

Limestone mines in Tamil Nadu face additional tax

This development is negative for TRCL/DALBHARA

- The Government of Tamil Nadu has notified the levy of a “**mineral-bearing land tax**” of INR160/t on limestone in the state. This tax should be paid in advance on dispatch of minerals from the mineral-bearing land. This tax is over and above the royalty payable on limestone mining. Limestone is a key raw material for manufacturing cement and accounts for ~60-65% of the raw material cost and ~4-5% of total operating cost. We believe the additional tax will increase the overall production cost and hurt margins unless the cost is passed on to consumers.
- Within our coverage universe, ACC, DALBHARA, TRCL and UTCEM (including ICEM) have operational limestone mines and clinker facilities in Tamil Nadu (TN). Among these companies, TRCL has the highest clinker capacity in TN (~52% of its total clinker capacity), followed by DALBHARA (~23%), UTCEM (~4%) and ACC (~2%).
- Despite TN’s Alathiyur/Ariyalur areas being a major limestone cluster, clinker capacity addition has remained minimal over the past decade. This was also because, in TN, the limestone block allotment process was earlier different from other states and mining leases were allotted only after land acquisition. In compliance with these norms, cement players had acquired lands. However, after an amendment in the MMDR Act, all previous applications have been nullified as limestone leases are now granted only through the bidding process. As a result, TN limestone auctions have been pending for a long time and companies are awaiting an update from the government. Against this backdrop, the levy of an additional tax by TN government could discourage industry players from expanding/adding clinker capacity in the state.
- **Can other states levy this type of tax?** The Supreme Court in Jul’24 held that states can levy taxes on mineral-bearing land and mineral rights. News articles suggest that the Karnataka government also proposed to levy mineral-bearing land tax on limestone of INR20-25/t. Apart from that, the Karnataka government has also proposed a tax on mineral rights of limestone equivalent to 1.25x of the royalty payable (in respect of leases granted through non-auction) and equivalent to INR1.0/t (in respect of leases granted through auction). Hence, the total additional tax proposed by the Karnataka government on a non-auctioned lease is INR120-125/t. Though, the bill is still awaiting the governor’s approval and is yet to be notified.
- In our scenario analysis (**Exhibit 1**) of the minerals tax levied on limestone in TN, we observed that the impact on EBITDA/t would be highest for TRCL (INR80), followed by DALBHARA (INR34). However, it is estimated to be minimal for UTCEM and ACC given their minimal share of clinker capacity in TN. Other coverage companies do not have limestone reserves in the state, and hence we do not see any impact on them.

Outlook and valuation

- The south region is witnessing multiple headwinds over the last one year, e.g., multi-year low cement prices, weak government spending and higher competitive intensity. The levy of tax on limestone by TN would be negative for TRCL and DALBHARA unless the cost increase is passed on to consumers. This development also weakens the competitive advantage of TRCL and DALBHARA over other industry players that source clinker from other clusters (such as Yerranguntla in Andhra Pradesh and Kutch in Gujarat via the sea route).

- We continue to prefer players with a balanced geographic mix, higher capacity utilization, and a strong track record of capacity expansion and successful integration. Further, we are positive on companies that have a strong presence in the north, central, and west regions. UTCEM is our top pick in the large-cap space and we prefer JKCE in the mid-cap space.

Exhibit 1: Scenario analysis of mineral tax levied on limestone by the Tamil Nadu state

	ACC	DALBHARA	TRCL	UTCEM (Inc. ICEM)
Clinker capacity in Tamil Nadu (mtpa)	0.8	5.5	8.2	4.2
Estimate clinker capacity utilization (%)	85	85	85	85
Clinker production in Tamil Nadu (mt)	0.7	4.7	7.0	3.6
Limestone required/t of clinker (x)	1.47	1.47	1.47	1.47
Limestone dispatch (mt)	1.0	6.9	10.2	5.2
Mineral tax (INR/t)	160	160	160	160
Total mineral tax (INR m)	160	1,100	1,639	840
Volume FY26E (mt)	44.8	32.0	20.5	160.8
EBITDA FY26E (INR m)	30,772	30,973	17,697	1,70,384
PAT FY26E (INR m)	17,228	9,557	4,341	86,191
Mineral tax increase impact (if not passed on)				
EBITDA/t FY26E impact (INR)	-4	-34	-80	-5
EBITDA FY26E impact (%)	-0.5	-3.6	-9.3	-0.5
EPS FY26E impact (%)	-0.7	-8.6	-27.4	-0.8
EV/EBITDA multiple (x)	10.0	12.0	12.0	20.0
Impact on fair value (INR m)	1,599	13,195	19,672	16,793
Market cap. as of 11th Mar'25 (INR m)	3,52,867	3,16,262	2,01,824	30,76,001
Impact on Market cap. (%)	-0.5	-4.2	-9.7	-0.5
Mineral tax increase impact (if 50% passed on)				
EBITDA/t FY26E impact (INR)	1.8	17.2	40.0	2.6
EBITDA FY26E impact (%)	-0.3	-1.8	-4.6	-0.2
EPS FY26E impact (%)	-0.3	-4.3	-13.7	-0.4
EV/EBITDA multiple (x)	10.0	12.0	12.0	20.0
Impact on fair value (INR m)	800	6,597	9,836	8,397
Market value as of 11th Mar'25	3,52,867	3,16,262	2,01,824	30,76,001
Impact on Market cap. (%)	-0.2	-2.1	-4.9	-0.3

