JM FINANCIAL

Cement

Robust quarter; multiple headwinds to limit margin expansion

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Cement sector reported better-than-expected results in 4QFY17, as volumes grew 6.5% YoY, despite concerns on demand revival. Weighted average realisation growth was in line with our estimates at 4% YoY and -1% QoQ. EBITDA margins were impacted on higher power and fuel costs (11% YoY) and freight costs (6% YoY). Volume growth in 1QFY18 is expected to decline on lower demand and supply chain disruptions due to GST. Pricing remains the key, as profitability in terms of EBITDA/t is likely to be under pressure in 1QFY18 on cost escalations (higher petcoke/coal and diesel prices) and lower operating leverage (reduced utilisation). We prefer companies well-placed to tap demand recovery in the medium term and efficient operations to withstand any adverse operating conditions. Dalmia Bharat remains our top pick.

- **Volume performance is better-than-expected; short-term demand concerns:** While the production data showed a decline in the cement production (12% YoY), cement players reported a 6.5% YoY growth in 4QFY17. The eastern region witnessed a 6% growth during the quarter (3-4% for the full year), while the northern region registered a modest 3% growth (decline for the full year). The southern market grew 8-9% in FY17. For 1QFY18, JK Lakshmi and JK Cement witnessed a decline in the first 40-45 days, while Ultratech guided for a flat 1QFY18. Dalmia expects the eastern and southern markets to expand 7-8% in FY18. The managements expect GST implementation to disrupt the supply chain momentarily.

- **Realisation growth on higher premium products and pricing discipline; government action is key risk:** Weighted average realisations grew 4.3% YoY in 4QFY17, in line with JMFe. Sequentially, realisations declined 1% vs. an expectation of a 2.5% decline. Growth was partially ascribed to increased proportion of value-added products. Furthermore, prices were increased in the first two months of 1QFY18. Hikes taken in Apr'17 were sustained with further hikes beginning during May'17. JK Lakshmi's management indicated a realisation growth of 10-12% in eastern and southern regions in the first two months of 1QFY18. However, government officials have expressed concerns on the cement price rise in the recent months on high demand from road projects (source). The government has urged industry players to arrive at cement prices through a scientific mechanism.

- **Pricing key to maintain margins accounting for cost escalations**: Weighted average power, and fuel and freight costs grew 11% and 6% YoY, respectively, in 4QFY17. Power and fuel costs were higher on the petcoke/coal price increase (average petcoke/coal prices were 60% higher than last year). Freight costs were higher on an increase in diesel prices (29% higher than last year), higher leads to penetrate newer markets and fly ash sourcing over longer distances. Petcoke prices have further increased in the first two months of 1QFY18 (May'17 prices are nearly 9% higher than Mar'17). International coal prices softened by c.10.5% in rupee terms vs. exit prices in Mar'17.

- **Outlook—Management optimistic on demand recovery; input cost escalation is key headwind:** EBITDA/t declined in 4QFY17, primarily on higher power and fuel costs and freight costs more than offsetting the positive impact of realisation growth. EBITDA/t in the Jun'17 quarter could be under pressure on: i) escalations in petcoke/coal prices; ii) increased freight costs on higher diesel prices; and iii) lower operating leverage on reduced utilisation (lower demand and supply chain disruptions owing to GST), which may be partially offset by higher realisations.

- **Marginally positive GST impact:** Applicable rate on cement as per GST is 28%, which is marginally lower than the 28-30% indirect taxes applicable in the present taxation regime. On the inputs side, power, fuel and freight are the major components of the cost structure. With GST in place, 11% indirect taxes (6% excise plus VAT) have been brought down to 5%. This is a positive for the sector. Service tax on freight is around 4.5%, considering the abatement allowed, which has been increased to 5% under GST—this is marginally negative.

- **Dalmia Bharat—preferred pick in the sector:** We value Dalmia at 12x FY19E EV/E to arrive at a TP of INR 2,750.

Company	CMP (INR)	TP (INR)	Rating
Ultratech	4,120	4,350	BUY
Shree Cement	18,230	14,700	HOLD
Ambuja	235	230	HOLD
ACC	1,606	1,400	HOLD
Dalmia Bharat	2,376	2,750	BUY
Ramco Cement	695	600	HOLD
JK Lakshmi	490	500	BUY

4QFY17 operations snap shot

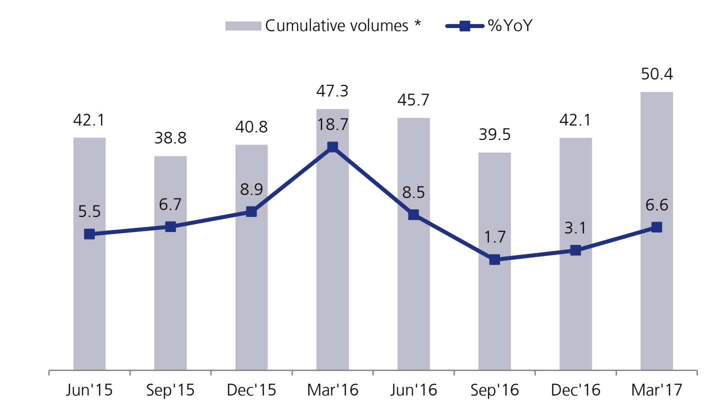
	4QFY17	3QFY17	4QFY16	% YoY	% QoQ
Volume (mnT)	50.4	42.1	47.3	6.6%	19.8%
Realn (INR/T)	4,174	4,202	3,998	4.4%	-0.7%
EBITDA/T (INR/T)	732	727	805	-9.0%	0.7%

