CEMENT Q4FY24 Result Preview

CEMENT Q4FY24 PREVIEW: HEALTHY DEMAND; PRICING MUTED

Cement Demand

Improvement in Cement demand: After observing a slowdown in demand growth during Q3FY24, the momentum in cement demand accelerated in Q4FY24, despite facing a higher base from the previous year, which had seen growth rates of 11-13% in Q4FY23.

This surge in demand was predominantly fueled by government-led initiatives in infrastructure and housing development, alongside an uptick in real estate demand. Following a lacklustre performance in Jan'24, cement demand gained traction in Feb'24 and concluded on a high note in Mar'24. A bustling construction period further bolstered high single-digit volume growth throughout the quarter.

Cement demand to grow by 9%YoY: The overall demand for cement in Q4FY24 concluded on a higher note on a YoY basis, with an estimated growth of 9% for our coverage universe. CY23 witnessed robust demand growth, supported by a 14%-16% increase in demand during H1FY24, reaching 430-440 MTPA. This growth was led by higher institutional demand and sustained momentum in the housing and real estate sectors.

With the general election scheduled for Q1FY25, cement demand is expected to experience volatility due to disruptions caused by election-related activities. However, demand is anticipated to gradually recover post-election. Additionally, there is a prevailing expectation that the existing government will secure another term, leading to the continuation of infrastructure-related spending, which will further drive cement demand.

Real estate demand continues to be robust: Robust real estate demand has been a significant driver of increased cement consumption. The real estate market is anticipated to maintain its growth trajectory in the foreseeable future, providing continued support to cement demand. Additionally, retail cement demand experienced an uptick during the quarter, albeit at a slower pace.

Rural demand yet to recover: Our channel checks suggest that rural demand has yet to fully recover and remained subdued during the quarter due to reduced construction activity and an extended winter period. Conversely, urban and semi-urban demand showed improvement compared to Q3FY24 across most regions. It is anticipated that rural demand will only begin to pick up after the general election.

Overall cement demand in FY24 to be positive: Overall, cement demand remains positive as we conclude FY24, driven by pre-election spending, ongoing government emphasis on infrastructure development, and sustained real estate activity. Moreover, the higher budgetary allocation to infrastructure and construction in the interim budget 2024-25 is expected to sustain demand momentum into FY25.

For companies under our coverage, we anticipate volume, revenue, EBITDA, and PAT growth of 9%, 8%, 24%, and 20% respectively YoY, propelled by robust demand and alleviation of cost pressures, particularly in power and fuel expenses. We estimate the overall cement industry demand to grow between 9%-10% in FY24.

From a medium to long-term perspective, our preferred picks in the sector are:

Large Cap – UltraTech Cement; Ambuja Cements

Mid Cap – JK Cement; JK Lakshmi; Birla Corporation

Small Cap – Star Cement

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Cement Pricing

Following subdued pricing trends in Q3FY24, cement prices experienced further correction in Jan'24 and Feb'24, particularly in the East and South India regions, where the decline was more pronounced compared to other areas. This downward trajectory in prices persisted through Mar'24, as cement manufacturers refrained from implementing price hikes due to intensified competition and the need to meet year-end targets.

With cement capacities continually being added by both large and medium-sized companies, pricing is anticipated to remain dynamic and volatile. Throughout the quarter, the pricing trend remained muted. Particularly, companies operating in the East and South regions witnessed significant price corrections (Rs 30-40/bag), as these two regions had experienced the highest price hikes at the beginning of Q3FY24, followed by other regions (Rs 15-20/bag).

Moderation in Cement prices

The moderation in cement prices observed in Q4FY24 has introduced pricing headwinds, with prices correcting to the levels seen in Q2FY24 on average. We estimate that realizations for our coverage companies may moderate by 4%-5% during the quarter. Channel checks indicate that cement manufacturers are considering price hikes in April 2024, ahead of the onset of the monsoon season. The sustainability of these higher prices will be a key factor to monitor.

The addition of new capacities is anticipated to exert pressure on cement prices, contributing to their volatility. Non-trade prices have also corrected, albeit at a slower rate compared to trade prices, during the quarter. The positive impact of higher prices is expected to be more pronounced in Q1FY25, contingent upon their sustainability.

Input Cost

Both domestic and international petroleum coke and coal prices have witnessed a significant decrease of 25%-30% YoY. Imported petroleum coke prices are currently trading at $120 per tonne, while South African and US coal prices stand at $110 per tonne. It's important to note that the operating cost per tonne for the cement industry fluctuates by Rs 30-40 for every $10 movement in the prices of petcoke and imported coal.

