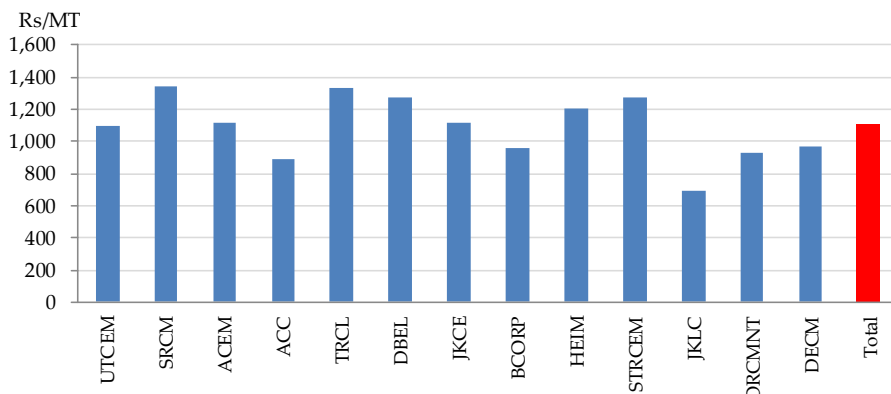


Cement

Sharp recovery in 2QFY21

- Utilisation recovers to last year level:** Despite the COVID-induced slowdown, cement demand has recovered to last year's level in 2Q, leading to flattish utilisation YoY at 68%. During Q2, we estimate aggregate sales for 13 cement companies under coverage would have grown 2% YoY, led by volume growth across north, central and east markets, while volume decline trend would have continued in south and west markets (albeit at a slower pace). Retail sales have been buoyant and drove total volume growth, despite lower non-trade demand. In South, project demand has picked up in the past two months, thus moderating regional vol decline in 2QFY21.
- Cement prices moderate QoQ partly, remain flattish YoY:** Aided by healthy retail demand, cement prices fell only marginally QoQ in 2QFY21. We estimate 2-3% QoQ decline across north/central/west markets. High competitive intensity in east and south markets drove the sharper decline of 5-7% QoQ in these markets (still higher YoY). Subsequently, we estimate average NSR for our coverage universe to decline 3% QoQ (flat YoY).
- Stable realisation, lower opex bolster margin YoY:** Amid stable realisation, average unitary opex for our coverage should fall 2.5% YoY, aided by lower fuel prices YoY and fixed cost controls. Thus, we build in a 10% rise in unitary EBITDA YoY to ~Rs 1,100/MT (one of the best monsoon quarter performances in more than a decade)!
- Companies' performance:** We expect our coverage universe to deliver 2/12/39% YoY revenue/EBITDA/APAT growth in 2QFY21E on stable demand and low cost. While we expect EBITDA firm-up (on a high base) for north/central-focused companies, we expect south-focused companies to deliver sharp recovery (on a low base), owing to healthy prices sustaining in 2Q. We expect strong ~25% YoY volume growth for JK Cement (capacity ramp-up), and Deccan Cement (demand rebound in AP/T).
- Sector outlook:** Cement demand surprised with a sharp recovery in 2Q against 30% YoY decline in 1QFY21. Healthy monsoon for second consecutive year bodes well for rural markets and retail cement demand outlook. Even infrastructure projects are on a recovery path, which should accelerate non-trade sales in 2HFY21. Cement prices, too, have been stable in 2Q. Thus, we raise volume and realisation estimates for our coverage universe, leading to estimates and target price upgrades. We maintain our recommendations and valuation multiples for our coverage universe. Our top picks are – UltraTech, Ambuja Cements in the large-cap space and JK Cement and Birla Corp in mid-cap space.

2QFY21E – Unitary EBITDA trends for coverage universe



Source: Company, HSIE research

COMPANY	RATING	TP (Rs.)
UltraTech	BUY	5,295
Shree Cement	ADD	21,700
Ambuja Cem	BUY	260
ACC	BUY	1,755
Ramco Cem	ADD	773
Dalmia Bharat	BUY	1,130
JK Cement	BUY	1,840
Birla Corp	BUY	1,191
Heidelberg	BUY	234
Star Cement	BUY	125
JK Lakshmi	BUY	400
Orient Cement	BUY	105
Deccan Cem	BUY	435

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2QFY21 – Performance Summary

