ICICI direct Research

January 5, 2021

Well geared up to ride on uptick in capex cycle…

Against the backdrop of weak sentiments due to the pandemic, the operating performance of the cement sector in H1FY21 improved sharply led by strong demand from rural segment, improved pricing environment along with benign costs. The improved business environment led by lower interest rates and improved liquidity has also led to re-instatement of capex plans by major companies that were halted earlier post imposition of lockdown in April 2020. All-India asset utilisation also crossed 80% mark in October-November 2020 vs. 69% in Q2FY21 with plant utilisation in the eastern and central region remaining even higher led by strong demand. Against the likely new capacity additions of 54 MT in FY21E-23E, the same is now being revised upwards to 69 MT in the same period with improved business outlook. Though the quantum of additions has increased by ~15 MT, it may be a lesser worry (against history) given these announcements are from incumbents (no new players are entering the segment) and the industry has seen meaningful consolidation over the past few years. The new additions may very well get absorbed in our view as the sector remains the best proxy to ride India's infra and real estate growth story.

Demand growth to outpace supply growth leading to better asset utilisation

While we expect capacity addition CAGR of 4.2% in FY21-23E, demand growth (6.3% CAGR) is expected to far exceed the supply growth during the same period. Despite a slowdown in housing in the past seven years, cement demand has registered demand CAGR of 5.9% in FY12-19. **The housing segment is now showing visible pick-up that is being fuelled partially by lower interest rates. It remained the backbone of cement demand during the previous bull cycle of 2003-08. Nevertheless, housing will remain the key volume contributor. Infrastructure is also expected to expand its share in the next five years with rising investments by the central government on roads, railways and irrigation.** As India seeks to build infrastructure that can fulfil its ambitions of expanding into a $5-trillion economy by the middle of the next decade, consumption of cement is set to increase sharply in the country, which is the world's second biggest market for the primary building material.

Volume led growth to push sector RoCE further upward in FY21E-23E

The year FY20-21 is likely to witness a sharp rebound in margins led by price hikes and a benign cost environment. However, with a rise in cost of key inputs like petcoke and fuel, the pace of margin expansion is expected to taper down. On the other hand, with a sharp volume rebound, we expect sector RoCE to rebound sharply to over 17% by FY23E from 13.3% in FY20, led by likely volume CAGR of 6.2% to 252 MT (I-direct coverage) with FY22E sales volume likely to be in the double digits ie. at 15.4% due to lower base.

Valuation & Outlook

While the recent run-up in cement stocks is already factoring in some of this upside, we expect the outlook to remain strong as the sector is likely to witness strong demand not only from infra and construction but from real estate as well due to improved affordability and lower interest rates. We introduce FY23E earnings estimates for our cement universe. We continue to prefer **UltraTech, ACC** and **Shree Cement** among large caps followed by **Ramco** and **JK Lakshmi Cement** in the midcap space.

Sector Update

Recommendation Matrix New

Company	CMP	Rating Old	Rating New	TP Old	TP New	Upside (%)
ACC	1,640	Buy	Buy	1,850	1,950	18.9
Ambuja	252	Hold	Hold	265	280	11.1
UltraTech	5,340	Buy	Buy	5,800	6,150	15.2
Shree	23900	Buy	Buy	27500	28000	17.2
Heidelberg	230	Buy	Buy	200	265	15.2
JK	2,090	Hold	Buy	2,100	2,450	17.2
JKLakshm	342	Buy	Buy	335	450	31.6
Star	107	Buy	Buy	105	125	16.8
Ramco	798	Buy	Buy	1,000	1,000	25.3
Birla Corp	732	Buy	Buy	610	925	26.4
Orient	89	Buy	Buy	75	105	18.0
Mangalam	262	Hold	Buy	165	325	24.0

ICICI Securities – Retail Equity Research

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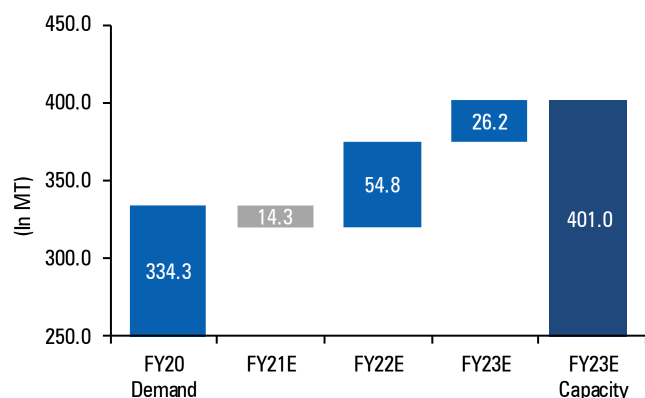
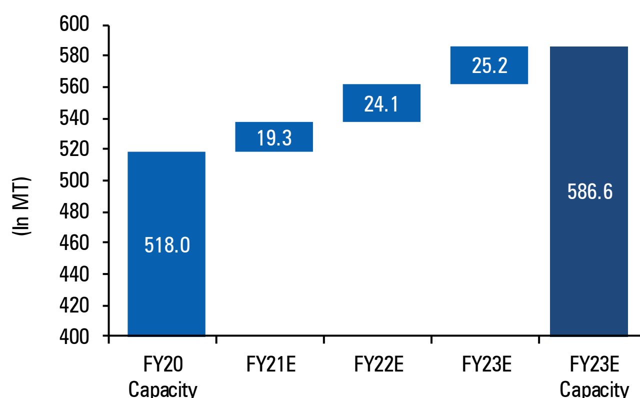
Exhibit 1: Demand to grow at 6.3% CAGR during FY20-23E



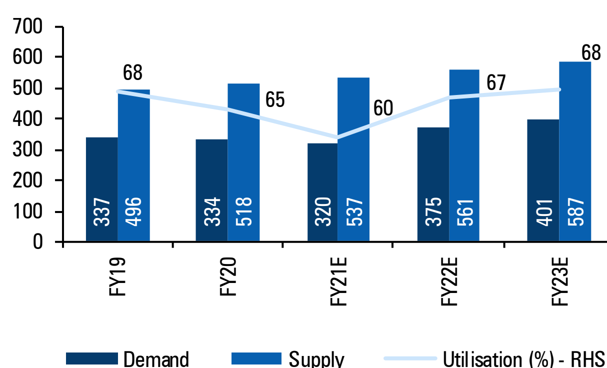
Source: Company, ICICI Direct Research

Exhibit 2: Cement capacity to grow at CAGR of 4.2%



Source: Company, ICICI Direct Research

Exhibit 3: All-India utilisation set to improve from FY22E



Source: Company, ICICI Direct Research

Exhibit 4: Central, north, eastern region to outperform in terms of asset utlisation

Regional Utilisation (%)	FY19	FY20	FY21E	FY22E	FY23E
Central	80.0	81.0	71.9	80.0	80.2
North	73.8	77.0	75.0	81.0	83.0
East	83.0	80.0	69.6	76.0	80.5
West	72.2	71.0	62.2	71.0	72.0
Pan-India	**68.1**	**64.5**	**59.6**	**66.8**	**68.4**
South	51.6	40.3	38.7	44.9	44.1

Source: Company, ICICI Direct Research

Exhibit 5: New capacity to broadly grow at similar pace during FY20-23E as witnessed in past five years

