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INDIAN CEMENT SECTOR

Debt coverage metrics of major cement companies to remain comfortable, despite the decline in operating margins by 440-490 bps in FY2023

SEPTEMBER 2022

Agenda

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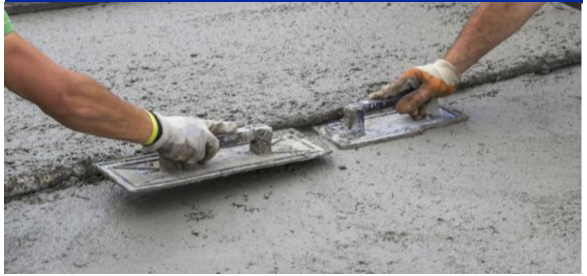
1 Industry Outlook

2 Market Structure

3 Demand Drivers

4 Demand Dynamics



5 Supply Dynamics

6 Trends in Cement Prices

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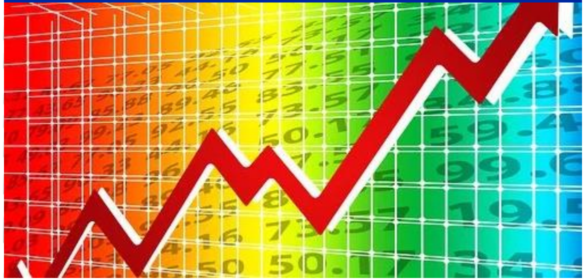
7 **Trends in Input Costs**



8 **Profitability Analysis**

9 **Peer Comparison**

10 **Rating Actions**

Highlights

Cement volumes are expected to grow by ~8% in FY2023 to 389 million MT, supported by demand from the housing - both rural and urban and the infrastructure sectors. Despite an expected increase in demand of 8% in FY2023 and 7% in FY2024, the utilisation is likely to remain moderate at around 68%, on an expanded base.

The cost-side pressures are likely to dent the operating margins by 440-490 bps to 15.9-16.4 % in FY2023

Cement volumes: Cement volumes stood higher by ~13% YoY in 4M FY2023 and are expected to grow by 8% in FY2023 to around 389 million MT. In FY2024, volume growth is expected to be ~7% to around 415 million MT.

Supply addition - Capacity additions are expected to increase to around 33 MTPA each in FY2023 and FY2024 from around 25 MTPA in FY2022. The eastern region (27-29 MTPA addition) is expected to lead the expansion, followed by the central region (15-17 MTPA). In FY2023 and FY2024, despite an expected increase in demand, the utilisation is likely to remain moderate at around 68%, on an expanded base.

Cement prices and input costs – While the average pan-India cement prices in 5M FY2023 stood at similar levels YoY at around Rs. 380/bag , they are expected to increase in Q3 FY2023. In H1 FY2023, prices of coal, pet coke and diesel were higher by 174%, 64% and 5% YoY, respectively. However, pet coke prices have been on a declining trend since August 2022 and coal prices remained range-bound between $319/MT and 322/MT.

Financial performance in Q1 FY2023- ICRA's sample witnessed an increase in sales volumes by 18% YoY in Q1 FY2023 at 73 million MT (revenue growth of 25%). The OPBIDTA/MT in Q1 FY2023 declined 31% YoY to Rs. 953/MT on account of the increase in the cost of power and fuel, raw material and freight by 49%, 7% and 5%, respectively. Consequently, the operating margins declined by 390 bps YoY to 16.7% in Q1 FY2023.

Outlook on revenues and profitability - While the revenues of the ICRA sample are expected to increase by ~12-14% in FY2023, the elevated input costs are likely to exert pressure on the operating margins, which are expected to contract by around 440-490 bps to ~15.9%-16.4% in FY2023.

Outlook on debt coverage metrics – Given the lower reliance on debt for the ongoing capacity additions, the leverage (TD/OPBIDTA) at around 1.5x and the coverage (DSCR) at around 2.1x in FY2023 are expected to remain comfortable.

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

Analytical Contact Details

	Rajeshwar Burla	Mathew Kurian Eranat	Anupama Reddy
	Group Head	*Co Group Head*	*Sector Head*
Email	rajeshwar.burla@icraindia.com	mathew.eranat@icraindia.com	anupama.reddy@icraindia.com
Phone	040 4067 6527	080- 43326415	040 – 4067 6516

Analytical Contact Details

	Nijara Kalita	Vishal R
	Senior Analyst	*Analyst*
Email	nijara.kalita@icraindia.com	vishal.r@icraindia.com
Phone	022 – 6114 3455	080 – 4322 6419

ICRA Business Development/Media Contact Details

L. Shivakumar	**Jayanta Chatterjee**	**Naznin Prodhani**
Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!