CEMENT Q4FY23 Result Preview

Equities | 6th April 2023

Axis Securities Equity Research

CEMENT Q4FY23 PREVIEW: ROBUST DEMAND BUT PRICING MUTED

Cement Demand

After witnessing good volume growth in Q3FY23, momentum in cement demand continued in Q4FY23 as well, primarily driven by the government infrastructure and housing push and well-supported by private real estate demand. Demand momentum began on a good note in Jan 2023 followed by some softness in Feb'23 and concluded on a higher note despite the higher base of the last year. While some softness in demand was witnessed in Mar'23 on account of the Holi festival, the later part of the month witnessed a sharp spike in demand. Institutional demand was more robust and was led by increasing construction activity in most regions. Both Central and State governments infra-related projects witnessed good execution. Many large states are due for election in FY24 which is a supporting factor for cement demand and we believe the same will continue moving ahead. Retail cement demand witnessed some recovery. However, our channel checks suggest that rural demand has still not recovered meaningfully. On the other hand, urban and semi-urban demand was scattered based on the regions. Region-wise South, East, and North India witnessed better demand traction followed by West and Central. Keeping these factors in view coupled with higher demand despite a large base last year, we expect volume for our coverage universe to grow by 8% YoY.

Overall cement demand is likely to remain positive as we progress to the FY24 on the back of pre-election spending, continued government push on infrastructure development, and sustained real estate development. Furthermore, higher budgetary allocation to infrastructure and construction (up 66% YoY for PMAY, 25% YoY for roads and highways, and 27% YoY to JJM) will keep demand momentum elevatedinFY24. For companies under our coverage, we expect cement Volume/Revenue to grow by 8%/11% YoY led by better demand and higher realizations. However, EBITDA is expected to remain flat while APAT is expected to contract by 17% YoY led by higher depreciation and interest cost. However, we see a sharp improvement in Revenue/ EBITDA/PAT on a QoQ basis by 12%/39%/115% led by higher volume, lower cost and the benefit of operating leverage. We estimate overall cement industry demand to grow between 7-8% in FY24. Our preferred pick in the sector **Large Cap – Ambuja Cement, Dalmia Bharat; Mid Cap – JK Lakshmi and JK Cement; Small Cap – Star Cement**.

Cement Pricing

While Q3FY23 witnessed good price hikes, the cement companies attempted further price hikes in Q4FY23 to sustain the higher cost of production. However, the price hike could not sustain despite good cement demand on account of higher competitive intensity and the entire price hike (Rs15-Rs20/bag) was rolled back. Non-trade prices have seen some improvement compared to trade prices as higher institutional demand kept the pricing elevated. Most regions witnessed flattish prices on a QoQ basis with South India seeing a higher cut. On average, Q4FY23 witnessed flat cement prices. On a YoY basis, cement prices are higher by 3%-4%depending on the region with the East region leading the pack.

Channel checks suggest that companies are planning major price hikes in Apr'23 as demand remains robust. We expect cement prices to improve in Q1FY24 with the construction activity remaining elevated. Our channel checks further suggest that companies are planning to hike prices in the range of Rs20-Rs30 in Apr'23. We, therefore, foresee a better pricing trend, which will positively impact the operating performance of companies moving forward. Sustainability of demand and higher prices remain key monitorables.

Uttam Kumar Srimal |uttamkumar.srimal@axissecurities.in |

Input Cost

Higher input costs particularly fuel prices remained the major concern for cement companies for the last 12 months as energy prices spiked sharply following the Russia-Ukraine crises. Both domestic and International Petcoke and coal prices, though still higher, have moderated in the last few months. The pet coke prices have seen moderation by 25%-30%. South African and Australian coal prices witnessed a sharp decline of 35% QoQ and 44% QoQ during Q4FY2023.InternationalPetCokeis currently trading at $170.Average consumption prices of power/fuel for most of the cement companies are expected to be in the range of $190-200/tonne against $210-220 a tonne in Q3FY23.Since some part of the high-cost fuel inventory would be consumed during Q4FY23, the positive impact of the low-cost inventory would be fully reflected in the companies' operating performance in Q1FY24.During Q4FY23, we estimate that fuel cost per tonne would be lower by $100/tonne. Bulk diesel prices remained stable during the quarter. This will lead to a sequential decline in the overall cost of production of cement companies during the quarter.

