

January 8, 2021

## Volume growth to take front seat in Q3FY21E

After witnessing price led revenue growth during H1FY21 due to lockdown impact, Q3FY21 is expected to witness volume led revenue growth. Sustained demand from individual housing (IHB) in semi urban and rural region and healthy pick-up in infra activities from September 2020 onwards would aid growth in volumes in Q3FY21. In the current fiscal, at all-India level, cement dispatches are expected to report first ever growth during the quarter. In terms of regions, we expect demand in the north, central and east to remain firm supported by higher welfare spending and better crop production. Further, improved demand from south and west region (supported by a pick-up in government led infrastructure activities) would provide support for sales volume growth during the quarter. Overall, for Q3FY21E, our I-direct cement coverage universe is expected to report volume growth of 7.7% YoY, 14.7% QoQ in sales volume to 52.8 MT.

## Cement prices to cool-off QoQ; to stay firm YoY

As per our channel checks, average cement prices have declined by ₹ 4/bag (down 1.1% QoQ) to ₹ 360/bag. However, it still remains higher by 5.1% YoY. Prices in the east and west fell 4.1% and 2.9% QoQ, respectively, while in south and central, prices declined marginally QoQ. On a YoY basis, steepest price hikes (up 16.9% YoY) have been seen in the south region with prices in AP, Telangana up by ₹ 80-90/bag. Going forward, the year-end volume push, rise in share of institutional demand would keep cement prices under check. However, rising cost pressure (petcoke and diesel prices) may compel companies to undertake price hikes to maintain margins.

## EBITDA/t to improve YoY despite rise in cost of production

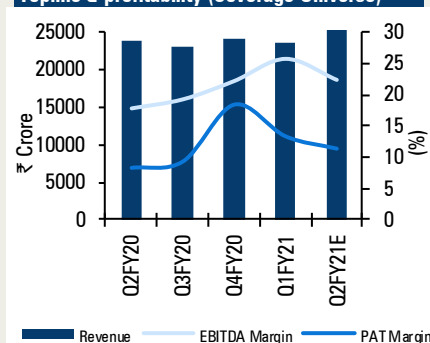
Average diesel prices are up ~10% YoY, which will lead to a rise in freight cost by ₹ 55/tonne. Also, petcoke prices inched up 26% QoQ (up 35% YoY). However, players switching to coal would help restrict its impact to ~12-14%. This would lead to another cost impact of ₹ 90-100/tonne during the quarter. On the other hand, we expect cost rationalisation drive initiated during H1 to keep overall cost of production under check. Also, cement prices despite QoQ correction are up 5.1% YoY. This is expected to lead to EBITDA/tonne growth 28.8% YoY to ₹1,125/t for our entire coverage universe.

Exhibit 1: Estimates for Q3FY21E: (Cement)

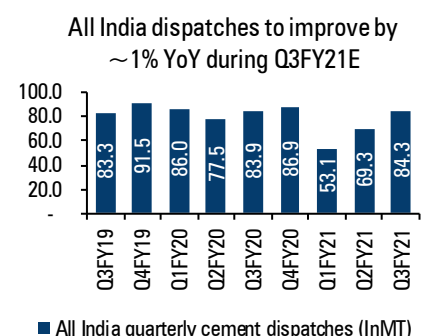
Company	Revenue			EBITDA			PAT		
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
ACC ^	4,264.8	7.4	20.6	699.3	55.3	4.2	410.6	50.3	12.9
Ambuja ^	3,357.3	7.1	17.7	686.0	25.3	0.8	446.4	-1.9	1.3
JK Cement	1,672.5	19.1	7.9	414.2	49.1	0.8	200.6	45.9	-10.2
JK Laxmi Cement	1,121.3	11.6	7.3	180.5	18.8	-3.3	75.2	52.9	-6.7
Ramco Cements	1,419.4	10.7	12.1	401.1	96.0	-10.3	208.6	118.7	-12.7
Sagar Cements	357.7	36.5	9.8	98.9	397.8	-5.6	45.5	LP	-9.3
Shree Cement	3,314.2	16.4	9.7	955.3	12.5	-3.3	485.6	56.7	-11.3
UltraTech Cem	11,096.9	11.2	10.8	2,508.6	40.5	-1.7	1,141.6	77.5	-5.5
<b>Total</b>	<b>26,604.2</b>	<b>11.4</b>	<b>12.6</b>	<b>5,943.8</b>	<b>38.6</b>	<b>-1.6</b>	<b>3,014.2</b>	<b>54.2</b>	<b>-4.4</b>

Source: Company, ICICI Direct Research

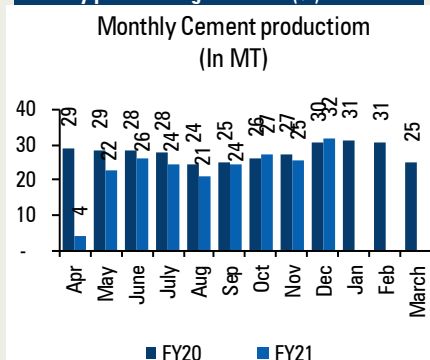
Topline &amp; profitability (Coverage Universe)



