CEMENT | Q4FY23 Preview | 19 April 2023

Strong dispatches, cost benefits to help margins gain gradually

- **Cement dispatches robust in Q4, advancing ~20% YoY for our coverage companies**
- **Realisations fell in March due to volume pressure and the festive season; fuel cost provided some relief**
- **EBITDA/t gradually moving back to Rs 1,000 levels for well-managed, large players; prefer UTCEM, JKCE and STRCEM**

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Strong volume-driven topline: We expect our cement coverage universe to report an average EBITDA margin of 16.5% in Q4FY23 vs. 18.6% in the year-ago quarter. Though operating cost is likely to have moderated sequentially, it is expected to remain high YoY. Demand momentum has been steady but dispatch momentum was strong to meet year-end volume targets, rising ~20% YoY (and equally QoQ). This, in turn, has lent a healthy impetus to sales that are estimated to rise by an average of 22-23% YoY (and QoQ) for our coverage.

Demand recovery underway but excess supply impeding price hikes: Our management interactions and channel checks in Q4FY23 indicate ongoing demand revival backed partially by pick-up in the rural sector and execution impetus in the infrastructure (year-end project completion) and urban real estate segments. However, the price hikes that are typically backed by a pick-up in demand have lagged (pan-India price flat YoY at Rs 357/bag), despite the intermittent jumps in fuel price.

Cost respite to help maintain EBITDA/t QoQ: The cost of key fuels (imported coke and coal) had softened by 4-8% QoQ at the end of Q3FY23. The fall has continued in Q4 as well but was even sharper (20-30% in different regions). This will help cement companies in Q4 and subsequently, as fuel ranges from 25% to 30% of their total cost. Thus, cement price weakness in March should not be a cause for concern as lower fuel cost will likely help players restore operating margins.

Volume growth to drive cost synergies: We expect the strong volume growth in Q4 to temper overall cost QoQ as other expenses decline due to synergies of scale. We estimate a 3-5% QoQ dip in operating cost per tonne for our coverage driven by lower fuel cost and other expenses. This will continue to benefit EBITDA margins.

Top picks: We continue to recommend BUY on UTCEM (TP Rs 8,310), JKCE (Rs 3,371) and STRCEM (Rs 138) while retaining our SELL ratings on JKLC (Rs 551) and TRCL (Rs 534).

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	1,760	2,090	HOLD
ACEM IN	383	387	HOLD
DALBHARA IN	2,035	1,835	HOLD
JKCE IN	3,010	3,371	BUY
JKLC IN	762	551	SELL
ORCMNT IN	121	140	HOLD
SRCM IN	25,264	24,656	HOLD
STRCEM IN	113	138	BUY
TRCL IN	756	534	SELL
UTCEM IN	7,595	8,310	BUY

Price & Target in Rupees | Price as of 18 Apr 2023

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Fig 1 – BOBCAPS Cement Universe: Q4FY23 Preview – Expect volume-driven topline growth, range-bound margins…

