

# Cement

## Holcim deal delineates sectoral rejig 2.0

### Adani Group – War chest ready to fuel growth...

As the cement space is set to post a demand spurt, near term and with stellar capacity addition on cards, price hike-led margin recovery seems imminent. Capacity adds are underpinned by bolstered balance sheets – To illustrate, as of June 2022, Ambuja Cements (ACEM IN) had ~INR 85bn net cash at the consolidated level. And post the recent completion of the Adani-Holcim deal, ACEM raised INR 200bn via warrants. ACEM is poised to add ~47mn tonnes total capacity. At present, ACEM has access to ~INR 135bn (INR 85bn cash; ~25% of warrant proceeds), which may be used to buy ~22mn tonnes cement capacity.

### ...but speed-breakers ahead – Demand likely to moderate in FY25E

Expect the cement industry to post a YoY demand growth of ~10%/9% in FY23E/24E, respectively, led by pre-election spending and strong traction in infrastructure. But pan-India, demand growth should likely moderate to ~3% YoY in FY25E, hit by post-election slow-down and completion of *Pradhan Mantri Awaas Yojana* (PMAY), likely generating a negative delta of ~590bp to demand growth.

### Capacity addition to touch ~110mn tonnes through FY23E-25E

Expect the cement industry to witness a total cement capacity addition of ~110mn tonnes in FY23E-25E. North India may outperform other regions, likely operating at >85% utilization through FY23E-25E. Expect firms with greater North India presence to enjoy stable/healthy margin in the long term.

### Weak phase waning – Margins set to recover

Q2FY23 PAT margin curve indicates that nearly one-fourth of the industry posted losses. As per our analysis of the previous cement cycle, whenever EBITDA margin falls <17% and inflation-adjusted EBITDA/tonne drops <INR 1,000, the industry hikes prices, irrespective of utilization. Given that industry margin and EBITDA/tonne were at ~13% and INR 737 in H1FY23, expect the industry to hike prices in H2FY23 and FY24, particularly if fuel prices remain firm.

### UltraTech Cement and JK Cement – Our top sectoral picks

Within large-caps, prefer UltraTech Cement (UTCEM IN) given pan-India presence (less exposure to regional risk). Within mid-caps, favor JK Cement (JKCE IN) – Most of its grey cement capacity is in North India where utilization is healthy, with presence in stable white cement space.

Near term, East/South India offer tactical opportunities – Cement prices in such regions rose ~12%/~6% versus an average ~4% rise pan-India, in the past three months. Thus, firms with greater presence in East/South India – Nuvoco Vistas Corporation (NUVOCO IN), Dalmia Bharat (DALBHARA IN) and The Ramco Cements (TRCL IN) – should see a sharper profit recovery in Q3FY23 versus peers.

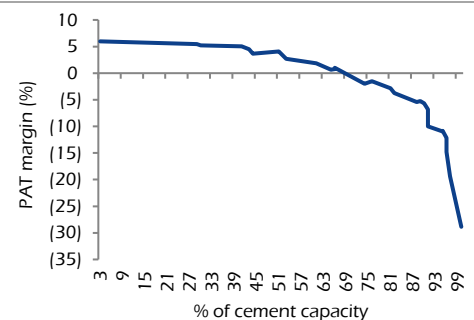
We initiate coverage on DALBHARA with **Accumulate** and a TP of INR 2,177, on 11x December 2024E EV/EBITDA. We revise UTCEM and JK Lakshmi Cement (JKLC IN) to **Accumulate** from Buy, given ~13% and ~29% stock price rise, since our last updates.

### ACEM – Immediate growth potential, ~22mn tonnes

Particulars	Capacity post full warrant utilization (INR mn)	Capacity @ 25% of warrant utilization (INR mn)
Consolidated cash, as of June 2022	84,587	84,587
Proceeds from warrant	200,001	50,000
<b>Total fund available</b>	<b>284,588</b>	<b>134,587</b>
Estimated capex cost/tonne (INR)	6,000	6,000
Capacity addition without debt (mn tonnes)	47.4	22.4

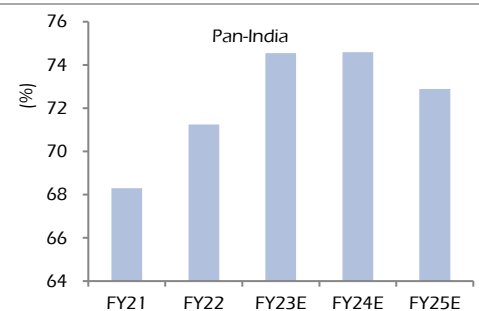
Source: Company, Elara Securities Estimate

### Capacity bleed at ~25% in Q2FY23



Note: chart represents percentage of capacity at various PAT margin levels; Source: Company, Elara Securities Research

### Utilization to be range-bound



Source: Elara Securities Estimate

## Exhibit 1: Elara Cement universe – Peer comparison

Company	Ticker	Rating	MCAP (INR bn)	CMP (INR)	TP (INR)	Upside (%)	EV/EBITDA (x)			EV/tonne (USD)			P/E (x)			RoE (%)		
							FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
UltraTech Cement	UTCEM IN	Accumulate	2,091	7,242	8,325	15	18.8	15.0	13.7	196	194	165	37.6	28.7	25.7	10.5	12.5	12.6
Ambuja Cements	ACEM IN	Reduce	1,154	581	556	(4)	21.2	19.6	15.2	230	243	214	49.6	44.8	31.1	6.9	6.2	7.3
Shree Cement	SRCM IN	Accumulate	866	24,010	25,117	5	25.2	17.9	14.8	193	178	165	57.4	38.2	31.9	8.4	11.6	12.5
ACC	ACC IN	Accumulate	492	2,621	2,795	7	25.2	14.1	11.2	147	135	130	54.3	29.3	22.4	6.4	11.3	13.2
Dalmia Bharat	DALBHARA IN	Accumulate	350	1,866	2,177	17	14.6	11.2	9.8	115	110	92	46.8	28.6	23.8	4.5	7.0	7.9
JK Cement	JKCE IN	Accumulate	245	3,168	3,597	14	19.7	15.0	12.7	103	90	78	37.7	26.9	21.9	14.4	17.6	18.4
The Ramco Cements	TRCL IN	Accumulate	165	700	817	17	19.0	13.7	11.7	129	128	126	51.9	28.0	21.6	4.8	8.5	10.2
Nuvoco Vistas Corporation	NUVOCO IN	Accumulate	142	399	440	10	14.3	9.2	7.8	107	100	90	-	35.6	25.5	(0.2)	4.4	5.9
JK Lakshmi Cement	JKLC IN	Accumulate	95	810	902	11	12.8	10.5	9.0	100	97	92	25.9	20.5	17.8	14.1	15.6	15.7
India Cements	ICEM IN	Sell	77	249	197	(21)	45.9	12.5	10.9	85	85	82	-	22.5	19.1	(0.5)	5.7	6.4
Birla Corporation	BCORP IN	Accumulate	74	962	1,138	18	15.0	7.5	6.9	67	65	63	105.5	12.9	11.8	1.2	9.1	9.3
Prism Johnson	PRSMJ IN	Accumulate	62	123	143	16	16.0	10.3	8.4	102	77	61	148.1	26.3	19.2	3.1	16.3	19.3
Heidelberg Cement India	HEIM IN	Accumulate	47	207	225	9	12.2	8.2	7.0	89	85	76	23.4	14.2	12.3	12.9	20.5	21.9
Star Cement	STRCEM IN	Accumulate	44	110	115	4	9.4	9.7	8.3	91	81	64	19.9	18.1	18.7	9.8	9.8	8.6
Orient Cement	ORCMNT IN	Accumulate	26	129	143	10	9.3	7.3	7.1	43	42	46	29.9	15.1	11.1	5.8	10.8	13.5

Note: Pricing as on 6 December 2022; Source: Bloomberg, Elara Securities Estimate

## Exhibit 2: FY22-25E demand CAGR at ~7%

(mn tonnes)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Effective Capacity</b>											
East	56	61	69	76	83	88	94	105	112	128	139
South	147	151	153	154	159	165	166	166	170	182	189
North	86	87	94	95	99	102	104	108	110	116	124
West	49	51	52	55	57	59	60	65	74	77	79
Central	46	47	47	48	51	53	58	60	64	73	79
<b>All-India</b>	<b>382</b>	<b>397</b>	<b>415</b>	<b>428</b>	<b>449</b>	<b>467</b>	<b>481</b>	<b>505</b>	<b>531</b>	<b>575</b>	<b>608</b>
<b>Production</b>											
East	42	48	48	56	65	66	71	76	88	97	101
South	81	81	85	92	107	100	91	102	113	121	123
North	67	70	71	76	81	78	81	87	94	103	107
West	36	39	38	41	44	43	41	44	47	51	52
Central	36	37	37	40	44	44	46	49	53	58	61
<b>All-India</b>	<b>262</b>	<b>274</b>	<b>279</b>	<b>304</b>	<b>341</b>	<b>330</b>	<b>329</b>	<b>360</b>	<b>395</b>	<b>429</b>	<b>443</b>
<b>Capacity utilization (%)</b>											
East	74.1	78.0	69.7	73.8	78.4	74.5	75.6	72.6	78.7	75.5	72.9
South	55.1	53.3	55.5	59.6	67.3	60.5	54.7	61.8	66.2	66.4	65.0
North	78.0	80.9	75.1	79.8	81.2	76.9	77.7	80.7	85.5	88.9	86.6
West	74.8	76.9	73.2	73.2	77.2	72.3	67.6	67.2	64.0	66.3	65.8
Central	79.3	77.6	78.3	84.6	87.2	83.2	79.4	82.4	82.7	79.3	77.4
<b>All-India</b>	<b>68.4</b>	<b>69.0</b>	<b>67.1</b>	<b>71.1</b>	<b>75.9</b>	<b>70.8</b>	<b>68.3</b>	<b>71.2</b>	<b>74.5</b>	<b>74.6</b>	<b>72.9</b>

Source: Elara Securities Estimate

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## Cement

### Adani Group – War chest ready to fuel growth

ACEM witnessed INR 200bn fund raising via warrants, since the release of our report, '[Holcim deal to ink new sectoral silhouette](#)', dated 17 June 2022. As of June 2022, ACEM had a net cash of ~INR 85bn at the consolidated level. At an estimated average capex and acquisition cost of INR 6,000/tonne, ACEM should be able to add ~47mn tonnes total capacity, without taking any debt.

At present, ACEM has access to ~INR 135bn (~INR 85bn cash; 25% of warrant proceeds), which may be used to fund inorganic growth. Organic expansion does not require upfront cash payment. Our analysis suggests that the available fund should be sufficient to buy ~22mn tonnes cement capacity.

#### Exhibit 3: ACEM – Immediate growth potential, 22mn tonnes

Particulars	Capacity post full warrant utilization (INR mn)	Capacity @ 25% of warrant utilization (INR mn)
Consolidated cash, as of June 2022	84,587	84,587
Proceeds from warrant	200,001	50,000
<b>Total fund available</b>	<b>284,588</b>	<b>134,587</b>
Estimated capex cost/tonne (INR)	6,000	6,000
Capacity addition without debt (mn tonnes)	47.4	22.4

Source: Company, Elara Securities Estimate

### Jaypee Group – Cement asset sales imminent

As per exchange filings dated 10 October 2022, Jaypee Group companies – Jaiprakash Associates (JPA) and Jaiprakash Power Ventures – are expected to divest their cement assets. Post that, [reportedly](#), these assets may likely be acquired by the Adani Group. But Adani Enterprises, part of Adani Group, had refuted such

#### Exhibit 4: Jaypee Group – Rewa unit, most attractive

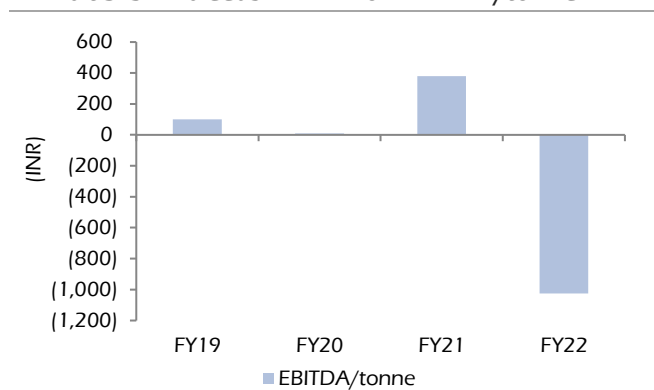
Particulars	State	Cement capacity (mn tonnes)	Clinker capacity (mn tonnes)	Captive power capacity (MW)	Sales volume-including clinker (mn tonnes)	Capacity utilization (%)
<b>Jaypee Rewa</b>	<b>MP</b>	<b>1.7</b>	<b>3.2</b>	<b>62</b>	<b>1.0</b>	<b>60</b>
Chunar cement factory, Churk	UP	2.5		37	1.1	45
Jaypee Nigrie Cement Grinding Unit	MP	2.0			0.3	13
Churk	UP	1.0		180		
Bhilai Jaypee Cement	Chhattisgarh	2.2	1.1			
Jaypee Shahabad Cement Project	Karnataka	1.2		60		
<b>Total</b>		<b>10.6</b>	<b>4.3</b>	<b>339</b>		

Note: MP=Madhya Pradesh; UP=Uttar Pradesh; Source: Company, Elara Securities Research

newsflow via exchange filings. Note, while the Adani Group had acquired Holcim assets via a special purpose vehicle – Endeavour Trade and Investment, it was Adani Enterprises (*sans* own cement assets) that issued related clarifications. Thus, it may be just a matter of time before such cement assets of the Jaypee Group are sold off to repay debt.

Jaypee Group's current cement capacity is ~11mn tonnes. JPA had posted a loss at the operational level. Due to cash crunch, sales have been restricted to select markets such as North Madhya Pradesh and Uttar Pradesh. Of all the assets of Jaypee Group on the block, likelihood of sale materializing for Madhya Pradesh-based Rewa unit is on the higher side, given its integrated operations.

#### Exhibit 5: JPA bleeds in FY22 on EBITDA/tonne



Source: Company, Elara Securities Research

**Likely synergies – Lead distances and freight costs**

In Central India, ACC (ACC IN) is an established, reputed brand versus ACEM. Thus, it may be more viable to acquire Jaypee Group’s cement assets in ACC than in ACEM. The price difference between ACC and Jaypee Group’s brand is ~INR 45-50/bag. Also, ACC may be offered better terms from vendors (fuel/truck operators).

As of June 2022, ACC had ~INR 46bn net cash. As Jaypee Group’s cement assets are distressed and have surplus grinding capacity, if the deal includes all the assets above-mentioned (Exhibit 4), it may materialize at <INR 48bn.

Post optimization of the clinker-to-grinding movement, the Jaypee Group’s cement assets can trim lead distance by 217Km, which may pare freight cost by INR 542/tonne for Uttar Pradesh. Reduction in lead distance for Madhya Pradesh is likely to be slight at 9Km, translating into just INR 26/tonne savings.

**Jaypee Group’s cement assets – Other buyers**

Besides Adani Group, other firms – UTCEM, Shree Cement (SRCM IN) and DALBHARA could also acquire Jaypee Group’s Rewa unit with grinding units in Bihar (clinker transportation cost may dip).

Further, such an acquisition may enable **UTCEM** to: 1) increase its resources in Central India, 2) protect market share, and 3) complement existing infrastructure. Alternatively, this acquisition may enable **SRCM’s** entry into Madhya Pradesh-based Satna cluster, thus a step closer to pan-India presence. Note that reportedly, SRCM had indicated that it is seeking assets in Central India.

**Exhibit 6: Lead distance reduction – Uttar Pradesh offers opportunities...**

(Km)	Lead distance					Effective lead distance		
	Sonbhadra (UP)	Tikaria (UP)	Churk (UP)	Jaypee Nigrie (MP)	JPA + ACC Minimum	ACC Minimum	JPA + ACC Minimum	ACC Minimum
Kanpur	379	374	327	372	327	374	466	598
Lucknow	367	284	318	383	284	284	378	544
Varanasi	87	223	46	235	46	87	139	410
Prayag Raj	168	531	122	182	122	168	215	459
Gorakhpur	276	23	259	456	23	23	117	388
Average							263	480
<b>Reduction</b>								<b>217</b>
<b>Savings (INR/tonne)</b>								<b>542</b>

Source: Company, Elara Securities Estimate

**Exhibit 7: ...But Madhya Pradesh has limited possibilities**

(Km)	ACC	JPA	Lower	Reduction in lead distance
	Kymore (MP)	Rewa (MP)		
Indore	517	684	517	0
Bhopal	311	493	311	0
Jabalpur	42	229	42	0
Gwalior	477	433	433	44
Ujjain	513	680	513	0
Average	372	504	363	9
<b>Reduction in lead distance</b>				<b>9</b>
<b>Savings (INR/tonne)</b>				<b>26</b>

Source: Company, Elara Securities Estimate

**Exhibit 8: Lead distance – UTCEM likely to benefit the most on savings**

Company	Target market/grinding unit	Existing arrangement	Distance from existing arrangement (Km)	Distance from Rewa unit (Km)	Lead distance saving (Km)	Savings (INR/tonne)
SRCM	Aurangabad, Bihar	Baloda Bazar, Chhattisgarh	553	377	176	528
UTCEM	Patna, Bihar	Hirmi, Chhattisgarh	703	462	241	723
DALBHARA	Vaishali, Bihar	Rajgangpur, Odisha	495	478	17	51

Source: Company, Elara Securities Estimate



### 'Margin leadership' shift – Historical analysis and future extrapolations

While erstwhile Gujarat Ambuja Cement (GACL), now Ambuja Cements (ACEM), enjoyed margin leadership in the 1990s, post the acquisition by Holcim Group in FY06, SRCM was able to match GACL's margin through FY04-06, even surpassing it in FY07.

Key reasons for GACL's margin leadership were:

- GACL was among the forerunners in captive power plant (CPP) use, in India. SRCM started with CPP only from CY03. GACL's FY97 annual report indicates it had 30MW CPP in Gujarat and Himachal Pradesh and that it was planning to add another 52MW by December 1997.
- GACL was a pioneer in sea transportation, for which it set up a bulk terminal. Sea route use reduced GACL's lead distance to Mumbai to one-third as compared with the road route.
- GACL's Gujarat plants were located close to the port, enabling coal imports/cement exports, economically.
- Its Himachal Pradesh-based plant had a lead distance advantage to service the Punjab market versus through its Rajasthan/Madhya Pradesh plants.
- In the 1990s, GACL posted a volume CAGR of ~22% versus SRCM's ~11%, primarily led by capacity addition and market share gain. Thus, GACL had operating leverage and economy-of-scale benefits.
- GACL was well placed on leverage. A healthy balance sheet allowed it to rapidly expand as against SRCM's higher debt and dependence on external funds for expansion. SRCM's PAT margin was also depressed on higher interest cost.
- GACL started using Australian surface miners for limestone mining, which led to lower landed cost of limestone at its plant.
- GACL was a well-established brand, commanding premium pricing. Its realization was ~INR 150/tonne more than SRCM's. GACL's products were preferred by customers over SRCM's – Dealers had to push for SRCM's products. Through FY05-07, North India witnessed >95% utilization, which led to double-digit cement price rise in the region. SRCM was present only in North India then – Robust pricing trend in the region helped it post better realization.

Apart from these, GACL enjoyed many fiscal incentives.

#### Exhibit 9: GACL – Incentives bolstered margin

Year	Plant location	Incentives
CY93	Line I, Ambuja Nagar, Gujarat	Sales tax benefit of ~90% of its fixed assets for a period of 14 years.
CY95	Suli, Himachal Pradesh	a) Prioritized power supply at a guaranteed cost of five years and b) Sales tax benefit of ~90% of its fixed assets for 14 years.
CY96	Line II, Ambuja Nagar, Gujarat	Sales tax benefit of ~90% of its fixed assets for 14 years.
CY01	Chandrapur, Maharashtra	sales tax benefit for 18 months.

Source: Company, Elara Securities Research

#### Margin leadership shift to SRCM from GACL

The scenario changed gradually as at end-1990s. Reliance Industries' (RIL) first refinery at Jamnagar, Gujarat was commissioned in CY99, pioneering petcoke production in India. And, as there was little demand, RIL was selling petcoke at ~40-45% discount to coal, initially. Though European cement firms were using petcoke then, this was not the case in India. Hence, SRCM sent its engineers/kiln operators to Europe to train them. SRCM started using petcoke from CY00. While initially, it faced issues and unplanned shutdowns, sales were not hit, as the market was in surplus. Soon, SRCM was able to develop 'petcoke use' expertise.

Later in CY03, when CPP norms were relaxed, it set up a CPP. Thus, SRCM's power & fuel cost, as a percentage of sales, which was broadly higher ~360bp in 1990s versus GACL, dropped lower than GACL's by ~500bp in CY04. Over the years, margin expansion led to strong operating cashflow, supporting SRCM in deleveraging.

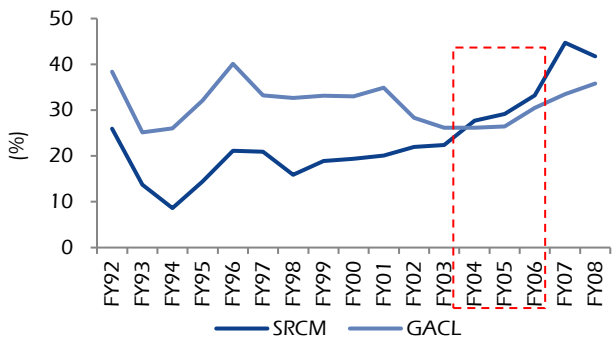
Further, freight outward, as a percentage of sales, was ~800bp higher for SRCM than for GACL. But it turned lower than ACEM's from CY05. Key initiatives by SRCM were:

- Rationalization of rail and road mix.
- Set-up of split grinding units.
- Implementation of a transport freight bidding system, the first of its kind in the cement industry. In this system, based on the reverse auction model, transporters bid online for available consignments on different routes. The lowest bid for a particular route wins the consignment. This pared the average freight rate and saved on total freight payments for SRCM.

- At SRCM's Rajasthan-based Ras unit, an integrated, radio frequency identification based (RFID), a vehicular access system for truckers, was launched. Right from the time the truck checked in at the entrance for outbound/inbound loading/unloading, its movement till it checks out at the exit was governed by an automated, RFID activated system. This cut truck turn-around time, improving truck availability at the plant.

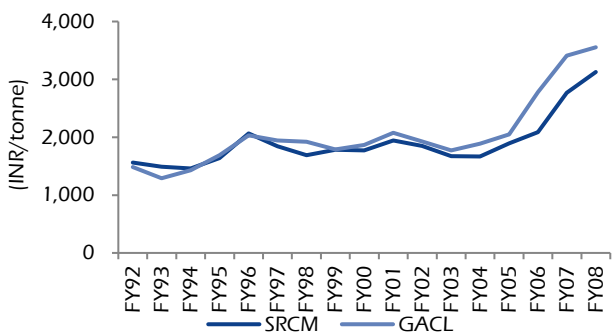
While SRCM's EBITDA margin surpassed GACL's, the latter continued to report a better PAT margin in 2000s due to SRCM's accelerated depreciation policy. While GACL's depreciation, as a percentage of sales, was ~8% through CY01-08, it was ~18% for SRCM.

**Exhibit 10: Margin – SRCM at par with GACL in FY04-06**



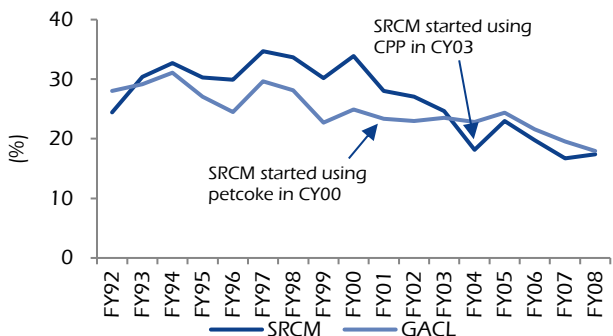
Source: Company, Elara Securities Research

**Exhibit 11: Realization – GACL ~INR 150/tonne ahead than SRCM in FY92-08**



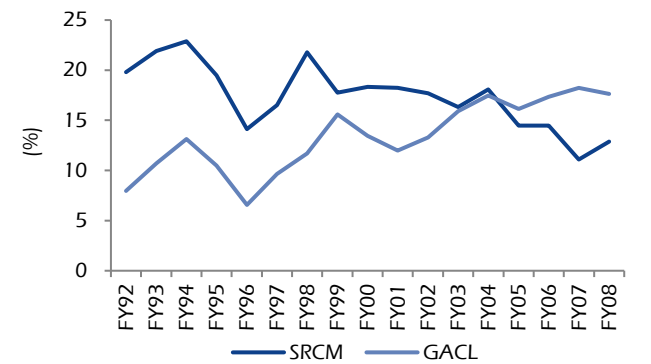
Source: Company, Elara Securities Research

**Exhibit 12: SRCM bridged gap, led by petcoke use/CPP**



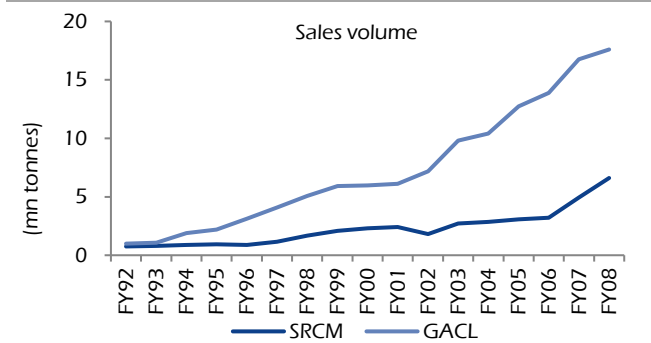
Note: Power-fuel cost as percentage of sales; Source: Company, Elara Securities Research

**Exhibit 13: GACL– Logistics edge on sea route use in 1990s**



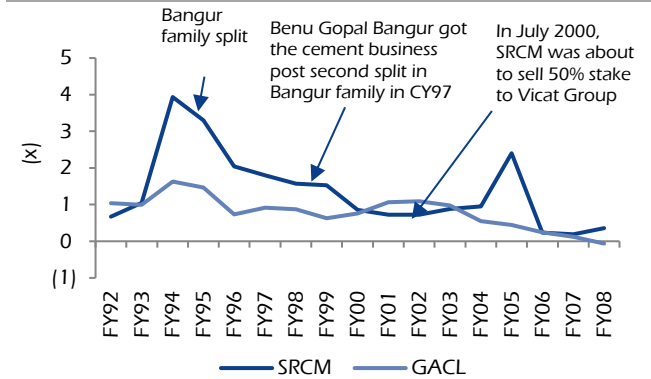
Note: Freight cost as percentage of sales; Source: Company, Elara Securities Research

**Exhibit 14: Volume CAGR in 1990s – GACL 2x SRCM**



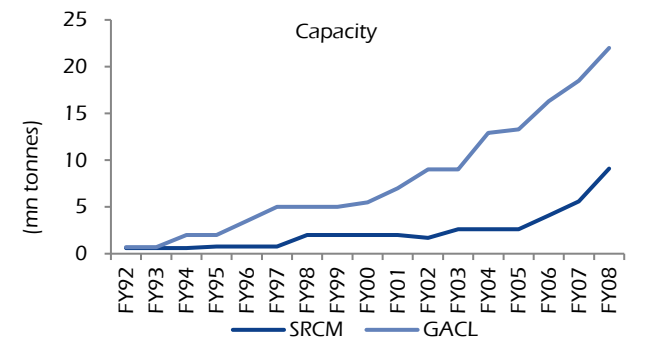
Source: Company, Elara Securities Research

**Exhibit 15: Leverage – SRCM higher than GACL**



Note: Net debt-equity; Source: Company, Elara Securities Research

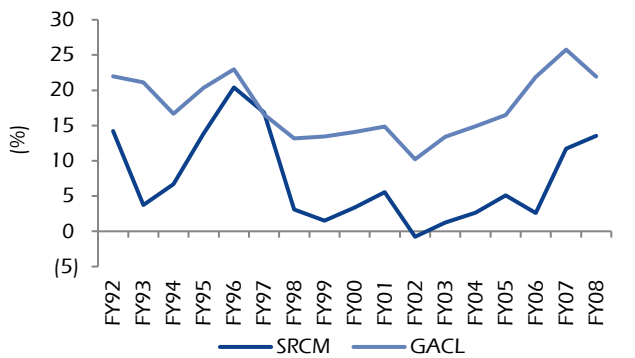
**Exhibit 16: Higher leverage in 1990s capped SRCM's 'capacity raising' ability**



Source: Company, Elara Securities Research

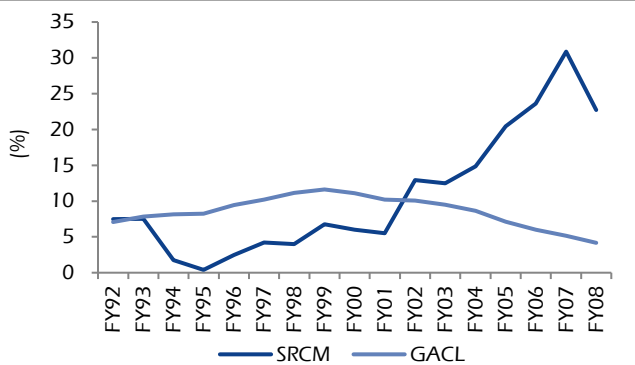
**Cement**

**Exhibit 17: PAT margin – GACL higher than SRCM on lower depreciation**



Source: Company, Elara Securities Research

**Exhibit 18: SRCM – Higher depreciation on accelerated depreciation policy**

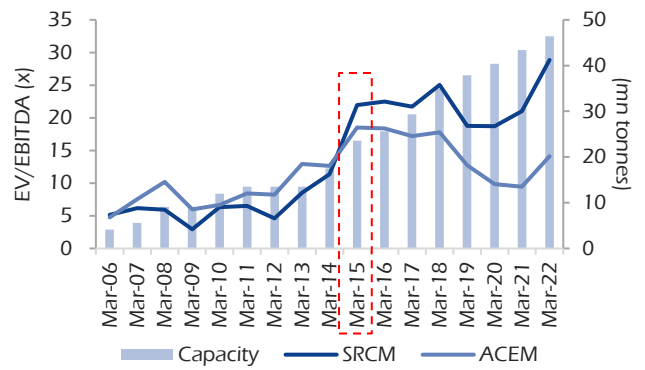


Note: Depreciation as percentage of sales; Source: Company, Elara Securities Research

**Valuation leadership led by margin leadership**

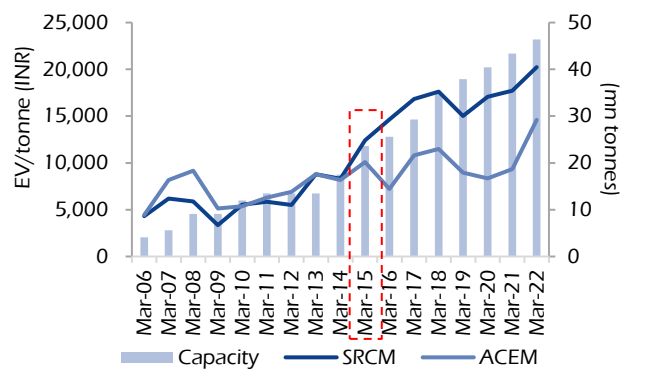
SRCM gained valuation leadership once capacity surpassed 20mn tonnes and expanded its reach outside North India. SRCM traded at a ~26% discount on EV/EBITDA and ~14% on EV/tonne to ACEM through FY06-14, but it started trading at a ~51% premium on EV/EBITDA and ~63% premium on EV/tonne through FY15-22.

**Exhibit 19: EV/EBITDA – SRCM beat ACEM in FY15...**



Source: Company, Elara Securities Research

**Exhibit 20: ...and on EV/tonne in FY15**



Source: Company, Elara Securities Research



**ACEM – Can past glory be resurrected?**

Currently, ACC and ACEM, both are expanding waste heat recovery (WHR) capacity – Announced capex is likely to be completed in the next two years. While ACC’s WHR capacity may rise to 75MW from 7.5MW in CY21, ACEM’s WHR capacity should spike to 87MW from 6.5MW in CY21. As per our analysis, access to new WHR capacity may yield additional saving of ~10% for ACC, on CY21 EBITDA.

ACEM may see additional savings of ~11% on standalone CY21 EBITDA. Also, ACC/ACEM used to pay the Holcim Group a royalty for tech support. In CY21, ACC paid INR 1.5bn (~5% of CY21 EBITDA) and ACEM, INR 1.3bn (~4% of CY21 standalone EBITDA). Recent termination of such payment by the Adani Group may further cost savings.

**Exhibit 21: ACEM – New WHR capacity to up savings ~ 11%**

	CY23E	CY24E	Total
Incremental WHR capacity (MW)	48	33	81
PLF (%)	80	80	80
Units generated (mn)	333	231	564
Savings per unit (INR)	6.0	6.0	6.0
Savings (INR mn)	1,997	1,388	3,385
Standalone EBITDA, CY21 (INR mn)			32,075
<b>Saving as percentage of EBITDA (%)</b>			<b>10.6</b>

Source: Company, Elara Securities Estimate

**Exhibit 22: ACC – New WHR capacity to up savings ~ 10%**

Incremental WHR capacity (MW)	68
PLF (%)	80
Units generated (mn)	473
Savings per unit (INR)	6.0
Savings (INR mn)	2,838
Standalone EBITDA, CY21 (INR mn)	30,004
<b>Savings as percentage of EBITDA (%)</b>	<b>9.5</b>

Source: Company, Elara Securities Estimate

**Exhibit 23: Savings of 4-5% on ceased royalty payment**

CY21	ACC	ACEM	ACC+ACEM
Technical know-how paid (INR mn)	1,545	1,313	2,858
EBITDA (INR mn)	30,004	32,075	62,079
Savings as a percentage of EBITDA (%)	5.1	4.1	4.6

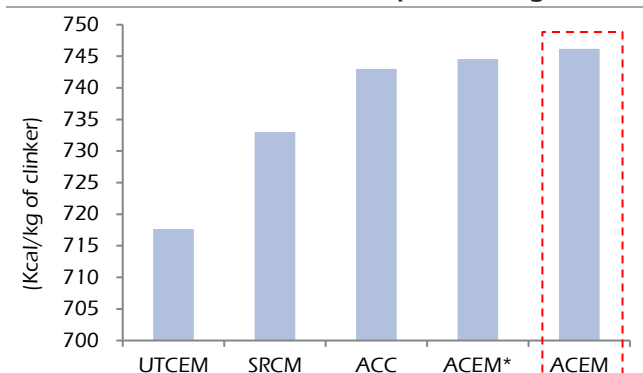
Source: Company, Elara Securities Estimate

Likely benign fly ash transfer price, port charges, electricity and freight cost may prop ACC/ACEM’s margin. But given higher debt/low profitability in other group companies, it may be more beneficial for Adani Group to have favorable transfer pricing for other group companies.

Adani Group may have to continue with both the brands, just segregating the marketing teams, as both brands are well-established. While sea route use may rise, it may only be able to service South/East India, both of which are in surplus. Maharashtra market is already being serviced via the sea route from Gujarat.

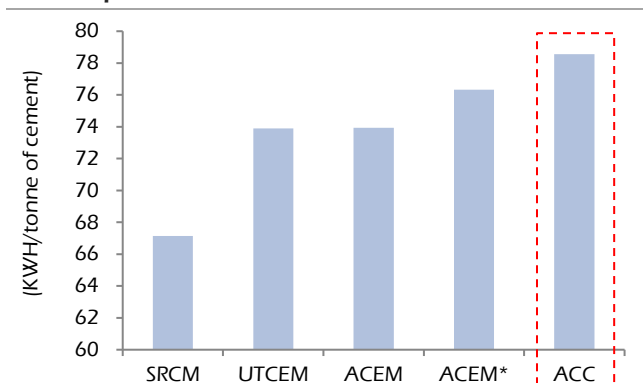
Given Adani Group’s exposure to fuel trading (coal/petcoke), it may be able to source fuel economically on economies of scale. If fuel at ~5% discount to peers is sourced, INR 68/tonne savings might follow.

**Exhibit 24: ACEM – Fuel consumption on higher side**



Note: \*Consolidated; as on FY22; Source: Company, Elara Securities Research

**Exhibit 25: ACC – Inefficient on electricity consumption**



Note: \*Consolidated; as on FY22; Source: Company, Elara Securities Research

Doubling of capacity should pare fixed cost per tonne and trim the percentage of old plants in overall mix. In case of ACC’s capacity, >83% is >15 years old and ~58% is >20 years old. For ACEM, ~87% is >15 years old and ~52%, >20 years old. Thus, it may be unlikely to meaningfully pare fuel/electricity consumption for existing plants.

**Exhibit 26: Adani Group – >80% capacity is >15 years old**

As percentage of FY22 capacity (%)	Pre FY07	FY07-12	FY12-17	FY17-22
SRCM	12.1	17.0	34.1	36.9
ACC	57.8	25.5	12.7	4.1
ACEM	51.8	35.1	7.3	5.7

Source: Company, Elara Securities Research

If ACEM could double its consolidated capacity with more efficient plants, the weighted average of electricity and fuel consumption might trim, leading to INR 33 and INR 54 per tonne savings, respectively.

Also, our channel checks suggest that the Adani Group may be rationalizing warehouses (initial target within a radius of 100Km; may be further spiked to 150Km). Also, staff rationalization and dealer incentive developments are underway. If the Adani Group can rationalize such expenses reported under staff cost, rent, miscellaneous expenses by ~10%, this may yield INR 46/tonne saving.

ACEM may also increase green power in the electricity mix. If we were to assume ACEM spiking its green power dependence (excluding WHR) by ~30%, it would likely reduce cost per tonne by INR 92.

While use of innovative technologies by the Adani Group is likely, eventually, this could be replicated by peers, as was the case when GACL lost its margin leadership to SRCM in FY04, and SRCM in FY22.

Some new evolving technologies could be: 1) use of bio diesel or biogas-based transports, 2) use of inland water ways, 3) use of dedicated freight corridors (DFCs) for B2B movement or clinker movement to grinding unit, and 4) electrification of clinker kiln etc.

