

CMP: ₹ 390

Target: ₹ 470 (21%)

Target Period: 12 months

BUY

May 4, 2023

Healthy volume growth drives outperformance...

About the stock: Ambuja Cement (now Adani group conglomerate) is a large cement player with capacity of 31.5 MT spread across north (35%), south (24%), west (~20%), east (~21%) India. It has a large marketing set-up, pan-India presence.

- The management reiterated guidance to double its consolidated capacity to 140 MT (ACC + Ambuja) from the current ~70 MT in the next five years
- To be one of the lowest cost producers by leveraging Adani group's synergies

Q4FY23 Results: Recorded healthy volume growth of 8% YoY to 8.1 MT with plant operating at nearly 100% utilisation levels. Realisations came in lower than anticipated (as witnessed for other players), down 2% QoQ to ₹ 5255/t

- Revenue grew 8.4% YoY to ₹ 4256.3 crore (I-direct estimate: ₹ 4137.9 crore)
- Through better operational efficiency coupled with synergising Adani group expertise, EBITDA/t improved QoQ to ₹ 973/t (Q3FY3: ₹ 813/t, Q4FY22: ₹ 1055/t). Absolute EBITDA was at ₹ 788 crore
- While the company incurred exceptional expenditure of ₹ 80 crore towards one-time restricting cost, better margins and higher other income (treasury gains) led to PAT growth of 36% QoQ to ₹ 502.4 crore

What should investors do? Strong brand with pan India presence, cost efficient and robust balance sheet provide levers for profitable growth.

- Ambuja's stock price in recent times has been volatile owing to concerns regarding group liquidity. We remain positive on the stock given dual levers of long-term growth prospects and enhanced efficiency (backed by robust balance sheet: cash & investments: ₹ 8500 crore). Hence, we reiterate **BUY** rating on the stock

Target Price and Valuation: We value Ambuja at ₹ 470 based on SOTP valuations

Key triggers for future price performance:

- Embarked on a capex of ₹ 7000 crore to commission 11 MT of cement grinding units (Sankrail- 2 MT, Kharagpur- 2 MT, Hoshiyarpur- 2 MT, Bhatinda- 1 MT, Mirzapur- 2 MT, Farakka- 2 MT) and 15 MT of clinker capacity over the next two to three years (most of the capacity to be commissioned in Ambuja)
- It has a strong b/s. Also, the group's exposure into energy and logistics will help them to improve cost dynamics and gain supply chain efficiencies. We build in cost savings initiatives of ₹ 345/t during FY23-25E and expect the company to clock in EBITDA/t of ₹ 1240 by FY25E

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 ₹ 9000



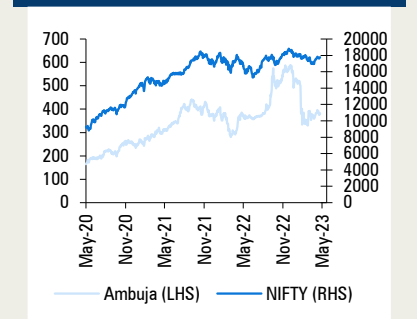
Particulars

Particular	Amount
Market cap	₹ 77440 crore
Debt (FY23)	₹ 48 crore
Cash & Invest (FY23)	₹ 8376 crore
EV	₹ 69112 crore
52 week H/L	₹ 598/ 315
Equity capital	₹ 397.1 crore
Face value	₹ 2

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	63.2	63.2	63.2	63.2
FII	12.8	11.1	10.7	11.2
DII	15.2	16.5	17.0	14.8
Others	8.8	9.2	9.1	10.9

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 (%)	FY23*	FY24E	FY25E
Net Sales	11,357	11,668	11,372	13,970	7.1	19,985	16,555	18,520
EBITDA	1,891	2,149	2,647	3,210	19.3	3,222	3,471	4,321
EBITDA (%)	16.7	18.4	23.3	23.0		16.1	21.0	23.3
Adjusted PAT	1,245	1,529	1,790	2,148	19.9	2,711	2,534	3,063
EPS (₹)	6.3	7.7	9.0	10.8		13.7	12.8	15.4
EV/EBITDA - Adjusted	26.9	22.5	19.5	15.6		16.5	14.8	11.6
EV/T (\$) - Consolidated	228	197	202	188		174	151	148
RoNW (%)	13.5	14.7	21.0	20.6		16.2	13.5	14.4
RoCE (%)	13.0	13.6	20.4	19.7		13.9	13.0	13.9

