

## Sector update

## Top picks

- Shree Cement
- UltraTech Cement

## INDIA

## Cement

## Outlook CY21: Earnings upgrade to continue

We continue to maintain our positive stance for CY21 as we expect consensus earnings upgrade to continue. Industry average EBITDA/te grew 25% YoY in FY20, which further rose 20% YoY to >Rs1,250/te in H1FY21. With improving volumes / prices, investors are likely to get more convinced about the sustainability of these profitability. Consensus FY21E / FY22E EBITDA has been upgraded by 25% / 15% during H2CY20; our estimates are ~10% ahead of consensus (refer table 2). SRCM and UTCEM remain our top picks. We also like ACEM, JKCE and TRCL.

## Key trends for CY21

- ▶ **Demand recovery likely to be robust** with 13-14% YoY growth for FY22E on a low base (2-3% YoY decline in both FY20 and FY21E), **resulting in 6% CAGR over FY20-22E**. Rural and semi-urban housing coupled with government-led infrastructure will be the key demand drivers. East, Central and South are likely to lead demand growth, also aided by elections in West Bengal, Uttar Pradesh and Tamil Nadu.
- ▶ **Capacity additions to grow at 4% CAGR over FY20-23E**: 60% of 33mte clinker and 70mte cement capacities (including ~10mte likely to be announced soon) are planned to be added in high-growth markets of East and Central regions over FY20-FY23E and 50% of these capacities are expected towards the end of FY23E. Huge divergence in regional growth during FY20-21E has resulted in North, Central and East operating at 85% utilisation in FY21E from 80% in FY19; while utilisation of South and West has likely declined from 70% in FY19 to current ~60%.
- ▶ **Industry consolidation to increase further** with share of top six companies in the respective regions ex-South likely to increase from 67-80% in FY19 to 77-85% by FY23E. A few more M&As (including that of JPA) may result in further consolidation.
- ▶ **Prices may further increase in North and Central in FY22E** led by increasing utilisation and higher consolidation. However, prices in East may remain under pressure owing to fight for market share. Prices in South rose sharply by >10% in FY21E till date, hence are expected to remain volatile. Cost escalations are likely to be passed on and companies may report >15% YoY EBITDA growth in FY22E over ~15% YoY growth in FY21E. Consensus earnings upgrade may continue in CY21.
- ▶ **Decade of stock price outperformance backed by strong earnings / growth visibility**: Sector has outperformed broad indices over the past decade and delivered robust returns, and we expect this trend to continue. UTCEM, SRCM, TRCL and JKCE delivered 17%, 29%, 24% and 30% CAGR returns respectively over past 10 years, and 13%, 18%, 19% and 26% over past five years; they have also outperformed broad indices over past one / two years.

## Valuation summary

| Company  | Rating | TP<br>(Rs/sh) | P/E (x) |       |       | EV/EBITDA (x) |       |       | EV/t (USD/t) |       |       |
|----------|--------|---------------|---------|-------|-------|---------------|-------|-------|--------------|-------|-------|
|          |        |               | FY21E   | FY22E | FY23E | FY21E         | FY22E | FY23E | FY21E        | FY22E | FY23E |
| UTCEM    | BUY    | 5,725         | 27.8    | 23.2  | 20.1  | 14.4          | 12.3  | 10.8  | 181          | 166   | 145   |
| ACC*     | BUY    | 1,830         | 23.8    | 18.6  | 16.3  | 10.3          | 8.4   | 7.5   | 100          | 97    | 94    |
| ACEM*    | BUY    | 300           | 21.6    | 18.2  | 15.6  | 11.2          | 9.2   | 7.8   | 120          | 114   | 108   |
| SRCM     | BUY    | 28,000        | 39.8    | 31.0  | 25.7  | 20.8          | 16.4  | 13.7  | 245          | 231   | 208   |
| DALBHARA | ADD    | 1,020         | 90.9    | 22.7  | 22.7  | 8.3           | 7.7   | 6.8   | 107          | 88    | 84    |
| TRCL     | BUY    | 960           | 26.1    | 23.1  | 18.4  | 15.4          | 12.6  | 10.4  | 170          | 152   | 145   |
| JKCE     | BUY    | 2,370         | 24.6    | 18.9  | 15.9  | 12.2          | 9.9   | 8.5   | 121          | 101   | 92    |
| ICEM     | SELL   | 100           | 73.6    | 22.5  | 20.4  | 13.1          | 10.2  | 9.3   | 72           | 71    | 70    |
| JKLC     | BUY    | 475           | 11.5    | 10.0  | 8.8   | 5.8           | 5.5   | 5.3   | 57           | 60    | 62    |
| ORCMNT   | BUY    | 93            | 12.6    | 9.9   | 9.6   | 6.0           | 5.1   | 5.6   | 43           | 41    | 46    |
| PRSMJ    | ADD    | 85            | 42.3    | 17.3  | 14.4  | 9.7           | 6.8   | 5.8   | 109          | 90    | 79    |
| HEIM     | BUY    | 230           | 17.8    | 14.0  | 12.1  | 8.5           | 6.7   | 5.9   | 95           | 88    | 85    |
| GRASIM   | ADD    | 875           | 53.7    | 14.7  | 10.8  | 17.5          | 8.4   | 6.7   | -            | -     | -     |

Source: I-Sec research \*Dec year-ending

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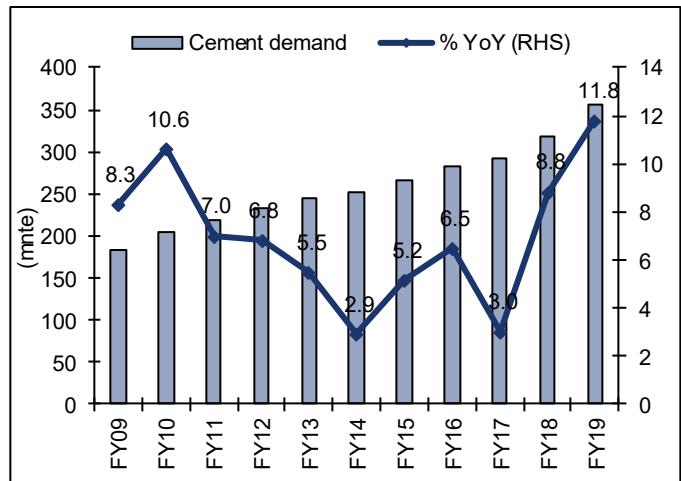
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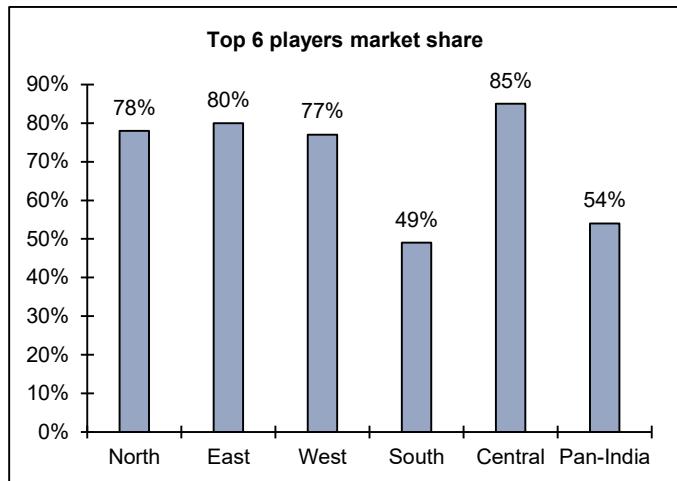
## Key tables and charts

Demand has grown at ~7% CAGR over past 10 years; to rebound sharply in FY22E



Source: I-Sec research

Increasing industry consolidation to aid firm pricing



Source: I-Sec research

Average pan-India cement utilisation unlikely to decline over FY20-FY22E

| Utilisations (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------|------|------|-------|-------|-------|
| North            | 75   | 78   | 84    | 86    | 88    |
| Central          | 80   | 82   | 82    | 84    | 84    |
| East             | 85   | 83   | 84    | 84    | 83    |
| West             | 74   | 70   | 65    | 63    | 64    |
| South            | 66   | 60   | 53    | 56    | 59    |
| All-India        | 74   | 72   | 72    | 72    | 74    |

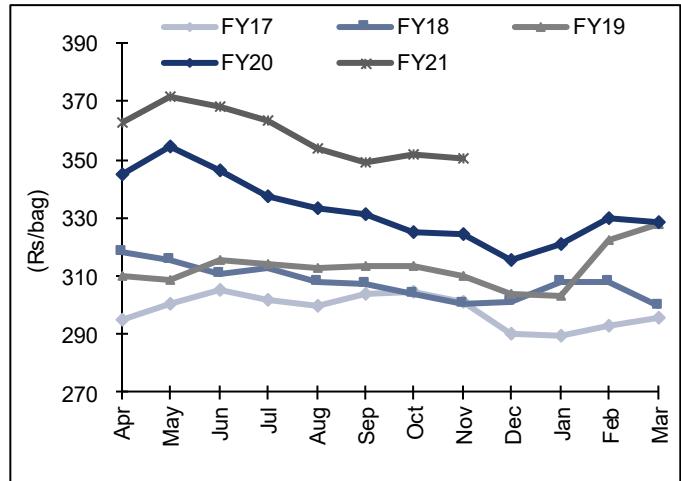
Source: I-Sec research, \*based on effective capacity operational

Clinker utilisation to remain at 77-78% over FY20-FY22E

|   | FY20      | FY21E     | FY22E     | FY23E     |
|---|-----------|-----------|-----------|-----------|
| <b>North, Central and East (combined)</b> |           |           |           |           |
| Clinker capacity                          | 159       | 165       | 169       | 177       |
| Clinker utilisation*                      | 83        | 86        | 89        | 91        |
| <b>South and West (combined)</b>          |           |           |           |           |
| Clinker capacity                          | 163       | 169       | 175       | 178       |
| Clinker utilisation*                      | 70        | 63        | 65        | 69        |
| <b>All-India</b>                          |           |           |           |           |
| Clinker capacity                          | 322       | 334       | 345       | 355       |
| <b>Clinker utilisation*</b>               | <b>77</b> | <b>77</b> | <b>78</b> | <b>80</b> |

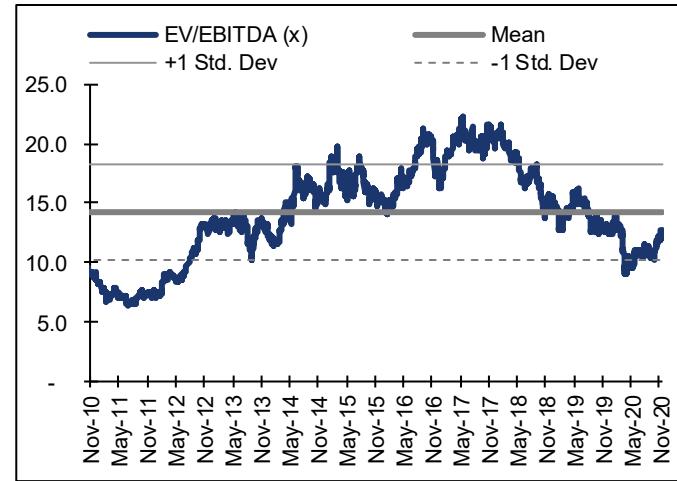
Source: I-Sec research, \*based on effective capacity operational

Average pan-India prices are up 7% YoY in Nov'20



Source: Industry data, I-Sec research

UTCEM- EV/E – in line with historical average



Source: Bloomberg, I-Sec research

## CY20 – Unprecedented demand / price recovery amidst Covid'19 restrictions; stocks outperformed

**Consensus anticipated sharp demand decline in FY21 initially; we remained positive:**

During Mar-Apr'20 when demand was severely impacted by almost complete lockdown owing to Covid, most companies and consensus anticipated sharp demand decline of 15-20% for FY21. We had highlighted during Mar-Apr'20 through our series of notes *In uncertainty lies opportunity – I* ([link](#)), *II* ([link](#)) and *III* ([link](#)), that '*Covid lockdown may likely result in deferment of demand growth in the interim, but is unlikely to result in any loss of demand (through past learnings including that during demonetisation). More importantly, sector had demonstrated strong pricing resilience even in muted demand*'. We had factored-in only low single-digit volume decline for FY21 along with stable EBITDA/te in Apr'20.

### Demand surprised positively; prices remained resilient

Demand started to improve during May-Jun'20 owing to pent-up demand and strong rural / semi-urban housing demand especially in North, Central and East, which were relatively less impacted by Covid. Most regions saw price increases including sharp 30% price increase in South. Demand gained momentum post monsoon in Sep-Oct'20 when even non-trade demand including that of government infrastructure spends saw increased traction and pan-India utilisation reached 75-80% in Oct'20. Over past two months, industry is likely to have posted strong high-single digit YoY demand growth led by mid-teens YoY growth in North, Central and East. Even South and West, which were impacted more by the Covid lockdown, staged good recovery. While the West has likely turned broadly flat YoY, South is still witnessing YoY decline.

