

October 12, 2023

SECTOR REPORT – OCTOBER 2023 | Sector: Cement

Cement Result Preview

Margin intact q/q as eased fuel cost offsets seasonal NSR weakness

Q2FY24E has always been an operationally muted quarter for the cement industry, where prices often get moderated which drags the margin. However, the demand remained resilient aided by the infra & real estate segment, as a result we believe the industry to see a double-digit volume growth in Q2FY24E. During Jul-Sep'23, cement prices moderated q/q due to seasonal weakness coupled with higher dispatches to sustain sequential volume growth. Consequently, we believe industry's NSR to moderate by 2-3% on both y/y & q/q. However, revenue is expected to grow by 12% y/y, primarily driven by strong volume growth in Q2FY24E. Given the steady correction in energy cost, the 3-month trailing blended fuel cost corrected to Rs1.5 per kcal/kg vis-à-vis ~Rs2.16 per kcal/kg in Q1FY24. Hence, we believe this cost moderation savings will start reflecting from Q3FY24 onwards. While the industry power & fuel cost can see another correction of Rs100-150/te in Q2FY24E v/s Q1FY24, translating the industry EBITDA to flat/marginal decline sequentially to +Rs850/te.

- **Demand Outlook:** We expect volumes of our coverage companies to increase by +15% y/y owing to strong demand momentum backed by the infra segment, while sequentially it is expected to decline by 10%. According to DPIIT, cement volume increased by +13% y/y during Jul-Aug'23 and our channel check indicated that the demand momentum continued in Sep'23 as well. In Q2FY24E, demand was largely driven by the strong infra & construction activities led by the upcoming election. We believe companies like SGC will deliver a strong volume growth of +30% y/y on account of low base and recently acquired ACL assets. JKLC & BCORP should report high single-digit volume growth due to limited headroom for production.
- **Pricing Outlook:** We expect NSR of our coverage companies to decline by 2-3% y/y and q/q both in Q2FY24E. During Jul-Sep'23, All-India average cement price remained flat y/y, although corrected by 2% q/q as players pushed higher dispatches to sustain sequential volume growth. Despite the significant price increase in East and South during Sep'23, the avg Q2FY24 price remained 2% and 7% lower as compared to avg Q1FY24 prices. Whereas the avg Q2FY24 prices in North/Central inched up by +2-3% q/q and West remained flat q/q. As a result, the players operating in south/east could witness significant NSR fall by 3-4% q/q.
- **Cost Outlook:** The fuel prices corrected significantly from its peak (Pet coke/Imported coal to \$105/110/te in Jun'23 from \$240/355/te in Jun'22, respectively). As a result, 3-month trailing blended fuel cost corrected to Rs1.5 per kcal/kg vis-à-vis ~Rs2.16 per kcal/kg (indicated by the companies) in Q1FY24. Therefore, we expect the industry power & fuel cost to decline further by Rs100-150/te in Q2FY24E as compared to Q1FY24, which will aid to maintain the industry EBITDA close to +Rs850/te, even after NSR moderation.

Key commentary to monitor: Going forward, we believe the rising fuel cost (Pet coke and Imported coal rebound to \$130 and \$142/te by Sep'23 end.) can limit the expected gains anticipated from moderating power cost (Rs300/te v/s earlier Rs400/te on Q4FY23 exit).

We are cautiously **POSITIVE** taking the cognizance of rising fuel cost, which we believe can be mitigated through a healthy pricing environment in subsequent quarters. Our top picks **UTCEM, DALBHARA, SGC & ORCMNT**.