Industry volume trends: Uptick despite high base

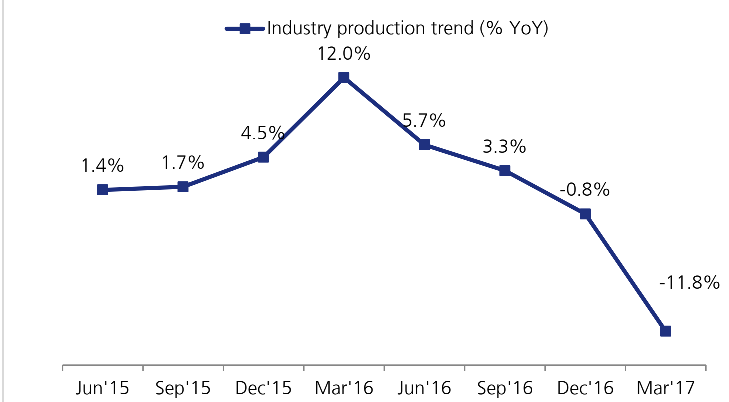
- Cement companies reported better-than-expected volumes in 4QFY17. Industry production data released by the office of the Economic Advisor, indicated a 12% decline in the industry volumes in the quarter (1.3% decline for the full year). Cement companies, however, reported 6.6% YoY growth on a cumulative basis for the quarter; sequentially 20.5% higher as demand recovered following demonetisation.
- Industry quelled the concerns regarding the negative impact of demonetisation to some extent, as players reported growth even on a high base quarter (19% YoY growth in Jan-Mar'16 quarter). As per Ultratech, Jan'17 was the weakest month after demonetisation with gradual recovery in Feb'17 and a growth in Mar'17. Channel checks suggested volume improvement in Mar'17 on advance purchases by dealers (please refer to Price hike across regions, sustainability key monitorable). Volume trends in various regions were as follows:
  - **Eastern** markets grew 6%YoY in 4QFY17 (3-4% for the full year)
  - **Northern** market registered a modest growth of 3% (decline for the full year)
  - **Southern** market registered flat growth in 4QFY17 (7% growth for full year)
  - **Central**: UP sand availability issue led to decline, while MP was stable in 4QFY17
  - **Western:** Demand impacted by muted real estate sector and weak demand from retail segment in Gujarat

Exhibit 1. Volume trends

Quarterly sales volumes and growth trends for listed companies

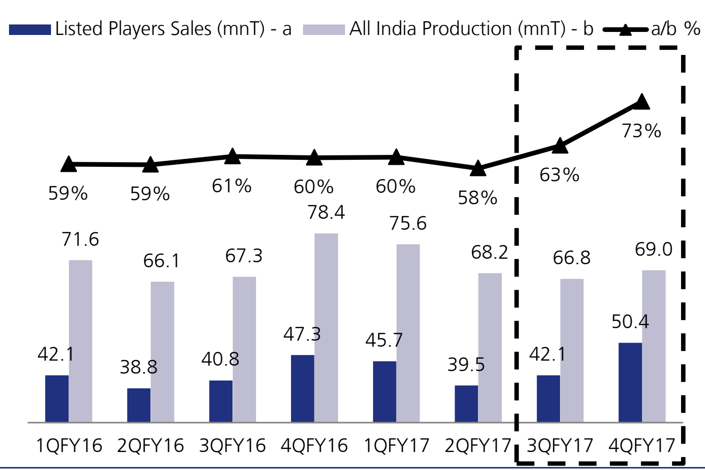


Cement industry production trend



Source: Company, JM Financial, Industry
* includes volumes of Ultratech, Ambuja, ACC, Shree, India Cement, Ramco Cement, Dalmia Bharat (ex OCL), JK Lakshmi, JK Cement, OCL, Orient Cement, Heidelberg Cement, Mangalam Cement and Sagar Cement

Exhibit 2. Material change in share of listed players in the industry after demonetisation



Source: Industry, Company, JM Financial

Exhibit 3. Company-wise cement volumes (mnT)

	Mar'15	Jun'15	Sep'15	Dec'15	Mar'16	Jun'16	Sep'16	Dec'16	Mar'17	QoQ (%)	YoY (%)	Company commentary
UltraTech	11.81	12.14	11.00	11.47	13.58	12.92	10.88	11.41	13.55	18.8	-0.2	
Ambuja Cement	5.43	5.95	4.89	5.55	5.93	5.83	4.55	5.08	6.09	19.9	2.7	
ACC	5.82	6.20	5.61	6.00	6.36	6.12	5.07	5.45	6.60	21.1	3.8	
Shree Cement	4.13	4.35	4.19	4.70	5.36	5.17	4.57	4.91	5.93	20.7	10.7	Growth on capacities commissioning (1.6mnT)
India Cement	2.05	2.10	2.17	1.94	2.48	2.31	2.40	2.78	2.99	7.6	20.6	Selling in new markets improving the utilisation to 80% (c.70% in 4QFY16)
Madras Cement	1.88	1.81	1.71	1.63	2.07	2.08	2.03	1.99	2.28	14.5	9.8	
Dalmia Bharat (ex OCL)	1.00	1.74	1.77	1.71	2.14	2.41	2.34	2.31	2.75	19.0	28.5	Market share improvement in North East and South (utilisation improvement across plants)
JK Lakshmi	1.55	1.65	1.75	1.76	2.15	2.11	1.72	1.84	2.29	24.5	6.5	
JK Cement	1.68	1.61	1.59	1.77	1.90	1.63	1.65	1.66	1.86	12.4	-2.1	
OCL India	1.34	1.35	1.08	1.25	1.74	1.35	1.08	1.25	1.80	44.0	3.4	
Orient Cement	0.99	0.97	1.01	1.06	1.39	1.39	1.17	1.25	1.73	38.4	25.0	Growth on higher utilisation of Chittapur plant, tapping demand from southern/western regions
Heidelberg	1.09	1.18	1.06	1.09	1.11	1.22	1.00	1.05	1.21	15.2	8.8	
Mangalam Cement	0.61	0.61	0.56	0.59	0.64	0.58	0.49	0.65	0.69	6.8	7.8	
Sagar Cements	0.48	0.47	0.42	0.31	0.46	0.58	0.51	0.47	0.64	35.6	40.5	Numbers not comparable YoY (consolidation from 1QFY17 onwards)
Cumulative volumes	**39.86**	**42.12**	**38.80**	**40.83**	**47.30**	**45.69**	**39.45**	**42.09**	**50.41**	19.8	6.6	
%YoY	-4.5	5.5	6.7	8.9	18.7	8.5	1.7	3.1	6.6			
%QoQ	6.3	5.7	-7.9	5.2	15.8	-3.4	-13.6	6.7	19.8			

Source: Company, JM Financial

Guidance

Exhibit 4. Industry guidance

Company	Industry volume guidance	Prices	Company commentary
Ultratech	Flat in 1QFY18		Ultratech would outperform the industry
ACC	Expects demand to grow at 5% in CY17	Stable	
Ambuja	Expects positive growth in CY17		
DBEL	Growth eastern/southern markets - 7-8%in FY18	Stable	DBEL to grow at double the market
India Cement	Expects growth (did not quantify)	Price has softened in the second half of May'17	
JK Lakshmi cement	15-17% decline sequentially in 1QFY18 till date	10-12% higher in the east; 10% improvement in the north sequentially	
JK Cement	Volume growth of 7% in FY18 (decline in 40 days beginning 1QFY18)	Stable	
Heidelberg	Growth expectation of 6-7% for FY18	Stable	

Source: Company, JM Financial

- Based on our interaction with the managements, the key drivers of cement growth, going forward, are as follows:
  - **Housing**: Affordable housing schemes, cheaper availability of housing finance and first home buyers coming into the market—affordable housing is expected to be a demand driver for the sector, conditional on execution of projects.
  - **Commercial developments:** Chinese RE players looking for developments, and commercial developments in Bangalore and other parts of Karnataka
  - **Infrastructure:** Roads—3% of the demand expected to grow 20%; irrigation projects currently being implemented in Telangana and INR 450bn has been allocated for irrigation in AP; Metro rail projects and inland waterways); AP and Telangana are expected to grow in double digits.

