, cost efficient and robust balance sheet are key positives.

- With aggressive expansion strategy and focus on cost efficiencies, we expect healthy revenue growth, going forward. Hence, maintain **BUY** rating

Target Price and Valuation: We value Ambuja at ₹ 500i.e. 15x FY25E EV/EBITDA.

Key triggers for future price performance:

- The management plans to increase consolidated capacity to ~140 MT in next five years (i.e. at 16% CAGR). Promoter to make equity infusion of ₹ 20,000 crore for the said purpose
- The new clinker capacity at Marwar Rajasthan (1.8 MT cement, 3 MT clinker) and grinding unit (GU) in Punjab (1.5 MT) to come on stream by end of CY23 while capacity expansion (7 MT cement, 3.2 MT clinker) in east (capex of ₹ 3500 crore) is likely to get completed by Q4CY24E
- It has a strong b/s. Also, the group's exposure into energy and logistics will help it to improve cost dynamics and gain supply chain efficiencies

Alternate Stock Idea: In our cement universe, we also like UltraTech cement.

- It is a market leader with strong brand in the retail segment
- BUY with a target price of ₹ 8,050/share



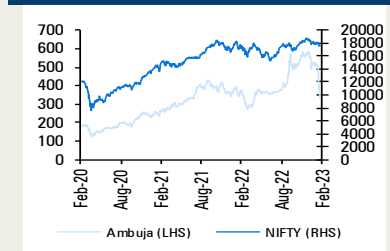
Particulars

Particular	Amount
Market cap	₹ 70491 crore
Debt (CY21)	₹ 44 crore
Cash & Invest (CY21)	₹ 4164 crore
EV	₹ 66370 crore
52 week H/L	₹ 598/ 274
Equity capital	₹ 397.1 crore
Face value	₹ 2

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	63.2	63.2	63.2	63.2
FII	13.0	12.8	11.1	10.7
DII	16.3	15.0	16.3	16.7
Others	7.6	9.0	9.5	9.4

Price Chart



Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in prices of imported coal/petcoke may impact margins

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Key Financial Summary

Key Financials	CY18	CY19	CY20	CY21	3 Year CAGR (%)	FY23E*	FY24E	FY25E	3 Year CAGR (%)
Net Sales	11,357	11,668	11,372	13,970	7.1	19,928	16,820	19,797	12.3
EBITDA	1,891	2,149	2,647	3,210	19.3	3,300	3,821	4,574	12.5
EBITDA (%)	16.7	18.4	23.3	23.0		16.6	22.7	23.1	
Adjusted PAT	1,245	1,529	1,790	2,148	19.9	2,786	2,617	3,138	13.5
EPS (₹)	6.3	7.7	9.0	10.8		14.0	13.2	15.8	
EV/EBITDA - Adjusted	18.6	20.4	17.7	14.1		16.2	11.8	10.2	
EV/T (\$) - Consolidated	207	203	209	194		186	158	161	
RoNW (%)	13.5	14.7	21.0	20.6		22.0	17.8	18.2	
RoCE (%)	11.8	12.2	18.6	17.8		17.2	15.7	16.1	

Source: Company, ICICI Direct Research. FY23 represents 15 months

Key performance highlights

- Sales volumes increased 7.5% YoY to 7.7 MT (vs. estimate of 7.3 MT) supported by an increase in blended cement (clinker factor reduced from 60.1% to 59.5%). Sales realisations were up 2.6% YoY, 3.7% QoQ to ₹ 5362/tonne
- On the cost side, power & fuel cost declined 21% QoQ to ₹ 1573/tonne led by 14% reduction in kiln fuel cost (i.e. from ₹ 2.84/000 Kcal to ₹ 2.45/000 Kcal) with change in coal basket and group synergies on coal procurement
- Freight cost was also down 7.9% YoY, 8.2% QoQ as group synergies of multi model logistics helped in optimising warehouse infrastructure. Direct sales also improved from 44% to 50%. These measures along with higher dispatches via rail helped to reduce lead distance from 263 km to 248 km

