

Cement

Cement

It's raining volumes! Yet a dry patch for EBITDA

Demand in pre-election year FY24 has started on a strong note. Volume for our coverage universe is estimated to grow >15% YoY (in sync with industry). Yet, coverage EBITDA is expected to stay flat YoY owing to – a) muted cement prices (down 4-5% YoY, flattish QoQ) and b) marginal QoQ drop in fuel cost due to inventory-lag impact (major benefits expected in Q2/Q3 FY24E).

Robust demand trend may drive volume assumptions higher and fuel cost too is set to ease further (at least until Q3FY24E, based on current spot fuel rates). However, it is too early to project earnings upgrade given the expected weak cement price season of Q2/Q3FY24. Historically, both robust demand as well as plunging fuel cost have triggered competitive intensity. Given the display of weak pricing power since past couple of quarters and heightened underlying competitive intensity (ever since Adani Cement's foray with aggressive expansion plans), we see no reason for a different outcome this time as well. We see limited risk to our EBITDA estimates (~7% below consensus) and stay Cautious on cement sector.

Key risks: Firm cement prices in Q2/Q3 of FY24

- **Volumes on a high, yet realisation stays muted:** With industry leader UltraTech Cement reporting 20% volume growth, cement demand is clearly buzzing. We estimate volumes for our coverage universe to surge >15% YoY – broadly in sync with the industry. Interestingly, the QoQ drop in volumes seems arrested at <4% vs a usual drop of 8-10% for Q1 (vs Q4 of any fiscal). However, we estimate realisation to drop marginally by 0.5% QoQ (down 4-5% YoY) owing to high competitive intensity pan-India.
- **EBITDA growth in slow lane:** Due to inventory-lag impact, most companies have guided for benefits of low spot fuel prices to accrue by Q2/Q3 FY24. Accordingly, we have penciled in a QoQ fuel cost drop of Rs80-100/t vs Q4FY23 even as spot rates suggest a potential drop of Rs300-350/t. Accordingly, EBITDA for our coverage universe is estimated to be flat YoY (down 6% QoQ). EBITDA/t too is estimated to be flat QoQ or dip marginally.
- **Earnings course correction? Caution advised:** Volume growth is heartening and easing fuel cost lends excitement, too. Yet, we advise caution against earnings upgrades just yet given cement prices have to weather the weak patch of Q2/Q3 FY24. Historically, both the potent positives – of high demand in pre-election year

Quarterly summary

Company (Rs mn)	Sales			EBITDA			PAT		
	AMJ '23*	% chg		AMJ '23*	% chg		AMJ '23*	% chg	
		(YoY)	(QoQ)		(YoY)	(QoQ)		(YoY)	(QoQ)
Ultratech Cement	1,75,218	15.5	-5.6	30,117	-2.7	-9.4	15,261	-3.5	-8.6
ACC	45,950	2.8	-4.1	4,653	9.4	-0.2	2,903	30.7	22.7
Ambuja Cement	40,509	1.4	-4.8	7,719	12.8	-2.1	4,057	-61.3	-19.3
Shree Cement	44,517	5.9	-7.0	8,366	2.2	-6.3	3,423	8.5	-37.3
India Cements	13,933	-3.7	-4.6	-176	NA	NA	-859	NA	NA
JK Cement	27,178	19.7	-2.2	3,557	-11.9	1.8	1,036	-35.6	-5.9
Grasim	63,719	-12.1	-4.1	4,398	-66.7	3.2	491	-93.9	-47.5
Total (ex-Grasim)	3,47,305	10.1	-5.2	54,235	-0.6	-6.1	25,821	-24.1	-9.3

AMJ'23E*: Apr-Jun23; Source: Company data, I-Sec research

Research Analysts:

Navin Sahadeo

navin.sahadeo@icicisecurities.com
+91 22 6807 7622

Harsh Mittal

harsh.mittal@icicisecurities.com
+91 22 6807 7565

Table 1: Coverage recommendation and valuation matrix

Company	Reco	Target Price (Rs/sh)	P/E(x)			EV/EBITDA(x)			EV/te (USD)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Ultratech Cement	REDUCE	7,295	48	38	32	23	20	17	237	217	184
ACC	HOLD	1,832	35	29	22	16	14	11	106	93	91
Ambuja Cement	HOLD	410	24	33	26	19	20	16	242	234	217
Shree Cement	SELL	21,534	65	41	33	28	20	17	212	186	184
India Cements	SELL	122	NM	139	33	NM	19	14	81	79	79
JK Cement	BUY	3,856	61	40	28	22	16	13	152	152	132
Grasim	ADD	1,841	10	14	13	7	9	7	NA	NA	NA

Source: I-Sec research, Standalone Business of Grasim is valued at 8x

We stay **Cautious** on cement sector.