### Stock prices rebound; decade of sector outperformance

Stock prices corrected sharply during Mar'20 and early part of Apr'20 along with broad indices but witnessed sharp recovery thereafter along with demand / price recovery, and outperformed broad indices.

In fact, the sector has outperformed broad indices over past several years led by strong pricing power and robust earnings growth. UTCEM, SRCM, TRCL and JKCE delivered 17%, 29%, 24% and 30% CAGR returns respectively over past 10 years and 13%, 18%, 19% and 26% over past 5 years and have also outperformed broad indices over past one / two years. Given strong earnings visibility over next few years, we expect sector outperformance to continue.

**Table 1: Decade of sector outperformance; likely to continue**

| Absolute returns (%) | ACEM | ACC  | UTCEM | SRCM    | JKCE    | TRCL  | Nifty |
|----------------------|------|------|-------|---------|---------|-------|-------|
| 1Y                   | 26.6 | 12.4 | 23.9  | 20.2    | 77.3    | 11.5  | 12.9  |
| 2Y                   | 19.0 | 14.8 | 30.8  | 49.5    | 187.3   | 46.5  | 26.0  |
| 5Y                   | 33.5 | 26.1 | 84.8  | 131.3   | 216.7   | 138.1 | 77.1  |
| 8Y                   | 22.1 | 17.2 | 164.2 | 462.7   | 587.0   | 323.0 | 128.1 |
| 10Y                  | 89.3 | 67.3 | 375.3 | 1,145.3 | 1,353.0 | 752.6 | 133.7 |
| CAGR (%)             |      |      |       |         |         |       |       |
| 2Y                   | 9.1  | 7.1  | 14.4  | 22.3    | 69.5    | 21.0  | 12.3  |
| 5Y                   | 5.9  | 4.7  | 13.1  | 18.3    | 25.9    | 18.9  | 12.1  |
| 8Y                   | 2.5  | 2.0  | 12.9  | 24.1    | 27.2    | 19.8  | 10.9  |
| 10Y                  | 6.6  | 5.3  | 16.9  | 28.7    | 30.7    | 23.9  | 8.9   |

Source: I-Sec research,

## CY21 – Maintain positive stance; consensus earnings upgrade to continue

We continue to maintain our positive stance for CY21 as we expect consensus earnings upgrade to continue. Industry average EBITDA/te grew by 25% YoY in FY20, which further rose 20% YoY to >Rs1,250/te in H1FY21. With improving volume / prices, investors are likely to get more convinced about the sustainability of these profitability. Consensus FY21E / FY22E EBITDA has been upgraded by 25% / 15% during H2CY20; our estimates are ~10% ahead of consensus. SRCM and UTCEM remain our top picks. We also like ACEM, JKCE and TRCL.

**Table 2: Our estimates are ~10% ahead of consensus**

(Rs mn)

| On Mean basis               | SALES           |                  | EBITDA          |                 | PAT             |                 |
|-----------------------------|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|
|                             | FY21E           | FY22E            | FY21E           | FY22E           | FY21E           | FY22E           |
| <b>UTCEM - consolidated</b> |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 4,30,140        | 4,94,538         | 1,08,805        | 1,23,017        | 50,974          | 62,669          |
| Consensus                   | 4,05,185        | 4,62,861         | 96,624          | 1,10,039        | 42,804          | 53,915          |
| Diff (%)                    | 6.2             | 6.8              | 12.6            | 11.8            | 19.1            | 16.2            |
| <b>ACC</b>                  |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 1,37,519        | 1,60,790         | 23,968          | 29,001          | 12,767          | 16,381          |
| Consensus                   | 1,37,210        | 1,58,544         | 23,416          | 27,008          | 13,333          | 15,790          |
| Diff (%)                    | 0.2             | 1.4              | 2.4             | 7.4             | (4.2)           | 3.7             |
| <b>SRCM- Standalone</b>     |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 1,28,339        | 1,55,878         | 40,365          | 49,332          | 23,479          | 29,413          |
| Consensus                   | 1,20,984        | 1,40,784         | 37,094          | 42,998          | 18,771          | 22,629          |
| Diff (%)                    | 6.1             | 10.7             | 8.8             | 14.7            | 25.1            | 30.0            |
| <b>ICEM</b>                 |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 43,900          | 52,796           | 7,985           | 8,607           | 2,093           | 2,305           |
| Consensus                   | 42,482          | 49,916           | 7,436           | 8,234           | 1,448           | 1,926           |
| Diff (%)                    | 3.3             | 5.8              | 7.4             | 4.5             | 44.5            | 19.7            |
| <b>TRCL</b>                 |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 55,354          | 67,331           | 14,519          | 17,052          | 7,604           | 8,552           |
| Consensus                   | 51,937          | 62,226           | 13,146          | 15,102          | 6,418           | 7,644           |
| Diff (%)                    | 6.6             | 8.2              | 10.4            | 12.9            | 18.5            | 11.9            |
| <b>JKCE (consolidated)</b>  |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 62,923          | 74,741           | 14,054          | 17,013          | 6,096           | 7,931           |
| Consensus                   | 60,405          | 70,977           | 13,265          | 15,759          | 5,379           | 7,091           |
| Diff (%)                    | 4.2             | 5.3              | 5.9             | 8.0             | 13.3            | 11.9            |
| <b>JKLC - Consolidated</b>  |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 47,361          | 53,867           | 8,856           | 9,722           | 3,475           | 4,024           |
| Consensus                   | 43,957          | 49,641           | 7,793           | 8,692           | 2,665           | 3,334           |
| Diff (%)                    | 7.7             | 8.5              | 13.6            | 11.8            | 30.4            | 20.7            |
| <b>ORCMNT</b>               |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 21,547          | 25,945           | 4,306           | 4,745           | 1,276           | 1,619           |
| Consensus                   | 22,406          | 25,512           | 4,220           | 4,327           | 1,206           | 1,327           |
| Diff (%)                    | (3.8)           | 1.7              | 2.0             | 9.7             | 5.8             | 22.0            |
| <b>PRSMJ</b>                |                 |                  |                 |                 |                 |                 |
| I-Sec estimate              | 52,467          | 62,002           | 6,152           | 8,513           | 1,070           | 2,612           |
| Consensus                   | 50,201          | 59,013           | 5,619           | 7,666           | 727             | 2,441           |
| Diff (%)                    | 4.5             | 5.1              | 9.5             | 11.0            | 47.1            | 7.0             |
| <b>I-Sec estimate</b>       | <b>9,79,550</b> | <b>11,47,888</b> | <b>2,29,010</b> | <b>2,67,002</b> | <b>1,08,834</b> | <b>1,35,506</b> |
| <b>Consensus</b>            | <b>9,34,767</b> | <b>10,79,474</b> | <b>2,08,613</b> | <b>2,39,825</b> | <b>92,751</b>   | <b>1,16,097</b> |
| <b>Diff (%)</b>             | <b>4.8</b>      | <b>6.3</b>       | <b>9.8</b>      | <b>11.3</b>     | <b>17.3</b>     | <b>16.7</b>     |

Source: I-Sec research

## Demand to grow at 6% CAGR over FY20-22E; rural housing and infrastructure spends key demand drivers

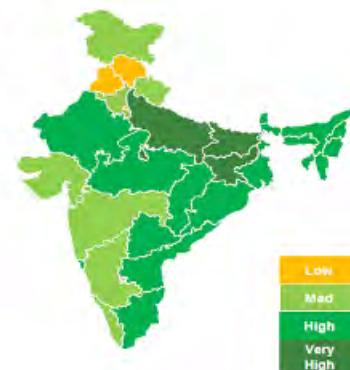
**Demand recovery likely to be robust with 13-14% YoY growth for FY22E** on a low base (2-3% YoY decline in both FY20 and FY21E owing to Covid lockdown), resulting in 6% CAGR over FY20-FY22E. Rural and semi-urban housing coupled with government-led infrastructure will be the key demand drivers. East, Central and South regions are likely to lead volume growth, also aided by elections in West Bengal, Uttar Pradesh and Tamil Nadu. Pent-up urban demand (mostly non-trade), especially in South and West, is also likely to improve as Covid concerns recede. After two consecutive years of demand decline, Andhra Pradesh / Telangana is likely to report strong growth with the likely revival of government spending.

### Chart 1: Demand recovery likely to be robust with 13-14% YoY growth for FY22E

**Favorable Outlook:** Central & East have Highest Potential to outperform among all zones

| Macro Economic- Potential            | North | Central | East* | West | South | India |
|--------------------------------------|-------|---------|-------|------|-------|-------|
| Rural Population (FY 20E)            | 67%   | 75%     | 77%   | 53%  | 54%   | 67%   |
| PCC (Kg) - FY 20LE                   | 231   | 173     | 203   | 273  | 263   | 227   |
| Housing Shortage (FY20E) (Mn) ^      | 10    | 8       | 9     | 7    | 12    | 50    |
| Road Density (kms/ per lac people) # | 294   | 244     | 307   | 469  | 401   | 358   |
| Power Density (kWh/Capita)           | 1233  | 700     | 820   | 1758 | 1461  | 1181  |

\* Excl. North-East

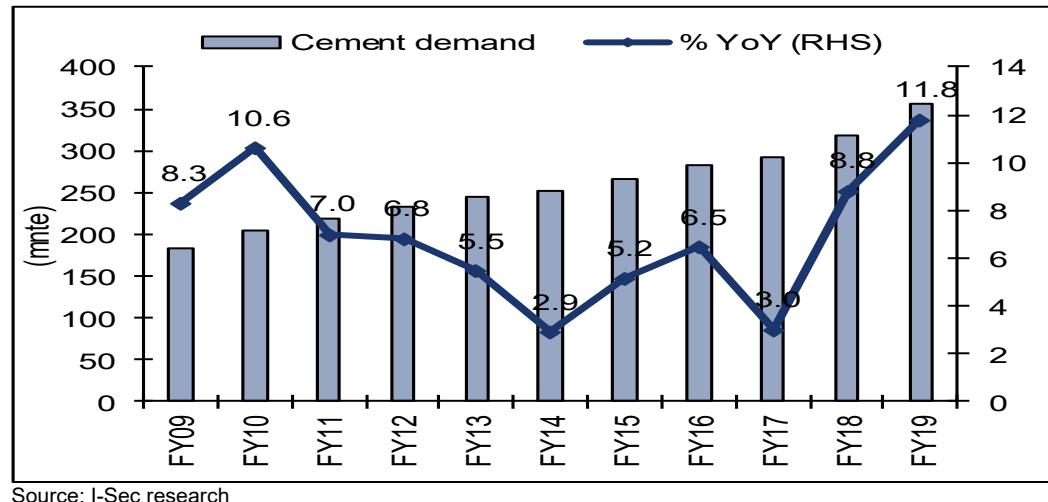


Source: UTCEM PPT, I-Sec research

### Chart 2: Rural housing and infrastructure to be key growth drivers

| State/Region | Vol. Gr. | I | R | H | C | Key drivers  |
|--------------|----------|---|---|---|---|--|
| North        | ↑        | ● | ● | ● | ● | <input type="checkbox"/> Robust IHB demand<br><input type="checkbox"/> Infrastructure segment registered positive growth   |
| Central      | ↑        | ● | ● | ● | ● | <input type="checkbox"/> Robust IHB demand<br><input type="checkbox"/> Infrastructure segment registered positive growth   |
| Maharashtra  | ↓        | ● | ● | ● | ● | <input type="checkbox"/> Rural housing witnessed positive demand<br><input type="checkbox"/> Infrastructure segment recovery in Sep'20   |
| Gujarat      | ↑        | ● | ● | ● | ● | <input type="checkbox"/> IHB demand led by Rural housing<br><input type="checkbox"/> Infrastructure segment registered positive growth   |
| East         | ↑        | ● | ● | ● | ● | <input type="checkbox"/> Robust IHB demand<br><input type="checkbox"/> Strong Rural housing demand<br><input type="checkbox"/> Infrastructure segment registered positive growth |
| South        | ↓        | ● | ● | ● | ● | <input type="checkbox"/> Sep'20 saw a sharp increase in demand.<br><input type="checkbox"/> Infrastructure segment registered positive growth                                    |

Source: UTCEM PPT, I-Sec research

**Chart 3: Demand has grown at ~7% CAGR over past 10 years**

Source: I-Sec research

**Huge divergence in regional growth during FY20 and H1FY21:**

While reported demand is expected to decline by 2-3% YoY during both FY20 and FY21, demand growth adjusted for lockdown period would be likely ~1% YoY growth for FY20 and 4-5% YoY growth for FY21. Region-wise, South likely declined in mid-single digit YoY, West remained broadly flat YoY and North, Central and East regions likely to have grown in low-single digit YoY during FY20.