Key conference call highlights

- The management of the ACC-Ambuja group addressed the first management discussion post its acquisition by the Adani group. The management said that the companies (ACC and Ambuja) saw a positive financial jump by leveraging synergies with each other and the Adani group
- The company maintained its 140 MT capacity target and WHRS capacity of 190 MW by March 25 from 65 MW at present. AFR consumption has increased and will further improve in coming quarters. Total 30% AFR target by 2027
- Growth levers: Three key levers for the companies would be: 1) improving efficiencies of existing plants; 2) explore group synergies mainly on the logistics front (+other operational infra); 3) growth and expansion: increasing utilisation, capacity expansion as well as de-bottlenecking will drive growth
- While there are independent boards for ACC and Ambuja, the entire cement business (ACC+ Ambuja) is run by a unified management team. Advantages on scale and size are already being explored between both companies – merger between the two is not planned as of now
- Cement pricing/ costs/ profitability: Kiln fuel cost has reduced from ₹ 2.84/kcal to ₹ 2.45/kcal in Q4CY22. Synergies between ACC and Ambuja and other Adani Group companies enabled better efficiencies during the quarter. The company would continue to explore these synergies to further optimise cost
- Logistics benefits of group synergies (including ports), plans to use own wagons, and other operational infra would lead to better cost management in the coming quarters. Direct despatches from factory are being undertaken (improvement to 50% from 44%) and would be increased further
- Royalty/technical know-how charges (earlier there during Holcim's ownership) are not there as of now
- Capacity targets: Remains committed on doubling capacity in five years mainly via greenfield/brownfield routes. Also, it is constantly evaluating M&A opportunities, if any
- Ambuja ongoing expansion: Earlier announced 6.5 MT capacity expansion is expected to be completed within 18 months. Ametha capacity expansion will end by March 2023 and start commercial production in June-July 2023
- Capex spend over the next 18 months is estimated at ₹ 10,000 crore. The management mentioned that further details will be given in the next earnings call. Currently the company is focused on the cost reduction processes along with sale of trade and blended cement
- The management predicted that the EBITDA margin is going to expand further in coming quarters with a four-digit EBITDA level

- Coal procurement details: Ambuja Cements (ACL) has its own captive coal mine at Gare Palma, which caters to ~20-25% of coal requirement. ACC does not have any captive coal mine and has to depend on third party sourcing. The company is neither sourcing nor does it have any agreement with Adani for coal agreement. ACC has entered into the coal agreement in the middle of October 2022 at US\$157/tonne for six months and will end by March-June 2023. Total coal procurement volume is 16 lakh metric tonnes, out of which 3 lakh metric tonnes have been received

Exhibit 1: Variance Analysis

	Q4CY22	Q4CY22E	Q4CY21	YoY(%)	Q3CY22	QoQ(%)	Comments
Net Sales	4,128.5	4,055.7	3,739.9	10.4	3,670.4	12.5	Sales volume grew 7.5% YoY to 7.7 MT. Realisations were also up 2.6% YoY
Other Incomes	89.0	47.0	32.1	177.3	47.0	89.2	
Total cost	3,502.4	3,560.4	3,169.5	10.5	3,366.1	4.0	
EBITDA	626.1	495.3	570.4	9.8	304.3	105.7	
EBITDA Margin (%)	15.2	12.2	15.3	-8 bps	8.3	687 bps	
Interest	25.3	13.6	25.3	-0.2	22.8	10.8	
Depreciation	164.8	171.0	169.8	-2.9	157.1	4.9	
PBT	525.1	294.0	407.4	28.9	171.5	206.1	
Total Tax	94.7	75.0	88.8	6.7	18.4	414.4	
Adjusted PAT	369.0	219.1	252.9	45.9	137.9	167.6	

Key Metrics

Volume (MT)	7.70	7.30	7.16	7.5	7.10	8.5
Realisation (₹)	5,362	5,556	5,223	2.6	5,170	3.7
EBITDA per Tonne (₹)	813	678	797	2.1	429	89.7

