

Cement/Infrastructure/Building Material

Cement, building material on growth path,
infra to pick up execution

Q4FY2021 Results Preview

Sector: Cement/Infra/

Building Material

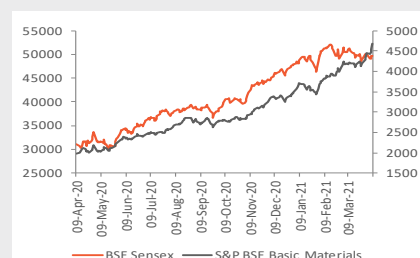
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Cement			
Shree Cement	31,646	Buy	UR
Ultratech Cement	6,977	Buy	8,000
Grasim Industries	1,447	Buy	1,680
The Ramco Cement	1,065	Buy	1,150
JK Lakshmi Cement	439	Buy	525
Dalmia Bharat	1,560	Buy	1,900
Infrastructure			
Sadbhav Engineering	64	Buy	100
KNR Constructions	218	Buy	270
Ashoka Buildcon	97	Buy	125
PNC Infratech	259	Buy	300
Building Materials			
Supreme Industries	1,983	Buy	2,330
Century Plyboards	309	Buy	360
Greenlam Industries	959	Buy	1,100
Kajaria Ceramics	973	Buy	1,200
Astral Poly Technik	1,595	Hold	UR
Pidilite Industries	1,905	Buy	UR
APL Apollo Tubes	1,270	Buy	1,330

Source: Sharekhan Research,
UR - Under review

Price chart



The cement and building material sectors are expected to show strong net profit growth, while infrastructure is expected to see strong uptick in execution in Q4FY2021. Our cement universe (ex-Grasim) is likely to see benefit from sustained demand (rural and infrastructure) and low base (COVID-19 led lockdown during Q4FY2020), leading to 23.3% y-o-y (up 15.0% q-o-q) volume growth. Rise in pan-India cement prices from the fag end of February 2021 has led to almost flat q-o-q cement prices (although up 4% y-o-y). We expect the cement universe (ex-Grasim) to report 27.8% y-o-y (up 16.1% q-o-q) rise in net revenue. Higher operating leverage and better realisation on a y-o-y basis is likely to partially absorb the rise in power and fuel costs and freight costs. Hence, weighted average EBITDA/tonne is expected to rise by 11.2% y-o-y (although down 8.5% q-o-q) to Rs. 1,176 per tonne. Higher revenue coupled with operating leverage to lead to 53.5% y-o-y (up 12.1% q-o-q) rise in net profit for our coverage universe. For Grasim, we expect a steep rise in VSF prices and better demand environment to aid in strong net profit growth. Our universe of infrastructure companies is expected to see 21.4% y-o-y growth in revenue, led by PNC Infratech and Sadbhav Engineering (low base). Labour availability reaching almost pre-COVID levels to aid in strong execution for Q4FY2021. Road project awards and construction by both MoRTH and NHAI combined for FY2021 have risen by 17.4% y-o-y and 29.9% y-o-y, respectively, which highlights improving order tendering and execution for the sector. E-way bill and FASTag volume during Q4FY2021 have risen by 6.4% and 29.8% q-o-q, respectively, signaling strong growth in traffic. OPM (for our coverage universe) is expected to stay steady q-o-q (although lower by 268bps y-o-y) as higher execution leads to better absorption of fixed costs. Our coverage universe is expected to witness 5.2% y-o-y rise in net profit, mainly led by lower operating margins y-o-y. Our set of building materials companies is expected to register strong growth of 30.3% y-o-y in revenue in Q4FY2021 (down 1.7% q-o-q) on account of lockdown impact felt during Q4FY2020 and strong demand continuing from the housing sector. The steep rise in PVC prices during Q4FY2021 is expected to benefit players such as Supreme Industries, Astral Poly Technik, and APL Apollo pipes in terms of higher revenue and better operating margins led by inventory gains. Kajaria Ceramics is expected to post healthy volume growth owing to better demand, low base, and market share gains (as Morbi players cater to export markets). The wood panel industry (Century Plyboards and Greenlam Industries) is slated to benefit from healthy domestic demand, lower imports, and market share gains (as rise in chemical prices has affected smaller unorganised players). Overall, we expect revenue/operating profit/net profit for our coverage universe to grow at 30.3%/49.7%/88.4% y-o-y. In cement, we prefer UltraTech, Shree Cements, Dalmia Bharat, The Ramco Cements, and JK Lakshmi Cement. In the infrastructure space, we prefer KNR Constructions and PNC Infratech for their strong execution capabilities and healthy order backlog, while in the building materials space, we prefer Century Plyboards, Pidilite industries, and Greenlam Industries having strong brand recognition, stable balance sheet, and healthy cash flow generation capabilities.

