

April 16, 2020

Balance sheet strength to prove enduring...

With volume growth expected to vanish in FY21E, **cement companies in our coverage universe are staring at a reduction in revenue to the tune of ~10-15%** contributed mainly by volume decline. Profitability is also expected to take a hit with lower realisations. Thus, companies sitting on heavy debt on their books and/or having a regional presence may find it difficult to survive. Except a few companies, most of our coverage universe (in a base case scenario where we expect demand recovery from H2) have manageable debt levels to navigate through the temporary uncertainty. **UltraTech Cement, Shree Cement are our top picks in the large cap space while Ramco Cement, Heidelberg Cement are top picks in the mid and small cap space.**

Lockdown to lead to revenue decline; FY22 to witness pullback

Cement companies in recent weeks had to undertake a complete shutdown of their plants in adherence to the national lockdown announcement. Q4 and Q1 are generally the strongest quarters for cement companies. With the lockdown continuing in these quarters, companies are expected to see significant loss of revenues. While the recent lifting of lockdown comes as a respite for cement companies, we may not see an immediate pick-up in cement volumes as normalisation of operations (due to social distancing norms) would take time. On the demand front, **central and state governments would have lesser headroom towards infra spending owing to fiscal constraints and tax revenues taking a hit.** The recent lockdown has led to a reduction in household savings, which could delay housing demand as well. According to our estimates, in FY21E, our coverage companies are expected to witness a fall in volumes by 8.7% and subsequently grow 17% in FY22E. **Our volume estimates have been revised from 236 MT, 257 MT, NA to 224 MT, 204 MT, 237MT for FY20E, FY21E, FY22E, respectively.** Revenues of our cement coverage universe are expected to take a 12% dip in FY21E and then grow 20% in the ensuing financial year.

Fall in EBITDA margin to be partly cushioned by benign costs

Amid absence of demand growth, we expect average cement prices for FY21E to also taper down up to 5% before reviving in FY22E. On the cost front, **~70% of costs are variable** while the companies would also tend to benefit from lower crude prices as cost of imported petcoke/coal, freight and packing material costs would reduce. **While a dip in realisations would negatively impact EBITDA margins, the contraction would be cushioned partly by cost benefits.** EBITDA margins for FY21E are expected to contract 360 bps YoY to 16.4% and bounce back to 18% in FY22E. We expect our coverage universe to report a 22% dip and 14% growth in weighted average EBITDA/t for FY21E and FY22E to ₹ 777/t and ₹ 887/t, respectively.

Valuation & Outlook

The market-wide sell-off has brought down cement companies to valuations that are ~30-40% lower than their historical levels. Except UltraTech, Shree Cement and Ramco Cement, all other cement companies are trading at valuations below replacement cost of \$100-110 per tonne. Companies operating in highly volatile markets and/or having high leverage would tend to find it difficult to navigate the coming quarters. Thus, we prefer companies with strong balance sheets. **UltraTech Cement, Shree Cement, Heidelberg Cement and Ramco Cement are our top picks.**

Leverage levels as at FY20E

Company	Debt/ Equity	Debt/ EBITDA
ACC	0.0	0.0
Ambuja Cem	0.0	0.0
Heidelberg Cem	0.4	1.0
India Cem	0.6	4.8
JK Cem	0.9	2.5
JK Lakshmi Cem	0.8	2.3
Mangalam Cem	0.9	2.7
Shree Cem	0.2	0.9
UltraTech Cem	0.5	2.0
Ramco Cem	0.5	2.0
Star Cem	0.0	0.1
Sagar Cem	0.7	3.5
NCL Industries	0.6	2.1
Birla Corp	0.9	3.8

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Exhibit 1: Rating matrix and Target price

Company	CMP	Rating		Target		Upside
		Old	New	Old	New	
ACC	1145	HOLD	BUY	1640	1330	16%
Ambuja Cement	165	HOLD	BUY	200	190	15%
Birla Corp	440	BUY	HOLD	760	470	7%
Heidelberg Cement	151	HOLD	BUY	220	190	26%
India Cement	105	HOLD	HOLD	100	100	-5%
JK Cement	1085	BUY	BUY	1650	1275	18%
JK Lakshmi Cement	203	BUY	BUY	425	235	16%
Mangalam Cement	150	BUY	HOLD	300	165	10%
NCL Industries	82	HOLD	REDUCE	95	75	-9%
Ramco Cement	515	BUY	BUY	950	610	18%
Sagar Cement	315	BUY	BUY	640	365	16%
Shree Cement	18940	BUY	BUY	27900	23500	24%
Star Cement	73	BUY	HOLD	103	82	12%
UltraTech Cement	3520	BUY	BUY	5450	4590	30%

