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SYSTEMATIX INSTITUTIONAL EQUITIES

Indian Cement Industry

Confluence of growth, efficiency & frugality in the current cycle



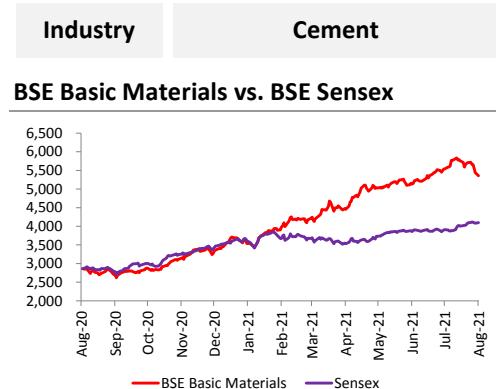
Contents

Indian Cement Industry	3
Story in charts	4
Global peer group comparative analysis	6
Cement sector coverage – Investment thesis	7
Coverage operating metrics.....	9
Investment analysis	10
Demand drivers remain strong	10
Regional dynamics	20
Capacity additions to continue	24
Current limestone reserves, acquired mines through auctions to support capacity expansion	28
New entrants strive to survive.....	29
Incremental supply is likely to be lower than incremental demand.....	33
Industry clinker utilisation to improve gradually	35
Improved utilisation to help maintain prices and pass on cost inflation; we factor in a price CAGR of 2% between FY21-24E	37
Valuations	42

Companies Section

Ultratech Cement.....	46
Shree Cement	72
Ambuja Cements	99
ACC	125
Dalmia Bharat.....	152
JK Cement.....	175
The Ramco Cements.....	202
Birla Corporation	228

SECTOR REPORT



Indian Cement Industry

01 September 2021

Confluence of growth, efficiency & frugality in the current cycle

Barring some COVID-19-led weakness, cement demand has remained strong over the last three years. We remain sanguine about the long-term cement demand outlook given the government's thrust on infrastructure development and affordable housing, rapid urbanisation and a rising working-age population. While capacity additions in the industry are likely to continue, incremental supply will be lower than incremental demand. We expect a clinker capacity CAGR of 4.7% against a demand CAGR of 8.6% between FY21-24E. The EBITDA/ton of our coverage universe is expected to grow at a CAGR of 2.2% over FY21-24E, leading to improvement in the average RoE (15.3% in FY24E vs. 14% in FY21)/RoCE (17.8% in FY24E vs. 15.6% in FY21). Improved profitability and reduced working capital in the last few years has led to an improvement in leverage for our coverage companies, which along with the improvement in RoE/RoCE should help sustain/improve their valuations. We initiate coverage on the sector with a positive view.

Demand drivers intact; incremental supply to be lower than demand growth

After remaining weak between FY13-18 (4.5% CAGR), cement demand has picked up with the government's impetus on infrastructure and housing projects. The long-term drivers of cement demand (National Infrastructure Protection Plan, Bharatmala projects, mission 'Housing for All', rapid urbanisation, rising rural incomes, historically low interest rates on housing loans) remain intact. We expect cement demand to grow at a CAGR of 8.6% over FY21-24E vs. clinker capacity CAGR of 4.7%, which should lead to an improvement in the industry clinker utilisation.

Industry profitability improved between FY17-21; expect further improvement

Improvement in clinker utilisation led to better realisations (4.1% CAGR between FY17-21), resulting in improved profitability for the sector (average EBITDA/ton improved ~10% between FY17-21). The profitability of our coverage companies improved at a CAGR of 7.3% between FY17-21, leading to an average RoE/RoCE improvement of 2.7%/3.3%. We expect the average EBITDA/ton of our coverage companies to grow at a CAGR of 2.2% over FY21-24E (on a high base of FY21).

Leverage of our coverage companies to remain under control

Strong improvement in profitability during FY19-21 led to a combined OCF (operating cash flow) CAGR of 38.9% for our coverage companies, leading to an FCF (Free cash flow) CAGR of 57.7%. We expect the combined OCF of our coverage universe to increase at a CAGR of 5.5% over FY21-24E, leading to an FCF CAGR of 10.9%. The combined net debt of our coverage companies has reduced by Rs 197.2bn during FY19-21 (Rs 72.1bn in FY21 vs. Rs 269.3bn in FY19), leading to an improvement in the average net debt/EBITDA (0.31x in FY21 vs. 1.13x in FY19). We expect a further improvement in the net debt/EBITDA of our coverage universe (-0.55x in FY24E).

Outlook & Valuation

The cement industry will continue to exhibit pricing power in the medium-term led by an improvement in clinker utilisation, which implies improved profitability for our coverage companies. We expect the average RoE of coverage companies to improve from 14% in FY21 to 15.3% in FY24E whereas RoCE is expected to improve from 15.6% in FY21 to 17.8% in FY24E. We initiate coverage on ACC, ACEM, BCORP, DALBHARAT, TRCL and UTCEM with a BUY rating and JKCE/SRCM with a HOLD rating. UTCEM is our top pick in the large-cap space, followed by ACEM and DALBHARA. TRCL is our top pick in the mid-cap space.

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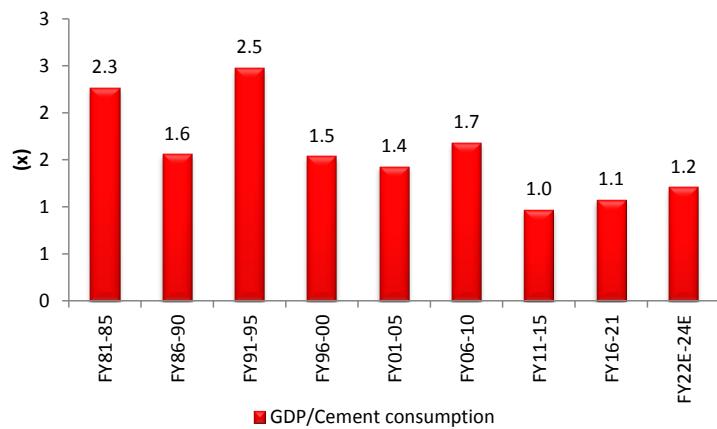
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Investors are advised to refer disclosures made at the end of the research report.

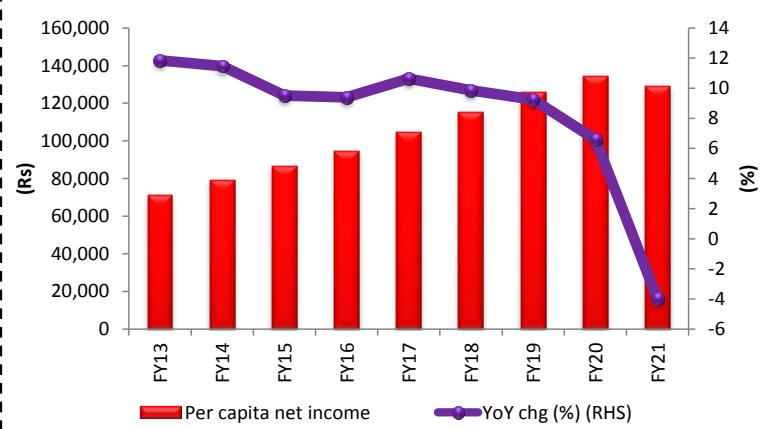
Story in charts

Exhibit 1: GDP to cement demand growth



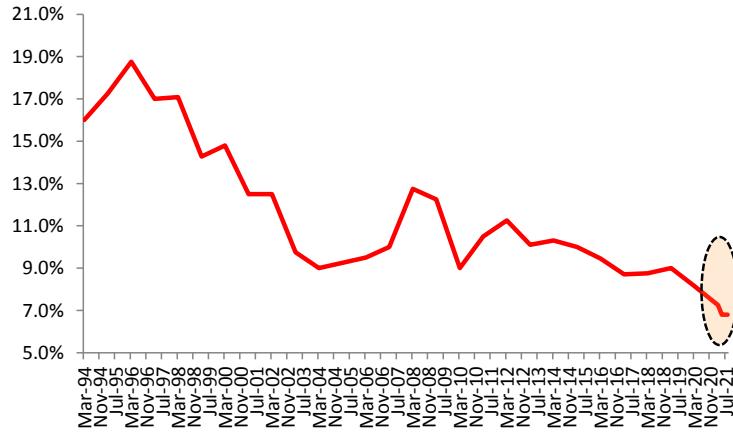
Source: Systematix Institutional Research, Industry, RBI

Exhibit 2: Rising per capita income



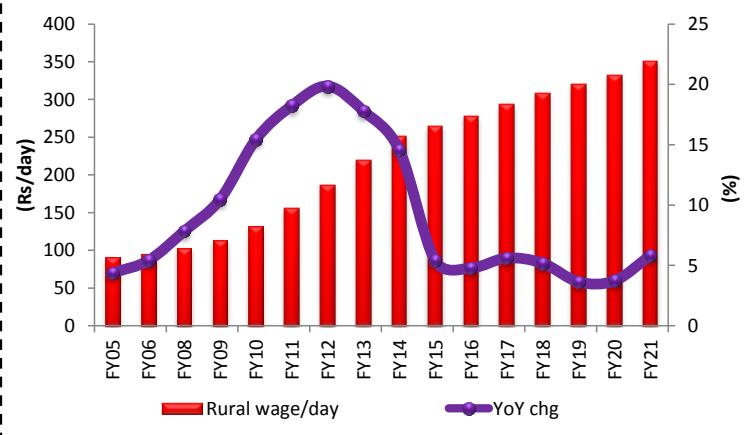
Source: Systematix Institutional Research, National Account Statistics

Exhibit 3: Interest rates on housing loans at historically low levels



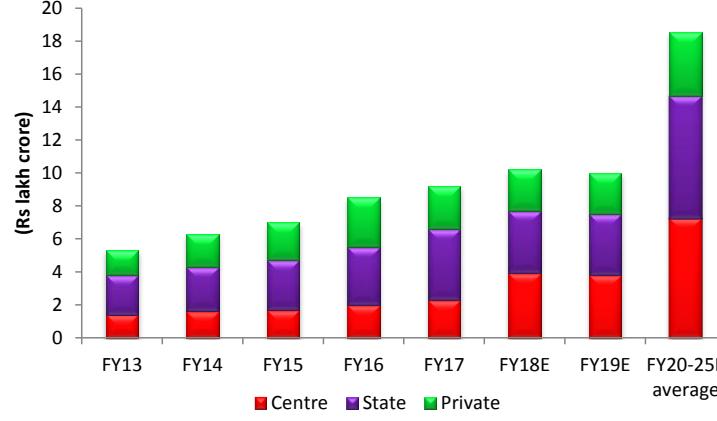
Source: Systematix Institutional Research, SBI

Exhibit 4: Rural wages increased at an 8.8% CAGR in 16 years



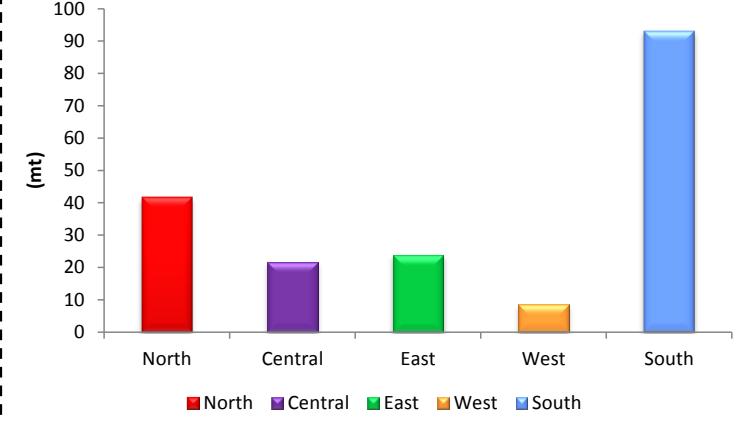
Source: Systematix Institutional Research, CMIE

Exhibit 5: Average investment in infrastructure spending should increase 2x over the FY13-19 average



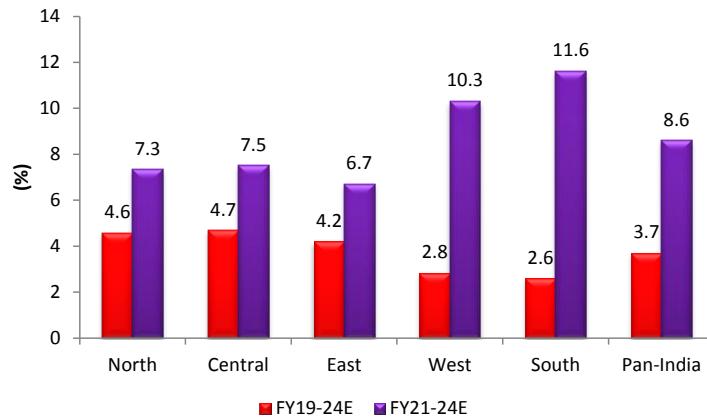
Source: Systematix Institutional Research, Department of Economic Affairs

Exhibit 6: Regional break-up of ECs received*



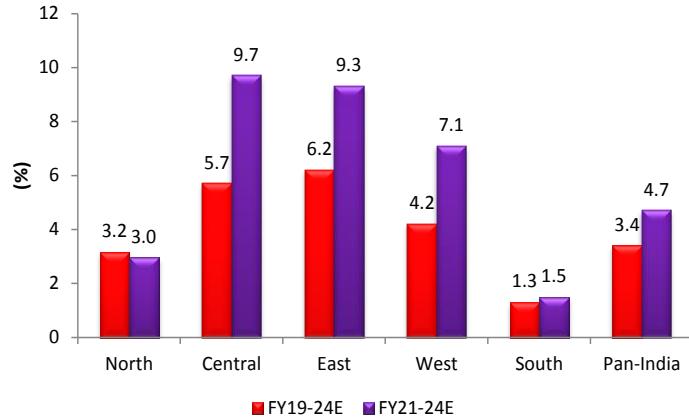
Source: Systematix Institutional Research, Industry; *based on clinker capacities for which orders have not been placed

Exhibit 7: The low base of FY21 to support higher volume growth in the Southern/Western regions



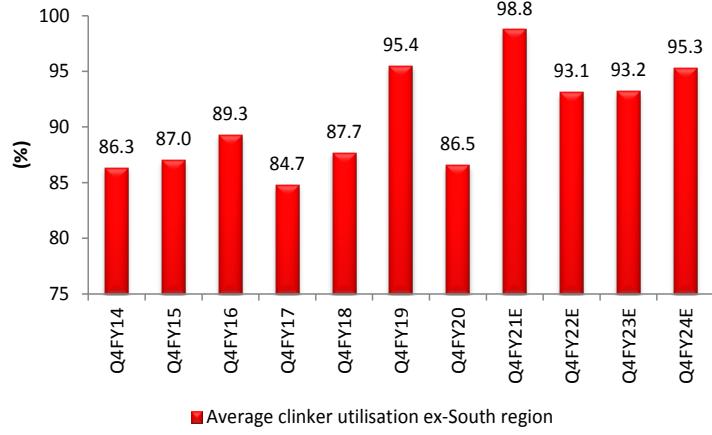
Source: Systematix Institutional Research, Industry

Exhibit 8: Clinker capacity addition to be lower than demand growth



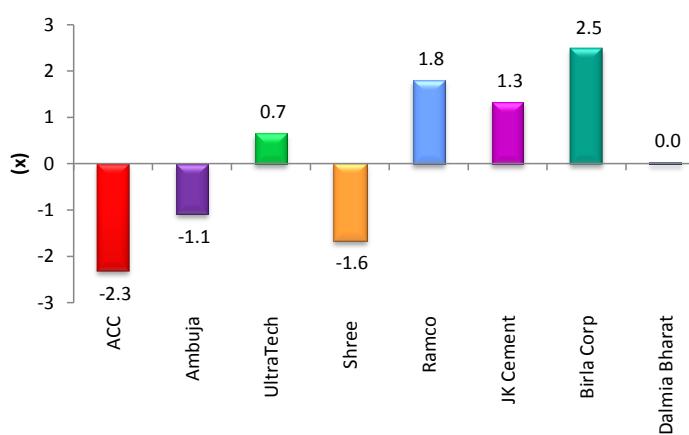
Source: Systematix Institutional Research, Industry

Exhibit 9: Ex-South, clinker utilisation to remain strong in the Jan-March period



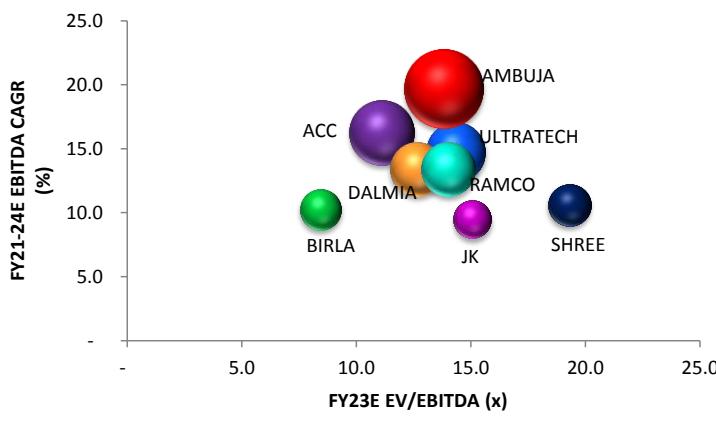
Source: Systematix Institutional Research, Industry

Exhibit 10: Net debt/EBITDA in FY21 at comfortable levels



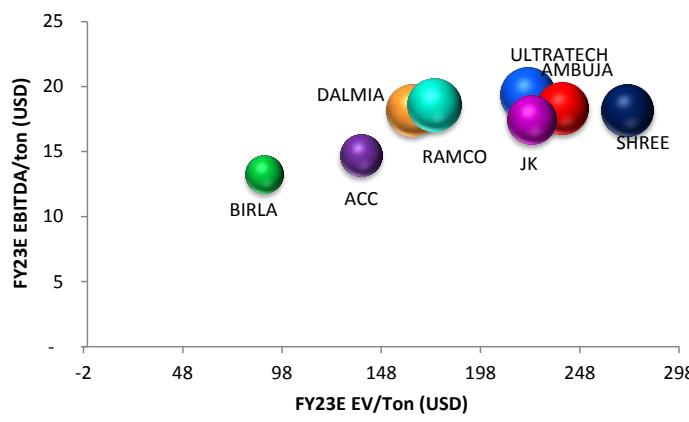
Source: Systematix Institutional Research, Companies, *Dec-ending companies

Exhibit 11: Valuation of coverage companies on EV/EBITDA basis



Source: Company, Systematix Institutional Research

Exhibit 12: Valuation of coverage companies on EV/ton basis



Source: Company, Systematix Institutional Research

Global peer group comparative analysis

Exhibit 13: Global cement companies' relative valuation table

Global Cement Companies		Market Capitalisation	EV/EBITDA		P/BV		P/E		RoE (%)		RoCE (%)	EPS CAGR (%)
Europe		(USD bn)	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E	CY20	CY20-22E
LafargeHolcim Ltd		35.1	7.0	6.6	1.2	1.1	12.5	11.2	9.6	10.4	11.1	23%
Heidelberg Cement		17.1	5.9	5.7	1.0	0.9	8.9	8.4	11.3	11.2	14.3	NA
Indonesia												
Semen Indonesia		3.9	9.0	8.2	1.5	1.4	20.6	16.1	7.7	9.1	7.6	12%
SIAM Cement		15.5	9.5	9.2	1.4	1.4	10.7	10.8	14.0	13.0	16.1	17%
China												
Anhui Conch Cement		32.1	2.7	2.6	1.1	1.0	6.2	6.1	19.8	17.7	25.0	0%
BBMG Group		3.9	12.0	11.0	0.4	0.4	10.1	8.4	3.6	4.0	NA	NA
China National Building Material Co.Ltd.		10.9	5.7	5.3	0.7	0.6	4.7	4.3	14.9	14.8	16.9	2%
China Resources Cement Holdings Ltd.		6.8	4.3	4.1	1.0	0.9	6.3	6.0	16.0	15.7	23.9	-1%
West China Cement		0.8	2.9	2.7	0.5	0.4	3.1	2.9	14.0	13.6	15.5	9%
Taiwan												
Asia Cement		5.3	7.6	7.4	0.9	0.9	8.5	8.4	10.7	10.3	28.5	5%
Taiwan Cement		10.1	9.4	8.9	1.3	1.3	12.3	11.8	11.3	11.5	18.9	-4%
Middle East												
Saudi Cement Company		2.6	15.1	14.2	NA	NA	22.3	19.8	17.0	19.5	18.1	3%
Southern Province Cement Co		2.8	14.5	13.4	3.3	NA	20.9	18.5	15.4	17.1	NA	-4%
Yamama Cement Co		1.7	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Yanbu Cement Co		1.8	14.4	11.7	2.3	2.4	25.4	17.9	9.1	13.1	8.3	15%
Latin America												
Cementos Argos SA		2.0	7.8	7.2	1.0	1.0	24.9	18.0	3.4	4.9	NA	NA
CEMEX SAB de CV		11.9	6.7	6.3	1.3	1.2	10.1	11.2	13.1	10.7	NA	NA
CEMEX Latam Holdings SA		0.6	5.8	4.9	0.4	0.4	10.0	7.5	2.6	4.7	NA	NA
Sum/Average		164.7	8.3	7.6	1.2	1.0	12.8	11.0	11.4	11.8	17.0	7%

Source: Bloomberg, Systematix Institutional Research

Exhibit 14: Indian Cement sector – comparative valuation

Company Name	Systematix Rating	Price Target	Mkt. Cap.	EV/Ton (USD/ton)			EV/EBITDA			EBITDA CAGR (%)	EPS CAGR (%)	RoE (%)			RoCE (%)		
		(Rs/share)	(Rs bn)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY21-24E	FY21-24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Ultratech Cement	BUY	9,275	2,250	251	222	213	16.7	14.3	12.3	14.7	29.5	15.0	15.9	16.3	16.1	17.6	18.8
Shree Cement	HOLD	29,855	1,021	277	272	265	22.2	19.3	16.8	10.6	9.7	14.8	14.7	14.5	19.6	19.3	19.1
Ambuja Cements	BUY	500	837	247	239	229	15.9	13.8	11.7	19.7	20.5	20.8	19.7	19.3	35.0	32.1	30.6
ACC	BUY	2,995	450	152	138	124	12.4	11.1	9.2	16.3	18.9	14.6	14.1	14.4	19.3	18.7	19.2
Dalmia Bharat	BUY	2,615	413	160	164	122	14.4	12.6	10.7	13.4	30.8	9.2	11.2	12.8	11.1	13.1	16.0
JK Cement	HOLD	3,160	252	221	224	181	16.6	15.1	13.6	9.5	10.4	19.7	19.0	17.4	11.2	11.3	10.9
The Ramco Cements	BUY	1,205	236	180	175	161	16.1	14.0	11.2	13.4	17.5	13.1	13.5	15.7	12.9	13.8	17.2
Birla Corporation	BUY	1,685	102	99	89	79	10.0	8.4	7.0	10.3	11.5	10.5	10.8	12.5	7.7	8.3	9.7
Coverage Average			5,561	198	190	172	15.5	13.6	11.6	13.5	18.6	14.7	14.9	15.4	16.6	16.8	17.7

Source: Company, Systematix Institutional Research

Cement sector coverage – Investment thesis

Exhibit 15: Indian Cement Sector – Summary of our investment thesis

Company Name	Investment thesis
UltraTech Cement	Best placed to capture the demand up tick; initiate with BUY
BUY	<ul style="list-style-type: none"> UTCEM plans to increase its grinding capacity by 19.5mtpa by FY23E and maintains Rs 100bn+ liquid reserves for acquisitions. Consequently, we expect a sales volume CAGR of 11.4% over FY21-24E.
TP Rs 9,275	<ul style="list-style-type: none"> It is reducing opex by a) decreasing the lead distance, b) increasing power generation through WHRS/solar plants - incremental cost savings of Rs 40/ton through WHRS by FY25E and c) controlling fixed costs - at levels similar to FY19 in FY21. Net debt/EBITDA improved to 0.66x in FY21 vs. 3.1x in FY20. We expect the company to become cash positive in FY23E despite the on-going capex. We expect RoE to improve to 16.3% by FY24E vs. 13.4% in FY21, while RoIC is expected to improve to 17% vs. 10.7% in FY21.
Shree Cement	Consistent performer but rich valuations
HOLD	<ul style="list-style-type: none"> The company has been consistent in its expansion program (capacity/sales volume CAGR of 19.2%/14.3% over FY05-21) and the management expects to double the capacity over the next 6-7 years - while COVID-led issues have delayed this plan, we expect SRCM to commence expansion activities in the near term.
TP Rs 29,855	<ul style="list-style-type: none"> It is the lowest-cost cement producer in India led by its innovative/ahead of the curve initiatives. It has controlled costs via higher dependence on green energy and split grinding units vs. peers and captive production of synthetic gypsum. We expect EBITDA CAGR of 10.6% over FY21-24E and RoIC of 41.8% in FY24E.
Ambuja Cements	Gearing up for the upcycle!
BUY	<ul style="list-style-type: none"> ACEM plans to reach 50mtpa capacity in the medium term through a mix of brownfield expansions (Bhatapara, Chhattisgarh & Maratha, Maharashtra plants) and debottlenecking across all plants. We expect sales volumes to grow at a CAGR of 12.6% over CY20-23E, aiding market share gains of 50-60bps over CY20-23E.
TP Rs 500	<ul style="list-style-type: none"> It is planning to improve its cost structure through the commissioning of Waste Heat Recovery Systems (WHRS), solar power plants, coal mining from Gare-Palma IV coal block and completion of the railway siding project at Rabriyawas, Rajasthan. We expect EBITDA/ton of Rs 1,405 in CY23E vs. Rs 1,168/Rs 1,434 in CY20/1HCY21. We expect a RoE of 19-21% between CY21-23E vs. 15% in CY20.
ACC	Capex completion holds the key; cost-saving initiatives yielding results
BUY	<ul style="list-style-type: none"> After years of slow capacity addition (4% CAGR between CY08-20), ACC aims to commission 2.7/4.8mtpa of clinker/cement capacity in Central India by CY23E. Consequently, we expect sales volumes to grow at a 10.1% CAGR over CY20-23E.
TP Rs 2,995	<ul style="list-style-type: none"> Initiated cost-saving measures like a) 'Project PARVAT' which yielded Rs 110/ton savings in CY20 & will ensure further cost-savings, b) higher transaction value under the Master Supply Agreement with ACEM, leading to operating cost synergies, c) increasing the share of premium products and d) a reduction in fixed costs. We expect unit EBITDA to increase to Rs 1,145 in CY23E (vs. Rs 972 in CY20; its EBITDA/ton grew at a CAGR of 14.2% over CY18-20).
Dalmia Bharat	Ambitious growth targets; aims to improve shareholder returns
BUY	<ul style="list-style-type: none"> Dalmia Bharat has increased its capacity from 1.2mtpa in FY06 to 30.75mtpa in FY21 through the organic & inorganic routes. It recently announced further capacity expansion plans of 9.9mtpa, which would help in increasing its grinding capacity to 48.5mtpa by FY24E. We expect a sales volume CAGR of 12% over FY21-24E.
TP Rs 2,615	<ul style="list-style-type: none"> In the recently announced capital allocation policy, it has indicated its plans to become a 110-130mtpa capacity company by 2031. Its return ratios have improved (RoE of 7.9% in FY21 vs. 2.1% in FY20) and we expect a further improvement to 12.6% by FY24E. We expect its EBITDA/adjusted PAT to increase at a CAGR of 13.4%/30.8% over FY21-24E.
JK Cement	Strong growth plans but valuations rich
HOLD	<ul style="list-style-type: none"> It plans to increase its grey cement capacity by a further 4mtpa by FY24E after the recent addition of 4.7mtpa capacity, which will result in a total installed grey cement capacity of 18.7mtpa and provide volume growth visibility in the medium term.
TP Rs 3,160	<ul style="list-style-type: none"> JKCE's presence in the white cement segment (stable margins vs. grey cement with an OPM of 25-30%) provides earnings stability and sets it apart from other mid-cap companies. We estimate an EBITDA CAGR of 9.9% over FY21-24E and expect net debt/EBITDA to be 1.44x/1.49x/1.32x in FY22/23/24E. Net debt/EBITDA has improved every year since FY16 (1.3x in FY21 vs. 5.7x in FY16).

The Ramco Cements	Makes inroads into the East, sheds its regional tag
BUY	<ul style="list-style-type: none"> • TRCL has diversified its presence in the Eastern market with the region now accounting for ~28% of its sales volumes. Its ongoing capacity expansion should complete in 1HFY22. Sales volumes are estimated to grow at a CAGR of 14.6% over FY21-24E with the Eastern region contributing to 34% of the volumes by FY24E vs. 28% in FY21.
TP Rs 1,205	<ul style="list-style-type: none"> • The commissioning of the WHRS, grinding capacity in Odisha and new clinker plants should improve the cost structure further. The company's gross and net debt has peaked out in FY21; we expect it to turn net cash positive in FY24E. • We expect its EBITDA/EPS to grow at a CAGR of 13.4%/17.5% over FY21-24E.
Birla Corporation	Growing scale should drive re-rating
BUY	<ul style="list-style-type: none"> • BCORP will expand its clinker/cement capacity by 30%/33% to 13mtpa/20.4mtpa by FY23E, which should aid volume growth. We expect a volume CAGR of 10.1% over FY21-24E. The management has set a target to increase its capacity further to 25mtpa by 2025.
TP Rs 1,685	<ul style="list-style-type: none"> • Cost-saving strategies (mining of coal through allotted blocks in e-auction, freight cost savings for its existing grinding unit in Butibori, Maharashtra after the commissioning of the integrated plant at Mukutban, Maharashtra and lower dependence on external power) should also boost profits. • BCORP is trading at 8.4x FY23E EV/EBITDA, which is lower than the average valuation of our coverage universe and companies with similar capacities. BCORP's valuation multiple should re-rate gradually as the company continues with its capacity expansion plans.

Source: Company Data, Systematix Research

Coverage Operating Metrics

Exhibit 16: Financial Metrics of Coverage universe

Company	P/E (x)					EV/EBITDA (x)					EV/Ton (USD)				
	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E
UTCEM	62.1	40.5	32.0	26.7	22.8	26.4	20.2	16.7	14.3	12.3	299	270	251	222	213
SRCM	65.0	44.2	42.2	37.6	33.5	26.9	24.2	22.2	19.3	16.8	349	294	277	272	265
ACEM*	54.7	46.7	33.7	30.4	26.7	26.2	21.9	15.9	13.8	11.7	256	264	247	239	229
ACC*	33.4	30.9	23.1	21.2	18.4	17.0	16.0	12.4	11.1	9.2	175	158	152	138	124
TRCL	39.5	32.1	30.4	26.2	19.8	23.5	17.5	16.1	14.0	11.2	206	184	180	175	161
JKCE	52.0	34.5	31.4	27.6	25.6	22.9	17.7	16.6	15.1	13.6	241	218	221	224	181
BCORP	21.0	16.8	17.6	15.5	12.2	10.3	10.1	10.0	8.4	7.0	120	121	99	89	79
DALBHARA	189.5	45.1	35.0	27.8	20.2	21.7	15.3	14.4	12.6	10.7	234	190	160	164	122

Company	ROE (%)					ROCE (%)					ROIC (%)				
	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E
UTCEM	10.0	13.4	15.0	15.9	16.3	10.8	13.9	16.1	17.6	18.8	7.6	10.7	13.5	15.2	17.0
SRCM	13.9	16.4	14.8	14.7	14.5	16.6	20.5	19.6	19.3	19.1	24.7	37.8	39.6	40.0	41.8
ACEM*	12.5	15.0	20.8	19.7	19.3	20.0	25.7	35.0	32.1	30.6	22.4	39.8	49.1	42.0	46.9
ACC*	12.3	12.1	14.6	14.1	14.4	18.1	16.2	19.3	18.7	19.2	23.6	26.2	35.1	37.3	39.7
TRCL	12.8	14.0	13.1	13.5	15.7	10.8	12.9	12.9	13.8	17.2	13.0	16.9	15.0	14.6	18.0
JKCE	16.9	21.6	19.7	19.0	17.4	9.4	11.4	11.2	11.3	10.9	11.1	13.3	13.1	12.8	12.1
BCORP	10.9	12.2	10.5	10.8	12.5	8.2	9.3	7.7	8.3	9.7	9.0	10.0	8.2	8.9	10.4
DALBHARA	1.8	7.5	9.2	11.2	12.8	4.0	12.2	11.1	13.1	16.0	4.0	11.4	12.2	14.7	17.3

Company	Net Sales (Rs bn)					EBITDA (Rs bn)					Adjusted PAT (Rs bn)				
	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E
UTCEM	424.3	447.3	525.1	583.0	641.4	92.5	115.7	137.2	156.0	174.7	36.4	55.8	70.7	84.9	99.0
SRCM	119.0	125.9	145.9	162.3	178.8	36.7	39.5	42.4	47.8	53.5	15.7	23.1	24.2	27.2	30.5
ACEM*	116.7	113.7	141.0	156.2	173.1	21.5	26.5	36.1	40.3	45.4	15.3	17.9	24.8	27.5	31.3
ACC*	156.6	137.8	162.4	176.4	197.0	24.1	24.8	31.1	33.9	39.0	13.6	14.7	19.7	21.4	24.7
TRCL	53.7	52.4	60.4	68.8	80.4	11.7	15.6	16.9	18.9	22.7	6.0	7.4	7.8	9.1	12.0
JKCE	58.0	66.1	76.3	84.5	93.2	12.1	15.4	16.6	18.6	20.4	4.8	7.3	8.0	9.1	9.8
BCORP	69.2	67.9	74.3	83.6	92.2	13.4	13.7	14.1	16.1	18.4	5.1	6.3	6.0	6.8	8.7
DALBHARA	96.7	105.2	117.5	132.8	154.1	20.8	27.8	29.6	34.4	40.6	2.2	9.1	11.7	14.8	20.4

Company	Cement capacity (mtpa)					Cement volumes (mtpa)					Cement Realisation (Rs/ton)				
	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E
UTCEM	116.8	118.8	123.5	136.3	136.3	81.0	84.8	99.5	108.4	117.4	4,233	4,751	4,893	4,991	5,091
SRCM	40.4	43.4	46.4	46.4	46.4	24.9	26.8	30.2	33.0	35.7	4,463	4,483	4,534	4,629	4,752
ACEM*	29.65	29.7	31.5	31.5	31.5	24.0	22.7	27.1	29.6	32.3	4,864	5,018	5,207	5,280	5,354
ACC*	33.4	33.4	34.8	37.4	39.6	28.9	25.5	29.2	31.0	34.1	4,709	4,843	4,979	5,078	5,180
TRCL	18.5	19.4	20.4	20.4	21.2	11.2	10.0	11.3	12.9	15.0	4,576	5,032	5,132	5,132	5,184
JKCE	14.0	14.7	14.7	14.7	18.7	8.4	10.3	11.9	12.8	13.8	4,527	4,495	4,626	4,736	4,852
BCORP	16.2	16.2	20.1	21.3	21.3	13.8	13.4	14.6	16.4	17.9	4,626	4,724	4,750	4,770	4,820
DALBHARA	26.5	30.8	36.0	36.0	48.4	19.3	20.7	22.7	25.5	29.1	4,686	4,872	5,073	5,095	5,178

Company	Cement EBITDA/ton (Rs/t)					EPS (Rs)					Net Debt to EBITDA (x)				
	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E	FY20	FY21	FY22E	FY23E	FY24E
UTCEM	1,074	1,297	1,317	1,378	1,431	126.2	193.2	245.0	294.0	343.0	2.0	0.7	0.2	-0.2	-0.6
SRCM	1,453	1,466	1,390	1,434	1,486	435.2	640.8	670.4	753.5	845.3	-0.9	-1.6	-1.9	-2.1	-2.3
ACEM*	896	1,168	1,334	1,362	1,405	7.7	9.0	12.5	13.8	15.8	-2.2	-1.1	-0.9	-1.3	-1.7
ACC*	834	972	1,065	1,091	1,145	72.3	78.0	104.7	113.9	131.3	-1.8	-2.3	-2.1	-2.3	-2.4
TRCL	963	1,460	1,408	1,381	1,435	25.5	31.4	33.2	38.4	50.9	2.3	1.8	1.6	1.0	0.4
JKCE	1,242	1,322	1,247	1,296	1,328	62.7	94.6	103.8	118.2	127.3	2.2	1.3	1.4	1.5	1.3
BCORP	967	1,022	967	983	1,028	65.6	81.8	78.1	88.7	113.3	2.5	2.5	2.6	2.0	1.3
DALBHARA	1,080	1,344	1,306	1,352	1,396	11.6	48.7	62.8	79.1	109.0	1.4	0.0	0.1	0.3	0.3

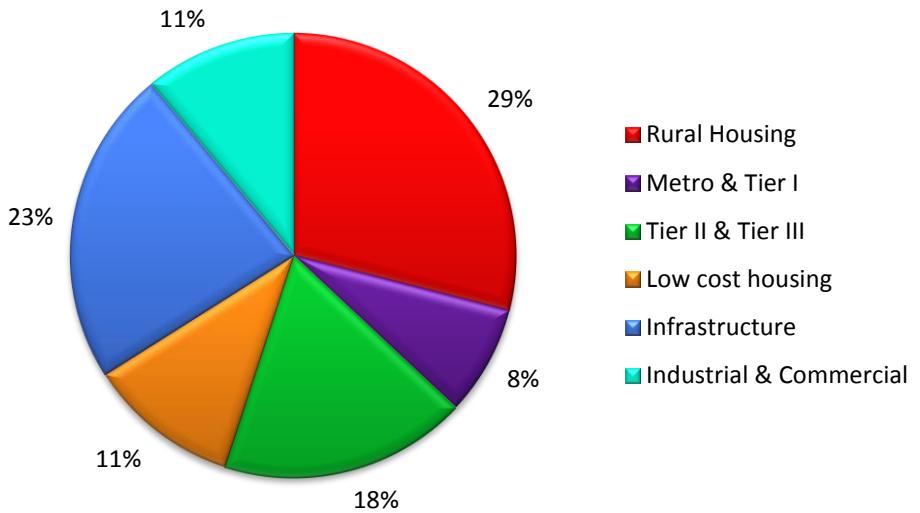
Source: Systematix Institutional Research, Companies, *ACC & Ambuja are Dec-ending cos.

Investment Analysis

Demand drivers remain strong

Assessing cement demand has been a difficult task due to the lack of data points related to housing (trend of individual houses in smaller cities and rural areas) and commercial construction. Nonetheless, the housing sector remains the key contributor to cement consumption growth and industry experts estimate that more than 60% of cement is consumed by the housing sector. The infrastructure sector consumes 23% of the industry's production, while the industrial and commercial construction activities utilise the rest.

Exhibit 17: Cement consumption mix



Source: Systematix Institutional Research, Industry

Cement demand is directly linked to the economy and has a high correlation with GDP growth as infrastructure investments and construction activities are major drivers of cement demand and key components of the GDP. Rural housing, a determinant of cement demand, depends on agriculture productivity which is also a key component of the GDP.

Historical data suggests that cement demand in India increased at an average of 2x GDP growth during FY81-2000 (on a low base) and cement consumption increased 5x. Between FY01-10, the average cement consumption grew 1.55x the GDP growth rate and cement consumption increased 2x supported by strong growth in the real estate sector.

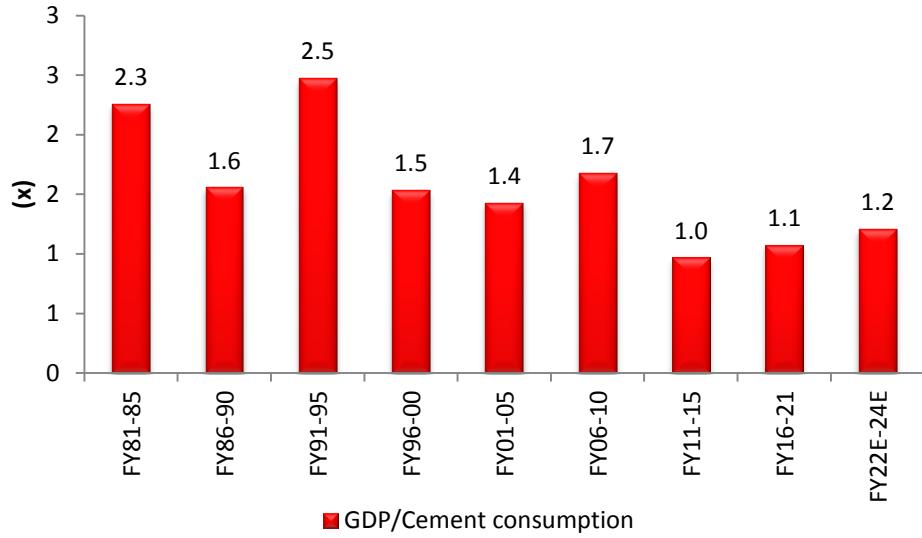
Between FY11-20, cement demand increased by 1x the GDP growth due to the slowdown in the real estate sector, quantitative tapering in 2013, demonetisation in Nov-16, implementation of RERA/GST in 2016/2017 and credit crisis in 2019. For our analysis, we have assumed 5.5% YoY volume growth in FY17 as reflected by the volume data of companies we have analysed (69% of the industry's volumes).

Although the industry witnessed a deceleration in production from Dec'16 to Jun'17 as per the data published by the Office of the Economic Advisors (core industries data), our analysis of volumes reported by the analysed companies did not reveal volume declines for this period. In 4QFY17, the companies that we analysed reported volume growth of 4% YoY, which was in stark contrast to the 11.9% YoY volume decline as per the data published by the Office of the Economic Advisors.

For FY20, we have assumed industry volume growth of 1.8% YoY based on the growth during Apr'19-Feb'20 as industry volumes got impacted in Mar'20 due to the nationwide lockdowns.

We expect GDP/cement consumption to be at 1.2x during FY22-24E supported by the low base of FY21 - we believe that the cement consumption decline in FY21 was lower than the data reflected by the Office of Economic Advisors (core industries data). Core industries data reflects a volume decline of 11.9% for FY21; however, our analysed companies are expected to report volume growth of 1.2% YoY in the same period. We have assumed an industry volume decline of 3.6% YoY as 55% of capacities that we have not analysed are in the Southern and Western regions where the volume decline was higher as per our channel checks.

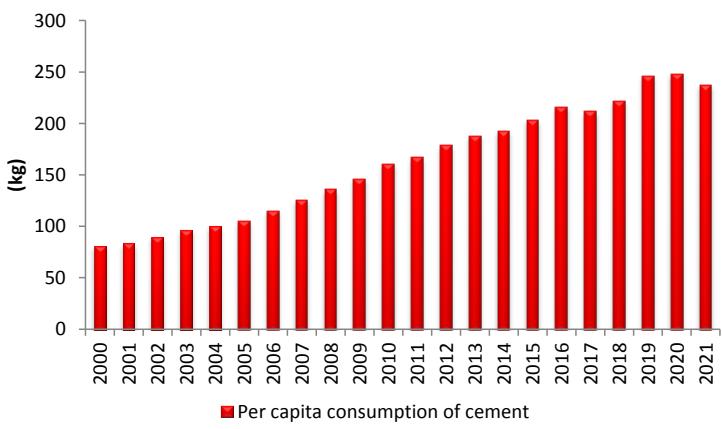
Exhibit 18: GDP to cement demand growth



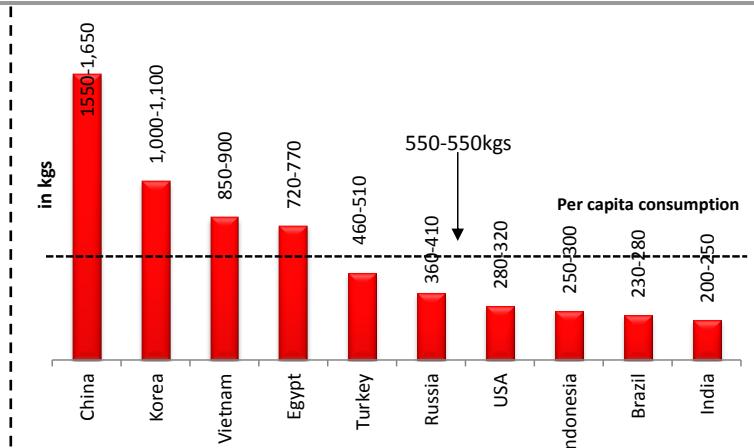
Source: Systematix Institutional Research, Industry, RBI

We remain positive about the long-term cement demand outlook given the government's thrust on infrastructure and housing for all, rapid urbanisation, nuclear family trends and a rising working-age population. Despite a per capita consumption CAGR of 5.2% in the last 21 years, cement consumption in India remains one of the lowest in the world. As per the UN population prospects 2019, India's population is projected to touch 1.64bn by 2050 vs. 1.38bn in 2020. Demand drivers for the next few years include Pradhan Mantri Awas Yojana, Urban (PMAY-U), Pradhan Mantri Awas Yojana Gramin (PMAY-G) and the government's thrust on infrastructure development - National Infrastructure Protection Plan (NIPP), Bharatmala road projects.

Exhibit 19: Per capita consumption has increased at a CAGR of 5.2% Exhibit 20: India remains an underpenetrated market



Source: Industry, Systematix Institutional Research

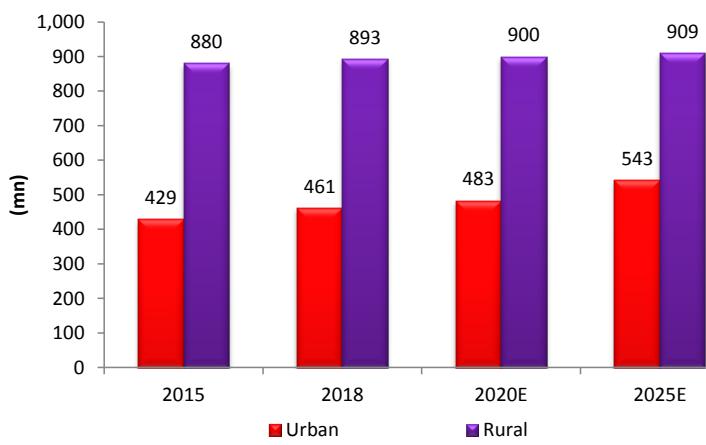


Source: Industry, Systematix Institutional Research

39% of India's population is expected to reside in urban areas by 2030 vs. 35% currently. The average size of Indian households declined from 5.3 members in 2011 to 4.6 members in 2019. Industry experts expect smaller households to add 6-7mn houses every year.

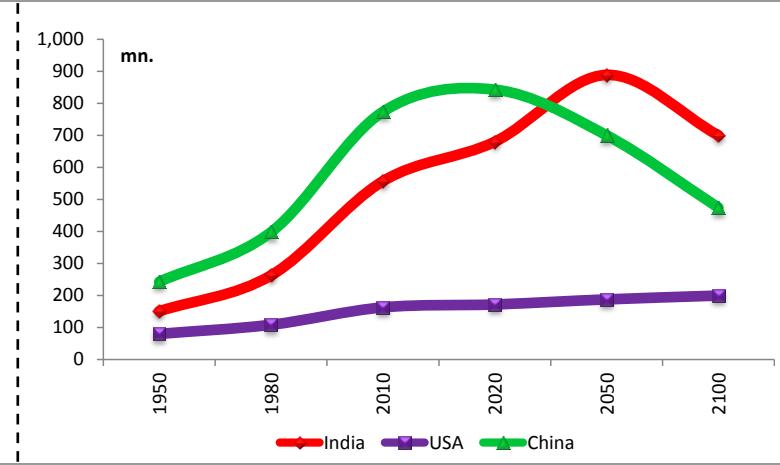
With a median age of 28 years, India has one of the largest young populations in the world. According to the UN population prospects, India's working population (age group of 25-64) is set to surpass China during 2030-2035 and the country will have the largest working-age population in the world. This will further boost urbanisation and lead to higher demand for housing and related amenities (e.g. mass transit infrastructure).

Exhibit 21: Rapid urbanisation



Source: IMF World Economic Outlook Database, UN Report-2018

Exhibit 22: India's working population expected to surpass China

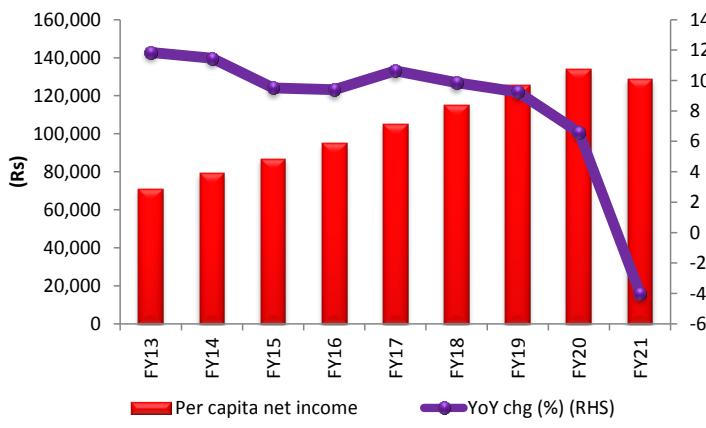


Source: UN Report-2019

Increasing incomes and affordability

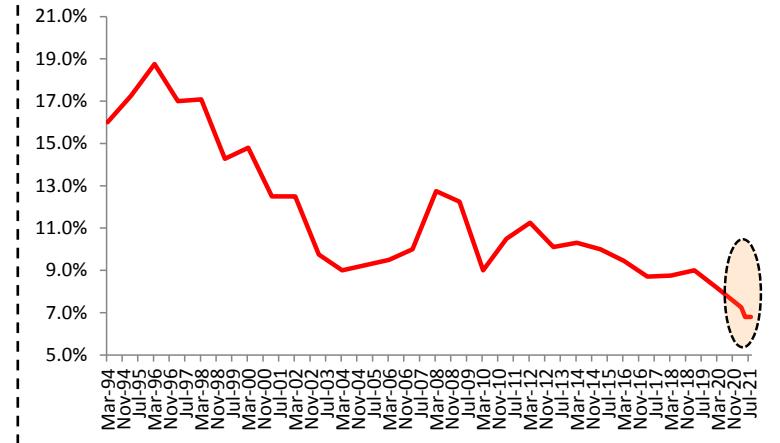
India's per capita income increased at a CAGR of 9.8% between FY12-20 (was impacted in FY21 due to COVID-19-led issues). Interest rates on housing loans have dropped by more than 3% in the last 6 years and the current interest rates are at historically low levels. Rising incomes and the reduction in interest rates on housing loans will increase the affordability of new houses.

Exhibit 23: Rising per capita income



Source: Systematix Institutional Research, National Account Statistics

Exhibit 24: Interest rates on housing loans at historically low levels

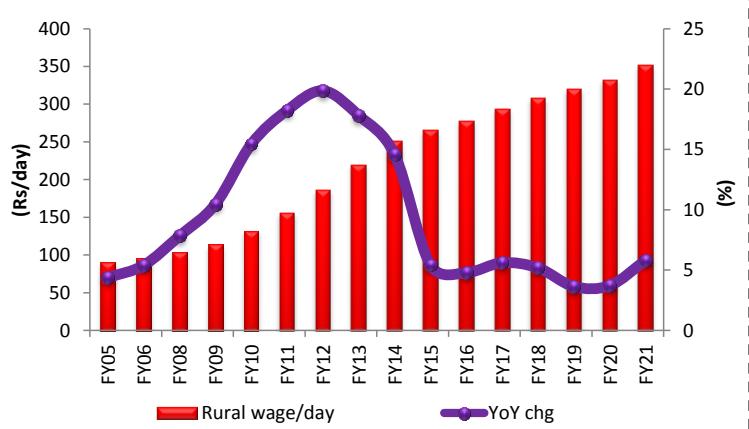


Source: Systematix Institutional Research, SBI

Increase in rural incomes

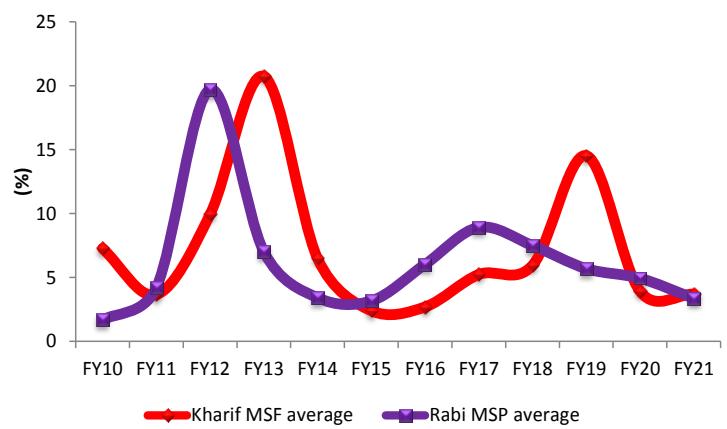
The NDA government had set an ambitious target of doubling farmers' income by 2022 (2015 was set as the reference year). While there could be a delay in achieving this target due to the COVID-19 pandemic, the government is committed to improving their incomes. As per industry estimates, 29% of cement demand is being consumed by rural housing and hence, the increase in farmer incomes will improve cement consumption.

Exhibit 25: Rural wages increased at 8.8% CAGR in 16 years



Source: Systematix Institutional Research, CMIE

Exhibit 26: Increase in minimum support prices (MSP) for foodgrains



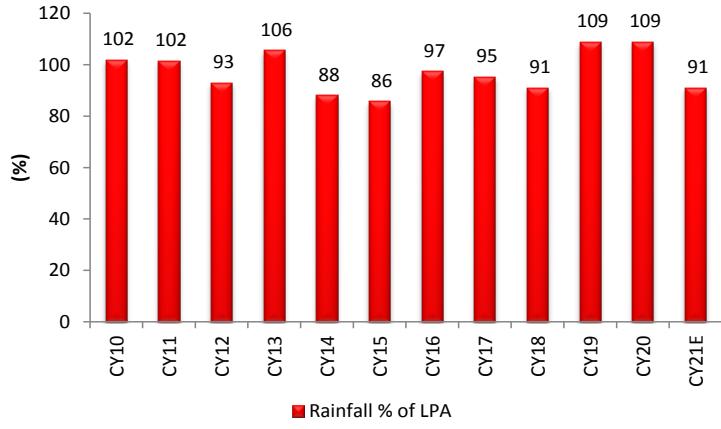
Source: Systematix Institutional Research, CMIE

India to have deficient rainfall in CY21 after 2 years of good rainfall

The India Meteorological Department (IMD) has predicted that the southwest monsoon starting in June is expected to be normal at 91% of the Long Period Average (LPA).

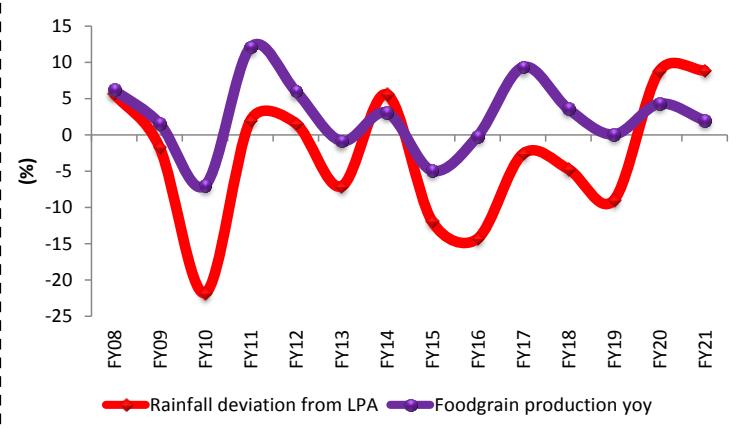
Private weather forecasting agency Skymet expects the southwest monsoon to be 94% of the LPA. The southwest monsoon had a timely onset with June rains being 100% of the LPA. However, rainfalls in July and the first fortnight of August were 93%/91% of the LPA. Rainfall between 96-104% of the LPA is considered as normal.

Exhibit 27: Rainfall expected to be lower than LPA in CY21E



Source: Systematix Institutional Research, Department of Agriculture

Exhibit 28: Good monsoon results in higher foodgrain production



Source: Systematix Institutional Research, IMD

'Housing for All'/Affordable housing schemes

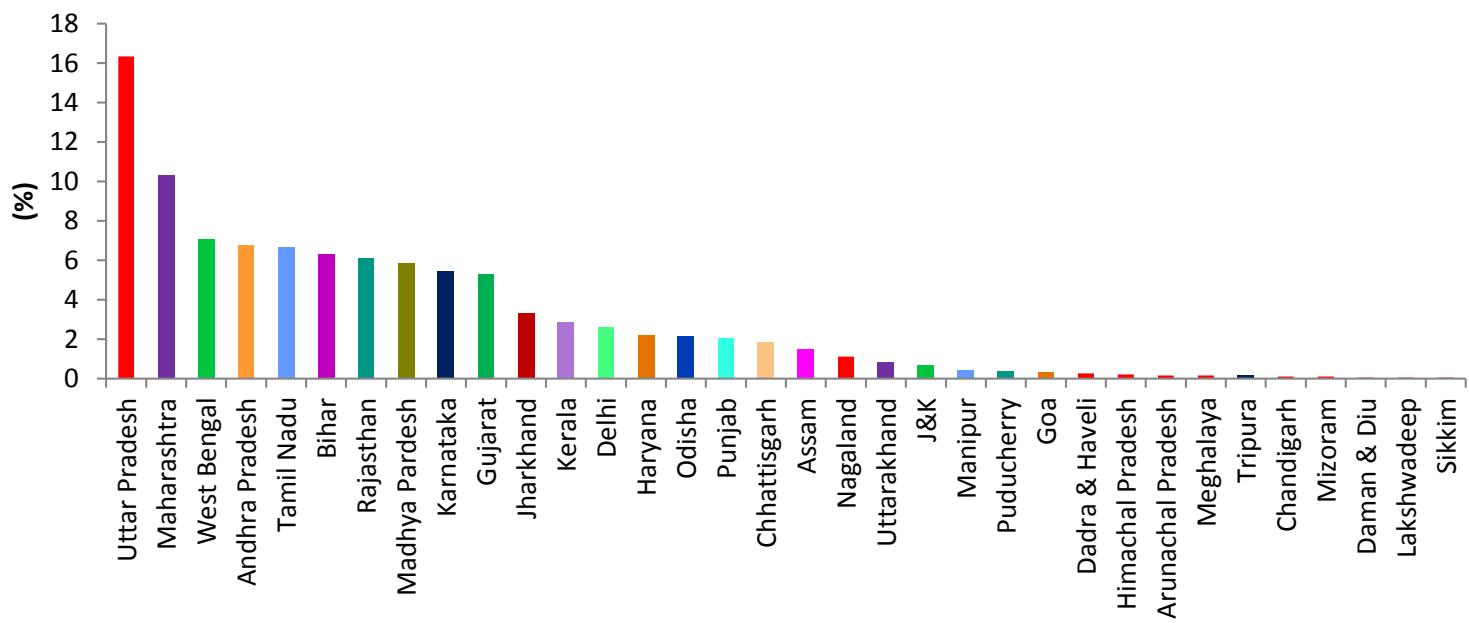
The Central government's ambitious project 'Housing for All' was launched under two different schemes: Pradhan Mantri Awas Yojana, Gramin (PMAY-G) and Pradhan Mantri Awas Yojana, Urban (PMAY-U).

Tax benefits for affordable housing projects extended till FY22

The Ministry of Housing and Urban Affairs in Nov'17 had estimated that the urban housing shortfall in the affordable housing segment was 10mn units. Of the total housing shortage, 95% belonged to the economically weaker (EWS) and low income (LIG) categories.

The finance minister had allowed an additional interest deduction of Rs 0.15mn for buying a house under the affordable housing segment in the Union Budget 2019. This scheme was extended in the Union Budget 2020 and further in the Union Budget 2021. This additional interest exemption is allowed for first-time buyers of a property with a stamp value of up to Rs 4.5mn. It will support housing demand in the Tier2/3 cities and rural areas.

Exhibit 29: State-wise housing shortages in the affordable housing segment

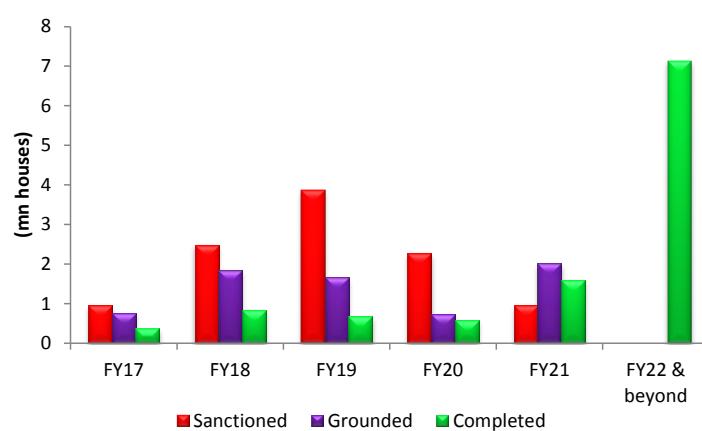


Source: Systematix Institutional Research, Ministry of Housing & Urban Affairs

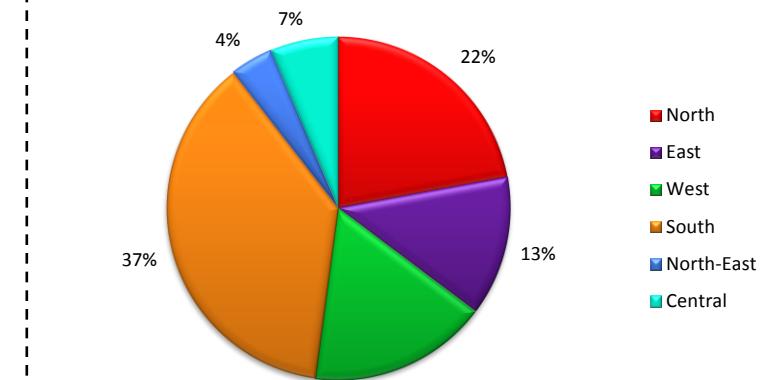
Housing construction under PMAY-U

Under PMAY-U, validated demand for housing units was fixed at 11.2mn. Out of the validated houses, 10.9mn have been sanctioned of which, 7mn have been grounded. Out of the grounded houses, 4.1mn have been completed.

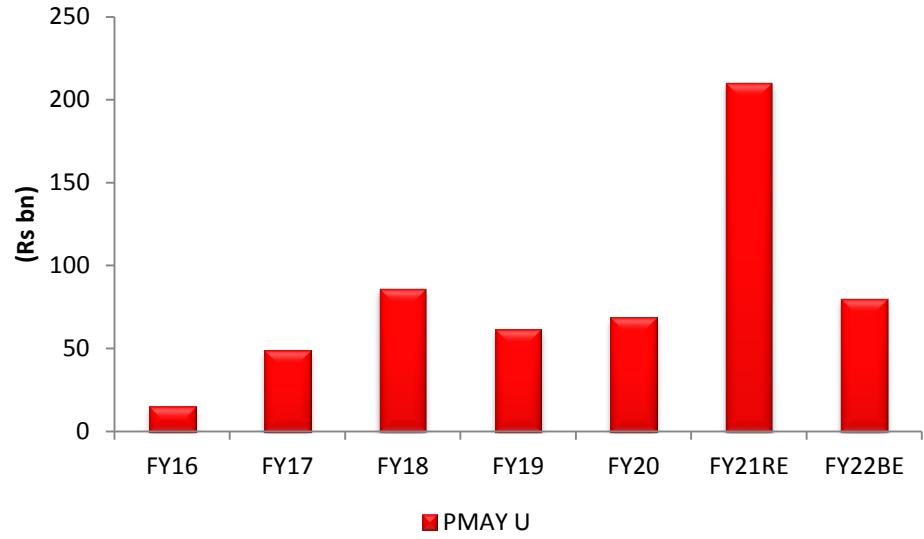
As per the estimates by the Ministry of Housing & Urban Affairs, 90.8mt of cement was to be consumed for the sanctioned houses, out of which, 40.8mt had been consumed till Dec-20. We believe that cement consumption under PMAY-U could be 15-18mt every year for the next 4-5 years.

Exhibit 30: Completion of housing units under PMAY-U

Source: Systematix Institutional Research, Ministry of Housing & Urban Affairs

Exhibit 31: Region-wise housing construction expected under PMAY-U

Source: Systematix Institutional Research, Ministry of Housing & Urban Affairs

Exhibit 32: Allocation under PMAY-U

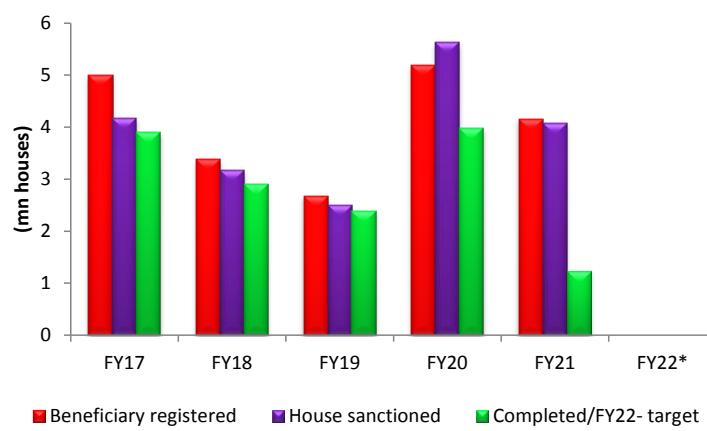
Source: Systematix Institutional Research, Budget Documents

Housing construction under PMAY-G

Under PMAY-G, the government had aimed to provide 29.5mn houses in the rural areas by 2022. The immediate objective of this program was to cover 10mn households living in kutch/dilapidated houses during 2016-19, which was achieved as per the schedule.

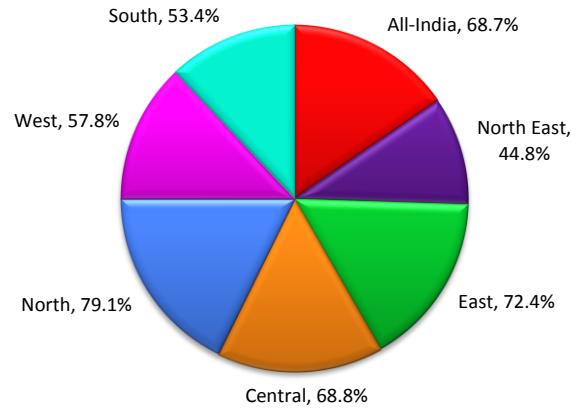
Under this scheme, 19.3mn housing units were sanctioned till FY21 and out of that, 13.8mn units had been completed. The pace of housing construction got impacted in FY21 due to the COVID-19 pandemic and as per the data by the Ministry of Rural Housing, 0.62mn housing units were completed in FY21 vs. 3.99mn units in FY20. The aim is to construct 4.41mn housing units in FY22.

Exhibit 33: Completion of housing units under PMAY-G



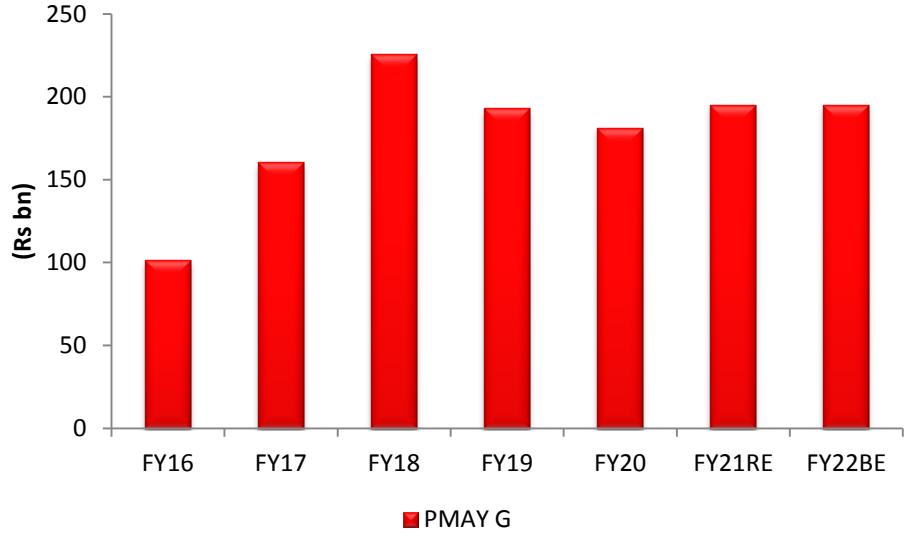
Source: Systematix Institutional Research, Ministry of Rural Development

Exhibit 34: Region-wise housing construction completed under PMAY-G



Source: Systematix Institutional Research, Ministry of Rural Development

Exhibit 35: Allocation under PMAY-G

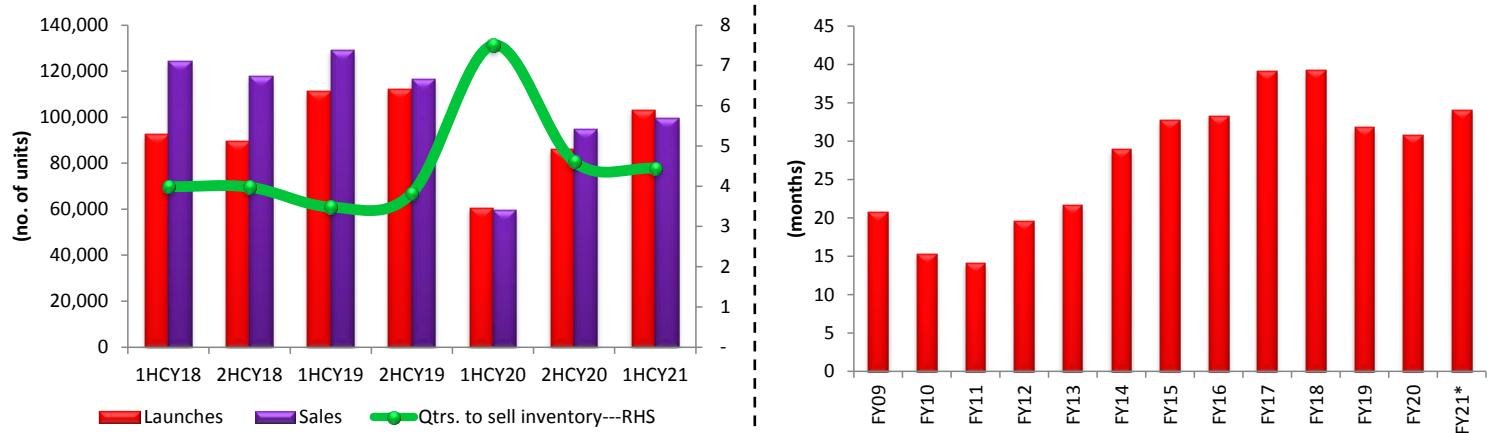


Source: Systematix Institutional Research, Budget Documents

Organised real estate has also picked up recently

In the last few years, new launches in Tier I cities (Mumbai, Pune, Bengaluru, Chennai, Hyderabad, Ahmedabad, Chennai and Pune) have been lower than the total sales volumes as per the data compiled by Knight Frank. This has led to a reduction in inventories in these cities.

Combined inventories in these cities fell to 31/32 months in FY19/20 vs. 39 months in FY17/FY18. In FY21 too, sales in these cities were 5% higher than the new launches. However, inventory months look higher due to the COVID-19 impact. Sales in these cities in 2HCY20 were 60% above 1HCY20. In 1HCY21, sales in these cities were up 67% YoY with a 1% YoY drop in housing inventory.

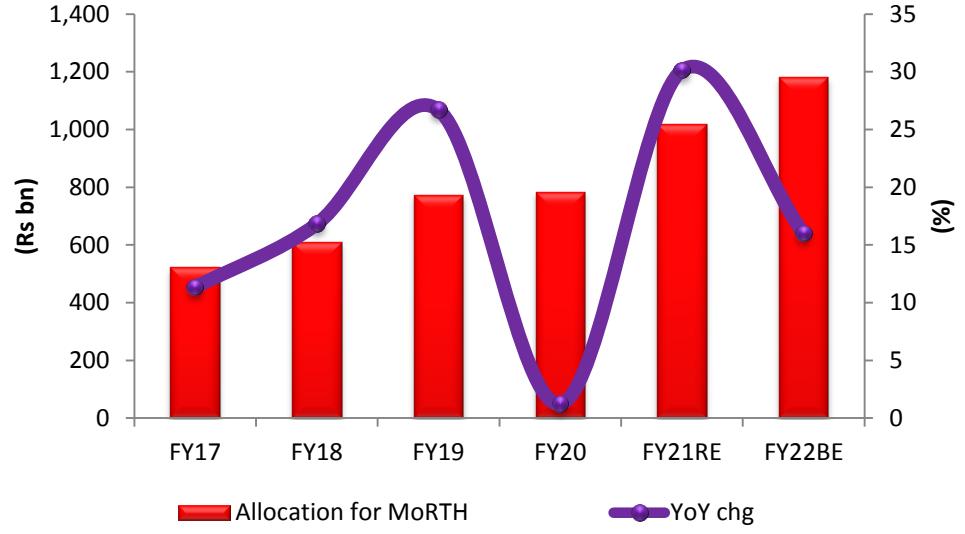
Exhibit 36: Residential sales slowly inching towards pre-COVID levels **Exhibit 37: Leading to a decline in inventories in the last few years**

Source: Systematix Institutional Research, Knight Frank

Source: Systematix Institutional Research, Industry, *FY21 inventory looks higher due to the COVID-19 impact

Impetus on infrastructure development

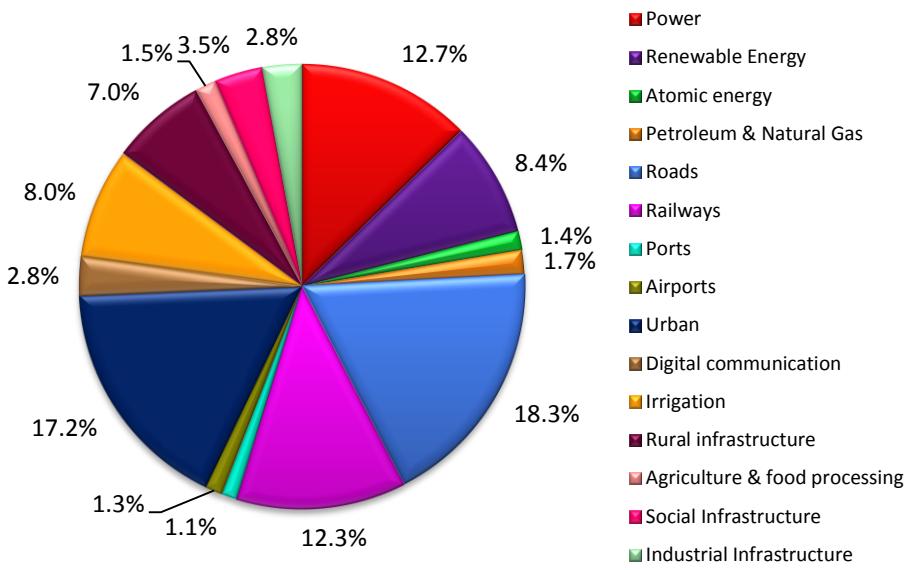
Infrastructure development is the key to the GDP growth of an economy. The government's increased thrust on infrastructure development should support cement consumption going forward. The expenditure by the Central and State governments on infrastructure development schemes (Housing, Transport, Urban/Rural development, Irrigation, Railways and Water Supply & Sanitation) is expected to increase 14.6% YoY in FY22E.

Exhibit 38: Spending by the Centre and States on infrastructure schemes to increase 15% YoY

Source: Systematix Institutional Research, Budget Documents

The National Infrastructure Pipeline (NIP) envisages the execution of various infrastructure projects at an estimated investment of Rs 111trn. This would require almost doubling the pace of infrastructure investment. A large part of this project is towards transportation, energy/power and urban infrastructure.

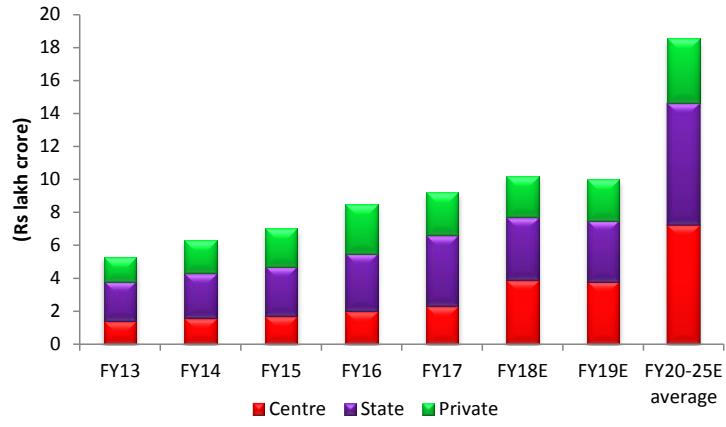
Exhibit 39: Sector-wise investment proposed under NIP



Source: Systematix Institutional Research, Industry

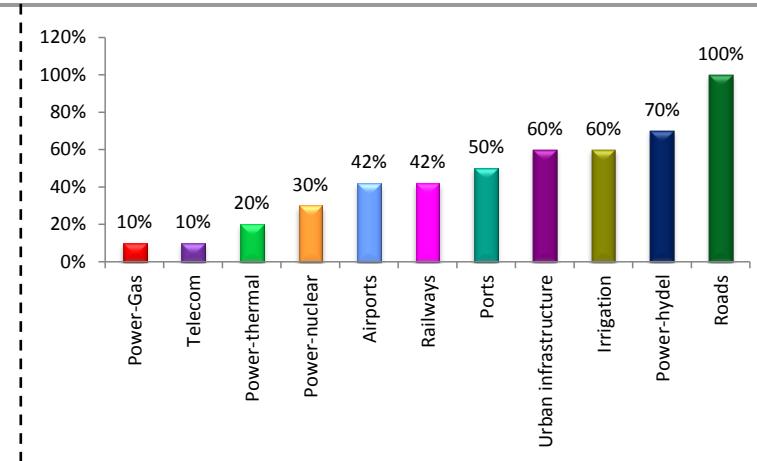
Proposed investments under the NIP require almost doubling the pace of infrastructure investment. The government release also suggests an active monitoring mechanism to ensure timely implementation of the projects. It could boost construction and cement demand over the medium term.

Exhibit 40: Average investment in infrastructure spending should increase 2x over the FY13-19E average



Source: Systematix Institutional Research, Department of Economic Affairs

Exhibit 41: Construction activity across sectors

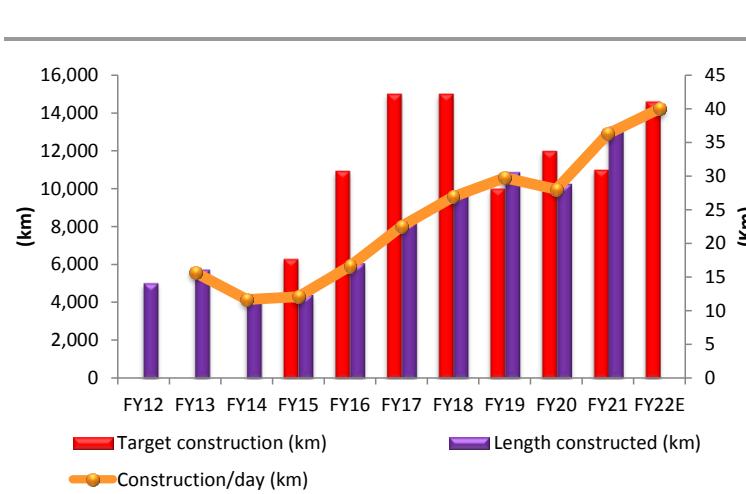


Source: Systematix Institutional Research, Industry

Execution to be a focus area in road construction

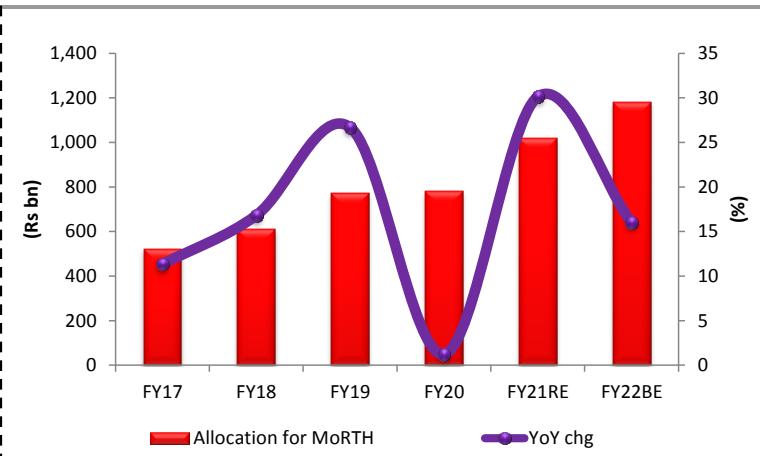
The government has remained focused on improving the road infrastructure. The construction of national highways increased at a CAGR of 20% over FY15-21E and the pace of national highway construction increased to 36 days in FY21 vs. 12 days in FY15. The Ministry of Road, Transport and Highways (MoRTH) has set a target to construct 40kms national highways per day in FY22.

Exhibit 42: Pace of national highway construction increasing



Source: Systematix Institutional Research, MoRTH

Exhibit 43: Allocation for road development increased by 16% for FY22



Source: Systematix Institutional Research, Union Budget Documents

Development of Airports and Metros

In April'17, the Central government launched UDAN (Ude Desh ka Aam Naagrik), a regional airport development scheme aimed at improving the connectivity to remote areas of the country and making air travel affordable for everyone. The idea was to develop 100 new airports in India, out of which 70 would be developed at new locations while the remaining would lift the burden on the existing ones in big cities. These upcoming airports in India would fuel economic development in tier-2 and tier-3 cities. The development of Metros would also increase cement consumption.

Exhibit 44: Upcoming airports in India

Sindhudurg Airport	Navi Mumbai International Airport
Hirasar Airport	Sabarimala Airport
Rourkela Airport	Kannur International Airport
Durgapur Airport	New Vijayawada Airport
Jewar Airport	Sriperumbudur Airport
Mopa Airport	Itanagar Airport

Source: Systematix Institutional Research, Industry

Exhibit 45: Metro lines planned in India

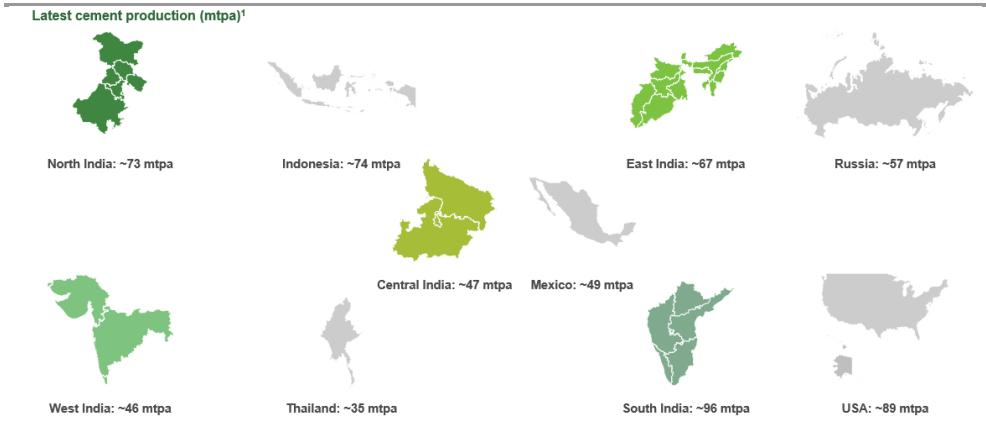
Project Name	State	Network (km)	Deadline	Project Cost (Rs bn)
Ahmedabad Metro II	Gujarat	61.8	2025	162
Dholera Metro	Gujarat	100	2030	70
Nasik	Maharashtra	32	2023	21
Delhi Metrolite	Delhi-NCR	40.9	Pending	56
Mumbai Metro	Maharashtra	87.6	2025	331
Meerut Metro	Uttar Pradesh	20	2024	115
Nagpur Metro II	Maharashtra	48.3	2025	112
Nagpur Broad Gauge Metro	Maharashtra	268.6	2024	4
Surat Metro	Gujarat	40.4	2024	108
Thane Metro	Maharashtra	29	2024	131
Total		728.5		1,111

Source: Systematix Institutional Research, Industry Reports

Regional Dynamics

India (production capacity of 531 mtpa in FY21) is the second-largest cement producer in the world after China (production capacity of 1,830 mtpa in CY20). Other major producers have an output of 40-100mtpa each.

Exhibit 46: India's regional markets on par with leading countries

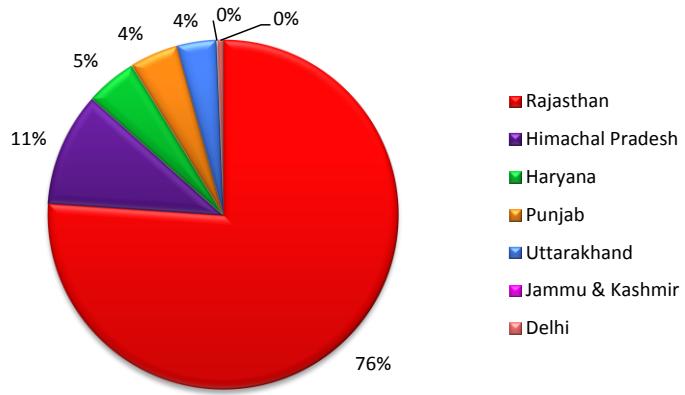


Source: Systematix Institutional Research, UltraTech presentation, maps not measured to the scale

The Indian cement industry has evolved in clusters given the location of limestone reserves in some states - a significant portion of plants are located in these clusters. The Indian cement industry is bifurcated in five different regions: Northern (20% of grinding capacity and 24% of clinker capacity), Central (13% of grinding capacity and 12% of clinker capacity), Eastern (20% of grinding capacity and 13% of clinker capacity), Western (13% of grinding capacity and 12% of clinker capacity) and Southern (33% of grinding capacity and 39% of clinker capacity). Cement is a low-value high-volume product and has limited international trade.

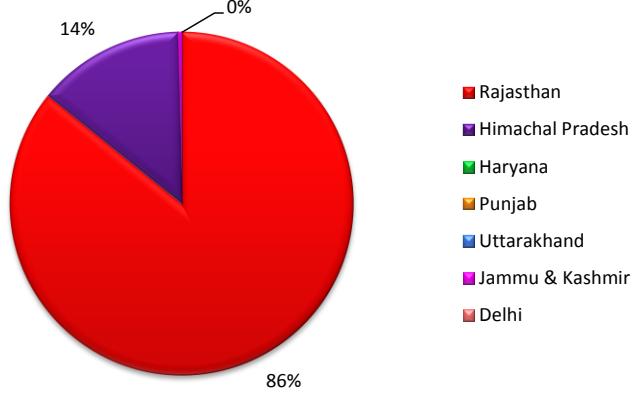
Northern region: It has two clinker clusters - Rajasthan and Himachal Pradesh. Rajasthan players cater to their markets of Punjab, NCR, West Uttar Pradesh, Uttarakhand and Haryana. Shree and UltraTech are the major players in Rajasthan.

Exhibit 47: Break-up of grinding units in the Northern market



Source: Systematix Institutional Research, Industry

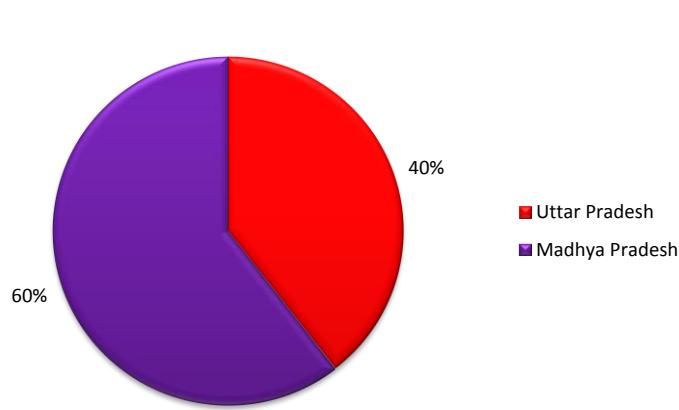
Exhibit 48: Clinker clusters: Rajasthan and Haryana



Source: Systematix Institutional Research, Industry

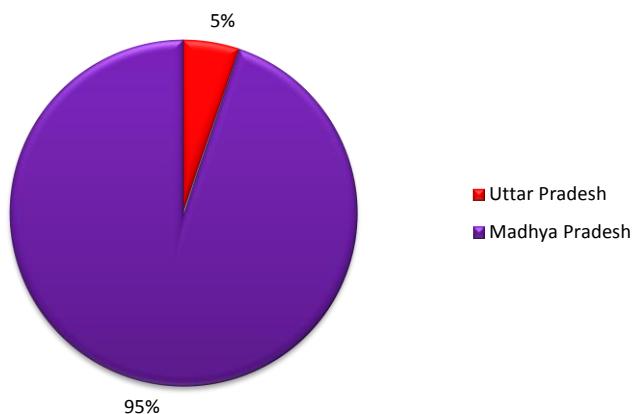
Central region: It has only one clinker cluster in Satna. Western UP is catered by Rajasthan players. Eastern and Central UP are catered by the Satna cluster; Rajasthan players have started supplying in this market, primarily in Central UP (Kanpur and Lucknow). ACC is the brand leader in this market and commands Rs 20-25/bag premium over its nearest competitor. Satna players cater to the MP market.

Exhibit 49: Break-up of grinding units in the Central region



Source: Systematix Institutional Research, Industry

Exhibit 50: Madhya Pradesh has clinker plants in the Central region



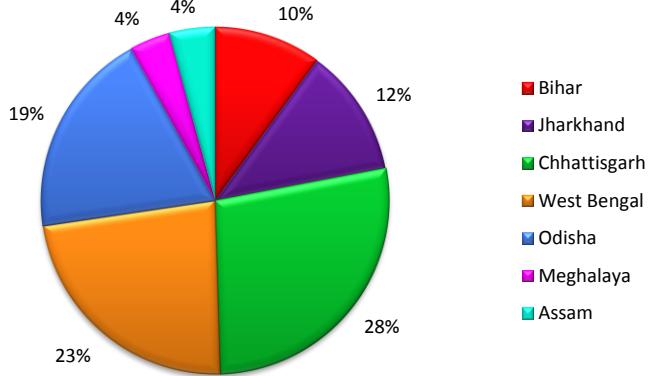
Source: Systematix Institutional Research, Industry

Eastern region: The clinker clusters (including the North East) are in Baloda Bazar, Chhattisgarh, Rajgangpur and Bargarh in Odisha and Meghalaya in the North East. In West Bengal, there is no clinker unit and this market is served from Odisha, Chhattisgarh and Chaibasa (Jharkhand). TRCL caters to this market from Jayanthipuarm, AP (it has a grinding unit in Kolaghat, West Bengal).

Bihar has one clinker plant (Kalyanpur Cement which has been acquired by Dalmia Bharat). In the Bihar market, Nuvoco's *Concreto* brand (slag cement) commands the highest premium. This market is catered by the Satna cluster, Chhattisgarh or Odisha players. The Jharkhand market is primarily catered by the players from Jharkhand, Odisha and Chhattisgarh.

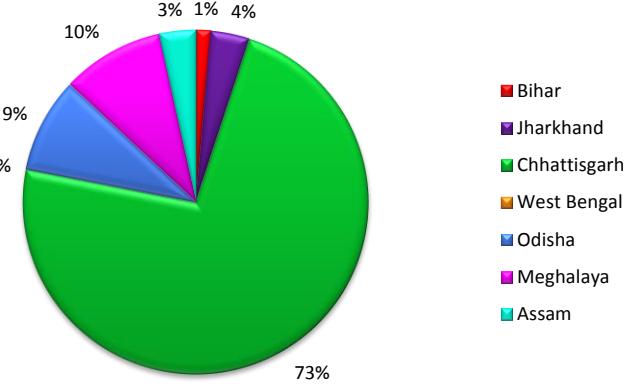
The Odisha market is catered by Odisha, Chhattisgarh and AP-based players (primarily in South and Coastal Odisha). Chhattisgarh-based players like JK Lakshmi, Shree and Emami have set up grinding units in the state. Ramco Cement (South-based player) has set up a grinding unit to serve this market more efficiently. South Odisha (Ganjam, Gajptai, Malkangiri, Navrangpur, Naigarha) is primarily fed by AP players (200-250kms distance). Coastal Odisha (Naigarh, Bhubaneswar, Puri, Cuttack, Kendrapada, Jagatsingpur) is also fed by Vizag players (distance 300-500kms). Western Odisha (Shambhalpur, Sundargarh, Bargarh) is served by Chhattisgarh players. OCL has its plant in Sudargarh. UltraTech serves this market through its plants in Raipur, AP and Jharsuguda. Penna Cement has set up a packaging/blending unit in Gopalpur, Ganjam district and brings cement by the sea route. Other AP players (Mahashakti, Ramco, Priya, KCP, Sagar) feed this market by Road.

Exhibit 51: Break-up of the grinding units in the Eastern region



Source: Systematix Institutional Research, Industry

Exhibit 52: Chhattisgarh is the major clinker source for the Eastern players; Meghalaya caters to the North East

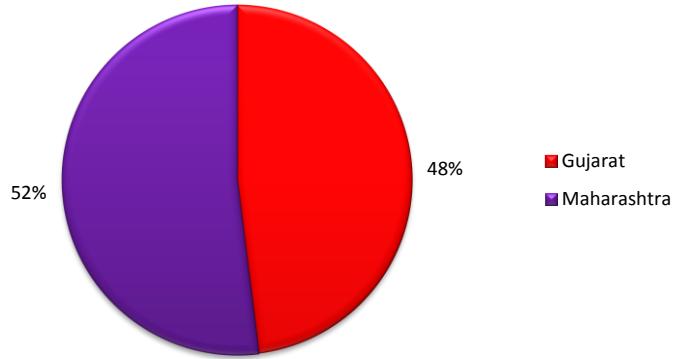


Source: Systematix Institutional Research, Industry

Western region: This region has two clinker clusters - Kutch and Kodinar, Gujarat and Chandrapur, Maharashtra. 20-22% of the Gujarat demand is catered by Rajasthan players based out of Chittorgarh - JK Lakshmi, Wonder Cement, JK Cement and Nuvoco. Key players in Gujarat are Ambuja Cements, UltraTech and Sanghi Industries. UltraTech has a 40% market share in Gujarat. Ahmedabad is the major consumption centre of Gujarat which is served by Kodinar and Kutch via road. Few of the Southern brands (Birla A-1, Coromandel, Bharthi, JSW and ACC by Maharashtra) also cater to the Surat market by Rail (4-5% of total volumes).

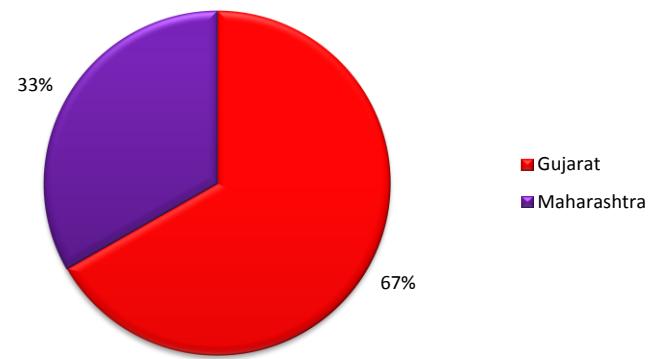
In Maharashtra, the major consumption centres are Pune and Mumbai. Mumbai is predominantly a bulk cement market and is served by players from Gujarat and Karnataka. Ambuja Cements and Sanghi Industries serve Mumbai by the sea route. ACC serves Mumbai through the Gulbarga unit. Pune markets are mostly dependent on Karnataka. The Vidharba region (Nagpur and Amravati) is catered by Chandrapur and Chhattisgarh players.

Exhibit 53: Grinding units in the Western region



Source: Systematix Institutional Research, Industry

Exhibit 54: Break-up of clinker units in the Western region



Source: Systematix Institutional Research, Industry

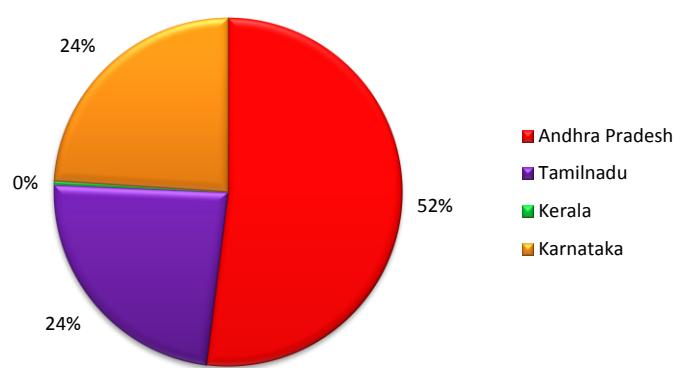
Southern region: It has four clinker clusters - Nalgonda in Telangana, Yerraguntla in Andhra Pradesh, Gulbarga in Karnataka and Ariyalur in Tamil Nadu. Andhra Pradesh and Telangana have an installed capacity of 89mn tons with a demand of 31/24.5mn tons in FY19/20; these two states witness the highest fluctuation in prices. From Andhra Pradesh, cement is sent to Odisha, mostly to South and Coastal Odisha.

The Tamil Nadu market is catered by the Ariyalur and Yerraguntla clusters. Chennai is the largest market.

In Karnataka, Bangalore is the largest consumption centre which is served by Gulbarga and Yerraguntla players. Karnataka players cater to Maharashtra; JK Cement sells 60%+ of its cement into Maharashtra. Other players like ACC, Vicat, UltraTech and Kesoram also supply more to the Maharashtra markets.

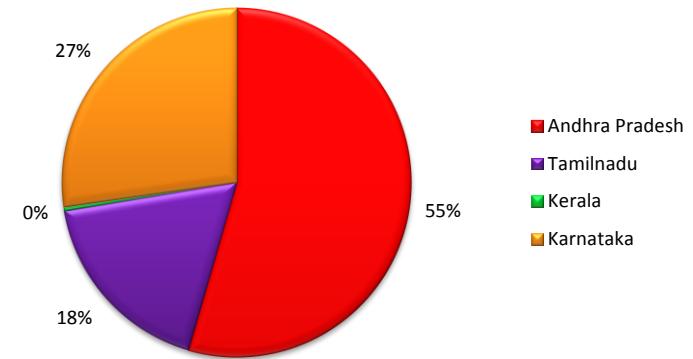
Kerala does not have any clinker line and is served by Ariyalur players. UltraTech Cement, Ambuja Cements, Zuari Cements, Penna Cement and Malabar Cements Limited have packaging units at Kochi to serve the Kerala market.

Exhibit 55: Break-up of grinding units in the Southern region



Source: Systematix Institutional Research, Industry

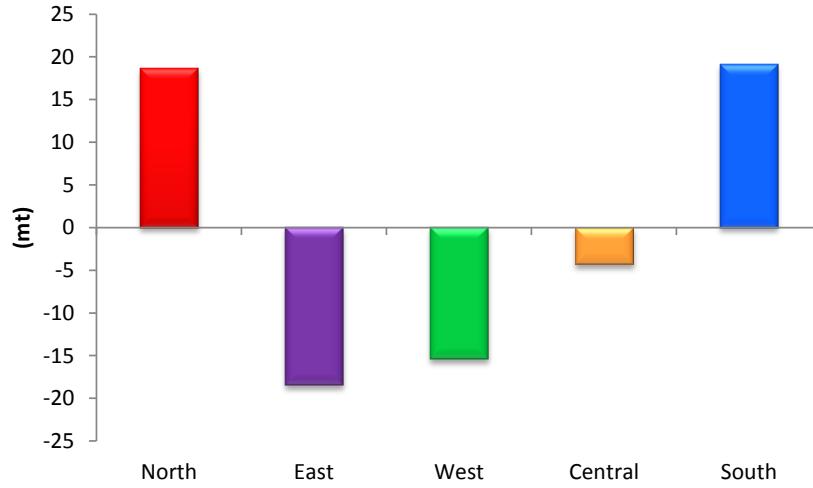
Exhibit 56: Break-up of clinker units in the Southern region



Source: Systematix Institutional Research, Industry

Inter-regional movement of cement: The Northern and Southern regions are net importers of cement while the Eastern, Western and Central regions are net receiving states from these two regions. We estimate the net outflow of cement from the Northern/Southern regions at 18.6mt/19.2mt while the net inflow in the Eastern/Western/Central markets at 18.4mt/15.4mt/4.3mt in FY21.

Exhibit 57: Eastern, Western and Central regions are net receivers of cement



Source: Systematix Institutional Research, Industry

The Central and Eastern regions have lower per capita consumption of cement

Despite higher cement consumption in the last few years, the per capita consumption of cement remains lower than the national average consumption in the Eastern and Central regions. Between FY11-19, the average cement consumption likely grew at a CAGR of 8% in the Eastern region vs. the national average growth of 6%. The Central region may surprise positively in terms of demand growth as it has the lowest per capita cement consumption, followed by the Eastern region.

Exhibit 58: Per capita consumption and housing shortage estimates

Macro-Economic- potential	North	Central	East*	West	South	India
Rural population (FY20E)	67%	75%	77%	53%	54%	67%
Per capita consumption (kg) FY20E	231	173	203	273	263	227
Housing shortage (mn)- FY20E	10	8	9	7	12	50
Road density (kms)- per lakh people	294	244	307	469	401	358
Power density (kwh/capita)	1233	700	820	1758	1461	1181

Source: Systematix Institutional Research, UltraTech presentation, *excluding North East

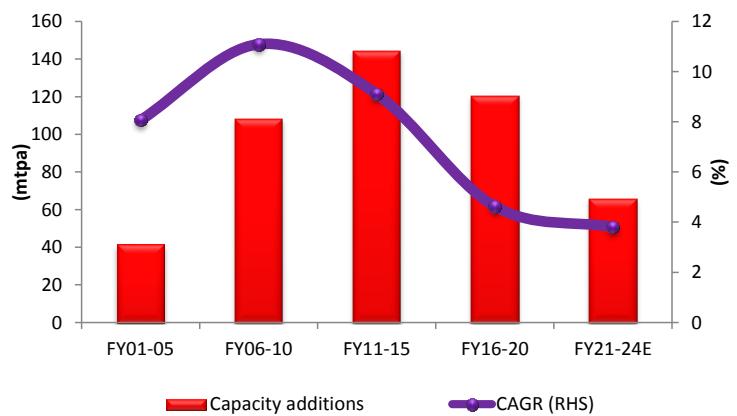
Capacity additions to continue

Cement manufacturers have consistently added capacities despite lower capacity utilisation and a fall in the return ratios. Their profitability had increased substantially in FY07-08 after average retail prices increased at a CAGR of 18% between FY06-08. The average RoE of cement firms reached 30% in FY08 vs. 10.5% in FY06, luring them to increase capacities in the hope of riding the infrastructure boom in the country.

The huge investments in the cement industry led to the commissioning of 88mt of clinker capacity and 156mt of grinding capacity between FY05-11, representing a capacity CAGR of 12.2%. In the same period, demand increased at a CAGR of 9.6%, which led to a fall in the industry's capacity utilisation (average capacity utilisation declined to 73.5% in FY11 from 88.3% in FY06).

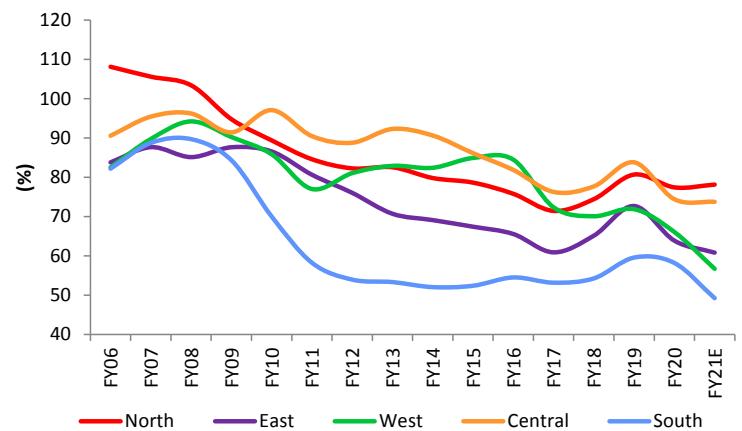
The capacity additions have continued in the industry led by cement manufacturers' intention to gain market share, lower working capital requirements, lower capex requirements for brownfield expansions vs. greenfield capacities, state incentives, free cash flow generation and availability of limestone mines. However, these capacity additions have restricted the pricing power of the industry.

Exhibit 59: Significant capacity additions between FY06-20...



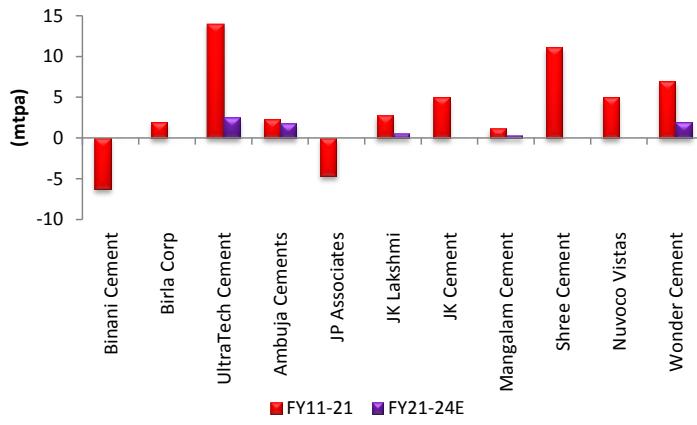
Source: Systematix Institutional Research, Industry

Exhibit 60: ...led to a fall in capacity utilisation



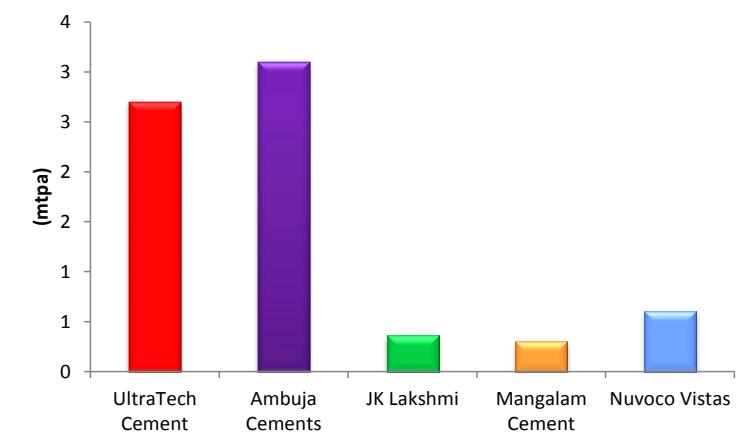
Source: Systematix Institutional Research, Industry

Exhibit 61: 7mtpa grinding capacity addition planned in the Northern region between FY21-24E



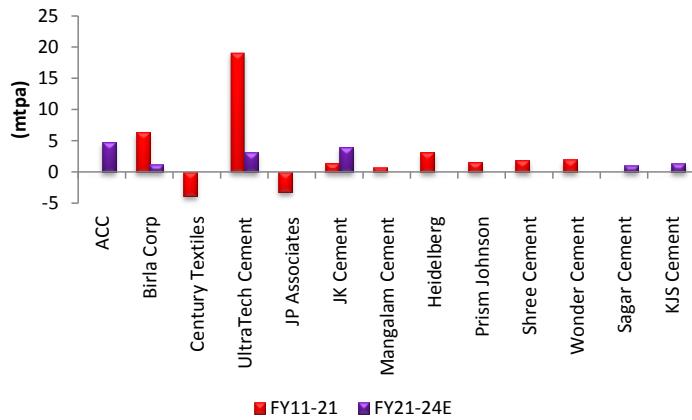
Source: Systematix Institutional Research, Industry

Exhibit 62: 7mtpa clinker capacity addition planned in the Northern region between FY21-24E



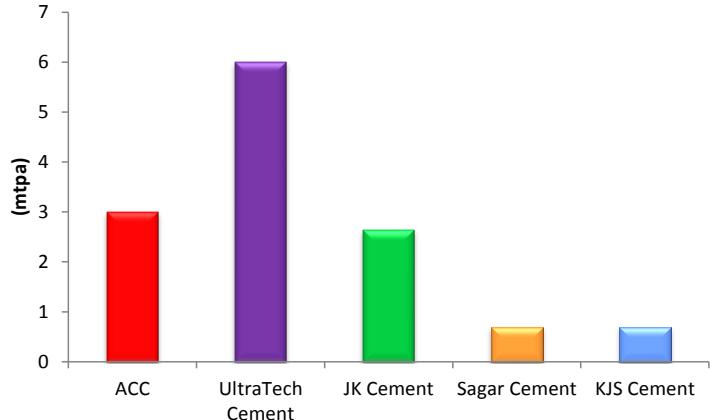
Source: Systematix Institutional Research, Industry

Exhibit 63: 16mtpa grinding capacity additions planned in the Central region between FY21-24E



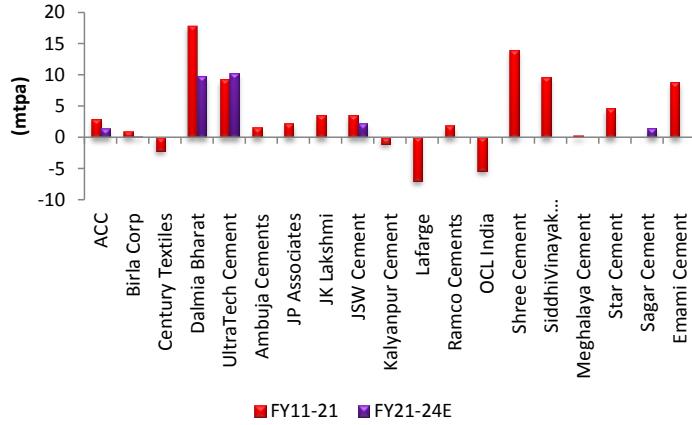
Source: Systematix Institutional Research, Industry

Exhibit 64: 13mtpa clinker capacity additions planned in the Central region between FY21-24E



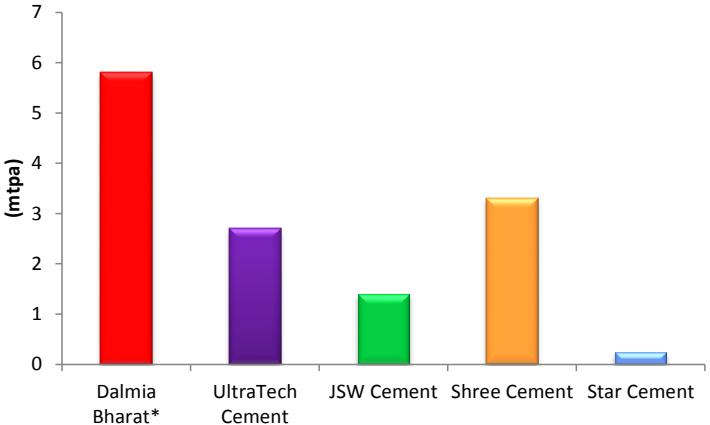
Source: Systematix Institutional Research, Industry

Exhibit 65: 25.3mtpa grinding capacity additions planned in the Eastern region between FY21-24E



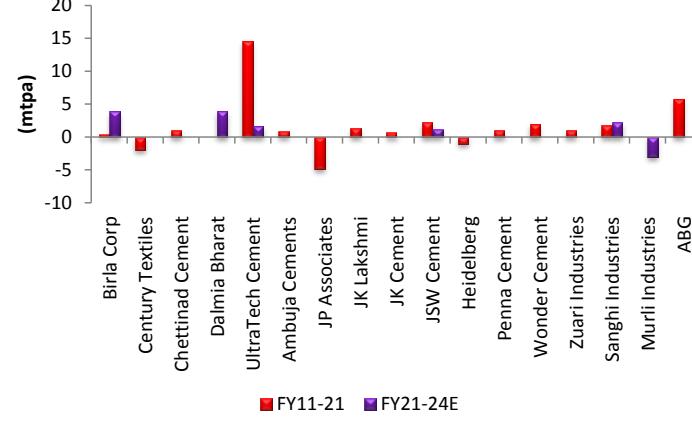
Source: Systematix Institutional Research, Industry

Exhibit 66: 13.4mtpa clinker capacity additions planned in the Eastern region between FY21-24E



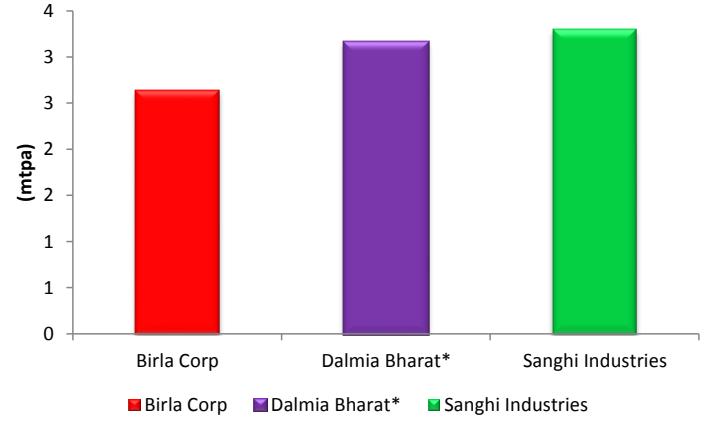
Source: Systematix Institutional Research, Industry; *Dalmia has commissioned 3.1mtpa capacity in Odisha during FY21, FY21-24E includes North East too

Exhibit 67: 10mtpa grinding capacity additions planned in the Western region between FY21-24E



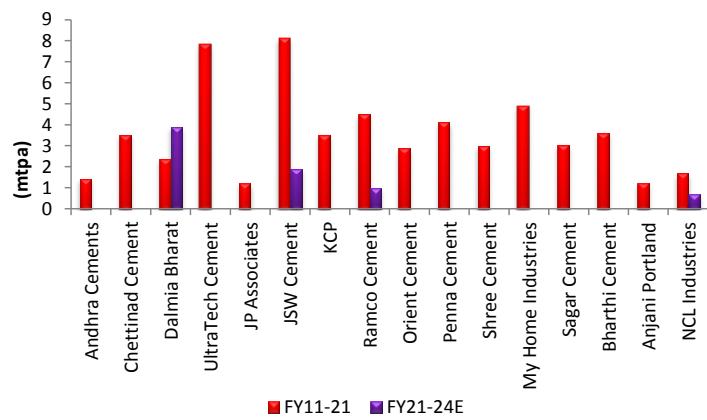
Source: Systematix Institutional Research, Industry

Exhibit 68: 8.7mtpa clinker capacity additions planned in the Western region between FY21-24E



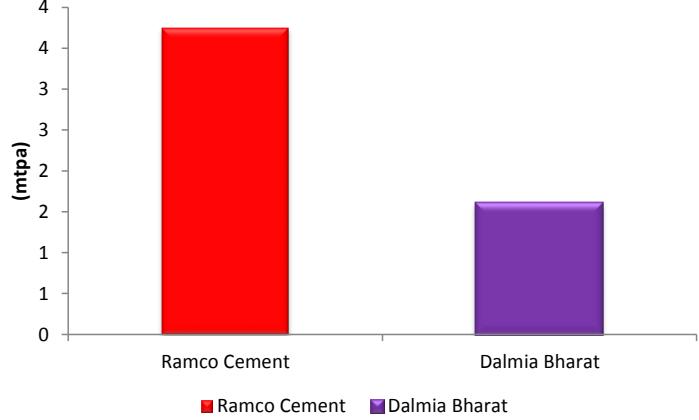
Source: Systematix Institutional Research, Industry; *includes Murlı Industries

Exhibit 69: 7.5mtpa grinding capacity additions planned in the Southern region between FY21-24E



Source: Systematix Institutional Research, Industry

Exhibit 70: 5.4mtpa clinker capacity additions planned in the Southern region between FY21-24E

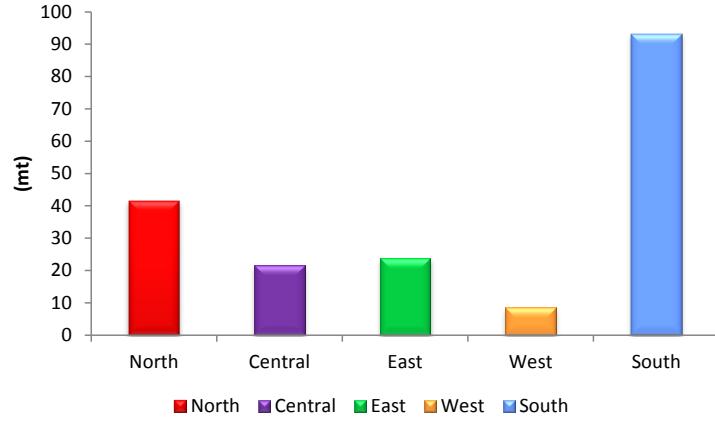


Source: Systematix Institutional Research, Industry

The zeal to expand capacities to continue

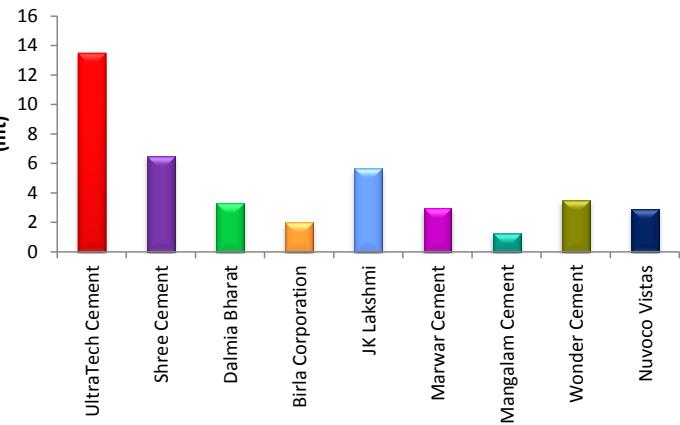
While capacity expansion in the sector is likely to continue, the pace of expansion will be a key monitorable. Cement manufacturers in the Northern, Central and Gujarat regions may consider capacity additions given the improved profitability and capacity utilisation over the last two years. Capacity expansion is likely in the Eastern region too as cement firms operated at a clinker utilisation of 90%+ in 4QFY22 and a few of them faced clinker shortage to meet demand. Apart from the orders placed for announced capacities, many companies have obtained Environmental Clearances (ECs) for expansions. Amongst the bigger players, Dalmia Bharat aspires to be a pan-India player in the medium term; its installed capacity is set to increase to 48.5mtpa by FY24E from 30.75mtpa currently and it aims to reach 110-130mtpa by 2031. Shree Cement's capacity expansion plans have been delayed due to COVID-19-led issues.

Exhibit 71: Regional break-up of ECs received



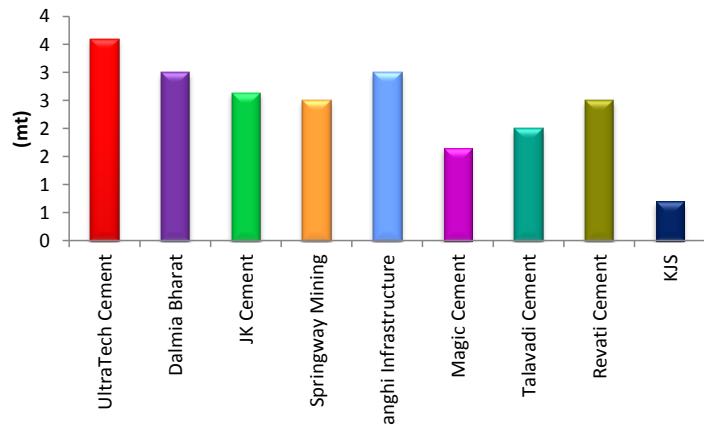
Source: Systematix Institutional Research, Industry, *based on clinker capacities for which orders have not been placed

Exhibit 72: Dalmia can be the new entrant in the Northern region



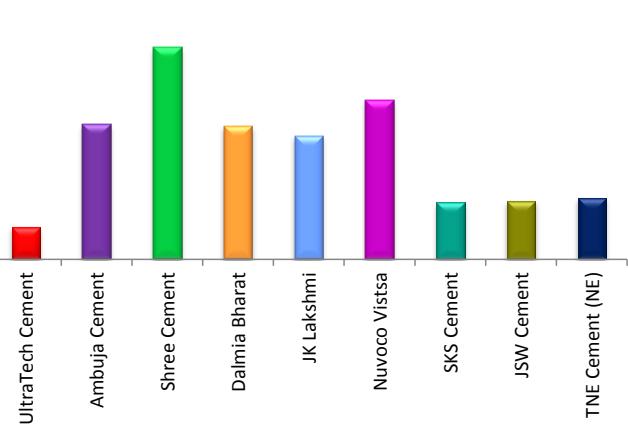
Source: Systematix Institutional Research, Industry

Exhibit 73: JK Cement announced its entry in the Central region; Dalmia could be another new entrant



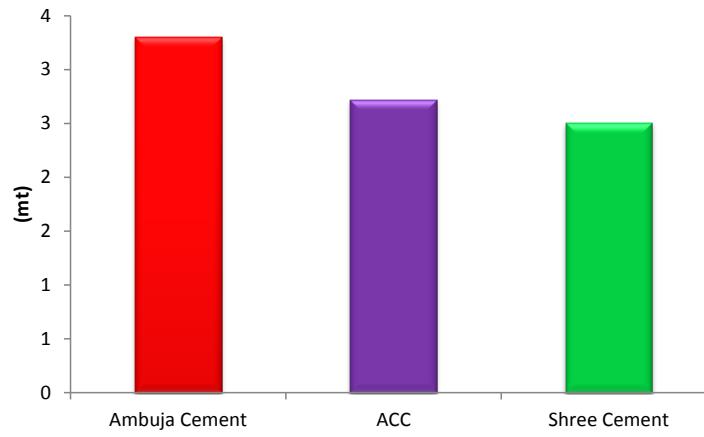
Source: Systematix Institutional Research, Industry

Exhibit 74: The Eastern region may continue to see capacity additions



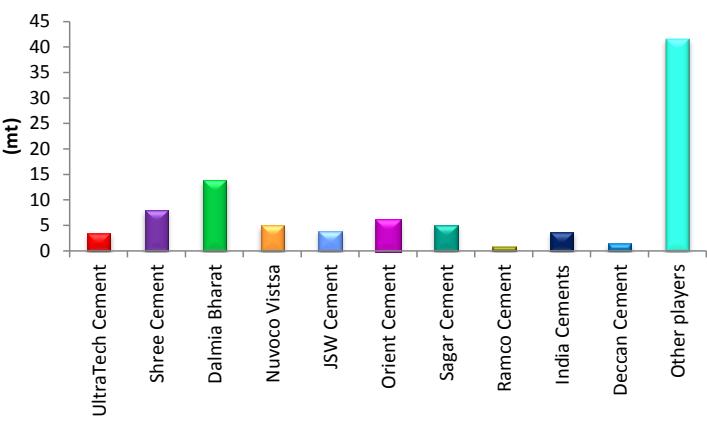
Source: Systematix Institutional Research, Industry

Exhibit 75: Shree Cement may consider setting up a clinker unit in the Western region



Source: Systematix Institutional Research, Industry

Exhibit 76: The Southern market will remain the most fragmented



Source: Systematix Institutional Research, Industry

Current limestone reserves, acquired mines through auctions to support capacity expansion

Limestone mines are allotted through e-auctions since Jan'15. The prices of these mines are fixed as a percentage of prevalent IBM (Indian Bureau of Mines) prices at that time. A few mines were bid at much higher prices, indicating scarcity of mines in those areas. The companies have won 29.7bn tons of limestone reserves. The cost of production through these mines is likely to be high, which should support cement prices when production starts and thereby benefit existing players.