### Exhibit 27: Margin levers may yield INR 417/tonne edge

	(INR/tonne)
WHR	73
Royalty payment	51
Electricity consumption	33
Fuel consumption	54
Coal procurement cost	68
Fixed cost	46
Renewable energy	92
<b>Total savings</b>	<b>417</b>

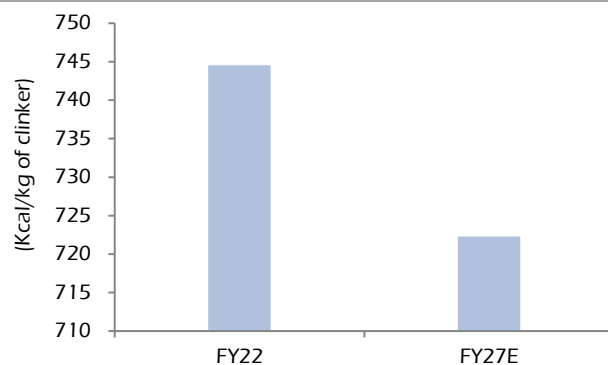
Note: table represents likely savings; Source: Company, Elara Securities Estimate

### Exhibit 28: ACEM – Electricity consumption may fall ~6% by FY27E



Source: Company, Elara Securities Estimate

### Exhibit 29: ...and energy consumption ~3% by FY27E



Source: Company, Elara Securities Estimate

### If Adani Group achieves its vision...

The Adani Group targets to expand capacity to 140mn tonnes in the next five years from current ~67mn tonnes. Key assumptions on consolidated basis, for ACEM's DCF analysis, once targeted capacity is achieved, are:

- ACEM capacity to spike to ~140mn tonnes by FY29E.
- Post FY29E, cement capacity to continue to grow at 5% till FY46E.
- EBITDA/tonne to spike to INR 1,800 in FY28E (in line with inflation-adjusted peak EBITDA/tonne for industry) from INR 266 in the quarter ended September 2022.
- Post FY28E, EBITDA/tonne to rise 4% each year, till FY46E.
- ACEM's capacity utilization at 90% in FY26E-46E.
- Terminal value of 15x free cash flow (FCF) for FY46E.
- Discount rate of 12%.

Based on these, we ascribe ~INR 1,351bn fair equity value to ACEM, which implies a downside of ~6%.

Over the past decade, when SRCM enjoyed margin leadership it traded at ~20x EV/EBITDA and ~INR 15,000 EV/tonne. At present, ACEM (standalone) is trading at ~25x FY25E EV/EBITDA and INR 30,000 EV/tonne.

Note GACL's historical valuation since 1995 – It has never traded above EV/EBITDA of ~18x and EV/tonne of ~INR 15,000 and USD 228.

Exhibit 30: Adani Group’s vision priced in

(INR mn)	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY47E
Capacity (mn tonnes)	69	72	78	93	108	124	140	337
EBITDA/tonne (INR)	725	1,049	1,239	1,389	1,539	1,800	1,872	3,792
EBITDA	54,241	67,179	69,258	116,737	150,119	201,204	235,872	1,149,963
Depreciation	16,158	17,052	17,698	17,640	23,384	29,309	35,712	144,249
EBIT	38,083	50,128	51,560	99,097	126,735	171,895	200,160	1,005,714
PAT	26,658	35,089	36,092	69,368	88,715	120,327	140,112	703,999
Working capital/tonne (INR)	10	10	10	10	10	10	10	10
Working capital	(818)	(568)	(399)	(757)	(878)	(1,006)	(1,134)	(2,729)
Maintenance capex	(6,850)	(7,220)	(7,840)	(9,340)	(10,840)	(12,420)	(14,000)	(33,693)
Expansion capex	(17,238)	(25,022)	(42,767)	(105,537)	(107,648)	(115,657)	(117,970)	(171,094)
FCF	17,909	19,332	2,785	(28,625)	(7,267)	20,552	42,720	640,734
NPV	1,336,291							
Net debt	(261,096)							
Minority adjustment for ACC	246,030							
Target market cap	1,351,358							
Fully diluted market cap	1,431,078							
Upside (%)	(6)							

Source: Company, Elara Securities Estimate

**ACEM versus global firms – Valuation yardstick**

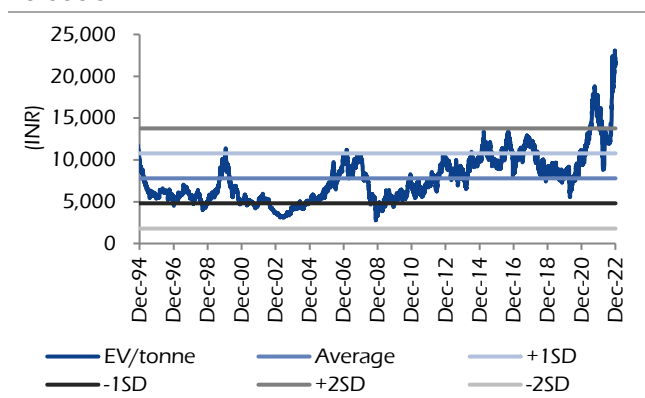
Global cement firms, despite being much bigger in size with higher profitability, do not garner similar valuations as ACEM.

**China National Building Material (CNBM)** is the largest cement firm globally, with a cement capacity of ~530mn tonnes, slightly lower than India cement capacity in FY22. Through CY07-21, CNBM posted a ~21% volume CAGR (more than ACEM’s target capacity CAGR of ~15% in the next five years), with average EBITDA margin/RoE of ~21%/~16%, respectively. CNBM traded at an average EV/EBITDA of ~10x through CY07-21.

**Anhui Conch Cement** is the second-largest cement firm globally, with a cement capacity of ~384mn tonnes. But it enjoyed much better margin, return ratio and higher sales volume (due to trading activities) versus CNBM. In CY21, sales volume was ~409mn tonnes, almost equivalent to the combined cement production of India and Egypt. Anhui’s CY07-21 sales volume CAGR was ~12%. Through CY07-21, Anhui earned ~20% RoE and an average EBITDA margin of ~29%, ~560bp higher than ACEM’s CY07-21 EBITDA margin. Anhui traded at an average EV/EBITDA of ~8x through CY07-21.

**PT Indocement Tunggak Prakarsa Tbk** is the second-largest cement producer in Indonesia, market share-wise, with FY22 cement capacity of 25.5mn tonnes. Interestingly, during the upcycle, it earned an EBITDA margin akin to the Adani Group’s target. Through CY10-14, Indocement earned an average EBITDA/tonne and EBITDA margin of ~INR 1,900 and ~38%, respectively. Indocement’s peak margin and EBITDA/tonne were ~42% in CY10 and INR 2,128 in CY13, respectively. Indocement’s past 15 years’ average RoE and EV/EBITDA were ~17% and ~14x respectively.

Exhibit 31: ACEM trading at three-decade high valuation



Source: Company, Elara Securities Estimate

# Cement

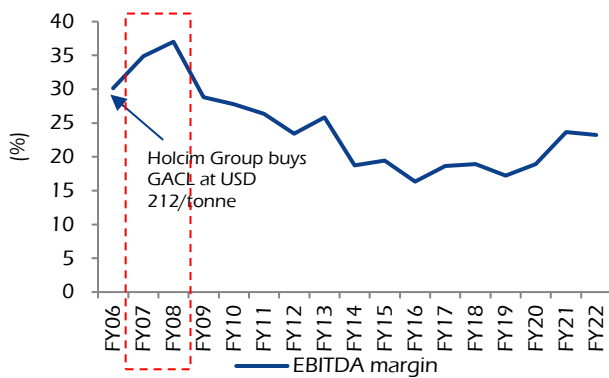
## Do high-value M&A deals indicate structural margin uptrend?

In the past two decades, two high-value deals materialized – the Holcim Group bought stake in GACL at USD 212/tonne in FY06 and CRH bought stake in My Home Industries at USD 205/tonne in FY09. When GACL’s promoter, Mr. Narotam Sekhsaria exited post the acquisition by Holcim Group in FY06, GACL’s EBITDA margin was ~30%. After sustaining margin at >30% for two subsequent years, ACEM has been unable to earn similar margins.

As My Home Industries is an unlisted firm, we analyse the average margin of select listed firms with major exposure to South India. Post the CRH deal, South India has not been able to yield similar margin for it.

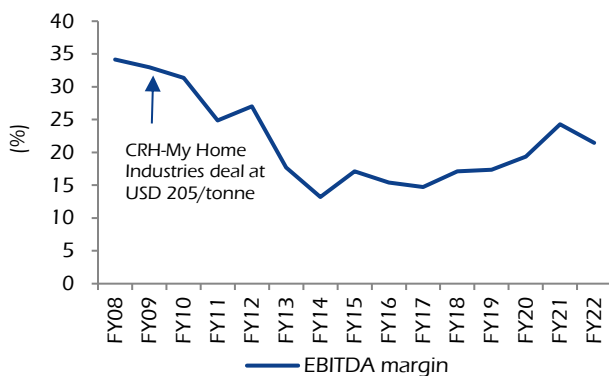
High-value deals encourage existing firms’ promoters to add capacity, which catalyzes oversupply, thus depressing margin.

**Exhibit 32: Holcim Group – Just two years of high margins, post GACL acquisition**



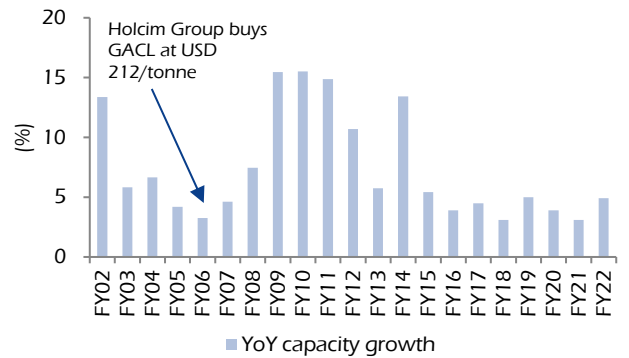
Note: Standalone EBITDA margin of ACEM; Source: Company, Elara Securities Research

**Exhibit 33: South India – No sharp margin improvement post high-value deals**



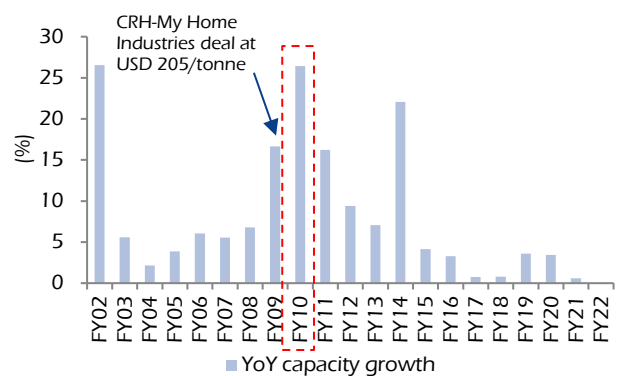
Note: EBITDA margin represents average of The Ramco Cements, India Cements, Sagar Cements and Orient Cement; Source: Company, Elara Securities Research

**Exhibit 34: Pan-India capacity addition up post Holcim-GACL deal...**



Source: Company, Elara Securities Research

**Exhibit 35: ...akin to CRH-My Home Industries deal in South India**

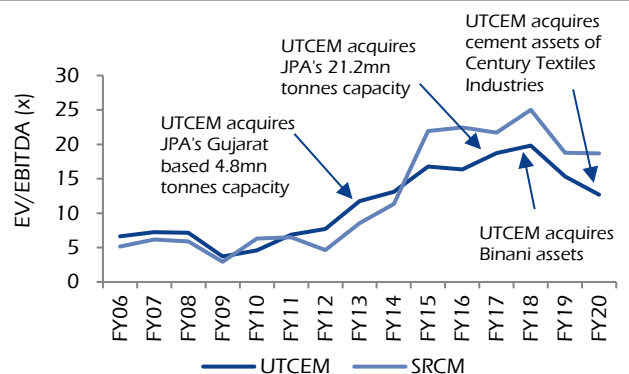


Source: Company, Elara Securities Research

### M&A impact on valuations...

UTCEM, in the past decade, acquired many firms. As per a comparative EV/EBITDA analysis for SRCM and UTCEM, the market derates valuation multiples post acquisitions – Such acquisitions suddenly spike interest cost/depreciation for the acquirer even as EBITDA improvement takes time. The market ascribes more value to organic growth than to inorganic. Organic growth shows management’s execution capabilities which can be replicated. Inorganic growth suddenly spikes debt, interest cost and depreciation (replication unlikely). Thus, if ACEM grows inorganically, its multiple may not rerate.

**Exhibit 36: Organic growth dearer than inorganic**



Source: Company, Elara Securities Research

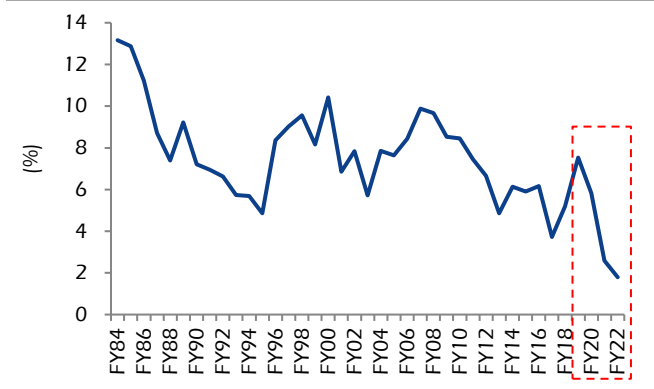
### Prior-cycle dynamics – Read-through

The cement industry had achieved peak capacity utilization of ~94% through FY07-FY08. The industry had achieved EBITDA margin in 32-33% range, with EBITDA/tonne of ~INR 900-1,050. While the industry's EBITDA margin slightly correlates with utilization, EBITDA/tonne shows no such correlation, largely due to inflation impact.

For instance, the industry's FY22 EBITDA/tonne was INR 982, at utilization of ~71%, in line with FY07-08 average EBITDA/tonne of INR 990 at ~94% utilization. Inflation-adjusted EBITDA/tonne better correlates with utilization. Adjusted for inflation, the industry's FY07/08 EBITDA/tonne was INR 1,888/INR 2134.

An 85% utilization is only likely at ~13% cement demand CAGR through FY22-25E and ~10% through to FY31E, based on planned capacity addition and forward-looking vision-statements by cement companies. Note that barring FY84-85, the industry has never posted three-year rolling CAGR of ~13%. In our view, higher demand CAGR in early 1980s was probably due to pent-up demand as the industry was deregulated.

**Exhibit 37: Rolling three-year CAGR ~2% – FY19-22**



Source: CMIE, Elara Securities Research

Note that whenever EBITDA margin falls <17% and inflation-adjusted EBITDA/tonne drops <INR 1,000, the industry hikes price, irrespective of utilization. For instance, in FY14, the industry operated at ~69% utilization, with an EBITDA margin of ~16% and inflation-adjusted EBITDA/tonne of INR 973.

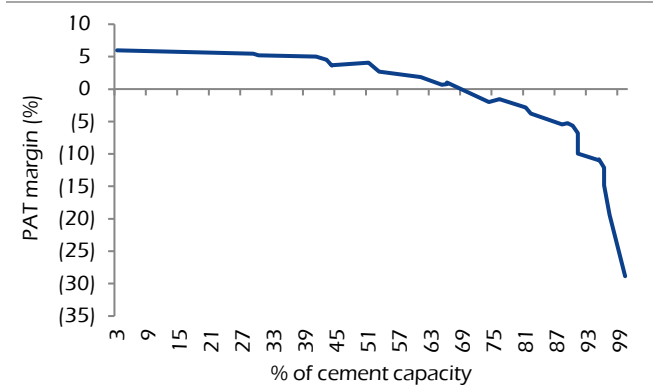
In FY15, when utilization for the industry fell to ~68% and demand growth was moderate at ~5% (~9% in FY14), prices were still hiked ~8%, thus improving inflation-adjusted EBITDA/tonne and EBITDA margin to INR 1,118 and ~17%, respectively.

This was also seen in South India that has remained surplus for long. In FY14, EBITDA margin and inflation-adjusted EBITDA/tonne from the region fell to ~14% and INR 822. Utilization in South India continued to fall to 55%/~53% in FY15/16, from ~56% in FY14, but prices were hiked ~18%/~11% in FY15/16. EBITDA margin for the industry improved to ~19%/~21% in FY15/16 from ~14% in FY14. Inflation-adjusted EBITDA/tonne rose to INR 1,141/INR 1,252 in FY15/16 from INR 822 in FY14.

Similarly, in FY19-20, margin from South India fell to 15-16% and inflation-adjusted EBITDA/tonne to INR 745-811. In FY21, prices were hiked ~15%, improving margin to ~24% and propping inflation-adjusted EBITDA/tonne to INR 1,242.

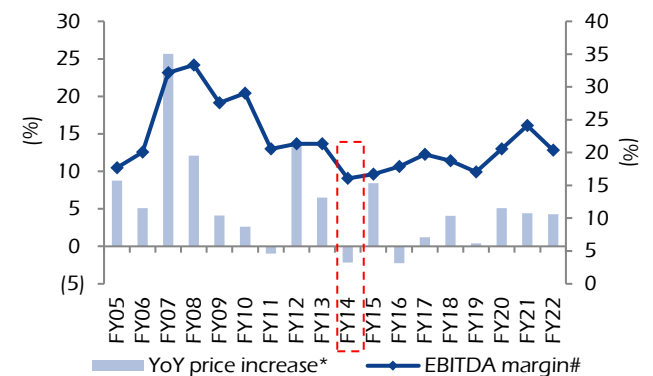
Given that the industry's H1FY23 margin and EBITDA/tonne reached ~13% and INR 737, expect price hikes in H2FY23 and FY24, particularly if fuel prices remain firm. In Q2FY23, nearly one-fourth of the industry posted a loss at the PAT level. This should prompt a more-disciplined operational approach.

**Exhibit 38: About 25% of capacity bled in Q2FY23**



Note: chart represents percentage of cement capacity at various PAT margin levels; Source: Company, Elara Securities Research

**Exhibit 39: Lower margin prompts price hikes**

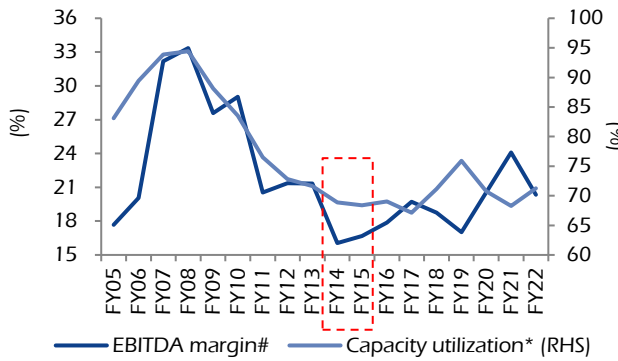


Note: \*Pan-India, #Elara cement universe; Source: Company, Elara Securities Research



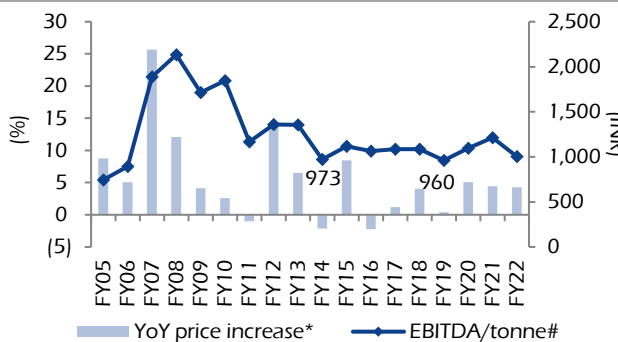
**Cement**

**Exhibit 40: Utilization, not the only margin indicator**



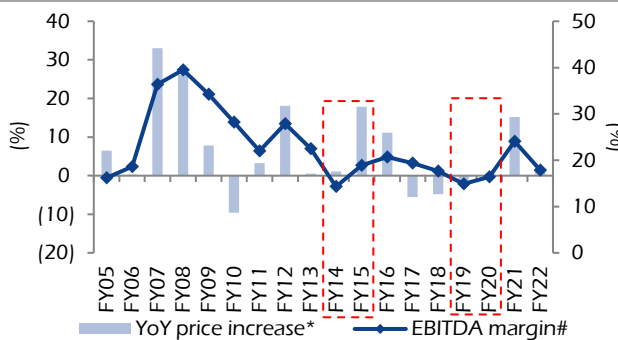
Note: \*Pan-India, #Elara cement universe; Source: Company, Elara Securities Research

**Exhibit 41: Real-term EBITDA/tonne <INR 1,000 leads to price hike**



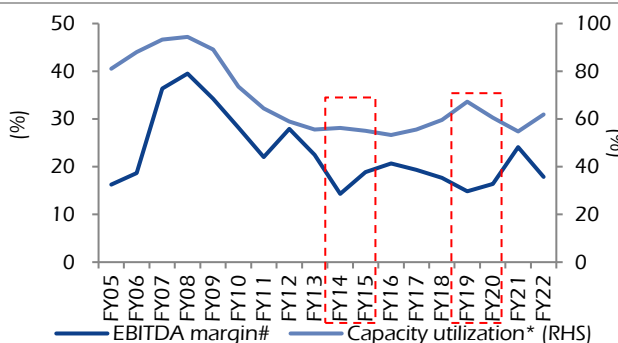
Note: \*Pan-India, #Elara cement universe (adjusted for inflation); Source: Company, Elara Securities Research

**Exhibit 42: South India – Weak margin-led price hike**



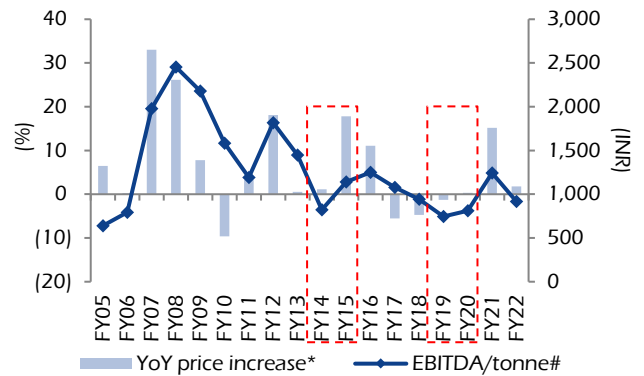
Note: \*South India, #average of TRCL, ORCMNT and ICEM; Source: Company, Elara Securities Research

**Exhibit 43: Margin hits stop-loss at ~16%**



Note: \*South India, #average of TRCL, ORCMNT and ICEM; Source: Company, Elara Securities Research

**Exhibit 44: Pricing, a tool for maintaining profit**



Note: \*South India, #average of TRCL, ORCMNT and ICEM (adjusted for inflation); Source: Company, Elara Securities Research

**Shift in management may change dynamics**

The top managements of ACC, ACEM, SRCM and JKLC have seen a change. On an aggregate basis, these firms accounted for ~124mn tonnes or ~one-fourth of the industry’s FY22 capacity.

Market intermediaries believe that ACC/ACEM may maintain pricing in line with category A brands. Our channel checks crucially indicate that: 1) warehouse rationalization (in a radius of 100Km initially and 150Km, eventually) is being planned, 2) some dealer incentives may be rationalized (prompting shift to other brands), 3) marketing personnel may see a shift in responsibility and 4) restricting of clearing and forwarding (C&F) agents’ responsibility to only distributions.

With increased uncertainty on ACC’s/ACEM’s plans to rationalize workforce, dealer servicing may be hit, near term. The Adani Group attempted to move to net billing, which yielded mixed response from the dealers. While net billing should likely release dealers’ working capital, it may also hit their bargaining power as the real cost may be reflected in the invoices.

Mr. Neeraj Akhouri has been appointed as SRCM’s Managing Director, effective 14 October 2022, for a period of five years. Expect SRCM to turn less aggressive on price, with focus pivoting to premiumization.

Mr. Arun Kumar Shukla has been appointed as JKLC’s President and Director. The new management’s focus is to optimize geography mix, premiumize and spike blended cement/trade sales. This could raise dispatches to the Gujarat markets versus North India as JKLC has a lead distance advantage to service the former. Lower dispatch to North India may positively impact the pricing gap between trade and non-trade segments in the region.

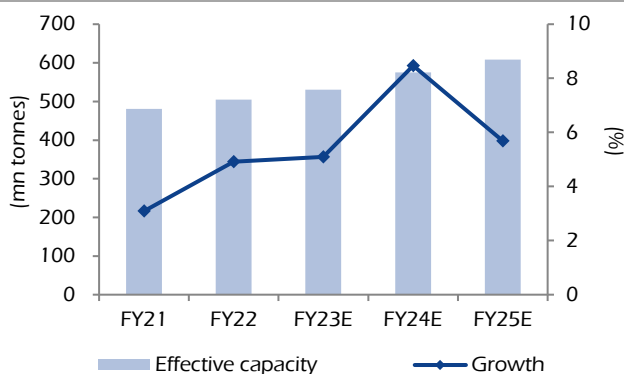


**FY23E-25E capacity pipeline at ~110mn tonnes**

COVID-19 disrupted capacity addition; thus, the cement industry’s effective capacity CAGR was ~4% in the past three years versus ~5%/~7% in the past 10/20 years. Over the years, capacity addition has been difficult, given many regulatory hurdles and elevated capital cost. But strong balance sheet, improved cash flow and aggressive capacity augmentation commentary by the Adani Group post its Holcim assets acquisition prompted other cement firms to etch similar growth strategies.

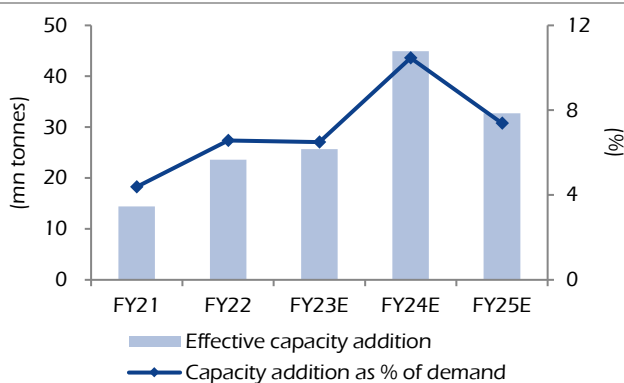
Thus, to expand market share in existing/new markets, other firms are also taking to new growth capex announcements. Expect the cement industry to add cement capacity of ~110mn tonnes in FY23-25E, of which East India may see the highest addition (~38mn tonnes), followed by South India (~28mn tonnes), Central India (~21mn tonnes), North India (~18mn tonnes) and West India (~6mn tonnes). Overall, expect the cement industry’s effective capacity CAGR at ~6% to 608mn tonnes through FY22-25E.

**Exhibit 45: FY22-25E effective capacity CAGR ~6%**



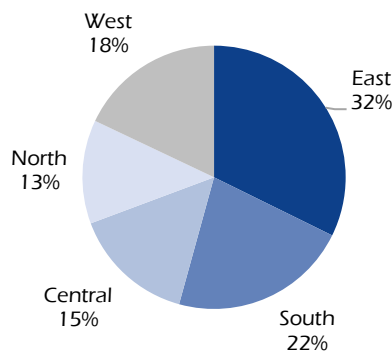
Source: Company, Elara Securities Estimate

**Exhibit 46: Capacity addition (FY22-25E)– ~8% of demand**



Source: Company, Elara Securities Estimate

**Exhibit 47: East India to lead capacity addition race**

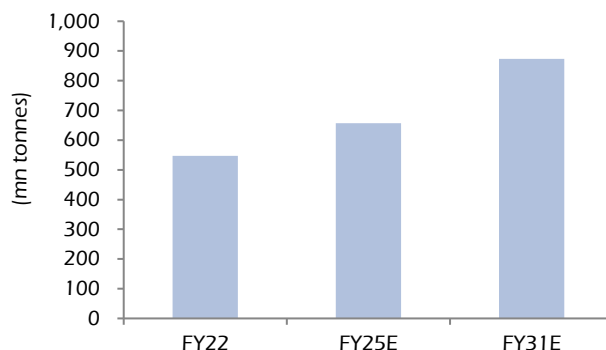


Source: Elara Securities Estimate

**FY31E capacity likely to be ~870mn tonnes**

While the cement industry’s total capacity may likely rise to ~655mn tonnes by FY25E from ~547mn tonnes in FY22, expect the industry’s capacity to surge to ~870mn tonnes by FY31E (as per select cement firms’ long-term roadmap), at a capacity CAGR of ~5% through FY25E-30E.

**Exhibit 48: FY25E-31E India capacity CAGR ~5%**



Source: Company, Elara Securities Estimate

**FY22-25E demand CAGR ~7%**

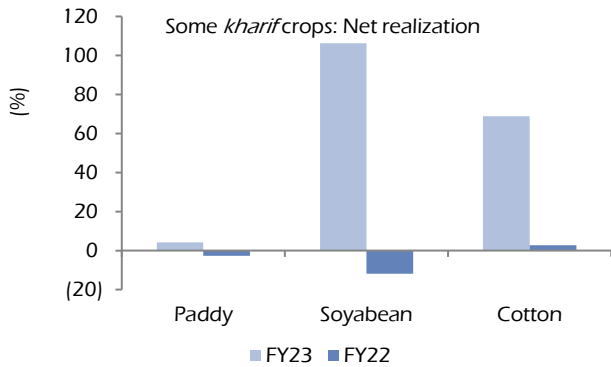
**Government spend to add 710bp to growth**

Post demand contraction for two years in FY20-21, with ~3% fall in FY20 and ~0.5% in FY21, the cement industry strongly revived in FY22, growing ~9%. Cement demand likely grew ~10% YoY in H1 – Industry may grow ~10% YoY in FY23E, given favourable H2FY22 base (-2%) due to transport strike in Chhattisgarh and sand shortage in Bihar/West Bengal. Most lead indicators, barring rural, are indicating buoyant cement demand. As on Q2FY23, order book of construction firms, real estate firms’ pre-sales and revenue from property registrations for Maharashtra spiked ~14% YoY, ~7% YoY and ~36% YoY, respectively.

## Cement

While COVID-19 overhang on consumer sentiment is easing, expectations of a good *Rabi* crop and elevated crop prices should prop rural demand. Our Economist, Garima Kapoor, in her [report](#), dated 28 November 2022 indicated that the net crop realization for farmers should spike versus that during last year.

**Exhibit 49: Net realization for farmers, healthy**



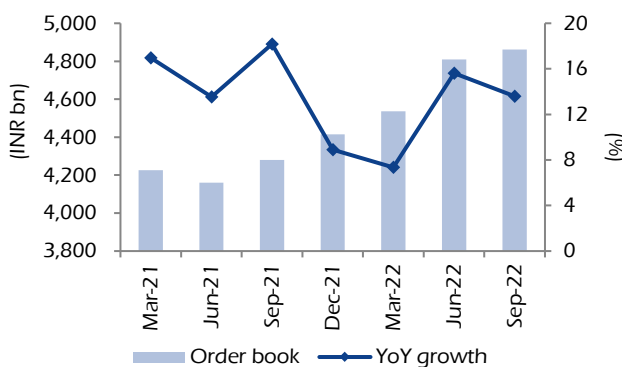
Source: Agmark, Directorate of Economics & Statistics, Elara Securities Estimate

**Exhibit 50: Rabi sowing healthy; pulses sowing weak**

	Actual area ('000 hectare)			(% area YoY in actual area sown)	
	2020	2021	2022	2021	2022
All crops	32,271	33,446	35,859	3.6	7.2
Foodgrain	26,255	26,775	28,282	2.0	5.6
Cereals	16,853	17,338	18,856	2.9	8.8
Rice	789	833	914	5.6	9.7
Wheat	13,384	13,835	15,288	3.4	10.5
Coarse cereals	2,680	2,670	2,654	(0.4)	(0.6)
Jowar	1,834	1,755	1,512	(4.3)	(13.9)
Pulses	9,402	9,437	9,426	0.4	(0.1)
Gram	6,521	6,691	6,714	2.6	0.3
Oilseeds	6,015	6,671	7,577	10.9	13.6
Groundnuts	172	210	180	21.8	(13.9)
Rapeseed & Mustard	5,597	6,196	7,089	10.7	14.4

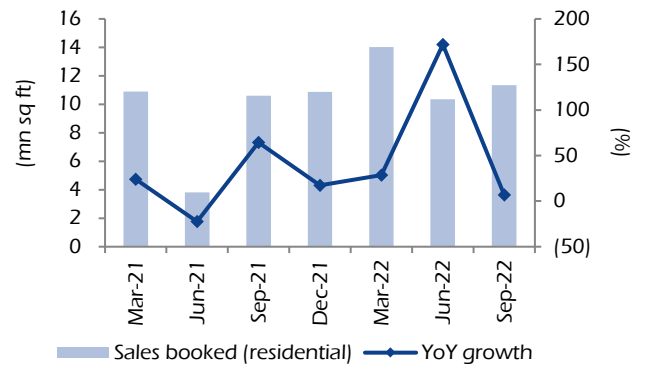
Source: CMIE, Elara Securities Research

**Exhibit 51: Construction firms – H1 order book grows in double-digits**



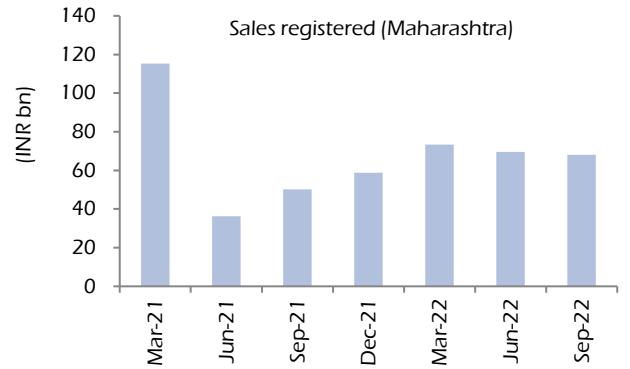
Note: Data from listed construction firms' investor presentation; Source: Company, Elara Securities Research

**Exhibit 52: Real estate firms – H1 sales up sharply**



Note: Data from listed construction firms' investor presentation; Source: Company, Elara Securities Research

**Exhibit 53: Maharashtra property sales – Q2 registration up ~36% YoY**

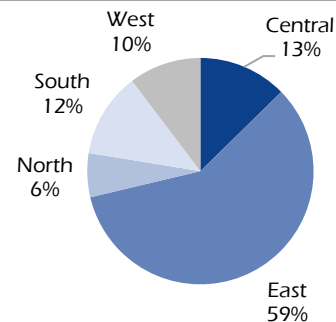


Source: IGR Maharashtra, Elara Securities Research

As per analysis, PMAY, and central and state government infrastructure spends may generate incremental cement demand of 2.5mn tonnes, 17.6mn tonnes and 5.4mn tonnes, respectively, in FY23E. These should likely contribute 70bp, 490bp and 150bp to growth.

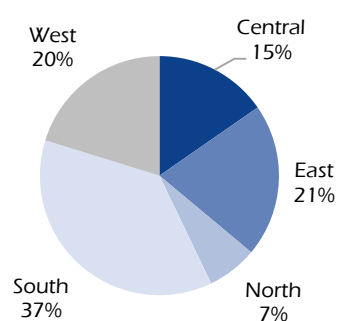
Thus, government spending alone can contribute 710bp to FY23E growth. This partly explains the divergent trend in Q2FY23 (in ceramic tiles firms' volume and rural slowdown commentary by FMCG firms vs cement firms' volume). Infrastructure and some low-cost rural housing projects do not use ceramic tiles.

**Exhibit 54: PMAY-G\* – East India to benefit the most**



Note: \*Pradhan Mantri Awaas Yojana-Gramin, chart represents pending projects; Source: Ministry of Rural Development, Elara Securities Research

Exhibit 55: PMAY-U\* – South India, a key beneficiary



Note: \*Pradhan Mantri Awaas Yojana-Urban chart represents pending projects; Source: Ministry of Housing & Urban Affairs, Elara Securities Research

Exhibit 56: Government infra spending – To add ~23mn tonnes YoY demand in FY23E

(mn tonnes)	Roads		Irrigation		Urban Infra		Total		Var (%) - FY23 vs. FY22
	FY22-RE	FY23-BE	FY22-RE	FY23-BE	FY22-RE	FY23-BE	FY22-RE	FY23-BE	
Bihar	0.8	0.6	0.9	0.7	0.0	0.0	1.7	1.3	(24.4)
Jharkhand	0.5	0.5	0.2	0.2	0.0	0.1	0.7	0.8	17.4
Chhattisgarh	0.8	0.8	0.3	0.5	0.1	0.1	1.2	1.3	13.6
West Bengal	0.6	0.6	0.4	0.7	0.2	0.4	1.2	1.7	36.7
Odisha	0.9	1.7	0.9	1.4	0.0	0.1	1.9	3.2	71.3
Assam	1.6	1.2	0.3	0.3	0.1	0.1	1.9	1.5	(23.3)
<b>East India</b>	<b>5.2</b>	<b>5.4</b>	<b>3.0</b>	<b>3.7</b>	<b>0.4</b>	<b>0.7</b>	<b>8.6</b>	<b>9.8</b>	<b>14.0</b>
Uttar Pradesh	4.5	4.9	1.2	1.5	0.2	0.2	5.8	6.7	13.8
Madhya Pradesh	1.1	0.8	1.7	1.2	0.2	0.2	2.9	2.2	(24.5)
<b>Central India</b>	<b>5.5</b>	<b>5.8</b>	<b>2.9</b>	<b>2.6</b>	<b>0.4</b>	<b>0.4</b>	<b>8.8</b>	<b>8.9</b>	<b>1.0</b>
Karnataka	1.2	1.2	2.8	3.2	0.3	0.3	4.3	4.8	10.5
Kerala	0.5	0.4	0.1	0.1	0.0	0.0	0.6	0.5	(15.6)
Tamil Nadu	1.9	2.5	0.6	0.7	0.7	0.7	3.2	3.9	23.4
Andhra Pradesh + Telangana	0.8	1.1	2.4	3.4	0.2	0.2	3.3	4.7	41.2
Andhra Pradesh	0.1	0.4	1.2	1.7	0.0	0.2	1.4	2.3	66.4
Telangana	0.6	0.7	1.2	1.7	0.1	0.0	2.0	2.4	23.7
<b>South India</b>	<b>4.4</b>	<b>5.2</b>	<b>5.8</b>	<b>7.5</b>	<b>1.2</b>	<b>1.2</b>	<b>11.4</b>	<b>13.9</b>	<b>21.7</b>
Gujarat	0.8	0.8	1.0	1.3	0.1	0.1	1.9	2.3	18.8
Maharashtra	3.4	3.1	2.3	2.8	0.2	0.1	5.9	6.0	0.8
<b>West India</b>	<b>4.2</b>	<b>3.9</b>	<b>3.3</b>	<b>4.1</b>	<b>0.2</b>	<b>0.2</b>	<b>7.8</b>	<b>8.2</b>	<b>5.1</b>
Rajasthan	0.8	0.8	0.7	1.0	0.3	0.2	1.8	2.1	15.3
Punjab	0.3	0.3	0.4	0.4	0.4	0.4	1.0	1.1	10.0
Haryana	0.4	0.3	0.3	0.6	0.3	0.4	1.0	1.3	29.6
NCT of Delhi	0.2	0.3	0.0	0.2	0.1	0.2	0.4	0.7	72.4
Uttarakhand	0.2	0.0	0.1	0.2	0.1	0.1	0.4	0.2	(49.2)
<b>North India</b>	<b>1.9</b>	<b>1.7</b>	<b>1.5</b>	<b>2.3</b>	<b>1.2</b>	<b>1.3</b>	<b>4.6</b>	<b>5.4</b>	<b>16.1</b>
<b>Total states</b>	<b>21.3</b>	<b>22.0</b>	<b>16.6</b>	<b>20.3</b>	<b>3.4</b>	<b>3.9</b>	<b>41.3</b>	<b>46.2</b>	<b>11.9</b>
Other states	2.1	2.2	1.6	2.0	0.3	0.4	4.1	4.6	11.9
<b>Grand total of states</b>	<b>23.4</b>	<b>24.2</b>	<b>18.2</b>	<b>22.3</b>	<b>3.7</b>	<b>4.2</b>	<b>45.3</b>	<b>50.7</b>	<b>11.9</b>
Center spending	28.2	42.9			2.5	2.6	30.7	45.5	48.0
Center spending – Railways							13.1	15.2	15.6
Center spending – Rural roads							2.2	2.9	35.7
<b>Center – Total</b>							<b>46.0</b>	<b>63.6</b>	<b>38.2</b>
<b>Center+ states – Total</b>							<b>91.4</b>	<b>114.4</b>	<b>25.2</b>

Note: RE=Revised estimate; BE=Budget estimates; Source: Union Budget, State Budgets, Elara Securities Estimate

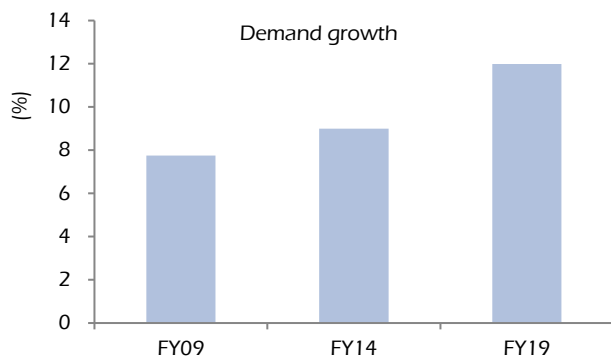
# Cement

But based on extended deadline, the government intends to complete *Pradhan Mantri Awaas Yojana–Gramin* (PMAY-G) projects by March 2024 and *Pradhan Mantri Awaas Yojana–Urban* (PMAY-U) projects by December 2024. As the PMAY scheme approximates its end, incremental demand from PMAY is likely to drop in FY24, with more prominent impact likely in FY25.