Stock picks

Stock	Rating	TP
ACC	NEUTRAL	2151
Ambuja	SELL	396
Birla Corp	ADD	1368
Dalmia Bharat	BUY	2547
India Cements	SELL	167
JK Lakshmi	BUY	800
Orient Cement	ADD	160
Ramco Cement	BUY	1075
Sagar Cements	BUY	252
Shree Cements	ADD	26517
UltraTech	NEUTRAL	8539

Note: TP & Recommendation as of last dated reports

ABHISHEK LODHIYA

Lead Analyst

abhishhek.lodhiya@ysil.in

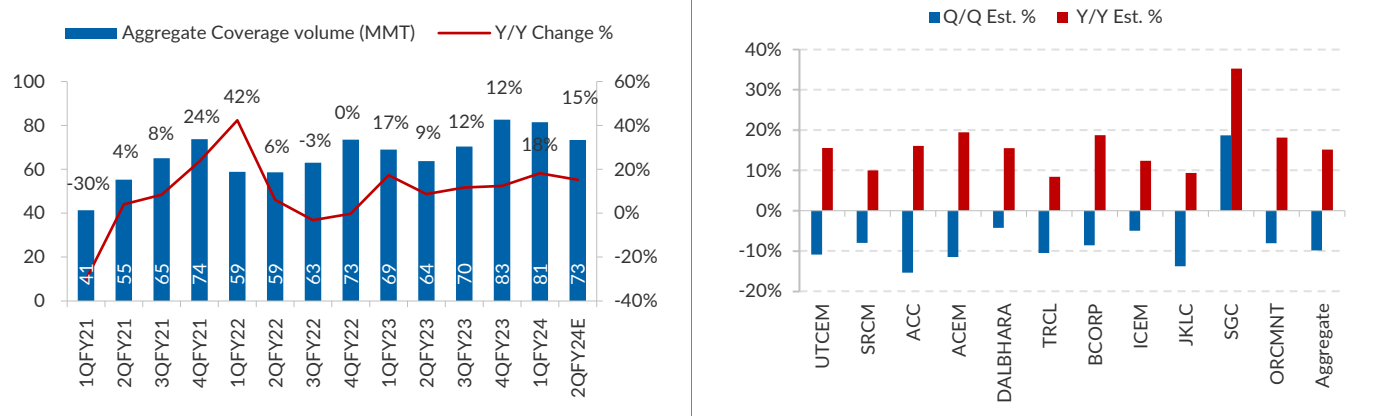
+91 22 6885 0521



SONU UPADHYAY, Associate

Q2FY24E - STORY IN CHARTS

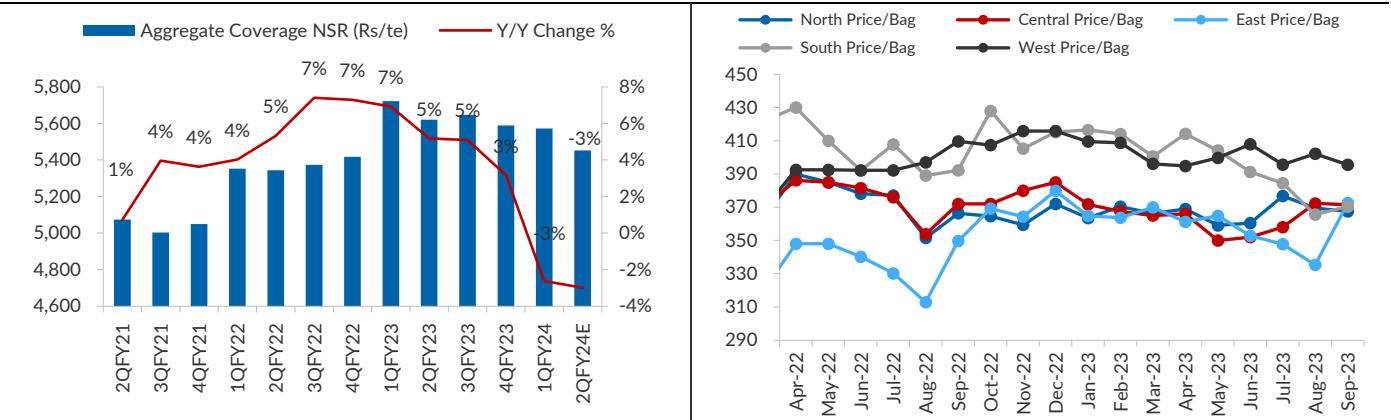
Exhibit 1: Volumes of our coverage companies to increase by +15% y/y owing to newly added capacities and strong demand momentum led by the infra segment



