

Cement Sector

9 April 2019

Improved Show Likely; Lid On Margins Partially To Be Released

We expect the cement companies in our coverage universe to report a tepid performance in the quarter ended March 2019, with average EBITDA margin at 16.6% versus ~16.1% in the quarter ended March 2018. The aggressive volume growth in 3QFY19 of ~10.4% and in 9MFY19 is seen changing track as volume growth in 4QFY19 tapered to ~6% with a few exceptions like Sagar Cement (23% jump) and Heidelberg Cement (decline of ~4%). The announcement of Model Code of Conduct for general elections in the country and the festive season (Holi) kept the pace of volume growth slow in western and northern regions (including central India). This was also partially because of strong double-digit growth in the base quarter (4QFY18). However, the performance in the March 2019 quarter has improved largely because of better/strong realisation gains emanating from southern region and trending towards western and northern regions. The respite from the pressure on margins after the double whammy of limited pass-through and the rise in input costs has eased, as indicated in our 3QFY19 preview and the party may continue for the next few quarters. However, we expect the demand-supply imbalance to keep cement prices under pressure in most regions of India, with the likely exception of western region (because of limited capacity addition). New capacity addition following greenfield/brown field expansion and inorganic growth will keep supply to all regions in excess of demand. Prices gained 2% YoY on a pan-India basis (Rs330/bag versus Rs323/bag in 4QFY18). They gained momentum in southern and western regions, while the pace of increase was slow in other regions of India. The scenario was largely identical sequentially. Strong demand was the key driver in southern region driven by Andhra Pradesh and Telangana, that helped cement companies in the region focused on improvement in capacity utilisation following it up with price hikes. However, the central India market has been consistently performing in terms of volume growth as well as price support and has been the best cement market currently (in FY19). On an aggregate basis, we believe there will be a YoY increase of 9% in revenues driven largely by realisation gains, while we expect EBITDA to increase ~10% YoY for companies under our coverage. Except for cement companies with a strong presence in Gujarat pocket of the western region (the prices here are weak because of abundant supply following Binani Industries' asset acquisition by UltraTech Cement), we expect all companies under our coverage to post gains in EBITDA margin YoY.

Pressure on EBITDA/mt eases: We have factored in a rise in operating costs for cement companies on account of higher energy and raw material costs YoY. However, with pass-through opportunities available in 4QFY19 the EBITDA/tn has shown an improvement. The easing in cost pressure is only because of the base effect catching up and in some companies because of certain cost-saving measures and the impact of the same is likely to get reflected in subsequent quarters. Effectively, aggregate EBITDA/mt is likely to be flat at ~ Rs743 YoY. With cement prices gaining traction in the short term, the pass-through of cost increase will be availed which will give the margins some respite from being under pressure, as stated earlier. However, QoQ, EBITDA/tn has improved sharply by ~16% because of price gains in 4QFY19

Volume expansion tapers off in busy 4Q: The aggressive volume growth in 3QFY19 of ~10.4% and in 9MFY19 is seen changing track as volume growth in 4QFY19 tapered to ~6% with a few exceptions like Sagar Cement (23% jump) and Heidelberg Cement or HEIM (decline of ~4%). HEIM's volume was hit by limited capacity, higher base effect and tepid activity last month in 4QFY19. The announcement of Model Code of Conduct for general elections and the festive season (Holi) kept the pace of volume growth slow in western and northern regions (including central India). This was also partially because of strong double-digit growth in the base quarter (4QFY18).

The Ramco Cements (TRCL), HEIM and Shree Cement (SRCM) to lead the pack with highest EBITDA/mt: We expect TRCL to report EBITDA/mt of Rs1,090, while SRCM is expected to report EBITDA/mt of ~Rs900 in 4QFY19. HEIM is expected to ride on pricing gains in its key markets (central region) with EBITDA/tn of Rs1,050. Companies which may report weak EBITDA/mt include JK Lakshmi Cement (Rs470/tn), The India Cements (Rs582/tn) and Orient Cement (Rs585/tn). Among large-sized companies UltraTech Cement's performance will be impacted with EBITDA/tnat Rs793/tn (from Rs943/tn), largely because of strong volume push to achieve healthy capacity utilisation in the acquired cement assets of Jaiprakash Associates and Binani Industries.