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

Key performance highlights

- Ambuja recorded healthy volume growth of 8% YoY to 8.1 MT (I-direct estimate: 7.7 MT) with the plant operating at nearly 100% utilisation levels. The volume numbers are impressive in the context of challenges faced by the company regarding the shutdown of plant operations in Himachal Pradesh for 50 days. Realisations came in lower than anticipated (as witnessed for other players) which declined by 2% QoQ to ₹ 5255/t (I-direct estimate: ₹ 5360/t). We note that realisation decline for ACC Cements was steeper (4% QoQ). Subsequently, revenue grew 8.4% YoY to ₹ 4256.3 crore
- Through better operational efficiency coupled with synergising Adani group expertise, production cost per tonne (QoQ) declined by ~ ₹ 267/t to ₹ 4282/t in Q4FY23 vs. our expectation of decline of ₹ 150/t. The major delta was driven through decline in power and fuel cost by ₹ 296/t to ₹ 1277/t. Fuel cost declined 10% QoQ from ₹ 2.33/Kcal to ₹ 2.1/Kcal owing to group synergies on coal procurement and reduction in clinker factor by 190 bps to 60.6%. Other expense per ton also declined materially by ₹ 139/t (aided by positive operating leverage). Despite lower realisations, EBITDA/T came in better than our estimate at ₹ 973/t (Q3FY23: ₹ 813/t, Q4FY22: ₹ 1055/t)

Ambuja - ESG Disclosure Score*

Score	CY19	CY20	CY21
Environmental	79.2	81.2	77.0
Social	56.4	57.4	51.6
Governance	87.4	92.4	92.4
Overall ESG Score	74.3	77.0	73.7

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Key conference call highlights

Capex: The company remains committed to doubling its consolidated capacity from current 68 MT to 140 MT by FY28 (CAGR: 16%). The same would be backed by addition of ~40 MT of clinker capacity (to set up 10 lines of which nine would be brownfield). The company has embarked overall capex of ₹ 46000 crore (EV/t: US\$78), which would mainly be funded through internal accruals. In the next two to three years the company will be adding 11 MT of grinding units and 15 MT of clinker capacity (exhibit: 10) while capex for the same is expected at ₹ 7000 crore. We believe most of the capacity to be added in Ambuja Cements. The company would also be taking de-bottlenecking initiatives, which would propel capacity further by 2-3 MT.

Cost: Targeting ~ ₹ 300-400/t o improvement in FY24 EBITDA through following initiatives:

- Increasing WHRS capacity from 80 MW to 175 MW by Q2FY25 and 200 MW of renewable energy. Both capacities will be split equally between Ambuja & ACC. Increase in share of AFR in fuel mix from current 7.5% to 15% in FY24E and 30% by FY30
- Sourcing of coal through its own captive mines in Gare Palma (1.2 MT) and newly allocated coal mine in Dahegaon Gawri (2 MT) These mines would cater to ~50% of its kiln coal requirements. The company is also looking to participate in additional coal mine auctions
- Sourcing its fly-ash requirements via long term contracts with Adani Power. Through these measures company expects cost savings of ₹ 250/t
- Optimising freight expenses through reduction in lead distance to ~150 km on a consolidated level (reduced distance for ACC from 165 to 163 and Ambuja from 177 km to 173 km). Besides, the company will be procuring 10 rakes for transportation of clinker and fly-ash from power plants. These initiatives are expected to save cost of ~₹ 100/t
- To enhance the share of premium products from current 22% to 29% in the medium term. Higher focus on branding and products positioning, with efforts to grow market of premium products will help in higher realisation

We expect Ambuja (standalone) to reach capacity of 39.5 MT by FY25E (from current 31.5 MT) and build in volume CAGR of 6% in FY23-25E. We build in cost savings initiatives of ₹ 345/t during FY23-25E and expect the company to clock EBITDA/t of ₹ 1240 by FY25E. Ambuja's stock price in recent times has been volatile owing to concerns regarding group liquidity. We remain positive on the stock given dual levers of long-term growth prospects and enhanced efficiency (backed by robust balance sheet: cash & investments: ₹ 8500 crore). We maintain **BUY** with a target price of ₹ 470 (14x EV/EBITDA).

