

Q2 FY23 Cement Sector Preview



Cement Sector

A Muted Quarter

MARKET DATA

	Close	1D (%)	1M (%)	YTD (%)
Nifty	17,315	-0.1	-2.7	-1.8
Sensex	58,191	-0.1	-2.5	-1.7
Nifty Infra	5,036	0.4	-3.7	0.5
USD / INR	81.9	-0.5	-2.5	-9.2

COVERAGE STOCKS

Company	Current Price (INR)	Target Price (INR)*	Upside (%)	Market Cap. (INR Mn)	EV/EBITDA FY24E (x)	Recommendation*
ACC	2,385	2,262	TA	4,48,356	12.3#	ACCUMULATE
Ultratech	6,204	7,574	22.1	17,90,764	12.5	BUY
Shree Cement	21,284	22,888	7.5	7,67,927	14.7	ACCUMULATE
The Ramco Cement	737	843	14.4	1,74,200	11.7	BUY

*Note: Target price and recommendation will be reviewed post detailed Q2FY23 result analysis and conference call of the said companies.

#Follows Calendar Year CY23E

Source: KRC & Bloomberg, Data as of October 07, 2022. TA: Target Achieved

SECTOR OUTLOOK

Volume to witness de-growth sequentially due to monsoon, realization to take hit due to weak prices

For the cement sector, the September quarter usually remains weak as construction activities tend to slow down during the monsoon season. As a result, cement companies will see volume de-growth on a QoQ basis due to lower offtake. As cement prices remained weak for most part of Q2FY23 (a hike taken at fag end of September), realization will take a hit for the quarter. Among our coverage stocks, we expect ACC, Ultratech, Shree Cement and Ramco to clock volume growth of 8.1% YoY/-6.1% QoQ, 8.6% YoY/-6.2% QoQ, 7.9% YoY/-8.7% QoQ, and 18.2% YoY/-3.3% QoQ respectively for the quarter. Blended realisations for ACC, Ultratech, Shree Cement and Ramco will see a growth of 3.6% YoY/0.3% QoQ, 4.7% YoY/-4.0% QoQ, 4.4% YoY/-5.7% QoQ, -2.9% YoY/-3.1% QoQ respectively for the quarter.

Elevated input prices (though in a downtrend) will continue to impact margins

Prices of key inputs like pet coke, coal, power and fuel remained elevated during the quarter. Imported coal prices touched a high of USD 388/ton on 6th of September 2022, before correcting to a level of USD 300/ton by the end of September. Just like imported coal, crude price has also come down from its peak which has a direct impact on the freight & forwarding costs for the cement companies. Most of the input prices have come down from their peak by an average 20-25%. However, the weighted average prices for the key inputs continued to remain high for the quarter, which in turn will continue to impact the margins of the cement manufacturers. The benefits from softening of key input prices will only kick in from next quarter onwards for the cement companies.

Sector outlook and top picks

We expect cement demand to mirror India's GDP growth rate. With government's focus on infrastructure spending and affordable housing, the cement sector's long-term growth potential continues to remain healthy. As the Covid pandemic is now a thing of the past, demand revival is imminent for the sector especially during the festive season and the January-March peak construction period. Sensing the demand revival, cement companies have already embarked on aggressive capacity expansion plans. Capacity ramp ups of both Ultratech and Ramco Cements are in full swing. We expect cement companies to take further price hikes in the October-December quarter which will improve their realisation. Also, commodity prices now softening from their peaks, would help the cement companies to protect their margins in the coming quarters. **Our top picks in the sector are ULTRATECH (BUY) and RAMCO CEMENT (BUY).**

ANALYST

Kushal Shah, research3@krchoksey.com, +91-22-6696 5423

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is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