Exhibit 77: Limestone mines acquired through auctions

Company	State	Reserves (mt)	Final Bid (%) of IBM price
Penna Cements	Andhra Pradesh	26.7	8.1
Sree Jayajothi Cements Pvt Ltd	Andhra Pradesh	9.0	10.6
Sree Jayajothi Cements Pvt Ltd	Andhra Pradesh	1.7	10.7
Adani Cementation Ltd	Andhra Pradesh	92.2	13.4
Shree Cement	Chhattisgarh	155.0	59.0
Century Cement	Chhattisgarh	67.0	10.2
Dalmia Bharat	Chhattisgarh	215.0	96.2
UltraTech Cement	Chhattisgarh	124.0	138.3
Shree Cement	Gujarat	301.5	20.0
Adani Cementation	Gujarat	325.0	30.1
JSW Cement	Gujarat	125.0	35.0
Burnpur Cement	Jharkhand	0.4	12.0
Burnpur Cement	Jharkhand	0.7	12.0
UltraTech Cement Ltd	Madhya Pradesh	62.0	77.1
Digiana Industries Pvt Ltd	Madhya Pradesh	2.8	21.1
Digiana Industries Pvt Ltd	Madhya Pradesh	1.7	25.1
Ambuja Cements Ltd	Maharashtra	42.1	125.1
Dalmia Bharat	Maharashtra	43.4	5.2
Dalmia Bharat	Odisha	98.7	12.1
Shiva Cements Ltd	Odisha	47.3	25.6
Emami Cement	Rajasthan	168.8	60.1
Dalmia Bharat	Rajasthan	174.5	48.1
Emami Cement	Rajasthan	127.0	67.9
JSW Cement Ltd	Rajasthan	199.2	41.6
JSW Cement Ltd	Rajasthan	205.5	60.1
Shree Cement Ltd	Rajasthan	209.3	10.4
Adani Cementation Ltd	Rajasthan	142.6	24.5
Sigma Minerals Ltd	Rajasthan	10.4	25.6

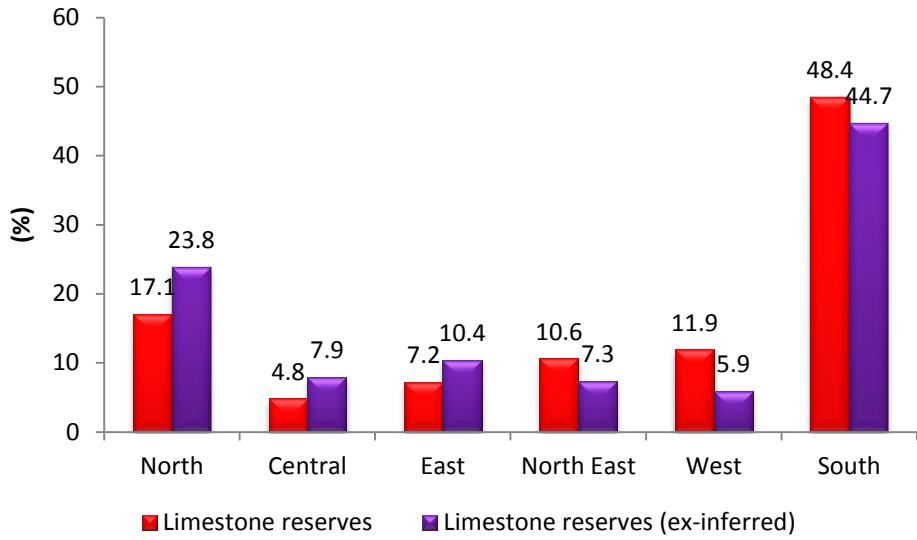
Source: Systematix Institutional Research

Limestone availability highest in the Southern and lowest in the Central region

The total cement grade limestone resources, as compiled by the Indian Bureau of Mines (IBM), Government of India, was 2032.2bn tons, of which, 8% was placed under the reserves category. Grade-wise, the cement grade had the leading share (70%), followed by unclassified grades. 86% of the total cement grade limestone resources are concentrated in eight states. Karnataka is the leading state with 27% of the total resources, followed by Andhra Pradesh and Rajasthan (12% each), Gujarat (10%), Meghalaya (9%), Telangana (6%), Chhattisgarh and Madhya Pradesh (5% each).

The limestone deposits located and explored in Jammu and Kashmir, Himachal Pradesh, Uttarakhand and the North-Eastern states of the Himalayan region are difficult to exploit because of the difficult hilly terrain and inaccessibility. Though substantial reserves of cement grade limestone deposits are available in these states, large scale mining constraints like unstable hill slopes and a fragile eco-system, high seismicity of the regions, procurement of fuel and other raw materials from different states at higher transport costs imply higher production costs.

Exhibit 78: The Southern region has the highest limestone availability



Source: Systematix Institutional Research, Indian Bureau of Mines Yearbook 2017

New entrants strive to survive

Better profitability enjoyed by cement manufacturers in FY08-09 attracted many new entrants in the cement industry. However, few faced difficulties in surviving in the long run, given a) the challenges in ramping up production - Murli Industries and ABG Cement and b) Group level debt - Reliance Cement, Emami Cement.

Exhibit 79: Status of new entrants into the cement industry

Company	Region	Current Capacity-(mt)	Comments
Murli Industries	West	3.0	Difficulties in production ramp-up, has been acquired by Dalmia Bharat.
Vadraji Cement	West	5.8	Difficulties in production ramp-up, group-level debt.
JSW Cement	South/West/East	13.9	Clinker capacity of 2.2mt as of now, feeds grinding unit through imported clinker too.
Wonder Cement	North	13.0	Has done extremely well in the Northern markets.
Reliance Cement	Central/West	5.5	Group-level debt led to sale of cement business.
Nirma (Nuvoco Vista)	North	23.4	Started with 2.4mt capacity, acquired cement assets of Lafarge in India and Emami Cement.
Emami Cement	East	8.8	Group-level debt led to sale of cement business.

Source: Systematix Institutional Research, Indian Bureau of Mines Yearbook 2017

M&A activities have picked up pace over the last 8 years

The challenges faced by new entrants and the aggressive behavior of few players (JP group increased its capacity by 8x to 33.5mtpa from 4mtpa over 13 years) has led to increased merger & acquisition (M&A) activities in the cement sector over the last eight years. Further, Lafarge had to sell its capacities after its global merger with the Holcim Group. The cement assets of Century Textiles were merged with UltraTech.

Exhibit 80: Status of new entrants in the cement industry

Company/plants acquired	Acquirer	Region	Capacity (mt)	EV/ton (USD)	Year
JP group	UltraTech	West	4.8	125	2013
JP group	Dalmia	East	2.1	90	2014
JP group	Shree Cement	North	1.5	40	2014
BMM	Sagar Cement	South	1.0	90	2014
OCL India	Dalmia	East	6.7	110	2015
Reliance Cement	Birla Corp	Central/West	5.5	130	2016
JP group	UltraTech	Central/North/South	21.2	113	2016
Lafarge	Nirma	North/East	11.0	117	2016
Kalyanpur Cement	Dalmia	East	1.1	50	2018
Century Textiles	UltraTech	East/West/Central	13.4	96	2018
Binani Cement	UltraTech	North	8.3	140	2018
Murli Industries	Dalmia	West	3.0	38	2019
Emami Cement	Nuvoco Vistas (Nirma earlier)	East	8.3	90	2020

Source: Systematix Institutional Research, Industry

M&A activities led to increased consolidation in a few regions

M&A activities in the sector have led to increased consolidation (the capacity share of top-5 players has increased) in the Northern, Central and Eastern regions over the last few years. The acquisition of JP Group's cement plants and the cement assets of Century Textiles helped UltraTech become the largest player in the Northern, Central and Southern regions. This also led to increased consolidation in the Northern and Central regions over the last few years. The capacity share of the top-5 players increased in the Eastern region in FY21 after the completion of the sale of Emami Cement. The southern region remains the most fragmented market with the share of top-5 players at only 43% in FY21.

Exhibit 81: UltraTech and Shree are the two largest players in the Northern region

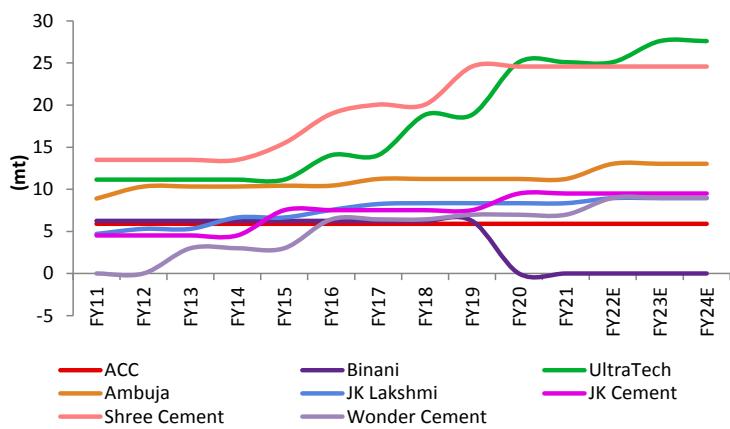
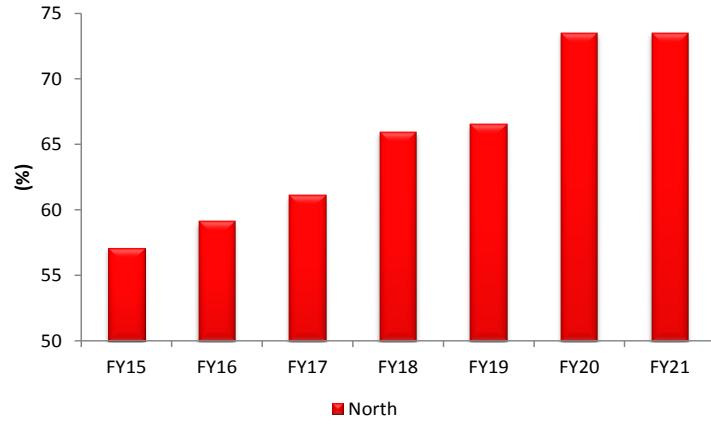


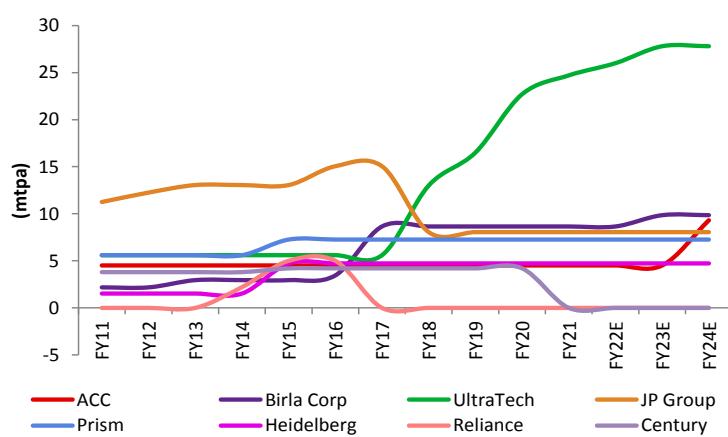
Exhibit 82: The share of top-5 players in the Northern region has increased consistently



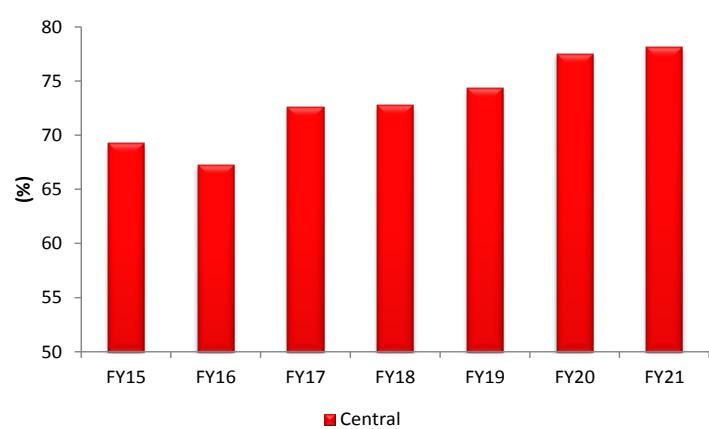
Source: Systematix Institutional Research, Industry

Source: Systematix Institutional Research, Industry

Exhibit 83: UltraTech is the largest player in the Central region

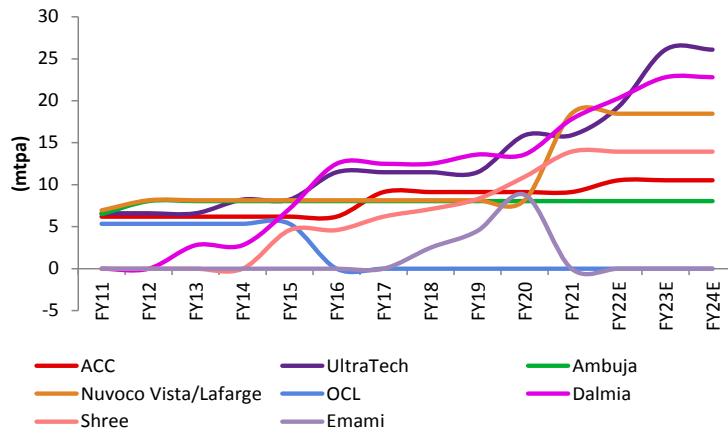


Source: Systematix Institutional Research, Industry

Exhibit 84: The Central region is the 2nd most consolidated region in terms of installed capacities (based on top 5 players' capacities)

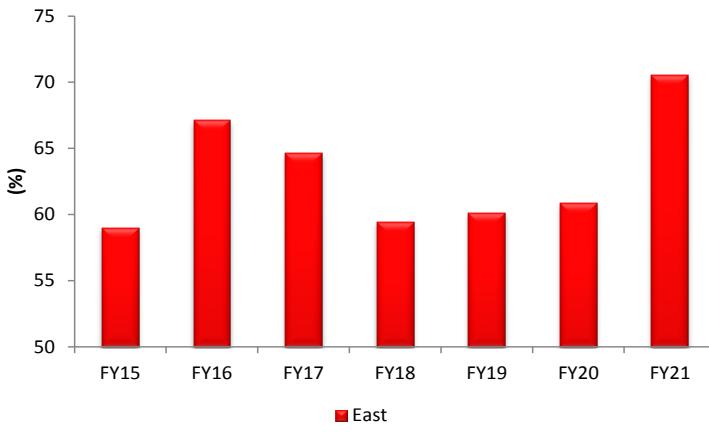
Source: Systematix Institutional Research, Industry

Exhibit 85: UltraTech, Dalmia and Nuvoco Vista are the top-3 players in the Eastern region



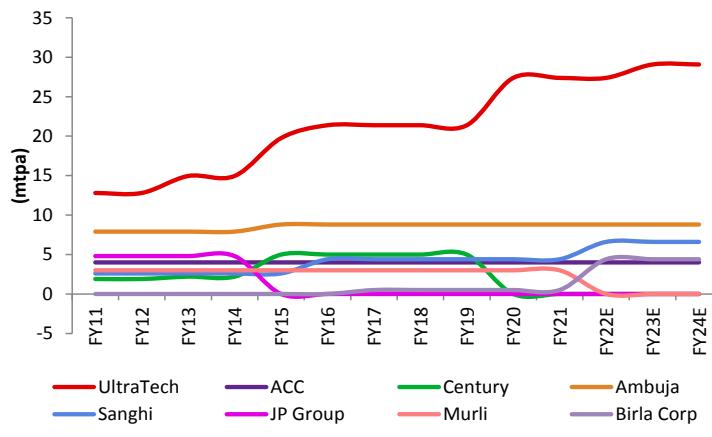
Source: Systematix Institutional Research, Industry

Exhibit 86: Capacity share of top-5 players increased after Emami Cement's acquisition



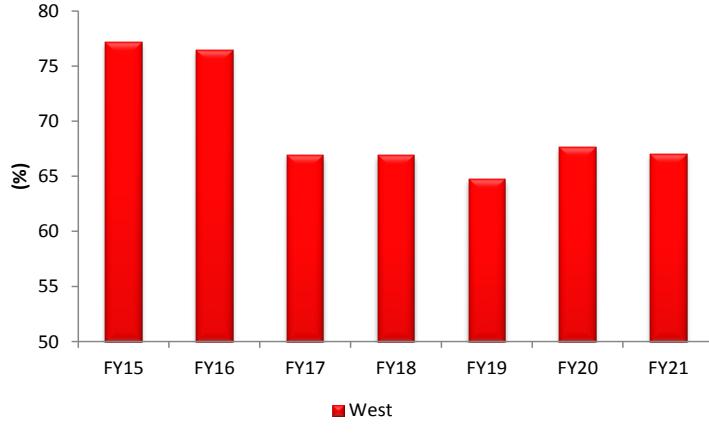
Source: Systematix Institutional Research, Industry

Exhibit 87: UltraTech is 3.1x bigger than the nearest competitor in the Western region

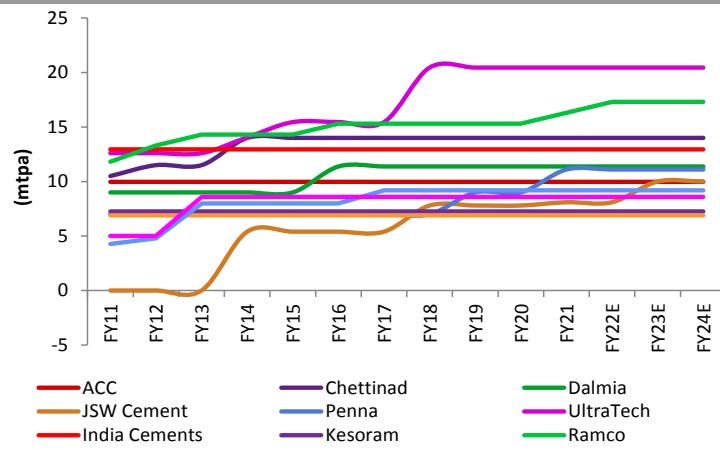


Source: Systematix Institutional Research, Industry

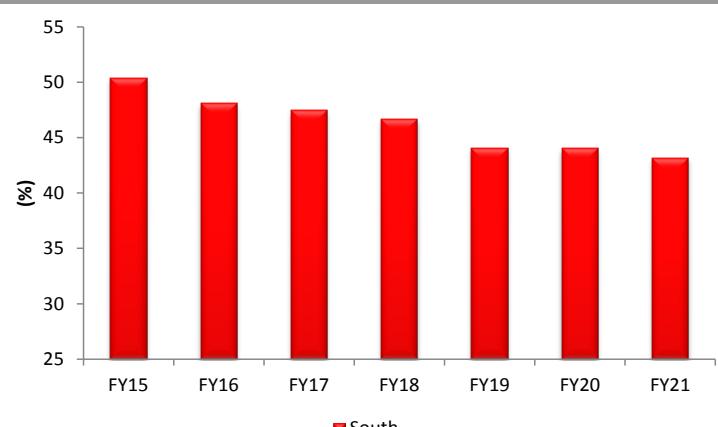
Exhibit 88: Top-3 players have 57% capacity share, capacity share of the top-5 players has declined



Source: Systematix Institutional Research, Industry

Exhibit 89: The Southern market remains the most fragmented

Source: Systematix Institutional Research, Industry

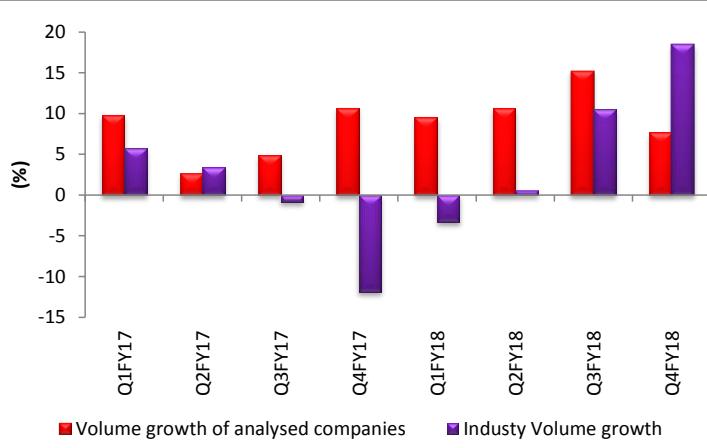
Exhibit 90: Declining capacity share of the top-5 players

Source: Systematix Institutional Research, Industry

Incremental supply is likely to be lower than incremental demand

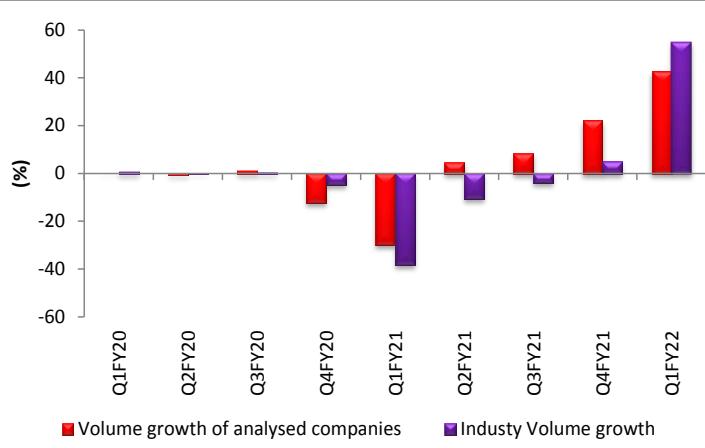
Cement demand remained resilient in FY21 despite concerns of deterioration due to COVID-19-led challenges. Though the data reported by the Office of Economic Advisors (core industries data) reflects an industry volume decline of 11.9% YoY in FY21, the companies that we have analysed (65% of the industry's installed capacities) reported volume growth of 1.4% YoY. We saw similar disparities in the companies and core industries data after the announcement of demonetization by the Central government in Nov'16. As per the core industries data, the industry witnessed a deceleration in production from Dec'16 to Jun'17, while our analysed companies did not report volume declines in this period. In 4QFY17, our analysed companies reported a volume growth of 4% YoY, which was in stark contrast to the 11.9% YoY volume decline in the core industries data. This data got normalised by 4QFY18 when the companies we analysed reported 8.4% volume growth YoY vs. 18.5% YoY growth as per the data published by the Office of the Economic Advisors.

Exhibit 91: Difference in industry volume growth and analysed companies' volume growth after demonetization...



Source: Systematix Institutional Research, Office of Economic Advisors

Exhibit 92: ...similar trend witnessed in 3Q/4QFY21

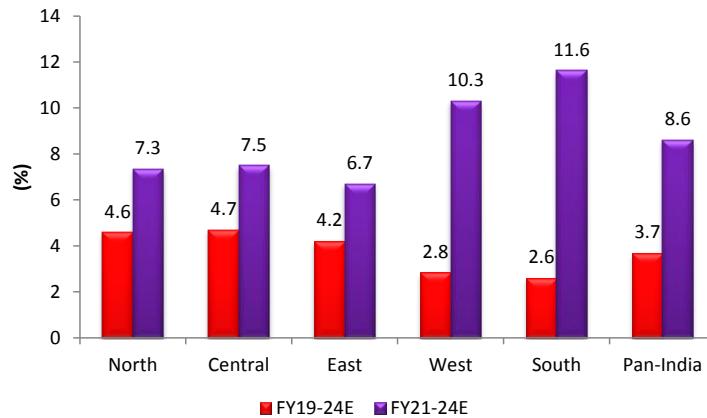


Source: Systematix Institutional Research, Office of Economic Advisors

Based on our industry checks and analysis of the quarterly numbers reported by companies, the Northern, Central, Eastern and Gujarat markets witnessed volume growth in FY21, whereas demand remained under pressure in the Southern and Maharashtra markets. We have assumed an industry volume decline of 3.6% YoY in FY21. We estimate a volume growth of 9.3%/9.3%/7.2% for the industry in FY22/23/24E. The industry should see ~19% YoY volume growth in 1HFY22E on a low base of last year. Higher industry growth in FY23E will be driven by a gradual demand recovery in the Southern/Maharashtra markets.

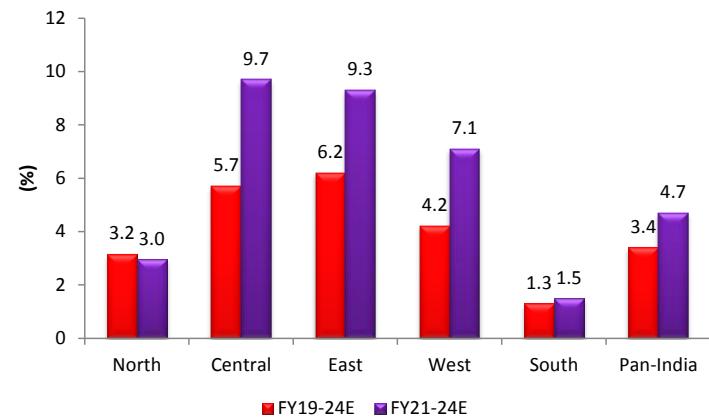
Our industry volume growth assumptions reflect a CAGR of 3.7% between FY19-24E, which is not aggressive given a 6% volume CAGR between FY10-19 even when the organised urban estate was under pressure. Based on the orders placed with equipment suppliers and Dalmia Bharat's recent expansion plans, we believe clinker capacities will increase at a CAGR of 3.4% over FY19-24E, leading to an improvement in capacity utilisation. Additionally, we expect a demand CAGR of 8.6% between FY21-24E against a clinker capacity CAGR of 4.7%.

Exhibit 93: The low base of FY21E may support higher volume growth in the Southern/Western regions



Source: Systematix Institutional Research, Industry

Exhibit 94: Clinker capacity growth to be lower than demand growth

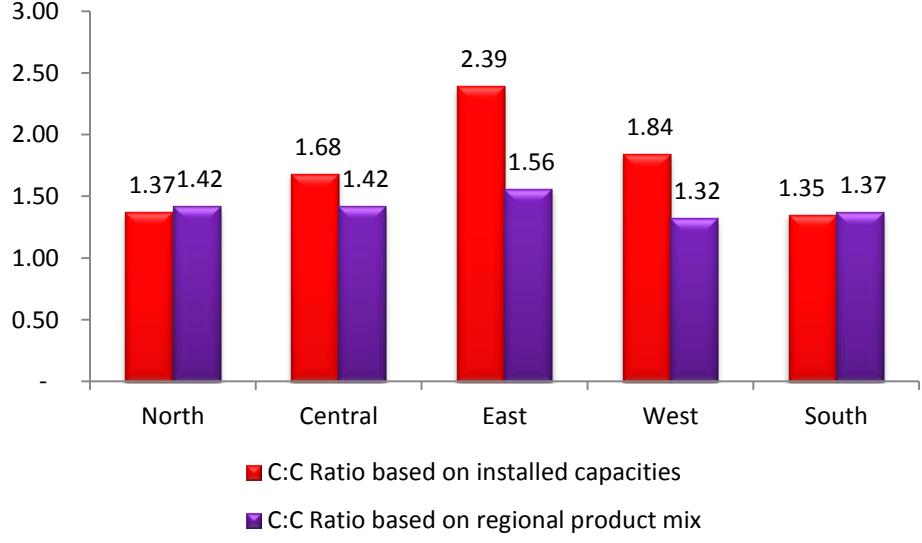


Source: Systematix Institutional Research, Industry

Clinker utilisation is a better indicator of the demand-supply trends

Our analysis indicates that the industry has higher grinding capacities in the Eastern/Western/Central regions. Hence, the installed clinker capacity rather than grinding capacity is a better gauge to evaluate the industry's demand-supply dynamics. The Northern and Southern regions seem more balanced in terms of installed clinker and cement capacities while other regions have surplus grinding capacities. Higher grinding units in the Central region are primarily due to the grinding units in Western Uttar Pradesh that are fed by the clinker plants of the Northern region. A few South-based players have installed grinding units in the Eastern region for better utilisation of their clinker capacities.

Exhibit 95: Clinker to cement conversion ratio (C:C ratio) indicates surplus grinding capacities in the Eastern, Western and Central regions

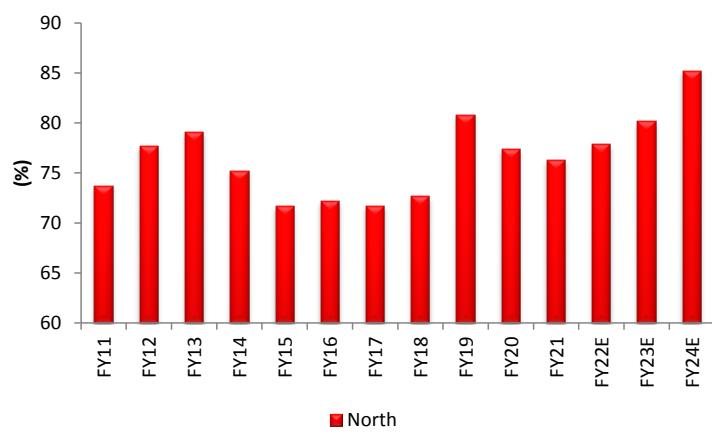


Source: Systematix Institutional Research, Industry

Industry clinker utilisation to improve gradually

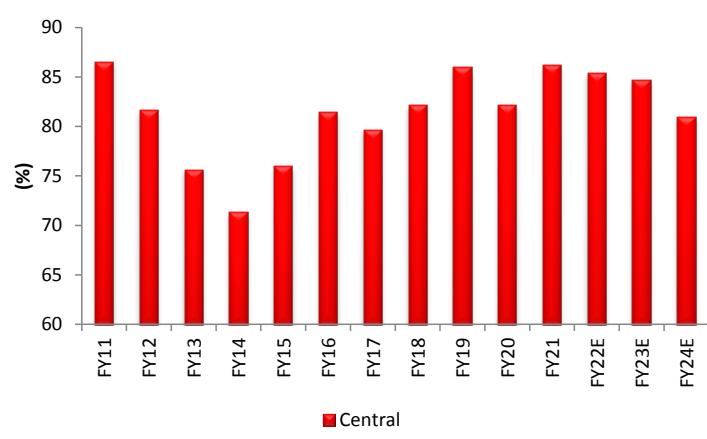
We expect clinker utilisation of the industry to improve gradually till FY24E as the incremental demand-supply gap is likely to narrow. The clinker utilisation in the Northern region is expected to improve to 85.2% by FY24E vs. 76.3% in FY21. In the Eastern region, clinker utilisation is likely to be at 83.8% in FY24E vs. 90.1% in FY21. The Southern region is expected to see a capacity utilisation of 63.7% in FY24E vs. 49.1% in FY21 (57.5% in FY20). We expect capacity utilisation in the Western region to be at 83.5% in FY24E vs. 75.6% in FY21 (85.8% in FY20). The behavior of new players needs to be monitored as production from Birla Corporation's Mukutban plant and the acquired plant of Murli Industries is expected to commence in 2HFY22. In the Central region, capacity utilisation is expected to be at 80.9% in FY24E vs. 86.2% in FY21. Most of the capacity increase in this region will be by leading players (ACC and UltraTech) and is unlikely to put pressure on prices. The pan-India average clinker capacity utilisation is expected to improve to 76.5% by FY24E vs. 68.7% in FY21.

Exhibit 96: Clinker utilisation should improve gradually in the Northern region



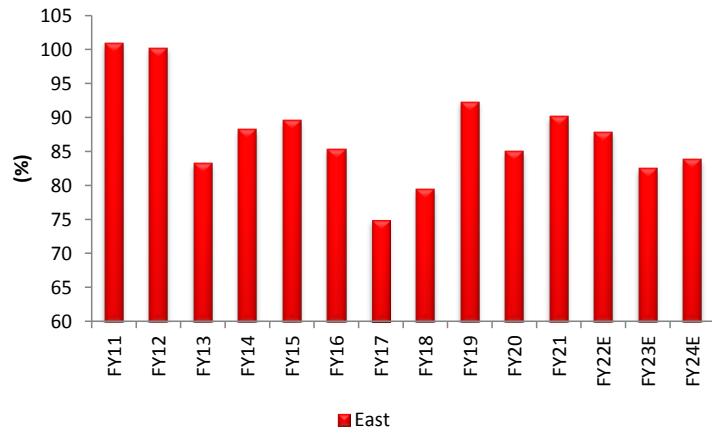
Source: Systematix Institutional Research, Industry

Exhibit 97: New capacities may lead to a decline in clinker utilisation in the central region



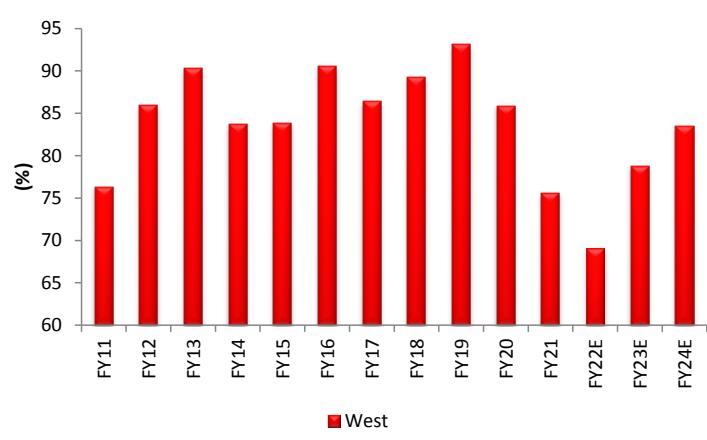
Source: Systematix Institutional Research, Industry

Exhibit 98: Clinker utilisation to decline in the Eastern region

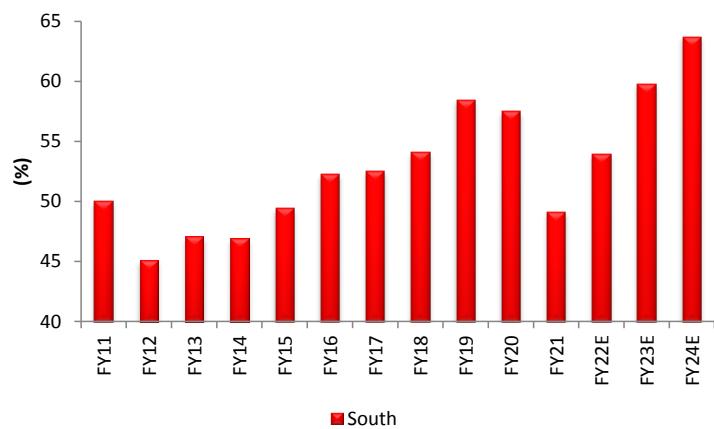


Source: Systematix Institutional Research, Industry

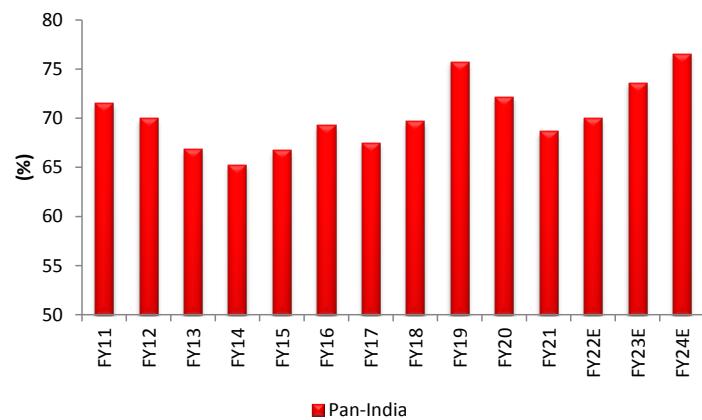
Exhibit 99: Clinker utilisation in the Western region to decline in FY22E, but improve thereafter



Source: Systematix Institutional Research, Industry

Exhibit 100: Expect an improvement in clinker utilisation in the Southern region


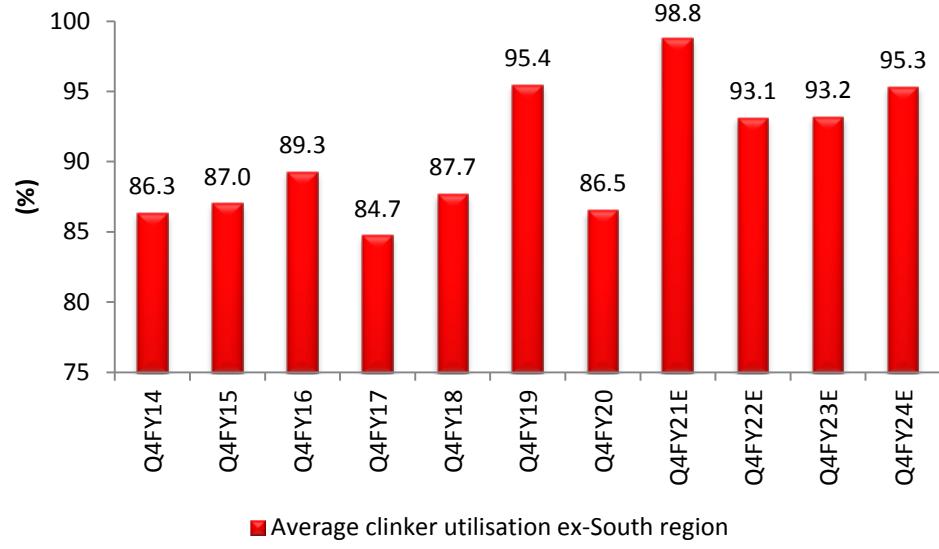
Source: Systematix Institutional Research, Industry

Exhibit 101: Industry should witness an improvement in clinker utilisation


Source: Systematix Institutional Research, Industry

Clinker utilisation at 93%+ (ex-South) during the Jan-March period to lead to strong prices in that period

We believe that the average industry utilisation (ex-Southern region) will be 93%+ in the 4Q (Jan-March) of every financial year, resulting in better pricing power in that period. The Eastern region will see the highest clinker utilisation in 4Q. A few leading cement companies have highlighted that they face clinker shortage in the Eastern region during the peak season (4Q).

Exhibit 102: Ex-South, clinker utilisation to remain strong in 4Q


Source: Systematix Institutional Research, Industry

Improved utilisation to help maintain prices and pass on cost inflation; we factor in a price CAGR of 2% between FY21-24E

After remaining flat between FY13-17, pan-India cement prices have improved over the last two years led by a sharp improvement in clinker utilisation in 4QFY19 which sustained till FY21. Clinker utilisation (ex-Southern region) likely improved to 95.4% in 4QFY19 vs. 87.7% in 4QFY18. Adjusted for the 10 days of production loss, we believe ex-Southern clinker utilisation remained at 96.1% in 4QFY20. We expect ex-Southern clinker utilisation to be at 93.1%/93.2%/95.3% in 4QFY22/23/24E. Strong clinker utilisation in 4Q should lead to robust cement prices in that period.

As the earnings of cement companies are highly sensitive to the change in cement prices (a 1% change in cement price leads to a 4-6% change in EBITDA), we expect profitability to improve. Considering the historical volatility and the strong improvement in cement prices over the last two years, our assumptions are less aggressive.

We factor in an average realisation growth of 2% for our coverage companies between FY21-24E, which should lead to an EBITDA/ton CAGR of 3.3%. Higher profitability should lead to improvement in average RoE/RoCE of our coverage companies. We expect average RoE to improve from 14% in FY21 to 15.3% in FY24E; whereas; RoCE is expected to improve from 15.6% in FY21 to 17.8% in FY24E.

Exhibit 103: Changes in realisations, costs and profits on a per ton basis

Particulars	FY05-08	FY08-11	FY11-13	FY13-15	FY15-17	FY17-19	FY19-21	FY21-24E
Realisation	19.2	1.8	11.6	2.1	-1.1	2.3	3.9	1.7
RM	11.6	7.4	11.3	10.5	-2.0	2.3	2.6	2.6
Employee	14.6	12.9	10.2	8.7	2.4	-2.8	6.7	-4.2
Energy	6.5	8.3	7.3	0.9	-12.5	16.3	-5.3	2.6
Freight	24.7	11.1	11.7	6.5	-1.4	7.3	-1.7	3.0
Other expense	7.0	3.4	11.0	9.0	-1.0	-5.5	-0.1	-2.7
EBITDA	45.4	-13.9	18.0	-14.9	12.3	-7.8	24.9	2.2
Total expense	11.4	8.1	9.9	6.5	-3.9	4.8	-0.8	1.2

Source: Systematix Institutional Research, Company

Exhibit 104: Changes in cement prices over the last few years

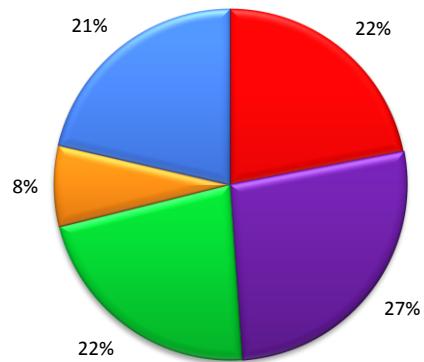
Regions	FY05-08	FY08-11	FY11-13	FY13-15	FY15-17	FY17-19	FY19-21
North	12.7	3.4	4.8	-1.1	3.2	-1.4	9.5
Central	14.0	2.3	9.1	0.9	1.9	1.5	4.2
East	12.2	3.0	13.5	-1.1	-3.6	1.2	-1.5
West	16.4	-1.1	12.1	1.4	-4.6	5.8	3.9
South	16.2	-0.4	13.5	1.6	1.5	-1.2	7.0
Average	14.3	1.4	10.6	0.3	-0.3	1.1	4.7

Source: Systematix Institutional Research, Company

Energy costs controlled through WHRS and higher usage of alternate fuels

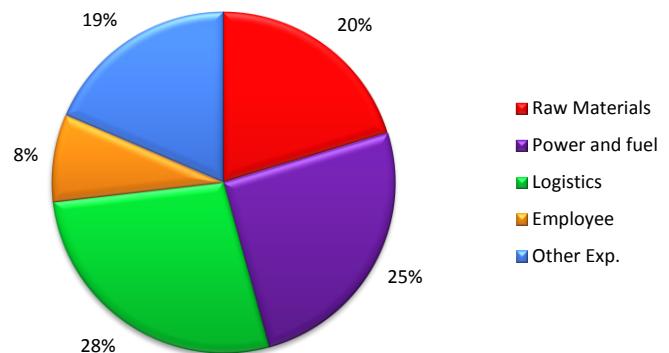
In the last ten years, cement companies have reduced the share of power and fuel costs in the total cost by 1) installing waste heat recovery systems (WHRS), 2) increasing the usage of pet-coke/alternate fuels and 3) softer merchant power rates. We expect the unit power and fuel cost to remain in check led by cement players' focus on increasing the share of renewable energy (wind, WHRS, solar, biomass). Meanwhile, the share of logistics costs has increased due to the rise in diesel prices.

Exhibit 105: Cost structure in FY10



Source: Systematix Institutional Research, Companies

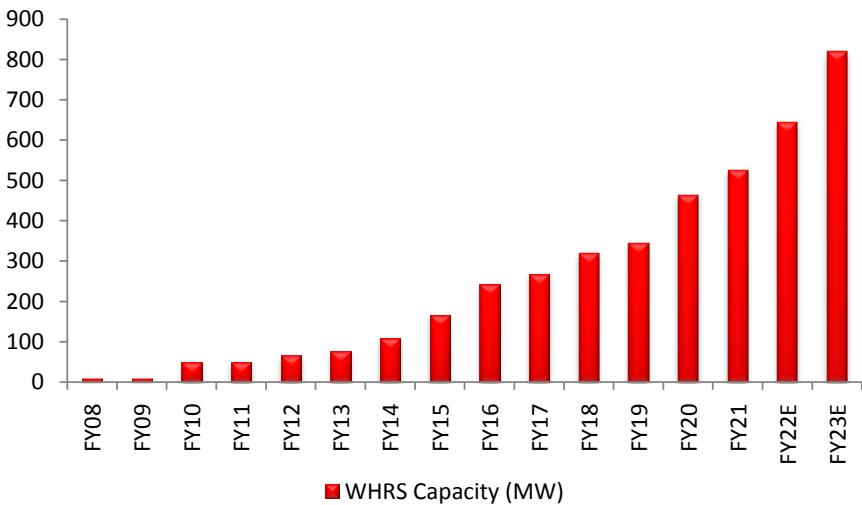
Exhibit 106: Cost structure in FY21: Logistics cost has increased in overall cost structure



Source: Systematix Institutional Research, Companies

Over the past decade, cement players have increased the usage of WHRS to control power costs and reduce carbon emissions. The current installed capacity of WHRS in the industry is estimated at 611MW vs. 8MW in FY08 and is likely to increase to 1,000MW+ by FY24E. A WHRS entails a set-up cost of ~80-100mn/MW with negligible operating costs; thus, the payback period is shorter than a thermal power plant. We estimate WHRS to help produce 15-18% of the cement consumed going forward.

Exhibit 107: WHRS shoud help produce 15-18% of the cement consumed

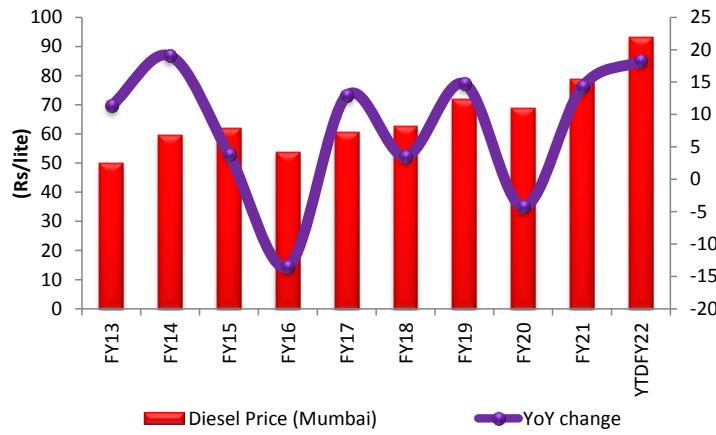


Source: Systematix Institutional Research, Industry

Unlike energy costs, cement players were unsuccessful in containing the logistics cost due to 1) rising diesel prices and 2) a steep increase in rail freight between FY10-15. The industry's average freight cost increased at a CAGR of 11% between FY10-15, led by a diesel price CAGR of 11% and railway freight CAGR of 6.6%. Between FY15-20, diesel prices increased at a CAGR of 3.6% whereas the average railway freight declined at a CAGR of 0.4%, leading to an average freight cost CAGR of 1.8%. In FY21, the average freight cost for the industry remained flat despite a diesel price increase of 14% YoY which was likely due to a) lower lead distance - companies tried to reduce the lead distance by selling in nearby markets when demand picked up after the easing of the lockdowns, b) higher sales through the railways - cement despatches through railways increased from 21.4% in FY20 to 23% in FY21. Further, clinker despatches through railways increased by 16% YoY and c) lower railway freight rates - 4%/5% YoY decline in railways freight/ton for cement/clinker.

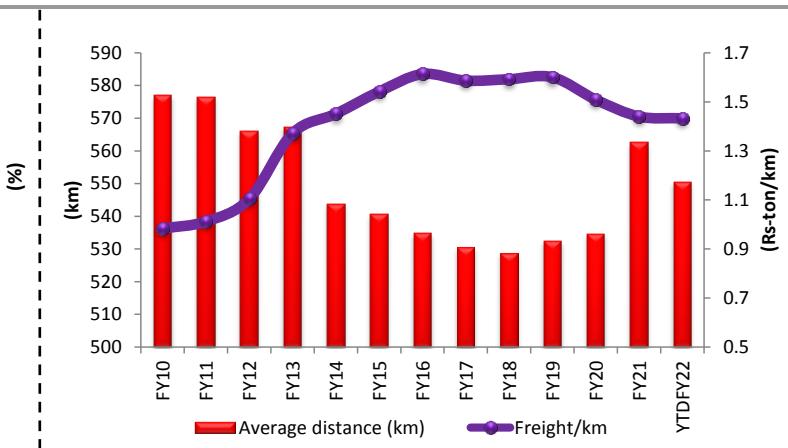
To counter the rising diesel/truck costs, cement players have increased direct despatches (leading to lower warehouse rents) and are investing in GPS enabled trucks to reduce the lead distance to markets.

Exhibit 108: Diesel price increased at a CAGR of 6.4% between FY12-21



Source: Bloomberg, Systematix Institutional Research

Exhibit 109: Railway freight/ton has declined in FY20/21

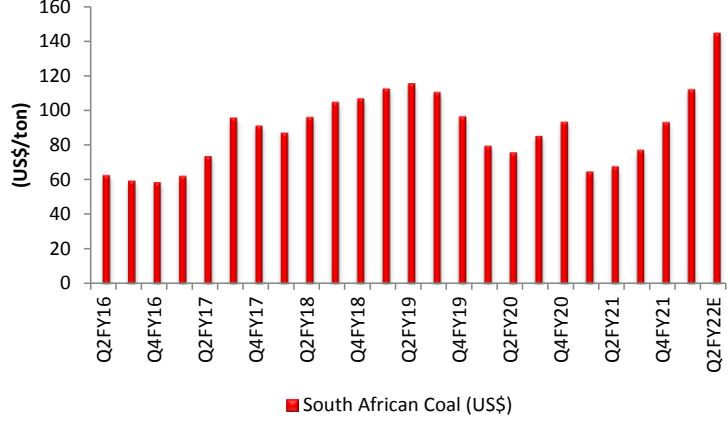


Source: Industry, Systematix Institutional Research

Rising fuel prices may lead to higher energy and freight costs in FY22E

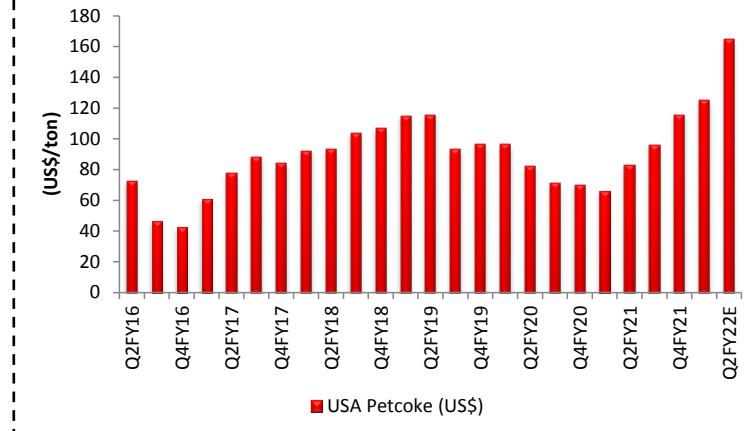
Fuel prices (pet coke, coal and diesel) have increased significantly over the last year and may lead to higher energy/freight costs in FY22E. Pet coke prices (USA) have increased by 150% vs. the 1QFY21 average price, whereas Reliance has increased pet coke price by 110% in the same period. Similarly, South African Coal (6,000 NAR) is up 114% over the last year. The industry tried to increase the usage of Australian Coal as it is cost-competitive compared to other sources of coal, but the price of Australian Coal increased by 85% in YTDCY21. Diesel prices have increased by ~18% in YTDFY22E. We believe that increasing pet coke/coal prices may lead to a 15%+ rise in energy costs in 2HFY22. Pet coke prices have remained volatile historically and industry experts expect pet coke prices to start declining from 2HFY22 onwards.

Exhibit 110: Increase in South Africa Coal price...



Source: Systematix Institutional Research, Industry

Exhibit 111: ...and pet coke (USA) price



Source: Systematix Institutional Research, Industry

Focus on premium products to help garner higher realisations

Cement companies have increased the sales of premium products, which generally command a premium of 15-20% over normal grey cement. Though premium products have higher associated costs (marketing and branding expense, packaging and handling costs), the profitability of these products is Rs 150-200/ton higher than normal grey cement. A few companies have increased their branding & publicity expenses to increase trade and premium products sales.

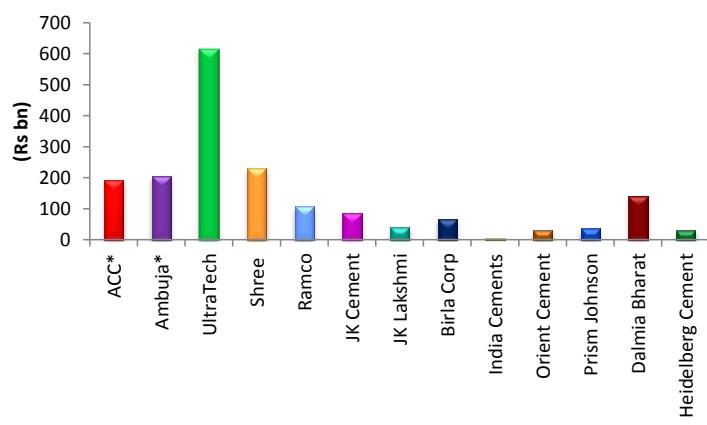
Exhibit 112: Premium products and trade sales break-up of companies

	Premium Products	% sales	Trade sales (%)
ACC	ACC Gold Water Shield, ACC F2R Superfast, ACC Concrete+ Xtra Strong, ACC Suraksha Power, ACC Suraksha Power+, ACC HPC Long Life, ACC Super Shaktimaan	14-15% of total volumes	80%
ACEM	Ambuja Plus, Kawach, Compocem, Buildcem, Powercem 53, Powercem 43, Railcem	9.5-10% of total volumes	81%
UTCEM	UltraTech Super, UltraTech Composite Cement, UltraTech Weather Plus, UltraTech Slag	10% of volumes vs. 8.3% in FY20	69%
BCORP	Perfect Plus, Concrecem, Ultimate Ultra, MP Birla Cement Unique, Ultra2, Multicem, Samrat Advanced	50% of trade sales vs. 41% of trade sales in FY20	80%
TRCL	Ramco Super Grade, Ramco Super Crete, Ramco Super Steel, Ramco Super Fast, Ramco Super Coast, Karthic Super Plus, Ramco Samudra, Ramco Super Fine EFC	35% of volumes in Q3 vs. 10-12% in Q2FY21	90%
DALBHARA	Dalmia DSP Cement, Dalmia Infra Pro, Dalmia Infragreen, SRPC, Dalmia Magic	18% of trade sales vs. 13% of trade sales in FY20	65%
ORCMNT	Birla-A1 StrongCrete	10%+ of trade volume in Mar-21 (9% for Q4FY21)	60%
PRSMJ	Champion Plus and Duratech	27.7% in FY21 vs. 22.3% in FY20	75%
SRCM	Roofon and Bangur Power	7% of trade sales	74%
JKCE	JK Super Strong Weather Shield Cement, JK Super Strong Cement	15% of trade sales	66%
JKLC	JK Lakshmi PRO+ Cement, Platinum Heavy Duty Cement	10% of total volumes	53%
HEIM	mycem power, mycem cement (paper bag)	22% of trade volumes	80%
STRCEM	Star Anti Rust Cement	3% of total volumes	87%

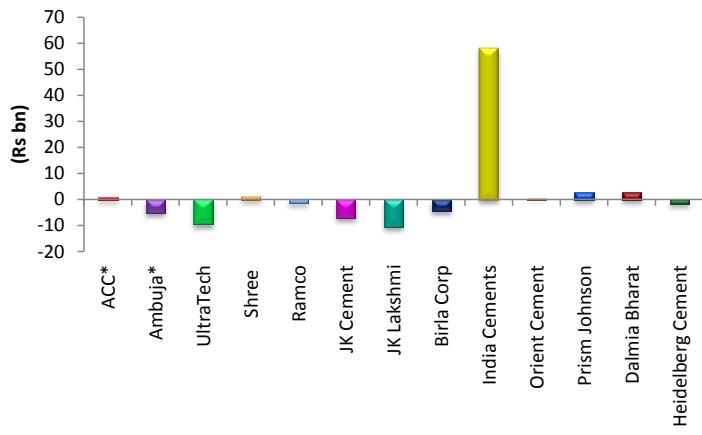
Source: Systematix Institutional Research, Company

Working capital has improved, strong FCF generation supported debt reduction

Most cement companies have seen an improvement in their working capital over the last few years. The companies we analysed generated a cumulative operating cash flow (OCF) before working capital (WC) of Rs 1800bn and WC got reduced by Rs 24.9bn between FY12-21. Strong improvement in profitability during FY19-21 led to a combined OCF CAGR of 38.9% for our coverage companies, resulting in a free cash flow (FCF) CAGR of 57.7%. We expect the combined OCF of our coverage universe to increase at a CAGR of 5.5% over FY21-24E, leading to an FCF CAGR of 10.9%.

Exhibit 113: OCF generation between FY12-21

Source: Systematix Institutional Research, Company , * Dec-ending companies

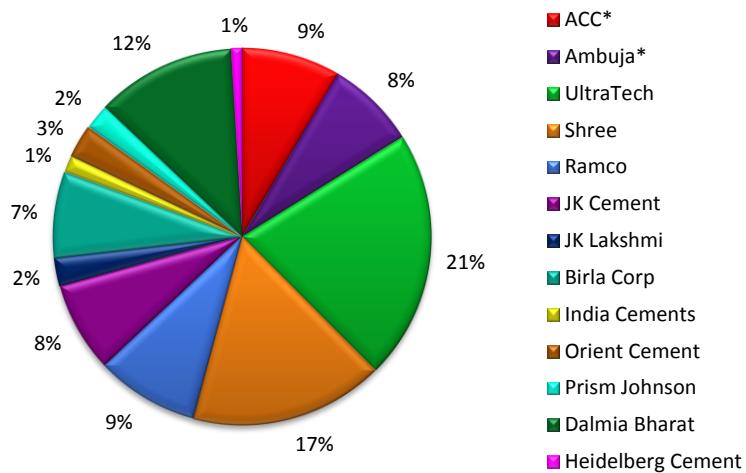
Exhibit 114: Most companies saw a reduction in WC between FY12-21

Source: Systematix Institutional Research, Company , * Dec-ending companies

UltraTech, Shree and Dalmia accounted for 50% of the capex between FY15-21

Most cement companies have utilised their cash flows prudently, which led to an improvement in their balance sheets despite capacity additions over the last few years. UltraTech, Dalmia and Shree accounted for 50% of the capex incurred by the analysed companies between FY15-21. Most of the organic expansion in the industry has been funded through internal accruals.

Exhibit 115: Capex break-up between FY5-21

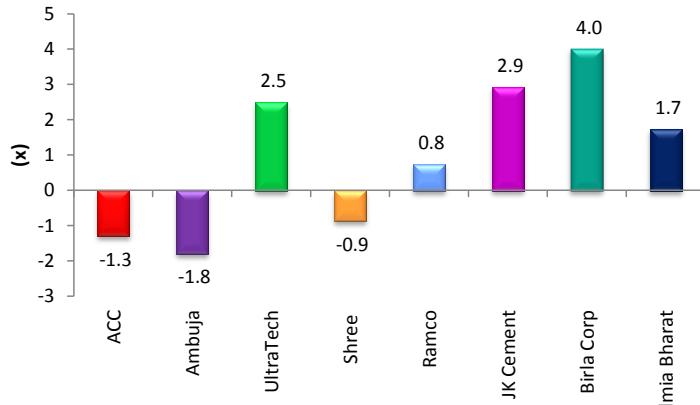


Source: Systematix Institutional Research, Company, * Dec-ending companies

Leverage has improved significantly over the last few years

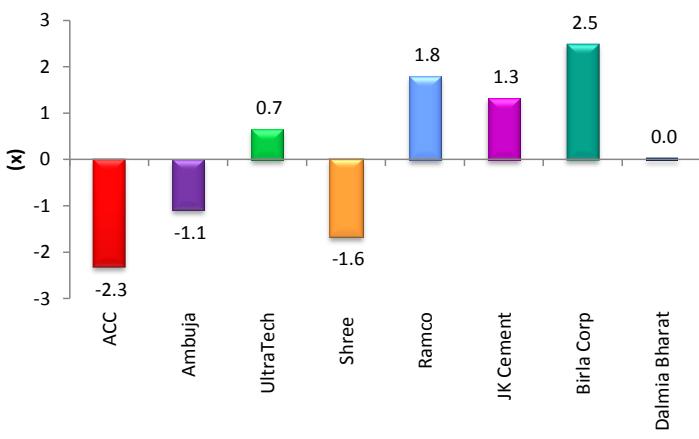
Better profitability between FY18-21 has supported balance sheet improvement for most companies. The combined net debt of our coverage companies reduced by Rs 197.2bn during FY19-21 (Rs 72.1bn in FY21 vs. Rs 269.3bn in FY19), leading to an improvement in the average net debt/EBITDA (0.31x in FY21 vs. 1.13x in FY19) and net D/E for most companies. We expect a further improvement in net debt/EBITDA for our coverage universe (-0.55x in FY24E).

Exhibit 116: Net debt/EBITDA trend in FY18



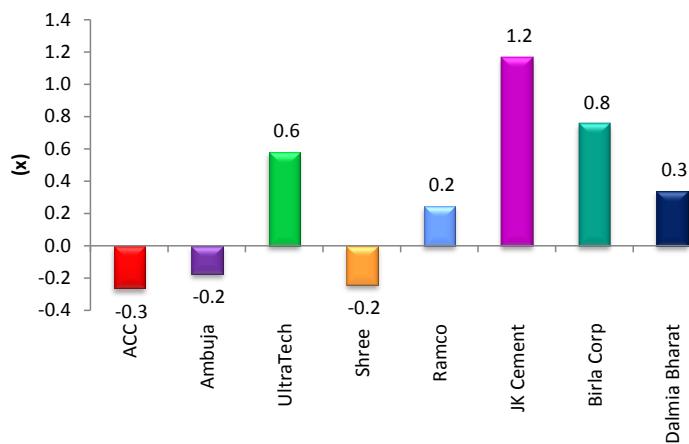
Source: Systematix Institutional Research, Company, *Dec-ending companies

Exhibit 117: Net debt/EBITDA in FY21 at comfortable levels



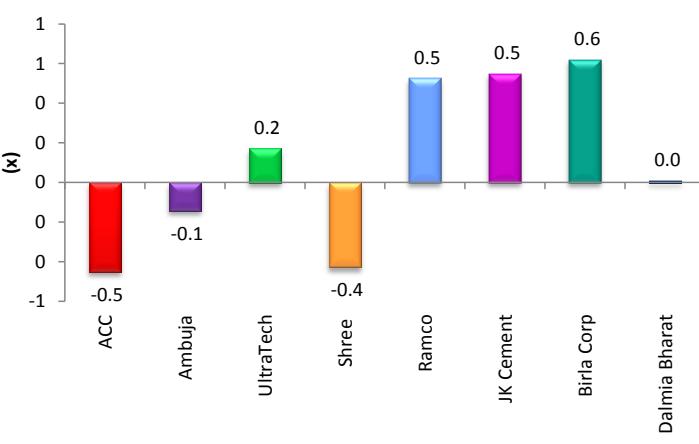
Source: Systematix Institutional Research, Company, *Dec-ending companies

Exhibit 118: Net D/E trend in FY18



Source: Systematix Institutional Research, Company, *Dec-ending companies

Exhibit 119: Net D/E trend in FY21



Source: Systematix Institutional Research, Company, *Dec-ending companies

Valuations

Exhibit 120: UTCEM's 1yr forward EV/EBITDA trading close to +1SD

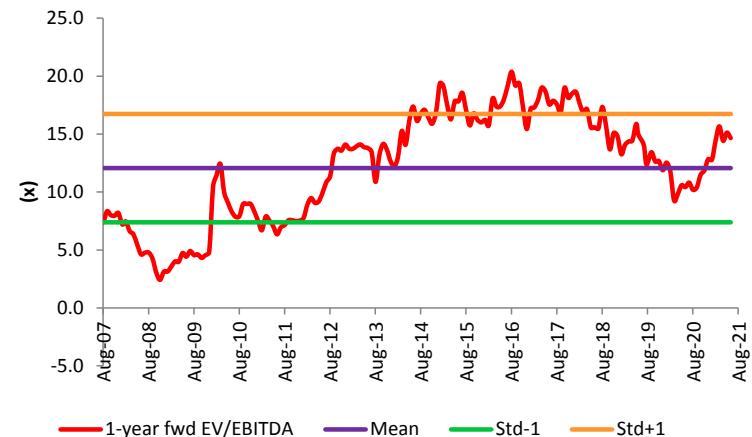


Exhibit 121: ...and 1-year forward EV/ton just below +1SD

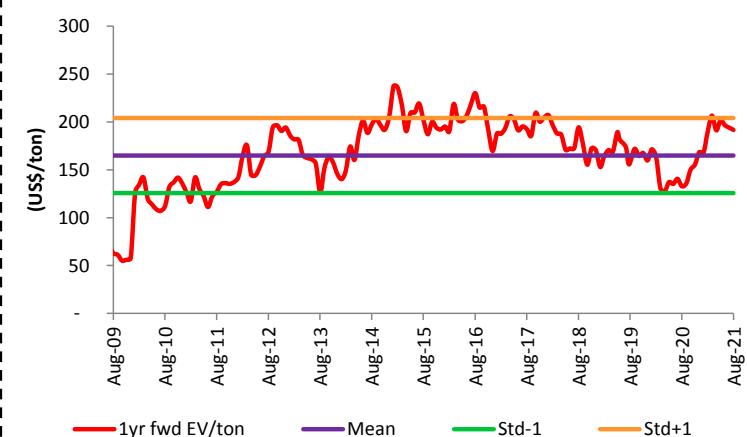


Exhibit 122: SRCM's 1-year forward EV/EBITDA at +1SD...

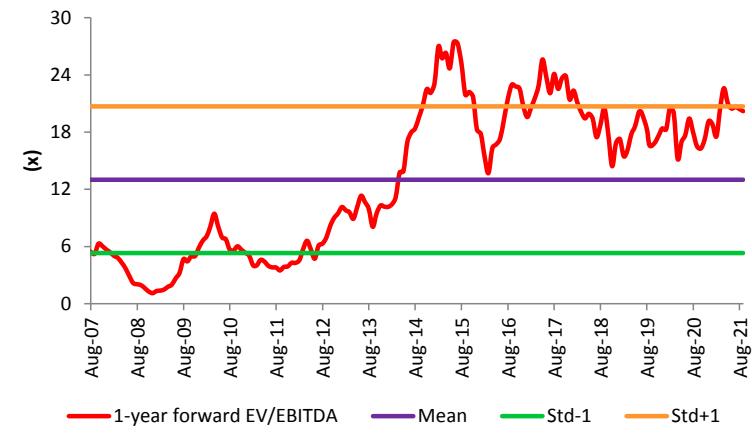


Exhibit 123: ...while 1-year forward EV/ton above +1SD

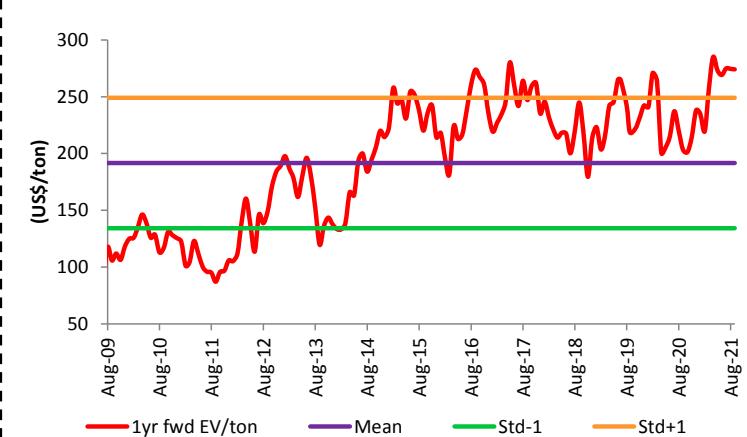


Exhibit 124: ACEM's 1-year forward EV/EBITDA trading above mean

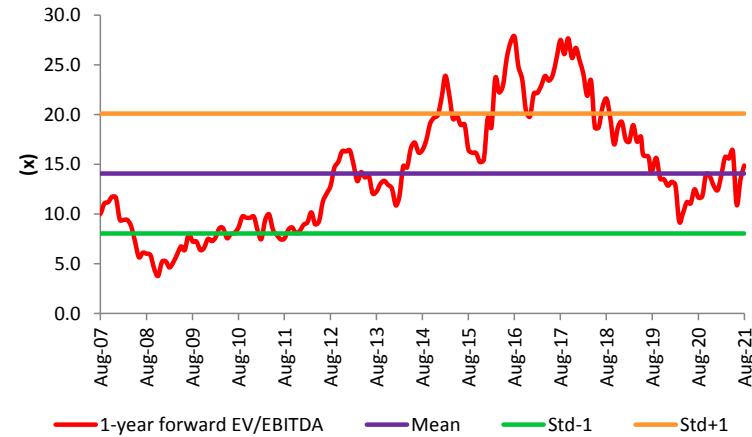


Exhibit 125: ...and 1-year forward EV/ton trading above +1SD

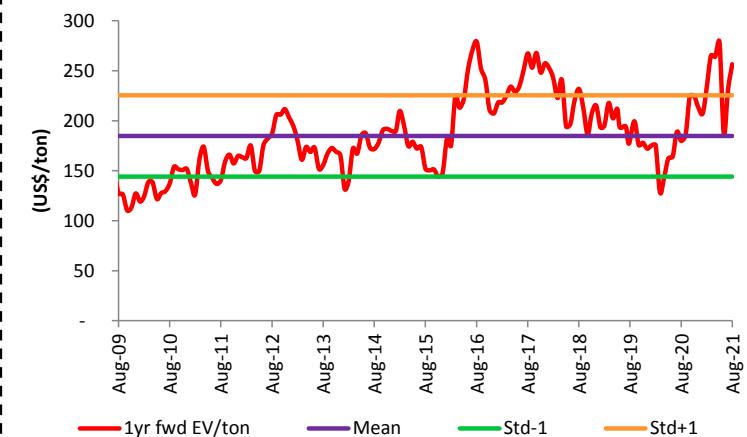


Exhibit 126: ACC's 1-year forward EV/EBITDA at 14-year mean...

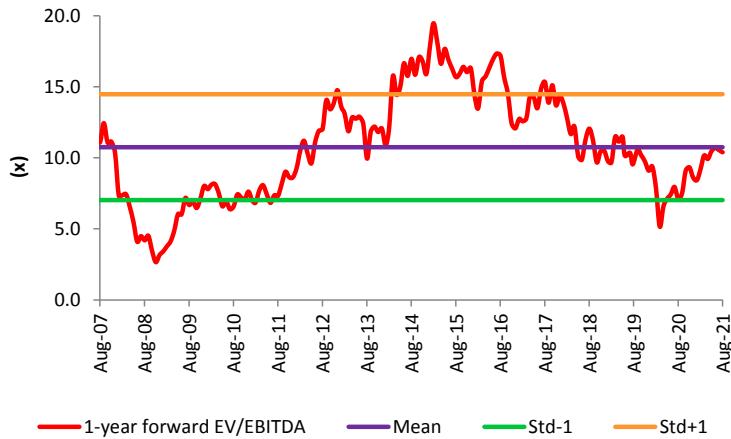


Exhibit 127: ...and 1-year forward EV/ton trading just above mean

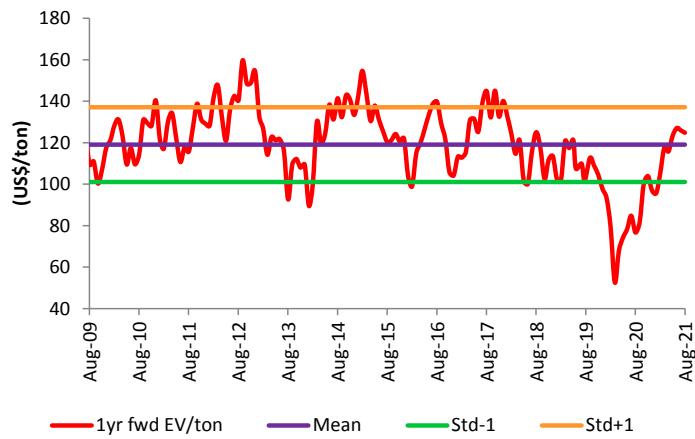


Exhibit 128: DALBHARA's 1-year forward EV/EBITDA just above +1SD...

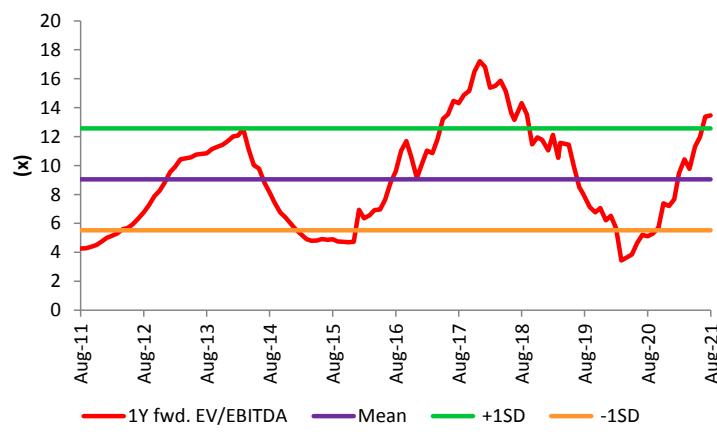


Exhibit 129: ...while 1-year forward EV/ton above +1SD

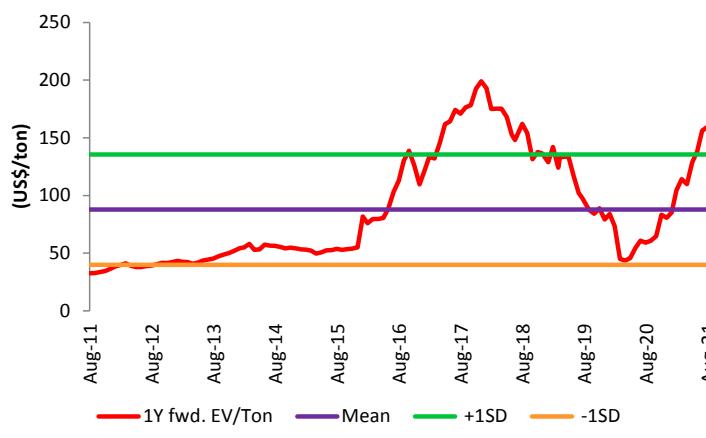


Exhibit 130: JKCE's 1-year forward EV/EBITDA trading just below +2SD

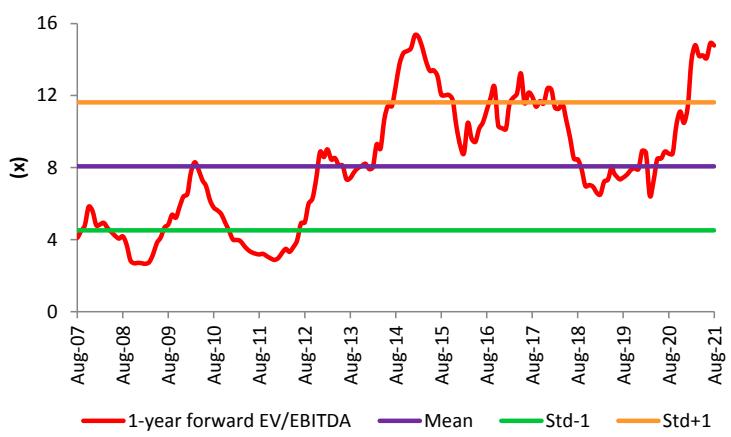


Exhibit 131: ...and 1-year forward EV/ton near +3SD

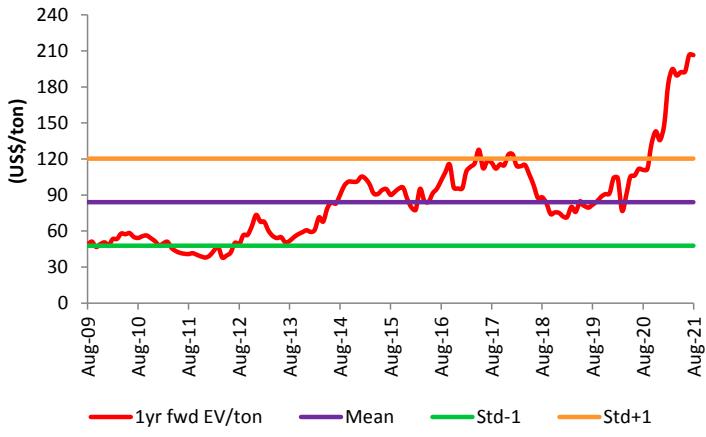


Exhibit 132: TRCL's 1-year forward EV/EBITDA at +1SD...

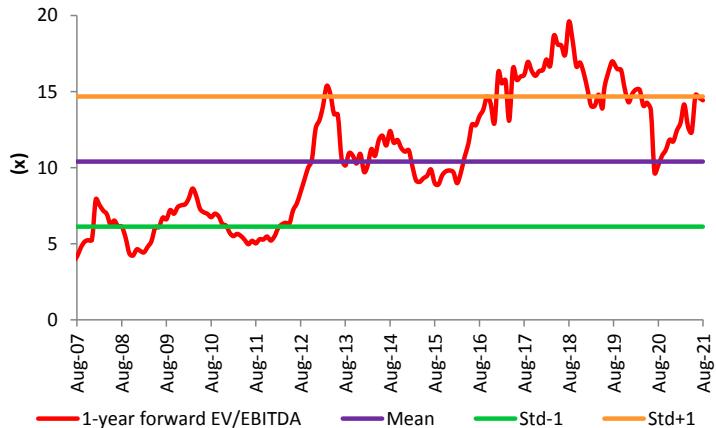


Exhibit 133: ...and 1-year forward EV/ton trading above +1SD

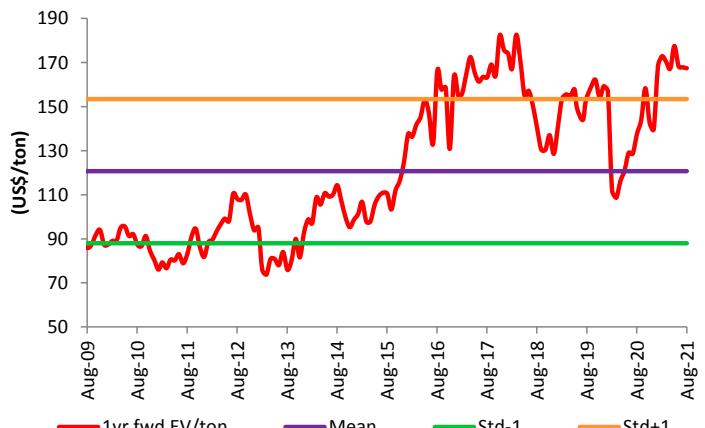


Exhibit 134: BCORP's 1-year forward EV/EBITDA just below +1SD...

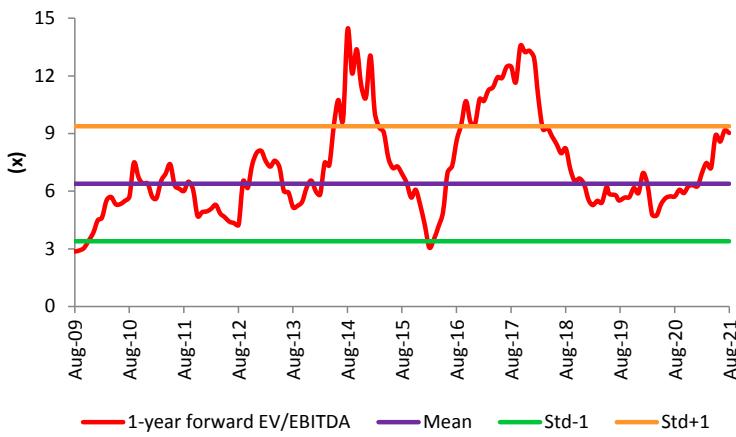


Exhibit 135: ...and 1-year forward EV/ton above +1SD

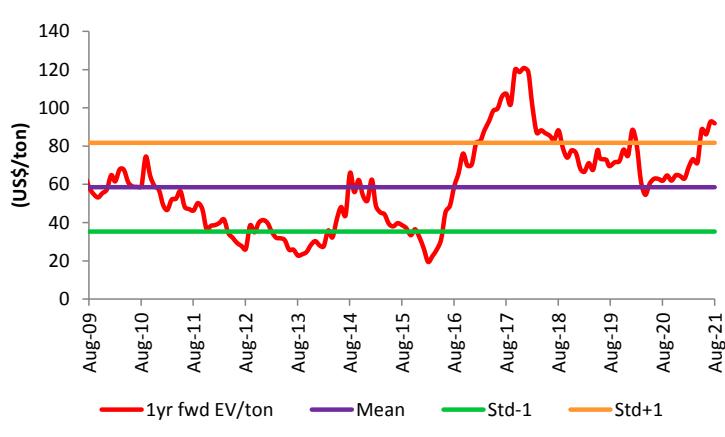


Exhibit 136: Valuation of cement players on EV/EBITDA basis

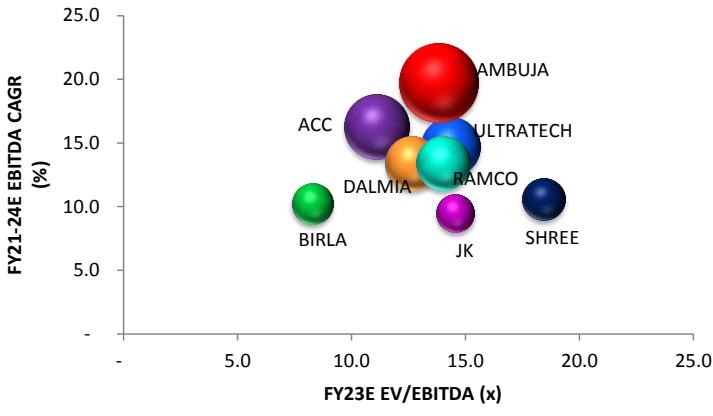
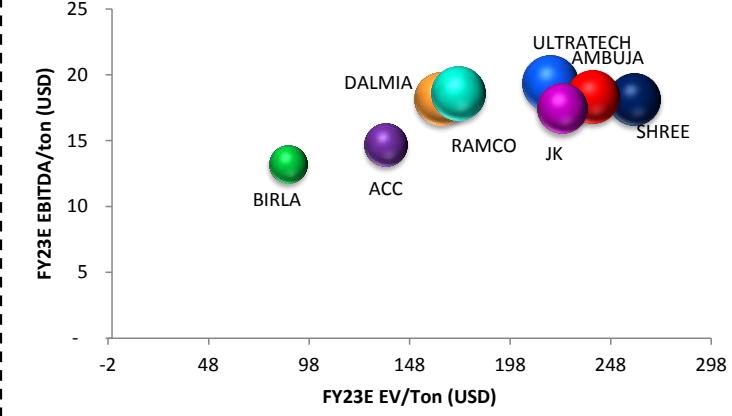


Exhibit 137: Valuation of cement players on EV/ton basis



COMPANIES SECTION

01 September 2021

UltraTech Cement

Best placed to capture demand uptick; initiate with BUY

INITIATING COVERAGE

Sector: Cement	Rating: BUY
CMP: Rs 7,834	Target Price: Rs 9,275

Stock Info

Sensex/Nifty	57,552/17,132
Bloomberg	UTCEM IN
Equity shares	288mn
52-wk High/Low	Rs 7,930/3,755
Face value	Rs 10
M-Cap	Rs 2,265bn/USD 31bn
3-m Avg volume	USD 36.7mn

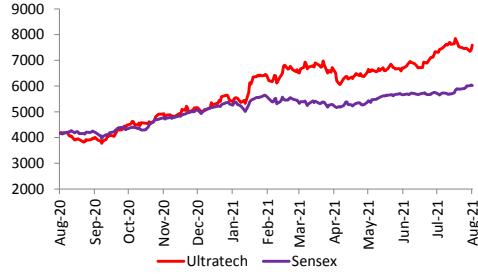
Financial Snapshot (Rs bn)

Y/E March	FY22E	FY23E	FY24E
Sales	525	583	641
EBITDA	137	156	175
PAT	71	85	99
EPS (Rs)	245	294	343
PE (x)	32	27	23
EV/EBITDA (x)	16.7	14.3	12.3
RoE (%)	15.0	15.9	16.3
RoCE (%)	16.1	17.6	18.8
Dividend yield (%)	0.5	0.6	0.7

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20
Promoter	59.9	59.9	59.9
-Pledged	-	-	-
FII	16.6	17.3	16.8
DII	14.4	13.7	14.1
Others	9.1	9.1	9.2

Stock Performance (1-year)



Sanjeev Kumar Singh
sanjeev singh@systematixgroup.in
+91 22 6704 8017

Rahul Jain
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+91 22 6704 8066

Harsh Mittal
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UltraTech Cement (UTCEM), the largest cement company in India, has outpaced the industry's capacity growth rate and gained significant market share through organic and inorganic capacity expansion. It plans to increase its grinding capacity by 19.5mt by FY23E and has received environmental clearance (EC) for a further 21.4mt expansion. The company aims to achieve a capacity of 160mtpa in India through the organic route by FY30E. It continues to explore inorganic expansion opportunities and maintains a liquid cash balance of +Rs 100bn for acquisitions. We expect its sales volumes to grow at a CAGR of 11.4% over FY21-24E. Further, a focus on reducing operating expenses should aid profitability. We expect UTCEM's EBITDA/EPS to grow at a CAGR of 15%/21% over FY21-24E. Improvement in the balance sheet (net cash positive in FY23E) and return ratios (RoE of 16.3% in FY24E vs. 13.4% in FY21) will help it command premium multiples. We initiate coverage on the stock with a BUY rating and a target price of Rs 9,275.

A pan-India player; strong capacity pipeline to aid growth

UTCEM has a pan-India presence with a capacity share of 12%/15% in the Southern/Eastern, 23% in the Northern and 36%/39% in the Western/Central regions. It increased its capacity at a CAGR of 9.8% between FY12-21, which is significantly above the industry's capacity CAGR of 5.2% in the same period, along with market share gains (34% in 1QFY22 vs. 27% in 1QFY15). It plans to increase its grinding capacity by 19.5mtpa by FY23E. Besides organic expansions, the company continues to explore inorganic opportunities (~70% of capacity additions over FY12-21 were through the inorganic route) and maintains Rs 100bn+ liquid reserves for acquisitions. We expect a sales volume CAGR of 11.4% over FY21-24E.

Cost savings to boost profitability and return ratios

UTCEM is reducing opex by a) decreasing the lead distance, b) increasing power generation through WHRS/solar plants - incremental cost savings of Rs 40/ton through WHRS by FY25E and c) controlling fixed costs - were at levels similar to FY19 in FY21. The MMDR Amendment Act will drive savings of Rs 2bn+ (Rs 20/ton on FY22E sales volumes). Net debt/EBITDA improved to 0.66x in FY21 vs. 3.1x in FY20. We expect the company to become cash positive in FY23E despite the on-going capex plans. UTCEM's RoE improved to 13.4% in FY21 vs. 10.1% in FY18 (8.4% in FY19). We expect RoE to improve to 16.3% by FY24E, while RoIC to improve to 17% vs. 10.7% in FY21.

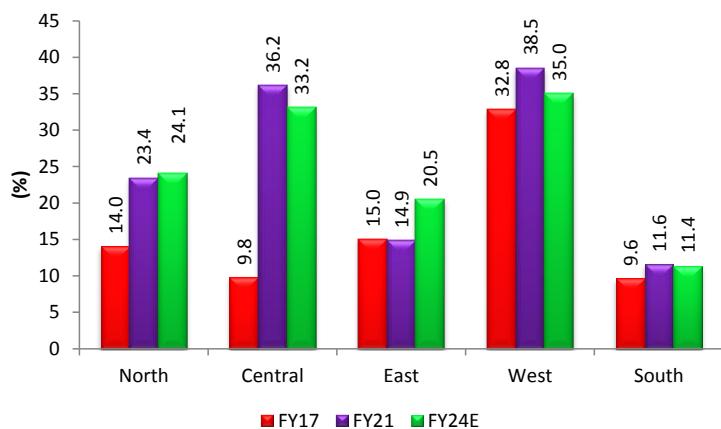
Outlook & Valuation

The stock trades at 16.7x/14.3x/12.3x FY22E/23E/24E EV/EBITDA and USD 251/222/213 FY22E/23E/24E EV/EBITDA. It has traded at an average EV/EBITDA of 14.3x in the last 10 years. Going forward, with the improvement in profitability (estimate EPS CAGR of 21.1% over FY21-24E) and balance sheet (to turn net cash positive in FY23E, capex to be funded through internal accruals), we expect UTCEM to trade at higher multiples. We value it at 17x FY23E EV/EBITDA to arrive at a target price of Rs 9,275 (an upside of 18.4% from the CMP) and initiate coverage with a BUY rating.

Investors are advised to refer disclosures made at the end of the research report.

Story in charts

Exhibit 1: Increase in capacity share between FY17-21..



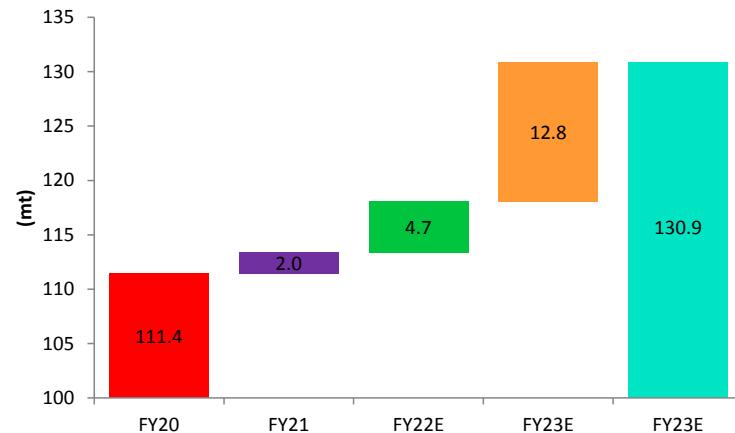
Source: Company, Systematix Institutional Research

Exhibit 2: ...led to market share gains (considering analysed cos.)



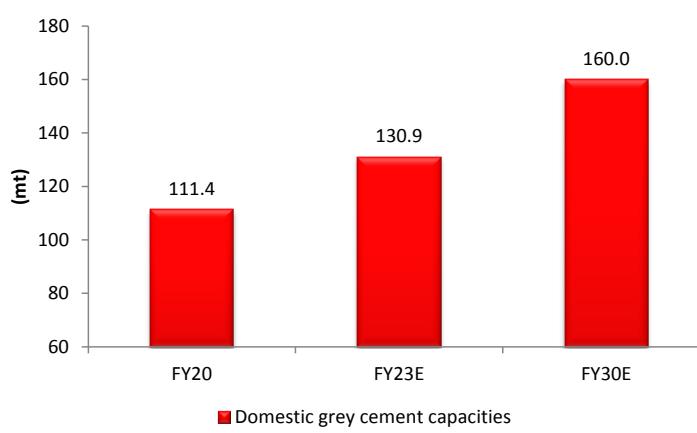
Source: Company, Systematix Institutional Research

Exhibit 3: 19.5mt of grinding capacity planned by FY23E...



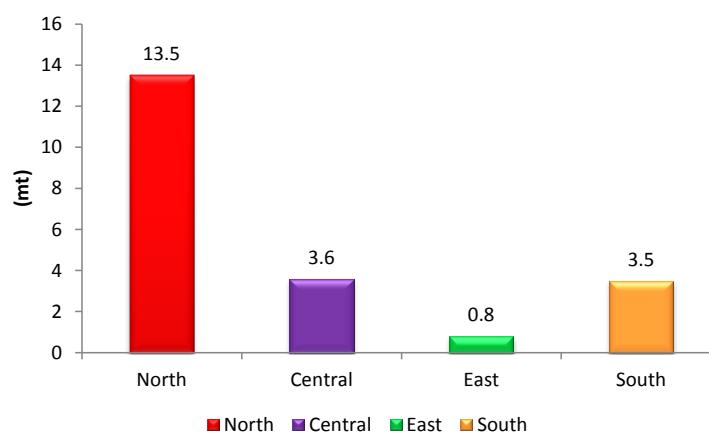
Source: Company, Systematix Institutional Research

Exhibit 4: ...UTCEM will keep investing in capacity expansion



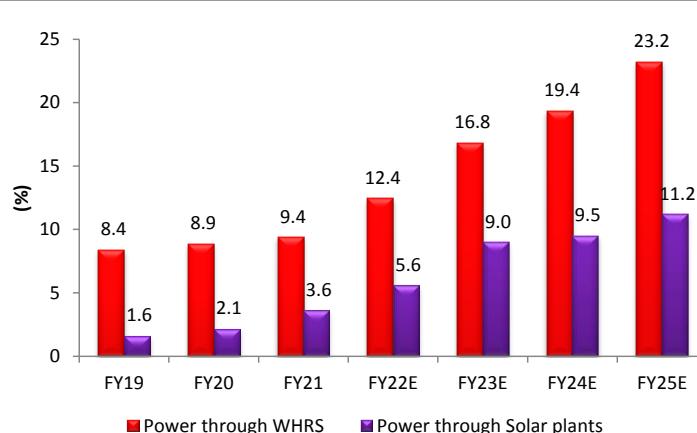
Source: Company, Systematix Institutional Research

Exhibit 5: UTCEM has received ECs for a further 21.4mt capacity expansion

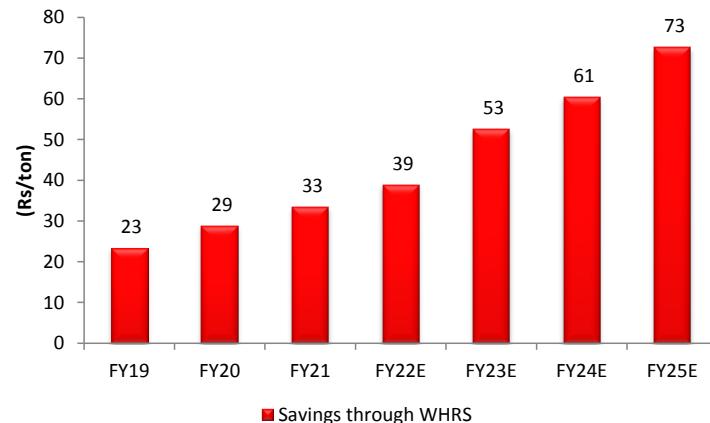


Source: Company, Systematix Institutional Research

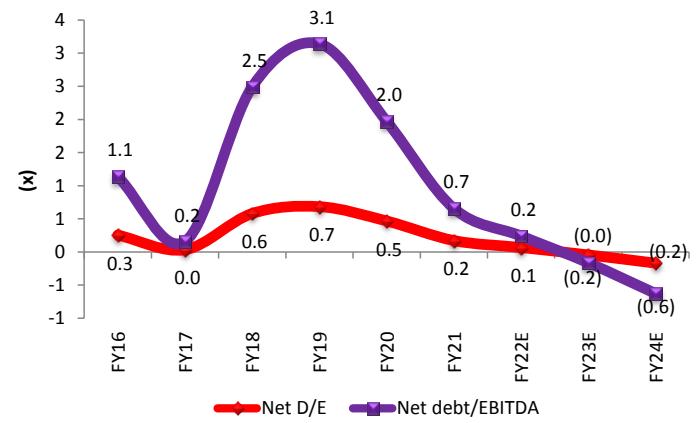
Exhibit 6: Higher power generation through WHRS/solar power plants



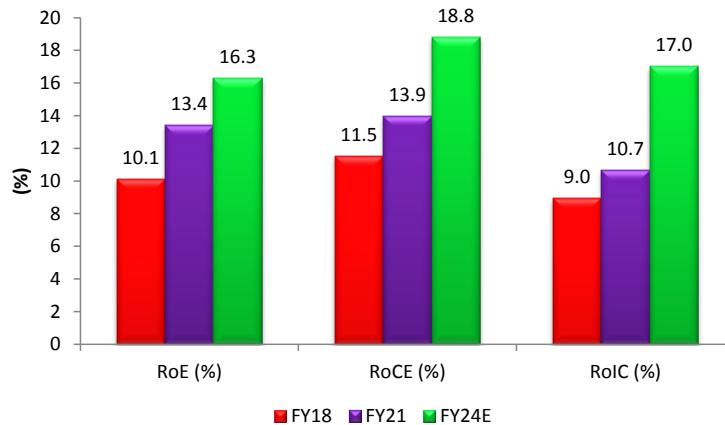
Source: Company, Systematix Institutional Research

Exhibit 7: Savings expected through WHRS

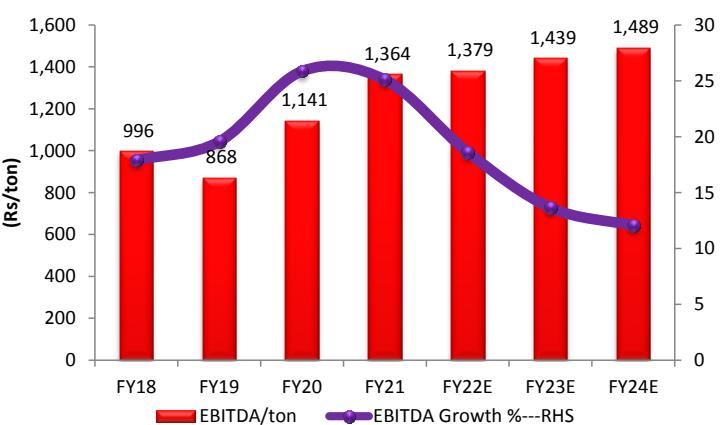
Source: Company, Systematix Institutional Research

Exhibit 8: Continued improvement in leverage

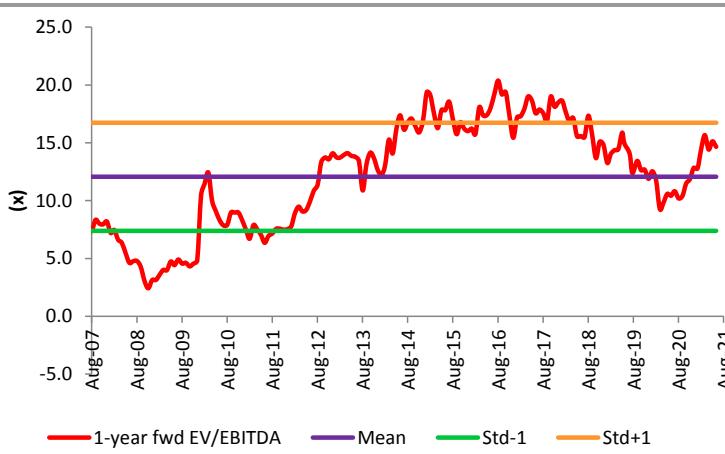
Source: Company, Systematix Institutional Research

Exhibit 9: Return ratios to improve between FY21-24E

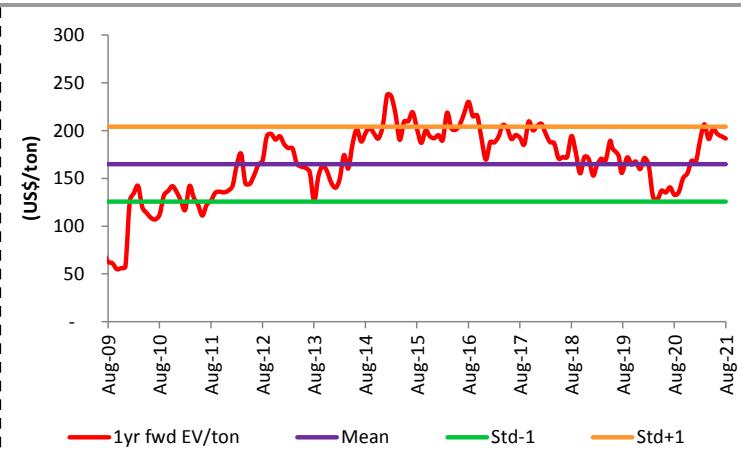
Source: Company, Systematix Institutional Research

Exhibit 10: EBITDA/ton to increase over FY21-24E

Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward EV/EBITDA

Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward EV/ton

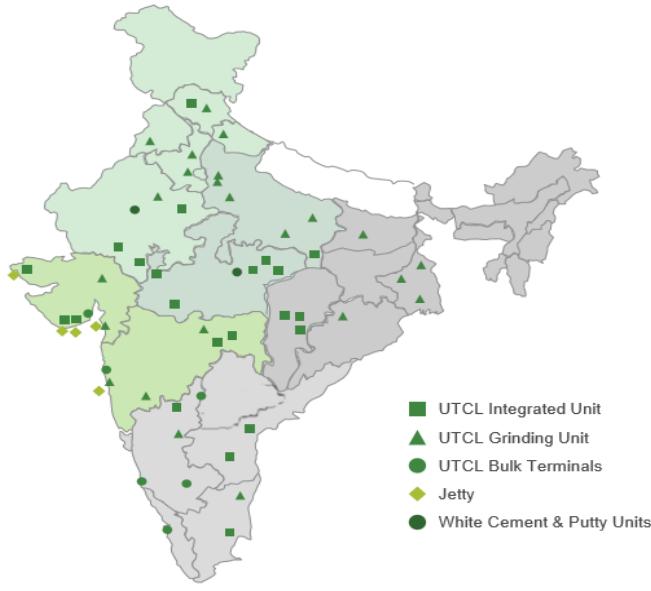
Source: Company, Systematix Institutional Research

Company Background

UTCEM, the largest manufacturer of grey cement, ready mix concrete (RMC) and white cement in India, is the cement flagship company of the Aditya Birla Group. It is the third-largest cement producer in the world, excluding China. UTCEM is the only cement company globally (outside of China) to have 100mtpa+ of cement manufacturing capacity in a single country. The company's business operations span UAE, Bahrain, Sri Lanka and India.

It has a consolidated capacity of 116.8mtpa of grey cement with 23 integrated manufacturing units, 27 grinding units and 7 bulk packaging terminals. In the white cement segment, UTCEM markets its products under the *Birla White* brand name. It has one white cement unit and one wall care putty unit, with a current capacity of 1.5mtpa. With 136 RMC plants in 41 cities, UTCEM is the largest manufacturer of concrete in India. It also has a slew of speciality concretes that meet the specific needs of discerning customers.

Exhibit 13: Highly diversified pan-India presence



Source: Company

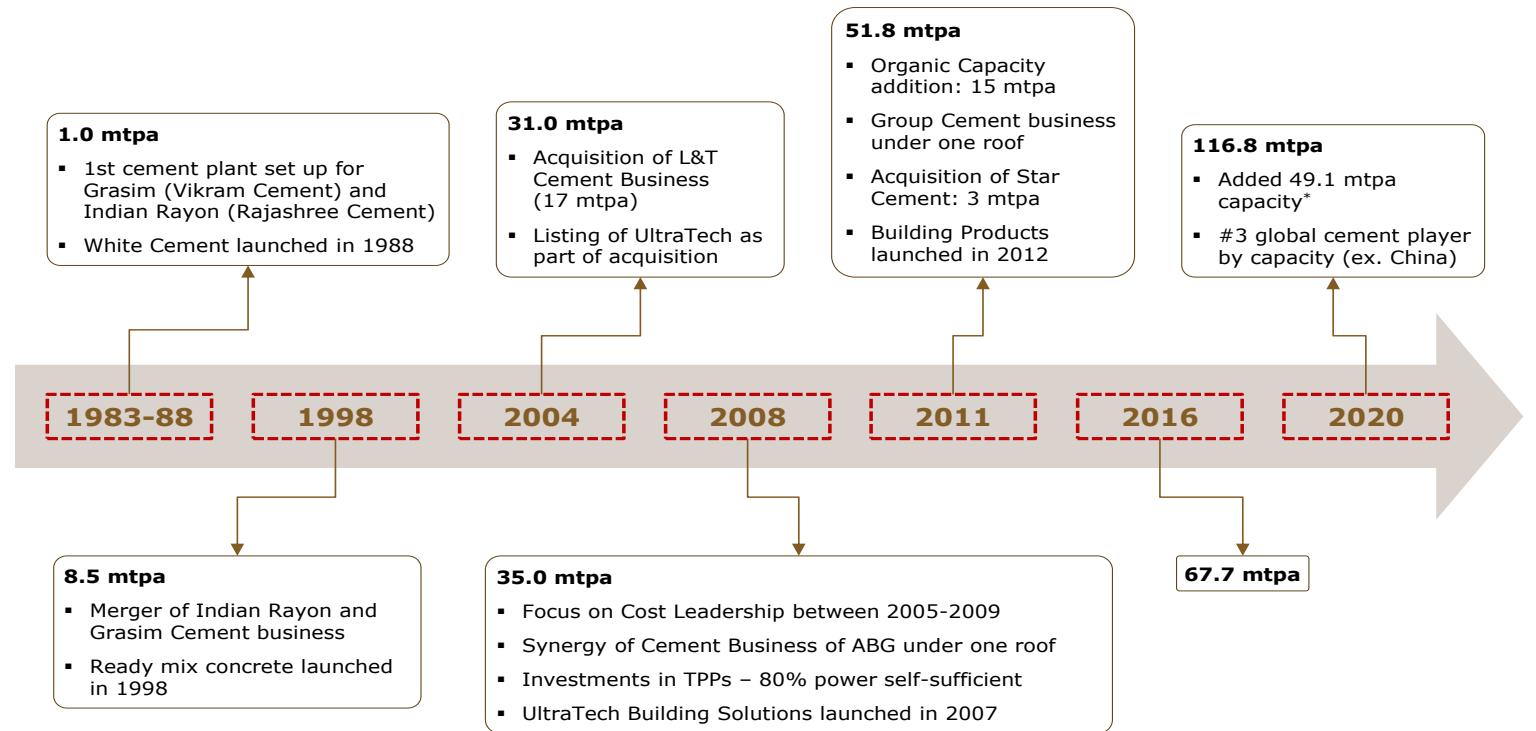
- 23 Integrated Units¹ (IU)
- 27 Grinding Units² (GU)
- 7 Bulk Packaging Terminals³ (Sea + Rail)
- 2 White Cement & Putty Units
- 5 Jetties
- 1 putty plant under development

Zones	Zonal Capacity (mtpa)			
	UTCL Capacity	UTCL Mix	Industry Capacity	UTCL Share in Industry
North	23.8	21%	~104	23%
Central	23.3	21%	~68	34%
East	16.1	15%	~100	16%
West	27.7	25%	~65	43%
South	20.5	18%	~181	11%
All India	111.4	100%	~518	21%
Overseas	5.4			
Total	116.8			

UTCEM pioneered the UBS (UTCEM Building Solutions) concept to provide individual home-builders with a one-stop-shop solution for building their homes. This is the first pan-India multi-category retail chain catering to the needs of individual home builders. The purpose of this initiative is to engage with home builders at all stages of the construction cycle, empower them with quality construction products and services and assist in the completion of their homes.

The company is a founding member of the Global Cement and Concrete Association (GCCA). It is a signatory to the GCCA Climate Ambition 2050, a sectoral aspiration to deliver carbon-neutral concrete by 2050. UTCEM is the first company in India and the second company in Asia to issue dollar-based sustainability linked bonds. As part of its CSR, it reaches out to more than 1.6 million beneficiaries in over 500 villages across India covering areas of education, healthcare, sustainable livelihoods, community infrastructure and social causes.

Exhibit 14: Balanced growth through organic and inorganic expansion



*Incremental capacity from Mar-16 to Dec-20

Source: Company, Systematix Institutional Research

Exhibit 15: Management team details

Name	Designation	Background
K. C. Jhanwar	Managing Director	<p>A Chartered Accountant with over 37 years of experience, of which 34 years have been with the Aditya Birla Group.</p> <p>Has held various roles in finance, operations and general management across the cement and chemicals businesses of the Group, including greenfield and brownfield expansions.</p>
Atul Daga	Whole-time Director & Chief Financial Officer	<p>A Chartered Accountant with over 29 years of experience, of which over two decades have been with the Aditya Birla Group.</p> <p>Has undertaken initiatives such as creating a platform for investor relations, evaluating M&A opportunities and raising long-term borrowings in the domestic markets.</p>
Vivek Agrawal	Group Executive President & Chief Marketing Officer	<p>Joined the Group in 1993 as a Zonal Manager in the Cement Marketing Division and went on to hold important positions such as Zonal Head – Grey Cement South; Head, Marketing – Birla White and Head – RMC Business. He is a B.E.(Hons) from NIT Allahabad and MBA from FMS, Delhi.</p>
Raj Narayanan E.R	Chief Manufacturing Officer & Business Head	<p>Has been associated with the Aditya Birla Group for the past 13 years and has served as Group Executive Vice President at Grasim and as CEO at Aditya Birla Nuvo before joining UTCEM cement in Jan'20.</p> <p>Holds a Chemical Engineering degree from Anna University, Chennai.</p>

Source: Company, Systematix Institutional Research

Manufacturing facilities

Exhibit 16: Balaji Cement Works, Andhra Pradesh (5mtpa)



Source: Company

Exhibit 17: Aditya Cement Works, Rajasthan (5mtpa)



Source: Company

Exhibit 18: Awarpur Works, Maharashtra (3.6mtpa)



Source: Company

Exhibit 19: Kotputli Cement Works, Rajasthan (3.1mtpa)



Source: Company

Exhibit 20: Jetty unit on the western coastline



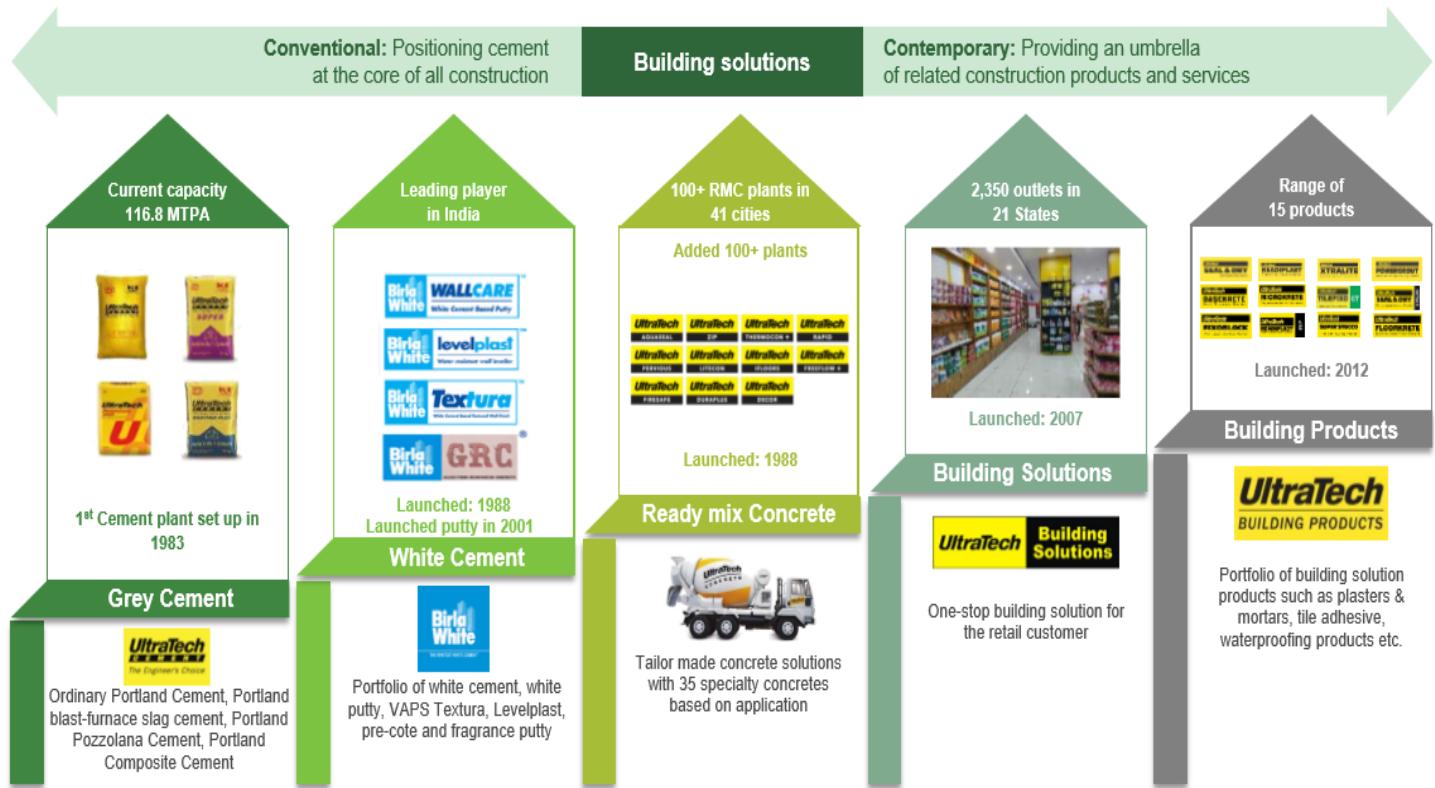
Source: Company

Exhibit 21: Building Materials Solutions Touch point



Source: Company

Exhibit 22: Diversified products offer a full suite of building solutions



Source: Company

Exhibit 23: Nationwide reach with strong logistics presence across India

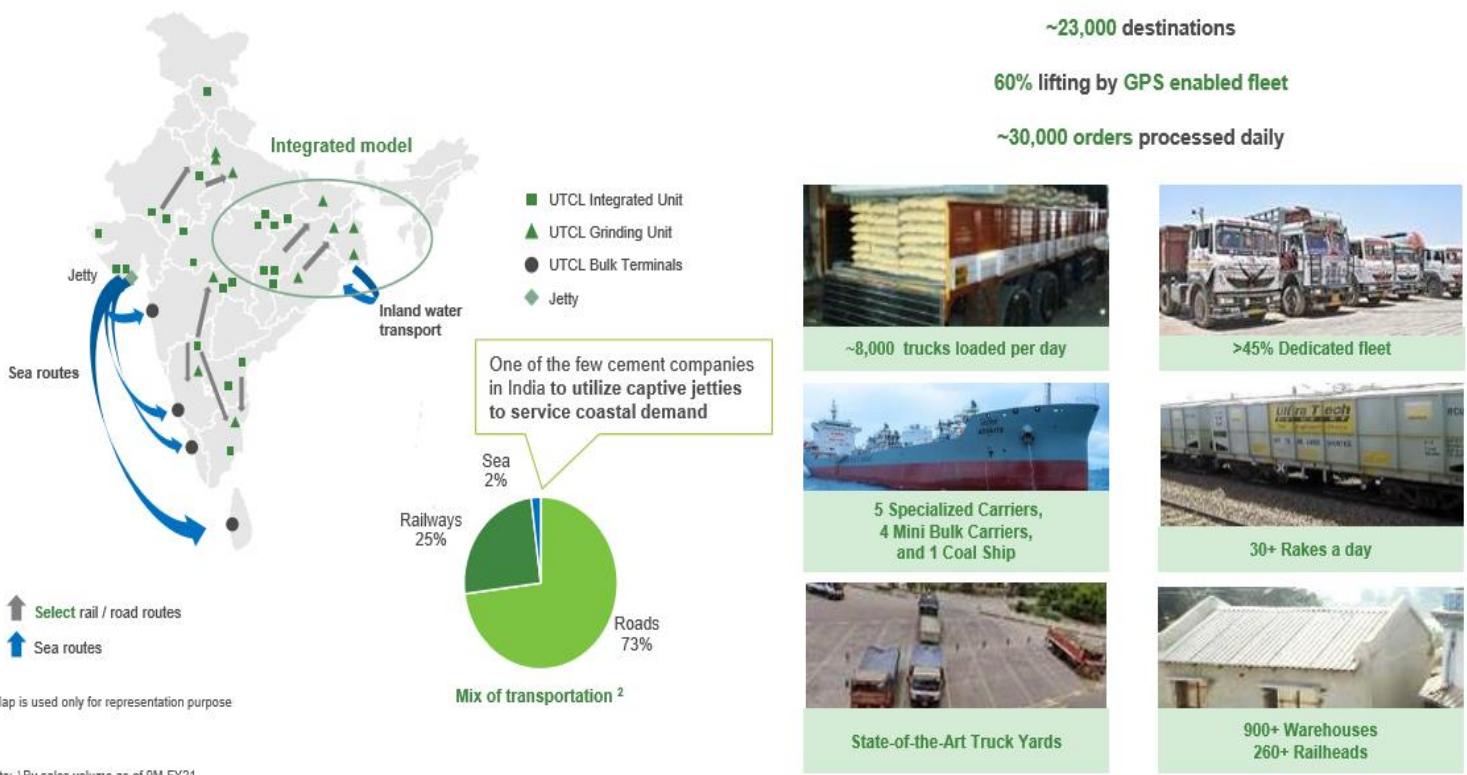
Use of diversified modes of transportation

4.40mm bags per day

~23,000 destinations

60% lifting by GPS enabled fleet

~30,000 orders processed daily

Note: ¹By sales volume as of 9M FY21

Source: Company

Exhibit 24: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Risks/Concerns	YoY Growth
FY17	<ul style="list-style-type: none"> Affordable housing program, interest rate subvention scheme, continuing infrastructure spending, improving demand sentiments in the South India market and revival in rural housing demand, are expected to be the key factors for cement demand growth in FY18. 	<ul style="list-style-type: none"> UTCEM will be setting up a 3.5mtpa integrated cement plant at Dhar, MP at a capex of Rs 26bn. Its commercial production is expected to commence by 4QFY19. 	<ul style="list-style-type: none"> The company has disposed of around 1.5 LMT of waste in the kilns, resulting in a 2% saving of the total fuel requirement. The increase in the share of WHR to 7% of the total power requirement led to reduced consumption of coal and pet coke. 	<ul style="list-style-type: none"> Securing primary raw material Low demand and overcapacity Fuel costs 	Volume: 4.1% Revenue: 1% EBITDA: 6% PAT: 9%
FY18	<ul style="list-style-type: none"> Growth in the cement sector is expected to be around 8% in FY19. Likely to be driven by construction of around 84,000 kilometers of roads by 2022 including the Bharatmala Project, construction of rural roads under the Pradhan Mantri Gram Sadak Yojana by 2019, Housing for All by 2022. 	<ul style="list-style-type: none"> Plans to set up a 3.5mtpa integrated cement plant at Pali, Rajasthan, at an investment of around Rs 18.5bn; commercial production from the plant is expected to commence by Jun'20. 	<ul style="list-style-type: none"> Enhanced usage of waste heat recovery power to 8%. Entering into solar power purchase agreements to cut power costs at grinding units and to meet renewable energy obligations. 	<ul style="list-style-type: none"> Market demand Energy costs Raw materials and mineral components 	Volume: 23.5% Revenue: 22% EBITDA: 18% PAT: -5%
FY19	<ul style="list-style-type: none"> Volume growth of 13% led by improvement in low-cost houses constructed under the Pradhan Mantri Awas Yojana ("PMAY") in rural areas. On the individual home building (IHB) front, the rural housing market has shown demand traction in major markets; however, Tier 2 and Tier 3 urban markets are yet to pick-up. 	<ul style="list-style-type: none"> Completing work remaining on the green field plant at Manavar, District Dhar, Madhya Pradesh, commissioned during 1QFY19. Ongoing capex at Bara grinding unit which is expected to be commissioned by 2QFY20. WHRs - Work is in progress at 4 different plant locations; to be operational by FY21. 	<ul style="list-style-type: none"> UTCEM is further setting up 46 MW of WHRS capacity which is expected to be commissioned in FY21. This would cater to ~12% of the company's current total power requirement. 	<ul style="list-style-type: none"> Economic environment and market demand Inflation and cost of production Legal and compliance 	Volume: 34.1% Revenue: 21% EBITDA: 10% PAT: -5%

FY20	<ul style="list-style-type: none"> Apart from the general economic slowdown, cement demand was sluggish during 1HFY20 post the general elections in April-May, 2019. 2HFY20 witnessed extended monsoons, low-capital expenditure on infrastructure and road activities, along with financial stress in the NBFC and housing sectors. 	<ul style="list-style-type: none"> Capex of Rs 9.4bn during the year for making premium products, with an increase in its grinding capacities in Bihar and West Bengal by 0.6mtpa each and a new grinding unit of 2.2mtpa in Odisha. 	<ul style="list-style-type: none"> UTCEM plans to achieve 185MW/272MW/302MW capacity by FY22/23/24E from 125MW currently. It expects to achieve 26% of total power consumption through WHRS alone by FY24E. Plans to increase its solar and wind power capacity from 99MW to > 350MW by the end of FY22 and cater to ~7% of the total power requirement. 	<ul style="list-style-type: none"> Economic environment and market demand Inflation and cost of production Legal and compliance 	Volume: -6.4% Revenue: +1% EBITDA: 26% PAT: 47%
FY21	<ul style="list-style-type: none"> The cement industry witnessed a 10-12% YoY decline due to the COVID-19 pandemic but 2HFY21 saw signs of recovery. Amidst the pandemic, cement consumption witnessed strong growth in the rural, semi-urban and retail markets. Government spending on infrastructure projects and affordable housing schemes such as the Pradhan Mantri Awas Yojana with enhanced budgetary allocations will be the primary growth drivers for the cement industry. 	<ul style="list-style-type: none"> Fresh capex of ~Rs 54.8bn towards increasing capacity by 12.8mtpa with a mix of brownfield and greenfield expansion. The additional capacity will be created in the fast-growing East, Central and North markets of the country. The company's 6.7mtpa capacity expansion is currently underway in Uttar Pradesh, Odisha, Bihar and West Bengal and is expected to commence commercial production in a phased manner by 4QFY23. Upon completion of the above expansions, UTCEM's capacity (including overseas markets) will grow to 136.25mtpa from 116.8mtpa currently. 	<ul style="list-style-type: none"> UTCEM shall commission 72MW of WHRS capacity during FY22, taking the total WHRS capacity to 197MW. It plans to further increase this to 302MW by FY24, which will cater to 26% of the total power requirement. Plans to increase solar & wind power capacity from 125MW to >350MW by FY22-end, which will cater to ~7% of the total power requirement. Use of low-cost fuel viz. industrial waste, and a continuous improvement in thermal power plant efficiency by reducing auxiliary consumption power. 	<ul style="list-style-type: none"> Economic Environment which may impact cement demand. Inflation in RM costs which may lead to higher Cost of Production. Legal and compliance. 	Volume: 4.7% Revenue: 5.4% EBITDA: 25.1% PAT: 53.1%

Source: Company, Systematix Institutional Research

Investment Analysis

A market leader with a presence across regions

UTCEM is a pan-India player and price leader across regions except in a few markets: Bihar (Nuvoco), East & Central UP (ACC), Punjab (ACC), Haryana (Ambuja) and Kerala (Ramco Cements). The acquisition of JP Associates capacities has helped it established itself as the market leader in the Central region and gain significant capacity share in the Northern/Central regions.

