

July 7, 2021

Margins to remain stable QoQ despite cost pressure, lower sales volume

Localised curbs, which are effective in a majority of states, could cause revenues to drop by more than 17% QoQ in Q1FY22E from Q4FY21, especially in rural pockets. In terms of non-trade sales, some key major infrastructure project would continue to support the demand, however, on a moderate scale due to limited labour availability. Retail demand remained weak in May 2021 while it reported a strong recovery in June 2021 ahead of monsoon. In terms of prices, while majority of price hike taken during April first week were rolled back post imposition of restrictions, June saw average price hike of 6.5% QoQ with east, south and west region witnessing hike of over 11.8%, 8.6%, 7.5%, respectively. With this, we expect June quarter to close with average price hike of 6.5% QoQ. This would help companies to mitigate cost pressure during Q1FY22 that should lead to broadly remain flat to positive margins. However, overall profitability is expected to drop over 20% QoQ due to a fall in sales volumes. Among our coverage universe, south based companies like Ramco, Sagar Cement are expected to report QoQ volume de-growth of over 30%, 24%, respectively, while north based companies are expected to report volume decline of 15-18%. Overall, for Q1FY22E, our I-direct cement coverage universe is expected to report sales volume de-growth of 19.1% QoQ. However, it is likely to grow 45.3% YoY to 49.4 MT on a lower base.

All India average prices up 2.3%YoY, 6.5%QoQ

As per our channel checks, **average cement price is likely to be up by 2.3% YoY and 6.5% QoQ** to ₹382/bag (Including NER region) followed by price hikes announced in the first week of June 2021 with East, South and west region witnessing hike of over 11.8%/8.6%/7.5% respectively. North & Central regions saw average price hike of 2.4% QoQ. This in turn would help players to offset the impact of high cost pressure and protect their maintains. However, as per the dealer's check, there would be some roll back in the prices in the medium term with temporary moderation in the demand due to onset of monsoon.

EBITDA/t to broadly stay flat QoQ despite high cost pressure

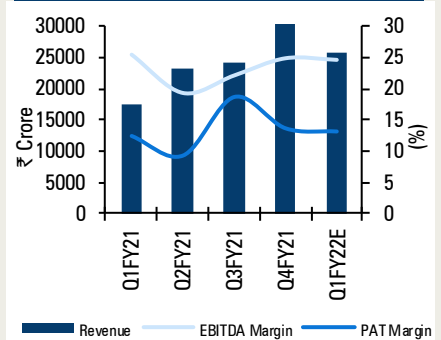
Average diesel prices are up ~28% YoY, 6% QoQ leading to rise in average freight costs per tonne by ~₹ 50-52/t QoQ. Also, petcoke, coal prices inched up further by 12%, 19%, respectively, QoQ. With freight & power comprising over 50% of cost, we expect total production cost to increase by ₹ 110/t QoQ to ₹ 3946/t (up 2.7% YoY, 2.8% QoQ). However, with improved prices and controlled overheads, we expect EBITDA/t to remain broadly flat QoQ to ₹ 1282/t for our coverage universe.

Exhibit 1: Estimates for Q1FY22E: (Cement) (₹ Crore)

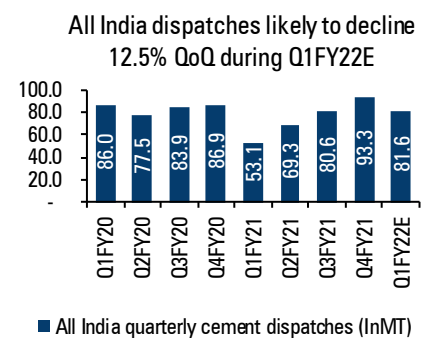
Company	Revenue			EBITDA			PAT		
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
ACC ^	3,535.3	35.9	-17.6	674.9	28.5	-21.5	367.8	35.7	-34.6
Ambuja ^	3,163.1	45.3	-12.7	798.8	34.2	-18.2	542.3	19.6	-18.4
JK Cement	1,743.7	80.7	-15.0	355.5	65.1	-19.0	158.9	104.4	150.8
JK Laxmi Cement	1,083.3	31.3	-18.1	210.9	47.1	-21.3	95.3	114.1	-30.2
Ramco Cements	1,214.7	16.0	-25.5	330.5	25.7	-26.4	152.0	37.0	-29.1
Sagar Cements	338.0	28.0	-19.1	91.3	5.0	-12.4	40.7	13.1	-18.4
Shree Cement	3,350.1	44.0	-14.8	995.8	42.1	-15.4	560.8	51.2	-26.9
UltraTech Cem	11,423.6	54.9	-18.2	2,920.9	49.4	-16.8	1,457.3	80.9	-18.0
Total	25,851.9	47.1	-17.2	6,378.6	42.2	-18.1	3,375.1	55.5	-20.3