Owing to lower operating costs, we estimate the EBITDA/tonne of the companies under our coverage to improve by 26% to Rs 880/tonne from Rs 700/tonne reported in Q3FY23.However, on a YoY basis, EBITDA/tonne is to contract by 7% on account of higher energy prices. In percentage terms, EBITDA to improve by 320 bps QoQ and it would be supported by lower cost of fuel and better absorption of fixed cost as capacity utilization improves. However, EBITDA is expected to contract by 170bps on a YoY basis. Since the general election is due in 2024, pre-election spending by the government will gain momentum, thereby positively impacting cement consumption.

Outlook

We expect cement consumption to outpace cement supply owing to better execution and higher government spending on infrastructure and housing as well as due to well-supported private real estate demand. Pre-election spending is another important catalyst which will drive the cement demand moving forward. With higher demand, softening in commodity prices, and better realization, industry performance is set to improve moving ahead. In this context, we remain positive on the sector from a medium to long-term perspective.

TOP RESULT PICK

Ambuja Cements, Dalmia Bharat, JK Lakshmi, JK Cement and Star Cement

Quarterly Preview– Q4FY23

Cement

Year-end March (RsMn)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
Dalmia Bharat						
Volume (mntpa)	7.39	6.30	17%	6.60	12%	
Revenues	3937	3355	17%	3380	16%	
Gross Profit	1546	1319	17%	1,334	16%	
Gross margin (%)	39.3%	39.3%	0bps	39.5%	(20bps)	
EBITDA	819	644	27%	683	20%	
EBITDA margin (%)	20.8%	19.2%	160bps	20.2%	60bps	
PAT	600	204	194%	595	1%	
EPS (Rs)	31.59	10.74	194%	31.3	1%	
EBITDA/Tonne	1107	1022	8%	1035	7%	
Realization/tonne	5325	5325	0%	5121	4%	
Cost/Tonne	4218	4303	-2%	4086	3%	
J K Cements						
Volume (mntpa)	4.60	4.15	11%	4.04	14%	
Revenues	2724	2433	12%	2,351	16%	
Gross Profit	944	806	17%	916	3.1%	
Gross margin (%)	34.7%	33.1%	160bps	39.0%	(430bps)	
EBITDA	345	244	42%	384	-10%	
EBITDA margin (%)	12.7%	10.0%	270bps	16.3%	(360bps)	
PAT	123	39	216%	201	-39%	
EPS (Rs)	15.7	4.8	226%	25.9	-39%	
EBITDA/Tonne	750	587	28%	951	-21%	
Realization/tonne	5,919	5,861	1%	5,823	2%	
Cost/Tonne	5,169	5,273	-2%	4,871	6%	

Result expectations – Dalmia Bharat:

- ➔ Volume to grow YoY driven by better demand in its operating region.
- ➔ Consol revenue to grow owing to higher volume & better realization YoY.
- ➔ Gross margins to be marginaly lower YoY owing to elevated cost..
- ➔ Ebitda margin to be higher marginally YoY & QoQ due to higher volume and better fixed cost aborption.
- ➔ PAT to be marginally higher YoY but better QoQ owing to higher sales profit on sale of DBRL divestment.
- ➔ EPS to be in line with PAT
- ➔ EBITDA/tonne to be higher YoY owing to higher sales and better absorption of fixed cost.
- ➔ Realization to be higher YoY .
- ➔ Cost/Tonne to be higher YoY.

Result expectations – J K Cements:

- ➔ Volume to grow owing to better demand YoYand new capacity ramp up.
- ➔ Consol revenue to grow YoY owing to higher realization and volume.
- ➔ Gross margins to be lower YoY owing to elevated cost.
- ➔ Ebitda margin to decline on YoY as cost escalates but higher QoQ.
- ➔ PAT to decline YoY owing to elevated cost.
- ➔ EPS to be in line with PAT
- ➔ EBITDA/tonne to be lower on YoY owing to higher cost.
- ➔ Realization to be higher YoY.
- ➔ Cost/Tonne to be higher YoY.

