

Margin Pressure due to higher cost..

**Stocks under coverage**

|                              |            |
|------------------------------|------------|
| <b>ACC</b>                   |            |
| CMP                          | 2150       |
| Rating                       | Accumulate |
| TP                           | 2,460      |
| CY22E EV/EBIDTA              | 10.5x      |
| <b>Ambuja Cement</b>         |            |
| CMP                          | 402        |
| Rating                       | Accumulate |
| TP                           | 459        |
| CY22E EV/EBIDTA              | 16x        |
| <b>The Ramco Cement</b>      |            |
| CMP                          | 1060       |
| Rating                       | Neutral    |
| TP                           | 1029       |
| FY23E EV/EBIDTA              | 14x        |
| <b>Ultratech Cement</b>      |            |
| CMP                          | 7200       |
| Rating                       | Hold       |
| TP                           | 7500       |
| FY23E EV/EBIDTA              | 15x        |
| <b>Shree Digvijay Cement</b> |            |
| CMP                          | 95         |
| Rating                       | Accumulate |
| TP                           | 111        |
| FY23E EV/EBIDTA              | 7.5x       |

NOTE : CMP, Rating & Target Price given are based on Q1 FY22 results & Target Price will be revised post Q2 FY22 results.

NOTE :. ACC & Ambuja follow calendar year.

Source: Arihant Research

**Abhishek Jain**

[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)

022 6711 4851

**Shrey Gandhi**

[Shrey.gandhi@arihantcapital.com](mailto:Shrey.gandhi@arihantcapital.com)

022 6711 4840

Demand for infrastructure construction and affordable housing drove the domestic cement demand that grew at 5% CAGR between 2015 and 2020. However, the Covid-19 pandemic pulled down cement demand in fiscal 2020 and 2021. The cement demand couldn't sustain a decent 12% and 9% growth witnessed in 2019 and 2018. Central and State governments' curb on infrastructure spending coupled with multiple issues such as excessive monsoon rains, sand unavailability, scarcity of labor, and water negatively impacted demand.

The housing sector's share in cement demand has declined over the past five years. Various factors were responsible for this, such as slow economic growth, pale demand, high inventories, and buyer-unaffordability. While housing is expected to be an essential volume contributor, infrastructure should increase its contribution based on the central government's higher investments in railways, roads, and irrigation space

The second quarter or the July-September period is usually a weak one for the construction sector and by extension, for the cement industry. The monsoon slows down construction activity and prices tend to soften.

EBITDA margin for most cement companies are expected to contract due to rise in input cost. Volume are expected to grow on an average by 5% backed by growth across regions except east. Impacted by steep increase in coal, packaging and freight cost, cost/t is expected to increase which would result in contraction of EBITDA/t..

**Outlook** : Backed by improved demand and strong pricing power, we have positive view on the sector. , Cement demand declined by 2% year-on-year in Fiscal 2021 due to the country's Covid-19 pandemic and strict lockdowns. cement demand should clock a 6%-7% CAGR from fiscal 2021 to Fiscal 2026 on Government of India's infrastructure spending and meaningful boost in housing demand, compared to a 4.5%-5.5% CAGR witnessed during fiscals 2015 to fiscal 2020. We believe cement stocks will remain under pressure in the near term given the 1) slow pace of price hikes, 2) unabated rise in coal cost and 3) high earnings base. We continue to like Ambuja cement (ACEM), Ramco Cement Shree Dig Vijay Cement and ACC on back of attractive valuations and strong earnings growth .

