

Cement

Weak pricing dampens industry margin

- **Demand firmed up but at the expense of pricing:** In our view, cement demand again firmed up in Q4FY24 on a strong pick-up in non-trades sales. We estimate aggregate volumes will grow 10% YoY in Q4FY24 (as against 8% YoY in Q3). However, owing to aggressive volume push in non-trade segments (channel check suggests major players pushed volumes hard in Q4), cement pricing took a beating during the peak demand quarter. Prices fell sharply across India, wiping away the pricing uptick of the preceding two quarters. As per our channel checks, cement prices fell ~3% QoQ across north, central and west regions and ~6% QoQ across east and south markets. Thus, pan-India, prices have corrected ~4% QoQ in Q4FY24 (as against expectations of a +0-1% increase QoQ, at the start of the quarter).
- **Opex cool-off to provide margin cushion against pricing rout:** We estimate unit opex will decline 2-3% QoQ, supported by op-lev gains (as we build in 20% QoQ volume growth in the peak season). We also build a further fall in the industry's energy costs (marginal benefits from cool-off in fuel prices and rising share of green power consumption). We estimate unit freight costs will remain flattish QoQ.
- **Industry margin to contract QoQ on poor pricing:** The slump in cement pricing owing to an aggressive volume push has hit the margin recovery hard. As against earlier expectations of margin firming up further QoQ in Q4, we estimate margin will contract INR 130/MT QoQ (as against earlier expectations of similar margin expansion QoQ). The margin contraction is cushioned by op-lev gains. On a YoY basis, we estimate a unit EBITDA increase of INR 120/MT.
- **Sector outlook:** We expect industry volume to grow by 10% YoY in FY24. Input cost reduction should almost bottom out in Q4FY24, in our view. Owing to fuel cost cool-off and higher green power share, we estimate our coverage universe margin will recover by INR 170 per MT YoY in FY24. Further owing to the higher fuel cost base in H1FY24, rising green power share and price hike taken by companies in Apr-24, we estimate a margin recovery of INR 100 per MT in FY25. We expect a similar INR 100 per MT margin recovery in FY26 too, aided by better pricing and lower cost. We have maintained our FY24/25/26E industry volume estimates. But we cut EBITDA estimates by 5/2% for FY24/25E respectively, owing to price cuts taken by companies in Q4FY24 to push volumes. We maintain our FY26E estimates.
- **Ratings:** We maintain our BUY ratings on UltraTech, ACC, Dalmia Bharat, Nuvoco Vistas, Birla Corp, JK Lakshmi, and Star Cement. We maintain our ADD rating on Ambuja Cements, Ramco Cements, and Sagar Cements. We have maintained our REDUCE stance on JK Cement, Heidelberg Cement, Orient Cement, and Deccan Cements. Owing to the correction in the Shree Cement stock price in the past two months, we upgrade it to an ADD from REDUCE earlier. We upgrade the target multiple of JK Cement to 13x FY26E EV/EBITDA from 12x earlier, owing to strong operating execution and Capex. We downgrade our target multiple for Nuvoco to 9x FY26E EV/EBITDA from 10x earlier, as it continues to lose market share in its major east market.

COMPANY	RATING	TP (INR)
UltraTech Cem	BUY	10,820
Shree Cem	ADD	28,700
Ambuja Cem	ADD	620
ACC	BUY	2,845
Dalmia Bharat	BUY	2,650
Nuvoco Vistas	BUY	430
Ramco Cem	ADD	940
JK Cement	REDUCE	4,180
Birla Corp	BUY	1,685
Heidelberg Cem	REDUCE	160
Star Cement	BUY	245
JK Lakshmi	BUY	1,015
Orient Cem	REDUCE	195
Sagar Cement	ADD	260
Deccan Cem	REDUCE	480