Cement (Cont'd)

Year-end March (RsMn)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
JK Lakshmi Cement Ltd						
Volume (mntpa)	3.40	2.60	30%	3.14	8%	➔ Volume to grow on YoY basis owing to better demand and addition of new grinding unit. ➔ Revenue to be higher owing to higher volume & realization YoY & QoQ ➔ Gross margins to be impacted on YoY due to higher input cost of power/fuel. ➔ Ebitda margin to be lower YoY due to higher operating cost but higher QoQ. ➔ PAT to be lower YoY owing to higher operating cost ➔ EPS to be in line with PAT ➔ EBITDA/tonne to be lower YoY owing to higher operating cost, ➔ Realization to be higher YoY. ➔ Cost/Tonne to be higher YoY.
Revenues	1931	1489	30%	1,498	29%	
Gross Profit	548	428	28%	473	16%	
Gross margin (%)	28.4%	28.7%	(30bps)	31.6%	(280bps)	
EBITDA	271	160	70%	276	-2%	
EBITDA margin (%)	14.1%	10.7%	340bps	18.4%	(430bps)	
PAT	143	74	94%	172	-17%	
EPS (Rs)	12.1	6.3	94%	14.6	-17%	
EBITDA/Tonne	799	613	30%	879	-9%	
Realization/tonne	5,688	5,716	-1%	4,763	19%	
Cost/Tonne	4,888	5,103	-4.2%	3,885	26%	
Birla Corporation Ltd						
Volume (mntpa)	4.75	3.72	28%	4.24	12%	➔ Volume to grow YoY driven by new capacity ramp up and better demand ➔ Revenue to grow owing to higher volume and realization YoY ➔ Gross margins to be impacted on YoY due to higher input cost. ➔ Ebitda margin to be lower on YoY owing to higher operating cost. ➔ PAT to be lower on YoY basis due to higher cost but higher QoQ. ➔ EPS to be in line with PAT ➔ EBITDA/tonne to be lower on YoY basis owing to higher cost. ➔ Realization to be higher YoY . ➔ Cost/Tonne to be higher owing to higher input and start up cost.
Revenues	2597	2016	29%	2,264	15%	
Gross Profit	851	726	17%	813	5%	
Gross margin (%)	32.8%	36.0%	(320)bps	35.9%	(310bps)	
EBITDA	254	144	76%	277	-8%	
EBITDA margin (%)	9.8%	7.2%	260bps	12.2%	(240bps)	
PAT	47	-50	NA	111	-58%	
EPS (Rs)	6.1	-6.5	NA	14.4	-58%	
EBITDA/Tonne	534	388	38%	653	-18%	
Realization/tonne	5,469	5,420	1%	5,340	2%	
Cost/Tonne	4,934	5,031	-2%	4,688	5%	

Cement (Cont'd)

