

Cement & Building Materials

Results Preview | 08 October 2021

Institutional Equity Research

Cost Inflations to Weigh on Performance

A sharp increase in operating cost in the forms of higher input and fuel prices is expected to weigh on 2QFY22 performance of cement companies. Further, a seasonal decline in realisations is expected to be a double whammy for cement companies in 2QFY22. While the heavy downpour in various parts of the country and continued labour shortages impacted demand, sustained demand from infrastructure segment aided the cement companies to maintain the dispatches growth on a yearly comparison. Average sales volume of the cement companies under our coverage universe is expected to increase by a robust ~7% YoY (flat QoQ).

We further note that an improvement in real estate and industrial demand also contributed to volume growth, which negated the adverse impact of a soft rural demand. Our channel check suggests that the all-India average price contracted ~3% sequentially in 2QFY22, mainly led by a sharp over 5% QoQ price contraction witnessed in Southern and Eastern regions. Additionally, companies are unlikely to get the benefit of transition from pet coke to coal during the quarter, as the imported coal prices and e-auctioned coal prices have also gone up significantly during the quarter. We expect cost inflation to lead to an average sequential jump of Rs100-160/tonne in the operating cost. Despite cost pressure and realization dip, unitary EBITDA of companies like UltraTech Cement (Rs1,350), Ramco Cements (Rs1,263), Shree Cement (Rs1,203), Ambuja Cements (Rs1,177) and JK Cement (Rs1,444) is likely to remain healthy in excess of Rs1,000. However, other players are expected to report unitary EBITDA in the range of Rs600-900. Notably, the average EBITDA of cement companies under our coverage are likely to decrease by ~2% YoY and ~16% QoQ in 2QFY22E.

Demand Remained Steady Despite Seasonal Effects

While a heavy downpour in various parts of the country, sand issues, labour availability issues and transportation strike in select states impacted demand for most cement companies, the restart of economic activities post second COVID wave and sustained demand from infrastructure projects enabled the industry to record a steady volume on YoY comparison during the quarter. We further believe that the demand momentum will witness an acceleration in the coming months, as all four key drivers of cement consumption have started to witness a healthy traction. While the average sales volume of companies under our coverage universe is likely to grow by 7% YoY, it is likely to witness a flat growth QoQ. From our coverage list, JK Cement and Sagar Cements are likely to report a robust volume growth of over 20% YoY. While UltraTech Cement, Ambuja Cements, Ramco Cements and JK Lakshmi Cement are likely to report 8-9% YoY volume growth, Shree Cement is expected to record 2% YoY decline in volume.

Cost Inflation and Soft Realization to Weigh on Performance

A sharp jump in domestic and international pet coke prices of 80-110% YoY (up 20-35% QoQ) and higher freight cost, due to the increased diesel prices, are likely to result in ~Rs100-160/tonne sequential increase in unitary operating cost. Further, domestic and international coal prices have witnessed a sharp increase in recent months. Thus, no meaningful cost spread is left between pet coke and coal. Hence, the impact of higher fuel costs will be felt by all companies depending on low-cost inventories. Further, the all-India average price (trade segment) contracted by ~3% QoQ (flat YoY), which essentially exerts pressure on the operating performance of companies. Barring ACC, Ambuja Cements, UltraTech, JK Cement and Mangalam Cement, all companies are expected to report a YoY degrowth in EBITDA at 20-40%.

Building Materials: Volume to Record Strong Rebound

While the second COVID wave has significantly impacted the sales volume of building materials in 1QFY22, tiles manufacturing companies -- Kajaria Ceramics (KJC) and Somany Ceramics (SOMC) -- witnessed a strong volume recovery in 2QFY22 led by pent-up demand and sustained traction from the real estate segment. Further, a shift in consumers preference for the organized/branded players has already boosted their volume performance. Additionally, tiles and sanitaryware manufacturers have taken modest price hikes during the quarter to contain the impact of higher gas prices. We expect KJC and SOMC's sales volume to increase by ~11.1% YoY and ~11.4% YoY respectively in 2QFY22E, which is expected to aid them register a healthy profit.

