

July 8, 2022

Significant cost inflation to squeeze margins further...

We expect operating margins in the cement sector to get further squeezed in Q1FY23 as the impact of the significant rise in international petcoke/coal would now be felt in this quarter post exhaustion of low cost fuel inventories and continued uptrend in fuel prices. Further aggressive price hikes taken in April 2022 did not sustain and saw partial rollbacks from May 2022 onwards. With June exit cement prices declining further due to onset of monsoons, we expect profitability to stay under pressure. Overall, for Q4FY22E, our I-direct cement coverage universe is expected to report 19.1% QoQ drop in EBITDA with likely EBITDA margin of 15.1% vs. 18.7% in Q4FY22. Region wise, performance of north, west and central based companies is expected to remain relatively better while east and south region are expected to remain weak relatively.

Sales volume growth to remain healthy YoY...

We expect our cement universe sales volume to grow 19.1% YoY to ~59 MT supported by strong demand during April and favourable base effect of last year that was impacted due to Covid induced restrictions. However, QoQ, sales volume is likely to decline 3.6% due to moderation in the construction work from May onwards that was led by the impact of heat wave, labour availability issues and inflationary pressure.

...but significant cost pressure to be seen

Compared to Q4 average, prices of international coal, petcoke increased further by 40%, 45%, respectively, given the geopolitical situation and international supply chain bottlenecks. However, companies with higher dependence on domestic coal/increased share of WHRS would see some respite. Further recent measures by the government like excise cut on diesel would provide marginal relief to cement players in Q1FY23. Overall, we expect cost of production to increase further by ₹ 385/tonne (or 8.6% QoQ) to ₹ 4862/tonne (up 22.7% YoY).

Cement prices moderate from May after sharp hike in April

To mitigate the cost impact, cement companies across all regions resorted to significant price hikes during April 2022 (i.e. ~7-8% price hike). However, moderation in demand from May 2022 and higher supply of cement led to partial rollbacks during May-June. Overall, we still expect cement prices to stay higher by 5.5% YoY, 4.9% QoQ to ₹ 400/bag for Q1FY23.

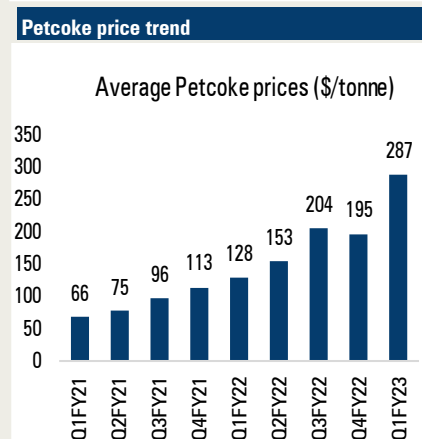
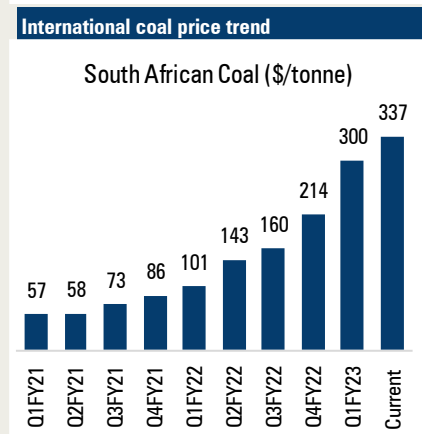
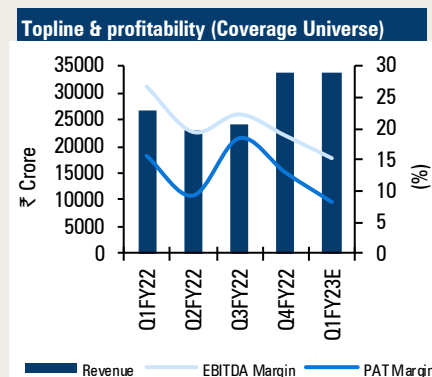
EBITDA/t to decline further on a higher cost

Higher cement prices would partially offset the cost pressure during Q1FY23. Hence, we expect EBITDA/tonne of our coverage universe to decline further by 16.1% QoQ to ₹ 866/tonne. The current exit cement prices continue to remain weak. Hence, correction in the input cost would remain a key variable for improvement in profitability, going forward.

Exhibit 1: Estimates for Q1FY23E: (Cement)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
JK Cement	2,311.2	41.5	1.9	331.8	-17.0	-13.3	146.8	-29.5	70.2			
JK Laxmi Cement	1,428.9	16.0	-4.6	165.1	-23.6	-40.2	74.0	-37.6	-56.9			
Ramco Cements	1,729.2	40.7	1.2	254.3	-30.1	-13.8	90.0	-46.8	-27.5			
Sagar Cements	538.4	37.2	7.3	61.8	-42.3	1.1	-17.1	PL	NA			
Shree Cement	4,110.9	19.2	0.3	726.1	-28.4	-20.3	404.0	-38.9	-37.4			
UltraTech Cem	14,925.9	30.1	-1.6	2,449.1	-22.8	-16.8	1,365.6	-18.8	-44.4			
Total	33,675.7	26.3	0.2	5,089.8	-28.3	-19.1	2,753.3	-34.2	-36.8			