Per tonne	Q4CY22	Q4CY22E	Q4CY21	YoY(%)	Q3CY22	QoQ(%)	
Net Sales	5,362	5,556	5,223	2.6	5,170	3.7	
Raw Material Expenses	760	550	569	33.5	601	26.3	
Employee Expenses	207	294	249	-16.9	216	-4.0	
Change in stock	212	0	-52	-511.3	-184	-214.9	
Power and fuel	1,573	1,850	1,574	-0.1	1,992	-21.1	Kiln fuel cost reduced by 14% from ₹ 2.84/Kcal to ₹ 2.45/KCal with change in coal basket, group synergies on coal procurement Warehouse infrastructure also optimised. Direct sales improved from 44% to 50%, lead distance reduced from 263 km to 248 km, higher dispatches through rail
Freight	1,086	1,200	1,180	-7.9	1,182	-8.2	
Others	711	983	907	-21.6	933	-23.8	
EBITDA	813	678	797	2.1	429	89.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E
	Old	New	% Change	Introduced
Revenue	16,837	16,820	-0.1	19,797
EBITDA	3,640	3,821	5.0	4,574
EBITDA Margin (%)	21.6	22.7	-10 bps	23.1

Source: Company, ICICI Direct Research

Update on ongoing expansion

The company has laid out growth plans to increase its capacities in India with the target to become a 50 MT player from current 31.5 MT in phase I. In terms of regions, the company is exploring opportunities in markets of east and west India. The new clinker capacity at Marwar Rajasthan (1.8 MT cement, 3 MT clinker) and GU in Punjab (1.5 MT) is likely to come on stream by end of CY23 while capacity expansion (7 MT cement, 3.2 MT clinker) in east (capex of ₹ 3500 crore) is likely to get completed by Q4CY24E. Apart from this, the company is also looking at significant debottlenecking opportunities across all its plants to further enhance their cement capacity.

Capital infusion to increase promoter shareholding to over 70%

The new board of Ambuja (parent company of ACC) has approved fund infusion of ₹ 20,000 crore through promoter entity (Harmonia Trade and Investment) on a preferential basis. While Adani Group's shareholding in Ambuja will increase to 70.3% vs. 63.2% at present, the effective shareholding in ACC will also increase from 38.2% to 41.8%.

Exhibit 3: Promoter holding post fund infusion

ACC		Shareholding structure			Effective holding of Adani group in ACC	
Promoter	No of shares (ln cr)	%	Promoter	No of shares (ln cr)	%	
Ambuja	9.4	50.1%	Adani Group	125.5	63.2%	31.6%
Adani Group	1.2	6.6%	NA			6.6%
Total promoter holding	10.6	56.7%	Total promoter holding	125.5	63.2%	38.2%
Total	18.8	100.0%	Total	198.8	100.0%	

Fund raising of ₹20,000 crore through issuance of 47.7 convertible warrants at ₹419/share by Ambuja						
Promoter	No of shares (ln cr)	%	Promoter	No of shares (ln cr)	%	
Ambuja	9.4	50.1%	Adani Group	173.2	70.3%	35.2%
Adani Group	1.2	6.6%	NA			6.6%
Total promoter holding	10.6	56.7%	Total promoter holding	173.2	70.3%	
Total	18.8	100.0%	Total shares post fund raise	246.5	100.0%	41.8%

Source: Company, ICICI Direct Research

Valuation & Outlook

While the short-term performance has got impacted in a high cost environment, the long-term growth trajectory of the company remains healthy with capacity expansion backed by a strong b/s. Hence, we maintain BUY rating with a revised target price of ₹ 525 (implying ~15x FY25E adjusted EV/EBITDA).

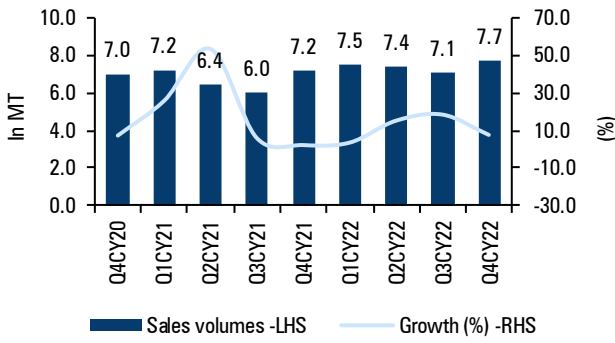
Exhibit 4: Fair Value Calculation - SOTP

