

January 7, 2022

Unseasonal rains to keep demand muted; cost to inch up sharply in Q3FY22E...

After a meaningful recovery in October 2021, November saw a steep decline in sales volumes, which was led by 1) unseasonal rainfall, 2) sand crisis in eastern, some parts of UP region and labour availability issue due to festive season. As per our channel checks, cement demand has again picked up from the second half of December 2021 and should gain further momentum from January 2022 onwards with a sharp pick-up in infra activities. However, for Q3FY22, we expect our coverage universe sales volume to decline 3.8% YoY (up 6.8% QoQ) to 52 MT. Price hikes taken in October 2021 were rolled back partially in November-December 2021 due to a fall in demand along with year-end volume push by few key players. However, cement prices are expected to grow 5.9% YoY, 2.9% QoQ during Q3FY22 barring the eastern region where prices are likely to decline 2.4% on a QoQ basis. In terms of costs, key input costs like imported coal and petcoke prices have dipped 40% and 25%, respectively, in December 2021 after rallying sharply by 329% & 211%, respectively. While the benefits from these would start reflecting from Q4FY22 onwards (as companies carry three to four months inventory), costs are likely to rise sharply both QoQ and YoY during Q3FY22. This is expected to lead to 529 bps YoY, 363 bps QoQ drop in margins to 18.4%. Overall, for Q3FY22E, our I-direct cement coverage universe is expected to report sales volume, EBITDA de-growth of 3.8%, 18.9% YoY, respectively. Region wise, the performance of north and western based companies is expected to remain relatively better while east and south region are expected to report a weak performance.

All-India average prices to remain higher barring East region

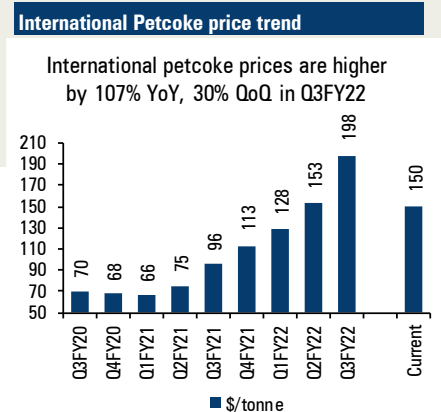
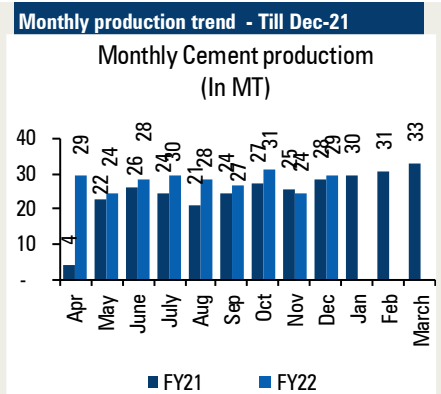
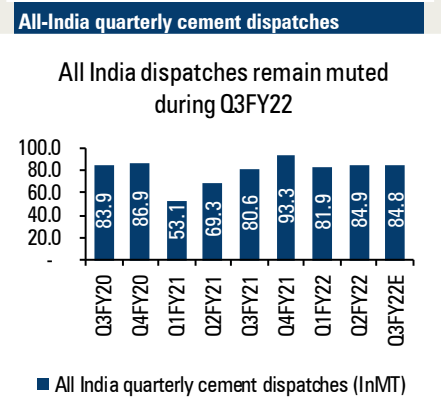
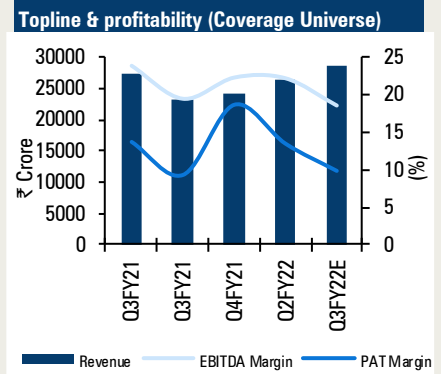
Cement prices softened in November -December 2021 but remained higher YoY as companies took major price hikes during October 2021 to combat rising input costs. However, owing to softer demand, there was a partial rollback. Overall, we expect, cement price to go up 5.9% YoY, 2.9% QoQ barring eastern region where prices are likely to decline 2.4% QoQ.

