



Strong GDP to propel cement consumption

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Special Mention: Nitin Raheja

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Contents

	Page No.
Cement Industry Overview	7
Consolidation phase to continue.....	9
Demand drivers: Long term growth levers intact.....	10
Rural housing - Major driver of cement demand	10
PMAY-G is transforming gramian lives and driving rural demand	10
Rural penetration to augment with improvement in affordability	11
Urban Housing- Second largest share of cement demand.....	11
Affordable housing under PMAY-U aiding urban market	11
Improving demand from domestic real estate market.....	12
Infrastructure to continue as a key focus area	12
New metro projects.....	13
Substantial progress in construction of first line of HSR Corridor	14
Industrial capex rises post Covid-19 disruptions	16
Supply Drivers: Industry capacity to touch 740mtpa	18
Upcoming incremental capacity additions	20
Pricing scenario: expect to improve in 2H FY25	21
Raw material tailwinds to benefit cement producers	22
Regional demand supply analysis	23
North	23
South.....	24
West.....	24
Central	25
East.....	26
Outlook and valuation	28
Key risks	28
COMPANIES	30
ACC	
Story in Charts	32
ACC: Aggressive parent to improve efficiencies	33
Investment Arguments.....	34
Focus on profitability & capacity additions to improve	34
Cost optimization efforts to aid profitability	35
Financial Analysis	36
Strong 11% Revenue CAGR mostly led by volumes.....	36
Margin expansion on low fuel cost	36
Strong OCF on better profitability; return ratios to improve	37
Valuation.....	38
Key risks	38

Ambuja Cement

Story in Charts.....	42
ACEM- Improved focus on capacity addition	43
Investment Arguments.....	44
Change in guard to drive capacity additions	44
Efficient cement producer to become more efficient	45
New acquisition to improve market share in west	46
Financial Analysis	48
Strong 14% Revenue CAGR mostly led by volumes.....	48
Margin expansion on lower fuel cost.....	48
Strong OCF on better profitability, return ratios to improve	49
Valuation.....	Error! Bookmark not defined.
Key risks	50

Dalmia Bharat

Story in Charts.....	54
Dalmia Bharat – Centering focus region by region	55
Investment Arguments.....	56
Dominant player in East and North East regions.....	56
Targets to become Pan-India player with ~120mtpa	56
One of the most efficient and agile cement producers	57
Consistent increase in share of premium products	57
Disciplined capital allocation policy	58
Financial Analysis	59
Robust Revenue CAGR of 13% mostly led by volumes	59
Margin expansion on lower fuel cost.....	59
Net debt to rise on account of JPA deal	60
Strong OCF on better profitability; return ratios to improve	60
Valuation.....	61
Key risks	61

Nuvoco Visatas Corporation

Story in Charts.....	65
Nuvoco Vistas: Fifth largest cement manufacturer.....	66
Investment Arguments.....	67
Significant player in the Eastern region.....	67
Focus on improving product mix and cost efficiencies	67
Future capex plans awaits balance sheet deleveraging	68
Contribution from RMC and MBM to improve	69
Financial Analysis:.....	70
Revenue CAGR of ~6% over FY23-26E	70
EBITDA CAGR of 18% over FY23-26E.....	70
Deleveraging to continue	71
Valuation	72
Key risks	72

Shree Cement

Story in Charts	76
Shree Cement - Strong focus on cost reduction	77
Investment Arguments	78
Superior execution skills for capacity additions	78
Expanding to new markets using same old formula	79
Rising green energy share to aid profitability	79
Volume growth to outpace rise in costs	80
Financial Analysis	81
Revenue CAGR of 15% over FY23-FY26E led by volumes	81
EBITDA CAGR of 29% over FY23-26E	81
Net debt to remain lower despite ongoing capex	82
Strong OCF on better profitability; return ratios to improve	82
Valuation	83
Key risks	83

Ultratech Cement

Story in Charts	87
UTCEM: Fastest growing cement behemoth	88
Investment Arguments	89
Robust growth via consistent capacity additions	89
Rising green energy share to aid profitability	90
Strong balance sheet despite ongoing capex	90
Financial Analysis	91
Strong Revenue CAGR of 13% over FY23-FY26E	91
Margin expansion on lower fuel cost	91
Net debt to remain lower despite ongoing capex	92
Strong OCF on better profitability; return ratios to improve	92
Valuation	93
Key risks	93

(All prices as of March 7, 2024)

Sector Report

March 11, 2024

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
ACC	BUY	2,639	3,522
Ambuja Cement	HOLD	603	586
Dalmia Bharat	Acc	1,961	2,205
Nuvoco Vistas Corp.	Acc	320	372
Shree Cement	BUY	24,754	28,966
Ultratec Cement	BUY	9,673	11,328

Source: PL Acc=Accumulate

Strong GDP to propel cement consumption

India's cement sector plays a pivotal role in building nation's rising infrastructure and supporting its evolving housing sector. Indian cement consumption is expected to show strong 7.5% CAGR over FY23-26E to ~485mt led by a) GOI's strong focus on building infrastructure, b) increasing urbanization plus strong urban real estate industry volumes with rising affordability & changing consumer trends, c) Gol's efforts on improving rural incomes and d) increasing private capex across industries. Envisaging strong demand, Indian cement companies are also expected to add ~130mt capacities over next three years. Entry of Adani group has ignited competition as existing promoters have announced capacity expansion plans to match growth rate and maintain respective market shares. Although upcoming elections and incremental capacities are expected to put pressure on cement pricing in the near term, we believe Gol's continuation of investment focused approach, if re-elected and softer fuel prices will drive strong earnings growth over FY23-26E. Companies having significant capacities across regions would be ultimate beneficiaries of upcoming demand.

Considering strong underlying demand along with healthy volume growth momentum, we initiate coverage on Cement sector and recommend 'BUY' rating on ACC (ACC; on 15x EV/EBITDA based TP of Rs3,522), Shree Cement (SRCEM; on 17x EV/EBITDA based TP of Rs28,966), Ultratech Cement (UTCEM; on 17x EV/EBITDA based TP of Rs11,328), 'ACCUMULATE' rating on Dalmia Bharat (DALBHARA; on 11x EV/EBITDA based TP of Rs2,205), Nuvoco Vistas (NUVOCO; on 8x EV/EBITDA based TP of Rs372) and 'HOLD' rating on Ambuja Cement (ACEM; on 17x EV/EBITDA based TP of Rs586).

Demand expected to improve post 2HFY25: Domestic cement demand is expected to remain muted for next few months due to upcoming general elections. However, Gol's focus on infrastructure, improving real estate markets and continuation of policies on rural India is expected to generate strong demand post 2HFY25 assuming the current regime gets re-elected. Moreover, infrastructure demand as a pie of total demand has grown to ~28%. With current pace, we expect demand to grow even stronger as India is in a sweet spot with ~42% of National Infrastructure Pipeline (NIP) projects already under different phases of implementation. Huge planned industrial capex across industries is also going to aid cement demand.

Muted fuel prices and higher green energy share to drive earnings growth: With key fuel prices such as pet coke and thermal coal normalizing post external impact, we expect cement manufacturers to continue to benefit in near to medium term. Although lower fuel prices and increased cement capacities can push down cement realisations in few regions (like East) in near term, as demand improves from 2HFY25, situation will come back to normalcy. Most companies are adopting Green energy with significant investment in Waste Heat Recovery System (WHRS) and solar based power plants for energy requirement which is expected to reduce energy costs. Green energy which is ~10-20% of total energy requirement today, is expected to rise to 50%+ for most of the producers and drive strong operating performance.

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Cement Industry Overview

Indian cement consumption grew at 6.2% CAGR over FY06-23 on the back of strong domestic demand. Over last one decade, domestic cement demand grew at 5.1%, despite several shocks to economy such as demonetization, GST, Covid-19 etc. Post pandemic, Govt's focus on infrastructure improved significantly taking the infrastructure pie from 18-20% to over 28% in last two years which supported strong cement demand.

Demand has picked up strongly across regions at 9.4% CAGR over FY21-23. We believe Govt's focus on domestic infrastructure would continue over next few years, if re-elected. In the near term, cement demand may be hampered as we enter election phase, however we expect strong demand to resume from 2HFY25.

Exhibit 2: All India Cement Demand Supply Scenario

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Effective capacity (mt)	300	340	370	401	423	439	463	487	508	520	545	583	618	672	719	741
Capacity gr (%)	11	13	9	8	5	4	5	5	4	2	5	7	6.1	8.7	7.0	3
Utilisation (%)	77	73	69	67	67	64	69	70	66	63	66	67	68	67	67	70
Consumption (mt)	225	238	247	269	283	294	319	340	336	328	358	392	422	451	483	520
Consumption gr (%)	7	6	3	9	6	4	9	7	-1	-2	9	10	7.5	6.9	7.1	8
Surplus capacity over demand (mt)	75	102	123	133	140	145	144	147	172	192	187	191	197	222	236	221

Source: Industry, PL

We expect demand CAGR of ~8%+ over next few years, given strong demand from rural housing and urban housing while infrastructure demand is expected to remain buoyant. Realty industry is showing strong signs of recovery post Covid-19 and if we look at real estate cycle, after prolonged weakness of 7-8 years till Covid-19, there is expectation of strong growth to continue. Prices have also stabilized post pandemic and started inching upwards over last few years, aiding new sales and in-turn cement demand.

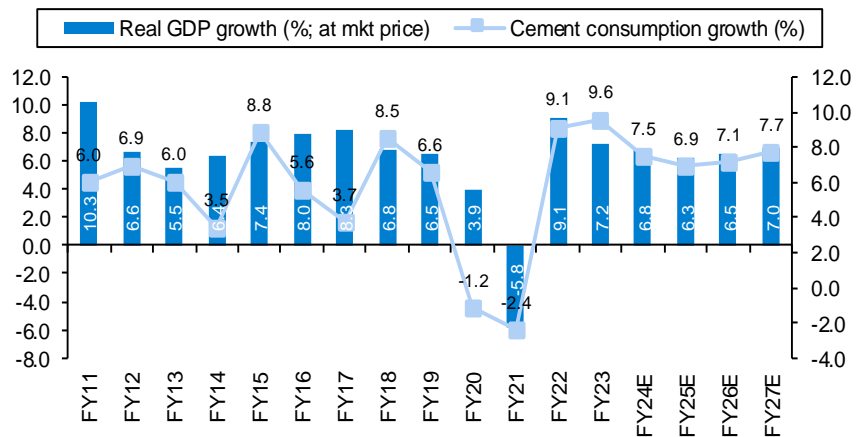
Cement demand has a strong correlation with GDP growth. Long term average cement demand growth in India has been at 1.1-1.2x of GDP growth over last 30 years. The cement to GDP growth rate varies depending upon industry specific issues such as demand, supply and pricing power. Over last four years, despite Covid-19 disruption, cement industry added 113mt capacity to reach ~585mtpa. We expect addition of ~135mtpa capacity over FY23-26E as per recent announcements done by companies.

With strong real GDP growth, cement demand to improve post elections: We expect top cement majors (UTCEM, ACEM, SRCM, DALBHARA) to continue adding capacities via organic and inorganic routes. We estimate incremental demand of ~95mt over FY23-26E vis-a-vis incremental capacity addition of ~136mtpa over the same period. Gap between capacities and demand is expected to increase till FY26E and post that will come down as demand remains buoyant in India.

Over last decade, capacities got added at much faster pace of 6.7% CAGR over FY13-23, while demand grew slower at 5.1% CAGR.

Cement industry utilization at ~70% by FY27E: Cement industry utilization dipped to ~63% in FY21, then improved to 67% in FY23. With strong demand growth over next few years, we expect it to improve to ~70% by FY27E. Industry utilization remains at lower levels, as capacity grew faster than demand and production over last 5 years. Over last 5 years, cement capacity grew at CAGR of 4.6%, while demand grew at lower pace of 4.2%. Going forward, we believe cement industry capacities to grow at ~6.2% over FY23-27E to ~740mtpa; however, demand is expected to grow faster at 7% CAGR to 515mtpa by FY27E.

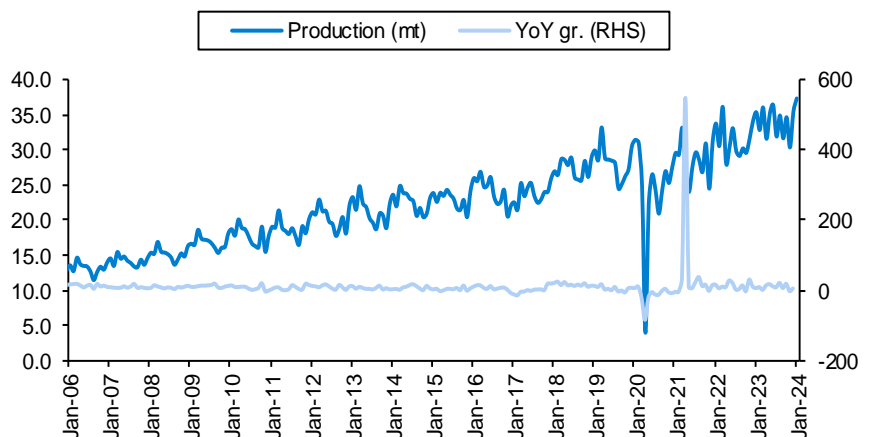
Exhibit 3: Strong correlation with GDP with 1.1x factor



Source: Industry, PL

Housing accounts for major chunk of cement consumption in India followed by infrastructure and industrial/commercial activities. Over the last decade, infrastructure pie has grown from 20% to 28-29% due to Gol's thrust on infrastructure activities which is expected to continue in the next 5-7 years.

Exhibit 4: Cement volume growth trend



Source: 8-core industries data, PL

Consolidation phase to continue

Over last decade, cement industry witnessed major consolidation in global and domestic markets. Post global mergers of Lafarge & Holcim into LafargeHolcim, HeidelbergCement fully acquired Italcementi. These two major global changes impacted their Indian subsidiaries too. Few of the major deals are listed below.

Exhibit 5: Recent M&A deals in the sector

Year	Target Co. Cement plant	Acquirer	Seller	Capacity (mt)	Stake Sold	Amount (Rs mn)
2013	Sewagram. Wanakbori	UltraTech	JCCL, JAL	4.8	Assets	38,000
2014	Bokaro Jaypee Cement	Dalmia Bharat	JV JAL+ SAIL	2.1	100%	9,021
2016	JAL, JCCL PPGCL	UltraTech	Jaypee Group	21.2	11 units	161,890
2016	Lafarge India	Nirma Ltd	LafargeHolcim	11.05	100%	94,000
2016	Reliance Cement Co.	Birla Corporation	Reliance Infra	5.5	Subsidiary	48,000
2018	Century Cement division	UltraTech	Century Textiles	14.6	Assets	De-merger
2018	Binani Cement Ltd	UltraTech	Binani Industries	8.55	100%	79,000
2019	Murli Industries	Dalmia Bharat	Murli Industries	3	100%	4,020
2020	Emami Cement Ltd	Nirma Group	Emami Group	8.3	100%	55,000
2021	Bhavya Cements Ltd	Anjani Portland Cem	Bhavya Group	1.4	82.51%	6,072
2022	Ambuja Cements Ltd	Adani Group	Holcim	31.45	63.11%	813,610
2022	ACC Limited	Adani Group	Holcim	36	4.48%	
2023	Sanghi Cement	Adani Group	Sanghi Industries	6.1	56.74%	50,000
2023	Kesoram Industries - Cement	UltraTech	Kesoram Ind.	10.75	Assets	Equity

Source: Industry, PL

In May-22 Adani group acquired Holcim's entire stake in ACEM and ACC for USD10.5bn making it second largest cement producer in India. With Adani group's entry, industry dynamics have changed and competition for capacity market share has increased tremendously. Almost all promoters have announced capacity additions across regions to maintain respective market shares, despite industry having enough capacity for growth. Few smaller players are exiting the industry, as race for market share is expected to intensify going ahead.

Exhibit 6: Race for capacity addition is bridging valuation gap of smaller companies w.r.t. other large cap companies

	Saurashtra	Orient	Mangalam	Heidel	Deccan	NCL	Anjani
Capacity (mtpa)	2.9	8.7	4.4	6.3	2.3	2.7	1.9
Mcap (Rs m)	12,870	47,940	20,320	46,940	8,730	10,200	6,140
debt (Rs m)	730	2,590	6,230	1,950	4,540	2,600	4,400
cash (Rs m)	-1,410	-160	-1,930	-5,580	-2,570	-780	-10
EV (Rs m)	12,190	50,370	24,620	43,310	10,700	12,020	10,530
TTM EBITDA (x)	1,150	4,400	2,010	2,960	890	1,980	206
EV/EBITDA (x)	10.6	11.4	12.2	14.6	12.0	6.1	51.1
EV/ton (Rs)	4,203	5,790	5,595	6,919	4,652	4,452	5,484
EV/ton (USD)	50.6	69.8	67.4	83.4	56.1	53.6	66.1

Source: Industry, PL prices as on 5th Mar'23

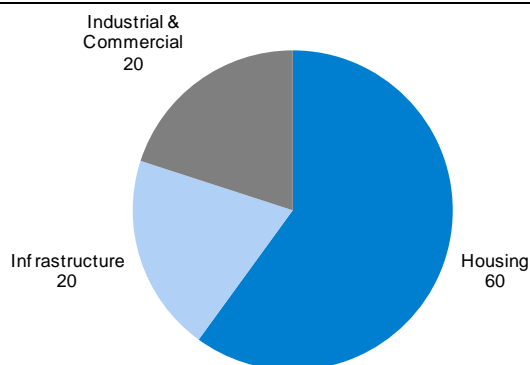
We believe smaller players having 3-10mtpa capacities can cash out in this decade of strong growth and right valuation will be a key for larger players. Over last few years, market share of large players increased from 39% in FY15 to over 50% recently as they have ramped up capacities across regions. We believe consolidation to continue going forward, giving pricing power to the overall industry.

Demand drivers: Long term growth levers intact

Post pandemic cement demand CAGR was at 9.4%, led by high spending of Gol on infrastructure development activities and affordable housing schemes. This momentum is expected to continue if the current regime gets elected again in FY25. We expect cement demand CAGR of ~8-9% over next few years. In the last decade (over FY13-23) we witnessed cement demand CAGR of 5.1% despite multiple shocks such as demonetization, GST implementation, weak rural economy due to poor monsoon and Covid-19 disruptions. However, demand is expected to improve as 1) real estate sector is in growth phase, 2) Gol's unrelenting focus on infrastructure continues and 3) rural economy is improving gradually which will aid cement growth for next few years.

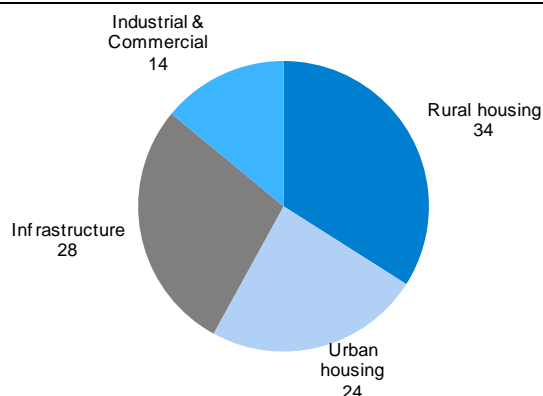
India's cement demand is primarily derived from - 1) Rural Housing, 2) Urban Housing, 3) Infrastructure and 4) Industrial & Commercial.

Exhibit 7: India Cement consumption by sectors FY12 (%)



Source: Industry, PL

Exhibit 8: India Cement consumption in FY23 (%)



Source: Industry, PL

Rural housing - Major driver of cement demand

PMAY-G is transforming gramian lives and driving rural demand

To address gaps in erstwhile rural housing schemes and in view of Government's commitment to provide "Housing for All", **Pradhan Mantri Awas Yojana – Gramin (PMAY-G)** was launched by Gol in 2016. Houses built under PMAY-G have provision of basic amenities like toilets, electricity, piped drinking water, clean & efficient cooking fuel (LPG), etc. Under this scheme, a total of Rs 3.67 tn were allotted for program implementation, out of which Rs 3.3 tn were utilized as of Feb 19, 2023. The PMAY-G scheme is driving cement demand growth from rural India over the years.

As of mid Feb-24, 25.6mn houses were built against target of 29.5mn houses supporting cement volumes

As of mid Feb-24, 25.64mn houses were built against mandated target of 29.5mn houses and rest were under implementation. The scheme was launched aiming to provide monetary assistance for construction of pucca houses with basic amenities to all rural houseless households and those living in dilapidated and kutcha houses. Since inception, 25.64mn houses were built under PMAYG i.e. ~6% of the total rural households in India. As per studies undertaken by *Centre for Rural Infrastructure*, poor people were living in thatched houses, mud houses and houses with paddy straw roofs got concrete roofed houses (58%); partly concrete roofed plus partly asbestos roofed houses (25%) and fully asbestos roofed houses (17%).

Additional 20mn houses to be completed in next five years under PMAY-G as per interim budget

In the recent interim budget, Gol approved additional 20mn houses to be completed in next five years under PMAY-G; which is expected to drive cement demand. PMAY-G Houses are made of cement block work and provide better housing condition to beneficiaries with natural light and ventilation that's much better than earlier Gol schemes.

Rural penetration to augment with improvement in affordability

India is predominantly a rural country with two third populations and ~70% workforce residing in rural areas. Rural economy constitutes 46% of national income. Despite rapid increase in urbanization, more than half of India's population is still projected to be rural by 2050. Thus growth and development of rural economy along with population is a key to overall growth.

Rising affordability led by better farm income continue to aid cement growth

Penetration of cement in rural India is growing rapidly from low base with usage of other cheaper ways. The 2011 census had revealed tremendous scope for improvement in lifestyle of rural India as country progresses and also over the last decade we have witnessed growth. Rural India follows urban and in terms of livability index rural still underscores urban India. The dilapidated status of rural houses at 6.5% as per 2011 census was much higher than that of 2.9% of urban India. With rising affordability led by better farm income, we believe transition to concrete houses is bound to happen aiding cement growth.

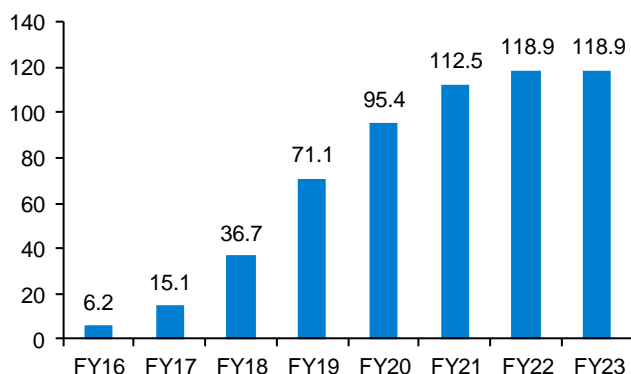
Urban Housing- Second largest share of cement demand

Affordable housing under PMAY-U aiding urban market

As of Feb-24 in urban area, ~68% of the houses sanctioned till FY23 were delivered

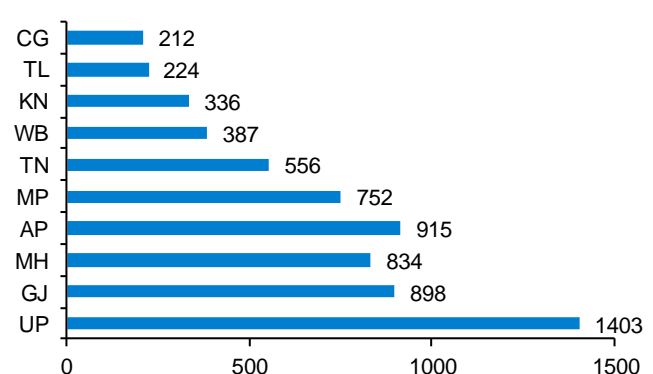
Under Pradhan Mantri Awas Yojana- Urban (PMAY-U) scheme, Gol has promoted affordable housing for weaker sections of population through Credit Linked Subsidy Scheme (CLSS) along with its original aim of rehabilitating slums. As of Feb-24 in urban area, ~68% of houses sanctioned till FY23 were delivered and the scheme is expected to deliver rest till end of FY24. When announced, the idea was to build 20mn houses for "Housing for all". Although only 60% houses were sanctioned, if extended this will result in incremental demand for cement. Further, extended CLSS until 2027, will not only bridge affordability gap in residential real estate, but also boost demand for cement in India.

Exhibit 9: Total no of Houses sanctioned (in lacs)



Source: PMAY-U, PL

Exhibit 10: Completed units - top 10 States (in '000)



Source: PMAY-U as on 19th Feb'24, PL

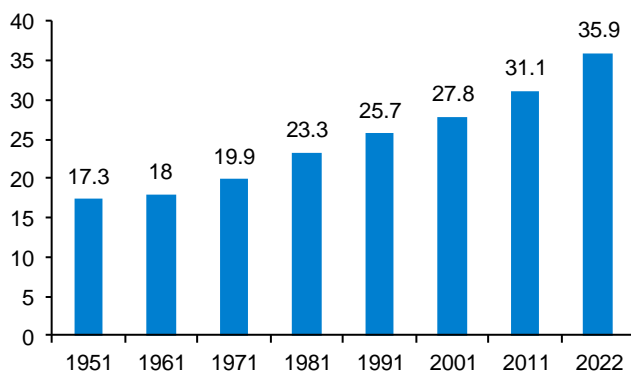
Retail real estate sector also is back to full swing with consumption recovering beyond pre-pandemic levels and should continue the momentum.

Improving demand from domestic real estate market

Covid-19 pandemic has reinstated the importance of home ownership and attitude of customers towards residential properties has seen substantial shift in India. Few emerging trends in realty market are: a) Preference for larger sized apartments, b) inclination towards reputed developers, c) owning a retirement house and d) a rising demand for townships projects having recreational facilities. Despite recent interest rate hikes, residential demand has not only remained resilient but surged to decadal high in terms of annual sales in CY2023 as per industry reports. Number of launches are also increasing and touched a decadal high last year, inventory is continuing to show decline or stability across Tier-1 cities, indicating a healthy demand momentum.

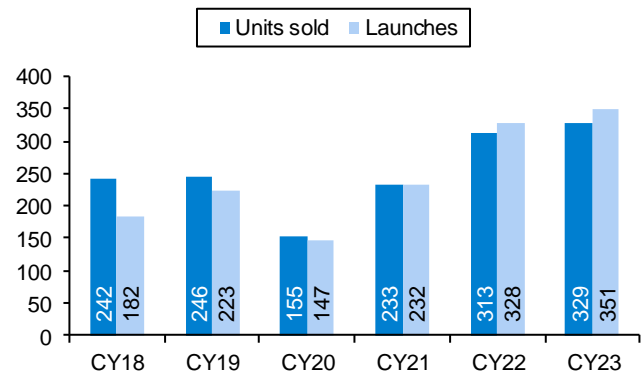
With urbanization rate likely to continue over next decade, we believe cement demand is expected to get support from higher residential activities in Urban India. With ongoing shift of population from rural to urban, rising number of nuclear families and subsequent rise in per capita GDP, cement demand growth is expected to continue.

Exhibit 11: Urban population as a % of total



Source: MOSPI, PL

Exhibit 12: Top 8 cities res. sales picking up ('000)



Source: Real estate Industry, PL

Projects like High-speed Rail, Dedicated Freight Corridor, PM Gati Shakti are key drivers of domestic cement consumption.

Infrastructure to continue as a key focus area

Infrastructure propels overall development of any nation and India's infrastructure historically lagged behind its population growth. The sector includes power, bridges, dams, roads and urban infrastructure development which is seeing strong traction over last few years. Govt's efforts to kickstart an investment cycle led by robust public capex, coupled with strong corporate and bank balance sheets, is likely to provide impetus to private investments and consumption.

India's impressive infrastructure developments—propelled by Gati Shakti project—metros, airports, freight corridors, waterways, high-speed trains, and road networks, will further accelerate cement growth over next few years, in our view.

To reach its 2025 target of achieving USD5tn economy, India is focusing on building domestic infrastructure which includes building and improving efficiency of transport infrastructure, viz. roads, railways, aviation, shipping and logistics. With improving focus of Govt on domestic infrastructure (budgeted USD 122bn in FY24 union budget), demand for key commodities such as cement and steel is expected to grow at higher rates. Infrastructure projects across India picked up pace over last two years giving momentum to cement demand. We believe development of world class infrastructure will lead to higher growth of economy and in-turn strong demand for cement sector.

New metro projects

- With rapid urbanization, pressure is mounting on current public transport system from people living in cities and towns across India. Mass Rapid Transport System (MRTS) has emerged as one of the most effective means of mobility for citizens in Tier-1 and Tier-2 cities and Metro has been a major player.
- The rapid transit metro system is designed to reduce traffic congestion in large cities and supplement the overcrowded road and rail network.
- As per industry officials, ~70km of metro requires 2.6mt of cement which translates into ~24mt of incremental cement required for below mentioned ongoing metro projects of ~632 km.

Few of the key metro projects included in National Infrastructure Pipeline (NIP) are mentioned below:

Exhibit 13: Metro projects in progress under NIP

Name of the project	Cost (USD Bn)	Project date start	Project expected completion	State	Project Status
PUNE METRO LINE-3 Hinjawadi - Shivajinagar [Pune] Metro Rail Corridor	1.1	Sep-19	Mar-25	Maharashtra	Construction stage
Noida Metro Rail Extension Project	0.3	Apr-22	Mar-25	UP	Construction stage
Chennai Metro Rail Project [CMRL] PHASE II	8.0	Jun-21	Dec-26	TN	Construction stage
Construction Of Bangalore Metro Rail Project Phase 2.	3.9	Feb-16	Mar-25	Karnataka	Notice to Proceed
Delhi-Ghaziabad-Meerut Regional Rapid Transit System [RRTS] Corridor	3.8	Mar-19	Jun-25	Delhi/UP	Construction stage
Mumbai Metro Line 3	3.0	Jun-16	Jun-24	Maharashtra	Construction stage
Ahmedabad Metro Rail Project [Phase-I & II]	2.0	Feb-15	Dec-24	Guj	Phase II underway
Bangalore Metro Rail Project Phase-2A & 2B	1.9	Jan-19	Jun-26	Karnataka	Construction stage
Patna Metro Rail Project	1.7	Feb-19	Feb-27	Bihar	Construction stage
Vijayawada Metro Rail Development Project	1.1	Jun-21	Dec-24	Andhra Pradesh	DPR Approved
Wadala - CSMT Metro Rail Construction Project	1.1	Apr-19	Dec-26	Maharashtra	Construction stage

Source: PIB, PL

Gol has taken various steps for standardization and growth of metro rail in India. The Metro Rail Policy 2017 of Govt. of India enables rapid and sustainable growth of metro rail in the country. Metro Projects have not only added to connectivity, but also reduced travel time and hence enhanced ease of living substantially in urban areas. It has also led to creation of direct and indirect employment opportunities. With expansion of Metros - local and intercity travel will be easier plus mobility and connectivity will be enhanced giving a fillip to local business too.

Currently ~895 km of Metro lines are operational. Approximately another 200 km of metro lines are likely to open in current year in various cities of India. With a modest beginning of 8 km in 2002, modern metro rail has shown phenomenal growth in India. And there are about 500 km of metro line proposals under planning. All these construction activities are likely to result in higher cement demand.

Substantial progress in construction of first line of HSR Corridor

The Mumbai–Ahmedabad High Speed Rail Corridor (MAHSR) is the first of thirteen lines planned by GoI, expected to cover ~500 km distance in 3 hours with maximum speed of 320 km/hr. Although project construction was delayed due to Covid-19 and later due to land acquisition issues in Maharashtra, there are many other developmental activities linked to big infrastructure projects like high-speed rail corridor and DFCs. This will lead to lot of other activities like industrial development, trading and job creation. Real cement demand will come when these activities shall start taking place along with the corridors.

For every kilometer to elevated or underground tunnel track, nearly about 10,000 mt of cement gets consumed, which would translate into ~6mt of cement demand for a single bullet train project. Below are few of the thirteen HSR corridors being planned by Government of India. If we assume per km cement required in first HSR project as a benchmark, total cement required for all planned HSR projects alone would be ~80mn tonnes.

Exhibit 14: Bullet train projects planned across India in this decade

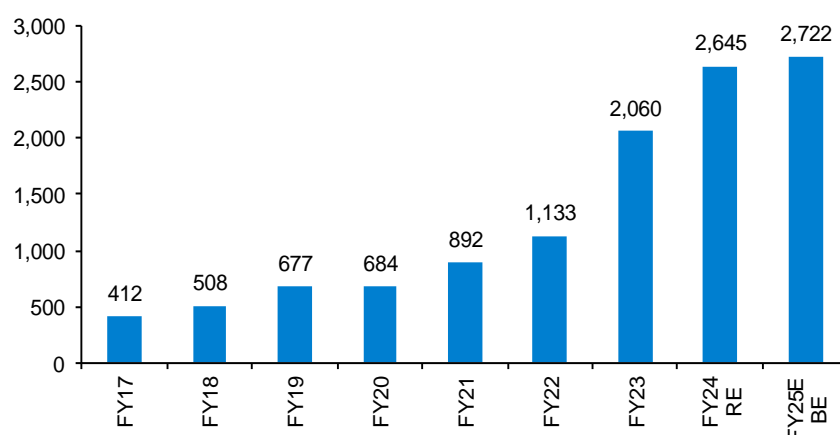
HSR Corridor	Proposed Year of Implementation	Km covered	Appx cement reqd in mt
Mumbai Ahmedabad	2026	508	5.1
Delhi Varanasi via Ayodhya	2031	855	8.6
Delhi Ahmedabad	2031	789	7.9
Varanasi to Patna	2031	250	2.5
Patna to Kolkata	2031	530	5.3

Source: NRP, PL

Transport sector and NHAI to support demand

A good road network is critical infrastructure requirement for rapid growth of the economy providing connectivity to remote areas; opening up of backward regions and ensuring accessibility to markets, trade and investment. There has been consistent increase in budgetary allocations for construction and maintenance of roads in recent years. Through a proactive sector policy – leveraging both public and private funding, increased assistance to state PWDs, changes in delegation of authorities, enhanced use of e-technology, continuous and systematic monitoring etc. has aided to fasten the pace of construction of highways.

Exhibit 15: Allocation for Roads & Highways in Union Budget (Rs bn)

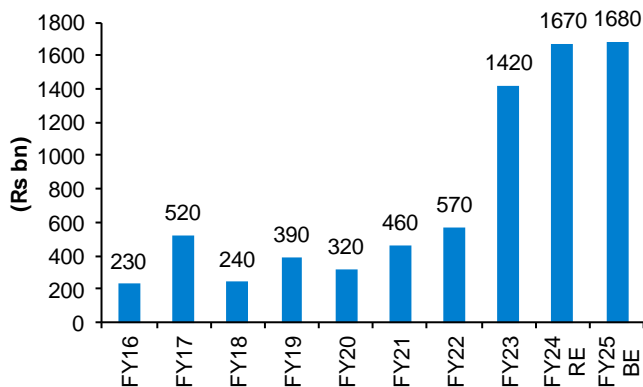


Source: Budget Documents, PL

India's road network grew at a CAGR of 4.4% to 33.25 lac km over 1951-2000. Over 2000-2016, the growth rate dipped to 3.3% CAGR however again post FY16 construction activities took up pace despite various challenges faced by economy over last few years. The rate of making highways has increased sharply from 15km/day in FY13 to ~30km/ day till FY19.

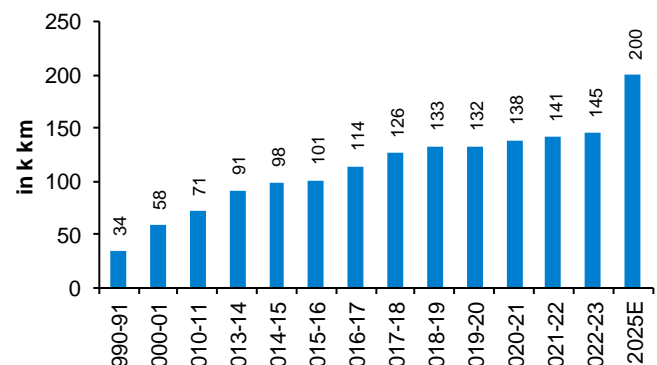
Despite covid disruptions pace of building road network remained high over last few years. As per Union Budget documents expenditure on transport sector has grown 5x over last 9 years to Rs 5170 bn. ~27 Greenfield Expressways being developed across the country while total length of National Highways in India has grown at a CAGR of 5.3% over last decade to 145k km in Mar'23. The total road network in India is ~6.2 mn km with state highways at 187k km and other roads at 5.9mn km. Over the years, implementation track record of Gol budgetary spend has improved significantly resulting in uptick of activities supporting cement demand.

Exhibit 16: NHAI: 7X jump in Expenditure in last 9 years



Source: NHAI, PL

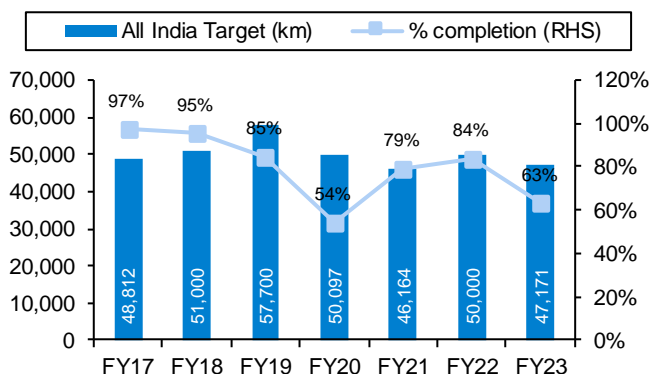
Exhibit 17: Targeting 200k km NHs by 2025E



Source: NHAI, PL

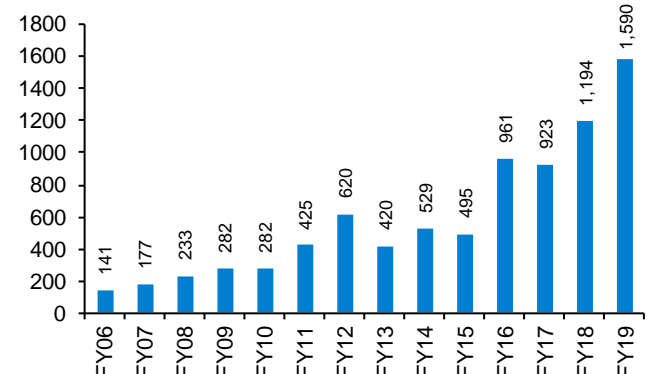
The Pradhan Mantri Gram Sadak Yojana (PMGSY), was launched by the Gol in 2012 to provide connectivity to unconnected Habitations as part of a poverty reduction strategy. As per latest figures made available by the State Governments under a survey to identify Core Network as part of the PMGSY programme, about 1.67 lakh Unconnected Habitations are eligible for coverage under the programme. This involves construction of about 3.71 lakh km. of roads for New Connectivity and 3.68 lakh km. under upgradation resulting in higher demand of cement.

