

# Cement, Metals & Mining

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## *4QFY17E Results Preview*

**13 Apr 2017**

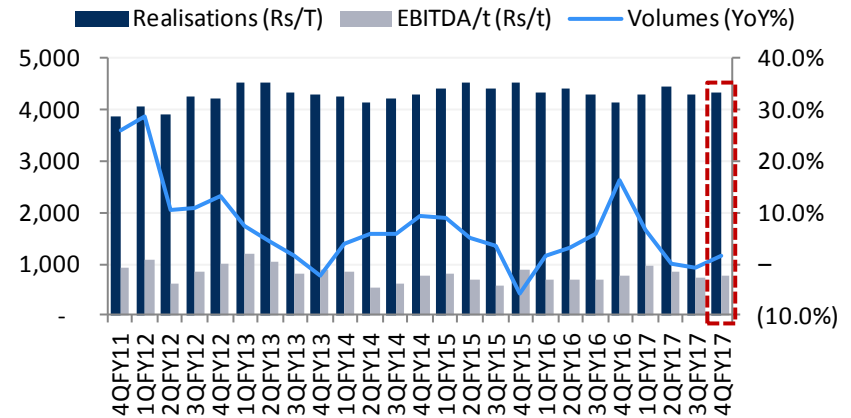
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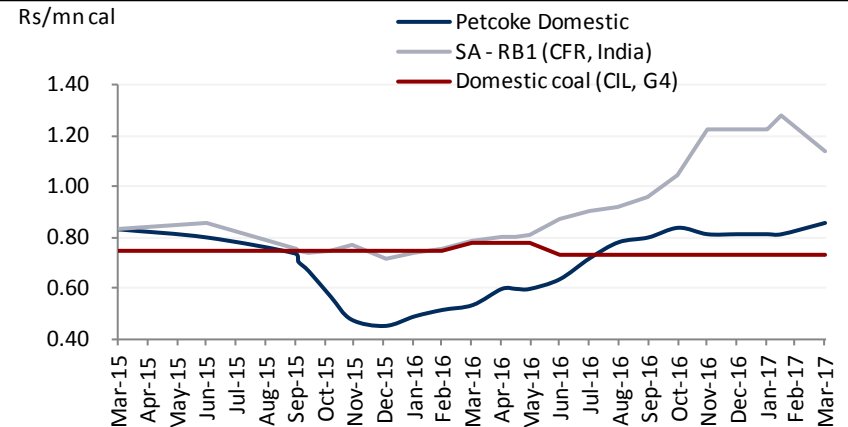
# Cement: Off-color peak season, again

- The lagged impact of demonetisation and a strong base (volume growth of the cement industry in 4QFY16 was ~16%) are likely to impact 4QFY17 volume growth, resulting in one of the weakest peak seasons on record. We expect our coverage universe to deliver 1.7% growth in volumes in 4QFY17. Of the companies, Shree Cement is expected to deliver 11% volume growth, while the rest would deliver flat YoY volumes. Sanghi Industries' headline volumes will decline ~17%, owing to substantial clinker sales in Jan-March 2016.
- Despite an improvement in realisations of ~5% YoY (but flat QoQ), cement EBITDA/t is likely to remain flat (~Rs 770 vs Rs 780 in 4QFY16). This is largely owing to increasing P&F costs, as companies have benefitted from very low petcoke prices in the base quarter (prices of ~Rs 0.5/'000 Kcal for petcoke vs ~0.85 now). We expect Ramco to deliver an EBITDA/t of Rs 1,140/t, the only company to deliver >Rs 1000/t.
- The industry has shaken off the demonetisation impact reasonably well. However, we have a cautious stance on the sector, driven by two factors: 1) Low actual delivery, both in profitability and return ratios and 2) Expensive valuations, even on assumptions which factor in strong profitability expansion. Given the outperformance, we downgrade Grasim and Orient Cement to NEU, while Sanghi Industries and Deccan Cement are KEY BUYS.

