CEMENT | Q2FY25 Review | 22 November 2024

# Seasonality hits performance; bright spots in H2FY25

- **Volume driven by large companies; small, regional companies take a severe hit; realisation weakens 7% YoY on weak seasonal demand**
- **Softer fuel cost continues to provide some respite – EBITDA margins at 12.5% vs 16.3% QoQ, with aggregate fall in operating cost at ~2%**
- **Post results, we maintain our BUY rating for UTCEM, and SELL for JKLC and TRCL**

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**Volume growth driven by big companies as prices weaken 7% YoY:** Our cement universe volumes grew a listless 3% YoY on average in Q2FY25 driven by the large companies, while their regional small counterparts took a sharp hit. Seasonal demand weakness dragged demand. UTCEM's (capacity industry leader) volume grew 3% YoY despite its high base, while SRCM was the top gainer at 9%, followed by DALBHARA at 8%. Aggregate realisations fell ~7%/2% (YoY/QoQ) as cement demand was weak with cement prices falling further over Q1 average prices.

**Cost savings offer limited respite:** Our cement universe EBITDA margin grew on average by 12.4% in Q2FY25, down 400/310bps YoY/QoQ (16.3%/15.5%). ACEM led the pack with 17%, SRCM and STRCEM ~16%/15% and UTCEM ~13%. JKLC, ACC and ORCMNT saw below-average margins of ~5.4%/8.1%/9.3% respectively. Aggregate EBITDA/t fell by ~28%/23% YoY/QoQ to Rs 645 (Rs 897/Rs 840).

**Fuel & logistics costs continue to fall:** Fuel costs for our coverage fell by ~18% YoY on average led by softer pet coke prices. Logistics costs stayed flat at ~-1% as lead distance increased to chase volumes. Effectively, operating cost for our coverage fell ~1% YoY to Rs 4,644/t but inched up QoQ.

**Demand slowed in Q2FY25:** We note that cement demand was slower YoY as monsoon activity disruption was sharper (below normal in FY24), keeping construction activity below par. We stay optimistic on demand pickup in H2, aided by the government's infrastructure push, normal monsoons and improving rural mood. However, supply will keep pace with demand due to capacity additions, in our view.

**UTCEM is our top pick:** We maintain UTCEM's BUY rating (TP Rs 12,469) as we believe it is best placed to cater to expected demand growth with its large capacity, operational efficiencies, pan-India presence and balance sheet health. Maintain SELL rating on TRCL (Rs 726) and JKLC (Rs 661) due to continued weak show. We retain our HOLD ratings for JKCE (Rs 4,190), STRCEM (Rs 201) and SRCM (Rs 24,140). We drop coverage on ORCMNT (earlier SELL) on the acquisition by ACEM.

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### Fig 1 – Revenue growth

| (Rs mn) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| ACC | 46,080 | 44,347 | 3.9 | 51,556 | (10.6) |
| ACEM | 42,132 | 39,698 | 6.1 | 45,158 | (6.7) |
| DALBHARA | 30,870 | 31,490 | (2.0) | 36,210 | (14.7) |
| JKCE | 23,917 | 25,707 | (7.0) | 26,431 | (9.5) |
| JKLC | 11,413 | 14,526 | (21.4) | 14,445 | (21.0) |
| ORCMNT | 5,440 | 7,206 | (24.5) | 6,963 | (21.9) |
| SRCM | 37,270 | 45,846 | (18.7) | 48,347 | (22.9) |
| STRCEM | 6,415 | 5,853 | 9.6 | 7,510 | (14.6) |
| TRCL | 20,382 | 23,293 | (12.5) | 20,884 | (2.4) |
| UTCEM | 1,49,052 | 1,55,170 | (3.9) | 1,75,324 | (15.0) |
| **Aggregate** | **3,72,972** | **3,93,135** | **(5.1)** | **4,32,827** | **(13.8)** |

**Comment**

- Aggregate revenue for our cement coverage fell by ~5% YoY in a very challenging quarter.
- Volume gains, driven by large companies, were listless at mid-single digit. Realisations fell ~7% YoY as prices continued to fall sharply in the southern and eastern regions of India.

