

October 7, 2021

Monsoon led soft demand, higher input costs to pressurise margins, profitability in Q2FY22E...

Pent-up demand and lower base effect are expected to aid sales volumes QoQ and YoY. However, the recovery would not be strong enough in many regions due to ongoing monsoons. In terms of sales mix, non-trade demand is likely to remain healthy YoY as various central government infra projects gathered strong momentum while trade sales are expected to remain weak owing to heavy rains in most of the country. In terms of regions, demand in the eastern region may remain soft due to flooding in some parts as well as sand availability issue on account of restrictions on mining during monsoons while south region would likely see better volume growth on a low base effect. In terms of prices, we expect September 2021 quarter to close with average price decline of 1.8% QoQ led by monsoon led weak retail demand. Further, higher petcoke, international coal, diesel prices of ~15%, 58%, 9% QoQ, respectively to escalate cost by ₹ 183/t (or 4.6% QoQ) in Q1FY22. This would lead to 482 bps QoQ drop in margins to 21.8%. Overall, for Q2FY22E, our I-direct cement coverage universe is expected to report sales volume & EBITDA de-growth of 0.6%, 19.9% QoQ, respectively. South based companies are expected to perform relatively better in terms of sales volumes on lower base impact while performance of companies with higher presence in east is expected to stay weak.

All-India average prices soften QoQ; to remain better YoY

Cement prices softened during the quarter sequentially but remained higher YoY as companies took major price hikes during March 2021 and Q1FY22 to combat rising input costs. Cement companies also attempted to push prices in Q2FY22 further to mitigate rising cost pressure. However, owing to softer demand, higher prices could not sustain. Overall, we expect cement price to decline 1.8% QoQ but stay higher 2.5% YoY. Eastern and South region are expected to witness correction of 3.4%, 1.3%, respectively, sequentially while north, central and western may see a marginal correction in cement prices. As per dealer checks, cement prices are expected to trend higher from mid-October to mitigate the cost pressure. This is also expected to be supported by growth in demand.

EBITDA/t to decline 19.9% QoQ on high cost, soft prices

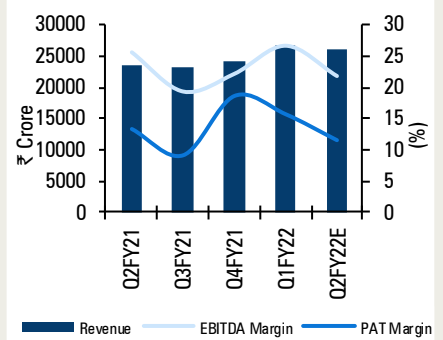
Average diesel prices are up ~17%, 9% YoY, QoQ, respectively, leading to rise in average freight costs per tonne by ~₹ 65-70/t QoQ. Also, petcoke and international coal prices inched up further by 15%, 58%, respectively, on a QoQ basis. With freight & power comprising over 50% of cost, we expect total production cost to increase by ₹ 183/t QoQ to ₹ 4,145/t (up 8.9% YoY, 4.6% QoQ). Hence, we expect EBITDA/t to decline 19.9% QoQ to ₹ 1,153/t for our coverage universe.

Exhibit 1: Estimates for Q2FY22E: (Cement) (₹ Crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ
ACC ^	3,801.9	7.5	-2.1	665.3	-0.9	-23.5	399.8	9.9	-29.8			
Ambuja ^	3,163.4	10.9	-6.2	702.8	3.3	-26.8	455.7	3.4	-37.0			
JK Cement	1,661.0	7.1	1.7	333.6	-18.8	-16.5	156.2	-30.1	-25.0			
JK Laxmi Cement	1,166.9	11.7	-5.3	190.0	1.8	-12.1	82.4	2.2	-30.6			
Ramco Cements	1,405.0	11.0	14.4	358.0	-20.0	-1.7	164.7	-31.1	-2.5			
Sagar Cements	375.4	15.2	-4.4	84.0	-19.8	-21.6	35.3	-29.5	-29.4			
Shree Cement	3,115.0	3.1	-9.7	777.2	-21.3	-23.3	451.9	-17.4	-31.7			
UltraTech Cem	11,307.7	12.9	-1.5	2,558.0	0.2	-19.4	1,267.4	4.9	-24.6			
Total	25,996.3	10.1	-2.5	5,668.9	-6.2	-20.2	3,013.5	-4.4	-27.9			