Outlook

Positive outlook barring near-term COVID-19 second wave risk: The infrastructure and cement sectors are expected to benefit from government's continued thrust on infrastructure investments especially in roads. Further, the cement sector has been gaining from demand emanating from the rural sector and individual home buyers, which too is expected to continue, led by structural growth drivers. Uptick in the housing sector aided by favourable state government policies is likely to benefit the building material industry. Additionally, it has witnessed organised players gaining market share due to rising commodity prices and unavailability of key raw materials. However, the second wave of COVID-19 pandemic poses a near-term risk to all the three sectors if the country goes for prolonged lockdown periods, which at this stage seems unlikely.

Our Call

Valuation: Selectively prefer companies in each sector: We believe the cement sector is well placed to benefit from demand pick-up and pricing discipline, which should aid in protecting profitability in the wake of rising key input costs. Selected infrastructure companies with healthy balance sheets are expected to fare well, while in the building materials space, healthy cash-generation capabilities and leadership positioning would aid in strong net earnings growth going ahead. We prefer industry leader UltraTech and efficient regional players such as Shree Cements, The Ramco Cements, Dalmia Bharat, and JK Lakshmi Cement in the cement space. In the infrastructure space, we prefer KNR Construction and PNC Infratech. In the building material space, we prefer Century Plyboards, Greenlam Industries, and Pidilite Industries.

Key risks:

Weak macroeconomic environment and rising interest rates are key risks across three sectors

Leaders for Q4FY2021: UltraTech, Grasim, Dalmia Bharat, Ramco Cements, PNC Infratech, Supreme Industries, Kajaria Ceramics, Century Plyboards, and APL Apollo Tubes

Laggards for Q4FY2021: JK Lakshmi Cement, KNR Constructions and Ashoka Buildcon

Preferred Picks:

UltraTech, Shree Cement, Grasim, Dalmia Bharat, The Ramco Cements, JK Lakshmi Cement, KNR Construction, PNC Infratech, Century Plyboards, Greenlam Industries, and Pidilite Industries.

Q4FY2021 Results Estimates:

Company	Net Interest Income (Rs Cr)				PPoP (Rs Cr)				PAT (Rs Cr)			
	Q4FY21E	Q4FY20	YoY %	QoQ %	Q4FY21E	Q4FY20	YoY %	QoQ %	Q4FY21E	Q4FY20	YoY %	QoQ %
Cement												
Grasim	4554	4313	5.6	24.0	20.3	9.1	1119	275	407	112	262.9	13.4
UltraTech	13684	10359	32.1	15.7	22.0	21.8	20	-285	1659	1103	50.4	7.0
Shree Cement	3863	3218	20.1	16.7	32.3	33.5	-120	-57	696	588	18.3	11.1
The Ramco Cements	1703	1390	22.5	27.2	28.6	20.1	847	-109	274	146	87.6	36.2
JK Lakshmi Cement	1287	1061	21.2	7.9	15.8	19.0	-328	-33	102	101	1.4	-0.2
Dalmia Bharat	3256	2483	31.1	14.0	23.2	20.5	278	-95	268	71	277	49.5
Soft Coverage												
India Cements	1373	1152	19.2	18.4	15.9	5.9	1003	-266	65	-11	-	5.2
Mangalam Cement	348	297	17.3	2.2	18.5	15.5	296	-457	27	16	75.1	-27.4
Total	30068	24272	23.9	17.0	23.0	19.9	308	-132	3499	2126	64.6	12.2
Total (ex-Grasim)	25,514	19,960	27.8	16.1	23.5	22.3	122	-196	3091	2014	53.5	12.1
Infrastructure												
Sadbhav Engineering	647	409	58.2	16.3	12.2	12.3	-15	-106	17	-9	-	10.5
KNR Constructions	713	676	5.5	7.5	19.7	21.7	-200	2	63	67	-6.9	0.7
Ashoka Buildcon	1,349	1,255	7.5	37.6	11.4	18.2	-682	67	106	164	-35.4	23.9
PNC Infratech	1,535	1,158	32.6	16.1	14.3	13.5	79	79	129	76	69.3	24.9
Total	4,244	3,497	21.4	20.5	14.0	16.7	-268	11	314	299	5.2	18.1
Building Materials												
Century Plyboards	662	524	26.4	1.2	18.4	13.8	454	-16	76	43	74.7	-1.4
Greenlam Industries	344	324	6.0	2.7	16.0	14.0	205	-130	26	22	20.0	-18.5
APL Apollo Tubes	2,393	1,889	26.7	-8.0	7.5	6.3	111	-147	98	57	72.2	-25.9
Pidilite Industries	2,032	1,545	31.5	-11.6	21.0	19.5	149	-691	285	181	57.2	-36.2
Supreme Industries	1,932	1,430	35.1	4.8	19.9	19.1	77	-189	296	117	152.1	-5.3
Kajaria Ceramics	855	652	31.1	2.0	20.5	14.3	619	-117	114	50	130.5	-3.9
Astral Poly Technik	942	664	41.8	26.0	20.3	17.8	255	113	119	68	75.4	37.3
Total	9,159	7,028	30.3	-1.7	16.7	14.6	217	-236	1,014	538	88.4	-15.9

Source: Company, Sharekhan Research

Valuations

Company	Reco	Price target (Rs.)	CMP (Rs)	EV/EBITDA (x)			P/E (x)		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Cement									
Shree Cement	Buy	UR	31646	26.1	22.9	20.0	50.4	46.0	40.4
UltraTech Cement*	Buy	8000	6977	20.7	18.3	15.5	43.0	37.2	31.2
Grasim Industries*	Buy	1680	1447	40.0	31.5	24.5	109.7	79.1	58.7
The Ramco Cement	Buy	1150	1065	19.0	17.3	15.2	31.5	29.3	25.9
JK Lakshmi Cement	Buy	525	439	6.7	6.7	5.6	16.0	16.1	13.1
Dalmia Bharat	Buy	1900	1560	11.9	10.6	9.0	39.8	32.4	26.7
Soft Coverage									
India Cements	Not Rated		182	10.4	10.1	9.0	37.2	35.9	27.5
Mangalam Cement	Not Rated		287	6.9	5.2	4.1	15.6	10.1	8.1
Infrastructure									
Sadbhav Engineering*	Buy	100	64	9.1	5.1	4.7	104.3	8.3	7.4
KNR Constructions*	Buy	270	218	11.5	9.7	8.2	27.2	18.8	15.4
Ashoka Buildcon	Buy	125	97	3.7	2.5	1.7	10.7	10.3	7.7
PNC Infratech*	Buy	300	259	10.6	8.3	7.1	19.7	15.4	12.7
Building Materials									
Century Plyboards	Buy	360	309	22.7	19.0	15.7	33.7	28.2	23.6
Greenlam Industries	Buy	1100	959	16.0	11.9	10.2	34.1	21.7	17.4
APL Apollo Tubes	Buy	1330	1270	24.1	17.4	13.5	46.8	32.0	24.8
Pidilite Industries	Buy	UR	1905	56.6	46	38.5	88.4	70.6	58.7
Supreme Industries	Buy	2330	1983	22.7	20.8	18.0	35.3	33.1	28.4
Kajaria Ceramics	Buy	1200	972	32.0	23.7	20.0	55.4	40.4	34.0
Astral Poly Technik	Hold	UR	1595	56.5	50.0	39.8	90.3	78.9	60.5