### Pre-election spending to bolster FY24E

As FY24 is a pre-election year, expect incremental infrastructure spending to offset negative impact of slowdown in PMAY execution. An analysis of past three national elections in CY09, CY14 and CY19 suggests that usually, demand pre-national elections turns healthy. Demand in FY09/14/19 grew ~8%/~9%/~12%, above ~7% demand CAGR through FY09-19. Expect the industry to witness another strong year, with demand likely growing ~9% YoY, in FY24E.

**Exhibit 57: Demand healthy in pre-election years**



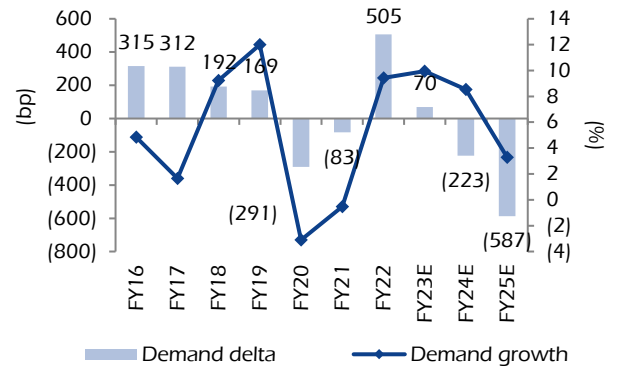
Source: Elara Securities Research

### PMAY to drag down FY25 growth

Absence of PMAY-G projects in FY25E should likely drag down growth ~475bp. For PMAY-U, expect only previously sanctioned projects to be completed towards the end of respective execution cycles, when cement consumption is low. Thus, PMAY-U is likely to drag growth ~115bp. Besides, FY25 may also be hit by post-election slow-down in government spending, as was the case in prior post-election years. Both PMAY-G and PMAY-U, put together, may generate a negative demand delta of ~590bp or ~25mn tonnes.

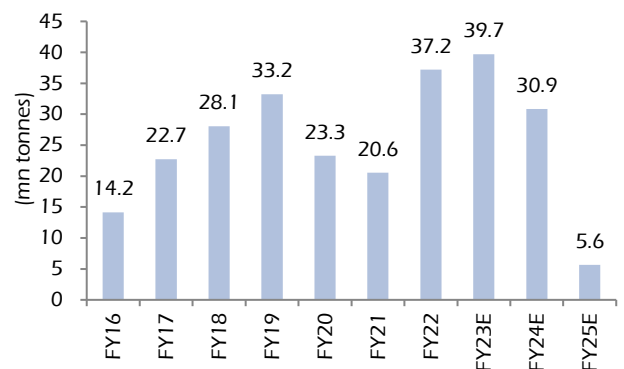
Furthermore, the lag impact of rising interest rate may also slow down organised real estate in FY25, as execution period for most projects is >two years. The government may start some new cement-intensive infrastructure projects, but given that big projects have initial teething problems, meaningful cement consumption may take some time. For instance, PMAY-U was launched on 25 June 2015, but as per our analysis, only by FY20, the 10mn tonnes mark was breached.

**Exhibit 58: PMAY key determinant for growth**



Source: Ministry of Rural Development, Ministry of Housing & Urban Affairs, Elara Securities Estimate

**Exhibit 59: PMAY demand to see sharp fall in FY25E**



Source: Ministry of Rural Development, Ministry of Housing & Urban Affairs, Elara Securities Estimate

While improved rural economy may offset the negative impact from PMAY approximating its end, we foresee risk of demand slow-down in FY25, based on currently available macro data. Expect cement demand to grow ~3% in FY25E.

But demand slow-down may not necessarily mean lower price. When demand is weak, pricing discipline for the industry improves to circumvent sharp profit erosion. This was seen in both FY20-21, when cement demand pared marginally, but cement prices continued to spike. Buoyant demand occasionally can trigger a fight for market share, as was the case in FY19, when cement demand grew ~12% YoY but price was hiked just ~1% YoY.

**Exhibit 60: Price discipline led by weak demand**

Year	Price rise (%)	Rise in production (%)
FY19	1	12
FY20	5	(3)
FY21	4	(1)
FY22	4	9

Source: Company, Elara Securities Research

**Long-term cement growth trend ebbing**

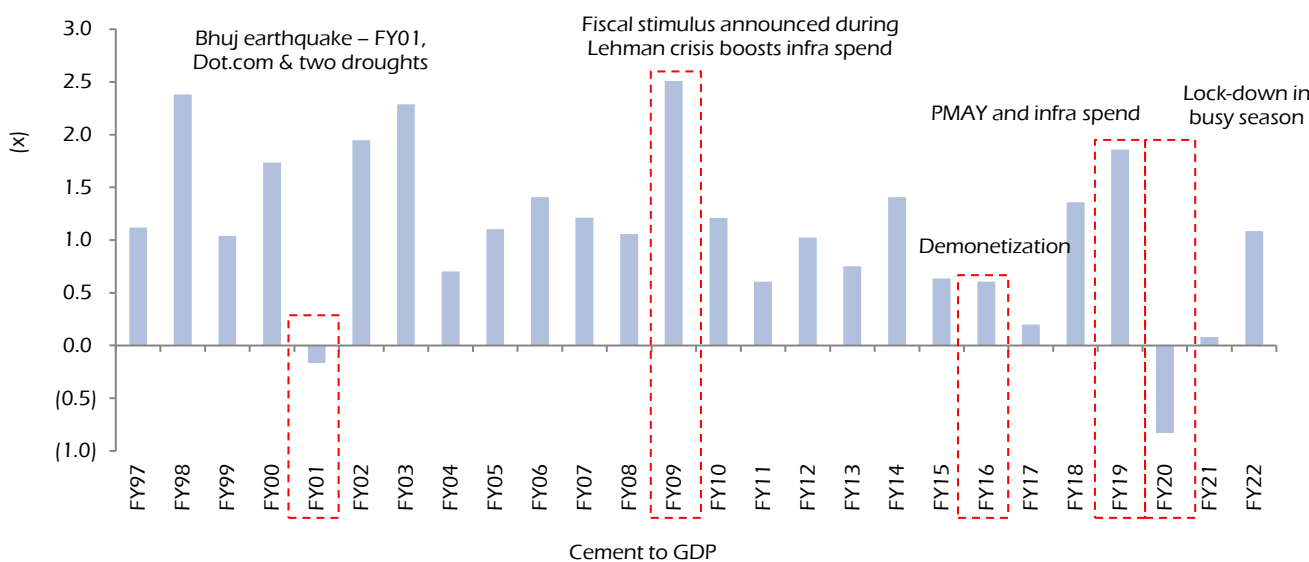
The long-term growth trend for the cement industry seems to be gradually declining – forty-, thirty-, twenty-, ten-, five- and three-year CAGRs for the industry are 7.4%, 6.8%, 6.5%, 5%, 5.2% and 2%, respectively. Past three years’ demand CAGR has been hit by events such as COVID-19, hyperinflation post Russia’s invasion on Ukraine, extreme weather conditions etc.

Cement-to-GDP ratio for the industry pared to 0.7x through FY12-22 versus 1.3x through FY01-11. The reduction in cement-to-GDP ratio is likely to be due to increase in the service component in GDP, change in methodology of GDP computations, etc.

As per close look at historical data, the industry added ~43mn tonnes capacity in FY14, which, as a percentage of demand, was ~17%. While ~45mn-tonnes capacity addition in FY24E is significant, it should be just ~11% of demand. Thus, impact of new supply is unlikely to be as severe as last cycle.

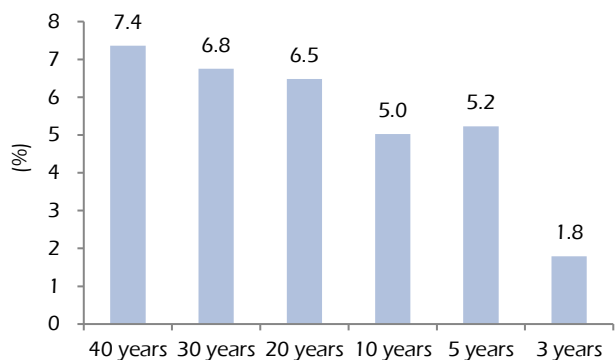
Expect utilization to fall to ~73% by FY25E, post hovering at ~75% in FY23E-24E, likely spiking utilization ~200bp to ~73% in FY22-25E. Among major regions, maximum utilization improvement is expected in North India (~600bp), followed by South India (~300bp), with a flat trend for East India. But West/Central India may witness a utilization fall of ~100bp/~500bp, respectively.

**Exhibit 61: Cement-to-GDP multiple at 0.7x in the past decade**



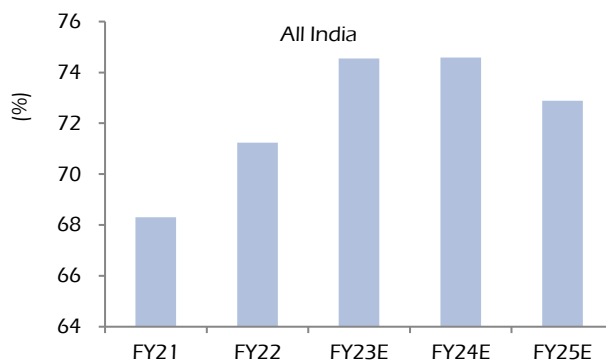
Source: CMIE, Elara Securities Research

**Exhibit 62: Consumption growth gradually dropping**



Source: CMIE, Elara Securities Research

**Exhibit 63: Utilization to be range-bound**



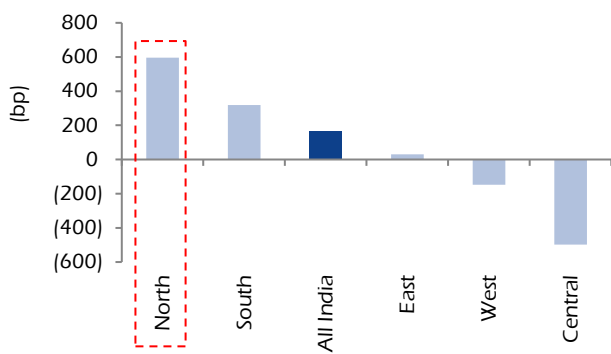
Source: Elara Securities Estimate

**FY22-25E capacity utilization to rise ~200bp**

Amid accelerated capacity addition in the next 2-3 years, expect cement demand CAGR of ~7%, primarily aided by healthy demand in FY23E-24E. The average yearly capacity addition should likely be ~34mn tonnes in FY23E-25E, with maximum capacity addition of ~45mn tonnes expected in FY24E.

**Cement**

**Exhibit 64: North India – Sharpest utilization rise in FY22-25E**



Source: Elara Securities Estimate

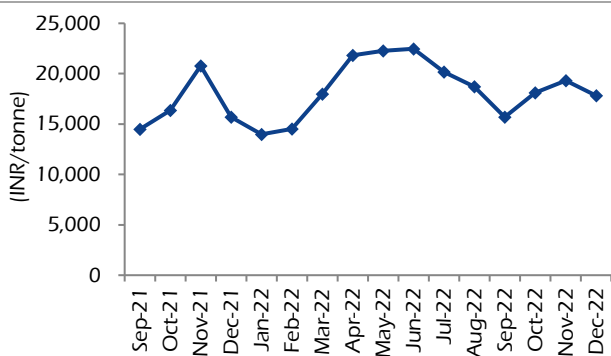
**Operating cost peaks in Q2FY23**

South African thermal coal prices were volatile in FY22, post range-bound movement at ~USD 70/tonne through FY20-21. South African thermal coal had touched a multi-year peak in mid-October 2021 at USD 236/tonne before dropping to USD 118/tonne, as at beginning-December 2021. But it again sharply surged, touching a new peak of ~USD 442/tonne by early March 2022 due to start of the Russia-Ukraine war. Thermal coal prices have gradually softened in the past few weeks and are currently hovering at ~USD 250/tonne.

After a recent-low in September, domestic petcoke prices have risen again in October and November but continue to be ~INR 4,700/tonne lower than June peak of INR 22,473/tonne.

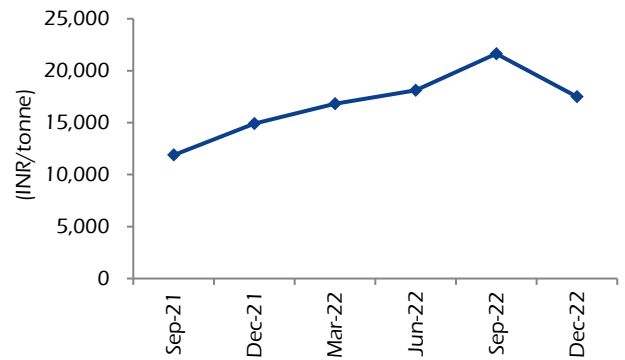
Cost per tonne for the industry in Q2FY23 spiked ~20% YoY/~6% QoQ, primarily due to high fuel prices, thus paring EBITDA/tonne by INR 561 YoY/INR 393 QoQ to INR 472/tonne. Thus, laggard cement firms such as India Cements posted a loss at the operational level. If we were to assume a two-month lag, petcoke cost for the industry should decline by INR 4,000/tonne, which could alleviate cost for the industry, going ahead.

**Exhibit 65: Pet coke – Dec price down ~21% from June peak**



Note: RIL petcoke prices excluding GST; Source: Elara Securities Research

**Exhibit 66: Assuming two-month lag and dipping pet coke price, Q3E savings likely at ~19% QoQ**



Note: RIL petcoke prices, excluding GST; Source: Elara Securities Research

**Green power investment gaining momentum**

Even as likely gradual easing-off in fuel prices should act as an external tailwind, cement firms' continued focus on strengthening green power portfolio –WHR, solar power and wind power – should not only pare costs and improve efficiency, but also pave the way for environment, social and governance (ESG) goals.

**Consolidation to prop cement prices**

Pan-India average cement price CAGR has been ~3% in the past decade, despite oversupply in South India and challenging demand scenario in select years. While operating cost has spiked sharply in H1FY23, cement price rise has been sub-par – Many 'price hike' attempts, to offset higher costs, have been rolled back. Though despite such roll backs, pan-India average retail cement price rose ~3% YoY through April-November 2022.

Expect prices to be healthy in the upcoming quarters, led by 1) a gradual rise in utilization and 2) likely increased consolidation in the industry. Expect a realization CAGR of ~4% for Elara cement universe, through FY22-25E.



## UltraTech Cement and JK Cement, our top picks

We believe East/South India offer short-term tactical opportunities. Cement prices in East/South India improved ~12%/~6% versus a ~4% rise in pan-India average, in the past three months. Expect East India to post a strong YoY volume growth, led by low base (sand issues last year) and good harvest. Firms with greater presence in East/South India – NUVOCO, DALBHARA and TRCL – should witness a sharper profit recovery in Q3FY23 versus peers, providing immediate tactical opportunities.

Long-term, **within large-caps**, we favour **UTCEM** given its pan-India presence (thus less exposed to regional risk). While capacity addition pipeline, healthy balance sheet and strong brand equity should prop UTCEM's outperformance versus the industry, increased focus on green power bodes well for its cost structure.

In the **mid-cap space**, we favour **JKCE** as most of its grey cement capacity is in North India, where utilization is expected to be healthy. Further, presence in white cement market, an oligopoly, should also enable stable cash flow to service its debt. Thus, **UTCEM and JKCE are our top picks in the cement space.**

### Elara Cement universe – Rating revised for UTCEM/JKLC

UTCEM/JKLC have risen ~13% and ~29% since our updates ([Cost pressure prevails](#)) dated 19 October 2022 and ([Margin gap reduces with peers](#)) 5 November 2022, respectively – Thus, we revise UTCEM and JKLC to **Accumulate** from BUY.

### DALBHARA – Initiate with Accumulate; TP INR 2,177

We initiate coverage on Dalmia Bharat with an **Accumulate** rating and a TP of INR 2,177, implying ~17% upside from the current levels. Our TP is based on 11x December 2024E EV/EBITDA.

Expect revenue/EBITDA CAGRs of ~13%/~15% through FY22-25E and EPS to rise to INR 78.3 by FY25E from INR 43.8 in FY22, led by: 1) a volume CAGR of ~9% in FY22-25E, aided by access to incremental capacity on phase-wise completion of expansion projects, 2) higher realization with strong premiumization focus/better product portfolio, 3) healthy cost structure with investment in cost saving measures and 4) a healthy balance sheet led by improved performance and expected cashflow uptick.

## Key risks

### Muted execution of government-backed projects

While retail demand is a crucial determinant of industry demand, government-backed infra and housing projects have also emerged as key demand drivers in the past few years. Thus, muted traction in government projects may hit the industry's growth prospects.

### Unfavorable fuel price rise

Power & fuel and freight expenses are key cost components for cement firms. Thus, any sharp fluctuation in crude price spikes price of coal, petcoke and diesel, elevating operating cost and contracting margin.

### Weak cement prices

A strong cement price trend is crucial to cement firms' profitability but increased competition to gain market share and weak demand soften cement prices. Thus, a sharp cement price contraction may severely hit margin.

## Company Section

# UltraTech Cement

## Binding growth enablers

### Stacking capabilities: 200mn tonnes capacity target by CY30

UltraTech Cement (UTCEM IN) is poised to spike its domestic cement capacity to ~131mn tonnes by end-FY23E from ~111mn tonnes in FY21. This should be led by gradual completion of the ongoing Phase I expansion of 19.9mn tonnes. UTCEM will also add another 22.6mn tonnes capacity in Phase II – 1) 7.3mn tonnes in Central India, 2) 5.2mn tonnes in East India, 3) 4.4mn tonnes in North India and 4) 5.7mn tonnes in South India at total capex of ~INR 128.9bn. Upon completion, domestic cement capacity would surge from ~131mn tonnes in FY23 to ~154mn tonnes by end-FY25 – 200mn tonnes cement capacity target by CY30. Clear expansion roadmap offers long-term growth visibility. And completion of such projects may strengthen UTCEM's position in India, likely making it the biggest beneficiary of pre-election buoyant demand, given its pan-India presence and strong brand equity.

### Green power to yield dual benefits – Cost savings and sustainability

In the past few years, sustainability focus bolstered UTCEM's green power share from just ~2% in FY15 to ~19.5% by Q2FY23. UTCEM targets to expand green power share further to 36% by FY25, indicating >INR 49/tonne savings. In Q2FY23, its captive power capacity was 1,188MW, of which its green power capacity was 509MW. Expect augmentation of low-cost green power to not only optimize cost but also enable sustainability targets.

### Cementing growth: Renewed focus on white cement, wall putty

In April 2022, UTCEM raised its stake to 29.8% in RAK Cement Co. for White Cement and Construction Materials PSC, a leading white cement player in the Middle East. Expect this to not only enable access to additional capacity but also aid logistics cost rationalization. Further, recently, wall putty capacity was spiked to 1.3mn tonnes, led by expansion in Rajasthan. These developments will help UTCEM strengthen market share and brand presence.

### Valuation: Revise to Accumulate; TP raised to INR 8,325

Ongoing growth capex will not only bolster volume but also protect market share amid expected rise in competition. Strong brand equity, pan-India presence (to pare regional risk) and constant efforts to improve premium product share, trade volume and blending ratio should prop realization. Also, cooling fuel prices, addition of low-cost renewable power capacity and other cost saving measures would optimize cost. We trim FY25E earnings ~5% but retain FY23E/24E estimates. As we roll over to December 2024E, we raise TP to INR 8,325 from INR 7,962 on 15.5x (from 15x) December 2024E EV/EBITDA – Revise to **Accumulate** from Buy.

## Rating: Accumulate

Target Price: INR 8,325

Upside: 15%

CMP: INR 7,242 (as on 6 December 2022)

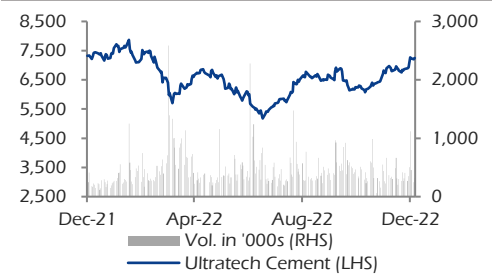
### Key data\*

Bloomberg /Reuters Code:	UTCEM IN/ ULTC.BO
Current /Dil. Shares O/S (mn)	289/289
Mkt Cap (INR bn/USD mn)	2,091/25,332
Daily Vol. (3M NSE Avg.)	419,252
Face Value (INR)	10

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	60.0	60.0	60.0	60.0
Institutional Investors	30.9	30.4	31.3	32.0
Other Investors	3.6	3.7	2.5	2.0
General Public	5.5	5.9	6.2	6.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
UltraTech Cement	11.5	29.8	0.4
ACC	12.5	22.6	18.2
Ambuja Cements	33.1	59.2	57.0

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
March											
FY22	517,079	16.9	115,144	22.3	56,667	3.1	196.3	12.0	36.9	223	18.6
FY23E	625,280	20.9	113,683	18.2	55,539	(2.0)	192.4	10.5	37.6	196	18.8
FY24E	706,530	13.0	141,057	20.0	72,948	31.3	252.7	12.5	28.7	194	15.0
FY25E	771,007	9.1	153,593	19.9	81,209	11.3	281.3	12.6	25.7	165	13.7

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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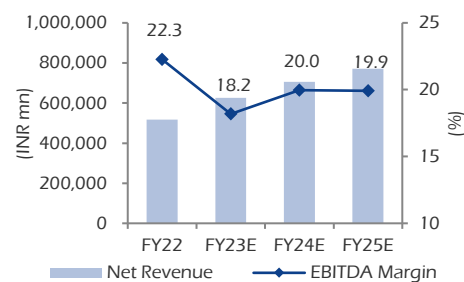
Elara Securities (India) Private Limited

### Consolidated Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	517,079	625,280	706,530	771,007
<b>Operating profit</b>	<b>106,234</b>	<b>106,972</b>	<b>133,722</b>	<b>145,719</b>
Add:- Other operating Income	8,910	6,712	7,336	7,874
<b>EBITDA</b>	<b>115,144</b>	<b>113,683</b>	<b>141,057</b>	<b>153,593</b>
Add:- Other Income	5,078	5,879	5,857	6,185
Less:- Depreciation & Amortization	27,148	28,950	31,098	33,303
<b>EBIT</b>	<b>93,074</b>	<b>90,612</b>	<b>115,817</b>	<b>126,475</b>
Less:- Interest Expenses	9,447	9,142	8,960	8,881
<b>PBT</b>	<b>83,644</b>	<b>81,470</b>	<b>106,857</b>	<b>117,594</b>
Less:- Taxes	11,901	26,032	34,010	36,486
<b>Reported PAT</b>	<b>71,743</b>	<b>55,438</b>	<b>72,847</b>	<b>81,109</b>
Minority Interest	101	101	101	101
<b>Reported PAT after Minority Interest</b>	<b>71,844</b>	<b>55,539</b>	<b>72,948</b>	<b>81,209</b>
<b>Adjusted PAT</b>	<b>56,667</b>	<b>55,539</b>	<b>72,948</b>	<b>81,209</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	2,887	2,887	2,887	2,887
Reserves	501,466	547,900	609,025	676,131
Minority Interest	(31)	(31)	(31)	(31)
Borrowings	102,028	97,528	96,028	92,028
Deferred Tax (Net)	60,332	60,332	62,947	65,693
Other liabilities	19,042	18,881	18,744	18,928
<b>Total Liabilities</b>	<b>685,724</b>	<b>727,498</b>	<b>789,601</b>	<b>855,637</b>
Gross Block	637,592	700,018	745,518	801,018
Less:- Accumulated Depreciation	145,144	174,094	205,192	238,495
<b>Net Block</b>	<b>492,448</b>	<b>525,923</b>	<b>540,325</b>	<b>562,523</b>
Add:- Capital work in progress	47,773	47,773	68,273	93,773
Noncurrent investments	13,724	15,097	18,720	23,213
Net Working Capital	(30,979)	(22,600)	(20,689)	(29,344)
Cash & current investments	53,225	47,265	63,977	81,033
Other assets	109,534	114,041	118,995	124,440
<b>Total Assets</b>	<b>685,724</b>	<b>727,498</b>	<b>789,601</b>	<b>855,637</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	103,186	87,651	109,663	119,853
Add/Less: Working Capital Changes	(4,022)	(8,379)	(1,911)	8,655
Operating Cash Flow	99,163	79,272	107,752	128,508
Less:- Capex	(58,583)	(62,426)	(66,000)	(81,000)
Free Cash Flow	40,580	16,846	41,752	47,508
Financing Cash Flow	(121,006)	(22,806)	(22,320)	(26,699)
Investing Cash Flow	63,943	4,999	1,280	247
<b>Net change in Cash</b>	<b>(16,484)</b>	<b>(960)</b>	<b>20,712</b>	<b>21,056</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	16.9	20.9	13.0	9.1
EBITDA Growth	(0.5)	(1.3)	24.1	8.9
Adj. PAT Growth	3.1	(2.0)	31.3	11.3
EBITDA Margin	22.3	18.2	20.0	19.9
Adj. Net Margin	11.0	8.9	10.3	10.5
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.1	0.1	0.1	0.0
ROE (%)	12.0	10.5	12.5	12.6
ROCE (%)	13.2	12.8	15.3	15.4
<b>Per Share data &amp; Valuation Ratios</b>				
Adjusted EPS (INR/Share)	196.3	192.4	252.7	281.3
EPS Growth (%)	3.1	(2.0)	31.3	11.3
DPS (INR/Share)	38.0	45.0	50.0	55.0
P/E Ratio (x)	36.9	37.6	28.7	25.7
EV/EBITDA (x)	18.6	18.8	15.0	13.7
EV/Sales (x)	4.1	3.4	3.0	2.7
P/BV (x)	4.4	4.0	3.6	3.2
EV per tonne (USD)	223	196	194	165
Dividend Yield (%)	0.5	0.6	0.7	0.8

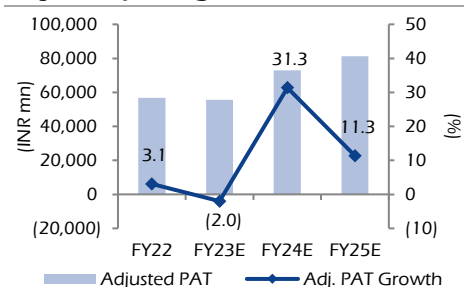
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



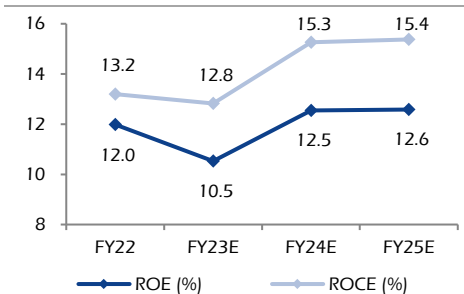
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratio



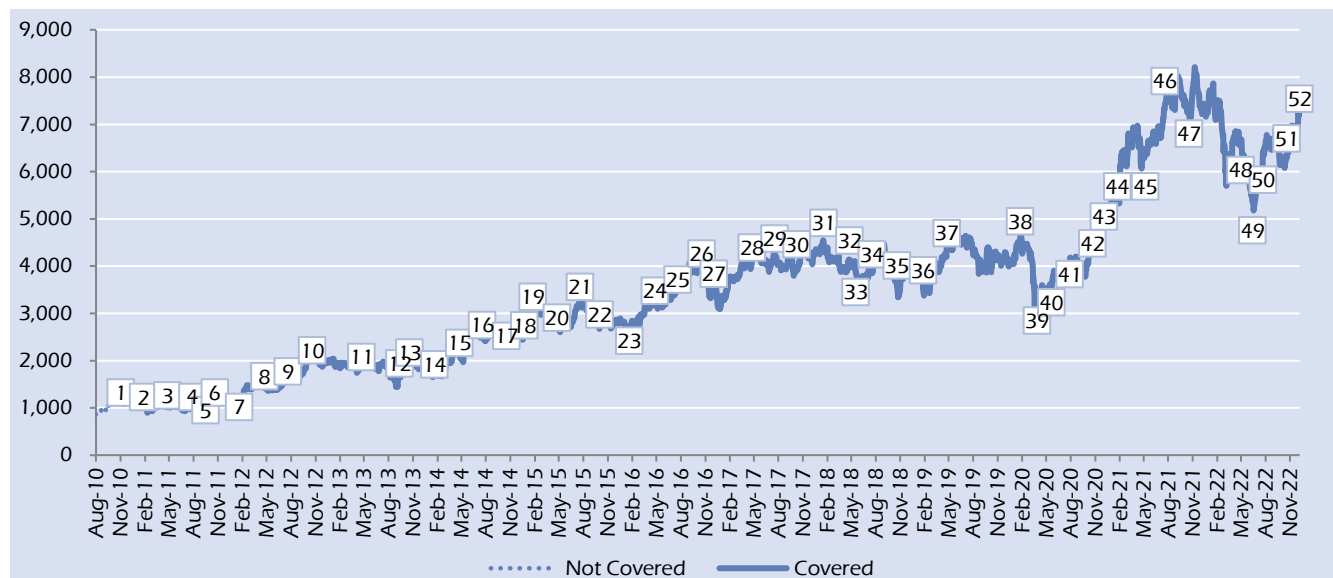
Source: Company, Elara Securities Estimate

**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	625,280	706,530	789,968	625,280	706,530	771,007	-	-	(2.4)
EBITDA	113,683	141,057	159,285	113,683	141,057	153,593	-	-	(3.6)
PAT	55,539	72,948	85,061	55,539	72,948	81,209	-	-	(4.5)
<b>Target price (INR)</b>	<b>7,962</b>			<b>8,325</b>			<b>4.6</b>		
<b>Rating</b>	<b>Buy</b>			<b>Accumulate</b>					

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
36 25-Jan-2019	Accumulate	INR 4,190	INR 3,511
37 24-Apr-2019	Accumulate	INR 5,000	INR 4,395
38 24-Jan-2020	Accumulate	INR 5,268	INR 4,643
39 27-Mar-2020	Buy	INR 4,243	INR 3,144
40 20-May-2020	Accumulate	INR 4,175	INR 3,529
41 28-Jul-2020	Accumulate	INR 4,600	INR 4,136
42 21-Oct-2020	Buy	INR 5,546	INR 4,630
43 3-Dec-2020	Accumulate	INR 5,546	INR 4,894
44 22-Jan-2021	Accumulate	INR 6,158	INR 5,535
45 7-May-2021	Accumulate	INR 6,988	INR 6,482
46 22-Jul-2021	Accumulate	INR 8,496	INR 7,459
47 18-Oct-2021	Accumulate	INR 8,627	INR 7,399
48 29-Apr-2022	Accumulate	INR 7,754	INR 6,630
49 16-Jun-2022	Buy	INR 7,047	INR 5,305
50 22-Jul-2022	Accumulate	INR 7,537	INR 6,459
51 19-Oct-2022	Buy	INR 7,962	INR 6,398
52 6-Dec-2022	Accumulate	INR 8,325	INR 7,242

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



# Ambuja Cements

## Priced to perfection

### Inorganic expansion route may limit multiple rerating

Ambuja Cements (ACEM IN) has been a laggard on growth front, with a capacity CAGR of just ~1% in the past decade, a clear underperformance versus industry capacity CAGR of ~5%. However, now the Adani Group, ACEM's promoter, is set to augment consolidated cement capacity to 140mn tonnes from the current ~67mn tonnes in the next five years.

Further, majority of balance of the targeted capacity addition, beyond the already announced capex, is likely to be via inorganic route as it may enable ACEM to quickly access capacity. But the market ascribes more value to organic growth versus inorganic, as the former displays management's execution capability and the latter spikes debt, interest, and depreciation. Thus, if ACEM were to take to the inorganic route, its multiple might not be rerated.

### Slow pace: Likely to miss pre-election growth prospects in FY24

ACEM reported a volume CAGR of ~2% versus industry's demand CAGR of ~5% in the past decade, primarily due to absence of any major capacity addition. Though prior expansion projects should augment capacity to ~39mn tonnes by FY25E from ~31.5mn tonnes in CY21, completion may primarily ensue in FY25. Given that the rise in pre-election spending is expected to be a key demand driver for the industry next year, capacity constraint should be a drag for ACEM – Expect its volume to grow just ~4% YoY in FY24E.

### Caution advised: Likely rise in related party transactions

Adani Group's presence in other verticals – Transports, Energy, Mining etc. – should be used to improve the cement business' efficiency. Thus, intragroup transactions are set to rise, thus spiking related party transactions. We believe, proper disclosures for these transactions would be a key monitorable and any unwarranted development may be a cause of concern on the corporate governance front.

### Valuation: Reiterate Reduce; TP raised to INR 556

Standalone, ACEM is trading at FY25E EV/EBITDA of ~25x and EV/tonne of ~INR 30,000. We believe the current rich multiple is already pricing in expected capacity doubling in the next five years and EBITDA/tonne expansion to >INR 1,800.

With new promoter's vision already factored in, leaving limited cushion in valuations for any negative surprise. We believe, risk-reward ratio is unfavourable – Maintain **Reduce**. We retain FY23E/24E earnings but trim FY25E estimates ~2%. We roll over to December 2024E from September and raise TP to INR 556 from INR 534. We value the standalone business on 20x (unchanged) December 2024E EV/EBITDA. For its 50% subsidiary ACC, we assign a 10% holding company discount to our target market cap of ~INR 475bn.

