

# HSIE Results Daily

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# Ambuja Cement

## Cost controls drive margin recovery QoQ

We maintain our ADD rating on Ambuja Cements with a revised TP of INR 395/share. During Q5FY23 (financial year moved to Mar vs Dec), it reported only 5% QoQ standalone volume growth (capacity constraints). Unitary EBITDA recovered INR 145 per MT QoQ to INR 973 per MT, led by continued opex reductions, which more than offset for lower NSR. Ambuja remains committed to doubling its consolidated capacity over the next five years. It is also working on various cost-reduction exercises to boost margins by an ambitious INR 300-400 per MT. Opex reduction and major capacity expansions remain key catalysts for valuation re-rating.

- Q5FY23 performance:** Capacity constraints and shutdown of Himachal plant slowed standalone sales volume to 5% QoQ. Purchase of traded goods rose to 9.2% of revenues in Q4 vs 5/3.8% QoQ/ YoY implying rising trade with ACC. Despite 2% QoQ fall in NSR, unit EBITDA recovered INR 145 per MT (to INR 975 per MT) led by 5% cool off in unit Opex (after similar fall in Dec-22), a positive surprise. Consolidated volumes, however fell 2% YoY on lack of capacity and sales loss in HP. Consolidated unit EBITDA recovered 19% QoQ to INR 879 per MT (still down 11% YoY on high input costs).
- Capex and other updates:** Ambuja reiterated its plan to double group capacity to 140mn MT in the next five years. It is also working on initiatives to reduce its cost by INR 300-400 per MT in FY24E by optimizing logistics cost, energy cost and other costs. We have reworked our Capex estimates for Ambuja factoring in only organic Capex (as against incorporating acquisitions early). We estimate Ambuja to add ~5mn MT cement capacity in FY24-25E (on standalone basis) and most of its ongoing expansions to get commissioned FY26 onwards. We value the standalone cement business at 14x its Mar-25E EBITDA and the company's 50% holding in ACC at a 20% discount to our target market cap for ACC, leading to SOTP target price of INR 395/share.

### Standalone quarterly/annual financial summary

YE Dec (INR bn)	Mar-2023	Mar-2022	YoY (%)	Dec-2022	QoQ (%)	CY20	CY21	FY23	FY24E	FY25E
Sales (mn MT)	8.10	7.49	8.1	7.72	5.0	22.67	27.02	37.76	32.56	34.82
NSR (INR/MT)	5,255	5,243	0.2	5,351	(1.8)	5,016	5,174	5,293	5,213	5,265
EBITDA (INR/MT)	973	1,059	(8.1)	829	17.4	1,167	1,190	853	1,122	1,214
Net Sales	42.56	39.27	8.4	41.29	3.1	113.72	139.79	199.85	169.76	183.34
EBITDA	7.88	7.93	(0.6)	6.39	23.3	26.47	32.15	32.20	36.53	42.27
APAT	5.83	4.94	17.9	4.30	35.5	17.90	21.49	27.11	26.31	33.57
AEPS (INR)	2.9	2.5	17.9	2.2	35.5	9.0	10.8	10.9	10.7	13.6
EV/EBITDA (x)						24.1	15.9	18.7	16.8	13.9
EV/MT (INR bn)						21.55	16.30	19.20	18.37	16.13
P/E (x)						43.6	36.3	28.8	36.8	28.8
RoE (%)						8.4	10.1	8.6	7.1	7.1

Source: Company, HSIE Research

### Estimates revision summary

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	270.5	169.8	(37.2)	319.8	183.3	(42.7)
EBITDA	49.5	36.5	(26.3)	61.8	42.3	(31.6)
APAT	28.2	26.3	(6.7)	28.1	33.6	19.5

Source: Company, HSIE Research

## ADD

CMP (as on 2 May 2023)	INR 393
Target Price	INR 395
NIFTY	18,148

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 415	INR 395
EBITDA revision %	FY24E (26.3)	FY25E (31.6)

### KEY STOCK DATA

Bloomberg code	ACEM IN
No. of Shares (mn)	1,986
MCap (INR bn) / (\$ mn)	783/9,565
6m avg traded value (INR mn)	5,133
52 Week high / low	INR 598/315

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	11.9	(27.6)	4.3
Relative (%)	9.1	(28.0)	(3.2)

### SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	63.22	63.22
FIs & Local MFs	16.99	14.75
FPIs	10.66	11.16
Public & Others	9.12	10.86
Pledged Shares	63.15	63.15

Source : BSE

Pledged shares as % of total shares

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# ACC

## Sub-par margin recovery, slow expansion pace

We maintain BUY on ACC, with a revised TP of INR 2,110/share (11x its Mar-25E consolidated EBITDA. During Q5FY23 (financial year moved to Mar vs Dec), ACC's EBITDA margin recovered a modest INR 70 per MT QoQ to INR 550 per MT. Weak pricing in south reduced the benefits of opex moderation. The long pending Ametha integrated plant is expected in Q2FY24E. The management is yet to announce major expansions in ACC. However, it is taking up various green energy initiatives which should drive margin expansion.