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	Comments
Net Sales	4,256.3	4,137.9	3,925.2	8.4	4,128.5	3.1	recorded healthy volume growth of 8% YoY to 8.1 MT (I-direct estimate: 7.7 MT) with plant operating at nearly 100% utilisation levels.
Other Incomes	174.0	75.0	36.7	373.9	89.0	95.5	
Raw Material Expenses	869.5	679.1	531.2	63.7	748.0	16.2	
Employee Expenses	168.0	163.0	152.9	9.8	159.5	5.3	
Power and fuel	1,034.3	1,149.9	1,030.9	0.3	1,211.1	-14.6	Fuel cost declined by 10% QoQ from ₹ 2.33/KCAL to ₹ 2.1/Kcal owing to group synergies on coal procurement and reduction in clinker factor by 190 bps to 60.6%.
Freight	932.6	837.3	868.2	7.4	836.2	11.5	
Others	463.7	563.4	551.7	-15.9	547.5	-15.3	
Total cost	3,468.1	3,392.8	3,134.8	10.6	3,502.4	-1.0	
EBITDA	788.3	745.1	790.4	-0.3	626.1	25.9	
EBITDA Margin (%)	18.5	18.0	20.1	-162 bps	15.2	335 bps	
Interest	33.5	25.3	21.4	56.5	25.3	32.6	
Depreciation	204.7	165.0	151.5	35.1	164.8	24.2	
PBT	724.1	629.9	654.3	10.7	525.1	37.9	
Total Tax	141.0	138.6	159.1	-11.4	94.7	48.8	
Exceptional Expense	80.7		0.0		61.4		
Adjusted PAT	502.4	491.3	495.2	1.5	369.0	36.2	

Key Metrics

Volume (MT)	8.1	7.30	7.5	8.1	7.7	5.2
Realisation (₹)	5,255	5,668	5,241	0.3	5,362	-2.0
EBITDA per Tonne (₹)	973	1,021	1,055	-7.8	813	19.7

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	16,820	16,555	-1.6	19,700	18,520	-6.0
EBITDA	3,821	3,471	-9.2	4,574	4,321	-5.5
EBITDA Margin (%)	22.7	21.0	-10 bps	23.2	23.3	-10 bps

Source: Company, ICICI Direct Research

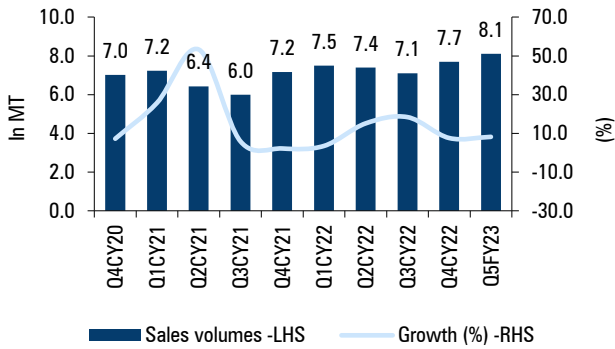
Exhibit 3: Fair Value Calculation - SOTP

Fair value calculation	in ₹ crore
EBITDA Estimates FY25E	4321
Target EV/EBITDA	16
Target Enterprise value	69133
Debt	63
Balance Cash and cash equivalents	7764
Target equity value	76834
No. of shares outstanding	199
Fair value of Ambuja [A]	387
ACC's fair equity valuation	40001
Valuation of 50% stake [B]	20001
Holding company discount	15%
Net value to Ambuja	17001
No. of shares outstanding	199
Fair value of Investment in ACC [B]	86
Fair value per share [A+B]	470