Fair value calculation	in ₹ crore
EBITDA Estimates FY25E	4574
Target EV/EBITDA	16
Target Enterprise value	73188
Debt	44
Balance Cash and cash equivalents	5310
Target equity value	78454
No. of shares outstanding	199
Fair value of Ambuja [A]	395
ACC's fair equity valuation	48828
Valuation of 50% stake [B]	24414
Holding company discount	15%
Net value to Ambuja	20752
No. of shares outstanding	199
Fair value of Investment in ACC [B]	105
Fair value per share [A+B]	500

Source: Company, ICICI Direct Research

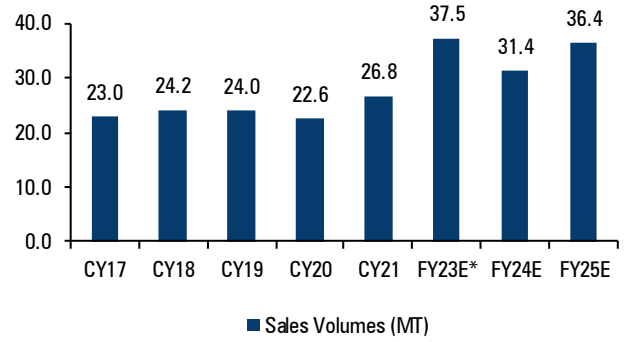
Financial story

Exhibit 5: Sales volumes grow 7.5% YoY



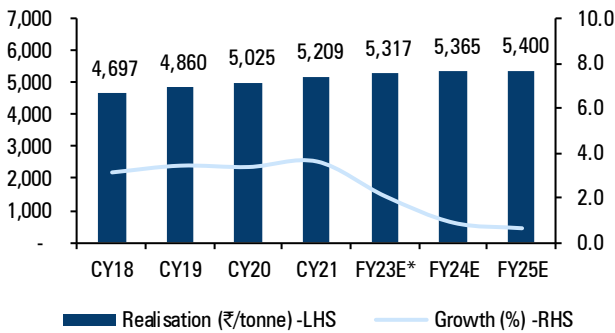
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 10.7% CAGR over three years



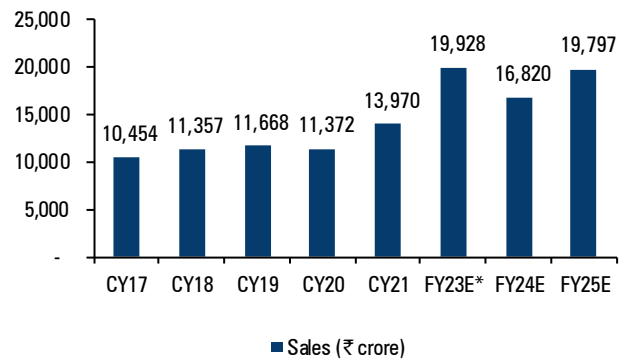
Source: Company, ICICI Direct Research

Exhibit 7: Realisations to remain firm on back of high cost environment



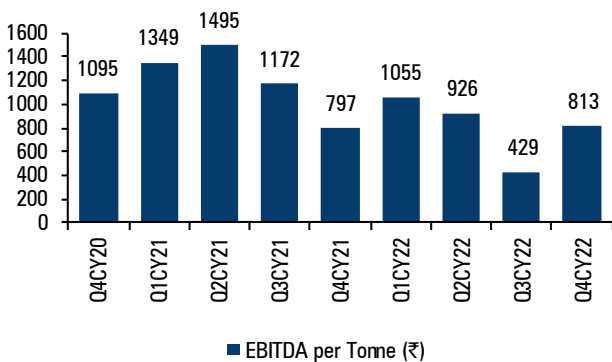
Source: Company, ICICI Direct Research *FY23E represents 15 months financial year