Our View: Notwithstanding the plan for sizeable capacity additions over the next three years, we expect the demand trend to remain favorable, led by a sustained pick-up in infrastructure activities on the back of a sharp increase in government's capex, improving scenario of the real estate market (after more than a decade of lull period) and a revival in industrial capex. We believe the cement industry is in a sweet spot now, as all key consumption drivers are witnessing a healthy traction, which will aid the cement companies to sustain robust earnings growth.

Top Result Picks: UltraTech Cement, Ambuja Cements and JK Cement

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Exhibit 1: Quarterly Estimates

Company Y/E Mar	Revenue (Rs mn)					EBITDA (Rs mn)					PAT (Rs mn)				
	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)
ACC Ltd*	6.75	6.49	4.0	6.84	(1.3)	5,993	6,009	(0.3)	8,003	(25.1)	4,200	3,631	15.7	5,338	(21.3)
Ambuja Cements*	6.10	5.67	7.6	6.42	(5.0)	7,179	6,299	14.0	9,305	(22.8)	5,088	4,405	15.5	7,231	(29.6)
UltraTech	21.70	20.06	8.2	21.53	0.8	29,290	26,977	8.6	33,075	(11.4)	14,231	11,142	27.7	17,000	(16.3)
Shree Cement	6.40	6.53	(2.0)	6.84	(6.5)	7,710	9,880	(22.0)	10,135	(23.9)	4,564	5,473	(16.6)	6,617	(31.0)
Ramco Cements	2.40	2.21	8.5	2.14	12.1	3,031	3,981	(23.9)	3,404	(11.0)	1,457	2,389	(39.0)	1,690	(13.8)
India Cements	2.25	2.11	6.8	1.95	15.7	1,325	2,347	(43.5)	1,620	(18.2)	221	714	(69.1)	374	(41.0)
JK Cement	2.95	2.45	20.6	2.76	7.0	4,434	4,107	8.0	3,996	11.0	2,425	2,235	8.5	2,083	16.4
JK Lakshmi Cement	2.60	2.39	9.0	2.66	(2.2)	1,462	1,867	(21.7)	2,161	(32.3)	720	806	(10.6)	1,187	(39.3)
HeidelbergCement	1.15	1.11	3.8	1.18	(2.9)	1,001	1,249	(19.8)	1,255	(20.3)	552	624	(11.6)	687	(19.6)
Sagar Cements	0.92	0.72	27.4	0.88	4.6	789	1,048	(24.7)	1,071	(26.3)	309	502	(38.3)	501	(38.2)
Mangalam Cement	0.71	0.70	1.3	0.76	(7.1)	556	552	0.6	823	(32.5)	241	213	13.2	399	(39.6)
Kajaria Ceramics	8,260	7,125	15.9	5,617	47.1	1,408	1,437	(2.0)	804	75.1	889	896	(0.8)	415	114.2
Somany Ceramics	4,741	4,239	11.8	3,299	43.7	433	535	(19.0)	287	51.0	145	213	(32.1)	35	315.4
CERA Sanitary	3,750	3,241	15.7	2,282	64.3	514	410	25.2	208	146.7	333	231	43.9	116	186.7

