

Demand expected to remain muted and cost to rise.

Stocks under coverage

| | |
|------------------------------|------------|
| ACC | |
| CMP | 2245 |
| Rating | Hold |
| TP | 2,479 |
| CY22E EV/EBIDTA | 10.6x |
| Ambuja Cement | |
| CMP | 380 |
| Rating | Accumulate |
| TP | 449 |
| CY22E EV/EBIDTA | 15.5x |
| The Ramco Cement | |
| CMP | 945 |
| Rating | Accumulate |
| TP | 1068 |
| FY23E EV/EBIDTA | 14.5x |
| Ultratech Cement | |
| CMP | 7397 |
| Rating | Hold |
| TP | 7500 |
| FY23E EV/EBIDTA | 15x |
| Shree Digvijay Cement | |
| CMP | 83 |
| Rating | Accumulate |
| TP | 98 |
| FY23E EV/EBIDTA | 6.5x |
| Orient Cement | |
| CMP | 166 |
| Rating | Buy |
| TP | 238 |
| FY24E EV/EBIDTA | 4.0x |

NOTE : CMP, Rating & Target Price given are based on Q2 FY22 results & Target Price will be revised post Q3FY22 results.

NOTE :. ACC & Ambuja follow calendar year.

Source: Arihant Research

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After a brief pick-up in October, the cement sector has seen a drop in demand across many regions as well as an increase in power and fuel costs which impacted margins for almost all players.

Decline in Demand : The sector started the December quarter on a strong note in October but soon lost steam across regions due to extended monsoons and ban on construction in some parts. We estimate a 5-7 % year-on-year demand decline in the December quarter.

Pressure on prices : Declining demand impacted price hikes implemented earlier as the manufacturers were unable to hold on to the higher rates. The companies hiked prices in October by Rs 15-30/bag to combat rising input costs as demand revived. However, demand slowdown in November led to roll-back of prices in that month as well as in December as a few industry players pushed the volumes to meet year-end targets.

Marginal Revenue Growth : Companies are expected to report a low single-digit on-year growth in revenues for the December quarter as benefits of marginal improvement in realisation are expected to be negated by a decline in volumes.

Impact on Margin : Rising input costs remain a cause of concern. The increase in prices especially of pet-coke and fuel have dented margins and companies are expected to witness a fall in their EBITDA/tonPet-coke and imported coal prices have cooled down from their peaks, but are still trading higher at \$140-150/tonne and \$130-140/tonne, respectively. On a YoY basis, prices of both pet-coke and imported coal are still at an elevated level.

Outlook : We are positive on the sector in the near-medium term and expect demand to improve going forward, led by government infrastructure activity and a pick-up in demand from the real estate sector. Seasonally also, this is the best quarter for the sector and the companies should see their margins improving from here. We expect clinker utilization, excluding South India, to be more than 90% in the January to March period. This will boost the pricing power Pet coke and international coal prices have softened from higher levels, providing some relief to the cement companies by alleviating concerns of a further hike in the operating costs. We continue to like Ambuja cement (ACEM), Ramco Cement Orient cement and ACC on back of attractive valuations and strong earnings growth .

Q3FY22 Earnings Estimates:

| in mn. | Q3FY22E | Q3FY21A | Q2FY22 | YoY | QoQ | Remarks |
|---|---------|---------|--------|------------|-----------|--|
| ACC Limited | | | | | | |
| Revenue | 36680 | 40660 | 36533 | 4% | 15% | Net Revenue in expected to grow 4% YoY backed by realization growth Volume is expected to decline by 2.6 % YoY to 7.5 MMT and expected to rise by 13.6 % QoQ driven by year end volume push and stabilisation of new 1.4 MT GU in Sindri,Jharkhand. while the realization is expected to rise 7% YoY and 2% QoQ to INR 5626 . . EBIDTA is expected to decline 10% YoY and 9% QoQ backed by rise in input cost and decline in volumes EBIDTA margin is expected to decline by 200 bps YoY and 360 bps QoQ to 13.3% Due to increase costs partially offset by increase in realisations, EBITDA/t is expected to fall by 7,7% YoY and 20.2% QoQ to INR 746 |
| EBIDTA | 5592 | 6221 | 6166 | -10% | -9% | |
| EBIDTA Margin | 13.3% | 15.3% | 16.9% | (200bps) | -360 | |
| PAT | 4193 | 1881 | 4424 | 123% | -5% | |
| PAT margin | 9.9% | 4.6% | 12.1% | 530 bps | (220bps) | |
| Ambuja Cement Limited | | | | | | |
| Revenue | 36680 | 34680 | 31930 | 6% | 15% | Net revenue is expected to grow by 6% YoY and 15% QoQ backed by healthy realization and volume growth. Volume is expected to be flat YoY however grow by 14.5% QoQ as volumes remained good in northern and western market from where Ambuja drives maximum revenue. EBIDTA margin contracted by 320 bps YoY and 300 bps QoQ to 17.6% backed by rise in Input cost. Realisation/tonne is expected to grow by 6% YoY and remain flat QoQ to INR 5166.EBIDTA /ton is expected to decline by 10.6% Yoy and 14..6% QoQ to INR 907 Due to increase in costs partially offset by improvement in realisations PAT margin contracted by 270 bps and 220 bps to 11,6% |
| EBIDTA | 6442 | 7207 | 6589 | -11% | -2% | |
| EBIDTA Margin | 17.6% | 20.8% | 20.6% | (320 bps) | (300 Bps) | |
| PAT | 4241 | 4971 | 4412 | -15% | -4% | |
| PAT Margin | 11.6% | 14.3% | 13.8% | (270 bps) | (220 bps) | |
| Ultratech Cement Limited | | | | | | |
| Revenue | 122095 | 116980 | 112420 | 4% | 9% | Revenue from operation are expected to grow by 4% YoY and 9% QoQ. Growth in revenue was backed by realization growth. Volumes is expected to decline by 3% YoY and rise by 7.8% QoQ to 22.1MMT and realization expected to grow by 8%YoY and 1% QoQ to INR 5525. Rise in input cost has put pressure on EBIDTA margin EBIDTA Margin contracted by 290 bps YoY and 150 bps QoQ to 10.3% .EBIDTA/tonne declined by 15% YoY and 8.4% QoQ to INR 1082 due to rise in input cost . PAT margin is expected to contract by 290 bps YoY and 150 bps QoQ backed by muted operating profit growth. |
| EBIDTA | 23915 | 29030 | 24210 | -18% | -16% | |
| EBIDTA margin | 19.6% | 24.8% | 21.5% | (520 bps)) | (190 bps) | |
| PAT | 12534 | 15480 | 13290 | -19% | -6% | |
| PAT margin | 10.3% | 13.2% | 11.8% | (290 bps) | (150 bps) | |
| The Ramco Cement Limited | | | | | | |
| Revenue | 13969 | 13249 | 14531 | 5.4% | -3.9% | Revenue is expected to grow by 5.4% YoY however decline by 3.9%QoQ, Volume are expected to be flat YoY however decline by 3.7% QoQ . QoQ decline in volume was mainly due to ramco cement major revenue comes from south and eastern market which saw a major decline in volumes. Realization /ton is expected to grow by 5% YoY to INR 5373. EBIDTA declined by 16% YoY and 9% QoQ . EBIDTA margin contracted by 600 bps YoY and 140 bps QoQ. Due to higher costs partially offset by improved realisations, EBITDA/t would fall by 16.3% and 6% QoQ to INR1232 PAT margin expected to contract by 490 bps YoY and 460 Bps QoQ to 10.2% |
| EBIDTA | 3203 | 3828 | 3538 | -16.3% | --9.5% | |
| EBIDTA margin | 22.9 | 28.9 | 24.3 | (600 bps) | (140 Bps) | |
| PAT | 1422 | 1997 | 2152 | -29% | -34% | |
| PAT margin | 10.2 | 15.1 | 14.8 | (490 bps) | (460bps) | |
| Shree Digvijay Cement Co Limited | | | | | | |
| Revenue | 1200 | 1435 | 1539 | -16% | -22% | Revenue is expected to decline by 16% YoY and 22% QoQ to INR 1200 Mn backed by decline in realization Realization /ton declined by 16% Yoy and 22% QoQ to INR 4000 Volume is expected to be flat YoY and QoQ basis. Rise in Input cost decline in realization led to decline in EBIDTA /ton. Ebidta /ton declined by 27% YoY and 28% QoQ to INR 4000 . EBIDTA margin is expected to contract by 230 bps YoY and 140 bps QoQ to 16.5%PAT margin is expected to decline by 180 bps YoY and 100 bps QoQ to 8%. |
| EBIDTA | 198 | 270 | 276 | -27% | -28% | |
| EBIDTA Margin | 16.5 | 18.8 | 17.9 | (230bps) | (140 Bps) | |
| PAT | 96 | 141 | 134 | -32% | -28% | |
| PAT margin | 8% | 9.8% | 9% | (180 bps) | (100 bps) | |