Source: Company, ICICI Direct Research

Exhibit 2: Target valuations

Company	EV/EBITDA		EV/tonne (\$)	
	FY21E	FY22E	FY21E	FY22E
ACC	14.7	11.6	90	77
Ambuja Cement	22.1	17.0	108	98
UltraTech Cement	22.8	17.9	163	160
Shree Cement	34.1	23.5	238	233
Ramco Cement	19.3	13.8	119	122
Heidelberg Cement	12.2	9.1	103	98
JK Cement	14.4	10.0	83	82
JK Lakshmi Cement	10.2	7.2	40	42
India Cement	10.9	8.0	59	58
Sagar Cement	11.9	10.4	39	36
Mangalam Cement	5.3	3.4	25	22
Star Cement	10.8	8.0	73	70
NCL Industries	6.7	4.1	34	33
Birla Corp	9.1	7.2	74	73

Source: Company, ICICI Direct Research

Exhibit 3: Changes in volume estimates

Company	Old			New			Change in estimates		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	28.9	29.9	30.7	28.9	26.2	30.6	0.1%	-12.3%	NA
Ambuja Cement	24.0	24.4	26.6	24.0	21.7	25.5	-0.2%	-11.1%	NA
Birla Corp	14.2	14.5	NA	13.7	12.4	13.9	-3.7%	-14.2%	NA
Heidelberg Cement	5.1	5.4	NA	4.7	4.4	5.0	-7.7%	-19.4%	NA
India Cement	13.1	13.9	NA	11.3	10.6	12.2	-14.1%	-23.9%	NA
JK Cement	10.1	11.9	NA	9.8	9.4	11.2	-3.3%	-21.0%	NA
JK Lakshmi Cement	9.4	10.2	NA	8.8	7.7	8.9	-6.1%	-24.3%	NA
Mangalam Cement	3.1	3.3	NA	2.8	2.6	2.8	-9.7%	-22.4%	NA
NCL Industries	1.8	2.0	NA	1.8	1.7	2.0	1.1%	-16.3%	NA
Ramco Cement	12.1	13.7	NA	11.4	10.6	12.8	-6.1%	-22.8%	NA
Sagar Cement	3.1	3.6	NA	3.1	2.9	3.6	1.0%	-18.5%	NA
Shree Cement	25.7	30.1	NA	24.4	22.5	27.6	-5.1%	-25.4%	NA
Star Cement	3.0	3.5	NA	3.0	2.9	3.4	0.0%	-17.6%	NA
UltraTech Cement	82.8	90.6	NA	76.0	68.4	77.3	-8.2%	-24.5%	NA
Total	236.4	257.0	NA	223.7	203.9	236.7	-5.4%	-20.7%	NA
Change YoY (%)					-8.8%	16.1%			

Source: Company, ICICI Direct Research

Exhibit 4: Changes in realisation/t estimates

Company	Old			New			Change in estimates		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	5,302	5,434	5,543	5,302	5,063	5,240	0.0%	-6.8%	NA
Ambuja Cement	4,870	4,949	5,058	4,870	4,707	4,886	0.0%	-4.9%	NA
Birla Corp	4,942	5,040	NA	4,942	4,744	4,919	0.0%	-5.9%	NA
Heidelberg Cement	4,415	4,512	NA	4,546	4,387	4,562	3.0%	-2.8%	NA
India Cement	4,727	4,777	NA	4,650	4,495	4,671	-1.6%	-5.9%	NA
JK Cement	5,557	5,510	NA	5,551	5,231	5,379	-0.1%	-5.1%	NA
JK Lakshmi Cement	4,422	4,488	NA	4,410	4,145	4,332	-0.3%	-7.6%	NA
Mangalam Cement	4,439	4,461	NA	4,375	4,178	4,345	-1.5%	-6.4%	NA
NCL Industries	5,173	5,328	NA	5,172	4,861	5,177	0.0%	-8.8%	NA
Ramco Cement	4,789	4,909	NA	4,766	4,577	4,735	-0.5%	-6.8%	NA
Sagar Cement	3,776	3,852	NA	3,768	3,617	3,725	-0.2%	-6.1%	NA
Shree Cement	4,614	4,706	NA	4,603	4,327	4,500	-0.2%	-8.1%	NA
Star Cement	6,382	6,407	NA	6,337	6,025	6,203	-0.7%	-6.0%	NA
UltraTech Cement	5,196	6,284	NA	5,196	4,936	5,109	0.0%	-21.5%	NA
Avg. realisation	5,005	5,441	NA	5,001	4,766	4,935	-0.1%	-12.4%	NA
Change YoY (%)					-4.7%	3.5%			