Source: Company, ICICI Direct Research

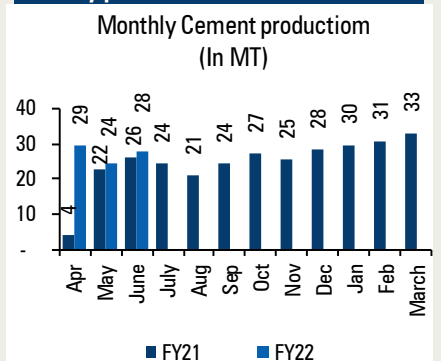
Topline & profitability (Coverage Universe)



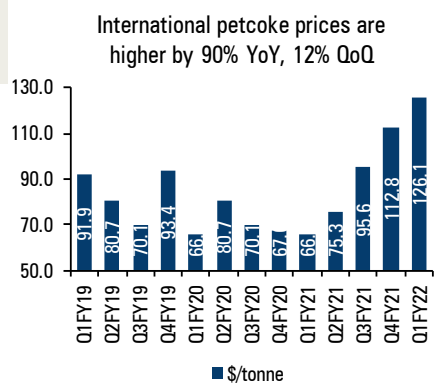
All-India quarterly cement dispatches



Monthly production trend - Till June-21



International petcoke price trend



Top Picks

Ultratech Cement
Sagar Cement

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Company specific view

Company	Remarks
ACC	ACC is expected to report a 34.8% YoY growth in volumes to 6.5 MT for Q2CY21E aided by lower base and commissioning of 1.4 MT GU in Sindri, Jharkhand while on QoQ volumes are expected to decline 18.8%. Realisation is likely to improve 1.5% QoQ. However, with 35% QoQ drop in RMC revenues, we expect revenue to decline 17.6% QoQ to ₹ 3535.3 crore. Cost of production per tonne is expected to be up 1.5% QoQ due to rise in the petcoke & fuel prices. This should lead to 3.3% QoQ drop in EBITDA/tonne to ₹1043/t. On absolute basis, EBITDA and PAT are expected to drop 21.5% and 34.6% QoQ, respectively
Ambuja Cement	Ambuja Cement derives major revenues from the North and Western India markets that remained better in terms of volume compared to South. Further, sharp increase in the cement prices in the western region should lead to revenue de-growth of 12.7% only on QoQ basis. EBITDA/t is expected to decline 3.6% QoQ to ₹1,301/t. Further, higher other income is expected to provide support to the bottomline
UltraTech Cement	With expanded capacity and last year's low base, we expect volume growth of 52.5% YoY. However, on a QoQ basis, volume would remain lower by 20.1% to 21.3 MT. Realisations are expected to grow 2.3% QoQ post the announcement of price hikes in the first week of June. With controlled fixed overheads and better pricing, we expect EBITDA/tonne to increase 4% QoQ. However, on an absolute basis, EBITDA and net profit are expected to decline 16.8% and 18% QoQ, respectively
Shree Cement	Covid induced restrictions in the company's key market may lead to 16.7% QoQ drop in sales volume to 6.8 MT. With petcoke prices remaining higher during the quarter, we expect EBITDA/tonne to fall 2.6% QoQ to ₹ 1,395/tonne. On an absolute basis, we expect EBITDA to decline ~15.4% YoY and 26.9% QoQ
JK Cement	With the new grinding capacity addition of over 33% and low base impact, we expect sales volumes growth of 86.3% YoY (highest among I-direct universe) to 3.3 MT. On a QoQ basis, sales volume are expected to be lower by 15.5%. Higher cost pressure would lower EBITDA/t by ₹ 76/t on a QoQ basis. On absolute basis, we expect EBITDA to decline 19% QoQ to ₹ 355.5 crore. PAT is expected to improve over 150% QoQ to ₹ 158.9 crore as in last quarter it had booked impairment loss of ₹ 166.9 crore
JK Lakshmi Cement	We expect JK Lakshmi Cement to decline 18.4% QoQ to 2.4 MT. Realisations are expected to remain broadly flat QoQ while it is expected to improve 4.3% YoY on lower base. However, higher fuel costs would put pressure on margins. As a result, EBITDA/tonne is likely to decline 3.5% QoQ to ₹ 879/tonne (lowest among peer group). PAT is expected at ₹ 95.3 crore for the quarter
Ramco Cement	Ramco Cement operates mostly in the south and eastern markets, which saw higher decline in the volumes during the quarter. Accordingly, we expect sales volume to decline by 30% QoQ to 2.3 MT. On the other hand, we expect realisations to improve by 5.5% QoQ that would help offset loss of revenue due to lower volumes. Better realisations to help improve EBITDA/t by 5% QoQ to ₹1469/t. However, on absolute basis, EBITDA and PAT would decline by 26.4% and 29.1% QoQ led by lower volumes
Sagar Cement	We expect volume de-growth of 24% QoQ to ~0.8 MT due to Covid induced restrictions. However, realisations are expected to improve 6.5% QoQ, which would help to improve EBITDA/t by 15.3% QoQ to ₹ 1175/t. On an absolute basis, EBITDA and PAT are expected to decline 12.4% and 18.4% QoQ, respectively