## Q2FY22 Earnings Estimates:

| in mn.                                  | Q2FY22E | Q2FY21A | Q1FY22 | YoY       | QoQ       | Remarks  |
|---|---------|---------|--------|-----------|-----------|--|
| <b>ACC Limited</b>                      |         |         |        |           |           |  |
| Revenue                                 | 36000   | 35370   | 38840  | 2%        | -7%       | Net Revenue in expected to grow 2% YoY backed by volume growth Volume is expected to grow by 4.7 % YoY to 6.7 MMT while the realization is expected to decline 3% YoY and 6% QoQ to INR 5373 Pick up in infra activities have led to volume growth YoY . EBIDTA is expected to decline 10% YoY and 30% QoQ backed by rise in input cost and decline in realization. EBIDTA margin is expected to decline by 210 bps YoY to 16.9% Decline in realization and increase in cost EBIDTA /tonne is expected to decline by 13.6% Yoy to INR 905/tonne PAT margin is expected to grow by 180 bps YoY to 12.1%.Company is continuously taking measures to reduce cost which will help to improve margin going ahead. |
| EBIDTA                                  | 6606    | 6710    | 8680   | -10%      | -30%      |  |
| EBIDTA Margin                           | 16.9%   | 19%     | 22.3%  | (210 bps) | (540 bps) |  |
| PAT                                     | 4350    | 3630    | 5660   | 20%       | -23%      |  |
| PAT margin                              | 12.1%   | 10.3%   | 14.6%  | 180 bps   | (250bps)  |  |
| <b>Ambuja Cement Limited</b>            |         |         |        |           |           |  |
| Revenue                                 | 30700   | 28520   | 33710  | 8%        | -9%       | Net Revenue in expected to grow 8% YoY backed by volume and realization growth Volume is expected to grow by 5.3% % YoY to 6 MMT while the realization is expected to grow by 2% YoY however decline by 4% QoQ to INR 5117. EBIDTA is expected to grow by 6% YoY and decline by 25% QoQ backed by rise in input cost and decline in realization on QoQ basis . EBIDTA margin is expected to decline by 30 bps YoY and 490 bps QoQ to 23.5% Decline in realization and increase in cost will led EBIDTA /tonne is expected to grow mutedly Yoy and decline by 20% QOQto INR 1200/tonne PAT margin is expected to grow mutedly by 50 bps YoY and decline by 1270 bps QOQ to 16%.                               |
| EBIDTA                                  | 7200    | 6800    | 9770   | 6%        | -25%      |  |
| EBIDTA Margin                           | 23.5%   | 23.8%   | 28.4%  | (30 bps)  | (490 Bps) |  |
| PAT                                     | 4900    | 4410    | 9660   | 11%       | -49%      |  |
| PAT Margin                              | 16%     | 15.5%   | 28.7%  | 50 bps    | (1270)    |  |
| <b>Ultratech Cement Limited</b>         |         |         |        |           |           |  |
| Revenue                                 | 110878  | 98610   | 112990 | 12%       | -2%       | Revenue from operation are expected to grow by 12% Yoy however decline by 2% QoQ. Growth in revenue on YoY basis was backed by volume and realization growth. Volumes is expected to grow by 6.3% YoY to 20.4 MMT and realization expected to grow by 6%YoY to INR 5435. Rise in input cost has put pressure on EBIDTA margin EBIDTA Margin contracted by 190 bps YoY to 23.6% .EBIDTA/tonne declined by 1.9% YoY and 15.5% QoQ to INR 1284 due to rise in input cost . PAT margin is expected to contract by 30 bps YoY and 290 bps QOQ backed by muted operating profit growth.  |
| EBIDTA                                  | 26200   | 25140   | 31140  | 4%        | -16%      |  |
| EBIDTA margin                           | 23.6%   | 25.5%   | 27.6%  | (190 bps) | (400 bps) |  |
| PAT                                     | 13290   | 12120   | 16820  | 10%       | -21%      |  |
| PAT margin                              | 12%     | 12.3%   | 14.9%  | -(30 bps) | (290 bps) |  |
| <b>The Ramco Cement Limited</b>         |         |         |        |           |           |  |
| Revenue                                 | 13800   | 12570   | 12287  | 10%       | 12%       | Revenue is expected to grow 10% YoY and 12% QOQ due to volume growth . Volume growth is expected to grow by 9.1% YoY and 14.3% QoQ to 2.4 mnmt .Realization/mt is likely to grow mutedly 1% YoY and declined by -2% QoQ EBIDTA margin is expected to contract drastically by 970 bps YoY and 410 bps QoQ due to rise in input cost and lower realization . Average topline growth coupled with negative operating margin has an effect in PAT margin which declined by 540 bps YoY and 40 bps QoQ to 13.4%   |
| EBIDTA                                  | 3520    | 4421    | 3640   | -20%      | -3%       |  |
| EBIDTA margin                           | 25.5    | 35.2    | 29.6   | (970 bps) | (410 Bps) |  |
| PAT                                     | 2200    | 1096    | 2067   | 101%      | 6%        |  |
| PAT margin                              | 13.4    | 18.8    | 13.8   | (540 bps) | (40 bps)  |  |
| <b>Shree Digvijay Cement Co Limited</b> |         |         |        |           |           |  |
| Revenue                                 | 1100    | 970     | 1547   | 13%       | -29%      | Company's YoY growth on all front is expected to be substantial as in same quarter last year company had undertaken a major plant repairing activity due to which their performance was impacted . Revenue from operation is expected to grow 13% YoY however decline by 29% QoQ to INR 1100 Mn Volume is expected to remain flattish YoY however decline 33% QoQ to 0.2 mmt. However realization is expected to grow by 13% YoY and 7% QOQ to INR 5500 EBIDTA and PAT margin are expected to grow YoY by 930 bps and 620 bps to 20,0 & 9% respectively.   |
| EBIDTA                                  | 220     | 104     | 409    | 112%      | -46%      |  |
| EBIDTA Margin                           | 20      | 10.7    | 26.4   | 930       | (640 Bps) |  |
| PAT                                     | 99      | 27      | 217    | 67%       | -40%      |  |
| PAT margin                              | 9%      | 2.8%    | 14.0%  | 620 bps   | (500 bps) |  |