Realisations: Mixed trends; government's stand on pricing key risk

- Average realisations for the quarter were marginally lower QoQ (-1%), while there was a growth of 4% YoY.
  - Barring Sagar Cements, companies having significant southern exposure reported YoY declines in realisations.
  - Players largely realised a decline on a sequential basis in prices, barring players having significant exposure to the northern market.

Exhibit 5. Company-wise realisation trend (INR/t)

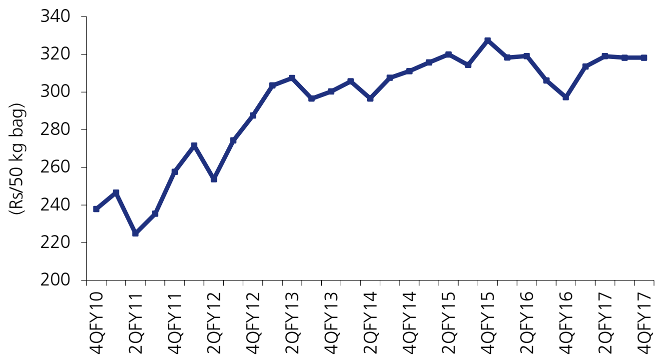
	Mar'15	Jun'15	Sep'15	Dec'15	Mar'16	Jun'16	Sep'16	Dec'16	Mar'17	QoQ	YoY
UltraTech	4,344	4,204	4,130	4,072	3,930	4,095	4,116	4,071	4,162	2.2	5.9
Ambuja Cement	4,465	4,190	4,285	4,245	4,057	4,359	4,405	4,324	4,160	-3.8	2.5
ACC	4,620	4,460	4,530	4,409	4,231	4,341	4,466	4,510	4,402	-2.4	4.0
Shree Cement	3,537	3,476	3,648	3,457	3,334	3,855	3,969	3,697	3,771	2.0	13.1
India Cement	4,892	5,757	5,570	5,413	5,239	5,156	5,391	5,103	5,083	-0.4	-3.0
Madras Cement	5,121	4,938	4,717	4,967	4,636	4,541	4,769	4,682	4,450	-5.0	-4.0
Dalmia Bharat (ex OCL)	5,468	5,341	4,979	5,334	5,086	4,495	4,480	4,660	4,890	4.9	-3.8
JK Lakshmi	3,498	3,580	3,690	3,681	3,419	3,678	3,823	3,649	3,523	-3.4	3.0
JK Cement	3,942	3,651	3,788	3,580	3,392	3,705	3,642	3,594	3,720	3.5	9.7
OCL India	4,365	4,567	4,456	4,355	4,430	4,659	5,139	4,918	4,518	-8.1	2.0
Orient Cement	3,913	3,589	3,519	3,209	3,143	3,133	3,273	3,632	3,443	-5.2	9.6
Heidelberg	3,690	3,660	3,740	3,681	3,571	3,788	3,842	3,693	3,750	1.5	5.0
Mangalam Cement	3,851	3,465	3,570	3,579	3,285	3,864	3,906	3,607	3,685	2.2	12.2
Sagar Cements	3,990	4,152	4,346	3,597	3,343	3,432	3,687	4,039	3,661	-9.4	9.5
Average realisations	**4,344**	**4,246**	**4,243**	**4,153**	**3,998**	**4,164**	**4,265**	**4,202**	**4,174**	-0.7	4.4
%YoY	7.3	0.6	-1.3	-0.8	-8.0	-1.9	0.5	1.2	4.4		
%QoQ	3.7	-2.3	-0.1	-2.1	-3.7	4.1	2.4	-1.5	-0.7		

Source: Company, JM Financial

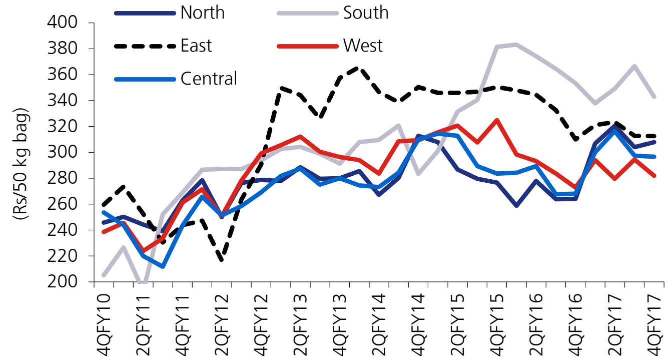
- Realisation growth was on a price hike by the cement companies to maintain margins in an environment of demand uncertainty. Sequentially, Jan'17 witnessed a decline in prices, followed by a recovery in Feb'17 and Mar'17.
- Higher realisation was partially on increased proportion of value-added products
  - ACC launched premium products ACC Suraksha and ACC HPC (16%, as a proportion of total volumes)
  - Ultratech increased the proportion of sales through Ultratech Building Solutions (UBS) to 20% by volumes
  - DBEL increased the proportion of Dalmia DSP (premium cement) to 10% of the total volumes
  - Ambuja increased the sale of Roof Special Cement—a premium product

Exhibit 6. Quarterly cement prices across India and region-wise

All-India average cement prices (quarterly)



Quarterly regional cement price trend



Source: Industry, JM Financial

- The recent channel checks conducted in May'17 (please refer to [April price increase sustained; further price increase announced]) suggested price hikes undertaken in Apr'17 and May'17 across India. Prices realised by the cement players in Apr'17 saw an increase of 7% MoM, there were further hikes of 4% across regions in the beginning of May'17 (cumulative increase of 11% over May'17-Mar'17).
- Recent developments in the sector indicates that further cement prices hikes would be difficult to undertake as the Central Government has warned cement players against the unwarranted hike in prices.

