

CEMENT

Q3FY24 Review

20 February 2024

Cost savings lift margins

- Softer fuel (pet coke) cost aided 560bps YoY EBITDA margin expansion on average for our cement coverage in Q3
- Volumes held steady despite state elections, festivities, construction bans and erratic rainfall; realisations stayed flat
- Post results, we raised **UTCEM** to **BUY** on stronger earnings prospects and cut **ACC** to **HOLD** on full valuations

Milind Raginwar | Shree Kirloskar
 research@bobcaps.in

Volume growth steady but prices weak: Volumes for our cement universe grew 8% YoY on average in Q3FY24 despite the dampening impact of five state elections, festivals and an erratic monsoon. **UTCEM** (industry leader by capacity market share) clocked 6% YoY volume growth, whereas **ACC** and **JKCE** reported strong double-digit upticks. Aggregate realisations stayed flat YoY with a minor sequential increase of 3% as cement prices rose in the first half but softened towards the quarter's end.

Cost savings buoy margins...: Our cement universe clocked a higher average EBITDA margin of ~20% in Q3FY24 from 14.2% in the year-ago quarter. **SRCM** topped the pack at 25.2%, **JKCE** and **DALBHARA** were both at ~21%, and **ACEM** and **UTCEM** at ~19%. **JKLC** and **ORCMNT** saw below-average margins of ~15%. Aggregate EBITDA/t soared to Rs 1,139 from Rs 801 in Q3FY23 (Rs 897 in Q2FY24).

...as fuel cost dipped: Fuel cost for our coverage declined by 22% YoY on average led by softer pet coke prices. Logistics costs also moderated by ~3% as lead distance savings offset the quarter's busy-season rail surcharge. Consequently, operating expenses for our coverage fell ~7% YoY to Rs 4,624/t.

Demand slows in Q4FY24 YTD: We note that cement demand has been slower than usual thus far in the normally busy March quarter as construction activity has slackened in the runup to India's general elections in May. We remain optimistic on demand pickup post elections, largely contributed by the government's infrastructure push. However, we believe the recent capacity additions announced by cement companies in addition to existing supply will keep pace with incremental demand.

UTCEM our top pick: In our quarterly result notes, we upgraded **UTCEM** to **BUY** (TP Rs 11,510) as we believe it is best placed to cater to the expected growth in demand with its large capacity, operational efficiencies, regional presence, balance sheet health and attractive valuations. Based on full valuations, we had cut **ACC** to **HOLD** (TP 2,542) post results and maintained this rating for **DALBHARA** (Rs 2,443) and **STRCEM** (Rs 193) as well. Our **SELL** ratings stand unchanged for **TRCL** (Rs 728), **JKLC** (Rs 637) and **ORCMNT** (Rs 168).

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	2,671	2,542	HOLD
ACEM IN	585	552	HOLD
DALBHARA IN	2,102	2,443	HOLD
JKCE IN	4,206	4,121	HOLD
JKLC IN	963	637	SELL
ORCMNT IN	273	168	SELL
SRCM IN	26,815	27,836	HOLD
STRCEM IN	210	193	HOLD
TRCL IN	881	728	SELL
UTCEM IN	9,902	11,510	BUY

Price & Target in Rupees | Price as of 19 Feb 2024



Fig 1 – Revenue growth

(Rs mn)	Q3FY24	Q3FY23^	YoY (%)	Q2FY24	QoQ (%)	Comment
ACC	49,183	45,370	8.4	44,347	10.9	Aggregate revenue for our cement coverage grew at a healthy 10% YoY in a challenging quarter.
ACEM	44,395	41,285	7.5	39,698	11.8	
DALBHARA	36,000	33,550	7.3	31,490	14.3	Growth was driven by volume gains, whereas realisations remained listless as prices were range-bound in Q3FY24.
JKCE	27,848	22,880	21.7	25,707	8.3	
JKLC	15,861	14,885	6.6	14,526	9.2	
ORCMNT	7,513	7,323	2.6	7,206	4.3	
SRCM	49,008	40,688	20.4	45,846	6.9	
STRCEM	6,514	6,195	5.1	5,853	11.3	
TRCL	21,061	19,907	5.8	23,293	(9.6)	
UTCEM	161,735	150,080	7.8	155,170	4.2	
Aggregate	419,118	382,163	9.7	393,136	6.6	

Source: Company, BOBCAPS Research | ^ACC & ACEM have changed its accounting Y/E from Dec to Mar; hence, Q3FY23 was reported as Q4CY22

