

April 7, 2022

## Demand improving; cost inflation remains a worry...

After passing through challenges like unseasonal rains, labour shortages during Q3, cement demand witnessed a gradual improvement in Q4FY22E with March witnessing a strong rebound in terms of sales volume as per dealer's feedback. However, given the high base of last year that saw 24% YoY jump in volumes, sales volume for Q4FY22E is likely to remain flat YoY while it may improve 16.3% QoQ to ~61.3MT for our coverage universe. For full year FY22E, we expect the industry to end the year with sales volume growth of 9% while cost inflation remains a key near-term concern for the sector. Petcoke, coal and diesel prices has seen unprecedented rise since February 2022. Q4FY22 average prices of international coal are up 14% vs. Q3 average (refer charts) while current rates of coal/petcoke are up another 23% and 25% QoQ, respectively. As the industry normally operates with two to three months of fuel inventories, the sector would witness marginal impact of fuel cost inflation in Q4FY22E. Taking this into account, we expect our I-direct universe EBITDA margins to decline ~35 bps QoQ to 16.7%. To mitigate the full impact of cost inflation from Q1FY23E, players have again taken price hikes in the range of ₹ 20-40/bag across all regions from April 2022 onwards. Overall, for Q4FY22E, our I-direct cement coverage universe is expected to report flat QoQ EBITDA/t while it will be sharply lower by 26% YoY. Region wise, performance of north and south based companies is expected to remain relatively better while east and west region are expected to report a moderate performance.

### All India average prices up 7.9% YoY, 2.1% QoQ

Although cement prices were hiked by ₹ 15-17/bag from January 2022 end to combat rising input costs, the same is lagging the cost inflation curve. Overall, we expect cement prices to remain higher 7.9% YoY and 2.1% QoQ. South & west regions are expected to witness price hikes of over 9% YoY due to low base effect. On a QoQ basis, eastern region is expected to witness price hike of 5.6% vs. average hike of 2.1% for the industry.

### EBITDA/t to stay flat QoQ, down 26% YoY on higher costs

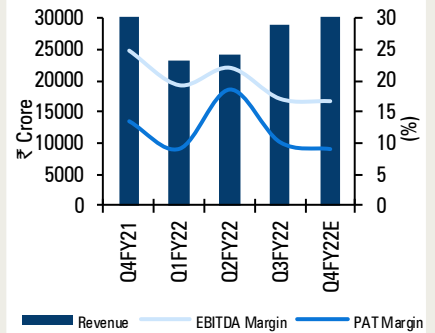
While international coal prices increased 14% QoQ, petcoke price declined 11% QoQ. Average diesel costs are also lower 3% QoQ due to excise cuts. With average cement price increase of 2.1%, we expect EBITDA/t to stay flat QoQ at ₹ 943/t. However, YoY we expect EBITDA/tonne ~26% due to sharp escalations in the fuel and freight costs.

Exhibit 1: Estimates for Q4FY22E: (Cement) (₹ Crore)

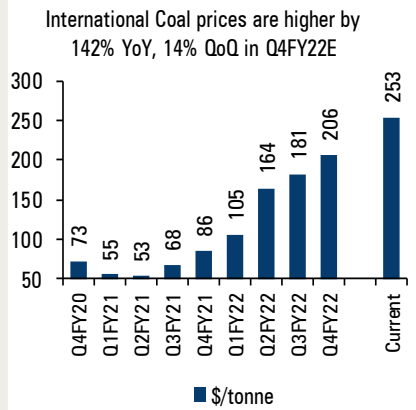
Company	Revenue			EBITDA			PAT		
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
ACC ^	4,513.0	5.2	6.8	576.9	-32.9	3.7	344.0	-38.9	22.5
Ambuja ^	3,943.1	8.9	5.6	626.8	-35.8	10.4	371.6	-44.1	47.6
JK Cement	2,279.6	11.1	17.5	413.9	-5.7	11.6	197.7	212.1	18.2
JK Laxmi Cement	1,447.9	9.5	21.3	154.3	-42.4	5.4	74.0	-45.8	25.0
Ramco Cements	1,721.8	5.6	11.1	268.6	-40.2	16.4	113.0	-47.3	36.9
Sagar Cements	516.0	23.5	54.7	69.6	-33.2	50.4	18.2	-63.5	293.3
Shree Cement	4,510.2	14.0	27.0	998.2	-15.6	20.9	573.1	-25.3	16.5
UltraTech Cem	15,534.6	11.2	24.6	2,672.2	-23.9	20.3	1,468.5	-17.4	-10.0
<b>Total</b>	<b>34,466.1</b>	<b>10.3</b>	<b>18.8</b>	<b>5,780.6</b>	<b>-25.8</b>	<b>16.4</b>	<b>3,160.2</b>	<b>-25.4</b>	<b>6.4</b>