Exhibit 7. Excerpts from media articles on the government's stand against price hikes

- The government felt that cement companies are taking advantage of rising demand from road projects and increasing prices, despite no substantial rise in input costs
- The members of the Cement Manufacturers' Association, including top executives of cement companies, met the Minister for Road, Transport and Highways Nitin Gadkari to allay concerns on rising prices.
- Contrary to public perception, the association said the current cement prices are much lower than what it was two years ago.
- While being receptive to the cement industry's concern, the minister urged top officials to work towards improving public perception of the industry. He urged the industry to devise a scientific mechanism to arrive at a transparent price for the National Highways Authority of India.

Source: Media reports

Cost trends: Sector impacted by commodity cost escalation

- **Power and fuel costs—+11% YoY:** Power and fuel (P&F) costs increased 11% YoY on average on the higher petcoke/coal costs. Except JK Cement, Ramco and Heidelberg, all cement companies reported an increase in P&F costs on higher petcoke/coal costs. Sequentially, however, some companies reported a decline depending on the amount of lower costs inventory being held and liquidated during the quarter.

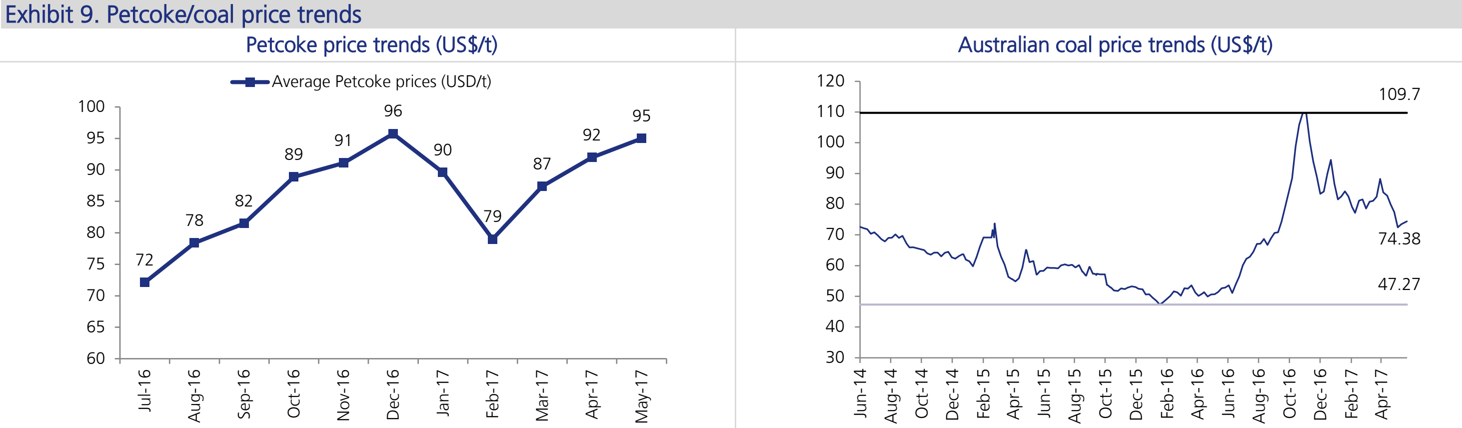
Exhibit 8. Power and fuel cost trends (INR/t)

	Mar'15	Jun'15	Sep'15	Dec'15	Mar'16	Jun'16	Sep'16	Dec'16	Mar'17	QoQ	YoY
UltraTech	902	820	865	838	678	650	722	775	779	0.5	14.8
Ambuja Cement	989	982	994	807	863	802	961	817	885	8.2	2.5
ACC	989	916	1,016	841	817	788	964	889	903	1.6	10.6
Shree Cement	640	632	566	521	479	387	492	533	576	8.1	20.4
India Cement	1,332	1,123	1,144	1,047	1,045	875	864	983	1,080	9.9	3.3
Madras Cement	871	804	794	709	628	623	591	645	617	-4.4	-1.6
Dalmia Bharat (ex OCL)	928	821	761	723	610	589	701	787	853	8.3	39.7
JK Lakshmi	841	822	750	781	661	621	679	821	734	-10.5	11.1
JK Cement	1,085	986	1,062	907	863	736	790	806	837	3.8	-3.0
OCL India	738	756	798	709	423	444	578	508	456	-10.4	7.7
Orient Cement	955	934	938	970	797	926	1,045	929	915	-1.5	14.8
Heidelberg	1,047	982	1,111	979	1,000	843	1,062	986	966	-2.0	-3.5
Mangalam Cement	1,236	988	615	729	622	662	899	1,002	764	-23.7	22.8
Sagar Cements	1,217	929	971	1,086	1,172	1,123	1,379	1,284	1,191	-7.3	1.6
Average Power & Fuel/t	**935**	**867**	**886**	**802**	**724**	**680**	**781**	**789**	**801**	1.5	10.7
%YoY	0.9	-9.9	-12.0	-17.7	-22.6	-21.6	-11.8	-1.5	10.7		
%QoQ	-4.0	-7.2	2.1	-9.5	-9.7	-6.0	14.7	1.1	1.5		

Source: Company, JM Financial

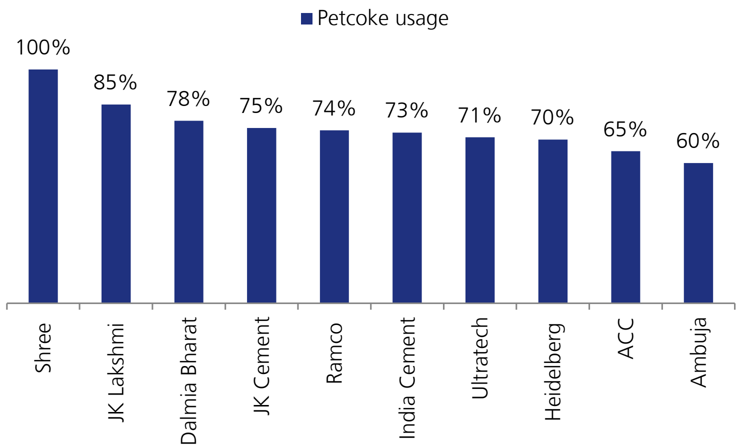
- **P&F costs to exert pressure on margins, going forward**
  - Petcoke prices, at USD 94-95/t in May'17 (INR 6,300/t as per JKLC), are 10-15% higher than the average price of USD 80-85/t in 4QFY17.
  - Imported coal prices were higher by 60% YoY in the Jan-Mar'17 quarter in rupee terms; however, there was a sequential decline of 15%. Coal prices further softened in May'17 sequentially (currently lower by 11% MoM).
  - We expect P&F costs to increase, if the current uptick in commodity prices continues. Lower cost petcoke/coal inventory could result in a delayed recognition of higher P&F costs.