Exhibit 25: UTCEM is a market leader in all regions

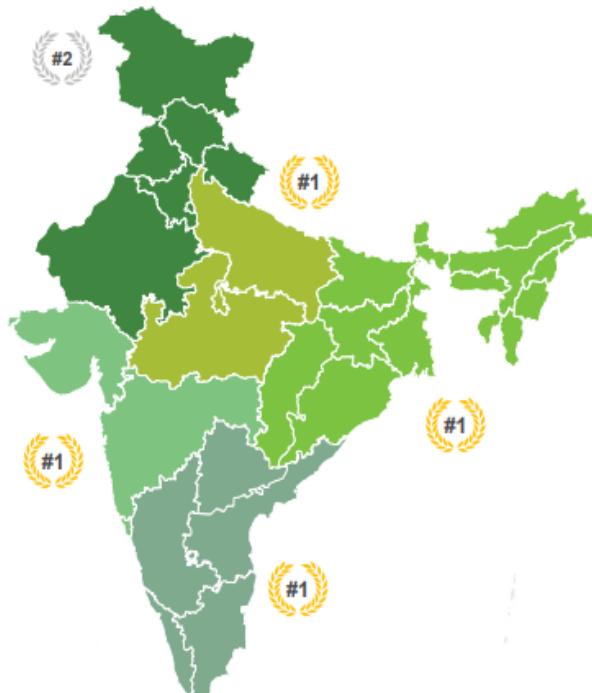
North	
Shree Cement	23%
UltraTech Cement	23%
Ambuja Cements	10%
JK Lakshmi Cement	7%
ACC Limited	6%
Capacity (MTPA)	~104

West	
UltraTech Cement	43%
Ambuja Cements	16%
ACC Limited	6%
JK Lakshmi Cement	4%
India Cements	2%
Capacity (MTPA)	~65

Map is used only for representation purpose

Source: CRISIL Research; All metrics as of FY20
 Note: Information mentioned basis availability in public domain, for global cement manufacturers ex- China; Heidelberg Cement capacities doesn't include cement capacities of joint ventures

Source: Company

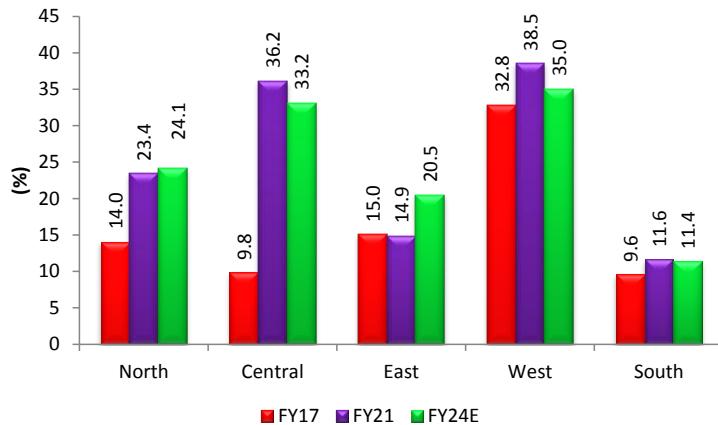


Central	
UltraTech Cement	35%
Birla Corporation	13%
ACC limited	7%
Shree Cement	3%
Ambuja Cements	3%
Capacity (MTPA)	~68

East	
UltraTech Cement	16%
Dalmia Group	15%
Shree Cement	11%
ACC Cement	9%
Ambuja Cements	8%
Capacity (MTPA)	~100

South	
UltraTech Cement	11%
Ramco Cements	9%
India Cements	7%
Dalmia Bharat	7%
ACC Limited	6%
Capacity (MTPA)	~181

Through the acquisition of Binani Cement and Century Textiles capacities, it further strengthened its position and established itself as the market leader in the Northern/Western regions. It was ranked as the 4th player in terms of capacity in the Central region in FY17 with only 8% of its capacities being in the region. It generates 21-24% of its revenues from the Central, Eastern and Western markets. Organic and inorganic capacity additions helped it establish leadership positions in most markets and gain market share over the last few years.

Exhibit 26: Increase in capacity share between FY17-21...

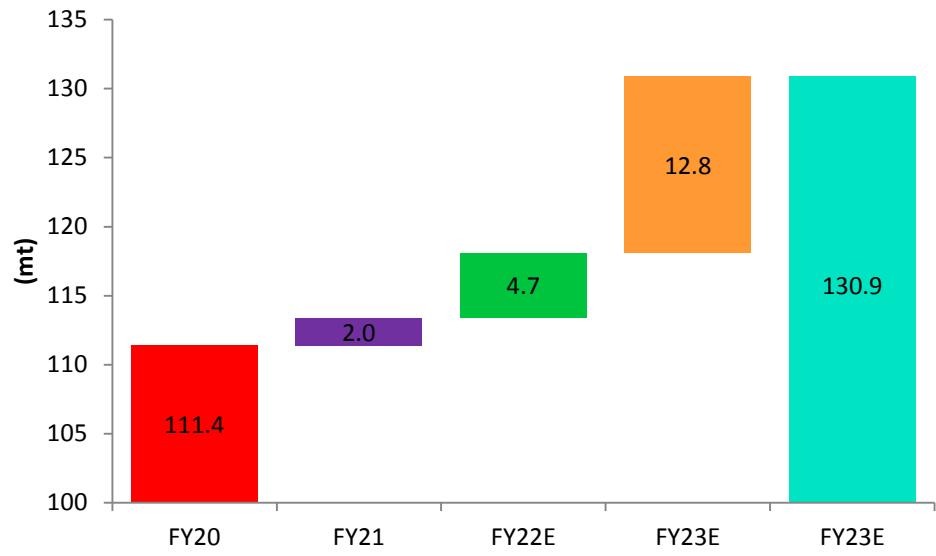
Source: Company, Systematix Institutional Research

Exhibit 27: ...led to market share gains (considering analysed cos.)

Source: Company, Systematix Institutional Research

Strong capacity pipeline to aid growth

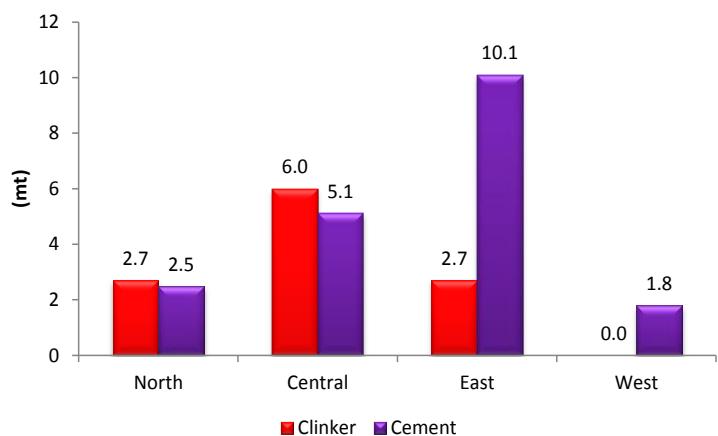
In Dec-20, UTCEM announced cement capacity expansion plans of 12.8mt apart from the on-going capacity expansion of 6.7mt. The management had earlier highlighted that it has 51mt of proven capacities to grow organically apart from the inorganic expansion opportunities of 61mt. On the 4QFY21 earnings con-call, the management stated that it will maintain Rs 100bn+ of cash reserves for acquisition opportunities.

Exhibit 28: UTCEM to add 19.5mtpa of grinding capacity by FY23E

Source: Systematix Institutional Research, Company

Cement grinding capacity expansions are spread across regions (barring the Southern region) and will be completed by Mar-23. Clinker capacity expansions will be in the Northern, Central and Eastern regions.

Exhibit 29: Capacity addition is spread across India (excluding South) **Exhibit 30: Of the proposed grinding units expansion, 68% of the capacity is based in Central & East India – picture not clear**

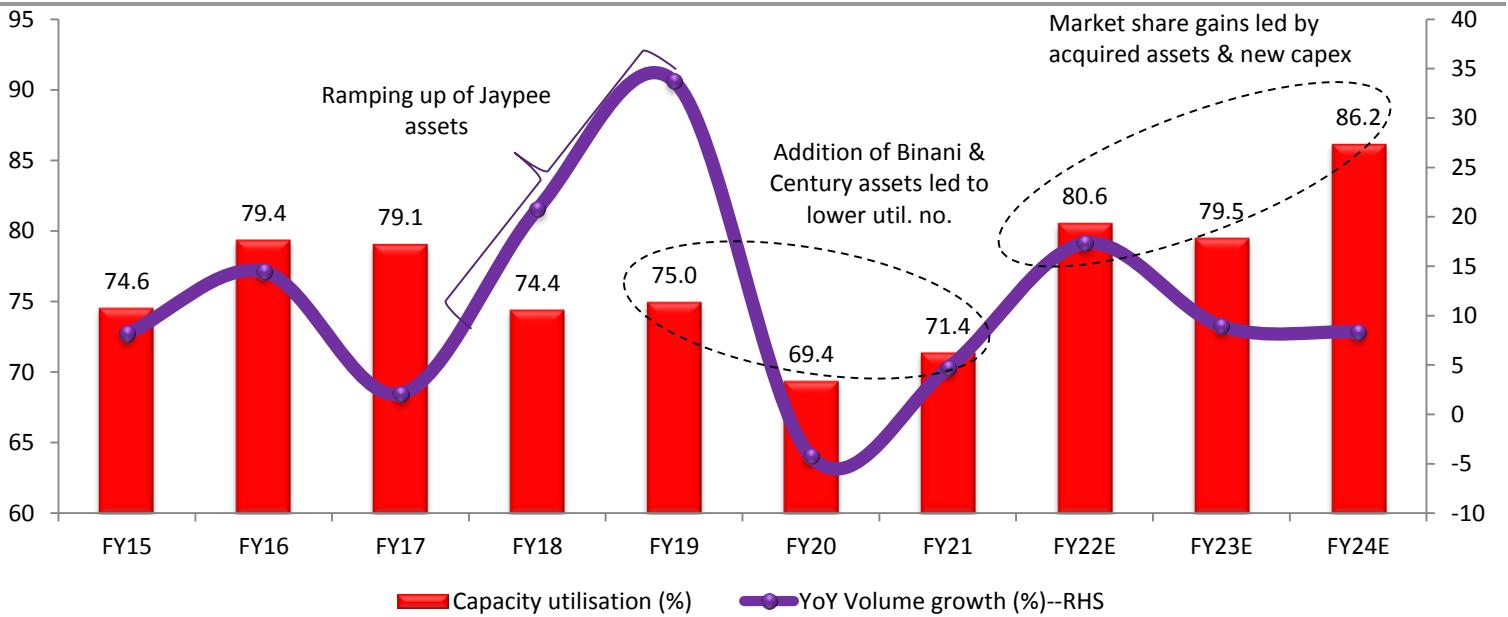


Zone	State	Cement cap. (mtpa)
Cuttack	Odisha	2.2
Bara & Dalla	Uttar Pradesh	3.3
Dankuni	West Bengal	0.6
Patliputra	Bihar	0.6
Cluster	State	Details
Hirmi	Chhattisgarh	Cuttack: 2.2, Durgapur:0.6, Sonar Bangla: 0.6, Jharsuguda: 0.6, Hirmi: 0.6
Dhar	MP	Dhar: 1.8, Dhule: 1.8 & Neem ka Thana: 0.6
Pali	Rajasthan	Pali
Patliputra	Bihar	Patliputra
Total Capacity (mtpa)		19.5

Source: Company, Systematix Institutional Research

UTCEM reported a decline in its utilisation rates in FY20 and FY21 due to 1) the addition of the cement assets of Century and Binani and 2) the overall soft demand scenario due to the credit crisis in FY20 and COVID-19 led restrictions in 1HFY21. However, we expect UTCEM to capture a higher market share going forward led by 1) Cement/clinker capacity expansion of 19.5/11.4mtpa over the next two years, 2) scope to ramp-up its existing grinding facilities, 3) continued government spending on infrastructure and the fact that it is Category-A player in all Indian regions. Consequently, we expect capacity utilisation to reach a multi-year high of 86% in FY24E (last reported 88% in FY10).

Exhibit 31: Capacity utilisation to be at a multi-year high level of 86% in FY24E



Capex to be funded through internal accruals; to support RoE accretion

UTCEM will spend Rs 65.27bn for the proposed expansion plans (including Rs 10.5bn for on-going expansions), which reflects a capex cost/ton of less than USD 50. This capex will be funded through internal accruals. The management expects locational advantage to reduce the lead distance and aid higher EBITDA. The IRR of these expansions is estimated to be 15%.

Exhibit 32: Key elements of UTCEM's growth

Enhanced Balance Sheet value

- Funding through internal accruals
- Prioritise plants having substantial locational advantage to reduce lead & increase EBITDA
- Ideal Clinker locations & their GU
- **Project IRR ~15%**

Low capex expansion

- Largely brownfield expansion (72%)
- Average capex cost of **<USD60 per ton.**
- Average capex outflow of ~Rs25bn including growth capex.

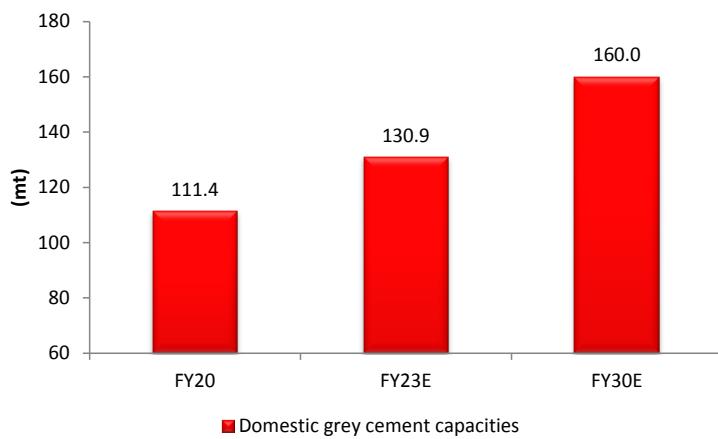
Without endangering the environment

- WHRS to address ~40% power requirement.
- Higher blended percentage as majority of capacity expansion to cater East & Central demand.
- Conversion ratio to improve.

Source: Company, Systematix Institutional Research

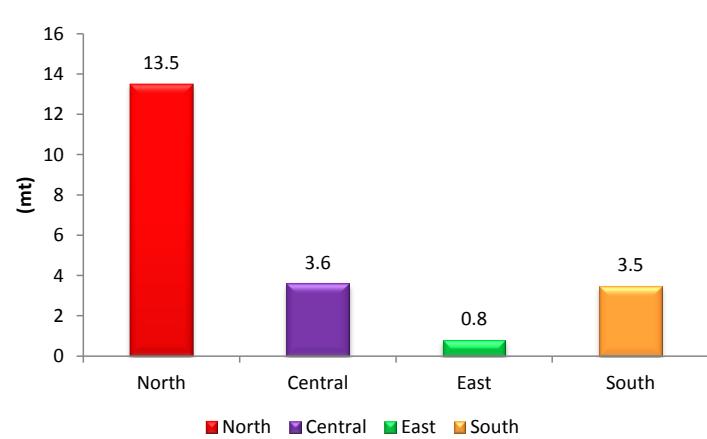
UTCEM will continue its capex drive - the management had earlier highlighted that it will achieve a capacity of 160mtpa in India through the organic route by FY30E. It continues to explore inorganic expansion opportunities and maintains a liquid cash balance of Rs 100bn+ for acquisitions. Based on the environmental clearances (ECs) received by the company, we believe that it has chalked out plans for further capacity expansion of 21.4mt (apart from the on-going expansions).

Exhibit 33: Long-term plans to reach 160mtpa of domestic cement capacity through the organic route



Source: Company, Systematix Institutional Research

Exhibit 34: UTCEM has received ECs for further 21.4mtpa capacity expansion



Source: Company, Systematix Institutional Research

Turnaround of acquired assets through higher capacity utilisation, cost reduction and better cement prices

UTCEM acquired a) the capacities of JP Associates (21.2mt at an EV of Rs 161.9bn), b) Binani Cement (6.25mt in India at an EV of Rs 80.3bn) and c) the cement assets of Century Textiles (13.6mt at an EV of Rs 86.2bn – Rs 56.2bn through the issuance of equity shares and Rs 30bn debt). It turned around the assets of JP Associates within one year of acquisition led by a) plant modernization - kiln heat rate and power consumption were higher than at UTCEM's plants, b) increasing the blending ratio of the acquired plants, c) higher pet coke usage in the kilns, d) bridging the price differential between UTCEM and earlier brands - UTCEM's brands command higher prices in the markets. The cement assets of JP Associates were operating at a utilisation rate of just 15% with EBITDA/ton of Rs 350-400 at the time of acquisition. The current utilisation and profitability of these assets are almost at par with UTCEM's brands.

UTCEM Nathdwara Cement (UNCL) was generating an EBITDA/ton of just Rs 90 at the time of acquisition; however, the profitability of these assets increased to Rs 1,200-1,300/ton within one year of acquisition led by cost reduction initiatives and strong prices in the Northern/Gujarat markets.

The acquired assets of Century Textiles operated at 90%+ utilisation in 4QFY21. The company is working to improve the brand transition from the current 77%, which will further aid profitability (excluding the 2.4mt Baikunth plant, the production from which will be continued as Birla Gold for some time).

Exhibit 35: Track record of successfully integrating large acquisitions

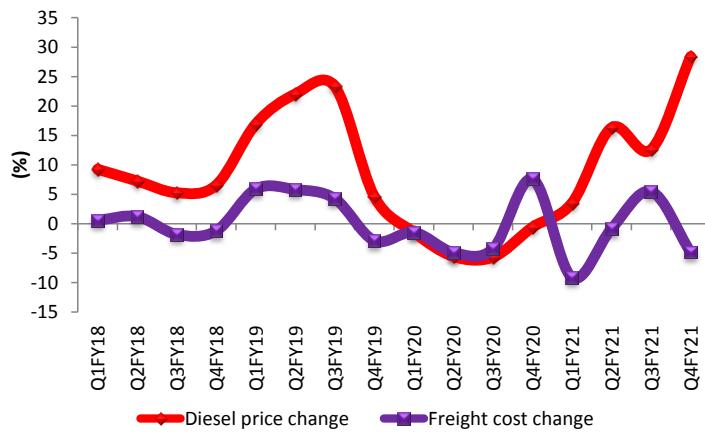
Company	Date	Capacity (mtpa)	Key Rationale	Turnaround
Jaypee Cement	Jun-17	21.2	<ul style="list-style-type: none"> ▪ Entry into new markets (Central India, Coastal AP and HP). ▪ Unique opportunity to acquire +20mtpa of capacity in one go. ▪ Securing large limestone reserves. 	<ul style="list-style-type: none"> ▪ EBITDA/ton improved from negative to +Rs 1,000/t. ▪ Capacity utilisation improved to ~70%+, in line with UTCEM's existing plants in a similar market. ▪ Brand transition completed within 52 days of acquisition for all the plants.
Binani Cement	Nov-18	6.3	<ul style="list-style-type: none"> ▪ Access to large reserves of high-quality limestone. ▪ Consolidated UTCEM's leadership in the fast-growing Northern and Western markets in India. 	<ul style="list-style-type: none"> ▪ FY20 operating EBITDA >Rs 1,250/t. ▪ Capacity utilisation increased to 75% vs. ~45% (pre-acquisition). ▪ Brand transition completed in 21 days while completed disposal of one of the overseas non-core assets.
Century Cement	Oct-19	14.6	<ul style="list-style-type: none"> ▪ Strengthened position in the East while penetrated further in Central & Western markets. ▪ Added ~6,500 dealers, increasing the network size to ~29,000. 	<ul style="list-style-type: none"> ▪ Achieved EBITDA per ton of Rs 700/t in 2QFY21. ▪ Capacity utilisation increased over 80% within 6 months of acquisition. ▪ Completed brand transition for 72% volume.

Source: Systematix Institutional Research, Company

Cost-saving remains a key focus area

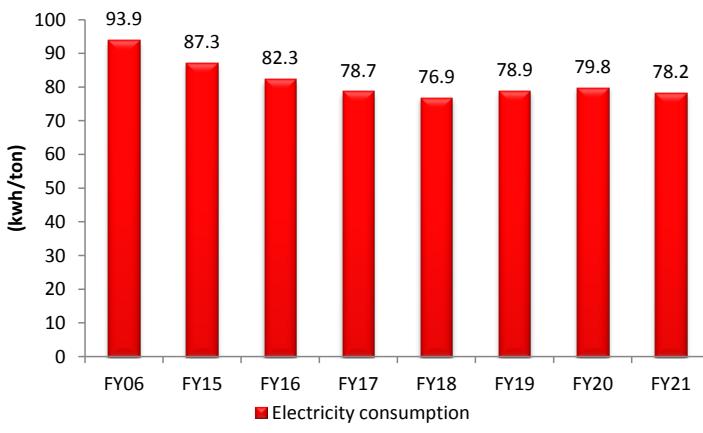
UTCEM is trying to reduce opex through a) reduction in lead distance continuously since Jun'17: lead distance was down 3% YoY in FY18 and 5% YoY in FY19 (according to its Annual Report, lead distance is down 10% since Jun'17). Freight cost/ton for the company increased at a CAGR of just 0.5% between FY16-21 against diesel price increase of 9% in the same period; b) higher green energy share: The share of green energy (WHRS/Solar power) increased to 13% in FY21 vs. 11% in FY20 and the target is to increase it to 34% by FY24. The current WHRS capacity is 125MW which will be increased to 304MW by FY23/mid-FY24. The current cost of power generation is ~Rs 5/unit; cost of power generation through WHRS will be Rs 0.5-0.75/unit; c) control on fixed costs during the COVID-19 period: Fixed costs in FY21 were maintained at the FY19 levels. The MMDR Amendment Act will further aid cost-savings of Rs 2bn+ (Rs 20/ton on FY22E sales volumes) every year from 20th Mar-21 as additional royalty on acquired assets has been withdrawn (royalty is being paid on all JP and Century assets).

Exhibit 36: Freight cost increase is lower than diesel cost inflation



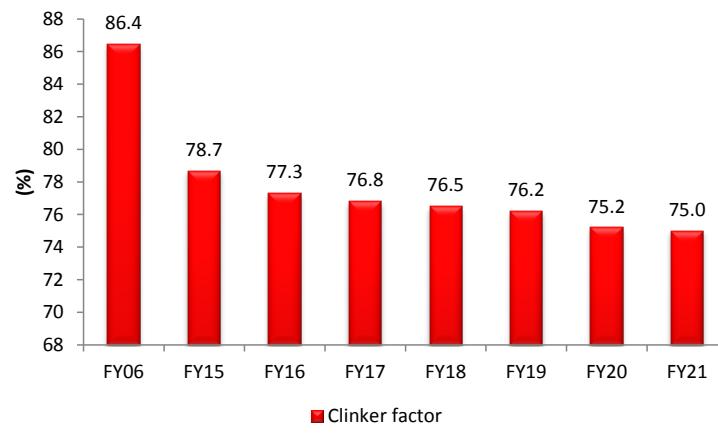
Source: Company, Systematix Institutional Research

Exhibit 37: Electricity consumption remained stable over the last few years



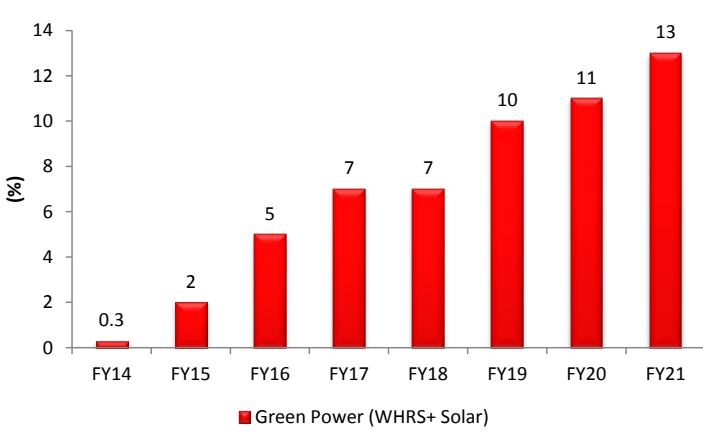
Source: Company, Systematix Institutional Research

Exhibit 38: Clinker factor continues to improve



Source: Company, Systematix Institutional Research

Exhibit 39: Improvement in Green power usage

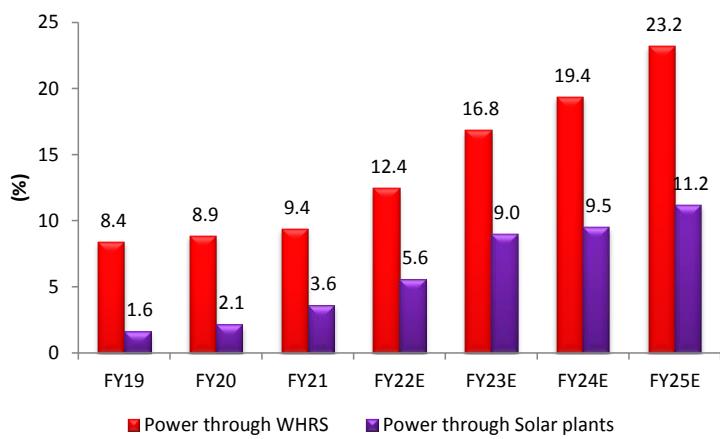


Source: Company, Systematix Institutional Research

Increase in WHRS and solar power capacities to reduce costs, carbon emissions

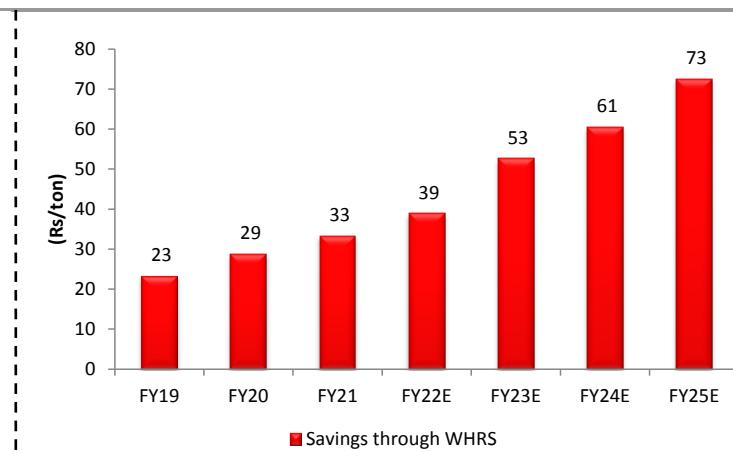
UTCEM is increasing its WHRS capacity over the last few years and its current WHRS capacity is 125MW which will be increased to 302MW by FY24E. Besides helping the companies meet ESG standards, WHRS aids cost reductions too as the cost of power generation through thermal power plants is ~Rs 4-5/kwh, whereas grid power cost is ~Rs 6-7/unit. Power generation through WHRS is ~Rs 0.75-1/unit. We believe that 19.4% of power requirements will be met through WHRS by FY24E (the company's target is 26%) and 23.2% by FY25E, whereas solar power should contribute to 9-11% of power requirements. We expect the company to achieve incremental cost savings of Rs 40/ton through WHRS by FY25E. UTCEM will increase solar and wind power capacity to 350MW+ by FY22E from 125MW in FY21 and we expect it to further invest in solar power capacities over the next few years. Cost savings through solar power plants would be Rs 8-10/ton.

Exhibit 40: Increase in power generation through WHRS/solar power plants



Source: Company, Systematix Institutional Research

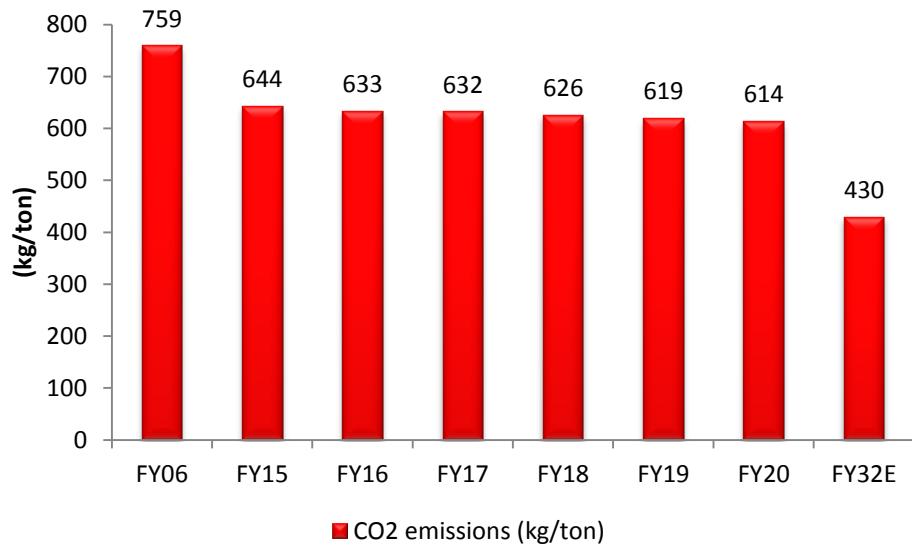
Exhibit 41: Cost savings expected through WHRS



Source: Company, Systematix Institutional Research

Higher production of blended cement and increased usage of WHRS/solar power plants will help the company reduce carbon emissions. UTCEM had achieved CO2 reduction of 19.14% over the base year of FY06 till FY20. The target is to reduce carbon intensity by ~27% by 2032 vs. 2017 emission levels.

Exhibit 42: Targets to reduce carbon emissions



Source: Systematix Institutional Research, Company

UltraTech Building Solutions: A retail chain focusing on all construction needs

UTCEM pioneered the UltraTech Building Solutions (UBS) concept to provide individual home builders with a one-stop-shop solution for building their homes. This is the first pan-India multi-category retail chain catering to the needs of individual home builders (IHBs). The purpose of this initiative is to engage with home builders at all stages of the construction cycle, empower them with quality construction products and services, and assist in the completion of their homes. UBS has a presence in 21 states through 2,300+ outlets. 70% of these outlets are in rural and Tier-3 geographies and address 60%+ of customer needs for building construction. UTCEM has also expanded its product portfolio by offering value-added products like Dry Mix Mortars (plasters & mortars, adhesives & sealants, flooring, repair & rehabilitation) and waterproofing chemicals (liquid waterproofing & cementitious waterproofing).

Exhibit 43: UTCEM enhancing its brand presence/equity by offering all building products under one roof

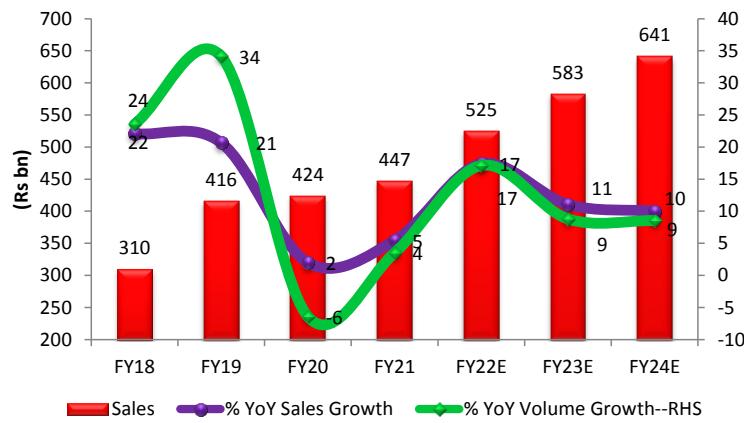


Source: Company

Financial Highlights

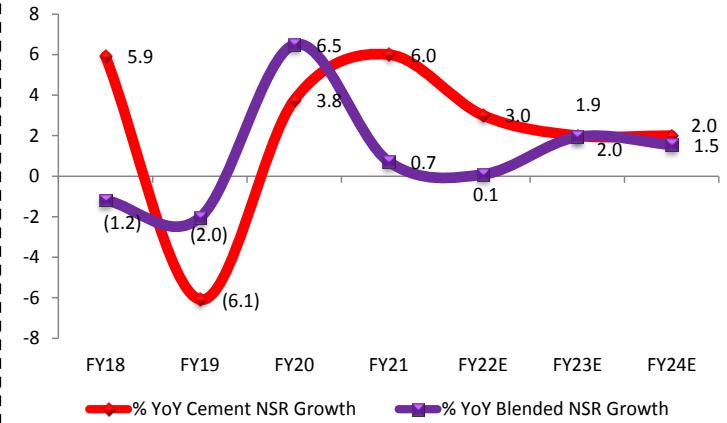
We estimate UTCEM to report revenue CAGR of 12.8% at Rs 641bn in FY21-24E led by 11.4% volume growth. Grey cement realisation has remained strong since 1QFY20, leading to strong realisation growth for the company (CAGR of 7.9% over FY19-21). We factor in realisation CAGR of 2.3% over FY21-24E.

Exhibit 44: Expect UTCEM to report ~13% CAGR driven by 11.5% volume growth



Source: Company, Systematix Institutional Research

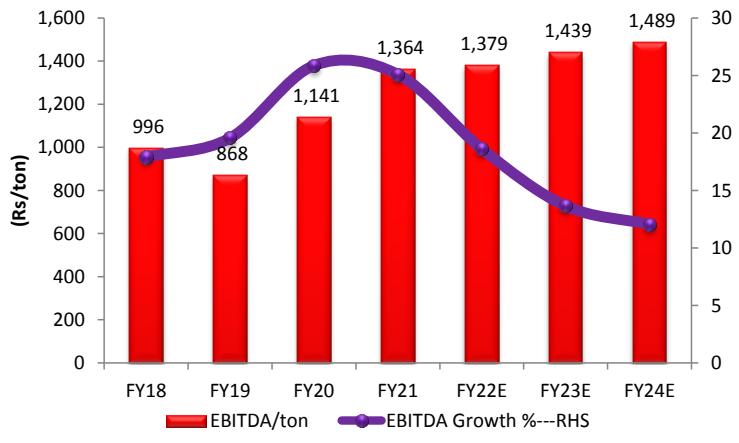
Exhibit 45: While favourable demand-supply scenario should keep cement prices elevated



Source: Company, Systematix Institutional Research

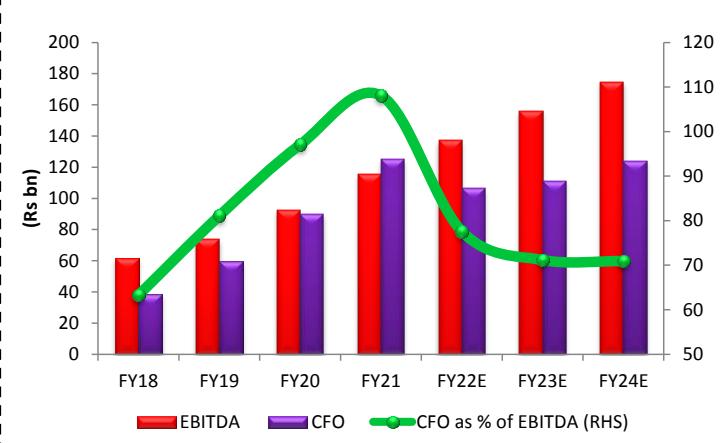
Along with revenue growth, we expect UTCEM to be more cost-efficient by 1) investments in renewable power (aims to source 34% of power requirement through WHRS and solar units), 2) increasing sale of premium products (10% in FY21 vs. 8% in FY20; the target is to increase it to 15% over the next few years) and higher blended sales, 3) reducing logistics cost by leveraging the synergy benefits derived from the acquired capacities (evident from the downward trend in the lead distance in the past 2-3 years) and 4) sweating the acquired assets. As a result, we expect EBITDA/ton to improve to Rs 1,489 by FY24E vs. Rs 1,364 in FY21.

Exhibit 46: Expect UTCEM to report an all-time high unit EBITDA in FY24E



Source: Company, Systematix Institutional Research

Exhibit 47: Estimation of higher tax outflow has a bearing on UTCEM's operational cashflows



Source: Company, Systematix Institutional Research

UTCEM has generated strong profits over the last few years led by a) higher realisation - blended realisation grew at a CAGR of 3.6% over FY19-21 and b) lower opex - opex/ton in FY21 was at FY18 levels and declined at a CAGR of 1.7% over FY19-21. This led to EBITDA/ton growing at a CAGR of 25.3% over FY19-21. We expect EBITDA/ton to grow at a CAGR of 1.4% over FY21-24E on a strong base of the last two years.

The improvement in profitability and the release of working capital (cumulative reduction of Rs 28.5bn in FY20/21) led to improvement in operating cash flows (OCF) and free cash flows (FCF) over the last few years. OCF and FCF grew at a CAGR of 48% and 75%, respectively, between FY18-21.

Given the strong top-line growth and continued focus on controlling opex, we expect UTCEM to generate robust OCF of Rs 341bn over FY21-24E. Higher OCF will help UTCEM 1) deleverage its balance sheet and 2) fund the near-term capacity expansion (19.5mtpa) through internal accruals. We expect FCF of Rs 245bn over FY21-24E.

COVID-19 acted as a catalyst in improving the working capital profile of the cement players as the closure of factories created a shortage of cement when demand recovered. This helped in controlling inventories and receivables. A few players are gradually shifting to the cash-and-carry model which can be the new normal for the industry. Being the industry leader, UTCEM's receivable days are expected to reduce from a month in FY18 to 17 days in FY24E. Continued investment in technology and higher reliance on green power would lower inventory days as well.

Exhibit 48: Robust earnings to help fund capex through internal accruals

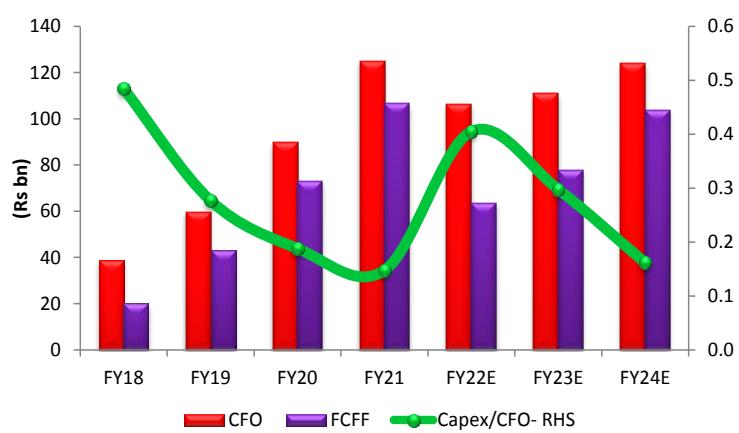
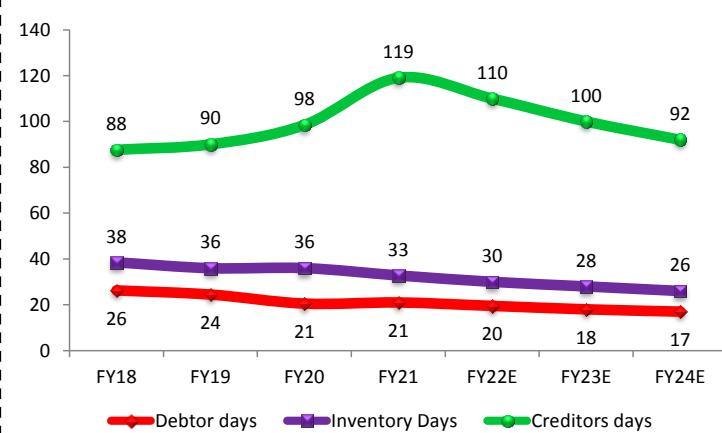


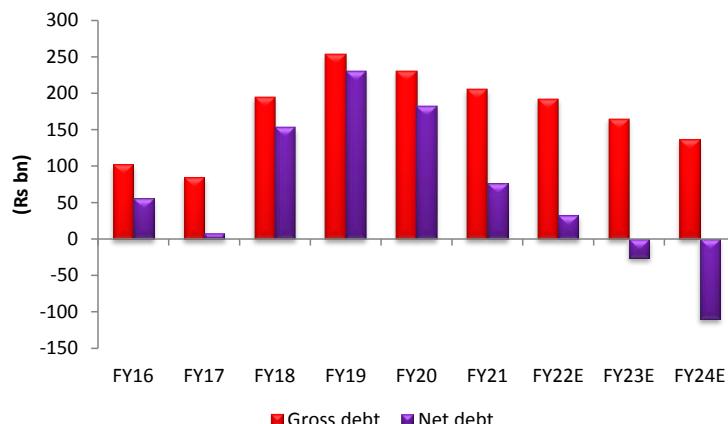
Exhibit 49: A gradual change in the trade channels should lead to lower receivable days



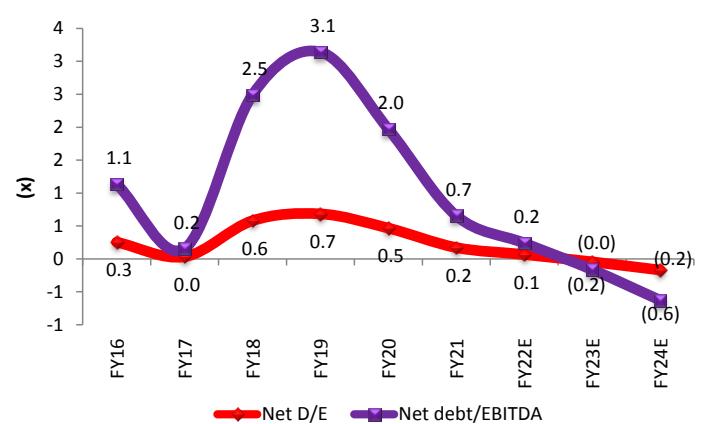
Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

UTCEM's gross debt increased to Rs 253.4bn in FY19 from Rs 84.7bn after the acquisition of the assets of JP Associate, Binani Cement and Century Textiles. The company had net debt/EBITDA of 3.1x in FY19 vs. 0.2x in FY17 post these acquisitions. It generated a free cash flow of Rs 179.5bn in FY20-21, which helped in bringing down the net debt to Rs 75.9bn in Mar-21. Net Debt/EBITDA improved to 0.66x in Mar-21 vs. 1.97x in Mar-20. With strong cash generation going forward, the company should become net cash positive in FY23E. The management has no plans to increase capacities outside India as domestic markets offer organic opportunities while inorganic opportunities may also appear. Excess cash will be returned to shareholders; the board has decided on a dividend payment of 15-25%, which can be increased further.

Exhibit 50: Expected to turn net cash positive in FY23E

Source: Company, Systematix Institutional Research

Exhibit 51: Continued improvement in leverage

Source: Company, Systematix Institutional Research

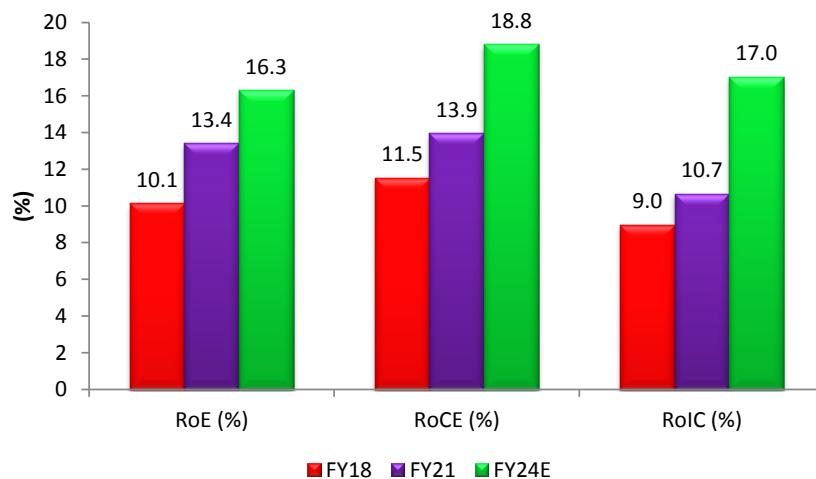
UTCEM's RoE improved to 13.4% in FY21 vs. 10.1% in FY18 (8.4% in FY19) led by a) improvement in profitability as cement prices increased in the Northern/Central/Gujarat markets, b) cost savings – an increasing proportion of WHRS, lower fixed costs, reduction in the lead distance and c) improved profitability of the acquired assets of Binani Cement and Century Textiles. The debt reduction led to an interest expense decline of 25.4% in FY21. We expect RoE to improve to 16.3% by FY24E led by a higher assets turnover as capacity utilisation is expected to improve, continued reduction in debt and improvement in EBIT margin (24% in FY24E vs. 21.5% in FY19).

Exhibit 52: Du-pont analysis

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT/PBT	70.5%	70.2%	70.2%	68.7%	68.7%	68.7%	68.7%
PBT/EBIT	74.7%	66.8%	72.2%	84.5%	87.4%	90.9%	93.6%
EBIT/Sales	15.8%	12.9%	16.9%	21.5%	22.4%	23.3%	24.0%
Asset turnover (x)	0.73	0.73	0.64	0.65	0.72	0.76	0.78
Assets/Equity (x)	1.67	1.90	1.82	1.65	1.55	1.45	1.35
ROE (%)	10.1	8.4	10.0	13.4	15.0	15.9	16.3

Source: Company, Systematix Institutional Research

RoCE is expected to improve to 18.8% in FY24E vs. 13.9% in FY21 on the back of an improvement in margins. RoIC is expected to improve to 17% in FY24 vs. 10.7% in FY21 as an improvement in profitability will support strong cash generation.

Exhibit 53: Return ratios to improve over FY21-24E

Source: Company, Systematix Institutional Research

Cash flow analysis & corporate governance

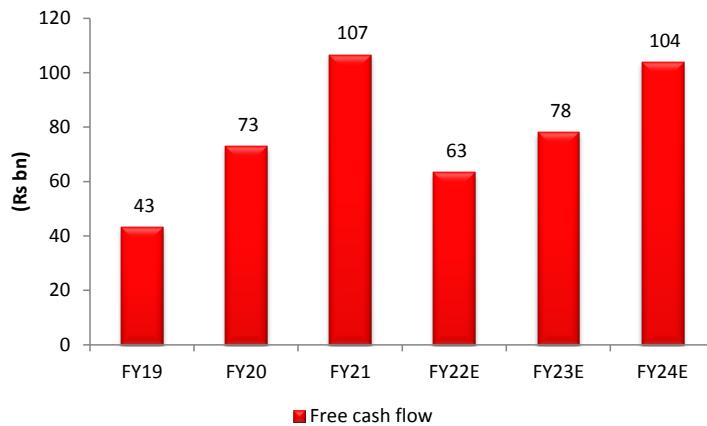
FCF generation: UTCEM generated cumulative FCF of Rs 279bn between FY17-21.

FCF utilisation: Of the total FCF of Rs 289bn, 10% has been used to pay dividends (5-year average pay-out ratio is 13%), 57% to repay debt and 25% of FCF has been used towards interest payment.

FCF expectation: Despite better earnings, we expect FCF to decline to Rs 63bn in FY22E due to a) the reduction in OCF - higher tax and increase in working capital and b) capex for expansion projects – Rs 43.1bn in FY22E vs. Rs 18.4bn in FY21.

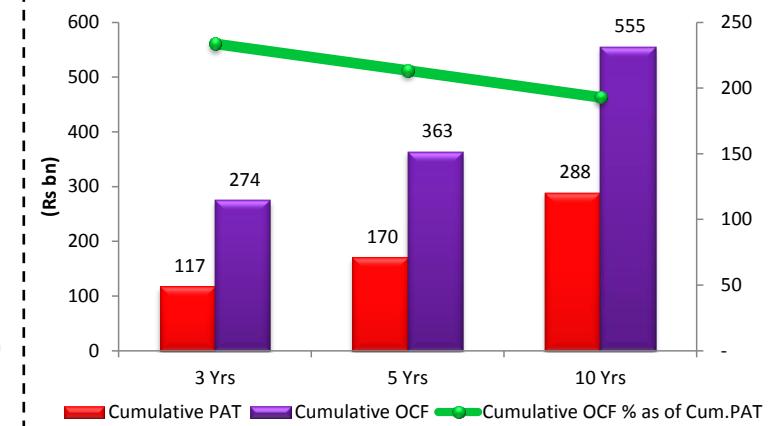
Earnings quality: During the last 10 years, UTCEM has earned a cumulative PAT of Rs 288bn against which it generated OCF of Rs 555bn (1.93x profits).

Exhibit 54: FCF to remain positive despite capex plans



Source: Company, Systematix Institutional Research

Exhibit 55: Earnings quality reflects in cumulative OCF



Source: Company, Systematix Institutional Research

Exhibit 56: Contingent liabilities

(Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
Excise Duty and Service Tax Matters	8,781	10,062	11,786	15,668	13,518	15,185
Sales-tax / VAT / Entry Tax Matters	3,203	3,434	4,325	5,495	5,467	10,163
Others	9,544	9,011	10,337	21,616	20,100	20,941
Total	21,528	22,506	26,447	42,779	39,086	46,289
% of net worth	10%	9%	10%	13%	10%	10%

Source: Company

Exhibit 57: KMP's renumeration and pledging details

Other key monitorables	FY16	FY17	FY18	FY19	FY20	FY21
Remuneration to Directors & KMPs (Rs mn)	362	354	392	368	257	232.6
% of PBT	1.10%	0.90%	1.10%	1.00%	0.50%	0.29%
Auditor's remuneration (Rs mn)	39	36	43	55	67	82.7
% of PBT	0.11%	0.09%	0.12%	0.15%	0.13%	0.10%
Pledged shares (%)	NIL	NIL	NIL	NIL	NIL	NIL

Source: Company

Systematix vs. Consensus

Our revenue estimates are largely in-line with the Bloomberg consensus for FY22E and FY23E. However, we expect UTCEM to derive significant cost savings from 1) 34% power substitution through the renewable source, 2) logistics cost savings (synergy benefit from acquired assets) and 3) better product mix & higher premium sales resulting in higher EBITDA and thus higher than consensus estimates.

Exhibit 58: Bloomberg vs. our estimates

Particulars	FY22E	FY23E	FY24E
Revenues (Rs bn)			
Consensus	512	571	631
Systematix est.	525	583	641
% Difference	3%	2%	2%
EBITDA (Rs bn)			
Consensus	129	147	174
Systematix est.	137	156	175
% Difference	7%	6%	0%
EBITDA Margin (%)			
Consensus	25%	26%	28%
Systematix est.	26%	27%	27%
Difference (bps)	97	100	(32)

Source: Bloomberg, Systematix Institutional Research

Exhibit 59: Key Assumptions

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Grey Cement Sales Volume (mt)	63	85	81	85	99	108	117
Grey Cement Realization (Rs/ton)	4,344	4,080	4,233	4,751	4,893	4,991	5,091
Blended Realization (Rs/ton)	5,020	4,917	5,236	5,274	5,278	5,381	5,464
Per tonne costs							
Raw material	836	825	804	836	795	815	845
Employee cost	286	271	311	277	257	251	247
Power & Fuel	1,001	1,115	1,051	982	1,060	1,075	1,058
Freight	1,155	1,219	1,201	1,184	1,204	1,236	1,272
Other expense	652	619	727	630	583	566	553
Total Cost	3,930	4,049	4,095	3,910	3,899	3,941	3,975
EBITDA (incl. other income)	971	868	1,141	1,364	1,379	1,439	1,489

Source: Systematix Institutional Research, Company

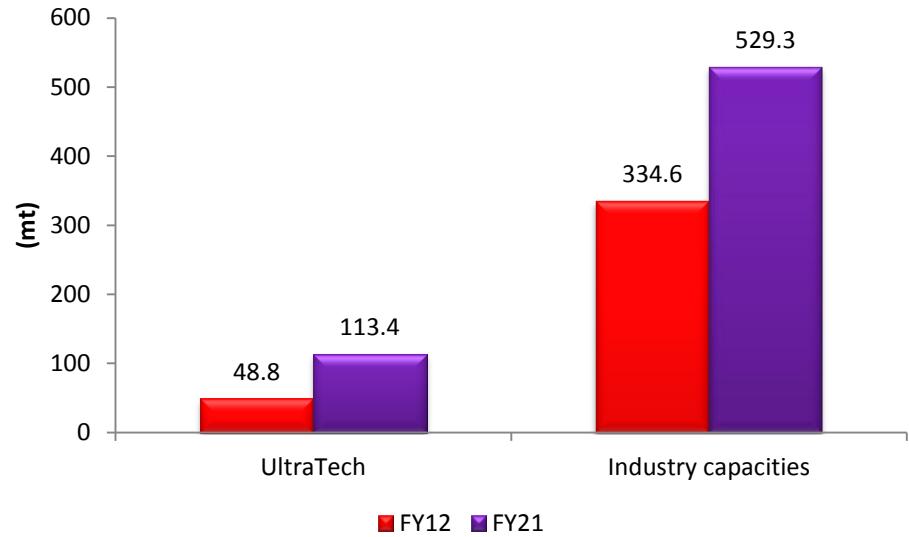
Key downside risks

- 1) **Prolonged pandemic related restrictions/lockdowns:** We estimate UTCEM to report ~17% volume growth in FY22E; however, continued localised lockdowns could act as a downside risk to our estimate. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites, thus delaying the process. We derive confidence from the vaccination pace in India and expect economic recovery and normalcy to be attained by 2HFY22E.
- 2) **Inflationary pressures in fuel costs:** There has been a steep rise in the prices of pet coke, coal and diesel over the last few months. Pet coke price is up ~75% over the last year, whereas imported coal price has increased by 30%+. The current pet coke prices are up ~40% vs. 4QFY21 consumption prices. Though cement companies are trying to control energy costs by changing their fuel mix (lower pet coke usage, usage of Australian coal etc.), continued escalation in coal/pet coke prices could impact our earnings estimate, if the industry is unable to pass on the cost increases to consumers.
- 3) **Slowdown in government/rural spending:** Based on the management commentaries of various cement players, demand (in the past 12-18 months) is led by government spending on infrastructure. Thus, slow or curtailed government spending could delay the recovery process. The second wave of COVID had a higher impact in rural areas compared to the first wave. Rural demand was resilient last year which aided volume recovery for the industry. A slowdown in rural areas may impact volume growth for the industry.
- 4) **Aggressive inorganic growth plans:** UTCEM has been successful in turning around the large acquired cement assets of Century Textiles, JP Group and Binani. The management believes that inorganic expansion opportunities of 61mtpa in the industry exist and it will maintain liquid reserves of Rs 100bn+ for the same. An aggressive inorganic expansion may lead to higher debt and can impact the return ratios for a few years.

Valuation and View

UTCEM is the market leader in most of its markets. It has steadily invested in capacity expansion which has helped it become one of the largest players across all regions and improve its market share significantly. Its capacities increased from 48.8mtpa in FY12 to 113.4mtpa in FY21, a CAGR of 9.8% vs. the industry's capacity CAGR of 5.2% in the same period. ~70% of capacity additions over FY12-21 were through the inorganic route. The company plans to further increase its grinding capacities by 19.5mtpa by FY23E. Through organic expansions, it aspires to increase its domestic grey cement capacity to 160mtpa by FY30E vs. 111.4mtpa in FY21. Further, the management believes that there are opportunities for 61mtpa of inorganic expansion and it will maintain Rs 100bn+ of liquid reserves for such acquisitions.

Exhibit 60: UTCEM's capacity growth outpaced industry growth over FY12-21



Source: Systematix Institutional Research, Company, Industry

Continued capacity expansions led to an increase in UTCEM's gross debt to Rs 253bn in FY19 vs. Rs 42bn in FY12. Net debt increased to Rs 231bn in FY19 vs. Rs 13bn in FY12. Net debt/EBITDA deteriorated to 2.5x in FY19 (3.1x in FY20) vs. 0.3x in FY12. The significant improvement in profitability and working capital reduction led to an OCF CAGR of 45% between FY19-21 which in turn, led to a reduction in debt. Gross debt reduced to Rs 205bn in FY21, while net debt reduced to Rs 76bn. Net debt/EBITDA improved to 0.66x in FY21. We expect the company to become cash positive in FY23E despite the on-going capex plans.

UTCEM's RoE improved to 13.4% in FY21 vs. 10.1% in FY18 (8.4% in FY19). We expect its RoE to improve to 16.3% by FY24E led by higher assets turnover (capacity utilisation is expected to improve), continued reduction in debt and improvement in EBIT margin (24% in FY24E vs. 21.5% in FY19). RoCE is expected to improve to 18.8% in FY24E vs. 13.9% in FY21 on the back of an improvement in margins. RoIC is expected to improve to 17% in FY24 vs. 10.7% in FY21 as the improvement in profitability will support strong cash generation.

The stock trades at 16.7x/14.3x/12.3x FY22E/23E/24E EV/EBITDA and USD 251/222/213 FY22E/23E/24E EV/EBITDA. It has traded at an average EV/EBITDA of 14.3x in the last 10 years. Going forward, with the improvement in profitability (EPS expected to grow at a CAGR of 21.1% over FY21-24E), return ratios and balance sheet, we expect it to trade at higher multiples. We value the company at 17x FY23E

EV/EBITDA to arrive at a target price of Rs 9,275, an upside of 18.4% from the CMP. We initiate coverage on the stock with a **BUY** rating. At our TP, the stock will trade at 17x/14.7x FY23E/24E EV/EBITDA and USD 263/255 FY23E/24E EV/ton.

Exhibit 61: 1-year forward EV/EBITDA

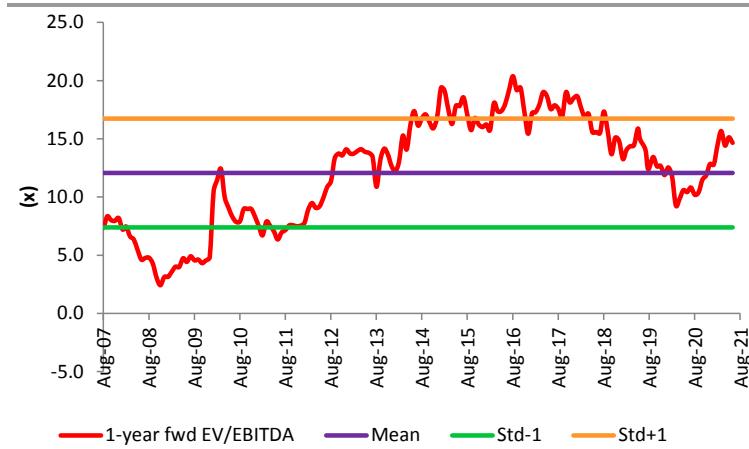
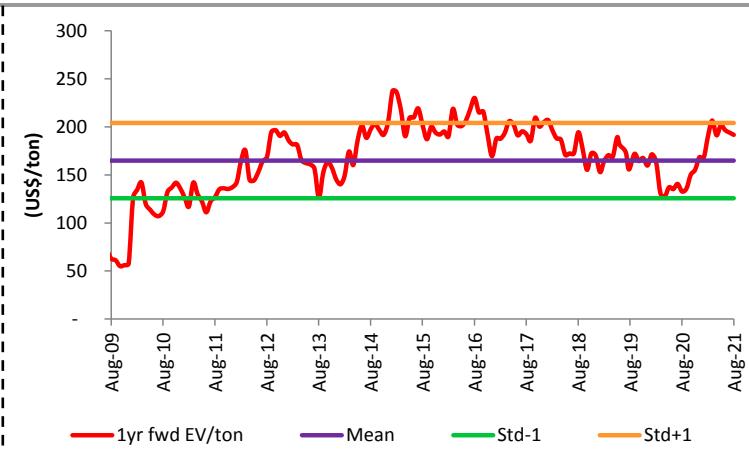


Exhibit 62: 1-year forward EV/ton



FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	424,299	447,258	525,063	583,032	641,390
Growth (%)	2.0	5.4	17.4	11.0	10.0
Total Expenditure	331,827	331,579	387,842	427,079	466,645
EBIDTA	92,472	115,679	137,221	155,953	174,745
Growth (%)	25.9	25.1	18.6	13.7	12.0
EBIDTA %	21.8	25.9	26.1	26.7	27.2
Depreciation	27,227	27,002	27,734	28,744	30,019
EBIT	65,245	88,677	109,487	127,209	144,727
EBT	51,840	81,162	102,895	123,472	144,087
Tax	15,413	25,387	32,185	38,621	45,069
Effective tax rate (%)	29.7	31.3	31.3	31.3	31.3
Adjusted PAT	36,427	55,775	70,710	84,851	99,017
Growth (%)	44.9	53.1	26.8	20.0	16.7
Net Margin (%)	8.6	12.5	13.5	14.6	15.4
PAT after MI	57,509	53,189	70,710	84,851	99,017
Growth (%)	139.58	(7.5)	32.9	20.0	16.7

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income)	51,827	78,576	94,685	114,884	134,916
Depreciation	27,227	27,002	27,734	28,744	30,019
Interest Provided	19,917	14,857	14,803	12,325	9,810
Other Non-Cash items	-5,489	-5,785	0	0	0
Chg in working cap	5,157	23,289	1,470	-6,361	-5,742
Tax paid	-8,914	-12,910	-32,185	-38,621	-45,069
Operating Cashflow	89,724	125,029	106,507	110,971	123,934
Capital expenditure	-16,868	-18,414	-43,133	-33,000	-20,000
Free Cash Flow	72,856	106,615	63,374	77,971	103,934
Other income	2,324	1,146	8,210	8,588	9,170
Investments	-27,380	-71,322	0	-31,000	-50,000
Investing Cashflow	-25,056	-70,176	8,210	-22,412	-40,830
Equity Capital Raised	-3	138	0	0	0
Loans Taken / (Repaid)	-27,454	-25,149	-12,319	-28,000	-28,000
Interest Paid	-19,502	-14,805	-14,803	-12,325	-9,810
Dividend paid (incl tax)	-3,800	-3,748	-13,935	-15,677	-19,161
Income from investments	0	0	0	0	0
Others	0	0	0	0	0
Financing Cashflow	-50,759	-43,565	-41,057	-56,002	-56,971
Net chg in cash	-2,959	-7,125	30,527	-443	6,133
Opening cash position	8,358	27,201	20,076	50,603	50,159
Closing cash position	5,399	20,076	50,603	50,159	56,292

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	2,886	2,887	2,887	2,887	2,887
Reserves & surplus	387,627	438,918	495,692	564,866	644,723
Shareholders Funds	390,513	441,804	498,579	567,753	647,609
Loan Funds	230,190	204,878	192,559	164,559	136,559
Net Deferred Taxes	49,120	60,407	60,407	60,407	60,407
Total Liabilities	669,822	707,089	751,545	792,719	844,575
Net block	508,985	491,918	509,184	525,440	515,421
Capital WIP	9,196	16,867	15,000	3,000	3,000
Investment	59,287	121,781	121,781	152,781	202,781
Current Assets	214,730	231,270	273,191	281,106	295,412
Inventories	41,834	40,180	43,156	44,726	45,688
Sundry Debtors	23,832	25,717	28,051	28,752	29,873
Cash and Bank	5,399	20,076	50,603	50,159	56,292
Current Liab & Prov	122,376	154,747	167,612	169,608	172,039
Net current assets	92,355	76,523	105,580	111,498	123,373
Total Assets	669,822	707,089	751,545	792,719	844,575

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	21.8	25.9	26.1	26.7	27.2
Net Margin	8.6	12.5	13.5	14.6	15.4
ROCE	10.8	13.9	16.1	17.6	18.8
ROE	10.0	13.4	15.0	15.9	16.3
RoIC	7.6	10.7	13.5	15.2	17.0
Per Share Data (Rs)					
EPS	126.2	193.2	245.0	294.0	343.0
CEPS	220.5	286.8	341.0	393.5	447.0
BVPS	1,353.0	1,530.6	1,727.3	1,966.9	2,243.6
DPS	12.5	37.0	40.0	45.0	55.0
Valuations (x)					
PER	62.1	40.5	32.0	26.7	22.8
P/CEPS	35.5	27.3	23.0	19.9	17.5
P/BV	5.8	5.1	4.5	4.0	3.5
EV / Sales	5.8	5.2	4.4	3.8	3.4
EV / EBITDA	26.4	20.2	16.7	14.3	12.3
Dividend Yield (%)	0.2	0.5	0.5	0.6	0.7
Gearing Ratio (x)					
Net Debt/ Equity	0.5	0.2	0.1	(0.0)	(0.2)
Net Debt/EBIDTA	2.0	0.7	0.2	(0.2)	(0.6)
Working Cap Cycle (days)	-29.7	-63.0	-58.5	-52.1	-47.2

Source: Company, Systematix Institutional Research

Shree Cement

01 September 2021

INITIATING COVERAGE

Sector: Cement	Rating: HOLD
CMP: Rs 28,296	Target Price: Rs 29,855

Stock Info

Sensex/Nifty	57,552/17,132
Bloomberg	SRCM IN
Equity shares (mn)	36
52-wk High/Low	Rs 32,050/18,214
Face value	Rs 10
M-Cap	Rs1,021bn/ USD 14bn
3-m Avg volume	USD 19.4mn

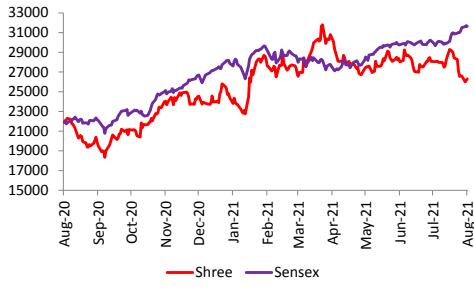
Financial Snapshot (Rs mn)

Y/E March	FY22E	FY23E	FY24E
Sales	146	162	179
EBITDA	42	48	54
PAT	24	27	30
EPS (Rs)	670.4	753.5	845.3
PE (x)	42.2	37.6	33.5
EV/EBITDA (x)	22.2	19.3	16.8
RoE (%)	14.8	14.7	14.5
RoCE (%)	19.6	19.3	19.1
Dividend yield (%)	0.2	0.3	0.3

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20
Promoter	63	63	63
-Pledged	-	-	-
FII	13	13	12
DII	10	11	11
Others	14	14	14

Stock Performance (1-year)



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Consistent performer but valuations rich

Shree Cement (SRCM), the second-largest cement company in India, has consistently added capacity with minimal leveraging of its balance sheet. It is the lowest-cost cement producer led by its innovative/ahead of the curve initiatives. It has controlled costs through higher dependence on green energy and split grinding units vs. peers and captive production of synthetic gypsum. A wide distribution network, multi-brand strategy and a higher share of premium products position it favourably vs. peers and have improved its realisations. After increasing the capacity by 4.8x between FY09-21, the management intends to double capacity over the next 6-7 years. We are confident on the seamless execution of its expansion plans given its track record of having the lowest capital cost for plant commissioning and a strong balance sheet. We expect an EBITDA CAGR of 10.6% over FY21-24E and RoIC of 41.8% in FY24E. While SRCM deserves to trade at a premium due to its superior track record and continued growth, we initiate coverage with a HOLD given its rich valuation.

Differentiated approach for expansions, aims to double capacities

SRCM's differentiated approach (engagement with different contractors for expansion projects, smaller and identical sized kilns etc.) results in the timely execution of expansion projects. It also ensures minimal pressure on its balance sheet (net cash positive even after a 4.8x increase in its capacity between FY09-21). The company has been consistent in its expansion program (capacity/sales volume CAGR of 19.2%/14.3% over FY05-21) and the management expects to further double its capacity over the next 6-7 years – while COVID-led issues have delayed this plan, we expect SRCM to commence its expansion activities in the near term.

Enjoys cost leadership with innovative and ahead of the curve initiatives

The company has pioneered many cost-saving techniques to become India's lowest-cost cement producer. It maintains cost-efficiency through a high dependency on waste heat recovery systems (40%+ power through green energy sources) and split grinding units, the usage of synthetic gypsum generated through captive sources (60%+ of gypsum requirement met in-house) and the largest single location kiln in the North. A strong balance sheet and cost competence should further boost its growth and profitability.

Rich valuations to limit the upside

SRCM enjoys one of the best return ratios in the cement sector. Its RoIC improved to 24.7%/37.8% in FY20/FY21 from 21.7% in FY19; we expect a further improvement to 41.8% by FY24E. The stock trades at 22.2x/19.3x/16.8x FY22E/23E/24E EV/EBITDA and USD 277/272/265 FY22E/23E/24E EV/ton. It has traded at an average EV/EBITDA of 20.2x in the last 7 years. With the improvement in profitability (EBITDA CAGR of 10.6% over FY21-24E), strong balance sheet, stable return ratios and the doubling of capacity, we expect it to maintain its premium valuation. We value the stock at 20x FY23E EV/EBITDA to arrive at a target price of Rs 29,855 (an upside of 5.5% from the CMP) and initiate coverage with a HOLD rating.

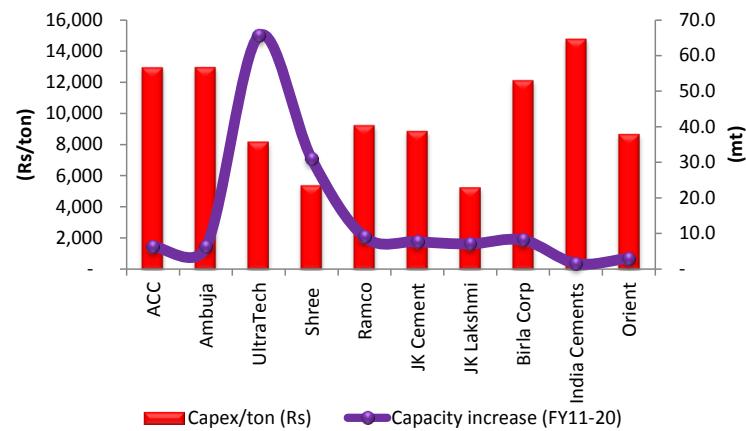
Story in charts

Exhibit 1: Implementation of plants ahead of schedule



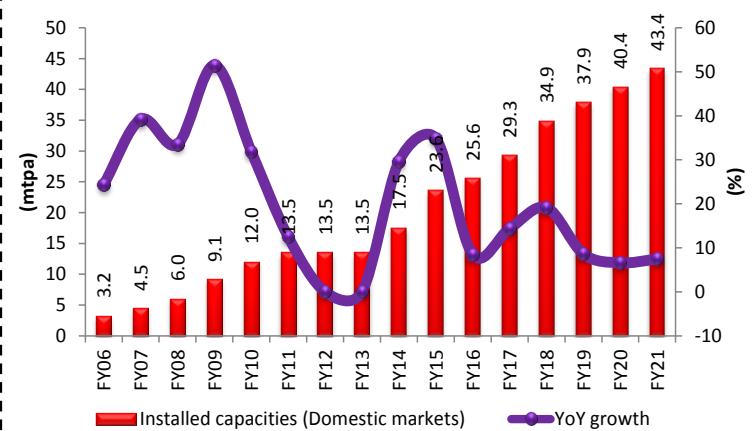
Source: Company, Systematix Institutional Research

Exhibit 2: Capital cost for plants is the lowest amongst peers



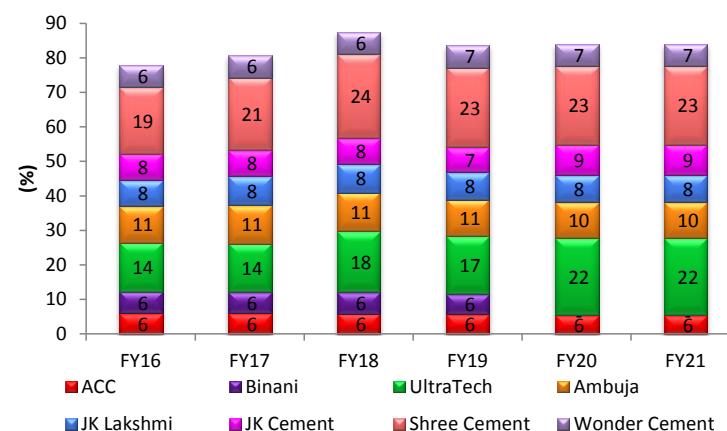
Source: Company, Systematix Institutional Research

Exhibit 3: Consistent in capacity expansions



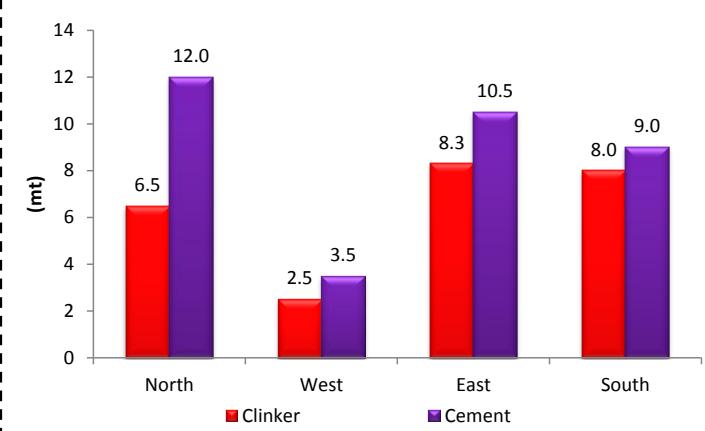
Source: Company, Systematix Institutional Research

Exhibit 4: Enjoys leadership position in the Northern region

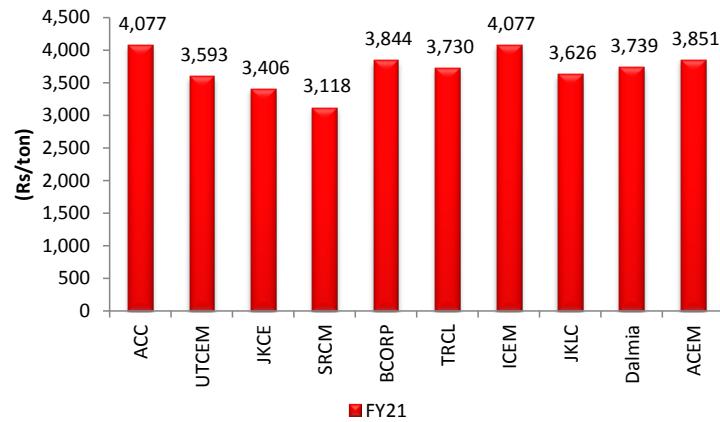


Source: Company, Systematix Institutional Research

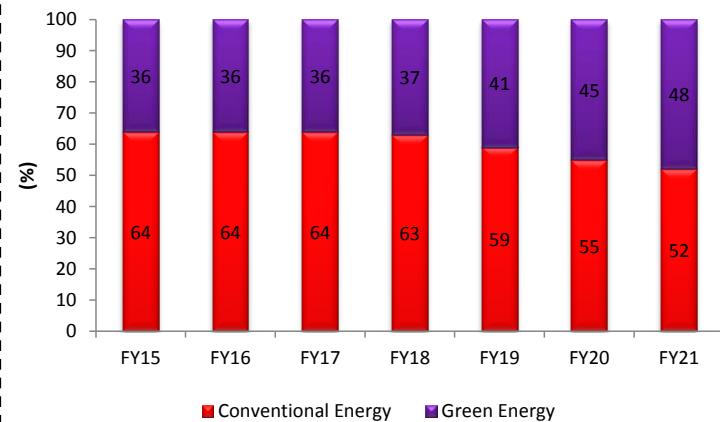
Exhibit 5: Future capacities may be planned across regions (ex-Central region)



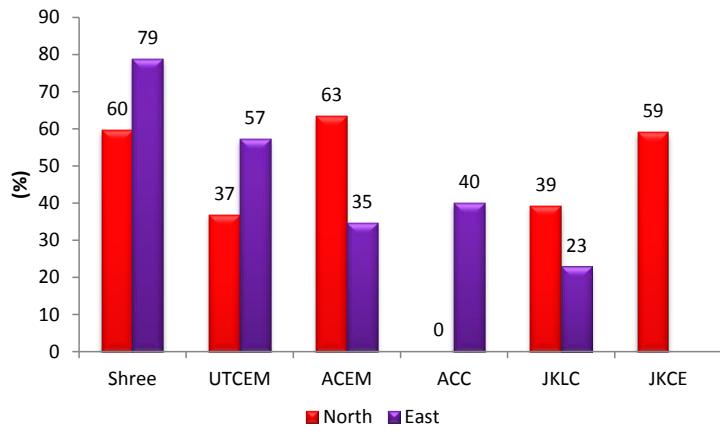
Source: Company, Systematix Institutional Research

Exhibit 6: Lowest-cost cement producer vs. peers

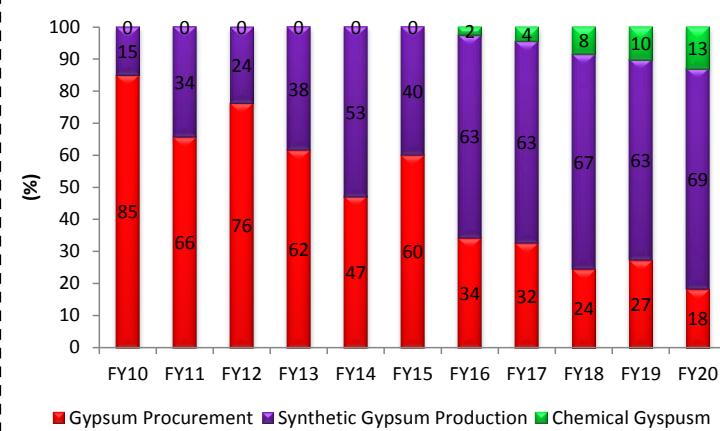
Source: Company, Systematix Institutional Research *UTCEM and JKCE's grey cement production cost is based on our assumptions

Exhibit 7: Green energy contributes to 40%+ of its power requirements

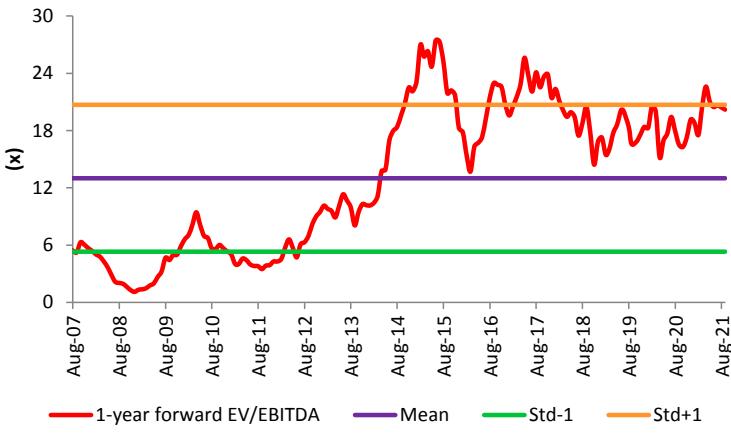
Source: Company, Systematix Institutional Research

Exhibit 8: High dependence on split grinding units

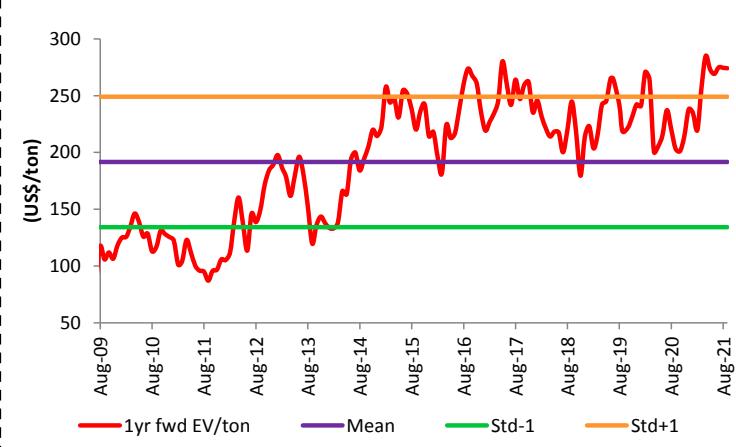
Source: Company, Systematix Institutional Research

Exhibit 9: The use of synthetic gypsum has increased significantly

Source: Company, Systematix Institutional Research

Exhibit 10: 1-year forward EV/EBITDA

Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward EV/ton

Source: Company, Systematix Institutional Research

Company Background

Shree Cement is India's 2nd largest cement player with 43.4mtpa capacity.

Shree Cement (SRCM) is one of India's most profitable cement manufacturing companies, given its higher productivity, plant location and backward integration. It started operations in 1985 with the commissioning of its first 0.6mtpa integrated plant at Beawar, Rajasthan. Its expansion plans took off post-2006 and since then, its India capacity has increased to 43.4mtpa, making it the second-largest cement player (3rd largest group). Most of its capacity expansions have been through the organic route (acquired only a 1.5mtpa grinding capacity in the domestic markets).

SRCM expanded its presence in global markets in July'18 through the acquisition of Union Cement Company (UCC) in Ras Al Khaimah, UAE. At the time of acquisition, UCC had a clinker/cement capacity of 3.3mtpa/4mtpa.

It commissioned its first coal-based power plant in 2003 and its first waste heat recovery system (WHRS) in 2008 in Beawar, Rajasthan. It has a coal-based power capacity of 508MW (including 300MW merchant power plants), while its India-based WHRS capacity is 211MW. It also has wind power plants of 29MW and solar power plants of 2MW. The WHRS capacity at its UAE plant is 29.5MW.

SRCM had a presence only in the Northern region till FY13. It started diversifying into other regions and commissioned a grinding unit of 2mtpa at Aurangabad, Bihar in FY14 and subsequently, its first integrated plant (clinker and cement capacities of 2.6mtpa each) in Baloda Bazar, Chhattisgarh. It commissioned its first grinding unit in the Central region (Bulandshahr, Uttar Pradesh) in FY16. In FY18, it commissioned an integrated plant in the Southern region (Kodla, Karnataka) with a clinker/cement capacity of 2.4mtpa/3mtpa).

The company follows a multi-brand strategy, comprising three brands - *Bangur Cement*, *Shree Jung Rodhak Cement* and *Rockstrong* to cater to different market segments. In FY19, it introduced two premium brands - *Roofon* and *Bangur Power*. It also produces Autoclaved Aerated Concrete (AAC) Blocks – a lightweight, precast building material. SRCM has a network of 20,250 dealers and 746 distributors spread across 18 states.

Exhibit 12: SRCM's installed capacity and regional presence

Region	Plant location	State	Clinker capacity (mtpa)	Cement capacity (mtpa)
North	Ras	Rajasthan	15.0	7.0
North	Khushkhera	Rajasthan		3.5
North	Beawar	Rajasthan	3.0	3.6
North	Jobner	Rajasthan		1.5
North	Suratgarh	Rajasthan		5.4
North	Laksar	Uttarakhand		1.8
North	Panipat	Haryana		1.5
North-Total			18.0	24.3
Central	Bulandshahr	Uttar Pradesh		2.0
Central-Total				2.0
East	Baloda Bazar	Chhattisgarh	9.2*	3.0
East	Burudih	Jharkhand		2.5
East	Aurangabad	Bihar		5.6
East	Athagarh	Odisha		3.0
East-Total			9.2	14.1
South	Kodla	Karnataka	2.4	3.0
South-Total			2.4	3.0
West	Patas	Maharashtra		3.0^
West-Total				3.0
Domestic capacity			29.6	46.4
Middle East	Ras Al Khaimah	UAE	3.3	4.0
Consolidated capacity			32.9	50.4

Source: Company, Systematix Institutional Research, * 3.98mtpa Under commissioning; ^under commissioning

Manufacturing facilities

Exhibit 13: Bulandshahr plant, Uttar Pradesh (2mtpa)



Source: Industry Database

Exhibit 14: Roorkee plant, Uttarakhand (1.8mtpa)



Source: Industry Database

Exhibit 15: Wind Power plant at Kodla, Karnataka



Source: Company

Exhibit 16: Beawar plant, Rajasthan (1.8mtpa)



Source: Company

Exhibit 17: Solar plant at its unit in Beawar, Rajasthan



Source: Company

Exhibit 18: New Atagarh plant, Odisha (3mtpa)



Source: Company

Exhibit 19: Product Portfolio

Source: Industry, Systematix Institutional Research

Exhibit 20: Management team details

Name	Designation	Background	Other board memberships
Shri H.M. Bangur	Managing Director	Is a driving force of the technical excellence achieved by the company. He is a Chemical Engineer from IIT, Mumbai; was awarded the prestigious EY Entrepreneur of the Year 2016 and the Forbes India Leadership Award, 2017.	NIL
Shri Prashant Bangur	Joint Managing Director	Joined in 2004 and since then has been involved in all strategic, policy and operational matters of the company. He graduated from the Indian School of Business, Hyderabad.	1. Khemka Properties Pvt. Ltd. 2. Ragini Properties Pvt.Ltd.
Shri P. N. Chhangani	Whole Time Director	Was working with the company as President (Works) and supervising overall cement plant operations of the company. He is a Chemical graduate with 35+ years of experience in cement and related industries.	NIL
Shri Diwakar Payal	President, Marketing	Has more than 30 years of experience in the cement industry and has been with the company since 2000. Before joining SRCM, he was with Ambuja Cements. He is an alumnus of IIT Kanpur (B. Tech. Mechanical Engineering) and IIM, Bangalore (PGDM in Marketing).	NIL
Shri Subhash Jajoo	Chief Finance Officer	Has been the CFO since 01 Sept-2014. Before that, he was working as General Manager (Finance) in the company.	NIL

Source: Company, Systematix Institutional Research

Exhibit 21: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Key Risks	YoY Growth
FY17	<ul style="list-style-type: none"> Government schemes like AMRUT, Smart City coupled with the expectation of pick-up in housing activities (lower interest rates) & incentives provided for affordable housing indicate a bright outlook for the cement sector. 	<ul style="list-style-type: none"> Clinker capacity expansion of 2.6mtpa at Raipur, Chhattisgarh is expected to be completed by Mar'18. 3mtpa Kodla plant expected to be commissioned by Dec'18. Won a limestone mining lease at Baloda Bazar- Bhatapara, Raipur. 	<ul style="list-style-type: none"> Sourcing Gypsum from Bhutan instead of Oman/Iran (high cost). Minimised bag bursting cases with proper training to contract workers. Secured three coal linkages with an aggregate quantity of 0.21mtpa for the Raipur, Chhattisgarh plant. The supply will continue for 3 years from the date of signing of the Fuel Supply Agreement(s). 	<ul style="list-style-type: none"> Soft demand with surplus supply Unavailability of water Higher fuel & power costs 	Volume: 42.3% Revenue: 56% EBITDA: 78.6% PAT: 40%
FY18	<ul style="list-style-type: none"> Affordable housing & govt. infra spending should drive demand going forward. Improved rural income, higher rural credit & allocation to agriculture are should boost rural demand. 	<ul style="list-style-type: none"> 3mtpa integrated plant at Gulbarga, Karnataka is expected by 3QFY19. To acquire ~92.83% in Union Cement Co, UAE having 4mtpa/3.3mtpa cement/clinker capacity; process to be completed by Sep'18. Won a limestone-mining lease in Mudhvay, Kutch, Gujarat. 	<ul style="list-style-type: none"> Modification in cooler design to enhance kiln output. Replacing the existing ink-supplier which was used to print on cement bags. Modification of cooler plates to increase waste heat recovery generation. 	<ul style="list-style-type: none"> Soft demand with surplus supply Unavailability of limestone Higher fuel & power costs 	Volume: 9.7% Revenue: 14.4% EBITDA: -1.6% PAT: -16%
FY19	<ul style="list-style-type: none"> Government's continued thrust on affordable housing and infrastructure development projects should aid cement demand growth. Outlook for the cement sector thus looks positive. 	<ul style="list-style-type: none"> Clinker grinding unit of 2.5mtpa at Seraikela, Jharkhand expected by 1QFY20. Grinding unit with 3mtpa capacity at Atagarh, Odisha & Patas, Pune to be completed by 1HFY20 & 1HFY21, respectively. Acquired Raipur Handling and Infrastructure Private Limited for Rs 590mn which will provide dedicated rail connectivity at Baloda Bazar plant. 	<ul style="list-style-type: none"> Commissioned 21MW wind power plant in Karnataka. Overhauling the existing WHRS capacities to generate higher power. Adopting a mechanised loading system at the Ras plant. 	<ul style="list-style-type: none"> Over capacity in the industry Unavailability of limestone Higher fuel costs 	Volume: 13% Revenue: 19.2% EBITDA: 12.9% PAT: -6%

FY20	<ul style="list-style-type: none"> The uncertainty around the pandemic makes it difficult to provide a near-term outlook. The long-term outlook remains positive led by various economic reforms & persistent infrastructure spending. 	<ul style="list-style-type: none"> Cement grinding units at Athagarh, Odisha (3mtpa) & Patas, Maharashtra (3mtpa) are expected to be completed by 2QFY21. 	<ul style="list-style-type: none"> Continuous investment to set up renewable energy power plants. Reuse of low-grade limestone and quarry rejects provide cost-effectiveness. 	<ul style="list-style-type: none"> Over capacity in the industry Unavailability of limestone Higher fuel costs 	Volume: -3.7% Revenue: 1.6% EBITDA: 31.7% PAT: 24%
FY21	<ul style="list-style-type: none"> Expects cement demand to have exceeded ~333mt (reported in FY20) in FY21, led by a solid increase in construction activities across rural and urban areas as well as elevated spending by the governments towards infrastructure projects. Expects healthy cement demand in FY22E led by continued investment in housing activities (increased WFH culture) well supported by low mortgage rates. Focus on the infrastructure sector and the housing for all scheme will be the key drivers of demand. Persisting COVID-19 situation is the biggest deterrent for the revival in cement demand. 	<ul style="list-style-type: none"> Commissioned 3mtpa clinker grinding unit at Cuttack, Odisha. The 3mtpa clinker grinding unit at Patas, Pune plant has been delayed and is now expected to commence commercial production by September 2021. The company is setting-up up to 12000 Ton Per Day (TPD) brownfield clinkerisation unit at Baloda Bazar district of Chhattisgarh. The project is likely to be completed in 1HFY23E. 	<ul style="list-style-type: none"> Efficiency improvement initiatives, rationalising routes and lead distances, enhancing direct dispatches and increasing the use of technological tools in supply management. Continued optimisation in mining operations and higher in-house production of gypsum. 	<ul style="list-style-type: none"> Over capacity in the industry Availability of limestone and other natural resources Fuel cost 	Volume: 7.7% Revenue: 5.7% EBITDA: 7.6% PAT: 47.2%

Source: Company, Systematix Institutional Research

Investment Analysis

Proven track record of project management and timely execution

Over the years, SRCM has established a track record of efficient project management and execution, involving innovative practices with the help of an in-house project management team. The company executes its projects in a 'modular' manner with identified equipment suppliers and similar civil structures, which leads to efficient, coordinated and relatively quicker execution of work. For instance, it undertook a project to set up a kiln at its Ras, Rajasthan manufacturing facility and subsequently, replicated the same to set up five additional kilns at the same location.

During the implementation and execution stage, the company typically breaks down the project into smaller components and engages different contractors for each of the smaller projects. It has completed the construction and expansion of most of its manufacturing facilities and grinding units on or before stipulated timelines.

Exhibit 22: Implementation of plants ahead of schedule



Source: Company, Systematix Institutional Research

One of the world's largest plants at a single location

SRCM has one of the world's largest clinker capacities at a single location (Ras facility in Rajasthan). Contrary to the normal practice of setting large-sized kilns of 2-3mtpa capacity to reap economies of scale, the company installed lower capacity kilns of a uniform size of 1mtpa one after another. The lower sized kilns were commissioned faster with a better return on investment, which helped the company finance its expansion projects through internal accruals. It commissioned its first integrated plant at Ras, Rajasthan in 2006 and completed five kilns at the same location till 2010. In 2013 and 2014, the company commissioned two more kilns at the same location.

On completion of a project, the same team was deployed for the next project, which significantly reduced the execution time of the next project. It also has the same equipment supplier for most of its expansion projects except for Unit I at Beawar, Rajasthan and the on-going 3rd kiln at Baloda Bazar, Chhattisgarh.

In 2010, it set up a world record of commissioning a cement kiln in 330 days (Unit VIII kiln at Ras, Rajasthan). After commissioning six identical kilns of 1mtpa each, the company increased the kiln size to 2mtpa for the next two kilns at Ras (Unit IX and X) and subsequently higher capacity kilns for expansion projects in the Eastern and Southern regions.

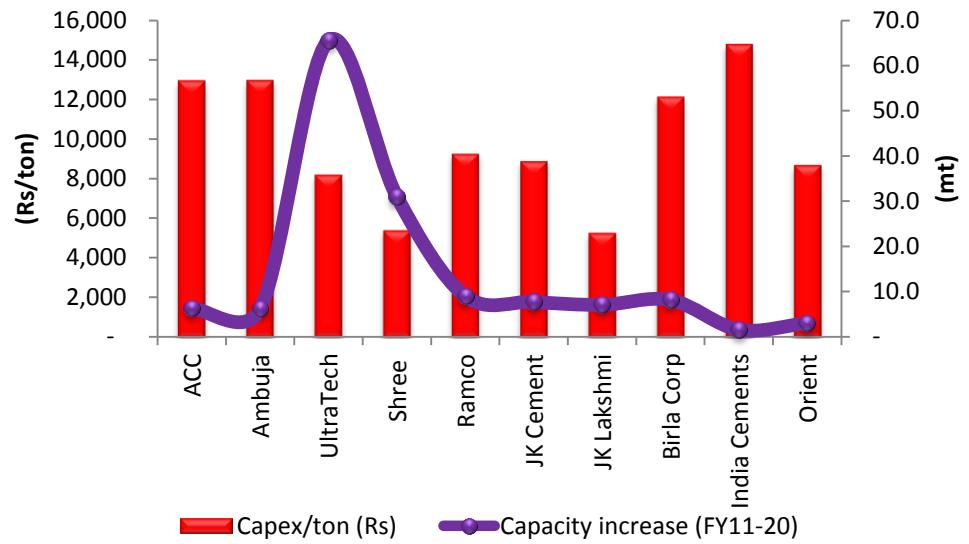
Strategy of Ras, Rajasthan replicated at Baloda Bazar, Chhattisgarh

SRCM is replicating the strategy it adopted in Ras, Rajasthan of commissioning kilns at one location in Baloda Bazar, Chhattisgarh. It commissioned its first integrated plant at Baloda Bazar in 2015 and a 2nd kiln at the same location in 2017. Clinker capacities of both these kilns were 2.6mtpa each. We believe that the capacities of these kilns will be increased further through brownfield expansions (internal modifications and installation of additional pre-heater in each unit). The company is now commissioning a 3rd kiln of 12,000tpd (3.96mtpa) at this location. This project is expected to get completed by 1HFY23.

One of the lowest capital costs for capacity expansions

Its in-house project management team, the strategy of appointing different contractors for each of the smaller projects, modification of plants post-commissioning and replication of similar-sized kilns at the same location has helped SRCM remain cost-competitive in its expansion plans. Its capex/ton was the lowest for FY11-FY20, even though it increased capacities through the greenfield route in this period (clinker plants at Baloda Bazar, Chhattisgarh and Kodla Karnataka).

Exhibit 23: SRCM's capital cost for plant commissioning is the lowest amongst its peers



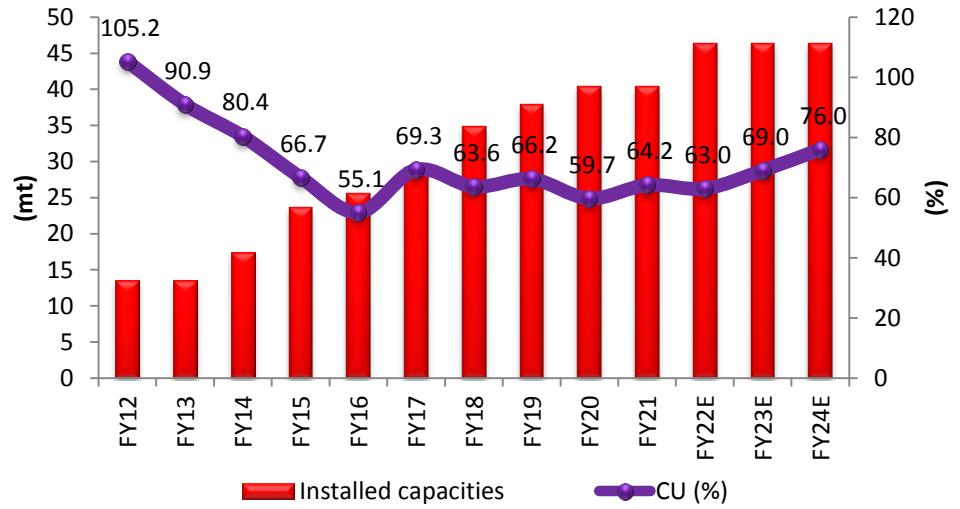
Source: Company, Systematix Institutional Research

Consistent in capacity additions historically

SRCM has been consistent in capacity expansions (primarily done through the organic route). Between FY06-FY21, the company's installed capacities have grown at a CAGR of 19.3%, much higher than the industry's growth rate. Its grinding capacity has increased to 43.4mtpa vs. just 2.6mtpa in FY05. To date, it has done only one acquisition of a grinding unit of JP Associates in Panipat, Haryana (installed capacity of 1.5mtpa).

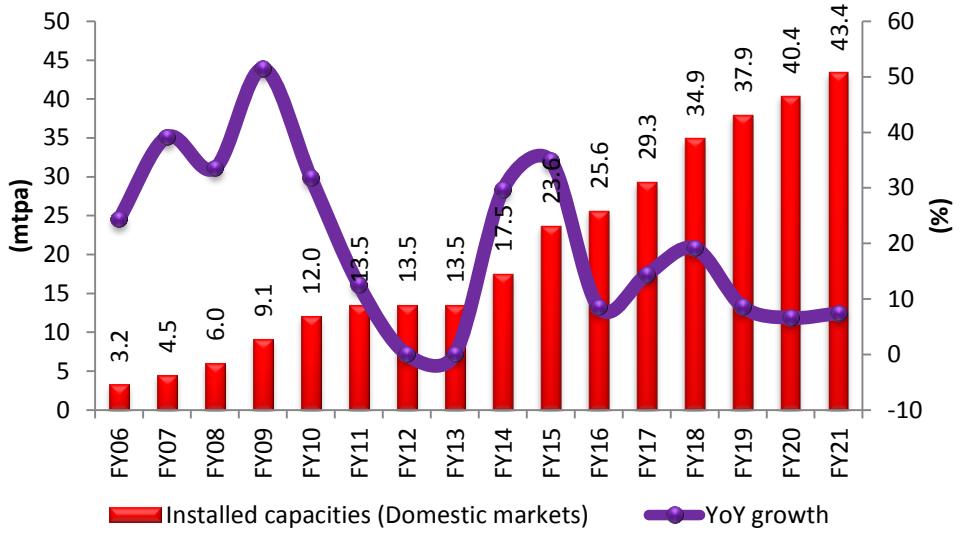
SRCM has been operating its clinker plants at a utilisation rate of 75-76% for the last three years (71% in FY20 due to volume loss in Mar'20 after the national lockdown). While its grinding capacity utilisation has declined to 64% in FY21 due to the addition of higher grinding capacity vs. clinker capacity, we expect it to increase to 76% in FY24E.

Exhibit 24: Cement capacity utilisation should improve in FY23/24E



Source: Company, Systematix Institutional Research

Exhibit 25: Consistent in capacity expansions

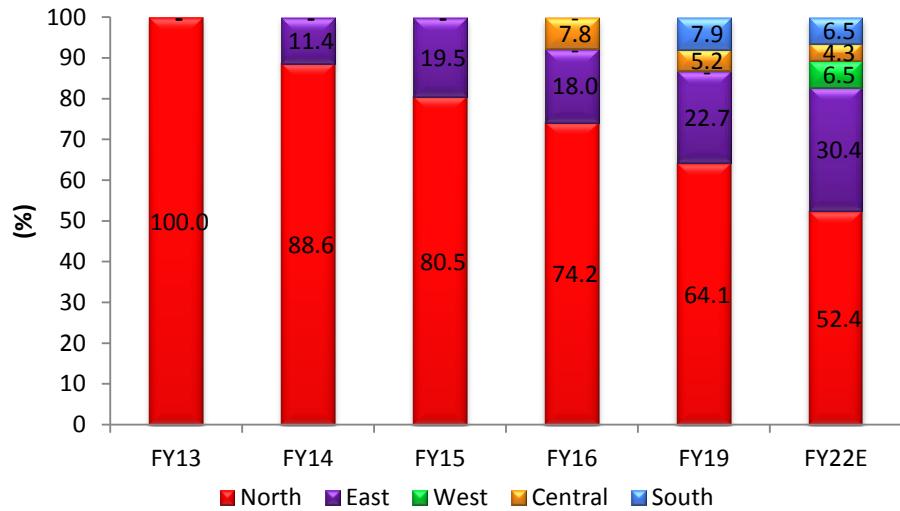


Source: Company, Systematix Institutional Research

Capacity expansions aided geographical diversification

SRCM had a presence only in the Northern region till FY13. It started diversifying into other regions and commissioned its grinding unit of 2mtpa at Aurangabad, Bihar in FY14 and subsequently, its first integrated plant (clinker and cement capacities of 2.6mtpa each) in Baloda Bazar, Chhattisgarh. It commissioned its first grinding unit in the Central region (Bulandshahr, Uttar Pradesh) in FY16 and grinding units at two other locations in the Eastern region (Saraikela, Jharkhand in FY19 and Athagarh, Odisha in FY21). In FY18, it commissioned its integrated plant in the Southern region (Kodla, Karnataka with a clinker/cement capacity of 2.4mtpa/3mtpa).

Exhibit 26: India capacity region-wise break-up

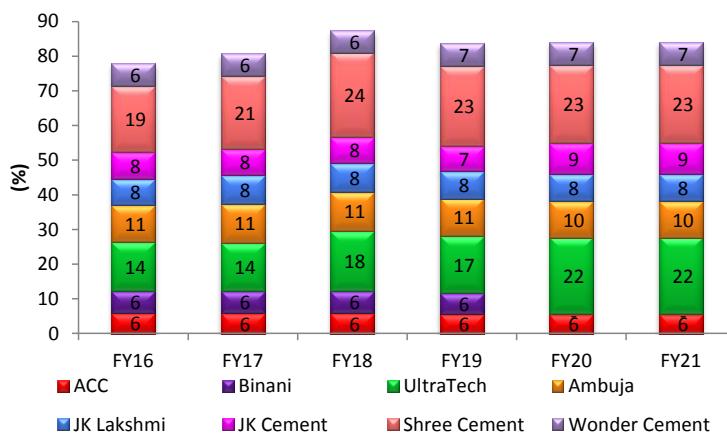


Source: Company, Systematix Institutional Research

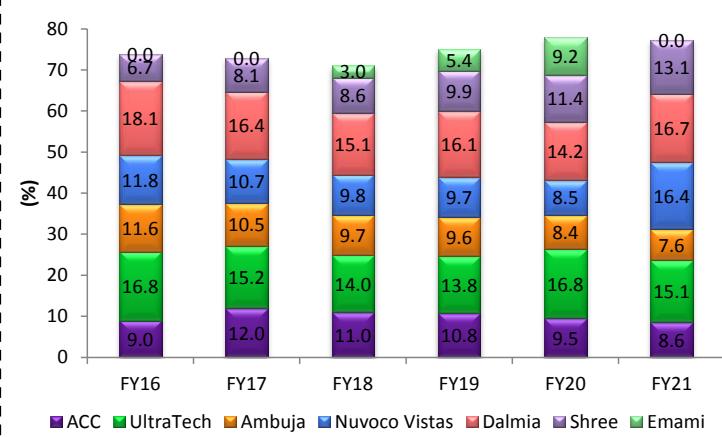
A market leader in the North; established player in the East

SRCM has remained the market leader in the North and generates almost 65% of its sales volumes from this region. It is also the fourth-largest player in the Eastern region (Nuvoco Vistas capacities in the East increased 2x post the acquisition of Emami Cement in FY21).

Exhibit 27: Enjoys leadership position in the North



Source: Company, Systematix Institutional Research

Exhibit 28: 4th largest player in the East

Source: Company, Systematix Institutional Research

Expanded footprint in the UAE with the acquisition of Union Cement Company

SRCM expanded its presence in the global markets in July'18 by acquiring Union Cement Company (UCC) in Ras Al Khaimah, UAE. At the time of acquisition, UCC had a clinker/cement capacity of 3.3mtpa/4mtpa and a waste heat recovery system (WHRS) of 13MW (expanded to 29.5MW in FY21). The company acquired a 97.61% equity stake in UCC at an EV of USD 305.24mn. UCC has one of the largest integrated cement plants in the UAE which is located within 1km of Saqr Port in Ras Al Khaimah, giving access to key export destinations like GCC countries, Africa and South Asia.

Exhibit 29: Strategically located plant in the UAE

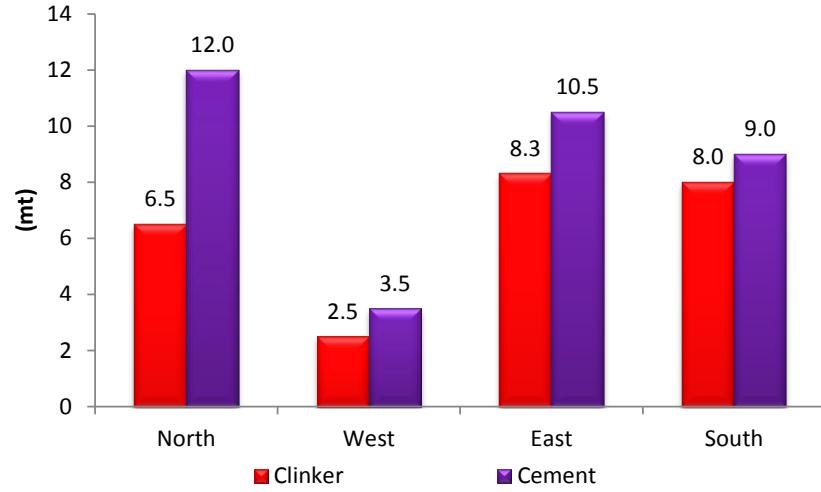
Source: Company, Systematix Institutional Research

Aims to double capacities over the next 6-7 years

SRCM is expanding its grinding capacity in the Western region (3mtpa capacity in Patas, Maharashtra is expected to get commissioned by Sep-21). The clinker requirements for this plant will be met through its Karnataka plant. It is also expanding clinker capacities at Baloda Bazar, Chhattisgarh, which will strengthen its position in the Eastern region. This clinker expansion will help meet the additional requirements of its Jharkhand and Odisha grinding units.

The management expects to double the capacity in the next 6-7 years (this plan was to be executed in two phases and the company had raised Rs 24bn) through the issue of equity shares (first-ever equity dilution, 12.435mn shares were issued at Rs 19,300/share through a QIP) in Nov-19. While the plan was delayed due to COVID-19-led challenges, we believe that the company will begin execution in the near term.

Though the company has not given any indication on the location of its future expansions, it has limestone mines (apart from operative mines) in Rajasthan, Andhra Pradesh and Gujarat. It may opt to expand capacities in the Northern region (Nawalgarh, Rajasthan) first, followed by other locations in the Southern/Western regions.

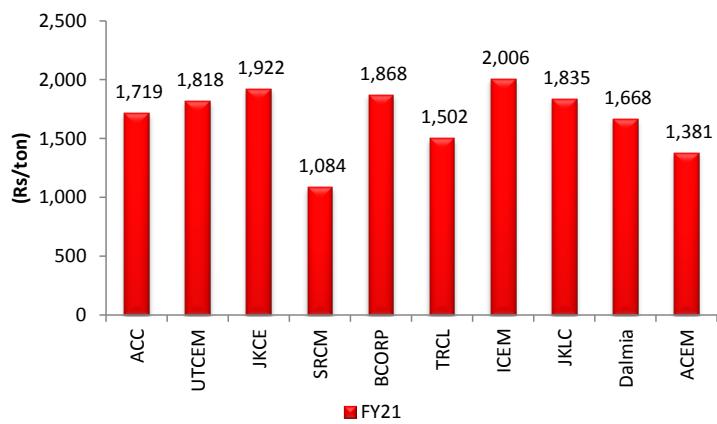
Exhibit 30: Future capacities may be planned across regions (ex-Central region)

Source: Industry, Systematix Institutional Research

Focus on cost efficiencies and improving productivity

SRCM is the lowest-cost cement producer in India. It maintains cost-efficiency through a) higher power generation through WHRS, b) higher dependence on split grinding units, c) higher clinker to cement conversion ratio, d) lower electricity consumption, e) multi-fuel usage strategy for kilns and f) usage of synthetic gypsum generated through captive sources.

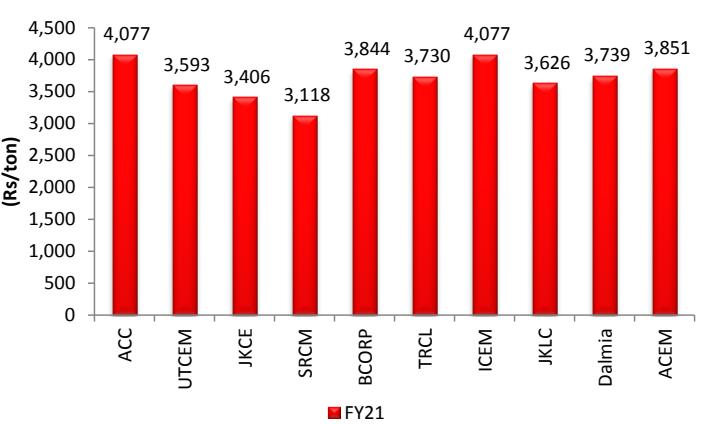
Exhibit 31: Lowest variable cost of production amongst peers



Source: Company, Systematix Institutional Research;

*we believe inter-unit clinker transfer cost for JKLC is included in RM costs

Exhibit 32: Cement production cost is lowest amongst peers



Source: Company, Systematix Institutional Research;

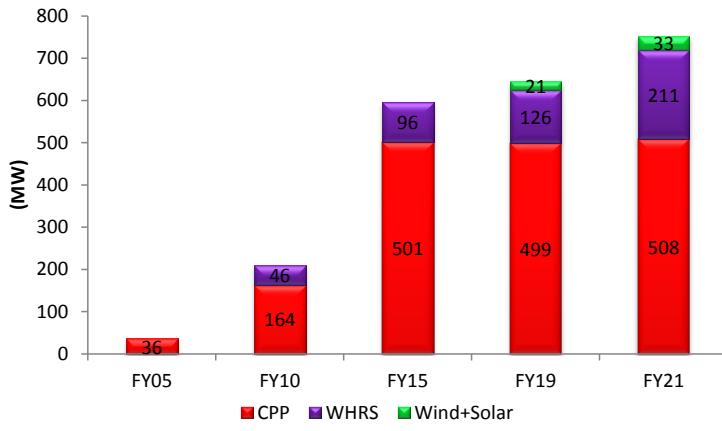
*UTCEM and JKCE's grey cement production cost is based on our assumptions

High dependence on WHRS lowers the variable cost of production

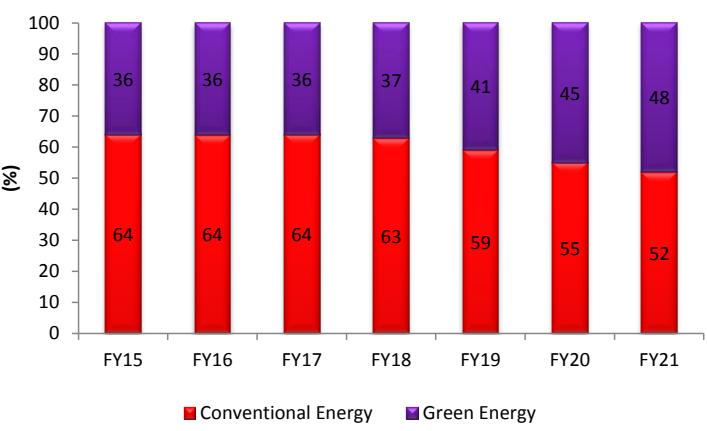
SRCM has been the leader in installing WHRS capacities in India. It commissioned its first WHRS plant in 2008 in Beawar, Rajasthan and increased its WHRS capacities to 46MW (22% of power generation capacity) in FY10. The capacity was further increased by 4.6x to 211MW between FY10-21. It also has a wind power capacity of 29MW (Kustagi, Karnataka) and a solar power capacity of 2MW (Panipat, Haryana and Uttarakhand). Green energy contributed to 48% of its power requirements in FY21. The cost of power generation through WHRS is less than Rs 1/unit. Based on our calculations, SRCM should generate 39-40kwh power for every ton of clinker produced, which would be one of the highest in the industry.

Exhibit 33: 33% of its domestic power capacity is WHRS/Solar/Wind

Exhibit 34: Green energy contributes to 40%+ of SRCM's power requirements



Source: Company, Systematix Institutional Research

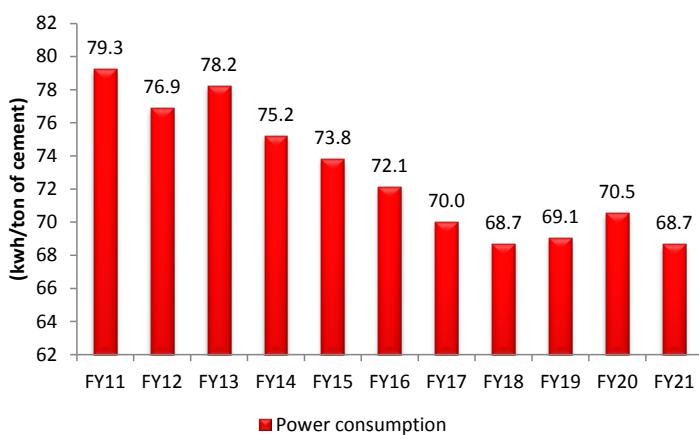


Source: Company, Systematix Institutional Research

Reduction in electricity consumption and kiln heat rate

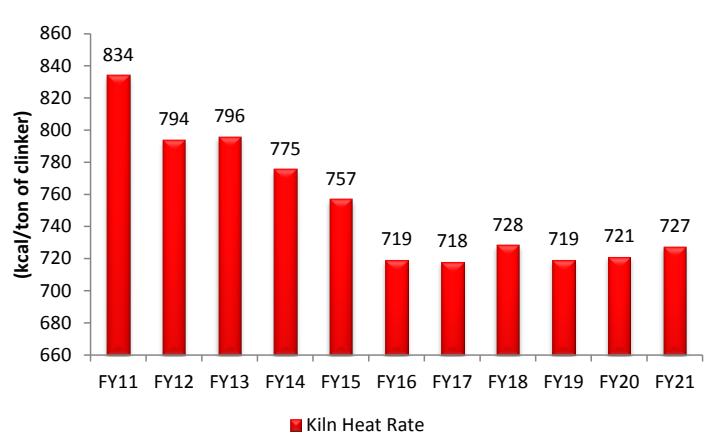
There has been a continuous reduction in power consumption from 79.26kwh/ton of cement in FY11 to 70.54kwh/ton in FY20. Along with the lower electricity consumption, its kiln heat rate has declined by 13.5% by FY11-20. This helps in lowering the requirements of coal/pet coke.

Exhibit 35: Power consumption declined in the last few years



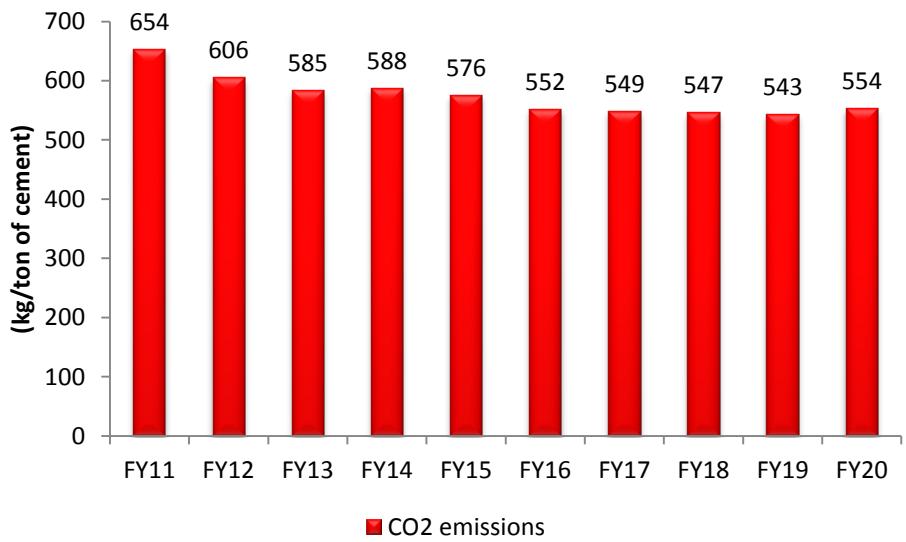
Source: Company, Systematix Institutional Research

Exhibit 36: Kiln heat rate is also on a declining trend



Source: Company, Systematix Institutional Research

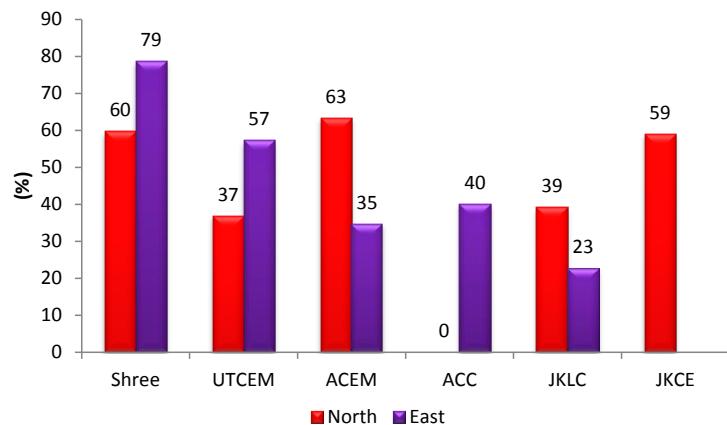
Exhibit 37: Higher usage of green power & lower electricity/coal consumption led to a decline in carbon emissions



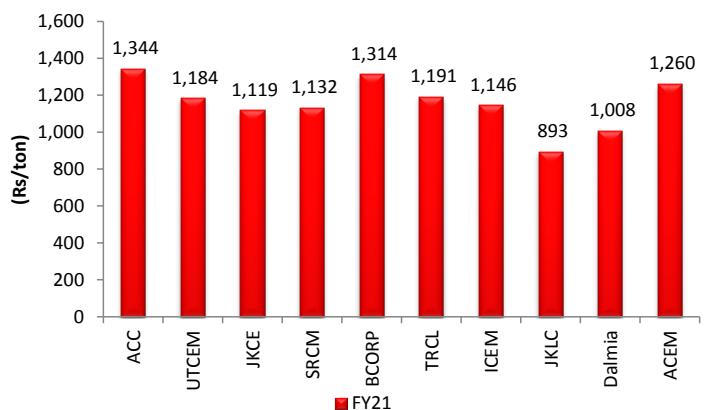
Source: Company, Systematix Institutional Research

High dependence on split grinding units helps to control freight costs

SRCM has a high dependence on split grinding units which helps in controlling freight costs. About 60% of its capacities in the North (including the grinding unit at Bulandshahr that gets clinker from Rajasthan plants) consist of split grinding units. This is significantly higher than UTCEM, wherein split grinding units constitute ~37% of its capacity in the North. In the East, about 79% of SRCM's installed capacity consists of split grinding units. In the South, 50% of its installed capacity is comprised of split grinding units post the commissioning of the Patas, Maharashtra grinding unit.

Exhibit 38: High dependence on split grinding units...

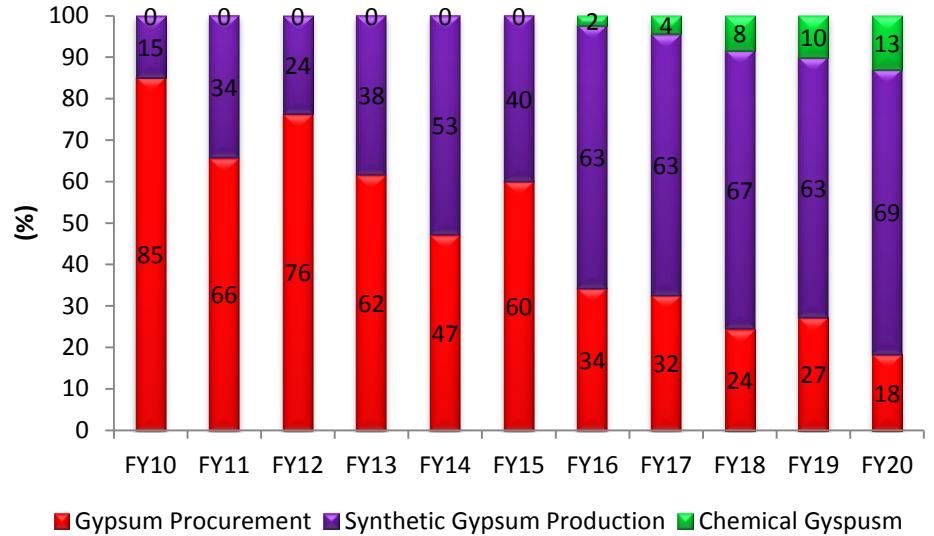
Source: Company, Systematix Institutional Research

Exhibit 39: ...helps to control freight costs

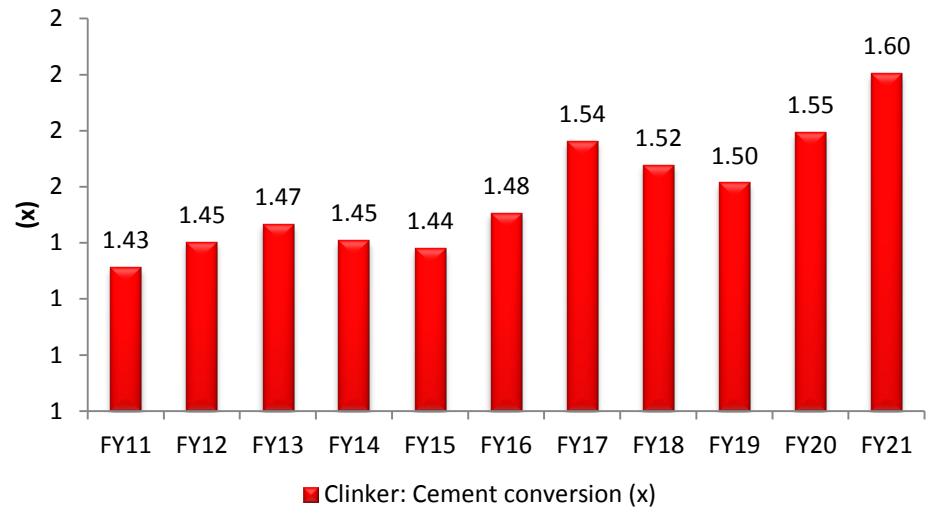
Source: Company, Systematix Institutional Research

Usage of synthetic gypsum through captive sources

In 2009, SRCM became the first cement company in India to start the production of synthetic gypsum through a patented process (valid for 20 years from 6th March 2009) which replaced the use of natural gypsum in cement manufacturing. This plant uses FGD technology (Flue Gas Desulphurization – low-grade limestone is burnt with pet coke). In FY20, 69% of SRCM's gypsum requirement was met through captive sources.

Exhibit 40: Usage of synthetic gypsum increased significantly

Source: Company, Systematix Institutional Research

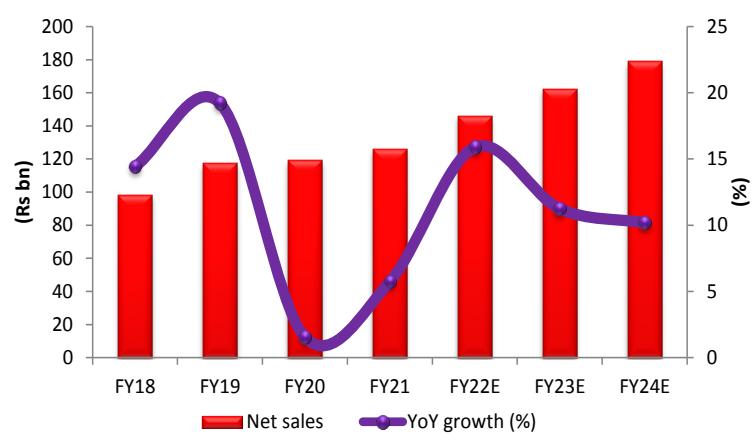
Exhibit 41: Higher clinker to cement conversion ratio even for its Northern plant

Source: Company, Systematix Institutional Research

Financial Highlights

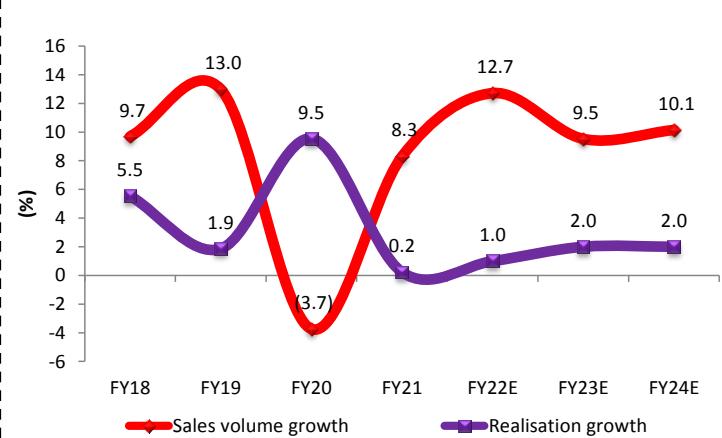
We expect SRCM's sales volume to grow at a CAGR of 10.8% over FY21-24E. This along with a 1.7% CAGR in realisations over the next three years will aid a revenue CAGR of 12.4% between FY21-24E. The company launched its premium products *Bangur Power & Roofon* in FY19. These products were well-received and captured 5% of the company's total sales volume by FY20. The sales volume of *Bangur Power* increased 72% YoY in FY21 despite COVID-19-led disruptions. *Roofon* had a sales volume of ~1mt in FY21. SRCM expects premium products to account for 10% of its sales volumes in the near-term.

Exhibit 42: Expect revenue CAGR of 12.4% over FY21-24E...



