AMBIT
Acumen at work

Cement

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Delineating ROCE & valuation

EV/CE mirrors very closely RoCE performance of companies. Shree Cement and JSW Steel stood out for EVA creation past 10 years. But next 10 years could be visibly different. Capital allocation decision can impact 1) RoCE on existing cap employed and/or 2) incremental RoCE. So investors must assess whether transaction is accretive to RoCE, not whether it is accretive to EV/t. Higher RoCE would naturally command higher valuation (EV/CE, EV/EBITDA, EV/t). Slope of EV/CE vs RoCE curve is function of excess return. Valuations bake in incremental RoCE of 14% and excess return (incremental RoCE-WACC) of 200bps for both large and mid-cap cement companies. That seems like a stretch given history, but implied growth appears greater stretch for mid-cap vs large-cap. Metal companies are expected to generate negative EVA – but next 10 years could be different vs past.

RoCE is to EV/capital employed, what RoE is to P/B

EV/capital employed (CE) mirrors very closely RoCE performance of companies. Greater the EVA (RoCE-WACC) generation, greater the share price appreciation. Accounting policies (such as depreciation, writedowns) can generate higher RoCE, but have no bearing on valuation. WACC is important - Nucor's premium valuation can partly be explained by capital structure.

A transaction can be accretive to EV/t, but still be value destructive

They are two ways to boost EVA: 1) increase RoCE and/or 2) lower WACC. A capital allocation decision can impact: 1) RoCE on existing cap employed and/or 2) incremental RoCE. Jaypee acquisition was detrimental to UTCEM's existing RoCE, while Binani was accretive. TSL's Corus acquisition led to sub-par incremental RoCE. Brownfield expansions generate higher incremental RoCE, unless everyone is exercising brownfield optionality simultaneously. WHRS may not necessarily translate into higher RoCE, especially if everyone in industry is able to adopt it. Investors must therefore assess whether transaction is accretive to RoCE, not whether it is accretive to EV/t or EPS!

Slope of EV/CE vs ROCE line is a function of "excess returns"

EV/capital employed is a function of ROCE. However, slope of the line that determines EV/CE for a given ROCE is a function of "excess return" implied. Indian cement valuations imply a steeper slope, while metals a shallow slope. That means valuations bake in high EVA for cement, which means high reinvestment rate (75%) and 200bps excess return. On the other hand, same excess return implied for metals is -100bps. Which means Indian cement industry is incentivized to add capacity, while metals to return capital.

...Are implied assumptions realistic?

For cement, implied 200bps excess return and 75% reinvestment rate would require cement demand to increase to 750 kg/capita in 20 years in order for capacity addition to broadly match demand growth. Within that construct-similar growth assumptions implied for mid-cap and large cap appear unrealistic. UTCEM has larger brownfield optionality and all-India leadership/category A pricing. Valuations imply negative EVA for metals-not surprising given past track record. However, companies may navigate through a more favorable path relative to past 10 years given 1) capital structure is better 2) greater brownfield optionality 3) China has removed export-rebate 4) ex-China players need to step up. Valuations imply 100bps higher incremental ROCE for JSW Steel vs TSL. Granted TSL will have to exercise RoFR on iron ore mines in 2030, and commit to decarbonization capex in EU, it should also benefit from higher incremental ROCE in India (premium brand, brownfield capex), CBAM in EU and lower Co2/t trajectory.

Key Recommendations

Company	Rating / Target	
Cement Large-Cap		
Ultratech		**SELL**
Target Price: ₹5,700		Downside: 12%
Shree		**SELL**
Target Price: ₹17,600		Downside: 20%
ACC		**SELL**
Target Price: ₹1,800		Downside: 21%
Ambuja		**SELL**
Target Price: ₹290		Downside: 28%
Cement Mid-Cap		
Dalmia Bharat		**SELL**
Target Price: ₹1,300		Downside: 15%
Ramco		**SELL**
Target Price: ₹600		Downside: 18%
Nuvoco		**SELL**
Target Price: ₹350		Upside: 1%
Metals		
Tata Steel		**BUY**
Target Price: ₹170		Upside: 62%
JSW Steel		**BUY**
Target Price: ₹685		Upside: 5%
JSPL		**SELL**
Target Price: ₹350		Downside: 16%
Hindalco		**BUY**
Target Price: ₹545		Upside: 26%
NMDC		**BUY**
Target Price: ₹125		Upside: 1%

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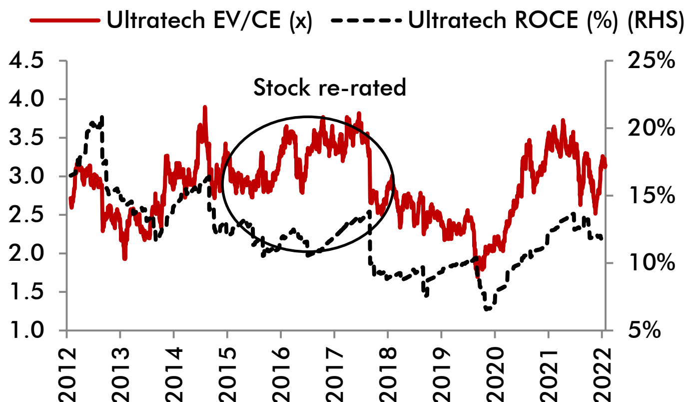
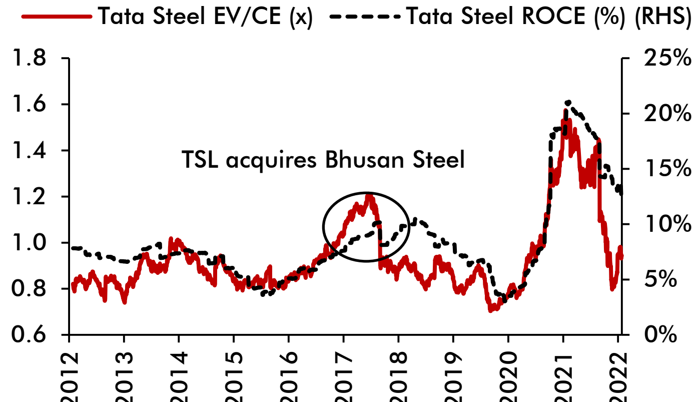
The Narrative in Charts

Exhibit 1: 12M forward RoCE exhibits a stronger correlation with EV/capital employed



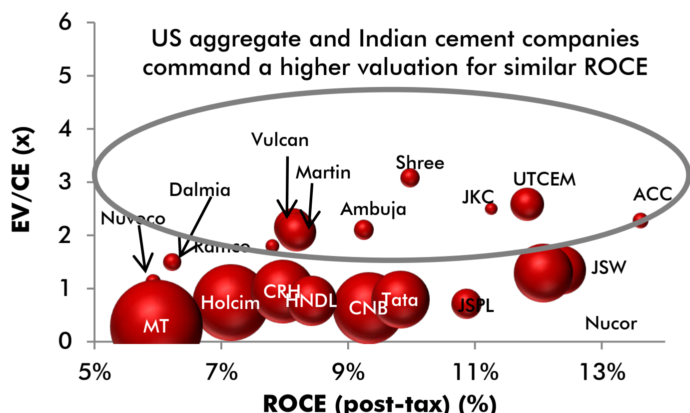
Source: Company, Ambit Capital research

Exhibit 2: Metals exhibit deep cyclicality, also reflected in their valuations and RoCE trajectory



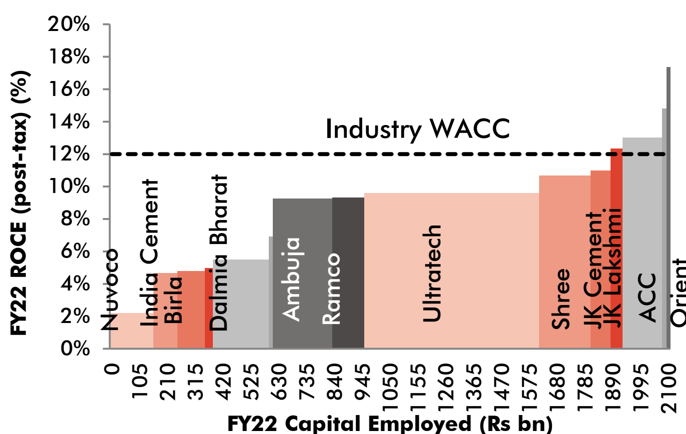
Source: Company, Ambit Capital research

Exhibit 3: Indian cement and US aggregates command higher EV/CE for similar RoCE, implying either lower WACC or higher "g"



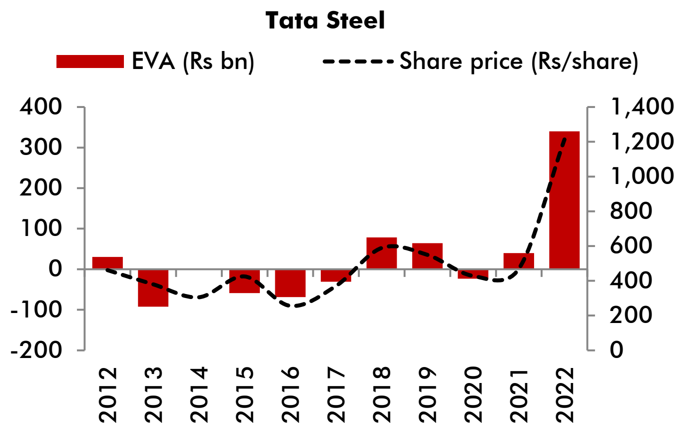
Source: Company, Ambit Capital research. Note: Bubble size represents capital employed (USD)

Exhibit 4: Indian "RoCE curve" – most Indian cement companies generate RoCE below WACC



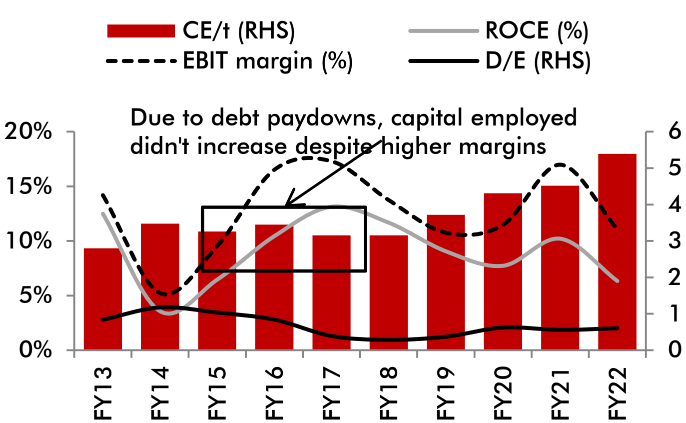
Source: Company, Ambit Capital research

Exhibit 5: Stock prices mirror EVA, which is a function of reinvestment rate and RoCE



Source: Company, Ambit Capital research

Exhibit 6: Ramco witnessed earnings expansion in FY14-17 in conjunction with deleveraging



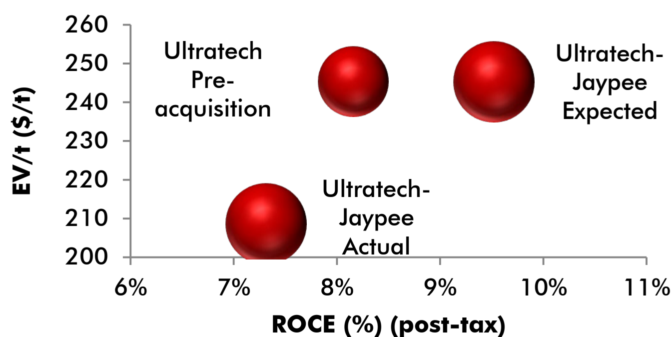
Source: Company, Ambit Capital research

Exhibit 7: Jaypee assets didn't get UTCEM valuation, as was widely expected...

	UltraTech	Jaypee	Post-Acquisition	
			Expected	Actual
Capacity (MT)	66.3	21.2	87.5	87.5
EV (₹ mn)	1,091,717	161,890	1,440,804	1,225,330
EV/t ($/t)	245	114	245	209
EV/CE (x)	3.2	NA	3.0	2.5
EBITDA/t (₹/t)	990	2,273	1,423	953
RoCE (%)	8%	12%	10%	7%

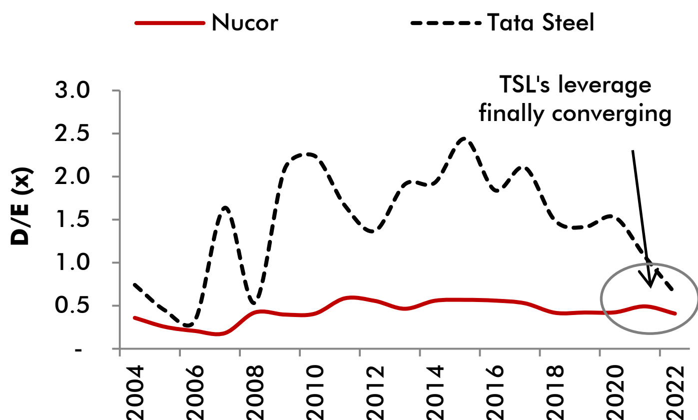
Source: Company, Ambit Capital research. Note: The EBITDA/t is for Indian Operations

Exhibit 8: ...instead, UTCEM's RoCE dropped, which led to lower EV/cap employed



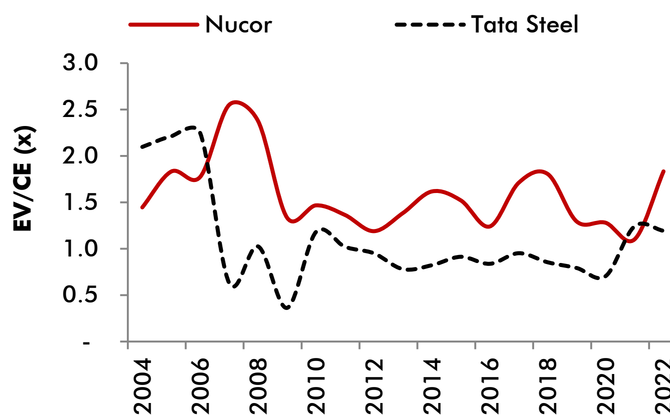
Source: Company, Ambit Capital research. Note: The bubble size represents cement capacity (MT)

Exhibit 9: Nucor capital structure has remained closer to optimal while TSL's is over-levered



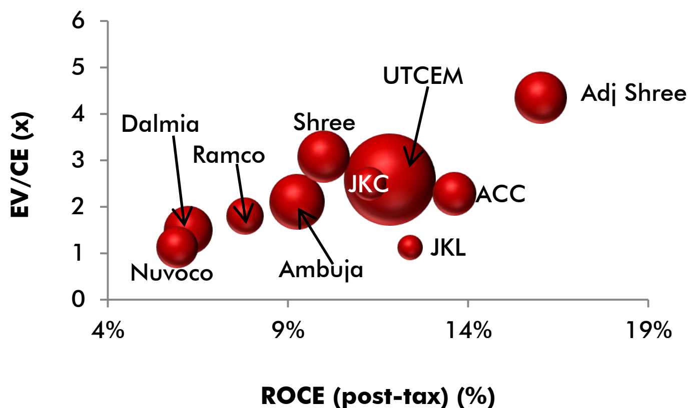
Source: Company, Ambit Capital research

Exhibit 10: Despite similar RoCE, Nucor commands higher EV/cap employed, though TSL can catch up with improvement in its capital structure



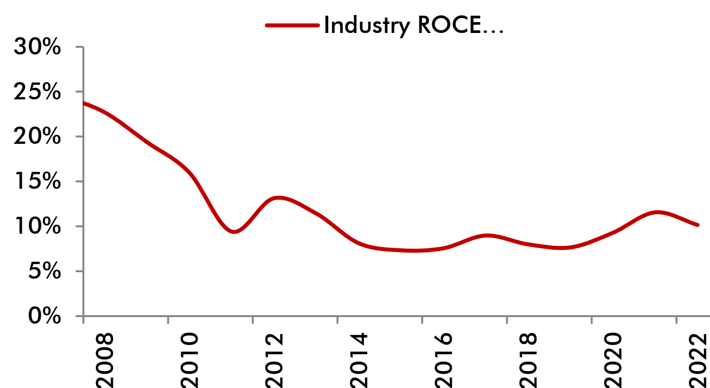
Source: Company, Ambit Capital research

Exhibit 11: In case Shree returns cash to shareholders, it will boost its RoCE but also its EV/CE



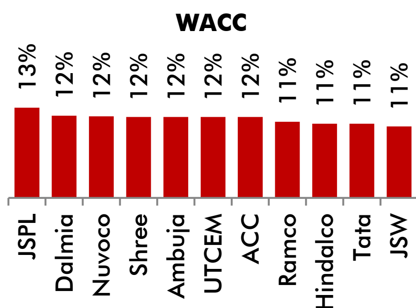
Source: Company, Ambit Capital research

Exhibit 12: Would 12% incremental RoCE be achievable given reinvestment rate is in line with historical levels?



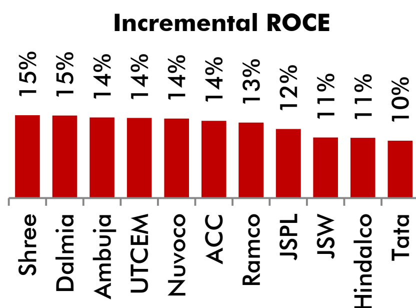
Source: Company, Ambit Capital research

Exhibit 13: Companies that carry higher risk should command a higher WACC



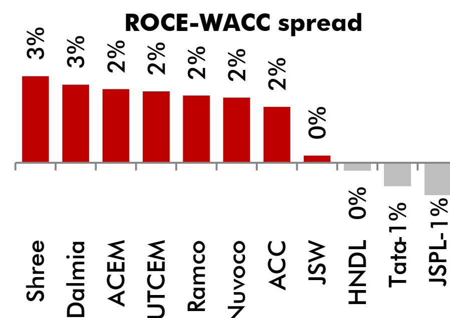
Source: Company, Ambit Capital research

Exhibit 14: Companies that look optically cheap need to generate higher incremental RoCE vs peers



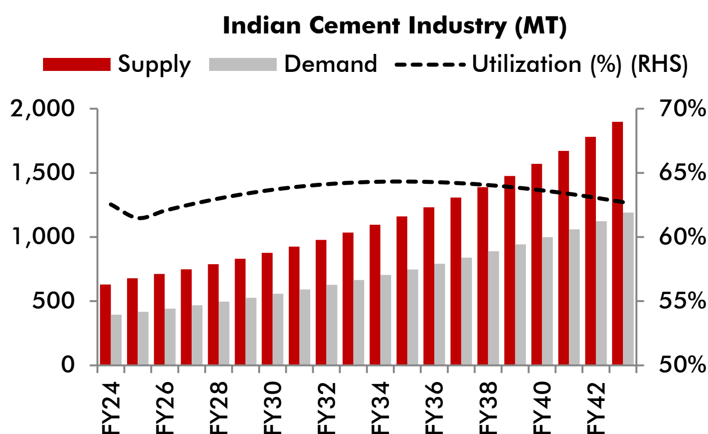
Source: Company, Ambit Capital research

Exhibit 15: Valuations imply cement expected to generate excess returns, metals to destroy value



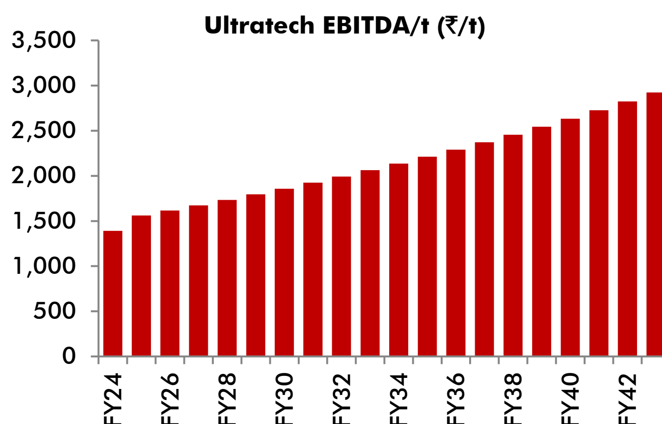
Source: Company, Ambit Capital research

Exhibit 16: Assuming 3% p.a. capital cost inflation, implied reinvestment rate leads to flattish utilization (assuming demand sustains at 6% CAGR)



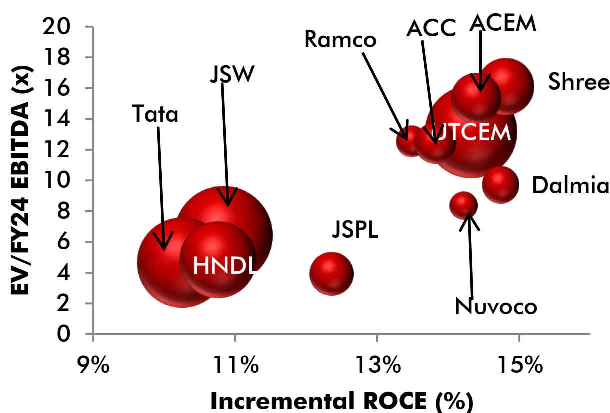
Source: Company, Ambit Capital research

Exhibit 17: Assuming 3% CAGR capital cost inflation, current valuations imply steady increase in UTCEM EBITDA/t



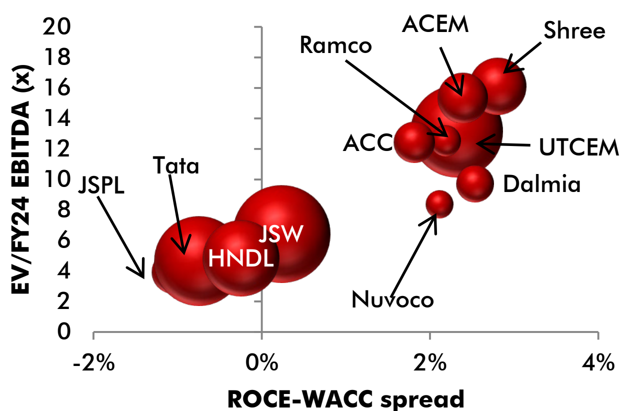
Source: Company, Ambit Capital research

Exhibit 18: Valuations bake 14% incremental RoCE and 200bps excess return for cement companies...