Source: Company, ICICI Direct Research

Exhibit 5: Revenue estimates

Company	Old			New			Change in estimates		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	15,343	16,253	17,032	15,343	13,376	16,015	0.0%	-17.7%	NA
Ambuja Cement	11,668	12,083	13,463	11,668	10,212	12,466	0.0%	-15.5%	NA
Birla Corp	7,015	7,370	NA	6,759	5,904	6,858	-3.7%	-19.9%	NA
Heidelberg Cem	2,272	2,441	NA	2,139	1,909	2,263	-5.9%	-21.8%	NA
India Cement	6,211	6,640	NA	5,234	4,753	5,680	-15.7%	-28.4%	NA
JK Cement	5,591	6,538	NA	5,422	4,919	5,998	-3.0%	-24.8%	NA
JK Lakshmi Cem	4,135	4,568	NA	3,892	3,201	3,852	-5.9%	-29.9%	NA
Mangalam Cem	1,378	1,481	NA	1,225	1,069	1,234	-11.1%	-27.8%	NA
NCL Industries	955	1,083	NA	941	814	1,023	-1.5%	-24.8%	NA
Ramco Cement	5,805	6,723	NA	5,417	4,838	6,056	-6.7%	-28.0%	NA
Sagar Cement	1,183	1,395	NA	1,180	1,061	1,350	-0.3%	-24.0%	NA
Shree Cement	12,309	14,757	NA	11,722	10,093	12,906	-4.8%	-31.6%	NA
Star Cement	1,874	2,244	NA	1,888	1,752	2,104	0.7%	-21.9%	NA
UltraTech Cement	43,024	47,875	NA	39,637	33,780	39,507	-7.9%	-29.4%	NA
Total	118,763	131,451	NA	112,467	97,683	117,312	-5.3%	-25.7%	NA
Change YoY (%)					-13%	20%			

Source: Company, ICICI Direct Research

Exhibit 6: Changes in EBITDA/t estimates

Company	Old			New			Change in estimates		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	725	731	741	725	493	598	0.0%	-32.5%	NA
Ambuja Cement	897	920	947	897	733	808	0.0%	-20.3%	NA
Birla Corp	790	831	NA	834	706	783	5.6%	-15.0%	NA
Heidelberg Cement	991	1,007	NA	1,037	850	956	4.6%	-15.6%	NA
India Cement	717	727	NA	593	516	613	-17.4%	-29.1%	NA
JK Cement	1,187	1,165	NA	1,168	866	985	-1.6%	-25.7%	NA
JK Lakshmi Cement	742	773	NA	688	475	612	-7.3%	-38.5%	NA
Mangalam Cement	690	656	NA	713	522	630	3.4%	-20.4%	NA
NCL Industries	863	908	NA	863	560	740	0.0%	-38.3%	NA
Ramco Cement	1,076	1,187	NA	1,001	841	997	-6.9%	-29.2%	NA
Sagar Cement	606	652	NA	605	446	547	-0.2%	-31.7%	NA
Shree Cement	1,451	1,468	NA	1,416	1,124	1,300	-2.4%	-23.4%	NA
Star Cement	1,487	1,382	NA	1,441	1,046	1,156	-3.1%	-24.3%	NA
UltraTech Cement	1,161	1,199	NA	1,110	866	955	-4.4%	-27.8%	NA
Avg EBITDA/t	1,030	1,066	NA	997	778	887	-3.2%	-27.0%	NA
Change YoY (%)					-22.0%	14.1%			