Q3FY22 Earnings Estimates:

| in mn. | Q3FY22E | Q3FY21A | Q2FY22 | YoY | QoQ | Remarks |
|------------------------------|---------|---------|--------|---------|---------|---|
| Orient Cement Limited | | | | | | |
| Revenue | 6816 | 6046 | 6131 | 13% | 11% | Net revenue is expected to grow by 13% YoY and 11% QoQ backed by volume and realization growth volume is expected to grow 2.9% YoY and 9% QoQ to 1.40 Mn tonne . Realization/ton is expected to grow by 10% YoY and 2% QoQ to INR 4869. EBIDTA margin is expected to contract by 60 bps YoY to 22%, Rise in Input cost led to contraction in EBIDTA margin. PAT margin is expected to remain flat YoY basis and contracted by 30 bps QoQ to 9%. |
| EBIDTA | 1500 | 1367 | 1339 | 10% | 12% | |
| EBIDTA Margin | 22% | 22.6% | 21.8% | (60bps) | 20 bps | |
| PAT | 613 | 539 | 568 | 14% | 8% | |
| PAT margin | 9% | 8.9% | 9.3% | 10 bps | (30bps) | |

| Realization/MT (INR) | | | | | | |
|-----------------------|---------|--------|--------|------|------|--|
| Particulars | Q3FY22E | Q3FY21 | Q2FY22 | YoY | QoQ | |
| ACC | 5626 | 5281 | 5535 | 7% | 2% | |
| AMBUJA | 5166 | 4885 | 5150 | 6% | 0% | |
| Ultratech | 5525 | 5131 | 5484 | 8% | 1% | |
| Ramco | 5373 | 5096 | 5382 | 5% | 0% | |
| Shree Digvijay Cement | 4000 | 4783 | 5130 | -16% | -22% | |
| Orient Cement | 4869 | 4446 | 4790 | 10% | 2% | |

| Volume Expectation (Mn/tonne) | | | | | | |
|--------------------------------|---------|--------|--------|-------|-------|--|
| Particulars | Q3FY22E | Q3FY21 | Q2FY22 | YoY | QoQ | |
| ACC | 7.5 | 7.7 | 6.6 | -2.6% | 13.6% | |
| AMBUJA | 7.1 | 7.1 | 6.2 | - | 14.5% | |
| Ultratech | 22.1 | 22.8 | 20.5 | -3.1% | 7.8% | |
| Ramco | 2.6 | 2.6 | 2.7 | - | -3.7% | |
| Shree Digvijay Cement | 0.3 | 0.3 | 0.3 | - | - | |
| Orient Cement | 1.41 | 1.36 | 1.28 | 2.9% | 9% | |

| EBIDTA/tonne (INR) | | | | | | |
|-----------------------|---------|--------|--------|--------|--------|--|
| Particulars | Q3FY22E | Q3FY21 | Q2FY21 | YoY | QoQ | |
| ACC | 746 | 808 | 934 | -7.7% | -20.2% | |
| AMBUJA | 907 | 1015 | 1063 | -10.6% | -14.6% | |
| Ultratech | 1082 | 1273 | 1181 | -15% | -8.4% | |
| Ramco | 1232 | 1472 | 1310 | -16.3% | -6% | |
| Shree Digvijay Cement | 660 | 900 | 920 | -27% | -28% | |
| Orient Cement | 1071 | 1005 | 1046 | 7% | 2% | |

Note :ACC & Ambuja cement follow calendar year

Source: Aриhant Research

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| 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% |

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