Y/E March	Net Sales (Rs mn)			EBITDA (Rs mn)			EBITDA Margin (%)			Adj. PAT (Rs mn)		
	Q4FY23E	YoY (%)	QoQ (%)	Q4FY23E	YoY (%)	QoQ (%)	Q4FY23E	YoY (bps)	QoQ (bps)	Q4FY23E	YoY (%)	QoQ (%)
ACC	48,499	12.2	6.9	4,914	(22.4)	29.9	10.1	(418.3)	179.5	2,524	(35.6)	33.1
ACEM	44,415	55.1	69.1	8,049	99.3	83.0	18.1	401.7	137.4	4,977	91.8	112.1
DALBHARA	38,412	13.6	14.5	7,884	15.6	22.2	20.5	34.8	130.0	2,783	(52.8)	39.1
JKCE	25,341	11.7	10.8	4,177	10.4	58.9	16.5	(18.5)	499.7	2,042	(3.6)	111.5
JKLC	20,136	34.5	35.3	2,328	(15.7)	45.9	11.6	(688.3)	84.0	1,269	(35.0)	72.4
ORCMNT	8,649	7.6	18.1	1,340	(12.6)	48.3	15.5	(358.8)	315.3	564	(22.9)	105.1
TRCL	22,855	34.6	14.8	3,377	14.4	18.7	14.6	(262.7)	47.1	1,049	(15.4)	55.6
SRCM	45,614	11.3	12.1	9,607	5.5	35.7	21.1	(115.5)	366.2	4,687	(27.4)	69.4
STRCEM	8,355	11.5	34.9	1,362	20.1	25.6	16.3	116.7	(120.2)	764	(13.6)	44.5
UTCEM	186,802	26.9	24.5	31,255	6.7	45.7	16.7	(317.5)	244.1	16,376	5.4	64.7
Total	**449,078**	**23.4**	**22.3**	**74,293**	**9.6**	**42.3**	**16.5**	**(207.3)**	**232.1**	**37,035**	**(10.4)**	**65.7**

Source: Company, BOBCAPS Research

Fig 2 – …EBITDA/t likely to remain under pressure YoY

Y/E March	Sales Volume (mn MT)			Realisation (Rs/MT)			EBITDA (Rs/MT)		
	Q4FY23E	YoY (%)	QoQ (%)	Q4FY23E	YoY (%)	QoQ (%)	Q4FY23E	YoY (%)	QoQ (%)
ACC	8.2	6.9	7.0	5,487	3.1	(0.2)	596	(27.4)	21.4
ACEM	8.2	33.1	55.2	5,442	16.5	9.0	986	49.7	17.9
DALBHARA	7.2	9.1	14.3	5,335	4.2	0.2	1,068	6.1	7.1
JKCE	4.5	14.1	14.1	5,649	(2.1)	(2.9)	931	(3.2)	39.3
JKLC	3.6	14.5	33.8	5,474	14.9	(1.1)	647	(26.4)	9.0
ORCMNT	1.7	4.4	20.0	5,040	3.0	(1.6)	781	(16.4)	23.6
TRCL	4.1	28.6	15.0	5,567	4.8	(0.2)	798	(11.4)	3.8
SRCM	8.9	10.6	10.5	4,900	(4.0)	(3.3)	1,082	(4.6)	22.8
STRCEM	1.2	7.4	36.0	6,765	3.8	(0.9)	1,102	11.8	(7.7)
UTCEM	30.5	28.5	25.8	5,475	(1.6)	(0.6)	1,025	(17.0)	15.9
Total	**78.1**	**19.7**	**21.9**	**5,420**	**2.1**	**(0.1)**	**947**	**(8.4)**	**16.8**

Source: Company, BOBCAPS Research

Fig 3 – ACC

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	8.2	7.7	6.9	7.7	7.0	Adani Cement had to shut down operations at plants in Gagal and Darlaghat (Himachal Pradesh) due to a dispute with truck operators, which had a material impact on volumes, causing ACC to lag industry volume growth of 20% YoY. The dispute was resolved in February after 68 days of strike by an agreement for a revised freight rate (Rs 9.3-10.3/km per ton) and MoU to dispatch 5mt of cement and clinker from Darlaghat every year.
Realisations (Rs/MT)	5,487	5,321	3.1	5,497	(0.2)	
Sales (Rs mn)	48,499	43,219	12.2	45,370	6.9	
EBITDA (Rs mn)	4,914	6,337	(22.4)	3,783	29.9	
EBITDA margin (%)	10.1	14.3	(418bps)	8.3	179bps	
EBITDA (Rs/MT)	596	822	(27.4)	491	21.4	
Adj PAT (Rs mn)	2,524	3,918	(35.6)	1,895	33.1	
Adj PAT margin (%)	5.2	9.1	(386bps)	4.2	103bps	