Year-end March (RsMn)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
Heidelberg Cement India Ltd						
Volume (mntpa)	1.27	1.10	16%	1.23	3%	→ Volume to be higher owing to better demand.
Revenues	630	540	17%	620	2%	→ Revenue to grow owing to better volume.
Gross Profit	231	168	38%	243	-5%	→ Gross margins to be impacted on YoY due to higher input cost but higher QoQ
Gross margin (%)	36.7%	31.0%	570bps	39.1%	(240bps)	→ Ebitda margin to be lower YoY owing to higher cost but higher QoQ.
EBITDA	99	37	167%	119	-17%	→ PAT to be lower on YoY basis but higher QoQ
EBITDA margin (%)	15.7%	6.9%	880bps	19.1%	(340bps)	→ EPS to be in line with PAT
PAT	55	6	882%	94	-41%	→ EBITDA/tonne to be lower YoY owing to higher cost.
EPS (Rs)	2.4	0.2	882%	4.1	-41%	→ Realization to be lower YoY.
EBITDA/Tonne	779	339	130%	961	-19%	→ Cost/Tonne to be higher YoY.
Realization/tonne	4,957	4,933	0%	5,025	-1%	
Cost/Tonne	4,179	4,594	-9%	4,064	3%	
Star Cement Ltd						→ Volume to grow on YoY driven by better demand.
Volume (mntpa)	1.25	0.91	37%	1.15	8%	→ Revenue to grow on YoY basis due to higher volume and better realization
Revenues	867	620	40%	749	16%	→ Gross margin to be higher due to higher revenue and lower cost.
Gross Profit	310	236	31%	248	25%	→ Ebitda margin to be higher on YoY basis owing to higher sales and better absorption of fixed cost.
Gross margin (%)	35.8%	38.1%	(220bps)	33.1%	290bps)	→ PAT to be higher YoY & QoQ driven by higher sales and realization.
EBITDA	160	108	48%	113	41%	→ EPS to be in line with PAT.
EBITDA margin (%)	18.5%	17.5%	100bps	15.1%	340bps	→ EBITDA/tonne to be higher on YoY & QoQ on the back of better operating performance
PAT	90	53	70%	88	2%	→ Realization to be higher YoY.
EPS (Rs)	2.2	1.3	70%	2.2	2%	→ Cost/Tonne to be higher YoY.
EBITDA/Tonne	1288	1194	8%	983	31%	
Realization/tonne	6,960	6,823	2%	6,498	7%	
Cost/Tonne	5,672	5,629	1%	5,515	3%	

Cement (Cont'd)

Year-end March (RsMn)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
ACC Limited						
Volume (mntpa)	7.56	7.70	-2%	7.71	-2%	→ Volume to de-grow YoY owing to strike in Himachal plant for more than two month. → Revenue to be marginally higher owing to better realization YoY. → Gross margin to contract owing to higher cost YoY. → Ebitda margin to be lower on YoY but higher QoQ. → PAT to be lower YoY owing to higher cost YoY but higher QoQ. → EPS to be in line with PAT → EBITDA/tonne to be lower on YoY basis. → Realization to be higher YoY. → Cost/Tonne to be higher as cost escalates.
Revenues	4473	4537	-1%	4427	1%	
Gross Profit	1411	1117	26%	1437	-2%	
Gross margin (%)	31.5%	24.6%	690bps	32.5%	(100bps)	
EBITDA	595	379	57%	635	-6%	
EBITDA margin (%)	13.3%	8.4%	490bps	14.3%	(1000bps)	
PAT	335	113	196%	396	-15%	
EPS (Rs)	17.8	6.0	196%	21.1	-15%	
EBITDA/Tonne	788	492	60%	823	-4%	
Realization/tonne	5,920	5,892	0%	5,741	3%	
Cost/Tonne	5,132	5,400	-5%	4,918	4%	
Shree Cement Limited						→ Volume to grow YoY & QoQ driven by better demand . → Revenues to be higher due to higher realization and better volume on YoY basis. → Gross margin to be impacted owing to higher operating cost YoY but flattish → Ebitda margin to contract on YoY owing to high operating cost but higher QoQ. → PAT to be lower due to higher cost YoY but higher QoQ. → EPS to be in line with PAT → EBITDA/tonne to be lower on YoY owing to higher cost but higher QoQ → Realization to be lower YoY. → Cost/Tonne to be higher YoY but lower QoQ/..
Volume (mntpa)	9.12	8.03	14%	8.00	14%	
Revenues	4610	4069	13%	4099	12%	
Gross Profit	1755	1540	14%	1732	1%	
Gross margin (%)	38%	38%	0bps	42%	(400bps)	
EBITDA	877	708	24%	911	-4%	
EBITDA margin (%)	19.0%	17.4%	280bps	22.2%	(320bps)	
PAT	451	277	63%	645	-30%	
EPS (Rs)	125	77	63%	179	-30%	
EBITDA/Tonne	962	881	9%	1138	-16%	
Realization/tonne	5,055	5,065	0%	5,123	-1%	
Cost/Tonne	4,093	4,184	-2%	3,985	3%	