Source: Company, RSec Research; Note: *Y/E December

Exhibit 2: Cement - 2QFY22 Results Preview

Company (Rs mn)	2QCY21E	2QCY20	YoY (%)	1QCY21	QoQ (%)	Result Expectations
ACC Ltd (Y/E Dec)						
Volume (mnT)	6.75	6.49	4.0	6.84	(1.3)	<ul style="list-style-type: none"> ▶ Sustained demand from infrastructure and housing segments to aid YoY volume growth ▶ Sequential contraction in realization is on account of the seasonal weakness ▶ Cost pressure and soft realization to weigh on margins
Realization (Rs/tonne)	5,100	5,090	0.2	5,260	(3.0)	
Net Sales	36,275	34,675	4.6	38,104	(4.8)	
EBITDA	5,993	6,009	(0.3)	8,003	(25.1)	
EBITDA Margins (%)	16.5	17.3		21.0		
EBITDA/tonne (Rs)	866	918	(5.7)	1,145	(24.4)	
APAT	4,200	3,631	15.7	5,338	(21.3)	
Operating cost/tonne (Rs)	4,486	4,417	1.6	4,401	1.9	
Ambuja Cements (Y/E Dec)						
Volume (mnT)	6.10	5.67	7.6	6.42	(5.0)	<ul style="list-style-type: none"> ▶ Better demand in Western region and a sustained demand from projects segment to aid YoY volume ▶ Price correction in Western and Northern regions to result in QoQ drop ▶ High fuel prices and freight cost are likely to impact the operating performance
Realization (Rs/tonne)	5,080	4,942	2.8	5,206	(2.4)	
Net Sales	30,988	28,020	10.6	33,420	(7.3)	
EBITDA	7,179	6,299	14.0	9,305	(22.8)	
EBITDA Margins (%)	23.2	22.5	-	27.8	-	
EBITDA/tonne (Rs)	1,177	1,111	6.0	1,449	(18.8)	
APAT	5,088	4,405	15.5	7,231	(29.6)	
Operating cost/tonne (Rs)	3,903	3,831	1.9	3,756	3.9	
Company (Rs mn)						
	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Result Expectations
HeidelbergCement (Y/E Mar)						
Volume (mnT)	1.15	1.11	3.8	1.18	(2.9)	<ul style="list-style-type: none"> ▶ Capacity constraints and soft demand to lead to modest growth in YoY volume ▶ High cost inflation is likely to impact operating performance
Realization (Rs/tonne)	4,580	4,627	(1.0)	4,648	(1.5)	
Net Sales	5,267	5,127	2.7	5,504	(4.3)	
EBITDA	1,001	1,249	(19.8)	1,255	(20.3)	
EBITDA Margins (%)	19.0	24.4	-	22.8	-	
EBITDA/tonne (Rs)	870	1,127	(22.8)	1,060	(17.9)	
APAT	552	624	(11.6)	687	(19.6)	
Operating cost/tonne (Rs)	3,710	3,500	6.0	3,588	3.4	

