JM FINANCIAL

Cement

New player, high stakes: the shake-out intensifies

New entrant led industry consolidation

Construction cycle in full swing across India

Cost deflation likely to play out

Cement

New player, high stakes: The shake-out intensifies

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India is heading into a construction overdrive led by uptick in housing (60-63% of cement demand) and unprecedented infrastructure spend (c.25-30%), especially prior to the general elections (to be held in 1HCY24). This is likely to drive healthy growth in cement demand (8% CAGR over FY22-27). Against this backdrop, we see multiple themes playing out in the near future in the cement industry: i) Improved industry utilisation backed by balance in incremental demand-supply, leading to a stable pricing environment, ii) Adani Group-led industry consolidation via inorganic growth as large cement players have net cash balance sheets / minimal leverage along with aggressive expansion / acquisition plans, and iii) No likely disruption in market dynamics due to Adani's entry as ACC and Ambuja already have high utilisation levels and are unlikely to disturb pricing / volumes. We believe the industry is poised to do well in future on account of i) consolidation - mutually beneficial for both the acquirer and the target companies on account of valuation disparity (mid-caps trade at 40% discount to large cap on EV/ton), ii) possible moderation in power and freight costs and subsequent EBITDA / ton expansion, and iii) structural improvement in EBITDA / ton, driven by better industry prospects and internal improvements. In the very near term, the industry dynamics will be defined by Ambuja Cements' deployment of its own war chest of INR 500bn (INR 200bn promoter infusion + existing cash balance + 1x leverage on equity). We have a positive view on the likely consolidation, going forward. We assume coverage on 11 stocks and our key picks are Ambuja, and Ultratech in large caps, Dalmia Bharat in mid-caps, and Sagar Cements and Orient Cement in small caps. We have a 'HOLD' Rating on both JK Cement and Heidelberg, and a 'SELL' Rating on The Ramco Cements.

- **c.85% of demand – locked in; systemic demand to grow strongly:** We remain confident on a multi-year housing cycle propelling cement demand growth: i) rural housing uptick led by PMAY Grameen allocation (35-37% of demand), and ii) urban housing (24-26% of demand), which has decadal low inventory and decadal high absorption. This will be strongly supported by an increase in infrastructure investments (highways, freight corridors, irrigation, smart cities and metro projects) backed by government capex, with momentum usually at its peak before an election year. (Exhibit 4)
- **Deal-making on the anvil:** Adani has stated plans of doubling capacity in the medium term (by 2030) through a combination of inorganic / organic route, and it has a war chest of INR 500bn (INR 200bn promoter infusion + existing cash balance + 1x leverage on equity). We believe this coupled with Ambuja (acquisition vehicle) trading at a significant premium to replacement cost (c.3x) could lift acquisitions in the sector. We expect active participation by all large players (market share gains), which also augurs well for mid-cap / small cap players as well, as they will get better valuations. In other words, a win-win for both the consolidator and the target. Adani Group with its synergistic operations was able to enter the cement industry but there are unlikely to be any other new entrants.
- **Cost deflation around the corner; EBITDA / ton to expand:** The main commodities hitting the P&L of a cement company have significantly corrected: i) petcoke price (down 14% QoQ; down 30% from peak in Jun'22 and +7% from 1-year ago) ii) crude oil price (down 7% QoQ) and thermal coal price (already at 2x in the past 12 months). Pet coke prices in the US and Saudi Arabia have dropped nearly 36% since Jun'22. Given the presence of high cost inventory in 2QFY23 and some associated time lag we expect full cost deflation benefits to play out in 2HFY23, aided by post monsoon revival.
- **Assume coverage on 11 stocks; Ambuja Cements and Ultratech remain key picks while we find value in Dalmia Bharat, Sagar and Orient:** Among large caps we prefer consolidators – Ambuja Cements and Ultratech, Dalmia Bharat in mid-caps, and Sagar Cements and Orient Cement in small caps. With significant consolidation expected and possible synergies with other businesses accruing, we believe ACC-Ambuja will continue to trade at high valuations, and a sharp improvement in EBITDA / ton and capacity additions are on the cards.

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Why Adani Group finds cement an attractive business:** India's cement industry offers a multi-decadal growth story given the country's low per capita cement consumption levels (China at 6x of India, Vietnam at 3.5x, Turkey 2x). Adani Group has its strength in energy costs, logistics and distribution costs, and it can leverage a digital platform to transform production as well as gain significant supply chain efficiencies. Moreover, it owns one of the largest renewable energy companies in the world, which will help manufacture premium quality green cement. It aims to become India's largest and most efficient manufacturer of cement by 2030. The cement industry with its highly consolidated nature, steady return ratios, and large cap companies remains one of the best proxies for India's infrastructural boom.

- **Demand remains broad-based; utilisation likely to inch upwards:** In terms of capacity utilisation across regions, North remains the best-placed market while South continues to be an oversupplied one. In the East (Ultratech, Shree Cements and Dalmia have expansion plans), a surge in demand / capacity is likely and pricing / utilisation may remain in check. West and Central continue to be fairly balanced markets.

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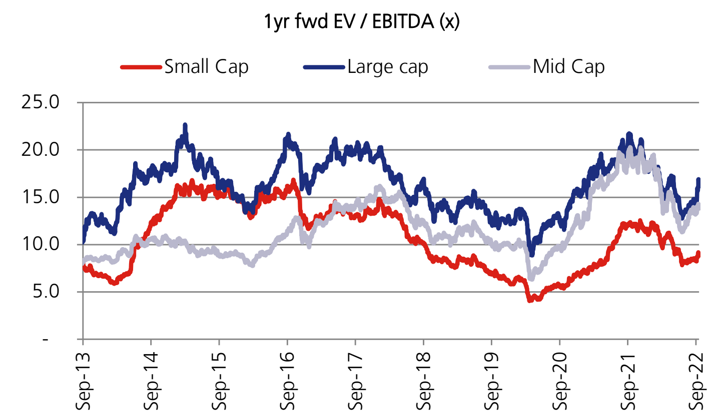
Coverage Snapshot

Exhibit 1. Ambuja, Ultratech, Dalmia, Sagar and Orient remain preferred picks

Particulars	CMP	EV (INR bn)	NTM (x)	Target EV / EBITDA (x)	Implied EV / ton (x)	Sep'23 TP	Rating	Upside	Remarks
ACC	2,416	381	12.6	12	138	2,755	BUY	14%	Merger with Ambuja likely; Capacity expansion to drive growth
Ambuja	516	758*	20.7	21	179	610	BUY	18%	Aggressive consolidator; Significantly higher EBITDA growth + ACC stake
Dalmia	1,598	284	10.9	12	103	2,140	BUY	34%	Aggressive consolidator; well-timed capex
Heidelberg	189	41	9.2	7	79	195	HOLD	3%	Regional player; back-ended expansion plans
JK Cement	2,626	233	13.4	12	140	2,650	HOLD	1%	Paints business to have start-up costs; capex led growth factored in
JK Lakshmi*	585	72	8.0	7	83	665	BUY	14%	Standalone business steady; Entering into a debt funded capex
Orient	130	29	5.8	7	58	170	BUY	30%	Below replacement cost and undergoing debt funded capex
Ramco	755	215	14.5	11	119	695	SELL	-8%	Capex led growth factored in; Expansion in difficult markets
Sagar	199	40	11.2	9	65	280	BUY	41%	Below replacement cost and deleveraging opportunity
Shree	21,033	697	17.6	16	188	24,225	BUY	15%	Best in-class return ratios; Exploring acquisitions
UltraTech	6,255	1,855	15.3	16	209	8,085	BUY	29%	Lower capital costs for capex; Return ratios remain superior

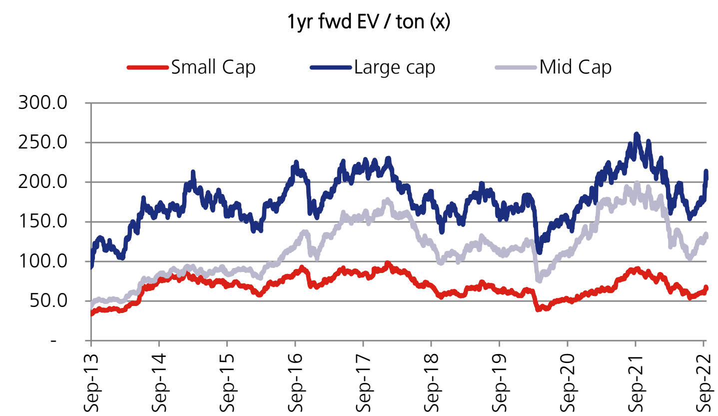
Source: Company, JM Financial
* Ambuja standalone

Exhibit 1. Mid-caps / small caps trading at 14% / 44% discount on EV / EBITDA compared to large caps



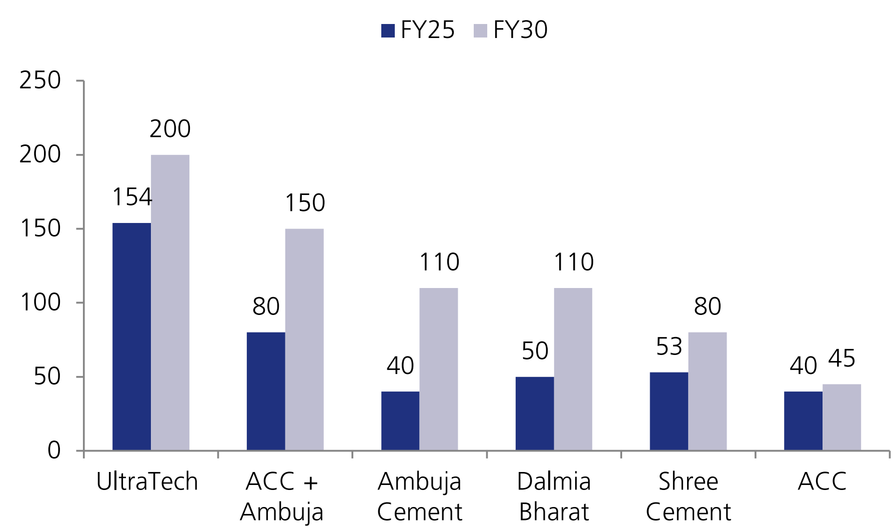
Source: Bloomberg as on 29Sep'22, JM Financial
Large caps – ACC, Ambuja, Shree and Ultratech
Mid-caps – Dalmia, JK Cements and Ramco
Small-caps – Heidelberg, Orient, JK Lakshmi and Sagar

Exhibit 2. Mid-caps / small caps trading at 40% / 70% discount on EV / ton compared to large caps



Source: Bloomberg as on 29Sep'22, JM Financial
Large caps – ACC, Ambuja, Shree and Ultratech
Mid-caps – Dalmia, JK Cements and Ramco
Small-caps – Heidelberg, Orient, JK Lakshmi and Sagar

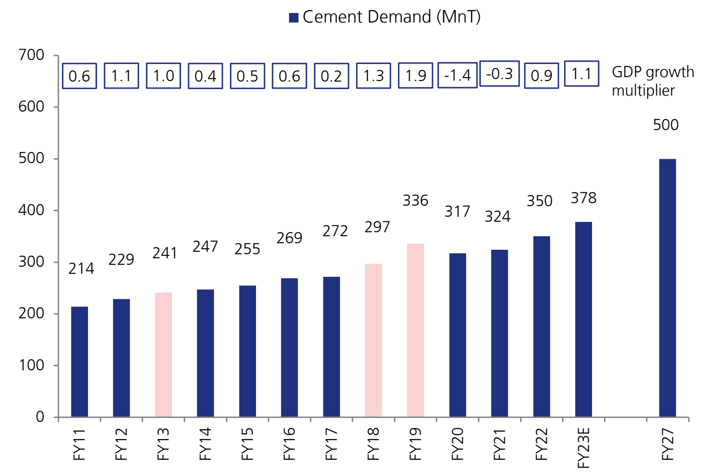
Exhibit 3. Mega expansion plans will skew valuation metrics as more M&As start happening



Source: Company, JM Financial

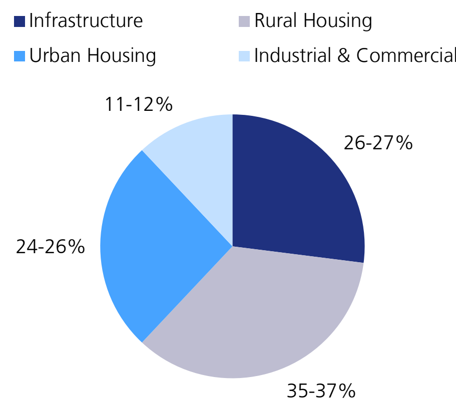
Focus Charts

Exhibit 4. Election year FY24 likely to have a higher GDP multiplier. In FY18-19 (prior to elections) cement demand had a GDP multiplier of over 1x. In FY13-14, India experienced policy paralysis



Source: Industry, Ultratech, JM Financial

Exhibit 5. c.85% of demand locked in with housing and infrastructure expected to do well after a long time



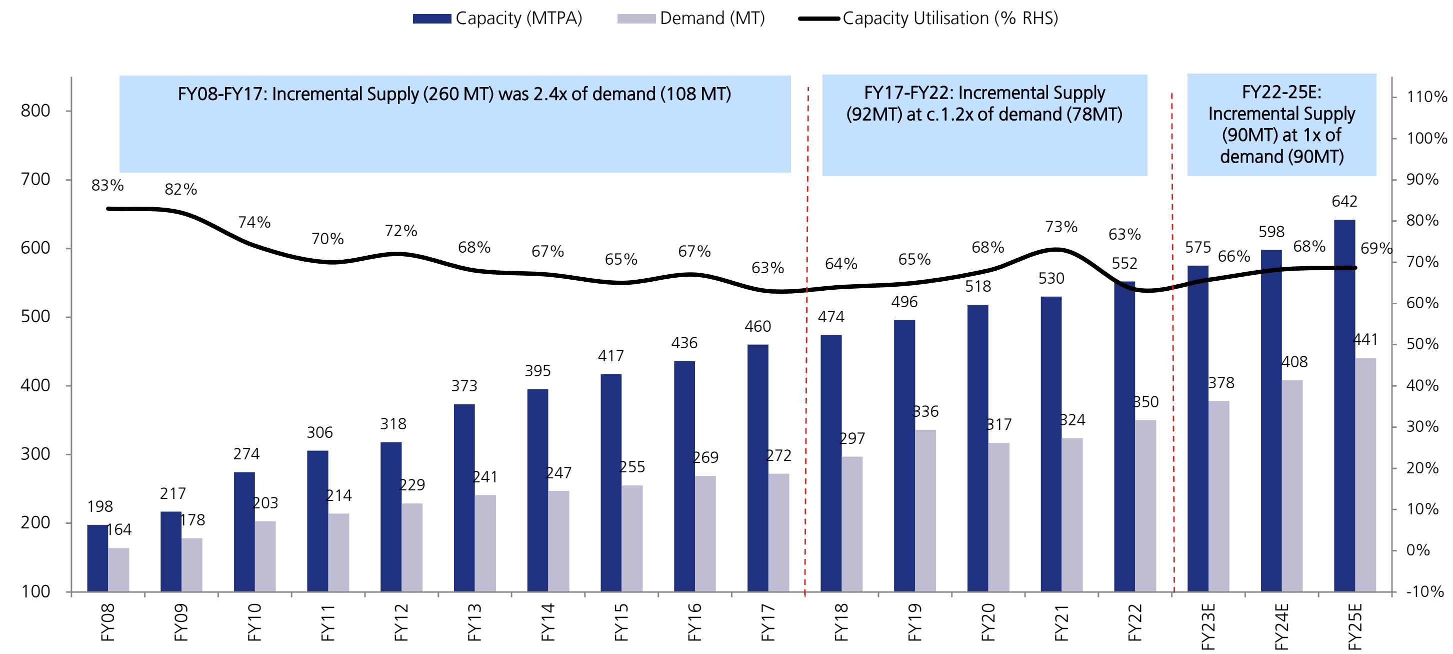
Source: Industry, Ultratech, JM Financial

Exhibit 6. Demand growth drivers region-wise

Region	Infrastructure	Housing	Commercial	Demand growth drivers and rationale
North	↑	↑	↑	National Capital Region (NCR) showing positivity in Real Estate. Delhi Metro; Jaipur Metro, Smart cities in Rajasthan and Delhi, Eastern peripheral expressway/ six-laning of NH8, dam project are the other projects
Central	↑	↑	↑	Lucknow + Kanpur are amongst the top 20 growing cities in India and expected to grow at a 10% CAGR on the back of infrastructure and real estate development. Several metro projects, Upper Ganga Expressway, irrigation (Ken Betwa), smart cities (Indore, Bhopal, Lucknow)
East	↑	↑	↑	Metro projects in Patna, Kolkata, EDFC, north east (several road and rail connectivity projects)
West	↑	↑	↑	**Maharashtra:** Robust growth across segments in road infrastructure, metro projects and supported by pent up demand in real estate and housing **Gujarat:** Housing registered growth in both urban and rural segments due to improved cash flows in rural markets. Infrastructure registered growth on account of major projects i.e., Bullet Train, Vadodara Mumbai Expressway etc.
South	↑	↑	↑	Commercial & industrial and real estate growth will lead to higher requirement of bulk volume mainly in Chennai & Salem/ Coimbatore region. Vizag IT City Project in Andhra Pradesh, irrigation projects in Telangana.

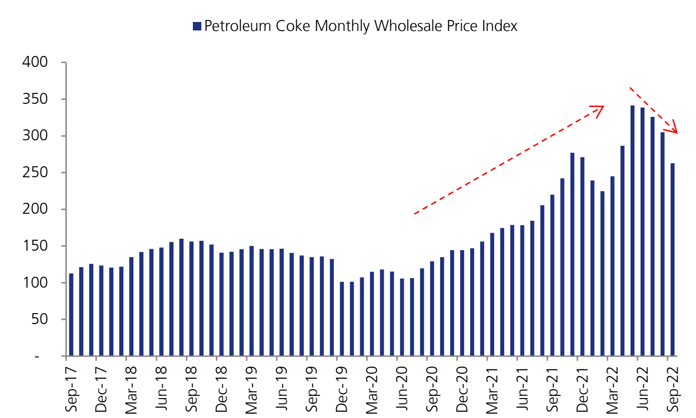
Source: Industry, Ultratech, JM Financial
NHAI-National Highway Authority Of India, EDFC-Eastern Dedicated Freight C Corridor,
DFC-Dedicated Dedicated Freight Corridor, IHB-Industrialized Housing and Buildings
Dark Blue Indicates Higher Demand

Exhibit 7. Incremental demand supply seen fairly balanced; capacity utilisation to head higher as demand remains strong even though supply is higher than in FY17-22



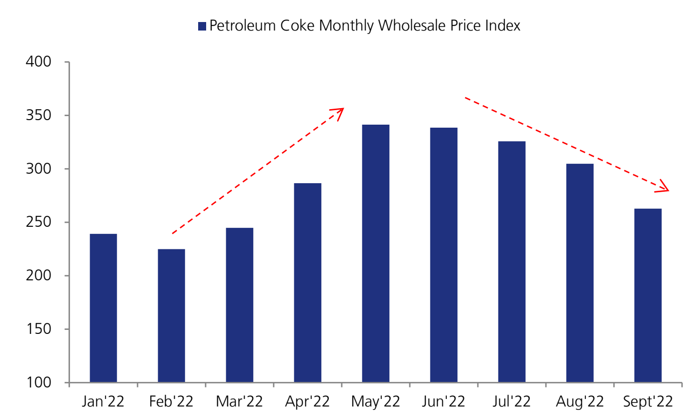
Source: Industry, JM Financial

Exhibit 8. Pet coke prices peaked in 1QFY23



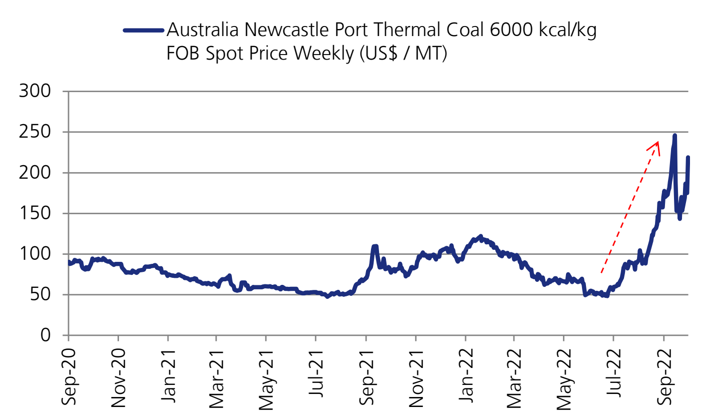
Source: CMIE, Industry, JM Financial

Exhibit 9. Pet coke shows a downward trend in recent months



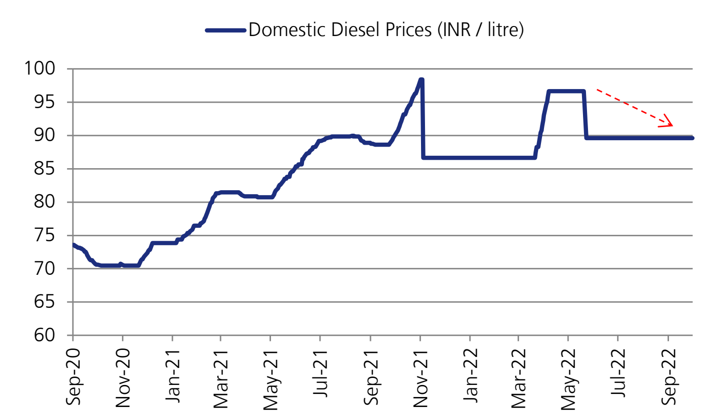
Source: CMIE, Industry, JM Financial

Exhibit 10. Thermal coal prices remain high – a key trigger if it corrects; prices are significantly ahead of long-term averages



Source: Bloomberg as on 29Sep22, JM Financial

Exhibit 11. Diesel prices show a downward trend in recent months but remain elevated YoY



Source: Bloomberg as on 29Sep22, JM Financial

Exhibit 12. M&A a frequent feature of the industry

Year	Target	Acquirer	Capacity (MTPA)	Region	EV (INR bn)	Valuation (EV/ton, in US$)	Comments
2022	ACC+Ambuja Cements	Adani group	67.8	Pan India	810	149	Targets to derive synergies from other business and increase capacities significantly
2021	Bhavya Cements	Anjani Portland	1.4	South	6	71	Limestone reserve of 4.5MTPA under mining lease. 24% of power requirements were met through captive sources
2020	Emami Cement	Nuvoco Vistas	8.3	East	55	83	Allows Nuvoco to become one of the largest players in the East
2019	Murli Industries	Dalmia Bharat	2.9	West	13	58	A distressed asset – Substantial resources were needed to restart the plant
2018	Binani Cement	Ultratech	8.6	North	80	116	Allowed diversified market presence along with scale benefits
2018	Century Cement	Ultratech	11.4	Central/ West/East	81	88	Deeper presence in existing markets and along with increased presence in East. 8.5MTPA clinker and 117MW TPP also acquired
2018	Kalyanpur Cement	Dalmia Bharat	1.1	East	4	40	13MT Limestone reserve at Murli Pahari.
2016	Lafarge Cement	Nirma Corp	11.0	East	94	127	Nirma to own 13mt capacity post acquisition
2016	JPA group Gujarat units	Ultratech	22.4	West	170	95	A Captive power plant and a jetty for clinker and coal movement will aid a reduction in cost
2016	Reliance Cement	Birla Corp	5.5	Central/ West	48	110	Higher limestone reserves and strengthening its presence in the high growth central region.
2014	Jaypee Panipat Haryana	Shree	1.5	North	4	30	The acquisition was on a slump sale basis. Post the deal Shree Cement capacity increased to 19MTPA.
2014	BMM	Sagar Cement	1.0	South	5	66	Limestone reserve with a capacity of 155MT and a captive thermal power plant of 25MW
2014	Jaypee Bokaro Cement	Dalmia Bharat	2.1	East	12	68	After the acquisition Dalmia will have a total capacity of 24MTPA as it looks to strengthen its presence in the East
2013	Jaypee Gujarat Plant	Ultratech	4.8	West	38	68	Has a 57MW coal based power unit and a 30MW Diesel generator
2013	Sree Jayajothi Cements	My Home Industries	3.2	South	14	55	Lower capacity utilization in South India
2013	Adhunik Metals	Dalmia Bharat	1.5	East	11	90	One of the largest cement manufacturers in North India
2012	Calcom	Dalmia Bharat	1.7	East	3	23	Acquired 26% stake, taking its total stake to 76%. Paid INR 771.6mn and INR 2,380mn for the 26% stake and 50% stake respectively

Source: Company, JM Financial
EV / ton adjusted assuming 1US$ = 80 INR

Exhibit 13. Given the large capacity expansion plans we compare these companies basis FY30 capacity targets

At CMP			Capacity (MTPA)				EV / ton (US$ mn)				Capacity Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,416	381	37	40	40	45	128	121	121	106	14%
Ambuja*	516	758	31	33	40	105	301	288	237	90	163%
Dalmia Bharat	1,598	284	41	50	50	110	87	72	72	32	121%
Shree	21,033	697	49	53	53	80	176	165	165	109	51%
UltraTech	6,255	1,855	130	130	154	200	178	178	151	116	30%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion

Exhibit 14. Ambuja and Dalmia are likely to see the highest EBITDA accretion led by capacity expansion

At CMP			EBITDA (INR bn)				EV / EBITDA (x)				EBITDA Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,416	381	23	33	38	50	16.4	11.7	10.1	7.6	34%
Ambuja*	516	758	28	40	49	118	27.5	19.1	15.5	6.4	141%
Dalmia Bharat	1,598	284	21	31	38	123	13.3	9.2	7.6	2.3	228%
Shree	21,033	697	33	46	53	90	21.0	15.1	13.0	7.8	68%
UltraTech	6,255	1,855	104	138	156	224	17.8	13.4	11.9	8.3	43%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion
For all companies FY30 assumes EBITDA / ton of INR 1,400 / ton and 80% capacity utilisation

Exhibit 15. Ambuja's valuations look optically expensive especially in the earlier years

At Target Price			Capacity (MTPA)				EV / ton (US$ mn)				Capacity Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,755	445	37	40	40	45	149	141	141	124	14%
Ambuja*	610	913	31	33	40	105	363	346	286	109	163%
Dalmia Bharat	2,140	386	41	50	50	110	118	97	97	44	121%
Shree	24,225	812	49	53	53	80	206	192	192	127	51%
UltraTech	8,085	2,383	130	130	154	200	229	229	194	149	30%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion

Exhibit 16. Dalmia Bharat can give highest returns provided execution is right

At Target Price			EBITDA (INR bn)				EV / EBITDA (x)				EBITDA Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,755	445	23	33	38	50	19.1	13.6	11.8	8.8	34%
Ambuja*	610	913	28	40	49	118	33.1	23.0	18.7	7.8	141%
Dalmia Bharat	2,140	386	21	31	38	123	18.1	12.4	10.3	3.1	228%
Shree	24,225	812	33	46	53	90	24.5	17.6	15.2	9.1	68%
UltraTech	8,085	2,383	104	138	156	224	22.8	17.3	15.2	10.6	43%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion
For all companies FY30 assumes EBITDA / ton of INR 1,400 / ton and 80% capacity utilisation

Exhibit 17. Region-wise capacity of possible target companies

Capacity (MTPA)	FY22	North	% of total	South	% of total	West	% of total	East	% of total	Central	% of total
Nuvoco Vistas	24	5	20%	0	0%	0	0%	19	80%	0	0%
Birla Corp	20	0	0%	0	0%	4	21%	2	10%	14	69%
Ramco	19	0	0%	16	84%	0	0%	3	16%	0	0%
India Cements	16	2	10%	13	83%	1	7%	0	0%	0	0%
Chettinad	15	0	0%	15	100%	0	0%	0	0%	0	0%
JK Cement	15	3	20%	0	0%	9	59%	3	20%	1	5%
JK Lakshmi	14	8	59%	0	0%	2	16%	4	25%	0	0%
JSW Cement	16	0	0%	8	51%	3	16%	5	33%	0	0%
Wonder Cement	13	3	19%	0	0%	9	65%	0	0%	2	15%
Kesoram	11	0	0%	11	100%	0	0%	0	0%	0	0%
Orient Cement	9	0	0%	7	76%	2	24%	0	0%	0	0%
Sagar cement	8	0	0%	6	70%	1	12%	2	18%	0	0%
Zuari	7	0	0%	6	87%	1	13%	0	0%	0	0%
Heidelberg Cement	6	0	0%	0	0%	0	0%	0	0%	6	100%
Sanghi Industries	6	0	0%	0	0%	6	100%	0	0%	0	0%
Vardharaj	6	0	0%	0	0%	6	100%	0	0%	0	0%
Star Cement	6	0	0%	0	0%	0	0%	6	100%	0	0%
Mangalam cement	4	4	83%	0	0%	0	0%	0	0%	1	17%
Total	215	24	11%	82	38%	43	20%	43	20%	24	11%

Source: Company, JM Financial

Exhibit 18. Acquisition targets and the possible reasons for exit

Possible Targets	Adani	Ultratech	Shree	Dalmia	Possible Reasons for considering merger
Nuvoco Vistas	✓	✓	✗	✗	Relatively High Debt / Diversified business group
Birla Corp	✓	✓	✓	✗	Unlikely; Aggressive Expansion / Diversified business group
Ramco	✓	✓	✗	✗	Relatively High Debt / Diversified business group
India Cements	✓	✓	✗	✗	Relatively High Debt
Chettinad	✓	✓	✗	✗	Regional Concentration / Diversified business group
JK Cement	✓	✓	✗	✗	Diversified business group
JK Lakshmi	✓	✓	✗	✓	Regional Concentration / Diversified business group
JSW Cement	✗	✗	✗	✗	Unlikely; Aggressive Expansion / Diversified business group
Wonder Cement	✓	✓	✓	✓	NA
Kesoram	✓	✓	✗	✗	Relatively High Debt / Diversified business group
Orient Cement	✓	✓	✗	✗	Regional Concentration / Diversified business group
Sagar cement	✓	✓	✗	✗	Regional Concentration
Zuari	✓	✓	✓	✓	MNC Parentage + Regional Concentration
Heidelberg Cement	✓	✓	✓	✓	MNC Parentage + Regional Concentration
Sanghi Industries	✓	✓	✗	✓	Relatively High Debt
Vardharaj	✓	✓	✗	✓	Relatively High Debt
Star Cement	✓	✓	✗	✗	Regional Concentration / Diversified business group
Mangalam cement	✓	✓	✗	✓	Relatively High Debt / Diversified business group

Source: Company, JM Financial

Theme 1: Adani Group-triggered consolidation

- **We analyse two possible scenarios:** We believe the sector will undergo a healthy consolidation over the coming years and Adani's capital allocation of INR 500bn war chest (INR 200bn promoter infusion + existing cash balance + 1x leverage on equity) will define industry dynamics. We look at the various scenarios that can play out.
- **Scenario 1: All-out consolidation as large players become aggressive – highly likely:** Given the significant premium enjoyed by large cap players (especially Ambuja) compared to mid-cap players, and the minimal leverage they enjoy, they remain in an extremely favourable position to bid aggressively for smaller assets and scale up capacity quickly. Given the current buoyancy in demand coupled with the already high capacity utilisation of ACC-Ambuja, in our view, acquisitions will be the preferred way of gaining market share and reducing time to market. However, the high competitive intensity and 'fear of missing out' factor will also make competitors bid aggressively for assets. Ambuja Cement, on its own, also has a war chest of INR 500bn and can acquire 60-70MT (assuming USD 70-80 per ton) of assets and double its existing capacity (in line with the stated plan).
- **Scenario 2: Aggressive organic expansion – possible to a limited extent:** Theoretically, this may be the best way forward, as brownfield capex can be executed in 1-2 years at USD 80/ton and scope for value creation is the largest (Ambuja trades at c.2.5-3x of replacement cost). But the risks in this strategy are three-fold: i) delayed timelines imply best part of the cycle is missed (pre-election), ii) allows competition to get a foot in the door with more acquisitions, and iii) over-supply concerns also arise.
- **Largely acquisition-led growth seems likely with organic only wherever possible:** We believe it would be a combination of organic (wherever possible) coupled with largely acquisition-led growth for large players.
- **Does it mean we should only buy the consolidators?** Yes and no. While consolidators will benefit as they keep on acquiring assets at relatively cheaper valuations (large caps trade at a premium), overall the market will turn into a buyer's market from previously being a seller's market, implying competitive bidding and higher valuations for the targets. There are two possible stock outcomes to this: i) other target stocks that are not acquired getting disappointed if they are not acquired, or ii) other target stocks moving further upwards on account of higher probability of that company getting acquired / premium valuations being ascribed.
- **Historical precedents indicate premium to replacement cost is usually ascribed to good assets:** Acquisitions including Binani Cement, JP Associates, Century Cement, Reliance Cement and ACC and Ambuja have all happened at premium valuations and the ones at discount have some issues related to promoter level debt, lower clinker connectivity and lower utilisation, leading to forced selling.
- **What were Adani Cementation's previously announced plans?:** Adani Cementation has evaluated 2 sites including: i) 10MTPA greenfield grinding capacity at Lakhpat, Gujarat, and ii) 4.5MTPA greenfield grinding capacity at Alibaug, Maharashtra. Over the past 2-3 years, there has been no update on Gujarat expansion, and Maharashtra has been a recent development.
- **Evidence of consolidation already visible:** We find confirming evidence of inorganic growth: i) Adani Cementation's proposed greenfield plant has seen limited progress (10MTPA plant in Gujarat was proposed in CY19 b), ii) Dalmia / Sagar bidding for Andhra Cement assets (Link), iii) Shree Cement talking about acquisitions in Central India (Link), , iv) Heidelberg plans to merge with Zuari Cement (Link) and v) Ultratech to acquire India Cement MP project (Link).
- **Any possibility of pricing / utilisation getting impacted in the near term:** ACC / Ambuja already have 80-90% capacity utilisation and are adding only 6MTPA over the next 2 years (base of 65 MTPA) thereby limiting the scope to push volumes and offering no real reason to cut prices. The focus of the Adani group is likely to be on internal synergies (royalty, flyash, power and freight) and they will try and achieve improvement in EBITDA / ton.

Mapping possible targets:

- We look at 18 companies with capacity between 4MT and 24MT (medium size; c.40% of India capacity) that might be of interest to the larger players for acquisitions. The total capacity across these companies is 215MTPA as of FY22 (with further proposed expansions). These capacities are spread across regions.
- How could it pan out?: Considering the size of the larger players and the issues associated with integration, it is highly likely that they would look at sizeable assets (preferably with deep regional penetration) in non-complementary geographies.
- South: Given the relative oversupply in the South market (54% utilisation), it is unlikely that large greenfield investments would be set up in the region; this offers an opportunity for inorganic acquisitions. Access to limestone mines and fragmented market make it a favourable geography**. Key assets:** India Cements, Ramco Cements, Kesoram Industries, Orient Cement, Sagar Cement, and Chettinad Cement.
- East: Highest growth rates in the country (10-11% CAGR) and lowest per capita consumption make it the most attractive geography. Limestone availability and access to the northeast remain a challenge to new entrants. **Key assets:** Nuvoco Vistas and Star Cement are among the largest players in the region.
- North and West: Remains one of the most stable geographies with high utilisation and healthy development plans. **Key assets:** Has multiple mid-sized capacities such as Wonder, JK Cement, JK Lakshmi, Sanghi, Vardharaj, and Mangalam.
- Central: One of the best performing geographies with infrastructure projects, low per capita cement consumption, and balanced demand-supply dynamics. **Key assets:** Heidelberg and Birla Corp are potential names.
- How would the larger players act?: Given the pan-India presence of ACC-Ambuja and Ultratech we believe acquisitions could be agnostic of geography but would focus on the asset quality / market share in a particular region. Dalmia has been largely South and East focussed; thereby, North, West, and Central all become attractive markets. Shree Cement has been looking for acquisitions in Central India.

Exhibit 19. Region-wise capacity of possible target companies

Capacity (MTPA)	FY22	North	% of total	South	% of total	West	% of total	East	% of total	Central	% of total
Nuvoco Vistas	24	5	20%	0	0%	0	0%	19	80%	0	0%
Birla Corp	20	0	0%	0	0%	4	21%	2	10%	14	69%
Ramco	19	0	0%	16	84%	0	0%	3	16%	0	0%
India Cements	16	2	10%	13	83%	1	7%	0	0%	0	0%
Chettinad	15	0	0%	15	100%	0	0%	0	0%	0	0%
JK Cement	15	3	20%	0	0%	9	59%	3	20%	1	5%
JK Lakshmi	14	8	59%	0	0%	2	16%	4	25%	0	0%
JSW Cement	16	0	0%	8	51%	3	16%	5	33%	0	0%
Wonder Cement	13	3	19%	0	0%	9	65%	0	0%	2	15%
Kesoram	11	0	0%	11	100%	0	0%	0	0%	0	0%
Orient Cement	9	0	0%	7	76%	2	24%	0	0%	0	0%
Sagar cement	8	0	0%	6	70%	1	12%	2	18%	0	0%
Zuari	7	0	0%	6	87%	1	13%	0	0%	0	0%
Heidelberg Cement	6	0	0%	0	0%	0	0%	0	0%	6	100%
Sanghi Industries	6	0	0%	0	0%	6	100%	0	0%	0	0%
Vardharaj	6	0	0%	0	0%	6	100%	0	0%	0	0%
Star Cement	6	0	0%	0	0%	0	0%	6	100%	0	0%
Mangalam cement	4	4	83%	0	0%	0	0%	0	0%	1	17%
Total	215	24	11%	82	38%	43	20%	43	20%	24	11%

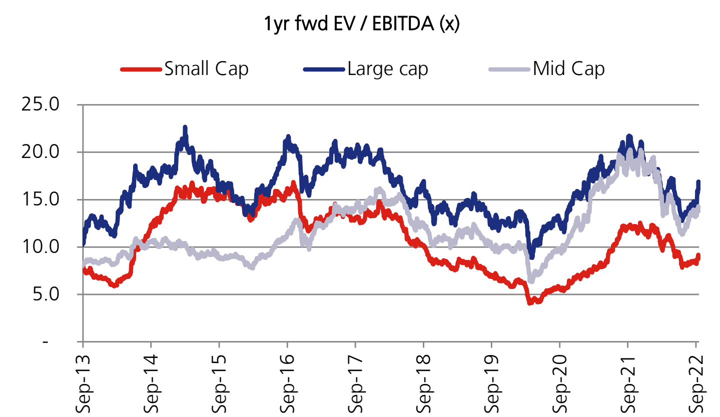
Source: Company, JM Financial

Exhibit 20. Acquisition targets and the possible reasons for exit

Possible Targets	Adani	Ultratech	Shree	Dalmia	Possible Reasons for considering merger
Nuvoco Vistas	✓	✓	✗	✗	Relatively High Debt / Diversified business group
Birla Corp	✓	✓	✓	✗	Unlikely; Aggressive Expansion / Diversified business group
Ramco	✓	✓	✗	✗	Relatively High Debt / Diversified business group
India Cements	✓	✓	✗	✗	Relatively High Debt
Chettinad	✓	✓	✗	✗	Regional Concentration / Diversified business group
JK Cement	✓	✓	✗	✗	Diversified business group
JK Lakshmi	✓	✓	✗	✓	Regional Concentration / Diversified business group
JSW Cement	✗	✗	✗	✗	Unlikely; Aggressive Expansion / Diversified business group
Wonder Cement	✓	✓	✓	✓	NA
Kesoram	✓	✓	✗	✗	Relatively High Debt / Diversified business group
Orient Cement	✓	✓	✗	✗	Regional Concentration / Diversified business group
Sagar cement	✓	✓	✗	✗	Regional Concentration
Zuari	✓	✓	✓	✓	MNC Parentage + Regional Concentration
Heidelberg Cement	✓	✓	✓	✓	MNC Parentage + Regional Concentration
Sanghi Industries	✓	✓	✗	✓	Relatively High Debt
Vardharaj	✓	✓	✗	✓	Relatively High Debt
Star Cement	✓	✓	✗	✗	Regional Concentration / Diversified business group
Mangalam cement	✓	✓	✗	✓	Relatively High Debt / Diversified business group

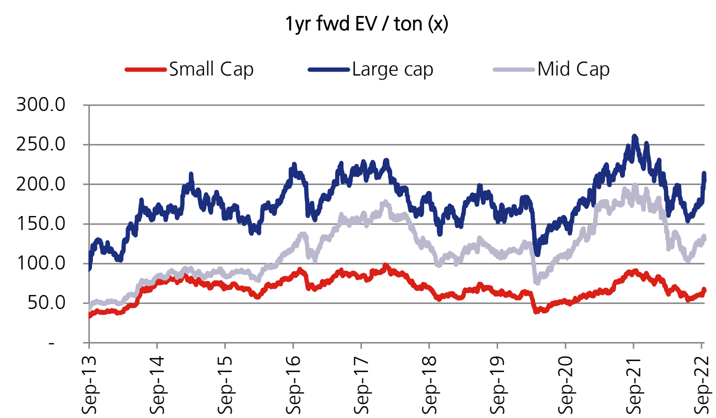
Source: Company, JM Financial

Exhibit 21. Mid-caps / small caps trading at 14% / 44% discount on EV / EBITDA compared to large caps



Source: Bloomberg as on 29Sep'22, JM Financial
Large caps – ACC, Ambuja, Shree and Ultratech
Mid-caps – Dalmia, JK Cements and Ramco
Small-caps – Heidelberg, Orient, JK Lakshmi and Sagar

Exhibit 22. Mid-caps / small caps trading at 40% / 70% discount on EV / ton compared to large caps



Source: Bloomberg as on 29Sep'22, JM Financial
Large caps – ACC, Ambuja, Shree and Ultratech
Mid-caps – Dalmia, JK Cements and Ramco
Small-caps – Heidelberg, Orient, JK Lakshmi and Sagar

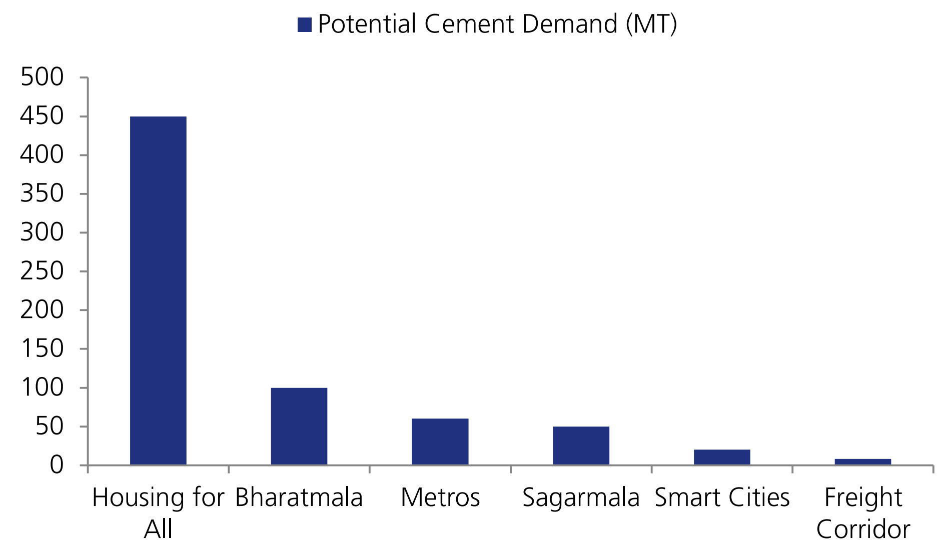
Exhibit 23. M&A a frequent feature of the industry

Year	Target	Acquirer	Capacity (MTPA)	Region	EV (INR bn)	Valuation (EV/ton, in US$)	Comments
2022	ACC+Ambuja Cements	Adani group	67.8	Pan India	810	149	Targets to derive synergies from other business and increase capacities significantly
2021	Bhavya Cements	Anjani Portland	1.4	South	6	71	Limestone reserve of 4.5MTPA under mining lease. 24% of power requirements were met through captive sources
2020	Emami Cement	Nuvoco Vistas	8.3	East	55	83	Allows Nuvoco to become one of the largest players in the East
2019	Murli Industries	Dalmia Bharat	2.9	West	13	58	A distressed asset – Substantial resources were needed to restart the plant
2018	Binani Cement	Ultratech	8.6	North	80	116	Allowed diversified market presence along with scale benefits
2018	Century Cement	Ultratech	11.4	Central/ West/East	81	88	Deeper presence in existing markets and along with increased presence in East. 8.5MTPA clinker and 117MW TPP also acquired
2018	Kalyanpur Cement	Dalmia Bharat	1.1	East	4	40	13MT Limestone reserve at Murli Pahari.
2016	Lafarge Cement	Nirma Corp	11.0	East	94	127	Nirma to own 13mt capacity post acquisition
2016	JPA group Gujarat units	Ultratech	22.4	West	170	95	A Captive power plant and a jetty for clinker and coal movement will aid a reduction in cost
2016	Reliance Cement	Birla Corp	5.5	Central/ West	48	110	Higher limestone reserves and strengthening its presence in the high growth central region.
2014	Jaypee Panipat Haryana	Shree	1.5	North	4	30	The acquisition was on a slump sale basis. Post the deal Shree Cement capacity increased to 19MTPA.
2014	BMM	Sagar Cement	1.0	South	5	66	Limestone reserve with a capacity of 155MT and a captive thermal power plant of 25MW
2014	Jaypee Bokaro Cement	Dalmia Bharat	2.1	East	12	68	After the acquisition Dalmia will have a total capacity of 24MTPA as it looks to strengthen its presence in the East
2013	Jaypee Gujarat Plant	Ultratech	4.8	West	38	68	Has a 57MW coal based power unit and a 30MW Diesel generator
2013	Sree Jayajothi Cements	My Home Industries	3.2	South	14	55	Lower capacity utilization in South India
2013	Adhunik Metals	Dalmia Bharat	1.5	East	11	90	One of the largest cement manufacturers in North India
2012	Calcom	Dalmia Bharat	1.7	East	3	23	Acquired 26% stake, taking its total stake to 76%. Paid INR 771.6mn and INR 2,380mn for the 26% stake and 50% stake respectively

Source: Company, JM Financial
EV / ton adjusted assuming 1US$ = 80 INR

Theme 2: Demand remains extremely strong

Exhibit 24. Equation remains simple; if housing does well, cement does well



Source: Industry, JM Financial

- **Unprecedented housing and infrastructure boom:** What gives us the most confidence is the favourable demand outlook in India. We look at the various factors driving cement demand in the coming years and find that a majority of it will be driven by housing (60-63%). While rural housing (c.35% of demand) has been doing well since CY17 urban housing (25-30%) has started doing well over the past 2 years as inventory across cities has gone down / sales are booked and a major construction pick-up is likely. In the infrastructure segment, national highways continue to be built at an all-time high pace along with metro and airport construction. Even industrial and commercial segments are doing well.

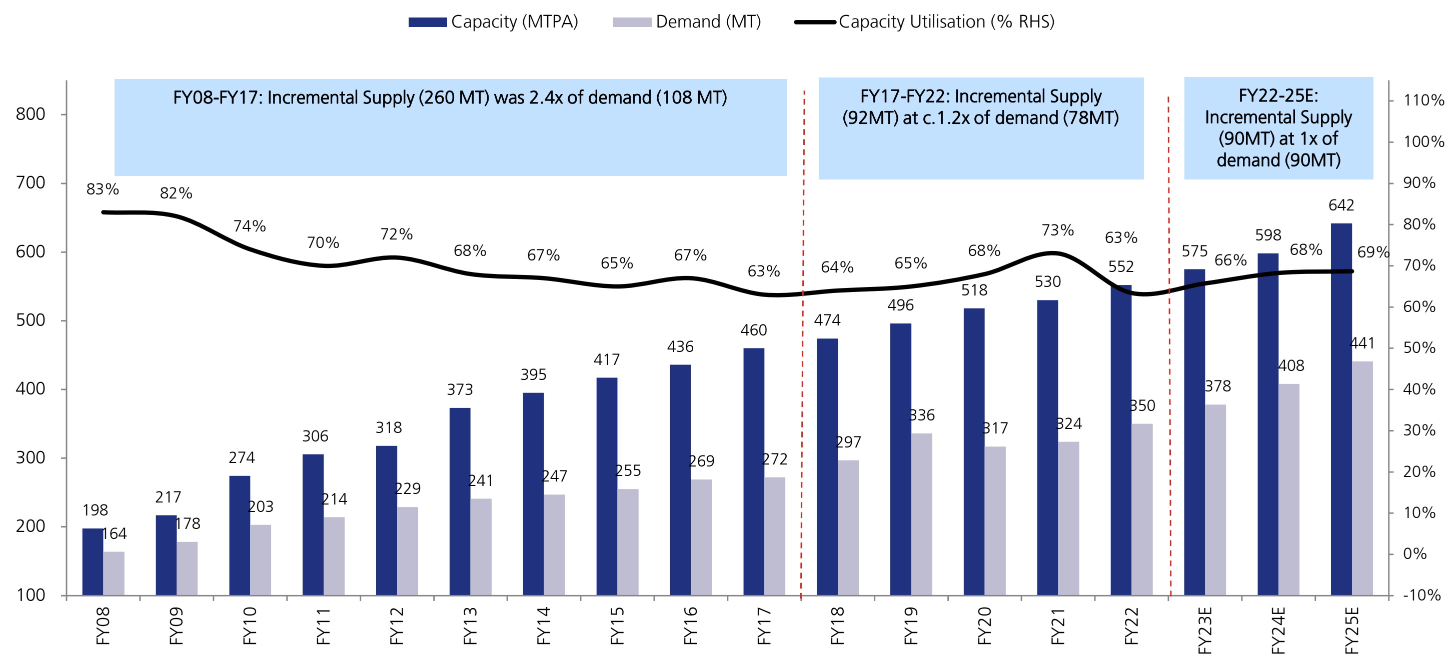
Exhibit 25. Factors that determine cement demand

Demand Triggers	India picking up growth momentum	Demand Strength
Housing for All	Government focus since CY17 to bring > US$1trn investment in the sector by CY25. 18mn houses are constructed under PMAY-G vs target of 29.5mn by FY22. Remains a key government project	⬆ (dark blue)
Urban Housing	Inventory in months* stood at 13 months across top 7 Indian cities, lowest since CY08 with decadal high absorption and decadal low inventory. 38% of population (534mn) to occupy Indian cities by FY25 (current 33%). Housing Shortage of 62.45mn units of which 30% is in Urban India	⬆ (dark blue)
Roads	Bharatmala project target of 60,000 km from FY20 to FY24, of which c.53% constructed till FY22. Momentum to continue given strong investment pipeline under NIP	⬆ (dark blue)
Industrial	Industrial and Commercial segment should grow in midterm; favourable base, production linked incentive schemes, corporate capex pick up	⬆ (light blue)
Metro & Airports	Total operational metro length increased threefold over last few years, Government targets to double the length by FY25. Airports planned to increase from 140 to 220 by 2025.	⬆ (light blue)
Irrigation	Various irrigation projects are in progress or to begin; PMKSY with an outlay of INR 930bn, River linking project - Draft DPRs for 5 river links have been finalized.	⬆ (light blue)

Source: Ultratech, Industry, JM Financial
NIP - National Infrastructure Pipeline, PMKSY - Pradhan Mantri Krishi Sinchai Yojana, DPR – Detailed Project Report, PMAY-G – Pradhan Mantri Awaas Yojana Gramin.
*represents 7MCY22 until 22nd July 2022
Dark blue arrow: Very Strong demand and Light Blue: Strong Demand

- **Cement industry entering a healthy demand-supply phase:** While there have been concerns regarding the demand and supply scenario for cement we believe incremental capacity addition over FY22-25E is broadly in line with demand (given the robust demand outlook: 8% CAGR). This is likely to improve industry capacity utilisation. We divide the industry into three phases: i) FY08-17 – where capacity addition was 2x of demand; as a result capacity utilisation fell; ii) FY17-22 – where supply was 1.3x of demand; and iii) FY22-25 – supply addition is broadly equal to demand. We believe across all companies volume growth / margin expansion is likely to play out. (Exhibit 26).