We expect fuel cost per tonne to be lower by Rs 40-50/tonne during the quarter: The average power/fuel consumption prices for most cement companies are anticipated to range between $150-160 per tonne, a decline from the $170-$180 per tonne range in Q3FY24. The positive impact of the low-cost inventory is expected to be reflected in Q4FY24. Sequentially, we anticipate fuel costs per tonne to decrease by Rs 40-50. On a YoY basis, the power & fuel cost is projected to be lower by 15% at Rs 1,260 per tonne for our coverage companies. Bulk diesel prices have been reduced by Rs 2 per litre, and the overall impact is expected to be neutral.

EBITDA/tonne of coverage companies to improve by 16%: We estimate the EBITDA per tonne of the companies under our coverage to improve by 16% to Rs 985 per tonne from Rs 851 per tonne reported in Q4FY23. This improvement is expected due to lower operating costs compared to last year, as well as the negative impact of higher energy prices in the previous year.

On a quarter-over-quarter (QoQ) basis, EBITDA per tonne is anticipated to decline by 9% due to corrections in cement prices, despite benefiting from high operating leverage and positive demand. In percentage terms, EBITDA is expected to improve by 240 basis points (bps) YoY and decline by 130 bps QoQ.

We estimate the operating cost of the companies, on a per tonne basis under our coverage universe, to decline by 5% YoY to Rs 4,585 per tonne.

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Outlook

We remain positive on the dynamics of the Cement industry based on the following factors:

- **Government Initiatives:** The government's emphasis on infrastructure development, increased spending on affordable housing, and a pickup in private and commercial capital expenditure, coupled with robust real estate demand, are expected to drive cement demand.
- **Premiumization Product Strategy**: Companies are focusing on premiumization and producing more blended cement, which requires less clinker and consumes less power. This strategic shift can enhance efficiency and competitiveness.
- **Green Energy Transition:** There's a higher transition towards green energy, aiming to increase the share from the current 35% to over 50% in the coming years. This transition, facilitated by initiatives such as waste heat recovery systems (WHRS), wind, and solar energy adoption, is likely to positively impact margins and sustainability efforts.
- **Demand-Supply Dynamics:** Despite capacity additions by various players, demand is expected to outpace supply. This suggests a favourable market environment for cement producers, potentially leading to improved pricing power and capacity utilization rates.
- **Greater Consolidation:** The increasing consolidation within the industry is expected to positively influence industry dynamics. This trend towards consolidation is anticipated to yield long-term structural improvements, enhancing the overall competitiveness and efficiency of the industry.
- **Favourable Industry Outlook:** With higher demand, stable pricing, and ongoing cost optimization initiatives, the cement industry is poised for strong performance in the foreseeable future. Therefore, we maintain a positive outlook on the sector from a medium to long-term perspective.

TOP RESULT PICK

UltraTech Cement; Ambuja Cements; Birla Corporation; JK Cement; JK Lakshmi; Star Cement

Quarterly Preview– Q4FY24

Cement

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	*Result expectations*
Dalmia Bharat						→ Volume to grow YoY driven by better demand in its operating region.
Volume (mntpa)	8.14	6.80	20%	7.40	10%	→ Consol revenue to grow owing to higher volume YoY.
Revenues	4094	3600	14%	3912	5%	→
Gross Profit	1565	1505	4%	1,469	7%	→ Gross margins to be higher YoY owing to lower cost .
Gross margin (%)	38.2%	41.8%	(360bps)	37.6%	60bps	→
EBITDA	763	775	-2%	707	8%	→ Ebitda margin to expand YoY owing to easing cost pressure.
EBITDA margin (%)	18.6%	21.5%	(290bps)	18.1%	50bps	→ PAT to be lower owing to exceptional income last year.
PAT	285	263	8%	589	-52%	→ EPS to be in line with PAT
EPS (Rs)	15.20	14.03	8%	31.4	-52%	→ EBITDA/tonne to be lower YoY owing to lower cement prcies.
EBITDA/Tonne	938	1140	-18%	955	-2%	→ Realization to be lower YoY owing to decline in Cement prices
Realization/tonne	5029	5294	-5%	5286	-5%	→ Cost/Tonne to be lower YoY.
Cost/Tonne	4092	4154	-2%	4331	-6%	
J K Cements						→ Volume to grow owing to better demand YoYand new capacity ramp up in Central region.
Volume (mntpa)	5.24	4.71	11%	4.67	12%	
Revenues	3161	2935	8%	2,778	14%	→ Consol revenue to grow YoY owing to higher volume.
Gross Profit	1259	1284	-2%	957	31.6%	→
Gross margin (%)	39.8%	43.8%	(400bps)	34.5%	530bps	→ Gross margin to be higher owing to lower cost YoY.
EBITDA	575	625	-8%	350	64%	→
EBITDA margin (%)	18.2%	21.3%	(310bps)	12.6%	560bps	→ Ebitda margin to expand YoY owing to easing cost pressure.
PAT	244	283	-14%	112	118%	→ PAT to expand YoY owing to higher volume and lower cost..
EPS (Rs)	31.7	36.8	-14%	14.6	118%	→ EPS to be in line with PAT
EBITDA/Tonne	1,098	1,329	-17%	748	47%	→ EBITDA/tonne to be higher YoY owing to lower operating cost .
Realization/tonne	6,038	6,238	-3%	5,947	2%	→ Realization to be higher YoY .
Cost/Tonne	4,940	4,909	1%	5,199	-5%	→ Cost/Tonne to be lower on easing of cost pressure.YoY.