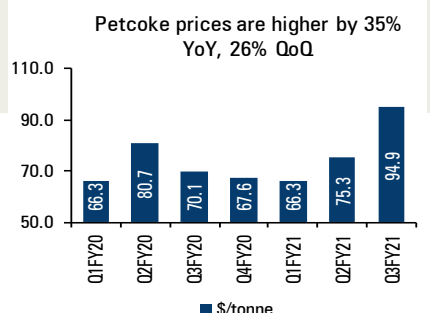
All-India quarterly cement dispatches



Monthly production growth YoY(%) - Till Dec20



International Petcoke price trend



Top Picks

JK Cement  
Sagar Cement

Research Analyst

Rashesh Shah  
rashesh.shah@icicisecurities.com

**Company specific view**

Company	Remarks
ACC	ACC is expected to report a 23.5% QoQ growth in volumes to 8.0MT for Q4CY20E led by pick-up in North and East region. Realisations though would fall 2.4% QoQ. Cost of production per tonne may increase 0.7% QoQ due to rise in the petcoke prices. This would lead to sequential decline in EBITDA/tonne. On absolute basis EBITDA and PAT would grow by 4.2% and 12.9% QoQ respectively due to improved sales volumes
Ambuja Cement	Ambuja Cement derives major revenues from the North and Western India markets. While price in North remain steady, western region saw weakness in prices during Q3FY21. However, volume offtake remained better than Industry average in the North region led by strong demand from rural and semi-urban market. Accordingly, we expect volumes growth of 20.5% QoQ to 6.8MT while realisations are expected to drop by 2.3% QoQ after strong up move in Q2. EBITDA/t is expected to decline 16.3% QoQ to ₹1,004/t whereas on YoY basis, it is likely to improve by 20% due to cost rationalisation
UltraTech Cement	With expanded capacity, we expect volume growth of 8.6% YoY and 13% QoQ. Region wise, North, Central and East to report better sales volumes while South (Karnataka, Tamil Nadu) and Western region to remain dragger. Realisations to likely fall by 2.0% QoQ, broadly in line with price movement at all India level. EBITDA/tonne to decline 13% QoQ mainly on account of weakness in the cement prices. However, we expect the same to improve 29.4% on YoY basis due to benefit of cost rationalisation initiatives taken by company in the previous quarter and better pricing on YoY basis
Shree Cement	Sharp volume push in North and Eastern region to drive 14.7% YoY, 9.8% QoQ growth in volumes during the quarter. However, considering the weak pricing in these markets during the quarter, we expect average realisations to decline by 3% QoQ. With petcoke prices inching upwards during the quarter, we expect EBITDA/tonne to fall by 2% YoY, 12% QoQ to ₹ 1,332/tonne. Despite this, company would maintain the highest EBITDA/tonne among its comparable peers. On absolute basis, we expect EBITDA to increase ~12.5% YoY to ₹ 955 crore
JK Cement	With the company's grinding capacity increasing 33% YoY, we expect the sales volumes growth of 20.6% YoY, 9.8% QoQ (highest amongst I-direct universe). Strong white cement realisations along with other cost rationalisation and cost benefit from new plant should lead to 23.7% YoY growth in EBITDA/t after adjusting for higher fuel and petcoke prices during the quarter. On absolute basis, we expect EBITDA to grow by 49.1% YoY to ₹ 414.2 crore while Higher depreciation with respect to new capacity would lead to PAT growth of ~45.9% YoY for the quarter
JK Lakshmi Cement	JK Lakshmi Cement's capacity utilisations levels to improve to 88% during Q3 vs. 82% reported in Q2FY21 due to higher presence in North and Central region. However, weak cement prices in this region should lead to weak realisation during the quarter. As a result, EBITDA/tonne is likely to decline by 10.2% QoQ to ₹701/tonne (lowest amongst peer group). PAT is expected at ₹75.2 crore for the quarter
Ramco Cement	Ramco Cement operates mostly in the south and eastern markets. While volume is expected to remain weak in South, realisations in East is also weekend due to festive season during the quarter. Overall, we expect volume to decline by 8% YoY during the quarter. On the other hand, better pricing in South should offset the volume led revenue loss with expected revenue growth of over 10.7% YoY to ₹ 1419 crore. Better realisations should help the company to improve EBITDA/t sharply by 113.6% YoY to ₹ 1537/tonne
Sagar Cement	Being a leading player in AP/Telangana, we expect the company's operating performance to improve with start of few mega irrigation projects supported with some pent-up demand. Thus, we expect volume growth of 7.4% YoY, 13.5% QoQ basis to 0.82MT. With sharp YoY improvement in the realisations, we expect the company's EBITDA/t to increase 3 fold to ₹1206/t on YoY basis. However, on QoQ it should decline by 17% due to seasonal weakness in prices along with rise in the fuel prices