Source: Company, ICICI Direct Research

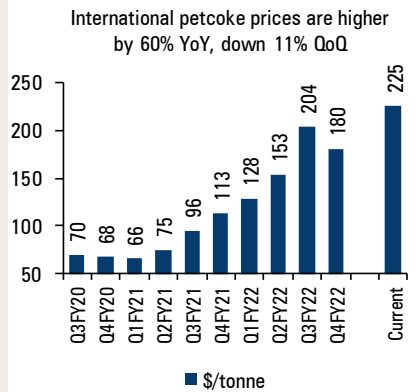
### Topline & profitability (Coverage Universe)



### International coal price trend



### International Petcoke price trend



### Top Picks

Ultratech Cement  
Sagar Cement

### Analyst

Rashesh Shah  
rashes.shah@icicisecurities.com

Company specific view

Company	Remarks
ACC	Sales volume to decline ~1.5% YoY to 7.8 MT, mainly on account of higher base effect. However, capacity utilisation is expected to stay healthy at 91%. Cost of production per tonne may further increase 2.4% QoQ due to higher petcoke & fuel prices while realisations are likely to improve 1.9% QoQ. This should lead to 40 bps QoQ drop in EBITDA margins to 12.8%. EBITDA/tonne is expected at ₹ 735/t. On a YoY basis, EBITDA and PAT are expected to drop ~33% and ~39% YoY, respectively
Ambuja Cement	Ambuja Cement derives major revenues from the north and west India markets that remained better in terms of volume compared to south & east. This should aid in revenue growth of 2.2% on a YoY basis despite higher last year's base. Operating leverage and higher use of existing fuel inventory are expected to lead to 69 bps QoQ margin expansion. EBITDA/t is expected at ₹ 847/t vs. ₹ 793/t last quarter and ₹ 1349/t last year
UltraTech Cement	We expect the company to report flat YoY sales volume to 26.7 MT due to high base effect while it is likely to improve over 22% QoQ. Cost of production may increase further by 2.8% QoQ to ₹ 4811/t while realisations are expected to improve 2% sequentially. Absolute EBITDA is expected to improve 20.3% QoQ to ₹ 2672 crore while PAT is expected to decline 10% QoQ due to tax adjustments
Shree Cement	Higher dependence on petcoke and imported coal is expected to lead to a sharp increase of 27% in cost of production on a YoY basis. On a QoQ basis, it is expected to increase 3.7%. However, with 2.2% price increase, we expect EBITDA/t to fall by 14.7% YoY, 2.7% QoQ to ₹ 1227/t
JK Cement	We expect the blended sales volume of 3.8 MT, down 2% YoY, up 14.9% QoQ. Higher cost pressure would drag EBITDA/t lower by 3.9% YoY to ₹ 1084/t. On absolute basis, we expect EBITDA to decline by 5.7% while PAT is expected to improve 212% YoY as last year profit was lower sharply due to exceptional loss
JK Lakshmi Cement	With resumption of operations of Durg plant (capacity 2.7 MT), we expect sales volume to rebound sequentially with growth of 19% to 2.9 MT. EBITDA/tonne is likely to decline 11.4% QoQ to ₹ 528/tonne (lowest among peer group) due to cost escalations. PAT is expected at ₹ 74 crore for the quarter
Ramco Cement	Ramco Cement operates mostly in the south and eastern markets, which saw higher decline in volumes during last year. Due to the benefit of low base effect, we expect sales volume to improve 2.7% YoY to 3.3 MT against expected flat volume for entire cement universe. EBITDA/t is expected to improve 8.4% QoQ to ₹ 815/t, mainly due to operating leverage benefit. On absolute basis, EBITDA and PAT are expected to improve ~16% and ~37% QoQ
Sagar Cement	Commissioning of new cement capacities (2.5 MT) from January 2022 onwards is expected to drive robust sales volume growth of 52% QoQ (up 10.5% YoY) to 1.1 MT. Higher dependence on domestic coal is expected to safeguard against further cost pressure. We expect broadly similar EBITDA on per tonne basis as reported in Q3