Source: Company, BOBCAPS Research |

### Fig 2 – EBITDA growth

| (Rs mn) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| ACC | 4,292 | 5,484 | (21.7) | 6,772 | (36.6) |
| ACEM | 7,048 | 7,734 | (8.9) | 6,460 | 9.1 |
| DALBHARA | 4,340 | 6,690 | (35.1) | 5,890 | (26.3) |
| JKCE | 2,728 | 4,467 | (38.9) | 4,790 | (43.1) |
| JKLC | 613 | 1,785 | (65.6) | 1,846 | (66.8) |
| ORCMNT | 442 | 865 | (48.9) | 960 | (53.9) |
| SRCM | 5,925 | 8,701 | (31.9) | 9,164 | (35.3) |
| STRCEM | 956 | 986 | (3.0) | 1,161 | (17.7) |
| TRCL | 3,121 | 3,986 | (21.7) | 3,194 | (2.3) |
| UTCEM | 19,327 | 23,502 | (17.8) | 29,810 | (35.2) |
| **Aggregate** | **48,792** | **64,200** | **(24.0)** | **70,047** | **(30.3)** |

**Comment**

- Aggregate EBITDA for our coverage fell ~24% YoY. The decline would have been sharper but for some respite from energy cost savings.
- STRCEM posted healthy operating performance with only a 3% decline in EBITDA.
- JKLC/ORCMNT saw the sharpest fall at 66%/49% YoY, due to overall weak operating efficiencies.
- SRCM's fall in EBITDA was the highest among the large cap companies

Source: Company, BOBCAPS Research

### Fig 3 – Adj. PAT growth

| (Rs mn) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| ACC | 2,339 | 3,843 | (39.1) | 3,662 | (36.1) |
| ACEM | 5,249 | 4,938 | 6.3 | 5,835 | (10.0) |
| DALBHARA | 460 | 1,190 | (61.3) | 2,540 | (81.9) |
| JKCE | 452 | 1,789 | (74.7) | 2,027 | (77.7) |
| JKLC | 75 | 830 | (90.9) | 763 | (90.1) |
| ORCMNT | 23 | 246 | (90.6) | 367 | (93.7) |
| SRCM | 931 | 4,913 | (81.0) | 3,177 | (70.7) |
| STRCEM | 57 | 407 | (86.1) | 310 | (81.7) |
| TRCL | 256 | 1,013 | (74.7) | 355 | (27.9) |
| UTCEM | 7,969 | 12,057 | (33.9) | 16,758 | (52.4) |
| **Aggregate** | **17,812** | **31,227** | **(43.0)** | **35,795** | **(50.2)** |

**Comment**

- Aggregate PAT for our coverage universe fell sharply by ~43% YoY compared to EBITDA on higher depreciation provisions and interest outgo following capacity expansion by most of the coverage companies.

Source: Company, BOBCAPS Research

### Fig 4 – Volume growth

| (mn tonnes) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| ACC | 9.3 | 8.1 | 14.8 | 10.2 | (8.8) |
| ACEM | 8.7 | 7.6 | 14.5 | 9.3 | (6.5) |
| DALBHARA | 6.7 | 6.2 | 8.1 | 7.4 | (9.5) |
| JKCE | 4.2 | 4.3 | (3.3) | 4.7 | (11.1) |
| JKLC | 1.9 | 2.2 | (14.0) | 2.3 | (19.8) |
| ORCMNT | 1.1 | 1.4 | (23.4) | 1.4 | (19.5) |
| SRCM | 7.6 | 8.2 | (7.3) | 9.6 | (21.2) |
| STRCEM | 1.0 | 0.9 | 9.2 | 1.2 | (15.3) |
| TRCL | 4.5 | 4.6 | (2.6) | 4.4 | 3.0 |
| UTCEM | 26.0 | 25.2 | 2.9 | 30.5 | (14.7) |
| **Aggregate** | **70.9** | **68.8** | **3.1** | **80.9** | **(12.4)** |

**Comment**

- UTCEM remains a steady volume driver even if the base stayed high.
- SRCM's volume fell and came as a negative surprise as it switches between its focus on branding/premium category sales and volume push as in Q1FY25.
- Volume dip by JKCE was only 3% aided by capacity additions YoY, while STRCEM remains the star performer with ~9% volume growth in very challenging conditions.