Fig 2 – EBITDA growth

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
ACC	9,032	3,783	138.7	5,484	64.7	Energy cost savings boosted aggregate EBITDA growth for our coverage to 54% YoY.
ACEM	8,511	6,261	35.9	7,734	10.0	
DALBHARA	7,750	6,450	20.2	5,890	31.6	UTCEM posted strong operating profit growth even on a healthy base.
JKCE	6,084	2,628	131.5	4,467	36.2	
JKLC	2,422	1,596	51.8	1,785	35.6	JKCE saw the highest uptick at 132% YoY, aided by new capacities.
ORCMNT	1,154	903	27.8	865	33.4	
SRCM	12,337	7,080	74.3	8,701	41.8	
STRCEM	1,488	1,084	37.2	986	50.9	
TRCL	3,954	2,846	38.9	3,986	(0.8)	
UTCEM	30,401	21,448	41.7	23,502	29.4	
Aggregate	83,131	54,080	53.7	63,400	31.1	

Source: Company, BOBCAPS Research

Fig 3 – Adj. PAT growth

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
ACC	5,275	1,895	178.3	3,843	37.3	Aggregate PAT growth outpaced EBITDA as lean balance sheets help curtail interest outgo and lower tax payout.
ACEM	5,137	4,303	19.4	4,938	4.0	
DALBHARA	2,630	2,000	31.5	1,190	121.0	
JKCE	2,895	966	199.7	1,789	61.8	
JKLC	1,241	736	68.6	830	49.4	
ORCMNT	450	275	63.5	246	82.7	
SRCM	7,342	2,768	165.3	4,913	49.4	
STRCEM	735	529	39.0	407	80.8	
TRCL	934	674	38.5	1,013	(7.8)	
UTCEM	16,965	9,942	70.6	12,057	40.7	
Aggregate	43,603	24,089	81.0	31,227	39.6	

Source: Company, BOBCAPS Research

Fig 4 – Volume growth

(mn tonnes)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
ACC	8.9	7.7	15.6	8.1	9.9	JKCE's volume growth stayed above the average driven by new capacity addition.
ACEM	8.2	7.7	6.5	7.6	7.9	
DALBHARA	6.8	6.3	7.9	6.2	9.7	SRCM's volume growth resumed after a focus on pricing in the recent past.
JKCE	4.6	3.9	16.4	4.3	5.4	
JKLC	2.4	2.3	1.7	2.2	8.5	
ORCMNT	1.4	1.4	(2.7)	1.4	(2.3)	
SRCM	8.9	8.0	10.7	8.2	8.5	
STRCEM	1.0	0.9	6.8	0.9	8.3	
TRCL	4.0	3.6	9.9	5	(13.3)	
UTCEM	25.6	24.3	5.5	25	1.3	
Aggregate	71.7	66.2	8.2	68.8	4.2	

Source: Company, BOBCAPS Research

Fig 5 – Realisation per tonne

(Rs/tn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
ACC	5,225	5,497	(5.0)	5,125	1.9	Aggregate realisation for our coverage was flat YoY despite steady volume growth, indicating the lack of a strong demand push.
ACEM	5,414	5,362	1.0	5,223	3.6	
DALBHARA	5,294	5,325	(0.6)	5,079	4.2	
JKCE	6,086	5,821	4.5	5,919	2.8	
JKLC	6,438	6,188	4.0	6,415	0.4	
ORCMNT	5,397	5,121	5.4	5,057	6.7	
SRCM	5,513	5,065	8.8	5,594	(1.5)	
STRCEM	6,716	6,823	(1.6)	6,532	2.8	
TRCL	5,272	5,478	(3.8)	5,053	4.3	
UTCEM	5,564	5,511	1.0	5,455	2.0	
Aggregate	5,692	5,619	1.3	5,545	2.6	

Source: Company, BOBCAPS Research

Fig 6 – Operating cost per tonne

(Rs/tn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
ACC	4,511	5,401	(16.5)	4,798	(6.0)	Energy cost savings led to a healthy 7% YoY decline in aggregate operating cost per tonne for our coverage companies.
ACEM	3,818	4,549	(16.1)	4,206	(9.2)	
DALBHARA	4,154	4,302	(3.4)	4,129	0.6	
JKCE	4,756	5,152	(7.7)	4,890	(2.7)	
JKLC	5,706	5,741	(0.6)	5,869	(2.8)	
ORCMNT	4,568	4,489	1.8	4,449	2.7	ORCMNT is the only outlier in our coverage with a marginally higher operating cost both YoY and QoQ.
SRCM	4,125	4,184	(1.4)	4,533	(9.0)	
STRCEM	5,182	5,629	(7.9)	5,432	(4.6)	
TRCL	4,282	4,744	(9.7)	4,188	2.2	
UTCEM	5,134	5,304	(3.2)	5,217	(1.6)	
Aggregate	4,624	4,949	(6.6)	4,771	(3.1)	

