

CMP: INR 477

Rating: Accumulate

Target Price: INR 555

Stock Info

BSE	500425
NSE	AMBUJA
Bloomberg	ACEM IN
Reuters	ACEM.BO
Sector	Cement
Face Value (INR)	2
Equity Capital (INR Cr)	397
Mkt Cap (INR Cr)	90,206
52w H/L (INR)	598/315

Shareholding Pattern %

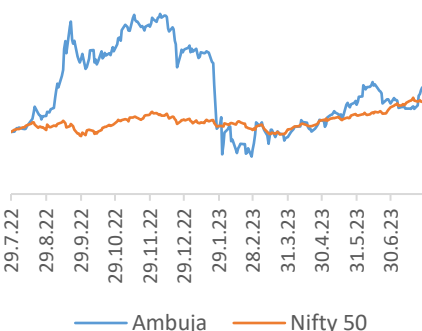
(As on June 2023)

Promoters	62.2
Public & Others	37.8

Stock Performance (%)

	1m	3m	12m
Ambuja	5.85	14.3	19.07
Nifty 50	3.55	8.75	16.05

Ambuja Cements Ltd. Vs Nifty



Source: Arihant Research, NSE

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Anupama Bhootra

Ambuja Cement reported strong set of numbers in line with our estimates, backed by good volumes and an increase in premium product sales by 10%, though the realizations were flattish, the companies are unable to take price hikes as there is heavy competition, with expected incremental demand there is incremental supply also coming in through almost all the major players.

Ambuja acquired Sanghi cement at an Enterprise value of INR 5,000cr

Revenues at INR 4729cr (as against our estimates of INR 4680 cr) up by 18.9% YoY/+11.1% QoQ; **Volumes** at 9.1mt vs 8.1mt in Q4Fy23 vs 7.4mt in Q1FY23, volume of premium products increased by 10% YoY. The company posted volume growth of 23% YoY/12.3% QoQ, realisation was muted, stood at INR 5197 down by -3.8% YoY/-1.1% QoQ which led to low value growth as compared to volume growth.

EBITDA at INR 946 cr (as against our estimates of INR 970 cr) up by 38% YoY/20% QoQ margins at 20% expanded by 286bps YoY/+148bps QoQ. The company managed to bring down its employee cost by -15% YoY/-22% QoQ and power and fuel costs declined YoY but increased sequentially which led to improvement in margins and EBITDA/t levels which stood at INR 1039 up by 12.1% YoY/+6.8% QoQ. **PAT** INR 644cr (as against our estimates of INR 630 cr) up by 19% YoY/-23% QoQ.

Cost scenario Kiln fuel cost reduced by 17% from INR 2.49/ kCal to INR 2.07/kCal. Fuel cost to be further optimized in the future through mix optimization. On per ton basis RM cost was higher YoY/QoQ at INR520 due to costlier limestone and higher clinker production volume; P&F cost stood at INR 1284 declined on YoY basis; other expenses also declined on YoY basis and stood at INR 602/t. The company aims to achieve cost leadership through operational efficiencies which will include 3 levers that is optimizing manufacturing cost, logistics cost and other costs.

WHRS Ambuja has commissioned WHRS of 18 MW at Bhatapara, Suli and Rauri, which will provide an additional 33 MW at Suli, Ametha and Maratha, including this additional commissioning the total WHRS capacity will be at 121 MW by year end.

Outlook: The company posted strong set of numbers on the back of strong topline, profitability has also increased with expansion in margins sequentially as well as YoY. The employee cost has shown a decline by 15% YoY/-22% QoQ. P&F cost has also declined YoY basis. Going forward, the company will be adding new capacities and the Sanghi acquisition is cherry on the cake, which will generate incremental volumes, as demand is expected to be robust for coming quarters too. Along with this the company is working on increasing cost efficiencies through various operational levers and group synergies which is expected to bring in higher profitability, the company is well placed to ride on the industry tailwinds with all the initiatives and efforts. **We value the stock at an EV/EBIDTA of 14.6(x) to its FY25E EBIDTA to arrive at a target price of INR 555 and maintain accumulate rating for the stock.**

Sanghi deal:

- Sanghi Industries Ltd has clinker capacity of 6.6 MTPA, cement capacity of 6.1 MTPA and limestone reserves of 1 bn tonnes. SIL's Sanghipuram unit is India's largest single-location cement and clinker unit by capacity, with a captive jetty and captive power plant. Sanghi acquisition will be fully funded through internal accruals.
- Sanghi deal will fast track Ambuja's target of 140 mntpa capacity by FY28, which we believe, will be done ahead of the proposed timeline. This acquisition will increase Ambuja's capacity to 73.6 mtpa.
- Ambuja will also invest in expanding the captive port at Sanghipuram to handle larger vessels. the company aims to make SIL lowest cost producer of Clinker in the country.
- In Sanghipuram, Ambuja will increase cement capacity to 15 MTPA in the next 2 years.
- Indicative time period for completion of the acquisition is 3-4 months.
- The investment is in line with the Company's strategy to increase its footprint in the cement manufacturing market.
- Percentage of shareholding/control acquired and/or number of shares acquired a.) Up to 56.74% of the Voting Share Capital, upon completion under the SPA; and b.) 26% of the Voting Share Capital pursuant to the Open Offer, assuming full acceptance in the Open Offer. Cost of acquisition is at a consideration of up to INR 114.22 per Sale Share.