Cement (Cont'd)

Year-end March (Rs Mn)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)
JK Lakshmi Cement Ltd					
Volume (mntpa)	2.82	2.36	20%	2.67	6%
Revenues	1826	1586	15%	1,729	6%
Gross Profit	536	509	5%	452	19%
Gross margin (%)	29.3%	32.1%	(280bps)	26.1%	320bps
EBITDA	252	242	4%	189	33%
EBITDA margin (%)	13.8%	15.3%	(150bps)	10.9%	290bps
PAT	132	124	7%	97	36%
EPS (Rs)	11.3	10.5	7%	8.3	36%
EBITDA/Tonne	893	1,028	-13%	710	26%
Realization/tonne	6,465	6,735	-4%	6,487	0%
Cost/Tonne	5,573	5,706	-2%	5,778	-4%

Result expectations

- ➔ Volume to grow on YoY basis owing to better demand .
- ➔ Revenue to be higher owing to higher volume.
- ➔
- ➔ Gross margin to be higher owing to lower cost YoY.
- ➔
- ➔ Ebitda margin to expand YoY owing to easing cost pressure.
- ➔ PAT to be higher YoY owing to higher saleS.
- ➔ EPS to be in line with PAT
- ➔ EBITDA/tonne to be higher YoY owing to lower operating cost .
- ➔ Realization to be flattishYoY.
- ➔ Cost/Tonne to be lower YoY as cost pressure eases.

Year-end March (Rs Mn)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)
Birla Corporation Ltd					
Volume (mntpa)	4.75	4.20	13%	4.44	7%
Revenues	2649	2312	15%	2,463	8%
Gross Profit	1049	967	8%	858	22%
Gross margin (%)	39.6%	41.8%	(220bps)	34.9%	470bps
EBITDA	430	379	14%	274	57%
EBITDA margin (%)	16.2%	16.4%	(20bps)	11.1%	510bps
PAT	167	109	53%	85	NA
EPS (Rs)	21.7	14.2	53%	11.0	NA
EBITDA/Tonne	905	901	0%	618	47%
Realization/tonne	5,577	5,505	1%	5,546	1%
Cost/Tonne	4,671	4,604	1%	4,928	-5%

Result expectations

- ➔ Volume to grow YoY driven by new capacity ramp up. and better demand
- ➔ Revenue to grow owing to higher volume and higher realization YoY
- ➔
- ➔ Gross margins to be higher YoY owing to lower cost.
- ➔
- ➔ Ebitda margin to expand YoY owing to easing cost pressure & higher realization
- ➔ PAT to be higher on YoY & QoQ owing better sales & lower cost
- ➔ EPS to be in line with PAT
- ➔ EBITDA/tonne to be higher on YoY driven by better operating performance.
- ➔ Blended realization to be higher YoY .
- ➔ Cost/Tonne to be lower YoY owing to better operating performance.