Source: Company, Systematix Institutional Research

Exhibit 43: ...led by volume/NSR CAGR of 10.8%/1.7%

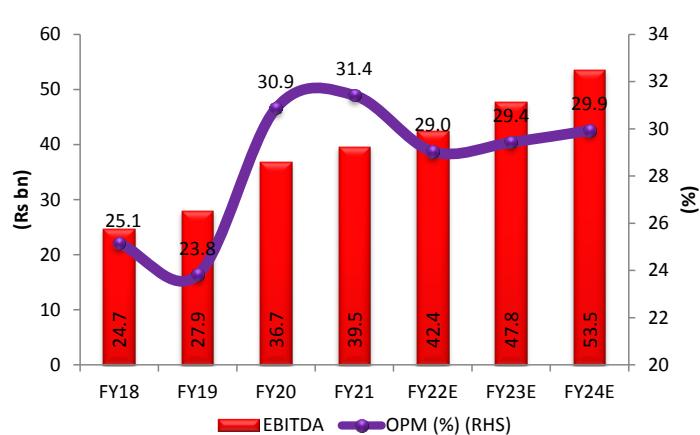


Source: Company, Systematix Institutional Research

SRCM's operating profit is expected to grow at a CAGR of 10.6% between FY21-FY24E led by 1) higher sales volumes, 2) higher share of premium products and 3) better realisations. Its OPM increased to 30.9%/31.4% in FY20/21 from 23.8% in FY19 led by the steep improvement in realisations (9.5% YoY in FY20) and control on variable costs in FY21. We expect its OPM to reduce to 29% in FY22E due to higher energy costs and an increase in variable costs (travelling and office expenses) but improve to 29.4%/29.9% in FY23/24E.

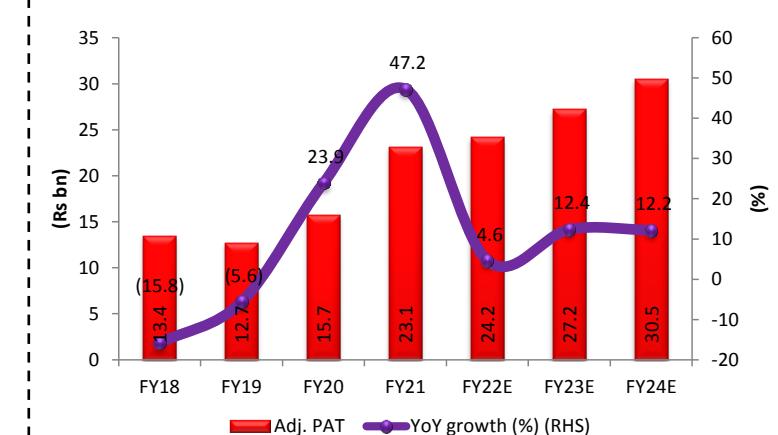
The company's adjusted profits declined by 15.8% YoY in FY18 on higher tax rates (ETR at 25% vs. 11% in FY17) and by 5.6% YoY in FY19 (on higher depreciation expense as SRCM follows the accelerated depreciation policy). However, its adjusted profit grew at a CAGR of 35% over FY19-21 on better operating performance. We expect its adjusted profit to grow at a CAGR of 9.7% over FY21-24E. Depreciation is likely to increase at a CAGR of 14.6% over FY21-24E post the commissioning of its grinding units in Odisha/Pune and the increase in its clinker capacity in Chhattisgarh.

Exhibit 44: Estimate EBITDA CAGR of 10.6% between FY21-24E



Source: Company, Systematix Institutional Research

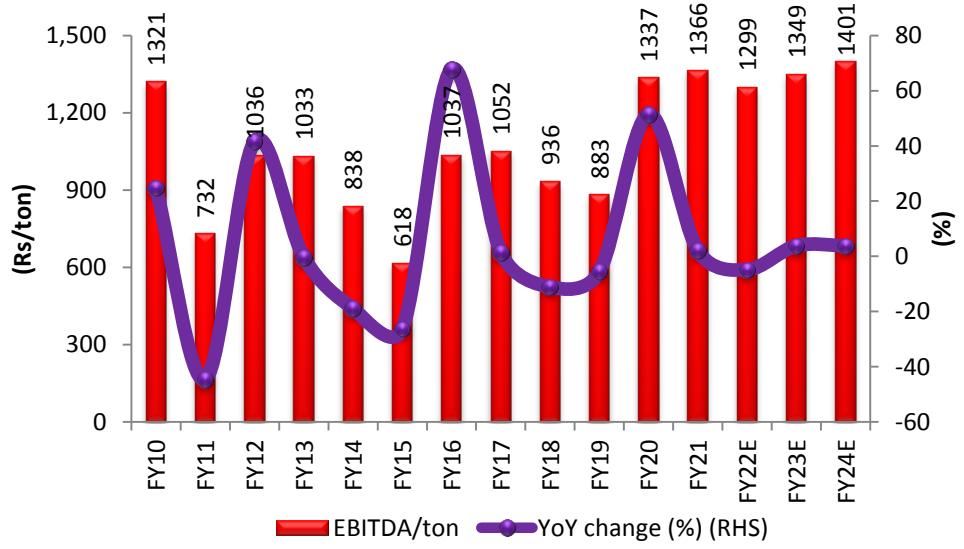
Exhibit 45: Higher depreciation expense to impact profit growth



Source: Company, Systematix Institutional Research

Better operating performance in the last two years has led to EBITDA/ton improvement - the company recorded its highest EBITDA/ton post FY10 in two consecutive years. We expect its EBITDA/ton to grow at a CAGR of 1% over FY21-24E on the high base of FY20/21.

Exhibit 46: EBITDA/ton improved in FY20/21; expect further improvement

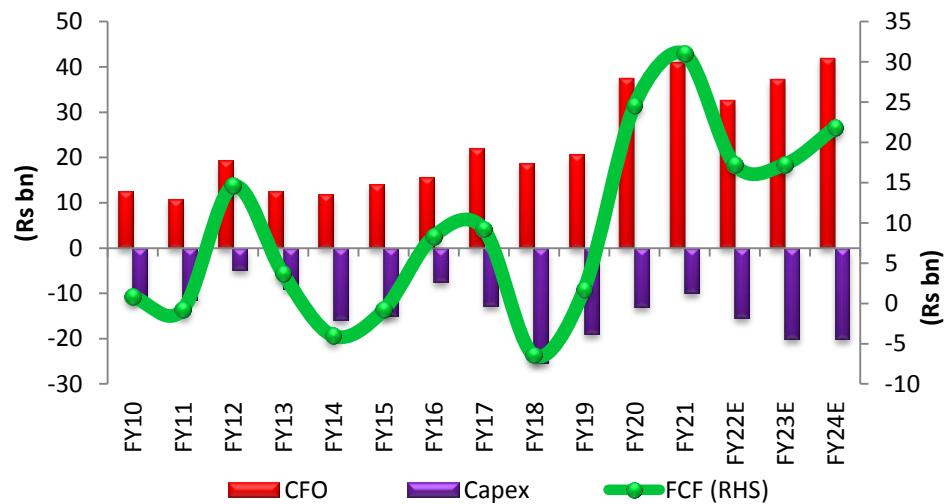


Source: Company, Systematix Institutional Research

The improvement in profitability and the release of working capital (cumulative reduction of Rs 14.4bn in FY20/21) led to an improvement in operating cash flows (OCF) and free cash flows (FCF) over the last few years. OCF and FCF increased at a CAGR of 16.8% and 35.4% between FY17-21. Higher FCF generation in FY20/21 was also led by lower capex (Rs 12.9bn/Rs 9.9bn in FY20/21 vs. its average of Rs 18.9bn between FY17-19).

Given its strong top-line growth and continued focus on controlling opex, we expect SRCM to generate a robust OCF of Rs 111.7bn over FY21-24E. Higher OCF will help it to fund its capacity expansions through internal accruals and keep its balance sheet healthy. We expect FCF of Rs 56.4bn over FY21-24E (depending on future capex plans as the management has indicated its aim to double capacity over the next 6-7 years).

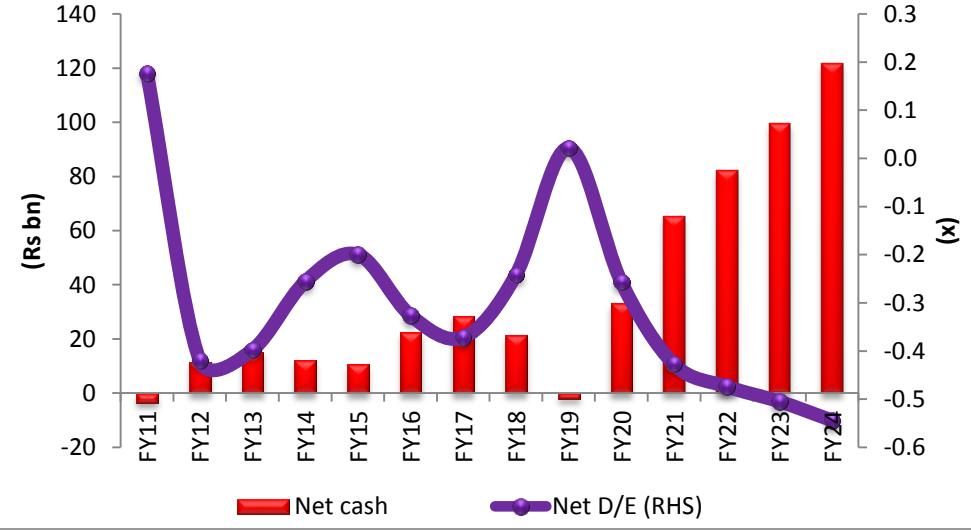
Exhibit 47: Healthy OCF and FCF generation to continue till FY24E



Source: Company, Systematix Institutional Research

Despite the capacity increase by 4.8x between FY09-21, SRCM has remained a net cash positive company in most years, led by lower capital cost for capacity additions vs. its peers. The company had also raised Rs 24bn through the issue of equity shares (first-ever equity dilution, 12.435mn shares were issued at Rs 19,300/share through a QIP) in Nov-19. We expect its net cash to improve to Rs 122bn in FY24E vs. Rs 65bn in FY21.

Exhibit 48: Remained a net cash positive company in most years



Source: Company, Systematix Institutional Research

SRCM's RoE improved to 16.4% in FY21 vs. 13.9% in FY20 led by 1) the improvement in profitability as cement prices increased in the Northern and Central markets, 2) controlled opex led by higher power generation through WHRS/wind power plants and 3) lower variable costs. We expect its RoE to be in the 14-15% range till FY24E.

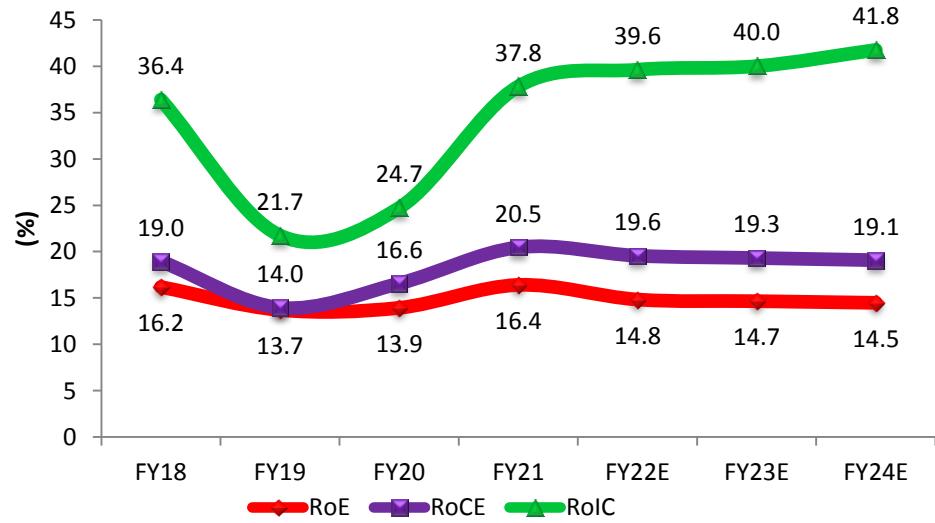
Exhibit 49: Du-pont analysis

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT/PBT	75.2%	90.7%	80.1%	76.4%	75.0%	75.0%	75.0%
PBT/EBIT	93.0%	85.0%	87.2%	92.4%	93.1%	94.1%	94.9%
EBIT/Sales	19.5%	14.0%	18.9%	26.0%	23.7%	23.7%	24.0%
Asset turnover (x)	0.97	0.99	0.88	0.79	0.82	0.81	0.80
Assets/Equity (x)	1.22	1.27	1.20	1.13	1.09	1.08	1.07
ROE (%)	16.2	13.7	13.9	16.4	14.8	14.7	14.5

Source: Company, Systematix Institutional Research

The RoCE of the company improved to 20.5% in FY21 vs. 16.6% in FY20, led by higher operating profit and a decline in depreciation costs (Rs 11.4bn in FY21 vs. Rs 17bn in FY20). We expect its RoCE to be in the 19-20% range till FY24E.

SRCM's RoIC is amongst the best in the industry due to the redeployment of its operating cash flows for capacity expansions at the lowest capital cost in the industry. The faster execution of projects and lower operating costs lead to a smaller payback period and higher RoIC which improved to 37.8% in FY21 vs. 24.7% in FY20. We expect it to further improve to 41.8% by FY24E.

Exhibit 50: RoE/RoCE to remain stable, RoIC to improve

Source: Company, Systematix Institutional Research

Cash flow analysis & corporate governance

FCF generation: Generated cumulative FCF of ~Rs 60bn between FY17-21.

FCF utilisation: Of the total FCF generation of Rs 60bn, SRCM paid ~25% of the amount (~Rs 15bn) towards dividends (including dividend tax) in the past 5 years. Liquid assets of the company have increased by Rs79.3bn in last 5 years (132% of FCF). The company also raised Rs24bn through QIP. Gross debt has increased by Rs8.9bn in last 5 years (15% of FCF).

FCF expectation: We estimate FCF to dip to Rs 17.2bn/Rs 17.3bn/Rs 21.8bn in FY22E/23E/24E from Rs 31bn in FY21 as we assume an increase in working capital and higher capex (average of Rs 18.4bn over the next three years vs. its average of Rs 11.4bn in FY20/21).

Earnings quality: During the last 10 years, the company has earned a cumulative PAT of ~Rs 122bn against which it generated an OCF of Rs 213bn (1.75x of profits).

Exhibit 51: FCF to decline on higher capex and working capital

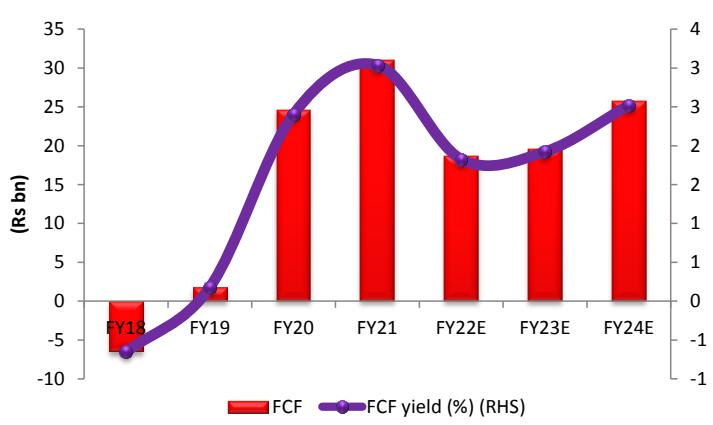
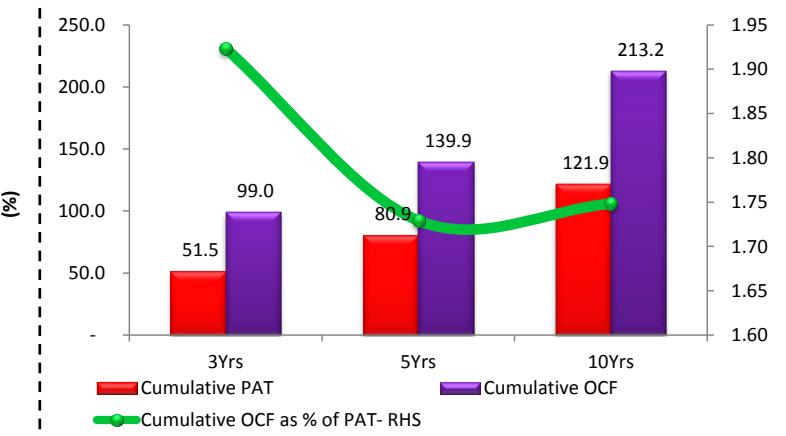


Exhibit 52: Profit and OCF trends in different phases



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

Exhibit 53: Contingent liabilities

Contingent liabilities (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
Demand from Competition Commission of India	3,975	4,160	4,160	4,160	4,160	4,160
Incentive	-	3,554	3,554	3,554	3,554	3,554
Others	598	807	621	645	669	694
Total	4,573	8,520	8,334	8,359	8,383	8,408
% of networth	7%	11%	9%	9%	6%	6%

Source: Company, Systematix Institutional Research

Exhibit 54: Director and KMPs renumeration & pledging details

Other key monitorables	FY16	FY17	FY18	FY19	FY20	FY21
Remuneration to Directors & KMPs (Rs mn)	369	555	643	744	697	794
% of PBT	3.1%	3.1%	3.6%	5.3%	3.6%	2.6%
Auditor's remuneration (Rs mn)	5.9	6.4	5.8	5.8	8.6	6.2
% of PBT	0.20%	0.10%	0.10%	0.10%	0.10%	0.02%
Pledged shares (%)	-	-	-	-	-	-

Source: Company, Systematix Institutional Research

Systematix vs. Consensus

Our revenue/operating margins estimates are 3-6/6-9% below the Bloomberg consensus for FY22E, FY23E and FY24E. We expect SRCM's operating profit to grow at a CAGR of 10.6% during FY21-FY24E led by 1) higher share of premium products going forward, 2) increased use of alternate raw materials/waste resources, 3) higher consumption of renewable sources of energy and continued thrust on installing WHRS (has the largest portfolio of renewable assets in India at 244MW amongst cement players) and 4) commissioning of new satellite grinding units in the East (Atagarh, Odisha) & West (Patas, Maharashtra) India.

Exhibit 55: Shree Cement - Standalone vs. Bloomberg Consensus

Particulars	FY22E	FY23E	FY24E
Revenues (Rs bn)			
Consensus	151	171	191
Systematix est.	146	162	179
% Difference	-3%	-5%	-6%
EBITDA (Rs bn)			
Consensus	45	52	59
Systematix est.	42	48	54
% Difference	-6%	-8%	-9%
EBITDA Margin (%)			
Consensus	29.9%	30.4%	30.9%
Systematix est.	29.0%	29.4%	29.9%
Difference (bps)	(82)	(95)	(95)

Source: Bloomberg, Systematix Institutional Research

Exhibit 56: Key assumptions

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales volume (mt)	24.9	23.9	25.9	29.2	32.0	35.3
Cement Realization (Rs/ton)	4,139	4,534	4,544	4,589	4,681	4,775
Per ton costs (Rs)						
Raw material	334	308	326	314	313	314
Purchase of goods	-	-	-	-	-	-
Employee cost	262	293	283	270	261	256
Power & Fuel	820	756	658	773	784	812
Freight	1,108	1,046	1,132	1,160	1,190	1,220
Other expense	703	723	718	718	732	749
Total Cost	3,227	3,126	3,118	3,235	3,280	3,351

Source: Company, Systematix Institutional Research

Key Risks

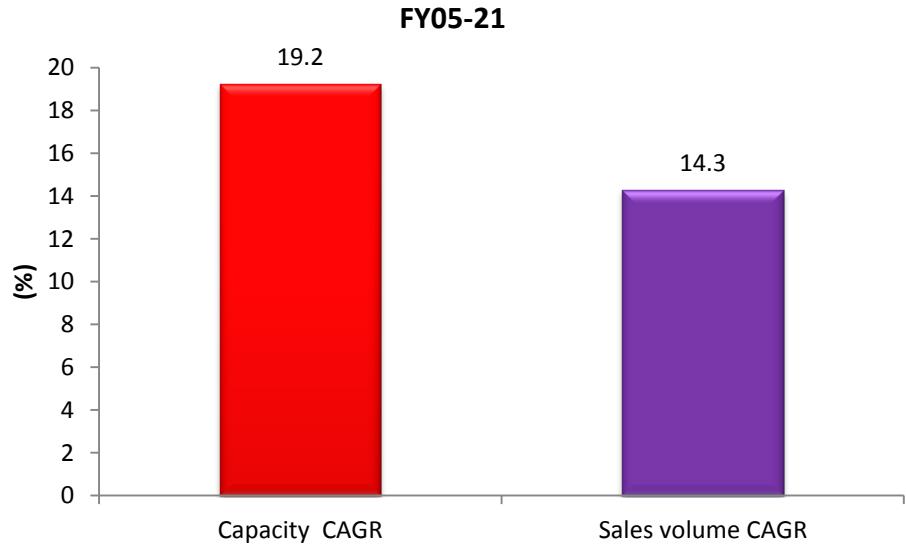
- 1) **Margin pressure in East India:** SRCM could face margin pressure in East India as 1) commissioning of ~30mtpa capacity (+~28% capacity) over the next three years would limit the NSR growth in the region. To maintain its pricing power, it should prioritise its capacity expansion programme of doubling its capacity to 80mtpa by 2030 and commissioning the 12ktpd plant in Chhattisgarh.
- 2) **Lower cement prices in the Southern region:** Historically, cement prices have remained volatile in the Southern region due to lower capacity utilisation of the existing units. We have assumed a better pricing scenario considering additional/sustainability of FY21 price hikes. Lower-than-estimated cement prices would adversely impact our earnings estimate, given SRCM has 7% capacity exposure in the south market.
- 3) **Inflationary pressures in fuel costs:** There has been a sharp increase in the prices of pet coke, coal and diesel in the last few months. The price of pet coke is up ~75% over the last year while imported coal price has increased by 30%+. Current pet coke prices are up 30%-40% vs. the 4QFY21 consumption price. Though cement companies are trying to control energy costs by changing their fuel mix (lower usage of pet coke and Australian coal), continued escalation in coal/pet coke prices could impact our earnings estimate if the industry is unable to pass on the cost increases to consumers.
- 4) **Prolonged pandemic-related restrictions/lockdowns:** We estimate SRCM to report cement volume growth of 12.7% in FY22E; however, continued localised lockdowns in the country could act as a downside risk to our estimates. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites, thus delaying the process. However, we derive confidence from the vaccination pace in India and believe economic recovery and normalcy will be attained from 2HFY22E onwards.

Valuation and View

SRCM, the market leader in the Northern region, has diversified into the Eastern and Southern regions over the last few years. Consistent capacity additions have helped it gain volumes. Its capital cost/ton for expansions has been one of the lowest in the industry while it is also one of the most cost-efficient players. Tight control on the variable cost of production and freight costs has helped it become the lowest-cost producer in the Indian cement industry.

The company's capacity increased at a CAGR of 19.2% whereas sales volume grew at a CAGR of 14.3% between FY05-21. It is expanding its clinker capacities by 12,000 tpd (3.96mtpa) in Baloda Bazar, Chhattisgarh and grinding capacity by 3mtpa in Patas, Pune. The management intends to double the capacity in the next 6-7 years - this plan was to be executed in two phases and the company had raised Rs 24bn through the issue of equity shares (first-ever equity dilution, 12.435mn shares were issued at Rs 19,300/share through a QIP) in Nov-19. While the plan has been delayed due to COVID-19-led challenges, we believe the company will commence the execution of expansion in the near-term. It is likely to expand its capacity in the Northern region (Nawalgarh, Rajasthan) first, followed by other locations in the Southern/Western regions.

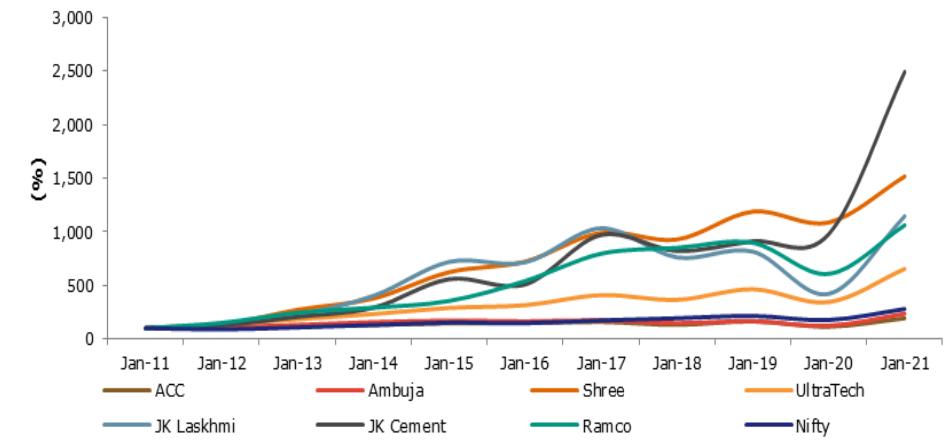
Exhibit 57: Capacities and sales volumes have increased significantly



Source: Company, Systematix Institutional Research

SRCM has been consistent in generating wealth for investors, which we believe is due to its cost efficiencies, higher RoIC and conservative approach of capacity additions through internal accruals.

Exhibit 58: SRCM has been a consistent wealth multiplier



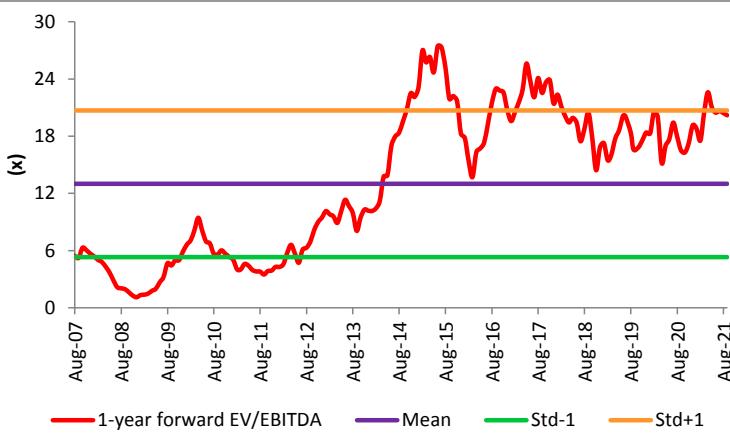
Source: Company, Systematix Institutional Research

The company believes in keeping its balance sheet de-leveraged. Despite significant capacity additions in the past, it has remained cash-positive which will help it fund future expansions. It had net cash of Rs 65.2bn at FY21-end and we expect to increase to Rs 121.9bn by FY24-end (depending on its expansion plans).

It enjoys one of the best return ratios in the cement sector. The company's RoIC improved to 24.7%/37.8% in FY20/FY21 from 21.7% in FY19 and we expect it to improve further to 41.8% by FY24E.

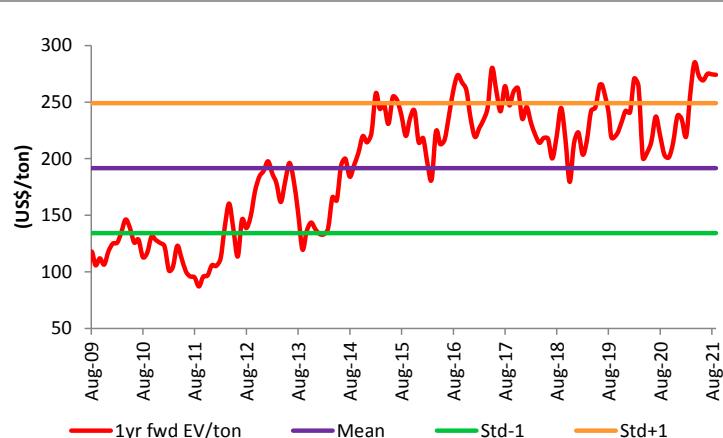
The stock trades at 22.2x/19.3x/16.8x FY22E/23E/24E EV/EBITDA and USD 277/272/265 FY22E/23E/24E EV/ton. It has traded at an average EV/EBITDA of 20.2x in the last 7 years. With the improvement in profitability (EBITDA expected to grow at a CAGR of 10.6% over FY21-24E), stable return ratios, strong balance sheet and increasing capacity, we expect it to maintain its premium valuation. We value the stock at 20x FY23E EV/EBITDA to arrive at a target price of Rs 29,855 (an upside of 5.5% from the CMP) and initiate coverage with a **HOLD** rating. At our TP, the stock will trade at 20x/17.4x FY23E/24E EV/EBITDA and USD 289/282 FY23E/24E EV/ton.

Exhibit 59: 1-year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 60: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	119,040	125,884	145,884	162,292	178,823
Growth (%)	1.6	5.7	15.9	11.2	10.2
Total Expenditure	82,555	86,337	103,530	114,535	125,306
EBIDTA	36,745	39,547	42,354	47,758	53,516
Growth (%)	31.7	7.6	7.1	12.8	12.1
EBIDTA %	30.9	31.4	29.0	29.4	29.9
Depreciation	16,994	11,399	12,979	15,076	17,173
EBIT	19,751.1	28,148.2	29,375.1	32,681.7	36,342.9
EBIT margin (%)	16.6	22.4	20.1	20.1	20.3
Other income	2,716	4,580	5,250	5,844	6,507
Interest	2,865	2,471	2,372	2,277	2,186
EBT	19,602	30,257	32,253	36,248	40,663
Tax	3,900	7,138	8,063	9,062	10,166
Effective tax rate (%)	19.9	23.6	25.0	25.0	25.0
Adj PAT	15,702	23,119	24,190	27,186	30,497
Growth (%)	23.9	47.2	4.6	12.4	12.2
Net Margin (%)	13.2	18.4	16.6	16.8	17.1
Reported PAT	15,702	23,119	24,190	27,186	30,497
Growth (%)	65.1	47.2	4.6	12.4	12.2

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	361	361	361	361	361
Reserves & surplus	129,003	152,140	173,285	196,991	223,574
Net worth	129,364	152,501	173,645	197,352	223,934
Loan Funds	31,442	21,832	21,832	21,832	21,832
Net Deferred Taxes	7,438	7,855	7,855	7,855	7,855
Total Liabilities	153,368	166,478	187,623	211,329	237,912
Net block	43,189	41,916	48,937	53,861	56,687
Capital WIP	9,621	9,710	5,000	5,000	5,000
Investment	89,154	110,506	124,506	142,506	160,506
Current Assets	43,976	40,402	45,664	47,534	54,502
Inventories	14,279	14,772	15,636	16,464	17,289
Sundry Debtors	8,285	4,859	5,212	5,910	6,542
Cash and Bank	1,082	2,098	5,173	4,542	8,786
Loans and Advances	5,476	6,232	6,701	7,177	7,944
Other current assets	14856.1	12441.2	12941.2	13441.2	13941.2
Current Liab & Prov	32,573	36,055	36,484	37,572	38,784
Net current assets	11,404	4,347	9,180	9,962	15,718
Miscellaneous Exps	0	0	0	0	0
Total Assets	153,368	166,478	187,623	211,329	237,912

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income)	19,602	30,257	27,003	30,404	34,157
Depreciation	16,994	11,399	12,979	15,076	17,173
Interest Provided	1,132	2,471	2,372	2,277	2,186
Other Non-Cash items	(946)	(4,515)	-	-	-
Chg in working cap	5,591	8,762	(1,757)	(1,414)	(1,512)
Tax paid	(4,859)	(7,439)	(8,063)	(9,062)	(10,166)
Operating Cashflow	37,514	40,936	32,533	37,282	41,839
Capital expenditure	(12,941)	(9,924)	(15,290)	(20,000)	(20,000)
Free Cash Flow	24,573	31,012	17,243	17,282	21,839
Other income	1,906	2,107	5,250	5,844	6,507
Investments	(42,698)	(20,863)	(14,000)	(18,000)	(18,000)
Investing Cashflow	(40,792)	(18,755)	(8,750)	(12,156)	(11,493)
Equity Capital Raised	23,833	-	-	-	-
Loans Taken / (Repaid)	1,175	(9,610)	-	-	-
Interest Paid	(2,868)	(2,514)	(2,372)	(2,277)	(2,186)
Dividend paid (incl tax)	(6,231)	(22)	(3,045)	(3,480)	(3,915)
Income from investments	-	-	-	-	-
Others	-	-	-	-	-
Financing Cashflow	15,910	(12,146)	(5,417)	(5,757)	(6,101)
Net chg in cash	(309)	112	3,076	(632)	4,244
Opening cash position	152	(157)	2,098	5,173	4,542
Closing cash position	(157)	(46)	5,173	4,542	8,786

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	30.9	31.4	29.0	29.4	29.9
Net Margin	13.2	18.4	16.6	16.8	17.1
ROCE	16.6	20.5	19.6	19.3	19.1
ROE	13.9	16.4	14.8	14.7	14.5
RoIC	24.7	37.8	39.6	40.0	41.8
Per Share Data (Rs)					
EPS	435.2	640.8	670.4	753.5	845.3
CEPS	906.2	956.7	1,030.1	1,171.3	1,321.2
BVPS	3,585.4	4,226.7	4,812.7	5,469.7	6,206.5
DPS	110.0	60.0	70.0	80.0	90.0
Valuations (x)					
PER	65.0	44.2	42.2	37.6	33.5
P/CEPS	31.2	29.6	27.5	24.2	21.4
P/BV	7.9	6.7	5.9	5.2	4.6
EV / Sales	8.3	7.6	6.4	5.7	5.0
EV / EBITDA	26.9	24.2	22.2	19.3	16.8
Dividend Yield (%)	0.4	0.2	0.2	0.3	0.3
Gearing Ratio (x)					
Net Debt/ Equity	-0.3	-0.4	-0.5	-0.5	-0.5
Net Debt/EBIDTA	0.8	0.5	0.4	0.4	0.2
Working Cap Cycle (days)	-14	-30	-24	-19	-15

Source: Company, Systematix Institutional Research

Ambuja Cement

01 September 2021

Gearing up for the upcycle!

INITIATING COVERAGE

Sector: Cement	Rating: BUY
CMP: Rs 421	Target Price: Rs 500

Stock Info

Sensex/Nifty	57,552/17,132
Bloomberg	ACEM IN
Equity shares (mn)	1,986
52-wk High/Low	427/197
Face value	2
M-Cap	Rs 837bn/USD 11.4bn
3-m Avg volume	USD 21.4 mn

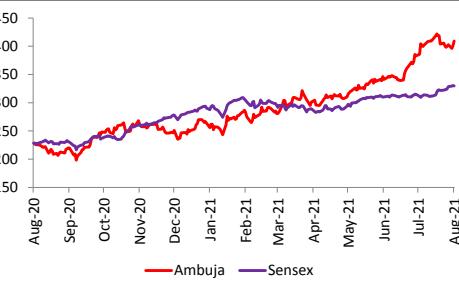
Financial Snapshot (Rs mn)

Y/E March	CY21E	CY22E	CY23E
Sales	141	156	173
EBITDA	36	40	45
PAT	25	27	31
EPS (Rs)	12.5	13.8	15.8
PE (x)	33.7	30.4	26.7
EV/EBITDA (x)	15.9	13.8	11.7
RoE (%)	20.8	19.7	19.3
RoCE (%)	35.0	32.1	30.6
Dividend yield (%)	0.6	0.7	0.8

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20
Promoter	63.3	63.3	63.3
-Pledged	-	-	-
FII	17.7	17.7	18.1
DII	12.2	12.1	11.5
Others	6.8	6.85	7.1

Stock Performance (1-year)



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Historically, Ambuja Cement (ACEM) has lagged behind its peers in capacity additions. Between FY10-21, ACEM's capacity grew at a CAGR of 4.9% whereas most of its peers witnessed capacity growth of 10-17%. This led to lower-than-industry volume growth for the company while its sales volume remained stagnant between CY11-16. Post CY16, the effort to push volumes resulted in a sales volume CAGR of 4.3% between CY16-19. The management targets to reach 50mtpa capacity in the near term. This plan, if executed, would alleviate investors' concerns about growth. ACEM's new plant at Marwar Mundwa, Rajasthan along with the increase in grinding capacity at Ropar, Punjab will lead to incremental capacity growth of 4.5mtpa (15% of current capacity) and market share gains of 50-60bps. The operating efficiency and cost improvement programs (I CAN and Master Supply Agreement with ACC) are yielding results. The Master Supply Agreement with ACC led to PBT benefits of 5%+ in CY20. We expect a RoE of 19-21% between CY21-23E vs. 15% in CY20 (up 2.6pp YoY). The stock trades at 15.9x/13.8x/11.7x CY21/22/23E EV/EBITDA. We initiate coverage with a BUY rating and value it at 14x CY23E EV/EBITDA to arrive at a target price of Rs 500.

New plant in the North to aid volume growth; aims to reach 50mtpa capacity

ACEM's greenfield plant with clinker/cement capacity of 3.1/1.8mtpa at Marwar Mundwa, Rajasthan, along with its grinding capacity expansion by 1.5mtpa in Ropar, Punjab would lead to incremental capacity growth of 4.5mtpa (~15% of capacity) as the company has surplus grinding capacity. We expect sales volume to grow at a CAGR of 12.6% over CY20-23E, leading to market share gains of 50-60bps. ACEM plans to reach 50mtpa capacity in the medium term through brownfield expansions (Bhatapara, Chhattisgarh and Maratha, Maharashtra plants) and debottlenecking across all plants. It may consider clinker capacity addition of 3.3mtpa each in the Eastern and Western regions.

Operating efficiency and cost-saving measures are yielding results

ACEM entered into a Master Supply Agreement (MSA) with ACC to benefit from each other's capacities through clinker/cement/raw material swapping. This led to a PBT improvement of 5%+ in CY20. It plans to improve its cost structure through the commissioning of Waste Heat Recovery Systems (WHRS), solar power plants, coal mining from the Gare-Palma IV coal block and the completion of the railway siding project at Rabriyawas, Rajasthan. We expect EBITDA/ton of Rs 1,405 in CY23E vs. Rs 1,168/Rs 1,434 in CY20/1HCY21.

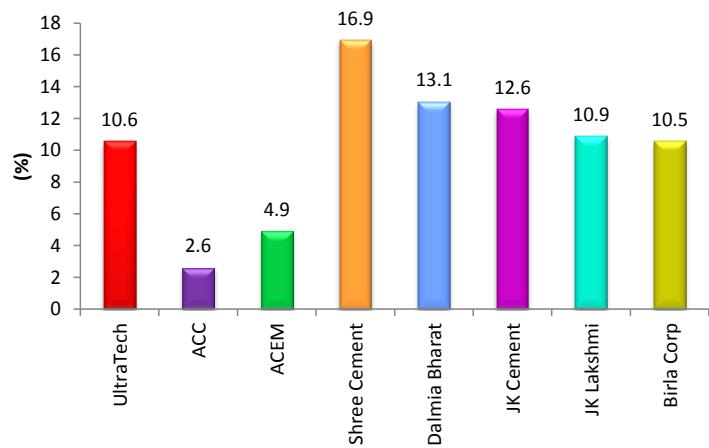
Valuation and recommendation

We expect an EBITDA CAGR of 19.7% over CY20-23E. ACEM's RoE improved by 2.6% YoY to 15% in CY20 and we estimate it to improve further to between 19-21% by CY23E. The stock trades at 15.9x/13.8x/11.7x CY21/22/23E EV/EBITDA and USD 247/239/229 CY21/22/23E EV/ton. It has traded at an average EV/EBITDA of 13.3x over the last 10 years. Going forward, with the improvement in profitability and return ratios, we expect it to trade at its historical valuations and hence value the company at 14x CY23E EV/EBITDA to arrive at a target price of Rs 500, an upside of 20% from the CMP. We value its subsidiary ACC at 12x CY23E EV/EBITDA. We initiate coverage on the stock with a BUY rating.

Investors are advised to refer disclosures made at the end of the research report.

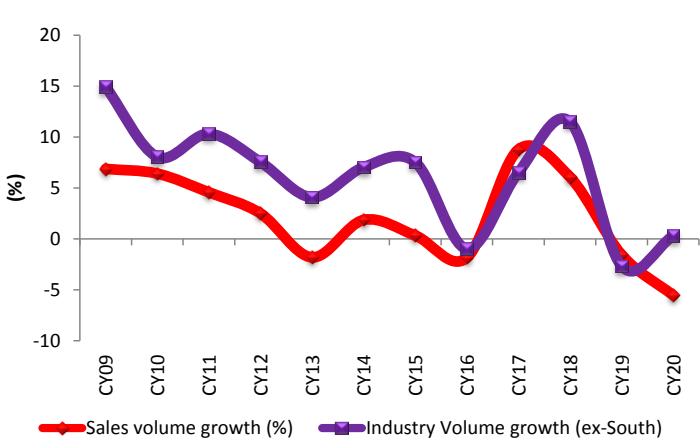
Story in charts

Exhibit 1: Lagged its peers in capacity additions...



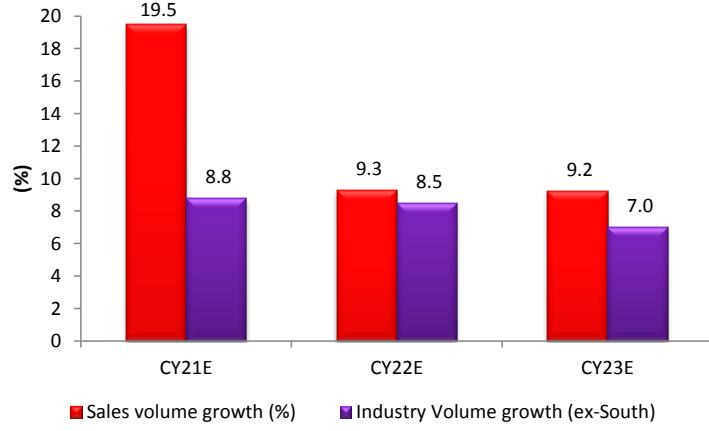
Source: Company, Systematix Institutional Research

Exhibit 2: ...which led to lower volume growth



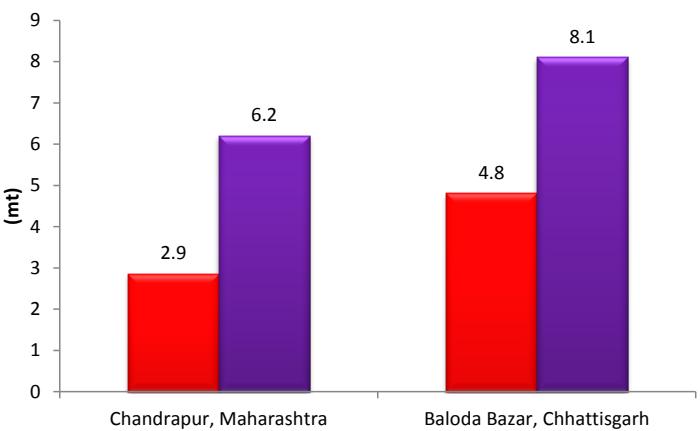
Source: Company, Systematix Institutional Research

Exhibit 3: Sales volume growth expected to be above industry average during CY21-23E



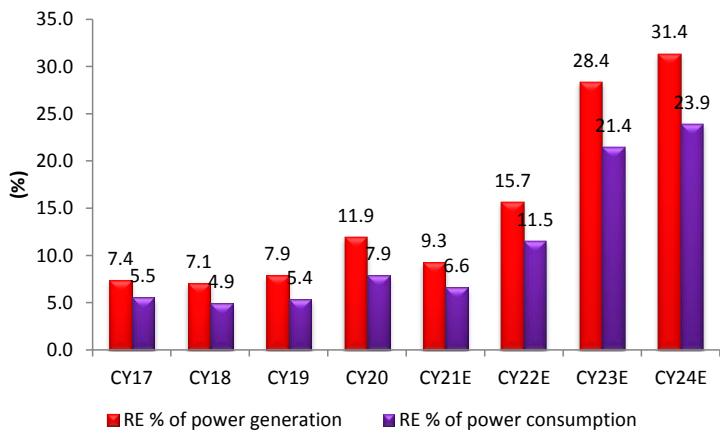
Source: Company, Systematix Institutional Research

Exhibit 4: ACEM may plan for brownfield expansion in Chhattisgarh & Maharashtra



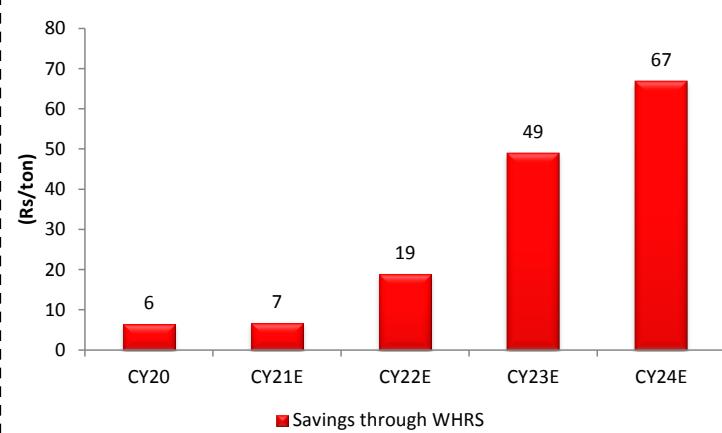
Source: Company, Systematix Institutional Research

Exhibit 5: We estimate ~1/3rd of power generation through renewable energy

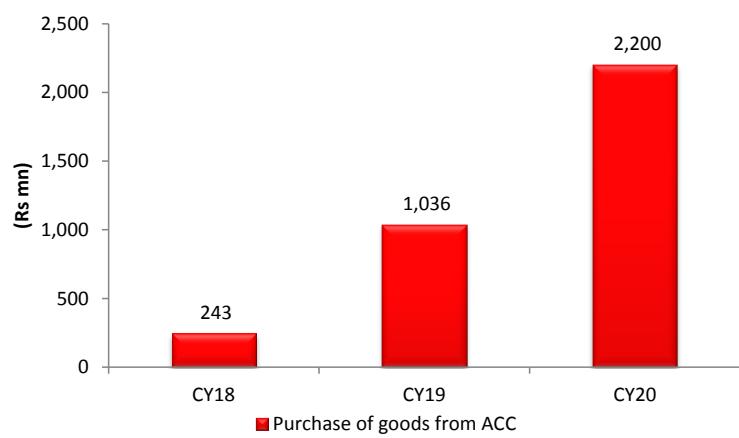


Source: Company, Systematix Institutional Research

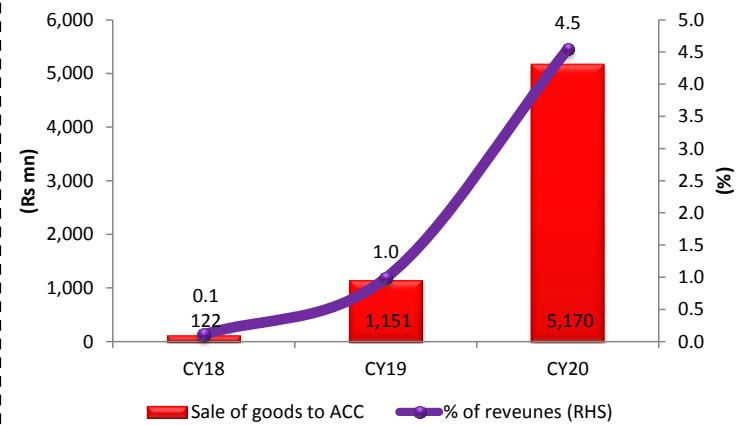
Exhibit 6: WHRS will lead to incremental cost savings of Rs 64/ton by CY24E



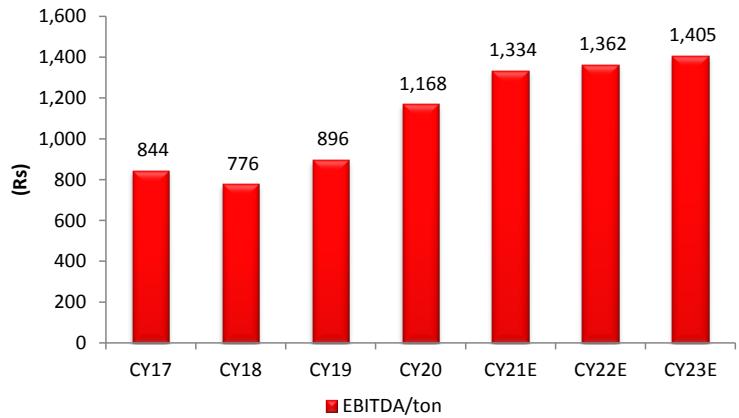
Source: Company, Systematix Institutional Research

Exhibit 7: Goods purchased from ACC increased ~2x in CY20...

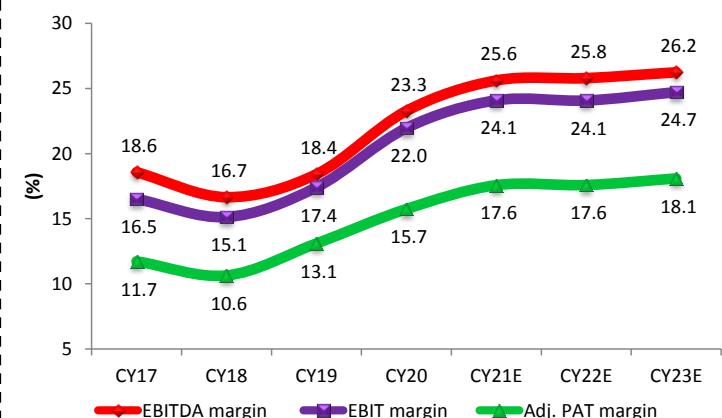
Source: Company, Systematix Institutional Research

Exhibit 8: ...while goods sold to ACC increased 4.5x YoY in CY20; 4.5% of revenues

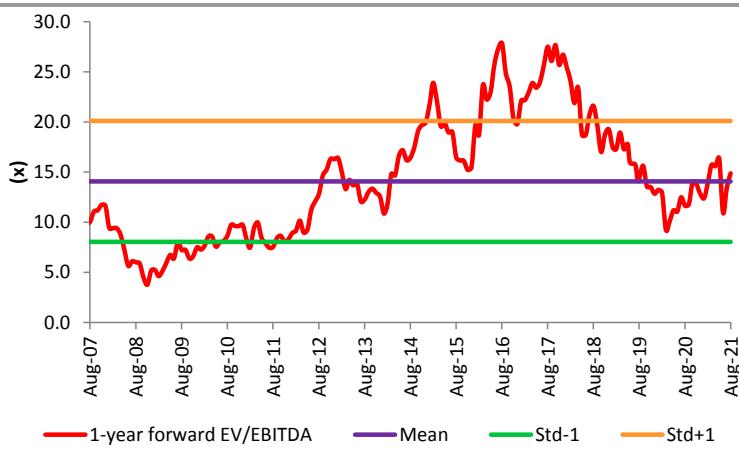
Source: Company, Systematix Institutional Research

Exhibit 9: EBITDA/ton improved in CY20; expect it to improve further

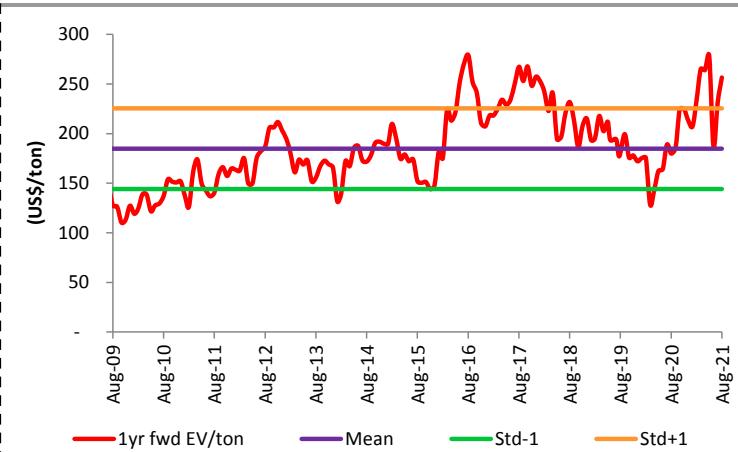
Source: Company, Systematix Institutional Research

Exhibit 10: Return ratios improved in CY20; RoE/RoCE expected to improve further

Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward EV/EBITDA

Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward EV/ton

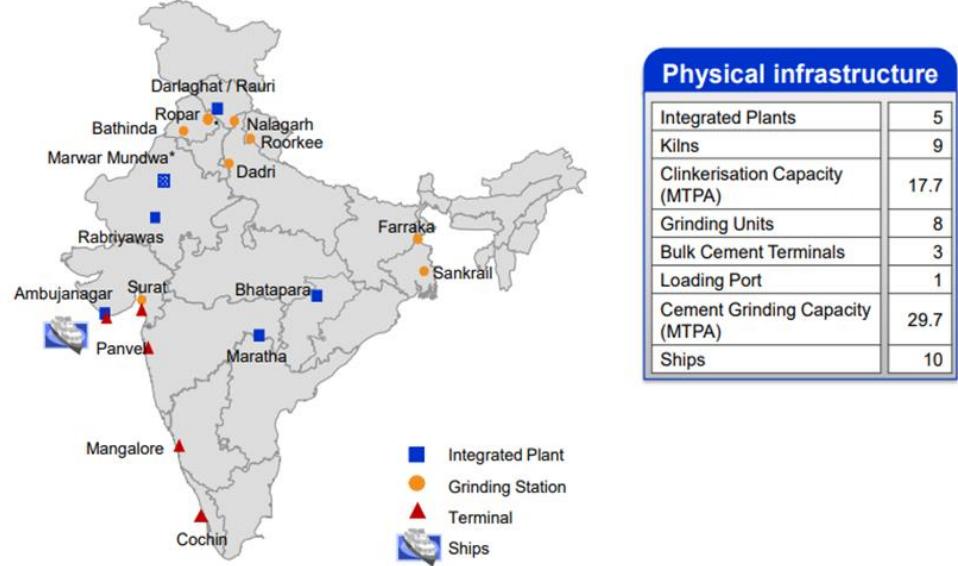
Source: Company, Systematix Institutional Research

Company background

On a standalone basis, ACEM has the 5th largest grinding capacity and it is expected to add 3.1/1.8mtpa clinker/cement capacity by CY21-end and a 1.5mtpa grinding unit by CY23E.

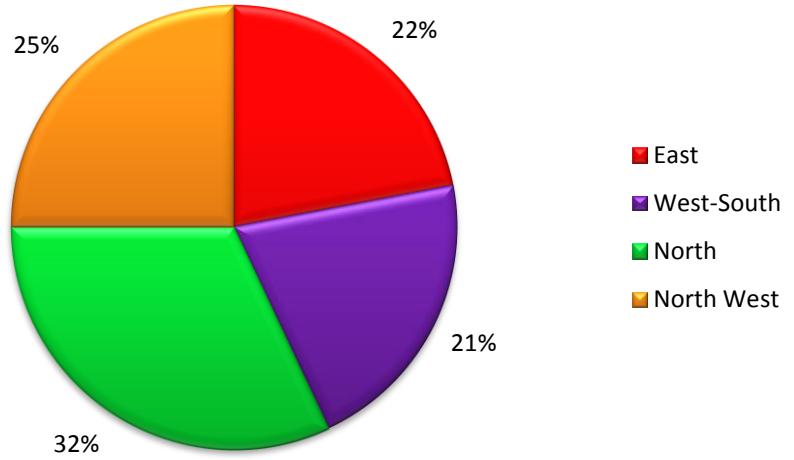
Ambuja Cements Ltd. (ACEM), a subsidiary of LafargeHolcim (controlling 63.3% stake), is one of the leading cement companies in India with an annual clinker/cement capacity of 17.7/29.7mtpa and captive power generation capacity of 291MW. Barring southern India, the company has a geographical presence across the entire country with ~50,000 channel partners (addition of 600 channel partners in CY20). ACEM derives 11% revenue share from its premium product portfolio of Ambuja Plus Roof Special, Cool Walls, Compocem and recently introduced Kawach. ACEM holds a 50% stake in ACC.

Exhibit 13: Ambuja Cements Infrastructure in India



Source: Company, Systematix Institutional Research

Exhibit 14: ACEM is a major cement player in the markets where it has presence



Source: Company, Systematix Institutional Research

Manufacturing facilities

Exhibit 15: Ambujanagar integrated unit (5.5mtpa)



Source: Company

Exhibit 16: Bhatapara integrated unit (3.6mtpa)



Source: Company

Exhibit 17: Maratha integrated unit (4.5mtpa)



Source: Company

Exhibit 18: Rabariyawas integrated unit (2.6mtpa)



Source: Company

Exhibit 19: Grinding unit in Ropar, Punjab (2.5mtpa)



Source: Company

Exhibit 20: Muldwarka bulk cement terminal



Source: Company

Exhibit 21: ACEM's building products portfolio; KAWACH was the latest addition



Source: Company

Exhibit 22: Board of Directors & Key Managerial Personnel

Name	Designation	Background	Other board memberships
Mr. N.S. Sekhsaria	Principal Founder	A doyen of the Indian Cement industry, he is the Principal Founder of the company and the Chairman of the Board of Directors. He was the Chief Executive & Managing Director of the Company from its inception in Apr-83 until Jan-06. He introduced new standards in manufacturing, management, marketing efficiency and corporate social responsibility to the cement industry.	1. ACC Ltd. 2. Everest Industries Ltd.
Mr. Jan Jenisch	Vice Chairman	Is also the Chief Executive Officer of Holcim. He is a German national and has studied in Switzerland and the US, and graduated from the University of Fribourg, Switzerland, with a Master of Business Administration. He had joined Holcim in 2017 and has been leading a new era of transformational growth as well as financial and ESG performance with the vision to become the global leader in innovative and sustainable building solutions - the most recent milestone in this transformation is the 2021 acquisition of Firestone Building Products to become the global leader in flat roofing systems worldwide and the building partner of choice from foundation to rooftop.	1. ACC Ltd.
Mr. Neeraj Akhoury	Managing Director & CEO	Joined the Board in Feb'20 and has over 28 years of experience in the steel and cement industries. He has worked in leadership roles in India and other emerging markets. He began his career with Tata Steel in 1993 and joined the LafargeHolcim Group in 1999. He was working as Managing Director & CEO of ACC Limited from Feb-17 till Feb-20.	1. ACC Ltd.
Ms. Rajani Kesari	Chief Financial Officer	A qualified chartered accountant from ICAI, a Cost Accountant from ICWAI and a certified public accountant from the American Institute of Certified Public Accountant. She has over 26 years of experience in accounting, finance, taxation, audit and general management in manufacturing, pharmaceutical as well as auditing and consulting companies. She joined LafargeHolcim Group in 2018 from Schneider Electric, an energy management and automation company where she was the CFO for East Asia and Japan Zone.	1) Holcim Philippines Inc 2) Thermax Ltd.

Source: Company, Systematix Institutional Research

Exhibit 23: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Risks/Concerns	YoY Growth
CY16	▪ Demand grew in double digits in 1QCY16 but moderated for the full-year due to demonetisation.	▪ Mining lease at Maldi Mopar/Loadhva to secure limestone requirement at Bhatapara/Ambujanagar plant.	▪ Enhancing use of fly-ash in PPC.	▪ Ensuring raw material security.	Volume: -1.4% Revenue: -2.8% EBITDA: 10.5% PAT: 9.2%
CY17	▪ Industry's volumes grew 6% YoY in CY17 despite a challenging market environment, GST hiccups & sand availability issues.	▪ Environmental Clearance acquired for Maldi Mopar mines with a target to start operations by June'19.	▪ Minimising costs of fuel mix & working on fuel flexibility to mitigate the risks associated with a dynamic fuel market.	▪ Ironing out logistical bottlenecks.	Volume: 7% Revenue: 13.6% EBITDA: 14.6% PAT: 30%
CY18	▪ Sector displayed impressive growth of ~9% in 2018 on the back of the execution of stalled infrastructure and construction projects.	▪ Rs 23.5bn investment for 3.1/1.8mtpa clinker/cement units in Rajasthan.	▪ Sharp focus on network optimisation, change in mode-mix, re-negotiation of transportation contracts.	▪ Availability of quality raw materials & natural resources at a competitive cost.	Volume: 6% Revenue: 8.7% EBITDA: -2.5% PAT: -1.3%
CY19	▪ Demand took a beating due to general elections, labour shortages, weakness in the realty sector and prolonged monsoon leading to 2-3% demand growth. ▪ Outlook remains positive with the government's renewed focus on infrastructure development and the housing sector.	▪ Technologies to comply with SO2 & NO2 emission norms are in place with an investment of Rs 1.25bn. ▪ Invested Rs 0.7bn to purchase 50ha of land in Darlaghat, Ambujanagar, Bhatapara for limestone purpose.	▪ Plans to set up WHRS at Darlaghat & Bhatapara for Rs 3.8 bn; expected to be functional by 2QCY21.	▪ Aims to capture the lost market share by installing clinker plants at Marwar Mundhwa, Rajasthan; this should lead to an increase in output by 4.5mtpa. ▪ To reduce dependence on conventional fuel, it is installing WHRS and solar power plants.	Volume: -1.6% Revenue: 2.7% EBITDA: 13.6% PAT: 26.4%
CY20	▪ Demand witnessed resurgence led by robust farm income and strong volumes in urban housing (all-time low interest rates) in 2HCY20. ▪ Completion of pending affordable houses coupled with government spending on infrastructure could lead to demand growth of 5-6%.	▪ Aims to install 23.5/39.5MW of solar (Gujarat, Chhattisgarh) /WHRS (HP, Chhattisgarh) capacity by CY22. ▪ Acquired a new ML in Nandgaon Ekodi mine to secure limestone supply for the Maratha plant, Maharashtra. EC & other clearances are awaited.	▪ Aims to spend Rs 5.25bn towards WHRS for enhanced use of green energy and optimisation of operating cost. ▪ Total 23.5/39.5MW of solar (Gujarat, Chhattisgarh) /WHRS(HP, Chhattisgarh) capacity to be commissioned till CY22.	▪ Maintaining market share in a volatile, uncertain market. ▪ Securing key inputs to remain cost-competitive and ensure sustainable supply.	Volume: -5.5% Revenue: -2.5% EBITDA: 23.2% PAT: 17.1%

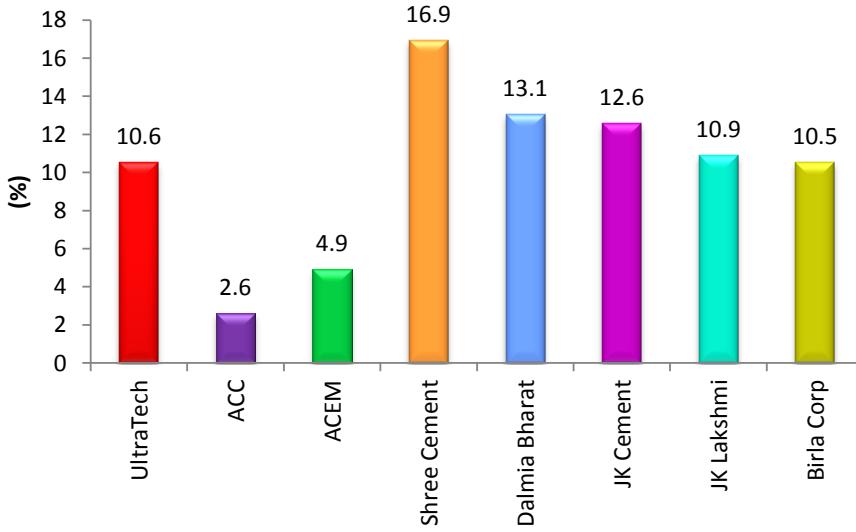
Source: Company, Systematix Institutional Research

Investment Analysis

Slower capacity additions than peers...

ACEM has added capacity at a slower pace than most of its peers over the last 10 years. It commissioned two clinker lines of 2.2mtpa each in Bhatapara (Chhattisgarh) and Rauri (Himachal Pradesh) in 1QCY10 and has not added clinker capacities after that. Between FY10-21, ACEM's capacity grew at a CAGR of 4.9% while most of its peers witnessed 10-17% growth. Apart from the companies mentioned below, ACEM's relevant markets saw the emergence of players like Wonder Cement, Nuvoco Vistas (acquired plants of LafargeHolcim in India and Emami Cements).

Exhibit 24: ACEM lagged its peers in capacity additions...

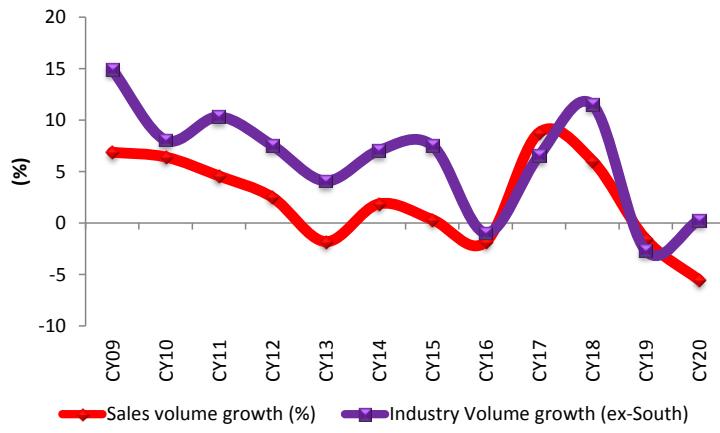


Source: Company, Systematix Institutional Research

...leading to lower volume growth and market share loss

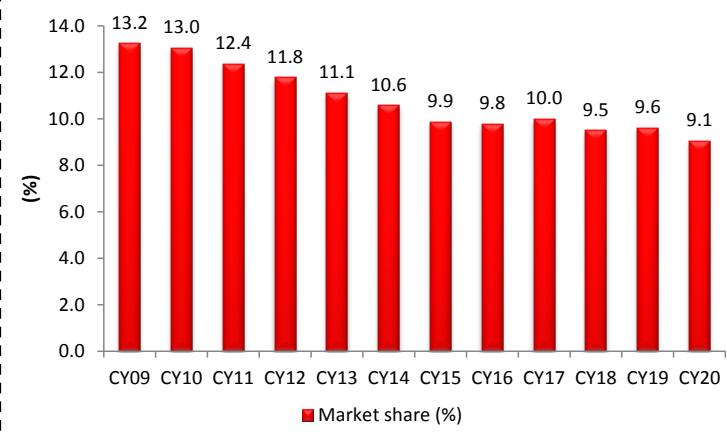
Lower capacity additions restricted ACEM's volume growth, with its sales volumes growing at a CAGR of 2.1% between CY08-21 vs. the industry's (ex-South) demand growth of 6.1% during that period. The company's sales volumes remained flat between CY11-CY16 primarily due to higher capacity additions by its peers. This, in turn, led to market share loss for the company – we estimate a loss of 3.3pp between CY10-16. In CY17/18, ACEM recorded a volume growth of 8.8%/6.1%, likely driven by improved capacity utilisation of the industry (ex-Southern region).

Exhibit 25: ...resulting in lower volume growth and...



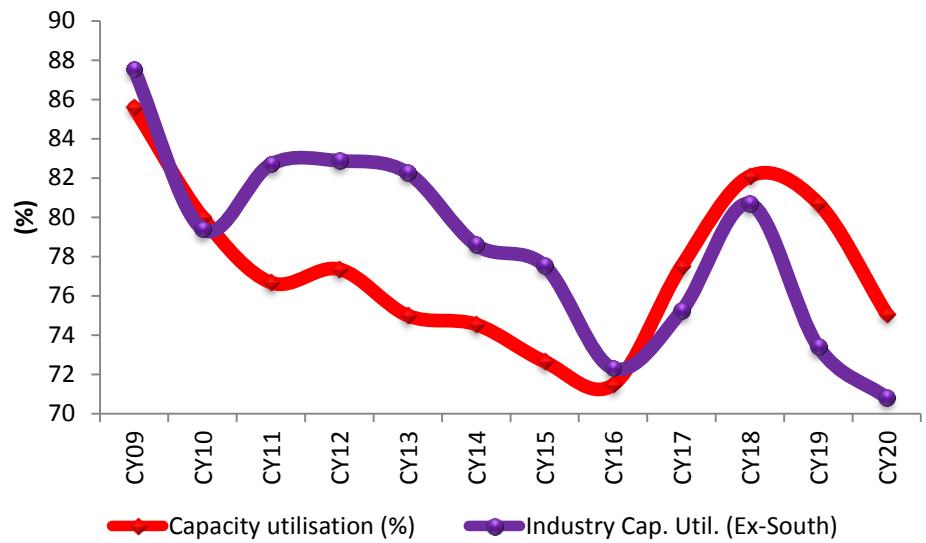
Source: Company, Systematix Institutional Research

Exhibit 26: ...market share loss over the years



Source: Company, Systematix Institutional Research

Exhibit 27: ACEM's capacity utilisation improved post CY16



Source: Company, Systematix Institutional Research

Commissioning of Marwar Mundwa, Rajasthan project to aid volume growth

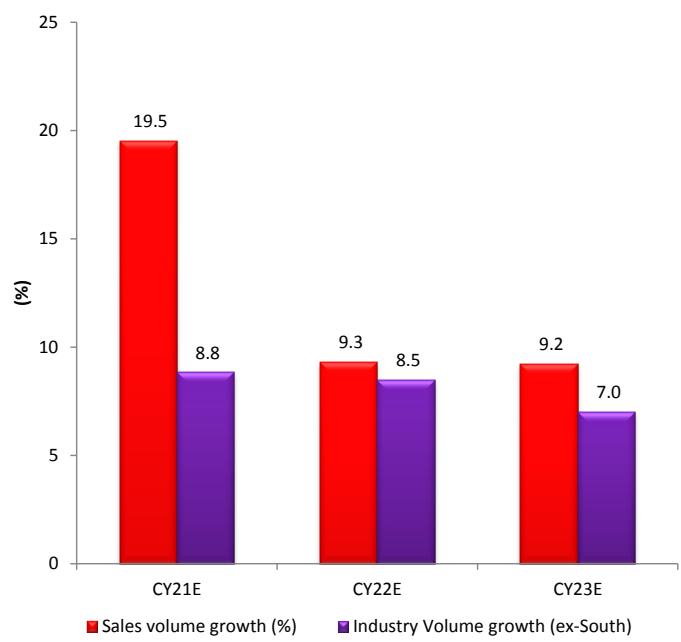
ACEM is expanding its clinker capacity by 3.1mtpa (9,500 tpd kiln) and grinding capacity by 1.8mtpa by setting up a greenfield plant at Marwar Mundwa, Nagaur, Rajasthan with a capex outlay of Rs 23.5bn, which has been funded through internal accruals. This plant is expected to start commercial production in 3QCY21 and would aid volume growth for the company. ACEM will also increase the grinding capacity by 1.5mtpa at the existing unit at Ropar, Punjab. Overall, the management believes that the grinding capacity increase would be 4.5mtpa as the group (ACC/ACEM) has surplus grinding capacity to make use of higher clinker production. The commissioning of this plant may lead to a market share gain of 50-60bps for the company (9.7% in CY23E vs. 9.1% in CY20).

Exhibit 28: Marwar Mundwa project will cater to North



Source: Company, Systematix Institutional Research

Exhibit 29: Sales volume growth likely to be above industry average between CY21-23E



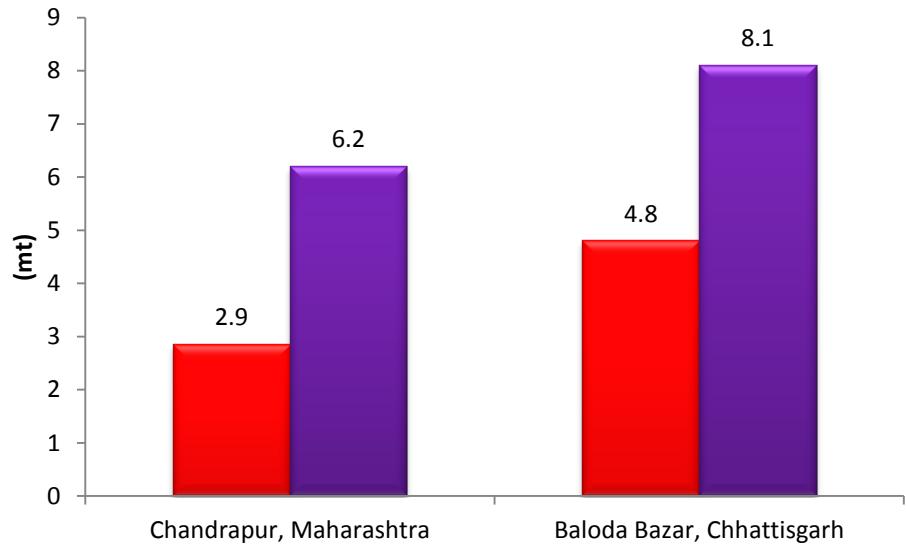
Source: Company, Systematix Institutional Research

Aims to achieve 50mtpa capacity; execution is the key

ACEM's management hinted at further capacity additions in the East and West markets at its 2021 Annual General Meeting. The company is evaluating brownfield expansion opportunities at Bhatapara, Chhattisgarh and Maratha, Maharashtra plants. It also plans to increase its grinding capacities through debottlenecking across plants in the next few years. It aims to add 15mtpa grinding capacity in the mid-term, which would increase its grinding capacity to 50mtpa.

The company may consider clinker capacity addition of 3.3mtpa each in the Eastern and Western regions in the next few years. However, considering the gap between planning and execution of the Marwar Mundwa project, execution of the planned capacities will be a key monitorable.

Exhibit 30: ACEM may plan brownfield expansion in Chhattisgarh & Maharashtra

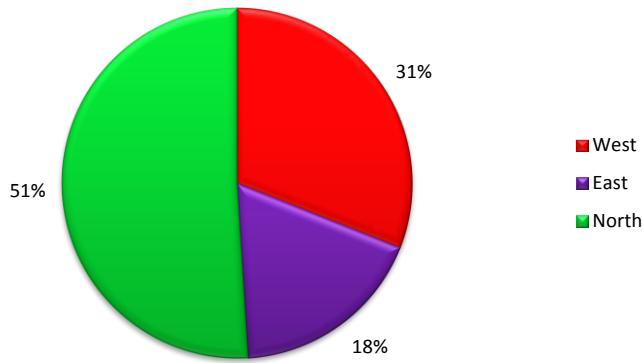


Source: Company, Systematix Institutional Research

Market-mix skewed towards the Northern, Eastern and Western regions

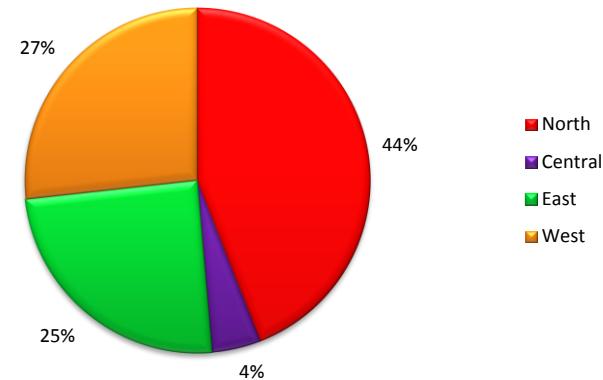
ACEM has a clinker capacity of 17.7mtpa which will get increased to 20.8mtpa by 3QCY21E. Post commissioning of the Marwar Mundwa project, 51% of its clinker capacity will be in the Northern region whereas 30.8%/18.3% will be in the Western/Eastern regions. It has a grinding capacity of 29.7mtpa which will get increased to 31.5mtpa by 3QCY21E. Post the capacity increase, 44.1% of the grinding capacity will be in the Northern region, 24.6% in the Eastern region, 26.7% in the Western region and 4.6% in the Central region.

Exhibit 31: Post the Marwar Mundwa project, 51% of total clinker capacity will be based in North India...



Source: Company, Systematix Institutional Research

Exhibit 32: ... while ~70% of grinding capacities will be in the traditional markets of North and West India



Source: Company, Systematix Institutional Research

Focus on WHRS/solar plants to support cost-savings

ACEM has a Waste Heat Recovery System (WHRS) of only 6.5MW at Rabariyawas, Rajasthan plant. It plans to commission a WHRS capacity of 54MW at three locations (Darlaghat, Himachal Pradesh; Bhatapara, Chhattisgarh and Marwar Mundwa, Rajasthan). Total capex for WHRS has been estimated at Rs 5.25bn (Rs 4bn excluding Marwar Mundwa as it is a part of Rs 23.5bn capex for the plant). WHRS capacities are also being planned at Ambujanagar, Gujarat and Maratha, Maharashtra plants.

The company has a renewable power capacity of 34.53MW, which includes a 15MW biomass-based power plant at Ropar, Punjab, a 7.5MW wind power plant at Kutch, Gujarat and solar power plants of 5.53MW. It is setting up solar power plants of 11.5MW at Bhatapara, Chhattisgarh and 12MW at Ambujanagar, Gujarat plants. In CY20, it started sourcing solar power (capacity-14MW) through a PPA at its Dadri, Uttar Pradesh plant.

Exhibit 33: WHRS capacity to be increased by 54MW

Plants	State	MW
Rabariyawas	Rajasthan	6.5
Current capacity		6.5
Darlaghat	Himachal Pradesh	21.1
Bhatapara	Chhattisgarh	18.3
Marwar Mundwa	Rajasthan	15.0
Planned		54.4
Maratha	Maharashtra	15.0
Ambujanagar	Gujarat	15.0
Under consideration		30.0

Source: Company, Systematix Institutional Research

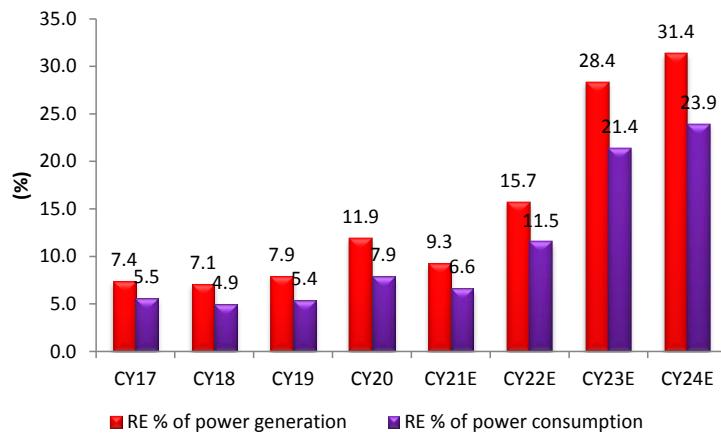
Exhibit 34: Solar power capacity to be increased by 24MW

Plants	State	MW
Rabariyawas	Rajasthan	5.14
Others		0.39
Current capacity		5.53
Bhatapara	Chhattisgarh	11.5
Ambujanagar	Gujarat	12.0
Planned		23.5

Source: Company, Systematix Institutional Research

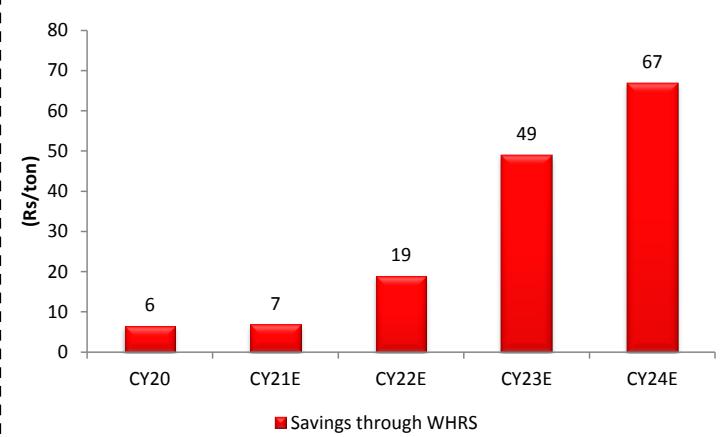
Renewable sources contributed to 12% of total power generation against 7.9% in 2019. We believe that renewable sources will contribute to 33.8% of total electricity generation and 25.3% of total electricity consumption by CY24E. Higher power generation through WHRS may lead to incremental cost savings of Rs 45/ton by CY23E (Rs 65/ton by CY24E), while higher power generation through solar plants may lead to incremental cost savings of Rs 4-5/ton.

Exhibit 35: We estimate ~1/3rd of power generation through renewable energy



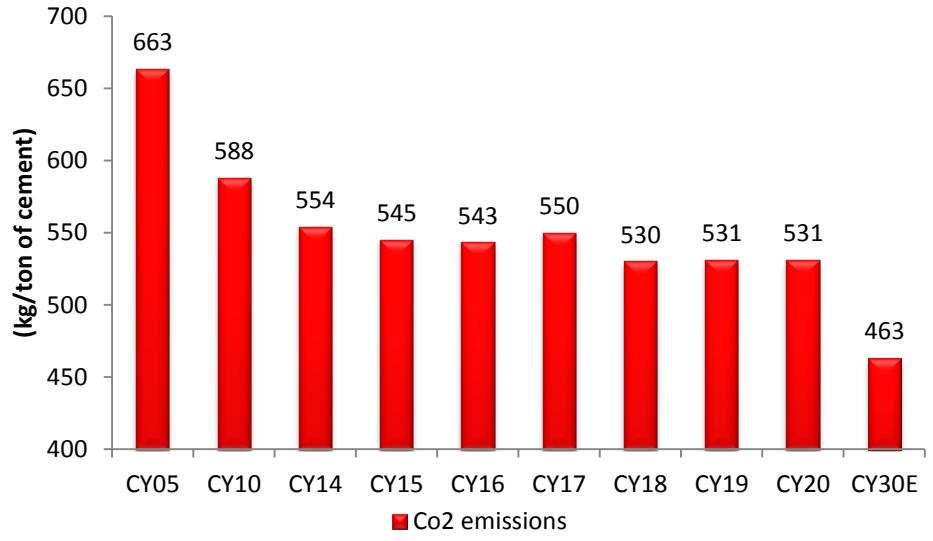
Source: Company, Systematix Institutional Research

Exhibit 36: WHRS will lead to incremental cost savings of Rs 64/ton by CY24E



Source: Company, Systematix Institutional Research

Exhibit 37: ACEM plans to reduce CO2 emission levels by 13% from the current levels



Source: Company, Systematix Institutional Research

Other cost-saving strategies include: a) Underground mining from Gare-Palma IV coal block, Chhattisgarh which is expected to start by 3QCY21 and b) a new railway siding being constructed at Rabriyawas, Rajasthan plant with a capex of Rs 2.1bn; it is expected to be commissioned by 3QCY21.

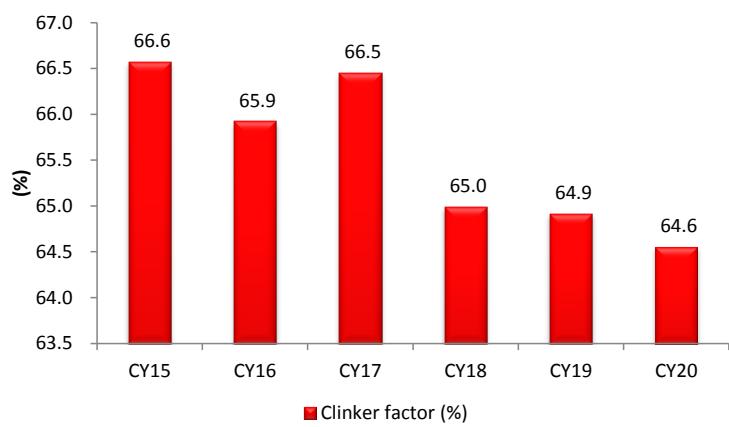
ACEM has also obtained a new limestone mining lease at Maldi Mopar to secure the long-term limestone requirement of the Bhatapara plant for which environmental clearance (EC) and other clearances have been received. The capex for this project is Rs 2bn and is expected to start by 3QCY21.

It has also obtained a mining lease at Lodhva, Gujarat to secure the long-term limestone requirement for the Ambujanagar plant. It has already received the EC and other required approvals. The land acquisition process is in progress (Rs 200mn has been spent). It has also acquired a mining lease at the Nandgaon Ekodi mine, Maharashtra which will help to meet the requirements of the Chandrapur plant. The company is trying to get EC and other required approvals for this mine.

It will incur a capex of Rs 1bn for setting up fly ash dryers/hot air generators at Ropar and Bhatinda (Punjab), Nalagarh (Himachal Pradesh), Dadri (Uttar Pradesh), Roorkee (Uttarakhand) and Rabriyawas (Rajasthan).

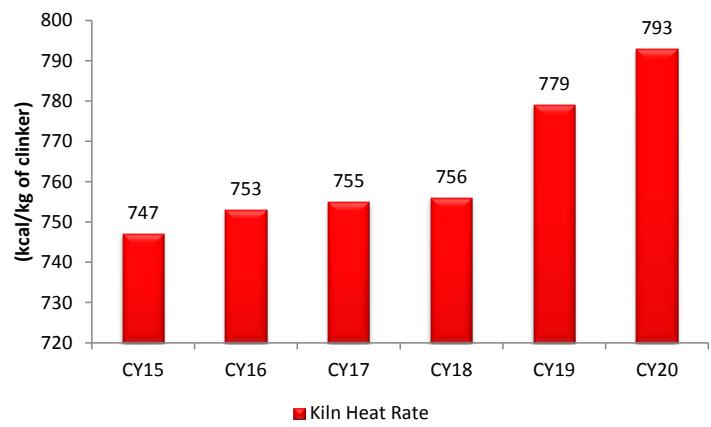
In CY20, Freight & forwarding cost declined 2%YoY led by better logistics efficiency and results of MSA with ACC. Road: Rail: Sea mix was at 65%/23%/12% in CY20. The lead distance was 278 km vs. 276 km in CY19. Direct despatches from road increased to 60% vs. 55% in CY19.

Exhibit 38: ACEM's thrust to produce more blended products has led to lower clinker factor however...



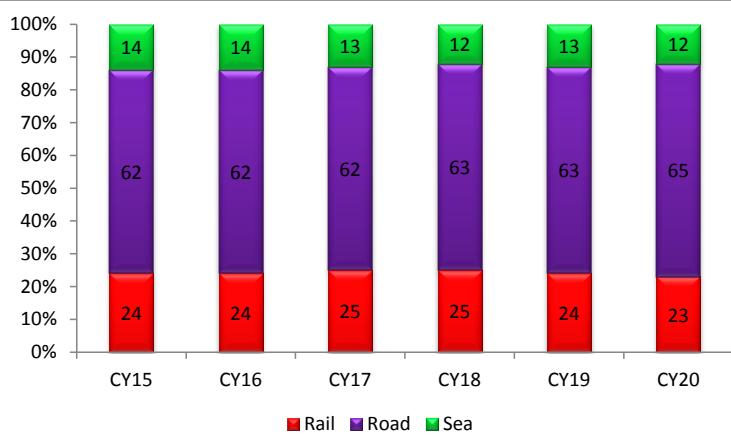
Source: Company, Systematix Institutional Research

Exhibit 39: ...energy consumption has increased; but it is below the standard consumption level of 800 units



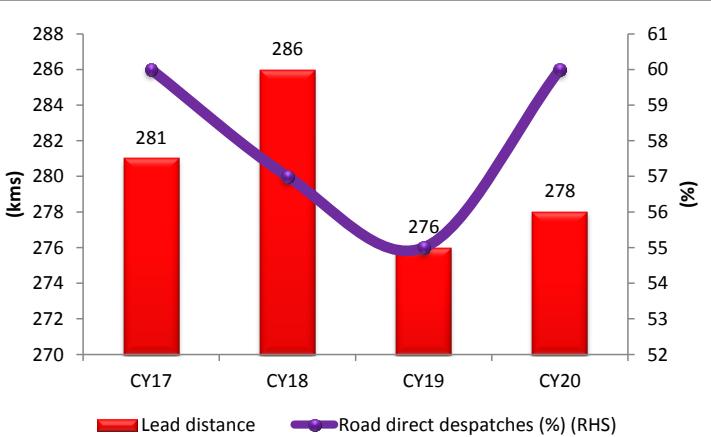
Source: Company, Systematix Institutional Research

Exhibit 40: Road transportation increased in CY20

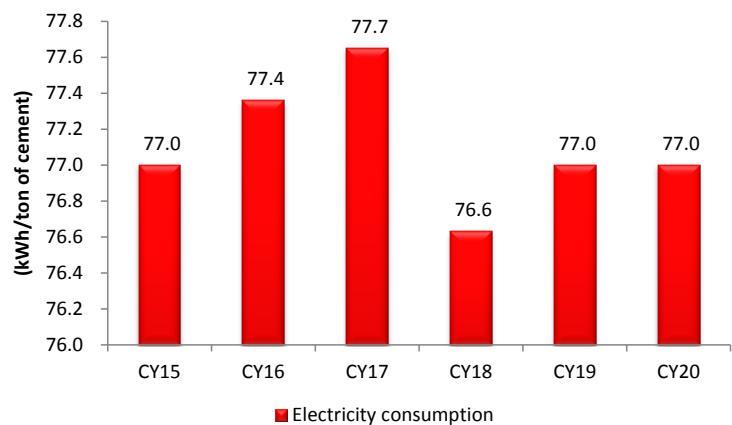


Source: Company, Systematix Institutional Research

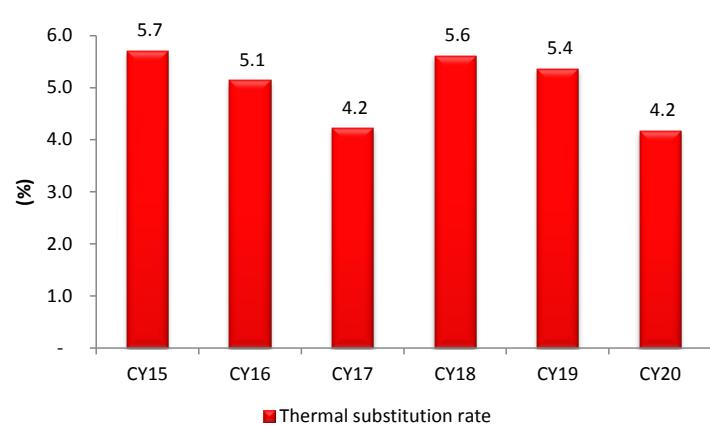
Exhibit 41: Benefits of MSA can be seen in terms of reduction in lead distance



Source: Company, Systematix Institutional Research

Exhibit 42: Electricity consumption has been flat

Source: Company, Systematix Institutional Research

Exhibit 43: Thermal substitution improved in CY18/19

Source: Company, Systematix Institutional Research

Benefits of Master Supply Agreement getting reflected

In the May'17 board meeting, ACC and ACEM decided to set up a special committee of directors to consider the merger of the two companies. However, this proposal was called off later given the challenges of limestone mines transfer across 19 states.

In CY18, ACC and ACEM signed a Master Supply Agreement (MSA) to unlock synergy benefits from a) procurement of clinker, cement, raw material and spare parts and b) undertaking toll grinding in certain parts.

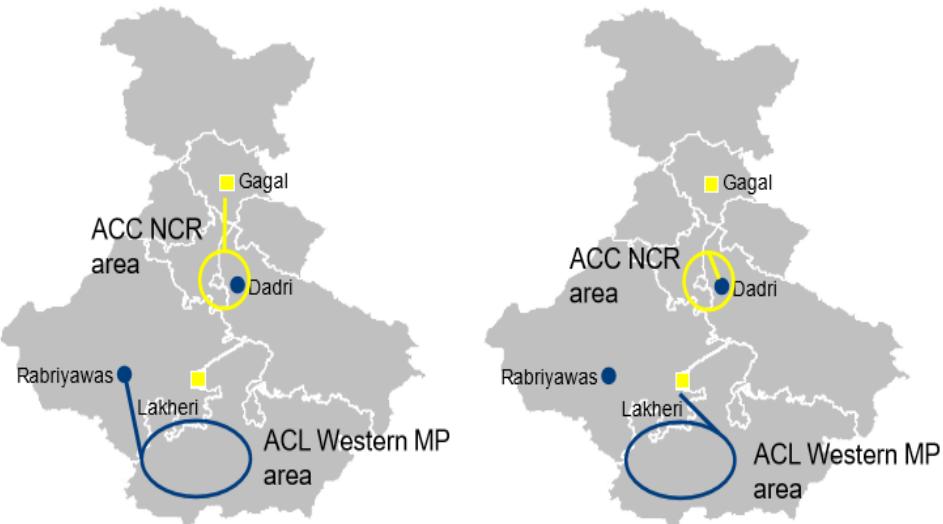
Exhibit 44: ACEM plans to reduce CO2 emission levels by 13% from the current levels

Material/Service	Pricing formula
Cement	Manufacturing company's Average Net Selling Price minus 5% discount, applied in the following manner: (a) In case of 'FOR Delivery', the Average Net Selling Price applicable for such FOR Deliveries in the relevant district; (b) In case of 'Ex-Delivery', the Average Net Selling Price applicable for such Ex-Deliveries in the relevant district Delivery point: (a) "FOR Delivery": delivered at buying company's dealer, retailer, or consumer site, as the case may be; or (b) "Ex-Delivery": delivered at the manufacturing plant or dispatching railway yard, as the case may be.
Toll Grinding	For each tonne, (A) + (B), where: (A) = Conversion charges determined at 8% of the Gross Fixed Assets Block; and (B) = Manufacturing plant's variable cost per tonne of the previous quarter, plus 10% mark-up. Delivery point: At the manufacturing plant.
Clinker	Price will be one of the following: (a) Ex-works market price; or (b) Ex-works market price determined by an independent agency appointed by Board of Directors of both, Ambuja and ACC; or (c) Manufacturing plant's clinker variable cost of the previous quarter, plus 35% mark-up. The above hierarchy of methods will be followed for arriving at the price of clinker. Delivery point: At the manufacturing plant.
Raw materials and Stores & Spares	Price will be one of the following: (a) Replacement cost thereof at manufacturing company's location based on market price; or (b) Manufacturing company's landed cost thereof plus carrying cost of 8% per annum for the holding period The above hierarchy of methods will be followed for arriving at the price of raw material and spare parts. Delivery point: At manufacturing company's location.

Source: Company

The benefits of the MSA are being realized through: 1) Clinker transfer from ACC's Lakheri (Rajasthan) plant to Dadri (Uttar Pradesh) grinding unit of ACEM which earlier was being catered to from ACEM's Rabriyawas (Rajasthan) plant; 2) clinker transfer from ACC's Bargarh (Odisha) or Chaibasa (Jharkhand) plants to Farakka (West Bengal) and Sankrail (West Bengal) grinding units of ACEM. ACC had been servicing the Delhi market also from Lakheri earlier. Post MSA, ACEM's Roorkee (Uttarakhand) plant is being used to service the Delhi market of both ACC and ACEM. The management had guided PBT improvement of 3-5% for both companies due to MSA.

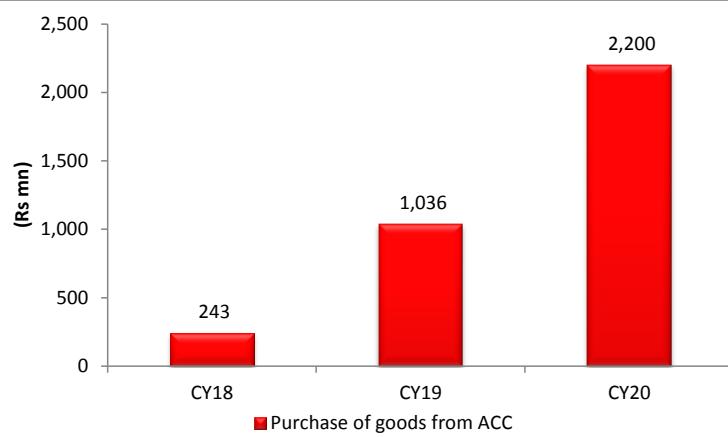
Exhibit 45: Under the MSA, both companies can leverage each other's capacity/infrastructure for mutual benefits



Source: Company, Systematix Institutional Research

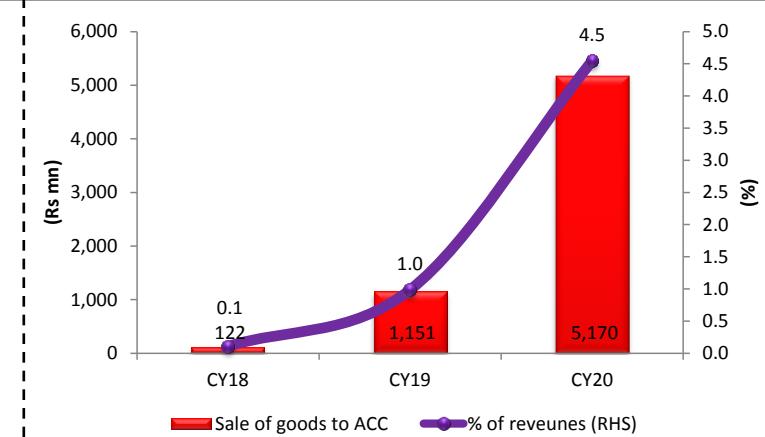
In CY20, there was an increase of 2.1x YoY in goods purchased (Rs 2.2bn from Rs 1.04n) from ACC and a rise of 4.5x YoY in goods sold (Rs 5.2bn from Rs 1.2bn) to ACC. As per the management, Rs 2.5bn of cumulative savings were achieved by ACC and ACEM in CY20 due to the MSA. Benefits for ACEM were 5%+ of PBT.

Exhibit 46: Goods purchased from ACC increased ~2.1x in CY20...



Source: Company, Systematix Institutional Research

Exhibit 47: while goods sold to ACC increased 4.5x YoY in CY20; 4.5% of revenues

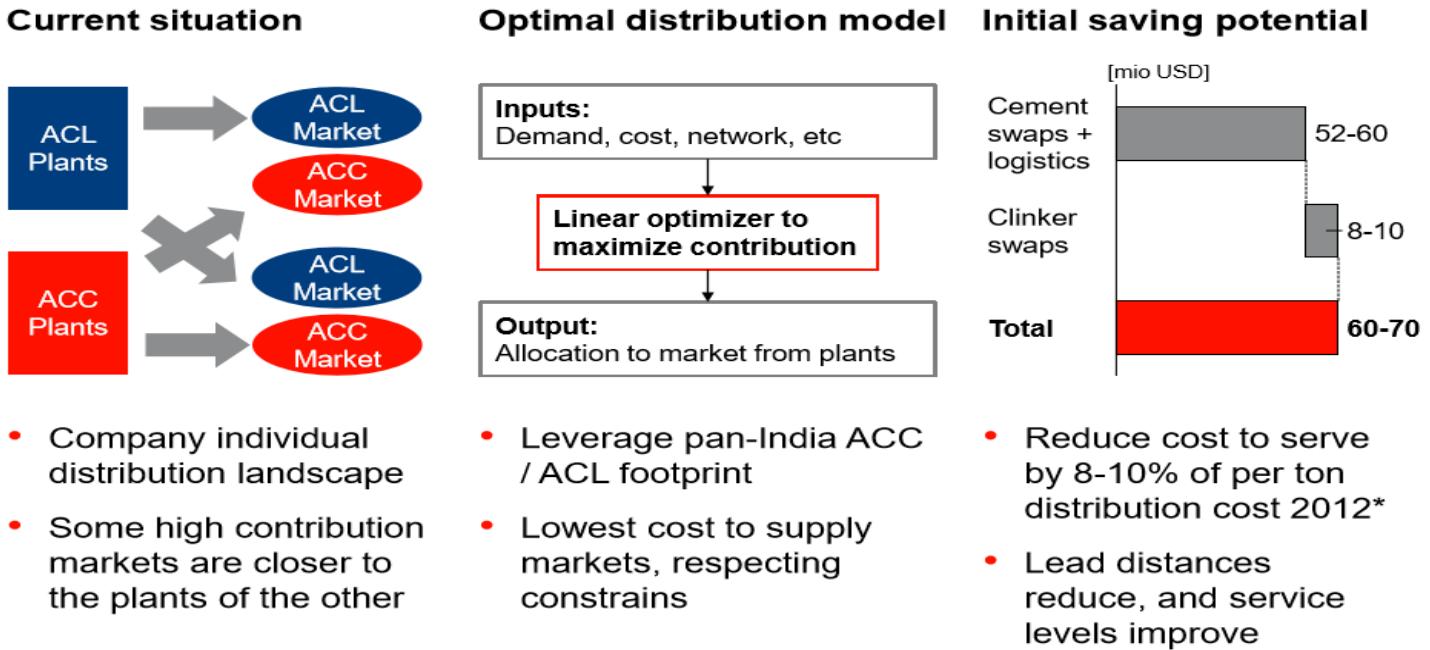


Source: Company, Systematix Institutional Research

Scope for more cost savings

The management of ACEM believed that a merger between the two companies could lead to a potential cost savings of USD 150mn led by a) USD 60-70mn savings due to supply chain optimisation as the lead distance would reduce and service levels would improve and b) USD 60-70mn savings in fixed cost, procurement and shared services as productivity and efficiency would improve.

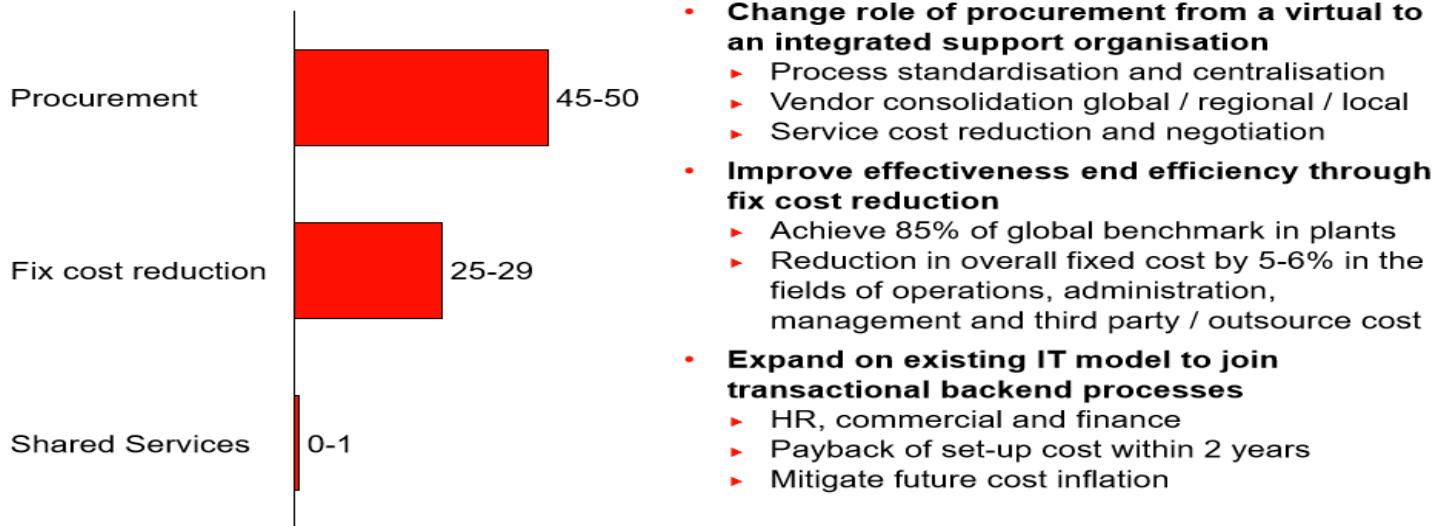
Exhibit 48: The merger of ACC and ACEM could lead to further cost savings



Source: Company, Systematix Institutional Research

Exhibit 49: Cost savings mostly expected in the form of procurement of raw-materials/goods

Saving break-up [USD mio]

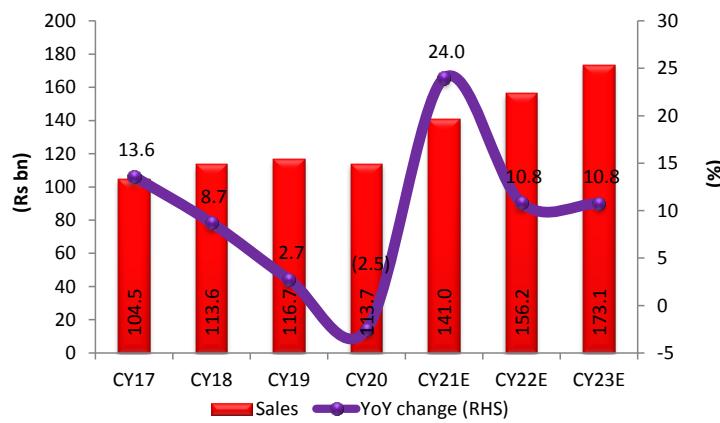


Source: Company, Systematix Institutional Research

Financial Highlights

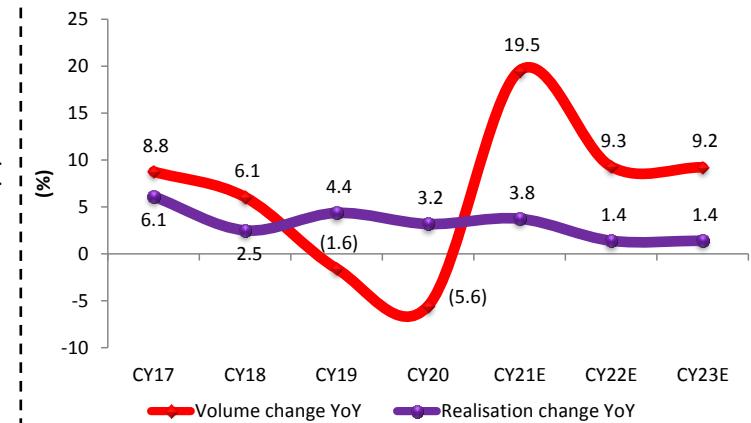
We estimate ACEM to report revenue CAGR of 15% in CY20-23E led by 12.6% volume growth. We expect capacity utilisation to be at 86%/94%/98% in CY21/22/23E. Further, we expect a 1.6% CAGR in cement realisation during CY20-23E. ACEM is focused on premium products and hopes to touch 15% of total retail volumes. It launched KAWACH in CY20, which should boost its already strong premium products portfolio.

Exhibit 50: ACEM to report 15% revenue CAGR during CY20-23E...



Source: Company, Systematix Institutional Research

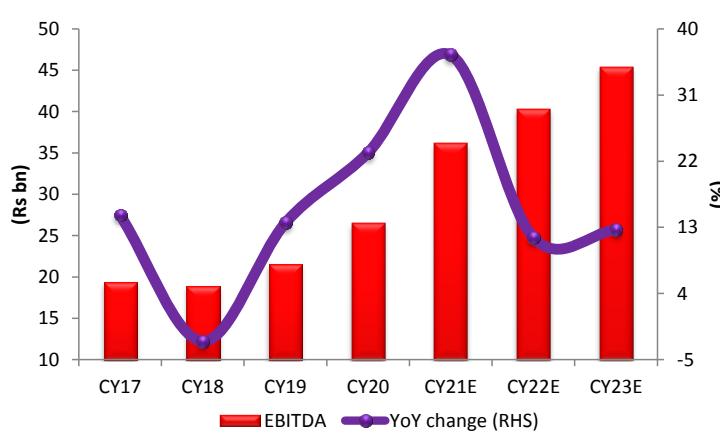
Exhibit 51: ...led by robust volume CAGR of 12.6% YoY



Source: Company, Systematix Institutional Research

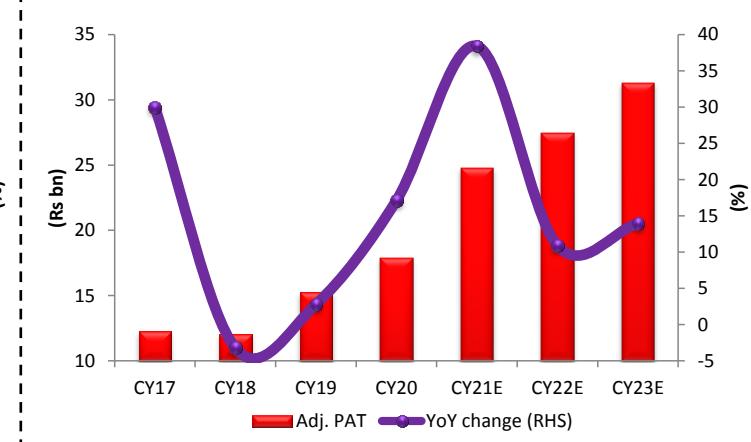
We expect a 19.7% CAGR in operating profit during CY20-23E led by 1) strong volume growth, 2) installation of 54MW/24MW WHRS/solar plants and 3) higher transaction value under the Master Supply Agreement. Profit is expected to grow at a CAGR of 20.5% between CY20-23E.

Exhibit 52: EBITDA CAGR of 19.7% over CY20-23E



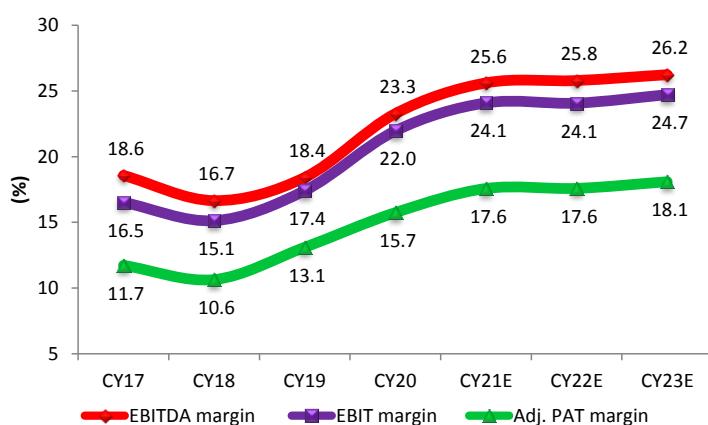
Source: Company, Systematix Institutional Research

Exhibit 53: PAT CAGR of 20.5% CAGR over CY20-23E

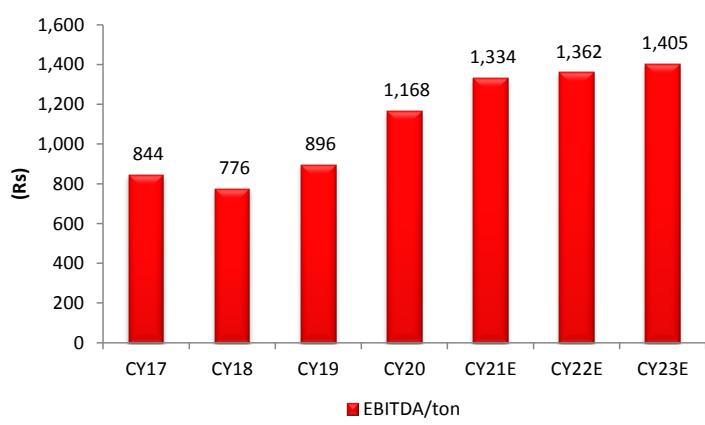


Source: Company, Systematix Institutional Research

There was a sharp increase in margins in CY20 led by a 3% YoY rise in cement realisation on a high base (+4% in CY19) and a reduction in operating costs by Rs 117/ton. This led to the EBITDA margin expanding to 23.3% from 18.4% in CY19. We expect ACEM to maintain margins led by 1) strong volume growth, 2) cost savings and 3) stable realisations. Its EBITDA/ton was Rs 1,168 in CY20, which should increase to Rs 1,405 by CY23E. In 1H21, EBITDA/ton improved to Rs 1,365 vs. Rs 1,203 in 1H20.

Exhibit 54: Margins to sustain at higher levels

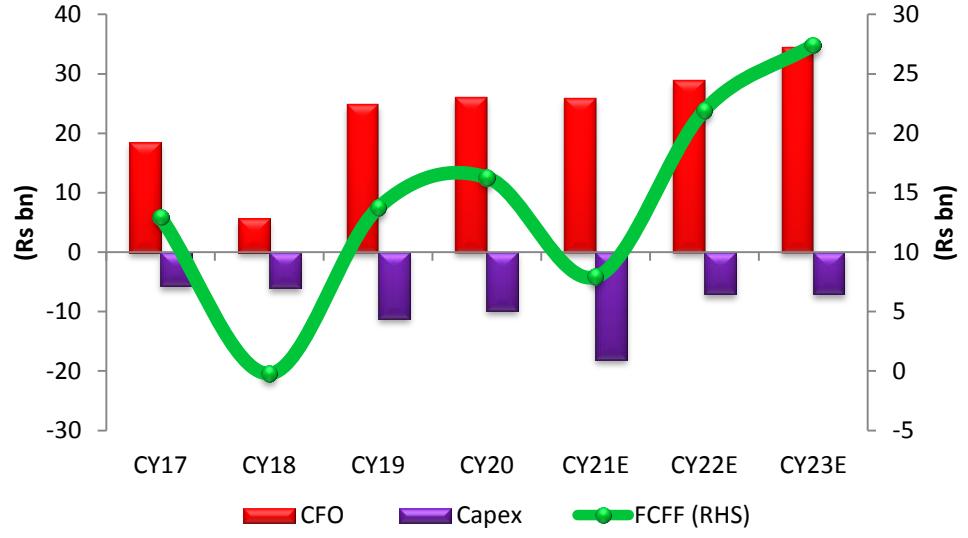
Source: Company, Systematix Institutional Research

Exhibit 55: EBITDA/ton expected to increase at a 6.4% CAGR over CY20-23E

Source: Company, Systematix Institutional Research

Improvement in profitability and release of working capital (cumulative reduction of Rs 7.6bn in CY19/20) led to improvement in operating cash flows (OCF) and free cash flows (FCF) in the last few years. OCF and FCF grew at a CAGR of 12% and 8%, respectively, between CY17-20.

Given the strong top-line growth and continued focus on controlling opex, we expect ACEM to generate robust OCF of Rs 89.3bn between CY20-23E. Higher OCF will help it fund future capex through internal accruals. We expect FCF of Rs 57.3bn between CY20-23E.

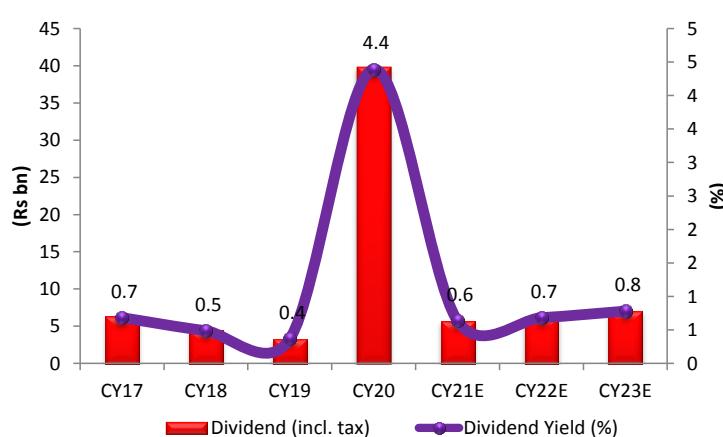
Exhibit 56: Higher cash generation to help fund future capex through internal accruals

Source: Company, Systematix Institutional Research

Led by strong FCF generation in CY20, ACEM announced a dividend of Rs 18 per share amounting to Rs 39.8bn (including taxes), implying an all-time high yield of 5.8%. We estimate a dividend pay-out of 20-21% over CY21-23E.

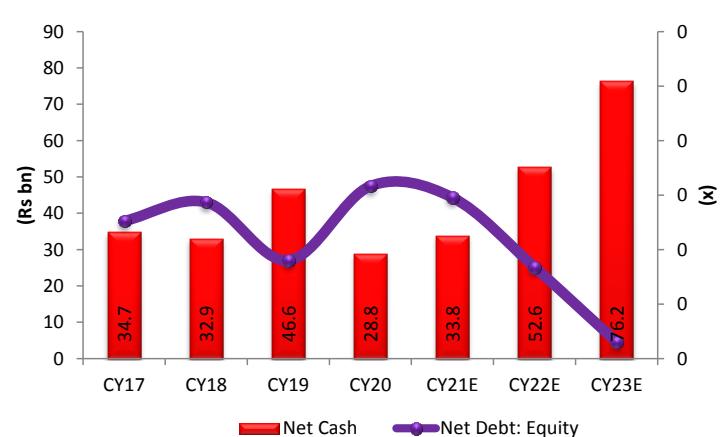
The company has historically been cash positive and we estimate net cash of Rs 76.2bn in CY23E vs. Rs 28.8bn in CY20.

Exhibit 57: Estimate dividend payout of 20-21%



Source: Company, Systematix Institutional Research

Exhibit 58: ACEM's balance sheet to improve further



Source: Company, Systematix Institutional Research

ACEM's RoE improved to 15% in CY20 from 12% in CY17 primarily led by 1) 3.4% CAGR in cement realisation between CY17-20 as cement prices increased in North/Central/Gujarat markets coupled with the increasing share of value-added products (11% contribution to total sales in CY20 vs. 8% in CY19) and 2) control on freight costs as it started accruing synergy benefits of MSA and logistics cost/ton grew at a 0.3% CAGR during the same period.

Going forward, we expect the company's RoE to improve further to 19-21% led by 1) 4.5mtpa incremental capacity additions, though grinding capacity addition will be just 3.3mtpa, indicating better asset sweating, 2) incremental cost savings from WHRS and solar power plants and 3) other cost-saving measures (railway siding at Rajasthan, the start of coal mining from Gare-Palma IV coal block).

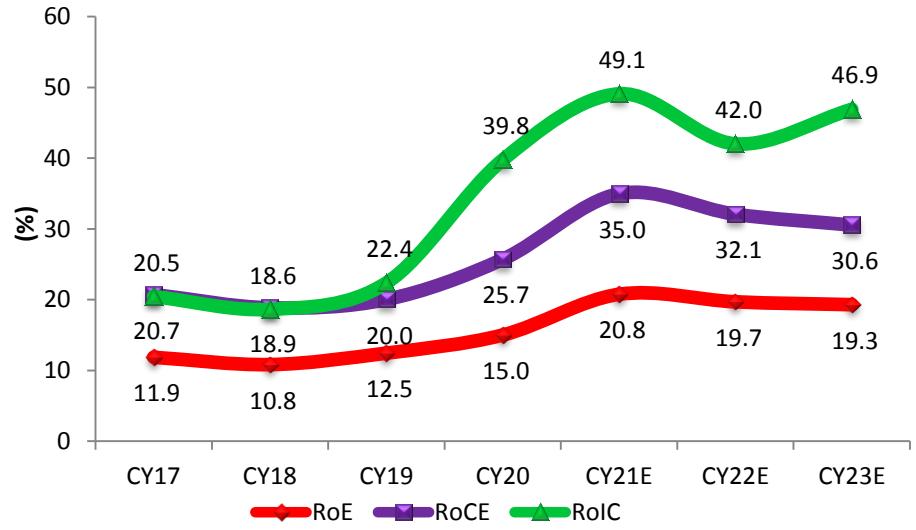
Exhibit 59: Du-pont analysis

Particulars	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
PAT/PBT	75.7%	73.9%	78.5%	74.1%	74.9%	74.9%	74.9%
PBT/EBIT	93.8%	95.2%	95.9%	96.7%	97.4%	97.6%	97.8%
EBIT/Sales	16.5%	15.1%	17.4%	22.0%	24.1%	24.1%	24.7%
Asset turnover (x)	0.96	0.98	0.93	0.94	1.16	1.10	1.05
Assets/Equity (x)	1.05	1.04	1.03	1.02	1.02	1.02	1.01
ROE (%)	11.9	10.8	12.5	15.0	20.8	19.7	19.3

Source: Company, Systematix Institutional Research

Its RoCE is expected to improve to 35% in CY21E from 25.7% in CY20 due to the improvement in margins. We expect RoCE to be at 31-32% in CY22/23E. Improvement in profitability, the release of working capital and higher dividend payout in CY20 led to an improvement in RoIC to 39.8% in CY20 vs. 22.4% in CY19. We expect RoIC to be at 49.1%/42%/46.9% in CY21/22/23E.

Exhibit 60: Return ratios improved in CY20; RoE/RoCE expected to improve further



Source: Company, Systematix Institutional Research

Cash flow analysis & corporate governance

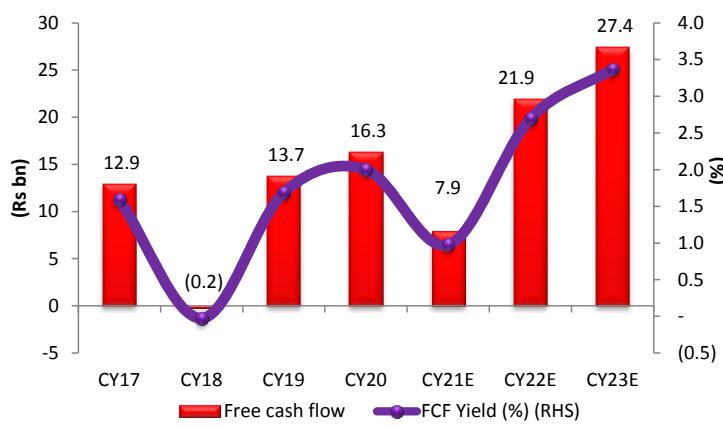
FCF generation: ACEM generated cumulative FCF of ~Rs 53bn between CY16-20.

FCF utilisation: Of the total FCF generation of Rs 53bn, ACEM almost paid the entire amount (Rs 52.6bn) towards dividend (excl. dividend tax) in the past 5 years.

FCF expectation: We expect free cash flow to decline to Rs 7.9bn in CY21E led by capex for expansion projects (Marwar Mundwa plant) – Rs 18bn in CY21E vs. Rs 9.8bn in CY20. FCF is expected to improve to Rs 21.9bn/Rs 27.4bn in CY22/23E.

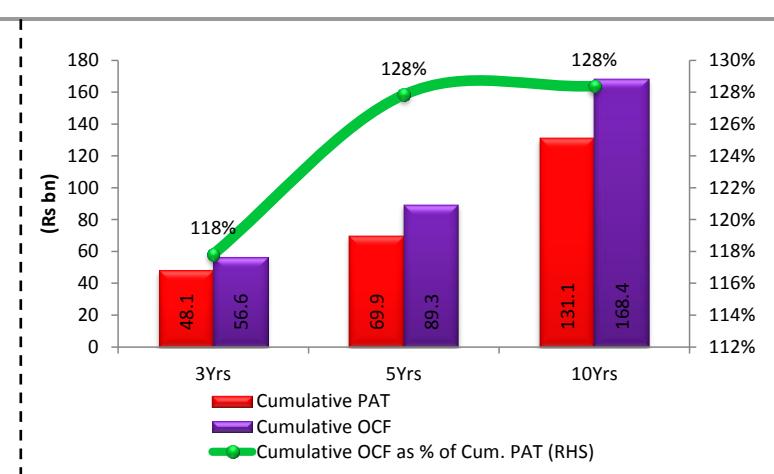
Earnings quality: During the last 10 years, ACEM has earned a cumulative PAT of Rs 131bn against which it generated OCF of Rs 168bn (1.28x of profits).

Exhibit 61: FCF to dip in CY21 due to the completion of Marwar Mundwa project



Source: Company, Systematix Institutional Research

Exhibit 62: Earnings quality reflects in cumulative OCF



Source: Company, Systematix Institutional Research

Exhibit 63: Contingent liabilities

(Rs mn)	CY16	CY17	CY18	CY19	CY20
Demand from Competition Commission of India	12,361	13,688	15,020	16,355	17,677
Others	7,915	7,707	14,087	14,903	15,094
Total	20,276	21,395	29,106	31,258	32,771
% of net worth	9%	11%	13%	13%	13%

Source: Company, Systematix Institutional Research

Exhibit 64: Contingent liabilities

Other key monitorables	CY16	CY17	CY18	CY19	CY20
Remuneration to Directors & KMPs (Rs mn)	128	181	165	233	268
% of PBT	0.7%	0.7%	0.6%	0.8%	0.8%
Auditor's remuneration (Rs mn)	36	22	26	23	23
% of PBT	0.2%	0.1%	0.1%	0.1%	0.1%
Pledged shares (%)	-	-	-	-	-

Source: Company, Systematix Institutional Research

Exhibit 65: Significant transactions with related party

Particulars (Rs mn)	Name of the party	CY16	CY17	CY18	CY19	CY20
Purchase of goods or Fixed Assets	Lafarge Holcim Energy, ACC Ltd.	1,320	3,090	2,918	4,872	4,550
Sale of goods	ACC Ltd.	-	-	122	1,151	5,170
Receiving of services	ACC Ltd., Holcim Technology Ltd. Switzerland, Holcim Services (South Asia) Limited	900	2,220	2,191	2,084	2,090
Rendering of services	ACC Limited	-	480	471	325	390
Total		2,220	5,790	5,702	8,432	12,200
% of sales		2%	6%	5%	7%	11%

Source: Company, Systematix Institutional Research

Systematix vs. Consensus

Our revenue and EBITDA estimates are largely in-line with the Bloomberg consensus for CY21E, CY22E and CY23E. We believe ACEM will derive significant cost savings from 1) operating leverage from higher output led by the commissioning of the Marwar-Mundwa project, 2) setting up of 54MW/24MW WHRS/solar plants in the medium-term and 3) higher transaction value under the Master Supply Agreement. The above factors give us comfort on ACEM bettering market estimates on the cost front.