Exhibit 8: Revenue to grow at 12.3% CAGR in next 3 years



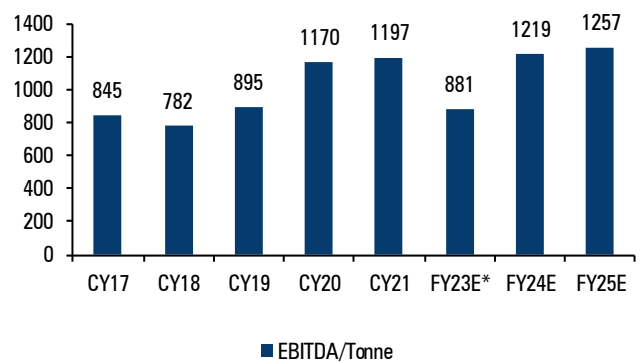
Source: Company, ICICI Direct Research, *FY23E represents 15 months financial year

Exhibit 9: EBITDA/t trend



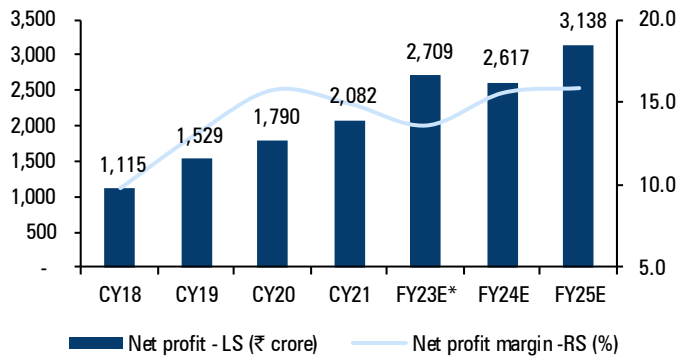
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t assumption



Source: Company, ICICI Direct Research, *FY23E represents 15 months financial year

Exhibit 11: PAT growth trajectory



Source: Company, ICICI Direct Research, *FY23E represents 15 months financial year

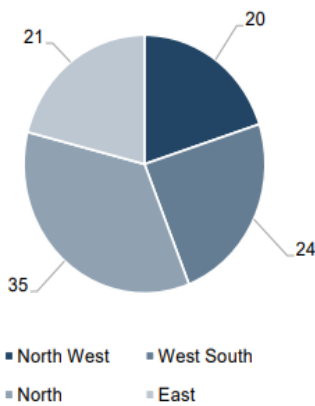
Exhibit 12: Capacity expansion plans

Particulars	Capacity (MT)	Timeline
Existing Cement capacity	31.5	
Expansion plans:		
Ropar, Punjab (1.5MT Grinding unit)	1.5	2023
Grinding units in Eastern region (Sankrail, Farraka and Barh, Bihar)	7.0	H2CY24E
Total	8.5	
Total capacity post expansion	40.0	

Source: Company, ICICI Direct Research

Exhibit 13: Region wise revenue share

Region-wise share of revenue (%)



Note: All figures are for CY 2021



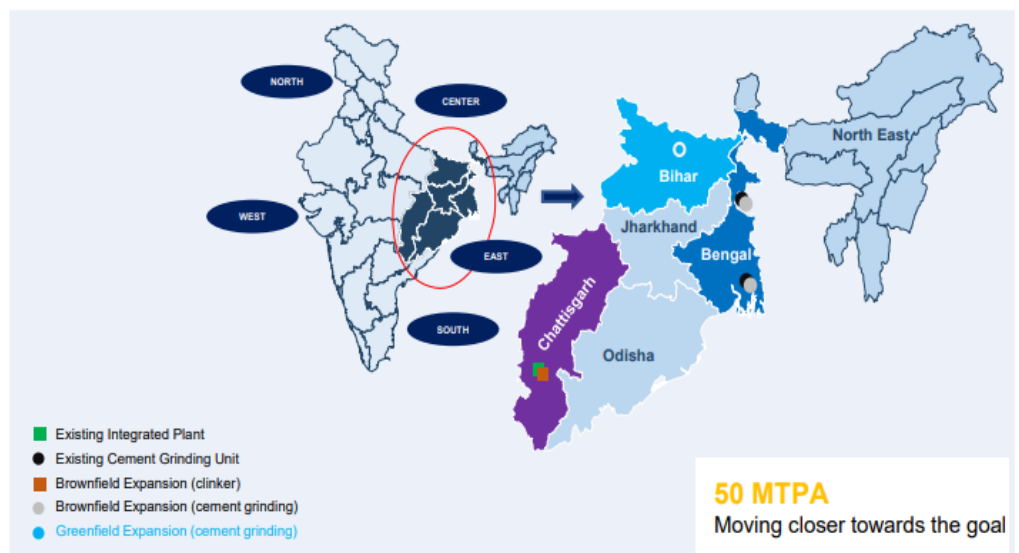
- Integrated cement plants**
 - Ambujanagar, Gujarat
 - Darlaghat, Himachal Pradesh
 - Maratha Cement Works, Maharashtra
 - Rabriyawas, Rajasthan
 - Bhatapara, Chhattisgarh
 - Marwar, Rajasthan
- Grinding units**
 - Roopnagar (Ropar), Punjab
 - Bathinda, Punjab
 - Sankrail, West Bengal
 - Roorkee, Uttarakhand
 - Farakka, West Bengal
 - Dadri, Uttar Pradesh
 - Nalagarh, Himachal Pradesh
 - Surat, Gujarat
- Bulk cement terminals**
 - Muldwarka, Gujarat
 - Panvel, Maharashtra
 - Kochi, Kerala
 - Surat, Gujarat
 - Mangalore, Karnataka

