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Pick-up in volumes, easing cost pressure to aid margin recovery in Q3FY23E...

We expect the cement sector to report healthy sales volume growth in Q3FY23 led by a favourable base, pick-up in construction activity post monsoon and festive season. While cement prices have remained volatile during Q3, they are likely to stay higher by 5.1% YoY and 1.5% QoQ at all-India level. Further, moderation in fuel prices and operating leverage would lead to some reduction in operating costs. Overall, we expect, EBITDA per tonne to improve by ₹ 211/tonne QoQ. While an improvement in margins is expected to be visible from this quarter onwards, a sustainable correction in energy prices would be crucial for a further improvement in profitability given the limitations in price hikes. Notwithstanding near-term challenges, the demand outlook is expected to remain strong, going forward, considering upturn in housing cycle and step-up in government spending towards infra projects in the run-up to upcoming general elections.

Cement demand to grow in double digits YoY, QoQ...

We expect our cement universe sales volume to grow 11.8% YoY, 10.1% QoQ to ~59 MT. All regions saw a strong improvement in demand momentum in November with south and east regions leading the growth engine due to low base effect. While there was some moderation during the initial weeks of December due to marriage season, labour shortage, etc, the pick-up in demand was healthy during the second-half of the month and overall volume growth for most companies was strong in December.

...cost pressure easing away

We expect cost metrics to start moving downwards from Q3, which would help improve the profitability curve. However, given the normal inventory of two to three months stocked with many companies, the benefit of lower fuel cost would be staggered. For our coverage universe, we expect cost of production in Q3 to reduce by ₹ 115/tonne QoQ (i.e. down 2.3% QoQ).

Cement prices to rise 1.5% QoQ, up 5.1% YoY

All-India prices are likely to improve 1.5% QoQ supported by volume growth. Highest increase was witnessed in the east, followed by the south, west and north regions. Central region saw a QoQ decline during the quarter. Pricing in the region is yet to see a meaningful increase.

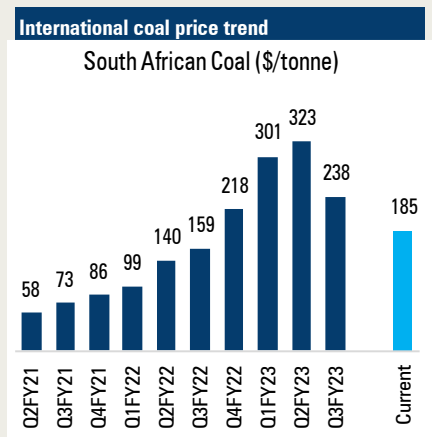
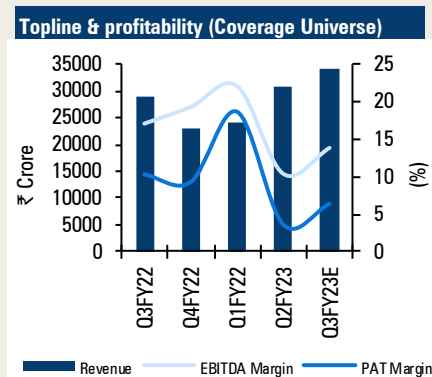
Average EBITDA/t to increase 35% sequentially to ₹ 807/tonne

Given likely reduction in cost by ₹ 115/tonne and improvement of ₹ 95/tonne in realisation, we anticipate a sequential improvement in profitability with EBITDA/tonne expected to increase by ₹ 211 to ₹ 807/tonne. However, this is still lower on an absolute basis with a decline of ₹ 135/tonne on a YoY basis.

Exhibit 1: Estimates for Q3FY23E: (Cement) (₹ Crore)

Company	Revenue			EBITDA			PAT		
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
ACC ^	4,522.7	7.0	13.4	351.9	-36.7	2,043.0	177.5	-36.8	LP
Ambuja ^	4,055.7	8.6	10.5	495.3	-12.8	62.7	219.1	-13.0	58.9
JK Cement	2,410.3	24.2	12.5	348.0	-6.1	17.3	172.8	3.3	38.4
JK Laxmi Cement	1,434.6	20.2	10.1	170.2	16.3	22.8	73.4	23.9	24.5
Ramco Cements	1,943.0	25.4	8.3	271.0	17.4	44.4	72.1	-12.7	490.1
Sagar Cements	575.8	72.6	21.3	48.1	3.9	742.5	-21.9	PL	NA
Shree Cement	4,167.2	17.3	10.2	701.3	-15.0	34.1	308.0	-37.4	62.5
UltraTech Cem	15,146.3	21.5	12.3	2,367.8	6.6	38.0	1,173.6	-28.1	63.4
Total	34,255.6	18.1	11.8	4,753.6	-4.3	49.1	2,174.5	-26.8	96.7