Source: Company, Ambit Capital research

Exhibit 19: While implying negative EVA for metals-but future should yield better returns vs past



Source: Company, Ambit Capital research

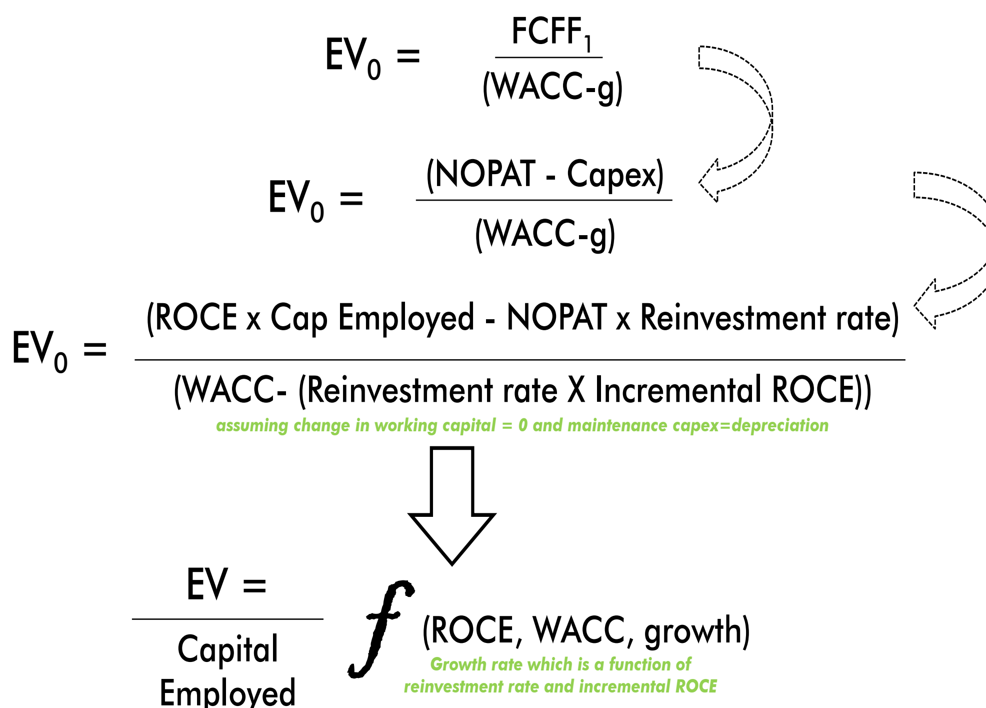
RoCE determines EV/capital employed

Valuation is quite simply just discounted value of all future cash flows. To increase valuation, companies must expand economic value added (EVA), which is a function of incremental RoCE and WACC. In this note, we look at EV/capital employed, which is determined by RoCE, WACC and growth. Stock valuation typically mirrors RoCE performance. Companies that report greater expansion in RoCE over any time period are the ones that typically see greater expansion in their valuation. EV/CE for both cement and steel companies in our coverage mirrors very closely the expected RoCE trajectory for these companies. Over the last 10 years, Shree generated amongst the highest incremental RoCE in cement space, while JSW steel in steel space- hence both these companies generated the highest EVA, and hence greatest increase in their valuation.

RoCE is to EV/capital employed, what RoE is to P/B

Just as P/B is a function of RoE and cost of equity and growth, EV/capital employed is a function of RoCE, WACC and growth. Keeping cost of equity/capital and growth constant, higher RoE leads to higher P/B while higher RoCE leads to higher EV/capital employed.

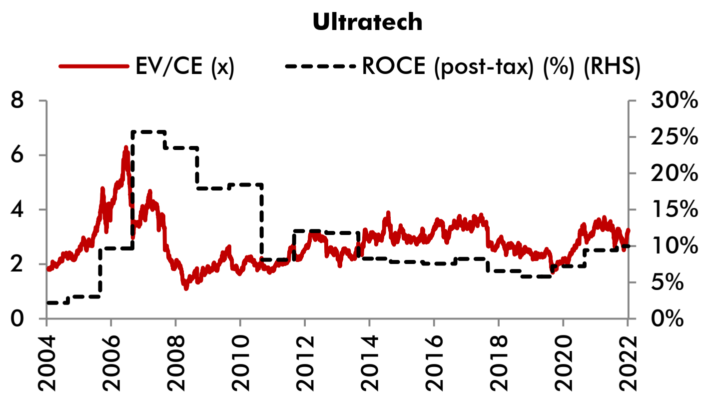
Exhibit 20: The determinants of EV/capital employed are RoCE, WACC and growth rate



Source: Company, Ambit Capital research

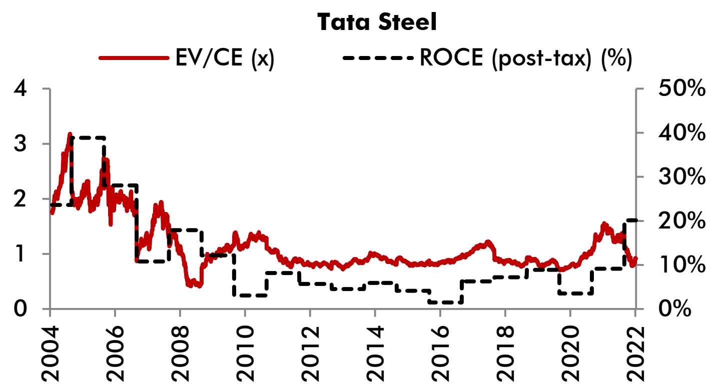
Barring 2014-16 when Indian cement stocks got re-rated, EV/capital employed has mirrored the RoCE trajectory for companies in both steel and cement sectors.

Exhibit 21: Keeping WACC and g constant...



Source: Company, Ambit Capital research

Exhibit 22: ...EV/CE follows RoCE trajectory



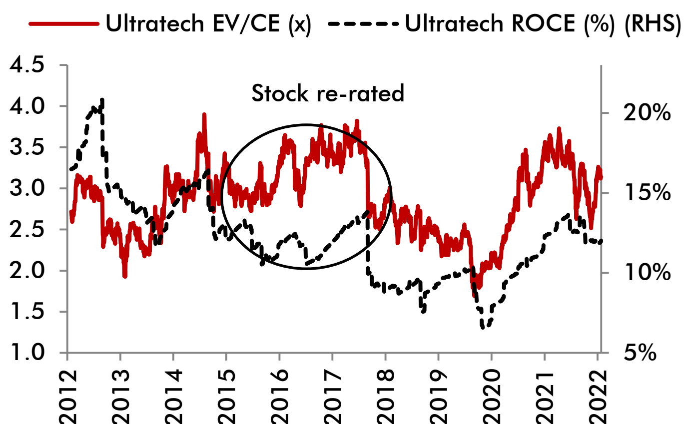
Source: Company, Ambit Capital research

12M forward RoCE has stronger correlation with EV/cap employed

However, valuation is ultimately based on future expectations, not as much on actual performance. And rolling forward 12M RoCE expectations are easily available based on expected EBIT (1-t).

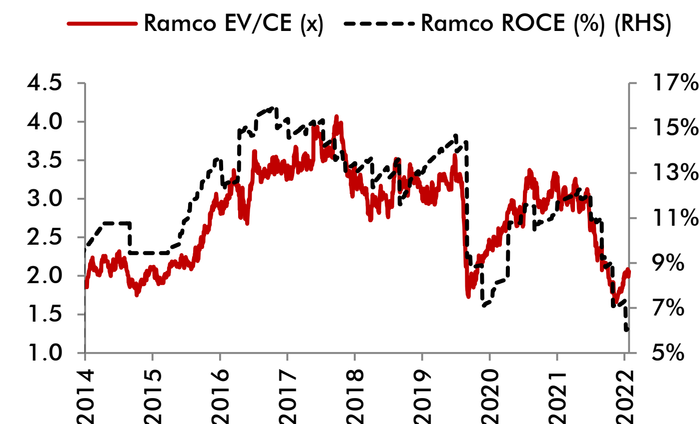
We see very high correlation between EV/capital employed and 12M ahead RoCE

Exhibit 23: However, NTM expected RoCE exhibits a stronger correlation with EV/capital employed...



Source: Company, Ambit Capital research

Exhibit 24: ...than actual RoCE as stock prices reflects future expectations

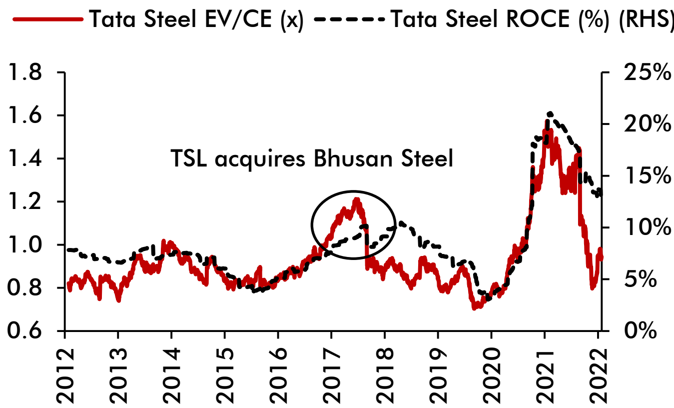


Source: Company, Ambit Capital research

In our industry notes on metals, we have discussed how lack of market price discovery in India for debt kept reported Enterprise Values and hence EV/capital employed historically elevated for Indian metals companies. However, companies should also benefit from lower WACC as they move to an optimal capital structure. EV/capital employed recently reached close to historical troughs, while RoCE should settle at much higher levels vs history.

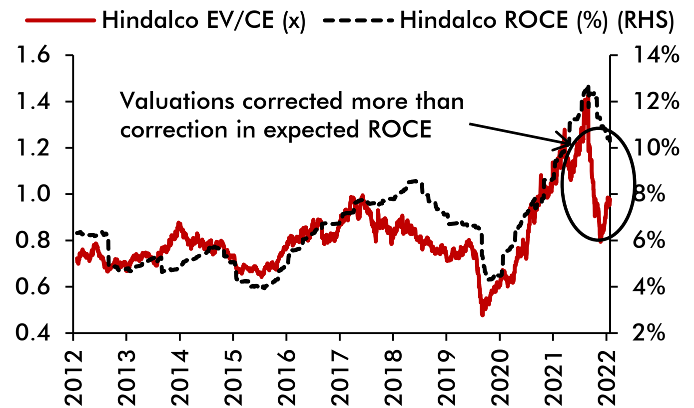
Metal sector EV/capital employed recently reached close to historical troughs, while RoCE should settle at much higher levels vs history

Exhibit 25: Metals exhibit deep cyclicality, also reflected in their valuations and RoCE trajectory…



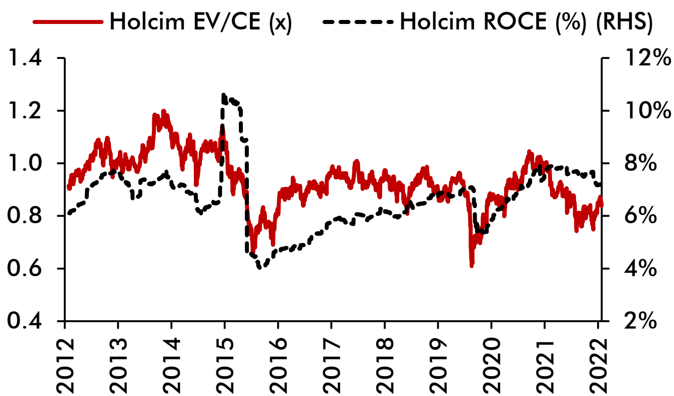
Source: Company, Ambit Capital research

Exhibit 26: …however, metal valuations have corrected more than their RoCE expectations



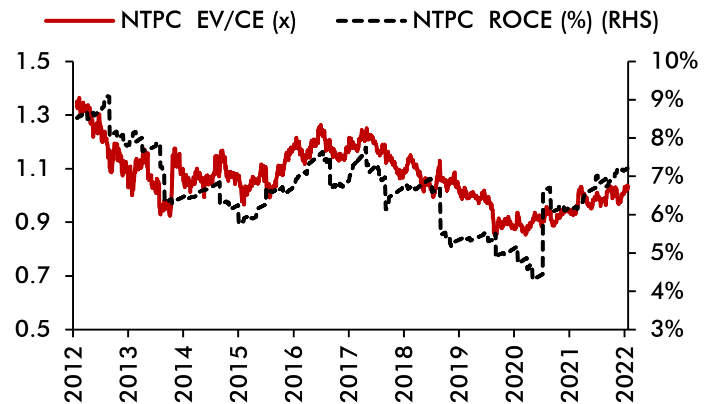
Source: Company, Ambit Capital research

Exhibit 27: EV/cap employed follows a similar trajectory….



Source: Company, Ambit Capital research

Exhibit 28: …in other cyclical companies/sectors as well

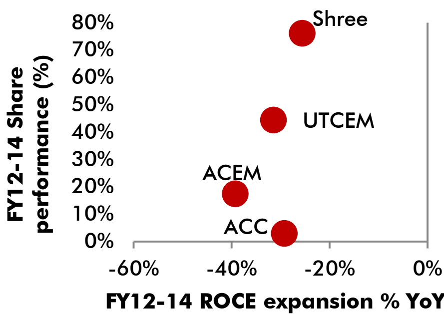


Source: Company, Ambit Capital research

It's important to monitor the RoCE trajectory

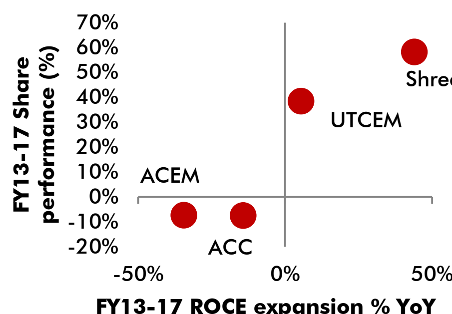
EBITDA captures just the earnings performance for companies – it doesn't reflect the changes in B/S in order to attain a certain EBITDA trajectory/performance. Therefore, it is important to monitor the RoCE trajectory – companies that report greater change in RoCE are the ones that ultimately report greater change in company valuation.

Exhibit 29: Companies that report greater change in RoCE…



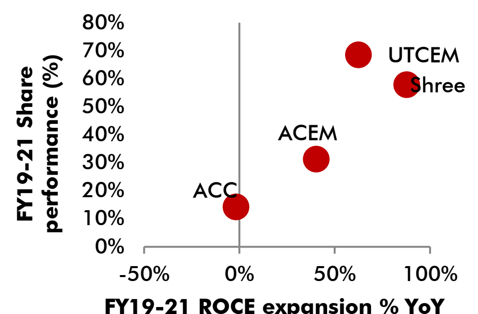
Source: Company, Ambit Capital research

Exhibit 30: … over time have also witnessed..



Source: Company, Ambit Capital research

Exhibit 31: …greater change in their EV/stock price



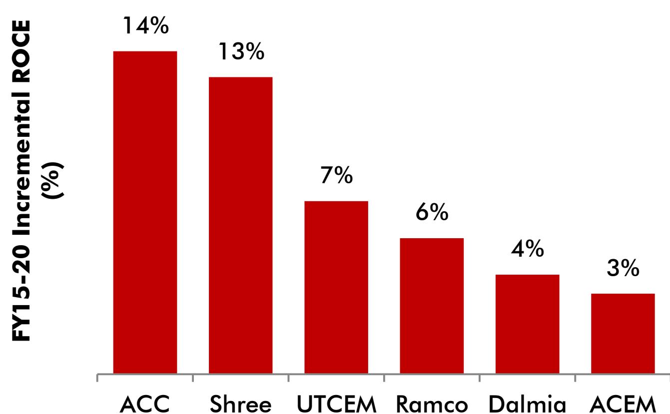
Source: Company, Ambit Capital research

Cyclical compounders are the greatest shareholder value creators; Shree and JSW are the two examples

Shree Cement and JSW Steel historically stood out for their positive EVA creation in respective sectors

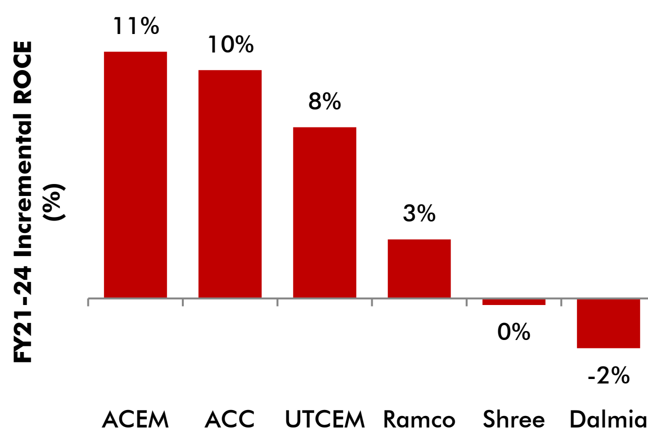
Typically, cyclical companies have not been able to generate positive EVA through the cycles - they barely generate any positive EVA in a bull cycle, but destroy value in downcycles. Cyclical compounders are the ones that generate positive EVA through the cycles. Shree Cement and JSW Steel historically stood out for their positive EVA creation in their respective sectors. The driving factors for positive EVA for JSW were 1) incremental capital allocation to India (while Tata steel's Corus acquisition diluted RoCE), 2) turnaround of Ispat (Dolvi) and 3) small tuck-in acquisitions (similar to the model followed by Danaher Corp). In the case of Shree, these factors were 1) lower capital and operating cost/t vs industry and 2) a series of small brownfield (thus RoCE) expansions in Ras/Beawar largely through internal cash.

Exhibit 32: Shree generated superior RoCE over FY15-20, which led to superior share price performance



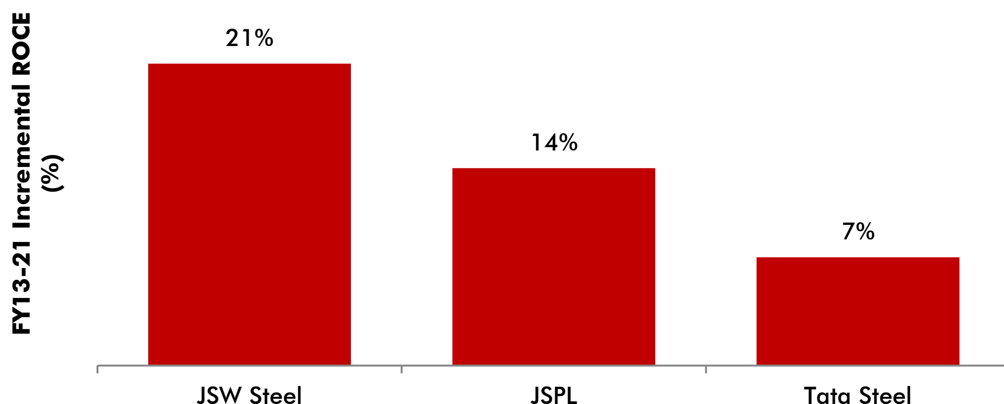
Source: Companies, Ambit capital research

Exhibit 33: However, the tables have turned since FY20 with UTCEM generating greater incremental RoCE than Shree



Source: Companies, Ambit capital research estimates

Exhibit 34: JSW has generated superior incremental RoCE in the past decade, which has driven its stock price outperformance



Source: Company, Ambit capital research estimates

EV/t analysis can drive wrong conclusions

RoCE is a function of both 1) RoCE on existing capital employed and 2) incremental RoCE. Management teams' capital allocation decisions can impact either or both. For instance, Jaypee acquisition hurt both existing and incremental RoCE for UTCEM with its bid to raise Jaypee asset utilization. On the other hand, Binani acquisition, while expensive optically, led to greater consolidation in North and raised existing RoCE for UTCEM. TSL's Corus acquisition delivered sub-par RoCE on incremental capital deployed. Brownfield expansions generate higher incremental RoCE, unless everyone is exercising brownfield optionality simultaneously, in which case brownfield expansions can hurt existing RoCE. Investors tend to value these companies on EV/t, but the belief that any acquisition/capacity expansion which is accretive to EV/t would boost valuation is incorrect. Certain capital allocation choices could be accretive to EV/t, but dilute to RoCE – in that case EV/capital employed could trend down.

Exhibit 35: RoCE is a function of RoCE on existing capital employed and incremental RoCE

ROCE = ROCE on existing capital employed + ROCE on incremental capital employed

$$\frac{\text{Total NOPAT}}{\text{Total capital employed}} = \frac{\text{Existing NOPAT}}{\text{Existing Capital Employed}} + \frac{\text{Incremental NOPAT}}{\text{Incremental Capital Employed}}$$

Source: Company, Ambit Capital research

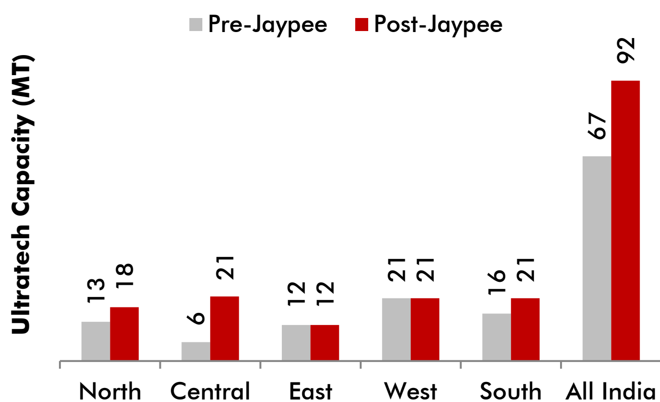
ROCE = *f* (ROCE on existing CE & ROCE on incremental CE)

Certain capital allocation decisions can impact existing RoCE

UTCEM typically trades at an EV of $150-$250/t. When it acquires assets, there is a general belief that even if UTCEM acquires assets at $150/t, it is accretive to UTCEM's EV/t as acquired assets will also get UTCEM valuation. We believe that is a wrong approach to analyzing capital allocation decisions. Capital allocation decisions can impact RoCE on either existing capital employed base and/or incremental capital employed. When UTCEM acquired Jaypee assets, its decision to raise utilization levels of acquired assets led to margin pressure for the entire industry, which triggered a decline in RoCE for the entire capital employed base for UTCEM. Lower RoCE in turn engineered a decline in EV/capital employed. Therefore, while evaluating any transactions by calculating IRR or RoCE, we believe investors should gauge the impact these capital allocation decisions may have on existing asset base as well.