Exhibit 9. Petcoke/coal price trends



Source: Company, Bloomberg, JM Financial

Exhibit 10. Petcoke usage



Source: Company, Industry, JM Financial

- **Freight costs +6.5% YoY:** Freight costs escalated during the quarter on higher diesel prices and increased lead distances to penetrate new geographies. Shree and Orient witnessed the highest increase in freight costs. Overall, freight costs grew 6% YoY.

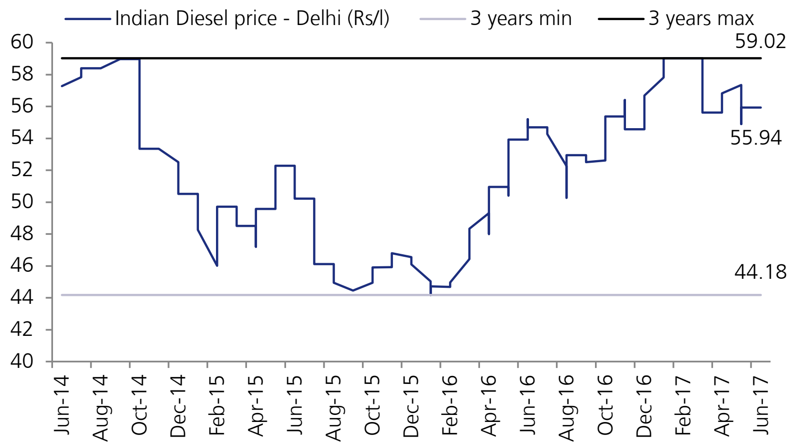
Exhibit 11. Freight cost trends (INR/t)

	Mar'15	Jun'15	Sep'15	Dec'15	Mar'16	Jun'16	Sep'16	Dec'16	Mar'17	QoQ	YoY
UltraTech	1,113	1,160	1,100	1,096	1,092	1,087	1,046	1,088	1,123	3.2	2.8
Ambuja Cement	872	883	826	851	870	876	906	888	923	3.9	6.1
ACC	1,081	1,101	1,000	1,051	1,048	979	1,070	1,108	1,152	3.9	9.9
Shree Cement	852	923	829	780	800	852	891	856	1,023	19.6	27.9
India Cement	1,011	1,055	1,017	1,005	946	1,008	1,045	1,006	1,041	3.4	10.0
Madras Cement	1,051	1,010	909	907	896	853	879	891	901	1.2	0.6
Dalmia Bharat (ex OCL)	815	1069	877	875	976	790	801	890	940	5.6	-3.7
JK Lakshmi	891	906	870	911	909	864	914	923	922	-0.1	1.4
JK Cement	1,021	980	984	941	943	902	925	950	921	-3.0	-2.3
OCL India	949	788	866	920	855	941	986	922	848	-8.0	-0.8
Orient Cement	703	796	750	706	657	697	727	911	887	-2.6	34.9
Heidelberg	508	567	504	505	511	514	533	538	552	2.6	8.0
Mangalam Cement	1,091	1,089	1,010	1,003	1,062	1,079	1,151	1,081	1,090	0.9	2.6
Sagar Cements	677	651	551	562	648	572	751	826	638	-22.8	-1.6
Average freight costs/t	**979**	**1012**	**944**	**947**	**950**	**934**	**954**	**974**	**1011**	3.8	6.5
%YoY	5.0	6.3	-2.6	-1.8	-3.0	-7.7	1.1	2.9	6.5		
%QoQ	1.5	3.4	-6.7	0.3	0.3	-1.7	2.2	2.1	3.8		

Source: Company, JM Financial

- **Diesel price escalations to impact EBITDA/t**
  - Diesel witnessed material increase in prices (average prices in 4QFY17 higher by 29% vs 4QFY16). Prices have softened in April and May vs. the exit prices of March (10% decline); still higher by 8% YoY (-4% QoQ).
  - We expect the benefit of lower diesel prices on a sequential basis would flow into the freight costs; however, freight is expected to be higher on YoY basis.

Exhibit 12. Diesel prices in India



Source: JM Financial, Bloomberg

- **Total costs +7.8% YoY:** Escalations in P&F costs and freight costs led to higher total costs for the quarter. All the companies reported a growth in total cement costs vs. the base quarter.

Exhibit 13. Total cost per ton trends (INR/t)

	Mar'15	Jun'15	Sep'15	Dec'15	Mar'16	Jun'16	Sep'16	Dec'16	Mar'17	QoQ	YoY
UltraTech	3,449	3,415	3,442	3,312	3,045	3,133	3,246	3,286	3,340	1.6	9.7
Ambuja Cement	3,597	3,574	3,682	3,697	3,340	3,362	3,798	3,744	3,561	-4.9	6.6
ACC	3,925	4,021	4,085	4,065	3,670	3,682	4,036	4,111	3,902	-5.1	6.3
Shree Cement	2,749	2,812	2,792	2,586	2,514	2,593	2,668	2,722	2,952	8.5	17.4
India Cement	4,051	4,867	4,574	4,665	4,431	4,309	4,499	4,389	4,441	1.2	0.2
Madras Cement	3,846	3,848	3,496	3,467	3,144	3,206	3,239	3,359	3,298	-1.8	4.9
Dalmia Bharat (ex OCL)	4,424	3,885	3,630	3,945	3,667	3,135	3,275	3,531	3,704	4.9	1.0
JK Lakshmi	3,037	3,273	3,299	3,296	3,022	3,122	3,276	3,199	3,210	0.4	6.2
JK Cement	3,399	3,420	3,505	3,309	2,882	3,090	3,187	3,139	3,050	-2.8	5.8
OCL India	3,637	3,597	3,634	3,431	3,247	3,321	3,854	3,637	3,278	-9.9	1.0
Orient Cement	2,974	2,981	3,158	3,008	2,697	2,854	3,137	3,282	3,007	-8.4	11.5
Heidelberg	3,116	3,281	3,287	3,153	2,993	3,133	3,244	3,321	3,171	-4.5	5.9
Mangalam Cement	3,582	3,530	3,588	3,420	2,822	3,053	3,445	3,290	3,326	1.1	17.9
Sagar Cements	3,125	3,337	3,917	3,207	2,804	2,982	3,167	3,429	3,254	-5.1	16.0
Average Freight costs/t	**3,524**	**3,562**	**3,566**	**3,480**	**3,194**	**3,229**	**3,435**	**3,475**	**3,442**	-1.0	7.8
%YoY	4.9	1.8	-2.4	-4.2	-9.4	-9.3	-3.7	-0.1	7.8		
%QoQ	-3.0	1.1	0.1	-2.4	-8.2	1.1	6.4	1.2	-1.0		