Cement Sector

Exhibit 1: Quarterly result expectation for companies under coverage

INR Mn	Q2FY23E	Q2FY22A	YoY	Q1FY23A	QoQ	Remarks
ACC *						
Sales	42,412	37,490	13.1%	44,684	-5.1%	In Q3CY22, we expect ACC to report 7.1 MT cement sales volume (8.1% YoY/-6.1% QoQ) and 0.7 MT RMX volume, with blended realisation of INR 5,437/ton, which will result into revenue growth of 13.1% YoY/-5.1% QoQ.
EBITDA	3,690	7,123	-48.2%	4,262	-13.4%	EBITDA for the quarter is likely to decline by 48.2% YoY/13.4% QoQ, due to elevated input prices (power/fuel/coal/petcoke). EBITDA margins are expected to contract by 1030 bps YoY/84 bps QoQ.
Net Profit	2,360	4,502	-47.6%	2,273	3.8%	
EBITDA (%)	8.7%	19.0%	-1,030 bps	9.5%	-84 bps	PAT will see a decline of 47.6% YoY in line with fall in EBITDA, though on QoQ basis PAT will grow by 3.8%. PAT margins are expected to see a contraction of 644 bps YoY, though on QoQ basis PAT margin will expand by 48 bps.
NPM (%)	5.6%	12.0%	-644 bps	5.1%	48 bps	
Ultratech						
Sales	1,36,653	1,20,168	13.7%	1,51,640	-9.9%	We expect Ultratech to report 23.5 MT cement sales volume (8.6% YoY/-6.2% QoQ) with blended realisation of INR 5,815/ton, which will result into revenue growth of 13.7% YoY/-9.9% QoQ.
EBITDA	21,659	27,147	-20.2%	30,949	-30.0%	The impact of peak input costs during the quarter will keep margins subdued. EBITDA for the quarter is likely to decline by 20.2% YoY/30.0% QoQ. We expect EBITDA margin to contract by 674 bps YoY and 456 bps on QoQ basis.
Net Profit	10,608	13,135	-19.2%	15,841	-33.0%	
EBITDA (%)	15.9%	22.6%	-674 bps	20.4%	-456 bps	PAT will witness a decline of 19.2% YoY/33.0% QoQ during the quarter, while PAT margins would suffer a contraction of 317 bps YoY and 268 bps on QoQ basis.
NPM (%)	7.8%	10.9%	-317 bps	10.4%	-268 bps	
Shree Cement						
Sales	38,012	33,734	12.7%	44,149	-13.9%	Shree Cement to clock 6.8 MT cement sales volume (7.9% YoY/-8.7% QoQ) with blended realisation of INR 5,590/ton, resulting into revenue growth of 12.7% YoY/-13.9% QoQ.
EBITDA	6,234	9,210	-32.3%	8,008	-22.2%	EBITDA for the quarter is likely to decline by 32.3% YoY/22.2% QoQ, due to continued pressure on input costs (power/fuel/coal/petcoke). EBITDA margin is likely to contract by 1090 bps YoY and 174 bps on QoQ basis.
Net Profit	2,918	5,628	-48.2%	2,795	4.4%	
EBITDA (%)	16.4%	27.3%	-1,090 bps	18.1%	-174 bps	PAT will see a decline of 48.2% YoY, though on QoQ basis it will see a marginal rise of 4.4% due to higher other income compared to Q1FY23. PAT margins would contract by 901 bps YoY, though on QoQ basis it will expand by 134 bps.
NPM (%)	7.7%	16.7%	-901 bps	6.3%	134 bps	
The Ramco Cement						
Sales	16,672	15,031	10.9%	17,794	-6.3%	Ramco Cement is expected to report 3.2 MT cement sales volume (18.2% YoY/-3.3% QoQ) with blended realisation of INR 5,210/ton, which will result into revenue growth of 10.9% YoY/-6.3% QoQ.
EBITDA	2,472	3,998	-38.2%	3,031	-18.4%	The impact of elevated input costs will keep pressure on margins. EBITDA for the quarter is likely to decline by 38.2% YoY/18.4% QoQ. We expect EBITDA margin to contract by 1177 bps YoY and 221 bps on QoQ basis.
Net Profit	732	2,118	-65.4%	1,090	-32.9%	
EBITDA (%)	14.8%	26.6%	-1,177 bps	17.0%	-221 bps	PAT is likely to see a decline of 65.4% YoY/32.9% QoQ, while PAT margins will contract by 970 bps YoY and 174 bps on QoQ basis.
NPM (%)	4.4%	14.1%	-970 bps	6.1%	-174 bps	

* ACC follows CY, so Q2FY23E would be Q3CY22 for ACC

ANALYST

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Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

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