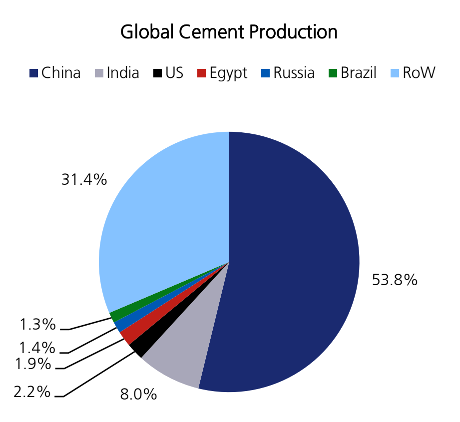
Exhibit 26. Incremental demand-supply scenario looks fairly balanced; capacity utilisation to head higher as demand remains strong even though supply is higher than in FY17-22



Source: Industry Estimates, Bloomberg

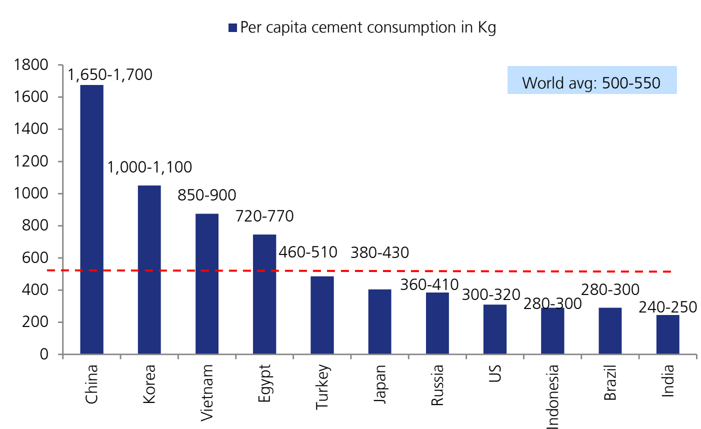
- **India remains a multi-decadal opportunity on account of inevitable catch-up in penetration:** India is responsible for c.8% of global cement production, making it the second-largest producer, only behind China (54%). However the Indian market (per capita cement 240-250kg) is one of the most underpenetrated with per capita cement consumption being half of the world average (500-550kg) and even behind countries such as Brazil and Indonesia. (Exhibit 27-28)

Exhibit 27. India is the second-largest producer of cement worldwide…



Source: Ultratech, JM Financial

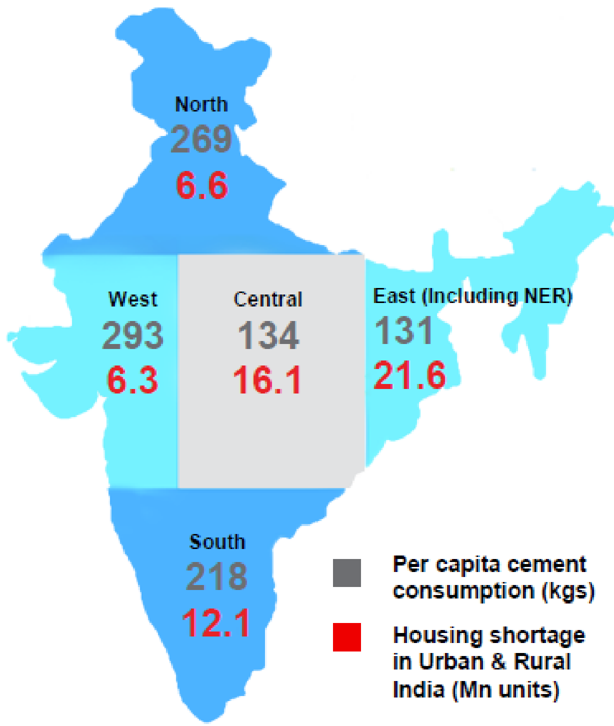
Exhibit 28. …but remains a highly underpenetrated market



Source: Ultratech, JM Financial

- **East and Central to lead growth:** Cement consumption is lowest in India's eastern region (131kg). This market is likely to do well in the near future. Greater focus by the government on infrastructure projects in the eastern region, and smart cities (21 out of the 110 cities commissioned under the smart city mission in this region), and limestone availability are key drivers for cement demand and make this market an attractive destination. Out of the total housing shortage in urban India, east India and central India contribute 35% and 25% respectively.

Exhibit 29. Per capita cement consumption (in kg)



Source: Star Cement, JM Financial

Exhibit 30. Demand growth drivers region-wise

Region	Infrastructure	Housing	Commercial	Demand growth drivers and rationale
North				National Capital Region (NCR) showing positivity in Real Estate. Delhi Metro; Jaipur Metro, Smart cities in Rajasthan and Delhi, Eastern peripheral expressway/ six laning of NH8, dam project are the other projects
Central				Lucknow + Kanpur are amongst the top 20 growing cities in India and expected to grow at a 10% CAGR on the back of infrastructure and real estate development. Several metro projects, Upper Ganga Expressway, irrigation (Ken Betwa), smart cities (Indore, Bhopal, Lucknow)
East				Metro projects in Patna, Kolkata, EDFC, north east (several road and rail connectivity projects)
West				**Maharashtra:** Robust growth across segments in road infrastructure, metro projects and supported by pent up demand in real estate and housing **Gujarat:** Housing registered growth in both urban and rural segments due to improved cash flows in rural markets. Infrastructure registered growth on account of major projects i.e., Bullet Train, Vadodara Mumbai Expressway etc.
South				Commercial & industrial and real estate growth will lead to higher requirement of bulk volume mainly in Chennai & Salem/ Coimbatore region. Vizag IT City Project in Andhra Pradesh, irrigation projects in Telangana.

Source: Industry, Ultratech, JM Financial
NHAI-National Highway Authority Of India, EDFC-Eastern Dedicated Freight C Corridor,
DFC-Dedicated Dedicated Freight Corridor, IHB-Industrialized Housing and Buildings
Dark Blue Indicates Higher Demand

PMAY Scheme for housing

- **Government schemes will improve demand for housing:** The central government, under its Pradhan Mantri Awas Yojana (Urban) Housing for All scheme, has so far released 60% of the total financial assistance sanctioned. The government has completed 51% of the houses sanctioned (Exhibit 31).

Exhibit 31. PMAY scheme

State		Physical progress of house(in units)					Central Assistance (in INR bn)		
	Proposal Considered	Sanctioned	Grounded*	Completed / Delivered	% completed	Investment	Sanctioned	Released	%released
Andhra Pradesh	1,203	2,071,776	1,899,713	582,306	28%	886.86	315.55	142.24	45%
Bihar	520	326,546	307,765	96,084	29%	183.29	51.66	25.45	49%
Chhattisgarh	1,796	301,781	253,729	148,113	49%	133.14	47.56	28.99	61%
Goa	10	3,097	2,867	2,865	93%	6.58	0.72	0.68	94%
Gujarat	1,717	1,054,790	874,183	737,205	70%	1,061.73	210.61	152.57	72%
Haryana	457	165,427	87,827	53,167	32%	155.10	29.45	13.49	46%
Himachal Pradesh	308	13,053	12,625	7,801	60%	8.63	2.36	1.72	73%
Jharkhand	453	234,114	209,142	112,210	48%	115.42	36.82	25.20	68%
Karnataka	2,760	700,578	590,861	273,115	39%	511.93	114.94	54.08	47%
Kerala	699	157,430	128,037	102,344	65%	82.71	26.12	18.32	70%
Madhya Pradesh	1,853	958,100	855,864	518,353	54%	525.07	157.10	116.71	74%
Maharashtra	1,556	1,634,553	865,551	637,514	39%	1,906.48	286.20	139.17	49%
Odisha	976	212,950	161,065	108,246	51%	97.28	33.51	18.86	56%
Punjab	871	111,896	100,386	54,982	49%	79.77	19.86	12.94	65%
Rajasthan	422	266,692	170,053	137,478	52%	218.57	50.40	33.13	66%
Tamil Nadu	4,708	691,236	628,598	462,375	67%	485.98	112.58	85.10	76%
Telangana	303	247,079	235,413	210,079	85%	300.99	43.96	30.44	69%
Uttar Pradesh	4,536	1,714,013	1,528,919	1,137,100	66%	837.86	269.79	193.41	72%
Uttarakhand	243	66,473	39,765	24,985	38%	52.89	12.09	6.36	53%
West Bengal	656	693,436	487,249	282,378	41%	375.01	110.70	55.82	50%
Sub- total (States) :-	**26,047**	**11,625,020**	**9,439,612**	**5,688,700**	**49%**	**8,025.29**	**1,931.97**	**1,154.68**	**60%**
Arunachal Pradesh	61	8,999	8,131	3,286	37%	5.11	1.90	1.46	77%
Assam	441	161,309	154,872	51,539	32%	48.85	24.41	11.56	47%
Manipur	45	56,029	44,364	5,917	11%	14.45	8.41	3.37	40%
Meghalaya	36	4,752	3,618	901	19%	1.85	0.72	0.25	35%
Mizoram	52	40,452	35,069	5,307	13%	9.17	6.19	2.05	33%
Nagaland	75	32,335	31,884	7,601	24%	10.50	5.11	3.07	60%
Sikkim	11	701	562	179	26%	0.34	0.12	0.06	54%
Tripura	122	94,289	80,226	59,860	63%	29.48	15.13	10.91	72%
Sub- total (N.E. States) :-	**843**	**398,866**	**358,726**	**134,590**	**34%**	**119.76**	**61.99**	**32.73**	**53%**
A&N Island (UT)	2	378	377	45	12%	0.96	0.06	0.02	34%
Chandigarh (UT)	-	1,194	1,129	1,129	95%	2.53	0.27	0.26	94%
UT of DNH & DD	9	10,011	8,789	6,370	64%	8.48	2.10	1.65	78%
Delhi (NCR)	-	28,449	27,288	27,288	96%	54.44	6.53	6.25	96%
J&K (UT)	403	48,832	46,529	14,302	29%	26.66	7.50	3.64	48%
Ladakh (UT)	8	1,363	1,071	596	44%	0.68	0.31	0.22	71%
Lakshadweep (UT)	-	-	-	-	NA	-	-	-	NA
Puducherry (UT)	45	16,039	15,626	6,845	43%	9.02	2.52	1.68	66%
Sub- total (UT) :-	**467**	**106,266**	**100,809**	**56,575**	**53%**	**103**	**19**	**14**	**71%**
Grand Total* :-	**27,357**	**12,130,152!**	**10301000***	**6,221,000***	**51%**	**8,248**	**2,013**	**1,201**	**60%**

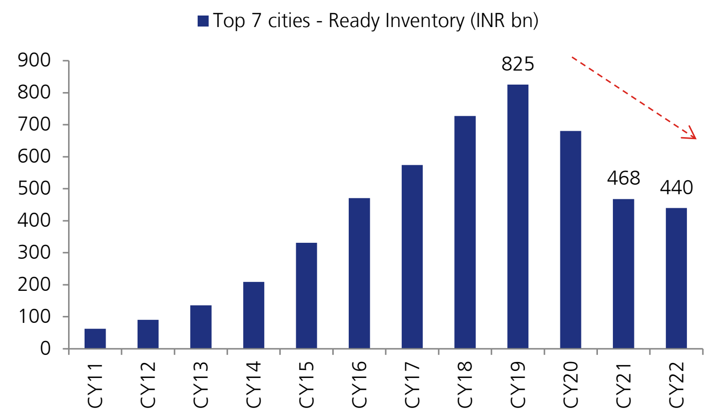
Source: PMAY (Urban) – Housing for all (HFA) States/UTs wise Progress, JM Financial
* Includes completed (3.41 lakh)/ grounded (4.01 lakh) houses of JnNURM during mission period.
! Out of 122.69 lakh houses sanctioned as on 31.3.2022, 1.4 lakh non-starter houses have been curtailed by some States against which States to put up new proposals by August 2022.
As of 25th July

Urban housing

Inventory trends across top 7 cities

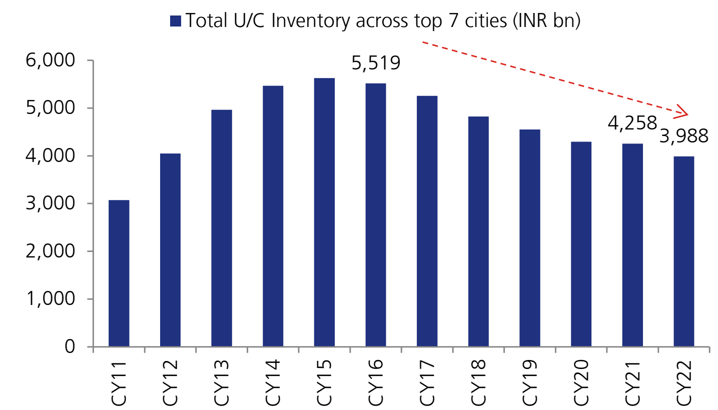
- **Sales locked in – construction cycle inevitable:** We believe urban housing remains in its best-ever scenario with a decadal low inventory and decadal high absorption. CY21 / CY22 are the years where majority of these sales have happened and construction activity is likely to continue to gather pace in the next 3-4 years. We see similar demand trends in Tier II cities as well with inventory levels less than 24 months.

Exhibit 32. 'Ready to move in' inventory decreasing across markets



Source: PropEquity, JM Financial
Data till May'22

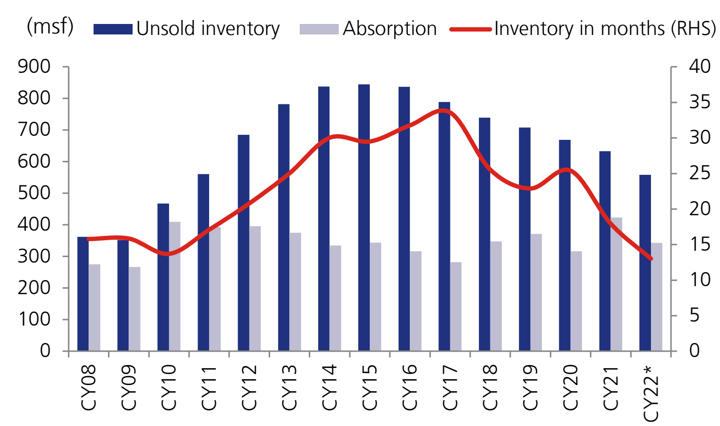
Exhibit 33. Even under-construction inventory is reducing



Source: PropEquity, JM Financial
Data till May'22

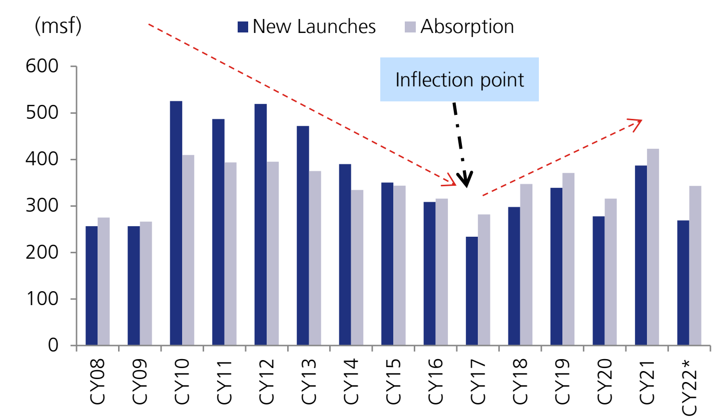
Top 7 cities

Exhibit 34. Inventory in months continues to fall



Source: PropEquity, JM Financial
*represents YTD Aug'22

Exhibit 35. Absorption higher than new launches



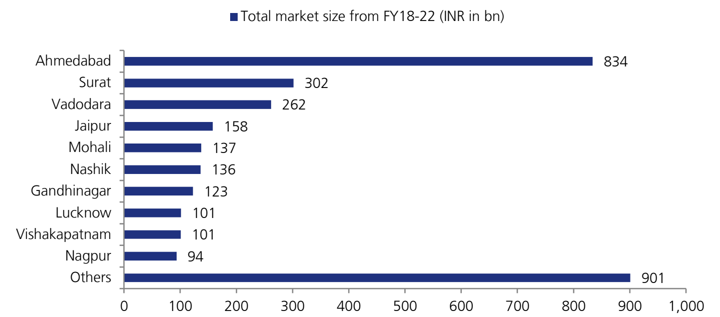
Source: PropEquity, JM Financial
*represents YTDAug'22

Exhibit 36. Inventory less than 24 months across all Tier II cities

Units	Supply	Absorption in FY22	Unsold	Unsold Inventory in months
Ahmedabad	39,195	39,046	62,047	19
Vadodra	15,046	17,285	27,070	19
Surat	7,594	11,663	22,900	24
Nashik	13,037	10,806	15,837	18
Jaipur	7,022	7,676	14,529	23
Gandhi Nagar	6,361	7,650	9,560	15
Nagpur	3,730	5,473	7,745	17
Mohali	3,453	5,236	8,915	20
Vishakapatnam	3,852	3,722	6,064	20
Bhubaneswar	4,443	3,722	4,918	16

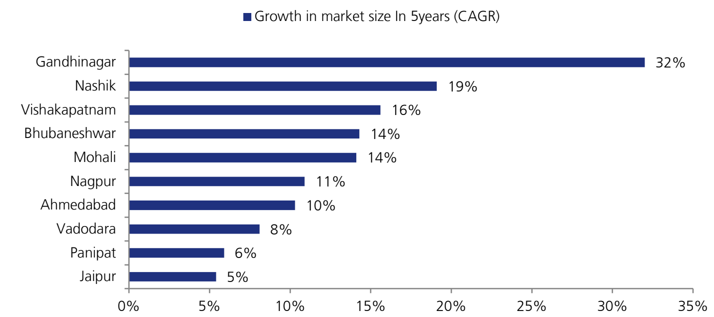
Source: Propequity, JM Financial
Data as of FY22 end

Exhibit 37. Rapid urbanisation helping Ahmedabad housing demand



Source: PropEquity, JM Financial

Exhibit 38. Gandhi Nagar shows highest growth in market size



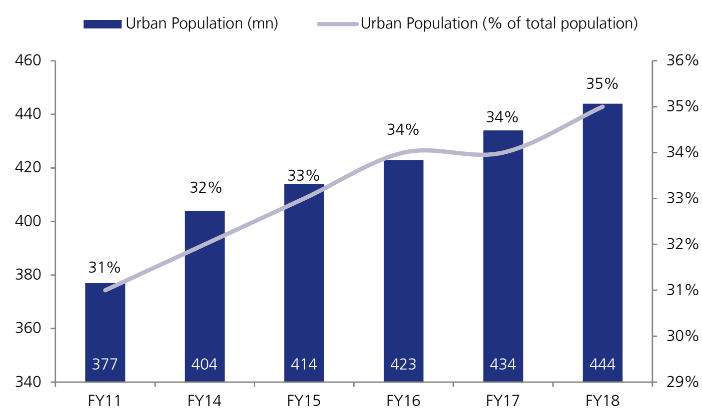
Source: PropEquity, JM Financial

Real Estate Sector Report 07Sep22: Residential optimism visible across Tier II cities also

Real Estate Sector Report 01Jul22: Residential cycle: Standing tall amidst hue and cry

- **Urban population rising at a steady pace:** India's urban population is estimated to have increased from 377mn to 444mn during FY11-18 at a CAGR of 3% and urbanisation level of 34%. Maharashtra, Uttar Pradesh, Tamil Nadu, West Bengal and Andhra Pradesh (including Telangana) were the top five states in terms of urban population (Exhibit 39).

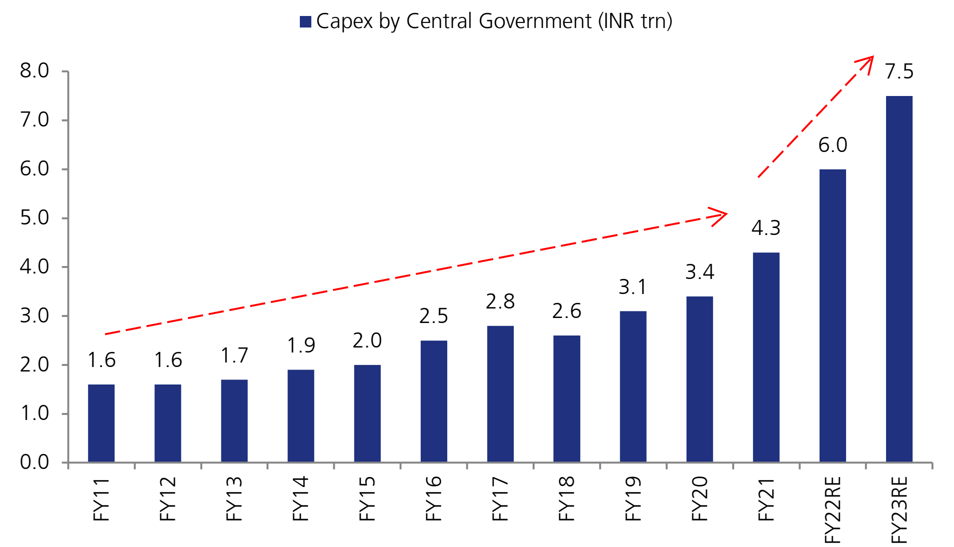
Exhibit 39. Urban population rising steadily



Source: Census of India 2011, CRIS Estimates, World Bank Urban Growth Estimates, 2018 P - Projections, National Infrastructure Pipeline PPT volume II, JM Financial

Government capex

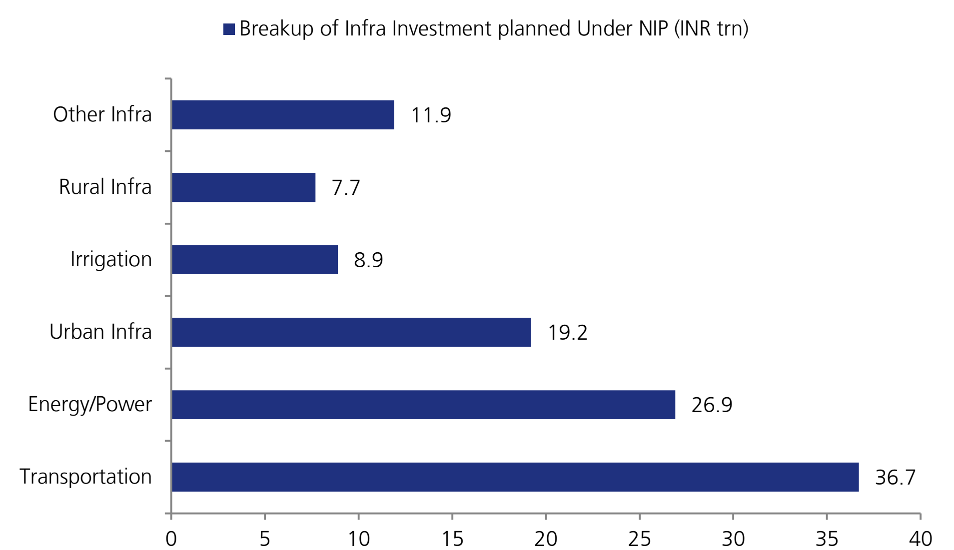
Exhibit 40. Government capex expected to rise sharply



Source: Dalmia Bharat PPT, JM Financial

- **Energy, roads and railways to receive highest infrastructure investment:** The total capital expenditure in infrastructure in India during FY20-25 is projected at INR 111.3trn. The roads sector contributes to INR 20trn of the total infrastructure spend. (Exhibit 41).

Exhibit 41. Break-up of infra investments under NIP



Source: NIP, JM Financial

Exhibit 42. Sector-wise annual capital expenditure in infrastructure (INR bn)

Ministry/department (in INR bn)	FY20	FY21	FY22	FY23	FY24	FY25	No phasing	FY20-25
Energy								
Power	1,641	2,256	2,217	2,235	2,252	2,110	1,393	14,104
Renewable energy	305	1,510	1,440	1,700	2,170	2,170	-	9,295
Atomic energy	116	215	283	331	327	283	-	1,555
Petroleum and natural gas	273	435	483	415	229	105	5	1,946
Total energy	**2,336**	**4,415**	**4,424**	**4,681**	**4,978**	**4,668**	**1,398**	**26,900**
Roads								
Roads	3,326	3,833	3,570	2,528	2,408	3,327	1,348	20,338
Total roads	**3,326**	**3,833**	**3,570**	**2,528**	**2,408**	**3,327**	**1,348**	**20,338**
Railways								
Railways	1,334	2,625	3,088	2,738	2,212	1,679	-	13,676
Total railways	**1,334**	**2,625**	**3,088**	**2,738**	**2,212**	**1,679**	**-**	**13,676**
Ports								
Ports	134	181	206	159	77	100	355	1,212
Total ports	**134**	**181**	**206**	**159**	**77**	**100**	**355**	**1,212**
Airports								
Airports	187	217	248	213	254	51	264	1,434
Total airports	**187**	**217**	**248**	**213**	**254**	**51**	**264**	**1,434**
Urban								
Atal Mission	2,982	4,622	4,041	2,349	2,172	1,599	1,429	19,193
Total urban	**2,982**	**4,622**	**4,041**	**2,349**	**2,172**	**1,599**	**1,429**	**19,193**
Digital communication								
Digital communication	784	618	545	387	381	381	-	3,097
Total digital communication	**784**	**618**	**545**	**387**	**381**	**381**	**-**	**3,097**
Irrigation								
Irrigation	1,145	2,006	1,757	1,374	1,153	705	806	8,945
Total irrigation	**1,145**	**2,006**	**1,757**	**1,374**	**1,153**	**705**	**806**	**8,945**
Rural infrastructure								
Rural infrastructure	1,036	1,163	1,099	271	271	271	-	4,110
Water and sanitation	368	605	1,009	848	800	-	-	3,630
Total rural infrastructure	**1,403**	**1,768**	**2,108**	**1,119**	**1,071**	**271**	**-**	**7,739**
Agriculture and food processing infrastructure								
Agriculture infrastructure	31	34	34	19	12	6	1,489	1,625
Food processing industries	5	5	2	1	-	-	-	13
Food and public distribution	-	-	-	-	-	-	50	50
Total agriculture and food processing infrastructure	**36**	**39**	**36**	**19**	**12**	**6**	**1,539**	**1,687**
Social infrastructure								
Higher education	204	279	346	296	274	123	236	1,757
School education	51	71	71	64	66	56	-	378
Health and family welfare	287	401	399	161	98	65	99	1,510
Sports	13	15	14	14	12	8	13	91
Tourism	11	16	21	19	12	7	113	198
Total social infrastructure	**566**	**783**	**850**	**553**	**461**	**259**	**460**	**3,934**
Industrial infrastructure								
Industries and internal trade	174	407	426	335	227	105	1,393	3,067
Steel	17	24	23	16	3	-	-	82
Total industrial infrastructure	**191**	**431**	**448**	**351**	**230**	**105**	**1,393**	**3,150**
Total	**14,421**	**21,538**	**21,323**	**16,471**	**15,408**	**13,151**	**8,992**	**1,11,304**

Source: Project information request format (PIRF) submitted by ministries/ departments/state governments/ private sector, National Infrastructure Pipeline PPT volume I, JM Financial

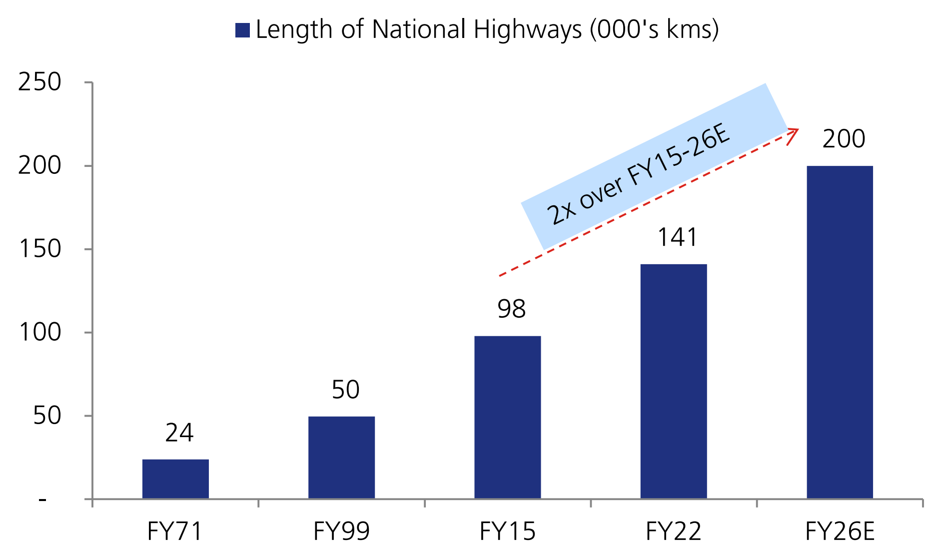
Exhibit 43. Major schemes as per India FY22-23 budget; National highways remain a focus zone

Particulars (in INR bn)	FY21 Actual	FY22 Budget Estimates	FY23 Revised Estimates	FY24 Budget Estimates
Pradhan Mantri Awas Yojna (PMAY)	403	275	474	480
Pradhan Mantri Gram Sadak Yojna	137	150	140	190
Residential	15	6	8	9
Non-residential	18	17	18	26
Metro Projects	86	190	190	191
Road Works	531	602	657	646
National Highways Authority of India	461	574	651	1,340

Source: Sanghi Industries AR 22, JM Financial

- **Government schemes to help infrastructure development:** The substantial increase in the allocation of funds towards highways indicates the government's intention on development of infrastructure. The allocation estimate for highway authorities in FY24 (INR 1,340bn) is more than three times the actual spend in FY21 (INR 461bn).
- **National highway infrastructure spend to boost cement demand:** By FY26, the length of national highways is expected to increase by c.60,000km, which will be an additional demand driver for cement. (Exhibit 44).

Exhibit 44. India is on course to double its national highways over FY15-26

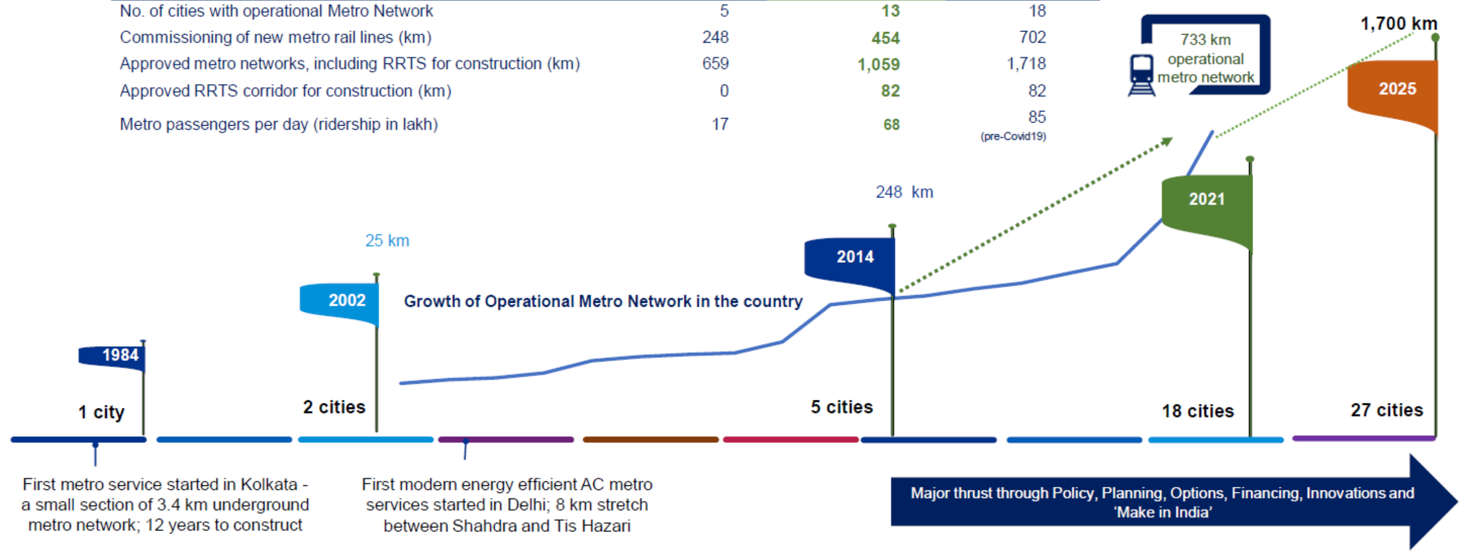


Source: CMIE, Press Releases, MORTH, JM Financial

Metro and Airports

Exhibit 45. Metro rail network to double over CY21-25

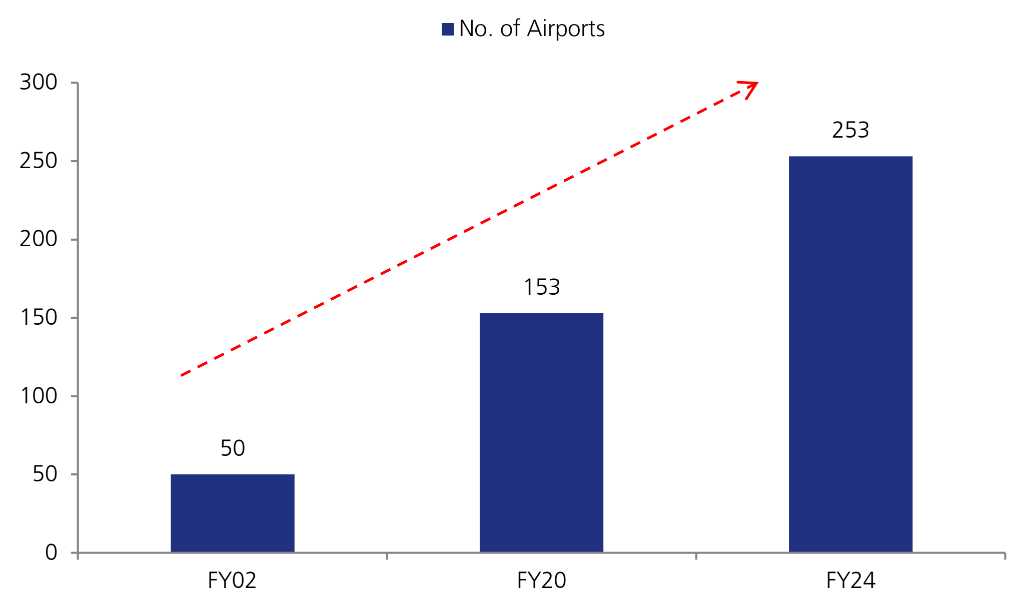
Item	Before 2014	Addition after 2014	Current Status
No. of cities with operational Metro Network	5	13	18
Commissioning of new metro rail lines (km)	248	454	702
Approved metro networks, including RRTS for construction (km)	659	1,059	1,718
Approved RRTS corridor for construction (km)	0	82	82
Metro passengers per day (ridership in lakh)	17	68	85 (pre-Covid19)



Source: Mohua, JM Financial

- **Metro construction in full swing:** Metro construction remains another key driver; India is expected to touch 1,700km of metro lines from 733km operational in 2021 (Exhibit 45).

Exhibit 46. Evolution of the Indian aviation sector



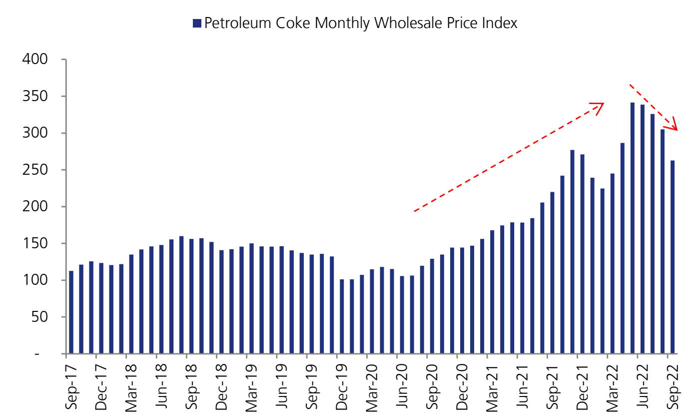
Source: Airports Authority of India, Ministry of Statistics and Programme Implementation, Ministry of Civil Aviation, DGCA, News Articles, JM Financial

- **Airport penetration increasing:** India is set to become the world's 3rd largest civil aviation market by 2024. It plans to open 100 additional airports by 2024. Both metro and airport development projects will lead to an increase in demand for cement (Exhibit 46).

Theme 3: Cost deflation likely to play out

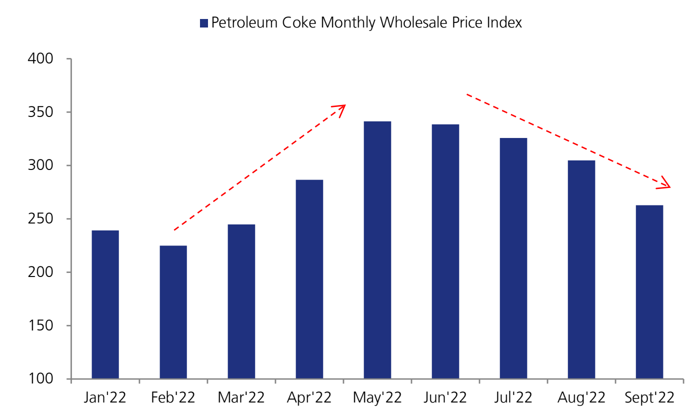
- **Input cost pressure situation to improve 3QFY23 onwards:** Currently, EBITDA / ton is under pressure mainly on account of escalation of i) power and fuel costs (thermal coal inflation), ii) pet coke (a key raw material) prices; and iii) diesel prices (freight and logistics). Out of three mentioned commodities, diesel prices have declined by 8% since 1QFY23, and pet coke prices have declined 14% MoM (Aug'22 to Sept'22) while Australian coal prices have remained elevated. In 2QFY23, realisation is expected to be lower than in 1QFY23 on account of seasonality and weaker offtake coupled by inflated costs of existing inventory. Hence EBITDA/ton is likely to bottom out. 3QFY23 onwards, we expect realisation to start improving and EBITDA / ton to increase (Exhibit 47-49).

Exhibit 47. Pet coke prices peaked in 1QFY23



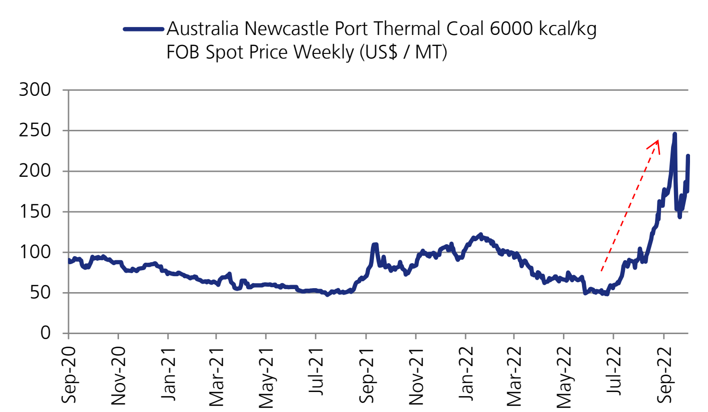
Source: CMIE, Industry, JM Financial

Exhibit 48. Pet coke shows a downward trend in recent months



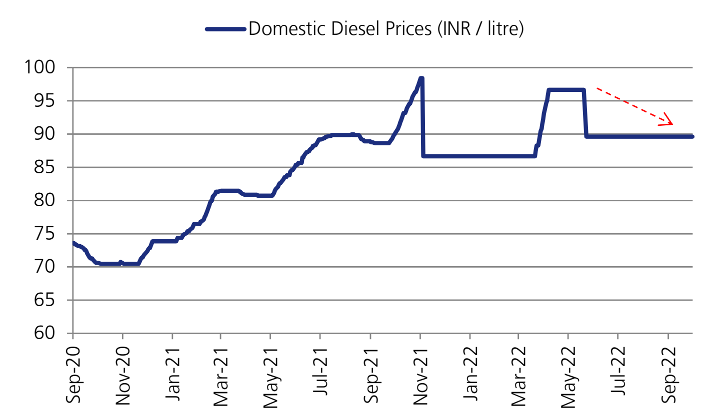
Source: CMIE, Industry, JM Financial

Exhibit 49. Thermal coal prices remain high – a key trigger if it corrects; prices are significantly ahead of long-term averages



Source: Bloomberg as on 29Sep22, JM Financial

Exhibit 50. Diesel prices show a downward trend in recent months but remain elevated YoY



Source: Bloomberg as on 29Sep22, JM Financial

- **Pet coke prices cool down:** Pet coke prices have fallen sharply after May'22 as the end of the monsoon season may mean a pick-up in construction activity. Prices have increased by 20% YoY (from Sept'21 to Sept '22), but they have declined by 14% MoM (from Aug'22 to Sept'22).

Internal improvements coming through

- **Manufacturers increase utilisation of renewable energy sources:** Renewable energy usage has increased in FY22 compared to FY19 for all companies. UltraTech currently has the highest capacity with a total of 436 MW (Exhibit 51) while Shree Cement has the highest renewable power contribution of 48% (of overall power consumption as of Mar'22).

Exhibit 51. Renewable energy and WHRS capacities have increased over the years

	Renewable Energy (Solar +Wind)		WHRS		Total	
Particulars (in MW)	FY19	FY22	FY19	FY22	FY19	FY22
ACC	19	101	8	8	27	109
Ambuja	8	27	7	7	14	34
Dalmia	8	32	9	31	17	63
Heidelberg	0	6	12	12	12	18
JK Cement	0	17	23	42	24	60
JK Lakshmi	9	41	23	39	32	80
Orient	0	14	0	0	0	14
Ramco Cement	126	166	0	27	126	193
Sagar	10	10	9	14	19	24
Shree	NA	NA	NA	NA	147	263
UltraTech	62	269	85	167	147	436

Source: Company, JM Financial
Note: for ACC and Ambuja data is as of CY21

- **Signficant increase in renewable energy capacity leading to improvement in cost structures:** ACC-Ambuja remain at the lower end of the band (1.4-9.3) in terms of renewable energy as a proportion of cement capacity, offering scope for improvement in cost structure.

Exhibit 52. Renewable energy and cement capacity for FY22

	Renewable Energy (MW)	Cement Capacity (MT)	Renewable Energy/ Cement Capacity (MW/MT)
ACC	109	37	3
Ambuja Cement	34	31	1
Dalmia Bharat	63	36	2
Heidelberg	18	6	3
JK Cement	60	15	4
JK Lakshmi	80	12	7
Orient Cement	14	9	2
Ramco Cement	193	21	9
Sagar Cements	24	8	3
Shree Cement	263	46	6
UltraTech	436	114	4

Source: Company, JM Financial
Note: ACC and Ambuja data is as of CY21

- **Premiumisation trends also likely:** Over the medium term, given the sustained housing demand, we expect to see further premiumisation in product mix for these cement players. Moreover, if individual home-building picks up trade sales will also go up (significantly improving the margin profile).

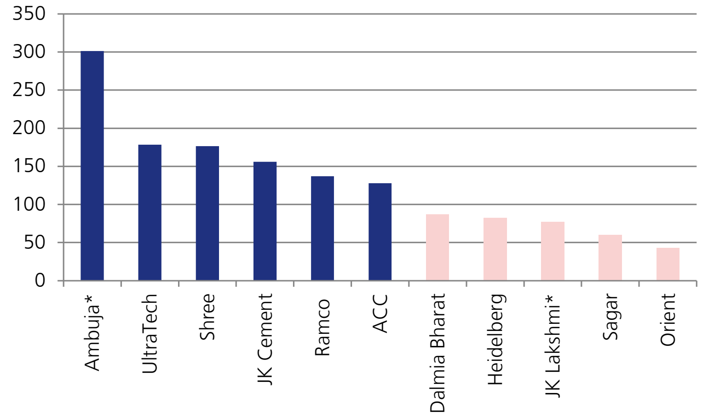
Exhibit 53. Industry showing premiumisation trends

Company	Share of premium products (%)	Trade sales (%)	Blended ratio (%)
ACC	27% of trade sales	79%	90%
Ambuja Cement	16% of trade sales	80%	89%
Dalmia Bharat	20% of trade sales	68%	80%
Heidelberg	23% of trade sales	83%	100%
JK Cement	8% of trade sales	69%	64%
JK Lakshmi	14% of total sales	56%	67%
Madras Cement	24% of total sales	80%	74%
Orient Cement	14% of total sales	60%	NA
Sagar Cements	NA	65%	50%
Shree Cement	6% of total sales	79%	75%
UltraTech	17% of total sales	67%	70%

Source: Company, JM Financial. As of 1QFY23

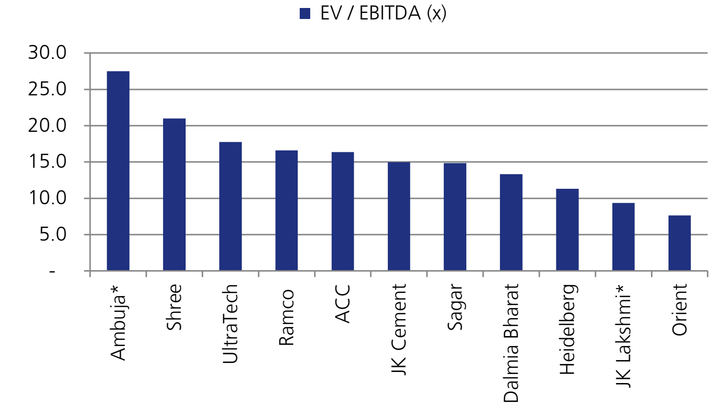
Valuation Tables

Exhibit 54. FY23E EV / ton for coverage universe indicates the smaller companies trading below replacement cost of US$ 120 (greenfield)



Source: Company, JM Financial

Exhibit 55. FY23E EV / EBITDA for coverage universe



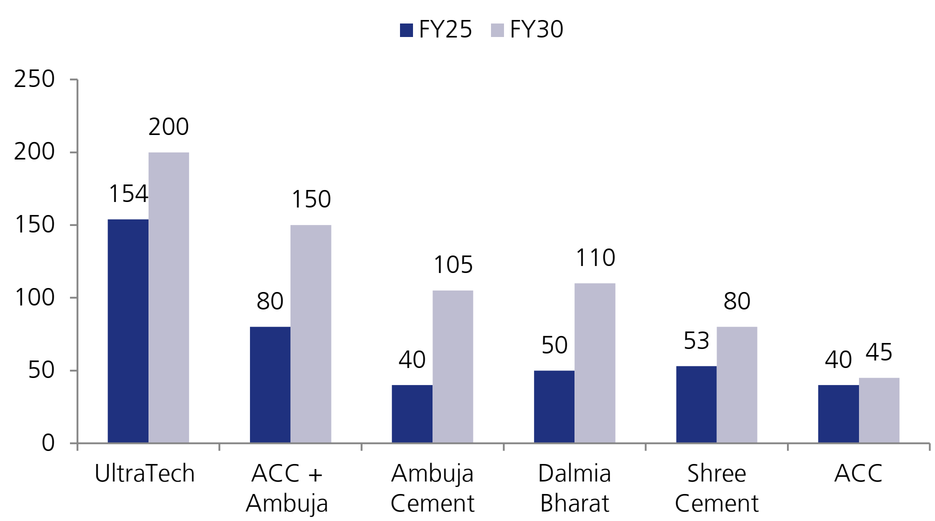
Source: Company, JM Financial

Exhibit 56. Ambuja, Ultratech, Dalmia, Sagar and Orient remain preferred picks

Particulars	CMP	EV (INR bn)	NTM (x)	Target EV / EBITDA (x)	Implied EV / ton (x)	Sep'23 TP	Rating	Upside	Remarks
ACC	2,416	381	12.6	12	138	2,755	BUY	14%	Merger with Ambuja likely; Capacity expansion to drive growth
Ambuja	516	758*	20.7	21	179	610	BUY	18%	Aggressive consolidator; Significantly higher EBITDA growth + ACC stake
Dalmia	1,598	284	10.9	12	103	2,140	BUY	34%	Aggressive consolidator; well-timed capex
Heidelberg	189	41	9.2	7	79	195	HOLD	3%	Regional player; back-ended expansion plans
JK Cement	2,626	233	13.4	12	140	2,650	HOLD	1%	Paints business to have start-up costs; capex led growth factored in
JK Lakshmi*	585	72	8.0	7	83	665	BUY	14%	Standalone business steady; Entering into a debt funded capex
Orient	130	29	5.8	7	58	170	BUY	30%	Below replacement cost and undergoing debt funded capex
Ramco	755	215	14.5	11	119	695	SELL	-8%	Capex led growth factored in; Expansion in difficult markets
Sagar	199	40	11.2	9	65	280	BUY	41%	Below replacement cost and deleveraging opportunity
Shree	21,033	697	17.6	16	188	24,225	BUY	15%	Best in-class return ratios; Exploring acquisitions
UltraTech	6,255	1,855	15.3	16	209	8,085	BUY	29%	Lower capital costs for capex; Return ratios remain superior

Source: Company, JM Financial
* Ambuja standalone

Exhibit 57. Mega expansion plans may skew valuation metrics in the near term



Source: Company, JM Financial

Exhibit 58. Given the large capacity expansion plans we compare these companies basis FY30 capacity targets

At CMP			Capacity (MTPA)				EV / ton (US$ mn)				Capacity Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,416	381	37	40	40	45	128	121	121	106	14%
Ambuja*	516	758	31	33	40	105	301	288	237	90	163%
Dalmia Bharat	1,598	284	41	50	50	110	87	72	72	32	121%
Shree	21,033	697	49	53	53	80	176	165	165	109	51%
UltraTech	6,255	1,855	130	130	154	200	178	178	151	116	30%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion

Exhibit 59. Ambuja and Dalmia are likely to see the highest EBITDA accretion led by capacity expansion

At CMP			EBITDA (INR bn)				EV / EBITDA (x)				EBITDA Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,416	381	23	33	38	50	16.4	11.7	10.1	7.6	34%
Ambuja*	516	758	28	40	49	118	27.5	19.1	15.5	6.4	141%
Dalmia Bharat	1,598	284	21	31	38	123	13.3	9.2	7.6	2.3	228%
Shree	21,033	697	33	46	53	90	21.0	15.1	13.0	7.8	68%
UltraTech	6,255	1,855	104	138	156	224	17.8	13.4	11.9	8.3	43%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion
For all companies FY30 assumes EBITDA / ton of INR 1,400 / ton and 80% capacity utilisation

Exhibit 60. Ambuja's valuations look optically expensive especially in the earlier years

At Target Price			Capacity (MTPA)				EV / ton (US$ mn)				Capacity Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,755	445	37	40	40	45	149	141	141	124	14%
Ambuja*	610	913	31	33	40	105	363	346	286	109	163%
Dalmia Bharat	2,140	386	41	50	50	110	118	97	97	44	121%
Shree	24,225	812	49	53	53	80	206	192	192	127	51%
UltraTech	8,085	2,383	130	130	154	200	229	229	194	149	30%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion

Exhibit 61. Dalmia Bharat can give highest returns provided execution is right

At Target Price			EBITDA (INR bn)				EV / EBITDA (x)				EBITDA Expansion
Particulars	CMP	EV (INR bn)	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	FY23 / CY22	FY24 / CY23	FY25 / CY24	FY30 / CY29	(FY30 / FY25)
ACC	2,755	445	23	33	38	50	19.1	13.6	11.8	8.8	34%
Ambuja*	610	913	28	40	49	118	33.1	23.0	18.7	7.8	141%
Dalmia Bharat	2,140	386	21	31	38	123	18.1	12.4	10.3	3.1	228%
Shree	24,225	812	33	46	53	90	24.5	17.6	15.2	9.1	68%
UltraTech	8,085	2,383	104	138	156	224	22.8	17.3	15.2	10.6	43%

Source: Company, JM Financial
* Ambuja standalone without promoter infusion
For all companies FY30 assumes EBITDA / ton of INR 1,400 / ton and 80% capacity utilisation

Exhibit 62. Comparison across key parameters

Revenue (in INR bn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY20-22 (CAGR)	FY22-25 (CAGR)
ACC	157	138	162	168	177	190	2%	6%
Ambuja	114	112	138	151	166	184	10%	10%
Dalmia Bharat	97	101	113	127	144	164	8%	13%
Heidelberg	22	21	23	25	27	29	3%	8%
JK Cement	55	63	77	86	103	109	19%	12%
JK Lakshmi	40	44	50	55	58	63	12%	8%
Orient	24	23	27	29	32	35	6%	8%
Ramco	54	53	60	72	78	85	6%	12%
Sagar	12	14	16	22	25	26	17%	18%
Shree	119	127	143	158	182	198	10%	12%
UltraTech	406	432	507	567	631	688	12%	11%
EBITDA (in INR bn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY20-22 (CAGR)	FY22-25 (CAGR)
ACC	24	25	30	23	33	38	11%	8%
Ambuja	21	26	32	28	40	49	22%	15%
Dalmia Bharat	21	28	24	21	31	38	7%	16%
Heidelberg	5	5	4	4	5	6	-9%	12%
JK Cement	12	15	15	16	19	21	12%	12%
JK Lakshmi	7	8	8	8	10	13	9%	16%
Orient	4	6	6	4	6	7	24%	6%
Ramco	11	15	13	13	17	19	6%	14%
Sagar	2	4	3	3	4	5	22%	23%
Shree	37	40	36	33	46	53	0%	14%
UltraTech	87	110	109	104	138	156	12%	13%
PAT (in INR bn)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY20-22 (CAGR)	FY22-25 (CAGR)
ACC	14	14	19	14	20	24	16%	9%
Ambuja	15	18	21	24	28	35	18%	18%
Dalmia Bharat	2	12	11	4	10	15	114%	9%
Heidelberg	3	3	3	2	3	4	-3%	14%
JK Cement	6	8	8	8	9	11	15%	12%
JK Lakshmi	2	4	4	4	5	7	35%	20%
Orient	1	2	3	1	2	3	74%	6%
Ramco	6	8	9	6	9	11	21%	6%
Sagar	0	2	1	0	1	2	49%	49%
Shree	16	23	23	17	27	33	21%	13%
UltraTech	55	53	71	57	81	95	14%	10%

Source: Company, JM Financial

Exhibit 63. Volume / Capacity

Capacity (in MT)	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY20-22 (CAGR)	FY22-25 (CAGR)
ACC	33	33	35	37	40	40	2%	4%
Ambuja	30	30	31	31	33	40	3%	8%
Dalmia Bharat	28	32	37	41	50	50	16%	10%
Heidelberg	6	6	6	6	6	6	0%	0%
JK Cement	14	15	15	19	19	19	2%	8%
JK Lakshmi	12	12	12	12	12	12	0%	0%
Orient	8	8	9	9	12	12	3%	11%
Ramco	19	19	20	20	21	21	3%	2%
Sagar	6	6	8	8	8	8	20%	0%
Shree	40	43	46	49	53	53	7%	4%
UltraTech	109	111	114	130	130	154	2%	10%
Cement Volumes (in MT)	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**	**FY20-22 (CAGR)**	**FY22-25 (CAGR)**
ACC	29	26	29	29	31	32	0%	4%
Ambuja	24	23	27	29	31	34	6%	8%
Dalmia Bharat	19	21	22	24	27	30	7%	11%
Heidelberg	5	4	5	5	5	6	1%	7%
JK Cement	8	10	12	13	15	16	20%	9%
JK Lakshmi	9	10	11	11	11	12	7%	5%
Orient	6	5	5	6	6	7	-3%	7%
Ramco	11	10	11	13	14	15	-1%	10%
Sagar	3	3	4	5	5	6	7%	16%
Shree	25	27	28	30	34	36	5%	10%
UltraTech	78	81	88	97	105	110	7%	8%

Source: Company, JM Financial

Exhibit 64. Return Ratios

ROE	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY20-22 (Avg)	FY22-25 (Avg)
ACC	12%	14%	14%	9%	13%	13%	14%	12%
Ambuja (Cons)	9%	11%	16%	9%	12%	14%	12%	12%
Dalmia Bharat	2%	10%	8%	3%	6%	8%	7%	6%
Heidelberg	22%	22%	16%	13%	19%	19%	20%	17%
JK Cement	19%	23%	19%	17%	18%	18%	20%	17%
JK Lakshmi	16%	21%	20%	14%	18%	20%	19%	17%
Orient	8%	18%	19%	7%	13%	17%	15%	12%
Ramco	13%	14%	14%	8%	12%	13%	14%	11%
Sagar	3%	17%	5%	1%	8%	11%	8%	7%
Shree	14%	17%	14%	10%	14%	15%	15%	13%
UltraTech	15%	13%	15%	11%	14%	15%	15%	13%
ROCE	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**	**FY20-22 (Avg)**	**FY22-25 (Avg)**
ACC	13%	15%	14%	9%	13%	13%	14%	12%
Ambuja (Cons)	10%	12%	13%	9%	13%	14%	12%	12%
Dalmia Bharat	3%	9%	8%	4%	7%	8%	7%	6%
Heidelberg	19%	20%	16%	12%	18%	18%	18%	16%
JK Cement	13%	15%	13%	12%	13%	13%	14%	13%
JK Lakshmi	12%	16%	16%	12%	14%	16%	15%	14%
Orient	7%	12%	15%	7%	10%	9%	11%	9%
Ramco	9%	10%	10%	6%	9%	10%	10%	8%
Sagar	4%	12%	5%	4%	7%	9%	7%	7%
Shree	12%	14%	13%	9%	13%	15%	13%	13%
UltraTech	13%	11%	13%	10%	13%	14%	12%	13%

Source: Company, JM Financial

Company Section

ACC | BUY

JM FINANCIAL

Aggressive expansion plans offer growth opportunities

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ACC was recently acquired by the Adani Group (56.7% ownership post open offer out of which 50% is held via Ambuja). Adani's acquisition acts as a key trigger for ACC to add significant capacity (inorganic / organic) and regain the market share it has lost over the last decade. Although capacity expansion has been muted (c.20% over the past 10 years) ACC has already embarked on an aggressive expansion mode (target 40MTPA capacity by CY23). With a well-established pan-India network, high capacity utilisation level (80-90%) and 90% share of blended cement we feel ACC can profitably scale up volumes in cement and allied businesses. Moreover, the combination of synergies with Adani Group, as well as efforts to improve efficiency are also likely to result in higher EBITDA / tonne. We assume coverage with a Sep'23 TP with a BUY Rating and a Sep'23 TP of INR 2,755 (14% upside) ascribing a 12x multiple, a premium to 5-year average as we believe growth / margins will be far higher than in the past and in-line with other midcaps. Key risks: Going forward, it is likely that ACC and Ambuja will get merged, which will limit the upside.