Based on demand trend during YTDFY21, we expect North, Central and East regions to post strong low double-digit YoY growth during FY21; while South and West regions are likely to see high-single digit YoY decline. Accordingly, North, Central and East regions are likely operating at high ~85% utilisation during FY21 necessitating capacity additions over next few years.

**Table 3: Volume growth assumptions from FY21-FY23E**

|              | Total volumes (mmt) |              |              |              |              | Growth YoY (%) |            |              |             |            |
|--------------|---------------------|--------------|--------------|--------------|--------------|----------------|------------|--------------|-------------|------------|
|              | FY19                | FY20         | FY21E        | FY22E        | FY23E        | FY19           | FY20       | FY21E        | FY22E       | FY23E      |
| UTCEM        | 76.4                | 82.3         | 83.8         | 94.5         | 101.0        | 18.2           | 7.8        | 1.8          | 12.7        | 6.9        |
| ACC          | 28.4                | 28.9         | 26.2         | 29.8         | 31.3         | 6.8            | 1.9        | (9.2)        | 13.5        | 5.0        |
| ACEM         | 24.3                | 24.1         | 22.3         | 26.1         | 28.4         | 5.4            | (0.8)      | (7.4)        | 17.0        | 9.0        |
| SRCM         | 28.7                | 28.7         | 30.9         | 36.2         | 40.2         | 27.6           | (0.0)      | 7.6          | 17.2        | 10.9       |
| DALBHARA     | 18.7                | 19.3         | 20.6         | 23.9         | 26.1         | 10.1           | 3.3        | 7.0          | 16.0        | 9.0        |
| ICEM         | 12.4                | 11.0         | 8.8          | 10.8         | 11.6         | 11.3           | (11.4)     | (19.9)       | 22.0        | 8.0        |
| JKCE         | 10.2                | 10.2         | 11.4         | 13.3         | 14.4         | 8.4            | 0.2        | 11.5         | 16.3        | 8.7        |
| TRCL         | 11.1                | 11.2         | 10.1         | 12.5         | 13.9         | 19.5           | 0.7        | (10.0)       | 24.0        | 11.0       |
| JKLC         | 11.1                | 10.0         | 11.0         | 12.2         | 13.0         | 18.4           | (9.8)      | 9.1          | 11.5        | 6.6        |
| ORCMNT       | 6.4                 | 5.8          | 4.8          | 5.8          | 6.4          | 11.6           | (9.5)      | (18.0)       | 22.0        | 10.0       |
| PRSMJ        | 6.3                 | 5.7          | 5.7          | 6.4          | 6.6          | 11.2           | (8.7)      | -            | 11.0        | 4.0        |
| HEIM         | 4.9                 | 4.7          | 4.5          | 5.0          | 5.3          | 5.3            | (3.9)      | (4.4)        | 11.2        | 5.0        |
| <b>Total</b> | <b>238.9</b>        | <b>242.1</b> | <b>240.2</b> | <b>276.4</b> | <b>298.2</b> | <b>14.3</b>    | <b>1.3</b> | <b>(0.8)</b> | <b>15.1</b> | <b>7.9</b> |

Source: I-Sec research

## Capacity to grow at 4% CAGR over FY20-FY23E; utilisation to improve

60% of new 33mnte clinker and 70mnte cement capacities (including 10mnte likely to be announced) are planned to be added in high-growth markets of East and Central regions over FY20-FY23E and 50% of these capacities are expected towards end of FY23E, which would see ramp-up only from FY24E. Huge divergence in regional growth during FY20-21E has resulted in North, Central and East operating at 85% utilisation in FY21E from 80% in FY19; while utilisation of South and West has likely declined from 70% in FY19 to current ~60%.

**Table 4: North – no major capacity additions**

| Company      | CoD    | FY19     | FY20       | FY21E      | FY22E      | FY23E      |
|--------------|--------|----------|------------|------------|------------|------------|
| ACEM         | Sep-21 |          |            |            | 1.8        |            |
| JKCE         | Dec-19 |          | 2.0        |            |            |            |
| SRCM*        | Sep-22 |          |            |            | 3.0        |            |
| UTCEM        | Mar-23 |          |            |            | 2.5        |            |
| Wonder       | Mar-21 |          |            | 2.0        |            |            |
| <b>Total</b> |        | <b>-</b> | <b>2.0</b> | <b>2.0</b> | <b>1.8</b> | <b>5.5</b> |

Source: I-Sec research, \*yet to be announced-assumed

**Table 6: Central – few capacity additions**

| Company      | CoD    | FY19       | FY20       | FY21E    | FY22E      | FY23E      |
|--------------|--------|------------|------------|----------|------------|------------|
| ACC          | Dec-22 |            |            |          | 4.8        |            |
| BCORP        | Sep-22 |            |            |          | 1.2        |            |
| HEIM         | Mar-20 |            | 0.9        |          |            |            |
| JKCE         | Feb-20 |            | 1.5        |          |            |            |
| SGC          | Dec-21 |            |            | 1.0      |            |            |
| UTCEM        | Mar-20 |            | 2.0        |          |            |            |
| UTCEM        | Sep-21 |            |            | 3.3      |            |            |
| UTCEM        | Apr-18 | 1.8        |            |          |            |            |
| UTCEM        | Jun-18 | 1.8        |            |          |            |            |
| UTCEM        | Mar-23 |            |            |          | 1.8        |            |
| Wonder       | Feb-20 |            | 2.5        |          |            |            |
| <b>Total</b> |        | <b>3.5</b> | <b>6.9</b> | <b>-</b> | <b>4.3</b> | <b>7.8</b> |

**Table 7: West – to see entry of new players**

| Company      | CoD    | FY19       | FY20       | FY21E      | FY22E      | FY23E      |
|--------------|--------|------------|------------|------------|------------|------------|
| BCORP        | Sep-21 |            |            |            | 3.9        |            |
| CENT         | Apr-19 |            | 1.2        |            |            |            |
| JKCE         | Dec-20 |            |            | 0.7        |            |            |
| JSW          | Sep-18 | 1.2        |            |            |            |            |
| JSW          | Apr-21 |            |            |            | 2.3        |            |
| Penna        | Sep-18 | 1.0        |            |            |            |            |
| SNGI         | Dec-20 |            | 2.0        |            |            |            |
| SRCM         | Dec-20 |            |            | 2.0        |            |            |
| UTCEM        | Mar-23 |            |            |            | 1.8        |            |
| Wonder       | Dec-18 | 2.5        |            |            |            |            |
| <b>Total</b> |        | <b>4.7</b> | <b>1.2</b> | <b>4.7</b> | <b>3.9</b> | <b>4.1</b> |

Source: I-Sec research

**Table 5: East – more capacities expected on expectations of high growth**

| Company      | CoD    | FY19       | FY20       | FY21E      | FY22E      | FY23E       |
|--------------|--------|------------|------------|------------|------------|-------------|
| ACC          | Apr-21 |            |            |            |            | 1.1         |
| Emami        | Sep-18 |            | 1.0        |            |            |             |
| Emami        | Dec-18 |            | 2.0        |            |            |             |
| JKLC         | Sep-19 |            |            |            | 0.8        |             |
| JSW          | Sep-21 |            |            |            |            | 1.2         |
| JSW          | Jun-19 |            |            |            | 1.2        |             |
| JSW          | Mar-22 |            |            |            |            | 1.0         |
| DALBHARA     | Dec-20 |            |            |            | 3.1        |             |
| DALBHARA     | Apr-21 |            |            |            |            | 2.3         |
| DALBHARA     | Sep-22 |            |            |            |            | 2.5         |
| Nuvoco       | Dec-21 |            |            |            |            | 1.2         |
| STAR         | Dec-20 |            |            |            | 1.0        |             |
| TRCL         | Sep-19 |            |            | 1.1        |            |             |
| TRCL         | Sep-20 |            |            |            | 0.9        |             |
| SGC          | Dec-21 |            |            |            |            | 1.5         |
| SRCM         | Dec-20 |            |            |            | 1.8        |             |
| SRCM         | Jun-19 |            |            | 1.5        |            |             |
| SRCM*        | Sep-22 |            |            |            |            | 6.0         |
| UTCEM        | Sep-21 |            |            |            | 1.2        |             |
| UTCEM        | Apr-22 |            |            |            |            | 2.2         |
| UTCEM        | Mar-23 |            |            |            |            | 6.8         |
| <b>Total</b> |        | <b>3.0</b> | <b>4.6</b> | <b>6.8</b> | <b>9.5</b> | <b>17.5</b> |

Source: I-Sec research, \*yet to be announced-assumed

**Table 8: South – very few capacity additions expected owing to low utilisation**

| Company      | CoD    | FY19       | FY20       | FY21E      | FY22E      | FY23E      |
|--------------|--------|------------|------------|------------|------------|------------|
| Chettinad    | Mar-20 |            |            | 2.5        |            |            |
| KCP          | Feb-19 |            | 1.7        |            |            |            |
| My Home      | Apr-22 |            |            |            |            | 2.0        |
| Penna        | Sep-18 |            | 2.0        |            |            |            |
| Penna        | Mar-20 |            |            | 2.0        |            |            |
| TRCL         | Jun-20 |            |            |            | 1.1        |            |
| TRCL         | Sep-21 |            |            |            |            | 1.0        |
| TRCL         | Mar-21 |            |            |            |            |            |
| SGC          | Jun-18 |            | 1.3        |            |            |            |
| SGC          | Sep-19 |            |            | 0.5        |            |            |
| SRCM         | Dec-18 |            | 3.0        |            |            |            |
| TANCEM       | Dec-19 |            |            | 1.0        |            |            |
| <b>Total</b> |        | <b>8.0</b> | <b>6.0</b> | <b>1.1</b> | <b>1.0</b> | <b>2.0</b> |

Source: I-Sec research

**Table 9: Average pan-India cement utilisation unlikely to decline over FY20-FY22E**

| Utilisations (%) | FY19      | FY20      | FY21E     | FY22E     | FY23E     |
|------------------|-----------|-----------|-----------|-----------|-----------|
| North            | 75        | 78        | 84        | 86        | 88        |
| Central          | 80        | 82        | 82        | 84        | 84        |
| East             | 85        | 83        | 84        | 84        | 83        |
| West             | 74        | 70        | 65        | 63        | 64        |
| South            | 66        | 60        | 53        | 56        | 59        |
| <b>All-India</b> | <b>74</b> | <b>72</b> | <b>72</b> | <b>72</b> | <b>74</b> |

Source: I-Sec research, based on effective capacity operational

**Table 10: Clinker utilisation to remain at 77-78% over FY20-FY22E**

|   | FY20      | FY21E     | FY22E     | FY23E     |
|---|-----------|-----------|-----------|-----------|
| <b>North, Central and East (combined)</b> |           |           |           |           |
| Clinker capacity                          | 159       | 165       | 169       | 177       |
| Clinker utilisation*                      | 83        | 86        | 89        | 91        |
| <b>South and West (combined)</b>          |           |           |           |           |
| Clinker capacity                          | 163       | 169       | 175       | 178       |
| Clinker utilisation*                      | 70        | 63        | 65        | 69        |
| <b>All-India</b>                          |           |           |           |           |
| Clinker capacity                          | 322       | 334       | 345       | 355       |
| <b>Clinker utilisation*</b>               | <b>77</b> | <b>77</b> | <b>78</b> | <b>80</b> |

Source: I-Sec research, \*based on effective capacity operational

**Average pan-India cement / clinker utilisation unlikely to fall below current 72% / 77% over next few years**

**Table 11: North – Utilisation to reach 88% in FY23E**

|                           | FY19       | FY20       | FY21E     | FY22E      | FY23E      |
|---------------------------|------------|------------|-----------|------------|------------|
| Installed capacity        | 103        | 105        | 109       | 109        | 114        |
| <b>Effective capacity</b> | <b>103</b> | <b>101</b> | <b>99</b> | <b>108</b> | <b>110</b> |
| YoY chg (%)               | 4.8        | (2.3)      | (1.8)     | 9.1        | 2.2        |
| Volumes                   | 77         | 78         | 83        | 93         | 97         |
| <b>Utilisation (%)</b>    | <b>75</b>  | <b>78</b>  | <b>84</b> | <b>86</b>  | <b>88</b>  |
| YoY change (%)            | 5.0        | 1.0        | 6.0       | 11.7       | 5.0        |

**Table 12: East – Utilisation to remain >80% despite higher capacity additions**

|                           | FY19      | FY20      | FY21E     | FY22E      | FY23E      |
|---------------------------|-----------|-----------|-----------|------------|------------|
| Installed capacity        | 88        | 92        | 99        | 108        | 126        |
| <b>Effective capacity</b> | <b>86</b> | <b>88</b> | <b>90</b> | <b>104</b> | <b>115</b> |
| YoY chg (%)               | 6.1       | 2.9       | 2.4       | 15.5       | 10.2       |
| Volumes                   | 72        | 73        | 76        | 87         | 95         |
| <b>Utilisation (%)</b>    | <b>85</b> | <b>83</b> | <b>84</b> | <b>84</b>  | <b>83</b>  |
| YoY change (%)            | 14.0      | 1.0       | 5.0       | 15.0       | 9.0        |

