

Cement demand growth expected to continue.

Stocks under coverage

ACC	
TP	2,187
CY22E EV/EBIDTA	10x
Ambuja Cement	
TP	397
CY22E EV/EBIDTA	13.5x
The Ramco Cement	
TP	1030
FY23E EV/EBIDTA	13x
Ultratech Cement	
TP	7500
FY23E EV/EBIDTA	15x
Shree Digvijay Cement	
TP	90
FY23E EV/EBIDTA	6.5x

NOTE : Target Price given are based on Q4 FY21 results & Target Price will be revised post Q1 FY22E results.

Source: Arihant Research

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Cement Industry has seen an all-round turnaround in past 2 years with most companies registering improvement in profitability, Cash Flows, leverage position on the back of Industry tailwinds. Industry EBITDA has grown at a 20-25% CAGR in past 2 years on the back of Industry average EBITDA/Ton moving from INR800-850 range to INR1200+ range, even as Industry volumes have remained flat in FY21 vs. FY19.

The recent price hikes has been taken by cement manufacturers to aid margin growth of the companies in FY22. Cement companies have taken consecutive price increases in March, April, and May. Consequently, all India prices of blended cement are currently 5-6% above Q4FY21.

The sector's profitability outlook has improved post price increases. We foresees industry Ebitda/tonne rising year-on-year (y-o-y) in FY22.

However some of the discretionary costs could return in FY22. Also higher commodity prices such as petroleum coke, coal and diesel are likely to lead to higher costs.

Despite FY21 being a challenging year, cement makers put up a decent show. For Q4FY21, volumes were up 15% sequentially and improved more than 25% y-o-y, while Ebitda/tonne was up 3% compared to the previous quarter. In the near term, the impact of the second wave of covid infections remains a key risk for the sector.

Going ahead we believe rural independent home builders (IHB) and infrastructure are likely to be the key demand drivers in the near-term, with urban real estate likely to pick up with a lag, With that, the sector's capacity and utilisation levels are also poised to improve.

Outlook : Backed by improved demand and strong pricing power, we have positive view on the sector. , we believe that sector will sustain margins at elevated levels in FY22 on back of price hikes. We continue to like Ambuja cement (ACEM), Ramco Cement Shree Digvijay Cement and ACC on back of attractive valuations and strong earnings growth

Q1FY22 Earnings Estimates:

in mn.	Q1FY22E	Q1FY21A	Q4FY21A	YoY	QoQ	Remarks
ACC Limited						
Revenue	37950	25200	42920	51%	-12%	Net Revenue in expected to grow 51% YoY backed by volume and realization growth Volume is expected to grow by 32.7% YoY to 6.5MMT while the realization is expected to grow 14% YoY to INR 5838. pickup in infrastructure and rapid urbanization has led to increase in sales volume . EBIDTA expected to grow by 38% YoY to INR 7260 mn EBIDTA margin contracted by 100 bps to 19% due to spike in raw material cost .However due to increase in realization per tonne EBIDTA /tonne is expected to grew by 4.2% YoY to INR 1117.PAT expected to grow by 84% to INR 4980. PAT margin expected to expand by 240 bps to 13% backed by growth in topline and operating profit. On-going expansion of 6.2MMT in the Central and Eastern regions augurs well for ACC,as this will aid the company to ensure sustainable growth.
EBIDTA	7260	5250	8600	38%	-16%	
PAT	4980	2700	5620	84%	-11%	
Ambuja Cement Limited						
Revenue	33000	21768	36210	52%	-9%	Volume growth expected of 47%YoY and decline by -14% QoQ to 6.2 mn mt and realization /tonne expected to grow of 3% YoY and 6% QoQ to INR 5323/mt. Volume growth and realization will lead to healthy topline. Due to Increase in cost margin is expected to contract by 103 bps YoY to 26%. Due to increase in cost which is partially offset by increase in realization EBIDTA/tonne is expected to fall by 2.3%YoY however increase by 2% QOQ to INR 1384 PAT is expected to grow by 43% YoY however decline by 2% QoQ to INR 6500 mn. PAT margin is expected to remain flat YoY however expected to increase by 130 bps QoQ to 19.6%. Expansion of 3mnT clinker and 1.8mnT grinding units at Marwar (Rajasthan) and next phase of expansion at Eastern and Western regions are likely to strengthen its market share.
EBIDTA	8580	5952	9770	44%	-12%	
PAT	6500	4530	6650	43%	-2%	
Ultratech Cement Limited						
Revenue	112250	76338	144056	47%	-22%	Revenue from operation are expected to grow by 47% Yoy however declined by 22% QoQ. Growth in revenue onYoY basis was backed by volume growth despite decline in realization . Volumes is expected to grow by 51% YoY to 21 MMT and realization expected to decline by 3%YoY to INR 5345 Rise in input cost has put pressure on EBIDTA margin EBIDTA Margin contracted by 250 bps YoY to 24.6% .EBIDTA/tonne declined by 11.7% to INR 1318 due to rise in input cost and decline in realization. PAT expected to grow by 70% YoY to INR 13550 backed by topline growth and operating profit..
EBIDTA	27678	20746	36903	33%	-25%	
PAT	13550	7965	17718	70%	-24%	
The Ramco Cement Limited						
Revenue	13250	10418	16306	27%	-19%	Revenue is expected to grow 27% YoY due to volume growth and better realization. Volume growth is expected to grow by 15.8% YoY to 2.2 mnmT .Realization/mt is also likely to grow by 10% YoY and 18% QoQ to INR 6023. Better operational efficiency and topline growth will lead to better operating profit which in turn will lead to growth in bottom line. With a view to strengthening its presence in Eastern region and de-risk its geographical concentration, TRCL already commissioned 3.2mmt grinding unit (GU) in the region inFY20. This will aid the company to get incremental volume in high demand region,which is expected to witness double-digit growth.
EBIDTA	4000	2600	4490	54%	-11%	
PAT	2200	1096	2067	101%	6%	
Shree Digvijay Cement Co Limited						
Revenue	1371	875	1749	57%	-22%	Revenue is expected to grow by 57% YoY and declined -22% QoQ backed by volume and realization growth YoY volume is expected to grow by 21% YOY to 0.2MMT while realization/tonne is expected to increase by 57% YoY to INR 6855 better operational efficiency coupled with topline growth will help in operating profit growth which in turn will help bottom-line to grow.
EBIDTA	342	210	472	63%	-28%	
PAT	165	99	274	67%	-40%	

Note :ACC & Ambuja cement follow calendar year

Q1FY22 Earnings Estimates:

Realization/MT (INR)					
Particulars	Q1FY22E	Q1FY21	Q4FY21	YoY	QoQ
ACC	5838	5143	5365	14%	9%
AMBUJA	5323	5183	5029	3%	6%
Ultratech	5345	5492	5186	-3%	3%
Ramco	6023	5483	5096	10%	18%
Shree Digvijay Cement	6855	4375	5830	57%	18%

Volume Expectation (Mn/tonne)					
Particulars	Q1FY22E	Q1FY21	Q4FY21	YoY	QoQ
ACC	6.5	4.9	8.0	33%	-19%
AMBUJA	6.2	4.2	7.2	48%	-14%
Ultratech	21	13.9	27.8	51%	-24%
Ramco	2.2	1.9	3.2	16%	-31%
Shree Digvijay Cement	0.2	0.2	0.3	21%	-33%

EBIDTA/tonne (INR)					
Particulars	Q1FY22E	Q1FY21	Q4FY21	YoY	QoQ
ACC	1117	1071	1075	4	4%
AMBUJA	1384	1417	1357	-2%	2%
Ultratech	1318	1493	1328	-12%	-1%
Ramco	1818	1368	1403	33%	30%
Shree Digvijay Cement	1710	1050	1573	63%	9%

Note :ACC & Ambuja cement follow calendar year

Source: Arian 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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