- **Capacity announcements to be a major trigger:** ACC has 3.2MTPA of cement expansion in the pipeline, which is likely to be commissioned by 1HCY23. The expansion is in the relatively stable markets of Central and North, thereby reducing dependency on the South market to 25% (35% earlier). Further, we expect the new plants to be more efficient compared to the existing operating plants, while will drive up the EBITDA/t.

- **Strong balance sheet to help capitalise on growth opportunities:** ACC with its net cash balance sheet (INR 75bn as of CY21-end) and strong cash generation capability (OCF of INR 28.4bn in CY21) is well placed to capitalise on the growth opportunities. More capacity announcements / internal improvement projects are expected from the Adani management.

- **Program 'Parvat' to help improve EBITDA / tonne by INR 400-450/t:** ACC continues with its programme 'Parvat' to focus on improving efficiencies across cost parameters. The management aims to reduce operational costs by INR 400-450/t compared to CY19 (INR 300 achieved; INR 963 per ton for CY21 compared to 761 in CY19) through this programme. Focus is on cost optimisation in procurement and supply chain, efficiency measures, and reducing fixed costs.

- **RMC and solutions business likely to do well:** ACC has further scope / plans to increase ready-mix concrete (RMX) capacity by c.20% through increase in coverage of Indian cities. It also plans to expand the portfolio of value-added services. In Solution & Products (S&P) business, ACC targets 30% revenue growth in CY22 driven by growth in retail, B2B projects and admixture segments. It also has plans to expand its manufacturing footprint across construction chemicals/admixture range and dry mortars.

- **We assume coverage with BUY and a Sep'23 TP of INR 2,755:** We value ACC at 12x Sep24E EV/EBITDA, premium to 5-yr 1yr fwd average EV/EBITDA, and arrive at a Sep'23 TP of INR 2,755 (14% upside) implying an EV/t of USD 141. ACC is likely to trade at premium valuations considering capacity additions, which was muted earlier.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	2,755
Upside/(Downside)	14.0%

Key Data – ACC IN	
Current Market Price	INR2,416
Market cap (bn)	INR453.6/US$5.6
Free Float	44%
Shares in issue (mn)	188.0
Diluted share (mn)	188.0
3-mon avg daily val (mn)	INR2,162.3/US$26.6
52-week range	2,785/1,900
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance			
%	1M	6M	12M
Absolute	5.0	12.3	7.1
Relative*	7.6	15.9	9.6

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Net Sales	1,34,868	1,58,144	1,64,721	1,73,389	1,86,063
Sales Growth	-12.1%	17.3%	4.2%	5.3%	7.3%
EBITDA	24,840	29,981	23,277	32,649	37,604
EBITDA Margin	18.0%	18.6%	13.9%	18.5%	19.8%
Adjusted Net Profit	17,351	19,178	13,742	20,390	23,896
Diluted EPS (INR)	92.3	102.0	73.1	108.5	127.1
Diluted EPS Growth	26.0%	10.5%	-28.3%	48.4%	17.2%
ROIC	24.6%	28.6%	17.3%	23.3%	26.7%
ROE	14.3%	14.2%	9.2%	12.6%	13.3%
P/E (x)	26.2	23.7	33.0	22.3	19.0
P/B (x)	3.6	3.2	2.9	2.7	2.4
EV/EBITDA (x)	15.7	12.6	16.4	11.3	9.3
Dividend Yield	0.6%	0.6%	0.6%	0.9%	1.1%

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

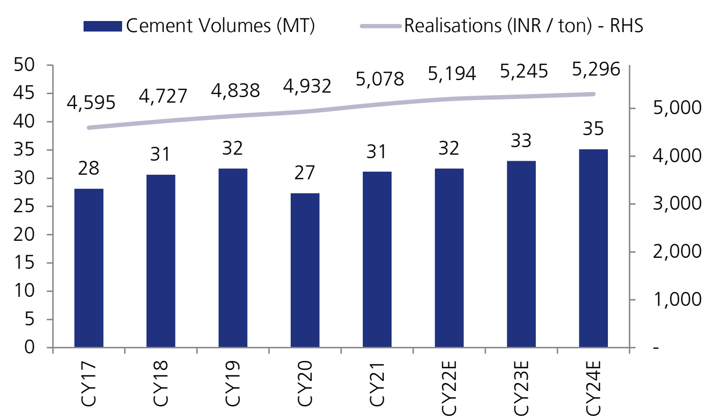
JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Capex projects:** Ametha project to add c.5 MTPA and capacity is progressing as per schedule; Integrated unit to be commissioned in Q4CY22 (1MTPA Cement). Land acquisition and other actions for the grinding unit project at Salai Banwa (2.2MTPA) are progressing as per schedule. Waste heat recovery projects at Jamul and Kymore plants on track for commissioning in Q3CY22. Orders placed for next wave of projects at Chanda and Wadi plants. These projects will help deliver the planned Thermal Substitution Rate (TSR) through co-processing of waste.

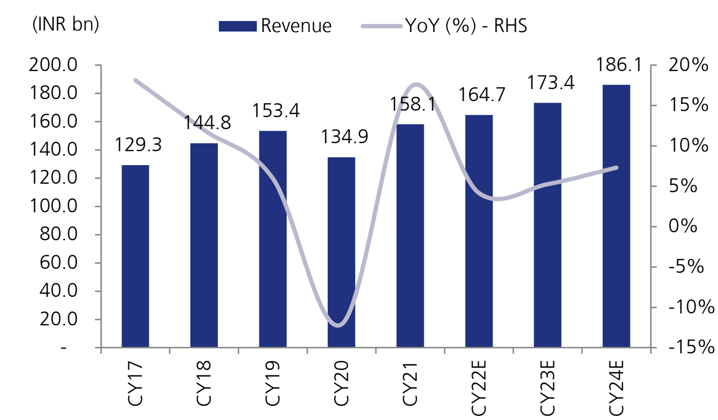
Key Charts

Exhibit 1. Both volume and realisation growing at steady rate…



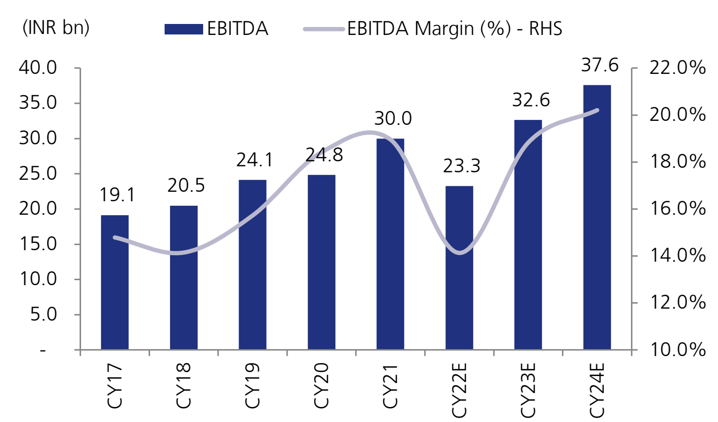
Source: Company, JM Financial

Exhibit 2. …leading to revenue growth



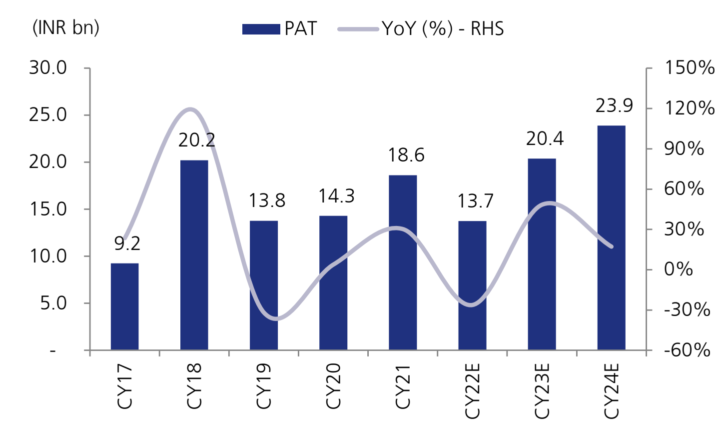
Source: Company, JM Financial

Exhibit 3. EBITDA margin to improve in CY23…



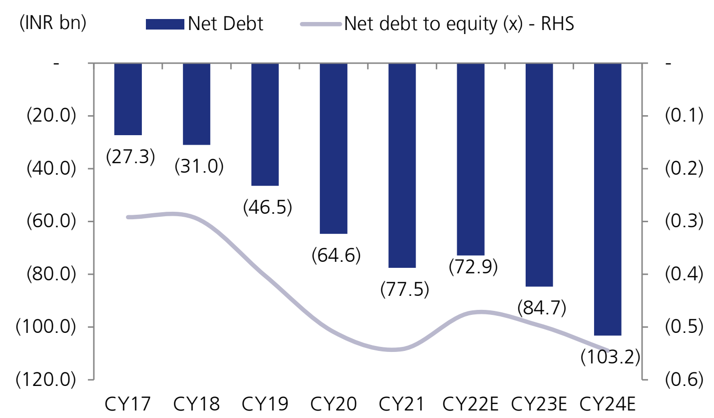
Source: Company, JM Financial

Exhibit 4. …resulting in higher profits in CY23



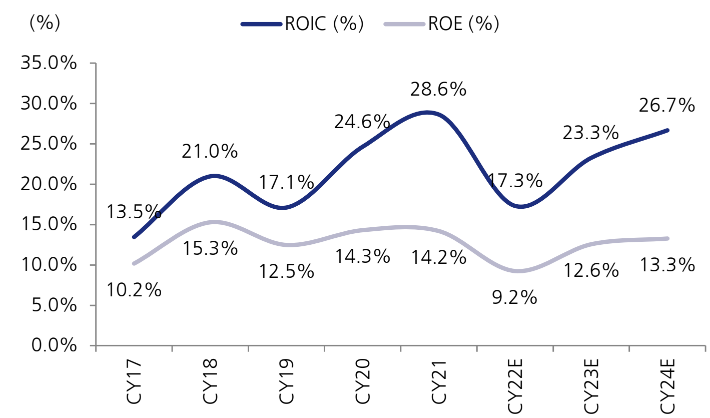
Source: Company, JM Financial

Exhibit 5. Combination of high cash reserves and no debt



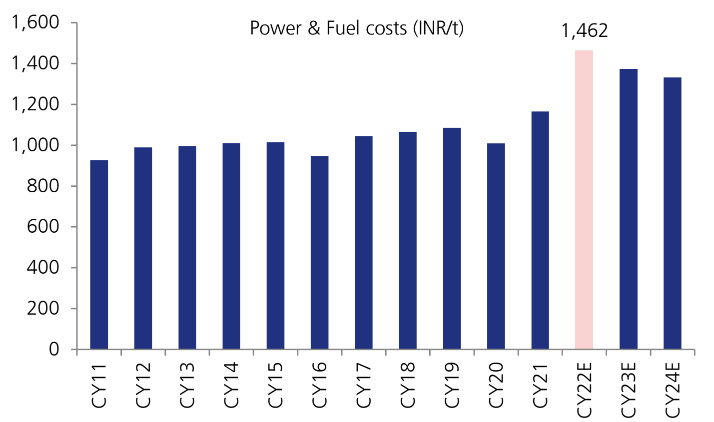
Source: Company, JM Financial

Exhibit 6. RoE and RoIC to improve on account of higher margins



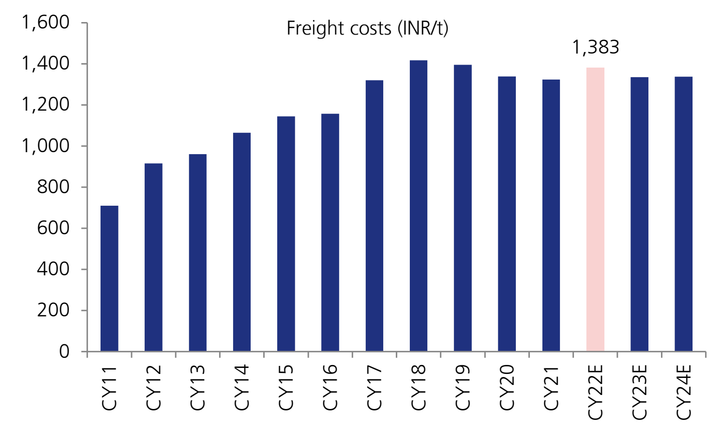
Source: Company, JM Financial

Exhibit 7. Power and fuel costs to decline…



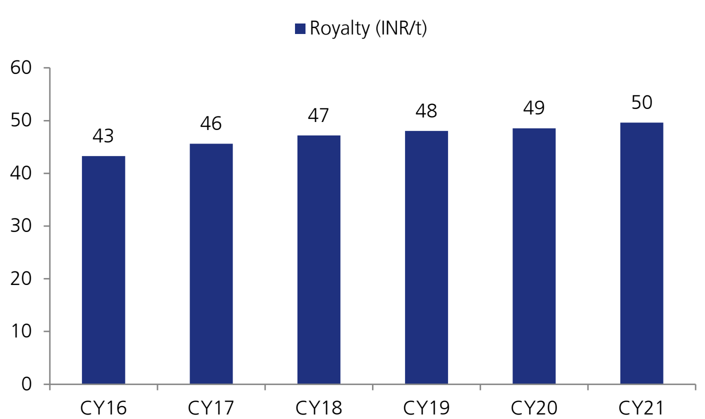
Source: Company, JM Financial

Exhibit 8. …freight costs to follow similar trajectory



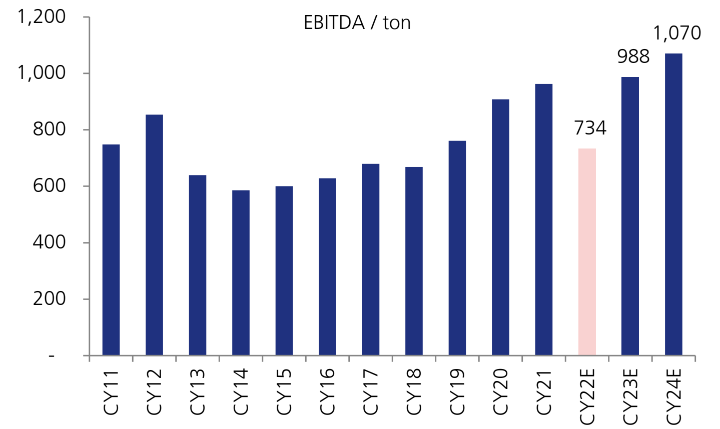
Source: Company, JM Financial

Exhibit 9. Royalty costs savings of INR 50/t



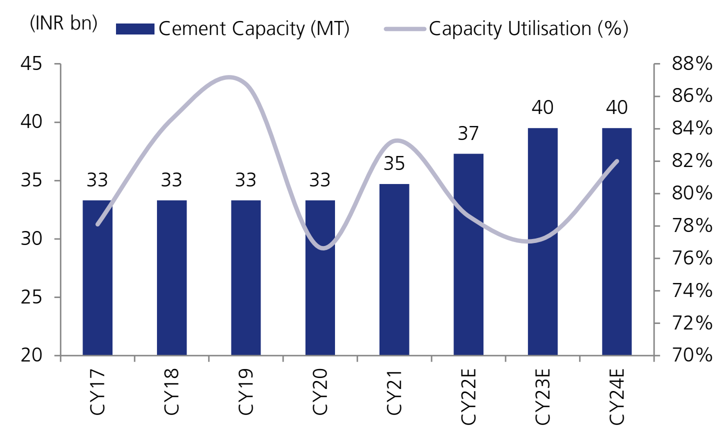
Source: Company, JM Financial

Exhibit 10. EBITDA per tonne to rise sharply post CY22



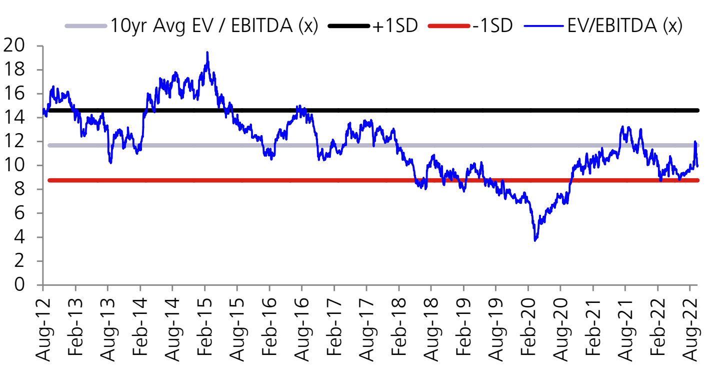
Source: Company, JM Financial

Exhibit 11. Completion of Tikaria & Ametha units to improve capacity



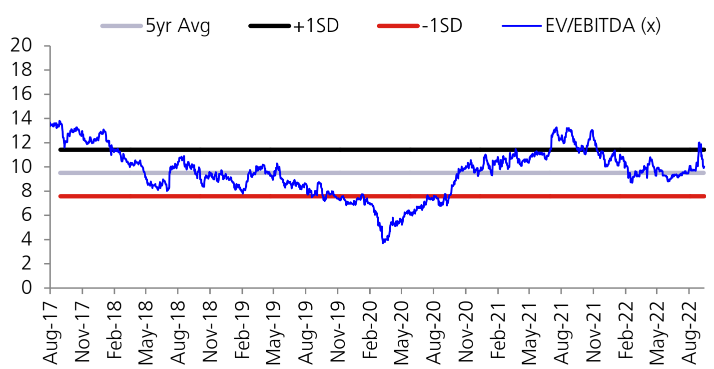
Source: Company, JM Financial

Exhibit 12. 10yr EV/EBITDA band



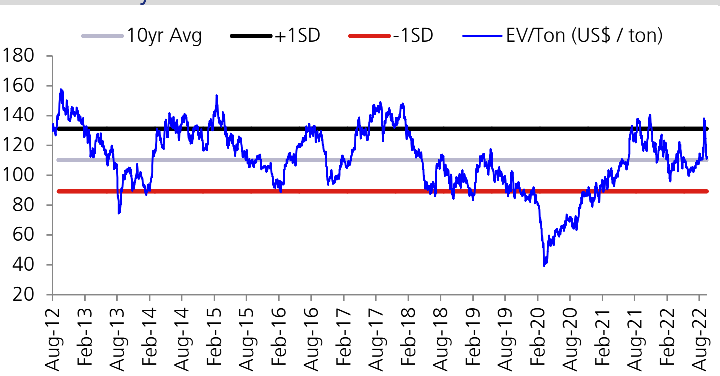
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 13. 5yr EV/EBITDA band



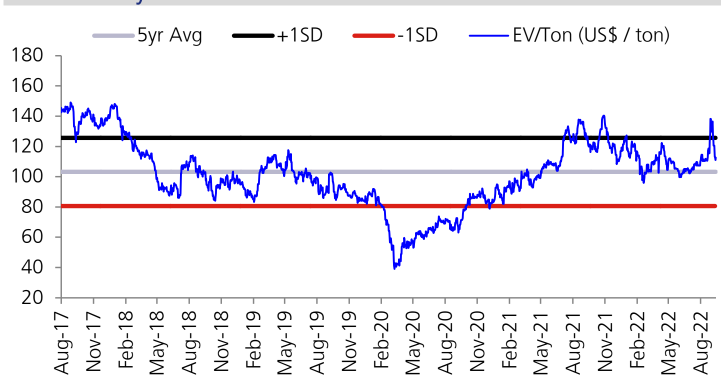
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 15. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Net Sales	1,34,868	1,58,144	1,64,721	1,73,389	1,86,063
Sales Growth	-12.1%	17.3%	4.2%	5.3%	7.3%
Other Operating Income	2,992	3,373	3,294	3,468	3,721
Total Revenue	**1,37,860**	**1,61,517**	**1,68,015**	**1,76,857**	**1,89,784**
Cost of Goods Sold/Op. Exp	18,156	19,453	20,852	22,824	24,938
Personnel Cost	8,412	8,362	8,599	9,144	9,910
Other Expenses	86,451	1,03,721	1,15,287	1,12,240	1,17,332
EBITDA	**24,840**	**29,981**	**23,277**	**32,649**	**37,604**
EBITDA Margin	18.0%	18.6%	13.9%	18.5%	19.8%
EBITDA Growth	3.0%	20.7%	-22.4%	40.3%	15.2%
Depn. & Amort.	6,388	6,007	6,663	7,198	7,518
EBIT	18,452	23,974	16,614	25,451	30,086
Other Income	2,167	2,067	2,072	2,107	2,159
Finance Cost	571	546	518	527	540
PBT before Excep. & Forex	20,049	25,495	18,168	27,032	31,706
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	20,049	25,495	18,168	27,032	31,706
Taxes	2,786	6,433	4,542	6,758	7,926
Extraordinary Inc./Loss(-)	-3,049	-548	0	0	0
Assoc. Profit/Min. Int.(-)	90	118	117	117	117
Reported Net Profit	14,302	18,630	13,742	20,390	23,896
Adjusted Net Profit	**17,351**	**19,178**	**13,742**	**20,390**	**23,896**
Net Margin	12.6%	11.9%	8.2%	11.5%	12.6%
Diluted Share Cap. (mn)	188.0	188.0	188.0	188.0	188.0
Diluted EPS (INR)	**92.3**	**102.0**	**73.1**	**108.5**	**127.1**
Diluted EPS Growth	26.0%	10.5%	-28.3%	48.4%	17.2%
Total Dividend + Tax	2,632	2,632	2,748	4,078	4,779
Dividend Per Share (INR)	14.0	14.0	14.6	21.7	25.4

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Shareholders' Fund	1,26,991	1,43,088	1,54,082	1,70,394	1,89,511
Share Capital	1,880	1,880	1,880	1,880	1,880
Reserves & Surplus	1,25,111	1,41,208	1,52,202	1,68,514	1,87,631
Preference Share Capital	0	0	0	0	0
Minority Interest	32	34	34	34	34
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	3,948	4,037	4,037	4,037	4,037
Total - Equity & Liab.	**1,30,972**	**1,47,159**	**1,58,153**	**1,74,465**	**1,93,581**
Net Fixed Assets	72,426	79,948	92,910	96,712	1,00,195
Gross Fixed Assets	98,632	1,04,965	1,09,965	1,14,965	1,19,965
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	31,688	37,468	44,130	51,328	58,846
Capital WIP	5,481	12,450	27,075	33,075	39,075
Investments	7,449	5,330	5,330	5,330	5,330
Current Assets	1,02,128	1,25,111	1,20,893	1,36,490	1,56,638
Inventories	9,013	12,739	13,087	16,626	17,842
Sundry Debtors	4,514	4,890	4,964	5,225	5,607
Cash & Bank Balances	58,494	73,666	69,026	80,823	99,374
Loans & Advances	1,949	2,269	2,269	2,269	2,269
Other Current Assets	28,158	31,546	31,546	31,546	31,546
Current Liab. & Prov.	51,031	63,230	60,980	64,068	68,582
Current Liabilities	0	0	0	0	0
Provisions & Others	51,031	63,230	60,980	64,068	68,582
Net Current Assets	51,097	61,881	59,913	72,423	88,057
Total – Assets	**1,30,972**	**1,47,159**	**1,58,153**	**1,74,465**	**1,93,581**

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Profit before Tax	17,089	25,064	18,168	27,032	31,706
Depn. & Amort.	6,388	6,007	6,663	7,198	7,518
Net Interest Exp. / Inc. (-)	571	-1,400	518	527	540
Inc (-) / Dec in WCap.	3,883	1,303	-2,672	-713	2,917
Others	1,330	238	-2,072	-2,107	-2,159
Taxes Paid	-7,069	-2,857	-4,542	-6,758	-7,926
Operating Cash Flow	**22,192**	**28,355**	**16,063**	**25,178**	**32,594**
Capex	-7,479	-11,533	-19,625	-11,000	-11,000
Free Cash Flow	14,713	16,822	-3,562	14,178	21,594
Inc (-) / Dec in Investments	253	-55	0	0	0
Others	1,874	1,708	2,189	2,224	2,276
Investing Cash Flow	**-5,352**	**-9,880**	**-17,436**	**-8,776**	**-8,724**
Inc / Dec (-) in Capital	-645	-676	-518	-527	-540
Dividend + Tax thereon	-2,629	-2,629	-2,748	-4,078	-4,779
Inc / Dec (-) in Loans	0	0	0	0	0
Others	2	3	0	0	0
Financing Cash Flow	**-3,272**	**-3,303**	**-3,266**	**-4,605**	**-5,319**
Inc / Dec (-) in Cash	**13,568**	**15,172**	**-4,640**	**11,797**	**18,551**
Opening Cash Balance	44,925	58,494	73,666	69,026	80,823
Closing Cash Balance	58,494	73,666	69,026	80,823	99,374

Source: Company, JM Financial

Dupont Analysis					
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Net Margin	12.6%	11.9%	8.2%	11.5%	12.6%
Asset Turnover (x)	1.1	1.2	1.1	1.1	1.0
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	14.3%	14.2%	9.2%	12.6%	13.3%

Key Ratios					
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
BV/Share (INR)	675.5	761.1	819.6	906.4	1,008.1
ROIC	24.6%	28.6%	17.3%	23.3%	26.7%
ROE	14.3%	14.2%	9.2%	12.6%	13.3%
Net Debt/Equity (x)	-0.5	-0.5	-0.5	-0.5	-0.5
P/E (x)	26.2	23.7	33.0	22.3	19.0
P/B (x)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	15.7	12.6	16.4	11.3	9.3
EV/Sales (x)	2.8	2.3	2.3	2.1	1.8
Debtor days	12	11	11	11	11
Inventory days	24	29	28	34	34
Creditor days	0	0	0	0	0

Source: Company, JM Financial

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Ambuja Cements | BUY

Proxy play to Adani expansion

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Ambuja Cements (ACEM) remains one of the most innovative cement companies in India. It has now been acquired by the Adani Group (63.15%) and Adani's acquisition acts as a key trigger for ACEM to add significant capacity (inorganic / organic) and regain lost market share. Over the past decade, the pace of capacity expansion has been slow for ACEM (1% CAGR over FY12-22) but it is now embarking on an aggressive expansion mode (13% over FY22-24) along with more acquisitions / expansion plans, which will take its total capacity to 50MTPA (31.45MTPA in CY22) in the near future. With a well-established pan-India network and high capacity utilisations we feel ACEM can scale up volumes in cement / value-added products on account of new capacity additions. Moreover, incremental efficiencies are expected to be brought in through WHR/RE capacities (25-28% of energy from WHR), ramp-up in AFR usage (target of 25%), increased blending and cost synergies with the Adani Group resulting in higher EBITDA / tonne (upto INR 1,400 by CY24E). We assume coverage with a 'BUY' rating and a Sep'23 TP of INR 610 (18% upside) ascribing a 21x EV / EBITDA to ACEM's standalone business (premium to 10-year average; in-line with historical multiples of Shree Cement) as we believe growth will be far higher than in the past.

- **Roadmap to double capacity; fund-raise complete and acquisitions likely:** ACEM has laid down the journey to double its capacity with phase 1 of expansion announced in the East (cost of INR 32bn) – expansion plans include 7.0MTPA cement grinding expansion at existing location (Sankrail and Farakka in West Bengal, East region) and greenfield grinding unit at Barh, Bihar; 3.2MTPA brownfield clinker expansion at Bhatapara, Chattisgarh (Central); and brownfield expansion of 1.5 MTPA cement grinding. It will also look to expand across the western region but has not announced plans yet. ACEM has raised INR 200bn at INR 419 per share; with net cash balance sheet and a possible 1:1 net debt to equity it can create a INR 500bn corpus (60-70MTPA capacity addition possible, thereby taking total to 140MTPA in ACC and ACEM put together)

- **Premiumisation continues:** ACEM's share in premium products is now 16% of trade sales (c.8% 2 years back) and the management aims to increase this. Focus remains on blended cement (89%; margin accretive and likely to remain at these levels). ACEM also has one of the lowest clinker factors in the industry at 62%.

- **Excitement begins; EBITDA per tonne likely to shoot up:** We believe ACEM benefits from long-term initiatives to reduce cost (through cost benchmarking with cost leaders) by i) setting up WHR/RE capacities, and ii) increasing AFR usage. EBITDA per tonne is likely to head towards INR 1,400 per tonne (INR 1,124 in FY22) by CY24E.

- **We assume coverage with a 'BUY' rating and Sep'23 TP of INR 610:** We value ACEM's standalone business at 21x Sep24E EV/EBITDA, in-line with Shree Cement valuations of the past and arrive at a Sep'23 TP of INR 610 (18% upside). Adani's foray into cement with plans to double capacity will lead to significant capacity additions (organic / inorganic) and, therefore, ACEM is likely to trade at premium valuations considering capacity additions that it had not undertaken for many years now.

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	610
Upside/(Downside)	18.3%

Key Data – ACEM IN

Current Market Price	INR516
Market cap (bn)	INR1,023.8/US$12.6
Free Float	31%
Shares in issue (mn)	2,105.0
Diluted share (mn)	2,463.1
3-mon avg daily val (mn)	INR6,514.9/US$80.1
52-week range	586/274
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance

%	1M	6M	12M
Absolute	25.4	72.3	28.8
Relative*	28.4	77.8	31.8

* To the BSE Sensex

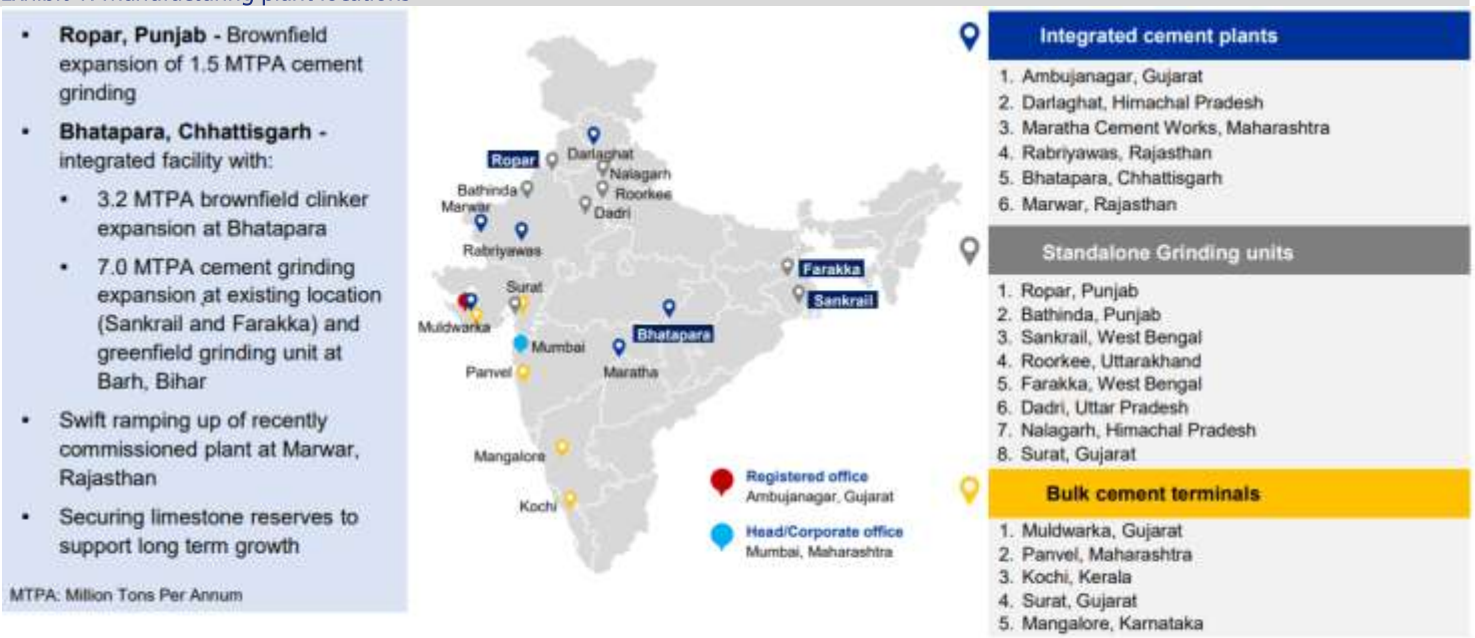
Financial Summary (INR mn)

Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Net Sales	2,45,162	2,89,655	3,16,191	3,39,196	3,70,154
Sales Growth	-9.5%	18.1%	9.2%	7.3%	9.1%
EBITDA	51,345	62,104	50,840	72,303	86,484
EBITDA Margin	20.9%	21.4%	15.8%	21.0%	23.0%
Adjusted Net Profit	26,704	37,910	24,049	36,184	44,964
Diluted EPS (INR)	13.4	19.1	11.4	14.7	18.3
Diluted EPS Growth	27.5%	42.0%	-40.2%	28.6%	24.3%
ROIC	15.5%	17.7%	13.4%	18.2%	21.1%
ROE	11.4%	15.8%	9.1%	12.4%	13.6%
P/E (x)	38.4	27.0	45.2	35.1	28.3
P/B (x)	4.5	4.0	3.9	4.1	3.6
EV/EBITDA (x)	20.7	16.8	20.6	14.4	11.6
Dividend Yield	3.6%	0.2%	0.2%	0.2%	0.2%

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

- **Capex underway:** Waste Heat Recovery (WHRS) projects at Marwar, Darlaghat and Bhatapara plants are on track, to be commissioned in Q3 2022. The next phase of WHRS projects at Ambujanagar and Maratha is in full swing. Total WHRS capacity will rise to 87MW after these projects are implemented. Efforts are underway to enhance WHRS capacities and increase renewable energy
- **Pan-India network with ACC:** ACEM had an installed capacity of 31.45MTPA spread across North and Central (c.41%), West (c.36%) and East (c.23%). It also has a large marketing infrastructure, pan-India presence, and strong operational linkages with ACC. Together, ACC-Ambuja have 12-13% capacity share in the Indian cement market. The diversified presence prevents regional price volatility and demand-supply imbalances.

Exhibit 1. Manufacturing plant locations

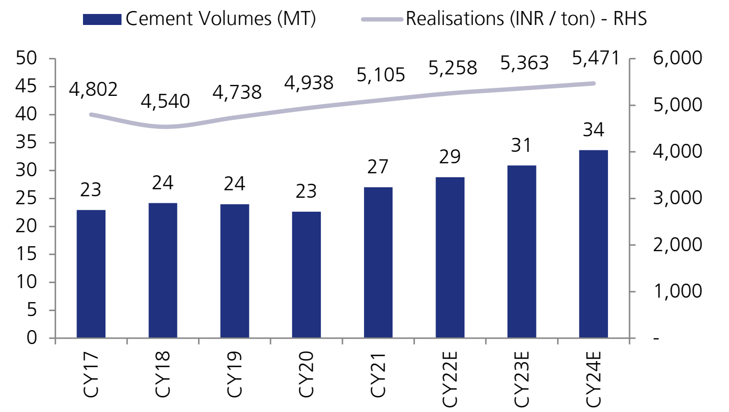


Source: Ambuja, JM Financial

Key Charts

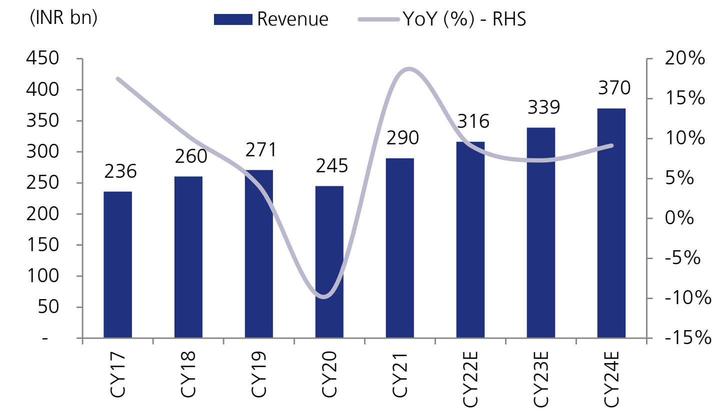
Financials

Exhibit 2. Volumes to grow sharply over CY22-24E…



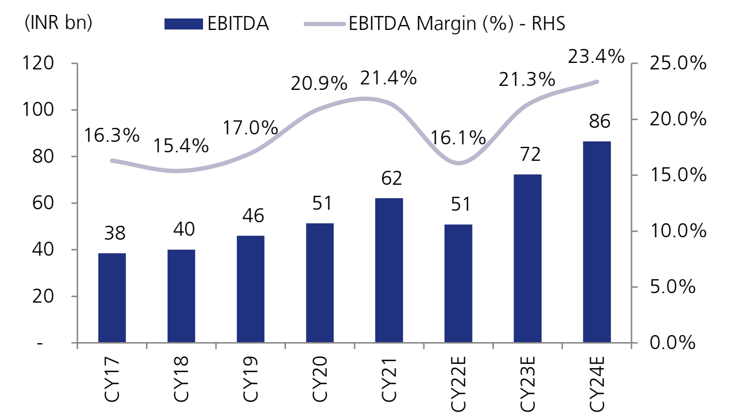
Source: Company, JM Financial

Exhibit 3. …leading to revenue growth



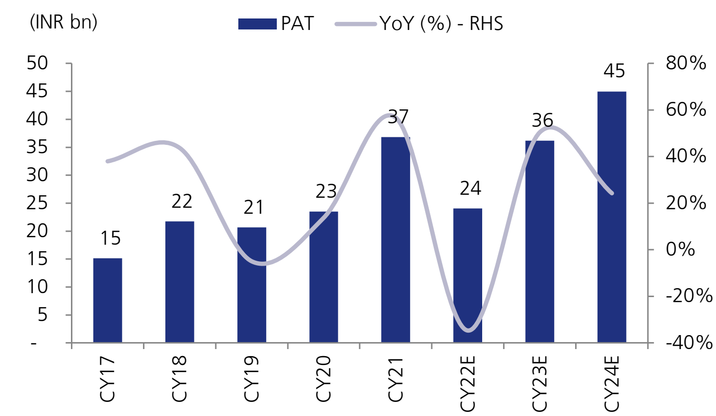
Source: Company, JM Financial

Exhibit 4. EBITDA margin to rise as input costs cool down…



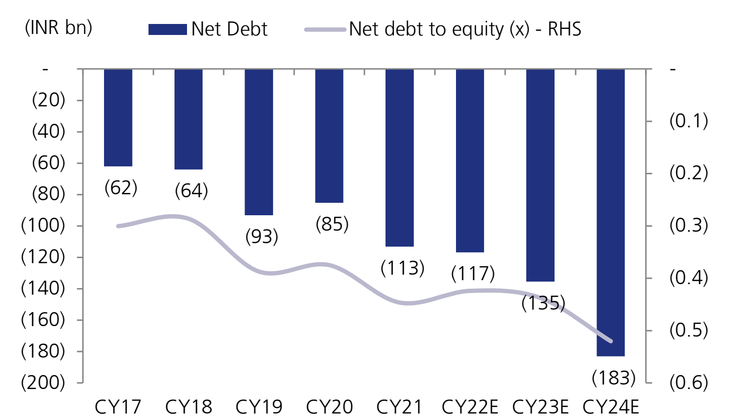
Source: Company, JM Financial

Exhibit 5. …resulting in higher profits



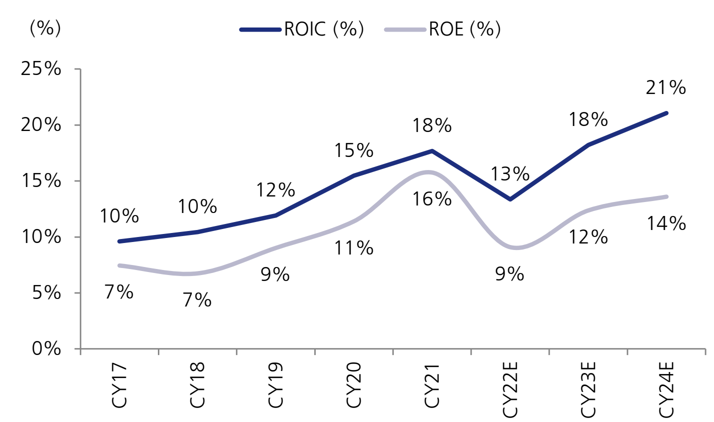
Source: Company, JM Financial

Exhibit 6. Net debt to decline as cash reserves increase



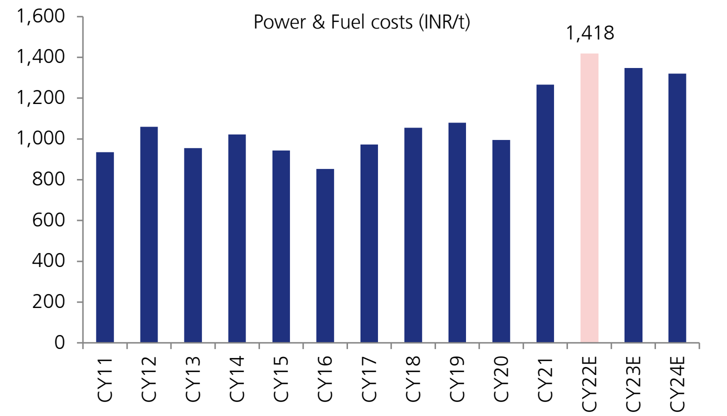
Source: Company, JM Financial

Exhibit 7. RoE and RoIC to improve



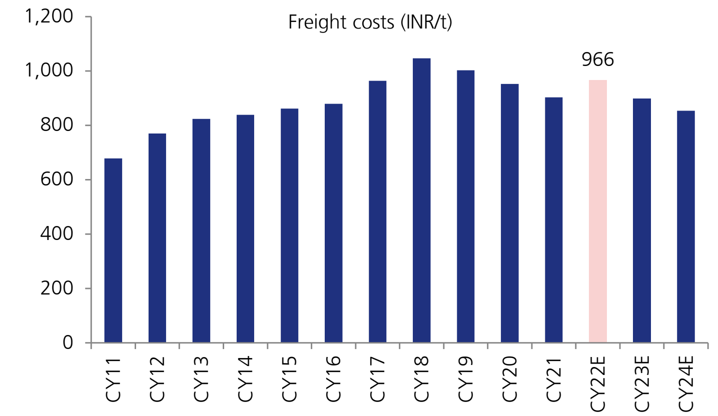
Source: Company, JM Financial

Exhibit 8. Power and fuel costs to fall post CY22…



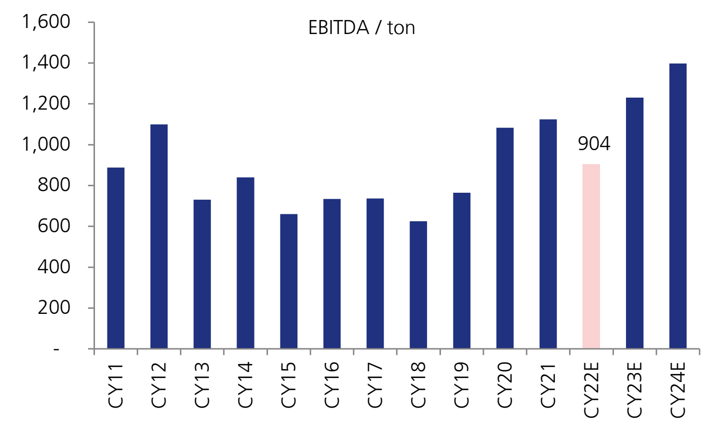
Source: Company, JM Financial

Exhibit 9. …freight costs will follow similar trend



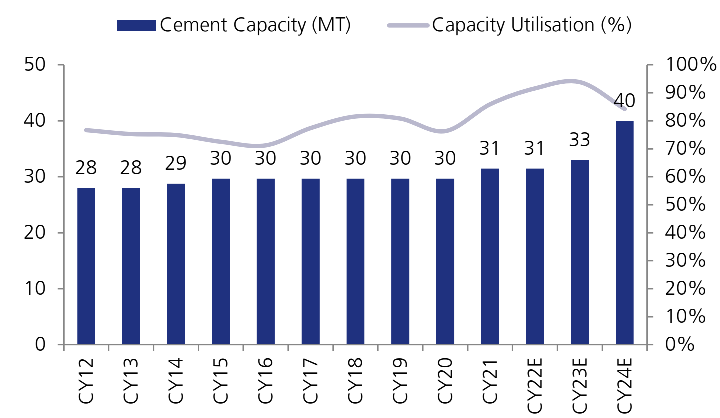
Source: Company, JM Financial

Exhibit 10. EBITDA per tonne to rise sharply



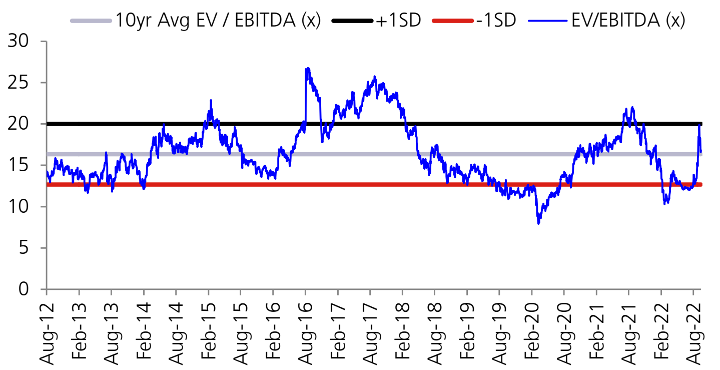
Source: Company, JM Financial

Exhibit 11. Cement capacity likely to increase post acquisition



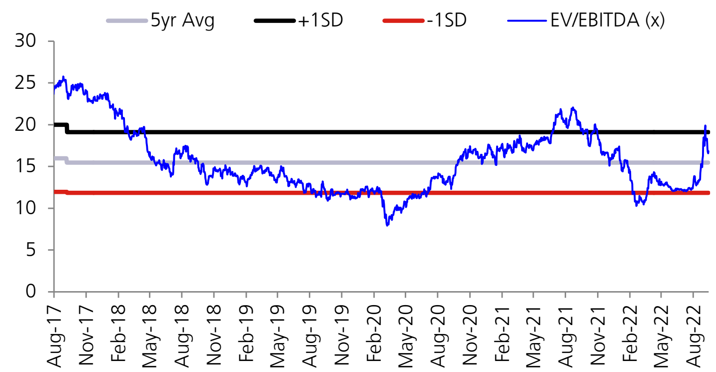
Source: Company, JM Financial

Exhibit 12. 10yr EV/EBITDA band



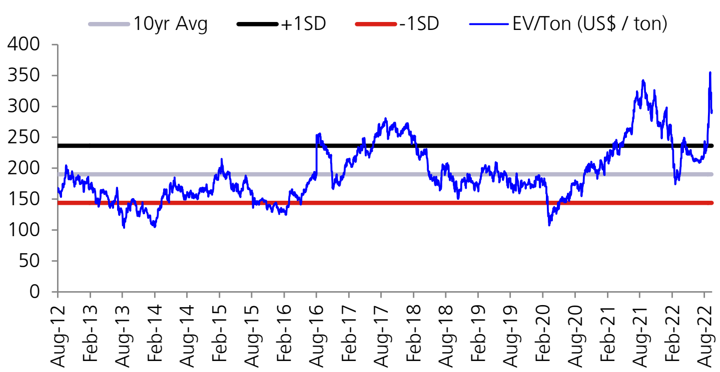
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 13. 5yr EV/EBITDA band



