

RESEARCH
CEMENT | Q3FY24 REVIEW

Cost savings lift margins

SUMMARY
CEMENT: Q3FY24 REVIEW

- Softer fuel (pet coke) cost aided 560bps YoY EBITDA margin expansion on average for our cement coverage in Q3
- Volumes held steady despite state elections, festivities, construction bans and erratic rainfall; realisations stayed flat
- Post results, we raised UTCEM to BUY on stronger earnings prospects and cut ACC to HOLD on full valuations

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Daily macro indicators

Indicator	16-Feb	19-Feb	Chg (%)
US 10Y yield (%)	4.28	4.28	0bps
India 10Y yield (%)	7.09	7.10	1bps
USD/INR	83.04	83.02	0.0
Brent Crude (US\$/bbl)	83.5	83.6	0.1
Dow	38,773	38,628	(0.4)
Hang Seng	16,340	16,156	(1.1)
Sensex	72,427	72,708	0.4
India FII (US\$ mn)	13-Feb	14-Feb	Chg (\$ mn)
FII-D	(13.7)	103.4	117.1
FII-E	(316.3)	137.7	454.0

Source: Bank of Baroda Economics Research



CEMENT

Q3FY24 Review

20 February 2024

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- Volumes held steady despite state elections, festivities, construction bans and erratic rainfall; realisations stayed flat
- Post results, we raised **UTCEM** to **BUY** on stronger earnings prospects and cut **ACC** to **HOLD** on full valuations

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Volume growth steady but prices weak: Volumes for our cement universe grew 8% YoY on average in Q3FY24 despite the dampening impact of five state elections, festivals and an erratic monsoon. **UTCEM** (industry leader by capacity market share) clocked 6% YoY volume growth, whereas **ACC** and **JKCE** reported strong double-digit upticks. Aggregate realisations stayed flat YoY with a minor sequential increase of 3% as cement prices rose in the first half but softened towards the quarter's end.

Cost savings buoy margins...: Our cement universe clocked a higher average EBITDA margin of ~20% in Q3FY24 from 14.2% in the year-ago quarter. **SRCM** topped the pack at 25.2%, **JKCE** and **DALBHARA** were both at ~21%, and **ACEM** and **UTCEM** at ~19%. **JKLC** and **ORCMNT** saw below-average margins of ~15%. Aggregate EBITDA/t soared to Rs 1,139 from Rs 801 in Q3FY23 (Rs 897 in Q2FY24).

...as fuel cost dipped: Fuel cost for our coverage declined by 22% YoY on average led by softer pet coke prices. Logistics costs also moderated by ~3% as lead distance savings offset the quarter's busy-season rail surcharge. Consequently, operating expenses for our coverage fell ~7% YoY to Rs 4,624/t.

Demand slows in Q4FY24 YTD: We note that cement demand has been slower than usual thus far in the normally busy March quarter as construction activity has slackened in the runup to India's general elections in May. We remain optimistic on demand pickup post elections, largely contributed by the government's infrastructure push. However, we believe the recent capacity additions announced by cement companies in addition to existing supply will keep pace with incremental demand.

UTCEM our top pick: In our quarterly result notes, we upgraded **UTCEM** to **BUY** (TP Rs 11,510) as we believe it is best placed to cater to the expected growth in demand with its large capacity, operational efficiencies, regional presence, balance sheet health and attractive valuations. Based on full valuations, we had cut **ACC** to **HOLD** (TP 2,542) post results and maintained this rating for **DALBHARA** (Rs 2,443) and **STRCEM** (Rs 193) as well. Our **SELL** ratings stand unchanged for **TRCL** (Rs 728), **JKLC** (Rs 637) and **ORCMNT** (Rs 168).

Recommendation snapshot

Ticker	Price	Target	Rating
ACC IN	2,671	2,542	HOLD
ACEM IN	585	552	HOLD
DALBHARA IN	2,102	2,443	HOLD
JKCE IN	4,206	4,121	HOLD
JKLC IN	963	637	SELL
ORCMNT IN	273	168	SELL
SRCM IN	26,815	27,836	HOLD
STRCEM IN	210	193	HOLD
TRCL IN	881	728	SELL
UTCEM IN	9,902	11,510	BUY

Price & Target in Rupees | Price as of 19 Feb 2024



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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