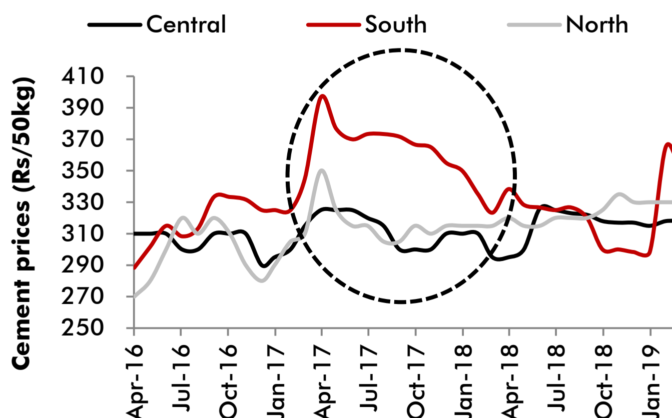
There is a general belief that even if UTCEM acquires assets at $150/t, it is accretive to UTCEM's EV/t. We believe that is a wrong approach to analyzing capital allocation decisions

Exhibit 36: Jaypee acquisition hurt existing RoCE for UTCEM…



Source: Company, Ambit Capital research

Exhibit 37: …as cement prices came under pressure when UCTEM raised Jaypee capacity utilization



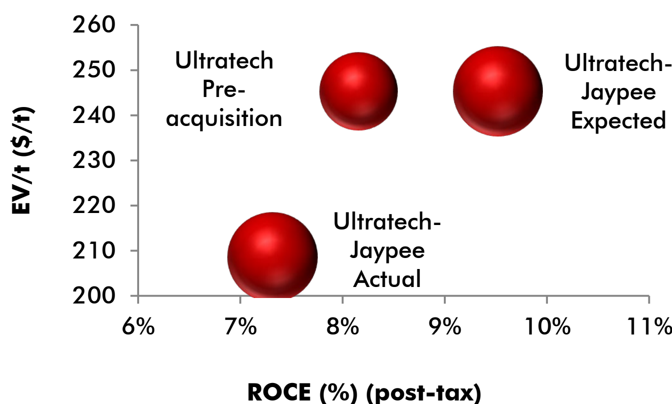
Source: Company, Ambit Capital research

Exhibit 38: Jaypee assets didn't get UTCEM valuation expansion, as was widely expected…

	Ultratech	Jaypee	Post-Acquisition	
			Expected	Actual
Capacity (MT)	66.3	21.2	87.5	87.5
EV (₹ mn)	1,091,717	161,890	1,440,804	1,225,330
EV/t ($/t)	245	114	245	209
EV/CE (x)	3.2	NA	3.0	2.5
EBITDA/t (₹/t)	990	2,273	1,423	953
RoCE (%)	8%	12%	10%	7%

Source: Company, Ambit Capital research. Note: The EBITDA/t is for Indian Operations

Exhibit 39: …instead, UTCEM's RoCE dropped, which led to lower EV/cap employed

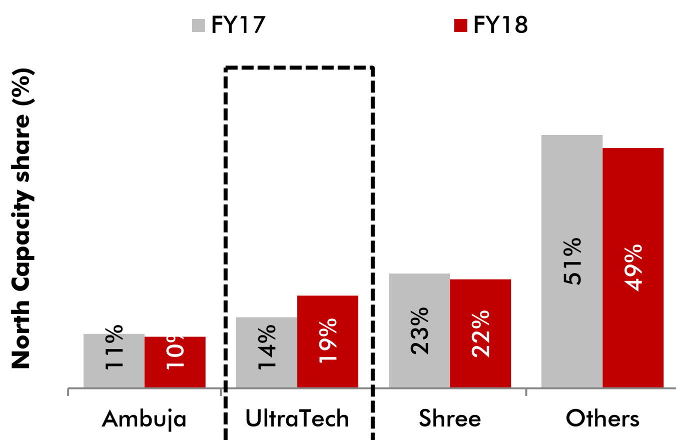


Source: Company, Ambit Capital research. Note: The bubble size represents cement capacity (MT)

In the case of Binani, however, there was a general belief that UTCEM overpaid for the asset. However, that acquisition led to more consolidation in the North (with UTCEM and Shree at similar market shares), with in turn catalyzed an improvement in RoCE on existing capital employed as well. We believe even at EV of $170/t, Binani acquisition boosted UTCEM's valuation. In this analysis, we are just focusing on medium-term RoCE trajectory and not looking at long-term IRR by accounting for future brownfield optionality.

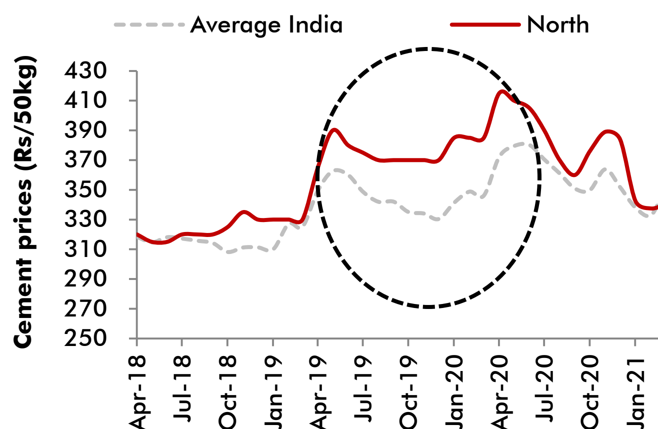
Binani acquisition led to more consolidation in North, which in turn catalyzed an improvement in RoCE on UTCEM' existing capital employed as well

Exhibit 40: While Binani was an expensive acquisition, it led to more consolidation in North...



Source: Company, Ambit Capital research

Exhibit 41: ...which boosted North prices and hence existing as well as incremental RoCE



Source: Company, Ambit Capital research

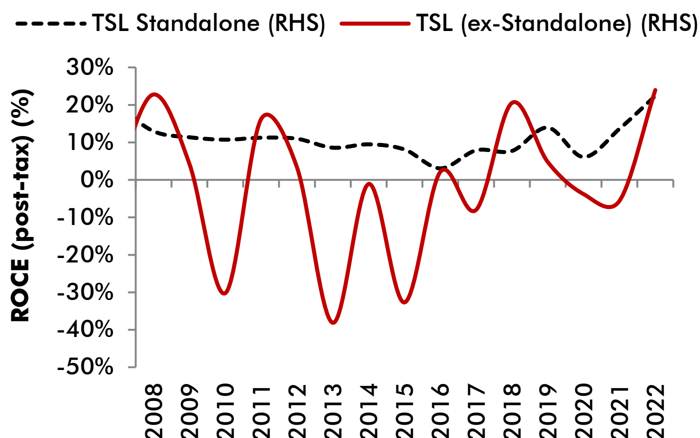
ROCE = f (ROCE on existing CE & **ROCE on incremental CE**)

Certain capital allocation decisions impact just return on incremental capital

Corus acquisition has been a drag on Tata Steel's RoCE- as incremental capital employed has generated returns well below cost of capital

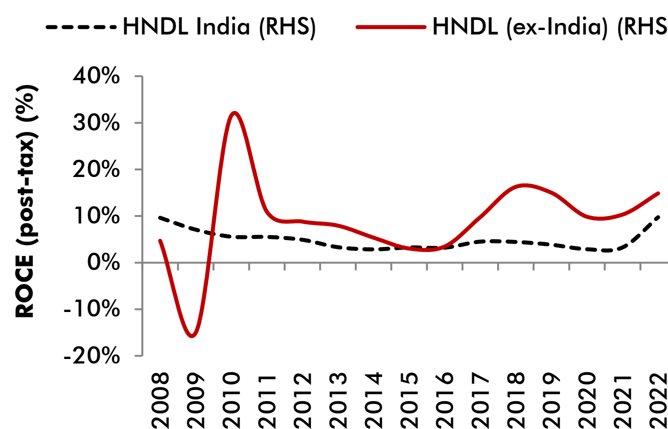
More often than not, capital allocation decisions don't have any bearing on RoCE on existing capital employed. Indian metals companies had two big bang global acquisitions in 2007- Tata Steel acquired Corus while Hindalco acquired Novelis. Corus acquisition has been a drag on Tata Steel's RoCE- as incremental capital employed (both at the time of acquisition, and subsequent cash shortfalls) has generated returns well below cost of capital. On the other hand, Novelis acquisition turned out to be relatively better from an incremental RoCE perspective.

Exhibit 42: Corus acquisition at the peak of capital cycle resulted in a drag for Tata Steel...



Source: Company, Ambit Capital research

Exhibit 43: ...but Novelis has turned out better on an incremental RoCE perspective

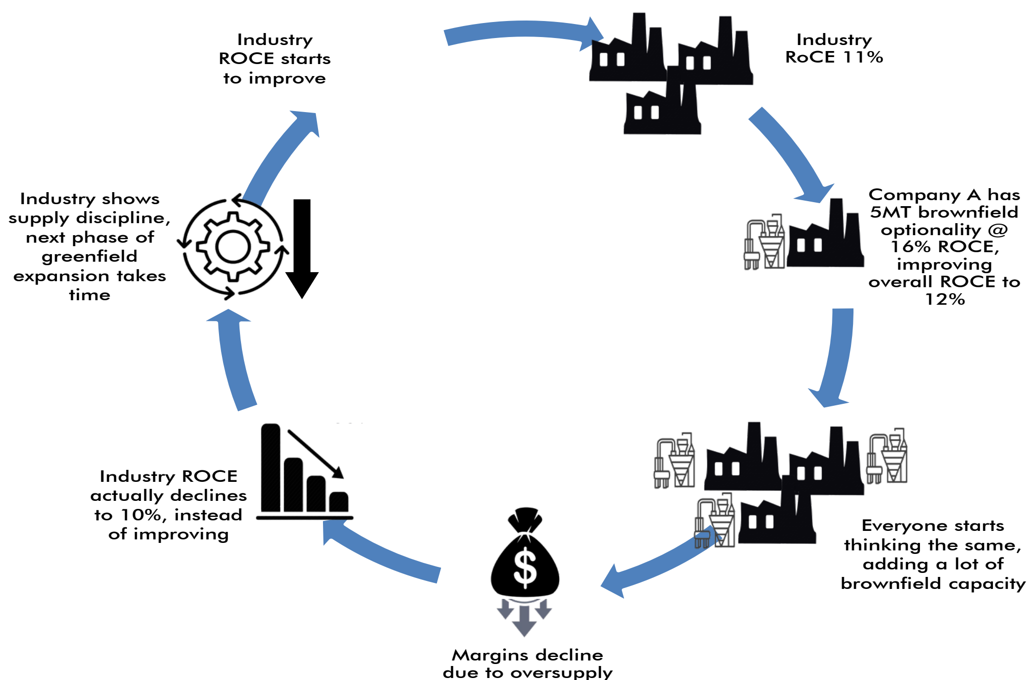


Source: Company, Ambit Capital research

Greenfield vs brownfield growth matters, but with a caveat

Organic growth through greenfield route entails a long gestation period (usually 7-10 years starting from land and mine acquisition) and high capital cost/t ($100/t for cement and $1,000/t for steel). Brownfield growth would typically generate a much stronger RoCE given both gestation period (2-3 years) and capital cost ($40-$60/t for cement and $500-$700/t for metals) are usually lower. FY21-25 witnessed higher share of brownfield in the overall industry growth both for metals (almost 100%) and cement (70%). But if everyone exercises brownfield route at the same time, industry capacity utilizations could trend lower. Thus, while brownfield organic growth would still likely be accretive form an incremental RoCE perspective, these can hurt returns on existing capital employed (ROECE) and return on total capital employed (ROTCE).

Exhibit 44: Prisoner's dilemma - Lure of brownfield RoCE can be all encompassing, hurting the RoCE on existing capital employed



Source: Companies, Ambit Capital research

Would capital allocation towards WHRS necessarily improve RoCE?

Cement companies have been allocating capital towards WHRS, and it is an emerging trend for steel too. WHRS has a short payback period, with an incremental RoCE of typically mid-teens at ₹4-5/kwh power cost through alternate means vs WHRS at <=₹1/unit. Incremental RoCE on WHRS is even higher at current power prices. But in case everyone in the industry is able to expand WHRS capacity, why would that mid-teen incremental RoCE sustain? RoCE is a function of 1) industry capacity utilization and 2) cost curve for the industry. Steeper the cost curve, higher the RoCE. If cost curve for the cement industry remains intact post WHRS additions, there is a risk cement companies may just pass on the benefit of lower power & fuel cost to customers. This is based on the assumption that when all have similar cost reduction/expansions, they would likely pass on these savings to customers, assuming clinker utilization remains <70% and industry remains somewhat fragmented.

If cost curve for cement industry remains intact post WHRS additions, there is a risk cement companies may just pass on the benefit of lower power & fuel cost to customers

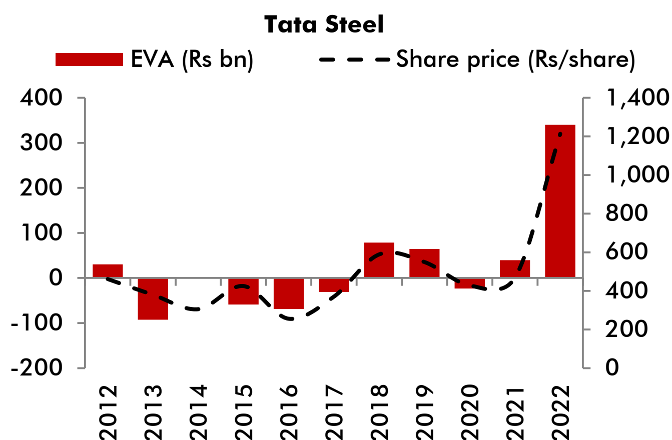
Different paths towards greater EVA

Economic Value Added (EVA) is a function of 1) reinvestment rate and 2) gap between RoCE and WACC. Companies that are able to find and exploit a greater number of opportunities (which generate RoCE>WACC) will create greater EVA. EVA has a strong positive correlation with stock price performance. They are two ways to boost EVA – 1) increase RoCE and/or 2) lower WACC. RoCE is a function of 1) EBIT margin, 2) capital turnover and 3) capital employed/t. In the medium term, generating higher margin and returning excess cash to stakeholders are the biggest drivers of RoCE expansion as was the case with Ramco Cement in FY14-16. Depreciation policies can generate higher RoCE, but such accounting decisions have no bearing on valuation. Therefore, trying to raise RoCE through adjustments etc. (Dalmia) is futile. Indian cement companies have pivoted to a sub-optimal capital structure. Nucor's optimal capital structure, and thus lower WACC, has helped command higher EV/capital employed.

Stock price performance should mirror EVA trajectory

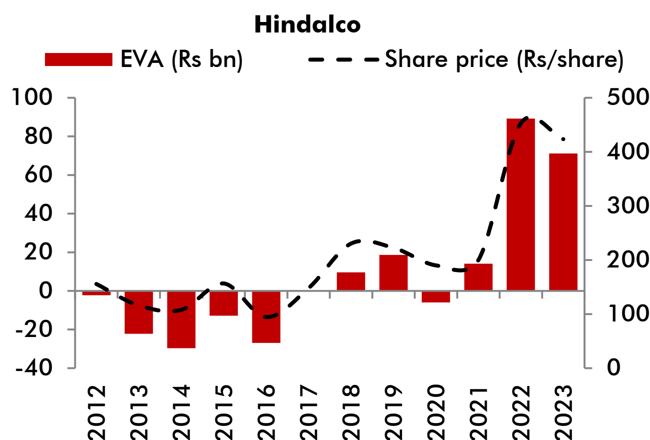
EVA is a function of how much capital is a management team able to deploy on opportunities that generate RoCE above WACC. Higher the EVA, greater the shareholder value creation, which should reflect in share price performance.

Exhibit 45: Stock prices mirror EVA....



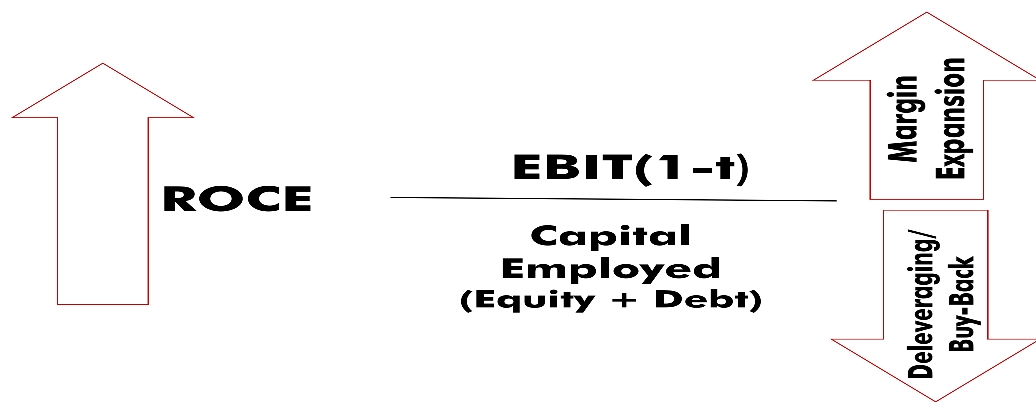
Source: Company, Ambit Capital research Note: in this exhibit, we have used a steady WACC of 11% for TSL

Exhibit 46: ...which is a function of reinvestment rate and RoCE



Source: Company, Ambit Capital research Note: in this exhibit, we have used a steady WACC of 11% for HNDL

Exhibit 47: RoCE can get support from either higher margins or lower capital employed/t



Source: Company, Ambit Capital research

RoCE implications of different capital allocation decisions

In the exhibit below, we look at 4 different scenarios to see how different capital allocations drive RoCE changes for the company in near-to-medium term:

- Scenario I – Company generates profit, but keeps the resultant cash on B/S (possibly earning 5-6% return). RoCE is 29%.
- Scenario II – It reinvests profits in organic expansion, which leads to build up of non-operating asset, i.e. CWIP. Neither CWIP nor cash generate returns in near term. So RoCE stays at 29%.
- Scenario III – It has a 40% payout, which leads to capital return. RoCE increases to 32%.
- Scenario IV- company reinvests profit in a short cycle project that generates incremental RoCE above cost of capital. RoCE increases to 33%.

Exhibit 48: Implications of capital allocation decisions on RoCE

SCENARIO I

Particular	Rs bn
EBIT	50
Less: Interest	-10
PBT	40
Less: Tax	-10
PAT	**30**
Dividend	

ROCE (post-tax) 29%

Particular	Rs bn	Particular	Rs bn
Equity	50	Gross Assets	90
Add: PAT	30	CWIP	0
Less: Div	0		
Total Equity	80	Cash & Cash Eq	35
Gross Debt	50	Working Capital	5
Total Liabilities	**130**	**Total Assets**	**130**

SCENARIO II

Particular	Rs bn
EBIT	50
Less: Interest	-10
PBT	40
Less: Tax	-10
PAT	**30**
Dividend	-12

ROCE (post-tax) 32%

Particular	Rs bn	Particular	Rs bn
Equity	50	Gross Assets	90
Add: PAT	30	CWIP	0
Less: Div	-12		
Total Equity	68	Cash & Cash Eq	23
Gross Debt	50	Working Capital	5
Total Liabilities	**118**	**Total Assets**	**118**

SCENARIO III

Particular	Rs bn
EBIT	50
Less: Interest	-10
PBT	40
Less: Tax	-10
PAT	**30**
Dividend	
Capex	15

ROCE (post-tax) 29%

↑ gestation period project

Particular	Rs bn	Particular	Rs bn
Equity	50	Gross Assets	90
Add: PAT	30	CWIP	15
Less: Div	0		
Total Equity	80	Cash & Cash Eq	20
Gross Debt	50	Working Capital	5
Total Liabilities	**130**	**Total Assets**	**130**

SCENARIO IV

Particular	Rs bn
EBIT	60
Less: Interest	-10
PBT	50
Less: Tax	-13
PAT	**38**
Dividend	
Capex	19

↑ higher incremental ROCE project

ROCE (post-tax) 33%

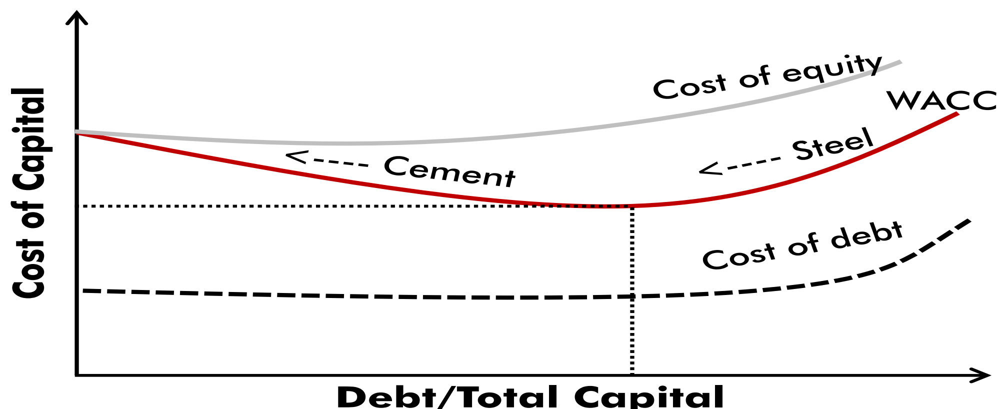
Particular	Rs bn	Particular	Rs bn
Equity	50	Gross Assets	90
Add: PAT	38	CWIP	19
Less: Div	0		
Total Equity	87.5	Cash & Cash Eq	24
Gross Debt	50	Working Capital	5
Total Liabilities	**138**	**Total Assets**	**138**

Source: Company, Ambit Capital research

WACC is an often overlooked concept

Investors tend to focus all their energies on RoCE, but ignore WACC in the process. Too high debt and/or equity in capital structure lead to a sub-optimal capital structure. An optimal capital structure is one where WACC is the lowest.