Source: Company, BOBCAPS Research

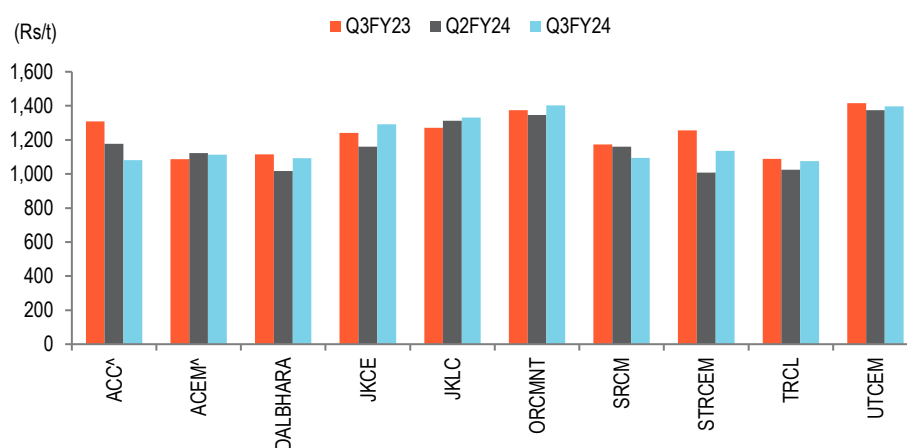
Fig 7 – EBITDA per tonne

(Rs/tn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
ACC	1,015	491	106.6	677	49.9	■ EBITDA/t gains were derived largely from cost savings and a weak base.
ACEM	1,038	813	27.6	1,018	2.0	
DALBHARA	1,113	997	11.6	923	20.6	
JKCE	1,330	669	98.9	1,028	29.3	
JKLC	1,028	689	49.2	822	25.0	
ORCMNT	829	632	31.2	607	36.5	
SRCM	1,348	881	53.0	1,025	31.5	
STRCEM	1,534	1,194	28.4	1,100	39.4	
TRCL	965	756	27.6	843	14.4	
UTCEM	1,188	884	34.4	931	27.6	
Aggregate	1,139	801	42.2	897	26.9	

Source: Company, BOBCAPS Research

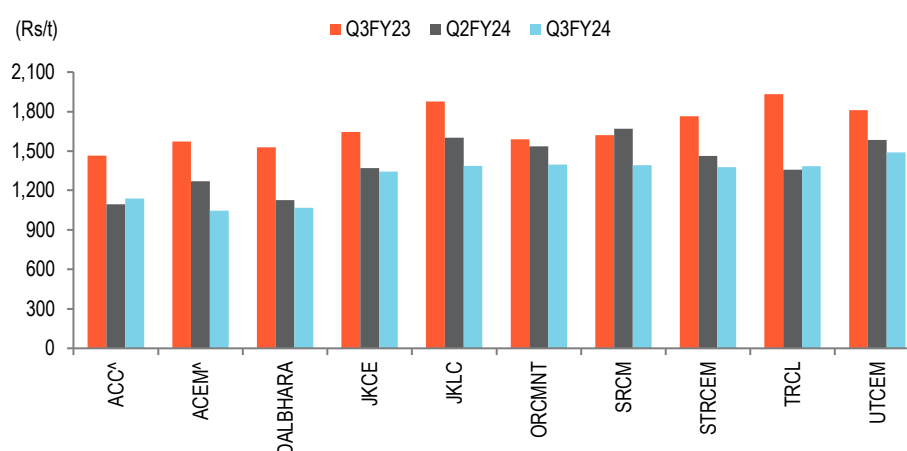
Logistics cost for our coverage dipped 3% YoY as savings due to lead distance optimisation offset the busy-season rail surcharge

ACC/ACEM benefited from their master supply agreements

Fig 8 – Logistics cost per tonne

Source: Company, BOBCAPS Research | ^ACC & ACEM have changed its accounting Y/E from Dec to Mar; hence, Q3FY23 was reported as Q4CY22

