

October 7, 2022

Cost pressure at its peak; margins to bottom out in Q2

We expect operating margins in the cement sector to get further squeezed in Q2FY23 as the impact of higher international petcoke/coal would be fully visible. Also, a moderate pricing environment due to monsoon is expected to lead to 530 bps QoQ fall in margins to 12.2% (i.e. at multi quarter low levels). On positive side, sales volume for our coverage universe is expected to grow 11.2% YoY. Region wise, performance of north, west based companies to stay relatively better in terms of pricing while east, south region may report better sales volume YoY. While profitability for Q2 is likely to remain at multi quarter low, we expect margins to recover from Q3 onwards on softening of international fuel prices, pick-up in construction activities (post monsoon) and a better pricing environment.

Cement demand to grow in double digits YoY...

We expect our cement universe sales volume to grow 11.2% YoY to ~54 MT. Region wise, south and east are likely to report better volume growth compared to other regions this quarter owing to lower rainfall in the eastern region, pick-up in infrastructure projects in south India coupled with last year/s low base effect. The key thing to watch would be comments on the demand recovery post festive season along with the ramp-up of infrastructure projects in run-up to the general election in 2024.

...cost pressure at its peak; expect moderation from Q3 onwards

Domestic, international (US, Saudi Arabia) petcoke prices have fallen by ~30%, 40%, respectively, from their peak in June, May 2022. Also, cement companies have now started sourcing cheaper petcoke from Russia and Venezuela vs. expensive South African/Australian coal/petcoke. Diesel prices are also currently 6% lower than the average price in Q1FY23. However, given the presence of high cost fuel inventory in the system, we expect production cost to rise further by ₹ 137/tonne QoQ (up 3% QoQ).

Cement prices rise in Sep'22; Q2 average prices still down 4% QoQ

Cement prices witnessed marginal improvement during September 2022 in most regions. However, average cement prices for Q2FY23 may remain down 4.1% QoQ (or down by ₹ 17 to ₹ 383/bag) due to unfavourable pricing movement in July, August 2022. Central, East India are likely to report QoQ fall of ~6% while rest of the regions may witness price average correction of ~3%. On YoY basis, all India prices are likely to be up ~3% with central & south region reporting gain of ~5.1%, 4.8%, respectively.

Average EBITDA/t to decline 32% QoQ to ₹ 690/tonne

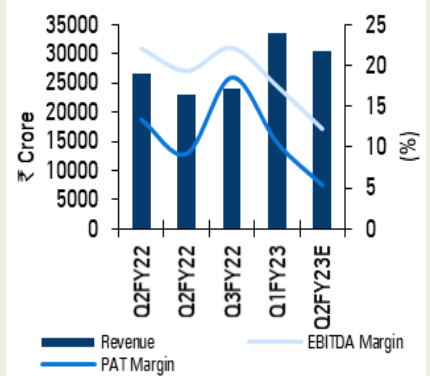
Q2, being the seasonally weak quarter in terms of volume, is expected to witness highest cost pressure given the presence of high cost fuel inventory in the system. Hence, we expect EBITDA/tonne of our coverage universe to decline further by 32% QoQ to ₹ 690/tonne (down 42.7% YoY).

Exhibit 1: Estimates for Q2FY23E: (Cement) (₹ Crore)

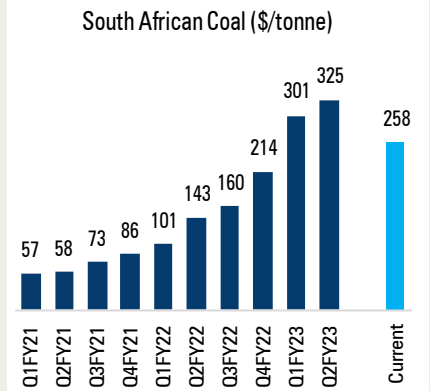
Company	Revenue			EBITDA			PAT		
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
ACC ^	4,012.5	7.0	-10.2	280.7	-60.6	-34.1	128.3	-71.5	-43.5
Ambuja ^	3,710.8	14.6	-7.1	457.6	-34.9	-33.1	312.2	-29.2	-70.2
JK Cement	2,020.6	10.1	-6.7	253.7	-22.9	-36.6	91.7	-45.7	-49.4
JK Laxmi Cement	1,351.9	20.9	-12.8	111.0	-31.7	-48.9	33.9	-55.8	-66.4
Ramco Cements	1,658.3	11.1	-6.8	201.4	-48.9	-33.6	40.3	-92.2	-64.5
Sagar Cements	550.7	49.3	-1.3	48.6	-20.1	-20.4	-19.7	PL	NA
Shree Cement	4,017.8	25.3	-4.4	580.2	-35.4	-29.1	249.2	-56.9	-21.0
UltraTech Cem	13,167.7	14.0	-10.5	1,800.9	-30.7	-38.5	793.6	-39.0	-48.9
Total	30,490.2	14.8	-8.8	3,734.1	-36.3	-36.1	1,629.4	-54.1	-53.8

Source: Company, ICICI Direct Research

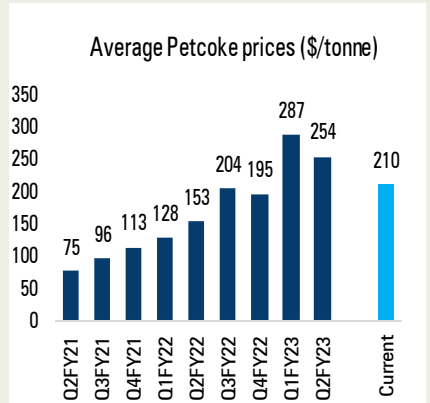
Topline & profitability (Coverage Universe)



