

April 7, 2023

Margin curve for cement players anticipated to be on upward trend in Q4FY23E...

Underlying cement demand is expected to remain healthy in the medium term (8-9% growth) owing to a boost in government spending on infra projects and upcoming general elections in 2024. The commentary from most companies remains buoyant with capacities operating at 85%+ utilisation levels in Q4FY23. Cement production data was steady in January-February with growth of ~6% YoY but growth in March may have moderated owing to the festive season, labour shortages and unseasonal rains. **We expect our coverage universe to register volume growth of 9.3% YoY (12% QoQ) to 66.6 MT in Q4FY23.**

Companies in mid-February had attempted a price hike of ₹ 10-15/bag but the same was fully rolled back in March through higher discounting as players were targeting volume growth. Region wise, prices in north & central are expected to be higher by 2% and 1%, respectively, (on a QoQ basis), whereas southern players are likely to witness a decline of 3% QoQ in Q4FY23. **We expect pan-India cement prices to remain flattish QoQ (up 2% YoY).** As per channel checks and feedback, cement companies are likely to announce ₹ 10-30/bag price hike in April 2023. Acceptance of the same would be a critical factor to watch.

On the cost front, average imported pet coke prices declined ~8% QoQ to US\$170/t in Q4FY23 (currently trading at US\$160/t) whereas domestic pet coke prices (Reliance ex-Jamnagar) were down ~4% QoQ (April prices: ₹ 16511/t). International coal prices (South African) have seen a steeper declining curve, falling 35% QoQ to US\$150/t. On an average, fuel cost per Kcal is expected to come down from ₹ 2.4-2.5/kcal to ₹ 2.1-2.0/Kcal over the next two quarters (provided spot prices remain at current levels). With fuel cost witnessing a declining trend, we expect majority of the benefit to flow in from Q1FY24E onwards (as companies have average inventory of three months). **For our coverage universe, we expect EBITDA/t to improve by ~₹ 170/t to ₹ 948/t in Q4FY23E.**

UltraTech, Shree to lead pack in EBITDA/t

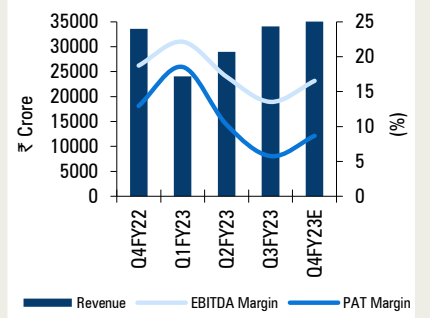
We expect UltraTech and Shree Cement to lead the pack with EBITDA/t surpassing ₹ 1000/t during this quarter itself supported by healthy volume growth of 14% and 11% YoY, respectively, in Q4FY23E. We expect southern players in our coverage universe (Ramco & Sagar) to witness limited EBITDA/t expansion owing to a higher decline in cement prices in cities like Chennai and Hyderabad during May 2023. We expect the capacity utilisation rate for our coverage universe to increase to 88% (Q3FY23: 80%, Q4FY22: 88%).

Exhibit 1: Estimates for Q4FY23E: (Cement)

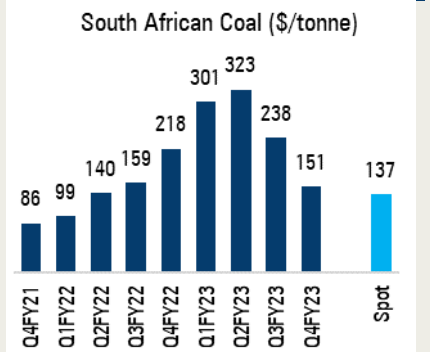
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
ACC ^	4,474.8	1.1	-1.4	520.3	-18.0	37.2	279.2	-28.9	153.7			
Ambuja ^	4,137.9	5.4	0.2	745.1	-5.7	19.0	491.3	-0.8	33.1			
JK Cement	2,351.9	3.7	2.8	337.3	-12.0	28.4	159.9	85.3	65.5			
JK Laxmi Cement	1,711.5	14.3	15.0	241.4	-12.6	51.3	129.9	-24.3	76.5			
Ramco Cements	2,123.4	24.2	5.6	309.8	5.0	9.5	88.8	-28.4	35.3			
Sagar Cements	617.2	23.0	7.2	56.2	-8.0	18.1	-8.5	NA	NA			
Shree Cement	4,512.3	10.1	10.9	948.4	4.1	34.0	443.4	-31.3	60.2			
UltraTech Cem	18,264.4	20.4	21.7	3,160.3	7.4	47.3	1,722.2	-29.8	73.2			
Total	38,193.4	13.7	12.0	6,318.9	0.4	37.0	3,306.3	-24.0	68.8			