Fuel cost for coverage companies dropped 22% YoY on softening of pet coke prices

Fig 9 – Power & fuel cost per tonne

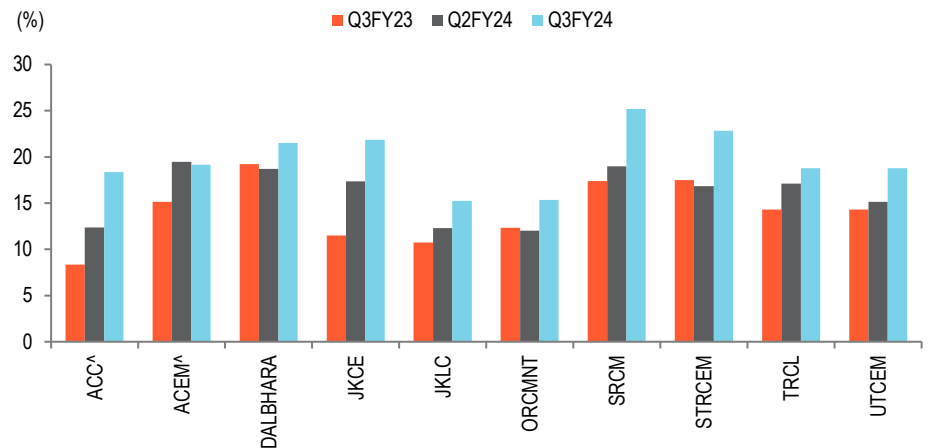
Source: Company, BOBCAPS Research

Average margin jumped to 20% in Q3FY24 from 14.2% in the year-ago quarter

ORCMNT showed the least variation at 15.4% vs. ~12.3% in Q3FY23

ORCMNT and JKLC's margins stayed below par

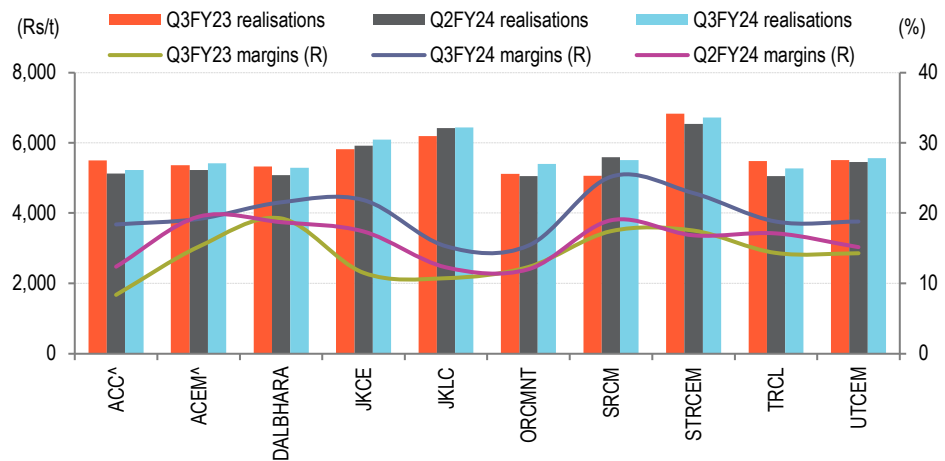
Fig 10 – EBITDA margin



Source: Company, BOBCAPS Research

Margins driven primarily by cost savings, with realisation playing a minor role

Fig 11 – Realisations vs. Margins



Source: Company, BOBCAPS Research

Fig 12 – Ongoing expansion projects

Company	Projects
ACC	<ul style="list-style-type: none"> 1.6mt GU expansion at Sindri (Jharkhand) by Q4FY25 2.4mt GU expansion at Salai Banwa (Uttar Pradesh) by Q1FY26
ACEM	Cement capacity <ul style="list-style-type: none"> 1.2mt expansion at Bathinda (Punjab) by Q4FY25 2.4mt GU at Sankrail (West Bengal) by Q3FY25 2.4mt GU at Marwar (Rajasthan) by Q4FY25 4.8mt GU at Farakka (West Bengal) – Phase I of 2.4mt by Q3FY25 1.6mt GU at Sindri, (Jharkhand) by Q2FY25 4.8mt GU at Mundra (Gujarat) – line I by Q3FY26 and line II by Q1FY27 Clinker capacity <ul style="list-style-type: none"> 4mt clinker unit at Bhatapara (Chhattisgarh) line 3 by Q4FY25 4mt clinker unit at Maratha (Maharashtra) line 2 by Q2FY26
DALBHARA	Cement capacity (Brownfield) <ul style="list-style-type: none"> 1mt plant at Ariyalur (Tamil Nadu) in Q4FY24 1mt plant at Kadapa (Andhra Pradesh) in Q4FY24 0.5mt addition in Kalyanpur (Bihar) in FY25 2.4mt plant at Lanka (Assam) in FY25 Clinker capacity <ul style="list-style-type: none"> Aims to reach 22.6mt by FY24, 23.5mt by FY25 and 27.1mt by FY26
JKCE	Cement capacity <ul style="list-style-type: none"> 2mt greenfield GU expansion at Prayagraj (Uttar Pradesh) by Q2FY25 3mt additional GU in Bihar in FY26 1mt GU each at Panna (Madhya Pradesh), Hamirpur (Himachal Pradesh) and Prayagraj (Uttar Pradesh) in FY26 Clinker capacity <ul style="list-style-type: none"> 3.3mt clinker line-II at Panna in FY26
JKLC	Cement capacity <ul style="list-style-type: none"> 1.35mt addition to Surat GU by H1FY26 2.5mt at subsidiary UCWL (Udaipur) by Q4FY24-end 4.6mt GU expansion at Durg, Chhattisgarh (1.2mt), Uttar Pradesh (1.2mt), Bihar (1.2mt) and Jharkhand (1mt); Phase-I to be completed by FY26-end. Clinker capacity <ul style="list-style-type: none"> 2.3mt clinker expansion at Durg by FY27