Source: Company, JM Financial

EBITDA/t trends: Cost escalation impacts margins across companies

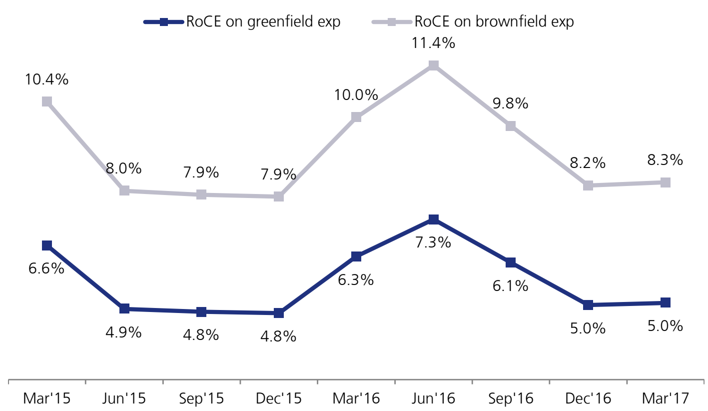
- EBITDA/t for the quarter declined 8% YoY on higher operational costs; P&F and freight costs. Companies largely reported flat to negative growth in EBITDA/t vis-à-vis the base quarter, as cost escalations more than offset the realisation growth.
- Sequentially, however, EBITDA/t was marginally higher as players tried to pass on the cost escalations downstream.

Exhibit 14. EBITDA/t trends (INR/t)

	Mar'15	Jun'15	Sep'15	Dec'15	Mar'16	Jun'16	Sep'16	Dec'16	Mar'17	QoQ	YoY
UltraTech	896	789	688	760	886	963	870	785	822	4.8	-7.2
Ambuja Cement	868	615	602	548	718	997	607	580	599	3.3	-16.5
ACC	696	439	445	344	561	659	430	399	500	25.3	-10.8
Shree Cement	788	663	856	871	820	1,262	1,301	975	818	-16.1	-0.3
India Cement	841	890	996	748	808	847	892	714	642	-10.0	-20.6
Madras Cement	1,274	1,090	1,221	1,500	1,492	1,336	1,529	1,323	1,152	-12.9	-22.8
Dalmia Bharat (ex OCL)	1044	1456	1349	1389	1419	1360	1205	1130	1186	5.0	-16.4
JK Lakshmi	461	307	391	385	397	556	546	449	312	-30.5	-21.2
JK Cement	543	231	283	271	510	615	455	455	670	47.3	31.4
OCL India	728	970	822	924	1,182	1,338	1,285	1,281	1,240	-3.2	4.9
Orient Cement	940	608	360	201	446	279	136	349	436	24.8	-2.2
Heidelberg	575	378	453	528	578	656	598	373	580	55.5	0.3
Mangalam Cement	269	-65	-18	159	463	811	461	317	359	13.1	-22.5
Sagar Cements	865	815	429	390	539	451	520	609	407	-33.3	-24.5
Average EBITDA/t	**820**	**683**	**677**	**673**	**805**	**935**	**830**	**727**	**732**	0.7	-9.0
%YoY	19.1	-5.5	5.1	21.5	-1.9	36.8	22.7	7.9	-9.0		
%QoQ	47.9	-16.7	-1.0	-0.5	19.5	16.2	-11.2	-12.4	0.7		

Source: Company, JM Financial

Exhibit 15. Implied RoCE trends on average industry EBITDA/t



Source: Company, JM Financial

i) Capex assumed: USD140/t for greenfield and USD100/t for brownfield in FY16 with escalation of 5%

ii) Exchange rate assumed at: 65 INR/USD

iii) Exhibit shows Pre-tax ROCE

iv) Capacity utilisation assumed at 100%

- Project economics remain weak for greenfield capacities. Brownfield expansion, in our view, can recover cost of capital by marginal improvement in EBITDA/t as demand recovers, going forward.
- EBITDA/t in the Jun'17 quarter could be under pressure vis-à-vis the Jun'16 quarter owing to: **i)** escalations in petcoke/coal prices to push up the power and fuel costs; **ii)** increased freight costs on higher diesel prices; **iii)** lower operating leverage on reduced utilisation (lower demand and supply chain disruptions owing to GST). Higher realisations may offset the cost escalations partially.

Marginally positive GST impact on the sector

- Cement
  - The excise component of the indirect taxes on cement is 12.5% with an additional ad valorem duty of INR 125/t levied on cement. VAT on cement varies from 12.5-14.5%, depending on the state.
  - GST applicable on cement has been decided at a rate of 28% which in our view is marginally positive for the sector.

Exhibit 16. Indirect tax incidence on cement

a) Price (INR/50kg bag)	320
b) Abatement-30%	96
Excise Applicable on (a+b)	224
c) Excise (12.5%)	28
d) Ad valorem Excise (INR125/t)	6
e) Total Excise (c+d)	34
f) Net Sales (a-e)	286
g) VAT (12.5%-14.5%)	36
Total sales realised (f-g)	250
Total tax (e+g)	**70**
Total tax incidence	**28-30%**

Source: JM Financial, Industry

- Coal: Indirect tax of 11% (excise plus VAT), which was levied on the domestic coal earlier has been brought down to a GST rate of 5%. A cess of INR 400/t has been retained on coal. This is positive for the sector as P&F costs is a major component of the cost structure of cement companies.
- Petcoke: Under GST, petroleum coke is taxed at 18%, which is similar to what it was taxed under the earlier tax regime.
- Freight:
  - A service tax of 15% (14% ST + 0.5% Swacch Bharat Cess + 0.5% of Krishi Kalyan Cess) was levied on freight with an abatement of 70%, bringing down the effective total tax incident to 4.5%. With the implementation of GST, the tax levied on freight services would increase to 5%, which is a marginal negative for the sector.
  - While, the improvement in logistics will enable companies to lower their freight cost (reduction in transportation time), warehousing rationalisation will have marginal impact in the near term, as cement companies do not have significant inventory levels.