Exhibit 49: An optimal capital structure is one where WACC is lowest

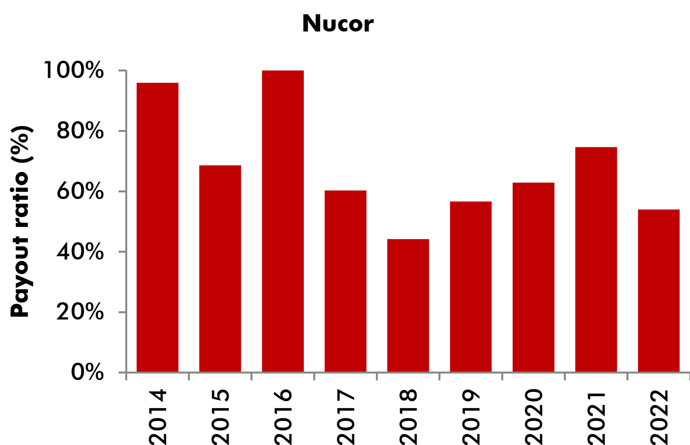


Source: Company, Ambit Capital research

Optimal capital structure, and thus lower WACC, has led to superior valuation for Nucor

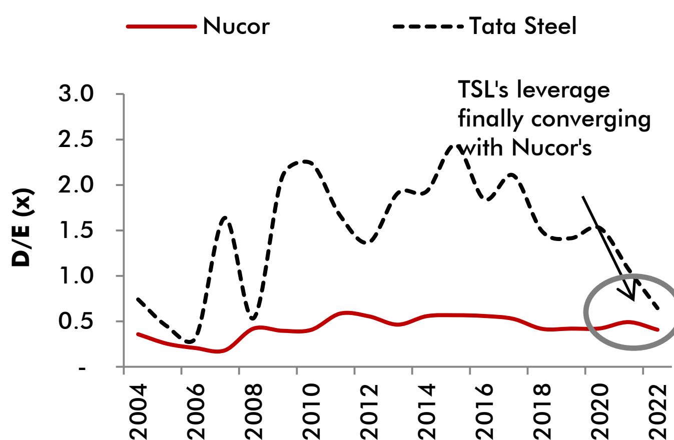
Nucor, a leading US steel company, is a great example of company that has maintained a capital structure close to an optimal level over a long period of time. That is one of the reasons why, despite generating similar RoCE as compared to peers, it has been able to command higher EV/capital employed.

Exhibit 50: Nucor has maintained high payout ratios over a period of time...



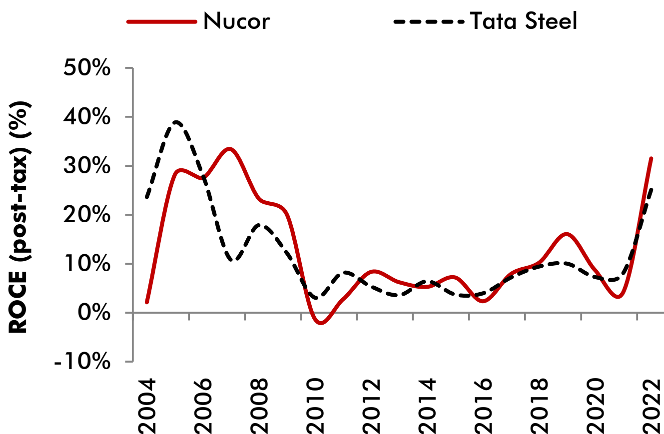
Source: Company, Ambit Capital research

Exhibit 51: ...its capital structure has remained closer to optimal while TSL's over-levered



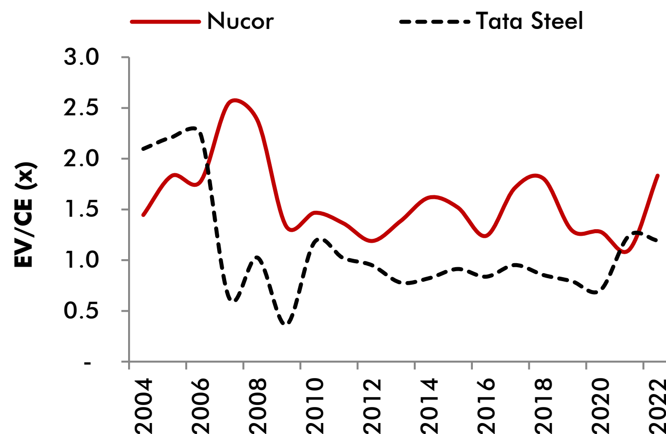
Source: Company, Ambit Capital research

Exhibit 52: As a result, while TSL and Nucor generated similar RoCE...



Source: Company, Ambit Capital research

Exhibit 53: ...Nucor commanded higher EV/cap employed, although that could change



Source: Company, Ambit Capital research

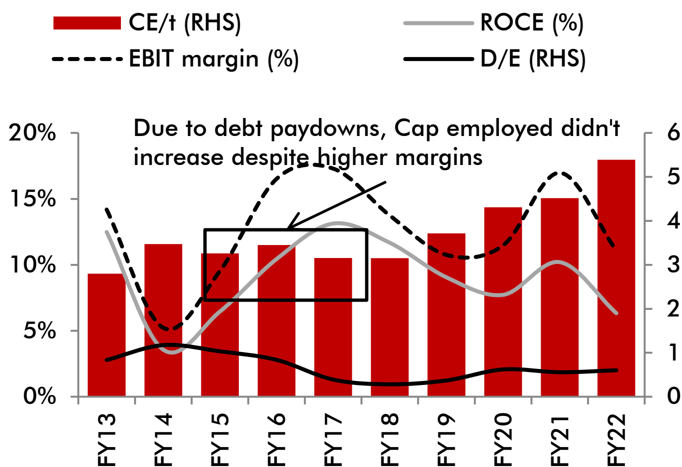
Indian cement companies have an inefficient capital structure now; they should contemplate dividend recap in order to lower their WACC.

In the near term, capital return can also be a big driver of RoCE performance

A company that witnesses margin expansion and accumulation of profit has three options: 1) keep cash on B/S (which is what Shree Cement has done for past 3 years) 2) return cash through either debt repayment or dividends/buybacks (Ramco was a deleveraging story in FY14-16, UTCEM and metals as well in past 2-3 years), 3) reinvest profit for growth. Non-operating assets, i.e. CWIP and cash, don't generate RoCE. Capital return can be additional driver for RoCE improvement in the near term. In the example below, we show debt repayment contributed to 10-20% of RoCE improvement for Ramco in FY14-17.

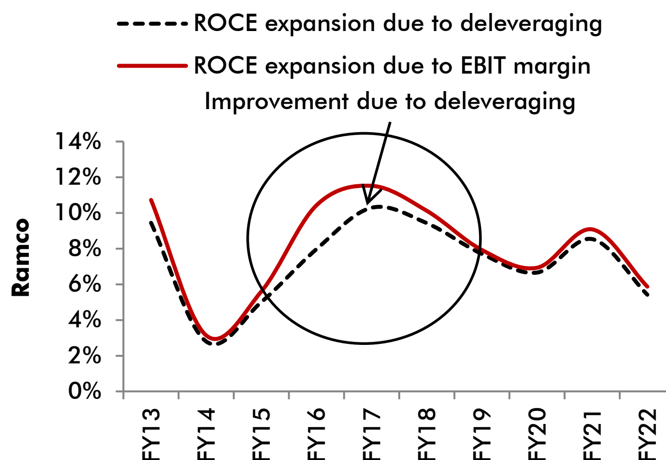
Non-operating assets i.e. CWIP and cash don't generate RoCE. Capital return can be additional driver for RoCE improvement in near-term

Exhibit 54: Ramco witnessed earnings expansion in FY14-17 which in conjunction with deleveraging…



Source: Company, Ambit Capital research

Exhibit 55: …led to marked improvement in RoCE during that period

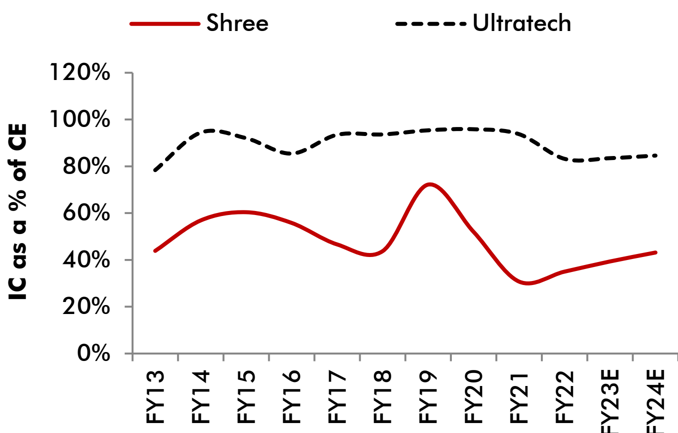


Source: Company, Ambit Capital research

Shree can boost its RoCE by returning excess cash to shareholders

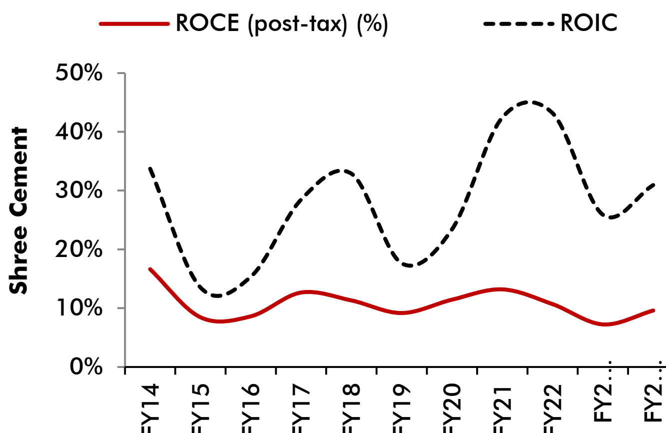
Cash accumulation has been drag on RoCE for Shree in the past 3 years. Cash now accounts for 50% of Shree's capital employed. This cash is invested in MFs and generates just 7% return. Shree is now on the path to reinvestment of most of its incremental FCF on capex, but we expect even lower return than MFs on that capex.

Exhibit 56: The gap between Shree and UTCEM to narrow with Shree committing a sizeable proportion of cash flows to capex



Source: Company, Ambit Capital research

Exhibit 57: For Shree, gap between RoCE and ROIC should narrow in FY23-25 as it deploys more capital on capex

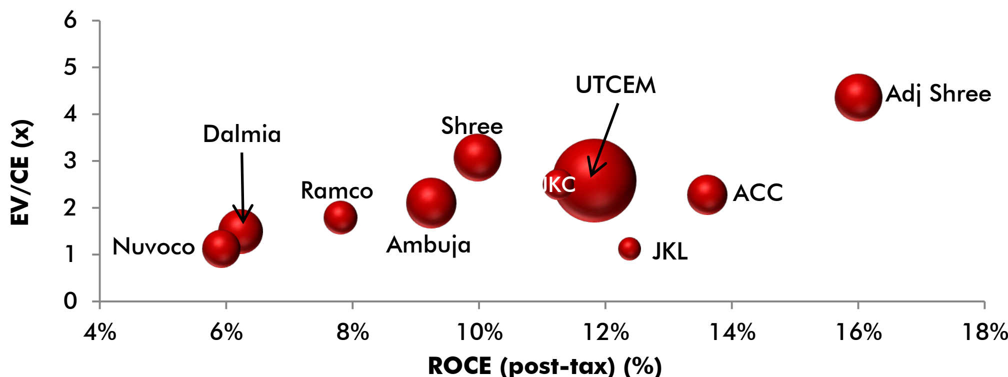


Source: Company, Ambit Capital research

In case Shree returns some of the ₹100bn cash on its B/S, it will serve to boost its RoCE by >500bps by reducing its capital employed by ₹100bn. EV/capital employed will expand with a corresponding decline in capital employed/t. But theoretically, its EV should not change.. But such capital allocation may still practically have a salutary effect on valuations. Investors tend to value cash on B/S at a discount for fear of mis-allocation. Those fears may subside somewhat in case Shree returns cash to shareholders.

Investors tend to value cash on B/S at a discount for fear of mid-allocation. Those fears may subside somewhat in case Shree returns cash to shareholders

Exhibit 58: In case Shree returns cash to shareholders, it will boost RoCE but also EV/cap employed; it will need to generate higher incremental RoCE



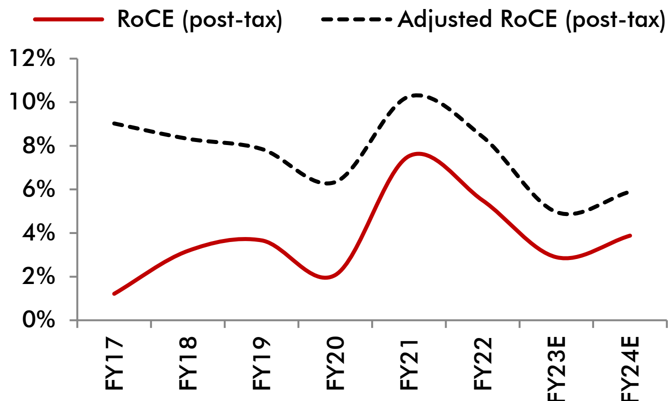
Source: Company, Ambit Capital research. Note: Bubble size represents Capital employed (USD)

Accounting policies usually don't have a bearing on valuation

Written down value (WDV) vs straight line depreciation policy can lead to higher depreciation in the initial years. Old assets such as ACC's can also lead to a well-depreciated asset base, driving higher RoCE than peers. In case of Dalmia, goodwill amortization leads to lower reported RoCE. But none of these have any material bearing on valuation. Valuation is ultimately a discounted value of all future cash flows. These accounting policies don't lead to any changes in cash flows. In case companies have depreciated their asset base faster, that will lead to higher RoCE and thus higher EV/capital employed. But there will be no change in EV. Therefore, there is no incentive for management teams to dedicate their energies towards generating an increase in reported or adj. RoCE through these accounting policies.

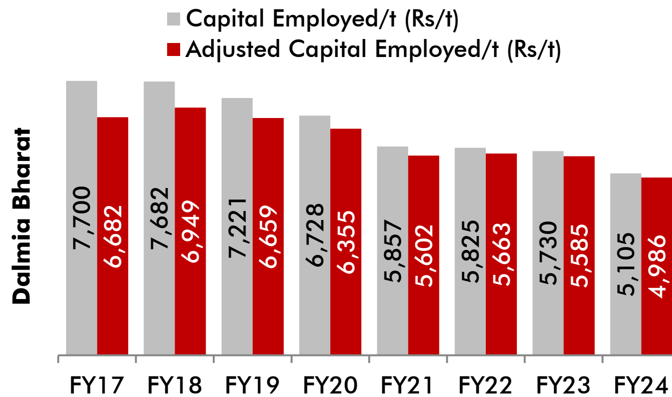
There is no incentive for management teams to dedicate their energies towards generating an increase in reported or adj RoCE through these accounting policies

Exhibit 59: Dalmia Bharat reports adj. RoCE after adjustment for goodwill amortization...



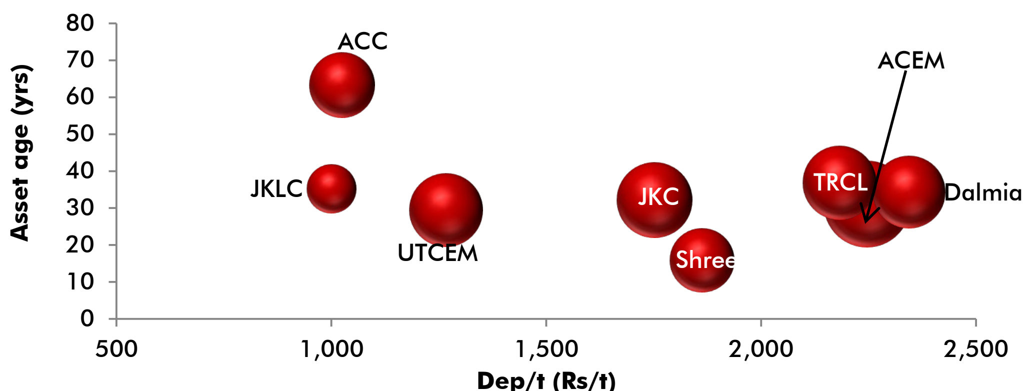
Source: Company, Ambit Capital research

Exhibit 60: ...however, that also lowers its capital employed/t – so such adjustments don't boost EV



Source: Company, Ambit Capital research

Exhibit 61: Certain companies have a well-depreciated asset base, but higher resultant RoCE doesn't boost enterprise value



Source: Company, Ambit Capital research. Note: Bubble size represents Capital employed/tonne (₹/t)

What are stocks implying?

Slope of EV/capital employed vs RoCE curve is determined by "excess return" or EVA. Indian cement companies (along with US aggregate companies) command a much higher EV/cap employed relative to global cement and metals companies despite generating similar RoCE. That means investors expect Indian cement to generate higher "excess returns". Assuming 12% WACC for both large and mid-cap cement (lower risk profile for large-cap is offset by sub-optimal capital structure), investors expect cement companies to generate incremental RoCE of 14% or 200bps excess return, at 75% reinvestment rate. Therefore it's not just large-caps that are expected to add capacity, even small and mid-cap companies do though they are optically trading below $100/t. 200bps excess return for the cement sector appears to be a stretch given historical return profile. However, on a relative basis, UTCEM appears poised to generate higher incremental RoCE relative to mid-cap peers. Current metals valuations on the other hand imply shallower slope or negative EVA.

Cometh the RoCE, cometh the valuation

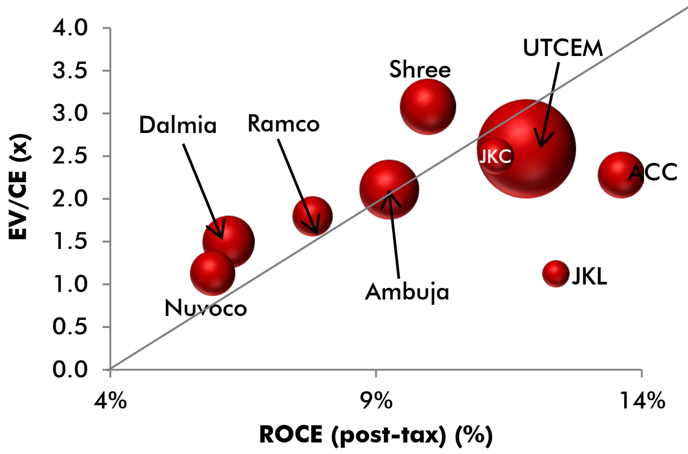
EV/capital employed is largely a function of 1) RoCE on existing assets, 2) WACC and 3) growth. Growth is a byproduct of reinvestment rate (which is also a function of the market opportunity) and incremental RoCE. Keeping growth and WACC constant, higher the RoCE, higher the EV/capital employed.

Exhibit 62: Companies that are generating higher RoCE at present would naturally command higher EV/EBITDA and EV/t

Particulars	low RoCE	median RoCE	high RoCE	Comments
Cap employed	5,000	5,000	5,000	
FY24E RoCE	6.0%	8.0%	12.0%	
incremental RoCE	11.0%	11.0%	11.0%	all companies have similar incremental RoCE
WACC	10.0%	10.0%	10.0%	all companies have similar WACC
reinvestment rate	75%	75%	75%	
growth (g)	8.3%	8.3%	8.3%	incremental RoCE x reinvestment rate
NOPAT	300	400	600	FY24E RoCE x capital employed
tax rate	25%	25%	25%	
EBIT	400	533	800	
Dep (@4% of cap employed)	200	200	200	
EBITDA	600	733	1000	
reinvestment (@75%)	225	300	450	NOPAT x reinvestment rate
FCFF	75	100	150	NOPAT less reinvestment, assuming change in WC=0 and maintenance capex=dep
EV	4,639	6,186	9,279	FCFF x (1+g)/(WACC-g)
EV/EBITDA	7.7	8.4	9.3	
EV/IC	0.9	1.2	1.9	
EV/t	4,639	6,186	9,279	

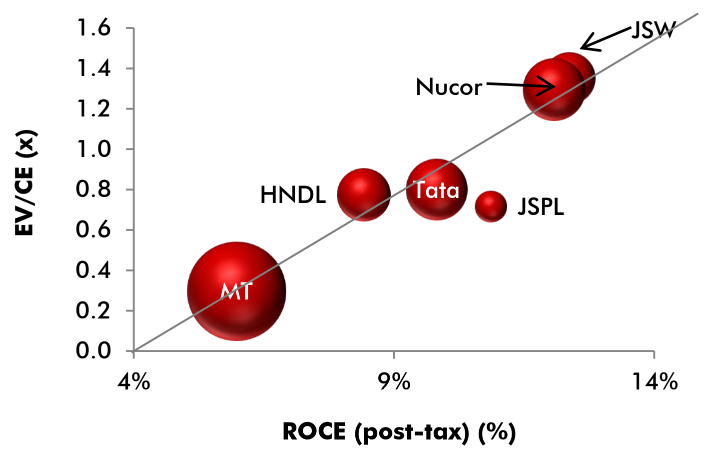
Source: Ambit Capital research

Exhibit 63: Companies that generate higher RoCE…



Source: Company, Ambit Capital research Note: bubble size denotes capital employed (USD), for RoCE we have used consensus FY24 estimates

Exhibit 64: …command higher EV/capital employed



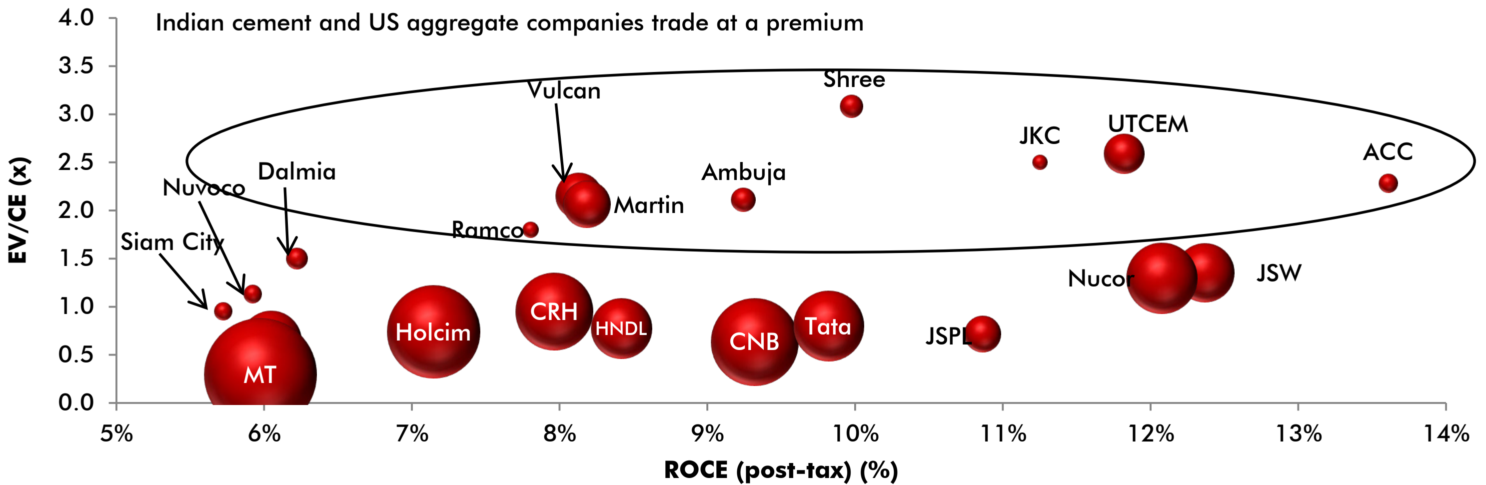
Source: Company, Ambit Capital research Note: bubble size denotes capital employed (USD), for RoCE we have used consensus FY24 estimates

Slope is a function of "excess returns"

Indian cement companies and US aggregate companies (Vulcan Materials, Martin Marietta materials) typically command a much higher EV/cap employed relative to their global cement and metal counterparts, despite generating similar RoCE. There are two possible reasons for this: 1) lower WACC as investors see Indian cement as a less cyclical sector and 2) higher growth.