Source: Company, ICICI Direct Research

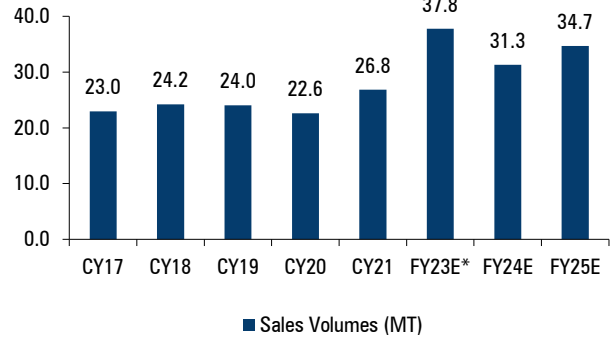
Financial story

Exhibit 4: Sales volumes grow 8% YoY



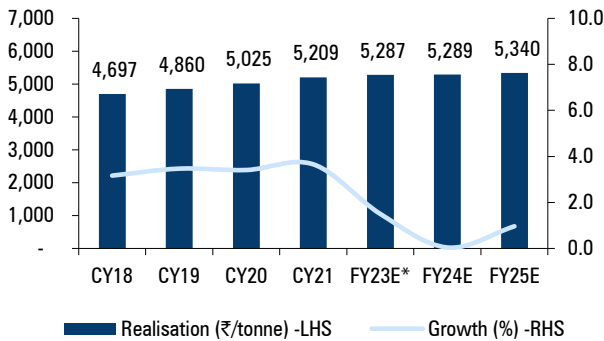
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 6% CAGR over two years



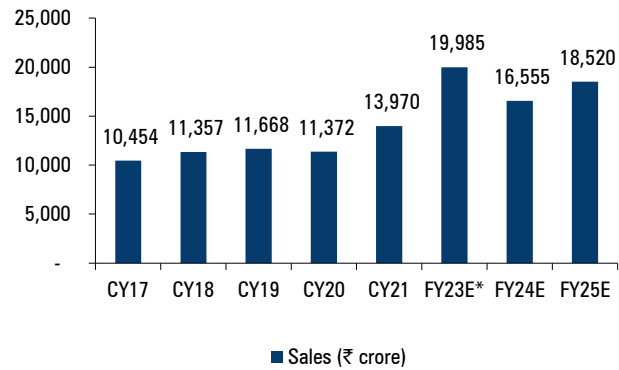
Source: Company, ICICI Direct Research *FY23E represents 15 months financial year

Exhibit 6: Realisations to remain stable, going forward



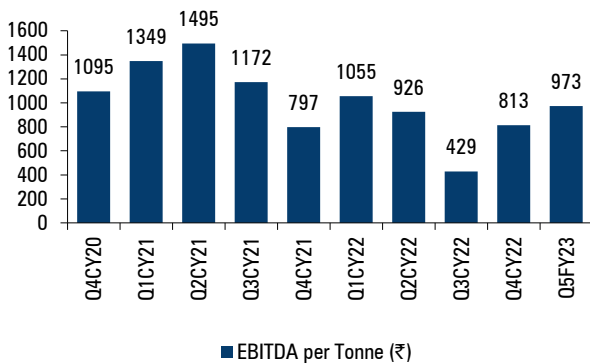
Source: Company, ICICI Direct Research *FY23E represents 15 months financial year

Exhibit 7: Revenue trend



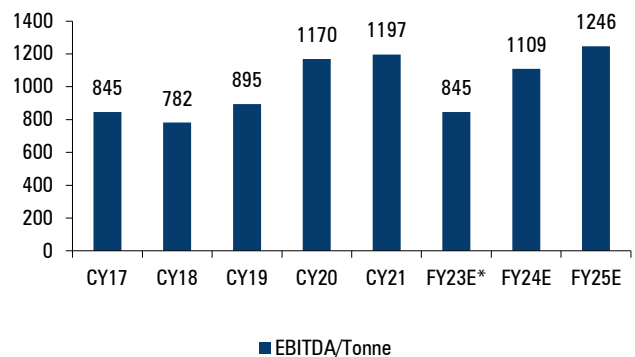
Source: Company, ICICI Direct Research, *FY23E represents 15 months financial year