Exhibit 18: Completion of roads under PMGSY



Source: PMGSY, PL

Exhibit 19: Investment in Road Transport (Rs bn)



Source: MoRTH, PL

Bharatmala Pariyojana driving consumption

Public Investment Board (PIB) has recommended the proposal during its meeting held in July 2017. Cabinet Committee on Economic Affairs (CCEA) has approved Bharatmala Pariyojana Phase-I which envisages development of about 26,000 km length of Economic Corridors, which along with Golden Quadrilateral (GQ) and North-South and East-West (NS-EW) Corridors are expected to carry majority of Freight Traffic on roads.

Further, about 8,000 km of Inter Corridors and about 7,500 km of Feeder Routes have been identified for improving effectiveness of Economic Corridors, GQ and NS-EW Corridors. The programme envisages development of Ring Roads/ bypasses and elevated corridors to decongest the traffic passing through cities and enhance logistic efficiency; 28 cities have been identified for Ring Roads; 125 choke points and 66 congestion points have been identified for their improvements.

In order to reduce congestion on proposed Corridors, enhance logistic efficiency and reduce logistics costs of freight movements, 35 locations have been identified for development of Multimodal Logistics Parks.

In interim budget, three new economic corridors namely a) Energy, Cement and Mineral corridor b) Port connectivity corridor and c) high traffic density corridor have been identified under PM Gati Shakti Yojana for enabling multimodal connectivity. This step is expected to improve logistics efficiency and thereby lower costs for cement players along with increased cement demand for development of these corridors.

Industrial capex rises post Covid-19 disruptions

Cement demand from commercial segment remained lackluster until Covid-19, however post announcement of production linked incentive (PLI) scheme by Govt to support domestic economy ignited growth in the manufacturing sector. The scheme incentivizes select companies to scale up production and boost domestic value additions. Overall industry response to this scheme so far has been encouraging and it has been well received by industry participants, with 15 different sub-sectors covered.

Due to Covid-19 led disruptions in global supply chains, global corporates started looking at India as alternative manufacturing hub after China. This has driven consumption from this segment in the recent years. Investment projects grew at a CAGR of 8.9% past three years Vs 5.8% over FY14-23.

Exhibit 20: Investment projects outstanding: Under implementation



Source: Industry, PL

Exhibit 21: State GDP growth rates Vs Cement consumption demand

Region & weight	State GDP growth		Cement consumption growth	
	FY13-23	FY21-23	FY13-23	FY21-23
North (17%)	5.6%	8.1%	4.7%	4.8%
Chandigarh (0.2%)	4.6%	5.7%		
Delhi (4%)	5.9%	9.2%		
Haryana (4%)	6.6%	9.2%		
Himachal P (1%)	5.7%	7.0%		
Jammu and K (1%)	5.4%	9.5%		
Punjab (3%)	5.1%	6.5%		
Rajasthan (5%)	5.8%	9.8%		
South (30%)	6.3%	9.2%	3.8%	15.3%
Andhra P (5%)	7.1%	9.1%		
Karnataka (8%)	7.5%	9.4%		
Kerala (4%)	4.4%	8.1%		
Puducherry (0.2%)	5.4%	10.5%		
Tamil Nadu (9%)	6.3%	8.1%		
Telangana (4%)	7.0%	9.8%		
East (incl. NE 18%)	6.0%	8.3%	9.7%	9.9%
Arunachal P (0.1%)	6.4%	6.9%		
Assam (2%)	7.0%	9.1%		
Bihar (3%)	5.6%	9.5%		
Chhattisgarh (2%)	5.7%	8.2%		
Jharkhand (2%)	4.8%	8.8%		
Manipur (0.1%)	5.2%	9.3%		
Meghalaya (0.2%)	2.2%	4.8%		
Mizoram (0.1%)	10.1%	11.3%		
Nagaland (0.1%)	4.0%	4.0%		
Odisha (3%)	6.7%	9.2%		
Sikkim (0.1%)	6.8%	6.4%		
Tripura (0.3%)	7.5%	8.7%		
Uttarkhand (1%)	5.3%	7.6%		
West Bengal (5%)	4.6%	9.6%		
West (23%)	6.1%	7.3%	3.2%	11.3%
Goa (0.4%)	5.0%	4.5%		
Gujarat (9%)	8.1%	9.3%		
Maharashtra (13%)	4.6%	6.8%		
Central (12%)	5.9%	9.0%	4.8%	4.9%
Madhya P (4%)	6.2%	8.7%		
Uttar Pradesh (8%)	5.6%	9.2%		

Source: Industry, PL

Northern region witnessed 5.6% GDP growth over FY13-23 which has translated into 4.7% CAGR in cement demand over same period. Post covid-19 era, demand improved to 4.8%.

Southern region, cement demand remained muted over last decade however post covid-19, as GDP grew sharp 9.2% over FY21-23, cement demand also improved 15.3% CAGR.

East (incl. NE) region driving overall demand of cement industry. Strong 6% GDP growth seen over FY13-23 has translated into 9.7% CAGR in cement demand over same period. Post covid-19 era, demand remained strong at 9.9%.

West and Central regions witnessed 6.1% & 5.9% GDP growth over FY13-23; however, cement demand grew at 3.2% and 4.8% CAGR. Post Covid, as GDP accelerated, cement demand also grew strong 11.3% and 4.9% CAGR respectively.

Supply Drivers: Industry capacity to touch 740mtpa

As cement companies are consistently making good cash flows, many small and mid-sized companies have added capacities over last decade and now further announced capex plans to maintain market share post Adani group's entry. Cement capacity is expected to touch **~740mtpa by FY27E** with announced capex of listed players if everything goes smooth. As Indian GDP is expected to grow at 6-7% we expect demand to catch up incremental supply by FY27, where utilization can improve to over 70%.

Around 100mtpa capacity got added in last 3-4 years despite Covid disruption and another ~158mtpa is expected to get added by FY27E. Thus prices are expected to remain susceptible to higher material flows despite strong demand over next few years. ~54mt capacity is expected to get added in FY25E led by large corporates like UTCM and ACEM. Also producers are not showing any sign of running behind volumes as industry profitability had reduced post sharp increase in fuel cost post Russian invasion of Ukraine. Going forward as fuel costs are coming down, we expect strong profitability over next two years. In this oversupplied situation companies having access to limestone and control over freight and fuel costs will be the key beneficiaries.

Supply: FY25 to see over 54mtpa capacities to get added

Current capacity addition schedule indicates strong ~130mt capacity additions in next 3 years. Already 26mtpa capacity got added in YTD FY24 and we expect another ~130mtpa to get added till FY27E. As demand grows, faster utilization would also improve and bridge the gap between excess capacities present today. We expect demand to grow 8-10% and despite strong growth the gap between total capacity and volumes would remain constant over next few years, as companies keep on adding new capacities across regions.

The earlier upcycles and highly remunerative returns lured the industry to set up additional cement capacities as high utilization meant supply was always lagging demand. **Entry of Adani group has ignited competition as existing promoters have announced capacity expansion plans to match growth rate and maintain respective market shares.** However current return ratios are dismal and unless prices increase justification of additional Greenfield expansion looks difficult. Assuming demand growth of ~9% over FY23-28, we believe that incremental demand will continue to outpace supply, thereby lifting industry utilizations. Current announced capex plans target industry capacity to reach ~750mtpa in next 4-5 years.

Our analysis of existing capacities in India shows UTCM as a clear winner in most regions followed by SRCM in North, DALBHARA in East while remaining players are improving their presence across regions. SRCM has successfully added capacities in Southern region, while DALBHARA is eyeing to become a pan-India player over next decade. ACEM is coming back with full force with spree of news of capacity additions across regions, however execution is the key to succeed. With change in promoter with proven execution track record, we expect ACEM to give tough competition to others.

Exhibit 22: Current Regional Break up of Capacities (Listed)

Regions	Central		East		North		South		West		Total Capacity
	% contri. region	% contri. Co.	% contri. region	% contri. Co.	% contri. region	% contri. Co.	% contri. region	% contri. Co.	% contri. region	% contri. Co.	
ACC	10.2%	18.8%	6.7%	24.5%	6.6%	22.3%	5.0%	25.0%	4.1%	9.4%	40.4
Ambuja			4.8%	22.7%	9.6%	41.7%			12.1%	35.6%	31.5
Anjani							1.0%	100.0%			1.9
Barak			0.2%	100.0%							0.3
Bheema							0.4%	100.0%			0.9
Birla Corp	12.5%	47.2%	1.4%	10.4%	2.9%	20.2%			4.8%	22.2%	19.8
Burnpur			0.2%	100.0%							0.3
Dalmia			18.0%	59.8%			7.4%	33.7%	3.1%	6.5%	44.6
DCM					0.3%	100.0%					0.4
Deccan							1.1%	100.0%			2.3
Gujarat Sidhee									1.5%	100.0%	1.4
Heidelberg	7.7%	91.9%					0.3%	8.1%			6.3
India Cem					1.1%	9.6%	6.4%	83.3%	1.2%	7.1%	15.6
JAL	6.9%	70.2%	1.5%	29.8%							7.4
JK Cement	4.7%	15.8%			10.6%	65.3%	1.7%	15.8%	0.8%	3.2%	22.2
JKLC			2.4%	29.7%	4.4%	51.3%			2.4%	19.1%	11.8
JPVL	2.7%	100.0%									2.0
KCP							2.1%	100.0%			4.3
Keerthi							0.3%	100.0%			0.6
NCL Ind							1.5%	100.0%			3.0
Nuvoco			12.8%	75.7%	4.5%	24.3%					25.0
Orient							3.2%	76.5%	2.2%	23.5%	8.5
Panyam							0.5%	100.0%			1.0
Prism Johnson	7.5%	100.0%									5.6
Rain							2.1%	100.0%			4.3
Ramco			2.1%	14.2%			9.3%	85.8%			21.9
Sagar	1.3%	9.2%	1.0%	13.8%			4.1%	77.0%			10.9
Sanghi									6.6%	100.0%	6.1
Saurashtra CL									1.6%	100.0%	1.5
Shree			11.9%	33.0%	21.9%	55.8%	1.5%	5.6%	3.3%	5.6%	53.4
Shree Digvijay									1.3%	100.0%	1.2
Shri Keshav							0.2%	100.0%			0.4
Star			3.8%	100.0%							5.7
Tata Chem									0.9%	100.0%	0.8
TNPL							0.1%	100.0%			0.3
Udaipur					1.6%	100.0%					2.2
Ultratech	36.7%	18.4%	18.5%	18.4%	24.0%	21.9%	15.4%	20.9%	33.2%	20.5%	149.2
Mangalam					3.2%	100.0%					4.4
Total											519.2

Source: Industry, PL

Exhibit 23: Companies having maximum capacity market share across regions

	Central		East		North		South		West	
Maximum	Ultratech	36.7%	Ultratech	18.5%	Ultratech	24.0%	Ultratech	15.4%	Ultratech	33.2%
Top 3	Ultratech	36.7%	Ultratech	18.5%	Ultratech	24.0%	Ultratech	15.4%	Ultratech	33.2%
	Birla Corp	12.5%	Dalmia	18.0%	Shree	21.9%	Ramco	9.3%	Ambuja	12.1%
	ACC	10.2%	Nuvoco	12.8%	JK Cement	10.6%	Dalmia	7.4%	Sanghi	6.6%

Source: Industry, PL

Maximum capacities are coming in East and South regions anticipating strong demand to continue

Upcoming incremental capacity additions

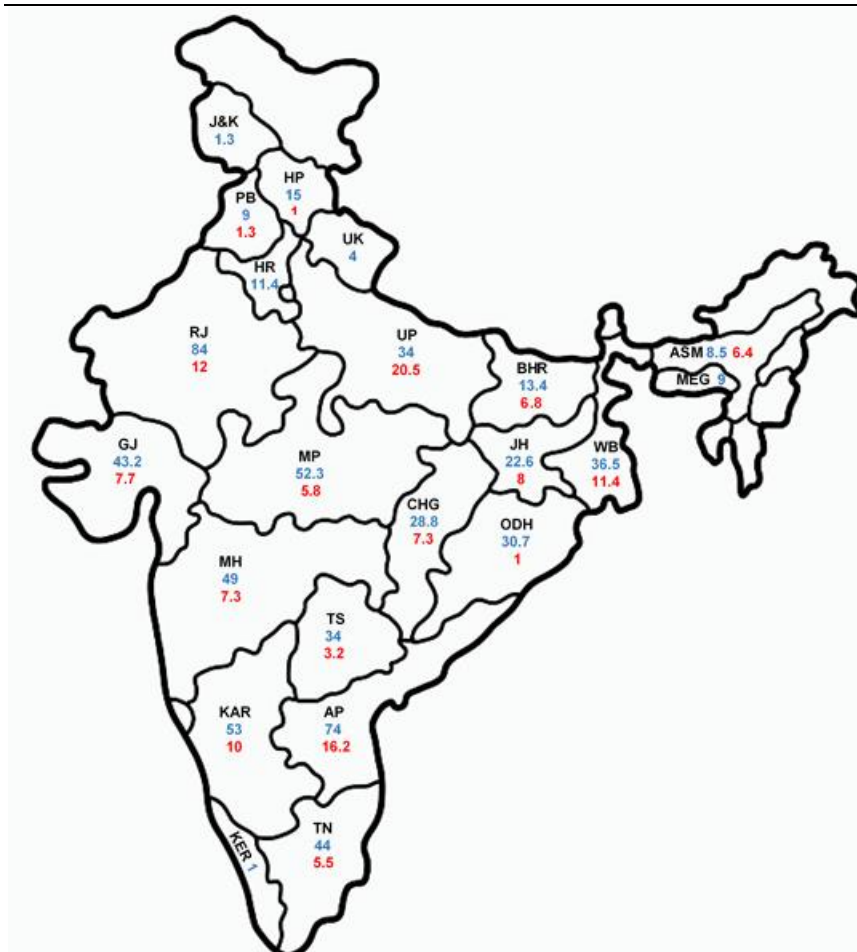
We have incorporated upcoming capacities across regions as per announced capex plans of listed players. Maximum capacity addition is planned in East and South over next three years as companies believe maximum potential for demand uptick from these regions. Although demand is muted across regions now, with ongoing thrust on infrastructure and relatively underdeveloped states such as UP, Bihar, Jharkhand are expected to witness strong demand.

Exhibit 24: Region-wise announced capacity addition plans

Regions	YTD FY24	4Q FY24	Total FY24E	FY25E	FY26E	FY27E	Total
North	9.9	1.0	10.9	12.8	3.9	4.0	31.6
East	9.0	2.9	11.9	15.4	19.6	3.0	49.9
West	1.2	0.0	1.2	0.0	8.7	6.4	16.3
South	3.9	5.0	8.9	14.5	11.4	4.0	38.8
Central	2.5	0.0	2.5	11.2	3.6	4.2	21.5
Total	26.5	8.9	35.4	53.9	47.2	21.6	158.1

Source: Industry, PL

Exhibit 25: State wise cement current capacities and expected additions

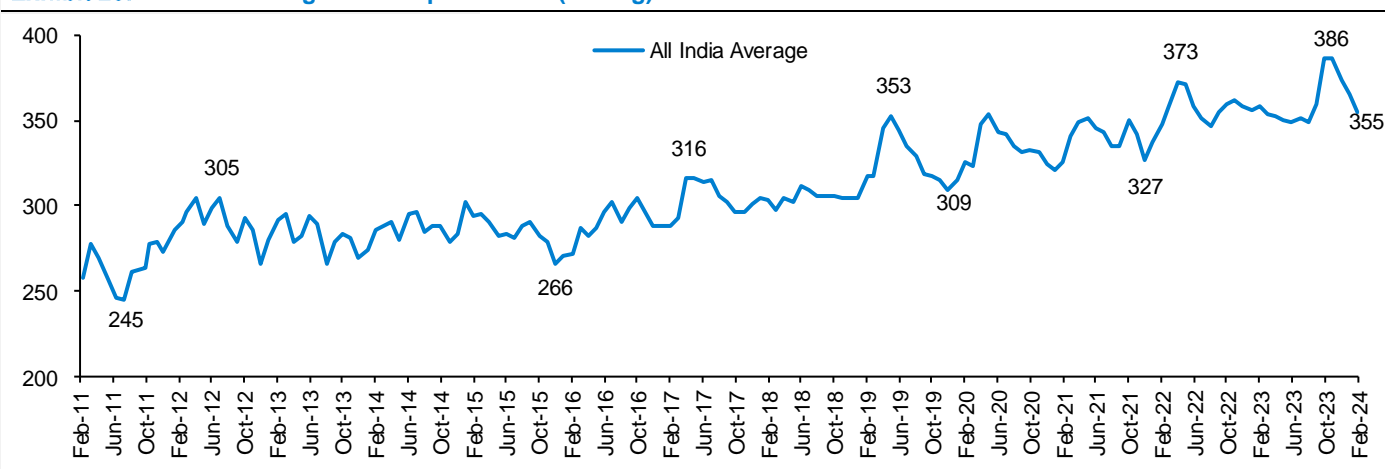


Source: Company, PL Blue = Existing / Red = Upcoming

Pricing scenario: expect to improve in 2HFY25

Prices of cement started inching up post end of September quarter on expectation of higher demand in busy construction season. In the last quarter, cement prices were increased by 5-7% in two rounds however during festive season some of the regions witnessed rollback of prices of second round. As we are due for Lok Sabha elections in 1HFY25 which is expected to fast track economic activities for next few months till monsoon. However current demand scenario on ground is weak and cement prices have fallen back to September 2023 levels. Post general elections, we expect cement demand to improve again giving support to prices.

Exhibit 26: All India average cement price trend (Rs/bag)



Source: Industry, PL

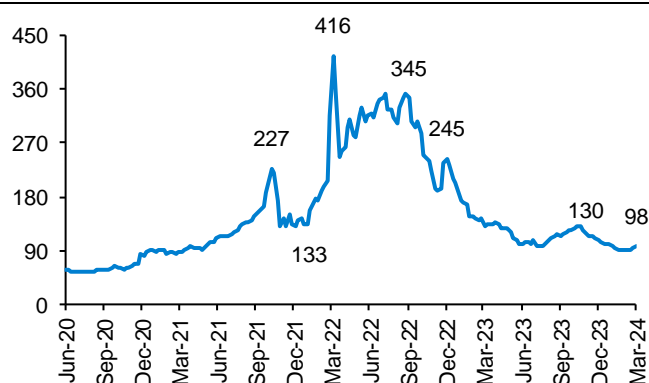
Dealers Check: As per our recent discussion with regional dealers, prices got reversed in most of the regions except West.

- All India average price got reversed to September levels due to weak demand in last few months. If we compare February prices, cement prices have been reversed to September prices mostly in Eastern and Northern regions while Western and few cities in South & Central India still holding.
- Prices in South, Central and West are holding well ~2-3% above September levels.
- Demand remained weak over last few months in most regions due to a) sand availability issues in Rajasthan & Telangana, b) festive & marriage seasons, c) elections in few states, d) ban on construction activities in North, e) heavy rains & floods in select parts of South India.
- Demand continues to remain weak in anticipation of slowdown till elections. So incremental capacities have started putting pressure on prices especially in Eastern region.

Raw material tailwinds to benefit cement producers

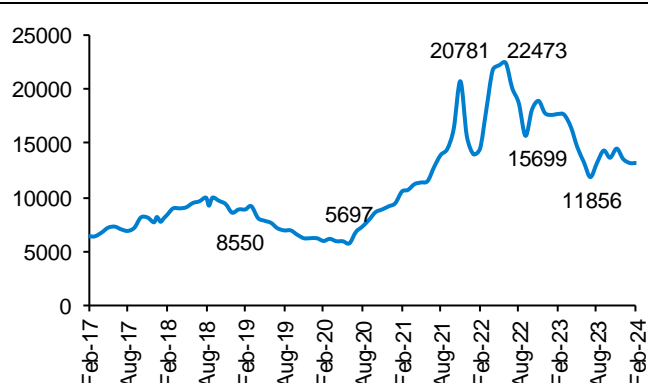
Post Russian invasion of Ukraine, all commodities including Coal and pet coke shot up in FY22 and now as situation is returning to normalcy, commodity prices are coming down. With weak Europe, China and gradually improving US economy, thermal coal and pet coke have declined in FY23 and FY24 and trading as per real demand. Although lower fuel prices and increased cement capacities can push down the cement realisations in few regions (like East) in near term, as demand improves from 2HFY25, situation will come back to normalcy. We expect cement manufacturers to continue to benefit from lower coal and pet coke prices in near to medium term.

Exhibit 27: Thermal coal prices South Africa RB1 (USD/t)



Source: Industry, PL

Exhibit 28: Domestic Pet coke prices (Rs/t)



Source: Industry, PL

Regional demand supply analysis

Cement is essentially a regional commodity as being bulky product, transportation is expensive. Regional imbalances exist as cement is transported to even nearest other states in order to bridge the demand gap depending upon the economics of trade, lead distance, pricing and cost of production. As per our estimates, maximum capacity additions likely to be in Eastern and Southern region as demand potential remains very strong. Total new supply of ~130mt is anticipated over 4QFY24-FY27E, of which ~58% is anticipated to come in Eastern and Southern region. The eastern market has been the fastest growing in terms of consumption due to its low per capita cement consumption, infrastructure focus and PMAY scheme led construction. Demand led by infrastructure is strong across regions.

North

- Over longer duration of FY06-23, demand grew at 7% Vs capacity addition CAGR of 8.9% which kept utilizations below 80%. We expect ~21mt capacity addition over 4QFY24-27E as demand is expected to improve from urban and rural housing. Going forward, we expect region's capacity to grow to 146mtpa by FY26E implying a CAGR of 7.3% Vs demand CAGR of 7.7% over FY23-26E.

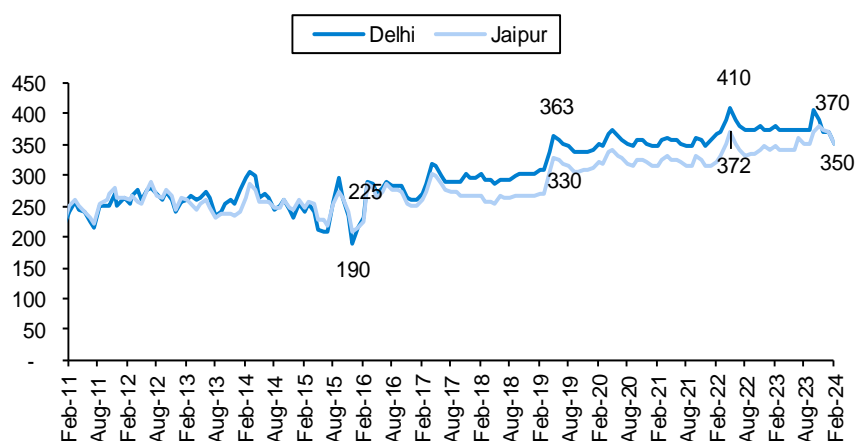
Exhibit 29: Northern region demand supply scenario

(m tonnes)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Effective cement capacity	105	107	110	118	129	142	146
Capacity growth (%)	1.0	1.9	2.8	7.3	9.2	9.9	2.8
Demand	85	85	88	93	101	108	116
Capacity Utilisation (%)	81.0	79.4	80.0	79.1	78.2	76.1	80.0
Despatch growth (%)	1.2	0.0	3.5	6.0	8.0	7.0	8.0

Source: Industry, PL

- Cement prices increased in Sept/Oct'23; however most of the price hikes got reversed. Near term pricing scenario is weak due to muted demand, however companies may attempt price hikes as demand improves gradually post elections.

Exhibit 30: Cement prices in North (Rs/bag)



Source: Industry, PL

South

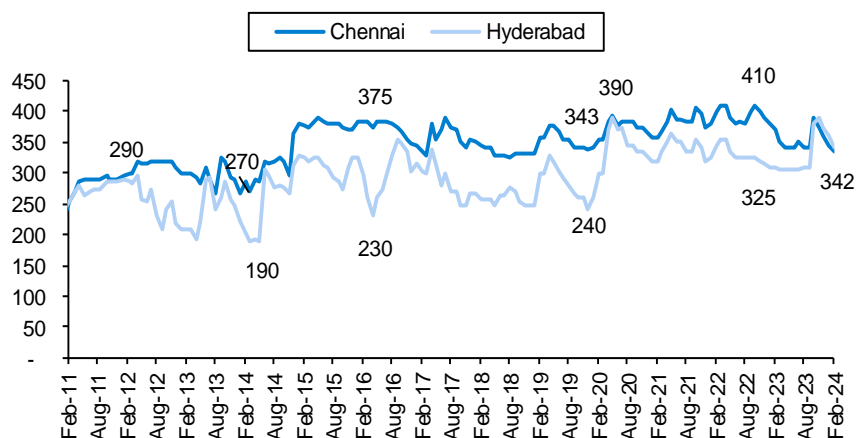
- Over longer duration of FY06-23, demand grew at 5.1% Vs capacity addition CAGR of 8.1% which kept utilizations below 60%. We expect ~35mt capacity addition over 4QFY24-27E as demand is expected to improve from individual home buyers, housing segment and infrastructure. As demand improved sharply post Covid-19, producers aim to increase capacities to retain the capacity share. Going forward, we expect region's capacity to grow to 220mtpa by FY26E implying a CAGR of 5.9% Vs demand CAGR of 7.3% over FY23-26E.
- Cement prices increased sharply in Oct'23 in two rounds however, prices also got reversed to a certain extent. Near term pricing scenario is stable, and we expect companies to maintain focus on profitability over volume growth. Capacity utilization improved gradually from lows of 50% in FY16 to over 57% in FY23. Going forward despite rising capacities, we expect utilization to improve gradually to 59% by FY26E.

Exhibit 31: Southern region demand supply scenario

(m tonnes)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Effective cement capacity	172.0	172.0	175.0	185.0	193.9	208.4	219.8
Capacity growth (%)	4	0	2	6	5	7	5
Demand	90	79	92	105	114	122	130
Capacity Utilisation (%)	52.3	45.9	52.6	56.8	59.0	58.8	59.1
Despatch growth (%)	-8.2	-12.2	16.5	14.1	9.0	7.0	6.0

Source: Industry, PL

Exhibit 32: Cement prices in South (Rs/bag)



Source: Industry, PL

West

- Over longer duration of FY06-23, demand grew at 4.4% Vs capacity addition CAGR of 6.9% which kept utilizations below 60%. We expect ~15mt capacity addition over 4QFY24-27E as Urban realty trends changed during Covid-19 like a) requirement of bigger houses, b) second homes for retirement and c) higher affordability drove volumes in urban real estate markets for past two years. This has generated strong demand for cement in the western region, which gets materialized from Northern and Southern regions too.

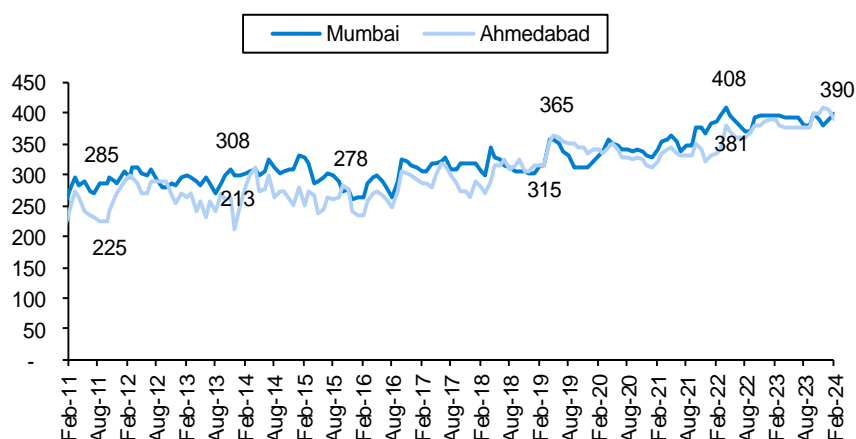
- State Government's infra projects and significant surge of industrial capex would continue to boost demand in West. We expect region's capacity to grow to ~99mtpa by FY26E implying a CAGR of 3.6% Vs demand CAGR of 5.7% over FY23-26E. Capacity utilization is expected to improve to over 62% in FY26E.
- Cement prices increased by Rs20-25 in Sept/Oct'23 and have been absorbed well relative to other regions. Near term pricing scenario is stable and companies may attempt price hikes as demand improves post elections.

Exhibit 33: Western region demand supply scenario

(m tonnes)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Effective cement capacity	72.0	75.0	82.0	89.0	90.2	90.2	98.9
Capacity growth (%)	9	4	9	9	1	0	10
Demand	47	42	48	52	55.6	58.4	61.3
Capacity Utilisation (%)	65.3	56.0	58.5	58.4	61.7	64.8	62.1
Despatch growth (%)	-2.1	-10.6	14.3	8.3	7.0	5.0	5.0

Source: Industry, PL

Exhibit 34: Cement prices in West (Rs/bag)



Source: Industry, PL

Central

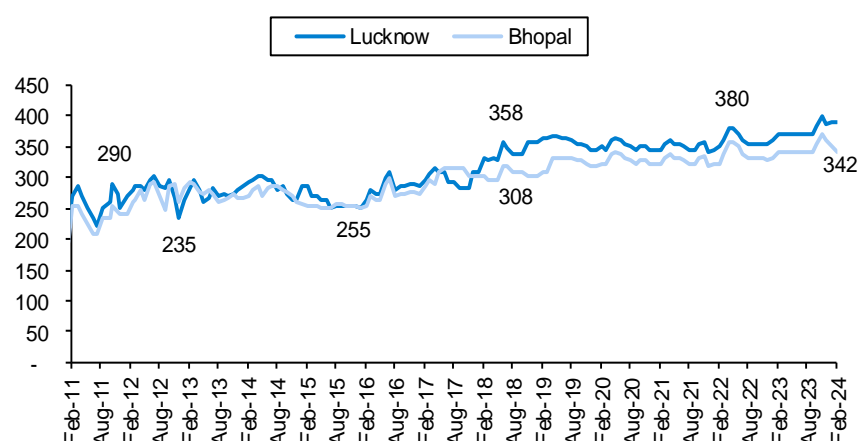
- Over longer duration of FY06-23, demand grew at 5.5% Vs capacity addition CAGR of 7% which kept utilizations below 80%. We expect ~19mt capacity addition over 4QFY24-27E as demand is expected to improve from overall development and religious tourism. Going forward, we expect region's capacity to grow to ~86mtpa by FY26E implying a CAGR of 7.6% Vs demand CAGR of 8.3% over FY23-26E which shall increase utilization to ~80% in FY26E.
- Cement prices increased in Sept/Oct'23; however most of the price hikes got reversed in MP while UP prices remained higher. Near term pricing scenario is stable on expectation of stronger demand, and companies may attempt price hikes as demand improves post elections.

Exhibit 35: Central region demand supply scenario

(m tonnes)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Effective cement capacity	64.0	66.0	68.0	70.0	72.5	83.7	87.3
Capacity growth (%)	8	3	3	3	4	15	4
Demand	48	50	51	55	60.5	64.7	69.9
Capacity Utilisation (%)	75.0	75.8	75.0	78.6	83.4	77.3	80.1
Despatch growth (%)	2.1	4.2	2.0	7.8	10.0	7.0	8.0

Source: Industry, PL

Exhibit 36: Cement prices in Central (Rs/bag)



Source: Industry, PL

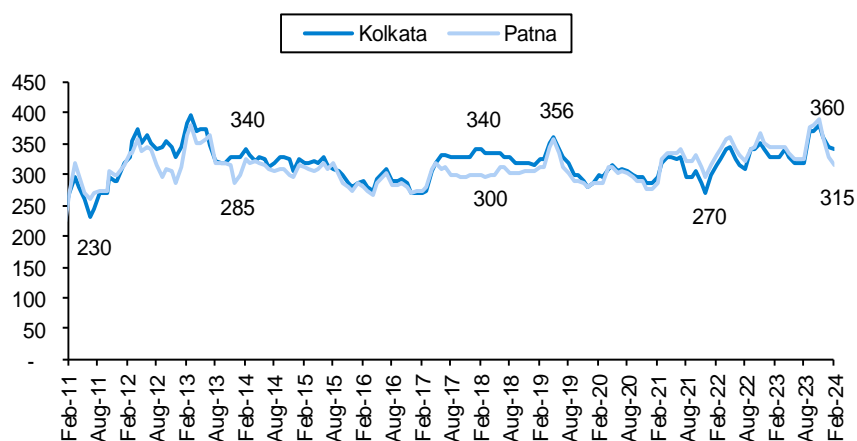
East

- East has become the engine of all India cement demand growth over last few years. Cement demand in Eastern India (including North East region) is growing in double digits since FY15 except for Covid-19 period. Industry capacity utilization has improved from 60% in FY17 to 72% in FY23. Over longer duration of FY06-23, demand grew at 9% Vs capacity addition CAGR of 10.5%. We expect ~40mt capacity addition over 4QFY24-27E as long term demand story remain intact. We expect region's capacity to grow to 168mtpa by FY26E implying a CAGR of 11.5% Vs demand CAGR of 8% over FY23-26E.
- Cement prices increased in Sept/Oct'23; however most of the price hikes got reversed due to weak demand (festivities and fiscal challenges in few states) and incremental capacity additions. Near term pricing scenario is weak, however companies may attempt price hikes as demand improves gradually post elections.
- North East region of India is a difficult territory for transportation of goods. Total market size of NE is ~13mtpa and is growing at ~8-10%. Clinker capacity is ~7.5mtpa thus there is good scope to increase capacities. Smaller plants are already running at 95% utilization thus players having excess capacity such as Dalmia and Star will continue to benefit in near to medium term.

Exhibit 37: Eastern region demand supply scenario

(m tonnes)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Effective cement capacity	95.0	100.0	110.0	121.0	132.9	148.3	167.9
Capacity growth (%)	3	5	10	10	10	12	13
Demand	66	72	79	87	95	101	110
Capacity Utilisation (%)	69.5	72.0	71.8	71.9	71.4	68.4	65.3
Despatch growth (%)	4.8	9.1	9.7	10.1	9.0	7.0	8.0

Source: Industry, PL

Exhibit 38: Cement prices in East (Rs/bag)

Source: Industry, PL

Outlook and valuation

Cement companies have successfully funded capex via internal accruals and some portion of debt. Our coverage universe itself added 118mtpa capacity over last 5 years without raising any significant debt on balance sheet. Over last 5 years, UTCCEM generated Rs457b cash flows from operations which have been used for organic and inorganic growth. SRCM generated Rs155b which had been used for organic growth successfully, while ACEM generated Rs173b. Even smaller players such as Ramco and JK Lakshmi generated strong Rs59b and Rs38b CFO over last 5 years.

Considering strong underlying demand along with healthy volume growth momentum, **we initiate coverage on Cement sector and recommend 'BUY'** rating on ACC (ACC; on 15x EV/EBITDA based TP of Rs3,522), Shree Cement (SRCM; on 17x EV/EBITDA based TP of Rs28,966), Ultratech Cement (UTCCEM; on 17x EV/EBITDA based TP of Rs11,328), **'ACCUMULATE'** rating on Dalmia Bharat (DALBHARA; on 11x EV/EBITDA based TP of Rs2,205), Nuvoco Vistas (NUVOCO; on 8x EV/EBITDA based TP of Rs372) and **'HOLD'** rating on Ambuja Cement (ACEM; on 17x EV/EBITDA based TP of Rs586).

Key risks

- Domestic economic slowdown due to political instability or external factors, if any, can delay industry volume growth.
- Abrupt increase in raw material/ fuel prices can impact industry profitability.
- Overcapacity in certain regions can lead to pricing pressure and affect industry profitability.