Valuations for Indian cement companies and US aggregate companies imply 1) lower WACC as investors see Indian cement as a less cyclical sector and/or 2) higher growth

Exhibit 65: However, Indian cement and US aggregate companies command higher EV/cap employed for similar RoCE, implying either lower WACC or higher "g"



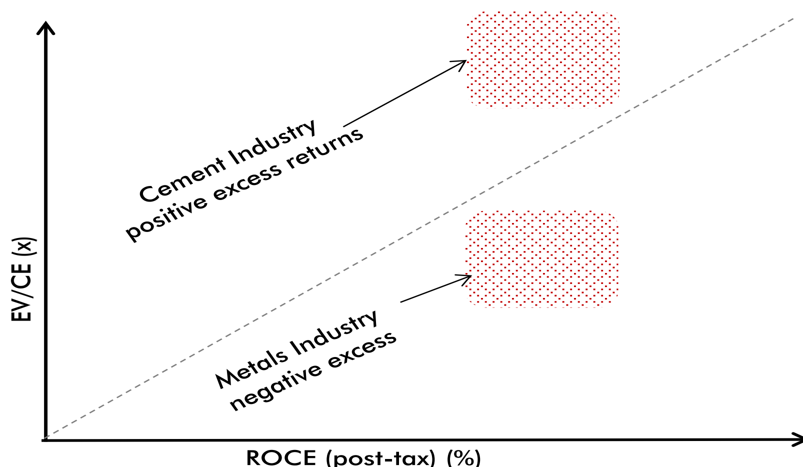
Source: Company, Ambit Capital research Note: Bubble size represents Capital employed (USD)

Exhibit 66: Valuation differences between companies can magnify with variations in "excess returns"

	Companies generate similar excess return			similar incremental RoCE but command same WACC			Similar WACC, but different incremental RoCE			Higher incremental RoCE+lower WACC		
	low RoCE	median RoCE	high RoCE	low RoCE	median RoCE	high RoCE	low RoCE	median RoCE	high RoCE	low RoCE	median RoCE	high RoCE
Cap employed (₹/t)	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
RoCE	6.0%	8.0%	12.0%	6.0%	8.0%	12.0%	6.0%	8.0%	12.0%	6.0%	8.0%	12.0%
incremental RoCE	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	10.0%	11.0%	12.0%	10.0%	11.0%	12.0%
WACC	10.0%	10.0%	10.0%	12.0%	11.0%	10.0%	11.0%	11.0%	11.0%	12.0%	11.0%	10.0%
Excess return	1.0%	1.0%	1.0%	-1.0%	0.0%	1.0%	-1.0%	0.0%	1.0%	-2.0%	0.0%	2.0%
reinvestment rate	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
growth	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	7.5%	8.3%	9.0%	7.5%	8.3%	9.0%
NOPAT	60	80	120	60	80	120	60	80	120	60	80	120
tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
EBIT	80	107	160	80	107	160	80	107	160	80	107	160
Dep (@4% of cap employed)	40	40	40	40	40	40	40	40	40	40	40	40
EBITDA	120	147	200	120	147	200	120	147	200	120	147	200
reinvestment (75%)	45	60	90	45	60	90	45	60	90	45	60	90
FCFF	15	20	30	15	20	30	15	20	30	15	20	30
EV	928	1,237	1,856	433	787	1,856	461	787	1,635	358	787	3,270
EV/EBITDA	7.7	8.4	9.3	3.6	5.4	9.3	3.8	5.4	8.2	3.0	5.4	16.4
EV/IC	0.9	1.2	1.9	0.4	0.8	1.9	0.5	0.8	1.6	0.4	0.8	3.3
EV/t	928	1,237	1,856	433	787	1,856	461	787	1,635	358	787	3,270

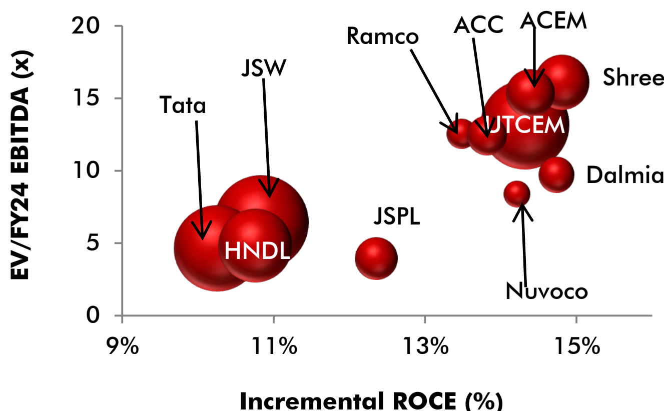
Source: Company, Ambit capital research

Exhibit 67: Indian cement company valuations reflect a steeper slope, implying higher "excess returns" or EV embedded in valuations



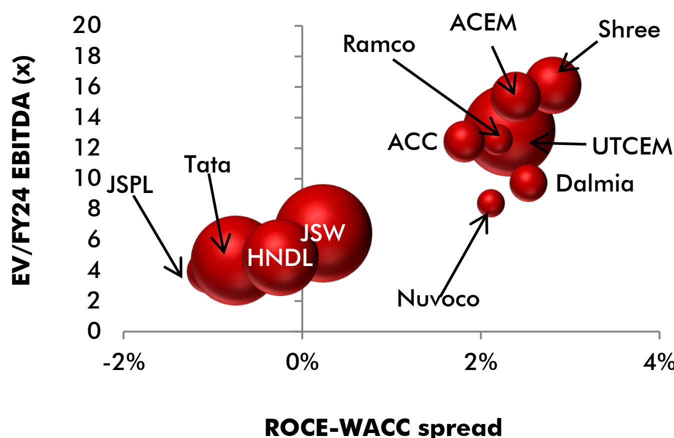
Source: Ambit capital research

Exhibit 68: Valuations bake 14% incremental RoCE and 200bps excess return for cement companies



Source: Company, Ambit Capital research

Exhibit 69: While implying negative EVA for metals-but future should yield better returns vs past

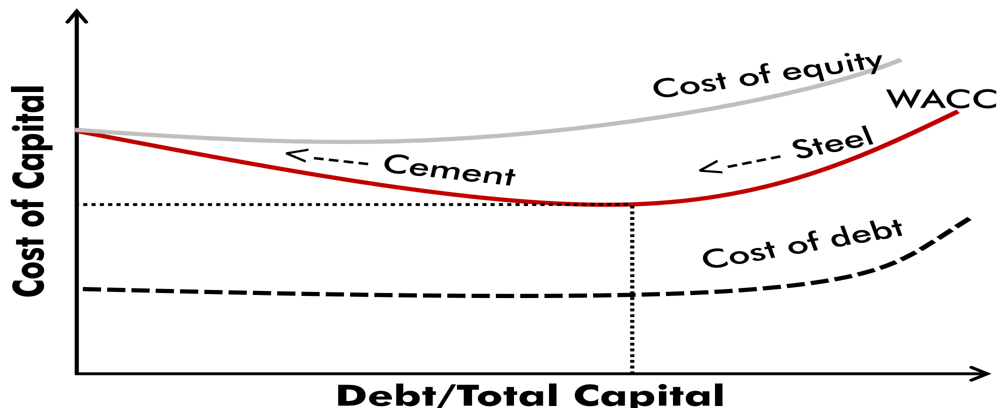


Source: Company, Ambit Capital research

Indian large-cap cement industry has sub-optimal capital structure

Large-cap cement companies have 0 debt on their B/S. Equity=100% of capital employed. Mid-cap cement companies have a smaller footprint, less regional diversity, smaller B/S, and other risks. However, one could argue that at this stage mid-cap companies have a better capital structure vs large-caps.

Exhibit 70: An optimal capital structure is one where WACC is lowest



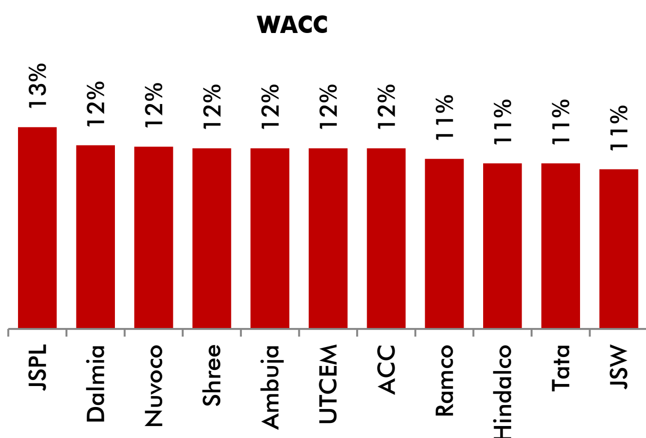
Source: Company, Ambit Capital research

Exhibit 71: Indian large-cap cement companies have similar WACC as mid-cap cement, courtesy sub-optimal capital structure

	Cost of equity	Cost of debt (pre-tax)	Debt in capital structure	WACC
UTCEM	12.0%	8.0%	0%	12.0%
Shree	12.0%	8.0%	0%	12.0%
ACC	12.0%	8.0%	0%	12.0%
Ambuja	12.0%	8.0%	0%	12.0%
Ramco	13.5%	9.0%	33%	11.3%
Dalmia	14.0%	9.0%	25%	12.2%
Nuvoco	16.0%	11.0%	50%	12.1%
Tata Steel	14.0%	8.5%	40%	11.0%
JSW Steel	14.0%	9.5%	50%	10.6%
Hindalco	14.0%	8.5%	40%	11.0%
JSPL	15.0%	9.5%	20%	13.4%

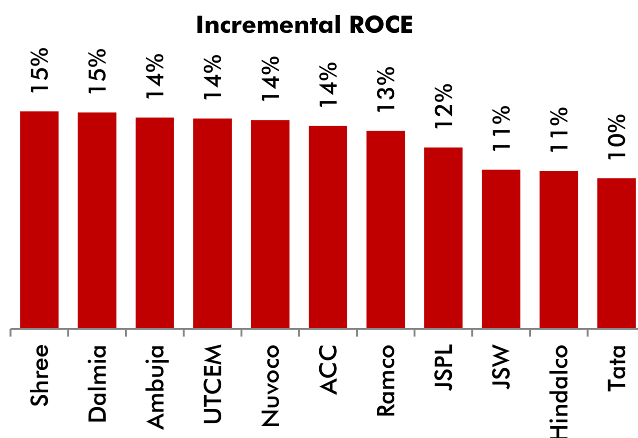
Source: Ambit capital research

Exhibit 72: Companies that carry higher risk should command a higher WACC…



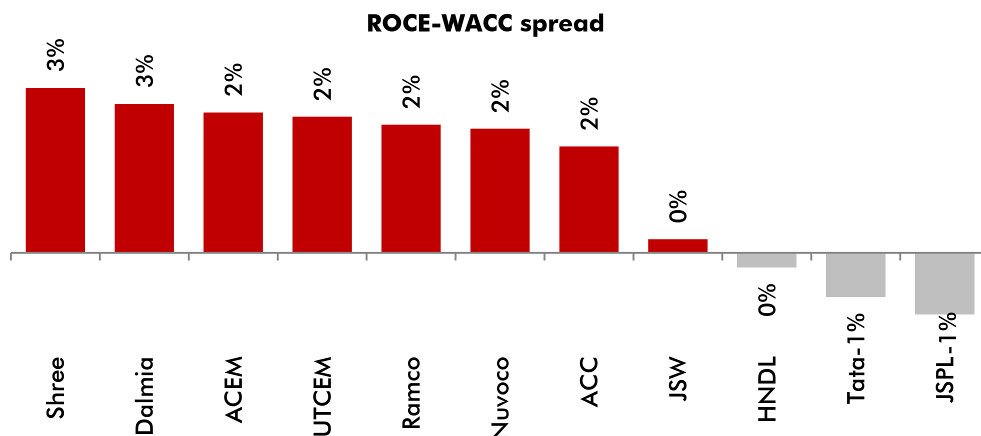
Source: Company, Ambit Capital research

Exhibit 73: …companies that look optically cheap on EV/t and EV/EBITDA are the ones that need to generate higher incremental RoCE vs peers



Source: Company, Ambit Capital research

Exhibit 74: Excess return – valuations imply cement companies are expected to generate excess returns, while metals to destroy value



Source: Company, Ambit Capital research

Cement sector is expected to add capacity, not metals

Most companies that are trading at discount to replacement cost shouldn't add any capacity through greenfield route? That's not true

There is a general belief that given UTCEM and Shree trade at substantial premium to replacement cost, these companies should continue to add capacity as these expansions will in turn be accretive to their EV/t. For instance, hypothetically assume UTCEM has 100MT capacity trading at $200/t. It adds 10MT capacity at $100/t. Incremental capital employed is just $100/t, but 10MT capacity added would also trade at $200/t. The same rationale would apply to any growth through the inorganic route. But by that logic, most companies that are trading at a discount to replacement cost shouldn't add any capacity through greenfield route. We believe that's not the right way to look at these valuations. Even mid-cap companies have excess returns embedded in their valuation. If they are able to add capacity and generate excess returns, hey should get the valuation benefit. But there is a gap between what all these companies have delivered in past and what is imbedded in valuations.

On a relative basis, are mid-cap cement stocks really cheaper?

Using current RoCE, WACC and current EV/capital employed, both large-cap and mid-cap cement valuations imply 14% incremental RoCE and 75% reinvestment rate. For this analysis, we have assumed consensus FY24 estimates as a starting point, assuming those are mid-cycle earnings (valuations based on trough earnings will give a different picture). That means both mid-cap and large-cap cement companies are expected to generate incremental RoCE at least 200bps above WACC. So basically, market expects Dalmia/Nuvoco/Ramco to generate similar incremental RoCE as UTCEM, despite the fact that UTCEM has:

- Category A pricing on all-India basis
- Larger brownfield optionality across the portfolio compared to anyone else

So, ***while UTCEM trades at a 70-100% premium to replacement cost while Dalmia/Nuvoco at discount to replacement cost, it can be argued that UTCEM appears cheaper on a relative basis compared to mid-cap players***.

ACC and Ambuja were penalized for capital returns

ACC & Ambuja under-performed when they chose to allocate capital towards dividends, not capacity growth. Even other cement companies will get penalized if they decide to return capital.

Cement companies are expected to generate incremental RoCE 200bps above WACC, hence are expected to continue adding capacity. That is why ACC and Ambuja stocks underperformed when they chose to allocate incremental capital towards dividends and not capacity growth. However, this would not be limited to large-cap cement. Even other cement companies will get penalized if they decide to return capital.

Exhibit 75: Valuations of large-cap cement companies imply 12% incremental RoCE, assuming 10% WACC and 75% reinvestment rate

NOPAT	120
capital employed	1,000
RoCE	12%
incremental RoCE	14%
WACC	12%
growth	11%
reinvestment	75%

Cement Large-cap (₹ bn)	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**	**FY32**	**FY33**	**Terminal**
NOPAT	120	133	147	163	181	200	222	246	273	302	335
growth (%)		11%	11%	11%	11%	11%	11%	11%	11%	11%	
Reinvestment	90	100	110	122	136	150	167	185	204	227	251
FCFF	30	33	37	41	45	50	56	62	68	76	84
capital employed	1,090	1,190	1,300	1,423	1,558	1,709	1,875	2,060	2,264	2,491	
RoCE (%)	12%	12%	12%	13%	13%	13%	13%	13%	13%	13%	
Incremental RoCE (%)	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	
EV	2,500										
EV/CE (x)	2.5										
EV/EBITDA (x)	12.5										

Source: Ambit capital research

Exhibit 76: Mid-cap cement valuations imply 13% incremental RoCE, assuming 11% WACC and 75% reinvestment rate

NOPAT	60
capital employed	1,000
RoCE	6%
Incremental RoCE	14%
WACC	12%
growth	11%
reinvestment	75%

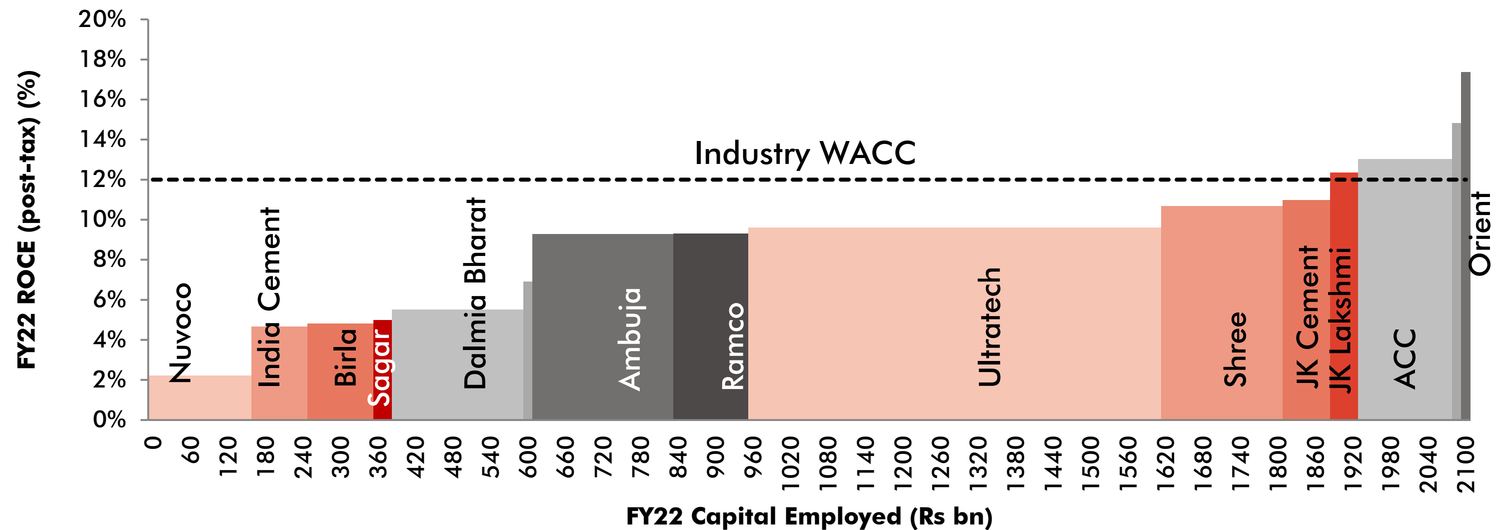
Cement Mid-cap (₹ bn)	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	Terminal
NOPAT	60	67	74	82	91	100	111	123	137	152	168
growth (%)		11%	11%	11%	11%	11%	11%	11%	11%	11%	
Reinvestment	45	50	55	61	68	75	83	93	103	114	126
FCFF	15	17	18	20	23	25	28	31	34	38	42
capital employed	1,045	1,095	1,150	1,211	1,279	1,355	1,438	1,531	1,633	1,747	
RoCE (%)	6.0%	6.4%	6.7%	7.1%	7.5%	7.8%	8.2%	8.6%	8.9%	9.3%	
Incremental RoCE (%)	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	
EV	1,299										
EV/CE (x)	1.30										
EV/EBITDA (x)	9.4										

Source: Ambit capital research

Is such large positive EVA for cement industry realistic?

Indian cement sector hasn't exhibited a superior RoCE profile for a long period of time, barring the supercycle patch of 2003-08. Very few players generate double-digit RoCE.

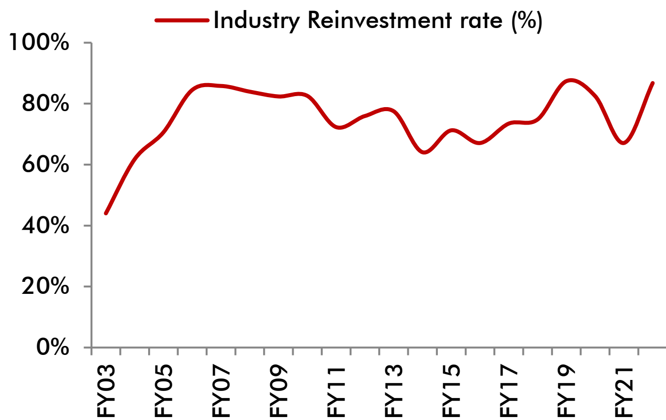
Exhibit 77: Indian "RoCE curve" – most Indian cement companies generate RoCE below cost WACC



Source: Company, Ambit Capital research

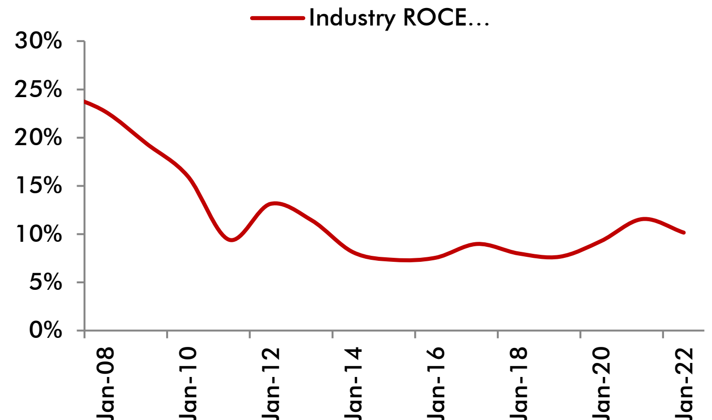
While the sector has exhibited a reinvestment rate of 75-80%, industry RoCE has usually stayed below 10%.