Sr no	Company	FY15	FY16	FY17	FY18	FY19	CAGR (%)	FY20	FY21E	FY22E	FY23E	CAGR (%)	Yearwise additions FY21E	FY22E	FY23E
1	Ultratech	59.3	63.2	66.3	80.6	109.4	16.6	111.4	113.4	118.1	130.9	5.5	2.0	4.7	12.8
2	Shree	22.1	25.6	29.3	34.9	37.9	14.4	40.4	46.4	46.4	46.4	4.7	6.0	0.0	0.0
3	ACC	31.0	31.0	31.0	33.4	33.4	1.9	33.4	33.4	34.5	39.3	5.6	0.0	1.1	4.8
4	Ambuja	28.8	29.7	29.7	29.7	29.7	0.8	29.7	29.7	31.5	31.5	2.0	0.0	1.8	0.0
5	Birla Corp	9.8	9.8	15.4	15.4	15.4	12.0	15.4	15.4	19.3	20.7	10.4	0.0	3.9	1.4
6	Ramco	15.5	16.5	16.5	16.5	16.7	1.8	18.6	19.5	20.5	20.5	3.3	0.9	1.0	0.0
7	India Cements	15.6	15.6	15.6	15.6	15.6	0.0	15.6	15.6	15.6	15.6	0.0	0.0	0.0	0.0
8	JK Cement	10.5	10.5	10.5	10.5	10.5	0.0	14.0	14.7	14.7	14.7	1.6	0.7	0.0	0.0
9	JK Lakshmi	8.2	8.6	10.9	10.9	12.5	11.1	13.3	13.3	13.9	13.9	1.5	0.0	0.6	0.0
10	Sagar	2.7	2.9	4.0	4.3	5.8	20.8	5.8	5.8	8.3	8.3	12.8	0.0	2.5	0.0
11	Orient	8.0	8.0	8.0	8.0	8.0	0.0	8.0	8.0	8.0	8.0	0.0	0.0	0.0	0.0
12	Heidelberg	5.4	5.4	5.4	5.4	5.4	0.0	5.4	6.3	6.3	6.3	5.3	0.9	0.0	0.0
13	Mangalam	3.3	3.3	4.0	4.0	4.0	5.3	4.0	4.0	4.4	4.4	3.2	0.0	0.4	0.0
14	NCL	2.0	2.0	2.0	2.7	2.7	7.8	2.7	2.7	2.7	3.4	8.0	0.0	0.0	0.7
	Total	222	232	248	272	307	7.4	318	328	344	364	4.6	10.5	16.0	19.7
	Others	195	204	212	202	189	0.5	200	209	217	223	3.6	8.8	8.1	5.5
	All India	**417**	**436**	**460**	**474**	**496**	**4.4**	**518**	**537**	**561**	**587**	**4.2**	**19.3**	**24.1**	**25.2**

Source: Company, ICICI Direct Research

Exhibit 6: East, central regions to witness higher capacity additions due to supply scarcity

Capacity (In MT)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY20-23E CAGR (%)
North	73	76	80	91	95	98	102	102	104	104	109	111	2.3
East	50	54	63	67	70	81	88	91	100	111	120	131	9.3
West	47	47	48	52	56	58	60	64	65	71	76	78	6.0
South	132	142	148	154	156	166	168	178	181	181	182	185	0.7
Central	49	52	55	54	59	57	56	61	68	71	75	82	6.6
Total	**351**	**372**	**393**	**417**	**436**	**460**	**474**	**496**	**518**	**537**	**561**	**587**	**4.2**

Source: Company, ICICI Direct Research

Exhibit 7: Expect demand CAGR of 6.3% in FY20-23E, marginally higher than 5.7% CAGR reported in FY12-19

Production (In MT)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY20-23E CAGR (%)
North	58	62	65	71	66	66	72	75	80	78	88	92	4.9
East	33	37	42	44	49	54	60	76	80	77	91	105	9.6
West	38	35	37	40	41	40	43	46	46	44	54	56	6.5
South	55	64	62	66	75	78	78	92	73	70	82	82	3.7
Central	46	48	50	50	53	43	45	49	55	51	60	66	6.3
Total	**230**	**247**	**256**	**271**	**284**	**280**	**298**	**337**	**334**	**320**	**375**	**401**	**6.3**

Source: Company, ICICI Direct Research

Exhibit 8: Asset utilisation to remain healthy in north, central, east region; Infra led recovery to improve utilisation in south during FY20-23E

Utilisation (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
North	79.3	82.2	81.3	78.4	69.0	67.0	70.9	73.8	77.0	75.0	81.0	83.0
East	64.8	67.7	67.2	66.6	69.6	66.5	67.8	83.0	80.0	69.6	76.0	80.5
West	82.3	74.8	76.5	75.8	73.8	68.6	71.4	72.2	71.0	62.2	71.0	72.0
South	41.8	45.1	42.2	42.7	48.0	47.0	46.5	51.6	40.3	38.7	44.9	44.1
Central	92.2	91.4	90.8	93.3	89.8	74.6	79.7	80.0	81.0	71.9	80.0	80.2
Pan-India	**65.4**	**66.3**	**65.1**	**64.9**	**65.0**	**60.8**	**62.8**	**68.1**	**64.5**	**59.6**	**66.8**	**68.4**

Source: Company, ICICI Direct Research

Utilisation levels in the east, central and northern regions are expected to remain above 80% in FY21-23E despite capacity additions of over 52.4 MT out of total expected addition of 68.4 MT during the same period. The key demand drivers include strong rural and semi-urban housing demand. This will be further aided by upcoming elections in West Bengal and Uttar Pradesh. In the south, however, we expect a slower recovery in FY21-23E. Demand in AP/Telangana is expected to rebound sharply in FY22E after two consecutive years of demand decline with a sharp increase in infra activity. Further, upcoming elections in Tamil Nadu would provide support to revive infra demand in this region.

Exhibit 9: East, central region has higher potential to grow followed by north based on per capita consumption

Macro Economic- Potential	North	Central	East*	West	South	India
Rural Population (FY 20E)	67%	75%	77%	53%	54%	67%
PCC (Kg) – FY 20LE	231	173	203	273	263	227
Housing Shortage (FY20E) (Mn) ^	10	8	9	7	12	50
Road Density (kms/ per lac people) #	294	244	307	469	401	358
Power Density (kWh/Capita)	1233	700	820	1758	1461	1181

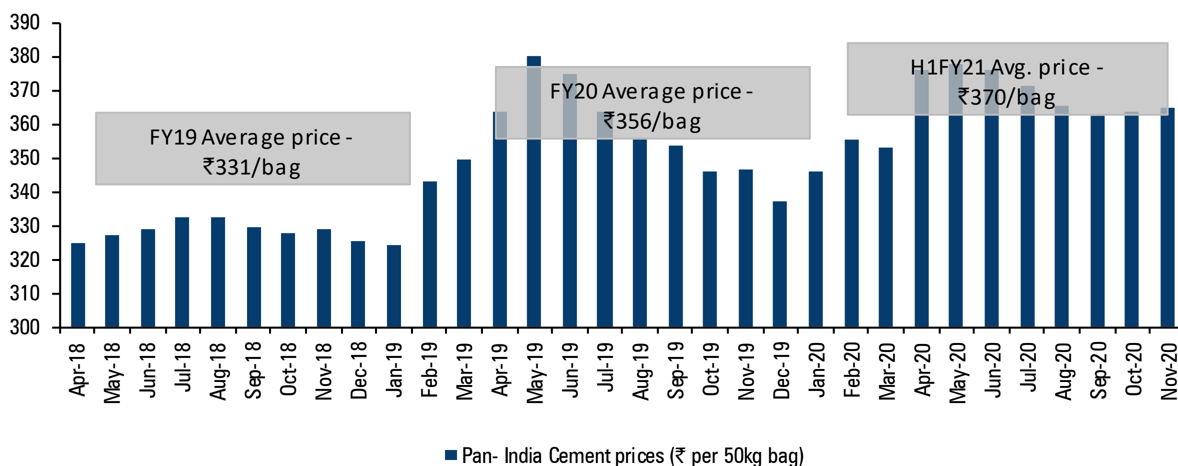
* Excl. North-East

Source: Company presentation, ICICI Direct Research

Firm cement prices, cost controls lead to healthy H1FY21; volume led cost efficiencies to drive margins, going ahead;

After remaining weak in June-December 2019, cement prices rose sharply post imposition of lockdown to cover the losses on account of a sharp reduction in sales volume. However, average cement prices in H1FY21 increased by 4% only over FY20 average cement prices. We believe the same would sustain, going forward. Further, with sustainable cuts in other operating costs along with volume led demand recovery, we expect cement companies to maintain healthy margins and profitability, going ahead. Moreover, aggressive bidding seen in limestone mines auction would likely create cost pressures and as a result, propel cement prices higher.

