

Another strong quarter, Earning out performance to continue.

Stocks under coverage

ACC	
TP	1,724
CY21E EV/EBIDTA	10.7x
Ambuja Cement	
TP	262
CY21E EV/EBIDTA	18.2x
The Ramco Cement	
TP	915
FY22E EV/EBIDTA	18.5x
Ultratech Cement	
TP	4660
FY22E EV/EBIDTA	16x
Shree Digvijay Cement	
TP	67
FY22E EV/EBIDTA	6.8x

NOTE : Target Price given are based on Q2 FY21 results & Target Price will be revised post Q3 results.

Source: Arihant Research

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We expect yet another bumper quarter for the cement sector in Q3FY21 despite rising costs and relatively weak pricing (QoQ) as demand recovery has been better. Growth in revenue will be driven largely by volume and pricing growth on YoY basis. EBITDA is expected to be higher as operating costs despite rising on QoQ basis will be lower on YoY basis. Similarly, pricing is expected to be up on YoY basis but down on a sequential basis.

Based on DIPP data, cement production in October and November declined by ~2% YoY. With flat or positive volume growth in December, Q3FY21 production should be flat or marginally lower YoY., we expect demand growth of ~4-6% YoY for the industry in this quarter.

Demand was good in the Northern, Central and Eastern regions whereas it declined in Southern and Western regions. Key demand drivers for North, Central and Eastern regions were infrastructure spending (largely government led) and rural housing. On the other hand, all-India prices declined by 2-3% QoQ primarily due to decline in prices in East and South, partially offset by flattish trend witnessed in North, West and Central regions.

The quarter began on optimistic note with price increases across regions in October. However, the increases were rolled back during the quarter (seasonal), on account of tapering of demand due to festive season and year end volume push impact by Holmic group companies (ACC/Ambuja) in Dec. This phenomenon in Q3 was on expected lines as seen historically (during Q3). Accordingly, we expect 1.5-2%QoQ decline in prices in Q3 Among regions, east registered highest decline (mid to high single digits QoQ - with multi-year low pricing in December), followed by South. Prices in rest of regions moderated marginally QoQ, with North region registering flattish price QoQ. On YoY basis, in Q3, prices are higher teens % in South while +2-3% YoY in North, Central and West (lower YoY in East). Dealers are expecting price increase in Q4 as industry heads into busy construction season.

On the cost front, prices of crude/diesel/imported coke increased by 21%/4.4%/49% QoQ, which will lead to higher freight costs and power & fuel costs. However, we expect employee costs and other expenses to be lower. Any adverse impact on pricing owing to CCI investigations and penalties, coupled with increasing cost inflation remain key downside risks for cement companies.

Outlook : We maintain our positive stance on the sector. We like Ultratech, ACC & Ambuja Cement among our coverage companies as our top picks.

Q3FY21 Earnings Estimates:

in Cr.	Q3FY21E	Q3FY20A	Q2FY21A	YoY	QoQ	Remarks
ACC Limited						
Revenue	4346	4060	3537	7%	23%	Net Revenue in expected to grow backed by volume and realization growth. Volumes are expected to grow by 4% YoY to 8.1 mnmt and Realization/mt is expected to grow by 6.1%YoY to 5067 mn. Better operational efficiency backed by healthy topline growth will help operating profit and bottom line to grow. Demand recovery for cement on Industry front and recent capacity expansion in sindri griding unit will benefit the company. The new facility will add an additional capacity of 1.4 MTPA cement to the existing 3.0 MTPA unit, taking the total capacity at Sindri to 4.4 MTPA
EBIDTA	747	541	671	38%	11%	
PAT	2,668	1,757	1,683	52%	59%	
Ambuja Cement Limited						
Revenue	3386	3135	2852	8%	19%	Volume growth of 5%YoY to 6.9 mn mt and realization growth of 2.8% YoY to Rs 4930/mt will lead to healthy topline growth. Lower operating cost and improved product mix has led to growth in operating profit EBIDTA/mt improved by 25.9% YoY to Rs 1054. growth in topline and operating profit helped the bottom line to grow. Superior margins, strong growth visibility and negligible debt status of the company augers well for the company.
EBIDTA	724	547	680	32%	6%	
PAT	471	455	441	4%	7%	
Ultratech Cement Limited						
Revenue	11149	10354	10354	8%	8%	In Q3FY21 we expect the company to report volume growth of 6%YoY to 22.2 mn mt . Higher cement prices will further aid the revenue growth. Despite rise in pet coke and diesel prices EBIDTA margin is likely to improve by 250 bps YoY to 22.8%. the company's 19.5 MTPA expansion plan will help the company outperformance to continue going ahead.
EBIDTA	2549	2106	2695	21%	-5%	
PAT	1126	711	1235	58%	-9%	
The Ramco Cement Limited						
Revenue	1511	1278	1257	18%	20%	Revenue is expected to grow 18% YoY due to improved realization despite volume de-growth .Realization/mt is likely to improve by 20.7% YoY to Rs 5424. Improved realization and better operational efficiency will lead to better operating profit which in turn will lead to growth in bottom line Long history of operations, brand equity, low cost producer and a healthy B/S are the factors that will drive the future growth of company.
EBIDTA	413	205	442	101%	-7%	
PAT	272	95	236	186%	15%	
Shree Digvijay Cement Co Limited						
Revenue	164	122	97	34%	69%	Robust expectation of revenue growth on YoY & QoQ basis is backed by healthy volume and realization growth . Realization/tonne is expected to grow by 19% YoY toRs 5450/mt. Sales Volume is expected to grow by 15.4%YoY to 3 mnmt.Better operational efficiency will lead to better operating profit in coming Quarter .EBIDTA /tonne is likely to improve by 48% YoY to Rs 308.We are positive on the company considering its reasonable valuations and monopoly in oilwell cement.
EBIDTA	31	20	10	59%	210%	
PAT	18	9	3	91%	567%	

Note :ACC & Ambuja cement follow calendar year

Source: Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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