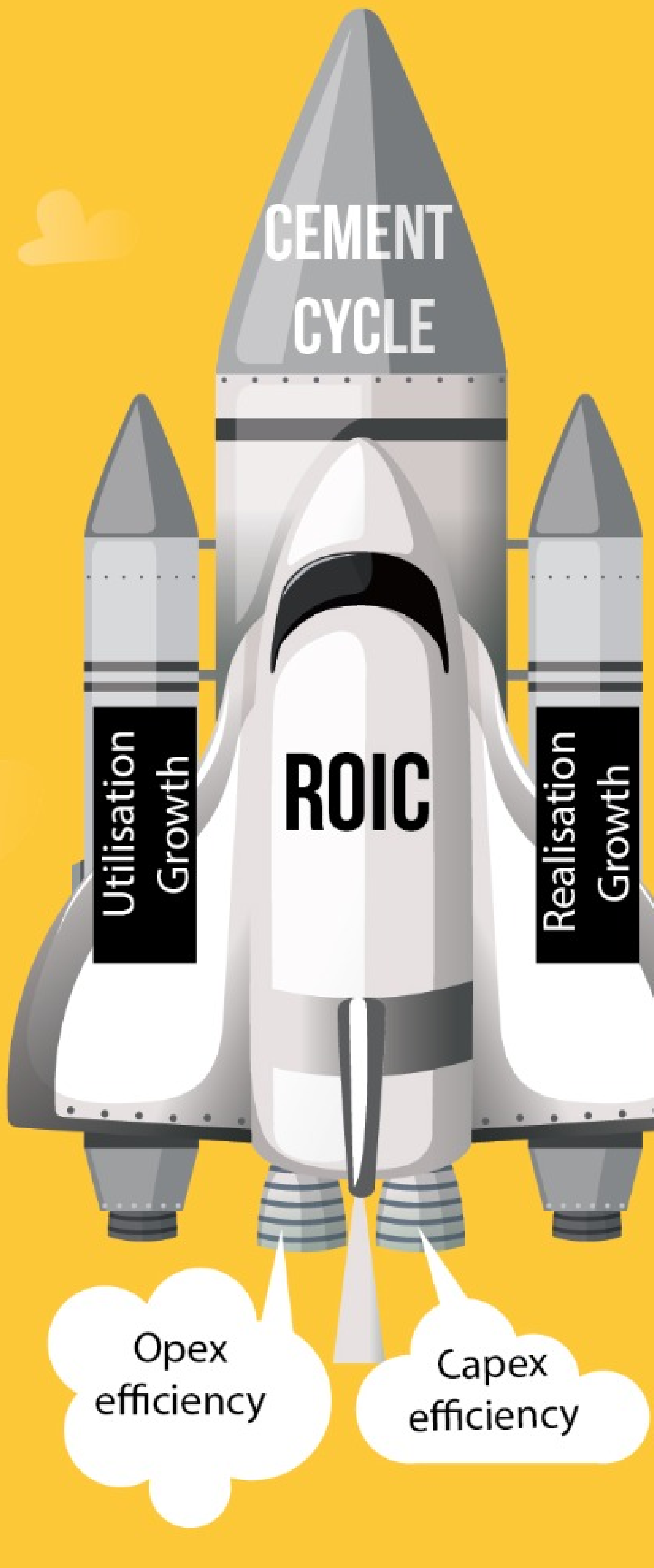
CEMENT INITIATION

Your success is our success



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Cement

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Refer to important disclosures at the end of this report

Structural profitability reset amid multi-year upcycle; long cement

We believe India's cement industry is entering a new upcycle that has no parallel in recent decades. We expect the next few years to be characterized by moderate volume growth (c.7% CAGR over FY20-26E) and price increases (2.5%); however, a more robust and sustainable improvement in profitability (RoICs) to 20%+ levels is likely to play out, supported by better price-discipline, ongoing cost-optimization and de-risking efforts, and more importantly restrained capacity additions (5% CAGR in cement capacity). Thus, we expect cement companies to exhibit reduced cyclicality over time- RoICs will fluctuate, but should sustain well above the cost of capital in our view. We are long cement-sector based on our expected robust earnings compounding and a structural RoIC reset, even as valuation rerating is largely over for most stocks.

- **Calibrated capacity additions - supply growth to lag demand:** We forecast capacity additions to be more calibrated in this cycle, leading to a moderate 5% capacity CAGR over FY20-26E. This is based on: 1) current visibility on capacity addition pipeline for next 2-3 years; 2) fairly low utilization (72% all-India level) that may reach 79% by FY26E based on our forecasts; 3) capacity additions undertaken mostly by the leading cement producers, resulting in further concentration - 54% capacity share with Top-6 players in FY23E; and 4) unviability of greenfield capacity for the next 7-8 years, even in promising markets of North/Central/East, unless price growth turns out higher than expected.
- **Significant demand tailwinds but no super cycle:** We estimate a c.7% CAGR in cement demand/production over FY20-26E, driven by higher infrastructure spending, pick up in rural and semi-urban housing, and urban real-estate revival thanks to low interest rates. As demand is likely to grow faster than supply in the foreseeable future, we expect a gradual improvement in capacity utilization levels; nonetheless, utilization is unlikely to reach anywhere close to levels seen in the past super cycle (>90% utilization). We forecast cement price CAGR of ~2.5% over FY20-26E (vs. 4.5% CAGR over the past two decades) on a pan-India basis, thanks to: 1) improving clinker utilization and 2) reducing risk of irrational behavior given growing capacity concentration. Further, we estimate cement prices need to be 7-8% higher even in 'high utilization markets' to justify green field capex in the current scenario.
- **Sustainable improvement in RoICs but valuation rerating mostly done:** We forecast RoICs to increase significantly through this upcycle, and expect them to reset in a 20-30% range over the long term. Cement stocks have already rerated, driven by improving outlook on growth and return ratios; current multiples are at trailing 5-yr avg., which itself reflects a 30% premium to previous 5-year average. We see limited rerating potential, and thus share price performance will likely be driven by EBITDA growth and FCF generation.
- **Top picks are Dalmia Bharat, Shree Cement and Ambuja:** We initiate with Buy rating on Dalmia, Shree, Ambuja and Ultratech, and Hold rating on ACC, Ramco and JK Cement. Our target EV/EBITDA (EV/E) multiples are backed by DCF analysis based on assumptions of long-term incremental RoICs (20-30% range) and sustainable FCFF/NOPAT growth beyond FY26 (8% for the industry = 5.5% volume + 2.0% price). Our Jun'22E TPs increase by 5-19% with a 50bps increase in the terminal FCFF growth rate.

Summary of Ratings, TP and valuations

Company Name	Rating	CMP (Rs/sh)	Jun'22E TP (Rs/sh)	Upside (%)	1-yr forward EV/EBITDA (x) Current	Implied target
Ultratech	Buy	6,068	7,050	16	14.8	14.0
Shree Cement	Buy	28,106	32,750	17	19.8	19.0
Ambuja Cement	Buy	295	350	19	12.7	12.5
Dalmia Bharat	Buy	1,424	2,060	45	9.9	12.0
ACC	Hold	1,813	2,040	13	9.7	9.5
Ramco Cement	Hold	959	1,020	6	15.5	13.5
JK Cement	Hold	2,804	3,000	7	13.2	12.0

Source: Emkay Research; CMP as on 23rd Apr'21

Ultratech	Buy
CMP	Target Price
6,068	7,050

Shree Cement	Buy
CMP	Target Price
28,106	32,750

Ambuja Cement	Buy
CMP	Target Price
295	350

Dalmia Bharat	Buy
CMP	Target Price
1,424	2,060

ACC	Hold
CMP	Target Price
1,813	2,040

The Ramco Cement	Hold
CMP	Target Price
959	1,020

JK Cement	Hold
CMP	Target Price
2,804	3,000

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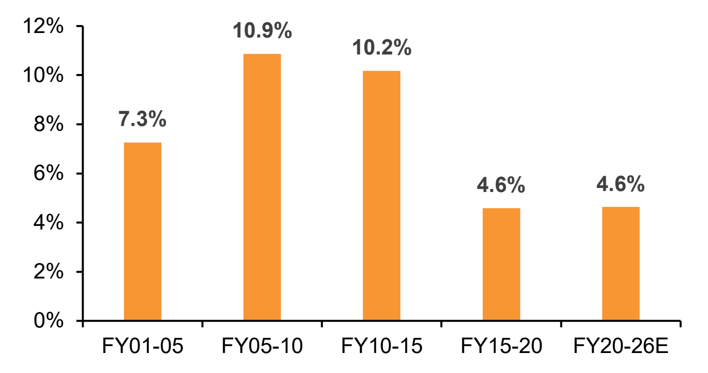
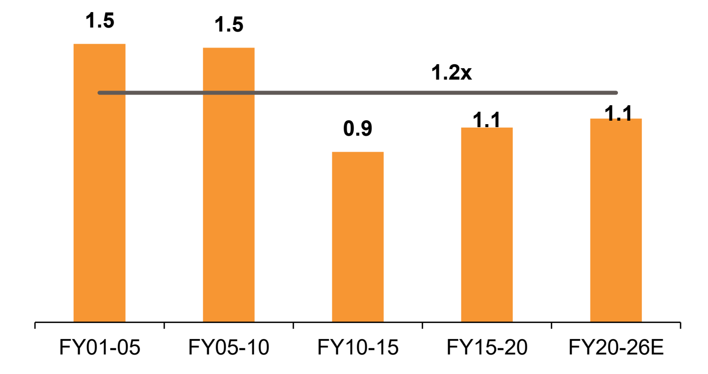
Story in Charts

Exhibit 1: Expect ~5% capacity CAGR, well below demand growth



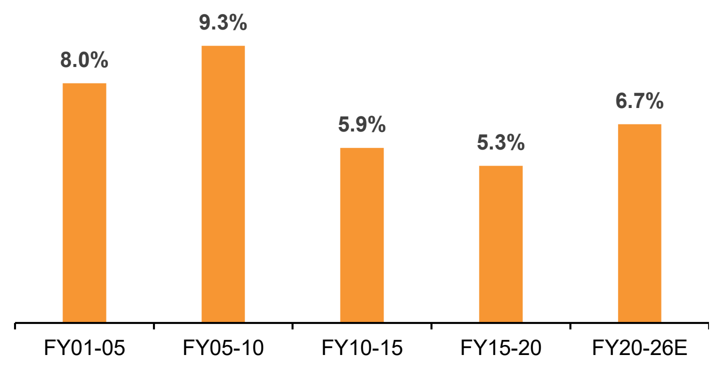
Source: Industry, Emkay Research

Exhibit 2: Cement demand has grown at an average of 1.2x real GDP growth over the last 20 years



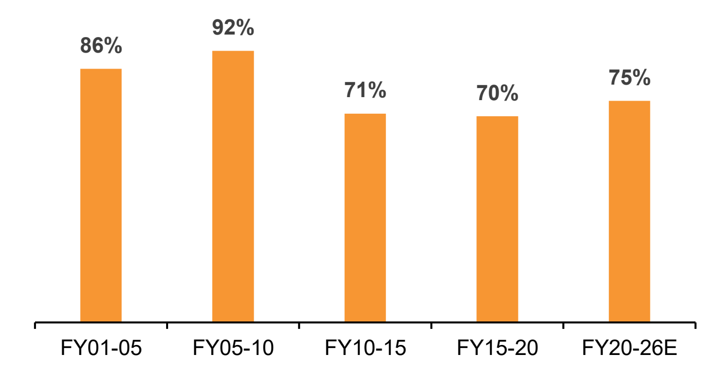
Source: Industry, Emkay Research; FY15-20E data is till FY19; FY20-26E refers to FY22E-26E

Exhibit 3: Demand likely to witness ~7% CAGR; in line with long-term historical averages



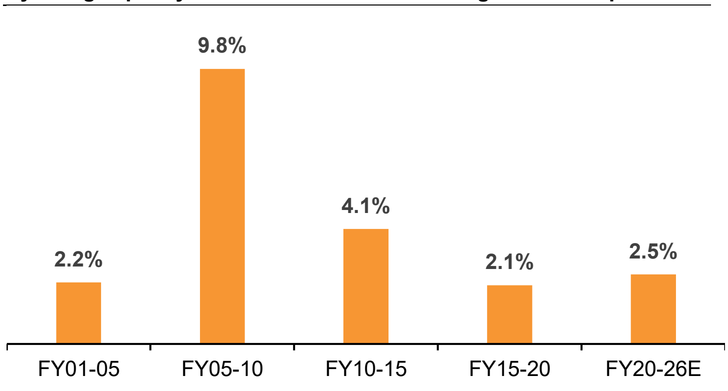
Source: Industry, Emkay Research

Exhibit 4: …leading to gradual but sustained improvement in average capacity utilization at the all-India level



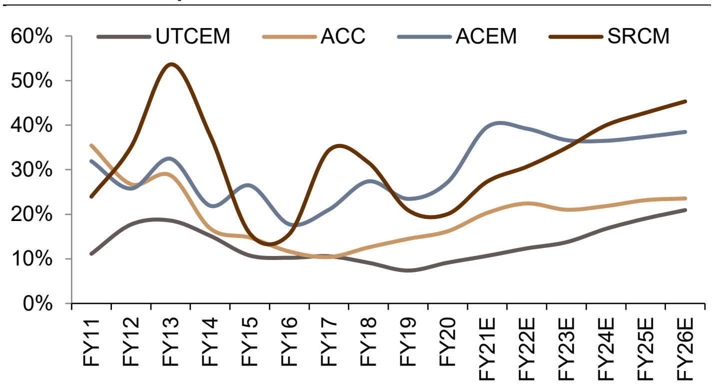
Source: Industry, Emkay Research

Exhibit 5: Cement prices to see 2.5% CAGR in this cycle, supported by rising capacity concentration and unviable greenfield capex



Source: Emkay Research

Exhibit 6: RoICs poised for a structural reset



Source: Emkay Research

Exhibit 7: Summary of ratings, target prices and valuations

Company	Rating	CMP (Rs/sh)	Jun'22E TP (Rs/share)	Upside (%)	WACC (%)	Terminal FCFF growth (%)	Sustainable incr. RoIC (%)	Exit EV/ EBITDA (x) [a]	Implied Target EV/EBITDA (x)	Current 12M EV/EBITDA (x)
Ultratech	Buy	6,068	**7,050**	16	11.3	8.0	22.5	12.3	**14.0**	14.8
Shree Cement	Buy	28,106	**32,750**	17	11.5	9.0	30.0	15.6	**19.0**	19.8
Ambuja Cement	Buy	295	**350**	19	11.5	7.0	25.0	11.8	**12.5**	12.7
Dalmia Bharat	Buy	1,424	**2,060**	45	11.5	8.0	22.5	10.5	**12.0**	9.9
ACC	Hold	1,813	**2,040**	13	11.5	7.0	22.5	8.8	**9.5**	9.7
Ramco Cement	Hold	959	**1,020**	6	11.3	7.5	20.0	10.4	**13.5**	15.5
JK Cement	Hold	2,804	**3,000**	7	11.3	8.0	20.0	11.5	**12.0**	13.2

Source: Company, Emkay Research; [a] Exit year refers to FY26.

Exhibit 8: Cement stocks have significantly re-rated in the past few years

Company	1-yr forward EV/EBITDA multiples (x)					Implied re-rating/ (de-rating) (%)
	FY12-16 (avg.)	FY17-21 (avg.)	% chg	Current	Target	
Ultratech	13.2	15.9	21	14.8	14.0	(5)
Shree Cement	13.4	19.4	45	19.8	19.0	(13)
Ambuja Cement	10.0	11.4	13	12.7	12.5	(1)
Dalmia Bharat	5.5	10.7	96	9.9	12.0	21
ACC	12.3	11.1	(10)	9.7	9.5	(2)
Ramco Cement	9.3	14.4	56	15.5	13.5	(13)
JK Cement	8.4	9.6	14	13.2	12.0	(9)

Source: Emkay Research

Structural profitability reset amid a multi-year upcycle

We believe India's cement industry is entering a new upcycle that has no parallel in recent decades. We expect the next few years to be characterized by moderate volume growth (c.7% CAGR over FY20-26E) and price increases (2.5%); however, a more robust and sustainable improvement in profitability (RoICs) to 20%+ levels is likely to play out, supported by better price-discipline, ongoing cost-optimization and de-risking efforts, and more importantly restrained capacity additions (5% CAGR in cement capacity). Thus, we expect cement companies to exhibit reduced cyclicality over time—RoICs will fluctuate, but should sustain well above the cost of capital in our view. We are long cement-sector based on robust earnings compounding and a structural RoIC reset, even as valuation rerating has largely played out for most stocks.

Exhibit 9: RoICs to sustain at higher levels versus historical averages

Company	Average RoIC (%) FY11-20	Current RoIC (%) FY21E	Exit RoIC (%) FY26E	Sustainable incremental RoIC (%) post FY26
Ultratech	12.0	10.7	20.3	22.5
Shree Cement	28.9	27.3	45.3	30.0
Ambuja Cement	25.5	39.6	38.5	25.0
Dalmia Bharat	12.6	22.1	28.0	22.5
ACC	18.8	20.3	23.5	22.5
Ramco Cement	9.8	12.4	19.2	20.0
JK Cement	8.3	15.6	20.3	20.0

Source: Emkay Research

Expect steady, sustainable improvement in RoICs over FY20-FY26E driven by:

- **Calibrated capacity additions:** We forecast industry cement capacity to see ~5% CAGR over FY20-26E, thanks to prevailing low-utilization levels, further increase in cement capacity concentration, and estimated below-par returns in new green-field capacity at current cement prices. Our capacity growth forecasts are also supported by visibility on the pipeline of capacity additions for the next 2-3 years

- **Significant demand tailwinds but no super-cycle…:** We forecast ~7% demand CAGR, which is in line with long-term historical average over the last 20 years. Over FY22E-26E, our demand CAGR forecast is 1.1x our real GDP growth expectations; we expect GDP growth over medium term to be associated with rising infrastructure spending, and growth in both rural and semi-urban housing segments

- **…leading to a gradual improvement in industry capacity utilization:** Based on our demand-supply outlook, we estimate all-India capacity utilization is likely to average around 75% over FY20-26E. In terms of clinker-utilization, our analysis suggests a pan-India capacity utilization of over 80% from FY23E onwards; further, in-terms of specific regions, we estimate clinker utilization in the North, Central and East markets at more than 85%

- **Average cement price CAGR of 2.5% at all-India level:** Our FY20-26E CAGR forecast compares with price CAGR of 4.5% over last 20-years, and is supported by growing capacity concentration, better price-discipline and input cost escalations. We note that pan-India cement prices increased 6% yoy in FY21, which implies that our price CAGR forecast over FY21-26E is 1.8%

Upcoming cycle has no parallel in recent decades

The Indian cement sector is back in the limelight, thanks to: 1) significant boost to infrastructure spending in the latest / FY22 Union Budget; 2) ongoing real-estate revival, aided by low interest rates and government incentives; and 3) continued government-focus on the affordable housing segment. In our view, investors should look beyond short-term cement price movements, and **focus on structural changes that are likely to make the cement sector more profitable and less volatile over time.**

Exhibit 10: Our analysis suggests that upcoming cement cycle has no parallel in the last 15-20 years

Metrics	FY04-08	FY09-14	FY15-21	FY21-26E
	Super cycle	**Down cycle and fragmentation**	**Consolidation amid disruption**	**New upcycle**
Capacity	**7% CAGR** • Bulk of capacity additions in North and South regions	**13% CAGR** • Bulk of capacity additions is in South. • New cement players: Wonder, Bharthi Bhavya, Murli Industries etc.	**4% CAGR** • Gradual capacity consolidation led by Ultratech, Dalmia Bharat, Nuvoco, Birla Corporation	**5% CAGR** • **Over 60% of incremental capacity likely in high growth markets and by top five players**
Demand	**9% CAGR**	**7% CAGR**	**4% CAGR** • Demand was flat to negative in FY19-21	**8% CAGR** • **Demand growth to be led by rural/ affordable housing and infra spending**
Average Utilization	**93%** • Peak utilization of 98% in FY07	**76%** • Lowest utilization of 67% in FY14	**70%** • Utilization broadly stable in past two years	**75%** • **Utilization to see gradual improvement in coming years**
Pricing	**13% CAGR** • Strong pricing growth late stage in FY06- FY08	**4% CAGR** • Prices corrected due to capacity glut, but later recovered over FY11-13	**3% CAGR** • North, Central and South regions have witnessed growth at 4-5% CAGR	**2% CAGR** • **Higher price growth likely in North, East and Central markets**

Source: Industry, Emkay Research

- **Super cycle (FY04-08):** The sector witnessed a super cycle with utilization increasing from 86% in FY04 to a peak of >95% in FY08. The sharp increase in utilization led to more than 30% increase in return ratios
- **Capacity glut triggered a down-cycle impacting utilization/profitability (FY09-14):** Higher utilization and improving profitability attracted many players to the industry which led to effective capacity growth at 13% CAGR despite reasonably good demand growth at 7% CAGR over FY09-14. Accordingly, utilization declined to the lowest level of 67% by FY14 with a concomitant 25% decline in EBITDA/ton for our coverage companies (45% of industry capacity)
- **The disruptive years (FY15-21):** Cement industry was buffeted by various disruptive events such as demonetization in late 2016, GST/RERA implementation in 2017, credit squeeze in 2019, and the Covid pandemic in 2020-21
- **New upcycle starting—expect steady and sustainable improvement in RoICs (FY21-26E):** This would be driven by pick-up in volume growth, improving price discipline, cost-optimization and de-risking efforts, and limited/calibrated capacity additions

Outsized returns limit the potential for further re-rating

Cement stocks have performed well in the last few years, resulting in significant valuation re-rating. **Our coverage companies are currently trading at forward EV/EBITDA multiples that are similar to their trailing 5-year averages. However, average multiples over the last 5-years are at roughly 30% premium to the previous 5-year average.** With improving outlook on growth and return ratios, multiples tend to overshoot long-term averages, and valuation premium tends to expand for stronger players. However, our analysis indicates that re-rating is largely done for almost all our coverage companies, and future stock performance will be largely driven by delivery of earnings/EBITDA growth and free cash flows.

Exhibit 11: Cement stocks have significantly re-rated in the past few years

Company	1-year forward EV/EBITDA (x)					Implied re-rating/ (de-rating) (%)
	FY12-16 (avg.)	FY17-21 (avg.)	Change (%)	Current	Target (Jun'22)	
Large caps						
Ultratech	13.2	15.9	21	14.8	**14.0**	**(5)**
Shree Cement	13.4	19.4	45	19.8	**19.0**	**(4)**
Ambuja Cement	10.0	11.4	13	12.7	**12.5**	**(1)**
ACC	12.3	11.1	(10)	9.7	**9.5**	**(2)**
Mid-caps						
Ramco Cement	9.3	14.4	56	15.5	**13.5**	**(13)**
Dalmia Bharat	5.5	10.7	96	9.9	**12.0**	**21**
JK Cement	8.4	9.6	14	13.2	**12.0**	**(9)**

Source: Emkay Research

Exhibit 12: Cement stocks have delivered outsized returns in the past decade

	Large Caps				Mid-Caps		
	Ultratech	Shree	Ambuja	ACC	Ramco	Dalmia	JKCE
Current EV/EBITDA (x)	**14.8**	**19.8**	**12.7**	**9.7**	**15.5**	**9.9**	**13.2**
Share price CAGR (%)							
1Y	103	87	99	96	118	224	209
2Y	28	29	18	9	20	21	86
5Y	17	21	7	6	19	29	35
10Y	20	32	8	6	26		36

Source: Bloomberg, Emkay Research

Top picks reflect our large-cap bias

We initiate coverage with Buy rating on Ultratech (UTCEM IN), Shree (SRCM), Ambuja (ACEM) and Dalmia (DALBHARA). We initiate coverage with a Hold rating on ACC, Ramco (TRCL) and JK Cement (JKCE).

Our stock selection is guided by scale, diversification, market-mix, growth pipeline/aspirations, incremental RoIC and valuations. Typically, larger cement capacities are associated with a diversified or a pan-India presence, resulting in relatively lower earnings-volatility. Further, we prefer cement companies that have higher exposure to North/East/Central markets – these markets have better capacity utilization rates, and also offer better demand and price growth prospects. Finally, almost all our coverage companies have seen leverage ratios (net debt to EBITDA) coming down in the last few years, to a level, where we do not think balance sheets are a major differentiator among companies or stocks anymore.

Exhibit 13: Prefer larger companies with favorable regional mix and stronger growth/ RoIC outlook

Company	Rating	Capacity (mtpa)	FY21 NEC [a] Exposure (%)	EBITDA CAGR (%) [b]	RoIC change (pps) [b]	EV/EBITDA (x)	Leverage (x)[c]
Ultratech	Buy	112	57	12.3	8.5	14.8	0.8
Shree Cement	Buy	43	88	16.3	14.6	19.8	(1.4)
Ambuja Cement	Buy	30	62	11.6	(0.7)	12.7	(1.4)
Dalmia Bharat	Buy	31	53	11.6	8.4	9.9	0.5
ACC	Hold	35	58	9.9	1.1	9.7	(2.4)
Ramco Cement	Hold	18	15	15.4	6.8	15.5	1.9
JK Cement	Hold	15	75	9.8	2.5	13.2	1.3

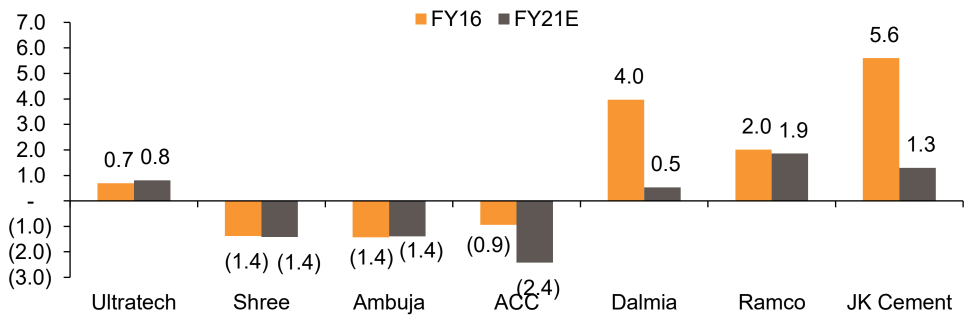
Source: Emkay Research; [a] NEC refers to North, East and Central markets. [b] FY22E-26E. [c] Mar'21 net debt to LTM EBITDA.

Exhibit 14: Profile of regional markets

Regions	Per capita consumption (kg)		Avg Cap util (%)			Demand CAGR (%)		Price CAGR (%)	
	FY16	FY21E	FY16-21E	FY21E-26E	Exit (FY26E)	FY16-21E	FY21E-26E	FY16-21E	FY21E-26E
South	237	272	58	61	66	1.0	9.7	2.6	1.4
West	268	281	69	67	72	0.7	8.0	3.6	1.6
North	187	239	77	87	87	3.6	6.1	6.3	2.2
East	154	211	82	88	91	9.2	10.0	0.4	2.3
Central	168	194	80	80	81	4.5	6.8	5.2	2.2
Pan-India	**217**	**255**	**71**	**75**	**79**	**3.7**	**8.3**	**3.5**	**1.8**

Source: Industry, Emkay Research

Exhibit 15: Leverage ratios (Net debt-to-EBITDA) have came down…



Source: Company, Emkay Research

Valuation: target prices are backed by DCF analysis

Our target EV/EBITDA multiples are backed by DCF analysis, considering long-term sustainable RoIC potential, and long-term FCF/NOPAT growth post FY26E (i.e. terminal growth rate). We have made explicit FCFF forecasts till FY26E as we believe that the current cycle will sustain at least 4-5 years. After that, our base-line sustainable growth in FCFF at industry level is 8.0% p.a., driven by:

- **5.5% annual volume growth**—lower than our expected real GDP growth of 6.0%, hence conservative
- **2.0% annual cement price increase**—lower than our forecast of 2.5% price CAGR in upcoming cycle
- **0.5% growth from margin expansion**—this is after incorporating 3.0% annual opex inflation

Exhibit 16: Summary of ratings, target prices and valuations

Company	Rating	CMP (Rs/sh)	Jun'22E TP (Rs/share)	Upside (%)	WACC (%)	Terminal FCFF growth (%)	Sustainable incr. RoIC (%)	Exit EV/ EBITDA (x) [a]	Implied Target EV/EBITDA (x)	Current 12M EV/EBITDA (x)
Ultratech	Buy	6,068	**7,050**	**16**	11.3	**8.0**	22.5	12.3	**14.0**	14.8
Shree Cement	Buy	28,106	**32,750**	**17**	11.5	**9.0**	30.0	15.6	**19.0**	19.8
Ambuja Cement	Buy	295	**350**	**19**	11.5	**7.0**	25.0	11.8	**12.5**	12.7
Dalmia Bharat	Buy	1,424	**2,060**	**45**	11.5	**8.0**	22.5	10.5	**12.0**	9.9
ACC	Hold	1,813	**2,040**	**13**	11.5	**7.0**	22.5	8.8	**9.5**	9.7
Ramco Cement	Hold	959	**1,020**	**6**	11.3	**7.5**	20.0	10.4	**13.5**	15.5
JK Cement	Hold	2,804	**3,000**	**7**	11.3	**8.0**	20.0	11.5	**12.0**	13.2

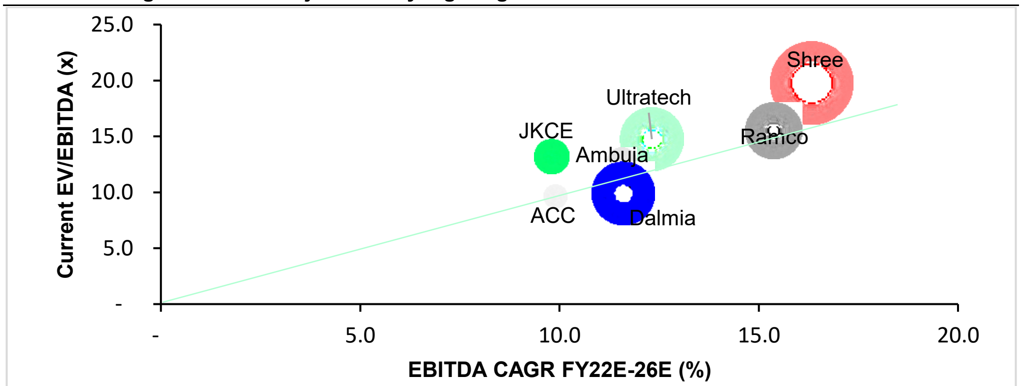
Source: Company, Emkay Research; [a] Exit year refers to FY26.

Exhibit 17: Dalmia Bharat is the only stock where we see significant rerating potential—its valuations are the lowest on growth-adjusted basis

Company	EV/EBITDA at CMP (x)		EBITDA CAGR (%)	EV/E-G (x)	RoIC (%)		FCFF Yield (%)	
	FY22E	FY23E	FY22E-24E	FY22E	FY22E	FY23E	FY22E	FY23E
Ultratech	14.8	12.5	13.1	1.1	12	13	3.1	3.6
Shree Cement	19.8	16.7	16.5	1.2	31	35	2.4	2.6
Ambuja Cement	12.7	10.5	14.6	1.0	39	37	3.1	5.5
Dalmia Bharat	9.9	8.6	12.5	0.8	20	20	4.8	5.7
ACC	9.7	8.6	10.4	0.9	22	21	1.9	3.6
Ramco Cement	15.5	13.2	17.9	0.9	12	13	2.8	3.9
JK Cement	13.2	11.6	10.8	1.2	18	20	(0.1)	0.6

Source: Emkay Research

Exhibit 18: Higher valuations justified by higher growth and RoICs



Source: Company, Emkay Research; Size of bubble represents RoIC expansion over FY22E-26E

The industry has witnessed 7% CAGR in volumes and 4.5% in price over the past two decades. Our estimates may be somewhat conservative, with upside risk coming from higher-than-expected long-term/terminal volume growth; we have assumed cement volume growth (5.5%) marginally below the expected real GDP growth (6.0%), as against historical cement-to-GDP growth multiplier of 1.2x. Upside may also come from better-than-expected LT price growth—our assumption of a 2% terminal price CAGR post FY26 is slightly lower than the 2.1% price CAGR achieved during industry-trough years in FY15-20.

Exhibit 19: Our TPs increase by 5-19% with a 50bps increase in terminal FCFF/NOPAT growth

Company	Current TG (%)	Current TP (Rs/share)	Higher TG (%)	TP with higher TG (Rs/share)	TP increase (%)
Ultratech	8.0	7,050	8.5	7,951	13
Shree Cement	9.0	32,750	9.5	39,016	19
Ambuja Cement	7.0	350	7.5	369	5
Dalmia Bharat	8.0	2,060	8.5	2,294	11
ACC	7.0	2,040	7.5	2,171	6
Ramco Cement	7.5	1,020	8.0	1,125	10
JK Cement	8.0	3,000	8.5	3,385	13

Source: Emkay Research

In this upcycle, we expect RoIC is going to increase for each company with incremental RoIC likely to be significantly higher than current RoIC. It will be mainly driven by better price-discipline, ongoing cost-optimization and de-risking efforts, and more importantly, restrained capacity additions. Although RoICs would fluctuate, they will sustain well above the cost of capital, in our view.

Exhibit 20: Incremental RoIC will be significantly higher over next few years

Company	Average RoIC (%) FY11-20	Current RoIC (%) FY21E	Exit RoIC (%) FY26E	Sustainable incremental RoIC (%) post FY26E
Ultratech	12.0	10.7	20.3	22.5
Shree Cement	28.9	27.3	45.3	30.0
Ambuja Cement	25.5	39.6	38.5	25.0
Dalmia Bharat	12.6	22.1	28.0	22.5
ACC	18.8	20.3	23.5	22.5
Ramco Cement	9.8	12.4	19.2	20.0
JK Cement	8.3	15.6	20.3	20.0

Source: Emkay Research

Key assumptions and forecasts for coverage companies

Exhibit 21: Coverage companies revenues to increase at 13% CAGR over FY21E-23E

Revenues (Rs bn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)	
								FY17-21E	FY21E-23E
Ultratech*	254	314	374	421	440	506	566	15	13
Shree Cement*	86	98	126	129	134	158	180	12	16
Ambuja Cement	93	105	114	117	114	131	146	5	13
Dalmia Bharat*	74	86	95	96	105	120	134	9	13
ACC	112	133	148	157	138	161	173	5	12
Ramco Cement	40	44	52	54	53	61	70	8	14
JK Cement*	40	48	53	58	66	76	84	13	13
Total	**698**	**828**	**960**	**1,031**	**1,050**	**1,214**	**1,352**	**11**	**13**

*Source: Company, Emkay Research; *consolidated*

Exhibit 22: Coverage companies EBITDA also to increase at 13% CAGR over FY21E-23E

EBITDA (Rs bn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)	
								FY17-21E	FY21E-23E
Ultratech*	52	61	68	94	113	125	144	21	13
Shree Cement*	25	24	29	38	40	48	56	13	18
Ambuaj Cement	17	19	19	21	26	28	34	12	14
Dalmia Bharat*	19	20	19	21	28	29	32	10	6
ACC	14	19	21	24	25	28	31	15	12
Ramco Cement	12	11	11	11	16	16	19	7	9
JK Cement*	7	8	8	12	16	18	20	22	13
Total	**146**	**163**	**175**	**222**	**265**	**293**	**336**	**16**	**13**

*Source: Company, Emkay Research; *consolidated*

Exhibit 23: Coverage companies PAT to increase at 17% CAGR over FY21E-23E

PAT (Rs bn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)	
								FY17-21E	FY21E-23E
Ultratech*	27	25	24	38	57	66	80	20	19
Shree Cement*	13	13	12	15	23	28	33	14	21
Ambuja Cement	10	12	12	14	17	19	23	15	16
Dalmia Bharat*	0	3	3	2	9	9	10	NA	8
ACC	6	9	11	13	15	18	19	23	14
Ramco Cement	7	6	5	6	8	8	10	5	12
JK Cement*	2	3	3	5	7	9	10	39	19
Total	**66**	**70**	**70**	**94**	**135**	**156**	**187**	**20**	**17**

*Source: Company, Emkay Research; *consolidated*

Exhibit 24: Coverage companies volumes likely to grow at 12% CAGR over FY21E-23E

Volumes (mt)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)	
								FY17-21E	FY21E-23E
Ultratech*	53	65	76	82	85	96	106	12.5	11.5
Shree Cement	21	23	26	25	27	31	35	6.8	13.7
Ambuja Cement	22	23	24	24	23	26	28	1.3	10.7
Dalmia Bharat	15	17	19	19	21	24	27	8.1	13.2
ACC	23	26	29	30	26	29	31	3.3	8.7
Ramco Cement	8	9	11	11	10	12	13	4.8	14.5
JK Cement*	8	10	10	10	12	14	15	9.6	10.9
Total	**150**	**172**	**195**	**202**	**204**	**232**	**254**	**7.9**	**11.6**

*Source: Company, Emkay Research; *consolidated*

Exhibit 25: Coverage companies realization to increase at 1.8% CAGR over FY21E-23E

Realization (Rs/ton)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)	
								FY17-21E	FY21E-23E
Ultratech*	4,703	4,795	4,815	5,038	5,098	5,218	5,283	2.0	1.8
Shree Cement*	4,166	4,364	4,533	4,776	4,667	4,797	4,868	2.9	2.1
Ambuja Cement	4,249	4,455	4,525	4,717	4,927	5,047	5,198	3.8	2.7
Dalmia Bharat	4,561	4,800	4,744	4,691	4,838	4,741	4,801	1.5	(0.4)
ACC*	4,761	4,934	5,020	5,156	5,151	5,374	5,474	2.0	3.1
Ramco Cement	4,641	4,637	4,563	4,736	5,201	5,107	5,209	2.9	0.1
JK Cement*	4,811	4,916	5,072	5,603	5,430	5,536	5,646	3.1	2.0
Wt. avg.	**4,561**	**4,713**	**4,764**	**4,963**	**5,027**	**5,126**	**5,207**	**2.5**	**1.8**

*Source: Company, Emkay Research; *blended*

Exhibit 26: Coverage companies EBITDA/ton remain broadly flat over FY21E-23E after witnessing 46% increase in past two years

EBITDA (Rs/ton)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%)	
								FY17-21E	FY21E-23E
Ultratech*	977	951	889	1,144	1,324	1,301	1,354	7.9	1.1
Shree Cement*	1,214	1,074	1,060	1,474	1,500	1,533	1,569	5.4	2.3
Ambuja Cement	780	824	780	893	1,167	1,109	1,227	10.6	2.5
Dalmia Bharat	1,239	1,200	1,040	1,092	1,350	1,178	1,185	2.2	(6.3)
ACC*	618	717	735	811	949	966	1,008	11.3	3.1
Ramco Cement	1,425	1,181	959	1,024	1,572	1,390	1,434	2.5	(4.5)
JK Cement*	880	807	817	1,186	1,330	1,322	1,392	10.9	2.3
Wt. avg.	**973**	**943**	**890**	**1,096**	**1,297**	**1,261**	**1,316**	**7.5**	**0.7**

Source: Company, Emkay Research

Key downside risks and concerns

- **Adverse demand-supply mismatch:** A condition of oversupply could ensue, if a large number of capacities get commissioned ahead of schedule; this in turn could pressure cement pricing. Further, any significant slowdown in implementation of infrastructure projects could impact adversely impact demand forecasts
- **Inability to pass on input cost pressure:** Historically, cement companies have been able to pass on input cost inflation to end-consumers (as seen in FY12-13, 2017 to early 2018). However, any difficulty in passing cost increase could pose downside risk to our estimates and may induce higher volatility in EBITDA/ton. Nonetheless, companies are focused on various cost optimization and de-risking efforts (such as increasing the share of green power, improving efficiency norms) to reduce exposure to the fluctuations in input prices
- **Government/ regulatory concerns:** 1) resolution of CCI case: Any adverse ruling in the CCI case, where the fair-trade watchdog has charged a few cement companies for cartelization, may impact the ability of the cement companies to raise prices; 2) change in regulations - the government has come up with regulations for the sector from time to time – from placing ban on sand-mining, imposing differentiated duty structures for different price levels etc. Any such new regulation could temporarily hit cement growth
- **Capital allocation may emerge as a meaningful concern:** Our coverage companies are expected to generate FCF of Rs260bn post-capex of Rs230bn over FY21E-23E. Aggregate net debt of coverage companies was Rs2bn as of Mar'21, and is likely to turn into net cash of Rs222bn by Mar'23 as per our forecasts. Any unrelated diversification or below-par returns on cash may emerge as a concern. Any intention to deploy surplus cash towards dividend payments would help allay these concerns

Exhibit 27: Significant potential to increase dividend pay-out ratio

Rs bn	Net Cash/(debt)		Current Mcap	Cash/Mcap		DPR (%)
	FY21E	FY23E		FY21E	FY23E	FY21E
Ultratech	(91)	20	1,751	(5)	1	8
Shree Cement	57	101	1,014	6	10	20
Ambuja Cement	37	61	586	6	10	12*
Dalmia Bharat	(15)	8	269	(6)	3	10
ACC	60	68	341	18	20	18
Ramco Cement	(29)	(16)	228	(13)	(7)	9
JK Cement	(21)	(21)	217	(9)	(9)	11

Source: Company, Emkay Research; adjusted for special dividend

Calibrated capacity addition- supply growth to lag demand growth

We model <u>calibrated capacity additions of 5% CAGR over FY20-26E</u> owing to 1) lower current utilization (72% in FY21); 2) capacity share concentration (54% capacity share with Top-6 players on pan-India basis); 3) greenfield capacity additions likely to be unviable even in promising markets for next 7-8 years; and 4) current known pipeline doesn't suggest any disruptive additions. As capacity additions to lag demand growth for the foreseeable future, we expect utilization to see a gradual improvement in the coming years.

Exhibit 28: Calibrated capacity additions at 5% CAGR over FY20-26E

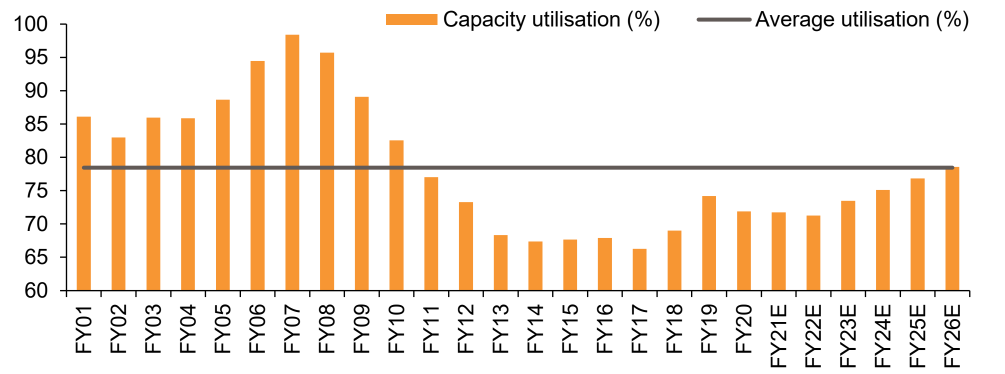
Regions	Capacity additions (mt)		CAGR (%)	
	FY10-20	FY20-26E	FY10-20	FY20-26E
South	81	35	6.7	3.2
West	30	17	6.2	3.8
North	52	26	7.3	3.8
Central	29	27	7.0	6.5
East	56	48	10.2	7.4
Pan-India	**249**	**153**	**7.3**	**4.6**

Source: Industry, Emkay Research

Lower utilization to restrict pace of capacity additions

The sector has witnessed significant divergence in terms of demand, supply and utilization levels across regions. However, pan-India industry utilization is still lower and restricted to 72% in FY21E. Even after factoring 200bps higher demand over supply over next five years, pan-India utilization likely to reach at 79% by FY26E, which is in line with 20-year historical averages. Accordingly, we believe that cement companies will focus more on sweating existing assets rather than aggressively expanding capacities in the foreseeable future.

Exhibit 29: Pan-India utilization to reach in-line with 20-years historical averages by FY26E

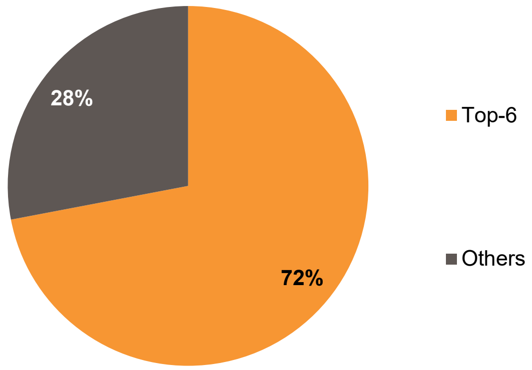


Source: Industry, Emkay Research

Capacity additions by larger players are driving further concentration

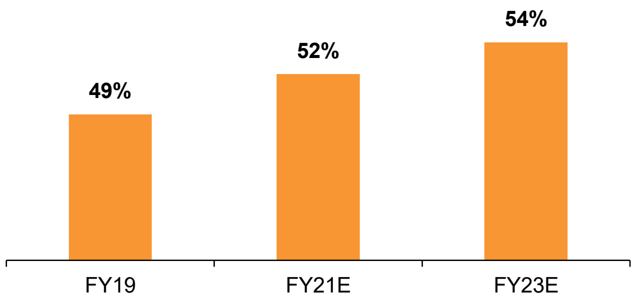
Historically, we have seen that improving profitability and return ratios profile trigger the slew of expansion announcements. However, this time capacity additions is mainly by incumbents large players as Top-6 players are adding 42mt capacity (72% of incremental capacity) by FY23E. Accordingly, their capacity share likely to increase by 400bps to 54% by FY23E. We see this as a positive and believe that any irrational competitive behavior by larger players can be ruled out. Further, it has often seen in the past that certain companies (especially mid and small-cap) delay the expansions on account of poor balance sheet position, delay in land acquisition and other necessary regulatory approvals.

Exhibit 30: >70% of incremental capacity over couple of years by Top-6 players



Source: Industry, Emkay Research

Exhibit 31: …to further concentrate their capacity share and reduce risk of irrational behavior



Source: Industry, Emkay Research

Lack of viability of greenfield capacity additions for next 7-8 years even in promising markets

Our coverage universe' average EBITDA margin of ~25% or EBITDA/te of ~Rs1,250/te (other industry participants profitability is still lower) in FY21E is insufficient to recover cost of capital on greenfield plants at current pan-India utilization level. In the present scenario, its required to generate minimum EBITDA/ton of Rs1,750/ton (+40%) to generate returns equivalent to WACC.

Assuming 1) 100bps p.a. improvement in utilization post 83% in FY22E and 2) 2.5% p.a. each increase in cement prices and opex inflation, our analysis suggests that greenfield capacity additions are unlikely to be viable for existing players in promising markets (like North, Central and East) for next 7-8 years.

Additionally, limestone mine ownership has become costly after the enactment of MMDR Act, 2015 for any new player as it needs to acquire through auction route vs. earlier it has been allotted by state government. Our analysis suggests that on an average royalty/ton on limestone is ~3x (incremental ~Rs200/ton) for the new mines auctioned post 2015. Accordingly, new players are unlikely to generate even minimum required RoIC even in FY29E and it will act as an entry barrier for the sector.

Exhibit 32: Greenfield capacity additions likely to be unviable even in promising markets for another 7-8 years

Greenfield plant (Rs mn)	Existing players in promising markets		New players
	FY21E	FY29E	FY29E
Capex/ton (USD)	100	100	100
Capex/ton (Rs)	7,400	7,400	7,400
Capacity (mt)	1.0	1.0	1.0
Utilization (%)	85	89	89
Volume (mt)	0.85	0.89	0.89
Price (Rs/bag)- Gross	345	420	420
Price (Rs/te)- net of GST	4,968	6,053	6,053
Revenues	4,223	5,413	5,413
Opex	3,230	4,141	4,421
EBITDA	**993**	**1,273**	**993**
EBITDA (Rs/ton)	**1,168**	**1,423**	**1,110**
Depreciation	296	296	296
EBIT	**697**	**977**	**697**
Interest	189	189	189
PBT	508	788	508
Tax	128	199	128
PAT	**380**	**589**	**380**
RoIC (%)	**7.0**	**9.9**	**7.0**
WACC (%)	**9.8**	**9.8**	**9.8**
D:E	30:70	30:70	30:70

Source: Industry, Emkay Research

Current pipeline does not suggest any disruptive capacity additions

Capacity addition announcements by various players give clear visibility on industry supply for at least a couple of years which is likely to grow at 5% CAGR. Even if any player wants to add capacity today, it generally takes at least 2-2.5 years for a brownfield expansion and 3.5-4 years for a greenfield expansion.

Exhibit 33: Current pipeline doesn't suggest any disruptive additions

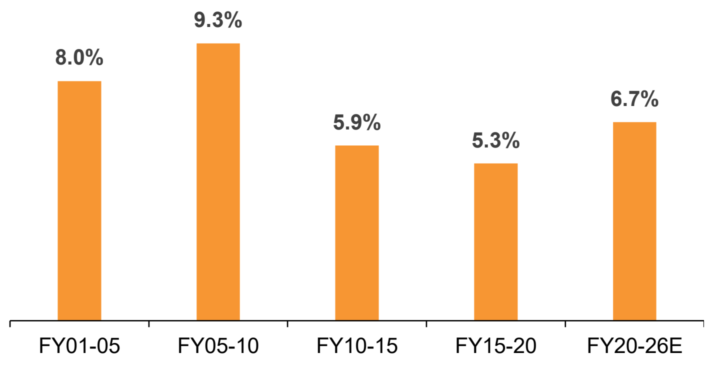
mt	FY19	FY20	FY21E	FY22E	FY23E
South	8	2	6	1	2
West	5	1	3	7	4
North	-	2	2	2	6
Central	4	7	-	5	6
East	3	5	8	8	18
Pan-India	**19**	**16**	**18**	**23**	**35**

Source: Industry, Emkay Research

Significant demand tailwinds, but no super cycle

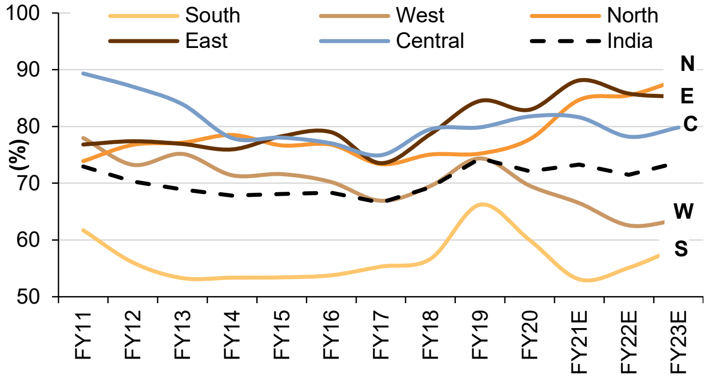
We estimate 7% demand CAGR over FY20-26E, which is in line with historical averages, and our expectations of real Gross Domestic Product (GDP) growth, driven by infrastructure and rural and semi-urban housing segments, lower interest rates and real-estate demand revival. As demand growth likely to be higher than supply growth in the foreseeable future, we expect a gradual improvement in utilization level, but it is unlikely to reach even close to a period of super cycle (>90% utilization).

Exhibit 34: Demand likely to grow at 7% CAGR; in-line with historical averages, and our real GDP growth expectations



Source: Industry, Emkay Research

Exhibit 35: Cement utilization to improve across regions over FY21E-23E



Source: Company, Emkay Research

Exhibit 36: Demand/ supply model over FY10-23E

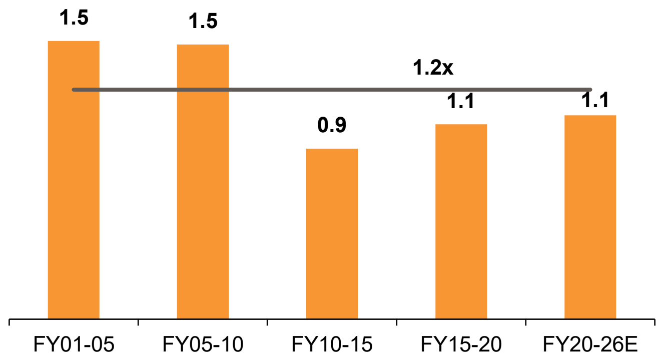
	FY10	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (%) FY10-FY15	CAGR (%) FY15-FY20	CAGR (%) FY20-FY23E
Installed capacity (mt)	286	402	429	446	463	482	498	517	540	575	7.0	4.4	4.9
Effective capacity (mt)	253	390	414	434	454	473	475	463	529	554	9.1	4.0	5.3
Demand (mt)	204	266	283	289	314	352	343	340	378	408	5.5	5.2	6.0
Surplus / (Deficit) (mt)	49	124	131	145	139	121	133	124	151	146			
% surplus	19	32	32	33	31	26	28	27	29	26			
Capacity utilization (%)	**81**	**68**	**68**	**67**	**69**	**74**	**72**	**72**	**71**	**74**			
Capacity growth (%)	**20.8**	**4.7**	**6.1**	**4.8**	**4.6**	**4.1**	**0.6**	**(2.6)**	**14.3**	**4.7**			
Demand growth (%)	**10.6**	**5.2**	**6.5**	**2.1**	**8.8**	**11.8**	**(2.5)**	**(1.0)**	**11.5**	**8.0**			

Source: Industry, Emkay Research

Cement demand to grow in line with real GDP growth

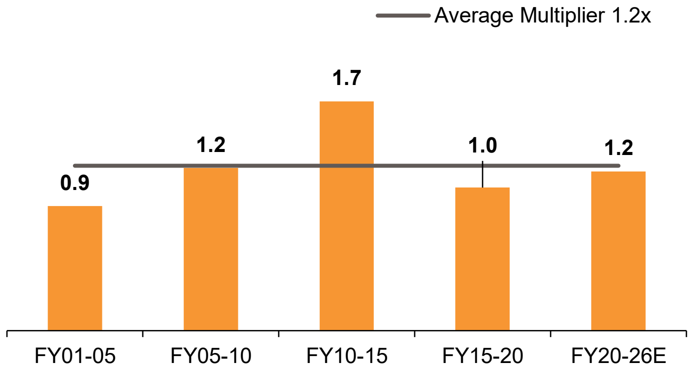
In the last decade, cement demand growth and real GDP growth moved in tandem, suggesting multiplier of 1x. While the multiplier for cement demand growth and real GFCF stood at 1.35x over the same period. Cement demand to real GDP multiple slipped to negative territories for the first time in FY20, primarily because of demand declined ~3% yoy with real GDP growth pegged at ~4%. In the past, cement demand to GDP multiplier rose into 1.3x in FY18 post a subdued demand scenario during FY14-17. In contrast, the cement industry was growing at a healthy multiple of 1.35x in FY07-13 owing to healthy capital investments. Despite higher investment in public capex, we factor in the cement growth multiplier to improve marginally over the coming years.

Exhibit 37: Cement demand has grown at an average of 1.2x real GDP growth over the last 20 years



Source: CMIE, Industry, Emkay Research; FY15-20E data is till FY19; FY20-26E refers to FY22E-26E

Exhibit 38: Real GFCF and Cement demand multiplier also at 1.2x

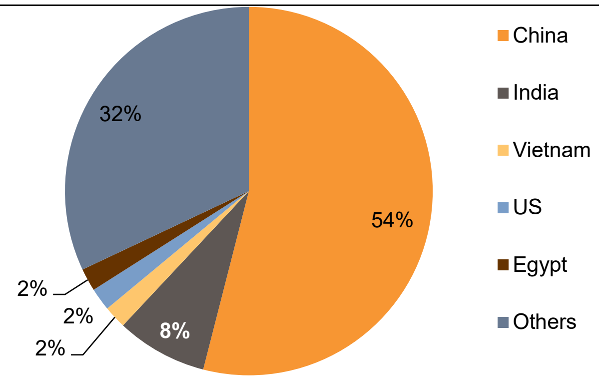


Source: CMIE, Industry, Emkay Research; GFCF is Gross Fixed Capital Formation

Per capita consumption suggests significant scope for improvement in demand

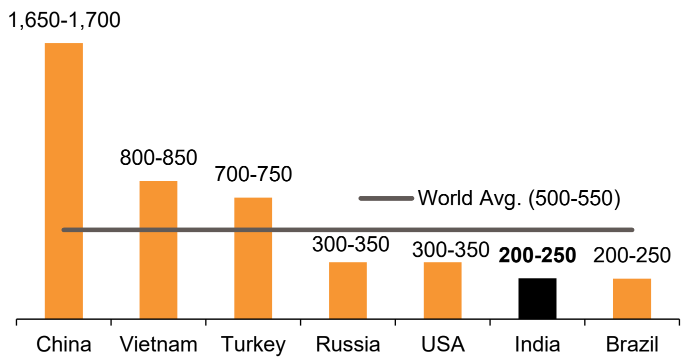
India is the second-largest cement producer and consumer in the world, although per capita consumption of India is around 200-250kg compared to world average of 500-550kg and this gives enough headroom for boost in cement demand.

Exhibit 39: India is second largest cement producer globally



Source: ACC presentation, Emkay Research

Exhibit 40: ……..but per capita consumption stood significantly below world average



Source: ACC presentation, Emkay Research

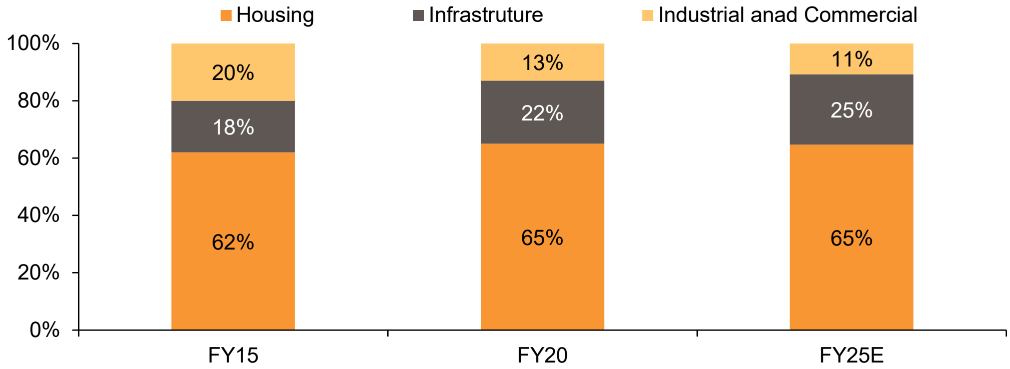
supported by multiple drivers….

We believe cement demand will show a strong and broad-based recovery, driven by infrastructure and rural and semi-urban housing segments, lower interest rates and real estate demand revival.

Share of infrastructure spend in overall cement demand to improve

We believe the share of infrastructure in overall cement demand would increase from the current 22% to 25% over next few years mainly driven by increased government spend.

Exhibit 41: Share of infrastructure spend in overall cement demand to increase



Source: Industry, Emkay Research

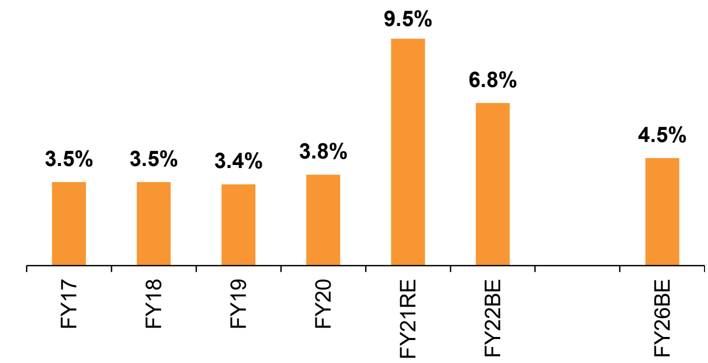
Exhibit 42: East and Central offer high growth potential led by infra and rural housing

Macro-Economic potential	South	West	North	East*	Central	India
Rural Population (FY20E)	54%	53%	67%	77%	75%	67%
Per capita consumption (kg)	263	273	231	203	173	227
Road Density (kms/per lakh people)	401	469	294	307	244	358
Power Density (kwh/capita)	1,461	1,758	1,233	820	700	1,181

*Source: Ultratech presentation, Emkay Research, *excluding North East*

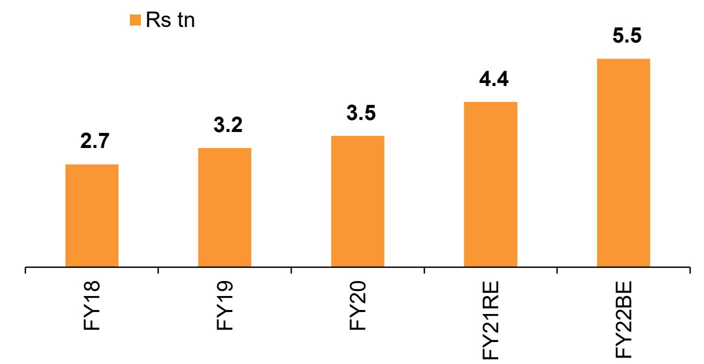
The government has pegged fiscal deficit at 4.5% in FY26E from a high of 9.5%/6.8% in FY21RE/FY22BE. Overall budgetary allocation toward capex for FY22E increased 26% yoy to Rs5.5tn, indicating government intention to push infrastructure. Our analysis of the Union Budget 2021 budgetary allocation suggests 12% increase in total spending on cement-intensive sectors in FY22E.

Exhibit 43: Enough headroom in fiscal deficit to push infra spending



Source: Union Budget, Emkay Research

Exhibit 44: …26% increase in allocation toward capex in FY22E



Source: Union Budget, Emkay Research

Exhibit 45: Budgetary allocation in key cement intensive scheme increased by 12% YoY

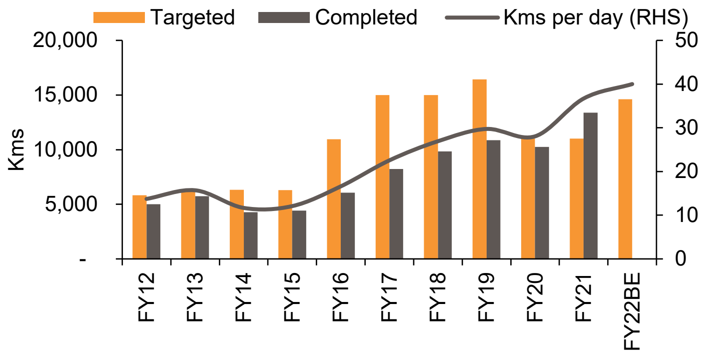
Rs bn	FY17	FY18	FY19	FY20	FY21RE	FY22BE	YoY (%) FY20	YoY (%) FY21RE	YoY (%) FY22BE
Roads/PMGSY*	961	1,181	1,444	1,571	1,708	1,882	9	9	10
MRTS/Metro	153	140	145	189	90	235	31	(52)	161
Amrut/Smart Cities	93	95	121	96	99	138	(21)	3	40
PMAY - Urban/Rural	210	312	254	250	405	275	(2)	62	(32)
Swachh Bharat Mission (Urban/Gramin)	126	194	154	95	70	123	(38)	(26)	76
Total	**1,543**	**1,922**	**2,117**	**2,200**	**2,371**	**2,653**	**4**	**8**	**12**

*Source: Union budget, Emkay Research; *including IEBR*

Roads – a large opportunity

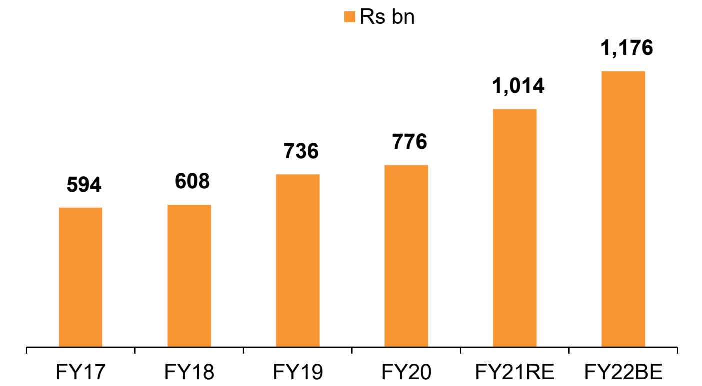
The government's focus on roads and highways has been evident through fast-track approvals, speedy execution of road completion, budgetary allocation and various policy measures taken. The government is targeting to construct around 60,000km of highway at the rate of 40km/day in next five years (vs. 37kms/day achieved in FY21).

