

Cement

Industry margin surges to a nine-quarter high

- **Growth tapers after six consecutive quarters of robust show:** We estimate cement demand cooled off to ~7% YoY in Q3FY24, after delivering ~9-16% growth rate (average 12%) in the preceding six quarters. While demand remained strong in Oct, it slipped off in Nov/Dec—attributable to multiple reasons: elections in four states, flooding in the southern region, sand issues in certain states, and festivals. Thus, as against general expectations of demand firming up post-monsoon by ~10-15% QoQ, cement sales recovered a modest 4% QoQ, leading to demand tapering.
- **Healthy improvement in cement prices QoQ:** While demand has been disappointing, cement prices recovered smartly across most of the regions. In our view, cement prices were flattish QoQ in central, rose ~2% QoQ in the north and west, ~3% QoQ in the east and ~6% QoQ in the south. Thus, pan India prices recovered ~3% QoQ offsetting the impact of volume loss during the quarter. We estimate the average NSR for our coverage universe will rise 2% QoQ and 1% YoY.
- **Industry margin to rise sharply in Q3, pushing margin to > INR 1000/MT:** NSR recovery is expected to be highest QoQ in the past six quarters in Q3 by 2% QoQ. Even unit opex is expected to fall 1% QoQ, mainly benefitting from low-cost fuel inventory. The combination of healthy pricing and opex should lead to an INR 184/MT QoQ margin uptick, pushing up the industry margin to INR 1066/MT (cross INR 1000/MT after a gap of eight quarters). On a YoY basis, we estimate average unit EBITDA will rebound ~INR 300/MT.
- **Industry profitability:** We estimate aggregate revenue/EBITDA/APAT for our coverage universe to be 9/49/78% YoY respectively. Even on a four-year basis, aggregate revenue/EBITDA/APAT for the coverage universe should grow at 12/12/16% CAGR.
- **Sector outlook positive:** We expect industry volume will grow by ~10% YoY in FY24. Input cost reduction should bottom out in Q3FY24, in our view. Riding on recent price recovery and fuel cost cool-off, we estimate our coverage universe margin will recover by ~INR 210/75 per MT YoY in FY24/FY25 to INR 1,020/1,095 per MT respectively. If the government were to reduce diesel prices by ~INR 10/litre ahead of the general elections, this could further reduce industry opex by ~INR 50/MT, boosting the industry's profit outlook (we haven't built this in our FY25 estimates). While we have lowered our FY25/26E volume estimates by ~1% each, our aggregate EBITDA estimate remains unchanged, owing to better pricing offsetting the impact.
- **Ratings:** We roll forward valuations to Mar -26E from Sep-25E earlier, leading to target price increases for all companies barring Orient Cement (decline) and Heidelberg (no change). We maintain our BUY ratings on UltraTech, ACC, Dalmia Bharat, Nuvoco Vistas, Birla Corp, JK Lakshmi and Star Cement. We maintain our ADD rating on Sagar Cements and REDUCE ratings on Shree Cement, JK Cement, Heidelberg, and Deccan Cements. We upgrade Ramco Cements to ADD from REDUCE earlier. Owing to the sharp run-up in Ambuja Cements' stock price in the past few months, we downgrade our rating on it to ADD, from BUY.

COMPANY	RATING	TP (INR)
UltraTech Cem	BUY	10,840
Shree Cem	REDUCE	25,000
Ambuja Cem	ADD	510
ACC	BUY	2,770
Dalmia Bharat	BUY	2,690
Nuvoco Vistas	BUY	515
Ramco Cem	ADD	1,100
JK Cement	REDUCE	3,330
Birla Corp	BUY	1,620
Heidelberg Cem	REDUCE	160
Star Cement	BUY	210
JK Lakshmi	BUY	995
Orient Cem	REDUCE	170
Sagar Cement	ADD	290
Deccan Cem	REDUCE	560