Source: Company, BOBCAPS Research

### Fig 5 – Realisation per tonne

| (Rs/t) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| ACC | 4,680 | 5,125 | (8.7) | 4,757 | (1.6) |
| ACEM | 4,843 | 5,223 | (7.3) | 4,856 | (0.3) |
| DALBHARA | 4,607 | 5,079 | (9.3) | 4,893 | (5.8) |
| JKCE | 5,693 | 5,919 | (3.8) | 5,595 | 1.8 |
| JKLC | 6,117 | 6,691 | (8.6) | 6,210 | (1.5) |
| ORCMNT | 4,982 | 5,093 | (2.2) | 5,135 | (3.0) |
| SRCM | 4,904 | 5,594 | (12.3) | 5,015 | (2.2) |
| STRCEM | 6,560 | 6,532 | 0.4 | 6,508 | 0.8 |
| TRCL | 4,539 | 5,053 | (10.2) | 4,790 | (5.2) |
| UTCEM | 4,960 | 5,455 | (9.1) | 5,036 | (1.5) |
| **Aggregate** | **5,189** | **5,576** | **(7.0)** | **5,279** | **(1.7)** |

**Comment**

- Aggregate realisation for our coverage fell by ~7% YoY indicating traditionally weak pricing in the Q2 owing to strong monsoon affected by the overall weak infrastructure demand due to the delayed Union budget.
- Q3 prices provide limited respite owing to the lack of construction activity due to the festive season.

Source: Company, BOBCAPS Research

### Fig 6 – Operating cost per tonne

| (Rs/t) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| ACC | 4,493 | 4,179 | 7.5 | 4,391 | 2.3 |
| ACEM | 4,033 | 4,206 | (4.1) | 4,161 | (3.1) |
| DALBHARA | 3,960 | 4,129 | (4.1) | 3,989 | (0.7) |
| JKCE | 5,044 | 4,890 | 3.1 | 4,581 | 10.1 |
| JKLC | 5,788 | 5,869 | (1.4) | 5,417 | 6.8 |
| ORCMNT | 4,577 | 4,449 | 2.9 | 4,427 | 3.4 |
| SRCM | 4,124 | 4,533 | (9.0) | 4,065 | 1.5 |
| STRCEM | 5,583 | 5,432 | 2.8 | 5,502 | 1.5 |
| TRCL | 3,844 | 4,188 | (8.2) | 4,057 | (5.2) |
| UTCEM | 4,995 | 5,217 | (4.2) | 4,777 | 4.6 |
| **Aggregate** | **4,644** | **4,709** | **(1.4)** | **4,537** | **2.4** |

**Comment**

- Operating cost savings helped to guard against a sharper fall in EBITDA margin. Operating cost per tonne for our coverage companies fell by 1%, driven by energy and logistics cost savings.
- However, prices reversed by 2% QoQ, indicating the benefits of a higher cost base are waning steadily.

Source: Company, BOBCAPS Research

## Fig 7 – EBITDA per tonne

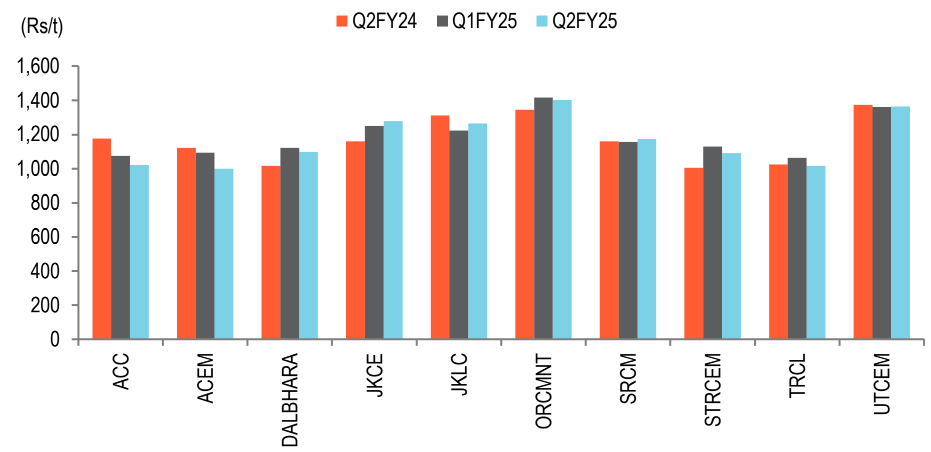
| (Rs/t) | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) | Comment |
|---|---|---|---|---|---|---|
| ACC | 462 | 677 | (31.8) | 664 | (30.5) | ▪ Aggregate earnings remained weak due to the EBITDA/t loss from the dent in realisations. |
| ACEM | 810 | 1,018 | (20.4) | 695 | 16.6 | |
| DALBHARA | 621 | 923 | (32.7) | 877 | (29.2) | |
| JKCE | 649 | 1,028 | (36.9) | 1,014 | (36.0) | |
| JKLC | 329 | 822 | (60.0) | 793 | (58.6) | |
| ORCMNT | 405 | 607 | (33.3) | 708 | (42.8) | |
| SRCM | 780 | 1,025 | (23.9) | 951 | (18.0) | |
| STRCEM | 977 | 1,100 | (11.2) | 1,006 | (2.9) | |
| TRCL | 673 | 843 | (20.2) | 710 | (5.2) | |
| UTCEM | 744 | 931 | (20.1) | 979 | (24.0) | |
| **Aggregate** | **645** | **897** | **(28.1)** | **840** | **(23.2)** | |