**Table 13: Central – Utilisation to reach 84% in FY22E-FY23E**

|                           | FY19      | FY20      | FY21E     | FY22E     | FY23E     |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| Installed capacity        | 58        | 65        | 65        | 69        | 77        |
| <b>Effective capacity</b> | <b>57</b> | <b>57</b> | <b>61</b> | <b>67</b> | <b>71</b> |
| YoY chg (%)               | 5.6       | (0.9)     | 7.1       | 9.3       | 6.3       |
| Volumes                   | 46        | 46        | 50        | 56        | 59        |
| <b>Utilisation (%)</b>    | <b>80</b> | <b>82</b> | <b>82</b> | <b>84</b> | <b>84</b> |
| YoY change (%)            | 6.1       | 1.5       | 6.9       | 11.8      | 6.0       |

**Table 14: West – Utilisation to remain range-bound over FY21E-FY23E**

|                           | FY19      | FY20      | FY21E     | FY22E     | FY23E     |
|---------------------------|-----------|-----------|-----------|-----------|-----------|
| Installed capacity        | 66        | 67        | 72        | 76        | 80        |
| <b>Effective capacity</b> | <b>63</b> | <b>65</b> | <b>63</b> | <b>74</b> | <b>77</b> |
| YoY chg (%)               | 2.8       | 3.7       | (4.1)     | 17.8      | 4.2       |
| Volumes                   | 47        | 45        | 41        | 47        | 49        |
| <b>Utilisation (%)</b>    | <b>74</b> | <b>70</b> | <b>65</b> | <b>63</b> | <b>64</b> |
| YoY change (%)            | 10.0      | (3.0)     | (10.0)    | 14.0      | 6.0       |

**Table 15: South – Utilisation to remain <60% by FY23E**

|                           | FY19       | FY20       | FY21E      | FY22E      | FY23E      |
|---------------------------|------------|------------|------------|------------|------------|
| Installed capacity        | 170        | 171        | 177        | 178        | 180        |
| <b>Effective capacity</b> | <b>165</b> | <b>166</b> | <b>161</b> | <b>177</b> | <b>180</b> |
| YoY chg (%)               | 2.7        | 0.5        | (2.8)      | 10.2       | 1.4        |
| Volumes                   | 109        | 99         | 85         | 99         | 107        |
| <b>Utilisation (%)</b>    | <b>66</b>  | <b>60</b>  | <b>53</b>  | <b>56</b>  | <b>59</b>  |
| YoY change (%)            | 20.0       | (9.0)      | (14.0)     | 16.0       | 8.0        |

Source: Industry data, I-Sec research

**Table 16: Pan-India – Utilisation to reach ~74% by FY23E**

|                           | FY19       | FY20       | FY21E      | FY22E      | FY23E      |
|---------------------------|------------|------------|------------|------------|------------|
| Installed capacity        | 484        | 500        | 521        | 540        | 577        |
| <b>Effective capacity</b> | <b>474</b> | <b>476</b> | <b>474</b> | <b>530</b> | <b>553</b> |
| YoY chg (%)               | 4.1        | 0.6        | (0.6)      | 11.9       | 4.3        |
| Volumes                   | 352        | 343        | 335        | 382        | 408        |
| <b>Utilisation (%)</b>    | <b>74</b>  | <b>72</b>  | <b>71</b>  | <b>72</b>  | <b>74</b>  |
| YoY change (%)            | 12.0       | (2.6)      | (2.1)      | 13.8       | 7.0        |

## Industry consolidation to increase further; top-6 companies ex-South to have 77-85% capacity share by FY23E

**Industry consolidation to increase further** with the share of top six companies to increase from 49% to 54% by FY23E as 70% of new capacity additions are planned by these companies. Similarly, the share of top six companies in the respective regions ex-South would increase from the current 67-80% to 77-85% by FY23E as 70% of new capacity additions are planned by these companies. Few more M&As, including that of JPA assets, may further result in higher consolidation.

**Table 17: Capacity share of top-6 companies in FY19**

| North        |           | East         |           | Central      |           | West         |           | South        |           | India        |           |
|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|
| Comp.        | Share     |
| UTCEM        | 24        | DALBHARA     | 16        | UTCEM        | 30        | UTCEM        | 33        | UTCEM        | 12        | UTCEM        | 20        |
| SRCM         | 23        | UTCEM        | 13        | BCORP        | 15        | ACEM         | 17        | TRCL         | 9         | SRCM         | 8         |
| ACEM         | 9         | Nuvoco       | 10        | PRSMJ        | 12        | ACC          | 8         | ICEM         | 8         | ACC          | 7         |
| JKCE         | 7         | ACC          | 10        | ACC          | 9         | CENT         | 7         | DALBHARA     | 7         | ACEM         | 6         |
| JKLC         | 7         | SRCM         | 10        | HEIM         | 8         | SNGI         | 6         | Chettinad    | 6         | DALBHARA     | 5         |
| Wonder       | 6         | ACEM         | 9         | JPA          | 8         | Murli        | 4         | ACC          | 6         | TRCL         | 3         |
| <b>Total</b> | <b>76</b> | <b>Total</b> | <b>67</b> | <b>Total</b> | <b>81</b> | <b>Total</b> | <b>76</b> | <b>Total</b> | <b>48</b> | <b>Total</b> | <b>49</b> |

Source: I-Sec research

**Table 18: High consolidation – capacity share of top-6 companies in FY23E**

| North        |           | East         |           | Central      |           | West         |           | South        |           | India        |           |
|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|--------------|-----------|
| Comp.        | Share     |
| UTCEM        | 24        | UTCEM        | 21        | UTCEM        | 37        | UTCEM        | 37        | UTCEM        | 11        | UTCEM        | 23        |
| SRCM         | 23        | DALBHARA     | 17        | BCORP        | 13        | ACEM         | 14        | TRCL         | 10        | SRCM         | 9         |
| ACEM         | 10        | Nuvoco       | 14        | ACC          | 12        | SNGI         | 8         | Chettinad    | 8         | ACC          | 7         |
| JKCE         | 8         | SRCM         | 14        | PRSMJ        | 9         | ACC          | 6         | ICEM         | 7         | DALBHARA     | 6         |
| JKLC         | 7         | ACC          | 8         | HEIM         | 7         | JSW          | 6         | DALBHARA     | 7         | ACEM         | 5         |
| Wonder       | 7         | ACEM         | 6         | JPA          | 7         | BCORP        | 6         | Penna        | 6         | TRCL         | 4         |
| <b>Total</b> | <b>78</b> | <b>Total</b> | <b>80</b> | <b>Total</b> | <b>85</b> | <b>Total</b> | <b>77</b> | <b>Total</b> | <b>49</b> | <b>Total</b> | <b>54</b> |

Source: I-Sec research

**Table 19: M&A deals augmenting higher consolidation in the industry**

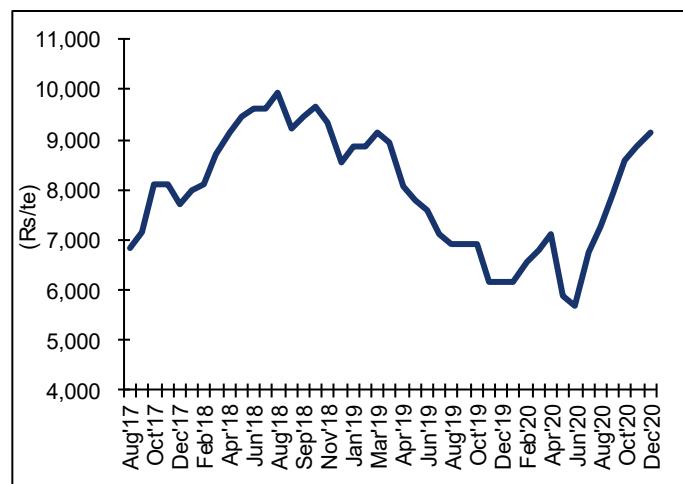
| Month  | Buyer    | Seller           | Capacity (mntr) | EV (US\$mn) | EV/te | Remarks  |
|--------|----------|------------------|-----------------|-------------|-------|--|
| Jul-13 | ACEM     | Holcim India     | 30.7            | 2,500       | 110   | Bought 50.04% stake in ACC   |
| Sep-13 | UTCEM    | 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               | 90          | 90    | Int. plant in AP with 25MW capacity, 155mntr 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 regions                          |
| Jul-16 | Nirma    | Lafarge          | 11              | 1,284       | 117   | Assets spread across East and North regions                                    |
| Jul-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    | Includes 2mntr grinding unit. UTCEM received CCI approval in Aug'18            |
| Nov-18 | UTCEM    | Binani Cement    | 8.3             | 1,130       | 140   | 4.6mntr clinker and 6.25mntr cement; potential expansion opportunity of 5mntr. |
| Jul-19 | DALBHARA | Murli            | 3               | 110         | 38    | Capex of US\$60mn required to make the plant operational                       |
| Feb-20 | Nuvoco   | Emami            | 8.3             | 735         | 112   | It operates an integrated cement plant and three grinding units                |

Source: I-Sec research

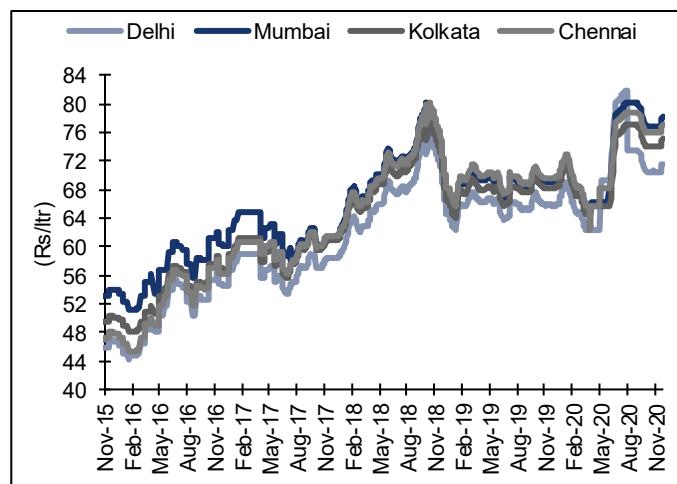
## Prices to increase with increasing utilisation and higher industry consolidation; costs escalation to be passed-on

**Prices rose at 6% CAGR in North and Central regions over past four years post UTCEM's acquisition of JPA and Binani assets.** Prices may increase further in these regions in FY22E led by increasing utilisation and higher consolidation. However, prices in East may continue to remain under pressure owing to fight for market share. Prices in South rose sharply by >10% in FY21E, hence are expected to remain volatile as utilisations in South are unlikely to exceed 65% over next three years. Cost escalations may be contained as companies may partially switch to low-cost coal instead of petcoke and various cost efficiencies. Higher volume growth would mitigate any increase in fixed costs. Accordingly, cost escalations are likely to be passed-on and companies may report >15% YoY EBITDA growth in FY22E over ~15% in FY21E. **Consensus earning upgrades are likely to continue in FY22E too.**

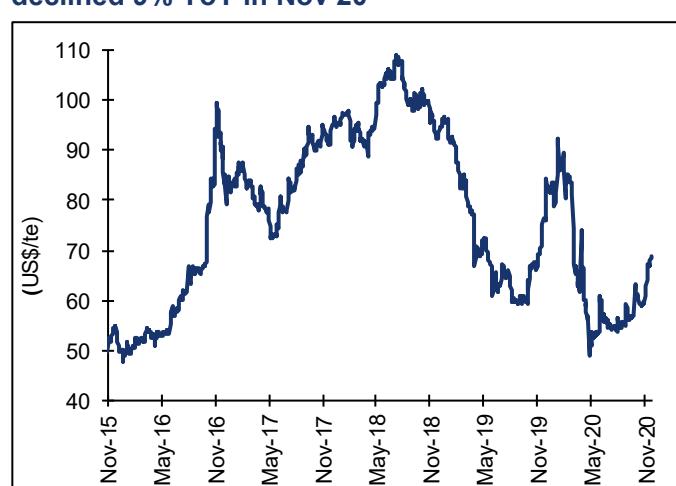
**Chart 4: Domestic petcoke prices increased 3% MoM / 48% YoY in Dec'20**