Cement (Cont'd)

Year-end March (RsMn)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
Heidelberg Cement India Ltd						→ Volume to be higher owing to better demand.
Volume (mntpa)	1.28	1.21	6%	1.19	8%	→ Revenue to grow owing to better volume.
Revenues	621	607	2%	602	3%	→
Gross Profit	251	218	15%	209	20%	→ Gross margins to be higher YoY & QoQ owing to lower cost
Gross margin (%)	40.3%	36.0%	430bps	34.7%	560bps	→
EBITDA	101	65	55%	69	46%	→ Ebitda margin to expand YoY owing to easing cost pressure .
EBITDA margin (%)	16.3%	10.8%	550bps	11.5%	480bps	→ PAT to be higher YoY & QoQ owing to higher sales.
PAT	58	31	86%	35	67%	→ EPS to be in line with PAT
EPS (Rs)	2.6	1.4	86%	1.5	67%	→ EBITDA/tonne to be higher YoY & QoQ owing to lower cost.
EBITDA/Tonne	791	542	46%	583	36%	→ Realization to be lower YoY & QoQ as cement prices decline.
Realization/tonne	4,850	5,026	-3%	5,076	-4%	→ Cost/Tonne to be lower YoY& QoQ
Cost/Tonne	4,059	4,484	-9%	4,493	-10%	
Star Cement Ltd						→ Volume to growth to be higher led by better demand
Volume (mntpa)	1.38	0.97	43%	1.24	12%	→ Revenue to grow on YoY basis due to higher volume..
Revenues	896	651	38%	825	9%	→
Gross Profit	341	283	21%	323	6%	→ Gross margin to be lower owing to lower realization YoY & QoQ
Gross margin (%)	38.1%	43.4%	(530bps)	39.1%	(100bps)	→
EBITDA	172	149	16%	166	4%	→ Ebitda margin to contract YoY owing to lower realization.
EBITDA margin (%)	19.2%	22.8%	(360bps)	20.1%	(90bps)	→ PAT to be higher QoQ driven by higher sales But lower YoY.
PAT	92	74	25%	96	-4%	→ EPS to be in line with PAT.
EPS (Rs)	2.3	1.8	25%	2.4	-4%	→ EBITDA/tonne to be lower YoY on the back of lower realization.
EBITDA/Tonne	1244	1534	-19%	1346	-8%	→ Realization to be lower QoQ & YoY
Realization/tonne	6,480	6,716	-3%	6,680	-3%	→ Cost/Tonne to be lower YoY.
Cost/Tonne	5,237	5,182	1%	5,335	-2%	

Cement (Cont'd)

Year-end March (RsMn)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
ACC Limited						
Volume (mntpa)	9.35	8.90	5%	8.50	10%	→ Volume to grow on YoY driven by better demand
Revenues	5061	4914	3%	4791	6%	→ Revenue to be higher owing to higher volume YoY.
Gross Profit	1376	1602	-14%	1241	11%	→
Gross margin (%)	27.2%	32.6%	(540bps)	25.9%	130bps	→ Gross margin to expand owing to lower cost YoY.
EBITDA	632	905	-30%	469	35%	→
EBITDA margin (%)	12.5%	18.4%	(590bps)	9.8%	270bps	→ Ebitda margin to expand on YoY as cost pressure eases.
PAT	329	538	-39%	236	40%	→ PAT to be higher YoY owing to higher sales & lower cost.
EPS (Rs)	17.5	28.6	-39%	12.5	40%	→ EPS to be in line with PAT
EBITDA/Tonne	676	1017	-33%	551	23%	→ EBITDA/tonne to be higher on YoY basis.
Realization/tonne	5,413	5,522	-2%	5,636	-4%	→ Blended realization to be lower YoY & QoQ.
Cost/Tonne	4,736	4,505	5%	5,085	-7%	→ Cost/Tonne to lower as cost pressure eases.
Shree Cement Limited						
Volume (mntpa)	9.68	8.89	9%	8.80	10%	→ Volume to grow YoY driven by commissioning of new capacity.
Revenues	5096	4901	4%	4785	7%	→ Revenue to be higher YoY owing to higher volume.
Gross Profit	2193	2250	-3%	1750	25%	→
Gross margin (%)	43%	46%	(300bps)	37%	600bps	→ Gross margin to be higher owing to lower cost YoY.
EBITDA	1163	1234	-6%	892	30%	→
EBITDA margin (%)	22.8%	25.2%	(240bps)	18.7%	410bps	→ Ebitda margin to expand YoY owing to easing cost pressure.
PAT	629	734	-14%	546	15%	→ PAT to be higher YoY due to higher sales and lower cost.
EPS (Rs)	175	204	-14%	152	15%	→ EPS to be in line with PAT
EBITDA/Tonne	1201	1388	-13%	1014	18%	→ EBITDA/tonne to be higher on YoY owing to lower cost.
Realization/tonne	5,265	5,513	-5%	5,438	-3%	→ Realization to be lower YoY as Cement prcies decline.
Cost/Tonne	4,064	4,125	-1%	4,423	-8%	→ Cost/Tonne to be lower QoQ.

