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CEMENT | Q2FY24 Review | 17 November 2023

Cost savings lift Q2 margins; volumes to bolster H2

- **Softer fuel (pet coke) cost aided 600bps YoY EBITDA margin expansion on average for our cement coverage in Q2**
- **Dry spells enabled relatively better volumes in a traditionally weak monsoon quarter; realisations stayed flat**
- **We raised ACC to BUY (valuation-led) post results; HOLD retained on UTCEM & JKCE and SELL on TRCL, ORCMNT & JKLC**

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Cost savings a key margin driver: The average EBITDA margin for our cement coverage universe jumped to 16% in Q2FY24 from 10% in the year-ago quarter. While ACEM/JKCE/SRCM surged to 19.5%/19%/17.4%. UTCEM climbed 200bps to ~15%, and JKLC and ORCMNT were below-par. EBITDA/t soared to Rs 888 from a weak base of Rs 557 in Q2FY23 and was flat QoQ.

Volume growth aided by erratic monsoon: July-September traditionally sees weaker dispatches, but the erratic monsoon this year (floods in July followed by a dry spell in August in all the five cement regions) enabled volume growth of ~11% YoY for our coverage universe. Companies aggressively pushed sales in August and partially in September to make up for the deep losses in July. UTCEM delivered strong volume growth for the quarter at 15% YoY. Aggregate realisations stayed flat YoY and QoQ for cement companies at ~Rs 5,450/t.

Cost savings from lower fuel cost: Fuel cost for our coverage declined by 15% YoY as pet coke prices dropped 40-50%. Logistic costs also softened by ~4%. Consequently, overall operating expenses fell ~7% YoY to Rs 4,687/t. However, energy cost inched up for SRCM and STRCEM which came as a negative surprise.

Expect H2 to outdo H1 on pre-election demand: We believe H2FY24 will see higher volume growth as infrastructure development receives a fillip ahead of the general elections in May'24.

Stay selective: We remain cautious on the sector and stay selective on stocks taking into consideration their operational efficiencies, regional presence, balance sheet health and valuations. ACC (TP Rs 2,158) is our only BUY in the sector due to our post-result rating upgrade on the back of inexpensive valuations. We also retain our HOLD ratings on UTCEM (Rs 9,396) and JKCE (Rs 3,578) with a positive bias, while continuing to recommend SELL on JKLC, ORCMNT and TRCL.

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	1,848	2,158	BUY
ACEM IN	421	449	HOLD
DALBHARA IN	2,208	2,286	HOLD
JKCE IN	3,509	3,578	HOLD
JKLC IN	813	551	SELL
ORCMNT IN	223	128	SELL
SRCM IN	26,200	24,792	HOLD
STRCEM IN	165	159	HOLD
TRCL IN	1,007	661	SELL
UTCEM IN	8,791	9,396	HOLD

Price & Target in Rupees | Price as of 17 Nov 2023

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Fig 1 – Revenue growth

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
ACC	44,347	39,873	11.2	52,011	(14.7)
ACEM	39,698	36,704	8.2	47,297	(16.1)
DALBHARA	31,490	29,710	6.0	36,240	(13.1)
JKCE	25,707	21,418	20.0	26,236	(2.0)
JKLC	14,526	13,027	11.5	16,333	(11.1)
ORCMNT	7,206	6,153	17.1	8,252	(12.7)
SRCM	45,846	37,806	21.3	49,991	(8.3)
STRCEM	5,853	5,942	(1.5)	7,605	(23.0)
TRCL	23,293	17,535	32.8	22,411	3.9
UTCEM	155,170	134,820	15.1	172,452	(10.0)
Aggregate	**393,135**	**342,987**	**14.6**	**438,827**	**(10.4)**

Source: Company, BOBCAPS Research

Comment

- Aggregate revenue grew at a healthy 15% YoY in a traditionally weak quarter.
- Growth was solely on the back of volume gains as realisations stayed muted.
- UTCEM and SRCM continue to grow above the sector average, while TRCL's revenue shot up 33% YoY on capacity addition but was qualitatively weaker.