**Chart 5: Diesel prices increased 9% YoY / flat MoM in Nov'20**

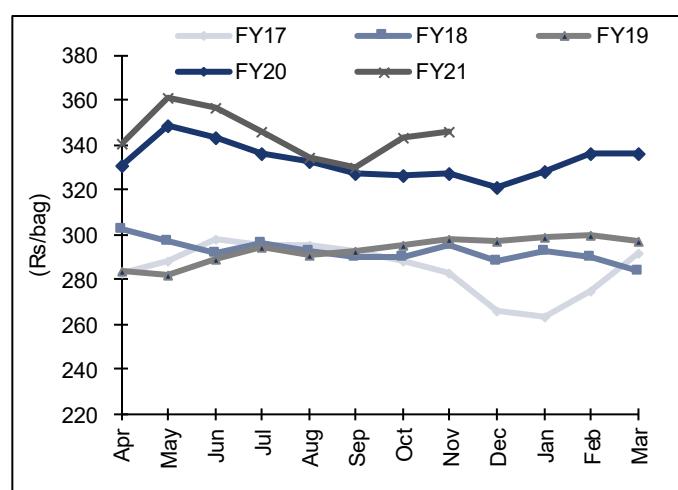


**Chart 6: Coal prices increased 10% MoM / declined 9% YoY in Nov'20**

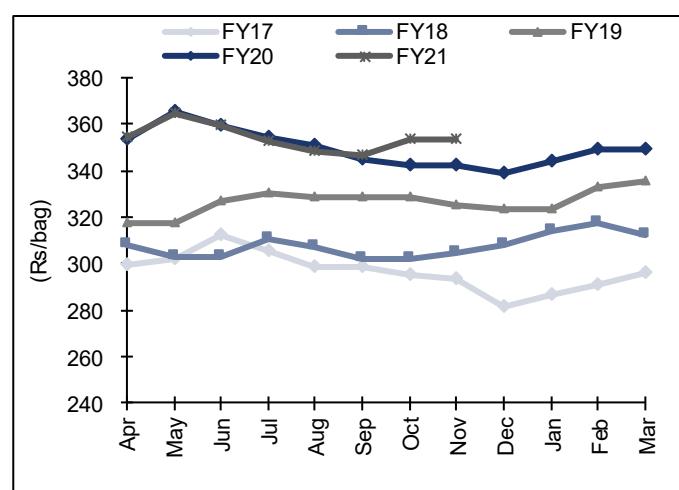


**Chart 7: Coal India e-auction prices declined 29% YoY / 10% QoQ in Q2FY21**

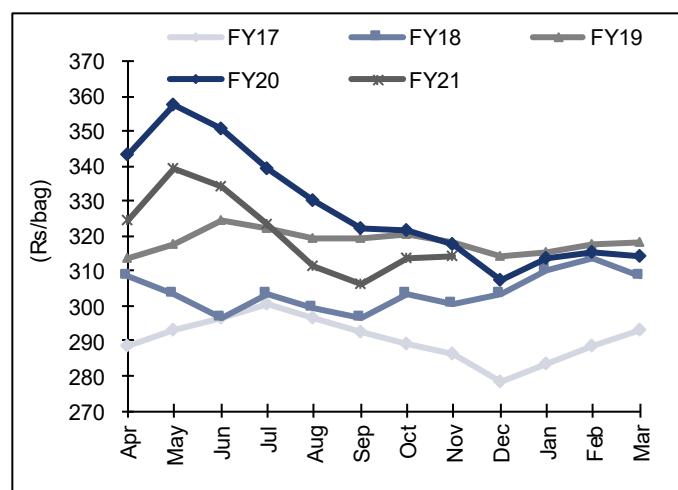


**Chart 8: North region prices up 6% YoY in Nov'20**

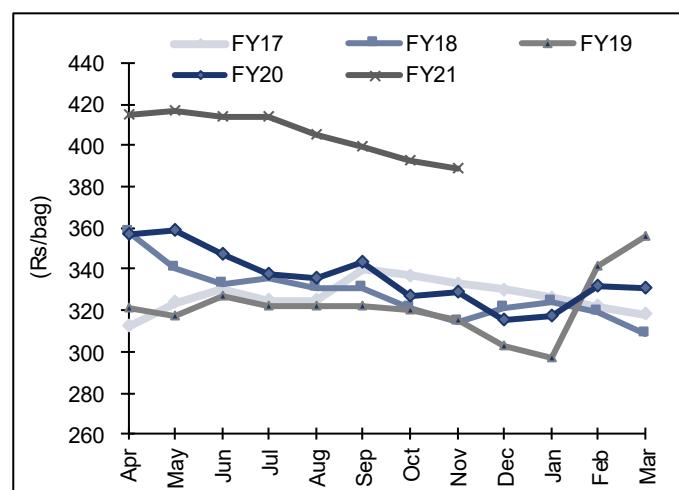
Source: Industry data, I-Sec research

**Chart 9: Central region prices up 4% YoY in Nov'20**

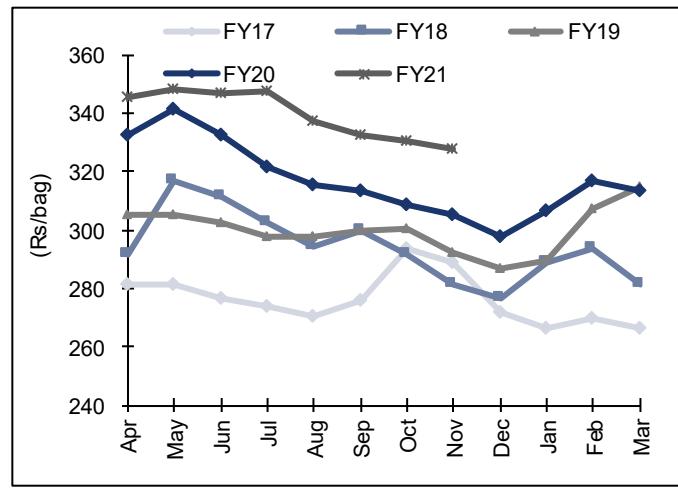
Source: Industry data, I-Sec research

**Chart 10: East region prices broadly flat YoY**

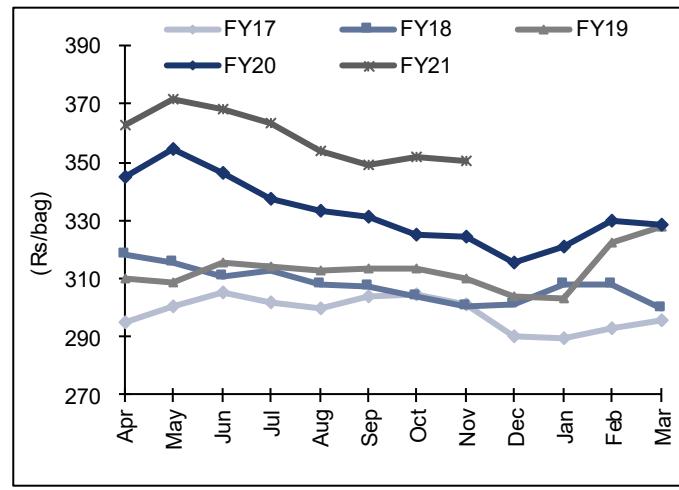
Source: Industry data, I-Sec research

**Chart 11: South region prices up 18% YoY in Nov'20**

Source: Industry data, I-Sec research

**Chart 12: West region prices up 8% YoY in Nov'20**

Source: Industry data, I-Sec research

**Chart 13: All-India prices up 7% YoY in Nov'20**

Source: Industry data, I-Sec research

**Table 20: Realisation assumptions from FY21-FY23E**

|                    | Realisation/te          |              |              |              |              | Growth YoY (%) |            |            |            |            |
|--------------------|-------------------------|--------------|--------------|--------------|--------------|----------------|------------|------------|------------|------------|
|                    | FY19                    | FY20         | FY21E        | FY22E        | FY23E        | FY19           | FY20       | FY21E      | FY22E      | FY23E      |
| UTCEM- grey cement | 4,824                   | 4,670        | 4,803        | 4,869        | 4,932        | 11.6           | (3.2)      | 2.8        | 1.4        | 1.3        |
|                    | 4,641                   | 4,723        | 4,816        | 4,898        | 4,996        | 1.4            | 1.8        | 2.0        | 1.7        | 2.0        |
|                    | 4,525                   | 4,717        | 4,927        | 5,041        | 5,177        | 1.6            | 4.2        | 4.5        | 2.3        | 2.7        |
|                    | 4,088                   | 4,299        | 4,360        | 4,485        | 4,596        | 0.9            | 5.2        | 1.4        | 2.9        | 2.5        |
|                    | 4,744                   | 4,691        | 4,761        | 4,666        | 4,712        | (1.2)          | (1.1)      | 1.5        | (2.0)      | 1.0        |
|                    | 4,603                   | 4,672        | 4,905        | 4,846        | 4,919        | (1.4)          | 1.5        | 5.0        | (1.2)      | 1.5        |
|                    | 5,072                   | 5,603        | 5,446        | 5,577        | 5,698        | 3.2            | 10.5       | (2.8)      | 2.4        | 2.2        |
|                    | 4,563                   | 4,736        | 5,257        | 5,163        | 5,295        | (1.6)          | 3.8        | 11.0       | (1.8)      | 2.6        |
|                    | 3,873                   | 4,342        | 4,321        | 4,409        | 4,473        | (2.7)          | 12.1       | (0.5)      | 2.0        | 1.4        |
|                    | 3,925                   | 4,171        | 4,526        | 4,467        | 4,445        | 1.8            | 6.3        | 8.5        | (1.3)      | (0.5)      |
|                    | 4,423                   | 4,516        | 4,516        | 4,570        | 4,616        | 5.2            | 2.1        | -          | 1.2        | 1.0        |
|                    | 4,308                   | 4,586        | 4,664        | 4,780        | 4,886        | 7.6            | 6.5        | 1.7        | 2.5        | 2.2        |
|                    | <b>Weighted average</b> | <b>4,617</b> | <b>4,827</b> | <b>4,901</b> | <b>4,979</b> | <b>5,065</b>   | <b>0.6</b> | <b>4.6</b> | <b>1.5</b> | <b>1.6</b> |

Source: Industry data, I-Sec research

**Table 21: EBITDA/te assumptions from FY21-FY23E**

|               | EBITDA/te (Rs)          |            |              |              |              | Growth YoY (%) |              |             |             |            |
|---------------|-------------------------|------------|--------------|--------------|--------------|----------------|--------------|-------------|-------------|------------|
|               | FY19                    | FY20       | FY21E        | FY22E        | FY23E        | FY19           | FY20         | FY21E       | FY22E       | FY23E      |
| UTCEM- consol | 889                     | 1,144      | 1,298        | 1,309        | 1,345        | (6.6)          | 28.7         | 13.5        | 0.9         | 2.8        |
|               | 747                     | 835        | 914          | 974          | 1,023        | 5.6            | 11.8         | 9.4         | 6.6         | 5.0        |
|               | 780                     | 893        | 1,168        | 1,173        | 1,263        | (5.3)          | 14.5         | 30.8        | 0.5         | 7.6        |
|               | 944                     | 1,288      | 1,305        | 1,377        | 1,441        | (11.6)         | 36.4         | 1.3         | 5.5         | 4.7        |
|               | 1,040                   | 1,092      | 1,318        | 1,182        | 1,176        | (13.4)         | 5.0          | 20.7        | (10.3)      | (0.5)      |
|               | 512                     | 568        | 890          | 788          | 804          | (16.9)         | 10.8         | 56.7        | (11.4)      | 2.0        |
|               | 817                     | 1,186      | 1,231        | 1,282        | 1,335        | 1.2            | 45.2         | 3.8         | 4.1         | 4.2        |
|               | 921                     | 991        | 1,413        | 1,345        | 1,412        | (18.4)         | 7.6          | 42.6        | (4.8)       | 5.0        |
|               | 407                     | 794        | 808          | 796          | 801          | (11.2)         | 95.1         | 1.7         | (1.5)       | 0.7        |
|               | 487                     | 659        | 904          | 817          | 752          | (8.4)          | 35.5         | 37.1        | (9.7)       | (7.9)      |
|               | 834                     | 889        | 980          | 1,049        | 1,079        | 34.7           | 6.6          | 10.2        | 7.0         | 2.9        |
|               | 987                     | 1,122      | 1,154        | 1,212        | 1,263        | 28.3           | 13.7         | 2.9         | 5.0         | 4.2        |
|               | <b>Weighted average</b> | <b>826</b> | <b>1,031</b> | <b>1,193</b> | <b>1,197</b> | <b>1,240</b>   | <b>(5.7)</b> | <b>24.9</b> | <b>15.7</b> | <b>0.4</b> |