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Q4FY24E estimates

Y/E March (INR mn)	Net sales (INR mn)			EBITDA (INR mn)			EBITDA Margin (%)			Adj. PAT (INR mn)		
	Mar-24	YoY (%)	QoQ (%)	Mar-24	YoY (%)	QoQ (%)	Mar-24	YoY (%)	QoQ (%)	Mar-24	YoY (%)	QoQ (%)
ACC \$	54,174	13.1	10.2	8,994	92.0	(0.6)	16.6	6.8	(1.8)	5,471	81.1	1.8
Ambuja \$	93,419	17.3	14.9	18,071	45.8	4.3	19.3	3.8	(2.0)	9,778	23.4	18.8
Birla Corp \$	26,065	5.8	12.7	3,927	43.2	3.8	15.1	3.9	(1.3)	1,258	88.7	15.3
Dalmia \$	40,820	4.3	13.4	7,479	5.8	(3.5)	18.3	0.2	(3.2)	2,072	1.1	(21.2)
Deccan Cem	2,307	17.8	6.4	248	20.6	(13.4)	10.7	0.3	(2.4)	95	(4.3)	(38.4)
Heidelberg Cem	6,773	12.5	11.6	859	24.2	31.2	12.7	1.2	1.9	466	33.2	48.0
JK Cement \$	31,655	14.0	7.9	6,343	81.5	1.5	20.0	7.5	(1.3)	2,667	137.6	(6.0)
JK Lakshmi \$	19,390	4.1	13.9	3,211	38.0	6.3	16.6	4.1	(1.2)	1,518	37.9	12.6
Nuvoco Vistas \$	29,599	1.1	22.3	4,468	17.4	8.9	15.1	2.1	(1.9)	664	1,129.0	113.9
Orient Cem	8,564	(2.2)	14.0	1,204	(13.7)	4.4	14.1	(1.9)	(1.3)	493	(26.8)	9.9
Ramco Cem	24,747	(3.7)	17.5	3,967	(3.9)	0.3	16.0	(0.0)	(2.7)	867	(43.1)	(7.2)
Sagar Cem \$	7,313	17.7	9.2	707	82.1	(18.7)	9.7	3.4	(3.3)	(203)		
Shree Cement #	50,318	5.2	2.7	11,851	32.8	(3.9)	23.6	4.9	(1.6)	6,048	54.3	(17.6)
Star Cem \$	8,851	6.6	35.9	1,715	3.2	15.3	19.4	(0.6)	(3.5)	762	(20.7)	3.6
UltraTech Cem \$	1,99,423	6.9	19.1	37,761	13.7	16.0	18.9	1.1	(0.5)	21,383	28.4	20.3
Total	5,49,243	7.6	15.0	1,01,812	23.5	6.6	18.5	2.4	(1.5)	47,868	29.6	8.6

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

Q4FY24E operational estimates

Y/E March	Sales volume (mn MT)			NSR (INR/MT)			EBITDA (INR/MT)			Opex (INR/MT)		
	Mar-24	YoY (%)	QoQ (%)	Mar-24	YoY (%)	QoQ (%)	Mar-24	YoY (%)	QoQ (%)	Mar-24	YoY (%)	QoQ (%)
ACC \$	10.2	20.4	15.0	4,977	(4.9)	(4.0)	870	321	(146)	4,107	(12.4)	(1.5)
Ambuja \$	16.9	19.8	20.0	5,521	(2.1)	(4.2)	1,068	191	(160)	4,453	(6.5)	(1.8)
Birla Corp \$	4.8	9.1	15.0	5,143	(2.6)	(3.0)	793	193	(106)	4,349	(7.0)	(1.2)
Dalmia \$	8.2	10.0	20.6	4,963	(5.1)	(6.0)	909	(36)	(227)	4,053	(5.4)	(2.2)
Deccan Cem	0.5	19.3	12.0	4,196	(1.3)	(5.0)	450	5	(132)	3,746	(1.6)	(2.3)
Heidelberg Cem	1.4	17.1	15.0	4,875	(4.0)	(3.0)	618	35	76	4,257	(5.3)	(5.1)
JK Cement \$	4.7	14.4	14.0	5,196	1.2	(3.5)	1,089	521	(138)	4,108	(10.0)	(1.2)
JK Lakshmi \$	3.5	8.0	18.0	5,551	(3.6)	(3.5)	919	200	(101)	4,632	(8.1)	(2.1)
Nuvoco Vistas \$	5.2	0.5	30.0	5,130	(0.3)	(5.5)	855	159	(136)	4,275	(3.9)	(3.7)
Orient Cem	1.7	(2.8)	20.0	5,127	0.5	(5.0)	721	(91)	(108)	4,406	2.8	(3.6)
Ramco Cem	5.0	6.2	25.0	4,956	(9.3)	(6.0)	794	(92)	(195)	4,161	(9.1)	(2.8)
Sagar Cem \$	1.6	19.3	15.0	4,519	(1.3)	(5.0)	437	151	(182)	4,082	(4.9)	(1.4)
Shree Cement	9.4	6.8	6.0	5,337	(1.5)	(3.1)	1,257	246	(130)	4,080	(7.5)	(1.0)
Star Cem \$	1.4	13.5	44.6	6,313	(6.1)	(6.0)	1,223	(123)	(311)	5,090	(5.3)	(1.8)
UltraTech Cem \$	34.1	7.6	24.7	5,852	(0.7)	(4.5)	1,108	59	(83)	4,744	(2.1)	(3.9)
Total	98.6	9.8	20.3	5,460	(2.0)	(4.2)	1,020	117	(130)	4,440	(4.9)	(2.5)