Source: Company, Sharekhan Research, * Standalone financials, UR – Under Review

- ◆ **Cement – Sustained demand, low base and operating leverage to lead to 50%+ y-o-y PAT growth:** In Q4FY2021, cement companies under our coverage (ex-Grasim) are expected to report 27.8% y-o-y growth in net revenue (up 16.1% q-o-q). The cement sector is expected to have benefitted from sustained demand environment and low base of Q4FY2020 (led by COVID-19). We expect cement volumes for our coverage universe (ex-Grasim) to rise by 23.3% y-o-y (up 15.0% q-o-q). Further, Southern India is expected to show pick-up in volume offtake, which along with higher realisations y-o-y is expected to yield strong earnings growth for The Ramco Cements and India Cements. Pan-India cement prices in Q4FY2021 have remained flat q-o-q owing to rise in cement prices at the fag end of February 2021, while they are still up 3.9% y-o-y. Rise in power and fuel costs and freight costs is expected to partially get absorbed by operating leverage and higher realisations y-o-y. We expect our coverage (ex-Grasim) to report weighted average EBITDA/tonne growth of 11.2% y-o-y (down 8.5% q-o-q) to Rs. 1,176. Overall, we expect revenue/operating profit/net profit to rise by 27.8%/34.9%/53.5% y-o-y for our coverage (ex-Grasim). For Grasim, we expect higher VSF prices along with better demand to drive net earnings.
- ◆ **Infrastructure – Strong execution growth, net earnings to be muted due to weak OPM y-o-y:** Our coverage universe is expected to register 21.4% y-o-y growth in net revenue as labour availability and execution at sites reached almost at pre-COVID level. Road project awards and construction by MoRTH and NHAI combined during FY2021 have risen by 17.4% y-o-y and 29.9% y-o-y, respectively, which highlights improving order tendering and execution for the sector. E-way bill and FASTag volumes during Q4FY2021 have risen by 6.4% and 29.8% q-o-q, respectively, signaling strong growth in traffic. OPM (for our coverage universe) is expected to stay steady q-o-q (although lower by 268bps y-o-y) as higher execution leads to better absorption of fixed costs. Our coverage universe is expected to witness 5.2% y-o-y rise in net profit, mainly led by lower operating margins y-o-y.
- ◆ **Building Materials – Demand pick-up in housing, rise in commodity prices and market share gains to lead to higher net earnings y-o-y:** Our set of building materials companies is expected to register strong growth of 30.3% y-o-y in revenue in Q4FY2021 (down 1.7% q-o-q), on account of lockdown impact felt during Q4FY2020 and strong demand continuing from the housing sector. The steep rise in PVC prices during Q4FY2021 is expected to benefit players such as Supreme Industries, Astral Poly Technik, and APL Apollo pipes in terms of higher revenue and better operating margins led by inventory gains. Kajaria Ceramics is expected to post healthy volume growth owing to better demand, low base, and market share gains (as Morbi players cater to export markets). The wood panel industry (Century Plyboards and Greenlam Industries) is slated to benefit from healthy domestic demand, lower imports, and market share gains (as rise in chemical prices has affected smaller unorganised players). Overall, we expect revenue/operating profit/net profit for our coverage universe to grow at 30.3%/49.7%/88.4% y-o-y.
- ◆ **Key issues to watch out for:** 1) In the cement space, companies view on the risks posed by the ongoing second COVID-19 wave in the country, changes in market share, strategies of countering rise in petcoke and diesel prices, capacity addition plans, and outlook on demand from the non-trade segment, which are key issues to look forward to; 2) Infrastructure companies' assessment of impact on labour availability due to the second wave of COVID-19, guidance on execution, competitive intensity in the sector as the project tendering has shown an uptrend, timeline for asset divestments, status on receipt of appointed dates, liquidity in the sector, funding availability from the banking sector, de-leveraging of balance sheets are key monitorables; 3) In the building materials sector, key monitorables would be the company's view on recovery of the housing sector and its sustainability, strategies to counter rise in commodity prices, and opportunities for organised players.