Source: Company, BOBCAPS Research

Fig 4 – ACEM

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	8.2	6.1	33.1	5.3	55.2	In the month of February dispute was resolved after 68 days of strike by an agreement for revised freight rate (Rs9.3 – 10.30/km per ton) and MoU to dispatch 50 lakh metric tonnes of cement and clinker from Darlaghat every year
Realisations (Rs/MT)	5,442	4,671	16.5	4,993	9.0	
Sales (Rs mn)	44,415	28,633	55.1	26,261	69.1	
EBITDA (Rs mn)	8,049	4,039	99.3	4,398	83.0	
EBITDA margin (%)	18.1	14.1	402bps	16.7	137bps	
EBITDA (Rs/MT)	986	659	49.7	836	17.9	
Adj PAT (Rs mn)	4,977	2,595	91.8	2,346	112.1	
Adj PAT margin (%)	11.2	9.1	214bps	8.9	227bps	

Source: Company, BOBCAPS Research

Fig 5 – DALBHARA

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	7.2	6.6	9.1	6.3	14.3	EBITDA/t is expected to return to previous year levels at Rs 1,068/t in Q4FY23E. We note that capacity was raised by 1.3mt at Lanka and 0.3mt at KCW, Odisha. Solar power capacity was also raised by 4.5MW and waste heat recovery (WHRS) by 7MW. Further, the second cement line at Bokaro (JCW2) with a capacity of 2.5mt has commenced production.
Realisations (Rs/MT)	5,335	5,121	4.2	5,325	0.2	
Sales (Rs mn)	38,412	33,800	13.6	33,550	14.5	
EBITDA (Rs mn)	7,884	6,820	15.6	6,450	22.2	
EBITDA margin (%)	20.5	20.2	35bps	19.2	130bps	
EBITDA (Rs/MT)	1,068	1,006	6.1	997	7.1	
Adj PAT (Rs mn)	2,783	5,900	(52.8)	2,000	39.1	
Adj PAT margin (%)	7.2	17.5	(1,021bps)	6.0	128bps	

Source: Company, BOBCAPS Research

Fig 6 – JKCE

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	4.5	3.9	14.1	3.9	14.1	Out of the proposed capacity expansion of 5.5mnt, JKCE has increased capacity by 2mt (0.5mt each at Mangrol – Rajasthan, Muddapur – Karnataka, Jharli – Haryana and Aligarh – Uttar Pradesh). During Q3FY23, profitability was impacted due to non-recurring expense incurred for commissioning at Panna - Madhya Pradesh) We now expect healthy earnings in Q4 driven by volume growth.
Realisations (Rs/MT)	5,649	5,770	(2.1)	5,821	(2.9)	
Sales (Rs mn)	25,341	22,690	11.7	22,880	10.8	
EBITDA (Rs mn)	4,177	3,782	10.4	2,628	58.9	
EBITDA margin (%)	16.5	16.7	(18bps)	11.5	500bps	
EBITDA (Rs/MT)	931	962	(3.2)	669	39.3	
Adj PAT (Rs mn)	2,042	2,118	(3.6)	966	111.5	
Adj PAT margin (%)	8.1	9.3	(127bps)	4.2	384bps	

Source: Company, BOBCAPS Research | *volume of grey cement only

Fig 7 – JKLC

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	3.6	3.1	14.5	2.7	33.8	JKLC's topline is likely to be driven by volume growth as pricing remained weak QoQ. However, as it is dependent on pet coke, prices of which have softened, we expect operating margin to improve sequentially.
Realisations (Rs/MT)	5,474	4,763	14.9	5,534	(1.1)	
Sales (Rs mn)	20,136	14,976	34.5	14,885	35.3	
EBITDA (Rs mn)	2,328	2,762	(15.7)	1,596	45.9	
EBITDA margin (%)	11.6	18.4	(688bps)	10.7	84bps	
EBITDA (Rs/MT)	647	879	(26.4)	593	9.0	
Adj PAT (Rs mn)	1,269	1,951	(35.0)	736	72.4	
Adj PAT margin (%)	6.3	13.0	(673bps)	4.9	136bps	