Exhibit 78: Cement industry implied reinvestment rate is in line with historical levels...



Source: Company, Ambit Capital research

Exhibit 79: ...however, would 12% incremental RoCE be achievable given track record?



Source: Company, Ambit Capital research

What could possibly drive cement RoCE higher over time?

There are three key variables that could catalyze an increase in RoCE over time

- **Industry consolidation –** Indian cement industry has remained somewhat fragmented despite sporadic M&A such as Jaypee, Binani and others. New entrants such as Wonder, JSW and now Adani etc. have played spoilsport.
- **Higher capacity utilization** – If industry reinvests 75% of profits over time on capacity creation (with 3% capital cost inflation CAGR), capacity creation would still lag demand, assuming demand continues to grow at 6% CAGR for next 20 years. Increase in capacity utilization could generate pricing power, but would demand growth sustain at that high level for 20 years? In that case, cement demand would cross 1 billion tonnes and cement consumption>700 kg/capita.
- **Steepening of cost curve –** Limestone could be the driver there, but that can happen only if certain high risk companies such as Dalmia also face disruptions.

But are the barriers to entry in the Indian cement industry that high, that such excess returns can sustain for a long period of time? Limestone is definitely the key constraining factor for a new entrant. But there are steel players that have captive slag and fly ash, and could try to make a beeline for cement in excess these returns sustain.

Exhibit 80: Implied growth rate in UTCEM valuation suggests increase in EBITDA/t over time - assuming 3% annual capital cost inflation and UTCEM volumes grow at 7% CAGR, higher than industry's 6% CAGR...

₹ bn	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40	FY41	FY42	FY43	TV
Capacity (MT)	131	144	158	173	189	206	225	245	267	290	315	341	370	401	435	470	509	551	595	643	
Volumes (MT)	103	110	118	126	135	145	155	166	177	190	203	217	232	248	266	284	304	326	348	373	
EBITDA/t	1,392	1,561	1,617	1,674	1,733	1,795	1,858	1,924	1,992	2,063	2,136	2,212	2,290	2,372	2,456	2,543	2,633	2,727	2,824	2,924	
NOPAT	98	108	120	133	147	163	181	200	222	246	272	302	334	370	410	455	504	558	619	685	759
growth (%)		*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	
FCFF	24	27	30	33	37	41	45	50	55	61	68	75	84	93	103	114	126	140	155	171	190
RoCE	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	
EV	2,035																				
EV/CE (x)	3.0																				
EV/FY24 EBITDA (x)	14.2																				
EV/FY24 t ($/t)	194																				

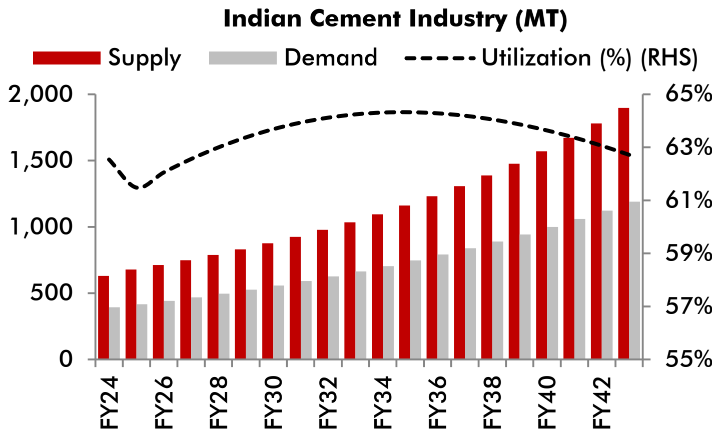
Source: Company, Ambit Capital research

Exhibit 81: ...similarly, we can see implied EBITDA/t and capacity for the entire cement industry

₹ bn	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	FY39	FY40	FY41	FY42	FY43	TV
Capacity (MT)	630	678	712	749	788	831	876	925	978	1,035	1,095	1,161	1,231	1,307	1,389	1,476	1,570	1,672	1,781	1,898	
Volumes (MT)	394	417	442	469	497	526	558	592	627	665	705	747	792	839	889	943	999	1,059	1,123	1,190	
EBITDA/t	1,085	1,131	1,177	1,226	1,277	1,331	1,388	1,447	1,509	1,574	1,642	1,713	1,787	1,865	1,947	2,032	2,122	2,215	2,313	2,416	
NOPAT	240	265	294	326	361	400	443	490	543	601	666	738	817	905	1,003	1,110	1,230	1,362	1,509	1,671	1,851
growth (%)		*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	*11%*	
FCFF	60	66	74	81	90	100	111	123	136	150	167	184	204	226	251	278	308	341	377	418	463
RoCE	12%	12%	12%	13%	13%	13%	13%	13%	13%	13%	13%	13%	14%	14%	14%	14%	14%	14%	14%	14%	
EV	4,842																				
EV/CE (x)	2.4																				
EV/FY24 EBITDA (x)	11.3																				
EV/FY24 t ($/t)	96																				

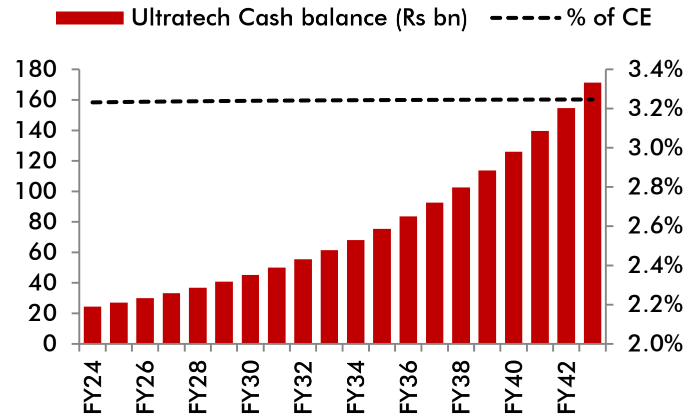
Source: Company, Ambit Capital research. Note companies

Exhibit 82: Assuming 3% p.a. capital cost inflation, reinvestment rate would still lead to flattish utilization (assuming demand sustains at 6% CAGR)



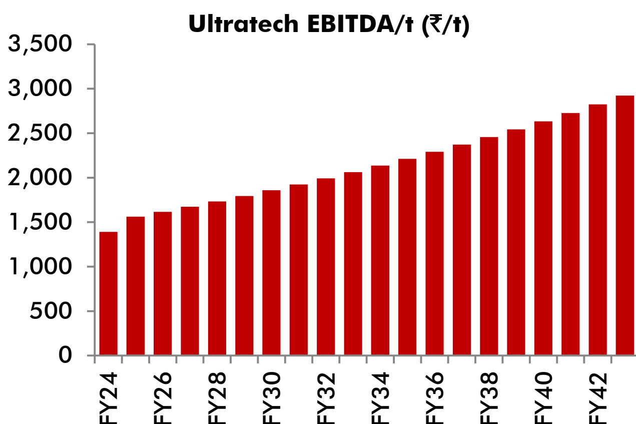
Source: Company, Ambit Capital research

Exhibit 83: With 75% reinvestment rate, cash will remain 3% of capital employed



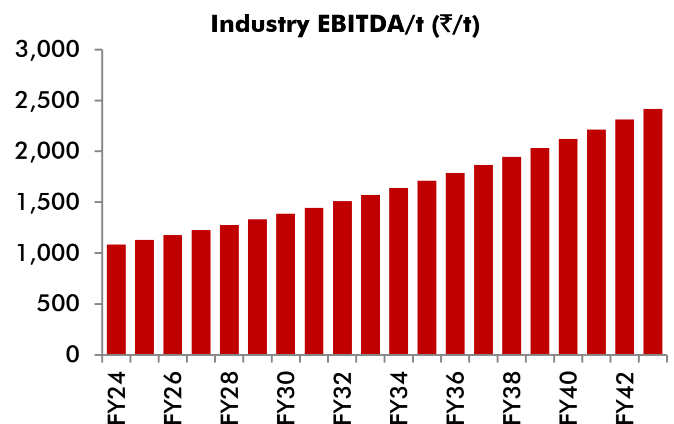
Source: Company, Ambit Capital research

Exhibit 84: Assuming 3% CAGR capital cost inflation, current valuations imply steady increase in UTCEM EBITDA/t....



Source: Company, Ambit capital research

Exhibit 85: ...similarly for the cement industry's EBITDA/t



Source: Company, Ambit capital research

Negative EVA for metals

Current valuations imply most metal companies (barring JSW) are expected to generate negative EVA. This is not surprising given track record. However, companies may navigate through a more favorable path relative to past 10 years given: 1) capital structure is better, 2) greater brownfield optionality, 3) China has removed export rebate and 4) ex-China players need to step up.

Exhibit 86: Steel company valuations imply slightly lower incremental RoCE, assuming higher WACC vs large-cap cement companies (which is questionably given sub-optimal capital structure for large-cap cement)

Nopat	98
Capital employed	1,000
RoCE	10%
Incremental RoCE	11%
WACC	11%
Growth	8%
Reinvestment	75%

Indian Steel ₹ bn	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	Terminal
NOPAT	98	106	114	124	133	144	155	168	181	195	211
growth (%)		8%	8%	8%	8%	8%	8%	8%	8%	8%	
Reinvestment	74	80	86	93	100	108	117	126	136	147	158
FCFF	25	27	29	31	33	36	39	42	45	49	53
capital employed	1,074	1,153	1,239	1,332	1,432	1,540	1,656	1,782	1,918	2,064	
RoCE (%)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
Incremental RoCE (%)	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	
EV	805										
EV/CE (x)	0.80										

Source: Ambit Capital research

TSL vs JSW – Will JSW be able to generate higher incremental RoCE?

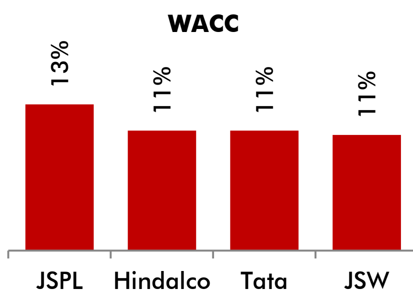
Valuations imply 100bps higher excess returns for JSW vs TSL. If we use history as a guide, that doesn't look like an unreasonable assumption. But TSL is now looking at allocating greater proportion of its incremental capacity to India, not Europe.

TSL has a couple of handicaps vs JSW Steel:

- It will still need to commit decarbonization capex for EU.
- It will have to exercise right of first refusal (RoFR) for its iron ore mines in 2030.

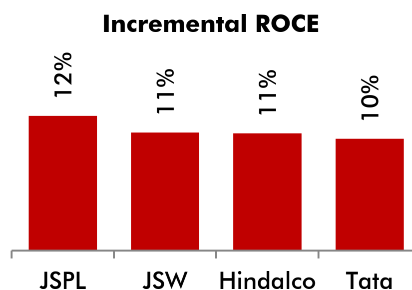
However, CBAM (Carbon border adjustment mechanism) should ensure returns on decarbonization capex in EU. TSL commands premium pricing, and incremental capital cost/t on brownfield expansions appears similar. So, it could possibly generate superior incremental RoCE in India. TSL is taking the lead on Co2 reduction in both EU and India, and should command lower cost of capital. We believe should be able to generate incremental RoCE/EVA at least in line with that for JSW.

Exhibit 87: Higher risk = higher WACC...



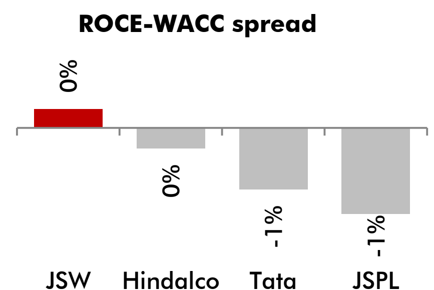
Source: Company, Ambit capital research

Exhibit 88: Valuations imply TSL and HNDL generate lower RoCE...



Source: Company, Ambit capital research

Exhibit 89: ...which feeds into the relative return spread



Source: Company, Ambit capital research

Metals

Metals is in a deep cyclical downturn, but RoE should still settle at high single-digit or low double-digit levels vs <0% in previous downturns. Balance sheets are in a much better shape than in previous cycles. Net-debt/EBITDA should stay below 2-3x this downcycle for most vs over 7-8x in historical downturns. Metal stocks should no longer be valued like call options in distressed firms. Historical 0.5x P/B trough should find a much higher floor. Book value would increase, while most companies would continue to delever even in the downcycle unlike previous cycles. We are near completion of a year into this downcycle. Chinese HRC margins have reached cyclical trough. Investor sentiment in metal stocks has hit rock bottom. This has historically been a good time to get constructive. We recently turned BUYers on JSW, HNDL and NMDC, while retaining BUY on TSL. Remain SELL on JSPL. Our pecking order is TSL<HNDL>JSW>NMDC.

- **Tata steel (BUY)** - TSL is not just a trade on iron ore prices anymore, it remains one of the strongest deleveraging stories in global metals. Various cost improvement programmes have also helped curtail conversion loss in India, which is one of the reasons why TSL should report higher EBIDA/t in India in FY23 vs previous downcycles. TSL should witness a book value increase in FY23, even in a recession, something not seen in previous downcycles. The stock is trading at 1.1x FY23 BPVS while we expect trough RoE of >12% vs <0% in previous downcycles. Our TP of ₹1,700 implies 1.4x FY24 BVPS.

- **JSW Steel (BUY)** - JSW Steel, a convertor, is one of the best positioned companies globally to benefit from the supply-demand mismatch in steel, and thus ensuing sustained higher conversion margins relative to the last 10 years. In case China starts curtailing supply in response to weakening demand, JSW Steel could be a bigger beneficiary. JSW Steel should witness greater expansion in RoE vs others – a function of higher output and margin expansion. However, JSTL isn't a cash-rich company, but given its relative size in the group, will get invariably called upon by other entities for funding needs. While these investments could possibly generate decent returns over time, they increase RPTs and risks of capital misallocation. Valuation gap between TSL and JSTL should compress over time.

- **Hindalco (BUY) –** The next few quarters should mark trough earnings for Hindalco, but even ₹60bn quarterly EBIDTA should generate 13-14% RoE vs <0% trough RoE in previous downturns. Unlike previous downcycles, these metal stocks would no longer be valued like out-of-money call options in distressed firms. Even at $2,400-$2,500/t aluminum, Hindalco appears poised to reduce debt by ₹100bn through FY25, while book value should increase from ₹350/share in FY22 to ₹500/share in FY25. US can sheet industry is now staring at oversupply by FY26, however, continued deficits for next 3 years and long-term contracts signed at prices well above historical levels should help sustain >$525-$550/t EBITDA (possibly >$600/t) for the next 5 years.

- **NMDC (BUY)** – NMDC has borne the biggest brunt of the export duty announcement by the Indian government. NMDC is divesting its steel business, with the possibility of an eventual sale. However, the steel plant carries operational risk in the interim. Would MECON be able to find skilled, experienced people to run this plant? Removal of export duty + Chinese demand recovery could be positive catalysts for NMDC's prices and EBITDA. We recently turned BUYers, with TP of ₹125. We place it lower in our pecking order given capital allocation and execution risks. TSL remains a better trading play for even iron ore.

- **Jindal Steel & Power (SELL) -** JSPL has shown remarkable discipline in staying committed to its deleveraging targets for the past 2-3 years. The company has significant brownfield potential in Angul (even beyond the ongoing expansion), and should also benefit from recent wins in coal mine auctions. We expect JSPL's RoE to expand from 12% in FY23 to 19% in FY25. However, JSPL is reaching an under-levered capital structure, and capital misallocation risks are the highest for JSPL. There is also litigation overhang around the coal scam. Our ₹350 TP implies 0.8x P/FY24 BVPS.

Cement

Cement spreads appear to have bottomed out and are now staging a recovery. However, consensus estimates now imply 30% increase in EBITDA in FY24 – both higher volumes and margins may not come in an election year. There could possibly be 1-2 quarters that the industry enjoys supernormal profitability – fuel costs moderate in P&L but price rollbacks come with a lag. But on a sustained basis, we expect industry to generate lower EBIDTA/t vs FY19-21. Given capacity announcements, we expect industry clinker utilization at <70% through FY24, assuming 6-7% volume growth, limiting pricing power. Adani's entry fundamentally alters industry structure. Adani will take market share, not just from smaller players, but also from UltraTech/Shree. Industry cost curve (ex-finance cost) will get flatter as Holcim asset base moves to 1st quartile, limiting industry RoCE potential. Cost curve including finance cost will get steeper, with Adani at the top. But even at CY21 cement spreads, Adani Cement can service its debt and reduce leverage; this doesn't bode well for UltraTech, Shree and other players. We believe incremental RoCE/EVA implied for the entire sector in valuations is somewhat unrealistic.

- **Ultratech Cement (SELL)** - UTCEM benefited from narrowing of the trade/non-trade pricing gap in 1QFY23, but that gap should widen as fuel costs moderate. Narrowing of the gap should be a near-term tailwind for other non-trade-heavy players too. UTCEM flexed muscle by indicating optionality to add another 40MT between FY25- 28. This may just be the beginning of a capex war, where stakes keep rising for Adani too in matching UTCEM's massive brownfield optionality. Fuel cost moderation may boost margins for 1-2 quarters, but there are 3 things that help sustain higher industry profitability: 1) steepening industry cost curve, 2) consolidation and 3) high capacity utilization. None of that generates confidence for margins in the medium term. UTCEM should command valuation premium vs others on its superior limestone position, but we believe that is captured in current valuations. Despite our SELL recommendation, we peg UTCEM above other large-cap names in our pecking order.
- **Shree Cement (SELL)** - Unmatched respect for Shree arises from: (a) low cost to create capacity; (b) low cost of production, and (c) low cost to reach market; add to this internal cash generation focus. However, Shree is losing its relative advantage on the industry cost curve. In the past 2-3 years, Shree invested excess cash in MFs/investments yielding 7% return. In FY23-25, it will deploy excess cash for capacity expansion, which should yield even lower return. Future expansions entail higher capital cost/greenfield and lower RoCE. These projects are accretive to Shree's current EV/t, but not to its RoCE. That's the problem these net cash B/S companies have to contend with – deploying large cash.
- **Ramco Cement (SELL)** - Ramco's RR Nagar, Kurnool projects appear well-positioned from an RoCE perspective as they would improve cost profile and market reach. Financial leverage is a double-edged sword; it leads to compression of RoE in a cyclical downturn and expansion in a cyclical recovery. Ramco should witness much bigger RoE expansion than large-cap peers such as UTCEM and Shree. However, we highlight key structural risks for Ramco: 1) low limestone reserves in TN; although key monitorable could be Ramco's efforts in extending life of mine through limestone beneficiation. 2) Adani could potentially capture market share in Kerala by transporting cement at a large scale via sea from Gujarat. 3) Ramco's concentrated exposure to South India and lack of investments in limestone reserves in other regions imply little scope to expand into new regions. 4) The entire management team is in their mid-60s, raising succession risks.
- **Dalmia Bharat (SELL)** - Dalmia is growing capacity aggressively (48MT by FY24), but that won't necessarily drive superior volume growth. It may lead to lower utilization and RoCE. We believe Dalmia's C2C appears unrealistic. Dalmia's clinker/cement capacity of 8M/24MT in the East post expansions implies almost 100% PSC, which would require almost 15MT of slag. But there isn't enough slag around for East players to achieve such high C2C. Taking market share through just capacity growth may not be easy, especially when: 1) others are also adding capacity; or 2) there is current overcapacity in region. All of this is setting the stage for under-utilized capacity. Dalmia has one of the most acute

limestone risks in the cement industry; that should drive low terminal growth for valuation. Greenfield expansions, higher auction premiums, dilution of geographical advantage should drive margins and RoCE lower over time.

- **Nuvoco (SELL)** - Nuvoco has leading capacity share and most likely highest margins in the East. However, lower rural spend, flattish PMAY allocation in budget and a deluge of capacities coming up in region don't bode too well for Nuvoco's earnings. It's a strong player, but unfortunately it does appear it's stuck in the wrong region for now. The company was not able to realize its deleveraging potential in FY22, and is now stuck with high debt on the balance sheet. Ultimately, we believe the most profitable player in the East should command valuations above replacement cost, otherwise why would players set up new capacity in the East? So pricing discipline will ultimately need to emerge - we are not sure that can happen over the next 12-18 months given all the new capacities entering the fray and imminent entry of Adani in the industry.