Source: Company, ICICI Direct Research



Top Picks
UltraTech Cement
JK Cement

Analyst
Rashesh Shah
rashesh.shah@icicisecurities.com

Debotro Sinha
debotro.sinha@icicisecurities.com

Company specific view

Company	Remarks
ACC	Sales volume would improve ~10.9% QoQ to 7.6MT mainly on account of pick-up in the construction activities post monsoon. Cost of production per tonne to decline by ₹ 309/tonne QoQ with moderation in petcoke & fuel prices and other costs. We expect EBITDA/tonne to increase by 35% QoQ to ₹ 807/tonne
Ambuja Cement	We expect sales volume growth of 8.3% QoQ to 7.3 MT. Realisations to also improve by 2% QoQ leading to sequential revenue growth of 10.5% QoQ. EBITDA/tonne is expected to improve sharply QoQ due to low base effect. On a YoY basis, the same is likely to be lower by 14%
UltraTech Cement	We expect the company to report 11.9% YoY growth sales volume to 24.5 MT due to improved demand. Cost of production to trend downwards by 1.9% QoQ (or ₹ 101/tonne) while realisations would improve ₹ 90/tonne (or 1.5% QoQ). Expect EBITDA/tonne of ₹ 966/t for the quarter
Shree Cement	Last year's low base is expected to help the company report healthy growth in the sales volume during Q3FY23. While EBITDA/t to still remain lower by 31.5% YoY, it is likely to improve by 23.1% QoQ due to declining cost trend and improved realisations
JK Cement	Panna expansion is expected to help the company report healthy sales volume growth during the quarter. Further, better realisations are expected to help the company broadly report EBITDA/t on similar lines with Shree Cement during the quarter
JK Lakshmi Cement	Capacity constraint is expected to lead to muted sales volume growth during the quarter. However, better realisations and improved cost structure are likely to help the company report 15% YoY growth on an EBITDA per tonne basis
Ramco Cement	Due to the benefit of low base effect, we expect sales volume to improve 17.3% YoY. EBITDA/t to broadly remain stable while it is likely to improve 32.7% on QoQ basis
Sagar Cement	Commissioning of new cement capacities (2.5 MT) to drive sales volume growth of 65.5% YoY to 1.2 MT. Higher dependence on domestic coal is expected to safeguard against further cost pressure. We expect EBITDA/tonne to improve to ₹ 391/tonne vs. ₹ 55/tonne reported in the last quarter

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)

In MT	Q3-23E	Q3-22	YoY (%)	Q2-23	QoQ (%)
ACC	7.6	7.5	1.5	6.9	10.9
Ambuja	7.3	7.2	2.0	6.7	8.3
UltraTech*	24.5	21.9	11.9	22.1	10.7
Shree Cem	8.1	6.6	24.0	7.5	8.9
JK Cement*	4.1	3.3	21.9	3.6	11.2
JK Lakshmi	2.5	2.5	1.1	2.3	7.9
Ramco Cem	3.6	3.1	17.3	3.3	8.8
Sagar Cem	1.2	0.7	65.5	1.0	18.8
Total	58.9	52.7	11.8	53.5	10.1

* blended sales volume (grey & white)

Region-wise cement retail prices

₹/50 kg bag	Q3-23E	Q3-22	YoY (%)	Q2-23	QoQ (%)
North	390	372	4.8	383	1.9
East	375	350	7.1	355	5.8
South	425	395	7.6	410	3.7
West	395	385	2.6	387	2.1
Central	360	348	3.4	365	-1.4
Pan India	389	370	5.1	383	1.5

Cement Realizations (Coverage Universe)

₹/tonne	Q3-23E	Q3-22	YoY (%)	Q2-23	QoQ (%)
ACC	5951	5642	5.5	5821	2.2
Ambuja	5556	5217	6.5	5446	2.0
UltraTech*	6182	5697	8.5	6092	1.5
Shree Cem*	5132	5423	-5.4	5073	1.2
JK Cement*	5950	5841	1.9	5878	1.2
JK Lakshmi	5770	4853	18.9	5651	2.1
Ramco Cem	5285	5021	5.3	5185	1.9
Sagar Cem	4681	4490	4.3	4585	2.1
Average	5810	5503	5.6	5715	1.7

EBITDA per tonne (Coverage Universe)

₹ per tonne	Q3-23E	Q3-22	YoY (%)	Q2-23	QoQ (%)
ACC	463	743	-37.7	24	###
Ambuja	678	793	-14.5	452	50.3
UltraTech*	966	1015	-4.8	775	24.6
Shree Cem ^	864	1260	-31.5	702	23.1
JK Cement*	859	1116	-23.0	814	5.5
JK Lakshmi	685	595	15.0	601	13.9
Ramco Cem	753	752	0.1	567	32.7
Sagar Cem	391	623	-37.2	55	608.9
Average	807	942	-14.3	596	35.4

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

Exhibit 2: ICICI Direct Coverage Universe (Cement)

Company	CMP (₹)	TP (₹)	Rating	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
ACC*	2,416	2,700	BUY	102	48	123	11.1	19.9	8.9	137	128	115	17.6	8.3	18.6	13.4	6.1	14.0
Ambuja Cem*	520	610	BUY	10	10	13	21.2	32.5	17.8	292	296	250	17.8	13.7	18.6	20.6	17.7	21.6
UltraTech Cem	6,982	7,700	BUY	245	186	301	18.8	19.5	13.2	223	222	201	14.2	12.9	18.5	14.3	10.1	14.4
Shree Cement	23,814	24,300	BUY	659	386	679	23.5	28.5	18.6	258	210	208	16.1	10.0	15.6	13.8	7.6	12.1
Heidelberg Cem	189	220	BUY	11	8	15	9.4	12.1	7.7	93	94	92	18.7	14.8	24.5	16.1	12.4	21.6
JK Cement	2,872	3,600	BUY	82	110	138	17.3	16.0	12.0	185	156	113	15.6	15.0	18.3	17.9	17.0	17.9
JK Lakshmi Cem	761	780	BUY	36	32	47	12.9	13.0	9.1	111	112	88	18.1	17.0	22.7	18.3	15.0	18.7
Ramco Cement	713	600	REDUCE	38	15	31	14.8	18.2	11.8	140	140	133	8.9	4.4	7.0	9.0	5.0	9.6
Sagar Cement	230	205	HOLD	5	3	9	13.1	11.5	8.2	63	56	51	6.6	6.1	8.7	4.7	2.6	6.5

Source: Company, ICICI Direct Research

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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

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