Source: Company, YES Sec

Source: Company, YES Sec

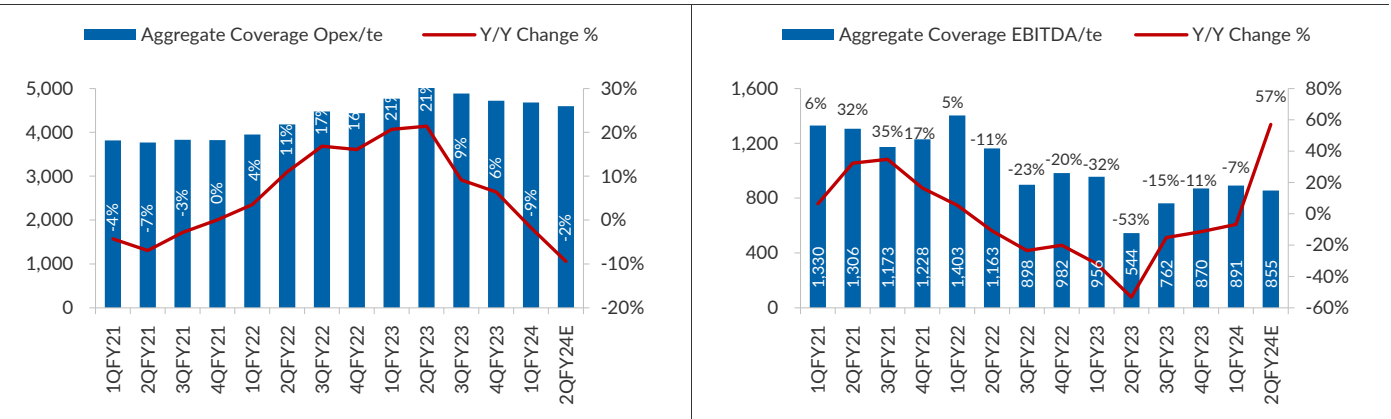
Exhibit 2: NSR of our coverage companies to decline by 3% y/y and 2% q/q in Q2FY24E led by seasonal weakness



Source: Company, YES Sec

Source: Company, YES Sec

Exhibit 3: Easing cost will aid to maintain sequential EBITDA close to +Rs850/te, even after NSR moderation