Exhibit 39: Valuation Matrix

	Company Name	ACC	ACEM	DALBHARA	Nuvoco	SRCM	UTCEM
	Mkt Cap (Rs mn)	4,95,533	11,97,642	3,67,766	1,14,238	8,91,407	27,92,542
	CMP (Rs)	2,639	603	1,961	320	24,754	9,673
	TP (Rs)	3,522	586	2,205	372	28,966	11,328
	Rating	Buy	HOLD	Accumulate	Accumulate	Buy	Buy
	Net Debt (FY23)	(2,890)	(28,528)	6,350	44,146	(9,718)	29,146
	EV (Rs mn)	4,93,178	11,69,117	3,74,116	1,58,383	8,81,671	28,21,688
	BV FY23 (Rs)	752	160	833	247	5,165	1,882
	P/BV (x)	3.5	3.8	2.4	1.3	4.8	5.1
Revenue (Rs mn)	FY23	2,17,673	3,89,368	1,35,400	1,05,862	1,75,660	6,23,376
	FY24E	1,99,724	3,71,232	1,46,158	1,06,172	2,07,207	7,06,802
	FY25E	2,17,634	4,16,489	1,68,540	1,15,854	2,28,999	7,89,834
	FY26E	2,39,323	4,59,906	1,96,237	1,27,850	2,64,667	8,93,451
EBITDA (Rs mn)	FY23	14,820	51,222	23,160	12,104	26,699	97,175
	FY24E	30,376	68,545	28,632	16,137	43,733	1,24,426
	FY25E	34,547	77,242	33,779	17,486	50,484	1,58,754
	FY26E	40,267	96,054	42,045	20,028	57,736	1,91,211
EBITDA Margin (%)	FY23	6.8	13.2	17.1	11.4	15.2	15.6
	FY24E	15.2	18.5	19.6	15.2	21.1	17.6
	FY25E	15.9	18.5	20.0	15.1	22.0	20.1
	FY26E	16.8	20.9	21.4	15.7	21.8	21.4
PAT (Rs mn)	FY23	9,919	27,550	11,540	151	11,164	50,599
	FY24E	18,770	28,694	9,831	1,139	23,595	67,283
	FY25E	21,456	29,946	10,527	2,506	26,142	82,107
	FY26E	25,132	44,599	15,209	4,709	28,985	1,04,938
EPS (Rs)	FY23	52.8	13.9	61.5	0.4	309.4	175.3
	FY24E	99.8	14.5	52.4	3.2	654.0	233.1
	FY25E	114.1	12.2	56.1	7.0	724.6	284.4
	FY26E	133.7	18.1	81.1	13.2	803.4	363.5
EV/EBITDA (x)	FY23	33.3	22.8	16.2	13.1	33.0	29.0
	FY24E	15.8	16.5	14.5	9.8	20.2	22.8
	FY25E	13.7	17.0	12.4	8.6	17.5	17.8
	FY26E	11.6	14.0	9.9	7.1	15.2	14.5
EV/ton (x)	FY23	157.0	215.3	108.3	83.1	237.5	266.1
	FY24E	139.7	199.5	88.4	76.5	190.4	245.5
	FY25E	127.9	189.2	82.5	71.5	168.3	198.1
	FY26E	117.1	162.5	73.3	66.0	142.9	168.8
PER (x)	FY23	50.0	43.5	31.9	754.5	79.8	55.2
	FY24E	26.4	41.7	37.4	100.3	37.8	41.5
	FY25E	23.1	49.6	34.9	45.6	34.1	34.0
	FY26E	19.7	33.3	24.2	24.3	30.8	26.6
ROE (%)	FY23	7.0	9.7	7.3	0.2	6.2	9.7
	FY24E	12.6	8.8	6.1	1.3	12.0	11.8
	FY25E	12.9	7.3	6.2	2.8	12.0	13.0
	FY26E	13.5	8.8	8.5	5.0	12.0	14.7
ROCE (%)	FY23	4.5	12.1	5.2	1.9	5.0	10.9
	FY24E	14.3	16.0	7.1	4.5	12.3	13.7
	FY25E	14.5	14.0	7.3	5.4	12.1	16.6
	FY26E	15.2	15.1	9.2	7.2	12.8	18.6

Source: Company, PL



COMPANIES

March 11, 2024

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	2,17,673	1,99,724	2,17,634	2,39,323
EBITDA (Rs. m)	14,820	30,376	34,547	40,267
Margin (%)	6.8	15.2	15.9	16.8
PAT (Rs. m)	9,919	18,770	21,456	25,132
EPS (Rs.)	52.8	99.8	114.1	133.7
Gr. (%)	(47.8)	89.2	14.3	17.1
DPS (Rs.)	9.3	14.0	16.0	18.0
Yield (%)	0.4	0.5	0.6	0.7
RoE (%)	7.0	12.6	12.9	13.5
RoCE (%)	4.5	14.3	14.5	15.2
EV/Sales (x)	2.3	2.4	2.2	1.9
EV/EBITDA (x)	33.3	15.8	13.7	11.6
PE (x)	50.0	26.4	23.1	19.7
P/BV (x)	3.5	3.1	2.8	2.5

Key Data

ACC.BO | ACC IN

52-W High / Low	Rs.2,760 / Rs.1,592
Sensex / Nifty	74,119 / 22,494
Market Cap	Rs.496bn/ \$ 5,986m
Shares Outstanding	188m
3M Avg. Daily Value	Rs.1291.84m

Shareholding Pattern (%)

Promoter's	56.69
Foreign	6.24
Domestic Institution	24.15
Public & Others	12.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.4	28.7	42.9
Relative	(3.2)	15.6	16.3

Tushar Chaudhari

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Aggressive parent to improve efficiencies

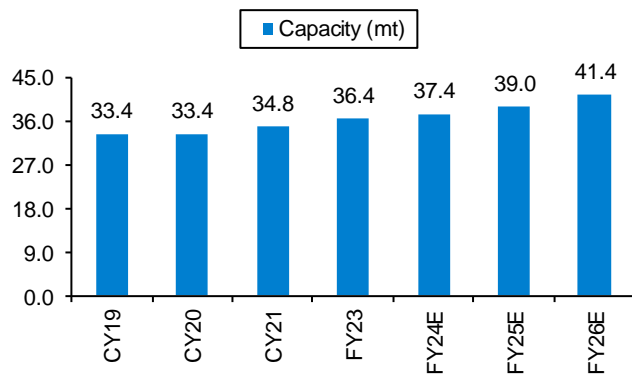
We initiate coverage on ACC Limited (ACC) with 'Buy' rating and TP of Rs3,522 based on 15x FY26EV/EBITDA valuing it its long term average multiple. We believe ACC will be a key beneficiary of uptick in demand given a) its ongoing brownfield expansions that will aid volume growth in high growing Central region; b) parent's expertise in logistics & energy and c) upcoming cost optimization projects. Although EBITDA per ton was relatively lower to peers due to few old plants, lack of waste heat recovery systems and overall higher operating costs; yet post Adani acquisition we believe, things are expected to change for better. With Adani group's superior execution capabilities and focus on profitability, we expect not only improved pace of capacity addition but also capex on efficiency improvement. With recent announcements, cement capacity is expected to grow to 41.4mtpa by FY26E. We expect strong earnings growth of ~47% over FY23-26E on low base. The stock is currently trading at 13.7x/11.6x EV of FY25E/FY26E EBITDA. Initiate 'Buy'.

Focus on profitability & capacity additions to improve: Post takeover in Sept-22, Adani group has announced doubling of its consolidated cement manufacturing capacity from 67.5 to 140mtpa in five years. Ambuja Cements (ACEM) has announced capex for adding 35.6mtpa at various existing locations, which is part of Brownfield and Greenfield expansion to reach to 140mtpa; out of which ACC has 5mtpa upcoming capacities over next 18 months. We believe with Adani's pace of execution expertise in various other industries, ACC will be able to improve efficiencies and add capacities at regular intervals over next few years. Cement margins are significantly dependent on cost of energy and logistics costs, but with Adani's entry and strong presence in both adjacent sectors we believe ACC will be a prime beneficiary.

Cost optimization efforts to aid profitability: ACC successfully commissioned two Waste Heat Recovery Systems (WHRS) with a combined capacity of 22.4 MW in FY23. The company will continue to expand its portfolio of renewable and green energy sources, which also includes installation of systems to increase co-processing of Alternative Fuels and Raw Materials (AFRs). The upcoming WHRS projects at our Karnataka, Madhya Pradesh and Maharashtra units expected to contribute additional 55.8MW of power generation. ACC has also planned to add 100MW solar energy at various locations for cost reduction. Other cost savings projects include Fly ash dryer projects at Kymore, Gagal and Wadi and PAN India warehouse network optimization.

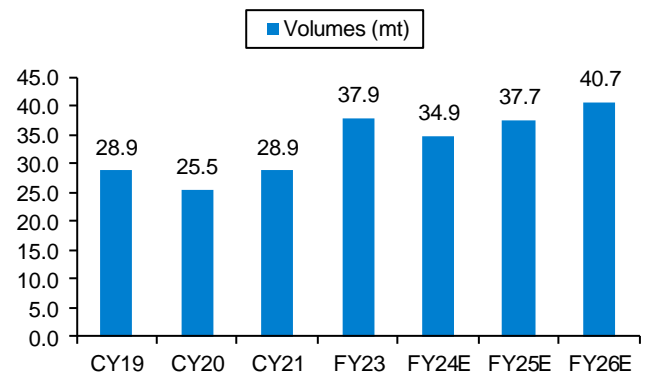
Story in Charts

Exhibit 40: Expect faster capacity additions



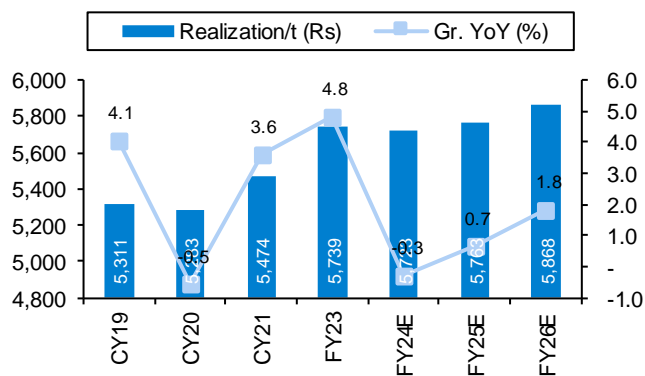
Source: Company, PL

Exhibit 41: Volumes to improve gradually



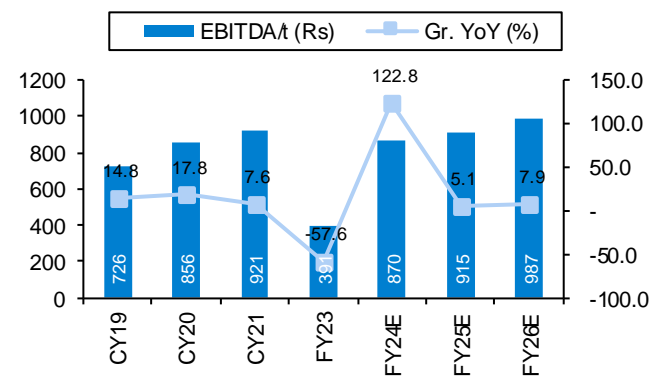
Source: Company, PL * FY23 includes 5 quarters

Exhibit 42: Realization to remain muted ahead of election



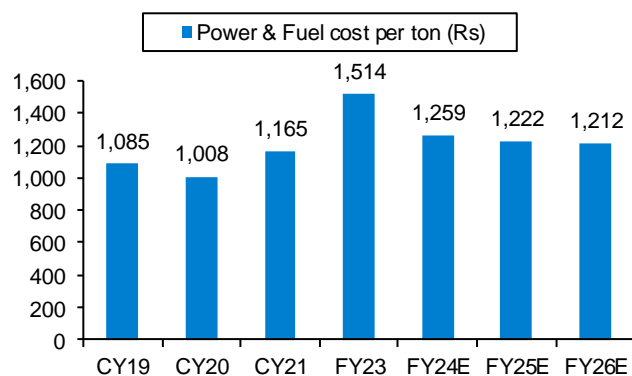
Source: Company, PL

Exhibit 43: EBITDA/t to improve on lower fuel price



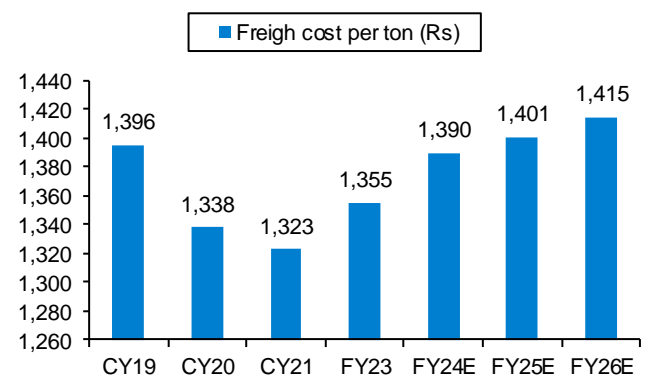
Source: Company, PL

Exhibit 44: Synergies with Adani group to aid P&F costs



Source: Company, PL

Exhibit 45: Freight cost to benefit from Adani infrastructure

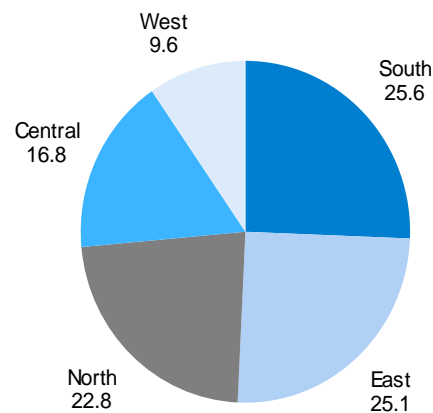


Source: Company, PL

ACC: Aggressive parent to improve efficiencies

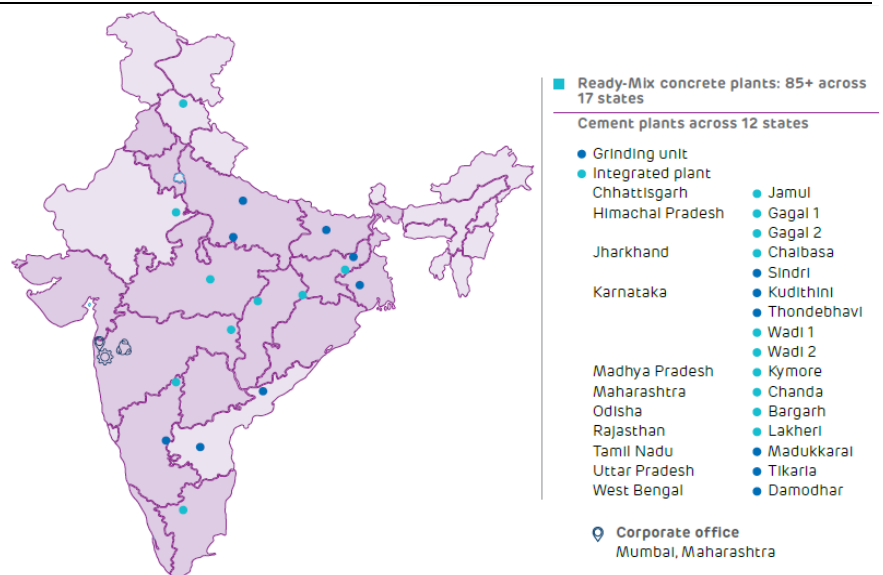
ACC Limited (ACC) is India's leading player in the building material space with pan-India manufacturing and production capacity of 36mtpa well spread across regions. The company has 25% capacity market share in East and South each while Central, North and West account for remaining 50%. ACC has one of the most balanced regional mixes in India. One of the country's leading manufacturers of cement and ready-mix concrete, ACC supplies its products for use in buildings, bridges, railways, and more. It also makes bulk and blended cement. Ambuja has Master Supply Agreement with ACC since 2021 through which optimum usage of facilities and resources are being planned aiming better profitability at consolidated level.

Exhibit 46: Current capacity break-up across regions



Source: Company, PL

Exhibit 47: ACC's presence across India



Source: Company, PL

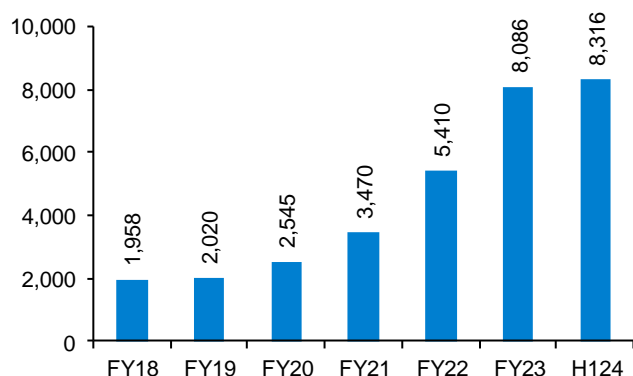
Investment Arguments

Focus on profitability & capacity additions to improve

ACC is one of the oldest cement manufacturers in India with installed capacity of 36mtpa. Historically its EBITDA per ton was lower relative to peers due to few old plants. Lack of decision making power affected ACC's capacity addition and efficiency improvement plans over last decade. Over last 10 years, it added only 6mtpa capacity via brownfield expansions. Due to slower pace of capacity addition, ACC has lost market share too in the last decade. However, post-acquisition by Adani group, things are expected to change for better. Although greenfield expansion at Ametha was delayed, it has now been commissioned and is expected to ramp up volumes in next few quarters. With Adani group's superior execution capabilities and focus on profitability, we expect not only improved pace of capacity addition but also capex on efficiency improvement. **Capacity is planned to grow to 41.4mtpa by FY26E.**

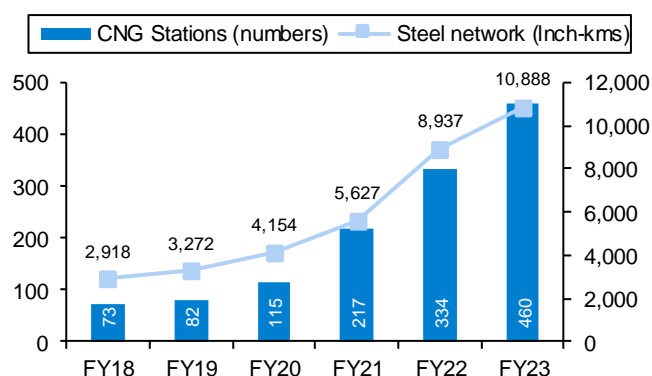
Post takeover in Sept-22, Adani group announced doubling of its consolidated cement manufacturing capacity from 67.5 to 140mtpa in five years. ACEM has announced capex for adding 35.6mtpa at various existing locations which is part of Brownfield expansion to reach to 140mtpa. ACC has 5mtpa coming over next 18 months. With Adani's pace of execution expertise in various other industries, we believe ACC will be able to improve efficiencies and add capacities at regular intervals over next few years. Cement margins have significant dependence on cost of energy and logistics; but with Adani's expertise and strong presence in both adjacent sectors, we believe ACC will be a prime beneficiary.

Exhibit 48: Operational renewable capacities in MW



Source: Adani group, PL

Exhibit 49: CNG stations and requisite steel network



Source: Adani group, PL

Exhibit 50: Announced capacity additions in ACC

	Clinker (mtpa)	Cement (mtpa)	Expected commissioning	Status
Brownfield				
Sindri (GU)		1.6	4QFY25	EPC awarded
Greenfield				
Ametha (GU)		1	1QFY25	Commissioned
Salai Banwa (GU)		2.4	1QFY26	EPC awarded
Total	0	5.0		

Source: Company, PL

Cost optimization efforts to aid profitability

To optimize cost of production ACC has directed its capex projects towards de-bottlenecking existing plants, driving process efficiency, increasing co-processing of Alternative Fuels and Raw Materials (AFRs) and installing Waste Heat Recovery Systems (WHRS) in other locations. These projects are advancing smoothly and are on schedule for timely completion.

Few cost optimization measures undertaken by ACC in the recent quarters:

- **ACC successfully commissioned two Waste Heat Recovery Systems (WHRS)** with a combined capacity of 22.4 MW in FY23. The company will continue to expand its portfolio of renewable and green energy sources which includes installation of systems to increase co-processing of Alternative Fuels and Raw Materials (AFRs).
- **Upcoming projects include installation of WHRS system** at Karnataka, Madhya Pradesh and Maharashtra units contributing to additional power generation of 55.8 MW. Planning is in place for utilization of additional 100 MW solar energy at various locations.
- **Upgradation of AFR pre- and co-processing system at various plants** would help ACC to achieve 18% Thermal Substitution Rate by 2024 post complete realization of projects.
- **Fly ash dryer projects at Kymore, Gagal and Wadi** were commissioned over last few quarters. ACC also initiated UDAAAN Project for logistics cost rationalization to unlock group synergies and leverage technology in last few quarters.
- **PAN India warehouse network optimization** increased direct dispatch to customer by 2% in FY23 and expect it to increase further.

Exhibit 51: Incremental 1006MW Renewable capacity by May 2025

Upcoming projects	Cap (MW)	Expected by
Solar Phase-1, Khavda, GJ	200	Mar-24
Solar Phase-2, Khavda, GJ	150	Mar-25
Wind Phase-1, Khavda, GJ	156	Mar-25
Solar Phase-3, Khavda, GJ	200	May-25
Solar Phase-2, Rajasthan	300	May-25
Total	1006	

Source: Company, PL, for Adani Cement assets

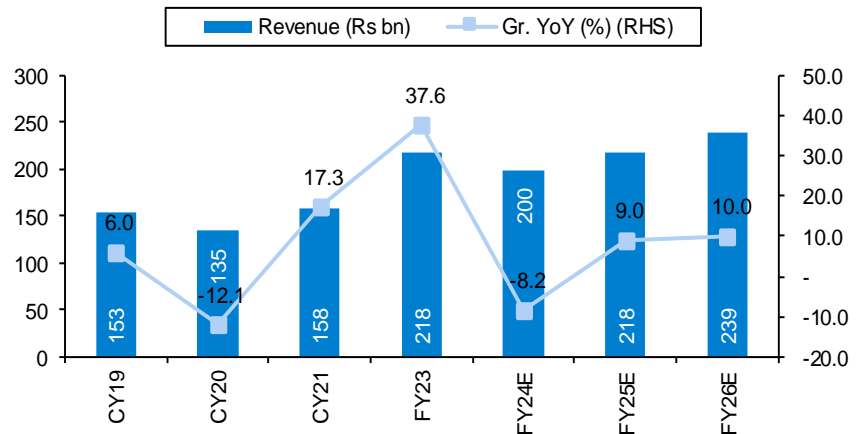
We believe that rising proportion of renewable energy and AFRS will result in significant costs savings for next two years. Realignment of dispatches and expertise of group in logistics sector to aid further profitability. Better management of ACC's facilities, improving product mix and sales reach is expected to drive margins over years. Although quantifying the benefits is challenging, management is targeting savings of Rs400 per ton once all cost efficiency projects are ramped up over next two years.

Financial Analysis

Strong 11% Revenue CAGR mostly led by volumes

We expect Revenue CAGR of 11% in FY23-FY26E, primarily led by volume CAGR of ~10%. We expect FY25 pricing to remain muted due to upcoming union elections and upcoming capacities in FY25.

Exhibit 52: Strong 11% Revenue CAGR mainly led by volume growth

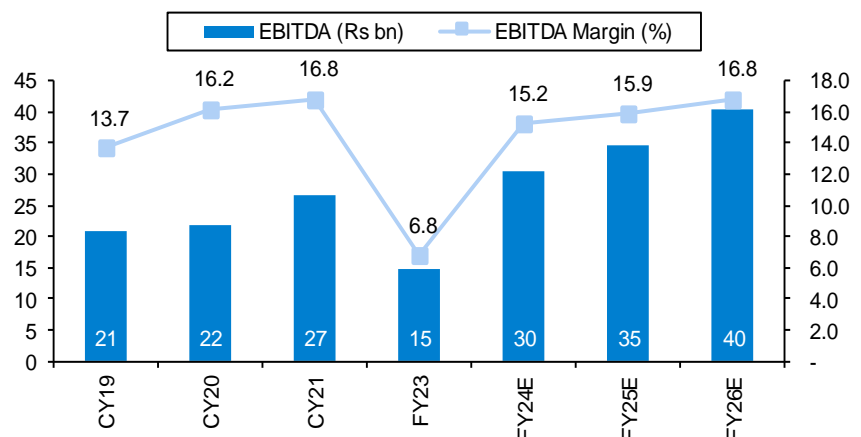


Source: Company, PL * FY23 includes 5 quarters

Margin expansion on low fuel cost

We expect EBITDA per ton to improve from Rs391 in FY23 to over Rs1,000 in FY26E on the back of lower fuel cost and uptick in pricing. We expect EBITDA CAGR of ~50% over FY23-26E on low base and improving efficiencies aided by lower fuel costs.

Exhibit 53: Strong 53% EBITDA CAGR over FY23-26E



Source: Company, PL * FY23 includes 5 quarters

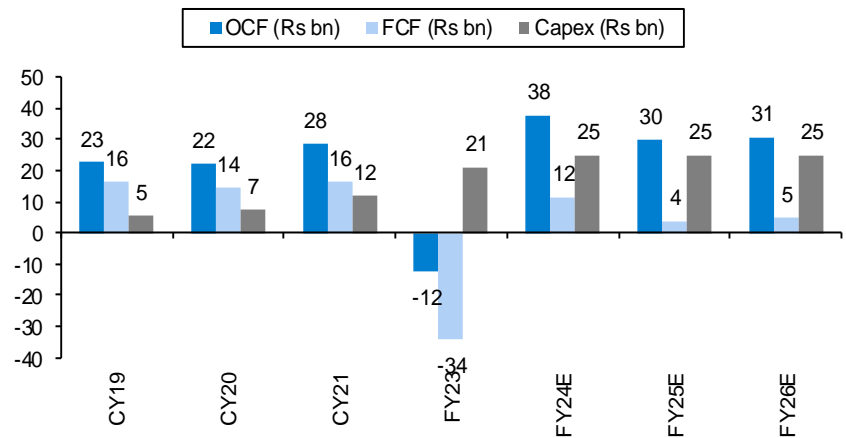
EBITDA is expected to grow at CAGR of 50% over FY23-26E to Rs40bn on the back of robust 11% volume growth and low base of FY23.

We expect PAT CAGR of 46% to ~Rs25 bn on account of strong operating performance and weak base of FY23.

Led by ramp-up of new capacities, RoCE will improve to ~24% in FY26E. While, RoE would improve to ~12% from low base of FY23 levels.

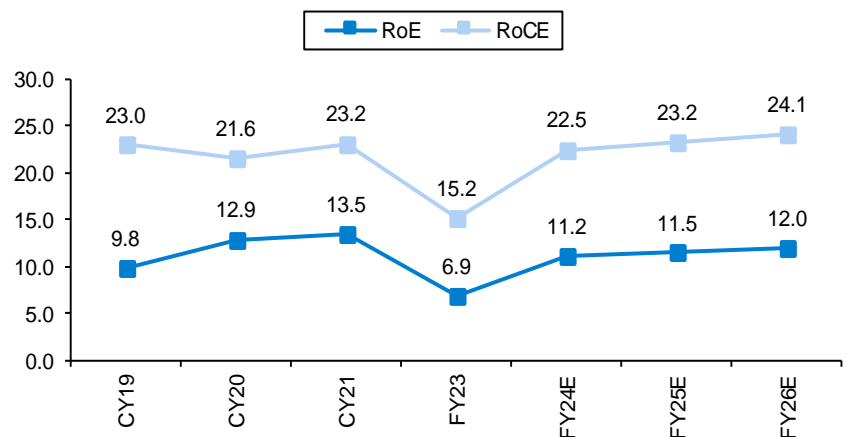
Strong OCF on better profitability; return ratios to improve

Exhibit 54: FCF to remain strong as pricing and utilizations improve



Source: Company, PL

Exhibit 55: Return ratios to improve from low FY23 base



Source: Company, PL

Valuation

Post Holcim takeover in 2005, ACC lagged behind in capacity addition and efficiency improvement capex due to low demand, overcapacity and parent's relatively less focus on Indian operations. However, with aggressive new parent, things are expected to improve drastically over next few years. Capex will be on improving cost efficiencies, reduction of energy costs and better logistics practices. Capacity addition is also expected to pick up pace as cement demand improves post union elections. We expect strong earnings growth of ~46% over FY23-26E on low base.

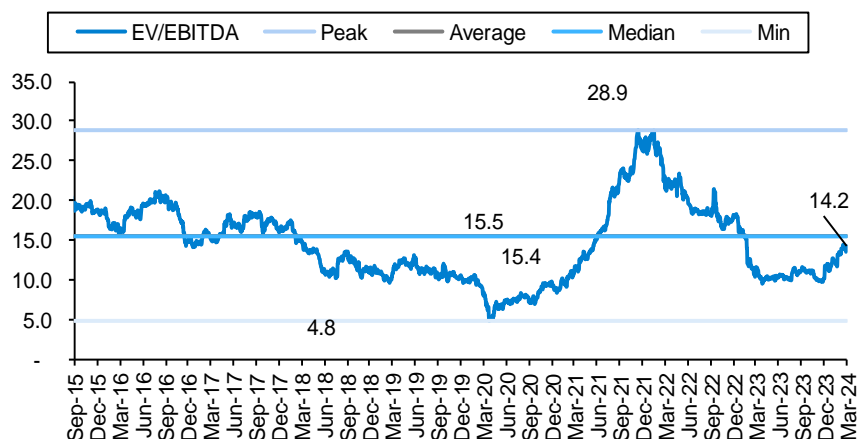
At CMP, ACC trades at EV of 13.7x/11.6 x EBITDA of FY25E/FY26E. **We assume coverage with 'Buy' rating** and TP of Rs3,522 per share on long term average multiples of 15x FY26E EV/EBITDA, as the stock has traded at 15.3x 1-year forward EBITDA over last 10 years.

Exhibit 56: Valuation table

Consolidated Valuation (Rs mn)	
FY26E EBITDA	40,267
EV/EBITDA (x)	15
Targeted EV	6,03,999
Net debt/(cash)	-57,443
Shareholder's s value	6,61,441
Value per share (Rs)	3,522

Source: Company, PL

Exhibit 57: 1-Year Forward EV/EBITDA chart



Source: PL

Key risks

- Timely execution and efficiency improvement is the key; economic slowdown can delay volume growth.
- Abrupt increase in raw material/ fuel prices can impact profitability.
- Overcapacity in East & South can lead to pricing pressure & lower profitability.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	2,17,673	1,99,724	2,17,634	2,39,323
YoY gr. (%)	37.6	(8.2)	9.0	10.0
Cost of Goods Sold	54,349	39,615	44,081	49,181
Gross Profit	1,63,324	1,60,109	1,73,553	1,90,143
Margin (%)	75.0	80.2	79.7	79.5
Employee Cost	10,362	8,953	9,669	10,443
Other Expenses	1,38,142	1,20,781	1,29,337	1,39,434
EBITDA	14,820	30,376	34,547	40,267
YoY gr. (%)	(44.3)	105.0	13.7	16.6
Margin (%)	6.8	15.2	15.9	16.8
Depreciation and Amortization	8,413	8,888	10,248	11,608
EBIT	6,407	21,488	24,299	28,659
Margin (%)	2.9	10.8	11.2	12.0
Net Interest	773	1,225	900	790
Other Income	7,848	4,737	5,404	5,868
Profit Before Tax	11,865	25,000	28,803	33,736
Margin (%)	5.5	12.5	13.2	14.1
Total Tax	3,174	6,375	7,345	8,603
Effective tax rate (%)	26.8	25.5	25.5	25.5
Profit after tax	8,691	18,625	21,458	25,134
Minority interest	1	2	2	2
Share Profit from Associate	162	147	-	-
Adjusted PAT	9,919	18,770	21,456	25,132
YoY gr. (%)	(47.8)	89.2	14.3	17.1
Margin (%)	4.6	9.4	9.9	10.5
Extra Ord. Income / (Exp)	(1,068)	-	-	-
Reported PAT	8,851	18,770	21,456	25,132
YoY gr. (%)	(52.5)	112.1	14.3	17.1
Margin (%)	4.1	9.4	9.9	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,851	18,770	21,456	25,132
Equity Shares O/s (m)	188	188	188	188
EPS (Rs)	52.8	99.8	114.1	133.7

Source: Company Data, PL Research, * FY23 includes 5 quarter data

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,20,666	1,40,666	1,60,666	1,80,666
Tangibles	1,20,666	1,40,666	1,60,666	1,80,666
Intangibles	-	-	-	-
Acc: Dep / Amortization	45,585	54,473	64,721	76,328
Tangibles	45,585	54,473	64,721	76,328
Intangibles	-	-	-	-
Net fixed assets	75,081	86,193	95,945	1,04,338
Tangibles	75,081	86,193	95,945	1,04,338
Intangibles	-	-	-	-
Capital Work In Progress	20,638	25,638	30,638	35,638
Goodwill	38	38	38	38
Non-Current Investments	14,048	14,048	14,048	14,048
Net Deferred tax assets	(4,573)	(4,573)	(4,573)	(4,573)
Other Non-Current Assets	13,081	13,081	13,081	13,081
Current Assets				
Investments	-	-	-	-
Inventories	16,242	13,680	14,906	16,392
Trade receivables	8,692	6,566	7,155	7,868
Cash & Bank Balance	4,147	17,941	24,137	31,544
Other Current Assets	23,086	15,491	12,650	13,184
Total Assets	2,05,438	2,23,060	2,42,982	2,66,515
Equity				
Equity Share Capital	1,880	1,880	1,880	1,880
Other Equity	1,39,505	1,55,643	1,74,091	1,95,839
Total Network	1,41,385	1,57,523	1,75,971	1,97,719
Non-Current Liabilities				
Long Term borrowings	1,257	1,257	1,257	1,257
Provisions	1,778	1,778	1,778	1,778
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	14,934	16,416	17,888	19,670
Other current liabilities	41,476	41,476	41,476	41,476
Total Equity & Liabilities	2,05,438	2,23,060	2,42,982	2,66,515

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	12,026	25,000	28,803	33,736
Add. Depreciation	8,413	8,888	10,248	11,608
Add. Interest	773	1,225	900	790
Less Financial Other Income	7,848	4,737	5,404	5,868
Add. Other	(2,816)	(4,737)	(5,404)	(5,868)
Op. profit before WC changes	18,396	30,376	34,547	40,267
Net Changes-WC	(26,708)	13,765	2,498	(951)
Direct tax	(4,039)	(6,375)	(7,345)	(8,603)
Net cash from Op. activities	(12,351)	37,766	29,700	30,713
Capital expenditures	(19,810)	(25,000)	(25,000)	(25,000)
Interest / Dividend Income	-	-	-	-
Others	(26,563)	4,884	5,404	5,868
Net Cash from Invt. activities	(46,373)	(20,116)	(19,596)	(19,132)
Issue of share cap. / premium	-	-	-	-
Debt changes	(889)	-	-	-
Dividend paid	(10,892)	(2,632)	(3,008)	(3,384)
Interest paid	(596)	(1,225)	(900)	(790)
Others	-	-	-	-
Net cash from Fin. activities	(12,377)	(3,857)	(3,908)	(4,174)
Net change in cash	(71,100)	13,793	6,196	7,407
Free Cash Flow	(33,398)	12,766	4,700	5,713

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q5FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	47,909	52,011	44,347	49,144
YoY gr. (%)	10.9	18.4	13.4	8.3
Raw Material Expenses	15,778	14,269	12,944	13,410
Gross Profit	32,132	37,742	31,403	35,733
Margin (%)	67.1	72.6	70.8	72.7
EBITDA	4,685	7,709	5,493	9,047
YoY gr. (%)	(11.6)	119.6	(1,008.4)	138.6
Margin (%)	9.8	14.8	12.4	18.4
Depreciation / Depletion	1,768	2,001	2,128	2,352
EBIT	2,918	5,708	3,365	6,695
Margin (%)	6.1	11.0	7.6	13.6
Net Interest	152	251	289	339
Other Income	1,192	769	2,101	862
Profit before Tax	3,293	6,226	5,177	7,217
Margin (%)	6.9	12.0	11.7	14.7
Total Tax	957	1,594	1,315	1,916
Effective tax rate (%)	29.1	25.6	25.4	26.6
Profit after Tax	2,336	4,632	3,862	5,301
Minority interest	-	-	-	-
Share Profit from Associates	21	29	17	76
Adjusted PAT	2,828	4,661	3,879	5,376
YoY gr. (%)	(28.6)	105.0	(615.3)	213.6
Margin (%)	5.9	9.0	8.7	10.9
Extra Ord. Income / (Exp)	(471)	-	-	-
Reported PAT	2,357	4,661	3,879	5,376
YoY gr. (%)	(40.5)	105.0	(544.0)	375.1
Margin (%)	4.9	9.0	8.7	10.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,357	4,661	3,879	5,376
Avg. Shares O/s (m)	188	188	188	188
EPS (Rs)	15.1	24.8	20.7	28.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	52.8	99.8	114.1	133.7
CEPS	97.5	147.1	168.6	195.4
BVPS	752.1	837.9	936.1	1,051.8
FCF	(177.7)	67.9	25.0	30.4
DPS	9.3	14.0	16.0	18.0
Return Ratio(%)				
RoCE	4.5	14.3	14.5	15.2
ROIC	3.4	12.1	12.6	13.6
RoE	7.0	12.6	12.9	13.5
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	17	7	7	7
Valuation(x)				
PER	50.0	26.4	23.1	19.7
P/B	3.5	3.1	2.8	2.5
P/CEPS	27.1	17.9	15.6	13.5
EV/EBITDA	33.3	15.8	13.7	11.6
EV/Sales	2.3	2.4	2.2	1.9
Dividend Yield (%)	0.4	0.5	0.6	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Cement Volume (mt)	38	35	38	41
Net Realisation (Rs/t)	5,331	5,331	5,385	5,492
EBITDA (Rs/ t)	391	870	915	987

Source: Company Data, PL Research

March 11, 2024

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	3,89,368	3,71,232	4,16,489	4,59,906
EBITDA (Rs. m)	51,222	68,545	77,242	96,054
Margin (%)	13.2	18.5	18.5	20.9
PAT (Rs. m)	27,550	28,694	29,946	44,599
EPS (Rs.)	13.9	14.5	12.2	18.1
Gr. (%)	(2.7)	4.2	(15.9)	48.9
DPS (Rs.)	6.0	7.0	7.7	8.5
Yield (%)	1.0	1.2	1.3	1.4
RoE (%)	9.7	8.8	7.3	8.8
RoCE (%)	12.1	16.0	14.0	15.1
EV/Sales (x)	3.0	3.0	3.2	2.9
EV/EBITDA (x)	22.8	16.5	17.0	14.0
PE (x)	43.5	41.7	49.6	33.3
P/BV (x)	3.8	3.6	3.0	2.9

Key Data

ABUJ.BO | ACEM IN

52-W High / Low	Rs.625 / Rs.341
Sensex / Nifty	74,119 / 22,494
Market Cap	Rs.1,198bn/ \$ 14,466m
Shares Outstanding	1,986m
3M Avg. Daily Value	Rs.2277.08m

Shareholding Pattern (%)

Promoter's	63.19
Foreign	11.88
Domestic Institution	15.83
Public & Others	9.10
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.7	33.8	59.4
Relative	0.9	20.2	29.8

Tushar Chaudhari

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Ambuja Cement (ACEM IN)

Rating: HOLD | CMP: Rs603 | TP: Rs586

Improving focus on volumes and efficiencies

We initiate coverage on Ambuja Cements Limited (ACEM) with 'Hold' rating and TP of Rs586 based on 17x cons. FY26EV/EBITDA in-line with other large cap peers. Over last few years ACEM struggled for volume growth due to capacity constraints, however, with change in parent, we believe the company will deliver superior earnings growth over next few years led by a) improving focus on capacity addition which will drive consolidated volume CAGR of ~9% over FY23-26E; b) harnessing synergies with parent group companies using their expertise of green energy and logistics and c) focus on ramping up available capacities at newly acquired Sanghi assets. ACEM is well placed to be a key beneficiary of the ongoing strong pricing environment and demand uptick. We expect strong cons. earnings growth of ~26% over FY23-26E. The stock is currently trading at 17x/14x EV of FY25E/FY26E EBITDA. Initiate 'Hold'.