Key risks

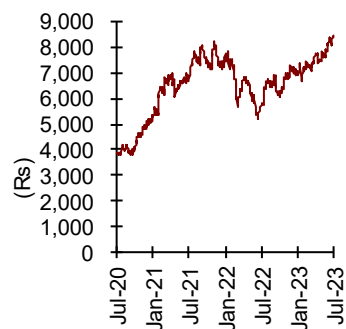
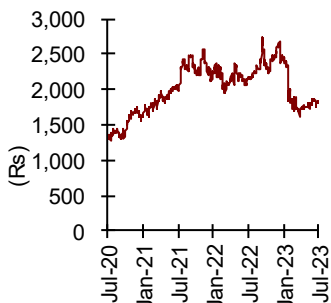
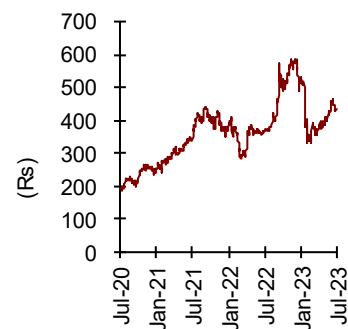
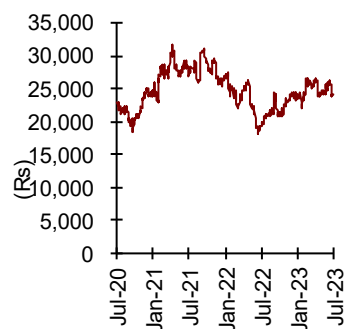
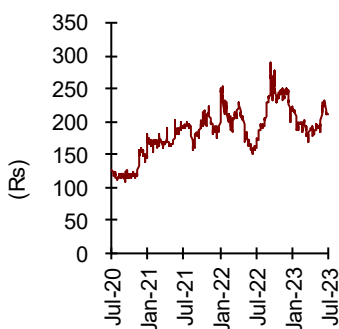
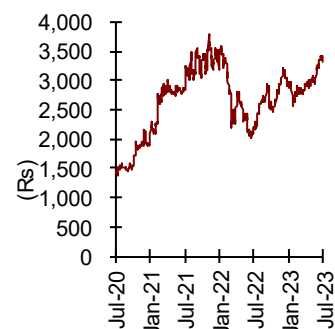
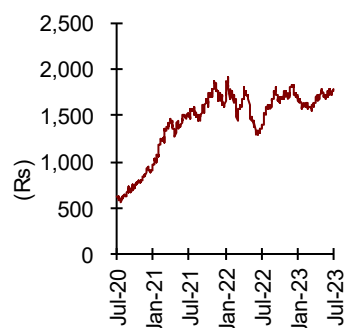
Material reduction in competitive intensity is the key upside risk to our hypothesis.
Sharp cement price hike or sharp decline in fuel cost may force an earnings upgrade.

Table 2: Quarterly Snapshot Q1FY24E: Earnings preview

Particulars (INR mn)	Q1FY24E	YoY (%)	QoQ (%)	Q1FY23	Q4FY23	Comments
UltraTech Cement (Consol)						
Total volumes (mt)	30.0	19.6	(5.3)	25.0	31.7	UltraTech Cement has already reported volume growth of 20% for Q1FY24. However, we expect EBITDA to dip ~3% YoY (down 9% QoQ) owing to weak cement realisations (down 0.3% QoQ/3.4% YoY) with only partial respite from high fuel cost.
Blended realisation (INR/t)	5,848	(3.4)	(0.3)	6,056	5,865	
Revenue, net	1,75,218	15.5	(5.6)	1,51,640	1,85,624	
EBITDA	30,117	(2.7)	(9.4)	30,949	33,225	
PAT	15,261	(3.5)	(8.6)	15,812	16,701	
EBITDA (INR/t)	1,005	(18.7)	(4.2)	1,236	1,050	
EBITDA Margin (%)	17.2	-322bps	-71bps	20.4	17.9	
PAT Margin (%)	8.7	-172bps	-29bps	10.4	9.0	
Shree Cement						
Total volumes (mt)	8.9	18.0	0.2	7.5	8.8	We estimate volumes for Shree Cement to stay flat QoQ (up a robust 18% YoY). However, owing to muted realisations (down 0.6% QoQ/7.4% YoY) and relatively high fuel cost, we expect EBITDA to rise marginally 2% YoY (down >6% QoQ).
Realisation (INR/t)	4,872	(7.4)	(0.6)	5,264	4,902	
Total revenue, net	44,517	5.9	(7.0)	42,027	47,851	
Total EBITDA	8,366	2.2	(6.3)	8,188	8,925	
Total PAT	3,423	8.5	(37.3)	3,155	5,462	
Cem. EBITDA (INR/t)	915	(16.1)	(1.7)	1,090	930	
Cem. EBITDA Margin (%)	18.8	-190bps	-17bps	20.7	18.9	
Total PAT Margin (%)	7.7	18bps	-373bps	7.5	11.4	
ACC						
Total volumes (mt)	8.2	8.0	(3.9)	7.6	8.5	Estimate ACC's volumes to rise 8% YoY due to capacity constraints (down just 4% QoQ). While we expect realisation to be flat QoQ, EBITDA may rise >9% YoY if the sharp control on fixed costs (mainly other expenses) sustains at Q4FY23 levels.
Realisation (INR/t)	5,628	(4.8)	(0.1)	5,911	5,636	
Revenue	45,950	2.8	(4.1)	44,684	47,908	
EBITDA	4,653	9.4	(0.2)	4,253	4,663	
PAT	2,903	30.7	22.7	2,222	2,366	
EBITDA (INR/t)	570	1.3	3.9	563	549	
EBITDA Margin (%)	10.1	61bps	39bps	9.5	9.7	
PAT Margin (%)	6.3	135bps	138bps	5.0	4.9	
Ambuja Cement						
Total volumes (mt)	7.7	4.8	(4.3)	7.4	8.1	Ambuja Cement's grey cement volume is estimated to rise >11% YoY. However, adjusted to high clinker sales last year, overall volume growth for Q1FY24E may stay restricted at ~5%. Despite muted realisation and relatively high fuel cost, EBITDA may rise ~13% YoY if the sharp control on fixed costs (mainly other expenses) sustains at Q4FY23 levels.
Realisation (INR/t)	5,228	(3.2)	(0.5)	5,404	5,255	
Revenue	40,509	1.4	(4.8)	39,935	42,563	
EBITDA	7,719	12.8	(2.1)	6,845	7,883	
PAT	4,057	(61.3)	(19.3)	10,479	5,024	
EBITDA (INR/t)	996	7.6	2.4	926	973	
EBITDA Margin (%)	19.1	191bps	54bps	17.1	18.5	
PAT Margin (%)	10.0	-1623bps	-179bps	26.2	11.8	