Rajesh Ravi

rajesh.ravi@hdfcsec.com
+91-22-6171-7352

Keshav Lahoti

keshav.lahoti@hdfcsec.com
+91-22-6171-7353

Q3FY24E estimates

Y/E March (INR mn)	Net sales (INR mn)			EBITDA (INR mn)			EBITDA Margin (%)			Adj. PAT (INR mn)		
	Dec-23	YoY (%)	QoQ (%)	Dec-23	YoY (%)	QoQ (%)	Dec-23	YoY (%)	QoQ (%)	Dec-23	YoY (%)	QoQ (%)
ACC \$	48,291	6.4	8.9	7,490	97.6	36.4	15.5	7.2	3.1	4,354	126.4	12.3
Ambuja	43,539	5.5	9.7	9,418	47.3	21.8	21.6	6.1	2.1	6,303	46.5	(2.1)
Birla Corp \$	23,324	15.7	2.0	3,377	133.9	16.9	14.5	7.3	1.8	958	NA	63.4
Dalmia \$	35,828	6.8	13.8	7,527	16.9	27.8	21.0	1.8	2.3	2,120	6.0	78.1
Deccan Cem	1,967	(6.8)	17.6	278	11.0	103.0	14.1	2.3	5.9	125	2.7	164.2
Heidelberg Cem	6,007	11.2	6.1	890	140.1	28.1	14.8	8.0	2.6	489	776.2	36.6
JK Cement \$	29,005	19.1	5.4	5,462	120.8	17.0	18.8	8.7	1.9	2,107	440.6	18.3
JK Lakshmi \$	17,269	10.6	9.7	2,805	51.4	29.1	16.2	4.4	2.4	1,319	72.7	42.4
Nuvoco Vistas \$	24,900	(4.4)	(3.2)	3,772	40.6	14.3	15.1	4.8	2.3	24	NA	55.1
Orient Cem	7,793	6.4	8.1	1,246	38.0	44.0	16.0	3.7	4.0	516	87.4	109.4
Ramco Cem	22,001	9.5	(5.5)	4,392	54.3	10.2	20.0	5.8	2.9	1,250	85.6	23.4
Sagar Cem \$	7,085	23.1	20.7	1,006	111.4	67.0	14.2	5.9	3.9	53	NA	NA
Shree Cement #	46,484	14.2	5.1	10,189	43.9	17.1	21.9	4.5	2.3	3,052	10.3	(37.9)
Star Cem \$	6,505	5.0	11.1	1,355	24.9	37.4	20.8	3.3	4.0	633	19.7	55.6
UltraTech Cem \$	1,67,999	8.2	4.9	32,333	38.4	26.8	19.2	4.2	3.3	17,415	64.6	35.9
Total	4,87,996	8.6	5.8	91,540	49.0	24.3	18.8	5.1	2.8	40,718	77.7	18.4

Source: Company, HSIE Research, \$ - Consolidated numbers, NA – not applicable

Q3FY24E operational estimates

Y/E March	Sales volume (mn MT)			NSR (INR/MT)			EBITDA (INR/MT)			Opex (INR/MT)		
	Dec-23	YoY (%)	QoQ (%)	Dec-23	YoY (%)	QoQ (%)	Dec-23	YoY (%)	QoQ (%)	Dec-23	YoY (%)	QoQ (%)
ACC \$	8.5	10.5	5.0	5,221	(3.5)	2.5	869	391	201	4,352	(11.7)	(1.7)
Ambuja	8.1	5.2	7.0	5,367	0.3	2.5	1,161	332	141	4,206	(7.0)	(0.2)
Birla Corp \$	4.2	13.5	1.0	5,316	2.7	2.0	784	419	106	4,532	(5.8)	(0.0)
Dalmia \$	6.7	7.0	9.5	5,308	(0.2)	3.9	1,115	94	160	4,193	(2.4)	1.0
Deccan Cem	0.5	(5.9)	12.0	4,364	(1.0)	5.0	617	94	276	3,747	(3.5)	(1.8)
Heidelberg Cem	1.2	11.5	5.0	4,919	(0.3)	1.0	729	390	131	4,190	(8.8)	(1.9)
JK Cement \$	4.1	16.4	5.0	5,456	7.8	2.4	1,089	648	180	4,367	(5.4)	(1.1)
JK Lakshmi \$	3.1	7.0	7.0	5,608	3.3	2.5	911	267	156	4,697	(1.8)	(0.4)
Nuvoco Vistas \$	4.1	(8.9)	(8.0)	5,396	2.7	3.3	920	357	208	4,476	(4.6)	(0.8)
Orient Cem	1.5	4.6	5.0	5,208	1.7	3.0	833	201	226	4,376	(2.5)	(1.7)
Ramco Cem	4.1	14.1	(10.0)	5,303	(3.9)	4.9	1,059	266	194	4,244	(10.2)	1.3
Sagar Cem \$	1.6	25.0	18.1	4,571	(1.6)	2.2	649	265	190	3,922	(8.0)	(2.2)
Shree Cement	8.8	9.2	7.0	5,301	4.7	(1.8)	1,162	281	100	4,139	(1.1)	(4.6)
Star Cem \$	1.0	7.0	8.4	6,695	(1.9)	2.5	1,394	200	294	5,301	(5.8)	(2.4)
UltraTech Cem \$	27.3	5.6	2.4	6,149	2.5	2.5	1,184	280	228	4,966	(2.6)	(1.5)
Total	84.8	7.3	3.5	5,588	1.4	2.2	1,066	304	184	4,522	(4.8)	(1.4)

Source: Company, HSIE Research, \$ - Consolidated numbers.