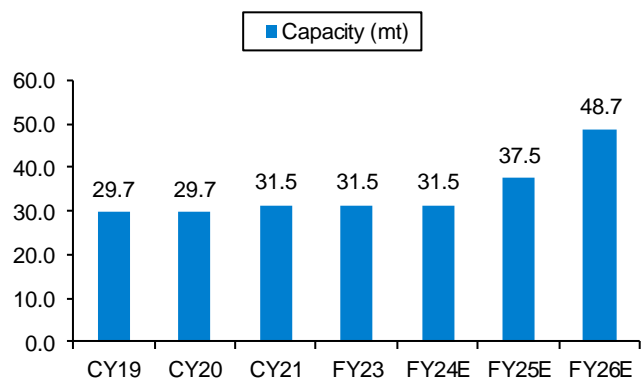
Change in guard to drive capacity additions: ACEM is one of the largest cement manufacturers in India with installed capacity of 31.5mtpa. Over last 5 years, it added only 1.8mtpa capacity while industry added ~120mtpa mainly due to lack of priority to its earlier parent which affected ACEM's market share over last decade. Its capacity grew at just 1% CAGR over last decade and incremental volume growth had become a key challenge in the recent past. Due to slower pace of capacity addition, ACEM has lost market share in last few years. However, with change in guard, things are expected to change for better. With Adani group's superior execution capabilities, capacity is expected to grow at ~16% to 48.7mtpa over FY23-26E.

Efficient cement producer to become more efficient: ACEM has been one of the most efficient players, however cost structure has started moving up due to uptick in fuel prices (pet coke and imported coal) and limited volume growth which affected the operating leverage. Going forward, as upcoming capacities come on stream, we believe ACEM would be able to achieve lowest cost by leveraging Adani Group's expertise and unmatched adjacencies in critical areas such as group infrastructure, digital platform, energy cost and supply chain. Adani's supply chain excellence can aid ACEM in leveraging existing infrastructure to lower logistics costs. Management is guiding a benefit of Rs400 per ton over long term via cost optimizations in three areas: Manufacturing, Logistics and misc. areas.

New acquisition to improve market share in west: ACEM recently acquired assets of Sanghi Industries at an Enterprise Value of Rs 50bn. This acquisition would help to accelerate Adani group's goal of reaching 140mtpa much ahead of 2028. The plant is running at ~35% capacity utilization over the last decade and we expect ACEM to ramp up both clinker and cement production over next few years. We await further clarity on operational challenges, if any, in ramping up existing capacities at Sanghipuram. We believe ACEM will ramp up production within next two years and expect financials to improve considerably from loss making entity to profit making entity in FY26E. If ACEM is able to improve volumes from Sanghipuram plant, its market share in Western region may also improve gradually.

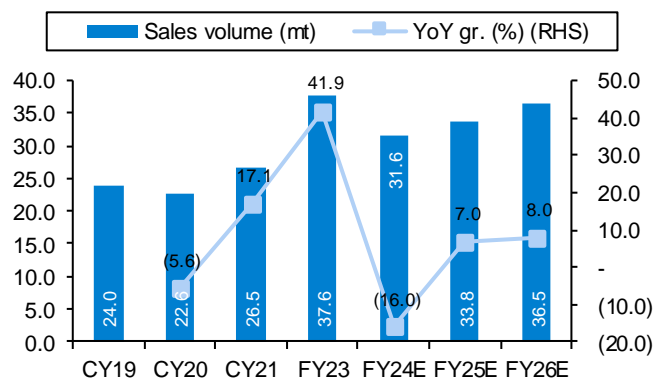
Story in Charts

Exhibit 58: Expect faster capacity additions



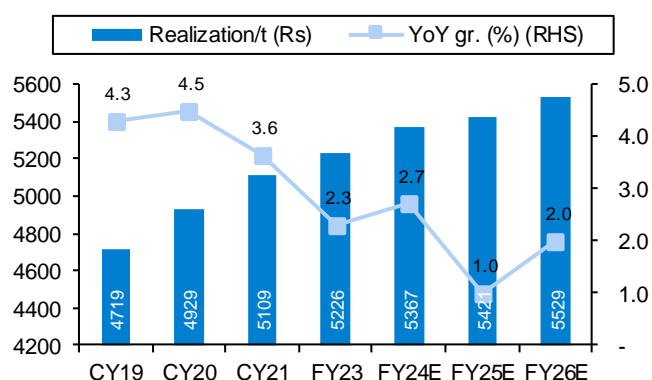
Source: Company, PL

Exhibit 59: Volumes to improve gradually



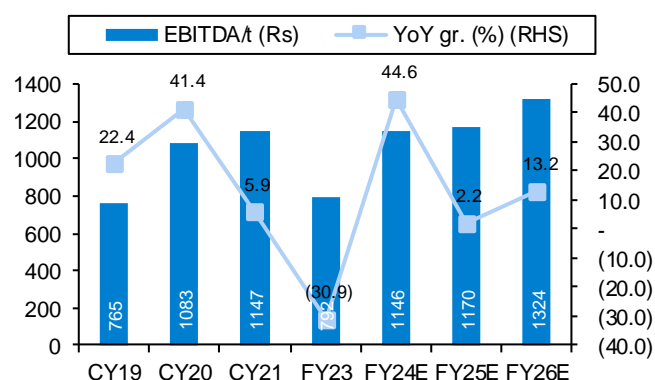
Source: Company, PL *FY23 includes 5 quarters

Exhibit 60: Realization to remain muted ahead of elections



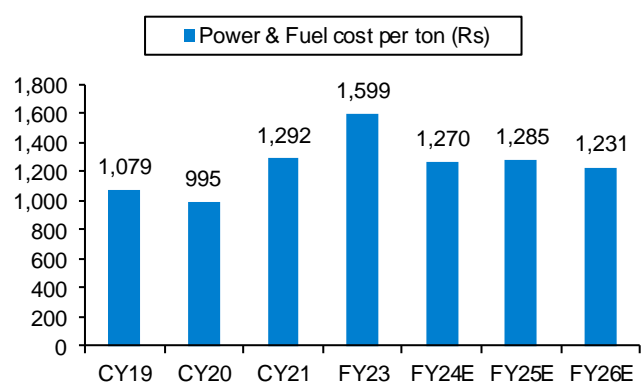
Source: Company, PL

Exhibit 61: EBITDA/t to improve on lower fuel prices



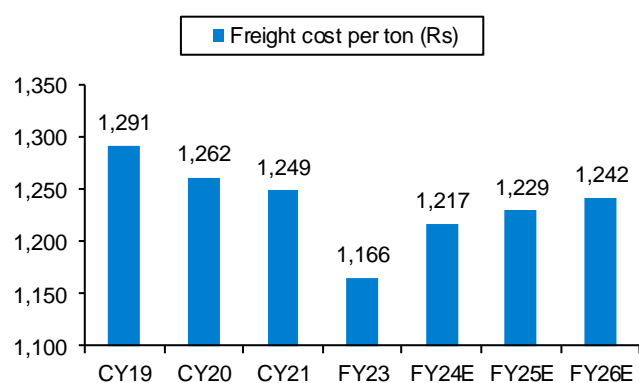
Source: Company, PL

Exhibit 62: Synergies with Adani group to aid P&F costs



Source: Company, PL

Exhibit 63: Freight cost to benefit from Adani infrastructure



Source: Company, PL

ACEM- Improved focus on capacity addition

Ambuja Cements Ltd (ACEM) is India's foremost cement company known for its hassle-free, home-building solutions. It is a member of Adani Group having largest and fastest-growing portfolio of diversified sustainable businesses.

Incorporated in Oct-1981 as Ambuja Cements Pvt. Ltd, the company initially was a joint venture between Gujarat Industrial Investment Corporation and Narottam Sekhsaria & Associates. In May-1983, it rehabilitated in a public limited company, changed name to Gujarat Ambuja Cements Ltd and later to ACEM (current installed capacity of 31.45mtpa). In 2006 global cement major Holcim acquired management control and in May-22 Adani group acquired ACEM and ACC by buying out Holcim's stake for USD6.5bn.

ACEM is India's most efficient cement producer with production capacity of 31.5mtpa (expected to reach ~46.7mtpa within next two years). Its key markets North, West and Eastern India have capacity share of 42%, 36% and 22% respectively. The company has an attractive geographical positioning, market leading brands, large network of dealers/retailers (trade sales >80% of total volume) and strong balance sheet with net cash of ~Rs100bn.

ACEM has Master Supply Agreement (MSA) with ACC since 2021 to a) enhance volumes and profitability by improving efficiency in operational and logistics costs, b) achieve synergies and economies of scale, and c) better usage of fuel. Further, its 'Sustainable Development Ambition 2030' provides strategic direction to company's long-term vision.

Exhibit 64: Adani Cement presence across India



Source: Company, PL

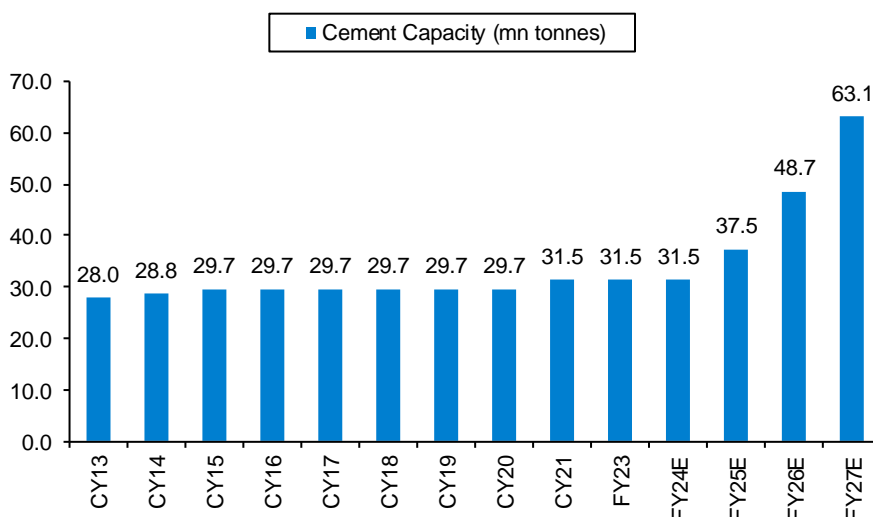
Investment Arguments

Change in guard to drive capacity additions

North, West and East account for 42%, 35%, 23% of std. ACEM's capacity

Lack of decision making power affected ACEM's capacity addition and effectively market share over the last decade. ACEM is one of the largest cement manufacturers in India with installed capacity of 31.5mtpa. However, over last 5 years, it added only 1.8mtpa capacity while industry added ~120mtpa. Its capacity grew at just 1% CAGR over last decade and incremental volume growth had become a key challenge in recent past. Due to slower pace of capacity addition, ACEM has lost market share too. However, with the change in guard, things are expected to change for better. With Adani group's superior execution capabilities, capacity is expected to grow at 16% CAGR to 48.7mtpa over FY23-26E.

Exhibit 65: Aggressive capacity addition to deliver volume growth



Source: Company, PL

Post takeover in Sept-22, Adani group has announced doubling of its consolidated cement manufacturing capacity from 77mtpa to 140mtpa in five years. Adani board has also approved 2.25mtpa clinker unit at Mundra and another 12mtpa cement grinding units of 2.4mtpa each at 5 other locations in 3QFY24. Land acquisitions for these incremental 12mtpa GUs is under progress.

Post expansion, North, West and East will account for 30%, 37%, 33% of std. ACEM's capacity of 63.1mtpa by FY27E

ACEM has announced capex for adding ~35.6mtpa at various existing locations which is part of its Brownfield and Greenfield expansion to reach to 140mtpa. Recently ACEM has announced capex of Rs 10bn for 4mtpa grinding unit at Godda, Jharkhand. The project is planned in close proximity to Adani Power aimed to utilize its fly ash. We believe such gaps in consolidated group facilities would be bridged by parent company meticulously which would improve ACEM's operational efficiencies further.

Exhibit 66: Announced capacity expansion projects and timeline

	Clinker (mtpa)	Cement (mtpa)	Expected commissioning	Status
Debottlenecking				
Bhatinda		1.2	4QFY25	EC applied
Brownfield				
Bhatapara line 3 (CU)	4		4QFY25	On fast track
Maratha Line 2 (CU)	4		2QFY26	Site development
Sankrail (GU)		2.4	3QFY25	EPC awarded
Mundra (GU)		4.8	3QFY26 (L1)	LOI issued
Marwar (GU)		2.4	1QFY26	LOI issued
Greenfield				
Godda, JH (GU)		4	4QFY26	NA
Farakka, WB (GU)		4.8	3QFY25 (L1)	EPC awarded
Recently approved				
Mundra (CU)	2.25		FY27	Land acquisition stage
Hoshiyarpur, PB (GU)		2.4	FY27	Land acquisition stage
Amaravati, MH (GU)		2.4	FY27	Land acquisition stage
Jalgaon, MH (GU)		2.4	FY27	Land acquisition stage
Pune, MH (GU)		2.4	FY27	Land acquisition stage
Warisaliganj, BH (GU)		2.4	FY27	Land acquisition stage
Total	10.25	35.6		

Source: Company, PL; all recently approved capacities assumed in FY27

Efficient cement producer to become more efficient

ACEM has been one of the most efficient player however cost structure has started moving up due to uptick in fuel prices (pet coke and imported coal) and limited volume growth which affected the operating leverage. Going forward, as upcoming capacities come on stream, we believe ACEM would be able to achieve lowest cost by leveraging Adani Group's expertise and unmatched adjacencies in critical areas such as group infrastructure, digital platform, energy cost, and supply chain. Adani's supply chain excellence can aid ACEM in leveraging existing infrastructure to lower logistics costs. Management is guiding a benefit of Rs400 per ton over long term via cost optimizations in three areas: Manufacturing, Logistics and misc areas.

Exhibit 67: Increasing proportion of Green power

(in MW)	YTDFY24	4QFY24	FY24E	by FY28E
WHRS	119	15	134	377
Solar	57	200	257	907
Wind	26	0	26	182
Total	202	215	417	1,466

Source: Company, PL

Manufacturing costs can be reduced via a) increasing WHRS capacities from 119MW to ~377MW by FY28E, b) increasing AFR share from 7% to over 30% by FY27, c) ramping up captive coal production, d) rising renewable capacities and e) long term fly ash contracts with group company. **Logistics cost** can be reduced via a) Rail-Road mix optimization and b) increasing direct dispatches using group's warehouses. **Other miscellaneous areas** of per ton EBITDA improvement are a) debottlenecking to increase current capacities, b) improving product mix via focusing on consumers and influencers. We believe few of the cost saving measures are easily possible to achieve with the parent group's expertise in logistics, renewable energy and mining operations.

Exhibit 68: Synergies to explore with parent Adani group over the long term

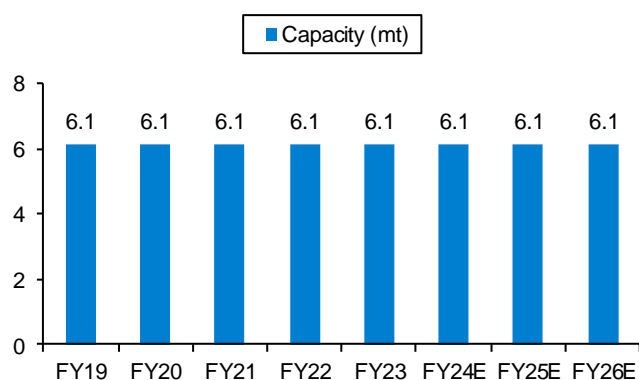


Source: Company, PL

New acquisition to improve market share in west

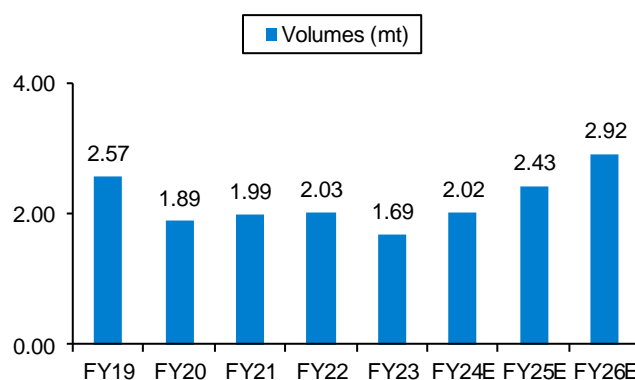
Over last 12 months, ACEM has acquired assets of Sanghi Industries with 6.1mtpa integrated facility and ACC acquired balance 55% stake in Asian Concrete and Cement. We believe ramping up of Sanghi assets will start in the coming quarter and there can be addition of one line of 4mtpa clinker at Sanghi over the period to make to ~11mtpa clinker capacity along with debottlenecking and effectively cement capacity can be increased to ~15mtpa as stated at the time of acquisition by management. With aggressive promoter and increased focus on volume growth, we believe ACEM is well placed to deliver strong volume growth in the long term.

Exhibit 69: Expect GU addition at Sanghi unit too



Source: Company, PL

Exhibit 70: Expect ACEM to ramp up volumes from Sanghi



Source: Company, PL

Sanghi assets at Sanghipuram, Kutch is an integrated cement unit with 6.1mtpa cement, 6.6mtpa clinker and 143MW CPP. It also has bulk cement terminals at Navlakhi and Kochi to aid sea movement of materials. It has 1bnt limestone reserves near plant and has 3km long conveyor belt for limestone transportation. The plant is running at ~30-35% capacity utilization over last decade and we expect ACEM to ramp up both clinker and cement production over next few years.

Sanghi capacity utilization to improve significantly due to MSA signed with ACC and ACEM

As per planned EGM, ACEM and ACC has signed a Master Supply and Service Agreement (MSA) with Sanghi wherein both companies will bulk purchase clinker and cement from Sanghi and will sell it under own brand names. The MSA is expected to improve capacity utilization substantially to ~80% and expected to generate 9% EBITDA margin for Sanghi; which appears low. However, ramping up of existing capacities is going to be positive for consolidated entity.

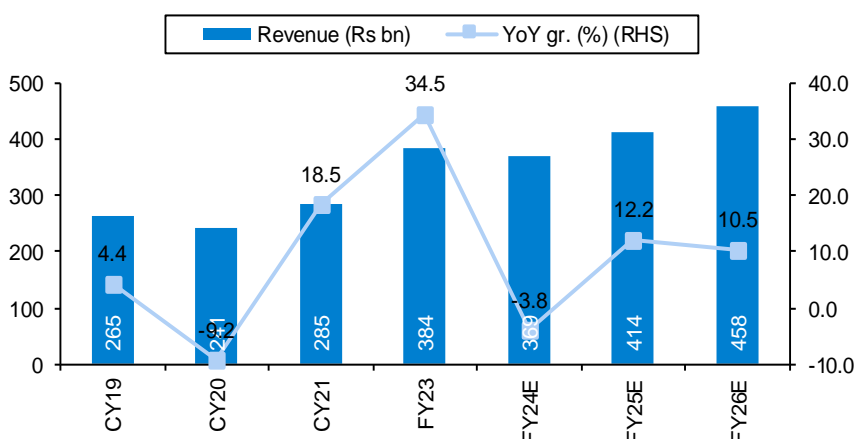
We await further clarity on operational challenges, if any, in ramping up the existing capacities at Sanghipuram; however, expect ACEM to ramp up production over next two years and expect financials to improve considerably from loss making entity to profit making entity in FY26E. If ACEM is able to improve volumes from Sanghipuram plant, its market share in Western region would also improve gradually.

Financial Analysis

Strong 14% Revenue CAGR mostly led by volumes

We expect consolidated cement revenue to grow at a CAGR of 14% in FY23-FY26E, primarily led by volumes which is expected to grow at a CAGR of ~9% at consolidated level. Realization had improved in 3QFY24 due to price hikes however most of the price hikes undertaken have been reversed and we expect pricing to remain muted till 2QFY25.

Exhibit 71: Strong 14% CAGR in revenue mainly led by volume growth

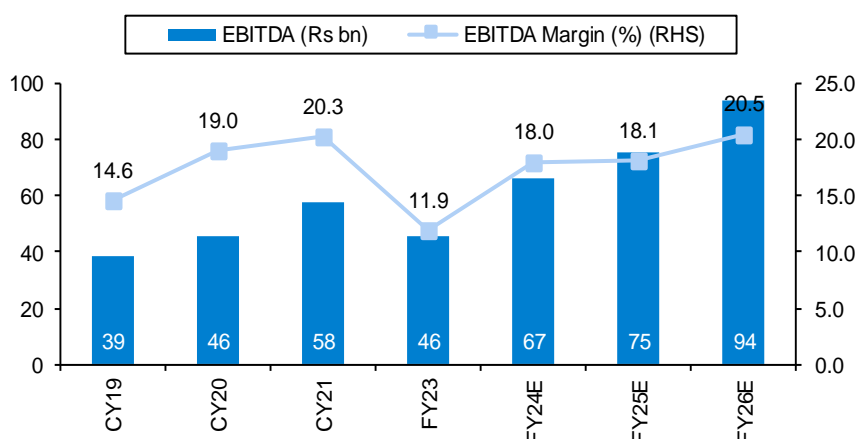


Source: Company, PL

Margin expansion on lower fuel cost

We expect Standalone EBITDA per ton to improve from Rs800 in FY23 to over Rs1300 in FY26E on the back of lower fuel cost and uptick in pricing. Consolidated EBITDA is expected to increase 37% CAGR over FY23-26E.

Exhibit 72: Strong 37% CAGR in EBITDA over FY23-26E



Source: Company, PL

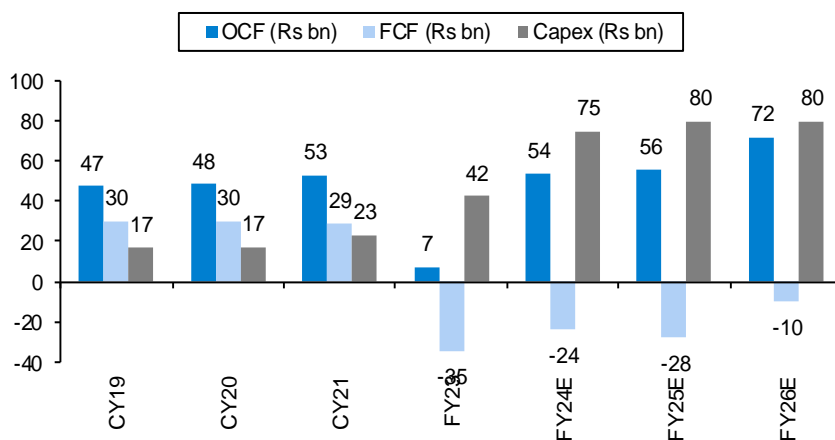
Cons. EBITDA is expected to grow at CAGR of 37% over FY23-26E at Rs94bn on the back of robust ~9% volume growth.

PAT is expected to grow at a CAGR of 26% to Rs45 bn on account of strong operating performance and weak base of FY23

Despite ramp-up of new capacities, RoCE would remain muted at 13% in FY26E due to incoming cash post warrant conversion in April 2024. RoE would remain at ~9%.

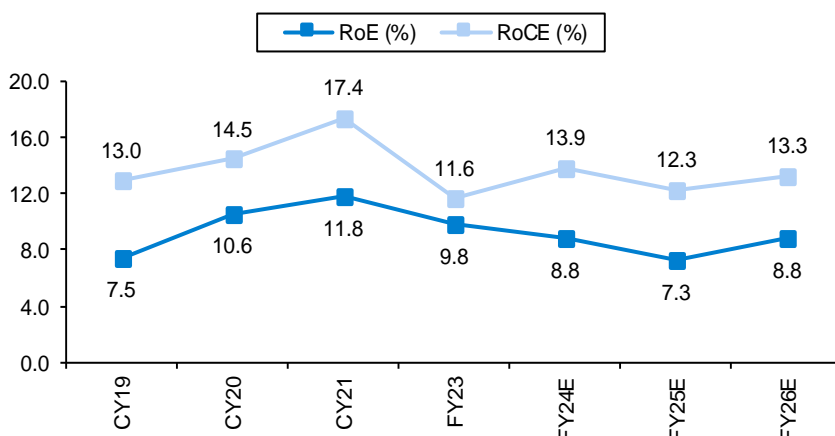
Strong OCF on better profitability, return ratios to improve

Exhibit 73: FCF to remain strong as pricing and utilizations improve



Source: Company, PL

Exhibit 74: Return ratios to improve from low FY23 base



Source: Company, PL

Valuation

Over last decade ACEM couldn't increase its capacity in line with industry capacity growth rate which impacted its valuations relative to peers. However going forward we expect ACEM to deliver better capacity addition run rate due to change in management and its aggressive approach to gain market share.

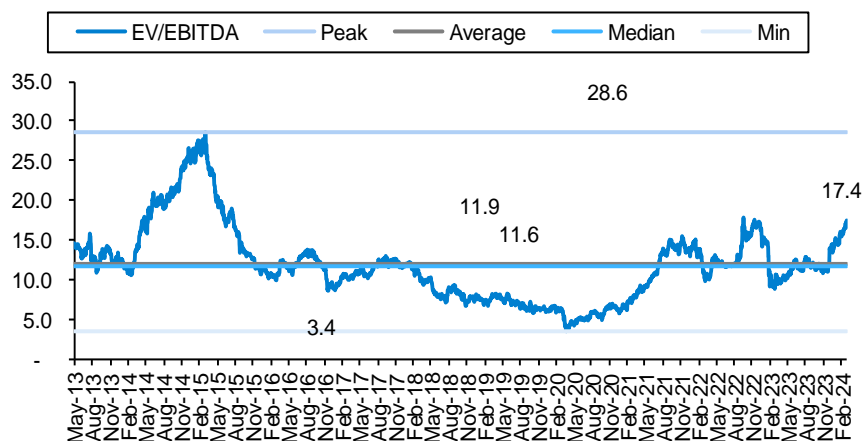
At CMP, ACEM trades at a EV of 17x/14x FY25E/ FY26E EBITDA respectively. We have valued the company on consolidate basis at 17x FY26 EV/EBITDA multiple, at premium to its historical long term average of 12x. **We assume coverage with 'Hold' rating** and target price of Rs586 per share assuming ~9% CAGR in cons. volume growth.

Exhibit 75: Consolidated Valuation

Parameters	FY26E
FY26E EBITDA	93,936
EV/EBITDA multiple	17.0
Targeted EV (ex-minorities)	12,97,940
Net debt/(cash)	-1,45,373
Shareholder's s value	14,43,313
Value per share	586

Source: PL

Exhibit 76: 1-Year Forward EV/EBITDA chart



Source: PL

Key risks

- Timely execution is the key; economic slowdown can delay volume growth.
- Abrupt increase in raw material/ fuel prices can impact profitability.
- Overcapacity can lead to pricing pressure & lower profitability.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	3,89,368	3,71,232	4,16,489	4,59,906
YoY gr. (%)	34.4	(4.7)	12.2	10.4
Cost of Goods Sold	51,109	59,768	66,593	73,754
Gross Profit	3,38,259	3,11,464	3,49,896	3,86,152
Margin (%)	86.9	83.9	84.0	84.0
Employee Cost	18,565	17,594	19,719	21,282
Other Expenses	2,68,472	2,25,324	2,52,934	2,68,815
EBITDA	51,222	68,545	77,242	96,054
YoY gr. (%)	(17.5)	33.8	12.7	24.4
Margin (%)	13.2	18.5	18.5	20.9
Depreciation and Amortization	16,447	16,309	19,501	19,941
EBIT	34,775	52,236	57,741	76,113
Margin (%)	8.9	14.1	13.9	16.5
Net Interest	1,949	2,327	3,542	2,102
Other Income	6,814	3,352	3,621	3,910
Profit Before Tax	37,015	53,262	57,820	77,921
Margin (%)	9.5	14.3	13.9	16.9
Total Tax	7,051	15,339	17,160	20,773
Effective tax rate (%)	19.0	28.8	29.7	26.7
Profit after tax	29,964	37,923	40,660	57,149
Minority interest	4,410	9,376	10,714	12,550
Share Profit from Associate	280	147	-	-
Adjusted PAT	27,550	28,694	29,946	44,599
YoY gr. (%)	(2.7)	4.2	4.4	48.9
Margin (%)	7.1	7.7	7.2	9.7
Extra Ord. Income / (Exp)	(1,716)	-	-	-
Reported PAT	25,834	28,694	29,946	44,599
YoY gr. (%)	(7.1)	11.1	4.4	48.9
Margin (%)	6.6	7.7	7.2	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	25,834	28,694	29,946	44,599
Equity Shares O/s (m)	1,986	1,986	2,463	2,463
EPS (Rs)	13.9	14.5	12.2	18.1

Source: Company Data, PL Research; FY23 includes data for 5 quarters

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	3,23,358	3,93,358	4,68,358	5,43,358
Tangibles	3,23,358	3,93,358	4,68,358	5,43,358
Intangibles	-	-	-	-
Acc: Dep / Amortization	87,844	1,04,153	1,23,654	1,43,595
Tangibles	87,844	1,04,153	1,23,654	1,43,595
Intangibles	-	-	-	-
Net fixed assets	2,35,515	2,89,206	3,44,705	3,99,763
Tangibles	2,35,515	2,89,206	3,44,705	3,99,763
Intangibles	-	-	-	-
Capital Work In Progress	30,068	35,068	40,068	45,068
Goodwill	-	-	-	-
Non-Current Investments	33,573	33,573	33,573	33,573
Net Deferred tax assets	(7,004)	(7,004)	(7,004)	(7,004)
Other Non-Current Assets	25,565	25,565	25,565	25,565
Current Assets				
Investments	-	-	-	-
Inventories	32,728	30,349	34,063	37,626
Trade receivables	11,544	11,101	13,625	12,542
Cash & Bank Balance	29,610	66,705	1,73,620	1,46,455
Other Current Assets	39,489	39,489	39,489	39,489
Total Assets	5,17,215	5,38,934	7,12,588	7,47,962
Equity				
Equity Share Capital	3,971	3,971	4,926	4,926
Other Equity	3,13,011	3,27,803	4,87,828	5,11,564
Total Networkth	3,16,982	3,31,775	4,92,755	5,16,491
Non-Current Liabilities				
Long Term borrowings	1,082	1,082	1,082	1,082
Provisions	2,649	2,649	2,649	2,649
Other non current liabilities	373	373	373	373
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	27,739	25,291	27,251	26,338
Other current liabilities	86,658	86,658	86,658	86,658
Total Equity & Liabilities	5,17,215	5,38,934	7,12,588	7,47,962

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	37,295	53,262	57,820	77,921
Add. Depreciation	16,447	16,309	19,501	19,941
Add. Interest	1,949	2,327	3,542	2,102
Less Financial Other Income	6,814	3,352	3,621	3,910
Add. Other	(6,227)	(3,352)	(3,621)	(3,910)
Op. profit before WC changes	49,463	68,545	77,242	96,054
Net Changes-WC	(34,729)	374	(4,279)	(3,392)
Direct tax	(7,385)	(15,339)	(17,160)	(20,773)
Net cash from Op. activities	7,349	53,580	55,803	71,889
Capital expenditures	(1,49,280)	(74,853)	(80,000)	(80,000)
Interest / Dividend Income	-	-	-	-
Others	4,473	74,595	3,621	3,910
Net Cash from Invt. activities	(1,44,808)	(258)	(76,379)	(76,090)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,465)	-	-	-
Dividend paid	(17,955)	(13,902)	(18,966)	(20,863)
Interest paid	(1,275)	(2,327)	(3,542)	(2,102)
Others	50,005	-	-	-
Net cash from Fin. activities	29,310	(16,228)	(22,508)	(22,964)
Net change in cash	(1,08,148)	37,094	(43,084)	(27,165)
Free Cash Flow	(34,969)	(21,420)	(24,197)	(8,111)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q5FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	42,563	47,297	39,698	44,395
YoY gr. (%)	10.4	18.3	8.2	7.5
Raw Material Expenses	8,695	8,827	7,268	11,278
Gross Profit	33,868	38,470	32,430	33,117
Margin (%)	79.6	81.3	81.7	74.6
EBITDA	7,883	9,486	7,734	8,511
YoY gr. (%)	9.5	38.2	154.1	35.9
Margin (%)	18.5	20.1	19.5	19.2
Depreciation / Depletion	2,047	2,319	2,286	2,335
EBIT	5,836	7,167	5,449	6,176
Margin (%)	13.7	15.2	13.7	13.9
Net Interest	335	396	435	454
Other Income	1,740	1,895	3,781	1,082
Profit before Tax	7,241	8,665	8,795	6,804
Margin (%)	17.0	18.3	22.2	15.3
Total Tax	1,410	2,216	2,357	1,668
Effective tax rate (%)	19.5	25.6	26.8	24.5
Profit after Tax	5,831	6,449	6,438	5,137
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,654	6,449	6,438	5,137
YoY gr. (%)	14.2	(28.3)	325.5	22.9
Margin (%)	13.3	13.6	16.2	11.6
Extra Ord. Income / (Exp)	(630)	-	-	-
Reported PAT	5,024	6,449	6,438	5,137
YoY gr. (%)	1.5	(38.5)	366.9	39.2
Margin (%)	11.8	13.6	16.2	11.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,024	6,449	6,438	5,137
Avg. Shares O/s (m)	1,986	1,986	1,986	1,986
EPS (Rs)	2.8	3.2	3.2	2.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	13.9	14.5	12.2	18.1
CEPS	22.2	22.7	20.1	26.2
BVPS	159.6	167.1	200.1	209.7
FCF	(17.6)	(10.8)	(9.8)	(3.3)
DPS	6.0	7.0	7.7	8.5
Return Ratio(%)				
RoCE	12.1	16.0	14.0	15.1
ROIC	11.0	14.4	16.9	15.5
RoE	9.7	8.8	7.3	8.8
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.4)	(0.3)
Net Working Capital (Days)	15	16	18	19
Valuation(x)				
PER	43.5	41.7	49.6	33.3
P/B	3.8	3.6	3.0	2.9
P/CEPS	27.2	26.6	30.0	23.0
EV/EBITDA	22.8	16.5	17.0	14.0
EV/Sales	3.0	3.0	3.2	2.9
Dividend Yield (%)	1.0	1.2	1.3	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Std. Volume (mt)	38	32	34	36
Std. Net Realisations (Rs/t)	5,226	5,367	5,421	5,529
Std. EBITDA/ t (Rs/t)	789	1,146	1,170	1,324

Source: Company Data, PL Research

March 11, 2024

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,35,400	1,46,158	1,68,540	1,96,237
EBITDA (Rs. m)	23,160	28,632	33,779	42,045
Margin (%)	17.1	19.6	20.0	21.4
PAT (Rs. m)	11,540	9,831	10,527	15,209
EPS (Rs.)	61.5	52.4	56.1	81.1
Gr. (%)	40.6	(14.8)	7.1	44.5
DPS (Rs.)	9.0	10.0	10.0	11.0
Yield (%)	0.5	0.5	0.5	0.6
RoE (%)	7.3	6.1	6.2	8.5
RoCE (%)	5.2	7.1	7.3	9.2
EV/Sales (x)	2.8	2.8	2.5	2.1
EV/EBITDA (x)	16.2	14.5	12.4	9.9
PE (x)	31.9	37.4	34.9	24.2
P/BV (x)	2.4	2.2	2.1	2.0

Key Data DALB.BO | DALBHARA IN

52-W High / Low	Rs.2,431 / Rs.1,707
Sensex / Nifty	74,119 / 22,494
Market Cap	Rs.368bn/ \$ 4,443m
Shares Outstanding	188m
3M Avg. Daily Value	Rs.848.38m

Shareholding Pattern (%)

Promoter's	55.84
Foreign	12.96
Domestic Institution	11.03
Public & Others	20.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.8)	(17.3)	9.0
Relative	(11.2)	(25.7)	(11.3)

Tushar Chaudhari

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Dalmia Bharat (DALBHARA IN)

Rating: ACCUMULATE | CMP: Rs1,961 | TP: Rs2,205

Targeting capacity addition region by region

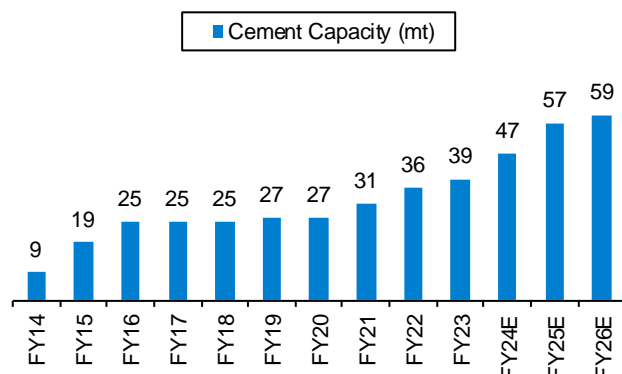
We initiate coverage on Dalmia Bharat (DALBHARA) with 'Accumulate' rating and TP of Rs2,205 per share valuing it at long term average of 1-year forward EV/EBITDA multiple of 11.5x FY26E. We believe DALBHARA has potential to become PAN India player over the next decade given 1) planned capacity expansion up to 110-130 mtpa (currently at 44.6mtpa) and 2) management's forte of targeting individual regions with adequate resources and expanding from there. Acquisition and successful ramp up of Murli Industries' plant in West is showcasing sign of replicating its success achieved in Eastern region. DALBHARA has also identified efficient capital allocation framework which targets 14%-15% ROCE in the near term with initiatives such as a) improvement in trade share via premium product launches, b) new marketing and branding initiatives, c) rising share of renewable energy sourcing, d) logistic optimization, and e) ramping up recently won coal blocks. We believe DALBHARA will be key beneficiary of strong volume growth led by domestic infrastructure boom and expect EBITDA/PAT CAGR of 22%/10% over FY23-26E on the back of 11% volume CAGR. At CMP, the stock trades at a EV of 12.4x/9.9x FY25/FY26E EBITDA. Initiate 'Accumulate' rating.