Source: Industry data, I-Sec research

**Table 22: Companies may report 15% EBITDA CAGR over FY20-FY22E**

|       | EBITDA (Rs mn) |                 |                 |                 |                 | Growth YoY (%)  |            |             |             |             |
|-------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------|-------------|-------------|-------------|
|       | FY19           | FY20            | FY21E           | FY22E           | FY23E           | FY19            | FY20       | FY21E       | FY22E       | FY23E       |
| UTCEM | 67,881         | 94,166          | 1,08,805        | 1,23,681        | 1,35,932        | 10.5            | 38.7       | 15.5        | 13.7        | 9.9         |
|       | 21,185         | 24,128          | 23,968          | 29,001          | 31,989          | 12.8            | 13.9       | (0.7)       | 21.0        | 10.3        |
|       | 18,915         | 21,489          | 26,030          | 30,604          | 35,903          | (0.2)           | 13.6       | 21.1        | 17.6        | 17.3        |
|       | 28,973         | 37,591          | 40,482          | 50,114          | 58,152          | 19.7            | 29.7       | 7.7         | 23.8        | 16.0        |
|       | 19,420         | 21,060          | 27,206          | 28,294          | 30,695          | (4.6)           | 8.4        | 29.2        | 4.0         | 8.5         |
|       | 6,649          | 6,365           | 7,985           | 8,607           | 9,489           | (4.5)           | (4.3)      | 25.5        | 7.8         | 10.2        |
|       | 8,345          | 12,134          | 14,054          | 17,013          | 19,276          | 6.0             | 45.4       | 15.8        | 21.1        | 13.3        |
|       | 10,664         | 11,474          | 14,459          | 17,055          | 19,856          | (3.0)           | 7.6        | 26.0        | 18.0        | 16.4        |
|       | 4,536          | 7,981           | 8,856           | 9,722           | 10,435          | 5.1             | 75.9       | 11.0        | 9.8         | 7.3         |
|       | 3,120          | 3,829           | 4,306           | 4,745           | 4,806           | 2.2             | 22.7       | 12.5        | 10.2        | 1.3         |
|       | 6,010          | 5,392           | 6,152           | 8,513           | 9,410           | 35.9            | (10.3)     | 14.1        | 38.4        | 10.5        |
|       | 4,833          | 5,278           | 5,191           | 6,063           | 6,635           | 35.1            | 9.2        | (1.7)       | 16.8        | 9.4         |
|       | <b>Total</b>   | <b>2,00,531</b> | <b>2,50,885</b> | <b>2,87,493</b> | <b>3,33,412</b> | <b>3,72,576</b> | <b>8.4</b> | <b>25.1</b> | <b>14.6</b> | <b>16.0</b> |

Source: Industry data, I-Sec research

**Table 23: Improving return ratios justify valuation**

| ROE (%)  | FY19 | FY20 | FY21E | FY22E | FY23E | ROCE (%) | FY19 | FY20  | FY21E | FY22E | FY23E |
|----------|------|------|-------|-------|-------|----------|------|-------|-------|-------|-------|
| UTCEM    | 8.9  | 11.4 | 12.7  | 13.5  | 13.7  | UTCEM    | 6.8  | 8.6   | 10.7  | 12.3  | 13.4  |
| ACC      | 11.0 | 11.6 | 10.6  | 12.4  | 12.7  | ACC      | 11.2 | 11.7  | 10.4  | 12.1  | 12.5  |
| ACEM     | 6.4  | 7.9  | 9.6   | 11.1  | 11.8  | ACEM     | 6.6  | 8.0   | 9.6   | 11.1  | 11.7  |
| SRCM     | 12.4 | 13.4 | 16.0  | 18.0  | 18.7  | SRCM     | 12.8 | 12.8  | 15.3  | 17.6  | 18.7  |
| DALBHARA | 2.9  | 2.1  | 8.0   | 7.5   | 7.9   | DALBHARA | 4.7  | 2.9   | 6.1   | 6.2   | 6.6   |
| TRCL     | 12.3 | 12.7 | 14.1  | 14.1  | 15.4  | TRCL     | 8.7  | 8.2   | 9.1   | 10.2  | 11.9  |
| JKCE     | 12.7 | 17.3 | 18.5  | 20.3  | 20.2  | JKCE     | 8.5  | 11.0  | 11.4  | 12.7  | 13.2  |
| ICEM     | 3.0  | 1.0  | 0.4   | 1.2   | 3.7   | ICEM     | 4.4  | 3.6   | 2.1   | 10.0  | 4.8   |
| JKLC     | 3.3  | 17.5 | 18.9  | 18.5  | 17.7  | JKLC     | 8.2  | 14.1  | 14.7  | 14.8  | 14.5  |
| ORCMNT   | 4.6  | 7.9  | 10.9  | 12.5  | 11.6  | ORCMNT   | 5.1  | 6.7   | 8.0   | 9.2   | 8.5   |
| PRSMJ    | 11.8 | 1.1  | 9.4   | 19.5  | 20.0  | PRSMJ    | 7.4  | (3.4) | 7.8   | 12.0  | 13.0  |
| HEIM     | 19.9 | 21.6 | 19.2  | 21.6  | 22.0  | HEIM     | 15.1 | 17.0  | 15.8  | 18.5  | 19.5  |

## Top picks

### Shree Cement (Mcap:US\$11.4bn; TP: Rs28,000)

- **Targeting to double the capacities over next 6-7 years:** Management targeting to increase the capacities from 40mnte to 56mnte over three years in phase 1 and upto 80mnte in next 6-7 years. Phase 1 would see capacity additions in North and East; while phase 2 would also include South and West regions as well. In Sep'20, SRCM announced setting up of clinker line-3 at Chhattisgarh having capacity upto 12,000tpd at a capex of Rs10bn to be commissioned by Q2FY23. Few more capacity additions are likely to be announced over next 6-9months. 3mnte (assuming 100% PSC) grinding units (GU) in Odisha & 2mnte GU in Pune are likely to commission by Dec'20.
- **Market share gains to continue:** SRCM has grown volumes at 1.5-2x industry growth over past decade, and similar trend is likely to continue over next few years. SRCM may continue to gain market share backed by non-trade volume push in North, strong demand in East and higher YoY utilisation in South, in our view.
- **SRCM to sustain industry-leading profitability** given it enjoys the lowest cost structure in the industry. Its total renewable energy capacity currently stands at 241MW (WHRS-210MW, Wind-29MW & Solar-2MW), which meets 46% of power requirements & the management aims to increase it to >50% in the next 12 months.

Chart 14: Rolling EV/EBITDA- 5years

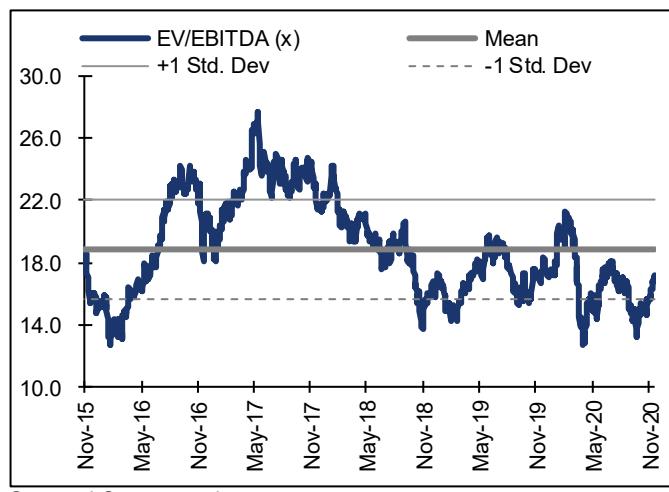


Chart 15: Rolling EV/EBITDA- 10years

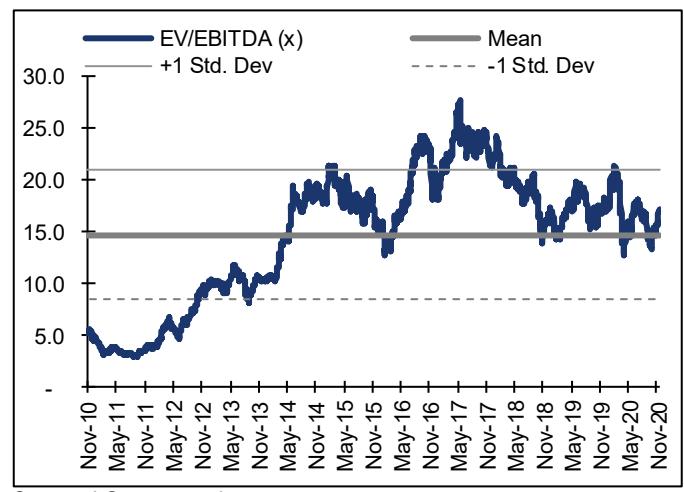
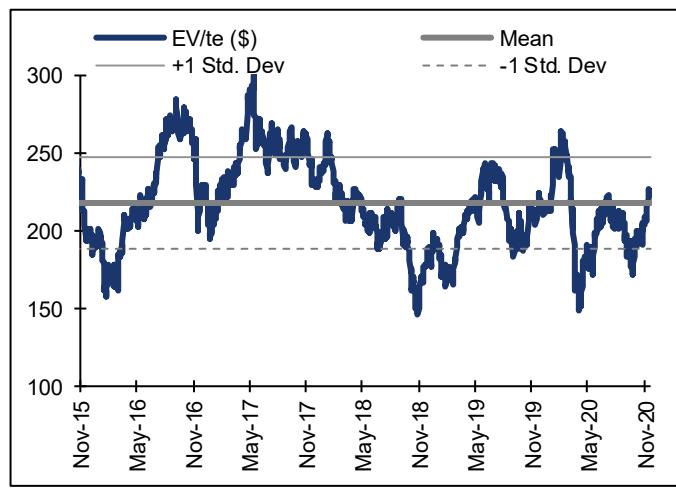
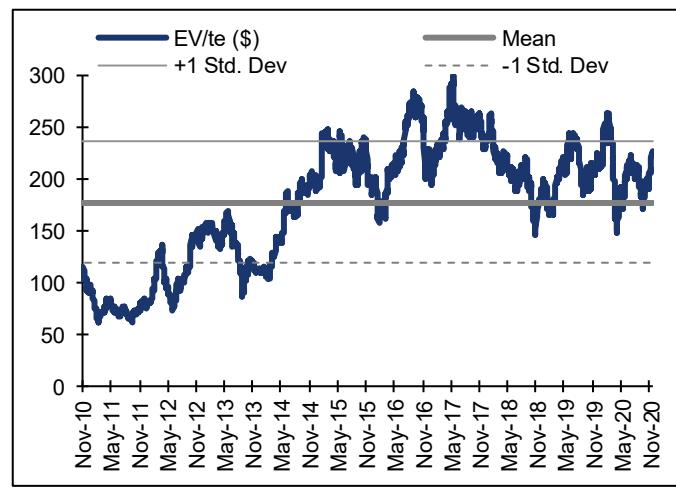


Chart 16: Rolling EV/te- 5years



Source: I-Sec research

Chart 17: Rolling EV/te- 10years

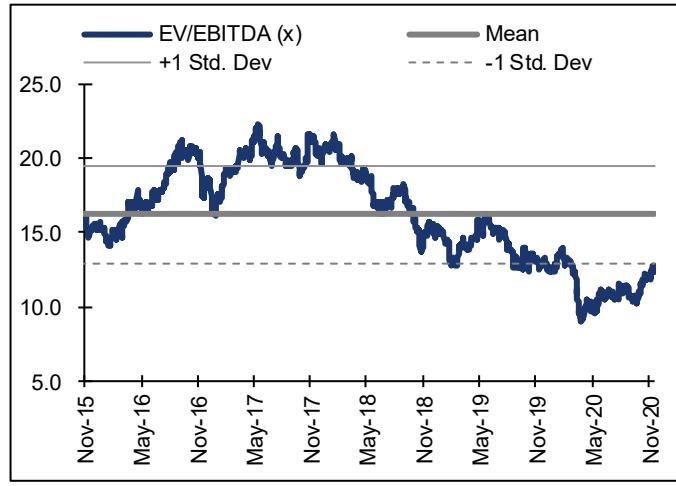


Source: I-Sec research

### UltraTech Cement (Mcap:US\$19.3bn; TP: Rs5,725)

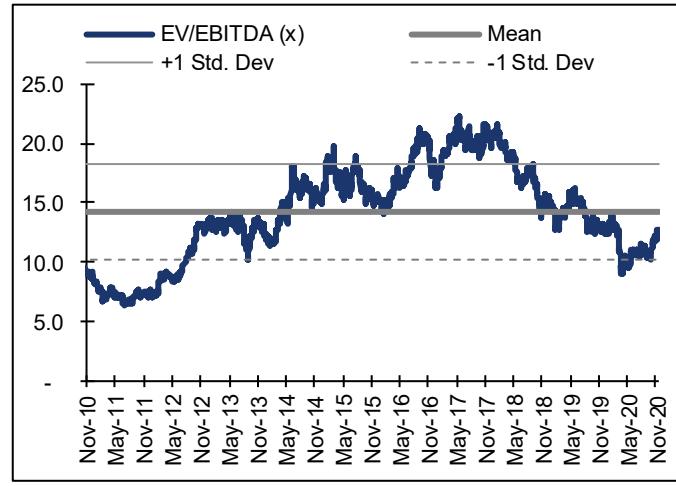
- **Market share gains to continue** given its pan-India diversified market mix and underutilised acquired assets. Gradual ramp-up of utilisation of acquired assets, and recently announced ~19mte capacity expansion in East, Central and North regions are likely to increase its market share in coming years.
- **Sharp focus on cost reductions & efficiencies:** UTCEM is targeting 10% fixed-cost savings (Rs5.5bn p.a. or Rs60/te) in FY21E. Besides, UTCEM is setting up an additional 57MW WHRS power plant to meet ~40% of power requirement for new capacities. This is in addition to existing plans to set up a 60MW WHRS by Mar'22 and another 60MW by mid-FY24. UTCEM is also looking to increase solar and wind power capacity from 99MW to >350MW. Accordingly, its share of green power will increase to 34% in next few years.
- **UTCEM could become debt-free by FY23E** owing to strong FCF generation of Rs113bn post factoring capex of Rs76bn over FY21E-FY23E. Post-tax RoCEs are likely to improve by 500bps to 13.4% by FY23E.

