India Equity Analytics

Results Preview Q4FY19- Cement

Narnolia™

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ACC Limited

ACC IN

CMP	**1634**
Target	**1771**
Upside	**8%**
Rating	**ACCUMULATE**

	CY16	CY17	CY18E	CY19E
Roe%	7%	10%	14%	12%
Roce%	10%	14%	14%	17%
PE	39.4	35.2	17.8	23.3
PB	2.9	3.5	2.6	2.8
EV/Ebdita	16.2	15.6	11.7	11.0

	CY16	CY17	CY18E	CY19E	Q1CY18	Q4CY18	1QCY19E
Cement Vol.(MT)	23.0	26.2	28.4	29.7	7.11	7.50	7.47
Growth YoY	*-2%*	*14%*	*8%*	*5%*	*8%*	*8%*	*5%*
Cement Real.Rs./Tn)	5,089	5,060	4,826	4,842	4,721	4,776	4,848
Growth YoY	*8%*	*-1%*	*-5%*	*0%*	*-8%*	*2%*	*3%*
RMC Vol.(MCM)	2.60	2.84	3.27	3.44	0.84	0.86	0.86
Financials							
Sales	10,990	13,285	14,802	15,837	3,625	3,895	3,984
Sales Gr	*-7%*	*21%*	*11%*	*7%*	*14%*	*11%*	*10%*
Ebdita	1,478	1,912	2,048	2,503	492	487	669
Ebdita Gr	*-4%*	*29%*	*7%*	*22%*	*18%*	*10%*	*36%*
Net Profits	658	925	1,521	1,322	247	730	360
Profit Gr%	*12%*	*40%*	*64%*	*-13%*	*18%*	*261%*	*45%*
Ajusted Profits	658	925	1,012	1,322	247	230	360
Ebdita Margin%	13.5%	14.4%	13.8%	15.8%	13.6%	12.5%	16.8%
Net Profit Margin%	6.0%	7.0%	10.3%	8.3%	6.8%	18.8%	9.0%

Cons./ Fig in Rs Cr

❑ Cement prices has increased in all regions except. In south where the company has almost 30% of exposure, cement prices has increased by around 5%. In East and west regions price has increased by 1% on sequential basis, the company has 40% exposure to these regions. Considering price hike across regions we except realization to increase by 1.5% on QoQ basis in Q4 FY19.

❑ Cement volume of the company is expected to grow to the tune of 5-6% on YoY led by strong traction from rural housing schemes and demand from affordable housing segment.

❑ RMC volumes are expected to remain range bound till general elections as volume growth in this segment is largely dependent on the demand from infrastructure activities.

❑ Margins of ACC Cement is expected to improve in upcoming quarter as higher sales in premium segment and sales from newly commissioned cost-efficient units of Jamul and Sindri. The company is also focusing on using higher linkage coal and on reducing lead distance.

❑ Capacity utilization of the company is above 85% and thus considering the growth in cement demand in upcoming quarters, company is expanding its capacities. ACC is setting up a greenfield unit in Katni (MP), with a clinker capacity of 3MT and a grinding capacity of 1MT and 1.6MT split grinding unit in Tikaria (UP). These new capacities are expected to have 20% lower operational cost.

Key Trackable this Quarter

❑ Progress on the expansion plans.

❑ Volume growth

We value the stock at 12x CY19e EV/EBITDA. ACCUMULATE

Heidelberg Cement India Ltd

HEIM IN

Building Materials

CMP	**183**
Target	**196**
Upside	**7%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	8%	13%	19%	19%
Roce%	5%	9%	13%	14%
PE	35.2	24.2	18.9	16.9
PB	2.8	3.1	3.5	3.1
EV/Ebdita	11.6	9.6	9.1	8.4

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Cement Vol.(MT)	4.4	4.6	4.9	4.9	1.3	1.3	1.2
Growth YoY	-1%	6%	6%	0%	13%	6%	-2%
Realization(Rs./Ton)	3,914	4,066	4,322	4,440	4,184	4,358	4,358
Growth YoY	5.5%	3.9%	6.3%	2.7%	1.3%	8.0%	4.2%
Financials							
Sales	1,717	1,889	2,132	2,197	531	564	542
Sales Gr	*4%*	*10%*	*13%*	*3%*	*15%*	*15%*	*2%*
Ebdita	279	363	481	502	120	123	123
Ebdita Gr	*21%*	*30%*	*32%*	*4%*	*52%*	*48%*	*2%*
Net Profits	76	133	219	245	52	59	59
Profit Gr%	*115%*	*75%*	*65%*	*12%*	*41%*	*84%*	*14%*
Ebdita Margin%	16.2%	19.2%	22.6%	22.8%	22.6%	21.7%	22.6%
Net Profit Margin%	4.4%	7.0%	10.3%	11.1%	9.8%	10.4%	10.9%

Std/ Fig in Rs Cr

❑ Cement demand in central India especially in Madhya Pradesh has slowed since the formation of the new state government, and in UP capacities are already operating at higher utilization levels. We expect volume growth of the company to remain range bound or marginal dip of 2% on YoY basis in 4Q FY19.