Strong player in East & market leader in NE: DALBHARA has increased its cement manufacturing capacities by robust 16% to 44.6mtpa over last decade via both organic and inorganic route. It is an East and North East (NE) focused player with ~60% capacities built/acquired in those regions. The company has ~29% capacity share in NE region. Post recent capacity expansion in East, DALBHARA has become largest cement player with ~18.5% capacity share including NE in 3QFY24. While Eastern region is expected to grow between 7-9% over next two years, we believe DALBHARA will be key beneficiary of volume growth in the same.

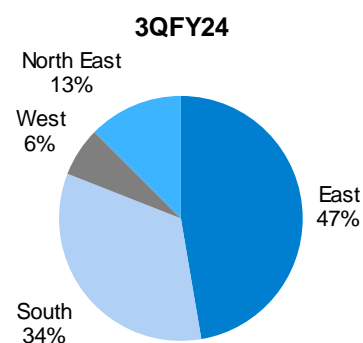
One of the most efficient and agile cement producers: DALBHARA has ramped up acquired capacities over the past and emerged as one of India's lowest cost cement producer. With current capacity utilization of ~65%, DALBHARA has maximum probability to ramp up production and achieve higher volume growth. It has capacities in regions which are strategically located for easier availability of key raw materials such as fly ash, slag and coal. The company also added ~150MW of renewable capacity in last three years which is a mix of Solar and WHRS. Over next two years' DALBHARA will add another 162MW of renewable capacity which we believe will aid the cost and carbon reduction.

Consistently increasing share of premium products: DALBHARA is one of the largest producer of PSC (Portland Slag Cement) in India with ~16% volumes. It is also categorized as a leader in super-specialty cements such as Railway Sleeper Cement, Oil Well Cement and special cements for air strips and nuclear power plants construction. Over last few years the company's trade proportion is rising and with consistent positioning in Tier-1 category across markets, share of premium products is also expected to increase. Although volume growth in YTD FY24 was lower than peers, mgmt. is confident of achieving superior volume growth with its newly launched marketing initiatives.

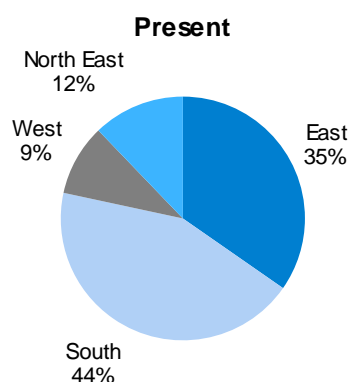
Story in Charts

Exhibit 77: Robust 18% CAGR in Cement capacity addition


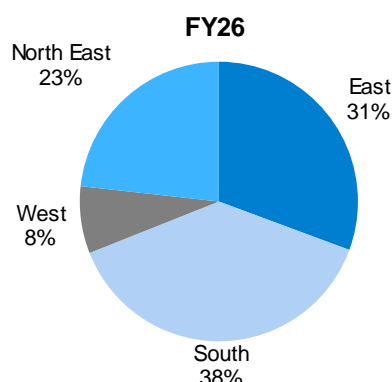
Source: Company, PL, incl. JPA

Exhibit 78: Region wise cement capacity (%)


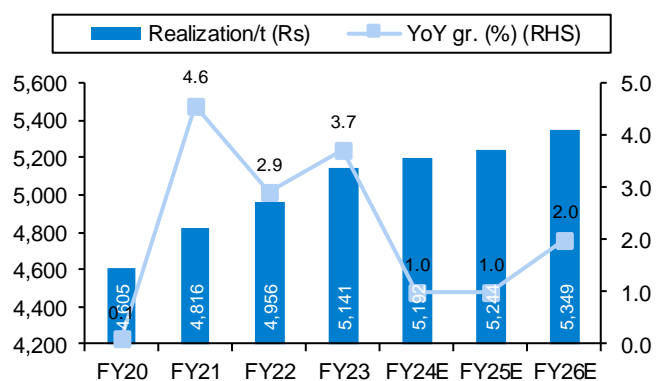
Source: Company, PL; ex JPA

Exhibit 79: Region wise clinker capacity


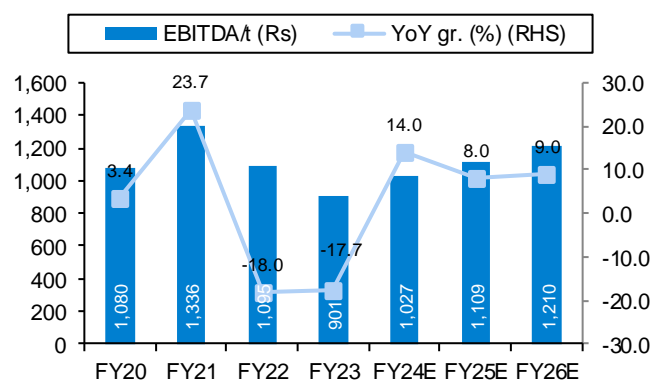
Source: Company, PL

Exhibit 80: Significant clinker addition in North-East region


Source: Company, PL

Exhibit 81: Realization per ton to remain muted post FY25E


Source: Company, PL

Exhibit 82: EBITDA per ton to improve from FY23 lows


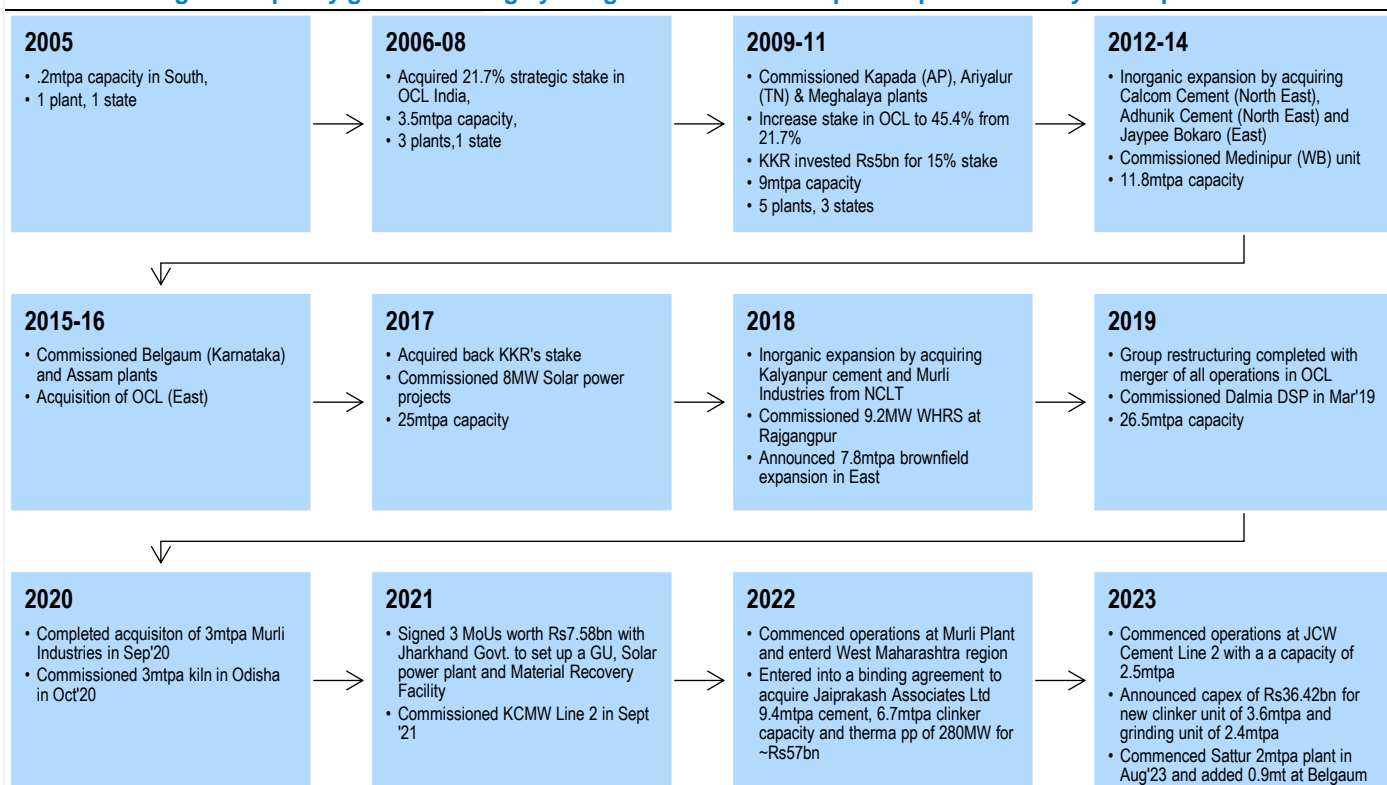
Source: Company, PL

Dalmia Bharat – Centering focus region by region

Dalmia Bharat Ltd. (DALBHARA) is India's 4th largest cement producer having strong presence in East and South India. Over FY05-23, DALBHARA grew from a 1.2mtpa single location cement company in South to a 44.6mtpa player (through organic and inorganic expansions) with 15 plants in 11 states across West, South, East and North East regions.

- **In South**, >50% capacity is located in supply deficit and highly attractive market of Tamil Nadu, while balance has logistical advantage in Andhra Pradesh and Karnataka. With ongoing expansion in South, DALBHARA is likely to reach ~49.5mtpa by FY26 end. Further, JPA's 9.4mtpa acquisition (expected to complete by FY24 end) will help achieve near term target of 75mtpa by FY27E.
- **In East**, the company commands ~18.5% capacity share and is currently the largest player including NE capacity, with significant improvement in ranking over last five years. In North east, DALBHARA is market leader with ~29% capacity share and strong margins.
- **In Maharashtra**, the company ramped up recently acquired 3mtpa plant of Murali Industries via IBC route and is improving brand visibility to gain market share.
- **New Waste heat plant** of 26MW would increase share of renewable energy from 45% to almost 100% by FY30E.
- **DALBHARA plans to become pan India player over the next decade** with planned capacity expansion at ~14-15% CAGR to reach ~120mtpa.

Exhibit 83: Targeted capacity growth via largely inorganic route and ramped it up successfully in the past



Source: Company, PL

Investment Arguments

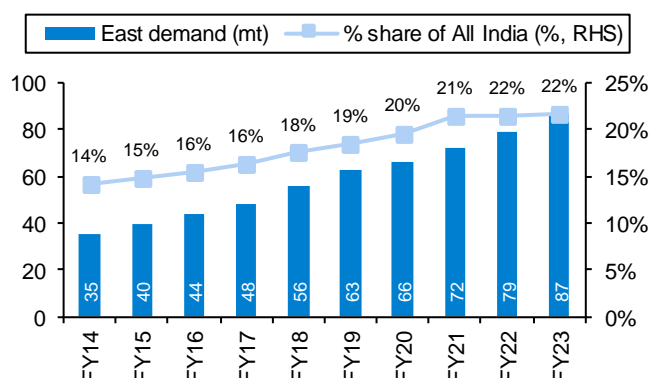
Dominant player in East and North East regions

DALBHARA has increased its cement manufacturing capacities by robust 16% to 44.6mtpa over last decade via both organic and inorganic route. It is an East and North East (NE) focused player with ~60% capacities built/acquired in East & NE region. The company has ~29% capacity share in NE region and we expect it to maintain market leadership led by planned expansion of 3.6mtpa clinker at Umrangso by FY26E & 2.4mtpa GU at Lanka, Assam by FY25E.

Post recent capacity expansion in East, DALBHARA became the largest cement player in NE & Eastern region with ~18.5% capacity share in 3QFY24. Although UTCCEM is also adding ~10mtpa in Eastern region by FY26E, we believe DALBHARA's 0.5mtpa expansion in Kalyanpur and 2.4mtpa at NE will make it India's second largest player in East & NE together. While Eastern region is expected to report 7-9% CAGR over next two years, we believe DALBHARA will be key beneficiary of volume growth.

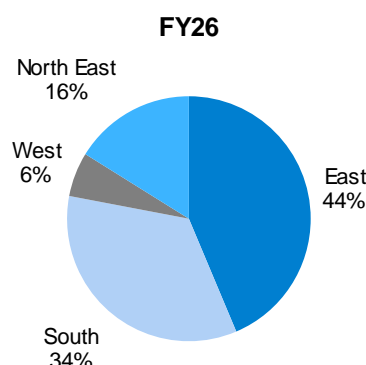
Dalmia's 60% of the capacities are in East (incl. NE), 33% in South and 7% in West

Exhibit 84: Strong demand from East



Source: Industry, PL

Exhibit 85: Adding clinker in NE to maintain market share



Source: Company, PL

Targets to become Pan-India player with ~120mtpa

DALBHARA aims to become a pan India player **with planned capacity expansion at 14-15% CAGR to reach 110-130 mtpa capacity** over the next decade. Accordingly, mgmt. has taken a systematic approach of targeting individual regions with adequate resources and then expand from there.

Post successful accomplishment of capturing high growing Eastern market in the past, DALBHARA has acquired Murli Industries' 3mtpa plant at Maharashtra in Sep'20 through IBC route (for a consideration of Rs4 bn). **DALBHARA is all set to expand in the Western region now.** The acquisition was attractively placed with cost of mere US\$36/t, including investment of Rs4bn on plant renovation. The cost does not factor any realizable value for solvent and paper businesses. With successful ramping up of Murli capacity, the company is increasing its market share and visibility in western markets.

Targeting Western and Central region for improving market share and brand reach

DALBHARA continued its strong capacity growth via inorganic acquisition till recently when they signed an agreement with JP group to acquire 9.4mtpa cement capacities in Central region. However, 2.2mtpa capacity is still awaiting approvals, while Dalla Super is stuck in arbitration between JPA and its earlier buyer. Although management is confident of consummation of remaining 5.2mtpa cement and 3.3mtpa clinker unit deal by end FY24, any delays in receiving requisite approvals can hamper near term volume growth. We believe mgmt. will continue with its inorganic route of expansion in medium term as balance sheet remains strong.

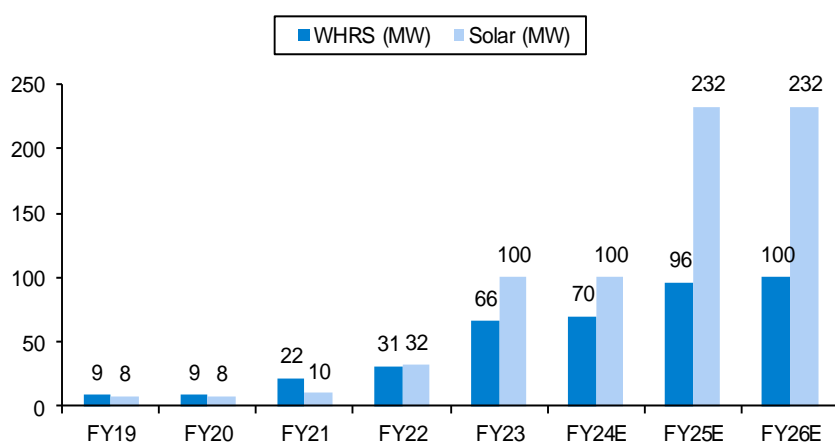
One of the most efficient and agile cement producers

DALBHARA has ramped up acquired capacities quite well over the past and emerged as one of the lowest cost producer of cement in India. With **current capacity utilization of ~65%**, we believe DALBHARA has maximum probability to ramp up production and achieve higher volume growth.

The company has capacities in regions which are strategically located for easier availability of key raw materials such as fly ash, slag and coal. Further it also has long term tie-ups with suppliers and is constantly exploring and participating in coal mine auctions.

For power requirement, DALBHARA has **built 378MW of captive power capacity which includes 166MW of renewable energy**. The company added ~150MW of renewable capacity in last three years, which is a mix of Solar and WHRS. Over next two years' the company will add another 162MW of renewable capacity which will aid cost and carbon reduction, in our view.

Exhibit 86: On track to achieve 100% RE by 2030



Source: Company, PL

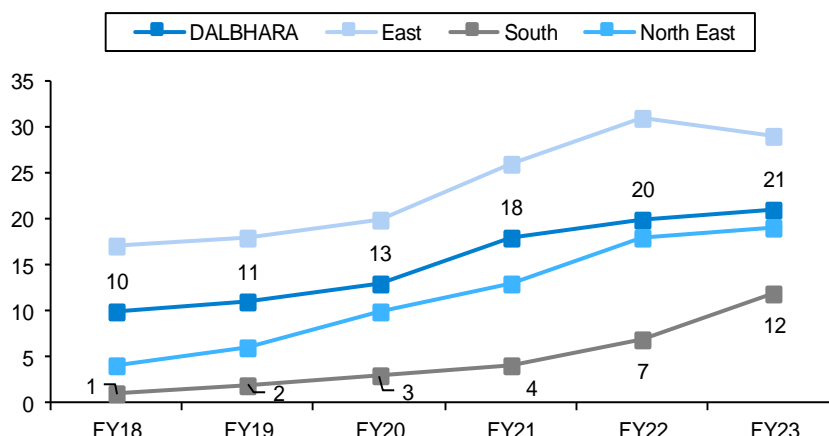
Consistent increase in share of premium products

DALBHARA is one of **India's largest producer of PSC with ~16% volumes**, which is a blend of ground clinker with slag and fly ash. It is also a category leader in super-specialty cements such as Railway Sleeper Cement, Oil Well Cement and special cements for air strips and nuclear power plants construction.

Share of premium cement is at 21%; company expects blended cement share to improve further

Over last few years, its trade proportion is also rising and with consistently positioning itself in Tier-1 category across markets, its share of premium products is increasing over last five years. Although volume growth in 1HFY24 was lower than peers, mgmt. is confident of achieving superior volume growth with its newly launched marketing initiatives.

Exhibit 87: Share of Dalmia DSP as a % of trade sales is rising



Source: Company, PL

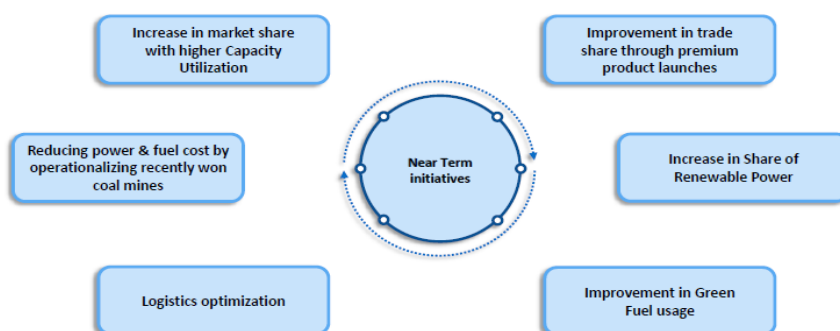
Disciplined capital allocation policy

Management has identified an efficient capital allocation framework which includes, a) upto 10% of operating cash flow towards shareholder returns, having a mix of both dividend and share buybacks, and b) upto 10% of operating cash flow will be used towards 'Innovation & Green Energy Fund'. Rest to be used for funding growth and maintenance capex.

Over last 5 years, DALBHARA invested Rs78 bn towards cement capacities and divested in non-core assets. **Mgmt. targets to maintain its net debt/EBITDA at <2.0x**, which may vary in the years of large inorganic expansion.

Target is also to reach ROCE of 14%-15% in next few years with near term initiatives such as a) improvement in trade share via premium products launches, b) new marketing and branding initiatives, c) rising share of renewable energy sourcing, d) logistic optimization, and e) ramping up recently won coal blocks.

Exhibit 88: Focused initiatives on key operating levers to improve EBITDA/T



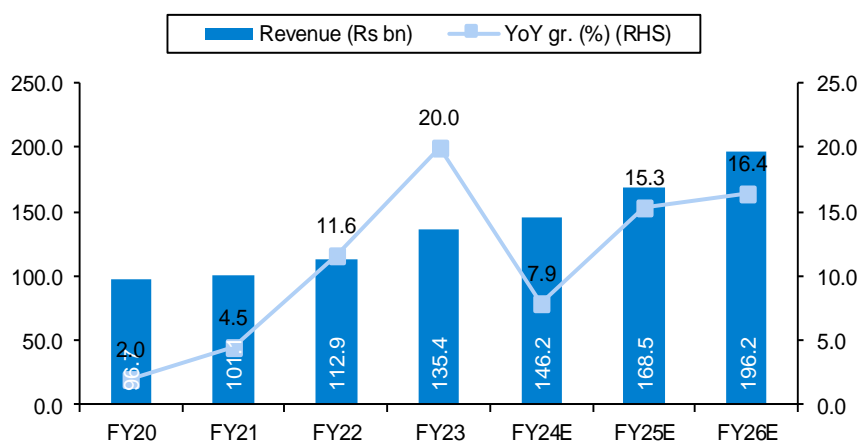
Source: Company, PL

Financial Analysis

Robust Revenue CAGR of 13% mostly led by volumes

We expect revenue CAGR of 13% in FY23-FY26E, primarily led by volume CAGR of ~11%. Realisations are expected to remain muted till 2QFY25 as we are heading towards general elections and monsoon.

Exhibit 89: Strong Revenue CAGR of 13% mainly led by volume growth

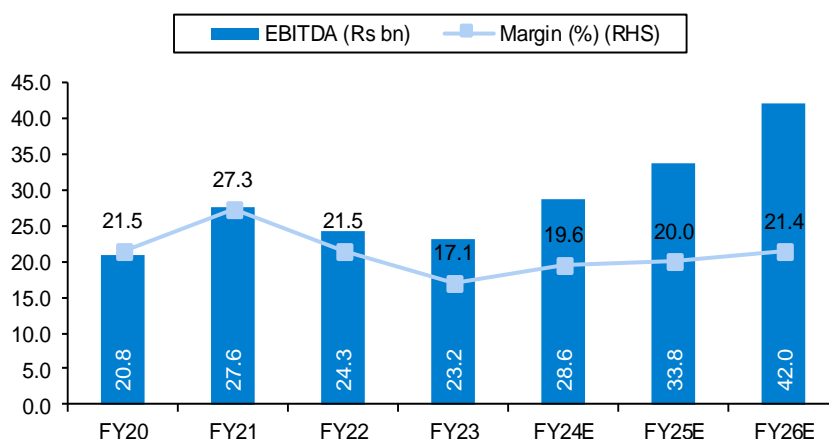


Source: Company, PL

Margin expansion on lower fuel cost

We expect EBITDA CAGR of 22% over FY23-26E to Rs42.1bn on stable NE and South regions, while pressure to remain in East operations in near term. Margins in acquired facilities of Murli are expected to improve on higher utilizations. Overall, EBITDA/t is expected at Rs1,109/Rs1,210 in FY25E/FY26E.

Exhibit 90: Strong EBITDA CAGR of 22% over FY23-26E



Source: Company, PL

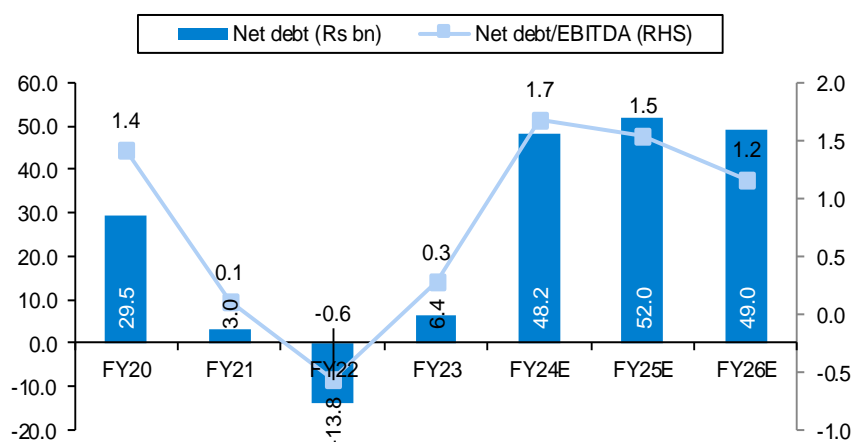
We expect EBITDA CAGR of 22% over FY23-26E at Rs42.1bn on the back of robust 12% volume growth.

EBITDA/t is expected to improve from Rs901/t to ~Rs1,200/t in FY26E on the back of low Power & fuel cost along with better pricing.

We expect PAT CAGR of 10% to Rs15.2 bn on account of higher interest once the JPA deal gets consummated by end of FY24E.

Net debt to rise on account of JPA deal

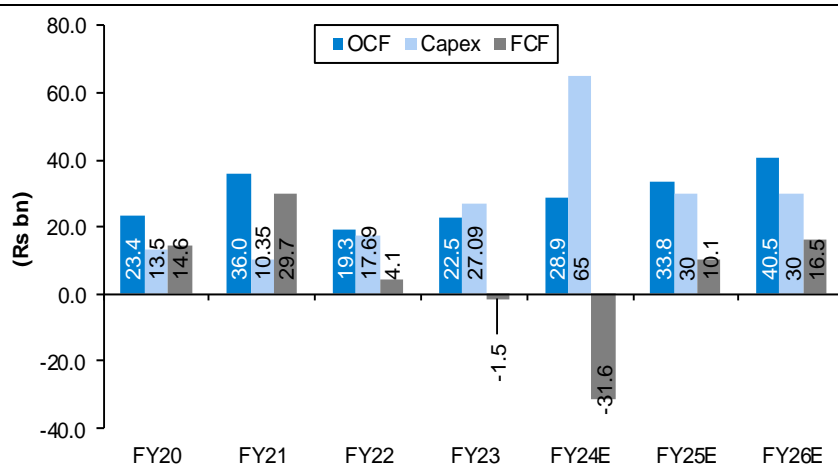
Exhibit 91: Net debt to rise once JPA deal gets consummated



Source: Company, PL

Strong OCF on better profitability; return ratios to improve

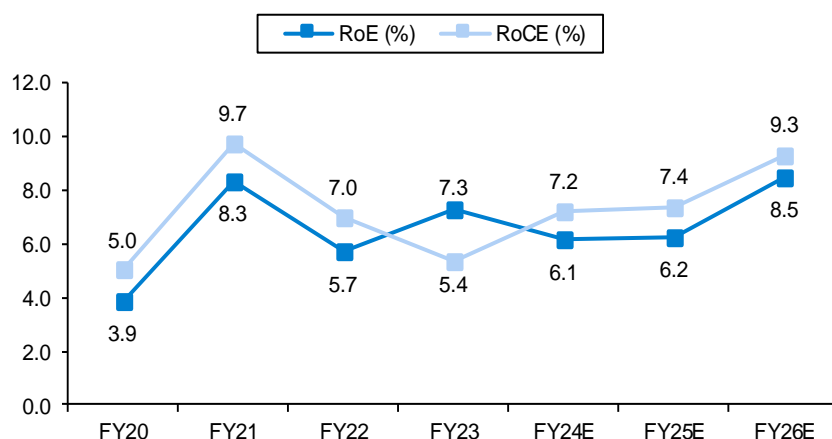
Exhibit 92: FCF to remain strong as pricing and utilisations improve



Source: Company, PL

Led by ramp-up of new capacities, RoCE would improve to 9.3% in FY26E. While, RoE would improve to 8.5% from low base of FY23 levels.

Exhibit 93: Return ratios to improve from low FY23 base



Source: Company, PL

Valuation

DALBHARA has grown from a 1.2mtpa single location cement company in South to a 44.6mtpa player over FY05-23 through organic and inorganic expansions. Going forward, the company plans to become pan India player with 75mtpa capacity by FY27E. If JPA deal gets consummated by FY24 end, DALBHARA's capacity will increase to 58.9mtpa in FY25E and volume growth would also follow.

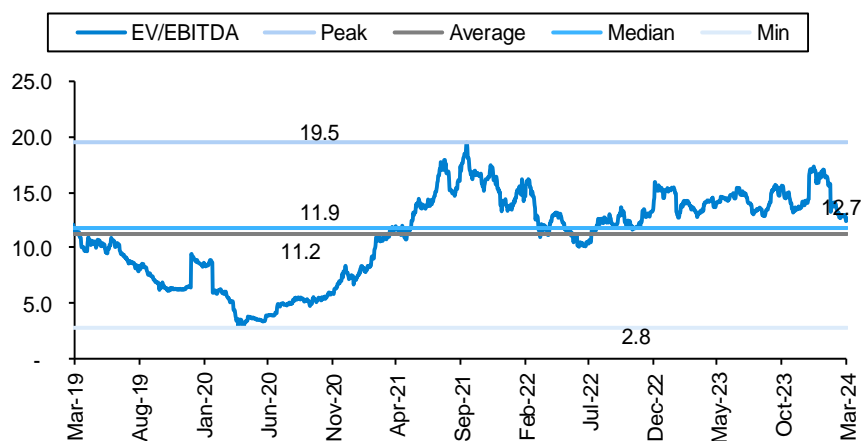
At CMP, DALBHARA trades at EV of 12.4x/9.9x FY25E/FY26E EBITDA. We **initiate coverage with 'Accumulate' rating** and TP of Rs2,205 per share on 11x FY26E EV/EBITDA valuing at long term multiple and assuming strong 11% volume CAGR over FY23-26E.

Exhibit 94: Valuation table

Valuation on Consolidated basis	
EBITDA - FY26E	42,045
EV/EBITDA (x)	11.0
EV	4,62,500
Debt	80,550
Cash and cash equivalents	31,596
Shareholder's value	4,13,546
Value per share	2,205

Source: Company, PL

Exhibit 95: 1-Year Forward EV/EBITDA chart



Source: PL

Key risks

- Delay in consummation of JPA deal can hamper near term volume growth.
- High concentration in East market can lead to pricing pressure and affect company's profitability.
- Domestic economic slowdown can delay volume growth.
- Abrupt increase in raw material/ fuel prices can impact profitability.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,35,400	1,46,158	1,68,540	1,96,237
YoY gr. (%)	20.0	7.9	15.3	16.4
Cost of Goods Sold	19,810	23,476	26,860	31,202
Gross Profit	1,15,590	1,22,681	1,41,680	1,65,034
Margin (%)	85.4	83.9	84.1	84.1
Employee Cost	7,710	8,173	8,663	9,096
Other Expenses	5,580	5,606	6,009	6,470
EBITDA	23,160	28,632	33,779	42,045
YoY gr. (%)	(4.7)	23.6	18.0	24.5
Margin (%)	17.1	19.6	20.0	21.4
Depreciation and Amortization	13,050	13,172	15,625	18,078
EBIT	10,110	15,461	18,155	23,968
Margin (%)	7.5	10.6	10.8	12.2
Net Interest	2,340	4,513	6,313	6,002
Other Income	1,380	1,961	1,993	2,113
Profit Before Tax	7,710	12,909	13,835	20,079
Margin (%)	5.7	8.8	8.2	10.2
Total Tax	2,420	3,227	3,459	5,020
Effective tax rate (%)	31.4	25.0	25.0	25.0
Profit after tax	5,290	9,681	10,377	15,059
Minority interest	440	150	150	150
Share Profit from Associate	5,540	300	300	300
Adjusted PAT	11,540	9,831	10,527	15,209
YoY gr. (%)	40.6	(14.8)	7.1	44.5
Margin (%)	8.5	6.7	6.2	7.8
Extra Ord. Income / (Exp)	(1,440)	-	-	-
Reported PAT	10,390	9,831	10,527	15,209
YoY gr. (%)	28.6	(5.4)	7.1	44.5
Margin (%)	7.7	6.7	6.2	7.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,830	9,981	10,677	15,359
Equity Shares O/s (m)	188	188	188	188
EPS (Rs)	61.5	52.4	56.1	81.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	2,43,730	2,71,730	3,39,730	3,67,730
Tangibles	2,43,730	2,71,730	3,39,730	3,67,730
Intangibles	-	-	-	-
Acc: Dep / Amortization	95,890	1,09,062	1,24,686	1,42,764
Tangibles	95,890	1,09,062	1,24,686	1,42,764
Intangibles	-	-	-	-
Net fixed assets	1,47,840	1,62,668	2,15,044	2,24,966
Tangibles	1,47,840	1,62,668	2,15,044	2,24,966
Intangibles	-	-	-	-
Capital Work In Progress	23,320	60,320	22,320	24,320
Goodwill	-	-	-	-
Non-Current Investments	6,950	6,950	6,950	6,950
Net Deferred tax assets	(16,340)	(16,340)	(16,340)	(16,340)
Other Non-Current Assets	3,820	3,820	3,820	3,820
Current Assets				
Investments	29,350	29,350	29,350	29,350
Inventories	13,160	13,214	15,238	17,742
Trade receivables	7,000	8,409	10,159	13,441
Cash & Bank Balance	2,850	1,027	2,202	2,246
Other Current Assets	5,570	5,570	5,570	5,570
Total Assets	2,55,430	3,06,899	3,26,222	3,43,975
Equity				
Equity Share Capital	370	370	370	370
Other Equity	1,55,910	1,63,866	1,72,517	1,85,664
Total Network	1,56,280	1,64,236	1,72,887	1,86,034
Non-Current Liabilities				
Long Term borrowings	38,550	78,550	83,550	80,550
Provisions	2,360	2,360	2,360	2,360
Other non current liabilities	1,700	1,700	1,700	1,700
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	11,350	12,013	14,776	18,817
Other current liabilities	27,690	30,389	33,149	36,564
Total Equity & Liabilities	2,55,430	3,06,899	3,26,222	3,43,975

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	13,210	12,909	13,835	20,079
Add. Depreciation	13,050	13,172	15,625	18,078
Add. Interest	2,310	4,513	6,313	6,002
Less Financial Other Income	1,380	1,961	1,993	2,113
Add. Other	(5,140)	(391)	(303)	(291)
Op. profit before WC changes	23,430	30,202	35,469	43,867
Net Changes-WC	(770)	1,899	1,749	1,669
Direct tax	(140)	(3,227)	(3,459)	(5,020)
Net cash from Op. activities	22,520	28,874	33,760	40,517
Capital expenditures	(27,010)	(65,000)	(30,000)	(30,000)
Interest / Dividend Income	770	691	603	591
Others	2,980	-	-	-
Net Cash from Inv. activities	(23,260)	(64,309)	(29,397)	(29,409)
Issue of share cap. / premium	-	-	-	-
Debt changes	6,340	40,000	5,000	(3,000)
Dividend paid	(1,690)	(1,875)	(1,875)	(2,063)
Interest paid	(2,970)	(4,513)	(6,313)	(6,002)
Others	-	-	-	-
Net cash from Fin. activities	1,680	33,612	(3,188)	(11,065)
Net change in cash	940	(1,823)	1,175	44
Free Cash Flow	(4,570)	(36,126)	3,760	10,517

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	39,120	36,240	31,490	36,000
YoY gr. (%)	15.7	9.8	6.0	7.3
Raw Material Expenses	7,500	5,660	5,330	6,260
Gross Profit	31,620	30,580	26,160	29,740
Margin (%)	80.8	84.4	83.1	82.6
EBITDA	7,070	6,100	5,890	7,750
YoY gr. (%)	3.5	4.1	55.4	20.3
Margin (%)	18.1	16.8	18.7	21.5
Depreciation / Depletion	3,360	3,990	4,010	3,700
EBIT	3,710	2,110	1,880	4,050
Margin (%)	9.5	5.8	6.0	11.3
Net Interest	640	830	1,010	1,080
Other Income	410	570	850	640
Profit before Tax	2,030	1,850	1,720	3,610
Margin (%)	5.2	5.1	5.5	10.0
Total Tax	1,250	410	480	950
Effective tax rate (%)	61.6	22.2	27.9	26.3
Profit after Tax	780	1,440	1,240	2,660
Minority interest	200	140	50	30
Share Profit from Associates	5,290	-	-	-
Adjusted PAT	6,427	1,300	1,190	2,630
YoY gr. (%)	143.5	(33.7)	84.6	30.5
Margin (%)	16.4	3.6	3.8	7.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,870	1,300	1,190	2,630
YoY gr. (%)	(1.2)	(33.7)	158.7	27.7
Margin (%)	15.0	3.6	3.8	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,870	1,300	1,190	2,630
Avg. Shares O/s (m)	188	188	188	188
EPS (Rs)	34.3	6.9	6.3	14.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	61.5	52.4	56.1	81.1
CEPS	131.1	122.7	139.5	177.5
BVPS	833.4	875.8	922.0	992.1
FCF	(24.4)	(192.6)	20.1	56.1
DPS	9.0	10.0	10.0	11.0
Return Ratio(%)				
RoCE	5.2	7.1	7.3	9.2
ROIC	4.3	6.2	6.2	7.8
RoE	7.3	6.1	6.2	8.5
Balance Sheet				
Net Debt : Equity (x)	0.0	0.3	0.3	0.3
Net Working Capital (Days)	24	24	23	23
Valuation(x)				
PER	31.9	37.4	34.9	24.2
P/B	2.4	2.2	2.1	2.0
P/CEPS	15.0	16.0	14.1	11.0
EV/EBITDA	16.2	14.5	12.4	9.9
EV/Sales	2.8	2.8	2.5	2.1
Dividend Yield (%)	0.5	0.5	0.5	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Cement Volumes (mt)	26	28	30	35
Cement Realisations (Rs/t)	5,141	5,192	5,244	5,349
Cement EBITDA (Rs/t)	901	1,027	1,109	1,210

Source: Company Data, PL Research

March 11, 2024

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,05,862	1,06,172	1,15,854	1,27,850
EBITDA (Rs. m)	12,104	16,137	17,486	20,028
Margin (%)	11.4	15.2	15.1	15.7
PAT (Rs. m)	151	1,139	2,506	4,709
EPS (Rs.)	0.4	3.2	7.0	13.2
Gr. (%)	(62.3)	652.2	120.0	87.9
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	0.2	1.3	2.8	5.0
RoCE (%)	1.9	4.5	5.4	7.2
EV/Sales (x)	1.5	1.5	1.3	1.1
EV/EBITDA (x)	13.1	9.8	8.6	7.1
PE (x)	754.5	100.3	45.6	24.3
P/BV (x)	1.3	1.3	1.2	1.2

Key Data

NUVO.BO | NUVOCO IN

52-W High / Low	Rs.399 / Rs.288
Sensex / Nifty	74,119 / 22,494
Market Cap	Rs.114bn/ \$ 1,380m
Shares Outstanding	357m
3M Avg. Daily Value	Rs.153.44m

Shareholding Pattern (%)

Promoter's	71.79
Foreign	3.05
Domestic Institution	19.97
Public & Others	5.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.3)	(14.4)	(7.6)
Relative	(11.7)	(23.0)	(24.8)

Tushar Chaudhari

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Stiff competition ahead

We initiate coverage on Nuvoco Vistas Corporation (NUVOCO) with 'Accumulate' rating and TP of Rs372 based on 8x FY26 EV/EBITDA. NUVOCO is one of the prominent players in the East market given a) strong ~15% market share in fast growing Eastern markets b) enough capacities to increase sales volumes up to 25mt and c) focus on premiumisation, cost reductions and improving blending ratio. The company has one of the highest C/k ratios (>1.7x) in cement industry, aimed at reducing carbon emissions. Since mid-2022, ~16mt capacities got added in Eastern markets and another 28mt will get commissioned by top 4 players before end FY26 which is expected to put competitive pressure on pricing. To weather these challenges, Nuvoco is moving Double Bulls portfolio towards high margin Duraguard franchise over next few quarters. Although further capacity addition plans are subject to deleveraging the balance sheet, we believe it is a right strategy to maintain healthy financial position. We expect NUVOCO to deliver strong 18% EBITDA growth over FY23-26E backed by 5% volume growth over the same period. The stock is currently trading at 8.6x/7.1x EV of FY25/FY26E EBITDA. Initiate 'Accumulate'.