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

Operating assumption summary

Operational assumptions/estimates for coverage universe

	Sales Vol (mn MT)			Sales Vol YoY (%)			NSR (INR/MT)			EBITDA (INR/MT)			Opex (INR/MT)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
UltraTech \$	118.4	131.9	147.7	12.0	11.4	11.9	5,983	6,073	6,164	1,079	1,172	1,296	4,905	4,901	4,869
Shree Cem	36.0	40.6	44.7	13.0	13.0	10.0	5,371	5,425	5,479	1,235	1,286	1,306	4,202	4,150	4,170
Ambuja \$	34.6	37.2	41.7	14.6	7.4	12.1	5,259	5,281	5,301	1,015	1,109	1,314	4,244	4,173	3,987
ACC \$	36.2	38.9	41.6	17.2	7.5	6.9	5,154	5,180	5,215	842	932	982	4,312	4,249	4,233
Dalmia Bharat \$	28.6	32.8	37.4	10.7	15.0	14.0	5,135	5,160	5,238	975	1,054	1,106	4,160	4,106	4,131
Nuvoco \$	18.5	19.4	20.4	(1.5)	5.0	5.0	5,226	5,279	5,331	829	912	960	4,398	4,366	4,372
Ramco Cem	17.7	19.1	21.1	18.0	8.0	10.0	5,141	5,192	5,270	873	952	1,018	4,267	4,240	4,252
JK Cement \$	18.9	20.6	22.5	16.8	9.1	9.2	6,109	6,123	6,163	1,125	1,202	1,250	4,984	4,921	4,912
Birla Corp \$	17.5	18.5	19.4	11.0	6.0	5.0	5,237	5,316	5,395	748	827	916	4,489	4,489	4,479
Heidelberg	4.9	5.1	5.3	12.5	4.0	4.0	4,916	4,966	5,040	639	729	794	4,277	4,236	4,246
Star Cem \$	4.4	5.3	6.4	10.0	20.0	20.0	6,536	6,667	6,467	1,239	1,585	1,572	5,298	5,082	4,895
JK Lakshmi \$	12.3	13.5	14.6	7.0	10.0	8.0	5,690	5,775	5,862	845	967	1,040	4,845	4,808	4,822
Orient Cem	6.0	6.4	6.8	5.0	6.0	6.0	5,100	5,151	5,254	692	773	831	4,407	4,378	4,423
Sagar Cem \$	5.6	6.7	7.5	15.2	20.0	12.0	4,582	4,673	4,767	449	678	744	4,133	3,995	4,022
Deccan Cem	1.9	2.2	2.4	5.0	15.0	10.0	4,274	4,360	4,447	542	665	761	3,732	3,695	3,685