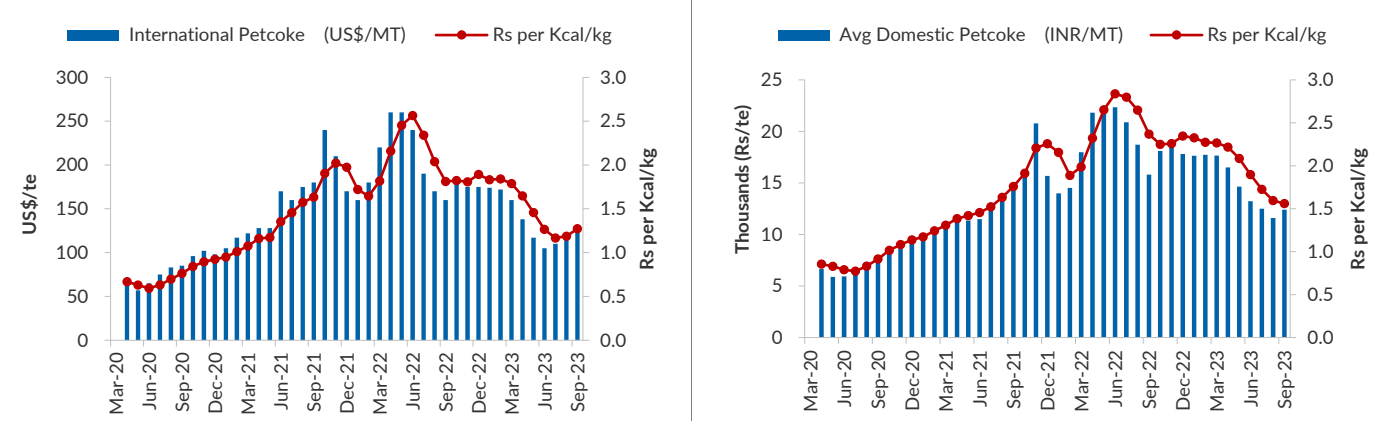


Source: Company, YES Sec

Source: Company, YES Sec

Q2FY24E - STORY IN CHARTS

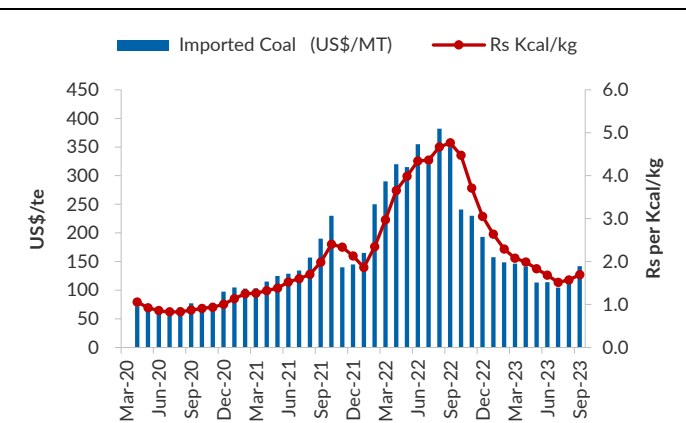
Exhibit 4: The fuel prices corrected significantly from its peak



Source: Company, YES Sec

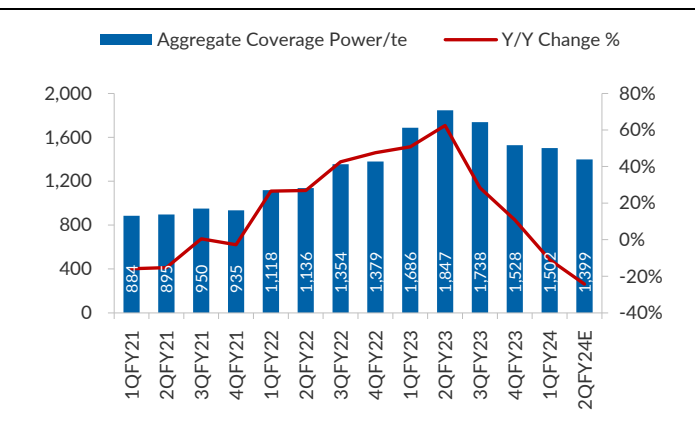
Source: Company, YES Sec

Exhibit 5: Coal prices drop to US\$114/te in Jun'23



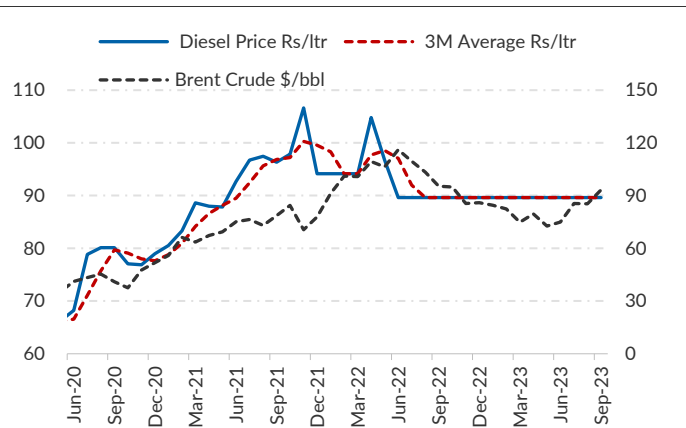
Source: Company, YES Sec

Exhibit 6: Industry power & fuel cost can see another correction of Rs100-150/te in Q2FY24E v/s Q1FY24