Operating assumption summary

Operational assumptions/estimates for coverage universe

	Sales Vol (mn MT)			Sales Vol YoY (%)			NSR (INR/MT)			EBITDA (INR/MT)			Opex (INR/MT)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
UltraTech \$	116.9	128.5	142.5	10.6	10.0	10.9	6,073	6,073	6,134	1,155	1,234	1,321	4,918	4,839	4,813
Shree Cem	36.3	41.0	45.1	14.0	13.0	10.0	5,345	5,371	5,425	1,089	1,125	1,161	4,256	4,247	4,264
Ambuja Cem	34.3	37.2	41.7	13.5	8.3	12.0	5,312	5,307	5,301	1,114	1,228	1,311	4,198	4,080	3,990
ACC \$	35.6	38.9	40.5	15.4	9.1	4.3	5,249	5,276	5,328	854	945	974	4,395	4,330	4,354
Dalmia Bharat \$	28.6	32.8	37.4	10.7	15.0	14.0	5,224	5,224	5,276	1,050	1,090	1,117	4,174	4,134	4,159
Nuvoco \$	18.8	20.3	21.9	-	8.0	8.0	5,273	5,299	5,325	836	906	927	4,437	4,392	4,399
Ramco Cem	18.0	20.6	22.0	20.0	14.0	7.0	5,194	5,220	5,273	982	1,041	1,064	4,212	4,180	4,209
JK Cement \$	19.0	21.1	22.7	17.6	10.9	7.4	6,050	6,068	6,119	1,074	1,125	1,149	4,976	4,943	4,970
Birla Corp \$	17.3	18.8	19.9	9.9	9.0	5.6	5,185	5,262	5,341	720	797	880	4,465	4,466	4,461
Heidelberg	4.7	4.9	5.2	6.0	6.0	6.0	5,044	5,094	5,145	822	887	894	4,222	4,207	4,252
Star Cem \$	4.4	5.6	6.7	10.0	27.0	20.0	6,536	6,471	6,309	1,253	1,397	1,449	5,284	5,074	4,860
JK Lakshmi \$	13.5	14.5	16.0	14.0	8.0	10.0	5,488	5,597	5,653	804	901	947	4,684	4,696	4,706
Orient Cem	6.3	6.8	7.7	10.0	8.0	12.0	5,151	5,202	5,254	775	822	839	4,376	4,381	4,416
Sagar Cem \$	6.0	7.2	8.0	22.4	22.7	10.0	4,531	4,621	4,714	600	720	778	3,981	3,903	3,937
Deccan Cem	1.8	2.1	2.3	2.3	15.0	10.0	4,461	4,528	4,550	792	841	823	3,669	3,687	3,727

