ICRA

INDIAN CEMENT SECTOR

Recovery of 300 bps in operating margins of cement players in Q3 FY2023 on Q-o-Q basis; further recovery of 200-400 bps expected in Q4 FY2023

MARCH 2023

Highlights

The OPBIDTA/MT declined by 16% YoY in Q3 FY2023 to Rs. 744/MT owing to higher input costs – power and fuel/MT by 27%, raw material/MT by 13% and freight/MT by 4%.

However, OPBIDTA/MT improved sequentially by 33%, supported by moderation in power & fuel costs.

The OPBIDTA/MT is estimated to decline by 26-30% in FY2023 but recover by 14-18% to Rs. 900-950/MT in FY2024.

Cement volumes increased by a strong 10% YoY to 96 million MT in Q3 FY2023 supported by demand from housing and infrastructure sectors. In 9M FY2023, volumes have risen by 11% YoY to 284 million MT. ICRA estimates volumes to grow by 8% to around 389 million MT in FY2023, and by a further 7% to around 416 million MT in FY2024.

The sales volumes of ICRA's sample set increased by 12% YoY and net sales realisation by 5% YoY in Q3 FY2023. In 9M FY2023, the sales volumes increased by 13% YoY and net sales realisation was up by 6% YoY.

The key input costs increased in YoY terms in Q3 FY2023 - power & fuel cost/MT by 27% due to steep increase in coal and pet coke prices, raw material cost/MT by 13% due to higher additive prices and freight expense/MT by 4% due to higher diesel prices. However, in QoQ terms, power & fuel reduced by 6%, while freight and raw material costs were stable. In 9M FY2023, the power & fuel cost/MT, raw material cost/MT and freight expense/MT rose by 44%, 11% and 4% respectively.

The OPBIDTA/MT of the sample witnessed a decline by 16% YoY to Rs. 744/MT in Q3 FY2023 owing to the higher input costs. However, the OPBITDA/MT improved by 33% QoQ with moderation in input costs. In Q3 FY2023, the operating margins improved by 3 percentage points QoQ. Nevertheless, in 9M FY2023, the operating margins declined by 8 percentage points YoY to 13.4%.

The elevated input costs are likely to exert pressure on the operating margins, which are expected to contract by around 600-690 bps to ~13.9-14.8% in FY2023, resulting in moderation in the leverage (TD/OPBIDTA) and coverage (DSCR) metrics to 1.7x and 1.9x, respectively, in FY2023 from 1.2x and 2.2x, respectively, in FY2022. Nonetheless, with expected easing of cost-side pressures, operating margins are likely to improve by 200-240 bps YoY to around 16.3%-17.0% in FY2024.

Note: ICRA's sample includes ACC Limited, Ambuja Cements Limited, JK Cements Limited, JK Lakshmi Cement Limited, The India Cements Limited, The Ramco Cements Limited, UltraTech Cement Limited, Dalmia Bharat Limited, Birla Corporation Limited, Shree Cement Limited, Sagar Cements Limited, Heidelberg Cement India Limited

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Thank You!