Exhibit 46: Government targeting highways construction at 40kms/day for next five years



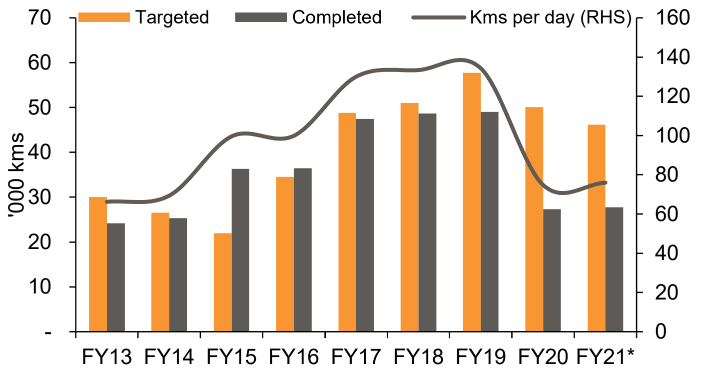
Source: MoRTH, Emkay Research

Exhibit 47: Budgetary allocation for MoRTH increased by 16% YoY in FY22E



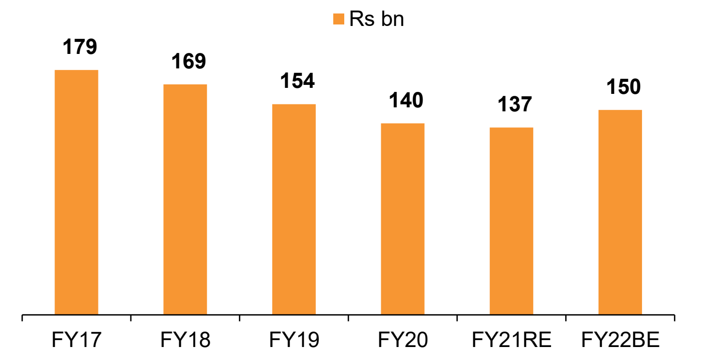
Source: Budget documents, Emkay Research

Exhibit 48: Completion rate was around 60% in last two years for rural road construction



*Source: MoRD, Emkay Research, *till Jan21*

Exhibit 49: …9% YoY increase in budgetary allocation of PMGSY for FY22E



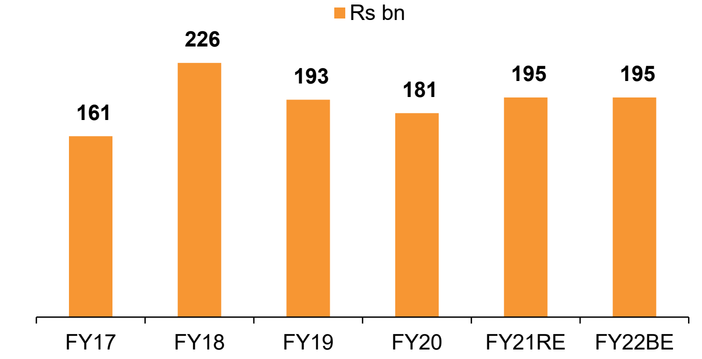
Source: Budget documents, Emkay Research

'Housing for All' to boost cement demand

The government has targeted to construct 29.5mn houses under Pradhan Mantri Awas Yojana-Gramin (PMAY-G) and 10mn houses under Pradhan Mantri Awas Yojana- Urban (PMAY-U) by FY22E.

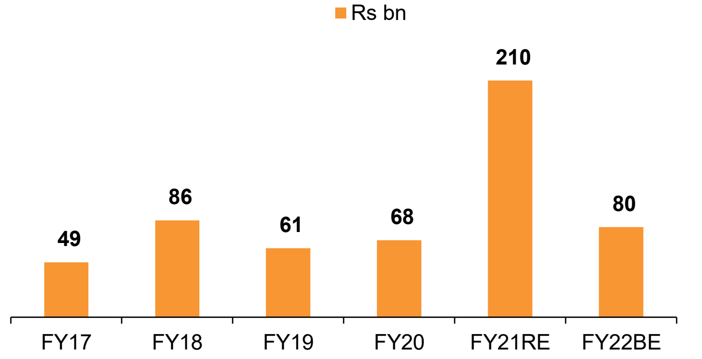
Under PMAY-G, the pace of sanctioned houses more than doubled while houses constructed has increased by 56% yoy in FY20. The government has constructed ~90% of houses targeted in FY17-19 which run rate has declined in last two years. Till date, the government has operated at 60% achievement with 13.3mn houses completed against target of 22.3mn houses. With increasing focus and higher number of sanctioned houses, we expect it to gain momentum in the coming years. Under PMAY-U, budgetary allocation has revised by 2.6x to all-time high at Rs210bn in FY21. On a high base, allocation has declined 62% yoy to Rs80bn in FY22E, which is still up 17% yoy vs. FY20.

Exhibit 50: Budgetary allocation remained flat for PMAY-G in FY22E



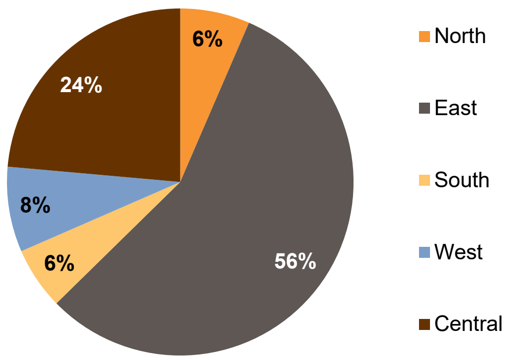
Source: Union Budget, Emkay Research

Exhibit 51: Allocation under PMAY-U was at all-time high



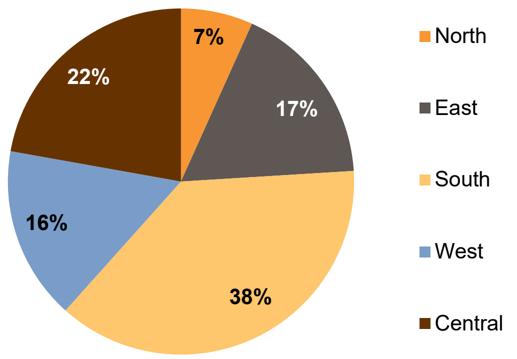
Source: Union Budget, Emkay Research

Exhibit 52: Sanctioned and yet to complete (16.4mn houses): East and central to drive demand under PMAY-G



Source: MoRD, Emkay Research

Exhibit 53: Sanctioned but yet to complete (5.7mn houses): South and central to drive demand under PMAY-U



Source: MoHUA, Emkay Research

Even if one estimates only 35% of houses to be constructed under remaining target in both schemes, it works out to a total cement demand of ~40mt.

Exhibit 54: We estimate ~40mt of cement demand (assuming completion of 35% of targeted number of houses)

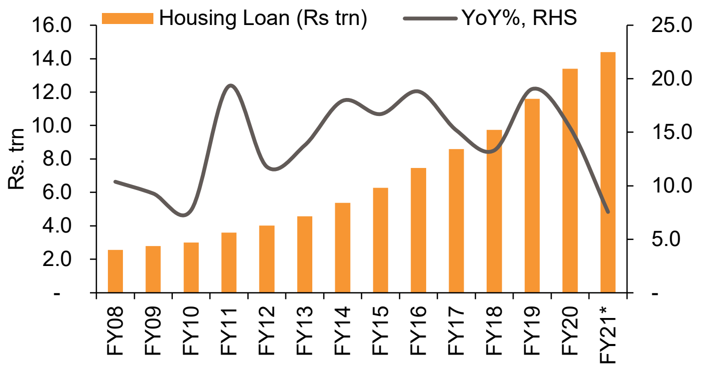
	PMAY-G	PMAY-U
Total no. of houses to targeted be constructed (in mn)	29.5	10.0
Houses already constructed	13.1	4.3
No. of (mn) houses yet to be constructed (govt.)	16.4	5.7
Target achieved (%) assumed	35%	35%
No. of houses to be constructed (Emkay estimates)	5.7	2.0
Average size of house (sqft)	270	350
Cement required (kg/sqft)	18	18
Total cement demand (mt)	**28**	**13**

Source: Emkay Research

Urban housing to witness pick-up gradually

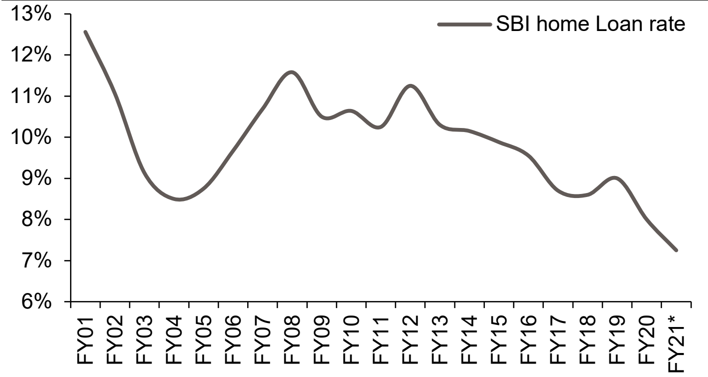
Real estate has shown strong recovery across markets in last 3-4 months. With demand recovery and slower pick up in new launches has reduced unsold inventory (in units) by 10% yoy with inventory days of 34 months in Jan'21. Going forward, we believe the pace of urban housing will see pick-up as the inventory levels come off and the funding becomes cheaper.

Exhibit 55: Housing loan outstanding increased to Rs14.2trn by Jan'21



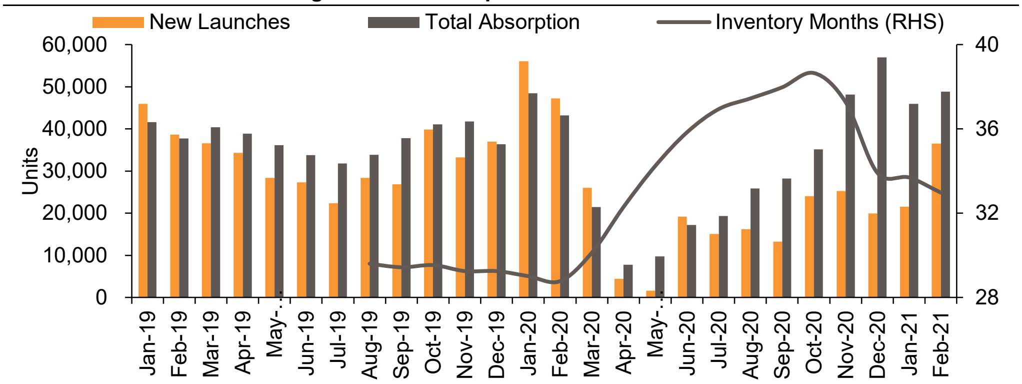
*Source: RBI, Emkay Research, *Feb'21*

Exhibit 56: Housing loan rate is at 20 years low



*Source: Industry, Emkay Research, *Feb'21*

Exhibit 57: Residential housing demand has improved in last few months

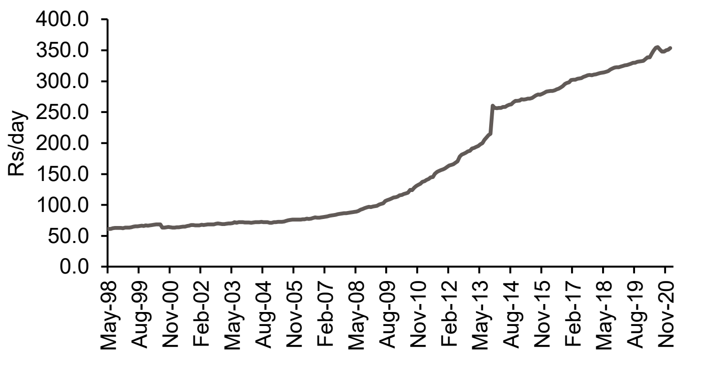


Source: PropEquity, Emkay Research

Government increased focus to boost rural economy

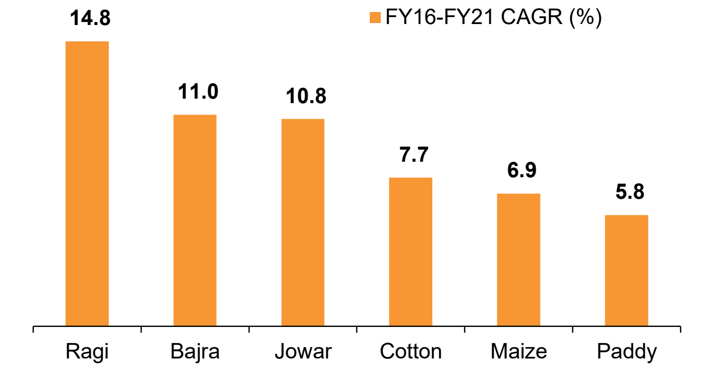
Rural economy has led the growth from the front during pandemic on better monsoon, increased MSP and higher wages. We expect the rural economy to remain healthy, which directly influences a significant portion of cement demand.

Exhibit 58: Nominal rural wage increased 5.5% in 10MFY21



Source: CMIE, Emkay Research

Exhibit 59: MSP has improved over past few years

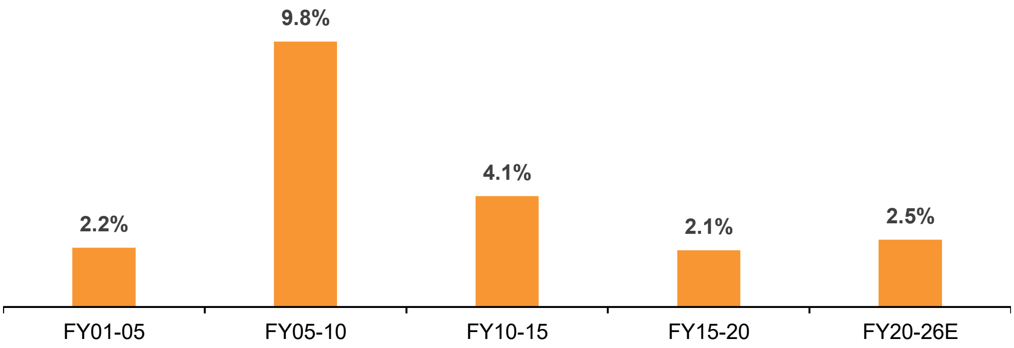


Source: CMIE, Emkay Research

Cement prices to see gradual improvement

We assume <u>cement price CAGR of around 2.5% over FY20-26E on pan-India basis,</u> driven by improving utilization, greater industry consolidation, and the need to have higher prices to justify greenfield capex cost and to pass on cost escalations. Cement has been one of the most well-behaved cyclical industries in India with has seen 4.5% CAGR in the past two decades.

Exhibit 60: Cement prices likely to grow at 2.5% CAGR with improving utilization, higher consolidation and to justify greenfield capex



Source: Industry, Emkay Research

Industry consolidation reduces risk of irrational behavior

The first few instances of major consolidation in India in the past few decades were Grasim's acquisition of L&T in FY04 and two acquisitions by Holcim in FY05-06 - ACC and ACEM. Since, then, the pace of consolidation in India has significantly reduced.

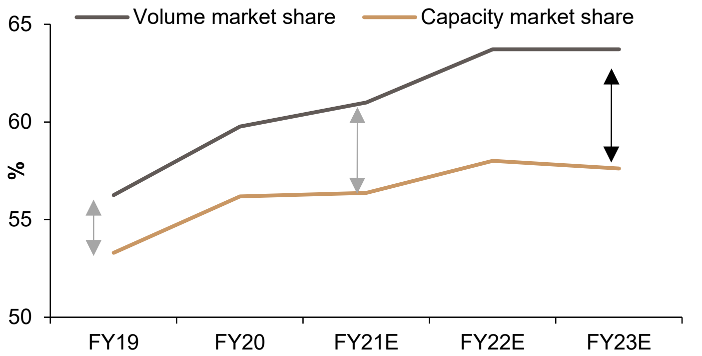
Over FY07-14, only 27mt were transacted and none of these acquisitions were higher than 5mt. Moreover, most of these capacities were acquired by a new entrant - either an international player, a manufacturer from another region or unrelated player - none of which indicates consolidation.

UTCEM's mega acquisitions of Jaypee's capacities (~5% of installed capacity), making the company a cluster leader in most markets. Moreover, it mitigated the risk of smaller players acquiring capacities to compete with the large players. UTCEM has been the torchbearer for industry consolidation with further acquisition of Binani and Century assets. The acquisition of Emami's assets by Nuvoco Vistas has worked well for Eastern region with Top-6 players now controlling 70% of the capacity. South is the least consolidated market with only 49% of the capacity with Top-6 players.

Industry consolidation should increase further with the share of Top-6 companies at the pan-India level to increase to 54% by FY23E as >70% of new capacity additions are planned by these companies which have already gained significant volume market share. Similarly, the share of top-6 companies in the respective regions ex-South would increase from the current 67-80% to 77-85% by FY23E.

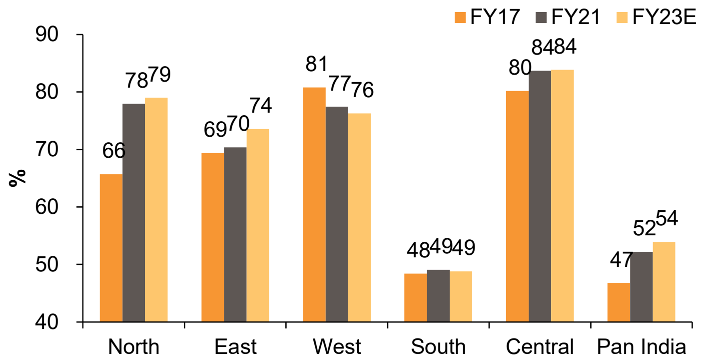
We view this as a positive and believe that any irrational competitive behaviour by larger players can be ruled out. The risk of irrational behaviour by smaller players still exists, especially in the South region, because the market is fragmented, and there is excess clinker capacity available. So far, however, the South market has been holding up well.

Exhibit 61: Coverage companies volumes share to increase further



Source: Industry, Emkay Research

Exhibit 62: Industry consolidation reduces risk of irrational behaviour



Source: Industry, Emkay Research

Exhibit 63: M&A deals augmenting higher consolidation in industry

Month	Buyer	Seller	Cap. (mt)	EV (US$ mn)	EV/ton	Remarks
Jul-13	ACEM	Holcim India	30.7	2,500	110	Bought 50.04% stake in ACC
Sep-13	UTCEM	JPA	4.8	600	125	Gujarat assets of JPA, EV/EBITDA of 11x
Mar-14	DALBHARA	JPA	2.1	180	90	Grinding unit with a 30-year clinker / slag supply agreement
Aug-14	SRCM	JPA	1.5	60	40	Grinding unit only in Haryana
Sep-14	SGC	BMM	1.0	90	90	Int. plant in AP with 25MW capacity, 155mt of limestone reserve
Feb-15	DALBHARA	OCL India	6.7	174	110	DALBHARA increases its stake from 48.23% to 74.93% consolidating OCL India
Feb-16	BCORP	Reliance Cement	5.5	720	130	One integrated plant and two grinding units
Feb-16	UTCEM	JPA	21.2	2,400	113	Assets spread across Central, North and South
Jul-16	Nirma	Lafarge	11.0	1,284	117	Assets spread across East and North region
Jan-18	DALBHARA	Kalyanpur	1.1	51	50	DALBHARA expected to commence operations from Oct'18.
May-18	UTCEM	Century Textiles	13.4	1,268	96	It includes 2mt grinding units. UTCEM received CCI approval in Aug'18
Nov-18	UTCEM	Binani Cement	8.3	1,130	140	4.6mt clinker and 6.3mt cement; potential expansion opportunity of 5mt.
Jul-19	DALBHARA	Murli	3.0	110	38	Capex of US$60mn to make the plant operational
Feb-20	Nuvoco	Emami	8.3	735	112	Total one integrated cement plant and three grinding units

Source: Industry, Emkay Research

Need at least 7-8% price hike sustainably in promising markets to justify greenfield capex in present scenario

Our coverage universe's average EBITDA margin of ~25%, or EBITDA/ton of ~Rs1,250/ton (other industry participants profitability is still lower), in FY21E is insufficient to make minimum returns on greenfield plants at current utilization level. In the present scenario, assuming all other things constant, the industry is required to take at least 7% price hike in promising markets to generate returns equivalent to WACC.

Exhibit 64: Need at least 7-8% price hike to generate minimum RoIC in present scenario

Greenfield plant (Rs mn)	Current	Required
Capex/ton ($)	100	100
Capacity (mt)	1.0	1.0
Utilization (%)	85	85
Volume (mt)	0.85	0.85
Price (Rs/bag)- Gross	345	369
Price (Rs/mt)- net of GST	4,968	5,316
Revenues	4,223	4,518
Opex	3,230	3,230
EBITDA	**993**	**1,288**
EBITD/ton	**1,168**	**1,516**
Depreciation	296	296
EBIT	**697**	**992**
Interest	189	189
PBT	508	804
Tax	128	203
PAT	380	601
RoIC (%)	**7.0**	**10.0**
WACC (%)	**9.8**	**9.8**
D:E	30:70	30:70

Source: Industry, Emkay Research

Pan-India clinker utilization likely to be >80% by FY23E

Clinker utilization would be a better parameter to gauge actual cement production rather than cement utilization as few of the capacities may be just grinding units to optimize logistics costs, to enter new markets, etc. We have combined North, Central and East regions as one region and South and West regions as another region to factor inter-region movement and for better and meaningful comparison of clinker utilization.

While all-India clinker utilization including South region would >80% (critical for further pricing uptick) in FY23E almost after more than a decade; East, Central and North regions are expected to operate at >85% utilization. Tight clinker supply suggest utilization rate ex-South is significantly high especially in seasonally peak quarters. This will help to further strengthen pricing power and supporting our outlook for higher prices.

Exhibit 65: Clinker utilization to be higher by 500-600bps than cement utilization

	FY20	FY21E	FY22E	FY23E
North, Central and East (combined)				
Clinker capacity (mt)	159	165	169	178
Clinker utilization (%)	83	90	89	91
South and West (combined)				
Clinker capacity (mt)	163	169	175	178
Clinker utilization (%)	70	63	64	68
All India				
Clinker capacity (mt)	322	334	344	356
Clinker utilization (%)	**77**	**78**	**77**	**80**
Cement utilization (%)	72	72	71	73

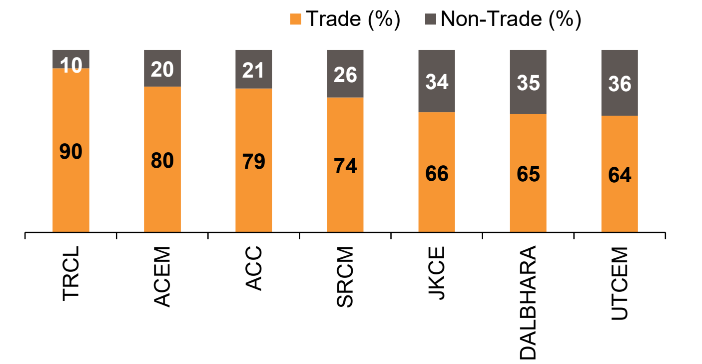
Source: Industry, Emkay Research

Premiumization will further improve blended realization

Companies have been increasing their efforts toward creating new brands and diversifying product mix in the industry and establishing/enhancing premium segment presence. Companies are currently following a 'push' strategy using various mediums with creative concepts to increase brand awareness among various types of end consumers. We believe that players with a high proportion of trade sales, strong brands, high advertising spends and pan-India presence are best-placed to benefit from premiumization of cement.

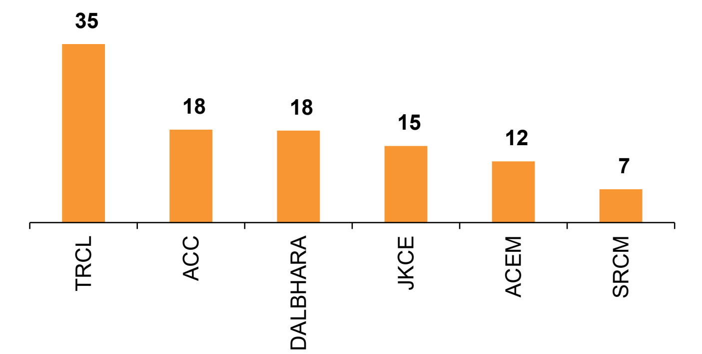
These products enjoy incremental pricing of Rs25-30/bag (~7-8%), contributing incremental EBITDA of ~Rs5-10/bag. Premium products currently contribute, on average, ~15% of trade sales, and companies are targeting to increase it in the coming years. Our calculation suggests that every 5% incremental sales of premium products of trade sales (assuming 80% trade sales) contributes ~1% incremental EBITDA at the company level.

Exhibit 66: Higher trade mix helps to garner better realization



Source: Company, Emkay Research

Exhibit 67: Premium product as % of trade sales increasing



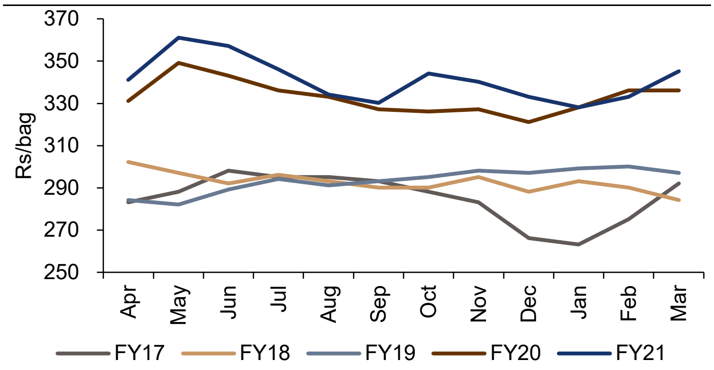
Source: Company, Emkay Research

Exhibit 68: Premium products contributes incremental EBITDA of Rs5-10/bag

	Rs/bag	Comment
Incremental revenue	25-30	Pricing premium
Additional packing cost	5	Temper proof, moisture resistant packaging
Incremental promotion spend	10	Higher dealer incentives, push sales strategy
Additional grinding cost	5	Higher spend on electricity and equipment usage
Incremental EBITDA	**5-10**	**Rs100-200/ton- as per various management commentaries**

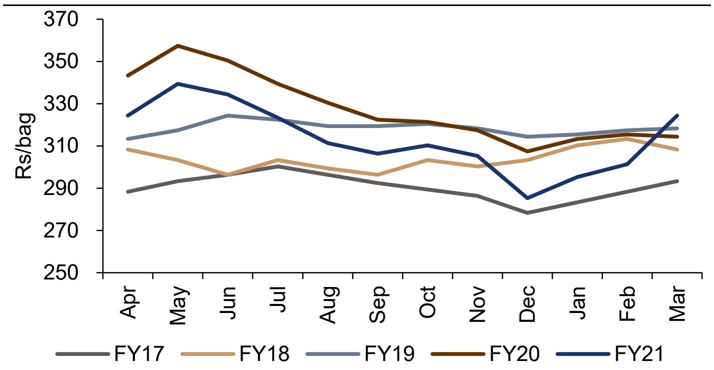
Source: Industry, Emkay Research

Exhibit 69: North: Prices increased 2.5% YoY in FY21



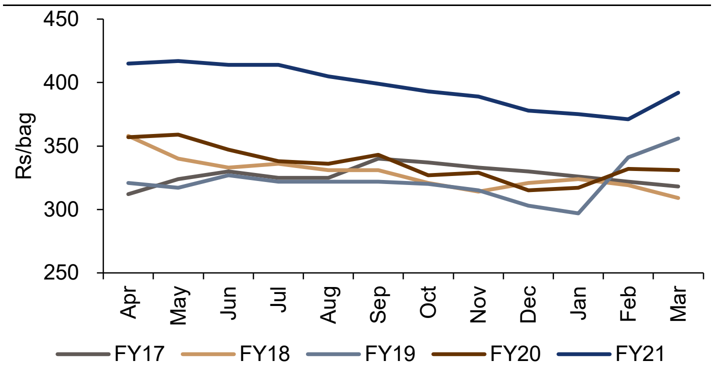
Source: Emkay Research, Industry data

Exhibit 70: East: Prices declined 4.3% YoY in FY21



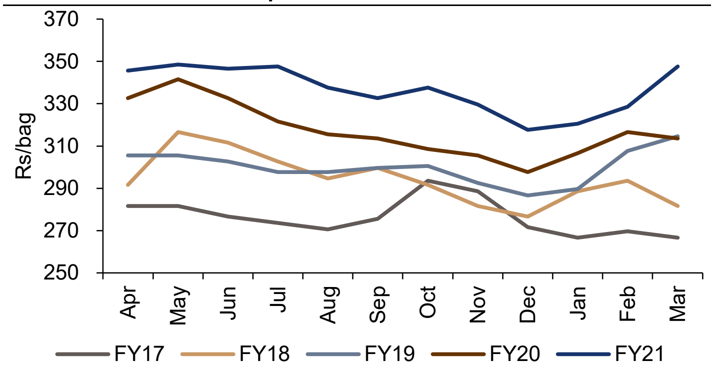
Source: Emkay Research, Industry data

Exhibit 71: South: Prices increased 18.1% YoY in FY21



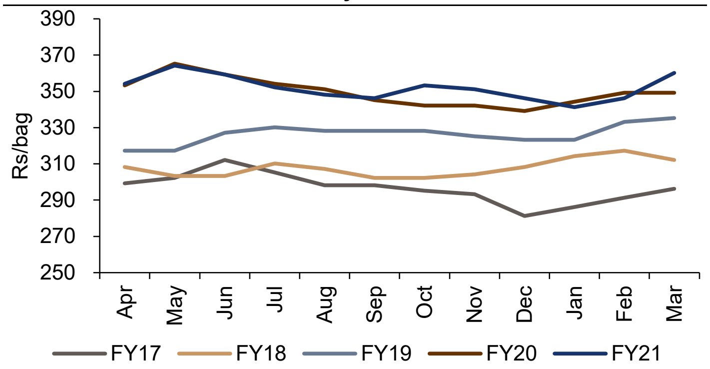
Source: Emkay Research, Industry data

Exhibit 72: West: Prices up 6.1% YoY in FY21



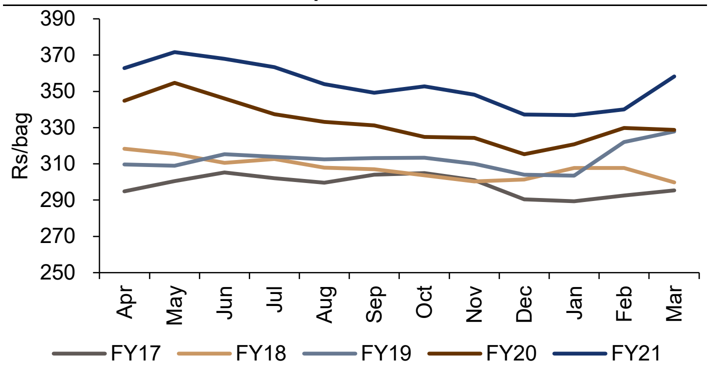
Source: Emkay Research, Industry data

Exhibit 73: Central: Prices broadly stood flat YoY in FY21



Source: Emkay Research, Industry data

Exhibit 74: Pan-India: Prices up 5.9% YoY in FY21



Source: Emkay Research, Industry data

Market profile

- **Average capacity utilization:** Despite capacity additions, average capacity utilization is likely to remain around 87-88% in North and East regions while it should continue to remain below 70% in West and South regions.
- **Capacity additions:** We expect capacity additions at 5% CAGR with East region likey to see higher capacity additions at 8% CAGR over FY21-26E.
- **Demand growth:** We model 8% demand CAGR over FY21-26E with East and South regions leading demand growth.
- **Price growth:** We expect pan-India cement prices to see 1.8% CAGR over FY21-26E, with lower price increases in West and South regions.

Exhibit 75: Region-wise market profile summary

Regions	Per capita consumption (kg)		Avg Cap util (%)			Cap addition CAGR (%)		Demand CAGR (%)		Price CAGR (%)	
	FY16	FY21E	FY16-21E	FY21E-26E	Exit (FY26E)	FY16-21E	FY21E-26E	FY16-21E	FY21E-26E	FY16-21E	FY21E-26E
South	237	272	58	61	66	3.1	3.2	1.0	9.7	2.6	1.4
West	268	281	69	67	72	3.6	4.3	0.7	8.0	3.6	1.6
North	187	239	77	87	87	2.8	4.0	3.6	6.1	6.3	2.2
East	154	211	82	88	91	7.7	8.3	9.2	10.0	0.4	2.3
Central	168	194	80	80	81	4.5	5.7	4.5	6.8	5.2	2.2
Pan-India	**217**	**255**	**71**	**75**	**79**	**4.0**	**4.9**	**3.7**	**8.3**	**3.5**	**1.8**

Source: Industry, Emkay Research

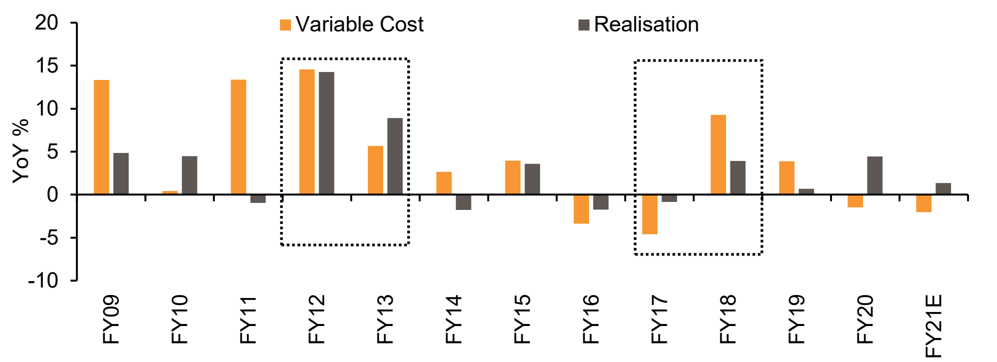
Cost escalations to be passed through higher realizations

Historically, cement companies were able to pass on cost escalations to end-consumers (as seen in FY12-13, 2017 to early 2018) and sustain/improve profitability although with a lag.

The industry is likely to witness the impact of various input cost escalations from Q4FY21E compared to the overall cost/ton decline of 3-4% yoy in 9MFY21. Prices of petcoke and diesel have increased by 45% and 10%, respectively, in the past six months, which should be partly offset by better operating leverage.

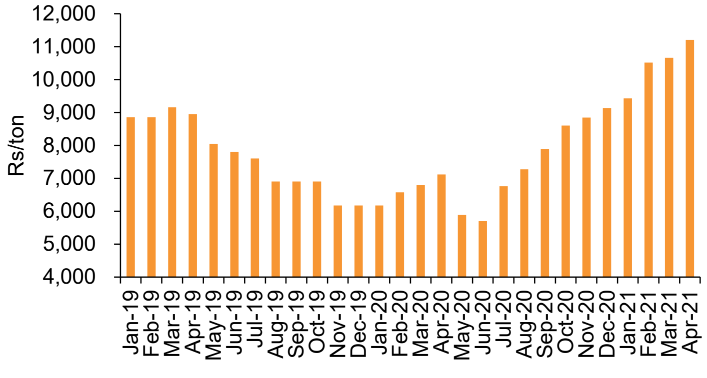
The industry has already taken EBITDA-accretive price hikes of Rs15-20/bag since Mar'21. Sustained price recovery recently suggests that the sector may have reclaimed its pricing discipline and there seems to be an upward reset in industry pricing in the offing.

Exhibit 76: Cement companies have passed on cost escalations through higher realizations



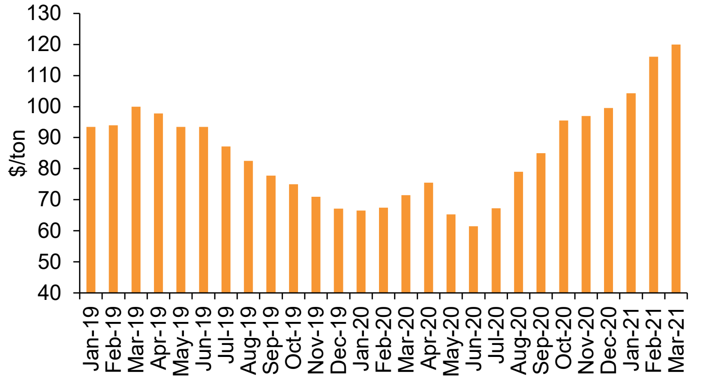
Source: Industry, Emkay Research

Exhibit 77: Spot petcoke prices 37% higher than FY21 average prices



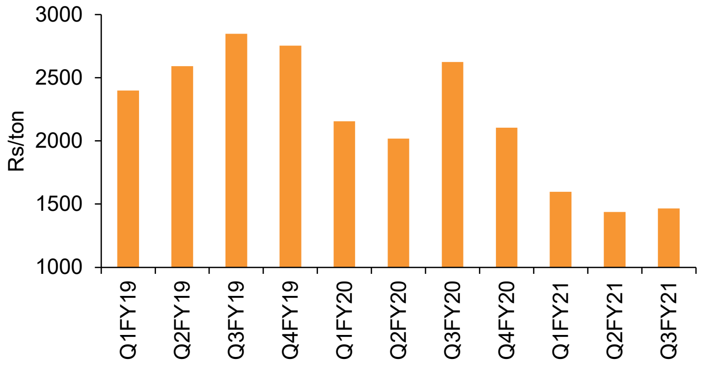
Source: Industry data, Emkay Research

Exhibit 78: Spot international petcoke prices 44% higher than FY21 average prices



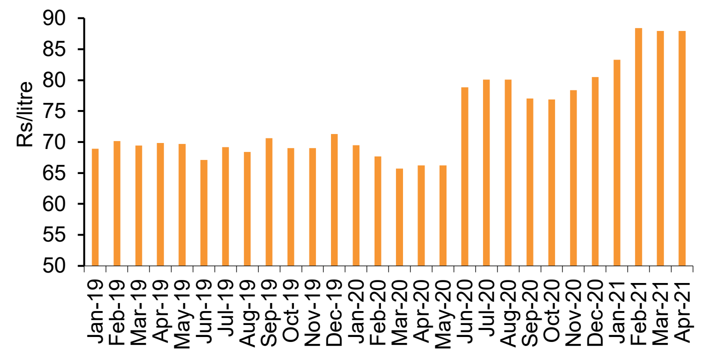
Source: Industry data, Emkay Research

Exhibit 79: Coal India (e-auction) prices declined 44% YoY but increased 2% QoQ in Q3FY21



Source: Industry data, Emkay Research

Exhibit 80: Spot diesel prices (Mumbai) 12% higher than FY21 average prices



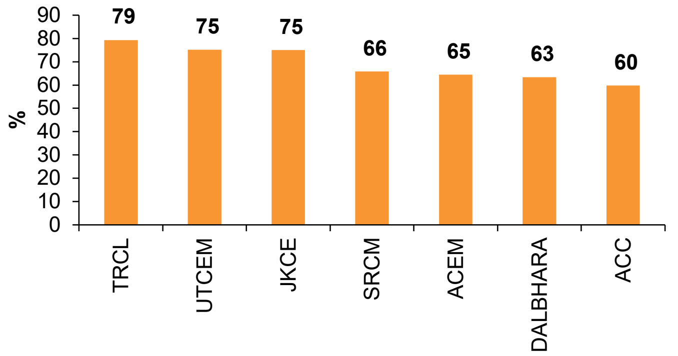
Source: Industry data, Emkay Research

Cost optimization and de-risking efforts to reduce input cost fluctuations and carbon emissions

The industry has gradually started focusing on improving cost structure to reduce exposure to input cost and carbon emissions in addition to gaining market share and pricing discipline. With increasing utilization levels, cement companies have sufficient flexibility to manage costs well by improving the blending ratio, optimizing lead distances and providing operating leverage.

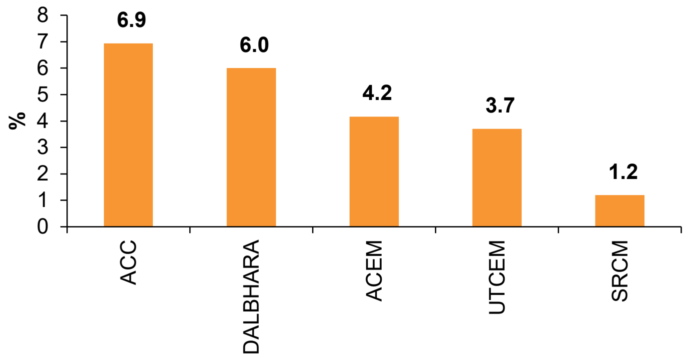
Companies improving their cost structures via improving specific power consumption norms, increasing usage of AFR, switching between fuels for plants where cost economics are favorable along with other operational efficiencies. In addition, most companies are working toward setting up renewables (like WHRS, wind, solar) power capacities to save on energy cost and reduce carbon emissions to follow Environmental, Social and Governance (ESG) norms. Energy cost benefits are likely to be significantly better with increasing share of WHRS mix as its costs are nearly 1/7th of the cost of power generation via thermal power plants and 1/10th of grid power purchase cost as well.

Exhibit 81: Focus on reducing clinker factor via improving blending ratio



Source: Company, Emkay Research

Exhibit 82: Usage of AFR* gradually increasing



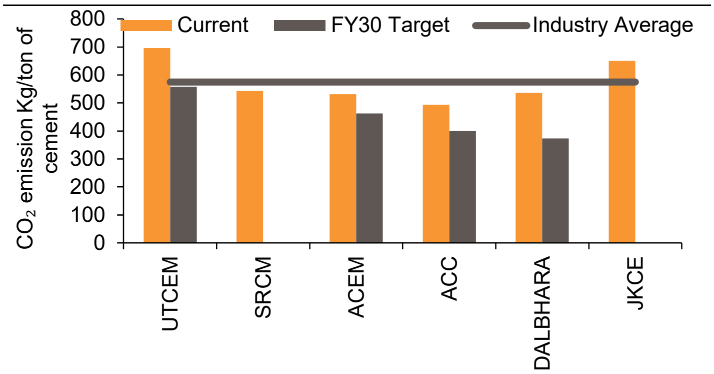
*Source: Company, Emkay Research, *Alternative fuels and raw materials*

Exhibit 83: Power consumption norms have stabilized in past few years

(Kwh/ton of cement)	FY17	FY18	FY19	FY20
Ultratech	79	77	79	80
Shree Cement	70	69	69	71
Ambuja Cement	77	78	77	77
ACC	87	84	81	80
Dalmia Bharat	69	69	71	69
Ramco Cement	75	78	76	83

Source: Company, Emkay Research

Exhibit 84: Increasing focus on complying ESG norms



Source: Company, Emkay Research

Exhibit 85: Increasing share of renewables to reduce input cost fluctuations and carbon emissions

MW	WHRS		Wind+Solar		Management Comments
	Current	Target	Current	Target	
Ultratech	125	302	120	370	Share of green energy to increase to 34% by FY24 from 13% currently
Shree Cement	211	231	31	39	Share of green energy to increase to 50% by FY22 from 45% currently
Ambuja Cement	7	91	30	52	Overall, green energy share to increase from 5% to 38% by CY22. WHRS share to increase from 2% to ~21%; while solar power share will increase to ~15%
ACC	8	30	24	49	
Dalmia Bharat	9	30	-	30	Share of green energy to increase to 50% by FY25E
Ramco Cement	-	39	166	166	
JK Cement	23	60	-	-	

Source: Company, Emkay Research

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Your success is our success

UltraTech Cement

An Elephant That Can Dance; Buy

CMP	Target Price
Rs 6,068 as of (April 23, 2021)	Rs 7,050 12 months
Rating	Upside
BUY	16.2 %

UltraTech Cement (UTCEM) is India's largest cement manufacturer with a 21% share of capacity. It is also the third-largest globally (ex-China). Despite its giant scale, UTCEM's volume CAGR is likely to be 50bps ahead of our 8% forecast for industry over FY21-26E. More importantly, after seven years of sub-par profitability, the company is set for a structural improvement in RoIC from ~11% in FY21E to a sustainable 20%+ within 5-6 years. This would be driven by: 1) increasing asset turnover with utilization rising to 85% in FY26E from 72% in FY21E, along with capacity expansion through the brownfield route; and 2) rise in EBIT margin to 22% from 19.6% on steady price growth, benefits of premiumization, cost optimization and operating leverage.

We initiate coverage with a Buy and Jun'22E-based TP of Rs7,050 (DCF-driven). UTCEM's dominant market position and pan-India presence offer some pricing advantages, and have historically resulted in lower volatility in EBITDA growth rates and returns. Our TP implies 1-year forward EV/EBITDA of 14x - in line with T3Y average, but lower than the current multiple of c.15x. We see the recent share price correction as a buying opportunity. Key downside risk is expensive M&A activity.

- **Strong growth outlook despite large scale:** On Mar'21E domestic capacity of 111mt (21% share) and FY21E volume of 80mt (24%), we forecast UTCEM to gain capacity and industry volume share, based on 11% volume CAGR through FY23E. UTCEM enjoys an 8-10% pricing premium across regions, thanks to its dominant market position and brand equity.
- **Structural profitability improvement in the coming cement upcycle:** We expect UTCEM's RoIC to increase from ~11% in FY21E to a sustainable 20%+ level within 5-6 years. Management remains focused on cost optimization and de-risking efforts, and we estimate sustainable cost savings of Rs90-100 per ton on growing share of green power, other cost efficiencies, recent changes in the MMDR Amendment and operating leverage. We expect blended EBITDA/ton to increase to Rs1,354 by FY23E from Rs1,324 in FY21E, even as it has already seen ~50% increase in the past two years.
- **EBITDA CAGR at 13% over FY21-23E; to be net debt free by FY23E:** UTCEM's consolidated net debt fell by Rs105bn in FY19-21E. We estimate average FCF of Rs61bn p.a. over FY21-23E. A debt-free balance sheet by Mar'23E may allow UTCEM to pursue higher growth via both organic and inorganic routes.
- **Initiate with Buy:** Our Jun'22E-based TP of Rs7,050 is DCF-driven. We assume sustainable/terminal FCFF growth of 8.0% post FY26E (in line with industry), and sustainable incremental RoIC of 22.5%. UTCEM will likely have the best incremental RoIC in this cement cycle, as we forecast RoIC to nearly double, to 20-21% in FY26E from c.11% in FY21E. The stock trades at FY22E EV/EBITDA of 14.8x and an FCFF yield of 3.1%.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,73,792	4,21,250	4,39,961	5,06,150	5,65,842
EBITDA	67,881	94,167	1,13,080	1,24,914	1,43,703
EBITDA Margin (%)	18.2	22.4	25.7	24.7	25.4
APAT	24,347	38,386	56,855	66,187	80,367
EPS (Rs)	88.7	133.0	197.0	229.3	278.4
EPS (% chg)	(1.2)	50.0	48.1	16.4	21.4
ROE (%)	8.9	11.4	13.6	14.0	14.9
P/E (x)	68.4	45.6	30.8	26.5	21.8
EV/EBITDA (x)	19.1	20.7	17.0	14.8	12.5
P/BV (x)	5.9	4.5	4.0	3.5	3.0

Source: Company, Emkay Research

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	229.3	278.4
Consensus	215.5	260.0
Mean Consensus TP (12M)		Rs 6,943

Stock Details

Bloomberg Code	UTCEM IN
Face Value (Rs)	10
Shares outstanding (mn)	289
52 Week H/L	7,056 / 3,231
M Cap (Rs bn/USD bn)	1,752 / 23.35
Daily Avg Volume (nos.)	7,88,893
Daily Avg Turnover (US$ mn)	66.6

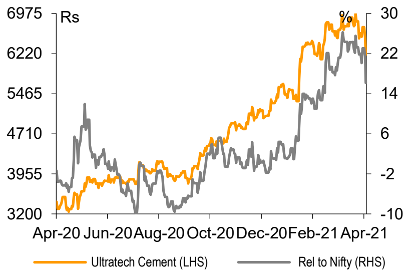
Shareholding Pattern Mar '21

Promoters	60.0%
FIIs	17.3%
DIIs	13.7%
Public and Others	9.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(13)	10	35	76
Rel. to Nifty	(12)	9	11	13

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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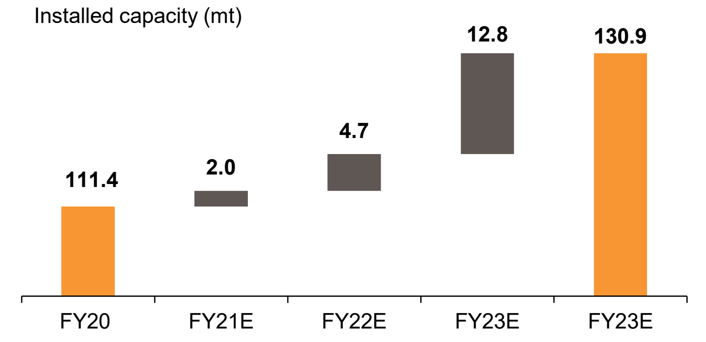
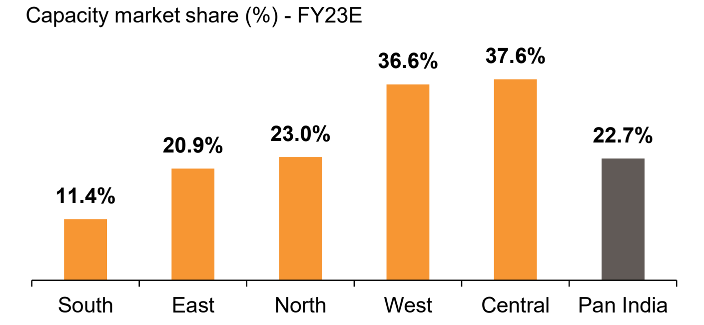
Story in Charts

Exhibit 86: UTCEM to add ~20mt capacity in a staggered manner by FY23E



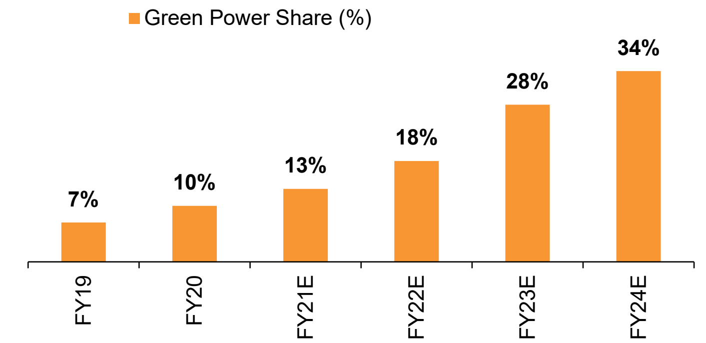
Source: Company, Emkay Research

Exhibit 87: …to increase capacity market share by 140bps to 23% by FY23E



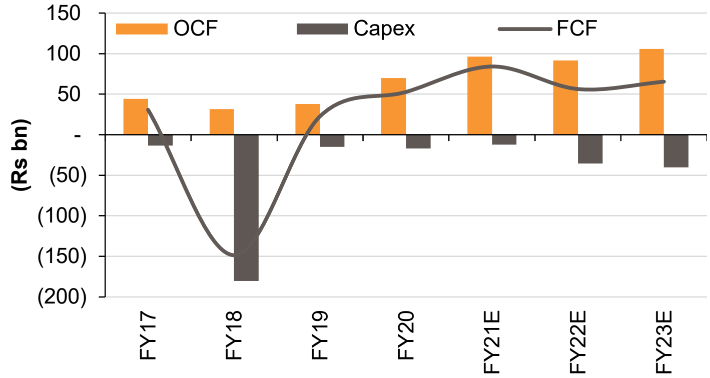
Source: Company, Emkay Research

Exhibit 88: Increasing share of green power to reduce exposure towards input cost fluctuations and carbon emissions



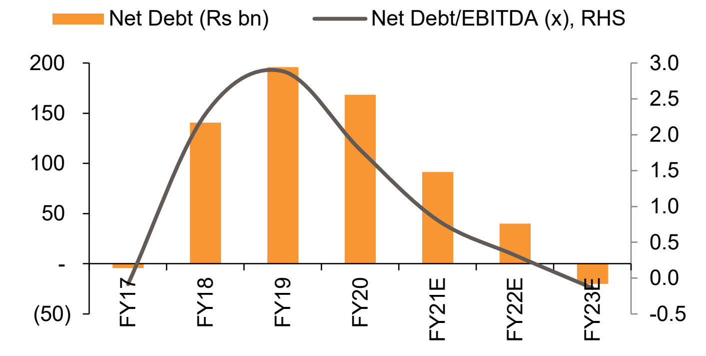
Source: Company, Emkay Research

Exhibit 89: We model FCF generation of Rs122bn by FY21E-23E



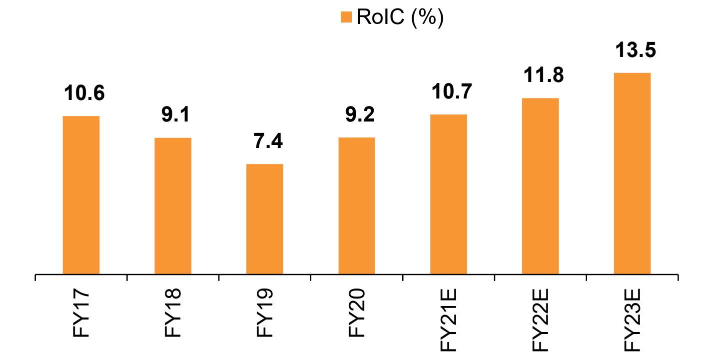
Source: Company, Emkay Research, FCF includes other income and interest cost

Exhibit 90: With strong FCF generation, UTCEM to become net debt free in FY23E



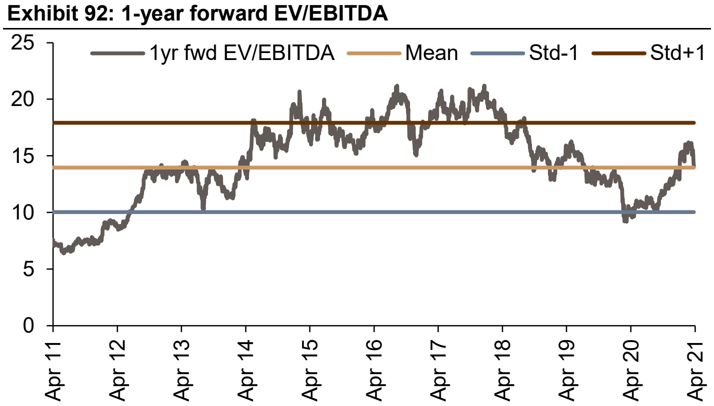
Source: Company, Emkay Research

Exhibit 91: UTCEM likely to have best incremental RoIC in this cycle



Source: Company, Emkay Research

Exhibit 92: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 93: Initiate with Buy and TP of Rs7,050 based on 14x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	144
EV/E multiple (x)	14
Enterprise Value	2,011
Net debt (FY22E)	35
Equity value	**1,976**
No. of shares (mn)	289
Mar'22 Fair Value (Rs)	6,845
Jun'22* Target Price (Rs)	**7,050**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

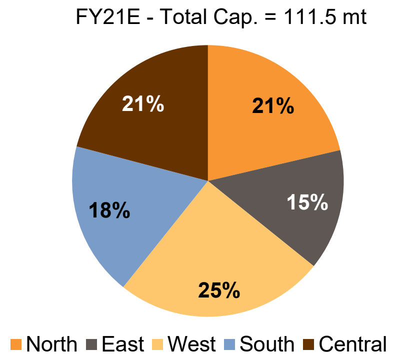
Strong growth outlook despite large scale

UTCEM is India's largest cement manufacturer with a 21% share of capacity. It is also the third-largest globally, ex-China. Despite the size, UTCEM's volume CAGR is likely to be 50bps ahead of our 8% forecast for industry over FY21-26E. UTCEM enjoys 8-10% pricing premium across regions, thanks to its dominant market position and brand equity.

Pan-India player and market leader across regions

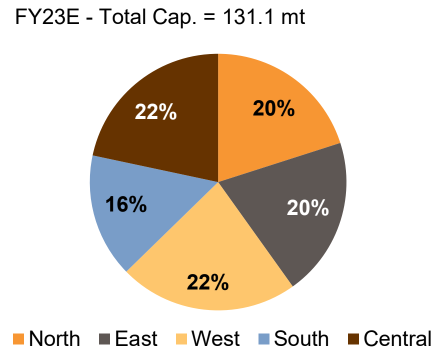
UTCEM is a pan-India player and market leader across regions with a capacity share of 21%, while its volume share is even higher at 24% as of FY21E. With its pan-India distribution network, it is well-positioned to tap into expected growth in non-trade (~35% of volumes), driven by a pick-up in infra spend and retail segments. In addition, its diversified market mix vs. peers allows it to trade-off price/volumes across markets.

Exhibit 94: Even distribution of capacities across regions



Source: Company, Emkay Research

Exhibit 95: Capacity share in East and Central region to increase post expansion



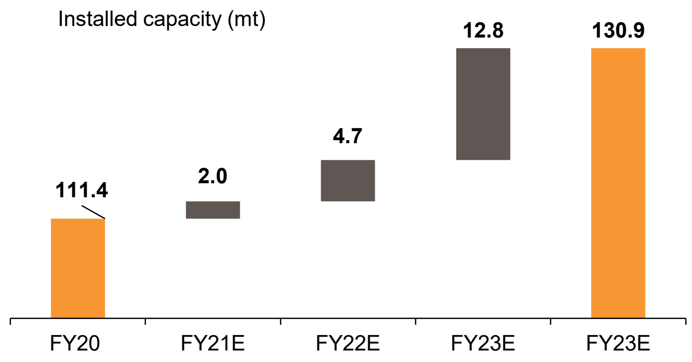
Source: Company, Emkay Research

Expanding capacity to gain further market share

Over FY15-20, UTCEM had undergone an aggressive capacity expansion, mainly through the inorganic route by acquiring cement assets of JPA, Binani and Century, taking its domestic capacity from 60mt in FY15 to 111mt in FY21E. UTCEM has successfully integrated all the acquired assets, and most are now operating near UTCEM's regional profitability. Accordingly, the company is now focusing on the next leg of expansion via organic route.

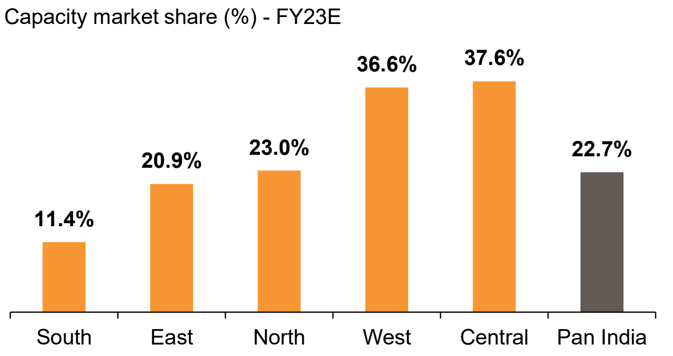
UTCEM would be adding ~20mt in capacity (18% of domestic capacities), along with 11.4mt clinker capacity, with a capex outlay of Rs65bn in a staggered manner by FY23E. The expansion would be in the fast-growing markets of East, Central and North and would ensure faster ramp-up and higher volume growth. Accordingly, its domestic capacity will increase to 131mt and capacity market share will expand by 140bps to 23% by FY23E. Further, according to management, UTCEM will grow at a higher rate than the industry average and plans to add an additional 30mt capacity organically by FY30E.

Exhibit 96: UTCEM to add ~20mt capacity over FY21E-23E



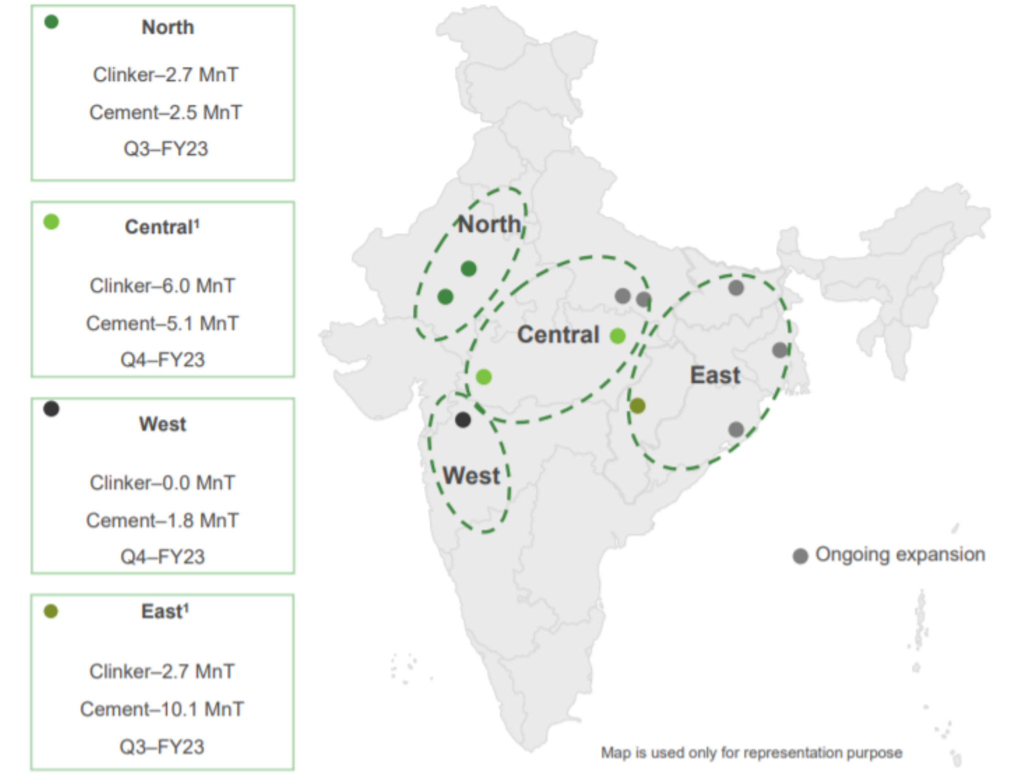
Source: Company, Emkay Research

Exhibit 97: UTCEM expected to see 140bps market share gain over FY21E-23E



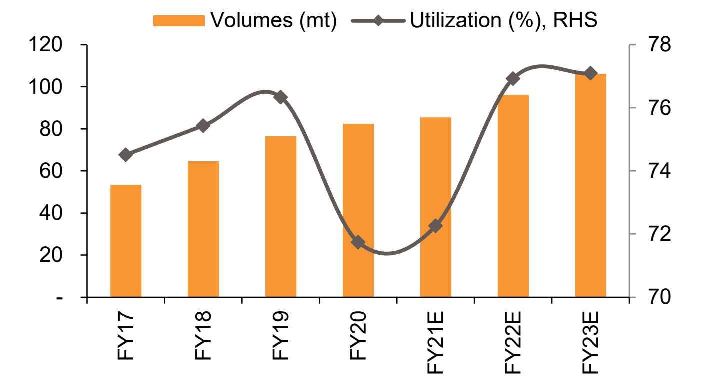
Source: Company, Emkay Research

Exhibit 98: UTCEM expanding in fast growing markets of East, Central and North regions



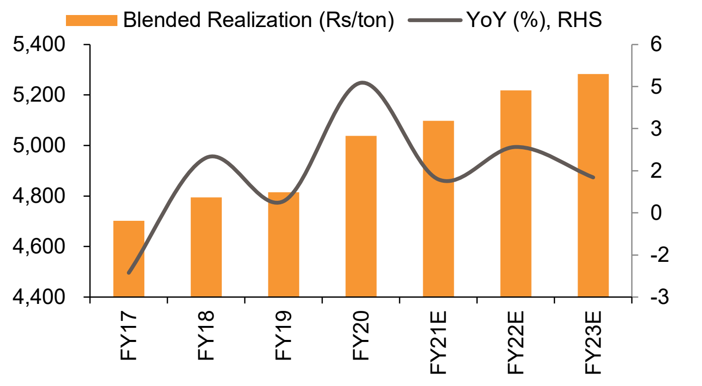
Source: Company, Emkay Research

Exhibit 99: UTCEM volumes to grow at 11% CAGR over FY21E-23E



Source: Company, Emkay Research

Exhibit 100: Blended realization to grow ~2% CAGR over FY21E-23E



Source: Company, Emkay Research

Structural profitability improvement in coming upcycle

Management is focusing on cost optimization and de-risking efforts. We estimate sustainable cost savings of Rs90-100/ton from growing share of green power, other cost efficiencies, recent changes in MMDR Amendment and operating leverage. We estimate blended EBITDA/ton to increase to Rs1,354 by FY23E from Rs1,324 in FY21E, even as it saw ~50% increase in the past two years.