Fig 2 – EBITDA growth

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
ACC	5,484	154	3456.3	7,690	(28.7)
ACEM	7,734	3,043	154.1	9,485	(18.5)
DALBHARA	5,890	3,770	56.2	6,100	(3.4)
JKCE	4,467	2,967	50.5	4,024	11.0
JKLC	1,785	1,386	28.8	1,676	6.5
ORCMNT	865	326	165.8	992	(12.8)
SRCM	8,701	5,227	66.4	9,326	(6.7)
STRCEM	986	697	41.5	1,293	(23.8)
TRCL	3,986	1,838	116.9	3,415	16.7
UTCEM	23,502	17,160	37.0	29,086	(19.2)
Aggregate	**63,399**	**36,568**	**73.4**	**73,086**	**(13.3)**

Source: Company, BOBCAPS Research

Comment

- Energy cost savings drove strong EBITDA growth aggregating 73% YoY.
- However, growth was skewed by a weak base for companies such as ACC, TRCL and ORCMNT.
- UTCEM and SRCM moved higher even on a healthy base.

Fig 3 – Adj. PAT growth

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
ACC	3,843	(748.4)	-	4,639	(17.2)
ACEM	4,938	340	1353.3	6,449	(23.4)
DALBHARA	1,190	550	116.4	1,300	(8.5)
JKCE	1,789	1,248	43.3	1,412	26.7
JKLC	830	590	40.8	749	10.9
ORCMNT	246	(95.0)	-	370	(33.5)
SRCM	4,913	1,896	159.2	5,811	(15.5)
STRCEM	407	311	31.0	933	(56.4)
TRCL	1,013	115	783.2	789	28.4
UTCEM	12,057	7,184	67.8	17,055	(29.3)
Aggregate	**31,226**	**11,389**	**174.2**	**39,508**	**(21.0)**

Source: Company, BOBCAPS Research

Comment

- Higher margins supported aggregate PAT growth of 174% YoY.

Fig 4 – Volume growth

(mn tonnes)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
ACC	6.9	6.9	0.7	8.1	(14.8)
ACEM	6.4	7.1	(9.9)	7.8	(17.9)
DALBHARA	6.2	5.8	6.9	7.0	(11.4)
JKCE	4.3	3.6	19.2	3.2	34.9
JKLC	2.5	2.3	9.8	2.9	(13.4)
ORCMNT	1.4	1.2	15.3	1.6	(10.3)
SRCM	8.2	7.5	9.9	8.9	(8.1)
STRCEM	0.9	0.9	0.6	1.2	(23.0)
TRCL	4.6	3.3	39.2	4.2	9.0
UTCEM	25.2	21.8	16.0	28.6	(11.7)
Aggregate	**66.7**	**60.3**	**10.6**	**73.5**	**(9.3)**

Comment

- An erratic monsoon (floods in July followed by a dry spell in August in all the five cement regions) enabled double-digit aggregate volume growth YoY for our coverage universe in a traditionally weak quarter.
- UTCEM and JKCE stayed above the average driven by their pan India and Central India presence respectively. Capacity addition helped TRCL.

Source: Company, BOBCAPS Research

Fig 5 – Realisation per tonne

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
ACC	5,125	5,389	(4.9)	5,189	(1.2)
ACEM	5,223	5,170	1.0	5,197	0.5
DALBHARA	5,079	5,122	(0.8)	5,177	(1.9)
JKCE	5,919	5,878	0.7	5,820	1.7
JKLC	5,532	5,426	2.0	5,351	3.4
ORCMNT	5,057	4,978	1.6	5,193	(2.6)
SRCM	5,594	5,071	10.3	5,607	(0.2)
STRCEM	6,532	6,669	(2.1)	6,533	(0.0)
TRCL	5,053	5,296	(4.6)	5,298	(4.6)
UTCEM	5,455	5,522	(1.2)	5,352	1.9
Aggregate	**5,457**	**5,452**	**0.1**	**5,472**	**(0.3)**

Comment

- Realisation was flat YoY despite strong volume growth in a seasonally weak quarter, indicating that demand was steady amid the government's infrastructure drive.