About Sanghi Industries: Sanghi is largest single-location cement and clinker unit by capacity located at Sanghipuram in Gujarat's Kutch district with a capacity of 6.6 MTPA and a cement grinding unit with a capacity of 6.1 MTPA. It has a captive power plant of 130 MW and a Waste Heat Recovery System of 13 MW.. The integrated unit has two kilns with a clinker production capacity spread across 2700 hectares of land.

The unit is also connected with a captive jetty at Sanghipuram. Sanghi also has a bulk cement terminal at Navlakhi Port in Gujarat and Dharamtar Port in Maharashtra. Most of the cement is transported through the sea route, which is environment-friendly and cost competitive. SIL has a network of 850 dealers, with market presence in Gujarat, Madhya Pradesh, Rajasthan, Maharashtra and Kerala.

Sanghi reported turnover of INR 928cr as on 31st March 2023.

Q1FY24 Results

INR cr	Q1FY24	Q4FY23	Q1FY23	YOY	Q0Q
Net Revenue	4,729	4,256	3,998	18.3%	11.1%
Operating Costs	3,104	2,837	2,558	21.3%	9.4%
Employee cost	131	168	154	-15.0%	-22.1%
Other Expenses	549	463	600		
EBITDA	946	788	686	37.8%	20.0%
<i>EBITDA margin %</i>	<i>20.0%</i>	<i>18.5%</i>	<i>17.2%</i>	<i>283bps</i>	<i>149bps</i>
Depreciation	232	205	154	50.6%	13.3%
EBIT	714	583	532	22.4%	34.1%
Other Income	189	175	630	-70.0%	8.0%
Finance cost	37	33	25	46.4%	10.9%
Exceptional Item	-	-	-		
PBT	866	725	1,137	19.4%	-23.8%
Tax Expense	222	141	90	147.6%	57.3%
Effective tax rate %				<i>0bps</i>	<i>0bps</i>
PAT	644	584	1,048	-38.5%	10.3%
EPS (Rs)	1.83	1.83	3.57	-48.7%	0.0%

Key parameters

INR cr	Q1FY24	Q4FY23	Q1FY23	YOY	Q0Q
Sales Volume (Mn tonne)	9.1	8.1	7.4	23.0%	12.3%
Sales in Mn	4,729	4,256	3,998	18.3%	11.1%
Realization/tonne	5197	5254	5403	-3.8%	-1.1%
EBIDTA in Mn	946	788	686	37.8%	20.0%
EBIDTA/tonne	1039.0	972.5	927.2	12.1%	6.8%

Other highlights of Q1FY24 concall and Sanghi acquisition announcement

- The acquisition of SIL will help ACL to strengthen its market leadership and increase its cement capacity to 73.6 MTPA from the current 67.5 MTPA. With the ongoing capex of 14 MTPA and with commissioning of 5.5 MTPA capacity at Dahej and Ametha by Q2 of FY24, the Adani Group's capacity will be 101 MTPA by 2025.
- **Cost analysis** Operating cost stood at INR 4575cr declined by 7% YoY led by 20% reduction in energy cost which was possible by the coal tie-up efforts and reduction in kiln fuel by 17% on YoY basis.
- **Trade share** remains unchanged at 77%
- The RM cost reduced by 11% YoY, transportation cost remains at similar levels, and other costs declined by 20% YoY on account of resource optimization and synergies with the parent company. The company has guided for total cost reduction of INR 400/t under 2 segments that is energy, freight and employee cost. The company's target is to reduce road lead distance to 100km, rail dispatch increased from 26% to 29% on QoQ basis.
- The company is targeting **WHRS capacity** from 40mw(at the time of takeover) to 175mw by July 2024.
- AFR target is to reach 30% against levels of 7%
- The company is also targeting to install 200mw of captive renewable power generation and is expected to be ready by the end of FY24.
- Capex spending during the quarter was INR 576cr which was funded by internal accruals and cash in hand.
- The cash balance on a consolidated basis stood at INR 11,886cr which is an increase of INR 3744cr on YoY basis.
- Capacity addition The company aims to reach 140mt by the end of FY 28, the company will add 40mt of new clinker capacity with 10 new clinker lines. The company has announced new facilities of 14mt of GU at batapara, Chandrapur and Bhatinda. With this, the total GU capacity will be 83 mtpa.
- In the last few months the company has won some new limestone mines.
- On console basis ebitda/t stood at INR 1253/t in Q1FY24 vs INR 1079 in Q4FY23.