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)					
In MT	Q1-22E	Q1-21	YoY (%)	Q4-21	QoQ (%)
ACC	6.5	4.8	34.8	8.0	-18.8
Ambuja	6.1	4.2	46.6	7.2	-15.2
UltraTech*	21.3	13.9	52.5	26.6	-20.1
Shree Cem	6.8	4.9	38.8	8.2	-16.7
JK Cement*	3.3	1.8	86.3	3.9	-15.5
JK Lakshmi	2.4	1.9	25.9	2.9	-18.4
Ramco Cem	2.3	1.9	16.2	3.2	-29.9
Sagar Cem	0.8	0.6	40.5	1.02	-24.0
Total	49.4	34.0	45.3	61.1	-19.1

Region-wise cement retail prices					
₹/50 kg bag	Q1-22E	Q1-21	YoY (%)	Q4-21	QoQ (%)
North	375	377	-0.6	367	2.0
East	382	364	4.9	341	11.8
South	416	393	5.8	383	8.6
West	375	359	4.4	349	7.5
Central	364	375	-2.9	354	2.8
North East	445	423	5.2	426	4.5
Pan India	382	373	2.3	359	6.5

Cement Realisations (Coverage Universe)					
₹/tonne	Q1-22E	Q1-21	YoY (%)	Q4-21	QoQ (%)
ACC	5465	5421	0.8	5385	1.5
Ambuja	5150	5195	-0.9	5002	3.0
UltraTech*	5375	5290	1.6	5252	2.3
Shree Cem	4895	4718	3.8	4782	2.4
JK Cement*	5300	5464	-3.0	5271	0.6
JK Lakshmi	4517	4331	4.3	4497	0.4
Ramco Cem	5336	5283	1.0	5058	5.5
Sagar Cem	4349	4775	-8.9	4084	6.5
Average	5228	5160	1.3	5112	2.3

EBITDA per tonne (Coverage Universe)					
₹ per tonne	Q1-22E	Q1-21	YoY (%)	Q4-21	QoQ (%)
ACC	1043	1095	-4.7	1079	-3.3
Ambuja	1301	1421	-8.4	1349	-3.6
UltraTech*	1374	1403	-2.0	1321	4.0
Shree Cem ^	1395	1421	-1.8	1432	-2.6
JK Cement*	1081	1219	-11.4	1128	-4.2
JK Lakshmi	879	752	16.9	911	-3.5
Ramco Cem	1469	1357	8.2	1399	5.0
Sagar Cem	1175	1573	-25.3	1019	15.3
Average	1282	1318	-2.7	1275	0.6

Exhibit 2: ICICI Direct Coverage Universe (Cement)

Company	CMP (₹)	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,917	BUY	73	85	81	13.2	12.9	10.9	122	106	104	17.4	14.5	16.0	11.9	12.6	11.0
Ambuja Cem*	308	HOLD	7.7	8.8	9.0	15.9	14.9	13.6	158	171	151	12.2	17.3	16.5	14.7	19.8	18.7
UltraTech Cem	6,756	BUY	180	194	234	18.2	17.0	14.4	242	242	228	14.2	14.2	15.8	12.1	11.7	12.4
Shree Cement	30,273	BUY	435	624	666	25.7	23.6	20.0	278	262	259	13.8	18.2	18.0	12.1	15.1	14.2
Heidelberg Cem	245	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	2,915	BUY	51.8	99.5	101.6	17.5	13.6	12.8	174	163	168	16.2	18.9	17.3	12.8	20.2	17.5
JK Lakshmi Cen	426	BUY	7.0	7.1	6.8	16.6	14.2	13.7	76	76	70	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	98	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	1,041	BUY	25.7	29.5	30.2	20.5	16.5	15.5	180	175	171	7.5	8.6	8.7	12.3	12.5	11.4
Sagar Cement	725	BUY	17.1	80.0	86.2	11.6	5.4	5.3	53	54	41	7.2	17.5	15.4	4.2	15.4	14.4

Source: Company, ICICI Direct Research

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