Source: Company, BOBCAPS Research

Fig 8 – ORCMNT

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	1.7	1.6	4.4	1.4	20.0	ORCMNT volume growth will be capped due to capacity constraints. This is likely to impact growth in the medium term. Restoring EBITDA/tn will be an uphill task for the company.
Realisations (Rs/MT)	5,040	4,893	3.0	5,121	(1.6)	
Sales (Rs mn)	8,649	8,039	7.6	7,323	18.1	
EBITDA (Rs mn)	1,340	1,533	(12.6)	903	48.3	
EBITDA margin (%)	15.5	19.1	(359bps)	12.3	315bps	
EBITDA (Rs/MT)	781	933	(16.4)	632	23.6	
Adj PAT (Rs mn)	564	732	(22.9)	275	105.1	
Adj PAT margin (%)	6.5	9.1	(258bps)	3.8	277bps	

Source: Company, BOBCAPS Research

Fig 9 – TRCL

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	4.1	3.2	28.6	3.6	15.0	We expect TRCL's topline to be driven by volume growth, even as pricing pressure due to its presence in oversupplied regions is likely to keep realisations flat QoQ. Also, its profitability remains impacted due to substantial debt raised for expansion.
Realisations (Rs/MT)	5,567	5,310	4.8	5,576	(0.2)	
Sales (Rs mn)	22,855	16,977	34.6	19,907	14.8	
EBITDA (Rs mn)	3,377	2,951	14.4	2,846	18.7	
EBITDA margin (%)	14.6	17.3	(263bps)	14.2	47bps	
EBITDA (Rs/MT)	798	901	(11.4)	769	3.8	
Adj PAT (Rs mn)	1,049	1,241	(15.4)	674	55.6	
Adj PAT margin (%)	4.6	7.3	(272bps)	3.4	120bps	

Source: Company, BOBCAPS Research

Fig 10 – SRCM

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	8.9	8.0	10.6	8.0	10.5	SRCM's EBITDA margin is expected to improve QoQ due to softening pet coke prices, and EBITDA/t is forecast to return to previous year levels at Rs 1,082/t in Q4FY23E supported by healthy volume growth.
Realisations (Rs/MT)	4,900	5,105	(4.0)	5,065	(3.3)	
Sales (Rs mn)	45,614	40,988	11.3	40,688	12.1	
EBITDA (Rs mn)	9,607	9,106	5.5	7,080	35.7	
EBITDA margin (%)	21.1	22.2	(115bps)	17.4	366bps	
EBITDA (Rs/MT)	1,082	1,134	(4.6)	881	22.8	
Adj PAT (Rs mn)	4,687	6,452	(27.4)	2,768	69.4	
Adj PAT margin (%)	10.3	15.7	(547bps)	6.8	347bps	

Source: Company, BOBCAPS Research

Fig 11 – STRCEM

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	1.2	1.15	7.4	0.9	36.0	STRCEM should continue to deliver a healthy topline backed by both volumes and realisations as it faces lower pricing pressure due to its presence in less penetrated markets.
Realisations (Rs/MT)	6,765	6,515	3.8	6,823	(0.9)	
Sales (Rs mn)	8,355	7,492	11.5	6,195	34.9	
EBITDA (Rs mn)	1,362	1,134	20.1	1,084	25.6	
EBITDA margin (%)	16.3	15.1	117bps	17.5	(120bps)	
EBITDA (Rs/MT)	1,102	986	11.8	1,194	(7.7)	
Adj PAT (Rs mn)	764	884	(13.6)	529	44.5	
Adj PAT margin (%)	9.1	11.8	(265bps)	8.5	61bps	