Other updates:

- ACEM-ACC merger: ACEM and ACC have announced a possibility of a merger creating the second-largest cement company in India with a capacity of 63mnT. The management had indicated to the possibility of a merger at the time of restructuring between ACC and ACEM in 2013. Currently, ACEM and ACC's swap ratio is 6.7x, while the six-month average has been 6.3x. A swap ratio of less than 7x will ensure promoter shareholding of greater than 50%. Based on our analysis, realisation of merger synergies will present a 15-20% upside in ACEM from current levels. We await more details from the management on synergies accruing on the merger as well as the possible timeline and swap ratio. While we have a Hold rating on both stocks, we believe ACEM shareholders will be better placed to reap benefits from the merger (please refer to ACC ACEM Merger- Synergies key for value creation).

Ultratech:

- Ultratech is setting up a greenfield integrated cement plant of capacity 3.5MTPA at Dhar, MP. The capacity is on track for completion by 4QFY19.
- JP assets acquisition in its last stages and will be completed by July'2017; more key points as follows:

  - Company has applied for the transfer of mines and estimates 3-4 months for approval
  - Synergies expected from the acquisition would stem from logistics rationalisation, brand leveraging, management bandwidth and efficiencies in process management
  - Company expects the acquisition to cash breakeven in one year and be EPS accretive by 2 years
  - Out of 21.1 MTPA assets, 17.1 MTPA are operating at 42% CU and 4 MTPA capacity is under construction; the management estimates CU at 60%/75% for FY18/19E

ACC:

- ACC completed sale of the Shiva Cement stake, representing 12.13% of the equity share capital to JSW Cement on 10Mar'17 for a total consideration of INR 386.7mn. The company quoted the investment on the books at a value of INR 57.9mn, implying a profit of INR 328.8mn.
- ACC indicated issues in sourcing fly ash, which led to higher freight costs for fly ash sourcing.

Dalmia Bharat:

- Company has won the bids for three limestone mines; Orissa (12.05% of the IBM price), Chattisgarh (96.15% of the IBM price) and Rajasthan (48.05% of the IBM price). The management expects to produce the slag cement requiring lesser limestone and hence the high bid for the Chhattisgarh mine.

JK Cement:

- Board decided to raise fund by issue of secured/irredeemable NCDs on a private placement basis for an amount up to INR 5bn
- Board decided to expand the wall putty capacity from existing 2 lakh TPA to 4 lakh TPA at Katni plant
- Clinker production capacity was enhanced by 3.3lakh TPA in Rajasthan plant through debottlenecking initiatives with total costs of INR 500mn; clinker capacity now stands at 5.445MTPA at the plant

JKLC:

- JKLC increased its capacity from 1.8MTPA to 2.7MTPA; cumulative capacity now stands at 10.7MTPA with JKLC standalone
- Udaipur Cement Works Ltd (UCWL), a subsidiary of JKLC, commissioned a kiln with capacity of 1.24MTPA
- Board has approved a fund raise of INR 5bn through issue of securities—convertible/non-convertible, with/without warrant—by way of public and/or private offering and/or QIP

Emami Cement:

- Emami was a successful bidder for a limestone mine in Rajasthan with reserves of 127MT at 67.94% of the IBM price

Prism:

- Prism Cement received an LOI from the Madhya Pradesh Government to mine limestone for 50 years from mines located in Satna. Estimated reserves of the mine is 23.6MT

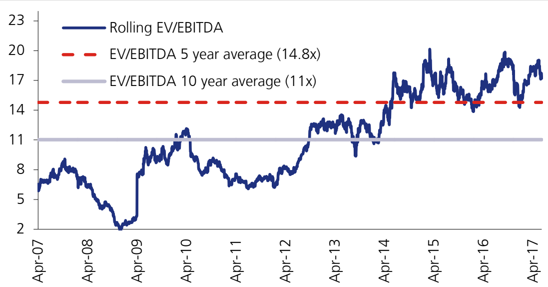
Exhibit 17. Valuation table

Company	EV/EBITDA (x)		EV/t (USD)		P/E (x)		P/BV (x)	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Ultratech	18.1	11.6	236	219	41.0	25.2	4.3	3.7
Shree Cement	21.4	14.6	282	248	44.1	30.9	6.7	5.3
Ambuja	16.9	12.1	164	158	42.1	28.9	2.5	2.4
ACC	16.0	12.2	127	123	35.4	25.3	3.3	3.2
Dalmia Bharat	12.0	10.2	160	147	37.9	25.2	3.9	3.4
Ramco Cement	12.7	11.1	159	152	21.8	19.9	3.7	3.2
JK Lakshmi	13.2	8.9	89	83	33.4	17.0	3.8	3.3