Cement (Cont'd)

Year-end March (RsMn)	Q4FY23	Q3FY23	QoQ(%)	Q4FY22	YoY(%)	Result expectations
Ambuja Cement Limited						
Volume (mntpa)	7.68	7.70	0%	7.49	2%	➔ Volume to grow marginally YoY as strike in of Himachal plant impact higher growth ➔ Revenue to be higher due to higher realization YoY. ➔ Gross margin to be impacted owing to higher operating cost YoY. ➔ Ebitda margin to contract YoY owing to higher cost but higher QoQ ➔ PAT to be marginally lower YoY but higher QoQ.. ➔ EPS to be in line with PAT ➔ EBITDA/tonne to be lower on YoY owing to higher cost. ➔ Realization to be higher YoY. ➔ Cost/Tonne to be higher YoY.
Revenues	4137	4129	0%	3925	5%	
Gross Profit	1552	1333	16%	1495	4%	
Gross margin (%)	37.5%	32.3%	520bps	38.1%	(600bps)	
EBITDA	804	626	28%	790	2%	
EBITDA margin (%)	19.4%	15.2%	420bps	20.1%	(70bps)	
PAT	492	369	33%	495	-1%	
EPS (Rs)	2.48	1.86	33%	2.49	-1%	
EBITDA/Tonne	1048	813	29%	1055	-1%	
Realization/tonne	5,388	5,362	1%	5,241	3%	
Cost/Tonne	4,341	4,549	-5%	4,185	4%	
Orient Cement Limited						➔ Volume to grow on YoY basis led by better demand. ➔ Revenue to be higher YoY due to better realization & higher volume ➔ Gross margin to be lower on YoY due to higher operating cost ➔ Ebitda margin to be lower on YoY basis owing to elevated cost but higher QoQ. ➔ PAT to be lower due to higher cost YoY but higher QoQ. ➔ EPS to be in line with PAT ➔ EBITDA/tonne to be lower YoY basis on the back higher cost. ➔ Realization to be higher YoY. ➔ Cost/Tonne to be highe YoY
Volume (mntpa)	1.75	1.43	22%	1.62	8%	
Revenues	892	732	22%	804	11%	
Gross Profit	265	214	24%	272	-2%	
Gross margin (%)	29.7%	29.2%	50ps	33.8%	(390bps)	
EBITDA	131	90	45%	153	-14%	
EBITDA margin (%)	14.7%	12.3%	240bps	19.1%	(440bps)	
PAT	57	28	107%	73	-22%	
EPS (Rs)	2.8	1.3	107%	3.57	-22%	
EBITDA/Tonne	751	632	19%	946	-21%	
Realization/tonne	5,095	5,121	-1%	4,959	3%	
Cost/Tonne	4345	4489	-3%	4013	8%	

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5.

Sr. No	Name	Designation	E-mail
1	Naveen Kulkarni	Chief Investment Officer	naveen.kulkarni@axissecurities.in
2	Neeraj Chadawar	Quantitative Head	neeraj.chadawar@axissecurities.in
3	Preeyam Tolia	Research Analyst	preeyam.tolia@axissecurities.in
4	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
5	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
6	Ankush Mahajan	Research Analyst	ankush.mahajan@axissecurities.in
7	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
8	Aditya Welekar	Research Analyst	aditya.welekar@axissecurities.in
9	Prathamesh Sawant	Research Analyst	prathamesh.sawant@axissecurities.in
10	Akshay Mokashe	Research Analyst	akshay.mokashe@axissecurities.in
11	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
12	Shikha Doshi	Research Associate	Shikha.doshi@axissecurities.in
13	Dhananjay Choudhury	Research Associate	dhananjay.choudhury@axissecurities.in
14	Shridhar Kallani	Research Associate	shridhar.kallani@axissecurities.in
15	Bhavya Shah	Research Associate	Bhavya1.shah@axissecurities.in

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