Exhibit 101: We estimate sustainable cost savings of Rs90-100/ton

Cost savings initiatives	Rs/ton
Increasing share of green power	40
Other cost efficiencies (increasing conversion ratio, better power consumption norms, optimizing fuel mix, operating leverage etc.)	30-40
Amendment in MMDR act	20
Total	**90-100**

Source: Emkay Research

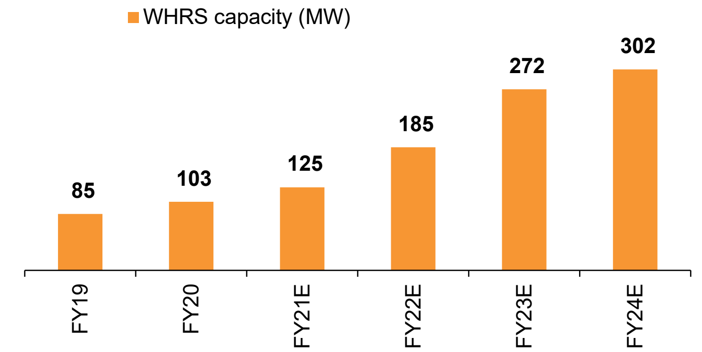
UTCEM maintains near best-in-class EBITDA/ton and commands better profitability than most industry peers. The company's EBITDA/ton should rise to over Rs1,300/ton in FY21E (Rs1,144/ton in FY20) from Rs850-950/ton seen in FY15-19 on higher realization (partly reflecting industry trend) and improvement in the cost structure.

UTCEM is on track to achieve targeted 10% fixed cost savings in FY21E, mainly through cutting discretionary spends and renegotiating existing contracts. These measures can provide cost savings of ~Rs5.5bn (or Rs50/ton). We expect that some costs will normalize with volume recovery from FY22E.

Share of green power to increase to 34% by FY24E

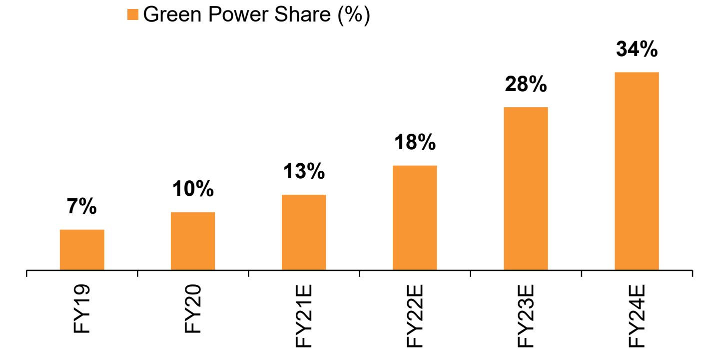
UTCEM is setting up another 177MW WHRS by Mar'24, taking its total WHRS capacity to 302MW and increasing its solar & wind power capacity from 99MW to >350MW. Accordingly, its green power share is set to increase to 34% (WHRS 26%, solar 8%) by FY24E, which would help UTCEM reduce its exposure toward input cost fluctuations and carbon emissions. It is expected to provide overall cost savings of ~Rs5bn (or ~Rs40/ton).

Exhibit 102: UTCEM adding incremental 177MW WHRS capacity



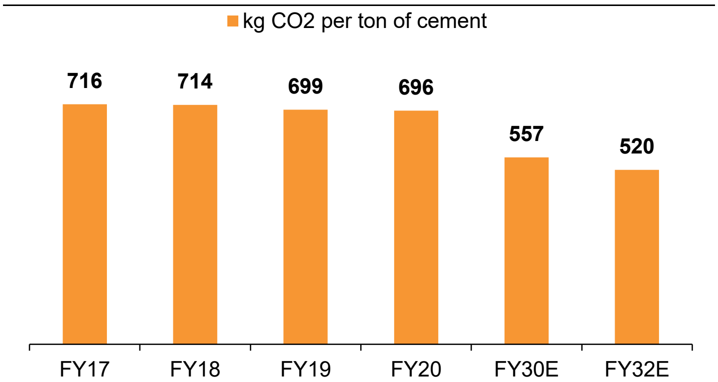
Source: Company, Emkay Research

Exhibit 103: Share of green power to increase to 34% by FY24E



Source: Company, Emkay Research

Exhibit 104: UTCEM targets significant reduction in CO2 emission by FY32



Source: Company, Emkay Research

Exhibit 105: Increasing share of green power to provide cost savings of Rs40/ton

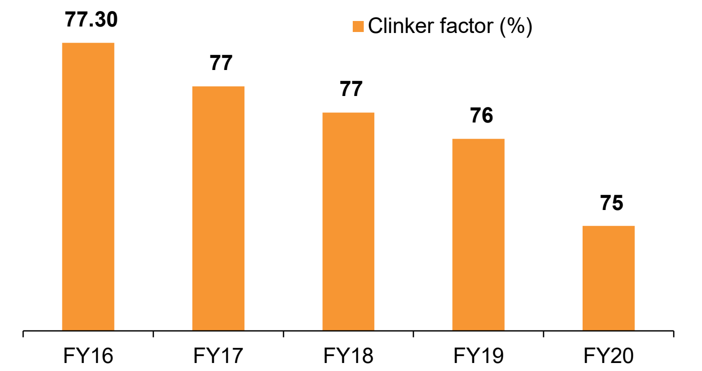
	WHRS	Wind+Solar	Total
Incremental capacity (MW)	177	250	
PLF (%)- assumed	65	27	
Power generation (mn units)	1,008	591	
Savings (Rs p.u.)	4.0	1.5	
Total savings (Rs mn)	4,031	887	4,918
Volumes (FY24E)- mt			114
Total savings (Rs/ton)			**43**

Source: Emkay Research

We believe that additional cost savings of ~Rs30-40/ton could be achieved through: 1) commissioning of additional grinding units; 2) increase in conversion ratio with high blended percentage (as majority of capacity expansion to cater to East and Central region); 3) better power consumption norms; 4) optimizing fuel mix; 5) improved petcoke usage in acquired units; 6) signing attractive long-term freight agreements with railways; and 7) better operating leverage stemming from higher volume growth (given its low clinker utilization, diversified market mix and higher non-trade presence vs. peers).

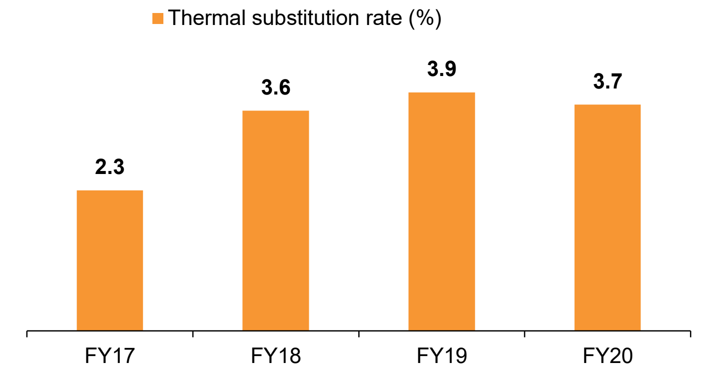
Besides, UTCEM may not have to pay additional royalty (Rs64/ton) on acquired assets of JPA/Century after the recent amendment in the MMDR Act to provide savings of Rs1.8-2bn p.a. (~Rs20/ton). Further, improving clinker factor, power consumption norms and higher operating leverage should boost margins in the coming years.

Exhibit 106: With increasing blending, clinker factor is gradually declining



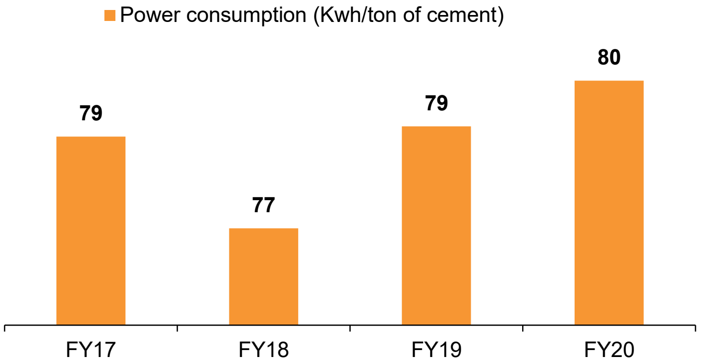
Source: Company, Emkay Research

Exhibit 107: Usage of AFR is gradually increasing



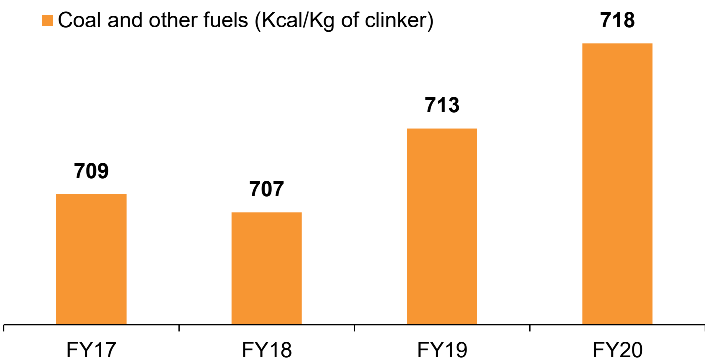
*Source: Company, Emkay Research; *AFR- Alternative Fuels and Raw Materials*

Exhibit 108: Power consumption norms broadly remain stable in past few years



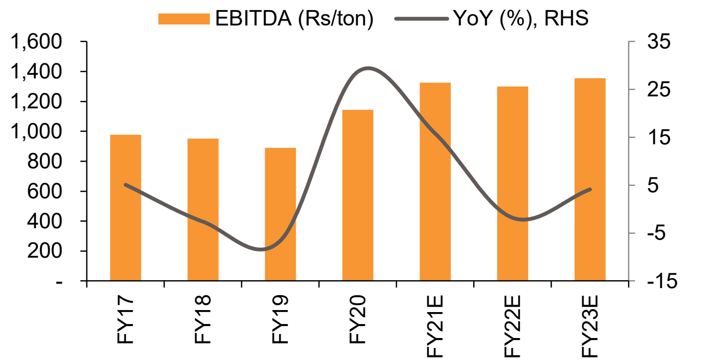
Source: Company, Emkay Research

Exhibit 109: Coal and other fuel usage norms has marginally increase in past couple of years



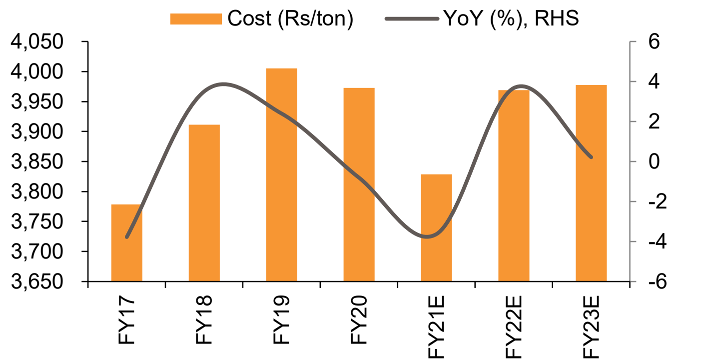
Source: Company, Emkay Research

Exhibit 110: EBITDA/ton expected to increase marginally over FY21E-23E post 50% increase in past two years



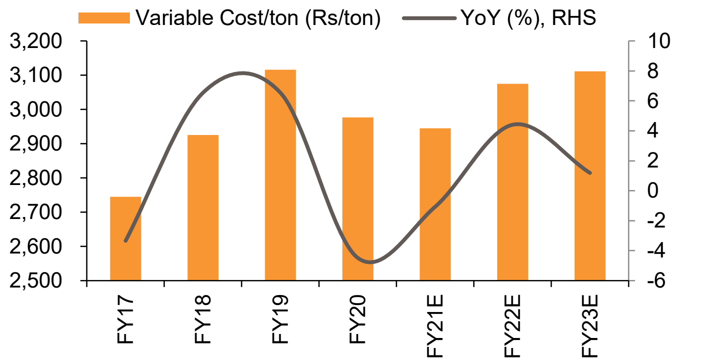
Source: Company, Emkay Research

Exhibit 111: …as costs are expected to clock 1.9% CAGR over FY21E-23E on per ton basis



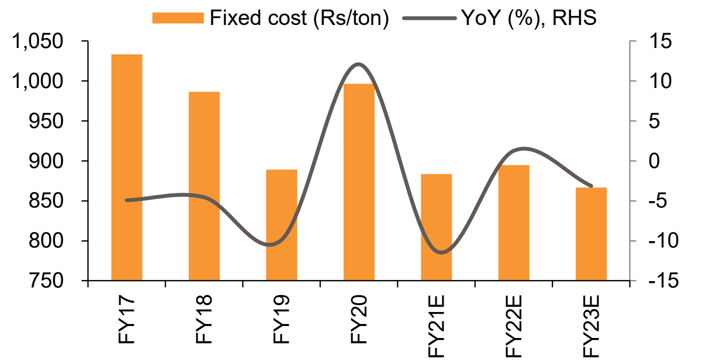
Source: Company, Emkay Research

Exhibit 112: Variable cost growth modelled at 2.8% CAGR over FY21E-23E



Source: Company, Emkay Research

Exhibit 113: Fixed cost to decline at 1% CAGR over FY21E-23E



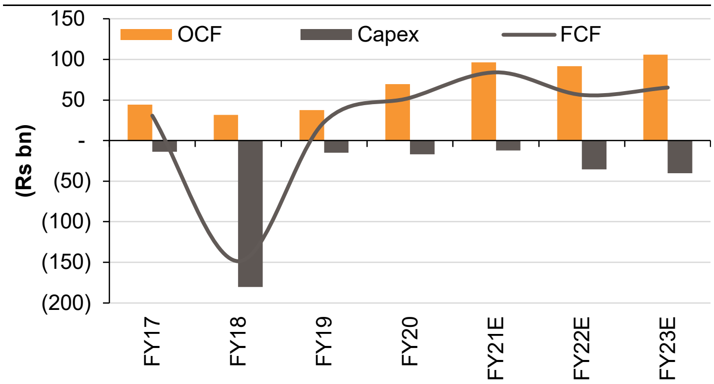
Source: Company, Emkay Research

EBITDA CAGR of 13%; to be net debt-free by FY23E

We assume UTCEM's EBITDA will see 13% CAGR in FY21E-23E, mainly driven by an 11% volume CAGR. Its blended EBITDA/ton is likely to witness 1% CAGR, driven by around 2% CAGR in blended realizations over FY21E-23E.

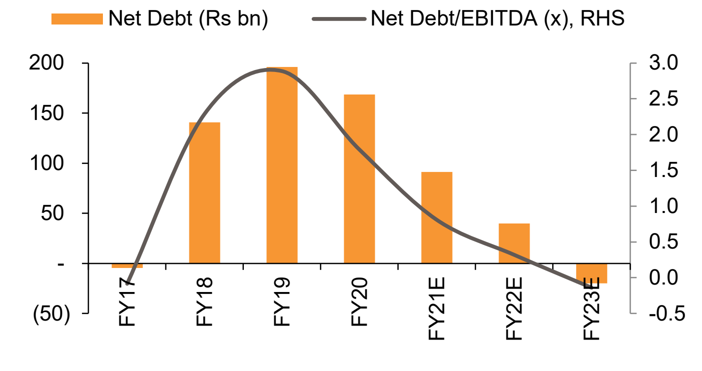
Consolidated net debt declined by Rs105bn in over FY19-21E, mainly led by improvement in utilization, increase in profitability of acquired assets, pricing discipline in its key markets and release of working capital (~Rs10bn). We expect UTCEM to generate healthy FCF of Rs61bn p.a. over FY21-23E and turn net debt free in FY23E. This should allow the company to accelerate growth via organic and inorganic routes. Historically, acquisitions have been integral to UTCEM's growth story with the company enjoying a strong track record in turning around acquired firms.

Exhibit 114: We model FCF generation of Rs122bn by FY21E-23E



Source: Company, Emkay Research, FCF includes other income and interest cost

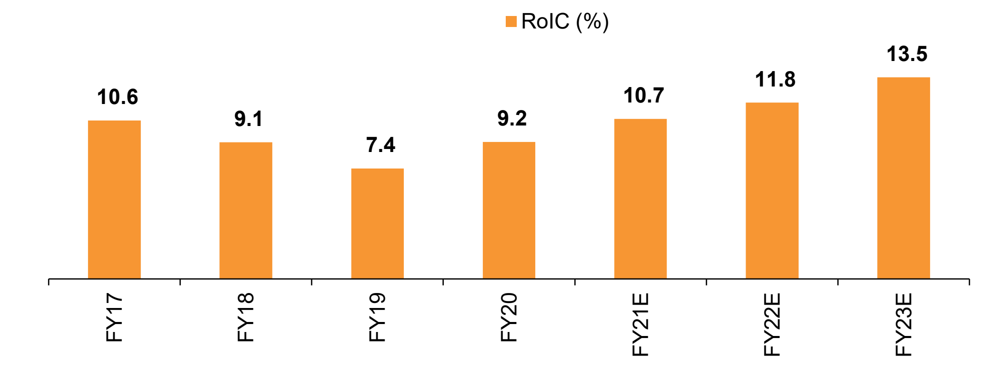
Exhibit 115: …UTCEM to be net debt free by FY23E



Source: Company, Emkay Research

After seven years of sub-par profitability, we believe UTCEM is poised for a structural improvement in RoIC - from ~11% in FY21E to a sustainable 20%+ over the next 5-6 years (best incremental RoIC in this cycle). This will be driven by: 1) rising asset turnover, thanks to capacity utilization rising to 85% in FY26E from 72% in FY21E, as well as capacity expansion through the brownfield route; and 2) increase in EBIT margin to 22% from 19.6% on steady price growth, premiumization benefits, cost optimization and operating leverage.

Exhibit 116: UTCEM likely to have best incremental RoIC in this cycle



Source: Company, Emkay Research

Initiate with Buy; TP Rs7,050

UTCEM's dominant market position and pan-India presence offer some pricing advantage, and have historically resulted in lower volatility in EBITDA growth rates and returns. Our TP implies 1-year forward EV/EBITDA of 14x - in line with T3Y average, but lower than current the multiple of c.15x. We see recent share price correction as a buying opportunity.

We have arrived at our Jun'22E TP of Rs7,050 using DCF. We assume a sustainable/terminal FCFF growth of 8.0% post FY26E (in line with industry), and a sustainable incremental RoIC of 22.5%.

Exhibit 117: Initiate with Buy and TP of Rs7,050 based on 14x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	144
EV/E multiple (x)	14
Enterprise Value	**2,011**
Net debt (FY22E)	35
Equity value	**1,976**
No. of shares (mn)	289
Mar'22 Fair Value (Rs)	6,845
Jun'22 Target Price (Rs)	**7,050**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Exhibit 118: Sensitivity analysis with 0.5% change in TG and 2.5% change in sustainable RoIC

		Terminal Growth Rate (%)				
		7.0	**7.5**	**8.0**	**8.5**	**9.0**
Sustainable RoIC (%)	**17.5**	5,238	5,604	6,080	6,727	7,658
	20.0	5,599	6,045	6,626	7,415	8,553
	22.5	5,881	6,388	**7,050**	7,951	9,248
	25.0	6,106	6,663	7,390	8,379	9,805
	27.5	6,290	6,887	7,667	8,729	10,261

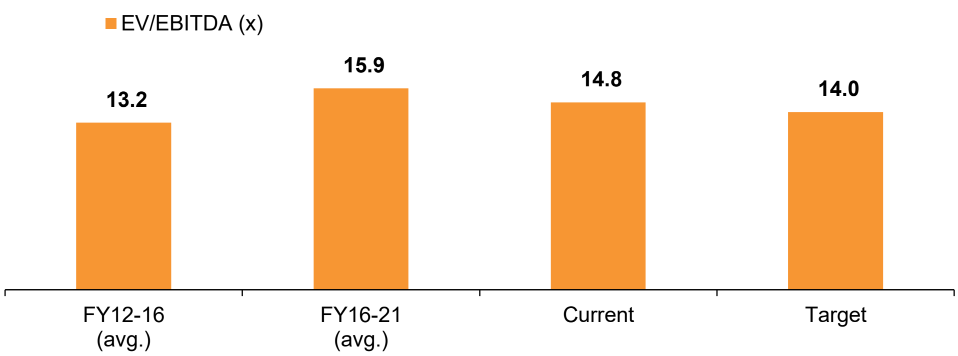
Source: Emkay Research

Exhibit 119: Our estimates are 3-6% ahead of consensus

Rs bn	Emkay Estimates		Consensus		% variance	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	506	566	497	550	1.9	2.9
EBITDA	**125**	**144**	**121**	**136**	**3.7**	**5.5**
PAT	66	80	62	75	6.6	7.3

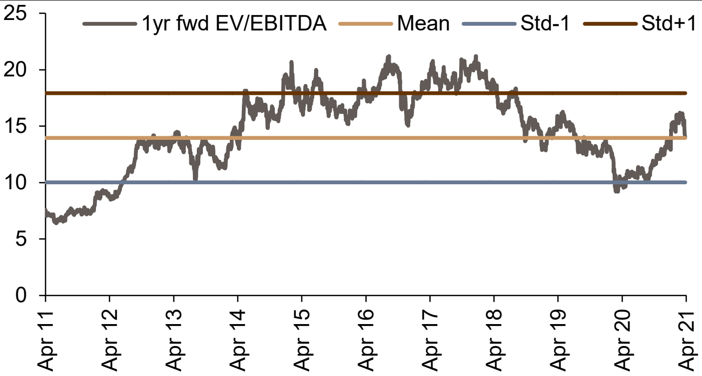
Source: Bloomberg, Emkay Research

Exhibit 120: Valuation expected to stabilize around trailing 3-year average



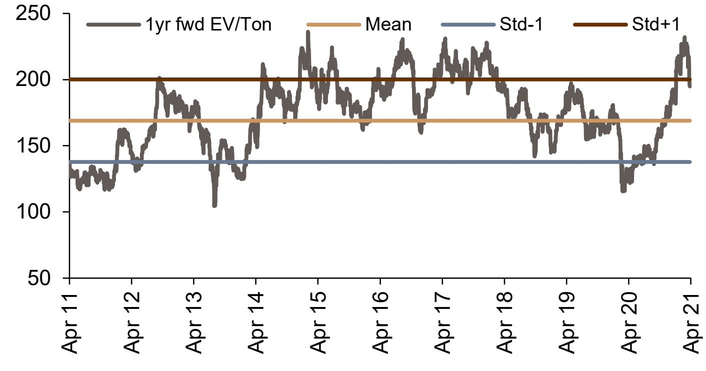
Source: Bloomberg, Emkay Research

Exhibit 121: 1-yr forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 122: 1-yr forward EV/ton (USD)



Source: Bloomberg, Emkay Research

Annual Analysis

Exhibit 123: Key Assumptions

Operational details	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR% FY17-21E	CAGR% FY21E-23E
Capacity (mt)	72	86	100	115	118	125	138	13.3	7.9
Volumes (mt)	53	65	76	82	85	96	106	12.5	11.5
Utilization (%)	76	82	82	77	73	79	81	-	-
Blended Realization (Rs/ton)	4,703	4,795	4,815	5,038	5,098	5,218	5,283	2.0	1.8
EBITDA/ton (Rs/ton)	977	951	889	1,144	1,324	1,301	1,354	7.0	1.1
P&L (Rs bn)									
Revenue	254	314	374	421	440	506	566	14.7	13.4
EBITDA	**52**	**61**	**68**	**94**	**113**	**125**	**144**	**21.4**	**12.7**
Adj. Net Profit	27	25	24	38	57	66	80	20.3	18.9
Balance Sheet (Rs bn)									
Equity	244	264	284	391	442	503	578		
Net Debt	(4)	141	196	169	91	40	(20)		
Net Debt: EBITDA (x)	(0.1)	2.3	2.9	1.8	0.8	0.3	(0.1)		
Net Debt: Equity (x)	(0.0)	0.5	0.7	0.4	0.2	0.1	(0.0)		
Cash Flow (Rs bn)									
OCF before NWC change	39	40	47	65	82	93	108		
Change in NWC	5	(8)	(9)	5	15	(2)	(2)		
Capex	(14)	(180)	(15)	(17)	(12)	(35)	(40)		
FCF	**31**	**(149)**	**23**	**53**	**84**	**56**	**65**		
Return ratios (%)									
RoE	11.9	9.7	8.9	11.4	13.6	14.0	14.9		
RoCE	11.8	7.6	6.8	8.6	11.5	12.8	14.7		
RoIC	**10.6**	**9.1**	**7.4**	**9.2**	**10.7**	**11.8**	**13.5**		
Valuations (x)									
PE				45.6	30.8	26.5	21.8		
EV/EBITDA				20.7	17.0	14.8	12.5		
EV/ton (USD)				229	214	197	172		

Source: Company, Emkay Research

Exhibit 124: Annual analysis on per ton basis

Rs/ton	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Blended realization	**4,703**	**4,795**	**4,815**	**5,038**	**5,098**	**5,218**	**5,283**
Raw materials consumed	838	813	855	767	787	814	822
Power & fuel costs	801	981	1,103	1,029	995	1,076	1,086
Freight costs	1,106	1,132	1,158	1,181	1,164	1,185	1,203
Staff cost	285	280	270	305	274	261	243
Other expenses	748	706	619	691	609	633	624
Operating Cost	**3,779**	**3,911**	**4,005**	**3,973**	**3,829**	**3,969**	**3,978**
Other operating income	53	68	79	79	55	52	49
Blended EBITDA	**977**	**951**	**889**	**1,144**	**1,324**	**1,301**	**1,354**

Source: Company, Emkay Research

Exhibit 125: Summary of key assumptions

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Volumes (mt)					
Existing	70.1	64.3	66.5	74.8	82.4
CENT	-	9.4	9.8	11.2	12.6
White Cement	1.4	1.3	1.3	1.4	1.5
UNCL	1.2	3.7	4.1	4.6	5.2
UTCEM-India	**72.7**	**78.8**	**81.7**	**92.1**	**101.7**
ETA Star & other subsidiaries	3.7	3.6	3.7	4.0	4.4
Consolidated	**76.4**	**82.3**	**85.4**	**96.0**	**106.1**
EBITDA (Rs mn)					
Existing (incl. White Cement)	65,446	83,776	97,281	1,06,762	1,22,003
CENT	-	3,980	8,323	9,881	11,443
UNCL	558	4,366	5,401	6,296	7,299
UTCEM-India	**66,004**	**92,122**	**1,11,005**	**1,22,939**	**1,40,745**
ETA Star & other subsidiaries	1,877	2,046	2,075	1,975	2,958
Consolidated	**67,881**	**94,167**	**1,13,080**	**1,24,914**	**1,43,703**
EBITDA (Rs/ton)					
Existing (incl. White Cement)	915	1,277	1,435	1,400	1,454
CENT	-	423	845	879	909
UNCL	475	1,169	1,330	1,371	1,399
UTCEM-India	**908**	**1,170**	**1,359**	**1,335**	**1,384**
ETA Star & other subsidiaries	510	573	561	498	668
Consolidated	**889**	**1,144**	**1,324**	**1,301**	**1,354**

Source: Company, Emkay Research

Quarterly Analysis

Exhibit 126: Quarterly table

Rs mn	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Net Sales	**1,02,610**	**1,05,790**	**75,630**	**1,02,310**	**1,21,440**	**18.4**	**18.7**
Other operating income	1,783	1,666	708	1,561	1,101	(38.3)	(29.5)
Revenue	**1,04,393**	**1,07,456**	**76,338**	**1,03,871**	**1,22,541**	**17.4**	**18.0**
Expenditure	**84,611**	**83,021**	**55,592**	**76,895**	**91,599**	**8.3**	**19.1**
Total RM	18,478	14,540	11,873	16,758	17,945	(2.9)	7.1
Power & Fuel	20,535	21,181	13,708	18,450	24,019	17.0	30.2
Freight	23,457	26,786	16,059	22,996	28,485	21.4	23.9
Staff cost	6,223	6,550	5,604	5,663	6,102	(1.9)	7.8
Other expenditure	15,918	13,964	8,348	13,028	15,047	(5.5)	15.5
EBITDA	**19,783**	**24,436**	**20,746**	**26,977**	**30,943**	**56.4**	**14.7**
Depreciation	6,780	6,724	6,462	6,771	6,739	(0.6)	(0.5)
EBIT	13,003	17,712	14,284	20,206	24,204	86.1	19.8
Other Income	1,682	1,979	2,788	1,349	2,679	59.3	98.6
Interest	4,720	5,048	3,930	3,579	3,563	(24.5)	(0.4)
PBT	**9,964**	**14,643**	**13,142**	**17,976**	**23,320**	**134.0**	**29.7**
Total Tax	2,862	3,320	3,603	5,662	7,474	161.2	32.0
Adjusted PAT	**7,102**	**11,323**	**9,539**	**12,315**	**15,846**	**123.1**	**28.7**
(Profit)/loss from JV's/Ass/MI	8	19	9	(6)	(3)	NM	NM
PAT after MI	7,110	11,342	9,548	12,309	15,843	122.8	28.7
Extra ordinary items	(1,330)	21,095	(1,574)	6	-		
Reported PAT	5,780	32,437	7,974	12,314	15,843	174.1	28.7
Adjusted EPS (Rs)	**24.6**	**39.3**	**33.1**	**42.7**	**54.9**	**122.8**	**28.7**

Margins (%)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (bps)	QoQ (bps)
EBIDTA	18.9	22.7	27.2	26.0	25.3	630.1	(72.0)
EBIT	12.5	16.5	18.7	19.5	19.8	729.6	29.9
EBT	9.5	13.6	17.2	17.3	19.0	948.6	172.4
PAT	6.8	10.5	12.5	11.9	12.9	612.8	107.6
Effective Tax rate	28.7	22.7	27.4	31.5	32.0		

Source: Company, Emkay Research

Exhibit 127: Quarterly analysis per ton basis

Rs/ton	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Cement volumes (mt)	**20.90**	**21.44**	**14.65**	**20.06**	**23.88**	**14.3**	**19.0**
Blended Realization	**4,910**	**4,934**	**5,162**	**5,100**	**5,085**	**3.6**	**(0.3)**
Raw Material	884	678	810	835	751	(15.0)	(10.0)
Power & Fuel	983	988	936	920	1,006	2.4	9.4
Freight	1,122	1,249	1,096	1,146	1,193	6.3	4.1
Staff cost	298	305	383	282	256	(14.2)	(9.5)
Other expenditure	762	651	570	649	630	(17.3)	(3.0)
Operating cost	**4,048**	**3,872**	**3,795**	**3,833**	**3,836**	**(5.3)**	**0.1**
Other operating income	85	78	48	78	46	(46.0)	(40.8)
EBITDA/ton	**947**	**1,140**	**1,416**	**1,345**	**1,296**	**36.9**	**(3.6)**

Source: Company, Emkay Research

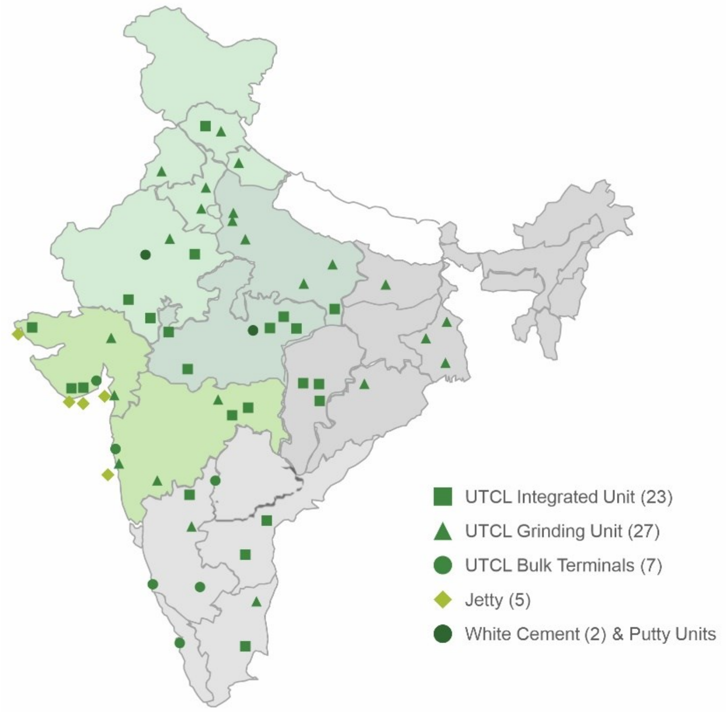
Company Background

UTCEM is India's largest cement manufacturer with a domestic grey cement capacity of 111mt, which will increase to 131mt (23% capacity share on pan-India basis) in a staggered manner by FY23E. Its Middle East-based subsidiary Star Cement has 4mt capacity. It is also market leader in RMC with 100+ operational plants, which can produce more than 14.1mn m3 annually. It has a CPP capacity of 1,170MW and 217MW capacity of green energy.

UTCEM enjoys a brand premium and has a strong nationwide distribution network of over 90,000 dealers & retailers spread across over 30,000 cities and towns. UTCEM also has a wide footprint in direct channel sales with more than 450 key accounts and 425 large regional accounts. It is also the leading player in the white cement (0.7mt) & wall care putty (0.8mt) categories.

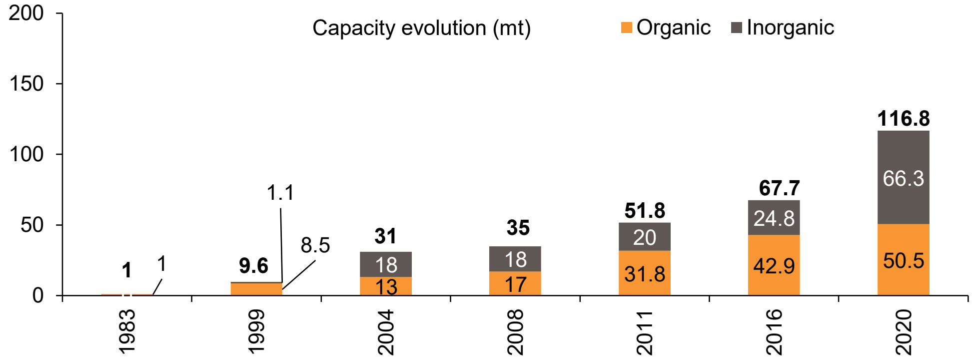
In addition to organic growth, the company has also acquired some key capacities, including Jaypee, Binani and Century Cement. Out of the current capacity, 57% of capacity has been acquired inorganically.

Exhibit 128: Highly diversified geographically with pan-India presence



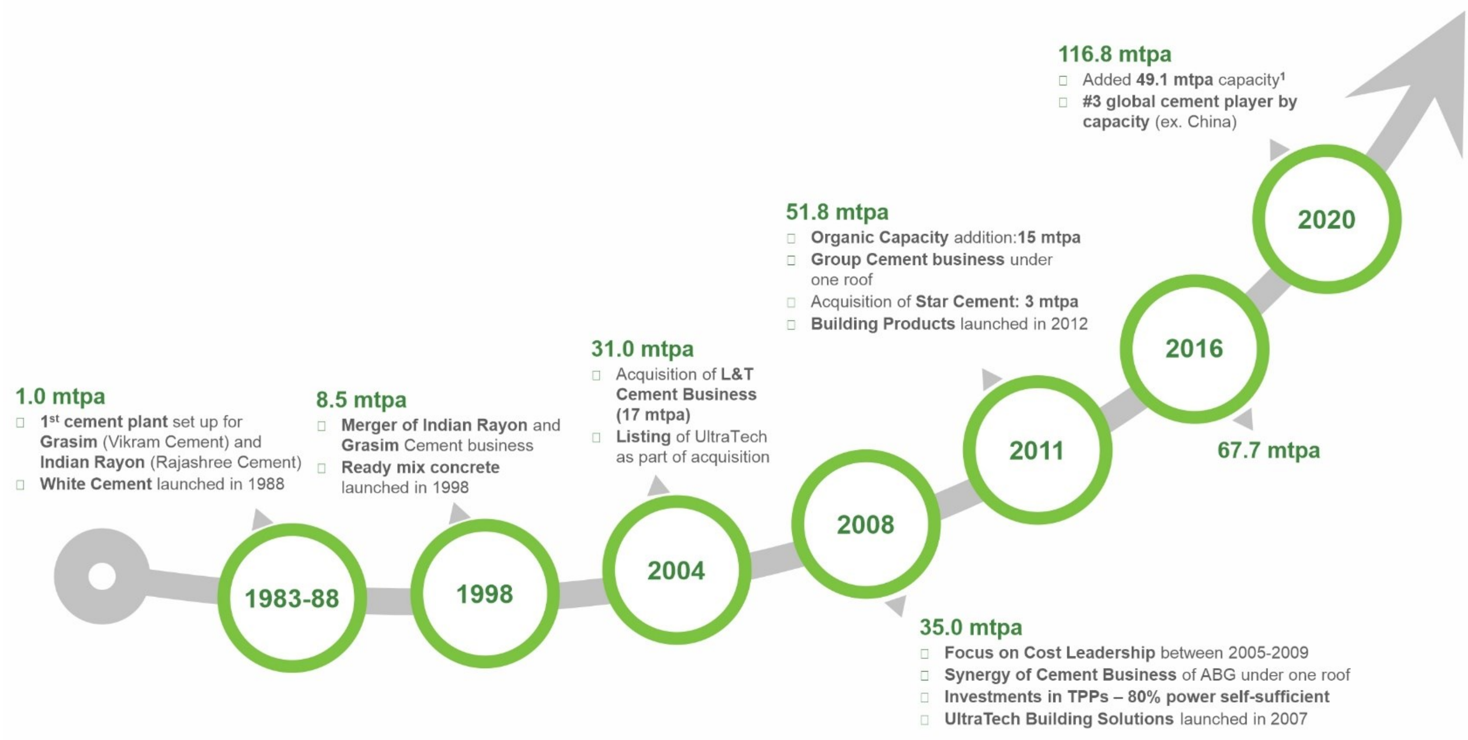
Source: Company, Emkay Research

Exhibit 129: 57% of existing capacities expanded through inorganic route



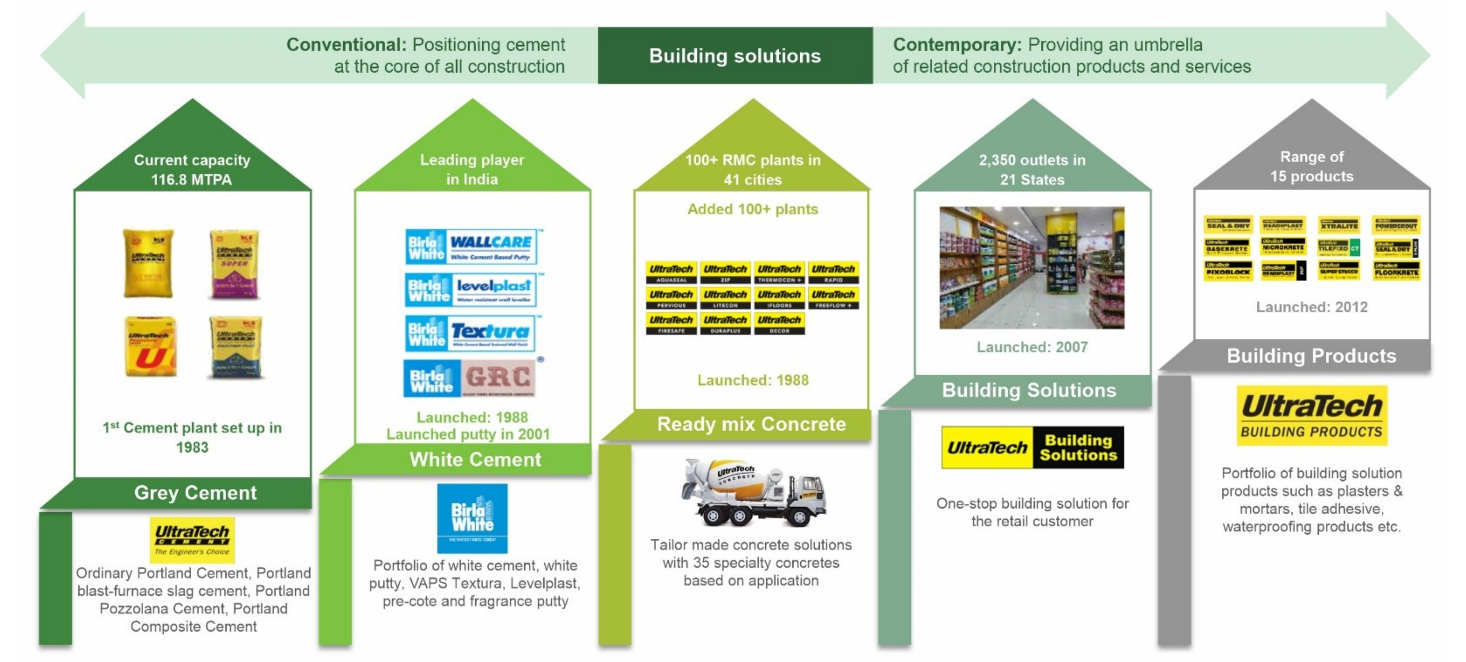
Source: Company, Emkay Research

Exhibit 130: UTCEM journey to become India's largest cement company



Source: Company, Emkay Research

Exhibit 131: Diversified product offerings catering a full suite of building solution products



Source: Company, Emkay Research

Exhibit 132: Key domestic acquisitions by UTCEM

Month	Buyer	Seller	Capacity (mt)	EV (US$mn)	EV/ton	Remarks
Sep-13	UTCEM	JPA	4.8	600	125	Gujarat assets of JPA, EV/EBITDA of 11x
Feb-16	UTCEM	JPA	21.2	2,400	113	Assets spread across Central, North and South
May-18	UTCEM	Century Textiles	13.4	1,268	96	It includes 2mnte grinding units. UTCEM received CCI approval in Aug'18
Nov-18	UTCEM	Binani Cement	8.3	1,130	140	4.6mnte clinker and 6.25mnte cement; potential expansion opportunity of 5mnte.

Source: Emkay Research

Exhibit 133: Successful integration of large acquisitions

Company	Jaypee Cement	Binani Cement	Century Cement
Acquisition date	Jun-17	Nov-18	Oct-19
Capacity (mt)	21.2	6.25	14.6
Rationale	▪ Enter new markets (Central India, Coastal AP and HP) with limited UTCEM presence ▪ Unique opportunity to acquire over 20 mt of capacity in one go ▪ Securing large limestone reserves	▪ Enabled company to access to large reserves of high-quality limestone ▪ Consolidated the company's leadership in the fast-growing Northern and Western markets in India	▪ Strengthened position in the Eastern markets and provided deeper penetration in Central & Western markets ▪ Added ~6,500 dealers, increasing the network size to ~29,000
Turnaround	▪ Capacity utilization improved to about 70%+ in line with UTCEM existing plants in similar market ▪ Brand transition completed within 52 days of acquisition for all the plants ▪ Achieved about 25% variable cost reduction over pre-acquisition level ▪ EBITDA per ton improved form negative level to INR 1,000/t+	▪ Capacity utilization increased to 75% vs ~45% (pre-acquisition) ▪ Brand transition completed in 21 days ▪ Achieved one of the lowest variable cost of production amongst other UTCEM plants in North region ▪ FY20 operating EBITDA > INR 1250/t Completed disposal of one of the overseas non-core asset	▪ Capacity utilization increased over 80% within six months of acquisition ▪ Completed brand transition for 72% volume ▪ Cost improvement program underway ▪ Achieved EBITDA per ton of Rs 700/ton in Q2 FY21 ▪ Complete integration by Mar'21

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	**3,73,792**	**4,21,250**	**4,39,961**	**5,06,150**	**5,65,842**
Expenditure	**3,05,911**	**3,27,083**	**3,26,881**	**3,81,236**	**4,22,139**
EBITDA	**67,881**	**94,167**	**1,13,080**	**1,24,914**	**1,43,703**
Depreciation	21,398	27,022	26,722	28,129	30,404
EBIT	**46,483**	**67,146**	**86,358**	**96,784**	**1,13,299**
Other Income	4,381	6,478	9,431	11,359	14,139
Interest expenses	15,486	19,857	14,591	13,613	12,651
PBT	**35,378**	**53,767**	**81,199**	**94,530**	**1,14,787**
Tax	11,068	15,413	24,360	28,359	34,436
Extraordinary Items	0	19,765	(1,568)	0	0
Minority Int./Income from Assoc.	37	32	16	16	16
Reported Net Income	**24,347**	**58,150**	**55,287**	**66,187**	**80,367**
Adjusted PAT	**24,347**	**38,386**	**56,855**	**66,187**	**80,367**

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	2,746	2,886	2,886	2,886	2,886
Reserves & surplus	2,81,143	3,88,269	4,39,226	5,00,506	5,75,389
Net worth	**2,83,890**	**3,91,155**	**4,42,112**	**5,03,392**	**5,78,275**
Minority Interest	**122**	**75**	**59**	**43**	**27**
Loan Funds	**2,30,307**	**2,28,979**	**2,21,979**	**2,11,979**	**1,96,979**
Net deferred tax liability	35,418	49,060	48,063	48,159	48,255
Total Liabilities	**5,49,736**	**6,69,269**	**7,12,213**	**7,63,574**	**8,23,537**
Net block	**4,72,331**	**5,99,421**	**5,88,621**	**5,96,441**	**6,11,862**
Investment	**29,213**	**59,287**	**59,287**	**59,287**	**59,287**
Current Assets	**1,14,185**	**1,25,508**	**1,94,450**	**2,46,936**	**3,03,824**
Cash & bank balance	7,072	5,392	75,588	1,17,054	1,62,013
Other Current Assets	1,651	1,651	1,651	1,651	1,651
Current liabilities & Provision	**95,500**	**1,24,042**	**1,36,559**	**1,45,855**	**1,54,890**
Net current assets	**18,685**	**1,466**	**57,891**	**1,01,081**	**1,48,934**
Misc. exp	0	0	0	0	0
Total Assets	**5,49,736**	**6,69,270**	**7,12,213**	**7,63,574**	**8,23,537**

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	**35,384**	**52,423**	**70,216**	**83,187**	**1,00,665**
Other Non-Cash items	(4,194)	(5,869)	0	0	0
Chg in working cap	(9,374)	4,503	13,771	(1,724)	(2,895)
Operating Cashflow	**51,599**	**89,020**	**1,00,017**	**93,897**	**1,04,264**
Capital expenditure	(15,562)	(17,037)	(12,319)	(35,350)	(40,389)
Free Cash Flow	**36,036**	**71,983**	**87,698**	**58,547**	**63,875**
Investments	29,693	(22,302)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**15,152**	**(38,129)**	**(2,888)**	**(23,991)**	**(26,251)**
Equity Capital Raised	(775)	(3)	0	0	0
Loans Taken / (Repaid)	(41,377)	(27,164)	(7,000)	(10,000)	(15,000)
Dividend paid (incl tax)	(3,462)	(3,800)	(4,329)	(4,907)	(5,484)
Other Financing Cash Flow	0	0	(1,013)	80	80
Financing Cashflow	**(60,450)**	**(49,911)**	**(26,933)**	**(28,440)**	**(33,055)**
Net chg in cash	**6,300**	**980**	**70,196**	**41,466**	**44,959**
Opening cash position	772	4,412	5,392	75,588	1,17,054
Closing cash position	**7,072**	**5,392**	**75,588**	**1,17,054**	**1,62,013**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	18.2	22.4	25.7	24.7	25.4
EBIT Margin	12.4	15.9	19.6	19.1	20.0
Effective Tax Rate	31.3	28.7	30.0	30.0	30.0
Net Margin	6.5	9.1	12.9	13.1	14.2
ROCE	9.8	12.1	13.9	14.7	16.1
ROE	8.9	11.4	13.6	14.0	14.9
RoIC	10.5	12.4	14.8	16.8	19.2

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	88.7	133.0	197.0	229.3	278.4
CEPS	166.6	226.6	289.6	326.8	383.8
BVPS	1,033.7	1,355.2	1,531.8	1,744.1	2,003.5
DPS	7.6	13.8	15.6	19.2	23.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	68.4	45.6	30.8	26.5	21.8
P/CEPS	36.4	26.8	21.0	18.6	15.8
P/BV	5.9	4.5	4.0	3.5	3.0
EV / Sales	5.0	4.6	4.2	3.5	3.1
EV / EBITDA	19.1	20.7	17.0	14.8	12.5
Dividend Yield (%)	0.1	0.2	0.3	0.3	0.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.7	0.4	0.2	0.1	0.0
Net Debt/EBIDTA	2.9	1.8	0.8	0.3	(0.1)
Working Cap Cycle (days)	11.3	(3.4)	(14.7)	(11.5)	(8.4)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	19.0	12.7	4.4	15.0	11.8
EBITDA	10.5	38.7	20.1	10.5	15.0
EBIT	8.2	44.5	28.6	12.1	17.1
PAT	9.6	138.8	(4.9)	19.7	21.4

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	1,04,393	1,07,456	76,338	1,03,871	1,22,541
EBITDA	19,783	24,436	20,746	26,977	30,943
EBITDA Margin (%)	**18.9**	**22.7**	**27.2**	**26.0**	**25.3**
PAT	5,780	32,437	7,974	12,314	15,843
EPS (Rs)	**20.0**	**112.4**	**27.6**	**42.7**	**54.9**

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	59.7	60.0	59.9	60.0	60.0
FIIs	16.5	16.1	15.3	16.8	17.3
DIIs	14.2	14.6	15.4	14.1	13.7
Public and Others	9.7	9.3	9.4	9.1	9.0

Source: Capitaline

Initiating Coverage

Emkay
Your success is our success

Shree Cement

Refer to important disclosures at the end of this report

Efficient and consistent compounder—deserves premium valuation; Buy

CMP	Target Price
Rs 28,106	Rs 32,750
as of (April 23, 2021)	12 months
Rating	Upside
BUY	16.5 %

Shree Cement (SRCM) is among India's best-managed cement companies, and offers: (1) highest medium-term growth among large-caps, as reflected in FY21E-23E EBITDA CAGR of 18%; (2) highest long-term growth prospects, based on its track record of gaining capacity-share—8.2% in FY21E from 6.2% om FY16; (3) robust RoIC, rising to 35% in FY23E from 27% in FY21E, driven by cost-leadership in terms of both opex/ton and capex/ton. However, stock's premium valuation at 19.8x forward EV/EBITDA (vs. 17.8x trailing 3-year average) already reflect our strong outlook, and therefore we expect future stock returns to be driven essentially by earnings compounding.

We initiate with Buy and Jun'22E TP of Rs32,750 driven by DCF, implying forward EV/EBITDA of 19x, a moderate de-rating from current 19.8x multiple. Our TP is based on sustainable LT FCF growth of 9.0% beyond FY26, and incremental RoIC of 30% (well-below cyclical peak of 45% in FY26E). Key downside risk is overseas M&A

- **Highest capacity and volume growth, reflecting continued market share gains:** Over the past decade, SRCM gained market share by 300bps to 8% by FY21E as volume grew ~2x of industry growth, led by strong capacity additions at a 13% CAGR (vs. 6% CAGR for industry) in the same period. Going ahead, we believe SRCM offers highest long-term growth prospects on the back of further ~10% (+170bps) market share gains by FY26E with 13% volume CAGR (1.5x industry growth) over FY21E-26E, backed by strong capacity additions at 10% CAGR (vs. 5% CAGR for industry) over the same period.
- **Industry-leading profitability driven by lowest per unit opex and capex:** SRCM is expected to sustain industry-leading profitability as it enjoys lowest opex/ton (~15% lower vs. industry) and ~25% lower capex/ton compared to the industry. We expect consolidated blended EBITDA/ton to improve to Rs1,448 by FY23E (vs. Rs1,334/ton in FY21E), owing to increasing share of premium products, optimizing logistics cost, other cost efficiencies (increasing share of green power) and better operating leverage.
- **EBITDA CAGR 18% over FY21-23E; industry-leading RoIC to expand further:** SRCM may generate FCF of Rs52bn after factoring in capex of Rs37bn over FY21E-23E. SRCM enjoys industry-leading RoIC, which is expected to further expand by 800bps to 35% by FY23E, driven by net-asset turnover rising from 1.7x in FY21E to 2.1x and EBIT margin expanding 80bps from 20.7% in FY21E to 21.4% by FY23E.
- **Initiate coverage with Buy:** Our Jun'22E TP of Rs32,750 is DCF driven. We assume sustainable/terminal FCF growth of 9% post FY26E (100bps above industry growth) and a sustainable incremental RoIC of 30% (upper range of our coverage companies). Our Jun'22E TP implies a forward EV/EBITDA of 19x, and FCFF yield of 2.4%.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,25,547	1,28,684	1,34,041	1,58,337	1,79,880
EBITDA	28,973	37,591	40,355	48,344	55,840
EBITDA Margin (%)	23.1	29.2	30.1	30.5	31.0
APAT	11,541	15,359	22,541	27,717	33,153
EPS (Rs)	331.3	425.7	624.7	768.2	918.9
EPS (% chg)	(13.4)	28.5	46.8	23.0	19.6
ROE (%)	12.4	13.4	16.0	17.2	17.9
P/E (x)	84.8	66.0	45.0	36.6	30.6
EV/EBITDA (x)	34.2	27.0	24.2	19.8	16.7
P/BV (x)	10.1	7.7	6.8	5.9	5.1

Source: Company, Emkay Research

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	768.2	918.9
Consensus	696.5	792.6
Mean Consensus TP (12M)	Rs 26,196	

Stock Details

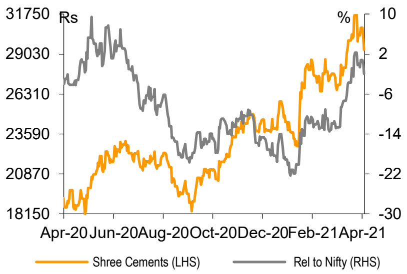
Bloomberg Code	SRCM IN
Face Value (Rs)	10
Shares outstanding (mn)	36
52 Week H/L	32,050 / 18,000
M Cap (Rs bn/USD bn)	1,014 / 13.52
Daily Avg Volume (nos.)	74,461
Daily Avg Turnover (US$ mn)	27.7

Shareholding Pattern Mar '21	
Promoters	62.6%
FIIs	12.5%
DIIs	10.8%
Public and Others	14.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	19	37	50
Rel. to Nifty	-	18	12	(4)

Relative price chart



Source: Bloomberg

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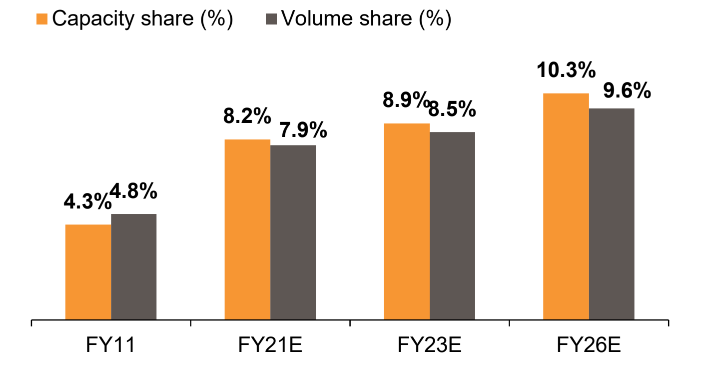
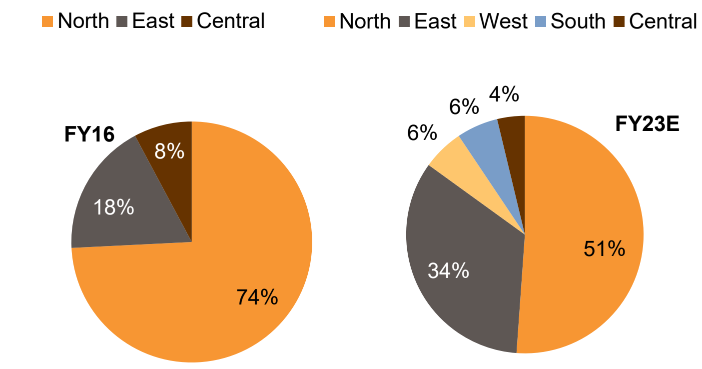
Story in Charts

Exhibit 134: Higher capacity and volume growth reflecting continued market share gains…



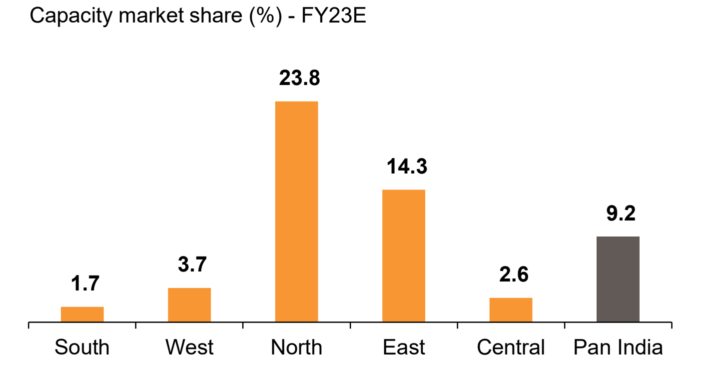
Source: Company, Emkay Research

Exhibit 135: …with regional diversification



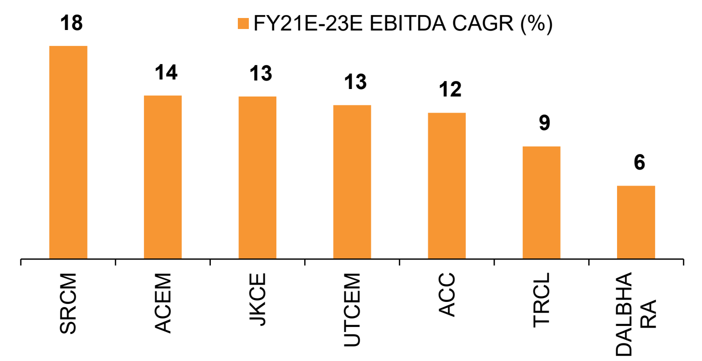
Source: Company, Industry data, Emkay Research

Exhibit 136: SRCM has leadership position in North and East markets



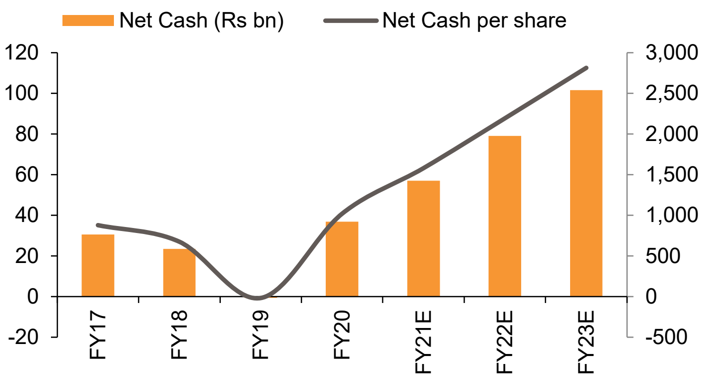
Source: Company, Emkay Research

Exhibit 137: Industry leading EBITDA growth to continue



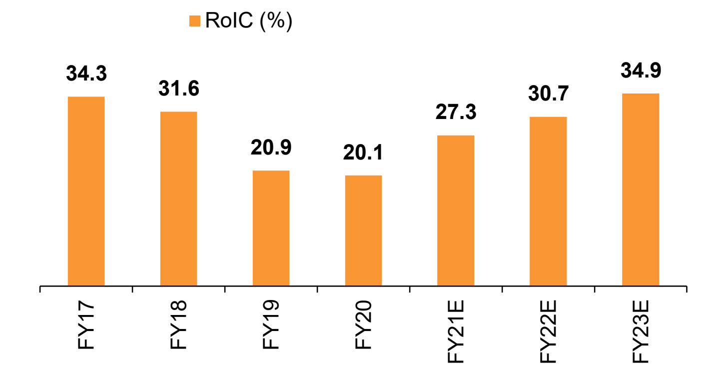
Source: Emkay Research

Exhibit 138: Net cash expected to increase by Rs45bn to >Rs100bn by FY23E



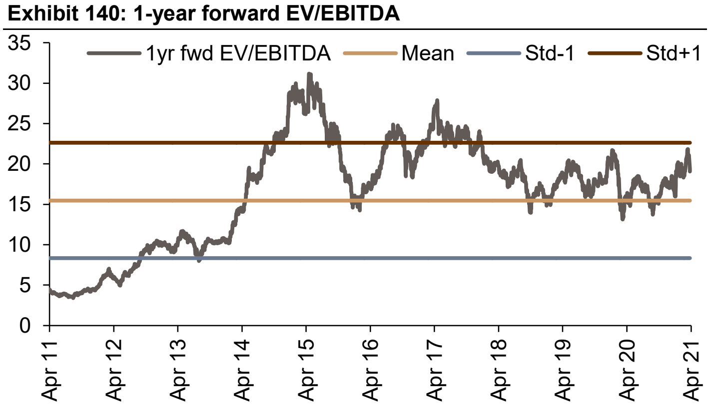
Source: Company, Emkay Research

Exhibit 139: Industry-leading RoIC driven by cost leadership in terms of lowest opex and capex per ton



Source: Company, Emkay Research

Exhibit 140: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 141: Initiate with Buy at TP of Rs32,750 based on 19x Jun'22E EV/E, backed by DCF analysis

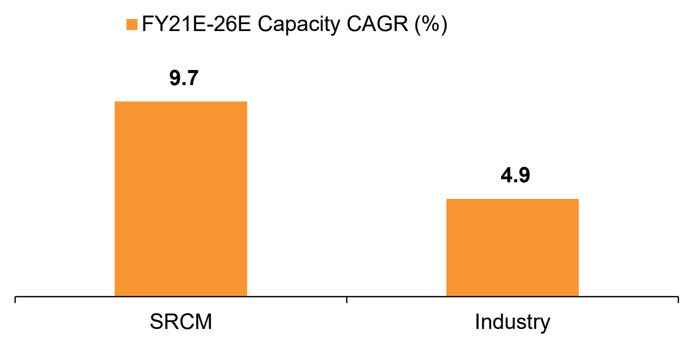
EV/E method	Rs bn
FY23E EBITDA	56
EV/E multiple (x)	19.0
Enterprise Value	**1,064**
Net cash (FY22E)	(84)
Equity value	**1,147**
No. of shares (mn)	36.1
Mar'22 Fair Value (Rs)	**31,796**
Jun'22* Target Price (Rs)	**32,750**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Highest capacity and volume growth reflecting in continued market share gains

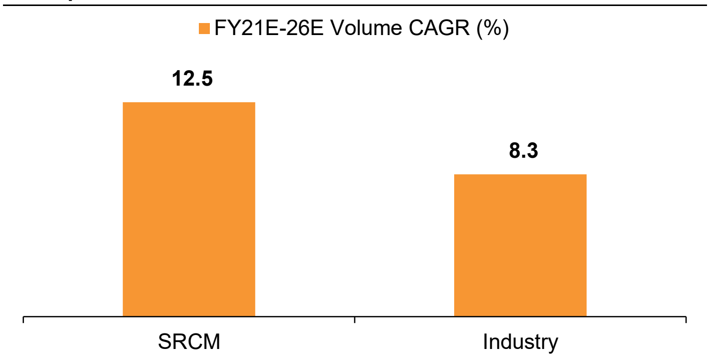
Over the past decade, SRCM gained market share by 300bps to 8% by FY21E as volume grew ~2x of industry growth, led by strong capacity additions at 13% CAGR (vs. 6% CAGR for industry) over the same period. **Going ahead, SRCM offers highest long-term growth prospects on the back of further ~10% (+170bps) market share gain by FY26E with 13% volume CAGR (1.5x industry growth) over FY21E-26E, backed by strong capacity additions at 10% CAGR (vs 5% CAGR for industry) over the same period.**

Exhibit 142: SRCM capacity to grow 2x of industry growth over FY21E-26E…



Source: Company, Industry data, Emkay Research

Exhibit 143: …while volumes to grow at 1.5x of industry growth over same period



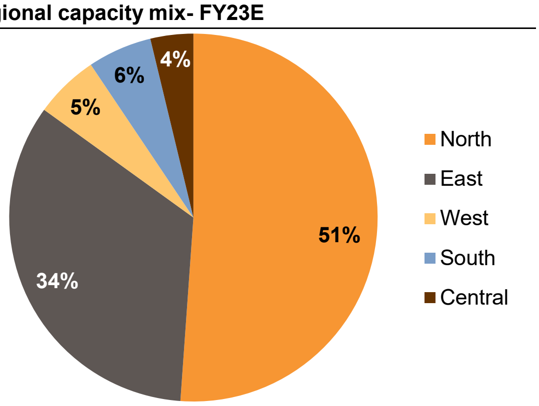
Source: Company, Industry data, Emkay Research

Targeting to double the capacities over next 6-7 years

Management aims to increase the capacities from 40mt to 56mt over three years in the phase I and up to 80mt in next 6-7 years in the phase II. **Phase I would see capacity additions in better markets like North and East, while phase II would entail SRCM expanding on a pan-India basis, which will help to further diversify the regional mix.**

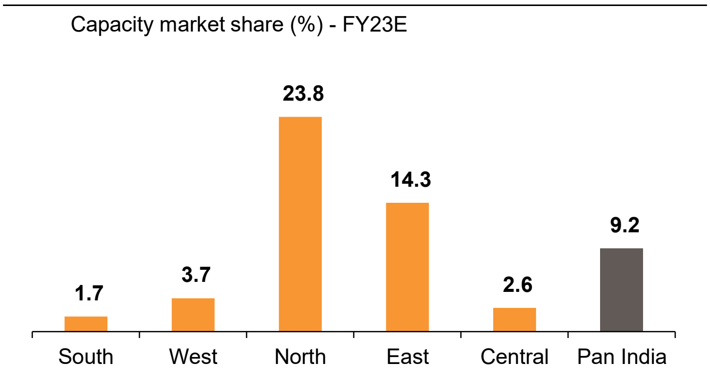
Commercial production at 3mt (assuming 100% PSC) GU in Cuttack, Odisha, commenced in Mar'21, while the 3mt grinding unit at Pune is likely to be commissioned in May'21. In Sep'20, SRCM announced setting up of clinker line-3 at Chhattisgarh having capacity of up to 12,000tpd at capex of Rs10bn to be commissioned by Q2FY23E. Besides, few more capacity additions are likely to be announced over the next few months, in our view.