Source: Company, BOBCAPS Research

Fig 6 – Operating cost per tonne

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
ACC	4,798	5,798	(17.3)	4,715	1.8
ACEM	4,206	4,741	(11.3)	4,848	(13.2)
DALBHARA	4,129	4,472	(7.7)	4,306	(4.1)
JKCE	4,890	5,064	(3.4)	4,927	(0.7)
JKLC	5,032	5,050	(0.4)	5,011	0.4
ORCMNT	4,449	4,715	(5.6)	4,569	(2.6)
SRCM	4,533	4,369	3.7	4,561	(0.6)
STRCEM	5,432	5,887	(7.7)	5,423	0.2
TRCL	4,188	4,834	(13.4)	4,491	(6.7)
UTCEM	5,217	5,410	(3.6)	5,013	4.1
Aggregate	**4,687**	**5,034**	**(6.9)**	**4,786**	**(2.1)**

Comment

- Energy cost savings led to a healthy 7% YoY decline in aggregate operating cost for our coverage.
- SRCM and STRCEM were the only outliers with higher costs.

Source: Company, BOBCAPS Research

Fig 7 – EBITDA per tonne

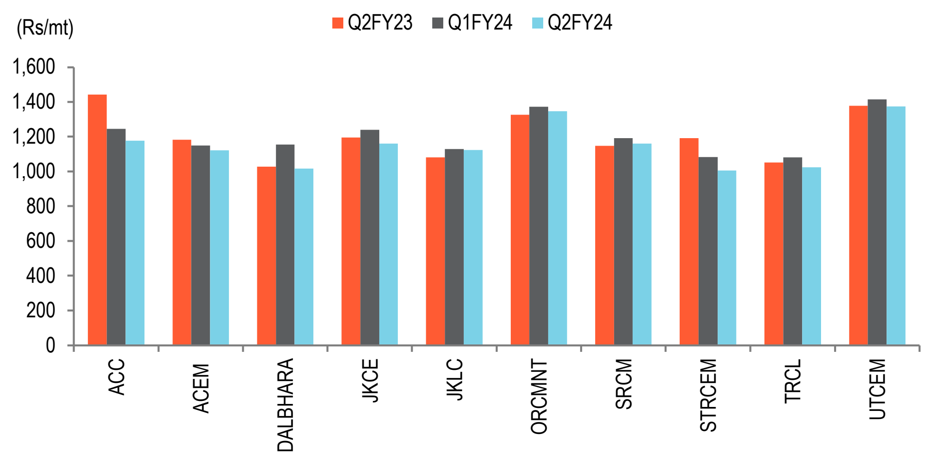
Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Comment
ACC	677	44	1438.7	838	(19.2)	▪ EBITDA/t gains were derived fully from cost savings. ▪ With a base now in place, it will be an uphill task to replicate the same, in our view.
ACEM	1,018	429	137.4	1,216	(16.3)	
DALBHARA	950	623	52.5	844	12.5	
JKCE	1,024	814	26.3	893	15.2	
JKLC	705	601	17.3	573	23.1	
ORCMNT	607	263	130.6	624	(2.7)	
SRCM	1,025	701	46.2	1,046	(2.0)	
STRCEM	1,100	782	40.7	1,111	(1.0)	
TRCL	843	525	60.6	784	7.6	
UTCEM	931	789	18.0	1,017	(8.4)	
Aggregate	**888**	**557**	**59.4**	**895**	**(0.7)**	

Source: Company, BOBCAPS Research

Logistics cost savings due to prudent rail-road mix, lower lead distance and withdrawal of surcharge