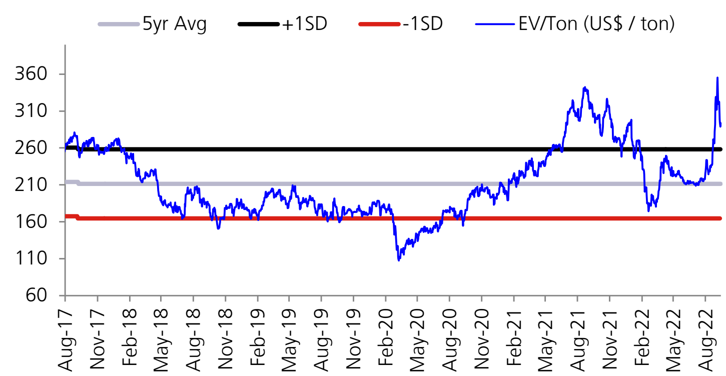
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 15. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Net Sales	2,45,162	2,89,655	3,16,191	3,39,196	3,70,154
Sales Growth	-9.5%	18.1%	9.2%	7.3%	9.1%
Other Operating Income	0	0	4,809	5,126	5,562
Total Revenue	**2,45,162**	**2,89,655**	**3,21,000**	**3,44,322**	**3,75,716**
Cost of Goods Sold/Op. Exp	31,242	29,623	38,304	42,115	46,566
Personnel Cost	15,404	15,292	15,607	16,665	18,097
Other Expenses	1,47,170	1,82,636	2,16,249	2,13,240	2,24,569
EBITDA	**51,345**	**62,104**	**50,840**	**72,303**	**86,484**
EBITDA Margin	20.9%	21.4%	15.8%	21.0%	23.0%
EBITDA Growth	11.7%	21.0%	-18.1%	42.2%	19.6%
Depn. & Amort.	11,618	11,525	12,829	13,421	13,995
EBIT	39,727	50,579	38,010	58,882	72,490
Other Income	4,496	3,524	2,990	3,112	3,275
Finance Cost	1,402	1,457	1,427	1,494	1,581
PBT before Excep. & Forex	42,821	52,647	39,573	60,501	74,183
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	42,821	52,647	39,573	60,501	74,183
Taxes	8,848	14,534	8,653	14,121	17,272
Extraordinary Inc./Loss(-)	-3,204	-1,093	0	0	0
Assoc. Profit/Min. Int.(-)	7,270	202	6,871	10,195	11,948
Reported Net Profit	23,499	36,817	24,049	36,184	44,964
Adjusted Net Profit	**26,704**	**37,910**	**24,049**	**36,184**	**44,964**
Net Margin	10.9%	13.1%	7.5%	10.5%	12.0%
Diluted Share Cap. (mn)	1,985.7	1,985.7	2,105.0	2,463.1	2,463.1
Diluted EPS (INR)	**13.4**	**19.1**	**11.4**	**14.7**	**18.3**
Diluted EPS Growth	27.5%	42.0%	-40.2%	28.6%	24.3%
Total Dividend + Tax	36,735	1,986	2,125	2,273	2,433
Dividend Per Share (INR)	18.5	1.0	1.0	0.9	1.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Shareholders' Fund	2,27,576	2,53,537	2,75,462	3,09,373	3,51,904
Share Capital	3,971	3,971	3,971	3,971	3,971
Reserves & Surplus	2,23,605	2,49,566	2,71,490	3,05,402	3,47,933
Preference Share Capital	0	0	0	0	0
Minority Interest	63,409	71,450	78,321	88,517	1,00,464
Total Loans	436	435	435	435	435
Def. Tax Liab. / Assets (-)	6,260	7,562	7,562	7,562	7,562
Total - Equity & Liab.	**2,97,681**	**3,32,985**	**3,61,780**	**4,05,886**	**4,60,366**
Net Fixed Assets	2,29,078	2,44,499	2,58,453	2,87,908	2,99,913
Gross Fixed Assets	4,12,335	4,41,536	4,49,536	4,57,536	4,65,536
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	2,07,476	2,19,000	2,31,830	2,45,251	2,59,245
Capital WIP	24,219	21,964	40,747	75,622	93,622
Investments	1,673	1,981	1,981	1,981	1,981
Current Assets	1,66,456	2,05,592	2,25,506	2,47,697	3,00,321
Inventories	16,486	27,380	30,781	33,017	36,028
Sundry Debtors	5,611	6,458	19,348	20,754	22,646
Cash & Bank Balances	85,716	1,13,585	1,17,208	1,35,758	1,83,479
Loans & Advances	2,743	215	215	215	215
Other Current Assets	55,900	57,954	57,954	57,954	57,954
Current Liab. & Prov.	99,526	1,19,088	1,24,160	1,31,700	1,41,849
Current Liabilities	22,134	29,128	34,200	41,740	51,889
Provisions & Others	77,392	89,960	89,960	89,960	89,960
Net Current Assets	66,930	86,504	1,01,346	1,15,998	1,58,471
Total – Assets	**2,97,681**	**3,32,985**	**3,61,780**	**4,05,886**	**4,60,366**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Profit before Tax	39,916	51,645	39,573	60,501	74,183
Depn. & Amort.	11,618	11,525	12,829	13,421	13,995
Net Interest Exp. / Inc. (-)	1,402	-1,600	1,427	1,494	1,581
Inc (-) / Dec in WCap.	7,573	-3,314	-11,218	3,898	5,247
Others	-483	1,312	-2,990	-3,112	-3,275
Taxes Paid	-11,702	-6,476	-8,653	-14,121	-17,272
Operating Cash Flow	**48,325**	**53,092**	**30,969**	**62,080**	**74,459**
Capex	-17,253	-22,963	-26,783	-42,875	-26,000
Free Cash Flow	31,071	30,128	4,185	19,205	48,459
Inc (-) / Dec in Investments	143	110	0	0	0
Others	3,938	2,783	2,990	3,112	3,275
Investing Cash Flow	**-13,173**	**-20,071**	**-23,793**	**-39,763**	**-22,725**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-37,959	-3,334	-2,125	-2,273	-2,433
Inc / Dec (-) in Loans	-384	0	0	0	0
Others	-1,219	-1,819	-1,427	-1,494	-1,581
Financing Cash Flow	**-39,562**	**-5,153**	**-3,552**	**-3,767**	**-4,013**
Inc / Dec (-) in Cash	**-4,411**	**27,868**	**3,623**	**18,550**	**47,721**
Opening Cash Balance	90,127	85,717	1,13,585	1,17,208	1,35,758
Closing Cash Balance	85,717	1,13,585	1,17,208	1,35,758	1,83,479

Source: Company, JM Financial

Dupont Analysis					
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
Net Margin	10.9%	13.1%	7.5%	10.5%	12.0%
Asset Turnover (x)	0.8	0.9	0.9	0.9	0.9
Leverage Factor (x)	1.3	1.3	1.3	1.3	1.3
RoE	11.4%	15.8%	9.1%	12.4%	13.6%

Key Ratios					
Y/E March	CY20A	CY21A	CY22E	CY23E	CY24E
BV/Share (INR)	114.6	127.7	130.9	125.6	142.9
ROIC	15.5%	17.7%	13.4%	18.2%	21.1%
ROE	11.4%	15.8%	9.1%	12.4%	13.6%
Net Debt/Equity (x)	-0.4	-0.4	-0.4	-0.4	-0.5
P/E (x)	38.4	27.0	45.2	35.1	28.3
P/B (x)	4.5	4.0	3.9	4.1	3.6
EV/EBITDA (x)	20.7	16.8	20.6	14.4	11.6
EV/Sales (x)	4.3	3.6	3.3	3.0	2.7
Debtor days	8	8	22	22	22
Inventory days	25	35	35	35	35
Creditor days	42	47	46	56	65

Source: Company, JM Financial

JM FINANCIAL

Dalmia Bharat | BUY

Charting its own growth path

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Dalmia Bharat (Dalmia) is presently one the leading players in South, Northeast and East markets and is looking to become a pan-India player through significant capacity additions (14-16% CAGR to reach 110-130MTPA by 2031; 49MTPA by 2024; current: 37MTPA). Over the past decade, Dalmia has scaled up volumes significantly (15% CAGR; 11% CAGR expected over FY22-25 led by capacity additions) and EBITDA / tonne has expanded to 1,333 in FY21 (+29% over FY12). With a net debt free balance sheet and aggressive expansion plans, we feel Dalmia will go in for inorganic expansions; it has already submitted a bid for Andhra Cements (2.6MTPA) (Link). We assume coverage with a BUY Rating and a Sep'23 TP of INR 2,140 (implying 34% upside).

- **Focus on capital allocation:** Dalmia has formalised its capital allocation policy – i) Cash flows will be employed to grow in the core business; ii) 10% of OCF will be towards shareholders' return; iii) 10% of OCF will channelised towards green energy fund focussed on ESG; iv) Net debt to EBITDA will be kept under 2x with target RoCE of 14-15%. It intends to expand to become a pan-India player through capacity expansion. The company has released a capacity expansion roadmap - 49MTPA by FY24 and is targeting 110-130MTPA by FY30 (inorganic + organic). Dalmia is targeting a capacity addition of 14-16% CAGR over the next 10 years.

- **Ramp-up in past acquisitions:** Dalmia has seen an increase in fixed cost on the back of ramp-up in new capacity (Murli industries in Jan'22). It takes 9-12 months to normalise operations and the company expect to reach 60% utilisation in Murli by end of FY23E.

- **Premiumisation and cost optimisation to continue:** Directionally, Dalmia can hit INR 1,300-1,400 EBITDA / tonne once volumes (utilisation in mid 60s) ramp up, commodity prices starting going down, and it makes investments in renewable energy and improves premium mix (20% of trade sales at group level in FY22 vs. 10% in FY18 with improvement across all regions contributes 10-15% higher profitability).

- **Leverage in the comfort zone despite acquisitions:** Dalmia has significantly reduced its net debt from c.INR 60.2bn as of Mar'16 to -INR 14.2bn as on Mar'22. Its net debt-to-EBITDA dropped from 3.8x to -0.6x over the same period and offers scope for acquisitions. Dalmia has submitted bids for Andhra Cements (2.6MTPA).

- **3x capacity expansion in green power:** Dalmia has laid more emphasis on Waste Heat Recovery (WHRs) and renewable source of energy and is expected to treble its green power capacity (to 173 MW; 101MW solar + 72MW WHRS) and has 2/3[rd] of the power requirements met by 10 captive power plants.

- **Assume coverage with BUY Rating and a Sep'23 TP of INR 2,140:** Given the aggressive growth plans and likely EBITDA improvement we expect Dalmia to trade at a slight premium to its 5-year average valuations and ascribe a valuation of 12x 1 yr fwd EV/EBITDA (in-line with other large midcaps) to arrive at a Sep'23 TP of INR 2,140 (34% upside).

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	2,140
Upside/(Downside)	33.9%

Key Data – DALBHARA IN	
Current Market Price	INR1,598
Market cap (bn)	INR299.6/US$3.7
Free Float	49%
Shares in issue (mn)	186.6
Diluted share (mn)	186.6
3-mon avg daily val (mn)	INR465.7/US$5.7
52-week range	2,199/1,213
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance			
%	1M	6M	12M
Absolute	4.0	6.8	-24.1
Relative*	6.5	10.3	-22.3

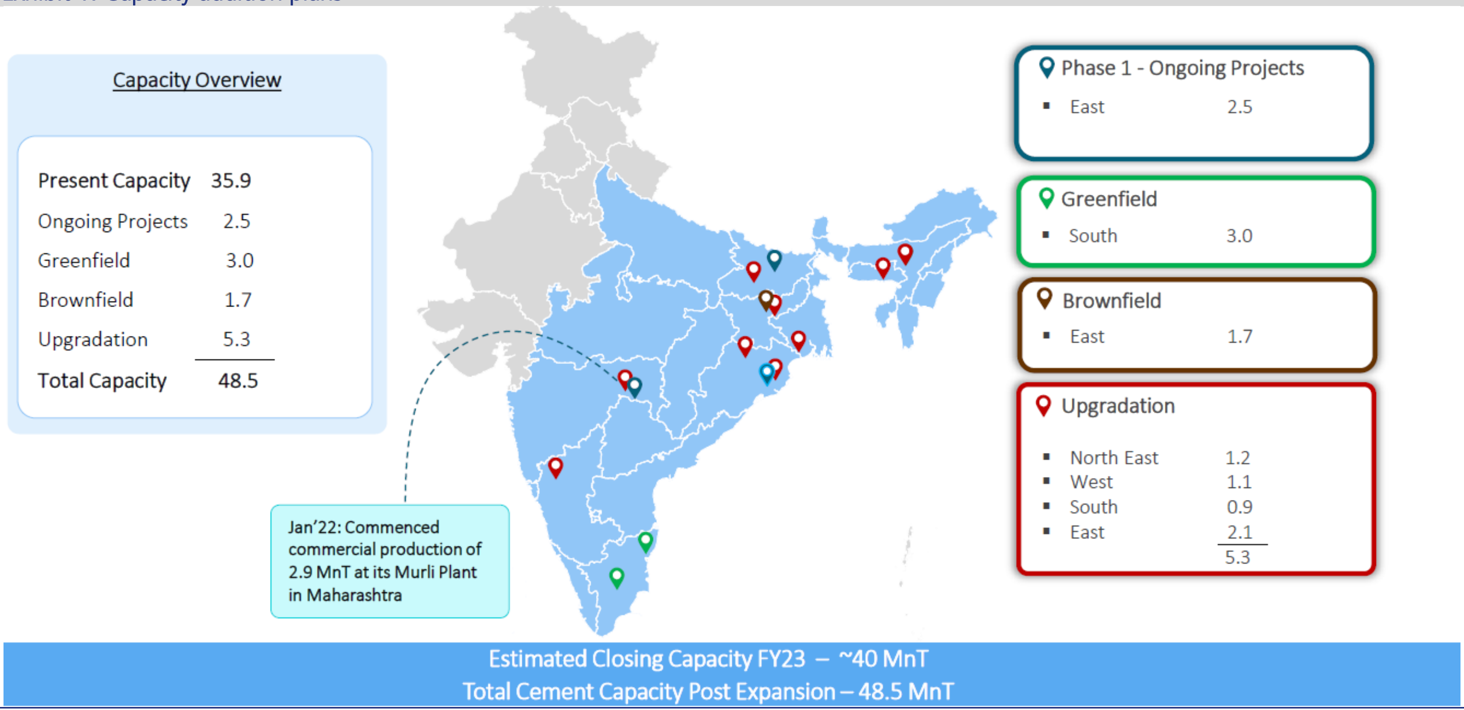
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	1,01,100	1,12,860	1,27,205	1,44,077	1,64,127
Sales Growth (%)	4.5	11.6	12.7	13.3	13.9
EBITDA	27,620	24,260	21,350	31,010	37,555
EBITDA Margin (%)	27.3	21.5	16.8	21.5	22.9
Adjusted Net Profit	12,070	11,380	4,366	10,295	14,876
Diluted EPS (INR)	64.7	61.0	23.4	55.2	79.7
Diluted EPS Growth (%)	404.8	-5.7	-61.6	135.8	44.5
ROIC (%)	10.2	9.5	4.3	7.9	10.0
ROE (%)	10.3	8.0	2.8	6.3	8.5
P/E (x)	24.7	26.2	68.3	29.0	20.0
P/B (x)	2.3	1.9	1.9	1.8	1.6
EV/EBITDA (x)	10.9	11.8	14.4	10.2	8.1
Dividend Yield (%)	0.0	0.3	0.4	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

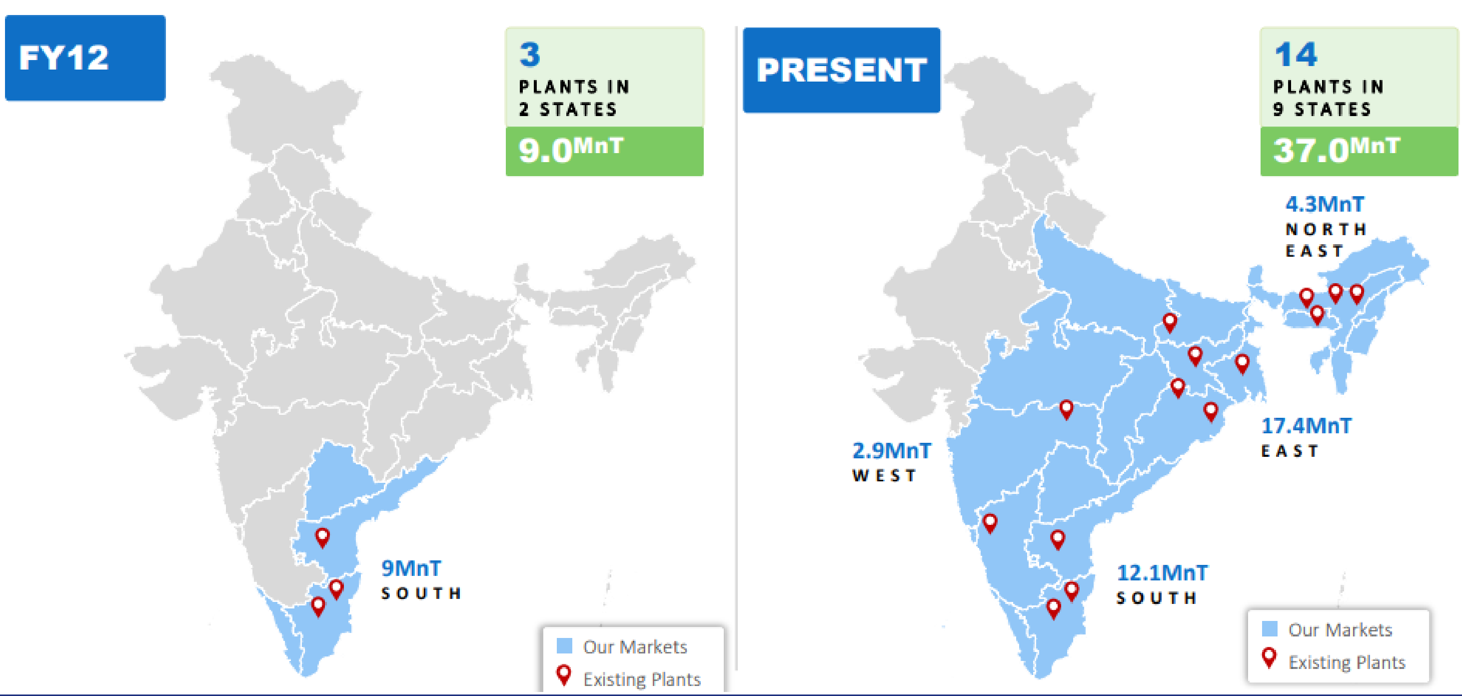
Key Charts

Exhibit 1. Capacity addition plans



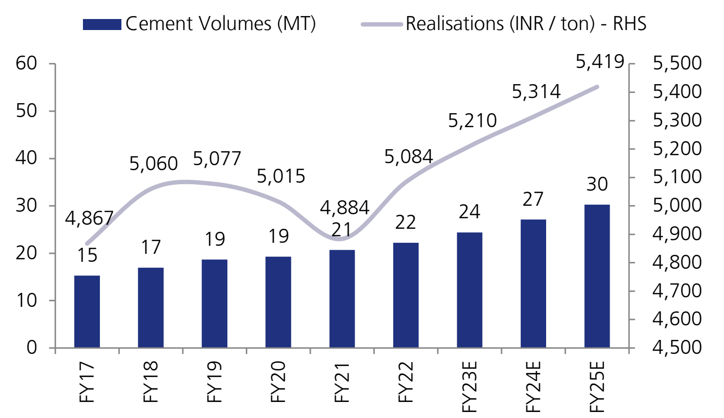
Source: Company, JM Financial

Exhibit 2. Geographic diversification



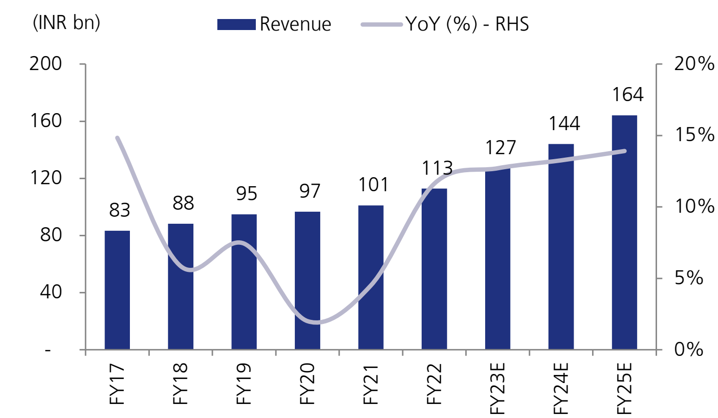
Source: Company, JM Financial

Exhibit 3. Volumes to grow sharply over FY23-25E…



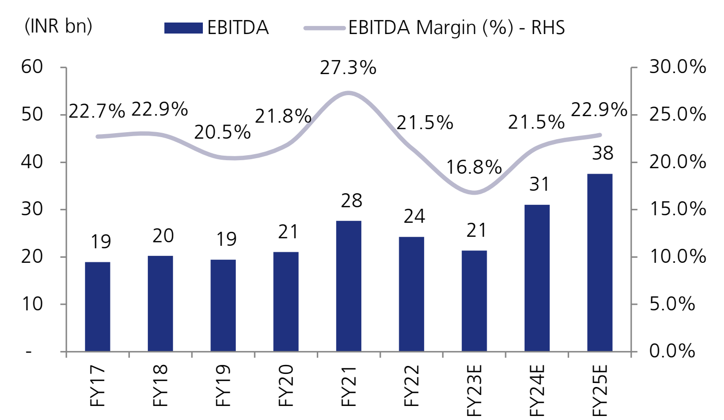
Source: Company, JM Financial

Exhibit 4. …leading to revenue growth



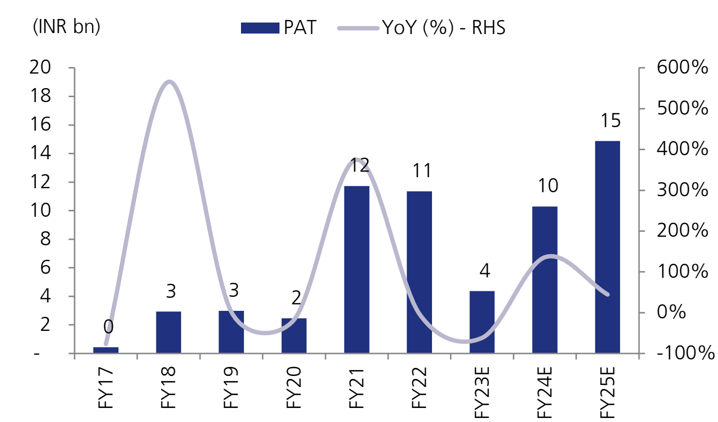
Source: Company, JM Financial

Exhibit 5. EBITDA margin to improve…



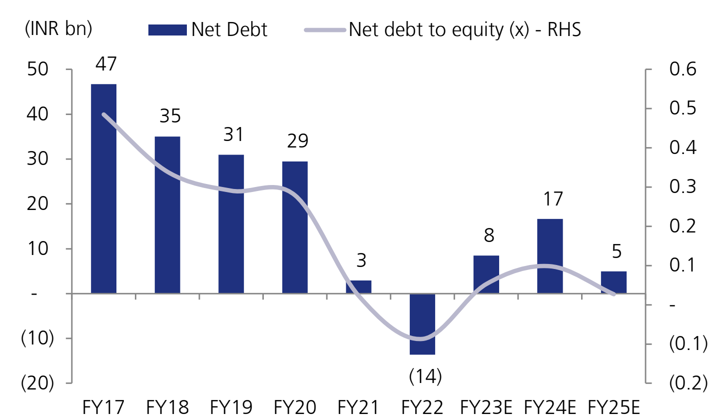
Source: Company, JM Financial

Exhibit 6. …resulting in higher profits



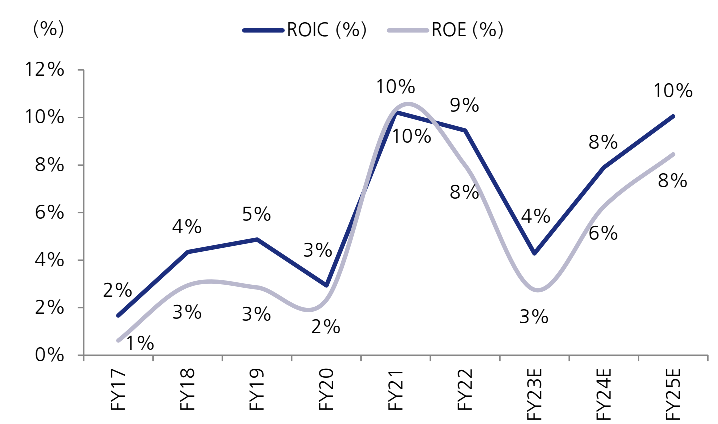
Source: Company, JM Financial

Exhibit 7. Net debt to remain low



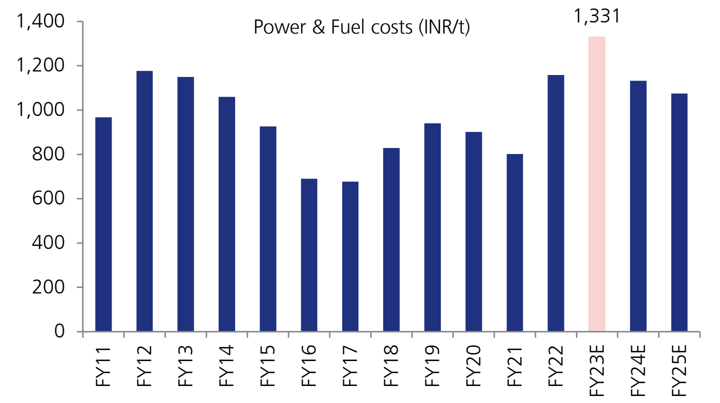
Source: Company, JM Financial

Exhibit 8. RoE and RoIC to improve over FY23-25E



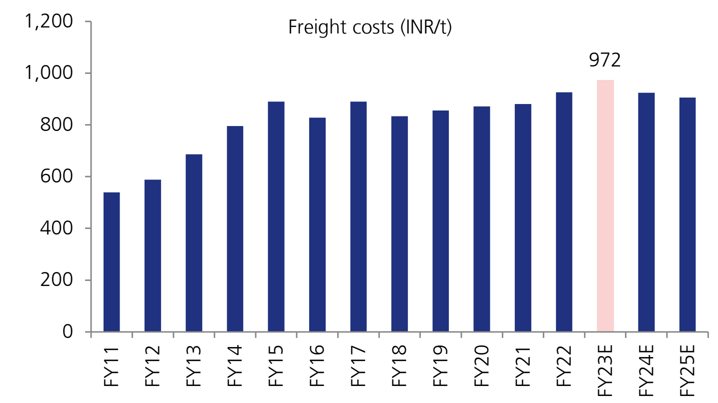
Source: Company, JM Financial

Exhibit 9. Power and fuel costs to decline sharply…



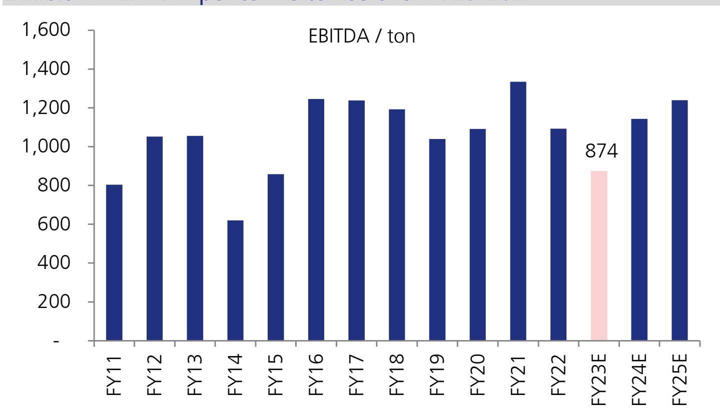
Source: Company, JM Financial

Exhibit 10. …freight costs will follow similar trend



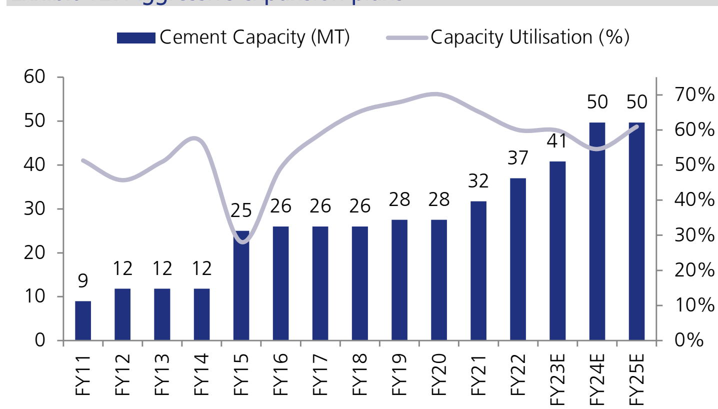
Source: Company, JM Financial

Exhibit 11. EBITDA per tonne to rise over FY23-25E



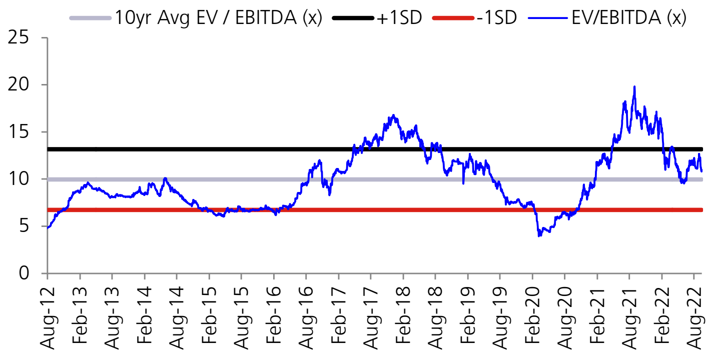
Source: Company, JM Financial

Exhibit 12. Aggressive expansion plans



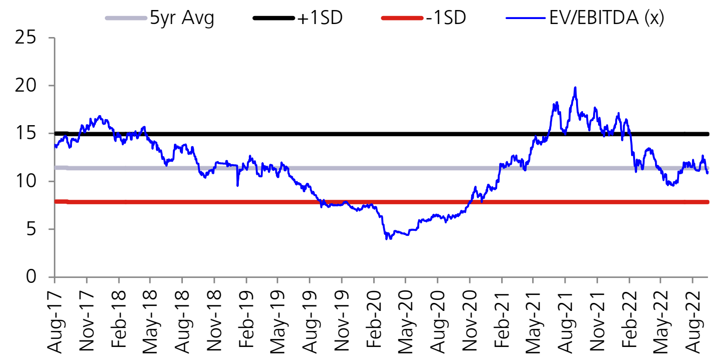
Source: Company, JM Financial

Exhibit 13. 10yr EV/EBITDA band



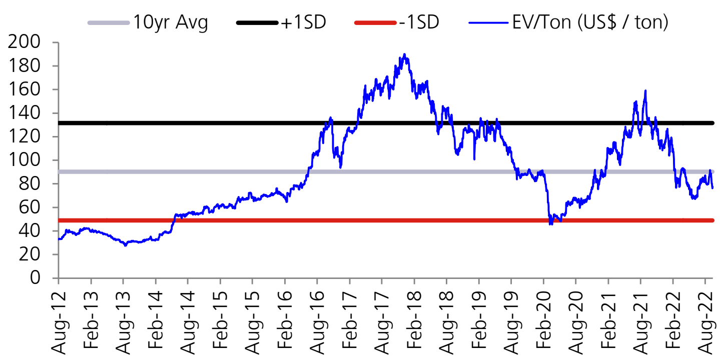
Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 14. 5yr EV/EBITDA band



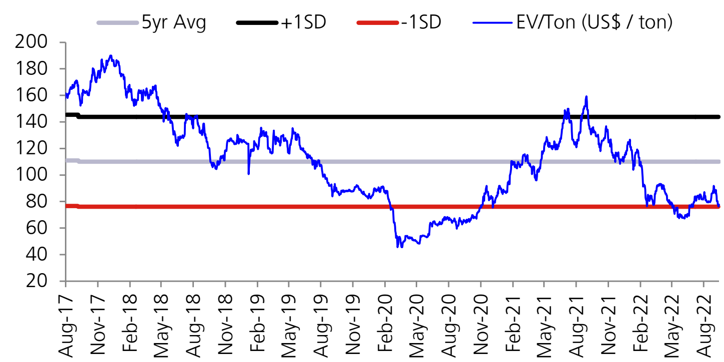
Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 15. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 16. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	1,01,100	1,12,860	1,27,205	1,44,077	1,64,127
Sales Growth	4.5%	11.6%	12.7%	13.3%	13.9%
Other Operating Income	0	0	0	0	0
Total Revenue	**1,01,100**	**1,12,860**	**1,27,205**	**1,44,077**	**1,64,127**
Cost of Goods Sold/Op. Exp	17,850	17,640	21,117	24,498	28,529
Personnel Cost	6,590	7,440	8,346	9,640	11,198
Other Expenses	49,040	63,520	76,392	78,930	86,845
EBITDA	**27,620**	**24,260**	**21,350**	**31,010**	**37,555**
EBITDA Margin	27.3%	21.5%	16.8%	21.5%	22.9%
EBITDA Growth	31.1%	-12.2%	-12.0%	45.2%	21.1%
Depn. & Amort.	12,500	12,360	13,152	13,628	14,104
EBIT	15,120	11,900	8,198	17,382	23,451
Other Income	1,810	1,550	1,399	1,585	1,805
Finance Cost	2,950	1,970	3,628	4,889	4,914
PBT before Excep. & Forex	13,980	11,480	5,970	14,078	20,342
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	13,980	11,480	5,970	14,078	20,342
Taxes	1,780	-140	1,492	3,519	5,085
Extraordinary Inc./Loss(-)	-340	-20	0	0	0
Assoc. Profit/Min. Int.(-)	110	340	112	264	381
Reported Net Profit	11,730	11,360	4,366	10,295	14,876
Adjusted Net Profit	**12,070**	**11,380**	**4,366**	**10,295**	**14,876**
Net Margin	11.9%	10.1%	3.4%	7.1%	9.1%
Diluted Share Cap. (mn)	186.6	186.6	186.6	186.6	186.6
Diluted EPS (INR)	**64.7**	**61.0**	**23.4**	**55.2**	**79.7**
Diluted EPS Growth	404.8%	-5.7%	-61.6%	135.8%	44.5%
Total Dividend + Tax	0	994	1,119	1,213	1,306
Dividend Per Share (INR)	0.0	5.3	6.0	6.5	7.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	1,28,100	1,56,870	1,60,116	1,69,199	1,82,768
Share Capital	370	370	370	370	370
Reserves & Surplus	1,27,730	1,56,500	1,59,746	1,68,829	1,82,398
Preference Share Capital	0	0	0	0	0
Minority Interest	340	720	832	1,095	1,476
Total Loans	38,390	31,760	46,760	51,760	41,760
Def. Tax Liab. / Assets (-)	16,590	16,350	16,350	16,350	16,350
Total - Equity & Liab.	**1,83,420**	**2,05,700**	**2,24,058**	**2,38,404**	**2,42,354**
Net Fixed Assets	1,46,310	1,50,550	1,72,398	1,88,770	1,89,666
Gross Fixed Assets	1,75,190	1,89,910	1,96,910	2,03,910	2,10,910
Intangible Assets	10,110	8,080	8,080	8,080	8,080
Less: Depn. & Amort.	49,050	57,910	71,062	84,690	98,794
Capital WIP	10,060	10,470	38,470	61,470	69,470
Investments	40,330	57,040	50,040	43,040	37,040
Current Assets	32,210	37,130	39,935	46,296	56,998
Inventories	7,600	9,450	11,501	13,026	14,839
Sundry Debtors	5,110	6,730	7,585	8,592	9,787
Cash & Bank Balances	2,550	1,400	1,299	5,128	12,822
Loans & Advances	770	190	190	190	190
Other Current Assets	16,180	19,360	19,360	19,360	19,360
Current Liab. & Prov.	35,440	39,020	38,315	39,702	41,350
Current Liabilities	10,030	9,520	11,475	12,862	14,510
Provisions & Others	25,410	29,500	26,840	26,840	26,840
Net Current Assets	-3,230	-1,890	1,620	6,594	15,648
Total – Assets	**1,83,410**	**2,05,700**	**2,24,058**	**2,38,404**	**2,42,354**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	13,970	11,460	5,970	14,078	20,342
Depn. & Amort.	12,500	12,360	13,152	13,628	14,104
Net Interest Exp. / Inc. (-)	2,030	1,360	3,628	4,889	4,914
Inc (-) / Dec in WCap.	7,520	-5,150	-3,611	-1,145	-1,360
Others	-490	-900	-1,399	-1,585	-1,805
Taxes Paid	430	240	-1,492	-3,519	-5,085
Operating Cash Flow	**35,960**	**19,370**	**16,247**	**26,346**	**31,109**
Capex	-10,380	-17,560	-35,000	-30,000	-15,000
Free Cash Flow	25,580	1,810	-18,753	-3,654	16,109
Inc (-) / Dec in Investments	6,720	5,390	7,000	7,000	6,000
Others	900	1,690	1,399	1,585	1,805
Investing Cash Flow	**-2,760**	**-10,480**	**-26,601**	**-21,415**	**-7,195**
Inc / Dec (-) in Capital	-4,000	50	0	0	0
Dividend + Tax thereon	0	-1,000	-1,119	-1,213	-1,306
Inc / Dec (-) in Loans	-25,700	-5,800	15,000	5,000	-10,000
Others	-3,960	-3,290	-3,628	-4,889	-4,914
Financing Cash Flow	**-33,660**	**-10,040**	**10,253**	**-1,102**	**-16,220**
Inc / Dec (-) in Cash	**-460**	**-1,150**	**-101**	**3,829**	**7,694**
Opening Cash Balance	3,010	2,550	1,400	1,299	5,128
Closing Cash Balance	2,550	1,400	1,299	5,128	12,822

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	11.9%	10.1%	3.4%	7.1%	9.1%
Asset Turnover (x)	0.6	0.6	0.6	0.6	0.7
Leverage Factor (x)	1.6	1.4	1.4	1.4	1.4
RoE	10.3%	8.0%	2.8%	6.3%	8.5%

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	686.6	840.9	858.3	906.9	979.7
ROIC	10.2%	9.5%	4.3%	7.9%	10.0%
ROE	10.3%	8.0%	2.8%	6.3%	8.5%
Net Debt/Equity (x)	0.0	-0.1	0.1	0.1	0.0
P/E (x)	24.7	26.2	68.3	29.0	20.0
P/B (x)	2.3	1.9	1.9	1.8	1.6
EV/EBITDA (x)	10.9	11.8	14.4	10.2	8.1
EV/Sales (x)	3.0	2.5	2.4	2.2	1.9
Debtor days	18	22	22	22	22
Inventory days	27	31	33	33	33
Creditor days	45	35	36	38	39

Source: Company, JM Financial

Heidelberg Cement | HOLD

Limited levers for growth

Manish Agrawal
manish.agrawal@jmfl.com | Tel: (91 22) 66303068

Heidelberg Cement India is one of the major players in central India with 6.3MTPA cement capacity (3.75MTPA clinker), and it controls 9% capacity share in the region. Over FY17-22, the management's focus was on premiumisation (4% / 24% CAGR in realisation / EBITDA); presently, premium products form 23% of the mix and it sells 100% blended cement. However, the volume performance of the company has lagged the industry owing to lack of expansion (1% CAGR over FY17-22). Going forward, Heidelberg has plans to set up a greenfield capacity in Gujarat (still 3-4 years away). The balance sheet remains well capitalised and strong cash generation is expected to continue until the capex is finalised. The next leg of growth is still some time away and the stock has limited re-rating triggers. We value the company at 7x 1yr fwd EBITDA (lower than 5-year average in absence of growth triggers). We assume coverage with HOLD rating and a Sep'23 TP of INR 195 (implying 3% upside).

- **Management focussed on pricing over volumes:** Blended realisation / EBITDA have grown at 4% / 24% CAGR over FY17-22. Better pricing, focus on premiumisation and exposure to the lucrative central market have been key drivers for realisation improvement. During this period, the company has introduced many premium products and ramped up volume proportion from the segment to 23% of trade sales. Going forward also, the management will continue to put emphasis on pricing over volumes.
- **Growth restricted:** Despite 1% volume CAGR over the last 5 years, the company has delivered 24% EBITDA CAGR. Over FY23-25, we expect 7% volume CAGR (slightly lower than demand) and EBITDA is likely to grow at 29%. Current capacity is 6.3MTPA (clinker 3.75MTPA). Heidelberg is planning a greenfield expansion in Gujarat; commissioning of the project is back-ended with operationalisation at least 3-4 years away. As a result, capacity share might decline from 9% in the central region to 7-8% by FY24E.
- **Possible merger with Zuari Cement over the medium term:** With a change in limestone mining regulations, there is now scope for merger with Zuari Cement, which if concluded will lead to group simplification. The combined entity is likely to have cement sales of around 9MTPA with an EBITDA of around INR 8-9bn (Source Credit Rating Report), with stronger geographic diversification and net cash balance sheet.
- **Limited scope to boost performance; balance sheet to strengthen:** Heidelberg Cement's efficiency parameters are one of the best in the industry. In 1QFY23, green power contributed to 30% of total power, the highest it has ever achieved. The company has a 12MW WHR plant and a 5MW solar plant in Narsingh, and a 15MW solar power supply long-term agreement in Jhansi. Its balance sheet remains well capitalised and strong cash generation is expected to increase reserves (net cash INR 2.2bn) in the near term.
- **We assume coverage with a Sep'23 TP of INR 195:** We value Heidelberg at 7x 1yr fwd EBITDA on account of lack of growth triggers and already healthy product mix. We assume coverage with a HOLD rating and a Sep'23 TP of INR 195 (implying 3% upside).

Recommendation and Price Target	
Current Reco.	HOLD
Previous Reco.	NR
Current Price Target (12M)	195
Upside/(Downside)	3.1%

Key Data – HEIM IN	
Current Market Price	INR189
Market cap (bn)	INR42.9/US$0.5
Free Float	25%
Shares in issue (mn)	226.6
Diluted share (mn)	226.6
3-mon avg daily val (mn)	INR125.6/US$1.5
52-week range	261/164
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance

%	1M	6M	12M
Absolute	-0.7	-0.1	-26.2
Relative*	1.7	3.1	-24.5

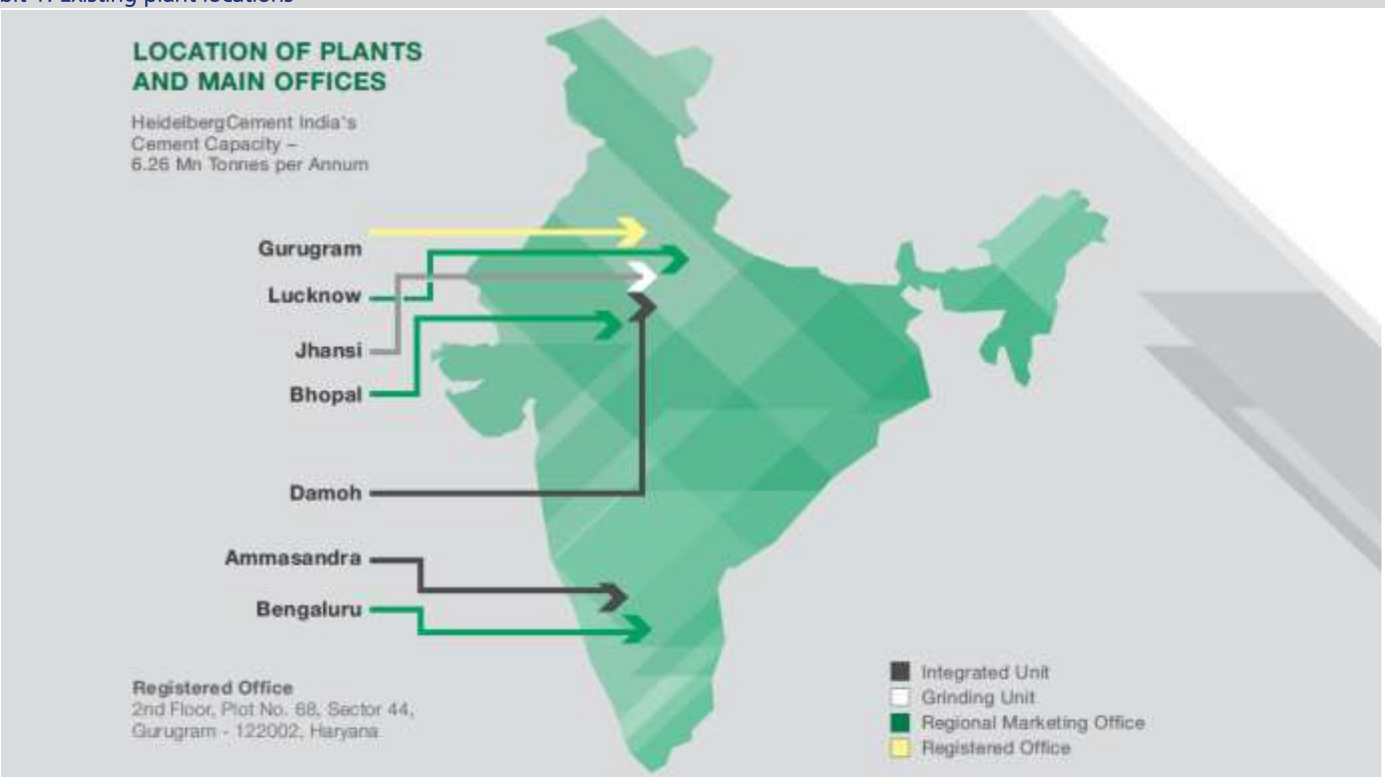
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	20,927	22,426	24,666	26,871	28,934
Sales Growth (%)	-3.0	7.2	10.0	8.9	7.7
EBITDA	5,066	4,346	3,624	5,298	6,054
EBITDA Margin (%)	23.9	18.9	14.6	19.5	20.8
Adjusted Net Profit	3,149	2,523	2,104	3,401	3,741
Diluted EPS (INR)	13.9	11.1	9.3	15.0	16.5
Diluted EPS Growth (%)	17.5	-19.9	-16.6	61.7	10.0
ROIC (%)	24.4	17.7	14.2	23.8	25.0
ROE (%)	22.4	16.5	13.0	19.4	19.3
P/E (x)	13.6	17.0	20.4	12.6	11.4
P/B (x)	2.9	2.7	2.6	2.3	2.1
EV/EBITDA (x)	8.2	9.5	10.7	7.2	6.4
Dividend Yield (%)	3.2	2.6	2.5	4.0	4.4

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

- Capex target: The company expects to incur capex of INR 1bn each in FY23 and FY24, including on debottlenecking projects. Its greenfield expansion at Gujarat with expected capacity of 3.0-3.5MT (supported by 6,000 TPD kiln) is still in the approval stage. The management expects to get approvals over the next 1.0-1.5 years. It will then need another 2.5 years for construction. The project is still in the nascent stage.
- Business Overview: Heidelberg Cement India Limited is a subsidiary of the Heidelberg Cement Group, Germany. The group entered India in 2006 through a 50:50 JV in Indorama Cement Limited and acquisition of a majority stake in Mysore Cement Limited. It then acquired the balance stake in Indorama Cement in 2008 and merged the operations of the same with Mysore Cement Limited, resulting in capacity increasing to 3.1MTPA. The company thereafter completed brownfield expansion of its facilities in central India in 2013, which enhanced cement capacity to 6MTPA. It divested the Raigad grinding unit (0.6MTPA), owing to infrastructural bottlenecks, to the JSW group. The capacity then increased to 6.3MTPA through debottlenecking operations across its two plants in the central region.