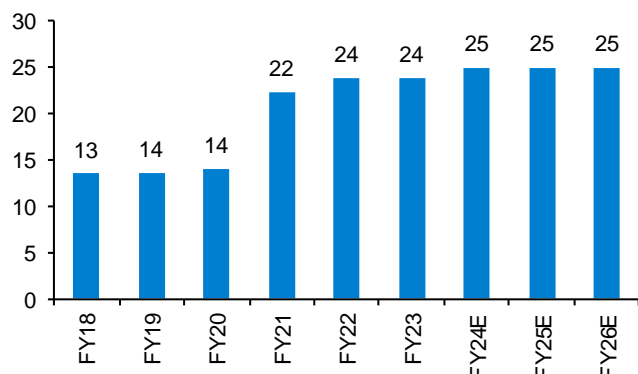
Significant player in the Eastern region: Nuvoco entered cement industry by commissioning a Greenfield cement plant at Nimbol in 2014 with a capacity of 2.28mtpa. With two big ticket acquisitions, Nuvoco has become third largest player in fast growing Eastern markets. With recent completion of Brownfield expansion at Bhiwani, it is a 25mtpa cement company. In the near term cement demand is lukewarm in Eastern region and incremental capacities have exerted pressure on volumes. However, we believe it can deliver in excess of 24mt if demand improves post elections. We expect a ~5% volume CAGR over FY23-26E.

Focus on premiumisation and improving cost efficiencies: Nuvoco has focused on three pronged strategies: a) premiumisation and product mix improvement, b) cost saving opportunities such as usage of higher share of AFR & green energy and c) long term supply agreement of key raw materials to achieve higher blending ratio. In recent past, high cost of coal, poor RMC performance and increased competition in Eastern region have affected Nuvoco's performance. The company is working in right directions by replacing *Double Bulls* brand with *Duraguard* in newer markets which is expected to fetch better pricing. This transition is expected to continue over FY25E.

Future capex plan awaits balance sheet deleveraging: Nuvoco had net debt of Rs45bn as on Dec'23 which is gradually reducing in recent past. Mgmt. is focusing on balance sheet deleveraging before they announce next phase of expansion after reducing net debt to ~Rs35-40bn. Mgmt. indicated that the western region expansion (brownfield expansion at Chittor) shall be of highest priority. We expect announcement of next phase of capacity addition in 1HFY25. This may lead to further market share reduction in East, but it is also a sane decision to keep healthy balance sheet. Nuvoco is also focused on improving RMC and MBM businesses margins which are getting strong traction, while still struggling on profitability.

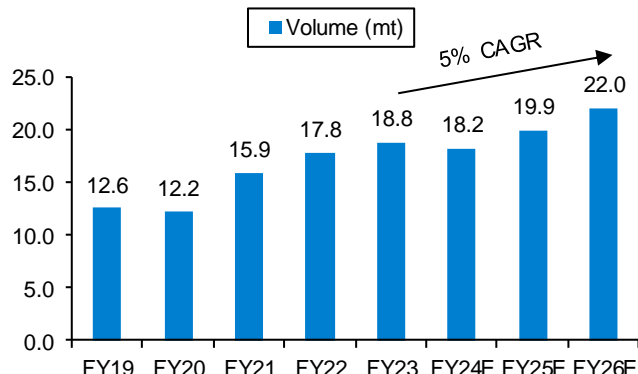
Story in Charts

Exhibit 96: Capacity addition mainly via inorganic way (mt)



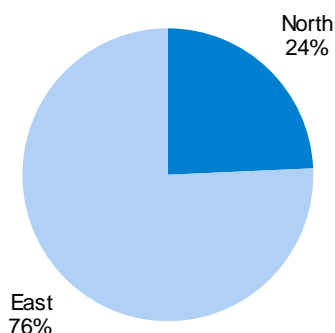
Source: Company, PL

Exhibit 97: Enough scope for higher volume growth



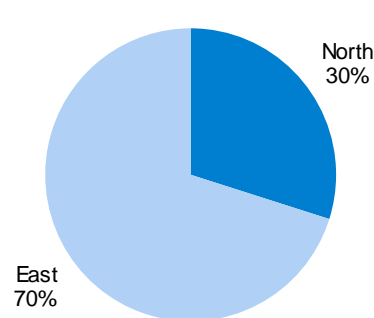
Source: Company, PL

Exhibit 98: Significant player in Eastern markets



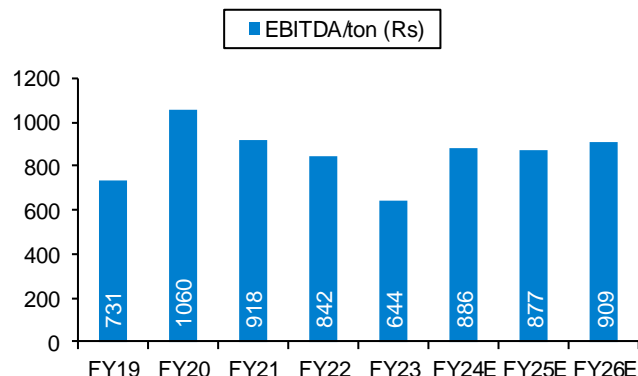
Source: Company, PL

Exhibit 99: Clinker capacity break-up region wise



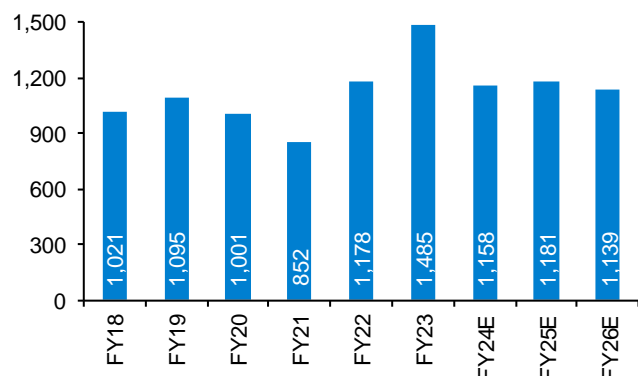
Source: Company, PL

Exhibit 100: EBITDA/t expected to improve on lower costs (Rs)



Source: Company, PL

Exhibit 101: Power & Fuel cost to come down gradually (Rs/t)



Source: Company, PL

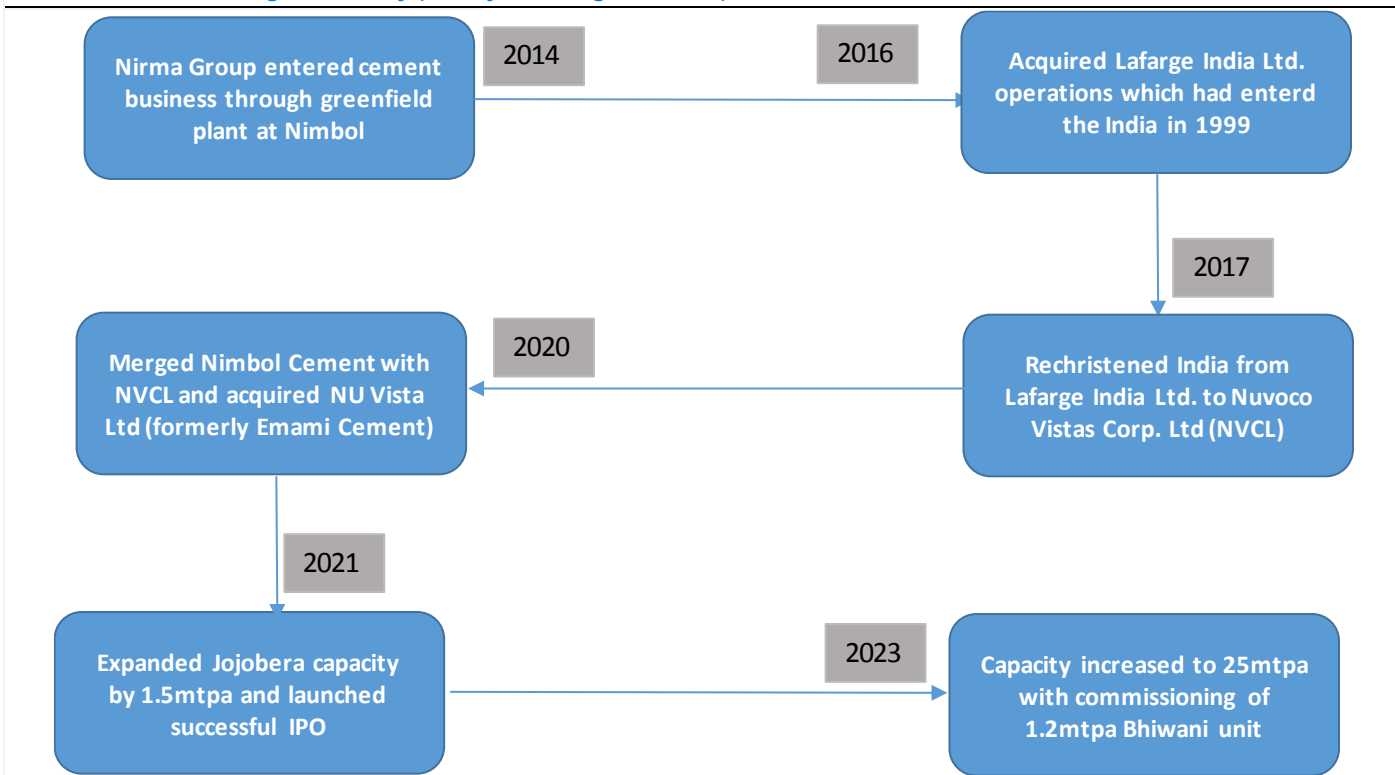
Nuvoco Vistas: Fifth largest cement manufacturer

Incorporated in 1999, Nuvoco is one of India's largest cement manufacturer with 25mtpa capacity. It is a part of Nirma Group, which has varied business interests like detergents, soaps, cement, cosmetics, salt, soda ash among others. Nuvoco entered Indian cement industry by commissioning a Greenfield cement plant at Nimbol in 2014 having a capacity of 2.28mtpa. In 2016, the company acquired Lafarge's Indian operations at an EV of Rs94bn which enabled Nuvoco to enter the eastern markets too. In 2020, Nuvoco acquired cement assets of Emami Group with capacity of 8.3mtpa for an EV of Rs55bn and renamed it Nu Vistas Ltd.

Today Nuvoco caters to East (19mtpa) and North (6mtpa) markets with 11 plants (6 grinding units and 5 integrated units). Popular brands include Concreto, Durguard and Double Bull. Nuvoco has a capacity market share of ~13% in the East.

Other than cement business, the company is also into RMX (Ready mix concrete) and MBM (Modern Building Material). Currently, there are 57 RMC plants with pan-India presence. The MBM business consist of innovative products offering such as waterproofing and germ protection. Nuvoco markets and sells a suite of products including Construction Chemicals, Multipurpose Bonding and Waterproofing Agents, Wall Putty, Tile Adhesive, Ready-Mix Dry Plaster etc.

Exhibit 102: Nuvoco's growth story (Mainly via inorganic route)



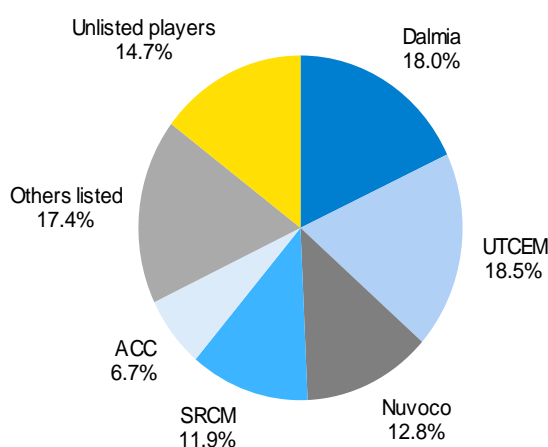
Source: Company, PL

Investment Arguments

Significant player in the Eastern region

Over the last decade, Nuvoco became one of the largest players in Eastern region with capacity of ~19mtpa and capacity market share of ~13%. Capacities have been acquired through asset takeover of Lafarge India and Emami Cements. The company has a grinding unit (GU) in every Eastern state namely Odisha, Jharkhand, West Bengal, Chhattisgarh and Bihar. We believe the Eastern market is well poised for growth given 1) ongoing infrastructure activities, 2) Gol's thrust on 'Housing for All' scheme and 3) expectation of stable electoral outcome.

Exhibit 103: Stiff competition in Eastern market



Source: Company, PL; incl.NE market

Tough competition in eastern markets can hamper volume growth in near term as co. prefers value over volume

Near term demand is lukewarm in Eastern region and incremental capacities have also exerted pressure on volumes. The states of Bihar, West Bengal and Jharkhand are experiencing some slowdown over last few quarters due to festivities and fiscal challenges. Since mid-2022, ~16mt capacities got added in Eastern markets and another 28mt will get commissioned by top 4 players before end FY26 which is expected to put competitive pressure on pricing.

NUVOCO achieved 18.8mt cement volumes in FY23 with 23.8mtpa capacity.

The company also completed brownfield expansion of 1.2mt at Bhiwani, Haryana in 3QFY24. It has adequate capacities to increase volumes once demand improves. We expect a ~5% volume CAGR over FY23-26E as it has enough headroom for volume growth. We believe an uptick in economic sentiments in Eastern states shall aid in increasing volumes post elections, as these states have maximum potential for growth.

Focus on improving product mix and cost efficiencies

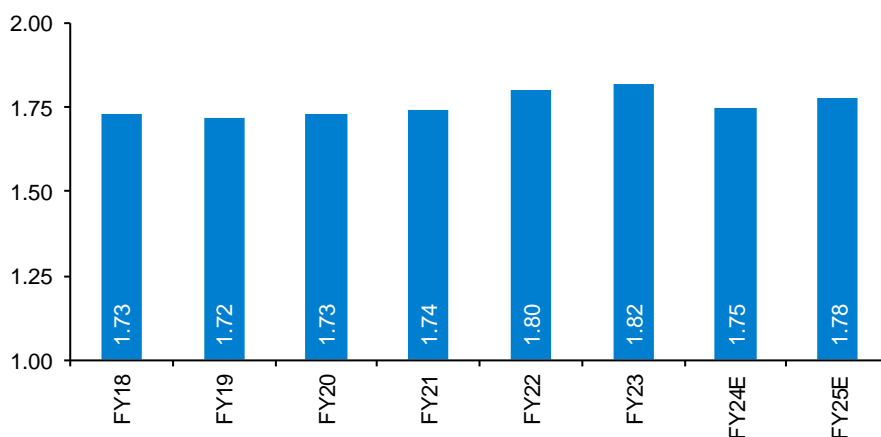
Post-acquisition of Emami assets, Nuvoco focused on integration of the same with earlier acquired high margin brands from Lafarge India. However external events such as Covid-19 and Russian invasion have affected operating performance since then. The high cost of coal, poor RMC performance and increased competition in Eastern region affected Nuvoco's performance.

Long-term supply arrangement for 2.5mtpa slag with Tata steel to benefit in volatile RM situation

Management is focusing on **premiumisation and brand strengthening** by launching *Duraguard* franchise across regions and replacing Nu Vista's **Double Bulls** brand with *Duraguard* which is expected to fetch better pricing. This transition is expected to continue through FY25E. Ideally this transition should have been completed within few years of Nu Vista (Emami) purchase, however sudden sharp increase in fuel costs delayed the entire process.

Nuvoco also has long-term supply arrangement for 2.5mtpa slag with Tata steel at agreeable contractual fixed price for 2.1mtpa and 0.4mtpa at market rates. The agreement is for 20 years starting 2019. Slag prices are very volatile in nature and a fixed arrangement for the same shall enable the company to reduce variable nature of the commodity. Given, steel factories have high concentration in Eastern India region, Nuvoco is the biggest beneficiary of easy sourcing of slag. Fly ash is also easily available, given presence of power plants.

Exhibit 104: Higher blending ratio in East leads to higher c/k



Source: Company, PL

Nuvoco is taking consistent efforts to increase the use of alternate fuels (AFR). Chittorgarh plant has the highest AFR i.e ~36% as compared to other existing plants of the company. The company targets a thermal substitution rate (TSR) of 16% in FY24E exit, as compared to 9% in FY23. CK ratio in the East and North are ~2.1 and 1.4 respectively. Northern region had more share of OPC cement, which the company plans to reduce going forward. It is also **adding railway siding** at two of its plants (Sonadih and Jajpur) to be completed over next few months. With improvement in product mix under *Duraguard* portfolio and Nuvoco's consistent efforts to improve cost efficiencies via increasing c/k, AFR we believe Nuvoco is slated to benefit over next few years.

Future capex plans awaits balance sheet deleveraging

Nuvoco had net debt of Rs45bn as on Dec-23 which is gradually reducing over last few quarters, as management is focusing on balance sheet deleveraging before they announce next phase of organic expansion and its range of comfortable net debt is ~Rs35-40bn. There has been considerable reduction in net debt over the years (Rs ~68bn) and at the time of IPO as compared to current levels.

The next leg of capex would be either in North or Western region. Mgmt. indicated that Northern region expansion (brownfield expansion at Chittor) shall be of highest priority. We expect next phase of capacity addition announcement in 1HFY25 which would come on stream by FY27E. This delay may lead to further market share reduction, but it's considered to be a sane decision to keep balance sheet healthy.

Contribution from RMC and MBM to improve

Nuvoco is also a pan-India player in RMC segment with 57 plants and segmental revenue of Rs 9.5bn as on FY23. The RMC business was under stress post Covid outbreak and company closed down few of its units too. However, going forward, management has strong growth plans to increase number of units pan-India. Nuvoco plans to reach to 100 RMC units by FY26 and is focusing on improving EBITDA margins from this business.

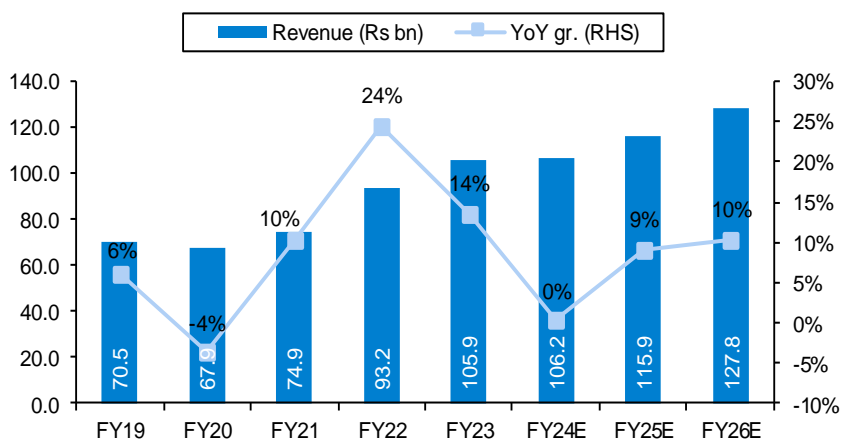
Nuvoco is also expanding in MBM segment, whereby it sells construction chemicals, multipurpose bonding and waterproofing agents, wall putty, tile adhesives, Ready Mix Dry Plaster and Cover Blocks. The RMC and MBM businesses together comprise ~10/-2% of Nuvoco's 9MFY24 consolidated Revenue/EBITDA. The loss making business is expected to improve gradually, as there is good scope for RMC and MBM products in India.

Financial Analysis:

Revenue CAGR of ~6% over FY23-26E

We expect revenue CAGR of 6% over FY23-26E aided by a 5% volume growth and a 1% realization growth over the same period.

Exhibit 105: Revenue CAGR of ~6% over FY23-26E

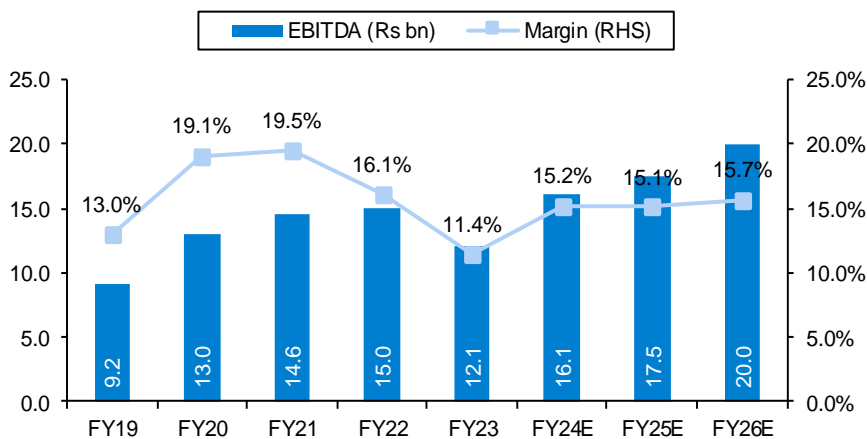


Source: Company, PL

EBITDA CAGR of 18% over FY23-26E

We expect EBITDA CAGR of 18% over FY23-26E aided by higher usage of AFR, green energy and product mix improvement amid muted pricing scenario expected till 2QFY25, due to elections and stiff competition in key markets.

Exhibit 106: Strong 19% CAGR over FY23-26E on lower P&F costs



Source: Company, PL

NUVOCO has additional headroom to grow volumes to 25mt given only 18.8mt sold in FY23.

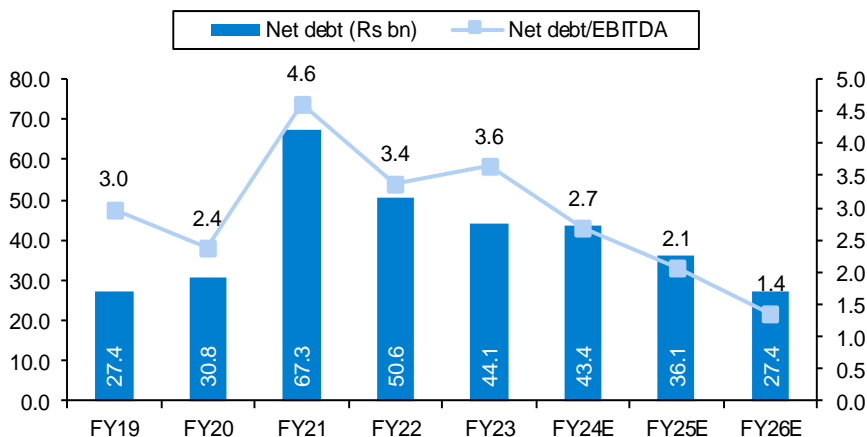
Mgmt. expects EBITDA/t run-rate of ~Rs1,000 to maintain but with stiff competition and pressure on pricing, we expect Nuvoco to reach to Rs900+ in FY26.

Nuvoco has made considerable efforts to deleverage its balance sheet. However, additional capacity increase could lead to an increase in leverage in future.

Deleveraging to continue

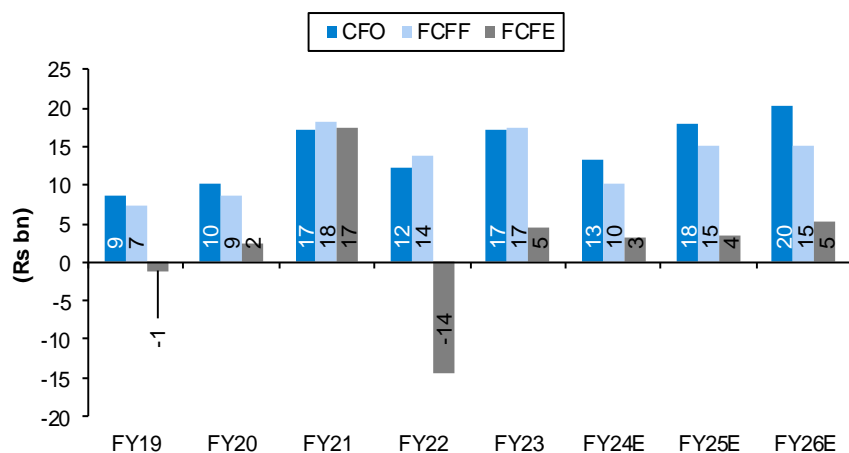
We expect Net debt/EBITDA to decline to 1.4x in FY26E from 3.6x in FY23.

Exhibit 107: Significantly deleveraged balance sheet post big acquisitions



Source: Company, PL

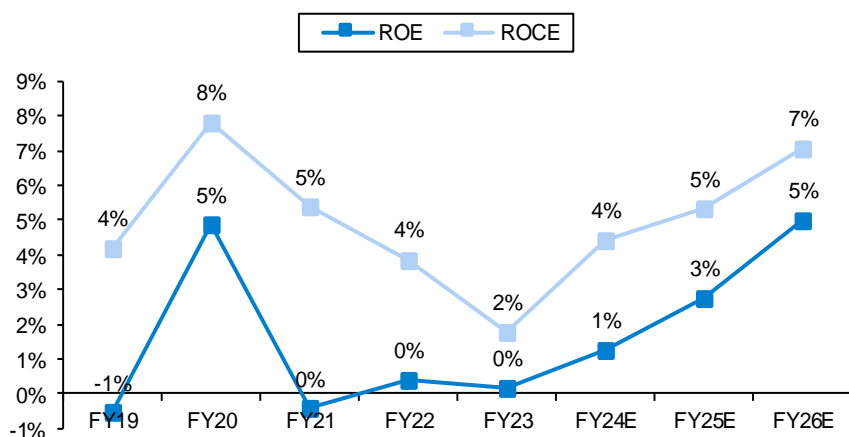
Exhibit 108: Strong OCF generation on the back of volume growth



Source: Company, PL

Return ratios to improve on the back of improved profitability aided by revenue growth and operating leverage.

Exhibit 109: Return ratios to improve substantially on low base



Source: Company, PL

Valuation

NUVOCO has grown largely through acquisitions in the past and we expect further growth from organic expansions as guided by the management. The company intends to hold the position of 5th largest player tag by capacity, however, with peers growing faster we believe it may lose the tag soon.

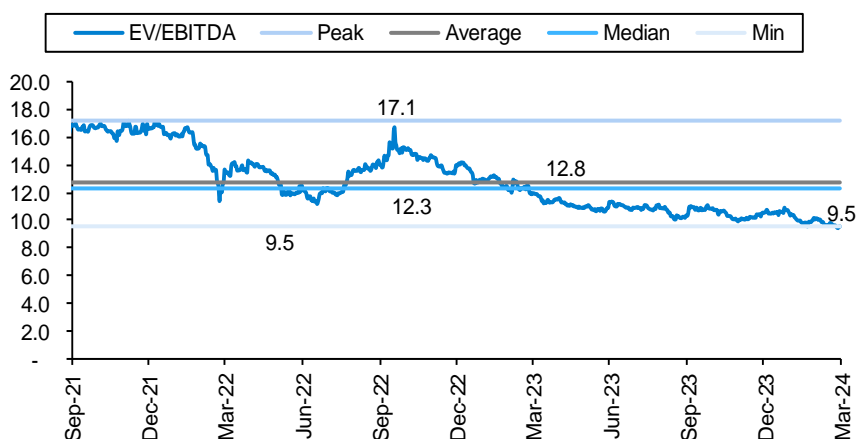
At CMP the stock trades at an EV of 8.6x/7.1X FY25E/FY26E EBITDA. We value at 8x FY26E EV/EBITDA assuming a ~5% volume growth. **Initiate coverage with 'Accumulate' rating** and TP of Rs372.

Exhibit 110: Consolidated Valuation (FY26)

EBITDA (Rs mn)	20,028
EV/EBITDA (x)	8
EV (Rs mn)	1,60,221
Less: Net debt (Rs mn)	27,405
Residual Value (Rs mn)	1,32,816
Fair Value/sh	372

Source: Company, PL

Exhibit 111: 1-Year Forward EV/EBITDA chart



Source: PL

Key risks

- Overcapacity in Eastern region can lead to pricing pressure and affect profitability.
- Domestic economic slowdown can delay volume growth.
- Abrupt increase in raw material/ fuel prices can impact profitability.



Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,05,862	1,06,172	1,15,854	1,27,850
YoY gr. (%)	13.6	0.3	9.1	10.4
Cost of Goods Sold	17,857	19,086	21,104	23,990
Gross Profit	88,005	87,085	94,750	1,03,859
Margin (%)	83.1	82.0	81.8	81.2
Employee Cost	6,055	7,225	7,947	8,742
Other Expenses	69,846	63,724	69,316	75,090
EBITDA	12,104	16,137	17,486	20,028
YoY gr. (%)	(19.4)	33.3	8.4	14.5
Margin (%)	11.4	15.2	15.1	15.7
Depreciation and Amortization	9,511	10,098	10,365	10,805
EBIT	2,593	6,039	7,121	9,223
Margin (%)	2.4	5.7	6.1	7.2
Net Interest	5,119	4,843	4,132	3,333
Other Income	132	323	352	389
Profit Before Tax	(6,452)	1,518	3,341	6,279
Margin (%)	(6.1)	1.4	2.9	4.9
Total Tax	(6,611)	380	835	1,570
Effective tax rate (%)	102.5	25.0	25.0	25.0
Profit after tax	159	1,139	2,506	4,709
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	151	1,139	2,506	4,709
YoY gr. (%)	(62.3)	652.2	120.0	87.9
Margin (%)	0.1	1.1	2.2	3.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	159	1,139	2,506	4,709
YoY gr. (%)	(50.6)	618.1	120.0	87.9
Margin (%)	0.1	1.1	2.2	3.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	159	1,139	2,506	4,709
Equity Shares O/s (m)	357	357	357	357
EPS (Rs)	0.4	3.2	7.0	13.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,81,368	1,88,568	1,94,868	2,02,518
Tangibles	1,54,187	1,61,387	1,67,687	1,75,337
Intangibles	27,181	27,181	27,181	27,181
Acc: Dep / Amortization	67,896	77,993	88,359	99,163
Tangibles	60,305	70,403	80,768	91,573
Intangibles	7,590	7,590	7,590	7,590
Net fixed assets	1,13,472	1,10,574	1,06,509	1,03,355
Tangibles	93,882	90,984	86,919	83,764
Intangibles	19,591	19,591	19,591	19,591
Capital Work In Progress	5,959	6,759	7,459	8,309
Goodwill	32,785	32,785	32,785	32,785
Non-Current Investments	5,460	5,460	5,460	5,460
Net Deferred tax assets	(11,899)	(11,899)	(11,899)	(11,899)
Other Non-Current Assets	6,963	6,963	6,963	6,963
Current Assets				
Investments	-	-	-	-
Inventories	10,500	11,635	12,696	14,011
Trade receivables	6,012	6,399	6,983	7,706
Cash & Bank Balance	2,032	768	533	2,772
Other Current Assets	2,543	2,543	2,543	2,543
Total Assets	1,89,877	1,88,039	1,86,083	1,88,055
Equity				
Equity Share Capital	3,572	3,572	3,572	3,572
Other Equity	84,818	85,957	88,463	93,172
Total Networkth	88,390	89,529	92,035	96,744
Non-Current Liabilities				
Long Term borrowings	33,254	31,254	23,754	17,254
Provisions	1,822	1,822	1,822	1,822
Other non current liabilities	1,832	1,832	1,832	1,832
Current Liabilities				
ST Debt / Current of LT Debt	12,923	12,923	12,923	12,923
Trade payables	17,026	15,998	17,458	19,265
Other current liabilities	22,731	22,782	24,360	26,316
Total Equity & Liabilities	1,89,877	1,88,039	1,86,083	1,88,055

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	(6,452)	1,518	3,341	6,279
Add. Depreciation	9,511	10,098	10,365	10,805
Add. Interest	5,119	4,843	4,132	3,333
Less Financial Other Income	132	323	352	389
Add. Other	4,321	(323)	(352)	(389)
Op. profit before WC changes	12,499	16,137	17,486	20,028
Net Changes-WC	4,777	(2,500)	1,393	1,726
Direct tax	(162)	(380)	(835)	(1,570)
Net cash from Op. activities	17,114	13,258	18,044	20,184
Capital expenditures	(4,863)	(8,000)	(7,000)	(8,500)
Interest / Dividend Income	35	323	352	389
Others	2,224	-	-	-
Net Cash from Invt. activities	(2,604)	(7,677)	(6,648)	(8,111)
Issue of share cap. / premium	-	-	-	-
Debt changes	(7,726)	(2,000)	(7,500)	(6,500)
Dividend paid	-	-	-	-
Interest paid	(4,707)	(4,843)	(4,132)	(3,333)
Others	(1,184)	-	-	-
Net cash from Fin. activities	(13,617)	(6,843)	(11,632)	(9,833)
Net change in cash	894	(1,263)	(236)	2,239
Free Cash Flow	12,251	5,258	11,044	11,684

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	29,285	28,055	25,730	24,210
YoY gr. (%)	(0.1)	5.8	7.2	(7.0)
Raw Material Expenses	6,319	4,544	4,702	4,428
Gross Profit	22,967	23,511	21,027	19,782
Margin (%)	78.4	83.8	81.7	81.7
EBITDA	3,804	3,925	3,300	4,104
YoY gr. (%)	(11.5)	6.2	71.8	53.0
Margin (%)	13.0	14.0	12.8	17.0
Depreciation / Depletion	2,391	2,437	2,256	2,313
EBIT	1,413	1,489	1,043	1,792
Margin (%)	4.8	5.3	4.1	7.4
Net Interest	1,375	1,346	1,399	1,332
Other Income	25	95	60	109
Profit before Tax	4,121	237	(296)	568
Margin (%)	14.1	0.8	(1.2)	2.3
Total Tax	(6,005)	93	(311)	258
Effective tax rate (%)	(145.7)	39.0	105.2	45.4
Profit after Tax	10,127	145	15	310
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	10,127	145	15	310
YoY gr. (%)	3,378.7	(29.4)	(101.2)	(141.2)
Margin (%)	34.6	0.5	0.1	1.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,127	145	15	310
YoY gr. (%)	3,378.7	(29.4)	(101.2)	(141.2)
Margin (%)	34.6	0.5	0.1	1.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,127	145	15	310
Avg. Shares O/s (m)	357	357	357	357
EPS (Rs)	28.4	0.4	-	0.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	0.4	3.2	7.0	13.2
CEPS	27.1	31.5	36.0	43.4
BVPS	247.5	250.7	257.7	270.9
FCF	34.3	14.7	30.9	32.7
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.9	4.5	5.4	7.2
ROIC	0.0	3.4	4.1	5.5
RoE	0.2	1.3	2.8	5.0
Balance Sheet				
Net Debt : Equity (x)	0.5	0.5	0.4	0.3
Net Working Capital (Days)	(2)	7	7	7
Valuation(x)				
PER	754.5	100.3	45.6	24.3
P/B	1.3	1.3	1.2	1.2
P/CEPS	11.8	10.2	8.9	7.4
EV/EBITDA	13.1	9.8	8.6	7.1
EV/Sales	1.5	1.5	1.3	1.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Total cement volume (mt)	19	18	20	22
Blended Real. (Rs/t)	5,123	5,277	5,277	5,277
Blended EBITDA/t (Rs)	644	886	877	909

Source: Company Data, PL Research

March 11, 2024

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	1,75,660	2,07,207	2,28,999	2,64,667
EBITDA (Rs. m)	26,699	43,733	50,484	57,736
Margin (%)	15.2	21.1	22.0	21.8
PAT (Rs. m)	11,164	23,595	26,142	28,985
EPS (Rs.)	309.4	654.0	724.6	803.4
Gr. (%)	(49.9)	111.4	10.8	10.9
DPS (Rs.)	100.0	105.0	110.0	115.0
Yield (%)	0.4	0.4	0.4	0.5
RoE (%)	6.2	12.0	12.0	12.0
RoCE (%)	5.0	12.3	12.1	12.8
EV/Sales (x)	5.0	4.3	3.9	3.3
EV/EBITDA (x)	33.0	20.2	17.5	15.2
PE (x)	79.8	37.8	34.1	30.8
P/BV (x)	4.8	4.3	3.9	3.5

Key Data

SHCM.BO | SRCM IN

52-W High / Low	Rs.30,738 / Rs.22,601
Sensex / Nifty	74,119 / 22,494
Market Cap	Rs.891bn/ \$ 10,767m
Shares Outstanding	36m
3M Avg. Daily Value	Rs.856.94m

Shareholding Pattern (%)

Promoter's	62.55
Foreign	12.30
Domestic Institution	12.55
Public & Others	12.59
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(10.6)	(4.2)	(5.6)
Relative	(13.8)	(13.9)	(23.2)

Tushar Chaudhari

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Pioneer in operating cost reduction

We initiate coverage on Shree Cement (SRCM) with 'Buy rating and TP of Rs28,966 based on 17x FY26EV/EBITDA. SRCM is well placed to capitalize on strong volume growth in domestic markets over next few years given a) ongoing brownfield expansions expected to take the total grey cement producing capacity to ~75mtpa by FY27E; b) industry leadership in using green energy to keep power & fuel costs lower and c) focus on high growth regions for capacity addition. Over last two decades SRCM has emerged as one of the fastest growing North focused player via organic route, besides over last few years it has also made significant progress in Eastern and Central regions. We believe that the company will benefit from ongoing strong pricing environment and uptick in demand. We expect strong earnings CAGR of ~37% over FY23-26E. The stock is currently trading at 17.5x/15.3x EV of FY25E/FY26E EBITDA. Initiate 'Buy'.