Source: Company, ICICI Direct Research

Exhibit 14: Expansion plans

The Board has approved in principle an investment of ₹ 3,500 crore for :

- 7.0 MTPA potential cement grinding expansion across our existing grinding units at Sankrail and Farakka and greenfield grinding unit at Barh, Bihar
- 3.2 MTPA brownfield clinker expansion at our existing integrated plant in Bhatapara, Chattisgarh



50 MTPA
Moving closer towards the goal

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 15: Profit & Loss Account

(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Total operating Incor	11,371.9	13,969.8	19,927.6	16,819.7	19,796.5
Growth (%)	-2.5	22.8	42.6	-15.6	17.7
Raw material	1186.3	1159.2	2401.4	2286.3	2787.3
Power & Fuel	2251.9	3421.5	6106.9	4193.1	4550.0
Employees	668.8	678.5	789.3	696.0	696.0
Freight	2854.9	3308.8	4384.2	3409.3	4277.0
Others	1763.4	2191.9	2945.5	2414.0	2912.0
Total Operating Exp.	8,725.3	10,759.9	16,627.4	12,998.6	15,222.3
EBITDA	2,646.6	3,209.9	3,300.2	3,821.1	4,574.2
Growth (%)	23.2	21.3	2.8	15.8	19.7
Depreciation	521.2	551.2	796.2	669.2	826.7
Interest	83.1	91.0	119.8	54.4	54.4
Other Income	372.0	284.5	894.2	400.0	500.0
Exceptional items	0.0	65.7	76.6	0.0	0.0
PBT	2,414.4	2,786.4	3,201.8	3,497.5	4,193.2
Total Tax	624.3	704.6	492.3	880.3	1,055.4
PAT	1,790.1	2,081.8	2,709.5	2,617.2	3,137.7
Adjusted PAT	1,790.1	2,147.5	2,786.1	2,617.2	3,137.7
Growth (%)	17.1	20.0	29.7	-6.1	19.9
Adjusted EPS (₹)	9.0	10.5	13.6	13.2	15.8

Source: Company, ICICI Direct Research, *FY23E represents 15 months financial year