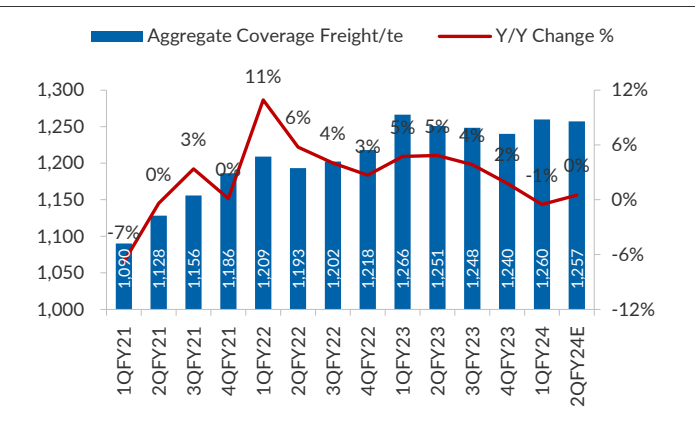
Source: Company, YES Sec

Exhibit 7: Diesel prices stay flat...



Source: Company, YES Sec

Exhibit 8: ...Will keep freight cost buoyant



Source: Company, YES Sec

COMPANY-WISE Q2FY24 ESTIMATES

UTCEM	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	23.1	30.0	26.7	-10.9%	15.5%
NSR (Rs/te)	6,014	5,920	5,834	-1.5%	-3.0%
EBITDA/te	808	1,018	1,000	-1.8%	23.7%
Revenue	138,927	177,371	155,704	-12.2%	12.1%
EBITDA	18,666	30,492	26,685	-12.5%	43.0%
EBITDA %	13.4%	17.2%	17.1%		
Adj. PAT	7,557	16,885	13,079	-22.5%	73.1%

SRCM	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	7.5	8.9	8.2	-8.0%	10.0%
NSR (Rs/te)	5,071	5,607	5,344	-4.7%	5.4%
EBITDA/te	699	1,046	964	-7.8%	38.0%
Revenue	37,809	49,991	43,817	-12.4%	15.9%
EBITDA	5,209	9,326	7,904	-15.2%	51.7%
EBITDA %	13.8%	18.7%	18.0%		
Adj. PAT	1,896	5,811	3,926	-32.4%	107.0%

ACC	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	6.9	9.4	8.0	-15.4%	16.1%
NSR (Rs/te)	5,821	5,533	5,585	0.9%	-4.0%
EBITDA/te	24	820	735	-10.3%	2974.8%
Revenue	39,873	52,011	44,403	-14.6%	11.4%
EBITDA	164	7,709	5,845	-24.2%	3468.5%
EBITDA %	0.4%	14.8%	13.2%		
Adj. PAT	(711)	4,661	3,319	-28.8%	N/A

ACEM	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	6.7	9.1	8.1	-11.5%	19.4%
NSR (Rs/te)	5,446	5,197	5,112	-1.6%	-6.1%
EBITDA/te	452	1,042	957	-8.2%	111.9%
Revenue	36,704	47,297	41,152	-13.0%	12.1%
EBITDA	3,043	9,486	7,704	-18.8%	153.1%
EBITDA %	8.3%	20.1%	18.7%		
Adj. PAT	1,531	6,449	5,125	-20.5%	234.8%