International coal price trend



International Petcoke price trend



Top Picks

UltraTech Cement
Shree Cement

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Company specific view

Company	Remarks
ACC	Sales volume are expected to decline ~6.9% QoQ to 7.0 MT mainly on account of erratic monsoon and Shraddh period. Cost of production per tonne may broadly remain flat QoQ while it is likely to be up over 14% due to higher petcoke & fuel prices. In addition, with weak pricing due to monsoon, we expect EBITDA/tonne to drop 29% QoQ to ₹ 399/tonne
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 over 14% on a YoY basis. Realisations to remain lower by 2% QoQ leading to sequential decline of 29.5% in EBITDA/tonne. Lower other income is expected to drag profitability further on QoQ basis
UltraTech Cement	We expect the company to report 9.2% YoY growth sales volume to 22.3 MT due to resilient demand coupled with low base effect while it is likely to decline QoQ basis as cost inflation/monsoon led to moderation in the demand during July-August. Cost of production is expected to increase further by 4.2% QoQ (or ₹ 206/tonne). Realisations may also decline ₹ 201/tonne (or 3.3% QoQ). Absolute EBITDA & PAT are expected to decline 30.7%, 39% YoY, respectively. Expect EBITDA/tonne of ₹ 808/t for the quarter
Shree Cement	Higher dependence on petcoke and imported coal is expected to lead to sharp increase of 24% YoY, 1.6% QoQ in cost of production. Further, due to soft cement prices, we expect EBITDA to decline 29.1% QoQ. We expect the company to report EBITDA/t of ₹ 770/t (second highest in our coverage)
JK Cement	We expect the blended sales volume of 3.4 MT, down 4.6% QoQ. Higher cost pressure would drag EBITDA/t lower by 33.5% QoQ to ₹ 747/t. We expect the company to report net profit of ₹ 91.7 crore (down 45.7% YoY, 49.4% QoQ)
JK Lakshmi Cement	We expect sales volume to decline ~9.7% QoQ to 2.5 MT. Power & fuel cost are expected to inch up by 21% QoQ due to higher petcoke/coal prices. The resultant EBITDA/tonne would be down 43.4% QoQ. PAT is expected at ₹ 34 crore for the quarter
Ramco Cement	Due to the benefit of low base effect, we expect sales volume to improve 16.2% YoY to 3.2 MT while it is expected to remain lower 4.8% QoQ. EBITDA/t is expected to declined further by ~30.2% QoQ to ₹ 639/t mainly due to a significant increase in fuel costs. On absolute basis, EBITDA and PAT would drop by ~33.6% and ~64.5% QoQ. respectively
Sagar Cement	Commissioning of new cement capacities (2.5 MT) is expected to drive sales volume growth of 40.7% YoY to 1.2 MT. Higher dependence on domestic coal is anticipated to safe guard against further cost pressure. However, weak cement prices are expected to lead to 21% QoQ drop in the EBITDA/tonne

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)					
In MT	Q2-23E	Q2-22	YoY (%)	Q1-23	QoQ (%)
ACC	7.0	6.6	7.1	7.6	-6.9
Ambuja	7.0	6.2	13.0	7.4	-5.2
UltraTech*	22.3	20.4	9.2	24.1	-7.5
Shree Cem	7.5	6.3	19.8	7.5	0.0
JK Cement*	3.4	3.3	2.0	3.6	-4.6
JK Lakshmi	2.5	2.3	8.4	2.8	-9.7
Ramco Cem	3.2	2.7	16.2	3.3	-4.8
Sagar Cem	1.2	0.9	40.7	1.2	1.2
Total	54.2	48.7	11.2	57.4	-5.7

* blended sales volume (grey & white)

Region-wise cement retail prices					
₹/50 kg bag	Q2-23E	Q2-22	YoY (%)	Q1-23	QoQ (%)
North	383	372	2.9	398	-3.8
East	355	350	1.3	378	-6.2
South	435	415	4.8	430	1.2
West	397	385	3.1	403	-1.5
Central	347	330	5.1	380	-8.7
Pan India	383	370	3.5	400	-4.1

Cement Realizations (Coverage Universe)					
₹/tonne	Q2-23E	Q2-22	YoY (%)	Q1-23	QoQ (%)
ACC	5700	5706	-0.1	5911	-3.6
Ambuja	5294	5221	1.4	5404	-2.0
UltraTech*	5905	5653	4.5	6106	-3.3
Shree Cem*	5329	5094	4.6	5574	-4.4
JK Cement*	5950	5512	7.9	6083	-2.2
JK Lakshmi	5374	4820	11.5	5567	-3.5
Ramco Cem	5185	5362	-3.3	5285	-1.9
Sagar Cem	4589	4325	6.1	4702	-2.4
Average	5626	5444	3.3	5816	-3.3

EBITDA per tonne (Coverage Universe)					
₹ per tonne	Q2-23E	Q2-22	YoY (%)	Q1-23	QoQ (%)
ACC	399	1084	-63.2	564	-29.3
Ambuja	653	1134	-42.4	926	-29.5
UltraTech*	808	1273	-36.5	1216	-33.6
Shree Cem ^	770	1427	-46.1	1086	-29.1
JK Cement*	747	988	-24.4	1124	-33.5
JK Lakshmi	441	701	-37.1	779	-43.4
Ramco Cem	639	1453	-56.0	916	-30.2
Sagar Cem	405	712	-43.2	515	-21.3
Average	690	1203	-42.7	1017	-32.2

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

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