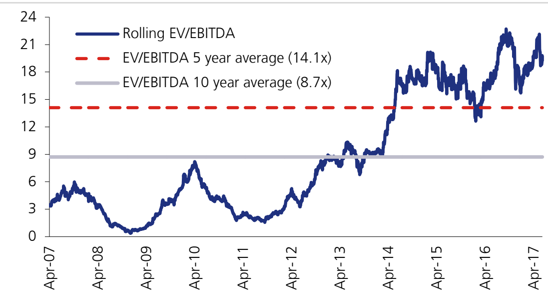
Source: Company, JM Financial

Exhibit 18. Valuation charts

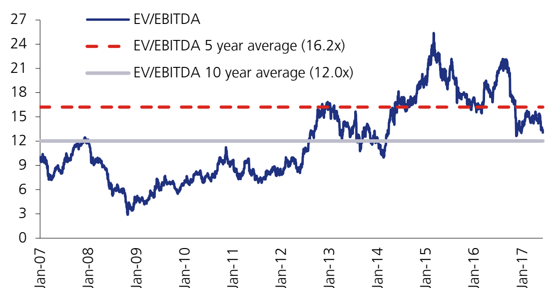
Ultratech EV/EBITDA chart



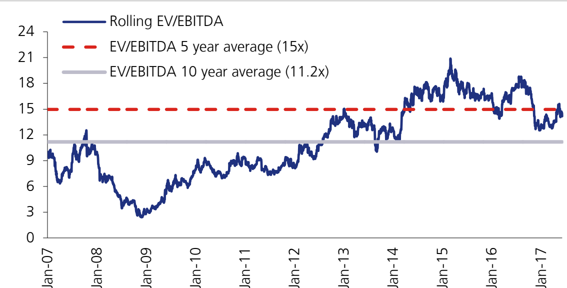
Shree Cement EV/EBITDA chart



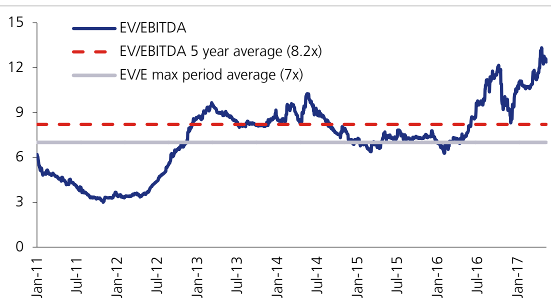
Ambuja EV/EBITDA chart



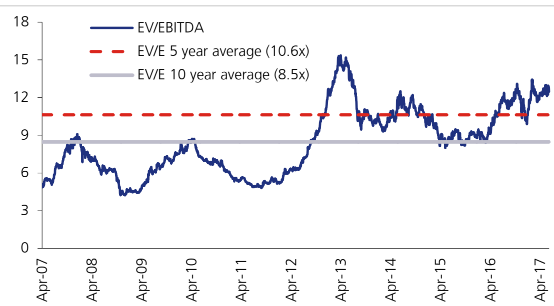
ACC EV/EBITDA chart



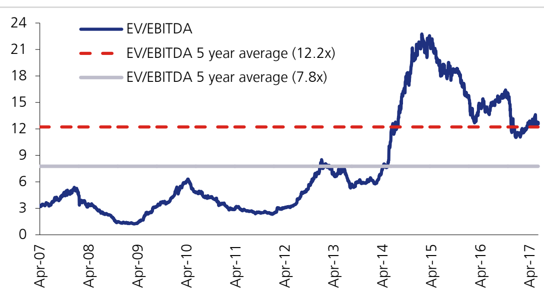
Dalmia Bharat EV/EBITDA chart



Ramco Cement EV/EBITDA chart



JK Lakshmi EV/EBITDA chart



Source: Company, JM Financial

Exhibit 19. Assumptions table

Companies	Capacity (MT)			Volumes (MT)			Realisation (INR/MT)			EBITDA/t (INR/MT)			Cost/t (INR/MT)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Ultratech	66.25	87.45	90.95	48.80	61.27	73.79	4,168	4,381	4,691	853	923	1,099	3,446	3,631	3,757
Shree Cement	27.20	33.60	40.20	20.06	22.09	28.56	3,818	4,017	4,266	1,074	1,147	1,295	2,744	2,874	2,975
Ambuja	29.65	29.65	29.65	21.39	22.66	24.90	4,283	4,455	4,725	736	783	966	3,546	3,672	3,759
ACC	33.30	33.30	33.30	22.79	24.30	25.64	4,382	4,554	4,784	493	572	710	3,903	3,996	4,097
Dalmia Bharat	25.00	25.00	26.00	15.30	16.36	17.63	4,601	4,739	4,976	1,166	1,212	1,267	3,345	3,527	3,710
Ramco Cement	16.54	16.54	16.54	8.35	9.18	9.92	4,554	4,645	4,784	1,310	1,316	1,352	3,232	3,301	3,404
JK Lakshmi	10.70	10.70	11.30	7.96	8.69	9.30	3,486	3,611	3,845	451	577	750	3,045	3,066	3,134

Source: Company, JM Financial

Exhibit 20. Key financials

Companies	Net Sales (INR mn)			EBITDA (INR mn)			Net profit (INR mn)			EPS (INR)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Ultratech	238,914	313,632	398,744	49,690	66,341	92,747	26,414	27,552	44,868	96.2	100.4	163.5
Shree Cement	84,292	98,957	132,564	23,672	28,767	41,083	13,391	14,393	20,525	384.4	413.1	589.1
Ambuja	92,678	101,955	118,809	16,827	18,748	25,217	9,806	11,103	16,181	4.9	5.6	8.1
ACC	111,676	124,016	137,651	14,207	17,180	21,858	6,430	8,515	11,921	34.2	45.3	63.4
Dalmia Bharat	74,044	81,979	92,478	19,019	21,608	24,313	3,448	5,574	8,374	38.7	62.6	94.1
Ramco Cement	39,673	44,741	49,679	11,894	13,584	15,010	6,627	7,589	8,291	27.8	31.9	34.8
JK Lakshmi	29,104	33,230	37,890	3,654	5,364	7,371	820	1,728	3,388	7.0	14.7	28.8

Source: Company, JM Financial

Exhibit 21. Key financial ratios

Companies	RoE (%)			RoCE (%)			Net Debt/EBITDA (x)			Net Debt/Equity (x)			DPS (INR)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Ultratech	11.8	11.0	15.8	9.4	9.3	11.6	-0.3	1.5	0.6	-0.1	0.4	0.2	10.0	13.0	13.0
Shree Cement	18.4	16.7	19.1	18.5	16.6	18.9	0.2	-0.6	-0.8	0.1	-0.2	-0.3	20.0	20.0	20.0
Ambuja	6.7	8.1	11.5	6.8	8.2	11.5	-1.5	-1.6	-1.7	-0.1	-0.2	-0.2	2.5	5.0	5.0
ACC	7.5	9.6	12.9	7.6	9.3	12.3	-1.3	-1.5	-1.6	-0.2	-0.3	-0.4	17.0	17.0	17.0
Dalmia Bharat	7.2	10.7	14.4	6.5	7.2	9.4	2.4	1.5	0.8	0.9	0.6	0.3	0.0	0.0	0.0
Ramco Cement	19.1	18.5	17.4	12.3	13.2	13.2	1.1	0.6	0.1	0.4	0.2	0.0	3.0	4.8	5.2
JK Lakshmi	6.1	11.9	20.6	9.8	10.3	14.1	4.0	2.4	1.1	1.1	0.9	0.5	0.8	2.9	5.8

Source: Company, JM Financial

Please refer our result updates for the quarter below:

UltraTech Cement | Robust volume/stable realisation indicates healthy trends

ACC | Rising costs offset volume improvement

Shree Cement | Robust volumes impacted by high freight cost

Ambuja Cement | Positive surprise on volumes; cost escalations impacts profitability

Dalmia Bharat | Market share gain continues; best placed to tap demand uptick

JK Lakshmi Cement | Cost optimisation key as margins decline

JK Cement | Realisation growth drives profitability beat

The Ramco Cements | Volumes drive revenues; lower realisation impacts margins

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522
Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610
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Rating	Meaning
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Sell	Price expected to move downwards by more than 10%

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