India Equity Analytics

Results Preview Q3FY19- Cement

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ACC Limited

ACC IN

Building Materials

CMP	**1488**
Target	**1638**
Upside	**10%**
Rating	**ACCUMULATE**

	CY16	CY17	CY18E	CY19E
Roe%	7%	10%	10%	12%
Roce%	10%	14%	15%	17%
PE	39.4	35.2	26.7	22.6
PB	2.9	3.5	2.8	2.7
EV/EBITDA	16.2	15.6	11.8	10.4

	CY16	CY17	CY18E	CY19E	4CY17	3CY18	4QCY18
Cement Vol.(MT)	23.0	26.2	28.0	28.5	6.92	6.55	7.13
Growth YoY	*-2%*	*14%*	*7%*	*2%*	*27%*	*10%*	*3%*
Cement Real.Rs./Tn)	5,089	5,060	4,854	4,898	4,680	4,862	4,886
Growth YoY	*8%*	*-1%*	*-4%*	*1%*	*-11%*	*1%*	*4%*
RMC Vol.(MCM)	2.60	2.84	3.14	3.20	0.80	0.73	0.80
Financials							
Sales	**10,990**	**13,285**	**14,723**	**15,308**	**3,494**	**3,433**	**3,817**
Sales Gr	*-7%*	*21%*	*11%*	*4%*	*30%*	*10%*	*9%*
Ebdita	**1,478**	**1,912**	**2,066**	**2,315**	**443**	**444**	**506**
Ebdita Gr	*-4%*	*29%*	*8%*	*12%*	*54%*	*7%*	*14%*
Net Profits	**658**	**925**	**1,010**	**1,196**	**203**	**209**	**228**
Profit Gr%	*12%*	*40%*	*9%*	*18%*	*122%*	*15%*	*13%*
EbditaM%	**13.5%**	**14.4%**	**14.0%**	**15.1%**	**12.7%**	**12.9%**	**13.3%**
Net Mgn%	**6.0%**	**7.0%**	**6.9%**	**7.8%**	**5.8%**	**6.1%**	**6.0%**

Std/ Fig in Rs Cr

❑Cement demand to grow by 7% in 2018 but intense competition and not enough consumption will lead to excess capacity. As per mgt. this situation is expected to correct itself in 2019 with the increased outlays on housing, infrastructure development and agri-sector initiatives.

❑Volume of ACC is expected to grow marginally by 3% YoY in Q4 CY18 as the company is already operating at higher capacities and demand for cement in housing sector (which contributes about 66% of total revenue) is expected to remain weak due to ongoing liquidity issues in NBFC's.

❑Cement realization is expected to grow by around 4% YoY basis because cement prices have declined in the December quarter of CY17, and now prices are stabilized.

❑RMC volume is expected to grow marginally on YoY basis on account of slow pace in infrastructural activities.

❑EBITDA margins are expected to improve on both sequential and YoY basis on account of stabilization in the realizations and lower operating expenses like freight cost and fuel cost led by sharp decline in pet coke prices.

❑ACC intends to set up a greenfield unit in Katni (MP), with a clinker capacity of 3MT and a grinding capacity of 1MT. It also plans to set up a 1.6MT split grinding unit in Tikaria (UP), at the existing plant and a 2.2MT unit at another location in UP. Capex is around Rs.3000 Cr and expected to be completed in three years.

Key Trackable this Quarter

❑ Pick-up in Demand for grey cement

❑Change in Raw material mix and fuel mix that has played to improve gross margins

❑Synergies arising out of master supply agreement with Ambuja

We value the stock at 12x FY20e EV/EBITDA. ACCUMULATE

HeidelbergCement India Ltd

HEIM IN

Building Materials

CMP	**152**
Target	**188**
Upside	**24%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	8%	13%	18%	18%
Roce%	5%	9%	13%	14%
PE	35.2	24.2	17.0	15.4
PB	2.8	3.1	3.1	2.7
EV/EBITDA	11.6	9.6	8.1	7.6