Source: MOFSL, company

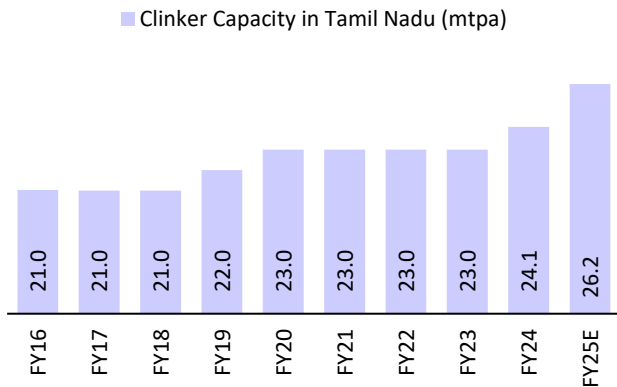
Exhibit 2: Valuation summary

	M-cap (USD b)	CMP (INR)	Rating	P/E (x)			EV/EBITDA (x)			EV/t (USD)			ROE (%)			Net debt/ EBITDA (x)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
UTCEM	34.7	10,519	Buy	47.9	36.0	28.4	25.3	18.9	15.7	200	182	169	10.1	12.0	13.3	1.4	1.2	0.8
SRCM	11.4	27,545	Neutral	95.8	90.9	62.1	25.2	21.5	17.8	187	149	145	5.0	5.1	7.2	(1.4)	(1.0)	(0.9)
ACEM	11.1	489	Buy	52.7	39.5	27.5	27.8	18.6	13.8	162	128	123	4.0	4.6	6.4	(3.5)	(1.7)	(1.3)
ACC	4.0	1,868	Buy	30.0	20.4	15.1	13.2	9.3	6.8	79	74	70	6.9	9.2	11.4	(2.2)	(1.7)	(1.8)
JKCE	3.8	4,355	Buy	48.2	34.0	25.7	19.6	15.5	12.7	172	138	137	11.6	15.7	18.1	2.2	1.9	1.5
DALBHARA	3.5	1,645	Buy	47.1	32.3	25.0	12.2	10.4	8.9	74	74	74	4.0	5.6	6.9	0.7	0.7	0.6
TRCL	2.2	821	Neutral	98.7	44.7	32.2	16.6	13.2	10.9	108	103	102	2.7	5.6	7.4	3.5	2.7	2.1
JKLC	1.0	733	Buy	37.3	22.1	21.2	13.8	11.4	9.7	77	74	74	8.1	12.6	11.8	2.3	1.9	2.6
ICEM	1.0	280	Sell	Loss	Loss	68.6	Loss	30.9	17.0	87	86	86	(14.7)	(2.4)	2.7	Loss	8.7	4.9
BCORP	0.9	1,022	Buy	56.1	19.9	13.8	10.1	7.8	6.4	59	56	53	2.1	5.7	7.8	3.0	2.2	1.7

Source: MOFSL, Company; Note: ACEM estimates and valuation on a consolidated basis

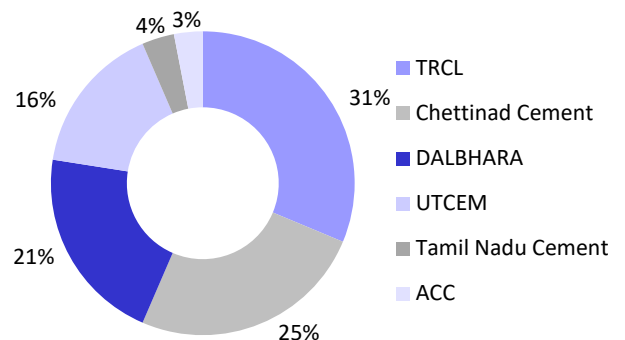
Story in charts

Exhibit 3: Overall clinker capacity in Tamil Nadu



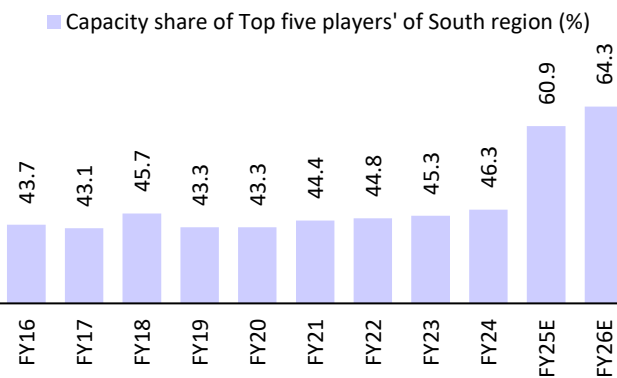
Source: MOFSL, company

Exhibit 4: Clinker capacity share %



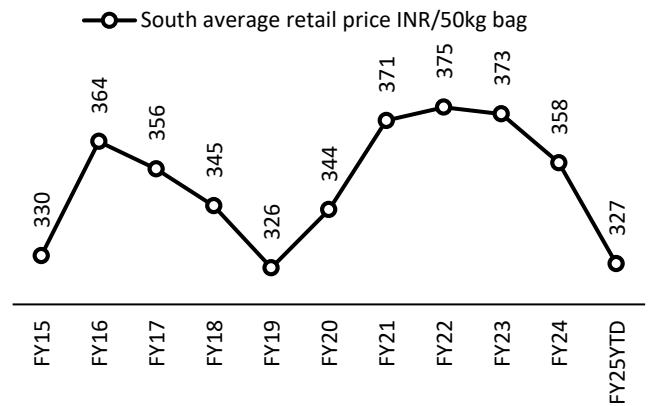
Source: MOFSL, company

Exhibit 5: Consolidation increases in FY25-26 in south region amid aggressive M&A activities



Source: MOFSL, company; Note: 1) Acquisition by UTCEM of Kesoram and ICEM's is completed in FY25; 2) Acquisition by ACEM of Penna cement is completed in FY25 while, Orient Cement is estimated to be completed in early-FY26

Exhibit 6: Average cement price in South region



Source: MOFSL, Cement dealers

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