Exhibit 8: EBITDA/t trend



Source: Company, ICICI Direct Research

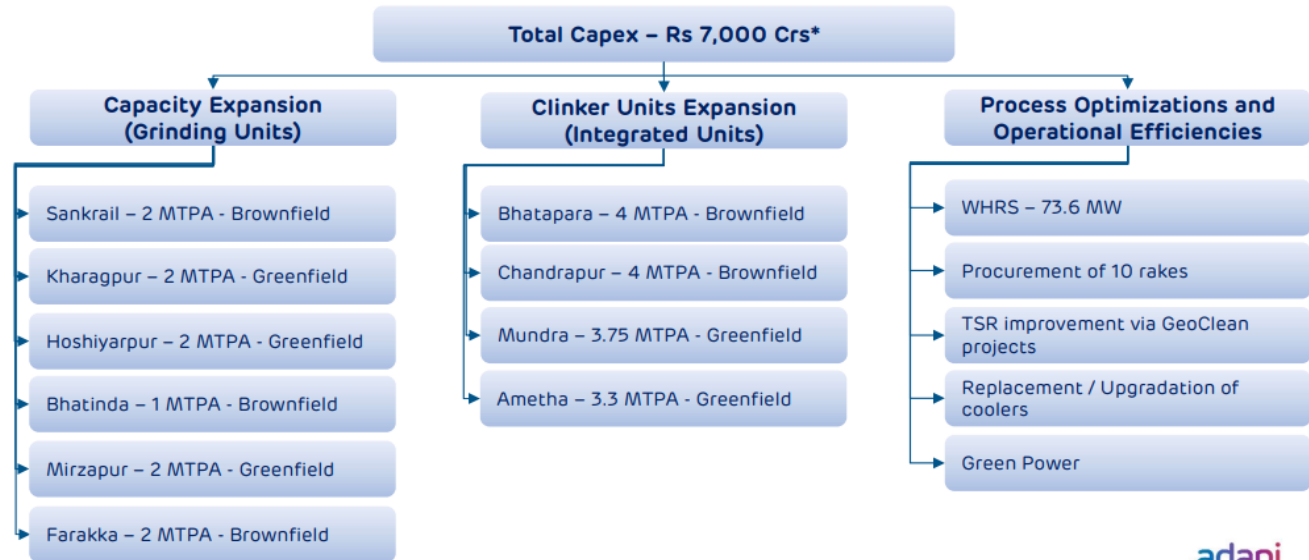
Exhibit 9: EBITDA/t assumption



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

Exhibit 10: Ambuja & ACC expansion plans

Targeting doubling of capacity to 140 MTPA incl. additional capacity unlocking through debottlenecking



Note: * Some projects to be completed over 2-3 years

Source: Company, ICICI Direct Research

Exhibit 11: EBITDA improvement initiatives

Cost leadership through operational efficiencies (Rs 300-400/ton improvement in EBITDA for FY24)



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit & Loss Account

(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Total operating Income	11,371.9	13,969.8	19,985.4	16,554.8	18,519.5
Growth (%)	-2.5	22.8	43.1	-17.2	11.9
Total Operating Exp.	8,725.3	10,759.9	16,763.3	13,084.0	14,198.7
EBITDA	2,646.6	3,209.9	3,222.1	3,470.8	4,320.8
Growth (%)	23.2	21.3	0.4	7.7	24.5
Depreciation	521.2	551.2	832.4	720.0	875.0
Interest	83.1	91.0	128.0	120.0	120.0
Other Income	372.0	284.5	952.2	750.0	800.0
Exceptional items	0.0	65.7	157.3	0.0	0.0
PBT	2,414.4	2,786.4	3,056.7	3,380.8	4,125.8
Total Tax	624.3	704.6	503.2	847.3	1,062.4
PAT	1,790.1	2,081.8	2,553.4	2,533.6	3,063.4
Adjusted PAT	1,790.1	2,147.5	2,710.7	2,533.6	3,063.4
Growth (%)	17.1	20.0	26.2	-6.5	20.9
Adjusted EPS (₹)	9.0	10.5	12.9	12.8	15.4

