Capacity Expansion to Drive Growth; Outlook Remains Positive

Summary

- **Aims to reach a capacity of 15 mtpa in the next 5 years:** In FY24, the company commissioned a 2 mtpa grinding unit in Guwahati, increasing its total grinding capacity to 7.7 mtpa. Its 2 mtpa grinding units at Silchar and Jorhat are progressing well and are expected to be commissioned in FY25-26, bringing the total capacity to 11.7 mtpa. The company aims to reach a capacity of 15 mtpa over the next five years to sustain its growth momentum and enhance its market share in the North-East market. The ongoing expansion is expected to cost Rs 1,750 Cr.
- **North-East market to see higher growth:** The proactive investment by the Central government in developing the region's overall infrastructure has contributed to higher cement demand. The North-East region is expected to grow at a faster rate in terms of cement demand compared to pan-India, driven by larger infrastructure investments planned in roads, airports, hydropower, bridges, and flyovers over the next 5-10 years. Cement demand in the region is expected to grow at a CAGR of 9% over FY24-26.
- **Increase in sale of Premium Cement:** During the year under review, the company's sale of premium cement grew by 53% YoY, driven by aggressive marketing and promotional efforts. Additionally, it launched a new premium cement brand, Weather Shield Super Premium Cement, further strengthening its product portfolio.

Key Highlights

- **Robust growth in EBITDA/EBITDA tonne:** During the year, the company reported robust EBITDA growth of 19% YoY, reaching Rs 556 Cr. Its EBITDA/tonne also improved from Rs 1,167 in FY23 to Rs 1,260 in FY24, driven by higher demand and reduced operational costs.
- **Volume growth at 13% YoY in the Northeast region:** During the year, the company reported healthy volume growth of 10% YoY, reaching 4.40 mtpa, driven by improved capacity utilization and higher demand. In the North-East region, its volume grew by 13%, outperforming the overall industry growth of 7.5% in the region.
- **Cost optimisation**: During the year, the overall cost of cement production decreased by 4%, to Rs 5,335/tonne.. Various cost optimization initiatives, including improved procurement of fly ash, maintaining an average lead distance of around 220 km, and effective coal procurement under FSA with CIL, contributed to the reduction in production costs.
- **Higher plant subsidy to support revenue growth:** The company is entitled to a government subsidy equivalent to 200% of its investment, to be received over 20 years. It expects to accelerate production and sales to earn this subsidy within seven years, generating an incremental annual cash inflow of Rs 140 Cr. As a result, the company is likely to report a 20% growth in revenues in the coming financial year, along with a proportionately higher EBITDA, validating its commitment to sustainably profitable growth.

Key Competitive Strengths: a) Largest cement producer in the NER region with 23% market share; b) Strong entry barriers created by the regional demography, which supports the company in maintaining a healthy market share; c) Access to limestone mines within 2-3 km of plants location; d) Robust financial position; and e) Strong dealers and distribution network in its operating regions.

Strategies Implemented: a) Capacity expansion; b) Focus on increasing non-trade sales; c) Focused on cost optimization and value creation, and d) Continued digitization processes.

Growth Drivers: a) Increasing overall cement demand in its key operating regions; b) High consumption in the Eastern and North-Eastern regions; c) Augmenting railway infrastructure; d) Supportive initiatives by the proactive government.

Key Focus Areas Moving Forward: a) Capacity expansion to sustain market share b) Strengthening the dealer and distribution network; c) Focusing on volume growth; d) Ensuring profitability; e) Brand Building; f) Sustainable operation.

Outlook & Recommendation: Increased cement demand is anticipated to continue in the East and North-East regions of the country, driven by higher Capex towards infrastructure and affordable housing. The company is well-positioned to meet the growing cement demand in these regions with its upcoming capacity. It is expected to grow its volume, revenue, and EBITDA at CAGRs of 12%, 22%, and 19%, respectively, during FY23-FY26E. The stock is currently trading at 14x and 10x FY25E/FY26E EV/EBITDA. We maintain our **BUY** rating on the stock with a TP of Rs 250/share, implying an upside potential of 20% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,911	3,274	3,811
EBITDA	556	641	853
Net Profit	295	266	420
EPS (Rs)	7.3	6.6	10.4
PER (x)	29	33	21
P/BV (x)	1.0	0.9	0.8
EV/EBITDA (x)	16	14	10
RoE (%)	12	9	13

Source: Company, Axis Securities Research

(CMP as of Sept 16, 2022)

CMP (Rs)	208
Upside /Downside (%)	20%
High/Lower (Rs)	256/147
Market cap (Cr)	8,388
Avg. daily vol. (6m) Shrs.	1,14,828
No. of shares (Cr)	41.2

Shareholding (%)

	Dec-23	Mar-24	June-24
Promoter	66.5	66.6	66.5
FIIs	1.1	1.5	1.6
MFs / UTI	6.0	6.1	5.0
Banks / FIs	0.0	0.0	0.0
Others	26.5	25.8	26.9

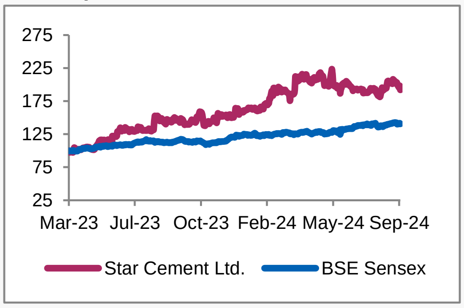
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,911	3,274	3,811
EBITDA	556	641	853
Net Profit	295	266	420
EPS (Rs)	7.3	6.6	10.4
PER (x)	29	33	21
P/BV (x)	1.0	0.9	0.8
EV/EBITDA (x)	16	14	10
RoE (%)	12	9	13

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0	0
EBITDA	0	0
PAT	0	0

Relative performance



Source: Ace Equity

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