Exhibit 1. Existing plant locations

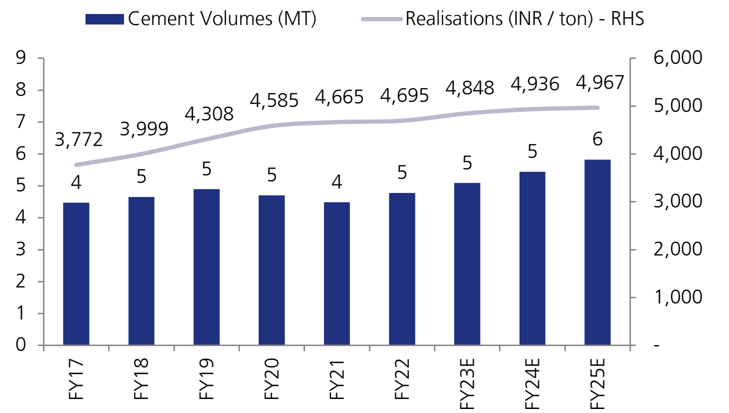


Source: Heidelberg, JM Financial

Key Charts

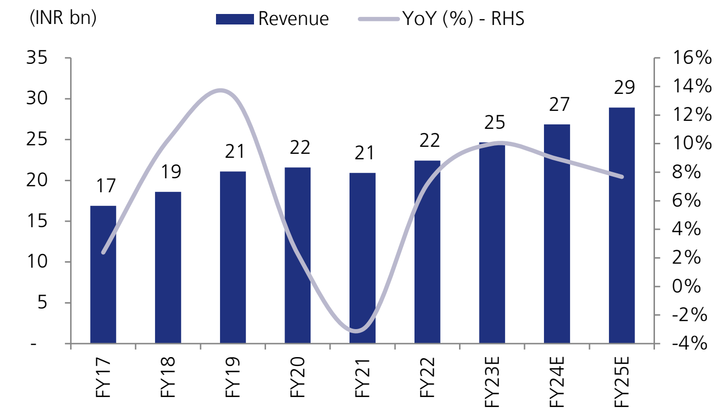
Financials

Exhibit 2. Volumes to marginally increase



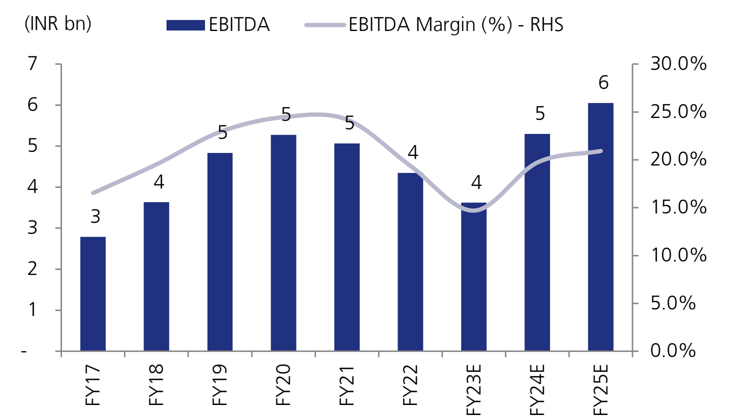
Source: Company, JM Financial

Exhibit 3. Revenue to increase at a steady rate



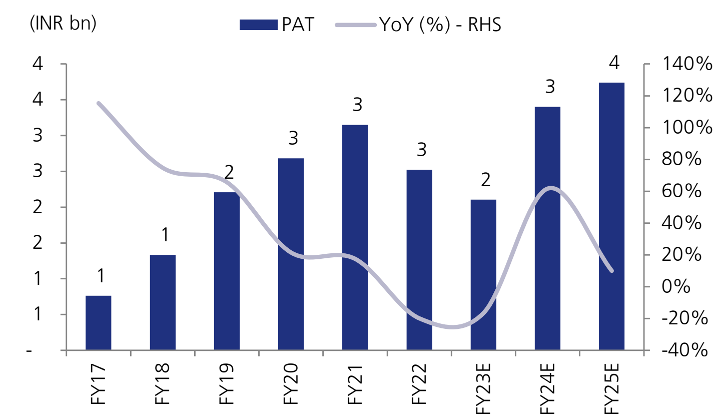
Source: Company, JM Financial

Exhibit 4. EBITDA margin to improve on account of lower costs…



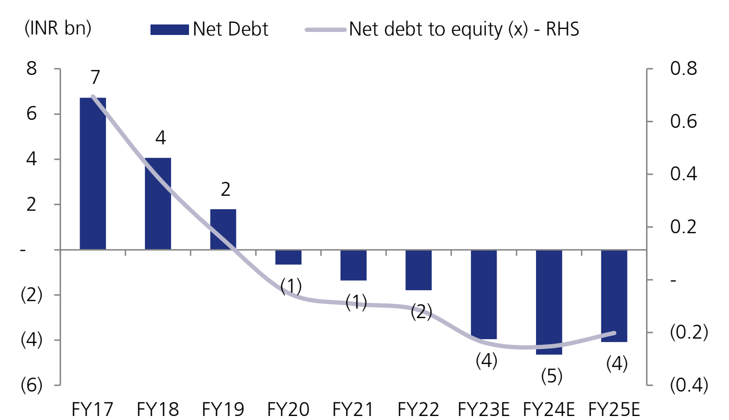
Source: Company, JM Financial

Exhibit 5. …resulting in higher profits



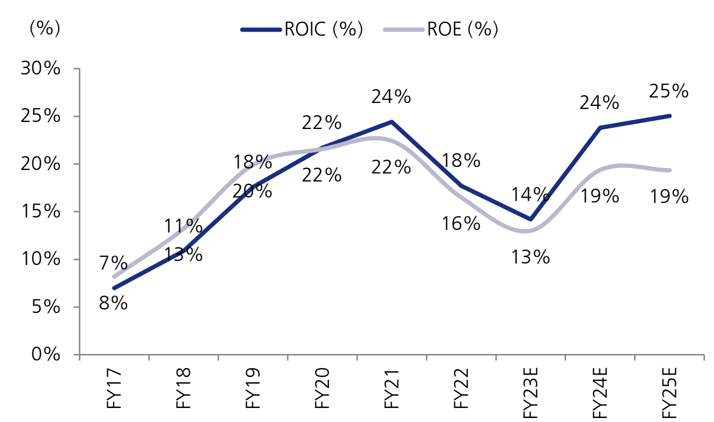
Source: Company, JM Financial

Exhibit 6. Net debt to remain low due to healthy cash reserves



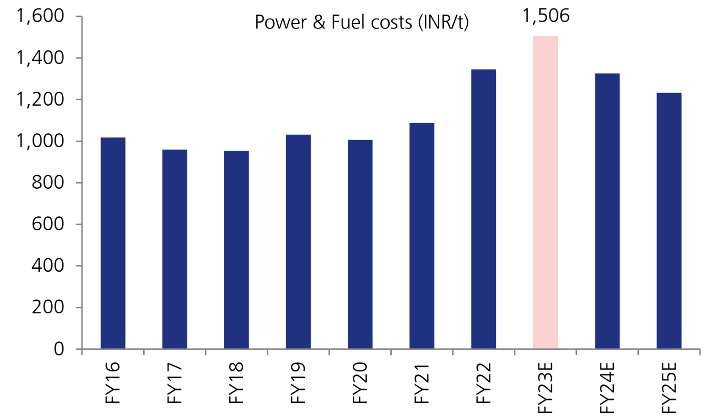
Source: Company, JM Financial

Exhibit 7. RoE and RoIC to improve sharply post FY23E



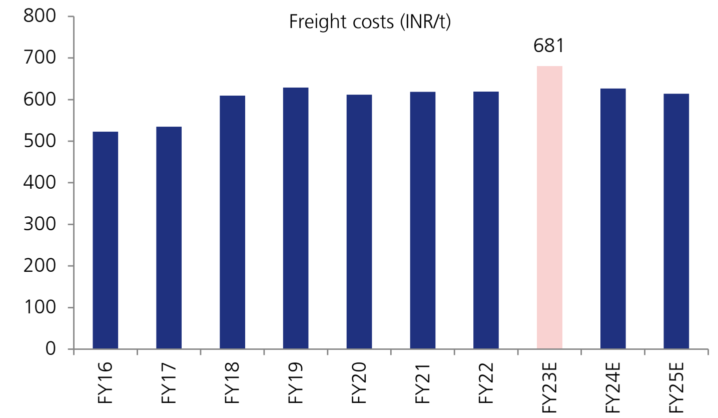
Source: Company, JM Financial

Exhibit 8. Power and fuel to sharply decline



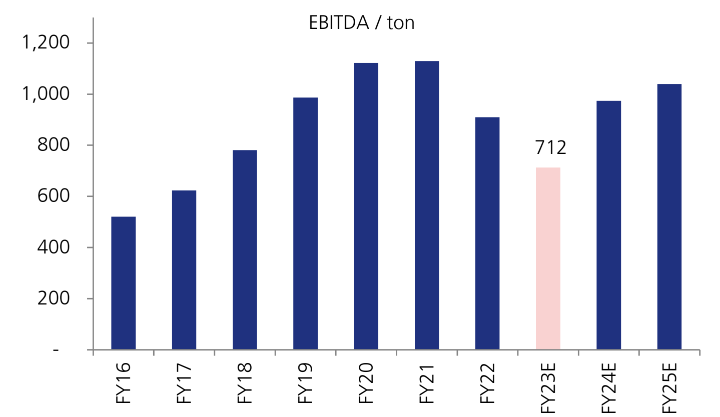
Source: Company, JM Financial

Exhibit 9. Freight costs to also normalise after FY23E



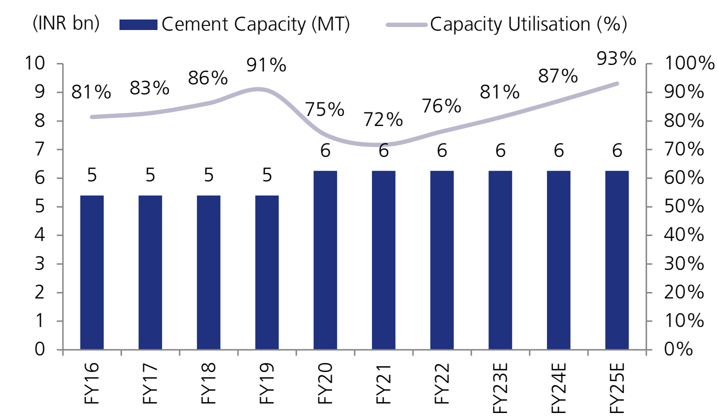
Source: Company, JM Financial

Exhibit 10. EBITDA per tonne expected to increase significantly



Source: Company, JM Financial

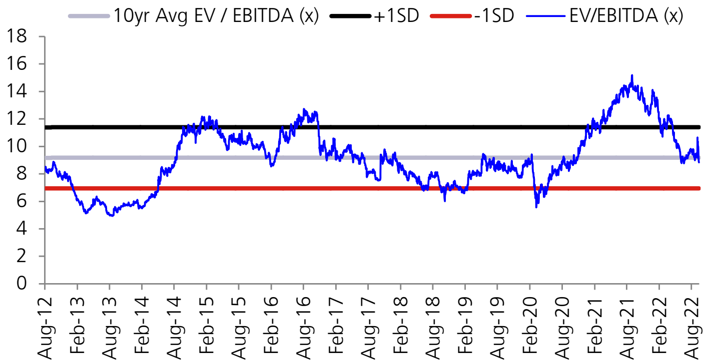
Exhibit 11. Capacity to remain similar as no expansions in the pipeline



Source: Company, JM Financial

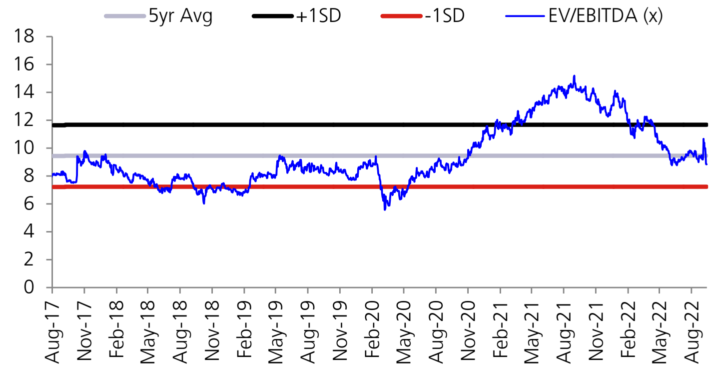
Valuations

Exhibit 12. 10yr EV/EBITDA band



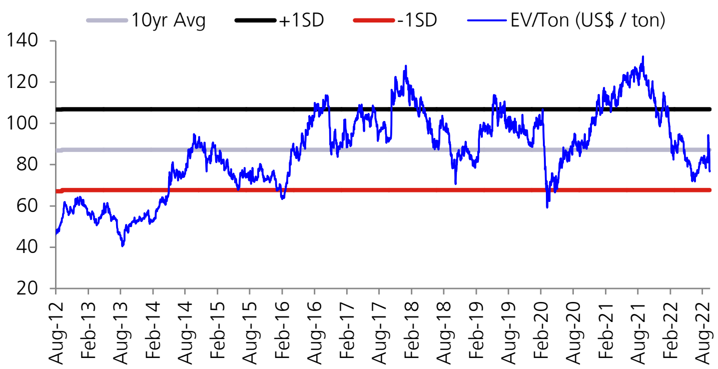
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 13. 5yr EV/EBITDA band



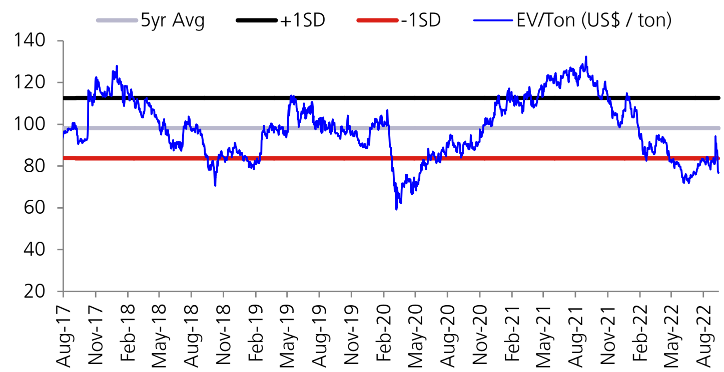
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 15. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	20,927	22,426	24,666	26,871	28,934
Sales Growth	-3.0%	7.2%	10.0%	8.9%	7.7%
Other Operating Income	240	544	240	240	200
Total Revenue	**21,167**	**22,970**	**24,906**	**27,111**	**29,134**
Cost of Goods Sold/Op. Exp	3,725	4,287	4,733	5,224	5,765
Personnel Cost	1,273	1,307	1,427	1,565	1,716
Other Expenses	11,102	13,031	15,122	15,024	15,599
EBITDA	**5,066**	**4,346**	**3,624**	**5,298**	**6,054**
EBITDA Margin	23.9%	18.9%	14.6%	19.5%	20.8%
EBITDA Growth	-4.0%	-14.2%	-16.6%	46.2%	14.3%
Depn. & Amort.	1,110	1,121	1,117	1,106	1,070
EBIT	3,956	3,225	2,507	4,192	4,983
Other Income	465	491	498	542	204
Finance Cost	509	364	200	200	200
PBT before Excep. & Forex	3,912	3,351	2,805	4,535	4,988
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	3,912	3,351	2,805	4,535	4,988
Taxes	763	829	701	1,134	1,247
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	3,149	2,523	2,104	3,401	3,741
Adjusted Net Profit	**3,149**	**2,523**	**2,104**	**3,401**	**3,741**
Net Margin	14.9%	11.0%	8.4%	12.5%	12.8%
Diluted Share Cap. (mn)	226.6	226.6	226.6	226.6	226.6
Diluted EPS (INR)	**13.9**	**11.1**	**9.3**	**15.0**	**16.5**
Diluted EPS Growth	17.5%	-19.9%	-16.6%	61.7%	10.0%
Total Dividend + Tax	1,360	1,133	1,052	1,701	1,870
Dividend Per Share (INR)	6.0	5.0	4.6	7.5	8.3

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	14,939	15,652	16,704	18,405	20,275
Share Capital	2,266	2,266	2,266	2,266	2,266
Reserves & Surplus	12,673	13,386	14,438	16,139	18,009
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	2,945	1,902	1,902	1,902	1,902
Def. Tax Liab. / Assets (-)	1,938	2,175	2,175	2,175	2,175
Total - Equity & Liab.	**19,821**	**19,730**	**20,782**	**22,482**	**24,353**
Net Fixed Assets	16,374	15,888	15,771	16,665	19,095
Gross Fixed Assets	22,122	22,531	23,031	23,531	24,031
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	5,937	6,912	8,030	9,136	10,206
Capital WIP	189	270	770	2,270	5,270
Investments	0	48	48	48	48
Current Assets	12,079	12,302	15,084	16,593	16,805
Inventories	1,607	1,731	1,903	2,073	2,233
Sundry Debtors	333	400	440	479	516
Cash & Bank Balances	4,301	3,689	5,860	6,545	5,985
Loans & Advances	4,467	4,743	5,265	5,736	6,176
Other Current Assets	1,371	1,739	1,616	1,760	1,895
Current Liab. & Prov.	8,632	8,508	10,121	10,824	11,594
Current Liabilities	2,706	2,645	3,137	3,215	3,402
Provisions & Others	5,925	5,864	6,984	7,608	8,192
Net Current Assets	3,448	3,793	4,963	5,770	5,210
Total – Assets	**19,821**	**19,730**	**20,782**	**22,482**	**24,353**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	3,912	3,351	2,805	4,535	4,988
Depn. & Amort.	1,110	1,121	1,117	1,106	1,070
Net Interest Exp. / Inc. (-)	483	364	200	200	200
Inc (-) / Dec in WCap.	-8	-782	1,001	-122	-1
Others	-431	-489	-498	-542	-204
Taxes Paid	-672	-546	-701	-1,134	-1,247
Operating Cash Flow	**4,395**	**3,019**	**3,924**	**4,043**	**4,806**
Capex	-456	-464	-1,000	-2,000	-3,500
Free Cash Flow	3,939	2,554	2,924	2,043	1,306
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-1,276	114	498	542	204
Investing Cash Flow	**-1,732**	**-350**	**-502**	**-1,458**	**-3,296**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-1,250	-1,253	0	0	0
Inc / Dec (-) in Loans	0	0	0	0	0
Others	-1,789	-2,028	-1,252	-1,900	-2,070
Financing Cash Flow	**-3,039**	**-3,282**	**-1,252**	**-1,900**	**-2,070**
Inc / Dec (-) in Cash	**-376**	**-613**	**2,171**	**685**	**-560**
Opening Cash Balance	4,679	4,303	3,690	5,860	6,545
Closing Cash Balance	4,303	3,690	5,860	6,545	5,985

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	14.9%	11.0%	8.4%	12.5%	12.8%
Asset Turnover (x)	1.1	1.2	1.2	1.3	1.2
Leverage Factor (x)	1.4	1.3	1.3	1.2	1.2
RoE	22.4%	16.5%	13.0%	19.4%	19.3%

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	65.9	69.1	73.7	81.2	89.5
ROIC	24.4%	17.7%	14.2%	23.8%	25.0%
ROE	22.4%	16.5%	13.0%	19.4%	19.3%
Net Debt/Equity (x)	-0.1	-0.1	-0.2	-0.3	-0.2
P/E (x)	13.6	17.0	20.4	12.6	11.4
P/B (x)	2.9	2.7	2.6	2.3	2.1
EV/EBITDA (x)	8.2	9.5	10.7	7.2	6.4
EV/Sales (x)	2.0	1.8	1.6	1.4	1.3
Debtor days	6	6	6	6	6
Inventory days	28	27	28	28	28
Creditor days	61	52	54	54	54

Source: Company, JM Financial

JK Cement | HOLD

Capex nearing fruition; Exploring adjacencies

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JK Cement (JKC) credits itself on being ahead of the curve (white cement / waste heat recovery) and has brought its cost structure in line with industry leaders. From a growth perspective, it is on the verge of completing its expansion at Panna (4MTPA across MP and UP with 2.6MTPA clinker) and expects to reach 25MTPA (organic + inorganic) capacity by FY25 (currently 14.7MTPA + 4MTPA expansion). The major markets continue to be North / Central (stable regions). Sales / EBITDA are likely to be driven by active utilisation of capacities, thereby driving down debt (peak debt at 0.7x net debt to equity in FY23). As a related diversification, JKC has also committed INR 6bn in the paints business where it can leverage on its existing network and drive volumes but returns will remain back-ended. While we believe in JKC's ability to drive grey cement volumes across central India with its expansion the stock seems to be factoring that in. We assume coverage with a HOLD rating on the stock, valuing it at 12x EV / EBITDA (in line with 5 year average) as we feel near-term growth drivers are adequately captured, to arrive at a Sep'23 TP of INR 2,650 (implying 1% upside).

- **Derives strength in North and Central; Panna capex coming to conclusion:** JKC has an established presence in the northern region (Rajasthan, Haryana, Punjab and Delhi contribute 40% of the total sales). It also has a presence in Gujarat and Maharashtra (Western region) as well as Karnataka (southern region). Growth will be driven by 4MTPA greenfield integrated plant in Panna (Central), which is expected to be operational from FY23-end taking the total capacity to 18.7MTPA (+27%).
- **9% volume growth over FY23-25 to drive deleveraging:** Grey cement sales are expected to grow 9% over FY23-25, leading to 12% EBITDA CAGR. The capacity utilisation stood at 83% (significantly higher than industry) and even after the expansion we expect it to stay in mid-80s. Net debt is likely to stay within 0.7x net debt to equity in FY23 (net debt to EBITDA peak at 2.3x in FY23).
- **Leadership in white cement:** White cement remains a duopoly industry with significant entry barriers and JKC with a capacity of 1.48 MTPA along with presence in wall putty segment (capacity: 1.33 MTPA) has significant headroom to grow (55% utilisation) and is likely to continue doing well. Realisation / EBITDA per tonne are 2x of grey cement and offers a natural hedge to the volatility in grey cement.
- **Optionality into paints business:** JK Cement has announced its foray into the paints business. The company will invest INR 6bn in the business over 5 years, split into two parts – INR 3bn on capacity building (60,000 kl/annum) and INR 3bn on branding, working capital and accumulated losses for the initial years. This expansion takes advantage of existing dealers / painters network in the white cement business and is likely to result in increased sales of wall putty also. The expansion allows JKC to offer the complete bouquet of products to customers and, given the strong brand in North and Central markets, we expect it to scale up. The plants will be commissioned by FY24-end.
- **Assume coverage on JKC with a 'HOLD;' rating and a Sep'23TP of INR 2,650:** We assume coverage with a HOLD rating, valuing the stock to arrive at a Sep'23 TP of INR 2,650 assuming 12x 1 yr EV / EBITDA factoring in growth from the Panna plant. Key risks: Utilisation of Panna capex and success in paints business.

Recommendation and Price Target	
Current Reco.	HOLD
Previous Reco.	NR
Current Price Target (12M)	2,650
Upside/(Downside)	0.9%

Key Data – JKCE IN	
Current Market Price	INR2,626
Market cap (bn)	INR202.8/US$2.5
Free Float	36%
Shares in issue (mn)	77.3
Diluted share (mn)	77.3
3-mon avg daily val (mn)	INR399.2/US$4.9
52-week range	3,838/2,004
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance

%	1M	6M	12M
Absolute	-3.3	8.0	-15.5
Relative*	-1.0	11.5	-13.5

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	62,334	75,291	84,467	1,01,392	1,07,473
Sales Growth (%)	15.5	20.8	12.2	20.0	6.0
EBITDA	15,189	14,821	15,533	19,097	20,917
EBITDA Margin (%)	24.0	19.3	18.1	18.6	19.2
Adjusted Net Profit	7,747	7,607	7,648	9,473	10,633
Diluted EPS (INR)	100.3	98.4	99.0	122.6	137.6
Diluted EPS Growth (%)	33.9	-1.8	0.5	23.9	12.2
ROIC (%)	16.6	14.5	14.1	15.3	16.0
ROE (%)	22.6	19.1	16.8	18.1	17.6
P/E (x)	26.2	26.7	26.5	21.4	19.1
P/B (x)	5.4	4.8	4.2	3.6	3.1
EV/EBITDA (x)	15.2	15.7	15.3	12.5	10.9
Dividend Yield (%)	0.6	0.6	0.8	0.9	1.0

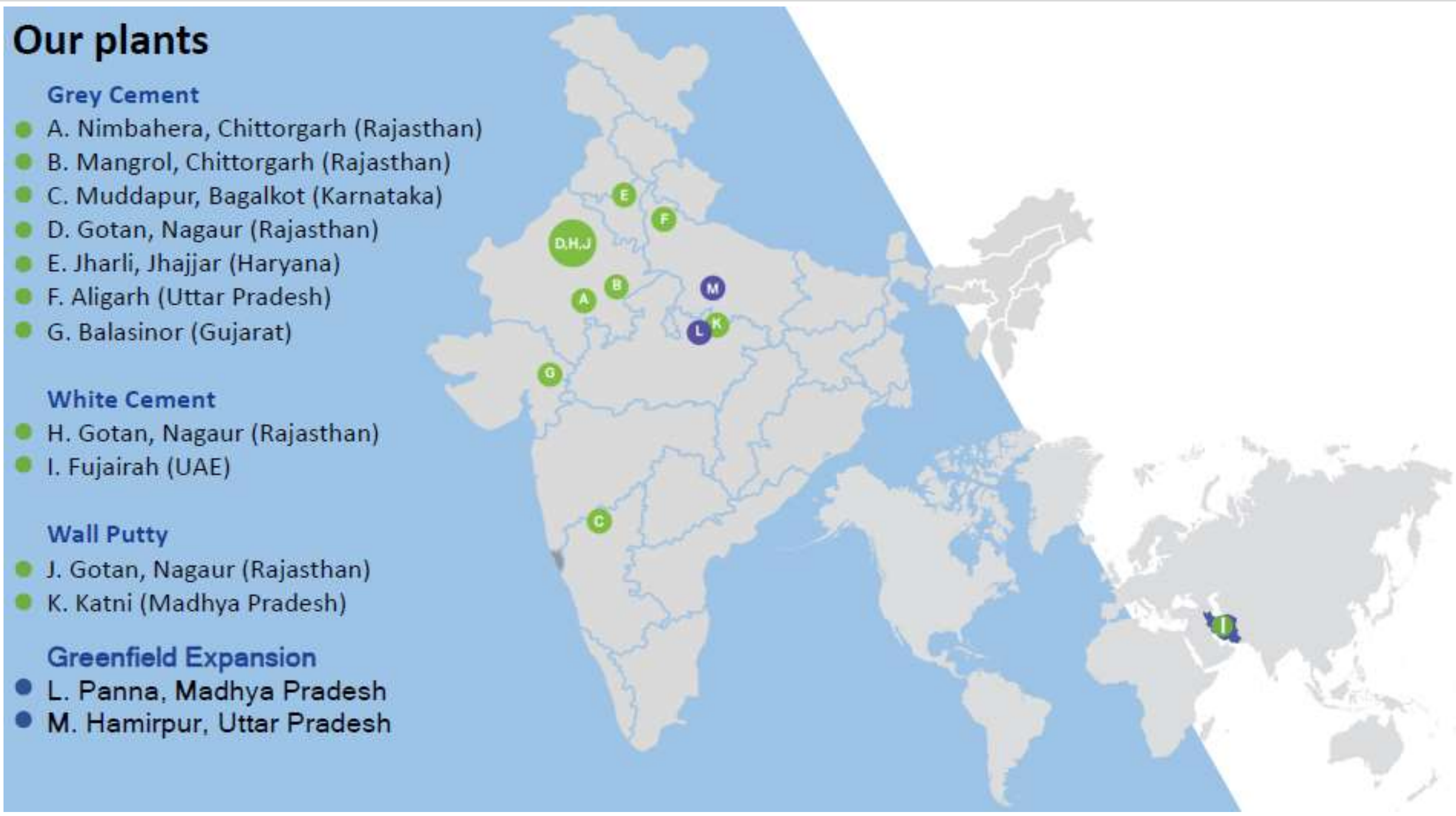
Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

- Capex plans: INR 17bn for capex (INR 11.5bn for Panna + INR 1.5bn for the new paint business) and INR 3bn for sustenance capex. For incremental capacity expansion, land has been finalised in Madhya Pradesh and Uttar Pradesh.

Business Overview

- JK Cement is part of the JK group (North). It has an installed capacity of 14.67 MTPA and is one of the few white cement manufacturers (capacity: 1.48 MTPA) with presence in wall putty segment (capacity: 1.33 MTPA). Grey cement plants are located at Nimbahera, Mangrol and Gotan in Rajasthan (capacity: 7.97 MTPA), Jhajjar in Haryana (1.50 MTPA capacity including split grinding unit at Jhajjar, commissioned in FY15), Muddarpur in Karnataka (3.0 MTPA), Aligarh in Uttar Pradesh (1.50 MTPA including spilt grinding unit) and Balasinor in Gujarat (0.7 MTPA, commissioned on 8th Oct'20).

Exhibit 1. Plants

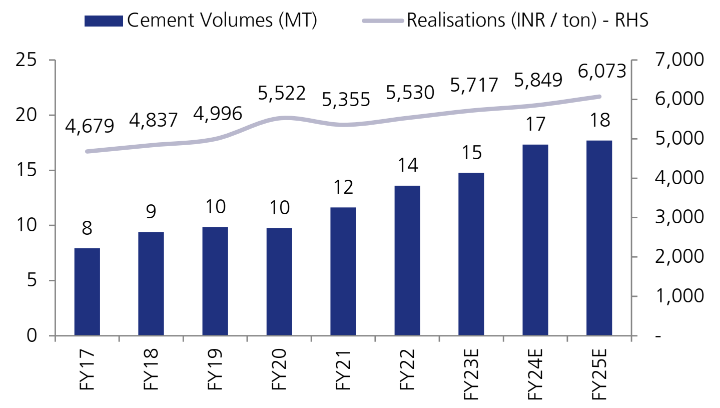


Source: Company, JM Financial

Key Charts

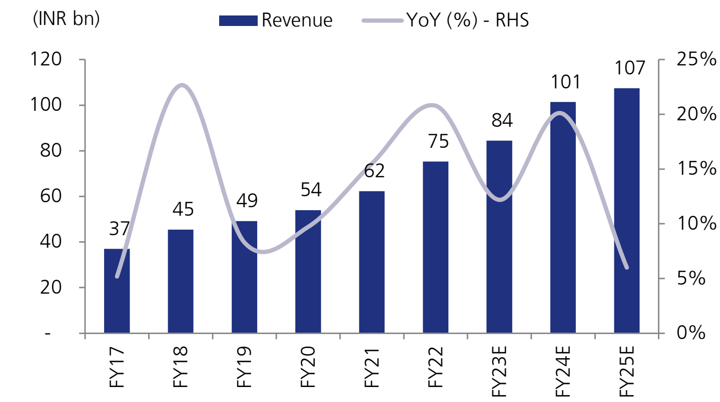
Financials

Exhibit 2. Volumes to rise at a steady rate



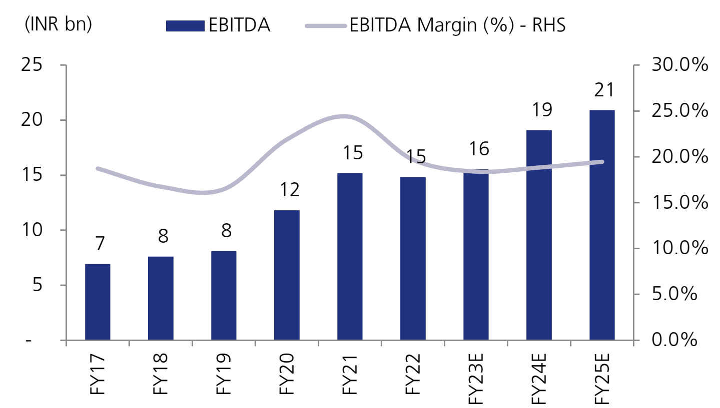
Source: Company, JM Financial

Exhibit 3. Revenue to increase significantly



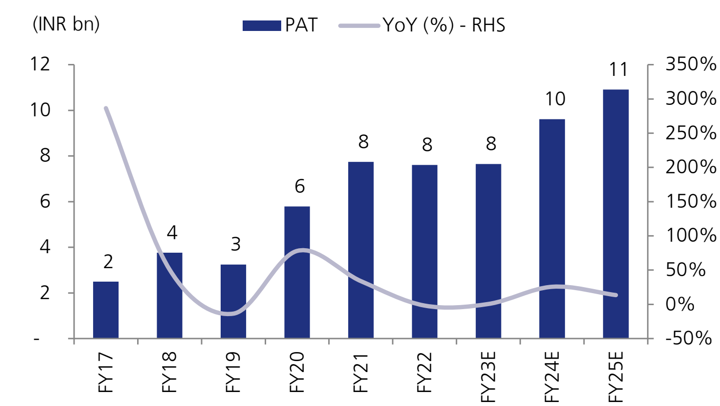
Source: Company, JM Financial

Exhibit 4. EBITDA margin to improve…



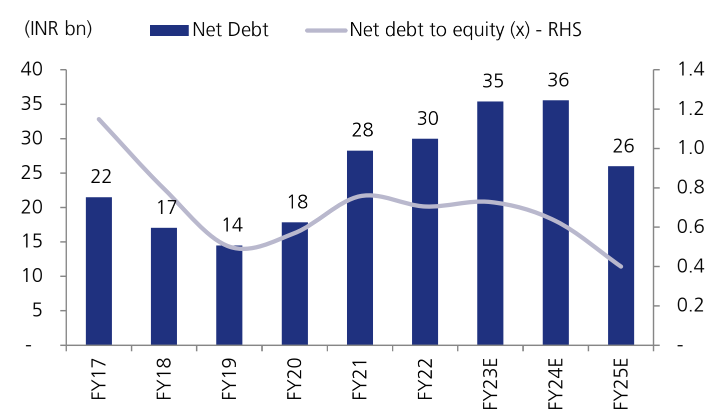
Source: Company, JM Financial

Exhibit 5. …resulting in higher profits



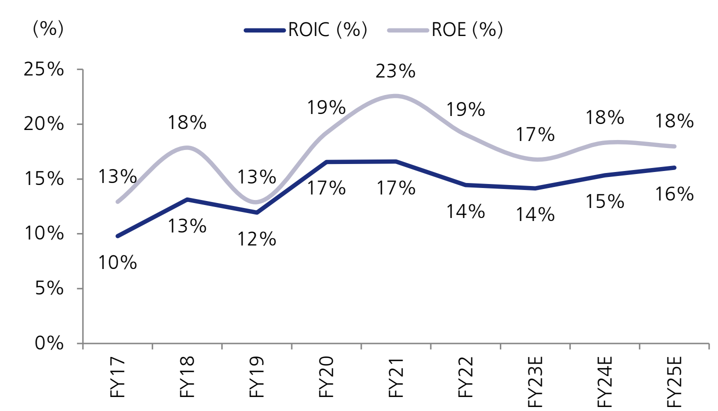
Source: Company, JM Financial

Exhibit 6. Net debt to increase as cash reserves are expected to decline



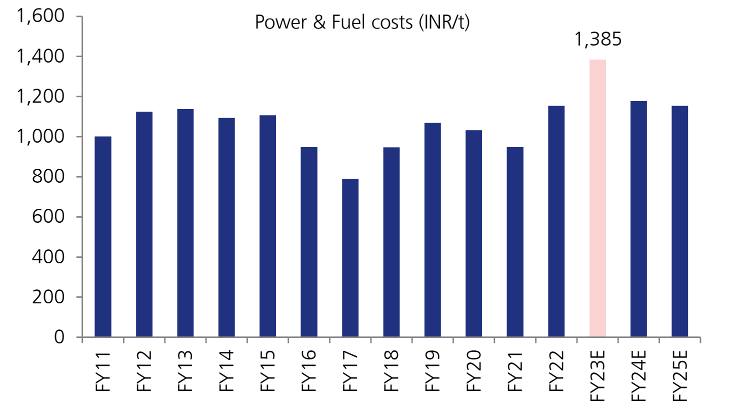
Source: Company, JM Financial

Exhibit 7. RoE and RoIC to remain at similar levels



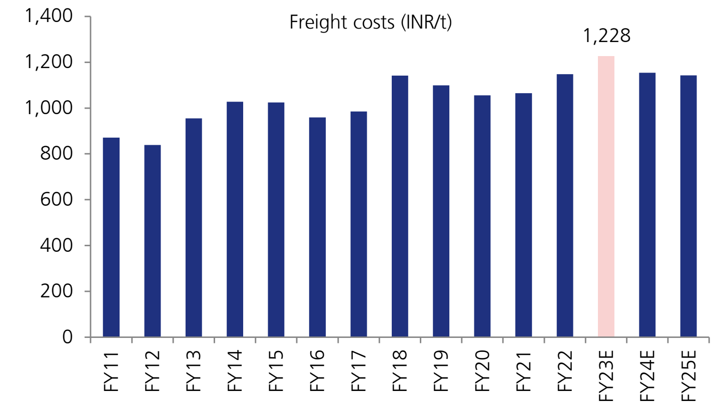
Source: Company, JM Financial

Exhibit 8. Power and fuel costs to fall sharply



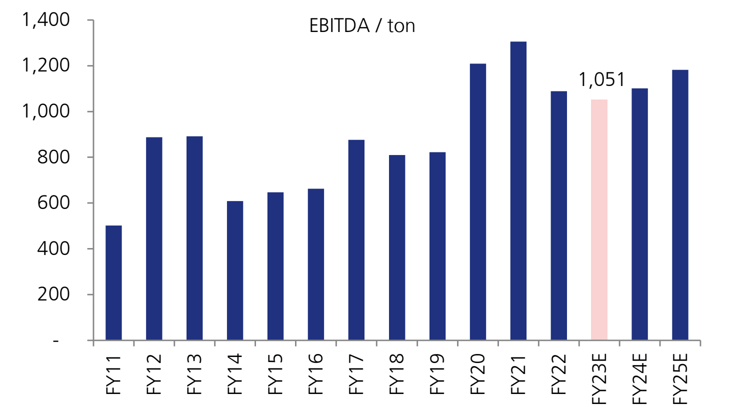
Source: Company, JM Financial

Exhibit 9. Freight to normalise by FY24E



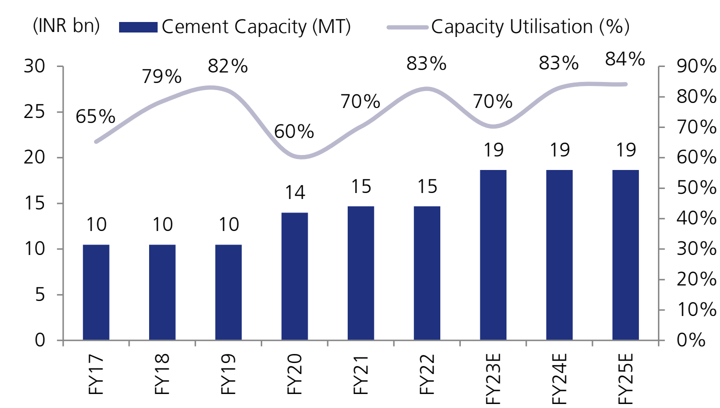
Source: Company, JM Financial

Exhibit 10. EBITDA per tonne to improve due to lower input costs



Source: Company, JM Financial

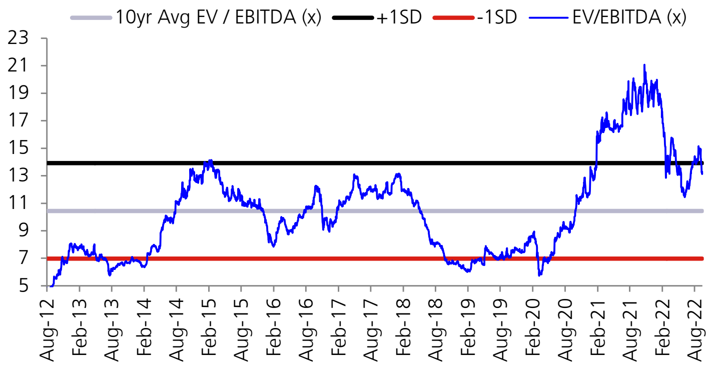
Exhibit 11. To add around 4MT by end of FY23E



Source: Company, JM Financial

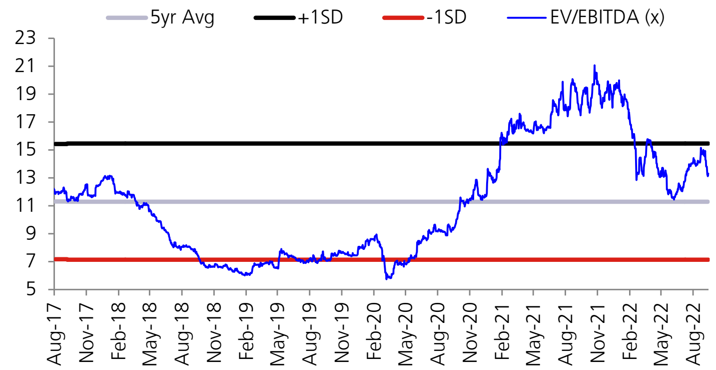
Valuations

Exhibit 12. 10yr EV/EBITDA band



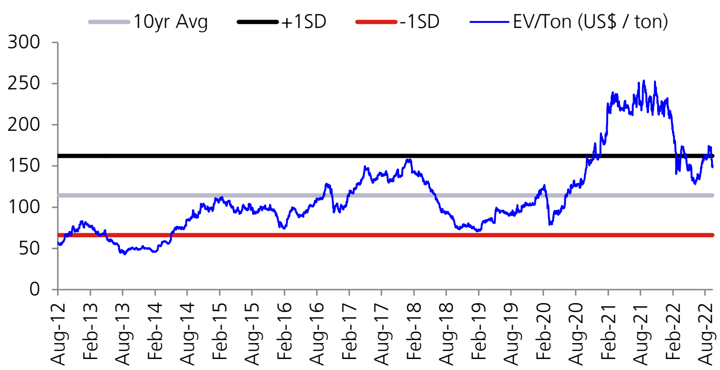
Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 13. 5yr EV/EBITDA band



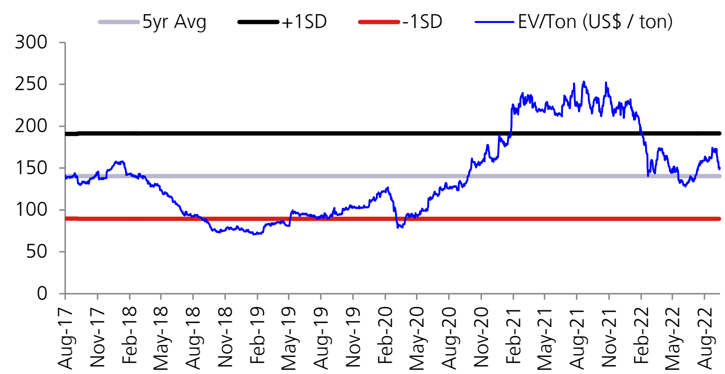
Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 14. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 15. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22, JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	62,334	75,291	84,467	1,01,392	1,07,473
Sales Growth	15.5%	20.8%	12.2%	20.0%	6.0%
Other Operating Income	949	1,495	1,267	1,521	1,612
Total Revenue	**63,283**	**76,786**	**85,734**	**1,02,913**	**1,09,085**
Cost of Goods Sold/Op. Exp	9,846	11,363	12,203	14,317	14,607
Personnel Cost	4,121	5,042	5,471	6,420	6,553
Other Expenses	34,126	45,560	52,526	63,080	67,007
EBITDA	**15,189**	**14,821**	**15,533**	**19,097**	**20,917**
EBITDA Margin	24.0%	19.3%	18.1%	18.6%	19.2%
EBITDA Growth	28.6%	-2.4%	4.8%	22.9%	9.5%
Depn. & Amort.	2,447	2,820	2,754	3,100	3,394
EBIT	12,742	12,001	12,780	15,997	17,524
Other Income	1,134	1,428	1,029	715	735
Finance Cost	2,232	2,493	2,813	3,093	2,973
PBT before Excep. & Forex	11,644	10,935	10,995	13,618	15,286
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	11,644	10,935	10,995	13,618	15,286
Taxes	3,897	3,329	3,347	4,145	4,653
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	7,747	7,607	7,648	9,473	10,633
Adjusted Net Profit	**7,747**	**7,607**	**7,648**	**9,473**	**10,633**
Net Margin	12.2%	9.9%	8.9%	9.2%	9.7%
Diluted Share Cap. (mn)	77.3	77.3	77.3	77.3	77.3
Diluted EPS (INR)	**100.3**	**98.4**	**99.0**	**122.6**	**137.6**
Diluted EPS Growth	33.9%	-1.8%	0.5%	23.9%	12.2%
Total Dividend + Tax	1,159	1,159	1,530	1,895	2,127
Dividend Per Share (INR)	15.0	15.0	19.8	24.5	27.5

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	37,331	42,517	48,635	56,213	64,720
Share Capital	773	773	773	773	773
Reserves & Surplus	36,558	41,744	47,863	55,441	63,947
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	29,991	32,667	37,667	39,667	34,667
Def. Tax Liab. / Assets (-)	5,939	7,385	7,385	7,385	7,385
Total - Equity & Liab.	**73,261**	**82,569**	**93,687**	**1,03,266**	**1,06,772**
Net Fixed Assets	52,974	54,387	68,633	76,534	76,140
Gross Fixed Assets	66,619	74,377	82,968	94,168	99,768
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	18,530	20,700	23,454	26,554	29,948
Capital WIP	4,885	710	9,120	8,920	6,320
Investments	8,070	17,448	17,448	17,448	17,448
Current Assets	30,552	31,587	29,936	35,833	41,250
Inventories	6,867	11,136	9,488	12,500	13,250
Sundry Debtors	3,161	3,978	4,397	5,556	5,889
Cash & Bank Balances	839	644	222	1,949	6,282
Loans & Advances	888	1,031	1,031	1,031	1,031
Other Current Assets	18,798	14,798	14,798	14,798	14,798
Current Liab. & Prov.	18,336	20,852	22,329	26,549	28,065
Current Liabilities	5,500	6,691	8,169	12,388	13,904
Provisions & Others	12,836	14,161	14,161	14,161	14,161
Net Current Assets	12,216	10,734	7,606	9,284	13,185
Total – Assets	**73,261**	**82,569**	**93,687**	**1,03,266**	**1,06,772**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	9,925	9,635	10,995	13,618	15,286
Depn. & Amort.	2,447	2,820	2,754	3,100	3,394
Net Interest Exp. / Inc. (-)	2,207	2,493	2,813	3,093	2,973
Inc (-) / Dec in WCap.	1,709	-3,019	2,706	49	433
Others	1,331	294	-1,029	-715	-735
Taxes Paid	-1,959	-2,131	-3,347	-4,145	-4,653
Operating Cash Flow	**15,660**	**10,092**	**14,892**	**15,000**	**16,698**
Capex	-6,149	-4,477	-17,000	-11,000	-3,000
Free Cash Flow	9,511	5,616	-2,108	4,000	13,698
Inc (-) / Dec in Investments	-9,712	-5,501	0	0	0
Others	741	922	1,029	715	735
Investing Cash Flow	**-15,120**	**-9,056**	**-15,971**	**-10,285**	**-2,265**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-3	-1,156	-1,530	-1,895	-2,127
Inc / Dec (-) in Loans	2,151	2,390	5,000	2,000	-5,000
Others	-2,211	-2,465	-2,813	-3,093	-2,973
Financing Cash Flow	**-63**	**-1,231**	**657**	**-2,988**	**-10,100**
Inc / Dec (-) in Cash	**477**	**-194**	**-422**	**1,727**	**4,333**
Opening Cash Balance	361	839	644	222	1,949
Closing Cash Balance	839	644	222	1,949	6,282

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	12.2%	9.9%	8.9%	9.2%	9.7%
Asset Turnover (x)	0.9	1.0	1.0	1.0	1.0
Leverage Factor (x)	2.0	2.0	1.9	1.9	1.7
RoE	22.6%	19.1%	16.8%	18.1%	17.6%

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	483.1	550.2	629.4	727.5	837.6
ROIC	16.6%	14.5%	14.1%	15.3%	16.0%
ROE	22.6%	19.1%	16.8%	18.1%	17.6%
Net Debt/Equity (x)	0.8	0.7	0.7	0.6	0.4
P/E (x)	26.2	26.7	26.5	21.4	19.1
P/B (x)	5.4	4.8	4.2	3.6	3.1
EV/EBITDA (x)	15.2	15.7	15.3	12.5	10.9
EV/Sales (x)	3.6	3.0	2.8	2.3	2.1
Debtor days	18	19	19	20	20
Inventory days	40	53	40	44	44
Creditor days	42	39	42	54	58

Source: Company, JM Financial

JK Lakshmi Cement | BUY

Sticking to core competencies

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JK Lakshmi Cement (JKLC) remains one of the most cost-efficient players in the Indian cement industry, led by limestone reserves and captive power sources. It has an established stronghold across northern and western markets (relatively stable pricing markets; Rajasthan and Gujarat contribute 50% of the volume) and is now diversifying into Chhattisgarh (Central) and Odisha (East). With well-run operations, it is expanding capacity by 2.5MTPA (18% expansion; 14MT existing capacity) at the existing location in Udaipur, Rajasthan, which augurs well from a growth perspective. We believe JKLC is likely to do well given the calibrated expansion in existing markets with minimal debt. We assume coverage on JKLC with a BUY Rating with a 7x 1 yr fwd EV / EBITDA and a Sep'23 TP of INR 665 (implying 14% upside).

- **18% capacity expansion underway:** JKLC has planned a cement expansion of 2.5MTPA (1.5MTPA clinker with WHR of 10 MW and railway sidings) in its subsidiary, Udaipur Cement Works (UCWL), at an estimated cost of INR 16.5bn. The expansion will be funded through a mix of debt (70%) and equity (30%); debt of INR 8.5bn has been tied up for the project. Further, the board has given its approval for INR 4.5bn of fund-raise through rights issue in UCWL. The management highlighted that the company has incurred capex of INR3bn out of INR16.5bn, and it would split the remaining capex across 2 years.

- **Core home markets of North, West and East doing well:** JKLC has integrated cement capacities in Rajasthan and Chhattisgarh, and grinding units at Haryana, Odisha, and Gujarat. JKLC has expanded its presence across the northern (Haryana, Delhi, Punjab, Uttarakhand, Rajasthan), western (Gujarat, Maharashtra, Madhya Pradesh) and eastern (majorly Chhattisgarh and Odisha; rest from Bihar and West Bengal) regions. Rajasthan and Gujarat form the major markets of the company, contributing c.50% of the total sales volumes while Chhattisgarh and Odisha contribute c.20%. It is also focussing on improving the trade mix and cross-selling premium products, thereby driving profitability.

- **Operating efficiencies aided by backward integration:** JKLC remains one of the most cost-efficient players with consistent improvement in energy efficiency. It now has one of the lowest energy consumption parameters in the country for cement production. JKLC is self-sufficient in 80% of its power requirements through its captive power capacity (coal, waste heat recovery WHR and solar plants) of 123 MW, which results in lower power cost compared to utility power by at least INR 3.5-4.0 per unit. Moreover, the limestone mines have sufficient proven reserves to support operations for more than 50 years. Directionally, the JKLC management is targeting to reach EBITDA/tonne of INR 1,000.

- **We start coverage with a 'BUY' rating and a Sep'23 TP of INR 665 (implying 14% upside):** We value JK Lakshmi Cement at 7x 1yr fwd EV/EBITDA as it enters a capex phase in UCWL and arrive at a Sep'23 TP of INR 665 (14% upside). With the expansion of 2.5MTPA capacity in the North, we believe the concerns on volume growth will be mitigated. Key risks: Ramp-up of new capacity.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	665
Upside/(Downside)	13.7%

Key Data – JKLC IN	
Current Market Price	INR585
Market cap (bn)	INR68.8/US$0.8
Free Float	54%
Shares in issue (mn)	117.7
Diluted share (mn)	117.7
3-mon avg daily val (mn)	INR284.7/US$3.5
52-week range	685/366
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance

%	1M	6M	12M
Absolute	23.9	23.2	-5.3
Relative*	26.8	27.2	-3.1

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	43,810	50,371	54,501	57,611	63,461
Sales Growth (%)	8.4	15.0	8.2	5.7	10.2
EBITDA	7,898	8,013	7,717	10,428	12,555
EBITDA Margin (%)	18.0	15.9	14.2	18.1	19.8
Adjusted Net Profit	3,947	4,496	3,667	5,405	7,285
Diluted EPS (INR)	33.5	38.2	31.2	45.9	61.9
Diluted EPS Growth (%)	48.7	13.9	-18.5	47.4	34.8
ROIC (%)	16.1	16.9	13.0	15.6	19.2
ROE (%)	20.8	19.8	14.0	17.9	20.2
P/E (x)	17.4	15.3	18.8	12.7	9.4
P/B (x)	3.3	2.8	2.5	2.1	1.7
EV/EBITDA (x)	9.6	9.0	10.2	7.6	5.7
Dividend Yield (%)	0.0	0.6	0.7	0.7	0.8

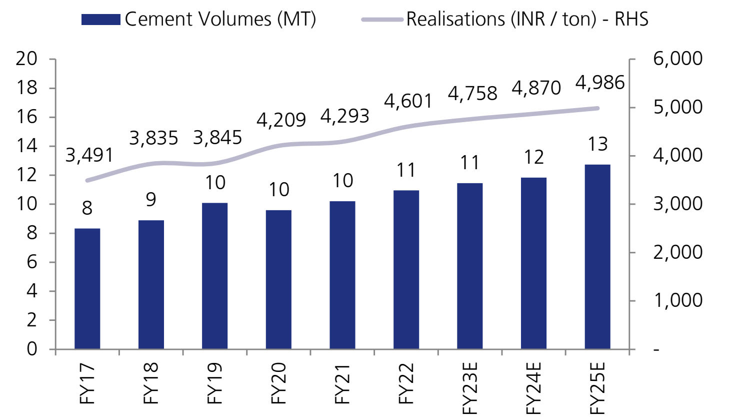
Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

- Company overview: Established in 1982, JK Lakshmi is a leading Indian cement company in north India. It has a cement capacity of c.11.7MT currently, mainly in the North. It has wide network of c.200-220 cement dumps and over 7,000 dealers spread across the states of Rajasthan, Gujarat, Delhi, Haryana, Uttar Pradesh, Punjab, Jammu & Kashmir, Madhya Pradesh, and Maharashtra. It sells cement under the brand "JK Lakshmi (Mazbooti guaranteed)". It also sells RMC (JK Lakshmi Power Mix), PoP (JK Lakshmiplast) and autocrave aerated concrete (JK Smartblox).