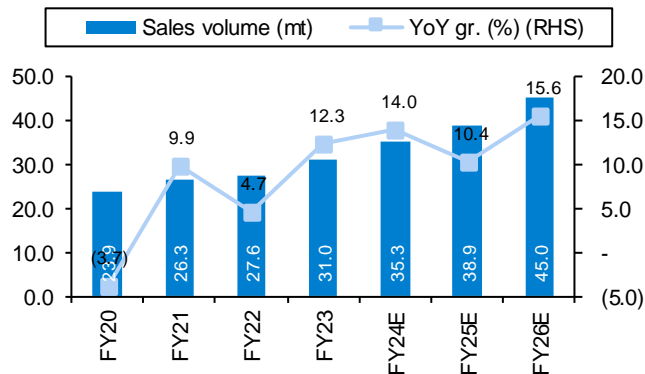
Superior execution capabilities for capacity addition via organic route: SRCM has added cement capacities consistently over last two decades to reach 53.4mtpa in 3QFY24. Capacities grew organically at 11% CAGR over FY13-FY23 faster than the industry leader. SRCM has adopted its tried and tested organic route of capacity addition over last 2 decades and successfully multiplied its cement manufacturing capacity 2.5x from 18mtpa in FY14. It has become India's fastest growing cement manufacturing player without adding any significant debt to balance sheet. Its commissioning schedule is shortest amongst peers. Going forward, we expect additional capacity of ~18.4mtpa over FY24-26E to reach 72mtpa as per its stated target of reaching 80mtpa by FY28E.

Expanding in new markets using same old formula: Over the years, SRCM has expanded its capacities around Rajasthan limestone belt with small scale grinding units and adopted brownfield expansion to multiply later. Capex per ton has always been lowest compared to peers and being closer to mines/market, is the most efficient cement producer in North India. SRCM has also one of the lowest specific energy consumption amongst India's cement manufacturing companies. Over last decade, SRCM started diversifying in other regions to benefit from strong growth in Central India. Since FY14, SRCM has commissioned more than 15mtpa cement grinding capacities in Central and East regions. Going to other regions, it was expected that it would be difficult for SRCM to replicate efficiency parameters similar to Rajasthan, however looking at recent years' performance, SRCM has done quite well.

Rising green energy share to aid profitability: SRCM is pioneer in reducing operating cost using Pet coke, WHRS and now Green energy. Although peers are catching up fast on WHRS and green energy, SRCM is way ahead of competition in green energy with 58% total energy coming from green resources. It has built captive thermal power plant (TPP) of 503 MW and green energy sources of 474MW (including WHRS and renewable energy) as on Dec 31st, 2023. With another 133MW capacity coming over next 18 months, we believe SRCM can rationalize on energy costs with 65% sufficiency, thus boosting margins.

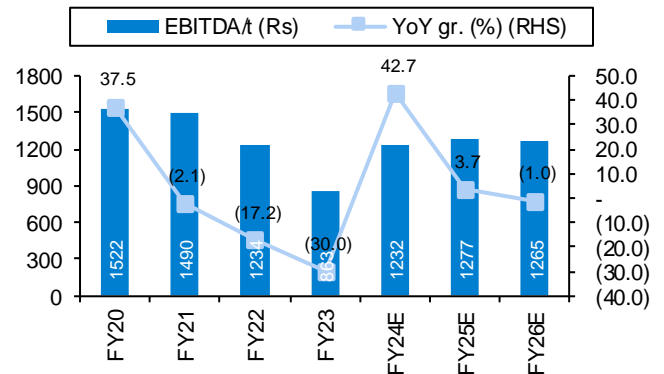
Story in Charts

Exhibit 112: Sales volume CAGR of 13% over FY23-26E



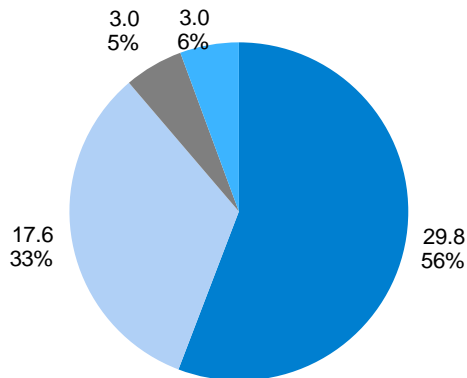
Source: Company, PL

Exhibit 113: EBITDA/t to improve to over Rs1200/t



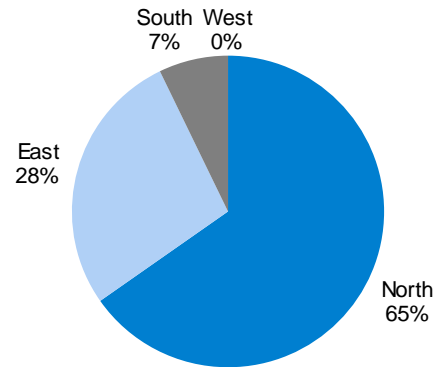
Source: Company, PL

Exhibit 114: Existing capacity share region wise (53.4mtpa)



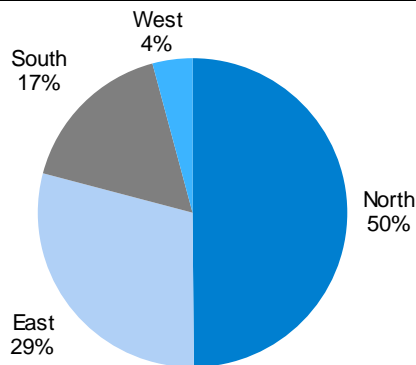
Source: Company, PL

Exhibit 115: Existing clinker capacity region wise (33.4mtpa)



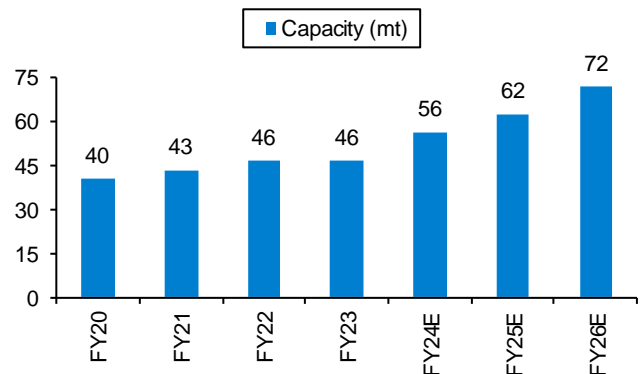
Source: Company, PL

Exhibit 116: Capacity share by FY26E (71.8mtpa)



Source: Company, PL

Exhibit 117: Capacity at 15% CAGR over FY23-26E



Source: Company, PL

Shree Cement - Strong focus on cost reduction

Incorporated in 1979 and headquartered in Kolkata by industrialists' P D Bangur and B G Bangur, Shree Cement (SRCM) is one of India's most efficient cement producers with production capacity of 53.4mtpa anticipated to reach ~75mtpa over next few years. The company's key markets are spread across North, Central and Eastern India, while in last few years, it has spread its wings to key Southern markets which have grown faster. SRCM is also among the industry pioneers to use alternate fuel resources in cement production and today it has highest share of green energy contribution at 58%.

SRCM has undertaken new brand strategy targeting to improve its brand positioning across markets and grow premium product portfolio. Based on its market research, SRCM has revamped its brand strategy with a master brand approach (*Bangur*). SRCM has also streamlined its premium offering with one premium product in across India, under the brand name *Bangur Magna*. This is expected to minimize current price differential vis a vis its peers.

Exhibit 118: New branding strategy with mother brand *Bangur*



Source: Company, PL

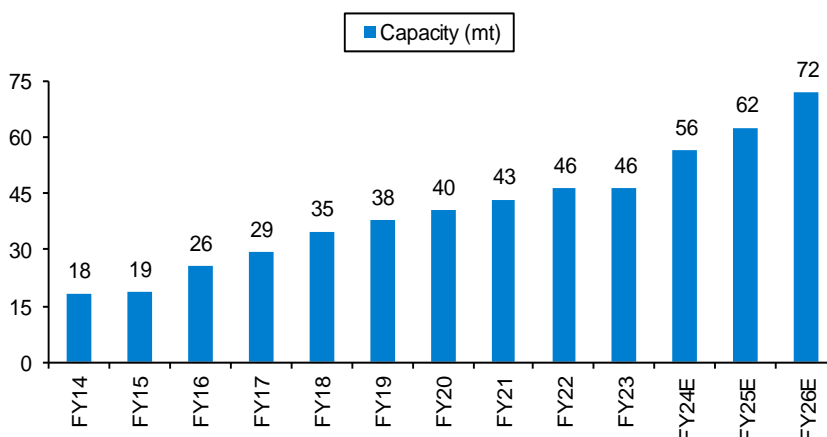
Investment Arguments

Superior execution skills for capacity additions

SRCM has consistently added cement capacities over last two decades to reach 53.4mtpa in 3QFY24. For this, the company adopted its tried and tested organic route of capacity addition and **successfully multiplied its cement manufacturing capacity 2.5x from 18mtpa in FY14 to ~54mtpa as on Dec'23**. Capacities grew at 11% CAGR over FY14-23 (mainly via organic route) which is faster than the industry leader; without adding any significant debt to balance sheet. Commissioning schedule is shortest amongst peers, besides SRCM also holds a world record in fastest completion of 1mtpa clinker capacity in 330 days against industry standard of 500-600 days. Going forward, we expect addition of 18.4mtpa over FY24-26E to reach 72mtpa as per stated target of reaching 80mtpa by FY28E.

Capacities grew 2.5x to 54mtpa over FY14-YTDFY24

Exhibit 119: Reaching towards stated target of 80mtpa via organic route



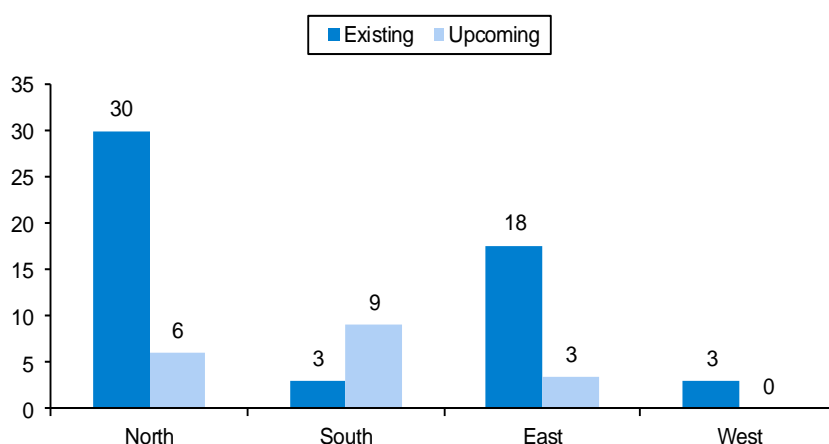
Source: Company, PL

SRCM recently added commercial production at Purulia and Nawalgarh with total capacity of 6.5mtpa cement capacity making its total capacity to 53.4mtpa and **another 3mtpa at Guntur is expected by 4QFY24**. SRCM also started work on 12mtpa cement capacity expansion projects in Rajasthan, Uttar Pradesh and Karnataka for a total investment of Rs 70bn. This includes 3.65mtpa Clinker capacity each in Pali, Rajasthan and Kodla, Karnataka. These plants will also have waste heat recovery based power plants. From these clinker units, 12mtpa grinding units will be served. Another 3.4mtpa and 3mtpa brownfield expansion is expected to get added at Baloda Bazar and Ras respectively. SRCM is expected to generate cumulative operating cash flows of Rs140b over FY23-26E. We believe SRMC with its healthy operating cash flows & superior execution abilities is expected to improve its pan India capacity market share to ~10% and also improve its regional market share.

Expanding to new markets using same old formula

Over the years, SRCM has expanded its capacity around Rajasthan limestone belt with smaller scale grinding units and adopted brownfield expansion to multiply later. Minimum size of kilns has increased now from 1.5mtpa to 2.6mtpa and SRCM is successfully commissioning the same in record time. Capex per ton is always lowest compared to peers and being closer to mines and market, it is the most efficient cement producer in North India. SRCM has also one of the lowest specific energy consumption among cement manufacturing companies in India.

Exhibit 120: Region wise cement capacity (mtpa)



Source: Company, PL

Over the last decade, SRCM started diversifying to other regions mainly to be beneficiary of strong growth in Central India. Since FY14, the company commissioned more than 15mtpa cement grinding capacities in Central and East regions. In Bihar alone, SRCM has set up 5.6mtpa cement grinding capacity. Going into other regions, it was expected that it would be difficult for SRCM to replicate efficiency parameters similar to Rajasthan. However, looking at recent years, SRCM has done quite well. Over the years, SRCM has improved its geographical diversification by entering in South market and increasing capacity in the East; thus de-risking its high exposure to the North. We believe the South and the East have higher cement prices compared to the North, despite lower utilization, which could provide higher realizations partially absorbing the rising cost pressures.

Rising green energy share to aid profitability

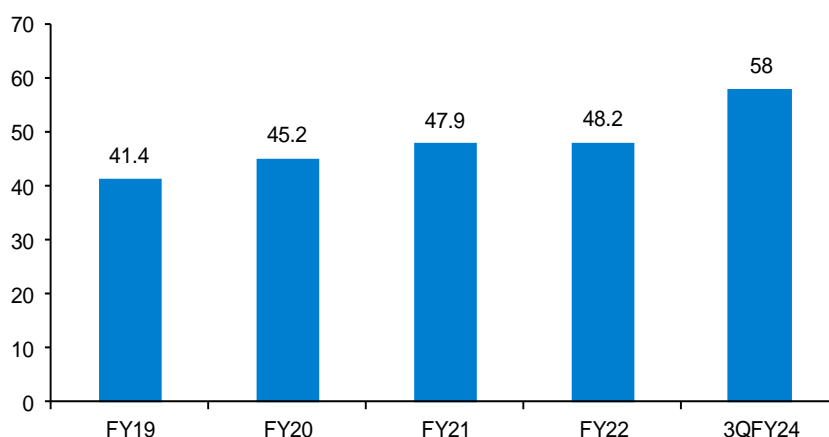
SRCM is a pioneer in reducing operating cost using pet coke, WHRS and now green energy. Although peers are catching up fast on WHRS and green energy, the company is way ahead of competition in green energy with 58% of total energy coming from green resources. SRCM has built captive thermal power plant (TPP) of 503 MW, WHRS of 244.50 MW and renewable energy (i.e. solar and wind energy) of 229.5MW as on Dec 31st, 2023. This makes it self-sufficient for significant portion of its power requirements along with being most cost effective.

58% of the power requirements is met through green energy; highest in the industry.

SRCM recently achieved 100% replacement of coal with biofuel (crop residue) in its grinding units

With 474 MW of captive green power (WHRS, solar and wind), SRCM has one of the highest green power consumption mix in the Indian cement industry which is not only environment friendly but also low cost compared to conventional power. SRCM has increased its green power consumption to 58% in 3QFY24 from 48.3% in FY22. As share of Green energy is increasing, profitability will also increase for cement sector as cost per kwh of WHRS is <Rs 1 and renewable energy is ~Rs 4; much lower than grid cost of Rs6-7. Its multi-fuel kilns and production of higher blended cement (~77% in FY23) helps in limiting fuel costs for kiln, while it is also increasing its usage of alternative fuels and raw materials usage in kiln which is ~23% highest amongst peers.

Exhibit 121: Consistently growing share of Green energy (in %)



Source: Company, PL

Volume growth to outpace rise in costs

Post diversifying into Central and Eastern India, SRCM's per ton cost of power and freight has increased 30-40% as pet coke prices have shot up globally. Rising pet coke and diesel prices are likely to have a significant impact on SRCM's profitability as pet coke constitutes over 70% of fuel mix and road contributes ~80% of total freight movement.

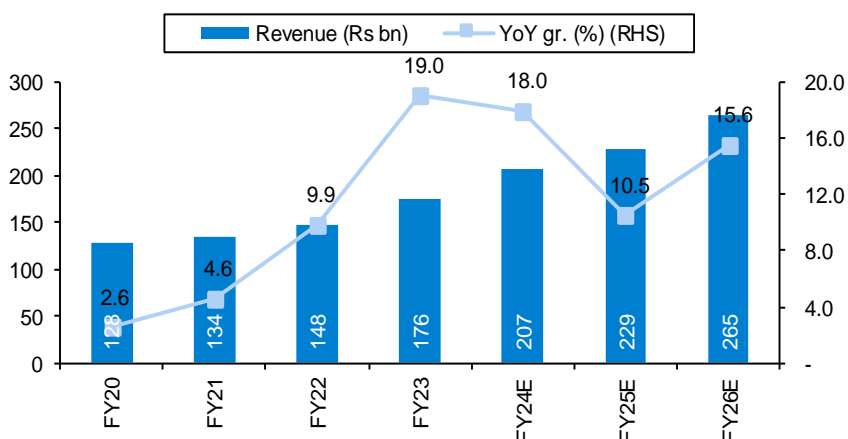
Power business continues to face short term headwinds due to muted tariffs and rising coal prices and we expect muted profitability in the near term. However, rising energy costs is the scenario for entire cement industry and SRCM would keep relatively outperforming industry on its focus on volumes and plant efficiencies. SRCM's balance sheet is expected to remain strong despite factoring capex of Rs 113bn over FY23-26E as it is generating strong operating cash flows of ~Rs 32bn every year.

Financial Analysis

Revenue CAGR of 15% over FY23-FY26E led by volumes

We expect cement revenue CAGR of 15% over FY23-FY26E, primarily led by volumes which is expected to grow at 13% CAGR. Realization had improved in 3QFY24 due to price hikes however most price hikes undertaken have been reversed and we expect pricing to remain muted till 2QFY25.

Exhibit 122: Strong 15% Revenue CAGR mainly led by volume growth

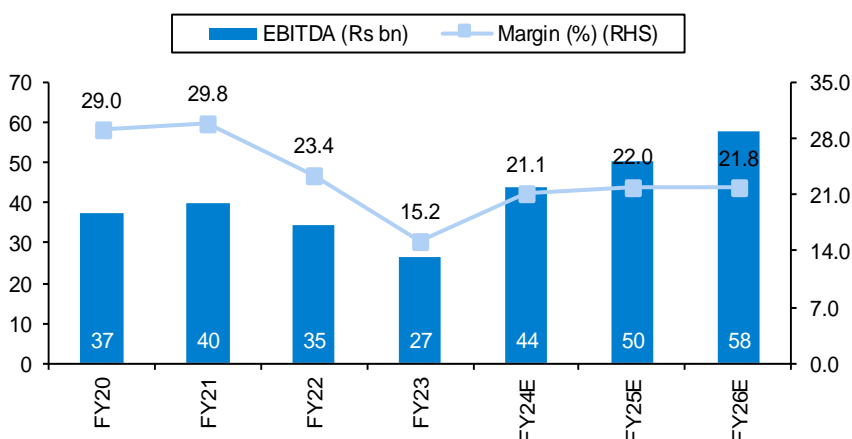


Source: Company, PL

EBITDA CAGR of 29% over FY23-26E

We expect EBITDA per ton to improve from Rs 863 in FY23 to ~Rs1300 in FY26E, on the back of lower fuel cost and uptick in pricing. We also expect EBITDA CAGR of 29% over FY23-26E.

Exhibit 123: Strong 29% EBITDA CAGR over FY23-26E

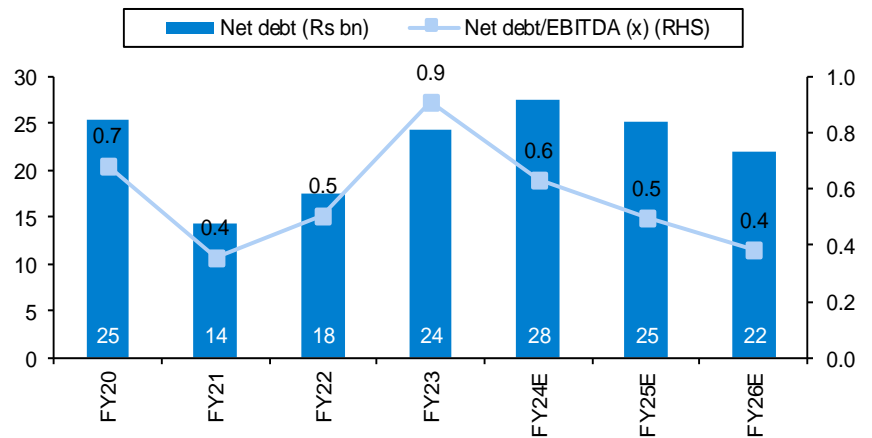


Source: Company, PL

EBITDA is expected to grow at CAGR of 29% over FY23-26E at ~Rs58bn on the back of robust 13% volume growth.

Net debt to remain lower despite ongoing capex

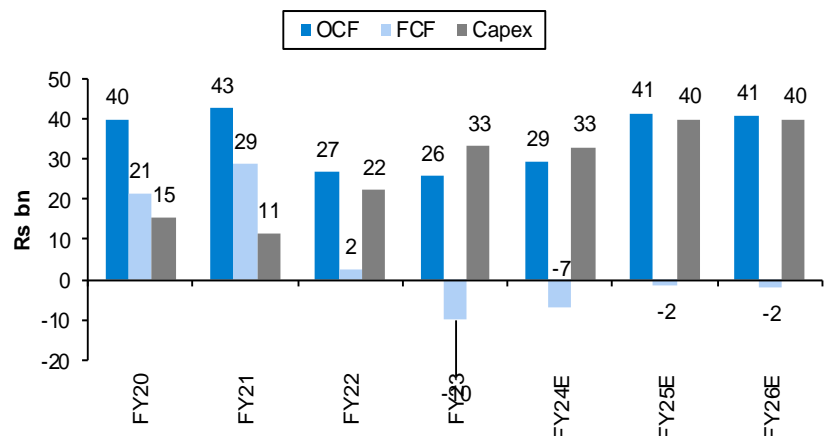
Exhibit 124: Net debt to decline on strong cash flows



Source: Company, PL

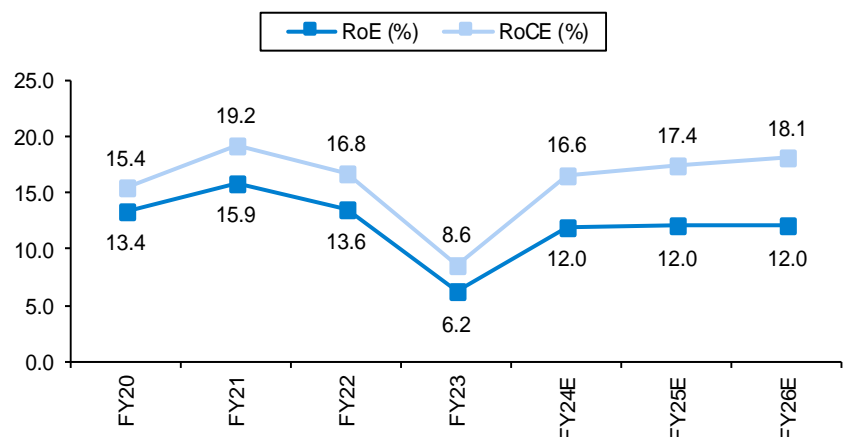
Strong OCF on better profitability; return ratios to improve

Exhibit 125: FCF to remain strong as pricing and utilizations improve



Source: Company, PL

Exhibit 126: Return ratios to improve from low FY23 base



Source: Company, PL

PAT is expected to grow at a CAGR of 38% to Rs29.2 bn on account of lower interest, strong operating performance and weak base of FY23

Led by ramp-up of new capacities, RoCE would improve to 18.1% in FY26E. While, RoE would improve to 12% from low base of FY23 levels.

Valuation

Over FY05-23, Shree Cement (SRCM) aggressively increased its capacities at 17% CAGR across regions to reach ~54mtpa via organic expansions and maintained its capacity market share. Going forward, the company plans to add another 20mtpa in North and Southern regions.

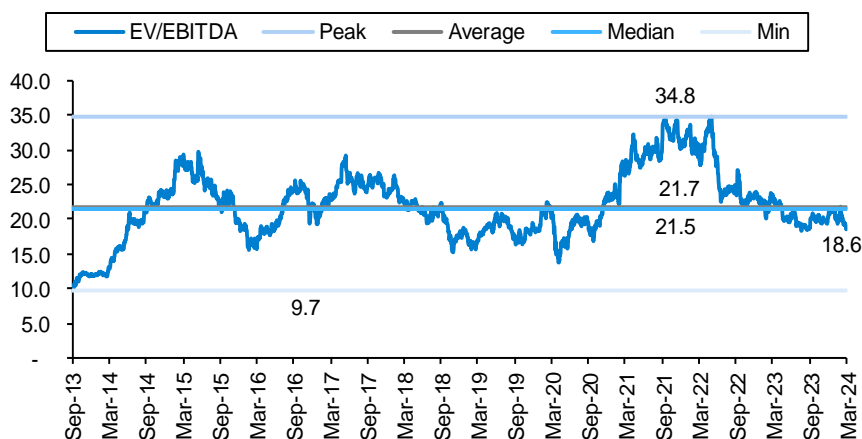
At CMP the stock trades at EV of 17.5x/15.3x FY25E/ FY26E EBITDA. **We initiate coverage with 'Buy' rating** and TP of Rs28,966 on 17x FY26E EV/EBITDA valuing at ~20% discount to long term average multiple of ~21.7x as competition is catching up fast on SRCM's initiatives of cost savings and its new branding initiatives are yet to yield results. However, SRCM has always been pioneer in cost reduction and ahead of industry in organic growth.

Exhibit 127: Valuation table

Consolidated - Valuation - FY26E	EBITDA	EV/EBITDA	EV
EV	57736	17.0	981,514
Debt – Consolidated			25,870
Cash and cash equivalents			89,465
Shareholder's value			1,045,108
Value per share			28,966

Source: PL

Exhibit 128: 1- Year Forward EV/EBITDA chart



Source: PL

Key risks

- Domestic economic slowdown can delay SRCM's volume growth.
- Abrupt increase in raw material/ fuel prices can impact its profitability.
- Overcapacity in East & South can lead to pricing pressure and affect profitability.
- Entry into unrelated businesses can hamper valuations in case of failure.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,75,660	2,07,207	2,28,999	2,64,667
YoY gr. (%)	19.0	18.0	10.5	15.6
Cost of Goods Sold	14,324	17,858	20,826	25,518
Gross Profit	1,61,336	1,89,349	2,08,173	2,39,150
Margin (%)	91.8	91.4	90.9	90.4
Employee Cost	9,778	10,545	11,263	12,088
Other Expenses	1,24,859	1,35,071	1,46,426	1,69,326
EBITDA	26,699	43,733	50,484	57,736
YoY gr. (%)	(22.7)	63.8	15.4	14.4
Margin (%)	15.2	21.1	22.0	21.8
Depreciation and Amortization	16,607	16,209	20,729	23,579
EBIT	10,092	27,524	29,756	34,158
Margin (%)	5.7	13.3	13.0	12.9
Net Interest	2,596	3,066	3,031	2,821
Other Income	7,454	7,247	8,044	9,340
Profit Before Tax	14,950	31,705	34,768	40,676
Margin (%)	8.5	15.3	15.2	15.4
Total Tax	2,259	8,129	8,633	11,696
Effective tax rate (%)	15.1	25.6	24.8	28.8
Profit after tax	12,691	23,576	26,135	28,980
Minority interest	(16)	(19)	(7)	(5)
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,164	23,595	26,142	28,985
YoY gr. (%)	(49.9)	111.4	10.8	10.9
Margin (%)	6.4	11.4	11.4	11.0
Extra Ord. Income / (Exp)	1,543	-	-	-
Reported PAT	12,707	23,595	26,142	28,985
YoY gr. (%)	(45.5)	85.7	10.8	10.9
Margin (%)	7.2	11.4	11.4	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12,707	23,595	26,142	28,985
Equity Shares O/s (m)	36	36	36	36
EPS (Rs)	309.4	654.0	724.6	803.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,78,195	2,03,195	2,33,195	2,63,195
Tangibles	1,78,195	2,03,195	2,33,195	2,63,195
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,03,387	1,19,596	1,40,324	1,63,903
Tangibles	1,03,387	1,19,596	1,40,324	1,63,903
Intangibles	-	-	-	-
Net fixed assets	74,809	83,600	92,871	99,293
Tangibles	74,809	83,600	92,871	99,293
Intangibles	-	-	-	-
Capital Work In Progress	33,909	41,909	51,909	61,909
Goodwill	-	-	-	-
Non-Current Investments	54,322	54,322	54,322	54,322
Net Deferred tax assets	6,823	6,823	6,823	6,823
Other Non-Current Assets	3,797	3,797	3,797	3,797
Current Assets				
Investments	33,979	33,979	33,979	33,979
Inventories	27,597	34,061	34,507	39,881
Trade receivables	12,116	14,192	15,685	18,128
Cash & Bank Balance	1,609	2,298	2,747	3,781
Other Current Assets	11,134	11,134	11,134	11,134
Total Assets	2,63,340	2,89,360	3,11,018	3,36,292
Equity				
Equity Share Capital	361	361	361	361
Other Equity	1,86,003	2,05,810	2,27,983	2,52,819
Total Network	1,86,364	2,06,171	2,28,344	2,53,180
Non-Current Liabilities				
Long Term borrowings	25,870	29,870	27,870	25,870
Provisions	339	339	339	339
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	11,960	14,192	15,685	18,128
Other current liabilities	35,300	35,300	35,300	35,300
Total Equity & Liabilities	2,63,339	2,89,359	3,11,018	3,36,292

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	14,950	31,705	34,768	40,676
Add. Depreciation	16,607	16,209	20,729	23,579
Add. Interest	2,629	3,066	3,031	2,821
Less Financial Other Income	7,454	7,247	8,044	9,340
Add. Other	(4,650)	(7,247)	(8,044)	(9,340)
Op. profit before WC changes	29,535	43,733	50,484	57,736
Net Changes-WC	(516)	(6,309)	(445)	(5,375)
Direct tax	(3,332)	(8,129)	(8,633)	(11,696)
Net cash from Op. activities	25,687	29,295	41,405	40,665
Capital expenditures	(32,791)	(33,000)	(40,000)	(40,000)
Interest / Dividend Income	3,631	-	-	-
Others	5,015	7,247	8,044	9,340
Net Cash from Inv. activities	(24,145)	(25,753)	(31,956)	(30,660)
Issue of share cap. / premium	-	-	-	-
Debt changes	3,072	4,000	(2,000)	(2,000)
Dividend paid	(3,245)	(3,788)	(3,969)	(4,149)
Interest paid	(2,586)	(3,066)	(3,031)	(2,821)
Others	(9)	-	-	-
Net cash from Fin. activities	(2,767)	(2,854)	(9,000)	(8,971)
Net change in cash	(1,225)	688	449	1,034
Free Cash Flow	(7,457)	(3,705)	1,405	665

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	309.4	654.0	724.6	803.4
CEPS	769.7	1,103.2	1,299.1	1,456.9
BVPS	5,165.3	5,714.3	6,328.8	7,017.2
FCF	(206.7)	(102.7)	38.9	18.4
DPS	100.0	105.0	110.0	115.0
Return Ratio(%)				
RoCE	5.0	12.3	12.1	12.8
ROIC	5.1	10.9	10.7	10.6
RoE	6.2	12.0	12.0	12.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	58	60	55	55
Valuation(x)				
PER	79.8	37.8	34.1	30.8
P/B	4.8	4.3	3.9	3.5
P/CEPS	32.1	22.4	19.0	17.0
EV/EBITDA	33.0	20.2	17.5	15.2
EV/Sales	5.0	4.3	3.9	3.3
Dividend Yield (%)	0.4	0.4	0.4	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	47,851	49,991	45,846	49,008
YoY gr. (%)	16.7	18.9	21.3	20.4
Raw Material Expenses	4,312	5,759	4,558	4,393
Gross Profit	43,539	44,232	41,289	44,615
Margin (%)	91.0	88.5	90.1	91.0
EBITDA	8,925	9,326	8,701	12,337
YoY gr. (%)	(2.0)	13.9	66.3	74.3
Margin (%)	18.7	18.7	19.0	25.2
Depreciation / Depletion	4,419	3,085	3,315	3,466
EBIT	4,505	6,241	5,386	8,871
Margin (%)	9.4	12.5	11.7	18.1
Net Interest	726	753	681	561
Other Income	1,353	1,617	1,261	1,354
Profit before Tax	5,132	7,105	5,965	9,664
Margin (%)	10.7	14.2	13.0	19.7
Total Tax	(330)	1,294	1,052	2,322
Effective tax rate (%)	(6.4)	18.2	17.6	24.0
Profit after Tax	5,462	5,811	4,913	7,342
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,462	5,811	4,913	7,342
YoY gr. (%)	0.2	84.2	159.1	165.3
Margin (%)	11.4	11.6	10.7	15.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,462	5,811	4,913	7,342
YoY gr. (%)	(15.3)	84.2	159.1	165.3
Margin (%)	11.4	11.6	10.7	15.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,462	5,811	4,913	7,342
Avg. Shares O/s (m)	36	36	36	36
EPS (Rs)	151.4	161.1	136.2	203.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Domestic volumes (mt)	31	35	39	45
Net Realisations (Rs/t)	4,935	5,182	5,234	5,338
Cement EBITDA (Rs/te)	840	1,232	1,277	1,265

Source: Company Data, PL Research

March 11, 2024

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	6,23,376	7,06,802	7,89,834	8,93,451
EBITDA (Rs. m)	97,175	1,24,426	1,58,754	1,91,211
Margin (%)	15.6	17.6	20.1	21.4
PAT (Rs. m)	50,599	67,283	82,107	1,04,938
EPS (Rs.)	175.3	233.1	284.4	363.5
Gr. (%)	(29.6)	33.0	22.0	27.8
DPS (Rs.)	38.0	40.0	44.0	48.4
Yield (%)	0.4	0.4	0.5	0.5
RoE (%)	9.7	11.8	13.0	14.7
RoCE (%)	10.9	13.7	16.6	18.6
EV/Sales (x)	4.5	4.0	3.6	3.1
EV/EBITDA (x)	29.0	22.8	17.8	14.5
PE (x)	55.2	41.5	34.0	26.6
P/BV (x)	5.1	4.7	4.2	3.7

Key Data

ULTC.BO | UTCEM IN

52-W High / Low	Rs.10,526 / Rs.6,991
Sensex / Nifty	74,119 / 22,494
Market Cap	Rs.2,793bn / \$ 33,731m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.3615.8m

Shareholding Pattern (%)

Promoter's	59.96
Foreign	18.72
Domestic Institution	13.78
Public & Others	7.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.7)	14.3	33.9
Relative	(6.3)	2.7	9.0

Tushar Chaudhari

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Best placed amongst peers

We initiate coverage on Ultratech Cement (UTCEM) with 'Buy' rating and target price of Rs11,328 based on 17x FY26EV/EBITDA. UTCEM is well placed to capitalize on strong volume growth in domestic markets over next few years given a) its ongoing brownfield expansions expected to take its total grey cement producing capacity to ~192 mtpa by FY26E; b) rising focus on green energy to reduce power & fuel costs and c) strong balance sheet with Rs 7bn net cash by FY26E to keep avenues of inorganic growth open. Over last two decades, UTCEM has emerged as one of India's fastest growing cement player with significant market share across all regions. It will also be biggest beneficiary of the ongoing strong pricing environment and uptick in demand. We expect UTCEM to deliver strong 28% earnings growth over FY23-26E. The stock is currently trading at 17.8x/14.5x EV of FY25E/FY26E EBITDA. Initiate 'Buy'.

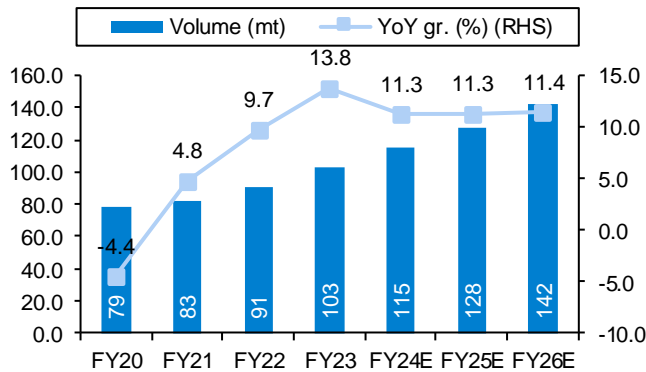
Consistent capacity addition via both inorganic and organic route: UTCEM has added cement capacities consistently over last two decades to reach 140mtpa. Capacities grew at 10% CAGR over FY13-23 which itself suggests company's implacable focus on Indian cement industry and it is now in a sweet spot to ride the industry upcycle over next few years. With ~22% capacity market share and ~82% utilization, UTCEM is in a dominant position to benefit from impending strong demand growth over next few years. With ongoing brownfield expansion, UTCEM's total capacity is expected to reach ~192mtpa by FY26E including the recently purchased Kesoram's 10.75mtpa capacity in South India. Going forward, UTCEM is expected to complete brownfield expansions to maintain market share and comfortably reach 200mtpa mark by FY27E as planned. We believe UTCEM is a best play on India's cement growth story as it has adequate capacity available for catering to growth across regions.

Rising green energy share to aid profitability: Over last few years, UTCEM has focused on reducing energy costs by adding Waste Heat Recovery System (WHRS) and tying-up for renewable energy capacities. Over FY19-23, UTCEM has increased its WHRS capacity by 25% CAGR to 210MW and renewable capacity by 53% CAGR to 345MW. The share of green energy (incl. WHRS) has risen from ~5% to 20% in FY23. With similar growth rate to continue in building WHRS and renewable capacities over FY23-26E, we expect the share of green energy to grow to ~60% by FY26E.