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

Exhibit 14: 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	21,810.3	28,108.4	30,145.5	32,712.5
Total Shareholders funds	20,315.9	22,207.4	28,505.5	30,542.7	33,109.6
Total Debt	43.6	43.5	47.7	63.5	63.5
Other liabilities	550.7	542.6	1,157.0	1,144.6	1,154.1
Total Liabilities	20,910.1	22,793.5	29,710.3	31,750.8	34,327.2
Assets					
Gross Block	8,068.8	10,274.4	11,535.0	12,835.0	19,035.0
Less: Acc Depreciation	2,686.0	3,146.1	3,978.5	4,698.5	5,573.5
Net Block	5,382.9	7,128.3	7,556.5	8,136.5	13,461.5
Capital WIP	1,873.7	951.3	841.9	5,000.0	1,000.0
Intangible Assets	174.6	174.2	239.3	239.3	239.3
Total Fixed Assets	7,431.3	8,253.8	8,637.7	13,375.8	14,700.8
Investments	11,792.2	11,796.9	17,618.9	17,151.4	16,721.4
Inventory	746.6	1,463.6	1,639.4	1,315.3	1,471.4
Debtors	191.5	293.2	564.9	467.9	523.5
Other assets	2,021.5	1,859.7	4,086.2	3,848.2	3,814.7
Cash	2,924.3	4,163.1	2,533.1	920.7	2,818.3
Total Current Assets	5,883.9	7,779.5	8,823.6	6,552.1	8,627.9
Creditors	880.9	1,144.4	1,571.1	1,301.4	1,455.8
Provisions	59.5	74.0	89.9	91.7	93.6
Other Current Liab	3,630.9	4,161.5	4,532.8	4,759.4	4,997.4
Total Current Liabilities	4,571.3	5,379.9	6,193.8	6,152.6	6,546.8
Net Current Assets	1,312.7	2,399.6	2,629.8	399.6	2,081.1
Other NCA	374.0	343.3	824.0	824.0	824.0
Application of Funds	20,910.1	22,793.5	29,710.3	31,750.8	34,327.2

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement

(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Profit after Tax	1,790.1	2,081.8	2,553.4	2,533.6	3,063.4
Add: Depreciation	521.2	551.2	832.4	720.0	875.0
(Inc)/dec in Current Assets	621.5	-656.8	-2,674.1	659.1	-178.2
Inc/(dec) in CL and Provisions	73.5	808.7	813.9	-41.2	394.3
Others	0.0	0.0	933.7	0.0	0.0
CF from operating activities	3,006.3	2,784.9	2,459.4	3,871.4	4,154.4
(Inc)/dec in Investments	-3.2	-4.7	-5,822.0	467.4	430.0
(Inc)/dec in Fixed Assets	-1,031.3	-1,373.8	-2,150.0	-5,458.1	-2,200.0
Others	-374.0	30.7	-480.7	0.0	0.0
CF from investing activities	-1,408.5	-1,347.7	-8,452.7	-4,990.7	-1,770.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	8.3	-0.1	4.2	15.8	0.0
Dividend & others	-3,679.4	-190.2	-1,255.4	-496.4	-496.4
Others (share warrants)	298.1	-8.1	5,614.5	-12.4	9.5
CF from financing activities	-3,373.0	-198.4	4,363.3	-493.0	-486.9
Net Cash flow	-1,775.2	1,238.7	-1,630.0	-1,612.3	1,897.5
Opening Cash	4,699.5	2,924.3	4,163.1	2,533.1	920.7
Closing Cash	2,924.3	4,163.1	2,533.1	920.7	2,818.3

Source: Company, ICICI Direct Research

Exhibit 15: Ratio sheet

(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Per share data (₹)					
Adjusted EPS	9.0	10.5	12.9	12.8	15.4
Cash EPS	11.6	13.3	17.1	16.4	19.8
BV	153.5	167.8	215.3	230.7	250.1
DPS	17.0	6.3	2.5	2.5	2.5
Cash Per Share	14.7	21.0	12.8	4.6	14.2
Operating Ratios (%)					
EBITDA Margin	23.3	23.0	16.1	21.0	23.3
PAT Margin	15.7	14.9	12.8	15.3	16.5
Inventory days	24.0	38.2	29.9	29.0	29.0
Debtor days	6.1	7.7	10.3	10.3	10.3
Creditor days	28.3	29.9	28.7	28.7	28.7
Return Ratios (%)					
RoE	21.0	20.6	16.2	13.5	14.4
RoCE	20.4	19.7	13.9	13.0	13.9
Valuation Ratios (x)					
P/E	43.3	37.2	30.3	30.6	25.3
EV / EBITDA	19.5	15.6	16.5	14.8	11.6
EV / Net Sales	6.6	5.2	3.5	4.3	3.8
EV/T (\$)	201.5	188.0	174.3	150.7	147.6
Market Cap / Sales	6.8	5.5	3.9	4.7	4.2
Price to Book Value	2.5	2.3	1.8	1.7	1.6
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

RATING RATIONALE

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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