Key Charts

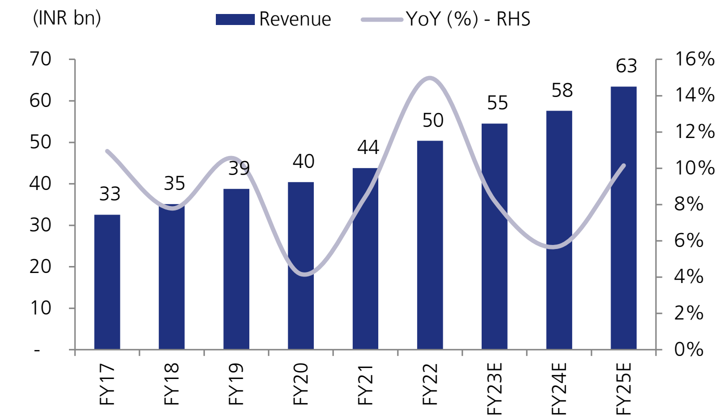
Financials

Exhibit 1. Volumes to grow steadily…



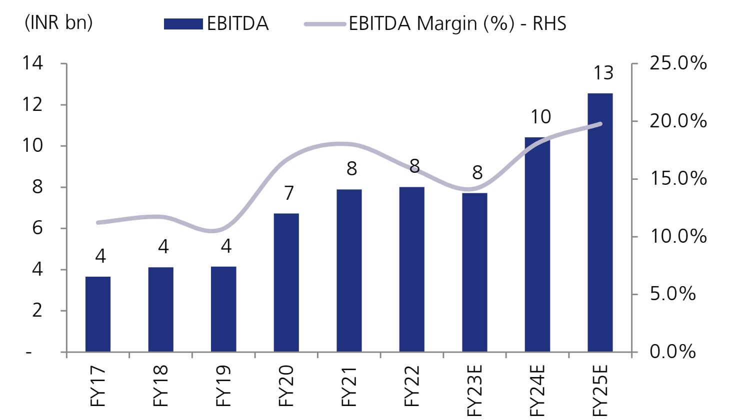
Source: Company, JM Financial

Exhibit 2. …leading to revenue growth



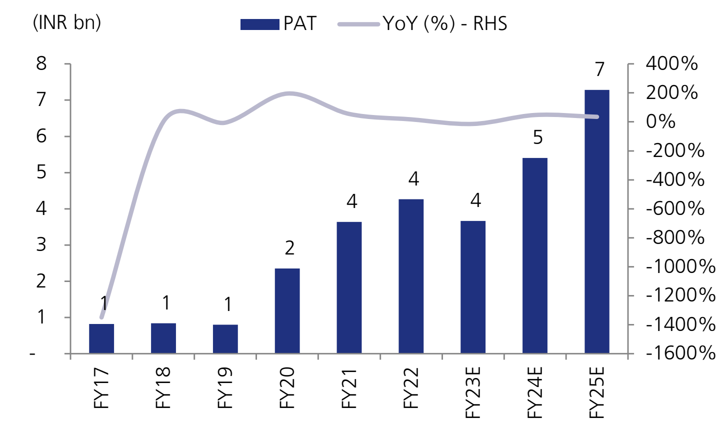
Source: Company, JM Financial

Exhibit 3. EBITDA margin to rise as input costs cool down



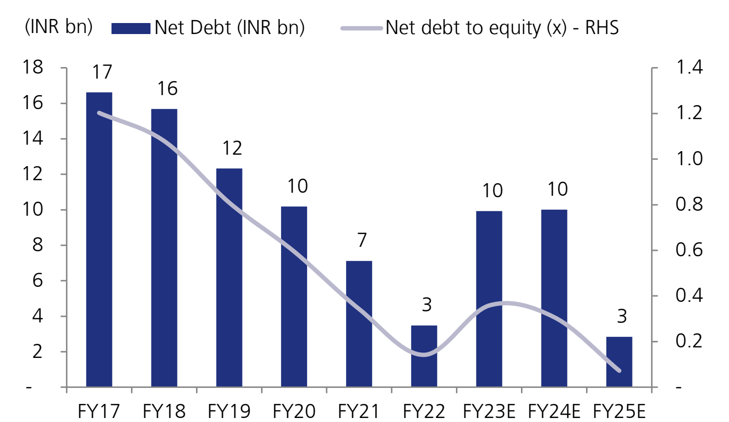
Source: Company, JM Financial

Exhibit 4. PAT to almost double by FY25E



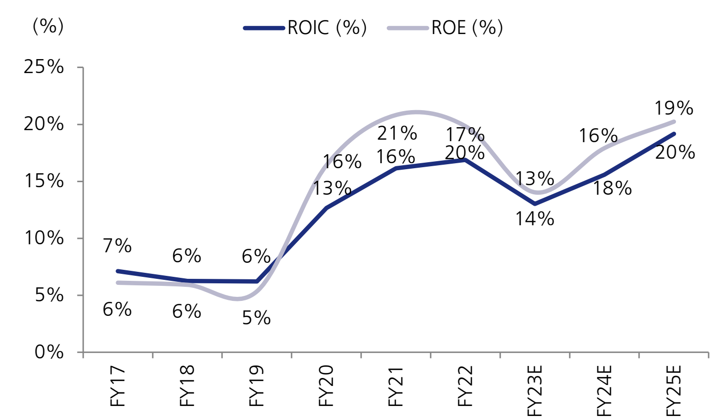
Source: Company, JM Financial

Exhibit 5. Net debt to rise on account of lower cash reserves



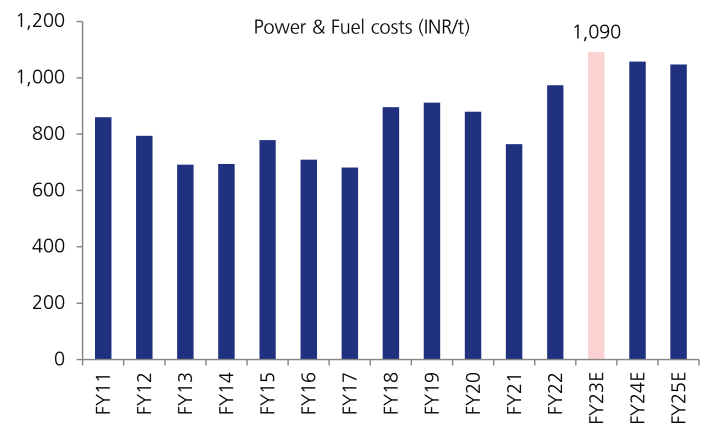
Source: Company, JM Financial

Exhibit 6. RoE and RoIC to improve marginally



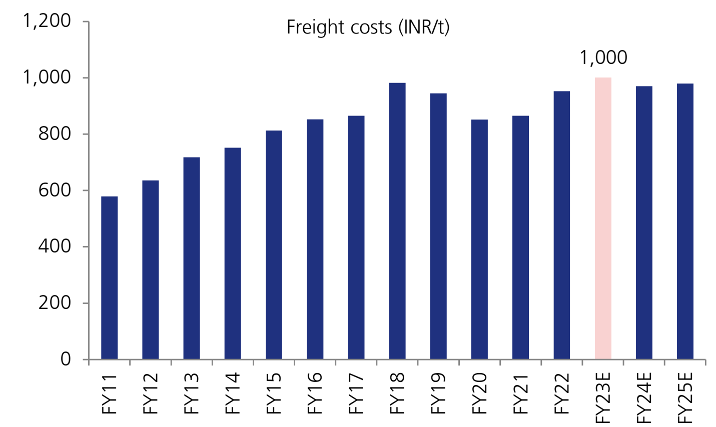
Source: Company, JM Financial

Exhibit 7. Power and fuel costs to fall



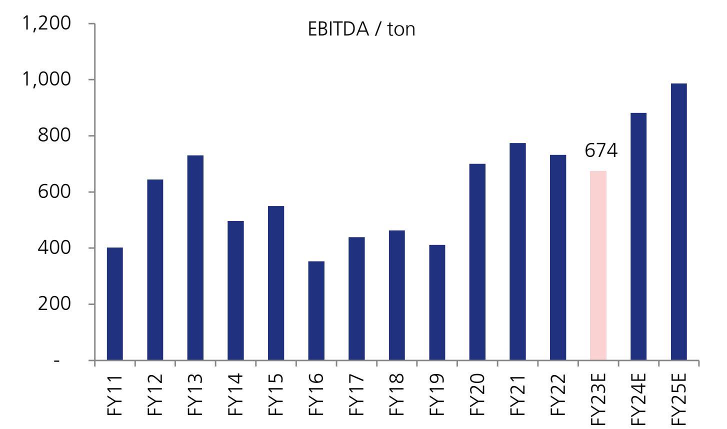
Source: Company, JM Financial

Exhibit 8. Freight costs to follow similar trend



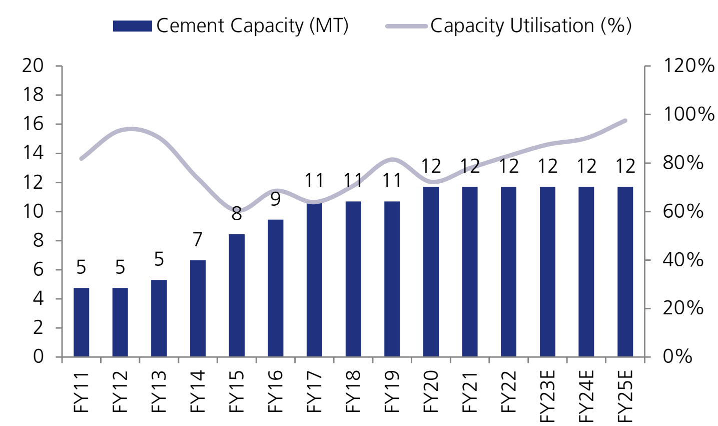
Source: Company, JM Financial

Exhibit 9. EBITDA per tonne to reach its peak by FY25E



Source: Company, JM Financial

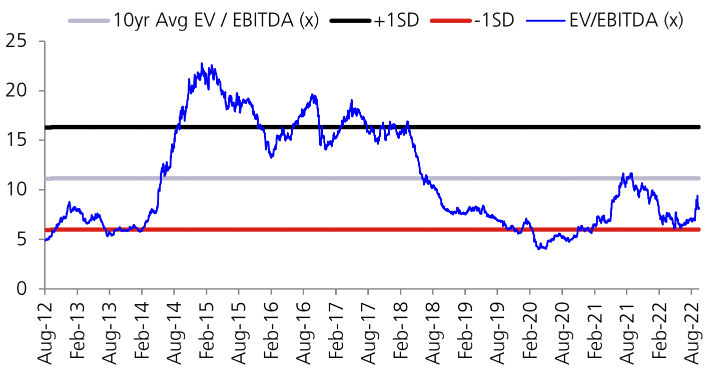
Exhibit 10. Company to operate at similar capacity levels



Source: Company, JM Financial

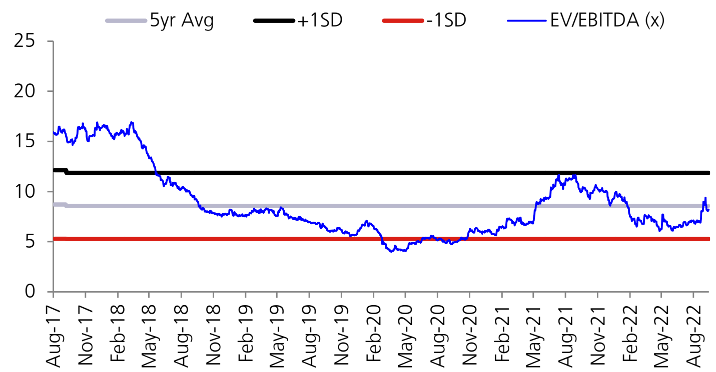
Valuations

Exhibit 11. 10yr EV/EBITDA band



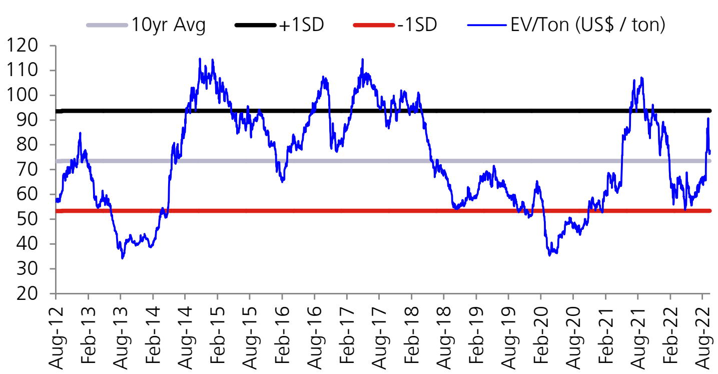
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 12. 5yr EV/EBITDA band



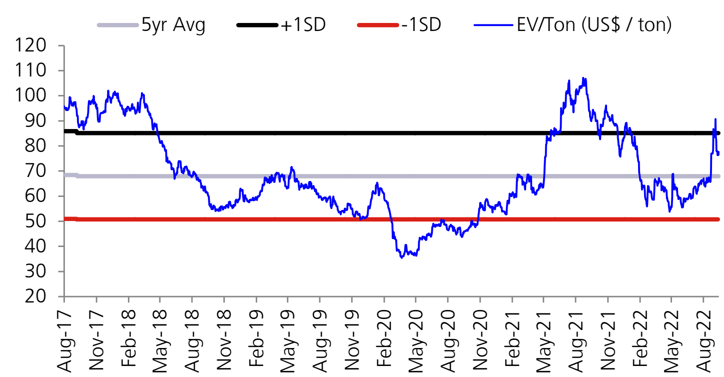
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 13. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	43,810	50,371	54,501	57,611	63,461
Sales Growth	8.4%	15.0%	8.2%	5.7%	10.2%
Other Operating Income	37	37	37	37	37
Total Revenue	**43,847**	**50,408**	**54,538**	**57,648**	**63,498**
Cost of Goods Sold/Op. Exp	7,283	7,602	8,414	8,410	9,229
Personnel Cost	3,270	3,264	3,484	3,670	4,028
Other Expenses	25,397	31,529	34,923	35,140	37,686
EBITDA	**7,898**	**8,013**	**7,717**	**10,428**	**12,555**
EBITDA Margin	18.0%	15.9%	14.2%	18.1%	19.8%
EBITDA Growth	17.5%	1.5%	-3.7%	35.1%	20.4%
Depn. & Amort.	1,942	1,905	2,019	2,094	2,126
EBIT	5,956	6,108	5,698	8,334	10,429
Other Income	745	673	523	625	663
Finance Cost	1,425	963	1,332	1,752	1,752
PBT before Excep. & Forex	5,275	5,817	4,889	7,207	9,340
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	5,275	5,817	4,889	7,207	9,340
Taxes	1,328	1,321	1,222	1,802	2,055
Extraordinary Inc./Loss(-)	-309	-234	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	3,638	4,262	3,667	5,405	7,285
Adjusted Net Profit	**3,947**	**4,496**	**3,667**	**5,405**	**7,285**
Net Margin	9.0%	8.9%	6.7%	9.4%	11.5%
Diluted Share Cap. (mn)	117.7	117.7	117.7	117.7	117.7
Diluted EPS (INR)	**33.5**	**38.2**	**31.2**	**45.9**	**61.9**
Diluted EPS Growth	48.7%	13.9%	-18.5%	47.4%	34.8%
Total Dividend + Tax	0	441	472	505	541
Dividend Per Share (INR)	0.0	3.8	4.0	4.3	4.6

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	20,789	24,523	27,718	32,617	39,362
Share Capital	589	589	589	589	589
Reserves & Surplus	20,201	23,935	27,129	32,029	38,773
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	11,247	9,629	15,629	17,629	15,629
Def. Tax Liab. / Assets (-)	641	943	743	643	543
Total - Equity & Liab.	**32,678**	**35,096**	**44,090**	**50,890**	**55,534**
Net Fixed Assets	29,066	28,363	33,344	38,250	38,124
Gross Fixed Assets	37,324	39,634	41,134	42,634	44,134
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	10,532	12,392	14,411	16,505	18,631
Capital WIP	2,275	1,121	6,621	12,121	12,621
Investments	7,506	9,379	12,754	12,754	12,754
Current Assets	10,213	10,648	11,613	14,275	20,483
Inventories	3,155	4,912	5,912	6,249	6,884
Sundry Debtors	537	345	373	394	434
Cash & Bank Balances	457	671	492	2,675	8,086
Loans & Advances	987	733	769	808	848
Other Current Assets	5,078	3,987	4,067	4,148	4,231
Current Liab. & Prov.	14,108	13,295	13,622	14,389	15,828
Current Liabilities	3,962	2,983	3,104	3,661	4,885
Provisions & Others	10,146	10,311	10,518	10,728	10,942
Net Current Assets	-3,895	-2,647	-2,008	-115	4,655
Total – Assets	**32,678**	**35,096**	**44,090**	**50,889**	**55,534**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	5,275	5,817	4,889	7,207	9,340
Depn. & Amort.	1,942	1,905	2,019	2,094	2,126
Net Interest Exp. / Inc. (-)	1,425	963	1,332	1,752	1,752
Inc (-) / Dec in WCap.	1,735	-1,533	-817	289	641
Others	-884	-771	-523	-625	-663
Taxes Paid	-872	-982	-1,222	-1,802	-2,055
Operating Cash Flow	**8,622**	**5,399**	**5,678**	**8,915**	**11,141**
Capex	-1,208	-1,130	-7,000	-9,000	-5,000
Free Cash Flow	7,414	4,270	-1,322	-85	6,141
Inc (-) / Dec in Investments	-2,164	-1,218	-3,375	0	0
Others	96	275	523	625	663
Investing Cash Flow	**-3,276**	**-2,073**	**-9,852**	**-8,375**	**-4,337**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-5	-443	-472	-505	-541
Inc / Dec (-) in Loans	-3,446	-1,681	6,000	2,000	-2,000
Others	-1,456	-989	-1,532	148	1,148
Financing Cash Flow	**-4,907**	**-3,112**	**3,996**	**1,643**	**-1,393**
Inc / Dec (-) in Cash	**439**	**215**	**-179**	**2,183**	**5,411**
Opening Cash Balance	17	457	671	492	2,675
Closing Cash Balance	457	671	492	2,675	8,086

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	9.0%	8.9%	6.7%	9.4%	11.5%
Asset Turnover (x)	1.4	1.5	1.4	1.2	1.2
Leverage Factor (x)	1.7	1.5	1.5	1.6	1.5
RoE	20.8%	19.8%	14.0%	17.9%	20.2%

Key Ratios

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	176.7	208.4	235.6	277.2	334.5
ROIC	16.1%	16.9%	13.0%	15.6%	19.2%
ROE	20.8%	19.8%	14.0%	17.9%	20.2%
Net Debt/Equity (x)	0.3	0.1	0.4	0.3	0.1
P/E (x)	17.4	15.3	18.8	12.7	9.4
P/B (x)	3.3	2.8	2.5	2.1	1.7
EV/EBITDA (x)	9.6	9.0	10.2	7.6	5.7
EV/Sales (x)	1.7	1.4	1.4	1.4	1.1
Debtor days	4	2	2	2	2
Inventory days	26	36	40	40	40
Creditor days	40	26	24	28	35

Source: Company, JM Financial

Orient Cement | BUY

Enough tailwinds to lift the boat

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Orient Cement has witnessed a significant turnaround in its operations (FY12-20: avg EBITDA per tonne at INR 621; FY22 EBITDA / tonne at INR 1,079); consequently, its balance sheet has become deleveraged. With 8.5MTPA capacity (5.5MTPA clinker), Orient has exposure to the markets of West (24% of existing capacity), South and Central (76%). It is also expected to kick off its expansion project of 3MTPA, to be commissioned in FY24-FY25E. Apart from driving growth in the medium term, the new capacities will provide easy access to the lucrative central and western markets. Further, it has 6-7MTPA brownfield expansion potential across South and North. Operational performance over the past 5 years was strong with 27% EBITDA CAGR, despite muted volume growth (flat over FY17-22). 12PPS improvement in EBITDA margin was driven by a sharp uptick in realisation (8% CAGR over FY17-22), pegging Orient among the top 3 lowest-cost cement manufacturers (adjusted for freight). Further, low capital intensity and improved profitability drove decent improvement in the return ratio profile in FY22 (RoCE of 15%). Orient Cement has cut down its debt materially over FY17-22; net debt-to-EBITDA stands 0.4x in FY22 from 6.9x in FY17), led by strong profitability and working capital release. We assume coverage with BUY rating and a Sep'23 TP of INR 170 and value the stock at 7x Sep'24 EBITDA (in line with 5-year average).

- **3MTPA expansion in medium term; incremental potential across South and North:** Orient Cement is expected to kick off its capacity expansion of 3MTPA soon to take total capacity to 11.5MTPA (7.5-8MTPA clinker) by FY24-end. Investment in the project is pegged at c.INR 22bn. The expansion will drive diversification and optimisation benefits while easing access to central, western and eastern regions. In addition, it has 6-7MTPA of expansion potential with incremental clinker potential at Chittapur, Karnataka, and limestone mines at Rajasthan (100MT of limestone reserves; current mining lease is in the name of Orient Paper).

- **Cost leader with low capital costs:** Orient Cement is one of the lowest-cost producers of cement with lower capital intensity. As a result, the marked uptick in EBITDA/t in FY22 (INR 1,079 from INR 620 in FY20) drove improvement in its RoCE profile (14% in FY22). The company has additional levers to improve efficiencies in its operations (improving blending, freight optimisation, etc).

- **Strong cash generation helped de-lever the balance sheet:** Orient Cement has pared its debt materially over the last 5 years (net debt to EBITDA declining from 6.9x in FY17 to 0.4x in FY22) driven by improvement in profitability and prudent capex. Going forward, we expected the company to generate INR 15bn of operating cash over FY23-25E, partially aiding capex.

- **Assume coverage with a 'BUY' Rating and a Sep'23 TP of INR 170:** We expect the stock to re-rate in the near to medium term driven by i) continued improvement in return ratios, and ii) announcement of expansion projects. We value the stock at 7x 1yr EV / EBITDA (in-line with its 5-year average) to arrive at a Sep'23 TP of INR 170 (implying 31% upside) and assume coverage with a 'BUY' rating.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	170
Upside/(Downside)	30.8%

Key Data – ORCMNT IN	
Current Market Price	INR130
Market cap (bn)	INR26.6/US$0.3
Free Float	57%
Shares in issue (mn)	204.9
Diluted share (mn)	204.9
3-mon avg daily val (mn)	INR82.5/US$1.0
52-week range	186/96
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance			
%	1M	6M	12M
Absolute	7.7	-8.9	-18.4
Relative*	10.3	-6.0	-16.5

* To the BSE Sensex

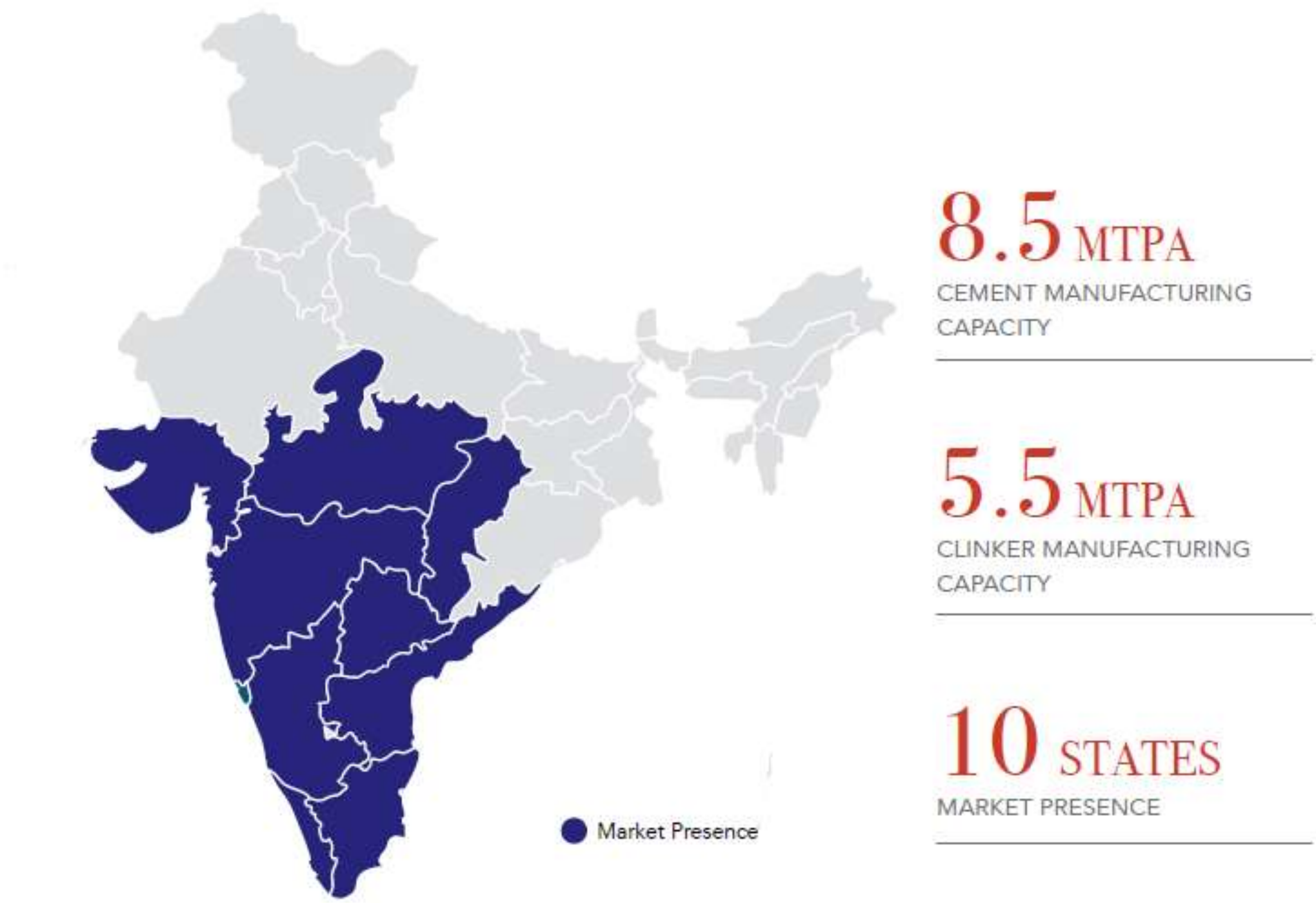
Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	23,223	27,227	28,936	31,637	34,591
Sales Growth (%)	-4.0	17.2	6.3	9.3	9.3
EBITDA	5,507	5,911	3,828	6,166	7,024
EBITDA Margin (%)	23.7	21.7	13.2	19.5	20.3
Adjusted Net Profit	2,142	2,633	1,163	2,189	3,109
Diluted EPS (INR)	10.5	12.9	5.7	10.7	15.2
Diluted EPS Growth (%)	147.4	22.9	-55.8	88.1	42.0
ROIC (%)	12.3	15.6	6.8	10.4	11.1
ROE (%)	17.7	18.6	7.5	13.2	16.7
P/E (x)	12.4	10.1	22.9	12.2	8.6
P/B (x)	2.0	1.7	1.7	1.5	1.3
EV/EBITDA (x)	6.0	4.9	9.3	6.6	6.0
Dividend Yield (%)	1.0	1.7	1.9	2.0	2.1

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

Orient Cement – Business overview

- Orient Cement is a part of the USD 2.4bn conglomerate CK Birla group. It was incorporated in 2011 post the demerger of the cement undertaking from Orient Paper and Industries Ltd. The company is one of the major regional players with exposure primarily to Maharashtra in the West and AP/Telangana and Karnataka in the South. It has an operational capacity of 8.5MTPA backed by 5.5MTPA clinker capacity spread across three plants in Telangana, Karnataka, and Maharashtra.

Exhibit 1. Presence mainly in South, West and Central India

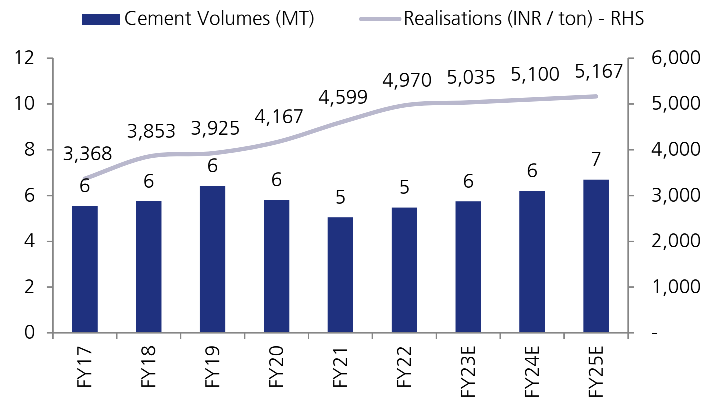


Source: Orient, JM Financial

Key Charts

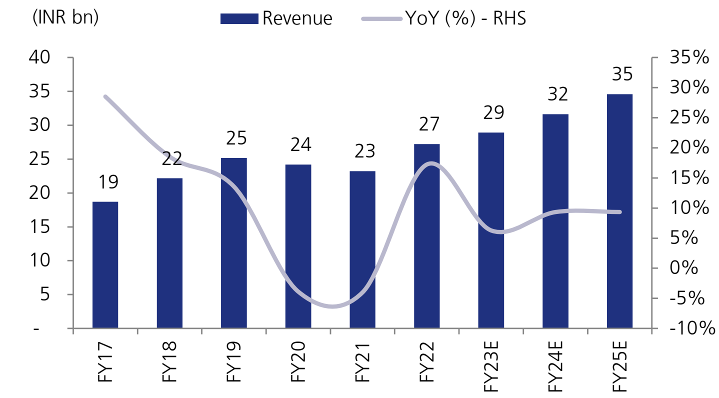
Financials

Exhibit 2. Volumes to remain similar over FY23-25E



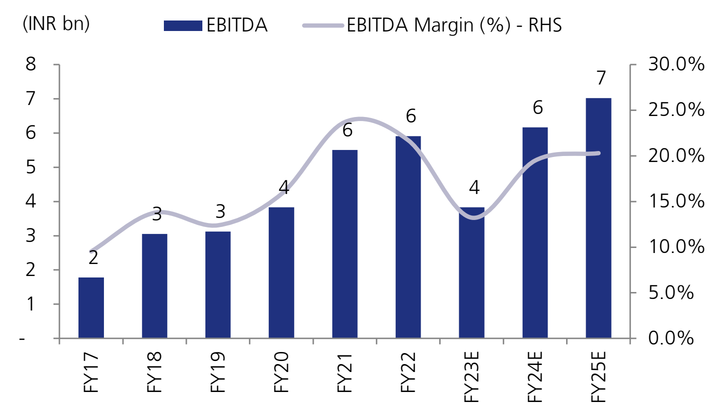
Source: Company, JM Financial

Exhibit 3. Revenue to increase but slowly



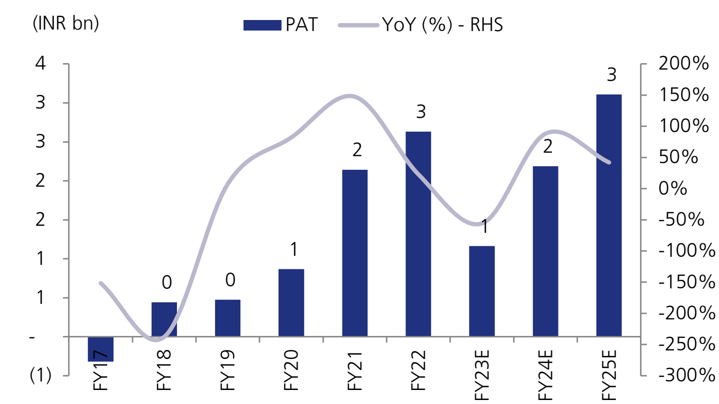
Source: Company, JM Financial

Exhibit 4. EBITDA margin to improve post FY23E…



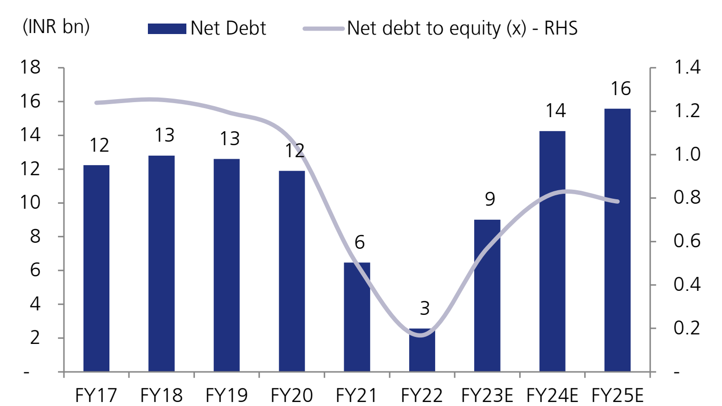
Source: Company, JM Financial

Exhibit 5. …resulting in higher profits



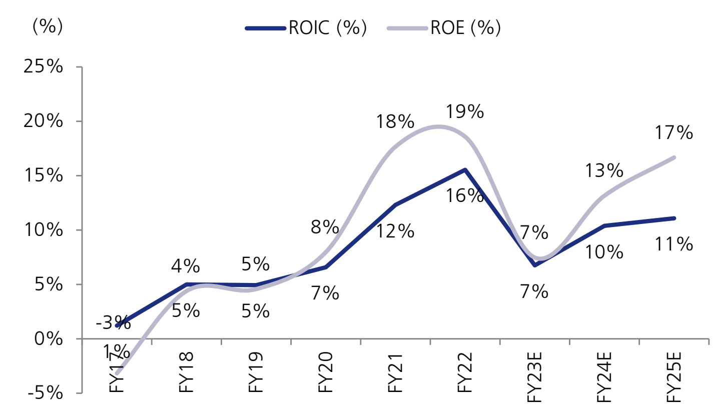
Source: Company, JM Financial

Exhibit 6. Net debt level to increase as company looks to expand



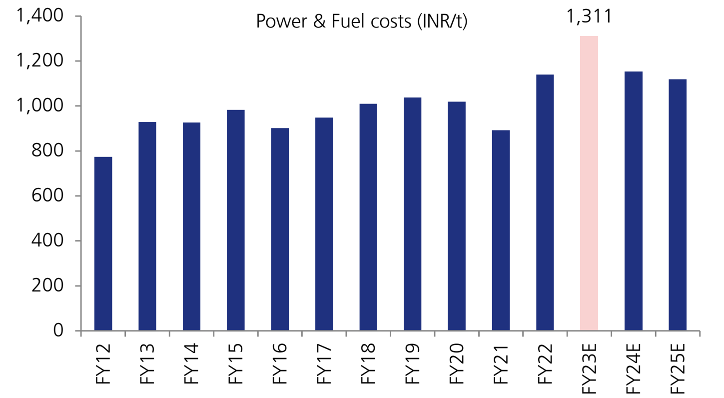
Source: Company, JM Financial

Exhibit 7. RoE and RoIC to rise marginally



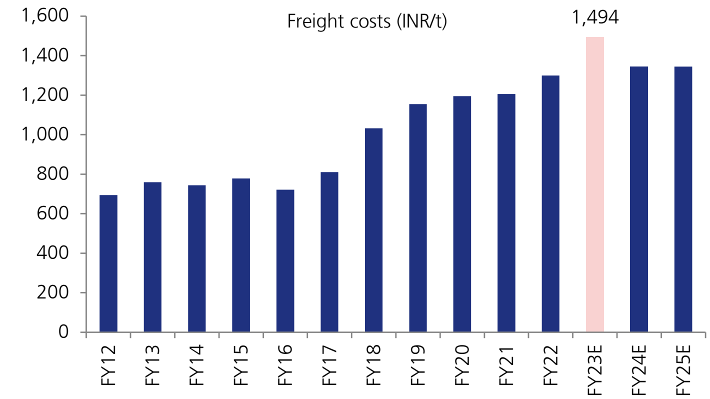
Source: Company, JM Financial

Exhibit 8. Power and fuel costs high and expected to fall



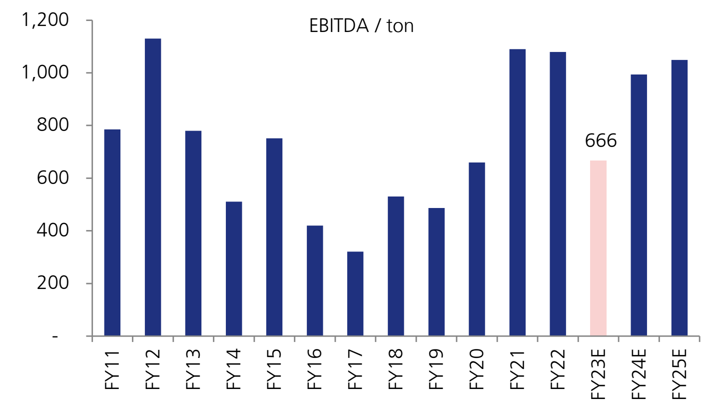
Source: Company, JM Financial

Exhibit 9. Freight costs also to decrease over FY24-25E



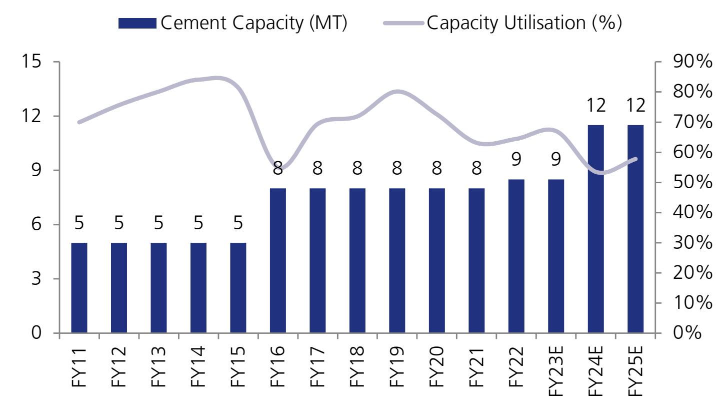
Source: Company, JM Financial

Exhibit 10. EBITDA per tonne to normalise post FY23E



Source: Company, JM Financial

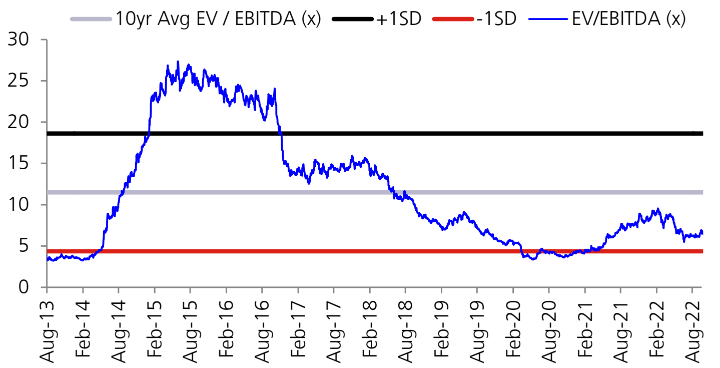
Exhibit 11. Capacity to increase due to central India capex



Source: Company, JM Financial

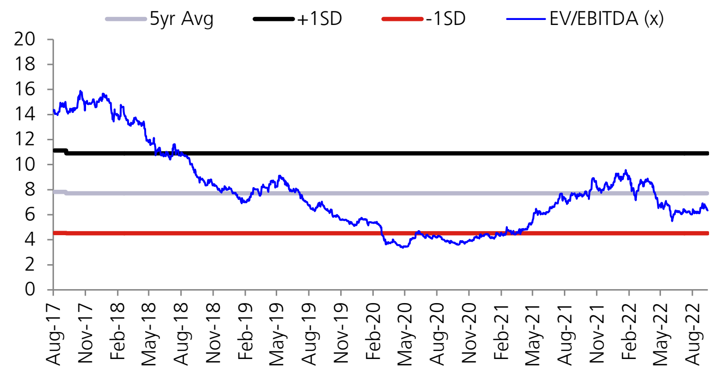
Valuations

Exhibit 12. 10yr EV/EBITDA band



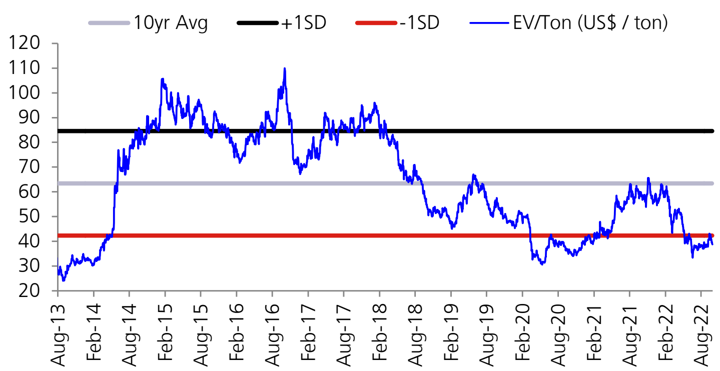
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 13. 5yr EV/EBITDA band



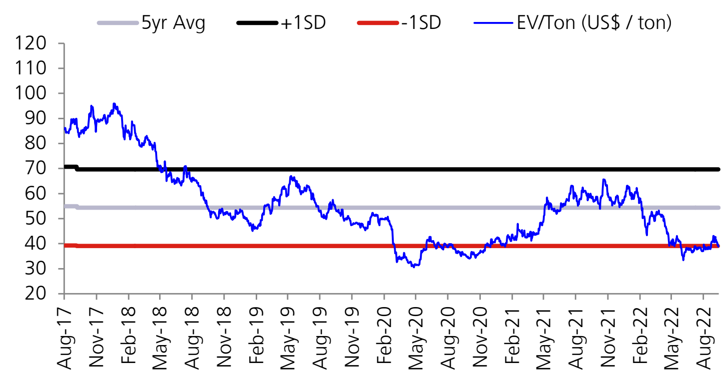
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 15. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	23,223	27,227	28,936	31,637	34,591
Sales Growth	-4.0%	17.2%	6.3%	9.3%	9.3%
Other Operating Income	18	27	29	32	35
Total Revenue	**23,241**	**27,254**	**28,965**	**31,668**	**34,626**
Cost of Goods Sold/Op. Exp	3,247	3,547	4,178	4,574	5,010
Personnel Cost	1,525	1,524	1,663	1,867	2,096
Other Expenses	12,961	16,272	19,296	19,061	20,496
EBITDA	**5,507**	**5,911**	**3,828**	**6,166**	**7,024**
EBITDA Margin	23.7%	21.7%	13.2%	19.5%	20.3%
EBITDA Growth	43.8%	7.3%	-35.2%	61.1%	13.9%
Depn. & Amort.	1,419	1,452	1,609	1,649	1,706
EBIT	4,088	4,459	2,219	4,518	5,318
Other Income	183	96	195	208	223
Finance Cost	936	514	624	1,359	1,100
PBT before Excep. & Forex	3,336	4,040	1,790	3,367	4,441
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	3,336	4,040	1,790	3,367	4,441
Taxes	1,194	1,407	626	1,179	1,332
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	2,142	2,633	1,163	2,189	3,109
Adjusted Net Profit	**2,142**	**2,633**	**1,163**	**2,189**	**3,109**
Net Margin	9.2%	9.7%	4.0%	6.9%	9.0%
Diluted Share Cap. (mn)	204.9	204.9	204.9	204.9	204.9
Diluted EPS (INR)	**10.5**	**12.9**	**5.7**	**10.7**	**15.2**
Diluted EPS Growth	147.4%	22.9%	-55.8%	88.1%	42.0%
Total Dividend + Tax	300	539	577	617	661
Dividend Per Share (INR)	1.3	2.3	2.4	2.6	2.8

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	13,059	15,254	15,841	17,412	19,860
Share Capital	205	205	205	205	205
Reserves & Surplus	12,854	15,049	15,636	17,207	19,655
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	7,966	3,097	11,097	18,597	26,097
Def. Tax Liab. / Assets (-)	1,811	2,517	2,618	2,723	2,832
Total - Equity & Liab.	**22,837**	**20,868**	**29,555**	**38,731**	**48,788**
Net Fixed Assets	22,486	21,549	28,940	35,792	39,586
Gross Fixed Assets	29,154	29,620	30,120	50,120	50,620
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	7,080	8,468	10,077	11,726	13,432
Capital WIP	413	398	8,898	-2,602	2,398
Investments	1,151	100	100	100	100
Current Assets	4,483	4,805	6,441	9,042	15,605
Inventories	1,705	1,866	1,984	2,169	2,372
Sundry Debtors	1,102	1,273	1,190	1,301	1,423
Cash & Bank Balances	351	431	1,983	4,236	10,421
Loans & Advances	124	118	123	128	133
Other Current Assets	1,201	1,117	1,161	1,208	1,256
Current Liab. & Prov.	5,284	5,590	6,030	6,411	6,820
Current Liabilities	1,844	2,310	2,619	2,863	3,131
Provisions & Others	3,440	3,280	3,411	3,548	3,690
Net Current Assets	-801	-784	411	2,631	8,785
Total – Assets	**22,836**	**20,865**	**29,451**	**38,523**	**48,471**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	3,336	4,040	1,790	3,367	4,441
Depn. & Amort.	1,419	1,452	1,609	1,649	1,706
Net Interest Exp. / Inc. (-)	936	514	624	1,359	1,100
Inc (-) / Dec in WCap.	2,163	-55	356	33	32
Others	-122	-54	-195	-208	-223
Taxes Paid	-590	-658	-626	-1,179	-1,332
Operating Cash Flow	**7,141**	**5,239**	**3,558**	**5,021**	**5,723**
Capex	-507	-525	-9,000	-8,500	-5,500
Free Cash Flow	6,634	4,714	-5,442	-3,479	223
Inc (-) / Dec in Investments	-1,140	1,212	0	0	0
Others	31	15	195	208	223
Investing Cash Flow	**-1,615**	**702**	**-8,805**	**-8,292**	**-5,277**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-256	-461	-577	-617	-661
Inc / Dec (-) in Loans	-4,333	-4,935	8,000	7,500	7,500
Others	-936	-465	-624	-1,359	-1,100
Financing Cash Flow	**-5,525**	**-5,861**	**6,799**	**5,524**	**5,739**
Inc / Dec (-) in Cash	**0**	**80**	**1,552**	**2,253**	**6,185**
Opening Cash Balance	351	351	431	1,983	4,236
Closing Cash Balance	351	431	1,983	4,236	10,421

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	9.2%	9.7%	4.0%	6.9%	9.0%
Asset Turnover (x)	1.0	1.2	1.2	0.9	0.8
Leverage Factor (x)	2.0	1.5	1.6	2.0	2.3
RoE	17.7%	18.6%	7.5%	13.2%	16.7%

Key Ratios

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	63.7	74.5	77.3	85.0	96.9
ROIC	12.3%	15.6%	6.8%	10.4%	11.1%
ROE	17.7%	18.6%	7.5%	13.2%	16.7%
Net Debt/Equity (x)	0.5	0.2	0.6	0.8	0.8
P/E (x)	12.4	10.1	22.9	12.2	8.6
P/B (x)	2.0	1.7	1.7	1.5	1.3
EV/EBITDA (x)	6.0	4.9	9.3	6.6	6.0
EV/Sales (x)	1.4	1.1	1.2	1.3	1.2
Debtor days	17	17	15	15	15
Inventory days	27	25	25	25	25
Creditor days	38	39	38	41	41

Source: Company, JM Financial

Sagar Cements | BUY

Valuations attractive; deleveraging to start

Manish Agrawal
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Sagar Cement is among the lowest-cost cement producers in India with an operational capacity of 8.25MTPA. With the recently commissioned capacities, Sagar has expanded its market presence in the high growth East and profitable Central regions vis-à-vis primary exposure to the South earlier. Its association with RV Consulting, a group company that has set up 60MTPA of cement capacity across India, provides it a technical edge over peers. Sagar saw strong volume / EBITDA and 10% / 14% CAGR over FY17-22, as EBITDA/t improved to INR 765 in FY22 (INR 501 in FY17). Going forward, volume growth (ramp-up in new capacities) and improved profitability (logistics optimisation and exposure to lucrative regions) will drive strong cash generation (cumulative OCF of INR 10bn over FY23-25E) and deleveraging exercise for the company (net debt to EBITDA at 4.9x as on FY22-end; FY24E: 1.8x). Thereafter, the company has a target to increase capacity to 10MTPA by FY25. We are factoring in EBITDA CAGR of 23% over FY22-25E on the back of strong volume trajectory. We start coverage with BUY rating and value the stock at 9x Sep'24 EBITDA to arrive at a Sep'23 TP of INR 280 (implying 41% upside).

- Cost leader with focus on growth; capital intensity lowest than industry: Sagar has been consistently growing in terms of volume/capacity (10% / 14% CAGR over FY17-22). The growth has been attained through both organic/inorganic expansions. Despite the inorganic growth, the company has maintained efficient operations. Its thermal intensity and power consumption is at par with the industry. In addition, it has significant headroom to improve its cement to clinker ratio with geographical diversification (central and eastern regions are primarily blended cement markets).

- Capacity enhancement will drive diversification benefits: Sagar's new capacities are located in central (Madhya Pradesh) and eastern (Odisha) regions. Its cumulative capacity has increased to 8.25MTPA from 5.75MTPA (across three plants in AP). This will drive diversification benefits as the new plants ramp up operations. With new capacities, the company's access to markets of central and eastern regions will improve, thereby driving logistics optimisation. Going forward, the company targets to reach/exceed 10MTPA capacity by FY25.

- Deleveraging phase begins: With the commissioning of the new capacities, we expect Sagar to generate strong cash flows (INR 10bn over FY23-25E). This will help pare debt from INR 13.4bn as on FY22 to INR 5.8bn by FY25E.

- Andhra Cements bid: Sagar has bid for Andhra Cements (Dalmia is the only other bidder) whose capacity is 1.65MTPA clinker, 1.8MTPA grinding at the integrated plant in Guntur district of Andhra Pradesh, and 0.8MTPA grinding capacity in Vizag in Andhra Pradesh, which could possibly add 2.6MTPA and take the total capacity to 11MTPA.

- Valuations favourable; assume coverage with BUY: We begin coverage with BUY rating and value the stock at 9x 1yr fwd EV / EBITDA to arrive at a Sep'23 TP of INR 280 (implying 41% upside). Key risks include inability of the company to ramp up new capacities.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	280
Upside/(Downside)	40.7%

Key Data – SGC IN	
Current Market Price	INR199
Market cap (bn)	INR26.0/US$0.3
Free Float	40%
Shares in issue (mn)	130.7
Diluted share (mn)	130.7
3-mon avg daily val (mn)	INR25.9/US$0.3
52-week range	315/154
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance			
%	1M	6M	12M
Absolute	-3.3	-19.2	-32.5
Relative*	-1.0	-16.6	-30.9

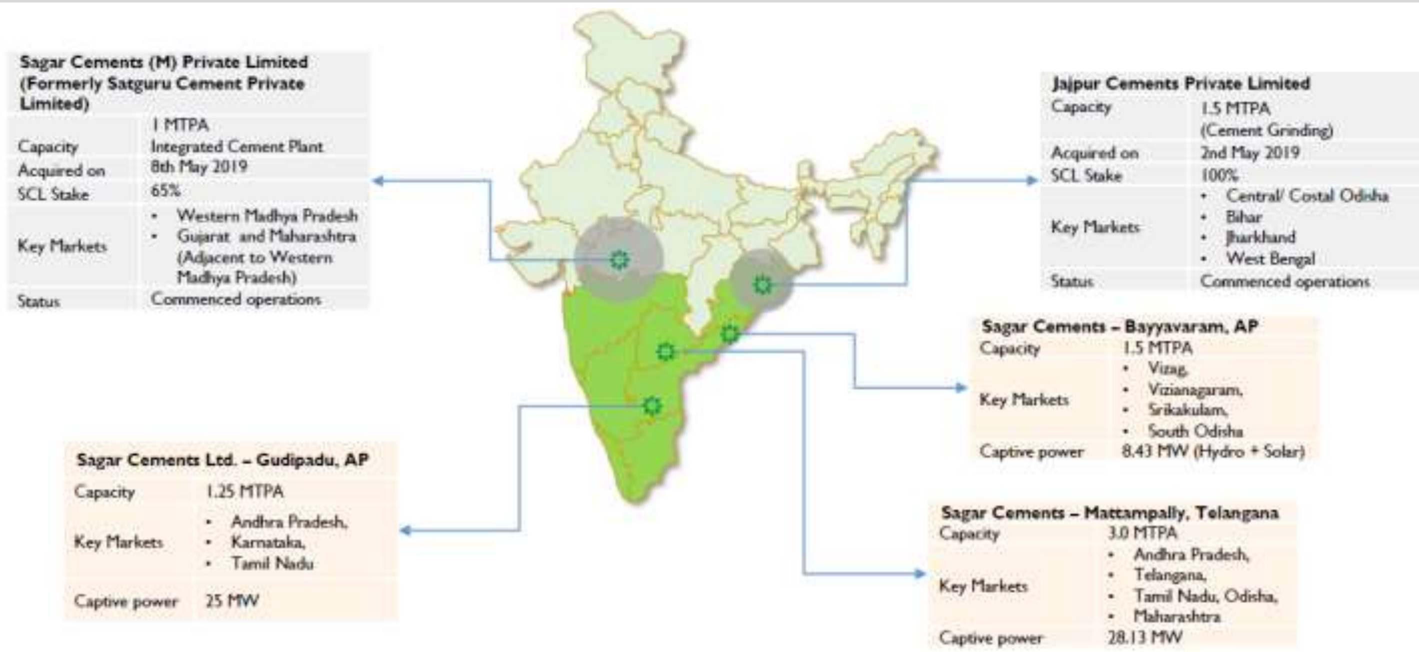
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	13,526	15,762	21,713	24,481	26,219
Sales Growth (%)	16.6	16.5	37.8	12.8	7.1
EBITDA	4,004	2,758	2,671	4,400	5,104
EBITDA Margin (%)	29.2	17.3	12.2	17.8	19.3
Adjusted Net Profit	1,856	592	191	1,410	1,945
Diluted EPS (INR)	79.0	25.2	1.5	10.8	14.9
Diluted EPS Growth (%)	563.3	-68.1	-94.2	639.3	38.0
ROIC (%)	12.7	5.0	4.4	9.3	11.3
ROE (%)	17.2	4.8	1.3	8.4	10.5
P/E (x)	2.5	7.9	136.4	18.5	13.4
P/B (x)	0.4	0.4	1.6	1.5	1.3
EV/EBITDA (x)	8.1	14.6	13.4	7.9	6.4
Dividend Yield (%)	3.3	1.3	0.2	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

- RV Consulting is a turnkey solutions provider for design, engineering and project management to the cement industry. The company is part of the Sagar Group. It has serviced nearly 60MTPA of capacity addition in India's cement market. Association with the company has helped Sagar to try out new technologies within its plants, which has led to reduced cost of operations. It also helps Sagar keep the cost of capacity addition lower.
- Company overview: Sagar Cements is one of the leading South-based cement players with 8.25MTPA capacity (4.5MTPA clinker) and has been a pioneer in terms of technology advancements in India's cement sector. Sagar commenced operations in 1985 with a capacity of 66,000TPA with one production plant by setting up a dry process mini cement plant with single stream 200 TPD dry process rotary kiln. It manufactures OPC, PPC, sulphate resistant cement (SRC) and PSC. Sagar acquired BMM Cements Limited in FY16 with a unit at Gudipadu. The company has an extensive distribution network comprising over 5.782 channel partners. Sagar's products are marketed under the 'Sagar Cement' brand name. It sells its products in south India, viz., Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Kerala and other regions of India including Maharashtra and Orissa.