Exhibit 10: Past three years cement price trend across all-India level

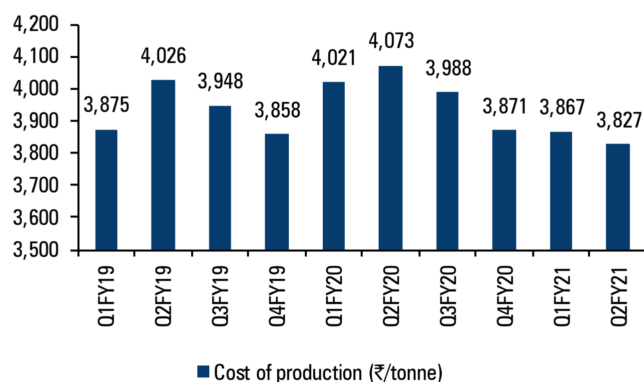


Source: Crisil Research, ICICI Direct Research

Cost of production broadly remains flat in H1FY21 despite lower volume offtake due to lockdown

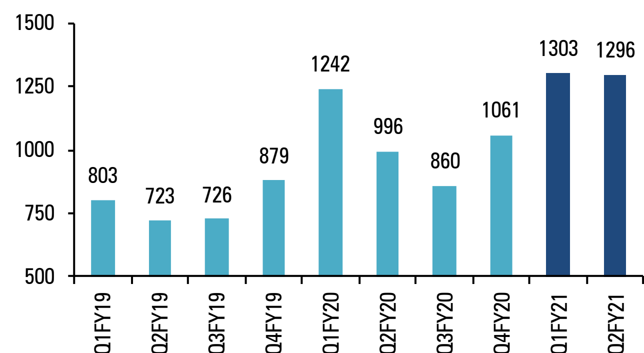
As 80% of total costs are almost variable in nature, cement companies have been able to contain their cost in H1FY21. Further, with rise in cement prices due to low availability, EBITDA/tonne witnessed a sharp jump during this period.

Exhibit 11: Average cost of production (Coverage universe)



Source: Company, ICICI Direct Research

Exhibit 12: Average EBITDA/tonne (₹) – (Coverage universe)

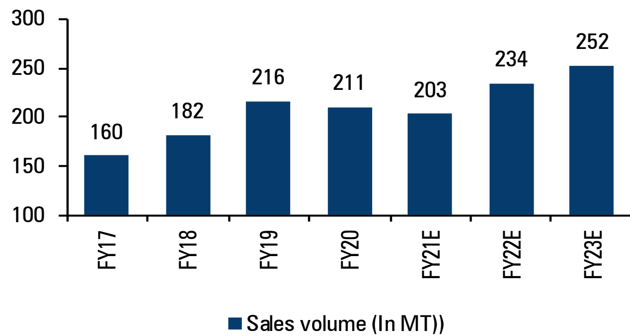


Source: Company, ICICI Direct Research

After price led growth, volume led growth to push sector RoCE upwards further over FY21E-23E;

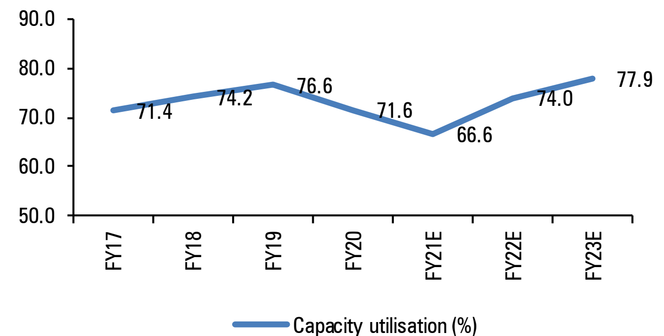
FY20-21 is likely to witness a sharp rebound in margins led by price hikes and a benign cost environment. However, with a rise in cost of key inputs like petcoke and fuel, the pace of margin expansion is expected to taper down. On the other hand, with a sharp volume rebound, we expect sector RoE to rebound sharply to over 17% by FY23E led by expected volume CAGR of 6.2% with FY22E sales volume likely to be in the double digit range of 15.4%.

Exhibit 13: Coverage universe volume CAGR expected at 6.2%



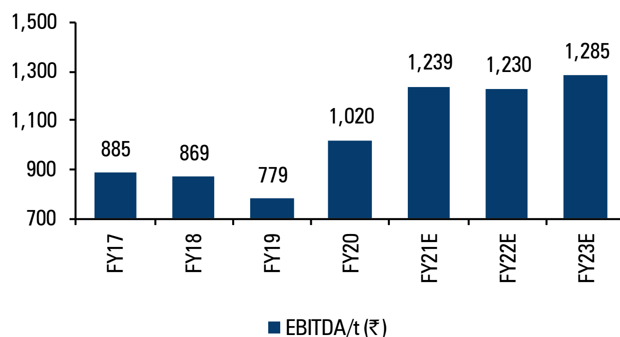
Source: Company, ICICI Direct Research

Exhibit 14: More headroom for improvement in capacity utilisation (%)



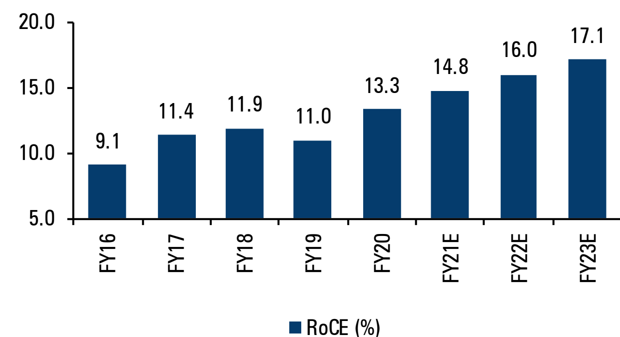
Source: Company, ICICI Direct Research

Exhibit 15: Scope for margin expansion limited, going ahead…



Source: Company, ICICI Direct Research

Exhibit 16: …but volume led growth to push coverage universe RoCE to over 17% by FY23E



Source: Company, ICICI Direct Research

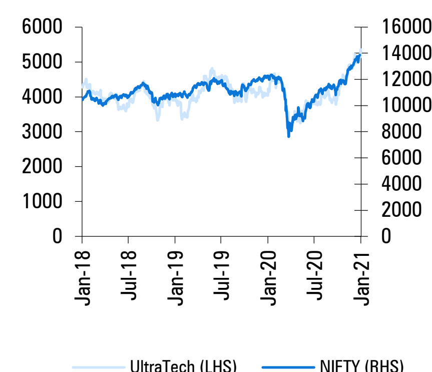
Company-wise outlook

UltraTech Cement (UltraTech)

UltraTech's operating performance for H1FY21 improved sharply led by strong demand from rural segment, better pricing environment and benign costs. The improved outlook has also led to re-instatement of capex plans by the company that were halted earlier post imposition of lockdown in April 2020. To cope with the issue of capacity constraint in future, the company has announced 12.8 MT new capacity addition. This involves capex of ₹ 5477 crore i.e. capex of <$60/t, which is below industry replacement cost of $100/t as 72% of capacity is brownfield. The expected IRR on these new capacities is ~15% vs. current RoCE of 11.4% due to lower capex per tonne. With these expansions, UltraTech's total capacity would reach ~131 MT by FY23E with long term plan to reach 160 MT. We believe these new capacities would not only improve reach and network but also aid in reduction in lead distance also. Further, deployment of strong operating cash towards capacity expansion in an efficient manner along with deleveraging (targeting to become deb free by FY23E) would improve return ratios. Hence, we continue to remain positive on the company from a long term perspective ***(please refer our report dated December 10, 2020 for detailed information).***

Given the positive outlook, the newly announced capex targeting the central and east region would address the issue of capacity constraint post FY24E. Furthermore, organic expansion at lower capital costs (US$60/t) will boost return ratios (new capacity to generate 15%+ IRR). With a target to become net debt free by FY23E and 27% earnings CAGR over FY20-23E, we believe valuations of 11.2x FY23E EV/EBITDA and US$164 EV/t are attractive. We value the stock at 13x FY23E EV/EBITDA and arrive at a revised target price of ₹ 6150/share. We maintain our **BUY** rating on the stock.