Source: Company, ICICI Direct Research



Top Picks
UltraTech Cement
Shree Cement

Analyst
Rashesh Shah
rashes.shah@icicisecurities.com

Company specific view	
Company	Remarks
UltraTech Cement	We expect the company to report 22.2% YoY growth in sales volume to 25.1 MT due to resilient demand coupled with low base effect while it is likely to decline QoQ as cost inflation/heat wave led to moderation in demand during May-June. Cost of production is expected to increase further by 7.2% QoQ (or ₹ 333/tonne) while realisations may improve ₹192/tonne (or 3.3% QoQ). Absolute EBITDA would decline 22.8% YoY to ₹2449 crore with PAT declining 19% YoY due to tax adjustments
Shree Cement	Higher dependence on petcoke and imported coal is expected to lead to a sharp increase of 13% in the cost of production on a QoQ basis. On a YoY basis, it is expected to increase 26%. However, with 6.8% QoQ price increase, we expect EBITDA/t to fall 15.1% QoQ, 35% YoY to ₹ 963/t
JK Cement	We expect blended sales volume of 3.9 MT, flat QoQ. Higher cost pressure would drag EBITDA/t lower by 13.1% QoQ to ₹ 846/t. On absolute basis, we expect EBITDA to decline 13.3% QoQ while PAT would improve 70% QoQ as last quarter's profit was lower sharply due to exceptional loss
JK Lakshmi Cement	We expect sales volume to decline ~7.9% QoQ to 2.9 MT on higher base of Q4. EBITDA/tonne is likely to fall 35% QoQ to ₹ 570/tonne due to cost escalations. PAT is expected at ₹ 74 crore for the quarter
Ramco Cement	Due to the benefit of low base effect, we expect sales volume to improve 47% YoY to 3.2 MT while it is expected to remain lower 1.3% QoQ. EBITDA/t is expected to decline further by ~13% QoQ to ₹ 807/t mainly due to significant increase in fuel costs. On an absolute basis, EBITDA and PAT are expected to drop ~14% and ~27% QoQ, respectively
Sagar Cement	Commissioning of new cement capacities (2.5 MT) to drive sales volume growth of 37% YoY, 7% QoQ to 1.8 MT. Higher dependence on domestic coal is expected to safeguard against further cost pressure. We expect broadly similar EBITDA in absolute terms as reported in Q4

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)					
In MT	Q1-23E	Q1-22	YoY (%)	Q4-22	QoQ (%)
UltraTech*	25.1	20.5	22.2	26.3	-4.8
Shree Cem	7.5	6.8	10.2	8.0	-6.1
JK Cement*	3.9	3.0	29.8	3.9	-0.3
JK Lakshmi	2.9	2.7	8.9	3.1	-7.9
Ramco Cem	3.2	2.1	47.1	3.2	-1.3
Sagar Cem	1.2	0.9	34.2	1.1	4.7
Total	58.8	49.3	19.1	61.0	-3.6

* blended sales volume (grey & white)

Region-wise cement retail prices					
₹/50 kg bag	Q1-23E	Q1-22	YoY (%)	Q4-22	QoQ (%)
North	398	372	7.0	378	5.3
East	378	372	1.6	355	6.5
South	430	416	3.4	415	3.6
West	403	370	8.9	382	5.5
Central	390	364	7.1	375	4.0
Pan India	400	379	5.5	381	4.9

Cement realisations (Coverage Universe)					
₹/tonne	Q1-23E	Q1-22	YoY (%)	Q4-22	QoQ (%)
UltraTech*	5950	5590	6.4	5758	3.3
Shree Cem*	5452	5043	8.1	5105	6.8
JK Cement*	5895	5407	9.0	5770	2.2
JK Lakshmi	4934	4633	6.5	4763	3.6
Ramco Cem	5451	5629	-3.1	5318	2.5
Sagar Cem	4563	4464	2.2	4452	2.5
Average	5728	5401	6.0	5509	4.0

EBITDA per tonne (Coverage Universe)					
₹ per tonne	Q1-23E	Q1-22	YoY (%)	Q4-22	QoQ (%)
UltraTech*	976	1545	-36.8	1117	-12.6
Shree Cem ^	963	1482	-35.0	1134	-15.1
JK Cement*	846	1323	-36.0	973	-13.1
JK Lakshmi	570	813	-29.9	879	-35.1
Ramco Cem	807	1700	-52.5	925	-12.7
Sagar Cem	523	1218	-57.0	542	-3.5
Average	866	1439	-39.8	1032	-16.1

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

Exhibit 2: ICICI Direct Coverage Universe (Cement)

Company	CMP			EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
UltraTech Cem	5,840	7,500	BUY	185	245	192	20.3	20.1	20.5	243	239	236	14.7	14.2	13.1	12.7	14.4	10.4
Heidelberg Cem	169	225	HOLD	14	11	12	8.1	9.0	8.0	92	89	86	20.1	17.4	21.5	21.1	16.0	16.5
JK Cement	2,285	2,850	BUY	78	82	68	12.0	13.1	16.4	142	140	148	18.6	15.6	10.8	20.6	17.9	11.3
JK Lakshmi Cem	434	570	HOLD	31	36	24	6.5	6.4	8.3	55	56	60	21.1	18.1	14.0	19.0	18.3	11.8
Birla Corp	906	1,320	HOLD	88	35	41	9.7	12.8	10.6	119	93	91	10.8	6.5	7.2	12.4	5.0	5.5
Ramco Cement	654	735	HOLD	32	38	25	11.4	14.4	14.2	130	136	129	8.6	8.9	5.7	13.5	9.0	8.2
Sagar Cement	174	265	BUY	14	5	9	8.2	13.9	8.2	82	67	54	15.4	6.6	9.6	15.5	4.7	6.8

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, Akruvi 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.

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 icidirect.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 an 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.