Source: Company, BOBCAPS Research

**Logistics cost for our coverage dipped 1% YoY as the lead distance increased or stayed flat as companies chased long distance volume in a weak quarter**

**DALBHARA, JKCE and STRCEM's costs rose sharply by 8-10% while SRCM was the biggest beneficiary in 2Q**

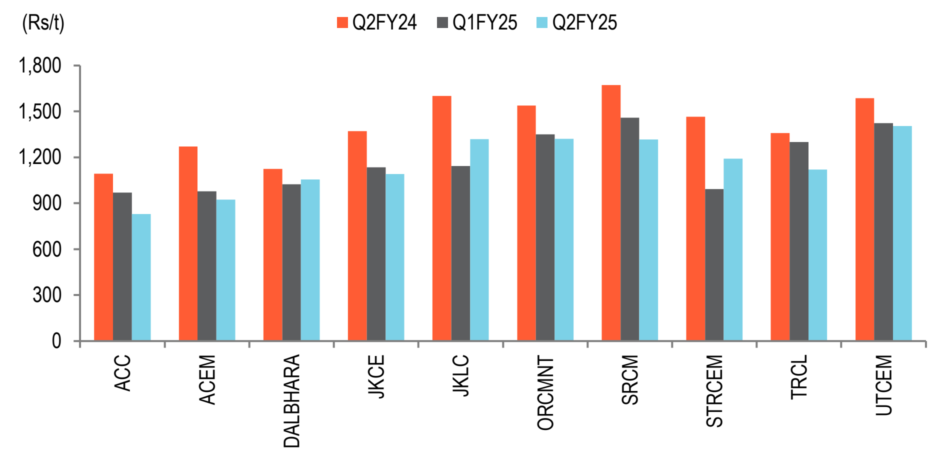
## Fig 8 – Logistics cost per tonne




Source: Company, BOBCAPS Research

**Fuel cost for our coverage companies dropped 18% YoY on softening pet coke prices. The benefits, however, will wane steadily on a lower base in the next few quarters**