## Rating: Reduce

Target Price: INR 556

Downside: 4%

CMP: INR 581 (as on 6 December 2022)

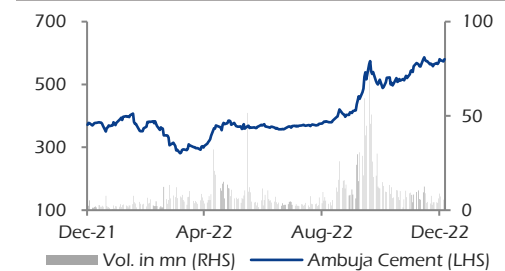
### Key data\*

Bloomberg/Reuters Code	ACEM IN/ABUJ.BO
Current/Dil. Shares O/S (mn)	1,986/1,986
Mkt Cap (INRbn/USD mn)	1,154/13,979
Daily Volume (3M NSE Avg)	13,899,253
Face Value (INR)	2

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q1CY22	Q2CY22	Q3CY22	Q4CY22
Promoter	63.2	63.2	63.2	63.2
Institutional Investors	29.2	27.8	27.8	27.6
Other Investors	2.7	3.5	3.5	2.7
General Public	4.9	5.5	5.5	6.5

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Ambuja Cements	33.1	59.2	57.0
UltraTech Cement	11.5	29.8	0.4
ACC	12.5	22.6	18.2

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
March											
CY21	285,481	18.5	62,104	21.8	28,647	15.3	14.4	11.9	40.3	275	22.8
FY23E*	414,296	16.1	54,241	13.1	29,100	(18.7)	14.7	6.9	49.6	230	21.2
FY24E	366,134	10.5	67,179	18.3	31,911	37.1	13.0	6.2	44.8	243	19.6
FY25E	406,693	11.1	84,894	20.9	46,079	44.4	18.7	7.3	31.1	214	15.2

Note: \*Financial year for 15 months; pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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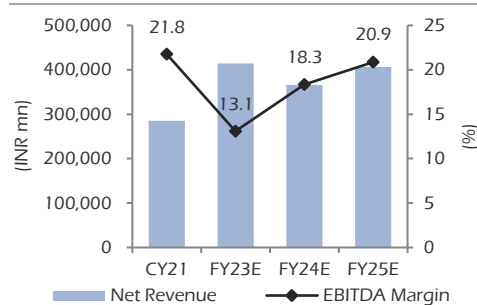
Elara Securities (India) Private Limited

## Consolidated Financials (YE March)

Income Statement (INR mn)	CY21	FY23E*	FY24E	FY25E
Net Revenue	285,481	414,296	366,134	406,693
<b>Operating profit</b>	<b>57,930</b>	<b>47,435</b>	<b>61,797</b>	<b>79,227</b>
Add:- Other operating Income	4,174	6,805	5,382	5,666
<b>EBITDA</b>	<b>62,104</b>	<b>54,241</b>	<b>67,179</b>	<b>84,894</b>
Less:- Depreciation & Amortization	11,525	16,158	17,052	17,698
Add: Other income	3,524	10,441	5,513	11,053
<b>EBIT</b>	<b>54,104</b>	<b>48,523</b>	<b>55,641</b>	<b>78,248</b>
Less:- Interest Expenses	1,457	1,830	1,748	1,716
Add/Less: - Extra-ordinaries	(1,205)	1,970	0	0
<b>PBT</b>	<b>51,442</b>	<b>48,663</b>	<b>53,893</b>	<b>76,533</b>
Less:- Taxes	14,534	12,299	13,763	19,527
<b>Reported PAT</b>	<b>36,908</b>	<b>36,364</b>	<b>40,130</b>	<b>57,006</b>
<b>Minority Interest/share of profits of JV and associate</b>	<b>9,104</b>	<b>5,404</b>	<b>8,219</b>	<b>10,926</b>
<b>Reported PAT after Minority Interest</b>	<b>27,804</b>	<b>30,960</b>	<b>31,911</b>	<b>46,079</b>
<b>Adjusted PAT</b>	<b>28,647</b>	<b>29,100</b>	<b>31,911</b>	<b>46,079</b>
Balance Sheet (INR mn)	CY21	FY23E*	FY24E	FY25E
Share Capital	3,971	3,971	4,926	4,926
Reserves	249,566	421,054	603,439	651,279
Minority Interest	71,450	77,057	85,478	96,607
Borrowings	469	444	453	462
Deferred Tax (Net)	7,562	5,924	5,973	6,022
Other liabilities	6,809	6,975	7,170	7,373
<b>Total Liabilities</b>	<b>339,828</b>	<b>515,425</b>	<b>707,438</b>	<b>766,668</b>
Gross Block	213,828	259,201	273,201	302,201
Less:- Accumulated Depreciation	69,989	86,147	103,198	120,896
<b>Net Block</b>	<b>143,839</b>	<b>173,054</b>	<b>170,003</b>	<b>181,305</b>
Add:- Capital work in progress	21,964	20,421	28,421	41,421
Noncurrent investments	1,981	1,981	1,981	1,981
Net Working Capital	(59,218)	(56,953)	(52,984)	(40,853)
Cash & current investments	116,943	261,540	443,503	465,125
Other assets	114,319	115,382	116,515	117,690
<b>Total Assets</b>	<b>339,828</b>	<b>515,425</b>	<b>707,438</b>	<b>766,668</b>
Cash Flow Statement (INR mn)	CY21	FY23E*	FY24E	FY25E
Cash profit adjusted for non-cash items	47,667	42,273	53,465	65,416
Add/Less: Working Capital Changes	5,044	(2,264)	(3,969)	(12,131)
Operating Cash Flow	52,711	40,009	49,496	53,285
Less:- Capex	(27,010)	(43,830)	(22,000)	(42,000)
Free Cash Flow	25,701	(3,821)	27,496	11,285
Financing Cash Flow	(4,377)	139,040	150,087	460
Investing Cash Flow	4,577	9,378	4,381	9,877
<b>Net change in Cash</b>	<b>25,901</b>	<b>144,597</b>	<b>181,963</b>	<b>21,622</b>
Ratio Analysis	CY21	FY23E*	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	18.5	16.1	10.5	11.1
EBITDA Growth	21.0	(30.1)	54.8	26.4
Adj. PAT Growth	15.3	(18.7)	37.1	44.4
EBITDA Margin	21.8	13.1	18.3	20.9
Adj. Net Margin	10.0	7.0	8.7	11.3
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	(0.5)	(0.6)	(0.7)	(0.7)
ROE (%)	11.9	6.9	6.2	7.3
ROCE (%)	16.8	9.1	9.1	10.6
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (INR/Share)	14.4	14.7	13.0	18.7
EPS Growth (%)	15.3	(18.7)	10.5	44.4
DPS (INR/Share)	6.3	2.0	2.5	3.0
P/E Ratio (x)	40.3	49.6	44.8	31.1
EV/EBITDA (x)	22.8	21.2	19.6	15.2
EV per tonne (USD)	275	230	243	214
Dividend Yield (%)	1.1	0.3	0.4	0.5

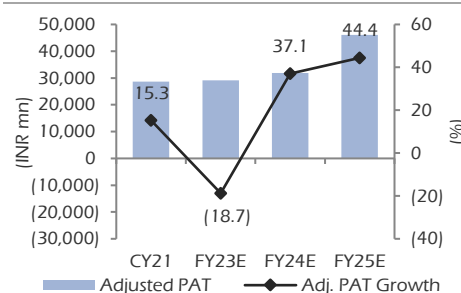
Note: \*Financial year for 15 months; pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



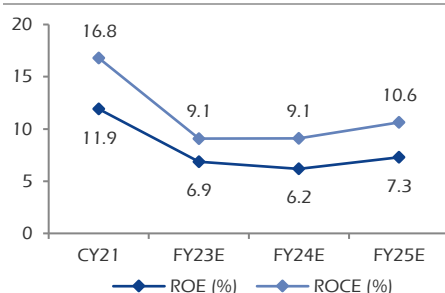
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

**Exhibit 1: SoTP valuations**

INR mn	December 2024E
<b>Value of ACC's stake - A</b>	<b>214,139</b>
<b>Valuation of standalone business</b>	
Standalone EBITDA	45,154
Target multiple (x)	20.0
<b>Value of standalone business - B</b>	<b>903,081</b>
<b>Total EV- (A+B)</b>	<b>1,117,220</b>
Net Debt	(251,647)
<b>Target market cap</b>	<b>1,368,867</b>
Shares (mn)	2,463
<b>TP (INR)</b>	<b>556</b>
CMP (INR)	581
<b>Downside (%)</b>	<b>4.3</b>

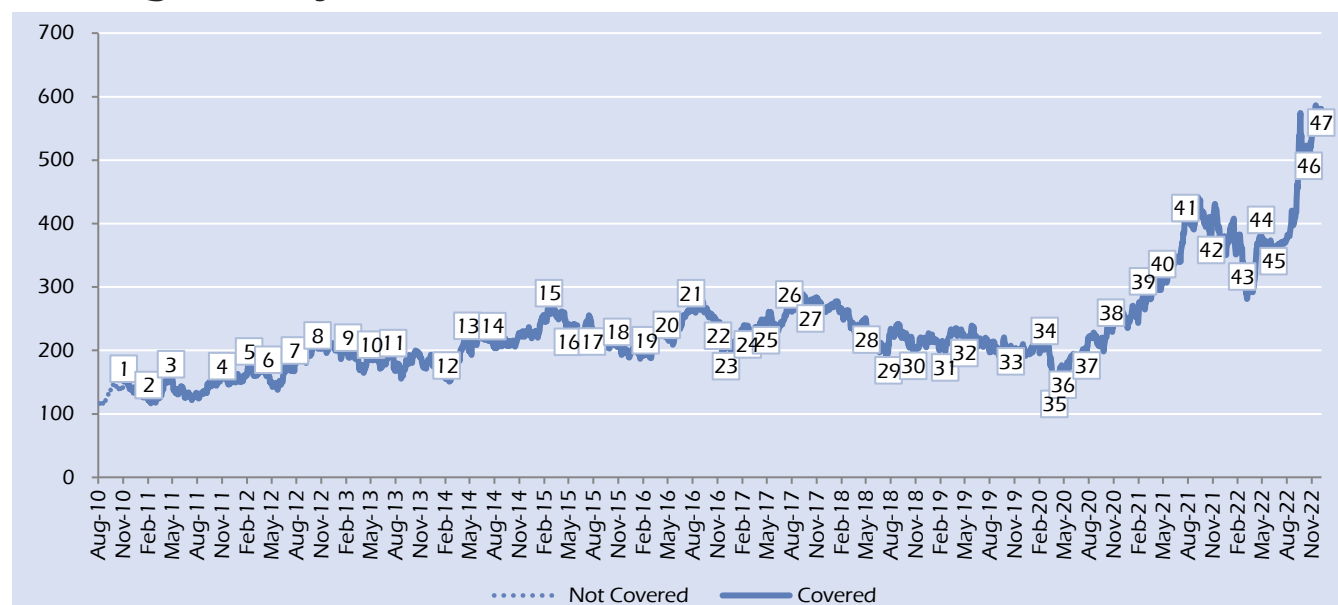
Source: Elara Securities Estimate

**Exhibit 2: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E*	FY24E	FY25E	FY23E*	FY24E	FY25E	FY23E*	FY24E	FY25E
Net Revenue	414,296	366,134	411,798	414,296	366,134	406,693	-	-	(1.2)
EBITDA	54,241	67,179	85,852	54,241	67,179	84,894	-	-	(1.1)
PAT	29,100	31,911	46,797	29,100	31,911	46,079	-	-	(1.5)
<b>TP (INR)</b>			<b>534</b>			<b>556</b>			<b>4.1</b>

Note: \*Financial year for 15 months; Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
31 19-Feb-2019	Buy	INR240	INR 198
32 30-Apr-2019	Accumulate	INR 240	INR 221
33 18-Oct-2019	Accumulate	INR 238	INR 208
34 20-Feb-2020	Accumulate	INR 241	INR 205
35 27-Mar-2020	Buy	INR 200	INR 142
36 27-Apr-2020	Buy	INR 206	INR 172
37 24-Jul-2020	Accumulate	INR 227	INR 201
38 22-Oct-2020	Accumulate	INR 267	INR 254
39 18-Feb-2021	Accumulate	INR 303	INR 283
40 29-Apr-2021	Accumulate	INR 342	INR 314
41 23-Jul-2021	Accumulate	INR 440	INR 402
42 26-Oct-2021	Buy	INR 455	INR 380
43 18-Feb-2022	Buy	INR 426	INR 338
44 28-Apr-2022	Accumulate	INR 408	INR 383
45 16-Jun-2022	Accumulate	INR 387	INR 359
46 21-Oct-2022	Reduce	INR 534	INR 513
47 6-Dec-2022	Reduce	INR 556	INR 581

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# Shree Cement

## Amassing scale

**Secular growth: FY22-25E capacity CAGR ~6%**

Shree Cement (SRCM IN) has expanded capacity at ~13% CAGR to ~46mn tonnes, well above industry capacity CAGR of ~5% through FY12-22. Going forward, SRCM is set to post a cement capacity CAGR of ~6% to ~56mn tonnes in FY22-25E, led by: 1) 3.0mn tonnes grinding unit in West Bengal, 2) 3.8mn tonnes clinker unit/3.5mn tonnes grinding unit in Rajasthan and 3) 1.5mn tonnes clinker unit/3mn tonnes grinding unit in Andhra Pradesh. Expect gradual completion of such projects to further strengthen SRCM's presence in its existing markets and enable expansion into some new markets. Also, SRCM is exploring organic/inorganic routes to reach ~80mn tonnes capacity by CY30.

### Green power to aid cost checks

Strategic plant location with proximity to raw material/serving markets, the strategy of adding split grinding units and use of varied fuels have driven SRCM's lower cost structure for the past many years. While these may continue to prop SRCM in the upcoming years as well, added efforts to boost green power portfolio bodes well for the future amid rising uncertainty on volatile fuel price. SRCM's huge green power capacity of 263MW (WHR, solar and wind power) and robust green power share of ~48% in total power consumption, as on FY22, should cap costs. And addition of another ~106MW solar capacity in FY23 will enable further cost savings. Expect solar power plant to generate ~INR 930mn savings (~2.5% of FY22 EBITDA). Also, other measures – higher use of alternative fuels and raw materials (AFR) – augur well.

### Shoring up realization: Regional advantage; multi-brand strategy

As on FY22, SRCM with a capacity share of ~24%, is the largest player in North India and features within top-five in East India (~14% capacity share). Its multi-brand strategy to cater to end-users has helped it gain market share. North India that accounts for ~52% of SRCM's capacity is likely to yield stable/healthy margin, led by higher utilization and consolidation. Also, SRCM's strategy of launching premium products, i.e., *Rofof & Bangur Power* has helped maintained brand positioning.

### Valuations: Maintain Accumulate; TP raised to INR 25,117

SRCM's diversified presence in the demand-accretive markets of East and North India, emphasis on reinforcing its position in many parts of South India and Maharashtra and likely completion of ongoing growth capex will bolster volume prospects.

Further, price hike attempts and stabilization of fuel prices at reasonable levels should prop H2 margin. Thus, we reiterate **Accumulate**. As we roll over to December 2024E from September, we raise our TP to INR 25,117 from INR 23,310, on 16x (unchanged) December 2024E EV/EBITDA.

## Rating: Accumulate

**Target Price: INR 25,117**

**Upside: 5%**

CMP: INR 24,010 (as on 6 December 2022)

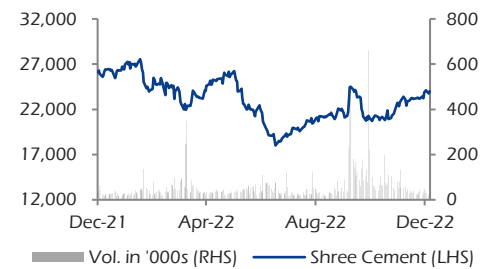
### Key data\*

Bloomberg /Reuters Code	SRCM IN/SHCM.BO
Current /Dil. Shares O/S (mn)	36/36
Mkt Cap (INR bn/USD mn)	866/10,497
Daily Vol. (3M NSE Avg.)	84,254
Face Value (INR)	10

**1 USD = INR 82.6**

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	62.6	62.6	62.6	62.6
Institutional Investors	23.6	23.4	23.1	23.5
Other Investors	11.0	11.0	11.3	11.5
General Public	2.8	3.0	3.0	2.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Shree Cement	10.9	20.0	(6.3)
UltraTech Cement	11.5	29.8	0.4
ACC	12.5	22.6	18.2

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
March											
FY22	139,118	13.0	36,478	26.2	23,766	2.8	658.7	14.6	36.4	205	21.1
FY23E	160,901	15.7	30,613	19.0	15,101	(36.5)	418.5	8.4	57.4	193	25.2
FY24E	181,366	12.7	42,422	23.4	22,676	50.2	628.5	11.6	38.2	178	17.9
FY25E	203,055	12.0	50,357	24.8	27,123	19.6	751.7	12.5	31.9	165	14.8

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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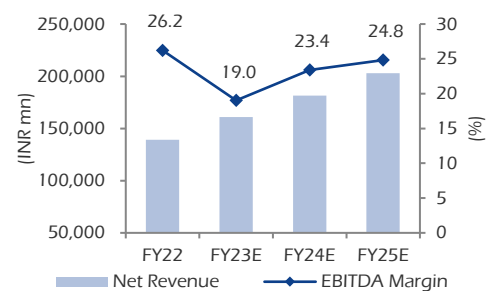
**Elara Securities (India) Private Limited**

## Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	139,118	160,901	181,366	203,055
<b>Operating profit</b>	<b>32,299</b>	<b>25,974</b>	<b>39,036</b>	<b>47,458</b>
Add:- Other operating Income	4,179	4,639	3,387	2,899
<b>EBITDA</b>	<b>36,478</b>	<b>30,613</b>	<b>42,422</b>	<b>50,357</b>
Add:- Other Income	5,373	4,299	4,600	4,738
Less :- Depreciation	10,365	12,004	13,859	16,138
<b>EBIT</b>	<b>31,487</b>	<b>22,908</b>	<b>33,163</b>	<b>38,957</b>
Less:- Interest Expenses	2,178	2,719	2,847	2,696
<b>PBT</b>	<b>29,309</b>	<b>20,189</b>	<b>30,316</b>	<b>36,261</b>
Less :- Taxes	5,543	5,088	7,640	9,138
<b>Reported PAT</b>	<b>23,766</b>	<b>15,101</b>	<b>22,676</b>	<b>27,123</b>
<b>Adjusted PAT</b>	<b>23,766</b>	<b>15,101</b>	<b>22,676</b>	<b>27,123</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	361	361	361	361
Reserves	172,348	185,975	205,043	228,197
Borrowings	20,142	27,142	24,626	22,262
Deferred Tax (Net)	(6,695)	(6,628)	(6,562)	(6,496)
Other liabilities	2,875	2,737	2,606	2,482
<b>Total Liabilities</b>	<b>189,030</b>	<b>209,586</b>	<b>226,074</b>	<b>246,805</b>
Gross Block	135,229	147,229	186,729	216,729
Less:- Accumulated Depreciation	82,014	94,019	107,878	124,016
<b>Net Block</b>	<b>53,215</b>	<b>53,210</b>	<b>78,851</b>	<b>92,713</b>
Add:- Capital work in progress	9,729	22,729	8,229	4,729
Non current investments	80,610	80,610	80,610	80,610
Net Working Capital	2,450	6,018	475	(648)
Cash & current investments	36,033	39,956	50,775	62,195
Other assets	6,994	7,064	7,134	7,206
<b>Total Assets</b>	<b>189,030</b>	<b>209,586</b>	<b>226,074</b>	<b>246,805</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	32,095	25,593	34,849	41,285
Add/Less: Working Capital Changes	(4,906)	(3,567)	5,543	1,123
Operating Cash Flow	27,189	22,025	40,392	42,408
Less:- Capex	(21,684)	(25,000)	(25,000)	(26,500)
Free Cash Flow	5,505	(2,975)	15,392	15,908
Financing Cash Flow	(6,047)	2,669	(9,102)	(9,154)
Investing Cash Flow	(374)	6,229	7,814	4,666
<b>Net change in Cash</b>	<b>(915)</b>	<b>5,923</b>	<b>14,104</b>	<b>11,421</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
Income Statement Ratios (%)				
Revenue Growth	13.0	15.7	12.7	12.0
EBITDA Growth	(8.3)	(16.1)	38.6	18.7
Adj. PAT Growth	2.8	(36.5)	50.2	19.6
EBITDA Margin	26.2	19.0	23.4	24.8
Adj. Net Margin	17.1	9.4	12.5	13.4
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
ROE	14.6	8.4	11.6	12.5
ROCE	16.9	11.1	14.8	16.0
Per Share data & Valuation Ratios				
Adjusted EPS (INR/Share)	658.7	418.5	628.5	751.7
EPS Growth (%)	2.8	(36.5)	50.2	19.6
DPS (INR/Share)	90.0	100.0	110.0	120.0
P/E Ratio (x)	36.4	57.4	38.2	31.9
EV/EBITDA (x)	21.1	25.2	17.9	14.8
EV/Sales (x)	5.5	4.8	4.2	3.7
P/BV (x)	5.3	4.8	4.4	4.0
EV per tonne (USD)	205	193	178	165
Dividend Yield (%)	0.4	0.4	0.5	0.5

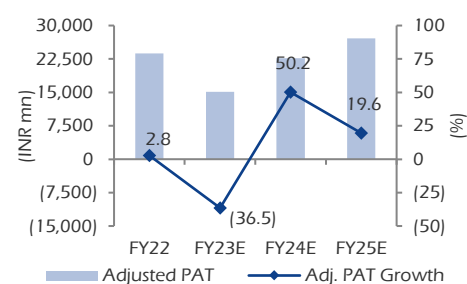
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



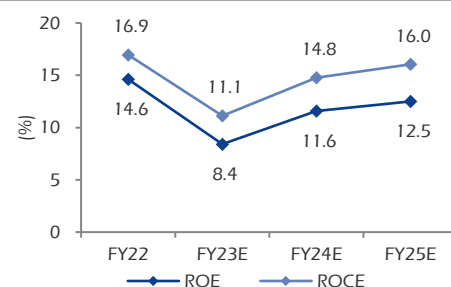
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

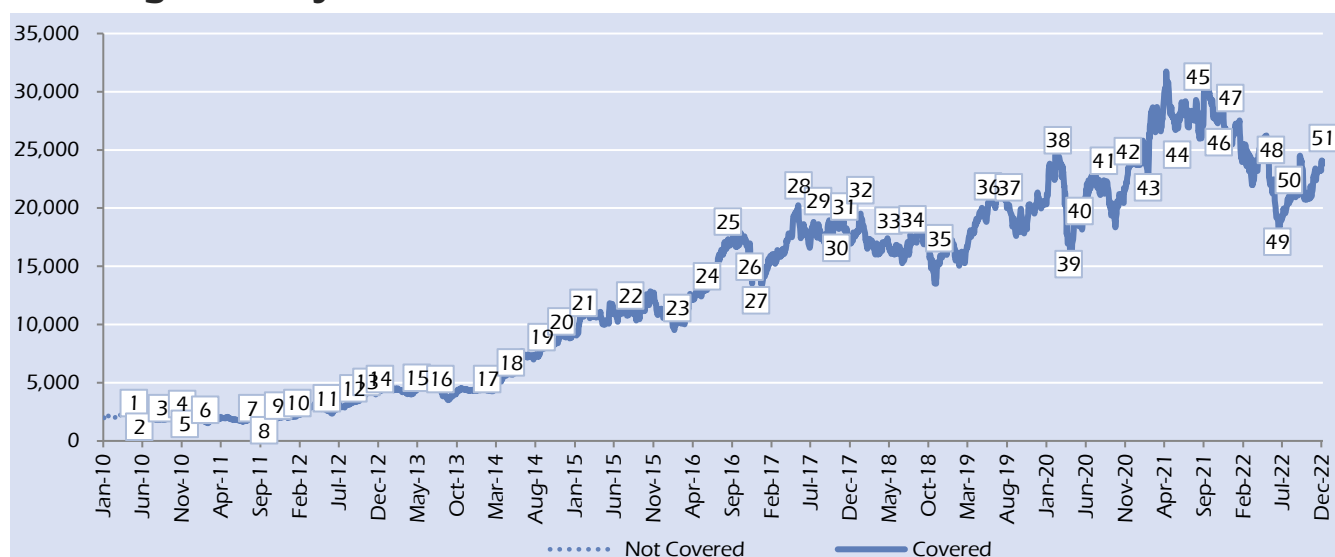


**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	160,901	181,366	206,553	160,901	181,366	203,055	-	-	(1.7)
EBITDA	30,613	42,422	50,179	30,613	42,422	50,357	-	-	0.4
PAT	15,101	22,676	26,989	15,101	22,676	27,123	-	-	0.5
<b>Target price (INR)</b>	<b>23,310</b>			<b>25,117</b>			<b>7.8</b>		

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
36 20-May-2019	Accumulate	INR 23,312	INR 20,346
37 9-Aug-2019	Accumulate	INR 22,688	INR 20,270
38 14-Feb-2020	Accumulate	INR 25,897	INR 24,434
39 27-Mar-2020	Buy	INR 21,727	INR 17,666
40 8-May-2020	Accumulate	INR 21,186	INR 18,733
41 11-Aug-2020	Accumulate	INR 22,861	INR 21,552
42 11-Nov-2020	Accumulate	INR 25,375	INR 22,941
43 29-Jan-2021	Accumulate	INR 25,747	INR 22,773
44 21-May-2021	Accumulate	INR 29,188	INR 27,623
45 9-Aug-2021	Accumulate	INR 30,638	INR 28,273
46 29-Oct-2021	Accumulate	INR 31,668	INR 28,635
47 13-Dec-2021	Buy	INR 31,668	INR 26,434
48 20-May-2022	Accumulate	INR 26,066	INR 22,001
49 16-Jun-2022	Buy	INR 23,310	INR 18,712
50 28-Jul-2022	Accumulate	INR 23,310	INR 20,415
51 6-Dec-2022	Accumulate	INR 25,117	INR 24,010

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# ACC

## Growth on cards

**Augmenting scale: CY21-FY25E volume CAGR ~6%**

ACC (ACC IN) has added capacity at a CAGR of ~2% in the past decade versus industry capacity CAGR of ~5%. This led to volume underperformance versus the industry. In CY21, ACC commissioned 1.4mn tonnes grinding unit in East India. Another 1.6mn tonnes grinding unit came on stream at Tikaria, Uttar Pradesh in early-CY22. Going ahead, ACC may add 2.7mn tonnes clinker unit and 1mn tonnes grinding unit in Madhya Pradesh – Another 2.2mn tonnes grinding unit in Uttar Pradesh is on track. Expect phase-wise completion of such projects to bolster ACC's place in key markets, aiding volume growth. Expect a volume CAGR of ~6% in CY21-FY25E versus ~2% in CY11-21. Also, new plants should improve overall energy/electricity consumption as also trim lead distance, thus spiking EBITDA/tonne by INR 17.

**Multiple levers exist – Cost reduction on cards**

WHR projects of 10MW at Jamul (Chhattisgarh) and 12.4MW at Kymore (Madhya Pradesh) have been partially completed. And work for the next phase of WHR projects at Chanda (Maharashtra) and Wadi (Karnataka) is progressing well. Phase-wise completion of such projects is expected to spike capacity to 75MW from the current 7.5MW. Expect access to new WHR capacity to lead to additional saving of ~10% for ACC on CY21 EBITDA. Also, many other initiatives such as :1) end of agreement with Holcim Technology on payment for technology/know-how fees @ 1% of net sales, 2) master supply agreement with ACEM, 3) cost savings via project *Parvat*, 4) synergy benefits post acquisition by Adani Group and 5) rationalization of warehouses with initial target of 100Km and eventual target of 150Km bode well.

**Leaner balance sheet – Cash at ~15% of CMP by end-CY21**

ACC's net cash rose to ~INR 74bn in CY21 from ~INR 59bn in CY20, representing ~15% of the current market cap. Despite ongoing projects, net cash is likely to rise to ~INR 84bn by FY25E. This should represent ~17% of ACC's market cap, which limits downside. Strong balance sheet should help ACC withstand any downturn as also enable inorganic opportunities.

**Valuations: Reiterate Accumulate; TP raised to INR 2,795**

Expect gradual improvement in performance, led by margin levers such as: 1) benefit from fuel price correction, 2) price hikes by the industry (INR 9 per bag during October-November 2022), 3) completion of ongoing growth capex, 4) focus on spiking green power capacity and 5) operating leverage on higher volume. Also, better demand, lower regional risk due to pan-India presence, strong brand acceptance and premiumisation focus should prop realization – Reiterate **Accumulate**. As we roll over to December 2024E from September, we raise TP to INR 2,795 from INR 2,404, on 12.5x (from 11x) December 2024E EV/EBITDA.

## Rating: Accumulate

**Target Price: INR 2,795**

**Upside: 7%**

CMP: INR 2,621 (as on 6 December 2022)

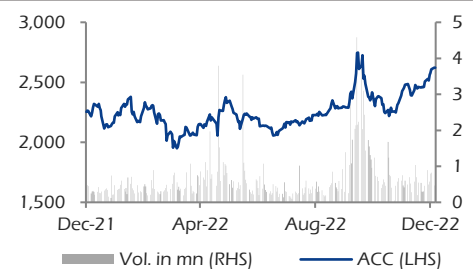
### Key data\*

Bloomberg/Reuters Code	ACC IN/ACC.BO
Current/Dil. Shares O/S (mn)	188/188
Mkt Cap (INR bn/USD mn)	492/5,964
Daily Volume (3M NSE Avg)	929,608
Face Value (INR)	10

**1 USD = INR 82.6**

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q4CY21	Q1CY22	Q2CY22	Q3CY22
Promoter	54.5	54.5	54.5	56.7
Institutional Investors	33.0	32.7	32.8	30.4
Other Investors	2.9	3.1	3.1	3.5
General Public	9.5	9.7	9.6	9.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
ACC	12.5	22.6	18.2
Ambuja Cement	33.1	59.2	57.0
UltraTech Cement	11.5	29.8	0.4

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
CY21	158,144	17.3	30,004	19.0	18,899	30.9	100.5	14.1	26.1	152	14.0
FY23E*	219,655	11.1	21,600	9.8	11,335	(52.0)	60.3	6.4	54.3	147	25.2
FY24E	199,311	13.4	30,013	15.1	16,843	85.7	89.6	11.3	29.3	135	14.1
FY25E	217,105	8.9	36,660	16.9	21,959	30.4	116.8	13.2	22.4	130	11.2

Note: \*Financial year for 15 months; pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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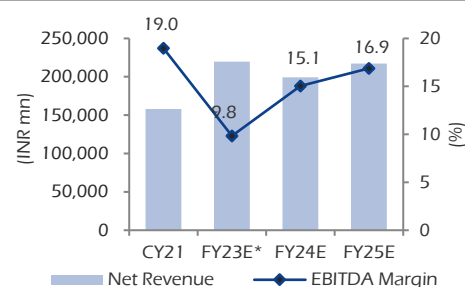
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	CY21	FY23E*	FY24E	FY25E
Net Revenue	158,144	219,655	199,311	217,105
<b>Operating profit</b>	<b>26,635</b>	<b>17,572</b>	<b>26,478</b>	<b>32,952</b>
Add:- Other operating Income	3,370	4,029	3,534	3,707
<b>EBITDA</b>	<b>30,004</b>	<b>21,600</b>	<b>30,013</b>	<b>36,660</b>
Add:- Other Income	2,048	2,867	2,457	2,949
Less :- Depreciation & Amortization	5,973	8,504	9,131	9,391
<b>EBIT</b>	<b>26,079</b>	<b>15,963</b>	<b>23,338</b>	<b>30,217</b>
Less:- Interest Expenses	546	648	578	543
Exceptionals	(929)	(163)	-	-
<b>PBT</b>	<b>24,604</b>	<b>15,153</b>	<b>22,760</b>	<b>29,674</b>
Less :- Taxes	6,401	3,940	5,918	7,715
<b>Reported PAT</b>	<b>18,203</b>	<b>11,213</b>	<b>16,843</b>	<b>21,959</b>
Add/Less: - Extra-ordinaries	696	122	-	-
<b>Adjusted PAT</b>	<b>18,899</b>	<b>11,335</b>	<b>16,843</b>	<b>21,959</b>
Balance Sheet (INR mn)	CY21	FY23E*	FY24E	FY25E
Share Capital	1,880	1,880	1,880	1,880
Reserves	140,404	140,651	154,674	173,625
Deferred Tax (Net)	3,827	3,866	3,904	3,943
Other liabilities	3,157	3,188	3,220	3,252
<b>Total Liabilities</b>	<b>149,268</b>	<b>149,585</b>	<b>163,678</b>	<b>182,701</b>
Gross Block	104,481	138,481	142,481	146,481
Less:- Accumulated Depreciation	37,253	45,756	54,888	64,279
<b>Net Block</b>	<b>67,228</b>	<b>92,724</b>	<b>87,593</b>	<b>82,202</b>
Add:- Capital work in progress	12,408	2,408	5,408	8,408
Non current investments	1,927	1,927	1,927	1,927
Net Working Capital	(31,499)	(30,498)	(26,777)	(20,740)
Cash & current investments	74,042	57,292	69,205	83,969
Other assets	25,163	25,732	26,322	26,935
<b>Total Assets</b>	<b>149,268</b>	<b>149,585</b>	<b>163,678</b>	<b>182,701</b>
Cash Flow Statement (INR mn)	CY21	FY23E*	FY24E	FY25E
Cash profit adjusted for non-cash items	22,740	17,536	24,133	28,983
Add/Less: Working Capital Changes	7,986	(1,001)	(3,722)	(6,036)
Operating Cash Flow	30,725	16,536	20,412	22,947
Less:- Capex	(13,569)	(24,000)	(7,000)	(7,000)
Free Cash Flow	17,156	(7,464)	13,412	15,947
Financing Cash Flow	(2,898)	(11,583)	(3,366)	(3,518)
Investing Cash Flow	3,221	2,298	1,867	2,335
<b>Net change in Cash</b>	<b>17,480</b>	<b>(16,749)</b>	<b>11,913</b>	<b>14,764</b>
Ratio Analysis	CY21	FY23E*	FY24E	FY25E
Income Statement Ratios (%)				
Revenue Growth	17.3	11.1	13.4	8.9
EBITDA Growth	20.9	(42.4)	73.7	22.1
Adj. PAT Growth	30.9	(52.0)	85.7	30.4
EBITDA Margin	19.0	9.8	15.1	16.9
Adj. Net Margin	12.0	5.2	8.5	10.1
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.5)	(0.4)	(0.4)	(0.5)
ROE (%)	14.1	6.4	11.3	13.2
ROCE (%)	18.5	8.5	14.9	17.4
Per Share data & Valuation Ratios				
Adjusted EPS (INR/Share)	100.5	60.3	89.6	116.8
EPS Growth (%)	30.9	(52.0)	85.7	30.4
DPS (INR/Share)	57.9	15.0	16.0	17.0
P/E Ratio (x)	26.1	54.3	29.3	22.4
EV/EBITDA (x)	14.0	25.2	14.1	11.2
EV/Sales (x)	2.6	2.5	2.1	1.9
P/BV (x)	3.7	3.5	3.3	3.0
EV per tonne (USD)	152	147	135	130
Dividend Yield (%)	2.2	0.6	0.6	0.6

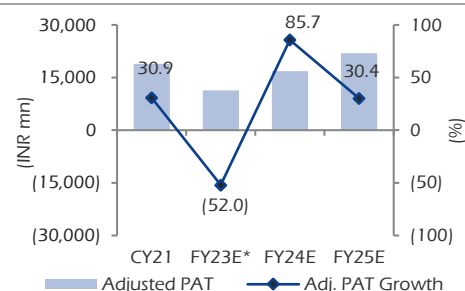
Note: \*Financial year for 15 months; pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

## Revenue &amp; margin trend



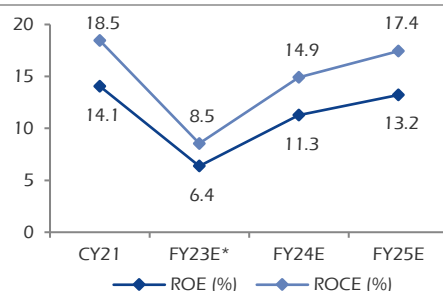
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios (%)



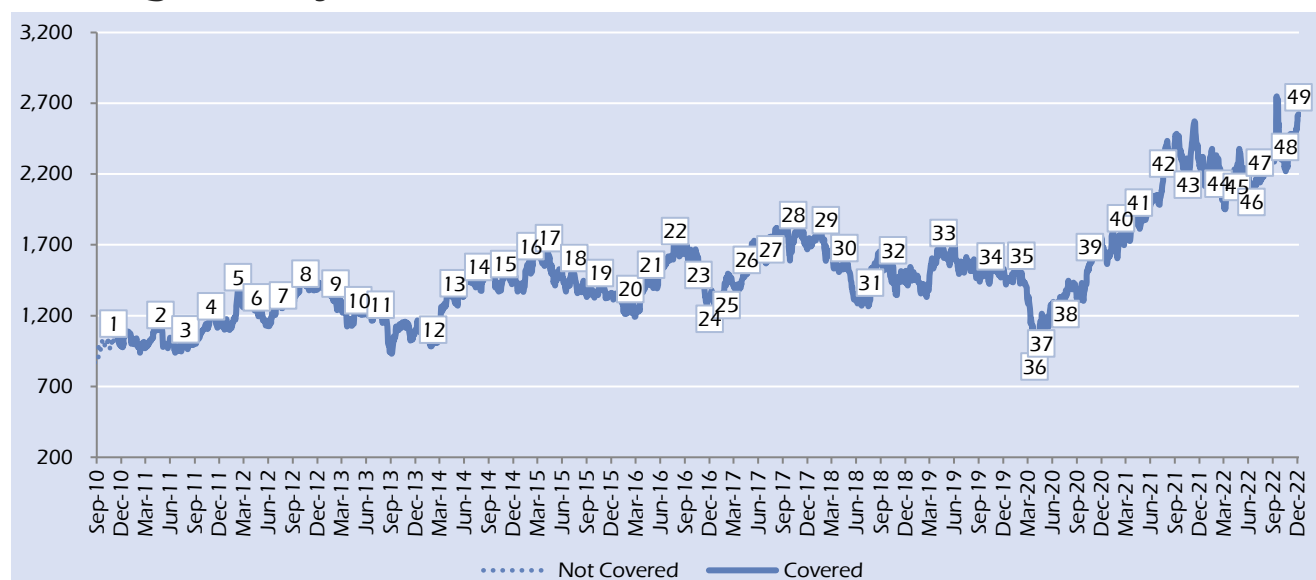
Source: Company, Elara Securities Estimate

**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E*	FY24E	FY25E	FY23E*	FY24E	FY25E	FY23E*	FY24E	FY25E
Net Revenue	219,655	199,311	222,787	219,655	199,311	217,105	-	-	(2.6)
EBITDA	21,600	30,013	37,077	21,600	30,013	36,660	-	-	(1.1)
Adjusted PAT	11,335	16,843	22,257	11,335	16,843	21,959	-	-	(1.3)
<b>TP (INR)</b>		<b>2,404</b>			<b>2,795</b>			<b>16.3</b>	

Note: \*Financial year for 15 months; Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
33 23-Apr-2019	Accumulate	INR1,828	INR1,662
34 15-Oct-2019	Buy	INR1,828	INR1,498
35 7-Feb-2020	Buy	INR1,869	INR1,503
36 27-Mar-2020	Buy	INR1,514	INR959
37 21-Apr-2020	Buy	INR1,484	INR1,137
38 20-Jul-2020	Accumulate	INR1,519	INR 1,330
39 19-Oct-2020	Accumulate	INR1,769	INR1,563
40 12-Feb-2021	Accumulate	INR1,885	INR1,766
41 19-Apr-2021	Accumulate	INR2,000	INR1,877
42 19-Jul-2021	Accumulate	INR2,464	INR2,152
43 19-Oct-2021	Accumulate	INR 2,526	INR 2,243
44 11-Feb-2022	Accumulate	INR 2,410	INR 2,249
45 19-Apr-2022	Accumulate	INR 2,297	INR 2,057
46 16-Jun-2022	Accumulate	INR 2,195	INR 2,084
47 14-Jul-2022	Reduce	INR 2,195	INR 2,160
48 17-Oct-2022	Accumulate	INR 2,404	INR 2,270
49 6-Dec-2022	Accumulate	INR 2,795	INR 2,621

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



# Dalmia Bharat

## Scaling growth ladder

### Capacity expansion target of 110-130mn tonnes by CY31

Dalmia Bharat (DALBHARA IN) is set on an expansion trajectory – It has raised capacity at a CAGR of ~12% to ~36mn tonnes in FY12-22, via a mix of organic-inorganic expansions. Currently, DALBHARA is incurring capex towards augmenting: 1) cement capacity to ~49mn tonnes by FY25 and 2) clinker capacity to ~24mn tonnes by FY25 (from ~19mn tonnes in FY22). Beyond FY25, DALBHARA targets to increase cement capacity to 70-75mn tonnes/110-130mn tonnes by CY27/CY31. Clear roadmap provides growth visibility. And gradual completion of expansion projects should ensure sustainable volume growth in the long term. Expect a volume CAGR of ~9% in FY22-25E.