Exhibit 1. Plant locations

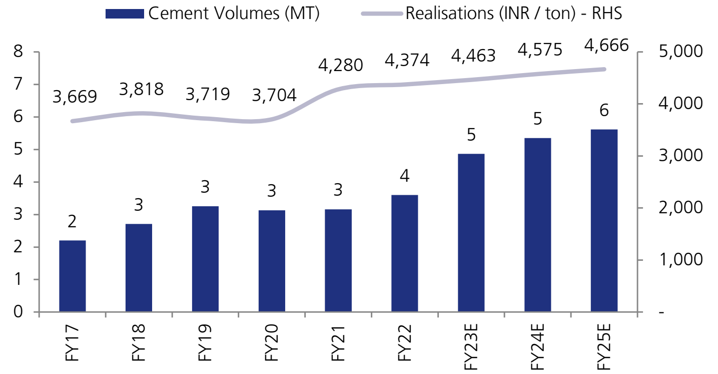


Source: Sagar, JM Financial

Key Charts

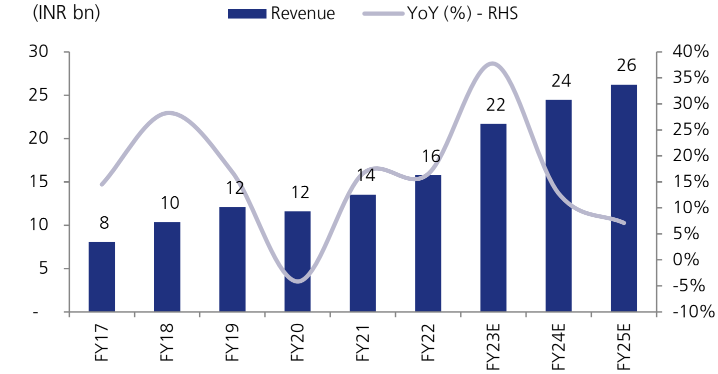
Financials

Exhibit 2. To operate at similar volume levels



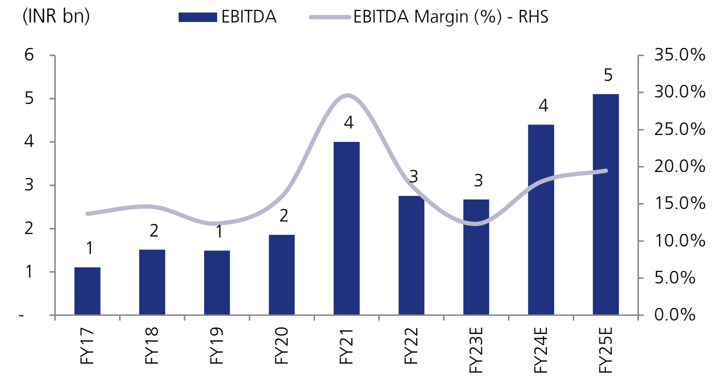
Source: Company, JM Financial

Exhibit 3. Revenue to increase sharply in FY23E



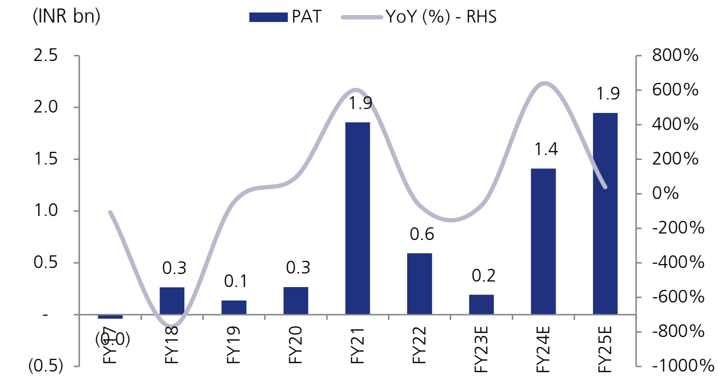
Source: Company, JM Financial

Exhibit 4. EBITDA margin to improve as direct costs to normalise…



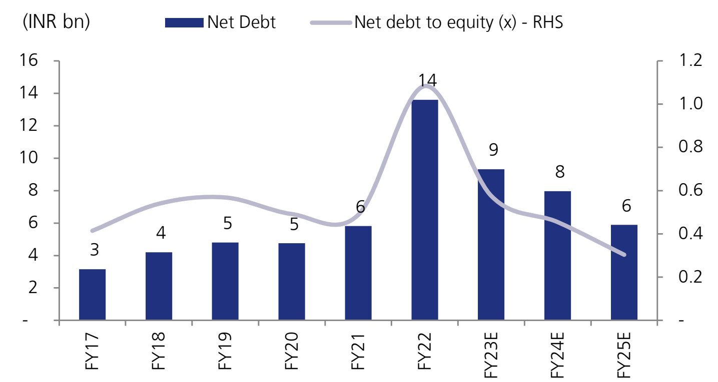
Source: Company, JM Financial

Exhibit 5. …resulting in higher profits post FY23E



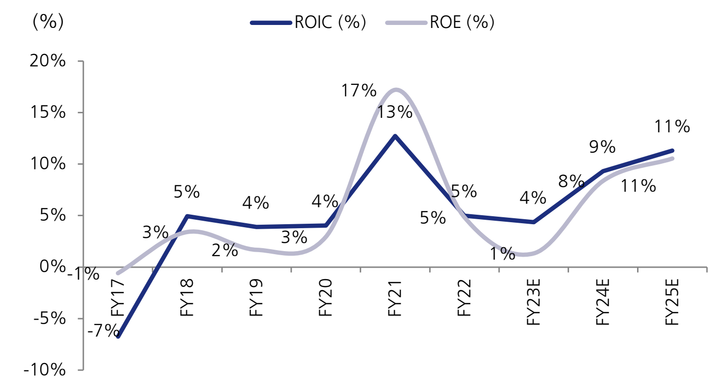
Source: Company, JM Financial

Exhibit 6. Deleveraging to continue



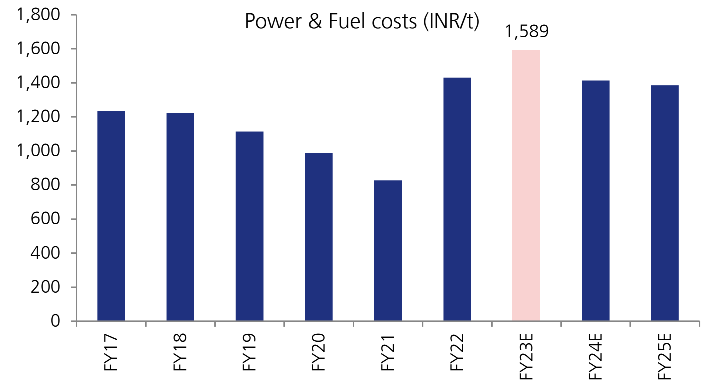
Source: Company, JM Financial

Exhibit 7. RoE and RoIC to improve after FY23E



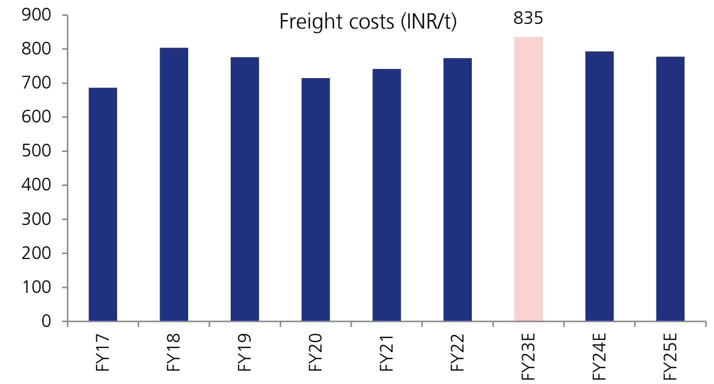
Source: Company, JM Financial

Exhibit 8. Power and fuel costs high



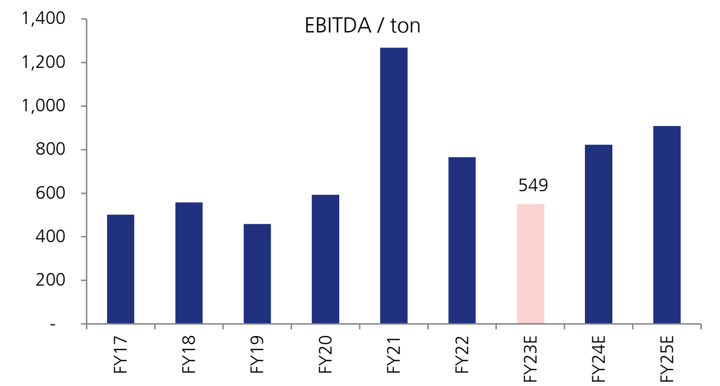
Source: Company, JM Financial

Exhibit 9. Freight costs also at elevated levels



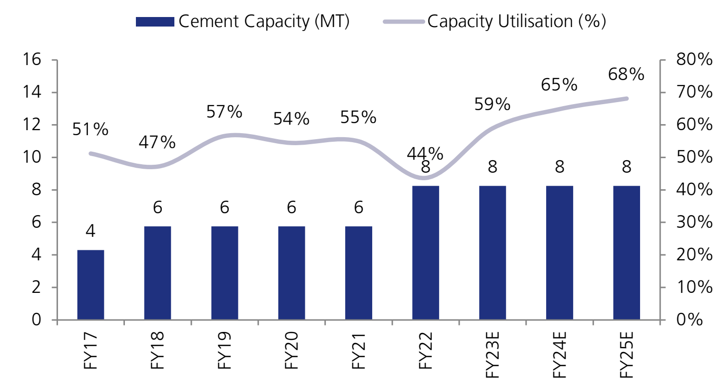
Source: Company, JM Financial

Exhibit 10. EBITDA per tonne



Source: Company, JM Financial

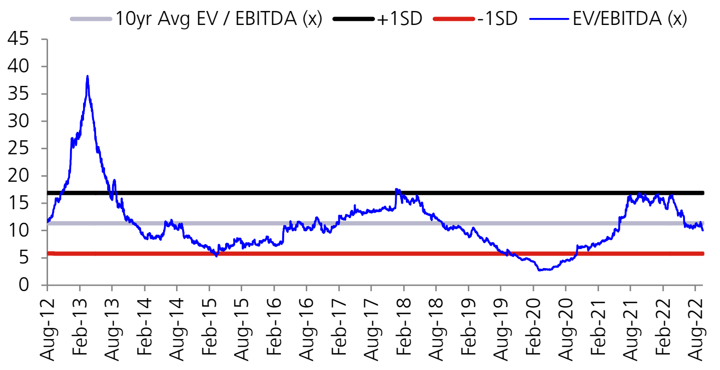
Exhibit 11. Cement capacity and utilisation



Source: Company, JM Financial

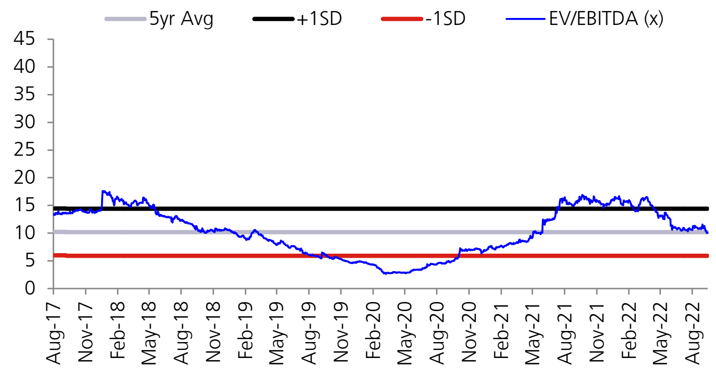
Valuations

Exhibit 12. 10yr EV/EBITDA band



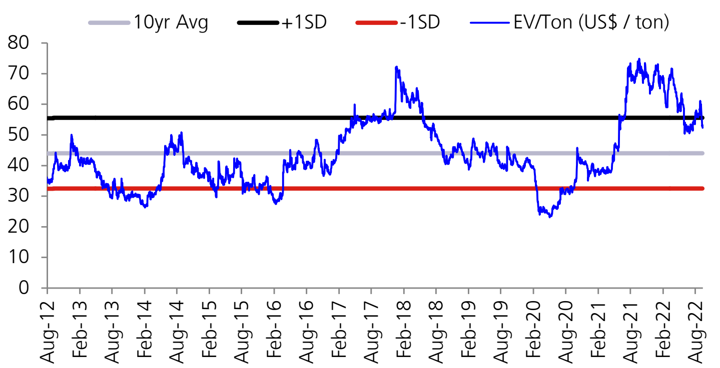
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 13. 5yr EV/EBITDA band



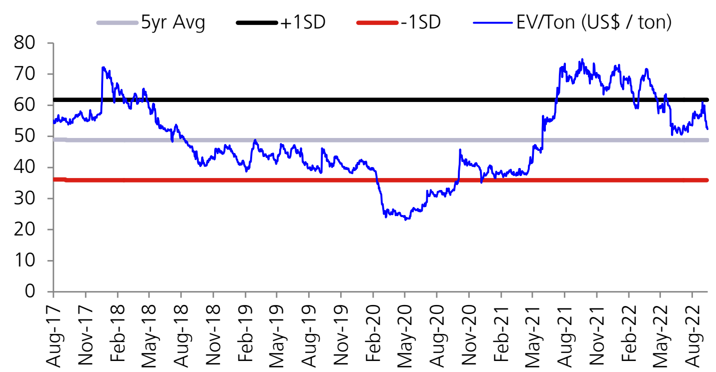
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 15. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	13,526	15,762	21,713	24,481	26,219
Sales Growth	16.6%	16.5%	37.8%	12.8%	7.1%
Other Operating Income	188	206	206	206	206
Total Revenue	**13,713**	**15,969**	**21,919**	**24,688**	**26,426**
Cost of Goods Sold/Op. Exp	2,397	2,253	3,324	3,831	4,183
Personnel Cost	764	856	1,132	1,245	1,307
Other Expenses	6,548	10,102	14,792	15,212	15,832
EBITDA	**4,004**	**2,758**	**2,671**	**4,400**	**5,104**
EBITDA Margin	29.2%	17.3%	12.2%	17.8%	19.3%
EBITDA Growth	115.9%	-31.1%	-3.1%	64.7%	16.0%
Depn. & Amort.	806	927	1,162	1,219	1,261
EBIT	3,199	1,831	1,509	3,180	3,842
Other Income	78	134	219	247	264
Finance Cost	466	925	1,443	1,323	1,203
PBT before Excep. & Forex	2,811	1,040	285	2,104	2,903
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	2,811	1,040	285	2,104	2,903
Taxes	955	449	94	694	958
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	1,856	592	191	1,410	1,945
Adjusted Net Profit	**1,856**	**592**	**191**	**1,410**	**1,945**
Net Margin	13.5%	3.7%	0.9%	5.7%	7.4%
Diluted Share Cap. (mn)	23.5	23.5	130.7	130.7	130.7
Diluted EPS (INR)	**79.0**	**25.2**	**1.5**	**10.8**	**14.9**
Diluted EPS Growth	563.3%	-68.1%	-94.2%	639.3%	38.0%
Total Dividend + Tax	153	59	63	67	72
Dividend Per Share (INR)	6.5	2.5	0.5	0.5	0.6

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	11,908	12,554	16,182	17,524	19,398
Share Capital	235	235	261	261	261
Reserves & Surplus	11,673	12,319	15,921	17,263	19,136
Preference Share Capital	0	0	0	0	0
Minority Interest	535	540	540	540	540
Total Loans	8,065	15,034	13,834	12,634	11,434
Def. Tax Liab. / Assets (-)	673	823	823	823	823
Total - Equity & Liab.	**21,182**	**28,951**	**31,379**	**31,521**	**32,194**
Net Fixed Assets	18,189	21,486	21,323	21,104	20,843
Gross Fixed Assets	18,562	26,825	28,530	29,530	30,530
Intangible Assets	416	416	416	416	416
Less: Depn. & Amort.	5,963	6,761	7,923	9,142	10,404
Capital WIP	5,175	1,005	300	300	300
Investments	0	3,147	3,147	3,147	3,147
Current Assets	7,273	8,857	12,281	13,031	14,209
Inventories	1,243	2,086	2,142	2,549	2,730
Sundry Debtors	1,007	1,203	1,487	1,677	1,796
Cash & Bank Balances	2,251	1,431	4,515	4,668	5,546
Loans & Advances	0	0	0	0	0
Other Current Assets	2,772	4,137	4,137	4,137	4,137
Current Liab. & Prov.	4,281	4,538	5,373	5,761	6,004
Current Liabilities	2,290	2,210	3,044	3,432	3,676
Provisions & Others	1,991	2,328	2,328	2,328	2,328
Net Current Assets	2,992	4,318	6,909	7,270	8,205
Total – Assets	**21,182**	**28,951**	**31,379**	**31,521**	**32,194**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	2,811	1,040	285	2,104	2,903
Depn. & Amort.	812	927	1,162	1,219	1,261
Net Interest Exp. / Inc. (-)	466	925	1,443	1,323	1,203
Inc (-) / Dec in WCap.	223	-1,700	494	-209	-56
Others	-175	-24	-219	-247	-264
Taxes Paid	-365	-298	-94	-694	-958
Operating Cash Flow	**3,772**	**870**	**3,072**	**3,497**	**4,089**
Capex	-4,602	-3,561	-1,000	-1,000	-1,000
Free Cash Flow	-831	-2,691	2,072	2,497	3,089
Inc (-) / Dec in Investments	-194	-4,334	0	0	0
Others	30	56	219	247	264
Investing Cash Flow	**-4,766**	**-7,839**	**-781**	**-753**	**-736**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	3,173	6,854	-1,200	-1,200	-1,200
Inc / Dec (-) in Loans	671	105	3,500	0	0
Others	-627	-811	-1,506	-1,391	-1,275
Financing Cash Flow	**3,217**	**6,149**	**794**	**-2,591**	**-2,475**
Inc / Dec (-) in Cash	**2,222**	**-821**	**3,085**	**153**	**878**
Opening Cash Balance	29	2,251	1,431	4,515	4,668
Closing Cash Balance	2,251	1,431	4,515	4,668	5,546

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	13.5%	3.7%	0.9%	5.7%	7.4%
Asset Turnover (x)	0.8	0.6	0.7	0.8	0.8
Leverage Factor (x)	1.7	2.0	2.1	1.9	1.7
RoE	17.2%	4.8%	1.3%	8.4%	10.5%

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	506.7	534.2	123.8	134.1	148.4
ROIC	12.7%	5.0%	4.4%	9.3%	11.3%
ROE	17.2%	4.8%	1.3%	8.4%	10.5%
Net Debt/Equity (x)	0.5	1.1	0.6	0.5	0.3
P/E (x)	2.5	7.9	136.4	18.5	13.4
P/B (x)	0.4	0.4	1.6	1.5	1.3
EV/EBITDA (x)	8.1	14.6	13.4	7.9	6.4
EV/Sales (x)	2.4	2.5	1.6	1.4	1.2
Debtor days	27	27	25	25	25
Inventory days	33	48	36	38	38
Creditor days	86	61	58	62	63

Source: Company, JM Financial

Shree Cement | BUY

Consistent performer; Best-in class ratios

Manish Agrawal
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Shree Cement (SRCM) is the third-largest cement group in India with a cement capacity of 46.4 MTPA (domestic) and 4MTPA (UAE). It derives its strength from the northern region (Rajasthan, Haryana, Uttar Pradesh, and Uttarakhand) and the eastern region (Chhattisgarh, Jharkhand and Bihar). It is now actively looking at West, Central, and South to become a pan-India player. Over the years, SRCM has been a pioneer in many cost initiatives (WHRS, renewables, higher blended cement, use of split-grinding units, adequate captive limestone, etc.) thereby enjoying highest EBITDA / tonne. With a cash rich balance sheet and superior return ratios, SRCM will able to fund INR 65bn of planned capex through internal accruals as it targets to reach 80MT by 2030 (7% CAGR, broadly in line with the industry). We assume coverage on SRCM with a 'BUY' Rating ascribing an 16x 1yr fwd EV / EBITDA (in-line with Ultratech) and arriving at a Sep'24 TP of INR 24,225 (implying 15% upside) with a possible upside risk with respect to acquisitions.

- **Chasing market leadership across regions:** While traditionally north India has been a strong point for SRCM, over the last decade it has become a top player in the eastern region and is now targeting the West, Central, and South markets.
- **Organic growth-driven company but looking at acquisitions:** Historically, except one grinding unit in Panipat and an acquisition in the UAE, all of SRCM's projects have been greenfield. Recently, the management indicated (Link) it is scouting for acquisition opportunities in central and southern India and it may add up to 10MTPA of capacity.
- **9.5MTPA organic expansion; to reach 55.9MTPA capacity by FY25:** It has commissioned grinding units at Pune and Cuttack along with a 4MTPA clinker unit at Raipur (Chhattisgarh) and reached 46.4MTPA of grinding capacity. Further, Shree has recently announced grinding unit expansion in the South (Andhra Pradesh – 3MTPA backed by 1.5MTPA clinker) and the East (West Bengal - 3MTPA). In addition, it has announced an integrated capacity expansion project in Gothra, Rajasthan (3.5MTPA backed by 3.8MTPA clinker). Shree also has limestone mines in Gujarat.
- **Captive power - a key competitive advantage:** SRCM has a captive power capacity of 798 MW (80-85% captive requirements; includes 503 MW of thermal). For fuel, it is largely dependent on imported pet coke and coal. SRCM has entered into various coal linkages for its captive power plant and cement manufacturing facilities, covering almost 8-10% of its coal requirements.
- **Capex on stream for three projects by FY24-25:** SRCM expects the Purulia project in West Bengal to be completed by Mar'23. Rajasthan is a much bigger project INR 35bn and should be completed between Dec'23 and Mar'24. Work has just started in Andhra Pradesh, and SRCM expects it to be completed by Mar'24. All put, it will add up to about 10MTPA capacity at an investment of INR 65bn.
- **Assume coverage with a BUY rating:** We assume coverage on SRCM with a 'BUY' Rating ascribing an 16x 1yr fwd EV / EBITDA (in-line with Ultratech) and arriving at a Sep'23 TP of 24,225 (implying 15% upside) with a possible upside risk with respect to acquisitions.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	24,225
Upside/(Downside)	15.2%

Key Data – SRCM IN	
Current Market Price	INR21,033
Market cap (bn)	INR758.9/US$9.3
Free Float	74%
Shares in issue (mn)	36.1
Diluted share (mn)	36.1
3-mon avg daily val (mn)	INR1,747.6/US$21.5
52-week range	30,000/17,865
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance

%	1M	6M	12M
Absolute	-4.7	-12.5	-27.2
Relative*	-2.4	-9.7	-25.5

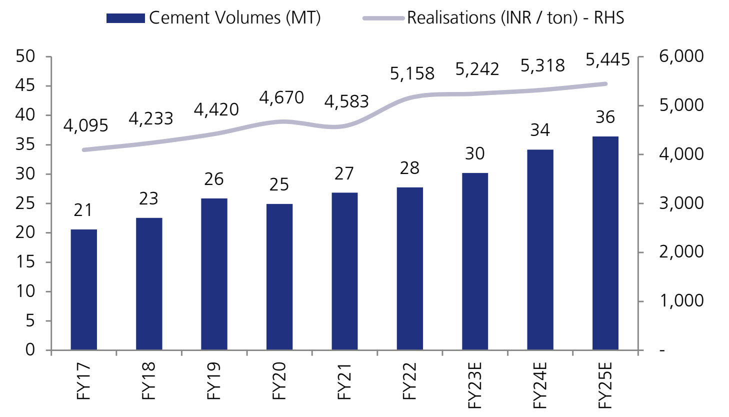
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	1,23,007	1,43,059	1,58,329	1,81,680	1,98,329
Sales Growth (%)	5.7	16.3	10.7	14.7	9.2
EBITDA	40,289	36,478	33,190	46,043	53,420
EBITDA Margin (%)	31.8	25.5	21.0	25.3	26.9
Adjusted Net Profit	23,369	22,861	17,312	27,371	33,023
Diluted EPS (INR)	647.7	633.6	479.8	758.6	915.3
Diluted EPS Growth (%)	49.0	-2.2	-24.3	58.1	20.6
ROIC (%)	23.5	20.3	13.2	20.8	25.9
ROE (%)	16.6	14.1	9.7	13.9	14.8
P/E (x)	32.5	33.2	43.8	27.7	23.0
P/B (x)	5.0	4.4	4.1	3.6	3.2
EV/EBITDA (x)	17.2	19.1	20.8	14.5	12.0
Dividend Yield (%)	0.0	0.5	0.5	0.6	0.6

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

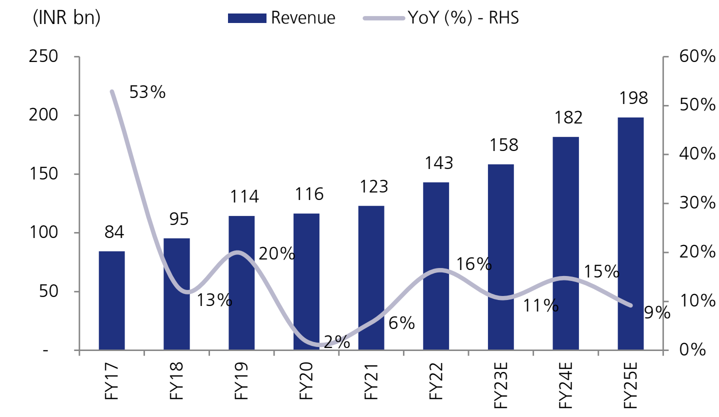
Key Charts

Exhibit 1. Volumes to rise over FY23-25E as expansion continues…



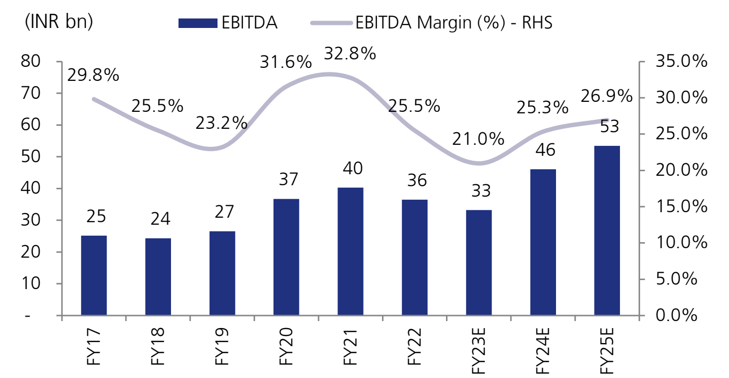
Source: Company, JM Financial

Exhibit 2. …leading to revenue growth



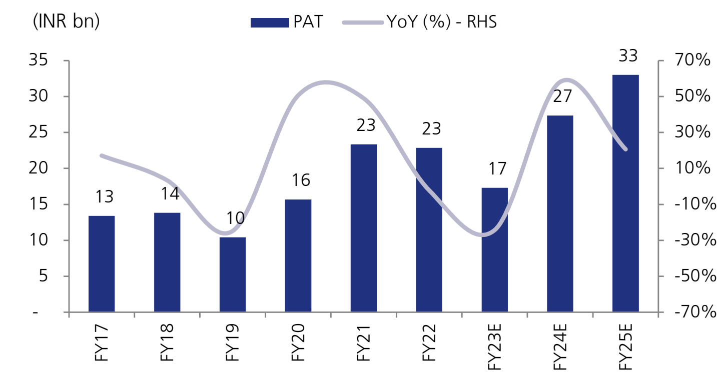
Source: Company, JM Financial

Exhibit 3. EBITDA margin to improve as input costs to normalise…



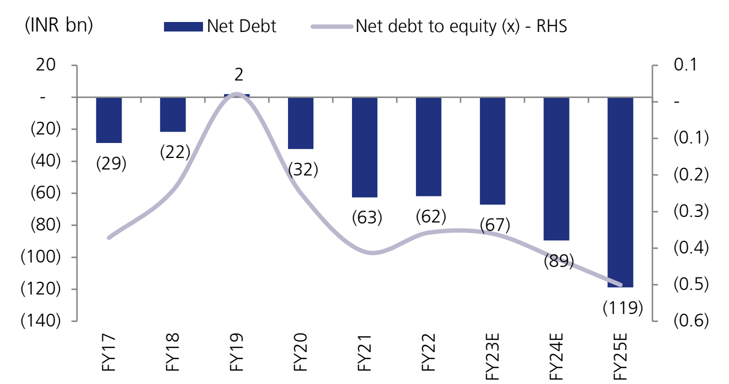
Source: Company, JM Financial

Exhibit 4. …resulting in higher profits



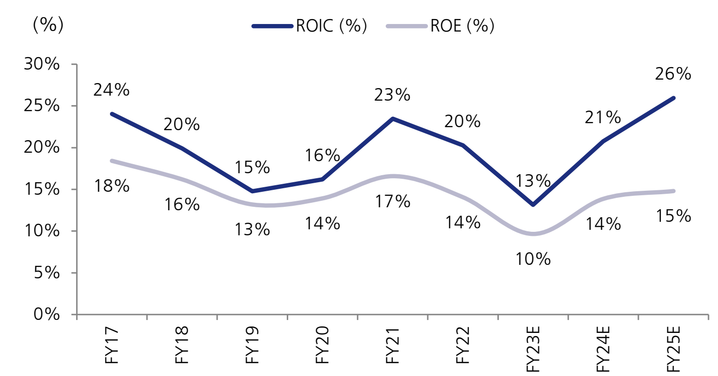
Source: Company, JM Financial

Exhibit 5. Net debt to remain low on account of healthier cash reserves



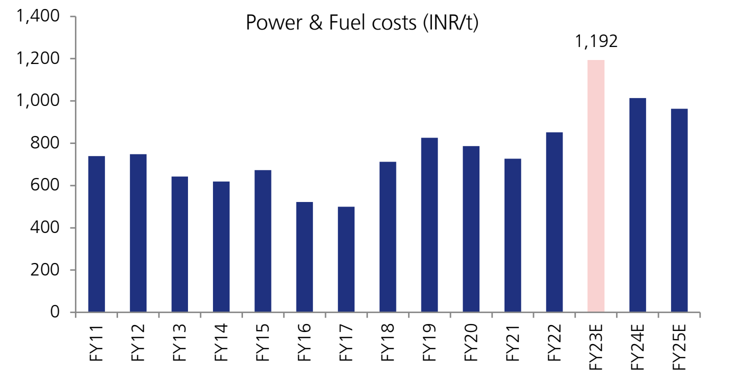
Source: Company, JM Financial

Exhibit 6. RoE to improve significantly



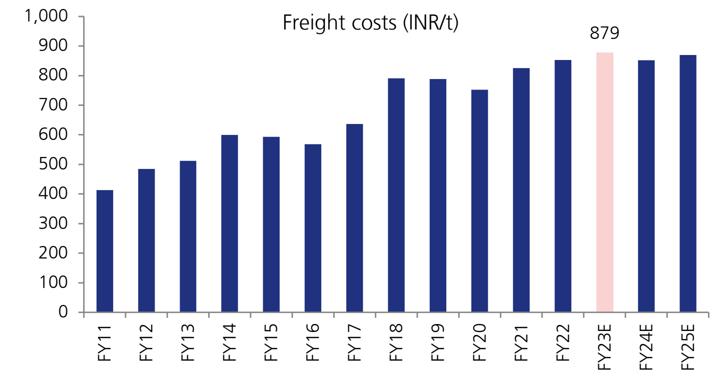
Source: Company, JM Financial

Exhibit 7. Sharp decline in power and fuel costs



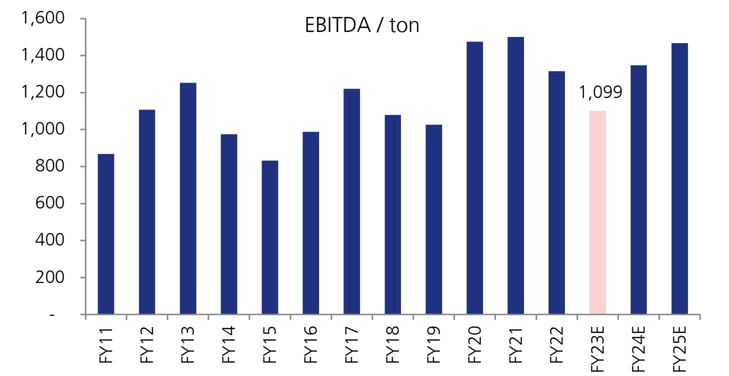
Source: Company, JM Financial

Exhibit 8. Freight costs to remain at similar levels



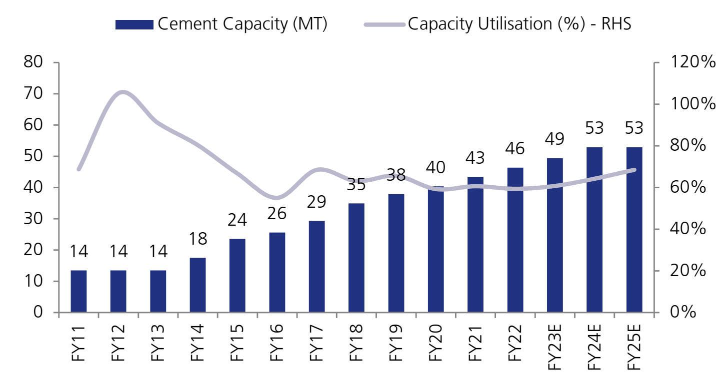
Source: Company, JM Financial

Exhibit 9. EBITDA per tonne to increase sharply post FY23E



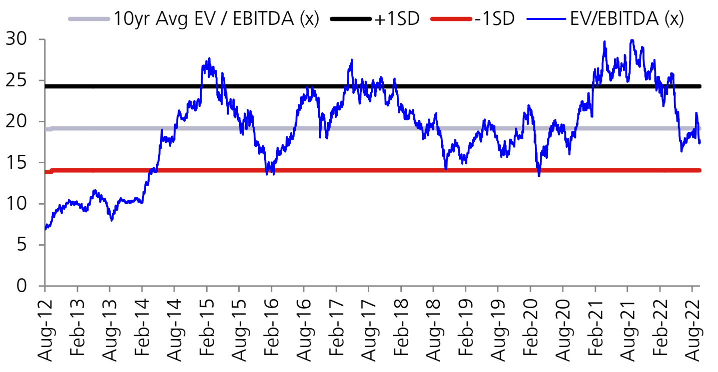
Source: Company, JM Financial

Exhibit 10. Capacity to increase by ~7MT by FY25E



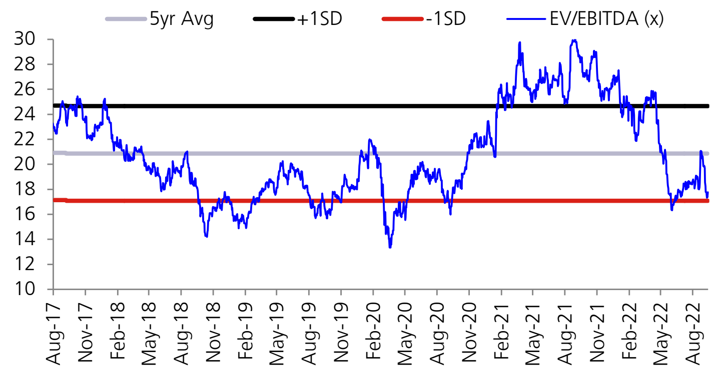
Source: Company, JM Financial

Exhibit 11. 10yr EV/EBITDA band



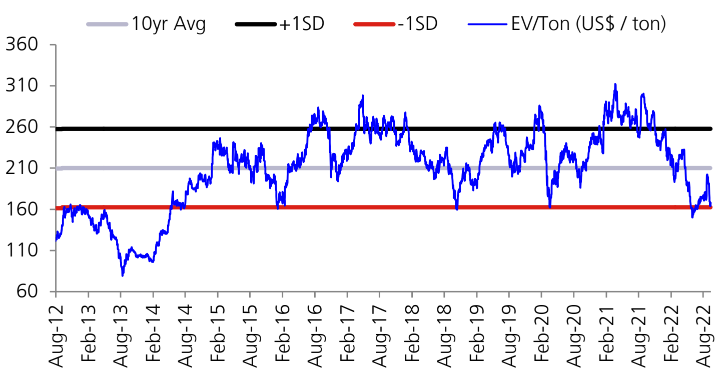
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 12. 5yr EV/EBITDA band



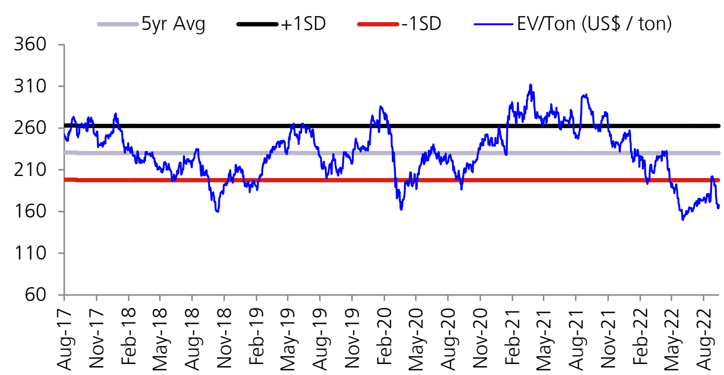
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 13. 10yr EV/Tonne band



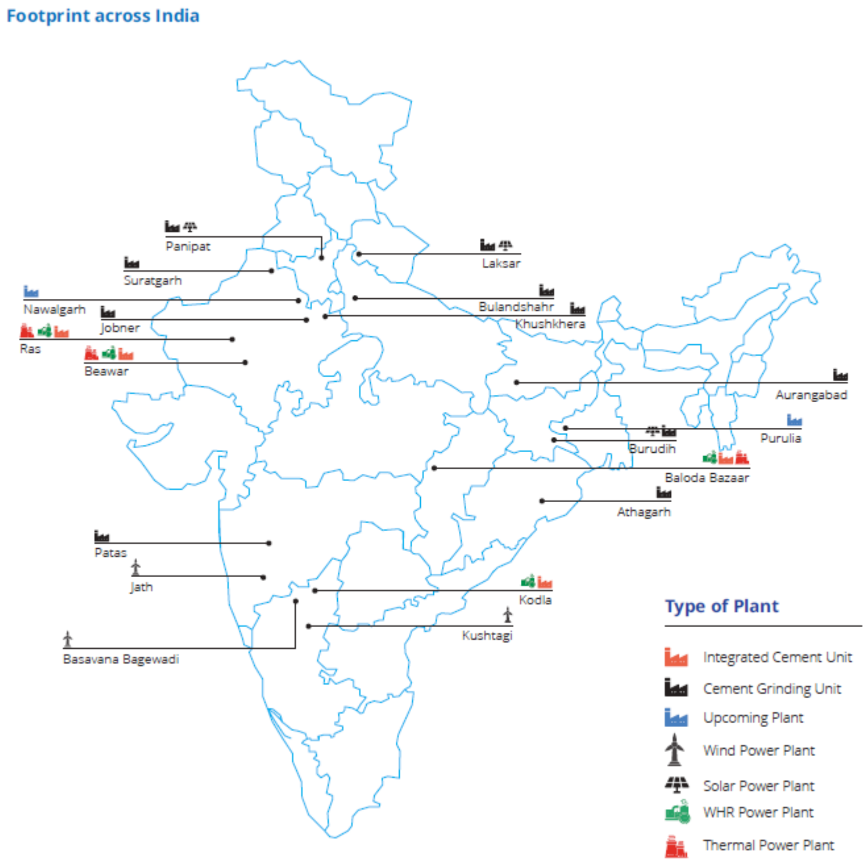
Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 15. Existing plant locations



Source: Shree Cement, JM Financial

Financial Tables (Standalone)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	1,23,007	1,43,059	1,58,329	1,81,680	1,98,329
Sales Growth	5.7%	16.3%	10.7%	14.7%	9.2%
Other Operating Income	3,681	0	0	0	0
Total Revenue	1,26,689	1,43,059	1,58,329	1,81,680	1,98,329
Cost of Goods Sold/Op. Exp	8,756	8,560	9,802	11,662	12,785
Personnel Cost	7,597	8,072	9,053	10,549	11,584
Other Expenses	70,046	89,948	1,06,283	1,13,427	1,20,540
EBITDA	40,289	36,478	33,190	46,043	53,420
EBITDA Margin	31.8%	25.5%	21.0%	25.3%	26.9%
EBITDA Growth	9.6%	-9.5%	-9.0%	38.7%	16.0%
Depn. & Amort.	11,399	10,365	13,803	14,303	14,803
EBIT	28,890	26,114	19,387	31,740	38,617
Other Income	4,329	5,373	4,633	4,727	3,293
Finance Cost	2,471	2,178	1,825	1,375	632
PBT before Excep. & Forex	30,748	29,309	22,195	35,091	41,278
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	30,748	29,309	22,195	35,091	41,278
Taxes	7,380	6,448	4,883	7,720	8,256
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	23,369	22,861	17,312	27,371	33,023
Adjusted Net Profit	23,369	22,861	17,312	27,371	33,023
Net Margin	18.4%	16.0%	10.9%	15.1%	16.7%
Diluted Share Cap. (mn)	36.1	36.1	36.1	36.1	36.1
Diluted EPS (INR)	647.7	633.6	479.8	758.6	915.3
Diluted EPS Growth	49.0%	-2.2%	-24.3%	58.1%	20.6%
Total Dividend + Tax	0	3,788	4,054	4,337	4,641
Dividend Per Share (INR)	0.0	105.0	112.4	120.2	128.6

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	1,52,501	1,72,709	1,85,967	2,09,001	2,37,382
Share Capital	361	361	361	361	361
Reserves & Surplus	1,52,140	1,72,348	1,85,606	2,08,640	2,37,022
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	21,332	22,091	17,091	7,091	-7,909
Def. Tax Liab. / Assets (-)	-7,855	-6,695	-6,695	-6,695	-6,695
Total - Equity & Liab.	1,65,978	1,88,104	1,96,363	2,09,396	2,22,778
Net Fixed Assets	51,625	62,944	70,141	72,337	72,534
Gross Fixed Assets	1,13,644	1,35,534	1,40,534	1,45,534	1,50,534
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	71,729	82,319	96,122	1,10,426	1,25,229
Capital WIP	9,710	9,729	25,729	37,229	47,229
Investments	1,10,506	1,15,460	1,15,460	1,15,460	1,15,460
Current Assets	40,402	49,056	54,284	71,519	89,265
Inventories	14,772	21,614	23,858	27,376	29,885
Sundry Debtors	4,794	5,957	8,676	9,955	10,867
Cash & Bank Balances	150	154	420	12,856	27,181
Loans & Advances	857	297	297	297	297
Other Current Assets	19,829	21,035	21,035	21,035	21,035
Current Liab. & Prov.	36,555	39,355	43,522	49,919	54,481
Current Liabilities	9,017	1,357	1,357	1,357	1,357
Provisions & Others	27,538	37,998	42,165	48,563	53,124
Net Current Assets	3,847	9,701	10,763	21,599	34,785
Total – Assets	1,65,978	1,88,104	1,96,363	2,09,396	2,22,778

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	30,257	29,309	22,195	35,091	41,278
Depn. & Amort.	11,399	10,365	13,803	14,303	14,803
Net Interest Exp. / Inc. (-)	2,471	2,178	1,825	1,375	632
Inc (-) / Dec in WCap.	8,762	-7,321	-796	1,599	1,140
Others	-4,515	-5,344	-4,633	-4,727	-3,293
Taxes Paid	-7,439	-1,959	-4,883	-7,720	-8,256
Operating Cash Flow	40,936	27,229	27,511	39,922	46,305
Capex	-9,984	-19,483	-21,000	-16,500	-15,000
Free Cash Flow	30,953	7,746	6,511	23,422	31,305
Inc (-) / Dec in Investments	-20,841	-2,081	0	0	0
Others	2,145	2,910	4,633	4,727	3,293
Investing Cash Flow	-28,679	-18,653	-16,367	-11,773	-11,707
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-22	-3,789	-4,054	-4,337	-4,641
Inc / Dec (-) in Loans	-9,610	-2,707	-5,000	-10,000	-15,000
Others	-2,514	-2,088	-1,825	-1,375	-632
Financing Cash Flow	-12,146	-8,584	-10,879	-15,713	-20,273
Inc / Dec (-) in Cash	111	-9	266	12,436	14,325
Opening Cash Balance	38	163	154	420	12,856
Closing Cash Balance	150	154	420	12,856	27,181

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	18.4%	16.0%	10.9%	15.1%	16.7%
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.9
Leverage Factor (x)	1.2	1.1	1.1	1.0	1.0
RoE	16.6%	14.1%	9.7%	13.9%	14.8%

Key Ratios

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	4,226.7	4,786.8	5,154.3	5,792.7	6,579.3
ROIC	23.5%	20.3%	13.2%	20.8%	25.9%
ROE	16.6%	14.1%	9.7%	13.9%	14.8%
Net Debt/Equity (x)	-0.4	-0.4	-0.4	-0.4	-0.5
P/E (x)	32.5	33.2	43.8	27.7	23.0
P/B (x)	5.0	4.4	4.1	3.6	3.2
EV/EBITDA (x)	17.2	19.1	20.8	14.5	12.0
EV/Sales (x)	5.5	4.9	4.4	3.7	3.2
Debtor days	14	15	20	20	20
Inventory days	43	55	55	55	55
Creditor days	0	0	0	0	0

Source: Company, JM Financial

The Ramco Cements | SELL

Competition in key markets to limit profitability

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The Ramco Cements Ltd remains one of the most efficient players operating in southern India. After many years of stagnation, Ramco added substantial capacity over FY19-22, taking its total capacity to 20.7MTPA (16.5MTPA in FY19). For FY23, we expect 14% volume growth for FY23 as it ramps up new capacities but pricing / profitability remain a concern in highly competitive markets like the South and the East. Leverage will start reducing to comfortable levels (peak in FY23: 2.9x net debt/EBITDA; target: 2.0x expected by FY24-25) over the medium term. We ascribe 11x 1yr fwd EV/ EBITDA (slight discount to mid-cap valuations) on account of elevated competitive scenario in core home markets. We assume coverage with a SELL rating and a Sep'23 TP of INR 695 (implying 8% downside).

- **10% volume CAGR likely in FY22-25:** Ramco is increasing its grinding capacity to 20.4MTPA, which will help drive volume growth. An additional 2.25MTPA of clinker capacity is getting added at Kurnool (AP) (total clinker capacity: 13.65MTPA + 1MTPA grinding). In terms of energy improvement, 6MW of WHRS has been commissioned and the balance 6.15MW is expected by FY23-end. Further expansion plans include another 1MTPA grinding plant in Karnataka by FY24 (INR 3.0-3.5bn). It has expansion plans in Maharashtra but is yet to identify the exact location.

- **Diversification into East:** Ramco's capacity is expected to go up to 20.7MTPA by FY24 (16.5MTPA in FY19) after stagnating since FY16. Consistent growth in volume has enabled this expansion plan and, given a large chunk of the new capacity will be commissioned in Odisha, the concentration risk in the southern market reduces to some extent; but at the same time the East itself remains highly competitive with significant capacity additions happening.

- **One of the lowest-cost producers backed by wind power capacity:** Ramco has one of the highest EBITDA/ton in the industry driven by exposure to regions with high realisation and lower power/fuel costs (wind power hedging cost escalations). Sales from wind power further supplement the blended EBITDA/ton The company is also in process of commissioning c.12MW of WHRS capacities by FY23E to reduce its overall operating costs.

- **Peak leverage; debt to trend downwards:** Ramco is expected to have a peak net debt to EBITDA ratio of 2.9x by FY23-end. EBITDA is expected to grow by 15% CAGR over FY22-25E driven by higher utilisation and capex is expected to reduce to INR 5-6bn, resulting in significant deleveraging (1.5x net debt to EBITDA by FY25-end), allowing Ramco scope for further expansion.

- **We assume coverage with a 'SELL' rating and Sep'23 TP of INR 695:** We feel Ramco's high exposure in highly competitive geographies of East and South will limit its profitability. We value Ramco at 11x 1yr fwd EV/EBITDA (slight discount to our other midcap valuations on account of higher competitive intensity in core markets, and arrive at a Sep'23 TP of INR 695 (implying 8% downside).