DALBHARA	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	5.8	7.0	6.7	-4.3%	15.5%
NSR (Rs/te)	5,122	5,177	4,982	-3.8%	-2.7%
EBITDA/te	653	871	822	-5.6%	25.9%
Revenue	29,710	36,240	33,382	-7.9%	12.4%
EBITDA	3,790	6,100	5,510	-9.7%	45.4%
EBITDA %	12.8%	16.8%	16.5%		
Adj. PAT	460	1,300	1,005	-22.7%	118.5%

BCORP	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	3.6	4.4	3.9	-10.5%	8.4%
NSR (Rs/te)	5,494	5,461	5,481	0.4%	-0.2%
EBITDA/te	258	675	721	6.7%	179.2%
Revenue	19,998	24,085	21,622	-10.2%	8.1%
EBITDA	940	2,978	2,844	-4.5%	202.6%
EBITDA %	4.7%	12.4%	13.2%		
Adj. PAT	(565)	597	633	6.0%	N/A

TRCL	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	3.3	4.3	3.9	-8.6%	18.7%
NSR (Rs/te)	5,419	5,225	5,076	-2.9%	-6.3%
EBITDA/te	567	799	796	-0.4%	40.3%
Revenue	17,937	22,467	19,947	-11.2%	11.2%
EBITDA	1,877	3,435	3,127	-9.0%	66.6%
EBITDA %	10.5%	15.3%	15.7%		
Adj. PAT	31	744	564	-24.2%	1730.7%

ICEM	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	2.3	2.7	2.5	-5.0%	12.4%
NSR (Rs/te)	5,888	5,389	5,040	-6.5%	-14.4%
EBITDA/te	(338)	31	70	125.4%	N/A
Revenue	13,271	14,367	12,765	-11.2%	-3.8%
EBITDA	(762)	83	177	114.1%	-123.3%
EBITDA %	-5.7%	0.6%	1.4%		
Adj. PAT	(1,133)	(598)	(646)	8.2%	N/A

Company, YES Sec

COMPANY-WISE Q2FY24 ESTIMATES

JKLC	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	2.3	2.9	2.5	-13.8%	9.3%
NSR (Rs/te)	5,651	5,584	5,450	-2.4%	-3.6%
EBITDA/te	601	573	670	17.0%	11.5%
Revenue	13,027	16,333	13,735	-15.9%	5.4%
EBITDA	1,386	1,676	1,689	0.8%	21.9%
EBITDA %	10.6%	10.3%	12.3%		
Adj. PAT	590	749	743	-0.7%	26.1%

Company, YES Sec

SGC	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	1.0	1.2	1.4	18.7%	35.3%
NSR (Rs/te)	4,585	4,575	4,363	-4.6%	-4.8%
EBITDA/te	55	258	253	-2.0%	358.9%
Revenue	4,746	5,397	6,108	13.2%	28.7%
EBITDA	57	305	354	16.3%	520.8%
EBITDA %	1.2%	5.6%	5.8%		
Adj. PAT	(423)	(397)	(418)	5.4%	N/A

ORCMNT	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	1.2	1.6	1.5	-8.1%	18.1%
NSR (Rs/te)	4,978	5,193	5,083	-2.1%	2.1%
EBITDA/te	263	624	613	-1.8%	132.8%
Revenue	6,153	8,252	7,421	-10.1%	20.6%
EBITDA	326	992	895	-9.7%	175.0%
EBITDA %	5.3%	12.0%	12.1%		
Adj. PAT	(95)	370	308	-16.7%	N/A

Company, YES Sec

AGGREGATE	Q2FY23	Q1FY24	Q2FY24E	Q/Q	Y/Y
Volume (MT)	63.7	81.4	73.4	-9.9%	15.1%
NSR (Rs/te)	5,620	5,572	5,452	-2.2%	-3.0%
EBITDA/te	544	891	855	-4.1%	57.0%
Revenue	358,154	453,810	400,056	-11.8%	11.7%
EBITDA	34,696	72,580	62,735	-13.6%	80.8%
EBITDA %	9.7%	16.0%	15.7%		
Adj. PAT	9,139	36,571	27,638	-24.4%	202.4%