### Judicial capital allocation: Framework offers long-term visibility

DALBHARA intends to allocate ~80% of its operating cashflow to growth/maintenance capex, up to 10% to shareholders' return and up to 10% to innovation and green energy fund for R&D in areas of climate change and technology advancements, as per its capital allocation framework. Also, barring exceptions contingent on any large inorganic opportunity, DALBHARA targets to maintain net debt/EBITDA at <2x and 14-15% ROCE in the next few years, well above FY22 ROCE of ~7%.

### DALBHARA exits non-core businesses, ESG focus maintained

Presence in non-core businesses – sugar, refractory and Hippo Stores – was a major concern. But DALBHARA's recent exit from such businesses bode well and should help position it as a pure-play cement firm.

On sustainability front, DALBHARA's green power capacity surged to 129MW by Q2FY23 from just 17MW in FY19. With completion of ongoing projects, green power capacity should rise to 173MW by end-FY23. It aims to add another 107MW/48MW solar/wind power capacity by FY24. DALBHARA laid down a 'carbon negative' roadmap to improve performance in areas such as climate change, water, biodiversity, circular economy, and effluent and waste management.

## Valuations

Expect revenue/EBITDA CAGRs of ~13%/~15% in FY22-25E and EPS to rise to INR 78.3 by FY25E from INR 43.8 in FY22, led by 1) a volume CAGR of ~9% in FY22-25E (on access to incremental capacity, led by phase-wise completion of expansion projects), 2) higher realization with strong premiumization focus and better product portfolio, 3) robust cost structure with investment in cost saving measures and 4) a healthy balance sheet, led by improved performance/expected uptick in cashflow. Thus, we initiate with an **Accumulate** and a TP of INR 2,177, on 11x December 2024E EV/EBITDA. Key risks to our investment rationale are delayed capacity expansions and below-than-expected utilization of recently added/upcoming capacities.

### Key Financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Adj. EPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
FY22	110,600	10.7	24,310	22.0	8,094	(32.4)	43.8	5.6	42.7	141	13.6
FY23E	128,696	16.4	24,057	18.7	7,370	(8.9)	39.8	4.5	46.8	115	14.6
FY24E	145,761	13.3	32,181	22.1	12,062	63.7	65.2	7.0	28.6	110	11.2
FY25E	159,108	9.2	37,438	23.5	14,480	20.0	78.3	7.9	23.8	92	9.8

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

## Rating: Accumulate

Target Price: INR 2,177

Upside: 17%

CMP: INR 1,866 (as on 6 December 2022)

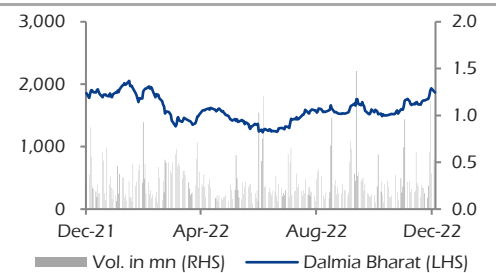
### Key data\*

Bloomberg /Reuters Code	DALBHARA IN/DALB.BO
Current /Dil Shares O/S (mn)	187/187
Mkt Cap (INR bn/USD mn)	350/4,239
Daily Volume (3M NSE Avg)	16,404
Face Value (INR)	2

1 USD= INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

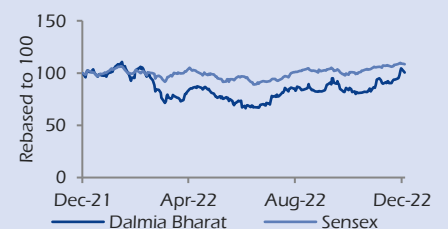
Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	56.0	55.9	55.9	55.9
Institutional Investor	20.0	19.7	19.9	20.5
Other Investor	12.3	12.4	12.3	12.4
General Public	11.7	12.0	11.9	11.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Dalmia Bharat	19.9	45.5	4.0

Source: Bloomberg

### Price performance



Source: Bloomberg

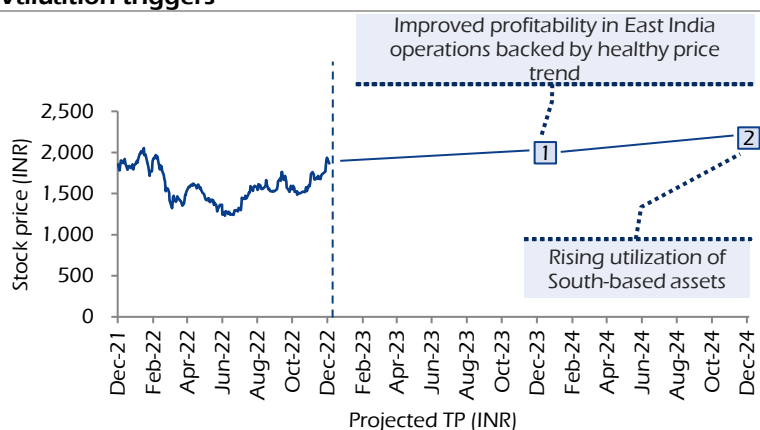
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**Valuation triggers**



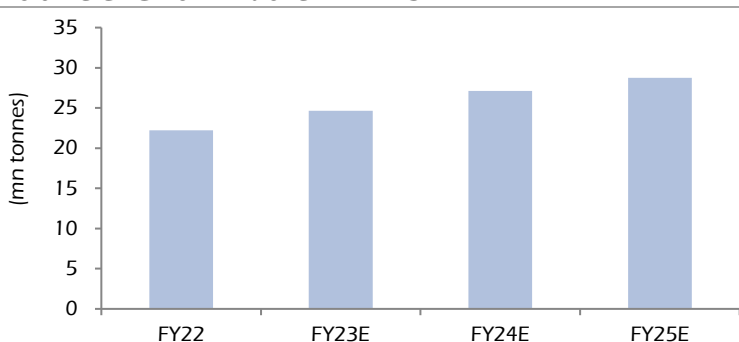
Source: Bloomberg, Elara Securities Estimate

**EV/EBITDA valuation overview**

(INR mn)	December 2024E
<b>EV/EBITDA based valuation</b>	
EBITDA	36,123
Target multiple (x)	11.0
<b>Target EV</b>	<b>3,97,358</b>
Net debt	20,381
Capital work in progress @ 50%	25,795
<b>Target market cap</b>	<b>4,02,773</b>
Shares (mn)	185
<b>TP (INR)</b>	<b>2,177</b>
CMP (INR)	1,866
<b>Upside (%)</b>	<b>16.7</b>

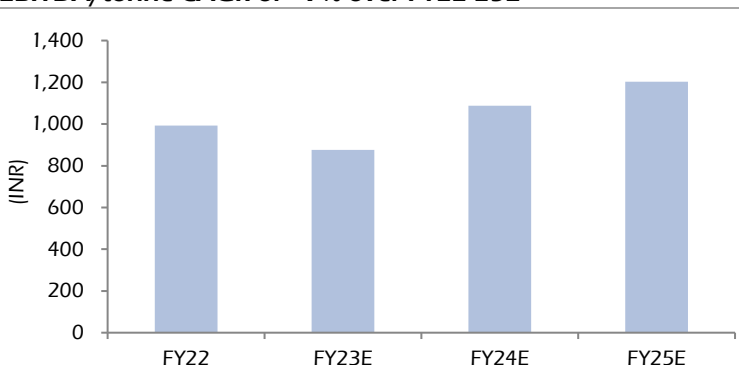
Note: pricing as on 6 December 2022; Source: Elara Securities Estimate

**Volume CAGR of ~9% over FY22-25E**



Source: Company, Elara Securities Estimate

**EBITDA/tonne CAGR of ~7% over FY22-25E**



Source: Company, Elara Securities Estimate

**Investment summary**

- Rising scale of operations and strong positioning in demand-accretive markets of East and North-East India to bolster profitability.
- Detailed capital allocation framework as also endeavor to improve corporate governance via exit from non-core businesses, formal treasury policy etc. bode well for future performance.
- Strong premiumization thrust, diverse product portfolio with continued focus on increasing blending ratio and investment in cost saving measures to prop margin.

**Valuation triggers**

- Improved profitability in East India operations backed by healthy price trend
- Rising utilization in South-based assets.

**Key risks**

- Delay in capacity expansion and below-than-expected utilization of recently added/upcoming capacities.
- Weak demand and increased supply resulting in competitive pricing and unfavorable pricing environment.
- Absence of any relief and further upswing in fuel prices (diesel, coal and pet coke).

**Our assumptions**

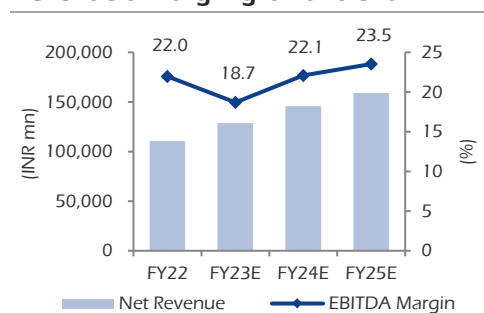
- Volume CAGR of ~9% in FY22-25E.
- Realization and cost CAGRs of ~4% and ~3%, respectively, over FY22-25E.
- Blended EBITDA/tonne (excluding other operating income) CAGR of ~7% in FY22-25E.

## Consolidated Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	110,600	128,696	145,761	159,108
<b>Operating profit</b>	<b>22,050</b>	<b>21,592</b>	<b>29,470</b>	<b>34,564</b>
Add:- Other operating Income	2,260	2,464	2,711	2,873
<b>EBITDA</b>	<b>24,310</b>	<b>24,057</b>	<b>32,181</b>	<b>37,438</b>
Add:- Other Income	1,550	1,240	1,178	1,119
Less :- Depreciation & Amortization	12,350	13,104	14,691	16,524
<b>EBIT</b>	<b>13,510</b>	<b>12,192</b>	<b>18,668</b>	<b>22,033</b>
Less:- Interest Expenses	2,020	2,045	2,265	2,407
<b>PBT</b>	<b>11,470</b>	<b>10,147</b>	<b>16,402</b>	<b>19,627</b>
Less :- Taxes	3,150	2,537	4,101	4,907
<b>Reported PAT</b>	<b>8,320</b>	<b>7,610</b>	<b>12,302</b>	<b>14,720</b>
Share in profit of associates	50	50	50	50
Minority interest	290	290	290	290
<b>Reported PAT after Minority Interest</b>	<b>8,080</b>	<b>7,370</b>	<b>12,062</b>	<b>14,480</b>
<b>Adjusted PAT</b>	<b>8,094</b>	<b>7,370</b>	<b>12,062</b>	<b>14,480</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	370	370	370	370
Reserves & others	160,240	165,945	177,082	189,897
Minority Interest	720	1,010	1,300	1,590
Borrowings	31,190	37,190	41,190	47,190
Deferred Tax (Net)	15,870	14,283	14,997	15,747
Other liabilities	3,830	4,252	4,755	5,355
<b>Total Liabilities</b>	<b>212,220</b>	<b>223,050</b>	<b>239,694</b>	<b>260,149</b>
Gross Block	191,160	206,160	226,160	246,160
Less:- Accumulated Depreciation	59,030	72,134	86,826	103,349
<b>Net Block</b>	<b>132,130</b>	<b>134,026</b>	<b>139,334</b>	<b>142,811</b>
Add:- Capital work in progress	10,340	25,340	40,340	55,340
Goodwill	9,330	9,330	9,330	9,330
Non-current investments	13,060	13,060	13,060	13,060
Net Working Capital	(6,010)	(535)	496	2,256
Cash & current investments	45,590	32,247	25,223	25,338
Other assets	7,780	9,582	11,911	12,014
<b>Total Assets</b>	<b>212,220</b>	<b>223,050</b>	<b>239,694</b>	<b>260,149</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	24,520	21,173	29,973	34,400
Add/Less: Working Capital Changes	(5,150)	(5,475)	(1,031)	(1,760)
Operating Cash Flow	19,370	15,698	28,942	32,640
Less:- Capex	(17,560)	(30,000)	(35,000)	(35,000)
Free Cash Flow	1,810	(14,302)	(6,058)	(2,360)
Financing Cash Flow	(9,420)	2,762	1,363	2,579
Investing Cash Flow	7,080	18,198	(2,328)	396
<b>Net change in Cash</b>	<b>(530)</b>	<b>6,657</b>	<b>(7,024)</b>	<b>615</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	10.7	16.4	13.3	9.2
EBITDA Growth	(12.2)	(1.0)	33.8	16.3
Adj. PAT Growth	(32.4)	(8.9)	63.7	20.0
EBITDA Margin	22.0	18.7	22.1	23.5
Adj. Net Margin	7.4	5.7	8.3	9.1
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	(0.1)	0.0	0.1	0.1
ROE (%)	5.6	4.5	7.0	7.9
ROCE (%)	6.7	5.6	8.1	8.8
<b>Per Share data &amp; Valuation Ratios</b>				
Adjusted EPS (INR/Share)	43.8	39.8	65.2	78.3
EPS Growth (%)	(32.4)	(8.9)	63.7	20.0
DPS (INR/Share)	9.0	10.0	11.0	12.0
P/E Ratio (x)	42.7	46.8	28.6	23.8
EV/EBITDA (x)	13.6	14.6	11.2	9.8
EV/tonne (SUD)	141	115	110	92
EV/Sales (x)	3.0	2.7	2.5	2.3
P/BV (x)	2.4	2.1	2.0	1.9
Dividend Yield (%)	0.5	0.5	0.6	0.6

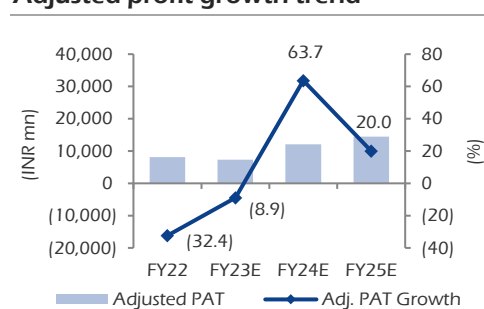
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



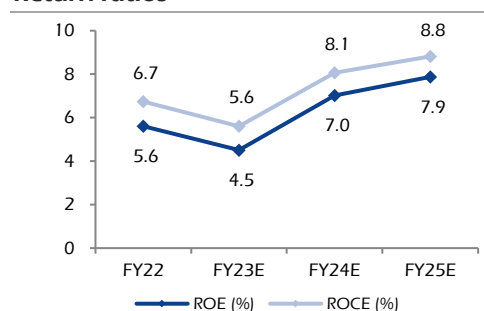
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

## Company description

Dalmia Bharat (DALBHARA IN) is part of the Dalmia Group, which was established by Late Jayapal Dalmia in 1939. The group operates mainly in three businesses – Cement under Dalmia Bharat, sugar under Dalmia Bharat Sugar and refractories under Dalmia Bharat Refractories. Dalmia Bharat operates as the fourth largest cement firm with an installed cement capacity of ~37mn tonnes, as of Q2FY23. As of end- Q2FY23, Dalmia Bharat's captive power capacity was 339MW, comprising 210MW thermal power capacity, 41MW waste heat recovery capacity and 88MW solar power capacity. It is India's largest producer of Portland Slag Cement (PSC). *Dalmia Cement*, *Dalmia DSP* and *Konark Cement* are DALBHARA's key brands.

## Board of Directors & Management

### Puneet Yadu Dalmia – Managing Director & CEO

Puneet Dalmia took over the charge of Dalmia Bharat Group in 2007. He has over 20 years of experience in cement industry. He is a graduate from IIT-Delhi and MBA (gold-medalist) from IIM-Bengaluru. He serves as a founder and trustee of Ashoka University and is also a board member of the Central Square Foundation (CSF). Further, he is the government appointed Chairman of 25-member development council for the cement industry.

### Gautam Dalmia – Managing Director

Gautam Dalmia holds a B.S and an M.S degree in Electrical Engineering from Columbia University. He has over 29 years of experience in cement and sugar industries.

### Mahendra Singhi – MD & CEO, Dalmia Cement (Bharat)

Mahendra Singhi has been associated with the cement industry for >40 years. He joined Dalmia Cement (Bharat) in CY13. He is a Chartered Accountant and a Science and Law graduate. Previously, he has also served as the President of Cement Manufacturer's Association (CMA).

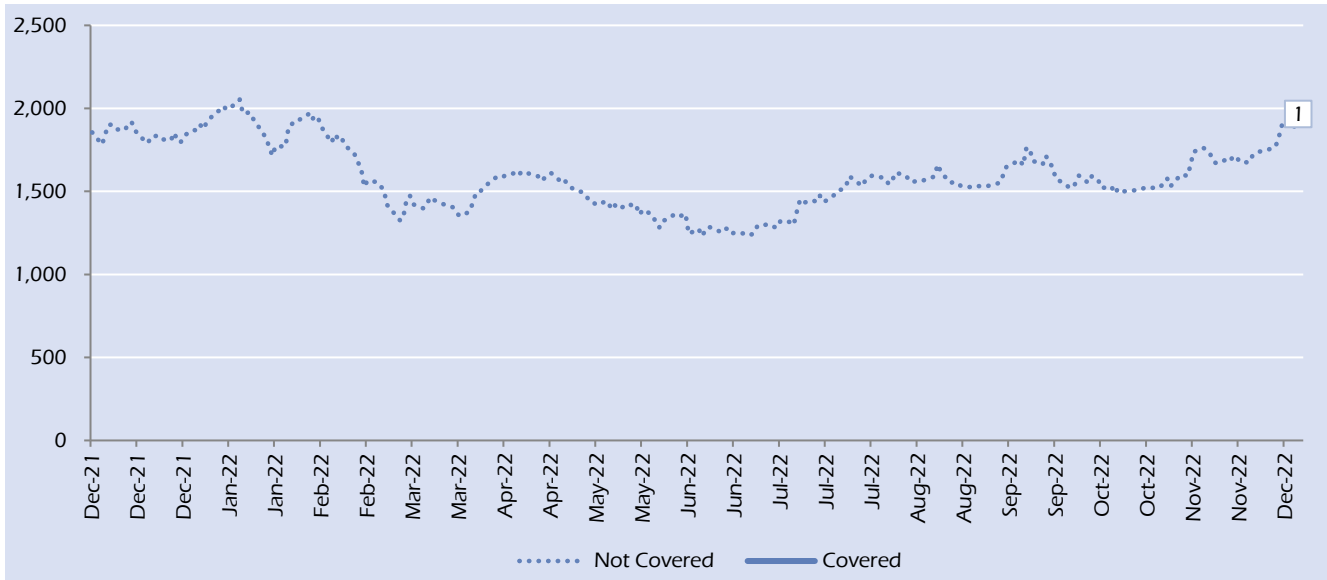
### Dharmender Tuteja – Chief Financial Officer

Dharmendra Tuteja holds a BCOM (Hons.) degree and is a Cost Accountant and Company Secretary. He has >35 years of experience in numerous aspects of Finance and Accounts function and Business Management in diverse industries.

### Rajiv Bansal – President and Chief Transformation Officer

Rajiv Bansal holds a BCOM (Hons.) degree and is a Chartered Accountant as well as Cost Accountant. He has >27 years of corporate experience in power, IT and internet start-up industry.

### Coverage History



	Date	Rating	Target Price	Closing Price
1	6-Dec-2022	Accumulate	INR 2,177	INR 1,866

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

Notes



# JK Cement

## Cost saving levers in place

### Ready with next phase of growth

JK Cement's (JKCE IN) previously announced greenfield capacity expansion at Panna in Madhya Pradesh, comprising: 1) ~2.6mn tonnes clinker capacity, 2) 4.0mn tonnes grey cement capacity, 2.0mn tonnes capacity at Panna and 2.0mn tonnes split grinding unit at Hamirpur (Uttar Pradesh), and 3) 22MW WHR capacity has become operational in Q3FY23. Redirecting dispatches from new units in Central India market should result in savings of ~5% on FY22 EBITDA.

Also, JKCE announced new growth projects at a capex of ~INR 11.6bn towards: 1) cement capacity expansion of 0.5mn tonnes each at Jharli (Haryana), Aligarh (Uttar Pradesh), Mangrol (Rajasthan) and Muddapur (Karnataka) units by FY24, 2) new grinding units of 1.5mn tonnes in Ujjain (Madhya Pradesh) by FY24 and 2.0mn tonnes in Prayagraj (Uttar Pradesh) by H1FY25, and 3) 0.66mn tonnes clinker capacity expansion at Panna (Madhya Pradesh). Beyond FY25, JKCE is planning to augment its grey cement capacity to 30mn tonnes by CY30.

### Lower capex cost: Expansion with a pay-back period of five years

In the past five years, JKCE's RoE has been ~800bp higher than Elara cement universe's average RoE. Expect this to continue as the upcoming growth project (5.5mn tonnes) should be at a lower capex cost of ~USD 26/tonne. Assuming EBITDA/tonne of INR 1,000, the project may generate ~15% RoCE, with a likely pay-back period of just five years.

### Green power to surge 75% by FY30

JKCE's WHR capacity stood at ~42MW and renewable power capacity (solar and wind) at ~17MW, as on FY22. JKCE is set to increase its WHR capacity to ~84MW in phases by FY24, via: 1) 22MW WHR capacity at Panna (Madhya Pradesh) by end-Q3FY23 and 2) 20MW WHR capacity at Muddapur in Karnataka by FY24. Simultaneously, its renewable capacity should rise to ~56MW by FY23. As per our analysis, capacity addition in renewable power/WHR may ensue additional cost savings of ~2%/~6%, respectively, on FY22 EBITDA. JKCE aims to spike green power consumption to ~75% by FY30 versus ~32% in FY22.

### Valuations: Reiterate Accumulate; TP raised to INR 3,597

Expect volume to remain healthy, led by access to scalable capacity, improved demand prospects and completion of ongoing growth projects in the next few months. Also, phase-wise completion of newly announced growth capex in the next two years augurs well. Lower fuel prices and cost savings measures (focus on rising share of low-cost green power) should aid cost optimization – Reiterate **Accumulate**. As we roll over to December 2024E from September, we raise our TP to INR 3,597 from INR 3,255, ascribing 12x (unchanged) December 2024E EV/EBITDA to grey cement and 18x (from 15x) December 2024E to white cement (including wall putty) business.

## Rating: Accumulate

Target Price: INR 3,597

Upside: 14%

CMP: INR 3,168 (as on 6 December 2022)

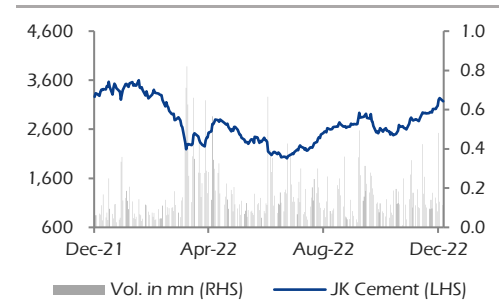
### Key data\*

Bloomberg /Reuters Code	JKCE IN/JKCE.BO
Current /Dil. Shares O/S (mn)	77/77
Mkt Cap (INR bn/USD mn)	245/2,965
Daily Volume (3M NSE Avg)	145,890
Face Value (INR)	10

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	51.5	45.8	45.8	45.8
Institutional Investors	37.5	37.1	37.2	37.5
Other Investors	1.8	2.6	2.4	13.0
General Public	9.2	14.5	14.6	3.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
JK Cement	16.9	51.8	(3.5)
Shree Cement	10.9	20.0	(6.3)
Orient Cement	9.3	5.5	(17.0)
JK Lakshmi Cement	72.8	95.5	30.6

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Adj. EPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)*	EV/EBITDA (x)
March											
FY22	75,291	20.8	15,081	20.0	7,399	(7.9)	95.8	18.5	33.1	145	18.0
FY23E	87,805	16.6	14,261	16.2	6,501	(12.1)	84.1	14.4	37.7	103	19.7
FY24E	99,549	13.4	18,670	18.8	9,109	40.1	117.9	17.6	26.9	90	15.0
FY25E	111,660	12.2	21,801	19.5	11,182	22.8	144.7	18.4	21.9	78	12.7

Note: \* For grey cement business; pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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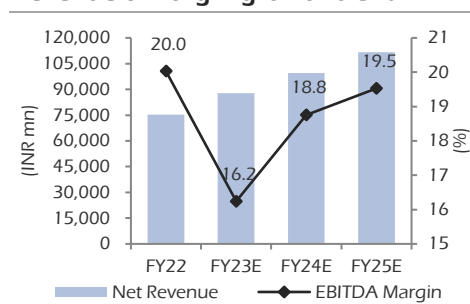
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	75,291	87,805	99,549	111,660
<b>Operating profit</b>	<b>13,585</b>	<b>12,535</b>	<b>16,973</b>	<b>19,927</b>
Add:- Other operating Income	1,495	1,726	1,697	1,874
<b>EBITDA</b>	<b>15,081</b>	<b>14,261</b>	<b>18,670</b>	<b>21,801</b>
Add:- Other Income	1,428	1,071	1,125	1,181
Less :- Depreciation & Amortization	2,820	3,443	3,748	3,988
<b>EBIT</b>	<b>13,689</b>	<b>11,889</b>	<b>16,046</b>	<b>18,993</b>
Less:- Interest Expenses	2,493	2,603	3,034	3,019
<b>PBT</b>	<b>9,635</b>	<b>9,132</b>	<b>13,012</b>	<b>15,975</b>
Less :- Taxes	3,329	2,739	3,904	4,792
<b>Reported PAT</b>	<b>6,307</b>	<b>6,392</b>	<b>9,109</b>	<b>11,182</b>
Add/Less: - Extra-ordinaries	1,092	109	-	-
<b>Adjusted PAT</b>	<b>7,399</b>	<b>6,501</b>	<b>9,109</b>	<b>11,182</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	773	773	773	773
Reserves	41,744	46,977	54,927	64,873
Borrowings	32,274	40,024	40,874	39,624
Deferred Tax (Net)	7,385	7,754	8,142	8,549
Other liabilities	5,488	5,757	5,513	5,284
<b>Total Liabilities</b>	<b>87,663</b>	<b>101,285</b>	<b>110,229</b>	<b>119,102</b>
Gross Block	74,955	90,955	96,455	102,955
Less:- Accumulated Depreciation	21,278	24,721	28,469	32,457
<b>Net Block</b>	<b>53,677</b>	<b>66,234</b>	<b>67,986</b>	<b>70,498</b>
Add:- Capital work in progress	710	3,710	12,210	12,710
Non current Investments	15,401	14,401	13,401	12,401
Net Working Capital	11,181	12,037	9,757	13,748
Cash & current investments	4,873	3,173	5,318	8,344
Other assets	1,821	1,730	1,557	1,401
<b>Total Assets</b>	<b>87,663</b>	<b>101,285</b>	<b>110,229</b>	<b>119,102</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	11,638	11,736	15,154	17,415
Add/Less : Working Capital Changes	(8,092)	(856)	2,280	(3,991)
<b>Operating Cash Flow</b>	<b>3,545</b>	<b>10,880</b>	<b>17,434</b>	<b>13,425</b>
Less:- Capex	(4,233)	(19,000)	(14,000)	(7,000)
<b>Free Cash Flow</b>	<b>(688)</b>	<b>(8,120)</b>	<b>3,434</b>	<b>6,425</b>
<b>Financing Cash Flow</b>	<b>(100)</b>	<b>4,258</b>	<b>(3,587)</b>	<b>(5,735)</b>
<b>Investing Cash Flow</b>	<b>(8,004)</b>	<b>2,142</b>	<b>2,277</b>	<b>2,316</b>
<b>Net change in Cash</b>	<b>(8,792)</b>	<b>(1,720)</b>	<b>2,124</b>	<b>3,005</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
Income Statement Ratios (%)				
Revenue Growth	20.8	16.6	13.4	12.2
EBITDA Growth	(2.9)	(5.4)	30.9	16.8
Adj. PAT Growth	(7.9)	(12.1)	40.1	22.8
EBITDA Margin	20.0	16.2	18.8	19.5
Adj. Net Margin	9.8	7.4	9.2	10.0
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	0.6	0.8	0.6	0.5
ROE	18.5	14.4	17.6	18.4
ROCE	16.6	12.6	15.2	16.6
Per Share data & Valuation Ratios				
Adjusted EPS (INR/Share)	95.8	84.1	117.9	144.7
EPS Growth (%)	(7.9)	(12.1)	40.1	22.8
DPS (INR/Share)	15.0	15.0	16.0	16.0
P/E Ratio (x)	33.1	37.7	26.9	21.9
EV/EBITDA (x)	18.0	19.7	15.0	12.7
EV/Sales (x)	3.6	3.2	2.8	2.5
P/BV (x)	6.1	5.4	4.7	4.0
EV/tonne (USD)*	145	103	90	78
Dividend Yield (%)	0.5	0.5	0.5	0.5

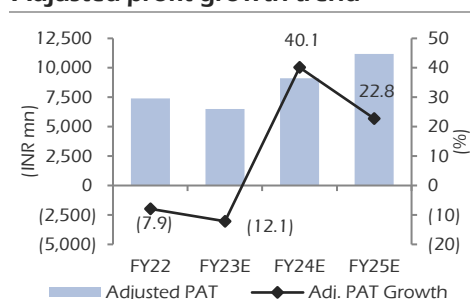
Note: \*For grey cement business; pricing as 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



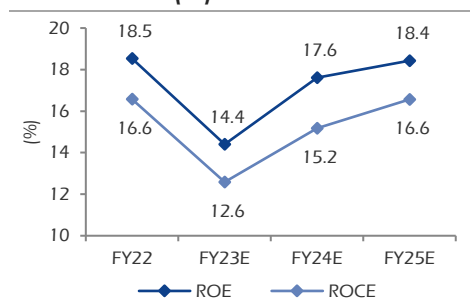
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios (%)



Source: Company, Elara Securities Estimate

**Exhibit 1: SoTP valuations**

(INR mn)	December 2024E
Grey cement EBITDA	15,543
Target multiple (x)	12.0
<b>Target EV-A</b>	<b>186,513</b>
White cement EBITDA	5,475
Target multiple (x)	18.0
<b>Target EV-B</b>	<b>98,554</b>
<b>Total EV- (A+B)</b>	<b>285,067</b>
Net debt	32,349
Capital work in progress	12,585
Non-current investment	12,651
<b>Target market cap</b>	<b>277,954</b>
Shares (mn)	77
<b>TP (INR)</b>	<b>3,597</b>
CMP (INR)	3,168
<b>Upside (%)</b>	<b>13.6</b>

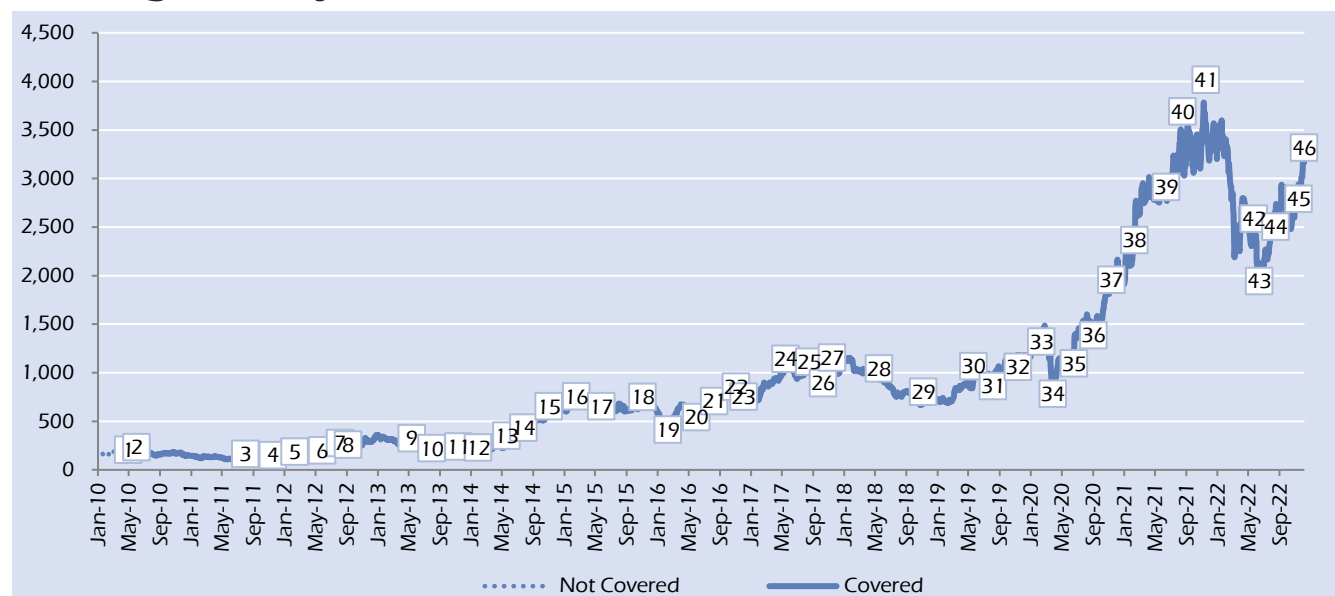
Source: Elara Securities Estimate

**Exhibit 2: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	87,805	99,549	113,942	87,805	99,549	111,660	-	-	(2.0)
EBITDA	14,261	18,670	21,883	14,261	18,670	21,801	-	-	(0.4)
PAT	6,501	9,109	11,240	6,501	9,109	11,182	-	-	(0.5)
<b>Target price (INR)</b>			<b>3,255</b>			<b>3,597</b>			<b>10.5</b>

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
30 21-May-2019	Accumulate	INR 1,045	INR 948
31 6-Aug-2019	Accumulate	INR 1,136	INR 963
32 11-Nov-2019	Accumulate	INR 1,353	INR 1,160
33 11-Feb-2020	Accumulate	INR 1,516	INR 1,421
34 27-Mar-2020	Buy	INR 1,180	INR 930
35 18-Jun-2020	Accumulate	INR 1,310	INR 1,246
36 2-Sep-2020	Accumulate	INR 1,571	INR 1,487
37 11-Nov-2020	Accumulate	INR 2,051	INR 1,856
38 9-Feb-2021	Accumulate	INR 2,396	INR 2,267
39 14-Jun-2021	Accumulate	INR 2,992	INR 2,813
40 17-Aug-2021	Accumulate	INR 3,487	INR 3,192
41 16-Nov-2021	Accumulate	INR 3,687	INR 3,515
42 23-May-2022	Buy	INR 2,923	INR 2,438
43 16-Jun-2022	Buy	INR 2,685	INR 2,090
44 16-Aug-2022	Accumulate	INR 3,100	INR 2,653
45 14-Nov-2022	Accumulate	INR 3,255	INR 2,940
46 6-Dec-2022	Accumulate	INR 3,597	INR 3,168

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# The Ramco Cements

## On capacity addition spree

**Asset sweating: Expect FY22-25E volume CAGR of ~12%**

The Ramco Cements (TRCL IN) posted a volume CAGR of ~4% in the past decade, mainly led by higher exposure to South India (with surplus capacity) and limited clinker capacity addition. TRCL has expanded cement capacity to ~21mn tonnes by Q2FY23 from ~16.7mn tonnes in FY19. Clinker capacity also spiked to ~14mn tonnes from ~10mn tonnes in the same period.

TRCL is set to complete ongoing clinker expansion in Tamil Nadu by end-FY23 and the recently announced brownfield capacity expansion (0.9mn tonnes) in Odisha, next year. New greenfield expansion in Karnataka is at planning stage. With sizeable capacity, TRCL is well poised to capture impending demand upcycle in the industry, likely posting strong ~12% volume CAGR through FY22-25E.

### Margin levers to offset decline in market mix

Increased volume from non-core markets diluted TRCL's margin in the past few years. But this hit may likely be partly mitigated by other margin levers such as: 1) completion of ~39MW WHR (27MW already operational) and 18MW coal-based power capacity by FY23 and FY24, respectively (INR 38/tonne savings likely), 2) savings from upcoming railway siding, wind power and RR Nagar modernization (INR 52/tonne savings likely), 3) spiked sale of value-added products (likely savings of INR 8/tonne) and 4) pared lead distance (INR 38/tonne savings likely).

### Non-core markets – Efforts to improve margin

Tamil Nadu/Kerala are TRCL's core markets, where it earns superior margin, led by premium brand positioning, higher trade sales and cost edge. But in the past few years, it has improved volumes in eastern markets (primarily Odisha/West Bengal) as also its margin profile, led by: 1) multi-brand strategy (12 brands currently), 2) better focus on value-added products, 3) higher spending on branding, 4) marketing initiatives (onsite technical support, influencer engagement programmes), and 5) the use of waterways.

### Valuations: Reiterate Accumulate; TP raised to INR 817

South/East India, TRCL's core markets, have seen price hikes of INR 25/INR 39 per bag versus pan-India average of INR 13 in the past three months. Thus, TRCL's earnings recovery is likely sharper than peers. Cement-intensive capital spend by southern/eastern states is budgeted to rise ~20%/~16%, respectively in FY23 versus pan-India average of ~12%. Capacity addition and higher infra spend in core markets should enable faster-than-industry growth for TRCL. Fuel price easing and low-cost WHR capacity augmentation bode well. We retain FY23E/24E earnings but trim FY25E estimates ~3%. We roll over to December 2024E from September and raise TP to INR 817 from INR 790, on 14x (unchanged) December 2024E EV/EBITDA – Reiterate **Accumulate**.