Chart 18: Rolling EV/EBITDA- 5years



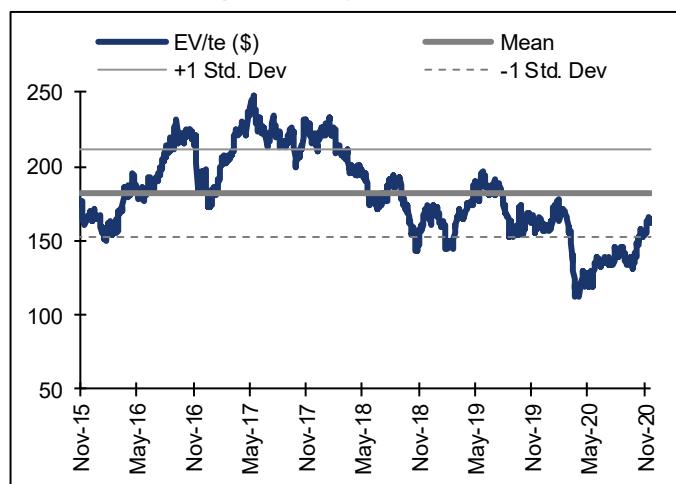
Source: I-Sec research

Chart 19: Rolling EV/EBITDA- 10years



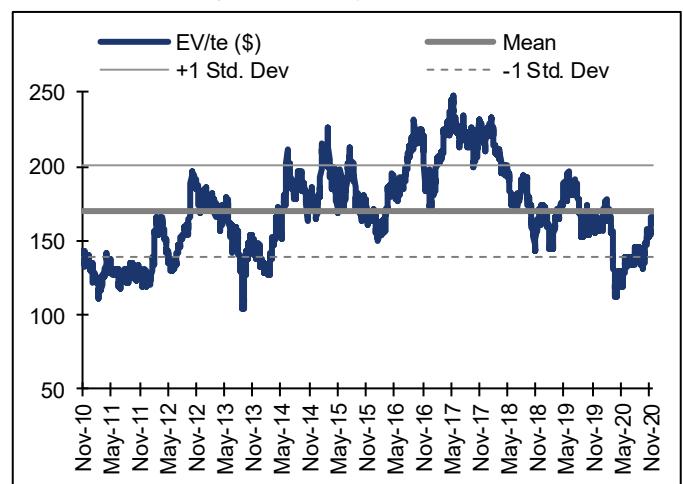
Source: I-Sec research

Chart 20: Rolling EV/te- 5years



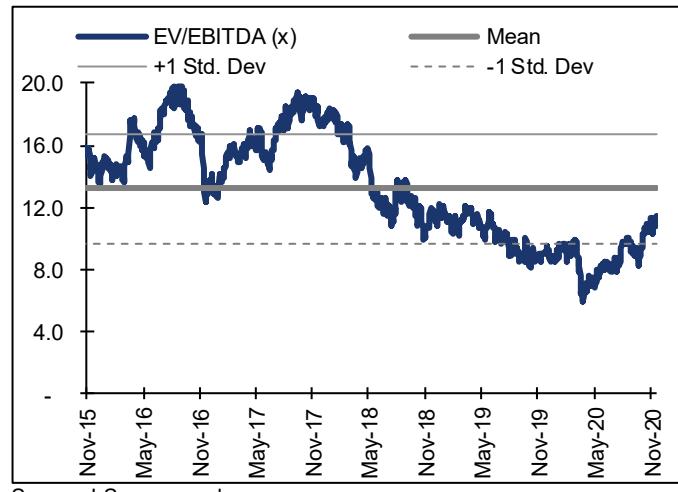
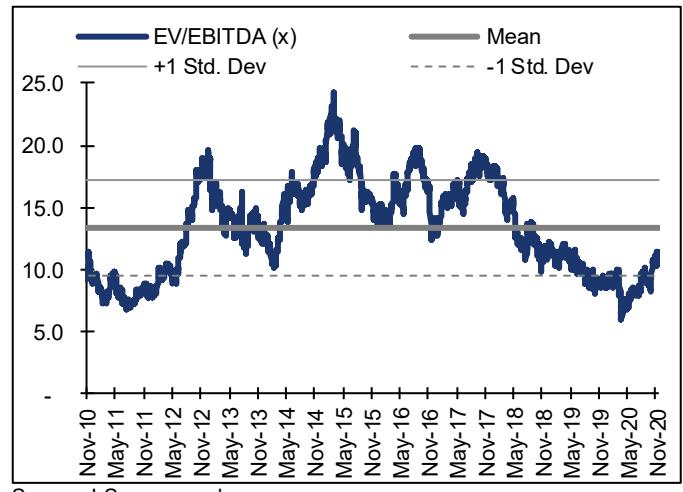
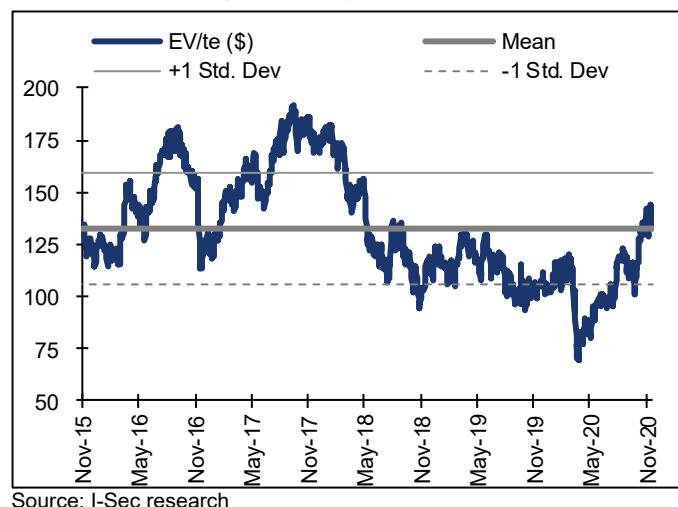
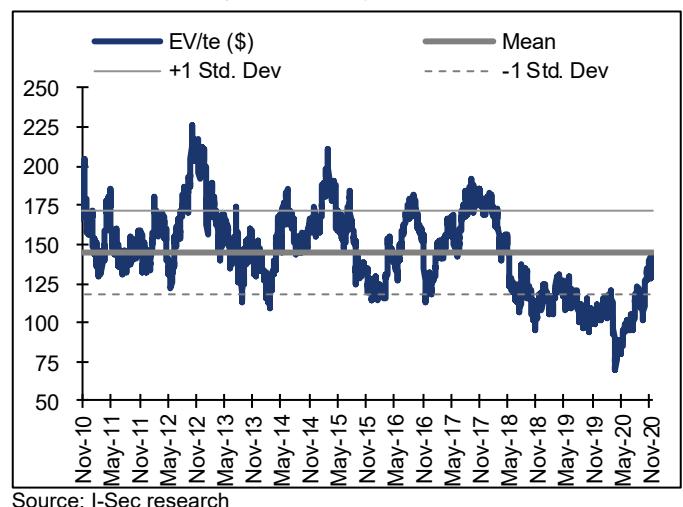
Source: I-Sec research

Chart 21: Rolling EV/te- 10years



### Ambuja Cement (Mcap:US\$6.5bn; TP: Rs300)

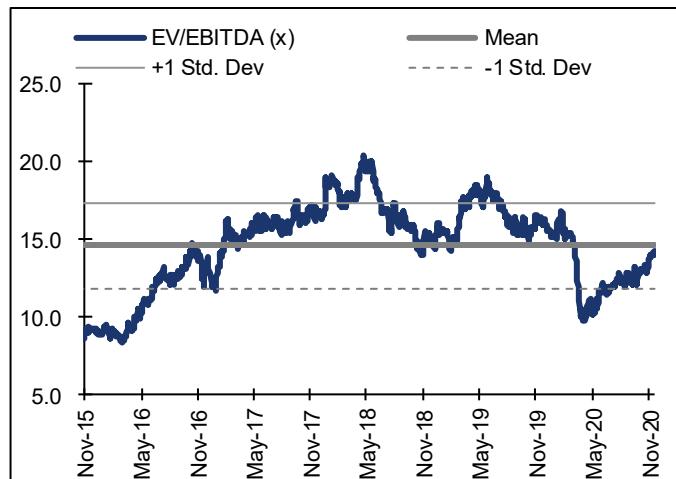
- **Higher utilisation and increasing share of premium products** to aid margins: ACEM's higher utilisation (~85%) provides sufficient flexibility to manage costs well and allows to optimise market mix and product mix to ensure better realisation. ACEM has launched various premium products (enjoys premium pricing). Management is targeting to increase VAP volumes to 15% (vs 10% now) in coming years.
- **North expansion and various cost efficiencies to further aid profitable growth.** 3.1mnte clinker line at Marwar Mundwa alongwith 1.8mnte GU is likely to be operational by Q2CY21E. This will strengthen ACEM's position in the core markets of North and Gujarat and aid volume growth / profitability from CY21E. Besides, ACEM plans to improve cost structure further by investing in 55MW WHRS / solar plants at various locations, railway sidings at Rabriyawas, Rajasthan and operationalising domestic Gare-Palma coal block over next two years.
- **ACEM's valuation discount vs peers to narrow:** ACEM's overall execution in terms of growth and profitability has improved meaningfully under the new leadership team (MD & CEO Mr Neeraj Akhoury). Accordingly, ACEM's valuation gap with larger peers may narrow, in our view.

**Chart 22: Rolling EV/EBITDA- 5years****Chart 23: Rolling EV/EBITDA- 10years****Chart 24: Rolling EV/te- 5years****Chart 25: Rolling EV/te- 10years**

## The Ramco Cement (Mcap:US\$2.7bn; TP: Rs960)

- **Management remains optimistic on demand recovery:** Volume decline has been decelerating with likely low single-digit fall in Q3FY21-TD aided by strong growth in East. Demand is likely to gradually improve with lockdown relaxation and return of migrant workers.
- **Targeting to become net debt free in next three years:** TRCL incurred capex of ~Rs24bn (out of planned Rs33bn) till Sep'20-end and may spend another Rs5bn-6bn in H2FY21. It generated FCF of Rs750mn post capex spend of Rs6.9bn and working capital release of Rs1.2bn in H1FY21. Over the next 3-4 years, it has scope for brownfield expansion at Kurnool, Andhra Pradesh, and may add GUs in the same state as well as Odisha, Karnataka and Maharashtra diversifying its market mix further. Net debt has already peaked out and the company is targeting to become net debt free over next three years.
- **Enough levers to sustain industry-leading profitability:** Low-cost coal inventory till Feb'21, logistics cost advantage (with railway sidings) of Rs300-400/te (~Rs100/te at company level) via the new GUs with local sourcing of fly-ash / slag and commissioning of 27MW WHRS in H2FY21 would help reduce overall costs. Besides, commissioning of clinker capacities will aid increase in utilisation of the new GUs and improve the blending ratio by increasing the share of slag cement.