Source: Company, HSIE Research, \$ - Consolidated numbers

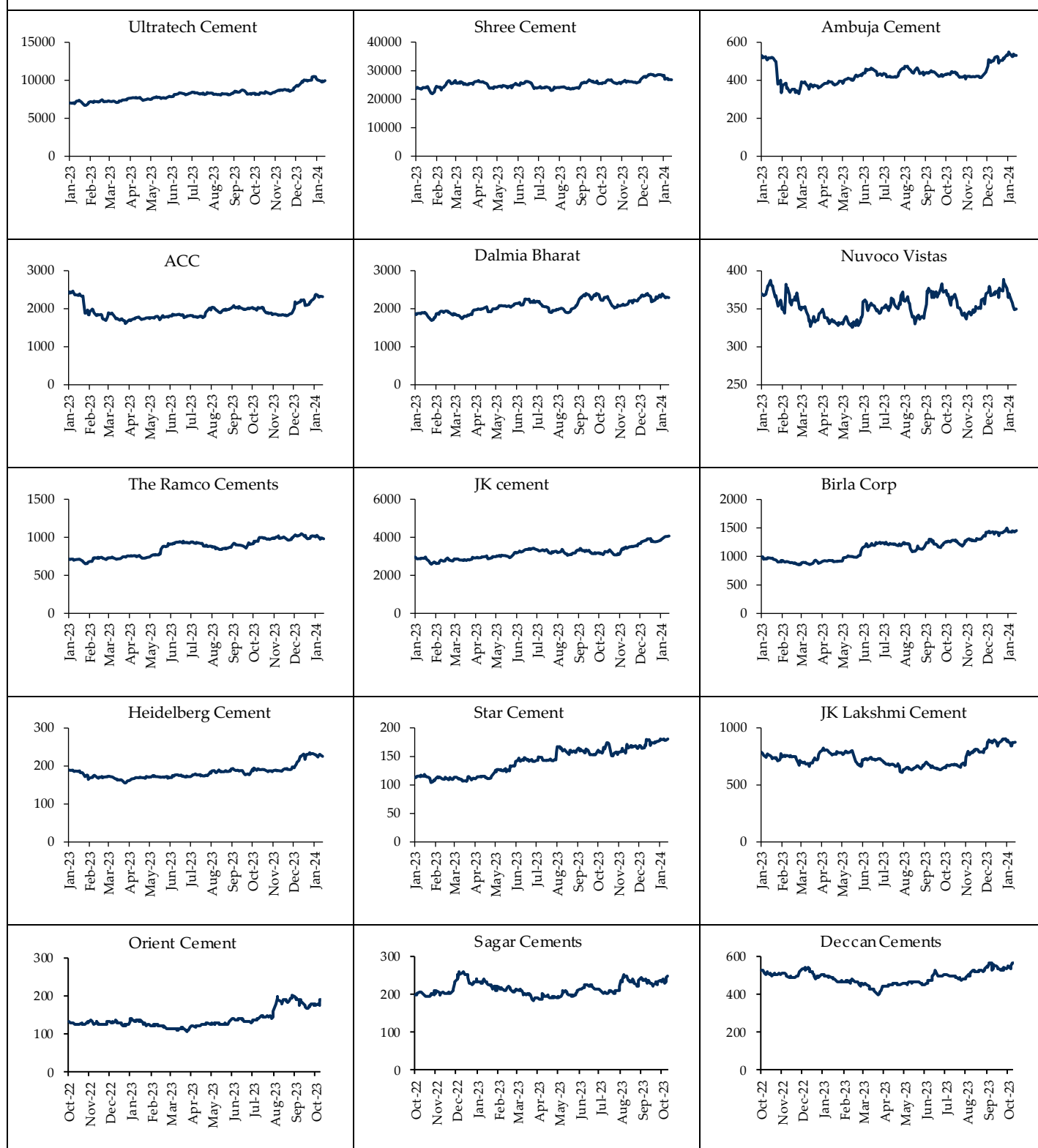
Peer set valuations and TP revisions

Rating and target price revision summary

Company	Mcap (INR bn)	CMP (INR/sh)	New Rating	Old Rating	New TP	Old TP	Valuation multiple^	EV/EBITDA (x)			EV/MT (INR bn)		
								FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
UltraTech	2,876.8	9,965	BUY	BUY	10,840	10,110	16.5	21.4	18.4	15.4	20.2	17.4	16.2
Shree Cem	967.0	26,800	REDUCE	REDUCE	25,000	24,000	16.5	23.3	20.2	18.5	16.8	16.0	13.3
Ambuja Cem	1,058.3	533	ADD	BUY	510	480	15.0	25.4	21.9	19.0	29.1	29.9	21.9
ACC	436.5	2,322	BUY	BUY	2,770	2,440	11.0	12.7	10.1	9.2	9.8	9.1	8.4
Dalmia Bharat	423.8	2,291	BUY	BUY	2,690	2,560	13.0	16.1	13.7	11.8	9.4	8.7	8.4
Nuvoco Vistas	125.0	350	BUY	BUY	515	485	10.0	10.3	8.4	7.6	6.7	6.5	6.5
Ramco Cem	232.3	983	ADD	REDUCE	1,100	1,030	12.0	16.0	13.1	11.8	12.4	12.3	11.1
JK Cement	315.6	4,085	REDUCE	REDUCE	3,330	3,135	11.0	17.4	14.9	13.6	12.8	11.8	11.9
Birla Corp	111.7	1,450	BUY	BUY	1,620	1,465	8.5	11.6	9.6	8.3	7.3	7.3	6.8
Heidelberg	50.8	224	REDUCE	REDUCE	160	160	7.0	12.1	10.7	11.4	7.4	7.3	8.3
Star Cem	72.8	180	BUY	BUY	210	190	9.0	13.6	9.8	8.0	9.8	9.9	8.1
JK Lakshmi	102.7	873	BUY	BUY	995	910	8.0	10.7	8.8	7.7	8.3	7.0	7.1
Orient Cem	57.0	278	REDUCE	REDUCE	170	180	7.5	11.7	11.7	11.4	6.8	7.7	6.4
Sagar Cem	36.3	278	ADD	ADD	290	250	7.5	15.4	9.5	7.4	4.8	4.4	4.0
Deccan Cem	8.7	620	REDUCE	REDUCE	560	505	6.0	7.7	7.5	6.6	6.2	3.3	3.2

Source: Company, HSIE Research, ^ Target multiples are EV/EBITDA based on Mar-26E. CMP as on Jan 15, 2024.

1 Yr Price history



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com