Source: Company, ICICI Direct Research

Exhibit 7: EBITDA estimates

Company	Old			New			Change in estimates		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	2,098	2,185	2,278	2,098	1,429	1,827	0.0%	-34.6%	NA
Ambuja Cement	2,149	2,246	2,520	2,149	1,590	2,061	0.0%	-29.2%	NA
Birla Corp	1,121	1,215	NA	1,141	879	1,092	1.8%	-27.6%	NA
Heidelberg Cement	510	545	NA	488	370	474	-4.4%	-32.1%	NA
India Cement	942	1,010	NA	697	594	798	-26.0%	-41.2%	NA
JK Cement	1,194	1,418	NA	1,141	776	1,098	-4.5%	-45.2%	NA
JK Lakshmi Cement	694	787	NA	607	367	544	-12.5%	-53.4%	NA
Mangalam Cement	214	218	NA	200	134	179	-6.7%	-38.7%	NA
NCL Industries	159	185	NA	157	94	146	-1.5%	-49.2%	NA
Ramco Cement	1,304	1,626	NA	1,138	889	1,275	-12.7%	-45.3%	NA
Sagar Cement	190	237	NA	189	131	198	-0.3%	-44.9%	NA
Shree Cement	3,728	4,417	NA	3,451	2,523	3,590	-7.4%	-42.9%	NA
Star Cement	443	488	NA	429	304	392	-3.1%	-37.7%	NA
UltraTech Cement	9,611	10,863	NA	8,568	5,926	7,386	-10.9%	-45.4%	NA
Total	24,358	27,440	NA	22,454	16,007	21,061	-7.8%	-41.7%	NA
Change YoY (%)					-29%	32%			

Source: Company, ICICI Direct Research

Exhibit 8: Current Valuation – EV/EBITDA

	Old			New		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	10.5	10.4	9.8	7.8	12.2	9.7
Ambuja Cement	17.0	18.0	15.0	12.8	19.0	14.6
UltraTech Cement	14.5	12.5	NA	12.8	18.2	13.9
Shree Cement	23.0	19.3	NA	20.3	27.6	18.9
Ramco Cement	16.4	12.9	NA	12.8	16.7	12.0
Heidelberg Cement	8.9	8.0	NA	7.4	9.9	7.3
JK Cement	10.0	8.4	NA	8.4	12.7	8.8
JK Lakshmi Cement	7.5	6.3	NA	5.7	9.1	6.0
India Cement	6.8	6.4	NA	9.4	11.1	8.1
Sagar Cement	9.1	7.9	NA	6.9	11.5	10.1
Mangalam Cement	5.1	4.5	NA	4.0	5.4	3.5
Star Cement	8.1	7.4	NA	6.9	9.5	7.0
NCL Industries	4.4	3.4	NA	4.4	7.0	4.4
Birla Corp	8.1	7.6	NA	6.6	8.8	7.0

Source: Company, ICICI Direct Research

Exhibit 9: Current Valuation - EV/t (\$)

	Old			New		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
ACC	94	97	82	70	75	64
Ambuja Cement	133	141	126	85	93	84
UltraTech Cement	215	209	NA	135	128	124
Shree Cement	250	229	NA	205	191	186
Ramco Cement	183	170	NA	106	104	106
Heidelberg Cement	130	114	NA	94	84	79
JK Cement (Adjusted)	135	134	NA	74	73	72
JK Lakshmi Cement	60	57	NA	37	36	35
India Cement	67	69	NA	60	61	60
Sagar Cement	50	54	NA	33	37	35
Mangalam Cement	45	40	NA	29	26	22
Star Cement	129	88	NA	97	65	62
NCL Industries	39	34	NA	38	36	35
Birla Corp	84	86	NA	70	72	71

Source: Company, ICICI Direct Research

Exhibit 10: Rail road mix

Companies	Rail	Road	Sea
ACC	41	59	
Ambuja	22	64	15
Heidelberg cement	53	47	
India cement	24	76	
JK Cement	15	85	
JK Lakshmi Cement	40	60	
Mangalam cement	40	60	
NCL industries	0	100	
Ramco cement	5	85	10
Sagar cement	0	100	
Sanghi industries	0	91	9
Shree cement	6	94	
Star cement	20	80	
Ultratech	23	74	3