## Fig 9 – Power & fuel cost per tonne



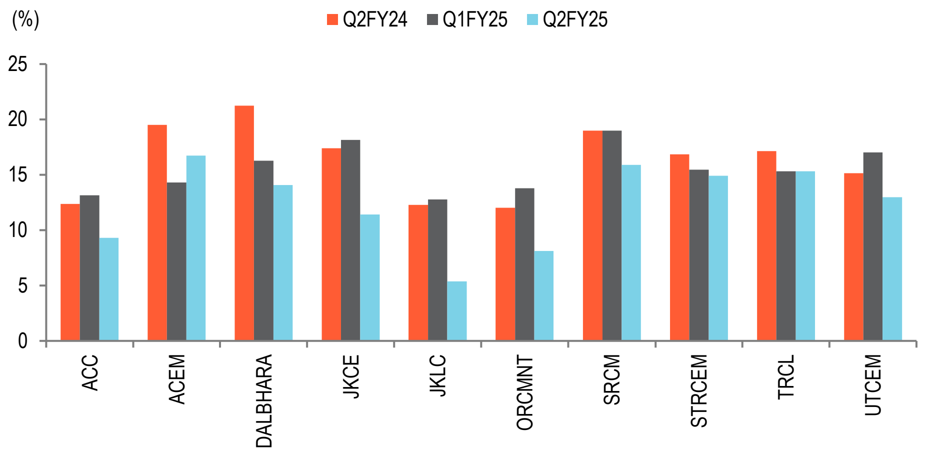

Source: Company, BOBCAPS Research

**Average margin weakened 390bps YoY at 13% in Q2FY25. The fall was ~300bps QoQ, largely driven by weak pricing**

**UTCEM, SRCM and ACEM continued to have above-average gains**

**ORCMNT, JKLC and JKCE's margins stayed below par**

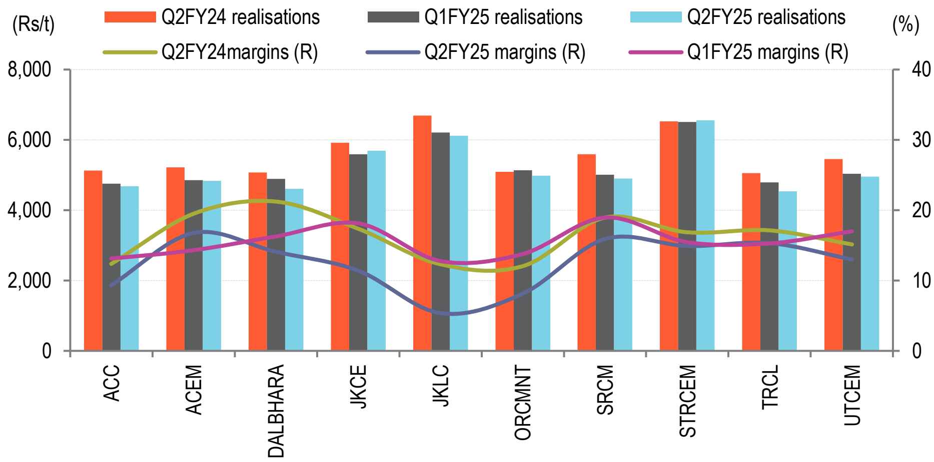
**Fig 10 – EBITDA margin**




Source: Company, BOBCAPS Research

**Margins fell as cost savings offer only marginal respite in offsetting the dent in realisations in Q2FY25**

**Fig 11 – Realisations vs. margins**




Source: Company, BOBCAPS Research

### Fig 12 – Ongoing expansion projects

| Company | Projects |
|---|---|
| ACC | **Cement capacity**<br>▪ Jodhpur Penna IU - 2mnt by Q3FY26 |
| ACEM | ▪ Sankrail - 2.4mnt by Q4FY25<br>▪ Farakka - 2.4mnt by Q4FY25 (Phase 1)<br>▪ Sindri - 1.6mnt by Q4FY25<br>▪ Salai Banwa - 2.4mnt by Q1FY26<br>▪ Bathinda - 1.2mnt by Q2FY26<br>▪ Marwar - 2.4mnt by Q2FY26<br>▪ Warishaliganj - 2.4mnt by Q4FY26<br>▪ Dahej Line 2 - 1.2mnt by Q3FY26<br>▪ Kalamboli - 1.0mnt by Q3FY26<br>▪ Krishnapatnam Penna - 2.0mnt by Q3FY26<br>**Clinker capacity**<br>▪ Bhatapara Line 3mn-4mnt by Q4FY25<br>▪ Maratha Line 2 - 4mnt by Q3FY26<br>▪ Jodhpur Penna IU - 3mnt by Q3FY26<br>▪ ACEM spent Rs 35bn on capex in H1FY25 and expects to end FY25 with a capex of Rs 70bn-80bn. |
| DALBHARA | **Cement capacity**<br>▪ Kalyanpur, BH - 0.5mnt by H2FY25<br>▪ Lanka, AS - 2.4mnt by H2FY25<br>**Clinker capacity**<br>▪ Kadapa - 0.3mnt by H2FY25<br>▪ Rajgangpur - 0.6mnt by H2FY25<br>▪ Umranghsu - 3.6mnt by FY26 |
| Heidelberg Cement | - |
| India Cement | - |
| JKCE | **Cement capacity**<br>▪ 3mnt cement capacity at Panna, Hamirpur & Prayagraj (1MTPA at each location)<br>▪ 3mnt split grinding unit at Bihar<br>**Clinker capacity**<br>▪ 3.3 mnt grey clinker capacity at Panna, Schedule commissioning - December 2025<br>▪ Capex guidance of Rs 18bn-20bn in FY25. |
| JKLC | **Cement capacity**<br>▪ Surat grinding unit - 1.5mnt - end of FY25 (Rs 2.25bn)<br>▪ Durg, Chhattisgarh - 4.6mnt (FY27)<br>▪ Prayagraj (FY27), Madhubani (FY27), Patratu (FY28) - 3.4mnt.<br>**Clinker capacity**<br>▪ Durg, Chhattisgarh - 2.3mnt (FY27)<br>▪ The Durg expansion project to cost Rs 25bn<br>▪ The Railway sliding project at Durg - Q1FY26 (Rs 3.25bn)<br>▪ In H1, capex spent was Rs 1.75bn. Capex guidance for FY25 is Rs 5bn, with plans for Rs 7bn crores in FY26 and Rs 8bn-8.5bn in FY27. |
| ORCMNT | - |
| SRCM | **Cement capacity** |