Companies	Net Sales (Rs mn)			EBITDA (Rs mn)			EBITDA Margin (%)			Adj. PAT (Rs mn)		
	Sep-20	YoY (%)	QoQ (%)	Sep-20	YoY (%)	QoQ (%)	Sep-20	YoY (pp)	QoQ (pp)	Sep-20	YoY (%)	QoQ (%)
UltraTech \$	93,768	(2.5)	22.8	20,244	5.5	(2.4)	21.6	1.7	(5.6)	7,837	35.3	(13.2)
Shree Cem	29,124	4.0	25.2	8,487	0.5	21.1	29.1	(1.0)	(1.0)	3,948	27.7	6.5
Ambuja **	27,832	6.0	27.9	6,154	39.9	3.4	22.1	5.4	(5.2)	4,016	71.2	(11.4)
ACC ** \$	34,522	(2.2)	32.7	5,712	2.5	8.7	16.5	0.8	(3.6)	2,981	(1.5)	10.0
Ramco Cem	13,424	2.0	28.9	3,660	24.0	40.8	27.3	4.8	2.3	1,792	6.6	63.5
Dalmia \$	22,903	2.4	16.0	5,687	19.7	(7.4)	24.8	3.6	(6.3)	1,658	514.1	(12.7)
JK Cement	15,346	22.4	59.0	3,098	21.9	43.9	20.2	(0.1)	(2.1)	1,441	32.5	85.5
Birla Corp\$	16,292	0.1	33.3	3,172	1.6	36.1	19.5	0.3	0.4	1,254	42.0	90.7
Heidelberg	5,495	5.2	34.8	1,431	16.5	32.1	22.3	2.5	(0.5)	709	22.0	44.9
Star Cem \$	4,045	5.8	38.5	814	26.5	24.7	20.1	3.3	(2.2)	585	31.0	35.0
JK Lakshmi	9,070	(3.0)	9.9	1,496	0.6	4.4	16.5	0.6	(0.9)	439	(4.3)	(1.1)
Orient Cem	5,310	3.1	29.4	1,037	93.3	5.6	19.5	9.1	(4.4)	305	NA	19.0
Deccan Cem	1,958	45.9	41.3	436	172.3	9.2	22.3	10.3	(6.5)	285	205.9	9.2
Total	279,090	1.5	26.8	61,428	11.7	8.3	22.0	2.0	(3.8)	27,250	38.5	3.6

Source: Company, HSIE Research, **ACC/Ambuja estimates are for 3QCY20, \$ - Consol numbers

Companies	Sales Volume (mn MT)			NSR (Rs/MT)			EBITDA (Rs/MT)			Opex (Rs/MT)		
	Sep-20	YoY (%)	QoQ (%)	Sep-20	YoY (%)	QoQ (%)	Sep-20	YoY (%)	QoQ (%)	Sep-20	YoY (%)	QoQ (%)
UltraTech \$	18.5	(1.2)	26.0	5,080	(1.3)	(2.5)	1,097	6.9	(22.5)	3,984	(3.3)	5.0
Shree Cem	6.3	10.3	27.9	4,458	(4.2)	(4.0)	1,345	(7.3)	(5.3)	3,113	(2.8)	(3.4)
Ambuja **	5.5	5.0	31.8	5,039	0.9	(3.0)	1,114	33.3	(21.6)	3,925	(5.6)	4.0
ACC ** \$	6.2	(3.0)	30.1	5,155	2.7	(3.0)	885	4.9	(24.1)	4,270	2.2	2.9
Ramco Cem	2.6	(5.0)	33.6	5,081	7.6	(4.0)	1,328	34.1	3.4	3,753	0.6	(6.4)
Dalmia \$	4.5	-	22.1	5,124	2.4	(5.0)	1,272	19.7	(24.2)	3,852	(2.2)	3.7
JK Cement	2.8	24.3	57.4	5,519	(1.5)	1.0	1,114	(1.9)	(8.6)	4,405	(1.5)	3.8
Birla Corp\$	3.3	3.1	36.6	4,801	(0.1)	(2.4)	957	(0.1)	(2.0)	3,844	(0.0)	(2.6)
Heidelberg	1.2	5.0	38.9	4,615	0.2	(3.0)	1,202	11.0	(4.9)	3,413	(3.1)	(2.3)
Star Cem \$	0.6	6.0	42.4	6,016	0.0	(4.0)	1,274	19.3	(12.4)	4,742	(4.1)	(1.4)
JK Lakshmi	2.2	5.6	14.1	4,171	(8.1)	(3.7)	688	(4.7)	(8.6)	3,483	(8.8)	(2.7)
Orient Cem	1.1	(10.0)	36.2	4,754	14.6	(5.0)	928	114.8	(22.5)	3,826	2.9	0.5
Deccan Cem	0.5	26.4	51.9	4,352	15.4	(7.0)	969	115.4	(28.1)	3,383	1.9	1.5
Total	55.2	2.0	29.5	4,975	0.0	(2.9)	1,104	9.8	(17.3)	3,871	(2.5)	2.2

Source: Company, HSIE Research, **ACC/Ambuja estimates are for 3QCY20, \$ - Consol numbers

Estimates revision and Operational Summary

We have increased volume growth estimates for most of the companies under coverage to factor in robust demand rebound in 2Q and stronger outlook for 2HFY21E. Subsequently, we have increased earnings estimates and target prices.