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

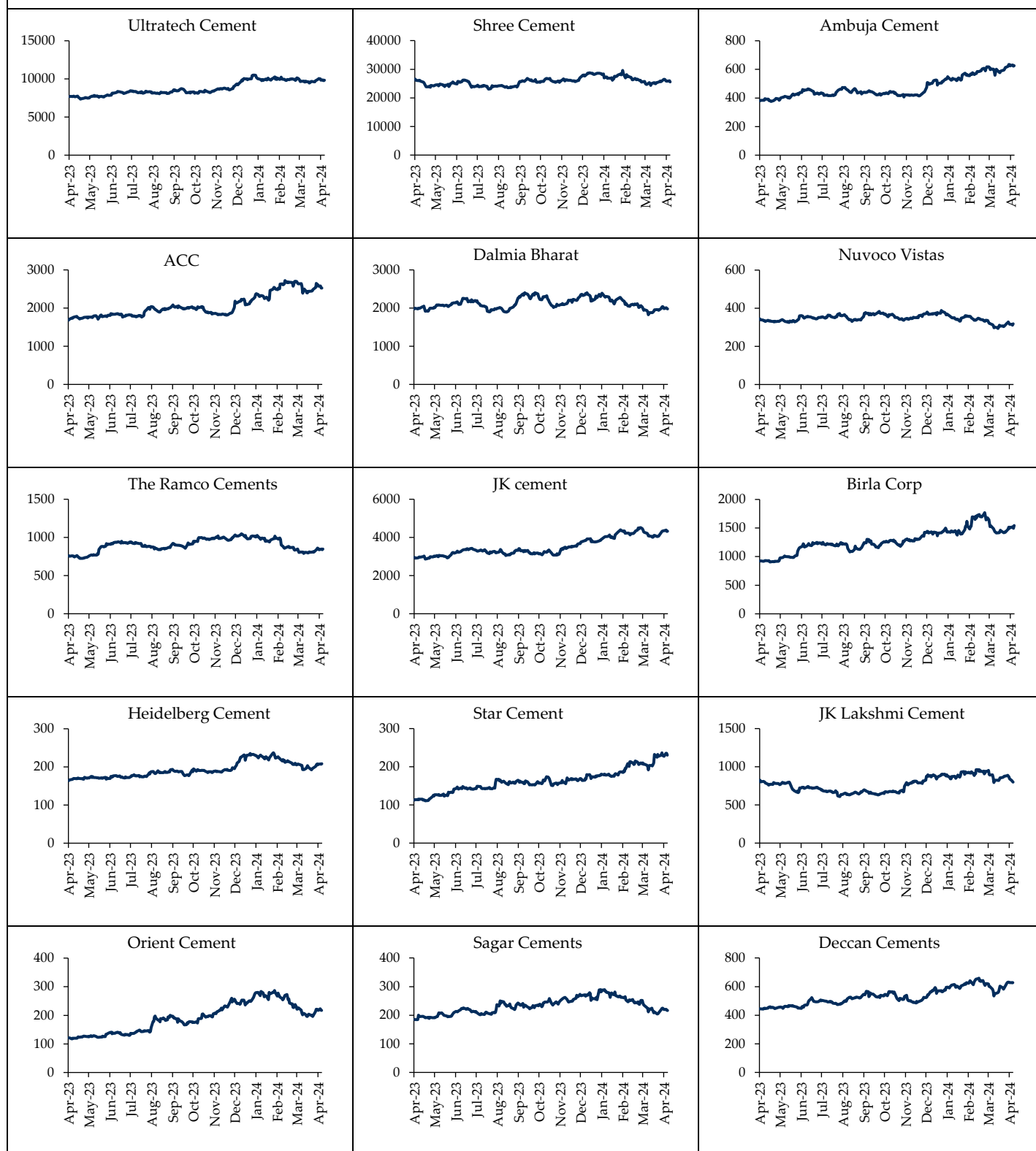
Peer set valuations and TP revisions

Rating and target price revision summary

Company	Mcap (INR bn)	CMP (INR/sh)	New Rating	Old Rating	New TP	Old TP	Valuation multiple^	EV/EBITDA (x)			EV/MT (INR bn)		
								FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
UltraTech	2,829.5	9,801	BUY	BUY	10,820	10,840	16.5	22.5	19.1	15.2	20.4	16.8	16.6
Shree Cem	923.7	25,600	ADD	REDUCE	28,700	28,700	16.5	20.6	16.9	15.1	15.0	13.7	11.5
Ambuja Cem	614.0	625	ADD	ADD	620	620	16.5	22.9	20.1	16.6	19.0	18.7	17.3
ACC	474.6	2,524	BUY	BUY	2,845	2,845	11.0	13.9	11.3	9.8	10.8	10.0	9.2
Dalmia Bharat	365.2	1,974	BUY	BUY	2,650	2,690	13.0	15.3	12.6	10.5	9.2	7.7	6.9
Nuvoco Vistas	113.7	318	BUY	BUY	430	515	9.0	9.9	8.2	7.5	6.3	6.1	6.2
Ramco Cem	200.6	849	ADD	ADD	940	1,000	12.0	16.4	14.1	12.0	11.1	10.8	10.2
JK Cement	334.2	4,325	REDUCE	REDUCE	4,180	3,765	13.0	17.5	15.3	13.5	13.4	12.7	10.6
Birla Corp	118.9	1,544	BUY	BUY	1,685	1,770	8.5	11.5	9.9	8.4	7.6	7.2	7.1
Heidelberg	47.1	208	REDUCE	REDUCE	160	160	7.0	13.6	11.1	10.0	6.9	6.4	6.6
Star Cem	93.2	231	BUY	BUY	245	245	10.0	17.5	11.4	9.7	12.5	12.5	10.0
JK Lakshmi	94.1	800	BUY	BUY	1,015	1,015	9.0	10.8	8.9	8.1	6.8	7.1	7.0
Orient Cem	44.4	217	REDUCE	REDUCE	195	205	7.5	10.8	9.6	9.6	5.3	5.6	6.4
Sagar Cem	28.3	217	ADD	ADD	260	290	7.5	111.9	61.5	49.6	27.7	27.6	25.4
Deccan Cem	8.8	630	REDUCE	REDUCE	480	560	6.0	11.3	9.7	7.3	6.4	3.5	3.3

Source: Company, HSIE Research, ^ Target multiples are EV/EBITDA based on Mar-26E. CMP as on April 10, 2024.

1 Yr Price history



Rating Criteria

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

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