Minimal change for large companies such as UTCEM; ACC/ACEM benefited from MSA

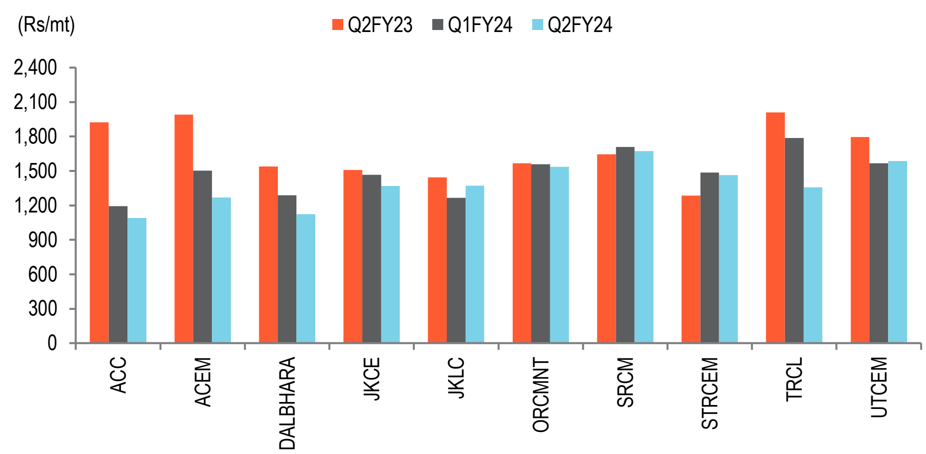
Fig 8 – Logistics cost per tonne



Source: Company, BOBCAPS Research

Fuel cost for coverage companies slid 15% YoY driven by softer pet coke prices (down 40-50% YoY)