Strong balance sheet despite ongoing capex: UTCEM will likely turn into a net cash company by FY26E despite ongoing announced expansions, as it is generating strong operating cash flows of ~Rs 100bn every year over last few years. Even after factoring capex of Rs 250bn over FY24-26E, UTCEM is likely to have net cash of Rs 7bn by FY26E; which provides enough strength to balance sheet for any suitable inorganic growth opportunities in future.

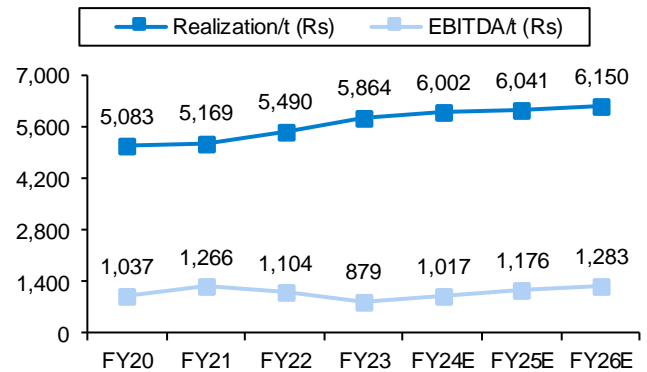
Story in Charts

Exhibit 129: Strong 11% volume CAGR over FY23-26E



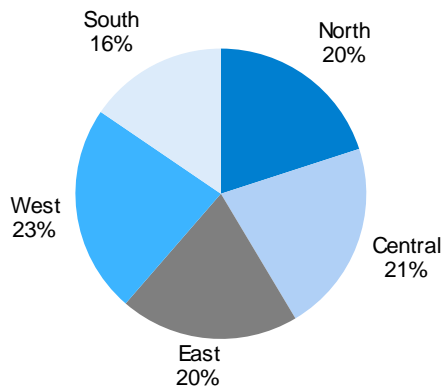
Source: Company, PL

Exhibit 130: Trend in realization and EBITDA per ton



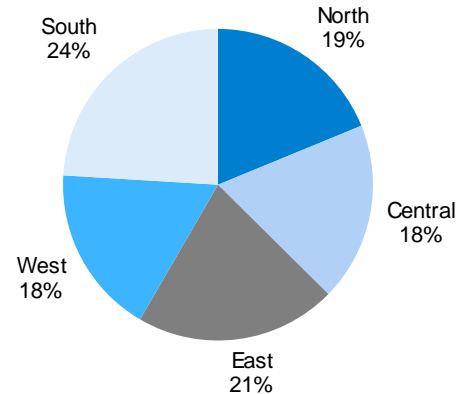
Source: Company, PL

Exhibit 131: Present state of capacity share (133mtpa)



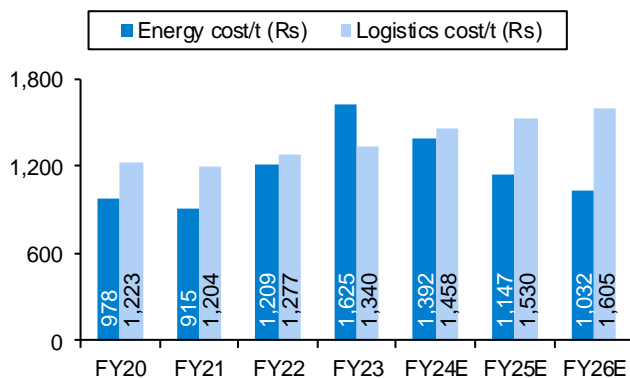
Source: Company, PL

Exhibit 132: Capacity share by FY27E (192mtpa)



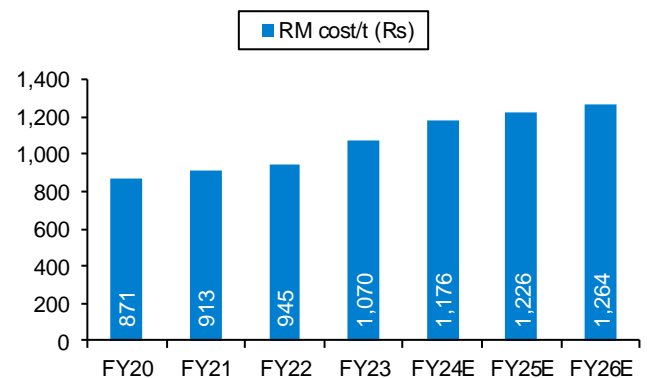
Source: Company, PL

Exhibit 133: Higher share of green energy to reduce CoP



Source: Company, PL

Exhibit 134: Raw material costs inching up



Source: Company, PL

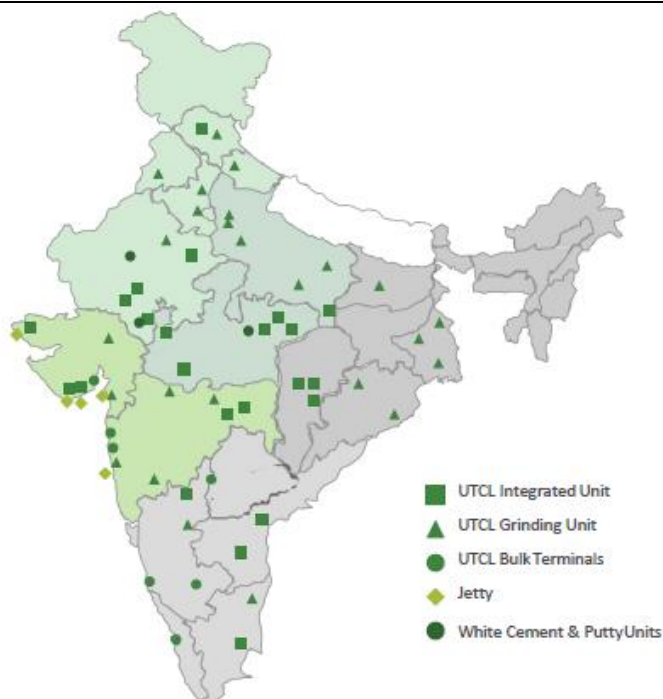
UTCEM: Fastest growing cement behemoth

A flagship company of Aditya Birla Group, Ultratech Cement (UTCEM) is the largest manufacturer of grey cement, ready mix concrete (RMC) and white cement in India. It is the third-largest cement producer in the world (excluding China) and the only cement company globally to have ~145mtpa of cement manufacturing capacity in a single country. The company has a presence in all regions across India. Following the merger of Grasim's standalone cement business, its cement capacity increased to 49mtpa in Jul-10 from 22mtpa.

In FY18, UTCEM expanded capacity by 25% by acquiring 21.2mtpa from Jaiprakash Associates. Over last five years, UTCEM's grey cement capacity grew at 8% CAGR to 127mtpa in FY23. Recently the company acquired 10.75mtpa capacity of Kesoram Industries in share swap deal. This deal is expected to get consummated over 9-12 months and would mark UTCEM's entry into the state of Telangana and increase its foothold in Southern India.

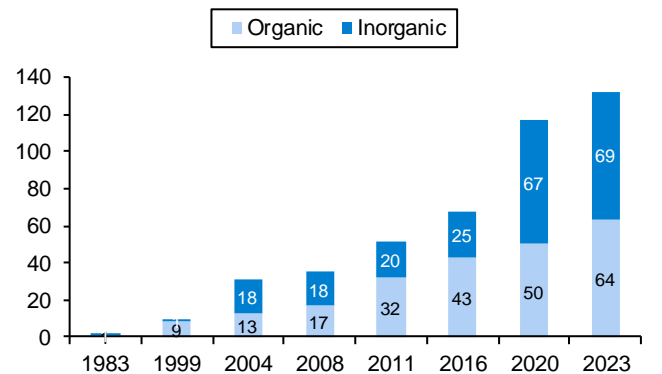
UltraTech is a premium brand in most of the markets in which the company operates. UTCEM also has 80% stake in Dubai-based Star Cement, which has 3mtpa cement capacity comprising 2.1mtpa in the Middle East (clinker capacity of 2.3mtpa), 0.5mtpa cement grinding capacity in Bangladesh, 2mtpa grinding capacity in China (Binani) and 0.4mtpa cement grinding capacity in Bahrain.

Exhibit 135: UTCEM – India footprint



Source: Company, PL

Exhibit 136: Capacity evolution over the decades (in mtpa)



Source: Company, PL

Capacities grew at 10% CAGR over FY13-FY23 to 127mtpa

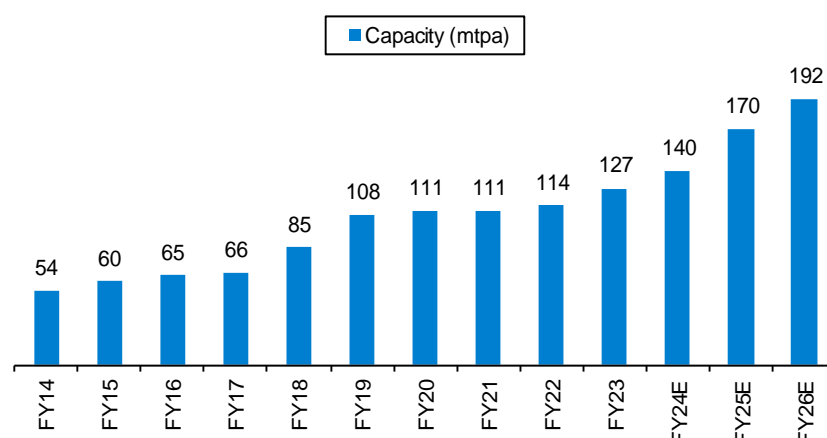
Adding 15 mtpa in South and 13mtpa in East

Investment Arguments

Robust growth via consistent capacity additions

UTCEM has consistently added cement capacities over last two decades to reach at ~140mtpa. Capacities grew at 10% CAGR over FY13-FY23 which itself suggests its unrelenting focus on Indian cement and it is now in a sweet spot to ride the cement upcycle over next few years. With almost ~22% market share by capacity and at over ~82% utilisation, UTCEM is in a dominant position to benefit from impending strong demand growth over next few years. With ongoing brownfield expansion, UTCEM's total capacity is expected to reach 192mtpa by FY26E including the recently purchased Kesoram's 10.75mtpa capacity in South India.

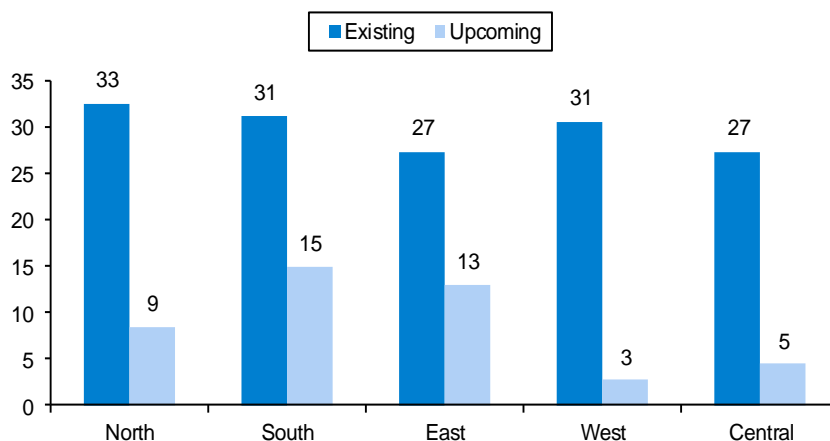
Exhibit 137: Reaching towards stated target of 200mtpa



Source: Company, PL

Inorganic capacity addition over last decade has put UTCEM in leadership position across India and given access to new resources too. Greenfield capacity addition is quiet challenging today in India with cost of resources (such as land and limestone) becoming dearer. Earlier acquisitions of Century Textiles' cement business and Binani has helped to consolidate its position in Central and Northern markets. With recent acquisitions of Burnpur and Kesoram, we expect UTCEM to consolidate its position in Southern India too.

Exhibit 138: Region wise cement capacity (mtpa)



Source: Company, PL, incl. Kesoram

UTCEM has added cement capacities in the last decade both via organic and inorganic way, when other leading players were not adding capacities via inorganic route due to lukewarm demand scenario. We believe UTCEM will be key beneficiary of improving demand scenario due to its consistent addition of capacities. Further, **strategic importance of captive limestone reserves is increasing** as reflected in high premiums being bid in the limestone mine auctions. Captive limestone mines will be an advantage in the long-term against auctioned mines. This is going to benefit UTCEM as demand is expected to remain strong over next few years.

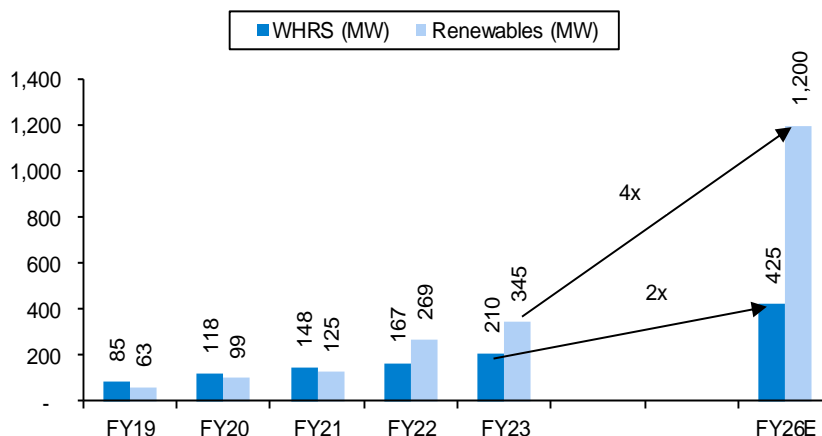
Going forward, the company will also complete their announced brownfield expansions to maintain market share and reach comfortably to **200mtpa mark by FY27E as planned**. We believe UTCEM is the best play on India's cement growth story as it has adequate capacity available for catering to growth across regions.

Rising green energy share to aid profitability

Over last few years, UTCEM has focused on reducing energy costs by adding WHRS and tying up renewable energy capacities. Over FY19-23, UTCEM has increased its WHRS capacity by 25% CAGR to 210MW and renewable capacity by 53% CAGR to 345MW. The share of green energy (incl WHRS) has risen from ~5% in FY19 to 20% in FY23. With similar growth rate continuing in building WHRS and renewable capacities over FY23-26E, we expect the share of green energy to grow to ~60% by FY26E.

Share of Green energy incl. WHRS to grow beyond 60% by FY26E

Exhibit 139: Green energy capacity at 43% CAGR to 1.6GW over FY23-26E



Source: Company, PL

Strong balance sheet despite ongoing capex

UTCEM is likely to turn a net cash company in FY26E despite ongoing announced expansions as it is generating strong operating cash flows of ~Rs 100bn every year over last few years. UTCEM has preponed capex over next two years and is expected to spend Rs90bn each till FY25 end and Rs70bn in FY27E on various planned capacities in phase 2 and 3.

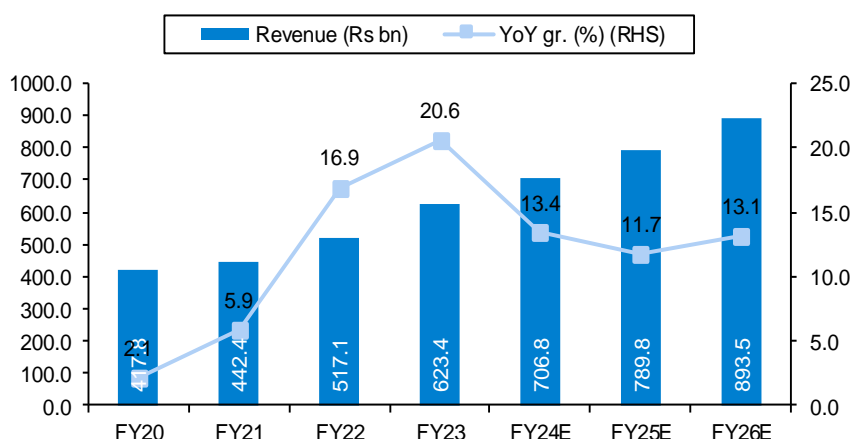
Even after factoring capex of Rs 250bn over FY24-26E, UTCEM is likely to have net cash of Rs 7bn by FY26E; which provides enough strength to balance sheet for any suitable inorganic growth opportunities in future.

Financial Analysis

Strong Revenue CAGR of 13% over FY23-FY26E

We expect cement revenue CAGR of 13% over FY23-FY26E, primarily led by volumes expected at ~11% CAGR. Realization is expected to remain flattish in FY25 led by price hikes undertaken by cement companies across India; however we expect pricing to remain muted post central elections and more capacities to come in from 2HFY25E.

Exhibit 140: Strong 13% revenue CAGR mainly led by volume growth

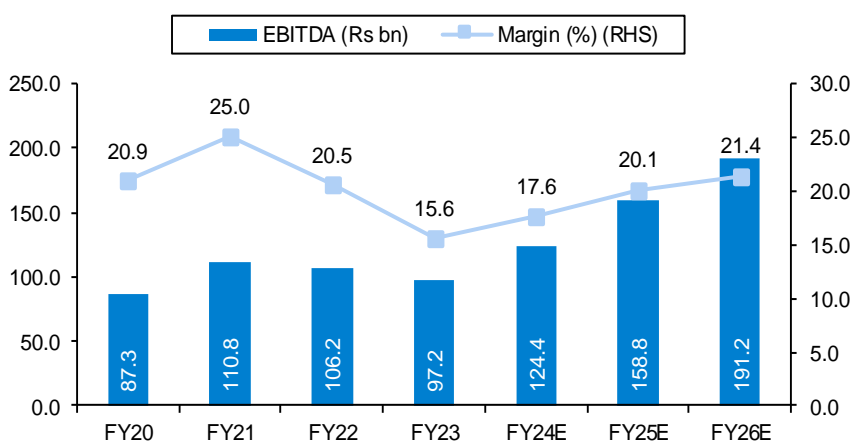


Source: Company, PL

Margin expansion on lower fuel cost

We expect EBITDA per ton to improve from Rs882 in FY23 to over Rs1200 in FY25E on the back of lower fuel cost and uptick in pricing. EBITDA is expected to increase 25% CAGR over FY23-26E.

Exhibit 141: Strong 25% EBITDA CAGR over FY23-26E

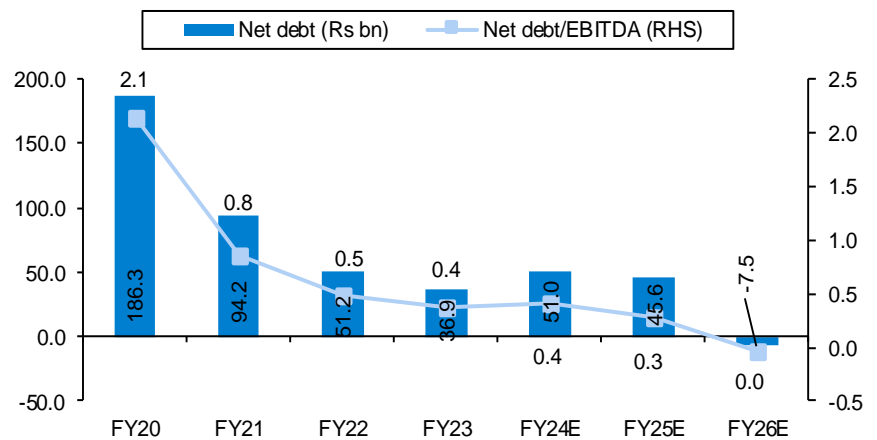


Source: Company, PL

We expect EBITDA CAGR of 25% over FY23-26E at Rs191bn, on the back of robust 11% volume growth.

Net debt to remain lower despite ongoing capex

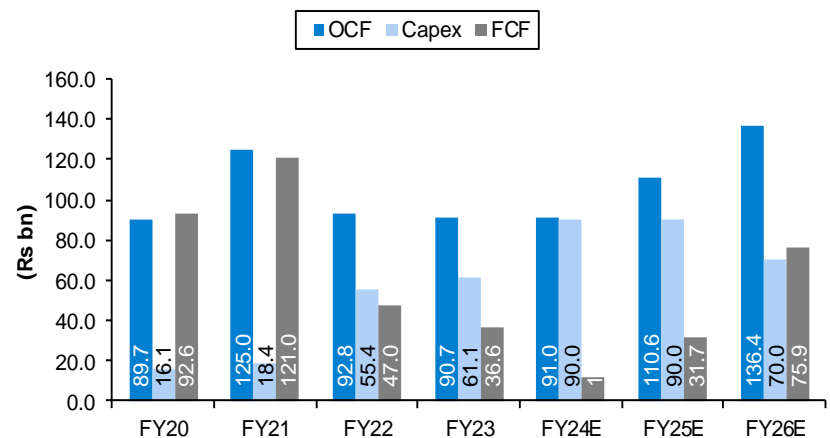
Exhibit 142: Net debt to decline on strong cash flows



Source: Company, PL

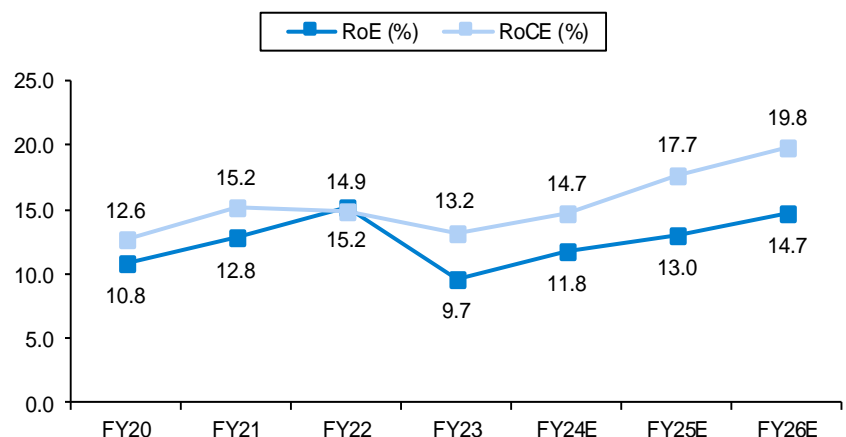
Strong OCF on better profitability; return ratios to improve

Exhibit 143: FCF to remain strong as pricing and utilizations improve



Source: Company, PL

Exhibit 144: Return ratios to improve from low FY23 base



Source: Company, PL

We expect PAT CAGR of 27% at Rs105 bn on account of lower interest, strong operating performance and weak base of FY23

Led by ramp-up of new capacities, RoCE will improve to ~20% in FY26E. While RoE will improve to ~15% from low base of FY23 levels.

Valuation

Over FY05-FY23, UTCCEM has increased capacities at 8% CAGR across regions and maintained its capacity market share to reach 140mtpa via both organic and inorganic expansions. Going forward, the company plans to add another 44mtpa via both greenfield and brownfield expansion which are underway to reach 200mtpa by FY27E. We like UTCCEM as it is adding capacities ahead of industry via both organic and inorganic route, consistently delivering on volume growth and EBITDA margins.

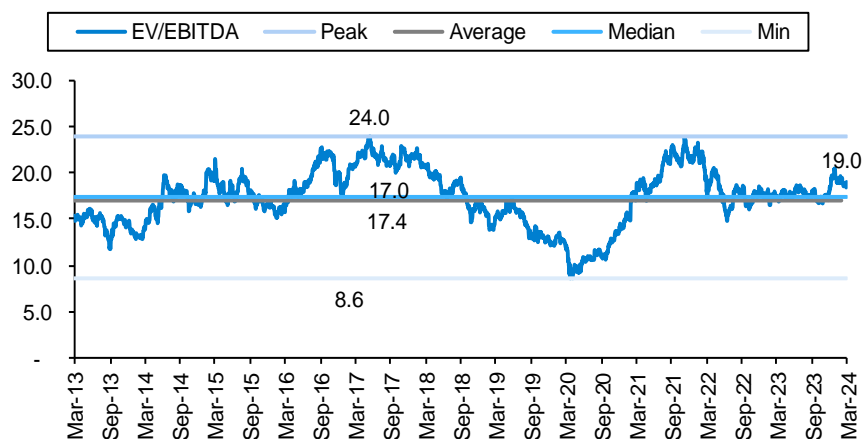
At CMP, UTCCEM trades at a EV of 17.8x/14.5x FY25E/FY26E EBITDA. **We initiate coverage with 'Buy' rating** and TP of Rs11,328 per share on 17x FY26E EV/EBITDA valuing it at its long term average multiple.

Exhibit 145: Valuation table

Particulars	(In Rs mn)
FY26E EBITDA	1,91,211
Targeted EV/EBITDA	17.0
Forecasted EV	32,50,592
Net debt	-19,566
Shareholder's Value	32,70,158
No of shares	289
Target Price per share	11,328

Source: Company, PL

Exhibit 146: 1-Year Forward EV/EBITDA chart



Source: PL

Key risks

- Domestic economic slowdown can delay company's volume growth.
- Abrupt increase in raw material/ fuel prices can impact its profitability.
- Overcapacity in certain regions can lead to pricing pressure and affect company's profitability.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	6,23,376	7,06,802	7,89,834	8,93,451
YoY gr. (%)	20.6	13.4	11.7	13.1
Cost of Goods Sold	97,150	1,22,404	1,43,907	1,67,046
Gross Profit	5,26,226	5,84,398	6,45,928	7,26,405
Margin (%)	84.4	82.7	81.8	81.3
Employee Cost	27,390	30,021	32,250	34,657
Other Expenses	4,01,662	4,29,952	4,54,924	5,00,537
EBITDA	97,175	1,24,426	1,58,754	1,91,211
YoY gr. (%)	(8.5)	28.0	27.6	20.4
Margin (%)	15.6	17.6	20.1	21.4
Depreciation and Amortization	28,880	31,982	35,422	39,077
EBIT	68,295	92,443	1,23,332	1,52,134
Margin (%)	11.0	13.1	15.6	17.0
Net Interest	8,227	10,501	11,101	9,541
Other Income	14,055	7,030	8,592	10,181
Profit Before Tax	74,122	88,973	1,20,823	1,52,775
Margin (%)	11.9	12.6	15.3	17.1
Total Tax	23,429	21,590	38,613	47,728
Effective tax rate (%)	31.6	24.3	32.0	31.2
Profit after tax	50,694	67,382	82,211	1,05,047
Minority interest	94	99	104	109
Share Profit from Associate	-	-	-	-
Adjusted PAT	50,599	67,283	82,107	1,04,938
YoY gr. (%)	(29.6)	33.0	22.0	27.8
Margin (%)	8.1	9.5	10.4	11.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	50,599	67,283	82,107	1,04,938
YoY gr. (%)	(29.6)	33.0	22.0	27.8
Margin (%)	8.1	9.5	10.4	11.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	50,599	67,283	82,107	1,04,938
Equity Shares O/s (m)	289	289	289	289
EPS (Rs)	175.3	233.1	284.4	363.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	7,06,275	7,81,275	8,66,275	9,51,275
Tangibles	7,06,275	7,81,275	8,66,275	9,51,275
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,73,778	2,05,760	2,41,182	2,80,260
Tangibles	1,73,778	2,05,760	2,41,182	2,80,260
Intangibles	-	-	-	-
Net fixed assets	5,32,497	5,75,515	6,25,093	6,71,015
Tangibles	5,32,497	5,75,515	6,25,093	6,71,015
Intangibles	-	-	-	-
Capital Work In Progress	65,646	80,646	85,646	70,646
Goodwill	63,293	63,293	63,293	63,293
Non-Current Investments	26,102	26,102	26,102	26,102
Net Deferred tax assets	(62,536)	(62,536)	(62,536)	(62,536)
Other Non-Current Assets	18,838	18,838	18,838	18,838
Current Assets				
Investments	58,366	58,366	58,366	58,366
Inventories	66,118	77,458	86,557	97,912
Trade receivables	38,670	44,538	54,098	61,195
Cash & Bank Balance	11,496	9,470	14,841	57,895
Other Current Assets	18,183	18,183	18,183	18,183
Total Assets	9,13,870	9,87,069	10,65,677	11,58,106
Equity				
Equity Share Capital	2,887	2,887	2,887	2,887
Other Equity	5,40,359	5,96,094	6,65,498	7,56,463
Total Network	5,43,245	5,98,981	6,68,385	7,59,350
Non-Current Liabilities				
Long Term borrowings	99,008	1,11,008	1,11,008	1,01,008
Provisions	6,242	6,242	6,242	6,242
Other non current liabilities	38	38	38	38
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	72,093	77,458	86,557	97,912
Other current liabilities	1,16,781	1,16,782	1,16,782	1,16,782
Total Equity & Liabilities	9,13,870	9,87,069	10,65,677	11,58,107

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	74,163	88,973	1,20,823	1,52,775
Add. Depreciation	28,880	31,982	35,422	39,077
Add. Interest	8,227	10,501	11,101	9,541
Less Financial Other Income	14,055	7,030	8,592	10,181
Add. Other	(5,972)	(7,030)	(8,592)	(10,181)
Op. profit before WC changes	1,05,298	1,24,426	1,58,754	1,91,211
Net Changes-WC	(3,370)	(11,843)	(9,560)	(7,097)
Direct tax	(11,243)	(21,590)	(38,613)	(47,728)
Net cash from Op. activities	90,685	90,993	1,10,581	1,36,387
Capital expenditures	(61,056)	(90,000)	(90,000)	(70,000)
Interest / Dividend Income	-	-	-	-
Others	(10,815)	7,030	8,592	10,181
Net Cash from Invst. activities	(71,871)	(82,970)	(81,408)	(59,819)
Issue of share cap. / premium	(1,018)	-	-	-
Debt changes	2,636	12,000	-	(10,000)
Dividend paid	(10,913)	(11,548)	(12,702)	(13,973)
Interest paid	(7,016)	(10,501)	(11,101)	(9,541)
Others	-	-	-	-
Net cash from Fin. activities	(16,310)	(10,048)	(23,803)	(33,513)
Net change in cash	2,504	(2,026)	5,371	43,055
Free Cash Flow	29,629	993	20,581	66,387

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	1,81,210	1,72,452	1,55,170	1,61,735
YoY gr. (%)	21.3	18.5	15.1	7.8
Raw Material Expenses	34,904	32,200	27,965	28,913
Gross Profit	1,46,306	1,40,252	1,27,205	1,32,821
Margin (%)	80.7	81.3	82.0	82.1
EBITDA	31,410	29,086	23,502	30,401
YoY gr. (%)	15.5	4.9	37.0	41.7
Margin (%)	17.3	16.9	15.1	18.8
Depreciation / Depletion	6,948	6,820	7,279	7,124
EBIT	24,462	22,266	16,224	23,276
Margin (%)	13.5	12.9	10.5	14.4
Net Interest	1,749	1,911	2,100	2,369
Other Income	2,006	2,582	2,088	1,914
Profit before Tax	24,719	22,937	16,211	22,821
Margin (%)	13.6	13.3	10.4	14.1
Total Tax	8,216	5,882	4,155	5,856
Effective tax rate (%)	33.2	25.6	25.6	25.7
Profit after Tax	16,503	17,055	12,057	16,965
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	16,503	17,055	12,057	16,965
YoY gr. (%)	12.2	9.7	67.8	70.6
Margin (%)	9.1	9.9	7.8	10.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	16,503	17,055	12,057	16,965
YoY gr. (%)	(32.7)	9.7	67.8	70.6
Margin (%)	9.1	9.9	7.8	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,503	17,055	12,057	16,965
Avg. Shares O/s (m)	289	289	289	289
EPS (Rs)	57.2	59.1	41.8	58.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	175.3	233.1	284.4	363.5
CEPS	275.3	343.8	407.1	498.9
BVPS	1,881.8	2,074.8	2,315.2	2,630.3
FCF	102.6	3.4	71.3	230.0
DPS	38.0	40.0	44.0	48.4
Return Ratio(%)				
RoCE	10.9	13.7	16.6	18.6
ROIC	8.4	11.5	12.5	14.9
RoE	9.7	11.8	13.0	14.7
Balance Sheet				
Net Debt : Equity (x)	0.1	0.1	0.1	0.0
Net Working Capital (Days)	19	23	25	25
Valuation(x)				
PER	55.2	41.5	34.0	26.6
P/B	5.1	4.7	4.2	3.7
P/CEPS	35.1	28.1	23.8	19.4
EV/EBITDA	29.0	22.8	17.8	14.5
EV/Sales	4.5	4.0	3.6	3.1
Dividend Yield (%)	0.4	0.4	0.5	0.5

Source: Company Data, PL Research

Key Operating Metrics

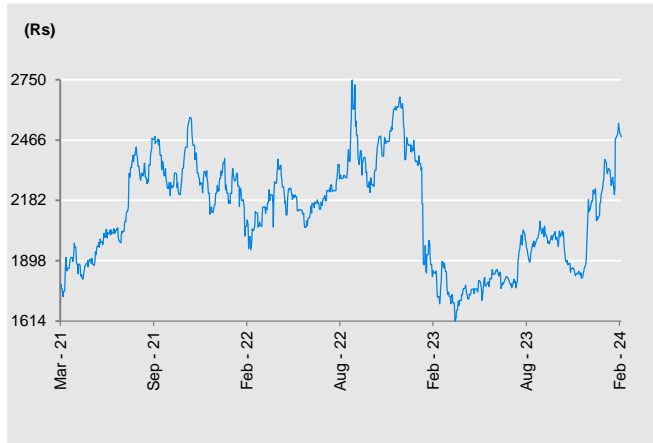
Y/e Mar	FY23	FY24E	FY25E	FY26E
Total volume (mn te)	103	115	128	142
Blended Real. (Rs/te)	5,864	6,002	6,041	6,150
Blended EBITDA/tonne (Rs)	879	1,017	1,176	1,283
RM cost (Rs/ te)	1,070	1,176	1,226	1,264
Power, Oil & Fuel (Rs/ te)	1,625	1,392	1,147	1,032
Freight Chrgs. (Rs/ te)	1,340	1,458	1,530	1,605

Source: Company Data, PL Research

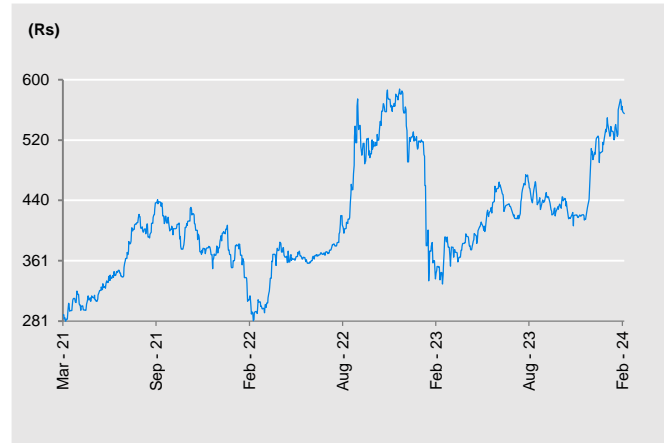
Notes

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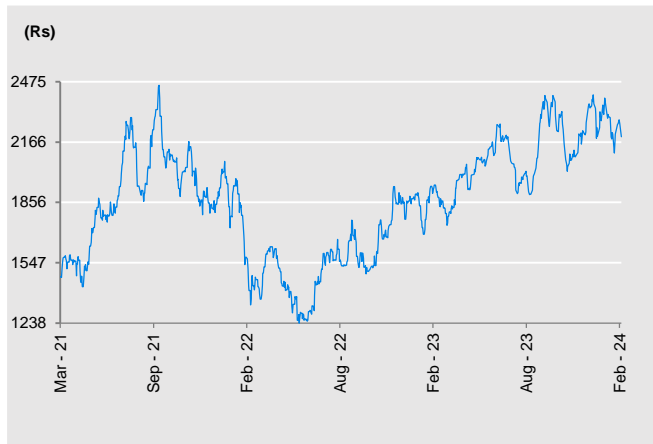
ACC - Price Chart



Ambuja Cement - Price Chart



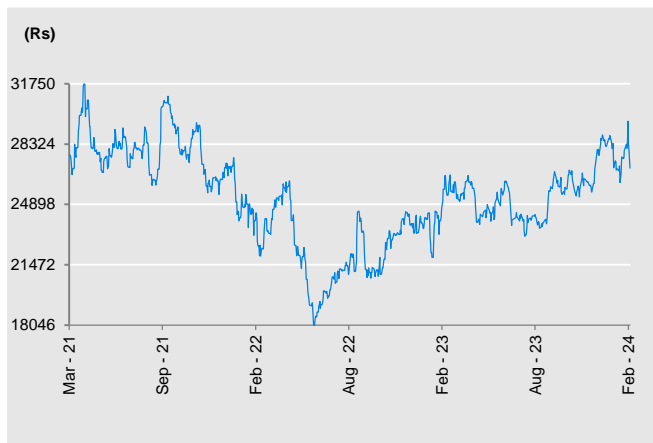
Dalmia Bharat - Price Chart



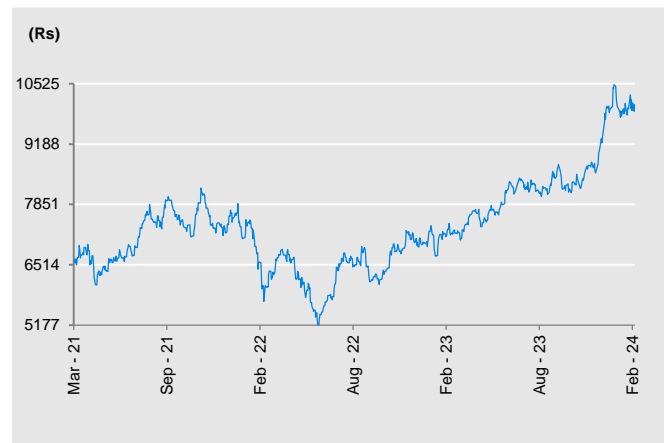
Nuvoco Vistas Corporation - Price Chart



Shree Cement - Price Chart



Ultratech Cement - Price Chart



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Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
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2	Jindal Stainless	Accumulate	660	581
3	Jindal Steel & Power	BUY	842	755
4	JSW Steel	BUY	958	816
5	National Aluminium Co.	Accumulate	101	131
6	NMDC	BUY	261	247
7	Steel Authority of India	Hold	108	123
8	Tata Steel	Accumulate	137	134

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Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
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