EBITDA/t to decline 15.7% YoY on high costs

Petcoke and international coal prices are up 25-30% on a QoQ basis. Also, average diesel prices are up ~25% YoY leading to a rise in average freight costs per tonne by ~₹ 45-50/t on a QoQ basis. With freight & power comprising over 50% of cost, we expect total production cost to increase by ₹ 247/t QoQ to ₹ 4,488/t (up 15.9% YoY, 5.8% QoQ). Hence, we expect EBITDA/t to decline 15.7% YoY, 15.5% QoQ to ₹ 1,016/t for our coverage universe.

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ
ACC ^	4,163.2	0.4	11.0	533.4	-6.7	-25.1	345.1	-26.9	-23.4			
Ambuja ^	3,743.2	6.5	15.6	661.8	-13.8	-5.9	426.7	-14.2	-3.3			
JK Cement	1,889.5	7.4	2.9	312.3	-30.4	-5.1	137.9	-42.1	-18.3			
JK Laxmi Cement	1,107.9	-7.1	-0.9	129.7	-32.4	-20.2	53.6	-47.6	-30.0			
Ramco Cements	1,552.0	15.5	3.9	338.8	-14.9	-14.0	146.0	-27.5	-71.8			
Sagar Cements	333.3	-8.4	-9.7	52.0	-50.2	-14.5	15.0	-69.7	-27.5			
Shree Cement	3,386.1	2.3	5.6	786.4	-27.8	-12.4	457.5	-26.9	-20.8			
UltraTech Cem	12,489.0	5.6	8.1	2,471.2	-16.1	-5.0	1,216.0	-21.6	-6.5			
Total	28,664.1	4.4	7.9	5,285.7	-18.9	-9.8	2,797.8	-25.1	-21.2			

Source: Company, ICICI Direct Research



Top Picks
 Ambuja Cement
 Orient Cement

Analyst
 Rashesh Shah
 rashesh.shah@icicisecurities.com

Company specific view

Company	Remarks
ACC	ACC is expected to post 10.3% QoQ growth in volumes to 7.2 MT for Q4CY21E driven by year end volume push and stabilisation of new 1.4 MT GU in Sindi, Jharkhand. Realisations are expected to inch-up only marginally QoQ while cost of production per tonne is expected to increase sharply by 8.4% QoQ due to a rise in petcoke & fuel prices. This should lead to 32.1% QoQ drop in EBITDA/tonne to ₹ 736/t. On absolute basis, EBITDA and PAT are expected to drop 6.7% and 26.9% YoY, 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 & east. This should aid in the revenue growth of 6.5% on a YoY basis vs. average industry revenue growth of 4.4% YoY. However, a sharp increase in the fuel & power costs is expected to lead to 13.8% YoY drop in EBITDA. EBITDA/t is expected to decline 14.7% YoY to ₹ 934/t
UltraTech Cement	We expect the company to report 4% YoY drop in sales volume to 21.9 MT. However, with realisation growth of +10%, we expect revenue to grow 5.6% YoY. Cost per tonne is expected to increase by ₹ 194/t (4.4% QoQ). As a result, we expect EBITDA/tonne to decline 12.5% YoY, 11.3% on a QoQ basis
Shree Cement	Higher dependence on petcoke and imported coal is expected to lead to a sharp increase in cost of production by 8.3% QoQ to ₹ 3973/t on a YoY basis (up ₹ 306/t). We expect EBITDA/t to fall 20.9% YoY and 15.8% QoQ to ₹ 1202/t. Further, weak demand in the east due to excess monsoon is expected to lead to 8.7% YoY fall in sales volume to 6.5 MT
JK Cement	With stabilisation of new capacities, we expect sales volume growth to moderate to 7.1% YoY. Higher cost pressure is expected to drag EBITDA/t lower by 6.9% QoQ to ₹ 920/t. On an absolute basis, we expect EBITDA and PAT to decline 5.1% and 18.3% QoQ, respectively
JK Lakshmi Cement	Unrest at the Durg plant till mid October 2021 along with unseasonal rain is expected to lead to 15.8% YoY fall in sales volume (highest among coverage). Cost is also expected to increase sharply by 16.1% YoY, 4.7% QoQ. As a result, EBITDA/tonne is likely to decline 18.4% QoQ to ₹ 572/tonne (lowest among peer group). PAT is expected at ₹ 53.6 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 7.3% YoY to 2.8 MT. However, EBITDA/t is expected to decline 20.7% YoY to ₹ 1210/t. On an absolute basis, EBITDA and PAT are expected to decline 14.9% and 27.5% YoY, respectively, due to cost pressure and expected lower volumes
Sagar Cement	Heavy rainfall in AP/Telangana region during October-November is anticipated to keep business activities lower. We expect sales volume to decline 11.2% YoY to 0.76 MT. We expect EBITDA/t at ₹ 680/t and PAT at ₹ 15 crore (down 27.5% QoQ)

