

RESEARCH**CEMENT | Q2FY25 REVIEW**

Seasonality hits performance; bright spots in H2FY25

AUTOMOBILES | Q2FY25 REVIEW

Riding the strong pre-festive demand push; continuity is key

SUMMARY**CEMENT: Q2FY25 REVIEW**

- 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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AUTOMOBILES: Q2FY25 REVIEW

- Q2 volume push by 2W and passenger vehicle segments; commercial vehicle awaits strong trigger; tractors a mixed bag
- Raw material cost savings and steady realisation gains of 2% aided gross margins; EBITDA margin lacks pace on higher other expenses
- Post results, we raised MSIL to BUY (from HOLD) due to overall improved scenario, 2W ratings retained at HOLD. Maintain BUY on AL

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CEMENT

Q2FY25 Review

22 November 2024

Seasonality hits performance; bright spots in H2FY25

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- **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 UTCCEM, 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. UTCCEM'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 UTCCEM ~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.

UTCCEM is our top pick: We maintain UTCCEM'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.



Riding the strong pre-festive demand push; continuity is key

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2W segment continues to grow: Two-wheeler (2W) OEMs in our coverage delivered sub-par volume growth of ~9%/6% YoY/QoQ in Q2FY25, driven by strong pre-festive volume growth. Domestic and export demand revival contributed to growth. Realisation gains for our 2W coverage universe was healthy at 4% YoY due to price hikes and better product mix. The 2W segment was a mixed bag as TVSL and HMCL's margins improved, while falling for BJAUT (average gain of +78bps YoY).

PV growth momentum continues: Passenger vehicle (PV) OEMs in our coverage grew 5% YoY, with industry volume growth of 8% in Q2. MM posted volume growth of ~20% YoY driven by SUVs, while MSIL grew 3% partially due to the slow revival in the small car segment and retail inventory clearance. Gross margin for our coverage universe expanded by 157bps YoY on average with MM adding 442bps YoY, but MSIL falling by 128bps due to higher discounts. MM maintained a steady gross margin of ~29% in Q2FY25, while MSIL fell to 28%.

Healthy tractor volumes driven by market leaders: Volumes in the tractor segment were tepid, however MM gained 2% YoY and ESCORTS's volume stayed flat and caught up towards the end of the quarter. VSTT was unable to recover from weak volumes. The major boost for tractor sales was the above-normal monsoon. Higher demand continues to be in the 40HP-50HP segment.

Rating changes post Q2: In the Q2 result updates, we upgraded MSIL (TP Rs 13,451) to BUY from HOLD, and retained HOLD rating with positive bias on HMCL (TP Rs 5,262, upside of 14%) given the overall positive business outlook and valuations. We maintain SELL on ESC (TP Rs 2,426) and VSTT (TP Rs 3,420).

Top picks – MSIL and MM: We remain positive on MSIL (BUY, TP Rs 13,451) following its strong product mix of SUVs, healthy margins and reasonable valuations. We prefer MM (TP Rs 3,344) for its focus on volume growth, capacity buildup to cater to additional demand, and timely addition of variants and strong launch pipeline. We also have a positive bias on HMCL.



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