Source: Company, ICICI Direct Research

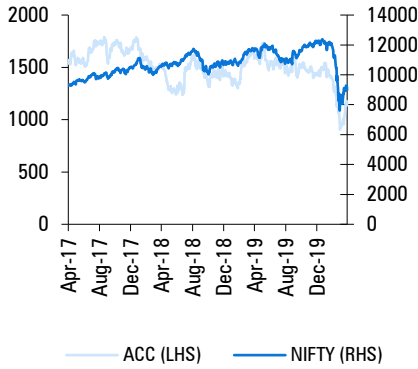
Exhibit 11: Trade Non-Trade mix

Company	% of total sales
ACC	80
Ambuja	80
Heidelberg India	85
India cements	55
JK Cement	72
JK Lakshmi	55
Mangalam cement	72
Ramco cement	65
Sagar cement	65
Star cement	83
Shree cement	76
Ultratech	66
Birla Corp	81

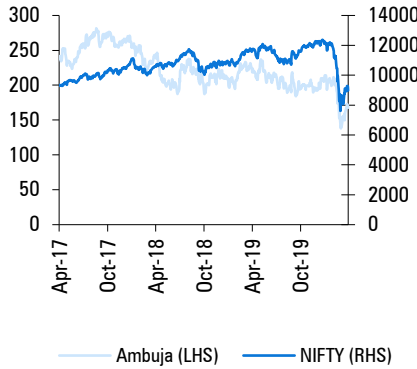
Source: Company, ICICI Direct Research

Exhibit 12: Price Charts

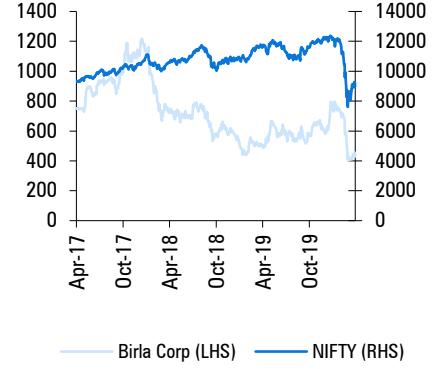
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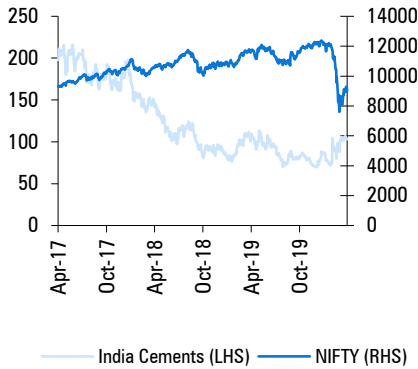
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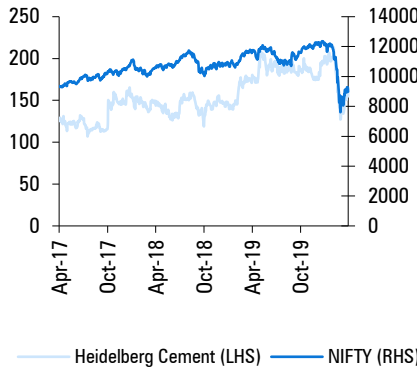
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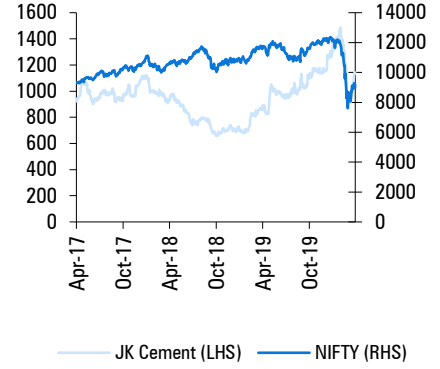
India Cements