Exhibit 66: ACEM Standalone: Bloomberg vs. our estimates

Particulars	CY21E	CY22E	CY23E
Revenues (Rs bn)			
Consensus	137	159	178
Systematix est.	141	156	173
% Difference	3%	-2%	-3%
EBITDA (Rs bn)			
Consensus	35	40	45
Systematix est.	36	40	45
% Difference	2%	1%	2%
EBITDA Margin (%)			
Consensus	26%	25%	25%
Systematix est.	26%	26%	26%
Difference (bps)	(10)	76	111

Source: Company, Systematix Institutional Research

Exhibit 67: Key assumptions

Particulars	CY18	CY19	CY20	CY21E	CY22E	CY23E
Sales Volume (mt)	24.3	24.0	22.6	27.0	29.6	32.3
Realization (Rs/ton)	4,506	4,734	4,934	5,131	5,208	5,286
Key Unit Cost (Rs/t)						
Raw material	415	415	387	425	438	451
Purchase of goods	2	37	87	91	104	119
Employee cost	279	280	295	257	249	242
Power & Fuel	1,045	1,078	994	1,077	1,076	1,063
Freight	1,345	1,290	1,260	1,265	1,295	1,326
Other expense	827	850	778	758	756	748
Total Cost	3,913	3,950	3,801	3,873	3,918	3,949
EBITDA/ton	776	896	1,168	1,334	1,362	1,405

Source: Company, Systematix Institutional Research

Key downside risks

- 1) **Delay in the commissioning of the Marwar Mundwa project:** There has been a delay in the commissioning of the Marwar Mundwa project and we have assumed that this plant will get commissioned by 3QCY21. Although we understand that the delay was caused due to the COVID-19 pandemic, any further delay in the commissioning of this project may lead to lower-than-estimated volume growth for the company.
- 2) **Inflationary pressures in fuel costs:** There has been a sharp increase in the prices of pet coke, coal and diesel in the last few months. The price of pet coke is up almost 75% over the last year while the imported coal price has increased 30%+. Current pet coke prices are up ~40% vs. the 4QFY21 consumption price. Though cement companies are trying to control energy costs by changing their fuel mix (lower pet coke usage, usage of Australian Coal etc.), the continued escalation in coal/pet coke prices could impact our earnings estimates if the industry is unable to pass on the cost increases to consumers.

To mitigate the above, ACEM is 1) exploring new contracts to secure competitive supply sources wherever possible and 2) investing in infrastructure to ensure the seamless availability of fly ash.
- 3) **Prolonged pandemic-related restrictions/lockdowns:** We estimate ACEM to report ~20% volume growth in CY21E. However, continued localised lockdowns could act as a downside risk to our estimates. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites and delay the process. However, we derive confidence from the vaccination pace in India and believe that economic recovery and normalcy will be attained by 2HCY21E.

Valuation and View

ACEM has added capacity at a slower pace than most of its peers in the last 10 years. Between FY10-21, the company's capacity grew at a CAGR of 4.9% whereas most of its peers witnessed capacity growth of 10-17%. It is expanding its clinker capacity by 3.1mtpa and grinding capacity by 1.8mtpa by setting up a greenfield plant at Marwar Mundwa, Nagaur, Rajasthan. It is also increasing its grinding capacity by 1.5mtpa at its existing unit in Ropar, Punjab.

The company is evaluating brownfield expansion opportunities at Bhatapara, Chhattisgarh and Maratha, Maharashtra plants. It aims to add 15mtpa grinding capacity in the mid-term, which would increase its grinding capacity to 50mtpa.

Capacity additions and cost-saving initiatives (commissioning of WHRS/Solar power plants, the start of coal mining from Gare-Palma IV coal block and benefits from MSA with ACC) should help the company generate EBITDA and profit CAGR of 19.7% over CY20-23E. The management hinted that benefits due to the MSA were 5%+ of PBT for ACEM in CY20 and there is scope to further improve profitability.

The improvement in profitability and release of working capital (cumulative reduction of Rs 7.6bn in CY19/20) led to higher OCF and FCF in the last few years. OCF and FCF grew at a CAGR of 12% and 8% between CY17-20. We expect ACEM to generate OCF of Rs 89.3bn between CY20-23E, which should help it fund future capex through internal accruals. We expect FCF generation of Rs 57.3bn between CY20-23E.

ACEM's RoE improved to 15% in CY20 vs. 12.5% in CY17 led by strong improvement in profits, the release of working capital and higher dividend pay-out. We expect ACEM to report RoE of 19-21% till CY23E. RoCE is expected to improve to 35% in CY21E from 25.7% in CY20 due to an improvement in margins. We expect RoCE to be at 31-32% in CY22/23E. ACEM has historically been a cash positive company and we estimate net cash of Rs 76.2bn in CY23E vs. Rs 28.8bn in CY20.

ACEM trades at 15.9/13.8x/11.7x CY21/22/23E EV/EBITDA and USD 247/239/229 CY21/22/23E EV/ton. The stock has traded at an average EV/EBITDA of 13.3x in the last 10 years. Going forward, with the improvement in profitability and stable return ratios, we expect ACEM to trade at its historical valuations. We value it at 14x CY23E EV/EBITDA to arrive at a target price of Rs 500, an upside of 19% from the CMP. We value ACC, its subsidiary, at 12x CY23E EV/EBITDA; we are not factoring in any HoldCo discount as we believe there is a possibility of a merger in the near-term. We initiate coverage on the stock with a **BUY** rating. At our TP, the stock will trade at 16.3x/14x CY22/23E EV/EBITDA and USD 183/177 CY22/23E EV/ton.

Exhibit 68: 1- year forward EV/EBITDA

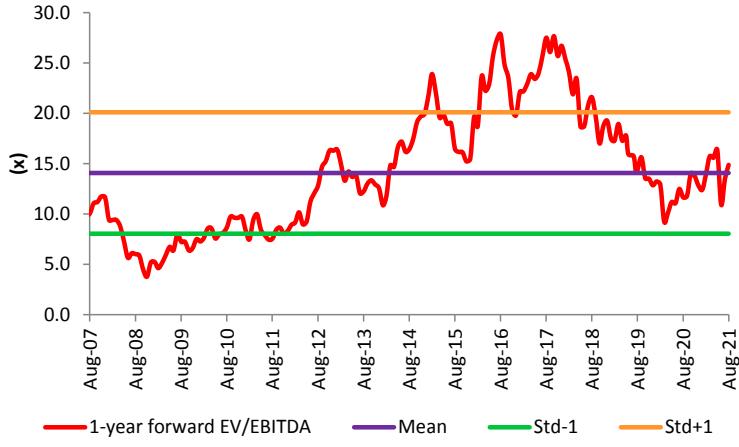
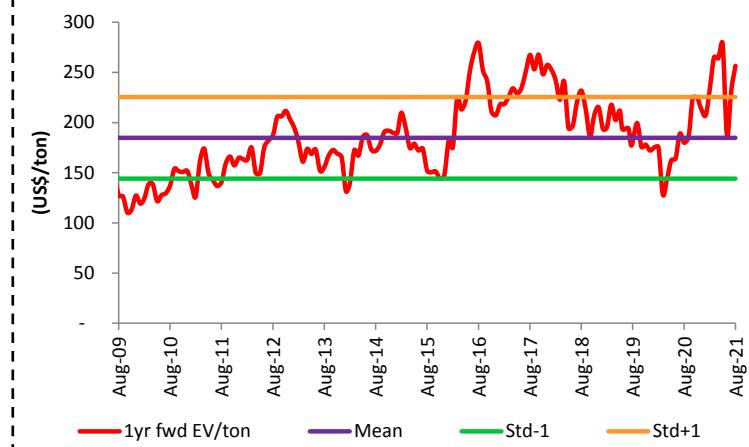


Exhibit 69: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	CY19	CY20	CY21E	CY22E	CY23E
Net Sales	116,679	113,719	140,982	156,246	173,057
Growth (%)	2.7	-2.5	24.0	10.8	10.8
Total Expenditure	95,190	87,253	104,869	115,944	127,648
EBITDA	21,489	26,466	36,113	40,301	45,409
Growth (%)	13.6	23.2	36.4	11.6	12.7
EBITDA margin (%)	18.4	23.3	25.6	25.8	26.2
Depreciation	5,438	5,212	5,883	6,663	6,868
EBIT	20,315	24,974	33,963	37,615	42,777
EBIT margin (%)	17.4	22.0	24.1	24.1	24.7
Other Income	4265	3720	3734	3976	4235
Interest expenses	835	831	872	916	961
PBT	19,480	24,144	33,091	36,699	41,815
Tax	4195	6243	8313	9219	10504
Effective tax rate (%)	21.5	25.9	25.1	25.1	25.1
Adjusted PAT	15,285	17,901	24,779	27,480	31,311
Reported PAT	15,285	17,901	24,779	27,480	31,311
Growth (%)	2.8	17.1	38.4	10.9	13.9

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	CY19	CY20	CY21E	CY22E	CY23E
Equity share capital	3,971	3,971	3,971	3,971	3,971
Reserves & surplus	218,081	199,187	218,211	239,493	263,721
Net worth	222,052	203,159	222,182	243,465	267,693
Loan Funds	353	436	436	436	436
Net deferred tax liability	2,161	1,860	1,860	1,860	1,860
Total Liabilities	224,565	205,454	224,478	245,760	269,988
Net block	58,125	59,315	86,170	88,507	88,639
Capital work in progress	11,087	18,737	4,000	2,000	2,000
Investment	117,890	117,877	117,877	117,877	117,877
Current Assets	82,806	58,884	67,894	89,449	116,050
Inventories	9,541	7,466	9,270	10,274	11,379
Sundry debtors	5,132	1,915	3,090	3,853	4,741
Cash & bank balance	46,995	29,243	34,274	53,063	76,670
Loans & advances	8,245	8,790	9,290	9,790	10,290
Other current assets	12,893	11,470	11,970	12,470	12,970
Current liability & Prov.	45,342	49,360	51,463	52,073	54,578
Net current assets	37,464	9,525	16,431	37,376	61,472
Total Assets	224,565	205,454	224,478	245,760	269,988

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	CY19	CY20	CY21E	CY22E	CY23E
PBT (Ex-Other income)	19,480	24,144	29,358	32,723	37,580
Depreciation	5,438	5,212	5,883	6,663	6,868
Interest Provided	(1,790)	(1,451)	872	916	961
Other Non-Cash items	(1,357)	(870)	-	-	-
Chg in working cap	3,877	3,676	(1,876)	(2,156)	(489)
Tax paid	(808)	(4,648)	(8,313)	(9,219)	(10,504)
Operating Cashflow	24,840	26,062	25,924	28,927	34,416
Capital expenditure	(11,114)	(9,778)	(18,000)	(7,000)	(7,000)
Free Cash Flow	13,726	16,284	7,924	21,927	27,416
Other income	3,737	3,365	3,734	3,976	4,235
Investments	(3)	(2)	-	-	-
Investing Cashflow	(7,380)	(6,415)	(14,266)	(3,024)	(2,765)
Equity Capital Raised	-	-	-	-	-
Loans Taken / (Repaid)	-	(237)	-	-	-
Interest Paid	(548)	(722)	(872)	(916)	(961)
Dividend paid (incl tax)	(3,320)	(36,646)	(5,755)	(6,198)	(7,083)
Income from investments	-	-	-	-	-
Others	-	-	-	-	-
Financing Cashflow	(3,868)	(37,604)	(6,627)	(7,113)	(8,045)
Net chg in cash	13,592	(17,957)	5,031	18,789	23,607
Opening cash position	31,503	45,123	29,243	34,274	53,063
Closing cash position	45,123	27,169	34,274	53,063	76,670

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	CY19	CY20	CY21E	CY22E	CY23E
Profitability (%)					
EBITDA Margin	18.4	23.3	25.6	25.8	26.2
Net Margin	13.1	15.7	17.6	17.6	18.1
ROCE	20.0	25.7	35.0	32.1	30.6
ROE	12.5	15.0	20.8	19.7	19.3
RoIC	22.4	39.8	49.1	42.0	46.9
Per Share Data (Rs)					
EPS	7.7	9.0	12.5	13.8	15.8
CEPS	10.4	11.6	15.4	17.2	19.2
BVPS	111.8	102.3	111.9	122.6	134.8
DPS	1.5	18.0	2.6	2.8	3.2
Valuations (x)					
PER	54.7	46.7	33.7	30.4	26.7
P/CEPS	40.3	36.2	27.3	24.5	21.9
P/BV	3.8	4.1	3.8	3.4	3.1
EV / Sales	4.8	5.1	4.1	3.6	3.1
EV / EBITDA	26.2	21.9	15.9	13.8	11.7
Dividend Yield (%)	0.4	4.3	0.6	0.7	0.8
Gearing Ratio (x)					
Net Debt/ Equity	-0.2	-0.1	-0.2	-0.2	-0.3
Net Debt/EBITDA	-2.2	-1.1	-0.9	-1.3	-1.7
Working Cap Cycle (days)	-63.3	-94.9	-73.0	-62.0	-56.0

Source: Company, Systematix Institutional Research

ACC

01 September 2021

INITIATING COVERAGE

Sector: Cement	Rating: BUY
CMP: Rs 2,413	Target Price: Rs 2,995

Stock Info

Sensex/Nifty	56,890/16,931
Bloomberg	ACC IN
Equity shares	188mn
52-wk High/Low	Rs 2,456/1,290
Face value	Rs 10
M-Cap	Rs 453bn/USD 6.1bn
3-m Avg volume	USD 19.4mn

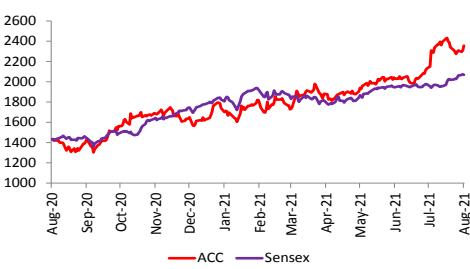
Financial Snapshot (Rs bn)

Y/E March	CY21E	CY22E	CY23E
Sales	162	176	197
EBITDA	31	34	39
PAT	20	21	25
EPS (Rs)	105	114	131
PE (x)	23.1	21.2	18.4
EV/EBITDA (x)	12.4	11.1	9.2
RoE (%)	14.6	14.1	14.4
RoCE (%)	19.3	18.7	19.2
Dividend yield (%)	0.6	0.7	0.7

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20
Promoter	54.5	54.5	54.5
-Pledged	-	-	-
FII	13.6	12.6	11.5
DII	19.4	20.3	20.7
Others	12.5	12.5	13.2

Stock Performance (1-year)



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Capex completion holds key; cost-saving initiatives yielding results

The focus on cost-efficiency has led to an improvement in ACC's sales volume/profitability post CY16. Its sales volume grew at a CAGR of 7.9% over CY16-19 (before the COVID-19-led disruptions) after remaining stagnant between CY11-16. EBITDA/ton grew at a CAGR of 11% over CY16-20 driven by cost-efficiency programs (Project Parvat and Master Supply Agreement with ACEM). Holcim Group companies (ACC and ACEM) have seen slower capacity additions vs. peers; however, the management of ACEM (promoter group) recently indicated its intention to pursue growth opportunities. Being a cash surplus company, ACC will be on a strong footing to pursue capex. The company's ongoing capex in the Central region will lead to a capacity addition of 4.6mtpa (13% of existing capacity), boosting its volume growth and positioning in the region (4.5% increase in capacity share). We expect a RoE of 14-15% between CY21-23E vs. 12.1% in CY20. It has remained cash-positive historically and we estimate net cash to be at Rs 94.9bn in CY23E vs. Rs 57.4bn in CY20. Valuations remain attractive at 12.4x/11.1x/9.2x CY21/22/23E EV/EBITDA and USD 152/138/124 CY21/22/23E EV/ton. We initiate coverage on the stock with a BUY rating and value it at 12x CY23E EV/EBITDA to arrive at a target price of Rs 2,995.

Capex in the Central region to drive growth; higher cash reserves is a positive

After years of slow capacity addition (4% CAGR between CY08-20), ACC aims to commission 2.7/4.8mtpa of clinker/cement capacity in Central India by CY23E. It has already commissioned 1.4mtpa of grinding capacity at Sindri, Jharkhand in 1QCY21. We expect its sales volume to grow at a 10.1% CAGR over CY20-23E. ACC's net cash levels should improve to Rs 94.9bn in CY23E from Rs 57.4bn in CY20, placing it in a comfortable position to pursue growth opportunities.

Cost-efficiency measures are yielding results

The company has undertaken measures to mitigate input cost pressures and improve profitability. These measures include a) 'Project PARVAT' which yielded Rs 110/ton savings in CY20 & will ensure continued cost-savings, b) higher transaction value under the Master Supply Agreement with ACEM leading to operating cost synergies, c) increasing the share of premium products and d) a reduction in fixed costs. Consequently, ACC's EBITDA/ton increased to Rs 972 in CY20 from Rs 746 in CY18; we expect it to increase to Rs 1,145 in CY23E (on the high base of CY20; EBITDA/ton grew at a CAGR of 14.2% over CY18-20).

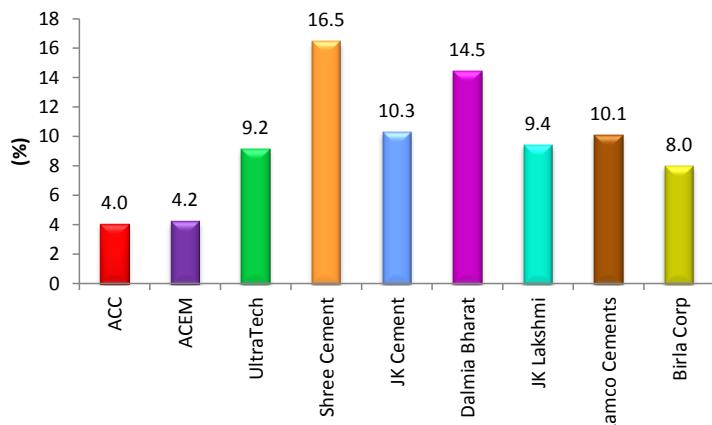
Valuation and recommendation

We expect EBITDA and PAT CAGR of 16.3% and 18.9%, respectively, over CY20-23E. ACC's RoE improved to 12.1% in CY20 vs. 10.1% in CY17 led by an improvement in profit and the release of working capital; we expect its RoE to improve further to 14-15% by CY23E. The stock trades at 12.4x/11.1x/9.2x CY21/22/23E EV/EBITDA and USD 152/138/124 CY21/22/23E EV/ton. It has traded at an average EV/EBITDA of 10.8x in the last 14 years. Going forward, with the improvement in profitability and return ratios, we expect the company to trade above its historical valuations. We value it at 12x CY23E EV/EBITDA to arrive at a target price of Rs 2,995 (an upside of 24% from the CMP) and initiate coverage on the stock with a BUY rating.

Investors are advised to refer disclosures made at the end of the research report.

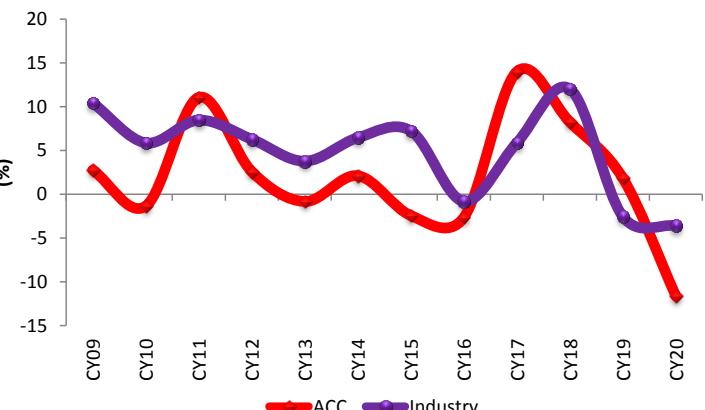
Story in charts

Exhibit 1: Lagged its peers in capacity additions...



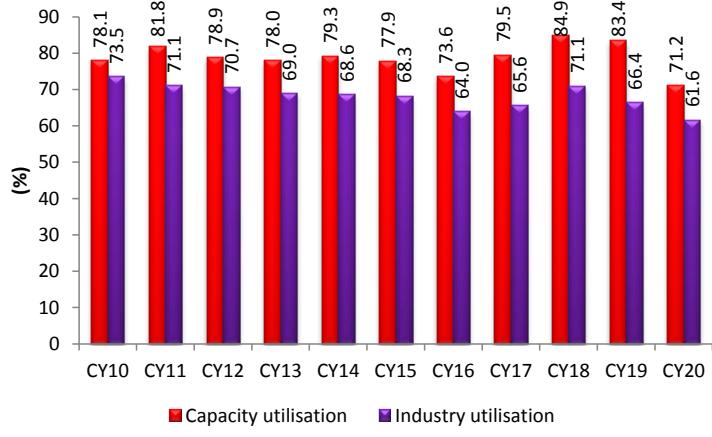
Source: Company, Systematix Institutional Research

Exhibit 2: ...leading to lower volume growth vs. industry



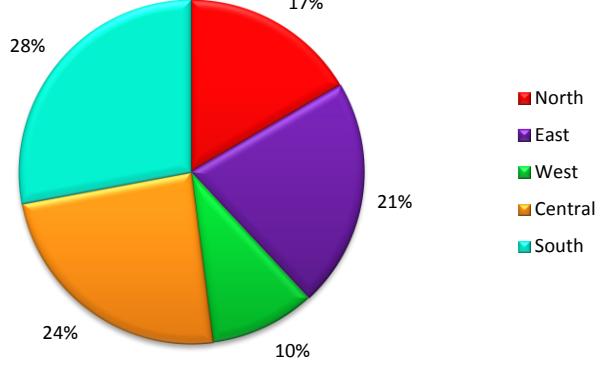
Source: Company, Systematix Institutional Research

Exhibit 3: but operated at higher utilisation rates



Source: Company, Systematix Institutional Research

Exhibit 4: Clinker capacity mix post the ongoing expansions



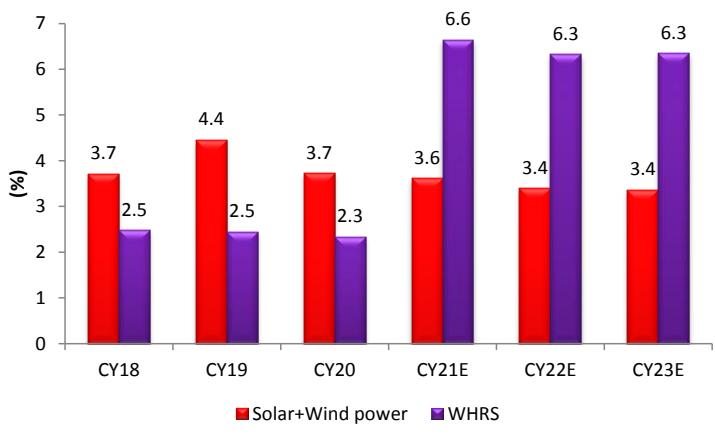
Source: Company, Systematix Institutional Research

Exhibit 5: Project Parvat led to cost savings of Rs 100/ton in CY20



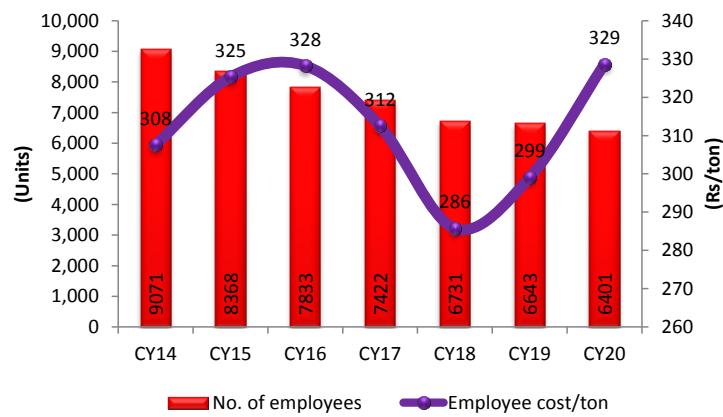
Source: Company, Systematix Institutional Research

Exhibit 6: Renewable sources should contribute to 9.7% of electricity consumption by CY23E



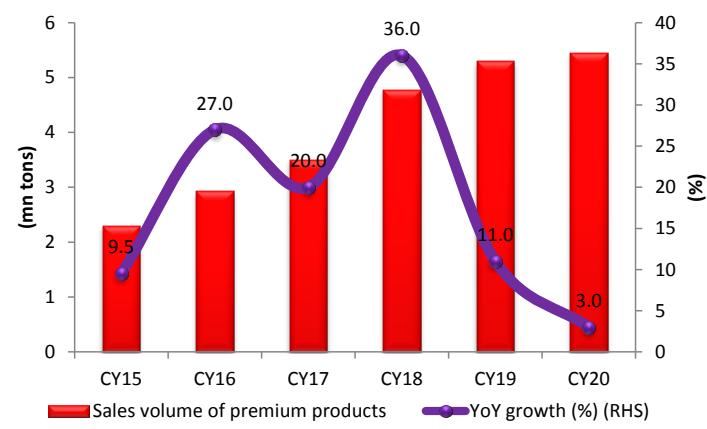
Source: Company, Systematix Institutional Research

Exhibit 7: Employee base declined at a 5.6% CAGR, leading to lower employee cost/ton



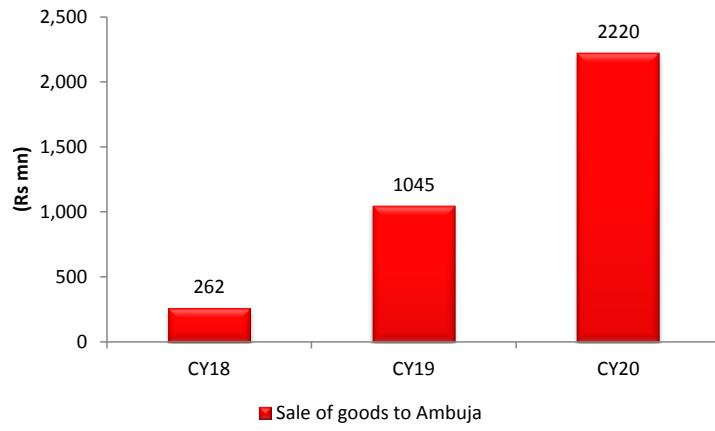
Source: Company, Systematix Institutional Research

Exhibit 8: Premium products' volume grew at a 19% CAGR over CY15-20; 21.3% of sales volumes in CY20



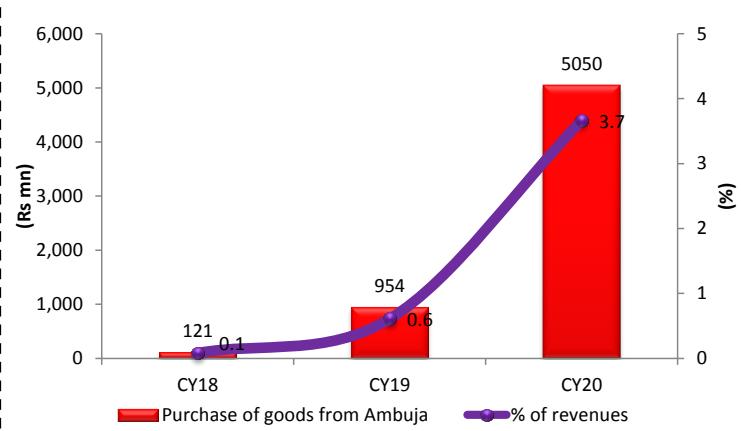
Source: Company, Systematix Institutional Research

Exhibit 9: Sale of goods to ACEM rose ~2x YoY in CY20...



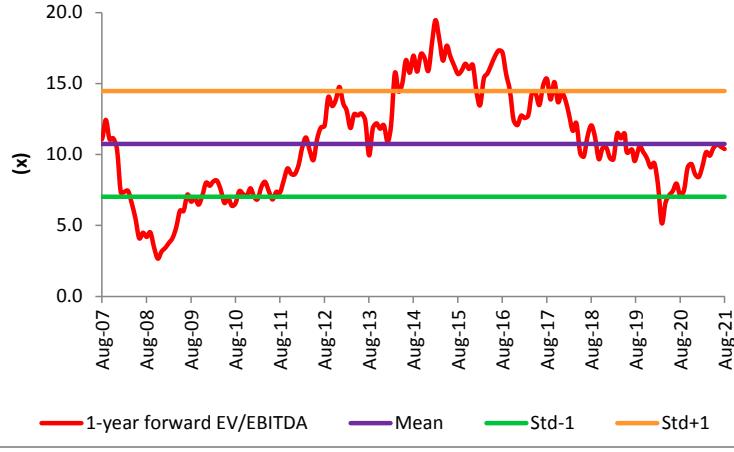
Source: Company, Systematix Institutional Research

Exhibit 10: ...while purchases increased by ~5.3x YoY



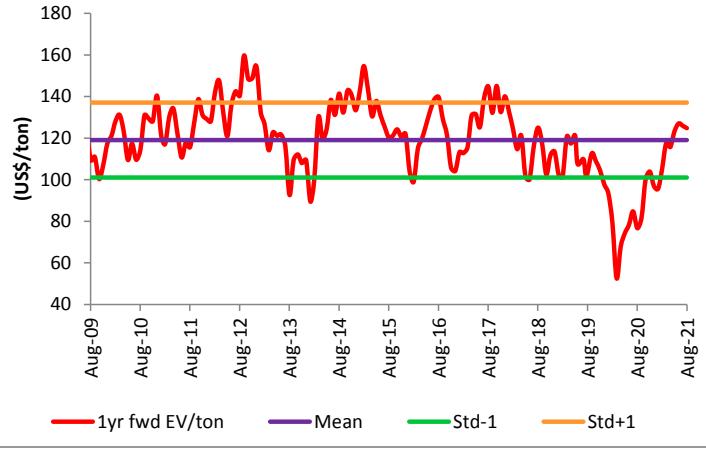
Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward EV/ton



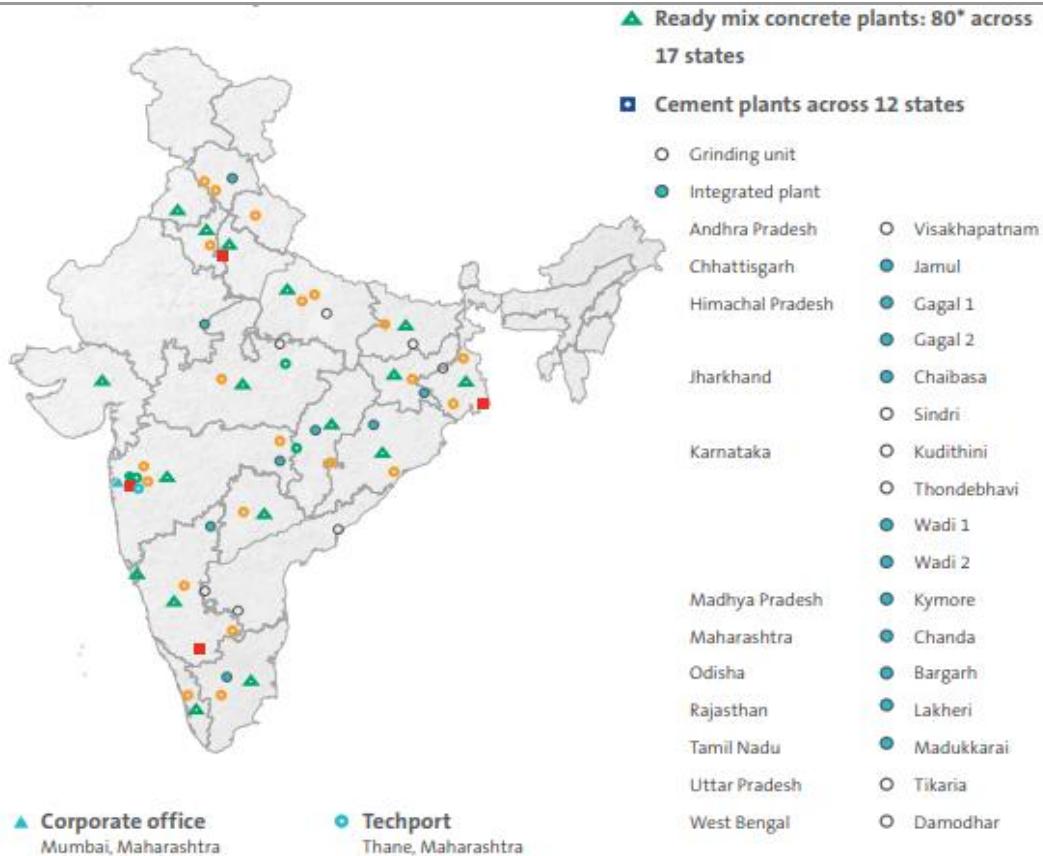
Source: Company, Systematix Institutional Research

Company Background

ACC aims to commission 2.7/4.8mtpa of clinker/cement capacity by 2024, taking its grinding capacity to 39.3mtpa.

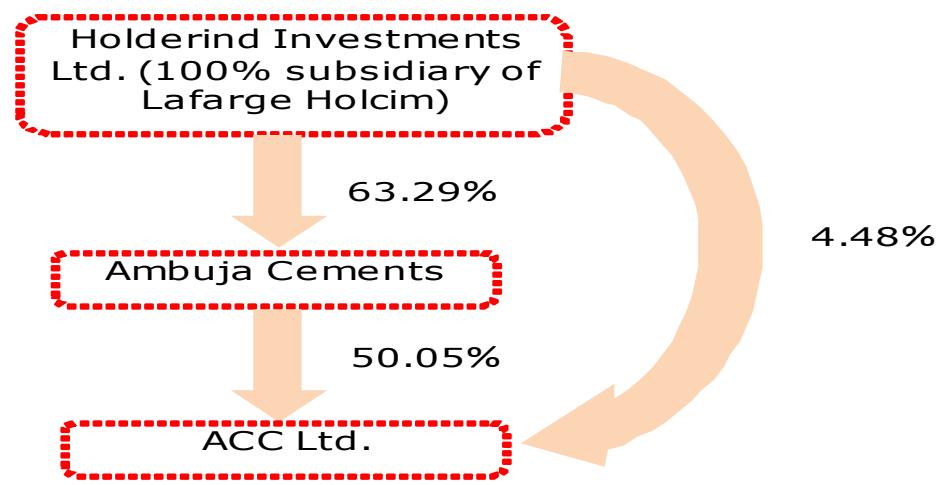
ACC is a leading pan-India cement producer with a cement capacity of 34.45mtpa. It has 17 cement manufacturing units, 90+ ready mix concrete plants, 6,600+ employees with sales offices across the country and a vast distribution network of 50,000+ dealers & retailers. In 2005, it became a part of the Holcim Group of Switzerland. In 2015, Holcim and Lafarge merged to form LafargeHolcim – the global leader in building materials and solutions. ACC offers a bouquet of cement and construction chemicals, ready mix concrete and dry mix products.

Exhibit 13: Over the years, ACC has set up clinker & grinding units and ready mix concrete plants across India



Source: Company, Pls note: Red squares are regional sales offices, yellow/green circles are sales units/training centres

Exhibit 14: ACC - Shareholding pattern



Source: Company, Systematix Institutional Research

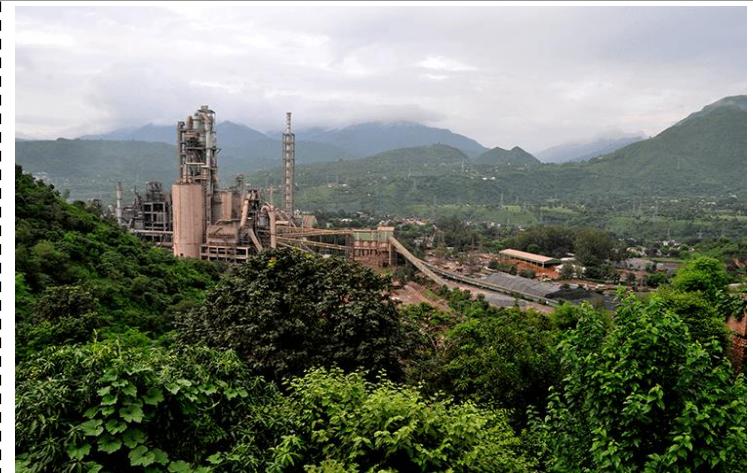
Manufacturing facilities

Exhibit 15: Chanda unit, Maharashtra (4mtpa)



Source: Company

Exhibit 16: Gagal unit, Himachal Pradesh (4.4mtpa)



Source: Company

Exhibit 17: Wadi-A unit, Karnataka (5.6mtpa)



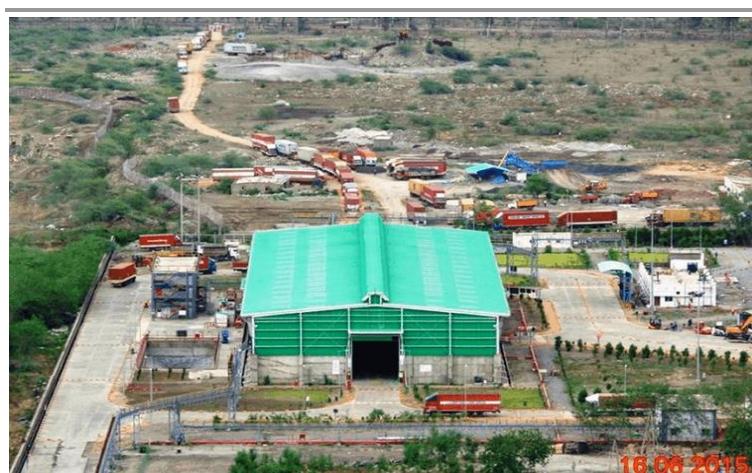
Source: Company

Exhibit 18: Sindri unit, Jharkhand (3.7mtpa)



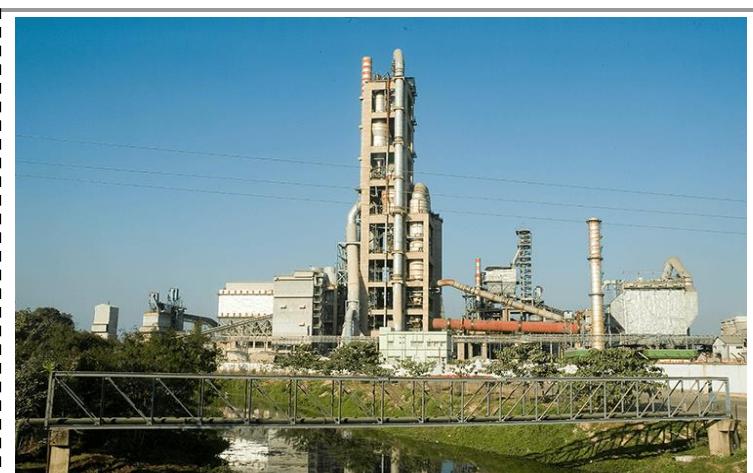
Source: Company

Exhibit 19: Alternate fuel & raw material unit at Wadi plant, Karnataka



Source: Company

Exhibit 20: Chaibasa unit, Jharkhand (0.9mtpa)



Source: Company

Exhibit 21: The Gold and Silver range of cement assure superior quality for specialised applications and environment besides being immensely suited for general construction

GOLD RANGE



ACC Gold Water Shield

Premium cement with a unique water repellent formula, which acts as a shield against water seepage

SILVER RANGE



ACC Suraksha Power

Loaded with unique strength multipliers providing homes with strength that increases over time



ACC Suraksha Power+

Developed with engineered Particle Size Distributor (PSD) technology, its advanced formula along with tamper-proof packaging, enhances the superior quality



ACC HPC Long Life

High-performance cement that forms strong bonds and makes dense concrete to provide the consumer with long-lasting homes



ACC Super Shaktimaan

Scientifically made keeping the consumer's need in mind of making their homes strong from the inside, year after year

Source: Company

Exhibit 22: Construction chemicals & dry mix range for retail customers

The ACC leak block range of construction chemicals helps provide 360° water resistance to structures.



ACC Leak Block Cement Mix LB 202

Integral waterproofing compound



ACC Leak Block Cement Coat LB 303

Advanced acrylic emulsion-based waterproofing and bonding compound

The dry mix range is designed to address key pain points of retail consumers. With consumer-friendly packaging and ease of usage, these aim to make the journey of home building easier.



ACC Leak Block Waterproof Plaster LB 101

Cementitious waterproof mortar and consists of well-graded sand and special waterproofing and self-curing additives



ACC Xtra Strong Tile Adhesive XT 111

A polymer modified, cementitious adhesive, suitable for fixing of tiles on floor and wall



ACC Xtra Strong Tile on Tile Adhesive XT 222

A grey cement based tile adhesive used for fixing medium sized tiles for internal walls and floors and tile on tile applications



ACC Xtra Strong Exterior Tile Adhesive XT 333

A grey cement based high polymer modified tile adhesive, suitable for external wall applications

Exhibit 23: Dry mix range for institutional clients



ACC Suraksha Ready Use Plaster 101

Consists of well-proportioned blend of quality raw materials and well-graded sand



ACC Suraksha Waterproof Plaster 201

Consists of well-graded sand and special waterproofing and self-curing additives



ACC Suraksha Thin Bed Jointing Mortar 105

Consists of well-graded sand, ACC cement and special additives



ACC Suraksha Grout 275

High strength, shrinkage compensated and flowable cementitious grout



ACC Suraksha Tile Fix 111

A ready-to-use grey cement based tile adhesive used for fixing small-sized ceramic and mosaic tiles for internal application



ACC Suraksha Tile Fix 222

A grey cement based tile adhesive used for fixing medium size ceramic, mosaic and vitrified tiles for internal walls and floors and external floor application



ACC Suraksha Tile Fix 333

A grey cement based tile adhesive for fixing large format vitrified, ceramic mosaic tiles, stone, marbles and granite for internal and external, wall and floor applications

Source: Company

Source: Company

Exhibit 24: Management team details

Name	Designation	Background
Mr. Sridhar Balakrishnan	MD & CEO	Took charge as MD & CEO in Feb'20. He has +20 years of leadership experience across the construction products, media and FMCG industries at ACC, STAR & Marico. He is an Engineering graduate from the IT-BHU, Varanasi and MBA from XLRI, Jamshedpur.
Mr. Yatin Malhotra	Chief Financial Officer	Was appointed as the CFO in Sep'20. Previously, he was the Vice President & CFO of Whirlpool India Ltd. Before Whirlpool, he was associated with LG Electronics, Samtel Colour Limited, Apollo Tyres Group & Escorts Group. He is a qualified CA, CS and CWA and has extensive experience in operating and strategic finance.
Mr. Ashish Prasad	Chief Marketing Officer	Is the CMO & Head of New Products & Services since Aug'18. He joined ACC from Pidilite Industries where he was the Chief Operating Officer of Construction Chemicals.
Mr. Pralhad Mujumdar	Chief Executive Officer- ACC Concrete & B2B	Has more than 35 years of experience in the fields of structural design, manufacturing, sales and marketing, consultancy, project management, construction, ready mixed concrete and new product development.
Mr. Suresh Rathi	Chief Supply Chain Officer	Has more than 30 years of experience in supply chain, finance, projects and IT. He has worked with leading conglomerates like Larsen & Toubro, Aditya Birla and Vedanta and joined ACC from Dalmia Bharat.
Mr. Rajeev Mehta	Chief Logistics Officer	A chartered accountant with +30 years of experience in business strategy, building logistics infrastructure, supply chain transformation and cost optimization in the building materials and petrochemicals space. He has worked with UltraTech Cement for ~20 years.
Mr. Rajiv Choubey	Chief Legal Officer & Company Secretary	Has been with the company since Sep'19; was previously employed as a Compliance Officer by Vedanta Ltd and as Secretary & Head-Legal by Sterlite Industries (India). He graduated from the University of Delhi.

Source: Company

Exhibit 25: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Key Risks	YoY Growth
CY16	<ul style="list-style-type: none"> Overall cement demand is likely to grow at ~5% in 2017. In 2017, the cement industry will continue to face the challenge of excess capacity, leading to intense competition. Cut in mortgage rates and infrastructure spending by government to boost cement demand. 	<ul style="list-style-type: none"> Commissioned new 2.79mtpa clinker plant at Jamul, Chhattisgarh. Also, new grinding units of 1.1 & 1.35mtpa capacity at Jamul & Sindri, Jharkhand. 	<ul style="list-style-type: none"> Step-up the sale of value-creating Premium products. Aim for a higher share of blended cement using flyash & slag. Higher share of petcoke in the overall fuel mix. 	<ul style="list-style-type: none"> Fuel Fair Competition Directive Capacity addition by peers 	Volume: -3% Revenue: -7% EBITDA: -4% PAT: -7.5%
CY17	<ul style="list-style-type: none"> Cement demand is expected to increase from ~6% in CY17 to ~7% in 2018. Affordable housing, smart cities project, highways through "Bharatmala Project" & constructing concrete roads to drive demand. 	<ul style="list-style-type: none"> No plans enumerated. 	<ul style="list-style-type: none"> Increased usage of cheaper activated gypsum and change in mix optimization. Improved evacuation efficiency, lead reduction by increasing market share in home markets. 	<ul style="list-style-type: none"> Raw Material risk Limestone availability Capacity addition by peers 	Volume: 14% Revenue: 21% EBITDA: 29.5% PAT: 33%
CY18	<ul style="list-style-type: none"> Cement demand is expected to grow by 7-8% led by affordable housing, rural Individual Home Builders (IHBs) & infrastructure. Eastern region would be a key demand driver along with the Northern & Central regions. 	<ul style="list-style-type: none"> Greenfield expansion of 3/1mtpa of clinker/cement capacity at Ametha, MP. Expansion of 2.2/1.6mtpa at Sonebhadra/Tikaria, UP. 1.1mtpa brownfield at Sindri, Jharkhand; the above projects would entail an investment of ~Rs30bn to be funded internally. 	<ul style="list-style-type: none"> Improving fly-ash absorption; higher blended cement share. Maximizing the use of linkage coal; judicious procurement of market coal through e-auctions and imports. Availing beneficial railway schemes to reduce freight. 	<ul style="list-style-type: none"> Fuel prices Limestone reserve depletion & RM availability Capacity addition by peers 	Volume: 8% Revenue: 11.5% EBITDA: 11% PAT: 17.5%
CY19	<ul style="list-style-type: none"> The sector outlook remains positive with estimated demand growth of 5% in 2020; the spending of USD 1.5trn under the National Infrastructure Pipeline over the next 5 years is a positive. East & Central India to lead the demand, led by affordable and infrastructure demand. 	<ul style="list-style-type: none"> Setting up of greenfield IC plant in Ametha with 3/1mtpa of clinker/cement capacity. Setting up of 1.1/1.4mtpa of PSC/PCC grinding facility at Sindri, Jharkhand. Expansion of Sonebhadra/Tikaria unit by 2.2/1.6mtpa PPC cement. 	<ul style="list-style-type: none"> Launched project 'PARVAT', a cost-saving initiative, to save on cost heads like logistics, warehousing, RM etc. Judicious procurement of market coal through e-auctions & imports, higher consumption of AFR. 	<ul style="list-style-type: none"> Fuel Limestone & slag availability Capacity addition by peers 	Volume: 2% Revenue: 6% EBITDA: 14% PAT: 26%
CY20	<ul style="list-style-type: none"> The outlook for CY21 is robust with estimated growth of +10% YoY. Primary drivers of growth will be infrastructure and affordable housing. 	<ul style="list-style-type: none"> Expanding its WHRS capacity by 22.5MW; to be operational by CY22. Aims to complete the 4.8/2.7mtpa grinding/clinker capacity at the earliest. 	<ul style="list-style-type: none"> Continual measures to maximize the use of cheaper fuel. Maximizing the use of renewable sources, including solar, wind & hydropower. 	<ul style="list-style-type: none"> Raw material Fuel Limestone 	Volume: -11.5% Revenue: -12% EBITDA: 3% PAT: 8%

Source: Company, Systematix Institutional Research

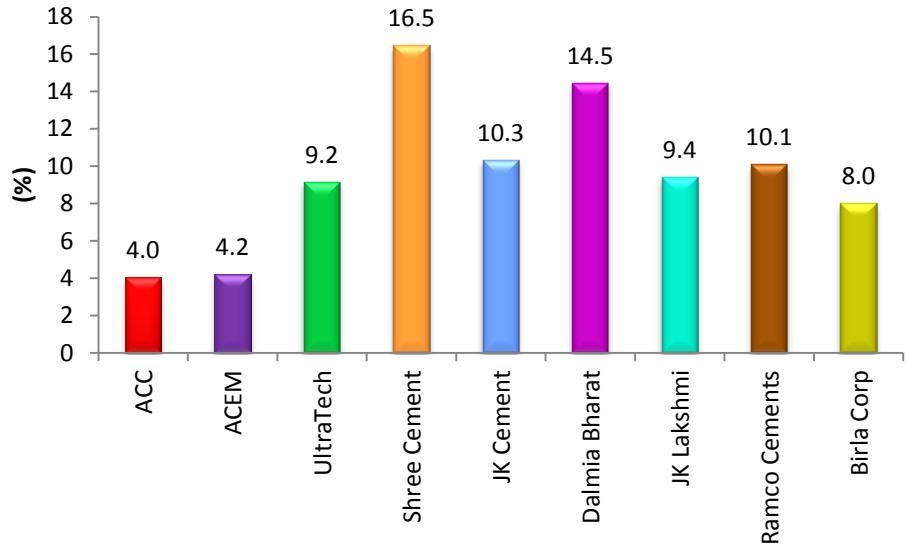
Investment Analysis

Lagged its peers in capacity additions...

Holcim group companies, ACC and ACEM, have seen lower capacity additions than most of their peers in the last 10 years. ACC commissioned its last clinker plant in Jamul, Chhattisgarh (2.79mtpa or 9,000tpd) in CY16. It also commissioned cement grinding capacities of 1.1mtpa/1.35mtpa at Jamul/Sindri in CY16. Before this expansion, it commissioned a 4.1mtpa (12,500 tpd) kiln at Wadi, Karnataka in Sep-10 and a 2.31mtpa (7,000 tpd) kiln at Chanda, Maharashtra, which commenced trial production in Nov-10.

Between FY08-21, ACC grew its capacity at a CAGR of 4%, while most relevant peers saw capacity growth of 8-17%. Besides the companies mentioned below, its relevant markets saw the emergence of few other players - Wonder Cement, Nuvoco Vistas (acquired plants of Lafarge Holcim in India and Emami Cements).

Exhibit 26: ACC's capacity addition has been the slowest (4% CAGR) in the past 12-13 years amongst its peers...

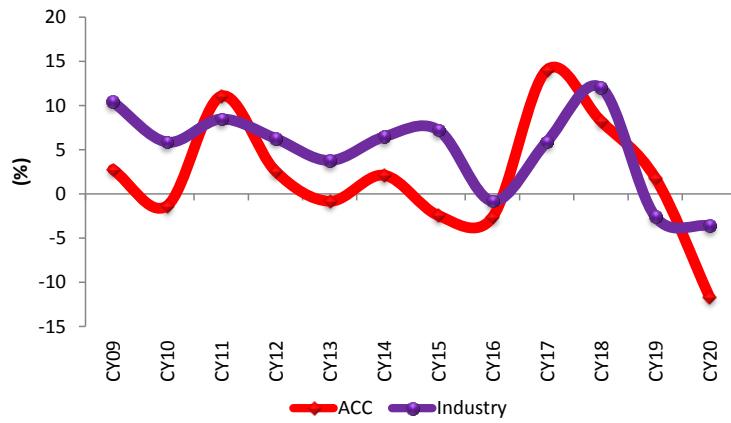


Source: Company

...leading to lower volume growth and market share loss

Lower capacity additions restricted volume growth for ACC. Its sales volumes grew at a CAGR of 2.8% between CY08-CY20 vs. the industry's demand growth of 5.2% in the same period. The company's sales volume remained flat between CY11-CY16, primarily due to higher capacity additions by its peers. This, in turn, led to an estimated market share loss of 2.1pp between CY11-CY16 for the company. However, between CY16-CY19, ACC's volume increased at a CAGR of 7.9% vs. the industry's growth rate of 5%.

Exhibit 27: ...which led to lower volume growth for the company vs. industry...



Source: Company, Systematix Institutional Research

Exhibit 28: ...and its market share declining to 8% in CY20 from 11.4% in CY08

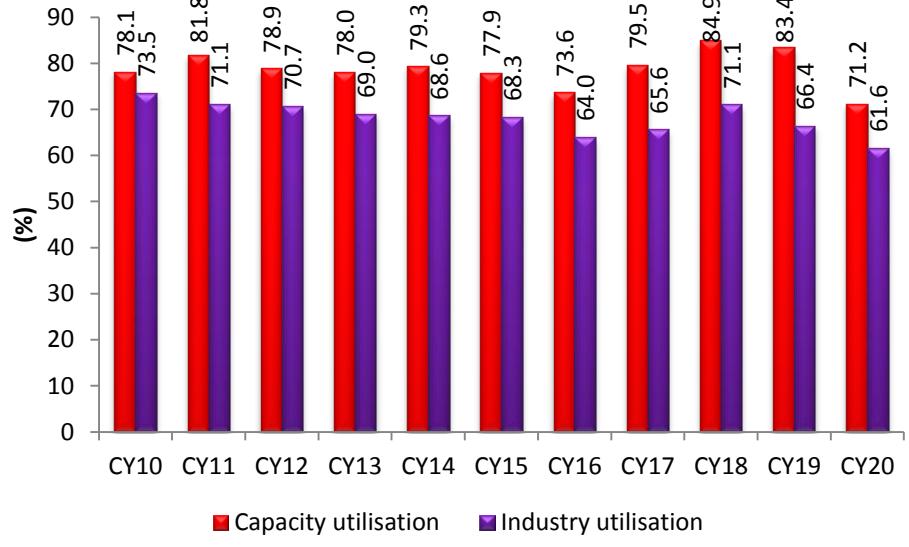


Source: Company, Systematix Institutional Research

Slower pace of capacity additions aided higher utilisation

Slow capacity additions have helped ACC to operate at a higher-than-industry utilisation rate. Between CY10-CY21, its average grinding capacity utilisation was 10.6pp higher while its average clinker capacity utilisation was 6.6pp above the industry.

Exhibit 29: Slow capacity addition ensured better utilisation of the existing assets vs. industry



Source: Systematix Institutional Research, Company

Commissioning of Ametha, Madhya Pradesh plant to aid volume growth

ACC is increasing its clinker capacity by 2.7mtpa at Ametha, Madhya Pradesh and its grinding capacity by 4.8mtpa in Madhya Pradesh and Uttar Pradesh. During CY21, it has already increased its grinding capacity by 1.4mtpa at Sindri, Jharkhand. The capex for this expansion is estimated at Rs 28.43bn which will be funded through internal accruals. The expansion will improve the company's sales in the Central and East markets.

Exhibit 30: To arrest market share loss, ACC aims to expand its clinker/cement capacity by 2.7/4.8mtpa by CY23-end

Location	State	Clinker (mtpa)	Cement (mtpa)	Timeline
Sindri	Jharkhand		1.4	Q1CY21
Ametha	Madhya Pradesh	2.7	1.0	Q2/Q3CY22
Tikaria	Uttar Pradesh		1.6	Q2/Q3CY22
Shonebhadra	Uttar Pradesh		2.2	CY23-end

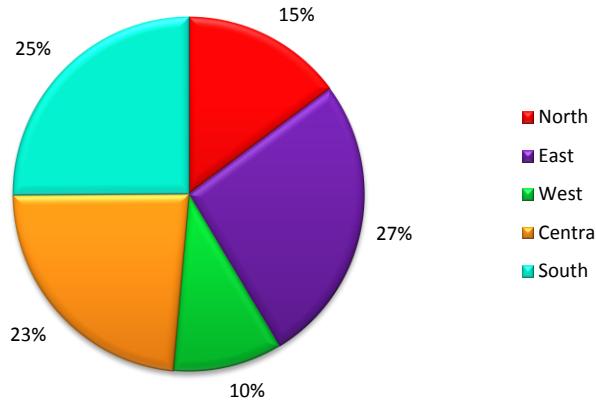
Source: Company, Systematix Institutional Research

Volume growth opportunities are limited

We expect ACC's capacity utilisation to reach 83% in CY22E. The on-going capacity expansion should support volume growth of 6.2%/9.7% for the company in CY22E/23E. However, it will have to plan for more expansion for future growth. ACC had received Environmental Clearance for a 2.72mtpa clinker plant and 4.1mtpa grinding plant along with 65MW thermal power plant and 10MW Waste Heat Recovery System at Bilaspur, Chhattisgarh in the Eastern region; any development on this project will strengthen its positioning in the Eastern region.

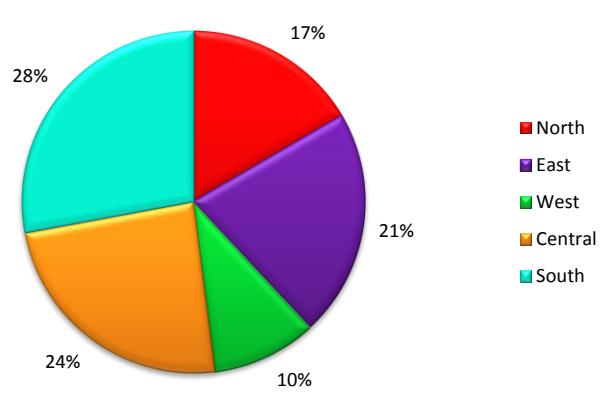
ACC has a clinker capacity of 20.7mtpa which will increase to 23.4mtpa by CY22E. Post completion of the on-going capex, 24% of its clinker capacity will be in the Central region vs. 14% currently. It has a grinding capacity of 34.5mtpa which will increase to 39.3mtpa after the capex completion. Post the capacity expansion, 15% of its grinding capacities will be in the North, 27% in the East, 23% in the Central region, 10% in the West and 25% in the South.

Exhibit 31: Post the capex completion, ACC's Central India exposure will get a boost as cement/clinker...



Source: Company, Systematix Institutional Research

Exhibit 32: ...capacity will increase to 23%/24% from 13%/14% currently



Source: Company, Systematix Institutional Research

Cost-saving initiatives yielding results

ACC initiated an efficiency optimisation programme *Project Parvat* in 2019 to transform the cost structure and improve the delivered cost to consumers. The improvement in cost structure had to be achieved by unlocking efficiencies in procurement and supply chain and reducing the distribution costs. The focus was to increase the sales of premium products for achieving better margins. In CY20, workshops and brainstorming sessions, assisted by an external consulting agency, were conducted at all plants of the company across the country. The potential savings from the identified initiatives were calculated and projected as monthly targets. About 500 initiatives were implemented successfully in manufacturing alone in CY20.

Under Project Parvat, ACC undertook several cost-saving initiatives like a) renegotiation of warehouse rents, b) increase in direct dispatches of sales, c) renegotiation of fuel/freight mix, d) planning of Waste Heat Recovery Systems at Jamul and Kymore and e) better working capital management. The company believes that this project led to cost savings of Rs 110/ton in CY20.

Exhibit 33: Total cost savings in excess of Rs 2.5bn or Rs 110/ton in CY20 through initiatives like PARVAT



Source: Systematix Institutional Research, Company

ACC and Ambuja Cement launched a strategic supply chain project in partnership with Blue Yonder – the world's leading, end-to-end, digital supply chain platform provider. The initiative was aimed at: a) generating a monthly demand plan based on a forecast from the grassroots level, b) improving the capacity utilisation, c) EBITDA maximisation by shifting volumes from low to high EBITDA markets, d) network optimisation to improve services and boost secondary distribution cost and e) framework to facilitate decisions related to future expansions. This initiative will support EBITDA improvement by effectively using technology for capacity utilisation improvement, shifting from low to high EBITDA markets and enabling cost optimisation and improved customer services.

ACC also focused on digitalisation through the "Plants of tomorrow" initiative. It implemented Technical Information Systems (TIS) that record minute-by-minute data from all key assets at the plants. This initiative has helped the company improve customer service and optimise costs.

The initiatives under Project Parvat will continue in CY21 and the company has set further cost savings goals through a) improvement in operational efficiency of the manufacturing and logistics network, b) higher sales of premium products and value-added services for better margins and c) focus on profitable markets and segments.

Exhibit 34: ACC's CY20 progress card and CY21 goals for improvement

Strategic Focus Area (SFA)	Progress Made During The Year	KPIs	Goals For 2021
<i>Expanding & upgrading capacities</i>	1) Upgraded existing facilities with contemporary technology & new processes. 2) Commissioned new 1.4mtpa cement grinding unit at Sindri, Jharkhand.	1) Capacity increase 2) Cost of expansion 3) Average capital utilisation	1) Leverage capacity for further value creation and to meet growing customer demand. 2) Execution of Ametha and associated grinding units.
<i>Enhancing profitability</i>	1) Under Project Parvat, undertook cost-saving projects like the renegotiation of warehouse rents, increased direct dispatches of sales and renegotiated fuel/freight mix. 2) Investment in efficiency initiatives such as Waste Heat Recovery Plants (WHRPs) at Jamul and Kymore. 3) Ensured healthy cash flows through rigorous WC management.	1) Earnings Before Interest and Taxes (EBIT) 2) Free Cash Flow (FCF) 3) RoCE 4) Cost measures	1) Improve operational efficiency of the manufacturing & logistics network. 2) Focus on growing the premium product portfolio & value-added services (VAS) to achieve better margins. 3) Focus on profitable markets and segments.
<i>Reimagining business proposition</i>	1) Continued focus on talent identification, succession planning. 2) Embracing innovation and sustainability. 3) ACC RMX introduced new low carbon 'ECOPact' product.	1) Digital learning adoption rate 2) Growth of RMC – VAP & services 3) Growth of low carbon & sustainable product portfolio	1) Focus on new product development to drive growth. 2) Drive logistics excellence to achieve greater efficiencies. 3) Enhance brand equity.
<i>Embedding ESG principles across areas of operations</i>	1) Committed to ESG actions and on track to achieve SD 2030 plan. 2) Improved performance on climate, water etc. 3) Healthy progress made on the decarbonisation roadmap. 4) Increase in share of blended cement.	1) Percentage of sales from green products 2) Percentage of operations powered by WHRS & specific CO2 emissions intensity 3) Thermal Substitution Rate (TSR) 4) CSR spend, beneficiaries	1) Continue to build sustainable product portfolio. 2) Improve ESG rating & enhance reputation. 3) Promote strong ESG & CSR principles. 4) Continue efforts towards achieving SD 2030 plan.

Source: Company, Systematix Institutional Research

Commissioning of WHRS to improve the cost structure

ACC has a Waste Heat Recovery System (WHRs) of only 7.5MW at the Gagal, Himachal Pradesh plant. It plans to commission a WHRS capacity of 22.5MW at two locations, Jamul (Chhattisgarh) and Kymore (Madhya Pradesh), by CY22E.

The company has a renewable power capacity of 24.73MW, which includes 19MW wind power plants in Rajasthan, Tamil Nadu, Maharashtra and solar power plants of 5.73MW. It also has arrangements for a 14.1MW solar power plant at its Tikaria, Uttar Pradesh plant. In CY20, its plants at Thondebhavi and Kudithini in Karnataka sourced ~60% of the plants' power requirement from renewable sources.

Exhibit 35: ACC plans to add a total 22.5MW of WHRS in Chhattisgarh and MP plants...

Plants	State	MW
Gagal	Himachal Pradesh	7.5
Current capacity		7.5
Jamul	Chhattisgarh	11.0
Kymore	Madhya Pradesh	11.5
Planned		22.5

Source: Company, Systematix Institutional Research

Exhibit 36: ...taking the renewable power capacity to +50MW including WHRS units

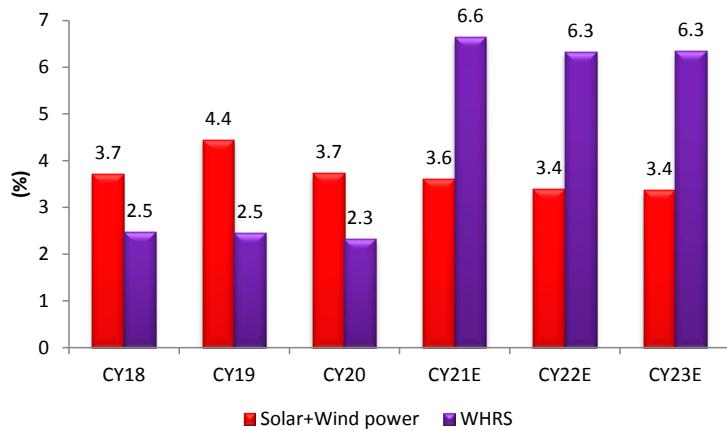
Plants	State	MW
Wind Power plants	Rajasthan, Tamil Nadu, Maharashtra	19.0
Solar Power plants	Chhattisgarh & Madhya Pradesh	5.7
Current capacity		24.7

Source: Company, Systematix Institutional Research

During CY20, ACC's captive wind farms generated 32.3mn units of renewable energy while solar power plants generated 2.49mn units of power. Additionally, the company consumed 49mn units of solar power and 5mn units of wind power through Power Purchase Agreement. WHRS at Gagal Cement Works generated ~47mn units of electrical energy during the year.

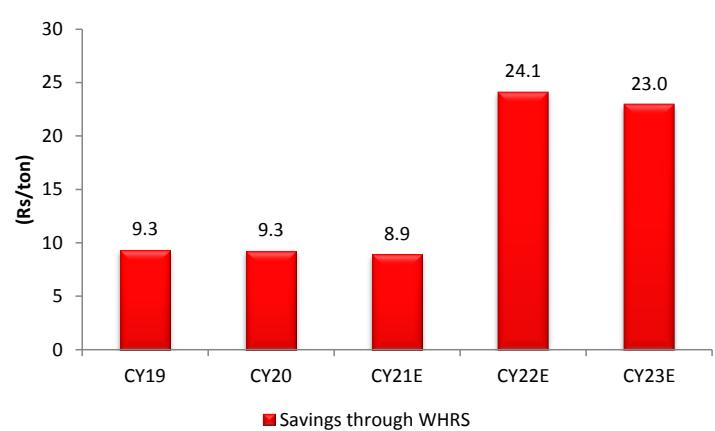
Green energy (including WHRS) contributed to 6.0% of total power consumption in CY20 vs. 6.9% in CY19. Green energy (including WHRS) contributed to 4.3% of total power production in CY20 vs. 4.1% in CY19. We estimate renewable sources to contribute to 8.4% of total electricity generation and 9.7% of total electricity consumption by CY23E. Higher power generation through WHRS may lead to incremental cost savings of ~Rs 15/ton by CY23E.

Exhibit 37: Expect WHRS to contribute to 6.3% of electricity consumption by CY23E...



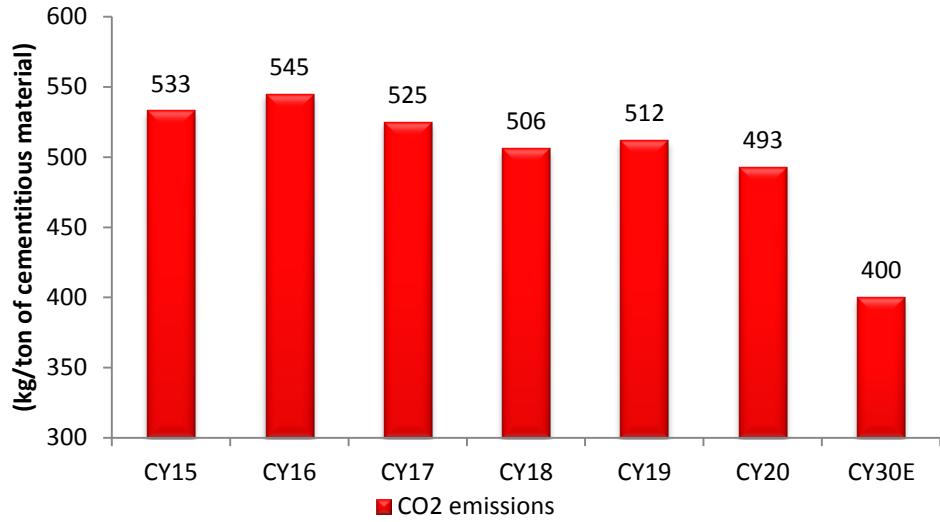
Source: Company, Systematix Institutional Research

Exhibit 38: ...leading to incremental cost savings of Rs 15/ton by CY23E



Source: Company, Systematix Institutional Research

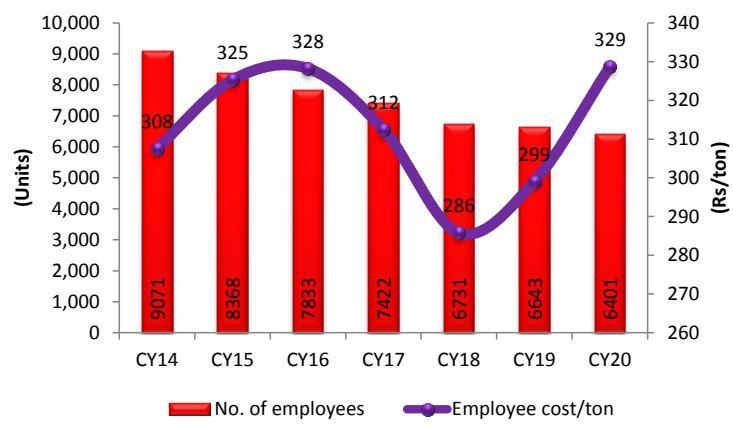
Exhibit 39: ACC plans to reduce CO2 emission levels by 19% from the current levels



Source: Systematix Institutional Research, Company

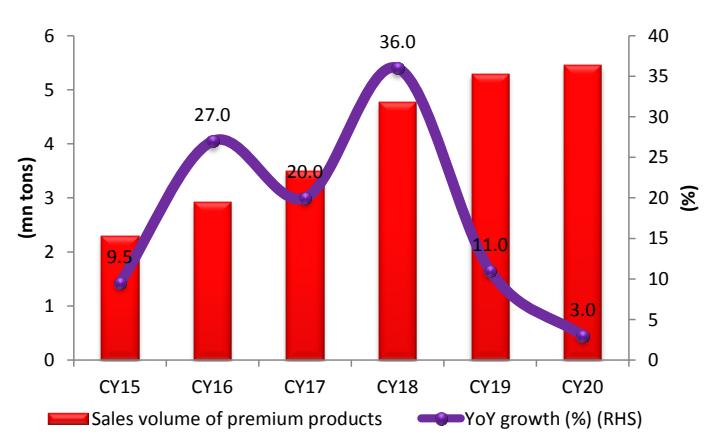
ACC has also undertaken other initiatives like: a) rationalisation of employee costs, b) lower consumption of energy, c) higher share of premium products and d) higher thermal substitution. The total number of employees reduced between CY14-CY20, pulling down employee cost/ton (increase in CY20 was due to lower production volumes). The sales volume of premium products grew at a CAGR of 17% over CY14-CY20. Electricity consumption/ton of cement declined to 80.65 units in CY20 vs. 84.45 units in CY15. Thermal substitution improved to 6.93% vs. 3.2% in CY16. The kiln heat rate remained flat over CY17-CY20.

Exhibit 40: Employee base declined at a CAGR of 5.6%, pulling down unit staff cost



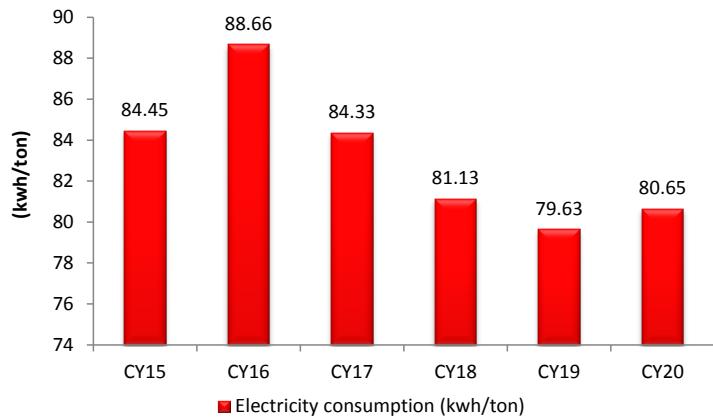
Source: Company, Systematix Institutional Research

Exhibit 41: Premium products share more than doubled to ~21% in CY20 from 9.7% five years back



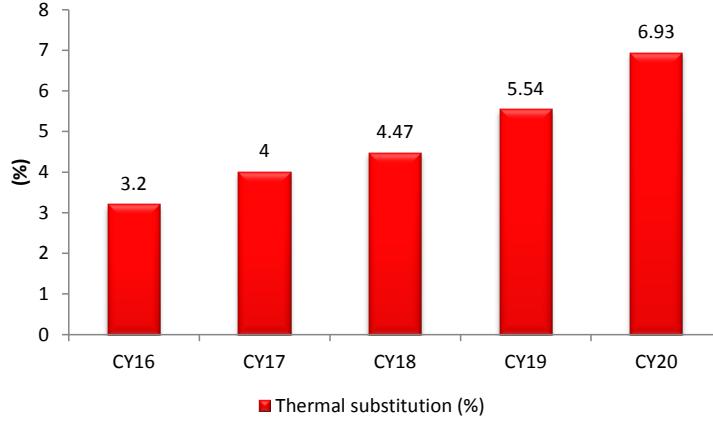
Source: Company, Systematix Institutional Research

Exhibit 42: Focus on plant efficiency since CY16 has led to a reduction in the unit electricity consumption...



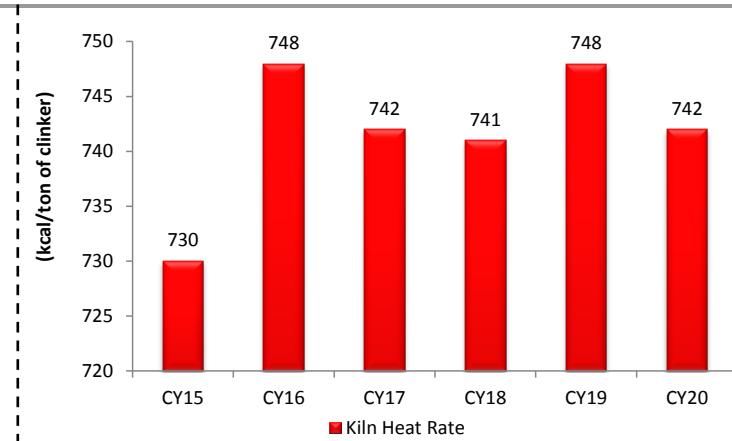
Source: Company, Systematix Institutional Research

Exhibit 44: Thrust on renewable energy has led to higher thermal substitution rate



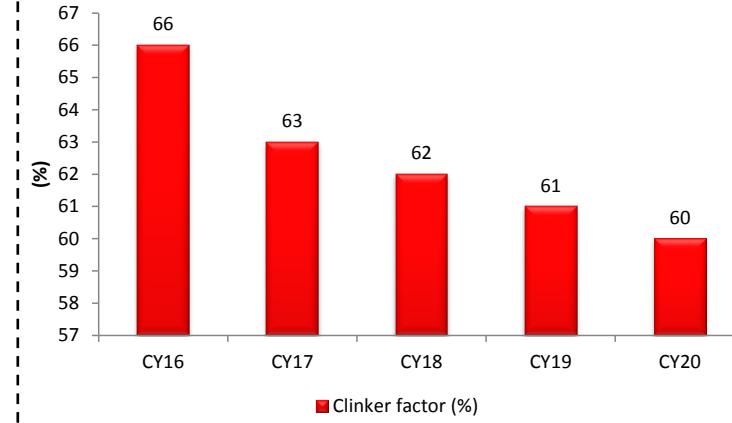
Source: Company, Systematix Institutional Research

Exhibit 43: ...however kiln heat rate remained range-bound



Source: Company, Systematix Institutional Research

Exhibit 45: ACC's increasing share of premium/blended products has led to a lower clinker factor



Source: Company, Systematix Institutional Research

Benefits of Master Supply Agreement getting reflected

In the May'17 board meeting, ACC and ACEM decided to set up a special committee of directors to consider the merger of the two companies. However, this proposal was called off later given the challenges of limestone mines transfer across 19 states.

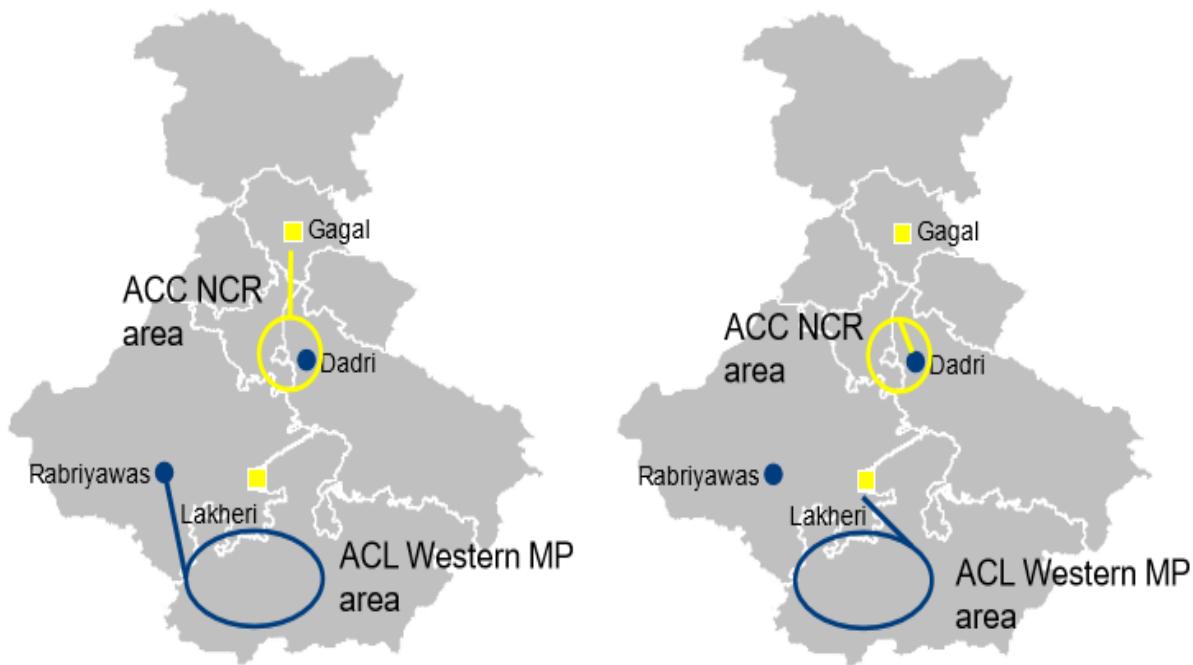
In CY18, ACC and ACEM signed a Master Supply Agreement (MSA) to unlock benefits from a) procurement of clinker, cement, raw material and spare parts and b) undertaking toll grinding in certain parts.

Exhibit 46: Pricing arrangement for the master supply agreement signed between ACC & Ambuja

Material/Service	Pricing formula
Cement	Manufacturing company's Average Net Selling Price minus 5% discount, applied in the following manner: (a) In case of 'FOR Delivery', the Average Net Selling Price applicable for such FOR Deliveries in the relevant district; (b) In case of 'Ex-Delivery', the Average Net Selling Price applicable for such Ex-Deliveries in the relevant district Delivery point: (a) "FOR Delivery": delivered at buying company's dealer, retailer, or consumer site, as the case may be; or (b) "Ex-Delivery": delivered at the manufacturing plant or dispatching railway yard, as the case may be.
Toll Grinding	For each tonne, (A) + (B), where: (A) = Conversion charges determined at 8% of the Gross Fixed Assets Block; and (B) = Manufacturing plant's variable cost per tonne of the previous quarter, plus 10% mark-up Delivery point: At the manufacturing plant.
Clinker	Price will be one of the following: (a) Ex-works market price; or (b) Ex-works market price determined by an independent agency appointed by Board of Directors of both, Ambuja and ACC; or (c) Manufacturing plant's clinker variable cost of the previous quarter, plus 35% mark-up. The above hierarchy of methods will be followed for arriving at the price of clinker. Delivery point: At the manufacturing plant
Raw materials and Stores & Spares	Price will be one of the following: (a) Replacement cost thereof at manufacturing company's location based on market price; or (b) Manufacturing company's landed cost thereof plus carrying cost of 8% per annum for the holding period The above hierarchy of methods will be followed for arriving at the price of raw material and spare parts. Delivery point: At manufacturing company's location.

Source: Company, Systematix Institutional Research

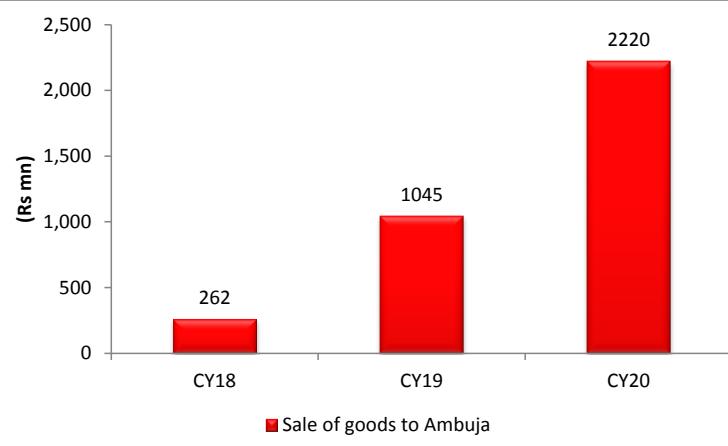
The benefits of the MSA are being realized through: 1) Clinker transfer from ACC's Lakheri (Rajasthan) plant to Dadri (Uttar Pradesh) grinding unit of ACEM which earlier was being catered from Rabriyawas (Rajasthan) ACEM's plant; 2) clinker transfer from ACC's Bargarh (Odisha) or Chaibasa (Jharkhand) plants to Farakka (West Bengal) and Sankrail (West Bengal) grinding units of ACEM. ACC had been servicing the Delhi market also from Lakheri earlier. Post MSA, ACEM's Roorkee (Uttarakhand) plant is being used to service the Delhi market of both ACC and ACEM. The management had guided PBT improvement of 3-5% for both companies due to MSA.

Exhibit 47: Under the MSA, both companies can leverage on each other's capacity/infrastructure for mutual benefit, leading to 3-5% savings on PBT levels

Source: Company, Systematix Institutional Research

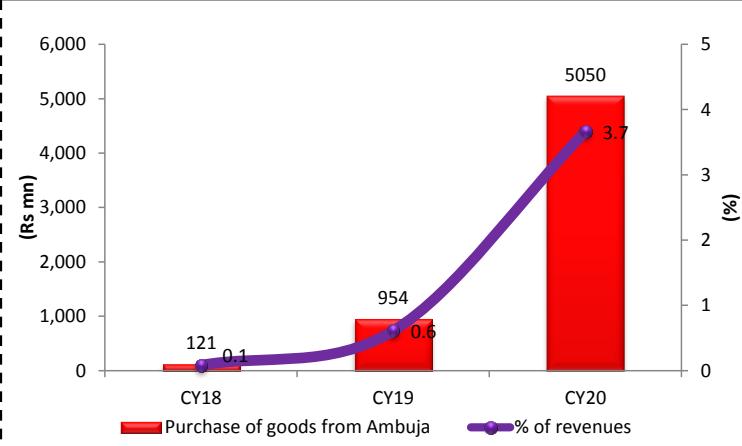
In CY20, there was an increase of 5.3x YoY in goods purchased (Rs 5.05bn from Rs 954mn) from ACEM and a rise of 2.1x YoY in goods sold (Rs 2.2bn from Rs 1.05bn) to ACEM. As per the management, Rs 2.5bn of cumulative savings were achieved by ACC and ACEM in CY20 due to the MSA. Benefits for ACC were less than 5% of PBT.

Exhibit 48: Sale of goods to ACEM increased ~2.1x YoY in CY20...



Source: Company, Systematix Institutional Research

Exhibit 49: ...purchase of goods increased ~5.3x YoY to Rs 5bn in CY20 viz. 3.8% of revenues

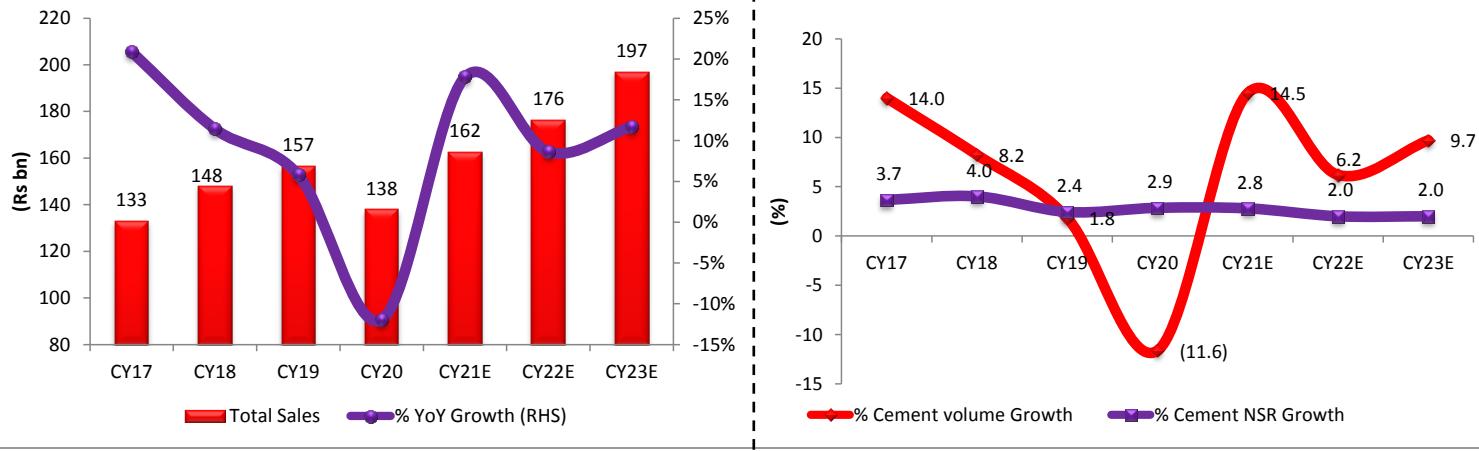


Source: Company, Systematix Institutional Research

Financial Highlights

We expect ACC to report revenue CAGR of 12.6% during CY20-CY23E, primarily led by a 10.1% CAGR in cement sales volumes. We expect capacity utilization to be at 84%/83%/86% in CY21/22/23E vs. 83.4% in CY19 (71.2% in CY20). Its RMC revenues are expected to grow at a 15.2% CAGR – RMC revenue share is estimated to increase to 7.5% from 6.9% currently. ACC's volumes declined 11.6% YoY in CY20 but we expect a 14.5% YoY growth in CY21 led by the commissioning of the 1.4mtpa Jharkhand plant and infrastructure demand picking-up in South India. Further, we estimate cement realisation to grow at a 2.3% CAGR during CY20-CY23E.

Exhibit 50: ACC to report ~12.6% revenue CAGR during CY20-CY23E... Exhibit 51: ...led by strong cement volume growth of 10.1%

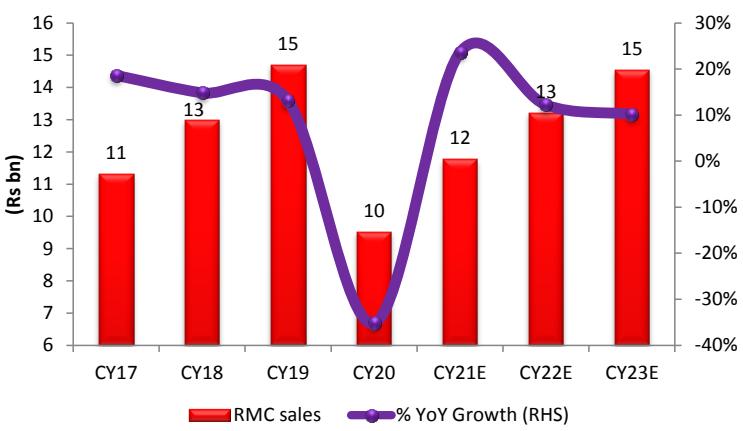


Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

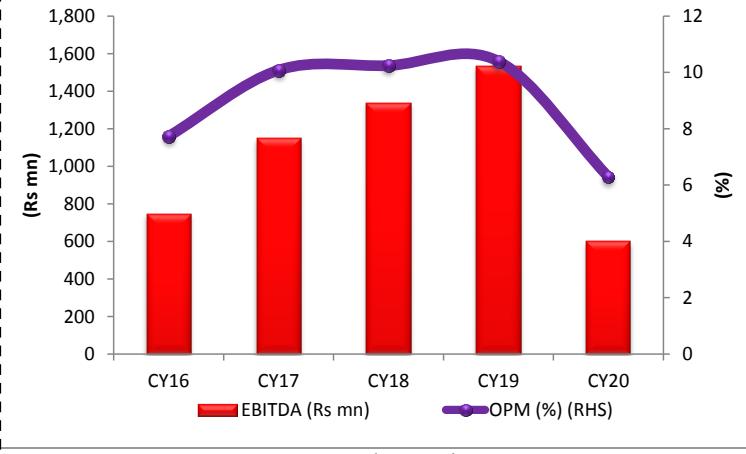
On the ready mix concrete (RMC) business front, we expect it to achieve pre-COVID revenues by CY23E. EBITDA margin of RMC declined to 2.4% in CY20 vs. 6.4% in CY19 due to a 35% YoY drop in revenues. We estimate RMC revenues to grow at a 15.2% CAGR during CY20-CY23E to Rs 14.5bn, largely driven by 12.5% volume growth.

Exhibit 52: Expect RMC business sales to return to pre-COVID levels only in CY24E



Source: Company, Systematix Institutional Research

Exhibit 53: RMC contribution to overall EBITDA dipped to 2.4% in CY20

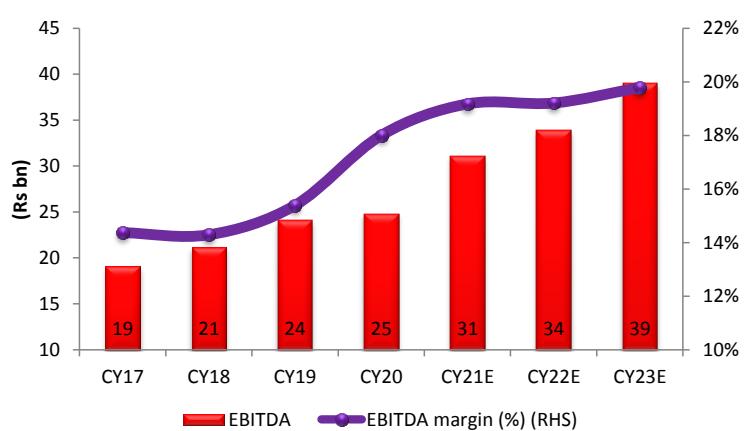


Source: Company, Systematix Institutional Research

ACC's operating profit is expected to grow at a CAGR of 16.3% during CY20-CY23E led by 1) operating leverage from the sweating of existing assets (13-year high utilisation expected in CY21), 2) installation of 22.5MW WHRS plants in the medium-term leading to incremental cost savings of Rs 15/ton in CY23E, 3) continued focus on reducing cost through initiatives like 'Project PARVAT' which yielded Rs 110/ton savings in CY20 and 4) better synergies on operating costs/sales volumes through the

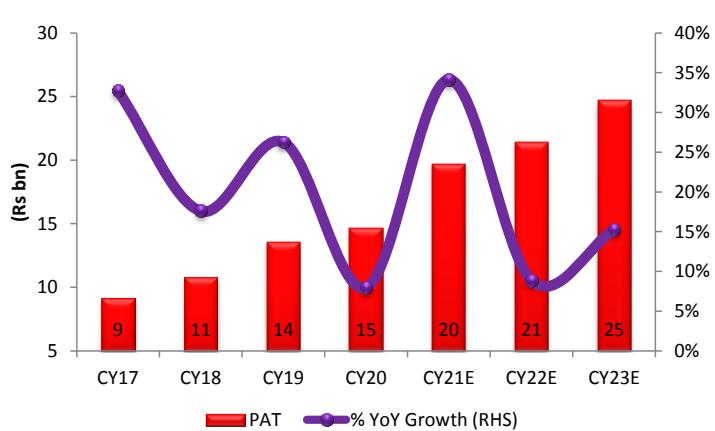
Master Supply Agreement with ACEM. We expect a profit CAGR of 18.9% during CY20-CY23E.

Exhibit 54: Estimate EBITDA CAGR of 16.3% ...



Source: Company, Systematix Institutional Research

Exhibit 55: ...and PAT CAGR of 18.9% over CY20-23E

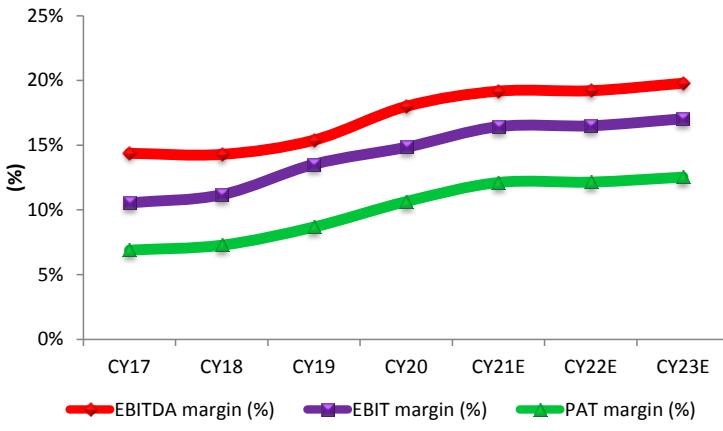


Source: Company, Systematix Institutional Research

We expect EBITDA margin to expand 118bps YoY in CY21 led by a 2.3% rise in NSR despite hardening fuel costs and soft demand (2nd COVID wave) in 2QCY21. The overall stable pricing scenario coupled with higher volumes from the Jharkhand plant should support the margins and cushion them from cost headwinds (pet coke price is up ~75% in the last one year whereas imported coal price has increased +30%). As per the latest annual report, ACC derives 93% of its energy requirements (kilns) from coal and pet coke. We expect EBITDA margins to improve to 19.2%/19.8% in CY22E/CY23E owing to higher volumes, easing of the cost headwinds and a stable pricing scenario.

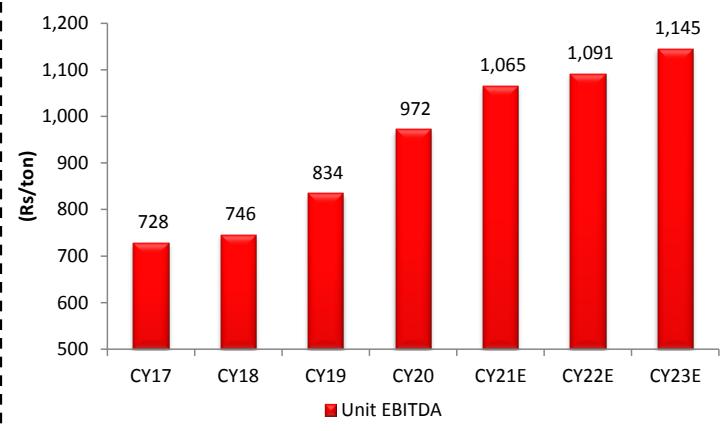
Consequently, we expect unit EBITDA to increase to Rs 1,145 in CY23E from Rs 972/ton in CY20. EBIT and PAT margins are expected to be at 16-17% and 12-13%, respectively.

Exhibit 56: Margins to sustain at higher levels...



Source: Company, Systematix Institutional Research

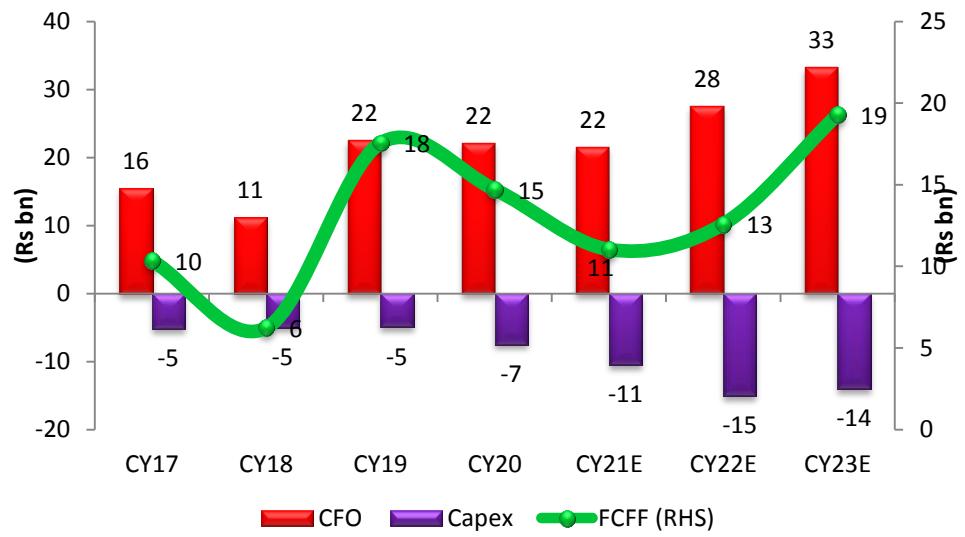
Exhibit 57: Improvement in EBITDA/ton over CY17-20



Source: Company, Systematix Institutional Research

We estimate ACC's free cash flow (FCF) to dip to Rs 11bn (25% lower YoY) in CY21 led by 1) increase in working capital requirements and 2) higher capex of Rs 10.5bn in CY21E vs. Rs 7.45bn in CY20. The operating cash flow (OCF) of the company is expected to grow at a CAGR of 14.5% over CY20-CY23E which will lead to FCF of Rs 42.9bn despite our capex assumption of Rs 39.5bn.

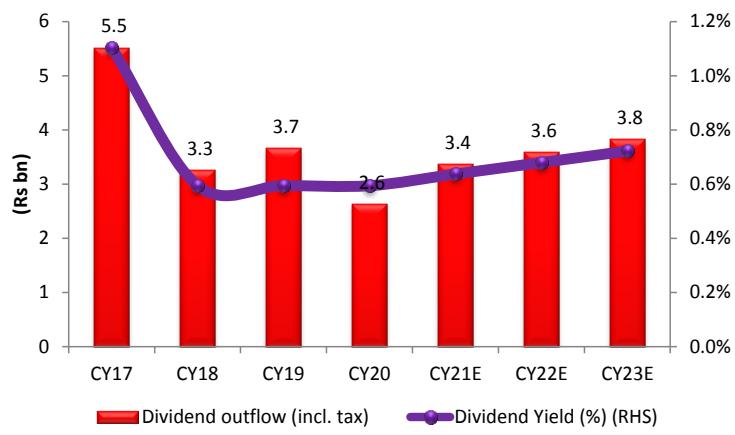
Exhibit 58: Higher cash generation should help fund future capex through internal accruals



Source: Company, Systematix Institutional Research

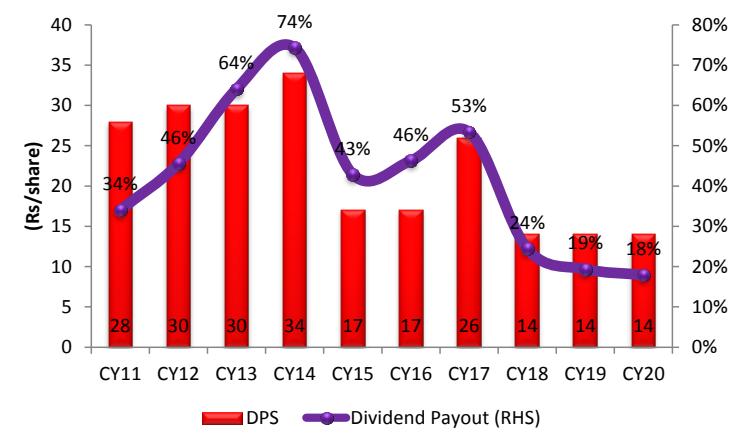
To complete its expansion program, ACC adopted a conservative dividend policy for the past three years -- dividend per share was flat at Rs 14 from CY18 to CY20. As the capex program is pending, we expect dividend pay-out to be in the range of 13-14% till CY23E. Lower dividend pay-out and robust FCF generation suggest ACC might conserve cash for future expansion.

Exhibit 59: Expect conservative dividend in the coming years



Source: Company, Systematix Institutional Research

Exhibit 60: Payout has been flat in the past 3 years



Source: Company, Systematix Institutional Research

We expect ACC's Return on equity (RoE) to improve gradually to 14.4% in CY23E from 12.1% in CY20 led by an improvement in margins (EBIT margin is expected to improve to 17% by CY23E vs. 14.8% in CY20).

Exhibit 61: Du-pont analysis

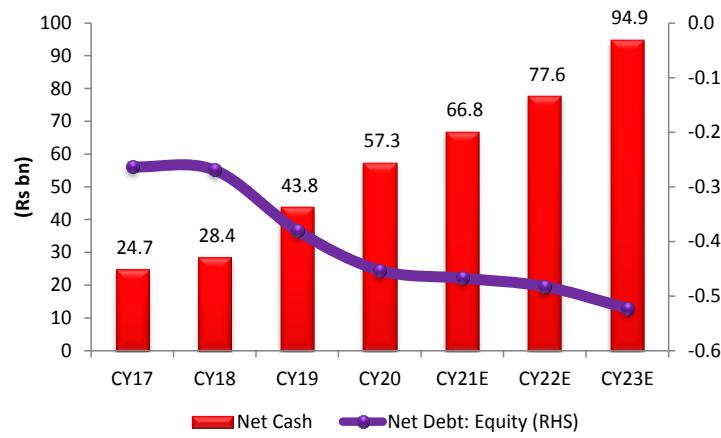
Particulars	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
PAT/PBT	70.5%	68.8%	66.9%	73.8%	74.8%	74.8%	74.8%
PBT/EBIT	92.7%	94.6%	95.9%	97.2%	98.6%	98.4%	98.3%
EBIT/Sales	10.5%	11.2%	13.5%	14.8%	16.4%	16.5%	17.0%
Asset turnover (x)	1.4	1.4	1.3	1.1	1.2	1.1	1.1
Assets/Equity (x)	1.1	1.1	1.1	1.0	1.0	1.0	1.0
ROE (%)	10.1	10.8	12.3	12.1	14.6	14.1	14.4

Source: Company, Systematix Institutional Research

RoCE is expected to improve to 19.2% in CY21E from 16.2% in CY20 with the improvement in operating margins. We expect a RoCE of 18.7%/19.2% in CY22E/CY23E. Higher capacity utilisation, tight working capital management and better operating profits should result in RoIC improving to 39.7% in CY23E vs. 26.2% in CY20.

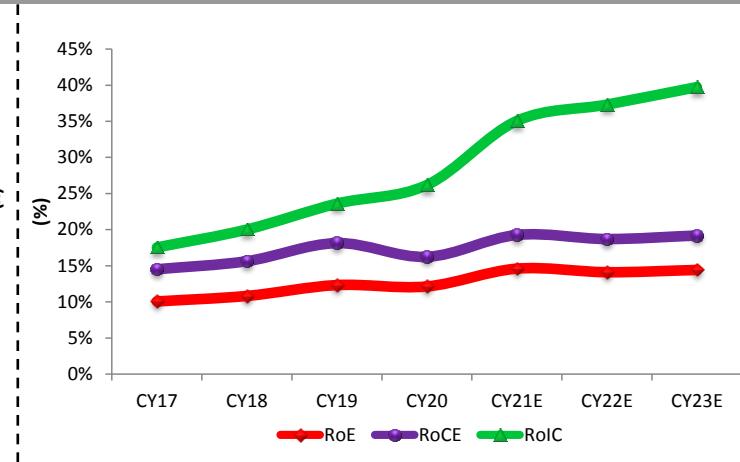
We estimate ACC's net cash levels to improve to Rs 94.9bn in CY23E from Rs 57.4bn in CY20, placing it in a comfortable position to pursue future growth opportunities.

Exhibit 62: See continued improvement in the balance sheet



Source: Company, Systematix Institutional Research

Exhibit 63: Return ratios are expected to improve further



Source: Company, Systematix Institutional Research

Cash flow analysis & corporate governance

FCF generation: ACC generated cumulative FCF of ~Rs 58bn between CY16-CY20.

FCF utilisation: Of the total FCF generation of Rs 58bn, it paid ~29% of the amount (~Rs 17bn) towards dividend (including dividend tax) over the past 5 years. Liquid assets of the company have increased by Rs39.6bn in last 5 years (69% of FCF).

FCF expectation: We expect FCF to decline to Rs 11bn in CY21E due to capex requirements for expansion projects in Ametha & Tikaria – Rs 10.5bn/Rs 15bn in CY21E/CY22E. FCF is expected to improve to Rs 12.6bn/Rs 19.3bn in CY22/CY23E.

Earnings quality: During the last 10 years, ACEM has earned a cumulative PAT of ~Rs 116bn against which it generated OCF of Rs 155bn (1.34x profits).

Exhibit 64: FCF to dip in CY21 and remain moderate in CY22 owing to capex in Central India

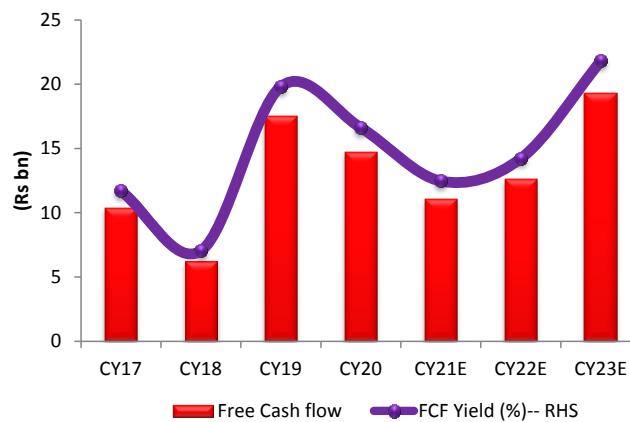
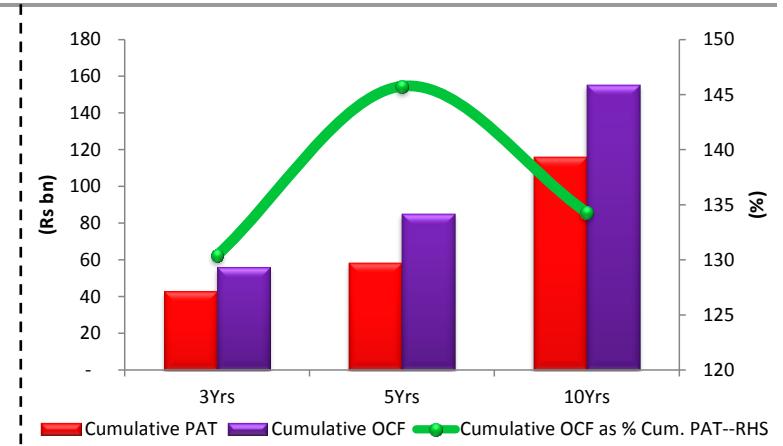


Exhibit 65: Earnings quality reflects in cumulative OCF; OCF has been more than PAT in the past 10 years



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

Exhibit 66: Contingent liabilities

Contingent liabilities (Rs mn)	CY16	CY17	CY18	CY19	CY20
Demand from Competition Commission of India	12,288	13,667	15,044	16,194	17,499
Others	3,149	2,151	7,907	10,154	10,249
Total	15,437	15,818	22,950	26,348	27,748
% of networth	17%	17%	22%	23%	22%

Source: Company, Systematix Institutional Research

Exhibit 67: Director and KMPs renumeration & pledging details

Other key monitorables	CY16	CY17	CY18	CY19	CY20
Remuneration to Directors & KMPs (Rs mn)	143	125	152	141	202
% of PBT	1.6%	1.0%	1.0%	0.7%	1.0%
Auditor's remuneration (Rs mn)	45	25	35	33	32
% of PBT	0.5%	0.2%	0.2%	0.2%	0.2%
Pledged shares (%)	-	-	-	-	-

Source: Company

Systematix vs. Consensus

Our revenue/EBITDA estimates are largely in-line with the Bloomberg consensus for CY21E and CY22E. Our revenue/EBITDA estimate is 3%/6% above consensus in CY23E. In terms of operating margins, we expect ACC to derive cost savings from 1) operating leverage from the sweating of existing assets (13-year high utilisation expected in CY21), 2) installation of 22.5MW WHRS plants in the medium-term leading to incremental cost savings of Rs 15/ton in CY23E, 3) cost savings through initiatives like 'Project PARVAT' which yielded Rs 110/ton savings in CY20 and 4) higher transaction value under the Master Supply Agreement leading to better synergies on operating costs.

Exhibit 68: ACC- Standalone - Bloomberg vs. our estimates

Particulars	CY21E	CY22E	CY23E
Revenues (Rs bn)			
Consensus	164	176	191
Systematix est.	162	176	197
% Difference	-1%	0%	3%
EBITDA (Rs bn)			
Consensus	31	34	37
Systematix est.	31	34	39
% Difference	-1%	0%	6%
EBITDA Margin (%)			
Consensus	19.1%	19.3%	19.2%
Systematix est.	19.2%	19.2%	19.8%
Difference (bps)	4	(7)	59

Source: Bloomberg, Systematix Institutional Research

Exhibit 69: Key Assumptions

Particulars	CY18	CY19	CY20	CY21E	CY22E	CY23E
Sales volume (mt)	28.4	28.9	25.5	29.2	31.0	34.1
Cement Realization (Rs/ton)	4,597	4,709	4,843	4,979	5,078	5,180
Per ton costs (Rs)						
Raw material	791	817	711	733	757	782
Purchase of goods	31	125	273	250	248	237
Employee cost	286	299	329	304	304	293
Power & Fuel	1,057	1,084	1,008	1,080	1,116	1,141
Freight	1,414	1,402	1,344	1,366	1,396	1,427
Other expense	892	859	763	755	770	760
Total Cost	4,472	4,585	4,428	4,490	4,590	4,641
EBITDA/ton	746	834	972	1,065	1,091	1,145

Source: Systematix Institutional Research

Key downside risks

- 1) **Further delay in the commissioning of pending capex:** As per initial guidance, the 6.2/2.7mtpa cement/clinker expansion programmes were to be completed by CY21-end. The delay in commissioning was likely due to COVID-19-induced slower mobilisation of labour and goods. We estimate capex plans to get completed by CY23E; any delay in commissioning will lead to lower-than-estimated sales volumes.
- 2) **Inflationary pressures in fuel costs:** There has been a sharp increase in the prices of pet coke, coal and diesel in the last few months. The price of pet coke is up ~75% over the last year while imported coal price has increased 30%+. Current pet coke prices are up ~40% vs. 4QFY21 consumption price. Though cement companies are trying to control energy costs by changing their fuel mix (lower usage of pet coke and Australian coal), continued escalation in coal/pet coke prices could impact our earnings estimate if the industry is unable to pass on the cost increases to consumers.
- 3) **Prolonged pandemic-related restrictions/lockdowns:** We estimate ACC to report 14.5% volume growth in CY21E; however, continued localised lockdowns could act as a downside risk to our estimates. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites and delay the process. However, we derive confidence from the vaccination pace in India and believe economic recovery and normalcy will be attained from 2HCY21E onwards.

Valuation and View

Both LafargeHolcim Group companies in India, ACC and ACEM, have seen slower capacity additions than most peers in the last 13 years. Between FY08-FY21, ACC's capacity grew at a CAGR of 4% whereas most of its relevant peers saw capacity growth of 8-17% in the same period. ACC commissioned its last clinker plant in Jamul, Chhattisgarh (2.79mtpa or 9,000tpd) in CY16. It also commissioned cement grinding capacities of 1.1mtpa/1.35mtpa at Jamul, Chhattisgarh/Sindri, Jharkhand in CY16. Before this expansion, it had commissioned a 4.1mtpa (12,500 tpd) kiln at Wadi, Karnataka in Sep-10 and 2.31mtpa (7,000 tpd) kiln at Chanda, Maharashtra, which had commenced trial production in Nov-10.

ACC is increasing its clinker capacity by 2.7mtpa at Ametha, Madhya Pradesh and grinding capacity by 4.8mtpa in Madhya Pradesh and Uttar Pradesh. During CY21, it increased its grinding capacity by 1.4mtpa at Sindri, Jharkhand.

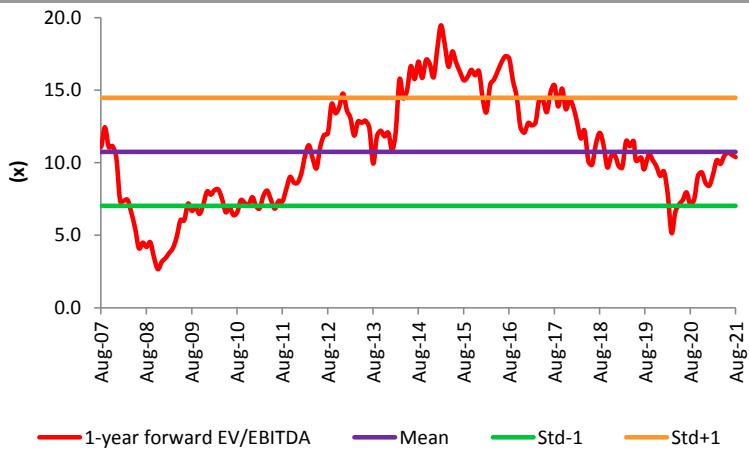
Capacity additions and cost-saving initiatives (commissioning of WHRS/solar power plants, benefits from MSA with ACEM) should drive EBITDA/profits CAGR of 16.3%/18.9% over CY20-CY23E. The management believes that Project Parvat led to cost savings of Rs 110/ton, while benefits from MSA with ACEM were ~5% of PBT in CY20.

Improvement in profitability and release of working capital (cumulative reduction of Rs 6.5bn in CY19/20) led to an improvement in OCF and FCF in the last few years. OCF and FCF increased at a CAGR of 41% and 54%, respectively, between CY18-CY20. We expect ACC to generate OCF of Rs 82.4bn over CY21-CY23E, which should help in funding its future capex through internal accruals. We expect FCF generation of Rs 42.9bn over CY21-CY23E.

ACC's RoE improved to 12.1% in CY20 vs. 10.1% in CY17 due to strong improvement in profits and release of working capital. We expect RoE to be at 14-15% over CY21-CY23E. RoCE is expected to improve to 19.2% in CY23E from 16.2% in CY20 with an improvement in margins. ACC has historically been a cash positive company and we estimate net cash of Rs 94.9bn in CY23E vs. Rs 57.4bn in CY20.

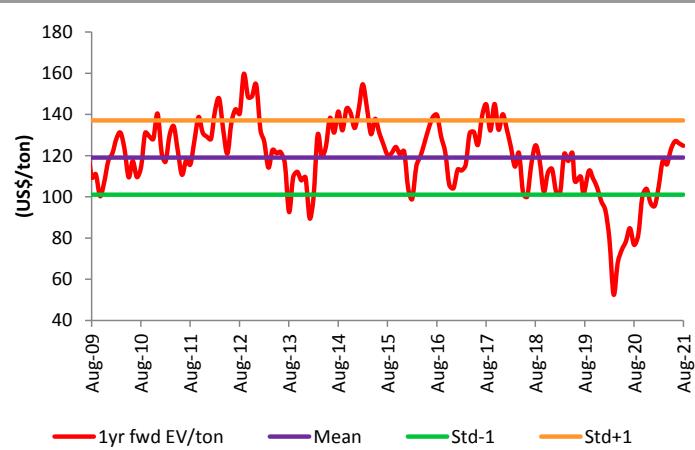
ACC trades at 12.4x/11.1x/9.2x CY21/22E/23E EV/EBITDA and USD 152/138/124 CY21/22E/23E EV/ton. The stock has traded at an average EV/EBITDA of 10.8x in the last 14 years. Going forward, with the improvement in profitability and stable return ratios, we expect ACC to trade at its historical valuations. We value it at 12x CY23E EV/EBITDA to arrive at a price target of Rs 2,995, an upside of 24% from the CMP. We initiate coverage on the stock with a **BUY** rating. At our TP, the stock will trade at 14.3x/12x CY22E/23E EV/EBITDA and USD 178/162 CY22E/23E EV/ton.

Exhibit 70: 1-year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 71: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	CY19	CY20	CY21E	CY22E	CY23E
Net Sales	156,567	137,845	162,378	176,376	197,023
Growth (%)	5.8	(12.0)	17.8	8.6	11.7
Total Expenditure	132,472	113,035	131,241	142,498	158,045
EBIDTA	24,095	24,811	31,137	33,877	38,978
Growth (%)	13.9	3.0	25.5	8.8	15.1
EBIDTA %	15.4	18.0	19.2	19.2	19.8
Depreciation	6,030	6,353	6,601	7,045	7,801
EBIT	18,065	18,458	24,535	26,833	31,177
EBIT Margin (%)	11.5	13.4	15.1	15.2	15.8
Other income	3,112	2,000	2,152	2,270	2,395
Interest	862	570	381	465	569
EBT	20,315	19,888	26,306	28,638	33,003
Tax	6,726	5,215	6,629	7,217	8,317
Effective tax rate (%)	33.1	26.2	25.2	25.2	25.2
Adjusted PAT	13,589	14,673	19,677	21,421	24,686
Growth (%)	26.2	8.0	34.1	8.9	15.2
Net Margin (%)	8.7	10.6	12.1	12.1	12.5
Reported PAT	13,589	14,149	19,677	21,421	24,686
Growth (%)	(9.8)	4.1	39.1	8.9	15.2

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	CY19	CY20	CY21E	CY22E	CY23E
Equity share capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	113,333	124,735	141,042	158,870	179,738
Shareholders Funds	115,213	126,614	142,922	160,750	181,618
Loan Funds	-	-	-	-	-
Net Deferred Taxes	6,422	3,762	3,762	3,762	3,762
Total Liabilities	121,635	130,376	146,684	164,512	185,380
Net block	70,018	66,615	68,467	68,422	85,121
Capital WIP	4,353	5,453	7,500	15,500	5,000
Investment	2,302	2,206	2,206	2,206	2,206
Current Assets	94,148	106,985	118,618	131,871	151,429
Inventories	11,410	9,005	10,282	11,601	12,788
Sundry Debtors	6,284	4,515	4,935	5,569	6,138
Cash and Bank	43,832	57,349	66,786	77,586	94,887
Loans and Advances	20,334	14,887	15,387	15,887	16,387
Other current assets	12,288	21,229	21,229	21,229	21,229
Current Liab & Prov	49,186	50,883	50,107	53,487	58,376
Net current assets	44,962	56,102	68,511	78,384	93,053
Total Assets	121,635	130,376	146,684	164,512	185,380

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	CY19	CY20	CY21E	CY22E	CY23E
PBT (Ex-Other income)	20,315	16,878	24,154	26,368	30,608
Depreciation	6,030	6,353	6,601	7,045	7,801
Interest Provided	(1,805)	(1,257)	381	465	569
Other Non-Cash items	(254)	3,374	-	-	-
Chg in working cap	2,661	3,872	(2,972)	927	2,632
Tax paid	(4,462)	(7,064)	(6,629)	(7,217)	(8,317)
Operating Cashflow	22,484	22,156	21,535	27,588	33,293
Capital expenditure	(4,935)	(7,452)	(10,500)	(15,000)	(14,000)
Free Cash Flow	17,549	14,704	11,035	12,588	19,293
Other income	1,608	2,125	2,152	2,270	2,395
Investments	43	(39)	-	-	-
Investing Cashflow	(3,283)	(5,366)	(8,348)	(12,730)	(11,605)
Equity Capital Raised	-	-	-	-	-
Loans Taken / (Repaid)	-	-	-	-	-
Interest Paid	(572)	(399)	(381)	(465)	(569)
Dividend paid (incl tax)	(3,169)	(2,629)	(3,369)	(3,594)	(3,818)
Income from investments	-	-	-	-	-
Others	-	(246)	-	-	-
Financing Cashflow	(3,742)	(3,274)	(3,750)	(4,058)	(4,387)
Net chg in cash	15,459	13,516	9,437	10,800	17,301
Opening cash position	28,373	43,833	57,349	66,786	77,586
Closing cash position	43,832	57,349	66,786	77,586	94,887

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	CY19	CY20	CY21E	CY22E	CY23E
Profitability (%)					
EBITDA Margin	15.4	18.0	19.2	19.2	19.8
Net Margin	8.7	10.6	12.1	12.1	12.5
ROCE	18.1	16.2	19.3	18.7	19.2
ROE	12.3	12.1	14.6	14.1	14.4
RoIC	23.6	26.2	35.1	37.3	39.7
Per Share Data (Rs)					
EPS	72.3	78.0	104.7	113.9	131.3
CEPS	104.4	109.1	139.8	151.4	172.8
BVPS	612.9	673.5	760.3	855.1	966.1
DPS	14.0	14.0	15.0	16.0	17.0
Valuations (x)					
PER	33.4	30.9	23.1	21.2	18.4
P/CEPS	23.1	22.1	17.3	15.9	14.0
P/BV	3.9	3.6	3.2	2.8	2.5
EV / Sales	2.6	2.9	2.4	2.1	1.8
EV / EBITDA	17.0	16.0	12.4	11.1	9.2
Dividend Yield (%)	0.6	0.6	0.6	0.7	0.7
Gearing Ratio (x)					
Net Debt/ Equity	-0.4	-0.5	-0.5	-0.5	-0.5
Net Debt/EBITDA	-1.8	-2.3	-2.1	-2.3	-2.4
Working Cap Cycle (days)	-61.1	-78.5	-71.0	-66.0	-66.0

Source: Company, Systematix Institutional Research

Dalmia Bharat

01 September 2021

INITIATING COVERAGE

Sector: Cement	Rating: BUY
CMP: Rs 2,200	Target Price: Rs 2,615

Stock Info

Sensex/Nifty	57,552/17,132
Bloomberg	DALBHARA IN
Equity shares	187mn
52-wk High/Low	Rs 2,404/652
Face value	Rs 2
M-Cap	Rs 412bn/ USD 5.6bn
3-m Avg volume	USD 6.33mn

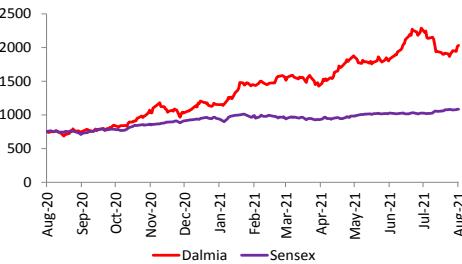
Financial Snapshot (Rs mn)

Y/E March	FY22E	FY23E	FY24E
Sales	118	133	154
EBITDA	30	34	41
PAT	12	15	21
EPS (Rs)	63	79	109
PE (x)	35	28	20
EV/EBITDA (x)	14.4	12.6	10.7
RoE (%)	8.9	10.2	12.6
RoCE (%)	6.8	7.7	9.7
Dividend yield (%)	0.1	0.1	0.1

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20
Promoter	56	56	56
-Pledged	-	-	-
FII	13	13	14
DII	6	5	4
Others	25	26	26

Stock Performance (1-year)



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Ambitious growth targets; aims to improve shareholder returns

Dalmia Bharat (DALBHARA) has announced its capital allocation policy, providing a roadmap to achieve 110-130mtpa capacity by 2031 in phases a) 48.5mtpa grinding capacity by FY24E and b) 60mtpa capacity in the next 4-5 years (detailed plan to be announced in 9-12 months). The company has historically focused on capacity growth through the organic and inorganic routes. It aims to become a pan-India player with a significant presence in all markets. Further, the management has highlighted that 10% of operating cash flows will be returned to shareholders through equity buy-backs and dividends. The reduction in leverage over the last few years (net debt/EBITDA improved to 0.04x in FY21 from 3.7x in FY16) addresses past investor concerns over the high debt levels. The company's return ratios have improved (RoE of 7.9% in FY21 vs. 2.1% in FY20) and we expect a further improvement to 12.6% by FY24E. We expect its EBITDA/adjusted PAT to grow at a CAGR of 13.4%/30.8% over FY21-24E and value the company at 13.5x FY23E EV/EBITDA (adjusted for CWIP) to arrive at a target price of Rs 2,615, an upside of 19% from the CMP.