Exhibit 17: Balance Sheet summary

(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Liabilities					
Equity Capital	397.1	397.1	397.1	397.1	397.1
Reserve and Surplus	19,918.7	21,811.4	24,053.5	26,086.4	28,639.9
Total Shareholders funds	20,315.9	22,208.5	24,450.6	26,483.5	29,037.0
Total Debt	43.6	43.5	43.5	43.5	43.5
Other liabilities	1,407.4	1,688.5	1,688.5	1,688.5	1,688.5
Total Liabilities	21,766.8	23,940.6	26,182.6	28,215.5	30,769.0
Assets					
Gross Block	14,753.1	17,018.5	18,369.9	19,869.9	27,369.9
Less: Acc Depreciation	8,821.6	9,372.8	10,169.1	10,838.3	11,665.0
Net Block	5,931.5	7,645.7	8,200.8	9,031.6	15,704.9
Capital WIP	1,873.7	951.3	1,500.0	3,500.0	1,500.0
Total Fixed Assets	7,805.2	8,597.0	9,700.8	12,531.6	17,204.9
Investments	11,787.7	11,787.7	11,787.7	11,787.7	11,787.7
Inventory	746.6	1,463.6	1,921.4	474.8	2,345.5
Debtors	191.5	293.2	1,344.7	37.7	1,589.4
Other assets	1,873.8	1,750.3	2,945.6	1,188.2	3,484.0
Cash	2,924.3	4,164.3	5,309.8	4,512.0	2,803.3
Total Current Assets	5,736.2	7,671.4	11,521.5	6,212.8	10,222.1
Creditors	3,558.5	4,106.7	6,812.6	2,311.6	8,427.4
Provisions	3.9	8.9	14.8	5.0	18.3
Total Current Liabilities	3,562.4	4,115.6	6,827.4	2,316.6	8,445.7
Net Current Assets	2,173.9	3,555.8	4,694.1	3,896.2	1,776.4
Application of Funds	21,766.8	23,940.6	26,182.6	28,215.5	30,769.0

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement

(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Profit after Tax	1,790.1	2,081.8	2,709.5	2,617.2	3,137.7
Add: Depreciation	521.2	551.2	796.2	669.2	826.7
(Inc)/dec in Current Assets	1,455.8	-835.9	-2,704.6	4,510.9	-5,718.0
Inc/(dec) in CL and Provisions	-322.5	847.8	2,711.8	-4,510.8	6,129.1
CF from operating activit	3,444.6	2,645.0	3,512.9	3,286.5	4,375.5
(Inc)/dec in Investments	1.3	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1,405.3	-1,343.0	-1,900.0	-3,500.0	-5,500.0
Others	0.0	127.3	0.0	0.0	0.0
CF from investing activit	-1,404.0	-1,215.7	-1,900.0	-3,500.0	-5,500.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-28.1	-0.1	0.0	0.0	0.0
Dividend & dividend tax	-3,973.1	-1,472.4	-467.4	-584.3	-584.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	0.0
Others	293.7	1,283.2	0.0	0.0	0.0
CF from financing activit	-3,707.5	-189.2	-467.4	-584.3	-584.3
Net Cash flow	-1,666.9	1,240.0	1,145.4	-797.8	-1,708.7
Opening Cash	4,699.5	2,924.3	4,164.3	5,309.8	4,512.0
Closing Cash	2,924.3	4,164.4	5,309.8	4,512.0	2,803.3

Source: Company, ICICI Direct Research

Exhibit 18: Ratio sheet

(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Per share data (₹)					
Adjusted EPS	9.0	10.5	13.6	13.2	15.8
Cash EPS	11.6	13.3	17.7	16.6	20.0
BV	102.3	111.8	123.1	133.4	146.2
DPS	17.0	6.3	2.0	2.5	2.5
Cash Per Share	14.7	21.0	26.7	22.7	14.1
Operating Ratios (%)					
EBITDA Margin	23.3	23.0	16.6	22.7	23.1
PAT Margin	15.7	14.9	13.6	15.6	15.8
Inventory days	27.3	28.9	31.0	26.0	26.0
Debtor days	11.3	6.3	15.0	15.0	15.0
Creditor days	100.0	100.1	100.0	99.0	99.0
Return Ratios (%)					
RoE	21.0	20.6	22.0	17.8	18.2
RoCE	18.6	17.8	17.2	15.7	16.1
RoIC	47.3	41.0	35.6	40.1	26.5
Valuation Ratios (x)					
P/E	39.4	32.8	25.3	26.9	22.5
EV / EBITDA	17.7	14.1	16.2	11.8	10.2
EV / Net Sales	5.9	4.8	3.3	3.9	3.4
Market Cap / Sales	6.2	5.0	3.5	4.2	3.6
Price to Book Value	3.5	3.2	2.9	2.7	2.4
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.4	1.7	1.6	2.4	1.1
Quick Ratio	0.6	0.7	0.8	0.5	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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