ORCMT	<ul style="list-style-type: none"> Devapur (Telangana) expansion continues to await forest and environment clearance Chittapur (Karnataka) expansion awaits environment clearance post a public hearing which has been scheduled for Feb 2024 2mt GU at Madhya Pradesh – location has been finalised at Sami, Satpura, and is subject to final negotiations with the state electricity board and ORCMNT's board 3.2mt greenfield cement capacity expansion at Rajasthan – management does not expect any construction activity for at least three years.
SRCM	<ul style="list-style-type: none"> 3mt greenfield plant at Guntur (Andhra Pradesh) by Q4FY24 SRCM has received the required permissions for setting up a GU at Uttar Pradesh GU at Baloda Bazar (Chhattisgarh) is expected to come online within 15-18 months Management maintains guidance of reaching 56mt by Mar'24, 62mt by Mar'25, 65mt by Sep'25, 75mt by Mar'26 and 80mt by Mar'28

Company	Projects
STRCEM	Cement capacity
	<ul style="list-style-type: none"> 2mt GU at Guwahati (Assam) in Q4FY24 Commissioning of the 2mt GU at Silchar (Assam) by Q2FY26
	Clinker
TRCL	<ul style="list-style-type: none"> 3mt clinker plant at Lumshnong (Meghalaya) in Q4FY24
	<ul style="list-style-type: none"> Odisha GU Line II with cement capacity of 0.9mtpa in Q4FY24 1mt cement debottlenecking opportunities identified and expected to be carried out in FY25 Proposes to double clinker capacity to 6.3mt and cement capacity to 3mt at Kumool (Andhra Pradesh) by Q4FY26
UTCEM	<ul style="list-style-type: none"> 1mt brownfield GU expansion at Roorkee (Uttar Pradesh) in Q4FY24 1.8mt brownfield IU expansion at Kotputli (Rajasthan) by Q1FY25 2.6mt greenfield GU expansion at Rajpura (Punjab) by Q1FY25 3.3mt greenfield GU expansion at Karur (Tamil Nadu) by Q1FY25 2.7mt greenfield IU expansion at Kukurdih (Chhattisgarh) by Q2FY25 1.8mt brownfield IU expansion at Andhra Pradesh Cement Works (Andhra Pradesh) by Q2FY25 1.2mt brownfield GU expansion at Arakkonam (Tamil Nadu) by Q2FY25 0.6mt brownfield GU expansion at Sonar Bangla (West Bengal) by Q3FY25 0.6mt brownfield GU expansion at Durgapur (West Bengal) by Q3FY25 1.8mt greenfield GU expansion at Lucknow (Uttar Pradesh) by Q4FY25 4.5mt brownfield IU expansion at Maihar (Madhya Pradesh) by Q4FY25 2.5mt greenfield GU expansion at Patratu (Jharkhand) by Q4FY25 UTCEM expects to reach 157.4mt of cement capacity by FY25
India Cements	<ul style="list-style-type: none"> No new capacity expansion plans announced
JSW Cement	<ul style="list-style-type: none"> Current capacity as on Feb'24 is 19mt and expected to reach 21mt by Q4FY24
	<ul style="list-style-type: none"> 10mt cement plant planned in Odisha but no timelines yet

Source: Company, BOBCAPS Research | GU: Grinding Unit; IU: Integrated Unit

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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