Estimates revision summary

Companies	Sales Vol (mn MT)			Vol change (%)			Net Sales (Rs bn)			Net sales change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech \$	77.9	86.3	93.0	12.9	3.3	3.4	391.8	440.3	482.0	11.2	3.3	2.8
Shree Cem	24.0	26.9	30.6	9.4	6.4	5.4	116.0	130.3	151.2	8.3	5.6	4.7
Ambuja **	22.0	24.6	26.8	7.5	6.5	5.6	109.8	124.0	137.1	8.8	7.4	5.4
ACC ** \$	25.3	29.1	33.5	3.5	3.5	3.5	136.4	158.0	183.1	5.0	4.1	3.2
Ramco Cem	10.4	12.5	14.4	8.1	3.8	3.8	51.4	61.9	72.8	8.1	3.0	3.5
Dalmia \$	18.5	22.5	25.2	4.0	1.5	(1.2)	92.1	110.3	124.5	5.0	2.5	(0.2)
JK Cement	10.9	12.4	14.1	2.9	0.3	0.3	59.9	69.2	80.5	2.0	0.2	0.2
Birla Corp\$	12.1	14.9	18.6	-	-	-	61.2	71.7	84.4	-	-	-
Heidelberg	4.2	5.0	5.3	-	-	-	19.7	23.8	25.8	-	-	-
Star Cem \$	2.8	3.7	4.3	-	-	-	17.2	21.7	24.6	-	-	-
JK Lakshmi	9.0	9.3	10.9	15.7	-	-	38.6	41.3	48.5	12.6	(0.2)	(0.2)
Orient Cem	4.9	5.8	6.3	3.7	3.7	3.7	22.0	25.2	27.8	4.6	3.6	2.6
Deccan Cem	1.5	1.7	1.8	23.5	13.2	4.7	6.2	6.6	7.4	27.1	11.3	4.4

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, \$ - Consol numbers

Companies	EBITDA (Rs bn)			EBITDA change (%)			APAT (Rs bn)			APAT change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech \$	89.71	101.04	111.84	9.6	4.1	2.3	35.77	42.89	52.68	16.3	3.0	0.9
Shree Cem	36.24	41.27	48.39	7.1	4.5	3.5	14.10	15.79	20.38	15.0	9.4	6.5
Ambuja **	24.92	27.37	30.02	16.3	15.6	9.4	16.16	17.42	19.31	19.3	18.9	11.2
ACC ** \$	23.00	26.17	28.69	15.8	8.4	6.0	12.21	14.31	15.30	9.0	(0.6)	(3.2)
Ramco Cem	12.67	15.15	17.60	10.6	2.0	4.1	6.18	6.90	8.84	12.0	(1.0)	0.7
Dalmia \$	20.02	22.35	24.62	14.3	8.7	2.6	3.25	4.54	6.33	135.5	24.5	(2.9)
JK Cement	12.18	14.51	18.00	2.4	3.2	3.4	4.66	6.02	8.44	4.2	5.3	4.9
Birla Corp\$	11.73	13.93	16.35	-	-	-	3.76	4.33	5.28	-	-	-
Heidelberg	4.87	6.08	6.52	-	-	-	2.31	3.25	3.36	-	-	-
Star Cem \$	3.94	5.00	5.97	-	-	-	2.74	3.55	4.22	-	-	-
JK Lakshmi	5.34	6.42	8.05	2.6	0.8	0.6	1.70	2.27	2.83	5.5	1.5	1.1
Orient Cem	4.20	4.06	4.63	10.9	2.1	1.4	1.18	1.18	1.53	25.6	3.3	(8.0)
Deccan Cem	1.23	1.14	1.32	67.0	5.3	2.2	0.72	0.66	0.73	100.9	6.7	2.8

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, \$ - Consol numbers

Peer Set Valuations for our coverage universe and TP revisions

Our target prices have increased for most of the coverage stocks, as we upgrade estimates and as we maintain valuation multiples. Our valuations are EV/EBITDA based on Sep'22E estimates.