## Rating: Accumulate

**Target Price: INR 817**

**Upside: 17%**

CMP: INR 700 (as on 6 December 2022)

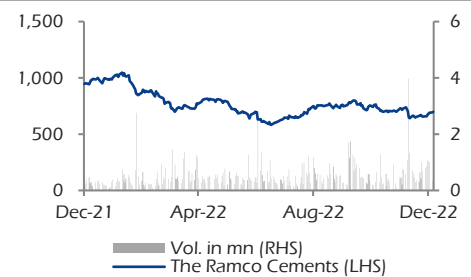
### Key data\*

Bloomberg /Reuters Code:	TRCL IN/TRCE.BO
Current /Dil. Shares O/S (mn)	236/236
Mkt Cap (INR bn/USD mn)	165/2,003
Daily Vol. (3M NSE Avg.)	32,462
Face Value (INR)	1

**1 USD = INR 82.6**

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	42.5	42.3	42.3	42.3
Institutional Investors	40.4	40.3	40.3	40.4
Other Investors	7.1	7.2	7.1	7.5
General Public	10.0	10.2	10.3	9.8

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
The Ramco Cements	(7.8)	10.6	(25.7)
ACC	12.5	22.6	18.2
Ambuja Cements	33.1	59.2	57.0

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Adj. EPS (INR)	RoE (%)	P/E	EV/tonne (USD)	EV/EBITDA (x)
March											
FY22	58,972	13.7	12,838	21.8	5,871	(22.9)	24.8	9.7	18.5	149	15.5
FY23E	72,845	23.5	11,044	15.2	3,187	(45.7)	13.5	4.8	51.9	129	19.0
FY24E	83,626	14.8	15,367	18.4	5,901	85.2	25.0	8.5	28.0	128	13.7
FY25E	90,450	8.2	17,611	19.5	7,638	29.4	32.3	10.2	21.6	126	11.7

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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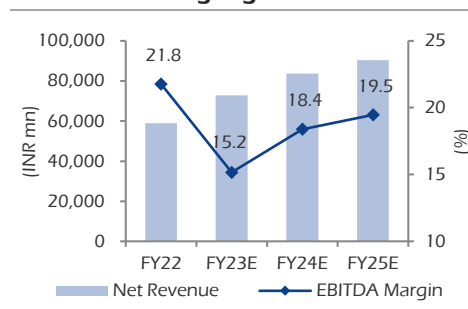
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	58,972	72,845	83,626	90,450
<b>Operating profit</b>	<b>12,011</b>	<b>9,968</b>	<b>14,280</b>	<b>16,513</b>
Add:- Other operating Income	828	1,076	1,087	1,098
<b>EBITDA</b>	<b>12,838</b>	<b>11,044</b>	<b>15,367</b>	<b>17,611</b>
Less:- Depreciation	4,008	4,736	4,998	5,033
Add: Other income	306	322	338	355
<b>EBIT</b>	<b>9,136</b>	<b>6,630</b>	<b>10,708</b>	<b>12,933</b>
Less:- Interest Expenses	1,124	2,436	2,943	2,883
<b>PBT</b>	<b>8,012</b>	<b>4,193</b>	<b>7,765</b>	<b>10,050</b>
Less:- Taxes	(915)	1,006	1,863	2,412
<b>Reported PAT</b>	<b>8,927</b>	<b>3,187</b>	<b>5,901</b>	<b>7,638</b>
<b>Adjusted PAT</b>	<b>5,871</b>	<b>3,187</b>	<b>5,901</b>	<b>7,638</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	236	236	236	236
Reserves	65,012	66,934	71,654	77,874
Borrowings	39,300	49,300	48,800	47,300
Deferred Tax (Net)	8,240	8,540	8,540	8,240
Other liabilities	709	759	759	759
<b>Total Liabilities</b>	<b>113,498</b>	<b>125,769</b>	<b>129,989</b>	<b>134,409</b>
Gross Block	117,686	129,186	134,686	138,186
Less:- Accumulated Depreciation	41,959	46,695	51,693	56,725
<b>Net Block</b>	<b>75,727</b>	<b>82,491</b>	<b>82,993</b>	<b>81,461</b>
Add:- Capital work in progress	29,922	35,422	39,922	41,922
Non-current investments	4,220	4,220	4,220	4,220
Net Working Capital	(1,772)	(228)	(600)	550
Cash & current investments	1,760	224	92	2,810
Other assets	3,641	3,641	3,362	3,447
<b>Total Assets</b>	<b>113,498</b>	<b>125,769</b>	<b>129,989</b>	<b>134,409</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	11,117	10,338	13,504	14,899
Add/Less: Working Capital Changes	84	(1,544)	372	(1,150)
<b>Operating Cash Flow</b>	<b>11,201</b>	<b>8,793</b>	<b>13,876</b>	<b>13,749</b>
Less:- Capex	(18,900)	(17,000)	(10,000)	(5,500)
Free Cash Flow	(7,699)	(8,207)	3,876	8,249
<b>Financing Cash Flow</b>	<b>7,406</b>	<b>6,349</b>	<b>(4,624)</b>	<b>(5,801)</b>
Investing Cash Flow	634	322	617	270
<b>Net change in Cash</b>	<b>342</b>	<b>(1,536)</b>	<b>(132)</b>	<b>2,717</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
Income Statement Ratios (%)				
Revenue Growth	13.7	23.5	14.8	8.2
EBITDA Growth	(17.1)	(14.0)	39.1	14.6
Adj. PAT Growth	(22.9)	(45.7)	85.2	29.4
EBITDA Margin	21.8	15.2	18.4	19.5
Adj. Net Margin	10.0	4.4	7.1	8.4
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	0.6	0.7	0.7	0.6
ROE	9.7	4.8	8.5	10.2
ROCE	8.6	5.5	8.4	9.8
Per Share data & Valuation Ratios				
Adjusted EPS (INR/Share)	24.8	13.5	25.0	32.3
EPS Growth (%)	(23.0)	(45.7)	85.2	29.4
DPS (INR/Share)	3.0	5.0	6.0	6.0
P/E Ratio (x)	18.5	51.9	28.0	21.6
EV/EBITDA (x)	15.5	19.0	13.7	11.7
EV/Sales (x)	3.4	2.9	2.5	2.3
P/BV (x)	2.7	2.5	2.4	2.2
EV per tonne (USD)	149	129	128	126
Dividend Yield (%)	0.4	0.7	0.9	0.9

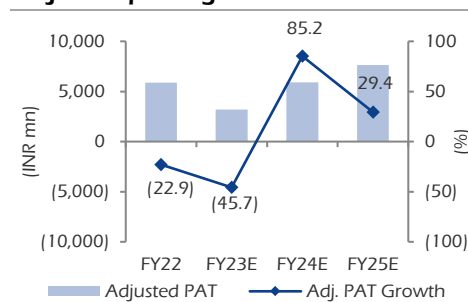
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

## Revenue & margin growth trend



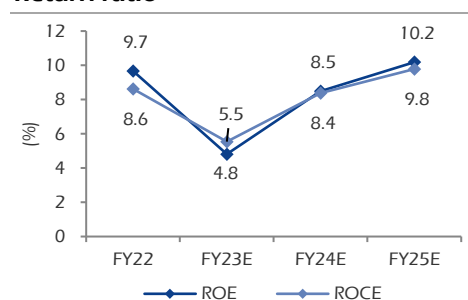
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratio



Source: Company, Elara Securities Estimate

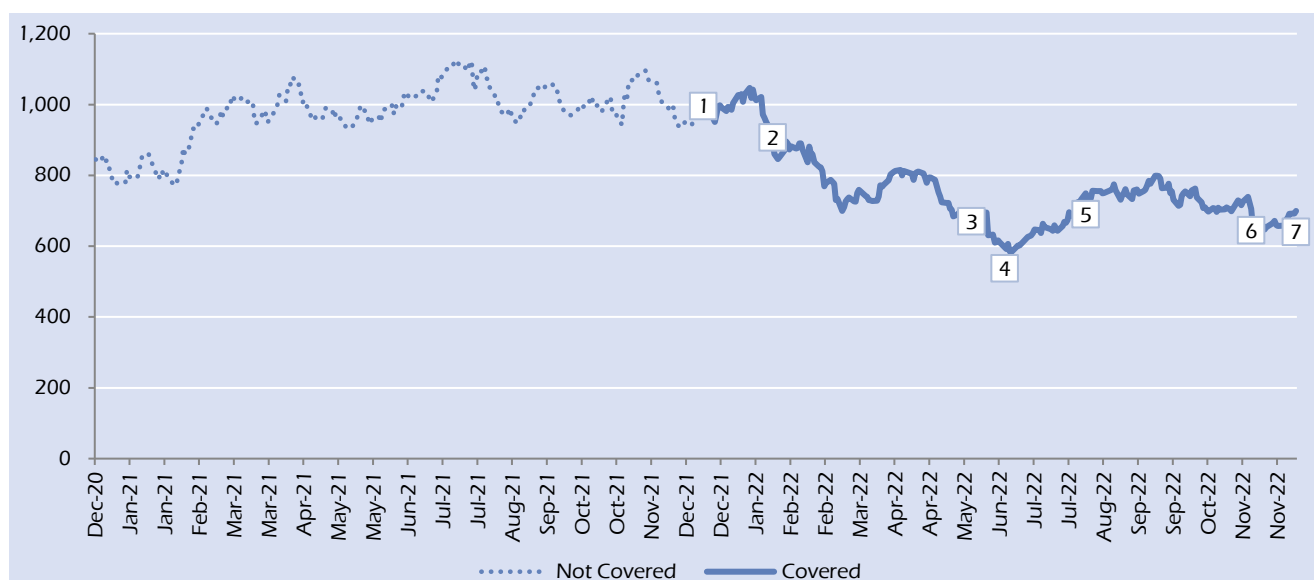


## Exhibit 1: Change in estimate

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	72,845	83,626	93,026	72,845	83,626	90,450	-	-	(2.8)
EBITDA	11,044	15,367	17,960	11,044	15,367	17,611	-	-	(1.9)
PAT	3,187	5,901	7,903	3,187	5,901	7,638	-	-	(3.4)
<b>Target price (INR)</b>	<b>790</b>			<b>817</b>			<b>3.5</b>		

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
1 13-Dec-2021	Accumulate	INR 1,122	INR 985
2 24-Jan-2022	Accumulate	INR 1,068	INR 897
3 24-May-2022	Accumulate	INR 767	INR 659
4 16-Jun-2022	Buy	INR 762	INR 585
5 1-Aug-2022	Accumulate	INR 831	INR 752
6 9-Nov-2022	Accumulate	INR 790	INR 704
7 6-Dec-2022	Accumulate	INR 817	INR 700

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# Nuvoco Vistas Corporation

## Deleveraging prioritized over growth

### Demand-accretive East India anchors ~80% capacity

Nuvoco Vistas Corporation (NUVOCO IN) has raised capacity ~10x to 23.8mn tonnes in FY22 from 2.3mn tonnes in FY14. Almost 80% of its capacity is in demand-accretive East India (~19% capacity share in FY22). We believe, East India offers huge growth potential given its lower per capita consumption versus the industry average. Expect a demand CAGR of ~10% in FY22-25E in the region versus ~7% for the industry. Thus, NUVOCO is well placed to seize any favorable demand opportunities – Expect FY22-25E volume CAGR at ~7%.

### Major growth capex unlikely in the near term

Work for clinker capacity addition at Nimbol in Rajasthan and Risda in Chhattisgarh is mostly over. Cement capacity addition of 1.2mn tonnes at Bhiwani, Haryana is progressing well. Upon completion, cement capacity should rise to ~25mn tonnes by FY25E. NUVOCO may start greenfield expansion in Karnataka once net debt reaches INR 30-35bn.

### Approximating steady cost structure

NUVOCO has guided for INR 250/tonne margin improvement in FY22-23 – INR 150/tonne in FY22 and INR 100/tonne in FY23. This should be led by: 1) price acceleration programme, 2) successful integration of NU Vista (erstwhile Emami Cement) via *Project Sprint*, 3) fixed cost rationalization, 4) operational efficiency via WHR and captive power, and 5) incremental fiscal incentives.

Also, proximity to Tata Steel plant should continue to provide NUVOCO access to low-cost slag, enabling higher blending, lower production cost and expanding Portland Slag Cement (PSC) portfolio. NUVOCO is set to spike the use of AFR to ~12% by end-FY23 from current ~9%, which should ensue INR 14/tonne savings.

### Valuations: Reiterate Accumulate; TP maintained at INR 440

Expect East India, NUVOCO's core market, to post better demand in the coming quarters, enabling healthy volume growth on a low base, good harvest and ~16% rise in cement-intensive capital outlay by state governments. In the past three months, East India has seen a price hike of INR 39/bag (~12%) versus pan-India average of INR 13/bag (~4%). This should lead to a sharper earnings recovery versus peers.

The recent easing in fuel prices, many cost optimization measures and focus on gaining synergistic benefits from Emami's acquisition should cap costs and prevent margin erosion. We retain FY23E/24E earnings but pare FY25E estimates ~9%. As we roll over to December 2024E from September, we maintain TP at INR 440, on 9x December 2024E EV/EBITDA – Reiterate **Accumulate**.

## Rating: Accumulate

Target Price: INR 440

Upside: 10%

CMP: INR 399 (as on 6 December 2022)

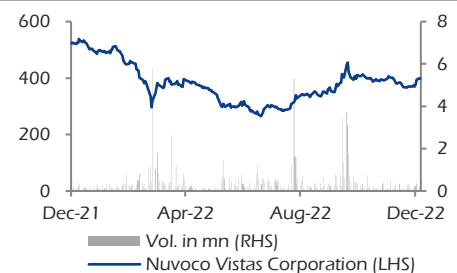
### Key data\*

Bloomberg Code:	NUVOCO IN
Current /Dil. Shares O/S (mn)	357/357
Mkt Cap (INR bn/USD mn)	142/1,726
Daily Vol. (3M NSE Avg.)	39,253
Face Value (INR)	10

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	71.0	71.4	71.7	71.8
Institutional Investors	23.9	23.5	22.7	22.7
Other Investors	1.3	1.3	1.1	1.1
General Public	3.8	3.8	4.5	4.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Nuvoco Vistas Corporation	13.6	33.4	(23.5)
ACC	12.5	22.6	18.2
Ambuja Cements	33.1	59.2	57.0

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
March	90,611	24.0	14,967	16.5	321	-	0.9	0.4	444.1	112	12.9
FY22	104,781	15.6	13,349	12.7	(200)	-	(0.6)	(0.2)	-	107	14.3
FY23E	118,095	12.7	19,642	16.6	4,003	-	11.2	4.4	35.6	100	9.2
FY25E	126,881	7.4	21,861	17.2	5,597	39.8	15.7	5.9	25.5	90	7.8

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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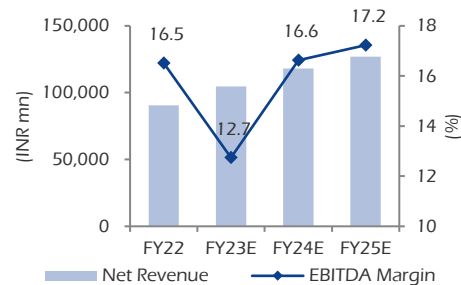
Elara Securities (India) Private Limited

### Consolidated Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	90,611	104,781	118,095	126,881
<b>Operating profit</b>	<b>12,397</b>	<b>10,651</b>	<b>16,809</b>	<b>18,886</b>
Add:- Other operating Income	2,570	2,698	2,833	2,975
<b>EBITDA</b>	<b>14,967</b>	<b>13,349</b>	<b>19,642</b>	<b>21,861</b>
Add:- Other Income	421	379	398	410
Less :- Depreciation & Amortization	9,180	9,360	9,487	9,678
<b>EBIT</b>	<b>6,208</b>	<b>4,369</b>	<b>10,553</b>	<b>12,592</b>
Less:- Interest Expenses	5,699	4,672	4,488	4,112
<b>PBT</b>	<b>509</b>	<b>(303)</b>	<b>6,065</b>	<b>8,480</b>
Less :- Taxes	188	(103)	2,062	2,883
<b>Reported PAT</b>	<b>321</b>	<b>(200)</b>	<b>4,003</b>	<b>5,597</b>
<b>Reported PAT after Minority Interest</b>	<b>321</b>	<b>(200)</b>	<b>4,003</b>	<b>5,597</b>
<b>Adjusted PAT after Minority Interest</b>	<b>321</b>	<b>(200)</b>	<b>4,003</b>	<b>5,597</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	3,572	3,572	3,572	3,572
Reserves	84,641	84,440	88,443	94,040
Borrowings	53,988	55,938	48,438	42,938
Deferred Tax (Net)	18,540	18,540	18,540	18,540
Other liabilities	2,633	2,687	2,745	2,806
<b>Total Liabilities</b>	<b>163,374</b>	<b>165,178</b>	<b>161,739</b>	<b>161,896</b>
Gross Block	182,273	184,771	187,271	192,271
Less:- Accumulated Depreciation	60,972	70,332	79,819	89,497
<b>Net Block</b>	<b>121,301</b>	<b>114,439</b>	<b>107,452</b>	<b>102,773</b>
Add:- Capital work in progress	3,988	6,988	6,738	5,738
Non current investments	10	10	10	10
Net Working Capital	(10,195)	(9,615)	(9,076)	(7,869)
Cash & current investments	3,346	8,069	10,952	15,194
Other assets	44,923	45,287	45,662	46,049
<b>Total Assets</b>	<b>163,374</b>	<b>165,178</b>	<b>161,739</b>	<b>161,896</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non cash items	14,743	13,453	17,580	18,978
Add/Less : Working Capital Changes	(2,534)	(580)	(539)	(1,207)
<b>Operating Cash Flow</b>	<b>12,209</b>	<b>12,872</b>	<b>17,041</b>	<b>17,770</b>
Less:- Capex	(4,094)	(5,497)	(2,250)	(4,000)
<b>Free Cash Flow</b>	<b>8,115</b>	<b>7,375</b>	<b>14,791</b>	<b>13,770</b>
Financing Cash Flow	(14,202)	(2,667)	(11,930)	(9,551)
Investing Cash Flow	2,190	15	23	23
<b>Net change in Cash</b>	<b>(3,897)</b>	<b>4,723</b>	<b>2,883</b>	<b>4,242</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
Income Statement Ratios (%)				
Revenue Growth	24.0	15.6	12.7	7.4
EBITDA Growth	2.5	(10.8)	47.1	11.3
Adj. PAT Growth	-	-	-	39.8
EBITDA Margin	16.5	12.7	16.6	17.2
Adj. Net Margin	0.4	(0.2)	3.4	4.4
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.6	0.5	0.4	0.3
ROE (%)	0.4	(0.2)	4.4	5.9
ROCE (%)	3.7	2.7	6.5	7.8
Per Share data & Valuation Ratios				
Adj. EPS (INR/Share)	0.9	(0.6)	11.2	15.7
EPS Growth (%)	-	-	-	39.8
P/E Ratio (x)	444.1	-	35.6	25.5
EV/EBITDA (x)	12.9	14.3	9.2	7.8
EV/Sales (x)	2.1	1.8	1.5	1.3
P/BV (x)	1.8	1.6	1.6	1.5
EV per tonne (USD)	112	107	100	90

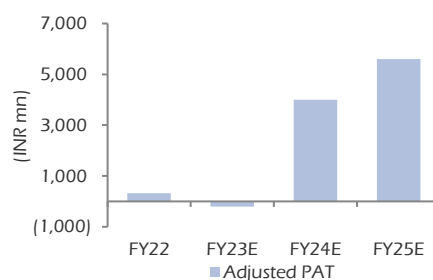
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



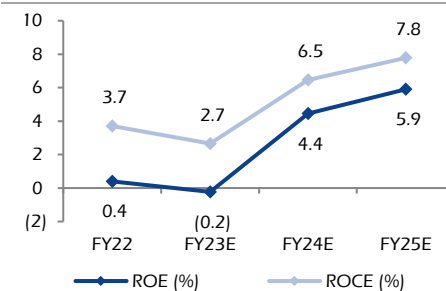
Source: Company, Elara Securities Estimate

### Adjusted profit trend



Source: Company, Elara Securities Estimate

### Return ratio



Source: Company, Elara Securities Estimate

**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	104,781	118,095	130,828	104,781	118,095	126,881	-	-	(3.0)
EBITDA	13,349	19,642	22,663	13,349	19,642	21,861	-	-	(3.5)
PAT	(200)	4,003	6,126	(200)	4,003	5,597	-	-	(8.6)

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
1 13-Dec-2021	Accumulate	INR 613	INR 527
2 10-Feb-2022	Buy	INR 569	INR 427
3 24-May-2022	Buy	INR 414	INR 296
4 16-Jun-2022	Buy	INR 404	INR 281
5 10-Aug-2022	Accumulate	INR 404	INR 338
6 10-Nov-2022	Accumulate	INR 440	INR 383

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



# JK Lakshmi Cement

## In optimization mode

### Udaipur Cement Works – Capacity ramp-up

JK Lakshmi Cement's (JKLC IN) subsidiary, Udaipur Cements Works (UCWL) is undergoing brownfield expansion in Rajasthan, comprising: 1) 1.5mn tonnes clinker unit, 2) 2.5mn tonnes grinding unit and 3) 7.0-7.5MW WHR capacity, at a total capex of ~INR 16.5bn. The project is expected to come on stream by H1FY25. Post completion, JKLC's consolidated clinker capacity should rise to ~10mn tonnes by FY25 from ~8.5mn tonnes in FY22, and cement capacity to ~16.5mn tonnes by FY25 from ~14mn tonnes in FY22. Beyond FY25, JKLC intends to reach 30mn tonnes capacity by CY30.

### New growth avenues

Recently, JKLC entered into an agreement with ~1mn tonnes Amethi-based grinding unit for 10 years, in Uttar Pradesh. This unit is eligible for some state incentives and as per agreement term, JKLC will supply clinker to the unit and procure cement for selling, primarily to East and Central Uttar Pradesh. During the first year of operation, 0.6mn tonnes volumes are targeted from this arrangement.

### Focus on improving performance

While JKLC's exposure to the non-trade segment has been on the higher side, the management's recent commentary on increasing volume in the trade segment to >60% from the present 54% (EBITDA/tonne impact of INR 36) augurs well. Further, key focus areas are likely to be: 1) improving volume, with focus on higher prices, 2) firming premium product mix, 3) market mix optimization, 4) increasing blended cement sales to 75% from 67% at present (INR 50/tonne savings) and 5) cost savings via spiked alternate fuel use, logistics cost optimization and other cost saving initiatives.

### Green portfolio to rise ~50% by FY25

As of FY22, 30% of JKLC's power requirements were being met by green power – This rose to ~35% by Q2FY23. JKLC is committed to augmenting its green power share and intends to raise this share to ~50% by FY25 (savings INR 42/tonne) and >80% by FY30 (savings INR 126/tonne). Further, the AFR proportion as on end-Q2FY23 was at 3-3.5%. The target is to increase it to ~10% in the next year. We believe, any progress will bolster JKLC's sustainability aspect.

### Valuations: Revise to Accumulate; TP raised to INR 902

JKLC was able to pare the EBITDA/tonne gap versus SRCM, from INR 720 in Q2FY22 to INR 100 in Q2FY23. Given the management's focus on optimizing KPIs, we believe it may improve future margin. As we roll over to December 2024E from September, we raise TP to INR 902 from INR 792, on 10x (from 9x) December 2024E EV/EBITDA. At CMP, our TP offers ~11% upside – Thus, we revise to **Accumulate** from Buy.

## Rating: Accumulate

**Target Price: INR 902**

**Upside: 11%**

CMP: INR 810 (as on 6 December 2022)

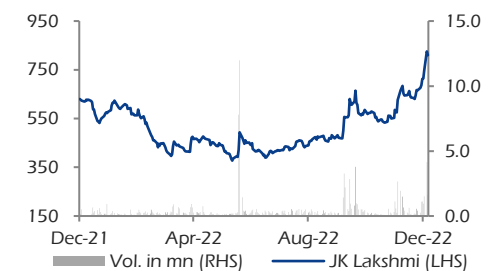
### Key data\*

Bloomberg /Reuters Code	JKCE IN/JKCE.BO
Current /Dil. Shares O/S (mn)	77/77
Mkt Cap (INR bn/USD mn)	95/1,155
Daily Volume (3M NSE Avg)	606,049
Face Value (INR)	10

**1 USD = INR 82.6**

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	46.0	46.3	46.3	46.3
Institutional Investors	37.9	38.2	37.4	37.5
Other Investors	4.2	3.6	3.7	3.6
General Public	11.9	11.9	12.6	12.6

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
JK Lakshmi Cement	72.8	95.5	30.6
Shree Cement	10.9	20.0	(6.3)
Orient Cement	9.3	5.5	(17.0)
JK Cement	16.9	51.8	(3.5)

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Adj. EPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
FY22	50,381	15.0	8,013	15.9	4,496	16.6	38.2	19.8	21.2	102	12.0
FY23E	58,855	16.8	7,404	12.6	3,675	(18.3)	31.2	14.1	25.9	100	12.8
FY24E	61,530	4.5	8,730	14.2	4,649	26.5	39.5	15.6	20.5	97	10.5
FY25E	62,761	2.0	9,717	15.5	5,370	15.5	45.6	15.7	17.8	92	9.0

Note: pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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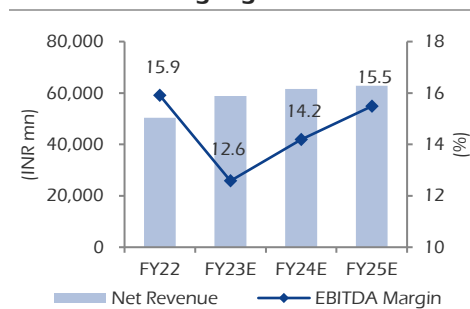
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## Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	50,381	58,855	61,530	62,761
<b>Operating profit</b>	<b>7,986</b>	<b>7,352</b>	<b>8,686</b>	<b>9,674</b>
Add:- Other operating Income	27	52	43	43
<b>EBITDA</b>	<b>8,013</b>	<b>7,404</b>	<b>8,730</b>	<b>9,717</b>
Less :- Depreciation	1,905	1,974	2,021	2,072
Add: Other income	673	605	613	620
<b>EBIT</b>	<b>6,780</b>	<b>6,036</b>	<b>7,321</b>	<b>8,265</b>
Less:- Interest Expenses	963	931	864	807
Add/Less: - Extra-ordinaries	(234)	-	-	-
<b>PBT</b>	<b>5,583</b>	<b>5,104</b>	<b>6,457</b>	<b>7,458</b>
Less:- Taxes	1,321	1,429	1,808	2,088
<b>Reported PAT</b>	<b>4,262</b>	<b>3,675</b>	<b>4,649</b>	<b>5,370</b>
<b>Adjusted PAT</b>	<b>4,496</b>	<b>3,675</b>	<b>4,649</b>	<b>5,370</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	589	589	589	589
Reserves	23,935	27,022	31,259	36,158
Borrowings	9,629	8,110	7,591	7,073
Deferred Tax (Net)	943	934	925	915
Other liabilities	3,710	3,889	4,078	4,277
<b>Total Liabilities</b>	<b>38,805</b>	<b>40,544</b>	<b>44,442</b>	<b>49,011</b>
Gross Block	39,628	40,128	40,728	41,328
Less:- Accumulated Depreciation	12,392	14,366	16,388	18,460
<b>Net Block</b>	<b>27,236</b>	<b>25,762</b>	<b>24,341</b>	<b>22,869</b>
Add:- Capital work in progress	1,121	1,271	1,421	1,571
Non current investments	3,904	6,904	7,904	9,404
Net Working Capital	(3,118)	(2,965)	(1,641)	(1,378)
Cash & current investments	8,869	8,770	11,591	15,308
Other assets	793	800	824	1,237
<b>Total Assets</b>	<b>38,805</b>	<b>40,544</b>	<b>44,442</b>	<b>49,011</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	6,760	5,966	6,912	7,619
Add/Less: Working Capital Changes	(633)	(153)	(1,324)	(263)
<b>Operating Cash Flow</b>	<b>6,127</b>	<b>5,813</b>	<b>5,588</b>	<b>7,357</b>
Less:- Capex	(1,373)	(650)	(750)	(750)
Free Cash Flow	4,754	5,163	4,838	6,607
<b>Financing Cash Flow</b>	<b>(3,818)</b>	<b>(2,859)</b>	<b>(1,605)</b>	<b>(1,597)</b>
Investing Cash Flow	(1,139)	(2,403)	(411)	(1,292)
<b>Net change in Cash</b>	<b>(203)</b>	<b>(98)</b>	<b>2,821</b>	<b>3,717</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	15.0	16.8	4.5	2.0
EBITDA Growth	1.5	(7.6)	17.9	11.3
Adj. PAT Growth	16.6	(18.3)	26.5	15.5
EBITDA Margin	15.9	12.6	14.2	15.5
Adj. Net Margin	8.9	6.2	7.6	8.6
<b>Return &amp; Liquidity Ratios (%)</b>				
Net Debt/Equity (x)	0.0	(0.0)	(0.1)	(0.2)
ROE	19.8	14.1	15.6	15.7
ROCE	17.9	15.2	17.2	15.7
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (Rs/Share)	38.2	31.2	39.5	45.6
EPS Growth (%)	16.6	(18.3)	26.5	15.5
DPS (Rs/Share)	5.0	3.5	4.0	4.5
P/E Ratio (x)	21.2	25.9	20.5	17.8
EV/EBITDA (x)	12.0	12.8	10.5	9.0
EV/Sales (x)	1.9	1.6	1.5	1.4
P/BV (x)	4.2	3.7	3.2	2.8
EV per tonne (USD)	102	100	97	92
Dividend Yield (%)	0.6	0.4	0.5	0.6

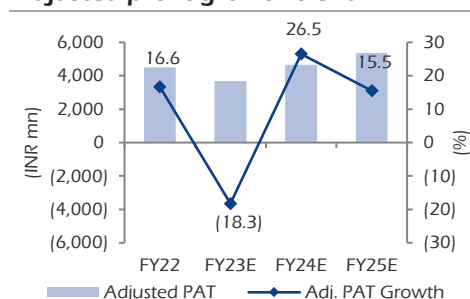
Note: pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



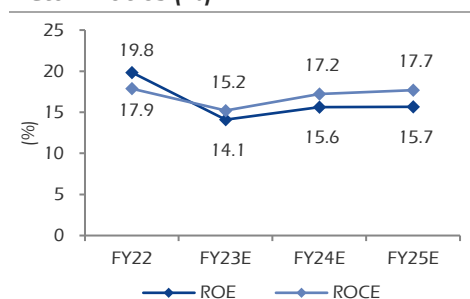
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios (%)



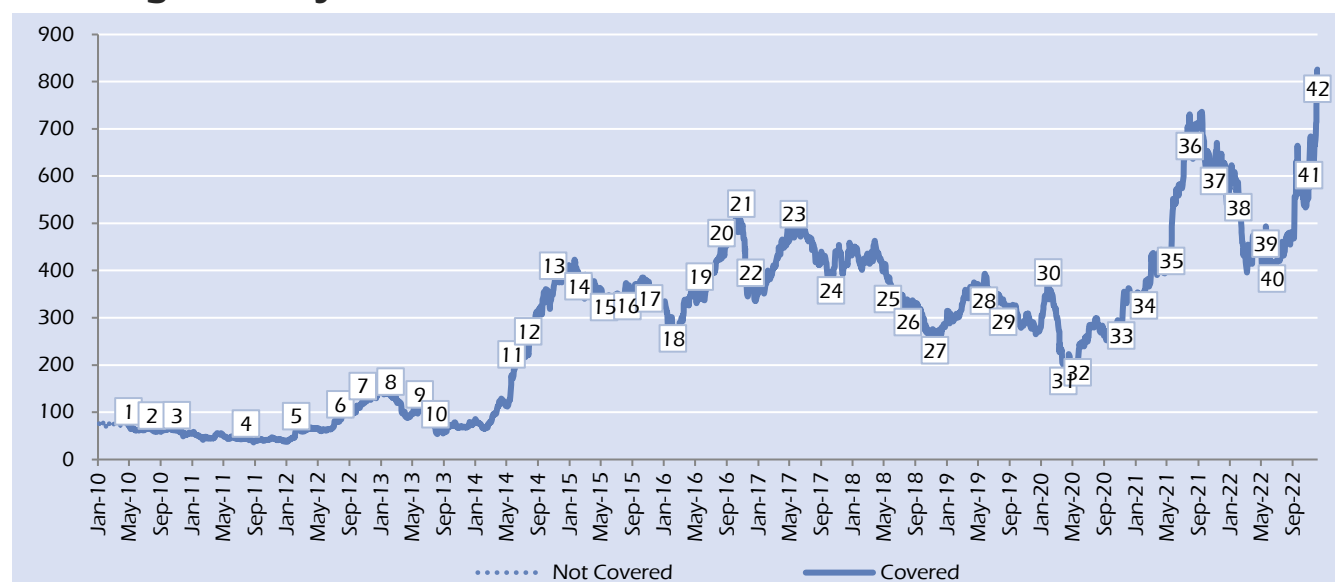
Source: Company, Elara Securities Estimate

**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	58,855	61,530	63,388	58,855	61,530	62,761	-	-	(1.0)
EBITDA	7,404	8,730	9,685	7,404	8,730	9,717	-	-	0.3
PAT	3,675	4,649	5,347	3,675	4,649	5,370	-	-	0.4
<b>Target price (INR)</b>			<b>792</b>			<b>902</b>			<b>13.9</b>
<b>Rating</b>			<b>Buy</b>			<b>Accumulate</b>			

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price	
28	24-May-2019	Buy	INR519	INR378
29	7-Aug-2019	Buy	INR508	INR330
30	29-Jan-2020	Buy	INR520	INR370
31	27-Mar-2020	Buy	INR386	INR201
32	21-May-2020	Buy	INR380	INR206
33	6-Nov-2020	Buy	INR398	INR287
34	2-Feb-2021	Buy	INR423	INR351
35	21-May-2021	Buy	INR605	INR494
36	30-Jul-2021	Accumulate	INR 788	INR 692
37	1-Nov-2021	Buy	INR 788	INR 615
38	3-Feb-2022	Buy	INR 749	INR 559
39	19-May-2022	Buy	INR 692	INR 422
40	16-Jun-2022	Buy	INR 622	INR 390
41	4-Nov-2022	Buy	INR 792	INR 627
42	6-Dec-2022	Accumulate	INR 902	INR 810

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# India Cements

## Structural concerns stay

### Underperformance to continue; no growth capex in pipeline

India Cements' (ICEM IN) capacity remained stagnant, posting just ~1% CAGR even as industry cement capacity CAGR was ~5%, through FY12-22. Further, ~83% of ICEM's capacity is in South India, which has always been hit by oversupply and demand volatility. Thus, ICEM reported a negative volume CAGR of 0.5% versus industry's demand CAGR of ~5% in FY12-22. Industry's capacity CAGR is likely at ~6% in FY22-25E, whereas ICEM may unlikely add any capacity in the near term, likely continuing with its underperformance.

### Costs elevated and realizations lower; margin to be range-bound

ICEM commands premium pricing and better margin in its core markets of Tamil Nadu/Kerala. But there has been a shift in volume to non-core markets of Maharashtra, Gujarat and East India, diluting realization. Also, its higher exposure to the non-trade segment in northern operations may cap realization improvement. On the cost front, ICEM is already strained given the unprecedented rise in fuel price. And as many of its plants are old, efficiency may be sub-standard (a major disadvantage). Hence, limited rise in realization and elevated costs may drag margin.

### Stretched balanced sheet; major debt reduction unlikely

In the past decade, ICEM's average net debt-EBITDA was at ~5x, well above other cement firms. Thus, despite the absence of any major growth capex, ICEM could not pare debt meaningfully. Though, we do not expect any sharp debt reduction near term, the recent divestment of Madhya Pradesh-based Springway Mining for ~INR 6bn may lead to some debt reduction. Expect net debt to fall to ~INR 24bn by FY25E from ~INR 30bn in FY22. Overall, stretched balance sheet may continue to be a challenge for any major capex projects, thus constraining growth.

### Valuations: Reiterate sell; TP raised to INR 197

In Q2FY23, ICEM was the only firm in Elara Cement universe to post a loss at the EBITDA level. Expect margin recovery to be lower than peers, near term. FY22 RoE was just ~1%, much lower than Elara Cement universe' average of ~11%. Expect future RoE to not only be below peers but also lower than the cost of capital on low margin, inefficient capital allocation, higher working capital and debt. Given higher presence in the surplus market of South India, profitability may be a function of price discipline in this region – Reiterate **Sell**. We retain FY23E/24E earnings but pare FY25E estimates ~2%. We roll over to December 2024E from September, with a raised TP of INR 197 from INR 189, on 9x (unchanged) December 2024E EV/EBITDA.