Focus on capacity expansion to continue

DALBHARA has increased its capacity from 1.2mtpa in FY06 to 30.75mtpa in FY21 through the organic and inorganic routes. It was in the process of increasing its grinding capacity by 7.75mtpa in the Eastern region apart from the completion of the acquisition of Murli Industries (3mtpa capacity in the Western region). It recently announced further capacity expansion plans of 9.9mtpa, which would help in increasing its grinding capacity to 48.5mtpa by FY24E. We expect a sales volume CAGR of 12% over FY21-24E.

Aims to increase capacity by ~4x and become a pan-India player

In its recently announced capital allocation policy, the company has indicated its plans to become a 110-130mtpa capacity company by 2031 without stretching its balance sheet (target net debt/EBITDA to be maintained below 2x and deviation will be exceptional for large inorganic opportunities). It plans to become a pan-India player as against having a large presence only in the Southern, Eastern and North Eastern markets historically.

Improvement in its balance sheet, focus on cost efficiencies

The company has consistently improved its leverage since FY15; net debt reduced to Rs 1.2bn in FY21 from Rs 66.3bn in FY15. Net debt/EBITDA improved to 0.04x in FY21 vs. 3.7x in FY16 and we expect it to rise marginally to 0.32x/0.27x in FY23/24E. The net D/E of the company improved to 0.01x in FY21 vs. 1.3x in FY16 and we expect it to remain muted at 0.07x/0.06x in FY23/24E. The variable cost/ton remained under control in FY20/21 and we expect further cost savings of Rs 50/ton after the commissioning of its Waste Heat Recovery Systems and Solar Power plants.

Expect EBITDA CAGR of 13.4% over FY21-24E; initiate coverage with a BUY rating

We expect an EBITDA CAGR of 13.4% over FY21-24E led by higher sales volume/realisation while its RoE should improve to 12.6% by FY24E vs. 7.9% in FY21. The stock trades at 14.4x/12.6x/10.7x FY22/23/24E EV/EBITDA and USD 160/164/122 FY22/23/24E EV/ton. We value DALBHARA at 13.5x FY23E EV/EBITDA (adjusted for CWIP) as capacity expansion will get completed in FY24E) considering the improvement in profits, return ratios and its intention to improve shareholder returns. We initiate coverage on the stock with a BUY rating and a target price of Rs 2,615, an upside of 19% from the CMP. At our TP, the stock will trade at 15x/12.7x FY23/24E EV/EBITDA and USD 194/144 FY23/24E EV/ton.

Investors are advised to refer disclosures made at the end of the research report.

Story in charts

Exhibit 1: Installed capacity grew at a 24% CAGR over FY21-24E

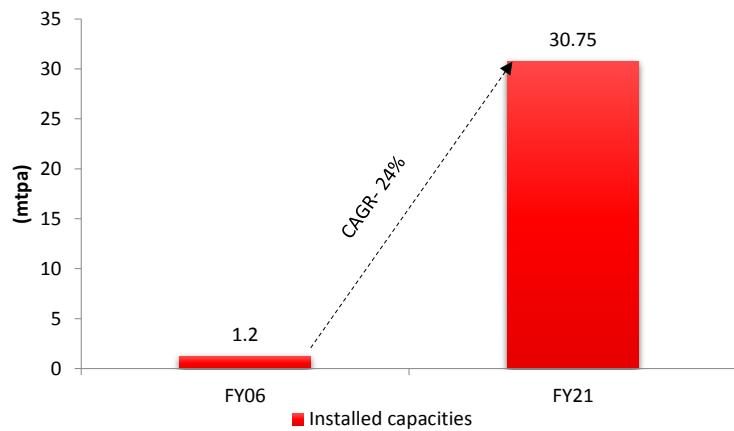


Exhibit 2: Sales volume grew at a 10% CAGR between FY11-21

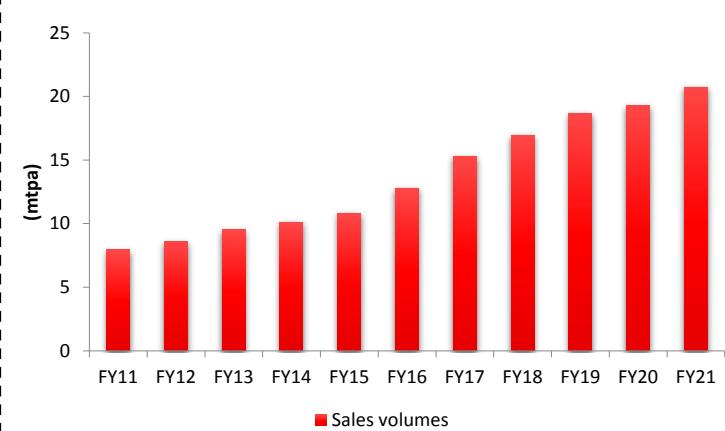
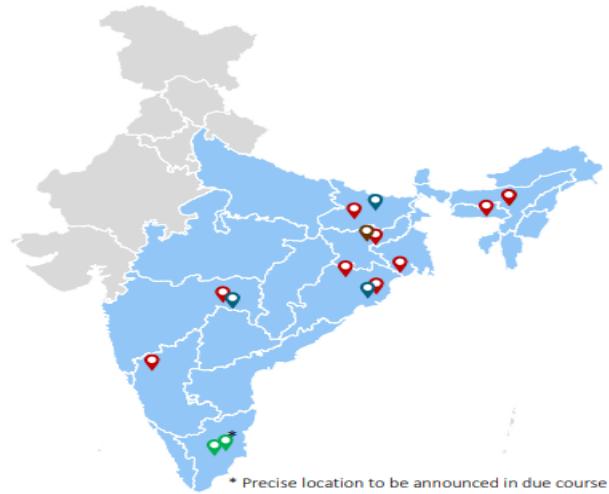


Exhibit 3: Cement capacity expansion

Cement Capacity Expansion Plan

Dalmia
Bharat

<u>Capacity Overview</u>	
Present Capacity	30.8
Ongoing Projects	7.8
Greenfield	3.0
Brownfield	1.7
Upgradation	5.2
Total Capacity	48.5



Ongoing Projects		
West	3.0	
East	4.8	<u>7.8</u>
Greenfield		
South	3.0	
Brownfield		
East	1.7	
Upgradation		
North East	1.2	
West	1.0	
South	0.9	
East	2.1	<u>5.2</u>

Total Cement Capacity Post Expansion – 48.5 MnT

Source: Company, Systematix Institutional Research

Exhibit 4: Sales volume CAGR of 12% over FY21-24E

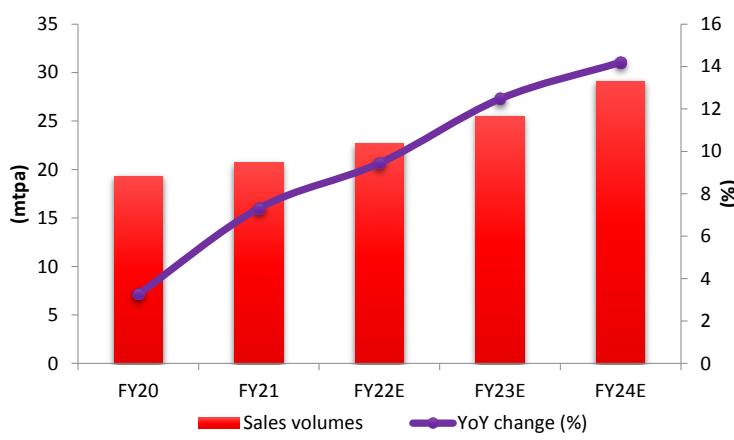


Exhibit 5: Regional capacity share of DALBHARA

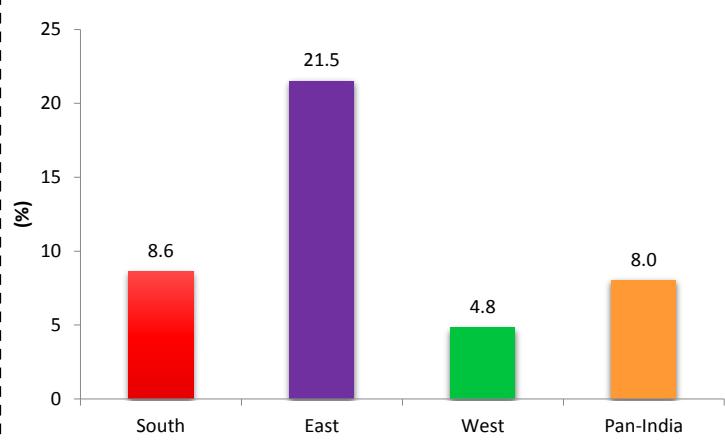
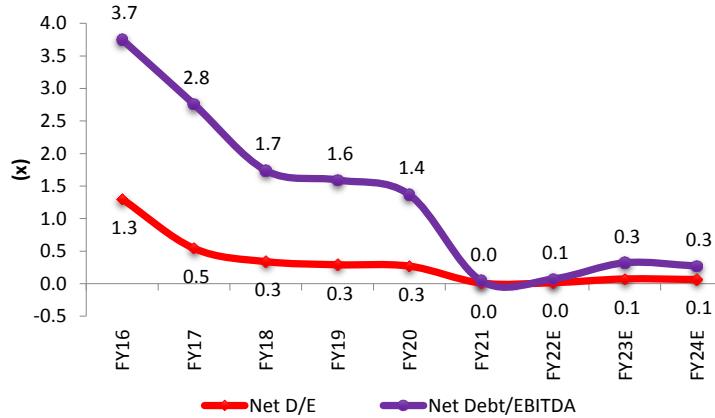


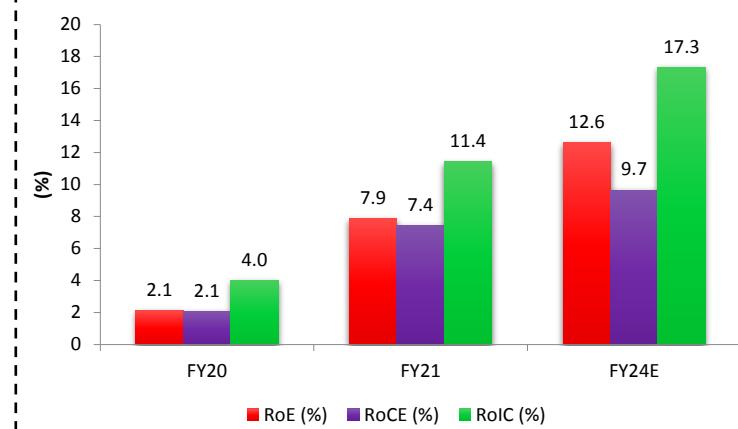
Exhibit 6: Increasing contribution of renewable energy in power generation

	WHRs	Solar Power
Incremental capacity (MW)	45	79
PLF assumed (%)	70	25
Power generation (mn kwh)	228	143
Cost savings (Rs/kwh)	4	2.5
Total savings (Rs mn)	911	358
Savings/ton (Rs)	36	14

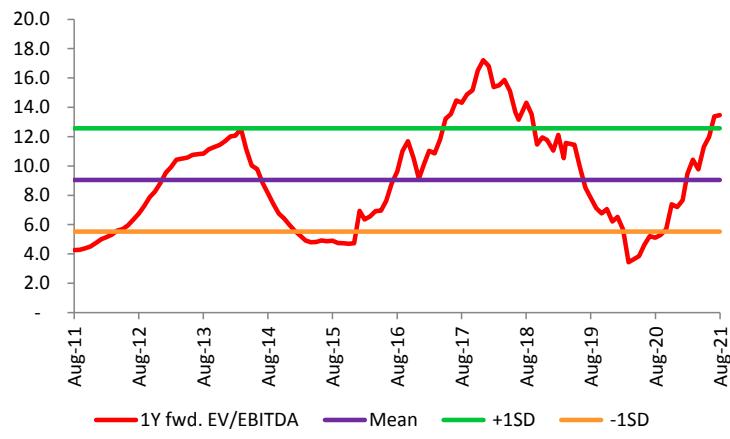
Source: Company, Systematix Institutional Research

Exhibit 7: Decreasing leverage to accelerate growth

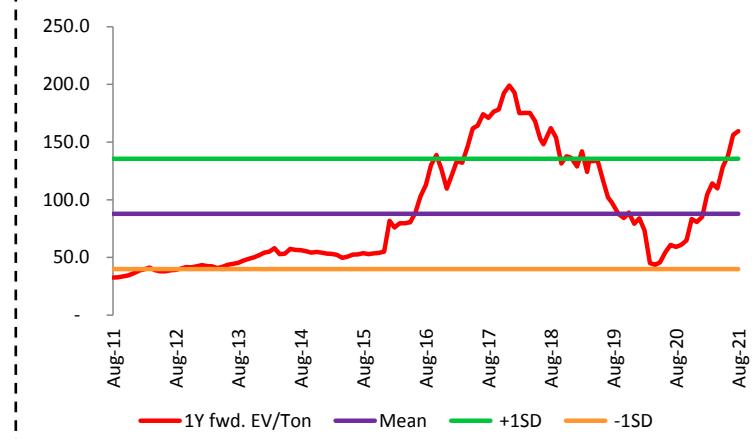
Source: Company, Systematix Institutional Research

Exhibit 8: Return ratios to improve over FY21-24E

Source: Company, Systematix Institutional Research

Exhibit 9: 1-year forward EV/EBITDA

Source: Company, Systematix Institutional Research

Exhibit 10: 1-year forward EV/ton

Source: Company, Systematix Institutional Research

Company Background

DALBHARA is currently the 4th largest cement player in India with a leading market share in East and South India. Its cement production capacity is 30.75mtpa, which is set to increase to 48.5mtpa by FY24E.

Dalmia Bharat Ltd. (DALBHARA) is the listed holding company of the cement business of the Dalmia Bharat group. It owns 100% of Dalmia Cement (Bharat) Limited (DCBL) which is the main operating company and houses the group's entire cement business. The company was founded in 1939 by Mr. Jaidayal Dalmia.

DCBL is the fourth largest cement manufacturer in the country, with an installed capacity of 30.75mtpa (as of 30th June 2021) across 13 cement plants and grinding units spread across nine states. The company has its manufacturing plants in South (capacity of 12.1mtpa), East (14.55mtpa) and North East (4.1mtpa) India. This is supported by captive thermal power plants of 178 MW, captive solar power plants of 8 MW and a waste heat recovery system (WHRS) plant of 17.2 MW.

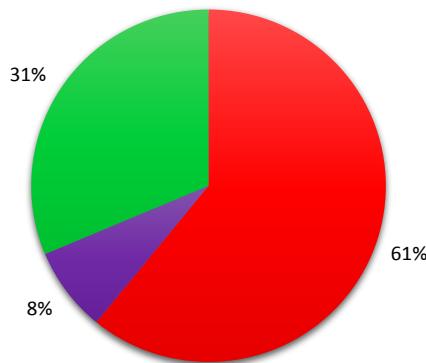
Production from the acquired plants of Murli Industries, Maharashtra (3mtpa cement capacity) and the Eastern region (2.25mtpa grinding unit in West Bengal) has been commissioned, while the balance grinding units of 4.75mtpa in Bihar and Odisha will be completed in a phased manner between FY22-24E; this will help it strengthen its position in the West (this market is currently being serviced from the South plants) and East markets.

DALBHARA has an ambitious target of achieving a grinding capacity of 110-130mtpa by 2031. In line with the long-term target, it announced plans to increase grinding capacities by 10mtpa (apart from the ongoing capex discussed above) with completion expected by FY24E. Further, the management will announce the detailed plans to achieve capacities of 60mtpa in the next 9-12 months.

The company has a wide distribution network with over 20,000 dealers and sub-dealers that cater to more than 22 states. It offers a range of cement variants through its three marquee brands: *Dalmia Cement*, *Dalmia DSP* and *Konark Cement*. Dalmia Cement is India's largest manufacturer of slag cement and is a category leader in super-specialty cement used for oil wells, railway sleepers and airstrips.

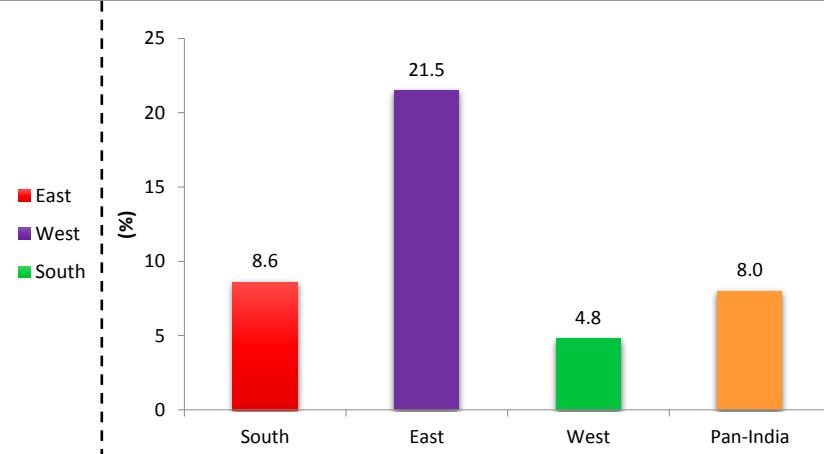
The Group has a refractory capacity of 320 KT across seven manufacturing units located in Odisha, Gujarat, Madhya Pradesh, Chhattisgarh, Tamil Nadu, Germany and China.

Exhibit 11: Capacity-mix of the company (FY22E)



Source: Company, Systematix Institutional Research

Exhibit 12: Regional capacity share



Source: Company, Systematix Institutional Research

Manufacturing facilities

Exhibit 13: Ariyalur unit, Tamil Nadu (3.0mtpa)



Source: Company

Exhibit 14: Dalmiapuram unit, Trichy, Tamil Nadu (4.0mtpa)



Source: Company

Exhibit 15: Kadapa Unit, Andhra Pradesh (2.5mtpa)



Source: Company

Exhibit 16: Meghalaya plant (1.5mtpa)



Source: Company

Exhibit 17: Solar plant, Kapilas, Odisha



Source: Company

Exhibit 18: Robotic Lab at Ariyalur Plant



Source: Company

Exhibit 19: DSP, Dalmia and Konark Cement cater to the retail segment while Infra Pro and Infragreen manage Institutional clients



Source: Industry, Systematix Institutional Research

Exhibit 20: Capacity exposure as on Mar'21

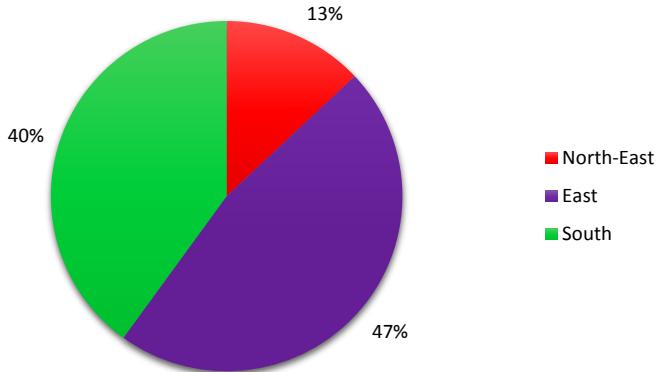
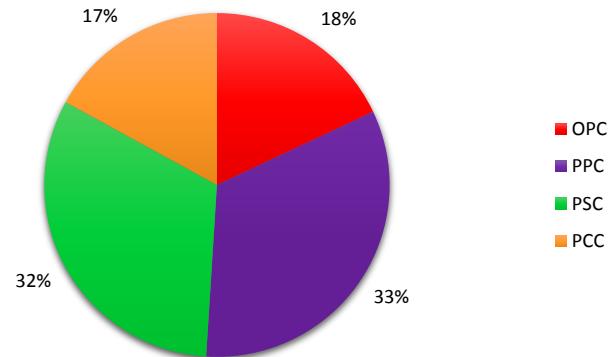


Exhibit 21: Product mix-FY21



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

Exhibit 22: Key managerial personnel

Name	Designation	Background	Qualification
Mr. Gautam Dalmia	Managing Director	Has more than 25 years of experience in the cement and sugar industries. He was part of the team that led the diversification of the company into the sugar business in 1994.	B.S. and M.S. degrees in electrical engineering from Columbia University.
Mr. Puneet Dalmia	Managing Director	Has over 15 years of experience in the cement industry. Before leading Dalmia Bharat Group, he co-founded JobsAhead.com in 1999.	B.Tech degree from IIT-Delhi; gold-medalist MBA from IIM-Bangalore.
Mr. Mahendra Singhi	Managing Director & Chief Executive Officer	Has been associated with the growth and development of the cement sector in India for the last 41 years. Since 2013, he is the Managing Director and CEO of Dalmia Cement (Bharat) Limited.	Science & law graduate and a Chartered Accountant.
Mr. Dharmendra Tuteja	Chief Financial Officer	Has 33 years of experience in business and financial management across various industries.	ICWA and CS degree and a graduate from Shri Ram College of Commerce.
Dr. Sanjeev Gemavat	Executive Director (Legal) & Group Company Secretary	Has almost three decades of experience spanning industries like automobile, real estate, hospitality and manufacturing.	CS from India and the UK; CA and ICWA; post-graduate in Law and Doctorate in Insider Trading.

Source: Company, Systematix Institutional Research

Exhibit 23: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Key Risks	YoY Growth
FY16	<ul style="list-style-type: none"> Demand grew by 5.3% YoY in FY16 vs. 2.5% YoY in FY15 led by strong growth in the Eastern region. Demand in South markets remained subdued. Cement demand is expected to pick up led by the Central government's focus on Housing and infrastructure activities. Central schemes like 'Bharat Mala', 'Sagar Mala', 'Setu Bharatam' in infra and construction of Smart Cities and PMAY schemes in housing to drive demand. 	<ul style="list-style-type: none"> Debottlenecking of 1mtpa of cement capacity, taking the total capacity to 25mtpa. 	<ul style="list-style-type: none"> Higher mix of blended cement. Rationalised existing depot network and streamlined stock-keeping and depot-handling operations. Moved closer to dispatching consignments from factories within the state, saving warehousing and secondary transportation costs. 	<ul style="list-style-type: none"> Supply exceeding demand. Rise in fuel and logistics costs. Dependence on a particular region. 	Volume: 18.5% Revenue: 82.4% EBITDA: 164.2% PAT: 6129.5%
FY17	<ul style="list-style-type: none"> South: Demand in South India rose by 6% YoY led by 20%+ YoY demand growth in Telangana and Andhra Pradesh. Development activities undertaken in the state capital of Amravati, irrigation projects and innovative land pooling led to improved demand in AP/Telangana. East: The estimated shortage of 60mn housing units in the Eastern region would aid demand growth. Demonetization impacted demand in FY17. 	<ul style="list-style-type: none"> NIL 	<ul style="list-style-type: none"> A 9.2MW WHR unit is currently under implementation at the integrated plant in Rajgangpur, Odisha. Increased the consumption of economic fuels, which include pet coke, carbon black, wood, charcoal, municipal waste and saw dust. 	<ul style="list-style-type: none"> Increase in raw material, power and fuel costs. Rising logistics costs. Increasing competition from national players. 	Volume: 19.5% Revenue: 16.2% EBITDA: 19% PAT: -76.8%
FY18	<ul style="list-style-type: none"> Cement demand is expected to increase at a CAGR of ~8% for the next 5 years, led by a revival in government spending on housing (especially affordable housing), growth in private housing and fast growth in infrastructure spends (especially urban infrastructure, road and irrigation). Eastern region followed by the Central and Northern regions could see healthy demand growth on a low base as state governments have emphasized on development. 	<ul style="list-style-type: none"> Took over stressed assets under IBC – Kalyanpur Cement Limited (1.1 MnT, renamed Dalmia DSP Limited) in Bihar. Announced capacity addition of 7.8mtpa in the Eastern region. 	<ul style="list-style-type: none"> Commissioned a 9.2-MW WHRS at Rajgangpur (Odisha). Plans to set up 30MW capacities at different locations. Adopted a 3-pronged approach - higher production, continuous monitoring and cross-plant collaboration, which enhanced capacity utilization. Upgraded kiln burners with next-generation variants (with less primary and air conveying requirements), reducing fuel consumption. 	<ul style="list-style-type: none"> Economic slowdown. Higher pet coke, coal and diesel prices. Sand availability issues in Rajasthan, Uttar Pradesh, Bihar and Tamil Nadu. Intensifying competition. 	Volume: 10.8% Revenue: 15.2% EBITDA: 6.3% PAT: 563.6%

FY19	<ul style="list-style-type: none"> Cement demand grew 13% in FY19 on a low base of the previous year (following GST impact in 1HFY18) and healthy demand growth in East and South India. Domestic cement demand is estimated to grow at ~8% in FY20, driven by housing development, primarily in the rural and affordable segments and infrastructure developments (roads, metro, railways, airports, ports & irrigation projects). 	<ul style="list-style-type: none"> Planned capacity expansion in East India is on track. Expects to commission the clinker line & ~50% of the grinding capacity by Mar'20; balance capacities to be commissioned by Mar'21. Targets to reach 37mtpa & 50MW of renewable capacity by FY21. DALBHARA has given a bank guarantee of Rs 500mn to the Resolution Professional to acquire Murli Industries (3mtpa) under the Insolvency & Bankruptcy Code process. 	<ul style="list-style-type: none"> Increased the proportion of alternative fuels within its fuel mix. Developed a network optimization tool to optimize transportation and logistics costs. Using latest technologies in the manufacturing process along with timely debottlenecking of plants. 	<ul style="list-style-type: none"> Economic slowdown Cost escalation ESG Competition risk 	Volume: 10.1% Revenue: 10.5% EBITDA: -3.6% PAT: 5.5%
FY20	<ul style="list-style-type: none"> The cement production in India was pegged at 334 million tonnes for FY20, a 1% decline YoY. The outbreak of COVID-19 and the subsequent lockdowns are expected to lead to moderate demand. Increased government focus on real estate growth (smart cities and housing for all) along with better roads and highways will be key catalysts for demand growth. 	<ul style="list-style-type: none"> The clinker manufacturing plant at Rajgangpur-Line 3, Odisha of 3mtpa has been commissioned and is under trial run. Cement grinding plants are under construction and part of the capacity is likely to be completed by Dec'20. Turned around the acquired asset, Kalyanpur Cement. Clinker productivity was enhanced by 475 TPD to 1,550 TPD and in phase 2 it shall be increased to 2400 TPD. 	<ul style="list-style-type: none"> Reduced clinker consumption and increased the production of blended cement. Optimised higher auxiliary power consumption due to the increased use of cost-effective, low-grade and high-moisture fuel in the Ariyalur, Dalmiapuram and the Rajgangpur captive power plants. 30MW of the combined potential of WHRS + Solar power has been identified and is under implementation. 	<ul style="list-style-type: none"> Regulatory uncertainty Market share loss Slow demand Higher operational costs 	Volume: 3.3% Revenue: 2% EBITDA: 7.3% PAT: -27.3%

Source: Company, Systematix Institutional Research

Investment Analysis

Aggressive capacity additions through the organic/inorganic routes

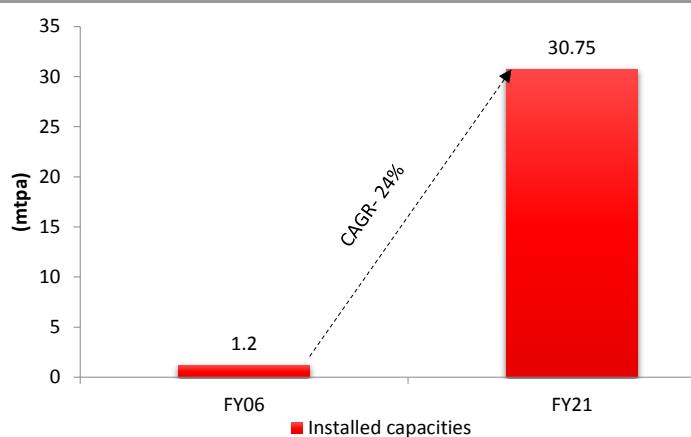
DALBHARA has increased its capacities from 1.2mtpa in FY06 to 30.75mtpa in FY21 through the organic and inorganic routes. It acquired a 21.7% stake in OCL India in Oct-07, which was increased to 45.4% in 2010, 48% in FY14 and 74.6% in FY15. OCL India had a capacity of 6.7mtpa in FY15. The company acquired a 50% stake in Assam-based Calcom Cement (clinker and grinding capacity was 0.3mtpa and 1.3mtpa respectively, which was subsequently expanded to 1.3mtpa of clinker capacity and 2.1mtpa of grinding) in Jan-12, which was later increased to 75.6% in Nov-12. Meghalaya-based Adhunik Cement (grinding capacity of 1.5mtpa) was acquired in Sep-12. The company acquired a 100% stake (in two stages) in Bokaro Jaypee Cement (2.1mtpa grinding unit with a 30-year slag and clinker supply agreement) from Jaiprakash Associates in 2014.

The company acquired Kalyapur Cements (renamed Damia DSP Ltd and became a wholly-owned subsidiary *wef* 10th Jul'18), the only integrated cement company in Bihar with a capacity of 1mtpa, through the National Company Law Tribunal (NCLT) process. The acquisition price for Kalyanpur Cements was Rs 3.5bn and a fresh equity infusion of Rs 1.5bn was done to revive the operations. This capacity was revived through a) improvement in limestone extraction efficiency, b) enhancement in kiln productivity - 1,550 tpd from 475 tpd, c) reduction in kiln heat rate to 825 kcal/kg of clinker from 1,118 kcal/kg of clinker and d) reduction in power consumption (from 138 to 85kwb/ton of cement). The clinker production capacity of this plant will be increased from 1,550 tpd to 2,400 tpd going forward.

DALBHARA is also on the verge of completing the acquisition of Murli Industries (cement grinding capacity of 3mtpa in Chandrapur, Maharashtra along with a thermal power plant of 50MW). This plant was acquired for a consideration of Rs 4.02bn through a bidding process in Dec-17 by submitting a resolution plan. The resolution plan of the company was approved by the NCLT in Jul-19 and was subsequently upheld by National Company Law Appellant Tribunal in Jan-20. It will have to further infuse about Rs 4bn for refurbishment and other costs to make the plant operational. Murli Industries also has paper and solvent extraction units in Maharashtra.

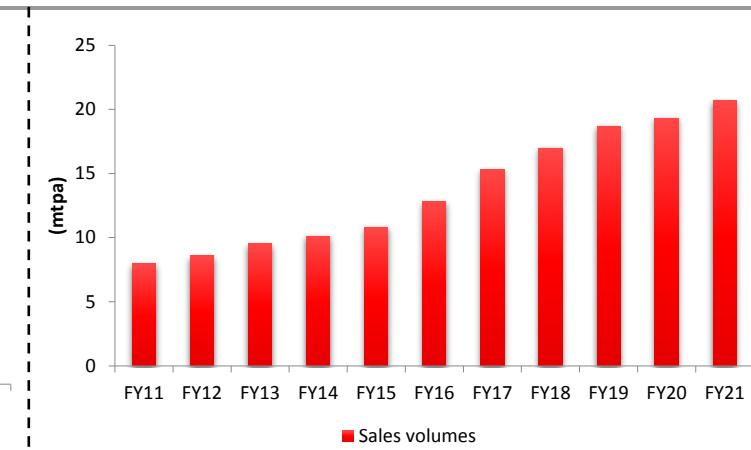
During FY21, it increased its clinker/grinding capacity by 3mtpa/2.25mtpa in the Eastern region and will further expand its grinding capacity by 4.75mtpa in a phased manner.

Exhibit 24: Installed capacity increased at a 24% CAGR between FY06-21



Source: Company, Systematix Institutional Research

Exhibit 25: Sales volume grew at CAGR of 10% between FY11-21



Source: Systematix Institutional Research, Company FY11-14 volumes include OCL India

Murli Industries to become operational by 3QFY22E

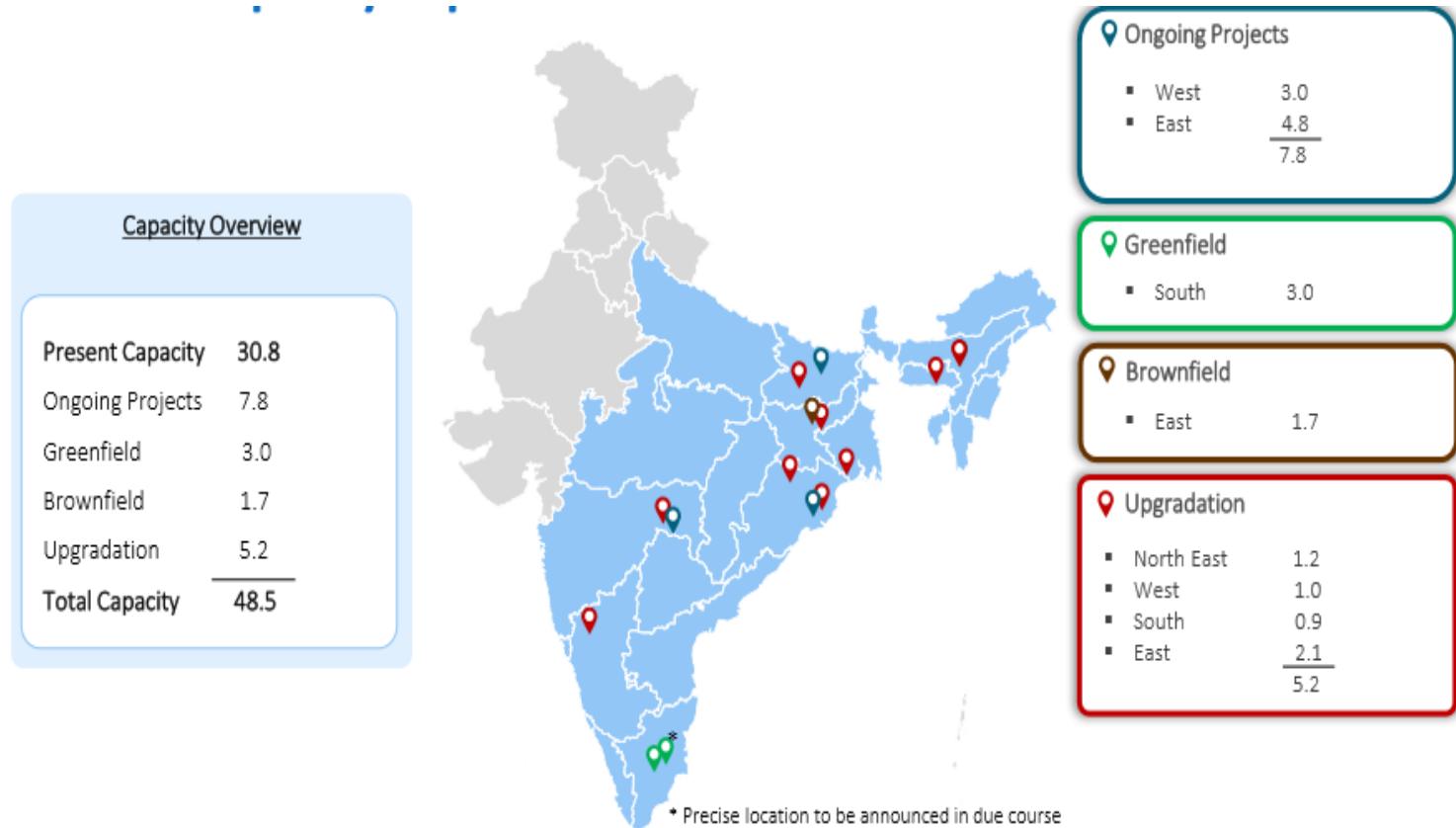
DALBHARA expects to start commercial production from the acquired plants of Murli Industries by 3QFY22E. It has also announced a capacity expansion of 1mtpa at this plant. Limestone reserves at this plant are 27mt, which the management plans to increase by 30-50%, and would be sufficient for 20 years of operations. The company will need to mix sweetener (high-grade limestone) with existing limestone for which arrangements are already in place. Murli Industries has fiscal incentives of ~Rs 12bn which could be utilised by DALBHARA over the next 10 years.

New capacity to aid volume growth

The company plans to increase its clinker/cement capacities to 23.4mtpa/48.5mtpa by FY24E from 18.68mtpa/30.75mtpa currently. Earlier, it had partially completed its announced expansion plan of 7mtpa (capex: Rs37.2bn) in the Eastern region. It had increased clinker capacity by 3mtpa through brownfield expansion, while the grinding capacity had been increased by 2.25mtpa in Midnapore, West Bengal during Mar-21. The balance 4.75mtpa grinding units in Bihar and Odisha will be completed in a phased manner between FY22-24E. During FY21, the company also increased its grinding capacity by 2mtpa through debottlenecking (Midnapore-0.4mtpa, Bokaro-1.1mtpa, Kalyanpur Cements- 0.4mtpa and Assam-0.1mtpa).

Apart from the on-going expansion plans in the Eastern region, it announced further expansion plans post the 1QFY22 results. This includes a greenfield plant in the Southern region (3mtpa capacity and will be used to cater to the markets of Tamil Nadu and Kerala), a brownfield expansion of 1.7mtpa in the Eastern region and debottlenecking of capacities in the Southern (0.9mtpa), Western (1mtpa), North Eastern (1.2mtpa) and Eastern (2.1mtpa) regions.

Exhibit 26: Cement capacity expansion plans to be completed by FY24E



Source: Company, Systematix Institutional Research

Its Clinker capacity is expected to be increased to 23.4mtpa from 18.68mtpa (including the capacity of Murli Industries) by FY24E. This would be done through a) 1.6mtpa Greenfield plant in the Southern region and b) de-bottlenecking of its units in the Eastern (1.7mtpa), North-Eastern (1mtpa) and Western (0.42mtpa) regions. The balance capex for the on-going expansion plan is Rs 19.5-20bn and capex for the recently announced 10mtpa expansion will be Rs 47-50bn.

Exhibit 27: Clinker capacity expansion plans

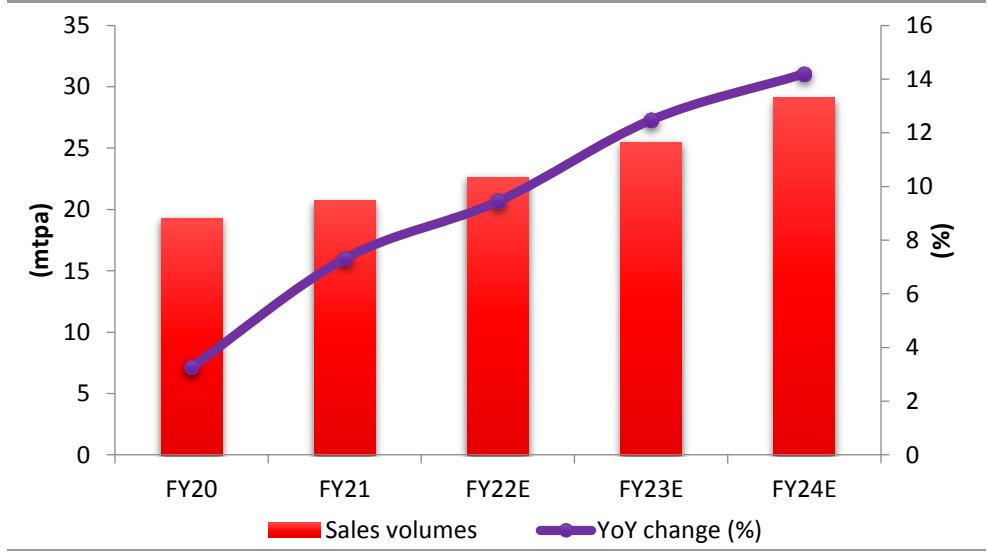
	FY21	FY24E
SOUTH	7.8	9.4
EAST	6.6	8.3
NORTH-EAST	2.3	3.3
WEST	1.98	2.4
TOTAL	18.68	23.4

(Figures in MnT)

Source: Systematix Institutional Research, Company

The capacity expansion and the completion of the Murli Industries acquisition will aid volume growth for the company. We estimate a 12% volume CAGR over FY21-24E.

Exhibit 28: Sales volume CAGR of 12% over FY21-24E



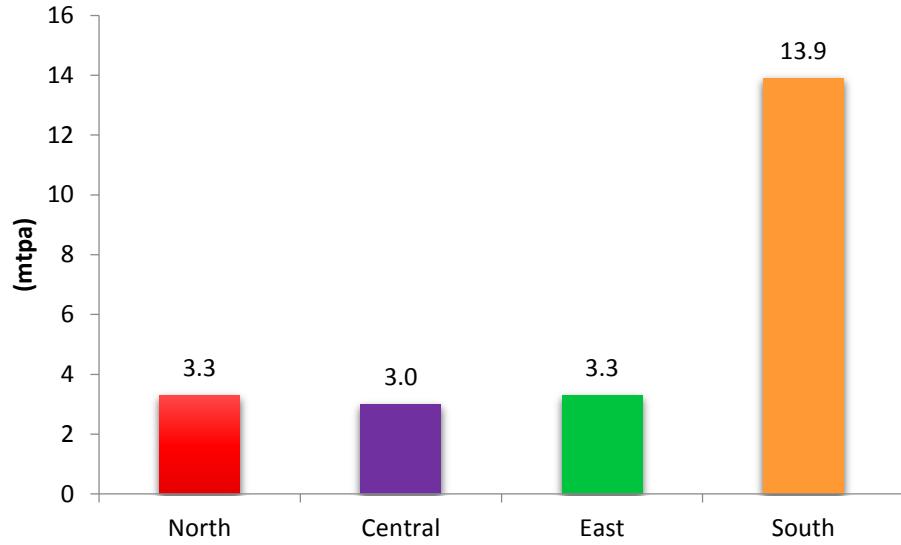
Source: Systematix Institutional Research, Company

Aggressive capacity expansion plans; aims to increase its total capacity to 110-130mtpa by 2031...

DALBHARA announced its capital allocation policy in Jul-21 wherein it aspires to become a pan-India player. The management aims to increase its cement production capacity at a CAGR of 14-15% over the next decade, which would help it achieve a production capacity of 110-130mtpa by 2031. This plan would be carried out in

phases: In the first phase of expansion, capacity will be increased to 48.5mtpa by FY24E and in the second phase (detailed plan will be announced in 9-12 months), it is likely to be increased to 60mtpa. While the company has not disclosed details about the expansion plans, we believe it may enter the Northern and Central regions apart from increasing its presence in the Southern/Eastern regions.

Exhibit 29: DALBHARA may enter the Northern/Central regions

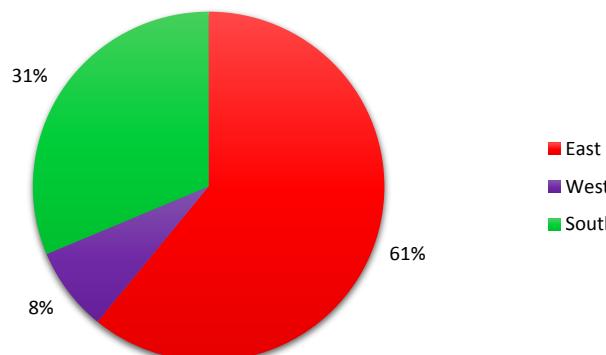


Source: Systematix Institutional Research, Industry

...to help DALBHARA to become #1/#2 player in East/Pan-India by FY24E

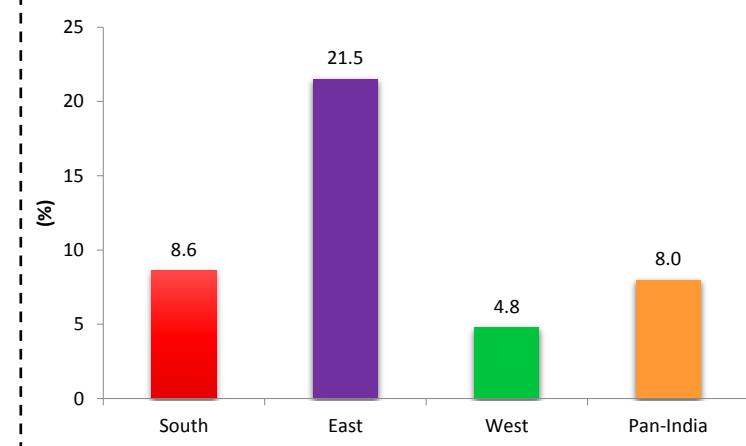
The company has a 5.8% capacity share on a pan-India basis as of FY21, which would increase to 8% by FY24E if it completes its expansion plans as per its guidance. It was the 4th largest cement player in terms of installed capacity on a pan-India basis in FY21. The recently announced expansion plans may help it to become the 2nd largest player in terms of installed capacity on a pan-India basis. It has a leadership position in terms of installed capacity in the Eastern region (17.4% capacity share including capacity in the North Eastern region in FY21, which will increase to 21.5% in FY24E). DALBHARA has a 6.8% capacity share in the Southern region in FY21, which should increase to 8.6% by FY24E. Post completion of the acquisition of Murli Industries, the company will have a 3.6% capacity share in the Western region in FY22E (4.8% in FY24E).

Exhibit 30: Capacity-mix of the company (FY22E)



Source: Company, Systematix Institutional Research

Exhibit 31: Regional capacity share (FY24E)

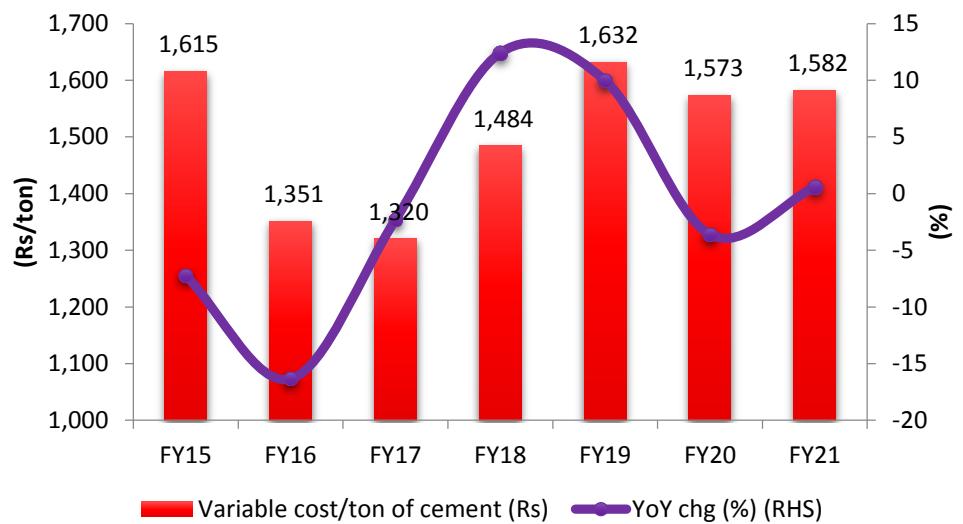


Source: Company, Systematix Institutional Research

Focus on improving cost structure; targets to produce 100% blended cement

DALBHARA has improved its cost structure post FY15 with the higher adoption of economic/alternate fuels. During FY16, it increased the usage of economic fuels (pet coke, carbon black, wood, charcoal, municipal waste, saw dust etc.) to 73% of the total fuel consumption in kiln and power plants vs. 45% in FY15. The usage of economic fuel in the Southern plant was ~100% in FY16. The variable cost of production of cement declined from Rs 1,741 in FY14 to Rs 1,351 in FY16 (Rs 1,615/ton in FY15). Though variable costs increased in FY18/FY19 due to an increase in fly ash, slag and coal prices, the company managed to lower variable costs in FY20/21 owing to lower energy costs.

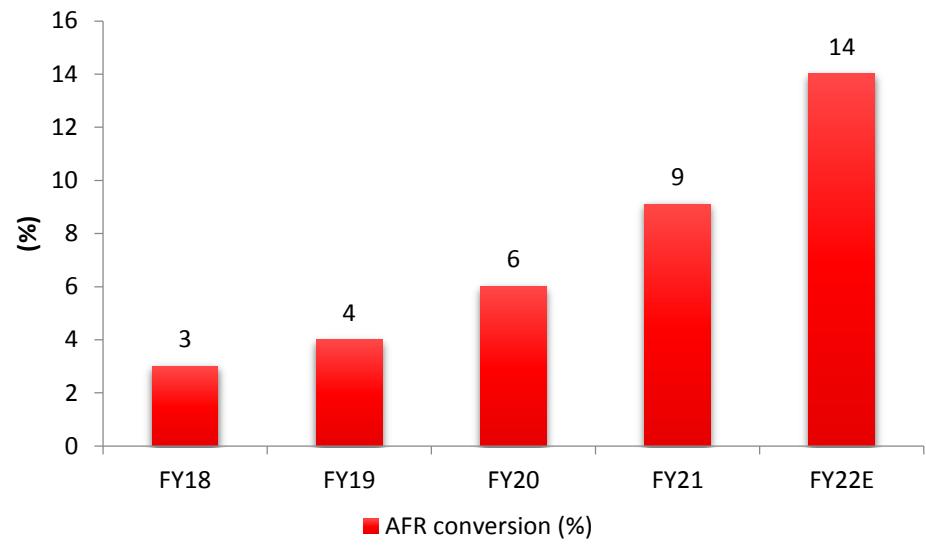
Exhibit 32: Variable cost/ton of cement under control in FY20/21



Source: Systematix Institutional Research, Company

The company plans to control its variable costs through higher consumption of alternative fuel and by increasing the share of green power (WHRS + Solar). AFR (Alternate Fuel & Raw Material) conversion increased to ~9% in FY21 vs. 6% in FY20 and the company intends to increase it to 14% by Mar-22E.

Exhibit 33: Increasing usage of alternative fuels



Source: Systematix Institutional Research, Company

The company plans to increase its WHRS capacity to 62MW by Jul-22E (capacity was increased to 17.2MW in FY22E after the commissioning of the 8MW plant in Odisha) and solar power capacity to 87MW by FY23E (8MW in FY20). We believe that increasing power generation through green sources (WHRS +Solar) will lead to incremental cost savings of Rs 50/ton for the company.

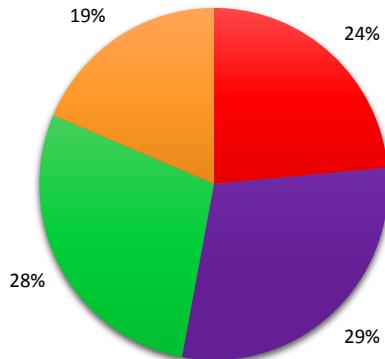
Exhibit 34: Increasing contribution of renewable sources in energy production

	WHRS	Solar Power
Incremental capacity (MW)	45	79
PLF assumed (%)	70	25
Power generation (mn kwh)	228	143
Cost savings (Rs/kwh)	4	2.5
Total savings (Rs mn)	911	358
Savings/ton (Rs)	36	14

Source: Systematix Institutional Research, Company

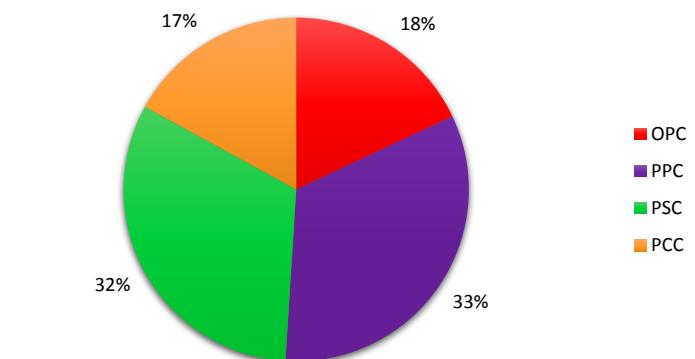
DALBHARA increased the production of blended cement from 76% in FY20 to 82% in FY21, which improved the clinker to cement (C:C) conversion ratio to 1.64x in FY21 vs. 1.6x in FY20. The company plans to produce 100% blended cement in the next 5 years.

Exhibit 35: Product-mix (FY20)



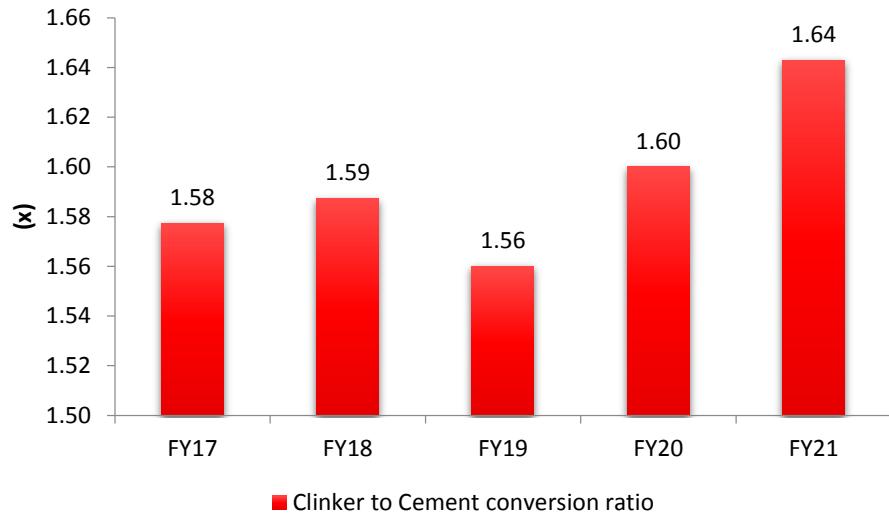
Source: Company, Systematix Institutional Research

Exhibit 36: Product-mix (FY21)



Source: Company, Systematix Institutional Research

Exhibit 37: Clinker to Cement conversion improved in FY20/21

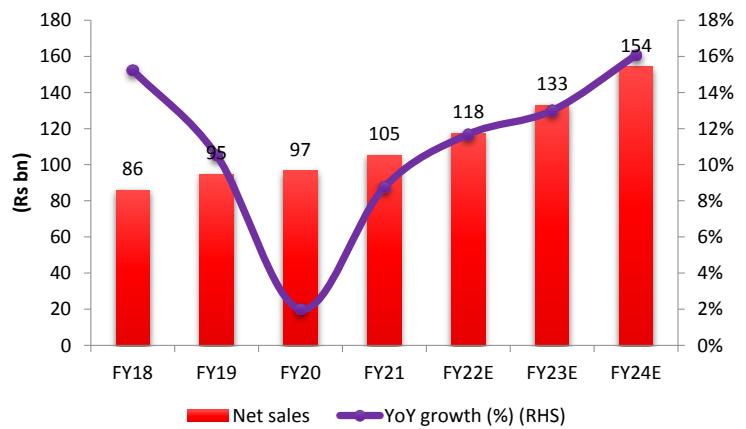


Source: Systematix Institutional Research, Company

Financial Analysis

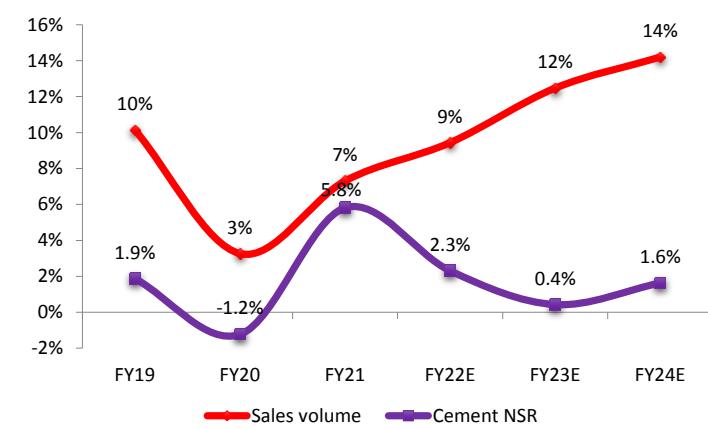
We expect the company's cement volumes to grow at a CAGR of 12% over FY21-24E led by the commissioning of new plants and completion of Murli Industries acquisition. We expect average capacity utilisation to be at 68%/71%/69% in FY22/23/24E due to higher capacity additions. In FY21, grinding capacity debottlenecking and expansion in Odisha led to lower average capacity utilisation of 72% even though cement production increased 7.3% YoY. We estimate cement realisations to grow at a CAGR of 1.5% while revenue is expected to grow at a CAGR of 13.6% over FY21-24E.

Exhibit 38: Expect 13.6% CAGR in sales over FY21-24E...



Source: Company, Systematix Institutional Research

Exhibit 39: ...led by 12%/1.5% CAGR in volumes/NSR



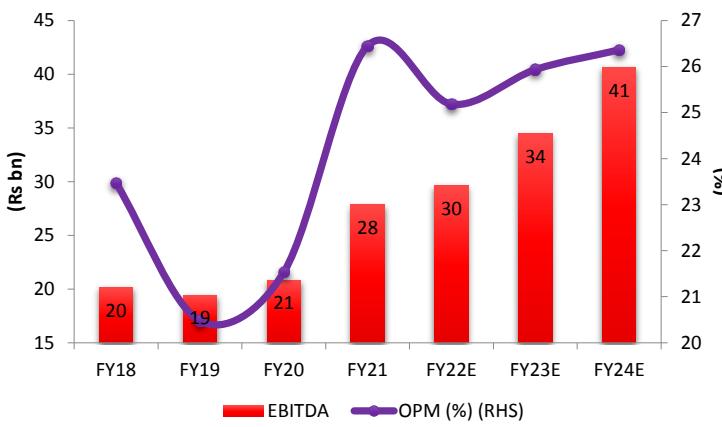
Source: Company, Systematix Institutional Research

DALBHARA's EBITDA grew 33.6% YoY (CAGR of 19.7% YoY over FY19-21) in FY21 led by a) realisation growth of 5.8% YoY, which was also aided by a higher share of premium products - 18% in FY21 vs. 13% in FY20 and b) a 5% YoY decline in opex/ton as variable and freight costs remained under control and there was a reduction in fixed expenses. We expect EBITDA to grow at a CAGR of 13.4% during FY21-24E.

The OPM of the company increased to 26.4% FY21 from 20.5%/21.5% in FY19/20 led by higher realisation and lower opex. We expect the OPM to be at 25.2% in FY22E due to higher fuel costs and improve thereafter to 25.9%/26.4% in FY23/24E.

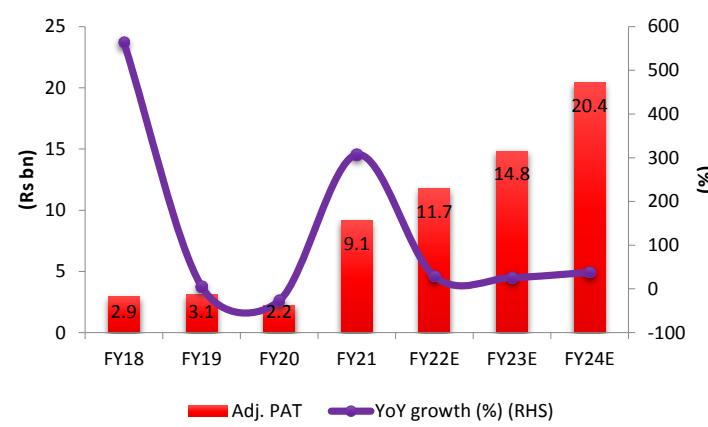
Adjusted profits grew at a CAGR of 47.3% over FY19-21 led by strong operating performance. We expect its adjusted profits to grow at a CAGR of 30.8% over FY21-24E. We estimate depreciation expense to decline 15.7% YoY in FY24E as we believe that the company will amortize goodwill by that time.

Exhibit 40: Estimate EBITDA CAGR of 13.4% ...



Source: Company, Systematix Institutional Research

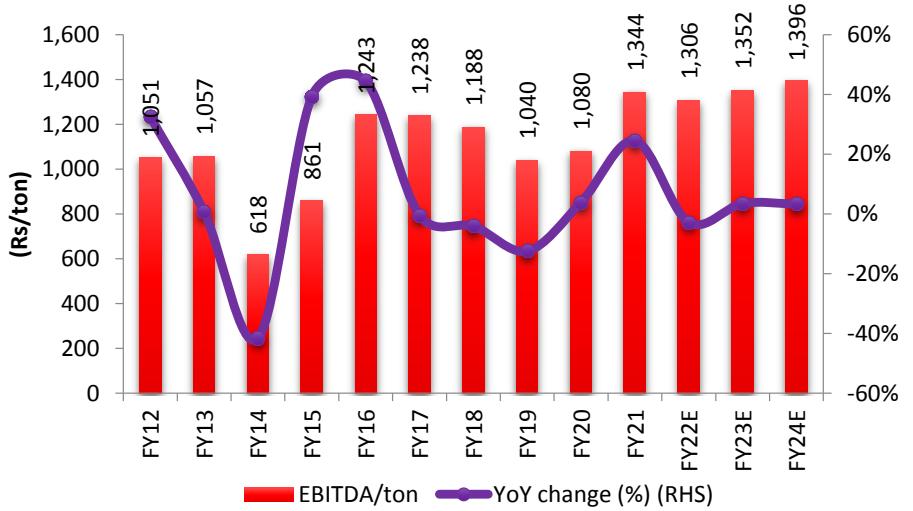
Exhibit 41: ...and PAT CAGR of 30.8% over FY21-24E



Source: Company, Systematix Institutional Research

Improvement in cement prices and lower opex led to a strong improvement of 24.5% YoY in EBITDA/ton in FY21 (13.7% CAGR between FY19-21). We expect EBITDA/ton to be at Rs 1,306/Rs 1,352/Rs 1,396 in FY22/23/24E (CAGR of 1.3% YoY).

Exhibit 42: EBITDA/ton to increase at a CAGR of 1.3% YoY over FY21-24E



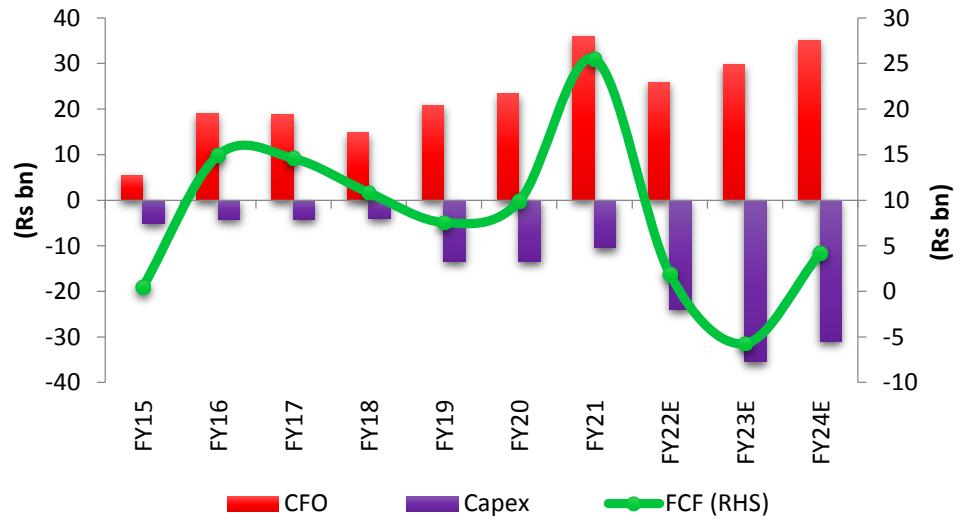
Source: Company, Systematix Institutional Research

DALBHARA has been consistently generating free cash since FY15. Its operating cash flow (OCF) increased at a CAGR of 13.4% over FY16-21 led by an improvement in profits. It generated a cumulative free cash flow (FCF) of Rs 83.3bn over FY16-21 despite a capex of Rs 49.7bn in this period.

During FY21, the company's OCF increased by 53.9% YoY led by a strong improvement in profits and lower working capital requirements (Rs 10.26bn release of working capital in FY20/21). Higher OCF led to a 2.6x YoY increase in FCF in FY21.

We expect the company to generate cumulative OCF of Rs 90.9bn over FY21-24E; whereas; capex in this period is estimated to be Rs 90.5bn. Higher capex will lead to negative FCF in FY23E.

Exhibit 43: Strong cash generation to continue; expect higher capex going forward

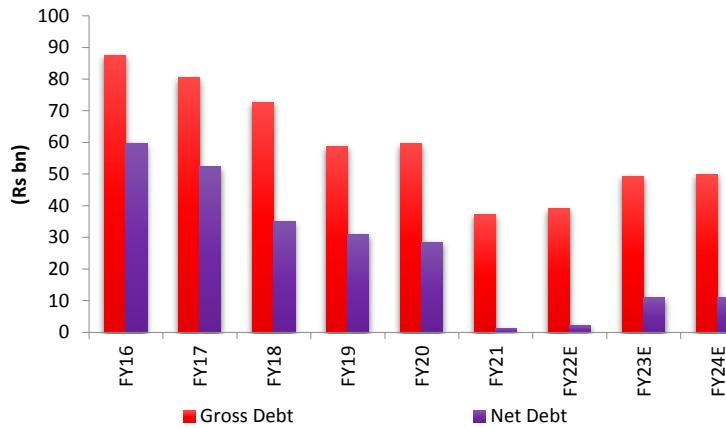


Source: Company, Systematix Institutional Research

DALBHARA's net debt peaked out in FY15 after the company increased its stake in OCL India from 45.4% to 74.6%. It has consistently improved its leverage post FY15 and its net debt reduced to Rs 1.2bn in FY21 vs. Rs 66.3bn in FY15. Gross debt of the company peaked out at Rs 87.6bn in FY16 and gross debt at FY21-end was Rs 37.3bn. We expect gross debt to increase to Rs 49.9bn and net debt to increase to Rs 11bn in FY24E as the company is planning to increase its capacity from 30.75mtpa to 48.5mtpa by FY24E.

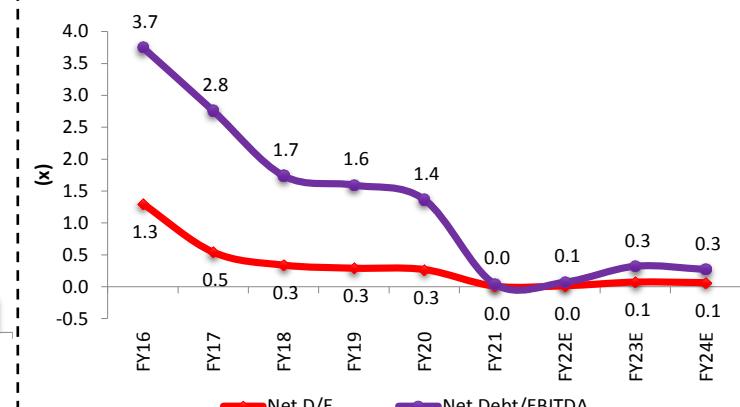
Net debt/EBITDA of the company was 0.04x in FY21 vs. 3.7x in FY16 and we expect it to be at 0.32x/0.27x in FY23/24E. Its net D/E improved to 0.01x in FY21 vs. 1.3x in FY16 and we expect net D/E to be at 0.07x/0.06x in FY23/24E.

Exhibit 44: Gross/net debt reduced over FY16-21



Source: Company, Systematix Institutional Research

Exhibit 45: Decreasing leverage to support the next leg of growth



Source: Company, Systematix Institutional Research

DALBHARA's RoE improved to 7.9% in FY21 vs. 2.1% in FY20 led by a) the improvement in profitability as cement prices increased significantly in the South markets and b) cost savings - control on variable cost and reduction in fixed costs led to Rs 197/ton cost reduction. Debt reduction led to an interest expense decline of 28.9% in FY21. We expected RoE to improve to 12.6% by FY24E led by higher assets turnover and improvement in EBIT margins (19.2% in FY24E vs. 14.5% in FY21).

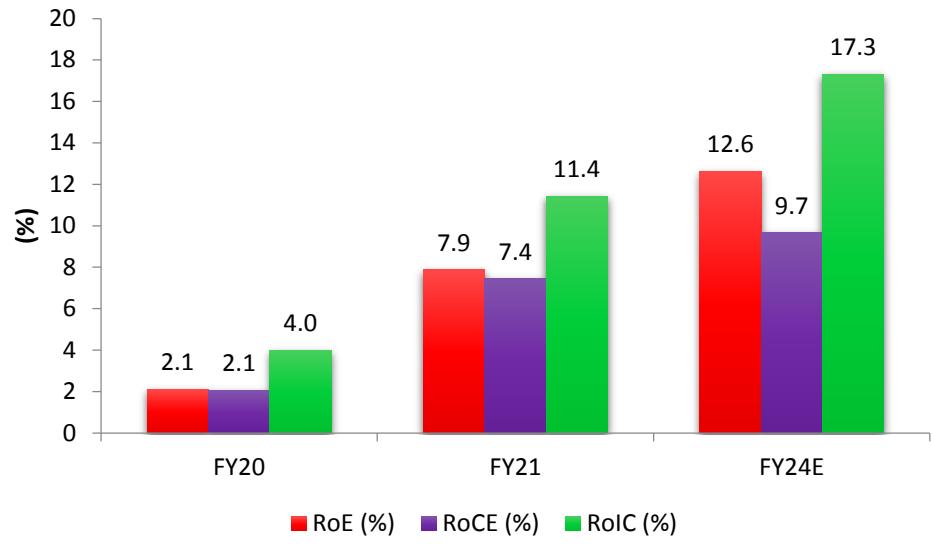
Exhibit 46: Clinker to Cement conversion improved in FY20/21

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT/PBT	75.1%	90.9%	62.7%	64.8%	73.7%	73.9%	74.2%
PBT/EBIT	48.6%	52.5%	64.3%	92.6%	93.8%	93.9%	93.0%
EBIT/Sales	9.3%	6.8%	5.7%	14.5%	14.4%	16.1%	19.2%
Asset turnover (x)	0.4	0.5	0.5	0.6	0.6	0.6	0.7
Assets/Equity (x)	1.9	1.8	1.7	1.6	1.4	1.4	1.4
ROE (%)	2.9	2.9	2.1	7.9	8.9	10.2	12.6

Source: Systematix Institutional Research, Company

RoCE is expected to improve to 9.7% in FY24E vs. 7.4% in FY21 on the back of an improvement in margins. RoIC is expected to improve to 17.3% in FY24 vs. 11.4% in FY21 as an improvement in profitability will support strong cash generation.

Exhibit 47: Return ratios to improve over FY21-24E



Source: Systematix Institutional Research, Company

Cash flow analysis & corporate governance

FCF generation: It generated a cumulative FCF of ~Rs 68bn between FY17-21.

FCF utilisation: Of the total FCF of Rs 68bn, it has paid 2.7% (~Rs 1.8bn) towards dividends (including dividend tax) and returned another 4.8% to shareholders through buyback of equity shares (6.17mn shares at an average price of Rs 531.96/share amounting to Rs3.28bn during FY21). Cumulative return to shareholders was 7.5% between FY17-21. Gross debt declined by Rs43.1bn over FY17-21 (63% of FCF) and current investments (including cash) was up Rs7.9bn in this period (13% of FCF).

FCF expectation: We estimate its FCF to decline to Rs 1.9bn in FY22E due to the higher capex and decline in margins while it is expected to generate a negative FCF of Rs 5.7bn in FY23E. However, the FCF is expected to rise sharply to Rs 4.2bn in FY24E.

Earnings quality: During the last 5 years, DBL has earned a cumulative PAT of Rs 18bn against which it generated an OCF of Rs 114bn (6.4x of profits).

Exhibit 48: FCF to decline going forward

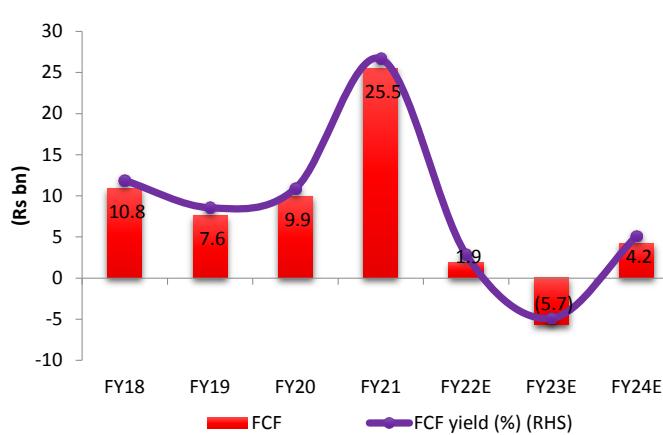
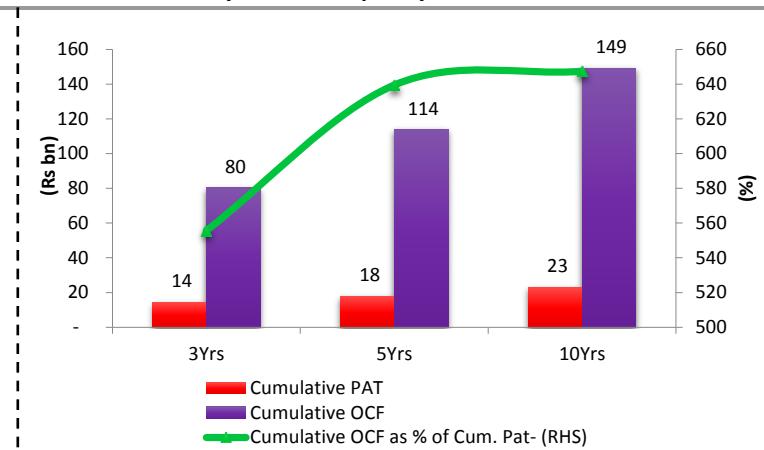


Exhibit 49: Healthy cash flow quality



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

Exhibit 50: Contingent liabilities

Contingent liabilities (Rs mn)	FY16	FY17	FY18	FY19	FY20
Claims against the Company not acknowledged as debts	1,912	1,900	2,120	2,920	2,820
<i>Demand raised by following authorities in dispute:</i>					
-Excise, Customs, Service tax, VAT, Entry tax and Sales tax	1,726	1,950	1,980	2,160	1,990
-Income tax matters	112	890	730	420	500
Other monies for which Group is contingently liable	29	20	20	20	-
Total	3,778.9	4,760.0	4,850.0	5,520.0	5,310.0
% of networth	8.2%	4.9%	4.7%	5.2%	5.0%

Source: Company, Systematix Institutional Research

Exhibit 51: Other key monitorables

Other key monitorables	FY16	FY17	FY18	FY19	FY20
Remuneration to Directors & KMPs (Rs mn)	62	112	189	231	400
% of PBT	1.2%	10.4%	4.9%	6.8%	11.2%
Auditor's remuneration (Rs mn)	23	37	40	40	30
% of PBT	0.5%	3.4%	1.0%	1.2%	0.8%
Pledged shares (%)	NA	NA	NA	NIL	NIL

Source: Company, Systematix Institutional Research

Systematix vs. Consensus

Our revenue estimates are 2-5% lower than Bloomberg Consensus estimates likely due to lower sales volume assumptions. However, our EBITDA estimates are 2-3% above Bloomberg Consensus estimates. DALBHARA's operating profit is expected to grow at a CAGR of 13.5% between FY21-FY24E led by 1) higher sales volumes/realisation and 2) operational cost savings led by the higher usage of WHRS/solar power.

Exhibit 52: Bloomberg vs. our estimates (consolidated financials)

Particulars	FY22E	FY23E	FY24E
Revenues (Rs bn)			
Consensus	123	140	158
Systematix est.	118	133	154
% Difference	-4%	-5%	-2%
EBITDA (Rs bn)			
Consensus	29	33	39
Systematix est.	30	34	41
% Difference	2%	3%	3%
EBITDA Margin (%)			
Consensus	23.7%	23.8%	24.9%
Systematix est.	25.2%	25.9%	26.4%
Difference (bps)	152.3	211.0	147.5

Source: Bloomberg, Systematix Institutional Research

Exhibit 53: Key assumptions

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales volume (mt)	17.0	18.7	19.3	20.7	22.7	25.5	29.1
Cement Realization (Rs/ton)	4,657	4,745	4,686	4,959	5,073	5,095	5,178
Per ton costs (Rs)							
Raw material	935	956	905	860	725	732	734
Employee cost	364	347	350	344	337	317	292
Power & Fuel	828	940	901	808	969	921	948
Freight	919	979	982	1,008	1,038	1,070	1,102
Other Expenses	825	816	797	718	812	820	824
Total Cost	3,872	4,037	3,935	3,739	3,881	3,860	3,900
Blended EBITDA/ton	1,188	1,040	1,080	1,344	1,306	1,352	1,396

Source: Company, Systematix Institutional Research

Key Risks

- 1) **Lower cement prices in the Southern region:** Historically, cement prices have remained volatile in the Southern region due to lower capacity utilisation of the existing units. We have assumed a better pricing scenario considering an improved pricing scenario in 1.5 years. Lower-than-estimated cement prices will adversely impact our earnings estimates.
- 2) **Substantial debt-funded capex:** The company has been aggressive in capacity expansions historically. It has done few inorganic capacity expansions like a) grinding units of JP Associates, b) Kalyanpur cement's acquisition, c) Murli Industries' acquisition and d) increase in stake in OCL India. It has set up an ambitious target of achieving 110-130mtpa capacity by 2031. A significant increase in its capacity through the inorganic route could put pressure on the company's balance sheet.
- 3) **Inflationary pressures in fuel costs:** There has been a sharp increase in the prices of pet coke, coal and diesel in the last few months. Pet coke prices are up ~75% over the last year while imported coal price has increased by 30%. Current pet coke prices are up ~40% vs. the 4QFY21 consumption price. Though cement companies are trying to control energy costs by changing their fuel mix (lower usage of pet coke and Australian coal), continued escalation in coal/pet coke prices could impact our earnings estimate if the industry is unable to pass on the cost increases to consumers.
- 4) **Unfavourable court outcome related to the matter of illegal transfer of Mutual funds:** DALBHARA alleged that MFs valued at ~Rs 3.44bn of its subsidiary Dalmia Cement (Bharat) Ltd (DCBL) were illegally transferred by Allied Financial Services Private Ltd (AFSPL). These securities were lying with IL&FS Securities Services Ltd ("ISSL"). The Supreme Court in Mar-21 allowed these MF units lying with ISSL to be released in favour of DCBL subject to DCBL furnishing requisite Bank Guarantee. Any negative outcome on this matter may lead to a financial loss for the company.
- 5) **Prolonged pandemic-related restrictions/lockdowns:** We estimate a cement volume growth of 9.4% in FY22E; however, continued localised lockdowns in the country could act as a downside risk to our estimates. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites, thus delaying the process. However, we derive confidence from the vaccination pace in India and believe economic recovery and normalcy will be attained from 2HFY22E onwards.

Valuation and View

DALBHARA has increased its capacity from 1.2mtpa in FY06 to 30.75mtpa in FY21 through the organic and inorganic routes. Aggressive capacity addition helped it to grow ahead of the industry while its sales volumes grew at a 10% CAGR during FY11-21. It has set ambitious targets of achieving a cement production capacity of 110-130mtpa by 2031. In this direction, the company announced expansion projects of 9.9mtpa spread across the South, West, East and North East apart from the on-going projects of 7.75mtpa. Completion of the above-mentioned projects will help DALBHARA achieve a grinding capacity of 48.5mtpa by FY24E from 30.75mtpa currently. In 9-12 months, the company will announce its plan to achieve a cement production capacity of 60mtpa.

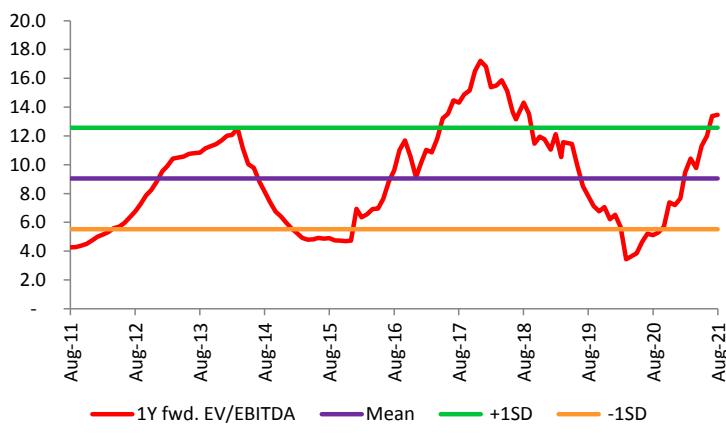
It is one of the few cement companies that have completed the buyback of equity shares (6.17mn shares at an average price of Rs 531.96/share during FY21). Further, it has announced plans to return up to 10% of the operating cash flows to shareholders through dividends and share buy-backs.

The company has consistently improved its leverage post FY15; its net debt reduced to Rs 1.2bn in FY21 from Rs 66.3bn in FY15. We expect net debt to be at Rs 2.1bn/Rs 11.1bn/Rs 11bn in FY22/23/24E. Net debt/EBITDA of the company was 0.04x in FY21 vs. 3.7x in FY16 and we expect it to be at 0.32x/0.27x in FY23/24E.

DALBHARA's RoE improved to 7.9% in FY21 vs. 2.1% in FY20 led by a) an improvement in profitability as cement prices increased significantly in the South markets and b) cost savings - control on variable cost and reduction in fixed costs led to Rs 197/ton cost reduction. We expect RoE to improve to 12.6% by FY24E.

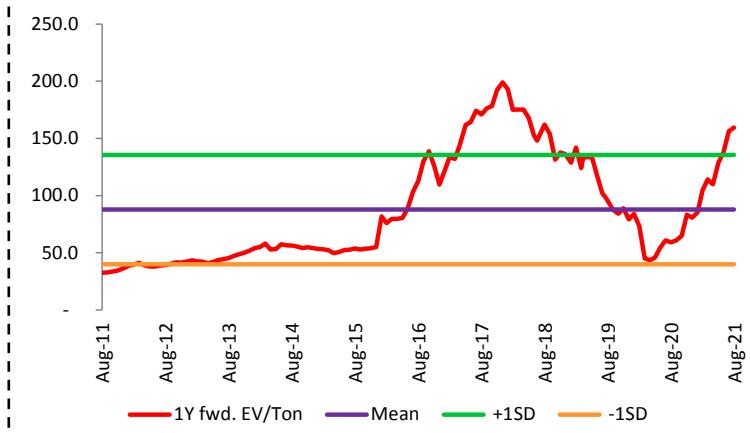
It trades at 14.4x/12.6x/10.7x FY22/23/24E EV/EBITDA and USD 160/164/122 FY22/23/24E EV/ton. The stock has traded at an average EV/EBITDA of 10.6x/9x in the last 5/10 years. With the improvement in profitability (EBITDA/adjusted PAT expected to grow at a CAGR of 13.4%/30.8% over FY21-24E), return ratios, plans to increase capacity while maintaining a strong balance sheet and improving shareholders returns, we expect the stock to trade at higher multiples. We value it at 13.5x FY23E EV/EBITDA (adjusted for CWIP as capacity expansion will get completed in FY24E) to arrive at a target price of Rs 2,615 (an upside of 19% from the CMP) and initiate coverage with a BUY rating. At our TP, the stock will trade at 15x/12.7x FY23/24E EV/EBITDA and USD 194/144 FY23/24E EV/ton.

Exhibit 54: 1- year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 55: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	96,740	105,220	117,516	132,788	154,116
Growth (%)	2.0	8.8	11.7	13.0	16.1
EBITDA	20,830	27,830	29,595	34,438	40,628
Growth (%)	7.3	33.6	6.3	16.4	18.0
EBITDA margin (%)	21.5	26.4	25.2	25.9	26.4
Depreciation	15,280	12,620	12,616	13,112	11,051
EBIT	5,550	15,210	16,979	21,326	29,577
Other Income	2,170	1,820	1,317	1,356	1,397
Interest expenses	4,150	2,950	2,366	2,653	3,473
PBT	3,570	14,080	15,929	20,030	27,501
Tax	1,190	1,650	3,982	5,007	6,875
Effective tax rate (%)	33.3	11.7	25.0	25.0	25.0
Adjusted PAT	2,240	9,120	11,747	14,806	20,392
Growth (%)	(27)	307.1	28.8	26.0	37.7
Net Margin (%)	2.3	8.7	10.0	11.2	13.2
Reported PAT	2,380	12,430	11,947	15,022	20,626
Growth (%)	(31.8)	422.3	(3.9)	25.7	37.3

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	390	370	370	370	370
Reserves & surplus	105,220	125,890	137,186	151,429	171,144
Net worth	105,610	126,260	137,556	151,799	171,514
Loan Funds	59,500	37,260	39,060	49,360	49,860
Net Deferred Taxes	12,770	16,340	16,340	16,340	16,340
Total Liabilities	179,530	181,470	194,766	219,525	239,974
Net block	125,550	137,380	144,644	145,781	196,230
Capital WIP	17,400	10,130	14,250	35,500	5,000
Investment	28,160	34,140	34,140	34,140	34,140
Current Assets	35,000	36,450	38,347	41,135	43,513
Inventories	9,740	9,240	9,764	10,286	11,005
Sundry Debtors	3,970	6,880	7,018	7,543	8,253
Cash and Bank	4,030	3,110	4,010	5,368	5,895
Current Liab & Prov.	26,580	36,630	36,614	37,031	38,909
Net current assets	8,420	(180)	1,732	4,103	4,604
Total Assets	179,530	181,470	194,766	219,525	239,974

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income)	3,570	14,080	15,929	20,030	27,501
Depreciation	15,280	12,620	12,616	13,112	11,051
Interest Provided	2,540	2,030	2,366	2,653	3,473
Other Non-Cash items	-100	-720	-	-	-
Chg in working cap	2,740	7,520	-1,013	-1,012	26
Tax paid	-660	430	-3,982	-5,007	-6,875
Operating Cashflow	23,370	35,960	25,917	29,775	35,176
Capital expenditure	-13,480	-10,460	-24,000	-35,500	-31,000
Free Cash Flow	9,890	25,500	1,917	-5,725	4,176
Other income	1,190	1,750	-	-	-
Investments	-5,310	5,950	-	-	-
Investing Cashflow	5,770	33,200	1,917	-5,725	4,176
Equity Capital Raised	-	-4,000	-	-	-
Loans Taken / (Repaid)	120	-25,250	1,800	10,300	500
Interest Paid	-4,670	-3,960	-2,366	-2,653	-3,473
Dividend paid (incl tax)	-930	-	-451	-564	-677
Income from investments	-	-	-	-	-
Others	-430	-450	-	-	-
Financing Cashflow	-5,910	-33,660	-1,017	7,084	-3,649
Net chg in cash	-140	-460	900	1,359	527
Opening cash position	2,800	3,010	2,550	3,450	4,808
Closing cash position	2,660	2,550	3,450	4,808	5,335

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	21.5	26.4	25.2	25.9	26.4
Net Margin	2.3	8.7	10.0	11.2	13.2
ROCE	2.1	7.4	6.8	7.7	9.7
ROE	2.1	7.9	8.9	10.2	12.6
RoIC	4.0	11.4	12.2	14.7	17.3
Per Share Data (Rs)					
EPS	12	49	63	79	109
CEPS	12	49	63	79	109
BVPS	547	675	735	811	917
DPS	2	1	2	3	3
Valuations (x)					
PER	189.5	45.1	35.0	27.8	20.2
P/CEPS	24.2	18.9	16.9	14.7	13.1
P/BV	4.0	3.3	3.0	2.7	2.4
EV / Sales	4.7	4.0	3.6	3.3	2.8
EV / EBITDA	21.7	15.3	14.4	12.6	10.7
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1
Gearing Ratio (x)					
Net Debt/ Equity	0.3	0.0	0.0	0.1	0.1
Net Debt/EBITDA	1.4	0.0	0.1	0.3	0.3
Working Cap Cycle (days)	32.1	-0.7	5.7	12.0	11.7

Source: Company, Systematix Institutional Research

JK Cement

01 September 2021

INITIATING COVERAGE

Sector: Cement	Rating: HOLD
CMP: Rs 3,261	Target Price: Rs 3,160

Stock Info

Sensex/Nifty	57,552/17,132
Bloomberg	JKCE IN
Equity shares	77mn
52-wk High/Low	Rs 3,690/1,412
Face value	Rs 10
M-Cap	Rs 252bn/ USD 3.4bn
3-m Avg volume	USD 3.53mn

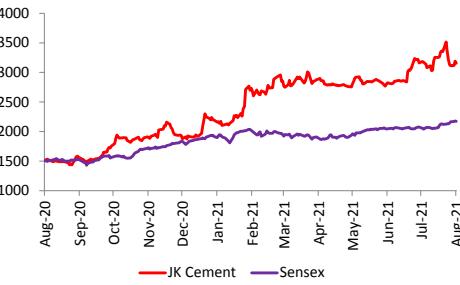
Financial Snapshot (Rs mn)

Y/E March	FY22E	FY23E	FY24E
Sales	76	84	93
EBITDA	17	19	20
PAT	8	9	10
EPS (Rs)	104	118	127
PE (x)	31.4	27.6	25.6
RoE (%)	19.7	19.0	17.4
EV/EBITDA (x)	16.6	15.1	13.6
RoCE (%)	11.2	11.3	10.9
Dividend yield (%)	0.3	0.4	0.4

Shareholding pattern (%)

	Dec-20	Mar-21	Jun-21
Promoter	58	58	58
-Pledged	-	-	-
FII	15	17	17
DII	22	21	21
Others	5	5	5

Stock Performance (1-year)



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Strong growth plans but valuations rich

JK Cement Ltd's (JKCE) exposure to the white cement segment (stable margin profile vs. grey cement) has offered earnings stability and helped it achieve growth in the grey cement segment (capacity/sales volume CAGR of 10.5%/8.5% over FY09-21). It plans to increase its grey cement capacity by 4mtpa by FY24E after the recent addition of 4.7mtpa, which will result in a total installed grey cement capacity of 18.7mtpa. Higher limestone reserves in the Central region (sufficient for 15mtpa capacity) provide growth visibility. The improvement in profits from its grey cement business in FY20/21 was led by an increase in realisations and cost savings. We expect strong OCF generation to continue till FY24E which will help in funding its capex requirements. RoE is expected to remain around 17-20% till FY24E vs. 21.6% in FY21. RoIC is expected to remain stable at 12-13% till FY24E (13.3% in FY21). We expect EBITDA/EPS CAGR of 9.9%/10.4% over FY21-24E. Leverage is expected to remain under check despite the planned capex. Valuations have re-rated significantly in the last few months due to which, the upside is limited. We initiate coverage on the stock with a HOLD rating and a target price of Rs 3,160.

Strong growth visibility; white cement exposure provides earnings stability

JKCE has increased its grey cement capacity/sales volume at a CAGR of 10.5%/8.5% over FY09-21. Its plan to further increase its grey cement capacity in the Central region by FY24E provides volume growth visibility in the medium term. With higher limestone reserves (518mt) in Panna, Madhya Pradesh, its growth momentum is likely to continue. JKCE's presence in the white cement segment (stable margins vs. grey cement with an OPM of 25-30%) provides earnings stability and sets it apart from other mid-cap companies.

Improvement in grey cement profits; leverage to remain under check

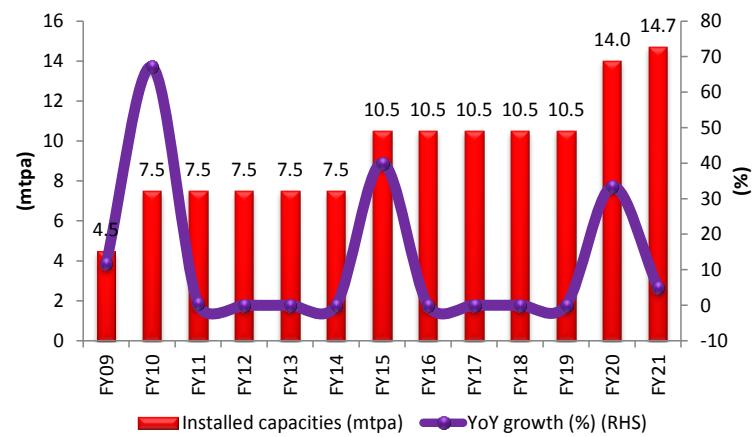
Over the last two years, JKCE has benefitted from cost-efficiency measures and improved realisations in its key markets. We believe that the EBITDA/ton of its grey cement business improved to Rs 858/Rs 1,010 in FY20/FY21 from Rs 396 in FY19. We estimate an EBITDA CAGR of 9.9% over FY21-24E. OCF increased at a CAGR of 50% over FY19-21. We expect a cumulative OCF of Rs 42.6bn over FY21-24E which will help the company control its leverage despite the planned capex. Net debt/EBITDA has improved every year since FY16 and improved to 1.3x in FY21 vs. 5.7x in FY16. We expect net debt/EBITDA to be 1.44x/1.49x/1.32x in FY22/23/24E.

Multiple has re-rated significantly; upside limited

The stock has witnessed a significant multiple re-rating given the improvement in the profitability of JKCE's grey cement segment in FY20/21, improved balance sheet despite high capex and the announcement of the next leg of growth capex without increasing the leverage on its balance sheet. It trades at 16.6x/15.1x/13.6x FY22/23/24E EV/EBITDA vs. an average of 10.8x in the last 7 years. We expect an EPS CAGR of 10.4% over FY21-24E with stable RoIC and improved leverage position. We value JKCE at 14x FY23E EV/EBITDA (adjusted for CWIP) to arrive at a target price of Rs 3,160 and initiate coverage on the stock with a HOLD rating.

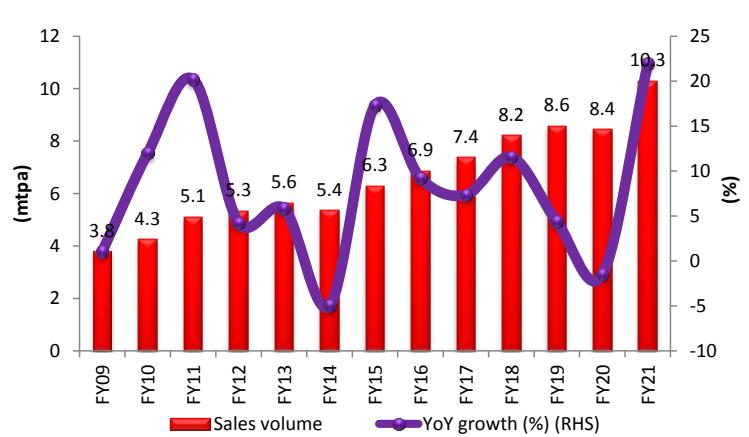
Story in charts

Exhibit 1: Grey cement capacity increased by >3x over FY09-21...



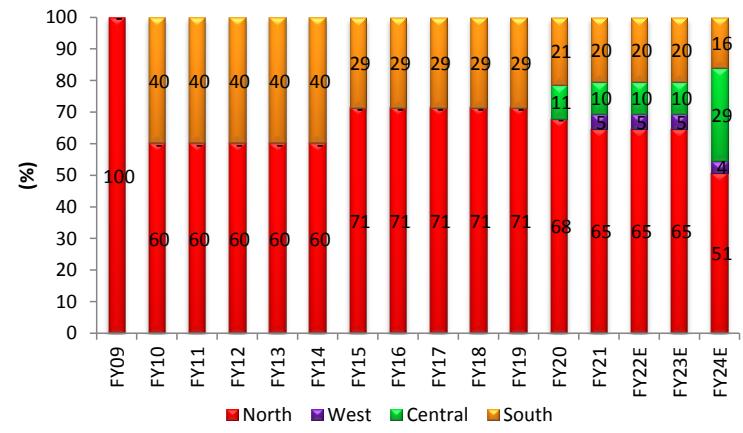
Source: Company, Systematix Institutional Research

Exhibit 2: ...aiding sales volume growth of 2.8x in the same period



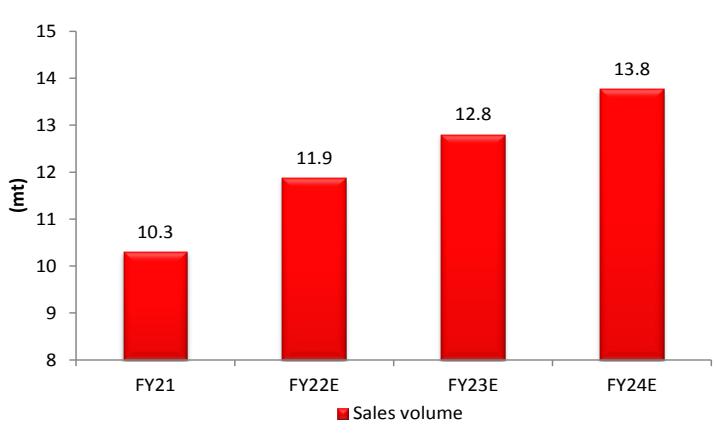
Source: Company, Systematix Institutional Research

Exhibit 3: Capacity-mix in the Northern & Central regions to improve further



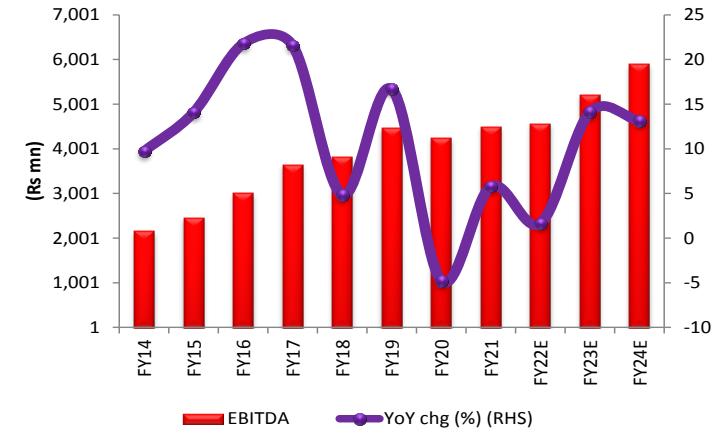
Source: Company, Systematix Institutional Research

Exhibit 4: Grey cement sales volume to grow at a 10.2% CAGR over FY21-24E



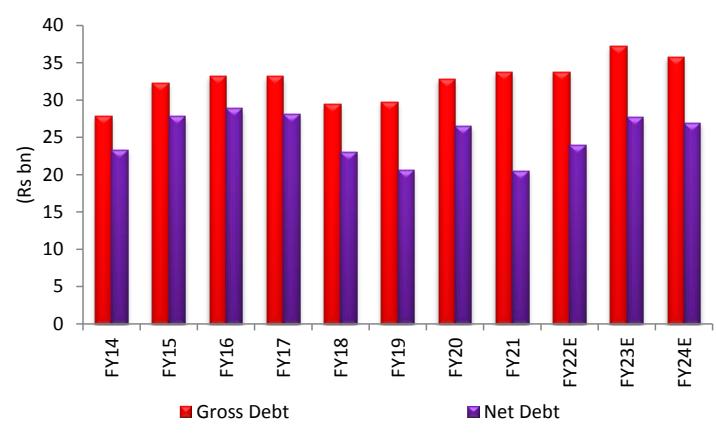
Source: Company, Systematix Institutional Research

Exhibit 5: Estimate an EBITDA CAGR of 9.5% in the white cement segment over FY21-24E



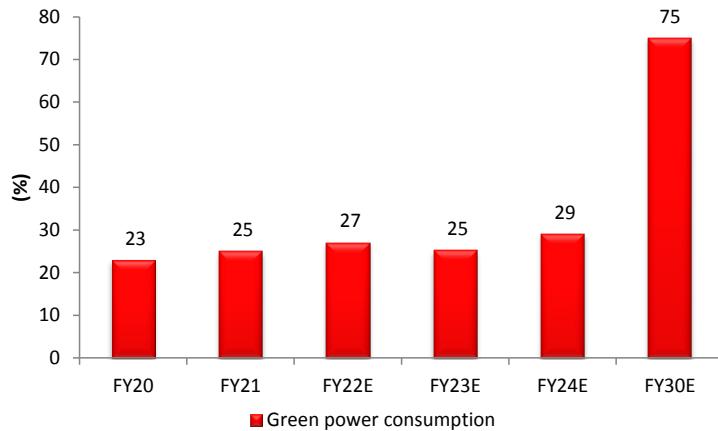
Source: Company, Systematix Institutional Research

Exhibit 6: Debt to increase in FY23E considering on-going expansions



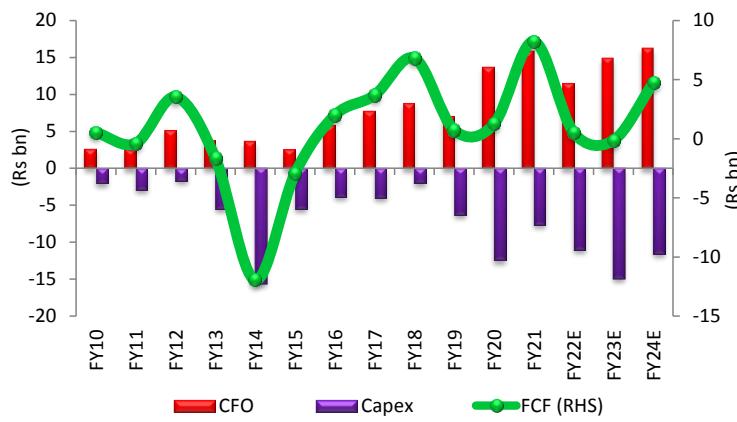
Source: Company, Systematix Institutional Research

Exhibit 7: Aims to increase the share of green power to 75% from 25% currently



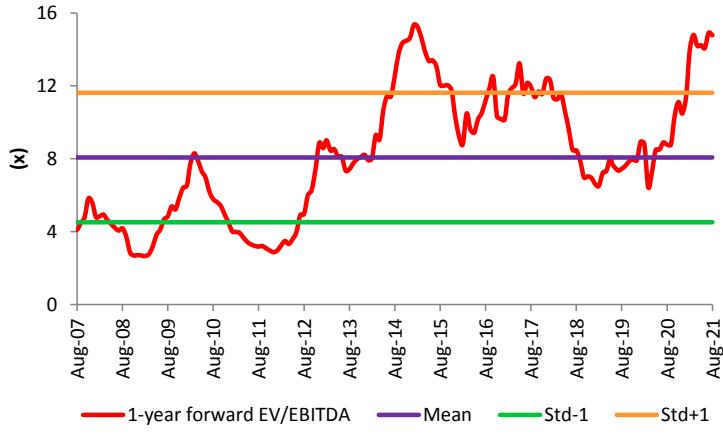
Source: Company, Systematix Institutional Research

Exhibit 9: Generated positive FCF over FY16-21; momentum to continue



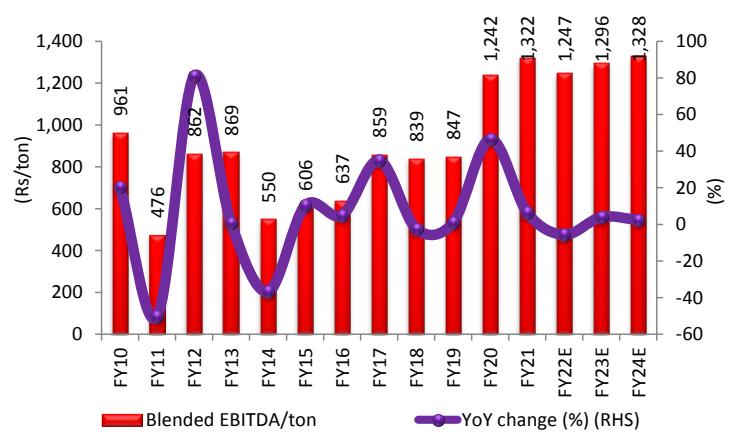
Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward EV/EBITDA



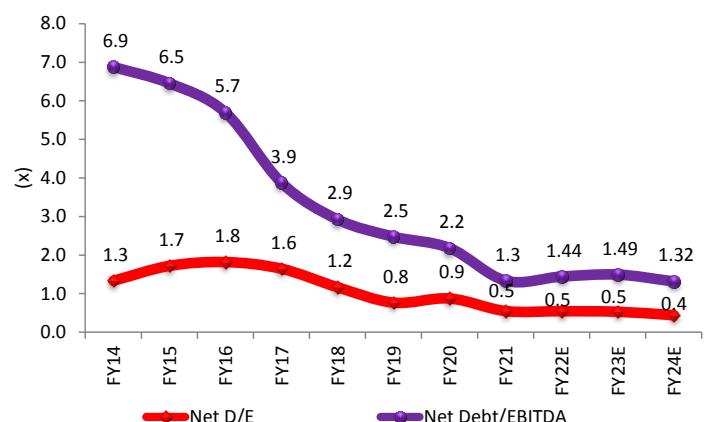
Source: Company, Systematix Institutional Research

Exhibit 8: EBITDA/ton improved in FY20/21 due to higher profitability of the grey cement segment



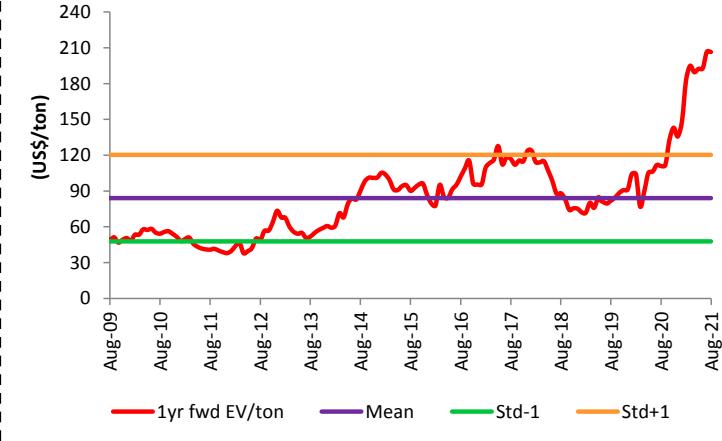
Source: Company, Systematix Institutional Research

Exhibit 10: Leverage improved post FY16; expect a further improvement despite the planned capex



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

Company Background

JKCE is amongst the two leading producers of white cement & wall putty in India. It has a grey cement production capacity of 14.7mtpa which would increase to 18.7mtpa by FY24E.

JK Cement Ltd (JKCE), a leading manufacturer of grey & white cement and wall putty in India, is an affiliate of the industrial conglomerate JK Organisation, which was founded by Mr. LalaKamlapat Singhania.

It commenced operations in May 1975 with commercial production at its first grey cement plant at Nimbahera, Rajasthan. Subsequently, it set up two more units in Rajasthan at Mangrol and Gotan. In 2009, the company set up a greenfield unit in Muddapur, Karnataka and extended its footprint in southwest India. In 2014, it expanded its capacity in the North with a brownfield expansion of 1.5mtpa integrated unit at Mangrol and a split grinding unit of 1.5mtpa at Jhajjar, Haryana. It now has an installed grey cement capacity of 14.7mtpa in India, with the new grinding units in Aligarh and Balasinor further strengthening its growing footprints.

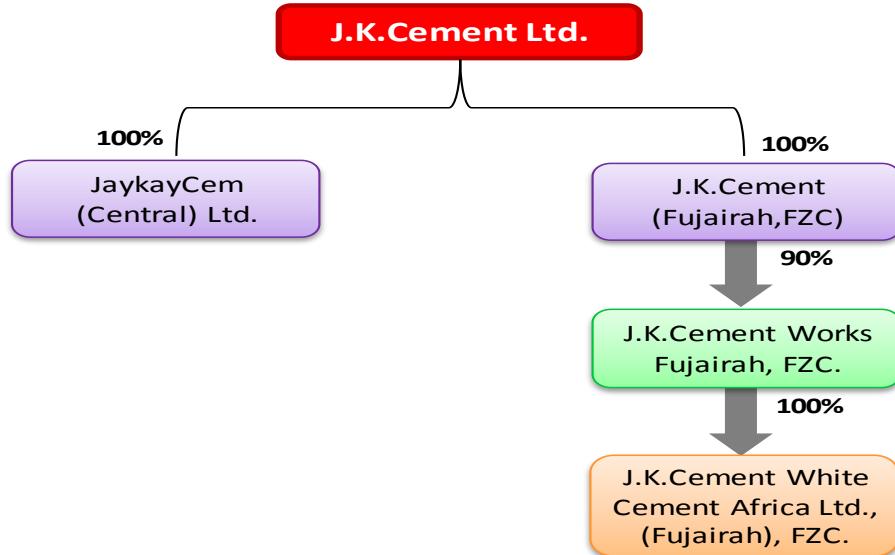
The company plans to expand its presence in the Central region by establishing an integrated plant at Panna, Madhya Pradesh and a split grinding unit at Hamirpur, Uttar Pradesh by mid-FY24E, post which its grey cement production capacity in India will be 18.7mtpa.

JK White Cement, a division of JKCE, is the leading producer of white cement and wall putty with a pan-India presence and sales across 43 countries. With a capacity of 0.6mtpa, it is the second-largest manufacturer of white cement in India. JKCE made its international foray by setting up a greenfield dual-process white cement-cum-grey cement plant at Fujairah, UAE to cater to the GCC and African markets. With the commissioning of this plant, it became one of the largest producers of white cement globally, with a total white cement and wall putty capacity of 1.2mtpa each.

JKCE was the first company to install a captive power plant in 1987 at Bamania, Rajasthan and the first cement company to install a waste heat recovery (WHR) power plant. At its different locations, the company has a total captive power generation capacity of 142.6MW, which includes 40.1MW of WHR power plants.

It sells grey cement in more than 15 Indian states/union territories while grey clinker to its customers in Nepal; white cement and wall putty are sold across India. For grey cement, it has a network of 11,000+ dealers and retailers whereas white cement and wall putty products are sold through 50,000+ dealers and retailers.

Exhibit 13: Corporate Structure of JK Cement



Source: Company, Systematix Institutional Research

Exhibit 14: Production capacity of JKCE

Plant Location	State	Grey Cement	White Cement	Wall Putty	Thermal Power	Waste Heat Recovery
Unit		(MTPA)			(MW)	
Nimbahera, Chittorgarh	Rajasthan	4.3	-	-	20	13.2
Gotan, Nagaur*	Rajasthan	0.5	0.6	0.6	7.5	-
Mangrol, Chittorgarh	Rajasthan	3.3	-	-	25	26.9
Jharli, Jhajjar	Haryana	1.5	-	-	-	-
North- Total		9.5	0.6	0.5	52.5	40.1
Katni	Madhya Pradesh	-	-	0.7	-	-
Aligarh	Uttar Pradesh	1.5	-	-	-	-
Central - Total		1.5	-	0.7	-	-
Muddapur, Bagalkot	Karnataka	3.0	-	-	50	-
South - Total		3.0	-	-	50	-
Balasinor	Gujarat	0.7	-	-	-	-
West - Total		0.7	-	-	-	-
Fujairah, UAE*	-	-	0.6	-	-	-
Total		14.7	1.2	1.3	102.5	40.1
Planned capacity						
Panna	Madhya Pradesh	2.0	-	-	-	22.0
Hamirpur	Uttar Pradesh	2.0	-	-	-	-
Total capacity by FY24E		18.7	1.2	1.3	102.5	62.1

Source: Company, Systematix Institutional Research, * Capacity can be altered for 1mtpa grey cement production

Manufacturing facilities

Exhibit 15: Mangrol unit, Rajasthan (3.3mtpa)



Source: Company

Exhibit 16: Satellite grinding unit at Aligarh, UP (1.5mtpa)



New Grinding Unit of 1.50 MnTPA at Aligarh

Source: Company

Exhibit 17: Nimbahera Plant, Rajasthan (4.3mtpa)



Source: Company

Exhibit 18: Gotan unit (0.5/0.6mtpa of grey/white cement)



Source: Company

Exhibit 19: Captive power plant at Gotan unit (7.5MW)



Source: Company

Exhibit 20: Use of robotics in operations



Source: Company

Exhibit 21: White cement portfolio



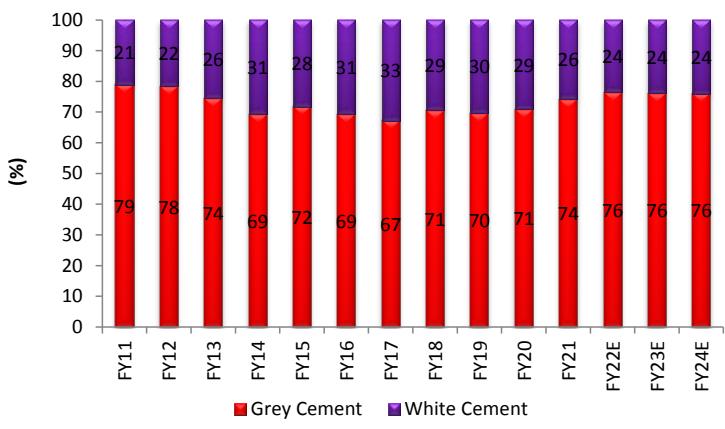
Source: Industry, Systematix Institutional Research

Exhibit 22: Grey Cement portfolio includes premium products JK Super Strong & Weather Shield



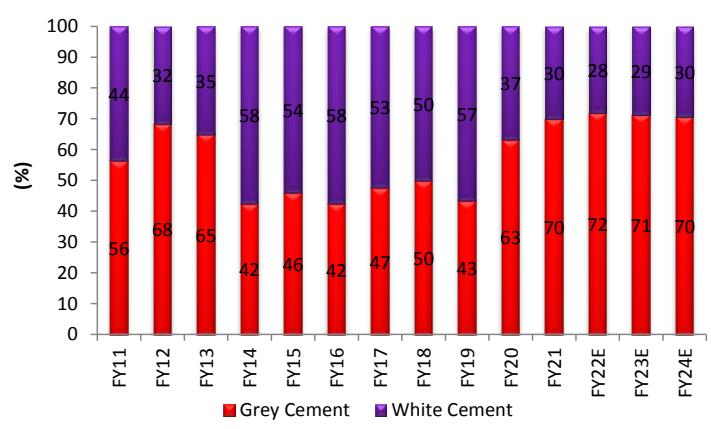
Source: Industry, Systematix Institutional Research

Exhibit 23: Revenue mix: Grey & white cement



Source: Company, Systematix Institutional Research

Exhibit 24: EBITDA-mix: Grey & white cement



Source: Company, Systematix Institutional Research

Exhibit 25: Management team details

Name	Designation	Qualification	Background	Other board memberships
Mr. Raghavpat Singhania	Managing Director	Graduate from Sheffield Hallam University, England	Joined JKCE in 2007 as Special Executive and received training from industry stalwart Late Mr. Yadupati Singhania. He has been instrumental in charting out a strategic roadmap to make JKCE future-ready.	1. JK Cement Works, (Fujairah) FZC. 2. Yadu International Ltd.
Mr. Madhavkrishna Singhania	Deputy Managing Director & CEO	B.Tech in Electrical & Computer Engineering	Has led new capacity expansion projects that helped the company double its grey cement manufacturing capacity from 7.5mtpa in 2010 to ~15mtpa in 2020. He was instrumental in setting up the company's maiden overseas plant in Fujairah, UAE.	1. JK Cement Works, (Fujairah) FZC. 2. Yadu International Ltd.
Mr. Ajay Kumar Saraogi	Deputy Managing Director & CFO	Bachelor of Arts (Honors) degree in Economics and Bachelor in Law (LL.B)	Oversees the finance & commercial matters (has 40+ years of experience in the field) of the company and has been a part of the core management team.	1. JK Paints and Pigments Ltd. 2. Jaykaycem (Northern) Ltd. 3. Yadu International Ltd. 4. Jaykaycem (Central) Ltd.
Mr. Shambhu Singh	Company Secretary & Compliance Officer	Graduate of Commerce & Law, Company Secretary	Is associated with JKCE since 2008. He has over 20 years of post-qualification experience in legal, secretarial and indirect taxation matters.	NIL

Source: Company, Systematix Institutional Research

Exhibit 26: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Key Risks	YoY Growth
FY17	<ul style="list-style-type: none"> While the industry overcame the demonetisation shock quicker than expected, the production levels of major players have declined after almost 15 years. Demand is likely to grow at ~5.5% in FY18 due to government initiatives to boost infrastructure activities viz., PMAY-Gramin, coastal roads. 	<ul style="list-style-type: none"> Initiated steps for the 2nd phase of wall putty production capacity expansion from 0.2mtpa to 0.4mtpa at the Katni unit. Clinker production capacity increased by 0.33mtpa at Rajasthan grey cement plants through the debottlenecking process, taking the total capacity to 5.45mtpa. 	<ul style="list-style-type: none"> Process optimisation to improve operational efficiency Launched 'Project Nirmaan' for better cost management: 1) Centralisation of procurement, 2) efficiencies in inventory management. 	<ul style="list-style-type: none"> Extreme weather conditions impacting monsoon. Limestone depletion. Higher energy costs. 	Volume (Grey): 7.3% Revenue: 7.4% EBITDA: 43% PAT: 259%
FY18	<ul style="list-style-type: none"> The cement sector grew by 6% YoY in FY18 due to higher infrastructure spending by the government & re-materialisation of demand from the private sector. Cement sector growth in FY19 is likely to be high, given a slew of infrastructure projects like Bharatmala, Smart Cities, PM Awas Yojana and Housing for All. 	<ul style="list-style-type: none"> Aims to double grey cement capacity to 18mtpa in 4-5 years. 1st phase - 4.2mtpa to be on stream by Mar'20 at a capex of Rs 20bn; 2nd phase - greenfield project of 3.5mtpa at a capex of Rs 25bn by FY23E. 1st phase expansion includes 1) clinker capacity of 7,500 TPD at Mangrol, 2) grinding capacity of 1mtpa each at Nimbahera & Mangrol, 3) Split grinding units of 1.5mtpa at Aligarh, UP & 0.7mtpa at Balsinor, Gujarat. 	<ul style="list-style-type: none"> Additional 13MW of waste heat recovery plants to be installed in the upcoming plants. Reduced raw material utilisation. JKCE was granted a mining lease in MP for 2 mines with an estimated reserve of ~518mt, providing an opportunity for greenfield expansion up to 15mtpa. 	<ul style="list-style-type: none"> Higher inflation rate. Higher logistics costs. Increased competition. Higher raw material prices. 	Volume (Grey): 11.5% Revenue: 20.5% EBITDA: 8.4% PAT: 56%
FY19	<ul style="list-style-type: none"> Current demand drivers are 1) the government's Housing for All scheme, 2) highway construction, 3) smart cities and 4) metro construction. Cement industry demand is expected to grow at 7% in FY20. 	<ul style="list-style-type: none"> To set up an integrated plant with a 3.0-3.5mtpa capacity at Panna, MP. Nimbahera Line-3 to increase clinker production by 1,000 TPD – It is scheduled for completion by Dec'20. Commissioned the wall putty unit at Katni (0.2mtpa). 	<ul style="list-style-type: none"> Additional 13MW of WHR plants to be installed in the upcoming plants. Plans to reduce logistics costs by installing an overland belt conveyor in Maliakhera for transporting limestone from Maliakhera and Karunda mines. 	<ul style="list-style-type: none"> Regulatory compliance. Higher energy costs. Increase in raw material costs. Higher logistics costs. 	Volume: 4.4% Revenue: 8.5% EBITDA: 6% PAT: -12%

FY20	<ul style="list-style-type: none"> Cement demand is likely to contract by 10-15% in FY21 due to COVID-19. Demand should pick-up in 2HFY21 with the pick-up in government infrastructure spending, affordable housing projects under PMAY (Urban & Rural) & Pradhan Mantri Gram Sadak Yojana. 	<ul style="list-style-type: none"> Commissioned 2.6mtpa clinker production line at Mangrol and 3.5mtpa of grey cement capacity (1mtpa each at Nimbahera & Mangrol and 1.5mtpa in Aligarh, UP). Balasinor split grinding unit (0.7mtpa) to be commissioned by 3QFY21. Nimbahera Line-3 upgradation to be completed by FY21-end. 0.3mtpa wall putty expansion should be completed by 2QFY21. 	<ul style="list-style-type: none"> Improving thermal efficiencies. Small steps in energy savings like Kaizen in various sections of production & process. Replacement of low-efficiency motors with high-efficiency motors. Replacement of high power consumption lamps. 	<ul style="list-style-type: none"> Higher energy costs. Increase in raw material costs. Higher logistics costs. 	Volume (Grey): -1.5% Revenue: 10.3% EBITDA: 45% PAT: 84%
FY21	<ul style="list-style-type: none"> Cement demand for FY21 was almost flat at 328mtpa. Volume growth of 9% is expected in FY22 supported by a low base, macro environment and increased government spending. The industry should see a rebound based on the volume growth driven by a revival in demand from the housing & infrastructure sectors and the timely release of funds announced in the Union Budget 2021-22; however, this depends on the COVID trajectory and the pace of vaccination. 	<ul style="list-style-type: none"> With the commissioning of 0.7MnTPA Split Grinding Unit at Balasinor (Gujarat), grey cement capacity now stands at 14.67mtpa. Modernisation & debottlenecking of Nimbahera Line-3 is progressing well and is on track for completion in 2QFY22. It would result in additional clinker output sufficient for producing 0.5mtpa of cement. Initiated a greenfield grey cement capacity expansion of 4mtpa at Panna, Madhya Pradesh. This would have a clinker capacity of 8,000 TPD, 2 MnTPA cement grinding capacity each at Panna in Madhya Pradesh and Hamirpur in Uttar Pradesh. The project would complete within 24 months of its start date. 	<ul style="list-style-type: none"> Commissioned 16.85 MW Waste Heat Recovery at Mangrol, taking its captive power capacity (including WHR/Solar) to 144 MW. Waste Heat Recovery of 22MW would also be installed at the Panna plant. Added 1 MW Solar Power Plant at Katni in MP; with this, the solar power capacity stands at 1.45MW. JKCE is using GPS-based technology for tracking the movement of trucks, which helps in optimizing network for supply chain management. 	<ul style="list-style-type: none"> Raw material Power & Fuel Logistics 	Volume (Grey): 21.9% Revenue: 13.9% EBITDA: 26.8% PAT: 50.8%

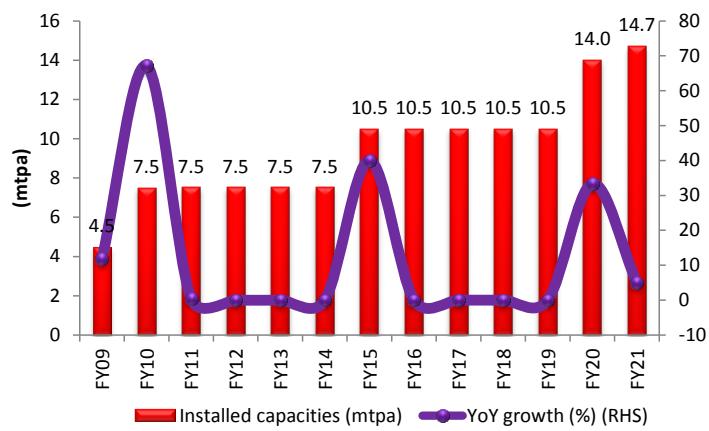
Source: Company, Systematix Institutional Research

Investment Analysis

Capacity addition at regular intervals aided volume growth

JKCE is amongst the few mid-cap companies that have consistently added capacities to support volume growth and geographical diversification. It commissioned a 6,500tpd (1.95mtpa) kiln in Mudhol, Karnataka in FY10; 5,600tpd (1.85mtpa) kiln at Mangrol, Rajasthan plant in FY15 and 8,000tpd (2.64mtpa) kiln at Mangrol plant in FY20. Between FY09-21, its grinding capacities increased at a CAGR of 10.4% YoY, leading to a volume CAGR of 8.5% YoY in the same period.