Exhibit 90: Summary of our steel coverage universe estimates

	Capacity (MT)					Production (MT)					EBITDA/t (₹/t) - Standalone				
	FY21	FY22	FY23E	FY24E	FY25E	FY21	FY22	FY23E	FY24E	FY25E	FY21	FY22	FY23E	FY24E	FY25E
Tata Steel	30	30	35	35	37	26	29	29	30	32	16,399	29,321	15,910	17,094	18,018
JSW Steel	23	26	26	32	32	15	20	22	23	25	12,943	19,302	11,042	15,719	15,884
JSPL	8.6	9.6	9.6	12.9	15.9	7.6	8.0	8.1	9.0	11.4	17,820	19,682	12,840	14,458	16,024
	EBITDA (₹ bn) - Consolidated					Capex (₹ bn)					FCF (₹ bn)				
Tata Steel	287	634	400	400	463	65	100	240	125	147	311	309	44	171	179
JSW Steel	271	390	248	424	497	92	100	150	165	165	52	111	61	91	177
JSPL	144	155	97	131	181	8	29	29	66	51	89	106	50	20	79
	Net Debt (₹ bn)					Debt/Equity (x)					Net Debt/EBITDA (x)				
Tata Steel	818	576	604	495	375	1.2	0.7	0.6	0.4	0.3	2.8	0.9	1.5	1.2	0.8
JSW Steel	639	725	668	630	495	1.7	1.3	1.1	0.8	0.6	3.2	1.9	2.7	1.5	1.0
JSPL	249	119	63	44	-32	1.0	0.4	0.3	0.3	0.2	1.7	0.8	0.6	0.3	-0.2
	RoE (%)					RoCE (post-tax, %)					ROIC (%)				
Tata Steel	9%	43%	16%	16%	17%	8%	25%	12%	12%	13%	9%	28%	13%	12%	14%
JSW Steel	19%	35%	16%	28%	28%	10%	18%	10%	18%	19%	17%	26%	13%	22%	24%
JSPL	21%	21%	12%	16%	20%	15%	18%	10%	13%	16%	14%	19%	12%	15%	20%
	EV/EBITDA (x)					FCF yield (%)					P/B (x)				
Tata Steel	36.8	3.0	4.8	4.5	3.7	3%	22%	13%	13%	14%	1.6	1.1	1.0	0.9	0.8
JSW Steel	10.2	5.5	8.5	4.9	3.9	5%	7%	4%	6%	12%	2.5	2.1	1.9	1.5	1.2
JSPL	4.1	3.1	4.5	3.2	1.9	25%	30%	14%	6%	22%	1.1	1.0	0.9	0.8	0.6

Source: Company, Ambit Capital research

Exhibit 91: Summary of our cement coverage estimates

	Clinker Capacity (MT)				Cement Capacity (MT)				Cement Utilization (%)				C2C (x)				Cement volumes (MT)			
	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24	FY21	FY22	FY23	FY24
UltraTech	72	72	81	83	111	115	131	131	73%	76%	73%	79%	1.5	1.5	1.5	1.5	81	88	95	103
Shree	26	26	30	33	43	46	46	53	61%	59%	64%	61%	1.5	1.5	1.5	1.5	26	28	30	32
Ambuja	18	21	21	21	30	31	31	33	75%	86%	92%	94%	1.5	1.6	1.6	1.6	23	27	29	31
ACC	21	21	23	23	33	35	37	40	76%	83%	82%	84%	1.7	1.7	1.7	1.7	26	29	31	33
Nuvoco	12	12	13	13	22	24	25	26	78%	80%	76%	79%	1.7	1.7	1.8	1.8	17	17	19	20
Dalmia	17	19	21	24	31	36	40	49	67%	62%	60%	53%	1.6	1.6	1.7	1.7	21	22	24	26
Ramco	10	11	14	14	19	19	20	20	51%	57%	62%	66%	1.3	1.3	1.3	1.3	10	11	13	13
	Revenues (₹ bn)				EBITDA/t (₹/t)				EBITDA (₹ bn)				FCF (₹ bn)				Net Debt (₹ bn)			
UltraTech	447	526	587	618	1,292	1,168	1,090	1,220	116	115	115	137	92	28	29	49	64	38	22	-10
Shree	126	141	162	173	1,475	1,323	1,112	1,328	40	36	33	43	29	6	2	6	-91	-97	-97	-100
Ambuja	114	140	154	166	1,167	1,193	1,040	1,171	26	32	31	36	16	12	1	5	-29	-41	-37	-34
ACC	138	162	179	195	924	994	616	847	24	30	20	30	14	16	-1	15	-59	-74	-60	-72
Nuvoco	75	93	104	111	839	879	788	914	15	15	15	19	5	3	3	3	67	51	47	45
Dalmia	105	111	125	136	1,333	1,023	949	1,139	28	23	23	30	22	-1	-13	-9	1	-14	2	17
Ramco	53	60	66	71	1,520	1,128	980	1,238	15	13	13	17	-1	7	-3	-4	30	38	36	30
	RoCE (%)				RoE (%)				EBITDA growth (%)				Net Debt/EBITDA (x)				EV/IC (x)			
UltraTech	9%	10%	10%	11%	13%	16%	13%	14%	25%	0%	0%	19%	0.5	0.3	0.2	-0.1	3.0	3.4	3.2	2.9
Shree	13%	11%	7%	10%	16%	15%	9%	11%	8%	-8%	-9%	29%	-2.3	-2.6	-2.9	-2.3	18.2	12.2	10.1	8.4
Ambuja	7%	9%	8%	9%	8%	10%	9%	10%	23%	21%	-5%	19%	-1.1	-1.3	-1.2	-0.9	2.0	2.8	2.6	2.4
ACC	12%	13%	7%	11%	12%	14%	8%	12%	-2%	28%	-32%	46%	-2.4	-2.4	-2.8	-2.3	3.6	5.9	5.1	4.7
Nuvoco	4%	2%	4%	5%	0%	0%	4%	7%	13%	2%	0%	25%	4.6	3.4	3.2	2.4	1.1	1.0	1.0	1.0
Dalmia	10%	8%	5%	6%	13%	10%	6%	7%	34%	-18%	0%	29%	0.0	-0.6	0.1	0.6	2.2	1.6	1.5	1.4
Ramco	8%	9%	6%	8%	14%	15%	9%	13%	36%	-17%	-1%	34%	1.9	2.9	2.8	1.8	3.6	2.7	2.2	2.0

Source: Company, Ambit Capital research

Key Financials – Ultratech Consolidated

Income statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	314	374	421	447	526	587	618
EBITDA	61	68	93	116	115	115	137
EBIT	43	46	66	89	88	87	109
PBT	36	35	52	81	87	89	113
Reported PAT	22	24	58	53	75	67	85
EPS	81	89	201	184	259	231	294

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Non-current assets	457	636	643	621	663	702	736
Total Current assets	115	130	150	241	175	182	184
Total Assets	572	765	793	862	838	884	920
Total Equity	264	338	391	442	504	558	625
Borrowings	159	207	174	135	53	48	13
Total Non-current liabilities	192	272	236	214	132	127	92
Borrowings	28	37	40	69	49	44	44
Total - Equity and Liabilities	572	765	793	862	838	884	920

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
PBT	33	35	52	79	84	89	113
Change in working capital	(13)	(7)	5	23	(5)	1	(1)
CFO	39	60	89	125	93	101	116
Capex	(19)	(16)	(16)	(18)	(55)	(66)	(62)
CFI	19	11	(42)	(89)	23	(66)	(62)
Dividends paid	0.0	(3.5)	(3.8)	(3.7)	(10.7)	(13.3)	(17.0)
CFF	(45)	(68)	(50)	(44)	(125)	(30)	(56)
FCF	17	26	54	92	28	29	49

Source: Company, Ambit Capital research

Valuation Parameters

Valuation metrics	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
P/E (x)	48.8	45.2	16.1	36.5	24.9	27.9	21.9
P/B (x)	4.1	3.3	2.4	4.4	3.7	3.3	3.0
Debt/Equity (x)	0.7	0.7	0.5	0.5	0.2	0.2	0.1
Net debt/Equity (x)	0.5	0.7	0.4	0.1	0.1	0.0	0.0
Net debt/EBITDA (x)	2.3	3.3	1.8	0.5	0.3	0.2	-0.1
EV/Sales (x)	3.9	3.5	2.6	4.5	3.6	3.2	3.0
EV/EBITDA (x)	19.9	19.4	11.9	17.4	16.4	16.3	13.4
EV/EBIT (x)	28.5	28.4	16.8	22.6	21.5	21.5	16.9
EV/IC (x)	2.7	2.1	1.8	3.0	3.4	3.2	2.9
EV/tonne (₹)	13,200	14,075	9,918	18,024	16,522	14,305	14,059
Target EV/tonne (₹)	18,416	19,100	16,312	15,370	14,715	12,728	12,482
Target EV/EBITDA (₹)	27.8	26.4	19.6	14.8	14.6	14.5	11.9

Source: Ambit Capital research, Company

Key Financials – Shree Standalone

Income statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	98	117	119	126	141	162	173
EBITDA	25	27	37	40	36	33	43
EBIT	16	13	20	28	26	19	28
PBT	18	11	20	30	29	21	30
Reported PAT	14	10	16	23	24	16	22
EPS	397	273	445	641	659	444	621

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Non-current assets	94	112	125	138	157	173	188
Total Current assets	57	40	68	72	77	77	82
Total Assets	151	152	193	210	234	251	270
Total Equity	89	96	129	153	173	188	207
Borrowings	22	23	16	13	13	13	13
Total Non-current liabilities	33	36	32	23	16	16	16
Borrowings	12	4.7	7.1	8.0	7.2	7.2	7.2
Total - Equity and Liabilities	151	152	193	210	234	251	270

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
PBT	18	13	20	30	29	21	30
Change in working capital	(1.1)	(5.3)	5.6	8.8	(7.3)	1.6	(1.2)
CFO	19	21	38	41	27	33	38
Capex	(25)	(19)	(13)	(10)	(19)	(30)	(30)
CFI	(36)	(8)	(54)	(29)	(19)	(30)	(30)
Dividends paid	(1.8)	(2.3)	(6.2)	(0.0)	(3.8)	(0.7)	(3.0)
CFF	17	(13)	16	(12)	(9)	(3)	(5)
FCF	(8)	(1)	22	29	6	2	6

Source: Company, Ambit Capital research

Valuation Parameters

Valuation metrics	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
P/E (x)	40.8	68.4	39.4	46.0	38.8	57.6	41.2
P/B (x)	6.3	6.8	4.9	7.0	5.3	4.9	4.4
Debt/Equity (x)	0.4	0.3	0.2	0.1	0.1	0.1	0.1
Net debt/Equity (x)	(0.2)	0.0	(0.3)	(0.6)	(0.6)	(0.5)	(0.5)
Net debt/EBITDA (x)	(0.9)	0.1	(1.1)	(2.3)	(2.6)	(2.9)	(2.3)
EV/Sales (x)	5.5	5.6	5.0	7.7	5.8	5.1	4.8
EV/EBITDA (x)	21.9	24.6	16.1	24.5	22.6	24.8	19.2
EV/EBIT (x)	34.5	51.7	30.0	34.5	31.6	42.7	29.5
EV/IC (x)	10.1	7.3	7.4	18.2	12.2	10.1	8.4
EV/tonne (₹)	18,778	17,209	14,651	22,393	17,799	17,780	15,537
Target EV/tonne (₹)	20,526	16,270	14,740	12,567	11,642	11,623	10,137
Target EV/EBITDA (x)	24.0	23.2	16.2	13.8	14.8	16.2	12.5

Source: Ambit Capital research, Company

Key Financials – ACC Standalone

Income statement (₹ bn)

Particulars	CY18	CY19	CY20	CY21	CY22E	CY23E
Revenue	148	157	138	162	179	195
EBITDA	20	24	24	30	20	30
EBIT	14	18	17	24	13	23
PBT	15	20	19	26	15	24
Reported PAT	15	14	14	19	11	18
EPS	80	72	75	102	59	96

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	CY18	CY19	CY20	CY21	CY22E	CY23E
Total Non-current assets	94	97	98	107	113	115
Total Current assets	66	74	83	102	93	107
Total Assets	160	171	181	209	206	222
Total Equity	105	115	127	142	140	155
Total Non-current liabilities	8	9	7	7	7	7
Total - Current liabilities	47	47	48	60	59	60
Total - Equity and Liabilities	160	171	181	209	206	222

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	CY18	CY19	CY20	CY21	CY22E	CY23E
PBT	15	20	17	25	15	24
Change in working capital	(4)	3	4	1	(6)	(1)
CFO	11	22	22	28	13	25
Capex	(5)	(5)	(7)	(12)	(14)	(9)
CFI	(4)	(3)	(5)	(10)	(14)	(9)
Dividends paid	(3)	(3)	(3)	(3)	(13)	(3)
CFF	(4)	(4)	(3)	(3)	(14)	(4)
FCF	6	17	14	16	(1)	15

Source: Company, Ambit Capital research

Valuation Parameters

Valuation metrics	CY18	CY19	CY20	CY21	CY22E	CY23E
P/E (x)	18.8	20.0	21.5	22.6	39.2	23.8
P/B (x)	2.7	2.4	2.4	3.0	3.1	2.8
Net debt/Equity (x)	(0.3)	(0.4)	(0.5)	(0.5)	(0.4)	(0.5)
Net debt/EBITDA (x)	(1.4)	(1.8)	(2.4)	(2.4)	(2.8)	(2.3)
EV/Sales (x)	1.7	1.4	1.8	2.2	2.1	1.8
EV/EBITDA (x)	12.4	9.4	10.4	11.9	18.2	12.0
EV/EBIT (x)	17.5	12.5	14.3	14.9	28.0	15.8
EV/IC (x)	3.2	3.1	3.6	5.9	5.1	4.7
EV/tonne (₹)	7,559	6,749	7,321	10,260	9,934	9,076
Target EV/tonne (₹)	9,198	8,739	8,348	7,579	7,439	6,720
Target EV/EBITDA (x)	15.1	12.1	11.9	8.8	13.7	8.9

Source: Ambit Capital research, Company

Key Financials – Ambuja Standalone

Income statement (₹ bn)

Particulars	CY18	CY19	CY20	CY21	CY22E	CY23E
Revenue	114	117	114	140	154	166
EBITDA	19	21	26	32	31	36
EBIT	13	16	21	27	25	31
PBT	15	19	24	29	28	33
Reported PAT	15	15	18	21	21	25
EPS	7.5	7.7	9.0	10.8	10.4	12.6

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	CY18	CY19	CY20	CY21	CY22E	CY23E
Total Non-current assets	194	201	211	214	230	246
Total Current assets	58	68	44	68	62	61
Total Assets	252	270	255	282	292	307
Total Equity	210	222	203	222	233	247
Total Non-current liabilities	4.6	3.4	6.2	6.1	6.1	6.1
Trade payables	11.1	9.4	8.8	11.4	10.5	11.4
Total - Equity and Liabilities	252	270	255	282	292	307

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	CY18	CY19	CY20	CY21	CY22E	CY23E
PBT	15.1	19.5	24.1	27.9	27.7	33.3
Change in working capital	(5.9)	3.9	3.7	(4.6)	(0.2)	(0.5)
CFO	6.0	24.8	26.1	24.7	23.5	27.5
Capex	(5.9)	(11.1)	(9.8)	(11.4)	(21.4)	(21.6)
CFI	(2.5)	(7.4)	(6.4)	(8.8)	(17.9)	(18.1)
Dividends paid	(4.5)	(3.3)	(36.6)	(2.0)	(9.3)	(11.2)
CFF	(5.0)	(3.9)	(37.6)	(3.2)	(10.1)	(12.0)
FCF	(0.7)	13.2	15.8	12.5	1.3	5.1

Source: Company, Ambit Capital research

Valuation Parameters

Valuation metrics	CY18	CY19	CY20	CY21E	CY22E	CY23E
P/E (x)	30.1	25.5	27.6	34.3	35.5	29.5
P/B (x)	2.1	1.8	2.4	3.3	3.2	3.0
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/Equity (x)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)	(0.1)
Net debt/EBITDA (x)	(1.7)	(2.2)	(1.1)	(1.3)	(1.2)	(0.9)
EV/Sales (x)	2.4	1.8	2.8	3.5	3.2	3.0
EV/EBITDA (x)	14.4	9.6	11.8	15.2	16.0	13.6
EV/EBIT (x)	20.3	12.9	14.7	18.3	19.7	16.1
EV/IC (x)	1.6	1.2	2.0	2.8	2.6	2.4
EV/tonne (₹)	9,186	6,988	10,560	15,485	15,596	14,965
Target EV/tonne (₹)	12,220	11,756	12,358	11,257	11,402	10,963
Target EV/EBITDA (x)	19.2	16.2	13.8	11.0	11.7	10.0

Source: Ambit Capital research, Company

Key Financials – Dalmia Bharat Consolidated

Income statement (₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	85,800	94,840	96,740	105,220	111,450	124,753	136,112
EBITDA	20,210	19,510	20,830	27,910	22,810	22,897	29,613
EBIT	8,080	6,550	5,550	15,290	10,450	8,461	12,428
PBT	3,890	3,390	3,570	14,080	11,490	8,751	11,751
Reported PAT	2,910	3,490	2,380	12,430	11,770	6,563	8,813
EPS	15	16	12	65	64	35	47

Source: Company, Ambit Capital research

Balance Sheet (₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Non-current assets	151,440	151,340	149,420	153,270	173,590	196,522	217,264
Total Current assets	61,900	54,040	56,690	64,830	75,120	74,738	76,393
Total Assets	213,340	205,380	206,110	218,100	248,710	271,260	293,658
Total Equity	103,350	106,390	105,610	126,260	156,870	162,508	168,394
Borrowings	54,590	40,150	35,050	20,890	19,220	19,220	19,220
Total Non-current liabilities	70,630	57,060	52,030	41,910	43,360	43,360	43,360
Borrowings	18,170	18,920	24,610	16,530	11,970	26,970	41,970
Total - Equity and Liabilities	213,340	205,380	206,110	218,100	248,710	271,260	293,658

Source: Company, Ambit Capital research

Cash Flow statement (₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
PBT	3,890	3,390	3,570	14,080	11,460	8,751	11,751
Change in working capital	16,920	18,670	24,030	35,530	19,130	25,867	32,210
CFO	16,060	18,430	23,370	35,960	19,370	23,679	29,272
Capex	(3,930)	(9,260)	(13,450)	(10,380)	(17,560)	(35,000)	(35,000)
CFI	1,350	1,870	(17,600)	(2,760)	(10,480)	(35,000)	(35,000)
Dividends paid	(330)	(400)	(930)	-	(1,000)	(925)	(2,927)
CFF	(15,640)	(20,670)	(5,910)	(33,660)	(9,420)	9,697	6,169
FCF	4,510	3,950	5,250	21,620	(510)	(13,331)	(8,704)

Source: Company, Ambit Capital research

Valuation Parameters

Valuation metrics	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
P/E (x)	189.4	61.9	42.3	24.3	22.2	40.8	30.3
P/B (x)	5.4	1.8	0.9	2.4	1.7	1.6	1.6
Debt/Equity (x)	0.7	0.6	0.6	0.3	0.2	0.3	0.4
Net debt/Equity (x)	0.3	0.3	0.3	0.0	-0.1	0.0	0.1
Net debt/EBITDA (x)	1.7	1.6	1.4	0.0	-0.6	0.1	0.6
EV/Sales (x)	6.9	2.3	1.3	2.9	2.2	2.1	2.1
EV/EBITDA (x)	29.1	11.4	5.9	10.8	10.9	11.6	9.5
EV/EBIT (x)	72.8	33.9	22.1	19.7	23.8	31.4	22.5
EV/IC (x)	3.8	1.5	0.9	2.2	1.6	1.5	1.4
EV/tonne (₹)	23,811	8,986	4,638	9,758	6,927	6,616	5,700
Target EV/tonne (₹)	11,627	11,487	10,605	8,050	6,350	6,099	5,278
Target EV/EBITDA (₹)	14.2	14.5	13.5	8.9	10.0	10.7	8.8

Source: Ambit Capital research, Company

Key Financials – Ramco Standalone

Income statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	44	51	54	53	60	66	71
EBITDA	11	10	11	15	13	13	17
EBIT	8	7	8	12	9	9	14
PBT	8	7	8	11	8	9	13
Reported PAT	6	5	6	8	9	6	10
EPS	24	21	26	32	38	27	42

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Non-current assets	58	67	85	99	114	119	121
Total Current assets	13	14	16	15	17	17	21
Total Assets	71	81	100	113	131	136	143
Total Equity	40	45	49	56	65	71	80
Borrowings	4	7	18	22	29	29	29
Total Non-current liabilities	12	16	28	33	38	38	38
Borrowings	7	10	12	10	11	10	7
Total - Equity and Liabilities	71	81	100	113	131	136	143

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
PBT	8	7	8	11	8	9	13
Change in working capital	13	9	9	21	13	14	17
CFO	11	8	7	19	11	12	13
Capex	(5)	(12)	(19)	(18)	(18)	(9)	(6)
CFI	(5)	(12)	(19)	(18)	(18)	(9)	(6)
Dividends paid	(1)	(1)	(2)	(1)	-	(1)	(1)
CFF	(8)	6	12	(1)	7	(3)	(4)
FCF	5.5	(4.6)	(12.4)	0.5	(7.9)	2.2	6.8

Source: Company, Ambit Capital research

Valuation Parameters

Valuation metrics	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
P/E (x)	31.8	34.9	29.4	23.2	19.8	27.4	17.8
P/B (x)	4.4	4.0	3.6	3.1	2.7	2.5	2.2
Debt/Equity (x)	0.3	0.4	0.6	0.6	0.6	0.5	0.4
Net debt/Equity (x)	0.3	0.3	0.6	0.5	0.6	0.5	0.4
Net debt/EBITDA (x)	0.9	1.5	2.6	1.9	2.9	2.8	1.8
EV/Sales (x)	4.1	3.7	2.8	5.1	3.6	3.2	2.9
EV/EBITDA (x)	16.4	18.2	13.2	17.2	16.7	16.8	12.2
EV/EBIT (x)	22.4	25.6	18.3	22.3	24.3	23.1	15.1
EV/IC (x)	3.2	3.1	2.2	3.6	2.7	2.2	2.0
EV/tonne (₹)	10,989	11,489	8,133	13,735	11,076	10,446	10,144
Target EV/tonne (₹)	9,101	9,427	9,140	8,743	9,162	8,625	8,324
Target EV/EBITDA (₹)	13.6	15.0	14.9	11.0	13.8	13.9	10.0

Source: Ambit Capital research, Company

Key Financials – Nuvoco Consolidated

Income statement (₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	66,524	70,521	67,932	74,888	93,180	103,997	111,328
EBITDA	10,663	9,177	12,971	14,605	14,967	14,909	18,596
EBIT	5,814	4,198	7,693	6,667	5,787	8,059	11,770
PBT	1,621	166	3,867	365	509	5,087	9,065
Reported PAT	875	(265)	2,497	(259)	321	4,018	6,799
EPS	1	(1)	10	(1)	1	11	19

Source: Company, Ambit Capital research

Balance Sheet (₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Non-current assets	110,914	112,571	114,375	173,953	170,222	168,373	172,048
Total Current assets	22,124	20,046	20,069	25,122	25,926	27,549	27,496
Total Assets	133,038	132,617	134,443	199,075	196,148	195,922	199,544
Total Equity	48,235	49,883	52,793	73,237	88,212	92,230	99,028
Borrowings	37,979	33,183	29,313	55,612	41,834	37,834	33,834
Total Non-current liabilities	53,559	48,690	45,298	76,773	63,007	59,007	55,007
Borrowings	-	-	6,613	1,978	12,155	12,155	12,155
Total - Equity and Liabilities	133,038	132,617	134,443	199,075	196,148	195,922	199,544