Price performance



Key Risks

- Focus on market share gain post commissioning of new capacities at cost of prices may impact return ratios
- Sharp increase in other input costs like fuel, power may possess risk for margin expansion, going ahead

Exhibit 1: Financial summary

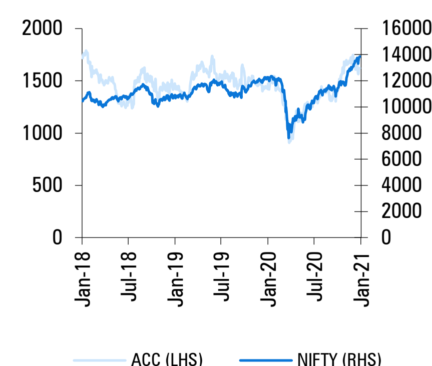
Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	39933	40634	41099	46546	50469	7%
EBITDA (₹ crore)	7076	8652	10354	11723	13399	16%
EBITDA (%)	17.7	21.3	25.2	25.2	26.5	
Adjusted PAT (₹ crore)	2530	3602	4994	6092	7307	27%
EPS (₹)	87.7	124.8	173.0	211.1	253.2	
EV/EBITDA	23.3	18.9	15.5	13.4	11.2	
EV/t ($)	208	206	202	190	164	
RoNW (%)	7.6	9.4	11.7	12.6	13.2	
RoCE (%)	9.0	11.4	13.8	15.3	16.9	

Source: Company, ICICI Direct Research

ACC (ACC)

Over the past five years, the company has lost market share to other large players with no major new capacities coming in place during this period either through the greenfield or the M&A route. While industry capacity grew at 7% CAGR, the company managed to increase its capacity from 30.5 MT to 33.4% at 2% CAGR during this period. As a result, ACC's production share declined from 14% in FY14 to 11% in FY20. **To address this growth concern, the company is adding 5.9 MT new cement capacity at a total capex of ₹ 3000 crore. This would be mainly funded through internal accruals. However, the new capacity would likely come on stream only by the end of CY22E.**

Price performance



The concern with respect to the hike in royalty fees from foreign promoter is also now mitigated with revised technology and knowhow being kept at 1% only for the next two years. Another 1% hike could have led to ~11% drop in profitability otherwise.

The structural issues with respect to CoP need to be addressed for sustenance of healthy margins in the long run. On the positive side, strong B/S and improved cash flow remains a key positive. Rolling over our valuations to CY22E, we maintain our **BUY** rating with a revised target price of ₹ 1,950/share (valuing at 9x CY22E EV/EBITDA implying an EV/t of ~$113).

Key risks

- ACC with capacity of 33.4 MT and oldest cement company remains susceptible to volatility in margins due to its high cost of production (CoP). The company closed CY19 with CoP remaining higher by over 15% than the industry average CoP of ~₹ 3960/tonne. Higher fuel consumption, RM costs are key areas that need to be focus upon to drive efficiency

- ACC has higher share in the south market where cement prices remain volatile. Any negative movement in cement prices may have an impact on margins and profitability

Exhibit 2: Financial Summary

₹ crore	CY18	CY19	CY20E	CY21E	CY22E	CAGR (CY20-CY22E)
Net Sales	14478	15407	14149	16880	17611	11.6%
EBITDA	1724	2162	2639	3049	3394	13.4%
EBITDA Margins (%)	11.9	14.0	18.7	18.1	19.3	
Adjusted Net Profit	1020	1378	1580	1831	2037	13.5%
EPS (₹)	54.3	73.3	84.1	97.5	108.4	
EV/EBITDA	16.2	12.2	10.3	8.7	7.5	
EV/tonne ($)	119	113	116	97	93	
RoNW	9.7	11.9	12.3	12.8	12.5	
RoCE	14.2	17.4	17.8	18.6	18.2	
RoIC	14.6	21.9	25.1	24.1	24.0	

Source: Company, ICICI Direct Research

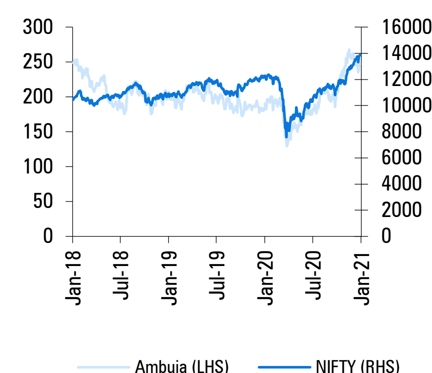
Ambuja Cement (AMBCE)

Ambuja Cement remains the fourth largest player in terms of individual capacity with 29.7 MT spread across north and central (40%), west and south (37%) and eastern region (23%) in India. However, combined with ACC, the Holcim group is the second largest player in India. The company is adding new capacity at Marwar (2 MT) to address growth concerns. It will get commissioned by Q2CY21E. Thus, volume growth is expected to revive from CY21E while CY20E would remain challenging due to the Covid pandemic. Thus, we model revenue CAGR of 5.8% in CY19-22E.

The average CoP of Ambuja has remained broadly in line with the industry average. This has helped the company to maintain healthy margins aided by a favourable trade mix. Further, being conservative on the expansion front, Ambuja's liquidity profile also remains superior. In the absence of a major capex programme, the company recently announced a hefty dividend payout of ₹ 17/share. However, the same would help in improving the return ratios, going ahead.

Although Ambuja has managed to improve its operational efficiency, the rise in cost of key inputs would keep margins under check, going forward. Also, the company would remain a laggard in terms of gaining market share, going forward. We maintain **HOLD** rating on the stock with a revised target price of ₹ 280/share (implying a consolidated EV/t of $144, 11.5x CY22E EV/EBITDA).

Price performance



Key risks

- May lose further market share, going ahead, with competitors announcing major capex programmes backed by an improved business environment, especially in real estate and infra
- A sharp increase in other input costs like fuel and power may possess risk for margin expansion, going ahead

Exhibit 3: Financial Summary

Key Financials	CY18	CY19	CY20E	CY21E	CY22E	CAGR (CY19-22E)
Net Sales	11,357	11,668	11,065	13,021	13,828	5.8%
EBITDA	1,891	2,149	2,542	2,770	3,035	12.2%
EBITDA (%)	16.7	18.4	23.0	21.3	21.9	
PAT	1,245	1,529	1,722	1,889	2,049	10.3%
EPS (₹)	6.3	7.7	8.7	9.5	10.3	
EV/EBITDA - Adjusted	17.0	14.1	12.8	11.2	10.2	
EV/T ($) - Consolidated	144	140	152	134	128	
RoNW (%)	13.5	14.7	19.7	19.6	19.1	
RoCE (%)	11.8	12.2	17.1	17.3	17.2	

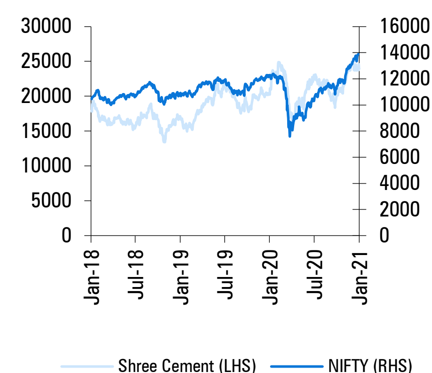
Source: Company, ICICI Direct Research

Shree Cement (SHRCEM)

Shree Cement has a strong presence in the north and eastern markets. Tracking the data since FY07, Shree Cement has always reported double-digit RoE, thus strongly indicating the management's efficient capital allocation. These healthy returns have been generated with net Debt/EBITDA remaining below 1x throughout this period. We believe the same is going to be maintained despite new announcement of capex of ₹ 1000 crore with an aim of doubling capacity in seven years.

Shree Cement has added capacities by entering non-core regions without jeopardising its profitability and return ratios. We expect the company to continue its leadership on costs. This would, in turn, help it to consistently gain market share with improved profitability and return matrix. Thus, it remains a long term structural play. Raising our multiple, we continue to maintain our **BUY** rating on the company with a revised target price of ₹ 28,000/share (19.5x FY23E EV/EBITDA).