❑ In the month of Feb, 2019 cement prices have increased in most of the regions of the country but in March prices has corrected a bit. We expect realizations of the company in 4QFY19 to remain at level of 3QFY19.

❑ Considering supply constraint, management of the company is focusing on increasing the sale of premium products which remains the key trackable for the growth prospective of the company.

❑ EBITDA margin of the company is expected to improve marginally on sequential basis as realization has remained almost same, lower freight cost/ton is due to increased axle norm which was partially offset by the increase in the power and fuel cost.

❑ Company is carrying debottlenecking process at all over its grinding units in 3 phases. First phase is already completed. Post this process grinding capacity is likely to go up by 0.3MTPA. We remain watchful on the progress of this whole process.

❑ Company is looking to expand its capacities by the way of acquisitions but plans are yet to be firmed up.

Key Trackable this Quarter

❑ Status of debottlenecking process.

❑ Price hike in Central region.

We value the stock at 9x EV/EBITDA. ACCUMULATE

JK Cement Limited

JKCE IN

Building Materials

CMP	**851**
Target	**942**
Upside	**11%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	11%	16%	12%	13%
Roce%	5%	8%	7%	7%
PE	31.0	20.8	21.0	18.3
PB	3.5	3.3	2.5	2.3
EV/Ebdita	12.3	11.5	10.0	9.2

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Grey Cement Vol(MT)	6.84	8.23	8.56	8.89	2.40	2.14	2.52
Wall putty(MT)	1.1	1.2	1.3	1.3	0.3	0.4	0.3
Total volume	7.9	9.4	9.8	10.2	2.7	2.5	2.9
Growth YoY	1%	19%	4%	4%	25%	8%	5%
Blend. Real.(Rs./Tn)	4,742	4,889	5,047	5,124	4,838	5,099	5,150
Growth YoY	4%	3%	3%	2%	3%	5%	6%
Financials							
Sales	3,756	4,591	4,960	5,225	1,316	1,273	1,471
Sales Gr	*6%*	*22%*	*8%*	*5%*	*28%*	*13%*	*12%*
Ebdita	693	761	777	826	182	211	246
Ebdita Gr	*34%*	*10%*	*2%*	*6%*	*-5%*	*24%*	*35%*
Net Profits	211	342	284	326	96	61	109
Profit Gr%	*107%*	*62%*	*-17%*	*15%*	*126%*	*-16%*	*13%*
Adjusted Profits	211	342	309	326	96	86	109
Ebdita Margin%	18.5%	16.6%	15.7%	15.8%	13.8%	16.5%	16.7%
Net Profit Margin%	5.6%	7.4%	5.7%	6.2%	7.3%	4.8%	7.4%

Std/ Fig in Rs Cr

❑ Volume growth of 5-6% on YoY is expected as per management guidance.

❑ Cement prices in North (JK Cement has half of the exposure in North) has increased by almost 2-3% in the month of Feb but prices have declined by 2% in the month of March. Hence we expect realization of the company to grow marginally by 0.5% on sequential basis.

❑ Company is making efforts to save Rs. 60-70/Ton in logistics cost, currently it is saving Rs.40-45/Ton. Further, re-positioning, better modalities and increasing trade volumes to save another Rs. 50-75/Ton. Overall company is working on to save 125-150/Ton. Presently company has achieved 50% of that and balance to be achieved in next 6-8 months.

❑ Tax rate for 3QFY19 was 48% v/s 21% in the year ago period. Now tax rate in Q4FY19 is expected to be normalized.

❑ The company is ramping up its UAE operations and expects this plant to be EPS accretive from FY21. In CY18, expected loss from UAE is Rs. 50 Cr. Company has taken various cost control initiatives at the plant. .

Key Trackable this Quarter

❑ Status of ongoing expansion of 4.2 MT Nimbahera and Mangrol.

