

28th March 2024

Ambuja Cements Ltd. – BUY

CMP : Rs. 611
Target Price : Rs. 760
Upside : 24%+
Stop Loss : Rs. 530 (Closing basis)

Investment Thesis

- **Ambuja Cements Ltd. (ACEM)** successfully commissioned the Ametha integrated unit in Madhya Pradesh, enhancing clinker capacity by 3.3 million tonnes. Acquisition of Sanghi Industries increased clinker capacity by another 6.6 million tonnes, with total clinker capacity now at 51 million tonnes. The company aims to double grinding capacity to 140 million tonnes by FY28, targeting around 35 new grinding units. Significant progress has been made in commissioning new grinding units across various locations.
- ACEM has managed to generate the highest share of trade sales amongst peers. The Central/Northern/Western/Eastern/southern volumes are 1.8/4.4/2.8/3.5/1.4 MnT reporting a growth of 1%/9%/-1%/2%/3% respective YoY. Additionally, ACEM showcased an improvement in the premium products share, seeing an increase of 0.2 pp in Q3FY24 compared to same period last year.
- ACEM has one of the highest utilization levels amongst its peers. The utilization level is maintained above 75% with the Q3FY24 utilization at 77% while the 9MFY24 utilisation is at 72%. The highest utilisation was recorded in Central region at 94% for Q3FY24 and 100% for 9MFY24.
- **Management Guidance:**
 - The company affirmed its commitment to maximizing synergies between Ambuja and ACC post the Sanghi acquisition and expects significant volume expansion in the upcoming quarters.
 - Management expressed confidence in achieving a 7% to 8% growth in Indian demand, supported by both existing and newly acquired capacities. With recent capacity additions, Ambuja expects to outpace industry growth rates and improve overall volume performance.
 - The company's strategic vision focuses on doubling capacity by 2028. ACEM aims to achieve an EBITDA per tonne of Rs. 1,450 plus, backed by increasing volumes and efficient cost structures. The roadmap includes targeted sales of 120 million tonnes by 2028, further strengthening its position in the market.

Financials

- In Q3FY24, ACEM recorded a revenue of Rs. 8,129 crores, marking a 3% increase YoY. This growth was primarily driven by a focus on micro-market management strategy and dealer network expansion.

| Particulars | CY20 | CY21 | FY23 | FY24E | FY25E |
|---------------------|-----------|-----------|-----------|-----------|-----------|
| Revenue(Rs in Crs) | 24,965.76 | 29,328.77 | 39,674.74 | 32,432.37 | 35,675.61 |
| EBITDA(Rs in Crs) | 5,455.16 | 6,562.84 | 5,860.08 | 5,750.03 | 6,956.744 |
| Adj. PAT(Rs in Crs) | 3,106.84 | 3,711.04 | 3,024.38 | 5,053.98 | 6,599.98 |
| Adj. EPS (Rs.) | 11.9 | 14.0 | 13.0 | 21.7 | 28.3 |
| PE Multiple (x) | 20.89 | 26.96 | 28.09 | 35.00 | 31.00 |
| RoCE (%) | 17.61 | 22.03 | 13.73 | 13.00 | 15.00 |

Stock Data

| | |
|-----------------------|-----------|
| Market Cap (Rs. Crs) | 1,20,796 |
| Market Cap (\$ Mn) | 14,489 |
| Shares O/S (in Mn) | 1,985 |
| Avg. Volume (3 month) | 39,64,906 |
| 52-Week Range (Rs.) | 625 / 354 |

Shareholding Pattern

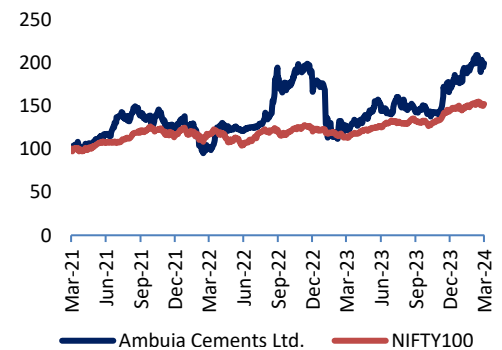
| | |
|-------------------------------|--------|
| Promoters | 63.19% |
| FII's | 11.88% |
| Institutions | 15.56% |
| Others (incl. body corporate) | 9.36% |

Key Ratios

| | |
|---------------|------|
| Div Yield (%) | 0.42 |
| TTM PE (x) | 36.5 |
| ROE (%) | 10.8 |
| TTM EPS (Rs.) | 16.0 |

Stock Performance

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|------|-------|-------|
| ABSOLUTE | 0.1% | 37.7% | 56.9% |
| NIFTYMIDCAP | 0.3% | 23.5% | 24.0% |



- The operational cost per tonne decreased by 10% to Rs. 4,526, attributed to a 21% decline in energy cost due to improved fuel management.
- The EBITDA grew by 70% to Rs. 1,732 crores, with EBITDA per tonne jumping by 65% to Rs. 1,225, resulting in an expansion of EBITDA margin by 8.4 percentage points to 21.3%. Cash and Cash equivalents have increased to Rs. 838 Cr as on Mar – 23 were accounting for ~35% of the balance sheet size.