## Rating: Sell

Target Price: INR 197

Downside: 21%

CMP: INR 249 (as on 6 December 2022)

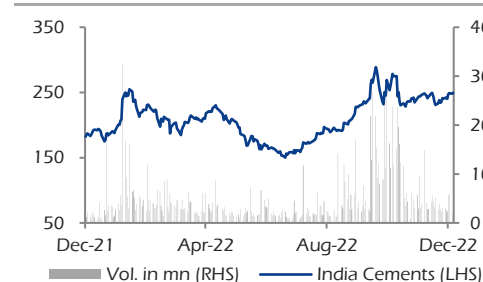
### Key data\*

Bloomberg /Reuters Code	ICEM IN/ICMN.BO
Current /Dil. Shares O/S (mn)	310/310
Mkt Cap (INR bn/USD mn)	77/936
Daily Volume (3M NSE Avg)	7,799,680
Face Value (INR)	10

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	28.4	28.4	28.4	28.4
Institutional Investors	21.1	22.1	21.1	23.4
Other Investors	12.2	12.0	12.3	12.4
General Public	38.3	37.5	38.2	35.8

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
India Cements	7.2	50.7	36.0
UltraTech Cement	11.5	29.8	0.4
ACC	12.5	22.6	18.2

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/ tonne (USD)	EV/EBITDA (x)
FY22	45,480	5.5	4,843	10.6	785	(62.1)	2.5	1.3	98.5	87	22.2
FY23E	57,340	26.1	2,314	4.0	(266)	-	(0.9)	(0.5)	-	85	45.9
FY24E	63,113	10.1	8,451	13.4	3,428	-	11.1	5.7	22.5	85	12.5
FY25E	66,266	5.0	9,275	14.0	4,036	17.7	72.0	6.4	19.1	82	10.9

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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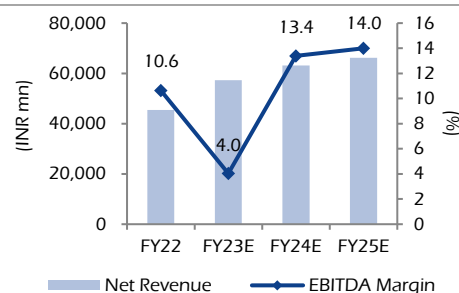
Elara Securities (India) Private Limited

Consolidated Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	45,480	57,340	63,113	66,266
<b>Operating profit</b>	1,739	582	6,635	7,477
Add:- Other operating Income	3,104	1,731	1,816	1,798
<b>EBITDA</b>	<b>4,843</b>	<b>2,314</b>	<b>8,451</b>	<b>9,275</b>
Add:- Other Income	244	305	398	308
Less :- Depreciation & Amortization	2,255	2,215	2,248	2,285
<b>EBIT</b>	<b>2,831</b>	<b>403</b>	<b>6,602</b>	<b>7,297</b>
Less:- Interest Expenses	1,977	2,272	2,400	2,285
<b>PBT</b>	<b>855</b>	<b>2,525</b>	<b>4,202</b>	<b>5,012</b>
Less :- Taxes	195	(536)	962	1,164
<b>Reported PAT</b>	660	3,061	3,240	3,848
Minority Interest	125	188	188	188
<b>Reported PAT after Minority Interest</b>	<b>785</b>	<b>3,249</b>	<b>3,428</b>	<b>4,036</b>
<b>Adjusted PAT</b>	<b>785</b>	<b>(266)</b>	<b>3,428</b>	<b>4,036</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	3,099	3,099	3,099	3,099
Reserves	56,371	55,592	58,522	62,061
Minority Interest	763	739	715	691
Borrowings	30,856	31,856	30,256	29,056
Deferred Tax (Net)	5,308	5,551	5,551	5,551
Other liabilities	8,194	8,696	9,232	9,805
<b>Total Liabilities</b>	<b>104,592</b>	<b>105,533</b>	<b>107,375</b>	<b>110,263</b>
Gross Block	86,825	85,238	87,238	89,038
Less:- Accumulated Depreciation	17,828	20,043	22,291	24,576
<b>Net Block</b>	<b>68,997</b>	<b>65,194</b>	<b>64,947</b>	<b>64,462</b>
Add:- Capital work in progress	3,860	4,360	4,560	4,760
Non current investments	4,044	4,044	4,044	4,044
Net Working Capital	9,075	11,116	12,269	12,525
Cash & current investments	503	2,900	2,021	4,838
Other assets	18,114	17,919	19,535	19,635
<b>Total Assets</b>	<b>104,592</b>	<b>105,533</b>	<b>107,375</b>	<b>110,263</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Operating profit before working capital changes	4,402	7,486	7,489	8,111
Add/Less: Working Capital Changes	(5,651)	(2,042)	(1,153)	(256)
Operating Cash Flow	(1,248)	5,445	6,336	7,855
Less:- Capex	(3,277)	1,087	(2,200)	(2,000)
Free Cash Flow	(4,526)	6,532	4,136	5,855
Financing Cash Flow	5,641	(4,634)	(3,798)	(3,246)
<b>Investing Cash Flow</b>	<b>(1,054)</b>	<b>530</b>	<b>(1,217)</b>	<b>208</b>
<b>Net change in Cash</b>	<b>62</b>	<b>2,427</b>	<b>(879)</b>	<b>2,817</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	5.5	26.1	10.1	5.0
EBITDA Growth	(38.5)	(52.2)	265.3	9.7
Adj. PAT Growth	(62.1)	-	-	17.7
EBITDA Margin	10.6	4.0	13.4	14.0
Adj. Net Margin	1.7	(0.5)	5.4	6.1
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.5	0.5	0.5	0.4
ROE (%)	1.3	(0.5)	5.7	6.4
ROCE (%)	2.8	0.4	6.2	6.7
<b>Per Share data &amp; Valuation Ratios</b>				
Adjusted EPS (INR/Share)	2.5	(0.9)	11.1	13.0
EPS Growth (%)	(62.1)	-	-	17.7
DPS (INR/Share)	1.0	1.0	1.0	1.0
P/E Ratio (x)	98.5	-	22.5	19.1
EV/EBITDA (x)	22.2	45.9	12.5	10.9
EV/Sales (x)	2.4	1.9	1.7	1.5
EV per tonne (USD)	87	85	85	82
Dividend Yield (%)	0.4	0.4	0.4	0.4

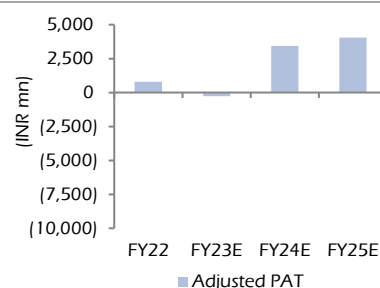
Note: Pricing as on 6 December 2022, Source: Company, Elara Securities Estimate

Revenue & margin growth trend



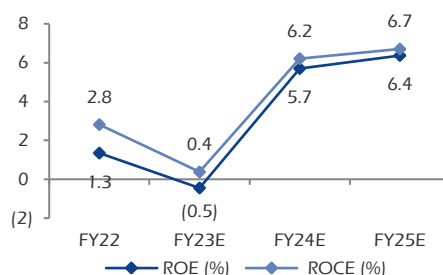
Source: Company, Elara Securities Estimate

Adjusted profit trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

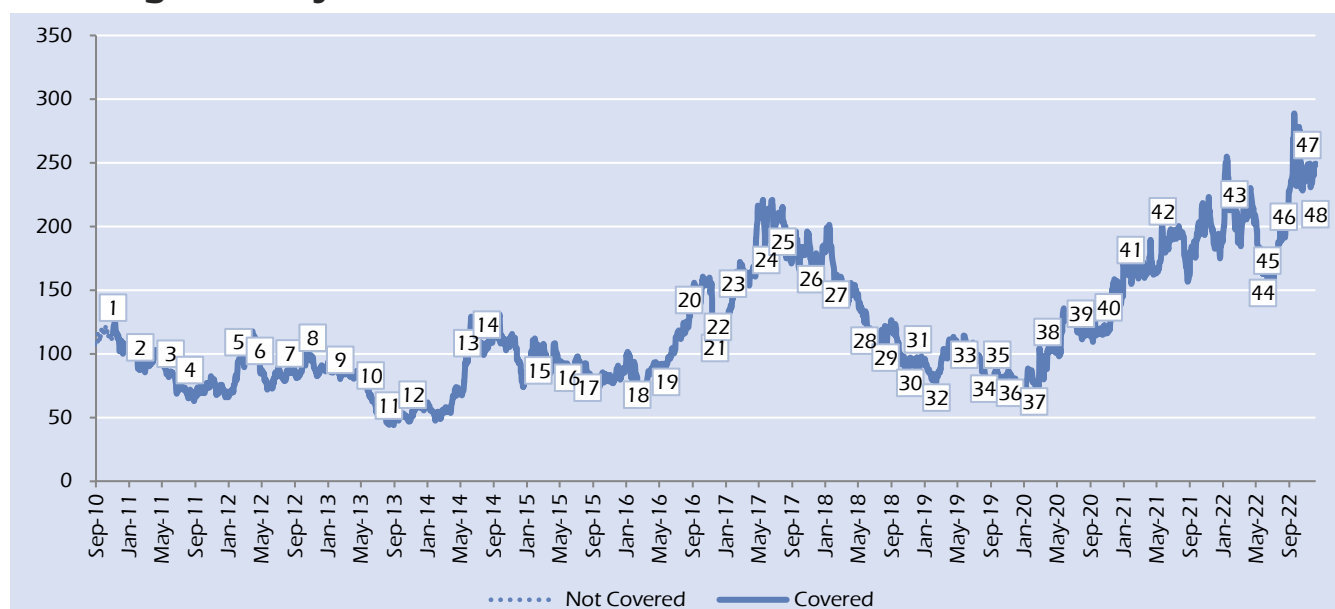


**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Var (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	57,340	63,113	68,173	57,340	63,113	66,266	-	-	(2.8)
EBITDA	2,314	8,451	9,399	2,314	8,451	9,275	-	-	(1.3)
PAT	(266)	3,428	4,129	(266)	3,428	4,036	-	-	(2.3)
<b>Target price (INR)</b>	<b>189</b>			<b>197</b>			<b>4.1</b>		

Source: Elara securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
32 13-Feb-2019	Accumulate	INR 91	INR 80
33 27-May-2019	Accumulate	INR 132	INR 114
34 7-Aug-2019	Accumulate	INR 101	INR 87
35 25-Sep-2019	Accumulate	INR 98	INR 84
36 11-Nov-2019	Accumulate	INR 92	INR 84
37 7-Feb-2020	Accumulate	INR 90	INR 77
38 27-Mar-2020	Sell	INR 73	INR 102
39 27-Jul-2020	Sell	INR 83	INR 116
40 6-Nov-2020	Sell	INR 89	INR 121
41 27-Jan-2021	Sell	INR 131	INR 166
42 24-May-2021	Sell	INR 164	INR 197
43 11-Feb-2022	Sell	INR 171	INR 210
44 27-May-2022	Reduce	INR 158	INR 163
45 16-Jun-2022	Sell	INR 146	INR 153
46 12-Aug-2022	Sell	INR 169	INR 193
47 7-Nov-2022	Sell	INR 189	INR 249
48 6-Dec-2022	Sell	INR 197	INR 249

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# Birla Corporation

## Awaiting incentive benefits

### Capacity expansion target at 30mn tonnes by CY30

Birla Corporation (BCORP IN) expanded its total cement capacity to ~20mn tonnes in FY22, via spiking clinker capacity ~0.5-0.6mn tonnes at Chanderia, Rajasthan in October 2021 and through 3.9mn tonnes expansion at Mukutban, Maharashtra in Q4FY22. BCORP is set to add 0.7mn tonnes brownfield grinding unit at Kundanganj (Uttar Pradesh) and 1.2mn tonnes new grinding unit at Gaya (Bihar). Also, BCORP aims to augment capacity to 30mn tonnes by CY30.

### Cost saving efforts underway

The Mukutban unit is expected to enjoy fiscal incentives and better consumption norms. BCORP may book incentives in P&L from FY24. Also, it has a 40MW captive power plant, a 10.6MW WHR; another 9MW WHR may be added at the same location. In FY22, green power share (solar/WHR) rose to ~22%, from ~19% in FY21. Expect gradual rise in low-cost green power share to bode well. Concurrently, cost saving efforts – 1) start of Maharashtra-based Persoda mine near Mukutban, next year and 2) start of the recently secured Madhya Pradesh-based new coal mine in FY25-26 – may prop cost optimization efforts.

### Foraying into West India

Currently, BCORP's ~68% capacity (~47%/~21% in Central/North India) is in demand- and price-accretive markets. Alternatively, while volatile pricing is a challenge in East India, strong demand prospects augur well. Also, recently added Maharashtra unit will prop presence in the state.

### Strategic shift to premiumization

BCORP has gradually shifted focus to premiumization, by launching premium brands and gaining market share in the premium category. Thus, the share of premium products surged to ~51% in FY22 from ~40% in FY20 – among the highest within listed cement firms. Also, its trade share was at ~79% as on FY22. We believe higher trade and premium product share should continue to prop performance.

### Valuations: Reiterate Accumulate; TP at INR 1,138

Volume outlook is robust given the start of the busy construction season and a steady utilization rise in the recently-added capacity. Margin bottomed in Q2FY23 and may recoup, on: 1) easing off of fuel price, 2) operating cost fall in Maharashtra-based capacity with further stabilization, 3) focus on spiking captive coal use, 4) rising share of renewable power and 5) GST incentive receipt from FY24. We retain FY23E/24E earnings, but trim FY25E estimates ~5%. We roll over to December 2024E from September with TP unchanged at INR 1,138, on 8x (unchanged) December 2024E EV/EBITDA – Reiterate Accumulate.

## Rating: Accumulate

Target Price: INR 1,138

Upside: 18%

CMP: INR 962 (as on 6 December 2022)

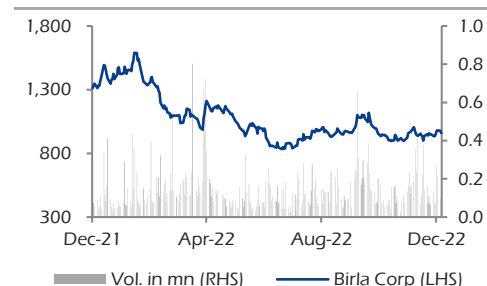
### Key data\*

Bloomberg /Reuters Code	BCORP IN/BRLC.BO
Current /Dil. Shares O/S (mn)	77/77
Mkt Cap (INR bn/USD mn)	74/897
Daily Vol. (3M NSE Avg.)	11,961
Face Value (INR)	10

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	62.9	62.9	62.9	62.9
Institutional Investors	20.0	20.5	20.4	20.1
Other Investors	4.7	4.8	5.1	5.0
General Public	12.4	11.8	11.6	12.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Birla Corporation	(5.6)	9.0	(26.7)
Prism Johnson	(3.7)	12.9	(1.0)
Heidelberg Cement	12.2	12.3	(7.6)

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/ton (USD)	EV/EBITDA (x)
FY22	72,883	10.5	11,106	15.2	4,212	(23.1)	54.7	7.3	17.6	68	9.8
FY23E	84,488	15.9	7,398	8.8	702	(83.3)	9.1	1.2	105.5	67	15.0
FY24E	98,889	17.0	14,314	14.5	5,728	716.0	74.4	9.1	12.9	65	7.5
FY25E	103,726	4.9	15,008	14.5	6,299	10.0	81.8	9.3	11.8	63	6.9

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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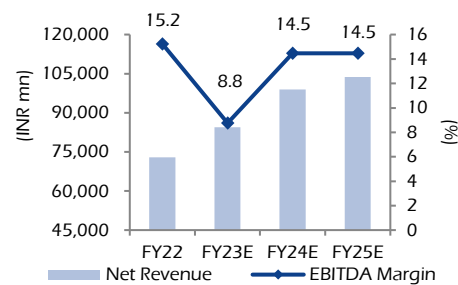
Elara Securities (India) Private Limited

## Consolidated Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	72,883	84,488	98,889	103,726
<b>Operating profit</b>	<b>9,371</b>	<b>6,180</b>	<b>12,724</b>	<b>13,297</b>
Add:- Other operating Income	1,735	1,218	1,590	1,711
<b>EBITDA</b>	<b>11,106</b>	<b>7,398</b>	<b>14,314</b>	<b>15,008</b>
Add:- Other Income	988	1,185	1,191	1,197
Less :- Depreciation & Amortization	3,969	4,568	4,706	4,717
<b>EBIT</b>	<b>8,124</b>	<b>4,015</b>	<b>10,799</b>	<b>11,489</b>
Less:- Interest Expenses	2,427	3,072	3,162	3,090
<b>PBT</b>	<b>5,383</b>	<b>827</b>	<b>7,637</b>	<b>8,399</b>
Less:- Taxes	1,392	207	1,909	2,100
<b>Reported PAT</b>	<b>3,992</b>	<b>620</b>	<b>5,728</b>	<b>6,299</b>
<b>Reported PAT after Minority Interest</b>	<b>3,992</b>	<b>620</b>	<b>5,728</b>	<b>6,299</b>
<b>Adjusted PAT</b>	<b>4,212</b>	<b>702</b>	<b>5,728</b>	<b>6,299</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	770	770	770	770
Reserves	59,718	59,574	64,378	69,753
Minority Interest	0.4	0.4	0.4	0.4
Borrowings	42,080	45,680	44,655	43,630
Deferred Tax (Net)	9,722	9,819	9,328	7,929
Other liabilities	9,051	8,967	8,607	8,265
<b>Total Liabilities</b>	<b>121,343</b>	<b>124,812</b>	<b>127,740</b>	<b>130,348</b>
Gross Block	97,562	101,062	103,562	106,062
Less:- Accumulated Depreciation	21,780	26,349	31,055	35,771
<b>Net Block</b>	<b>75,782</b>	<b>74,714</b>	<b>72,507</b>	<b>70,291</b>
Add:- Capital work in progress	25,493	25,993	26,493	26,993
Non current investments	4,077	4,077	4,077	4,077
Net Working Capital	4,092	6,431	8,219	9,622
Cash & current investments	7,396	8,644	10,996	13,428
Other assets	4,502	4,952	5,447	5,937
<b>Total Assets</b>	<b>121,343</b>	<b>124,812</b>	<b>127,740</b>	<b>130,348</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Operating profit before working capital changes	10,454	7,172	11,914	11,509
Add/Less: Working Capital Changes	354	(2,339)	(1,788)	(1,403)
Operating Cash Flow	10,808	4,833	10,125	10,106
Less:- Capex	(10,962)	(4,000)	(3,000)	(3,000)
Free Cash Flow	(154)	833	7,125	7,106
Financing Cash Flow	742	(320)	(5,471)	(5,381)
<b>Investing Cash Flow</b>	<b>(981)</b>	<b>735</b>	<b>696</b>	<b>707</b>
<b>Net change in Cash</b>	<b>(393)</b>	<b>1,248</b>	<b>2,351</b>	<b>2,432</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	10.5	15.9	17.0	4.9
EBITDA Growth	(18.9)	(33.4)	93.5	4.9
Adj. PAT Growth	(23.1)	(83.3)	716.0	10.0
EBITDA Margin	15.2	8.8	14.5	14.5
Adj. Net Margin	5.8	0.8	5.8	6.1
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.6	0.6	0.5	0.4
ROE (%)	7.3	1.2	9.1	9.3
ROCE (%)	6.9	3.3	8.6	8.9
<b>Per Share data &amp; Valuation Ratios</b>				
Adjusted EPS (INR/Share)	54.7	9.1	74.4	81.8
EPS Growth (%)	(23.1)	(83.3)	716.0	10.0
DPS (INR/Share)	10.0	12.0	12.0	12.0
P/E Ratio (x)	17.6	105.5	12.9	11.8
EV/EBITDA (x)	9.8	15.0	7.5	6.9
EV/Sales (x)	1.5	1.3	1.1	1.0
EV per tonne (USD)	68	67	65	63

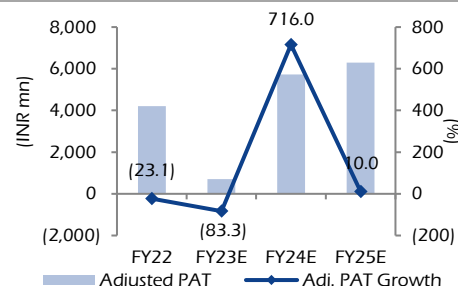
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

## Revenue &amp; margin growth trend



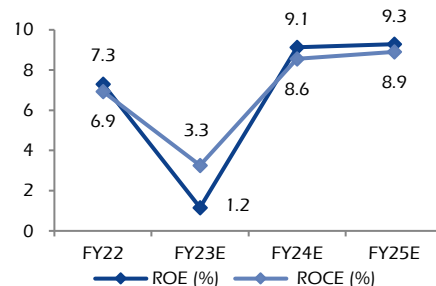
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios



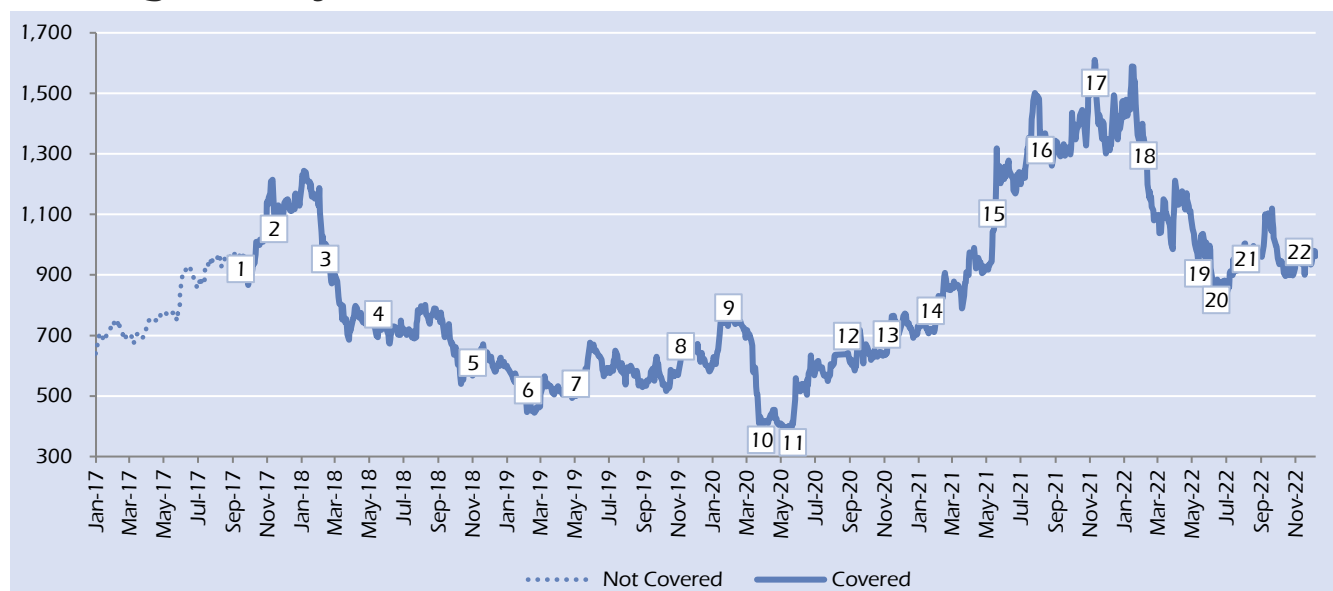
Source: Company, Elara Securities Estimate

**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Var (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	84,488	98,889	106,623	84,488	98,889	103,726	-	-	(2.7)
EBITDA	7,398	14,314	15,482	7,398	14,314	15,008	-	-	(3.1)
PAT	702	5,728	6,655	702	5,728	6,299	-	-	(5.3)

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
6 7-Feb-2019	Buy	INR 800	INR 478
7 3-May-2019	Buy	INR 810	INR 497
8 5-Nov-2019	Buy	INR 910	INR 625
9 29-Jan-2020	Buy	INR 951	INR 751
10 27-Mar-2020	Buy	INR 631	INR 414
11 22-May-2020	Buy	INR 602	INR 407
12 7-Aug-2020	Buy	INR 782	INR 653
13 5-Nov-2020	Buy	INR 850	INR 644
14 22-Jan-2021	Buy	INR 878	INR 721
15 12-May-2021	Accumulate	INR 1,198	INR 1,043
16 5-Aug-2021	Accumulate	INR 1,603	INR 1,382
17 10-Nov-2021	Accumulate	INR 1,758	INR 1,589
18 4-Feb-2022	Buy	INR 1,671	INR 1,353
19 12-May-2022	Buy	INR 1,362	INR 935
20 16-Jun-2022	Accumulate	INR 947	INR 853
21 5-Aug-2022	Accumulate	INR 1087	INR 992
22 7-Nov-2022	Accumulate	INR 1,138	INR 1,006

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



# Prism Johnson

## Market strategy rejigged

### Supply agreements to improve presence

Prism Johnson's (PRSMJ IN) cement division is set to bolster its presence in Uttar Pradesh/Bihar, led by recent supply agreements with: 1) Mayflex Cement Industries Private (~0.3mn tonnes capacity at Faizabad, Uttar Pradesh, 2) R L J Infracement Private (~0.3mn tonnes capacity at Mirzapur, Uttar Pradesh) and 3) Rockhill Hi-Tech Cement Private (~0.22mn tonnes capacity in Patna, Bihar). This should enable PRSMJ to service markets better without incremental investment.

### FY22-25E tiles volume CAGR ~8%

In FY22, PRSMJ raised tiles capacity by ~4mn sqm, taking the total to ~64mn sqm. But recently it shut down its 3.9mn sqm tiles unit in a JV. It is adding 1.2mn sqm capacity in another JV in Gujarat. Also, work on the previously announced 5.5mn sqm tile expansion in West Bengal is progressing well and may likely be completed by June 2023. Post completion, the tiles capacity will rise from current ~60mn sqm to ~67mn sqm by FY24E. Expect FY22-25E tiles volume CAGR of ~8%.

### FY22-25E margin to expand ~100bp

While near-term macro challenges led by significant input price rise may likely drag FY23 margin, expect margin to recover post FY23. Amid the sharp fuel price rise, access to ~22MW WHR/solar capacity each and new investment in adding ~24MW wind power capacity may help the cement division cap operating costs. Also, strong premiumization focus, with rise in premium product share to 31.9% as of Q2FY23 from ~15% in FY18 bode well for the cement division. Further, the strategy of closing loss-making tiles units, focus on improving operating leverage and brand building initiatives may positively impact the performance of tiles, bath and kitchen (TBK) division. Expect EBITDA margin to expand to ~10% by FY25E after dropping to 6.5% in FY23E, from 8.5% in FY22.

### Valuations: Reiterate Accumulate; new TP at INR 143

Expect healthy volume revival for cement, TBK and RMC divisions led by better demand. Also, access to new cement capacity via recent arrangements and completion of ongoing tiles capacity addition projects bode well for volume prospects. Softening of fuel prices should ease cost strain from December and focus on improving product mix as also rising utilization should prop performance of all the three divisions.

Expect RoE to rise to 19.3% by FY25E from 6.7% in FY22. We largely retain FY23E/24E earnings, but trim FY25E estimates ~11% – Reiterate **Accumulate** with new SoTP-TP of INR 143 (from INR 147), valuing the cement business on 9x (unchanged) December 2024E EV/EBITDA and other businesses at 12x (unchanged) December 2024E EV/EBITDA.

## Rating: Accumulate

Target Price: INR 143

Upside: 16%

CMP: INR 123 (as on 6 December 2022)

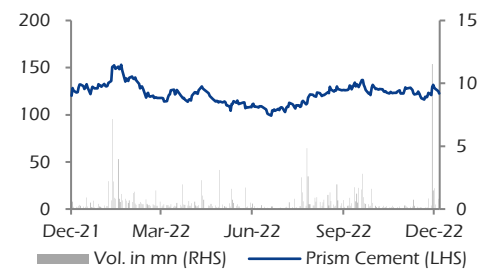
### Key data\*

Bloomberg /Reuters Code	PRSMJ IN/PRIS.BO
Current /Dil. Shares O/S (mn)	503/503
Mkt Cap (INR bn/USD mn)	62/747
Daily Vol. (3M NSE Avg.)	524,362
Face Value (INR)	10

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	74.9	74.9	74.9	74.9
Institutional Investors	10.3	9.5	8.8	7.8
Other Investors	3.7	4.2	4.3	5.3
General Public	11.1	11.4	12.0	12.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Prism Johnson	(3.7)	12.9	(1.0)
Heidelberg Cement	12.2	12.3	(7.6)
Birla Corp	(5.6)	9.0	(26.7)

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA Margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/EBITDA (x)
March										
FY22	61,292	11.5	5,232	8.5	855	(28.6)	1.7	6.7	72.1	14.0
FY23E	72,207	17.8	4,662	6.5	416	(51.3)	0.8	3.1	148.1	16.0
FY24E	79,979	10.8	7,116	8.9	2,344	463.0	4.7	16.3	26.3	10.3
FY25E	85,808	7.3	8,299	9.7	3,215	37.1	6.4	19.3	19.2	8.4

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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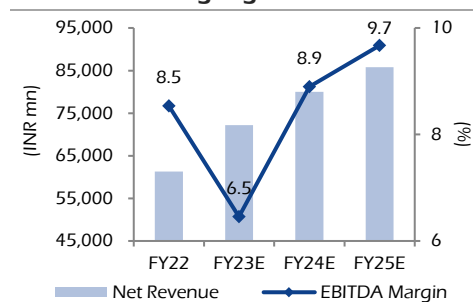
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## Consolidated Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	61,292	72,207	79,979	85,808
<b>Operating profit</b>	<b>3,460</b>	<b>3,463</b>	<b>5,893</b>	<b>7,052</b>
Add:- Other operating Income	1,772	1,199	1,223	1,247
<b>EBITDA</b>	<b>5,232</b>	<b>4,662</b>	<b>7,116</b>	<b>8,299</b>
Less:- Depreciation & Amortization	3,097	3,667	3,842	4,160
Add: Other income	397	298	312	325
<b>EBIT</b>	<b>2,532</b>	<b>1,292</b>	<b>3,586</b>	<b>4,465</b>
Less:- Interest Expenses	1,851	1,708	1,498	1,264
Add/Less: - Extra-ordinaries	159	89	94	95
<b>PBT</b>	<b>839</b>	<b>(326)</b>	<b>2,182</b>	<b>3,296</b>
Less:- Taxes	400	(82)	546	824
<b>Reported PAT</b>	<b>439</b>	<b>(245)</b>	<b>1,637</b>	<b>2,472</b>
Minority interest	478	661	707	743
<b>Reported PAT after Minority Interest</b>	<b>918</b>	<b>416</b>	<b>2,344</b>	<b>3,215</b>
<b>Adjusted PAT after Minority Interest</b>	<b>855</b>	<b>416</b>	<b>2,344</b>	<b>3,215</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	5,034	5,034	5,034	5,034
Reserves	8,197	8,396	10,237	12,948
Minority Interest	2,725	2,725	2,725	2,725
Borrowings	15,599	13,599	11,999	9,599
Deferred Tax (Net)	983	934	952	971
Other liabilities	7,840	7,922	8,004	8,165
<b>Total Liabilities</b>	<b>40,377</b>	<b>38,609</b>	<b>38,952</b>	<b>39,442</b>
Gross Block	44,020	46,520	53,270	54,770
Less:- Accumulated Depreciation	14,545	18,212	22,054	26,213
<b>Net Block</b>	<b>29,475</b>	<b>28,308</b>	<b>31,216</b>	<b>28,557</b>
Add:- Capital work in progress	2,041	3,291	291	1,291
Non-current investments	7,970	7,970	7,970	7,970
Net Working Capital	(5,910)	(4,367)	(3,851)	(2,867)
Cash & current investments	4,113	673	545	1,664
Other assets	2,689	2,734	2,780	2,828
<b>Total Assets</b>	<b>40,377</b>	<b>38,609</b>	<b>38,952</b>	<b>39,442</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	5,362	4,784	6,683	7,589
Add/Less: Working Capital Changes	(566)	(1,544)	(516)	(984)
Operating Cash Flow	4,796	3,240	6,166	6,606
Less:- Capex	(4,051)	(3,750)	(3,750)	(2,500)
Free Cash Flow	745	(510)	2,416	4,106
Financing Cash Flow	(2,725)	(3,182)	(2,811)	(3,264)
Investing Cash Flow	274	252	266	278
Net change in Cash	<b>(1,706)</b>	<b>(3,440)</b>	<b>(128)</b>	<b>1,119</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	11.5	17.8	10.8	7.3
EBITDA Growth	(15.9)	(10.9)	52.6	16.6
Adj. PAT Growth	(28.6)	(51.3)	463.0	37.1
EBITDA Margin	8.5	6.5	8.9	9.7
Adj. Net Margin	1.4	0.6	2.9	3.7
<b>Return &amp; Liquidity Ratios (%)</b>				
Net Debt/Equity (x)	0.9	1.0	0.8	0.4
ROE	6.7	3.1	16.3	19.3
ROCE	6.3	3.3	9.2	11.4
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (INR/Share)	1.7	0.8	4.7	6.4
EPS Growth (%)	(28.6)	(51.3)	463.0	37.1
DPS (INR/Share)	0.0	0.5	1.0	1.0
P/E Ratio (x)	72.1	148.1	26.3	19.2
EV/EBITDA (x)	14.0	16.0	10.3	8.4
EV per tonne (USD)	88	102	77	61
Dividend Yield (%)	0.0	0.4	0.8	0.8

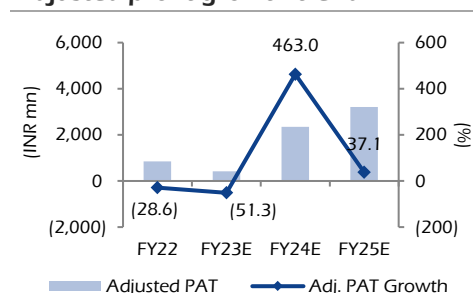
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



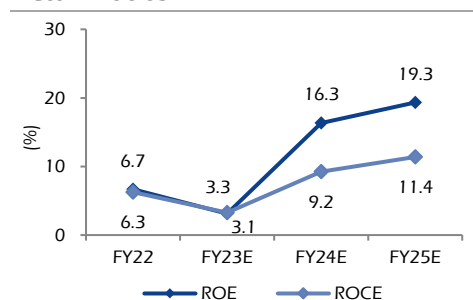
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

**Exhibit 1: SoTP valuations**

(INR mn)	December 2024E
Cement EBITDA	5,162
Target multiple (x)	9.0
<b>Target EV-A</b>	<b>46,459</b>
Non cement EBITDA	2,841
Target multiple (x)	12.0
<b>Target EV-B</b>	<b>34,097</b>
<b>Total EV- (A+B)</b>	<b>80,556</b>
Net debt	8,815
<b>Target market cap</b>	<b>71,741</b>
Shares (mn)	503
<b>TP (INR)</b>	<b>143</b>
CMP (INR)	123
<b>Upside (%)</b>	<b>16.3</b>

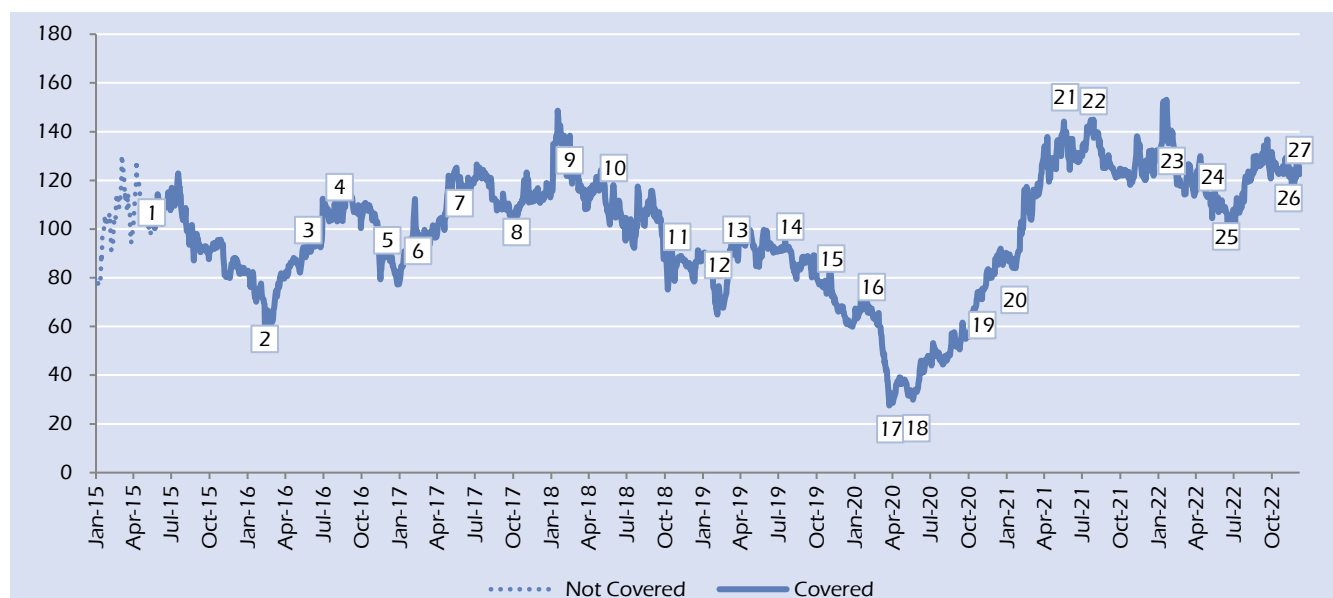
Source: Elara Securities Estimate

**Exhibit 2: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	72,207	79,979	87,094	72,207	79,979	85,808	0.0	0.0	(1.5)
EBITDA	4,662	7,116	8,806	4,662	7,116	8,299	0.0	0.0	(5.7)
PAT	416	2,344	3,594	416	2,344	3,215	0.0	0.0	(10.6)
<b>Target price (INR)</b>			<b>147</b>			<b>143</b>			<b>(2.7)</b>

Source: Elara Securities Estimate

## Coverage History



Date	Rating	Target Price	Closing Price
12 6-Feb-2019	Buy	INR 129	INR 75
13 22-Mar-2019	Buy	INR 132	INR 90
14 30-Jul-2019	Buy	INR 126	INR 92
15 5-Nov-2019	Buy	INR 120	INR 78
16 11-Feb-2020	Buy	INR 100	INR 66
17 27-Mar-2020	Buy	INR 61	INR 33
18 28-May-2020	Buy	INR 59	INR 33
19 3-Nov-2020	Buy	INR 92	INR 76
20 28-Jan-2021	Buy	INR 114	INR 90
21 21-May-2021	Buy	INR 182	INR 139
22 29-Jul-2021	Buy	INR 186	INR 138
23 2-Feb-2022	Buy	INR 182	INR 138
24 11-May-2022	Buy	INR 172	INR 111
25 16-Jun-2022	Buy	INR 147	INR 101
26 10-Nov-2022	Accumulate	INR 147	INR 123
27 6-Dec-2022	Accumulate	INR 143	INR 123

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# HeidelbergCement

## Carving its niche

### Premium product sales at ~55%

HeidelbergCement (HEIM IN) enjoys strong brand equity in its serving markets of Central India and is poised as a premium brand, led by ~80% trade sales. HEIM has been continuously spiking its share of premium products. Thus, its premium cement share surged to ~55% in Q2FY23 from ~21% in FY22. We believe, continued premiumization focus bodes well – Expect FY22-25E realization CAGR at ~5%.

### Carbon footprint cut: Green power share to be 35-40% by FY25

HEIM has come a long way on the green power front. Some key measures taken in the past few years are: 1) fulfilling ~40% power requirement of Damoh unit (Madhya Pradesh) via ~13MW WHR capacity, 2) sourcing >90% green power for Ammasandra (Karnataka) unit under long-term agreement, 3) ~15MW solar power supply to Jhansi unit (Uttar Pradesh) under long-term agreement and 4) recent addition of 5.5MW solar power capacity in its mining area at Damoh (Madhya Pradesh). HEIM's green power, as a percentage of total power, surged to ~23% in FY22 from ~9% in FY16. While HEIM targets to spike its green power share to 35-40% by FY25, it exhibited a marked improvement in H1FY23 alone, with ~34% share in Q2FY23.

### Merger with Zuari Cement, likely game-changer

Besides HEIM, the HeidelbergCement Group operates in India via its subsidiary, Zuari Cement (~7mn tonnes capacity; primarily operating in South India). With recent changes in the MMDR act, HEIM is considering related costs to complete the merger with Zuari Cement. We believe, any positive outcome may help HEIM accrue long-term benefits, led by: 1) combined capacity rising >2x to 14mn tonnes, 2) growth visibility – Required infrastructure already in place to expand combined capacity to 20mn tonnes from 14mn tonnes, 3) synergy benefits and 4) better tax management.

### Valuations: Reiterate Accumulate; TP raised to INR 225

Post a dismal Q2FY23, expect HEIM's performance to improve gradually in the upcoming quarters, on better demand, price uptick and easing cost strain, with dip in fuel prices. Also, factors such as higher exposure to the trade segment, constant premiumization focus and efforts to increase the share of green power bode well for future performance.

HEIM is likely to expand clinker/cement capacity ~0.3mn tonnes/0.45mn tonnes in phases by FY25, via debottlenecking – This may prop future volumes. While we largely retain FY23E/24E earnings, we trim FY25E earnings ~2%. As we roll over to December 2024E from September, we raise our TP to INR 225 from INR 218, on 8x (unchanged) December 2024E EV/EBITDA – Reiterate **Accumulate**.