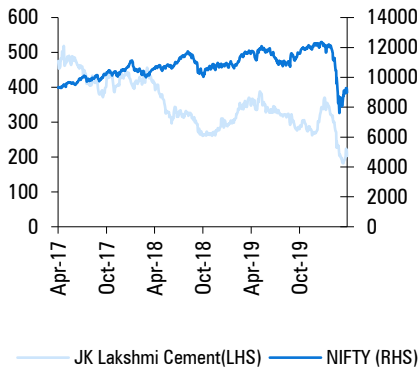
Heidelberg Cement India



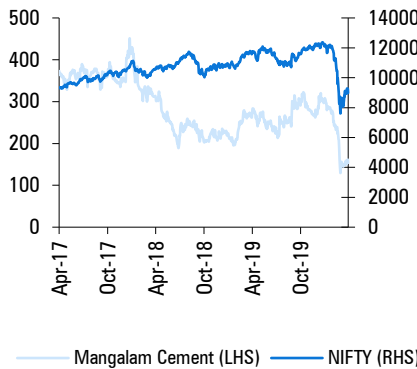
JK Cement



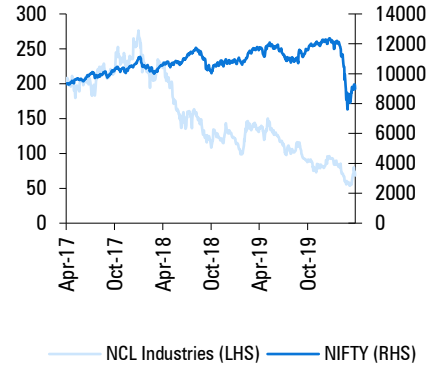
JK Lakshmi Cement



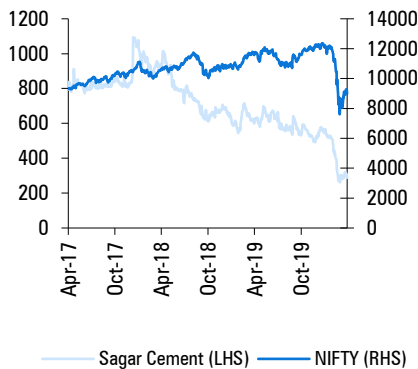
Mangalam Cement



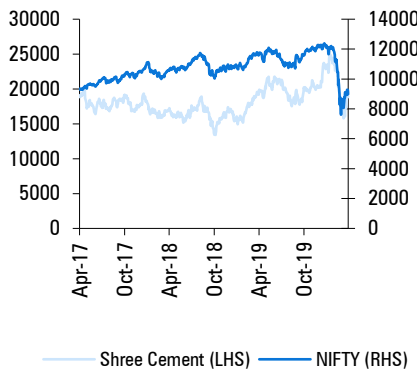
NCL Industries



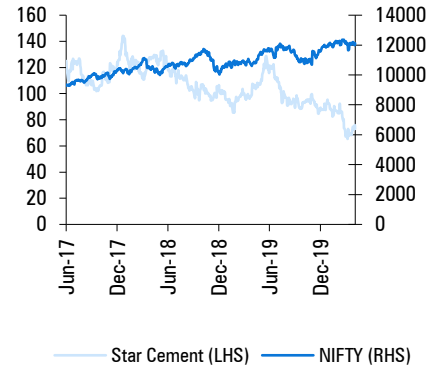
Sagar Cement



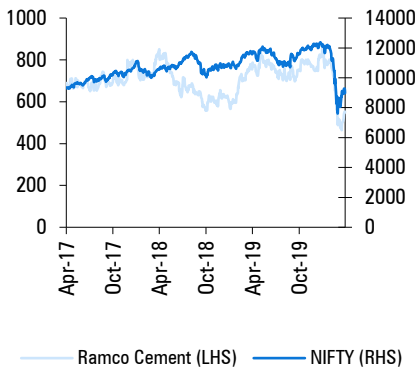
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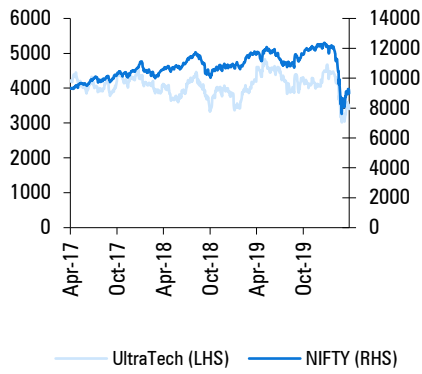
Star Cement



The Ramco Cement



UltraTech Cement



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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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