Recommendation and Price Target	
Current Reco.	SELL
Previous Reco.	NR
Current Price Target (12M)	695
Upside/(Downside)	-7.8%

Key Data – TRCL IN	
Current Market Price	INR755
Market cap (bn)	INR178.3/US$2.2
Free Float	46%
Shares in issue (mn)	235.6
Diluted share (mn)	235.6
3-mon avg daily val (mn)	INR418.6/US$5.1
52-week range	1,120/575
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance			
%	1M	6M	12M
Absolute	-0.3	-1.8	-23.4
Relative*	2.1	1.4	-21.6

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	52,582	58,972	70,642	76,207	82,351
Sales Growth (%)	-1.9	12.2	19.8	7.9	8.1
EBITDA	15,493	12,901	12,987	16,750	19,122
EBITDA Margin (%)	29.3	21.5	18.0	21.4	22.5
Adjusted Net Profit	7,756	8,815	5,584	8,640	10,553
Diluted EPS (INR)	32.9	37.4	23.7	36.7	44.8
Diluted EPS Growth (%)	28.4	13.6	-36.7	54.7	22.2
ROIC (%)	10.1	10.8	6.6	9.1	10.5
ROE (%)	14.5	14.3	8.1	11.6	12.8
P/E (x)	22.9	20.2	31.9	20.6	16.9
P/B (x)	3.1	2.7	2.5	2.3	2.0
EV/EBITDA (x)	13.4	16.7	16.5	12.4	10.5
Dividend Yield (%)	0.4	0.0	0.5	0.7	0.9

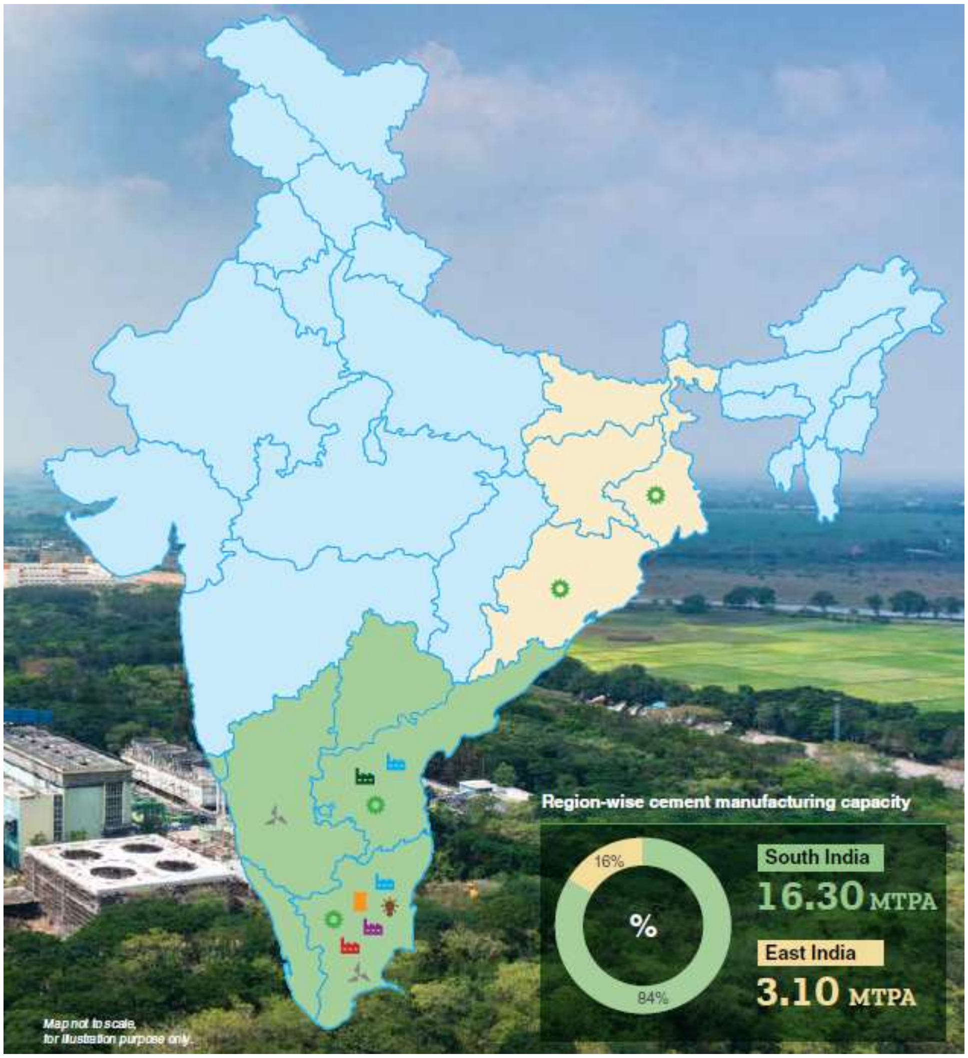
Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Capex to remain elevated:** Capex for the next 2 years is INR 13.5bn, of which INR 2.5bn will be maintenance capex. The company plans a total capex of INR 8.5bn in FY23. Of the total capex target, the company has spent INR 4.8bn in 1QFY23 and rest is likely to be spent over the remaining 9 months.
- **Company Overview:** Established in 1961, The Ramco Cements (formerly Madras Cements) is the largest cement producer in South India. The company's current total cement production capacity is c.19.6MTPA. Ramco also operates one of the largest wind farms in the country.

Exhibit 1. Region-wise manufacturing capacity

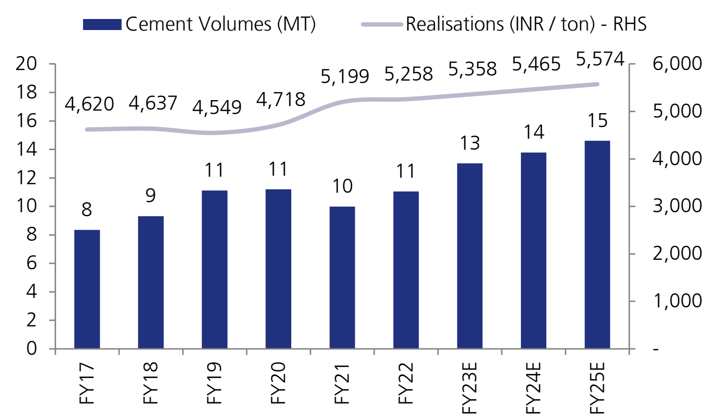


Source: Company, JM Financial

Key Charts

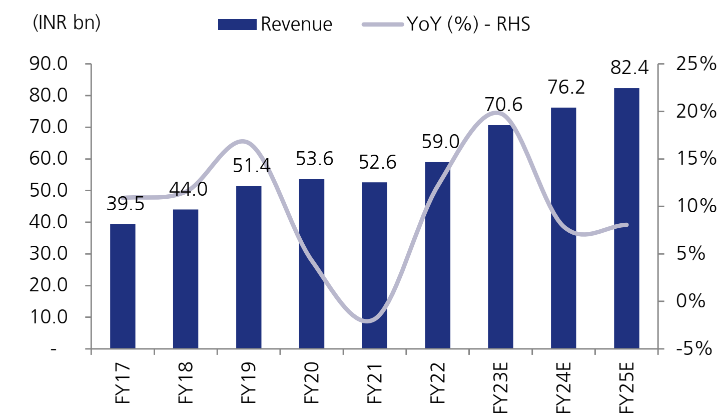
Financials

Exhibit 2. Volume seen growing steadily…



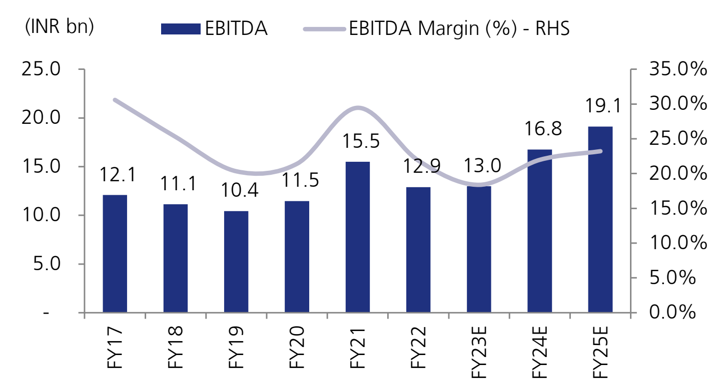
Source: Company, JM Financial

Exhibit 3. …leading to revenue growth



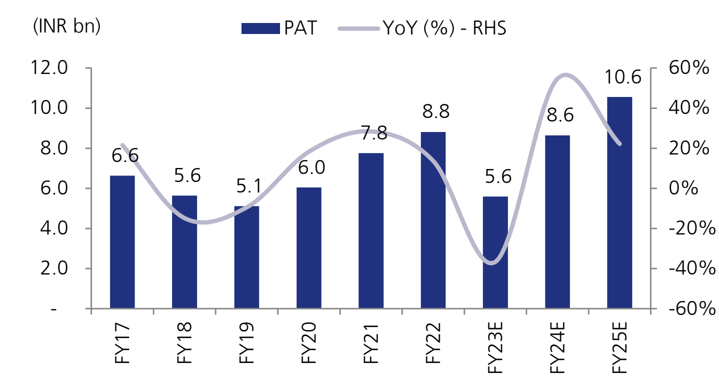
Source: Company, JM Financial

Exhibit 4. EBITDA margin to improve as input costs normalise…



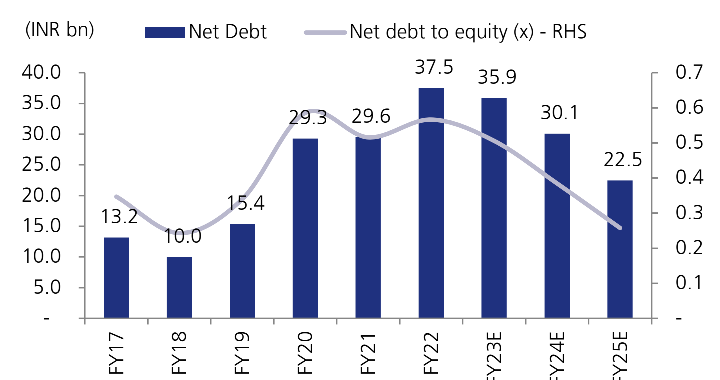
Source: Company, JM Financial

Exhibit 5. …leading to higher profits



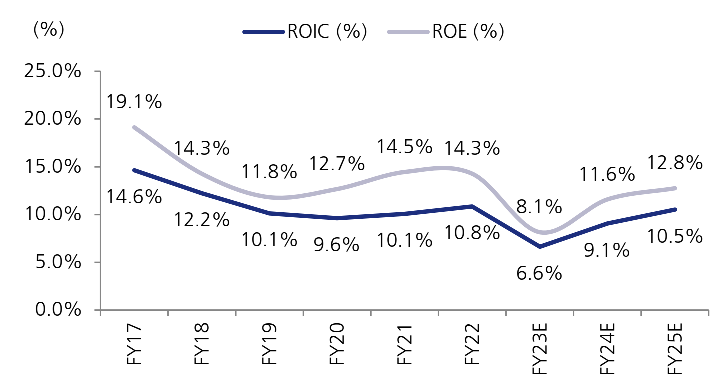
Source: Company, JM Financial

Exhibit 6. Deleveraging to continue



Source: Company, JM Financial

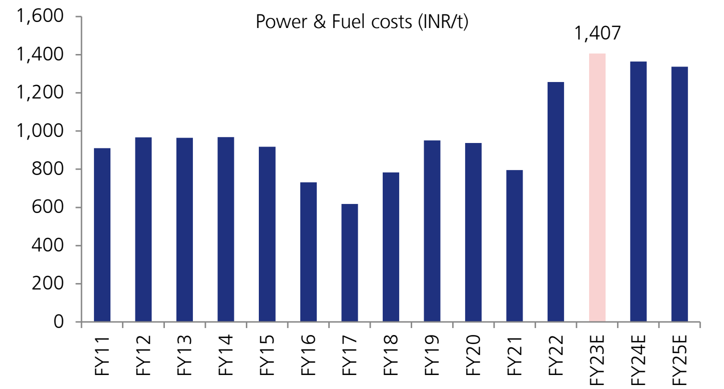
Exhibit 7. RoE and RoIC expected to increase post FY23E



Source: Company, JM Financial

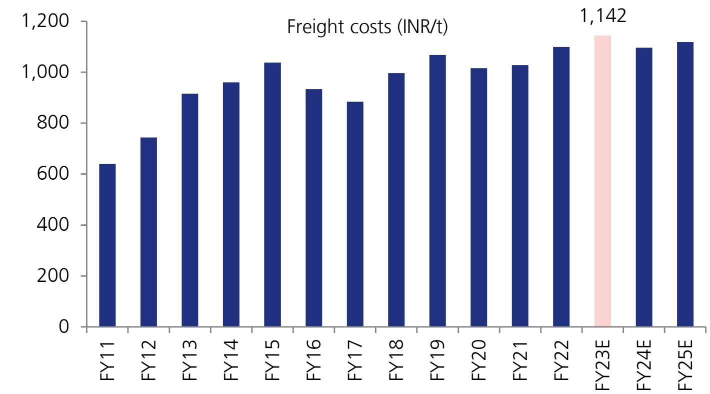
Valuations

Exhibit 8. Power and fuel costs to fall post FY23E



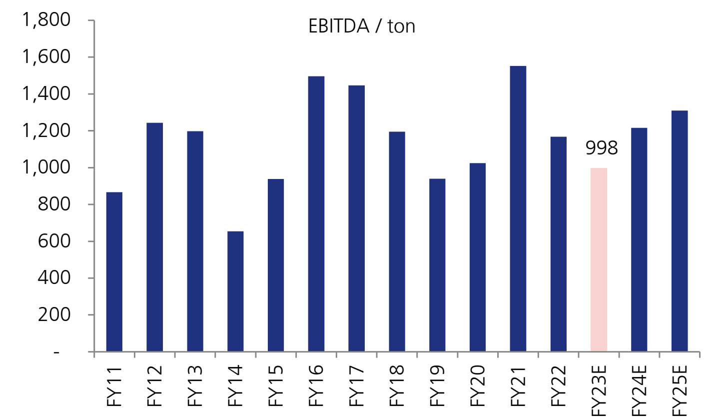
Source: Company, JM Financial

Exhibit 9. Freight costs also to fall



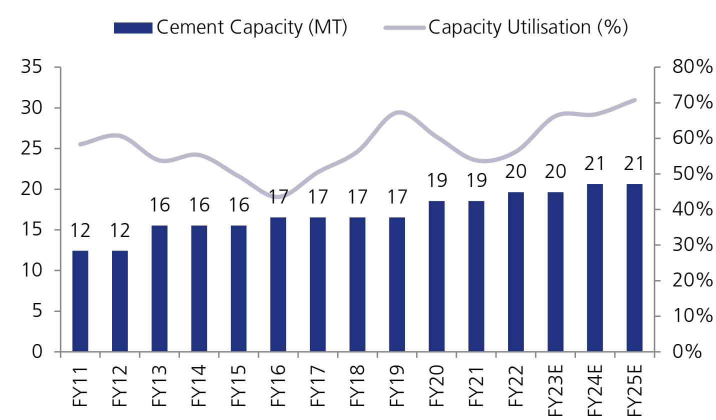
Source: Company, JM Financial

Exhibit 10. Rise in EBITDA per tonne due to better margin



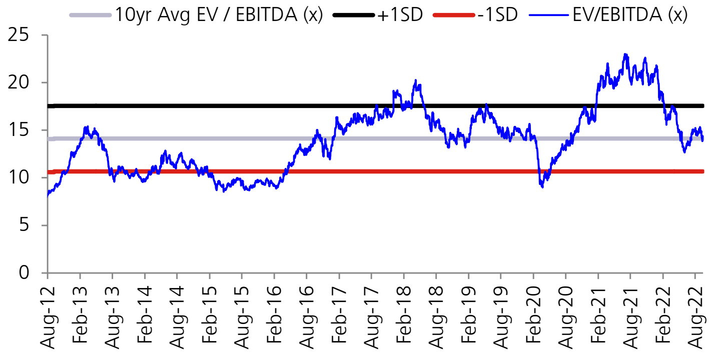
Source: Company, JM Financial

Exhibit 11. No significant capex undertaken to increase capacity



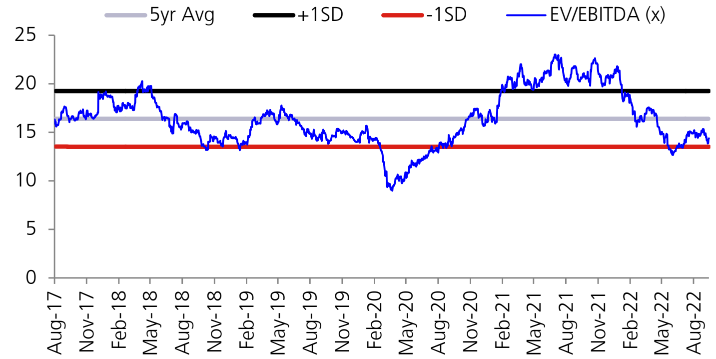
Source: Company, JM Financial

Exhibit 12. 10 yr average EV / EBITDA



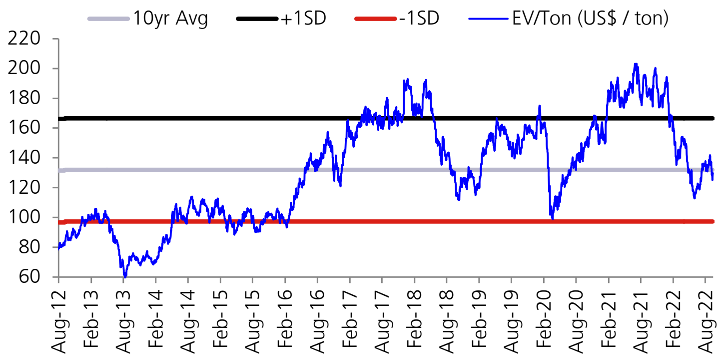
Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 13. 5yr average EV / EBITDA



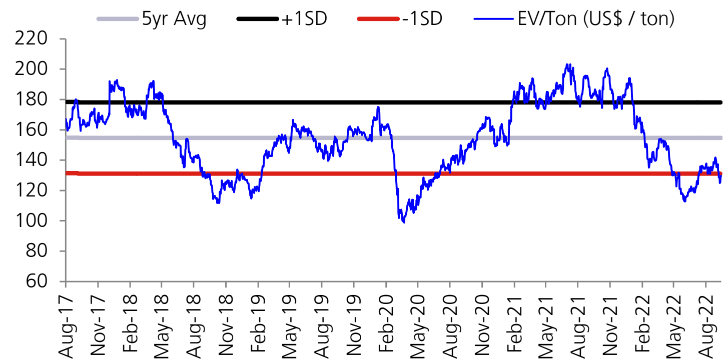
Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 14. 10yr average EV / tonne



Source: Bloomberg as on 29 Sep'22, JM Financial

Exhibit 15. 5yr average EV / tonne



Source: Bloomberg as on 29 Sep'22, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	52,582	58,972	70,642	76,207	82,351
Sales Growth	-1.9%	12.2%	19.8%	7.9%	8.1%
Other Operating Income	328	1,065	1,531	1,982	2,570
Total Revenue	**52,910**	**60,037**	**72,172**	**78,189**	**84,921**
Cost of Goods Sold/Op. Exp	8,162	8,904	11,397	11,737	12,815
Personnel Cost	4,268	4,352	5,123	5,421	5,746
Other Expenses	24,987	33,881	42,666	44,281	47,237
EBITDA	**15,493**	**12,901**	**12,987**	**16,750**	**19,122**
EBITDA Margin	29.3%	21.5%	18.0%	21.4%	22.5%
EBITDA Growth	35.0%	-16.7%	0.7%	29.0%	14.2%
Depn. & Amort.	3,566	4,022	4,177	4,424	4,628
EBIT	11,927	8,878	8,810	12,326	14,494
Other Income	304	280	290	290	290
Finance Cost	876	1,124	1,746	1,242	892
PBT before Excep. & Forex	11,355	8,034	7,354	11,375	13,893
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	11,355	8,034	7,354	11,375	13,893
Taxes	3,799	-894	1,765	2,730	3,334
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	214	-104	5	5	5
Reported Net Profit	7,756	8,815	5,584	8,640	10,553
Adjusted Net Profit	**7,756**	**8,815**	**5,584**	**8,640**	**10,553**
Net Margin	14.7%	14.7%	7.7%	11.0%	12.4%
Diluted Share Cap. (mn)	235.6	235.6	235.6	235.6	235.6
Diluted EPS (INR)	**32.9**	**37.4**	**23.7**	**36.7**	**44.8**
Diluted EPS Growth	28.4%	13.6%	-36.7%	54.7%	22.2%
Total Dividend + Tax	707	0	838	1,296	1,583
Dividend Per Share (INR)	3.0	0.0	3.6	5.5	6.7

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	57,317	66,187	70,933	78,277	87,247
Share Capital	236	236	236	236	236
Reserves & Surplus	57,081	65,951	70,697	78,041	87,011
Preference Share Capital	0	0	0	0	0
Minority Interest	63	68	73	78	83
Total Loans	31,017	39,300	39,300	34,300	27,300
Def. Tax Liab. / Assets (-)	10,831	8,212	8,212	8,212	8,212
Total - Equity & Liab.	**99,228**	**1,13,767**	**1,18,518**	**1,20,867**	**1,22,842**
Net Fixed Assets	91,886	1,06,764	1,11,087	1,12,663	1,14,035
Gross Fixed Assets	1,07,261	1,18,610	1,27,110	1,33,110	1,39,110
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	38,927	42,186	46,364	50,787	55,415
Capital WIP	23,552	30,340	30,340	30,340	30,340
Investments	4,519	4,274	4,274	4,274	4,274
Current Assets	18,141	20,536	22,646	24,955	27,253
Inventories	5,993	8,345	10,064	10,857	11,732
Sundry Debtors	3,759	3,507	4,201	4,532	4,897
Cash & Bank Balances	1,438	1,785	3,407	4,199	4,824
Loans & Advances	577	798	756	815	881
Other Current Assets	6,373	6,101	4,219	4,551	4,918
Current Liab. & Prov.	15,317	17,809	19,491	21,027	22,722
Current Liabilities	3,645	4,907	5,879	6,342	6,853
Provisions & Others	11,672	12,902	13,613	14,685	15,869
Net Current Assets	2,823	2,727	3,155	3,928	4,531
Total – Assets	**99,228**	**1,13,765**	**1,18,517**	**1,20,865**	**1,22,841**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	11,562	7,925	7,354	11,375	13,893
Depn. & Amort.	3,566	4,022	4,177	4,424	4,628
Net Interest Exp. / Inc. (-)	876	1,124	1,746	1,242	892
Inc (-) / Dec in WCap.	5,068	-163	1,193	20	22
Others	147	-82	0	0	0
Taxes Paid	-2,087	-1,587	-1,765	-2,730	-3,334
Operating Cash Flow	**19,131**	**11,240**	**12,705**	**14,330**	**16,100**
Capex	-17,659	-18,106	-8,500	-6,000	-6,000
Free Cash Flow	1,472	-6,866	4,205	8,330	10,100
Inc (-) / Dec in Investments	-310	-226	0	0	0
Others	179	175	0	0	0
Investing Cash Flow	**-17,790**	**-18,157**	**-8,500**	**-6,000**	**-6,000**
Inc / Dec (-) in Capital	16	23	0	0	0
Dividend + Tax thereon	-708	-1	-838	-1,296	-1,583
Inc / Dec (-) in Loans	753	8,256	0	-5,000	-7,000
Others	-904	-1,015	-1,746	-1,242	-892
Financing Cash Flow	**-844**	**7,263**	**-2,583**	**-7,538**	**-9,475**
Inc / Dec (-) in Cash	**497**	**346**	**1,622**	**792**	**625**
Opening Cash Balance	942	1,438	1,785	3,407	4,199
Closing Cash Balance	1,438	1,785	3,407	4,199	4,824

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	14.7%	14.7%	7.7%	11.0%	12.4%
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7
Leverage Factor (x)	1.8	1.7	1.7	1.6	1.5
RoE	14.5%	14.3%	8.1%	11.6%	12.8%

Key Ratios

Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	243.3	281.0	301.1	332.3	370.4
ROIC	10.1%	10.8%	6.6%	9.1%	10.5%
ROE	14.5%	14.3%	8.1%	11.6%	12.8%
Net Debt/Equity (x)	0.5	0.6	0.5	0.4	0.3
P/E (x)	22.9	20.2	31.9	20.6	16.9
P/B (x)	3.1	2.7	2.5	2.3	2.0
EV/EBITDA (x)	13.4	16.7	16.5	12.4	10.5
EV/Sales (x)	3.9	3.6	3.0	2.7	2.4
Debtor days	26	21	21	21	21
Inventory days	41	51	51	51	50
Creditor days	36	38	36	38	38

Source: Company, JM Financial

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Ultratech (UTCEM) remains by far India's largest cement player, with capacity expected to reach 131 MTPA by FY23. As part of the ongoing capex phase 2, it plans to build 154MTPA capacity by FY25 (+10% CAGR FY22-25E; c.21% capacity share as of FY22) through organic expansion at USD 76/tonne (cheaper than benchmark for brownfield expansions) and expects an IRR of 15%. Directionally, it plans to achieve 200MTPA capacity by 2030 through inorganic / organic expansion (as it intends to maintain market share). Historically, Ultratech has shown a healthy appetite for inorganic acquisitions (57% of FY22 capacity) and is likely to be one of the key industry consolidators along with Ambuja Cement, going forward. We like UTCEM's pan-India footprint (no region accounting for more than 25% of capacity), aggressive capacity additions in a healthy demand environment, and future scope for improving alternate fuel mix / captive power sources. Even though Ultratech is embarking on a large capex plan, it aims to be net debt free by FY24-25 (dependent on acquisition plans). We assume coverage with a 'BUY' rating ascribing 16x 1 yr fwd EV / EBITDA (in-line with Shree Cements) and arriving at a Sep'23 TP of INR 8,085 (implying 29% upside).

- **Biggest beneficiary of demand upcycle:** UTCEM has completed significant capacity additions (c.20MTPA addition by FY23-end; +17% capacity expansion over Mar'20) and it is on track to reach 154MTPA capacity by FY25 through a capex of INR 128.8bn (mix of brownfield and greenfield). The additional capacity would be created across regions and achieved by setting up integrated and grinding units as well as bulk terminals. Commercial production from these new capacities is expected to go on stream in a phased manner by FY25. Upon completion of the latest round of expansion, Ultratech would continue to be the third largest cement company in the world, outside of China.

- **Asset sweating to help generate 13% EBITDA CAGR over FY22-25:** Over FY15-22, the company's green power mix has gone up to 18% (2% in FY15%) and there is scope for improvement, leading to cost savings / higher EBITDA per tonne (+7% in FY25 compared to FY22). Over FY22-25E, we forecast 8% volume CAGR (in line with demand) driven by new capacities while Revenue / EBITDA are expected to grow at 11% / 13% CAGR.

- **Successful expansion through organic/inorganic route:** UTCEM has successfully integrated all the acquired plants from JP Associates achieving the cash breakeven within 4 quarters post acquisition. Further, UTCEM successfully acquired, integrated and ramped up Binani's assets. The successful integration of large assets will give UTCEM more scope to look for new assets in the coming years.

- **Target net debt free by FY24-25:** Over the years, net debt has reduced through improved cash conversion and squeeze in working capital requirement. Net debt as of Mar'22 is INR 37.5bn for consolidated operations (net debt to EBITDA at 0.5x).

- **Assume coverage with a BUY Rating and a Sep'23 TP of INR 8,085:** We like UTCEM's superior balance sheet despite aggressive expansion plans. We value the company at 16x EV/EBITDA (broadly in line with the 5-year average) to arrive at a Sep'23 TP of INR 8,085 (implying 29% upside).

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	NR
Current Price Target (12M)	8,085
Upside/(Downside)	29.3%

Key Data – UTCEM IN	
Current Market Price	INR6,255
Market cap (bn)	INR1,805.7/US$22.2
Free Float	37%
Shares in issue (mn)	288.6
Diluted share (mn)	288.6
3-mon avg daily val (mn)	INR2,990.8/US$36.8
52-week range	8,269/5,157
Sensex/Nifty	57,427/17,094
INR/US$	81.3

Price Performance			
%	1M	6M	12M
Absolute	-6.3	-5.3	-15.4
Relative*	-4.1	-2.2	-13.5

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	4,24,233	4,98,985	5,59,314	6,23,946	6,80,817
Sales Growth (%)	6.0	17.6	12.1	11.6	9.1
EBITDA	1,09,648	1,09,364	1,04,407	1,38,065	1,56,411
EBITDA Margin (%)	25.4	21.6	18.4	21.9	22.7
Adjusted Net Profit	55,061	70,665	56,882	81,420	95,072
Diluted EPS (INR)	190.8	244.9	197.1	282.1	329.4
Diluted EPS Growth (%)	0.9	28.3	-19.5	43.1	16.8
ROIC (%)	13.0	16.0	11.8	15.3	16.6
ROE (%)	13.5	15.3	11.1	14.3	14.8
P/E (x)	32.8	25.5	31.7	22.2	19.0
P/B (x)	4.2	3.7	3.4	3.0	2.6
EV/EBITDA (x)	17.1	17.0	17.8	13.2	11.4
Dividend Yield (%)	0.2	0.6	0.6	0.7	0.7

Source: Company data, JM Financial. Note: Valuations as of 30/Sep/2022

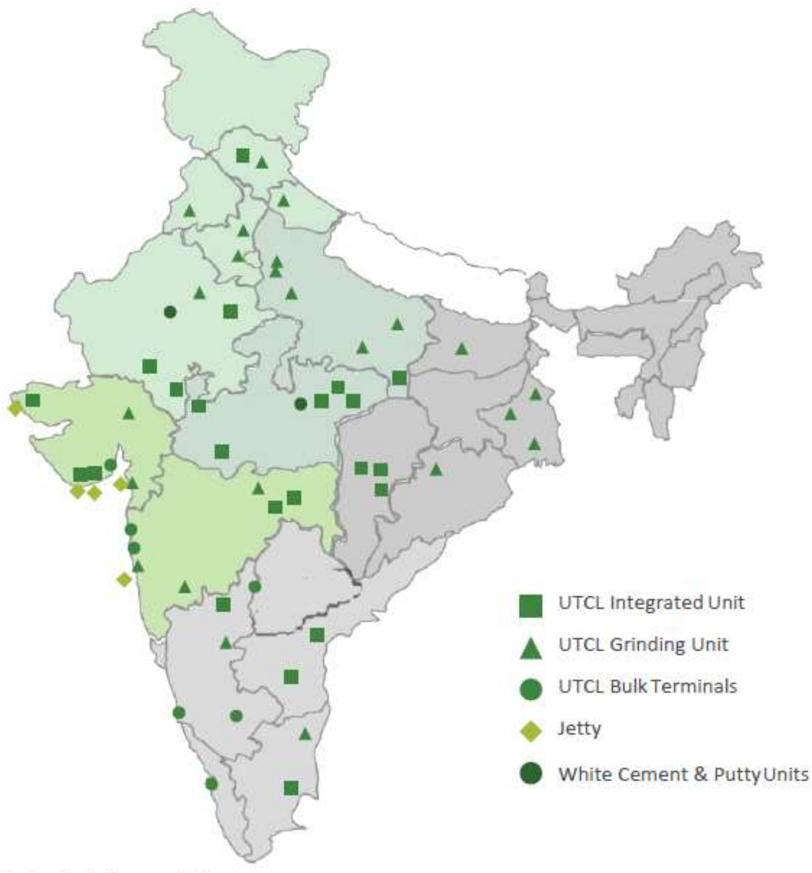
JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Company background

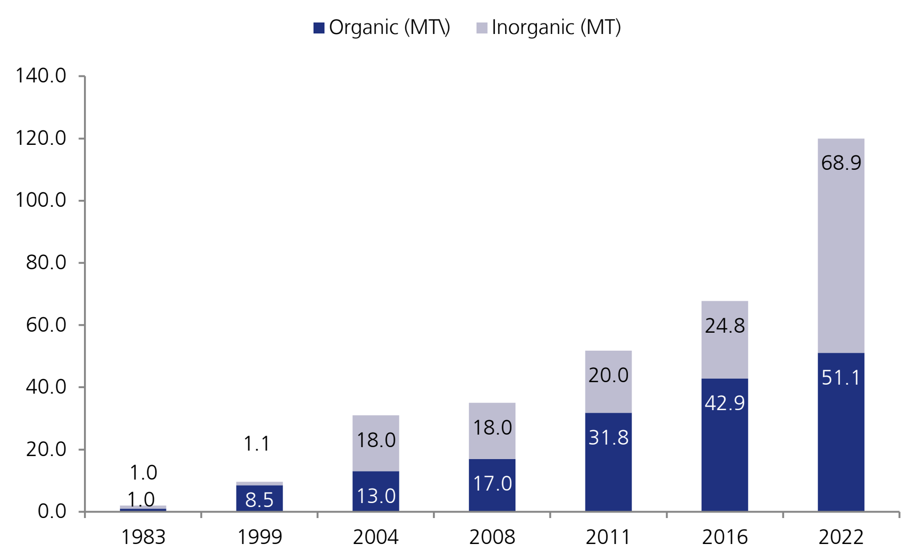
- UltraTech Cement (UTCEM) is part of the Aditya Birla Group. UTCEM and its subsidiaries have an annual capacity of 114MT, going upto 131MTPA by FY23, making it among the top 10 producers of cement globally. It is also the largest manufacturer of white cement in India. It has 22 integrated plants, 27 grinding units, one clinkerisation unit and eight bulk packaging terminals, and more than 170 RMC plants, spanning India, the UAE, Bahrain, Bangladesh, and Sri Lanka.

Exhibit 1. Pan-India presence



Source: Ultratech, JM Financial

Exhibit 2. Ultratech has growth through inorganic and capacity additions

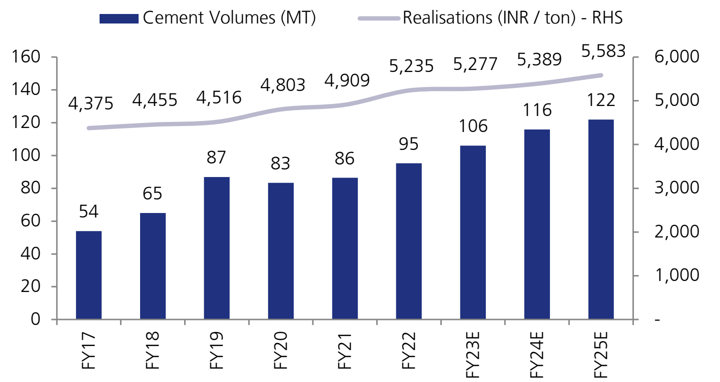


Source: Ultratech, JM Financial

Key Charts

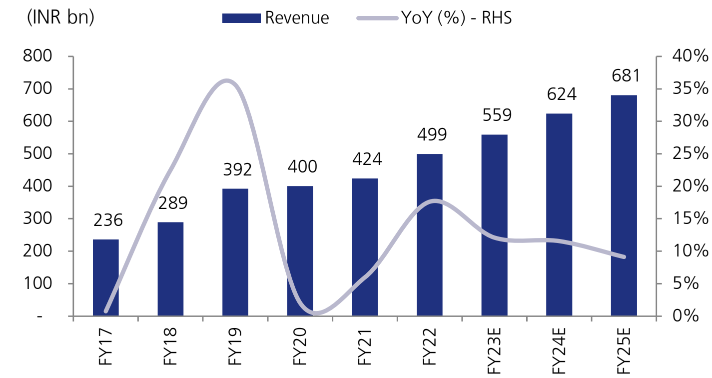
Financials

Exhibit 1. Volumes to grow sharply over FY23-25E…



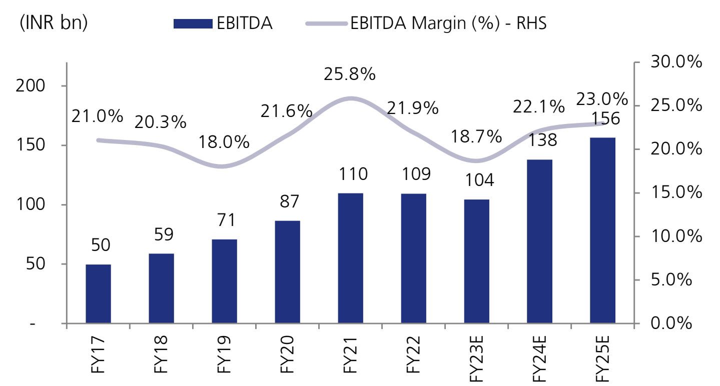
Source: Company, JM Financial

Exhibit 2. …leading to significant revenue growth



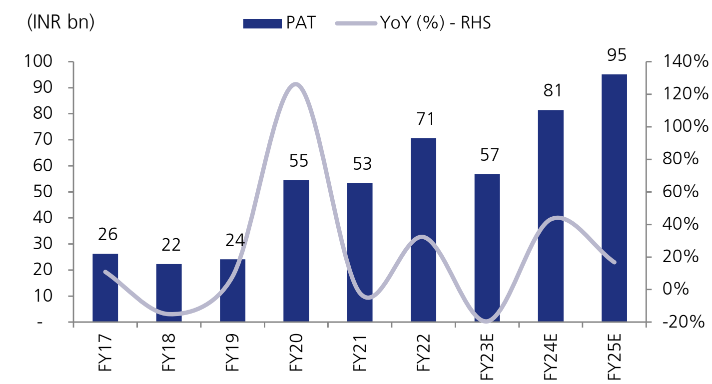
Source: Company, JM Financial

Exhibit 3. EBITDA margin to improve as input costs fall…



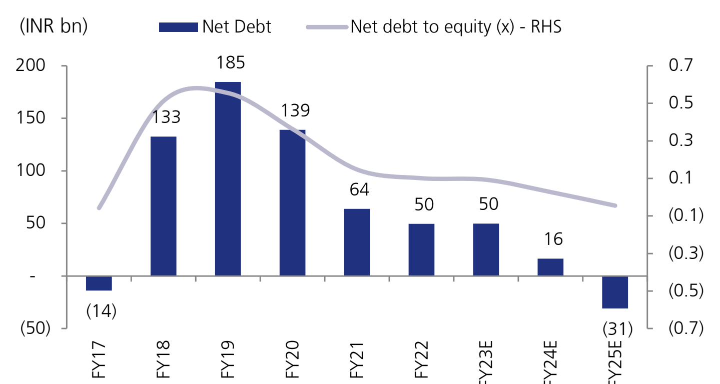
Source: Company, JM Financial

Exhibit 4. …resulting in greater profitability



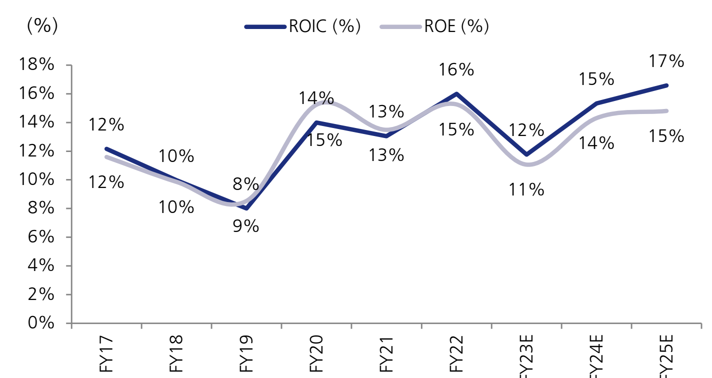
Source: Company, JM Financial

Exhibit 5. Deleveraging to continue; aim is to be net debt free



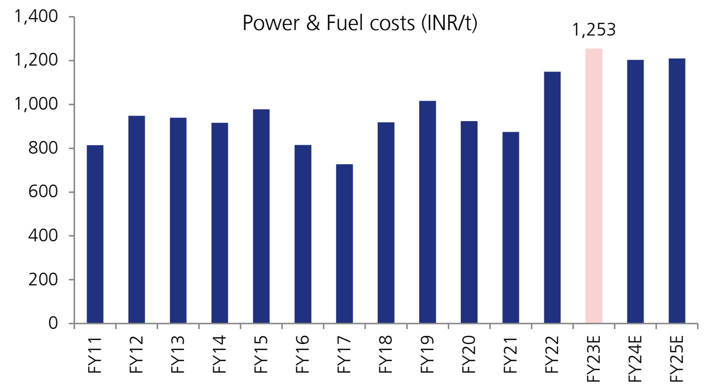
Source: Company, JM Financial

Exhibit 6. RoE and RoIC to improve



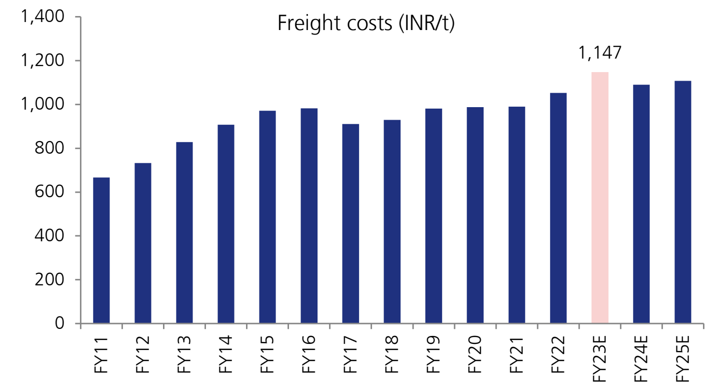
Source: Company, JM Financial

Exhibit 7. Power and fuel costs to fall marginally…



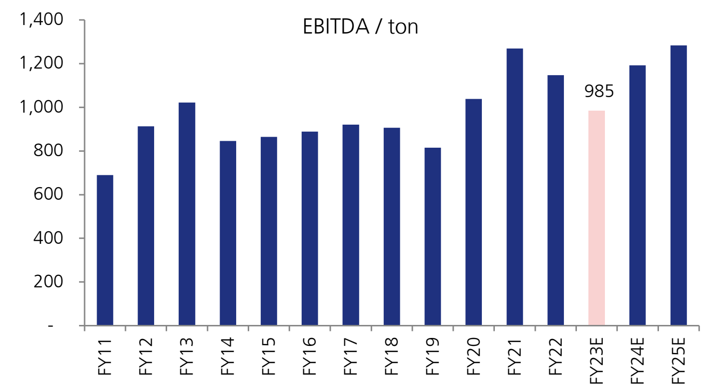
Source: Company, JM Financial

Exhibit 8. Freight costs to follow similar trend



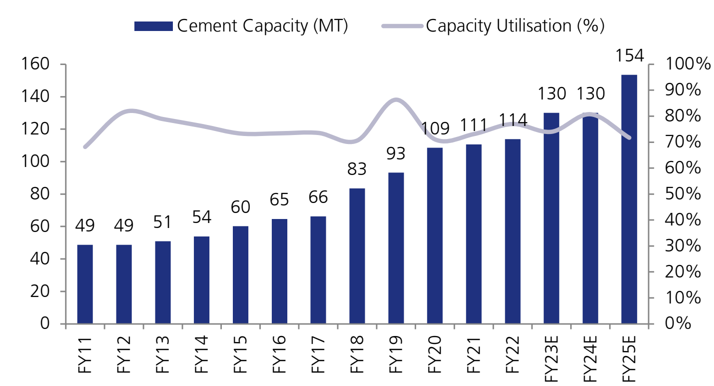
Source: Company, JM Financial

Exhibit 9. Higher revenue and lower costs to increase EBITDA/tonne



Source: Company, JM Financial

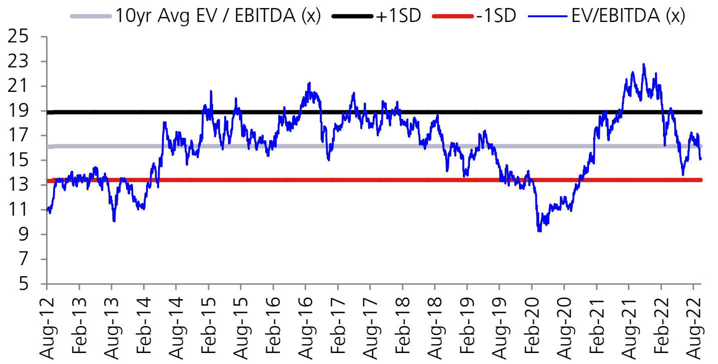
Exhibit 10. Cement capacity to increase by ~40MT by FY25E



Source: Company, JM Financial

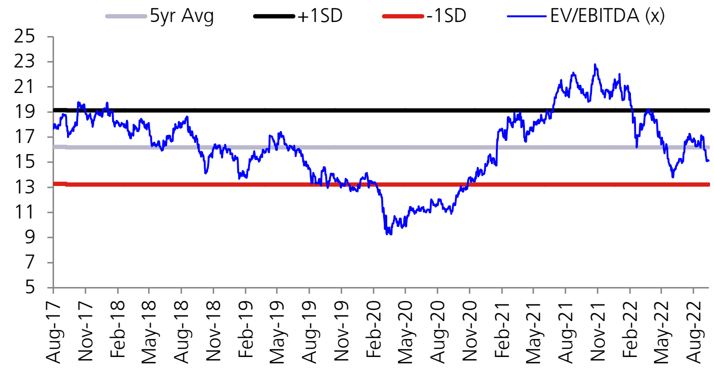
Valuations

Exhibit 11. 10yr EV/EBITDA band



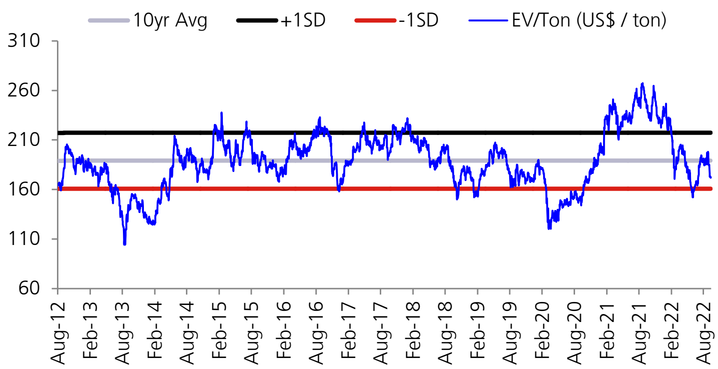
Source: Bloomberg as on 29 Sep'22 , JM Financial, JM Financial

Exhibit 12. 5yr EV/EBITDA band



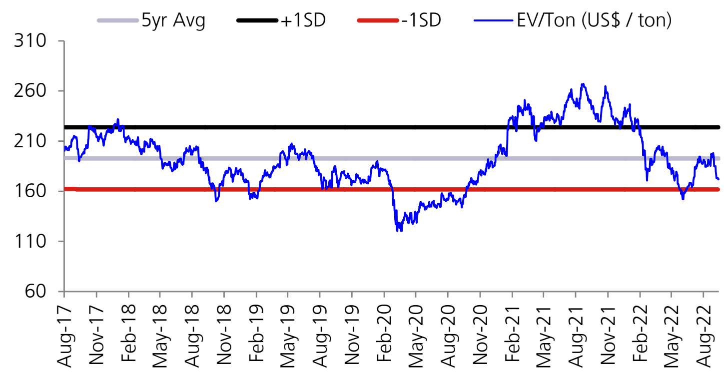
Source: Bloomberg as on 29 Sep'22 , JM Financial, JM Financial

Exhibit 13. 10yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Exhibit 14. 5yr EV/Tonne band



Source: Bloomberg as on 29 Sep'22 , JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Sales	4,24,233	4,98,985	5,59,314	6,23,946	6,80,817
Sales Growth	6.0%	17.6%	12.1%	11.6%	9.1%
Other Operating Income	7,650	7,650	7,650	7,500	7,650
Total Revenue	**4,31,883**	**5,06,635**	**5,66,964**	**6,31,446**	**6,88,467**
Cost of Goods Sold/Op. Exp	56,014	61,014	70,719	76,501	83,590
Personnel Cost	21,820	23,591	26,792	30,136	33,937
Other Expenses	2,44,402	3,12,666	3,65,045	3,86,745	4,14,529
EBITDA	**1,09,648**	**1,09,364**	**1,04,407**	**1,38,065**	**1,56,411**
EBITDA Margin	25.4%	21.6%	18.4%	21.9%	22.7%
EBITDA Growth	26.7%	-0.3%	-4.5%	32.2%	13.3%
Depn. & Amort.	24,344	24,568	26,747	28,997	31,247
EBIT	85,305	84,797	77,660	1,09,067	1,25,163
Other Income	7,887	6,118	6,319	6,619	6,919
Finance Cost	12,591	7,984	8,136	7,126	5,319
PBT before Excep. & Forex	80,601	82,931	75,843	1,08,561	1,26,763
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	80,601	82,931	75,843	1,08,561	1,26,763
Taxes	25,540	12,266	18,961	27,140	31,691
Extraordinary Inc./Loss(-)	-1,640	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	53,421	70,665	56,882	81,420	95,072
Adjusted Net Profit	**55,061**	**70,665**	**56,882**	**81,420**	**95,072**
Net Margin	12.7%	13.9%	10.0%	12.9%	13.8%
Diluted Share Cap. (mn)	288.6	288.6	288.6	288.6	288.6
Diluted EPS (INR)	**190.8**	**244.9**	**197.1**	**282.1**	**329.4**
Diluted EPS Growth	0.9%	28.3%	-19.5%	43.1%	16.8%
Total Dividend + Tax	3,753	12,865	13,766	14,729	15,761
Dividend Per Share (INR)	13.0	37.0	39.6	42.4	45.3

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shareholders' Fund	4,33,526	4,92,706	5,35,823	6,02,514	6,81,826
Share Capital	2,887	2,887	2,887	2,887	2,887
Reserves & Surplus	4,30,640	4,89,820	5,32,936	5,99,627	6,78,939
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	1,73,186	98,911	99,911	69,911	49,911
Def. Tax Liab. / Assets (-)	52,191	52,299	52,299	52,299	52,299
Total - Equity & Liab.	**6,58,904**	**6,43,917**	**6,88,033**	**7,24,724**	**7,84,036**
Net Fixed Assets	4,69,939	5,02,034	5,35,287	5,76,290	6,15,042
Gross Fixed Assets	5,43,243	5,69,385	6,19,385	6,69,385	7,19,385
Intangible Assets	22,088	22,088	22,088	22,088	22,088
Less: Depn. & Amort.	1,10,670	1,35,704	1,62,451	1,91,449	2,22,696
Capital WIP	15,278	46,265	56,265	76,265	96,265
Investments	1,75,697	1,17,245	1,17,245	1,17,245	1,17,245
Current Assets	1,58,525	1,87,338	1,84,654	1,96,633	2,31,526
Inventories	37,221	51,625	45,971	51,283	55,958
Sundry Debtors	22,860	27,068	29,115	32,479	35,440
Cash & Bank Balances	1,186	766	1,689	4,992	32,251
Loans & Advances	10,415	25,829	25,829	25,829	25,829
Other Current Assets	86,844	82,049	82,049	82,049	82,049
Current Liab. & Prov.	1,45,258	1,62,701	1,49,153	1,65,444	1,79,778
Current Liabilities	0	0	0	0	0
Provisions & Others	1,45,258	1,62,701	1,49,153	1,65,444	1,79,778
Net Current Assets	13,268	24,637	35,501	31,189	51,748
Total – Assets	**6,58,904**	**6,43,917**	**6,88,033**	**7,24,724**	**7,84,036**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profit before Tax	78,961	82,931	75,843	1,08,561	1,26,763
Depn. & Amort.	24,344	24,568	26,747	28,997	31,247
Net Interest Exp. / Inc. (-)	12,591	7,984	8,136	7,126	5,319
Inc (-) / Dec in WCap.	19,818	-5,670	-9,940	7,614	6,700
Others	-7,303	-7,576	-6,319	-6,619	-6,919
Taxes Paid	-12,901	-15,540	-18,961	-27,140	-31,691
Operating Cash Flow	**1,15,510**	**86,697**	**75,506**	**1,18,539**	**1,31,420**
Capex	-17,262	-54,216	-60,000	-70,000	-70,000
Free Cash Flow	98,248	32,481	15,506	48,539	61,420
Inc (-) / Dec in Investments	0	0	0	0	0
Others	-72,604	62,109	6,319	6,619	6,919
Investing Cash Flow	**-89,865**	**7,893**	**-53,681**	**-63,381**	**-63,081**
Inc / Dec (-) in Capital	70	-868	0	0	0
Dividend + Tax thereon	-3,748	-10,650	-13,766	-14,729	-15,761
Inc / Dec (-) in Loans	-9,745	-74,652	1,000	-30,000	-20,000
Others	-12,437	-8,839	-8,136	-7,126	-5,319
Financing Cash Flow	**-25,860**	**-95,009**	**-20,902**	**-51,856**	**-41,080**
Inc / Dec (-) in Cash	**-215**	**-420**	**923**	**3,302**	**27,259**
Opening Cash Balance	1,401	1,186	766	1,689	4,992
Closing Cash Balance	1,186	766	1,689	4,992	32,251

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Margin	12.7%	13.9%	10.0%	12.9%	13.8%
Asset Turnover (x)	0.7	0.8	0.9	0.9	0.9
Leverage Factor (x)	1.5	1.4	1.3	1.2	1.2
RoE	13.5%	15.3%	11.1%	14.3%	14.8%

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
BV/Share (INR)	1,501.8	1,706.8	1,856.1	2,087.2	2,361.9
ROIC	13.0%	16.0%	11.8%	15.3%	16.6%
ROE	13.5%	15.3%	11.1%	14.3%	14.8%
Net Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0
P/E (x)	32.8	25.5	31.7	22.2	19.0
P/B (x)	4.2	3.7	3.4	3.0	2.6
EV/EBITDA (x)	17.1	17.0	17.8	13.2	11.4
EV/Sales (x)	4.3	3.7	3.3	2.9	2.6
Debtor days	19	20	19	19	19
Inventory days	31	37	30	30	30
Creditor days	0	0	0	0	0

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610
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Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

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