Source: Company, Ambit Capital research

Cash Flow statement (₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
PBT	1,621	166	3,868	365	509	5,087	9,065
Change in working capital	598	(242)	(2,009)	3,044	(2,534)	(2,656)	(502)
CFO	10,181	8,601	10,248	17,173	12,209	11,683	16,327
Capex	(2,687)	(5,808)	(5,695)	(5,473)	(4,094)	(5,000)	(10,500)
CFI	(6,522)	(1,486)	(3,101)	(29,241)	(1,903)	(5,000)	(10,500)
Interest paid	(4,120)	(3,849)	(3,580)	(6,506)	(5,331)	(3,473)	(3,206)
CFF	(4,048)	(6,468)	(5,591)	14,197	(14,202)	(7,473)	(7,206)
FCF	3,374	(1,056)	973	5,195	2,784	3,211	2,622

Source: Company, Ambit Capital research

Valuation Parameters

Valuation metrics	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
P/E (x)	NA	NA	NA	NM	337.0	26.9	15.9
P/B (x)	NA	NA	NA	NM	1.2	1.2	1.1
Debt/Equity (x)	0.9	0.8	0.8	1.0	0.6	0.5	0.5
Net debt/Equity (x)	0.9	0.8	0.7	0.9	0.6	0.5	0.5
Net debt/EBITDA (x)	3.7	4.2	3.0	4.6	3.4	3.2	2.4
EV/EBITDA (x)	NA	NA	NA	NM	10.6	10.4	8.2
EV/tonne (₹)	NA	NA	NA	NM	6,665	6,217	5,946
Target EV/tonne (₹)	NA	NA	NA	NM	7,374	6,892	6,602
Target EV/EBITDA (₹)	NA	NA	NA	NM	11.7	11.6	9.1

Source: Ambit Capital research, Company

Key Financials – Tata Steel Consolidated

Income statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,330	1,577	1,398	1,563	2,440	2,290	2,148	2,303
EBITDA (excl. OI)	219	294	175	287	634	400	400	463
EBIT	168	235	109	204	551	321	321	380
Adj. PBT	115	160	35	131	503	282	293	358
Adj. PAT	36	102	63	68	418	202	222	271
Reported PAT	132	101	26	57	411	202	222	271
EPS (x)	13	9	2	5	33	17	18	22

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Networth	609	689	736	742	1,144	1,284	1,445	1,653
Minority Interest	9	24	26	33	27	23	19	16
Borrowings	921	1,008	1,163	948	821	806	646	546
Other liabilities & provisions	195	209	185	184	264	293	290	293
Capital employed	1,735	1,930	2,110	1,907	2,255	2,406	2,400	2,508
Net Fixed Assets	1,086	1,391	1,500	1,504	1,510	1,663	1,702	1,759
Net current assets	316	184	193	54	326	304	245	272
Total assets	1,735	1,930	2,110	1,907	2,255	2,384	2,372	2,475

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Reported profit before taxes	212	158	-14	138	502	282	293	358
Changes in working capital	-93	26	42	165	-96	9	0	-24
CFO	80	253	202	443	444	326	326	349
Net capex	-73	-86	-100	-65	-100	-240	-125	-147
CFI	-120	-292	-145	-93	-109	-237	-123	-145
Net proceeds from borrowings	42	82	76	-294	-139	-15	-160	-100
Interest paid	-51	-72	-74	-68	-47	-42	-30	-24
Dividends paid	-10	-12	-15	-12	-30	-62	-62	-62
CFF	66	-7	60	-471	-119	-119	-252	-186
FCF	-46	-249	-13	311	309	44	171	179

Source: Company, Ambit Capital research

Valuation Parameters

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
EBITDA Margin	16%	19%	12%	18%	26%	17%	19%	20%
Adj. RoE	7%	15%	9%	9%	43%	16%	16%	17%
Pre-tax RoCE	12%	14%	6%	11%	30%	16%	15%	18%
Interest Coverage Ratio	3.1	3.1	1.4	2.7	10.1	7.6	10.7	15.8
Pre-tax CFO/ EBITDA	50%	104%	128%	157%	89%	102%	100%	95%
Dividend Yield	0%	0%	0%	0%	2%	5%	5%	5%
FCF/ Revenue	-3%	-16%	-1%	20%	13%	2%	8%	8%
CFO/Revenue	6%	16%	14%	28%	18%	14%	15%	15%

Source: Ambit Capital research, Company

Key Financials – JSW Steel Consolidated

Income statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	702	848	733	798	1,464	1,361	1,708	1,897
EBITDA (excl. OI)	148	190	119	271	390	248	424	497
EBIT	116	151	82	230	338	198	374	457
Adj. PBT	79	112	38	191	289	157	336	419
Adj. PAT	65	76	48	150	199	114	245	306
Reported PAT	62	76	40	150	199	114	245	306
EPS (x)	26	32	17	33	82	46	100	125

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Worth	280	348	366	468	673	744	946	1,210
Borrowings	392	471	611	654	740	690	640	590
Total Liabilities	645	806	958	1,022	1,280	1,228	1,190	1,185
Net Fixed Assets	571	616	578	589	930	995	1,191	1,195
Total Non-current assets	688	814	953	1,125	1,311	1,403	1,522	1,647
Cash & CE	6	56	40	119	88	57	55	140
Total current assets	232	335	366	358	654	586	639	781
Total Assets	920	1,149	1,318	1,483	1,965	1,989	2,161	2,428

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	76	112	30	120	297	157	336	419
Changes in WC	-11	-16	16	13	-73	39	-51	-18
CFO	123	145	121	188	263	252	294	380
Net Capex	-47	-102	-128	-92	-100	-150	-165	-165
CFI	-45	-114	-196	-81	-160	-150	-165	-165
Borrowings	-38	69	116	20	-70	-50	-50	-50
Interest Paid	-35	-38	-45	-43	-51	-41	-38	-38
CFF	-82	18	52	-31	-147	-133	-130	-130
FCF	42	5	-52	52	111	61	91	177

Source: Company, Ambit Capital research

Valuation Parameters

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	21%	22%	16%	34%	27%	18%	25%	26%
Adj. RoE	26%	25%	14%	19%	35%	16%	28%	28%
Pre-tax RoCE	15%	18%	8%	14%	24%	13%	23%	25%
Interest Coverage Ratio	3.1	3.9	1.9	4.1	6.8	4.8	9.8	12.0
Pre-tax CFO/ EBITDA	93%	90%	112%	76%	81%	118%	89%	98%
Dividend Yield	1.1%	1.4%	2.4%	0.7%	0.5%	2.9%	2.9%	2.9%
FCF/ Revenue	5.9%	0.6%	-7.1%	6.6%	7.6%	4.5%	5.3%	9.3%
CFO/Revenue	18%	17%	16%	24%	18%	19%	17%	20%

Source: Ambit Capital research, Company

Key Financials – JSPL Consolidated

Income statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	278	394	305	390	511	506	520	665
EBITDA (excl. OI)	65	84	77	144	155	97	131	181
EBIT	26	29	39	115	135	72	101	147
Adj. PBT	-13	-13	-3	84	116	63	98	144
Adj. PAT	-8	-2	-1	65	72	47	74	109
Reported PAT	-14	-16	-2	53	68	47	74	109
EPS (x)	-15	-16	-2	52	67	46	72	106

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Worth	304	324	321	318	356	399	469	575
Borrowings	430	396	369	293	129	111	111	111
Total Liabilities	584	575	584	469	324	330	350	385
Net Fixed Assets	646	670	672	519	422	421	454	486
Total Non-current assets	749	753	738	575	500	504	540	560
Cash & CE	2.6	2.0	5.6	60	35	73	90	165
Total current assets	141	140	157	203	154	209	263	382
Total Assets	892	896	897	778	766	825	915	1,054

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	-19	-28	-2.5	73	122	63	98	144
Changes in WC	10	4.7	15	-26.8	0	6.5	-17.0	-12.3
CFO	74	89	95	120	160	88	89	133
Net Capex	-16	-12	-16	-8.4	-29	-29	-66	-51
CFI	-14	-8.3	-16	-18.8	-23	-29	-66	-51
Borrowings	-30	-37	-39	-23	-128	-20	0	0
Interest paid	-47	-46	-40	-23	-26	-9	-3	-3
CFF	-63	-83	-76	-46	-151	-32	-6	-6
FCF	11	31	39	89	106	50	20	79

Source: Company, Ambit Capital research

Valuation Parameters

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	23%	21%	25%	37%	30%	19%	25%	27%
Adj. RoE	-3%	-1%	0%	21%	21%	12%	16%	20%
Pre-tax RoCE	3%	4%	5%	17%	23%	13%	17%	22%
Interest Coverage Ratio	0.7	0.7	0.9	3.7	7.1	7.9	33.5	49.0
Pre-tax CFO/ EBITDA	115%	106%	123%	82%	116%	107%	87%	93%
FCF/ Revenue	3.9%	8.0%	12.8%	22.7%	20.7%	9.9%	3.9%	11.9%
CFO/Revenue	27%	23%	31%	31%	31%	17%	17%	20%

Source: Ambit Capital research, Company

Key Financials – Hindalco Consolidated

Income statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,158	1,305	1,181	1,320	1,951	1,969	1,825	1,876
EBITDA (excl. OI)	138	154	143	175	287	273	267	272
EBIT	104	119	104	121	231	216	210	215
Adj. PBT	64	81	62	84	194	181	178	185
Adj. PAT	43	55	41	57	140	127	125	130
Reported PAT	61	55	38	52	143	127	125	130
EPS (x)	27.3	24.7	16.9	23.3	64.1	56.9	56.0	58.2

Source: Company, Ambit Capital research

Balance Sheet (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Worth	549	575	583	665	782	899	1,013	1,133
Minority Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Borrowings	521	524	684	665	632	532	492	452
Capital employed	1,193	1,233	1,415	1,478	1,574	1,591	1,665	1,745
Net Fixed Assets	693	714	768	872	879	943	1,025	1,114
Net current assets	214	246	382	257	329	280	272	264
Total assets	1,193	1,233	1,415	1,478	1,574	1,591	1,665	1,745

Source: Company, Ambit Capital research

Cash Flow statement (₹ bn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	81.6	80.8	59.2	79.1	195.7	181.0	178.1	185.1
Changes in WC	-12.7	-16.9	-11.8	14.0	-91.3	21.7	18.9	-21.5
CFO	109.0	119.8	126.6	179.1	168.2	250.2	242.9	204.9
Net Capex	-29.6	-59.7	-67.1	-55.2	-53.6	-131.0	-149.6	-156.3
CFI	50.3	-56.5	-83.0	-278.8	-70.7	-130.2	-149.6	-156.3
Borrowings	-122.8	-14.4	109.5	-8.9	-49.3	-100.0	-40.0	-40.0
Interest paid	-38.5	-35.8	-40.2	-36.8	-32.5	-34.9	-32.4	-29.9
Dividends Paid	-2.9	-3.2	-3.2	-2.2	-6.7	-10.0	-10.0	-10.0
CFF	-164.1	-54.6	66.1	-48.7	-67.7	-144.9	-82.4	-79.9
Net Inc. in C&CE	-4.9	8.7	109.7	-148.4	29.8	-24.8	11.0	-31.2
FCF	61.5	24.3	19.4	-108.1	78.7	84.3	61.0	18.8

Source: Company, Ambit Capital research

Valuation Parameters

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	11.9%	11.8%	12.1%	13.3%	14.7%	13.9%	14.7%	14.5%
Adj. RoE	8.5%	9.8%	7.0%	9.1%	19.3%	15.1%	13.0%	12.1%
Pre-tax RoCE	9.6%	10.9%	8.8%	9.3%	16.8%	15.2%	14.3%	13.9%
Interest Coverage Ratio	2.7	3.1	2.5	3.2	6.1	6.2	6.5	7.2
Dividend Yield	0.6%	0.6%	1.3%	0.3%	0.7%	0.8%	1.0%	1.0%
FCF/ EBITDA	27.4%	14.7%	12.9%	49.8%	30.6%	34.5%	25.1%	11.0%
CFO/Revenue	9.4%	9.2%	10.7%	13.6%	8.6%	12.7%	13.3%	10.9%

Source: Ambit Capital research, Company

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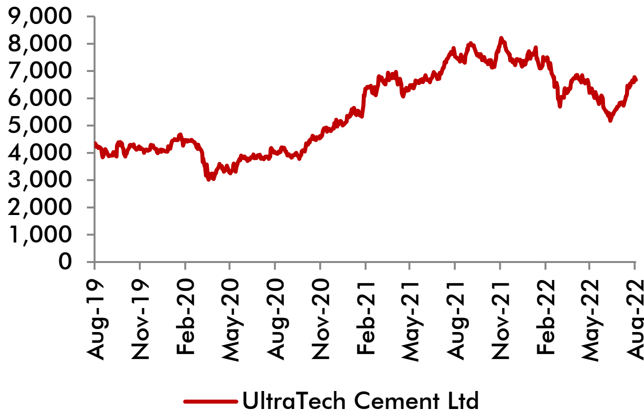

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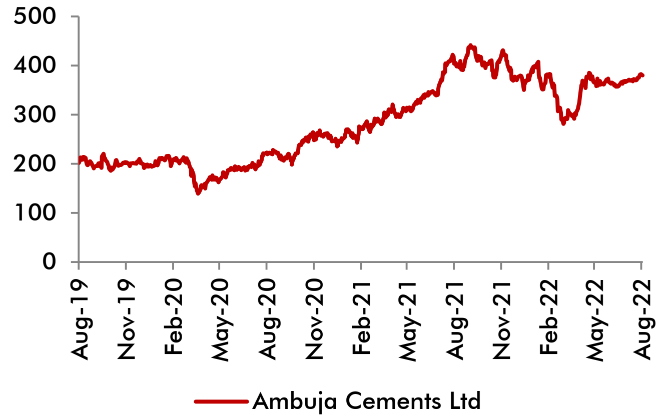

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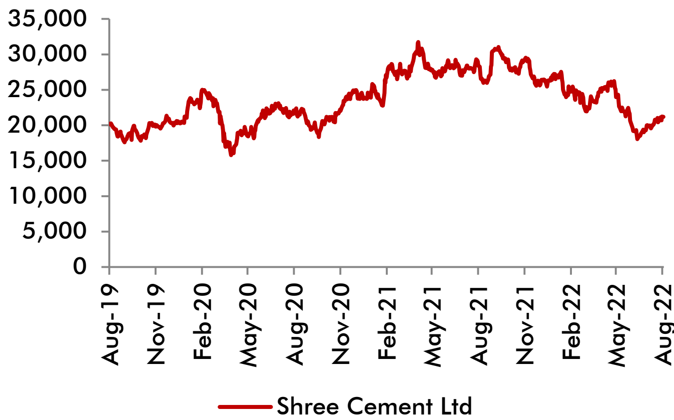

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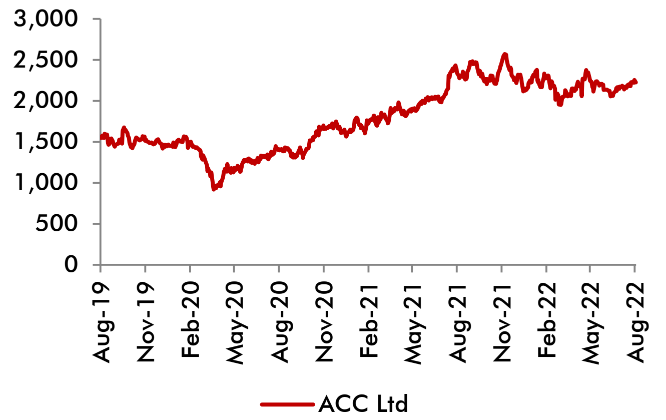

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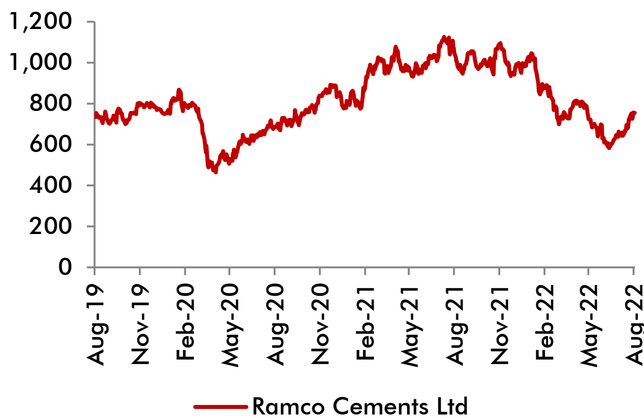

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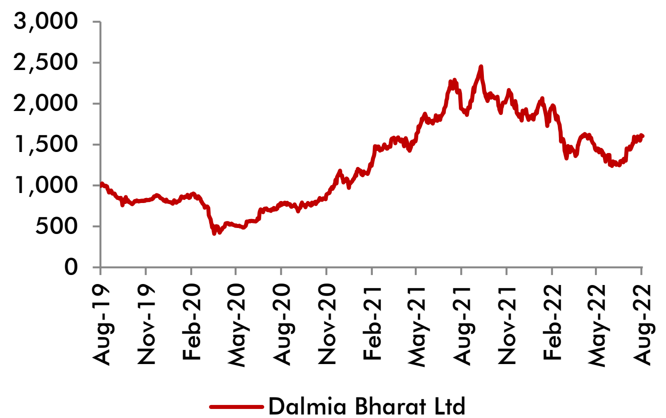

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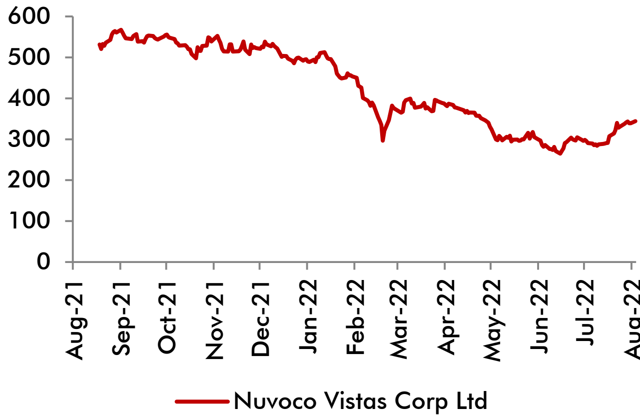

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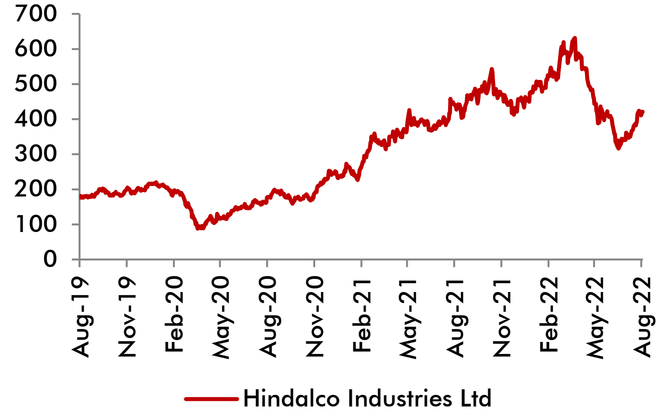

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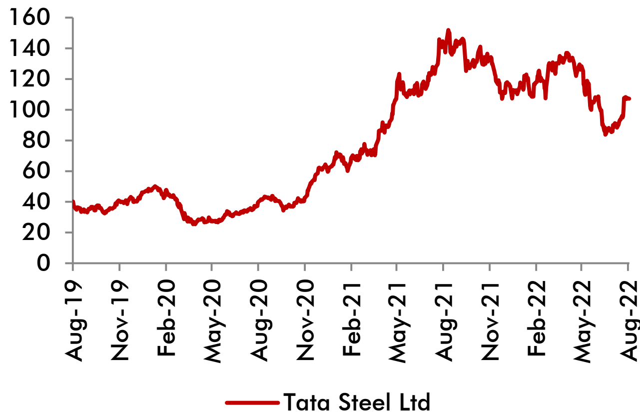

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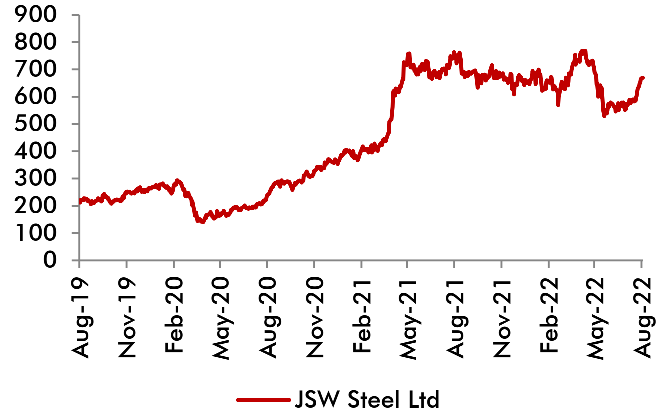

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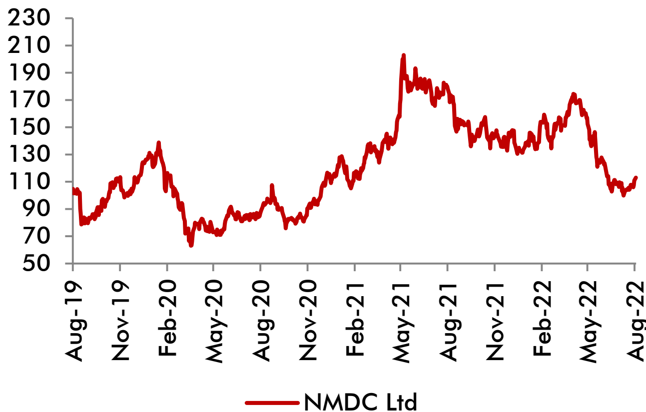

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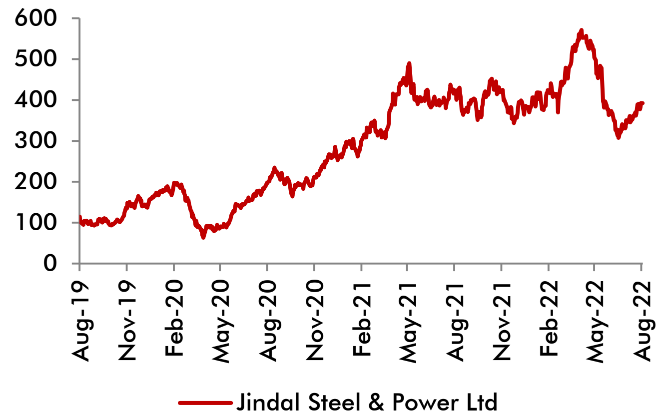

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