**Chart 26: Rolling EV/EBITDA- 5years**



**Chart 27: Rolling EV/EBITDA- 10years**

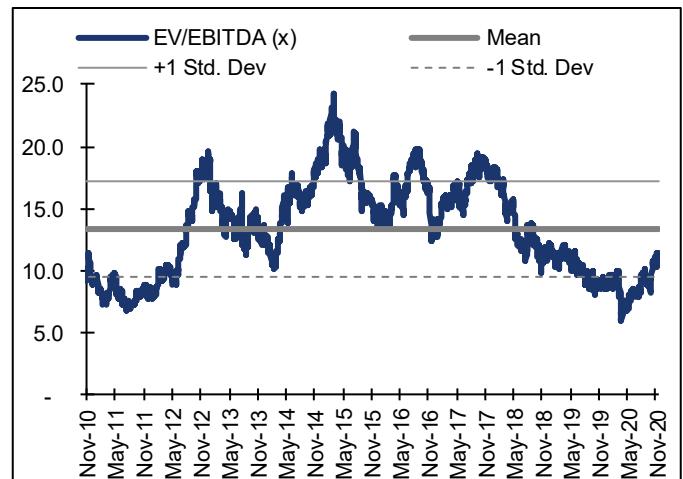
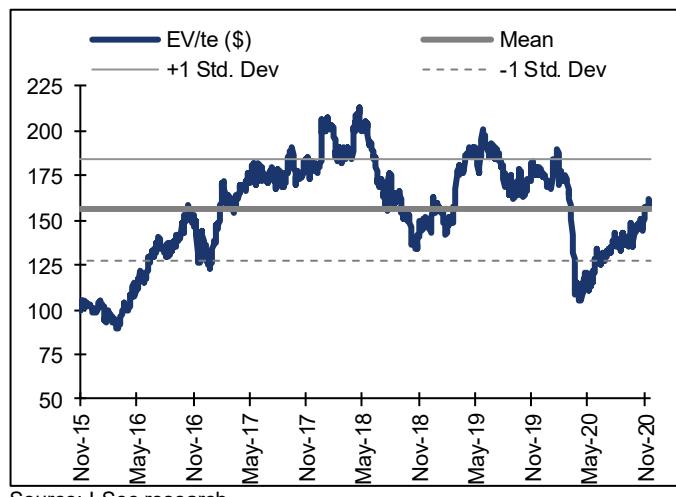
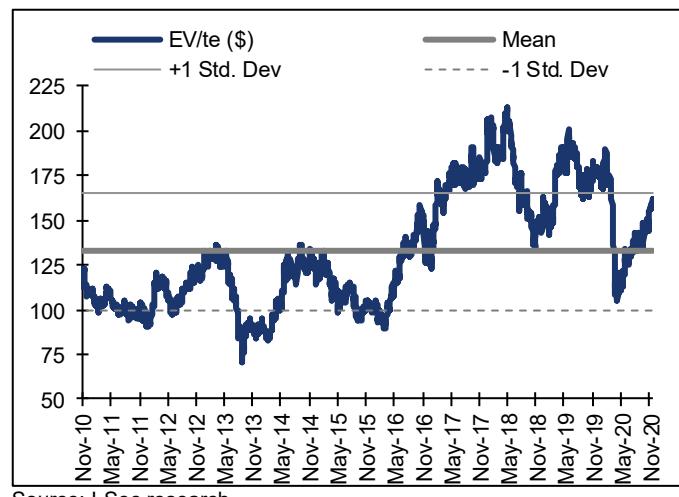


Chart 28: Rolling EV/te- 5years



Source: I-Sec research

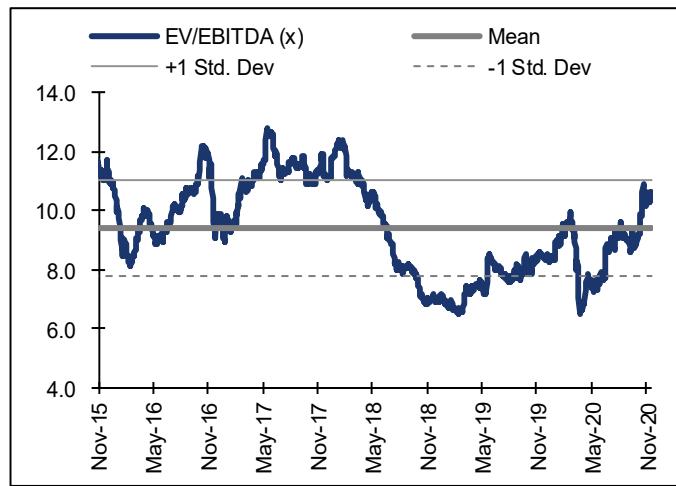
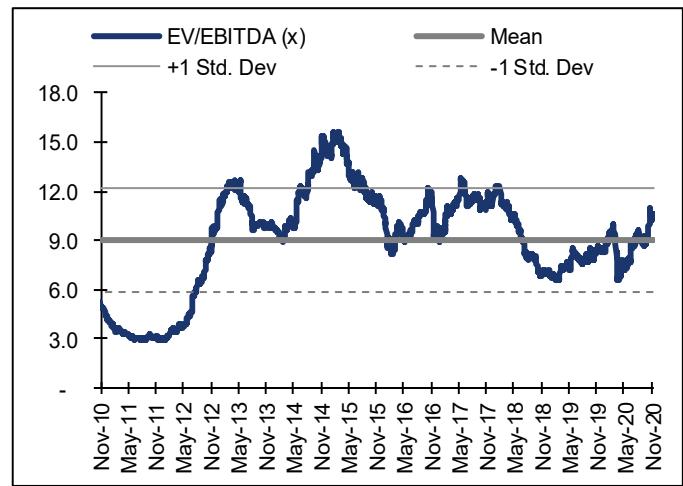
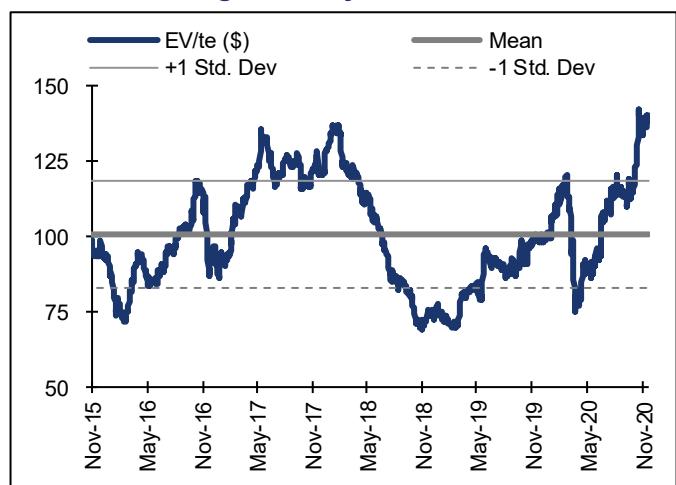
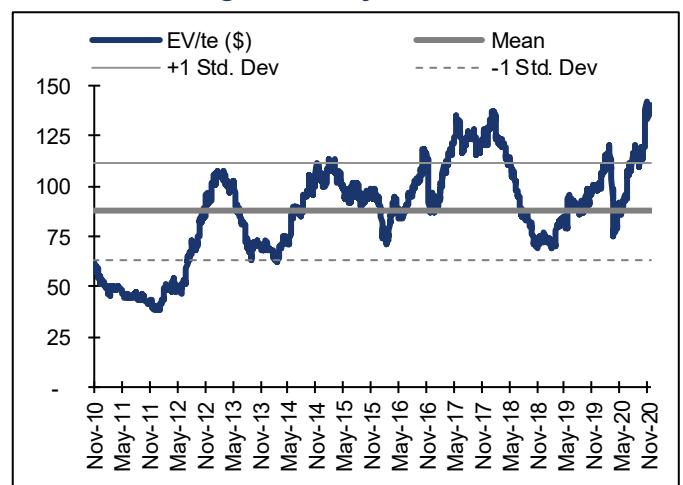
Chart 29: Rolling EV/te- 10years



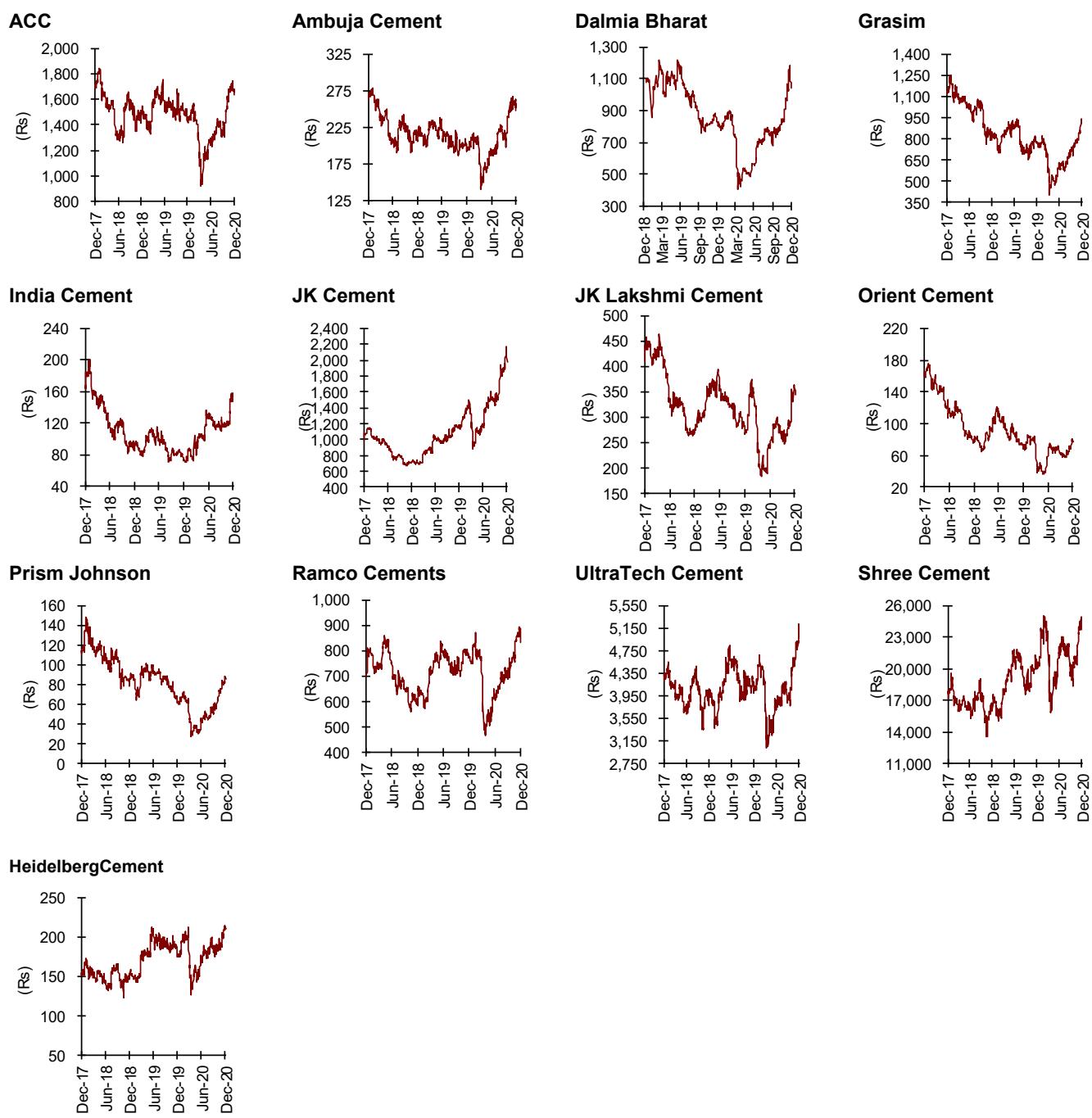
Source: I-Sec research

### JK Cement (Mcap:US\$2bn; TP: Rs2,370)

- **Market share gains to continue:** JKCE commissioned 0.7mte grinding unit at Balasinor in Oct'20, taking its total capacity to 14.7mte. Modernisation of 0.3mte at Nimbahera is likely to complete by Q2FY22 (spent Rs2.6bn on the same till Sep'20). Besides, management likely to announce 3.5-4mte grey cement greenfield expansion at Panna, Madhya Pradesh at a capex of US\$90-100/te soon. Accordingly, we expect grey cement volumes to grow at 13% CAGR over FY20-FY23E.
- **Cost savings of Rs100/te (largely variable costs) will kick in from Q4FY21** on the back of better cost efficiencies from new capacity at Mangrol. Given new capacity additions are in high growth/utilisation markets of North and Central regions, they may see a quick ramp up and will also provide operating leverage, in our view.
- **White Cement cushions volatility in earnings:** JKCE is second largest player (40% market share) in India in high margin in white cement and wall putty business. Management is confident of sustaining low double digit volume growth in white cement portfolio with EBITDA margin in range of 25-27%. It has contributed ~35% of consolidated in FY20 and cushions any volatility in grey cement business.
- **Strong cash flow generation to restrict increase in net debt:** JKCE may generate OCF of Rs>10bn p.a. from FY22E which will be sufficient for its future capex requirements. Accordingly, net debt is unlikely to go above Rs25bn even after completion of Panna expansion over next three years.

**Chart 30: Rolling EV/EBITDA- 5years****Chart 31: Rolling EV/EBITDA- 10years****Chart 32: Rolling EV/te- 5years****Chart 33: Rolling EV/te- 10years**

## Price charts



Source: Bloomberg

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