Price performance



Key Risks

- Focus on market share gain post commissioning of new capacities at cost of prices may impact return ratios

- **Historically, the company used 100% petcoke for its fuel requirement. Petcoke prices have remained lower till now. There was a sharp increase of over 30% rise in petcoke prices in the past six months. The company is now switching to coal for its fuel requirement, which may impact its margins in the near term**

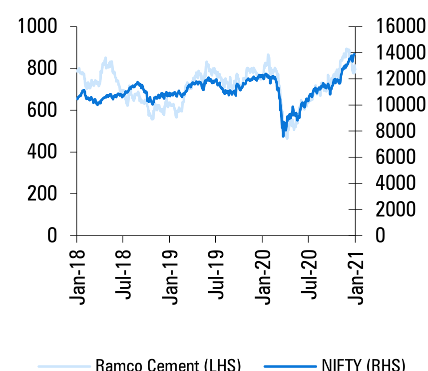
Exhibit 4: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	11722	11904	12673	14997	16631	11.8%
EBITDA	2653	3675	4178	4651	5036	11.1%
EBITDA (%)	22.6	30.9	33.0	31.0	30.3	
PAT	1108	1570	2207	2356	2538	17.4%
EPS (₹)	318	435	611	653	703	
EV/EBITDA	33.7	23.4	20.7	18.3	16.6	
EV/Tonne ($)	297	253	239	235	230	
RoNW	11.5	12.1	14.9	13.9	13.3	
RoCE	11.5	13.8	17.6	17.7	17.1	

Source: Company, ICICI Direct Research

Ramco Cement (RAMCEM)

Price performance



Incremental volumes coming up from additional capacities (2 MT already commissioned and 1 MT Odisha GU commissioned in September 2020, 1 MT GU Kurnool in FY22E) would help Ramco to grow ahead of industry growth in FY22E. The company is also commissioning a clinkering unit of 1.5 MT along with 9 MW WHRS in Jayanthipuram and 2.25 MT clinkering unit in Kurnool before March 2021. Factoring in this new capacity, we model 12.1% revenue CAGR in FY20-23E. While newly commissioned grinding units in Vizag, West Bengal and Odisha would lead to a reduction in transit distance for the target markets in eastern India, the commissioning of 39 MW WHRS in a phased manner would bring further efficiencies, going forward.

Ramco has spent ₹ 1,920 crore towards capex in FY20. During H1FY21, the company incurred ₹ 685 crore. The balance capex to be incurred is ₹ 881 crore to fund the ongoing capex (Odisha GU, Jayanthipuram clinker unit, WHRS, Kurnool expansion). While debt levels would rise, debt/EBITDA would improve from 2.8x in FY20 to 1.2x by FY23E. Average cost of interest on debt for the company is 7.3%, much lower than RoCE. Hence, once capex is complete, it would help improve RoE in double digits.

Long history of operations, brand equity, low cost producer and a healthy B/S are factors that helped the company to raise debt at competitive rates. We expect these factors to drive robust performance in future as well. We maintain our **BUY** rating, valuing the company at 12x FY23E EV/EBITDA. We arrive at a target price of ₹ 1000/share (i.e. EV/t of $175).

Key Risks

- Aggressive expansion strategy before stabilisation of new capacities can put pressure on the return matrix in the medium term

- Sharp increase in other input costs like fuel, power may possess risk for margin expansion, going ahead

Exhibit 5: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	5146	5389	5306	6262	7591	12.1%
EBITDA	1055	1147	1679	1780	2140	23.1%
EBITDA (%)	20.5	21.3	31.6	28.4	28.2	
PAT	523	604	857	881	1146	23.8%
EPS (₹)	22	26	36	37	49	
EV/EBITDA	21.1	20.7	14.3	13.2	10.5	
EV/Tonne ($)	205	182	175	170	155	
RoNW	11.7	12.3	15.0	13.4	14.8	
RoCE	8.2	7.5	9.9	10.1	11.5	

Source: Company, ICICI Direct Research

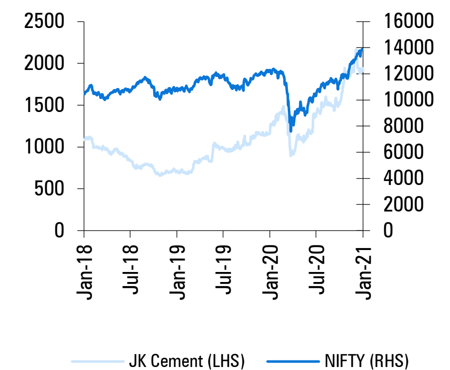
JK Cement (JKCEME)

With the commissioning of split grinding unit of 0.7 MT at Balasinor, the entire 4.2 MT has been commissioned this fiscal with total capex spend of ₹ 1577 crore. The newly added capacities include 1 MT grinding unit (GU) each in Nimbahara and Mangrol along with 2.6 MT clinker plant, 1.5 MT GU in Aligarh and 0.7 MT GU in Gujarat (Balasinor). The full volume benefit potential is expected to get reflected in FY22E. Revenue CAGR is estimated at 13.2% during the same period.

The next two years are expected to lead to healthy OCF generation due to commissioning of these new capacities. The same would be majorly utilised towards next phase of expansion at Panna (MP) for proposed ~3.5-4 MT greenfield capacity. Hence, we expect debt levels to remain comfortable.

We expect the management's efforts to improve cost efficiencies through newly added capacities (4.2 MT) to drive profitability from Q4FY21E onwards. Thus, we believe there is further scope for growth and margin expansion. Rolling over our valuations to FY23E, we now upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 2450/share (i.e. valuing at 11.5x FY23E EV/EBITDA).

Price performance



Key Risks

- Aggressive expansion strategy before stabilisation of new capacities can put pressure on the return matrix in the medium term
- Sharp increase in other input costs like fuel, power may possess risk for margin expansion, going ahead

Exhibit 6: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	4981	5464	6048	7003	7828	12.7%
EBITDA	810	1182	1469	1714	1910	17.4%
EBITDA (%)	16.3	21.6	24.3	24.5	24.4	
PAT	324	579	668	736	824	12.5%
EPS (₹)	42.0	74.9	86.4	95.2	106.6	
EV/EBITDA	24.7	17.7	14.4	12.5	11.7	
EV/Tonne ($)	242	192	183	186	194	
RoNW	11.2	18.5	18.0	16.9	15.9	
RoCE	12.5	16.2	17.4	17.4	16.9	

Source: Company, ICICI Direct Research

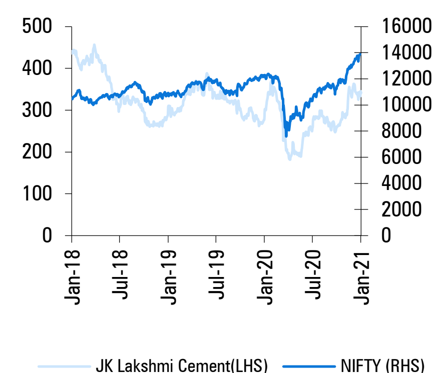
JK Lakshmi Cement (JKLAKS)

Being a predominantly north (8.2 MT capacity) and central (3.5 MT capacity) player, the company has got a structural advantage of balanced supply and demand environment in these two high growing regions. Further, self-sufficiency in power, through captive power plant (CPP) of 54 MW, waste heat recovery (WHR) plant of 14 MW and solar power plant of 6 MW has helped JK Lakshmi to reduce reliance on costly grid power. The progress on the WHRS Unit-III Project at Sirohi is going as per schedule and will be commissioned by July 2021.

The company will now be adding cement capacity of 2.5 MT (1.5 MT clinker) at its existing plant in Udaipur with total capex of ₹ 1400 crore. The same is likely to get commissioned by the end of Q3FY24E. Ramp up of capacities in Durg in the past four years has led to co-generation of annual OCF of over~₹ 400 crore. Further, with liquidity buffer of ₹ 700 crore (including liquid investments), we believe the company is in a better position to fund this expansion.

While the B/S remains healthy with D/E of 0.6x, the growth concern beyond FY23E is now being addressed with new capacity expansion. The company is trading at an EV/t of $50/t and 4.5x FY23E EV/EBITDA, thus providing valuation comfort. Rolling over our valuations to FY23E, we now revise our target price to ₹ 450/share (@ 6x FY23E EV/EBITDA) and maintain **BUY** rating on the stock.