## EBITDA/t: Flattish In An Off-color Peak Quarter<sup>1</sup>



## Pet-coke Costs Remain Elevated, Imported Coal Is Even Costlier<sup>2</sup>



Source: DIPP, Companies, HDFC sec Inst Research

<sup>1</sup>Data pertains to our coverage universe only

<sup>2</sup>:Prices inclusive respective levies. Petcoke : 8,000 kcal/kg, SA - RB1 - 6,000 kcal/kg, CIL, G4 - 6,250 kcal/kg

# Cement: Strong Pricing, Weak Volumes

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
UltraTech Cement	GOOD	<ul style="list-style-type: none"> <li>Sequentially flattish realisations (2.4% YoY) , coupled with flat volumes. We expect EBITDA/t of Rs 898 (Vs Rs 920).</li> </ul>	<ul style="list-style-type: none"> <li>Expected profitability and utilisations from the acquired JPA capacities</li> </ul>
Shree Cement	VERY GOOD	<ul style="list-style-type: none"> <li>Strong volume growth (11%), aided by expansion in the East, while pricing is expected to remain flat QoQ (2.4% YoY). We expect EBITDA/t of Rs 934 (21.5% YoY)</li> </ul>	<ul style="list-style-type: none"> <li>More announcements on clinker capacity additions</li> </ul>
Grasim Industries	GOOD	<ul style="list-style-type: none"> <li>Strong volumes and profitability in the VSF business will contribute to sturdy margins (VSF EBITDA/kg of Rs 33).</li> </ul>	<ul style="list-style-type: none"> <li>Progress calendar for AB Nuvo acquisition</li> </ul>
Ambuja Cement	GOOD	<ul style="list-style-type: none"> <li>Realisations and volumes are likely to be flat QoQ and YoY respectively. EBITDA/t of Rs783 (vs 710)</li> </ul>	<ul style="list-style-type: none"> <li>Any updates on merger synergies with ACC</li> </ul>
ACC	AVG	<ul style="list-style-type: none"> <li>Marginally higher volumes (+1.5% YoY) and realisations (1.0% QoQ, 6.0% YoY) will aid ACC deliver an EBITDA/t of Rs 453 (vs 540)</li> </ul>	<ul style="list-style-type: none"> <li>Updates on merger synergies with ACEM</li> <li>Updates on capacity ramp-ups in the East</li> </ul>
Ramco Cements	GOOD	<ul style="list-style-type: none"> <li>Volume growth is likely to flatten (5% YoY), while realisations may take a hit due to lower prices in the South (-2.0% QoQ) driving EBITDA/t to Rs 1,140/t (vs 1,481)</li> </ul>	<ul style="list-style-type: none"> <li>Fuel cost movement, as Ramco is the only company not to have witnessed any fuel cost inflation in the past year.</li> </ul>

# Cement: Strong Pricing, Weak Volumes

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Birla Corp	AVG	<ul style="list-style-type: none"> <li>Weak EBITDA/t (Rs 311) driven by flattish realisations (1.0% QoQ) and weak volumes (-1.9% YoY) in the standalone capacity</li> </ul>	<ul style="list-style-type: none"> <li>Ramp-up and integration status of Reliance's capacities</li> </ul>
Orient Cement	AVG	<ul style="list-style-type: none"> <li>EBITDA/t likely to remain constrained (Rs 407/t ) by weak pricing (9.7% YoY, -2.5% QoQ) and lacklustre volumes (1% YoY)</li> </ul>	<ul style="list-style-type: none"> <li>Updates on the acquisition and funding of JPA capacities</li> </ul>
Sanghi Industries	AVG	<ul style="list-style-type: none"> <li>EBITDA/t of Rs 486, a reasonable outcome, given low prices in Gujarat in January and February. Further, 4QFY16 witnessed substantial clinker exports, and hence headline volumes growth appears low.</li> </ul>	<ul style="list-style-type: none"> <li>Updates on future capacity additions</li> </ul>
Deccan Cement	AVG	<ul style="list-style-type: none"> <li>EBITDA/t of Rs 683, led by lower prices (down 2% QoQ) and flattish volumes</li> </ul>	<ul style="list-style-type: none"> <li>Volume growth</li> </ul>

# Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	4Q	QoQ	YoY	4Q	QoQ	YoY	4Q	3Q	4Q	4Q	QoQ	YoY	4Q	3Q	4Q
	FY17E	(%)	(%)	FY17E	(%)	(%)	FY17E	FY17	FY16	FY17E	(%)	(%)	FY17E	FY17	FY16
Ultratech Cement	65.9	19.0	2.4	12.5	20.1	(2.4)	19.0	18.9	20.0	6.1	8.4	(10.3)	22.3	20.5	24.9
ACC*	30.4	13.9	3.9	2.9	52.6	(20.9)	9.6	7.2	12.6	1.7	243.1	(28.6)	8.8	2.6	12.4
Grasim Industries #	97.6	13.4	(2.5)	20.8	21.7	4.0	21.3	19.9	20.0	9.0	27.7	23.7	19.5	15.8	75.7
Ambuja Cement*	26.0	18.4	7.6	4.7	60.1	11.4	18.1	13.4	17.5	3.4	83.3	465.3	1.7	0.9	0.3
Shree Cement	23.4	26.9	15.9	5.9	24.8	15.9	25.0	25.4	25.0	3.6	53.9	62.2	103.5	67.3	63.8
The Ramco Cements	10.1	8.1	(0.8)	2.9	9.0	(17.2)	28.4	28.2	34.0	1.6	2.2	(16.9)	6.5	6.4	7.9
Birla Corp	8.8	22.4	3.2	0.7	64.1	(30.8)	7.6	5.7	11.4	(0.0)	N/M	N/M	(0.3)	0.3	15.0
Orient Cement	5.0	9.4	11.2	0.6	33.3	(1.7)	12.1	10.0	13.7	(0.1)	N/M	N/M	(0.6)	(0.6)	0.9
Sanghi Industries	2.6	(3.4)	(13.3)	0.4	(14.0)	(41.8)	13.8	15.6	20.6	0.0	(94.6)	(99.2)	0.0	0.2	1.5
Deccan Cements	1.6	19.4	10.4	0.2	3.4	(20.3)	15.5	17.9	21.5	0.1	3.8	14.8	16.3	15.7	14.2
<b>Aggregates</b>	<b>205.4</b>	<b>15.3</b>	<b>2.1</b>	<b>39.1</b>	<b>26.8</b>	<b>0.2</b>	<b>19.0</b>	<b>17.3</b>	<b>19.4</b>	<b>19.2</b>	<b>44.3</b>	<b>19.5</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>

Source : Company, HDFC sec Inst Research \*Dec end, # Stock split in Grasim effective Oct 2016

Note: Aggregates do not include UltraTech Cement, already included in Grasim's consolidated numbers

# Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	P/E		EV/EBITDA		EV/Tonne (US\$)		RoE (%)	
					FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Ultratech Cement	1,110	4,033	SELL	3,380	30.5	24.0	17.3	13.8	260	248	14.8	16.2
Shree Cement	617	17,710	SELL	13,907	36.6	26.5	17.7	12.9	252	227	20.8	23.3
Ambuja Cement #	493	249	SELL	200	32.4	23.3	13.6	10.2	167	159	19.2	23.3
Grasim Industries	492	1,072	NEU	1,200	10.8	9.3	10.0	8.0	183	166	14.4	14.7
ACC Ltd #	281	1,495	SELL	1300	25.5	17.3	13.3	9.6	124	120	11.8	16.8
Ramco Cements	159	667	SELL	456	22.6	18.7	12.7	10.5	200	191	18.1	18.8
Birla Corp	58	750	NEU	678	66.5	27.0	11.4	9.5	106	103	3.3	7.8
Orient Cement	31	151	NEU	165	36.6	14.1	10.9	8.1	69	68	6.9	13.6
Sanghi Industries	15	70	BUY	83	10.9	6.8	6.1	4.2	73	64	14.2	19.4
Deccan Cements	8	1,171	BUY	1468	16.2	14.1	7.4	5.4	56	52	16.3	16.1