Exhibit 144: Regional capacity mix- FY23E



Source: Company, Emkay Research

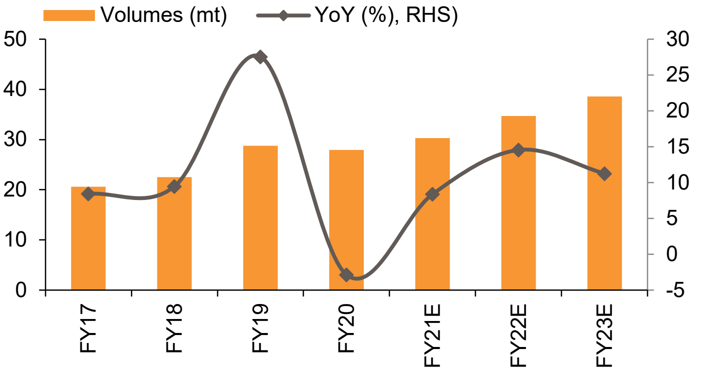
Exhibit 145: SRCM has leadership position in North and East markets



Source: Company, Industry data, Emkay Research

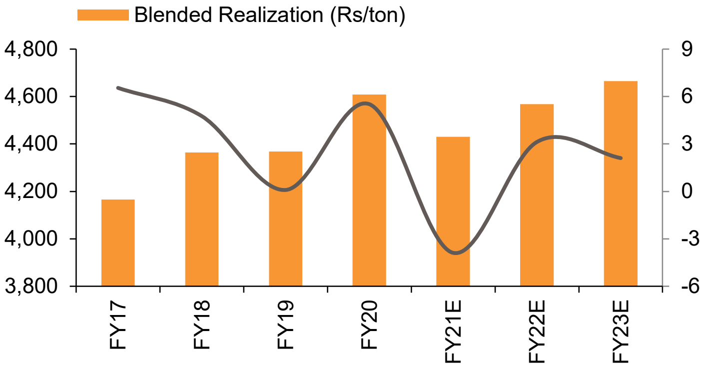
We expect SRCM domestic volume to grow at a 14% CAGR (1.4x industry growth) over FY21E-23E and continue to gain market share backed by non-trade volume push in North, strong demand in East and higher YoY utilization in South.

Exhibit 146: We model domestic volume to grow at around 14% CAGR (1.4x industry growth) over FY21E-23E



Source: Company, Emkay Research

Exhibit 147: We model blended realization to increase at 2.6% CAGR over FY21E-23E

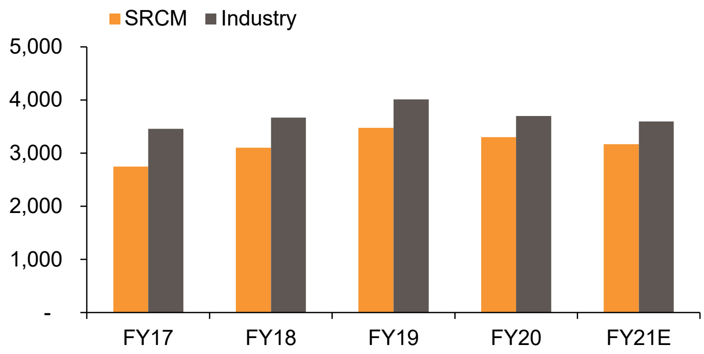


Source: Company, Emkay Research

Industry-leading profitability driven by lowest unit opex and capex

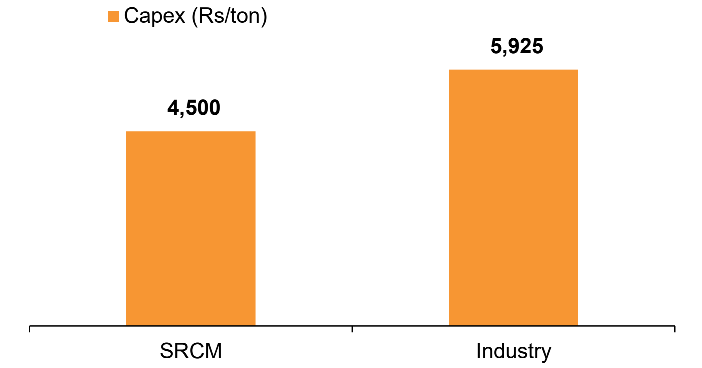
SRCM is expected to sustain industry-leading profitability as it enjoys the lowest opex/ton (~15% lower vs. industry) and ~25% lower capex/ton compared to the industry. It is driven by 1) strategically located plants with proximity to markets and raw materials, 2) split grinding units to save on freight cost, 3) 45% of power requirements met through renewables, 4) higher petcoke usage, 5) improving blending ratio and power consumption norms and 6) better operating leverage.

Exhibit 148: SRCM's opex/ton is ~ 15% lower compared to industry…



Source: Company, Industry data, Emkay Research

Exhibit 149: …while capex/ton is ~25% lower compared to industry



Source: Company, Industry data, Emkay Research

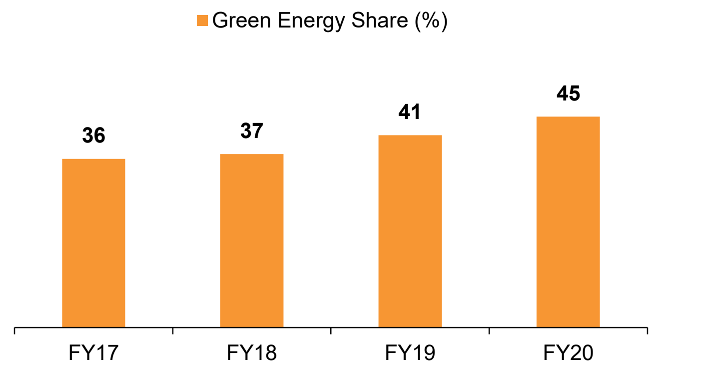
Exhibit 150: SRCM enjoys industry-leading profitability with the lowest cost structure

Key Cost Items	Cost Advantages
Raw Material	▪ Captive Limestone Pit Head mines with long-term leases at Beawar, Ras, Baloda Bazaar and Kodla ▪ Majority of Gypsum requirement met through synthetic gypsum produced at Beawar and Ras ▪ Coal linkage from Coal India for Baloda Bazaar Facility
Freight	**Split GU** ▪ Strategically located facilities in close proximity to raw material sources and principal markets with extensive logistics infrastructure ▪ Split grinding units provide significant logistics management and cost benefits, providing room for efficient product pricing **Transportation** ▪ Dedicated railway sidings at Beawar, Ras and Burudih ▪ Access to Indian Railways freight terminal at Raipur located near Baloda Bazar facility ▪ A mechanized clinker wagon loading system at Ras facility, which allows direct clinker loading in the wagons using telescopic chutes
Power and Fuel	▪ 45% of power requirement met through WHRS ▪ Efficient specific power consumption
Others	▪ Superior volume growth ensures better operating leverage

Source: Company, Emkay Research

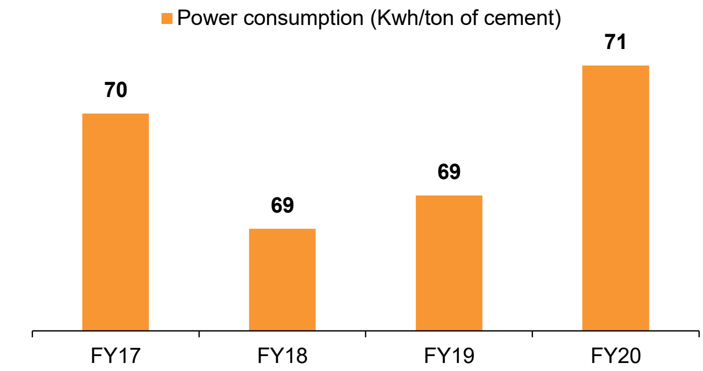
We expect blended EBITDA/ton to improve to Rs1,448 by FY23E (vs. Rs1,334 in FY21E), led by increasing share of premium products, fixed cost rationalization, optimizing logistics cost (via additional GUs and increasing share of rail mix) and better operating leverage. Its total renewable energy capacity currently stands at 241MW (WHRS-210MW, Wind-29MW & Solar-2MW), which meets 45% of power requirements. There will be WHRS addition with 3rd clinker line at Chhattisgarh. Management aims to increase it to over 50% in the next 12 months. Accordingly, it is expected to provide incremental cost savings of Rs360mn (~Rs10/ton).

Exhibit 151: Management aims to increase green energy to meet >50% of power requirement



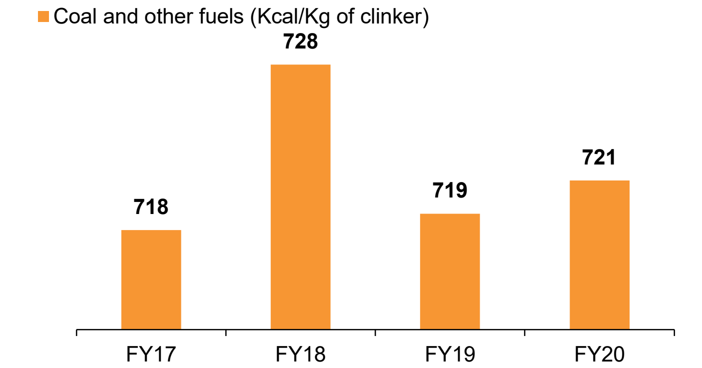
Source: Company, Emkay Research

Exhibit 152: Power consumption norms broadly stable in past few years



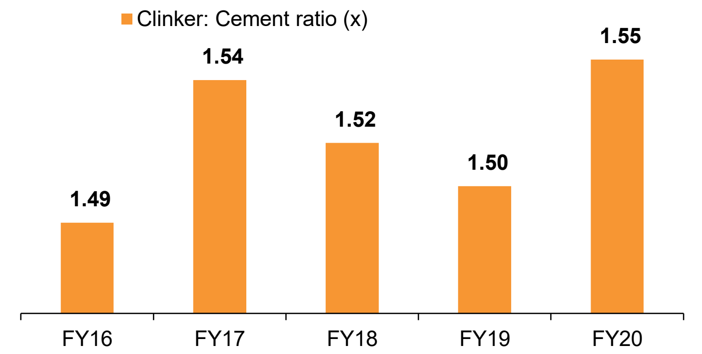
Source: Company, Emkay Research

Exhibit 153: Consumptions norms for coal and other fuels stood broadly flat over past few years



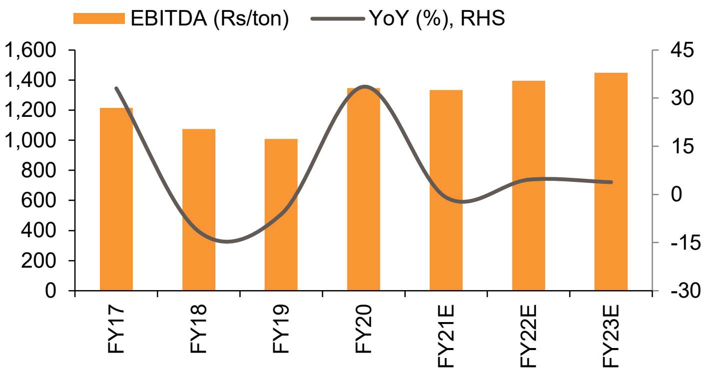
Source: Company, Emkay Research

Exhibit 154: Clinker-to-cement ratio marginally improved in FY20



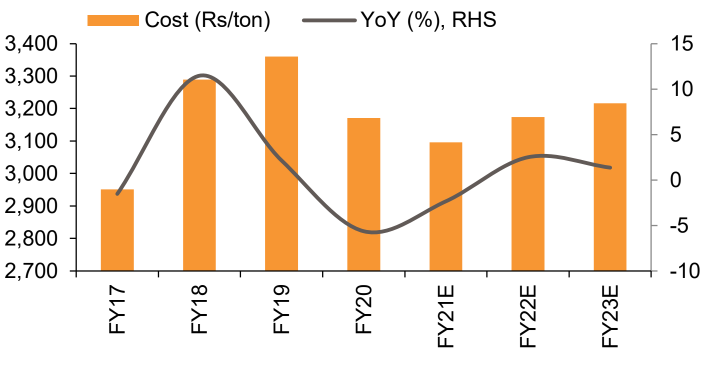
Source: Company, Emkay Research

Exhibit 155: Blended EBITDA/ton expected to clock 4% CAGR over FY21E-23E…



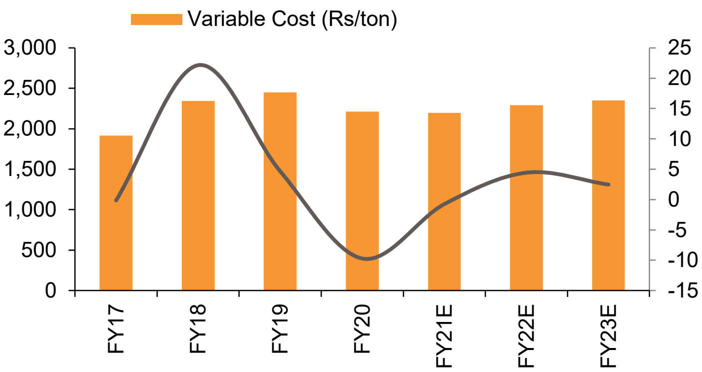
Source: Company, Emkay Research

Exhibit 156: …as costs/ton to remain benign at 2% CAGR over FY21E-23E



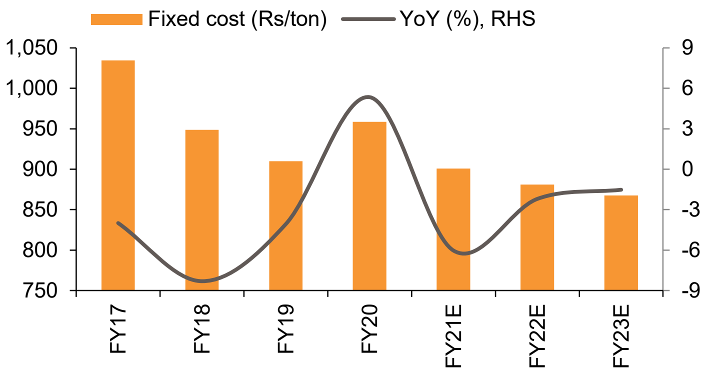
Source: Company, Emkay Research

Exhibit 157: …with variable cost/ton increase at 3% CAGR over FY21E-23E



Source: Company, Emkay Research

Exhibit 158: …and fixed cost/ton declining by 2% CAGR over FY21E-23E led by better operating leverage



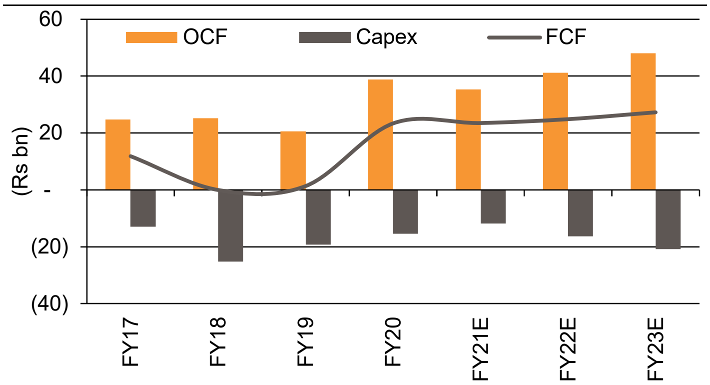
Source: Company, Emkay Research

EBITDA CAGR of 18% over FY21-23E; industry-leading RoIC to expand further

We expect SRCM's consolidated EBITDA to grow at an 18% CAGR over FY21E-23E, driven by volume growth and improving profitability. SRCM's EBITDA/ton is expected to grow at a 4% CAGR over FY21E-23E, driven by a 13% volume CAGR and 2.6% CAGR in blended realization.

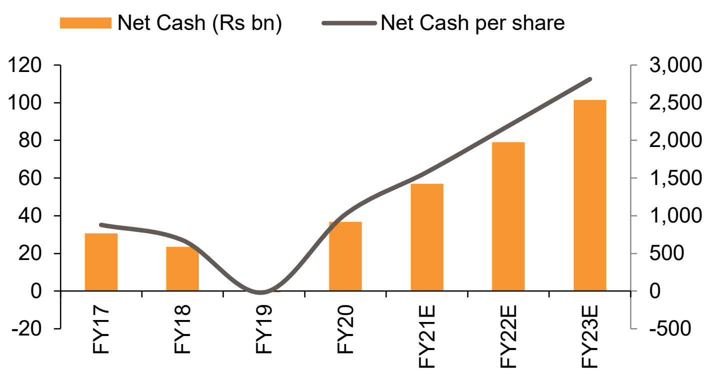
SRCM's cash generation is likely to be robust with FCF of Rs52bn after factoring in capex of Rs37bn over FY21-23E. Accordingly, consolidated net cash to increase by Rs45bn to over Rs100bn by FY23E.

Exhibit 159: We expect strong FCF generation of Rs52bn over FY21E-23E…



Source: Company, Emkay Research, FCF includes other income and interest cost

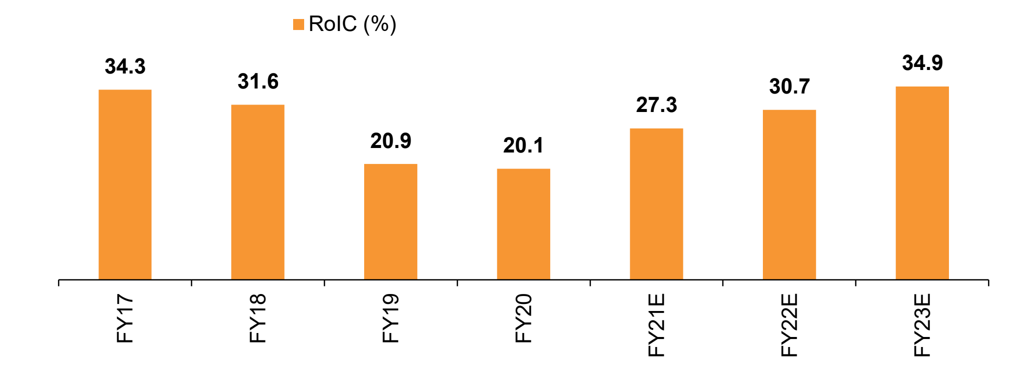
Exhibit 160: …leading to an increase in net cash by Rs 45bn to over Rs100bn by FY23E



Source: Company, Emkay Research

SRCM enjoys industry-leading RoIC which is expected to further expand by 800bps to 35% by FY23E, driven by net asset turnover rising from 1.7x in FY21E to 2.1x and EBIT margin expanding 80bps from 20.7% in FY21E to 21.4% by FY23E.

Exhibit 161: SRCM RoIC to expand by 800bps to 35% by FY23E



Source: Company, Emkay Research

Initiate with Buy; TP of Rs32,750

Our Jun'22E TP of Rs32,750 is DCF driven. We assume sustainable/terminal FCF growth of 9% post FY26E (100bps above industry growth) and a sustainable incremental RoIC of 30% (upper range of our coverage companies). Our Jun'22E TP implies a forward EV/EBITDA of 19x, and FCFF yield of 2.4%.

Exhibit 162: Initiate with BUY at TP of Rs32,750, based on 19x Jun'22E EV/EBITDA, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	56
EV/E multiple (x)	19.0
Enterprise Value	**1,064**
Net cash (FY22E)	(84)
Equity value	**1,147**
No. of shares (mn)	36.1
Mar'22 Fair Value (Rs)	**31,796**
Jun'22* Target Price (Rs)	**32,750**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Exhibit 163: Sensitivity analysis with 0.5% change in TG and 2.5% change in sustainable RoIC

		Terminal Growth Rate (%)				
		8.0	**8.5**	**9.0**	**9.5**	**10.0**
Sustainable RoIC (%)	**25.0**	24,080	26,705	30,372	35,863	45,004
	27.5	24,896	27,721	31,669	37,583	47,428
	30.0	25,576	28,568	**32,750**	39,016	49,448
	32.5	26,152	29,284	33,665	40,228	51,158
	35.0	26,645	29,899	34,449	41,267	52,623

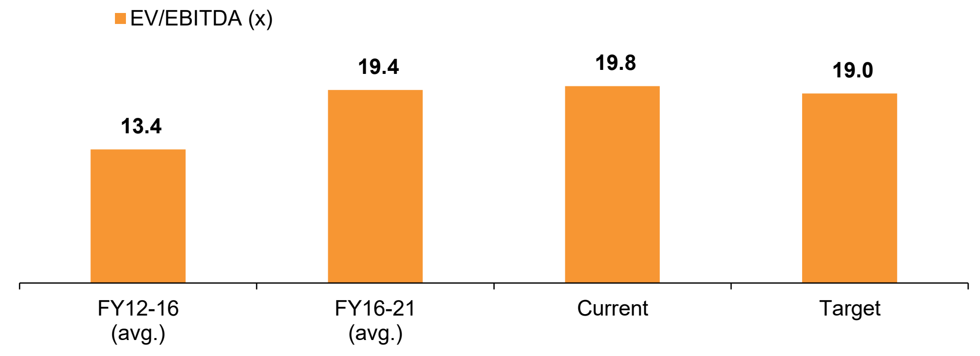
Source: Emkay Research

Exhibit 164: Our estimates are 5-7% ahead of consensus

Rs bn	Emkay Estimates		Consensus		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	158	180	154	171	2.9	5.0
EBITDA	**48**	**56**	**46**	**52**	**5.3**	**7.4**
PAT	28	33	26	29	7.8	13.5

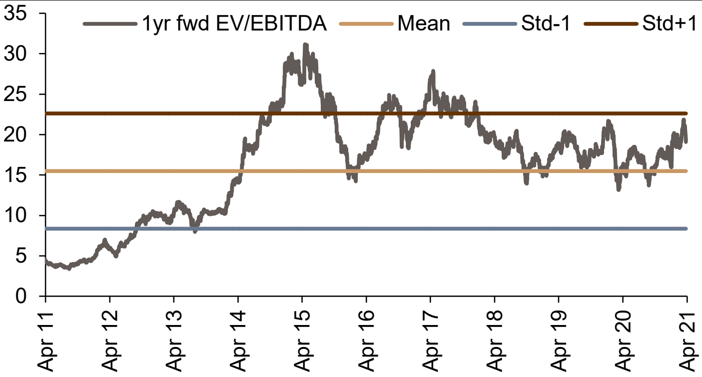
Source: Bloomberg, Emkay Research

Exhibit 165: We expect EV/EBITDA to stabilize around current levels



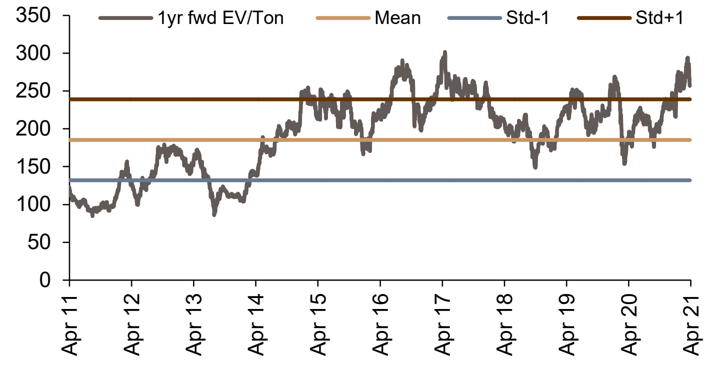
Source: Bloomberg, Emkay Research

Exhibit 166: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 167: 1-year forward EV/ton (USD) chart



Source: Bloomberg, Emkay Research

Annual analysis

Exhibit 168: Key Assumptions

Operational details	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR% FY17-21E	CAGR% FY21E-23E
Capacity (mt)	29	35	42	44	45	49	53	11.6	8.5
Volumes (mt)	21	23	29	28	30	35	39	10.1	12.9
Utilization (%)	74	76	75	65	67	73	72	(2.3)	3.5
Blended Realization (Rs/ton)	4,166	4,364	4,368	4,609	4,430	4,568	4,665	1.5	2.6
EBITDA/ton (Rs/ton)	1,214	1,074	1,008	1,346	1,334	1,395	1,448	2.4	4.2
P&L (Rs bn.)									
Revenue	86	98	126	129	134	158	180	11.8	15.8
EBITDA	**25**	**24**	**29**	**38**	**40**	**48**	**56**	**12.7**	**17.6**
PAT	13	13	12	15	23	28	33	14.2	21.3
Balance Sheet (Rs bn.)									
Equity	77	89	97	132	150	172	198		
Net Cash	31	24	(1)	37	57	79	101		
Cash Flow (Rs bn)									
OCF before WC change	25	26	27	32	35	43	50		
Change in WC	(1)	(1)	(7)	7	1	(1)	(2)		
Capex	(13)	(25)	(19)	(15)	(12)	(16)	(21)		
FCF	**12**	**(0)**	**1**	**23**	**23**	**25**	**27**		
Return ratios (%)									
RoE	19.1	16.1	12.4	13.4	16.0	17.2	17.9		
RoCE	18.9	14.1	12.8	12.8	15.3	16.9	17.9		
RoIC	**34.3**	**31.6**	**20.9**	**20.1**	**27.3**	**30.7**	**34.9**		
Valuations (x)									
PE				66.0	45.0	36.6	30.6		
EV/EBITDA				27.0	24.2	19.8	16.7		
EV/ton (USD)				296	284	268	242		

Source: Company, Emkay Research

Exhibit 169: Annual analysis on per ton basis (Consolidated)

Rs/ton (Consol)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Blended realization	**4,166**	**4,364**	**4,368**	**4,609**	**4,430**	**4,568**	**4,665**
Raw materials consumed	305	342	354	355	344	348	354
Power & fuel costs	702	879	1,076	968	806	873	898
Freight costs	910	1,120	1,020	953	1,046	1,072	1,097
Staff costs	261	261	267	306	270	260	259
Other expenses	774	688	643	680	631	621	609
Operating costs	**2,951**	**3,289**	**3,360**	**3,262**	**3,096**	**3,174**	**3,217**
Blended EBITDA	**1,214**	**1,074**	**1,008**	**1,346**	**1,334**	**1,395**	**1,448**

Source: Company, Emkay Research

Exhibit 170: Annual analysis on per ton basis (Standalone)

Rs/ton (Standalone)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Blended realization	**4,166**	**4,364**	**4,533**	**4,776**	**4,667**	**4,797**	**4,868**
Raw materials consumed	305	342	334	308	301	310	318
Power & fuel costs	702	879	1,061	942	783	863	893
Freight costs	910	1,120	1,118	1,046	1,135	1,164	1,181
Staff costs	261	261	262	293	256	249	248
Other expenses	774	688	697	713	692	679	659
Operating Costs	**2,951**	**3,289**	**3,473**	**3,302**	**3,167**	**3,265**	**3,300**
Blended EBITDA	**1,214**	**1,074**	**1,060**	**1,474**	**1,500**	**1,533**	**1,569**

Source: Company, Emkay Research

Quarterly analysis

Exhibit 171: Quarterly Summary

Rs mn	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Net Sales	**28,483**	**32,175**	**23,258**	**30,224**	**33,094**	**16.2**	**9.5**
Other operating income	-	-	-	-	-		
Revenue	**28,483**	**32,175**	**23,258**	**30,224**	**33,094**	**16.2**	**9.5**
Expenditure	**19,990**	**21,387**	**16,252**	**20,344**	**22,205**	**11.1**	**9.1**
Total RM	2,503	1,816	1,612	1,981	1,883	(24.7)	(4.9)
Power & Fuel	4,793	6,217	3,831	4,754	5,563	16.1	17.0
Freight	6,438	7,144	5,602	7,096	8,147	26.6	14.8
Staff cost	1,856	1,691	1,731	1,732	1,693	(8.8)	(2.3)
Other expenditure	4,400	4,519	3,476	4,782	4,918	11.8	2.9
EBITDA	**8,493**	**10,789**	**7,006**	**9,880**	**10,890**	**28.2**	**10.2**
Depreciation	4,322	4,362	2,714	2,786	2,906	(32.8)	4.3
EBIT	**4,171**	**6,426**	**4,293**	**7,094**	**7,983**	**91.4**	**12.5**
Other Income	649	978	1,244	1,024	1,068	64.5	4.3
Interest	741	726	706	627	585	(21.1)	(6.7)
PBT	**4,079**	**6,678**	**4,831**	**7,490**	**8,466**	**107.5**	**13.0**
Total Tax	980	797	1,123	2,018	2,204	124.9	9.2
Adjusted PAT	**3,100**	**5,882**	**3,708**	**5,473**	**6,262**	**102.0**	**14.4**
(Profit)/loss from JV's/Ass/MI							
PAT after MI	3,100	5,882	3,708	5,473	6,262	102.0	14.4
Extra ordinary items	-	-	(0)	-	-		
Reported PAT	3,100	5,882	3,708	5,473	6,262	102.0	14.4
Adjusted EPS (Rs)	**85.9**	**163.0**	**102.8**	**151.7**	**173.6**	**102.0**	**14.4**

Margins (%)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (bps)	QoQ (bps)
EBIDTA	29.8	33.5	30.1	32.7	32.9	308.6	21.4
EBIT	14.6	20.0	18.5	23.5	24.1	947.8	65.2
EBT	14.3	20.8	20.8	24.8	25.6	1,126.0	79.9
PAT	10.9	18.3	15.9	18.1	18.9	804.1	81.6
Effective Tax rate	24.0	11.9	23.3	26.9	26.0	201.1	(90.7)

Source: Company, Emkay Research

Exhibit 172: Quarterly per ton Summary

Rs/ton	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Cement volumes (mt)	6.25	6.91	4.93	6.53	7.16	14.7	9.7
Blended Realization	**4,561**	**4,659**	**4,717**	**4,627**	**4,620**	**1.3**	**(0.2)**
Raw Material	401	263	327	303	263	(34.4)	(13.3)
Power & Fuel	768	900	777	728	777	1.2	6.7
Freight	1,031	1,034	1,136	1,086	1,137	10.3	4.7
Staff cost	297	245	351	265	236	(20.5)	(10.9)
Other expenditure	705	654	705	732	687	(2.6)	(6.2)
Operating cost	**3,201**	**3,097**	**3,296**	**3,114**	**3,099**	**(3.2)**	**(0.5)**
EBITDA/ton	**1,360**	**1,562**	**1,421**	**1,513**	**1,520**	**11.8**	**0.5**

Source: Company, Emkay Research

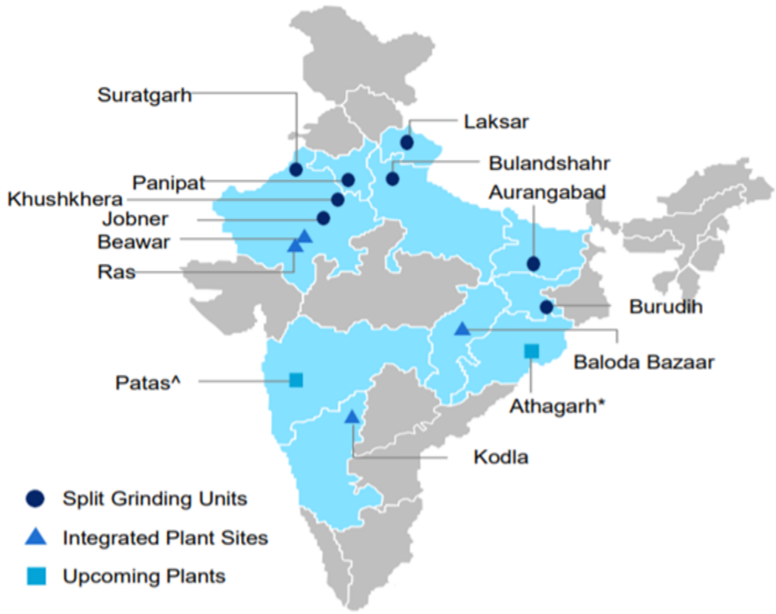
Company Background

SRCM is third largest cement group in India with domestic installed capacity of 43mt (grown at 13% CAGR over last decade). Additionally, in Jan'18, SRCM acquired UAE-based Union Cement Company having 3.3mt clinker and 4mt cement capacity for an enterprise value of US$305mn. Its power segment has an installed capacity of 742MW (grown at 13.5% CAGR), partly utilized for external sales. It includes 241MW capacity of renewable energy (largest such capacities in the global cement industry, excluding China). In Q3FY20, SRCM raised Rs24bn through QIP at Rs19,300/sh to accelerate its growth plans.

SRCM has a unique product portfolio with multiple brands such as: Shree Jung Rodhak, Bangur Cement, and Rockstrong Cement. Besides, it has two premium cement brands Bangur Power and Roofon.

SRCM key strength includes 1) leadership position in North India; 2) strategically located cement plants with proximity to raw materials and principal markets; 3) proven track record of project execution - efficient capital costs and timely execution; 4) cost leadership driven by efficient operating parameters and low cost WHRS leading to a high EBITDA/ton; 5) multi-brand marketing strategy with an extensive dealer and distribution network; 6) strong financial profile with net-cash positions.

Exhibit 173: Manufacturing footprint



Source: Company, Emkay Research

Exhibit 174: SRCM has launched premium brands over past few years

Source: Company, Emkay Research

Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	**1,25,547**	**1,28,684**	**1,34,041**	**1,58,337**	**1,79,880**
Expenditure	**96,574**	**91,093**	**93,686**	**1,09,993**	**1,24,040**
EBITDA	**28,973**	**37,591**	**40,355**	**48,344**	**55,840**
Depreciation	14,718	18,078	12,628	15,492	17,275
EBIT	**14,254**	**19,513**	**27,727**	**32,852**	**38,565**
Other Income	2,698	2,744	4,505	5,228	6,194
Interest expenses	4,019	2,914	2,463	1,497	1,019
PBT	**12,933**	**19,343**	**29,769**	**36,583**	**43,739**
Tax	1,306	3,902	7,145	8,780	10,497
Extraordinary Items	(1,477)	0	0	0	0
Minority Int./Income from Assoc.	(87)	(82)	(84)	(86)	(88)
Reported Net Income	**10,064**	**15,359**	**22,541**	**27,717**	**33,153**
Adjusted PAT	**11,541**	**15,359**	**22,541**	**27,717**	**33,153**

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	348	361	361	361	361
Reserves & surplus	96,359	1,31,334	1,49,366	1,71,539	1,98,062
Net worth	**96,708**	**1,31,694**	**1,49,727**	**1,71,900**	**1,98,423**
Minority Interest	**625**	**688**	**702**	**716**	**730**
Loan Funds	**27,851**	**31,602**	**18,602**	**12,102**	**6,102**
Net deferred tax liability	(6,126)	(7,436)	(6,819)	(6,086)	(5,214)
Total Liabilities	**1,19,057**	**1,56,548**	**1,62,211**	**1,78,633**	**2,00,041**
Net block	**61,817**	**61,630**	**66,802**	**69,610**	**69,086**
Investment	**22,856**	**63,576**	**68,876**	**74,176**	**79,476**
Current Assets	**52,661**	**54,830**	**57,488**	**69,696**	**84,277**
Cash & bank balance	4,393	6,142	8,046	17,034	28,125
Other Current Assets	531	519	519	519	519
Current liabilities & Provision	**29,572**	**35,456**	**36,922**	**38,817**	**40,814**
Net current assets	**23,090**	**19,375**	**20,566**	**30,879**	**43,463**
Misc. exp	0	0	0	0	0
Total Assets	**1,19,057**	**1,56,548**	**1,62,211**	**1,78,633**	**2,00,041**

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	**13,238**	**19,343**	**25,180**	**31,269**	**37,457**
Other Non-Cash items	(827)	(2,668)	(595)	(732)	(875)
Chg in working cap	(6,505)	6,927	713	(1,325)	(1,492)
Operating Cashflow	**20,800**	**39,732**	**33,244**	**37,421**	**42,887**
Capital expenditure	(19,225)	(15,403)	(11,800)	(16,300)	(20,800)
Free Cash Flow	**1,576**	**24,328**	**21,444**	**21,121**	**22,086**
Investments	11,862	(40,324)	(5,300)	(5,300)	(5,300)
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**(4,857)**	**(53,793)**	**(12,595)**	**(16,372)**	**(19,907)**
Equity Capital Raised	0	23,812	0	0	0
Loans Taken / (Repaid)	(7,591)	1,175	(13,000)	(6,500)	(6,000)
Dividend paid (incl tax)	(2,407)	(6,284)	(4,508)	(5,543)	(6,631)
Other Financing Cash Flow	0	0	1,226	1,480	1,761
Financing Cashflow	**(12,760)**	**15,811**	**(18,745)**	**(12,060)**	**(11,889)**
Net chg in cash	**3,183**	**1,749**	**1,904**	**8,988**	**11,091**
Opening cash position	1,210	4,393	6,142	8,046	17,034
Closing cash position	**4,393**	**6,142**	**8,046**	**17,034**	**28,125**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	23.1	29.2	30.1	30.5	31.0
EBIT Margin	11.4	15.2	20.7	20.7	21.4
Effective Tax Rate	10.1	20.2	24.0	24.0	24.0
Net Margin	9.3	12.0	16.9	17.6	18.5
ROCE	14.3	16.2	20.2	22.3	23.6
ROE	12.4	13.4	16.0	17.2	17.9
RoIC	23.3	25.1	36.0	40.4	45.9

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	331.3	425.7	624.7	768.2	918.9
CEPS	753.7	926.7	974.7	1,197.6	1,397.7
BVPS	2,775.8	3,650.1	4,149.9	4,764.4	5,499.5
DPS	60.0	110.0	124.9	153.6	183.8

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	84.8	66.0	45.0	36.6	30.6
P/CEPS	37.3	30.3	28.8	23.5	20.1
P/BV	10.1	7.7	6.8	5.9	5.1
EV / Sales	7.8	7.6	7.1	5.9	5.1
EV / EBITDA	34.2	27.0	24.2	19.8	16.7
Dividend Yield (%)	0.2	0.4	0.4	0.5	0.7

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.3)	(0.4)	(0.5)	(0.5)
Net Debt/EBIDTA	0.0	(1.0)	(1.4)	(1.6)	(1.8)
Working Cap Cycle (days)	54.4	37.5	34.1	31.9	31.1

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	27.7	2.5	4.2	18.1	13.6
EBITDA	19.7	29.7	7.4	19.8	15.5
EBIT	(6.3)	36.9	42.1	18.5	17.4
PAT	(26.7)	52.6	46.8	23.0	19.6

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	28,483	32,175	23,258	30,224	33,094
EBITDA	8,493	10,789	7,006	9,880	10,890
EBITDA Margin (%)	**29.8**	**33.5**	**30.1**	**32.7**	**32.9**
PAT	3,100	5,882	3,708	5,473	6,262
EPS (Rs)	**85.9**	**163.0**	**102.8**	**151.7**	**173.6**

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	62.6	62.6	62.6	62.6	62.6
FIIs	11.9	11.6	11.4	12.2	12.5
DIIs	11.2	11.7	11.5	11.1	10.8
Public and Others	14.3	14.3	14.6	14.2	14.1

Source: Capitaline

Your success is our success

Ambuja Cements

Refer to important disclosures at the end of this report

Growth impulse reviving; robust balance sheet and return ratios; Buy

CMP	Target Price
Rs 295	Rs 350
as of (April 23, 2021)	12 months
Rating	Upside
BUY	18.6 %

Ambuja Cement (ACEM) is part of LafargeHolcim Group - the second-largest cement group in India. ACEM has a well-diversified presence (ex-South), with more than 60% of its capacity in North/East/Central markets that offer the best growth and pricing dynamics available in India. After years of stagnation, the company is addressing investor concerns on growth. It is targeting to achieve 50mt cement capacity over the next few years from 30mt currently. ACEM enjoys industry-leading RoIC of 40% (CY20), which we assume that will broadly sustain through the cement upcycle till CY25E.

We initiate coverage with a Buy and a Jun'22E SOTP-based TP of Rs350 (incl. Rs97 from 50% stake in ACC). Our Jun'22E DCF value for the standalone cement business implies a forward EV/EBITDA of 12.5x (similar to the current multiple). We assume sustainable FCFF growth of 7.0% beyond CY25E (100bps below industry average) and incremental RoIC of 25% (well below cycle peak of c.40% in CY25E). Higher sustainable RoIC is an upside risk, while key downside risks are execution delays and increase in technology know-how fees paid to parent LafargeHolcim.

- **High-quality business with favorable regional mix; growth impulse now reviving:** In our view, ACEM is in a sweet spot to benefit from the coming cement upcycle. It has significant exposure to North and Central regions (>40% capacity) that will likely see above-average increase in cement realizations. It also has >20% of capacity in the East - the most under-penetrated market exhibiting the best demand growth. After years of stagnation, ACEM is targeting aggressive capacity additions by 60% to 50mt by brownfield expansion in East and West, as well as debottlenecking opportunities across all plants.
- **Industry-leading RoIC supported by opex efficiencies and lean working capital:** ACEM enjoys industry-leading RoIC of 40% (CY20), supported by opex efficiencies, with sustainable cost savings of ~Rs200/ton via: 1) cost rationalization and in-house efficiency program "I CAN"; 2) MSA arrangement with ACC; and 3) working capital release (~Rs8bn) in the past two years. We model EBITDA/ton to see 3% CAGR over CY20-22E and expect higher RoIC to broadly sustain through the cement upcycle till CY25E.
- **EBITDA CAGR of 14% over CY20-22E; strong balance sheet:** Net cash is likely to increase further to Rs61bn (10% of mcap or Rs31/share) by CY22E from Rs37bn as of Dec'20, after factoring in capex of Rs22bn over CY20-22E.
- **Trades at 5.5% FY23E FCFF yield; initiating coverage with a Buy:** We have arrived at our Jun'22E EV/EBITDA-based TP of Rs350 using DCF. We assume sustainable/terminal FCF growth of 7% post CY25E (100bps below industry growth) and sustainable incremental RoIC of 25% (upper range of coverage companies and well below the cyclical peak of 40% in CY25E). Our TP implies a forward EV/EBITDA of 12.5x. Implementation of the MMDR Amendment Act, 2021 is likely to open doors for merger with ACC.

Financial Snapshot (Standalone)

(Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Revenue	1,13,568	1,16,679	1,13,719	1,30,829	1,46,048
EBITDA	18,915	21,489	26,466	28,424	34,112
EBITDA Margin (%)	16.7	18.4	23.3	21.7	23.4
APAT	11,641	13,737	16,868	18,823	22,845
EPS (Rs)	5.9	6.9	8.5	9.5	11.5
EPS (% chg)	(3.4)	18.0	22.8	11.6	21.4
ROE (%)	5.7	6.4	7.9	8.9	10.0
P/E (x)	32.6	31.8	26.1	22.3	19.0
EV/EBITDA (x)	17.2	16.7	13.8	12.7	10.5
P/BV (x)	2.8	2.6	2.9	2.7	2.5

Source: Company, Emkay Research

Emkay vs Consensus

EPS Estimates	CY21E	CY22E
Emkay	9.5	11.5
Consensus	9.8	11.1
Mean Consensus TP (12M)		Rs 313

Stock Details

Bloomberg Code	ACEM IN
Face Value (Rs)	2
Shares outstanding (mn)	1,986
52 Week H/L	330 / 162
M Cap (Rs bn/USD bn)	586 / 7.81
Daily Avg Volume (nos.)	81,96,887
Daily Avg Turnover (US$ mn)	31.1

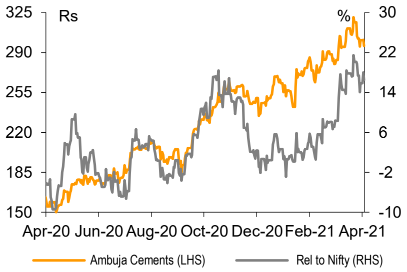
Shareholding Pattern Mar '21

Promoters	63.1%
FIIs	17.7%
DIIs	12.1%
Public and Others	7.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	15	19	72
Rel. to Nifty	(2)	14	(2)	10

Relative price chart



Source: Bloomberg

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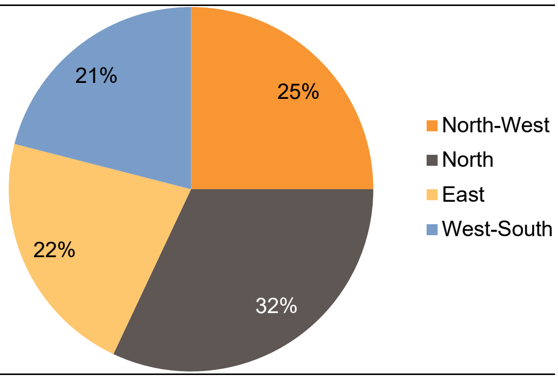
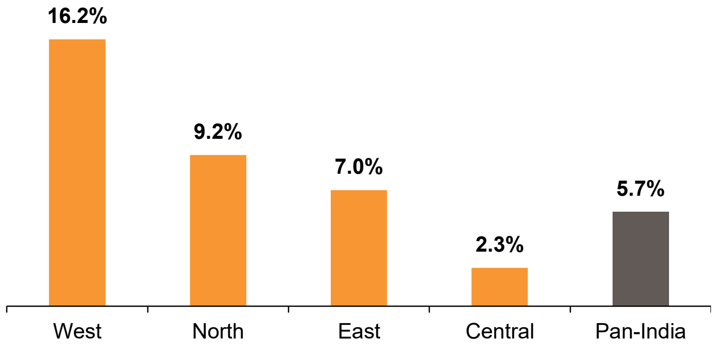
Story in Charts

Exhibit 175: Region-wise revenue share – CY20



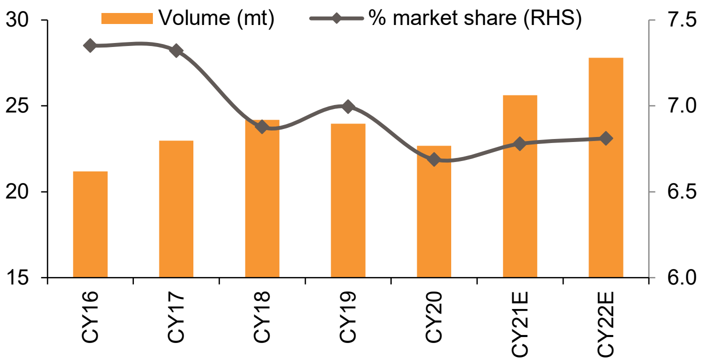
Source: Company, Emkay Research

Exhibit 176: ACEM has significant capacity market share in West and North regions



Source: Company, Industry data, Emkay Research

Exhibit 177: Capacity expansion to arrest market share loss



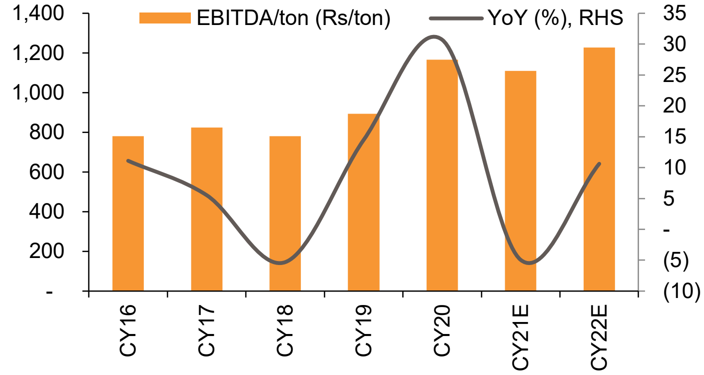
Source: Company, Industry data, Emkay Research

Exhibit 178: Commissioning of renewable energy to provide cost savings of Rs1.8bn (~Rs66/ton)

	WHRS	Solar
Incremental capacity (MW)	84	23.5
PLF (%)- assumed	65%	22%
mn units	432	41
Savings (Rs p.u.)	4	2.5
Total savings (Rs mn)	**1,730**	**102**
Volumes (mt)- CY22E	27.8	
Total Savings (Rs/ton)	**66**	

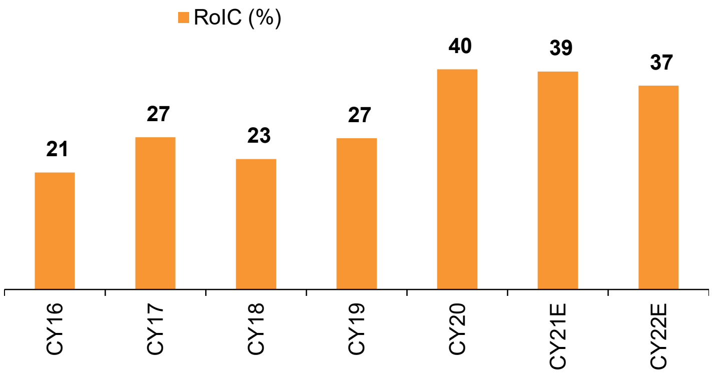
Source: Emkay Research

Exhibit 179: EBITDA/ton to increase at ~3% CAGR over CY20-22E after it increased by 50% in past two years



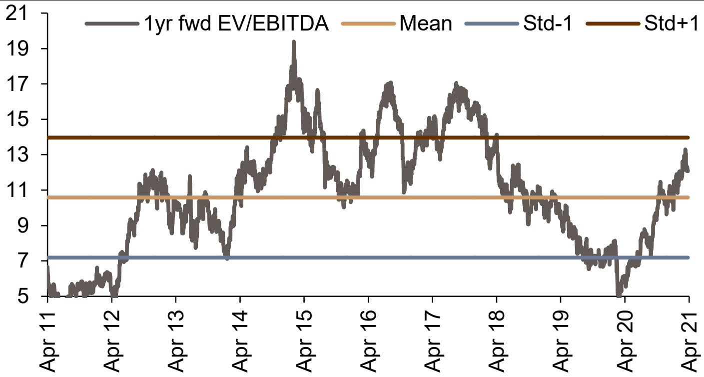
Source: Company, Emkay Research

Exhibit 180: We expect higher RoIC would broadly sustain through the cement upcycle till CY25E



Source: Company, Emkay Research

Exhibit 181: 1 year forward EV/EBITDA chart



Source: Bloomberg, Emkay Research

Exhibit 182: Initiate with Buy and target price of Rs350/sh based on 12.5x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	35
EV/E multiple (x)	12.5
Enterprise Value	**438**
Net cash (FY22E)	(51)
Equity value (standalone)	**489**
ACC- 50% of fair value	186
SOTP value	**675**
No. of shares (mn)	1,986
Mar'22 Fair Value (Rs)	340
Jun'22* Target Price (Rs)	**350**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

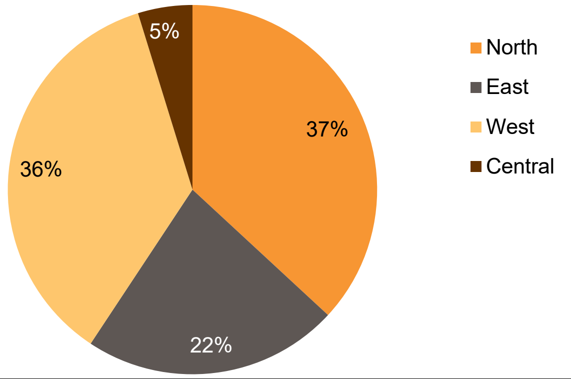
High-quality business with favorable regional mix; growth impulse reviving

ACEM is part of the LafargeHolcim Group - the second-largest cement group in India. ACEM has a well-diversified presence (ex-South), with more than 60% of its capacity in North/East/Central markets that exhibit the best growth and pricing dynamics in India. After years of stagnation, the company is addressing investor concerns on growth. It is targeting 50mt cement capacity over the next few years from 30mt currently.

Since CY14, ACEM has lost market share by ~140bps due to a lack of capacity expansion. This market share loss is likely to be arrested as the company is likely to commission 3mt clinker and 1.8mt grinding unit at Marwah Mundwa (Rajasthan) by Q3CY21 at a capex of ~Rs24bn. The clinker expansion should support cement grinding up to 4.5-5mt.

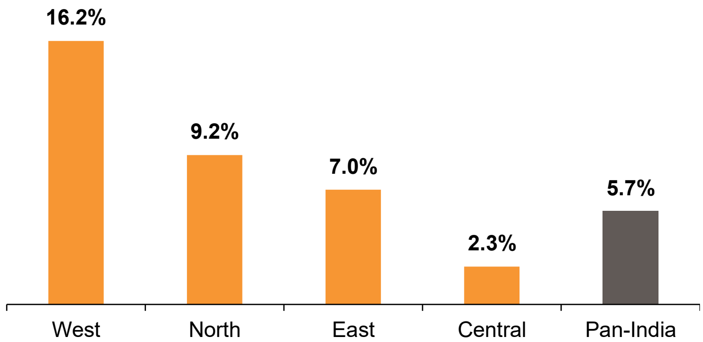
India has been a growth market for LafrgeHolcim Group; hence, it would continue to invest in the country. ACEM is exploring brownfield expansion at Bhatpara in East and Maratha in West regions, along with debottlenecking opportunities across all plants. Accordingly, management plans to increase capacity further by 60% to 50mt to drive medium-term growth.

Exhibit 183: ACEM has >60% capacity share in North/ East/Central markets that offer best growth and pricing dynamics in India



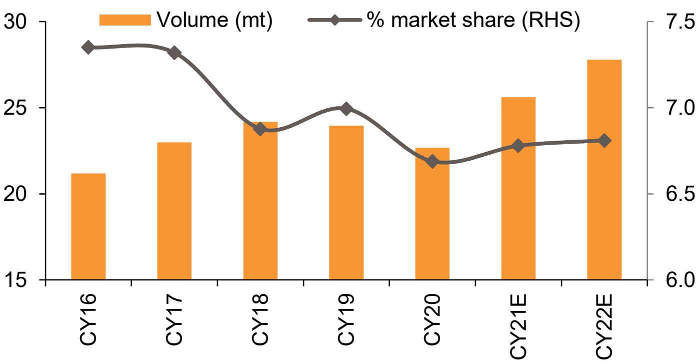
Source: Company, Emkay Research

Exhibit 184: ACEM has significant capacity market share in West and North regions



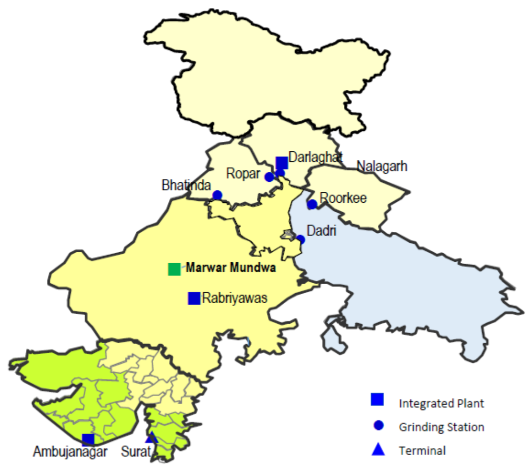
Source: Company, Industry data, Emkay Research

Exhibit 185: Capacity expansion to arrest market share loss



Source: Company, Industry data, Emkay Research

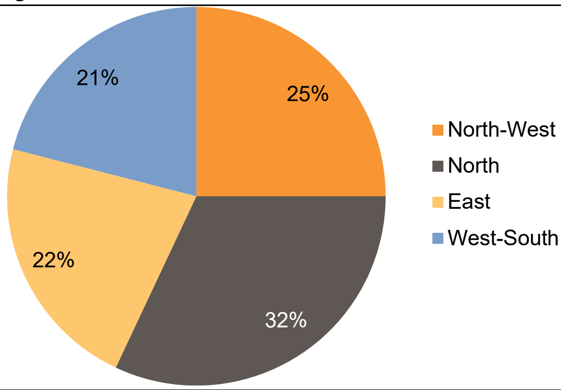
Exhibit 186: Greenfield plant (Marwar Mundwa) will cater to North and West regions



Source: Company, Emkay Research

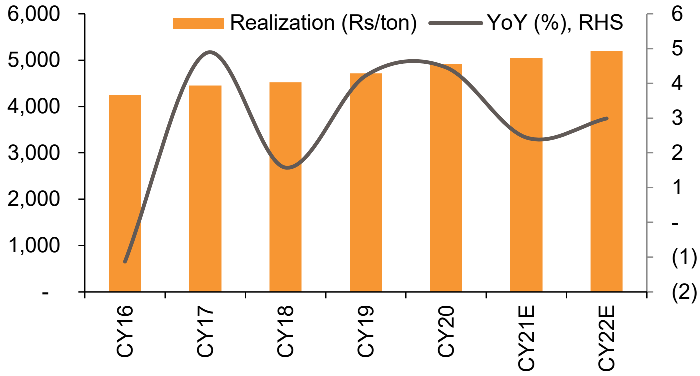
ACEM is in a sweet spot to benefit from the coming cement upcycle. It has significant exposure to North and Central regions (>40% capacity) that will likely see above-average increase in cement realizations. Further, it has >20% of its capacity in the East, the most under-penetrated market with best demand growth. ACEM also intends to increase the share of value-added/premium products, given its high utilization vs. peers. It launched 15 new products in the past two years. VAP volumes have registered strong double-digit growth of 16% in CY20 and now comprise 11% of total volumes. Management aims to increase VAP volumes to 18-20% of total volumes in the coming years. We assume 2.7% realization CAGR over CY20-CY22E.

Exhibit 187: Region-wise revenue share- CY20



Source: Company, Emkay Research

Exhibit 188: We model 2.7% realization CAGR over CY20-22E



Source: Company, Emkay Research

Exhibit 189: ACEM has variety of products and solutions

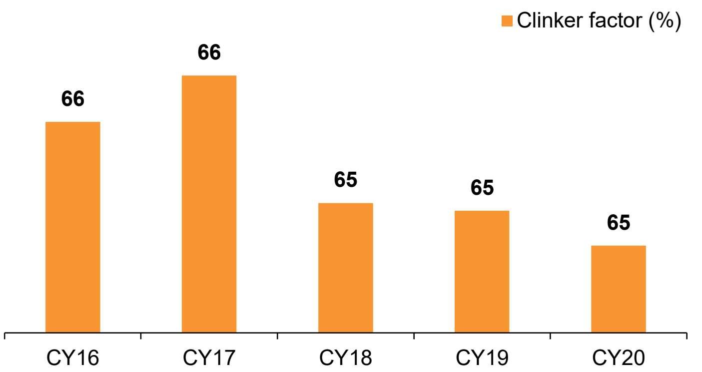
Source: Company, Emkay Research

Industry-leading RoIC supported by opex efficiencies and lean working capital

ACEM enjoys industry-leading RoIC of 40% (CY20), supported by opex efficiencies with sustainable cost savings of ~Rs200/ton via cost rationalization and in-house efficiency program "I CAN", MSA arrangement with ACC, and working capital release (~Rs8bn) in the past two years. We model EBITDA/ton to see 3% CAGR over CY20-22E and expect higher RoIC to broadly sustain through the cement upcycle till CY25E.

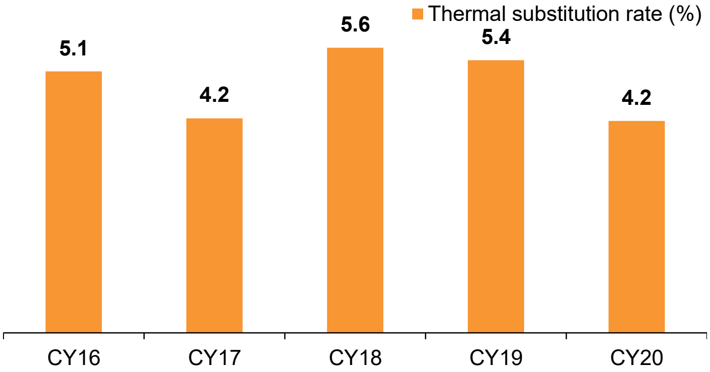
ACEM is likely to have achieved sustainable cost savings of ~Rs200/ton via cost rationalization and in-house efficiency program "I CAN". While some of these savings would be negated by recent input cost escalations and normalization of fixed costs, some benefits are expected to sustain (~Rs2bn p.a.) via increased cost efficiency measures such as improving blending ratio, higher direct dispatches, source mix optimization, and increasing share of AFR and green energy.