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)					
In MT	Q4-22E	Q4-21	YoY (%)	Q3-22	QoQ (%)
ACC	7.8	8.0	-1.5	7.5	4.8
Ambuja	7.4	7.2	2.2	7.2	3.4
UltraTech*	26.7	26.6	0.5	21.9	22.1
Shree Cem	8.1	8.2	-1.0	6.6	24.2
JK Cement*	3.8	3.9	-2.0	3.3	14.9
JK Lakshmi	2.9	2.9	-0.5	2.5	19.0
Ramco Cem	3.3	3.2	2.7	3.1	7.3
Sagar Cem	1.1	1.0	10.5	0.7	52.1
Total	61.3	61.1	0.3	52.7	16.3

Region-wise cement retail prices					
₹/50 kg bag	Q4-22E	Q4-21	YoY (%)	Q3-22	QoQ (%)
North	385	367	4.9	378	1.7
East	359	341	5.2	340	5.6
South	418	383	9.1	415	0.7
West	383	349	9.9	382	0.3
Central	382	354	7.8	375	1.8
Pan India	391	362	7.9	382	2.1

Cement Realizations (Coverage Universe)					
₹/tonne	Q4-22E	Q4-21	YoY (%)	Q3-22	QoQ (%)
ACC	5750	5385	6.8	5642	1.9
Ambuja	5327	5002	6.5	5217	2.1
UltraTech*	5811	5252	10.6	5697	2.0
Shree Cem*	5543	4815	15.1	5423	2.2
JK Cement*	5971	5271	13.3	5841	2.2
JK Lakshmi	4950	4497	10.1	4853	2.0
Ramco Cem	5201	5058	2.8	5021	3.6
Sagar Cem	4566	4084	11.8	4490	1.7
Average	5622	5116	9.9	5503	2.2

EBITDA per tonne (Coverage Universe)					
₹ per tonne	Q4-22E	Q4-21	YoY (%)	Q3-22	QoQ (%)
ACC	735	1079	-31.9	743	-1.0
Ambuja	847	1349	-37.2	793	6.7
UltraTech*	1000	1321	-24.3	1015	-1.5
Shree Cem ^	1227	1439	-14.7	1260	-2.7
JK Cement*	1084	1128	-3.9	1116	-2.9
JK Lakshmi	528	911	-42.1	595	-11.4
Ramco Cem	815	1399	-41.7	752	8.4
Sagar Cem	616	1019	-39.5	623	-1.1
Average	943	1275	-26.0	943	0.1

Exhibit 2: ICICI Direct Coverage Universe (Cement)

Company	CMP		Rating	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,157	2,480	BUY	85	102	78	10.0	12.8	8.0	124	116	107	14.7	17.6	13.5	12.6	13.4	10.1
Ambuja Cem*	322	350	BUY	9	10	11	11.5	11.7	9.3	158	161	135	18.6	17.8	17.6	21.0	20.6	20.4
UltraTech Cem	6,753	8,000	BUY	185	202	206	16.4	16.8	15.1	197	195	191	14.7	13.2	14.2	12.7	12.2	11.3
Shree Cement	24,800	25,700	HOLD	641	597	599	20.0	21.5	19.8	233	235	203	18.2	15.7	14.9	15.2	12.7	11.5
Heidelberg Cem	205	225	HOLD	14	8	11	9.4	12.4	10.5	103	101	99	20.1	15.7	19.7	21.1	12.6	15.2
JK Cement	2,750	2,640	HOLD	78	96	77	13.0	13.9	15.0	132	158	139	18.6	16.1	13.2	20.6	17.0	12.3
JK Lakshmi Cem	460	580	BUY	31	26	18	7.2	9.4	10.7	62	63	66	21.1	15.8	12.8	19.0	14.2	9.6
Birla Corp	1,150	1,320	HOLD	88	35	41	9.9	13.0	10.8	121	94	92	10.8	6.5	7.2	12.4	5.0	5.5
Ramco Cement	802	900	BUY	32	25	26	13.0	16.5	15.6	149	155	147	8.6	6.5	6.3	13.5	9.5	8.9
Sagar Cement	267	300	BUY	16	7	15	7.5	11.8	7.5	75	56	54	15.6	8.5	14.8	16.0	6.8	12.6

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 is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst 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](http://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 and its analysts, persons reporting to analysts and their relatives are generally prohibited 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](http://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, and 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 or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

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 and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest 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.