Price performance



Key Risks

- Delay in commissioning of new capacity may lead the company to lose out opportunity to ride on surge in capex cycle beyond FY25E
- Higher usage of petcoke for fuel requirement may possess risk to margin expansion in the near term due to sharp surge in petcoke prices

Exhibit 7: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3882	4044	4179	4398	4705	5.2%
EBITDA	415	672	779	838	909	10.6%
EBITDA (%)	10.7	16.6	18.6	19.0	19.3	
PAT	80	265	333	335	387	13.4%
EPS (₹)	6.8	22.6	28.3	28.4	32.9	
EV/EBITDA	12.7	7.4	6.2	5.7	4.5	
EV/Tonne ($)	64	61	59	58	50	
RoNW	5.2	15.5	16.0	15.2	15.0	
RoCE	9.3	17.1	19.2	19.9	20.2	

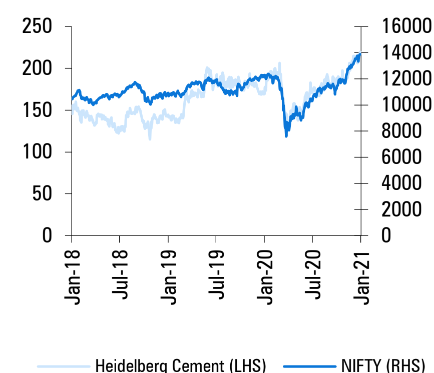
Source: Company, ICICI Direct Research

Heidelberg Cement (HEICEM)

Heidelberg (HCIL) had a weak balance sheet, which over time has strengthened with debt brought under control. Debt/EBITDA may reduce to 0.5x by FY22E. HCIL has a strong brand presence and higher share in retail trade. Thus, better realisations, investments in CPP and WHRMS to rationalise costs have helped the company to rank among the best in the industry on the EBITDA margins front (upwards of 20% since FY19). RoCE is also among the best in industry, clocking in excess of 20% for two years led by reducing debt. With no major capex planned by the company and sufficient headroom for growth led by de-bottlenecking operations, we expect debt to reduce further and return ratios to improve (25%+ RoCE and RoIC), going forward.

HCIL is one of the companies that ticks all the right boxes – healthy profitability, strong balance sheet, robust return ratios and strong retail presence. While minor hiccups in the form of de-growth are expected in FY21, the company is expected to rebound strongly in FY22E. Rolling our valuations to FY23E, we revise our target price upwards to ₹ 265/share and maintain **BUY** rating (i.e. 8.5x FY23E EV/EBITDA, implying an EV/t of $130).

Price performance



Key Risks

- Risk of losing out market share to other players due to capacity constraint may lead to loss of business opportunity though liquidity profile will continue to remain superior
- Volatility in prices of key raw materials like petcoke, freight may weigh on margins

Exhibit 8: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2109	2158	1938	2395	2721	8.0%
EBITDA	459	516	465	593	685	9.9%
EBITDA (%)	21.8	23.9	24.0	24.8	25.2	
Net Profit	220	268	231	331	406	14.9%
EPS	9.7	11.8	10.2	14.6	17.9	
EV/EBITDA	12.3	10.4	11.6	8.7	7.2	
EV/Tonne ($)	150	139	123	117	113	
RoNW	20.5	20.4	19.0	24.0	25.2	
RoCE	21.8	22.3	20.3	27.5	31.6	

Source: Company, ICICI Direct Research

Orient Cement (ORICEM)

Orient Cement mainly derives revenues largely from Maharashtra, Telangana and Karnataka markets. A revival in these markets, particularly Maharashtra and Telangana, would help the company improve its performance better. Key factors driving cement demand over FY20-22E are: a) strong rural demand, b) irrigation projects, c) housing projects in Andhra Pradesh/Telangana and infrastructure projects like metro in Mumbai-Pune, Mumbai-Nagpur Expressway, etc. Also, the pricing environment, especially in the south, has improved sharply over the past nine months, which would lead to better revenue and margins, going ahead.

The structural cost advantage and presence in rural centric market (least affected by Covid) remain key positives for the company, which will guard its earnings in the current uncertain times. At the CMP, the stock is available at attractive valuations of 6.0x on FY23E EV/EBITDA. With the company's focus on strengthening B/S, we expect a re-rating of the stock, going forward. We roll over our valuation multiple to FY23E and value the company at 7.5x EV/EBITDA to arrive at a target price of ₹ 105/share and maintain **BUY** rating (i.e. at 7.5x FY23E EV/EBITDA, implied EV/tonne of $60/tonne).

Key Risks

- Delay or deferral of infrastructure projects by state governments in Andhra Pradesh/Telangana can have negative impact on volumes
- The promoter holding remains low at present

Price performance

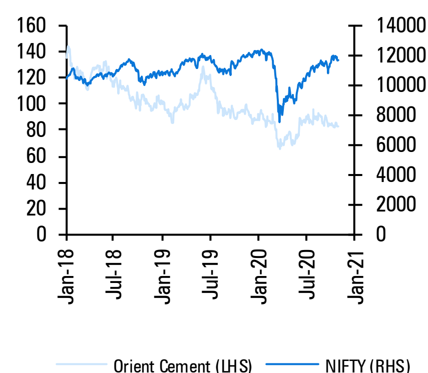


Exhibit 9: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2522	2422	1996	2544	2744	4.3%
EBITDA	312	383	362	411	437	4.5%
EBITDA (%)	12.4	15.8	18.1	16.2	15.9	
Net Profit	48	87	69	106	126	13.3%
EPS	2.3	4.2	3.3	5.2	6.1	
EV/EBITDA	9.6	7.6	8.0	6.8	5.9	
EV/Tonne ($)	54	52	52	50	46	
RoNW	4.5	7.7	5.9	8.7	9.5	
RoCE	7.9	10.7	9.8	12.2	13.1	

Source: Company, ICICI Direct Research

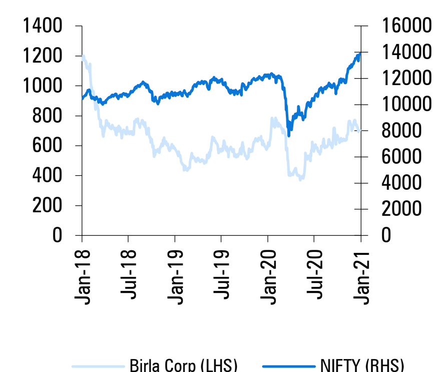
Birla Corp (BIRCOR)

Birla Corp's operating performance has improved significantly in the past three years with EBITDA increasing to ₹ 1,015/t in FY20 (FY19: ₹ 733/t; FY18: ₹ 665/t), driven by a combination of an increase in realisations and reduction in costs. Further, an increase in the proportion of higher-margin premium cement (H1FY21: 46%, FY20: 40%, FY19: 37% of trade sales, respectively)) and blended cement (94%, 93%; 89%) in its mix along with the implementation of cost-reduction measures such as waste heat recovery-based and solar power plants to replace high-cost grid power and construction of railway siding at Kundanganj (Uttar Pradesh), aided its EBITDA.

Region wise, the company has a significant presence in the central (over 50% of sales), eastern (about 25%) and northern (about 20%) regions, and a small presence in the western region. However, post the completion of its integrated cement plant in Maharashtra in FY22, the company will be able to generate around 20% of its sales from the western region, leading to a balanced presence across the four regions.

While the ongoing expansion may increase the debt burden in the medium term, the company's healthy asset utilisations, healthy margin profile remain key positives, which will help the company to maintain debt/EBITDA levels at comfortable levels. We roll over our valuations to FY23E and revise our target price upwards to ₹ 925/share and maintain **BUY** rating. (ie. valuing at 7.5x FY23E EV/EBITDA, EV/t of $93/t).