## Rating: Accumulate

Target Price: INR 225

Upside: 9%

CMP: INR 207 (as on 6 December 2022)

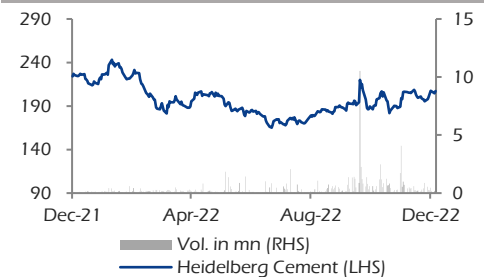
### Key data\*

Bloomberg /Reuters Code	HEIM IN/HEID.BO
Current /Dil. Shares O/S (mn)	227/227
Mkt Cap (INR bn/USD mn)	47/569
Daily Volume (3M NSE Avg)	731,939
Face Value (INR)	10

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	69.4	69.4	69.4	69.4
Institutional Investors	16.4	16.1	16.4	17.3
Other Investors	5.5	5.6	4.4	2.4
General Public	8.7	8.9	9.8	11.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Heidelberg Cement	12.2	12.3	(7.6)
Shree Cement	10.9	20.0	(6.3)
JK Lakshmi Cement	72.8	95.5	30.6
JK Cement	16.9	51.8	(3.5)

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA Margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV per ton (USD)	EV/EBITDA (x)
March											
FY22	22,426	7.2	4,346	19.4	2,523	(3.3)	11.1	16.5	18.6	90	10.4
FY23E	23,943	6.8	3,626	15.1	2,007	(20.5)	8.9	12.9	23.4	89	12.2
FY24E	26,387	10.2	5,201	19.7	3,299	64.4	14.6	20.5	14.2	85	8.2
FY25E	27,992	6.1	5,749	20.5	3,805	15.3	16.8	21.9	12.3	76	7.0

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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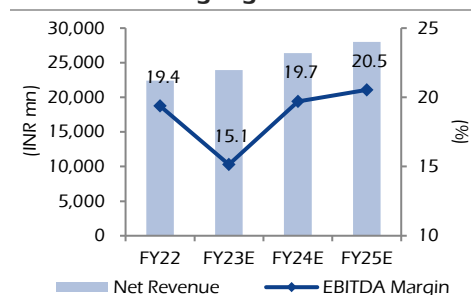
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	22,426	23,943	26,387	27,992
<b>Operating profit</b>	<b>3,802</b>	<b>3,300</b>	<b>4,977</b>	<b>5,521</b>
Add:- Other operating Income	543	326	224	229
<b>EBITDA</b>	<b>4,346</b>	<b>3,626</b>	<b>5,201</b>	<b>5,749</b>
Less:- Depreciation & Amortization	1,121	1,145	1,172	1,202
Add: Other income	491	494	602	684
<b>EBIT</b>	<b>3,716</b>	<b>2,975</b>	<b>4,631</b>	<b>5,231</b>
Less:- Interest Expenses	364	331	233	158
<b>PBT</b>	<b>3,351</b>	<b>2,549</b>	<b>4,398</b>	<b>5,073</b>
Less:- Taxes	829	637	1,100	1,268
<b>Reported PAT</b>	<b>2,523</b>	<b>1,912</b>	<b>3,299</b>	<b>3,805</b>
<b>Adjusted PAT</b>	<b>2,523</b>	<b>2,007</b>	<b>3,299</b>	<b>3,805</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	2,266	2,266	2,266	2,266
Reserves	13,386	13,259	14,416	15,728
Borrowings	1,902	1,802	1,302	802
Deferred Tax (Net)	2,175	2,241	2,308	2,377
Other liabilities	478	482	501	522
<b>Total Liabilities</b>	<b>20,208</b>	<b>20,050</b>	<b>20,794</b>	<b>21,695</b>
Gross Block	22,650	23,150	23,750	24,350
Less:- Accumulated Depreciation	7,031	8,176	9,349	10,551
<b>Net Block</b>	<b>15,618</b>	<b>14,973</b>	<b>14,401</b>	<b>13,798</b>
Add:- Capital work in progress	270	270	220	170
Net Working Capital	(10)	(45)	(25)	(34)
Cash & current investments	3,821	4,339	5,680	7,239
Other assets	460	465	469	474
<b>Total Assets</b>	<b>20,208</b>	<b>20,050</b>	<b>20,794</b>	<b>21,695</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	3,755	2,960	4,169	4,550
Add/Less: Working Capital Changes	(2,325)	35	(20)	9
Operating Cash Flow	1,430	2,995	4,149	4,560
Less:- Capex	(635)	(500)	(550)	(550)
Free Cash Flow	795	2,495	3,599	4,010
Financing Cash Flow	(3,391)	(2,466)	(2,855)	(3,130)
Investing Cash Flow	2,101	489	598	679
<b>Net change in Cash</b>	<b>(495)</b>	<b>518</b>	<b>1,341</b>	<b>1,559</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
Income Statement Ratios (%)				
Revenue Growth	7.2	6.8	10.2	6.1
EBITDA Growth	(14.2)	(16.5)	43.4	10.5
Adj. PAT Growth	(3.3)	(20.5)	64.4	15.3
EBITDA Margin	19.4	15.1	19.7	20.5
Adj. Net Margin	11.2	8.4	12.5	13.6
Return & Liquidity Ratios				
Net Debt/Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
ROE (%)	16.5	12.9	20.5	21.9
ROCE (%)	18.3	14.8	22.7	24.6
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	11.1	8.9	14.6	16.8
EPS Growth (%)	(3.3)	(20.5)	64.4	15.3
DPS (INR/Share)	9.0	9.5	11.0	12.0
P/E Ratio (x)	18.6	23.4	14.2	12.3
EV/EBITDA (x)	10.4	12.2	8.2	7.0
EV/Sales (x)	2.0	1.9	1.6	1.4
EV per tonne (USD)	90	89	85	76
P/BV(x)	3.1	3.0	2.9	2.7
Dividend Yield (%)	4.3	4.6	5.3	5.8

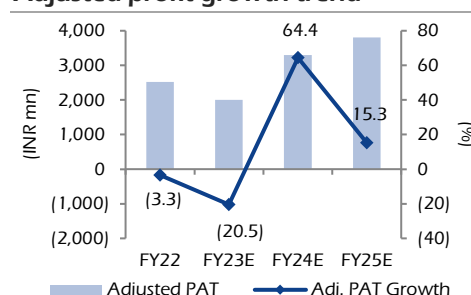
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



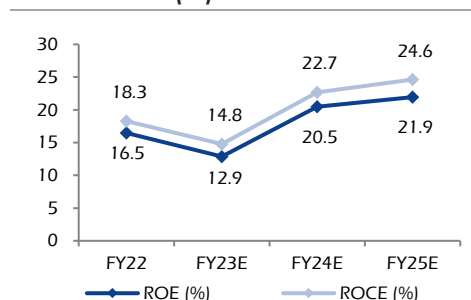
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios (%)



Source: Company, Elara Securities Estimate

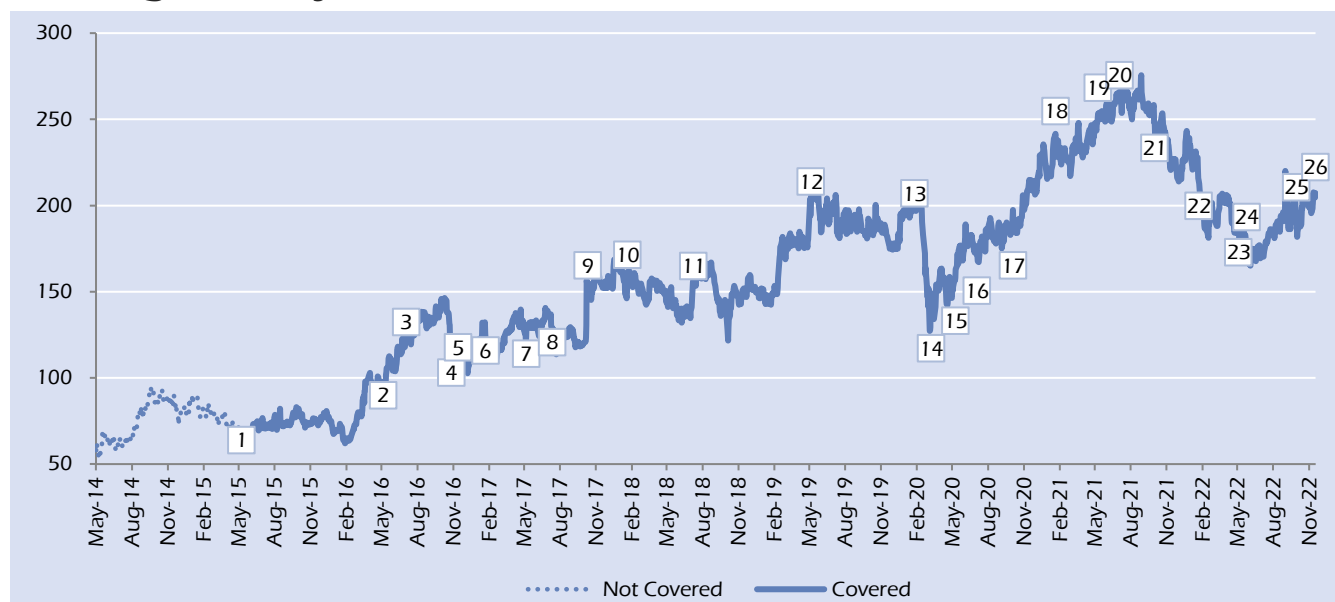
**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	23,943	26,387	28,810	23,943	26,387	27,992	-	-	(2.8)
EBITDA	3,626	5,201	5,877	3,626	5,201	5,749	-	-	(2.2)
PAT	2,007	3,299	3,899	2,007	3,299	3,805	-	-	(2.4)
<b>Target price (INR)</b>			<b>218</b>			<b>225</b>			<b>3.1</b>

Source: Elara Securities Estimate



## Coverage History



Date	Rating	Target Price	Closing Price
12 24-May-2019	Buy	INR 245	INR 204
13 13-Feb-2020	Buy	INR 247	INR 197
14 27-Mar-2020	Buy	INR 216	INR 142
15 28-May-2020	Buy	INR 206	INR 158
16 22-Jul-2020	Accumulate	INR 211	INR 182
17 23-Oct-2020	Accumulate	INR 217	INR 190
18 9-Feb-2021	Accumulate	INR 244	INR 230
19 28-May-2021	Accumulate	INR 277	INR 253
20 23-Jul-2021	Accumulate	INR 300	INR 261
21 20-Oct-2021	Buy	INR 301	INR 248
22 10-Feb-2022	Buy	INR 272	INR 215
23 23-May-2022	Buy	INR 234	INR 188
24 16-Jun-2022	Buy	INR 218	INR 174
25 18-Oct-2022	Accumulate	INR 218	INR 196
26 6-Dec-2022	Accumulate	INR 225	INR 207

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

# Star Cement

## Firmly placed in North-East

**Growth engine: Capacity to rise ~ 1.7x through FY22-25E**

Star Cement (STRCEM IN) is expected to incur a total capex of ~INR 22bn towards: 1) a 3.0mn-tonnes clinker unit in Meghalaya and ~12MW WHR capacity (~INR 13bn; expected timeline, December 2023 or January 2024); 2) 2.0mn-tonnes brownfield expansion at Guwahati, Assam (~INR 4.0bn; expected timeline, October 2023) and 3) 2.0mn-tonnes grinding unit at Silchar, Assam (~INR 4.5-4.7bn; expected timeline, June 2024). Post completion, STRCEM's cement capacity may rise to 9.7mn tonnes by FY25E from 5.7mn tonnes in FY22. Such expansions may strengthen presence in existing markets – Expect FY22-25E volume CAGR of ~10%.

### North-East/East India to witness healthy demand

The government's continued focus on infrastructure development in the North-East should be a key demand driver for the region. Also, strong retail participation and healthy traction in government-backed projects (led by pre-election spending) should bolster demand in East India. STRCEM, with +23% market share, features among the top-two firms in the North-East. Further, commissioning of West Bengal-based 2mn-tonnes grinding unit has strengthened STRCEM's presence in East India (mainly in West Bengal/Bihar), in the past few quarters. STRCEM is set to be a key beneficiary of future opportunities.

### Multiple cost levers: Proximity to raw material, lower logistics cost

STRCEM's captive limestone mines are located within 2-3km radius from the plant, ensuring smooth raw material supply and lower logistics cost. Also, plant proximity to key serving markets of the North-East/East India, with strong distribution network, offers locational advantage, enabling efficient customer service. Adding two WHR capacities (~12MW each) may enable cost savings.

### Valuations: Reiterate Accumulate; TP at INR 115

Expect STRCEM's fuel cost to be elevated, near term, due to buying of high-cost coal at spot prices on limited availability of low-cost coal under the fuel supply agreement. But the consequent negative impact should be partly offset by the expected strengthening of demand/price in its serving markets.

Further, utilization ramp-up in the West Bengal unit bodes well for near-term volume and completion of announced growth capex should prop volume growth. Expected savings post the start of the upcoming WHR capacity, gradual rise in availability of low-cost coal and focus on other cost-saving measures should enable long-term cost optimization. Maintain **Accumulate** with a TP of INR 115, on 9x (unchanged) December 2024E EV/EBITDA.

## Rating: Accumulate

**Target Price: INR 115**

**Upside: 4%**

CMP: INR 110 (as on 6 December 2022)

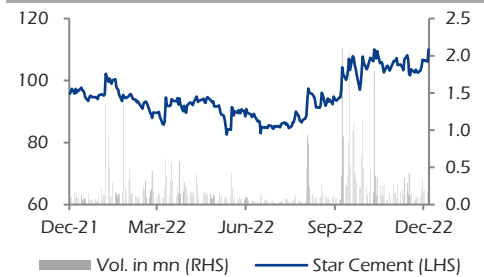
### Key data\*

Bloomberg/Reuters code	STRCEM IN/STATTABO
Current /Dil. Shares O/S (mn)	412/412
Mkt Cap (INR bn/USD mn)	44/539
Daily Volume (3M NSE Avg)	24,175
Face Value (INR)	1

**1 USD = INR 82.6**

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	67.1	67.3	67.4	67.4
Institutional Investors	6.5	6.4	6.4	6.5
Other Investors	10.3	10.3	10.3	10.8
General Public	16.1	16.0	15.9	15.3

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Star Cement	16.5	23.6	14.9
ACC	12.5	22.6	18.2
Ambuja	33.1	59.2	57.0

Source: Bloomberg

Key Financials											
YE	Revenue	YoY	EBITDA	EBITDA	Adj PAT	YoY	Fully DEPS	RoE	P/E	EV per ton	EV/EBITDA
March	(INR mn)	(%)	(INR mn)	margin (%)	(INR mn)	(%)	(INR)	(%)	(x)	(USD)	(x)
FY22	22,187	29.1	3,453	15.6	2,468	0.6	6.1	11.6	18.0	86	11.3
FY23E	26,998	21.7	4,403	16.3	2,230	(9.6)	5.5	9.8	19.9	91	9.4
FY24E	29,047	7.6	5,150	17.7	2,453	10.0	6.1	9.8	18.1	81	9.7
FY25E	32,012	10.2	5,949	18.6	2,374	(3.2)	5.9	8.6	18.7	64	8.3

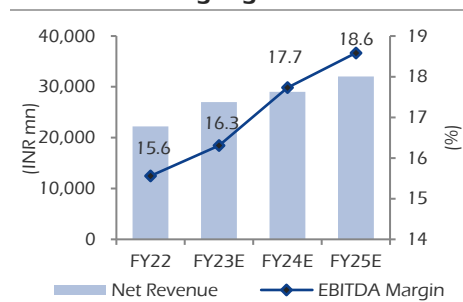
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

### Consolidated Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	22,187	26,998	29,047	32,012
Operating profit	3,422	4,367	5,112	5,908
Add:- Other operating Income	31	36	38	41
<b>EBITDA</b>	<b>3,453</b>	<b>4,403</b>	<b>5,150</b>	<b>5,949</b>
Add:- Other Income	334	467	472	477
Less :- Depreciation & Amortization	1,216	1,357	1,526	2,239
<b>EBIT</b>	<b>2,570</b>	<b>3,513</b>	<b>4,095</b>	<b>4,187</b>
Less:- Interest Expenses	133	82	322	534
<b>PBT</b>	<b>2,437</b>	<b>3,431</b>	<b>3,773</b>	<b>3,653</b>
Less:- Taxes	(31)	1,201	1,321	1,278
<b>Reported PAT</b>	<b>2,468</b>	<b>2,230</b>	<b>2,453</b>	<b>2,374</b>
<b>Adjusted PAT</b>	<b>2,468</b>	<b>2,230</b>	<b>2,453</b>	<b>2,374</b>
<b>Reported PAT after Minority Interest</b>	<b>2,468</b>	<b>2,230</b>	<b>2,453</b>	<b>2,374</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	404	404	404	404
Reserves	21,280	23,493	25,945	28,319
Borrowings	54	529	7,519	5,510
Deferred Tax (Net)	(3,539)	(3,575)	(3,610)	(3,646)
Other liabilities	1,741	1,827	1,918	2,014
<b>Total Liabilities</b>	<b>19,940</b>	<b>22,678</b>	<b>32,176</b>	<b>32,600</b>
Gross Block	16,118	17,818	34,818	39,818
Less:- Accumulated Depreciation	6,838	8,195	9,722	11,961
<b>Net Block</b>	<b>9,280</b>	<b>9,622</b>	<b>25,096</b>	<b>27,857</b>
Add:- Capital work in progress	1,045	6,345	2,045	1,045
Non current investments	18	18	18	18
Net Working Capital	1,862	2,139	2,227	2,403
Cash & current investments	5,466	3,801	2,110	663
Other assets	2,269	752	680	615
<b>Total Assets</b>	<b>19,940</b>	<b>22,678</b>	<b>32,176</b>	<b>32,600</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	3,484	3,202	3,829	4,671
Add/Less: Working Capital Changes	2,404	(277)	(88)	(176)
Operating Cash Flow	5,887	2,925	3,741	4,495
Less:- Capex	(2,046)	(7,000)	(12,700)	(4,000)
<b>Free Cash Flow</b>	<b>3,841</b>	<b>(4,075)</b>	<b>(8,959)</b>	<b>495</b>
Financing Cash Flow	(1,482)	462	6,759	(2,448)
Investing Cash Flow	(3,230)	3,567	509	506
<b>Net change in Cash</b>	<b>(870)</b>	<b>(46)</b>	<b>(1,691)</b>	<b>(1,447)</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	29.1	21.7	7.6	10.2
EBITDA Growth	3.8	27.5	17.0	15.5
Adj. PAT Growth	0.6	(9.6)	10.0	(3.2)
EBITDA Margin	15.6	16.3	17.7	18.6
Adj. Net Margin	11.1	8.3	8.4	7.4
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	(0.2)	(0.1)	0.2	0.2
ROE (%)	11.6	9.8	9.8	8.6
ROCE (%)	11.2	14.1	13.2	11.6
<b>Per Share data &amp; Valuation Ratios</b>				
Adj. EPS (INR/Share)	6.1	5.5	6.1	5.9
EPS Growth (%)	2.7	(9.6)	10.0	(3.2)
P/E Ratio (x)	18.0	19.9	18.1	18.7
EV/EBITDA (x)	11.3	9.4	9.7	8.3
EV/Sales (x)	1.8	1.5	1.7	1.5
P/BV (x)	2.1	2.0	1.8	1.6
EV per tonne (USD)	86	91	81	64

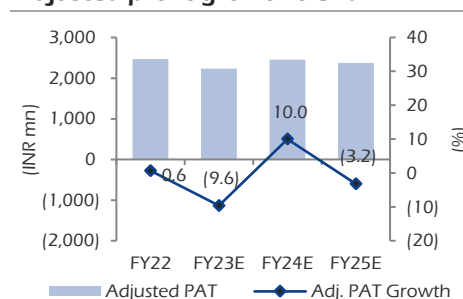
Note: Pricing as 6 December 2022; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



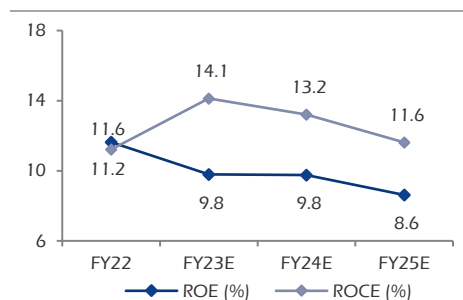
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



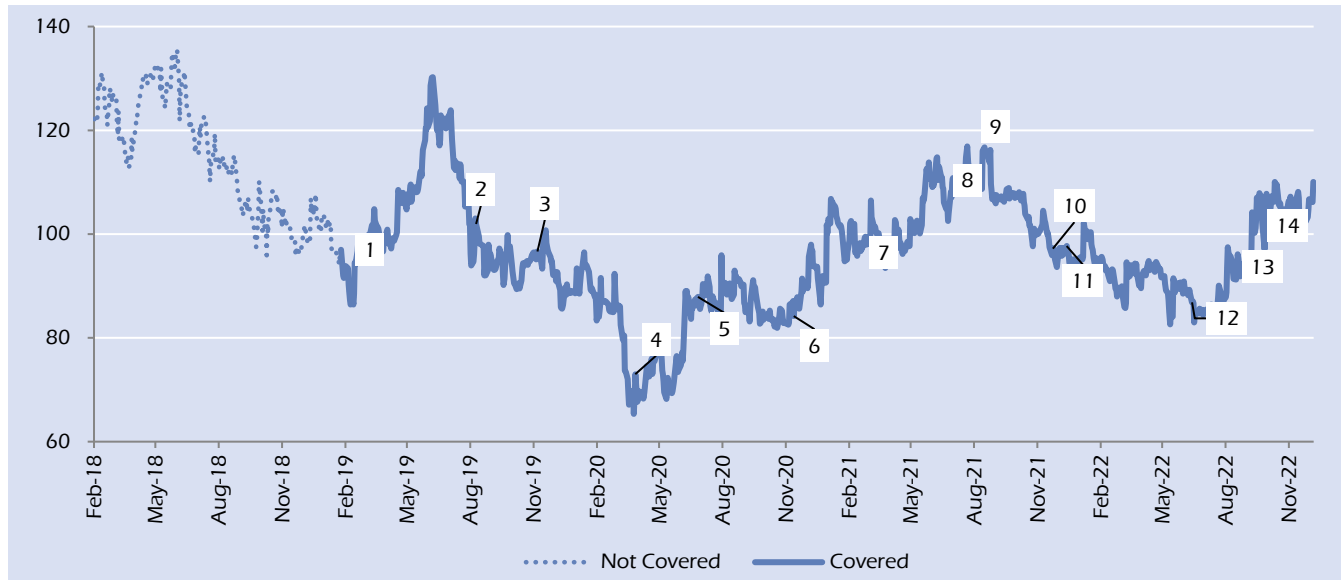
Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
1	28-Jan-2019	Buy	INR 147	INR 91
2	1-Aug-2019	Buy	INR 142	INR 96
3	7-Nov-2019	Buy	INR 140	INR 98
4	27-Mar-2020	Buy	INR 122	INR 73
5	26-Jun-2020	Buy	INR 112	INR 88
6	12-Nov-2020	Buy	INR 119	INR 84
7	9-Feb-2021	Buy	INR 118	INR 96
8	10-Jun-2021	Accumulate	INR 129	INR 110
9	13-Aug-2021	Accumulate	INR 131	INR 116
10	2-Nov-2021	Accumulate	INR 119	INR 100
11	13-Dec-2021	Buy	INR 119	INR 98
12	16-Jun-2022	Accumulate	INR 93	INR 83
13	3-Aug-2022	Accumulate	INR 104	INR 94
14	17-Nov-2022	Accumulate	INR 115	INR 102

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

**Notes**

# Orient Cement

## Eyeing North

### Balanced growth targeted – Phase-wise capacity addition, on cards

Orient Cement's (ORCMNT IN) capacity rose to 8.5mn tonnes in FY22, post the completion of 0.5mn tonnes expansion via debottlenecking. Further, ORCMNT had announced new growth capex, comprising: 1) 2.0mn-tonnes grinding capacity addition at Tiroda, Maharashtra, and 2) 2.0mn-tonnes clinker unit and 1.0mn-tonnes grinding unit at the existing Devapur plant in Telangana. ORCMNT is yet to receive environment clearance for the Tiroda expansion. Devapur expansion may only start when Tiroda expansion starts. We believe the strategy to prioritize cash flow when existing operations yield lower utilization bodes well.

### North India foray to ease concentration risk

Post the demerger from Orient Paper and Industries, ORCMNT had applied for Rajasthan-based limestone mines in CY13, but many legal issues led to procedural delays. However, the recent changes in the MMDR Act removed many legal hurdles and finally, ORCMNT received an order from the Rajasthan government to restore the mining lease at Chittorgarh, Rajasthan. We believe, future expansion will help ORCMNT diversify presence and be margin-accretive, given better demand and pricing trend in North India.

### Low-cost producer – WHR capacity to ease cost strain

ORCMNT's operating cost structure has been among the most efficient among mid-cap cement firms, led by plant proximity to key raw material sources, captive power access and logistics cost optimization (lower lead distance, railway sidings and domestic coal access). Amid higher fuel prices, investment in ~10MW WHR capacity and expected annual savings of ~INR 300mn, ORCMNT should be able to cap costs. Also, investment in solar power capacity to substitute ~50% of its power needs at Maharashtra-based Jalgaon unit and sourcing of renewable power at its Karnataka-based Chittapur unit (based on availability/financial viability via open sources/IEX exchanges) bode well. Further, increased alternate fuel use and ability to switch fuel based on costing and other investments should enable cost-saving initiatives.

### Valuations: Reiterate Accumulate; TP raised to INR 143

Expect increased competition in Maharashtra, ORCMNT's core market, and absence of any major government-backed projects in Telangana/Karnataka to cap volume growth, near term. But focus on healthy realizations, softening fuel prices and spiked use of low-cost renewable power would support margin. While we retain FY23E/24E earnings estimates, we trim FY25E estimates ~2%. As we roll over to December 2024E from September, we raise TP to INR 143 from INR 138, on 6x (unchanged) December 2024E EV/EBITDA – Reiterate **Accumulate**.

## Rating: Accumulate

Target Price: INR 143

Upside: 10%

CMP: INR 129 (as on 6 December 2022)

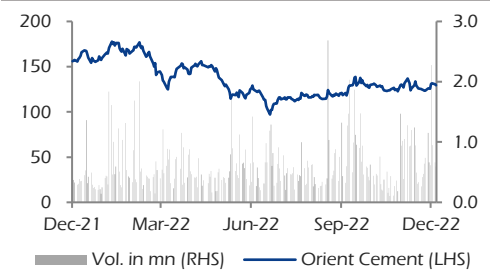
### Key data\*

Bloomberg /Reuters Code	ORCMNT IN/ORCE.BO
Current /Dil. Shares O/S (mn)	205/205
Mkt Cap (INR bn/USD mn)	26/321
Daily Vol. (1M NSE Avg.)	674,566
Face Value (INR)	1

1 USD = INR 82.6

Note: \*as on 6 December 2022; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Promoter	37.4	37.4	37.9	37.9
Institutional Investors	22.1	21.4	19.2	20.1
Other Investors	20.8	20.7	20.8	19.8
General Public	19.7	20.5	22.1	22.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	5.6	12.5	10.2
Orient Cement	9.3	5.5	(17.0)
India Cements	7.2	50.7	36.0
JK Lakshmi Cement	72.8	95.5	30.6
JK Cement	16.9	51.8	(3.5)

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/tonne (USD)	EV/EBITDA (x)
March											
FY22	27,165	17.0	5,911	21.8	2,633	22.9	12.8	18.6	10.1	43	4.9
FY23E	27,553	1.4	3,137	11.4	897	(65.9)	4.4	5.8	29.9	43	9.3
FY24E	30,650	11.2	4,778	15.6	1,774	97.9	8.7	10.8	15.1	42	7.3
FY25E	32,675	6.6	5,941	18.2	2,411	35.9	11.8	13.5	11.1	46	7.1

Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

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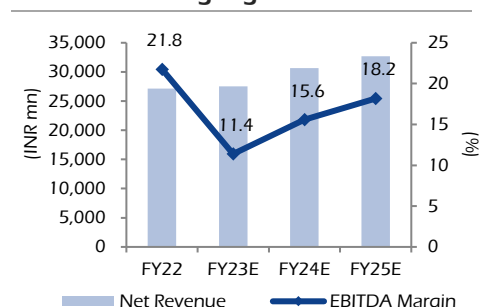
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Net Revenue	27,165	27,553	30,650	32,675
<b>Operating profit</b>	<b>5,822</b>	<b>3,083</b>	<b>4,725</b>	<b>5,881</b>
Add:- Other operating Income	89	54	52	60
<b>EBITDA</b>	<b>5,911</b>	<b>3,137</b>	<b>4,778</b>	<b>5,941</b>
Add:- Other Income	96	115	116	117
Less:- Depreciation & Amortization	1,452	1,477	1,589	1,647
<b>EBIT</b>	<b>4,554</b>	<b>1,774</b>	<b>3,305</b>	<b>4,411</b>
Less:- Interest Expenses	514	395	576	702
<b>PBT</b>	<b>4,040</b>	<b>1,379</b>	<b>2,729</b>	<b>3,709</b>
Less:- Taxes	1,407	483	955	1,298
<b>Reported PAT</b>	<b>2,633</b>	<b>897</b>	<b>1,774</b>	<b>2,411</b>
<b>Adjusted PAT</b>	<b>2,633</b>	<b>897</b>	<b>1,774</b>	<b>2,411</b>
Balance Sheet (INR mn)	FY22	FY23E	FY24E	FY25E
Share Capital	205	205	205	205
Reserves	15,049	15,587	16,747	18,502
Borrowings	3,097	5,677	15,262	24,851
Deferred Tax (Net)	2,517	2,769	3,046	3,350
Other liabilities	517	541	546	551
<b>Total Liabilities</b>	<b>21,385</b>	<b>24,780</b>	<b>35,806</b>	<b>47,460</b>
Gross Block	29,897	30,397	31,897	32,697
Less:- Accumulated Depreciation	8,746	10,223	11,812	13,459
<b>Net Block</b>	<b>21,151</b>	<b>20,174</b>	<b>20,086</b>	<b>19,239</b>
Add:- Capital work in progress	398	2,898	10,198	20,198
Non-current investments	42	42	42	42
Net Working Capital	(1,319)	(1,962)	(1,971)	(2,047)
Cash & current investments	538	3,264	7,070	9,627
Other assets	576	364	383	402
<b>Total Assets</b>	<b>21,385</b>	<b>24,780</b>	<b>35,806</b>	<b>47,460</b>
Cash Flow Statement (INR mn)	FY22	FY23E	FY24E	FY25E
Cash profit adjusted for non-cash items	5,209	2,906	4,099	4,947
Add/Less: Working Capital Changes	(51)	642	10	75
Operating Cash Flow	5,158	3,548	4,109	5,022
Less:- Capex	(515)	(3,000)	(8,800)	(10,800)
Free Cash Flow	4,643	548	(4,691)	(5,778)
Financing Cash Flow	(5,876)	1,851	8,399	8,237
Investing Cash Flow	1,309	427	97	98
<b>Net change in Cash</b>	<b>76</b>	<b>2,826</b>	<b>3,806</b>	<b>2,557</b>
Ratio Analysis	FY22	FY23E	FY24E	FY25E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	17.0	1.4	11.2	6.6
EBITDA Growth	7.3	(46.9)	52.3	24.3
Adj. PAT Growth	22.9	(65.9)	97.9	35.9
EBITDA Margin	21.8	11.4	15.6	18.2
Adj. Net Margin	9.7	3.3	5.8	7.4
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.2	0.2	0.5	0.8
ROE (%)	18.6	5.8	10.8	13.5
ROCE (%)	20.3	7.7	10.9	10.6
<b>Per Share data &amp; Valuation Ratios</b>				
Adjusted EPS (INR/Share)	12.8	4.4	8.7	11.8
EPS Growth (%)	22.9	(65.9)	97.9	35.9
DPS (INR/Share)	2.5	3.0	3.2	3.2
P/E Ratio (x)	10.1	29.9	15.1	11.1
EV/EBITDA (x)	4.9	9.3	7.3	7.1
EV/Sales (x)	1.1	1.1	1.1	1.3
P/BV (x)	1.9	1.7	1.6	1.5
EV per tonne (USD)	43	43	42	46
Dividend Yield (%)	1.9	2.3	2.5	2.5

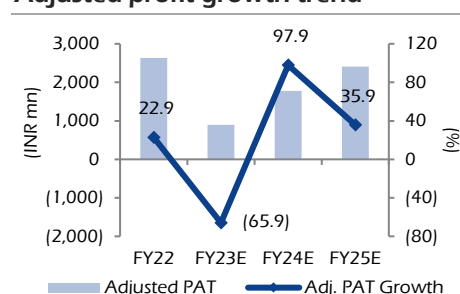
Note: Pricing as on 6 December 2022; Source: Company, Elara Securities Estimate

## Revenue &amp; margin growth trend



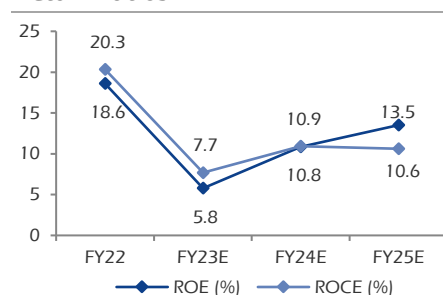
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios



Source: Company, Elara Securities Estimate

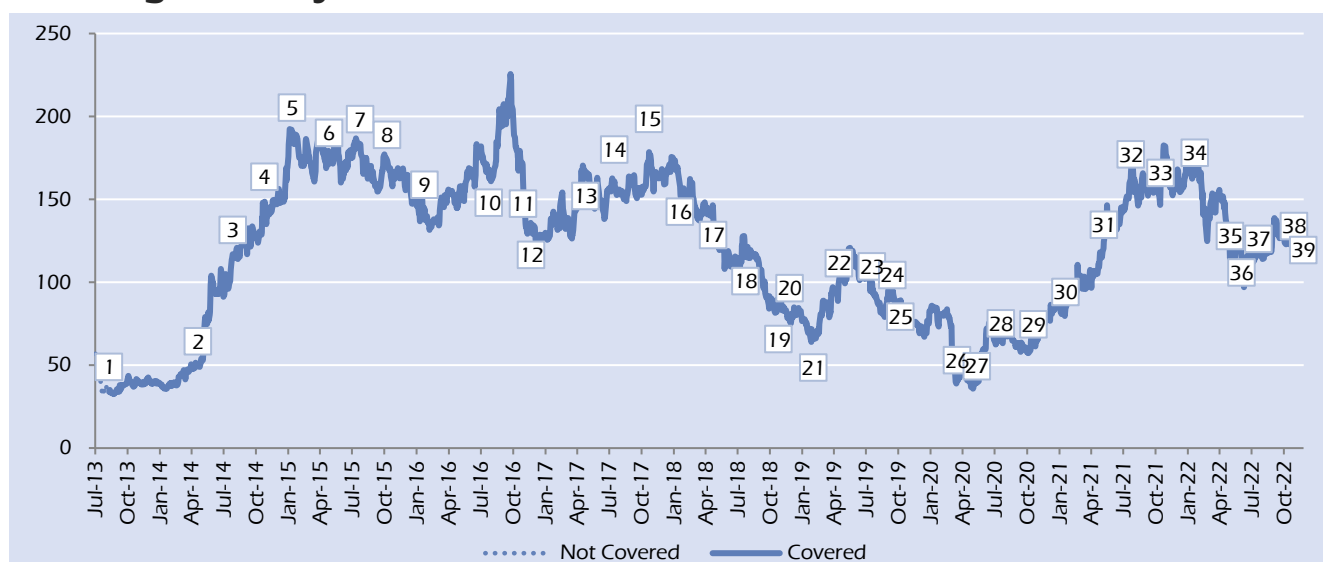


**Exhibit 1: Change in estimate**

(INR mn)	Old			Revised			Var (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Revenue	27,553	30,650	33,452	27,553	30,650	32,675	-	-	(2.3)
EBITDA	3,137	4,778	6,025	3,137	4,778	5,941	-	-	(1.4)
PAT	897	1,774	2,466	897	1,774	2,411	-	-	(2.2)
<b>Target price (INR)</b>			<b>138</b>			<b>143</b>			<b>3.3</b>

Source: Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
21	12-Feb-2019	Accumulate	INR 80	INR 69
22	26-Apr-2019	Buy	INR 150	INR 102
23	29-Jul-2019	Accumulate	INR 117	INR 99
24	25-Sep-2019	Accumulate	INR 110	INR 94
25	18-Oct-2019	Accumulate	INR 97	INR 89
26	27-Mar-2020	Accumulate	INR 50	INR 43
27	22-May-2020	Accumulate	INR 47	INR 40
28	29-Jul-2020	Accumulate	INR 72	INR 65
29	30-Oct-2020	Accumulate	INR 76	INR 65
30	29-Jan-2021	Accumulate	INR 91	INR 85
31	18-May-2021	Accumulate	INR 145	INR 126
32	3-Aug-2021	Accumulate	INR 188	INR 167
33	26-Oct-2021	Accumulate	INR 186	INR 156
34	2-Feb-2022	Accumulate	INR 195	INR 173
35	12-May-2022	Accumulate	INR 141	INR 118
36	16-Jun-2022	Accumulate	INR 126	INR 107
37	1-Aug-2022	Accumulate	INR 132	INR 116
38	10-Nov-2022	Accumulate	INR 138	INR 124
39	6-Dec-2022	Accumulate	INR 143	INR 129

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

## List of acronyms and abbreviations

Abbreviation	Description
B2B	Business to Business
BE	Budget Estimates
bp	Basis Point
BV	Book Value
CAGR	Compounded Annual Growth Rate
CMIE	Centre for Monitoring Indian Economy
CMP	Current Market Price
CPP	Captive Power Plant
ESG	Environment, Social and Governance
EV	Enterprise Value
FMCG	Fast-Moving Consumer Goods
HP	Himachal Pradesh
IEX	Indian Energy Exchange
JV	Joint Venture
KPIs	Key Performance Indicators
M&A	Mergers And Acquisitions
Mcap	Market Cap
MMDR	Mines and Minerals (Development and Regulation) Act
MP	Madhya Pradesh
MW	Megawatt
NCT	National Capital Territory
PAT	Profit after Tax
P/E	Price-to-earnings ratio
PLF	Plant Load Factor
PMAY-G	Pradhan Mantri Awaas Yojana-Gramin
PMAY-U	Pradhan Mantri Awaas Yojana-Urban
RE	Revised Estimates
RMC	Ready Mix Concrete
RoCE	Return on Capital Employed
RoE	Return on Equity
SoTP	Sum Of The Parts
TBK	Tiles, Bathroom, and Kitchen
UCWL	Udaipur Cement Works
UP	Uttar Pradesh
WHR	Waste Heat Recovery

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