Exhibit 190: Clinker factor remains broadly stable in past few years



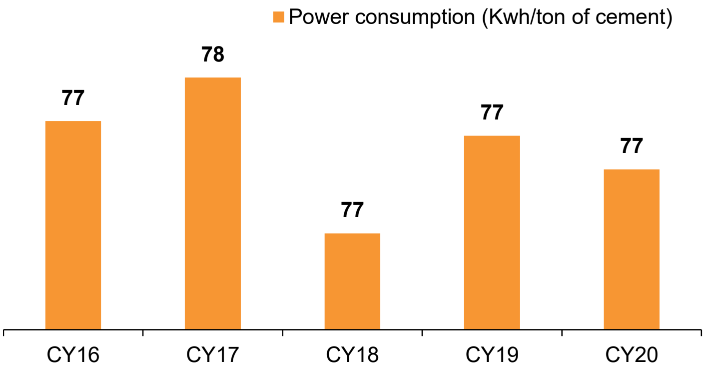
Source: Company, Emkay Research

Exhibit 191: ACEM is increasing usage of AFR gradually



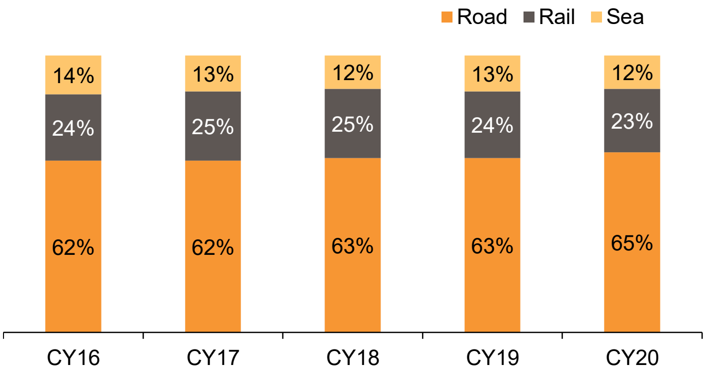
Source: Company, Emkay Research

Exhibit 192: Power consumption norms have stabilized in the past few years



Source: Company, Emkay Research

Exhibit 193: Road mix marginally increased in the past few years



Source: Company, Emkay Research

Share of green power is expected to increase to 38% by Dec'22 from the current 5%. ACEM plans to increase WHRS capacity from the current 6MW to 60MW at Rs5.3bn by Dec'21. In the next stage, ACEM is planning to set up WHRS plants (~30MW) likely at Ambujanagar, Gujarat, and Maratha, Maharashtra. The company is also setting up solar plants at Bhatapara and Ambujanagar of total 23.5MW, which will increase the share of solar power to 15% by CY22E from current 2%. It is expected to provide combined cost savings of ~Rs1.8bn (~Rs66/ton), reduce exposure toward input cost and help reduce carbon emissions.

Exhibit 194: WHRS and Solar projects details

WHRS	MW	Solar	MW
Ongoing projects			
Bhatapara (Chhattisgarh)	18.3	Ambujanagar (Gujarat)	12.0
Darlaghat (Himachal Pradesh)	21.1	Bhatapara (Chhattisgarh)	11.5
Marwar Mundwa (Rajasthan)	14.0		
Total	**53.4**	**Total**	**23.5**
Upcoming projects (tentative)			
Ambujanagar (Gujarat), Maratha (Maharashtra)	30.0		
Total	**30.0**		

Source: Company, Emkay Research

Exhibit 195: Commissioning of renewable energy to provide cost savings of Rs1.8bn (~Rs66/ton)

	WHRS	Solar
Incremental capacity (MW)	84	23.5
PLF (%)- assumed	65%	22%
mn units	432	41
Savings (Rs p.u.)	4.0	2.5
Total savings (Rs mn)	1,730	102
Volumes (mt)- CY22E	27.8	
Total Savings (Rs/ton)	**66**	

Source: Emkay Research

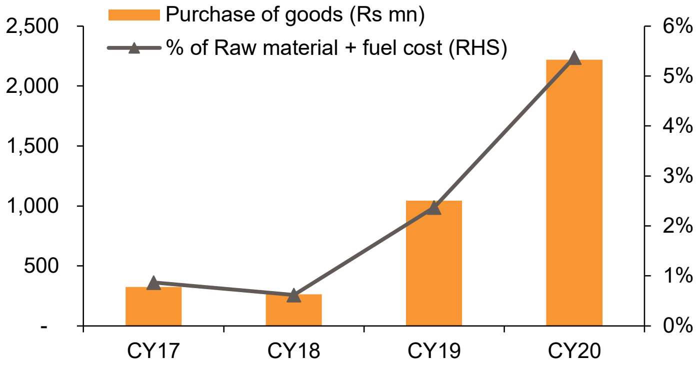
Exhibit 196: Some of other projects to secure raw materials and improve cost structure

Project	Minerals	Location	Region	Capex (Rs bn)	Comments
Gare Palma IV/8	Coal	Chhattisgarh	East		Open cast mining commenced in Oct'18; U/G mining will commence in Q3CY21
Maldi Mopar	Limestone	Chhattisgarh	East	2.0	To secure limestone for Bhatpara plant. It is expected to commission in Q3CY21
Lodhva	Limestone	Gujarat	West		Land acquisition is in progress alongwith development and infrastructure works
Nandgaon Ekodi	Limestone	Maharashtra	West		EC and other regulatory approvals for mining are in progress
Railway siding		Rajasthan	North	2.1	New railway siding project at Rabriyas unit to commission in Q3CY21
Dry Fly ash		Various		1.0	Setting up fly ash dryers/ hot air generators at various plants

Source: Company, Emkay Research

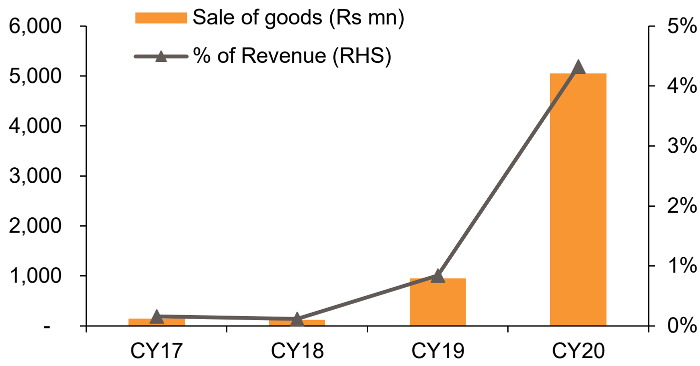
In the absence of merger, ACC and ACEM have entered into an MSA in Mar'18 to unlock synergies through cement-clinker swaps, toll grinding, and sharing of other materials in the most cost efficient manner without any change in their respective corporate structures. Both companies together achieved synergies worth Rs2.5bn (>5% of PBT) in CY20, which is likely to increase further with incremental volumes and synergies. Accordingly, MSA with ACC has been renewed for next three years w.e.f. May'21 under the same terms and conditions.

Exhibit 197: Purchase of goods from ACC increased to Rs2.2bn in CY20 under MSA



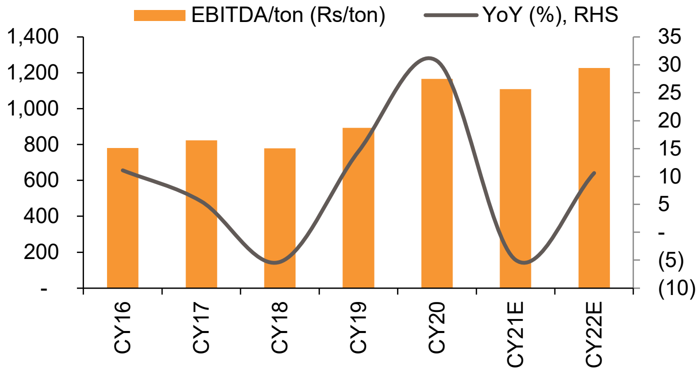
Source: Company, Emkay Research

Exhibit 198: …while sale of goods from ACC increased significantly to Rs5bn in CY20 under MSA



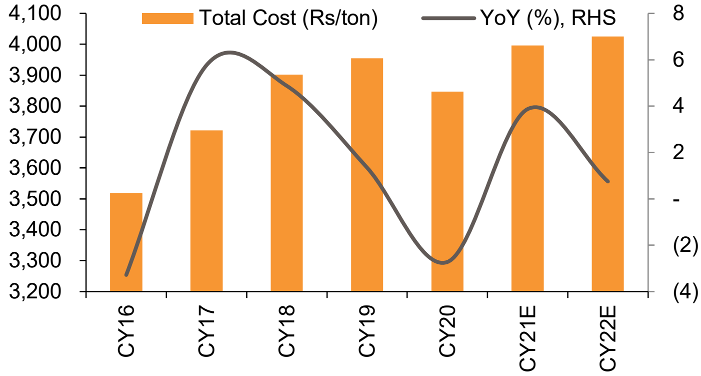
Source: Company, Emkay Research

Exhibit 199: EBITDA/ton to increase around 3% CAGR over CY20-22E after it increased by 50% in past two years



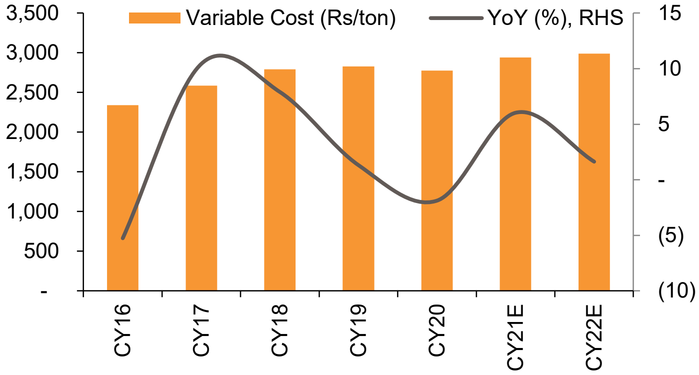
Source: Company, Emkay Research

Exhibit 200: We model total cost/ton to increase at 2% CAGR over CY20-22E



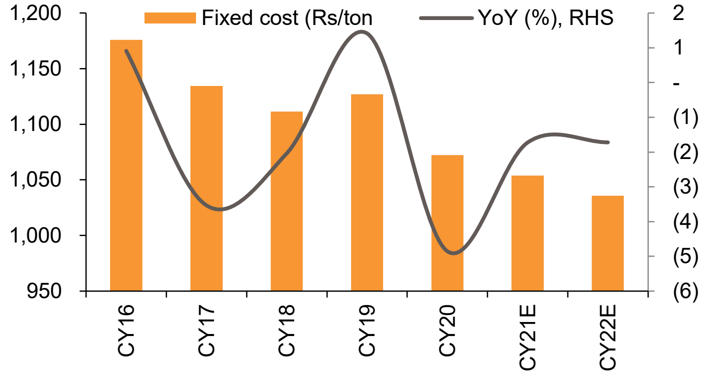
Source: Company, Emkay Research

Exhibit 201: Variable cost/ton to increase at 3.8% CAGR over CY20-22E



Source: Company, Emkay Research

Exhibit 202: Fixed cost/ton to decline at 1.7% CAGR owing to better operating leverage



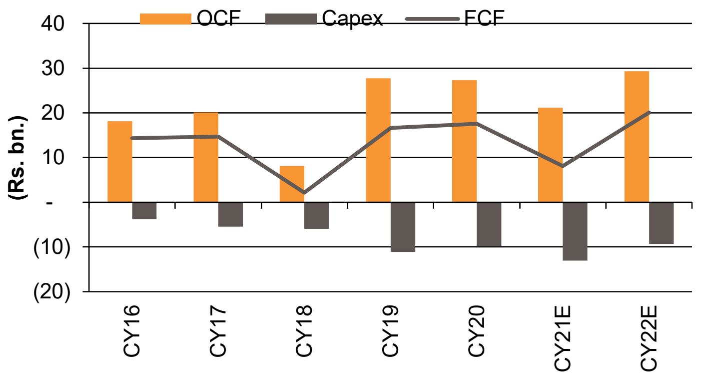
Source: Company, Emkay Research

Financials - EBITDA CAGR of 14% over CY20-22E; Robust balance sheet

We expect ACEM's EBITDA to witness 14% CAGR, driven by volume growth and improving profitability. We factor in 11% volume CAGR over CY20-22E and expect EBITDA/ton to improve at 3% CAGR to Rs1,227/ton by CY22E from Rs1,167/ton in CY20.

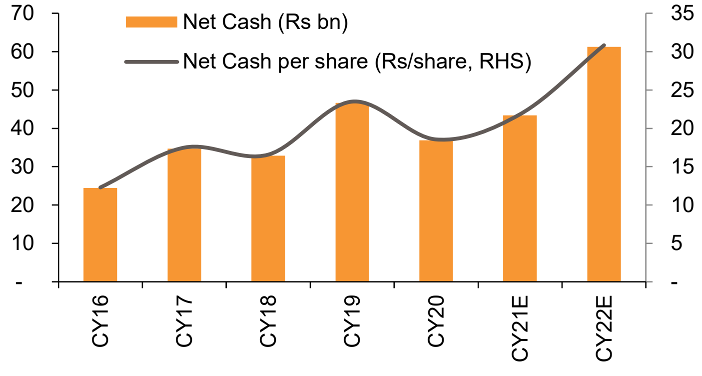
ACEM's cash generation is likely to be robust with FCF of Rs28bn post capex of Rs22bn over CY20-22E. Net cash is likely to increase further to Rs61bn (10% of mcap or Rs31/share) by CY22E from Rs37bn as of Dec'20.

Exhibit 203: FCF generation to remain strong despite project capex for next few years



Source: Company, Emkay Research, *FCF includes other income and interest cost

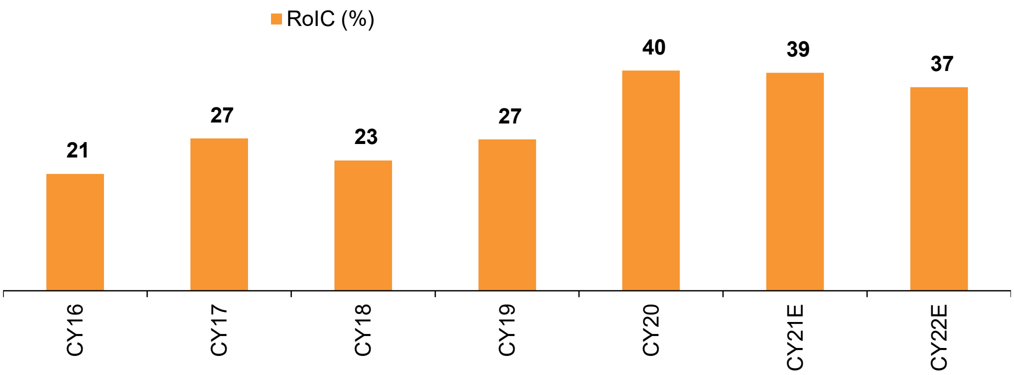
Exhibit 204: …net cash is likely to increase further to Rs61bn



Source: Company, Emkay Research

ACEM enjoys industry-leading RoIC of 40% (CY20) due to higher profitability and working capital release of ~Rs8bn in the past two years. We assume higher RoIC to broadly sustain through the cement upcycle till CY25E.

Exhibit 205: Higher RoIC would broadly sustain through the cement upcycle till CY25E



Source: Company, Emkay Research

Initiating coverage with Buy; TP Rs350

We have arrived at our Jun'22E EV/EBITDA-based TP of Rs350 using DCF. We assume sustainable/terminal FCF growth of 7% post CY25E (100bps below industry growth) and sustainable incremental RoIC of 25% (upper range of coverage companies and well below the cyclical peak of 40% in CY25E). Our TP implies a forward EV/EBITDA of 12.5x.

Exhibit 206: Initiate with Buy and TP of Rs350 based on 12.5x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	35
EV/E multiple (x)	12.5
Enterprise Value	**438**
Net cash (FY22E)	51
Equity value (standalone)	**489**
ACC- 50% of fair value	186
SOTP value	**675**
No. of shares (mn)	1,986
Mar'22 Fair Value (Rs)	340
Jun'22* Target Price (Rs)	**350**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Exhibit 207: Sensitivity analysis with every 0.5% change in TG and 2.5% change in RoIC

		Terminal Growth Rate (%)				
		6.0	**6.5**	**7.0**	**7.5**	**8.0**
Sustainable RoIC (%)	**20.0**	310	320	332	346	365
	22.5	317	328	342	359	381
	25.0	323	335	**350**	369	393
	27.5	328	341	357	377	403
	30.0	332	346	363	384	411

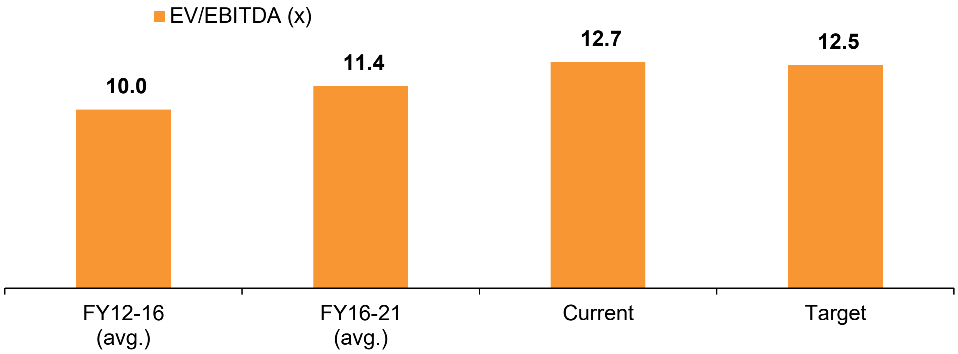
Source: Emkay Research

Exhibit 208: Our estimates are 5-12% below consensus

Rs bn	Emkay Estimates		Consensus		% change	
	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Revenue	130.8	146.0	142.6	155.6	(8.3)	(6.1)
EBITDA	**28.4**	**34.1**	**32.3**	**36.0**	**(12.0)**	**(5.2)**
PAT	18.8	22.8	19.7	22.8	(4.6)	0.3

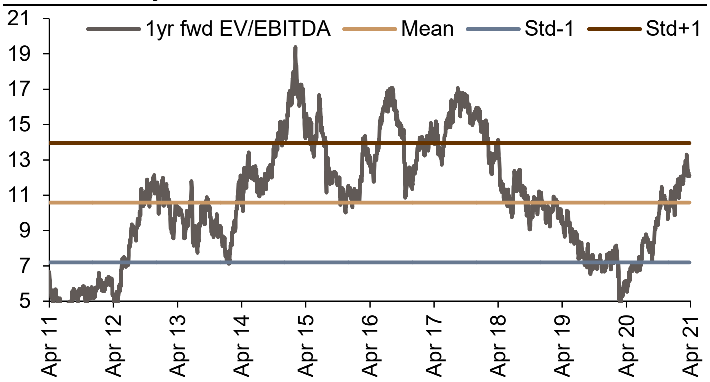
Source: Bloomberg, Emkay Research

Exhibit 209: Standalone cement business implies a forward EV/EBITDA of 12.5x, similar to current multiple



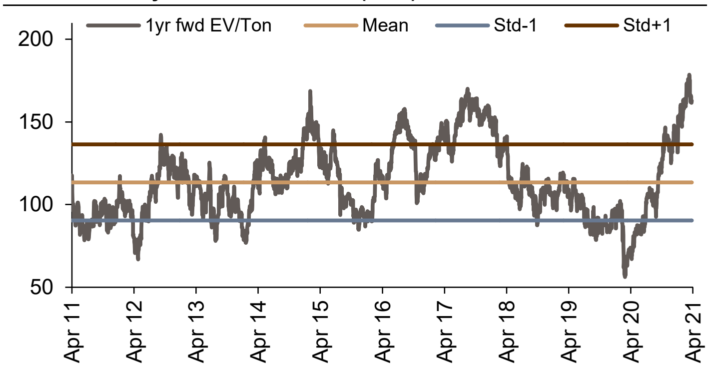
Source: Emkay Research

Exhibit 210: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 211: 1-year forward EV/ton (USD)



Source: Bloomberg, Emkay Research

Annual Analysis

Exhibit 212: Key Assumptions

Operational details	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CAGR %	
								CY16-20	CY20-22E
Capacity (mt)	29.7	29.7	29.7	29.7	29.7	31.5	31.5	-	3.0
Volumes (mt)	21.2	23.0	24.2	24.0	22.7	25.6	27.8	1.7	10.7
Utilization (%)	77	82	87	86	81	81	88	1.3	4.4
Realization (Rs/ton)	4,249	4,455	4,525	4,717	4,927	5,047	5,198	3.8	2.7
EBITDA/ton (Rs/ton)	780	824	780	893	1,167	1,109	1,227	10.6	2.5
P&L (Rs bn.)									
Revenue	93	105	114	117	114	131	146	5.2	13.3
EBITDA	**17**	**19**	**19**	**21**	**26**	**28**	**34**	**12.0**	**13.5**
Adj. Net Profit	10	12	12	14	17	19	23	14.8	16.4
Balance Sheet (Rs bn.)									
Equity	191	200	210	222	203	219	237		
Net Cash	24	35	33	47	37	43	61		
Cash Flow (Rs bn)									
OCF	18	18	14	24	24	25	30		
Change in WC	0	2	(6)	4	4	(4)	(1)		
Capex	(4)	(5)	(6)	(11)	(10)	(13)	(9)		
FCF	**14**	**15**	**2**	**17**	**18**	**8**	**20**		
Return ratios (%)									
RoE	9.3	13.6	11.8	12.7	16.4	18.8	19.2		
RoCE	9.5	13.8	11.9	12.8	16.6	19.0	19.3		
RoIC	**21.0**	**27.4**	**23.5**	**27.2**	**39.6**	**39.2**	**36.6**		
Valuations (x)									
PE				31.8	26.1	22.3	19.0		
EV/EBITDA				16.7	13.8	12.7	10.5		
EV/ton (USD)				142	143	134	128		

Source: Company, Emkay Research

Exhibit 213: Annual analysis on per ton basis

Rs/ton	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Blended realisation	**4,249**	**4,455**	**4,525**	**4,717**	**4,927**	**5,047**	**5,198**
Raw materials consumed	616	655	696	755	829	861	882
Power & fuel costs	850	970	1,051	1,075	993	1,099	1,106
Freight costs	877	961	1,044	998	953	982	1,001
Staff cost	280	288	281	281	295	287	281
Other expenses	896	847	830	846	777	767	755
Total OpEx	**3,518**	**3,721**	**3,902**	**3,955**	**3,847**	**3,996**	**4,026**
Other operating income	50	89	157	131	87	58	54
Blended EBITDA	**780**	**824**	**780**	**893**	**1,167**	**1,109**	**1,227**

Source: Company, Emkay Research

Quarterly analysis

Exhibit 214: Quarterly financials

Rs mn	4QCY19	1QCY20	2QCY20	3QCY20	4QCY20	YoY (%)	QoQ (%)
Net Sales	**30,380**	**27,600**	**21,450**	**28,020**	**34,680**	**14.2**	**23.8**
Other operating income	979	675	318	505	471	(51.9)	(6.6)
Revenue	**31,359**	**28,275**	**21,768**	**28,525**	**35,151**	**12.1**	**23.2**
Expenditure	**25,885**	**22,243**	**15,815**	**21,721**	**27,473**	**6.1**	**26.5**
Total RM	5,547	4,272	3,459	4,409	6,654	20.0	50.9
Power & Fuel	6,692	5,622	4,139	5,749	7,010	4.7	21.9
Freight	6,463	5,665	3,890	5,541	6,522	0.9	17.7
Staff cost	1,690	1,722	1,495	1,622	1,850	9.5	14.0
Other expenditure	5,493	4,964	2,833	4,400	5,437	(1.0)	23.6
EBITDA	**5,474**	**6,032**	**5,952**	**6,803**	**7,678**	**40.3**	**12.9**
Depreciation	1,487	1,379	1,289	1,287	1,257	(15.4)	(2.3)
EBIT	3,987	4,653	4,663	5,517	6,421	61.0	16.4
Other Income	656	881	1,922	523	394	(39.9)	(24.5)
Interest	237	231	183	185	233	(1.6)	26.2
PBT	4,407	5,304	6,402	5,855	6,583	49.4	12.4
Total Tax	891	1,313	1,868	1,450	2,645	197.0	82.4
Adjusted PAT	**3,516**	**3,991**	**4,534**	**4,405**	**3,938**	**12.0**	**(10.6)**
Extra ordinary items	1,033	-	-	-	1,033		
Reported PAT	**4,549**	**3,991**	**4,534**	**4,405**	**4,971**	**9.3**	**12.8**
Adjusted EPS (Rs)	1.8	2.0	2.3	2.2	2.0	12.0	(10.6)

Margins (%)	4QCY19	1QCY20	2QCY20	3QCY20	4QCY20	YoY (bps)	QoQ (bps)
EBIDTA	17.5	21.3	27.3	23.9	21.8	438.8	(200.7)
EBIT	12.7	16.5	21.4	19.3	18.3	555.3	(107.2)
EBT	14.1	18.8	29.4	20.5	18.7	467.5	(179.9)
PAT	11.2	14.1	20.8	15.4	11.2	(0.9)	(424.0)
Effective Tax rate	20.2	24.8	29.2	24.8	40.2		

Source: Company, Emkay Research

Exhibit 215: Quarterly analysis on per ton basis

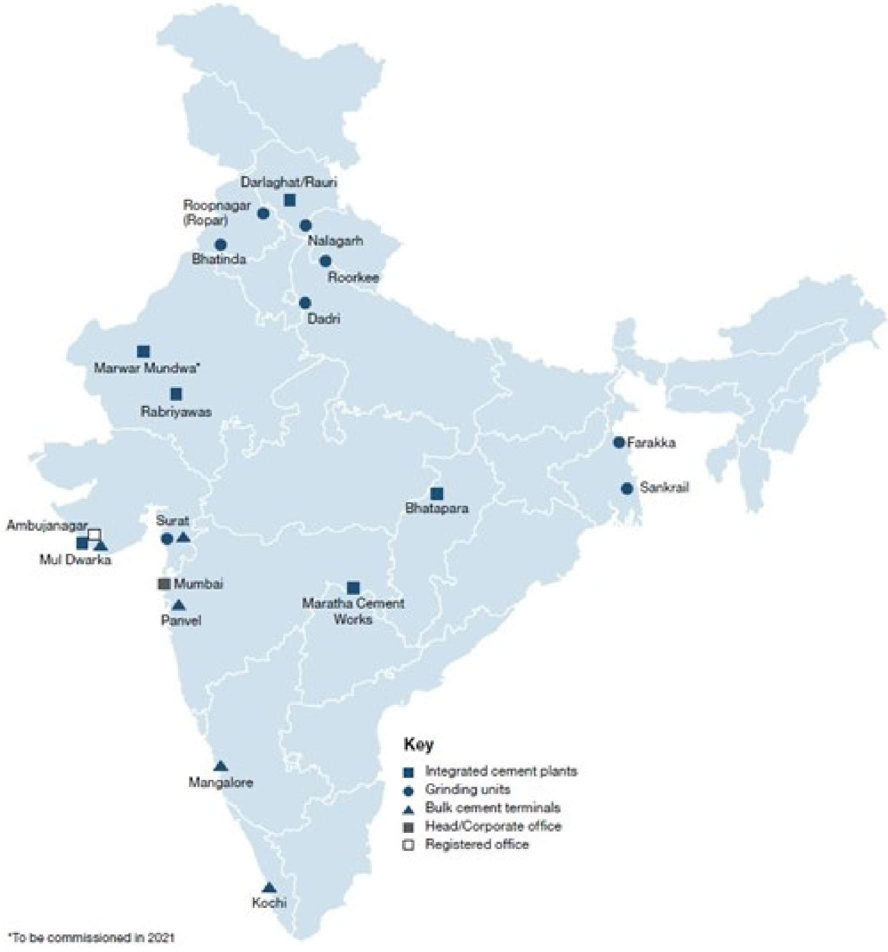
Rs/ton	4QCY19	1QCY20	2QCY20	3QCY20	4QCY20	YoY (%)	QoQ (%)
Cement volumes (mt)	**6.5**	**5.8**	**4.2**	**5.7**	**7.1**	**7.8**	**24.3**
Blended Realization	**4,645**	**4,783**	**5,119**	**4,942**	**4,919**	**5.9**	**(0.5)**
Raw Material	848	740	825	778	944	11.3	21.4
Power & Fuel	1,023	974	988	1,014	994	(2.8)	(1.9)
Freight	988	982	928	977	925	(6.4)	(5.3)
Staff cost	258	298	357	286	262	1.5	(8.3)
Other expenditure	840	860	676	776	771	(8.2)	(0.6)
Operating cost	**3,958**	**3,855**	**3,775**	**3,831**	**3,897**	**(1.5)**	**1.7**
Other operating income	150	117	76	89	67	(55.4)	(24.9)
EBITDA/ton	**837**	**1,045**	**1,421**	**1,200**	**1,089**	**30.1**	**(9.2)**

Source: Company, Emkay Research

Company Background

ACEM is part of the LafargeHolcim Group, the second-largest cement group in India with current capacity of 29.7mt. The capacity will increase to 31.5mt by Q3CY21. It has 5 integrated units and 8 grinding units covering 11 states and 32 districts, 5 bulk terminals, 5 CPP and 18 mining leases with 50,000 channel partners. In 2006, global cement major Holcim acquired management control of ACEM and currently holds a 63% stake. It has also made strategic investments in ACC with a shareholding of around 50%.

Exhibit 216: ACEM has pan-India presence, except South



Source: Company, Emkay Research

Exhibit 217: Regional distribution mix- CY20

Regions	Grinding units	Supporting warehouses
West	1	116
North	5	108
East	2	91
Central	-	82
Total	**8**	**397**

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Dec (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Revenue	**1,13,568**	**1,16,679**	**1,13,719**	**1,30,829**	**1,46,048**
Expenditure	**94,653**	**95,190**	**87,253**	**1,02,405**	**1,11,936**
EBITDA	**18,915**	**21,489**	**26,466**	**28,424**	**34,112**
Depreciation	5,481	5,438	5,212	5,306	6,206
EBIT	**13,434**	**16,050**	**21,254**	**23,118**	**27,906**
Other Income	3,391	4,265	3,720	2,987	3,607
Interest expenses	823	835	831	839	849
PBT	**16,002**	**19,480**	**24,144**	**25,266**	**30,665**
Tax	4,361	5,743	7,276	6,443	7,819
Extraordinary Items	3,229	1,549	1,033	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	**14,870**	**15,285**	**17,901**	**18,823**	**22,845**
Adjusted PAT	**11,641**	**13,737**	**16,868**	**18,823**	**22,845**

Balance Sheet

Y/E Dec (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Equity share capital	3,971	3,971	3,971	3,971	3,971
Reserves & surplus	2,06,154	2,18,081	1,99,187	2,14,665	2,33,390
Net worth	**2,10,125**	**2,22,052**	**2,03,159**	**2,18,637**	**2,37,362**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Loan Funds	**397**	**353**	**436**	**436**	**436**
Net deferred tax liability	3,722	2,161	1,860	1,906	1,954
Total Liabilities	**2,14,244**	**2,24,565**	**2,05,454**	**2,20,979**	**2,39,751**
Net block	**56,636**	**58,125**	**59,315**	**76,410**	**85,479**
Investment	**1,45,394**	**1,45,147**	**1,42,134**	**1,42,134**	**1,42,134**
Current Assets	**43,736**	**55,549**	**34,628**	**42,183**	**60,606**
Cash & bank balance	6,043	19,738	5,032	9,806	25,731
Other Current Assets	172	165	167	169	170
Current liabilities & Provision	**37,623**	**45,342**	**49,360**	**49,116**	**51,859**
Net current assets	**6,113**	**10,207**	**(14,732)**	**(6,933)**	**8,747**
Misc. exp	0	0	0	0	0
Total Assets	**2,14,244**	**2,24,565**	**2,05,454**	**2,20,979**	**2,39,751**

Cash Flow

Y/E Dec (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
PBT (Ex-Other income) (NI+Dep)	**15,061**	**19,480**	**24,144**	**22,279**	**27,057**
Other Non-Cash items	(3,230)	(3,983)	(3,152)	46	48
Chg in working cap	(6,166)	3,877	3,676	(3,024)	244
Operating Cashflow	**5,719**	**24,840**	**26,062**	**19,003**	**26,585**
Capital expenditure	(5,936)	(11,114)	(9,778)	(13,031)	(9,298)
Free Cash Flow	**(217)**	**13,726**	**16,284**	**5,972**	**17,287**
Investments	3,767	342	3,133	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**721**	**(7,277)**	**(3,164)**	**(10,045)**	**(5,691)**
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	227	11	(62)	0	0
Dividend paid (incl tax)	(3,971)	(2,979)	(36,646)	(3,345)	(4,120)
Other Financing Cash Flow	(527)	(342)	0	0	0
Financing Cashflow	**(4,784)**	**(3,868)**	**(37,604)**	**(4,184)**	**(4,969)**
Net chg in cash	**1,656**	**13,695**	**(14,706)**	**4,775**	**15,924**
Opening cash position	4,387	6,043	19,738	5,032	9,806
Closing cash position	**6,043**	**19,738**	**5,032**	**9,806**	**25,731**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	CY18	CY19	CY20	CY21E	CY22E
EBITDA Margin	16.7	18.4	23.3	21.7	23.4
EBIT Margin	11.8	13.8	18.7	17.7	19.1
Effective Tax Rate	27.3	29.5	30.1	25.5	25.5
Net Margin	10.3	11.8	14.8	14.4	15.6
ROCE	8.0	9.3	11.6	12.2	13.7
ROE	5.7	6.4	7.9	8.9	10.0
RoIC	25.7	30.5	48.2	46.6	43.5

Per Share Data (Rs)	CY18	CY19	CY20	CY21E	CY22E
EPS	5.9	6.9	8.5	9.5	11.5
CEPS	8.6	9.7	11.1	12.2	14.6
BVPS	105.8	111.8	102.3	110.1	119.5
DPS	1.5	1.5	18.0	1.7	2.1

Valuations (x)	CY18	CY19	CY20	CY21E	CY22E
PER	32.6	31.8	26.1	22.3	19.0
P/CEPS	34.2	30.6	26.5	24.3	20.2
P/BV	2.8	2.6	2.9	2.7	2.5
EV / Sales	4.9	4.6	4.9	4.2	3.7
EV / EBITDA	17.2	16.7	13.8	12.7	10.5
Dividend Yield (%)	0.5	0.5	6.1	0.6	0.7

Gearing Ratio (x)	CY18	CY19	CY20	CY21E	CY22E
Net Debt/ Equity	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
Net Debt/EBIDTA	(1.7)	(2.2)	(1.1)	(1.2)	(1.5)
Working Cap Cycle (days)	0.2	(29.8)	(63.4)	(46.7)	(42.4)

Growth (%)	CY18	CY19	CY20	CY21E	CY22E
Revenue	8.6	2.7	(2.5)	15.0	11.6
EBITDA	(0.2)	13.6	23.2	7.4	20.0
EBIT	1.6	19.5	32.4	8.8	20.7
PAT	19.0	2.8	17.1	5.2	21.4

Quarterly (Rs mn)	Q4CY19	Q1CY20	Q2CY20	Q3CY20	Q4CY20
Revenue	31,359	28,275	21,768	28,525	35,151
EBITDA	5,474	6,032	5,952	6,803	7,678
EBITDA Margin (%)	**17.5**	**21.3**	**27.3**	**23.9**	**21.8**
PAT	4,549	3,991	4,534	4,405	4,971
EPS (Rs)	**2.3**	**2.0**	**2.3**	**2.2**	**2.5**

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	63.1	63.1	63.1	63.1	63.1
FIIs	15.6	16.2	16.8	18.0	17.7
DIIs	14.1	13.6	13.3	11.5	12.1
Public and Others	7.1	7.1	6.9	7.3	7.1

Source: Capitaline

India Equity Research | Cement
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Refer to important disclosures at the end of this report

Cyclical rebound + structural growth aspirations = further rerating; Buy

CMP	Target Price
Rs 1,424 as of (April 23, 2021)	Rs 2,060 12 months
Rating	Upside
BUY	44.6 %

Dalmia Bharat (DB) is set to emerge as India's third-largest cement company in FY23E with 37mt capacity from its historical fifth position. The cement upcycle should help the company sustain double-digit EBITDA CAGR for the next few years, with a 20-25% RoIC. At 10x FY22E EV/EBITDA, the stock is the least expensive among peers. It is also attractive on a growth-adjusted EV/EBITDA basis. A clear management roadmap regarding future growth and capital allocation policy should drive further rerating in the name.

DB is targeting to: 1) double its existing cement capacity to 55-60mt in the next 3-4 years vs. our forecast of 46mt in five years; 2) become a pan-India producer from being a South + East player, which should help derisk the business with lower earnings volatility; as also improve overall pricing discipline in its existing markets. We initiate coverage with a Buy rating and a DCF-derived TP of Rs2,060 (Jun'22E), implying 12x 1-year forward EV/EBITDA. Downside risk: reliance on higher financial leverage to fund capex.

- **Cyclical rebound to sustain growth, and boost utilization and RoICs:** DB is likely to sustain higher-than-industry growth in volumes, at 1.25x industry growth rate, over FY21E-26E, driven by capacity expansion (by 35% to 37mt by FY23E), cyclical volume upturn and recovery in utilization levels to 75% by FY26E from 67% in FY21E. Accordingly, its RoIC should expand by 600bps to 28%, largely on rising asset turnover to 2x by FY26E from 1.5x in FY21E.
- **Aspiring to become a Top-3 domestic player:** DB has aggressive growth aspirations to be in big league with pan-India presence by doubling capacity to 55-60mt (details yet to be unveiled) in next 3-4 years. The expansion will help de-risk its business with diversification (lower earnings volatility) and improve overall pricing discipline in existing markets.
- **EBITDA CAGR of 6% over FY21E-23E; improving balance sheet provides room for expansion:** We expect blended EBITDA/ton to decline to Rs1,185/ton from Rs1,350/ton in FY21E, after witnessing a 30% increase in the past two years. Consolidated net debt was down by Rs37bn in the last four years to Rs15bn. Net debt-to-EBITDA declined to 0.5x in FY21E from 2.8x in FY17. This provides room to execute aggressive growth plans and support its target to become a pan-India player.
- **Only cement major with further rerating potential; initiate with Buy:** We have arrived at our Jun'22E-based TP of Rs2,060 using DCF. We assume sustainable/terminal FCF growth of 8% - in line with industry growth - and a sustainable incremental RoIC of 22.5%, which is well below the exit RoIC of FY26E. Our TP implies a forward EV/EBITDA of 12x and an FCFF yield of 4.8%. The stock has rerated by around 10% after the Supreme Court order for the restoration of mutual fund units.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	94,840	95,810	1,05,247	1,20,281	1,33,645
EBITDA	19,420	21,060	28,167	28,647	31,693
EBITDA Margin ((%)	20.5	22.0	26.8	23.8	23.7
APAT	3,080	2,240	8,735	8,599	10,219
EPS (Rs)	16.0	11.7	46.3	45.5	54.1
EPS (% chg)	5.5	(27.3)	296.5	(1.6)	18.8
ROE (%)	2.9	2.1	7.9	7.3	8.1
P/E (x)	88.8	122.1	30.8	31.3	26.3
EV/EBITDA (x)	15.7	14.3	10.6	9.9	8.6
P/BV (x)	2.6	2.6	2.4	2.2	2.0

Source: Company, Emkay Research

Emkay vs Consensus

EPS Estimates	FY22E	FY32E
Emkay	45.5	54.1
Consensus	46.2	63.5
Mean Consensus TP (12M)		Rs 1,729

Stock Details

Bloomberg Code	DALBHARA IN
Face Value (Rs)	2
Shares outstanding (mn)	187
52 Week H/L	1,691 / 475
M Cap (Rs bn/USD bn)	267 / 3.55
Daily Avg Volume (nos.)	2,32,087
Daily Avg Turnover (US$ mn)	4.5

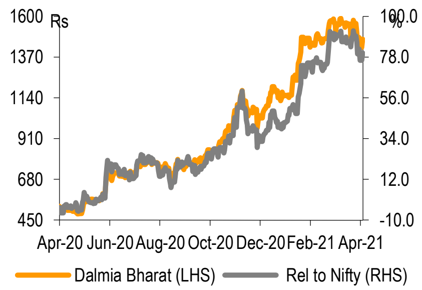
Shareholding Pattern Mar '21

Promoters	56.0%
FIIs	13.5%
DIIs	5.0%
Public and Others	25.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	23	68	168
Rel. to Nifty	(8)	22	38	71

Relative price chart



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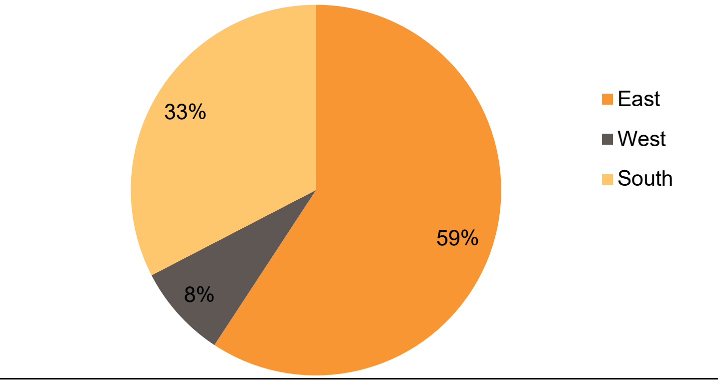
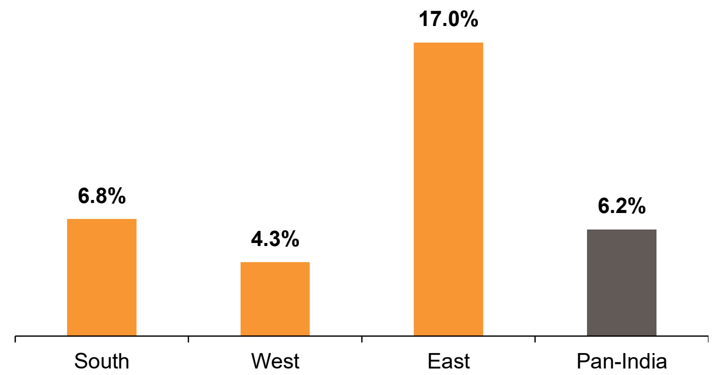
Story in Charts

Exhibit 218: Capacity concentrated in East and South (FY23E)



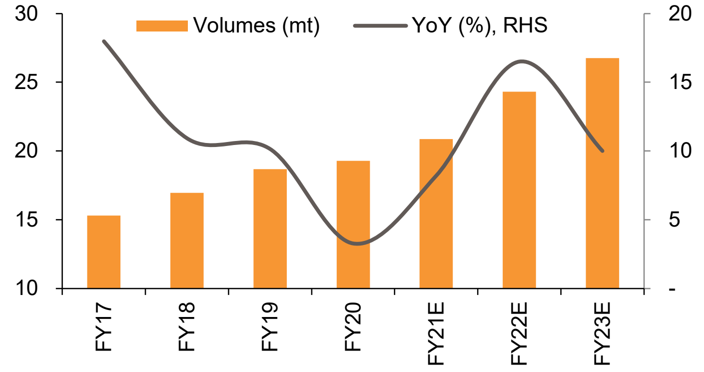
Source: Company, Emkay Research

Exhibit 219: DB has capacity leadership position in East market



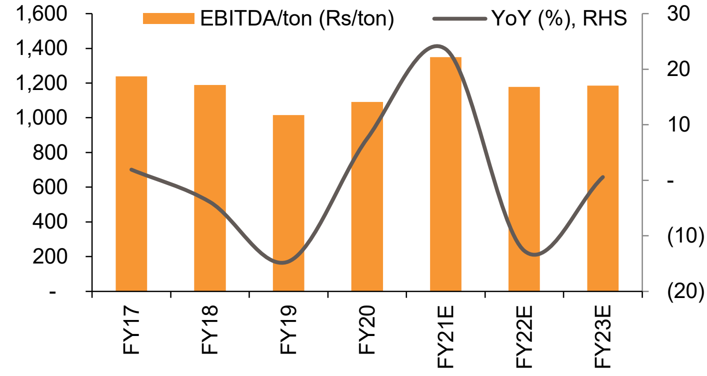
Source: Company, Industry data, Emkay Research

Exhibit 220: Volumes to grow at 13% CAGR (1.4x industry growth rate) over FY21E-23E



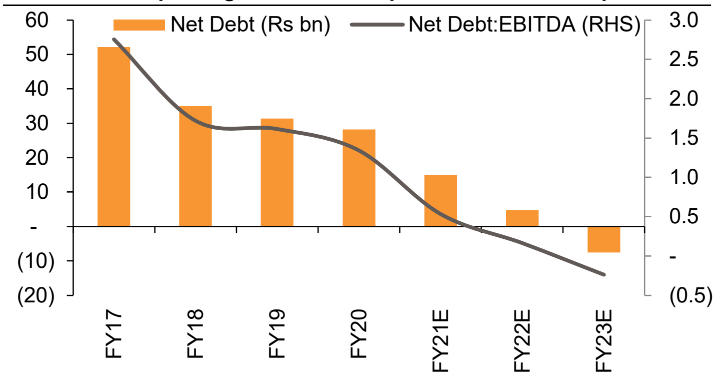
Source: Company, Emkay Research

Exhibit 221: EBITDA/ton may decline at 6% CAGR over FY21E-23E after witnessing 30% increase in past two years



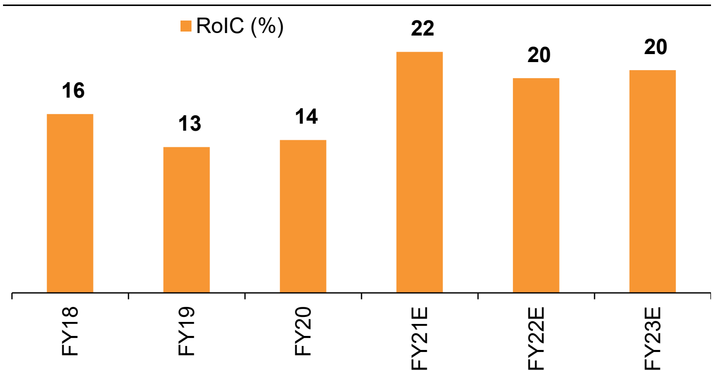
Source: Company, Emkay Research

Exhibit 222: Improving balance sheet provides room for expansion



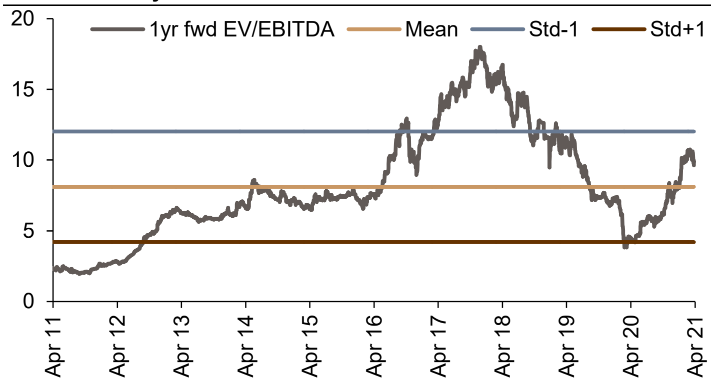
Source: Company, Emkay Research

Exhibit 223: RoIC to sustain above 20%



Source: Company, Emkay Research

Exhibit 224: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 225: Initiate with Buy and TP of Rs2,060 based on 12x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	32
EV/E multiple (x)	12.0
Enterprise Value	**382**
Net debt (FY22E)	4
Equity value	**378**
No. of shares (mn)	189
Mar'22 Fair Value (Rs)	2,000
Jun'22 Target Price (Rs)	**2,060**

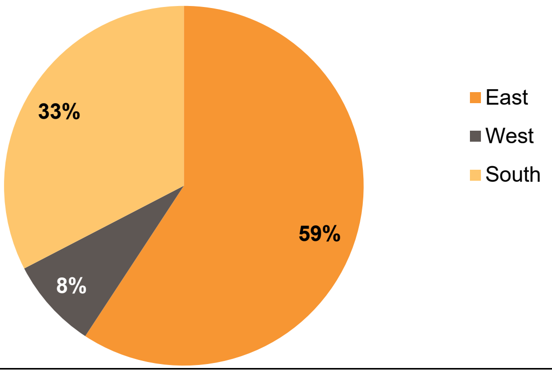
*Source: Emkay Research, *3% premium on Mar'22E fair value*

Industry upcycle to sustain growth, boost utilization and RoIC

DB likely to sustain higher-than-industry growth in volumes (1.25x industry growth rate) over FY21E-26E, driven by capacity expansion, cyclical volume upturn and recovery in utilization levels from 67% in FY21E to 75% by FY26E. Accordingly, its RoIC should expand to 28%, largely on rising asset turnover to 2x by FY26E from 1.5x in FY21E.

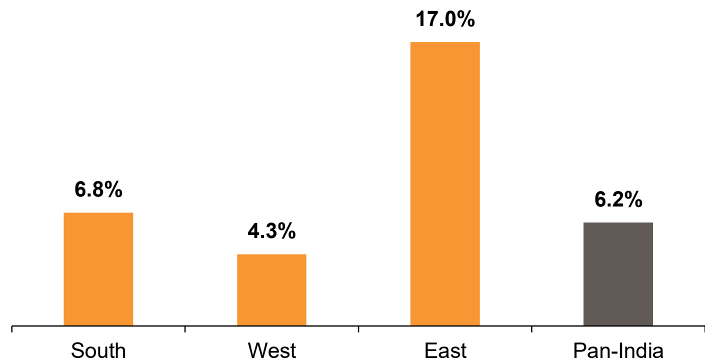
DB gained volume market share by nearly 90bps in the past two years. It is also likely to sustain higher-than-industry growth in volumes, given its higher exposure to the high-growth East region, the commencement of the acquired Murli Industries' (MIL) plant and the commissioning of ~8mt expansion to increase capacity by 35% to 37mt gradually by FY23E. After the expansion, DB will become third-largest cement producer in India with a capacity market share of 6.4%. In South (40% volume share), more than 75% of the volumes come from profitable states such as Tamil Nadu, Karnataka and Kerala, while the volatile and oversupply states such as Andhra Pradesh and Telangana constitute only 25% of volumes.

Exhibit 226: Capacity concentrated in East and South (FY23E)



Source: Company, Emkay Research

Exhibit 227: DB has capacity leadership position in East market



Source: Company, Industry data, Emkay Research

The company is setting up a 7.8mt cement grinding (including 3mt of clinker) unit in the East through a mix of greenfield and brownfield expansion at a total capex of Rs32bn. It has started commercial production of 3mt clinker line at Rajgangpur, Odisha in Oct'20 which feeds its well spread-out satellite grinding units in Odisha, West Bengal, Bihar and Jharkhand.

DB increased grinding capacity by 2mt through debottlenecking (Bokaro- 1.1, BCW- 0.4, KCW-0.4, Alsthom- 0.1) in Q3FY21, raising its capacity to 28.5mt. The 2.2mt West Bengal unit was commissioned in Mar'21; 1mt Odisha grinding units are expected to become operational in Q1FY22E. The 2.5mt Bihar grinding unit is likely to be commissioned in FY23E.

Exhibit 228: Overview of expansion projects in the East region

State	Region	Clinker Capacity (mt)	Cement Capacity (mt)	Commissioning timelines
Multiple	East	-	2.0	Commissioned in Q3FY21
West Bengal	East	-	2.2	Commissioned in Mar'21
Odisha	East	3.1	1.0	Clinker plant commissioned in Oct'20; Cement plant will commission in Q1FY22
Bihar	East	-	2.5	FY23
Total		**3.1**	**7.8**	

Source: Company, Emkay Research

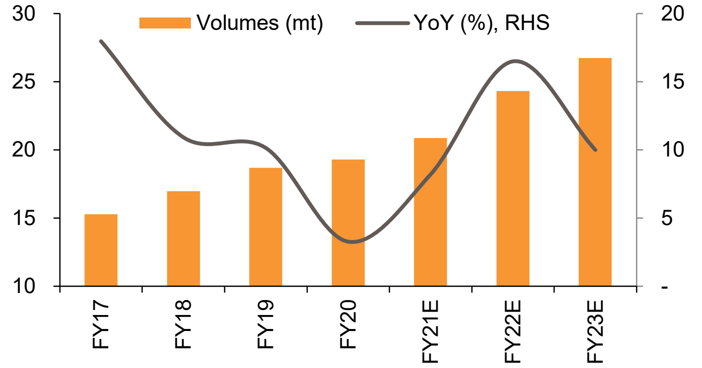
In Sep'20, DB has completed an acquisition of 3mt MIL plant along with 50MW thermal power plant at a cost of Rs4bn under IBC. It is expected to spend another Rs4bn to revive the plant in the next six months. Maharashtra government has agreed for sanctioned incentives, which may be available for 7-8 years. Management is targeting cost structure at MIL to be in line with DB in 2-3 years. The plant is expected to be commissioned in Sep'21.

Aspiring to be a Top-3 player

DB is targeting to: 1) double its existing cement capacity to 55-60mt in the next 3-4 years vs. our forecast of 46mt in five years; 2) become a pan-India producer from being a South + East player, which should help de-risk the business with lower earnings volatility and improve overall pricing discipline in existing markets.

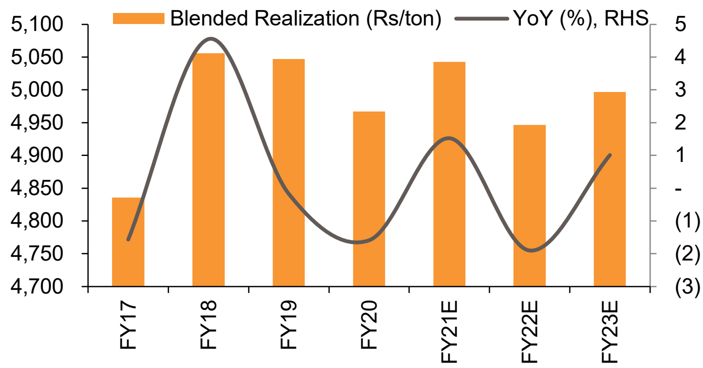
The company has significant potential across existing markets of South (4-5mt) and North East (2-3mt). In addition, the company is looking to enter the relatively attractive market of North and has applied for environment clearance. It has also been allotted a mine in the Central region.

Exhibit 229: Volumes to see 13% CAGR (1.4x industry growth rate) over FY21E-23E



Source: Company, Emkay Research

Exhibit 230: Blended realization expected to remain around similar level over FY21E-23E



Source: Company, Emkay Research

Initiatives on cost optimization and de-risking efforts

DB has kick started its journey toward 100% RE consumption by increasing WHRS capacity to 30MW from 9.2MW currently. It has 8MW of captive solar power generation and has identified another 30MW for potential expansion. It is expected to provide savings of Rs550mn (Rs20/ton). DB targets to increase thermal substitution rate to 20% from current 6%.

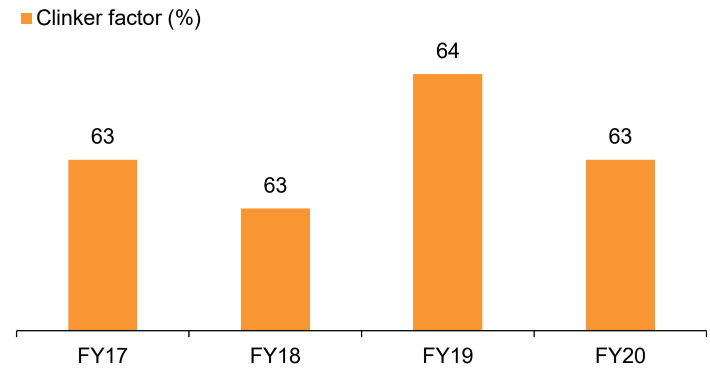
Exhibit 231: Incremental green energy to provide cost savings of Rs550mn (~Rs20/ton)

	WHRS	Solar
Incremental capacity (MW)	21	30
PLF- assumed	65%	22%
mn units	107	52
Savings (Rs p.u.)	4	2.5
Total savings (Rs mn)	428	131
Volumes (mt)-FY23E	26.7	
Cumulative Savings (Rs/ton)	**21**	

Source: Company, Emkay Research

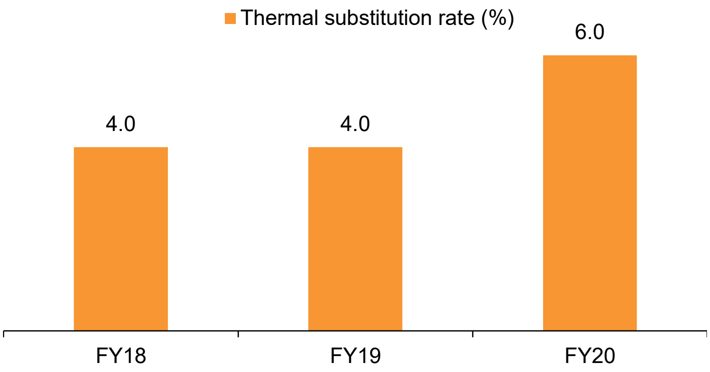
Although the East region would witness significant capacity additions in the next few years, DB should be able to sustain its profitability, thanks to its logistics advantage stemming from a network of split-grinding units, lower lead distance vs. peers, higher blending ratio and better operating leverage. DB should further consolidate its locational advantage in the East market with expansion.

Exhibit 232: Clinker factor broadly remain stable in the past few years



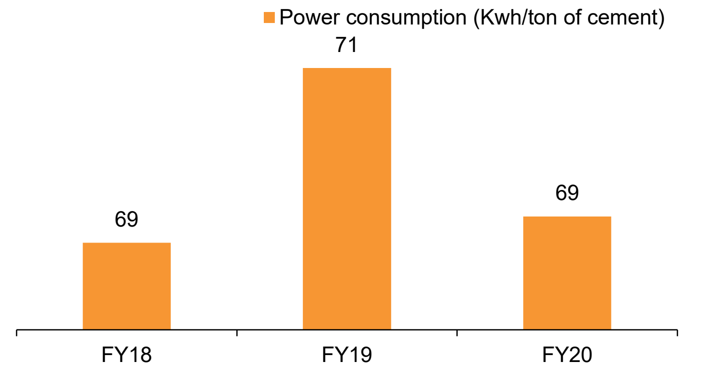
Source: Company, Emkay Research

Exhibit 233: Management targets to increase thermal substitution rate to increase to 20%



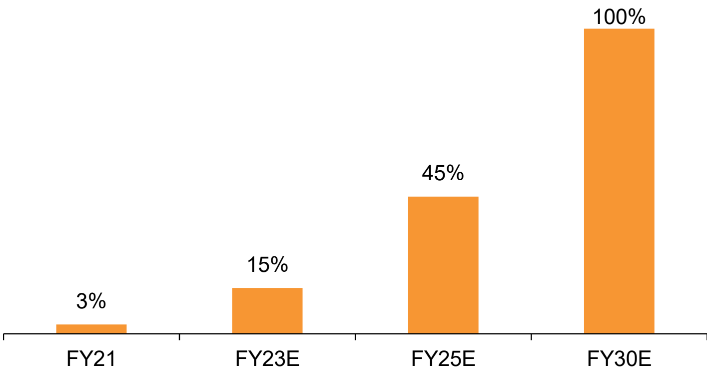
Source: Company, Emkay Research

Exhibit 234: DB has one of the lowest power consumption norms



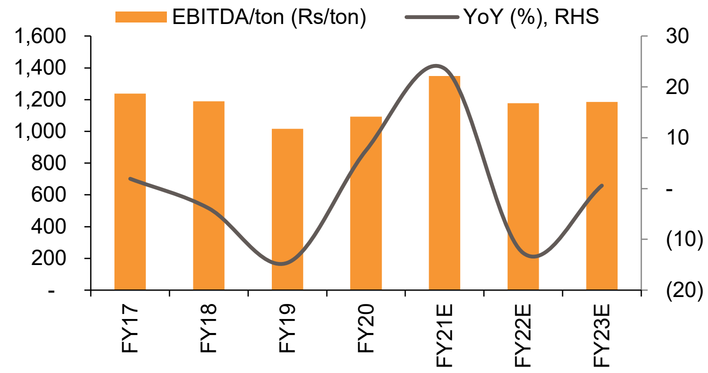
Source: Company, Emkay Research

Exhibit 235: Green energy contribution expected to increase to 45% by FY25E



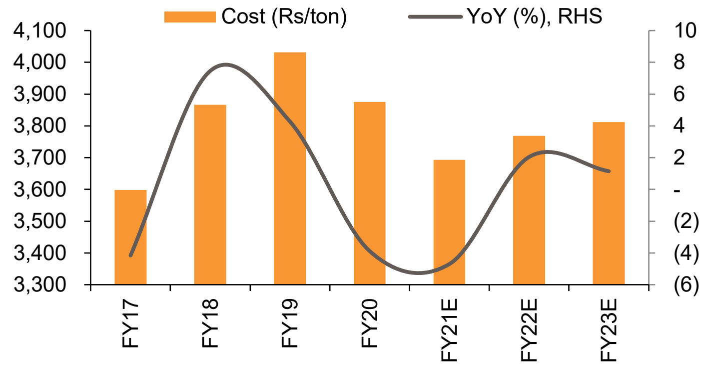
Source: Company, Emkay Research

Exhibit 236: EBITDA/ton may decline at 6% CAGR over FY21E-23E after witnessing 30% increase in the past two years



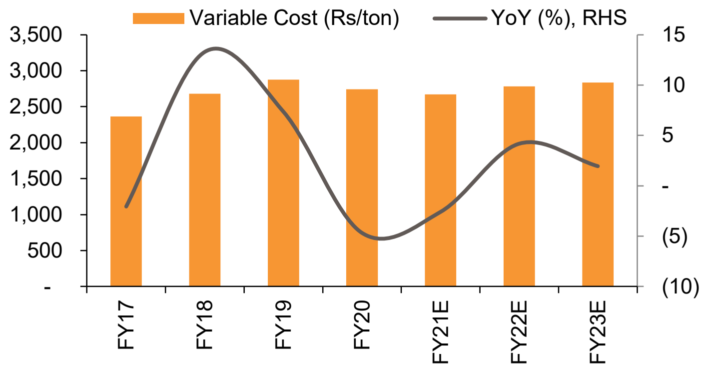
Source: Company, Emkay Research

Exhibit 237: Total cost/ton may increase 2% CAGR over FY21E-23E



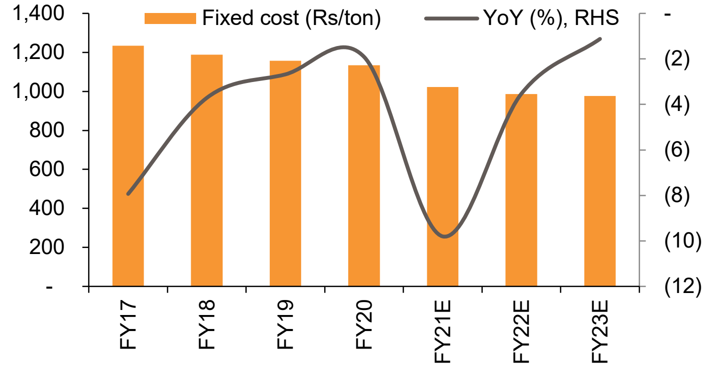
Source: Company, Emkay Research

Exhibit 238: Variable cost/ton may increase at 3% CAGR over FY21E-23E



Source: Company, Emkay Research

Exhibit 239: Fixed cost/ton may decline at 2% CAGR over FY21E-23E owing to better operating leverage



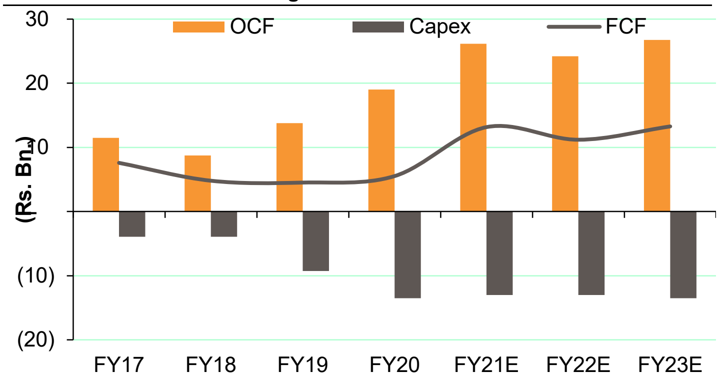
Source: Company, Emkay Research

Financials: improving BS provides room for expansion

We expect DB's EBITDA to see 6% CAGR over FY21E-23E, driven by volume growth (13% CAGR). DB's EBITDA/ton is expected to decline at 6% CAGR over FY21E-23E after 30% increase in the past two years due to broadly flat blended realization and an increase in total cost/ton at 2% CAGR.