Price performance



Key Risks

- Focus on market share gain post commissioning of new capacities at cost of prices may impact return ratios
- The ongoing legal battle between the Lodha and Birla group over control of Birla Corporation could have a bearing on the key business decisions as the matter is still pending in court

Exhibit 10: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	6549	6916	6079	7076	8378	6.6%
EBITDA	949	1336	1261	1460	1795	10.4%
EBITDA (%)	14.5	19.3	20.7	20.6	21.4	
Net Profit	256	506	432	443	554	3.0%
EPS	33.2	65.7	56.1	57.6	71.9	
EV/EBITDA	10.6	7.7	8.5	8.3	6.7	
EV/Tonne ($)	93	95	98	89	83	
RoNW	5.9	11.1	8.8	8.4	9.7	
RoCE	7.8	11.4	9.4	9.0	9.8	

Source: Company, ICICI Direct Research

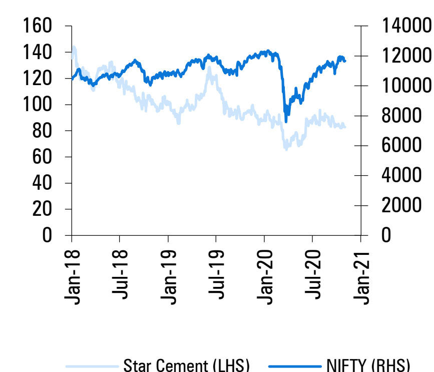
Star Cement (STACEM)

Star Cement being the leader in North East region (NER) with over ~24% share remains a preferred play to ride the growth story of NER. Also, being a brand leader, the company generates EBITDA/tonne of over ~₹ 1400/t, which remains one of the highest among all major industry players.

With respect to capacity expansion, the company would be spending ₹ 80 crore in FY21E on the Siliguri unit. It has also applied for various clearances for setting up a clinker unit in Meghalaya and would be spending ₹ 104 crore on the new clinker unit in Lumshnong. This, along with the WHRMS unit, would require Star to spend ~₹ 260 crore in FY21E. The Meghalaya plant is expected to start operations in 2023. With cash equivalent of over ₹ 280 crore and pending subsidy receivables of ₹ 50 crore, the company is in a better position to fund expansion without debt support.

The company continues to remain a leader in the NER. With commissioning of new capacity, we expect Star Cement to return to a healthy growth trajectory curve with RoCE inching upwards to 15% by FY23E. We now roll over our valuation multiple to FY23E and revise our target price to ₹ 125/share and maintain **BUY** rating on the stock (i.e. valuing at ~8.5x FY23E EV/EBITDA and EV/t of $95/t).

Price performance



Key Risks

- While the company has remained dominant player in NER region, expansion of footprint to other key eastern regions may lead to some moderation in operating margins as major key players are present in these newer regions

- Post end of benefit of key transport and other subsidies from FY24E onwards, the margin may shrink to that extent unless the same is recovered through price hikes

Exhibit 11: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,831	1,844	1,627	2,054	2,282	7.4%
EBITDA	455	424	365	452	514	6.6%
EBITDA (%)	24.8	23.0	22.5	22.0	22.5	
PAT	299	286	200	276	309	2.7%
EPS (₹)	7.2	6.9	4.8	6.7	7.5	
EV/EBITDA	9.3	9.6	10.5	8.4	7.1	
EV/T ($)	137	131	90	85	82	
RoCE (%)	19.5	17.1	12.1	14.9	15.9	
RoNW (%)	17.8	15.4	10.1	12.9	12.7	

Source: Company, ICICI Direct Research

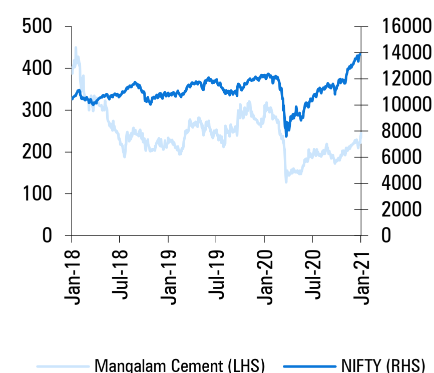
Mangalam Cement (MANCEM)

Mangalam Cement (MCL) is a north based small cement player. It currently has an installed cement capacity of 4.0 MT (0.75 MT grinding unit at Aligarh commenced in September 2016), clinker capacity of 2.30 MT. The company markets and sells its product under the brand name Birla Uttam Cement. MCL's product mix comprises both PPC and OPC.

The company has two units of coal based captive power plant with an installed capacity of 35 MW in Kota, two units of wind based power with an installed capacity of 13.65 MW in Jaisalmer and newly established 11 MW WHRS plant in Kota ensuring continuous supply of power at competitive rates. The captive power sources catered to about 72% of the company's power requirement in FY20 (77% in FY18), which increased to 83% in H1FY21 after commissioning of WHRS plant in phases from January 2020 to August 2020. The WHRS plant is expected to reduce power costs by ~₹ 25 crore per annum owing to its low operating cost of ~₹ 0.60 per unit of power generated compared to ₹ 6 per unit of power taken from the grid.

The company is also in the process of enhancement of its clinker capacity at its existing facility at Morak, Rajasthan from 2.3 MT to 2.6 MT at a projected cost of ₹ 135 crore, which is to be funded through debt of ₹ 100 crore and balance from internal accruals. The same is expected to get commissioned by Q1FY22E. With focus on bringing more efficiency by reducing the power cost along with capacity expansion without putting much stress on balance sheet, we believe valuations of $40 EV/tonne looks attractive. Hence, we upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 325/share (i.e. valuing at 4.5x FY23E EV/EBITDA, $45tonne).

Price performance



Key Risks

- Higher share of non-retail segment may lead to low realisation per tonne of cement
- Volatility in prices of key raw materials like petcoke, freight may weigh on margins

Exhibit 12: Financial summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1195	1228	1241	1397	1596	9%
EBITDA	53	199	215	239	308	16%
EBITDA (%)	4.4	16.2	17.4	17.1	19.3	
Net Profit	-10	76	80	106	168	30%
EPS	-3.7	28.4	29.8	39.6	63.1	
EV/EBITDA	22.7	6.3	6.3	5.3	3.6	
EV/Tonne ($)	43	45	48	45	39	
RoNW	-2.0	13.2	12.2	14.0	18.3	
RoCE	3.2	13.8	13.4	14.0	18.5	

Source: Company, ICICI Direct Research

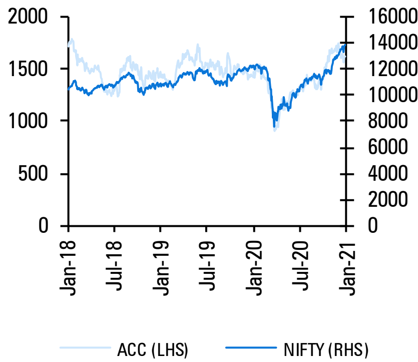
Exhibit 13: Valuation matrix

Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS(₹) FY20	EPS(₹) FY21E	EPS(₹) FY22E	EV/EBITDA (x) FY20	EV/EBITDA (x) FY21E	EV/EBITDA (x) FY22E	EV/Tonne ($) FY20	EV/Tonne ($) FY21E	EV/Tonne ($) FY22E	RoCE (%) FY20	RoCE (%) FY21E	RoCE (%) FY22E	RoE (%) FY20	RoE (%) FY21E	RoE (%) FY22E
ACC*	1,640	1,950	BUY	31,010	73	84	97	12.2	10.3	8.7	113	116	97	17.4	17.8	18.6	11.9	12.3	12.8
Ambuja Cem*	252	280	HOLD	50,038	7.7	8.7	9.5	14.1	12.8	11.2	140	152	134	12.2	17.1	17.3	14.7	19.7	19.6
UltraTech Cem	5,280	6,100	BUY	151,500	173	211	253	15.5	13.4	11.2	202	202	190	13.8	15.3	16.9	11.7	12.6	13.2
Shree Cement	24,000	28,000	BUY	86,240	435	611	653	23.4	20.7	18.3	253	239	235	13.8	17.6	17.7	12.1	14.9	13.9
Heidelberg Cem	230	265	BUY	5,212	11.8	10.2	14.6	10.4	11.6	8.7	139	123	117	22.3	20.3	27.5	20.4	19.0	24.0
JK Cement	2,050	2,400	BUY	15,608	74.9	86.4	95.2	15.2	12.4	10.8	165	157	161	16.2	17.4	17.4	18.5	18.0	16.9
JK Lakshmi Cem	342	450	BUY	4,025	22.6	28.3	28.4	7.4	6.2	5.7	61	59	58	17.1	19.2	19.9	15.5	16.0	15.2
Star Cement	103	120	BUY	4,318	6.9	4.8	6.7	9.6	10.5	8.4	131	90	85	17.1	12.1	14.9	15.4	10.1	12.9
Ramco Cement	798	1,000	BUY	20,713	25.7	36.4	37.4	20.7	14.3	13.2	182	175	170	7.5	9.9	10.1	12.3	15.0	13.4
Sagar Cement	725	950	BUY	1,704	17.1	59.5	73.8	11.8	6.7	5.4	54	56	41	7.2	14.2	15.3	4.2	11.8	12.8