Source: Company, ICICI Direct Research

**Sales Volume (Coverage Universe)**

In MT	Q3-21E	Q3-20	YoY (%)	Q2-21	QoQ (%)
ACC	8.0	7.8	3.3	6.5	23.5
Ambuja	6.8	6.5	4.4	5.7	20.5
UltraTech*	21.7	20.0	8.6	19.2	13.0
Shree Cem	7.2	6.3	14.7	6.5	9.8
JK Cement*	3.1	2.6	20.6	2.8	9.8
JK Lakshmi	2.6	2.3	10.5	2.4	7.7
Ramco Cem	2.6	2.8	-8.2	2.2	17.9
Sagar Cem	0.8	0.8	7.4	0.72	13.5
Total	52.8	49.0	7.7	46.0	14.7

\* blended sales volume (grey & white)

**Region-wise cement retail prices**

₹/50 kg bag	Q3-21E	Q3-20	YoY (%)	Q2-20	QoQ (%)
North	369	347	6.2	361	2.3
East	337	348	-3.2	351	-4.1
South	387	331	16.9	390	-0.6
West	347	328	5.6	357	-2.9
Central	359	356	0.7	361	-0.6
North East	412	401	2.9	408	1.0
Pan India	360	342	5.1	364	-1.1

**Cement Realizations (Coverage Universe)**

₹/tonne	Q3-21E	Q3-20	YoY (%)	Q2-21	QoQ (%)
ACC	5320	5116	4.0	5450	-2.4
Ambuja	4915	4795	2.5	5031	-2.3
UltraTech*	5111	4991	2.4	5215	-2.0
Shree Cem	4490	4508	-0.4	4628	-3.0
JK Cement*	5419	5485	-1.2	5517	-1.8
JK Lakshmi	4356	4313	1.0	4371	-0.3
Ramco Cem	5355	4475	19.7	5498	-2.6
Sagar Cem	4362	3431	27.1	4512	-3.3
Average	5015	4862	3.1	5120	-2.1

\* Blended (grey cement + white cement)

**EBITDA per tonne (Coverage Universe)**

₹ per tonne	Q3-21E	Q3-20	YoY (%)	Q2-21	QoQ (%)
ACC	872	580	50.3	1035	-15.7
Ambuja	1004	837	20.0	1200	-16.3
UltraTech*	1155	893	29.4	1329	-13.0
Shree Cem ^	1332	1359	-2.0	1513	-12.0
JK Cement*	1342	1085	23.7	1461	-8.2
JK Lakshmi	701	652	7.6	781	-10.2
Ramco Cem	1537	720	113.6	2021	-24.0
Sagar Cem	1206	260	363.7	1451	-16.9
Average	1125	874	28.8	1312	-14.3

\*Blended (grey + white), ^ Blended (Cement + Power)



## Exhibit 2: ICICI Direct Coverage Universe (Cement)

Company	CMP		Rating	M Cap (₹ Cr)	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,640	1,950	BUY	31,010	73	84	97	12.2	10.3	8.7	113	116	97	17.4	17.8	18.6	11.9	12.3	12.8
Ambuja Cem*	252	280	HOLD	50,038	7.7	8.7	9.5	14.1	12.8	11.2	140	152	134	12.2	17.1	17.3	14.7	19.7	19.6
UltraTech Cem	5,340	6,100	BUY	151,500	173	211	253	15.5	13.4	11.2	202	202	190	13.8	15.3	16.9	11.7	12.6	13.2
Shree Cement	23,900	28,000	BUY	86,240	435	611	653	23.4	20.7	18.3	253	239	235	13.8	17.6	17.7	12.1	14.9	13.9
Heidelberg Cem	230	265	BUY	5,212	11.8	10.2	14.6	10.4	11.6	8.7	139	123	117	22.3	20.3	27.5	20.4	19.0	24.0
JK Cement	2,090	2,400	BUY	15,608	74.9	86.4	95.2	15.2	12.4	10.8	165	157	161	16.2	17.4	17.4	18.5	18.0	16.9
JK Lakshmi Cem	342	450	BUY	4,025	22.6	26.3	28.4	7.4	6.6	5.7	61	59	59	17.1	18.2	20.1	15.5	15.1	15.4
Star Cement	107	120	BUY	4,318	6.9	4.8	6.7	9.6	10.5	8.4	131	90	85	17.1	12.1	14.9	15.4	10.1	12.9
Ramco Cement	798	1,000	BUY	20,713	25.7	36.4	37.4	20.7	14.3	13.2	182	175	170	7.5	9.9	10.1	12.3	15.0	13.4
Sagar Cement	725	950	BUY	1,704	17.1	59.5	73.8	11.8	6.7	5.4	54	56	41	7.2	14.2	15.3	4.2	11.8	12.8

Source: Company, ICICI Direct Research

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Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

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