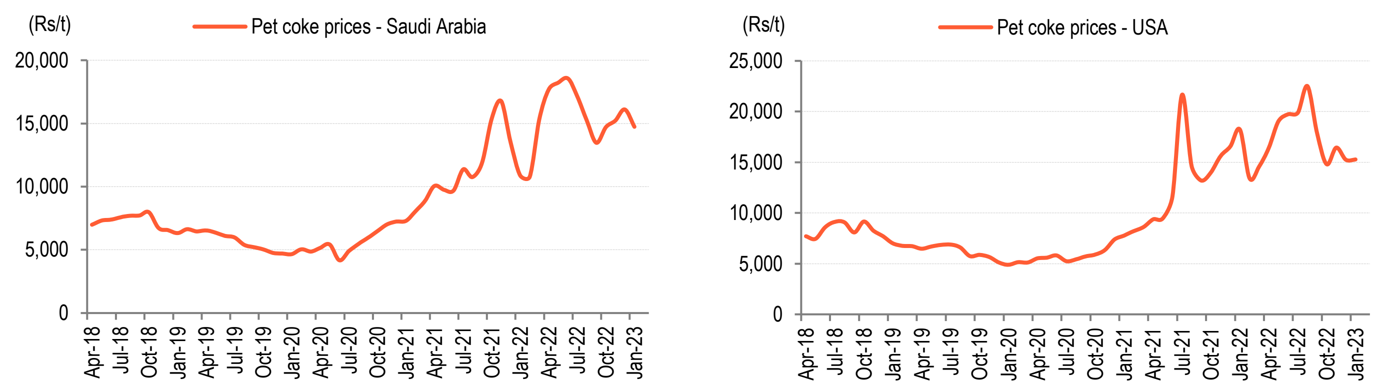
Source: Company, BOBCAPS Research

Fig 12 – UTCEM

Particulars	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comment
Sales Volume (MT)	30.5	23.7	28.5	24.3	25.8	During Q4FY23, UTCEM commissioned a 1.5mt brownfield grinding unit at Jharsuguda, Odisha; a 1.3mt brownfield cement capacity at Hirmi, Chhattisgarh; and a 2.8mt greenfield grinding capacity at Cuttack, Odisha. The increasing capacity is supported by healthy dispatches and realisations. We expect UTCEM to clock strong growth without much impact on its realsiations. Operating efficiencies will continue to be the best in the industry,
Realisations (Rs/MT)	5,475	5,562	(1.6)	5,511	(0.6)	
Sales (Rs mn)	186,802	147,155	26.9	150,080	24.5	
EBITDA (Rs mn)	31,255	29,294	6.7	21,448	45.7	
EBITDA margin (%)	16.7	19.9	(318bps)	14.3	244bps	
EBITDA (Rs/MT)	1,025	1,234	(17.0)	884	15.9	
Adj PAT (Rs mn)	16,376	15,540	5.4	9,942	64.7	
Adj PAT margin (%)	8.8	10.6	(179bps)	6.6	214bps	