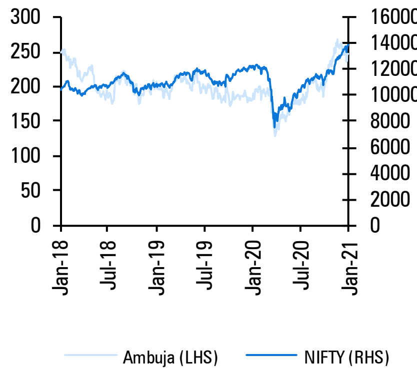
Source: Company, ICICI Direct Research

Exhibit 14: Price Performance

ACC Ltd



Ambuja Cement



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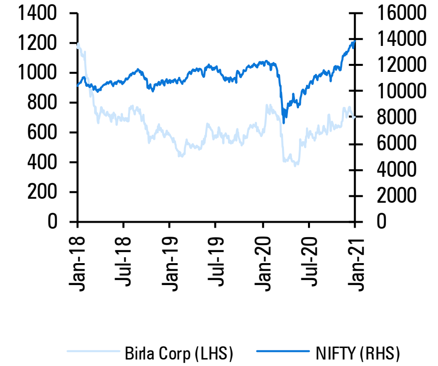

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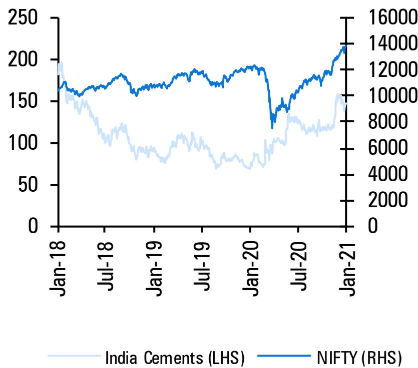

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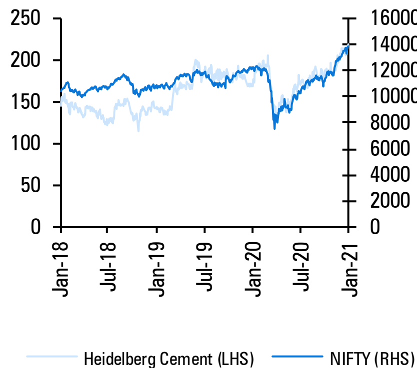

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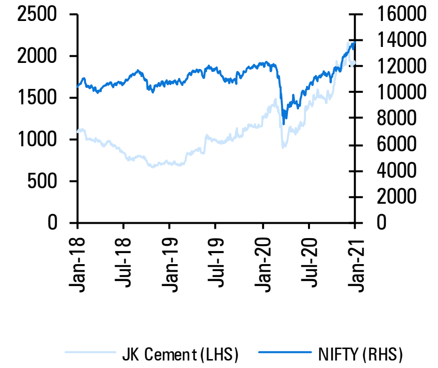

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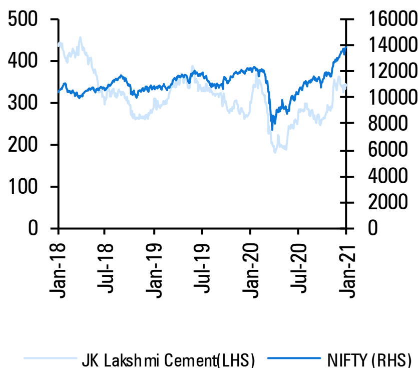

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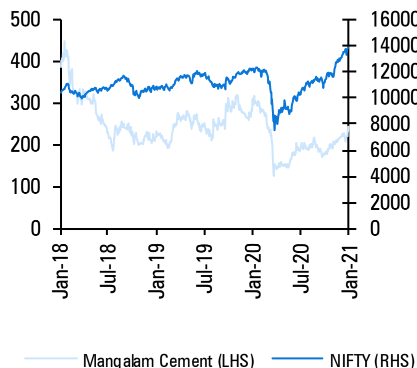

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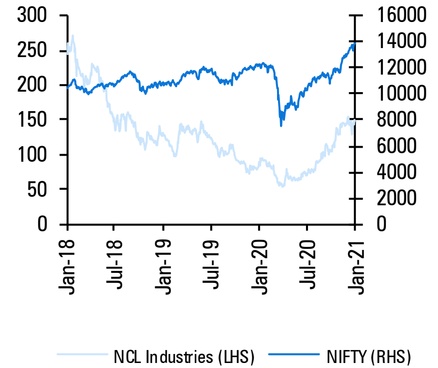

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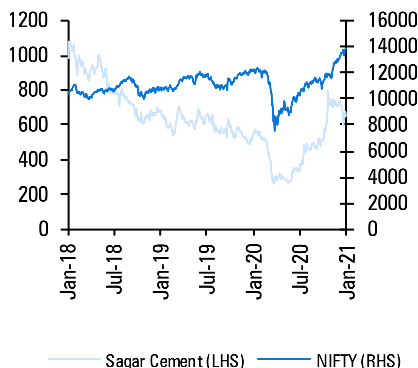

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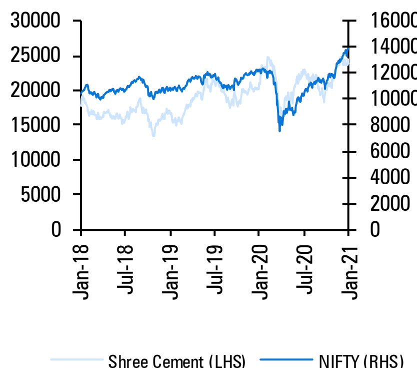

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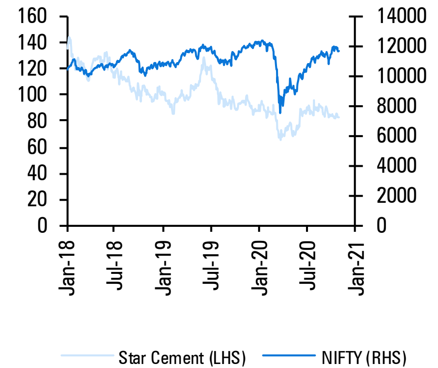

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Reduce: -15% to -5%;

Sell: <-15%

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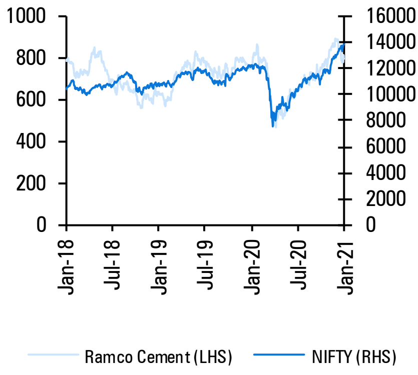

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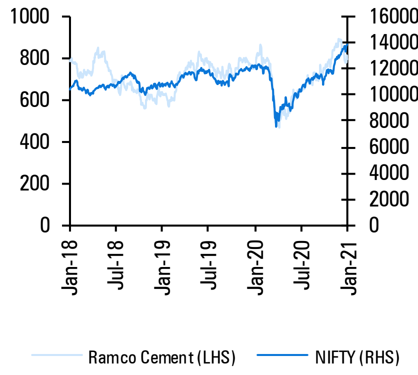

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