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)					
In MT	Q3-22E	Q3-21	YoY (%)	Q2-22	QoQ (%)
ACC	7.2	7.7	-6.0	6.6	10.3
Ambuja	7.1	7.0	1.1	6.2	14.3
UltraTech*	21.9	22.8	-4.0	20.4	7.2
Shree Cem	6.5	7.2	-8.7	6.3	4.0
JK Cement*	3.4	3.2	7.1	3.3	1.9
JK Lakshmi	2.3	2.7	-15.8	2.3	-2.2
Ramco Cem	2.8	2.6	7.3	2.7	3.3
Sagar Cem	0.8	0.9	-11.2	0.85	-10.4
Total	52.0	54.0	-3.8	48.7	6.8

Region-wise cement retail prices					
₹/50 kg bag	Q3-22E	Q3-21	YoY (%)	Q2-22	QoQ (%)
North	385	369	4.4	367	5.0
East	351	337	4.2	359	-2.4
South	434	387	12.1	405	7.2
West	386	347	11.2	371	4.1
Central	382	359	6.5	362	5.6
Pan India	387	365	5.9	376	2.9

Cement Realizations (Coverage Universe)					
₹/tonne	Q3-22E	Q3-21	YoY (%)	Q2-22	QoQ (%)
ACC	5746	5376	6.9	5706	0.7
Ambuja	5281	5014	5.3	5221	1.1
UltraTech*	5703	5184	10.0	5653	0.9
Shree Cem	5174	4620	12.0	5094	1.6
JK Cement*	5568	5554	0.3	5512	1.0
JK Lakshmi	4885	4426	10.4	4820	1.3
Ramco Cem	5400	5076	6.4	5362	0.7
Sagar Cem	4362	4229	3.2	4325	0.9
Average	5504	5078	8.4	5444	1.1

EBITDA per tonne (Coverage Universe)					
₹ per tonne	Q3-22E	Q3-21	YoY (%)	Q2-22	QoQ (%)
ACC	736	742	-0.7	1084	-32.1
Ambuja	934	1095	-14.7	1134	-17.7
UltraTech*	1128	1290	-12.5	1273	-11.3
Shree Cem ^	1202	1520	-20.9	1427	-15.8
JK Cement*	920	1416	-35.0	988	-6.9
JK Lakshmi	572	712	-19.6	701	-18.4
Ramco Cem	1210	1525	-20.7	1453	-16.7
Sagar Cem	680	1214	-44.0	712	-4.6
Average	1016	1206	-15.7	1203	-15.5

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

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*	2,282	BUY	85	110	126	16.3	11.5	10.0	138	134	134	14.5	18.7	18.9	12.6	14.3	14.4
Ambuja Cem*	395	BUY	9	12	13	19.7	14.8	13.5	232	208	206	17.6	19.9	20.3	20.3	22.6	22.6
UltraTech Cem	7,501	BUY	191	217	281	19.7	17.6	14.2	276	266	227	14.7	15.4	18.2	12.7	12.9	14.7
Shree Cement	26,980	BUY	641	672	922	26.1	23.9	18.4	307	303	296	18.2	18.0	20.9	15.2	14.0	16.3
Heidelberg Cem	235	HOLD	14	15	17	12.0	10.0	8.3	131	127	121	20.1	23.7	27.2	21.1	20.3	20.8
JK Cement	3,535	HOLD	100	123	138	19.3	16.9	14.2	228	231	230	18.6	19.0	19.9	20.6	20.7	19.3
JK Lakshmi Cen	624	BUY	34	37	40	9.6	8.7	8.0	81	80	81	21.1	22.0	21.5	19.0	19.1	17.9
Star Cement	98	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	1,025	BUY	32	38	48	17.3	16.3	13.2	198	203	189	8.6	9.1	10.4	13.5	13.8	14.8
Sagar Cement	282	BUY	16	12	23	9.2	10.1	6.3	91	66	62	15.6	12.6	20.0	16.0	11.0	17.5

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 broking 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 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.