Particulars (INR mn)	Q1FY24E	YoY (%)	QoQ (%)	Q1FY23	Q4FY23	Comments
India Cements						
Total volumes (mt)	2.7	(0.3)	(4.3)	2.7	2.8	Q1FY24E is expected to be yet another disappointing quarter for India Cements with flat volumes, weak realisation and only a marginal respite from high fuel cost. Estimate EBITDA loss to continue.
Realisation (INR/t)	5,228	(3.4)	(0.3)	5,413	5,244	
Revenue, net	13,933	(3.7)	(4.6)	14,462	14,605	
EBITDA	(176)	NA	NA	308	(445)	
PAT	(859)	NA	NA	761	(2,178)	
EBITDA (INR/t)	(66)	NA	NA	115	(160)	
EBITDA Margin (%)	(1.3)	NA	NA	2.1	(3.0)	
PAT Margin (%)	(6.2)	NA	NA	5.3	(14.9)	
JK Cement (Consol)						
Total volumes (mt)	4.54	27.6	(0.4)	3.56	4.56	Capex completion benefits may drive volume growth of ~28% YoY (flat QoQ) for JK Cement. Yet, EBITDA may drop 12% due to weak prices and partial respite from high fuel cost.
Total Revenue	27,178	19.7	(2.2)	22,697	27,779	
Total EBITDA	3,557	(11.9)	1.8	4,037	3,495	
Bldended EBITDA (INR/t)	783	(30.9)	2.2	1,134	766	
EBITDA Margin (%)	13.1	-470bps	50bps	17.8	12.6	
Total PAT	1,036	(35.6)	(5.9)	1,609	1,101	
Total PAT Margin (%)	3.8	-328bps	-15bps	7.1	4.0	
Grasim - Standalone						
VSF Volumes (mt)	0.197	(5.0)	(3.1)	0.207	0.203	Grasim Industries may post muted EBITDA recovery QoQ with expected gains in VSF segment being offset by sharp price decline in chemicals segment. The losses for new businesses like paints and B2B e-commerce are also expected to drag the overall recovery.
Chemicals - Volume (mt)	0.289	2.4	1.0	0.282	0.286	
VSF Realisation (INR/tonne)	1,85,422	(10.7)	(0.0)	2,07,724	1,85,422	
Revenues	63,719	(12.1)	(4.1)	72,530	66,458	
EBDITA	4,398	(66.7)	3.2	13,202	4,260	
EBDITA margins (%)	6.9	-1130bps	49bps	18.2	6.4	
PAT Adj	491	(93.9)	(47.5)	8,086	935	
Tax	164	(92.3)	(60.8)	2,136	418	
Other income	389	(11.0)	(66.6)	437	1,164	
EPS (Rs)	0.7	(93.9)	(47.5)	12.3	1.4	

Source: I-Sec research

Price charts**Ultratech Cement****ACC****Ambuja Cement****Shree Cement****India Cements****JK Cement****Grasim**

Source: Bloomberg

In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company."

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Navin Sahadeo, MBA; Harsh Mittal, MBA, CFA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
