



Top Sector Ideas: Cement

Q2FY24 Cement Review – Robust Volume Growth; Easing Cost Pressure Drives EBITDA Growth

✓ *Financial Performance*

- The companies under our coverage reported Volume/Revenue/EBITDA/APAT growth of 14%/13%/73%/162% YoY against expectation of 13%/12%/75%/165%.
- EBITDA margins improved by 560bps YoY. EBITDA/tonne for the quarter stood at Rs 852, up 60% YoY .
- Realization/tonne was flattish at Rs 5,552 both YoY/QoQ. Cost/tonne stood at Rs 4,701, down 7% YoY and flattish QoQ.
- Company-wise, the performance of Ambuja Cement, Shree Cement, JK Cements, JK Lakshmi, Orient Cement, and Star Cement were above expectations. UltraTech Cement delivered in line performance while ACC, Dalmia Bharat, Heidelberg Cement and Birla Corp delivered underperformance.

Encouraging Cement Demand

In Q2FY24, cement volume for our coverage universe grew by 14% , driven by better demand from both trade and non-trade segments and we expect volume growth of 14% for our coverage universe in FY24.

Demand remains robust on account of

- Higher government spending on Infra, housing, and Residential
- Robust Real Estate demand
- Improvement in IHB (Individual Home Buyers) demand
- Lower cost of construction

Cement prices:

- Currently, prices are trending higher by 3-5%.
- Price hikes were taken in the month of Sep'23 and Oct'23 with slight roll back in some regions.
- Sustainability of cement prices is crucial for better profitability as fuel prices are up by 25-30% from their recent lows.

Input Cost

- Softening in Power/fuel cost positively impacted the operational performance of cement companies in Q2FY24.
- In FY23, for our coverage universe, Power & Fuel (P/F) cost shot up by 34% on a tonne basis to Rs 1,580 vs. Rs 1,180 in FY22. During Q2FY24, P/F cost reduced by 18%/2% YoY/QoQ to Rs 1,382/tonne.
- We expect power/fuel cost to soften to Rs 1,370/tonne in FY24 for coverage companies since fuel prices have inched up again and are higher by 25-30% from their recent lows. RM costs during the quarter was higher owing to elevated slag and flyash prices.
- We expect companies' EBITDA/tonne to trend higher by 30% for our coverage universe at Rs 970/tonne vs. Rs 745/tonne in FY23, driven by higher volume and realizations, and lower cost.
- Diesel prices are stable
- **We remain positive as demand drivers are intact.**
- **We expect cement demand to grow at a CAGR of 11-12% over FY23-FY25E.**
- **Despite companies adding capacities, we believe that cement demand will outpace the cement supply. Sustainability of higher prices and trend in fuel prices remains key monitorable.**

Short and Medium-term Outlook

Short term

**Sustainability of higher
cement prices**

Rise in fuel prices

Election in major States

**Strong Demand after
Monsoon**


**Better Housing, Infra and
Rural demand**

Higher Realizations

Medium Term


Key Monitorables – *Rural Recovery, Higher Price Realizations, Input Cost*

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Stock	Reco.	TP	Recommendation Rationale
 UltraTech Cement Ltd	BUY	Rs 9.680*	<ul style="list-style-type: none"> ✓ In Q2FY24, the company witnessed robust volume growth of 16% and capacity utilization of 75% despite the monsoon impact indicating robust cement demand in the country. ✓ The company's organic capacity expansion plan is progressing well. Total grinding capacity will increase to 165 mtpa in FY25E-FY26E from the current 138 mtpa, contributing to volume growth. Recently the company also announced the next phase of expansion taking the total Cement capacity to 187 mtpa on a consolidated basis, further strengthening its leadership position.
			<ul style="list-style-type: none"> ✓ We expect the company to report volume growth CAGR of 12% over FY23-FY25E. ✓ Higher Cement prices, increase in premium product sales, along with the benefit of lower fuel prices and increased green energy consumption will lead to higher EBITDA margins. ✓ We expect the company to report EBITDA/tonne of Rs 1,180 and Rs 1,290 in FY24E/FY25E vs. Rs 1,005/tonne in FY23 on account of higher volumes, better realizations, and cost optimization. ✓ We expect the company to grow its Volume/Revenue/EBITDA/APAT at a CAGR of 12%/13%/27%/41% during FY23-FY25E.


* Note: Target Price is based on our Q2FY24 Result Update Report

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Stock	Reco.	TP	Recommendation Rationale
 JK Cements Ltd	BUY	Rs 3830*	<ul style="list-style-type: none"> ✓ The company recently expanded its gray cement capacity by 4 mtpa in the demand-accretive central India region, resulting in positive EBITDA at 75% capacity utilization. ✓ Upon completion of the ongoing capacity expansion (gray cement), total capacity would increase to 24.2 mtpa. This is expected to drive the company's volume growth in FY24. We expect the company to post volume growth of 13% CAGR in FY23-25E. ✓ During the quarter, the company reported better-than-expected EBITDA margins due to higher volumes, better realization, and lower fuel costs. Currently, cement prices are trending higher. ✓ Additionally, new units' operating expenses are expected to normalize as utilization further improves in FY24, which will drive the company's EBITDA margins. ✓ We expect the company to report an EBITDA/tonne of 1075/1170 in FY24E/FY25E. This will be driven by higher volumes, improved realizations, and lower costs.

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Stock	Reco.	TP	Recommendation Rationale
 JK Lakshmi Cement	BUY	Rs 880*	<ul style="list-style-type: none"> ✓ The company's capacity expansion program at its subsidiary UCWL is progressing well (1.5 Mn tonnes per year of clinker and 2.5 mtpa grinding unit) . The clinker capacity has already been commercialized and will support volumes as the company will use clinker produced at UCWL for grinding at JKLC. ✓ The company also announced the setting up of a grinding unit of 1.35 mtpa in Surat at a capital cost of Rs 220 Cr which is to be funded out of a mix of internal accrual and debt . This facility is expected to commence in FY26. We expect the company to grow its Volume/Revenue at a CAGR of 9%/10% over FY23-25E. ✓ The company is working on many levers such as geo-mix, higher production, sale of blended cement, increasing proportion of trade sales, premium and value-added products, logistic efficiency, and use of more renewable power to increase its EBITDA/tonne to four-digit number in the next 12 to 18 months. ✓ The benefits of these initiatives have started to reflect. We expect the company's EBITDA/tonne to grow at 16% CAGR over FY23-25E to Rs 880/tonne. This will be driven by improved realization, higher volume, and cost-saving initiatives.

* Note: Target Price is based on our Q2FY24 Result Update Report

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