## Q2FY22 Earnings Estimates:

| Realization/MT (INR)  |         |        |        |     |     |
|-----------------------|---------|--------|--------|-----|-----|
| Particulars           | Q2FY22E | Q2FY21 | Q1FY22 | YoY | QoQ |
| ACC                   | 5373    | 5527   | 5712   | -3% | -6% |
| AMBUJA                | 5117    | 5004   | 5325   | 2%  | -4% |
| Ultratech             | 5435    | 5136   | 5512   | 6%  | -1% |
| Ramco                 | 5750    | 5714   | 5851   | 1%  | -2% |
| Shree Digvijay Cement | 5500    | 4850   | 5157   | 13% | 7%  |

| Volume Expectation ( Mn/tonne) |         |        |        |      |       |
|--------------------------------|---------|--------|--------|------|-------|
| Particulars                    | Q2FY22E | Q2FY21 | Q1FY22 | YoY  | QoQ   |
| ACC                            | 6.7     | 6.4    | 6.8    | 4.7% | -1.5% |
| AMBUJA                         | 6.0     | 5.7    | 6.3    | 5.3% | -14%  |
| Ultratech                      | 20.4    | 19.2   | 20.5   | 6.3% | -0.5% |
| Ramco                          | 2.4     | 2.2    | 2.1    | 9.1% | 14.3% |
| Shree Digvijay Cement          | 0.2     | 0.2    | 0.3    | —    | -33%  |

| EBIDTA/tonne (INR)    |         |        |        |       |        |
|-----------------------|---------|--------|--------|-------|--------|
| Particulars           | Q2FY22E | Q2FY21 | Q1FY21 | YoY   | QoQ    |
| ACC                   | 905     | 1048   | 1276   | -13.6 | -29.4% |
| AMBUJA                | 1200    | 1193   | 1515   | 0.6%  | -20.8% |
| Ultratech             | 1284    | 1309   | 1519   | -1.9% | -15.5% |
| Ramco                 | 1467    | 2010   | 1733   | -27%  | -15.4% |
| Shree Digvijay Cement | 1100    | 520    | 1363   | 112%  | -19%   |

Note :ACC & Ambuja cement follow calendar year

Source: Arihant Research

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

| Head Office   | Registered Office  |
|---|--|
| #1011, Solitaire Corporate Park<br>Building No. 10, 1 <sup>st</sup> Floor<br>Andheri Ghatkopar Link Road<br>Chakala, Andheri (E)<br>Mumbai – 400093<br>Tel: (91-22) 42254800<br>Fax: (91-22) 42254880 | Arihant House<br>E-5 Ratlam Kothi<br>Indore - 452003, (M.P.)<br>Tel: (91-731) 3016100<br>Fax: (91-731) 3016199 |

| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY                | >20%            |
| ACCUMULATE         | 12% to 20%      |
| HOLD               | 5% to 12%       |
| NEUTRAL            | -5% to 5%       |
| REDUCE             | -5% to -12%     |
| SELL               | <-12%           |

| Research Analyst<br>Registration No. | Contact                 | Website  | Email Id   |
|--------------------------------------|-------------------------|--|--|
| INH000002764                         | SMS: 'Arihant' to 56677 | <a href="http://www.arihantcapital.com">www.arihantcapital.com</a> | <a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a> |

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880