Q4FY2021 earnings preview

Company-wise key expectations

Company	y-o-y (%)	q-o-q (%)	Comment
UltraTech Cement			
Sales	32.1	15.7	We expect volumes to rise by 28% y-o-y due to better demand and low base, while realisations are expected to rise by 3.4% q-o-q.
OPM (bps)	20	-285	We expect EBITDA/tonne of Rs. 1,151 (up 4.4% y-o-y, down 10.8% q-o-q) as operating leverage plays out with higher utilisation.
PAT	50.4	7.0	Higher utilisation along with higher OPM to boost net earnings y-o-y.
Shree Cement			
Sales	20.1	16.7	We expect strong volume growth of 20% y-o-y. Realisations to remain flat q-o-q.
OPM (bps)	-120	-57	We expect EBITDA/tonne of Rs. 1,511 (down 3.3% y-o-y, down 0.7% q-o-q).
PAT	18.3	11.1	Strong volume growth to lead to 18.3% y-o-y growth in net earnings.
The Ramco Cements			
Sales	22.5	27.2	Uptick in demand in the southern region to lead to 15% y-o-y growth in volume, while higher cement prices in south are expected to lead to higher realisation.
OPM (bps)	847	-109	Higher realisation (up 6.6% y-o-y, -0.6% q-o-q) to boost EBITDA per tonne at Rs. 1,432 (up 107.9% y-o-y, down 15% q-o-q).
PAT	87.6	36.2	High OPM to lead to strong growth in net earnings y-o-y.
JK Lakshmi Cement			
Sales	21.2	7.9	Expect volumes to rise by 18% y-o-y, while realisation is likely to rise by 3% q-o-q.
OPM (bps)	-328	-33	Higher capacity utilisation to offset by higher costs leading to 14.8% y-o-y decline in EBITDA per tonne to Rs. 699 (down 1.8% q-o-q).
PAT	1.4	-0.2	Higher volume to get offset by lower OPM y-o-y to lead to muted net earnings y-o-y.
Dalmia Bharat			
Sales	31.1	14.0	We expect volumes to rise by 28% y-o-y due to better demand and low base, while realisations are expected to rise by 2.6% y-o-y.
OPM (bps)	278	-95	We expect EBITDA/tonne of Rs. 1,145 (up 16.5% y-o-y, down 3.9% q-o-q) as operating leverage plays out with higher utilisation.
PAT	277	49.5	Higher utilisation along with higher OPM to boost net earnings y-o-y.
The India Cements			
Sales	19.2	18.4	Uptick in demand in the southern region to lead to 4.3% y-o-y growth in volume, while higher cement prices in south are expected to lead to higher realisations.
OPM (bps)	1003	-266	Higher realisations (up 13.6% y-o-y) are expected to boost EBITDA per tonne at Rs. 765 (up 215% y-o-y).
PAT	-	5.2	Improvement in OPM y-o-y to aid in strong net earnings growth y-o-y.
Mangalam Cement			
Sales	17.3	2.2	We expect 20% y-o-y rise in volumes, while realisation is likely to dip by 2% y-o-y.
OPM (bps)	296	-457	Strong volume growth along with operating leverage to aid in EBITDA per tonne of Rs. 843 (up 16.8% y-o-y).
PAT	75.1	-27.4	Strong operational performance to boost net earnings.
Sadbhav Engineering			
Sales	58.2	16.3	Low base to lead to high revenue growth y-o-y.
OPM (bps)	-15	-106	Improvement in execution to lead to stable OPM y-o-y.
PAT	-	10.5	Low base effect to lead to high net earnings growth y-o-y.
KNR Constructions			
Sales	5.5	7.5	We expect normalising labour availability and improving execution to lead to marginal revenue growth y-o-y.
OPM (bps)	-200	2	Dip in OPM y-o-y due to exceptionally high OPM during Q4FY2020.
PAT	-6.9	0.7	Lower OPM to lead to a decline in 6.9% y-o-y growth in net profit.