Exhibit 27: Grey cement capacity increased by >3x over FY09-21...



Source: Company, Systematix Institutional Research

Exhibit 28: ...aiding volume growth of 2.8x in the same period



Source: Company, Systematix Institutional Research

Greenfield expansion in the Central region, higher limestone reserves provide growth visibility

JKCE commissioned 3.5mtpa grinding capacity (1mtpa each at Nimbahera and Mangrol, Rajasthan plants and 1.5mtpa in Aligarh, Western Uttar Pradesh) during FY20 and 0.7mtpa grinding capacity in Balasinor, Gujarat in Oct-20.

In Feb'21, it announced plans to increase its clinker capacity by 8,000tpd (2.64mtpa) at Panna, Madhya Pradesh and grinding capacity by 4mtpa (2mtpa of integrated capacity and a split grinding unit of 2mtpa at Hamirpur, Uttar Pradesh).

The capex for this expansion project is estimated at Rs 29.7bn (USD 102/ton) and will be funded through a mix of debt and equity (Rs 13bn). The higher capital cost is due to the purchase of additional land (cost ~USD 30/ton) considering future expansions (2-3 lines).

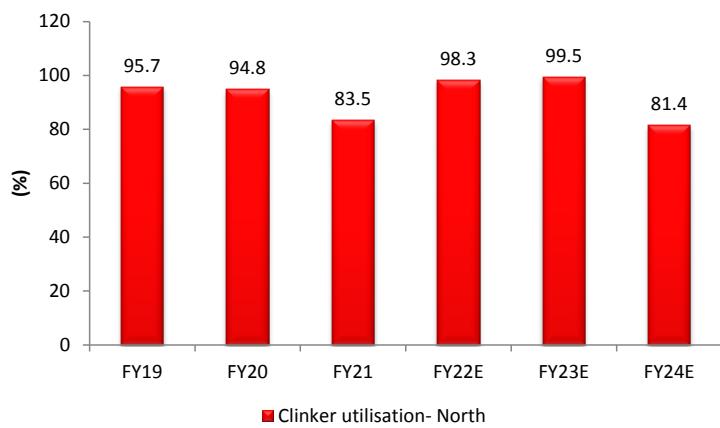
This unit will be eligible for incentives in Madhya Pradesh (75% of net state goods and services tax-SGST reimbursement for 7 years) and Uttar Pradesh (200% of eligible investment - Rs 2.5bn; maximum ceiling: 3x eligible investment, 70% of SGST reimbursement for 12 years with a ceiling of 20% of investments every year).

The estimated limestone reserve in Panna is 518mt which provides expansion opportunities of ~15mtpa (assuming average plant life of 30 years). The limestone reserves at other locations are ~500mt, which may also provide growth opportunities.

New capacity to boost volume growth

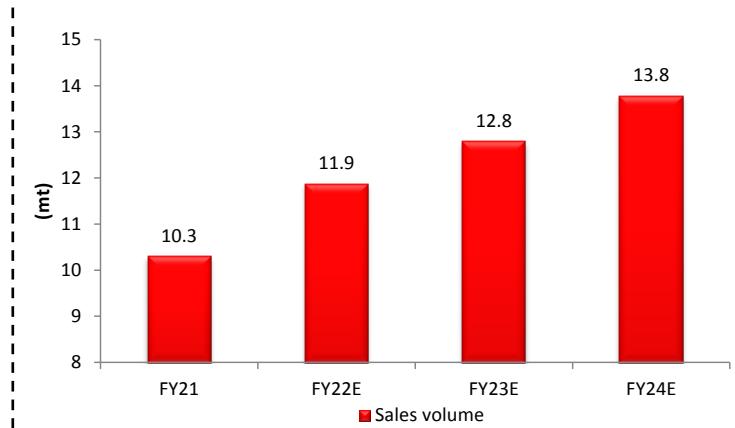
JKCE operated its old clinker plants in the Northern region at an utilisation rate of 95%+ in FY19/20 and hence, volume growth opportunities have been limited in the absence of capacity expansions. Despite the COVID-19 disruptions and incremental volumes from the expanded capacity in the Northern region, the average clinker utilisation was 80%+ in FY21 and is expected to improve to 100% by FY23E. We expect the company's grey cement sales volumes to grow at a CAGR of 10.2% YoY over FY21-23E. The completion of the Panna, Madhya Pradesh expansion is likely in mid-FY24E, which should lead to volume growth of 7.6% YoY in FY24E and 10-11% YoY till FY27E.

Exhibit 29: Improvement in clinker utilisation of its Northern plants in FY19/20



Source: Company, Systematix Institutional Research

Exhibit 30: Sales volume of grey cement to increase at a CAGR of 10.2% over FY21-24E



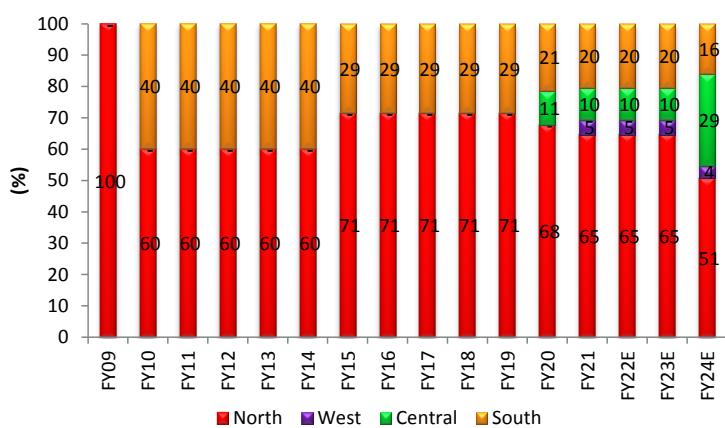
Source: Company, Systematix Institutional Research

Capacity and sales volume mix to improve in the Northern/Central regions

JKCE diversified its presence in the Southern region after the commissioning of a greenfield plant in Mudhol, Karnataka in Sep-09. Cement prices in the Southern region have remained volatile due to lower regional capacity utilisation. Going forward, we expect clinker capacity utilisation to be higher in the Northern/Central/Western regions, which should provide better pricing power to cement manufacturers in these regions.

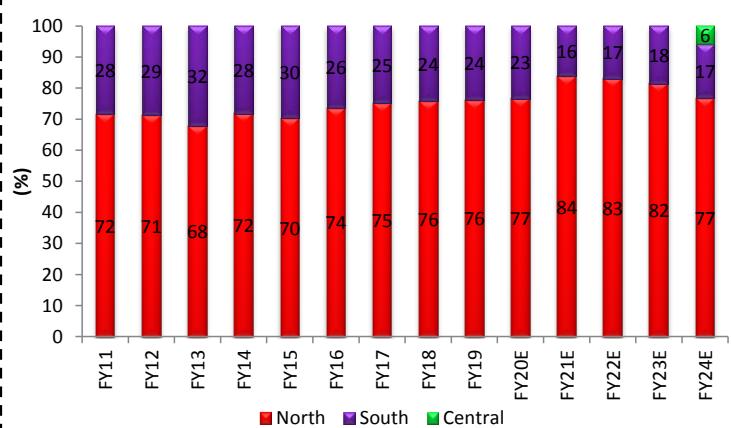
JKCE's capacity mix in the Southern region has reduced to 20% vs. 40% in FY10 and is likely to come down further to 16% post the commissioning of the Panna, Madhya Pradesh plant. The production from its plant in South India has likely reduced to 16% of the total sales volumes in FY21 vs. a peak of 32% in FY13. We expect the production from this plant to be 17-18% of the total volumes till FY24E.

Exhibit 31: Capacity-mix improved in the Northern/Central regions



Source: Company, Systematix Institutional Research

Exhibit 32: Production-mix from the Northern/Southern/Central regions

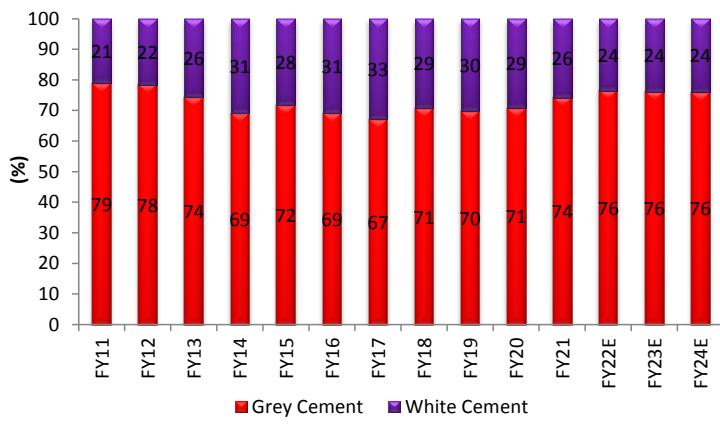


Source: Company, Systematix Institutional Research

White cement business protects against earnings volatility

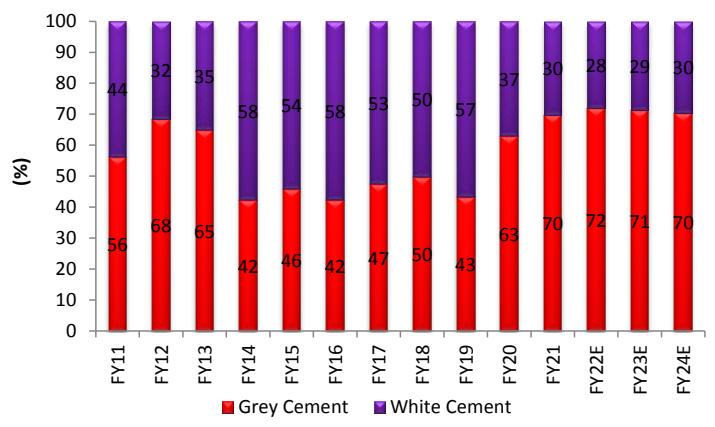
With a production capacity of 0.6mtpa of white cement and 1.2mtpa of wall putty, JKCE is amongst the two largest players in this segment in India. The white cement business is less volatile as compared to grey cement and provides earnings stability. Between FY14-19 (before the profitability of JKCE's grey cement business improved), it contributed to 28-33% of total revenues while its contribution to EBITDA was 50-58%. EBITDA contribution of this segment is estimated to be 37%/30% in FY20/FY21 and we expect it to contribute to 28-30% of the EBITDA till FY24E. The white cement business also has much lower capex requirements vs. the grey cement business and the higher cash flows in this segment have helped the company increase its grey cement production capacities.

Exhibit 33: White cement segment to contribute to 25-26% of revenues



Source: Company, Systematix Institutional Research

Exhibit 34: EBITDA contribution of white cement declined due to the improvement in grey cement volumes/profits



Source: Company, Systematix Institutional Research

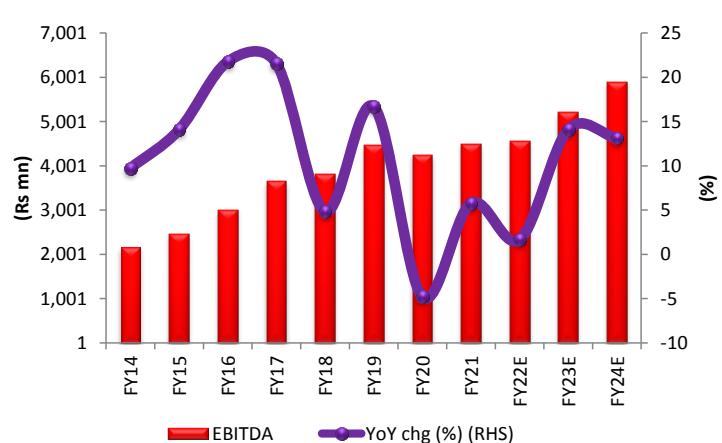
The sales volumes of white cement (including wall putty) have increased at a CAGR of 11.4% over FY10-21 while the EBITDA CAGR was 14% in the same period (segmental break-up of EBITDA is not available after FY18). The OPM of this segment has remained in the range of 25-30% over FY11-21. We expect sales volume/EBITDA of the white cement segment to grow at a CAGR of 8.8%/9.5% over FY21-24E.

Exhibit 35: Estimate white cement sales volume CAGR of 8.8%...



Source: Company, Systematix Institutional Research

Exhibit 36: ... and EBITDA CAGR of 9.5% over FY21-24E



Source: Company, Systematix Institutional Research

Wall putty offers growth opportunities despite rising competition

UltraTech and JKCE are the two major white cement manufacturers in India. Wall Putty has a market size of ~3.5mtpa, with UltraTech and JKCE having a market share of 40%+. Paints manufacturers and a few unorganised players have entered the wall putty business in the last few years. They are dependent either on domestic manufacturers or imports for their white cement requirements. Despite the entry of new players in wall putty manufacturing, JKCE witnessed double-digit volume growth before the COVID-19 disruptions. We believe the company's strong brand image and distribution network (50,000+ dealers) would help it maintain its growth momentum.

The demand for wall putty continues to grow due to its longer life span, high adhesiveness and water resistance characteristics. Wall putty is used for interior as well as exterior applications. Home improvement activities and a decrease in the repainting cycle should improve the demand for wall putty.

Introduced value-added products in the wall putty segment to gain competitive advantage

To maintain/gain market share, JKCE launched value-added products in its white cement portfolio - JK Cement WallMaxX, JK Cement GypsoMaxX, JK Cement ShieldMaxX, JK Cement TileMaxX, JK Cement WhiteMaxX and JK Cement PrimaxX - over the last few years. JK Cement ShieldMaxX, waterproof wall putty is manufactured using German technology to improve the durability of paints. JK Cement GypsoMaxX is a premium gypsum plaster made from natural gypsum. It is suitable for application on internal surfaces, including walls and ceilings. JK Cement PrimaxX is a white cement-based primer. It is used as an undercoat for exterior and cementitious surfaces.

Exhibit 37: Value-added products in the white cement portfolio



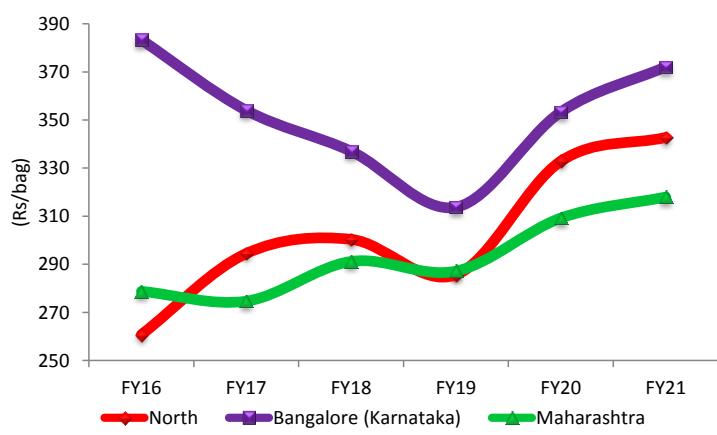
Source: Industry, Systematix Institutional Research

Improved realisations, focus on cost efficiencies drive the grey cement segment profits

Over the last two years, JKCE has benefitted from a) improved realisations in the Northern, Karnataka and Maharashtra markets, b) a higher share of trade sales and c) cost efficiency measures.

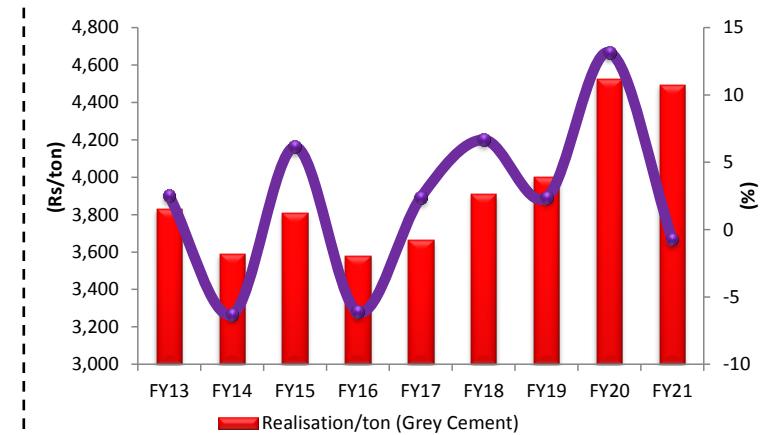
The price fluctuations in the Southern markets between FY16-19 had impacted the profitability of its grey cement business. However, price increases in its key markets over the last two years have improved the profitability of its grey cement segment. Cement prices are up by 19-20% on average in the Northern and Karnataka markets and by 9-10% in the Maharashtra markets in the last two years. This, along with higher trade sales (67% from 60% earlier), has led to a 12% improvement in realisations for the grey cement business over the last two years, resulting in improved profitability. The EBITDA/ton of the grey cement business improved to Rs 858/Rs 1,010 in FY20/FY21 from Rs 396 in FY19.

Exhibit 38: Cement prices have increased over the last two years...



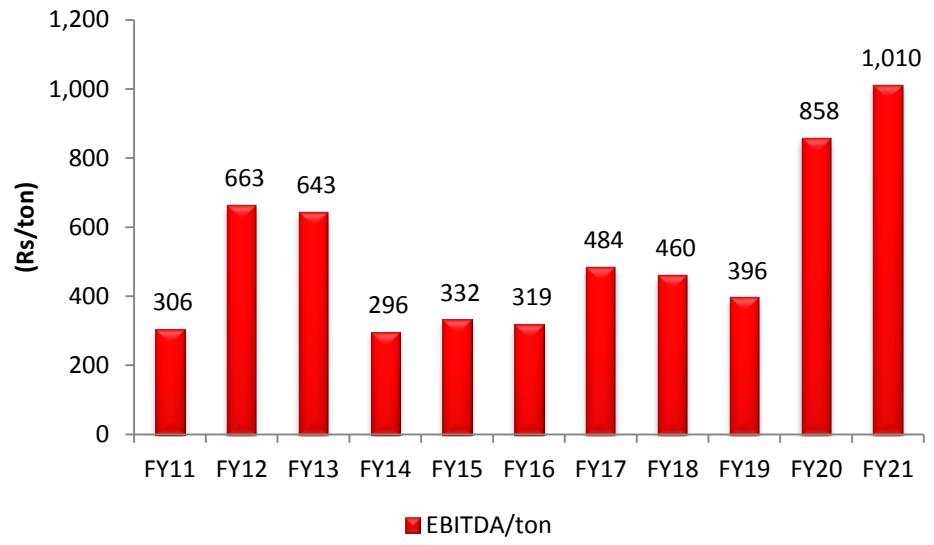
Source: Company, Systematix Institutional Research

Exhibit 39: ...leading to an improvement in realisation...



Source: Company, Systematix Institutional Research

Exhibit 40: ...and thus improved profitability of the grey cement business



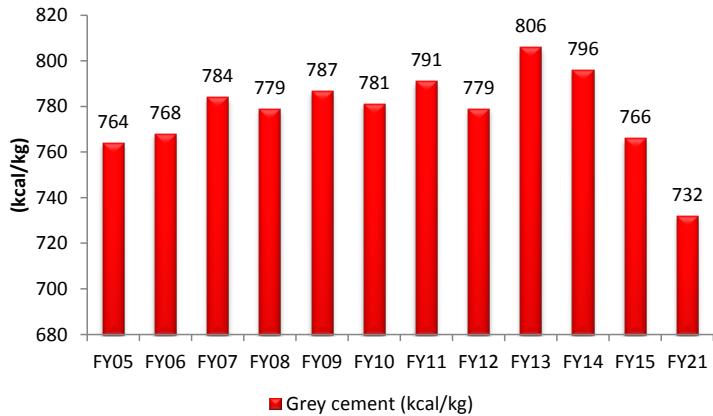
Source: Systematix Institutional Research, Company; FY19-21 EBITDA/ton is based on our assumptions

Rising share of new aged kilns to lower the energy requirements

JKCE's new kilns are more efficient than the old kilns, leading to lower energy consumption. The heat rate of the new kilns is 10-15% lower than that of the old kilns. Besides that, modern plants consume 15-20% lower electricity than old plants. Out of its total capacity, 32% of the kilns were commissioned before 2004, while the rest after FY09. It is also renovating the kiln III at Nimbahera, Rajasthan which will lead to a capacity increase of 20% (6,000tpd from 5,000tpd) and lower energy requirements.

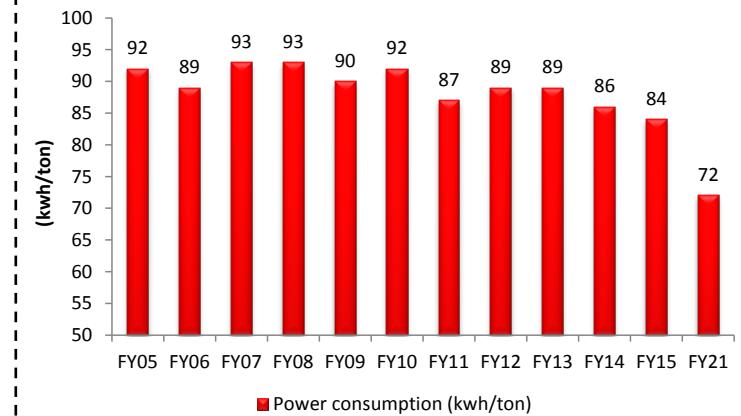
The company's kiln heat rate has reduced by 6% while its power consumption has declined by 20% from the FY09 levels. After the commissioning of its new plant in Panna, Madhya Pradesh, the share of modern kilns will increase to 87% and reduce its overall energy consumption further.

Exhibit 41: Decline in the heat rate of kilns



Source: Company, Systematix Institutional Research

Exhibit 42: Significant reduction in energy consumption

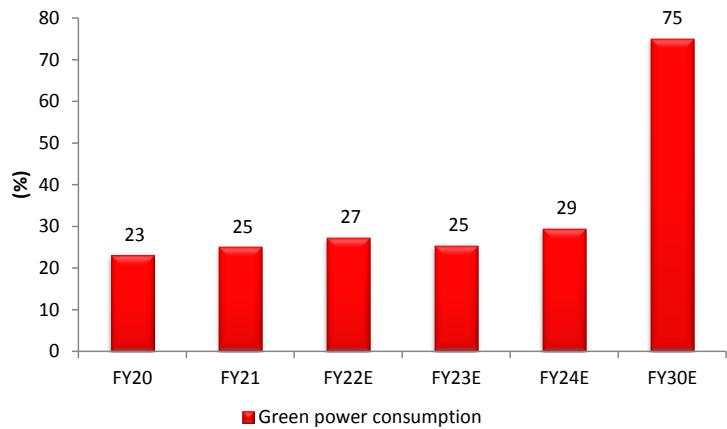


Source: Company, Systematix Institutional Research

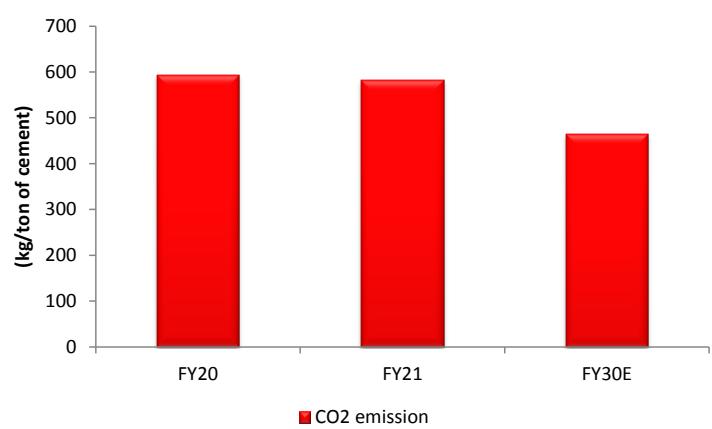
Undertaking more cost-saving measures

The company hired consulting firm BCG to implement its cost-savings initiatives, including the reduction in lead distance and energy requirements. We expect its cost structure to improve further led by a) the completion of the modernisation of Kiln III at Nimbahera - savings of ~Rs 200mn (Rs 74/ton for production from this kiln), b) improved power generation due to the 16.85MW Waste Heat Recovery System (WHRS) commissioned in Oct-20 - savings of ~Rs 340mn on a full-year basis and c) its endeavour to reduce lead distance - savings of Rs 20-25/ton from the current levels. The modernisation of Kiln III at Nimbahera, Rajasthan and power generation from WHRS should lead to cost savings of Rs 30/ton+ on its aggregate sales volumes.

JKCE had a WHRS production capacity of 23.2MW in FY20, which has increased to 40.05MW after the commissioning of the 16.85MW capacity at Magrol, Rajasthan in Oct-20. Green power (WHRS + solar power) fulfilled 25% of its power requirements in FY21. We expect green power to contribute to 27%/25%/29% of the company's power requirements in FY22/23/24E. JKCE targets to meet 75% of its power requirements from green power by FY30E, which will help in reducing carbon emissions by 20%.

Exhibit 43: Plans to increase green power consumption...

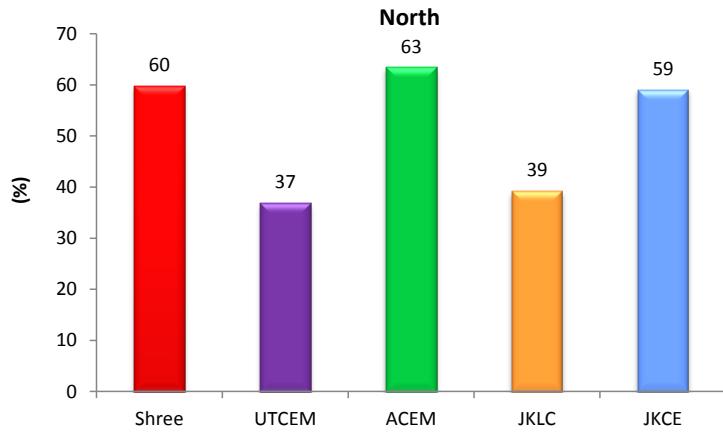
Source: Company, Systematix Institutional Research

Exhibit 44: ...which would lead to lower carbon emissions

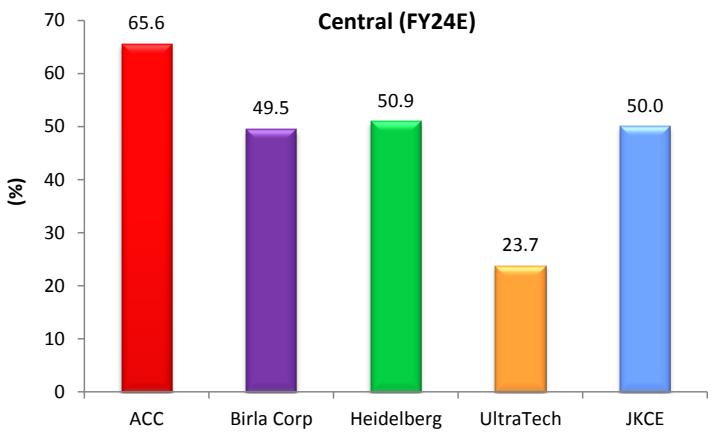
Source: Company, Systematix Institutional Research

Higher share of split grinding units helps to control freight costs

JKCE depends heavily on its split grinding units in the Northern region to cater to its markets efficiently and control freight costs. About 59% of its capacity in the North (including the grinding unit at Aligarh that gets clinker from its Rajasthan plants) constitutes split grinding units. In the Central region too, 50% of its installed capacity will comprise split grinding units.

Exhibit 45: Higher dependence on split grinding units in the Northern region

Source: Company, Systematix Institutional Research

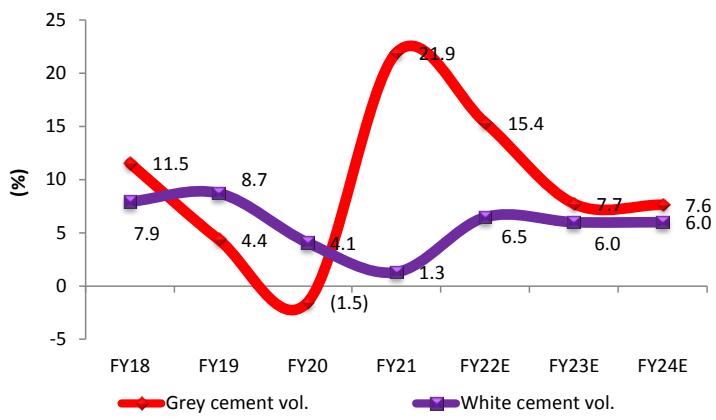
Exhibit 46: 50% of the Central region capacity to be split grinding units

Source: Company, Systematix Institutional Research

Financial Analysis

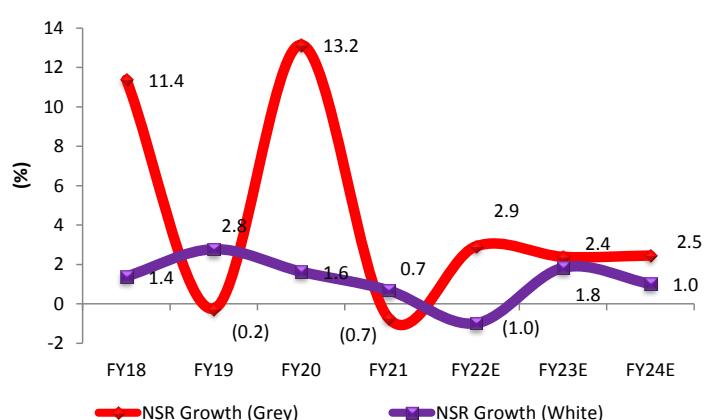
We expect JKCE's grey cement sales volume to grow at a CAGR of 10.2% over FY21-24E led by improvement in the capacity utilisation of its new plants. We expect its capacity utilisation to improve to 80.8%/87.1% in FY22/23E and moderate slightly thereafter to 82.5% in FY24E (considering expansions get completed in 1HFY24E). The utilisation rate in FY20/21 was 73%-74% due to capacity expansions and COVID-19-led disruptions. Its white cement and wall putty volumes are estimated to grow at a CAGR of 8.8% between FY21-24E. We estimate a 2.6%/1% CAGR in grey/white cement realisation over FY21-24E.

Exhibit 47: Expect 10.2%/8.8% CAGR in grey/white cement sales over the next three years...



Source: Company, Systematix Institutional Research

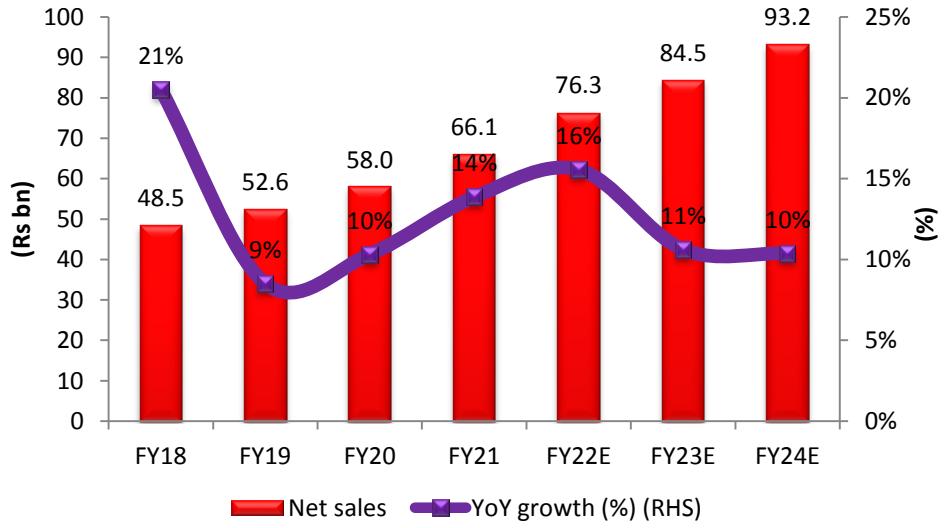
Exhibit 48: ...coupled with a 2.2% CAGR in blended cement realisation



Source: Company, Systematix Institutional Research

Volume growth coupled with blended realisation CAGR of 2.2% over the next three years will lead to revenue CAGR of 12.2% between FY21-24E.

Exhibit 49: Revenue to grow at a CAGR of 11.9% between FY21-24E



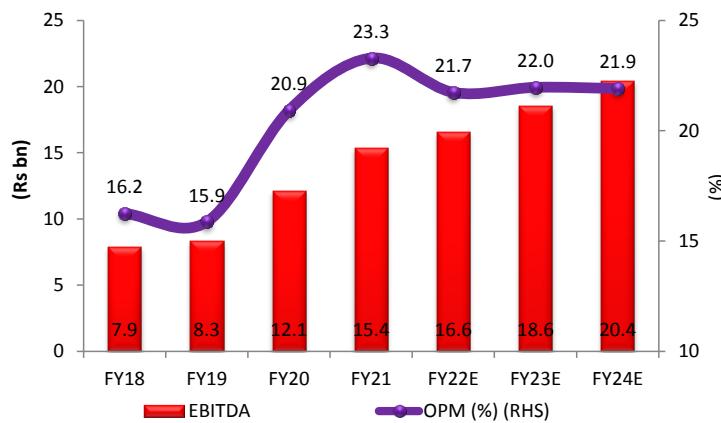
Source: Company, Systematix Institutional Research

JKCE's operating profit is likely to grow at a CAGR of 9.9% during FY21-FY24E led by 1) higher sales volumes/realisation, 2) up-gradation of its Nimbahera Kiln III and 3) commissioning/ramp-up of its WHRS units and solar power plants. Its OPM increased

to 20.9%/23.3% in FY20/21 from 15.9% in FY19 on a sharp improvement in grey cement realisation (+13% YoY in FY20) and control on operating costs in FY21 (declined by Rs 340/ton). We expect OPM to be at 21.7% in FY22E due to higher energy costs and an increase in variable costs (A&P, travelling and office expenses). We have factored in OPM of 22%/21.9% in FY23/24E.

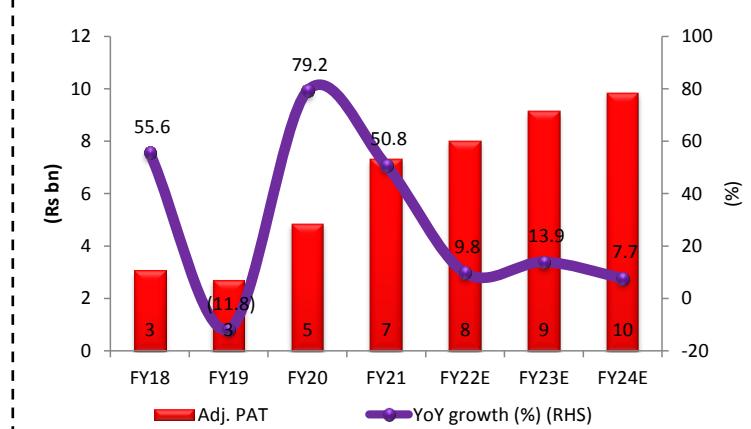
The company's adjusted profits grew at a CAGR of 64% over FY19-21 led by strong operating performance. We expect its adjusted profits to grow at a CAGR of 10.4% over FY21-24E. Depreciation expense is likely to increase at a CAGR of 11% over FY21-24E due to the ongoing capacity expansions. Interest expense should increase to Rs 27.7bn in FY24E from Rs 25.3bn in FY21.

Exhibit 50: Estimate EBITDA CAGR of 9.9%...



Source: Company, Systematix Institutional Research

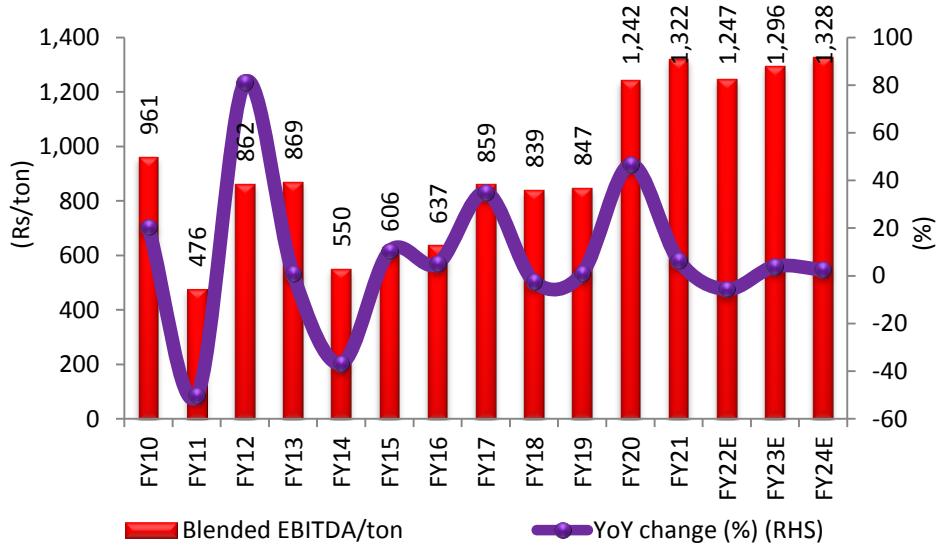
Exhibit 51: ...and PAT CAGR of 10.4% over FY21-24E



Source: Company, Systematix Institutional Research

Better operating performance over the last two years has led to the company recording its all-time high blended EBITDA/ton of Rs 1,322. We expect EBITDA/ton to remain flat over FY21-24E led by a) higher costs and b) increasing share of grey cement volumes.

Exhibit 52: Sharp improvement in EBITDA/ton in FY20/21



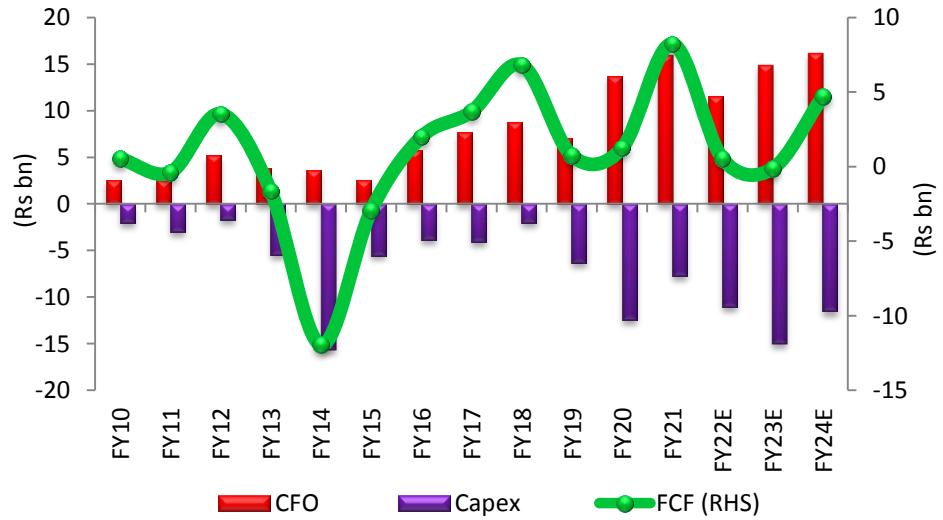
Source: Company, Systematix Institutional Research

JKCE's operating cash flow (OCF) increased at a CAGR of 50% over FY19-21 led by an improvement in profits and a cumulative release of working capital of Rs 4.5bn. It

generated a cumulative free cash flow (FCF) of Rs 22.6bn over FY16-21 despite a capex of Rs 36.3bn in this period.

The improvement in profitability is likely to lead to a cumulative OCF of Rs 42.6bn over FY21-24E. We expect it to continue to generate free cash despite its planned capacity addition. Cumulative FCF is estimated to be Rs 5.1bn between FY21-24E.

Exhibit 53: FCF to be moderate given the commissioning of the Panna unit by 1HFY24E



Source: Company, Systematix Institutional Research

JKCE has kept its leverage low over the last few years despite the recently completed capacity expansion. While the gross debt of the company increased to Rs 32.8bn/Rs 33.8bn in FY20/FY21 from Rs 29.7bn in FY19, its net debt declined to Rs 20.5bn in FY21 from Rs 26.5bn in FY20. It has been conserving surplus cash to iron out any unfavourable situations arising out of the pandemic and preparing itself for the next phase of capex. We expect its gross debt and net debt to peak at Rs 37.3bn and Rs 27.7bn respectively in FY23E considering its current capex plans.

During FY14-16, the company increased its grey cement capacity to 10.5mtpa from 7.5mtpa, but its net debt/EBITDA deteriorated due to a significant decline in the profitability of its grey cement business. However, there has been an improvement every year since FY16 with its net debt/EBITDA at 1.33x in FY21 vs. 5.7x in FY16. Net debt/EBITDA is expected to be at 1.44x/1.49x in FY22/23E; however, it is likely to improve to 1.32x in FY24E.

Exhibit 54: Gross debt to peak in FY23E

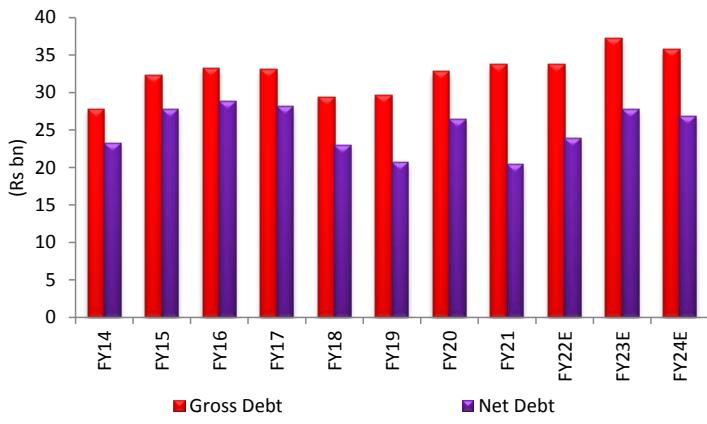
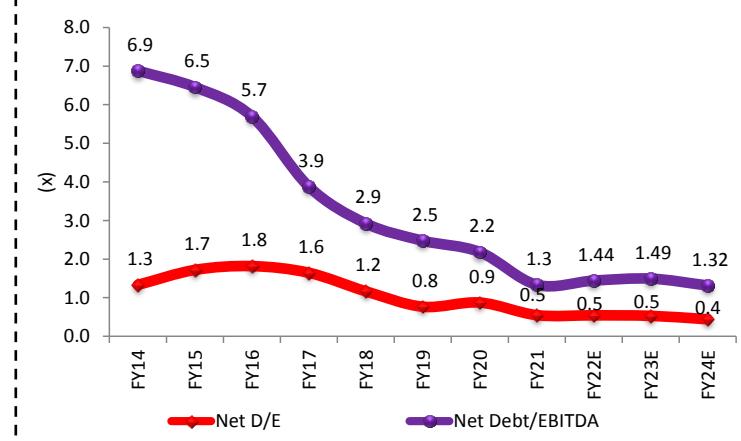


Exhibit 55: Net debt/EBITDA improved over FY16-21



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

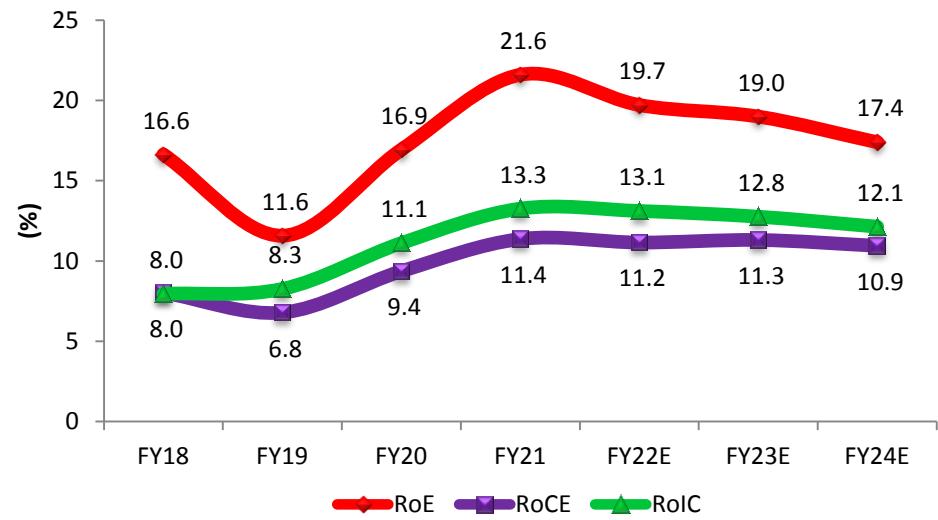
JKCE's RoE improved to 21.6% in FY21 from 16.9% in FY20 led by a) an increase in cement prices in the Northern and Central markets - Operating profit increased by 27% YoY, leading to an EBIT margin improvement of 2.7pp YoY and b) cost savings - control on fixed and variable costs during COVID-19. We expect its RoE to be in the 17-20% range during FY22-24E.

Exhibit 56: RoE improved in FY19/20; expect it to remain at 17-20% till FY24E

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT/PBT	76.6%	65.5%	66.0%	66.9%	66.4%	66.4%	66.4%
PBT/EBIT	72.0%	69.5%	79.4%	88.7%	89.8%	90.5%	91.0%
EBIT/Sales	11.5%	11.3%	16.0%	18.7%	17.6%	18.0%	17.5%
Asset turnover (x)	0.93	0.94	0.91	0.92	0.95	0.95	0.94
Assets/Equity (x)	2.84	2.39	2.22	2.13	1.97	1.86	1.75
ROE (%)	16.6	11.6	16.9	21.6	19.7	19.0	17.4

Source: Company, Systematix Institutional Research

The RoCE of the company improved by 200bps YoY in FY21 to 11.4% and we expect it to remain at 11.4-11.6% in FY22-24E. Its RoIC improved by 220bps YoY in FY21 to 13.3% (400bps improvement over FY19-21) and we expect it to remain stable going forward.

Exhibit 57: Return ratios to be range-bound over the next 2-3 years


Source: Company, Systematix Institutional Research

Cash flow analysis & corporate governance

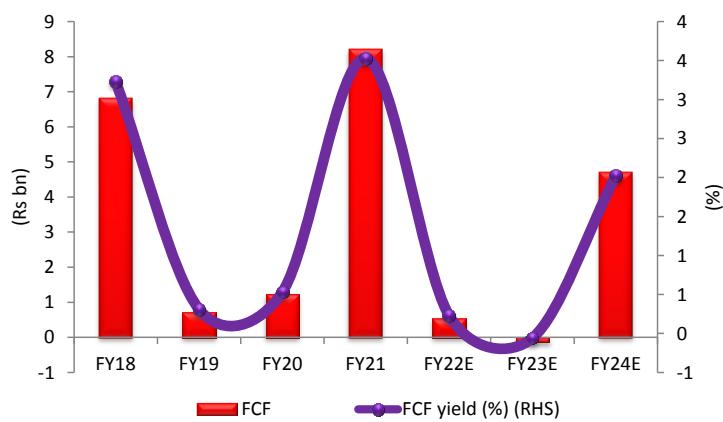
FCF generation: JKCE generated cumulative FCF of ~Rs 21bn between FY17-21.

FCF utilisation: Of the total FCF of Rs 21bn, it has paid ~21% (~Rs 4.5bn) towards dividends (including dividend tax) over the past 5 years. Liquid assets of the company have increased by Rs7.9bn in last 5 years (38% of FCF). Cumulative interest payment in last 5 years is Rs20.7bn (66% of FCF).

FCF expectation: We estimate its FCF to decline to Rs 0.5bn FY22E while it is expected to have a negative FCF of Rs 0.1bn in FY23E due to the capex requirement for the Panna greenfield expansion. Post this expansion in 1HFY24E, we expect its FCF to improve to Rs 4.7bn in FY24E.

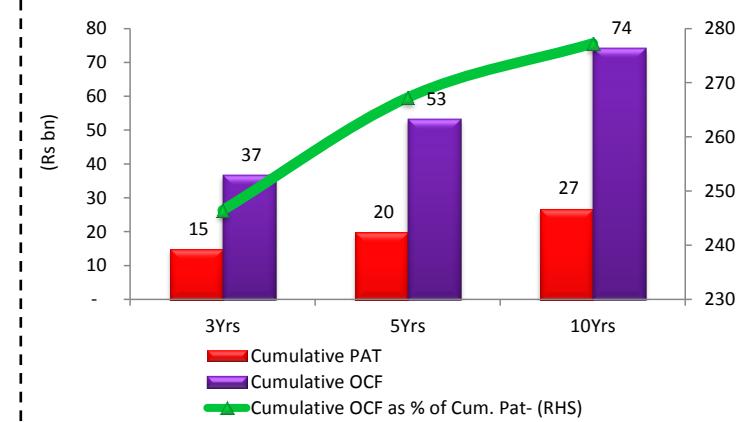
Earnings quality: During the last 10 years, JKCE has earned a cumulative PAT of ~Rs 27bn against which it generated an OCF of Rs 74bn (2.8x of profits).

Exhibit 58: Expect Rs 5.1bn of free cash over FY22-24E



Source: Company, Systematix Institutional Research

Exhibit 59: Healthy cash flow quality



Source: Company, Systematix Institutional Research

Exhibit 60: Contingent liabilities

Contingent liabilities (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
Demand from Competition Commission of India	-	1,378	1,378	1,378	1,378	1,378
Excise Duty, CENVAT Credit, Service Tax, Income Tax, etc. claims	598	1,359	1,401	1,540	1,739	235
Claim against the company (includes show cause notices pertaining to excise duty and others)	1,752	1,634	2,235	2,524	2,517	694
Others	691	784	777	851	992	3,890
Total	3,040	5,155	5,790	6,292	6,626	6,197
% of Net Worth	19%	30%	29%	23%	22%	18%

Source: Company, Systematix Institutional Research

Exhibit 61: Contingent liabilities

Other key monitorables	FY16	FY17	FY18	FY19	FY20	FY21
Remuneration to CMD & KMPs (Rs mn)	93.1	150.2	170.9	241.6	276.7	241
% of PBT	10%	5%	4%	6%	4%	2%
Auditor's remuneration (Rs mn)	5.1	6	9.5	18.7	16.55	15.412
% of PBT	0.5%	0.2%	0.2%	0.5%	0.2%	0.1%
Pledged shares (%)	NIL	NIL	NIL	NIL	NIL	NIL

Source: Company, Systematix Institutional Research

Systematix vs. Consensus

Our revenue estimates are largely in-line with the Bloomberg consensus for next three years; however, we are 6-12% below Bloomberg consensus. JKCE's operating profit is expected to grow at a CAGR of 12% between FY21-FY24E led by 1) higher sales volumes/realisation, 2) up-gradation of its Nimbahera kiln-3 plant (FY22-end) and 3) commissioning/ramp-up of its WHRS units and solar power capacity.

Exhibit 62: Bloomberg vs. our estimates (consolidated financials)

Particulars	FY22E	FY23E	FY24E
Revenues (Rs bn)			
Consensus	76	85	97
Systematix est.	76	84	93
% Difference	0%	-1%	-4%
EBITDA (Rs bn)			
Consensus	18	20	23
Systematix est.	17	19	20
% Difference	-6%	-9%	-12%
EBITDA Margin (%)			
Consensus	23.1%	24.1%	24.1%
Systematix est.	21.7%	22.0%	21.9%
Difference (bps)	(136.2)	(209.0)	(215.0)

Source: Bloomberg, Systematix Institutional Research

Exhibit 63: Key assumptions

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales volume (mt)-- Grey	8.6	8.4	10.3	11.9	12.8	13.8
Sales volume (mt)-- White	1.3	1.3	1.3	1.4	1.5	1.6
Blended Realization (Rs/ton)	4,001	4,527	4,495	4,626	4,736	4,852
Per ton costs (Rs)						
Raw material	898	891	920	864	916	947
Employee cost	407	466	397	424	420	411
Power & Fuel	1,123	1,120	1,001	1,098	1,079	1,119
Freight	1,142	1,128	1,118	1,170	1,231	1,270
Other expense	921	1,090	917	934	958	986
Total Cost	4,491	4,694	4,353	4,490	4,604	4,733
Blended EBITDA/ton	847	1,242	1,322	1,247	1,296	1,328

Source: Company, Systematix Institutional Research

Key Risks

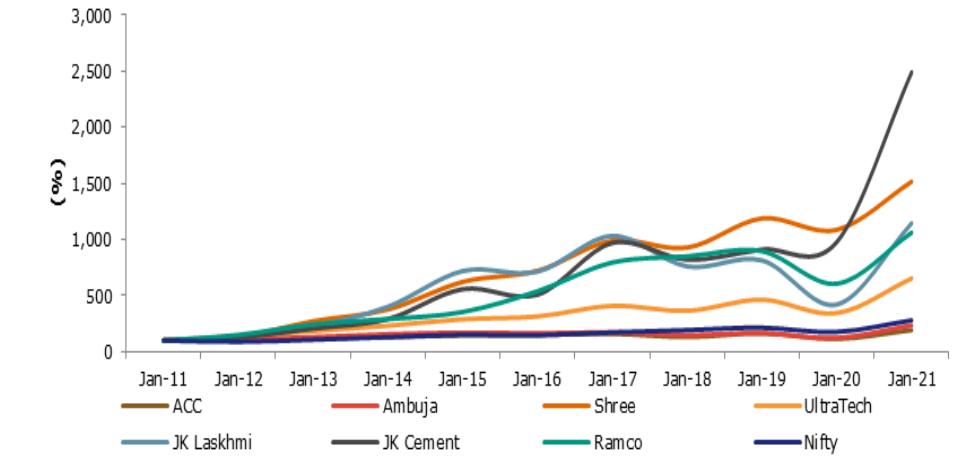
- 1) **Weak operating performance and financial risk profile of JK Cement Works, (Fujairah), FZC:** JKCWF has reported net loss since the commencement of operations (loss of AED 47.6mn/AED 37.2mn in CY20/19). JKCE recognised a provision towards a diminution in the carrying amount of investment of Rs 3.5bn in FY20/21. The operating levels have remained relatively low due to weak demand in the Gulf countries. JKCWF has remained dependent on the infusion of funds from JKCE for meeting its near-term debt obligations. Being the corporate guarantor, JKCE plans to repay Rs 3.87bn of debt in the next two years. Any further fund infusion will have a negative bearing on the financials of JKCE.
- 2) **Lower cement prices in the Southern region:** Historically, cement prices have remained volatile in the Southern region due to lower capacity utilisation of the existing units. We have assumed a better pricing scenario considering additional/sustainability of FY21 price hikes. Lower-than-estimated cement prices will adversely impact our earnings estimates.
- 3) **Inflationary pressures in fuel costs:** There has been a sharp increase in the prices of pet coke, coal and diesel in the last few months. The price of pet coke is up ~75% over the last year while imported coal price has increased by 30%+. Current pet coke prices are up ~40% vs. the 4QFY21 consumption price. Though cement companies are trying to control energy costs by changing their fuel mix (lower usage of pet coke and Australian coal), continued escalation in coal/pet coke prices could impact our earnings estimate if the industry is unable to pass on the cost increases to consumers.
- 4) **Prolonged pandemic-related restrictions/lockdowns:** We estimate JKCE to report grey/white cement volume growth of 15.4%/6.5% in FY22E; however, continued localised lockdowns in the country could act as a downside risk to our estimates. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites, thus delaying the process. However, we derive confidence from the vaccination pace in India and believe economic recovery and normalcy will be attained from 2HFY22E onwards.

Valuation and View

A consistent increase in capacity has helped JKCE to increase its sales volumes. Its grey cement production capacity increased at a CAGR of 12.6% over FY19-21 while sales volumes grew at a 10.5% CAGR. It plans to increase its grey cement capacity to 18.7mtpa by FY24E from 14.7mtpa in FY21. Higher limestone reserves in Panna, Madhya Pradesh will help in achieving its production capacity target. Its presence in the white cement segment provides sustainability to cash flows and has enabled it to increase its grey cement production capacity.

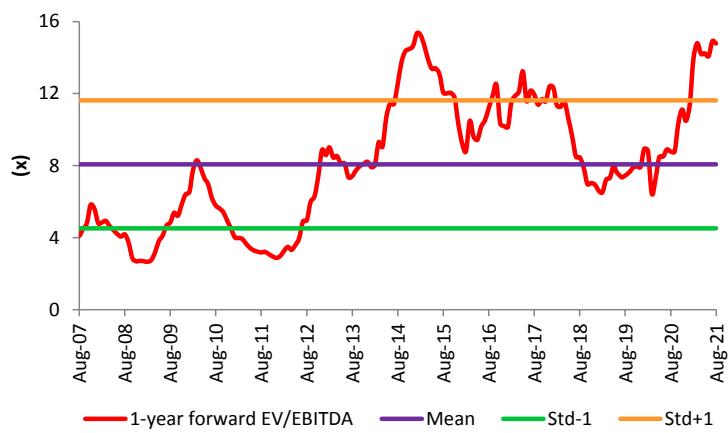
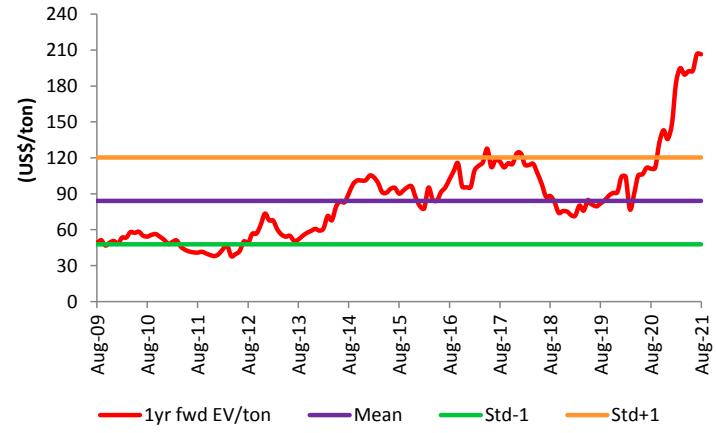
The company has witnessed a significant multiple re-rating after a) the completion of the QIP in Dec'18 to fund its expansion projects, b) improvement in profitability of the grey cement segment in FY20/21 (which had been a concern), c) improved balance sheet position despite the completion of its 4.7mtpa grey cement capacity recently and d) announcement of the next leg of growth capex without increasing the leverage on its balance sheet.

Exhibit 64: JKCE has been amongst the best performing cement stocks



Source: Company, Systematix Institutional Research

JKCE trades at 16.6x/15.1x/13.6x FY22/23/24E EV/EBITDA and USD 221/224/181 FY22/23/24E EV/ton. The stock has traded at an average EV/EBITDA of 10.8x in the last 7 years though its multiple re-rated to ~14x in the last few months. With the improvement in profitability (EPS expected to grow at a CAGR of 10.4% over FY21-24E), stable return ratios and strong balance sheet, we expect the stock to sustain its higher-than-historical multiples. We value it at 14x FY23E EV/EBITDA (adjusted for CWIP as capacity expansion will get completed in FY24E) to arrive at a target price of Rs 3,160. We initiate coverage on the stock with a **HOLD** rating. At our TP, the stock will trade at 14.6x/13.2x FY23/24E EV/EBITDA and USD 217/176 FY23/24E EV/ton.

Exhibit 65: 1- year forward EV/EBITDA**Exhibit 66: 1-year forward EV/ton**

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	58,016	66,061	76,345	84,453	93,221
Growth (%)	10.3	13.9	15.6	10.6	10.4
Total Expenditure	45,881	50,674	59,751	65,902	72,794
EBITDA	12,135	15,387	16,594	18,551	20,427
Growth (%)	45.4	26.8	7.8	11.8	10.1
EBITDA margin (%)	20.9	23.3	21.7	22.0	21.9
Depreciation	2,880	3,062	3,132	3,337	4,139
EBIT	9,255	12,325	13,462	15,214	16,289
Interest	2,764	2,528	2,567	2,696	2,774
Other income	853	1,130	1,190	1,250	1,312
PBT	7,345	10,927	12,085	13,767	14,827
Tax	2,630	3,675	4,065	4,631	4,987
Tax rate (%)	35.8	33.6	33.6	33.6	33.6
Rep PAT	4,965	7,086	8,020	9,136	9,839
Net Profit Margin	8.6	10.7	10.5	10.8	10.6
Adj PAT	4,846	7,306	8,020	9,136	9,839
Growth (%)	79.2	50.8	9.8	13.9	7.7

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	773	773	773	773	773
Reserves	29,504	36,595	43,217	51,422	60,144
Shareholders Fund	30,277	37,367	43,990	52,195	60,916
Debt	32,840	33,759	33,759	37,259	35,759
Net deferred tax	4,173	5,930	5,930	5,930	5,930
Total Liabilities	67,086	76,799	83,421	95,126	102,347
Net Fixed Assets	55,545	59,374	64,335	71,998	89,859
Capital WIP	5,295	5,093	8,000	12,000	1,500
Investments	458	1,422	1,422	1,422	1,422
Current Assets					
Inventories	6,904	7,566	7,998	8,591	9,005
Sundry Debtors	2,677	3,615	3,902	4,075	4,381
Cash & Bank balances	6,345	12,246	8,816	8,550	7,872
Loans & Advances	6,916	8,104	8,544	8,844	9,328
Total Current Assets	24,122	32,831	30,559	31,359	31,885
Total Current Liabilities	18,334	21,921	20,895	21,653	22,319
Net Current Assets	5,788	10,909	9,664	9,706	9,566
Total Assets	67,086	76,799	83,421	95,126	102,347

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT & extraord. Items	7,345	10,927	12,085	13,767	14,827
Add: Depreciation	2,880	3,062	3,132	3,337	4,139
Add: Interest	1,975	1,666	2,567	2,696	2,774
Operating cashflow	12,379	16,146	17,784	19,801	21,740
Net CFO	13,668	15,903	11,534	14,862	16,214
Capital expenditure	(12,428)	(7,678)	(11,000)	(15,000)	(11,500)
Others	(2,338)	(5,759)	-	-	-
Net CFI	(14,765)	(13,437)	(11,000)	(15,000)	(11,500)
Net free cash flows	1,241	8,224	534	(138)	4,714
Debt change	3,133	1,154	-	3,500	(1,500)
Interest paid	(2,507)	(2,525)	(2,567)	(2,696)	(2,774)
Net CFF	(1,082)	(1,375)	(3,965)	(128)	(5,392)
Net change in cash	(2,179)	1,091	(3,430)	(266)	(678)
Closing Cash Balance	6,345	12,246	8,816	8,550	7,872

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability Metrics					
EBITDA margin (%)	20.9	23.3	21.7	22.0	21.9
EBITDA per Tonne (Rs)	1,242	1,322	1,247	1,296	1,328
Return Ratios					
RoE (%)	16.9	21.6	19.7	19.0	17.4
RoCE (%)	9.4	11.4	11.2	11.3	10.9
RoIC (%)	11.1	13.3	13.1	12.8	12.1
Solvency Ratio					
Net D/E (x)	0.87	0.55	0.54	0.53	0.44
Per share (Rs)					
Basic EPS- reported	64.3	91.7	103.8	118.2	127.3
CEPS	101.5	131.3	144.3	161.4	180.9
BVPS (Rs)	391.8	483.6	569.3	675.5	788.4
Valuations Metrics					
P/E (x)	50.8	35.6	31.4	27.6	25.6
EV/EBITDA (x)	22.9	17.7	16.6	15.1	13.6

Source: Company, Systematix Institutional Research

The Ramco Cements

01 September 2021

Making inroads into the East, sheds its regional tag

INITIATING COVERAGE

Sector: Cement	Rating: BUY
CMP: Rs 1,008	Target Price: Rs 1,205

Stock Info

Sensex/Nifty	57,552/17,132
Bloomberg	TRCL IN
Equity shares	236mn
52-wk High/Low	Rs 1,131/681
Face value	Rs 1
M-Cap	Rs 238bn/USD 3.2bn
3-m Avg volume	USD 8.31mn

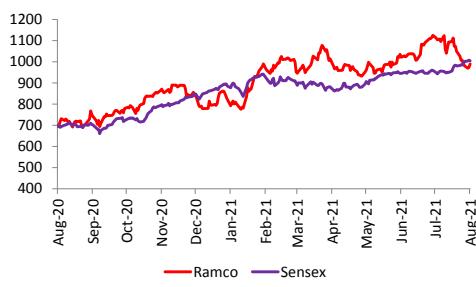
Financial Snapshot (Rs bn)

Y/E March	FY22E	FY23E	FY24E
Sales	60	69	80
EBITDA	17	19	22
PAT	8	9	12
EPS (Rs)	33	38	51
PE (x)	30	26	20
EV/EBITDA (x)	16.1	14.0	11.2
RoE (%)	13.1	13.5	15.7
RoCE (%)	12.9	13.8	17.2
Dividend yield (%)	0.3	0.4	0.4

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20
Promoter	42.5	42.5	42.6
-Pledged	12.2	13	12.4
FII	8.6	8.3	8
DII	22.3	23.2	22.9
Others	26.5	26	26.5

Stock Performance (1-year)



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The Ramco Cements Ltd (TRCL) is the second-largest cement player in South India and has diversified its presence in the East over the last few years. Higher sales in the Eastern markets improved its clinker utilisation to 75% in FY21 (90% in FY20) vs. the industry average of ~49%. Clinker capacity addition of 37% by 1HFY22 will strengthen its position in the East. We expect a sales volume CAGR of 14.6% over FY21-24E with increase in sales-mix in the Eastern region (34% in FY24E vs. 28% in FY21). TRCL is a pioneer of new technologies like a) limestone beneficiation plant and b) use of surface miners. Lower kiln rate vs. peers, higher dependence on captive power and better infrastructure helps it minimize costs. We expect its EBITDA/EPS to grow at a CAGR of 13.4%/17.5% over FY21-24E. An improvement in its balance sheet (net Debt/EBITDA at 0.5x in FY24E vs. 1.9x in FY21) and return ratios should help it trade at higher multiples. We initiate coverage on the stock with a BUY rating and a target price of Rs 1,205 (an upside of 19.5% from the CMP).

Higher utilisation in an oversupplied market; expansions to aid growth

TRCL has diversified its presence in the East with the region now accounting for ~28% of its sales volumes. The diversification led to a clinker capacity utilisation of 75% in FY21, which is significantly above the average industry clinker utilisation of ~49% in the Southern region. Its on-going capacity expansion should be complete in 1HFY22 and the overall sales volume is estimated to grow at a CAGR of 14.6% over FY21-24E with the Eastern region contributing to 34% of its volumes by FY24E.

Superior cost structure; debt peaked out in FY21 given the current capex

TRCL has a better cost structure than most of its peers given a) lower kiln rates - 687kcal vs. the industry average of 730kcal, b) higher dependence on captive power sources - 88-89% of requirements and c) better infrastructure - railways sidings at most plants and wagon tipplers. The commissioning of the WHRS, grinding capacity in Odisha and new clinker plants should improve the cost structure further. The company's debt has peaked out in FY21; we expect net debt to be at Rs9.1bn in FY24E vs. Rs27.6bn in FY21.

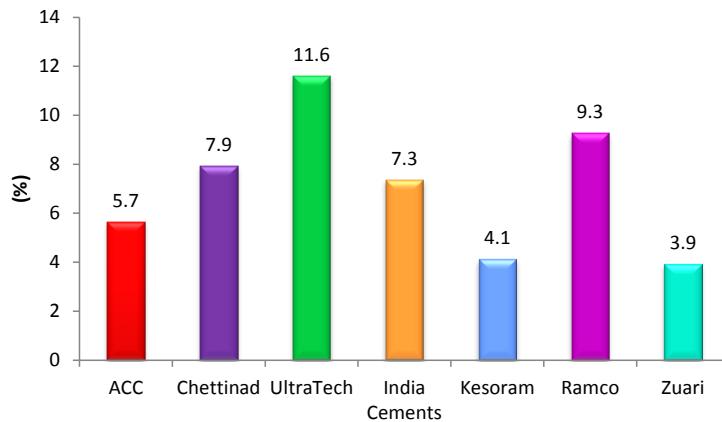
Earnings and return ratios to improve; initiate with Buy

The stock trades at 16.1x/14x/11.2x FY22E/23E/24E EV/EBITDA and USD 180/175/161 FY22E/23E/24E EV/ton. It has traded at an average EV/EBITDA of 13.7x in the last seven years. With the improvement in profitability (estimate EPS CAGR of 17.5% over FY21-24E), return ratios (RoE to be at 15.7% in FY24E vs. 14% in FY21) and a stronger balance sheet (net Debt/EBITDA at 0.5x in FY24E vs. 1.9x in FY21), we expect TRCL to trade at higher multiples. We value it at 16.5x FY23E EV/EBITDA to arrive at a target price of Rs 1,205 (an upside of 19.5% from the CMP) and initiate coverage with a BUY rating.

Investors are advised to refer disclosures made at the end of the research report.

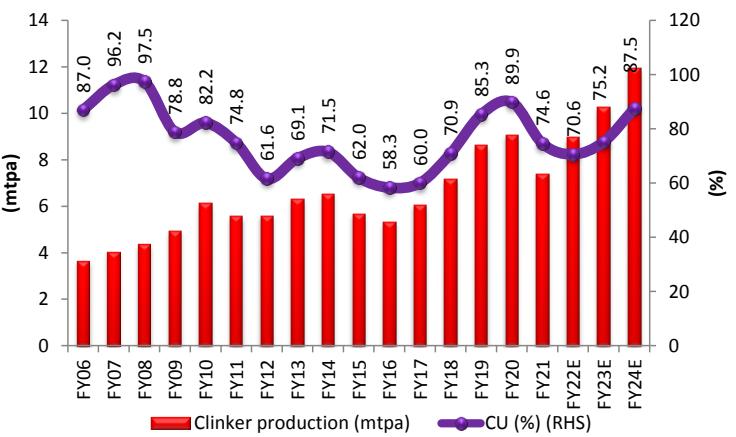
Story in charts

Exhibit 1: Capacity share in the Southern region



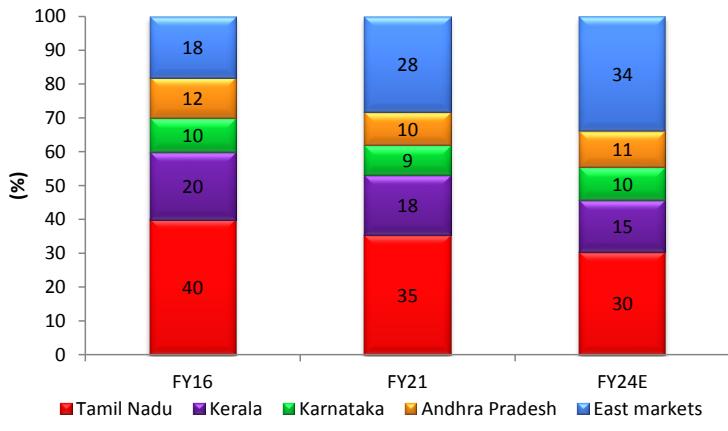
Source: Company, Systematix Institutional Research

Exhibit 2: Clinker utilisation moderated to 75% in FY21 due to COVID disruption



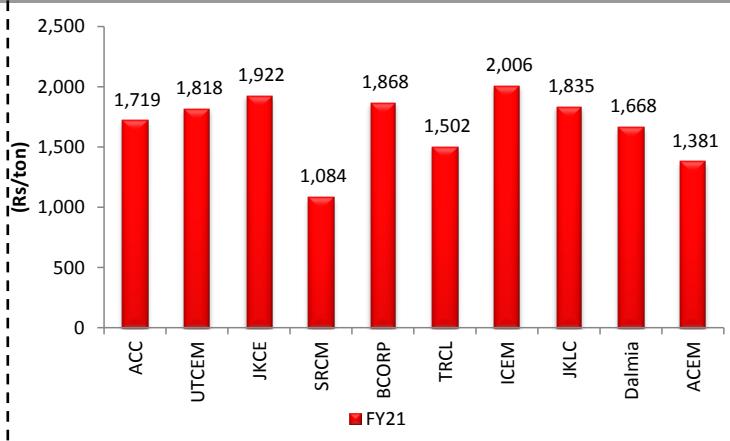
Source: Company, Systematix Institutional Research

Exhibit 3: Exposure to the Eastern markets should increase going forward



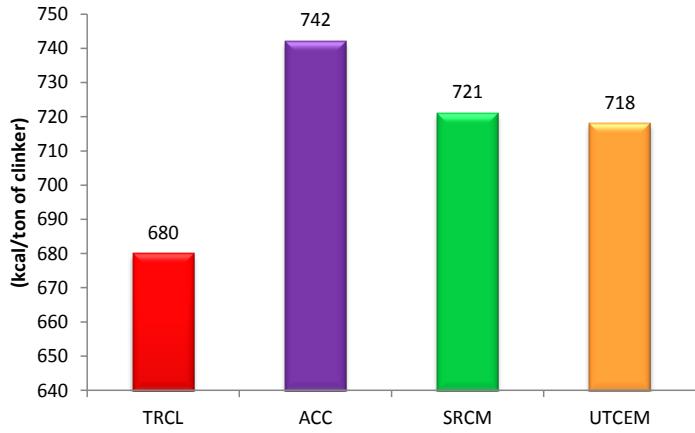
Source: Company, Systematix Institutional Research

Exhibit 4: TRCL's variable cost is on the lower side vs. peers



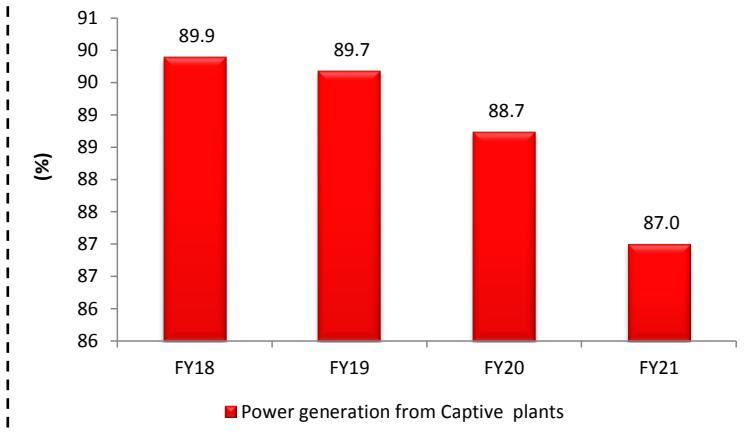
Source: Company, Systematix Institutional Research

Exhibit 5: Kiln heat rate is lower than peers



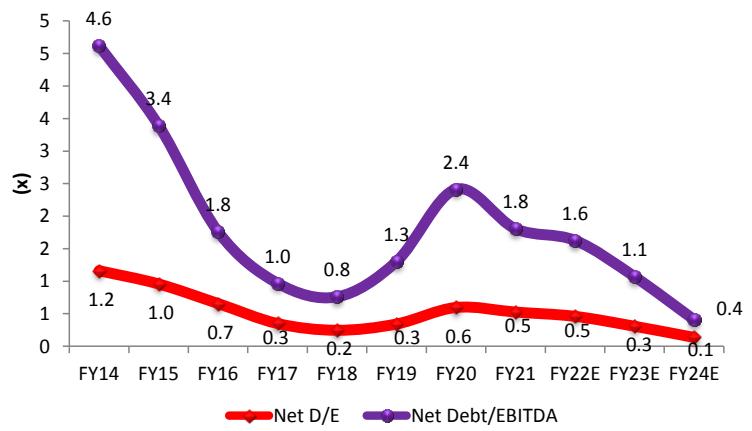
Source: Company, Systematix Institutional Research

Exhibit 6: Captive power plants fulfill 89-90% of power requirements



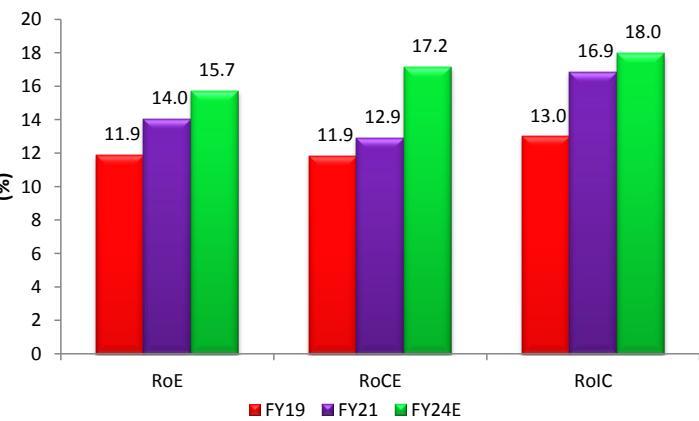
Source: Company, Systematix Institutional Research

Exhibit 7: Net debt/EBITDA peaked in FY20 with the current phase of capacity expansion



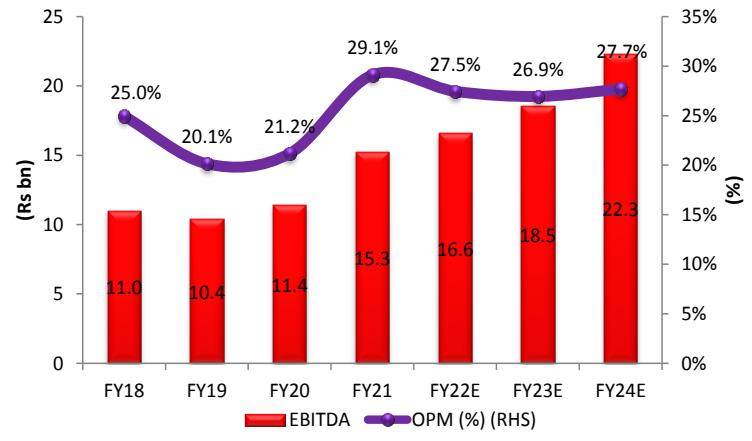
Source: Company, Systematix Institutional Research

Exhibit 8: Return ratios to improve over FY21-24E



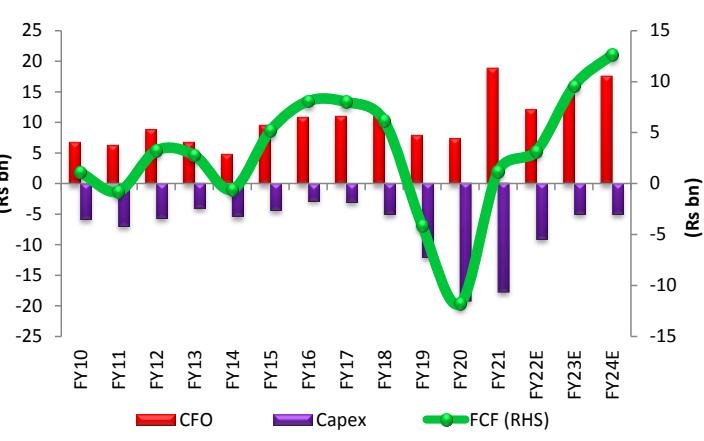
Source: Company, Systematix Institutional Research

Exhibit 9: Estimate EBITDA CAGR of 17.3% between FY21-24E



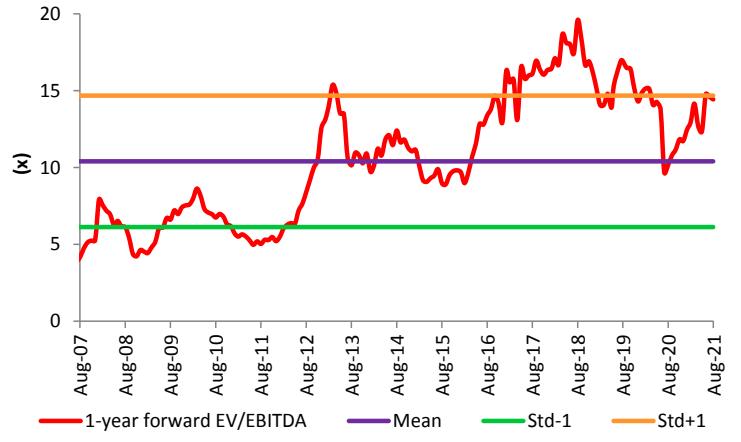
Source: Company, Systematix Institutional Research

Exhibit 10: FCF to rise on robust OCF and completion of the ongoing capex cycle



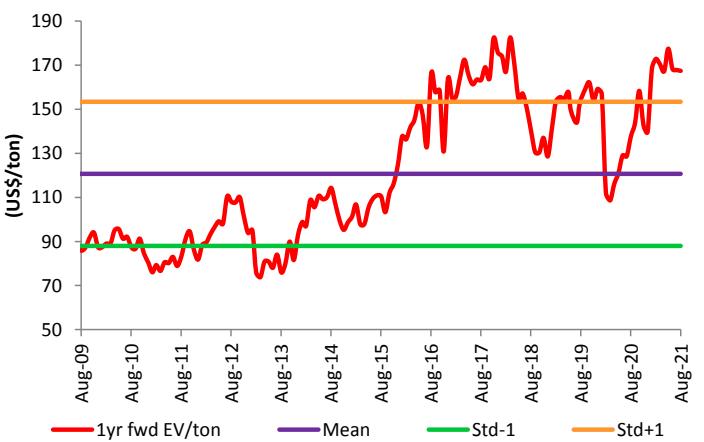
Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

Company Background

Ramco Cements derives 70%+ of its revenue from the Southern region and the rest from the Eastern region. It is the 7th largest cement player in India and the 2nd largest in the South.

The Ramco Cements Limited (TRCL) is the flagship company of the Ramco Group, headquartered in Chennai. The main product of the company is Portland cement, manufactured in ten state-of-the-art production facilities that include integrated cement plants and grinding units with a current total production capacity of 19.4mtpa (includes split grinding units of 7.3mtpa). TRCL has a clinker production capacity of ~10mtpa (3.1mtpa in Andhra Pradesh and rest in Tamil Nadu) which would increase to 13.66mtpa post the on-going expansions (2.25mtpa in Andhra Pradesh and 1.5mtpa in Tamil Nadu).

TRCL enjoys strong brand equity in South India and derives 70%+ of its revenue from Andhra Pradesh, Telangana, Karnataka, Tamil Nadu & Kerala; the Eastern region (West Bengal & Odisha) contributes the balance. TRCL has also started supplying to the North-Eastern markets, albeit at lower volumes (~0.1-0.2mt). The company also produces Ready Mix Concrete and Dry Mortar products. It has captive thermal and windmill capacities of 175MW and 125.95MW (119.5MW in Tamil Nadu and 6MW in Karnataka), respectively. It has two subsidiaries, Ramco Windfarms (with a 39.8MW windmill capacity) and Ramco Industrial and Technology Services (into transport, manpower services and IT).

It has been a pioneer and industry leader in introducing new technologies such as 1) installation of an optical sorter at its Pandalgudi mines to beneficiate the limestone; 2) limestone washery at the Alathiyur plant which helps to reclaim and utilise low-grade limestone; 3) use of a surface miner for its limestone mining operations in Alathiyur. The noise and pollution-free mining process does not require drilling, blasting etc.

The company has introduced several products with a focus on providing 'different cement for different applications'. It manufactures 12 types of cement including three varieties for individual housing. It has an active network of more than 3,000 dealers and sub-dealers.

Exhibit 13: Production capacity of TRCL along with the attached infrastructure

Integrated plants	State	Region	Clinker (mtpa)	Cement (mtpa)	CPP (MW)	WHRS (MW)	Railway Siding	Wagon Tippler
Ramasamy Raja Nagar	Tamil Nadu	South	1.1	2.0	25	3	Y	
Jayanthipuram	Andhra Pradesh	South	4.6	3.7	42	27	Y	Y
Alathiyur	Tamil Nadu	South	2.4	3.1	42	7	Y	Y
Ariyalur	Tamil Nadu	South	3.3	3.5	66		Y	Y
Kurnool	Andhra Pradesh	South	2.3	1.0	18	12	Y	Y
Total			13.7	13.2	193	49		
Grinding units								
Kancheepuram	Tamil Nadu	South		0.5				
Salem	Tamil Nadu	South		1.6				
Kolaghat	West Bengal	East		2.0			Y	
Vizag	Andhra Pradesh	South		2.0			Y	Y
Kharagpur	West Bengal	East		0.2				
Haridaspur	Odisha	East		0.9			Y	Y
Grinding units- total				7.2				
Total capacity			13.7	20.4				

Source: Company, Systematix Institutional Research

Manufacturing facilities

Exhibit 14: Jayanthipuram, Andhra Pradesh (3.7mtpa)



Source: Company

Exhibit 15: Ariyalur Unit I & II, Tamil Nadu (3.5mtpa)



Source: Industry Database

Exhibit 16: Alathiyur unit, Tamil Nadu (3.1mtpa)



Source: Company

Exhibit 17: Kolaghat unit, West Bengal (2mtpa)



Source: Company

Exhibit 18: Vizag unit, Andhra Pradesh (2mtpa)



Source: Company

Exhibit 19: Kurnool, AP greenfield expansion



Source: Company

Exhibit 20: Product profile and their application

**Ramco Supergrade**

For producing durable concrete with less heat of hydration and lesser lime leaching

**Ramco Supercrete**

High strength cement with low heat of hydration for crack-free concrete

**Ramco Superfine EFC**

For making concrete with high durability and enhanced impermeability

**Ramco Super Steel**

For high grade concrete in environment with extreme exposure conditions

**OPC 53**

For high strength concrete

**OPC 43**

For high strength concrete, suitable for cement sheet manufacturing and government works

**OPC 53 INFRA**

For all infrastructure projects like bridges, flyovers, tunnels which requires concrete with high slump retention

**OPC 43 INFRA**

For high strength and high slump concrete generally used for government works – For structures like nuclear power projects

**Ramco Super Fast**

A rapid hardening Portland Cement customised for manufacturing precast items like hollow blocks, solid blocks, paving blocks, fly ash bricks and other precast items

**Ramco Super Coast**

Suitable for concreting in areas with high concentration of sulphates

**Karthik Super Plus**

Blended cement for canal works and concreting where low heat of hydration is required

**Ramco Samudra**

For durable concrete with low heat of hydration

Source: Company

Exhibit 21: Management team details

Name	Designation	Background	Other board memberships
Mr. P.R. Venketrama Raja	Chairman and Managing Director	Has been on the board of Ramco Cements since 1985; has 30+ years of industrial experience with specific knowledge in textiles, cement & information technology sectors.	1. Ramco Industries Ltd 2. Ramco Systems Ltd 3. Rajapalayam Mills Ltd 4. The Ramaraju Surgical Cotton Mills Ltd
Mr. A.V. Dharmakrishnan	Chief Executive Officer	Joined the company when it had a single manufacturing unit; is responsible for introducing data-driven decision-making and management control systems across all layers of the organisation.	NIL
Mr. S. Vaithiyanathan	Chief Financial Officer	Responsible for project financial planning, tax planning, internal controls, commercial and logistics operations of the company.	NIL
Mr. Balaji K Moorthy	Executive Director – Marketing	With the rapid expansion in the manufacturing capacity of the company, he is responsible for creating various new markets in Karnataka, Odisha, West Bengal, etc.	NIL
Mr. M. Srinivasan	Executive Director – Operations	Heads the manufacturing team and is responsible for production, quality control and research & development activities.	NIL
Mr. K. Selvanayagam	Company Secretary	Heads the secretarial and related compliance functions of the company. He handles meetings and all in-house share-related matters including connectivity with NSDL and CDSL.	NIL

Source: Company, Systematix Institutional Research

Exhibit 22: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Key Risks	YoY Growth
FY17	<ul style="list-style-type: none"> Demonetisation impact was minimal due to Ramco's digital payment system for a decade. Demand outlook for TRCL is positive given 1) healthy monsoon, 2) GST adoption and 3) liquidity improvement post demon. 	<ul style="list-style-type: none"> Installation of 6MW captive power plant at Jayanthipuram unit to be completed in FY18; the 6MW captive plant at Alathiyur was commissioned in 3QFY17. 	<ul style="list-style-type: none"> Transportation of clinker from cement plants to grinding unit in West Bengal by sea route. Power generated from CPP for self-consumption. 	<ul style="list-style-type: none"> Raw material price hike Fuel price rise Currency volatility 	Volume: 16% Revenue: 10.5% EBITDA: 11.5% PAT: 19.7%
FY18	<ul style="list-style-type: none"> Scarcity of sand and muted demand in Tamil Nadu led to soft volume growth in FY18. Demand picked up from 2HFY18 and is expected to continue in FY19 led by 1) investment in the agriculture sector, 2) healthy monsoon, 3) adoption of GST. 	<ul style="list-style-type: none"> To set up clinker- Line III at the existing Jayanthipuram plant with a capacity of 1.5mtpa. Plan to commission grinding unit at Odisha (0.9mtpa), West Bengal (1.1mtpa) & Andhra Pradesh (1.1mtpa). 	<ul style="list-style-type: none"> Started to use alternate fuel to reduce raw material cost. Exploring ways to minimise the impact of pet coke and coal cost. 	<ul style="list-style-type: none"> Raw material price hike Fuel price rise Currency volatility 	Volume: 11.5% Revenue: 11.6% EBITDA: -8% PAT: -14.4%
FY19	<ul style="list-style-type: none"> Affordable housing is the primary demand driver, supported by the infrastructure segment. Cement demand is expected to grow at ~8% in FY20. 	<ul style="list-style-type: none"> To set-up clinker-line III at the existing Jayanthipuram plant with 1.5mtpa capacity and a greenfield unit at Kurnool with clinker/cement capacity of 2.25mtpa/1.0mtpa. Plan to commission grinding unit at Odisha (0.9mtpa), West Bengal (1.1mtpa) & Andhra Pradesh (1.1mtpa). 	<ul style="list-style-type: none"> The upcoming grinding units will enable TRCL to economise its transportation costs as they are located near fly-ash/slag sources. Plans to install WHR plants at the existing Jayanthipuram and Kurnool units. 	<ul style="list-style-type: none"> Fuel prices Depletion of limestone reserves for the industry. 	Volume: 19.5% Revenue: 16.8% EBITDA: -5.7% PAT: -9%
FY20	<ul style="list-style-type: none"> Industry to see revival from 2HFY21 led by key infrastructure projects like roads, irrigation, metros & rural housing as per the PMAY scheme. Overall cement demand is likely to contract by ~15% in FY21 due to COVID-19-led issues. 	<ul style="list-style-type: none"> The 1.5mtpa/2.25mtpa Jayanthipuram/Kurnool clinker units to be commissioned by 4QFY21. Plan to commission Jajpur, Odisha grinding unit (1mtpa) by Aug'20. 	<ul style="list-style-type: none"> Aims to commission WHR plants at Jayanthipuram (27MW) & Kurnool (12.15MW) by 4QFY21. Higher use of sea freight to transport RM across Southern & Eastern coastal belt. 	<ul style="list-style-type: none"> Fuel availability Currency volatility Demand-supply mismatch 	Volume: 0.7% Revenue: 4.3% EBITDA: 9.7% PAT: 18.8%
FY21	<ul style="list-style-type: none"> Cement volume for the industry is estimated to decline by 2% YoY as a swift recovery in 4QFY21 compensated for the 31% decline in volume witnessed in 1QFY21. The industry is set to hit a decadal high volume growth of 20% in FY22 aided by an expected revival in demand from the infrastructure & urban housing sectors in line with the ~26% increase in budgetary allocation for infrastructure in the Union Budget 2021-22. 	<ul style="list-style-type: none"> The Line- III clinkerisation project (1.5mtpa) at Jayanthipuram and Phase-3 of the Waste Heat Recovery System with a capacity of 9MW are scheduled to be commissioned by end of June 2021. Kurnool Project: The 2.25mtpa clinker unit is now scheduled for commissioning in Sep'21. The Cement Mill (1mtpa), Waste Heat Recovery System (12.15MW) and Thermal Power Plant (18MW) are scheduled for commissioning in FY23. 	<ul style="list-style-type: none"> Aims to ramp-up the recently commissioned WHR plants at Jayanthipuram. Use of industrial wastes in manufacturing. 	<ul style="list-style-type: none"> Fuel availability and prices risk Market risk Information Technology Risk 	Volume: -11% Revenue: -2.3% EBITDA: 34.3% PAT: 23.1%

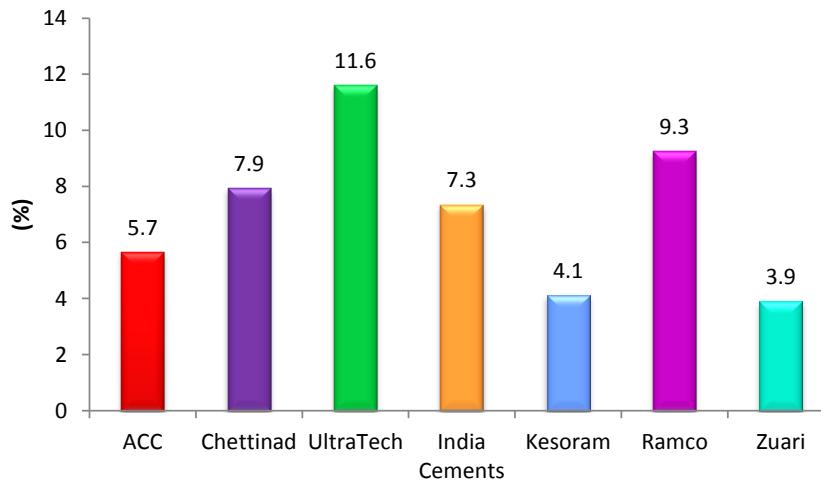
Source: Company, Systematix Institutional Research

Investment Analysis

Second-largest player in the South

With a grinding capacity of 16.3mtpa, TRCL is the second-largest player in the Southern region. It also has split grinding units of 3.1mtpa in the East. Its clinker units have a production capacity of ~10mtpa (3.1mtpa in Andhra Pradesh and the rest in Tamil Nadu); this would increase to 13.66mtpa post the completion of the on-going expansions (2.25mtpa in Andhra Pradesh and 1.5mtpa in Tamil Nadu).

Exhibit 23: Capacity share in the Southern region

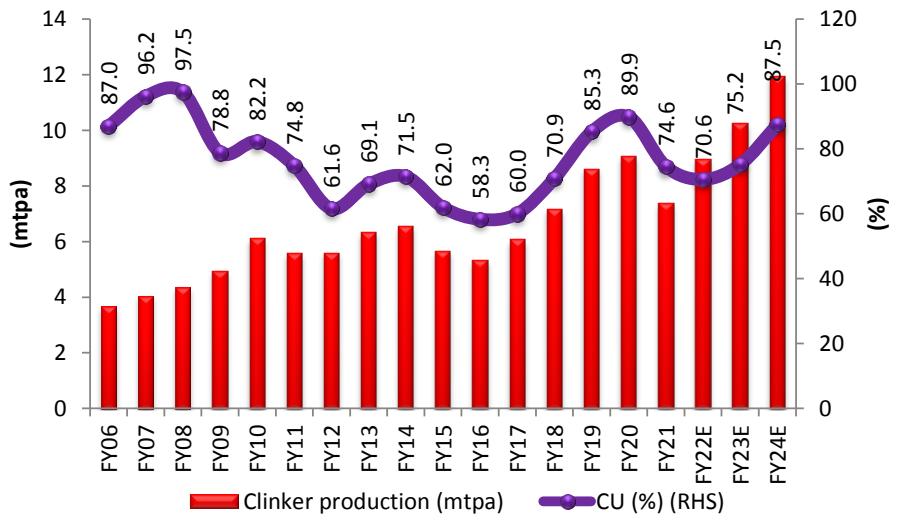


Source: Company, Systematix Institutional Research

Clinker capacity utilisation reached 90% in FY20 in an oversupplied market

TRCL announced expansion plans as its clinker capacity utilisation had started to improve from FY18. Its clinker capacity utilisation increased to 90% in FY20 vs. 60% in FY17. Clinker utilisation declined to 74.6% in FY21 due to COVID-19-induced demand pressure in the Southern/Maharashtra markets. We believe that the average industry clinker utilisation in the South was 58%/49% in FY20/21. Higher clinker utilisation along with improving sales in the East (Kolaghat, West Bengal reached 100% capacity utilisation) prompted the company to announce capacity expansion plans in FY18.

Exhibit 24: Clinker capacity utilisation reached 90% in FY20 in an oversupplied market



Source: Company, Systematix Institutional Research

Capacity expansion plans to aid growth...

TRCL added clinker capacities at a conservative rate of 3% CAGR between FY11-21 (2.6mtpa clinker capacities were added in this period), in-line with regional capacity increase. In Nov-09, a new kiln of 1600 tpd capacity with better heat and power consumption was commissioned at its R R Nagar plant after scrapping the old kiln of 1,200 tpd capacity that was commissioned in 1977. Further, the capacity of the Kiln 2 at R R Nagar was upgraded from 1150 tpd to 1,350 tpd by modifying the pre-heater fan and clinker cooler. In Aug'11, clinker capacity at the Ariyalur plant was increased by 1.65mtpa. Between FY12-21, clinker capacity was increased by only 1mtpa through de-bottlenecking.

The company started to focus on split grinding units to reduce freight costs and cater to the Eastern region. It commissioned three grinding units with an aggregate capacity of 1.95mtpa (0.5mtpa capacity each in Kancheepuram and Salem districts in Tamil Nadu and 0.95mtpa in Kolaghat, West Bengal) during FY10. The capacity of the Salem grinding unit was increased to 1.6mtpa in FY13 by installing a roll press mill and during FY15, another grinding unit in Vizag was commissioned.

TRCL announced its plans to increase its clinker capacity at the Jayanthipuram, Andhra Pradesh plant by 1.5mtpa along with WHRS of 27MW and grinding capacity expansion by 1.05mtpa at its Kolaghat, West Bengal and Vizag, Andhra Pradesh units in FY18. In FY19, it announced a greenfield plant with a clinker/cement capacity of 2.25mtpa/1mtpa at Kurnool, Andhra Pradesh. The cement produced at the grinding units would help TRCL expand its footprint in the coastal districts of Andhra Pradesh and the states of Odisha, Jharkhand and West Bengal. It has set up vertical mills that can handle wet slag (the cost of dry slag is higher and availability is also low). Slag is available at a distance of 30-50kms in Kolaghat, Vizag and Haridaspur grinding units.

Exhibit 25: Status of clinker expansion/integrated plant

Integrated plants	Clinker (mtpa)	Cement (mtpa)	Project cost (Rs bn)	Infrastructure	Project status
Jayanthipuram	1.5	-	7.4	27MW WHRS	Expected to get commissioned soon, WHRS of 18MW commissioned
Kurnool	2.3	1.0	16	12.15MW WHRS, 18MW CPP and Railway Siding	Clinker plant by 2QFY22, grinding unit, CPP and WHRS in FY23E

Source: Company, Systematix Institutional Research

Exhibit 26: Exhibit 13: Details of grinding capacity expansions

Grinding units	State	Region	Capacity (mtpa)	Project cost (Rs bn)	Infrastructure	Project status
Kolaghat	West Bengal	East	1.1	3.9	Railway Siding	Commissioned in Sep-19
Vizag	Andhra Pradesh	South	1.1	2.2		Commissioned in Mar-20
Haridaspur	Odisha	East	1.0	7.2	Railway Siding & Wagon tippler	Commissioned in Sep-20

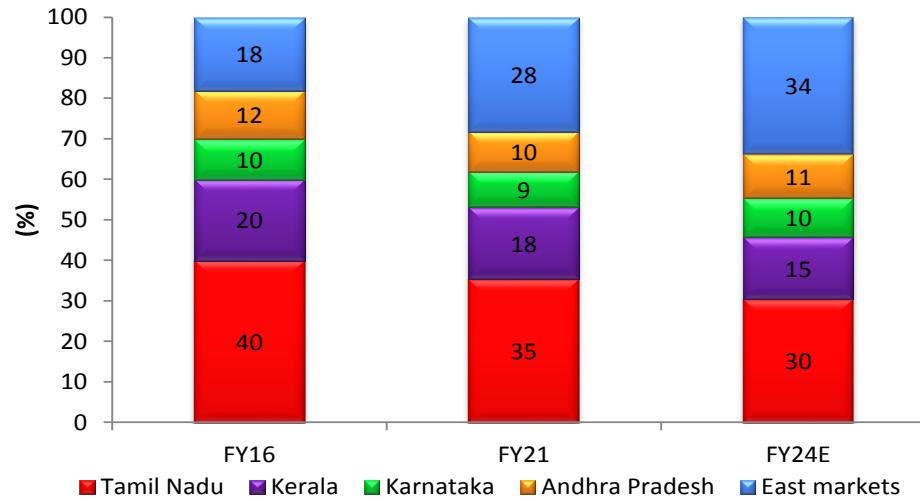
Source: Company, Systematix Institutional Research

Sales volume in the Eastern region to increase post the commissioning of its new grinding units

TRCL's sales into the East markets at present are ~28%. It has established itself as an A-category brand in the West Bengal markets. The commissioning of the grinding unit in Odisha would help it become an A-category brand from B earlier. The price difference between the A & B category brands is Rs 10-12/bag. It used to service coastal Odisha from its Jayanthipuram plant and was unable to assure cement availability to dealers given the issue with rakes availability. Apart from lower costs, material supply will improve, which will enhance its brand image in the markets.

Odisha as a market has a higher demand for blended cement (trade volumes). However, TRCL's sales into the trade segment were at ~50% due to issues in supplying materials to dealers. With the commissioning of the grinding unit, it aims to improve its trade sales to 80% in the Odisha markets. Trade sales offer better margins than non-trade sales.

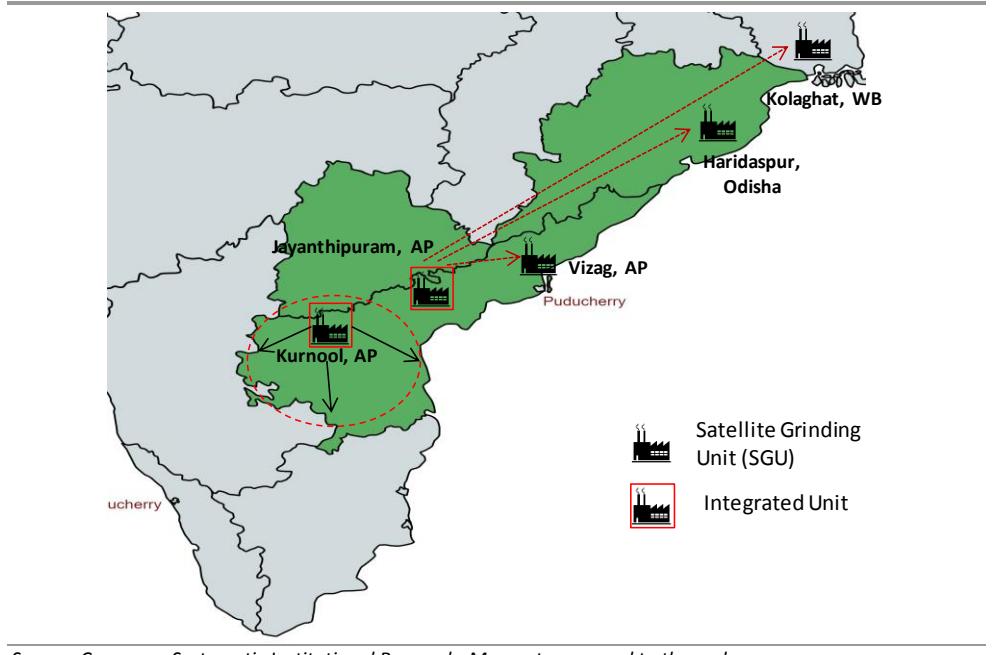
Exhibit 27: Exposure to the Eastern markets should increase going forward



Source: Company, Systematix Institutional Research

The expanded clinker capacity at Jayanthipuram, Andhra Pradesh should help meet the additional clinker requirements of the grinding capacities in Kolaghat, West Bengal; Haridaspur, Odisha and Vizag, Andhra Pradesh. The greenfield plant at Kurnool will help TRCL service the markets of Andhra Pradesh and North Karnataka. Some of these markets are serviced by the Jayanthipuram plant which has a higher lead distance. The company has planned two more grinding units in the South (land acquired for one unit in Rayalaseema, Andhra Pradesh while the other is planned in Karnataka).

Exhibit 28: The Jayanthipuram plant is closer to the Vizag and Odisha grinding units; the Kurnool plant will help serve the AP and Karnataka markets



Source: Company, Systematix Institutional Research; Map not measured to the scale

Higher capex cost of grinding units due to better infrastructure; limestone available for future growth opportunities

TRCL establishes grinding units and acquires additional land considering its future expansion opportunities. All its grinding units, except two in Tamil Nadu, have railway sidings attached to the plant. It also has multiple silos at the grinding units for different varieties of cement. Acquisition of land earlier resulted in lower capital cost for the expansion of the grinding units in Vizag (land available for 2-3 more lines) and Kolaghat (railway siding was also commissioned with the Kolaghat grinding unit in the second phase). Before the commissioning of the railway siding, the clinker was ground at a distance of about 25kms from the Kolaghat grinding unit.

Its grinding unit in Haridaspur, Odisha has 180acres of land which would be sufficient for a capacity of 3-4mtpa while the cost per incremental 1mtpa grinding unit would be only Rs 250-300mn. This plant has been commissioned with four different silos, railway siding and wagon tipplers. Wagon tipplers will help the company unload the wagons in 6 hours vs. 18-20 hours in manual unloading. The cost of the railway siding and wagon tipplers was around Rs 1bn.

At its integrated plant in Kurnool, Andhra Pradesh, it has limestone reserves of 500mt which will be sufficient to meet the requirements of 5-6 clinker lines. It also has 300-350mt of limestone reserves for its Jayanthipuram plant.

Exhibit 29: Plants and their attached infrastructure

Integrated plants	State	Region	Clinker (mtpa)	Cement (mtpa)	CPP (MW)	WHRs (MW)	Railway Siding	Wagon Tippler
Ramasamy Raja Nagar	Tamil Nadu	South	1.1	2.0	25	3	Y	
Jayanthipuram	Andhra Pradesh	South	4.6	3.7	42	27	Y	Y
Alathiyur	Tamil Nadu	South	2.4	3.1	42	7	Y	Y
Ariyalur	Tamil Nadu	South	3.3	3.5	66		Y	Y
Kurnool	Andhra Pradesh	South	2.3	1.0	18	12	Y	Y
Total			13.7	13.2	193	49		
Grinding units								
Kancheepuram	Tamil Nadu	South		0.5				
Salem	Tamil Nadu	South		1.6				
Kolaghat	West Bengal	East		2.0			Y	
Vizag	Andhra Pradesh	South		2.0			Y	Y
Kharagpur	West Bengal	East		0.2				
Haridaspur	Odisha	East		0.9			Y	Y
Grinding units- total				7.2				
Total capacity			13.7	20.4				

Source: Systematix Institutional Research, Company;^includes plant under commissioning

Introduced “Right Cement for Right Application”

TRCL has introduced several products with a focus on providing ‘different cement for different applications’. It manufactures 12 types of cement including three varieties for individual housing. It has developed two high-value products 1) Ramco Supercrete - a premium blended cement, which is a crack resistant, high-strength cement and 2) Ramco Infra - speciality concept cement, meant for infrastructure projects. With these products, the company has operated its clinker plants at a 90%+ capacity utilisation rate for the last two years vs. the Southern region’s average capacity utilisation of 62%.

Exhibit 30: A wide range of products help to cater to different consumer segments



Ramco Supergrade
For producing durable concrete with less heat of hydration and lesser lime leaching



Ramco Supercrete
High strength cement with low heat of hydration for crack-free concrete



Ramco Superfine EFC
For making concrete with high durability and enhanced impermeability



Ramco Super Steel
For high grade concrete in environment with extreme exposure conditions



OPC 53
For high strength concrete



OPC 43
For high strength concrete, suitable for cement sheet manufacturing and government works



OPC 53 INFRA
For all infrastructure projects like bridges, flyovers, tunnels which requires concrete with high slump retention



OPC 43 INFRA
For high strength and high slump concrete generally used for government works – For structures like nuclear power projects



Ramco Super Fast
A rapid hardening Portland Cement customised for manufacturing precast items like hollow blocks, solid blocks, paving blocks, fly ash bricks and other precast items



Ramco Super Coast
Suitable for concreting in areas with high concentration of sulphates



Karthik Super Plus
Blended cement for canal works and concreting where low heat of hydration is required



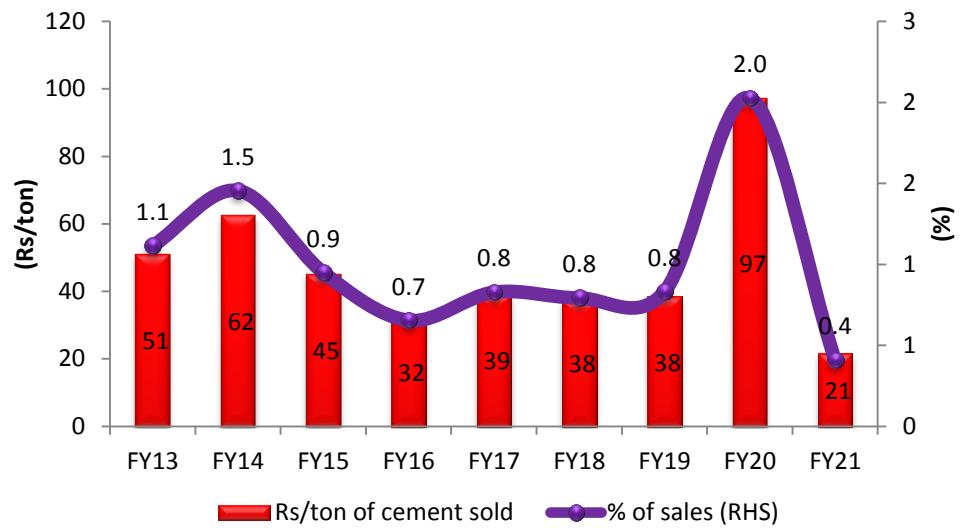
Ramco Samudra
For durable concrete with low heat of hydration

Source: Company, Systematix Institutional Research

The efforts of the Marketing and MACE (Masons, Architects, Contractors and Engineers) teams have helped to create the intended awareness among the consumers about the superior attributes of these products. The logistics team ensured timely delivery of these products by devising the most optimal model for distribution even when the customers' requirements were in smaller lots. The concerted efforts have received tremendous response in the niche market, graduating TRCL from a cement-maker to a complete cement solutions provider.

The company also increased its advertisement spends in FY20 (up 2.5x YoY) considering the launch of new product ranges and to create more brand awareness in the East markets considering capacity expansions.

Exhibit 31: Increase in advertisement spends in FY20 to create awareness for new product ranges



Source: Company, Systematix Institutional Research

MACE (Masons, Architects, Contractors and Engineers) division provides value added services

The MACE division provides on-site technical assistance to customers and guides them on using the right products for the right applications and in the right manner. This division provides engineering solutions for big projects, aftersales support services to individual homebuilders and mobile technical services. Being a free support service, it also enables significant cost-savings for the customers.

Exhibit 32: MACE division provides free technical service at every construction stage



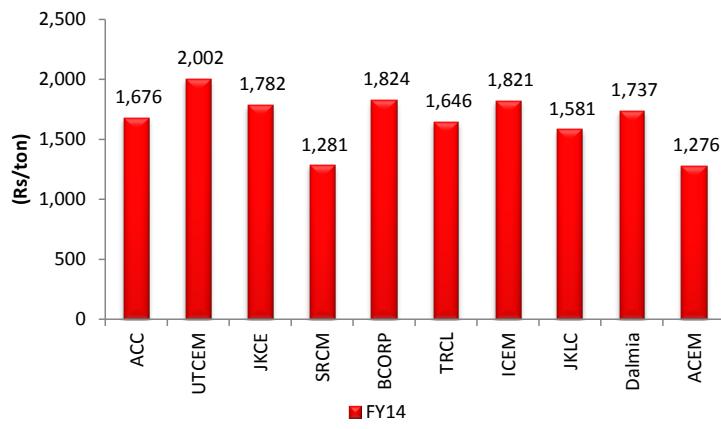
Source: Company, Systematix Institutional Research

Industry-leading profits due to a superior cost structure

TRCL is one of the lowest variable cost producers of cement given its a) lower kiln heat rate, b) higher dependence on captive power – coal-based and wind power and c) fuel flexibility/better fuel strategy. Limestone impurity had impacted its operating costs in FY14/15; it resolved the issue by installing an optical sorter at its Pandalgudi mines to beneficiate the limestone; this also helped the company reduce its dependence on high-grade imported limestone while increasing the life of the mines. Further, the company installed a limestone washery at its Alathiyur plant which helps in reclaiming and utilising low-grade limestone.

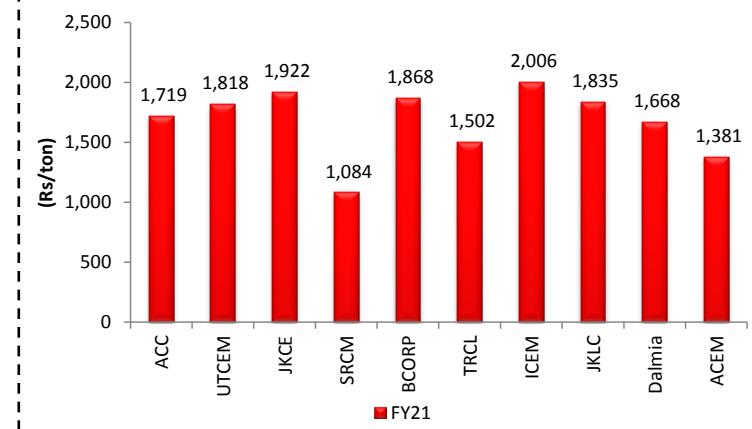
Its variable cost of production in FY21 was the third-lowest within our sector coverage universe (adjusted for the purchase of clinker from outside for meeting the requirements of the Eastern grinding units).

Exhibit 33: Variable cost of production vs. peers in FY14



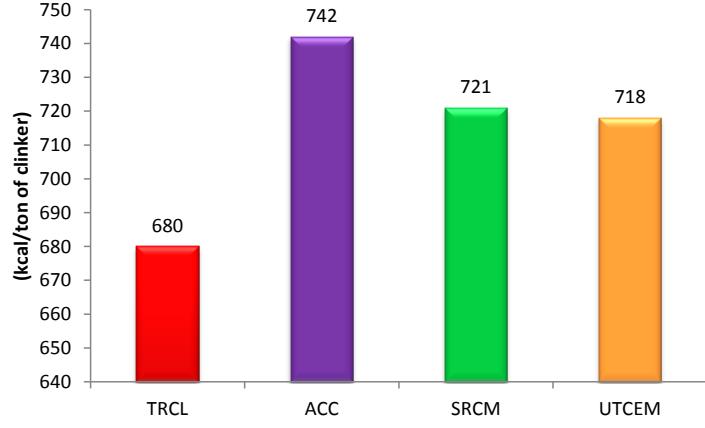
Source: Company, Systematix Institutional Research

Exhibit 34: One of the lowest variable cost producers



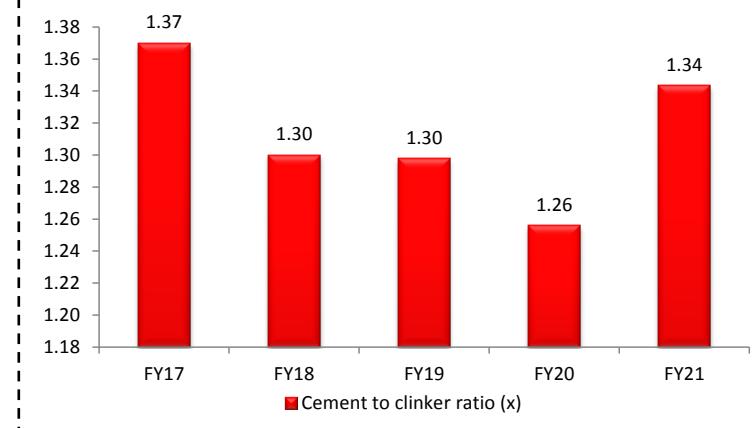
Source: Company, Systematix Institutional Research

Exhibit 35: Kiln heat rate is lower than peers

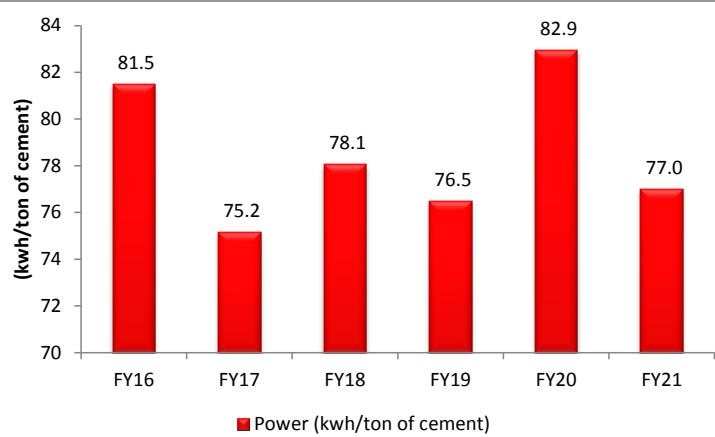


Source: Company, Systematix Institutional Research

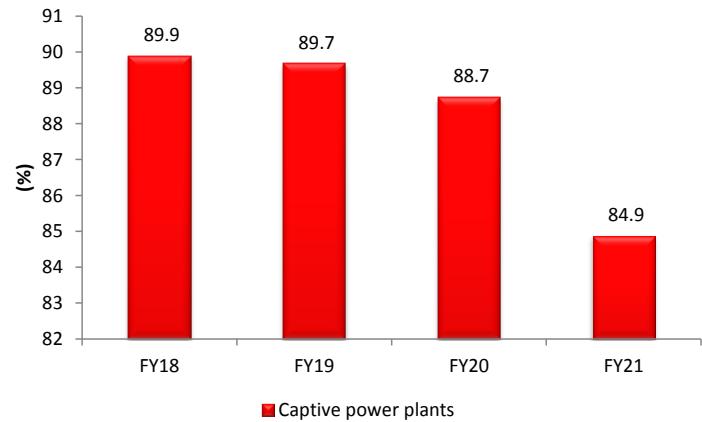
Exhibit 36: Clinker to cement conversion increased in FY21 on higher blended sales



Source: Company, Systematix Institutional Research

Exhibit 37: ...reflected in higher power consumption

Source: Company, Systematix Institutional Research

Exhibit 38: Captive power plants fulfill 85-90% of power requirements

Source: Company, Systematix Institutional Research

Commissioning of the WHRS and new clinker plant to improve the cost structure further

TRCL has commissioned 18MW of Waste Heat Recovery System (WHRS) capacity at its Jayanthipuram, Andhra Pradesh plant and the balance 9MW is expected to be commissioned soon. Further, the WHRS capacity of 12.15MW will be commissioned along with the clinker plant at Kurnool, Andhra Pradesh. We expect the commissioning of the WHRS plants to improve its cost structure by Rs 45/ton+. We have assumed that the Kurnool plant's clinker capacity utilisation will reach 50% by FY23E.

Exhibit 39: Expect savings after the commissioning of WHRS plants

Savings from WHRS	Jayanthipuram	Kurnool	Total
WHRS capacity (MW)	27	12	39
Power generation (mn kwh)	118	34	151
PLF (%) - calculated	60.0	38.7	53.4
Savings (Rs mn)	470	135	605
Savings (Rs/ton) on cement production- FY23E			46

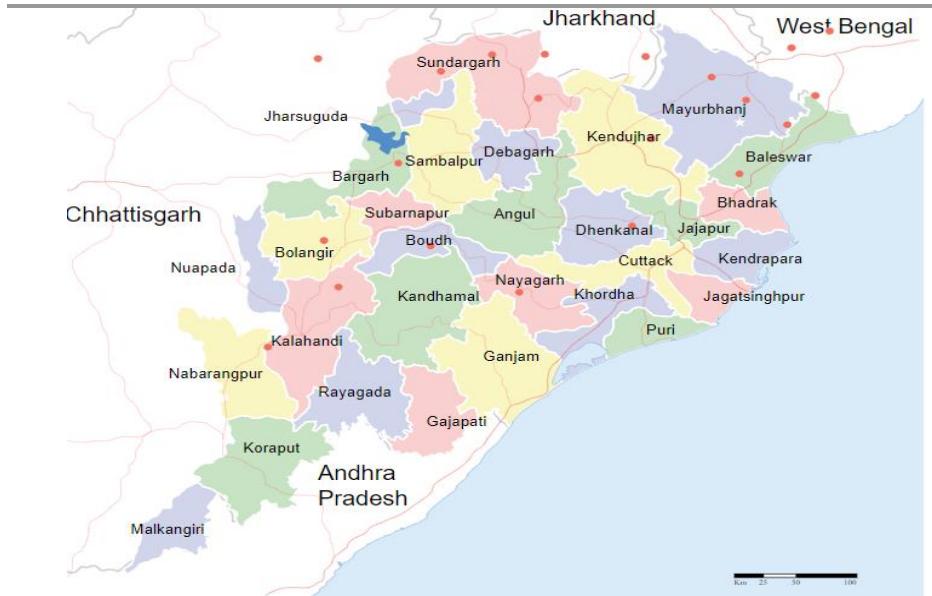
Source: Company, Systematix Institutional Research

TRCL had to purchase clinker (0.3mt) in FY21 to meet the requirements of its Eastern plants. In the 4QFY21 earnings call, the management indicated that the company had to purchase clinker (20-25kt) at an additional cost of Rs 500/ton to meet the requirements of its Eastern plants. The commissioning of its new clinker plant should lead to savings of Rs 130-140mn (on FY20 volumes) for the company.

Commissioning of Haridasur, Odisha grinding unit to lead to cost savings

9-10% of TRCL's sales volumes accrue from the state of Odisha which was earlier serviced from its Jayanthipuram/Vizag plants. With the commissioning of the grinding unit in Haridaspur, Odisha, the company will shift clinker instead of cement to cater to the state. This plant will mostly cater to Coastal Odisha (Cuttack, Puri, Bhubaneswar etc.) while South Odisha (Ganjam, Gajptai, Malkangiri, Navrangpur, Naigarha) will be supported by the Vizag plant. Western Odisha (Shambhalpur, Sundargarh, Bargarh etc.) is being fed by Chhattisgarh-based players.

Exhibit 40: South Odisha is closer to the AP markets while West Odisha is being fed by Chhattisgarh players



Source: Systematix Institutional Research; Map not measured to the scale

The commissioning of the Haridaspur grinding unit will lead to an incremental saving of about Rs 290mn (assuming of the total volumes sold in Odisha market in FY21, one-half to be sold in coastal Odisha and the other half in south Odisha markets). The management believes that the Odisha plant will help save Rs 300-400/ton as 50% of the required raw materials are available nearby.

Exhibit 41: Savings from the commissioning of the Haridaspur, Odisha grinding unit

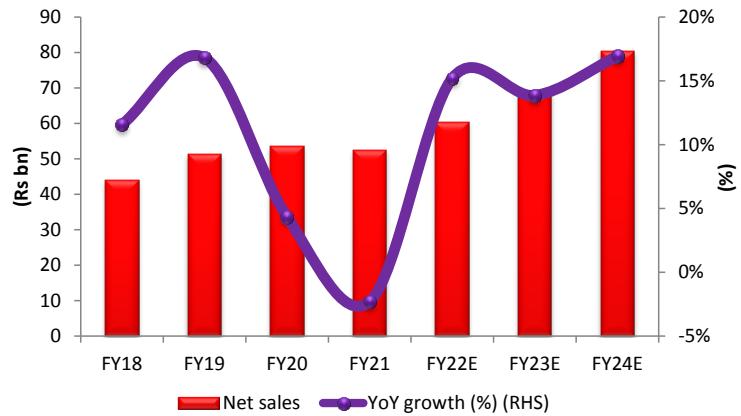
Particulars	FY21
Sales volumes to Coastal Odisha (mt)	0.5
Sales volumes to South Odisha (mt)	0.5
Clinker required (mt)	0.635
Clinker transfer cost- Jayanthipuram to Vizag (70% sales to Odisha)- Rs mn	323
Cement transfer to Odisha markets from Vizag- Rs mn	627
Cement transfer to Odisha markets from AP plant- Rs mn	664
Total cost incurred (FY20)- Rs mn	1,613
Clinker transfer cost- 50% of sales to Haridaspur GU (Rs mn)	492
Cement sales cost in Coastal Odisha (Rs mn)	240
Cement sales cost in South Odisha (Rs mn)	590
Total cost post commissioning of grinding unit (Rs mn)	1,322
Savings (Rs mn)	292

Source: Systematix Institutional Research

Financial Highlights

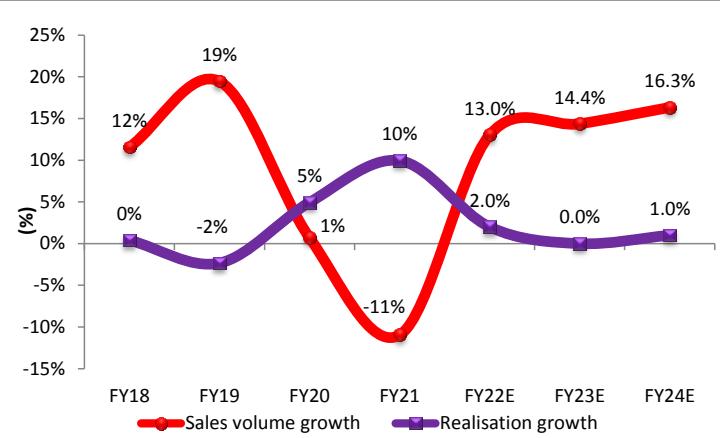
We expect TRCL's sales volumes to grow at a CAGR of 14.6% over FY21-24E led by 1) a lower base of FY21 and 2) higher volumes in the Eastern region - TRCL's volume mix in the Eastern region is expected to increase from 28% in FY21 to 34% in FY24E. We expect its grinding capacity utilisation to be 57%/62%/72.3% in FY22E/23E/24E vs. 60.7% in FY20. Higher volume along with a realisation CAGR of 1% over the next three years should aid revenue CAGR of 15.3% between FY21-24E.