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(Rsmn) Company	Rating	CMP (Rs)	TP (Rs)	Sales			EBITDA			EBITDA margin (%)			APAT		
				4QFY19E	YoY (%)	QoQ (%)	4QFY19E	YoY (%)	QoQ (%)	4QFY19E	4QFY18E	3QFY19E	4QFY19E	YoY (%)	QoQ (%)
ACC*	Accumulate	1,480	1,547	38,897	9.4	2.7	5,306	8.0	8.9	13.4	13.55	10.04	2,564	4.6	11.5
Ambuja*	Accumulate	219	222	30,555	6.7	6.7	4,338	(14.4)	7.4	14.2	17.7	14.1	2,560	(12.3)	(1.3)
Ultratech	Accumulate	3,916	4,075	94,807	5.3	7.6	15,031	(11.7)	8.1	15.9	18.9	15.8	5,218	(26.9)	16.2
JK Lakshmi	Sell	313	253	9,428	5.1	0.8	1,112	9.8	13.2	11.8	11.3	10.5	216	(36.1)	46.6
JK Cements	BUY	703	837	14,487	10.1	15.2	2,129	17.0	1.1	14.6	13.8	16.5	1,054	(0.1)	73.1
Dalmia Bharat	UR		UR	28,369	7.5	30.4	5,220	(11.4)	37.5	18.4	22.3	17.5	1,243	-	-
Sagar Cement	BUY	666	658	3,658	24.0	14.6	634	63.9	110.4	17.3	13.1	9.4	289	520.7	(1,072.6)
The Ramco Cements	BUY	632	659	13,884	11.0	15.1	3,230	18.7	50.9	23.2	21.7	17.7	1,591	15.7	57.4
Heidelberg Cement	Sell	151	177	5,370	2.2	(3.8)	1,281	6.6	4.6	23.7	22.6	21.7	594	14.0	1.4
The India Cements	Sell	91	70	15,164	8.5	15.2	1,887	19.0	40.0	12.4	11.3	10.2	562	59.4	1,696.3
Orient Cement	BUY	81	85	6,521	5.2	14.3	983	31.8	159.4	15.1	12.0	6.6	280	118.4	(304.2)
Sanghi Industries	Accumulate	61	43	2,759	8.8	3.7	429	(13.0)	33.0	15.5	19.4	12.1	137	(48.6)	209.8
Shree Cement	Sell	16,754	13,646	32,395	15.2	16.5	6,718	6.7	(2.6)	20.7	22.4	24.8	3,598	(9.9)	27.9

* December year-end; Source: Nirmal Bang Institutional Equities Research

Exhibit 1: December 2018 quarter estimates

ACC	1QCY19E	1QCY18	YoY (%)	4QCY18	QoQ (%)
Volume	7.5	7.1	5.0	7.5	(0.5)
Realisation	4,795	4,721	1.6	4,776	0.4
Revenues	38,897	35,570	9.4	37,886	2.7
EBITDA	5,306	4,911	8.0	4,871	8.9
Margin (%)	13.4	13.5	(14.0)	10.0	336.9
EBITDA/mt	-	596	(100.0)	507	(100.0)
PAT	2,564	2,451	4.6	2,298	11.5

Ambuja Cements	1QCY19E	1QCY18	YoY (%)	4QCY18	QoQ (%)
Volume	6.5	6.2	5.0	6.1	6.7
Realisation	4,671	4,595	1.7	4,671	-
Revenues	30,555	28,626	6.7	28,633	6.7
EBITDA	4,338	5,071	(14.4)	4,039	7.4
Margin (%)	14.2	17.7	(351.6)	14.1	9.3
EBITDA/mt	663	814	(18.5)	659	0.7
PAT	2,560	2,918	(12.3)	2,595	(1.3)