Source: Company, ICICI Direct Research

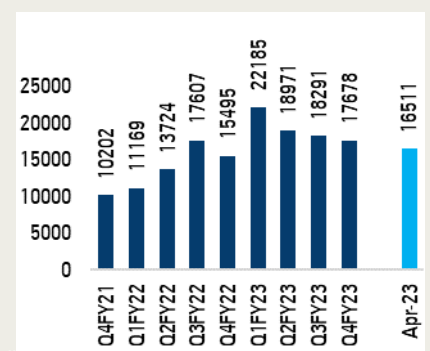
Topline & profitability (Coverage Universe)



International coal price trend



Domestic pet coke prices (₹/t)



Top Picks

UltraTech Cement
JK Cement

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Company specific view

Company	Remarks
Ambuja Cement	We expect volumes to increase 3% YoY to 7.7 MT with the company operating at 98% utilisation levels. Expect realisations to remain flattish QoQ (up 2% YoY). We anticipate the company will report topline of ₹ 4137.9 crore (up 5% YoY). Improved operational efficiency through group synergy and moderation of fuel cost to enhance EBITDA/t (QoQ) during the quarter. On a Kcal basis, we expect fuel cost to decline from ₹ 2.4 in Q3FY23 to ₹ 2.2/Kcal in Q4FY23E. Expect EBITDA/t to improve by ₹ 150/t (QoQ) to ₹ 966/t in Q4FY23. Absolute EBITDA to grow 19% QoQ to ₹ 745 crore
UltraTech Cement	UltraTech Cement continues to dominate the space with healthy volume growth during the quarter. Grey cement sales grew 14% YoY to 30.0 MT while white cement grew 19% YoY to 0.5 MT. Owing to a weaker pricing environment, we expect realisations to remain flattish QoQ to ₹ 6078/t (up 5% YoY). Overall revenues are expected to increase by 20% YoY to ₹ 18264 crore. On a Kcal basis, we expect fuel cost to decline from ₹ 2.6 in Q3FY23 to ₹ 2.34/Kcal in Q4FY23. Cost of production is expected to decline by ₹ 188/t (QoQ) to ₹ 5025/t. Subsequently, we expect the company to surpass ₹ 1000 level EBITDA/t (₹ 1052/t) in Q4FY23. Absolute EBITDA is expected to increase by 7% YoY (47% QoQ) to ₹ 3160 crore
Shree Cement	On the back of healthy demand, we expect volumes to increase 11% YoY to 8.9 MT (CU: 77%). Revenue is expected to increase 10% YoY to ₹ 4512 crore, mainly led by volume growth. On a Kcal basis, expect fuel cost to decline from ₹ 2.53 in Q3FY23 to ₹ 2.35/ Kcal in Q4FY23. On account of positive operating leverage and steady decline in fuel cost, we expect EBITDA/t to surpass ₹ 1000/t (₹ 1062) in Q4FY23 (up 20% QoQ). Absolute EBITDA expected to increase 4% YoY (34% QoQ) to ₹ 948.4 crore
JK Cement	Recent commissioning of Panna unit (~4 MT) should incrementally lead to volume growth for JK Cement in Q4FY23. We expect cement volumes (grey + white) to increase 14% YoY to 4.5 MT (assuming Panna capacity to operate at 50% capacity utilisation levels). On a standalone basis (excluding Panna), we expect volumes to grow ~2% YoY to 4.0 MT. We expect realisations to remain flattish QoQ to ₹ 5879/t. We expect standalone revenue to increase 4% YoY to ₹ 2351.9 crore. On the cost front, we expect fuel cost per Kcal to reduce by ₹ 0.2 to ₹ 2.4/Kcal in Q4FY23. EBITDA/t is expected to increase by ₹ 175/t to ₹ 843/t on a QoQ basis. Absolute EBITDA is expected to grow 28% QoQ to ₹ 335.1 crore
JK Lakshmi Cement	Capacity constraints is expected to lead to muted sales volume growth YoY (but up 15% QoQ), during the quarter. We expect the company to register volumes of 3.0 MT (CU: 95%). Over the past two quarters, the company has neutralised the price gap (12-14%) vis a vis large cap players. Hence, we expect realisations to increase 20% YoY (flattish QoQ) to ₹ 5705/t. Subsequently, we expect sales to increase 14% YoY to ₹ 1711 crore. The company had indicated fuel cost to remain at similar levels on a QoQ basis (₹ 2.5/Kcal). Hence, improvement in EBITDA/t will purely be a factor of operating leverage. We expect EBITDA/t to expand ₹ 192/t to ₹ 805/t. Absolute EBITDA is expected to increase 51% QoQ to ₹ 241.4 crore (down 12% YoY)
Ramco Cement	Pricing environment in the south during March 2023 remained weak with prices in cities like Chennai falling as much as ₹ 40-50/bag. In this backdrop, we expect realisations for the company to decline by 3% QoQ to ₹ 5445/t. However, owing to steady demand, we expect volumes to increase by 9% QoQ (22% YoY) to 3.9 MT (CU: 77%). Ensuing revenue is expected to increase by 6% QoQ (24% YoY) to ₹ 2123.4 crore. The positive impact of operating leverage is expected to be negated by lower realisations. Hence, we expect EBITDA/t to remain flattish QoQ to ₹ 794/t in Q4FY23E
Sagar Cement	Commissioning of new cement capacities (2.5 MT) is anticipated to drive sales volume growth of 22% YoY (11% QoQ) to 1.37 MT. However, owing to a decline in prices in south, we expect realisations to decline by ₹ 140/t (3%) QoQ to ₹ 4505/t in Q4FY23. Overall revenues are expected to increase 23% YoY (7% QoQ) to ₹ 617 crore. EBITDA/t improvement is expected to be restricted at ₹ 26/t (QoQ) to ₹ 410/t in Q4FY23 owing to weak realisations and expected increase in marketing spends in new markets. Absolute EBITDA is expected to increase 18% QoQ to ₹ 56.2 crore in Q4FY23E
ACC	Volumes during the quarter may be impacted owing to a shutdown in plant operations in Himachal Pradesh for ~50 days in Q4FY23E. We expect volumes to decline marginally by 0.5% YoY to 7.7 MT. We expect realisations to decline 1% QoQ (up 2% YoY) to ₹ 5833/t. Revenues are expected to increase 1% YoY to ₹ 4475 crore. Moderation in fuel costs and improved operational efficiency through group synergy are expected to aid profitability. We expect EBITDA/t to improve sequentially to ₹ 678/t in Q4FY23E (Q3FY23: ₹ 492/t)