Company-wise key expectations

Ashoka Buildcon			
Sales	7.5	37.6	We expect improvement in execution to sustain during Q4FY2021.
OPM (bps)	-682	67	OPM to decline y-o-y due to exceptionally high OPM during the same period.
PAT	-35.4	23.9	We expect decline in net earnings y-o-y.
PNC Infratech			
Sales	32.6	16.1	We expect strong execution leading to 33% y-o-y rise in revenue.
OPM (bps)	79	79	OPM is expected to improve y-o-y.
PAT	69.3	24.9	Strong execution and higher OPM to drive net earnings growth.
Kajaria Ceramics			
Sales	31.1	2.0	Expect recovery in volumes to sustain during Q4FY2021, leading to strong rise in revenue growth y-o-y.
OPM (bps)	619	-117	Higher revenue and better realisation to improve OPM y-o-y.
PAT	130.5	-3.9	Strong improvement in OPM y-o-y to boost net earnings growth.
Century Plyboards			
Sales	26.4	1.2	We expect net revenue to be driven by strong growth in MDF and healthy growth in plywood and laminates.
OPM (bps)	454	-16	OPM is expected to improve, led by higher realisations.
PAT	74.7	-1.4	Strong revenue growth along with improvement in OPM to boost net earnings y-o-y.
Greenlam Industries			
Sales	6.0	2.7	We expect net revenue to be driven by healthy growth in MDF.
OPM (bps)	205	-130	OPM is expected to improve, led by higher realisations.
PAT	20.0	-18.5	Strong improvement in OPM to boost net earnings y-o-y.
APL Apollo Tubes			
Sales	26.7	-8.0	Sharp 10.4% q-o-q decline in volumes.
OPM (bps)	110.8	-147	Margin contraction on sequential basis due to lower operating leverage.
PAT	72.2	-25.9	Lower volume and margin would result in sharp q-o-q decline in earnings.
Pidilite Industries			
Sales	31.5	-11.6	Domestic C&B business is expected to grow by 28%-30%; Huntsman acquisition to contribute ~Rs. 90 crore during the quarter.
OPM (bps)	149	-691	Sharp increase in VAM prices to result in a 236 bps decline in gross margins; but better operating leverage would lead to 149 bps improvement in OPM.
PAT	57.2	-36.2	Strong operating performance would lead to 57.2% growth in PAT.
Supreme Industries			
Sales	35.1	4.8	We expect strong revenue growth y-o-y driven by healthy demand and higher realisations driven by rise in PVC prices.
OPM (bps)	77	-189	Higher realisations and inventory gains to lead to y-o-y improvement in OPM.
PAT	152.1	-5.3	Higher revenue and better margins to lead to y-o-y rise in net earnings.
Astral Poly			
Sales	41.8	26.0	We expect strong revenue growth y-o-y driven by healthy demand and higher realisations driven by rise in PVC prices.
OPM (bps)	255	113	Higher realisations and inventory gains to lead to y-o-y improvement in OPM.
PAT	75.4	37.3	Higher revenue and better margins to lead to y-o-y rise in net earnings.

Source: Sharekhan Research

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