Source : Company, HDFC sec Inst Research # Dec end

Note: Prices as on April 12 2017 close, US: INR: 64.67

# Metals And Mining: Miners Benefit As Raw Materials Surge

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Coal India	AVG	<ul style="list-style-type: none"> <li>We expect e-Auction premia to FSA to recover to 35% (from 21% in 3Q) and this will drive improvement in EBITDA/t to 438 (vs 278 QoQ and 428 YoY). Further, hikes in coking coal prices in 4QFY17 will help.</li> </ul>	<ul style="list-style-type: none"> <li>E-Auction pricing</li> </ul>
Hindustan Zinc	VERY GOOD	<ul style="list-style-type: none"> <li>Strong pricing (Zn/Pb up 10.4/6.7 QoQ) and improvement in volumes (215kT) to drive EBITDA up 6.4/126.3% QoQ/YoY</li> </ul>	<ul style="list-style-type: none"> <li>Updates on the mine expansion plans</li> </ul>
JSW Steel	AVG	<ul style="list-style-type: none"> <li>Steel spreads unchanged in 4QFY17, as steel prices hikes ~Rs2,000/t were offset by RM cost expansion. We model flat EBITDA/t QoQ (Rs 7,400)</li> </ul>	<ul style="list-style-type: none"> <li>Updates on reported bid for Monnet Ispat assets</li> </ul>
MOIL	VERY GOOD	<ul style="list-style-type: none"> <li>Continued strong pricing (4QFY17 realisations up 70% YoY) and weak volumes (down 40% YoY) will likely drive EBITDA to Rs 1.17 bn (vs loss in 4QFY16)</li> </ul>	<ul style="list-style-type: none"> <li>Updates on mine expansion</li> </ul>
GMDC	GOOD	<ul style="list-style-type: none"> <li>Exceptional volume growth (31.1% YoY), driven by strong pricing of Indonesian coal, with which GMDC lignite competes.</li> </ul>	<ul style="list-style-type: none"> <li>Ramp-up and direction of volumes from the new mines</li> </ul>

# Financial Summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	3Q FY17	4Q FY16	4Q FY17E	QoQ (%)	YoY (%)	4Q FY17E	3Q FY17	4Q FY16
JSW Steel	161.1	14.9	51.8	30.7	7.2	59.8	19.1	20.5	18.1	8.8	21.1	269.1	3.6	3.0	12.4
Coal India	215.0	9.1	3.6	64.0	61.7	3.0	29.8	20.1	29.9	40.2	39.4	(5.3)	6.5	4.6	6.7
GMDC	5.3	43.4	39.9	1.0	55.1	16.1	19.3	17.9	23.3	0.7	58.1	85.8	2.3	1.5	1.2
Hindustan Zinc	52.2	5.5	70.0	29.6	6.4	126.3	56.7	56.3	42.6	24.4	(15.1)	31.8	5.8	5.5	5.1
MOIL	2.7	(25.3)	26.6	1.2	(14.1)	NM	44.3	38.6	(12.3)	1.0	(5.4)	348.7	7.2	7.6	6.6
<b>Aggregates</b>	<b>436.2</b>	<b>10.7</b>	<b>24.5</b>	<b>126.5</b>	<b>29.0</b>	<b>33.1</b>	<b>29.0</b>	<b>24.9</b>	<b>27.1</b>	<b>75.1</b>	<b>13.3</b>	<b>17.4</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>

Source : Company, HDFC sec Inst Research

JSW Steel stock split effectivev January 2017, numbers for FY17 taken on a split basis



# Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	P/E (x)		P/B(x)		EV/EBITDA (x)		ROE (%)	
					FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Coal India	1,800	290	BUY	369	13.0	10.6	6.9	6.4	6.4	5.2	52.1	62.6
Hindustan Zinc	1,191	282	NEU	254	12.3	10.8	3.1	2.5	8.1	6.8	27.8	25.9
JSW Steel	475	196	NEU	185	11.4	10.4	1.9	1.7	6.5	5.9	18.1	17.2
MOIL	45	336	BUY	445	13.3	7.4	1.5	1.2	5.5	2.1	11.4	18.0
GMDC	39	123	BUY	140	10.3	8.3	1.0	0.9	4.7	3.4	10.3	11.8

Source : Company, HDFC sec Inst Research

Note: Prices as on April 12, 2017 close

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