| Company | Projects |
|---|---|
| | ▪ Jaitaran (Rajasthan) - 6mnt, Kodla (Karnataka) - 3mnt, Baloda Bazar (Chhattisgarh) ~3.4mnt , Etah (UP) - 3mnt expected to be completed by Q1FY26<br>▪ Rs 18.60bn spent in H1FY25 and roughly Rs 40bn every year for the next four years |
| STRCEM | **Cement capacity**<br>▪ Silchar GU, Assam - 2mnt (FY26)<br>▪ Jorhat GU, Assam - 2mnt (FY27)<br>▪ 800 CBM AAC block plant in Assam ~Dec 2024<br>▪ Above 3 projects require a capex of Rs 12bn<br>▪ Capex of Rs 6.50bn in FY25. Capex guidance for FY26 is Rs 4.50bn |
| TRCL | ▪ The cement capacity increased from 23MTPA to 24MTPA in 2QFY25 through de-bottlenecking in Kolimigundla Integrated Unit and Salem Grinding Unit<br>▪ On track to achieve cement capacity of 30MTPA by Mar'26 with the commissioning of the second line in Kolimigundla, along with de-bottlenecking of existing facilities/adding grinding capacities in existing locations with minimal capex<br>▪ The capex estimated for FY25 remains at Rs 12bn |
| UTCEM | **Cement capacity**<br>▪ Karur, Tamil Nadu - 0.6mnt by Q3FY25<br>▪ Sonar Bangla, West Bengal - 0.6mnt by Q4FY25<br>▪ Durgapur, West Bengal - 0.6mnt by Q4FY25<br>▪ Maihar, Madhya Pradesh - 4.5mnt by Q4FY25<br>▪ Lucknow, Uttar Pradesh - 1.8mnt by Q4FY25<br>▪ Panvel, Maharashtra - 1.0mnt by Q4FY25<br><br>▪ Patratu, Jharkhand - 2.5mnt by FY26<br>▪ Shahjahanpur, Uttar Pradesh - 1.8mnt by FY26<br>▪ Nathdwara, Rajasthan - 1.2mnt by FY26<br>▪ Dhule, Maharashtra - 1.8mnt by FY26<br>▪ Visakhapatnam, Andhra Pradesh - 3.3mnt by FY26<br>▪ Parli, Maharashtra- 1.2mnt by FY26<br><br>▪ Aligarh, Uttar Pradesh - 2.7mnt by FY27<br>▪ Bihar - 3.3mnt by FY27<br>▪ West Bengal - 3.3mnt by FY27<br>▪ APCW, Andhra Pradesh - 2.7mnt by FY27<br>▪ Andhra Pradesh - 2.7mnt by FY2<br>▪ Gujarat - 1.2mnt by FY27<br>▪ Karnataka - 1.2mnt by FY27<br>▪ Assam - 1.2mnt by FY27<br>▪ Tamil Nadu - 1.8mnt by FY27 |
| Sanghi Industries | - |

Source: Company, BOBCAPS Research \| GU: Grinding Unit; IU: Integrated Unit; WHRS: Waste heat recovery systems, mnt: million tonnes

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