Cement (Cont'd)

Year-end March (RsMn)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
Ambuja Cement Limited						→ Volume to grow YoY driven by positive demand.
Volume (mntpa)	8.91	8.20	9%	8.10	10%	→ Revenue to be higher due to higher volume YoY.
Revenues	4631	4440	4%	4256	9%	→
Gross Profit	1691	1540	10%	1420	19%	→ Gross margin to be higher owing to lower cost YoY& QoQ
Gross margin (%)	36.5%	34.7%	180bps	33.4%	310bps	→
EBITDA	952	851	12%	788	21%	→ Ebitda margin to expand YoY owing to easing cost pressure
EBITDA margin (%)	20.6%	19.2%	140bps	18.5%	210bps	→ PAT to be higher YoY owing to better sales volume and lower cost.
PAT	563	514	10%	502	12%	→ EPS to be in line with PAT
EPS (Rs)	2.83	2.59	10%	2.53	12%	→ EBITDA/tonne to be higher on YoY owing to lower cost.
EBITDA/Tonne	1068	1038	3%	973	10%	→ Realization to be lower YoY & QoQ AS Cement prices declines.
Realization/tonne	5,197	5,414	-4%	5,255	-1%	→ Cost/Tonne to be lower YoY.
Cost/Tonne	4,129	4,376	-6%	4,282	-4%	
Orient Cement Limited						→ Volume to grow on YoY basis led by better demand.
Volume (mntpa)	1.80	1.39	30%	1.72	5%	→ Revenue to be higher YoY due to higher volume.
Revenues	925	751	23%	876	6%	→
Gross Profit	300	248	21%	256	17%	→ Gross margin to be higher owing to lower cost YoY.
Gross margin (%)	32.4%	33.1%	(70ps)	29.3%	310bps	→
EBITDA	161	115	40%	139	16%	→ Ebitda margin to expand YoY owing to easing cost pressure.
EBITDA margin (%)	17.4%	15.4%	200bps	15.9%	150bps	→ PAT to be higher owing to higher revenue & lower cost
PAT	78	45	72%	67	15%	→ EPS to be in line with PAT
EPS (Rs)	3.8	2.2	72%	3.29	15%	→ EBITDA/tonne to be higher YoY on the back of lower cost & higher volume.
EBITDA/Tonne	894	829	8%	812	10%	→ Realization to be flattish YoY.
Realization/tonne	5,127	5,397	-5%	5,099	1%	
Cost/Tonne	4233	4568	-7%	4287	-1%	→ Cost/Tonne to be lower YoY

Cement (Cont'd)

Year-end March (RsMn)	Q4FY24	Q3FY24	QoQ(%)	Q4FY23	YoY (%)	Result expectations
UltraTech Cement Limited						➔ Volume to grow on YoY basis led by better demand and new capacity ramp up.
Volume (mntpa)	34.55	27.32	26%	31.70	9%	
Revenues	20175	16740	21%	18662	8%	➔ Revenue to be higher YoY due to higher volume.
Gross Profit	7017	6286	12%	5987	17%	➔
Gross margin (%)	34.8%	37.5%	(270ps)	32.1%	270bps	➔ Gross margin to be higher owing to lower cost YoY.
EBITDA	3906	3255	20%	3322	18%	➔
EBITDA margin (%)	19.4%	19.4%	0bps	17.8%	160bps	➔ Ebitda margin to expand YoY owing to easing cost pressure.
PAT	2259	1777	27%	1666	36%	➔ PAT to be higher owing to higher revenue and lower cost YOY.
EPS (Rs)	78.25	61.56	27%	57.70	36%	➔ EPS to be in line with PAT
EBITDA/Tonne	1131	1191	-5%	1048	8%	➔ EBITDA/tonne to be higher YoY on the back of lower cost & higher volume.
Realization/tonne	5,840	6,127	-5%	5,887	-0.8%	➔ Realization to be lower as Cement prices declines.
Cost/Tonne	4709	4936	-5%	4839	-3%	➔ Cost/Tonne to be lower YoY & QoQ

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