

June 6, 2023

## Healthy volume offtake drives outperformance in Q4...

Underlying cement demand continued to remain healthy with companies reporting record-high capacity utilisation rates in Q4FY23. Overall volumes for our coverage universe grew 13.2% YoY to 69.0 MT (I-direct estimate: 66.6 MT). Capacity utilisation rates improved ~ 390 bps YoY to 91% (Q3FY23: 80%).

- Industry leader UltraTech led from the front with healthy growth of 16% YoY to 30.5 MT. It continued to gain market share as the company operated at nearly 100% capacity utilisation rate in March 2023. The Adani twins (ACC, Ambuja) also recorded healthy utilisation rates (95%+) despite challenges faced by the company regarding the shutdown of plant operations in Himachal Pradesh for 50 days. Among the pack, Ramco Cements (south player) outperformed with robust growth of 47% YoY to 4.7 MT driven by new capacity addition (in Kurnool, AP) and sharp uptick in utilisation rates (85% vs. 66% in Q4FY22)
- **The pricing scenario remained weak during the quarter as companies focused on higher volumes to gain market share** (multiple price hike attempts were not absorbed by the market). While prices in north & central region remained stable, prices in south (especially down south) were weak (drop of ₹ 15-20/bag). For Q4FY23, blended realisations declined 1% QoQ to ₹ 5680/t. Companies indicated that current cement prices are flat or marginally negative vs. Q4FY23 and price hikes are only probable post the monsoon season
- **Overall cost of production declined by ~ 185/t to ₹ 4776/t in Q4FY23, which was mainly driven by positive operating leverage.** For ACC & Ambuja, synergies with Adani group have already started kicking in through groups exposure into energy and logistics, which is helping them to improve cost dynamics and supply chain efficiencies. Overall cost of production for Ambuja declined by ₹ 270/t while ACC reported a decline of ₹ 312/t. **Despite lower realisations, our cement coverage universe witnessed an improvement in EBITDA/t by ₹ 135/t (QoQ) to ₹ 912/t (Q4FY22: ₹ 1032/t).** UltraTech & Shree Cement surpassed the ₹ 1000+ EBITDA/t mark in Q4FY23 whereas Star Cement continued to remain the most profitable player (₹ 1300/t). Sagar Cement and JK Lakshmi witnessed subpar improvement in profitability
- **On an average, fuel prices on a Kcal basis declined from ₹ 2.5 to ₹ 2.35/Kcal in Q4FY23.** International pet coke prices have reduced significantly from ~US\$180/t in Q4FY23 to US\$130/t. US coal prices, on the other hand, continue to remain stubborn at US\$175-180/t. Companies like UltraTech and JK Cement have already increased the share of pet coke in the fuel mix. We believe the share could increase further in ensuing quarters. **We expect the fuel cost to decline to ₹ 2.1-2.0/Kcal over the next two quarters (provided spot prices remain at current levels)**

Cement production 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. We expect an overall cost reduction of ₹ 200-250/tonne in FY24E and expect EBITDA/t to surpass ₹ 1000 levels in FY24E (FY23: ₹ 830/t). Among large cap, we prefer UltraTech, Ambuja Cement while among midcaps we like JK Cement and Ramco Cement.

Top Picks	Rating	TP	Upside (%)
Company	CMP		
JK Cement	3,250	Buy	3,780 16.3
Ambuja	455	Buy	525 15.4

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## Exhibit 3: Valuation Summary

Company	CMP		TP Rating	EPS(₹)				EV/EBITDA (x)				EV/Tonne (\$)				RoCE (%)			RoE (%)				
	(₹)	(₹)		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY25E	
ACC*	1,860	2,130	BUY	99	47	94	124	9.1	16.4	11.3	8.5	99	110	102	92	18.2	10.1	15.4	18.0	13.0	6.3	11.2	13.1
Ambuja Cem*	455	525	BUY	11	14	13	15	18.3	19.6	17.5	13.7	221	207	178	175	19.7	13.9	13.0	13.9	20.6	16.2	13.5	14.4
UltraTech Cem	8,000	9,000	BUY	245	170	253	310	21.5	23.4	17.1	14.2	224	215	214	204	15.4	12.9	16.8	18.3	15.4	12.9	16.8	18.3
Shree Cement	25,677	27,370	HOLD	659	368	561	658	23.6	29.5	20.9	17.6	226	228	201	189	16.3	8.8	13.2	14.0	13.8	7.3	10.1	10.8
JK Cement	3,250	3,780	BUY	98	73	91	129	18.3	20.3	15.6	12.8	174	163	172	143	18.0	13.4	14.3	18.1	17.9	12.0	13.3	16.1
JK Lakshmi Cen	725	775	HOLD	38	28	38	46	10.7	12.1	8.8	7.4	81	80	77	75	17.5	13.9	17.5	18.9	18.3	12.1	14.3	15.0
Ramco Cement	915	980	BUY	38	14	31	43	19.7	21.8	14.4	11.6	163	148	141	131	9.5	5.1	8.2	10.0	8.9	5.0	9.6	11.7
Sagar Cement	210	240	BUY	5	1	4	13	13.7	26.2	11.2	7.5	57	61	51	48	6.6	-0.1	6.2	10.9	4.7	0.5	2.9	9.1

Source: Company, ICICI Direct Research. ACC & Ambuja FY23 represents numbers for 15 months

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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