Exhibit 42: Expect revenue CAGR of 15.3% over FY21-24E...



Source: Company, Systematix Institutional Research

Exhibit 43: ...led by 14.6%/1% volume/NSR growth

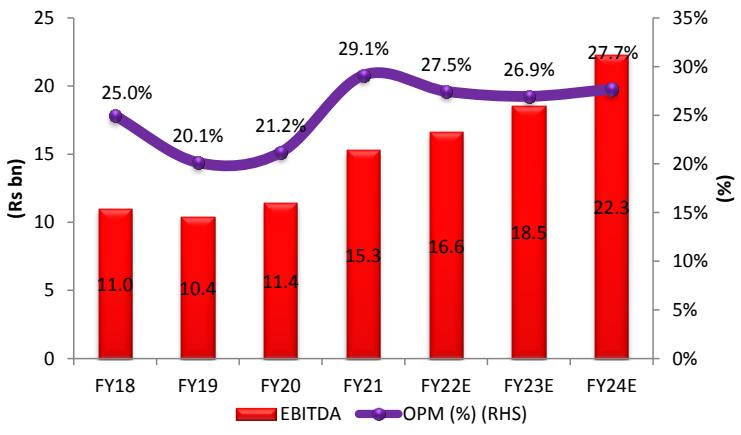


Source: Company, Systematix Institutional Research

TRCL's operating profit is expected to grow at a CAGR of 13.4% during FY21-FY24E led by higher sales volumes/realisation, commissioning of WHRS capacities and improvement in profitability in the Eastern region. Its OPM increased to 21.2%/29.1% in FY20/21 from 20.1% in FY19 led by steep improvement in realisation (+5%/+10%YoY in FY20/21) and control on variable costs in FY21. We expect OPM to be at 27.5% in FY22E on higher energy costs and an increase in variable costs (travelling and office expenses). Post that, we have factored an OPM of 26.9%/27.7% in FY23E/24E.

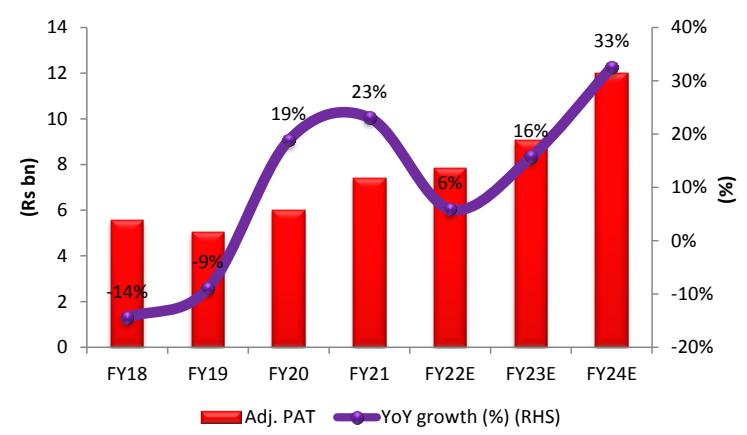
The company's adjusted profits declined by 14.4% YoY in FY18 on higher tax rates (ETR at 29.2% vs. 23.6% in FY17) and by 9% YoY in FY19 on account of lower operating margin (20.1% in FY19 vs. 25% in FY18). Adjusted profits grew at a CAGR of ~21% over FY19-21 on a better operating performance. We expect adjusted profits to grow at a CAGR of 17.5% over FY21-24E. Depreciation expense is likely to increase at a CAGR of 9.3% over FY21-24E due to on-going capacity expansions. Interest expense should decline in FY23/24E after an increase of 2.2x in FY22E.

Exhibit 44: Estimate EBITDA CAGR of 13.4% between FY21-24E



Source: Company, Systematix Institutional Research

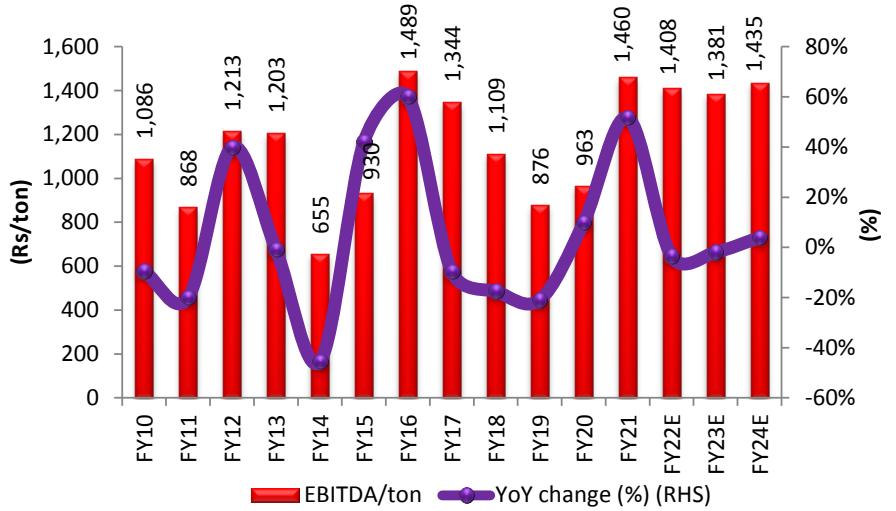
Exhibit 45: PAT CAGR of 17.5% over FY21-24E



Source: Company, Systematix Institutional Research

Better operating performance in the last two years has led to the company recording its highest EBITDA/ton post FY16. We expect EBITDA/ton to moderate to Rs 1,401/Rs 1,381/Rs 1,435 in FY22E/23E/24E vs. Rs 1,460 in FY21.

Exhibit 46: EBITDA/ton to moderate in FY22/23E before increasing in FY24E



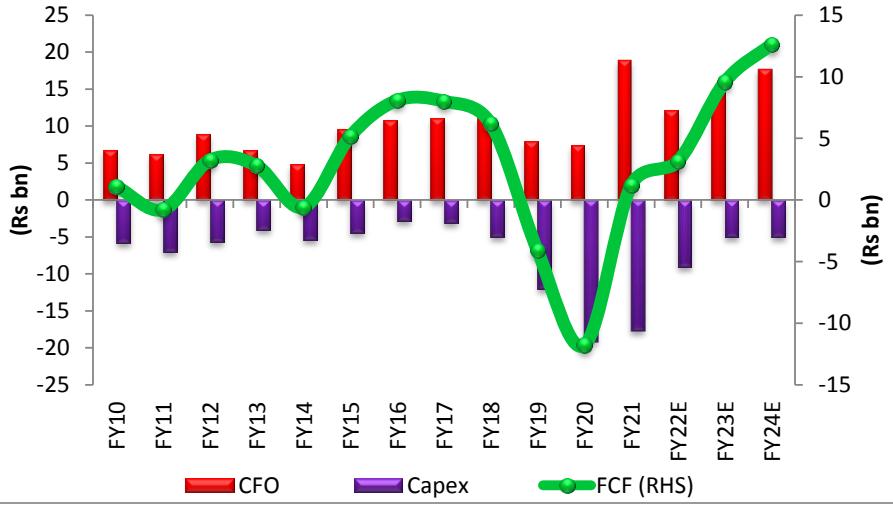
Source: Company, Systematix Institutional Research

TRCL's operating cash (OCF) declined at a CAGR of 18% over FY18-20 led by 1) a decline in profits in FY19 and 2) a cumulative increase in working capital of Rs 3.85bn. Improved profits in FY21 and the release of working capital (Rs 5.1bn) led to an OCF increase of 155% in FY21.

The company was generating free cash (FCF) over FY15-18. However, higher capital expenditure in FY19/20 (Rs 31.2bn) led to a negative FCF of Rs 15.9bn in those two years. The improvement in OCF in FY21 led to FCF of Rs 1.2bn despite the higher capital expenditure of Rs 17.7bn. TRCL's OCF grew at a CAGR of 11% between FY17-21, while it reported a cumulative negative FCF Rs 0.5bn in this period.

Given the strong top-line growth and continued focus on opex control, we expect the company to generate a robust OCF of Rs 44.3bn in the next three years. The cumulative FCF over FY21-24E should be around Rs 25.3bn as it has already completed most of the capex for its on-going projects. However, our FCF estimates may change if the company initiates a further capacity expansion.

Exhibit 47: FCF to rise on robust OCF and completion of the ongoing capex cycle



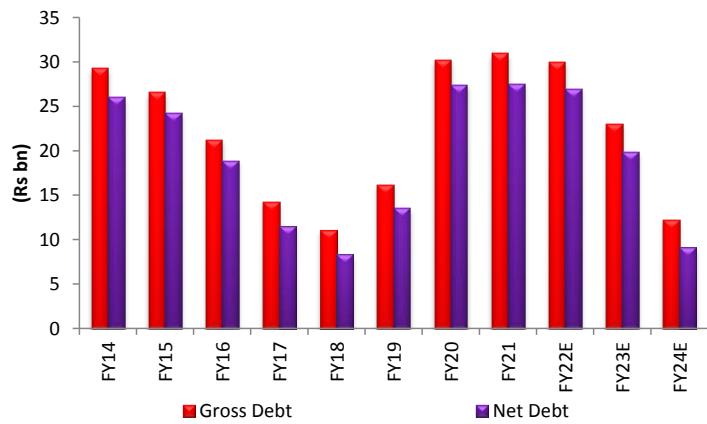
Source: Company, Systematix Institutional Research

TRCL's gross debt peaked in FY14 when its profitability had declined sharply (EBITDA/ton declined to Rs 655 vs. Rs 1,203 in FY13). Post that, gross debt declined to Rs 11.1bn in FY18 from Rs 29.3bn in FY14 led by a) steep improvement in profitability between FY14-17 as EBITDA grew at a CAGR of 28.5% in that period; b) release of working capital - cumulative reduction of Rs 5.5bn over FY14-18 and c) lower capex which along with higher operating cash flows led to free cash flow generation of Rs 27.5bn over FY14-18. Net debt declined to Rs 8.3bn in FY18 from Rs 26bn in FY14.

Post FY18, TRCL incurred a capex of Rs 48.9bn on its capacity expansion plans in the Eastern and Southern regions. Higher capex led to an increase in gross debt to Rs 31bn in FY21 from Rs 11.1bn in FY18. Net debt in this period increased to Rs 27.6bn from Rs 8.3bn in FY18. We believe that its gross and net debt has peaked out in FY21 during the on-going phase of capacity expansion; we expect its gross debt to dip to Rs 12bn in FY24E.

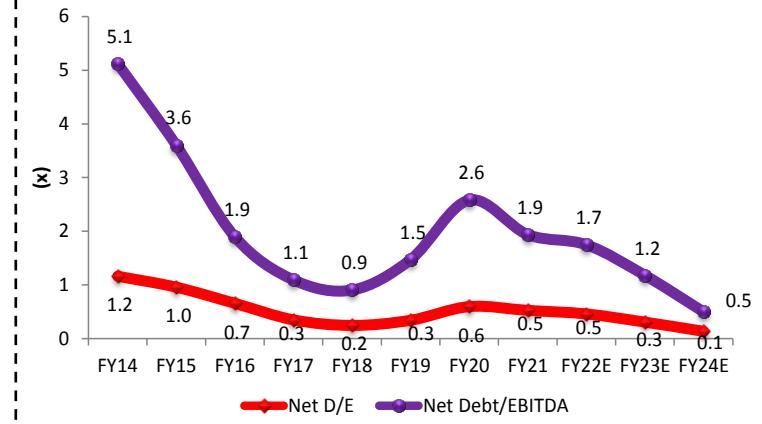
We believe that net debt/EBITDA had peaked out at 2.4x in FY20 during the on-going capacity expansion phase and there will be a gradual improvement from hereon.

Exhibit 48: Gross debt is expected to dip to Rs 12bn by FY24



Source: Company, Systematix Institutional Research

Exhibit 49: Net debt/EBITDA peaked out in FY20 during the current phase of capacity expansion



Source: Company, Systematix Institutional Research

TRCL's RoE improved to 14% in FY21 from 12.8% in FY20 led by a) higher cement prices in the Southern markets - operating profit increased by 34.9% YoY, leading to EBIT margin improvement of 7% YoY and b) cost savings - control on fixed and variable costs during COVID-19. Its tax rate increased to 33.2% in FY21 from 23.6% in FY20, leading to a decline in profit margins. We expect its RoE to improve to 15.7% by FY24E led by higher assets turnover (improved capacity utilisation), continued reduction in debt and improvement in EBIT margin (22.4% in FY24E vs. 23% in FY21).

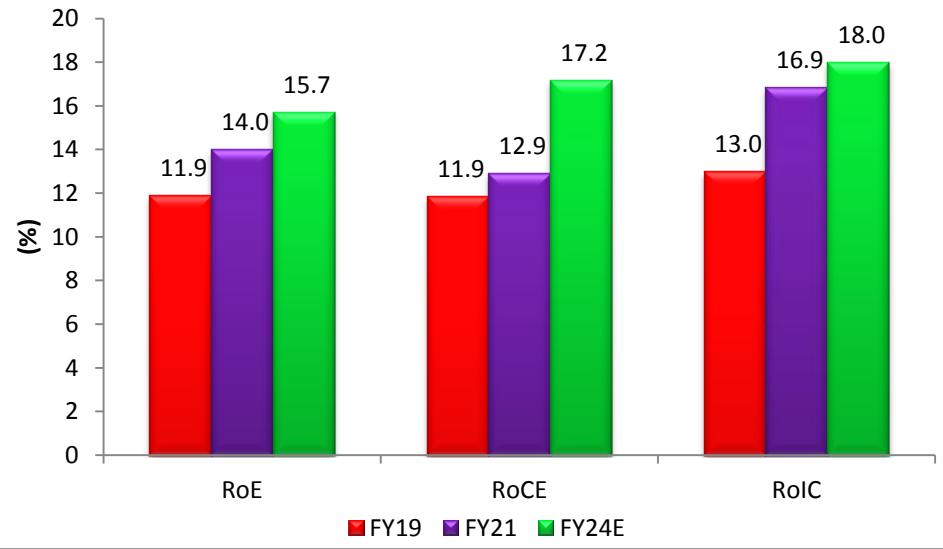
Exhibit 50: Du-pont analysis

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT/PBT	70.8%	70.7%	76.4%	66.1%	70.7%	70.7%	70.7%
PBT/EBIT	93.0%	93.4%	91.7%	92.7%	85.2%	88.6%	94.3%
EBIT/Sales	19.2%	14.9%	16.0%	23.0%	21.5%	21.0%	22.4%
Asset turnover (x)	0.74	0.80	0.68	0.56	0.60	0.66	0.77
Assets/Equity (x)	1.53	1.52	1.69	1.77	1.69	1.56	1.37
ROE (%)	14.3	11.9	12.8	14.0	13.1	13.5	15.7

Source: Company, Systematix Institutional Research

RoCE is expected to improve to 17.2% in FY24E from 12.9% in FY21 on the back of an improvement in margins. Its RoIC is expected to improve to 18% in FY24E from 16.9% in FY21 as higher profits along with lower capex will aid strong cash generation.

Exhibit 51: Return ratios to improve over FY21-24E



Source: Company, Systematix Institutional Research

Cash flow analysis & corporate governance

FCF generation: TRCL generated cumulative FCF of Rs 7.6bn over FY16-21.

FCF utilisation: Of the total FCF generation of Rs 7.6bn over the past 6 years, the company paid 70% (Rs 5.3bn) towards dividends (including dividend tax). Cumulative interest payment in last 6 years is Rs5.5bn (73% of FCF). Gross debt has increased by Rs9.8bn in last 6 years.

FCF expectation: We expect the FCF to increase to Rs 3.1bn in FY22E as TRCL is in the last leg of its capex program and has a lower capex requirement (Rs 9bn vs. Rs 17.7bn in FY21). It is expected to generate a cumulative FCF of Rs 25.3bn between FY21-24E.

Earnings quality: During the last 10 years, it has earned a cumulative PAT of Rs 49.3bn against which it generated OCF of Rs 97.2bn (1.97x of profits).

Exhibit 52: Expect Rs 25bn of free cash over FY22-24E

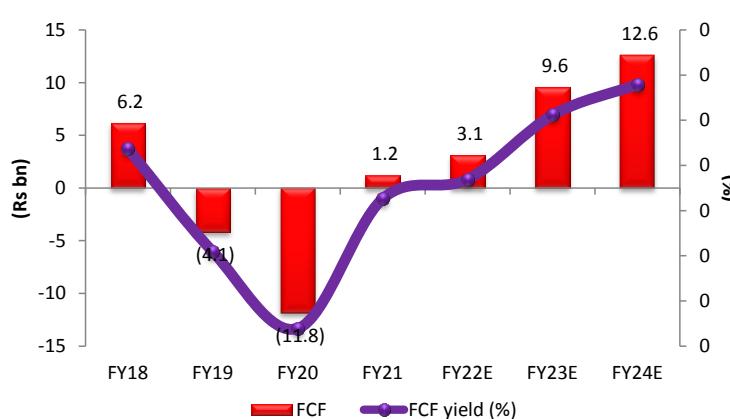
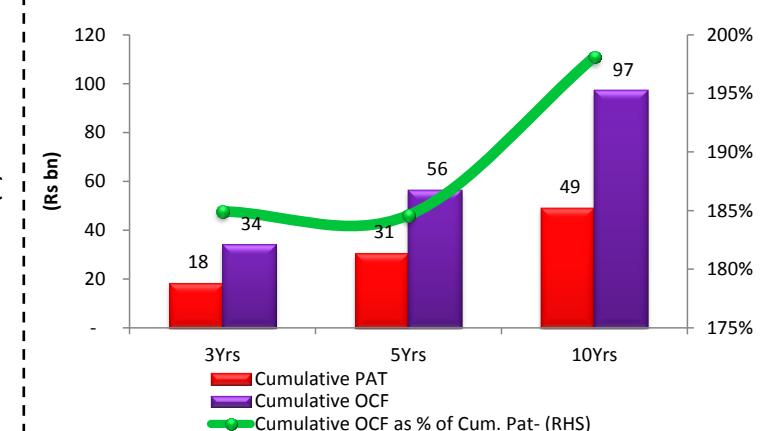


Exhibit 53: Healthy cash flow quality



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

Exhibit 54: Contingent liabilities

Contingent liabilities (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21
Demand from Competition Commission of India	2,586	2,586	2,586	2,586	2,586	2,586
Excise Duty, CENVAT Credit	5,482	5,641	5,647	5,711	3,561	3,560
Others	1,868	2,712	2,733	1,579	2,731	2,880
Total	9,936	10,940	10,967	9,876	8,878	9,027
% of networth	32%	29%	27%	22%	18%	16%

Source: Company, Systematix Institutional Research

Exhibit 55: Director and KMPs renumeration & pledging details

Other key monitorables	FY16	FY17	FY18	FY19	FY20	FY21
Remuneration to Directors & KMPs (Rs mn)	469	571	525	529	581	918.0
% of PBT	7.0%	6.7%	6.7%	7.4%	7.4%	8.2%
Auditor's remuneration (Rs mn)	3.50	3.40	3.80	4.40	4.70	48.00
% of PBT	0.1%	0.0%	0.0%	0.1%	0.1%	0.4%
Pledged shares as (%) of promoter holding	4.5%	5.4%	2.0%	2.0%	2.0%	13.0%

Source: Company, Systematix Institutional Research

Systematix vs. Consensus

Our revenue and EBITDA estimates are 3%-5% below Bloomberg consensus for FY22E and FY23E. However, we expect higher top-line growth and EBITDA for TRCL in FY24E led by 1) Higher volumes owing to the commissioning of its new clinker and grinding plants, 2) lower opex due to the WHRS plant and other cost-saving initiatives (particularly logistics) and 3) better realisation. Consequently, our FY24E Revenue/EBITDA estimates are 4%/2% above Bloomberg consensus.

Exhibit 56: Ramco Standalone - Bloomberg vs. our estimates

Particulars	FY22E	FY23E	FY24E
Revenues (Rs bn)			
Consensus	62	72	78
Systematix est.	60	69	80
% Difference	-3%	-4%	4%
EBITDA (Rs bn)			
Consensus	17	20	22
Systematix est.	17	19	22
% Difference	-3%	-6%	2%
EBITDA Margin (%)			
Consensus	27.4%	27.5%	28.3%
Systematix est.	27.5%	26.9%	27.7%
Difference (bps)	3	(60)	(58)

Source: Bloomberg, Company

Exhibit 57: Key Assumptions

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales volume (mt)	11	11	10	11	13	15
Cement Realization (Rs/ton)	4,407	4,576	5,032	5,132	5,132	5,184
Per ton costs (Rs)						
Raw material	761	780	865	854	878	903
Purchase of goods	-	-	-	-	-	-
Employee cost	296	329	403	378	357	332
Power & Fuel	950	938	797	943	952	938
Freight	1,068	1,016	1,029	1,058	1,089	1,120
Other expense	619	715	634	655	622	586
Total Cost	3,694	3,777	3,728	3,888	3,898	3,878

Source: Systematix Institutional Research

Key downside risks

1) Further delay in the commissioning of pending capex: As per the latest management commentary, TRCL aims to commission its Jayanthipuram/Kurnool clinker line by 1QFY22/2QFY22. The plant has got delayed due to COVID-19-led challenges; however, any further delay could lead to lower-than-estimated volume growth.

Mitigation strategy: To avoid the delay amidst the pandemic, the management will mobilise the resources to Kurnool to commission the clinker line.

2) Lower cement prices in the Southern/Eastern regions: Historically, cement prices have remained volatile in the Southern region due to the lower capacity utilisation of existing units. We have assumed a better pricing scenario considering the improvement/sustainability of price hikes in FY21. In the Eastern region too, prices remain volatile due to material inflow from the Southern/Central regions and higher capacity additions. Lower-than-estimated cement prices will impact on our earnings estimates adversely.

Mitigation Strategy: Ramco aims to sell clinker at a premium price in Eastern India as it estimates clinker shortage in the region given the upcoming supply. It should cushion volatile cement prices, if any.

3) Inflationary pressures in fuel costs: There has been a steep increase in the prices of pet coke, coal and diesel in the last few months. The price of pet coke is up ~75% over the last year while the price of imported coal has increased by over 30%. Pet coke prices are up ~40% vs. 4QFY21. Though cement companies are trying to control energy costs by changing their fuel mix (lower usage of pet coke and Australian coal), the continued escalation in coal/pet coke prices could impact our earnings estimates if the industry is unable to pass on the cost increases to consumers.

Mitigation Strategy: To counter the rising fuel costs 1) TRCL will ramp-up the newly commissioned WHRS at Jayanthipuram and also commission the 12MW WHRS at Kurnool in FY23E.

4) Prolonged pandemic-related restrictions/lockdowns: We estimate TRCL to report 13% volume growth in FY22E; however, continued localised lockdowns in the country could act as a downside risk to our estimates. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites and delay the process. However, we derive confidence from the vaccination pace in India and believe that economic recovery and normalcy will be attained from 2HFY22E onwards.

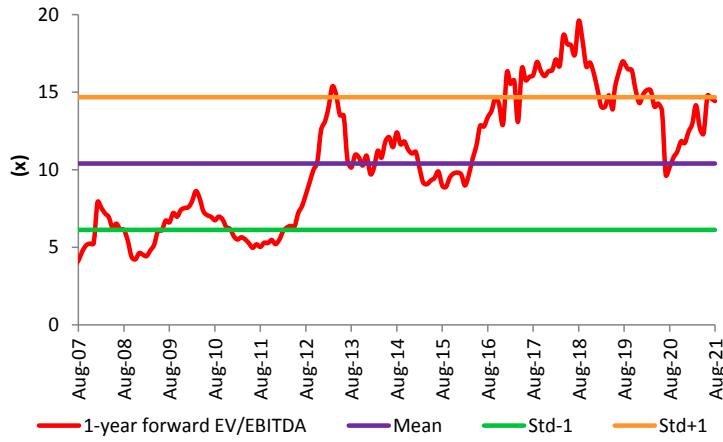
Valuation and View

TRCL is the second-largest player in the Southern region and has a capacity market share of 9.3% there. It also has grinding capacities of 3.1mtpa in the Eastern region (2.1mtpa in West Bengal and 1mtpa in Odisha). Clinker units of the firm are located only in the Southern region with a current production capacity of ~10mtpa (3.1mtpa in Andhra Pradesh and the rest in Tamil Nadu).

The company's expansion plans were announced as clinker capacity utilisation had started to improve from FY18. Its clinker utilisation increased to 90% in FY20 from 60% in FY17. This compares to the average industry clinker utilisation in the Southern region of 58% in FY20. Disruptions caused by COVID-19 led to clinker utilisation of 75% in FY21 vs. the industry's average utilisation of 49%. Post the on-going expansion (clinker plant of 2.25mtpa in Andhra Pradesh and 1.5mtpa in Tamil Nadu), its total clinker capacity will increase to 13.66mtpa, while split grinding capacities will be commissioned in Kolkata, Vizag (both brownfield expansion) and Odisha (greenfield). These capacities will aid volume growth.

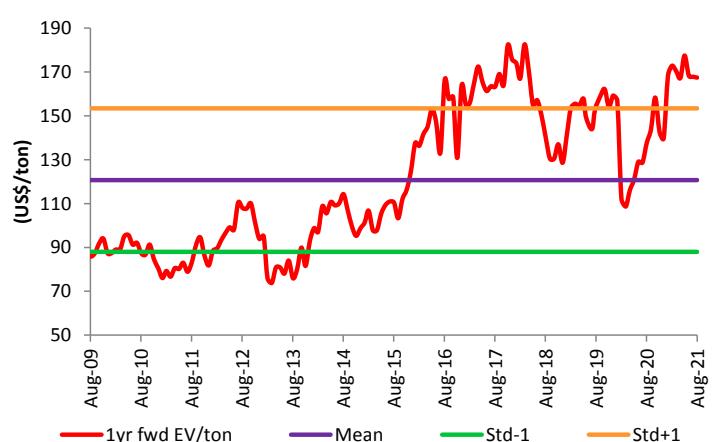
The stock trades at 16.1x/14x/11.2x FY22E/23E/24 EV/EBITDA and USD 180/175/161 FY22E/23E/24E EV/ton. It has traded at an average EV/EBITDA of 13.7x in the last seven years. With the improvement in profitability (EPS expected to grow at a CAGR of 17.5% over FY21-24E), return ratios (RoE to be at 15.7% in FY24E vs. 14% in FY21) and a stronger balance sheet (net Debt/EBITDA at 0.5x in FY24E vs. 1.9x in FY21), we expect it to trade at higher multiples. We value TRCL at 16.5x FY23 EV/EBITDA to arrive at a target price of Rs 1,205 (an upside of 19.5% from the CMP) and initiate coverage on the stock with a **BUY** rating. At our TP, the stock will trade at 16.5x/13.3x FY23E/24E EV/EBITDA and USD 206/191 FY23E/24E EV/ton.

Exhibit 58: 1-year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 59: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	53,684	52,446	60,417	68,788	80,429
Growth (%)		(2.3)	15.2	13.9	16.9
EBITDA	11,366	15,267	16,587	18,531	22,264
Growth (%)		34.3	8.6	11.7	20.1
EBITDA margin (%)	21.2	29.1	27.5	26.9	27.7
Depreciation	3,153	3,553	3,939	4,439	4,637
EBIT	8,214	11,714	12,648	14,092	17,627
Other Income	372	346	360	375	390
Interest expenses	714	876	1,926	1,647	1,024
PBT	7,872	11,184	11,082	12,820	16,993
Tax	1,861	3,786	3,247	3,757	4,980
Effective tax rate (%)	23.6	33.9	29.3	29.3	29.3
Adjusted PAT	6,011	7,398	7,835	9,063	12,014
Growth (%)		23.1	5.9	15.7	32.6
Net Margin (%)	11.2	14.1	13.0	13.2	14.9
Reported PAT	6,011	7,398	7,835	9,063	12,014
Growth (%)		23.1	5.9	15.7	32.6

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	236	236	236	236	236
Reserves & surplus	48,950	56,032	62,876	70,807	81,547
Net worth	49,186	56,268	63,112	71,043	81,783
Loan Funds	30,241	30,993	30,031	23,031	12,231
Net Deferred Taxes	9314.4	10876.5	10876.5	10876.5	10876.5
Total Liabilities	88,741	98,138	104,020	104,951	104,891
Net block	60,532	69,566	94,179	92,740	97,603
Capital WIP	18,143	23,552	4,000	6,000	1,500
Investment	1,887	2,009	2,009	2,009	2,009
Current Assets	19,908	18,054	18,519	19,777	20,131
Inventories	6,453	5,979	6,358	6,726	6,950
Sundry Debtors	5,269	3,752	4,174	4,779	4,906
Cash and Bank	914	1,419	1,029	1,193	1,121
Current Liab & Prov	11,729	15,043	14,688	15,575	16,353
Net current assets	8,179	3,011	3,832	4,202	3,779
Total Assets	88,741	98,138	104,020	104,951	104,891

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income)	7,872	11,397	10,722	12,445	16,603
Depreciation	3,153	3,553	3,939	4,439	4,637
Interest Provided	674	876	1,926	1,647	1,024
Other Non-Cash items					
Chg in working cap	(2,921)	5,076	(1,210)	(207)	352
Tax paid	(1,376)	(2,077)	(3,247)	(3,757)	(4,980)
Operating Cashflow	7,400	18,848	12,129	14,568	17,636
Capital expenditure	(19,193)	(17,663)	(9,000)	(5,000)	(5,000)
Free Cash Flow	(11,793)	1,185	3,129	9,568	12,636
Other income	18	55	360	375	390
Investments	(150)	(100)	-	-	-
Investing Cashflow	(19,325)	(44)	360	375	390
Equity Capital Raised	-	16	-	-	-
Loans Taken / (Repaid)	14,270	753	(962)	(7,000)	(10,800)
Interest Paid	(580)	(696)	(1,926)	(1,647)	(1,024)
Dividend paid (incl tax)	(1,564)	(708)	(991)	(1,132)	(1,274)
Income from investments	-	-	-	-	-
Others	-	-	-	-	-
Financing Cashflow	12,127	(636)	(3,879)	(9,780)	(13,098)
Net chg in cash	202	504	(389)	163	(72)
Opening cash position	713	914	1,419	1,029	1,193
Closing cash position	915	1,419	1,029	1,193	1,121

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	21.2	29.1	27.5	26.9	27.7
Net Margin	11.2	14.1	13.0	13.2	14.9
ROCE	10.8	12.9	12.9	13.8	17.2
ROE	12.8	14.0	13.1	13.5	15.7
RoIC	13.0	16.9	15.0	14.6	18.0
Per Share Data (Rs)					
EPS	25.5	31.4	33.2	38.4	50.9
CEPS	38.9	46.4	49.9	57.2	70.6
BVPS	208.8	238.5	267.5	301.2	346.7
DPS	2.5	3.0	3.5	4.0	4.5
Valuations (x)					
PER	39.5	32.1	30.4	26.2	19.8
P/CEPS	25.9	21.7	20.2	17.6	14.3
P/BV	4.8	4.2	3.8	3.3	2.9
EV / Sales	5.0	5.1	4.4	3.8	3.1
EV / EBITDA	23.5	17.5	16.1	14.0	11.2
Dividend Yield (%)	0.2	0.3	0.3	0.4	0.4
Gearing Ratio (x)					
Net Debt/ Equity	0.6	0.5	0.5	0.3	0.1
Net Debt/EBITDA	2.6	1.9	1.7	1.2	0.5
Working Cap Cycle (days)	(0.1)	(36.5)	(26.9)	(23.0)	(22.0)

Source: Company, Systematix Institutional Research

Birla Corporation

01 September 2021

INITIATING COVERAGE

Sector: Cement	Rating: BUY
CMP: Rs 1,355	Target Price: Rs 1,685

Stock Info

Sensex/Nifty	56,890/16,931
Bloomberg	BCORP IN
Equity shares (mn)	77
52-wk High/Low	Rs 1,560/576
Face value	Rs 10
M-Cap	Rs 103bn/ USD 1.4bn
3-m Avg volume	USD 3.1mn

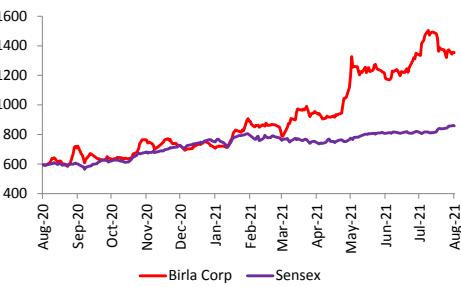
Financial Snapshot (Rs mn)

Y/E March	FY22E	FY23E	FY24E
Sales	74	84	92
EBITDA	14	16	18
PAT	6	7	9
EPS (Rs)	78.1	88.7	113.3
PE (x)	17.3	15.3	12.0
EV/EBITDA (x)	10.0	8.4	7.0
RoE (%)	10.5	10.8	12.5
RoCE (%)	7.7	8.3	9.7
Dividend yield (%)	0.7	0.7	0.8

Shareholding pattern (%)

	Jun-21	Mar-21	Dec-20
Promoter	62.9	62.9	62.9
-Pledged	-	-	-
FII	3.96	3.61	3.8
DII	13.8	13.8	13.6
Others	19.4	19.7	19.7

Stock Performance (1-year)



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Growing scale should drive re-rating

Birla Corporation (BCORP) is the second/eighth largest player in terms of installed capacity in the Central region/Pan-India and derives over 95% of its revenue from the Northern, Central and Eastern regions. The company has been operating its grinding capacity at a utilisation rate of over 90% since FY19. It aims to increase its cement grinding capacity by 33% to 20.4mtpa by FY23E and further to 25mtpa by 2025. Sales volume should grow at a CAGR of 10% over FY21-24E (8% CAGR between FY10-21). The stock is trading at 8.3x FY23E EV/EBITDA, which is significantly lower than other companies with similar capacities. The company's ability to add capacity without straining its balance sheet should drive a multiple re-rating. We expect its EBITDA/net profit to grow at a CAGR of 10.3%/11.5% over FY21-FY24E. Net Debt/EBITDA should be at 2x in FY23E despite the on-going capex. We initiate coverage on the stock with a BUY rating and a target price of Rs 1,685.

Expansion to aid growth; aims to achieve higher capacities

BCORP has been operating its grinding capacity at a utilisation rate of over 90% since FY19 (except in 1QFY21 due to the nationwide lockdown). It has added capacity at a CAGR of 8.1% between FY10-21 and will expand its clinker/cement capacity by 30%/33% to 13mtpa/20.4mtpa by FY23E, which should aid volume growth. We expect a volume CAGR of 10.1% over FY21-24E. The management has set a target of increasing its cement capacity to 25mtpa by 2025.

Incentives/cost savings to boost profits; higher scale should drive re-rating

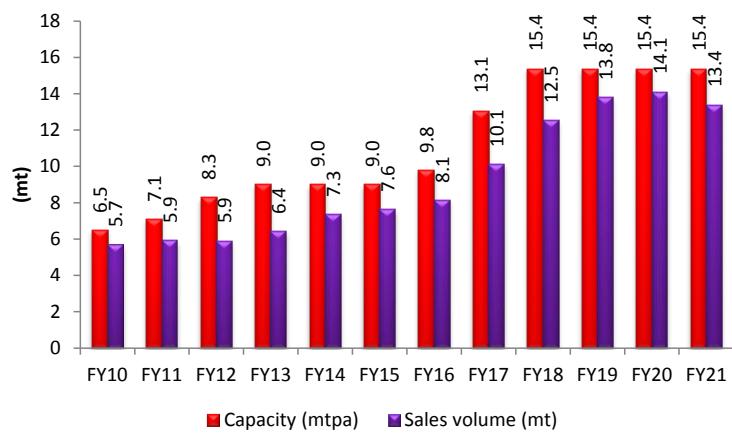
Incentives from state governments constituted 13.4% of BCORP's EBITDA in FY20 (11.7% in FY21 as per our estimates) and will continue to contribute to 10-11% of EBITDA till FY24E. Cost-saving strategies like the mining of coal through allotted blocks in e-auction, freight cost savings for its existing grinding unit in Butibori, Maharashtra after the commissioning of the integrated plant at Mukutban, Maharashtra and lower dependence on outside power should boost profits. BCORP is trading at 8.3x FY23E EV/EBITDA, which is lower than the average valuation of our coverage universe and companies with similar capacities. The valuation multiple should re-rate gradually as the company continues with its capacity expansion plans.

Outlook and valuation

BCORP trades at 10x/8.4x/7x FY22/23/24E EV/EBITDA and USD 99/89/79 FY22/23/24E EV/ton. It has traded at an average EV/EBITDA of 8x in the last 7 years. Going forward, with the improvement in profitability (EPS expected to grow at a CAGR of 11.5% over FY21-24E), stable return ratios (12.5% in FY24E vs. 12.2% in FY21) & balance sheet (net Debt/EBITDA at 1.3x in FY24E vs. 2.49x in FY21) and a continued focus on capacity additions, we expect BCORP to trade at higher-than-historical multiples. We value it at 10x FY23E EV/EBITDA to arrive at a target price of Rs 1,685 (an upside of 24% from the CMP). Our target valuation is at a discount to peers due to higher contribution of government incentives to its EBIDTA which will start declining after FY24E. We initiate coverage on the stock with a BUY rating.

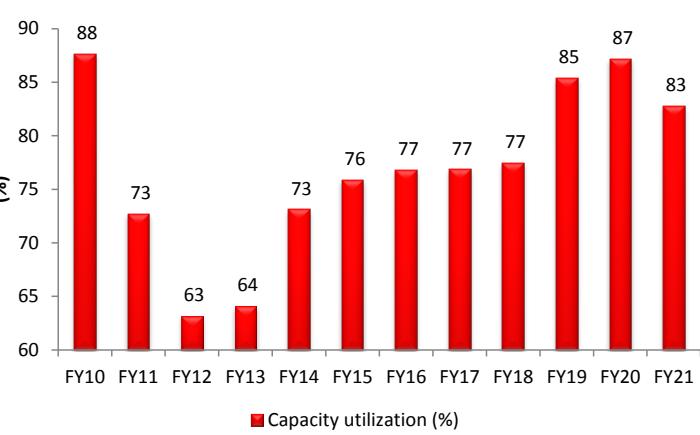
Story in charts

Exhibit 1: Capacity & sales volume increased at a CAGR of 8.6/8.1%



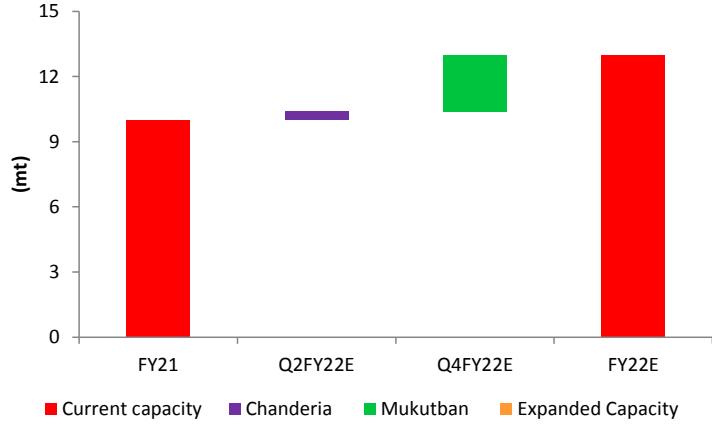
Source: Company, Systematix Institutional Research

Exhibit 2: Capacity utilisation at 85%+ post FY19



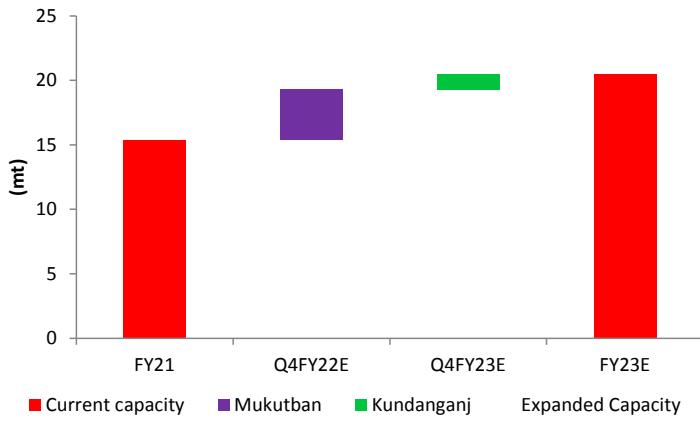
Source: Company, Systematix Institutional Research; *Q1FY21 utilisation was impacted due to nation-wide lockdowns

Exhibit 3: Clinker capacity being increased by 30%



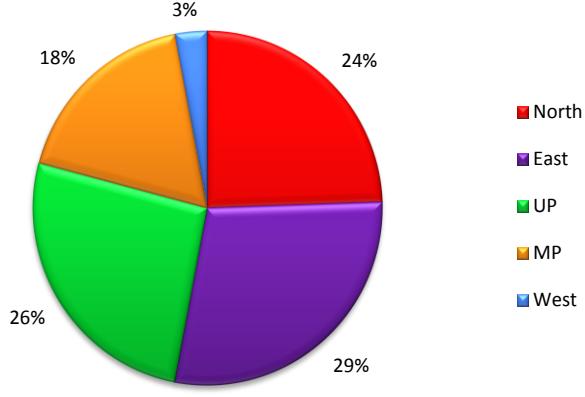
Source: Company, Systematix Institutional Research

Exhibit 4: Grinding capacity being increased by 33%



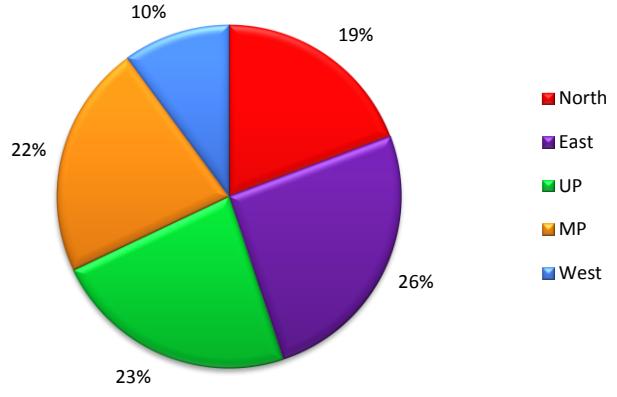
Source: Company, Systematix Institutional Research

Exhibit 5: Estimated sales-mix of the company in FY21



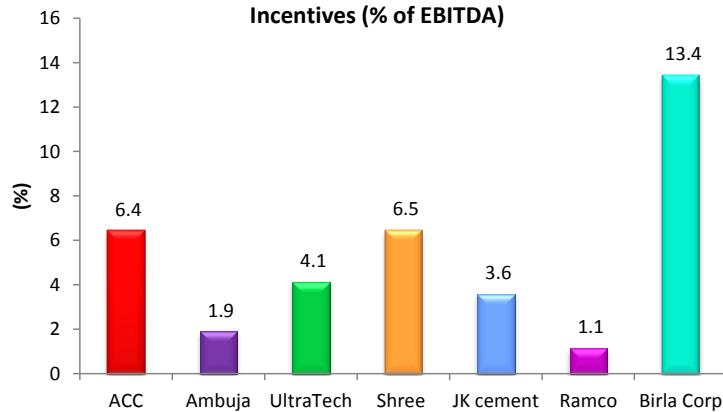
Source: Company, Systematix Institutional Research

Exhibit 6: Sales-mix to improve in the MP/Western markets



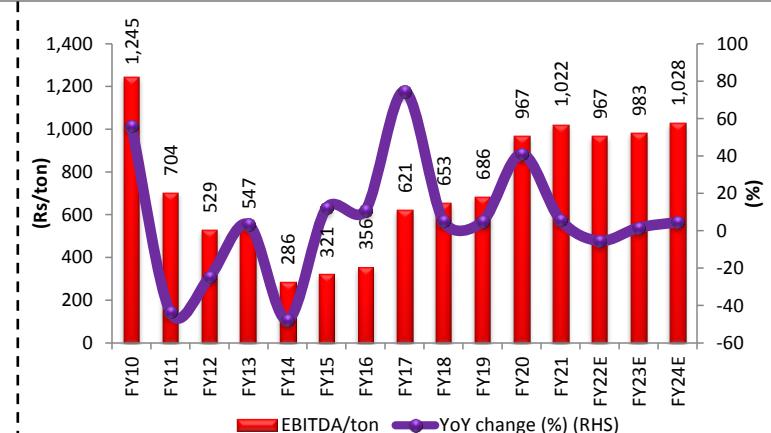
Source: Company, Systematix Institutional Research

Exhibit 7: Incentives as % of EBITDA in FY20; highest for BCORP amongst peers



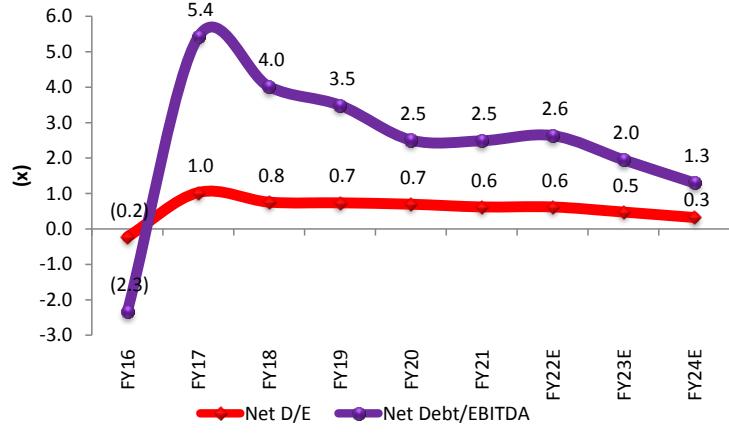
Source: Company, Systematix Institutional Research

Exhibit 8: EBITDA/ton expected to moderate in FY22E



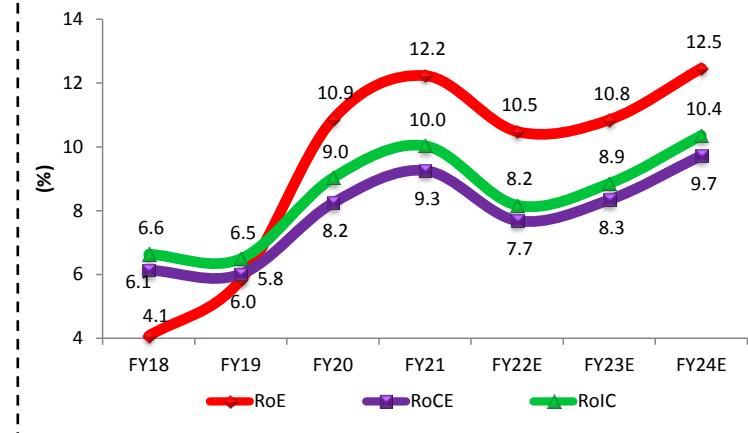
Source: Company, Systematix Institutional Research

Exhibit 9: Leverage to reduce...



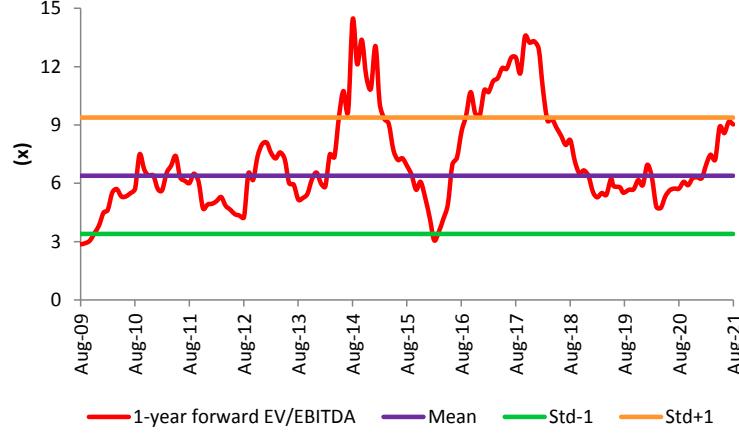
Source: Company, Systematix Institutional Research

Exhibit 10: ...while return ratios to improve post FY22E



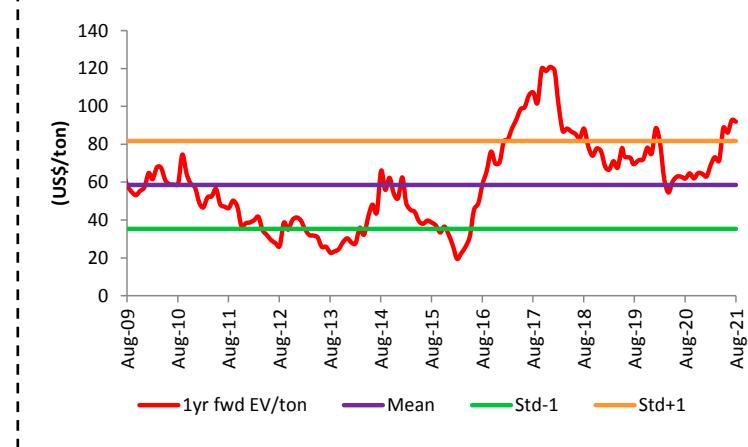
Source: Company, Systematix Institutional Research

Exhibit 11: 1-year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 12: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

Company Background

BCORP has a clinker/cement capacity of 10mtpa/15.4mtpa. It is the 2nd largest player in terms of capacity in the Central region. It plans to increase clinker/cement capacity to 13mtpa/20.5mtpa by FY23E.

Birla Corporation (BCORP) is the flagship company of the M.P. Birla Group - a leading industrial group with its other major companies being Hindustan Gum & Chemicals Ltd, Vindhya Telelinks Ltd, Universal Cables Ltd and Reliance Cement Company Private Limited. BCORP was established in 1919 as a jute manufacturing company. Over time, it has transformed into a multi-product business with cement manufacturing becoming its core business. In FY21, the cement segment constituted 95.7% of the company's revenue.

The company has a 15.4mtpa cement grinding capacity with manufacturing units in the Central (8.5mtpa), Northern (4mtpa), Eastern (2.3mtpa) and Western (0.6mtpa) regions. It has a clinker capacity of 10mtpa (6.7mtpa in the Central region and 3.3mtpa in the Northern region). The company acquired 100% shares of Reliance Cement Company Private Limited (RCCPL), a subsidiary of Reliance Infrastructure Limited in Aug'16, which had a clinker/cement capacity of 3.3mtpa/5.58mtpa. This acquisition was completed at an Enterprise Value of Rs 48bn.

BCORP plans to increase its clinker capacity to 13mtpa (integrated plant at Mukutban, Maharashtra and de-bottlenecking of the existing plant at Chanderia, Rajasthan) while grinding capacity to 20.5mtpa (3.9mtpa at Mukutban and 1.2mtpa at the existing location at Kundanganj, Uttar Pradesh) by FY23E.

It has a total power capacity of 106MW out of which, 54% is coal-based, 34% is WHRS and 12% is solar power. Power generation capacity will be increased to 156.6MW after the commissioning of the 40MW coal-based thermal power plant and 10.6MW of WHRS capacity at Mukutban, Maharashtra.

Exhibit 13: Manufacturing Units

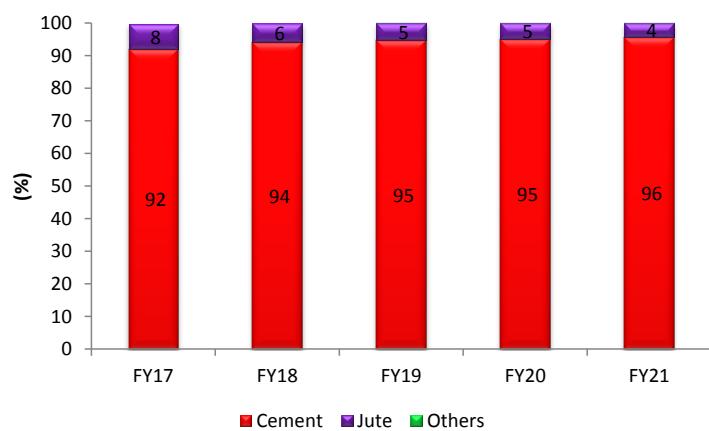
Plant Location	State	Clinker capacity (mtpa)	Cement capacity (mtpa)	Thermal Power (MW)	WHRS Capacity (MW)	Solar Capacity (MW)
Satna	Madhya Pradesh	3.4	2.2	27.0	15.0	2.2
Maihar	Madhya Pradesh	3.3	3.0		12.3	7.7
Raebareli & Raebareli Hitech	Uttar Pradesh	-	1.3			
Kundanganj*	Uttar Pradesh	-	3.2			
Central-Total		6.7	9.7	27.0	27.3	9.9
Chanderia	Rajasthan	3.7	4.0	29.8	9.0	3.0
North-Total		3.7	4.0	29.8	9.0	3.0
Durgapur	West Bengal	-	2.3			
East-Total		-	2.3	-	-	-
Butibori	Maharashtra	-	0.5			
West-Total		-	0.5	-	-	-
Planned Capacities by FY22E						
Mukutban	Maharashtra	2.6	3.9	40.0	10.6	
Grand Total		13.0	20.4	96.8	46.9	12.9

Source: Company, Systematix Institutional Research, *1.2mtpa expansion under progress

BCORP sells cement under various brands including *MP Birla Cement Perfect Plus, Samrat Advanced, Ultimate Ultra, Unique, Samrat, Ultimate, Chetak, PSC, Multicem & Concrecem*. Its key markets are Uttar Pradesh, Madhya Pradesh, Rajasthan, Haryana, Bihar, Bengal, Delhi, Gujarat and Maharashtra.

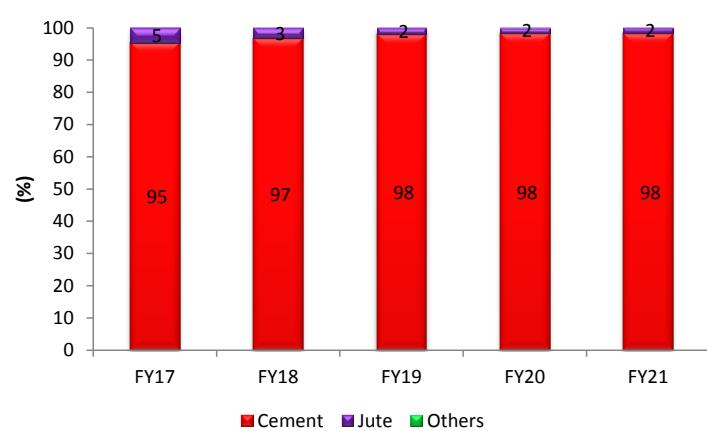
It is also engaged in the Jute business which has a capacity of 52,631mtpa and contributed to 4.2% of the total revenue in FY21. Vindhya Steel Foundry is a unit of BCORP at Satna. It has access to the latest technology and infrastructure to manufacture castings required by cement plants.

Exhibit 14: Revenue mix



Source: Company, Systematix Institutional Research

Exhibit 15: EBITDA mix



Source: Company, Systematix Institutional Research

Manufacturing facilities

Exhibit 16: Integrated Satna unit, MP



Source: Company

Exhibit 17: Integrated Maihar unit, MP



Source: Company

Exhibit 18: Durgapur, West Bengal (2.3mtpa)



Source: Company

Exhibit 19: Work in progress at Mukutban, Maharashtra



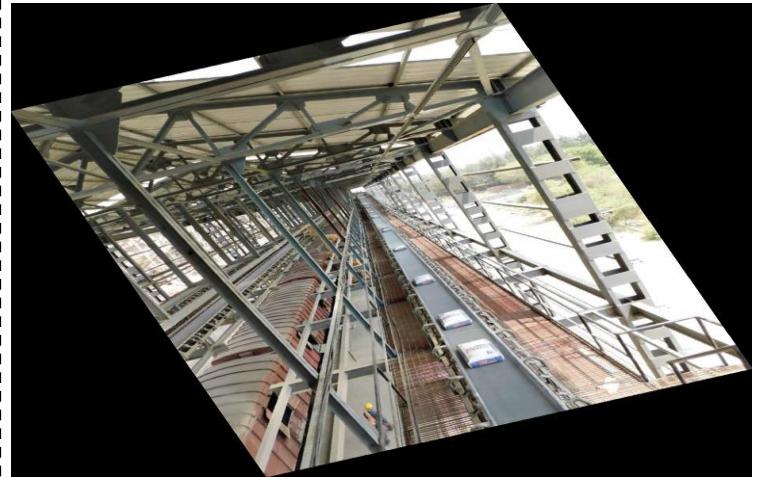
Source: Company

Exhibit 20: Integrated Chanderia unit, Rajasthan



Source: Company

Exhibit 21: Dedicated railway siding at Kundangunj



Source: Company

Exhibit 22: Product portfolio of BCORP



Source: Industry, Systematix Institutional Research

Exhibit 23: Building materials portfolio launched recently



Source: Industry, Systematix Institutional Research

Exhibit 24: Annual report highlights

Year	Demand Scenario & Outlook	Expansion plan	Operational efficiency initiatives	Key Risks	YoY Growth
FY16	<ul style="list-style-type: none"> During FY16, cement demand was weak due to low consumption from end-user sectors and procedural delays in clearance for industrial and infrastructure projects. Cement demand is likely to be better in FY17 on the back of planned spending on 'Housing for all by 2022', 'Smart cities' and highway and infrastructure projects. Limited capacity addition and higher demand should improve capacity utilization. 	<ul style="list-style-type: none"> 0.5mtpa blending unit commissioned in Raebareli in Oct'15. Procured equipment like excavators and rock breakers for mechanical mining; plans to add more such equipment. Received Environmental Clearance for the 2nd phase of expansion at Chanderia (2.7mtpa from 1,2mtpa). The plan will be executed once the clearance for additional limestone mining is received. 	<ul style="list-style-type: none"> Increase in the consumption of fly-ash and slag for manufacturing blended cement. Use of higher-quality pet coke at Satna instead of coal. Utilising alternate fuel and purchase of power from the exchange at rates lower than grid power. Reduction in power consumption per ton of cement. 	<ul style="list-style-type: none"> Rise in logistics costs. Supply exceeding demand, leading to soft cement prices. Non-availability of new limestone mines. 	Volume: 5.7% Revenue: 3.7% EBITDA: 17.2% PAT: -4.4%
FY17	<ul style="list-style-type: none"> After a spurt in 1QFY17, cement demand contracted in 2Q. The core markets that the company operates in were extensively affected by heavy monsoons, with many areas in Rajasthan and Madhya Pradesh hit by floods. Cement demand suffered a setback during 3Q on account of demonetisation by the Central government. Demand growth is expected to accelerate in the medium term and should grow 6-7% YoY till CY20 driven by government-led initiatives. 	<ul style="list-style-type: none"> Acquisition of 100% equity shares of Reliance Cement Company Private Limited (RCCPL) was completed on 22nd Aug'16. This acquisition strengthened the company's presence in the high-growth Central region. RCCPL has 3 cement units, an integrated cement plant at Maihar (Madhya Pradesh) and grinding units at Kundanganj (Uttar Pradesh) and Butibori (Maharashtra), with an aggregate capacity of 5.58 MTPA of cement and 3.3 MTPA of clinker. 	<ul style="list-style-type: none"> Use of pet coke in the thermal plant at Chanderia and higher usage of pet coke at the kiln in Satna. The use of high purity imported gypsum and higher use of additives, such as fly ash and slag. Optimization of the lead distance of despatches and change in the railroad mix. 	<ul style="list-style-type: none"> Rising input costs such as prices of pet coke and coal. Delay in setting up of new capacities due to acquisition process, delay in land acquisition, increased gestation period and requirement of several regulatory clearances. Lack of adequate availability of sand. 	Volume: -2.6% Revenue: 33% EBITDA: 118% PAT: 31%
FY18	<ul style="list-style-type: none"> Steps such as higher rural credit, increased Minimum Support Price and allocation for rural, agricultural and allied sectors in the Union Budget 2019 augur well for cement demand in the coming year. The move to set up an Affordable Housing Fund of Rs 250bn to ease credit to homebuyers shall support cement demand from the housing segment. 	<ul style="list-style-type: none"> Various projects commissioned during the year to meet the emission norms at the Satna plant. Stock pile of 20,000tons capacity and 2 conveyor belts constructed for additional storage of clinker at the Durgapur unit. 150 tph capacity crusher along with conveyor belts installed at Chanderia plant for the crushing of Laterite and Ochre. 	<ul style="list-style-type: none"> Semi-automatic truck loading machines were installed to increase efficiency and reduce manpower at the Chanderia unit. A new tertiary crusher was installed at the Satna plant which will increase the output. 	<ul style="list-style-type: none"> Higher power and fuel and freight costs. Non-resolution of restrictions on sand mining in various states. Restriction on the use of pet coke. 	Volume: 1.5% Revenue: 32% EBITDA: 29.4% PAT: -30%

FY19	<ul style="list-style-type: none"> Cement demand is expected to grow by 6-7% YoY on a pick-up in affordable housing and government infrastructure projects. The real estate sector is likely to benefit from the changes in GST rates and a reduction in repo rate. 	<ul style="list-style-type: none"> Work started on the Greenfield integrated plant of 3.9mtpa at Mukutban, Maharashtra along with 40MW/10.6MW CPP/WHRS plants. This plant is expected to get commissioned in FY22 (Capex: Rs 24.5bn). Grinding unit expansion by 1.2mt at Kundanganj, UP has also started. (Capex: Rs 2.5bn). Expansion of clinker production capacity from 3,600 to 5,500 TPD at Chanderia, Rajasthan. 12.25 MW WHRS to be commissioned at Maihar by 1QFY20. 	<ul style="list-style-type: none"> Restructured the logistics function for both inward and outward movement. Improving energy-usage efficiencies in plants. Economical sourcing of RM such as fly-ash & gypsum. 	<ul style="list-style-type: none"> Higher power and fuel and freight costs. Non-availability of railway rakes. Non-compliance with new environmental norms. 	Volume: 12.1% Revenue: 14.2% EBITDA: 17.6% PAT: 66.1%
FY20	<ul style="list-style-type: none"> Cement demand was not in line with expectation in FY20. Demand was impacted due to the general elections and economic slowdown. COVID-19 related lockdowns in Mar'20 further worsened the situation. Cement demand is estimated to fall 2% YoY in FY20. Cement demand is bound to be impacted in FY21, the extent of which will depend on the easing of the lockdowns and the return to normalcy. 	<ul style="list-style-type: none"> Greenfield Integrated plant of 3.9mtpa at Mukutban, Maharashtra has been delayed by few months due to COVID-19. Expansion project of Kundanganj plant has been put on hold for the time being to restrict debt and conserve liquidity given the uncertainty created by COVID-19. Expansion of clinker production capacity from 3,600 to 5,500 TPD at Chanderia, Rajasthan is in progress. 	<ul style="list-style-type: none"> Scaling up of captive coal production from Sial Ghogri Captive Coal mine. Ramping up of newly installed WHRS at Maihar and Solar power units. Railway siding facility at Kundanganj plant was completed, which should lead to reduced freight costs. 	<ul style="list-style-type: none"> Revival and sustenance of demand post COVID-19. Non-availability of railway rakes. Non-compliance with new environmental norms. 	Volume: -0.1% Revenue: 5.6% EBITDA: 41% PAT: 97.6%

Source: Company, Systematix Institutional Research

Exhibit 25: Annual report highlights

Name	Designation	Background
Mr. Harsh Lodha	Chairman	A member of the Managing Committee of Assocham and Executive Committee member of the Indian Chamber of Commerce where he has also served as Vice President. He is a Chartered Accountant and has served as a member of the Accounting Standards Board of the Institute of Chartered Accountants of India and a member of the Working Group on Corporate Governance, set up by the Department of Company Affairs, Government of India.
Mr. Arvind Pathak	Managing Director & Chief Executive Officer	Has around 38 years of experience, including 36 years in the cement industry. He held senior positions in ACC, Dangote Cement Plc, Adani and Reliance ADAG groups. He holds an Electrical Engineering degree from the IIT (BHU) and a PG degree in Industrial Engineering and Management. Skilled in manufacturing, operations management, strategic planning, project development and execution, he has a strong track record of planning & executing long-term business plans.
Mr. Pracheta Majumdar	Chief Management Advisor	Was the former Managing Director of CEAT Tyres Ltd and is a Mechanical Engineer. A Management Advisor by profession, he has served in senior management positions in diverse fields with large corporates and MNCs. He has worked in the areas of design and project management of chemicals, petrochemical and fertilizer plants. He has worked with Hindustan Unilever Ltd for about 12 years. He attended various international management courses organized by Unilever and Executive Development Programmes and Advanced Management Programmes conducted by Stanford University and Harvard Business School.
Mr. Asim Chattopadhyay	Executive President (Operation)	Is a mechanical engineer, with post-graduation from IIT, Kanpur. He started his career in 1975 with ACC Ltd and joined the Lafarge Group in 1998. He was Operations Director of Lafarge Surma, Bangladesh, till May 2015.
Mr. Aditya Saroogi	Chief Financial Officer	Before joining BCORP, he was with the Indian associate firms of Ernst & Young and BDO; has served several large clients including ITC, Bharti Airtel, Lafarge India, Peerless, iGate and Reliance Communications.
Mr. Dev Banerjee	President, Sales & Logistics	Has a professional background in sales and marketing in diverse fields, including tyre and cement. A keen strategist with managerial & functional expertise honed in multinational organizations across India, Nepal and Bangladesh, he carved out a niche for himself in sales & marketing. Before joining BCORP, he was with UltraTech Cement.

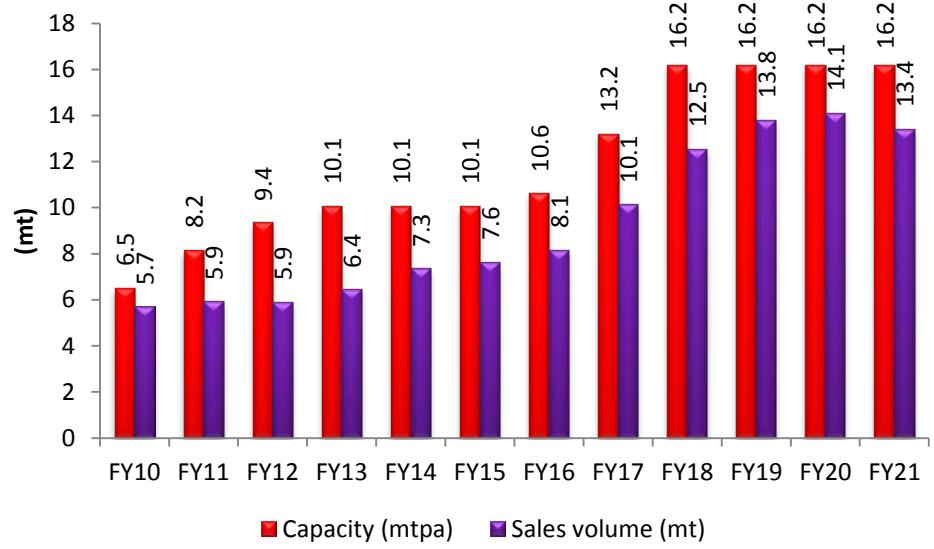
Source: Company, Systematix Institutional Research

Investment Analysis

Focus on increasing capacities

BCORP is amongst the few mid-cap companies that are focused on increasing their capacities through the organic/inorganic expansion routes. In Aug'16, it acquired Reliance Cement Company Private Limited (RCCPL) with a clinker/grinding capacity of 3.3mtpa/5.58mtpa (EV: Rs 48bn). RCCPL had an integrated plant in Maihar, Madhya Pradesh and grinding units in Kundanganj, Uttar Pradesh and Butibori, Maharashtra. Before the acquisition of RCCPL, BCORP had increased its grinding capacity at a CAGR of 7% between FY10-16 (increased capacity at Satna, Chanderia and Durgapur plants). Between FY10-21, its grinding capacity increased at a CAGR of 8.1%, leading to a sales volume CAGR of 8.1% in this period despite lower volumes in FY20/21 due to COVID-19-led issues.

Exhibit 26: Capacity/sales volumes increased at a CAGR of 8.1% over FY10-21

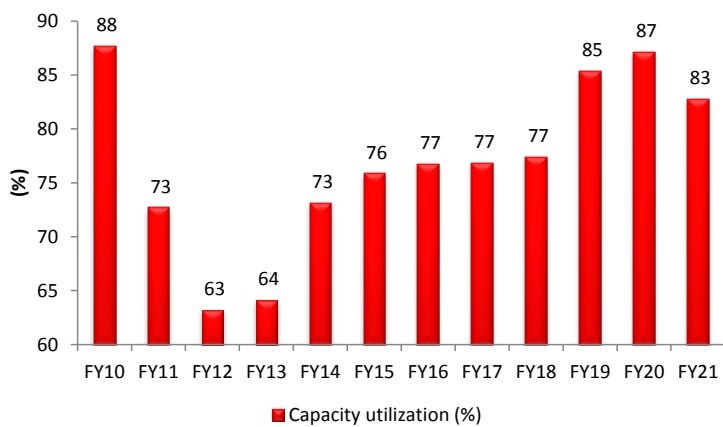


Source: Industry, Systematix Institutional Research

Higher capacity utilisation has led to planning for future growth

BCORP has been operating its grinding capacity at an average utilisation of over 90% since FY19 (except in 1QFY21 when its volumes were impacted due to the nationwide lockdown). Its average grinding capacity utilisation was around 80% between FY14-18 - much better than the regional utilisation trends. In FY17, the capacity utilisation of the acquired plants of RCCPL was around 69% which led to an overall lower utilisation rate of 78% although its own plants had operated at 80.4% capacity during the year. The increase in blended cement sales in FY19 helped the company improve its capacity utilisation.

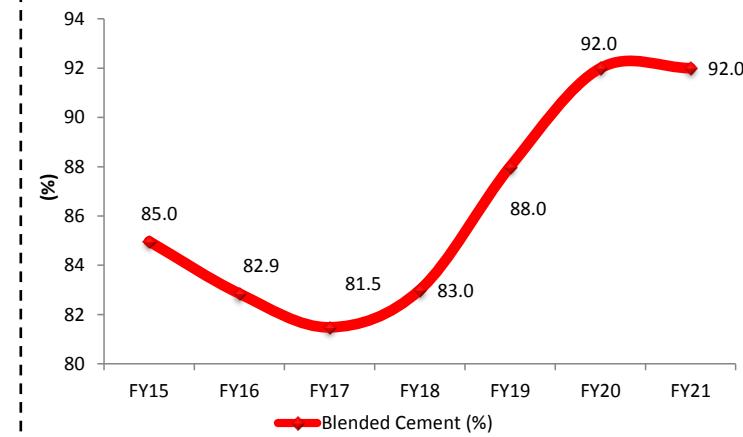
Exhibit 27: Capacity utilisation at 90% post FY19



Source: Company, Systematix Institutional Research

*1QFY21 utilisation was impacted due to the nationwide lockdown

Exhibit 28: Improvement in blended cement sales



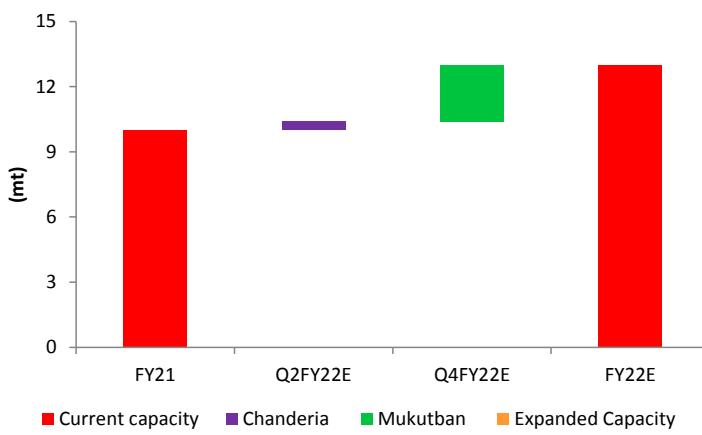
Source: Company, Systematix Institutional Research

Clinker/grinding capacities to increase by 30%/33%; aims to achieve 25mtpa capacity by 2025

Higher capacity utilisation of the existing plants led to the planning of future growth opportunities. BCORP is on the verge of commissioning a greenfield plant with a clinker/cement capacity of 2.6mtpa/3.9mtpa at Mukutban, Maharashtra. Capex for this project is estimated at Rs 24.5bn, which includes a 40MW captive power plant, a 10.6MW Waste Heat Recovery System and a railway siding. It is also increasing the clinker capacity at its Chanderia plant from 3,600tpd to 5,500tpd through de-bottlenecking at a capex of Rs 1.5bn. The grinding capacity at its Kundanganj, Uttar Pradesh plant is being increased by 1.2mt with a capex of Rs 2.5bn; this is expected to get completed in FY23E.

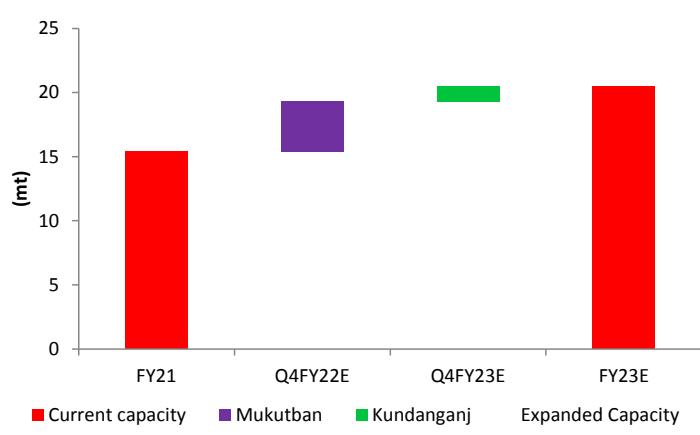
The management plans to further increase the grinding capacity to 25mtpa by 2025. The company may consider expansion at the Maihar/Chanderia plants in the next leg of capacity expansion.

Exhibit 29: Clinker capacity being increased by 30%



Source: Company, Systematix Institutional Research

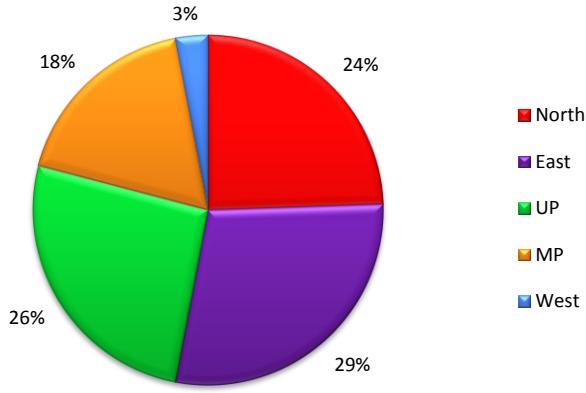
Exhibit 30: Grinding capacity being increased by 33%



Source: Company, Systematix Institutional Research

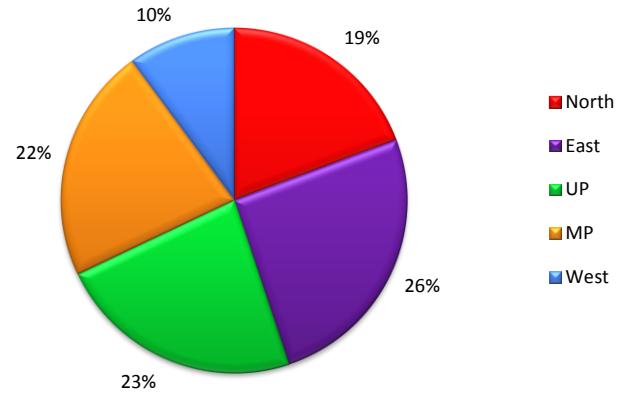
The new capacity will help BCORP to a) achieve higher sales volumes - 10% CAGR estimated between FY21-24E and b) have a wider geographical diversification - Maharashtra expected to account for 10% of sales volumes in FY24E vs. 3% at present. The new plant at Mukutban will also benefit from the pre-established distribution network for the Butibori grinding unit.

Exhibit 31: Estimated sales-mix of the company in FY21



Source: Company, Systematix Institutional Research

Exhibit 32: Sales volume to improve in the MP/Western markets post commissioning of the Mukutban plant



Source: Company, Systematix Institutional Research

We expect the company to sell 50% of its volumes from the Mukutban plant in Maharashtra and the balance in Madhya Pradesh.

Exhibit 33: The Mukutban plant will cater to the MP and Maharashtra markets

Plant	City	State	Distance (kms)
Mukutban	Bhusawal	Madhya Pradesh	445
Mukutban	Chindwara	Madhya Pradesh	290
Mukutban	Khandwa	Madhya Pradesh	522
Mukutban	Burhanpur	Madhya Pradesh	464
Mukutban	Bhopal	Madhya Pradesh	516
Mukutban	Aurangabad	Maharashtra	451
Mukutban	Nanded	Maharashtra	254
Mukutban	Latur	Maharashtra	371
Mukutban	Solapur	Maharashtra	492
Mukutban	Tuljapur	Maharashtra	445

Source: Company, Systematix Institutional Research

Incentives to continue supporting profits in the long term

BCORP gets incentives for its: 1) Maihar plant (75% of net SGST reimbursement on sales in the state of MP), which will expire in Nov'21 and 2) Kundanganj grinding unit (80% of net SGST reimbursement on sales in the state of UP), which will continue till mid-FY24E for the existing capacity. However, the expanded capacity will be eligible for incentives for seven years. The new capacity at Mukutban, Maharashtra will be eligible for 50% of gross SGST reimbursement for seven years on sales in the state of Maharashtra. Incentives constituted 13.4% of EBITDA in FY20 (11.7% of EBITDA in FY21 as per our estimates). We expect incentives to be in the range of Rs 1.6-2.1bn (10-11% of EBITDA) till FY24E and reduce gradually thereafter. However, if the company opts to increase the capacity of its Maihar plant (highly likely) and the incentive policy of the MP state government continues, there will be a further increase in incentives.

Exhibit 34: Incentives projection for the Kundanganj plant

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Capacity (Kundanganj)	2.4	2.4	2.4	2.4	2.4	3.6	3.6	1.2	1.2	1.2	1.2	1.2	1.2
UP volumes (50%)	1.02	1.02	1.116	0.9	1.08	1.08	1.53	0.51	0.51	0.51	0.51	0.51	0.255
Selling price (Rs/bag)	320	326	333	340	340	340	340	340	340	340	340	340	340
VAT	45	46	47	48	48	48	48	48	48	48	48	48	48
Re-imbursement (%)	80	80	80	80	80	80	80	80	80	80	80	80	80
Amount received (Rs mn)	731	746	832	685	822	822	1,164	388	388	388	388	388	194

Source: Company, Systematix Institutional Research

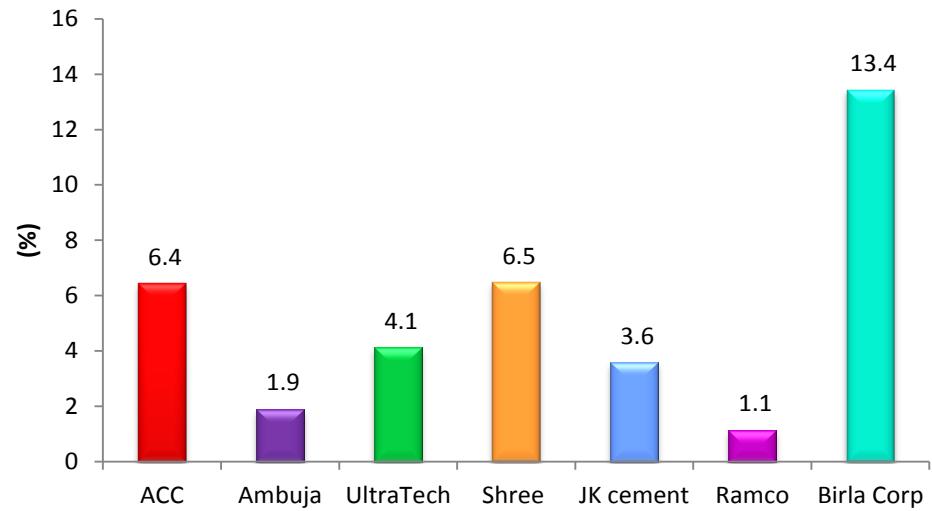
Exhibit 35: Incentives projection for the Mukutban plant

Particulars	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E
Capacity (Mukutban)	2.0	3.9	3.9	3.9	3.9	3.9	3.9	2.0
Maharashtra volumes (50%)	0.3	1.5	1.7	1.7	1.7	1.7	1.7	0.9
Selling price (Rs/bag)	300	306	312	318	318	318	318	318
VAT	42	43	44	45	45	45	45	45
Re-imbursement (%)	50	50	50	50	50	50	50	50
Amount received (Rs mn)	123	627	724	739	739	739	739	379

Source: Company, Systematix Institutional Research

Note that the contribution of incentives to EBIDTA for BCORP is the highest within the cement industry.

Exhibit 36: Incentives as % of EBITDA in FY20; highest for BCORP amongst peers



Source: Companies, Systematix Institutional Research

Cost-saving initiatives should support profitability

Over the years, BCORP has undertaken cost-saving initiatives like the installation of waste heat recovery systems (WHRs), solar power plants and participation in coal block auctions that helped it secure two coal mines (Bikram and Brahmputri in MP) in Nov'19.

It commissioned a 12.25MW WHRS at Maihar in FY20 and 12MW solar power plants (3MW at Chanderia, 1MW at Satna and 7.7MW at Maihar plant) at various locations in FY20. It constructed a railway siding at the Kundanganj grinding unit and rationalised road freight during FY20. WHRS contributed to 24% of power generation in FY20 and we expect it to contribute to 28-29% of power generation till FY24E. We believe 50%+ of the company's power requirements were met through purchase; however, the dependence on external power should decline going forward to 32%/34% in FY23/24E.

Exhibit 37: Green power to contribute to over 30% of power generation...

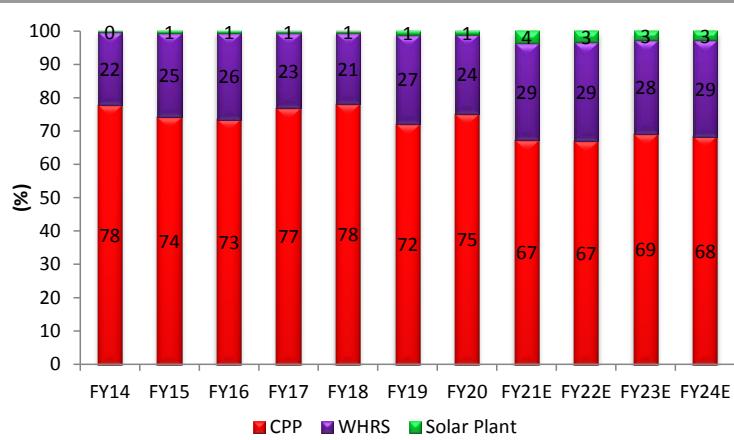
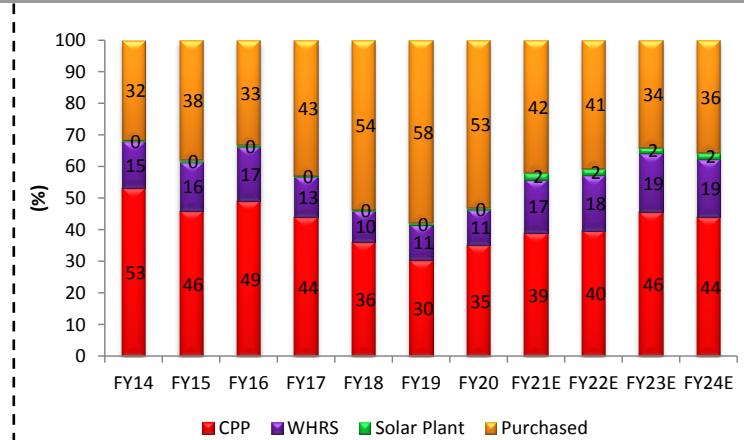


Exhibit 38: ... and 20-21% of power consumption by FY24E



Source: Company, Systematix Institutional Research

Source: Company, Systematix Institutional Research

While the company has started to benefit from its WHRS/solar power plants, we expect further cost savings of 1) Rs 41/ton when coal mining starts from its allotted mines and 2) Rs 231mn (Rs 12-13/ton on total volumes) after the commissioning of the Mukutban plant as clinker to the Butibori grinding unit will be supplied from this plant (currently from the Maihar plant).

Exhibit 39: Cost savings estimated from coal blocks

Coal block	Extractable Reserves (mt)		Annual extraction (mt)	Landed cost for use (Rs/ton)	Coal cost (Rs mn)	Cost if pet coke/Coal mix used (Rs mn)	Savings (Rs mn)	Savings/ton blended-FY23E
Bikram, MP	C grade	3.9	0.13	2,893	372	756	384	23
	D grade	1.9	0.06	2,778	179	329	150	9
	F grade	2.6	0.09	2,668	231	278	47	3
Brahampuri, MP	C & D grade	12.3	0.36	3,563	1,283	1,977	694	41

Source: Company, Systematix Institutional Research

The company will have cost advantages for the grinding unit at Butibori, Maharashtra as the cost of clinker transportation to this plant will decline significantly. The distance between the Butibori unit and the new capacity at Mukutban, Maharashtra is around 140km compared to about 508km from the Maihar, Madhya Pradesh plant. BCORP is likely to save Rs 231mn in clinker transfer costs for the Butibori, Maharashtra plant after the commissioning of the new unit at Mukutban.

Exhibit 40: Cost savings estimated for the Butibori grinding unit

Particulars	FY23E
Capacity (mtpa)	0.5
CU (%)	80
Production (mt)	0.4
Clinker required (mt)	0.3
Distance from Mukutban plant (km)	140
Distance from Maihar plant (km)	508
Reduction in distance travelled (km)	368
Savings on clinker transfer (Rs mn)	231

Source: Company, Systematix Institutional Research

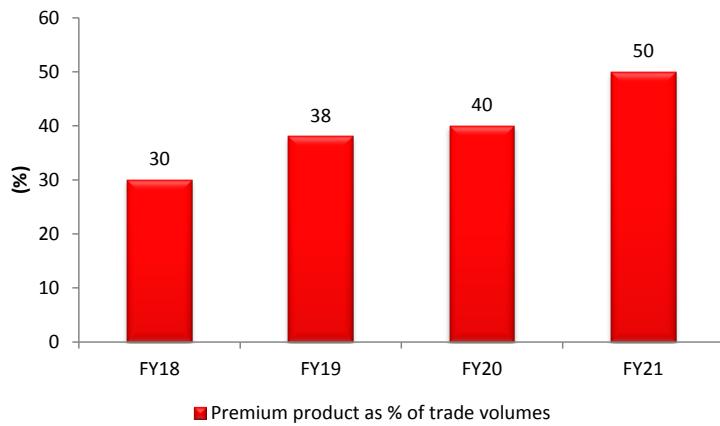
Higher contribution from premium products

BCORP has a range of premium products: It launched *Birla Samrat Unique Cement* (slag based) in 2011, *Birla Samrat Ultimate Cement* in 2014, *MP Birla Cement CONCRECEM* (OPC 43 and 53 grades) and *Multicem PPC* in Mar'17, *MP Birla Perfect Cement* (rebranding of *Reliance Perfect Cement* brand) in 4QFY17, *Ultimate Ultra* and *Perfect Plus* in FY18, *Samrat Advanced* (a premium variant of the company's heritage *MP Birla Cement Samrat* brand) in FY20. In Jan'19, *MP Birla Cement Perfect Plus* introduced a range of construction chemicals for waterproof homes, and wall putty.

During FY20, the sales of *MP Birla Cement Unique* (sold in the Eastern region) grew 18% YoY. The sales of premium cement grew 8% YoY and contributed to 40% of trade volumes in FY20. The share of premium products improved to 50% of trade volumes in FY21.

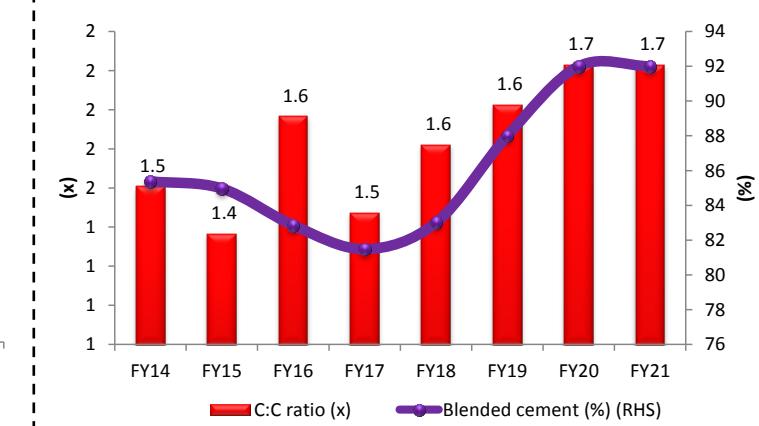
The higher share of blended cement sales also resulted in higher clinker to cement conversion ratio (C:C ratio). We believe slag cement production is ~10% of the total volumes.

Exhibit 41: Increasing share of premium products



Source: Company, Systematix Institutional Research

Exhibit 42: Higher blended cement sales lead to higher C:C ratio

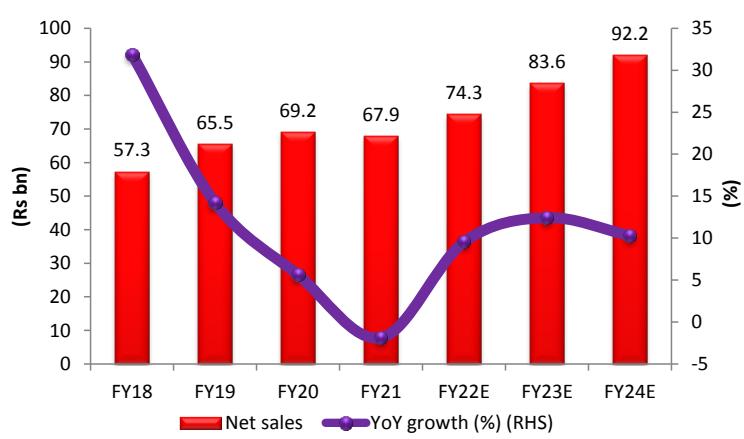


Source: Company, Systematix Institutional Research

Financial Analysis

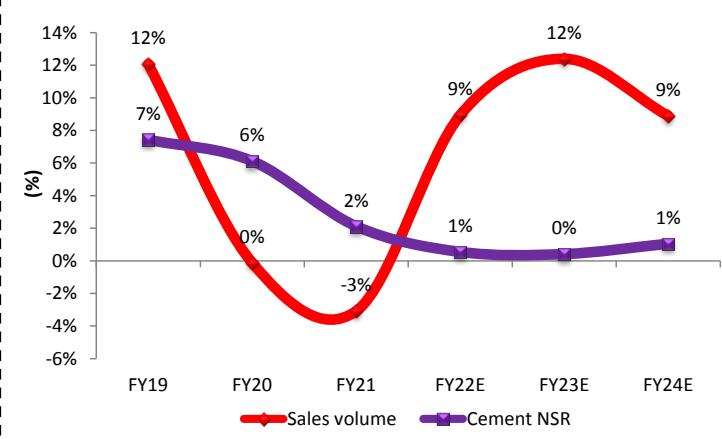
We expect the company's cement volumes to grow at a CAGR of 10.1% over FY21-24E led by the commissioning of new plants. We expect the company's utilisation rate to be at 90% in FY22E and decline to 77% in FY23E post the commissioning of the Mukutban plant. Capacity utilisation is expected to be 83.9% in FY24E. We estimate cement realisation to grow at a CAGR of 0.7% over FY21-24E considering lower cement prices in the Western region as compared to the Central markets. Higher sales volumes/realisation should lead to a revenue CAGR of 11.9% over FY21-24E.

Exhibit 43: Expect 10.7% CAGR in sales over FY21-24E...



Source: Company, Systematix Institutional Research

Exhibit 44: ...led by 10.1%/0.7% CAGR in volumes/NSR

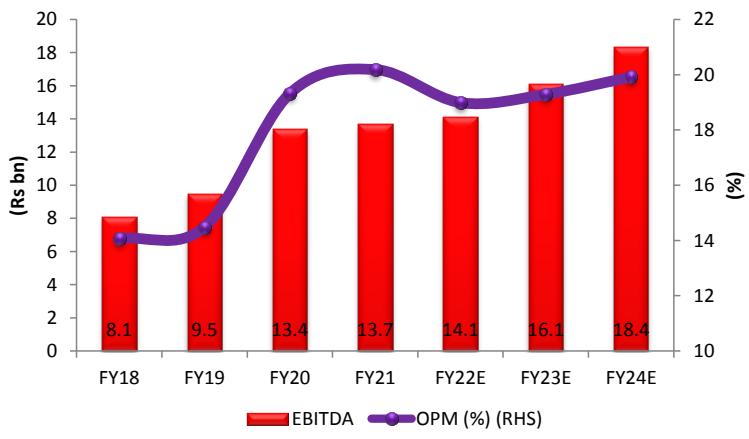


Source: Company, Systematix Institutional Research

BCORP's EBITDA is expected to grow at a CAGR of 11.5% during FY21-FY24E led by higher sales volumes. We believe that the profitability of the Mukutban plant will be Rs 250-300/ton lower than the existing plants as cement prices are volatile in the Maharashtra markets.

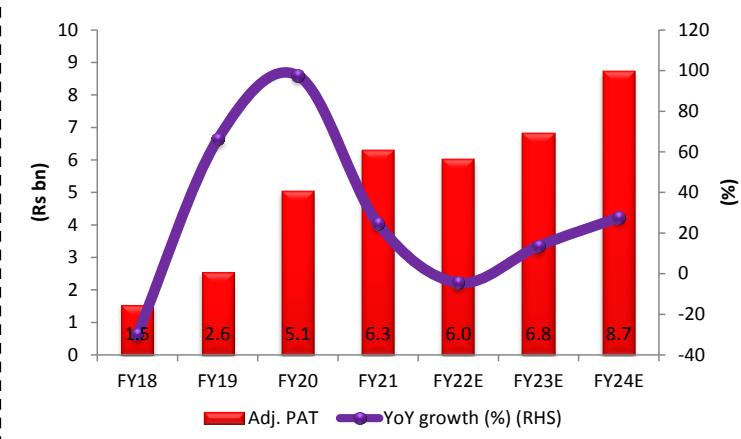
Higher profitability in FY20/21 (EBITDA/ton of Rs 967/Rs 1,022 in FY20/21 vs. Rs 686 in FY19) led to profits growing at a CAGR of 56.9% between FY19-21. We expect the company's profits to grow at a slower CAGR of 13.5% over FY21-24E led by higher depreciation and interest expense (ETR was 11.6% in FY21).

Exhibit 45: Estimate EBITDA CAGR of 10.3% between FY21-24E...



Source: Company, Systematix Institutional Research

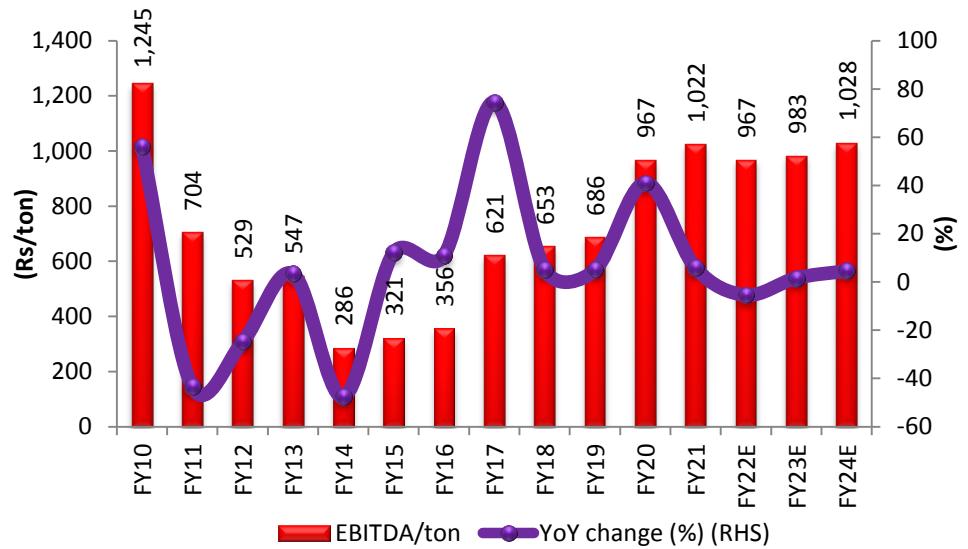
Exhibit 46: ...while adjusted PAT CAGR at 11.5% in the same period



Source: Company, Systematix Institutional Research

Improvement in cement prices (6.1%/2.1% YoY increase in FY20/21) and cost controls in FY21 led to a strong improvement in EBITDA/ton (22.1% CAGR between FY19-21). We expect EBITDA/ton to decline by 5.4% in FY22E due to higher energy and variable costs. We expect EBITDA/ton to grow at a CAGR of 3% over FY22-24E.

Exhibit 47: EBITDA/ton expected to moderate in FY22E

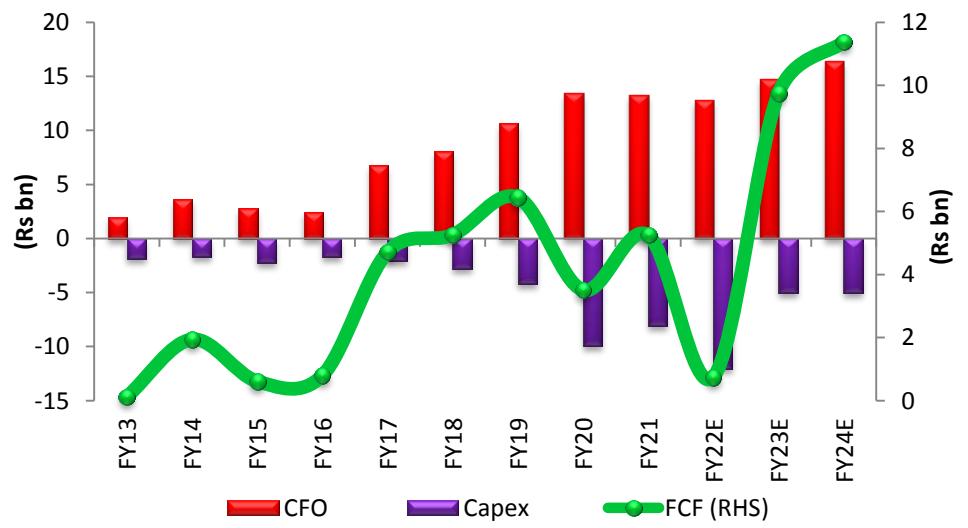


Source: Company, Systematix Institutional Research

BCORP's operating cash generation (OCF) has improved continuously during FY16-FY20, led by strong improvement in profitability post the acquisition of Reliance Cement. It generated OCF of Rs 52.5bn between FY16-21 and we expect it to generate OCF of Rs 43.9bn between FY21-24E.

The company had incurred a capex of Rs 27bn between FY16-21 and generated free cash (FCF) of Rs 25.2bn in that period. It has consistently generated FCF every year since FY13; despite our capex assumption of Rs 22bn over FY21-24E, we expect it to generate FCF every year (cumulative FCF of Rs 21.9bn between FY21-24E).

Exhibit 48: OCF to remain high; FCF to improve in FY23/24E

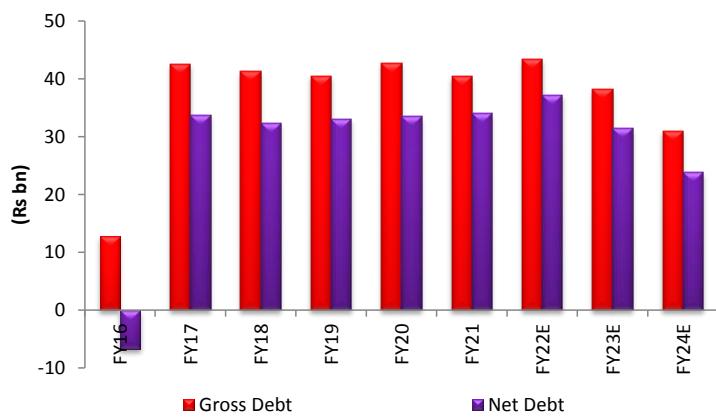


Source: Company, Systematix Institutional Research

BCORP's consolidated gross debt increased to Rs 42.5bn in FY17 from Rs 12.8bn in FY16 due to the acquisition of RCCPL. Despite the capex for the Mukutban plant (Rs 17.3bn spent over FY20/21), the gross debt remained at Rs 40.5bn in FY21. We expect peak gross debt of Rs 43.5bn in FY22E, which should reduce to Rs 31bn by FY24E. Net debt was Rs 34.1bn in FY21 vs. Rs 33.5bn in FY20 and we expect it to reduce to Rs 23.8bn by FY24E.

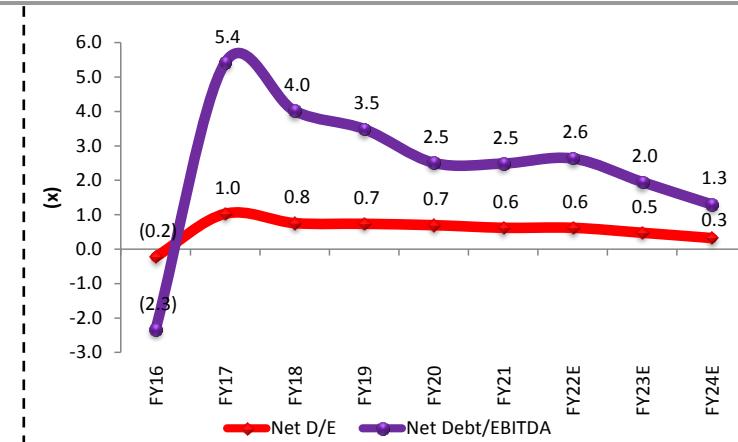
Net debt/EBITDA of the company deteriorated to 5.4x in FY17 post the acquisition of RCCPL and improved gradually to 2.5x in FY21. We expect net debt/EBITDA to be at 2.6x in FY22E and improve thereafter to 2x/1.3x in FY23/24E.

Exhibit 49: Gross debt to peak in FY22E...



Source: Company, Systematix Institutional Research

Exhibit 50: ...leading to a reduction in leverage



Source: Company, Systematix Institutional Research

BCORP's RoE improved to 12.2% in FY21 vs. 5.8%/10.9% in FY19/FY20 led by better realisations; this in turn led to higher profits. Its EBIT margin improved by 500bps to 15.5% in FY20 and stabilised at 15.7% in FY21. We expect its EBIT margin to remain stable at 15.4% in FY22/23E and improve to 16.4% in FY24E. Our assumption of higher effective tax rate (ETR) and lower profitability will lead to a lower RoE of 10.5% in FY22E post which, we expect its RoE to improve to 10.8%/12.5% in FY23/24E.

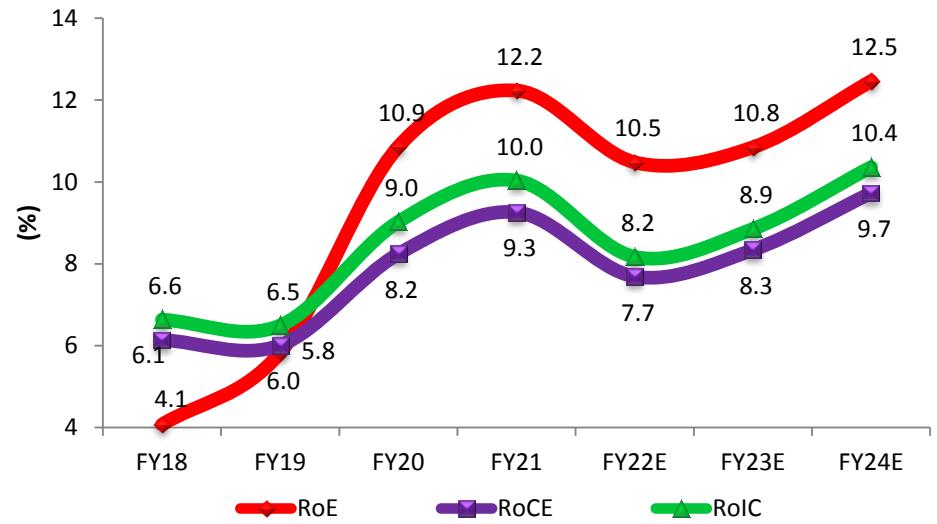
Exhibit 51: RoE expected to improve post a decline in FY22E

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT/PBT	96.3%	80.6%	74.1%	88.4%	78.0%	78.0%	78.0%
PBT/EBIT	29.1%	46.1%	63.7%	66.9%	72.4%	72.8%	79.2%
EBIT/Sales	9.6%	10.5%	15.5%	15.7%	15.4%	15.4%	16.4%
Asset turnover (x)	0.66	0.71	0.72	0.67	0.64	0.70	0.76
Assets/Equity (x)	2.28	2.10	2.07	1.98	1.88	1.79	1.62
ROE (%)	4.1	5.8	10.9	12.2	10.5	10.9	12.5

Source: Company, Systematix Institutional Research

The company's RoCE improved by 330bps between FY19 and FY21 to 9.3%. We expect it to decline to 7.7% in FY22E led by higher depreciation expense and lower profitability. RoCE is expected to be at 8.3%/9.7% in FY23/24E. The RoIC is expected to be at 8.2%/8.9%/10.4% in FY22/23/24E vs. 10% in FY21.

Exhibit 52: Return ratios to improve after a decline in FY22E



Source: Company, Systematix Institutional Research

Cash flow analysis & corporate governance

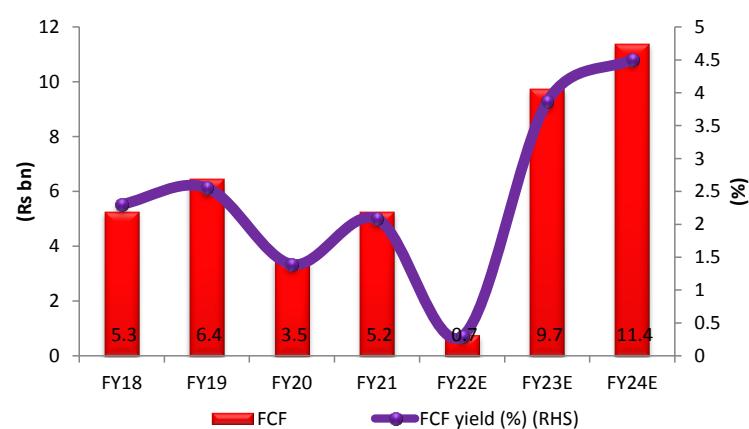
FCF generation: BCORP generated cumulative FCF of Rs 25.2bn between FY17-21.

FCF utilisation: Of the total FCF generation, BCORP paid ~12% (~Rs 3bn) towards dividend (including dividend tax). Gross debt of the company has reduced by Rs2.1bn in last 5 years (7% of FCF). Cumulative interest payment is 61% of FCF in last 5 years.

FCF expectation: We estimate FCF to decline to Rs 0.75bn in FY22E led by the capex requirement for the Mukutban (3QFY22E-end) and Kundangunj (~2HCY22E) expansion projects. However, its FCF is expected to increase to Rs 9.7bn/Rs 11.4bn in FY23E/FY24E.

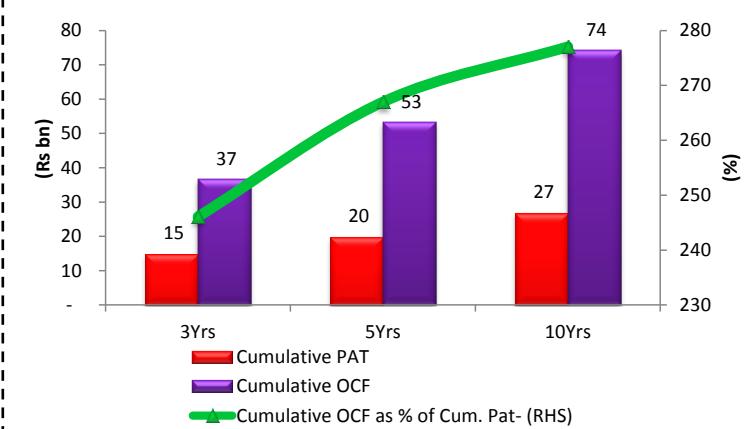
Earnings quality: During the last 10 years, BCORP has earned a cumulative PAT of ~Rs 27bn against which it generated an OCF of Rs 65bn (2.4x of profits).

Exhibit 53: FCF of Rs 21.9bn over FY22-24E



Source: Company, Systematix Institutional Research

Exhibit 54: Healthy cash flow quality



Source: Company, Systematix Institutional Research

Exhibit 55: Contingent liabilities

Contingent liabilities (Rs mn)	FY18	FY19	FY20
Sales Tax, VAT, CST and Entry Tax matters	1,723	1,658	1,655
Excise Duty, Service Tax, Goods & Service Tax and Custom Duty matters	817	1,005	1,008
Others	1,723	1,578	1,578
Total	4,263	4,241	4,241
% of net-worth	10%	9%	9%

Source: Company, Systematix Institutional Research

Exhibit 56: Other key monitorables

Particulars	FY16	FY17	FY18	FY19	FY20
Remuneration to Directors & KMPs (Rs mn)	48.2	65.6	69.4	76.6	69.6
% of PBT	2.4%	2.8%	4.3%	2.4%	1.0%
Auditor's remuneration (Rs mn)	7.6	10.4	7.8	9.2	9.8
% of PBT	0.4%	0.5%	0.5%	0.3%	0.1%
Pledged shares (%)	-	-	-	-	-

Source: Company, Systematix Institutional Research

Systematix vs. Consensus

Our revenue and margin estimates are in-line with the Bloomberg consensus for FY22E/FY23E/FY24E. We estimate BCORP's operating profit to grow at a 10.3% CAGR during FY21-FY24E led by 1) higher production capacity owing to the commissioning of the Mukutban and Chanderia units, 2) cost savings led by the higher share of renewables in the power mix & BCORP receiving logistic cost synergies with the commissioning of the Mukutban unit, 3) better NSR stability as BCORP strengthens its position in Western India, neutralising regional price vagaries coupled with an increasing share of premium products going ahead (50% in FY21).

Exhibit 57: BCORP: Bloomberg vs. our estimates (consolidated financials)

Particulars	FY22E	FY23E	FY24E
Revenues (Rs bn)			
Consensus	76	88	99
Systematix est.	74	84	92
% Difference	-2%	-5%	-7%
EBITDA (Rs bn)			
Consensus	14	18	20
Systematix est.	14	16	18
% Difference	-2%	-8%	-6%
EBITDA Margin (%)			
Consensus	19.1%	20.0%	19.8%
Systematix est.	19.0%	19.3%	19.9%
Difference (bps)	(7.8)	(71.2)	9.8

Source: Company, Systematix Institutional Research

Exhibit 58: Key assumptions

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Sales volume (mt)	12	14	14	13	15	16	18
Cement Realization (Rs/ton)	4,058	4,359	4,626	4,724	4,750	4,770	4,820
Per ton costs (Rs)							
Raw material	958	984	938	950	968	943	938
Employee cost	289	268	295	316	307	300	297
Power & Fuel	1,055	1,073	999	974	1,022	1,022	1,028
Freight	960	980	994	950	968	943	938
Other Expenses	728	742	811	853	862	903	931
Total Cost	3,991	4,047	4,037	4,043	4,126	4,112	4,132
Blended EBITDA/ton	653	686	967	1,022	967	983	1,028

Source: Systematix Institutional Research, Company

Key Downside Risks

- 1) **Further delay in the commissioning of pending capex:** BCORP aims to commission the Mukutban, Maharashtra unit by FY22-end. The plant has got delayed due to COVID-19 challenges; however; any further delay could lead to lower-than-estimated volume growth.
- 2) **Inflationary pressures in fuel costs:** There has been a sharp increase in the prices of pet coke, coal and diesel in the last few months. The price of pet coke is up ~75% over the last year while imported coal price has increased 30%+. Current pet coke prices are up ~40% vs. 4QFY21 consumption price. Though cement companies are trying to control energy costs by changing their fuel mix (lower usage of pet coke and Australian coal), continued escalation in coal/pet coke prices could impact our earnings estimate if the industry is unable to pass on the cost increases to consumers.
- 3) **Prolonged pandemic-related restrictions/lockdowns:** We estimate BCORP to report 9% cement volume growth in FY22E; however, continued localised lockdowns in the country could act as a downside risk to our estimates. Besides hurting demand, lockdowns/restrictions impact the mobilisation of labour at construction sites and delay the process. However, we derive confidence from the vaccination pace in India and believe economic recovery and normalcy will be attained from 2HFY22E onwards.
- 4) **Pressure on cement prices:** We estimate cement prices to improve by 1-2% YoY on the higher base of FY20/21. Any decline in cement prices will put pressure on earnings given the high sensitivity of earnings to a change in cement prices.
- 5) **Delay in the receipt of incentives:** BCORP receives incentives from the state governments of Uttar Pradesh and Madhya Pradesh. It will also be eligible for fiscal incentives for its new capacity in Maharashtra. Any delay in the receipt of incentives from the state governments would lead to an increase in receivables on the Balance Sheet.

Valuation and View

BCORP is the 2nd largest player in terms of installed capacity in the Central region and the 8th largest player on a pan-India basis. It derives over 95% of its revenues from the Northern, Central and Eastern regions. The company has increased its capacities through the organic as well as inorganic routes over the last few years which helped it grow volumes at a CAGR of 8.1% over FY10-21.

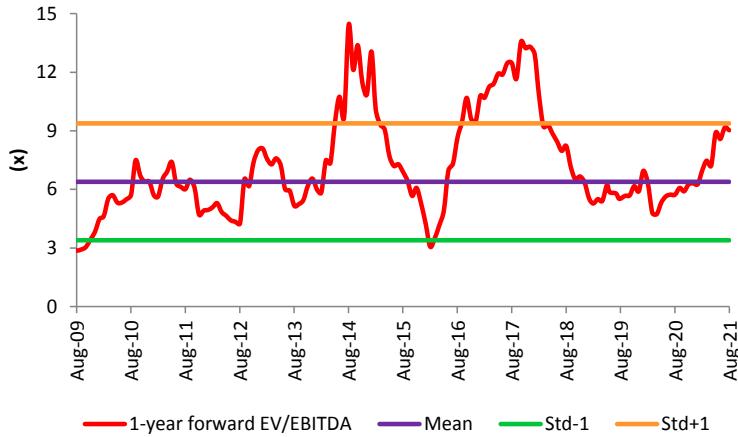
It has been operating its grinding capacities at a utilisation rate of over 90% since FY19 (except in 1QFY21 when demand got impacted due to the nationwide lockdowns), which is one of the highest in the industry. It is in the process of increasing its clinker/grinding capacity by 30%/33% by FY23E which would aid future growth and diversify its regional presence (higher volumes in the West and Madhya Pradesh markets). The management aims to have a cement capacity of 25mtpa by 2025.

The company incurred a capex of Rs 27bn between FY16-21 and generated free cash (FCF) of Rs 25.2bn in that period. It consistently generated FCF since FY13; despite our capex assumption of Rs 22bn over FY21-24E, we expect it to continue to generate FCF every year (cumulative FCF of Rs 21.9bn between FY21-24E). Net debt/EBITDA of the company had deteriorated to 5.4x in FY17 post the acquisition of RCCPL and improved gradually to 2.5x in FY21. We expect net debt/EBITDA to be at 2.6x in FY22E and improve thereafter to 2x/1.3x in FY23/24E.

The RoE of the company improved to 12.2% in FY21 vs. 5.8%/10.9% in FY19/FY20 led by better realisations; this in turn led to higher profits. EBIT margin improved by 5pp to 15.5% in FY20 and remained at 15.7% in FY21. We expect the EBIT margin to be at 15.4% in FY22/23E and improve to 16.4% in FY24E. Our assumption of higher ETR and lower profitability will lead to lower RoE of 10.5% in FY22E. Post that, we expect RoE to improve to 10.8%/12.5% in FY23/24E.

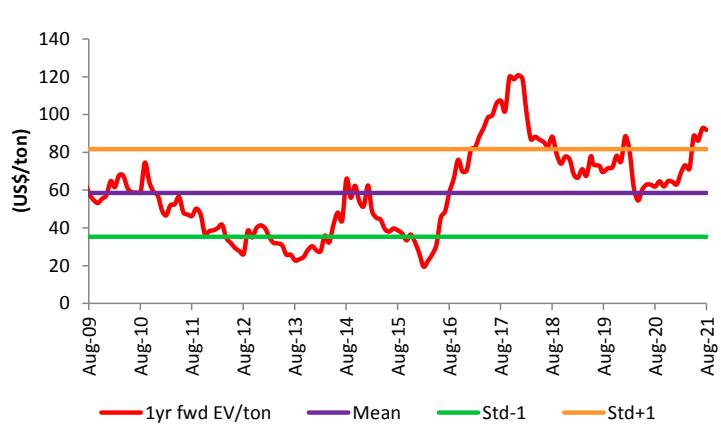
The stock trades at 10x/8.4x/7x FY22/23/24E EV/EBITDA and USD 99/89/79 FY22/23/24E EV/ton. It has traded at an average EV/EBITDA of 8x in the last 7 years. With an improvement in profitability (EPS expected to grow at a CAGR of 11.5% over FY21-24E), return ratios & balance sheet and a continued focus on capacity addition, we expect it to trade at higher-than-historical multiples going forward. We value the company at 10x FY23E EV/EBITDA to arrive at a target price of Rs 1,685 (an upside of 24% from the CMP) and initiate coverage with a **BUY** rating. At our TP, the stock will trade at 10x/8.4x FY23/24E EV/EBITDA and USD 106/95 FY23/24E EV/ton.

Exhibit 59: 1- year forward EV/EBITDA



Source: Company, Systematix Institutional Research

Exhibit 60: 1-year forward EV/ton



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	69,157	67,854	74,322	83,563	92,157
Growth (%)	5.6	-1.9	9.5	12.4	10.3
Total Expenditure	55,797	54,158	60,210	67,446	73,803
EBITDA	13,360	13,696	14,112	16,117	18,354
Growth (%)	40.8	2.5	3.0	14.2	13.9
EBITDA margin (%)	19.3	20.2	19.0	19.3	19.9
Depreciation	3,519	3,708	4,138	4,781	4,937
EBIT	9,841	9,989	9,975	11,336	13,417
EBIT margin (%)	14.2	14.7	13.4	13.6	14.6
PBT	6,815	7,688	7,713	8,760	11,182
Tax	1,763	825	1,697	1,927	2,460
Effective tax rate (%)	25.9	10.7	22.0	22.0	22.0
Adjusted PAT	5,052	6,864	6,016	6,833	8,722
Growth (%)	98	36	(12)	14	28
Net Margin (%)	7.3	10.1	8.1	8.2	9.5
(Profit)/loss from JVs/Ass/MI	-	-	-	-	-
Adjusted PAT After JVs/Ass/MI	5,052	6,864	6,016	6,833	8,722
E/O items	-	(568)	-	-	-
Reported PAT	5,052	6,296	6,016	6,833	8,722
Growth (%)	97.6	24.6	(4.4)	13.6	27.6

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PAT	5,052	6,296	6,016	6,833	8,722
Depreciation	3,519	3,708	4,138	4,781	4,937
Interest Provided	3,877	2,963	2,937	3,265	2,938
Chg in working cap	739	(1,177)	(346)	(133)	(226)
Operating Cashflow	13,412	11,789	12,745	14,746	16,371
Capital expenditure	(9,907)	(8,697)	(12,000)	(5,000)	(5,000)
Free Cash Flow	2,424	4,592	1,421	10,436	12,074
Investments	-	-	-	-	-
Investing Cashflow	(11,840)	(7,860)	(12,000)	(5,000)	(5,000)
Equity Capital Raised	-	-	-	-	-
Loans Taken / (Repaid)	2,328	(2,355)	3,000	(5,300)	(7,200)
Interest Paid	3,877	2,963	2,937	3,265	2,938
Dividend paid (incl tax)	(696)	(928)	(743)	(836)	(928)
Financing Cashflow	(2,012)	(6,014)	(866)	(9,308)	(10,973)
Net chg in cash	(439)	(2,085)	(120)	439	398
Opening cash position	1,390	2,558	1,773	1,652	2,091
Closing cash position	950	473	1,652	2,091	2,488

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	770	770	770	770	770
Reserves & surplus	47,291	54,090	59,178	65,268	73,154
Net worth	48,061	54,860	59,948	66,038	73,925
Total Liabilities	99,449	103,992	112,080	112,870	113,557
Net block	73,246	73,226	99,089	97,308	97,371
Capital work in progress	16,039	21,048	3,048	5,048	5,048
Investment	8,372	7,534	7,534	7,534	7,534
Current Assets	24,099	27,147	27,516	29,082	29,951
Cash & bank balance	2,558	1,773	1,652	2,091	2,488
Loans & advances	11,160	14,479	14,864	15,459	15,667
Current liability & Prov.	22,306	24,964	25,107	26,101	26,347
Current liabilities	21,637	24,314	24,385	25,292	25,462
Provisions	669	649	722	809	885
Net current assets	1,793	2,184	2,409	2,981	3,604
Misc. exp	-	-	-	-	-
Total Assets	99,449	103,992	112,080	112,870	113,557

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
Profitability (%)					
EBITDA Margin	19.3	20.2	19.0	19.3	19.9
Net Margin	7.3	10.1	8.1	8.2	9.5
RoCE	8.2	9.3	7.7	8.3	9.7
RoE	10.9	12.2	10.5	10.8	12.5
RoIC	9.0	10.0	8.4	9.2	10.8
Per Share Data (Rs)					
EPS	65.6	81.8	78.1	88.7	113.3
CEPS	111.3	129.9	131.8	150.8	177.4
BVPS	624.1	712.4	778.4	857.5	959.9
DPS	7.5	10.0	10.0	10.0	11.0
Valuations (x)					
PER	20.7	16.6	17.3	15.3	12.0
P/CEPS	12.2	10.4	10.3	9.0	7.6
P/BV	2.2	1.9	1.7	1.6	1.4
EV / Sales	2.0	2.0	1.9	1.6	1.4
EV / EBITDA	10.3	10.1	10.0	8.4	7.0
Dividend Yield (%)	0.6	0.7	0.7	0.7	0.8
Gearing Ratio (x)					
Net Debt/ Equity	0.7	0.6	0.6	0.5	0.3
Net Debt/EBITDA	2.5	2.5	2.6	2.0	1.3
Working Cap Cycle (days)	(4.0)	2.2	3.7	3.9	4.4

Source: Company, Systematix Institutional Research

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