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Cement - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Result Expectations
India Cements (Y/E Mar)						
Volume (mnT)	2.25	2.11	6.8	1.95	15.7	<ul style="list-style-type: none"> ▶ Pent-up demand in key pockets in the Southern region to lead to strong volume ▶ Steep realization decline in the Southern region to impact company's realization ▶ Weak pricing and elevated costs to weigh on margins
Realization (Rs/tonne)	4,880	4,968	(1.8)	5,072	(3.8)	
Net Sales	11,325	10,697	5.9	10,225	10.8	
EBITDA	1,325	2,347	(43.5)	1,620	(18.2)	
EBITDA Margins (%)	11.7	21.9	-	15.8	-	
EBITDA/tonne (Rs)	589	1,114	(47.1)	833	(29.3)	
APAT	221	714	(69.1)	374	(41.0)	
Operating cost/tonne (Rs)	4,444	3,963	12.1	4,424	0.5	
JK Cement (Y/E Mar)						
Volume- Grey Cement (mnT)	2.95	2.45	20.6	2.76	7.0	<ul style="list-style-type: none"> ▶ New capacities and sustained demand from projects segment to aid volume growth ▶ Seasonal weakness in pricing to impact QoQ realization ▶ Strong volume of value-added projects to lead to sequential improvement in margins
Realization (Rs/tonne)	4,540	4,520	0.4	4,679	(3.0)	
Net Sales	17,280	15,507	11.4	16,337	5.8	
EBITDA	4,434	4,107	8.0	3,996	11.0	
EBITDA Margins (%)	25.7	26.5	-	24.5	-	
EBITDA/tonne (Rs)	1,444	1,463	(1.3)	1,323	9.2	
APAT	2,425	2,235	8.5	2,083	16.4	
Operating cost/tonne (Rs)	4,184	4,060	3.1	4,085	2.4	
JK Lakshmi (Y/E Mar)						
Volume (mnT)	2.60	2.39	9.0	2.66	(2.2)	<ul style="list-style-type: none"> ▶ Sustained demand from project segment to aid YoY volume growth ▶ Steep contraction in Eastern realization to affect sequential realization ▶ Cost pressures to weigh on margins
Realization (Rs/tonne)	4,200	4,087	2.8	4,340	(3.2)	
Net Sales	11,690	10,448	11.9	12,315	(5.1)	
EBITDA	1,462	1,867	(21.7)	2,161	(32.3)	
EBITDA Margins (%)	12.5	17.9	-	17.5	-	
EBITDA/tonne (Rs)	562	783	(28.2)	813	(30.8)	
APAT	720	806	(10.6)	1,187	(39.3)	
Operating cost/tonne (Rs)	3,934	3,598	9.3	3,820	3.0	

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Cement - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Result Expectations
Mangalam Cement (Y/E Mar)						
Volume (mnT)	0.71	0.70	1.3	0.76	(7.1)	▶ Weak demand scenario in the trade segment to weigh on volume growth ▶ Cost increase and soft realization to impact QoQ margins
Realization (Rs/tonne)	4,520	4,575	(1.2)	4,653	(2.9)	
Net Sales	3,209	3,207	0.1	3,555	(9.7)	
EBITDA	556	552	0.6	823	(32.5)	
EBITDA Margins (%)	17.3	17.2	-	23.2	-	
EBITDA/tonne (Rs)	783	788	(0.6)	1,078	(27.4)	
APAT	241	213	13.2	399	(39.6)	
Operating cost/tonne (Rs)	3,737	3,788	(1.3)	3,575	4.5	
The Ramco Cements (Y/E Mar)						
Volume (mnT)	2.40	2.21	8.5	2.14	12.1	▶ Pent-up demand in key pockets in the Southern region to lead to strong volume ▶ Steep realization decline in the Southern region to impact company's realization ▶ Weak pricing and elevated costs to weigh on margins
Realization (Rs/tonne)	5,360	5,498	(2.5)	5,629	(4.8)	
Net Sales	12,864	12,167	5.7	12,051	6.7	
EBITDA	3,031	3,981	(23.9)	3,404	(11.0)	
EBITDA Margins (%)	23.6	32.7	-	28.2	-	
EBITDA/tonne (Rs)	1,263	1,799	(29.8)	1,590	(20.6)	
APAT	1,457	2,389	(39.0)	1,690	(13.8)	
Operating cost/tonne (Rs)	4,097	3,699	10.8	4,039	1.4	
Sagar Cements (Y/E Mar)						
Volume (mnT)	0.92	0.72	27.4	0.88	4.6	▶ Capacity constraints and soft demand to lead to modest growth in YoY volume ▶ High cost inflation is likely to impact operating performance
Realization (Rs/tonne)	4,240	4,502	(5.8)	4,461	(5.0)	
Net Sales	3,911	3,259	20.0	3,926	(0.4)	
EBITDA	789	1,048	(24.7)	1,071	(26.3)	
EBITDA Margins (%)	20.2	32.1	-	27.3	-	
EBITDA/tonne (Rs)	857	1,451	(40.9)	1,218	(29.6)	
APAT	309	502	(38.3)	501	(38.2)	
Operating cost/tonne (Rs)	3,393	3,062	10.8	3,246	4.5	