❑ Profitability of UAE business

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

The Ramco Cements Limited

RAMCO IN

Building Materials

CMP	**742**
Target	**816**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	17%	14%	11%	11%
Roce%	15%	12%	9%	9%
PE	25.6	31.1	35.9	32.9
PB	4.5	4.3	3.8	3.6
EV/Ebdita	14.8	16.5	18.6	17.3

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Total Cement Vol.(MT)	8.4	9.3	10.7	11.8	2.7	2.7	2.9
Growth YoY	17%	11%	15%	10%	19%	21%	6%
Blend. Realiz.(Rs./Tn)	4,702	4,733	4,606	4,592	4,579	4,406	4,561
Growth YoY	-5%	1%	-3%	0%	-11%	-5%	0%
Financials							
Sales	3,950	4,406	4,943	5,397	1,255	1,210	1,329
Sales Gr	*11%*	*12%*	*12%*	*9%*	*5%*	*15%*	*6%*
Ebdita	1,195	1,099	973	1,109	272	214	261
Ebdita Gr	*11%*	*-8%*	*-12%*	*14%*	*1%*	*-9%*	*-4%*
Net Profits	649	556	472	522	109	101	132
Profit Gr%	*20%*	*-14%*	*-15%*	*11%*	*-19%*	*-18%*	*21%*
Ebdita Margin%	30.2%	25.0%	19.7%	20.5%	21.7%	17.7%	19.7%
Net Profit Margin%	16.4%	12.6%	9.6%	9.7%	8.7%	8.3%	9.9%

std/ Fig in Rs Cr

❑ Being major presence of Ramco Cement in South, company is the major beneficiary of cement price hike. In South cement price has increased by almost 5% in the month of Feb. We expect realization of the company to increase by 3.5-4% on QoQ and flat on YoY in Q4 FY19. In Q3 FY19, cement prices has dipped significantly in South and hence after this hike in Feb, realization of the company is expected to come at Q4 levels of previous year.

❑ Demand in South is expected to pick up in upcoming quarters on the back of rehabilitation of infrastructure post massive destruction by heavy rain during monsoon season in Kerala. Volume growth to the tune of 6-7% on YoY is expected in upcoming quarters.

❑ Further infrastructure activities in South are likely to pick up as new capital to be formed in AP.

❑ Recently India has slammed 200% customs duty by India on products from Pakistan which should boost volume for south based cement companies .

❑ EBITDA margin is expected to improve sequentially on back of higher realizations, lower power and fuel cost. However margins are lower when compared on YoY basis because of dip in realization and cost escalation in last three quarters.

Key Trackable this Quarter

❑ Infrastructural demand in South

❑ Cement prices sustainability

We value the stock at 19x FY20e EV/EBITDA. ACCUMULATE

Shree Cement Limited

SCRM IN

Building Materials

CMP	**18569**
Target	**20420**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	17%	16%	11%	13%
Roce%	14%	13%	10%	12%
PE	44.3	40.7	62.1	45.3
PB	7.7	6.3	6.6	5.9
EV/Ebdita	24.1	24.1	25.8	21.9

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Cement Vol(Mn Ton)	20.6	22.5	25.5	27.2	6.4	5.9	6.9
Growth YoY	45%	9%	13%	7%	9%	11%	7%
Realization(Rs./Tn)	4,396	4,314	4,253	4,391	4,160	4,316	4,338
Growth YoY	-12%	-2%	-1%	3%	-5%	4%	4%
Power vol.(Mn Units)	2,066	1,197	1,747	1,761	345	446	450
Financials							
Sales	8,594	9,833	11,654	12,815	2,811	2,781	3,217
Sales Gr	*56%*	*14%*	*19%*	*10%*	*15%*	*21%*	*14%*
Ebdita	2,513	2,473	2,631	3,061	629	710	826
Ebdita Gr	*79%*	*-2%*	*6%*	*16%*	*12%*	*25%*	*31%*
Net Profits	1,339	1,384	1,042	1,427	399	301	412
Profit Gr%	*17%*	*3%*	*-25%*	*37%*	*31%*	*-10%*	*3%*
Adjusted profit	1,339	1,384	1,220	1,427	399	301	412
Ebdita Margin%	29.2%	25.1%	22.6%	23.9%	22.4%	25.5%	25.7%
Net Profit Margin%	15.6%	14.1%	8.9%	11.1%	14.2%	10.8%	12.8%

Std/ Fig in Rs Cr

❑ Shree Cement major portion of revenue comes from North region. In North cement prices have increased marginally in the month of Feb 2019, but in month of March, prices have again corrected. Hence we expect marginal increase in the realization of the company on sequential basis and 4% on YoY basis.