UltraTech Cement	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	19.0	18.1	5.0	17.6	7.6
Realisation	4,445	4,324	2.8	4,365	1.8
Revenues	94,807	90,025	5.3	88,127	7.6
EBITDA	15,031	17,028	(11.7)	13,901	8.1
Margin (%)	15.9	18.9	(306.1)	15.8	8.0
EBITDA/mt	793	943	(15.9)	789	0.5
PAT	5,218	7,142	(26.9)	4,491	16.2

Dalmia Bharat	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	5.4	5.2	5.0	4.5	21.7
Realisation	5,216	4,892	6.6	4,866	7.2
Revenues	28,369	26,380	7.5	21,750	30.4
EBITDA	5,220	5,891	(11.4)	3,797	37.5
Margin (%)	18.4	22.3	(392.8)	17.5	94.4
EBITDA/mt	933	1,137	(18.0)	822	13.4
PAT	1,243	1,837	-	307	-

JK Lakshmi	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	2.4	2.2	6.0	2.4	0.7
Realisation	3,919	4,019	(2.5)	3,979	(1.5)
Revenues	9,428	8,970	5.1	9,350	0.8
EBITDA	1,112	1,013	9.8	983	13.2
Margin (%)	11.8	11.3	50.1	10.5	128.5
EBITDA/mt	470	454	3.6	418	12.4
PAT	216	339	(36.1)	148	46.6

The Ramco Cements	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	2.9	2.7	5.0	2.7	4.6
Realisation	4,828	4,567	5.7	4,378	10.3
Revenues	13,884	12,508	11.0	12,065	15.1
EBITDA	3,230	2,722	18.7	2,140	50.9
Margin (%)	23.2	21.7	149.7	17.7	551.1
EBITDA/mt	1,090	958	13.7	743	46.7
PAT	1,591	1,374	15.7	1,011	57.4

JK Cement	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	2.9	2.7	8.3	2.5	16.1
Realisation	5,013	4,932	1.6	5,052	(0.8)
Revenues	14,487	13,160	10.1	12,580	15.2
EBITDA	2,129	1,819	17.0	2,105	1.1
Margin (%)	14.6	13.8	73.9	16.5	(197.2)
EBITDA/mt	737	682	8.0	845	(12.9)
PAT	1,054	1,055	(0.1)	609	73.1

Sagar Cement	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	0.98	0.80	23.0	0.92	6.6
Realisation	3,725	3,694	0.8	3,441	8.2
Revenues	3,658	2,949	24.0	3,191	14.6
EBITDA	634	387	63.9	301	110.4
Margin (%)	17.3	13.1	421.6	9.4	789.2
EBITDA/mt	646	485	33.2	327	97.3
PAT	289	47	520.7	(30)	(1,072.6)

HeidelbergCement	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	1.22	1.27	(3.9)	1.29	(5.7)
Realisation	4,402	4,137	6.4	4,316	2.0
Revenues	5,370	5,254	2.2	5,584	(3.8)
EBITDA	1,281	1,202	6.6	1,225	4.6
Margin (%)	23.7	22.6	104.5	21.7	193.6
EBITDA/mt	1,050	946	11.0	947	10.9
PAT	594	521	14.0	586	1.4

The India Cements	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	3.24	3.09	5.0	2.96	9.6
Realisation	4,590	4,435	3.5	4,320	6.2
Revenues	15,164	13,978	8.5	13,163	15.2
EBITDA	1,887	1,585	19.0	1,349	40.0
Margin (%)	12.4	11.3	110.3	10.2	220.1
EBITDA/mt	582	502	15.9	430	35.5
APAT	562	353	59.4	31	1,696.3

Shree Cement	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	6.78	6.46	5.0	5.93	14.3
Realisation	4,275	4,147	3.1	4,315	(0.9)
Revenues	32,395	28,111	15.2	27,806	16.5
EBITDA	6,718	6,294	6.7	6,901	(2.6)
Margin (%)	20.7	22.4	(165.3)	24.8	(407.8)
EBITDA/MT	897	953	(5.9)	1,067	(16.0)
APAT	3,598	3,992	(9.9)	2,813	27.9