Fig 9 – Power & Fuel cost per tonne

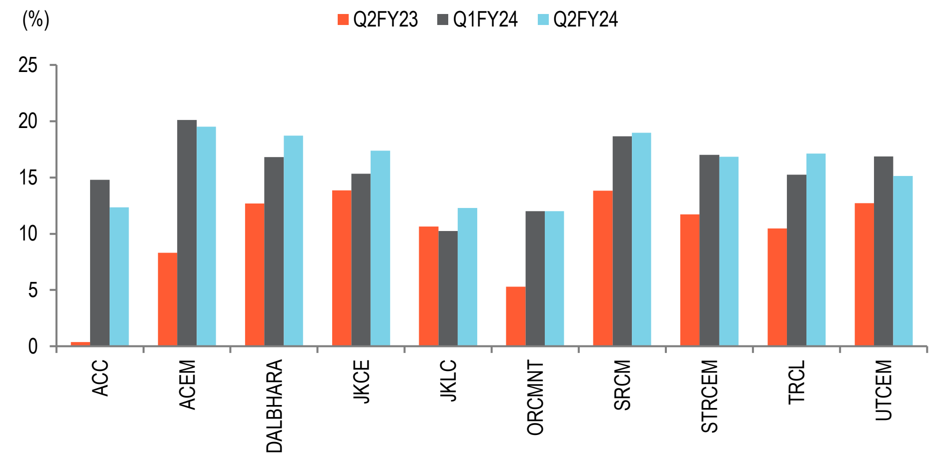


Source: Company, BOBCAPS Research

Average margin jumped to 16% in Q2FY24 from 10% in Q2FY23

UTCEM showed the least variation at ~15% vs. ~13%; ORCMNT/JKLC stayed below par

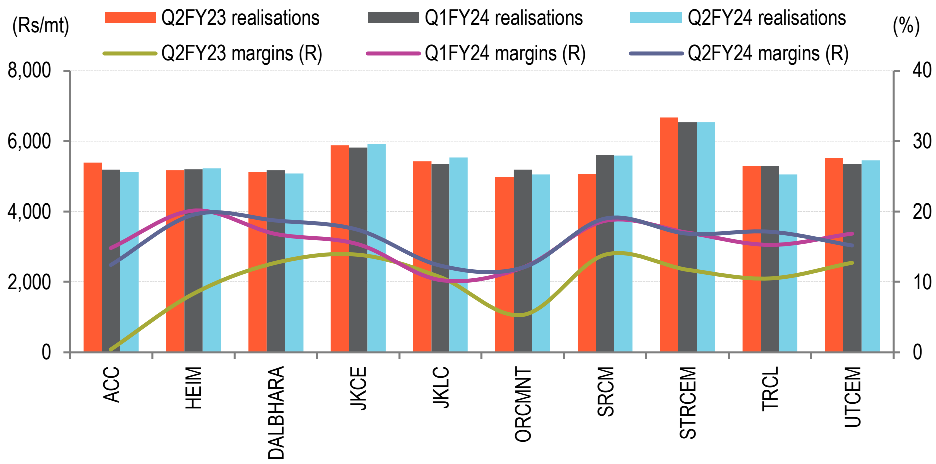
Fig 10 – EBITDA margin



Source: Company, BOBCAPS Research

Margins driven fully by cost savings, with realisation playing a marginal role

Fig 11 – Realisations vs. Margins



Source: Company, BOBCAPS Research |

Fig 12 – Ongoing expansion projects

Company	Projects
ACC	1mt Ameta GU (MP) in Q3FY24, 1.3mt Bhatinda GU (PN) in Q3FY25 (debottlenecking)
ACEM	**Brownfield** 4mt clinker unit at Bhatapara (Chhattisgarh) Line 3 in Q2FY26 4mt clinker unit at Maratha line 2 (MH) in Q4FY26 2.3mt Sankrail GU (WB) in Q3FY25 4.6mt Mundra GU in Q2FY26 (1st line) and Q3FY26 (2nd line) 2.4mt Marwar GU in Q4FY25 1.6mt Sindri GU in Q2FY25 **Greenfield** 2.4mt Salai Banva GU at UP in Q1FY26 4.6mt Farakka (GU) at WB in Q3FY25

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Company	Projects
DALBHARA	**Cement capacity** 0.9mt Belgaum (KA) plant in Q4FY24 1mt Ariyalur (TN) plant in Q4FY24 1mt Kadapa (AP) plant in Q4FY24 0.5mt capacity addition in Kalyanpur (Bihar) in FY25 (board approval received) 2.4mt Lanka (Assam) plant in FY26 **Clinker capacity** To reach 22.9mt by FY24, 23.5mt by FY25 (0.6mt expansion in Q1FY25), 27.1mt by FY26
JKCE	**Cement capacity** 1.5mt additional GU expansion (greenfield) at Ujjain (MP) in Q3FY23 2.0mt additional GU expansion (greenfield) at Prayagraj (UP) in Q2FY25 **Clinker capacity** Panna debottlenecking activity completed and full production to commence in Q3FY24 (3.3mt capacity post debottlenecking)
JKLC	**Cement capacity** 3.5mt addition to Surat GU by H1FY26 2.5mt at subsidiary UCWL (Udaipur) by Q4FY24/Q1FY25
ORCMT	Devapur expansion continues to await forest clearance and management expects construction to commence in Q4FY24 Devapur and Chittapur expected within 15-18 months 2mt GU at MP – the company has applied to the State Electricity Board and awaits confirmation from the board
SRCM	3mt Guntur plant (AP) by Q4FY24/Q1FY25 3.5mt Nawalgarh plant (Rajasthan) by Q4FY24 (delay of ~3 months) SRCM has received the required permissions for setting up a GU at UP GU at Baloda Bazar, Chhatisgarh, is expected to come online within 18 months
STRCEM	**Cement capacity** 2mt Guwahati (Assam) GU in Q3FY24 Commissioning of the 2mt Silchar GU has been strategically delayed till mid-FY25 although 73-75% of the land acquisition is complete **Clinker** 3mt Meghalaya clinker plant at Lumshnong in Q4FY24
TRCL	Odisha GU Line II with cement capacity of 0.9mtpa during Q4FY24 TRCL has incurred Rs 7.5bn for phase-2 expansion at Kurnool, AP, (3mt cement, 2.25mt clinker) and expects the same to come online within 12-15 months. Post Kurnool expansion, its cement grinding capacity is expected to rise to 25mtpa
UTCEM	UTCEM will add 22.6mt additional capacity in its phase 2 growth plan, thereby reaching 159.65mt cement capacity by Jun'25
India Cements	Plans to set up a plant in Damoh (MP) were hit by working capital issues, high cost and then by Covid. No new capacity expansion plans yet
JSW Cement	*(Source: Economic Times interview– Parth Jindal)* Current capacity as on Sep'23 is 19mt and expected to reach 21mt by Q3FY24 Plans to reach 60mt over the next five years (planned capex of Rs 180bn) Capacities will be predominantly added in central and northen regions (greenfield expansion of ~25mt out of 60mt)

Source: Company, BOBCAPS Research | GU: Grinding Unit; MH: Maharashtra, MP: Madhya Pradesh, UP: Uttar Pradesh, AP: Andhra Pradesh

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