Financial Statements in INR cr

Income Statement (INR Crores)	FY22	FY23*	FY24E	FY25E
Net Sales	13,979	19,985	17,640	20,407
Change YoY	23%	43%	-12%	16%
Total Expenditure	10,764	16,765	13,823	15,730
Raw Material Consumed	1,130	1,665	1,923	2,411
Stock Adjustment	(356)	67	54	61
Purchase of Finished Goods	381	1,033	837	964
Employee Expenses	681	800	661	769
Power, Oil & Fuel	3,423	6,013	4,522	5,067
Freight & Handling	3,310	4,383	3,396	3,715
Other Expenses	2,195	2,804	2,430	2,742
EBITDA	3,215	3,220	3,817	4,678
<i>OPM (%)</i>	<i>23.0%</i>	<i>16.1%</i>	<i>21.6%</i>	<i>22.9%</i>
Other Income	281.18	952.3	961.8	981.0
Depreciation	551.74	832.4	778.1	974.7
EBIT	2944.6	3340.3	4000.5	4684.1
<i>EBIT Margin (%)</i>	<i>21.1%</i>	<i>16.7%</i>	<i>22.7%</i>	<i>23.0%</i>
Interest	91.00	128.0	134.4	141.1
EBT	2853.6	3212.3	3866.2	4543.0
Total Tax	704.7	501.6	773.2	908.6
Profit After Tax	2148.9	2710.8	3092.9	3634.4
Change YoY	20.0%	26.1%	14.1%	17.5%
Extraordinary Items	-65.7	-157.3	0.0	0.0
Reported Net Profit	2083	2553	3093	3634

Source: Arianth Research, Company Filings

Balance Sheet in INR cr	FY22	FY23*	FY24E	FY25E
Share Capital	397	397	397	397
Reserves	21,808	28,108	50,398	53,213
Shareholders Funds	22,205	28,506	50,795	53,610
Secured Loans	-	-	-	-
Unsecured Loans	43.50	34	34	34
Total Debt	44	34	34	34
Net Deferred Tax	214	218	218	218
Total Liabilities	22,462	28,758	51,047	53,862
Gross Block	10,911	12,693	14,915	19,670
Less: Accumulated Depreciation	3,241	4,073	4,851	5,826
Net Block	7,671	8,620	10,064	13,844
Capital Work in Progress	951	842	2,520	1,365
Investments	11,774	11,776	11,776	11,776
Current Assets, Loans & Advances	7,787	14,667	32,577	33,119
Inventories	1,464	1,639	1,208	1,230
Sundry Debtors	295	565	499	577
Cash and Bank	4,169	2,533	20,842	21,183
Loans and Advances	561	2,078	2,098	2,119
Other current assets	1,298	7,852	7,930	8,009
Current Liabilities and Provisions	5,721	7,146	5,890	6,242
Current Liabilities	5,646	7,056	5,799	6,150
Provisions	75	90	91	92
Net Current Assets	2,066	7,520	26,687	26,877
Total Assets	22,462	28,758	51,047	53,862

Source: Arianth Research, Company Filings

Financial Statements

Cash Flow in INR cr	FY22	FY23*	FY24E	FY25E
PBT (Ex-Other income)	2,788	3,055	2,904	3,562
Depreciation	552	832	778	975
Interest Provided	(21)	(187)	134	141
Other Non-Cash items	(20)	(571)	(96)	
Chg in working cap	(456)	(785)	(858)	151
Tax paid	(366)	(335)	(773)	(909)
Operating Cashflow	2,477	2,010	2,090	3,921
Capital expenditure	(1,142)	(2,112)	(3,900)	(3,600)
Free Cash Flow	1,334	(102)	(1,810)	321
Other income	8	35	962	981
Investments	248	(7,251)	-	-
Investing Cashflow	(886)	(9,327)	(2,938)	(2,619)
Interest Paid	(76)	(68)	(134)	(141)
Dividend paid (incl tax)	(202)	(1,251)	(708)	(819)
Financing Cashflow	(317)	3,612	19,157	(960)
Net chg in cash	1,273	(3,706)	18,309	342
Opening cash position	2,924	4,169	2,533	20,842
Closing cash position	4,198	463	20,842	21,183

Source: Arihant Research, Company Filings

Ratio Analysis	FY22	FY23*	FY24E	FY25E
Per Share Data				
Adj. EPS (Rs)	10.8	13.7	15.6	18.3
EBITDA / Share (x)	16.2	16.2	19.2	23.6
Book Value (x)	111.8	143.6	255.8	270.0
Valuations				
EV / EBITDA (x)	23.2	22.0	15.7	12.7
Margins (%)				
OPMs	23.0%	16.1%	21.6%	22.9%
EBIT Margin	21.1%	16.7%	22.7%	23.0%
Returns (%)				
RoCE (EBIT/Avg. Cap. employed)	30.3%	24.1%	14.2%	11.5%
RoE (PAT/ Avg. Networth)	18.0%	16.9%	10.2%	8.5%

Source: Arihant Research, Company Filings

Per ton Details	FY22	FY23*	FY24E	FY25E
Gross Realisation	5174	5290	5717	5814
Net Relisation	5174	5290	5717	5814
Costs	3984	4438	4480	4482
EBITDA	1190	852	1237	1333

Source: Arihant Research, Company Filings

*FY23 comprises of 15 months

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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