Key Business Highlights

- ACEM has presence in 30 states and 566+ districts with 77.4 MTPA cement capacity, 87% share of blended cement, 82+ Ready-mix concrete plants, 9.1% thermal substitution rates and 18 grinding units.
- ACEM's capacity (with % of total capacity) is present in North (32%), Central (13%), Western (20%), Southern (10%), Eastern Zone (25%).
- Where the industry utilisation is 65%, Ambuja Cement beats the industry levels by having a utilization rate of 75%.
- The asset portfolio is well-diversified to meet cement demand across India, including a captive coal mine in Gare Palma/Dahegaon Gowari. Implementing WHRS, AFR, and other methods can significantly reduce costs.
- ACEM leverages the Group's enormous knowledge and unrivalled adjacencies to achieve the lowest cost to service in essential sectors such as infrastructure, digital platform, energy, and supply chain.
- Sanghi Industries has obtained 600 million MT of new limestone reserves, in addition to 1 billion MT of high-quality reserves, at no premium.

Valuation

ACEM is currently trading at a PE of 35.7x against industry PE of 29.8x, signalling a small premium valuation. Additionally, ACEM is trading at an EV/EBITDA of 15.9x against median of 9.6x. Post the Adani takeover and acquisition of Sanghi Cements ACEM has made way for a broader value unlocking as the Adani group cement companies look to reap benefits of the expansive capacity from group consolidation as well as a greater pedigree that propels the company to build on their market share.

Therefore, in light of above, we ascribe a **BUY** rating for **ACEM** with a **target price** of **Rs.760.00**, translating to an **upside** of **24%+**.

Risk & Concern

- ACEM can be affected by the volatility in the cement price changes as well as volatility in the fuel cost expenses.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

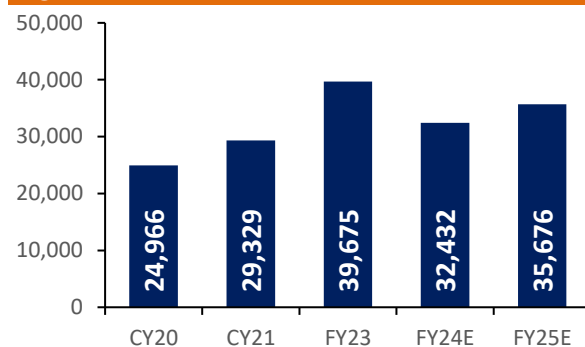


Figure 2: EBITDA & EBITDA Margin Trend

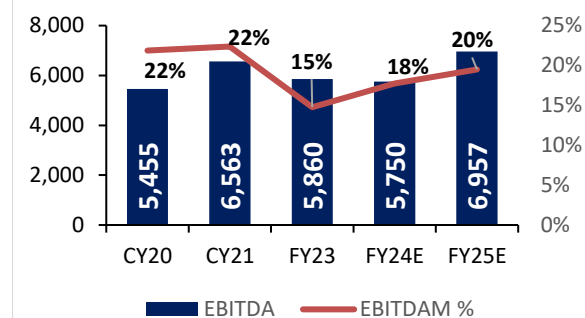


Figure 3: Interest Coverage Ratio Trend

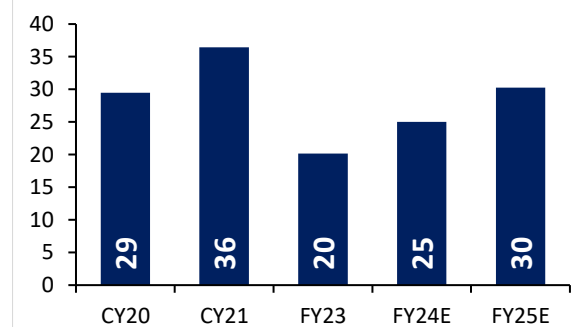
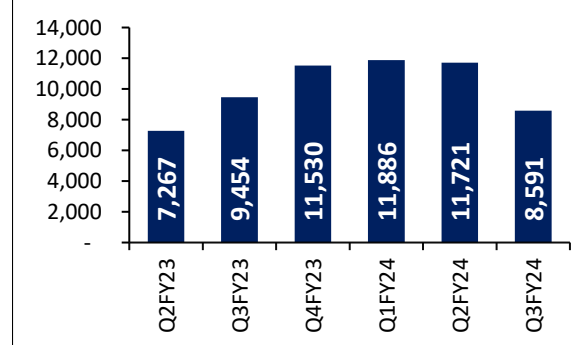


Figure 4: Cash and CE (Under new promoter)



Name
Omkar Kamtekar

Designation
Research Analyst

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M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

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