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Cement - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Result Expectations
Shree Cement (Y/E Mar)						
Volume (mnT)	6.40	6.53	(2.0)	6.84	(6.5)	▶ Heavy rainfall and transportation strike in Chhattisgarh to adversely impact volume
Realization (Rs/tonne)	4,860	4,555	6.7	5,019	(3.2)	▶ Steep realization decline in the Eastern region and a moderate contraction in North realization to impact QoQ pricing
Net Sales	31,339	30,224	3.7	34,495	(9.1)	▶ Cost pressures to impact margins
EBITDA	7,710	9,880	(22.0)	10,135	(23.9)	
EBITDA Margins (%)	24.6	32.7	-	29.4	-	
EBITDA/tonne (Rs)	1,203	1,510	(20.3)	1,480	(18.7)	
APAT	4,564	5,473	(16.6)	6,617	(31.0)	
Cement Operating cost/tonne (Rs)	3,670	3,046	20.5	3,539	3.7	
UltraTech Cement (Y/E Mar)						
Volume (mnT)	21.70	20.06	8.2	21.53	0.8	▶ Strong demand scenario despite the seasonal weakness is expected to result in YoY volume growth
Realization (Rs/tonne)	5,020	4,825	4.0	5,157	(2.7)	▶ Sharp realization decline in Eastern and Southern regions to impact QoQ realization
Net Sales	1,17,934	1,03,871	13.5	1,18,298	(0.3)	▶ High cost inflation to impact margins
EBITDA	29,290	26,977	8.6	33,075	(11.4)	
EBITDA Margins (%)	24.8	26.0	-	28.0	-	
EBITDA/tonne (Rs)	1,350	1,345	0.4	1,536	(12.1)	
APAT	14,231	11,142	27.7	17,000	(16.3)	
Operating cost/tonne (Rs)	4,085	3,833	5.6	3,958	3.9	

Source: Company, RSec Research

Exhibit 4: Building Materials - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Result Expectations
Cera Sanitaryware (Y/E Mar)						
Revenue	3,750	3,241	15.7	2,282	64.3	► Pent-up demand and a low base to lead to strong revenue growth
EBITDA	514	410	25.2	208	146.7	► Improving utilization and price hikes to aid margins
EBITDA Margin (%)	13.7	12.7	-	9.1	-	
APAT	333	231	43.9	116	186.7	
Net Profit Margin (%)	8.9	7.1	-	5.1	-	
Kajaria Ceramics (Y/E Mar)						
Volume (MSM)	22.00	19.80	11.1	15.26	44.2	► Low base along with a shift from unorganized to organized theme is expected to result in a sharp YoY growth in sales volume
Realisation (Rs/SM)	345	329	4.9	340	1.4	
Revenue	8,260	7,125	15.9	5,617	47.1	► Higher gas prices and an increase in input cost to weigh on YoY margins
EBITDA	1,408	1,437	(2.0)	804	75.1	
EBITDA Margin (%)	17.0	20.2	-	14.3	-	
PAT	889	896	(0.8)	415	114.2	
Net Profit Margin (%)	14.8	7.5	-	14.4	-	
Somany Ceramics (Y/E Mar)						
Volume (MSM)	14.40	12.93	11.4	10.01	43.9	► Low base along with a shift from unorganized to organized theme is expected to result in a sharp YoY growth in sales volume
Realisation (Rs/SM)	298	288	3.4	292	2.2	
Revenue	4,741	4,239	11.8	3,299	43.7	► Higher gas prices and an increase in input cost to weigh on YoY margins
EBITDA	433	535	(19.0)	287	51.0	
EBITDA Margin (%)	9.1	12.6	-	8.7	-	
PAT	145	213	(32.1)	35	315.4	
Net Profit Margin (%)	6.6	(2.5)	-	6.3	-	

Source: Company, RSec Research

Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

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