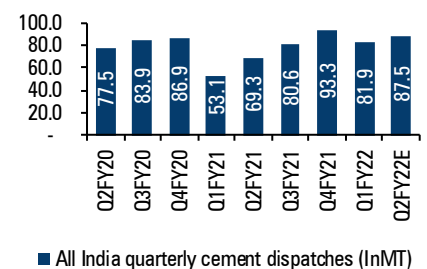
Source: Company, ICICI Direct Research

Topline & profitability (Coverage Universe)



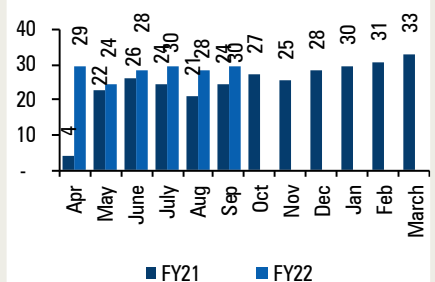
All-India quarterly cement dispatches

All India dispatches are up YoY and QoQ on a lower base



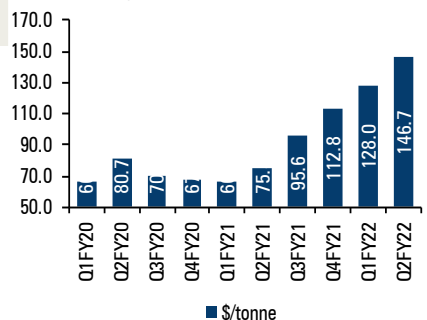
Monthly production trend - Till Sep-21

Monthly Cement production (In MT)



International Petcoke price trend till Aug-21

International petcoke prices are higher by 95% YoY, 15% QoQ



Top Picks

Ultratech Cement
Sagar Cement

Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Company specific view

Company	Remarks
ACC	ACC is expected to report 6.3% YoY growth in volumes to 6.9 MT for Q3CY21E aided by stabilisation of new 1.4MT GU in Sindri, Jharkhand. Realisations are expected to remain soft due to monsoon impact. Cost of production per tonne is expected to inch up sharply by 3.1% QoQ due to a rise in petcoke & fuel prices. This is expected to lead to 24.1% QoQ drop EBITDA/tonne to ₹ 964/t. On an absolute basis, EBITDA and PAT are expected to drop by 23.5% and 29.8% 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. This should aid in the revenue growth of 10.9% on a YoY basis. However, a sharp increase in fuel & power costs along with soft prices is expected to lead to only 3.3% YoY growth in EBITDA. EBITDA/t is expected to decline 4.6% YoY, 23.5% QoQ to ₹ 1,301/t
UltraTech Cement	With stabilisation of newly added capacity along with the monsoon impact, we expect volume growth to normalise to 5.2% YoY. Realisations are expected to dip 1.9% QoQ. Cost per tonne is expected to increase by ₹198/t (4.9% QoQ). As a result, we expect EBITDA/tonne to decline 19.7% QoQ
Shree Cement	Higher dependence on petcoke and imported coal is expected to lead to a sharp increase in cost of production to ₹ 3745/t on a YoY basis (up 20.2% YoY) while on a QoQ basis, it is likely to be up 5.2%. We expect EBITDA/t to fall by 20.4% YoY and 18.7% QoQ to ₹ 1205/t. Further, weak demand in the east due to excess monsoon is expected to lead to 3.6% YoY and 8% QoQ fall in sales volume to 6.3 MT
JK Cement	With the new grinding capacity additions of over 33% and low base impact, we expect sales volumes growth of 11.4% YoY (highest among north based players) to 3.1 MT. On a QoQ basis, sales volume is expected to increase 3.6%. Higher cost pressure is expected to drag EBITDA/t lower by 19.5% QoQ to ₹ 1065/t. On an absolute basis, we expect EBITDA and PAT to decline 16.5% & 25% QoQ, respectively
JK Lakshmi Cement	Unrest at the Durg plant from last week of September 2021 along with monsoon is expected to lead to 3.2% QoQ fall in sales volume. Realisations are expected to also fall by 2.2% QoQ, in line with industry trend. As a result, EBITDA/tonne is likely to decline 9.2% QoQ to ₹ 738/tonne (lowest amongst peer group). PAT is expected at ₹ 82.4 crore for the quarter
Ramco Cement	Ramco Cement operates mostly in the south and eastern markets, which saw higher decline in volumes during the last quarter. Due to the benefit of low base effect, we expect sales volume to improve 16.8% QoQ to 2.5 MT (highest in the universe). However, realisations, EBITDA/t may decline 2.3%, 15.8% QoQ, respectively. On absolute basis, EBITDA and PAT are expected to decline 26.4% and 29.1% QoQ, respectively, led by lower volumes
Sagar Cement	While Sagar Cement is expected to witness volume growth of 18.8% YoY due to base effect, on a QoQ basis, it would decline 2.4% to 0.86 MT. We expect the company to report EBITDA/t of ₹ 979/t and PAT of ₹ 35 crore (down 29.4% QoQ)