Sanghi Industries	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	0.69	0.62	12.8	0.67	4.3
Realisation	3,979	4,124	(3.5)	4,001	(0.6)
Revenues	2,759	2,536	8.8	2,661	3.7
EBITDA	429	493	(13.0)	322	33.0
Margin (%)	15.5	19.4	(388.1)	12.1	342.2
EBITDA/mt	618	801	(22.8)	485	27.5
APAT	137	266	(48.6)	44	209.8

Source: Respective companies, Nirmal Bang Institutional Equities Research

Orient Cement	4QFY19E	4QFY18	YoY (%)	3QFY19	QoQ (%)
Volume	1.68	1.68	-	1.51	11.3
Realisation	3,882	3,689	5.2	3,782	2.6
Revenues	6,521	6,197	5.2	5,707	14.3
EBITDA	983	746	31.8	379	159.4
Margin (%)	15.1	12.0	303.9	6.6	843.2
EBITDA/mt	585	444	31.8	251	133.0
PAT	280	128	118.4	(137)	(304.2)

Source: Respective companies, Nirmal Bang Institutional Equities Research

Exhibit 2: Trend in EBITDA/mt of companies in our coverage universe

EBITDA/mt (in Rs)	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
ACC*	414	593	676	460	409	518	735	592	479	596	751	570	507	596
Ambuja*	552	713	988	701	579	604	1,073	616	921	814	971	652	659	663
Ultratech	988	1,014	1,100	1,059	977	934	1,184	1,008	818	943	848	764	789	793
JK Lakshmi	384	398	556	545	452	312	527	502	447	454	410	431	418	470
JK Cements	635	903	982	827	856	878	935	932	757	682	657	786	845	737
Dalmia Bharat	1,136	1,339	1,285	1,166	1,025	1,151	1,333	1,130	1,059	1,135	994	917	822	933
Sagar Cement	444	423	226	252	324	405	666	643	465	485	496	294	327	646
The Ramco Cements	1,554	1,486	1,288	1,493	1,431	1,145	1,304	1,319	936	958	919	962	743	1,090
Heidelberg Cement	578	656	726	644	532	654	610	827	634	946	942	1,036	947	1,050
The India Cements	791	837	890	964	887	668	731	663	609	502	499	503	430	582
Sanghi Industries	809	836	926	821	504	541	971	976	849	801	647	540	485	618
Shree Cement	871	771	1,246	1,301	975	818	1,157	1,116	1,058	953	763	851	1,067	897
Orient Cement	227	445	291	142	364	437	835	570	286	444	533	461	251	585

* Calendar year-end company

Source: Respective companies, Nirmal Bang Institutional Equities Research

Rolling forward valuation to FY21:

We roll forward the valuation of the companies in our coverage universe to March 2021 estimated earnings (from September 2020 estimated earnings earlier). We continue with the replacement cost method valuation to value the cement companies under our coverage (SRCM based on SOTP valuation). Accordingly few of our companies under coverage have undergone rating change based on the change in price targets following the roll over. We will revisit yet again our ratings and valuations (based on the performance) during the detailed review of the stocks post the quarterly/yearly performance of the companies under coverage.

(Rsmn) Company	OLD			Revised		
	Rating	TP (Rs)	Replacement cost/tonne	Rating	TP (Rs)	Replacement cost/tonne
ACC*	Accumulate	1,547	7.5	Accumulate	1,575	7.5
Ambuja*	Accumulate	222	7.5	Accumulate	222	7.5
Ultratech	Accumulate	4,075	12.0	Accumulate	4,116	12.0
JK Lakshmi	Sell	253	3.9	Sell	253	3.9
JK Cements	BUY	837	6.5	Accumulate	945	6.5
Dalmia Bharat	UR	UR		UR	UR	
Sagar Cement	Accumulate	658	3.0	Accumulate	692	3.0
The Ramco Cements	BUY	659	8.6	Accumulate	682	8.6
Heidelberg Cement	BUY	177	7.5	Accumulate	177	7.5
The India Cements	Sell	70	4.0	Sell	70	4.0
Orient Cement	BUY	85	4.0	Accumulate	95	4.0
Sanghi Industries	Sell	43	3.8	Sell	43	3.8
Shree Cement	Sell	13,646	10.8	Sell	13,776	10.8

Source: Respective companies, Nirmal Bang Institutional Equities Research

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