Companies	Sales Vol (mn MT)			Sales Vol YoY (%)			NSR (Rs/MT)			EBITDA (Rs/MT)			Opex (Rs/MT)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech \$	77.9	86.3	93.0	(5.6)	10.7	7.8	5,030	5,105	5,182	1,152	1,171	1,202	3,878	3,934	3,979
Shree Cem	24.0	26.9	30.6	(3.9)	12.2	13.8	4,680	4,723	4,828	1,499	1,526	1,573	3,182	3,198	3,255
Ambuja Cem	22.0	24.6	26.8	(8.3)	12.0	9.0	5,000	5,043	5,114	1,135	1,113	1,120	3,866	3,930	3,994
ACC \$	25.3	29.1	33.5	(12.3)	15.0	15.0	4,952	4,989	5,052	886	859	817	4,066	4,130	4,235
Ramco Cem	10.4	12.5	14.4	(7.0)	20.0	15.0	4,881	4,900	5,017	1,189	1,177	1,194	3,692	3,723	3,823
Dalmia Bharat \$	18.5	22.5	25.2	(3.9)	21.5	11.8	4,967	4,892	4,941	1,080	992	977	3,887	3,901	3,964
JK Cement \$	10.9	12.4	14.1	6.7	13.3	14.0	5,487	5,587	5,705	1,115	1,172	1,275	4,372	4,415	4,429
Birla Corp \$	12.1	14.9	18.6	(11.6)	23.3	25.1	4,849	4,785	4,892	961	953	965	3,888	3,833	3,927
Heidelberg	4.2	5.0	5.3	(10.7)	19.0	7.0	4,690	4,760	4,831	1,159	1,216	1,219	3,530	3,544	3,613
Star Cem \$	2.8	3.7	4.3	(5.4)	32.8	15.0	5,971	5,790	5,750	1,408	1,347	1,397	4,607	4,453	4,353
JK Lakshmi	9.0	9.3	10.9	(2.5)	4.2	16.6	4,314	4,430	4,455	597	688	741	3,718	3,742	3,715
Orient Cem	4.9	5.8	6.3	(15.0)	18.0	9.0	4,463	4,329	4,373	851	698	729	3,612	3,631	3,643
Deccan Cem	1.5	1.7	1.8	5.0	10.0	10.0	4,130	3,965	4,044	811	688	721	3,320	3,277	3,323

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, \$ - Consol numbers

Companies	Mcap (Rs bn)	CMP (Rs/sh)	New Rating	Old Rating	New TP	Old TP	Val multiple^	EV/EBITDA (x)			EV/MT (Rs bn)		
								FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech Cement	1,264	4,381	BUY	BUY	5,295	5,110	15.0	15.6	13.4	11.7	11.87	11.17	10.85
Shree Cement	757	20,975	ADD	ADD	21,700	20,900	16.0	19.7	17.3	14.9	16.12	16.03	14.66
Ambuja Cement	480	242	BUY	BUY	260	240	11.0	12.6	11.3	9.9	10.64	9.90	9.51
ACC	286	1,523	BUY	BUY	1,755	1,660	10.0	10.5	9.3	8.2	7.62	7.64	6.24
Ramco Cements	180	765	ADD	ADD	773	742	12.0	16.7	13.3	11.3	10.66	9.65	9.49
Dalmia Bharat	148	793	BUY	BUY	1,130	1,055	10.0	9.5	8.1	6.9	6.41	5.14	4.58
JK Cement	132	1,710	BUY	BUY	1,840	1,755	10.0	13.2	11.1	8.8	8.23	8.22	8.12
Birla Corp	49	633	BUY	BUY	1,191	1,191	8.5	7.7	6.4	5.4	7.71	6.39	5.39
Heidelberg Cement	42	187	BUY	BUY	234	234	8.5	8.4	7.1	7.0	6.55	6.93	7.28
Star Cement	35	84	BUY	BUY	125	125	9.0	8.4	6.7	5.7	7.69	6.76	6.40
JK Lakshmi	32	268	BUY	BUY	400	395	8.0	7.7	6.3	5.9	3.51	3.44	3.34
Orient Cement	12	59	BUY	BUY	105	100	7.0	5.2	5.4	5.6	2.73	2.75	3.25
Deccan Cement	3.9	278	BUY	BUY	435	410	5.5	2.6	4.0	4.6	1.41	2.06	2.70

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, ^ Target multiples are EV/EBITDA based

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

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