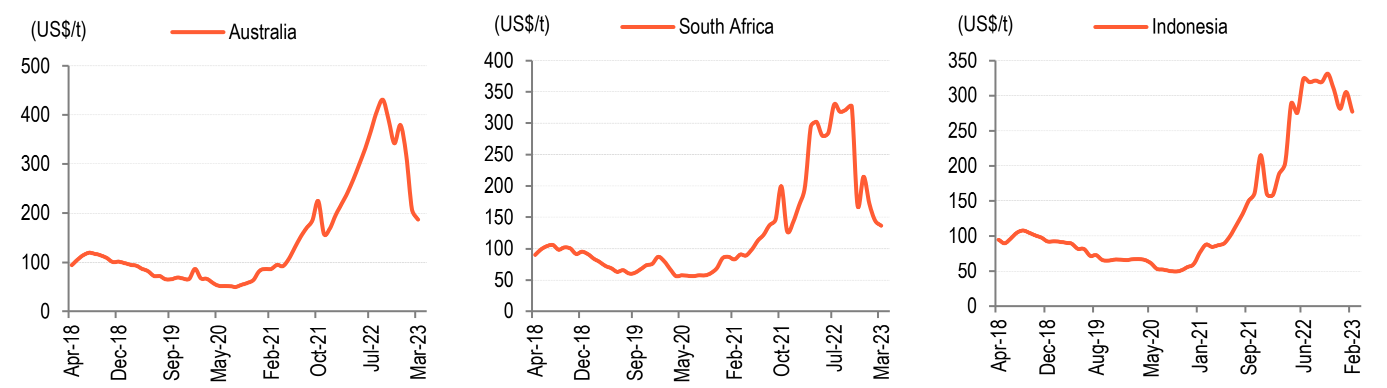
Source: Company, BOBCAPS Research

Fig 13 – Softening of pet coke prices to yield cost benefit for cement companies



Source: Company, BOBCAPS Research

Fig 14 – Lower coal prices add further comfort on margins



Source: Company, BOBCAPS Research

Fig 15 – Valuation summary

Company	Rating	Market Cap (Rs mn)	Market Cap (US$ mn)	CMP (Rs)	Target Price (Rs)	Up/down (%)	EV/EBITDA FY23E	EV/EBITDA FY24E	EV/EBITDA FY25E	EV/tonne (US$) FY23E	EV/tonne (US$) FY24E	EV/tonne (US$) FY25E
ACC	HOLD	330,881	4,034	1,760	2,090	18.7	19.1	13.7	8.1	95	94	86
ACEM	HOLD	760,603	9,273	383	387	1.0	11.1	10.2	7.9	239	230	218
DALBHARA	HOLD	376,466	4,590	2035	1,835	(9.8)	17.7	14.6	11.5	123	129	126
JKCE	BUY	232,558	2,835	3010	3,371	12.0	17.8	14.7	11.3	159	156	153
JKLC	SELL	89,637	1,093	762	551	(27.7)	13.4	11.8	10.6	96	94	103
SRCM	HOLD	912,452	11,125	25264	24,656	(2.4)	29.3	20.4	15.9	219	218	214
STRCEM	BUY	47,247	576	113	138	22.4	10.8	9.6	6.8	98	116	107
ORCMNT	HOLD	24,789	302	121	140	15.7	8.1	5.6	4.2	42	40	39
TRCL	SELL	178,548	2,177	756	534	(29.3)	21.2	17.4	13.5	128	128	130
UTCEM	BUY	2,192,383	26,730	7595	8310	9.4	21.3	17.1	13.8	215	216	216

Company	Rating	ROE (%) FY23E	ROE (%) FY24E	ROE (%) FY25E	ROCE (%) FY23E	ROCE (%) FY24E	ROCE (%) FY25E
ACC	HOLD	5.1	7.0	11.3	6.7	9.4	14.9
ACEM	HOLD	6.0	7.4	8.0	13.1	12.8	14.6
DALBHARA	HOLD	4.5	7.1	10.5	5.3	7.6	10.3
JKCE	BUY	17.0	17.8	19.2	16.2	17.0	19.1
JKLC	SELL	12.7	13.6	14.6	16.8	17.7	17.4
SRCM	HOLD	6.4	10.8	13.6	9.2	14.6	18.0
STRCEM	BUY	9.6	10.7	13.3	13.3	15.4	18.1
ORCMNT	HOLD	6.1	10.6	14.7	9.0	14.4	19.4
TRCL	SELL	4.4	6.0	8.4	5.4	6.6	8.7
UTCEM	BUY	9.7	12.0	14.5	12.8	15.8	18.3

Source: Company, BOBCAPS Research

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SELL – Expected return <-6%

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