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)					
In MT	Q2-22E	Q2-21	YoY (%)	Q1-22	QoQ (%)
ACC	6.9	6.5	6.3	6.8	0.9
Ambuja	6.1	5.7	8.3	6.4	-4.3
UltraTech*	20.6	19.2	7.3	20.5	0.4
Shree Cem	6.3	6.5	-3.6	6.8	-8.0
JK Cement*	3.1	2.8	11.4	3.0	3.6
JK Lakshmi	2.6	2.4	7.7	2.7	-3.2
Ramco Cem	2.5	2.2	13.0	2.1	16.8
Sagar Cem	0.9	0.7	18.8	0.88	-2.4
Total	49.0	46.0	6.5	49.3	-0.6

Region-wise cement retail prices					
₹/50 kg bag	Q2-22E	Q2-21	YoY (%)	Q1-22	QoQ (%)
North	369	360	2.3	370	-0.5
East	365	351	4.0	378	-3.4
South	407	390	4.5	412	-1.3
West	370	357	3.7	372	-0.3
Central	363	361	0.6	361	0.6
Pan India	376	366	2.5	383	-1.8

Cement Realizations (Coverage Universe)					
₹/tonne	Q2-22E	Q2-21	YoY (%)	Q1-22	QoQ (%)
ACC	5510	5450	1.1	5680	-3.0
Ambuja	5150	5031	2.4	5251	-1.9
UltraTech*	5484	5215	5.2	5590	-1.9
Shree Cem	4950	4628	6.9	5043	-1.8
JK Cement*	5305	5517	-3.8	5407	-1.9
JK Lakshmi	4533	4371	3.7	4633	-2.2
Ramco Cem	5500	5498	0.0	5629	-2.3
Sagar Cem	4374	4512	-3.1	4464	-2.0
Average	5297	5120	3.5	5401	-1.9

EBITDA per tonne (Coverage Universe)					
₹ per tonne	Q2-22E	Q2-21	YoY (%)	Q1-22	QoQ (%)
ACC	964	1035	-6.8	1271	-24.1
Ambuja	1144	1200	-4.6	1495	-23.5
UltraTech*	1241	1329	-6.6	1545	-19.7
Shree Cem ^	1205	1513	-20.4	1482	-18.7
JK Cement*	1065	1461	-27.1	1323	-19.5
JK Lakshmi	738	781	-5.5	813	-9.2
Ramco Cem	1432	2021	-29.1	1700	-15.8
Sagar Cem	979	1451	-32.5	1218	-19.6
Average	1153	1312	-12.1	1440	-19.9

Exhibit 2: ICICI Direct Coverage Universe (Cement)

Company	CMP		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,273	BUY	85	105	126	16.5	12.2	10.1	140	136	136	14.5	17.8	19.0	12.6	13.7	14.5
Ambuja Cem*	404	BUY	9	11	14	21.0	16.3	14.3	247	222	220	17.6	19.4	20.6	20.3	22.0	22.9
UltraTech Cem	7,410	BUY	191	227	284	20.2	17.6	14.4	279	274	233	14.7	16.2	18.3	12.7	13.5	14.7
Shree Cement	28,146	BUY	641	682	847	24.4	22.0	18.4	285	281	275	18.2	18.2	19.5	15.2	14.1	15.2
Heidelberg Cem	255	HOLD	14	15	17	12.0	10.0	8.3	131	127	121	20.1	23.5	27.2	21.1	20.6	20.8
JK Cement	3,415	HOLD	100	118	138	17.5	15.5	12.9	207	210	209	18.6	18.5	20.0	20.6	20.1	19.4
JK Lakshmi Cen	650	BUY	34	37	41	10.5	9.2	8.4	89	89	91	21.1	22.1	21.3	19.0	19.5	18.5
Star Cement	109	BUY	6	7	8	10.8	8.4	7.2	90	86	83	13.3	16.4	17.1	12.6	14.2	13.6
Ramco Cement	1,012	BUY	32	35	45	17.9	16.2	13.0	201	204	190	8.6	8.8	10.1	13.5	12.9	14.2
Sagar Cement	312	BUY	79	81	138	10.5	9.7	6.4	104	76	72	15.3	15.2	22.0	15.4	13.7	19.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

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**

ANALYST CERTIFICATION

I/We, Rashesh Shah, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.