- Q5FY23 performance:** Volume grew 10% YoY/ QoQ each in Q5FY23 (Himachal plant was shut for two months from mid-Dec to mid-Feb, slowing volume growth). Purchase of traded goods rose to 14.4% of sales vs 12.4/6.3% QoQ/ YoY implying higher trade with Ambuja (under MCA). This has buoyed both ACC/Ambuja's volumes. NSR dipped 3% QoQ on weak pricing in south. Ongoing cost optimisation led to 5% QoQ decline in unit Opex in Mar-23 (after 7% QoQ fall in Dec-22). Unit input costs fell INR 100 per MT on fuel cost reduction by 10%, while unit fixed cost moderated INR 50 per MT on Op-lev gains respectively. Unit EBITDA, however recovered a modest INR 70 per MT QoQ to INR 550 per MT (led by NSR drag).
- Expansion update and outlook:** The integrated plant at Ametha, MP (3.3/1mn MT clinker/cement) is expected to get commissioned in Q2FY24E. Adani is implementing various green-capex (WHRS, AFR, renewal energy) which should boost margin uptick. However, the management has not outlined any other major Capex in ACC, which could impact its volume growth. Its EBITDA margin is also expected to remain lower vs Ambuja and other market leaders. Thus, we lower our target multiple to 11x EV/EBITDA vs 13x EV/EBITDA earlier. Non-cash working capital has stretched in Mar-23 by ~INR 30bn (vs Dec-21), impacting cashflows and its target price.

### Consolidated financial summary

YE Dec (INR bn)	Mar-2023	Mar-2022	YoY (%)	Dec-2022	QoQ (%)	CY20	CY21	FY23	FY24E	FY25E
Sales (mn MT)	8.5	7.9	7.6	7.7	10.4	25.5	28.9	38.6	32.9	34.9
NSR (INR/MT)	5,236	5,102	2.6	5,408	(3.2)	5,023	5,161	5,276	5,276	5,302
EBITDA (INR/MT)	549	761	(27.8)	479	14.7	960	1,011	480	771	889
Net Sales	47.9	44.3	8.2	45.4	5.6	137.9	161.5	222.1	190.1	203.0
EBITDA	4.7	6.3	-26.2	3.8	23.6	24.8	30.0	19.2	26.4	32.1
APAT	3.7	4.0	-7.0	2.7	35.8	14.1	19.2	10.5	14.4	17.5
AEPS (INR)	16.1	21.1	-23.8	10.2	57.1	75.0	102.1	44.6	76.8	92.8
EV/EBITDA (x)						10.9	8.4	15.3	11.1	9.0
EV/MT (INR bn)						8.18	7.31	8.15	7.89	7.78
P/E (x)						23.6	17.3	31.7	23.0	19.0
RoE (%)						11.6	14.2	5.9	10.0	11.4

Source: Company, HSIE Research

### Change in estimates

INR bn	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	192.2	190.1	-1.1	205.0	203.0	-1.0
EBITDA	26.9	26.4	-2.0	30.9	32.1	3.9
APAT	15.7	14.4	-8.0	17.9	17.5	-2.5

Source: Company, HSIE Research

## BUY

CMP (as on 2 May 2023) INR 1,764

Target Price INR 2,110

NIFTY 18,148

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,445	INR 2,110
EBITDA revision %	FY24E (2.0)	FY25E 3.9

### KEY STOCK DATA

Bloomberg code	ACC IN
No. of Shares (mn)	188
MCap (INR bn) / (\$ mn)	331/4,046
6m avg traded value (INR mn)	1,542
52 Week high / low	INR 2,785/1,592

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(4.2)	(27.7)	(24.8)
Relative (%)	(6.9)	(28.1)	(32.4)

### SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	56.69	56.69
FIs & Local MFs	18.65	19.52
FPIs	11.96	10.06
Public & Others	12.70	13.73
Pledged Shares	6.64	6.64

Source : BSE

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**Rating Criteria**

BUY: >+15% return potential

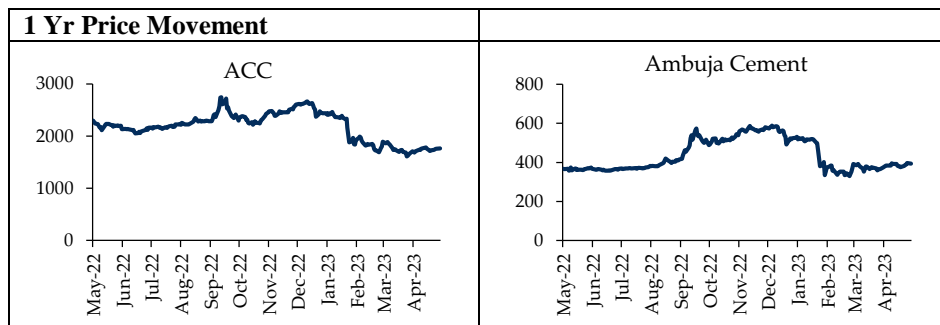
ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

**Disclosure:**

Analyst	Company Covered	Qualification	Any holding in the stock
Rajesh Ravi	Ambuja Cement, ACC	MBA	NO
Keshav Lahoti	Ambuja Cement, ACC	CA	NO



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