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Cement Vol.(MT)	4.4	4.6	4.9	5.0	1.2	1.1	1.3
Growth YoY	-1%	6%	6%	0%	16%	6%	4%
Realization(Rs./Ton)	3,914	4,066	4,308	4,423	4,036	4,319	4,319
Growth YoY	5.5%	3.9%	5.9%	2.7%	6.9%	7.5%	7.0%
Financials							
Sales	**1,717**	**1,889**	**2,129**	**2,193**	**491**	**486**	**547**
Sales Gr	*4%*	*10%*	*13%*	*3%*	*24%*	*14%*	*11%*
Ebdita	**279**	**363**	**471**	**484**	**83**	**117**	**114**
Ebdita Gr	*21%*	*30%*	*30%*	*3%*	*73%*	*25%*	*38%*
Net Profits	**76**	**133**	**210**	**233**	**32**	**50**	**52**
Profit Gr%	*115%*	*75%*	*58%*	*11%*	*LP*	*50%*	*65%*
EbditaM%	**16.2%**	**19.2%**	**22.1%**	**22.1%**	**16.9%**	**24.0%**	**20.9%**
Net Mgn%	**4.4%**	**7.0%**	**9.9%**	**10.6%**	**6.5%**	**10.3%**	**9.6%**

Std/ Fig in Rs Cr

❑Demand of grey cement is expected to improve in Central India post monsoon season in Q3 and hence we expect volume to grow at around 5% in Q3 FY19 and whole year estimate is around 6% in FY19. Central zone contributes about 94% of total volumes.

❑Realization is expected to grow by 6% on YoY basis and likely to remain almost flat on sequential basis as in most of parts of Central India cement prices remains almost same.

❑The company is already operating at higher capacity utilization in the range of 85-90% and this does not leave enough room for volume growth in future and hence realization growth will be key growth driver ahead.

❑EBITDA margins are expected to improve on the back of lower power and fuel cost however Freight and logistics cost is expected to remain flat on sequential basis as discount provided by the railways in monsoon season is un-available in Q3 in which the company has 40% freight exposure and average diesel prices in December quarter has not declined significantly, despite a sharp decline in diesel prices in the last one month.

❑Company is likely to repay debt of Rs. 75 Cr. in 9M of FY19.

❑No major capex is required in FY19, minor capex for maintenance is planned.

Key Trackable this Quarter

❑Scope for Realization growth as volume growth to be muted (Cap utilization above 80%)

❑Management commentary on Debt Repayment

❑Freight, Power and fuel cost.

We value the stock at 9x FY20e EV/EBITDA. BUY

JK Cement Limited

JKCE IN

Building Materials

CMP	**719**
Target	**895**
Upside	**24%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	11%	16%	13%	13%
Roce%	5%	8%	7%	8%
PE	31.0	20.8	17.0	15.3
PB	3.5	3.3	2.2	2.0
EV/EBITDA	12.3	11.5	9.4	8.7

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Grey Cement Vol(MT)	6.84	8.23	8.27	8.56	2.03	1.87	2.09
Wall putty(MT)	1.1	1.2	1.2	1.3	0.3	0.3	0.4
Total volume	7.9	9.4	9.5	9.8	2.3	2.2	2.4
Growth YoY	1%	19%	1%	4%	20%	-3%	5%
Blend. Real.(Rs./Tn)	4,760	5,023	5,039	5,160	4,854	5,095	5,121
Growth YoY	5%	6%	0%	2%	3%	2%	6%
Financials							
Sales	**3,756**	**4,591**	**4,787**	**5,073**	**1,126**	**1,101**	**1,247**
Sales Gr	*6%*	*22%*	*4%*	*6%*	*24%*	*-1%*	*11%*
Ebdita	**693**	**761**	**748**	**792**	**170**	**170**	**199**
Ebdita Gr	*34%*	*10%*	*-2%*	*6%*	*0%*	*-18%*	*17%*
Net Profits	**211**	**342**	**308**	**342**	**73**	**65**	**85**
Profit Gr%	*107%*	*62%*	*-10%*	*11%*	*11%*	*-31%*	*17%*
EbditaM%	**18.5%**	**16.6%**	**15.6%**	**15.6%**	**15.1%**	**15.4%**	**15.9%**
Net Mgn%	**5.6%**	**7.4%**	**6.4%**	**6.7%**	**6.5%**	**5.9%**	**6.8%**

Std/ Fig in Rs Cr

❑Overall volume of cement is expected to grow by 5% on YoY basis in Q3 FY19 on the back of pick-up in demand post monsoon season and growth in sale of wall putty is likely to be reflected in Q3 as this year diwali was celebrated in November and usually one month prior to diwali sale of wall putty increases.