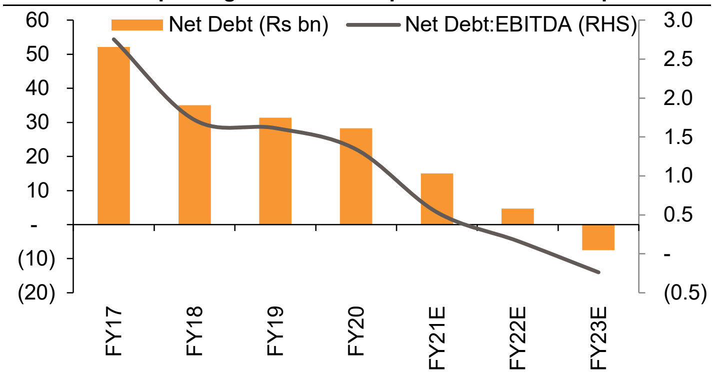
Consolidated net debt declined by Rs37bn in past four years to Rs15bn by FY21E. Net debt-to-EBITDA declined to 0.5x in FY21E from 2.8x in FY17. With higher volumes and improving profitability, we model FCF generation of Rs24bn over FY21-23E after factoring in ~Rs27bn of capex. This provides room for aggressive growth plans and its target to become a pan-India player.

Exhibit 240: We model FCF generation of Rs24bn over FY21-23E



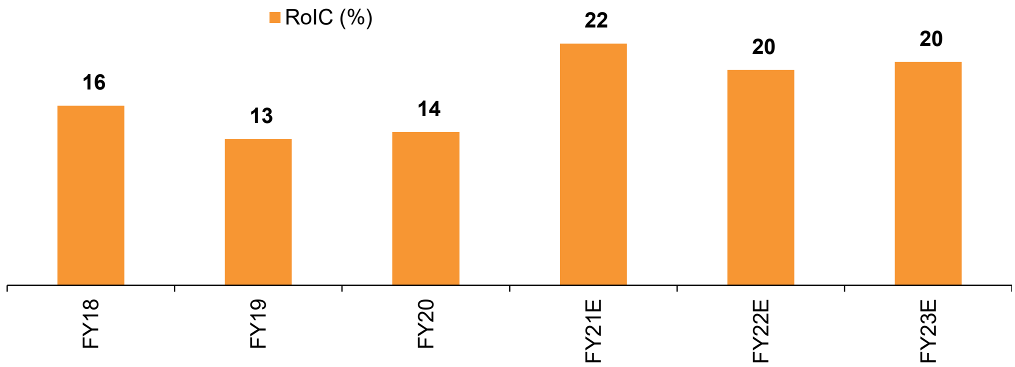
Source: Company, Emkay Research, FCF includes other income and interest cost

Exhibit 241: Improving balance sheet provides room for expansion



Source: Company, Emkay Research

Exhibit 242: RoIC expected to sustain above 20%



Source: Company, Emkay Research

Corporate governance overhang behind

In Mar’21, the SC has passed an interim order directing the restoration of MF units to DB from the depository and clearing agent ISSL. DB has to furnish a bank guarantee of Rs3.5bn as a security for the undergoing trial. In the past, management has remained consistent with the commentary that the units belonged to the company and were fraudulently stolen. After this development, we believe a major overhang relating to a governance issue is behind.

Background of the case

In Feb'19, DB registered a case that certain MF units valued at Rs3.4bn were fraudulently transferred by its broker Allied Financial Services to its own account. These units were then used by Allied as margin with ISSL, for F&O trades.

The company had reported the matter to NSDL, NSE, SEBI and other concerned authorities and filed a criminal complaint. These stolen MF units were used as margin for F&O trade then by Allied Brokers.

As per management, that trade has got settled and broker has been declared a defaulter with its assets being liquidated. The matter, however, is still pending in trial court and criminal proceedings may take more time to close.

In Aug-19, the SC had passed an interim order that DB may encash the securities, but the amount would lie in FD with ISSL. In Mar’21, the SC modified the judgment allowing that securities of DB lying with ISSL be released in favor of DB and the company has to furnish a bank guarantee of Rs3.5bn as a security for the undergoing trial. In Apr’21, the MF units lying with ISSL were released in favor of the company and credited back to demat account.

The value of MF units stood at ~Rs3.8bn as of Dec’20. These units are now at DB’s discretion, and the company will decide whether to dispense or hold them based on its capital allocation policy.

Only cement major with re-rating potential; initiate with Buy

At 10.0x FY22E EV/EBITDA, the stock is the least expensive among peers. It is also attractive on a growth-adjusted EV/EBITDA perspective. A clear management roadmap regarding future growth and capital allocation should drive further rerating in the name.

We have arrived at our Jun'22E-based TP of Rs2,060 using DCF. We assume sustainable/ terminal FCF growth of 8% (in line with industry growth) and a sustainable incremental RoIC of 22.5%, which is well below the exit RoIC of FY26E. Our TP implies a forward EV/EBITDA of 12x, and an FCFF yield of 4.8%. The stock has re-rated by around 10% after the SC order for the restoration of mutual fund units.

Exhibit 243: We initiate with Buy and TP of Rs2,060 based on 12x Jun'22E EV/EBITDA, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	32
EV/E multiple (x)	12.0
Enterprise Value	**382**
Net debt (FY22E)	4
Equity value	**378**
No. of shares (mn)	189
Mar'22 Fair Value (Rs)	2,000
Jun'22* Target Price (Rs)	**2,060**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Exhibit 244: Sensitivity analysis with change in 0.5% TG and 2.5% in RoIC

		Terminal Growth Rate (%)				
		7.0	**7.5**	**8.0**	**8.5**	**9.0**
Sustainable RoIC (%)	**17.5**	1,557	1,655	1,780	1,945	2,176
	20.0	1,664	1,784	1,937	2,142	2,426
	22.5	1,747	1,884	**2,060**	2,294	2,622
	25.0	1,813	1,964	2,158	2,417	2,778
	27.5	1,867	2,030	2,239	2,517	2,905

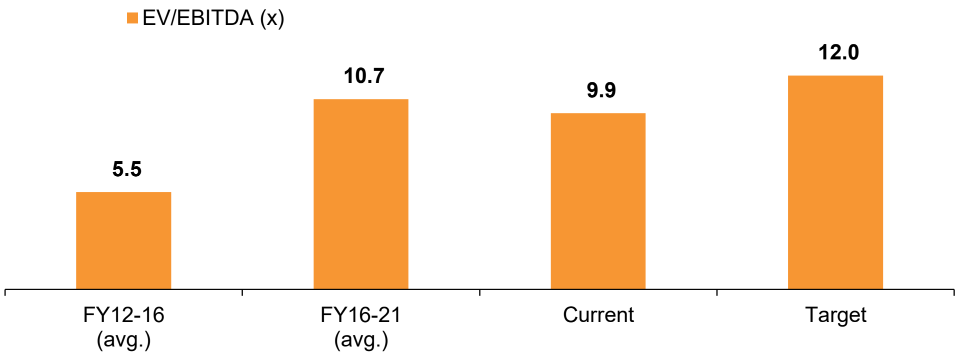
Source: Emkay Research

Exhibit 245: Our estimates are broadly in-line with consensus

Rs bn	Emkay Estimates		Consensus		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	120.3	133.6	119.1	135.2	1.0	(1.1)
EBITDA	**28.6**	**31.7**	**28.3**	**32.2**	**1.4**	**(1.5)**
PAT	8.6	10.2	8.7	11.7	(0.8)	(12.9)

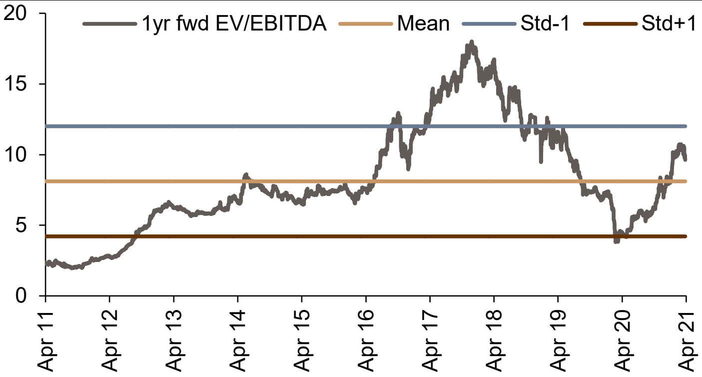
Source: Bloomberg, Emkay Research

Exhibit 246: Only cement major with re-rating potential



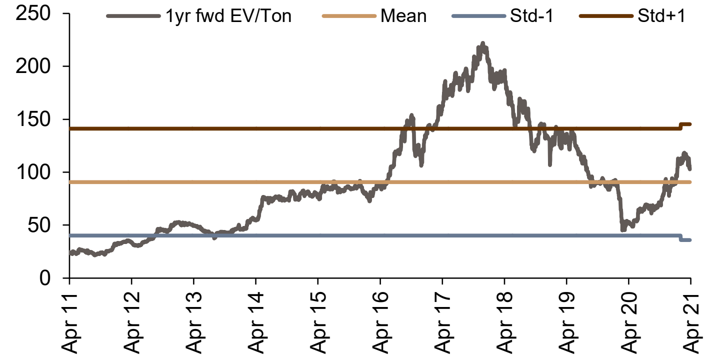
Source: Company, Emkay Research

Exhibit 247: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 248: 1-year forward EV/ton (USD)



Source: Bloomberg, Emkay Research

Annual analysis

Exhibit 249: Annual financials

Operational metrics	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR% FY17-21E	CAGR% FY12E-23E
Cement Capacity (mt)	25	25	25	26	31	34	37	5.8	8.6
Volumes (mt)	15	17	19	19	21	24	27	8.1	13.2
Utilization (%)	61	68	75	74	67	71	73		
Blended Realization (Rs/ton)	4,836	5,056	5,047	4,967	5,043	4,947	4,997	1.1	(0.5)
EBITDA/ton (Rs/ton)	1,238	1,189	1,016	1,092	1,350	1,178	1,185	2.2	(6.3)
P&L (Rs bn)									
Revenue	74	86	95	96	105	120	134	9.0	12.7
EBITDA	**19**	**20**	**19**	**21**	**28**	**29**	**32**	**10.4**	**6.1**
Adj. Net Profit	0	3	3	2	9	9	10	-	8.2
Balance Sheet (Rs bn)									
Equity	96	103	106	106	114	122	131		
Net Debt	52	35	31	28	15	5	(8)		
Net Debt: EBITDA (x)	2.8	1.7	1.6	1.3	0.5	0.2	(0.2)		
Net Debt: Equity (x)	0.5	0.3	0.3	0.3	0.1	0.0	(0.1)		
Cash Flow (Rs bn)									
OCF before NWC change	12	13	15	16	23	23	26		
Change in NWC	(0)	(5)	(2)	3	3	1	1		
Capex	(4)	(4)	(9)	(14)	(13)	(13)	(14)		
FCF	**8**	**5**	**5**	**6**	**13**	**11**	**13**		
Return ratios (%)									
RoE	0.7	2.9	2.9	2.1	7.9	7.3	8.1		
RoCE	1.9	4.3	4.7	2.9	6.0	6.1	6.8		
RoIC	**7.4**	**16.4**	**13.4**	**14.0**	**22.1**	**19.7**	**20.4**		
Valuations (x)									
PE				122.1	30.8	31.3	26.3		
EV/EBITDA				14.3	10.6	9.9	8.6		
EV/ton				175	139	123	109		

Source: Company, Emkay Research

Exhibit 250: Annual analysis on per ton basis

Rs/ton	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Blended realization	**4,836**	**5,056**	**5,047**	**4,967**	**5,043**	**4,947**	**4,997**
Raw materials consumed	827	897	956	857	854	876	889
Power & fuel costs	651	828	940	901	810	865	887
Freight costs	886	952	979	982	1,005	1,040	1,059
Staff Cost	388	359	347	350	334	304	293
Other expenses	846	830	810	785	689	683	683
Operating cost	**3,598**	**3,866**	**4,032**	**3,875**	**3,693**	**3,769**	**3,812**
Blended EBITDA	**1,238**	**1,189**	**1,016**	**1,092**	**1,350**	**1,178**	**1,185**

Source: Company, Emkay Research

Quarterly analysis

Exhibit 251: Quarterly table

Rs mn	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Revenue	**24,180**	**24,830**	**19,740**	**24,100**	**28,570**	**18.2**	**18.5**
Expenditure	**19,610**	**19,750**	**13,600**	**17,080**	**21,660**	**10.5**	**26.8**
Total RM	4,310	5,160	3,510	3,920	4,790	11.1	22.2
Power & Fuel	4,580	3,860	2,550	3,500	4,990	9.0	42.6
Freight	5,130	5,080	3,490	4,760	5,870	14.4	23.3
Staff cost	1,690	1,640	1,740	1,690	1,760	4.1	4.1
Other expenditure	3,900	4,010	2,310	3,210	4,250	9.0	32.4
EBITDA	**4,570**	**5,080**	**6,140**	**7,020**	**6,910**	**51.2**	**(1.6)**
Depreciation	4,050	3,750	3,010	3,020	3,290	(18.8)	8.9
EBIT	520	1,330	3,130	4,000	3,620	596.2	(9.5)
Other Income	680	560	550	410	460	(32.4)	12.2
Interest	950	1,240	730	730	910	(4.2)	24.7
PBT	250	650	2,950	3,680	3,170	1,168.0	(13.9)
Total Tax	(10)	410	1,070	1,360	1,340	nm	(1.5)
Adjusted PAT	**260**	**240**	**1,880**	**2,320**	**1,830**	**603.8**	**(21.1)**
(Profit)/loss from JV's/Ass/MI	20	(20)	(20)	-	10	(50.0)	nm
PAT after MI	240	260	1,900	2,320	1,820	658.3	(21.6)
Reported PAT	**240**	**260**	**1,900**	**2,320**	**1,820**	**658.3**	**(21.6)**
Adjusted EPS (Rs)	1.3	1.4	9.9	12.1	9.5	658.3	(21.6)

Margins (%)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (bps)	QoQ (bps)
EBIDTA	18.9	20.5	31.1	29.1	24.2	528.6	(494.2)
EBIT	2.2	5.4	15.9	16.6	12.7	1,052.0	(392.7)
EBT	1.0	2.6	14.9	15.3	11.1	1,006.2	(417.4)
PAT	1.1	1.0	9.5	9.6	6.4	533.0	(322.1)
Effective Tax rate	(4.0)	63.1	36.3	37.0	42.3		

Source: Company, Emkay Research

Exhibit 252: Quarterly analysis on per ton basis

Rs/ton	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Volume (mt)	**5.1**	**5.2**	**3.7**	**4.8**	**5.8**	**13.7**	**20.8**
Blended Realization	**4,741**	**4,803**	**5,393**	**5,021**	**4,926**	**3.9**	**(1.9)**
Raw Material	845	998	959	817	826	(2.3)	1.1
Power & Fuel	898	747	697	729	860	(4.2)	18.0
Freight	1,006	983	954	992	1,012	0.6	2.1
Staff cost	331	317	475	352	303	(8.4)	(13.8)
Other expenditure	765	776	631	669	733	(4.2)	9.6
Operating cost	**3,845**	**3,820**	**3,716**	**3,558**	**3,734**	**(2.9)**	**5.0**
Blended EBITDA/ton	**896**	**983**	**1,678**	**1,463**	**1,191**	**33.0**	**(18.5)**

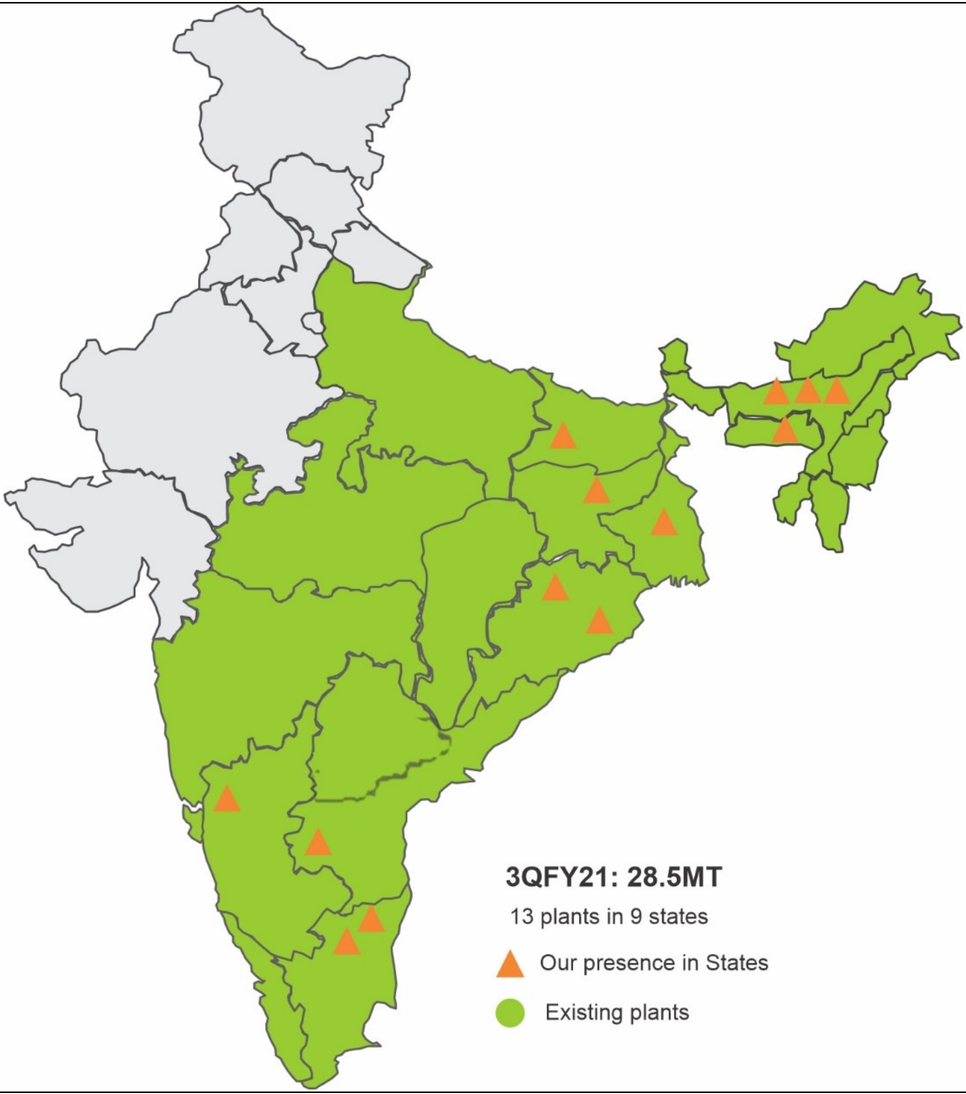
Source: Company, Emkay Research

Company Background

DB will become India's third-largest cement producer after the ongoing expansion with strong presence in East and South India. During FY05-21, DB has grown from a 1.2mt single-location cement company in South to a 28.5mt player through organic and inorganic expansion. It now has presence in 9 states across the South, East and West. Currently, it has seven integrated cement plants, one split clinkerization plant, five split-grinding units and eight CPPs. It has a wide product portfolio comprising PPC, PSC, OPC, Railway Sleeper and Oil Well Cement, etc.

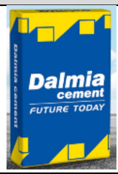
It entered Maharashtra in the West region with the acquisition of a 3mt plant of MIL under the IBC route. Besides, it has presence in the refractory business with revenues of Rs5.3bn in FY20.

Exhibit 253: Strong presence in South and East regions



Source: Company, Emkay Research

Exhibit 254: DB: key cement brands

Dalmia PSC/PPC/OPC	Konark PSC/PCC	Dalmia DSP	Dalmia Infra Pro	Dalmia Infragreen	Dalmia PSC/PPC/OPC
					

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	**94,840**	**95,810**	**1,05,247**	**1,20,281**	**1,33,645**
Expenditure	**75,420**	**74,750**	**77,081**	**91,634**	**1,01,952**
EBITDA	**19,420**	**21,060**	**28,167**	**28,647**	**31,693**
Depreciation	12,960	15,280	12,676	13,970	15,121
EBIT	**6,460**	**5,780**	**15,491**	**14,678**	**16,572**
Other Income	2,440	2,170	1,880	1,899	2,051
Interest expenses	5,510	4,380	3,344	3,695	3,317
PBT	**3,390**	**3,570**	**14,027**	**12,882**	**15,305**
Tax	(100)	1,190	5,292	4,251	5,051
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	(410)	(140)	0	(32)	(35)
Reported Net Income	**3,080**	**2,240**	**8,735**	**8,599**	**10,219**
Adjusted PAT	**3,080**	**2,240**	**8,735**	**8,599**	**10,219**

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	390	390	378	378	378
Reserves & surplus	1,06,000	1,05,220	1,14,035	1,21,774	1,30,972
Net worth	**1,06,390**	**1,05,610**	**1,14,413**	**1,22,152**	**1,31,349**
Minority Interest	**110**	**250**	**250**	**250**	**250**
Loan Funds	**59,210**	**59,660**	**49,660**	**44,660**	**37,160**
Net deferred tax liability	12,790	12,770	13,854	14,240	14,699
Total Liabilities	**1,78,500**	**1,78,290**	**1,78,177**	**1,81,302**	**1,83,458**
Net block	**1,35,930**	**1,25,950**	**1,31,274**	**1,35,305**	**1,36,383**
Investment	**24,240**	**28,160**	**30,660**	**30,660**	**30,660**
Current Assets	**40,200**	**34,980**	**33,450**	**41,128**	**46,756**
Cash & bank balance	4,690	4,030	4,752	10,080	14,821
Other Current Assets	3,510	4,190	4,190	4,190	4,190
Current liabilities & Provision	**26,880**	**27,820**	**29,228**	**32,810**	**34,661**
Net current assets	**13,320**	**7,160**	**4,222**	**8,317**	**12,095**
Misc. exp	0	0	0	0	0
Total Assets	**1,78,500**	**1,78,290**	**1,78,177**	**1,81,302**	**1,83,458**

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	**3,390**	**3,570**	**12,147**	**10,951**	**13,219**
Other Non-Cash items	(1,210)	(1,190)	1,084	386	459
Chg in working cap	(1,630)	2,740	3,660	1,233	963
Operating Cashflow	**18,430**	**23,380**	**27,618**	**25,983**	**28,029**
Capital expenditure	(9,260)	(13,500)	(13,000)	(13,000)	(13,500)
Free Cash Flow	**9,170**	**9,880**	**14,618**	**12,983**	**14,529**
Investments	12,090	(5,370)	2,500	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**3,390**	**(18,120)**	**(8,620)**	**(11,101)**	**(11,449)**
Equity Capital Raised	0	0	(4,059)	0	0
Loans Taken / (Repaid)	(15,050)	120	(10,000)	(5,000)	(7,500)
Dividend paid (incl tax)	(400)	(930)	(874)	(860)	(1,022)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	**(20,670)**	**(5,920)**	**(18,276)**	**(9,554)**	**(11,839)**
Net chg in cash	**1,150**	**(660)**	**722**	**5,328**	**4,741**
Opening cash position	3,540	4,690	4,030	4,752	10,080
Closing cash position	**4,690**	**4,030**	**4,752**	**10,080**	**14,821**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	20.5	22.0	26.8	23.8	23.7
EBIT Margin	6.8	6.0	14.7	12.2	12.4
Effective Tax Rate	(2.9)	33.3	37.7	33.0	33.0
Net Margin	3.7	2.5	8.3	7.2	7.7
ROCE	4.8	4.5	9.7	9.2	10.2
ROE	2.9	2.1	7.9	7.3	8.1
RoIC	4.4	4.2	11.9	11.1	12.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	16.0	11.7	46.3	45.5	54.1
CEPS	83.5	91.3	113.4	119.5	134.2
BVPS	554.1	550.1	605.9	646.9	695.6
DPS	2.4	2.4	4.6	4.6	5.4

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	88.8	122.1	30.8	31.3	26.3
P/CEPS	17.1	15.6	12.6	11.9	10.6
P/BV	2.6	2.6	2.4	2.2	2.0
EV / Sales	3.2	3.1	2.7	2.3	2.0
EV / EBITDA	15.7	14.3	10.6	9.9	8.6
Dividend Yield (%)	0.2	0.2	0.3	0.3	0.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.3	0.3	0.1	0.0	(0.1)
Net Debt/EBIDTA	1.6	1.3	0.5	0.2	(0.2)
Working Cap Cycle (days)	33.2	11.9	(1.8)	(5.3)	(7.4)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	10.5	1.0	9.8	14.3	11.1
EBITDA	(4.6)	8.4	33.7	1.7	10.6
EBIT	(21.5)	(10.5)	168.0	(5.2)	12.9
PAT	5.5	(27.3)	290.0	(1.6)	18.8

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	24,180	24,830	19,740	24,100	28,570
EBITDA	4,570	5,080	6,140	7,020	6,910
EBITDA Margin (%)	**18.9**	**20.5**	**31.1**	**29.1**	**24.2**
PAT	240	260	1,900	2,320	1,820
EPS (Rs)	**1.3**	**1.4**	**10.1**	**12.3**	**9.6**

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Oct-20	Dec-20	Mar-21
Promoters	55.8	56.1	56.1	56.1	56.0
FIIs	14.2	14.2	14.2	13.5	13.5
DIIs	3.9	3.6	3.6	3.9	5.0
Public and Others	26.2	26.1	26.1	26.5	25.6

Source: Capitaline

ACC

Emkay©
Your success is our success

Moderate cyclical rebound amid long-term growth concerns; Hold

CMP	Target Price
Rs 1,813 as of (April 23, 2021)	Rs 2,040 12 months
Rating	Upside
HOLD	12.5 %

ACC, part of LafargeHolcim Group, is India's third-largest cement company with ~35mt capacity. We initiate coverage on the stock with a Hold rating as we believe that 1) ACC's volume growth (6-7% CAGR) and EBITDA growth may lag peers, given its already high utilization and gradual commissioning of its back-ended 4.8mt capacity by early CY24; 2) lack of visibility on future growth prospects or capacity roadmap; 3) lowest incremental RoIC among peers as the company already has good profitability – RoIC has almost doubled in the past four years to 20% in CY20; and 4) sizeable >35% of total capacity in the less favorable and surplus markets of South and West post expansion, even as the company has a pan-India presence.

Our Jun'22E TP of Rs2,040 is DCF-driven and implies a 1-year forward EV/EBITDA of 9.5x, in line with T3Y average and marginally below the current 9.7x multiple. Downside risks include any increase in technology and know-how fees to parent. The upside risk is increased probability of merger with ACEM post an amendment in the MMDR Act.

- **Pan-India presence with significant scale:** ACC is part of India's second largest cement group with capacity of ~35mt. Despite grinding capacity addition of 4.8mt in the Central region by early CY24E, over 35% of ACC's total capacity will be still in the less favorable and surplus markets of South and West even as the company has a pan-India presence.
- **Already high capacity utilization and back-ended capacity addition to result in lower volume growth versus peers:** With already high utilization (~85% from CY21E), back-ended capacity expansion (4.8mt addition gradually by CY24E) and lack of visibility on future growth aspirations or capacity roadmap, ACC's volume growth is likely to be marginally lower than average industry growth over CY20-25E. ACC's near-term focus would remain on increasing the share of premium products and improving cost structure, in our view.
- **EBITDA CAGR of 12% over CY20-22E; balance sheet remains strong:** Net cash is likely to increase further to Rs68bn (20% of mcap or Rs360/sh) by CY22E (from Rs60bn as of Dec'20) after factoring in capex of Rs33bn over CY20-22E.
- **Limited catalysts; initiate with Hold:** Our Jun'22E TP of Rs2,040 is DCF-driven. We assume sustainable/terminal FCF growth of 7% post FY26E (100bps lower than industry) and a sustainable incremental RoIC of 22.5% (lower range across coverage companies). Our Jun'22E TP implies a forward EV/EBITDA of 9.5x and FCFF yield of 1.9%.

Emkay vs Consensus

EPS Estimates		
	CY21E	CY22E
Emkay	93.2	103.5
Consensus	93.2	103.3
Mean Consensus TP (12M)		Rs 2,097

Stock Details

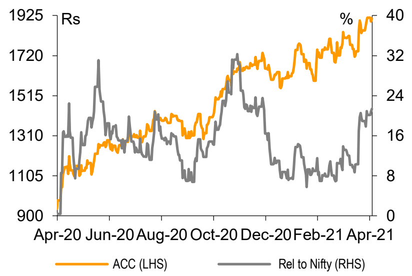
Bloomberg Code	ACC IN
Face Value (Rs)	10
Shares outstanding (mn)	188
52 Week H/L	2,023 / 1,107
M Cap (Rs bn/USD bn)	340 / 4.54
Daily Avg Volume (nos.)	12,83,040
Daily Avg Turnover (US$ mn)	31.0

Shareholding Pattern Mar '21	
Promoters	54.5%
FIIs	12.7%
DIIs	20.2%
Public and Others	12.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	7	13	52
Rel. to Nifty	(4)	6	(7)	(3)

Relative price chart



Source: Bloomberg

Financial Snapshot (Consolidated)

(Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Net Sales	1,48,016	1,56,576	1,37,860	1,60,713	1,72,598
EBITDA	21,185	24,128	24,840	28,346	31,221
EBITDA Margin (%)	14.3	15.4	18.0	17.6	18.1
APAT	10,902	12,780	14,864	17,526	19,455
EPS (Rs)	58.0	68.0	79.1	93.2	103.5
EPS (% chg)	22.5	17.2	16.3	17.9	11.0
ROE (%)	11.0	11.6	12.3	13.1	13.1
P/E (x)	31.3	26.7	22.9	19.4	17.5
EV/EBITDA (x)	14.3	12.6	11.3	9.7	8.6
P/BV (x)	3.2	3.0	2.7	2.4	2.2

Source: Company, Emkay Research

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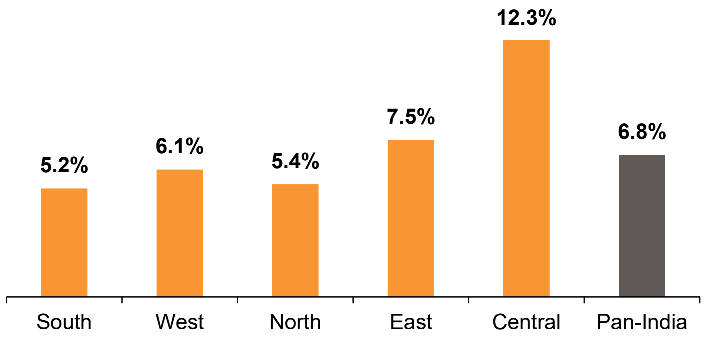
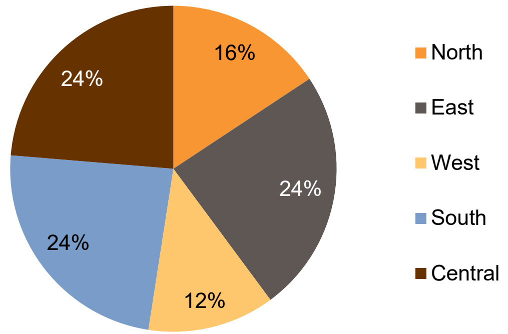
Story in Charts

Exhibit 255: Capacity share in central region to increase 500bps



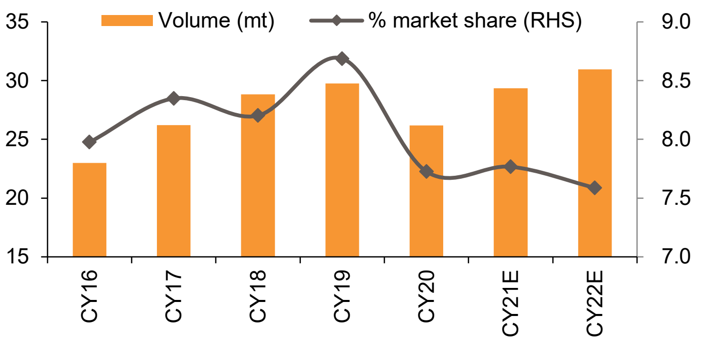
Source: Company, Industry data, Emkay Research

Exhibit 256: Still sizeable >35% capacity is in less favored and surplus markets of South and West post expansion



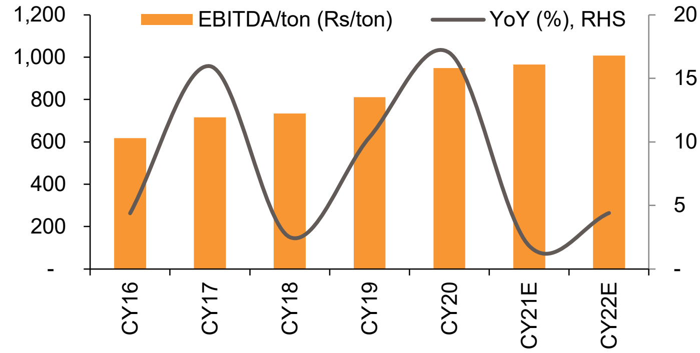
Source: Company, Emkay Research

Exhibit 257: Volume growth lags peers due to higher utilization and back-ended capacity expansion



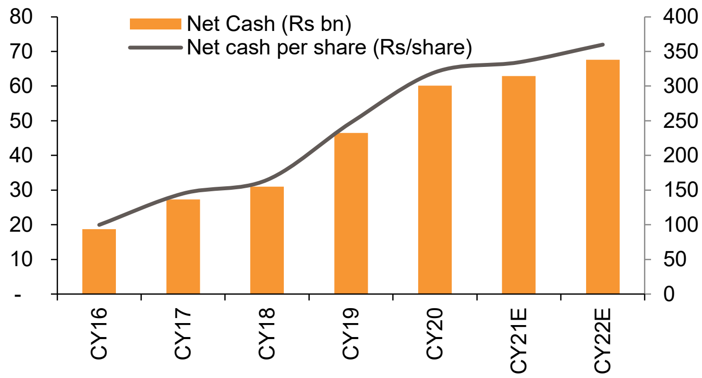
Source: Company, Industry data, Emkay Research

Exhibit 258: Blended EBITDA/ton to grow at 3% CAGR over CY20-22E



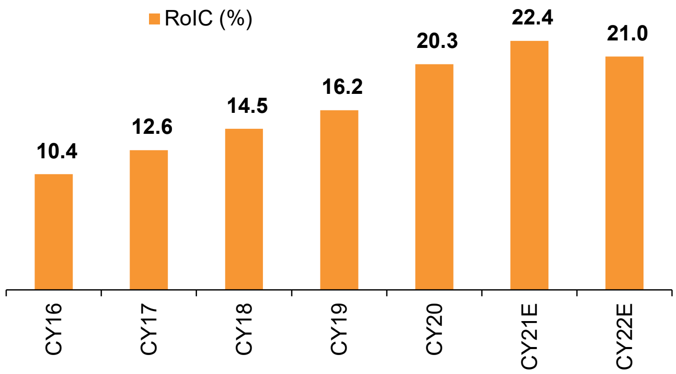
Source: Company, Emkay Research

Exhibit 259: Strong FCF generation to maintain healthy net cash position



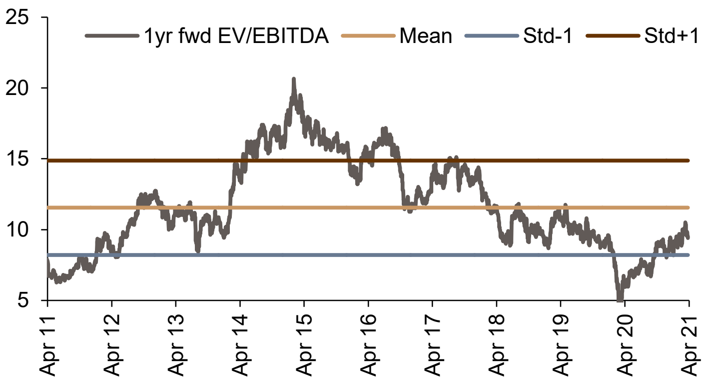
Source: Company, Emkay Research

Exhibit 260: Lowest incremental RoIC among peers after it has doubled in past four years



Source: Company, Emkay Research

Exhibit 261: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 262: We initiate with Hold at TP of Rs2,040 based on Jun'22E EV/EBITDA, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	32
Implied EV/E multiple (x)	9.5
Enterprise Value	305
Net cash (FY22E)	(68)
Equity value	**372**
No. of shares (mn)	188
Mar'22 Fair Value (Rs)	1,980
Jun'22* Target Price (Rs)	**2,040**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

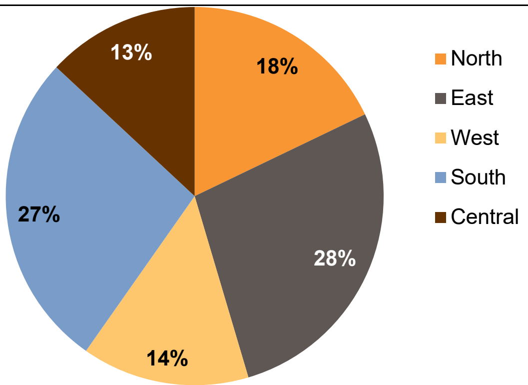
Already high capacity utilization and back-ended capacity additions, volume growth to lag peers

With already high utilization (~85% from CY21E), back-ended capacity expansion (4.8mt addition gradually by CY24E) and lack of visibility on future growth prospects or capacity roadmap, ACC's volume growth is likely to marginally lower than average industry growth over CY20-25E.

Sizeable capacity in less favored and surplus market of South and West

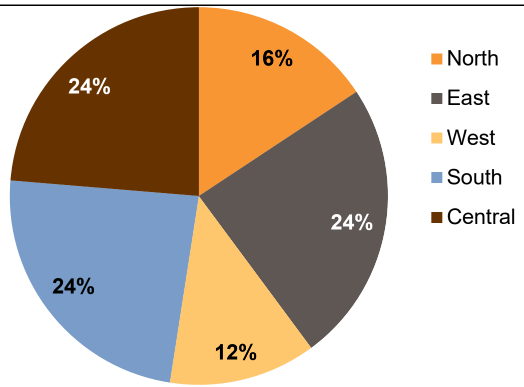
ACC is India's third largest cement company (~35mt capacity), and part of the LafargeHolcim Group. It has pan-India presence with over 40% capacity share in South and West markets. Despite 6mt grinding capacity additions in East and Central regions by early CY24E, its sizeable >35% of total capacity will be still in the less favorable and surplus markets of South and West.

Exhibit 263: Regional capacity mix – CY20



Source: Company, Emkay Research

Exhibit 264: >35% of capacity still in less favored and surplus markets of South and West



Source: Company, Emkay Research

Volume growth likely to lag peers

ACC has arrested its market share losses since CY17 with the help of capacity expansion. However, volume declined 12% YoY in CY20 vs. a 5% decline in our coverage companies, owing to higher share in South and West regions.

ACC already commissioned a 1.4mt Sindri grinding unit in Jan'21. We expect a 2.7mt clinker and 1mt grinding unit at Ametha and a 1.6mt grinding unit at Tikaria to be commissioned by Jun'22E. While a 2.2mt Sonebhadra grinding unit may be commissioned by early CY24E.

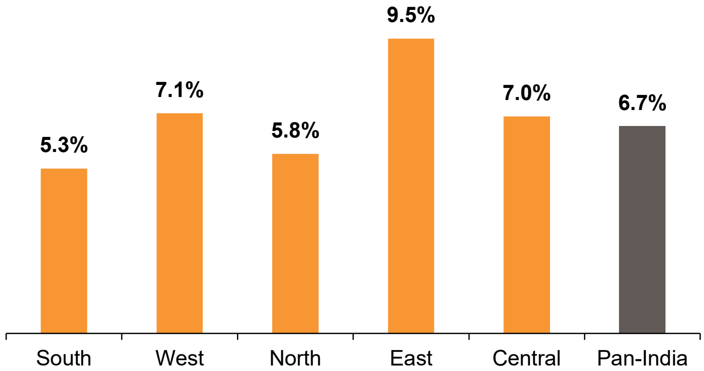
We believe that the commissioning of Marwah Mundwa expansion of ACEM by Q3CY21 may also provide incremental volumes to ACC. However, given its already high utilizations (~85% from CY21E), back-ended capacity expansion and lack of visibility on future growth aspirations or capacity roadmap, its volume growth is likely to be marginally lower than average industry growth over CY20-25E. The company's near-term focus would likely to remain on increasing the share of value-added/premium products, in our view.

Exhibit 265: ACC's back-ended expansion plans unlikely to help recover market share loss

Location	States	Region	Type of commissioning	Commissioning timelines	Clinker (mt)	Cement (mt)
Ametha	Madhya Pradesh	Central	Greenfield	Jun-22	2.7	1.0
Tikaria	Uttar Pradesh	Central	Brownfield	Jun-22	-	1.6
Shonebhadra	Uttar Pradesh	Central	Greenfield	Early CY24	-	2.2
Total					**2.7**	**4.8**

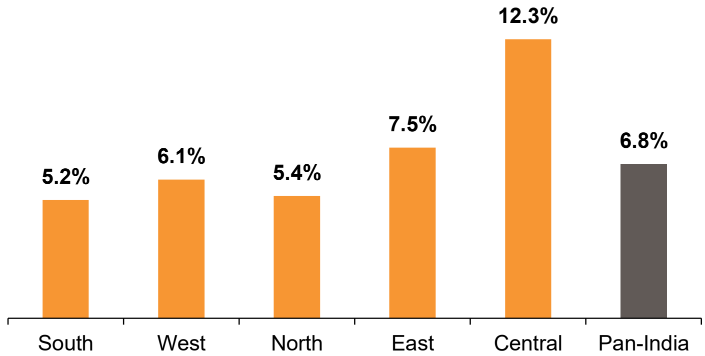
Source: Company, Emkay Research

Exhibit 266: Pan-India capacity share stood at 6.7% in CY20



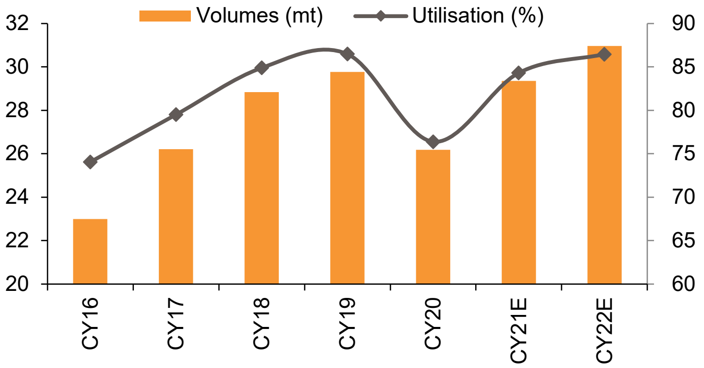
Source: Company, Emkay Research

Exhibit 267: Capacity market share in Central region to increase by 500bps to 12% post expansion



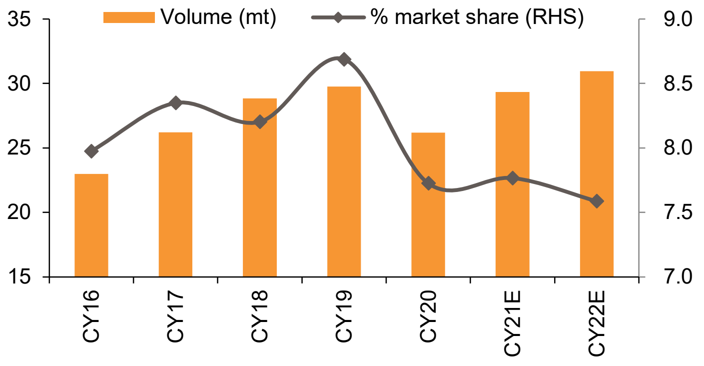
Source: Company, Industry data, Emkay Research

Exhibit 268: Utilization to remain high around 85% over next two years



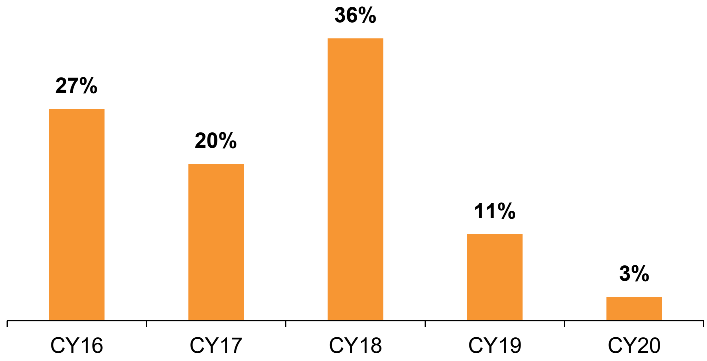
Source: Company, Emkay Research

Exhibit 269: Volume market share loss in CY20 unlikely to recover in couple of years



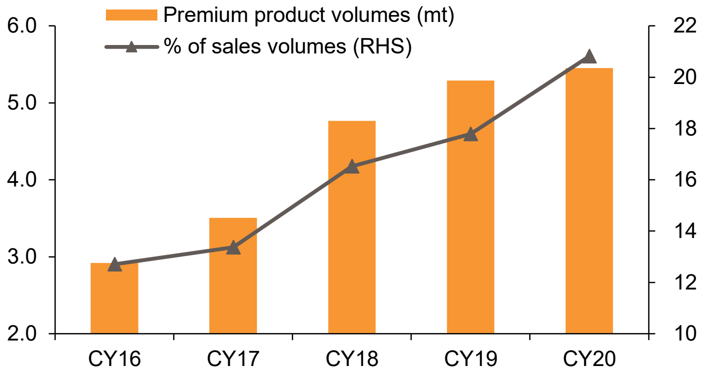
Source: Company, Industry data, Emkay Research

Exhibit 270: Premium products volume grew ~3% YoY in CY20



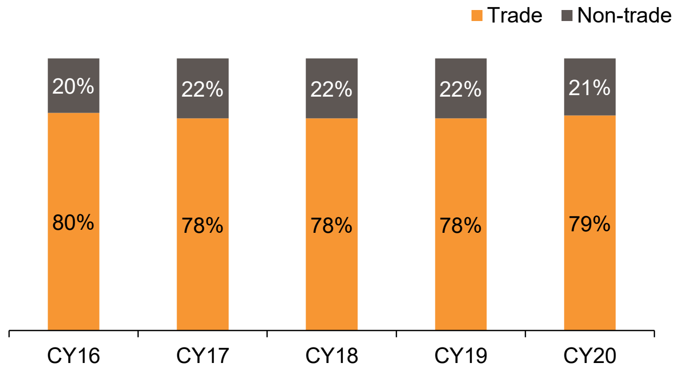
Source: Company, Emkay Research

Exhibit 271: Contribution of premium products increased to ~21% in CY20



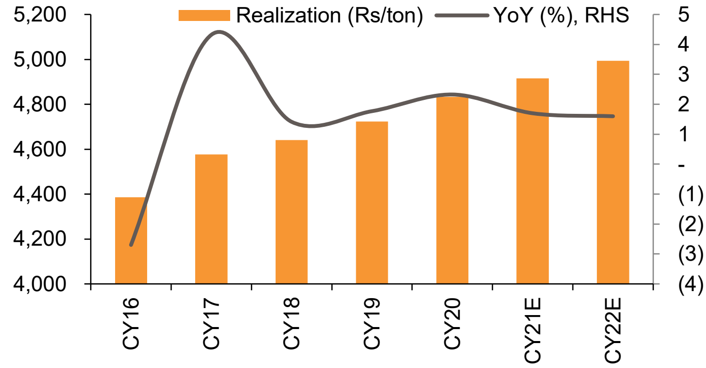
Source: Company, Emkay Research

Exhibit 272: Trade sales increased 100bps YoY in CY20



Source: Company, Emkay Research

Exhibit 273: We expect grey cement realization to increase at 1.6% CAGR over CY20-22E



Source: Company, Emkay Research

Near-term focus would remain on improving cost structure

Project 'Parvat' is an efficiency optimization program initiated in 2019 to bring radical changes in the cost structure. ACC has implemented several initiatives like reducing the clinker factor, increasing the share of blended cement, higher direct dispatches, warehousing cost optimization, source mix optimization, renegotiating various contracts, etc.

ACC's cost structure has remained resilient vs. peers as it improved efficiency in power and logistics under 'Parvat' and from MSA with ACEM. ACC has managed a relatively stable cost structure from savings in SG&A and employee costs; focus also turned to P&F cost through WHRS.

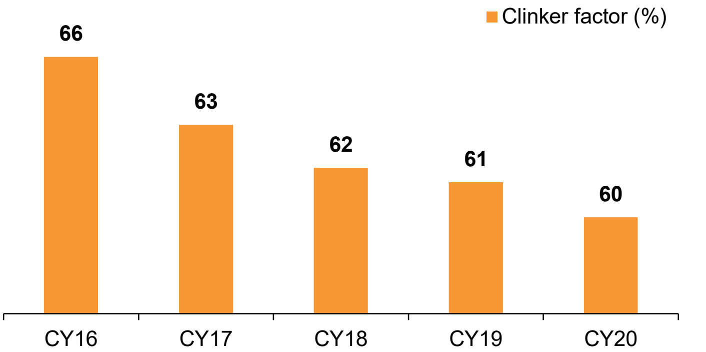
Profitability improvement in CY20 has been noteworthy, with blended EBITDA/ton at Rs949/ton − the highest in past 11 years. ACC has already achieved cost savings of over Rs2.5bn (or Rs110/ton) under this project in CY20. Though some of the costs will normalize with volume recovery in CY21E, ACC continues to target cost savings of Rs200/ton mainly by optimizing logistics cost, manufacturing excellence and fixed cost rationalization**.** Besides, ACC is setting up 22.5MW WHRS (in addition to existing 7.5MW) in Jamul and Kymore plants to be operational in CY22E, which is likely to provide cost savings of Rs500mn (~Rs17/ton).

Exhibit 274: Incremental 22.5 WHRS plants to provide cost savings of Rs500mn (~Rs17/ton)

WHRS – cost savings	
Incremental capacity (MW)	22.5
PLF (%)- assumed	65
Power generation (mn units)	128
Savings (Rs p.u.)	4.0
Total savings (Rs mn)	**512**
Volumes (CY22E)- mt	31
Total savings (Rs/ton)	**17**

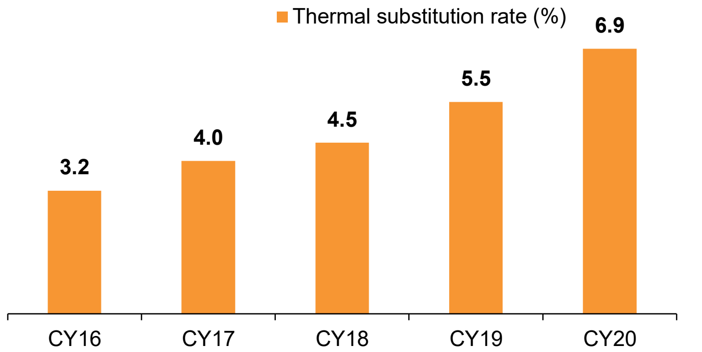
Source: Company, Emkay Research

Exhibit 275: Improving blending ratio helps to reduce clinker factor



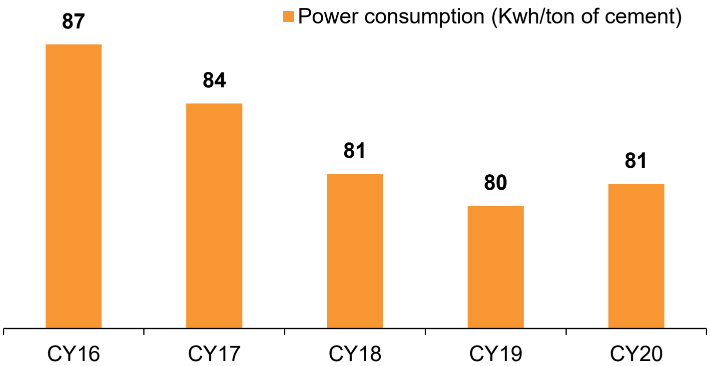
Source: Company, Emkay Research

Exhibit 276: Usage of AFR have more than doubled in past four years



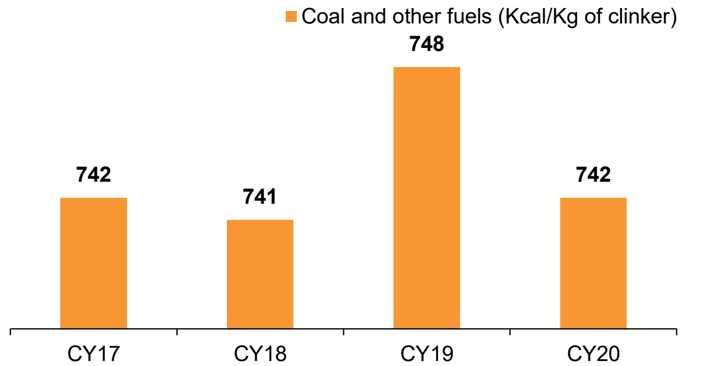
Source: Company, Emkay Research

Exhibit 277: Power consumption norms have stabilized in past three years



Source: Company, Emkay Research

Exhibit 278: Consumption norms for coal and other fuels have broadly stabilized in past few years



Source: Company, Emkay Research

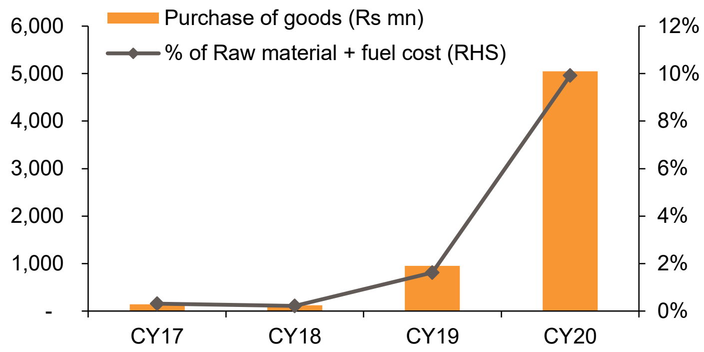
MSA with ACEM gained traction with increasing volumes and synergies

In absence of merger, ACC and ACEM have entered into a master supply arrangement (MSA) in Mar'18 to unlock synergies through cement-clinker swaps, toll grinding, and sharing of other materials in the most cost efficient manner without any change in their respective corporate structure.

Cement-clinker swaps with ACEM gained traction with volumes and synergies rising significantly YoY in CY20, particularly post management shuffle between ACC and ACEM seen at the start of CY20. Purchase of goods from ACEM increased to Rs5bn from Rs1.1bn in CY19, while the sale of goods to ACEM doubled from Rs1bn in CY19 to Rs2.2bn. ACC has already achieved synergies worth ~5% of CY20 PBT (~Rs0.9bn) under the MSA, in our view.

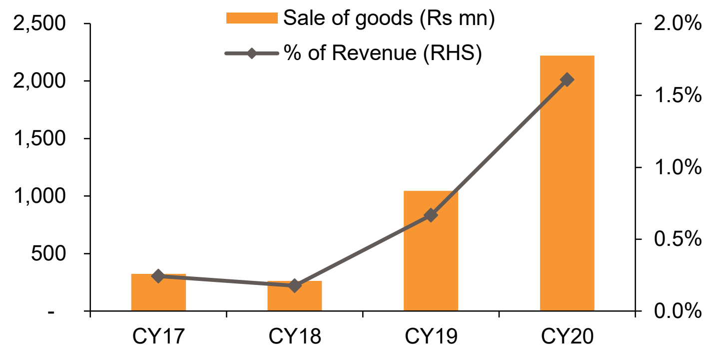
In Feb'21, the boards of the two companies have approved the existing MSA for a period of three years w.e.f. May'21 with existing terms and conditions.

Exhibit 279: Purchase of good from ACEM increased to Rs5bn in CY20…



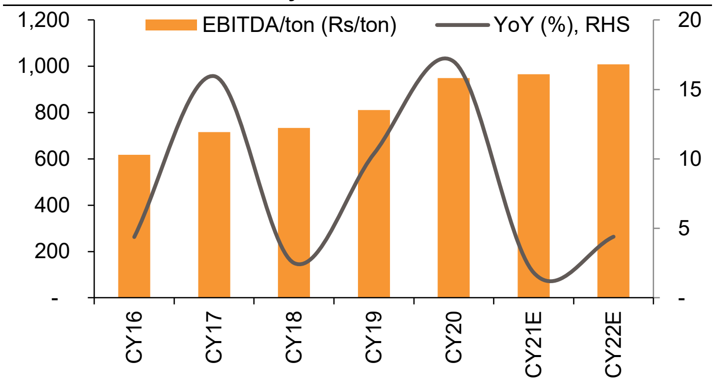
Source: Company, Emkay Research

Exhibit 280: ..while sale of goods to ACEM doubled YoY to Rs2.2bn in CY20



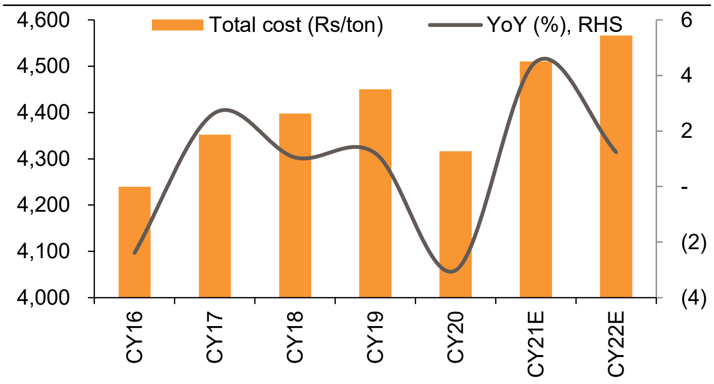
Source: Company, Emkay Research

Exhibit 281: EBITDA/ton may increase at 3% CAGR over CY20-22E



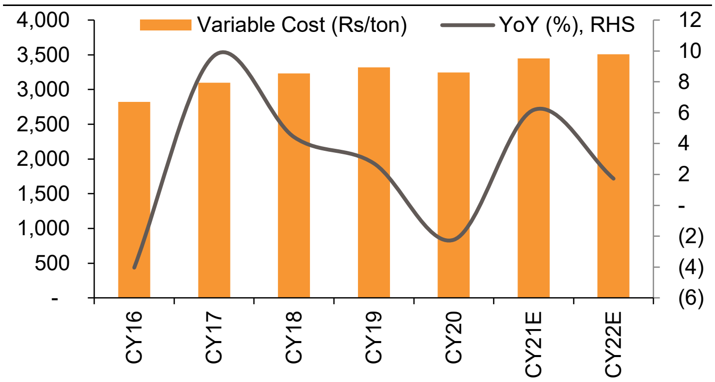
Source: Company, Emkay Research

Exhibit 282: Total cost/ton to increase at 3% CAGR over CY20-22E



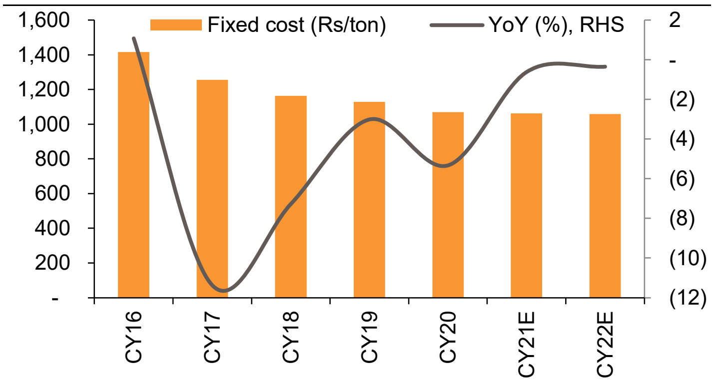
Source: Company, Emkay Research

Exhibit 283: Variable cost/ton may increase at 4% CAGR



Source: Company, Emkay Research

Exhibit 284: … while fixed cost/ton to decline at 1% CAGR over CY20-22E



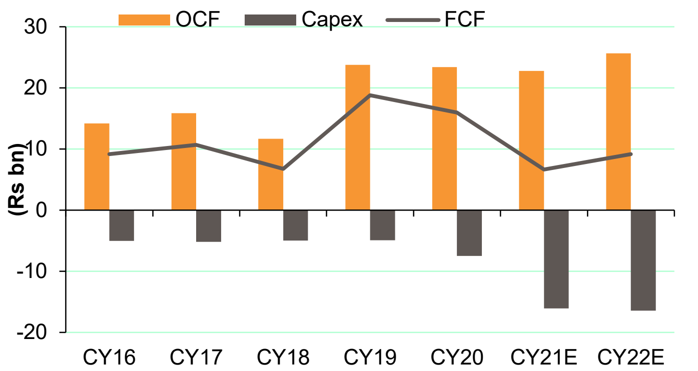
Source: Company, Emkay Research

Financials: EBITDA CAGR of 12% over CY20-22E; balance sheet remains strong

We expect ACC's EBITDA to grow at a 12% CAGR over CY20-22E, driven by higher utilization and improving profitability. We factor in a 9% volume CAGR over the same period and expect blended EBITDA/ton to improve with a 3% CAGR to Rs1,008/ton by CY22E (vs. Rs949/ton in CY20) supported by a 3% CAGR in blended realization.

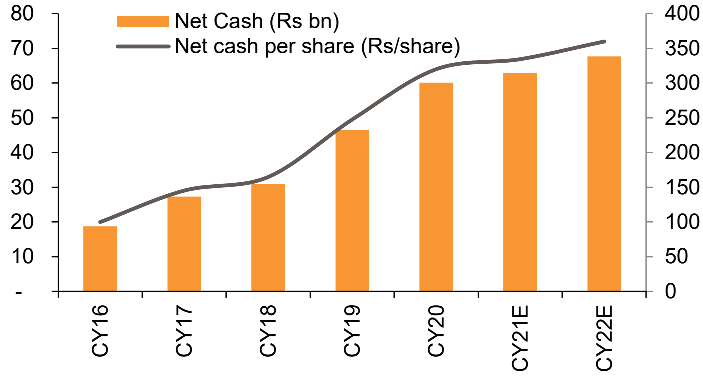
Cash generation is likely to be robust with FCF of Rs16bn post capex of Rs33bn over CY20-CY22E. Accordingly, its net cash is likely to increase further to Rs68bn (20% of mcap or Rs360/sh) by CY22E (from Rs60bn in CY20).