❑ Company’s volume growth is expected to remain in the range of 5-6% in Q4 FY19, as cement demand in Northern India has picked up post and further pickup is expected post general elections.

❑ Revenue from power sector is expected to remain muted as the company has increased captive usage of power. We expect power sector to clock revenue of Rs. 507 Cr in Q4 FY19.

❑ Freight cost of the company is expected to come down in Q4 FY19 as the benefit of increased axle norms and change from FOR sales to Ex- Factory sales. This change will reduce the transport burden form the seller side.

❑ The company has commissioned Clinker capacity of 3MT Integrated Cement Plant at Kodla, Karnataka on 25 Dec’18.

❑ Company is expanding its capacities by adding 3 MT of grinding capacity at a capex of 4.23 Billion in Cuttack & 2.5mt in Jharkhand at a capex of 4.8 Billion, Cuttack capacity is expected to come on Steam by Sept-19 & Jharkhand by Jun-19. Capex for FY20 is Rs. 1200 Cr.

Key Trackable this Quarter

❑ Status of capacity expansion at Cuttack and Jharkhand

❑ Update on sales by overseas arm

We value the stock at 24x FY20e EV/EBITDA. ACCUMULATE

UltraTech Cement Limited

UTCEM IN

CMP	**4029**
Target	**4686**
Upside	**16%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	11%	10%	8%	10%
Roce%	13%	10%	8%	10%
PE	40.4	42.2	51.7	36.4
PB	4.5	4.1	3.9	3.6
EV/Ebdita	22.0	20.6	21.6	17.9

	FY17	FY18	FY19E	FY20E	Q4FY18	Q3FY19	Q4FY19E
Total Cement Vol.(MT)	52.4	63.3	73.7	79.8	19.1	19.0	20.4
Growth YoY	-2%	21%	21%	21%	29%	15%	7%
Blend. Realiz.(Rs./Tn)	4,843	4,964	4,959	4,959	4,945	4,930	5,019
Growth YoY	-1%	3%	0%	0%	4%	2%	1%
Financials							
Sales	25,375	31,411	36,533	39,562	9,421	9,390	10,231
Sales Gr	*1%*	*24%*	*16%*	*8%*	*34%*	*17%*	*9%*
Ebdita	5,212	6,145	6,068	7,270	1,781	1,445	1,846
Ebdita Gr	*6%*	*18%*	*-1%*	*20%*	*33%*	*8%*	*4%*
Net Profits	2,715	2,222	2,142	3,043	446	390	745
Profit Gr%	*10%*	*-18%*	*-4%*	*42%*	*-39%*	*-15%*	*67%*
Adjusted Profits	2,599	2,571	2,142	3,043	761	390	745
Ebdita Margin%	20.5%	19.6%	16.6%	18.4%	18.9%	15.4%	18.0%
Net Profit Margin%	10.7%	7.1%	5.9%	7.7%	4.7%	4.2%	7.3%

Conso/ Fig in Rs Cr

- Volume of the company is expected to grow by almost 7% on YoY basis in Q4 FY19 on account of strong traction in rural housing and low income housing scheme like Pradhan Mantri Awaas Yojana. This growth momentum is likely to be continued for upcoming quarters as post general elections, infrastructure activities will also pick.
- Being pan India player, the realization of the company is likely to grow marginally as prices has increased only in South, East and West whereas in other regions prices remains almost flat. We factor price hike of 1.5% on sequential basis in Q4 FY19 and 1% on YoY basis.
- EBITDA margin of the company is expected to improve sequentially to 18% on the back of higher realizations, lower power and freight cost.
- JPA update- JPA is operating at 75% utilization. Plants' operational parameter is at par or better than UltraTech's existing plants standard.
- Binani Cement- Ultratech has undertaken equipment up-gradation and improvement measures, optimized raw mix and has started using pet coke. UNCL is expected to sell 5 lakh Ton of cement in Q4 FY19.
- 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.
- Bara grinding unit is likely to be commissioned by June 2020.

Key Trackable this Quarter

- Update on integration of CTIL assets into Ultratech.
- Volume growth

We value Ultratech at Rs 4686/- on SOTP basis. BUY

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Analyst's ownership of the stocks mentioned in the Report	NIL

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