❑Blended realization is expected to grow by 6%on YoY basis and likely to remain almost flat on sequential basis as in most of parts of Northern cement prices remains almost same. North zone contributes about 50% in the total revenue.

❑Company is continuously making efforts to reduce price gap between Trade and non-Trade segments and also improving proportion of trade sales which has improved to 72% in Q2 FY19. This will lead to improvement in margins of the company.

❑Company's overseas subsidiary J.K.Cement Works (Fujairah) has reported EBITDA of AED1.9mn versus a loss of AED0.94mn is Q2 FY18. This subsidiary is now EBITDA positive and expects to perform better in upcoming quarters.

❑In October, company has launched premium segment cement called 'JK Super Strong' in south India and is looking at launching the same in other markets as well.

❑JK Cement has announced QIP of Rs. 700 Cr and also plans to raise debt of Rs. 1300 Cr, in order to fund ongoing capacity expansion of 4 MT in Rajasthan at capex of Rs. 2000 Cr.

Key Trackable this Quarter

❑Ratio of Trade and non-Trade Sales

❑Progress of UAE subsidiary in terms of profitability

We value the stock at 10x EV/EBITDA. BUY

Shree Cement Limited

SCRM IN

Building Materials

CMP	**16973**
Target	**18982**
Upside	**12%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	17%	16%	11%	14%
Roce%	14%	13%	12%	13%
PE	44.3	40.7	52.7	36.6
PB	7.7	6.3	5.9	5.2
EV/EBITDA	24.1	24.1	21.7	18.1

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Cement Vol(Mn Ton)	20.6	22.5	24.8	26.1	5.3	5.6	5.6
Growth YoY	45%	9%	10%	5%	8%	16%	6%
Realization(Rs./Tn)	4,396	4,314	4,233	4,305	4,136	4,268	4,289
Growth YoY	-12%	-2%	-2%	2%	-3%	2%	4%
Power vol.(Mn Units)	2,066	1,197	1,571	1,621	273	400	375
Financials							
Sales	**8,594**	**9,833**	**11,666**	**13,012**	**2,303**	**2,587**	**2,811**
Sales Gr	*56%*	*14%*	*19%*	*12%*	*23%*	*21%*	*22%*
Ebdita	**2,513**	**2,473**	**2,598**	**3,100**	**570**	**520**	**721**
Ebdita Gr	*79%*	*-2%*	*5%*	*19%*	*16%*	*-7%*	*27%*
Net Profits	**1,339**	**1,384**	**922**	**1,404**	**333**	**49**	**266**
Profit Gr%	*17%*	*3%*	*-33%*	*52%*	*42%*	*-77%*	*-20%*
EbditaM%	**29.2%**	**25.1%**	**22.3%**	**23.8%**	**24.7%**	**20.1%**	**25.7%**
Net Mgn%	**15.6%**	**14.1%**	**7.9%**	**10.8%**	**14.5%**	**1.9%**	**9.5%**

Std/ Fig in Rs Cr

❑Volume in the North is expected to grow in the range of 5-6% on the back of pick-up in demand post monsoon season and volume gaining traction in the east zone. Further management has also guided for 9-10% volume growth in FY19.

❑Realization is likely to grow by 4% on YoY basis on account of lower realization in December quarter of FY18 and sequentially cement prices has remained at almost same level.

❑EBITDA margin is expected to improve by 100 bps YoY in Q3 FY19 on the back of lower power and freight cost. Power cost is expected to come down due to lower pet coke prices and freight cost is expected to come down on the back of lower diesel prices. However it will be partially offset by discontinuance of railway freight rebate.