Exhibit 9: Valuation Matrix

Companies	M Cap	FY25 Target	EV/EBITDA (x)			EV/Ton (USD)			ROCE (%) - post tax		
	(INR bn)	Price (INR)	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
UTCEM	2405	8539	23.5	18.6	16.1	228	219	184	9%	11%	12%
SRCM	956	26517	28.4	21.3	18.9	214	197	191	7%	9%	8%
ACC	383	2151	18.4	12.0	9.3	119	100	94	7%	10%	11%
ACEM	884	396	14.6	18.6	17.1	183	232	174	10%	7%	5%
DALBHARA	432	2547	14.6	15.6	13.8	111	117	114	5%	6%	6%
BCORP	98	1368	17.5	10.8	7.6	94	94	91	3%	7%	15%
TRCL	232	1075	17.7	16.3	14.2	121	150	148	6%	9%	10%
ICEM	71	167	(73.5)	17.8	12.9	90	91	88	-2%	3%	4%
JKLC	79	800	11.4	7.3	5.8	84	77	68	11%	17%	18%
SGC	32	252	25.8	10.9	7.7	59	53	46	3%	5%	8%
ORCMNT	36	160	7.9	8.2	7.9	43	68	84	7%	10%	9%

Company, YES Sec

PEER COMPARISONS

Company	Total Capacity (MTPA)			Utilization (%)			Realization/ton		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
UTCEM	132.4	136.7	159.3	80%	84%	79%	5,982	5,976	5,890
SRCM	50.4	56.9	59.9	63%	61%	65%	5,292	5,633	5,428
ACC	36.1	37.1	37.1	107%	88%	92%	5,755	5,752	5,746
ACEM	31.5	31.5	45.5	120%	98%	70%	5,290	5,370	5,391
DALBHARA	38.6	51.8	56.0	67%	59%	61%	5,268	5,075	5,109
BCORP	20.6	20.6	20.6	76%	86%	94%	5,520	5,626	5,588
TRCL	22.0	22.9	22.9	68%	77%	79%	5,431	5,450	5,484
ICEM	15.6	15.6	15.6	64%	72%	78%	5,669	5,517	5,606
JKLC	11.7	11.7	11.7	92%	96%	100%	5,643	5,563	5,654
SGC	8.3	10.1	11.3	58%	63%	62%	4,628	4,679	4,760
ORCMNT	8.5	8.5	8.5	68%	76%	84%	5,100	5,121	5,134
Industry Average	375.4	403.1	448.1	80%	78%	76%	5,620	5,644	5,601

Company, YES Sec

Company	Power Cost/ton			Freight Cost/ton			EBITDA/ton		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
UTCEM	1,749	1,476	1,299	1,325	1,387	1,404	1,005	1,155	1,201
SRCM	1,483	1,407	1,162	1,173	1,235	1,264	925	1,235	1,261
ACC	1,488	1,299	1,248	1,332	1,334	1,294	499	790	910
ACEM	1,592	1,412	1,250	1,160	1,173	1,181	852	1,041	1,184
DALBHARA	1,432	1,033	924	1,090	1,092	1,112	901	1,041	1,122
BCORP	1,508	1,371	1,244	1,339	1,207	1,190	491	711	901
TRCL	1,772	1,492	1,437	1,286	1,334	1,339	789	983	1,079
ICEM	2,448	1,697	1,597	1,165	1,208	1,238	(145)	535	652
JKLC	1,435	1,295	1,261	1,123	1,137	1,175	655	892	972
SGC	1,905	1,544	1,400	807	800	803	318	642	800
ORCMNT	1,611	1,399	1,250	1,366	1,347	1,286	633	893	1,037
Industry Average	1,641	1,397	1,251	1,248	1,274	1,283	798	1,022	1,107

Company, YES Sec

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Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.