Source: Company, ICICI Direct Research

Sales Volume (Coverage Universe)

In MT	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
ACC	7.7	7.7	-0.5	7.7	-0.4
Ambuja	7.7	7.5	3.0	7.7	0.2
UltraTech	30.1	26.3	14.1	24.7	21.8
Shree Cem	8.9	8.0	11.2	8.0	11.2
JK Cement	4.0	3.9	1.6	3.9	1.8
JK Lakshmi	3.0	3.1	-4.6	2.6	15.2
Ramco Cerr	3.9	3.2	22.2	3.6	9.2
Sagar Cem	1.4	1.1	21.6	1.2	10.5
Total	66.6	61.0	9.3	59.4	12.1

* JK Cement volumes excludes Panna capacity

Region-wise cement retail prices

₹/50 kg bag	Q4-23E	Q4-22	YoY (%)	Q3-23	QoQ (%)
North	365	363	0.6	357	2.2
East	337	318	6.0	334	0.9
South	379	366	3.6	390	-2.8
West	389	388	0.3	388	0.3
Central	370	372	-0.5	365	1.4
Pan India	369	362	1.9	369	0.0

Cement Realizations (Coverage Universe)

₹/tonne	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
ACC	5833	5741	1.6	5892	-1.0
Ambuja	5362	5241	2.3	5362	0.0
UltraTech*	6078	5758	5.6	6084	-0.1
Shree Cem*	5052	5105	-1.0	5067	-0.3
JK Cement*	5879	5762	2.0	5821	1.0
JK Lakshmi	5705	4763	19.8	5716	-0.2
Ramco Cerr	5445	5354	1.7	5635	-3.4
Sagar Cem	4505	4452	1.2	4645	-3.0
Average	5731	5510	4.0	5737	-0.1

EBITDA per tonne (Coverage Universe)

₹ per tonne	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
ACC	678	823	-17.6	492	37.7
Ambuja	966	1055	-8.5	813	18.7
UltraTech*	1052	1117	-5.9	869	21.0
Shree Cem*	1062	1134	-6.4	882	20.4
JK Cement*	843	973	-13.4	669	26.1
JK Lakshmi	805	879	-8.4	613	31.3
Ramco Cerr	794	925	-14.1	793	0.2
Sagar Cem	410	542	-24.3	384	6.9
Average	948	1032	-8.1	776	22.2

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*	1,720	2,600	BUY	102	57	85	7.9	13.4	10.4	86	93	78	17.6	10.0	14.6	13.4	7.6	10.9
Ambuja Cem*	382	500	BUY	11	14	13	15.1	16.2	14.2	183	177	152	17.8	17.2	15.7	20.6	22.0	17.8
UltraTech Cem	7,700	8,050	BUY	245	179	289	20.6	21.9	15.3	214	214	194	14.2	12.4	17.4	14.2	12.4	17.4
Shree Cement	26,000	28,500	BUY	659	353	682	25.4	30.7	20.2	244	200	198	16.1	9.6	15.8	13.8	7.0	12.2
JK Cement	2,900	3,350	BUY	98	85	125	17.2	18.1	13.0	161	135	100	15.6	12.6	17.4	17.9	13.7	17.1
JK Lakshmi Cen	800	810	HOLD	38	31	42	12.2	13.0	9.4	92	91	87	18.1	17.0	21.7	18.3	14.7	17.1
Ramco Cement	755	760	HOLD	38	14	32	15.9	19.5	12.3	132	131	124	8.9	4.2	7.2	9.0	4.7	9.9
Sagar Cement	185	250	BUY	5	(7)	7	12.5	23.9	8.9	52	60	52	6.6	0.4	8.5	4.7	-6.0	5.4

Source: Company, ICICI Direct Research. For ACC and Ambuja FY23 represents 15 months

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