❑In FY19, the company had exceptional loss of Rs. 178 Cr. due to loss in investment in IL&FS and adjusted profit was Rs.1100 Cr in FY18. Adjusted PAT is expected to decline by 21% in FY19 and expected to grow by 28% in FY20e.

❑Company has planned capex of Rs. 1700 Cr for FY19. The company is adding 3 MTPA new capacities at Cuttack and 2.5MT at Jharkhand which may come on stream by Sept-19 and Jun-19 respectively.

❑SC stays the levy of penalty of Rs. 397.5 Cr imposed by CCI for the alleged cartelization.

Key Trackable this Quarter

❑Demand of grey cement

❑Penalty imposed by the CCI

❑Status of Investment plans in Union Cement Company in UAE

We value the stock at 22x FY20e EV/EBITDA. BUY

UltraTech Cement Limited

UTCEM IN

Building Materials

CMP	**4009**
Target	**4445**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	11%	9%	7%	8%
Roce%	13%	10%	8%	9%
PE	41.5	44.1	51.0	40.7
PB	4.6	4.2	3.6	3.4
EV/EBITDA	23.1	21.2	21.9	18.8

	FY17	FY18	FY19E	FY20E	3QFY18	2QFY19	3QFY19E
Total Cement Vol.(MT)	50.2	60.7	67.3	70.1	15.9	15.7	16.6
Growth YoY	4%	21%	11%	4%	35%	19%	5%
Blend. Realiz.(Rs./Tn)	4,760	4,912	4,923	5,012	4,789	4,950	4,975
Growth YoY	-3%	3%	0%	2%	0%	1%	4%
Financials							
Sales	**23,891**	**29,790**	**33,115**	**35,153**	**7,590**	**7,771**	**8,255**
Sales Gr	*1%*	*25%*	*11%*	*6%*	*35%*	*21%*	*9%*
Ebdita	**4,969**	**5,883**	**5,286**	**6,114**	**1,269**	**1,208**	**1,248**
Ebdita Gr	*7%*	*18%*	*-10%*	*16%*	*14%*	*-7%*	*-2%*
Net Profits	**2,628**	**2,231**	**1,949**	**2,439**	**421**	**391**	**431**
Profit Gr%	*11%*	*-15%*	*-13%*	*25%*	*-25%*	*-9%*	*2%*
EbditaM%	**20.8%**	**19.7%**	**16.0%**	**17.4%**	**16.7%**	**15.5%**	**15.1%**
Net Mgn%	**11.0%**	**7.5%**	**5.9%**	**6.9%**	**5.6%**	**5.0%**	**5.2%**

Std/ Fig in Rs Cr

❑Cement demand is likely to improve from Q3 FY19 onwards on the back of major infrastructure projects like Mumbai airport, Mumbai Nagpur expressway, Polavaram dam in Andhra etc are which are likely to boost cement demand in this fiscal and coming fiscal. We expect volume growth of 5-6% in Q3 FY19.

❑Realization is likely to improve by 4% on YoY and remained flat on sequential basis as cement price remains almost flat on sequential basis.

❑EBITDA margin is expected to improve on account of lower power and freight cost. Power cost is expected to come down due to lower pet coke prices and freight cost is expected to come down due to lower diesel prices. However this benefit is partially offset by the discontinuance of railway freight rebate.

❑In Q3 FY19, the company has successfully completed acquisition of Binani Cement for Rs.7900 Cr. Binani Cement has an accumulated debt of Rs. 6,500 Cr. With this acquisition Ultratech cement capacity will reach around 113 MT and will help to increase foothold in the East, West and Central markets.

❑Company is setting up of a 3.5 MTPA cement plant at Dhar, Madhya Pradesh at a total cost of around Rs 2,600 Cr. Commercial production from the plant is expected to commence Q4 FY19.

❑SC stays CCI decision to impose Rs. 1,175 Cr on Ultratech and Rs. 1324 Cr on Jai Prakash associate and Rs. 274 Cr on Century textiles on alleged cartel.

Key Trackable this Quarter

❑Geographical revenues and cost synergies due to recent acquisitions

❑Demand outlook for the industry and the company

We value Ultratech at Rs 4445/- on SOTP basis. ACCUMULATE

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