INDIAN CEMENT SECTOR

Operating margins expected to improve by 200-240 bps in FY2024

MARCH 2023

Agenda

ICRA

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2 Demand Drivers

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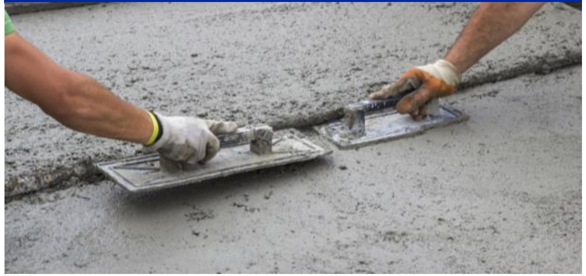

5 Trends in Cement Prices

6 Trends in Input Costs

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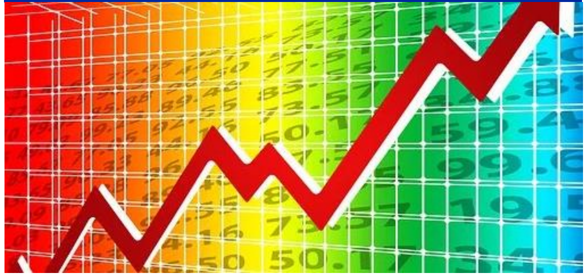

8 Peer Comparison

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Highlights

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Cement volumes are expected to grow by 7% in FY2024 to 416 million MT, supported by demand from the housing and infrastructure sectors. However, the utilisation is likely to remain moderate at around 68-69%, on an expanded base.

The cost-side pressures are likely to witness some easing resulting in an increase in operating margins by 200-240 bps YoY to around 16.3%-16.7% in FY2024.

Cement volumes: Cement volumes stood higher by ~10% YoY to 319 million MT in 10M FY2023 and are expected to grow by 8% in FY2023 to around 389 million MT. In FY2024, volume growth is expected to be ~7% to around 416 million MT.

Supply addition - Capacity additions are expected to increase to around 28-30 MTPA in FY2023 and 33-36 MTPA in FY2024 from around 25 MTPA in FY2022. The eastern region (20-22 MTPA addition) is expected to lead the expansion, followed by the central region (16-18 MTPA) during FY2023-24. In FY2024, despite an expected increase in demand, the utilisation is likely to remain moderate at around 69%, on an expanded base.

Cement prices and input costs –The average pan-India cement prices in 11M FY2023 stood at similar levels YoY at around Rs. 375-380/bag. In 11M FY2023, prices of coal, pet coke and diesel were higher by 115%, 36% and 3% YoY, respectively. However, on a QoQ basis, the input costs reduced in Q3 FY2023 and are expected to further moderate in FY2024 resulting in improvement in operating margins.

Outlook on revenues and profitability - While the revenues of the ICRA sample are estimated to increase by ~12-14% in FY2023, the elevated input costs adversely impacted the operating margins, to contract by around 600-690 bps to ~13.8%-14.9% in FY2023. Revenues in FY2024 are likely to increase by 8-10% and with an expected easing of cost-side pressures, operating margins are likely to improve by 200-240 bps YoY to around 16.3%-16.7% in FY2024.

Outlook on debt coverage metrics – Given the moderation in earnings, the debt dependence is likely to be higher to fund the ongoing capex which is estimated to deteriorate the leverage (TD/OPBIDTA) and coverage (DSCR) to 1.7x and 1.9x, respectively, in FY2023 from 1.2x and 2.2x, respectively, in FY2022. The debt metrics in FY2024 are likely to largely remain similar to FY2023, with leverage (TD/OPBIDTA) and coverage (DSCR) of 1.7x and 1.8x, respectively.

ICRA's sample includes ACC Limited (ACC), Ambuja Cements Limited (ACL), JK Cements Limited (JKCL), JK Lakshmi Cement Limited (JKLC), The India Cements Limited (ICL), The Ramco Cements Limited (RCL), UltraTech Cement Limited (UCL), Dalmia Bharat Limited (DBL), Birla Corporation Limited (BCL), Shree Cement Limited (SC), Sagar Cements Limited (SCL), Heidelberg Cement India Limited (HCL)

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Thank You!