Exhibit 285: Strong FCF despite high capex in next few years (add grid lines)…



Source: Company, Emkay Research, FCF includes other income and interest cost

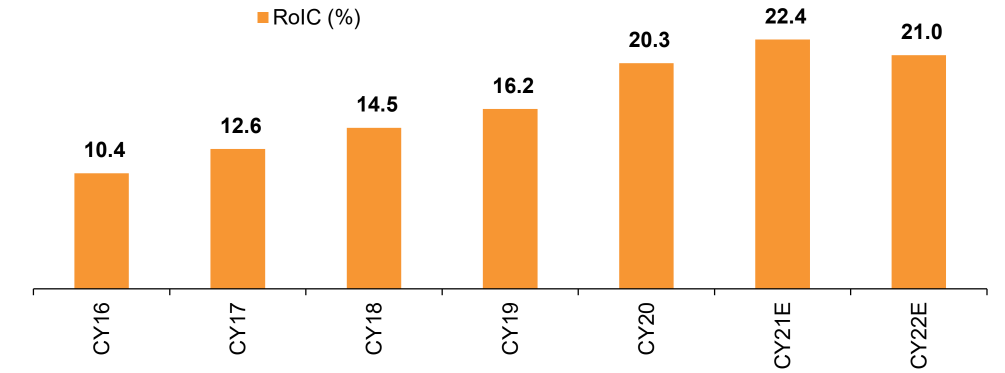
Exhibit 286: … to maintain healthy net cash position



Source: Company, Emkay Research

ACC is likely to see the lowest incremental RoIC vs. peers, as the company already has good profitability after RoIC almost doubled in the past four years to 20% in CY20.

Exhibit 287: ACC likely to see lowest incremental RoIC among peers



Source: Company, Emkay Research

Initiate with Hold and TP of Rs2,040

Our Jun'22E TP of Rs2,040 is DCF-driven. We assume sustainable/terminal FCF growth of 7% post FY26E (100bps lower than industry) and a sustainable incremental RoIC of 22.5% (lower range across coverage companies). The TP implies a forward EV/EBITDA of 9.5x, and FCFF yield of 1.9%.

Exhibit 288: We initiate with Hold with TP of Rs2,040 based on 9.5x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	32
EV/E multiple (x)	9.5
Enterprise Value	305
Net cash (FY22E)	(68)
Equity value	**372**
No. of shares (mn)	188
Mar'22 Fair Value (Rs)	1,980
Jun'22* Target Price (Rs)	**2,040**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Exhibit 289: Sensitivity analysis with 0.5% change in TG and 2.5% change in sustainable RoIC

		Terminal Growth Rate (%)				
		6.0	6.5	7.0	7.5	8.0
Sustainable RoIC (%)	**17.5**	1,722	1,783	1,858	1,950	2,069
	20.0	1,793	1,868	1,960	2,074	2,220
	22.5	1,849	1,935	**2,040**	2,171	2,338
	25.0	1,893	1,988	2,104	2,248	2,433
	27.5	1,930	2,031	2,156	2,311	2,510

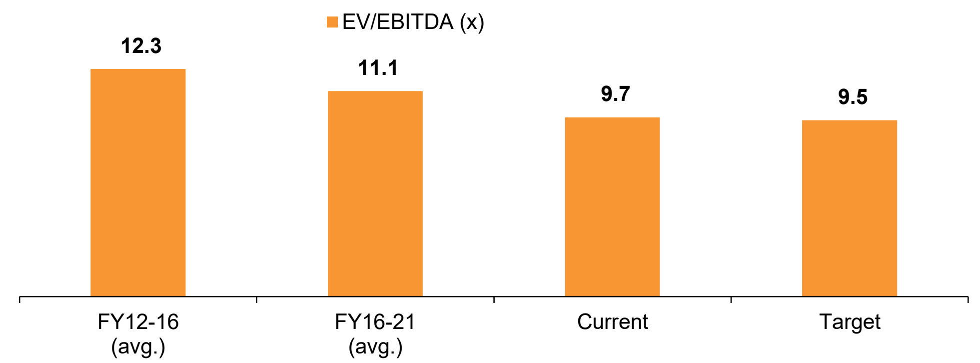
Source: Emkay Research

Exhibit 290: Our estimates are broadly in-line ahead of consensus

Rs. bn.	Emkay Estimates		Consensus		% change	
	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Revenue	160.7	172.6	162.5	178.1	(1.1)	(3.1)
EBITDA	**28.3**	**31.2**	**28.4**	**31.6**	**(0.0)**	**(1.2)**
PAT	17.5	19.5	17.4	19.3	0.7	0.9

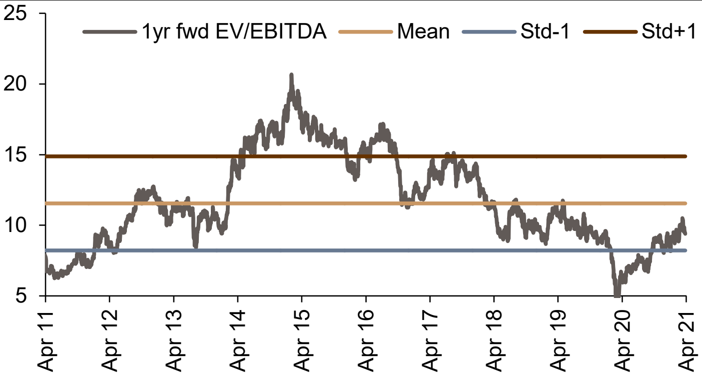
Source: Bloomberg, Emkay Research

Exhibit 291: EV/EBITDA expected to stabilize at current level



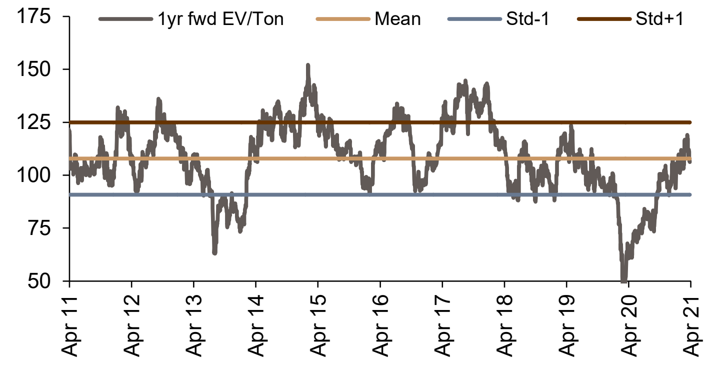
Source: Bloomberg, Emkay Research

Exhibit 292: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 293: 1-year forward EV/ton (USD)



Source: Bloomberg, Emkay Research

Annual Analysis

Exhibit 294: Key Assumptions

Operational details	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CAGR%	
								CY16-20	CY20-22E
Capacity (mt)	31.3	33.4	33.4	33.4	33.4	34.8	35.8	1.6	3.5
Volumes (mt)	23.0	26.2	28.8	29.8	26.2	29.3	31.0	3.3	8.7
Utilization (%)	74	79	85	86	76	84	86		
Blended Realization (Rs/ton)	4,761	4,934	5,020	5,156	5,151	5,374	5,474	2.0	3.1
Blended EBITDA/ton (Rs/ton)	618	717	735	811	949	966	1,008	11.3	3.1
P&L (Rs bn.)									
Revenue	112	133	148	157	138	161	173	5.4	11.9
EBITDA	**14**	**19**	**21**	**24**	**25**	**28**	**31**	**15.0**	**12.1**
APAT	6	9	11	13	15	18	19	23.3	14.4
Balance Sheet (Rs bn.)									
Equity	86	94	105	115	127	141	157		
Net Cash	19	27	31	47	60	63	68		
Cash flow (Rs bn)									
OCF before NWC change	12	17	16	21	20	25	27		
Change in NWC	2	(1)	(4)	3	4	(2)	(2)		
Capex	(5)	(5)	(5)	(5)	(7)	(16)	(16)		
FCF	**9**	**11**	**7**	**19**	**16**	**7**	**9**		
Return ratios (%)									
RoE	7.5	9.9	11.0	11.6	12.3	13.1	13.1		
RoCE	7.7	10.0	10.9	11.4	12.1	13.1	13.1		
RoIC	**10.4**	**12.6**	**14.5**	**16.2**	**20.3**	**22.4**	**21.0**		
Valuations (x)									
PE				26.7	22.9	19.4	17.5		
EV/EBITDA				12.6	11.3	9.7	8.6		
EV/ton (USD)				119	114	108	103		

Source: Company, Emkay Research

Exhibit 295: Annual analysis on per ton basis

Rs/ton	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E
Blended realization	**4,761**	**4,934**	**5,020**	**5,156**	**5,151**	**5,374**	**5,474**
Raw materials consumed	737	750	809	914	960	998	1,017
Power & fuel costs	939	1,037	1,041	1,053	983	1,120	1,138
Freight costs	1,147	1,310	1,384	1,355	1,305	1,330	1,352
Staff Cost	344	313	282	291	321	315	311
Other expenses	1,073	942	882	838	748	747	748
Operating cost	**4,240**	**4,352**	**4,398**	**4,451**	**4,316**	**4,510**	**4,566**
Other operating income	97	135	112	106	114	103	101
Blended EBITDA	**618**	**717**	**735**	**811**	**949**	**966**	**1,008**

Source: Company, Emkay Research

Quarterly Analysis

Exhibit 296: Quarterly table

Rs mn	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	YoY (%)	QoQ (%)
Net Sales	**34,330**	**25,203**	**34,675**	**40,660**	**42,133**	**22.7**	**3.6**
Other operating income	687	819	698	787	787	14.6	(0.0)
Revenue	**35,017**	**26,022**	**35,373**	**41,447**	**42,920**	**22.6**	**3.6**
Expenditure	**29,152**	**20,769**	**28,659**	**34,440**	**34,317**	**17.7**	**(0.4)**
Total RM	4,755	4,994	6,801	8,575	7,460	56.9	(13.0)
Power & Fuel	7,344	4,572	6,302	7,529	8,049	9.6	6.9
Freight	9,415	6,007	8,600	10,139	10,837	15.1	6.9
Staff cost	2,090	1,768	2,057	2,497	2,064	(1.3)	(17.4)
Other expenditure	5,549	3,427	4,900	5,699	5,907	6.5	3.7
EBITDA	**5,865**	**5,254**	**6,714**	**7,008**	**8,602**	**46.7**	**22.8**
Depreciation	1,580	1,627	1,608	1,574	1,432	(9.3)	(9.0)
EBIT	4,285	3,627	5,106	5,434	**7,170**	**67.3**	**32.0**
Other Income	559	513	455	640	440	(21.4)	(31.3)
Interest	106	131	160	174	112	5.9	(35.4)
PBT	4,739	4,009	5,401	5,900	**7,498**	**58.2**	**27.1**
Total Tax	1,531	1,322	1,768	652	1,916	25.2	193.8
Adjusted PAT	**3,208**	**2,687**	**3,632**	**5,248**	**5,581**	**74.0**	**6.4**
(Profit)/loss from JV's/Ass/MI	22	22	6	39	44	100.7	14.6
PAT after MI	3,230	2,709	3,638	5,287	**5,626**	**74.2**	**6.4**
Extra ordinary items	-	-	-	(562)	-		
Reported PAT	**3,230**	**2,709**	**3,638**	**4,724**	**5,626**	**74.2**	**19.1**
Adjusted EPS (Rs)	17.2	14.4	19.4	28.1	**29.9**	**74.2**	**6.4**

Margins (%)	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	YoY (bps)	QoQ (bps)
EBIDTA	16.7	20.2	19.0	16.9	20.0	329.5	313.5
EBIT	12.2	13.9	14.4	13.1	16.7	446.8	359.5
EBT	13.5	15.4	15.3	14.2	17.5	393.7	323.3
PAT	9.2	10.3	10.3	12.7	13.0	384.3	34.2
Effective Tax rate	32.3	33.0	32.7	11.1	25.6		

Source: Company, Emkay Research

Exhibit 297: Quarterly analysis on per ton basis

Rs/ton	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	YoY (%)	QoQ (%)
Cement volumes (mt)	6.74	4.89	6.77	7.78	8.00	18.7	2.9
Blended Realization	**5,094**	**5,153**	**5,120**	**5,226**	**5,265**	**3.4**	**0.7**
Raw Material	705	1,021	1,004	1,102	932	32.1	(15.4)
Power & Fuel	1,090	935	930	968	1,006	(7.7)	3.9
Freight	1,397	1,228	1,270	1,303	1,354	(3.1)	3.9
Staff cost	310	362	304	321	258	(16.8)	(19.7)
Other expenditure	823	701	723	732	738	(10.3)	0.8
Operating cost	**4,325**	**4,246**	**4,231**	**4,426**	**4,288**	**(0.9)**	**(3.1)**
Other operating income	102	168	103	101	98	(3.5)	(2.8)
EBITDA/ton	**870**	**1,074**	**991**	**901**	**1,075**	**23.5**	**19.4**

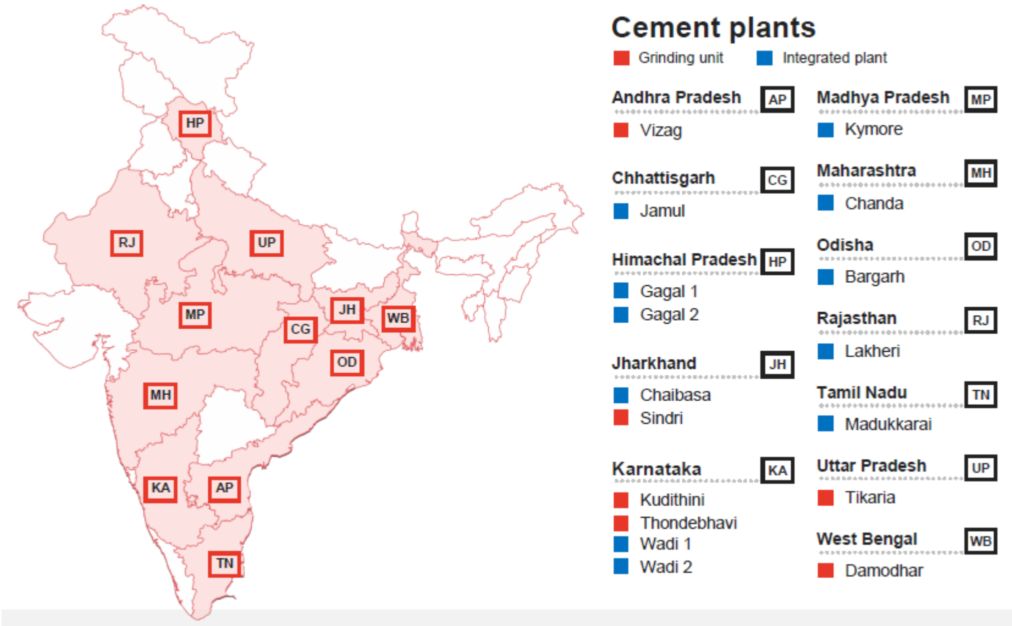
Source: Company, Emkay Research

Company Background

ACC is a pan-India cement player (a part of global conglomerate LafargeHolcim) with the current capacity of ~35mt, which will increase to 39mt by early CY24. It has 17 cement manufacturing units in 12 states and over 80 RMX plants spread across 17 states, along with 9 captive power plants. The company is focused on the retail segment with ~80% volumes, led by a distribution network of ~56,000 channel partners.

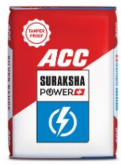
Through a Scheme of Amalgamation between Holcim India Pvt Ltd. (HIPL) and ACEM, ACC has become a subsidiary of ACEM w.e.f. Aug'16 with LafargeHolcim as the ultimate Holding Company.

Exhibit 298: Nationwide plant locations



Source: Company presentation, Emkay Research

Exhibit 299: Some of the key products

Gold Range- ACC CONCRETE+ XTRA STRONG	Gold Range- ACC F2R SUPERFAST	Gold Range (Premium brand)- ACC GOLD WATER SHIELD	Silver range- ACC SURAKSHA POWER	Silver range- ACC HPC LONG LIFE	Silver range- ACC Super Shaktimaan	Silver range- ACC Suraksha Power +
						

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Dec (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Net Sales	**1,48,016**	**1,56,576**	**1,37,860**	**1,60,713**	**1,72,598**
Expenditure	**1,26,831**	**1,32,448**	**1,13,020**	**1,32,367**	**1,41,377**
EBITDA	**21,185**	**24,128**	**24,840**	**28,346**	**31,221**
Depreciation	6,032	6,064	6,388	6,754	7,220
EBIT	**15,153**	**18,063**	**18,452**	**21,592**	**24,001**
Other Income	1,427	2,190	2,167	2,419	2,583
Interest expenses	878	863	571	714	721
PBT	**15,702**	**19,390**	**20,049**	**23,297**	**25,863**
Tax	4,901	6,750	5,273	5,904	6,554
Extraordinary Items	4,303	995	(563)	0	0
Minority Int./Income from Assoc.	103	140	89	134	147
Reported Net Income	**15,205**	**13,775**	**14,302**	**17,526**	**19,455**
Adjusted PAT	**10,902**	**12,780**	**14,864**	**17,526**	**19,455**

Balance Sheet

Y/E Dec (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
Equity share capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	1,03,439	1,13,558	1,25,111	1,39,132	1,54,696
Net worth	**1,05,319**	**1,15,438**	**1,26,991**	**1,41,012**	**1,56,576**
Minority Interest	**30**	**32**	**32**	**40**	**48**
Loan Funds	**0**	**0**	**0**	**0**	**0**
Net deferred tax liability	6,746	6,557	3,948	3,987	4,027
Total Liabilities	**1,12,095**	**1,22,027**	**1,30,972**	**1,45,040**	**1,60,652**
Net block	**70,997**	**70,372**	**66,974**	**80,719**	**90,199**
Investment	**28,414**	**45,783**	**59,786**	**59,786**	**59,786**
Current Assets	**57,171**	**50,748**	**49,761**	**57,789**	**64,573**
Cash & bank balance	3,597	1,856	1,563	4,282	9,072
Other Current Assets	437	480	528	581	639
Current liabilities & Provision	**48,465**	**49,333**	**51,031**	**54,351**	**54,784**
Net current assets	**8,706**	**1,415**	**(1,269)**	**3,438**	**9,789**
Misc. exp	0	0	0	0	0
Total Assets	**1,12,095**	**1,22,027**	**1,30,972**	**1,45,040**	**1,60,652**

Cash Flow

Y/E Dec (Rs mn)	CY18	CY19	CY20	CY21E	CY22E
PBT (Ex-Other income) (NI+Dep)	**15,101**	**20,525**	**17,089**	**21,011**	**23,427**
Other Non-Cash items	(1,650)	(3,133)	1,330	469	520
Chg in working cap	(3,906)	2,699	3,883	(1,988)	(1,562)
Operating Cashflow	**11,175**	**22,547**	**22,192**	**21,055**	**23,771**
Capital expenditure	(4,971)	(4,949)	(7,479)	(16,115)	(16,481)
Free Cash Flow	**6,204**	**17,598**	**14,713**	**4,940**	**7,290**
Investments	(3,529)	(17,386)	(13,607)	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**(7,568)**	**(20,546)**	**(19,212)**	**(13,696)**	**(13,898)**
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(2,817)	(2,629)	(2,629)	0	0
Dividend paid (incl tax)	(579)	(540)	0	(3,505)	(3,891)
Other Financing Cash Flow	0	0	0	(421)	(472)
Financing Cashflow	**(3,805)**	**(3,742)**	**(3,274)**	**(4,640)**	**(5,084)**
Net chg in cash	**(198)**	**(1,740)**	**(293)**	**2,719**	**4,789**
Opening cash position	3,794	3,597	1,856	1,563	4,282
Closing cash position	**3,597**	**1,856**	**1,563**	**4,282**	**9,072**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	CY18	CY19	CY20	CY21E	CY22E
EBITDA Margin	14.3	15.4	18.0	17.6	18.1
EBIT Margin	10.2	11.5	13.4	13.4	13.9
Effective Tax Rate	31.2	34.8	26.3	25.3	25.3
Net Margin	7.3	8.1	10.7	10.8	11.2
ROCE	15.7	17.3	16.3	17.4	17.4
ROE	11.0	11.6	12.3	13.1	13.1
RoIC	21.0	24.7	27.5	30.0	28.1

Per Share Data (Rs)	CY18	CY19	CY20	CY21E	CY22E
EPS	58.0	68.0	79.1	93.2	103.5
CEPS	90.1	100.2	113.1	129.2	141.9
BVPS	560.2	614.1	675.5	750.1	832.9
DPS	14.0	14.0	14.0	18.6	20.7

Valuations (x)	CY18	CY19	CY20	CY21E	CY22E
PER	31.3	26.7	22.9	19.4	17.5
P/CEPS	20.1	18.1	16.0	14.0	12.8
P/BV	3.2	3.0	2.7	2.4	2.2
EV / Sales	2.1	1.9	2.0	1.7	1.6
EV / EBITDA	14.3	12.6	11.3	9.7	8.6
Dividend Yield (%)	0.8	0.8	0.8	1.0	1.1

Gearing Ratio (x)	CY18	CY19	CY20	CY21E	CY22E
Net Debt/ Equity	(0.3)	(0.4)	(0.5)	(0.4)	(0.4)
Net Debt/EBIDTA	(1.5)	(1.9)	(2.4)	(2.2)	(2.2)
Working Cap Cycle (days)	12.6	(1.0)	(7.5)	(1.9)	1.5

Growth (%)	CY18	CY19	CY20	CY21E	CY22E
Revenue	11.4	5.8	(12.0)	16.6	7.4
EBITDA	12.8	13.9	3.0	14.1	10.1
EBIT	22.7	19.2	2.2	17.0	11.2
PAT	64.5	(9.4)	3.8	22.5	11.0

Quarterly (Rs mn)	Q4CY19	Q1CY20	Q2CY20	Q3CY20	Q4CY20
Revenue	40,603	35,017	26,022	35,373	41,447
EBITDA	5,410	5,865	5,254	6,714	7,008
EBITDA Margin (%)	**13.3**	**16.7**	**20.2**	**19.0**	**16.9**
PAT	2,733	3,230	2,709	3,638	4,724
EPS (Rs)	**14.5**	**17.2**	**14.4**	**19.4**	**25.1**

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	54.5	54.5	54.5	54.5	54.5
FIIs	7.8	8.2	6.7	11.6	12.7
DIIs	20.9	18.3	25.5	20.6	20.2
Public and Others	16.7	19.0	13.3	13.2	12.6

Source: Capitaline

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Ramco Cements

Refer to important disclosures at the end of this report

Impending cyclical up-turn largely in price; Hold

CMP	Target Price
Rs 959 as of (April 23, 2021)	Rs 1,020 12 months
Rating	Upside
HOLD	6.4 %

The Ramco Cement (TRCL) is India's sixth-largest cement company, and a capacity-leader in the South (10% market share). Ramco is nearing completion of 40% capacity expansion projects to 20mtpa, and is poised to benefit from cyclical volume upturn; this should boost its RoIC into the mid-teens by FY23 and well over 20% over the next 4-5 years, in our view, as capacity utilization climbs to over 70% by FY26E from 57% in FY21E. Despite diversification into East market (14% of total capacity by FY23E), Ramco will remain a predominantly South player, with its earnings subject to greater volatility as also more dependent on price-discipline sustaining in the market.

We initiate on TRCL with a Hold; our Jun'22E TP of Rs1,020 is DCF-driven, and implies a target multiple of 13.5x EV/EBITDA. Stock's 10% re-rating from trailing 3-year (T3Y) average of 15.5x indicates ongoing expansion plus cyclical upturn are largely in the price. Upside risk: higher capacity expansion/diversification post B/S deleveraging.

- **Superior volume growth driven by capacity expansion and cyclical upturn:** TRCL is close to completing its 40% capacity expansion to 20mt. The capacity mix in the East will rise by 200bps to 14% by FY23E, which should offer better demand prospects and higher volume growth. TRCL is poised to benefit from a cyclical volume upturn and recovery in utilization. Accordingly, we estimate TRCL's volume to grow at a 15% CAGR (1.5x industry growth) over FY21-23E.
- **Cost optimization efforts to reduce earnings volatility:** TRCL will predominantly be a South player and its earnings will be subject to greater volatility as it is more leveraged to sustaining the price discipline in the market. TRCL is one of the lowest-cost producers in India (5-7% lower than industry average) and we estimate further sustainable cost savings of ~Rs100/ton, led by logistics advantage from new grinding units (GUs), rising share of green power, higher blending ratio and better operating leverage. We estimate blended EBITDA/ton to fall by ~Rs140 to Rs1,434 by FY23E post ~64% rise in the past two years.
- **EBITDA CAGR of 9% over FY21-23E; capex cycle to restart after balance sheet deleveraging:** As net debt has already peaked out, we expect the capex cycle to restart once the balance sheet is sufficiently deleveraged. We expect net debt-to-EBITDA to decline from 1.8x in FY21E to 0.8x by FY23E. TRCL has scope for brownfield expansion at Kurnool and may add GUs in AP, Odisha, Karnataka and Maharashtra, diversifying its market mix further in the next 3-4 years.
- **Initiate with Hold:** Our Jun'22E TP of Rs1,020 is DCF-driven. We assume sustainable/terminal FCF growth of 7.5% after FY26E and a sustainable incremental RoIC of 20% (lower end of our coverage companies and in line with exit RoIC of FY26E). Our Jun'22E TP implies a forward EV/EBITDA of 13.5x and FCFF yield of 3.9%.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	51,623	53,893	53,248	61,414	69,801
EBITDA	10,664	11,474	15,852	16,463	18,949
EBITDA Margin (%)	20.7	21.3	29.8	26.8	27.1
APAT	5,326	6,042	8,137	8,323	10,193
EPS (Rs)	22.6	25.6	34.5	35.3	43.3
EPS (% chg)	(3.4)	13.4	34.7	2.3	22.5
ROE (%)	12.3	12.7	15.1	13.6	14.6
P/E (x)	42.4	37.4	27.8	27.1	22.2
EV/EBITDA (x)	17.7	21.2	16.2	15.5	13.3
P/BV (x)	5.0	4.5	3.9	3.5	3.0

Source: Company, Emkay Research

Emkay vs Consensus

EPS Estimates	FY22E	FY23E
Emkay	35.3	43.3
Consensus	36.2	43.2
Mean Consensus TP (12M)		Rs 983

Stock Details

Bloomberg Code	TRCL IN
Face Value (Rs)	1
Shares outstanding (mn)	236
52 Week H/L	1,120 / 502
M Cap (Rs bn/USD bn)	226 / 3.01
Daily Avg Volume (nos.)	7,44,079
Daily Avg Turnover (US$ mn)	9.4

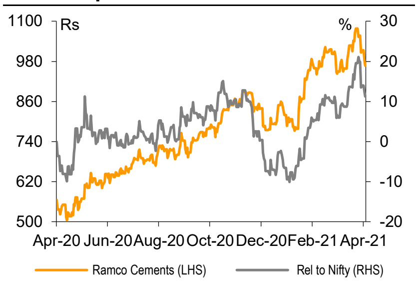
Shareholding Pattern Mar '21

Promoters	42.5%
FIIs	8.3%
DIIs	23.2%
Public and Others	26.0%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	18	22	69
Rel. to Nifty	(1)	18	-	8

Relative price chart



Source: Bloomberg

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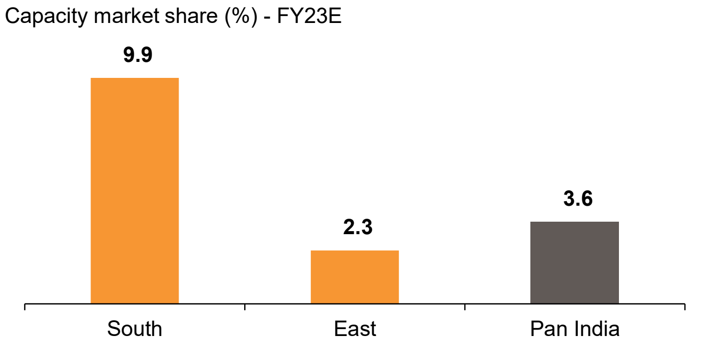
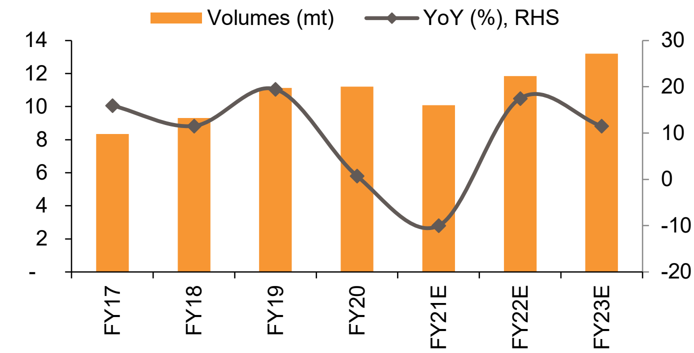
Story in Charts

Exhibit 300: TRCL will remain predominantly South player



Source: Company, Emkay Research

Exhibit 301: TRCL superior vols. growth (15% CAGR, 1.5x industry) over FY21E-23E backed by capacity expansion and cyclical upturn



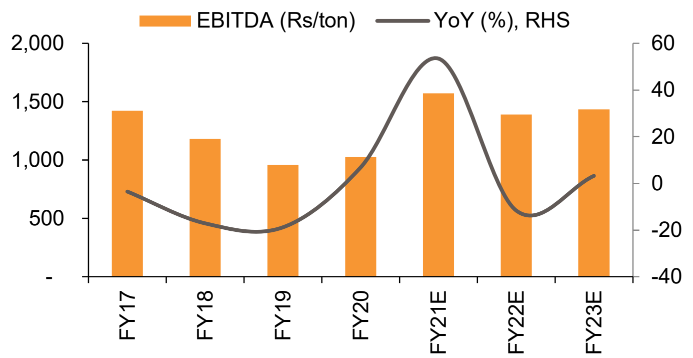
Source: Company, Emkay Research

Exhibit 302: TRCL cost optimization efforts to reduce earnings volatility

	WHRS
Incremental capacity (MW)	39
PLF (%)- assumed	65%
mn units	201
Savings (Rs p.u.)	4
Total savings (Rs mn)	803
Volumes- FY23E	13.2
Savings (Rs/ton)	**61**

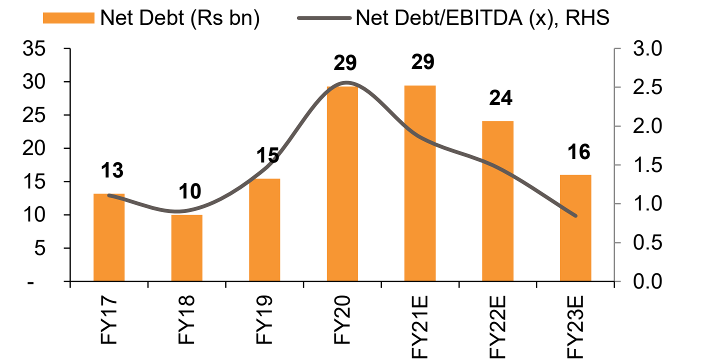
Source: Company, Emkay Research

Exhibit 303: TRCL earnings volatility led by higher dependence on price-discipline sustaining in the market



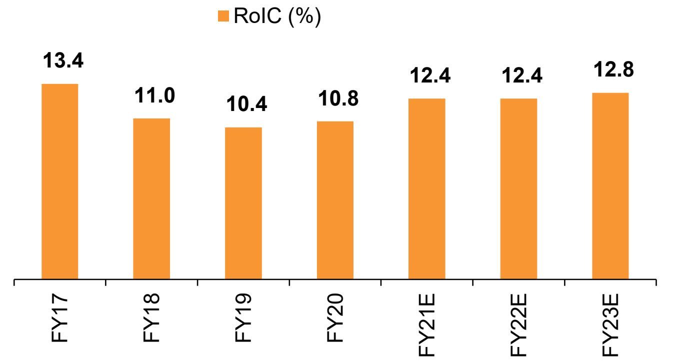
Source: Company, Emkay Research

Exhibit 304: Net debt has peaked out, capex cycle to re-start to post B/S sufficiently de-leveraged



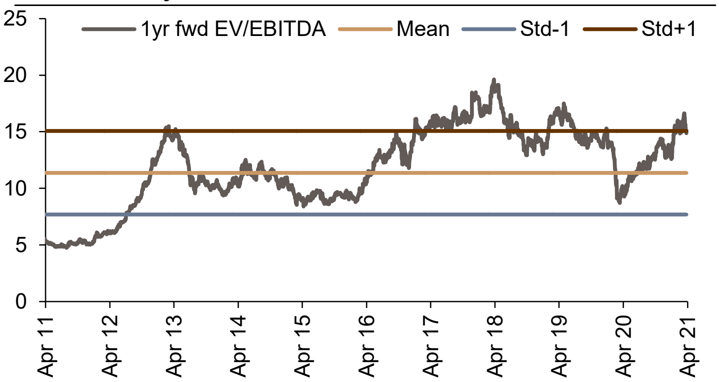
Source: Company, Emkay Research

Exhibit 305: RoIC to rise to mid-teens by FY23E



Source: Company, Emkay Research

Exhibit 306: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 307: We initiate with Hold at TP of Rs 1,020 based on 13.5x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	19
EV/E multiple (x)	13.5
Enterprise Value	257
Net debt (FY22E)	23
Equity value	233
No. of shares (mn)	236
Mar'22 Fair Value (Rs)	990
Jun'22* Target Price (Rs)	**1,020**

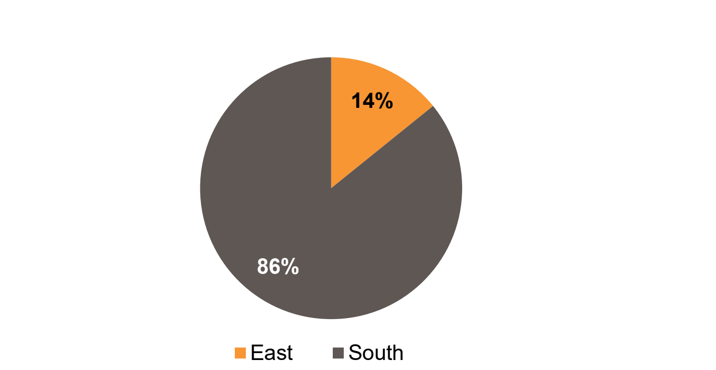
*Source: Emkay Research, *3% premium on Mar'22E fair value*

Superior volume growth backed by capacity expansions

TRCL is India's sixth-largest cement producer, and a capacity-leader post UTCEM in the South (10% market share) region. TRCL is close to completing its 20mt capacity expansion. Accordingly, its capacity mix in the East will rise by 200bps to 14% by FY23E, which should offer better demand prospects and higher volume growth. TRCL is poised to benefit from capacity expansion, cyclical volume upturn and recovery in utilization. Accordingly, we estimate TRCL's volume to grow at a 15% CAGR (1.5x industry growth) over FY21E-23E.

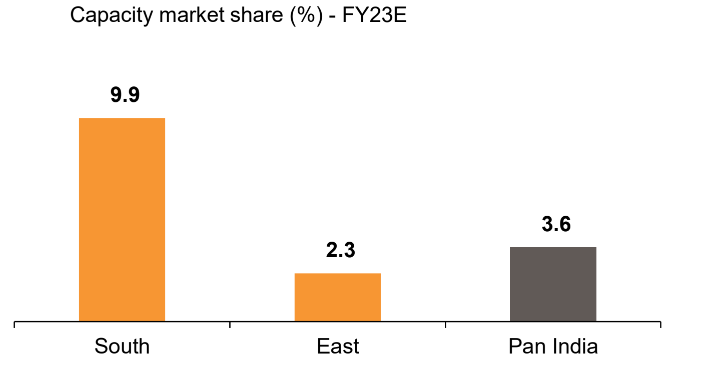
TRCL incurred capex of ~Rs28bn (out of planned Rs37bn) till Dec'20-end. TRCL expects to commission a 1.5mt clinkerization unit along with balance 9MW WHRS in Jayanthipuram and a 2.25mt clinkerization unit in Kurnool by Q1FY22E. The 1mt grinding facility, 12MW of WHRS and 18MW of TPP in Kurnool are expected to be commissioned in FY22E.

Exhibit 308: Capacity share in East region to increase 200bps to 14%



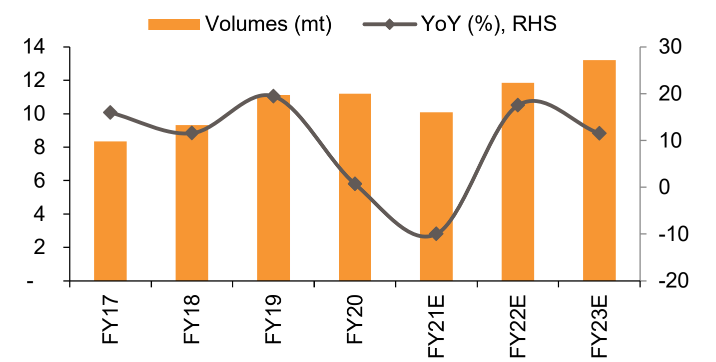
Source: Company, Emkay Research

Exhibit 309: ..however, TRCL will remain pre-dominantly South player



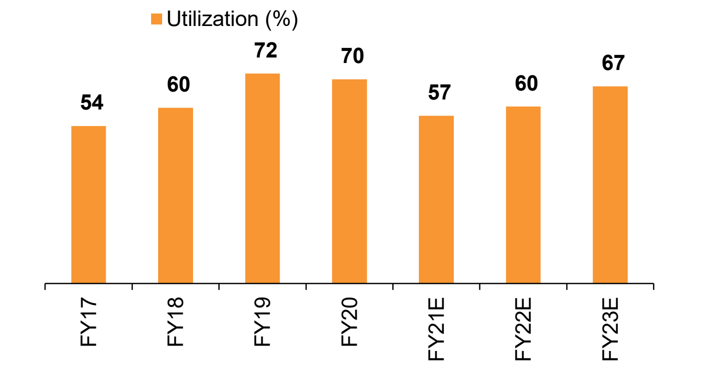
Source: Company, Emkay Research

Exhibit 310: TRCL superior vols. growth (15% CAGR, 1.5x industry) over FY21E-23E backed by capacity expansion and cyclical upturn



Source: Company, Emkay Research

Exhibit 311: Utilization expected to improve to 67% in FY22E



Source: Company, Emkay Research

Exhibit 312: Overview of expansion projects at TRCL

Location	State	Region	Type	Clinker (mt)	Cement (mt)	Project cost (Rs bn)	Attached assets	Commissioning timelines
Kolaghat	West Bengal	East	Brownfield	-	1.0	3.9	Railway siding	Commissioned
Vizag	Andhra Pradesh	South	Brownfield	-	1.0	2.2		Commissioned
Jayanthipuram	Andhra Pradesh	South	Brownfield	1.5	-	7.4	27MW WHRS	18MW WHRS commissioned. Balance 9MW and clinker unit to commission in Q1FY22E
Kurnool	Andhra Pradesh	South	Greenfield	2.3	1.0	16.0	12MW WHRS, 18MW CPP and railway siding	Clinker unit to commission in Q1FY22E. Balance to commission in FY22E
Haridaspur	Odisha	East	Greenfield	-	1.0	7.2	Railway siding and wagon tippler	FY22E
Total				**3.8**	**4.1**	**36.6**		

Source: Company, Emkay Research

Cost optimization efforts to reduce earnings volatility

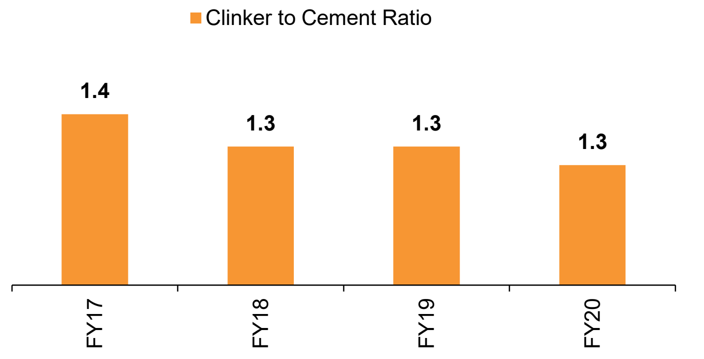
As TRCL will remain a predominantly South player, its earnings will be subject to greater volatility as it is more leveraged to dependence on price–discipline sustaining in the market. Accordingly, TRCL has taken various initiatives to reduce earnings volatility.

TRCL is one of the producers with the lowest costs (5-7% lower than industry average) in India, owing to 1) its proximity to raw materials and usage of the cheapest sea route for the transportation of clinker, 2) higher usage of captive power, 3) investment in logistic infrastructure like railway sidings and loading plants to reduce handling cost, and 4) efficient supply chain management.

Cost savings of Rs100/ton likely to accrue from FY22E

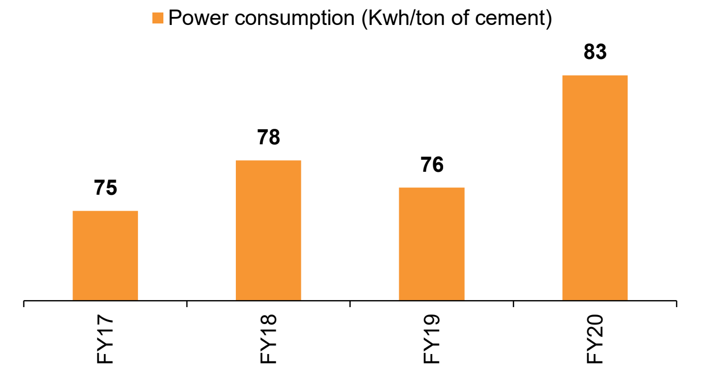
New GUs are likely to provide logistic cost advantage of Rs200-300/ton (Rs30-40/ton at company level), driven by the commissioning of railway siding and lower inter-unit clinker freight cost as the commissioning of clinker expansion facilities in Andhra Pradesh (vs. earlier Tamil Nadu) would be used in feeding its East grinding units. Also, increasing exposure in the East would help improve the blending ratio and these high growth markets shall allow TRCL to improve its overall trade sales. Besides, higher volume growth should provide better operating leverage.

Exhibit 313: Clinker to cement ratio has broadly remain stable in past two years



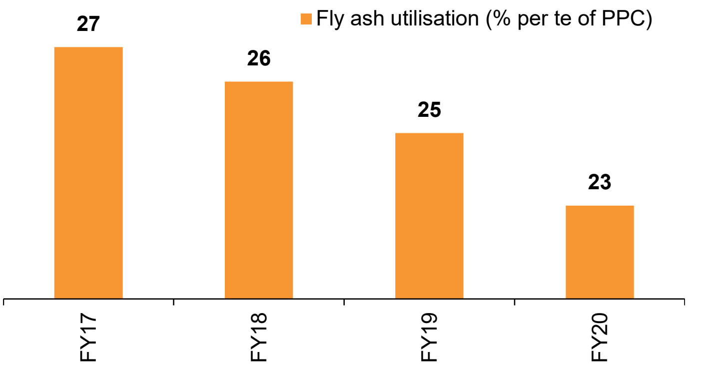
Source: Company, Emkay Research

Exhibit 314: Power consumption norms likely to decline with new capacity



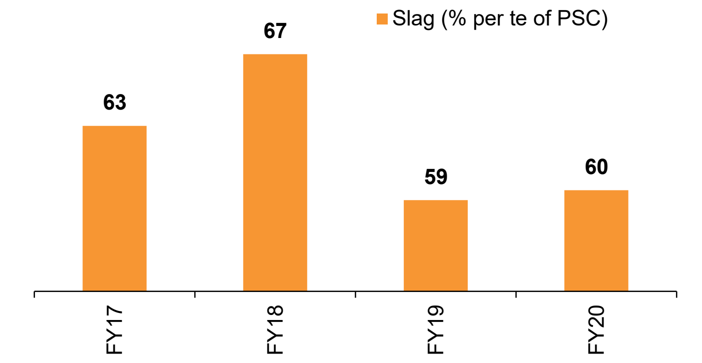
Source: Company, Emkay Research

Exhibit 315: Fly ash utilization in PPC cement



Source: Company, Emkay Research

Exhibit 316: Usage of slag in PSC cement



Source: Company, Emkay Research

- TRCL has already commissioned 18MW WHRS at Jayanthipuram, Andhra Pradesh. Balance 9MW at Jayanthipuram and 12.5MW WHRS at Kurnool will be commissioned in Q1FY22E. We estimate potential savings of ~Rs800mn (~Rs60/ton) with the commissioning of these capacities. Additionally, TRCL is setting up 18MW CPP at Kurnool, which is likely to be commissioned in FY22E. We estimate overall cost savings of Rs1.3bn (~Rs100/ton).

Exhibit 317: Overview of power capacities at TRCL

MW	FY20	FY21E	FY22E	FY23E
TPP	175	175	193	193
WHRS- Jayanthipuram	-	18	27	27
WHRS- Kurnool	-	-	13	13
Wind	166	166	166	166
Total	**341**	**359**	**399**	**399**

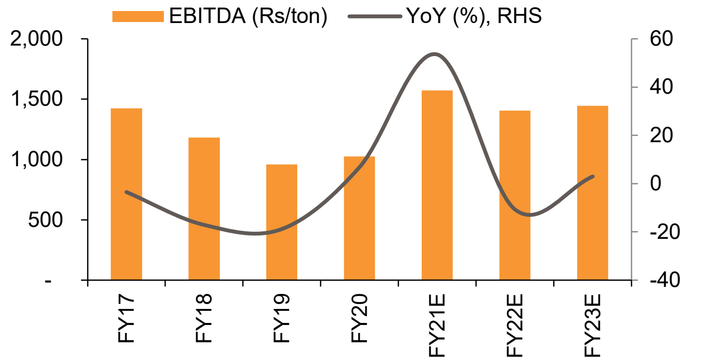
Source: Company, Emkay Research

Exhibit 318: We estimate potential savings of Rs800mn (~Rs60/ton) on commissioning of WHRS capacities

Particulars	WHRS
Incremental capacity (MW)	39
PLF-assumed	65%
mn units	201
Savings (Rs p.u.)	4
Total savings (Rs mn)	803
Volumes- FY23E	13.2
Savings (Rs/ton)	**61**

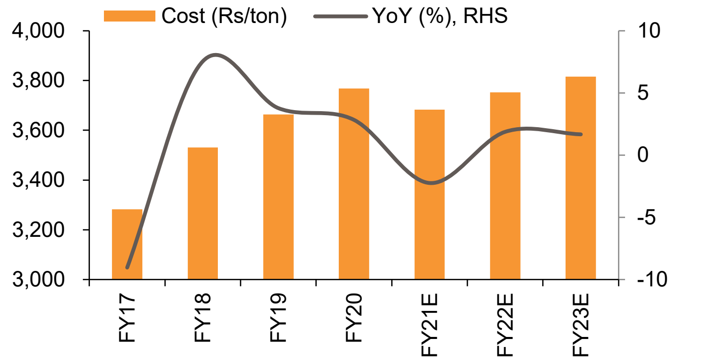
Source: Company, Emkay Research

Exhibit 319: We estimate blended EBITDA/ton to decline around Rs140/ton by FY23E post ~64% increase in past two years



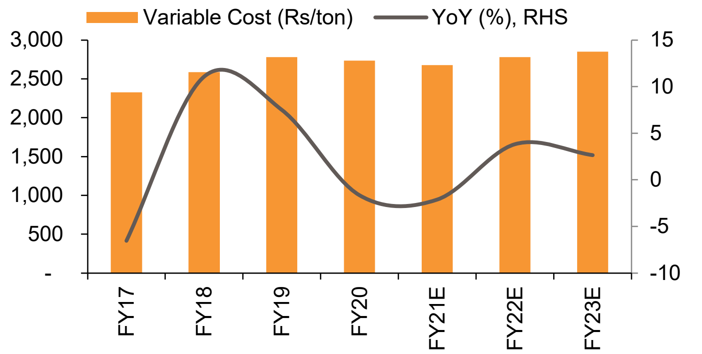
Source: Company, Emkay Research

Exhibit 320: Total cost/ton expected to increase at 1.9% CAGR over FY21E-23E



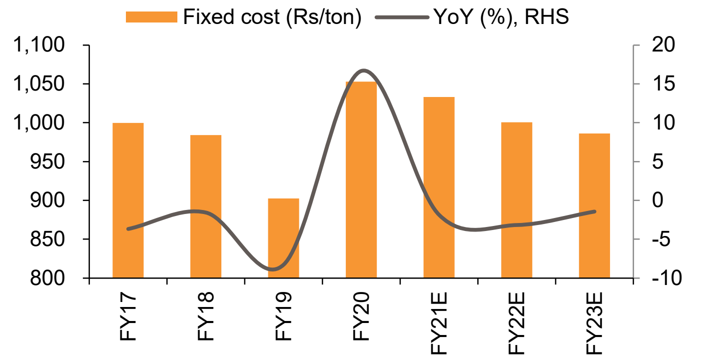
Source: Company, Emkay Research

Exhibit 321: Variable cost inflation likely to be at 3.2% CAGR over FY21-23E



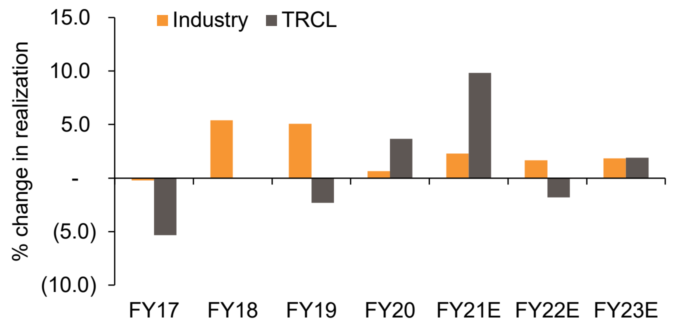
Source: Company, Emkay Research

Exhibit 322: Operating leverage expected to bring down fixed costs per ton



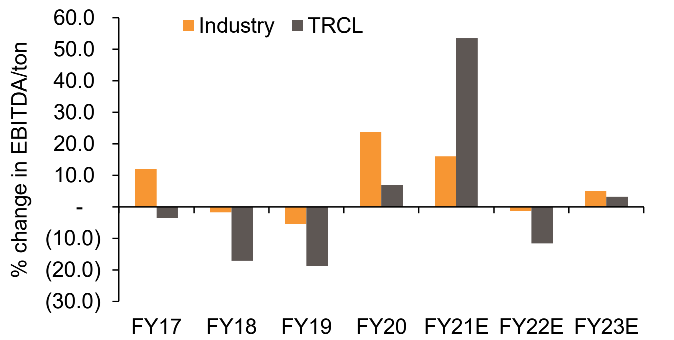
Source: Company, Emkay Research

Exhibit 323: TRCL's higher dependence on price-discipline sustaining in the market



Source: Company, Emkay Research

Exhibit 324: ….leading to higher earnings volatility

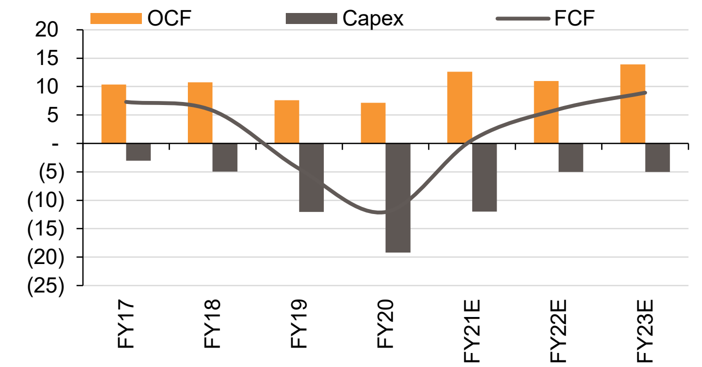


Source: Company, Emkay Research

Financials—Capex cycle to re-start post balance sheet de-leveraging

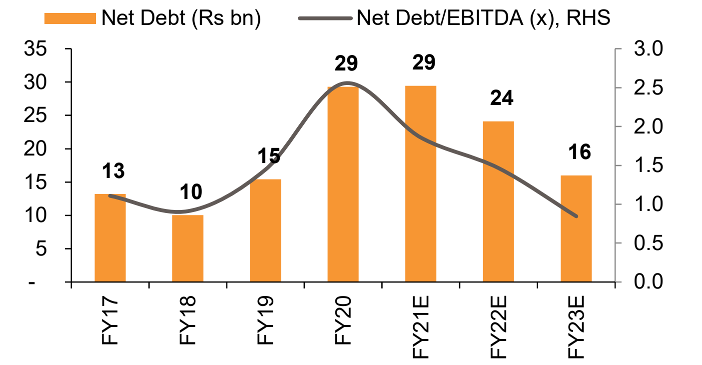
- We expect TRCL's consolidated EBITDA to grow at a 9% CAGR over FY21E-23E, led by volume growth (15% CAGR). TRCL's EBITDA/ton is expected to decline by 4.5% CAGR over FY21E-23E (post ~64% increase in past two years) driven by flat realization and 2% CAGR in total cost/ton.
- TRCL incurred capex of ~Rs28bn (out of planned Rs37bn) till Dec'20-end. With majority of capex now behind, net debt has already peaked out (Rs30bn as of Dec'20) and deleveraging of the balance sheet may happen from H2FY22E. Accordingly, management aims to become net debt free in the next three years. We estimate 'net debt to EBITDA to decline from 1.8x in FY21E to 0.8x by FY23E.
- We expect the capex cycle to restart once the balance sheet is sufficiently deleveraged. TRCL has scope for brownfield expansion at Kurnool and may add GUs in AP, Odisha, Karnataka and Maharashtra, diversifying its market mix further in the next 3-4 years..

Exhibit 325: We expect FCF generation of Rs15bn over FY21E-23E



Source: Company, Emkay Research, FCF includes other income and interest cost

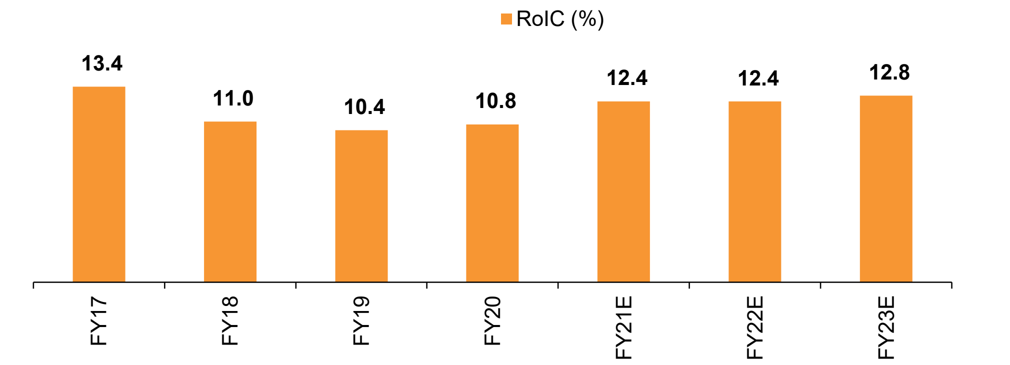
Exhibit 326: …which will be utilized to deleverage balance sheet



Source: Company, Emkay Research

TRCL poised to benefit from cyclical volume upturn; this should boost its RoIC into the mid-teens by FY23E and nearing 20% over the next 4-5 years, in our view, as capacity utilization climbs to over 70% by FY26E from 57% in FY21E.

Exhibit 327: RoIC expected to improve to mid-teens by FY23E



Source: Company, Emkay Research

Initiate coverage with Hold; TP Rs1,020

Our Jun'22E TP of Rs1,020 is DCF driven. We assume sustainable/terminal FCF growth of 7.5% post FY26E and a sustainable incremental RoIC of 20% (lower-end of our coverage companies and in-line with exit RoIC of FY26E). Our Jun'22E TP implies a forward EV/EBITDA of 13.5x, and FCFF yield of 3.9%.

Exhibit 328: We initiate with Hold at TP of Rs 1,020 based on 13.5x Jun'22E EV/E, backed by DCF analysis

EV/E method	Rs bn
FY23E EBITDA	19
EV/E multiple (x)	13.5
Enterprise Value	257
Net debt (FY22E)	23
Equity value	**233**
No. of shares (mn)	236
Mar'22 Fair Value (Rs)	990
Jun'22 Target Price (Rs)	**1,020**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Exhibit 329: Sensitivity Analysis with 0.5% change in TG and 2.5% change in sustainable ROIC

		Terminal Growth (%)				
		6.5	**7.0**	**7.5**	**8.0**	**8.5**
Sustainable ROIC (%)	**15.0**	749	786	833	895	977
	17.5	821	873	940	1,026	1,143
	20.0	875	939	**1,020**	1,125	1,268
	22.5	917	990	1,082	1,201	1,364
	25.0	951	1,030	1,131	1,263	1,442

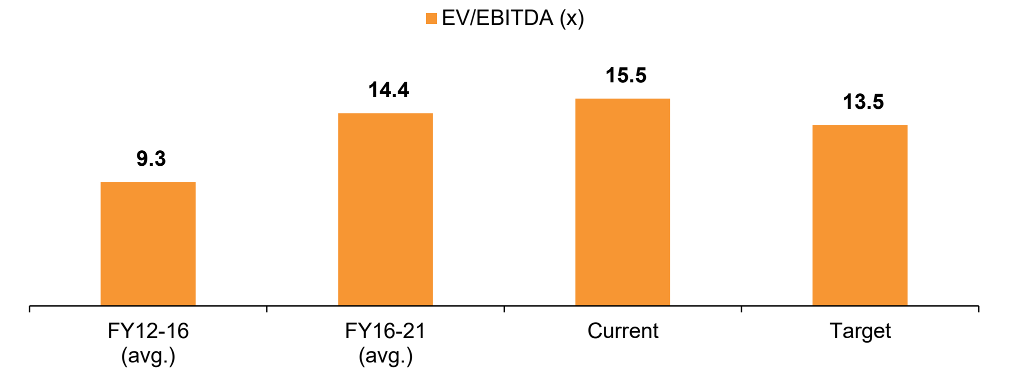
Source: Emkay Research

Exhibit 330: Our estimates are broadly in-line with consensus

Rs bn	Emkay Estimates		Consensus		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	61	70	63	72	(3.1)	(3.7)
EBITDA	**16**	**19**	**17**	**19**	**(2.8)**	**(0.9)**
PAT	8	10	9	10	(2.3)	0.1

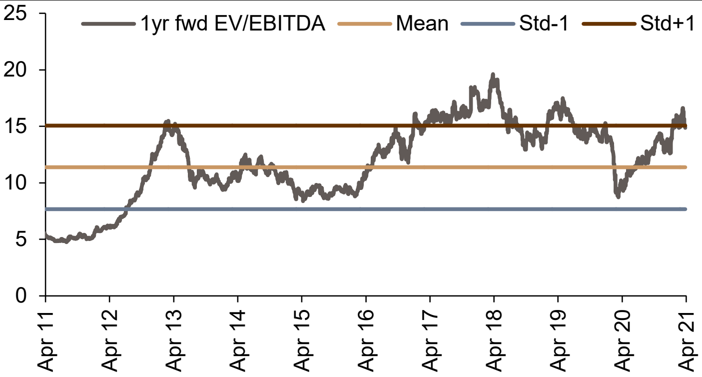
Source: Emkay Research

Exhibit 331: We expect stocks to de-rate by 13% to 13.5x



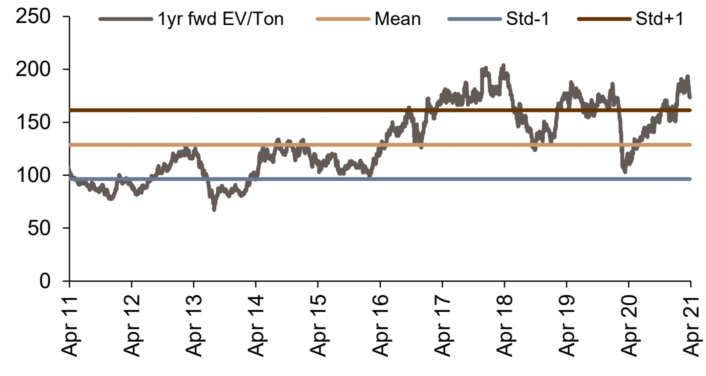
Source: Bloomberg, Emkay Research

Exhibit 332: 1-year forward EV/EBITDA chart



Source: Bloomberg, Emkay Research

Exhibit 333: 1-year forward EV/ton (USD) chart



Source: Bloomberg, Emkay Research

Annual Analysis

Exhibit 334: Key Assumptions

Operational details								CAGR	
Key Assumptions	**FY17**	**FY18**	**FY19**	**FY20**	**FY21E**	**FY22E**	**FY23E**	**FY17-21E**	**FY21E-23E**
Capacity (mt)	15.5	15.5	15.5	16.0	17.6	19.6	19.6	3.2	5.5
Volumes (mt)	8.3	9.3	11.1	11.2	10.1	11.8	13.2	4.8	14.5
Utilization (%)	54	60	72	70	57	60	67		
Blended Realization (Rs/ton)	4,728	4,728	4,619	4,788	5,259	5,164	5,262	2.7	-
EBITDA/ton (Rs/ton)	1,425	1,181	959	1,024	1,572	1,390	1,434	2.5	(4.5)
P&L (Rs bn.)									
Revenue	40	44	52	54	53	61	70	7.6	14.5
EBITDA	**12**	**11**	**11**	**11**	**16**	**16**	**19**	**7.4**	**9.3**
Adj. Net Profit	7	6	5	6	8	8	10	5.3	11.9
Balance Sheet (Rs bn.)									
Equity	38	41	45	50	57	65	74		
Net Debt	13	10	15	29	29	24	16		
Net Debt: EBITDA (x)	1.1	0.9	1.4	2.6	1.9	1.5	0.8		
Net Debt: Equity (x)	0.3	0.2	0.3	0.6	0.5	0.4	0.2		
Cash Flow (Rs bn)									
OCF before WC	9	9	9	10	12	12	15		
Change in WC	1	2	(1)	(3)	1	(1)	(1)		
Capex	(3)	(5)	(12)	(19)	(12)	(5)	(5)		
FCF	**7**	**6**	**(4)**	**(12)**	**1**	**6**	**9**		
Return ratios (%)									
RoE	19.3	14.0	12.3	12.7	15.1	13.6	14.6		
RoCE	12.3	9.9	8.7	8.2	9.4	9.6	11.1		
RoIC	**13.4**	**11.0**	**10.4**	**10.8**	**12.4**	**12.4**	**12.8**		
Valuations (x)									
PE				37.4	27.8	27.1	22.2		
EV/EBITDA				21.2	16.2	15.5	13.3		
EV/ton (USD)				218	199	175	169		

Source: Company, Emkay Research

Exhibit 335: Annual analysis on per ton basis

Rs/ton	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Cement Realization	**4,641**	**4,637**	**4,563**	**4,736**	**5,201**	**5,107**	**5,209**
Blended Realization	**4,728**	**4,728**	**4,619**	**4,788**	**5,259**	**5,164**	**5,262**
Raw materials consumed	822	806	761	780	801	808	826
Power & fuel costs	621	783	950	938	859	934	974
Freight costs	884	997	1,068	1,016	1,016	1,036	1,051
Staff costs	334	327	304	340	411	389	383
Other expenses	666	657	599	713	622	628	615
Operating Cost	**3,328**	**3,570**	**3,682**	**3,786**	**3,709**	**3,794**	**3,850**
Other operating income	24	23	22	22	22	20	22
Cement EBITDA	**1,383**	**1,129**	**921**	**991**	**1,539**	**1,359**	**1,404**
Blended EBITDA	**1,425**	**1,181**	**959**	**1,024**	**1,572**	**1,390**	**1,434**

Source: Company, Emkay Research

Quarterly Highlights

Exhibit 336: Quarterly Table

Rs mn	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Net Sales	12,746	13,862	10,400	12,455	13,334	4.6	7.1
Other operating income	34	37	18	115	57	66.1	(50.7)
Revenue	**12,780**	**13,899**	**10,418**	**12,570**	**13,391**	**4.8**	**6.5**
Expenditure	10,751	11,107	7,818	8,150	9,421	(12.4)	15.6
Total RM	2,371	2,361	1,886	1,615	2,149	(9.4)	33.1
Power & Fuel	2,592	2,544	1,511	1,822	2,137	(17.5)	17.3
Freight	2,831	3,039	2,018	2,162	2,633	(7.0)	21.8
Staff cost	966	846	975	1,102	998	3.4	(9.4)
Other expenditure	1,992	2,317	1,430	1,449	1,503	(24.5)	3.7
EBITDA	**2,029**	**2,792**	**2,600**	**4,420**	**3,970**	**95.7**	**(10.2)**
Depreciation	797	833	844	855	896	12.5	4.9
EBIT	1,232	1,960	1,756	3,565	3,074	149.5	(13.8)
Other Income	85	114	101	83	64	(24.9)	(23.7)
Interest	215	216	299	265	160	(25.6)	(39.7)
PBT	1,101	1,857	1,557	3,383	2,977	170.3	(12.0)
Total Tax	153	396	461	1,026	964	528.3	(6.0)
Adjusted PAT	**948**	**1,462**	**1,096**	**2,358**	**2,014**	**112.4**	**(14.6)**
(Profit)/loss from JV's/Ass/MI							
PAT after MI	948	1,462	1,096	2,358	2,014	112.4	(14.6)
Extra ordinary items	-	-	-	-	-		
Reported PAT	**948**	**1,462**	**1,096**	**2,358**	**2,014**	**112.4**	**(14.6)**
Adjusted EPS (Rs)	**4.0**	**6.1**	**4.7**	**10.0**	**8.5**	**114.3**	**(14.6)**

Margins (%)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (bps)	QoQ (bps)
EBIDTA	15.9	20.1	25.0	35.2	29.6	1,377.2	(551.5)
EBIT	9.6	14.1	16.9	28.4	23.0	1,331.5	(541.0)
EBT	8.6	13.4	14.9	26.9	22.2	1,361.6	(468.2)
PAT	7.4	10.5	10.5	18.8	15.0	761.9	(372.0)
Effective Tax rate	13.9	21.3	29.6	30.3	32.4		

Source: Company, Emkay Research

Exhibit 337: Quarterly analysis on per ton basis

Rs/ton	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Cement volumes (mt)	2.84	2.93	1.94	2.21	2.61	(8.1)	18.1
Cement Realization	**4,475**	**4,713**	**5,283**	**5,498**	**5,068**	**13.3**	**(7.8)**
Blended Realization	**4,482**	**4,728**	**5,369**	**5,628**	**5,101**	**13.8**	**(9.4)**
Raw Material	834	805	974	730	822	(1.4)	12.6
Power & Fuel	911	868	780	823	818	(10.3)	(0.7)
Freight	996	1,037	1,042	977	1,007	1.2	3.1
Staff cost	339	288	503	498	382	12.5	(23.3)
Other expenditure	700	790	738	655	575	(17.9)	(12.2)
Operating cost	**3,780**	**3,788**	**4,036**	**3,683**	**3,604**	**(4.7)**	**(2.1)**
Other operating income	12	13	9	52	22	80.7	(58.3)
Cement EBITDA	**726**	**955**	**1,285**	**1,892**	**1,508**	**107.8**	**(20.3)**
Blended EBITDA	**713**	**952**	**1,342**	**1,997**	**1,519**	**112.9**	**(24.0)**

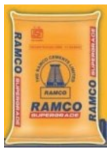
Source: Company, Emkay Research

Company background

TRCL is the sixth largest cement producer in India and enjoys strong brand equity in South India. It has 10mt clinker and 20mt cement grinding capacity across five integrated cement plants and six split grinding units. Besides, it has one packing, RMC and Dry Mortar plant each. Overall, TRCL will have 193MW CPP, 39MW WHRS and 166MW largest wind farms in the country.

TRCL capacity market share is likely to be at 4% by FY23E on the pan-India basis. Its presence is currently limited to South and East, where it commands a market share of 10% and 2.3% respectively. Besides, TRCL enjoys premium pricing in its core markets like Tamil Nadu, Kerala and Karnataka.

Exhibit 338: Some of the key brands of TRCL

Ramco Supercrete	Ramco Super Fine	Ramco Super Tile Fix	Ramco Supergrade
			

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	**51,623**	**53,893**	**53,248**	**61,414**	**69,801**
Expenditure	**40,960**	**42,419**	**37,396**	**44,952**	**50,852**
EBITDA	**10,664**	**11,474**	**15,852**	**16,463**	**18,949**
Depreciation	3,000	3,165	3,510	4,075	4,429
EBIT	**7,664**	**8,309**	**12,342**	**12,388**	**14,520**
Other Income	250	335	335	335	335
Interest expenses	514	721	881	1,464	1,068
PBT	**7,400**	**7,922**	**11,796**	**11,259**	**13,786**
Tax	2,106	1,879	3,657	2,927	3,584
Extraordinary Items	(219)	0	0	0	0
Minority Int./Income from Assoc.	33	(2)	(2)	(9)	(9)
Reported Net Income	**5,107**	**6,042**	**8,137**	**8,323**	**10,193**
Adjusted PAT	**5,326**	**6,042**	**8,137**	**8,323**	**10,193**

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	236	236	236	236	236
Reserves & surplus	45,134	49,778	57,182	64,839	74,216
Net worth	**45,370**	**50,014**	**57,418**	**65,075**	**74,452**
Minority Interest	**47**	**56**	**56**	**56**	**56**
Loan Funds	**16,369**	**30,241**	**30,241**	**23,951**	**15,457**
Net deferred tax liability	8,642	9,118	9,118	9,118	9,118
Total Liabilities	**70,428**	**89,429**	**96,833**	**98,200**	**99,083**
Net block	**52,599**	**59,285**	**68,775**	**69,701**	**86,549**
Investment	**4,206**	**4,225**	**4,225**	**4,225**	**4,225**
Current Assets	**15,419**	**19,671**	**18,082**	**18,875**	**20,199**
Cash & bank balance	948	942	797	(154)	(540)
Other Current Assets	2,589	2,744	2,744	2,744	2,744
Current liabilities & Provision	**11,606**	**11,895**	**11,392**	**11,743**	**12,754**
Net current assets	**3,813**	**7,776**	**6,690**	**7,132**	**7,445**
Misc. exp	0	0	0	0	0
Total Assets	**70,428**	**89,429**	**96,833**	**98,200**	**99,083**

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	**7,181**	**7,922**	**11,459**	**10,915**	**13,442**
Other Non-Cash items	(197)	(5)	0	0	0
Chg in working cap	(975)	(2,934)	941	(1,392)	(699)
Operating Cashflow	**7,926**	**7,481**	**13,134**	**12,134**	**14,656**
Capital expenditure	(12,025)	(19,195)	(12,000)	(5,000)	(5,000)
Free Cash Flow	**(4,098)**	**(11,714)**	**1,134**	**7,134**	**9,656**
Investments	(2,819)	(462)	0	0	0
Other Investing Cash Flow	88	103	0	0	0
Investing Cashflow	**(14,705)**	**(19,424)**	**(11,665)**	**(4,665)**	**(4,665)**
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	7,863	14,088	0	(6,290)	(8,494)
Dividend paid (incl tax)	(853)	(1,564)	(732)	(666)	(815)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	**6,529**	**11,936**	**(1,614)**	**(8,420)**	**(10,377)**
Net chg in cash	**(250)**	**(7)**	**(145)**	**(951)**	**(386)**
Opening cash position	1,199	948	941	797	(154)
Closing cash position	**948**	**941**	**797**	**(154)**	**(540)**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	20.7	21.3	29.8	26.8	27.1
EBIT Margin	14.8	15.4	23.2	20.2	20.8
Effective Tax Rate	28.5	23.7	31.0	26.0	26.0
Net Margin	10.3	11.2	15.3	13.6	14.6
ROCE	12.2	10.8	13.6	13.0	15.1
ROE	12.3	12.7	15.1	13.6	14.6
RoIC	14.1	13.7	17.5	16.3	16.9

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	22.6	25.6	34.5	35.3	43.3
CEPS	35.3	39.1	49.4	52.6	62.1
BVPS	192.6	212.3	243.7	276.2	316.0
DPS	3.0	2.5	3.1	2.8	3.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	42.4	37.4	27.8	27.1	22.2
P/CEPS	27.1	24.5	19.4	18.2	15.4
P/BV	5.0	4.5	3.9	3.5	3.0
EV / Sales	4.7	4.7	4.8	4.1	3.5
EV / EBITDA	22.6	21.2	16.2	15.5	13.3
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.3	0.6	0.5	0.4	0.2
Net Debt/EBIDTA	1.4	2.6	1.9	1.5	0.8
Working Cap Cycle (days)	20.3	46.3	40.4	43.3	41.8

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	16.7	4.4	(1.2)	15.3	13.7
EBITDA	(3.0)	7.6	38.2	3.9	15.1
EBIT	(4.9)	8.4	48.5	0.4	17.2
PAT	(9.4)	18.3	34.7	2.3	22.5

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	12,780	13,899	10,418	12,570	13,391
EBITDA	2,029	2,792	2,600	4,420	3,970
EBITDA Margin (%)	**15.9**	**20.1**	**25.0**	**35.2**	**29.6**
PAT	948	1,462	1,096	2,358	2,014
EPS (Rs)	**4.0**	**6.2**	**4.7**	**10.0**	**8.5**

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	42.7	42.7	42.6	42.6	42.5
FIIs	8.9	8.9	7.6	8.0	8.3
DIIs	24.5	24.5	23.6	22.9	23.2
Public and Others	24.0	24.0	26.2	26.5	26.0

Source: Capitaline

Initiating Coverage

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JK Cement

Refer to important disclosures at the end of this report

Valuation rerating largely over, risk-reward appears balanced; Hold

CMP	Target Price
Rs 2,804	Rs 3,000
as of (April 23, 2021)	12 months
Rating	Upside
HOLD	7.0 %

JK Cement (JKCE) is well-diversified mid-sized cement company, with 75% of its 15mt capacity in the attractive North and Central markets. While the cyclical rebound should drive a double-digit volume CAGR over next 2-3 years, fresh capacity addition provides longer-term growth visibility. JKCE is executing a 4mt green field project in the Central market (27% of existing capacity), which may be commissioned in FY24E.

However, the stock has already rerated by 90% in 24 months to a ~13x forward EV/EBITDA multiple currently, thanks to nearly doubling of EBITDA over FY19-21E and a consequent reset in RoIC to ~16% from <10%. We expect RoIC to improve further to 20% over next 4-5 years and sustain that level for the long term. Our Jun'22E DCF TP of Rs3,000 implies a forward EV/EBITDA of 12x. We initiate with Hold, given a modest 7% upside on TP and lack of rerating potential. Key downside risks: execution delays and higher debt required to fund capex.

- **Well-diversified and present in attractive regions; white cement and wall putty business to help reduce earnings volatility:** JKCE is a well-diversified mid-sized company with around 75% of its 15mt capacity in attractive North and Central markets that will likely see above-average increase in cement realizations. Besides, JKCE is the second largest player (40% market share) in India in the high-margin white cement and wall putty market. The business contributed ~30% of consolidated EBITDA (Emkay est.) in FY21E and cushioned the volatility in the grey cement business.

- **Utilization and capacity addition to drive volume growth:** JKCE increased its grey cement capacity by 40% (~4.2mt) to 14.7mt, largely in H2FY20. Given that new capacity addition is in high-growth markets of North and Central regions, it is seeing quick ramp-up (+22% vs. flat volume for industry in FY21E) and should drive a double-digit volume CAGR over next 2-3 years with a cyclical rebound in the industry. Accordingly, we expect grey cement utilization to increase from 70% in FY21E to 84% by FY23E. Fresh capacity additions of 4mt in Panna, Madhya Pradesh, by H1FY24 and room for additional 4-6mt brownfield expansion in the future and will drive volume growth beyond FY24E.

- **EBITDA CAGR of 13% in FY21E-23E; net debt unlikely to increase materially:** Given strong average OCF of Rs13bn p.a., peak net debt is unlikely to exceed Rs25bn vs. Rs20bn now, even after factoring in capex of Rs26bn in FY21E-23E. Net debt-to-EBITDA is likely to decline from current 1.3x in FY21E to 1x by FY23E.

- **Rerating largely over; we initiate with Hold:** We believe that rerating in JKCE stock is largely behind. Our Jun'22E TP of Rs3,000 is DCF- driven; we assume sustainable/ terminal FCF growth of 8% (in line with industry average) and a sustainable incremental RoIC of 20% (lowest range of coverage companies). The TP implies a forward EV/EBITDA of 12x.

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	52,587	58,016	65,707	76,365	83,868
EBITDA	8,345	12,134	15,852	17,976	20,403
EBITDA Margin (%)	15.9	20.9	24.1	23.5	24.3
APAT	2,958	4,964	7,336	8,791	10,351
EPS (Rs)	38.3	64.2	94.9	113.8	134.0
EPS (% chg)	(9.0)	67.8	47.8	19.8	17.8
ROE (%)	12.7	17.3	21.9	21.6	21.0
P/E (x)	73.3	43.7	29.5	24.7	20.9
EV/EBITDA (x)	28.7	19.6	15.1	13.2	11.6
P/BV (x)	8.0	7.2	5.9	4.8	4.0

Source: Company, Emkay Research

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	113.8	134.0
Consensus	105.2	127.4
Mean Consensus TP (12M)		Rs 2,754

Stock Details

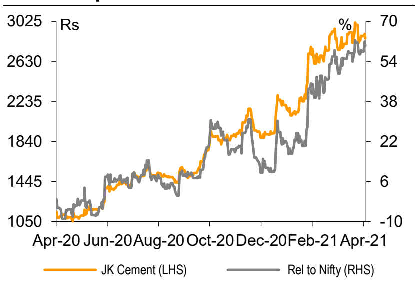
Bloomberg Code	JKCE IN
Face Value (Rs)	10
Shares outstanding (mn)	77
52 Week H/L	3,150 / 1,041
M Cap (Rs bn/USD bn)	217 / 2.89
Daily Avg Volume (nos.)	1,20,790
Daily Avg Turnover (US$ mn)	4.1

Shareholding Pattern Mar '21	
Promoters	52.6%
FIIs	16.9%
DIIs	20.6%
Public and Others	9.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	34	48	144
Rel. to Nifty	(1)	33	22	56

Relative price chart



Source: Bloomberg

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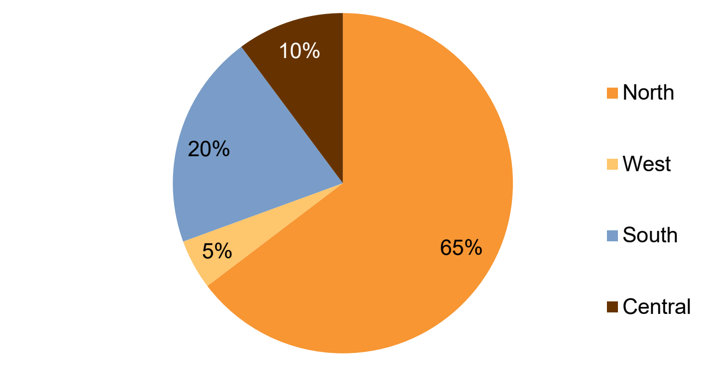
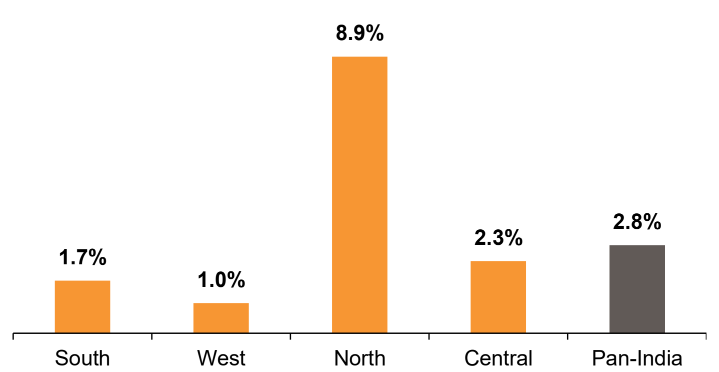
Story in Charts

Exhibit 339: 75% of capacity is in attractive North and Central markets



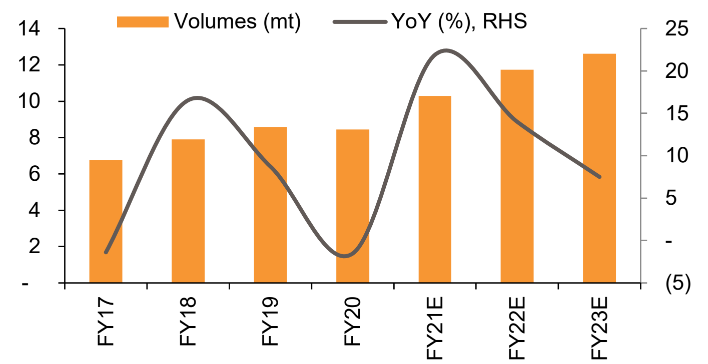
Source: Company, Emkay Research

Exhibit 340: JKCE holds capacity leadership position in North markets



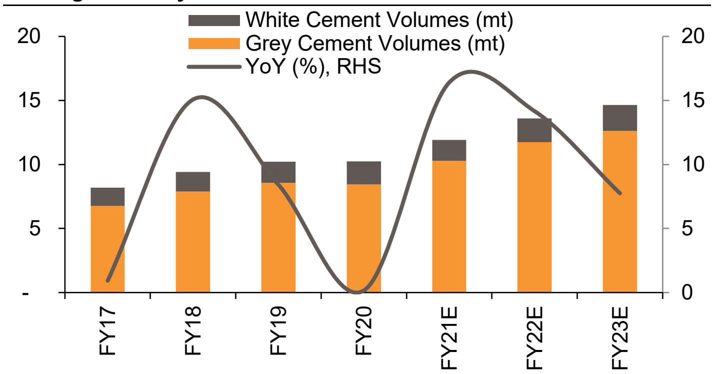
Source: Company, Industry data, Emkay Research

Exhibit 341: We model total volumes to grow at 11% CAGR over FY21-23E



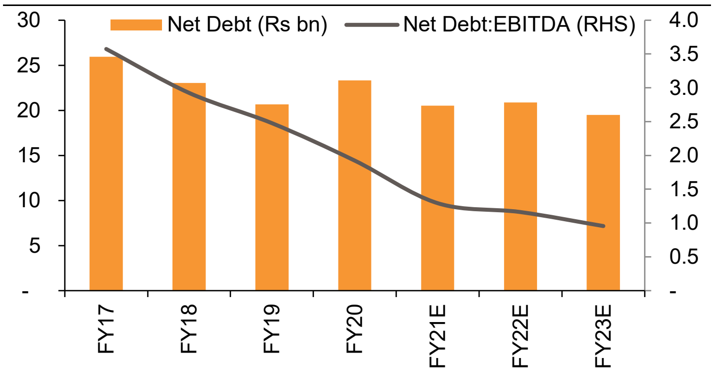
Source: Company, Emkay Research

Exhibit 342: White Cement and wall putty business helps to reduce earnings volatility



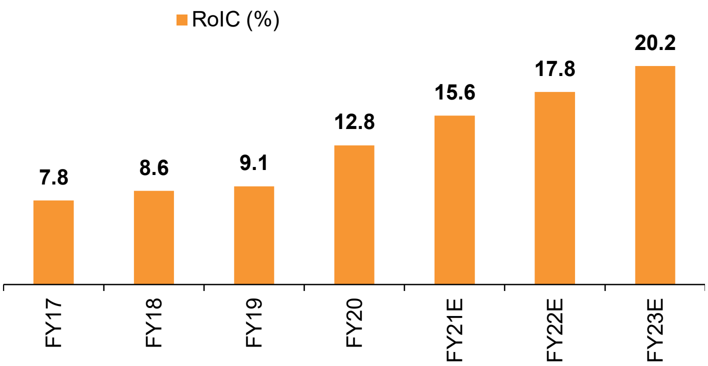
Source: Company, Emkay Research

Exhibit 343: Net Debt:EBITDA ratio likely to decline 1x by FY23E



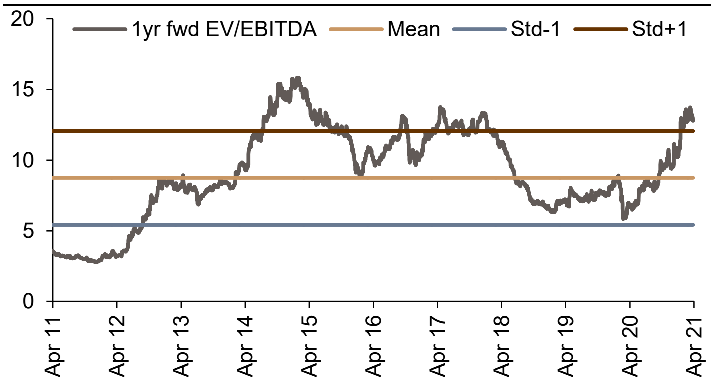
Source: Company, Emkay Research

Exhibit 344: RoIC reset to 16% from <10%; we expect it to improve to 20% over next 4-5 years



Source: Company, Emkay Research

Exhibit 345: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 346: Initiate with Hold and TP of Rs3,000/sh based on 12x Jun'22E EV/E, backed by DCF

EV/E method	**Rs bn**
FY23E EBITDA	20
Implied EV/E multiple (x)	12.0
Enterprise Value	245
Net debt (FY22E)	20
Equity value	**225**
No. of shares (mn)	77
Mar'22 Fair Value (Rs)	2,913
Jun'22* Target Price (Rs)	**3,000**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Well-diversified presence; white cement business to cushion earnings volatility

JKCE is a well-diversified mid-sized company with around 75% of its 15mt capacity in attractive North and Central markets that will likely see above-average increase in cement realizations. Besides, JKCE is the second largest player (40% market share) in India in the high-margin white cement and wall putty market. The business contributed ~30% of consolidated EBITDA (Emkay est.) in FY21E and cushioned the volatility in the grey cement business.

Well-diversified and present in attractive regions

JKCE commissioned a 2.6mt clinker unit at Mangrol and 3.5mt grinding capacities at Mangrol and Aligarh in H2FY20. The Aligarh split grinding unit is expected to further strengthen the company's position in western UP, besides opening avenues for new markets in the region.

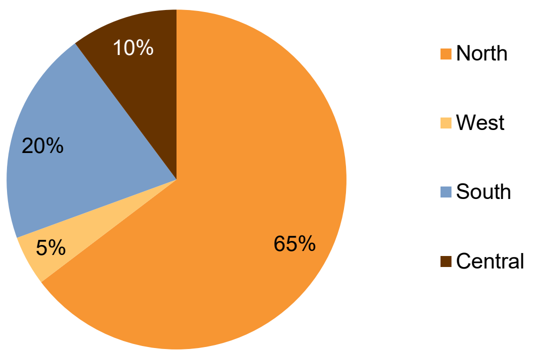
It has also commissioned a 0.7mt grinding unit at Balasinor in Oct'20, increasing its grey cement capacity by 40% to 14.7mt. The Balasinor expansion will increase presence in Gujarat and this will also help in gaining market share in North India. Further, the split-grinding unit is likely to reduce overall freight and fly ash costs due to the proximity to source and consumption markets. Additionally, the modernization of the 0.3mt plant at Nimbahera may be completed by Q2FY22.

Exhibit 347: JKCE increased its grey cement capacities by >40% to 14.7mt

Plant	Region	Clinker (mt)	Cement (mt)	Commissioning date
Mangrol	North	2.6	2.0	H2FY20
Aligarh	Central	-	1.5	H2FY20
Balasinor	West	-	0.7	Oct'20
Nimbahera	North	-	0.3	Q2FY22
Total		**2.6**	**4.5**	

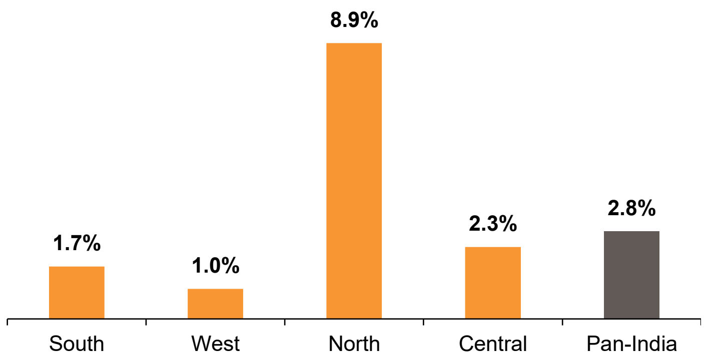
Source: Company, Emkay Research

Exhibit 348: 75% of capacity is in attractive North and Central markets



Source: Company, Emkay Research

Exhibit 349: JKCE holds capacity leadership position in North market



Source: Company, Industry data, Emkay Research

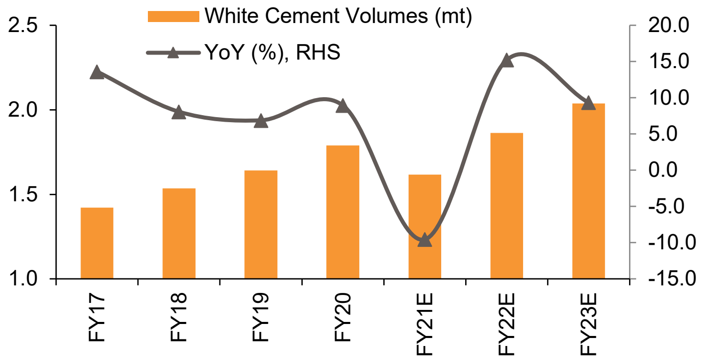
White cement and wall putty business helps reduce earnings volatility

JKCE is the second largest player (40% market share) in India in the high-margin white cement and wall putty business. In Oct'20, JKCE commissioned 0.3mt wall putty capacity at Katni, MP, increasing overall putty capacity to 1.2mt. Besides, it also has 1.2mt white cement capacity, including 0.6mt in the UAE.

JKCE's white cement plus wall putty volumes grew at a 9% CAGR in the past five years due to increasing capacity, rebranding and other necessary investments. However, margins were likely impacted by 200-300bps (Emkay est.) with increasing competition.

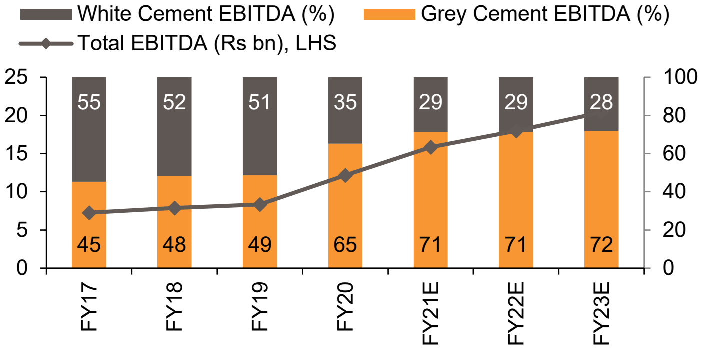
Management is confident of sustaining low double-digit volume growth in this business with EBITDA margin of 25-27%. It has contributed ~30% of consolidated EBITDA (Emkay est.) in FY21E and cushioned any volatility in grey cement business.

Exhibit 350: We model white cement plus wall putty business to grow at 12% CAGR over FY21E-23E



Source: Company, Emkay Research

Exhibit 351: White Cement and wall putty business helps to reduce earnings volatility



Source: Company, Emkay Research

Medium-term volume growth driven by utilization; longer-term growth led by capacity addition

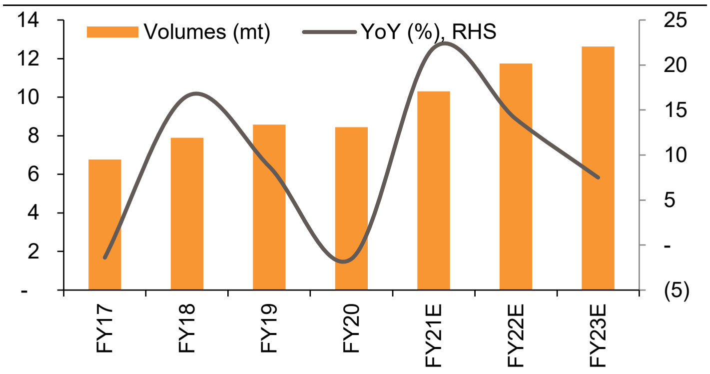
Recent capacity additions are in high-growth markets and seeing quick ramp-up, which should drive a double-digit volume CAGR over next 2-3 years with a cyclical rebound in the industry. Fresh capacity additions of 4mt in Panna, Madhya Pradesh, by H1FY24 should drive volume growth in the long term.

Medium-term volume growth driven by utilization

JKCE increased its grey cement capacity by 40% (~4.2mt) to 14.7mt, largely in H2FY20. Given that new capacity additions are in high-growth markets of North and Central regions, they are seeing quick ramp-up. JKCE's grey cement volumes grew 22% YoY vs. flat volumes for the industry in FY21, leading to market share gains by 60bps yoy to 3% in FY21E. With a cyclical rebound, we expect these capacity additions should drive a double-digit volume CAGR over next 2-3 years. Accordingly, grey cement utilization may rise from 70% in FY21E to 84% by FY23E.

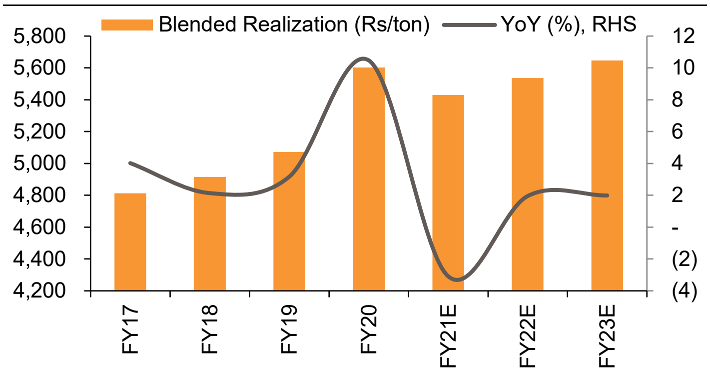
In addition, the pricing is expected to remain firm in these regions as utilization remains >80% due to better supply-demand dynamics.

Exhibit 352: We model total volumes to grow at 11% CAGR over FY21-23E



Source: Company, Emkay Research

Exhibit 353: Blended realization to grow at 2% CAGR over FY21E-23E



Source: Company, Emkay Research

Long-term volume growth will be driven by capacity addition

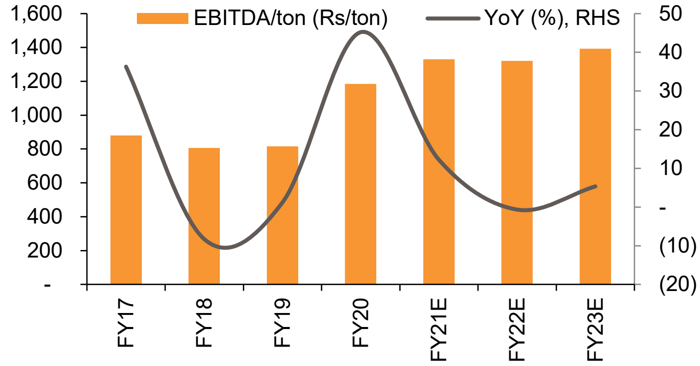
In Feb'21, JKCE announced a 4mt integrated greenfield grey cement plant at Panna, Madhya Pradesh, (in a wholly owned subsidiary Jaykaycem (Central) Ltd.) at a capex outlay of Rs30bn (~USD100/ton), targeting to commission in H1FY24E. The project would include 8,000tpd clinkerization with 2mt grinding unit as well as 22MW WHRS with split-grinding unit at Hamirpur, Uttar Pradesh.

The project would be entitled to various state government incentives, including capital subsidy in Madhya Pradesh and GST benefits in Uttar Pradesh. This plant also has scope for an additional 4-6mt brownfield expansion in future and provides visibility for volume growth beyond FY24E.

Cost optimization and de-risking efforts

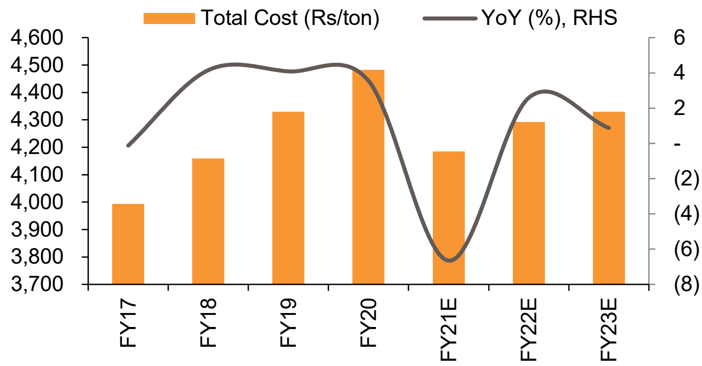
Cost savings of Rs100-120/ton (~50% of it is already realized) is possible in the near term on better cost efficiencies (like improving power consumption norms, lower freight cost with split-grinding units etc.) from new capacity at Mangrol, modernization of line-3 at Nimbahera, increasing usage of WHRS as capacity increased from 10MW to 25MW (~30% of power requirement, savings of Rs300mn or Rs20-25/ton) as well as better operating leverage. Besides, the new greenfield plant at Panna with 22MW WHRS should further improve the cost structure.

Exhibit 354: Blended EBITDA/ton to grow at 2% CAGR over FY21E-23E



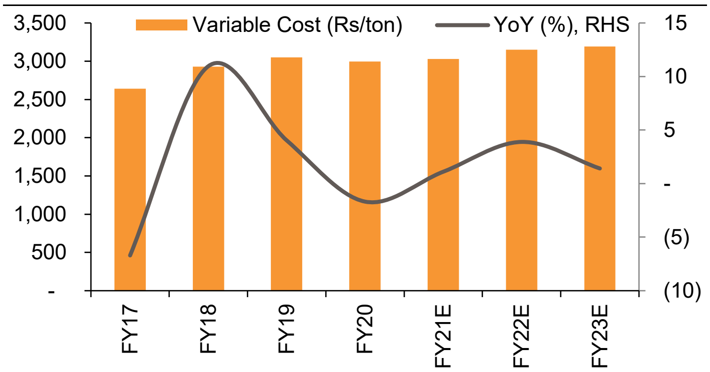
Source: Company, Emkay Research

Exhibit 355: Total cost/ton also likely to increase at 2% CAGR over FY21E-23E



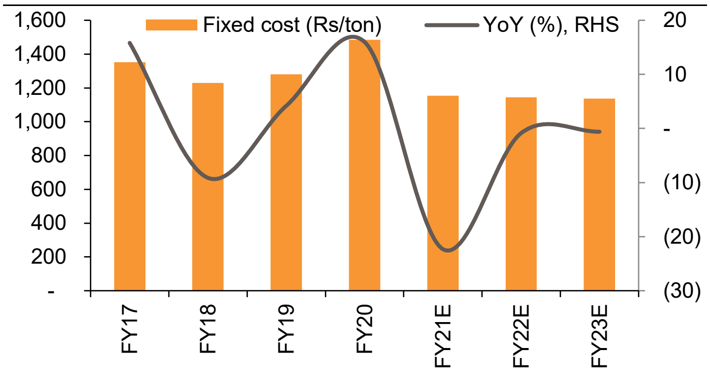
Source: Company, Emkay Research

Exhibit 356: Variable cost/ton likely to increase 2.6% CAGR over FY21E-23E



Source: Company, Emkay Research

Exhibit 357: Fixed cost/ton likely to reduce at 1% CAGR over FY21-23E



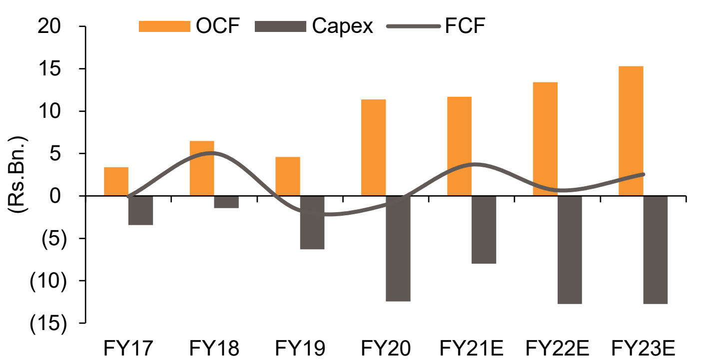
*Source: Company, Emkay Research; *including employees cost*

EBITDA CAGR of 13% in FY21-23E; net debt unlikely to increase materially

We expect an EBITDA CAGR of 13% over FY21-23E on higher utilization and improving profitability. JKCE's blended EBITDA/ton is expected to grow at a 2% CAGR over FY21-23E, driven by an 11% CAGR in total volumes and 2% CAGR in blended realization.

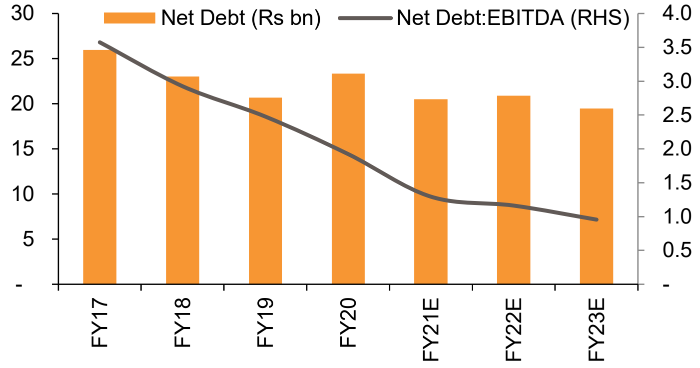
Management has guided for an overall capex outlay of Rs8bn, Rs11bn and Rs13bn, respectively, in FY22E FY23E and FY24E respectively. Given strong average OCF of Rs13bn p.a., peak net debt is unlikely to exceed Rs25bn vs. Rs20bn now, even after factoring in capex of Rs26bn in FY21E-23E. Net debt-to-EBITDA is likely to decline from 1.3x in FY21E to 1x by FY23E.

Exhibit 358: FCF generation to utilize to fund capacity expansion in coming years



Source: Company, Emkay Research

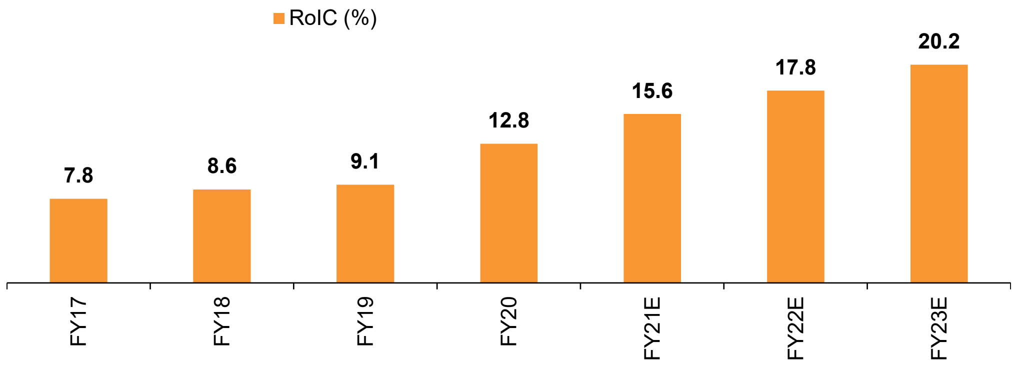
Exhibit 359: ….net debt unlikely to increase materially



Source: Company, Emkay Research, FCF includes other income and interest cost

RoIC reset to ~16% from <10% thanks to nearly doubling of EBITDA over FY19-21E. We expect RoIC to improve further to 20% over next 4-5 years and sustain there over the long term.

Exhibit 360: RoIC reset to 16% from <10%; we expect it to improve to 20% over next 4-5 years



Source: Company, Emkay Research

Initiating coverage with Hold; TP Rs3,000

JKCE stock has already rerated by 90% in 24 months to a ~13x forward EV/EBITDA multiple currently, thanks to nearly doubling of EBITDA over FY19-21E. We initiate with Hold, given a modest 7% upside on TP and lack of rerating potential.

Our Jun'22E TP of Rs3,000 is DCF-driven; we assume sustainable/terminal FCF growth of 8% (in line with industry average) and a sustainable incremental RoIC of 20% (lowest range of coverage companies). The TP implies a forward EV/EBITDA of 12x.

Exhibit 361: Initiate with Hold and TP of Rs3,000/sh based on 12x Jun'22E EV/E, backed by DCF

EV/E method	Rs bn
FY23E EBITDA	20
Implied EV/E multiple (x)	12.0
Enterprise Value	**245**
Net debt (FY22E)	20
Equity value	**225**
No. of shares (mn)	77
Mar'22 Fair Value (Rs)	2,913
Jun'22* Target Price (Rs)	**3,000**

*Source: Emkay Research, *3% premium on Mar'22E fair value*

Exhibit 362: Sensitivity analysis with every 0.5% change in TG and 2.5% change in RoIC

		Terminal Growth Rate (%)				
		7.0	**7.5**	**8.0**	**8.5**	**9.0**
Sustainable RoIC (%)	**15.0**	2,081	2,208	2,372	2,594	2,912
	17.5	2,319	2,498	2,731	3,046	3,498
	20.0	2,498	2,716	**3,000**	3,385	3,938
	22.5	2,637	2,885	3,209	3,649	4,280
	25.0	2,748	3,021	3,377	3,859	4,553

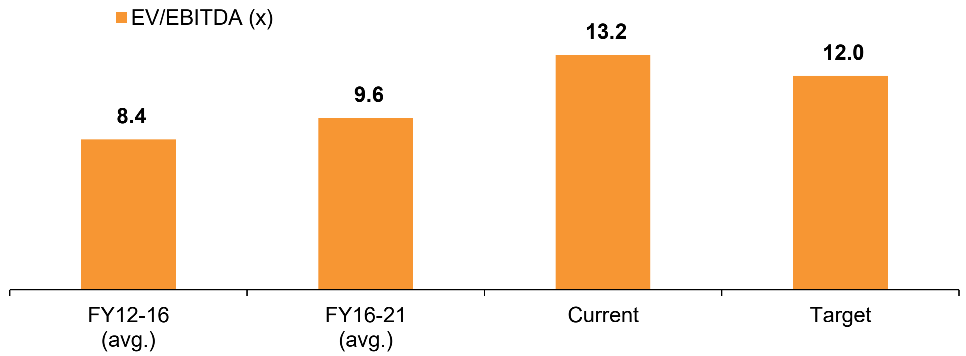
Source: Emkay Research

Exhibit 363: Our estimates are 8-9% ahead of consensus

Rs. bn.	Emkay Estimates		Consensus		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	76.4	83.9	71.0	79.3	7.6	5.7
EBITDA	**18.0**	**20.4**	**16.6**	**18.8**	**8.5**	**8.2**
PAT	8.8	10.4	8.1	9.8	8.5	5.1

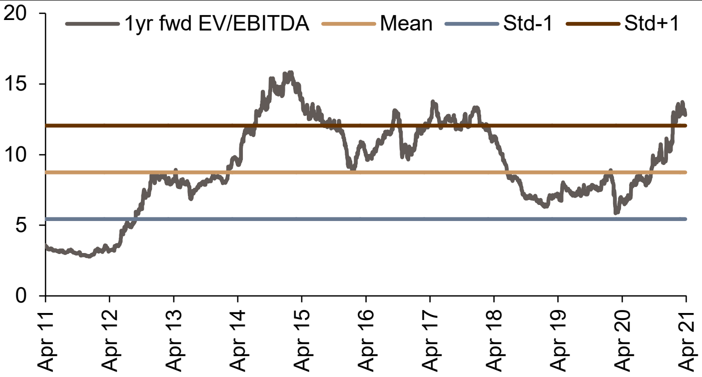
Source: Bloomberg, Emkay Research

Exhibit 364: Valuation expected to remain broadly stable after significant rerating over past 5 years



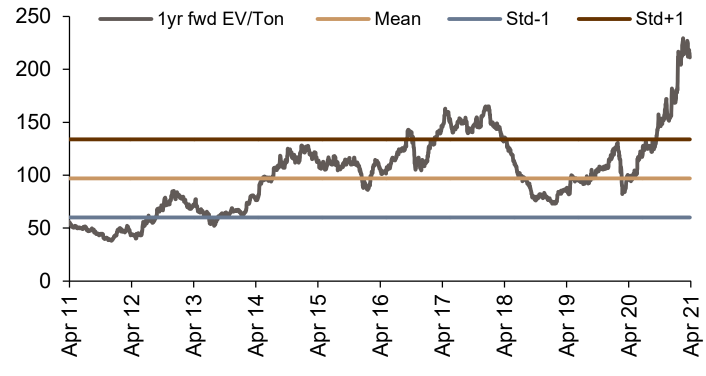
Source: Bloomberg, Emkay Research

Exhibit 365: 1-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

Exhibit 366: 1-year forward EV/ton (USD)



Source: Bloomberg, Emkay Research

Annual analysis

Exhibit 367: Annual financials

Operational metrics	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR%	
								FY21E-23E	FY21E-23E
Grey Cement									
Capacity (mt)	10.5	10.5	10.5	14.7	14.7	15.0	15.0	8.8	1.0
Volumes (mt)	6.8	7.9	8.6	8.4	10.3	11.7	12.6	11.1	10.7
Utilization (%)	65	75	82	58	70	78	84	-	-
Realization (Rs/ton)	3,645	3,906	4,001	4,527	4,522	4,613	4,701	5.5	1.9
White Cement									
Capacity (mt)	1.9	1.9	2.1	2.1	2.1	2.4	2.4	2.5	6.9
Volumes (mt)	1.4	1.5	1.6	1.8	1.6	1.9	2.0	3.3	12.2
Utilization (%)	75	81	78	85	77	78	85	-	-
Realization (Rs/ton)	10,428	10,325	10,668	10,686	11,209	11,352	11,504	1.8	1.3
Total									
Volumes (mt)	8.2	9.4	10.2	10.2	11.9	13.6	14.7		
Blended Realization (Rs/ton)	4,813	4,916	5,072	5,603	5,430	5,536	5,646		
Blended EBITDA (Rs/ton)	880	807	817	1,186	1,330	1,322	1,392		
P&L (Rs bn)									
Revenue	40	48	53	58	66	76	84	13.1	13.0
EBITDA	**7**	**8**	**8**	**12**	**16**	**18**	**20**	**21.6**	**13.5**
Adj. Net Profit	2	3	3	5	7	9	10	38.9	18.8
Balance Sheet (Rs bn)									
Equity	17	20	27	30	37	45	54		
Net Debt	26	23	21	23	21	21	19		
Net Debt: EBITDA (x)	3.6	2.9	2.5	1.9	1.3	1.2	1.0		
Net Debt: Equity (x)	1.5	1.2	0.8	0.8	0.6	0.5	0.4		
Cash Flow (Rs bn)									
OCF before NWC change	4	5	5	9	10	13	14		
Change in NWC	(1)	1	(1)	3	1	(0)	(0)		
Capex	(3)	(1)	(6)	(12)	(8)	(13)	(13)		
FCF	**(0)**	**5**	**(2)**	**(1)**	**3**	**(1)**	**1**		
Return ratios (%)									
RoE	11.8	16.0	12.7	17.3	21.9	21.6	21.0		
RoCE	7.2	9.8	8.5	11.0	13.1	13.3	13.5		
RoIC	**7.8**	**8.6**	**9.1**	**12.8**	**15.6**	**17.8**	**20.2**		
Valuations (x)									
PE				43.7	29.5	24.7	20.9		
EV/EBITDA				19.6	15.1	13.2	11.6		
EV/ton (US$)				207	205	201	200		

Source: Company, Emkay Research

Exhibit 368: Annual analysis on per ton basis

Rs/ton	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Blended realization	**4,813**	**4,916**	**5,072**	**5,603**	**5,430**	**5,536**	**5,646**
Raw materials consumed	851	821	865	851	910	914	923
Power & fuel costs	805	976	1,083	1,069	1,020	1,091	1,104
Freight costs	985	1,133	1,100	1,077	1,100	1,144	1,165
Staff cost	385	391	392	445	359	343	343
Other expenses	967	838	888	1,040	794	801	794
Operating Cost	**3,993**	**4,159**	**4,329**	**4,483**	**4,184**	**4,293**	**4,330**
Other operating income	62	50	74	65	85	78	76
Blended EBITDA	**880**	**807**	**817**	**1,186**	**1,330**	**1,322**	**1,392**

Source: Company, Emkay Research

Quarterly analysis

Exhibit 369: Quarterly financials (Standalone)

Rs mn	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Net Sales	13,875	14,587	9,494	15,256	17,300	24.7	13.4
Other operating income	167	187	155	252	302	81.0	20.1
Revenue	**14,042**	**14,774**	**9,650**	**15,507**	**17,602**	**25.4**	**13.5**
Expenditure	**11,264**	**11,312**	**7,497**	**11,400**	**13,113**	**16.4**	**15.0**
Total RM	2,546	2,071	1,953	2,466	2,664	4.6	8.0
Power & Fuel	2,536	2,690	1,531	2,725	3,242	27.8	19.0
Freight	2,705	2,818	1,755	2,952	3,484	28.8	18.0
Staff cost	992	987	950	976	1,098	10.7	12.5
Other expenditure	2,485	2,745	1,307	2,281	2,625	5.6	15.1
EBITDA	**2,777**	**3,463**	**2,153**	**4,107**	**4,490**	**61.6**	**9.3**
Depreciation	556	577	580	597	622	11.8	4.2
EBIT	2,222	2,886	1,573	3,510	3,868	74.1	10.2
Other Income	237	271	203	287	303	28.1	5.6
Interest	561	572	572	537	593	5.7	10.5
PBT	1,897	2,585	1,204	3,260	3,578	88.6	9.7
Total Tax	521	801	427	1,025	1,194	128.9	16.5
Adjusted PAT	**1,376**	**1,784**	**777**	**2,235**	**2,384**	**73.3**	**6.7**
Extra ordinary items	(0)	(1,782)	-	-	-		
Reported PAT	**1,376**	**2**	**777**	**2,235**	**2,384**	**73.3**	**6.7**
Adjusted EPS (Rs)	17.8	23.1	10.1	28.9	30.9	73.3	6.7

Margins (%)	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (bps)	QoQ (bps)
EBIDTA	19.8	23.4	22.3	26.5	25.5	572.6	(97.8)
EBIT	15.8	19.5	16.3	22.6	22.0	615.3	(66.3)
EBT	13.5	17.5	12.5	21.0	20.3	681.6	(69.9)
PAT	9.8	12.1	8.1	14.4	13.5	374.8	(87.1)
Effective Tax rate	27.5	31.0	35.5	31.4	33.4	587.7	192.6

Source: Company, Emkay Research

Exhibit 370: Quarterly analysis on per ton basis

Rs/ton	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	YoY (%)	QoQ (%)
Grey Cement volumes (mt)	2.2	2.4	1.6	2.5	2.8	25.1	12.5
WC+WP (mt)	0.4	0.3	0.2	0.4	0.4	14.0	11.7
Total volume (mt)	**2.6**	**2.7**	**1.8**	**2.8**	**3.2**	**23.5**	**12.4**
Grey Cement realization	4,355	4,618	4,648	4,514	4,487	3.1	(0.6)
White Cement realization	12,095	12,086	11,953	11,629	12,231	1.1	5.2
Blended Realization	**5,424**	**5,468**	**5,375**	**5,427**	**5,475**	**0.9**	**0.9**
Raw Material	996	776	1,105	877	843	(15.3)	(3.9)
Power & Fuel	992	1,008	867	970	1,026	3.5	5.8
Freight	1,058	1,056	994	1,050	1,103	4.2	5.0
Staff cost	388	370	538	347	348	(10.4)	0.1
Other expenditure	971	1,029	740	812	831	(14.5)	2.4
Operating cost	**4,404**	**4,240**	**4,244**	**4,056**	**4,150**	**(5.8)**	**2.3**
Other operating income	65	70	88	90	96	46.5	6.8
Blended EBITDA/ton	**1,086**	**1,298**	**1,219**	**1,461**	**1,421**	**30.9**	**(2.8)**

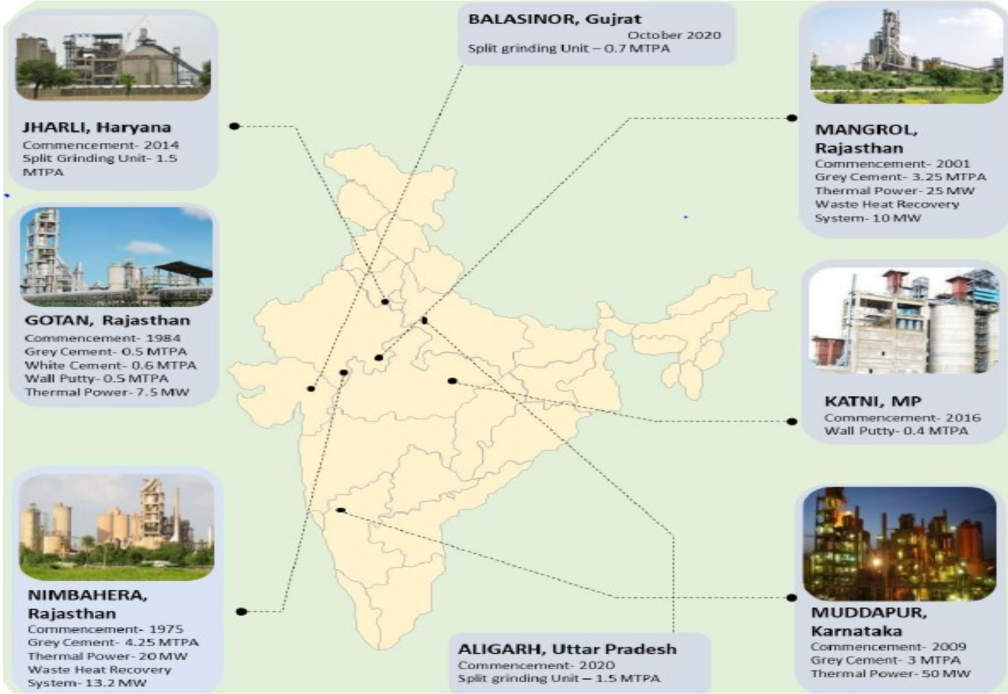
Source: Company, Emkay Research

Company Background

JK Cement has more than four decades of experience in cement manufacturing and is an affiliate of industrial conglomerate, J K Organisation, founded by Mr. Lala Kamlapat Singhania. JKCE product offerings include grey cement, white cement, white cement based wall putty, and other value-added products like GypsoMaxx, ShieldMaxx, Primaxx, Tilemaxx, etc.

JK Cement has a grey cement capacity of 14.7mt (~3% capacity market share), predominantly operating in North, Central and South India. Besides, it is the second-largest white cement producer (~40% market share) with a capacity of 1.2mt (including 0.6mt in the UAE) and also wall putty capacity of 1.2mt. The company also has 126MW CPP generation capacity and 23MW WHRS capacity. In Dec'18, JKCE raised Rs5.1bn by issuing equity share through QIP at a price of Rs696/share.

Exhibit 371: Plant locations



Source: Company, Emkay Research

Exhibit 372: Product portfolio

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	**52,587**	**58,016**	**65,707**	**76,365**	**83,868**
Expenditure	**44,242**	**45,882**	**49,855**	**58,389**	**63,465**
EBITDA	**8,345**	**12,134**	**15,852**	**17,976**	**20,403**
Depreciation	2,413	2,880	3,042	3,198	3,320
EBIT	**5,932**	**9,255**	**12,810**	**14,778**	**17,083**
Other Income	804	853	1,091	1,254	1,254
Interest expenses	2,611	2,764	2,751	2,750	2,750
PBT	**4,124**	**7,344**	**11,150**	**13,282**	**15,588**
Tax	1,234	2,511	3,944	4,622	5,367
Extraordinary Items	(254)	0	0	0	0
Minority Int./Income from Assoc.	67	130	130	130	130
Reported Net Income	**2,703**	**4,964**	**7,336**	**8,791**	**10,351**
Adjusted PAT	**2,958**	**4,964**	**7,336**	**8,791**	**10,351**

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	773	773	773	773	773
Reserves & surplus	26,177	29,504	36,068	43,931	53,278
Net worth	**26,950**	**30,277**	**36,841**	**44,704**	**54,051**
Minority Interest	**0**	**(203)**	**(253)**	**(317)**	**(396)**
Loan Funds	**29,731**	**29,693**	**32,693**	**32,693**	**32,693**
Net deferred tax liability	3,123	4,173	5,607	7,287	9,239
Total Liabilities	**59,803**	**63,940**	**74,887**	**84,367**	**95,587**
Net block	**45,369**	**55,545**	**57,848**	**57,451**	**59,932**
Investment	**4,383**	**458**	**458**	**458**	**458**
Current Assets	**18,808**	**24,122**	**31,389**	**34,901**	**38,607**
Cash & bank balance	5,115	6,345	12,169	11,788	13,192
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	**14,374**	**21,481**	**22,810**	**26,443**	**28,412**
Net current assets	**4,434**	**2,641**	**8,580**	**8,458**	**10,196**
Misc. exp	0	0	0	0	0
Total Assets	**59,803**	**63,940**	**74,887**	**84,367**	**95,587**

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	**4,124**	**7,344**	**10,189**	**12,158**	**14,464**
Other Non-Cash items	(383)	(385)	1,434	1,681	1,952
Chg in working cap	(681)	2,820	(114)	(260)	(334)
Operating Cashflow	**7,039**	**13,668**	**13,359**	**14,905**	**16,784**
Capital expenditure	(6,313)	(12,428)	(8,000)	(12,750)	(12,750)
Free Cash Flow	**725**	**1,240**	**5,359**	**2,155**	**4,034**
Investments	408	3,337	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	**(5,538)**	**(8,806)**	**(6,909)**	**(11,496)**	**(11,496)**
Equity Capital Raised	5,043	0	0	0	0
Loans Taken / (Repaid)	344	3,133	3,000	0	0
Dividend paid (incl tax)	(841)	(1,627)	(773)	(927)	(1,004)
Other Financing Cash Flow	(18)	(25)	(101)	(114)	(130)
Financing Cashflow	**1,728**	**(1,081)**	**(625)**	**(3,791)**	**(3,884)**
Net chg in cash	**3,229**	**3,781**	**5,825**	**(381)**	**1,404**
Opening cash position	1,887	2,564	6,345	12,169	11,788
Closing cash position	**5,115**	**6,345**	**12,169**	**11,788**	**13,192**

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	15.9	20.9	24.1	23.5	24.3
EBIT Margin	11.3	16.0	19.5	19.4	20.4
Effective Tax Rate	29.9	34.2	35.4	34.8	34.4
Net Margin	5.5	8.3	11.0	11.3	12.2
ROCE	12.1	16.3	20.0	20.1	20.4
ROE	12.7	17.3	21.9	21.6	21.0
RoIC	13.5	19.2	24.1	27.3	30.8

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	38.3	64.2	94.9	113.8	134.0
CEPS	69.5	101.5	134.3	155.2	176.9
BVPS	348.8	391.8	476.8	578.6	699.5
DPS	12.1	9.0	10.0	12.0	13.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	73.3	43.7	29.5	24.7	20.9
P/CEPS	40.4	27.6	20.9	18.1	15.9
P/BV	8.0	7.2	5.9	4.8	4.0
EV / Sales	4.5	4.1	3.6	3.1	2.8
EV / EBITDA	28.7	19.6	15.1	13.2	11.6
Dividend Yield (%)	0.4	0.3	0.4	0.4	0.5

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.8	0.8	0.6	0.5	0.4
Net Debt/EBIDTA	2.5	1.9	1.3	1.2	1.0
Working Cap Cycle (days)	(4.7)	(23.3)	(19.9)	(15.9)	(13.0)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	8.5	10.3	13.3	16.2	9.8
EBITDA	6.0	45.4	30.6	13.4	13.5
EBIT	6.7	56.0	38.4	15.4	15.6
PAT	(6.6)	83.6	47.8	19.8	17.8

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	14,042	14,774	9,650	15,507	17,602
EBITDA	2,777	3,463	2,153	4,107	4,490
EBITDA Margin (%)	**19.8**	**23.4**	**22.3**	**26.5**	**25.5**
PAT	1,376	2	777	2,235	2,384
EPS (Rs)	**17.8**	**-**	**10.1**	**28.9**	**30.9**

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	58.1	58.1	58.1	57.7	52.6
FIIs	12.4	13.5	14.0	15.4	16.9
DIIs	23.8	23.3	23.3	21.6	20.6
Public and Others	5.7	5.2	4.7	5.2	9.9

Source: Capitaline

Emkay Alpha Portfolio – Cement & Building Materials

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Cement & Building Materials	**2.57**	**2.57**	**0%**	**0**	**100.00**
ACC	0.19	0.13	-32%	-6	5.0
Ambuja Cements	0.27	0.39	44%	12	15.0
Birla Corporation	0.00	0.00	NA	0	-
Dalmia Bharat	0.14	0.51	256%	37	20.0
Grasim Industries	0.62	0.00	-100%	-62	-
India Cements	0.00	0.00	NA	0	-
JK Cement	0.00	0.00	NA	0	-
Jk Lakshmi Cement	0.00	0.00	NA	0	-
Orient Cement	0.00	0.00	NA	0	-
Prism Johnson	0.00	0.00	NA	0	-
Ramco Cements	0.15	0.13	-15%	-2	5.0
Shree Cements	0.34	0.51	52%	18	20.0
Star Cement	0.00	0.00	NA	0	-
Ultratech Cement	0.86	0.90	4%	4	35.0
Century Plyboards	0.00	0.00	NA	0	-
Kajaria Ceramics	0.00	0.00	NA	0	-
Cash	**0.00**	**0.00**	**NA**	**0**	**0.00**

Source: Emkay Research

High Conviction/Strong Over Weight   High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	23-Apr-20	23-Oct-20	22-Jan-21	23-Mar-21	23-Apr-21
EAP - Cement & Building Materials	100.0	77.5	101.1	121.1	153.8	141.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	75.7	102.0	119.9	151.1	138.9

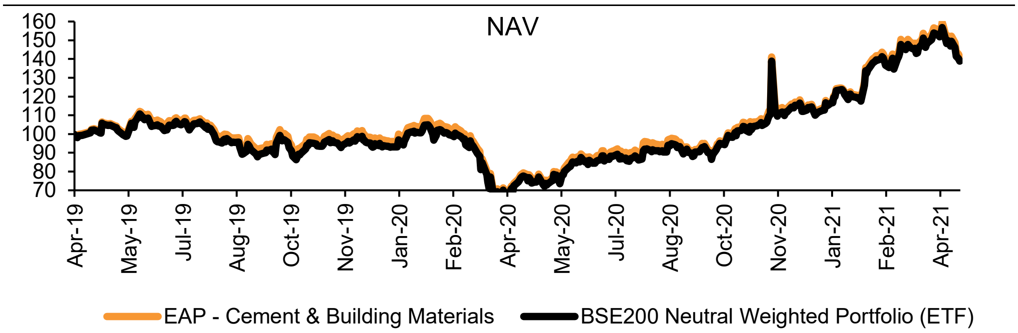
**Performance measurement base date 1st April 2019*
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Cement & Building Materials	-8.2%	16.6%	35.6%	82.3%
BSE200 Neutral Weighted Portfolio (ETF)	-8.1%	15.8%	36.2%	83.4%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): Nifty

Please see our model portfolio (Emkay Alpha Portfolio): SMID

"Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals"

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Apr 2021 20:06:24 (SGT)
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